

## WAIPA World Investment Conference 2007

### *The new sources of FDI: emerging economies on the rise*

#### Report



Marking a dozen years in existence, WAIPA held its annual conference in Geneva on March 8-9, 2007. Reflecting the Association's continued expansion, the March meeting was the best attended annual gathering yet, both in terms of number of delegates and the number of IPAs represented. For the first time the event was also addressed by a prime minister (Morocco's Driss Jettou).

4 Keynote speakers in the High-Level Opening Session chaired by  
**Mr. Kai Hammerich**, WAIPA President:

**Mr. Driss Jettou**, Prime Minister of Morocco,  
**Dr. Supachai Panitchpakdi**, Secretary-General of UNCTAD,  
**Mrs. Xiuhong Ma**, Vice Minister of the Ministry of Commerce of China and  
**Mr. Victor Chu**, Chairman of the First Eastern Investment Group in Hong Kong

#### Numbers:

Approx. **300** participants coming from **80** countries,  
**100** IPAs represented and **60** heads of IPAs

That WAIPA has flourished since its foundation in the mid-1990s mirrors the ever-increasing importance of FDI as an engine of the globalisation process. Positively, this process of integrating all of the world's regions into the global economy continued apace in 2006. Each one of the major regions again experienced robust economic growth. And with still-strong financing conditions, global flows of FDI surged past the \$1 trillion threshold for the first time since 2000. This third consecutive year of rising FDI flows, and unusually strong global GDP growth, ensured an upbeat mood among those attending the conference. Despite this, however, there was an acute awareness among delegates of the issue of protectionism, and a distinct eagerness to share experiences and hear the views of others member organisations on the subject.

3 sessions held in parallel:

Session 1: “South-South FDI: the new source of development financing”, moderated by **Mr. Dan O’Brien**, Senior Europe Editor/Economist, The Economist Intelligence Unit

Session 2: “Globalization and the new protectionism: is there a backlash against FDI in the making?”, moderated by **Mr. Karl Sauvart**, Executive Director, Columbia Program on International Investment, and Co-Director, Millennium Cities Initiative

Session 3: “FDI and natural resources: new players on the scene”, moderated by **Mr. John Defterios**, Group Vice President, FBC Media Broadcast

“Meet the consultants” session  
with the participation of  
**Buck Consultants International,**  
**Ernst & Young,**  
**IBM-PLI,**  
**OCO Consulting**

### **Protectionism on the rise?**

It was unsurprising, then, that protectionism was in the spotlight from the opening session; a position in which it stayed for the remainder of the conference. Indicative of the interest in protectionism and its attendant risks was the high level of participation at the session examining the matter. Giving cause for optimism was the conclusion that there is little hard evidence of a change in official attitudes towards FDI and that “investment wars” are not looming. Having shared their experiences and listened to the expert panel, delegates at the session were asked to express a view on the matter. Reassuringly, the overwhelming majority in the audience voted to describe recent trends as a “growing unease”, with only small numbers preferring “backlash”.

Panelists and delegates teased out the many issues surrounding this growing unease. It was widely agreed that the perceived economic, social and cultural costs and benefits of FDI can change over time and that different types of FDI can have different consequences. It was also noted that efficiency-seeking investment often has greater net benefits, while natural resources-seeking investment may not always be so. But, in general, the view on FDI as means to accelerate economic development remains extremely positive.

The small number of protectionist measures taken by governments in recent times was attributed to security concerns, differences in competition policies and public concerns about the pace of global economic change. Delegates agreed that a policy response was needed so that the process of globalisation could be better managed, although there were differences on how this should be done, with some panelists arguing for FDI policies to be brought into the WTO framework, whereas others suggested a role for the OECD.

### **The rise and rise of developing world MNEs**

As has been the trend in recent years, there is growing optimism about the increase of outward investment from developing countries, and in particular the phenomenon of South-South FDI (panellists and delegates agreed that geographic proximity remains a key determinant in explaining FDI patterns). FDI originating in the South increased from just 5 percent of world

outward flows in 1990 to 17 percent of the total in 2005. South-South FDI has several advantages over North-South investment, including the fact that the technologies and business models of developing-country MNEs often have more in common with the host country, which can enhance the scope for linkages and technology spill-overs. Cultural gaps may also be narrower, which may explain why such companies are often less risk averse about investing in emerging markets and more capable of rapidly establishing successful and profitable operations.

Noteworthy was the fact that speakers from different regions pointed to different benefits from South-South flows. This is likely to reflect the limited amount of hard evidence on the nature of South MNEs, a fact appreciated by delegates. It was clear that a major research agenda exists in this area which, if carried out, would enhance understanding of the phenomenon.

### **Resources as a magnet for FDI**

The very marked rise in almost all commodity prices in recent years and consequent concerns about guaranteeing supplies of basic resources have fuelled an increase in resource-seeking FDI. Such investments, and the trends associated with them, were the subject of a session on Day Two of the conference. Given the mixed history of foreign investment in extractive industries particular emphasis was placed not only on how to avoid any possible negative effects, but also on identifying best practice that maximise its benefits. The most often cited cases of getting it right were Botswana, Chile, Norway—countries in which good governance and strong institutions were created and sustained to manage these resources.

The increase in such investment, in part owing to the rise of concerns about the security of supplies, resulted in particular attention being focused on Africa. Among the more noteworthy development has been Asian companies coupling their FDI investment with infrastructure development projects in host economies. Such deals have obvious attractions for the host countries.

### **Other themes and highlights**

The rapid progress of Asian economies in general, and China in particular, received considerable attention during the course of the two-day meeting. While making sustained efforts to boost inward investment, the Chinese government also encourages outward FDI. And in 2006 outflows amounted to \$16.1 billion, pushing the country into 13th place in the world and boosting its stock of overseas investment (excluding the financial-sector) to \$73 billion. This, and the fact that China is now one of the largest importers worldwide, demonstrates the win-win nature of closer economic co-operation.

WAIPA, and similar organisations, have an important role to play in that facilitating such co-operation, not least by providing analysis, technical assistance, and a forum for discussion and consensus-building. WAIPA's main mission will continue to be the enhancement of capacity building of IPAs, particularly through networking, the exchange of best practice and the sharing of experiences. And as IPAs become more important in policy advocacy, the role of the Association can be expected to expand in parallel.

Another role that IPAs have also come to see as crucial is that of aftercare service to companies that have established in their jurisdictions. Acknowledging the importance of this function, the annual WAIPA award, presented in collaboration with UNCTAD, was given to three member IPAs adjudged to be generators of best practices in the field. Recognised for their excellence in aftercare services were: Invest in Portugal (API), Korea Trade-Investment Promotion Agency (KOTRA) and Tanzania Investment Center (TIC).

The award ceremony took place at the Gala Dinner of the annual conference, held on 8 March at the Royal Hotel, in Geneva. The evening was generously sponsored by Badan Koordinasi Penanaman Modal (BKPM), the Investment Coordinating Board of the Republic of Indonesia, and

included a delightful performance of classical music and dance from Java (Indonesia's most populous island) which all those attending greatly enjoyed.

