9

Policy Implications

This volume lays out the underpinnings for a "second generation" of research on the relationship between foreign direct investment and development. The policy message that emerges is far more complex and nuanced than the much criticized prescription of the "Washington consensus" that foreign investment flows are good, and the more FDI the better.

For example, FDI in natural resources can generate revenues for public services, economic diversification, and social development; or it can produce corrupt rule, political upheaval, economic stagnation, and ongoing poverty. FDI in infrastructure can bring electricity, water, and other services to ever larger numbers of businesses and households, including poorer households; or it can impose lopsided economic and foreign exchange burdens on beleaguered public authorities at the national and subnational level. FDI in manufacturing (and services) can bring low-skill jobs and exports, and more importantly, it can provide a path for the host economy to move from lower- to higher-skilled economic activities, with thickening backward linkages and valuable spillovers; or it can lock the host economy in inefficient and noncompetitive economic activities.

In each area, the key to determining the positive or negative FDI outcome is the policy environment established by developing-country host governments and reinforced by developed-country authorities and aid agencies, multilateral financial institutions, labor organizations, NGOs and civil society groups, and the corporate social responsibility community (including, in particular, the investors themselves).

The data presented in this volume also add nuance to the grand pronouncements about what is or is not known in terms of how to stimulate

© Peterson Institute for International Economics | www.piie.com

growth or enhance development.[1] On the one hand, it is not accurate to say that "we know nothing" about how FDI can help host countries raise living standards. Nor is it accurate to say that the effect of FDI is "random," or that FDI can bring no positive impact to the poorest countries. On the other hand, it is not sensible to expect to find a simple answer to a question such as "will more FDI make Pakistan grow faster?" Or "will more FDI solve problems of poverty in Africa?" Or "can FDI bring sustainable development to Mali or Cambodia?" Particular types of FDI can—depending on the host-country policy framework—contribute to augmenting real income through the 12 principal channels identified in box 1.1. But the gigantic task of raising growth rates that endure, and generating broad increases in economic and social welfare, is likely to be slow and arduous even under the best of circumstances.

Developing Countries

For FDI in the extractive and infrastructure sectors, transparency of payments and revenue streams, backed by comprehensive and effective new laws against corrupt payments, will determine whether exploitation of natural resources and provision of infrastructure services constitute a major advance—or setback—for host development. As described in chapters 2 and 3, progress here requires overlapping efforts among developed- and developing-country authorities to:

- reform the Organization for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions as well as the home-country laws based on it (including the US Foreign Corrupt Practices Act [FCPA]),
- strengthen and expand the Extractive Industries Transparency Initiative (EITI and EITI++), and
- ensure that all international investors (including those from non-OECD states) are governed by the same regulations.

Host developing countries will have to establish credible timetables to implement EITI auditing procedures and ensure that such procedures apply uniformly to each and every investor, with company-by-company publication of results. Within a robust regulatory environment, it should not prove insurmountable to address more technical issues involving fiscal measures to manage Dutch disease, tax measures to share revenues in boom and bust conditions, and arrangements to share foreign exchange risks or design workouts when unexpected shocks occur.

1. See the Barcelona Development Agenda, www.bcn.es (accessed on August 26, 2010). See also Easterly (2001), Sachs (2005), and Collier (2007).

© Peterson Institute for International Economics | www.piie.com

Turning to FDI in manufacturing, the evidence presented here forces reconsideration of two widely held views: first, that there is no evidence that FDI generates externalities for recipient economies; and second, that the benefits of FDI can be had if policymakers just let markets work. The data show that manufacturing FDI has a particularly powerful role to play in shifting a host country from a traditional economic base to low-skilled, labor-intensive, export-led growth, and then again in moving the host up the path into the supplier networks of higher-skilled manufactured products. Along the way, there are possibilities for many kinds of spillovers and externalities, especially in the vertical direction with an expansion of backward linkages.

