

Outward Foreign Direct Investment Policy Toolkit for Sustainable Development

INSIGHT REPORT
JANUARY 2022



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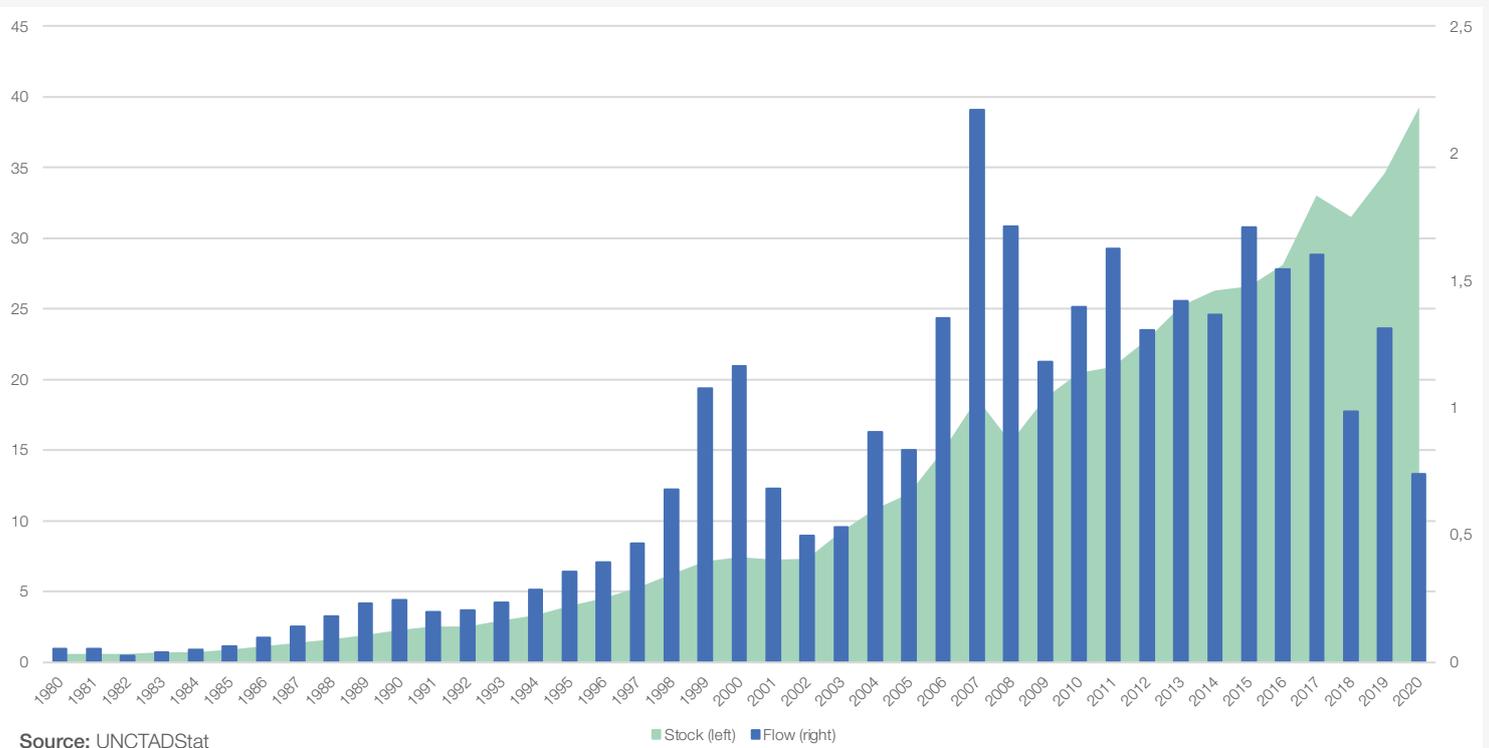


The Toolkit focuses on *outward* foreign direct investment (OFDI), and can be accessed [left](#). Why is it now important to pay special attention to OFDI, in addition to inward FDI?

