

Supporting Outward Foreign Direct Investments in the Middle Income Economies

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J. Jakopin,
Constructor of the

*Internationalization is
like breathing;
If you stop, you are dead*



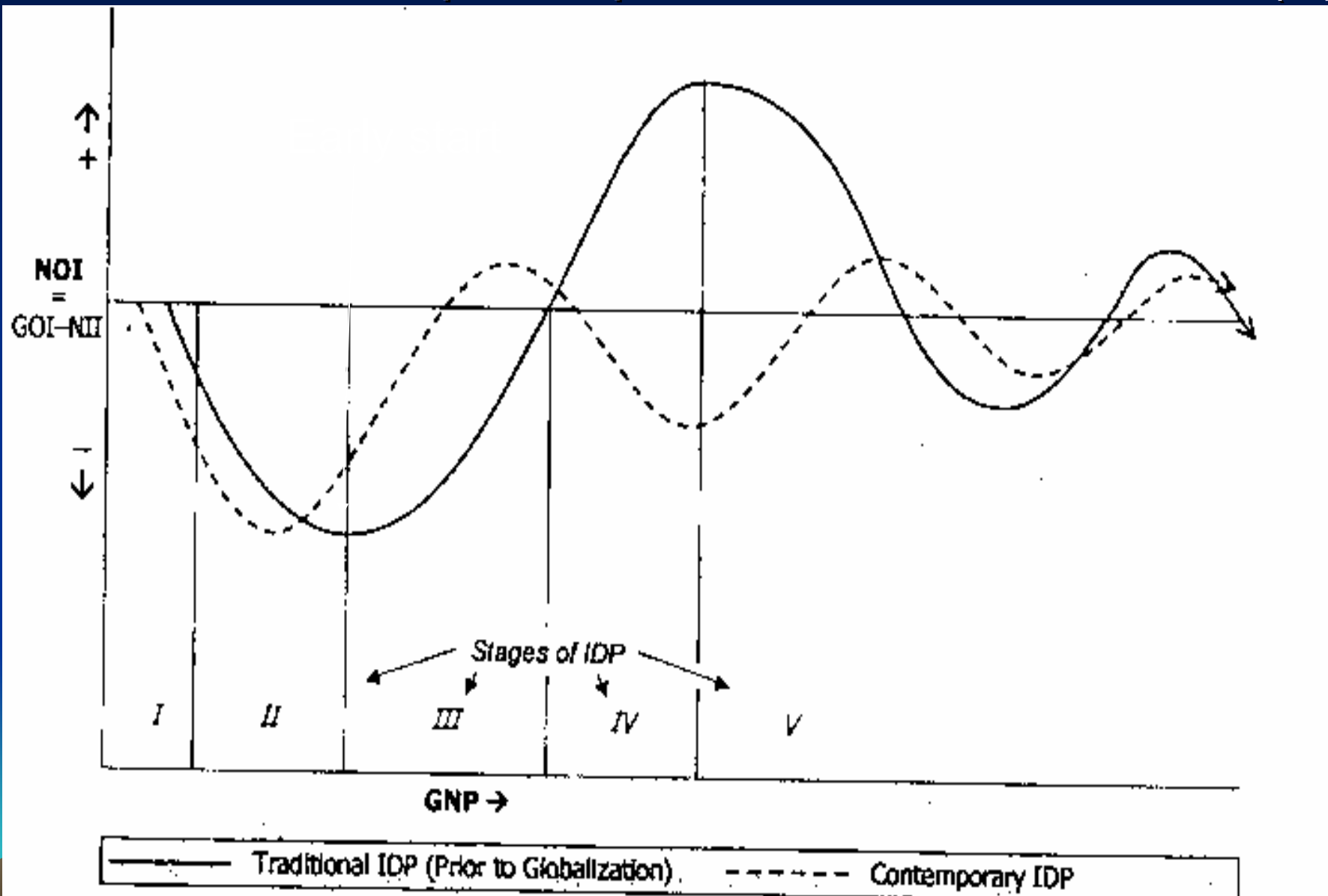
Issue therefore is:

- Should Middle Income Economies (MICs) governments **promote**, **discourage** or be **neutral** regarding OFDI?
- Experiences lead to supporting option (beneficial impact of OFDI)
- Therefore:
 1. Why,
 2. How,
 3. What
 4. Who and
 5. When to start?