But the data examined here also show that while the mantra of "reform, reform" is a necessary condition for host countries to harness manufacturing FDI for development, it may well not be a sufficient condition. Both poorer and less poor developing countries face imperfections in information markets (broadly speaking) for attracting manufacturing FDI. They need proactive investment promotion agencies and strategies to market their economies as sites for new FDI. Investment promotion agencies in turn must be backed by what can be fairly costly infrastructure and manpower training programs that provide the credibility that host-country commercial potential exists, thereby propelling their countries onto the short list of realistic sites for international investors. Packages of assistance to help developing countries attract and launch ever more sophisticated FDI activities, particularly in the context of regional or bilateral trade agreements, will be discussed later in this chapter as key ingredients through which developed countries and multilateral financial institutions can help catalyze manufacturing FDI.

But strong manufacturing FDI flows themselves are no panacea for development. The health and vitality of indigenous firms will always be the key to domestic job creation and economic growth. Steady improvement in the local business climate, under increasingly competitive conditions, will play a major role in the important task of helping indigenous firms become more productive all across the domestic economic landscape. Success in improving the local business climate will, at the same time, enhance prospects for local companies to become suppliers to multinational investors. To accomplish this, hosts may experiment with imaginative supplier-identification and vendor-promotion programs. But the indispensable prerequisite remains a domestic setting in which local firms enjoy business-friendly regulations, infrastructure services, financing, and duty-free imports just as the foreigners do.

A complete wish list of host-country policies to take advantage of FDI would include regional or global constraints on investment subsidies and incentives fully coordinated with national and state entities in the developed world. Of course, the political economy of accomplishing this in the real world might render this outcome fanciful.

Absent from the list is greater leeway for developing countries (including the poorest developing countries) to impose domestic-content and joint-venture mandates on multinationals. The evidence examined here repeatedly

© Peterson Institute for International Economics | www.piie.com

shows that the imposition on multinational investors of performance requirements—particularly domestic-content requirements—runs counter to host-country development interests throughout the world, including in Korea, India, and China.

Developed Countries

The first implication for developed countries is simple and straightforward, but nonetheless defies much contemporary rhetoric that asserts the contrary: The globalization of industry (and services) via FDI is not a zero-sum process in which the success of the developing world comes at the expense of the developed countries.[2]

Outward FDI in manufacturing and assembly enhances the distribution of good jobs/bad jobs in the home country and strengthens the competitiveness of firms, workers, and communities at home. Outward FDI initiates a win-win process that benefits workers as well as companies on both sides of developed- and developing-country borders. Accompanying these favorable outcomes, outward investment also leads to various forms of job dislocation, creating losers (as well as winners) whose needs must be forthrightly acknowledged and addressed. But the home economy is stronger and more resilient with outward FDI than it would be if home authorities adopted measures to limit or retard companies from setting up operations abroad. Developed-country authorities can justifiably endorse the flow of FDI to the developing world, even while designing domestic training and adjustment programs for those hurt by globalization.

Looking at the United States more specifically, the data introduced here show that it would be unwise in the extreme to make the US home economy a less favorable setting from which to conduct international business activities. Today, US multinational corporations (MNCs) concentrate more than 70 percent of their operations at home, constituting the most technology-intensive and productive segment of the US economy and offering higher wages and benefits than other companies as a result. They now conduct three-quarters of all US private-sector R&D. Using the US economy as the base for integrating their global operations—which includes engaging in outward investment—strengthens the domestic operations of US MNCs and allows them to generate more exports (and higher-paying export-related jobs) than firms that do not engage in outward investment. Making it more difficult to engage in outward investment would not strengthen the home economy in the United States. Quite the contrary, placing obstacles in the way of US MNCs using the United States as the center for conducting global operations would leave them and the suppliers, workers, and communities where they are located worse off and less competitive in the world economy.