Cross-border direct investment and the international operations of multinational enterprises (MNEs) play an increasingly important role in the global economy. OFDI is fast increasing, with global flows exceeding \$1 trillion most years over the past

decade and OFDI stock reaching more than \$35 trillion – and with continued growth likely after the economic recovery from the COVID-19 pandemic (see Figure 1).

FIGURE 1 **OFDI plays an important role in the global economy**
World OFDI, 1980–2020, \$ trillion



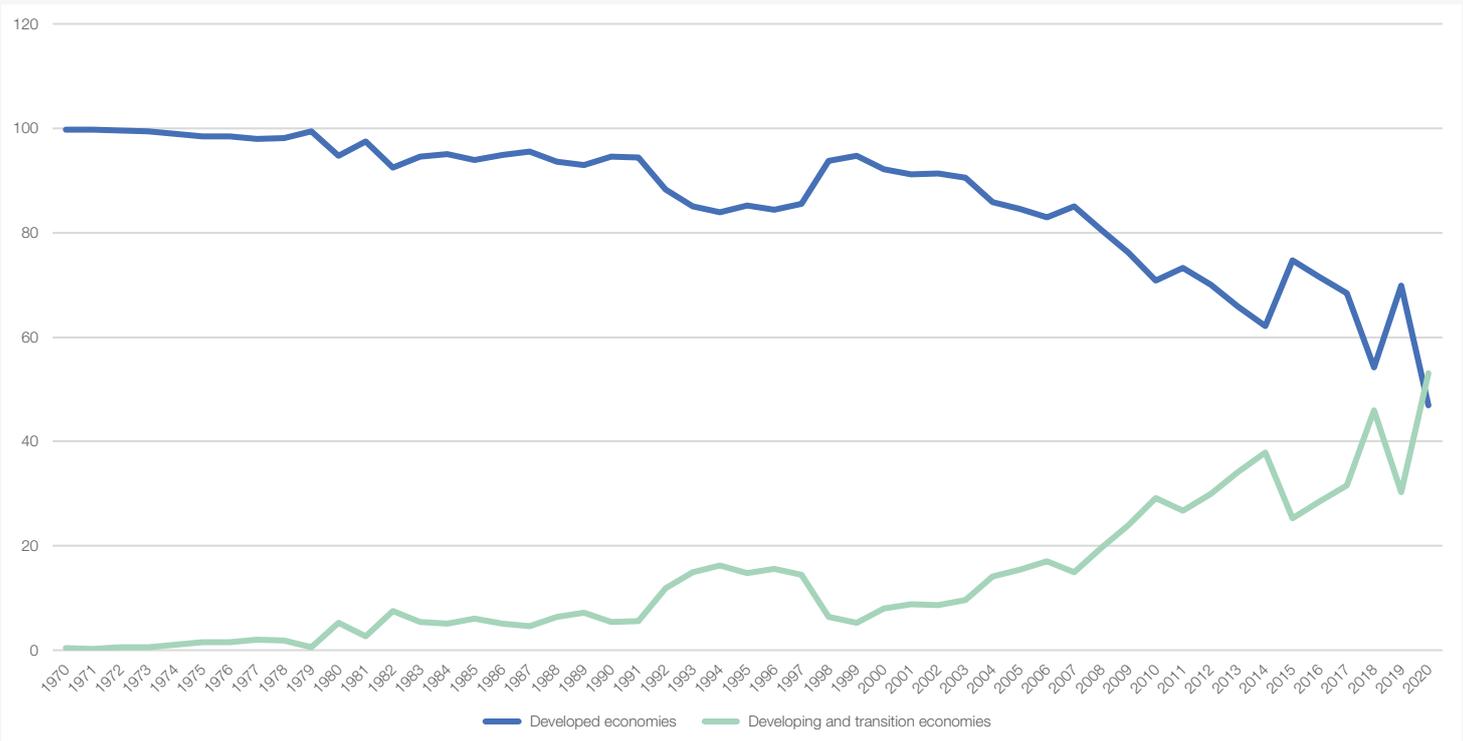
The policy toolkit is the need of our time. It will assume a central role for all stakeholders in deriving sustainability imperatives through foreign investment – it is a vital point of reference for all involved: policy-makers, entrepreneurs, investment promotion agencies, academics and other stakeholders.