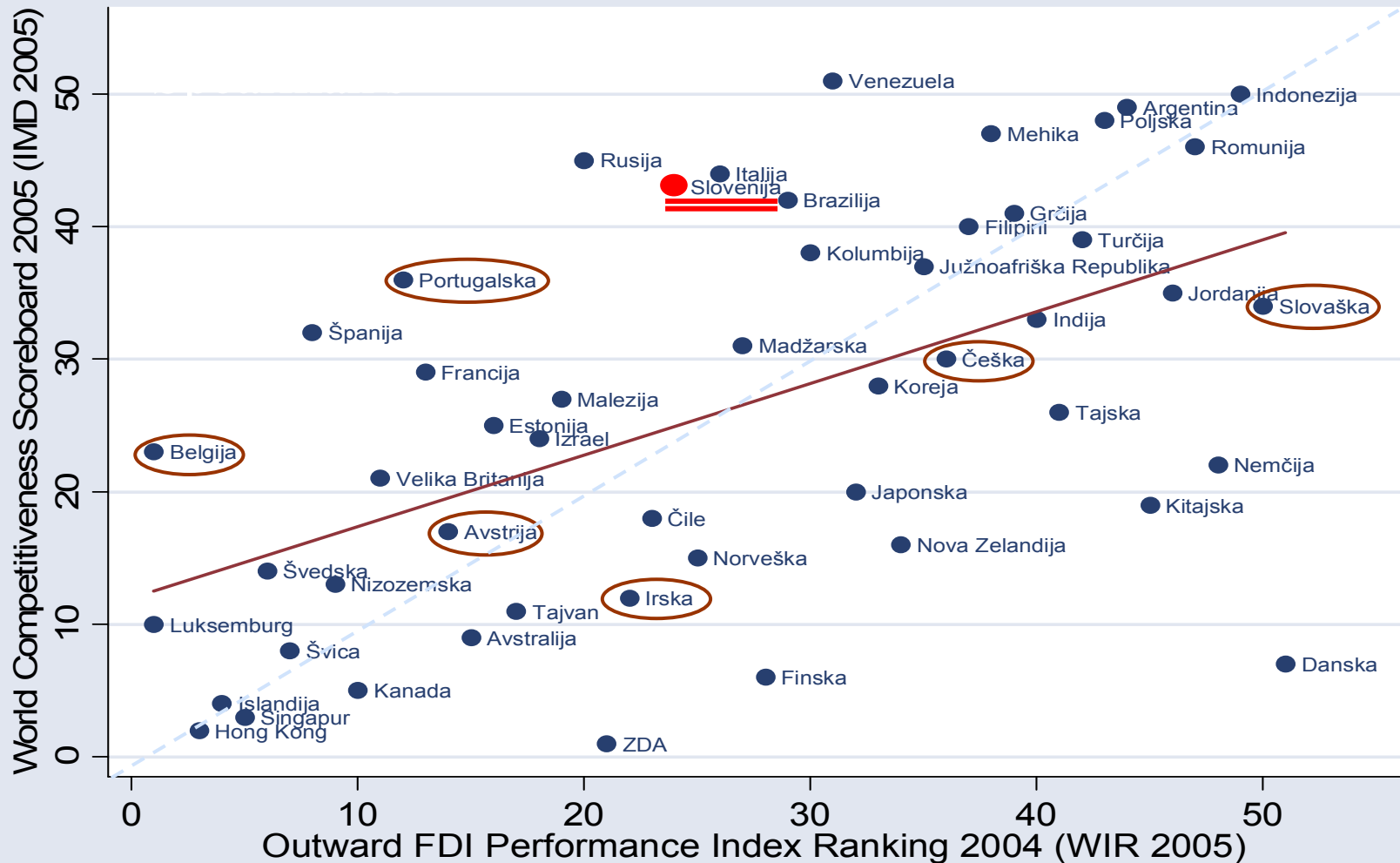
1. Why: Supporting OFDI in **Upper MIEs**

- To enhance **competitiveness** and facilitate restructuring
- **Externalities**, spill over effects, (macro economics)
- **Multinationality** matters for competitiveness
- Stimulating OFDI of **SMEs** at early stages
- MIEs sit **between chairs**
- are in **take off** IDP stage;