2. For the trade counterpart of this argument, see Edwards and Lawrence (forthcoming).

© Peterson Institute for International Economics | www.piie.com

Most developed countries recognize that they serve their own interests as well as the interests of the developing world by helping home-country companies identify investment and export opportunities abroad. Sixteen of the 22 major developed countries help home-based multinationals both export to and invest in developing economies; one of those that do not is the United States.[3]

The US Foreign Commercial Service, for example, assists US firms in bidding on foreign contracts and developing export markets, but it is not trained or allowed to assist US companies in setting up supply chains abroad.

The constraints on the Overseas Private Investment Corporation (OPIC) are even more severe. Whereas 14 of 19 official political-risk insurance agencies in the developed world provide crucial coverage for projects with powerful development impact—including labor-intensive FDI export projects from least-developed countries and middle-skill-intensive FDI export projects from more advanced developing countries—OPIC is prohibited from offering coverage to what US labor organizations consider "sensitive sector" investments (including textiles, auto parts, or electronics) or to agricultural processing projects if the crops grown are "in surplus" in the United States.[4] Concern about congressional reaction also effectively prevents OPIC from offering support to investors that wish to establish or manage export processing zones.

What is needed is to rededicate OPIC to its original mission to promote development by providing political-risk insurance to those projects that most benefit poorer countries. Alongside OPIC, meanwhile, the Millennium Challenge Corporation should work with recipient countries to design compacts that overcome constraints to investment, tying local entrepreneurs to global markets and helping authorities implement compacts that facilitate both local and multinational private-sector activity.

While the analysis in this volume has shown that outward FDI generally strengthens the competitiveness of home-country industries, developed countries may rightly be skeptical that this will be the outcome in all cases without exception. Developed-country authorities may therefore require that their political-risk insurance agencies provide a "net benefits" test to projects receiving official support. But OPIC is not permitted to perform any such test. It is instead required to report to Congress if any single job might be lost in the United States as a result of an outward investment (even if the net outcome is positive), effectively denying coverage to all such cases, rather than following the more appropriate procedure of determining whether the home economy is better or worse off overall if the investment takes place.

The evidence presented here does show, however, that developed countries should not support all manufacturing FDI flows to the developing world,

3. See the investment component of the Center for Global Development's Commitment to Development Index 2010, www.cgdev.org (accessed on February 1, 2011).

4. Ibid., footnote 3; see also Moran (2003).

© Peterson Institute for International Economics | www.piie.com

especially not highly protected manufacturing projects that subtract from host economic welfare. It is disheartening therefore to discover that 16 of 19 national political-risk guarantee agencies—plus their counterparts in the regional development banks and the World Bank Group—fail to screen out FDI projects that require high trade barriers to survive.[5] For example, the political-risk insurance agencies of the United States, United Kingdom, Canada, Japan, Germany, France, and Italy, as well as the World Bank's Multilateral Investment Guarantee Agency (MIGA), assess only the likelihood that applicants can earn a profit, not whether the applicants' operations will make a positive contribution to host development. Since highly protected, foreign-owned plants are often quite lucrative, these projects pass this profitability test and qualify for coverage. Worse, some agencies, such as OPIC, provide insurance against the "threat" that the host might break a promise to protect a US investor against international competition, and pay the claim if the host lowers barriers to imports (O'Sullivan 2005). The cost-benefit demonstrations that FDI undertaken for import substitution subtracts from host welfare and retards domestic development should lead national insurers to refuse to provide official support to such projects.