Anuj Mathew, Senior Economic Adviser and Head, Investment Promotion and Policy Analysis, Department for International Trade, United Kingdom

This strong growth has been even more impressive among developing and transition economies (see Figure 2), whose share of global OFDI has exploded from 8% in 2000 to an astonishing 53% in 2020 (see Figure 3). This reflects, in particular, the recent

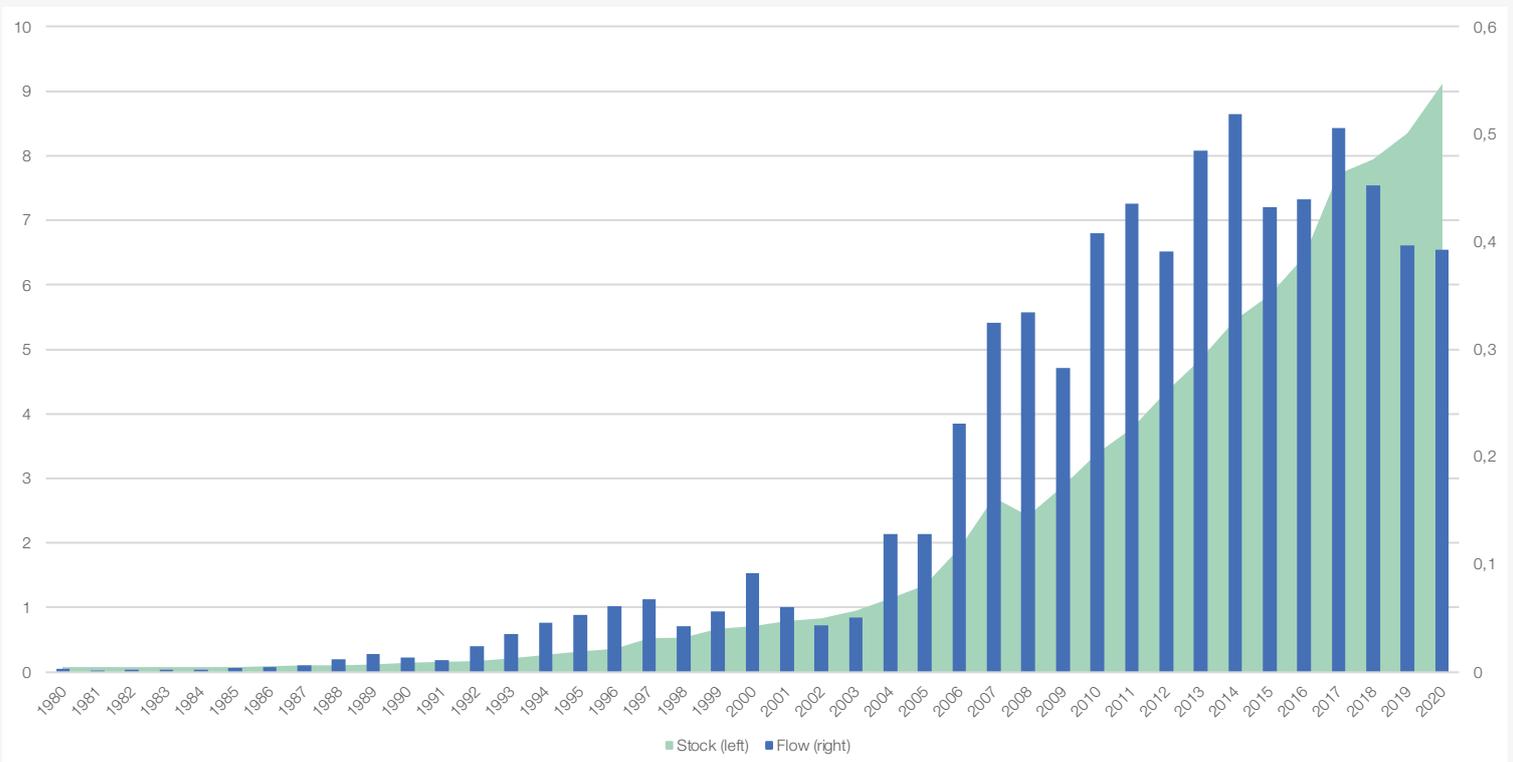
growth of middle- and upper-middle-income emerging economies, where capital has become more available and MNEs have accumulated greater capabilities for OFDI.

