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FDI, GLOBALISATION AND DEVELOPMENT: SOME IMPLICATIONS FOR KOREAN ECONOMY AND KOREAN FIRMS

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ABSTRACT

The paper first summarises some of the economic and social characteristics of the evolving world scenario, and their relevance for globalization, economic development and foreign direct investment. It then goes on to identify and discuss the main components of the competitive strengths and weaknesses of the Korean economy and of Korean firms; and finally examines the implications of these findings for outward and inward foreign direct investment policy.

INTRODUCTION

The main task of this paper is to summarise the current state of scholarly thinking on the extent to which, and the ways in which, the globalisation of economic activity is affecting our understanding about the causes and effects of foreign direct investment (FDI) by multinational enterprises (MNEs) and the competitiveness of Korean firms. Inevitably, because of space limitations, I shall have to be very selective in the issues I cover.

That being said, my primary focus will be on identifying *general* trends and their policy implications – rather than on those uniquely relevant to Korean firms and policy makers. In doing so, I will highlight the main thrust and conclusions of scholarly research on four issues. First, I shall identify some of the critical characteristics of our contemporary world economy. Second I shall describe the interface between, and offer some facts about, globalisation, development and FDI. Third, I shall present some data on the competitiveness of the Korean economy and of Korean firms. Fourth, in the light of these findings, I shall offer some suggestions

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of what to my mind, are the critical components of FDI policy which the Korean - and, for that matter, most other governments - need to focus on in these early years of the 21st century if they wish to advance their various economic and social agenda.

THE EVOLVING WORLD SCENARIO

We live in a world characterised by the geographical spread of market based economic democracy, tempered to some degree or other by the intervention of national and supranational regimes to protect or enhance extra-market political or social objectives.

We live in a world in which there is increasing cross border interconnectivity between human beings and organisations. While such interconnectivity offers a huge potential for economic progress and social intercourse among the peoples of the world, it is frequently uneven in its content and outcome, and can lead to a less than a rather more hospitable human environment.

We live in a world of economic and political turbulence; where change, volatility and complexity are among its endemic features.

We live in a world in which continuous advances in all kinds of knowledge and falling communication costs are dramatically reconfiguring our economic landscape; and the fabric of our daily lives.

We live in a world replete with *paradoxes* and *tensions*. Globalisation brings with it its own 'yang' and 'yin': where convergence and divergence, uniformity and diversity, competition and cooperation, centralisation and decentralisation, and individualism and communitarianism go hand in hand.

We live in a world in which the goals and content of human development are being reappraised. Compared with the past, more attention is now being paid to the social, cultural and ideological wellbeing of individuals and communities, and also to the moral imperatives of wealth creating activities.

We live in a world in which the global competitive position of corporations and countries is increasingly dependent on their success in establishing, and learning from, cross border partnerships and strategic alliances, and of being part of a global network of related activities.

We live in a world in which the content and quality of the incentive structures and belief systems of countries and firms are increasingly influencing societal attitudes towards the purpose and content of economic development strategies, and to the social responsibilities of both private and public decision taking entities.

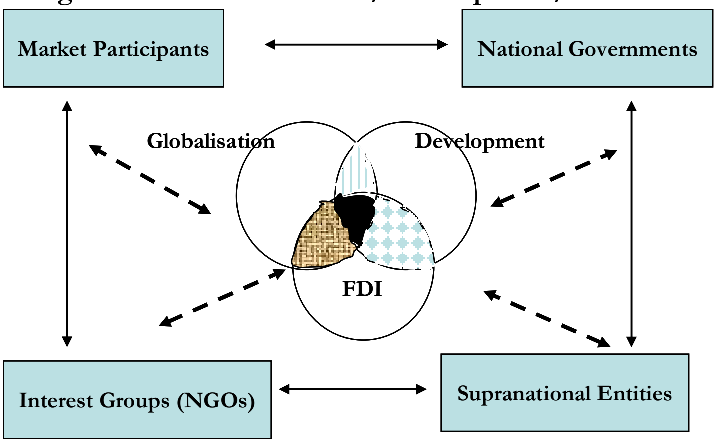
In short, we live in a world in which the *human* and *physical* global environment underpinning the strategies of corporations, and the policies of national governments, is undergoing fundamental structural change. And it is the corporations and governments which are most able to respond to and benefit from these changes, and which are best equipped to minimise or counteract the disruptive effects of them, that are the most likely to succeed in today's hugely competitive global village.

