

Foreign Investment and Sustainable Development

Lessons from the Americas



WORKING GROUP ON DEVELOPMENT AND
THE ENVIRONMENT IN THE AMERICAS

http://ase.tufts.edu/gdae/WorkingGroup_FDI.htm



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10th Anniversary

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Washington DC

The Promise of Investment Liberalization

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- **Attract FDI**
 - More stable form of foreign exchange
 - Employment, tax revenue
- **Productivity spillovers**
 - Backward linkages
 - Human capital spillovers
 - Forward linkages
- **Environmental Spillovers**
 - Clean technology and management transfer
 - Environmental “spillovers” to domestic firms
 - Export-led policy leapfrogging

Main Findings of the Report

- **FDI was concentrated in a small handful of countries in the region. Brazil, Mexico, Argentina, Chile and Venezuela received more than 80 percent of all the FDI in the region.**
- **Foreign firms that located in Mexico and the Caribbean tended to serve as export platforms, those that located in South America did so to sell to domestic markets in that region.**
- **FDI was not necessarily due to whether a nation had a BIT or FTA or if it can serve as a pollution haven for foreign firms.**
- **When FDI did come foreign firms tend to have higher levels of productivity, higher wages and were likely to increase trade.**
- **FDI fell far short of generating “spillovers” and backward linkages, in many cases FDI wiped out locally competing firms thereby “crowding out” domestic investment.**
- **The environmental performance of foreign firms was mixed, sometimes leading to upgrading of environmental performance, and in others performing the same or worse than domestic counterparts.**

FDI: Crowding Out Domestic Investment?

		<u>1960-1980</u>	<u>1980-2005</u>	<u>2000-2005</u>
East Asia and Pacific				
	FDI/GDP	0.4	2.3	2.7
	GFCF/GDP	24.6	34.9	34.8
China				
	FDI/GDP	0.02	2.5	3.2
	GFCF/GDP	26.2	38.2	39.5
Latin America and the Caribbean				
	FDI/GDP	0.8	1.9	3.1
	GFCF/GDP	21.9	20.0	18.9

Source: World Bank Development Indicators, 2006

Lessons for Policy

- **FDI is not an ends but a means to sustainable development. Simply attracting FDI is not enough to generate economic growth in an environmentally sustainably manner.**
- **FDI policy needs to be conducted in parallel with significant and targeted domestic policies that upgrade the capabilities of national firms and provide a benchmark of environmental protection.**
- **International agreements, whether at the WTO or with FTAs, need to leave developing nations the “policy space” to pursue the domestic policies necessary to foster sustainable development through FDI.**

FDI Policy, Four Views

- **BIT Happens (Colombia, Mexico)**
 - Wait for reforms to kick in
 - Deepen existing reforms
- **BIT/FTA Neutral (Chile)**
 - Deal-level leveraging
 - Access to credit and info
 - Downstream coordination
 - Eco-labeling
- **BIT/FTA Reform (Brazil, Argentina)**
 - Pre-establishment screening
 - Only-trade related measures
 - Selected performance requirements
 - Reform expropriation rules
- **BIT/FTA Replace (Venezuela, Ecuador, Bolivia)**
 - No signing of FTAs/BITs
 - Re-nationalization of FDI