FIGURE 2 | **Developing economies are increasingly important sources of OFDI**
Share of OFDI flows, by type of economy (1970–2020)



Source: UNCTADStat

FIGURE 3 | **OFDI from developing countries has increased rapidly in recent years**
OFDI stock and flows from developing and transition economies, 1980–2020, \$ trillion



Source: UNCTADStat



<https://artnet.unescap.org/ofdi>

Despite the fast rise of OFDI and its growing importance for developing countries, the effects of OFDI remain chronically understudied, including how OFDI can contribute to sustainable development in home economies.¹ Beyond the knowledge deficit on these home-country effects, not enough is known about how governments can nurture and maximize the benefits from OFDI in the home economy using home-country measures that regulate, facilitate and promote OFDI or, put simply, support OFDI.

Such questions increasingly require answers, as the home-country effects generated by the rapidly growing OFDI from developing and emerging economies have huge potential to contribute to the economic development of these countries and to

realize the Sustainable Development Goals.² But despite these potential benefits, the use of diverse and focused home-country measures is rather nascent in developing countries and focused on broad-based regulation.

In light of this, the United Nations Economic and Social Commission for Asia and the Pacific, the World Economic Forum and King's College London joined forces and created the first ever OFDI Policy Toolkit (which can be accessed [left](#)) as a publicly available online resource. The Toolkit provides much-needed evidence-based policy advice on how governments and firms can leverage OFDI as an additional, complementary channel for sustainable development, growth and competitiveness.



The toolkit is going to be a critical element moving forward. It is very helpful and will serve as an important tool in overcoming information asymmetry.

Deepak Bagla, Managing Director and Chief Executive Officer, Invest India

Why a Toolkit on OFDI?

The OFDI Policy Toolkit for Sustainable Development was created in response to a major knowledge, information and policy gap on OFDI, home-country sustainable development effects and home-country measures. The Toolkit serves three primary purposes:

1. It is a source of key information and policy advice on home-country effects and on corresponding home-country measures.
2. It acts as a repository of knowledge and data, providing the most-up-to-date scientific

knowledge on home-country effects and identifying the home-country measures implemented by home-country governments.

3. It offers a variety of analytical tools for policy-makers. For instance, combinations are identified that show how home-country measures can be targeted at certain types of companies or investments in order to achieve specific home-country effects (see Figure 4). This can help policy-makers maximize the sustainable development outcomes of OFDI.



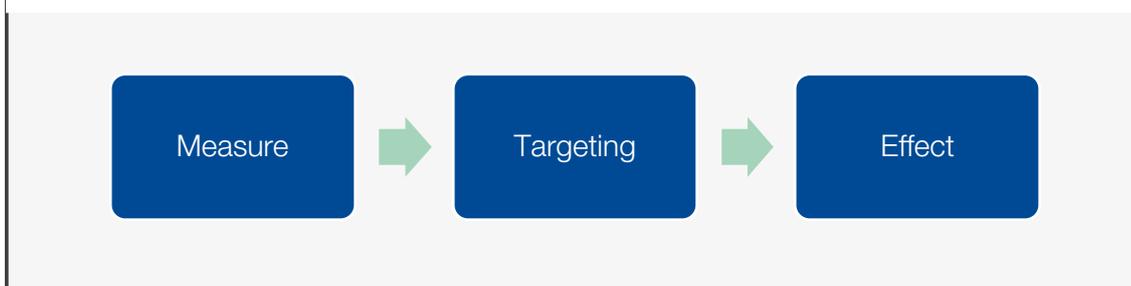
The toolkit is of great utility to analyse all the drivers and impacts of outbound investment. And that can be transformational, because it gives a usable and actionable framework that is ready to go 'out of the box'.

