Saturday

Foreign direct investment

Last week, there were two developments of relevance to small island developing states (SIDS), including Fiji and other Pacific island countries (PICs), focusing on foreign direct investment (FDI).

One was the release of the ***World Investment Report 2014*** (the Report) by United Nations Conference Trade and Development (UNCTAD) based in Geneva; and the other was the annual conference of the joint Fiji-New Zealand (NZ) Business Council and NZ-Fiji Business Council held in Suva.

Foreign direct investment

If a domestic resident invests in his own country, it is called domestic investment. If the investment is done in another country, it is known as foreign investment. Investment is of two kinds: short term and long term. The short term portfolio investments are buying either the newly issued or already issued bonds or shares in secondary market in pursuit of return, which consists of interest or dividends and capital gains from the selling of the purchased bonds or shares.

Portfolio investments are unstable. If interest rate falls, investors pull their funds out of one country and move to another with higher interest rate. Instability of flows has made them known as hot moneys. That results in depreciation of their currencies.

On the other hand, long term foreign direct investment (FDI) inflows are durable. They are investments in manufacturing, services by setting factories, hotels/ resorts, involving use of land and labour and other local raw materials. The gains or profits would flow only after a gestation period. The gains are spread over years and hence FDI cannot be pulled out so easily as hot money.

PICs welcome FDI for two major reasons: they are (i) non-debt creating and (ii) real resources. They supplement domestic savings for greater investment for raising employment opportunities and production of goods and services not only to meet domestic demand but for exports. There is no repayment or servicing obligations of the kind associated with debt. FDI inflows bring valuable foreign exchange and hence real resources to supplement limited foreign exchange reserves. Other advantages of FDI are: (i) transfer of superior technology; (ii) better management skills; and (iii) training and learning opportunities for the locals.

How much the recipient country would open up its economy to FDI is a policy question. Some countries exclude certain sectors for national security reasons.

Traditionally FDI in PICs was confined to natural resource sector such as sugar, tourism and more recently telecommunications and retail trade such as supermarkets. Some PICs were selective too. FDI in local tourism tour operations, taxi services and the like where local resources are adequate, is prohibited.

World Investment Report 2014

Global recession caused a sizeable decline in FDI from US$1.82trillion in 2008 to US$1.22 trillion in 2009. It increased to US$1.42 trillion in 2010, US$1.70 trillion in 2011 followed by a decrease to 1.33 trillion 2012 but rose to US$1.45 trillion in 2013.

The Report discusses how future FDI flows would fit into the sustainable development goals (SDGs) which would replace Millennium Development Goals by 2015. SDGs will have targets for 2015–2030 for poverty reduction, food security, human health and education, climate change mitigation, and other objectives across economic, social and environmental sectors.

For meeting SDGs, the Report estimates annual investment requirements of US$3.3 **trillion** to US$4.5 **trillion.** At the present levels of FDI and domestic investment, an annual investment gap of US$2.5 **trillion** is foreseen.

Aside from inadequacy of public sector funding and low private sector participation, FDI's role in SDG areas is meager. "Only a fraction of the worldwide invested assets of banks, pension funds, insurers, foundations and endowments, as well as transnational corporations, is in SDG sectors, and even less in developing countries, particularly the poorest ones".

How to mobilize and re-direct FDI in these sectors will be a challenge.

Fiji situation

Fiji has been experiencing a decline in FDI inflows. From US$ 341 million in 2008, it decreased to US$ 164 million in 2009. After some recovery, FDI in 2013 was US$ 272 million.

Ministry of Industry and Trade permanent secretary, Shaheen Ali told the joint Fiji and NZ Business Council meeting that NZ FDI in Fiji is stagnant despite lowest corporate taxes and number of tax free regions.

The UNCTAD Report notes the subject of incentives is controversial.

What is needed is assurance of stability, enforcement of property rights and contractual obligations and quick legal remedies, all amounting to good governance.

Further, the Report advises tie-ups with metropolitan countries for promoting greater FDI inflows. The Pacific Closer Economic Cooperation and plus (PACER Plus) presents such an opportunity.

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