THE INTERFACE BETWEEN GLOBALISATION, DEVELOPMENT AND FDI

What then is the relevance of these characteristics for globalisation and for economic development? What role does FDI play in both fashioning and reacting to these characteristics? What (in our present context) are the implications for the Korean economy and for Korean firms?

The circles in Figure 1 demonstrate how these three concepts interface with each other. The rectangles surrounding the circles identify the main decision-taking entities in contemporary economies. As I have already indicated, the majority of economic transactions in most countries - including Korea - are undertaken through markets, but the extent to which, and the ways in which, these markets are supported, influenced or controlled by the actions of extra market actors vary considerably. Compare, for example, the economic governance and institutions of the U.S. and China, or those of Brazil and Taiwan in this respect.

Figure 1. The Globalisation/Development/FDI triad



In this contribution I will concentrate primarily on the role of two of the key actors - *corporations* (and particularly MNEs) and *national governments.*

Globalisation

Let me briefly summarise some of the main attributes of 21st century globalisation. Essentially this phenomenon is best thought of as the interconnectivity of people and organisations across the planet. Such connectivity may be shallow or deep, short or long lasting. It may be geared towards promoting personal or organisational interests, and to advancing economic, cultural or political goals. Its main outcome is an increasing and deepening interdependence between otherwise geographically segmented human and physical environments.

E-commerce and the internet are the quintessential indices of globalisation. But there are many others, such as the extent and geography of cross border travel, the media (especially TV coverage), technology and financial flows, and people movement. At the same time, it is worth noting that few organisations, public or private, are fully global in their activities. Most large MNEs, for example, still confine the greater part of their value added activities to two of the five continents of the globe (Rugman & Verbeke 2004).

Globalisation, in and of itself, is a neutral concept. But it can be used to advance good or bad goals or to achieve good or bad effects. The 'yang' of globalisation is that it can raise incomes, transfer ideas and knowledge, open up new markets, and promote more dialogue and understanding among different cultures. The 'yin' of globalisation is that it can lead to more volatility and uncertainty, and more disruption in people's lives. It can also facilitate the international movement of 'bads' such as drugs, crime and terrorism.

In the maximisation of the positive and the minimisation of the negative consequences of globalisation, extra market decision takers have a critical role to play. For example, the fact that globalisation is not as inclusive, or as equitable in its outcome as it might be, is often due less to the inadequacies of markets, and more to differences in the institutional artefacts underpinning these markets, and of inappropriate actions taken by national governments or supranational agencies.

One final point about globalisation is the growing role of *multi-stakeholders* (notably NGOs, consumer activists, shareholders and labour unions), in influencing its content and consequences – and particularly so in respect of the intranational distribution of its key resources and capabilities, and of its end products.

Economic Development

What next of the contemporary thinking about purposes and content of economic development? Key among the new or revised ideas are those about the composition, determinants and form of development. No longer are crude and single measures such as gross domestic product (GDP) per head acceptable. Increasingly those which emphasise quality of life measures, such as safety and security, good health, reduced infant mortality, educational achievement, and overall wellbeing are increasingly being sought. The tiny kingdom of Bhutan, for example, has compiled a GDP of 'happiness'.

This reflects the increasing attention being paid by national governments both to the social needs and the cultural liberty of the individuals and communities for which they are responsible. In an age of global branding and the cross border standardisation of many goods and services, it also suggests a yearning for more local ownership of critical assets, ideas and institutions; of more multi-stakeholder involvement in policy formation; and of more consensus related decision taking.

All contemporary data point to substantial progress having being made over the past two decades in upgrading living standards, and in reducing levels of extreme poverty in most developing countries. According to the World Bank the share of the population of developing countries in abject poverty (defined as those living on less than 1$ a day) fell from one-third in the mid-1980s to one quarter in the early 2000s (World Bank 2004). There have also been noticeable improvements in the quality of life, e.g. health provision, life expectancy, adult literacy and human rights, and in gender related development and the physical environment.