Aba Schubert, Chief Executive Officer, Dorae

The Toolkit has been developed for policy-makers, government officials, international organizations, companies, analysts, researchers and other stakeholders to inform government policy, international cooperation, technical assistance, capacity-building and ongoing research on OFDI. Extensive in terms of the issues covered, and frequently updated, the Toolkit makes it possible

to benchmark, compare and draw upon country-specific and effect-specific research, enabling governments and other stakeholders to align their policies and activities with the sustainable development priorities of both home and host countries. The provision of such a resource could not be more timely.

FIGURE 4 | Adopting home-country measures to achieve home-country effects through appropriate targeting



OFDI can benefit home countries in 11 ways, with particularly promising effects on productivity, know-how and technology, as well as exports

A home-country effect is an economic or social impact that OFDI has in the country of origin of the investment. This Toolkit identifies 11 home-country effects (see Table 1). These effects can contribute significantly to the economic and sustainable development of developing and developed home countries and are thus of critical importance.³

Many studies report positive empirical and other evidence for these 11 effects, though the strength of evidence varies. The strongest evidence was found for productivity effects – a total of 15 econometric studies found a positive effect of

OFDI on home-country productivity; next was the impact on home-country know-how, technology and innovation, identified empirically in a total of 14 studies. A positive impact of OFDI on home-country exports and production was found in 11 studies.

There are also risks from OFDI for the home country, resulting in particular from financial outflows and offshoring. The overall evidence presented in the Toolkit strongly indicates, however, that these risks are greatly outweighed by the many positive impacts of OFDI.

TABLE 1 | The 11 home-country effects

01	Financial earnings	02	Exports and production	03	Domestic investment
04	Know-how/technology	05	Improved standards/practices	06	Industrial upgrading
07	Productivity	08	Resource capacities	09	Tangible assets/products
10	Employment	11	Economic growth		

The magnitude and extent of home-country effects is influenced by 10 factors, with specific factors strengthening specific effects

Various factors can influence the magnitude and extent of specific home-country effects. The Toolkit identifies 10 influencing factors (see Table 2).

These factors can be properties of the investing companies, of specific industrial sectors and/or of the investments.

TABLE 2 The 10 influencing factors for targeting

01	Company characteristics	02	Industrial sector
03	Investment motivation	04	Investment size
05	Entry mode	06	Investment destination
07	Absorptive capacity	08	Transmission channels
09	Time since investment	10	Home-country characteristics

The main findings from the Toolkit's analysis of influencing factors highlight that:

- Private firms are better able than state-owned enterprises to generate home-country productivity effects from OFDI.
- Strategic asset-seeking OFDI promotes the generation of know-how and technology, whereas market-seeking OFDI can contribute to improvements in employment.
- Greater absorptive capacity in the home country induces more home-country productivity effects.

- OFDI to advanced economies can have a particularly strong effect on home-country know-how, technology and productivity.
- Mergers and acquisitions (M&A) are particularly promising vehicles for know-how and technology transfer.
- Positive effects on employment can be particularly strong in the service sector.
- Home-country effects materialize more strongly in the long run.



Designing and implementing an OFDI policy is complex, especially for countries seeking to do it for the first time. I encourage policy-makers to look at all the options in the toolkit.

