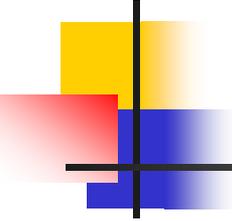


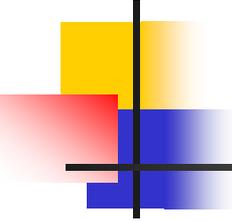
Chapter 7: Impacts of international investment (II) on economic-social development of the host country

1. Goal: To be able to analyze positive and negative impacts of II especially FDI on the host country's economic-social development
2. Objective:
 1. To grasp the main direct and indirect effects of II on host countries
 2. To assess FDI impacts of on Vietnam's economic-social development
3. Contents:
 1. Economic effects
 2. Social effects
 3. Environmental effects
4. Studying method:
 1. Learn the theory
 2. Class discussion
 3. Case study
 4. Group Presentation



Reference

1. Kavaljit Singh, 2007, Why Investment Matters, pp. 42-60
2. UNCTAD, 2007, World Investment Report, pp.129-154.
3. UNCTAD, 1999. WIR, pp.157-313
4. UNCTAD, 2006. WIR,pp.183-197 (on Host developing country)
5.
 , Nxb ĐHQGHN, 2001.
Ch. 7.
6. Anh, et al., Impact of FDI on Economic Growth in Vietnam, 2006.



International investment matters and the role of TNCs

“International investment matters. Why? Because investment is not just a blandly apolitical process by which money is mysteriously made to grow, but a process in which companies and governments define and redistribute access to assets, determining who accumulates wealth and at whose expense”,

“To influence this process, the public needs to know how investment works, who the main players are and what the trends are”...“TNCs play the central role in the investment debate”

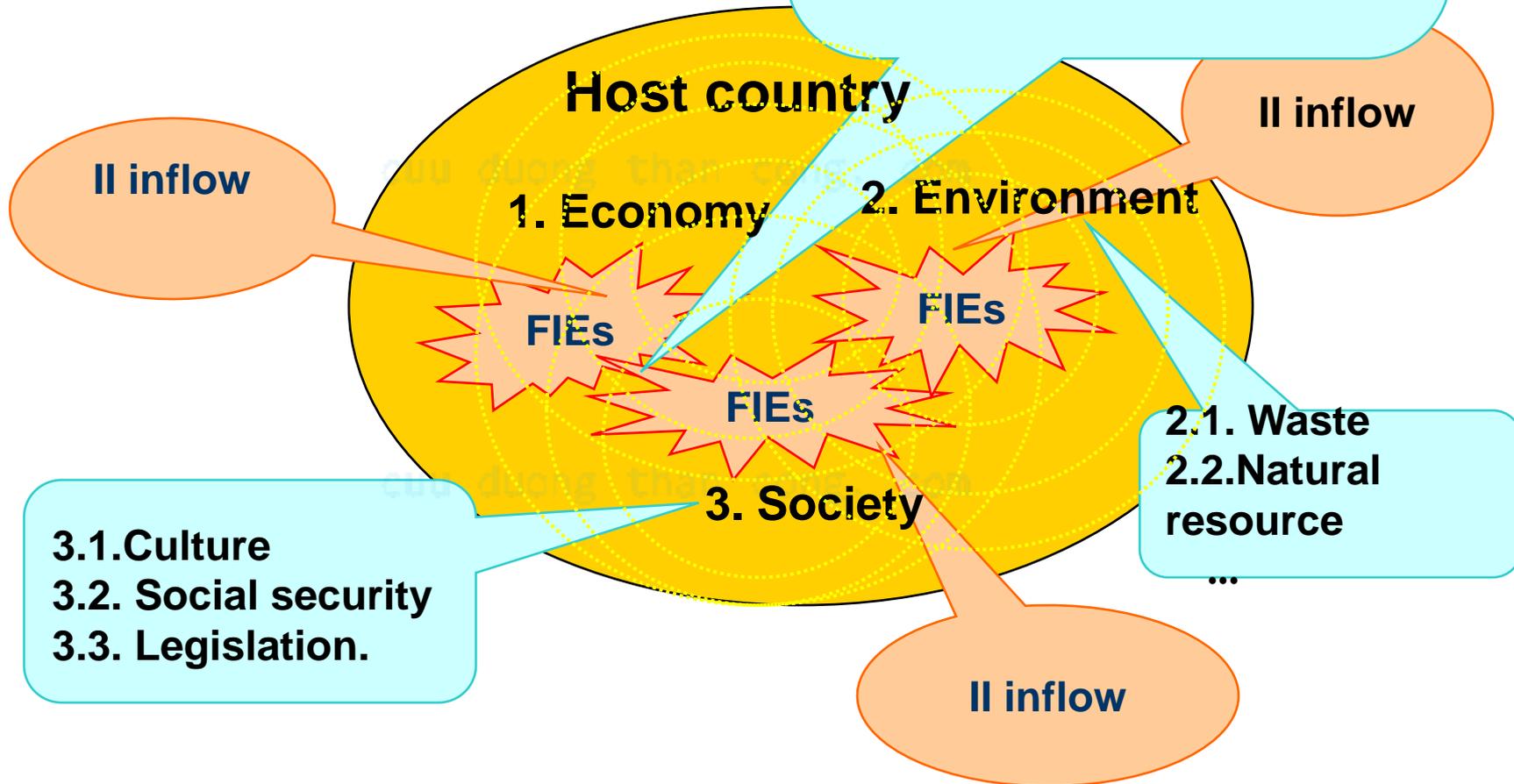
“Who benefits? And Who loses? What strategies are needed to ensure foreign direct investment contributes to development?”

