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LEVERAGING FDI FOR EXPORT COMPETITIVENESS

Interactive Thematic Session

15 June 2004 – Summary prepared by the UNCTAD secretariat

1. In the context of addressing the need to build internationally competitive productive capacity in developing countries, this joint UNCTAD/WAIPA session focused on the role of policy in promoting greater development benefits from foreign direct investment (FDI). The discussion was constructive, interactive and lively. There were five panelists, more than 20 ministerial interventions and several contributions from international organizations, civil society and the private sector.

2. Several participants emphasized the fact that FDI offers important development benefits to host economies, including access to capital, technology, knowledge, markets and supply sources. Thus, the debate is no longer about whether or not FDI should be promoted, but rather how to maximize the benefits and reduce the associated risks with FDI. Export-oriented FDI in the developing world remains highly concentrated, and benefits from such investment flows cannot be taken for granted. It therefore remains a challenge for the international community as a whole to find ways to spread benefits more evenly.

3. A number of policy challenges were addressed, including how to:

- Promote export-oriented FDI in countries that remain de-linked from the global economy;
- Avoid enclave-like situations with limited linkages between foreign and local firms;
- Secure development gains from the offshoring of services;
- Integrate investment promotion efforts into broader development strategies; and
- Assist developing countries in improving their investment climates, and to disseminate investment opportunities.

4. The debate underscored the importance of active policies in all these areas, recognizing the responsibility of both host and home countries.

5. The experience of those countries that have been most successful in leveraging FDI for export competitiveness showed that an appropriate policy and institutional setting is needed to complement market forces. Particular reference was made to the need for stable, predictable and reliable investment frameworks, efficient infrastructure (e.g. ICT and transportation) and efforts to develop

appropriate skills. Proactive investment promotion has often also been instrumental. Several interventions warned of the risk of too much competition for export-oriented FDI. While views on the effectiveness of incentives differed, some speakers warned against treating foreign investors more favourably than domestic ones. Others advocated policies that would allow a "high road to development" rather than a race to the bottom.

6. The need to avoid harmful protectionism by home countries was repeatedly underlined. Trade restrictions in countries at all levels of development continue to hamper the potential for export-led growth and development in strategic areas for developing country exports. Trade liberalization needs to be complemented with efforts to build productive capabilities. The provision of special incentives to companies that undertake investments that help to reduce poverty in developing countries was used by some Governments. Trade preferences applied by developed countries have also triggered export-oriented production in some LDCs.

7. Export opportunities emerging in the area of services were highlighted. Speakers saw considerable potential for more developing countries to benefit from offshoring, as long as the national and international environments remain conducive. Evidence of offshoring from both the United States and Europe suggested major improvements in the competitiveness of companies that have explored such activities. Many developing countries have comparative advantages in this area – abundant, competitive labour and low cost skills. Given companies' need for diversity in terms of skills, languages, time zones and regional presence, countries that may be considered not to be competitive with regards to exports of goods may be in a more favourable situation in the case of services.

8. International restructuring – whether in goods or services – typically requires adjustment processes in the developed countries. The offshoring of services should not be different in this regard. Undoubtedly, the speed at which things may evolve may call for greater attention to the potential impact on workers immediately affected.

9. Beyond the question of attracting FDI, it was noted that FDI makes the best contribution to development if domestic capabilities are developed and competitive. The promotion of closer links between foreign affiliates and local companies was identified as a key policy tool to leverage export-oriented FDI. Special reference was made to UNCTAD's initiatives in this area, including in Brazil and Uganda.

10. The changes in the way TNCs organize their activities internationally calls for continuous monitoring of policy options at the national as well as the international level. In this context, a need for countries to keep sufficient policy space to pursue their development objectives was noted.

11. The debate highlighted areas in which the UNCTAD secretariat could help address the challenge of spreading benefits from TNC activities more evenly. First, enhanced technical assistance in improving the investment climate in developing countries could involve investment policy reviews, investment advisory councils, help with negotiations on bilateral and regional investment agreements, and dissemination of best practices. Second, continued efforts to improve the dissemination of investment opportunities could include the production of investment guides, benchmarking tools (such as the "Investment Compass") and projects related to good governance in investment promotion. Third, more emphasis could be given to policies to enhance the benefits from FDI. In particular, the analysis of possible policy options at national and international levels should be deepened.

12. But the challenge cannot be addressed by UNCTAD alone. To leverage available resources – financial and intellectual – there is a need for close cooperation with other organizations, national and international, the private sector and civil society. This implies building on existing relations. Joining forces in a common "Investment for Development Partnership" is required in order to improve the use of scarce resources and help developing countries, especially LDCs, reap more benefits from FDI, boost their productive capacities and integrate with the global economy.