

INTERNATIONAL INVESTMENT

FDI & TRADE

Group 05:

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Outline

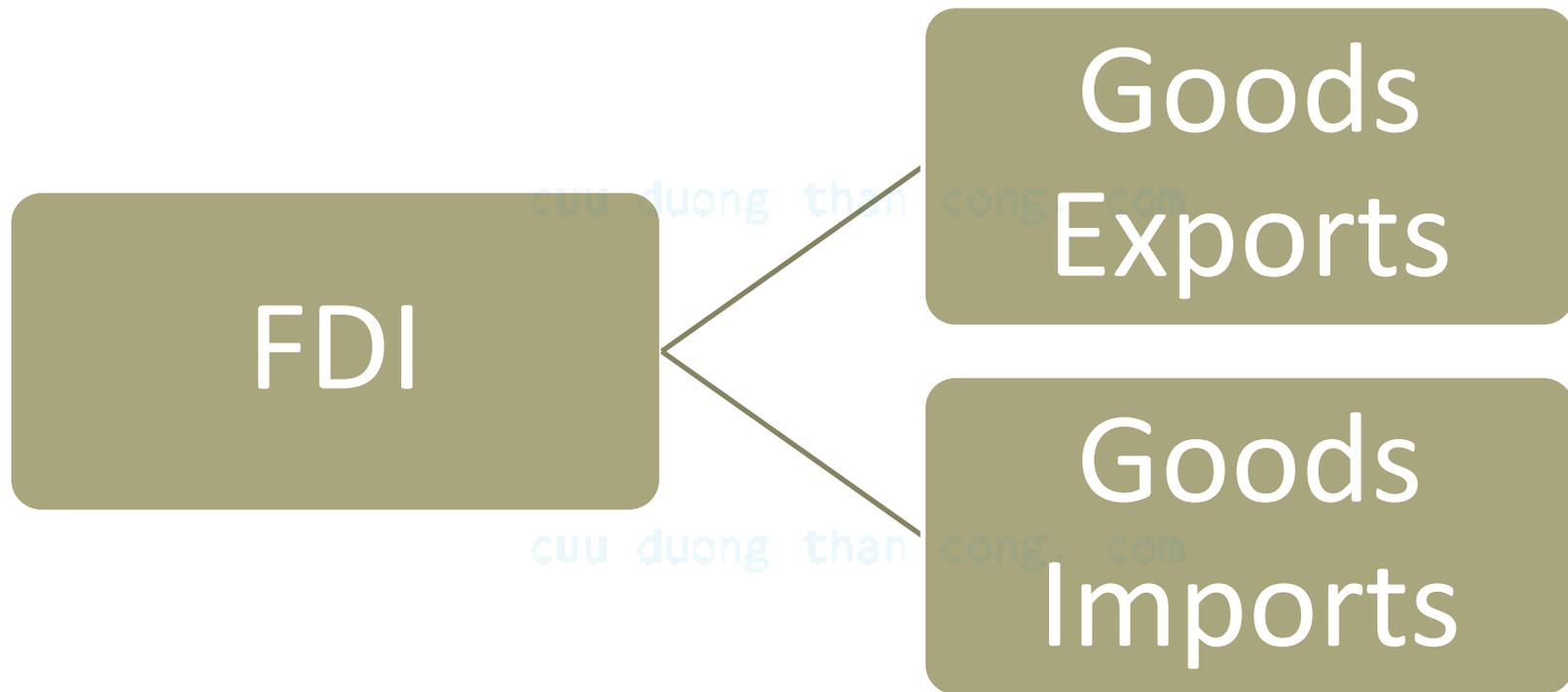
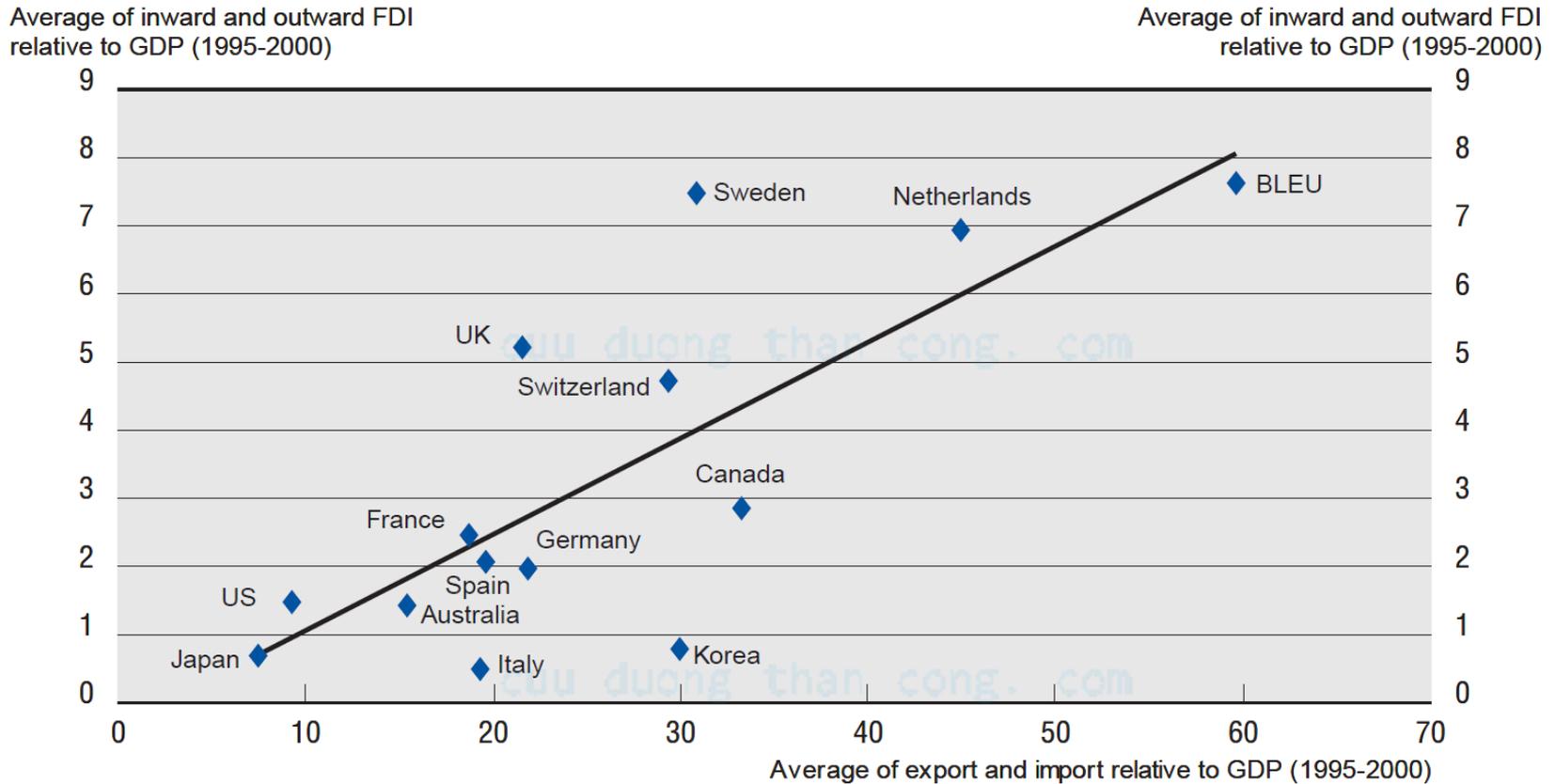