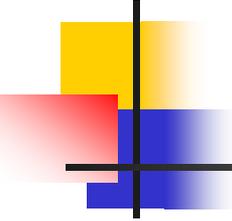
Source: Kavaljit Singh, 2007, Why investment matters, p.12.

cuu duong than cong. com

How I affects?

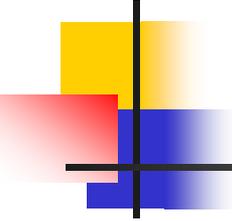
- 7.1.1 Capital formation and balance of payment
- 7.1.2. Technology improvement
- 7.1.3. International trade
- 7.1.4. Industry linkages
- 7.1.5. Human resource development





Impacts on capital formation and balance of payment

- *Effects on capital formation*
 - Direct:
 - II inflow; [cuu duong than cong. com](http://cuuduongthancong.com)
 - crowding-in/out other foreign firm
 - Repatriation
 - Local loan (locally raising fund) vs. capital inflow
 - Indirect:
 - Mobilize domestic savings through domestic private and government savings
 - crowding-in/out domestic firms



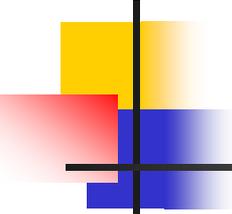
Effects on capital formation

Direct/indirect impacts through inflow of II.

Theoretical background:

- *Harrod-Domar growth model*
- *Keynes equilibrium*
- *Macroeconomic identity*
- *Sources of savings*

cuu duong than cong. com



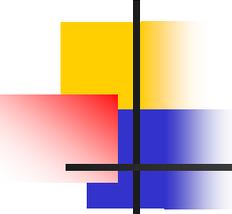
FDI as a source of capital

- **Arguments:**

- MNCs have plenty of capital and access to international capital markets
- MNCs may help mobilize local savings
- MNCs may stimulate aid flows

- **Objections:**

- not much capital transfer going on, most of investments financed locally
- FDI is an expensive source of funds
- profits are repatriated



Effects on capital formation : Crowding-in/-out effects

- ***Crowding-in in indigenous financial and goods markets***

- Direct effects : Attract other foreign firms to the host country
- Indirect effects
 - *Establish industrial clusters,*



- *Improve indigenous competitiveness*

- *Siphon off advanced technology/R&D to home country*

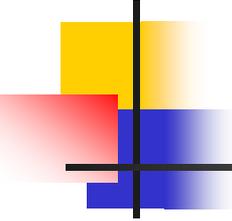
- ***Crowding-out in indigenous financial and goods markets***

- *Direct effects*
- *Indirect effects*



- *Drive away local competitors*

- *Weaken local competitiveness*

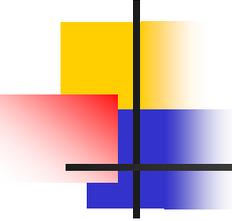


Discussion

Evidences for crowding in/out

cuu duong than cong. com

cuu duong than cong. com



Impacts on balance of payment

- **$Bd = (I+X) - (Ck+Cr+R+D)$**

I = II inflow

X = Export revenue of FIEs

Ck = Value of imported technology of FIEs

Cr = Value of Imported raw materials of FIEs

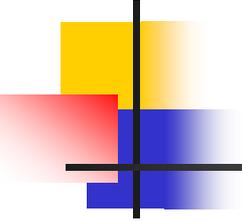
R = Rents/fees for licensing or technology transfer paid by FIEs

D = Dividends and/or profit remittance abroad by FIEs

- *In an extreme case: disinvestment in case of crisis or risk investment environment*

, NXB ĐHQG HN, p. 183.

