

Protectionism in Foreign Direct Investment: Towards Better Global Governance



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Foreign Direct Investment

- 1) FDI benefits both the host and home countries
- 2) Legal and regulatory barriers to FDI
- 3) Institutional and systemic barriers to FDI
- 4) Tools to dismantle these barriers
- 5) A Modest Proposal

GE: A Company with Global Reach

\$183B Revenues
\$98B from outside US

Operations in over
100 countries

Europe

Russia

Middle East

China

India

Latin
America

325,000 employees worldwide

Manufacturing facilities
in 40+ countries

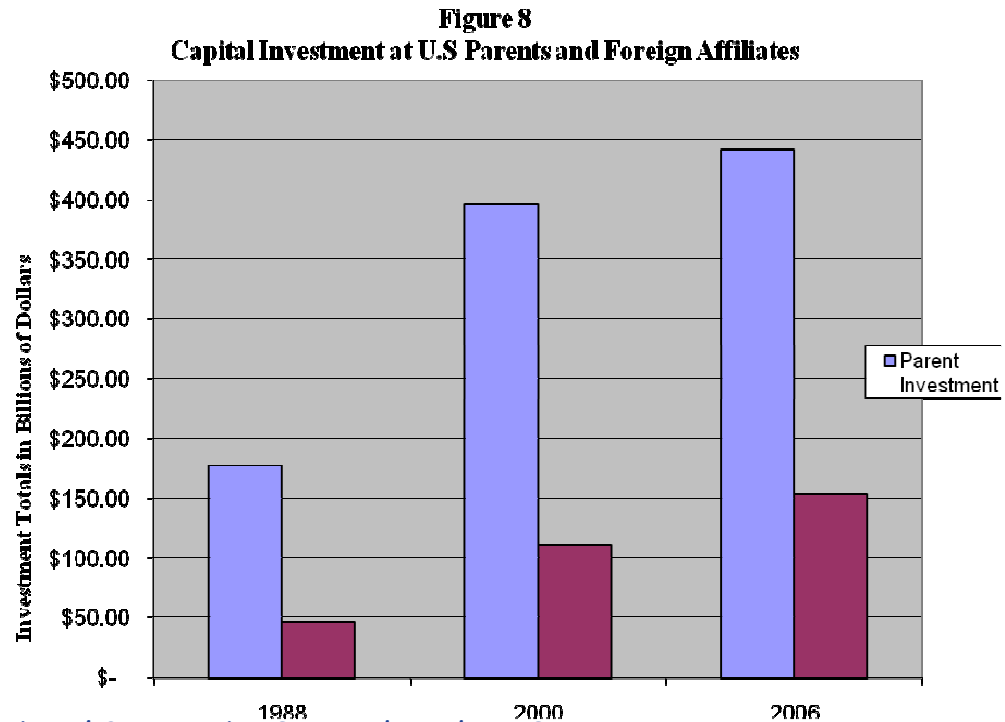


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FDI Benefits Both Home and Host Countries

FDI generates synergy, with both home and host countries enjoying increases in:

- Employment
- GDP
- Tax base
- Human Capital



Source: *How U.S. Multinational Companies Strengthen the U.S. Economy*,
by Matthew Slaughter (using data from Bureau of Labor Statistics)

FDI Complements Home Country Operations

Parent companies undertake significant economic activity in their home country ...

... that is complemented – not supplanted – by FDI

Figure 1
U.S. Parent Companies Account for Large Shares of the Overall U.S. Economy