Complementing this, developed-country governments should take steps to reaffirm multilateral commitment to the Agreement on Trade Related Investment Measures (TRIMs)—which prohibits the imposition of domestic-content and trade-balance requirements on multinational investors—in the World Trade Organization. In the same vein, the argument for greater "policy space" to impose performance requirements in bilateral investment treaties—particularly the US model bilateral investment treaty (BIT)—runs contrary to the interests of the developing world. This empirical observation bears repeating. Rodrik (2009, 2010), for example, correctly identifies ongoing structural transformation as being the most rewarding path for developing-country growth as the current international economic crisis winds down. But instead of following the promising strands in his own analysis in Hausmann and Rodrik (2003, 2005)—which suggest that FDI can help overcome entrepreneurship gaps, with trade and investment liberalization fostering the expansion of indigenous supply chains in the host economy—Rodrik reverts to 1950s-style industrial policy, trade restrictions, and imposition of performance requirements (especially domestic-content mandates) on foreign investors.[6]

In extractive industries and infrastructure, developed countries will want to support FDI in a manner that strengthens, rather than undermines, host-country institutions and good governance mechanisms. This will require changing the interpretation of what qualifies as corruption under the OECD

5. See the Center for Global Development's Commitment to Development Index 2010, www.cgdev.org (accessed on February 1, 2011).

6. For example, Rodrik consistently misreads Korea's development path in high-performance electronics, which, as noted here, was largely a phenomenon involving original equipment manufacturers, accompanied by learning from multinational buyers as well as "learning by doing" more generally.

© Peterson Institute for International Economics | www.piie.com

convention, as spelled out in chapter 2, and ensuring that subsequent OECD peer reviews of home-country antibribery legislation (including the US FCPA) promote conformity with the new definition. To enhance transparency of payment streams, developed countries can ensure that their own investors participate in the EITI and EITI++, urge developing countries where they have influence to join the EITI, support the development of specific work plans (covering international investors of all nationalities) to adhere to EITI principles, and endorse company-by-company reporting of revenue streams. To assist in making EITI and EITI++ programs more credible, developed countries should help fund the training of local parliamentarians and civil society participants to monitor transactions between international investors and public authorities.

Alongside efforts to ensure that EITI principles apply to all investors in any given country, developed countries should endorse the refusal of international investor-state arbitral panels to enforce contracts obtained by corrupt means, including contracts of Chinese, Russian, and other non-OECD investors. The goal is to ensure that exemplary investors in natural resources and infrastructure enjoy a level playing field where their best practices do not set them at a disadvantage to their less exemplary counterparts.

Finally, developed as well as developing countries would benefit from a multilateral effort to limit locational incentives, subsidies, and other giveaway programs as alternative sites compete to attract international investment.

Multilateral Financial Institutions

The analysis advanced here bears directly on two of the most fundamental questions faced by the World Bank, as well as by regional banks such as the IDB, ADB, AfDB, and EBRD. First, given the vast expansion of international private capital flows over recent decades, do these multilateral financial institutions continue to have a robust role to play in any capacity except as funders of poverty-related social projects? Second, should these institutions pull back from involvement in middle-income countries and devote their efforts exclusively to the poorest developing economies?

With regard to the first question, the preceding pages lay out a broad array of evidence to demonstrate that international markets alone will not maximize or optimize the contribution of private investment to development. Public-sector interventions may be needed to:

- compensate for information asymmetries: MNCs are not all-knowing, it is costly to search for investment opportunities, and would-be hosts have to capture the attention and interest of potential investors.
- address coordination externalities: infrastructure services, vocational training, and worker health have to be meshed with the needs of investors in overlapping fashion.

© Peterson Institute for International Economics | www.piie.com

- deal with problems in making credible commitments: contract enforcement and regulatory stability may need outside support.
- attend to appropriability problems and first-mover disadvantages: pioneer investors in new types of economic activity, or in chaotic and dangerous situations, may need external guarantees.
- ensure that international standards are set and enforced as a worldwide public good: public-sector intervention here may in fact be the *only* way to achieve this objective.