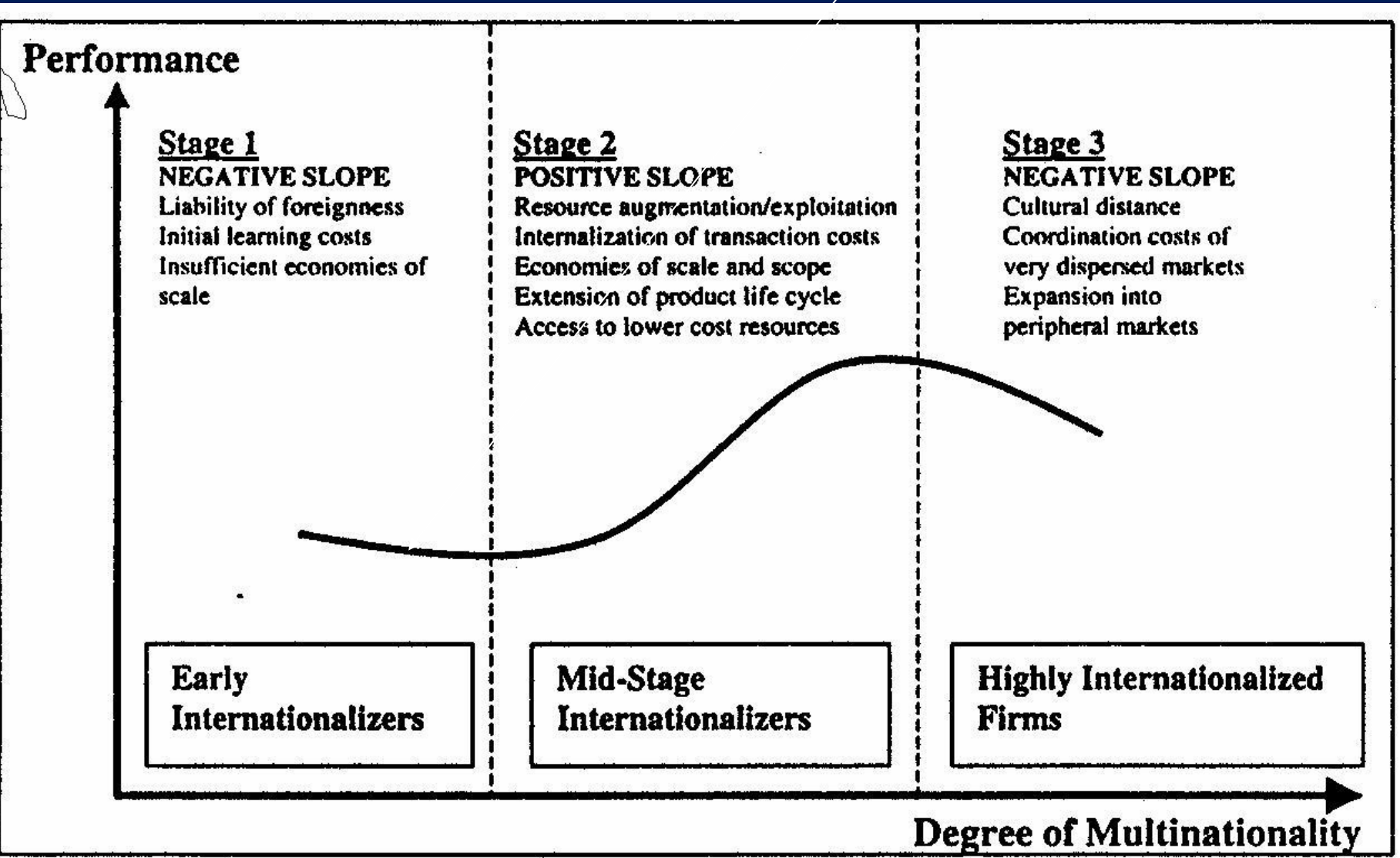
Investment development path: old and new version (--)



