

Comments on “The Relationship Between Trade, Foreign Direct Investment, and Development: New Evidence, Strategy, and Tactics under the Doha Development Agenda Negotiations.”

Mikyung Yun¹
30 October 2002.

I would like to commend the author on presenting a comprehensive and thorough account of the DDA issues in the foreign direct investment area and evaluations of positions taken based on a survey of convincing empirical evidence.

The comprehensiveness and thoroughness has made the paper rather long, however, especially for a seminar presentation. I believe it would be useful for readers if the author could summarise the more salient points of the paper in the concluding section..

While agreeing with major arguments and tone of the paper, I feel that greater clarification, elaboration or comment by the author could be made on the following points.

1. It would be nice if the paper pays some tribute to the works of the technology capability school, which has contributed a great deal in advancing the same sort of ideas as the build-up approach to FDI’s contribution developing countries much earlier, especially focusing on the process and nature of technological development in a developing country (eg: various works by Lall , Enos and others.).

The technology capability school have particularly emphasised learning capability or willingness of host countries to learn – eg. Unless this is there, any amount of parental supervision of wholly owned subsidiary will not help to upgrade skill or quality levels of the subsidiary ... turning this around, unless the performance of the subsidiary is

¹ Research Fellow, KIEP. The views expressed herein are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB) or its Board of Directors or the governments they represent. ADB makes no representation concerning and does not guarantee the source originality, accuracy, completeness, or reliability of any statement, information, data, finding, advice, opinion, or views presented.

satisfactory with respect to learning and willingness to learn, the parent company would not waste resources on providing guidance, training etc and therefore you can empirically observe only these cases).

2. The Korean case is generally known as a successful case with respect to technology transfer through various types of channels involving foreign parties – technology licensing, joint venture and informal channels such as customers and especially OEM procurers. Yet Korea only allowed full ownership in 1997. Given this example, and comparing it to the Latin American experience (full ownership and closed, perhaps ability to be integrated into the international strategy of the MNC, to be open and export oriented, is probably the more important factor than applying some regulation with respect to ownership structure? Or would Korea have fared much better (without any loss on other fronts, such as government's ability to control capital) without such joint venture impositions?

3. Further about JVs (pp 6). Is the author only condemning required JVs? Firms cooperate for many reasons, not least to have an easier time getting used to domestic surroundings in the case of FDI. If so, shouldn't data categorise willing JVs vs unwilling JVs rather than JVs vs non-JV units?

4. Despite harsh judgements on JVs, it doesn't seem so clear why they must be doomed to fail. It is clear that MNCs would prefer vertical relationships such as OEM/REM than horizontal relationships as in JVs – but this is simply because MNCs can siphon off more profits under fully owned subsidiary or OEM arrangements – should developing countries always be accommodating to MNC preferences? If they attract less amount of FDI in total through requiring JV, they might still retain greater part of the profit within the country? Further, in this way, could developing countries ever hope to leap frog? Can developing countries expect to create internal technology creating capabilities through FDI or OEM etc, other than artificially supporting R&D as in developed countries (which may initially be providing infant industry support for a developing country). For a developing country at a certain level of development, would it not be faster to acquire this capability from a few cases of JVs than many OEMs?

5. There maybe confounding of issues when comparing fully owned FDI, JV and OEMs regarding capital transfers, technology transfer/economic development. OEM does not require MNCs to make direct investment. It therefore does not really crowd out

domestic capital as FDI might, while perhaps providing greater chance of incremental technological development. What does success of OEM-strategy imply about the need to attract FDI and DDA negotiations regarding FDI? OEM-strategy does not seem to concern policies to regulate FDI and it is not clear from the paper what the implication is.

6. pp 29. The author mentions developed country tools such as screening (conditions of which are often intransparent) to complement prohibition of all performance requirements and would serve to balance the interests of home and host countries.

And, what about other trade regimes such as anti-dumping, domestic content rules of origin etc that affect locational decisions of FDI? Does the author have a position on this? Even though it is quite clear that developed countries will prevent efforts to make the linkage between these practices and investment, is it worth making the point?

7. Does the author have a position with respect to what may be a better way to proceed between WTO-based dispute settlement vs commercial law based dispute settlement?.