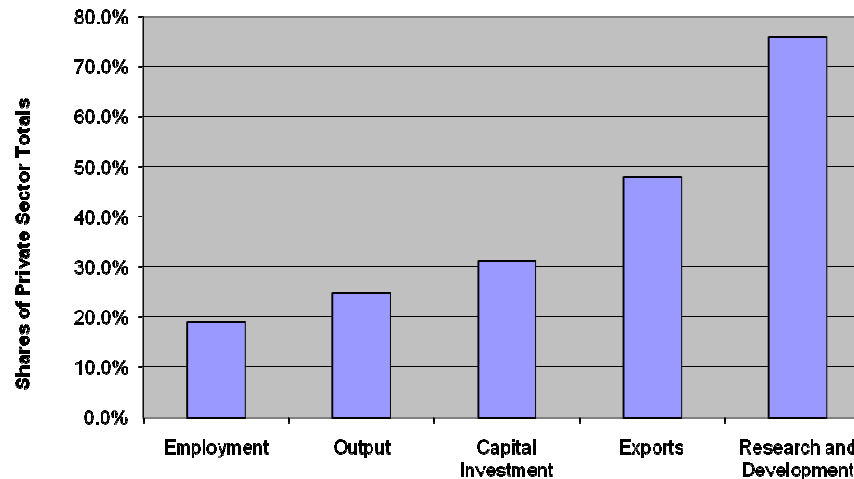
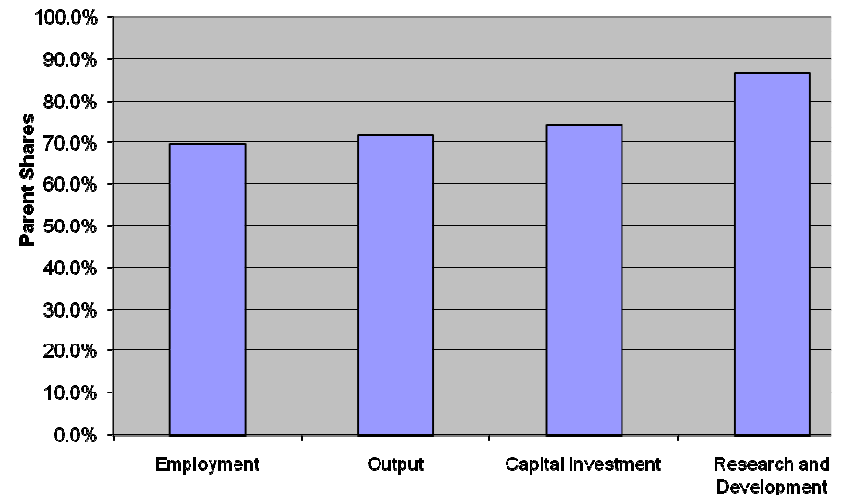


Figure 3
U.S. Parents Account for the Large Majority of Worldwide Activity of U.S. Multinationals



Source: *How U.S. Multinational Companies Strengthen the U.S. Economy*, by Matthew Slaughter (using data from Bureau of Labor Statistics)

FDI Brings Capital and Best Practices to Host Countries

In addition to employment, FDI also promotes the spread of best practices in environmental health, safety and employment standards.

→ GE applies world-class standards everywhere

And FDI can spread best practices throughout the supply base . . .

Promoting responsible sourcing, globally . . .

- GE sources only from suppliers that provide safe and healthy workplaces and comply with wage, hour, and overtime laws.
- GE regularly monitors adherence to the supplier review program through reporting of metrics and internal audits.



Multinationals share best practices with the suppliers to over 800,000 affiliates



Legal and Regulatory Barriers: Home Countries



Measures aimed at domestic companies can discourage FDI:

- Taxes on investments abroad
- Foreign exchange restrictions
- Requirements on repatriation of assets or operations

Legal and Regulatory Barriers: Host Countries



Pre-Establishment

- Ownership restrictions
- National Security review legislation
- Denial of access to needed facilities

Post-Establishment

- Denial of National Treatment
- Local content, foreign exchange restrictions and other performance requirements



Institutional and Systemic Barriers

FDI becomes challenging without:

- Rule of Law
- Transparency
- Stakeholder participation in rule-making
- Integrity in political institutions
- Stability in the host economy
- Commercial infrastructure, such as credit bureaus and financial institutions

Tools for Dismantling Legal and Regulatory Barriers to FDI

- GATS, TRIMS, and other multilateral instruments
- High-quality BIT's
- Investment provisions in FTA's

Tools for Dismantling Institutional and Systemic Barriers Barriers to FDI

- World Bank *Doing Business* project
- OECD conflict of interest toolkit
- Capacity building through international organizations: WTO, WCO, WIPO, IFI's, etc.
- Civil society initiatives to build rule of law – Transparency International, Partners for Democratic Change, etc.
- Stakeholder participation in rule-making to include private sector interests

Tools for Dismantling Barriers to FDI: Private Sector Behavior

- Conduct international business with integrity
- Build international best practices into relationships with affiliates and suppliers
- Support national and international anti-corruption efforts

A Modest Proposal

Create a forum to coordinate FDI policies across multi-stakeholder groups

- Common definition of issues
- Common understanding of barriers
- Analysis of empirical evidence
- Civil society participation

→ Encourage FDI-Friendly Policies

Working Group Stakeholders

- International Organizations: UNCTAD, World Bank, WTO, and the OECD
 - World Bank's *Doing Business Report*
 - UNCTAD *World Investment Report*
 - OECD *MNE Guidelines and Investment Policy Toolkit*
- NGOs: Transparency International, TRACE, Partners for Democratic Change, etc.
- Industry groups: International, Regional, and National



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