Correlation between ranks of OFDI performance index and competitiveness index



Internationalization is costly at early stages



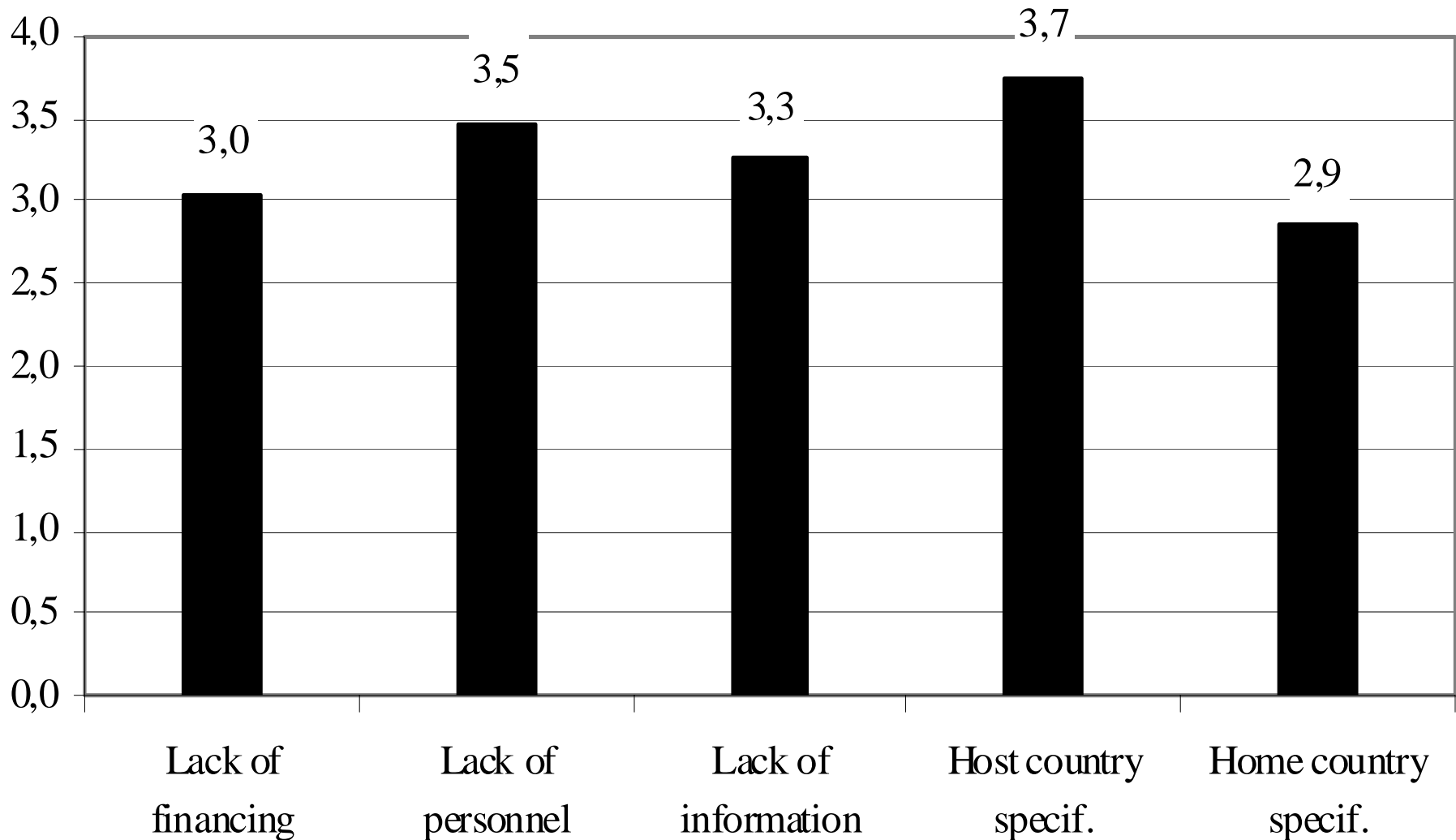
Past experiences

- Many countries started OFDI at around 10.000 USD pc
- Today earlier: leapfrogging (born globals)
 - no experiences
 - high risks
 - hesitations
 - no OFDI
 - loosing market shares

2. How?

1. First overcoming **attitudinal** barriers
 - i) OFDI are **antipatriotic**, **double** standards for in or outward FDI, we need capital at home
 - ii) wrong **perceptions** (export of jobs, investment crowding out...)
2. Establish OFDI **infrastructure** (investment and double taxation agreements....)
3. Policy should help overcoming **obstacles**

What are the obstacles to OFDI (CEE sample) ?



