FDI qualities

Investment is essential to create jobs, generate economic growth and development and address the challenges we are facing in the areas of poverty eradication, access to energy, infrastructure, health and environment, to name just a few. Foreign direct investment (FDI) is an integral part of a growth-oriented international economic system, and spurs prosperity and economic development in home and recipient countries.

The benefits of FDI are obvious, but need to be reiterated, as they are not sufficiently recognized and sometimes even put into question. The benefits to host countries include among others:

- supplying capital and serving as an important source of growth and productivity,
- diversifying domestic production,
- contributing to the creation of value-adding jobs,
- enhancing the skills base of host economies,
- providing a source of technology, knowledge and know-how,
- fostering linkages with local firms that can help jump-start an economy and integrate into global value chains,
- boosting competitiveness of domestic firms,
- facilitating their access to markets.

In addition to the obvious benefits to host markets, it should not be forgotten that FDI also brings direct benefits to the home countries by improving competitiveness, market access, and job creation through global engagement.

To achieve these benefits, host countries must put the right pro-investment policy framework in place to attract FDI and to allow for the smooth integration of local and foreign firms into world-wide supply-chain networks.

The OECD has a unique instrument in place, the Policy Framework for Investment (PFI), which offers a broad-based checklist of policy recommendations for governments, including developing countries. Governments around the world should use the guidance in all policy fields that affect the investment environment to improve the quality of a country’s enabling
environment for investment. As mentioned in our 2018 Proactive Investment Agenda, we call upon the OECD to

- step up efforts on monitoring of the implementation of the PFI, and
- use the PFI as a key benchmark for OECD’s current and future members.

The project on “FDI qualities” would be a useful opportunity to advance on the implementation of the PFI as it offers policy recommendation across different policy areas to ensure the promotion of both domestic and foreign investment and make it a win-win opportunity.

At the same time, BIAC has always underlined that as recognized by the OECD Declaration on International Investment and Multinational Enterprises, open investment needs to go hand in hand with responsible business conduct. BIAC therefore supports effective implementation of the OECD Guidelines for Multinational Enterprises as well as further adherence to the Declaration to ensure a more global level playing field.

**What the project should aim for:**

In our view, the project could make a positive contribution to national and international policy discussions if it focuses on the following:

- Helping policy makers better understand what the wider benefits/qualities of FDI are, in addition to supplying capital,
- Demonstrating the importance of providing open and transparent conditions both for domestic and foreign firms, including ease of doing business, access to finance, protection of intellectual property rights, etc.,
- Shedding further light on the essential role of FDI for achieving progress towards the Sustainable Development Goals (SDGs),
- Assessing the infrastructure required to encourage long-term investment, including transport facilities, reliable supply of energy, etc.,
- Encouraging policies that help investors integrate into the home market and encourage spillovers from FDI into the local economy (job creation, skills development, know-how and technology, etc.);
- Supporting the role of investment facilitation and Investment Promotion Agencies (IPA) in host countries to help establish links between foreign investors and the domestic economy.
As far as the development of “quality indicators” is concerned, we recommend including as an important basis **indicators that focus on measurable outcomes**, e.g. the number of jobs created, total employment or production, tax receipts, etc. rather than only focusing on more subjective qualitative indicators. It should be borne in mind that issues such as carbon footprint and gender are more subjective and often depend on specific sector consideration. Furthermore, it is recommended to review existing sustainability indicators including selected SDG goals and related indicators. As some companies have already started to use existing indicators for their investment decisions, they should be considered as new OECD indicators are being developed.

Country as well as sector specific considerations for indicators should be given due attention. For example, the understanding of quality jobs in economies with different levels of development may vary significantly. Some countries might prioritize the contribution of FDI to the modernization of their economies, while others might focus on increasing energy efficiency and minimizing carbon footprint.

As mentioned in the background paper, the project should also provide an opportunity to look at the findings of the 2002 OECD publication on *Foreign Direct Investment for Development – Maximizing Benefits, Minimizing Costs*. This publication provided important insights on the impact of FDI on macroeconomic growth, technology diffusion and human capital formation in the local economy, social and environmental performance, among others, as well as the policy requirements to maximize the benefits and minimize the costs of FDI. One of the main findings of the report was that the benefits generally outweigh the costs by a wide margin. Particularly in the current climate of skepticism, it would be helpful for the OECD to further refine and reiterate this message and identify the policies that allow countries to maximize the benefits of FDI.

When considering costs, this should not just relate to “initial costs”, but comprehensive issues such as the overall life-cycle cost and benefits, safety and resilience to disasters, longer term social and environmental considerations, and the contribution to the local community and economy through human resource development to achieve FDI for sustainable development.

However, we strongly warn against a focus that would lead to an **unhelpful categorization** of what is “good” and “bad” FDI, for example based on sectors. As we had previously underlined in the context of the OECD Green Growth project, for example, distinguishing between so-called “green” and “brown” sectors is counterproductive and does not reflect the important
interlinkages that exist among sectors. The focus should be on the underlying rule of law creating an investment environment favorable to sustainable growth, development, and jobs.

In addition, when considering “quality”, the focus should not just be on attracting FDI at the most sophisticated technical level. FDI by companies with middle-level technology can provide major benefits and, in some cases, more easily connect with local suppliers whose capabilities might match the foreign firms more closely.

We welcome the proposed pillar on the creation and promotion of supply-chains, which is an important consideration for long-term benefits as foreign operations of multinational enterprises, which can be important for linkages with host economy companies, including SMEs. While SME development is particularly important, it should be borne in mind that it is often easier for medium-sized or larger local companies to link with foreign investors. Investment promotion agencies can play a useful role by helping connect foreign investors with local companies of all sizes. Public support should take the form of creating reliable framework conditions for investment and local supplier relationship, instead of directly subsidizing specific companies.

The project’s new title “FDI qualities” is considered more precise and objective than the previous “quality FDI”. We hope that the project will be designed in a way that it will contribute to highlighting the benefits of open markets and help shed further light on the “qualities/benefits” of FDI and the policy environment that should be in place to encourage FDI flows as well as positive spillovers to both host and home economies. We call upon the OECD to continue to provide a platform for discussion in support of the global rule of law and the benefits of open markets.