At the same time, there are other areas of the life style of people which are giving more cause for concern. Along with (though not necessarily the result of) rising living standards and increasing behavioural freedom, has come more terrorism, crime, corruption, drug trafficking and social disorder, with all the disbenefits and uncertainties associated with those.

Development then, first and foremost, needs to be viewed as a *holistic* and multi dimensional concept. Its contents and implementation involve multi-stakeholder initiatives. Its determinants are *multi-causal;* its effects are *multi-faceted.* [1]

At the same time, although it is possible to identify many common elements in the design and implementation of development strategies, each country has its own particular economic and social agenda, and is a creature of its own unique cultural heritage. Each country too has its distinctive institutions, forms of governance and voice mechanisms. And it is from such varied perspectives as these that MNEs have to evaluate and choose between the investment opportunities offered by different locations and national regimes.

FDI

What now of FDI as an instrument for upgrading national competitiveness and promoting structural change?

The recent growth in FDI stocks has closely paralleled that of globalisation. According to UNCTAD (2005) between 1990 and 2004, the combined world inward and outward FDI stocks increased 5.2 times (from $3,534 billion to $18,628 billion). The corresponding growth rates for Korea and nine of the leading East Asian economies[2] were 8.8 and 11.4 respectively. In 1990, the inward FDI stocks into Korea were equal to 2.1% of its GDP; by 2004 this figure had risen to 8.1. The corresponding ratios for outward FDI stock were 1.6% and 5.8% respectively

[1] These aspects of development are more fully explored in Dunning (2006).

[2] These were China, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand.

(UNCTAD 2005). FDI today is not only the most important component of trans-border economic activity; it is also one of the most critical shapers of the international division of labour, of economic restructuring, and of the life styles of men and women across the planet.

It is now estimated that MNEs currently account for three quarters of all global innovating activity and spending on human resource development (UNCTAD 2005); increasingly, they are decentralising such higher value activities to their foreign affiliates and particularly so within higher and middle income countries. In most instances, this is to be welcomed, since the speed at which countries can move up their development ladders is increasingly resting on the quality of the human and physical assets, and the enterprise and vision of their firms and people. However, the benefits which a particular country derives from the operations of the affiliates of foreign MNEs in its midst, and from its activities of its own firms outside their national boundaries, is highly contingent on the quality and content of its social and institutional capital, and of its belief systems and cultural preferences. It also depends on its stage of economic development. As set out in Table 1 it is possible to identify at least four stages in a country's investment and trade development paths (IDP & TDPs). I believe Korea as well as Hong Kong, Malaysia, Singapore and Taiwan is in, or is approaching, Stage 4 of its economic development. Further justification for this belief is set out in Dunning, Kim and Lin (2001).

Table 1. Four Stages in the IDP & TDPs of Industrializing Developing Countries

Stage 1. Low Resource & Capability Base- Underdeveloped Domestic Markets

Stage 2. Improving Resource & Capability Base- Rising Domestic Markets

Stage 3. Human Capital and Indigenous Innovatory Base Now Becoming Significant- Rising Domestic Markets

Stage 4. Approaching Mature Industrialization : Relatively Rich and Sophisticated Markets

THE COMPETITIVENESS OF THE KOREAN ECONOMY AND KOREAN FIRMS

What now of the competitiveness of Korea's economy and that of Korean firms?

Here I make use of some data comprising the *Global Competitive Index* (GCI) devised by Sala-I Martin and Artadi (2005).[3] This index is, itself, based on a combination of 118 individual measures of competitiveness identified by the *Global Competitive Report,* which is published annually by the World Economic Forum.

The GCI pinpoints (what it calls) 12 *pillars* of *competitiveness* and ranks each of some 104 countries by this criteria. The first five pillars consist of a group of 50 variables making up a country's basic economic and social infrastructure. The second five are best described as business facilitating indices: they comprise 52 separate components. The third group of 2 pillars contains 16 indices which largely reflect the competitive enhancing qualities of corporations and supporting organizations.