Balance-of-payments effects



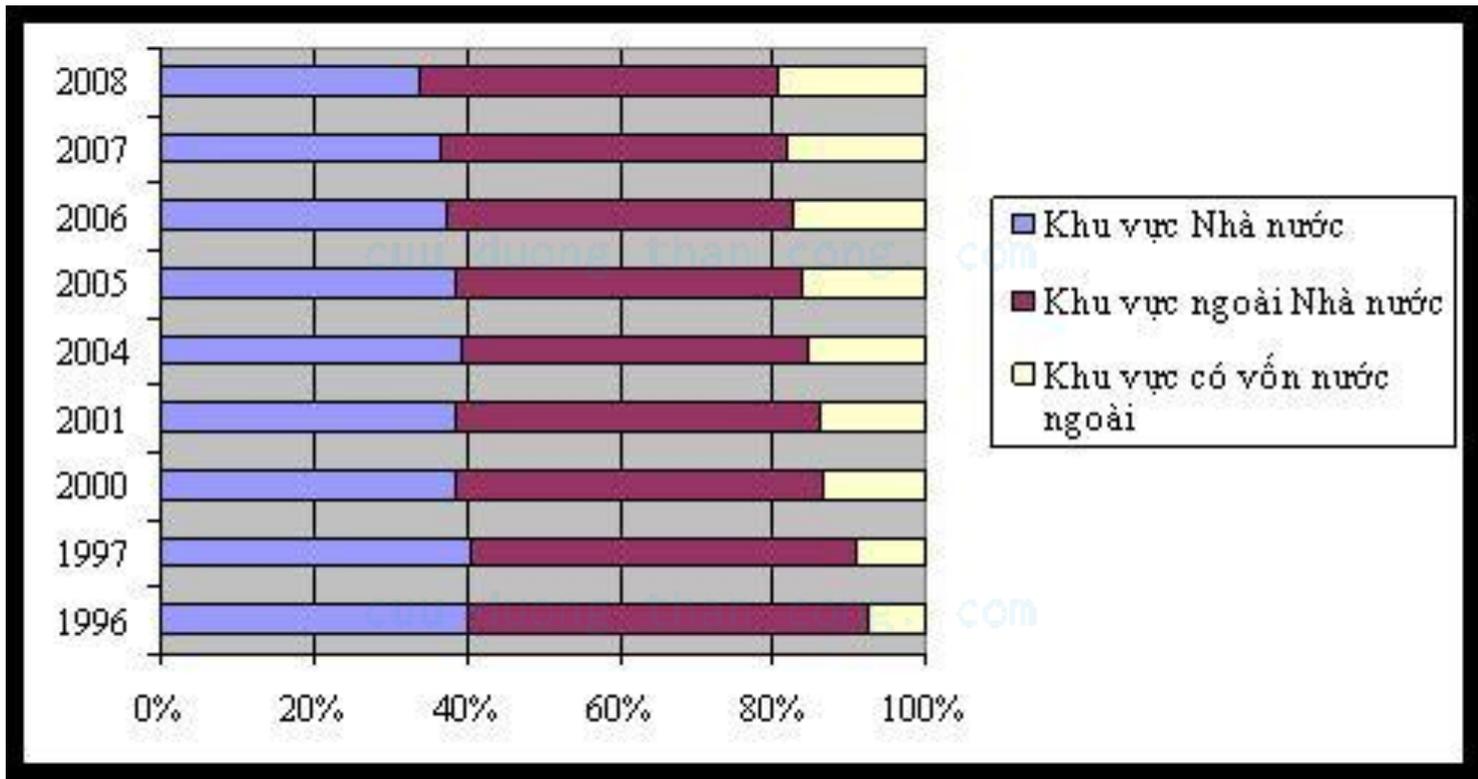
- **Arguments:**

- shortage of forex for imports of investment goods a common development problem
- both export-oriented and import-substituting FDI should improve BoP