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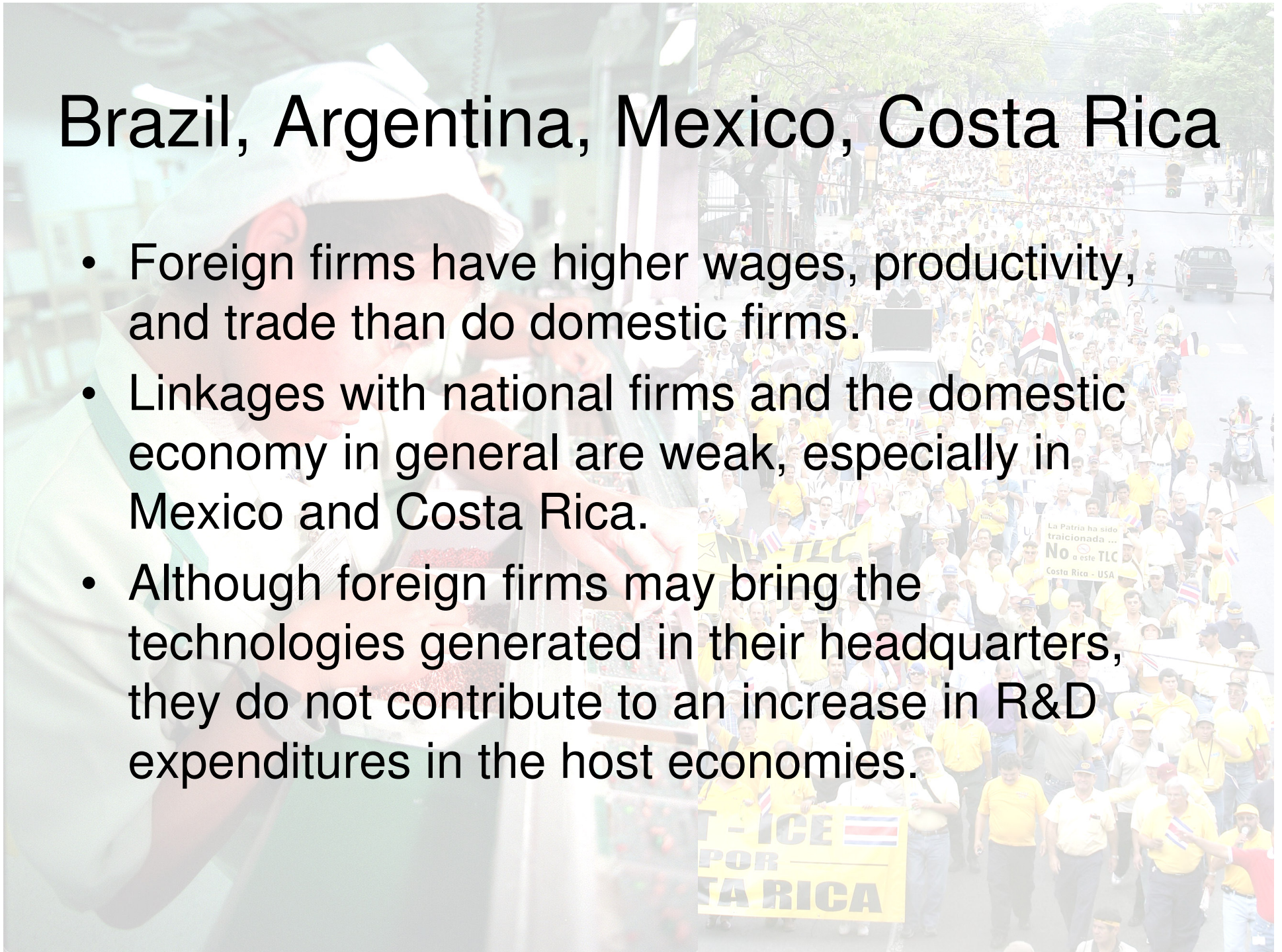
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Brazil, Argentina, Mexico, Costa Rica

- Foreign firms have higher wages, productivity, and trade than do domestic firms.
- Linkages with national firms and the domestic economy in general are weak, especially in Mexico and Costa Rica.
- Although foreign firms may bring the technologies generated in their headquarters, they do not contribute to an increase in R&D expenditures in the host economies.









Brazil, Mexico, Chile, and Argentina

- Virtually all foreign firms transferred environmental management systems to host countries.
- It is not clear that such firms were actually in compliance with host country laws and in Brazil there is little indication that foreign firms were more likely to be in compliance than domestic firms were.
- There is little evidence that foreign firms are greening their supply chains (given that so many supply chains were wiped out from FDI in the first place).
- In some instances such as the forestry sector in Chile, foreign firms that exported through fair trade certification schemes were “upgrading” to higher levels of environmental standards.
- In others, such as Mexico’s electronics sector, foreign firms were not exporting to meet strong standards in Europe given that their chief export market, the United States, does not have such standards.



Venezuela, Bolivia, Ecuador, Uruguay

- The U.S.- Uruguay BIT constrained the set of policies available to solve a conflict over foreign investment and transboundary environmental problems with Argentina.
- BITs in Bolivia, Ecuador, and Venezuela were reneged by governments who were able to renegotiate the terms of contracts with foreign hydrocarbon firms.