Table 2. Ranking of Global Competitive Indices for Korean Economy and Firms 2004

		Korea		Taiwan	Rest of Asia
		(a)	(b)	(a)	(a)
A.	Basic infrastructure indices	25	5	23	31
1.	Institutions	50	7	22	35
2.	Physical infrastructure	23	5	21	37
3.	Macro environment	4	2	29	24
4.	Security	32	5	31	46
5(a)	Basic human capital	29	2	72	63
B.	Business facilitating indices	26	5	23	31
5(b)	Advanced human capital	22	4	5	42
6	Goods market efficiency	28	4	5	35
7	Labour market efficiency	85	9	7	29
8	Financial market efficiency	67	7	30	45
9	Technological readiness	11	3	9	39
10	Openness and market	9	2	14	22
C	Corporate competitiveness indices	22	4	7	33
11	Business facilitation	23	4	11	35
12	Innovating capabilities	20	4	8	34
	Global competitiveness index	26	5	11	32

(a) Rank out of 104 countries. (b) Rank out of 9 East Asian Countries (China, Hong Kong (SAR), Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.)
Source: World Economic Forum (2004)

[3] The index is made up of 'hard' statistical data provided by national authorities and/or supranational organizations; and the opinions of some 8729 business executives from firms of different sizes in each of 104 countries (Blanke and Loades 2004).

In Table 2, we set out Korea's position for 2004, alongside that of Taiwan and the rest of East Asia (apart from Japan). Overall in that year, Korea was ranked 26th (of the 104 countries) in its overall global competitiveness. This compared with a rank of 11 for Taiwan and 32 (on average) for other countries in East Asia. Among the nine East Asian countries, Korea is ranked 5th, behind Singapore, Hong Kong, Taiwan and Malaysia, but above China, Thailand, Indonesia and the Philippines.

What are Korea's unique competitive strengths and weaknesses? Some of these are set out in Table 3 and 4.

Table 3. Advantages and Disadvantages of Korean Economy and Korean Firms 2004*

	Ranking[1] (a)	Ranking[1] (b)		Ranking[1] (a)	Ranking[1] (b)
			BASIC INFRASTRUCTURE/INSTITUTIONS	25	5
Legal framework relating to ICT	14	3	•Irregular payments	50→63	5
• Internet access schools	3	1	•Public sector ethics	69,77,.85	8,8,8
• Tertiary education	3	2	•Regulatory burdens	66,67	8, 8
• Fiscal prudence	7, 6	1, 1	•Effectiveness of legal bodies	81	8
• ICT prioritization	14	3			
			BUSINESS FACILITATING INDICES	26	5
• Local competition	2	1	• Availability of finance	52, 69, 81	7,8,8
• ISP competition	3	1	• Availability of scientists/engineers	52	5
• Buyer sophistication	10	11	• Quality of business schools	58	
• Local suppliers	11	2	• Soundness of banks	77	7
			• Foreign ownership restrictions	69, 8	5, 7
			• Ease of hiring foreign labour	99	9
			• Employment of women	98, 102	9, 9
			• FDI contribution to technology	63, 65	8, 8
			CORPORATE COMPETITIVENESS	22	4
• Environment management	9	2	• Reliance on professional management	58	6
• Customer orientation	12	3	• Hiring/Firing practices	73	8
• Spending on R&D	14	3	• Corporate ethics	51	7
• Technology absorption	14	4	• Labour relations	103	9
• Capacity for innovation	15	2			

* Most other competitive indices (e.g. property rights, were around average).

1. (a) Rank out of 104 countries. (b) Rank out of 9 East Asian countries. Sometimes there are multiple components of the same indices.

2. ICT Information Communications Technology. Source: World Economic Forum (2004)

Table 4. Scores and Ranking for Effectiveness of Government Related Institutions 2004

	Voice & Accountability		Political Stability		Government Effectiveness		Regulatory Quality		Rule of Law		Control of Corruption		Average	
China	-1.54	9	-0.07	6	0.15	7	-0.45	9	0.47	6	-0.51	7	-0.53	8
Hong Kong	0.21	4	1.3	2	1.49	2	1.89	1	1.42	2	1.57	2	1.31	2
Indonesia	-0.44	7	-1.38	9	-0.36	9	-0.42	8	-0.91	9	-0.9	9	-0.74	9
Korea	0.73	2	0.45	4	0.95	5	0.69	4	0.67	4	0.17	5	0.61	4
Malaysia	-0.36	8	0.38	5	0.99	4	0.44	5	0.52	5	0.29	4	0.37	5
Philippines	0.02	5	-1.01	8	-0.23	8	-0.06	7	0.62	8	-0.55	8	-0.41	7
Singapore	-0.13	6	1.48	1	2.25	1	1.87	2	1.82	11	2.44	1	1.62	1
Taiwan	0.95	1	0.52	3	1.15	3	1.29	3	0.83	3	0.64	3	0.9	3
Thailand	0.24	3	-0.15	7	0.38	6	-0.01	6	-0.05	7	-0.25	6	0.03	6