Figure IV.1. The linkage between openness to FDI and foreign trade



Source: OECD International Direct Investment Statistics, *OECD Economic Outlook*.

GOODS EXPORTS

In some emerging economies: FDI as a possible vehicle for raising exports.

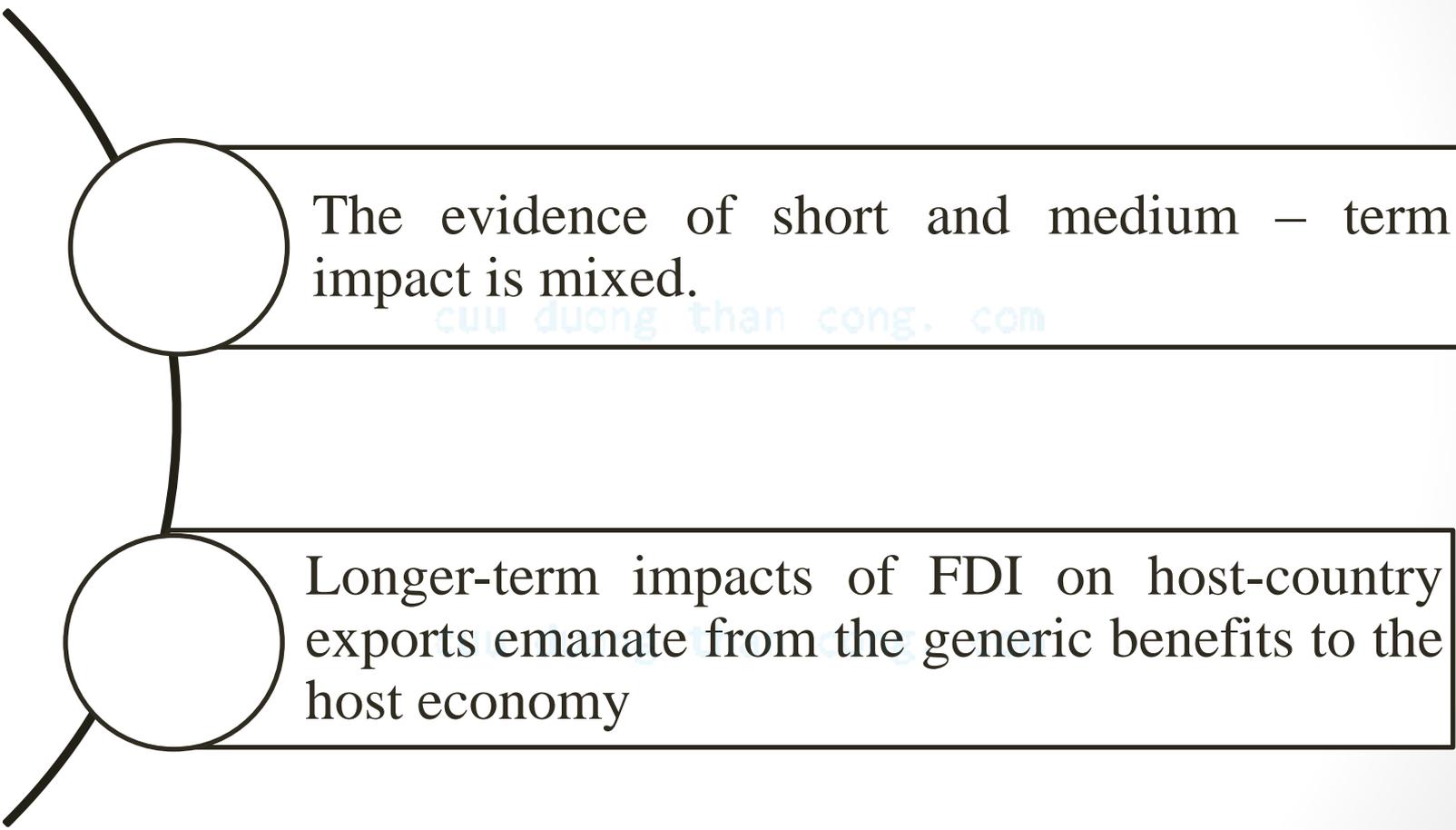
However, only certain economic sectors and certain motivations for FDI: contribute to near-term export growth.



MAIN BENEFITS

- Create and boost foreign trade flows → integrate into the global economy
 - Develop & strengthen international networks; increase importance of foreign subsidiaries in MNEs' strategies for distribution, sales and marketing.
- A developing country's ability to attract FDI is influenced significantly by the entrant's subsequent access to engage in importing and exporting activities.

FDI & EXPORTS



The evidence of short and medium – term impact is mixed.

Longer-term impacts of FDI on host-country exports emanate from the generic benefits to the host economy