Across all of these fronts, carefully designed multilateral financial agency involvement can help break down the barriers that prevent markets from functioning efficiently and help shape the behavior of private actors to comply with important social, economic, and environmental norms. More specifically, multilateral financial agency programs such as political-risk insurance, guarantees, equity positions, loans, and policy advice can make a difference beyond what private markets supply in such areas as:

- improving and providing impartial monitoring of the business climate as a public good, accompanied by capacity building for judicial and regulatory institutions;
- designing, staffing, and funding investment promotion agencies and overcoming information deficits;
- overcoming failures in making credible commitments to honor contracts and helping to design investment agreements;
- improving governance and transparency, and combating corrupt payments in extractive and infrastructure investments;
- ensuring observance of recognized standards for socially and environmentally responsible private-sector development; and
- promoting investment in postconflict and humanitarian crisis states.

This list of undertakings does not duplicate what private actors are likely to provide on their own and is not at all confined to the poorest countries or the lowest levels of development. Indeed, some of the biggest payoffs to carefully configured multilateral interventions, as identified in previous pages here, can accrue to countries trying to climb into the higher ranks of the developing world.

Thus, as the world emerges from the financial crisis and FDI begins to flow again in robust fashion, the World Bank Group (including the International Financial Corporation [IFC] and MIGA) and regional development banks will continue to have vital functions in helping developing countries—including middle-income developing countries—harness foreign investment for development. But important recalibration is needed.

With regard to natural-resource FDI, the EITI++ agenda must now be transformed into concrete work plans with monitored results and shaped to extend

© Peterson Institute for International Economics | www.piie.com

the umbrella of transparency and noncorruption to investors from all countries via company-by-company reporting of revenues. The most significant expansion of the EITI++ approach, as recommended in chapter 2, is to provide support for developing-country authorities in the actual negotiation of oil and mining investment agreements. This expansion of EITI++ has a parallel in helping structure FDI in infrastructure so as to ensure appropriate distribution of risks of fluctuation in supply and demand and foreign exchange exposure, backed by work-out mediation when forecasts go awry, as recommended in chapter 3.

With regard to FDI in manufacturing and assembly, the market failures associated with upgrading the host production and export base and expanding backward linkages to local suppliers highlight a crucial function for external assistance. The World Bank Group (especially the IFC and MIGA) and regional development banks can play a catalytic role in overcoming coordination externalities by providing help for customized investment promotion, FDI-associated infrastructure, and vocational training for workers and technicians. There is a growing body of evidence—particularly internal IFC assessments—showing that policy advice and financial support for development are most effective when offered together. Past practices of simply providing World Bank consultant reports on policy reform, supplemented by training seminars for middle-level host bureaucrats, have proven to be of very limited utility. What is needed are multilateral lending institution packages of operational recommendations, on-the-ground technical support, and concrete resources linked to and backed by host policy champions and local monitors.

In fact, high-payoff assistance to developing economies to use FDI as part of a strategy to upgrade and diversify exports has not been a priority for multilateral lending institutions. Instead, the focus of their rapidly growing efforts to support the private sector in developing countries has been directed almost exclusively to removing liquidity constraints for small and medium-sized firms—an extraordinarily tricky undertaking, often with low payoff even when successful (Perry 2010). Multilateral development bank lending to private firms reached 35 percent of total operations in 2008, three times larger than in 2003. Of this total, nearly 40 percent of the loans and 60 percent of equity investments went to financial intermediaries in the hopes of reducing liquidity constraints on small and medium-sized firms.

Finally, the World Bank and regional development banks must screen out support for FDI projects that rely on trade protection to survive, as recommended previously for national aid agencies and political-risk insurers.

Other Organizations and Groups

The analysis presented here addresses policies that host and home countries might adopt to optimize the benefits from FDI and from the external support that might be provided by multilateral lending institutions and national assistance agencies. But it also highlights important roles for the other players involved.