- **Objections:**

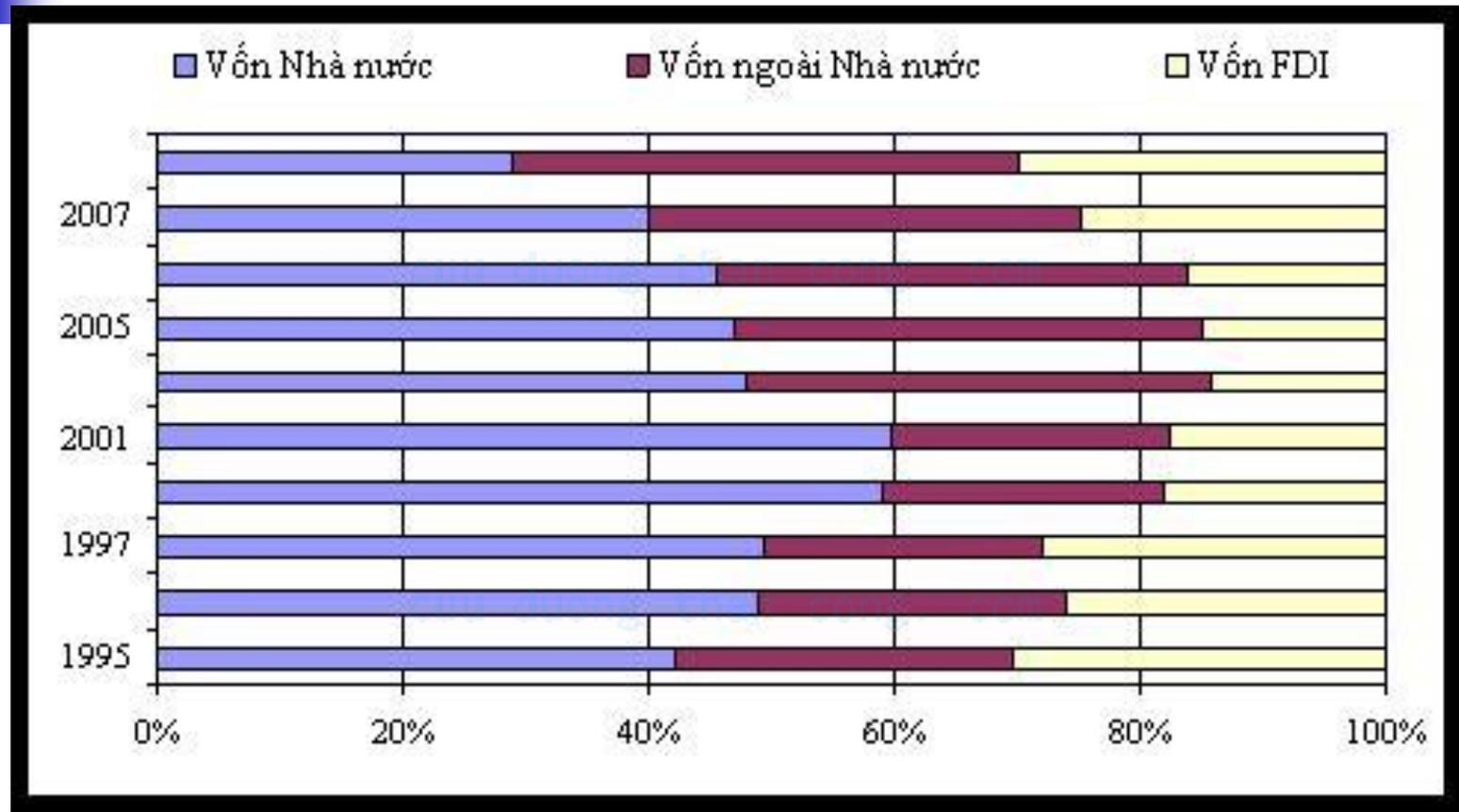
- MNCs import a lot. Import-substituting MNCs, in particular, may create import dependence
- MNCs repatriate profits

FIEs share in Vietnam's GDP, 1996-2008



Nguồn: Nguyễn Thị Tuệ Anh, 2008

Investment capital by ownership



Nguồn: Tổng Cục thống kê và Cục Đầu tư nước ngoài.

Contribution of FIEs in selected high value-added industries in Vietnam

	Oil & Gas	Computer , Air-conditioner, washing machine	Rolled Steel	Electronics	Shoes and leather products	Fibre	Medical instruments and other precise appliances
Contribution by FIEs	100%	100%	60%	33%	49%	55%	76%

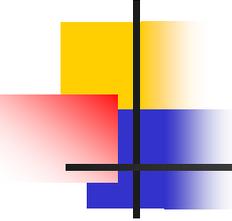
- Vĩnh Phúc, Đồng Nai, Bình Dương: 65%-70% outputs produced by FIEs

Source: Cục ĐTNN, 2008

Tax paid by sectors in Vietnam, (Billion VNĐ, %)

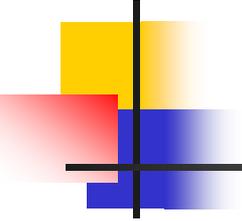
	2000		2001		2002	
	Billion dongs	Percentage of total	Billion dongs	Percentage of total	Billion dongs	Percentage of total
State-owned enterprises	79 907	55.8	103 989	60.2	117 824	52.1
Non-state enterprises	12 297	8.6	14 915	8.6	24 194	10.7
FIEs	51 045	35.6	53 797	31.2	84 207	37.2
Total	143 250	100.0	172 702	100.0	226 224	100.0

Nguồn: UNCTAD, Investment Policy Review of Vietnam, 11/2007, tr. 26



Impacts on Technology improvement

- Transfer technology:
advanced/appropriate/obsolete (high cost)
- Investment in R&D
- Spillover effects



FDI as a source of technology

- **Arguments:**

- most commercial technology owned by MNCs
- few countries can afford comprehensive R&D programs on their own
- benefits possible even if MNCs keep ownership of technology: spillovers

- **Objections:**

- MNC technology may be too expensive
- MNC technology may not be appropriate

Box VII.3. Downgrading of local innovatory capacity: examples from Brazil

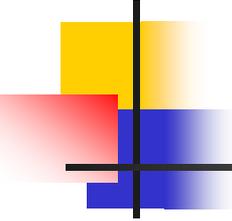
The take-over of a local firm by a transnational one can have detrimental effects on the innovation capacity in the enterprises concerned. Several experiences in Brazil illustrate this. For example, in 1996 and 1997, a number of TNCs acquired several large domestic auto parts producers - Metal Leve, Frelos Varga and Cofap. Subsequently, the R&D activities of the local firms were downgraded, and their frontier research was relocated to the parent firms' R&D centres in their home countries.