NB. Average of all indicators for the nine East Asian countries is 0.41. This compares with an average for six of the leading Latin American countries of -0.97.
Source: Adapted from Kaufmann, Kraay and Mastruzzi (2005).

In Table 3 Korea's advantages are seen to be concentrated in competitive pillars 3, 9, 5B, 11 and 12, while its major weaknesses are in 1, 4, 7 and 8. In all indices, Taiwan is more highly ranked than Korea, and particularly so in those to do with corporate competitiveness. But Korea is more highly ranked than the rest of East Asia in all indices in pillars 1, 7, 8.

Further details of the more specific areas of competitiveness in which Korea and Korean firms are shown to have comparative strengths and weaknesses are identified in Table 4. The contents of this table are fairly self evident. They again highlight the relatively strong position of Korean firms and Korean institutions in technology related and knowledge enhancing activities; and too, in the importance attached to demands of buyers and the quality of suppliers in the value chain. But they also identify a wide range of institutional deficiencies. These include, at a macro-level, the (perceived) lack of accessibility to, and quality of, various kinds of finance, public sector ethics, the effectiveness of legal entities, and the role of women in the workplace. At a corporate level, the main weaknesses pinpointed are the inadequacies of relational capital, e.g. with respect to the quality or effectiveness of labour relations, hiring and firing practices, and the reluctance of Korean firms to use external professional management services.

This relative paucity of institutional assets is worthy of more attention, if for no other reason than that foreign MNEs are treating the content and quality of these as increasingly important influences on their locational strategies. In our research, we have isolated 75 of the 177 individual indices (which are identified by the *Global*

Competitiveness Report)[4] as institutionally related indices (IRIs). Following Douglass North (2005) we broadly define institutions as formal or informal incentive structures and enforcement mechanisms, created and/or implemented by private or public organisations. The average ranking for Korea of these 75 indices (out of 104 countries) was 44 compared with 38 in the case of the other competitive related indices.[5] (i.e. those of a non-institutional kind). Moreover, of the problematic features of the Korean economy identified by Korean and foreign owned firms in the Executive Opinion Survey (EOS) conducted by the Sala-I-Martin and Artardi (2005) four of the most important were examples of institutional deficiencies.[6] Rather surprisingly, the five indicators which one would normally expect to influence inbound foreign direct investment (FDI),[7] (for good or bad) were afforded very low rankings by the GCI. The average placing for Korea was 70th (out of 104 countries), and 7th of the nine East Asian countries.

These findings are also largely confirmed by an ambitious study of the effectiveness of various public institutions and governmental policies conducted (on an annual basis) by the World Bank.[8] As set out in Table 4, the authors (Kaufmann, Kraay and Mastruzzi 2005) found that, in 2004, of six aggregate governance indicators, Korea was ranked second only to Taiwan out of the nine East Asian countries in the case of *voice and accountability*, 4th for *political stability, regulatory quality, rule of law*, and 5th for *control of corruption* and *effectiveness of government.*[9]

In view of these data, it is perhaps not surprising that, in the early 2000s, at least, Korea's willingness or capability to attract inward FDI, was judged by UNCTAD to be below what might have been expected from its share of the world's gross national product (GDP) (UNCTAD 2005).[10] According to a survey of 140 countries by that