© Peterson Institute for International Economics | www.piie.com

International Labor Organizations and Civil Society Groups and Nongovernmental Organizations

As recently as a decade ago, it was not difficult to find numerous critiques of the intervention of self-appointed, nonrepresentative NGOs in the affairs of international investors. Today it has become clear that Transparency International, Global Witness, Publish What Your Pay, Revenue Watch Institute, and other international civil society groups and NGOs—as well as their local counterparts—provide a public good and help with setting and monitoring international standards in a way that today's most rigorous public policy analytics would support. This is well recognized already in the activities associated with supporting the EITI and related anticorruption efforts, but the evidence introduced here shows that the need for external pressures extends deep into the operations of manufacturing MNCs as well.

However, positioning civil society groups and NGOs to optimize the contribution of FDI to broad-based sustainable social and economic development requires some shaking up of the conventional wisdom among these groups.

Popular calls to demand higher minimum wages or living wages for workers are likely to be counterproductive for reasons explained in this volume (e.g., because such moves render plants uncompetitive and discriminate against younger, older, and single workers). The same goes for attempts to prevent employers from altering the level of employment in response to fluctuations in external markets.[7] The challenge is to incorporate productivity-based wages and labor market flexibility into the agenda for reasonable treatment of low-skilled workers. For a particular segment of low-wage operations, employees supplying inputs to highly branded retailers (including collegiate retailers) should receive a premium, delivered directly from oligopoly profits and consumer pockets, as described in chapter 4.

In order to upgrade the production base and diversify exports, international labor organizations and civil society groups will want to recognize the negative consequences of imposing performance requirements (such as joint-venture and domestic-content requirements) on multinationals. They should abandon antagonism toward the TRIMs agreement and turn away from the misdirected effort to rewrite this portion of the US model BIT. International labor and civil society groups will want to become supporters, not opponents, of limits on performance requirements.[8]

---

7. The demand that international investors pay wages high enough to support a family has become ubiquitous. The adverse consequences for younger, single, and entry-level workers are often simply left unaddressed. See ILO (2008) and OECD Watch, "Key Issues for a Review of the OECD Guidelines," December 2009, http://oecdwatch.org (accessed on February 1, 2011).

8. Comments on the US Model Bilateral Investment Treaty submitted by the Center for Environmental Law, EarthJustice, Friends of the Earth US, Oxfam America, and Sierra Club, July 31, 2009. Also see Cosbey (2009).

© Peterson Institute for International Economics | www.piie.com

Topping this off, international labor and civil society groups will want to endorse business-friendly treatment of local firms to allow indigenous supply chain development.

In terms of combating the denial of worker rights and the abusive treatment of labor, the evidence shows that international labor and civil society groups have mutually supportive and complementary roles to play. This means that any effort by one group to monopolize the international effort to support workers and deny legitimacy to others does a disservice to production laborers around the world.

Corporate Social Responsibility Advocates

It is commonplace to open discussion of corporate social responsibility by acknowledging that there is no common definition of what is encompassed in the concept.[9] With regard to socially responsible multinational corporate investment, the most fundamental requirement is for companies to acknowledge and observe the 10 fundamental standards in the UN Global Compact that span four critical areas:[10]

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
- Principle 2: Make sure that they are not complicit in human rights abuses

Labor Standards

- Principle 3: Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining
- Principle 4: Elimination of all forms of forced and compulsory labor
- Principle 5: Effective abolition of child labor
- Principle 6: Elimination of discrimination with respect to employment and occupation

---

9. The Monitor Institute (2009, 13) identifies corporate social responsibility as socially responsible investing, social investing, mission-driven investing, sustainable and responsible investing, blended value, values-based investing, mission-related investing, ethical investing, responsible investing, impact investing, program-related investing, triple-bottom-line investing, and environmental, social, and governance investing.