Even in high-technology firms, R&D activities were scaled down when TNCs bought into them. This was the case, for example, when in 1992 Alcatel purchased Elebra Multitel, one of the most important producers of switching systems. In 1999, Zetax and Batik, two domestic firms producing and continuously upgrading a technologically-advanced switching system, Trópico, became part of Lucent Technologies. Interviews indicated that Lucent was not interested in local R&D, preferring to rely on technologies developed in the parent company. A similar process has been observed in other telecommunications foreign affiliates in Brazil. Since they are increasingly exposed to international competition, they are scaling down local R&D, and centralizing it in parent firms, as a cost-reducing strategy. In particular, R&D activities geared to the development of new products was discontinued in a number of cases, and effort shifted into the more simple adaptation of imported processes and products. In most cases, this has meant that highly-qualified engineers engaged in R&D are transferred to other, less-specialized functions, such as production, quality assurance, sales or marketing. Some estimates suggest that local R&D expenditure in the telecommunications industry may have dropped by as much as 50 per cent during the 1990s.

A related development observed in the hi-technology telecommunications and information technology clusters in Campinas and São Carlos is that the newly-established affiliates are not linking into locally-based supplier networks. Instead, they operate in isolation from the domestic innovation system, relating to their parent companies and other affiliates rather than to local firms. This too has a negative impact on local R&D capacity, since spillover effects from networking and learning processes are diminished.

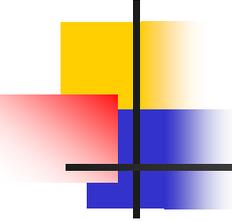
As a result, the country is losing the competitive edge it had developed in some product markets. This reinforces a process of increasing import intensity that began with trade liberalization in the early 1990s. For example, the import penetration coefficient for parts and components in the automobile industry increased from eight per cent in 1993 to 20 - 25 per cent in 1996; import penetration in information technology and telecommunications products soared from 29 per cent in 1993 to around 70 per cent in 1996 (Laplaine, Suzigan, and Sarti, 1998). If local production of high-technology intermediate inputs in production continues to decrease, the share of imports is bound to intensify further. The impact on technology would then be reinforced by a problematic impact on the trade balance.

Sources: Cassiolato and Lastres, 1997, 1999a and 1999b.



Spillover effects

- When locals benefit from the presence of MNCs without paying the full price.
- Several possible channels:
 - Demonstration effects, "copying" MNCs
 - Training of employees who may leave the MNCs for jobs in local firms
 - Forward and backward linkages (promoting / causing risk to local production)
 - Local firms are forced to work harder because of tougher competition