[4] These include the 118 indices making up the pillars of competitiveness and 59 additional indices relating to the environment and company operations and strategy.
[5] This number embraces a number of specific indicators not included in the calculation of the GCI.
[6] Viz. policy instability, restrictive labour regulations, tax regulations, inefficient bureaucracy, and access to financing.
[7] There were restrictions on foreign ownership (69) prevalence of foreign licensing (63) FDI as a source of new technology (65), impact on business of rules on FDI (81) and the exchange rate (63).
[8] Embracing 209 countries and several hundred individual variables measuring perceptions of governance effectiveness. These were drawn from 37 separate data sources constructed by 31 different organizations.
[9] Further details are set out in Table 4. The scores for each estimate are normally distributed with a mean (for the 209 countries) of zero and a standard deviation of one in each period. Virtually all scores lie between -2.5 and 2.5 with the higher scores corresponding to better outcomes (Kaufmann, Kray & Mastruzzi 2005: 7-8).
[10] According to UNCTAD this FDI performance measure is the share of a country's inward FDI flows to the world firms divided by its share of the world's GNP.

organization, Korea was ranked 120th (and 8th of the 9 East Asian economies)[11] in its inward investment performance index (IFDI) for the period 2001-2003. Korea's corresponding rankings with respect to outward FDI (OFDI) performance was rather better *viz* at 47 and 5 respectively. Further details are set out in Table 5.

Table 5. Ranking of FDI Performance and Prospects of East Asian Economies

Rankings

	(a) IFDI performance 2001-2003		(b) OFDI Performance 2001-2003		(c) IFDI Potential 2004		IFDI Forecast[1]	
	of all countries	of E. Asian countries	of all countries	of E. Asian countries	of all countries	of E. Asian countries	% change	of E .Asian countries
China	37	3	58	6	39	6	136.3	8
Hong Kong	9	2	6	2	12	2	190.3	4
Indonesia	139	9	80	8	82	9	500.0[2]	2
Korea	120	8	47	5	18	3	187.1	5
Malaysia	75	4	32	4	32	5	117.8	7
Philippines	96	6	96	9	57	8	455.6	3
Singapore	6	1	3	1	4	1	96.7	9
Taiwan	117	7	24	3	21	4	506.7	1
Thailand	87	5	62	7	54	7	165.6	6

[1] Expected growth in VALUE OF IFDI (flows) 2003/4 (100) to 2007/8.
[2] 2004 = 100 (2003 figure was a negative).
Source: Derived from UNCTAD (2005: 274-6) and Economist Intelligence Unit. (2004)

At the same time, the same UNCTAD study revealed that Korea's potential for attracting future inbound FDI was more promising. It was ranked 18th of the 140 countries, and of the nine East Asian countries its prospects were only bettered by Singapore and Hong Kong.[12] Further estimates from the *Economist Intelligence Unit* (2004) about the likely growth of inbound FDI to East Asian countries broadly confirm the UNCTAD estimates.[13] Between 2003-2004 and 2007-2008, Korea's IFDI flows are predicted to rise by 87.7%. As Table 5 (columns 7 & 8) shows, this assigns the country in 5th place as a future East Asian locational attraction.

What, then, do these data imply for FDI policy, which, though not *directly* related

[11] Based on the value of a whole set of country specific variables many of which are contained in the GCI. UNCTAD made no estimate of Korea's potential for *outward* FDI.
[12] Both the IFDI performance and the IFDI potential index rankings for Korea have remained remarkably stable over the last decade.
[13] The big exception is Singapore where the EIU's estimates are way out of line with those of UNCTAD's IFDI potential index.

to upgrading a country's locational attractions to (the right kind of) MNE activity, *indirectly* affects the competitiveness of its indigenous firms? It is our contention that, should a country desire to attract more inward FDI, and, at the same time, upgrade the capabilities and global performance of its own firms, it must give especial focus to those incentives (and obstacles) which studies on the locational strategies of MNEs have revealed, or are revealing to be the most important. In the case of Korea, as we have seen, this suggests that most attention should be directed to encouraging inward FDI, into both those sectors and activities in which the Korean economy is shown to have a dynamic comparative advantage, and to those in which Korean firms are currently performing below their full potential, *vis à vis* their foreign competitors.

FDI POLICY

What then do I consider to be the most critical ingredients of FDI policy in the early 21st century, in the light of global economic trends and new scholarly thinking?
In the following paragraphs I set out eleven propositions. Each, I believe, is of particular relevance to countries like Korea in which both inbound and outbound MNE activity is playing an increasingly important competitive enhancing role. The propositions are based first on my reading of the latest scholarly research on the subject; second on the main sources of data such as those contained in UNCTAD's annual *World Investment Reports;* and third, on a variety of surveys about how business executives view the changing nature of determinants and effects of *both* outward and inward FDI.

