WIF

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World Association of Investment Promotion Agencies

Interactive Session I
Prospects for global FDI and new business opportunities

Moderator:

Patricia Francis, Executive Director, International Trade Centre

List of panellists

Pierre Cailleteau, Managing Director Sovereign Risk and Chief International Economist, Moody's Investor Services;
Gary Carroll, Director, General Business, IBM South and Central Africa;
Horst Kayser, Chief Strategy Officer, Siemens;
H.E. B. Mkapa, former President of Tanzania and Co-Chair of the Investment Climate Facility for Africa;
Joseph Quinlan, Managing Director and Chief Markets Strategist of Bank of America;
T.C. Venkat Subramanian, Chairman and Managing Director, Export-Import Bank India.

Senior figures from some of the world's largest and most globalized companies came together for the opening session of the inaugural WIF. Here are some of the highlights of their views on worldwide trends in FDI.

Despite considerable discussion of the risks to the continued global boom in FDI, broadly positive views on prospects for long-term flows of direct investment were evident from the outset. Cautious optimism was expressed on flows of FDI because of the resilience of global output growth, particularly in the developing world; new sources of FDI financing; and the rise of transnational companies from emerging markets.

Participants noted that the profitability of companies headquartered in the developed world has been supported by their operations in developing countries. And that this may confirm their interest in investments in the South. It was pointed out that rising global firms from the developing world had different strategies for different geographies. South–South FDI tended to be in the form of greenfield investment, while South–North FDI overwhelmingly involved acquisitions.

It was emphasized that the fundamentals driving FDI were maintained and the long-term need to expand geographically was as compelling. Being close to customers and localizing value chains would continue to be a key long-term driver.

High on the agenda for speakers and conference delegates was the current credit crisis, ongoing since August 2007. The consensus was that the negative spillover effects on the real economy, particularly in the United States, would continue. Although speakers were upbeat about the capacity of the world economy to overcome the problems in credit markets, their general optimism on the future of FDI flows was tempered by some significant risks. The threat of protectionism was the most frequently cited concern, largely because the developed world was not yet accustomed to the rise of the South.

Support for FDI in the developing world is at risk if the benefits of globalization in general and FDI in particular are not shared more widely by populations. A proactive means to achieve that goal is to constantly raise education and training levels. The need for enhancing the quality of human resources was stressed as being good both for companies' profitability and countries' development, thus helping to lessen the risk of a backlash against FDI. Other risks to sustaining high levels of global FDI included inflation and macroeconomic imbalances.

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Interaction Session II Global value chains: Opportunities and challenges for international and domestic firms

Moderator:

Allan Parker, Managing Director, Peak Performance.

List of panellists

Amedee Darga, Chairman, Entreprise Mauritius;
Paul Dembinski, University of Fribourg and Observatoire de la Finance, Switzerland;
Semakula Kiwanuka, Minister of State for Finance, Planning and Economic Development, Uganda;
Eric Leong, Africa and Asia Supply Chain Manager, SAB Miller, South Africa;
David Lovegrove, Director, Private Sector Development, International Development Ireland;
Francisco Horacio Mello, Institutional Relations Director, EMBRAER, Brazil;
Angelo Paratico, Executive Vice-President, Candiani Denim;
Gary Ross, Vice-President, Liz Claiborne;
Ruizhe Sun, Vice President, China National Textile and Apparel Council;
Alessandro Teixeira, Chief Executive Officer, Apex-Brasil;
Steven Walton, Chairman, Wing Tai International Apparel Group.

UNCTAD, together with WAIPA and the International Trade Centre (ITC), organized the second session of the WIF. One of the most pressing issues on the FDI development agenda was analysed in depth: how host economies could enhance linkages with global companies. The session was made up of two parts: the first focused on the policy framework, while the second highlighted specific business experiences.

New investments creates demand for more domestic sourcing, thereby triggering a virtuous cycle of enterprise development.

Apart from stressing the need for a generally sound policy framework in offering an attractive environment for FDI, the panel highlighted the role of government and IPAs in strengthening domestic productive capacities and integrating domestic business more deeply into global markets. Accordingly, governments had a crucial role to play, intervening with specific policies related to FDI, small and medium-sized enterprises (SMEs) and the interaction of both.

In a closer look at the role of IPAs in helping SMEs develop an internationalization strategy to take advantage of opportunities in the global marketplace, experiences of companies from developing countries with strong global value chains were presented to illustrate some key policy elements required to help domestic firms internationalize and grow. Examples such as the Brazilian aviation company, Embraer, were presented as successful models. Such successes in turn saw speakers emphasize the importance of technology upgrading as a key element in competing globally.