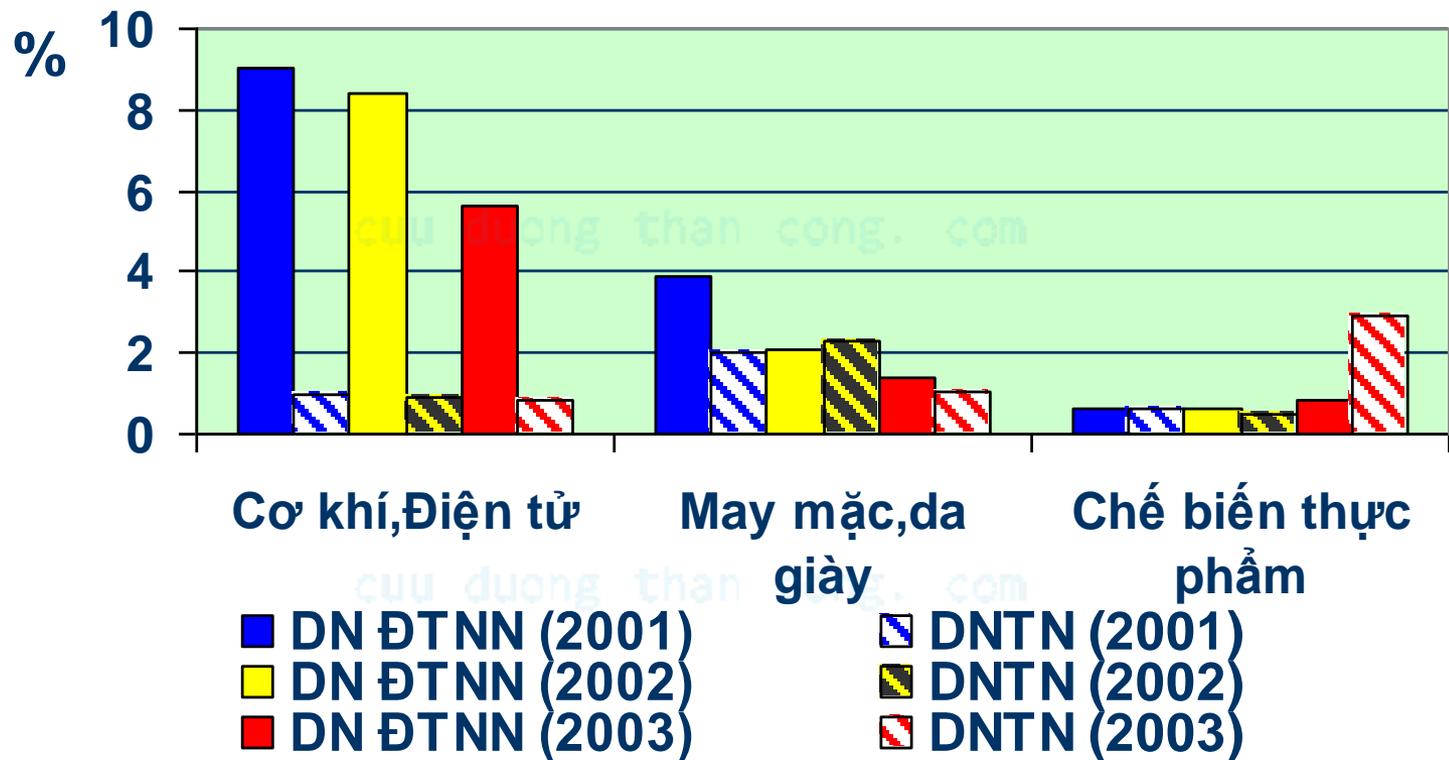


Spillover effects (cont.)

- Lots of case studies showing that locals learn from MNCs
- Spillovers are not automatic. Effects are determined by the local environment:
 - Technological capability and labor skills
 - Level of competition
 - Trade policy

cuu duong than cong. com

R &D shares in total revenue, 2001-2003 (%)



Source: CIEM, “Báo cáo điều tra tác động của ĐTNN đối với tăng trưởng kinh tế ở Việt Nam”, Nhóm nghiên cứu Nguyễn thị Tuệ Anh & cộng sự, tháng 4/2005, p. 52

Percentage of employees leaving for other employers, by industry in 2001-2003. (%)

	From FIEs (Skilled workers)	From Local enterprises (Skilled workers)
Engineering - Electronic	48.4	8.0
Textile - Leather	53.4 (37)	5.8
Foodstuff	27.2 (50,3)	5.5
Total	43.4 (42)	6.5

Source: CIEM, Nguyễn Thị Tuệ Anh and et.al, 2005, p. 52.

Sources of recruitment by local enterprise, by industry (% of responses)

	Engineering – Electronic	Textile -Leather	Foodstuff	Total
From FIEs	0.00	0.00	4.6	2
From local Enterprise	14.3	23.1	31.8	24.5
Governmental offices	7.1	0.00	13.6	8.2
Local residents	42.9	53.9	40.9	44.9
Others	35.7	23.1	9.1	20.4

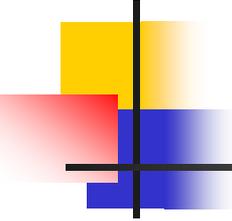
Source: CIEM, Nguyễn Thị Tuệ Anh & et al., pp.52-53

FIEs' raw material suppliers

(% of responses with "have used")

	2001	2002	2003
<u>Engineering - Electronic</u>			
Domestic firms	17.37	18.71	20.43
FIEs	8.02	9.73	10.32
Others*	74.47	71.56	69.25
<u>Textile - Leather</u>			
Domestic firms	35.68	34.88	37.15
FIEs	24.29	23.82	23.35
Others*	39.62	41.3	39.5
<u>Foodstuff</u>			
Domestic firms	48.18	44.92	41.98
FIEs	18.64	22.76	18.91
Others*	33.18	32.31	39.11

Source: CIEM, Nguyễn Tuệ Anh & et al., pp. 55-56. * From local residents, imports



Case study: Unilever Vietnam

- Economic effects: 70% of Unilever Vietnam's output produced by Vietnamese enterprises, using 60% local raw materials and 100% locally supplied packages by 2007.
- **Social effects:** (1) Created 5.5 thousand jobs of supporting enterprises (2) Salary/wage are 15-25% higher than generally regulated
- **Spillover effects:** (1) Update information; (2) Obtained managerial and technological skills through learning-by doing or observation; (3) Facilitate to develop differentiate products.