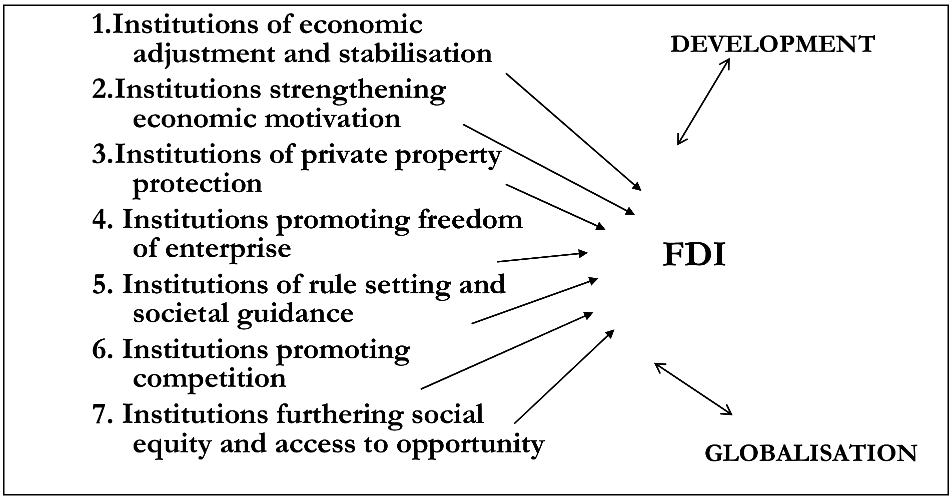
In presenting these propositions I believe that it is important that each should be considered as part of a coordinated and interactive *system* of FDI policies; and I offer them here as bullet points, and in no particular order of importance. In any case, such ordering is likely to be highly contextual, and will vary according to the types of and motives for FDI and the particular situation of individual home or host countries. I leave it to those who know the Korean economy and Korean firms much better than I, to undertake such a ranking for Korea.

1. In seeking to maximise the benefits of globalisation and to promote the kind of economic and social development desired, FDI policies are only likely to be as effective as are the general macro economic and micro-management policies of which they are part. I shall term this the *holistic* proposition.
2. Inbound FDI policy must take account of the likely *costs and benefits* of the varying motives for and kinds of MNE activity, as well as the effectiveness of different measures to attract new investments. In the early 21st century, most attention on the impact of inbound FDI is focusing on linkages and spill-over effects e.g. on the competitiveness of indigenous firms, and the promotion of

the host country's dynamic comparative advantage. This is the *effects* proposition.

3. Inward and outward FDI policy needs to be dynamic, flexible, and appropriate to the stage of development of a country. It should be geared to ensuring that it helps facilitate the structural upgrading of the country and the efficiency of its indigenous firms in a socially acceptable and properly sequential way. This is the *structural transformation* proposition.
4. FDI policy should to be aware of the constantly changing locational needs of foreign investors. In particular, it needs to take account of the growing importance of the scope and content of the incentive framework offered by host governments in their efforts to foster indigenous entrepreneurship, and to assist individuals and corporations to adapt to global change.[14] This is the *institutions* proposition. Some of its ingredients are presented in Figure 2.

Figure 2. Some Institutions Underpinning and Affecting FDI Policy, Development and Globalisation



Source: Derived from Rondinelli (2005).

5. As knowledge, embodied in human and physical assets, becomes a more important ingredient of a country's economic competitiveness and its restructuring efforts, so FDI policy must address itself to seeking out the best

[14] For an examination of the reactions (in 2001) of 60 manufacturing affiliates of foreign MNEs to a variety of incentive related measures offered by the Korean government, see Hong and Gray (2003). Among those giving the most satisfaction, foreign currency convertibility, corporate tax incentives, tax deduction for R&D and accelerated depreciation were among those ranked the highest.