The support that IPAs provide to domestic companies in their quest for successful internationalization strategies could cover a number of different dimensions, including financial and credit assistance, human resource development and marketing back-up. While the need for IPA support was broadly recognized, it was also recognized that, as issues varied from country to country, linkage programmes should be tailored according to local circumstances.

Linkages programmes should also be focused on facilitating the development of sub-supply capacity within the host country, further increasing a country's attractiveness for new FDI. New investments creates demand for more domestic sourcing, thereby triggering a virtuous cycle of enterprise development.

The advantages and challenges of participating in global value chains for both SMEs and transnational corporations (TNCs) were discussed. With the help of specific business case studies, elements were highlighted for attracting investments and filling gaps in national and regional value chains.

One speaker from a developing country-based TNC explained the conditions required to increase local sourcing, as well as the mutual opportunities for establishing business linkages between TNCs and domestic SMEs. In particular, attention was drawn to how TNCs could transfer managerial skills and technological knowledge to domestic suppliers. SME–TNC business linkages were mutually beneficial: TNCs needed competitive and reliable suppliers able to upgrade, innovate and meet international standards, while SMEs required cooperation with TNCs on technology transfer and knowledge-sharing.

A number of questions raised during the discussions focused on the pivotal role of IPAs; tax and financing structures; the regulatory infrastructure of host developing countries; and the importance of corporate responsibility issues within global value chains.

Interactive Session III
Africa: A new emerging market for FDI

Moderator:
Daniel O'Brien, Economist Intelligence Unit

List of panellists
Jim Geisel, Director of Advisory Services for KPMG;
Deping Hu, President of the China–Africa Business Council and Vice-President of the China Federation of Industry and Commerce;
Omari Issa, CEO of the Investment Climate Facility for Africa;
V. Jayatheerthan, Senior Vice-President and Operational Head of Africa for 3i Infotech;
Louis Kasekende, Chief Economist of the African Development Bank;
Razia Khan, Chief Africa Economist of Standard Chartered Bank;
Rainer Koch, Managing Director of HP Africa;
Karl Sauvant, Co-Director, United Nations Millennium Cities Initiative.

With Africa acting as host continent for the WIF, it was only fitting that the third session should focus on the continent. The rise in investor interest in Africa in recent years provided further grounds for exploring the region's economic prospects, as evidenced by FDI growth from a mere $2.4 billion in 1985 to approximately $36 billion in 2007. The recent surge of FDI inflows followed from the twin forces of an upward spiral in commodity prices and a more positive climate for investments. It was against that background that a group of high-level private and public sector representatives came together to discuss prospects and trends for FDI in Africa.

Consistent with the comments voiced a day previously at the opening session of the Forum when panellists had expressed broadly positive views about future long-term global investment prospects, the assembled Africa specialists saw further increases in foreign investment in store for the host continent. Reasons for optimism included increased inward investment from emerging economies of the South and gradual improvements in investment climates, policymaking and market opportunities.

While high commodity prices were seen as an important factor in boosting investment inflows and had a positive development dynamic, they were, at best, a double-edged sword – in many countries rising food costs were wiping out recent developments gains, particularly for those on the lowest incomes.

Recommendations for overcoming those obstacles – identified as incomplete microeconomic reform programmes, poor infrastructure, and inadequate labour skills – were summarized by a panellist as “the three I's”: institutions, infrastructure and integration. The idea of institutions, included predictable policy, simplified bureaucratic procedures, stronger legal protection and improved dispute resolution.

Better infrastructure, especially in the form of a steady power supply and strong information and communications technology (ICT), was seen as crucial to remedying such shortcomings. And regional integration, such as that envisioned in the East African Community, was viewed as the key to attracting foreign investment with greater market opportunities.

Additionally, the African diaspora was repeatedly identified as a growing source of investment, know-how and business connections. Africa could also become an alternative location for outsourcing as prices rose in centres in emerging economies, a development taking place with new comers being early beneficiaries.

Panellists engaged in a lively discussion with wide-ranging questions from participants and

the moderator. Wariness of certain types of foreign investment, priority changes for investment climates and the challenges of land-locked countries were discussed. The recent trend of suspicion towards foreign investment could well produce greater friction between host countries and TNCs in the near term. The strengthening of the international investment framework was recommended as a long-term solution to that feature of the investment landscape.

The issue of corporate social responsibility (CSR) was also highlighted as deserving particular attention. Public attention as well as business sense would make it an important element of business development, especially in Africa. Although some scepticism about CSR came from the floor, the panellists agreed that it was a positive development, both in terms of raising the standards of firms in the conduct of business and in ploughing more back into local communities through philanthropic enterprises and initiatives.

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