Source: Liên kết giữa công ty Unilever Việt Nam và các doanh nghiệp nhỏ và vừa Việt Nam. Báo cáo nghiên cứu của Viện Nghiên cứu quản lý kinh tế TW. 2008.

Box I.7. Unilever Viet Nam business linkage centre

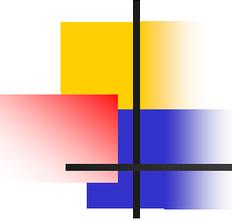
Unilever started operations in Viet Nam in 1995. Recognizing that small local manufacturers would need to make significant changes to work with a large multinational, Unilever began a Manufacturing Sustainability Improvement Programme. Elements of Unilever's programme include a transfer of technology through supplying modern equipment and providing full time technical support, and education on quality, safety and management systems.

Supplier upgrading has evolved into a business linkages programme through a joint partnership with RMIT, UNCTAD, the Investment Promotion Centre of North Viet Nam and the Ministry of Planning and Investment (MPI). The programme has been expanded to include "Kaizen" – total productive maintenance – and the upgrading of local businesses to meet international standards. Unilever Viet Nam reports that the groundwork laid by the earlier programme and the recent additions to training will increase its domestic sourcing by 59 per cent, an increase that will account for 86 per cent of its entire operation. Moreover, in addition to becoming preferred suppliers for Unilever, local suppliers have also been able to expand their export capacity and they now export 20 per cent of their output to 20 different countries.

UNCTAD is working with all of the partners to expand the programme further. Next steps include replicating with other TNCs that want to upgrade their suppliers. The majority of the current training is not dependent upon the type of manufacturing, so other TNCs in Viet Nam and various suppliers would be able to benefit from the programme. The involvement of all the partners, including MPI, has also served to increase exposure of the programme at a policy level and will help direct more funding towards the development of SMEs in Viet Nam. RMIT is also an important partner in helping develop a curriculum not just in the Business Linkage Centre but also complimentary curricula in the university.

Source: UNCTAD.

Nguồn: UNCTAD, Nov. 2007, Investment Policy Review of Vietnam, tr. 23

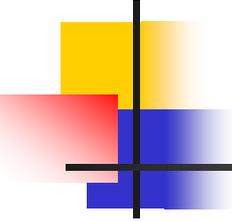


Case study: Unilever Vietnam

Linkage effect:

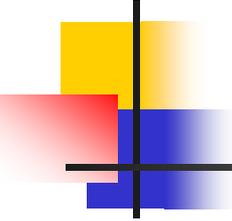
- Before 2000: raw material supply network
- Since 2000: signed processing contracts with local firms (output actually increased in 2005 (by 35% compared with 2004) and rocketted in 2007 (by 59% over 2006))

cuu duong than cong. com



Impacts on International trade

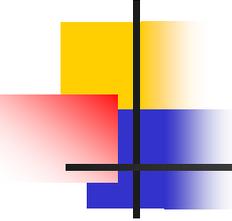
- Direct: import/export of FIEs
- Indirect impacts on domestic sector:
 - Access to international market network
 - Gather information of international market
 - Increase localization ratio embodied in exports by FIEs
 - Improvement competitiveness of domestic enterprise
 - Crowding-out domestic enterprises in international markets



Industry linkages

- Improvement of supporting industries
- Backward/forward linkages through vertical integration

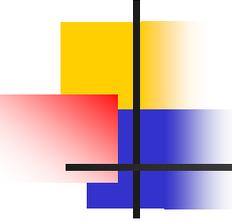
[cuu duong than cong. com](http://cuuduongthancong.com)



Impacts on Human resource development

- Create jobs directly and indirectly
- Train and educate labor force
- Improve healthcare and quality of life
- Provide opportunities to get higher real wage
- Brain drain

cuu duong than cong. com

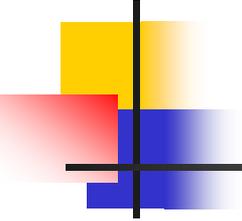


Case study: Impacts on Costa Rica and Mexico

- Source: **Antonios Kalyvas**, October 03, 2007, **A tale of two countries** (Locational advantage between Mexico and Costa Rica), <http://www.fdimagazine.com>