David Mellor, Chief Executive Officer, Crowe Global

Governments can employ 10 types of home-country measures to regulate, facilitate and promote OFDI

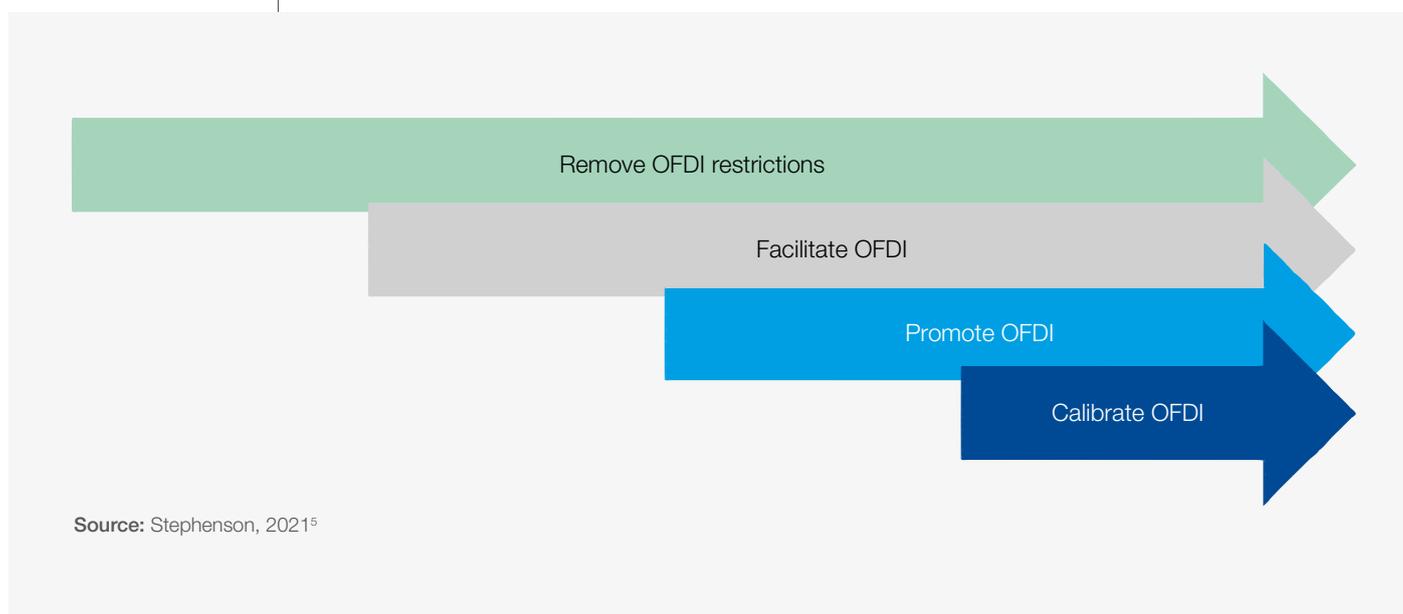
TABLE 3 The 10 home-country measures

01	Institutional arrangements	02	Regulations
03	Early support services	04	Financial support
05	Fiscal support	06	Political risk insurance
07	Treaties	08	Operational support
09	Maximizing benefits	10	Evaluation

Governments can employ a large set of home-country measures to regulate, facilitate and promote (or, put simply, support) OFDI.⁴ The Toolkit identifies 10 categories of home-country measures (see Table 3). Each category also includes several subcategory measures.

Diagnostic steps are outlined in the Toolkit to facilitate decisions on when and how to introduce home-country measures. The stages of the OFDI policy path, outlined in Figure 5, offer a useful guiding framework for such decisions, especially when combined with considerations of the country's OFDI patterns and trends.

FIGURE 5 The OFDI policy path



Source: Stephenson, 2021⁵

When introducing home-country measures, it is also important to consider their policy alignment with a country's OFDI objectives, broader investment policies, institutional arrangements and targeting strategies (see Figure 6). OFDI policies and home-country measures may also need to complement efforts in other areas of national and international economic policy and be integrated into a country's broader development strategy. Care should be taken that home-country measures do not undermine competitive neutrality in international investment.