3. What to do ?

1. No general recipes
2. **“MIEs policy history”**;
 - from discouraging → tolerating → allowing → encouraging with no instruments → supporting → selective support
3. Proactive strategy: **One stop** agency for in and outward FDI

Specific OFDI support measures

Enhancing push factors, **entrepreneurial** capabilities:

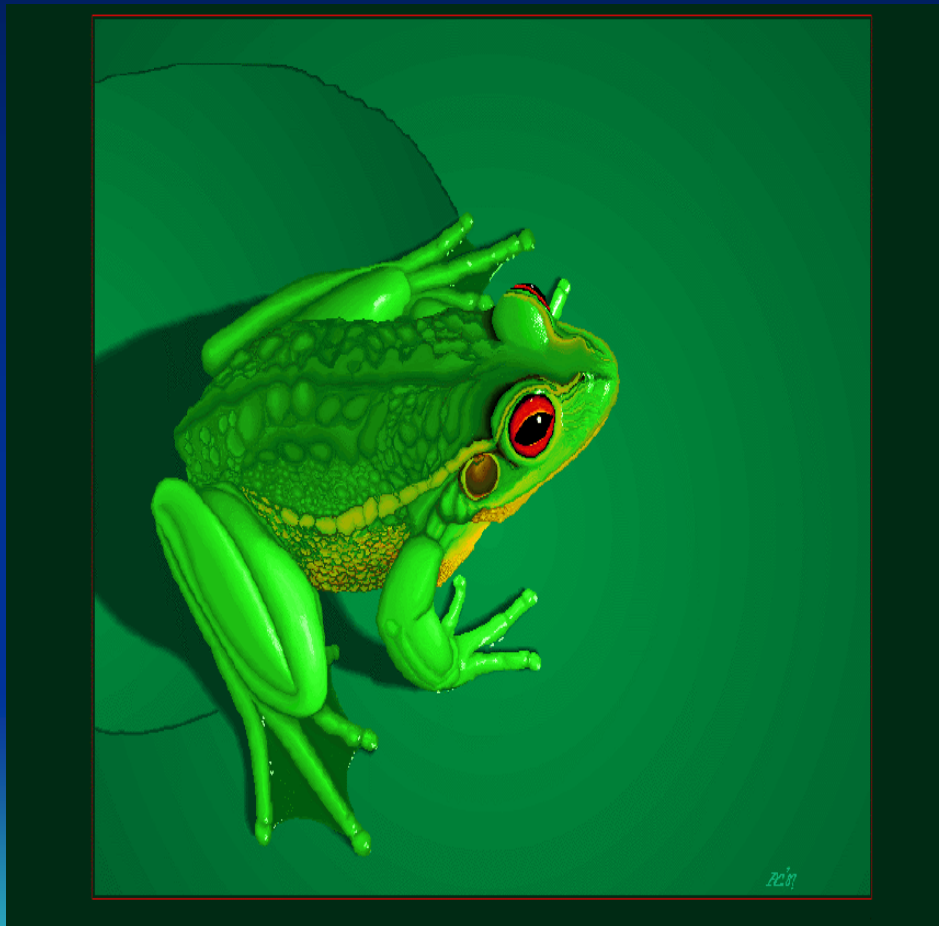
- a) **R&D**
- b) **Holistic** education/training (global managers creation-Global Players program)
- c) **Information/advisory** services to overcome information asymmetries and market failures

4. Who to be supported?

All investors (manufacturing, services), large and small?

- **Manufacturing** deserve priority → restructuring
- Discourage **flight** capital transactions
- more **SMEs**,

Because SMEs lack capabilities but



leapfrogging is a must
(born globals)

Need to trigger off their
OFDI,

5. When initiating support programs?

- **Earlier** than industrial countries (**2/3 stage of IDP**)
- Timing is path, economic structure specific
- Therefore **idiosyncratic policies**

But be aware that

- OFDI can imply capital **flight**
- National **champions** policy can lead to inefficiencies
- **Discontinuing** support of OFDI not rational at early stages of OFDI

Conclusion

We have 3 kinds of people/governments
Those:

1. **observing** what is happening
2. **wondering** what is happening
3. Those **making** things happen

Let's be in the last group!!