cuu duong than cong. com

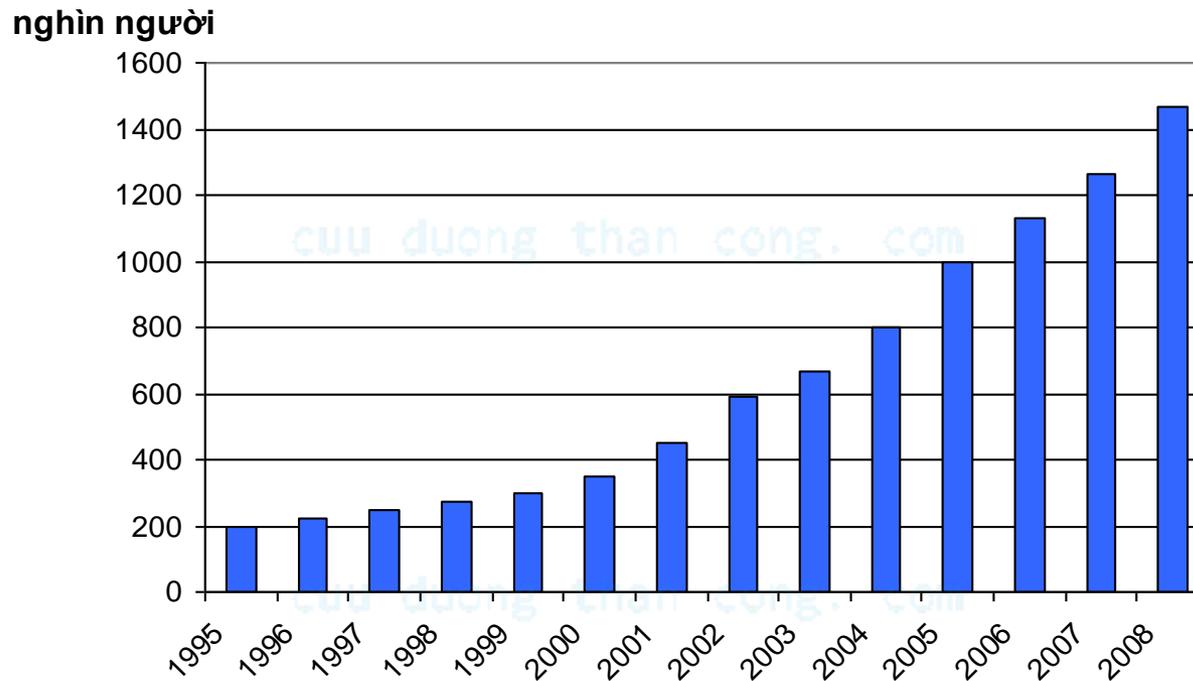
cuu duong than cong. com



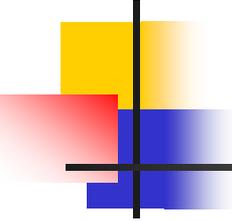
Conclusion drawn from the cases of Costa Rica and Mexico

- FDI works best as an accelerator rather than the sole driver for economic growth in developing economies. This can be achieved through the connection of the FDI sector with the local sector of the economy through linkages and increased absorptive capacity of the local sector, as, for example, the software industry of Costa Rica. This evidence supports the integration of FDI into a wider framework for economic development that would emphasize the increase in the competitiveness of the local sector and the local education system with FDI as an accelerator.

Employments directly created by FDI sector in Vietnam



Source: Ministry of Planning and Investment, 2009

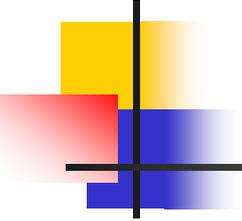


Discussion: *Other effects*

- impacts on social security, culture
- environment protection
- Causes of inflation (raising salary, raising prices..)

cuu duong than cong. com

Competitive and anti-competitive effects



- **Arguments:**

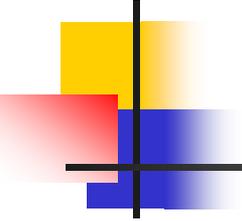
- MNC entry may stimulate competition, efficiency, and development
- MNCs often enter industries where entry barriers for local firms are high

- **Objections:**

- MNCs are stronger and may outcompete local firms. Risk for foreign oligopolies and monopolies

cuu duong than cong. com

Sovereignty and autonomy effects

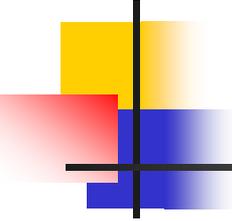


- **Arguments:**

- Foreign ownership always carries a cost. Foreign MNCs may push for policies that are good for them but not necessarily for the host country

- **Objections:**

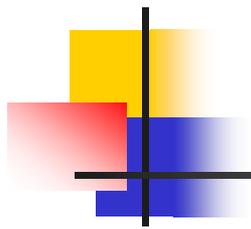
- Who cares if the Americans own our factories, as long as we get jobs and tax revenue



Other effects

- Negative externalities from FDI, e.g. on the environment?
- Cultural imperialism?
- Inappropriate consumption patterns - Camel, Heineken, and Yves St. Laurent in poor countries?
- FDI may create dependence on foreign capital

cuu duong than cong. com



Thank you

cuu duong than cong. com

cuu duong than cong. com