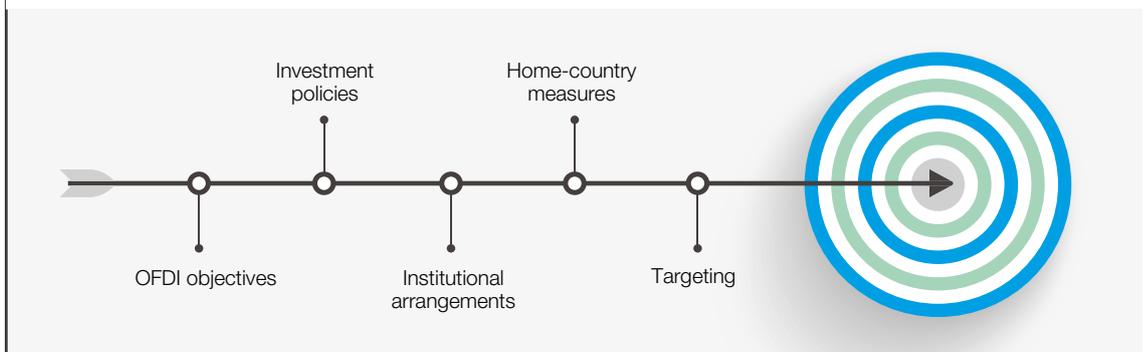
Home-country measures are also of relevance to host-country governments interested in attracting investment from the home country. They are an opportunity for host- and home-country governments to collaborate in developing home-country measures that correspond with the host country's own investment policies and priorities, and align efforts so that host- and home-country measures can "pull" and "push" investment flows in a complementary manner.



The toolkit is a living document and a critical repository of evidence of home-country measures and their impacts. The opportunities and benefits that international direct investment offers to host and home countries should not be overlooked.

Stephen Thomsen, Head, Investment and Sustainable Development Unit, Organisation for Economic Co-operation and Development (OECD)

FIGURE 6 OFDI policy alignment



Source: Stephenson, 2018⁶

Home-country measures are often targeted at specific types of companies, industries or investment activities

Key findings from an analysis of home-country measures and their targeting practices reveal that:

- Institutions can be designated to support OFDI and focus on specific issues, such as promoting certain types of outward investments to certain target markets or enhancing a country's absorptive capacity.
- Targeting by company size is relatively common. Targeting small and medium-sized enterprises in particular can help such companies overcome competitive disadvantages and financial limitations in outward investment.
- Targeting by sector often focuses on the natural resources, technology-intensive or service sectors.
- Targeting by investment motivation often focuses on resource-seeking, technology-seeking or market-seeking investments.
- Targeting by investment destination often focuses on emerging and developing economies.
- Political risk insurance and early support services are frequently offered, though less often used for targeting.
- Financial support is a frequently observed home-country measure. It has been used particularly to target by entry mode, as well as by investment destination, investment motivation and company ownership.

- Efforts to maximize the benefits from OFDI are important to nurture and augment OFDI's sustainable development outcomes. Focus in this area is often on measures that strengthen home-country absorptive capacity.
- Regulations are common and can target specific industrial sectors, investment destinations and large investments; regulations can also be restrictive and sometimes outdated, and some may need to be revisited to ensure they are fit for purpose.