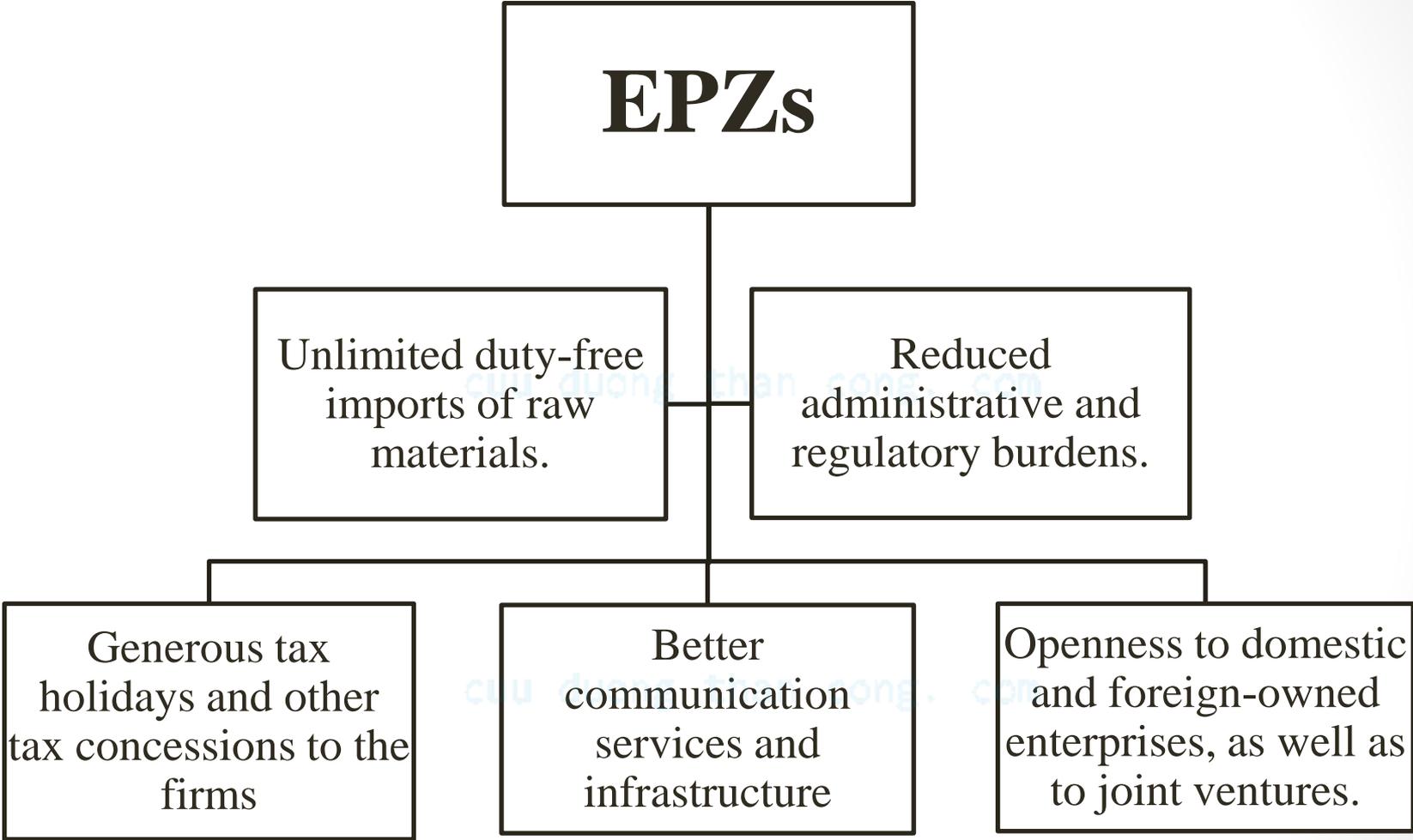
EXPORT PROCESSING ZONES (EPZs)

- Create better framework conditions for business.
- Attract particularly export-oriented FDI
- Represent one of the more visible efforts to attract FDI by many developing countries



PHOTO: JESSICA DIMMOCK

EPZs



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graph TD; EPZs[EPZs] --- A[Unlimited duty-free imports of raw materials.]; EPZs --- B[Reduced administrative and regulatory burdens.]; EPZs --- C[Generous tax holidays and other tax concessions to the firms]; EPZs --- D[Better communication services and infrastructure]; EPZs --- E[Openness to domestic and foreign-owned enterprises, as well as to joint ventures.]
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Unlimited duty-free imports of raw materials.

Reduced administrative and regulatory burdens.

Generous tax holidays and other tax concessions to the firms

Better communication services and infrastructure

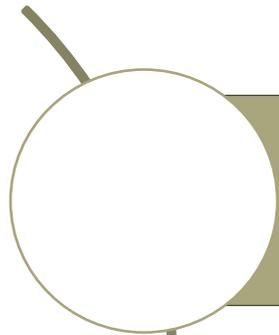
Openness to domestic and foreign-owned enterprises, as well as to joint ventures.

VIETNAM'S SITUATION

- Consist of 147 IPs and EPZs and 9 EZs widespread in 48 cities and provinces nationwide
- Be ideal destinations for manufacturing base.
- Meet points of young, skilled and more cost-saving labor force compared to other neighboring countries.
- Be the benignant destinations for projects of large-scale, high-tech as well as green and environmental friendliness.

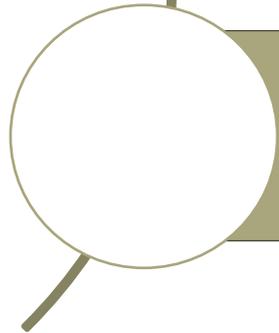
→ Attract FDI into VN more and more

Goods imports



Direct impact

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Longer-term effects

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Direct impact of FDI on imports

- an immediate effect
- effect on the import of intermediate goods, machinery and equipment

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→ depends on the investors' choice between imported and local inputs

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- Direct and immediate impact of inward FDI → an increase in goods import

→ Studies: this effect tends to weaken over time

- UNCTAD(United Nations Conference on Trade and Development)(1997): the case of China: the import intensity of foreign-owned enterprises declines significantly over time
- Hill and Athukorala(1998): newly established enterprises need time to forge linkages with local suppliers
- Fry(1996): FDI initially boosts imports, but that imports decline during the subsequent five years

The longer-term effects of FDI

depends on:

- Sectoral specifics
- Localization specifics
- Strategic specifics

→ difficult to draw general conclusions

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Thank you for listening!

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