10. See the website of UN Global Compact, www.unglobalcompact.org (accessed on February 1, 2011).

© Peterson Institute for International Economics | www.piie.com

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges
- Principle 8: Undertake initiatives to promote greater environmental responsibility
- Principle 9: Encourage the development and diffusion of environmentally friendly technologies

Anticorruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

Next, socially responsible international companies should set up internal systems—and provide internal training to employees and managers—to ensure compliance and then report results. Perhaps the most widely recognized reporting system is that of the Global Reporting Initiative.[11]

The recommendations above notwithstanding, the analysis provided here moves markedly beyond "complying" and "reporting" to a much more proactive role for investors with regard to their mainline operations. In order to handle "resource curse" issues, for example, the Global Reporting Initiative pronounces that international investors should "report the percentage of total number of management and nonmanagement employees who have received anticorruption training" and "provide a description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas."[12]

The recommendations here are much more specific and assertive. Socially responsible international resource investors should:

- use their influence on the ground in individual resource-rich countries to bring new governments into the EITI and EITI++ fold;
- develop industrywide model practices to preserve the environment, address the needs of indigenous peoples, and incorporate full-life-cycle community planning into their projects, while simultaneously providing capacity building for monitoring on a national and local level; and
- in their own self-interest, use their influence on the ground in individual resource-rich countries to bring about transparency of revenue streams on a company-by-company basis (thus exposing non-OECD investors to the same scrutiny as OECD investors), rather than insisting on aggregate-

11. Global Reporting Initiative, G3 Guidelines, www.globalreporting.org (accessed on February 1, 2011).

12. Ibid.

© Peterson Institute for International Economics | www.piie.com

only reporting of revenue streams (thus allowing non-OECD investors to avoid close scrutiny).

In order to promote backward linkages, the Global Reporting Initiative tells its adherents to report on "how much do you buy locally." But the analysis presented here proposes much more targeted queries:

- Has the socially responsible investor designated a manager to be a "talent scout" to identify and pursue possible indigenous suppliers (or work with local vendor development agencies)?
- Does the socially responsible investor have a program to provide production advice, managerial advice, and advance purchase orders to potential indigenous suppliers (a teaching externality)?
- Does the socially responsible investor have a system to "qualify" and "certify" potential indigenous suppliers (a labeling externality)?
- Does the socially responsible investor have a plan whereby indigenous suppliers are introduced to sister affiliates in the region (an export externality)?

With regard to influencing the environment for business, the Global Reporting Initiative protocol asks international corporations to report on their public policy positions and on their participation in public policy development and lobbying (as recommended in OECD guidelines). Corporate social responsibility pressure of the kind recommended here would want to push international corporations in the direction of support for labor institution externalities, such as ensuring that all members of the business associations with which they are connected (no matter what skill level their operations) operate with common and mutually acceptable human resource standards, albeit not with identical wage levels.

One could go down the long list of reporting protocols in the Global Reporting Initiative or other industrywide or industry-specific company codes of conduct to try to translate the findings about optimizing the contribution of FDI to development into specific practical recommendations for action. The thrust of such an endeavor would, in each case, spring from the conviction that the strongest contribution FDI can make to the growth and welfare of the host country comes from well-structured, well-run, and environmentally sound mainline operations of MNCs.

At the end of the day, the findings presented in this volume should not detract from the efforts of many in the pro-poor sustainable development community who simply want to pressure international corporations to "give back" more to the communities where they operate. The most frequent objective of these demands is for international corporations to be more involved in community-based social projects or in aiding local organizations and initiatives. But the evidence presented here shows that the principal benefits from foreign investors come from the direct effects their core operations can have

© Peterson Institute for International Economics | www.piie.com

on the host economy, not from the philanthropy that might accompany their on-the-ground activities. Advocating large-scale, corporate-sponsored social programs or poverty reduction initiatives should not substitute for insistence that mainline multinational investor operations be run in an open, competitive, and well-structured manner. Corporate charity surely has its place, but the pro-poor sustainable development policy community will want to begin to shift its focus more directly to supporting the 12 channels identified in this volume through which FDI can help raise living standards.

© Peterson Institute for International Economics | www.piie.com