Appropriate targeting of home-country measures can nurture and maximize the sustainable development outcomes of OFDI

To enhance home-country sustainable development outcomes, in line with the process outlined in Figure 4, home-country measures can be targeted at the influencing factors listed in Table 2 that are known or expected to affect the magnitude and extent of specific home-country effects. The key findings from an analysis of these combinations are that:

- Information asymmetries and coordination failures holding back OFDI can be addressed by proactively providing information to both investors and investment authorities in different jurisdictions, as well as early support services, including matchmaking, business trips and feasibility studies.
- Home-country absorptive capacity can be enhanced by efforts that maximize the benefits from OFDI and by tasking specific home-country institutions with encouraging domestic development and innovation. This strengthened absorptive capacity, in turn, enables OFDI to enhance home-country productivity.
- Financial support is often targeted at private companies, whose OFDI is known to be relatively more enhancing of home-country productivity.
- Fiscal/financial support has been targeted at M&As and strategic asset-seeking investments, which are known to promote home-country know-how, technological development and innovation.
- Financial support is often targeted at market-seeking investments and the service sector. Both are known to promote positive employment effects in the home country.
- Financial support is often targeted at greenfield investments, and this has promoted exports from the home country.
- There is a need to clearly identify and if possible remove restrictions on OFDI that may be limiting home-country effects, or at least to ensure that any restriction is achieving its policy objective in the least costly and distorting manner.

What have we learned?

Based on the findings and insights, the Toolkit offers seven OFDI Principles that can guide policy-making on OFDI and sustainable development:

1. OFDI generates home-country effects, including those that promote the economic and sustainable development of home countries.
2. Home-country measures can be employed to regulate, facilitate and promote OFDI or, put simply, support OFDI.
3. Home-country measures can be deployed to nurture and maximize home-country effects by targeting these measures at companies and investment characteristics that are known to influence the generation of home-country effects.
4. Domestic economic policies can help create an enabling environment for OFDI to benefit the home economy.
5. Home-country measures and associated OFDI policies can be incorporated into broader economic and development strategies, complementing other areas of economic and development policy.
6. Home-country measures should be used transparently and consider the interests of both the home and host countries.
7. Research and policy analysis are important to expand the knowledge of and evidence on OFDI and its implications for sustainable development.

Contributors

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The online Toolkit was created by [Verge](#); it was launched at the 7th World Investment Forum during a [dedicated session](#) on 20 October 2021 [video](#), and can be accessed here: <https://artnet.unescap.org/ofdi>.

Research assistance was provided by **Daniel Benson, Edgard Carneiro Vieira, James Kingsbury, Vanika Sharma** and **Mengchen Suo**. Production of the Toolkit was supported by **Natthika Charoenphon**.

We are particularly grateful for the invaluable advice and support provided by Karl P. Sauvant (Columbia Center on Sustainable Investment). The development of the Toolkit further benefited from valuable feedback provided by the participants of an Expert Group Meeting organized by UNESCAP on 1 July 2021 and through written comments submitted by experts in July 2021. We would, in particular, like to thank Douglas van den Berghe (SeZNext), Alvaro Cuervo-Cazurra (Northwestern University), Sandrine Dodard (UNCTAD), Nigel Driffield (University of Warwick), Maximilian Eltgen (World Bank Group), Axele Giroud (University of Manchester), Zbigniew Gluchowski (JP Weber), Yundan Gong (King's College London), Marta Götz (Vistula University), Natalia Guerra (UNCTAD), Armando Heilbron (World Bank Group), Guoyong Liang (UNCTAD), Michael Lim Jr (Crowe Growth Consulting), Anuj Mathew (UK DIT), Ben Morrison (UK DIT), Ahmed Omic (WAIPA), Sebastian Reil (FDI Center), Aba Schubert (Dorae), Hanna Tatarchenko Welgacz (Apex-Brasil), Stephen Thomsen (OECD), Phoebe Tuckett (UK DIT) and Paul Wessendorp (UNCTAD) for their precious feedback. In the future, we will seek continuous feedback from users of the Toolkit, in the hope of improving it further.

Suggested citation: Jan Knoerich, Matthew Stephenson, Heather Taylor-Strauss. Outward Foreign Direct Investment Policy Toolkit for Sustainable Development: Highlights. Bangkok and Geneva: UNESCAP and World Economic Forum, 2022.

The Toolkit received generous funding support from the UK Economic and Social Research Council under the grant reference number ES/T501931/1.

Endnotes

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