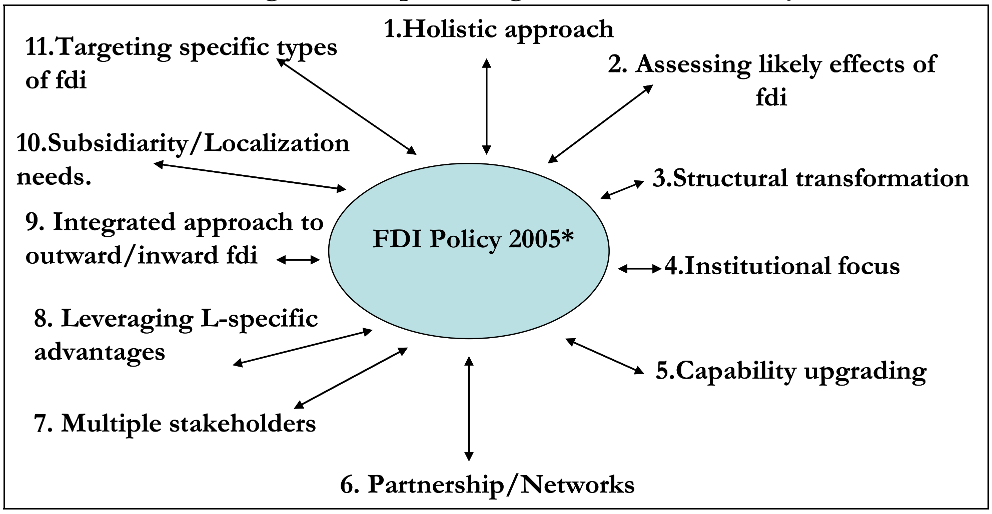
means of accessing, creating and enhancing physical and human resource capabilities. This is the *capability upgrading* proposition.

6. By the provision of the appropriate institutions, inbound FDI policy should recognise the growing needs of foreign MNEs to form partnerships and coalitions with, and/or tap into the assets of networks of, indigenous firms. By the same token, outbound FDI policy should acknowledge the benefits of home based MNEs concluding collaborative arrangements with foreign firms. This is the *partnership* proposition.
7. FDI policy should take account of the increasing role of multi-stakeholder initiatives in democratic societies, such as those of consumer groups, labour unions, and a variety of non-government organisations, which are affecting the pattern, organization and ownership of economic activity. This is the *stakeholder* proposition.
8. Both inward and outward FDI policy need to acknowledge that globalization often widens the locational options of MNEs. This being so, it is all the more critical for each country to identify and promote its unique and sustainable economic and social advantages, as well as taking account of the FDI and related policies of likely competitor countries. This is the *leveraging* proposition.
9. As countries move upwards along their development paths, the need for an *integrated* policy towards outward and inward FDI, becomes more imperative. Each has its own specific (but related) role to play in enhancing the productivity of indigenous factor endowments, and their adaptation to structural change. This is the *integration* proposition.
10. FDI policy should take note of the trend towards more subsidiarity in decisions taken by both foreign and their own MNEs, and especially a growing appreciation by them of the value of localised resources and capabilities, and of social and cultural preferences. This is the *localization* proposition.
11. While FDI policy – and particularly investment incentives – should be as transparent, general and consistent as possible, there may be merit in taylor-making the contents of particular aspects of this policy to target certain types of FDI or MNEs. This is the *targeting* proposition.

Figure 3 combines these various drivers and determinants of FDI policy into one diagram. As I have already suggested, the prioritisation and importance of each is likely to vary according to type of FDI, the strategies of individual MNEs, and the specific institutional and other characteristics of particular countries or regions, as they might affect attitudes and actions towards globalisation and economic development.

In so doing, I believe both inward and outward FDI policy can make an important contribution to upgrading the competitiveness of indigenous firms and advancing the comparative dynamic advantage of countries.

Figure 3. Proposed Ingredients of FDI Policy



*Such policy will vary according to (a) type of FDI & strategy of individual MNEs, (b) country/region specific characteristics affecting attitudes towards globalisation and economic development.

CONCLUSIONS

What then may we conclude from this paper? First, that all countries – both developed and developing - should consider globalisation as an opportunity and challenge both to better promote the kind of economic and social change they desire, and to enhance their ownership of that change.

Second, that, as development proceeds, inward and then increasingly outward, FDI can play an important positive role in meeting these opportunities and challenges, *provided that the appropriate societal institutions and the policies of national governments are in place and working well.* Third that, in framing and implementing FDI policies, there are several issues specific to the needs of the global economy in the 21st century which must be given high priority.

Let me finally offer you three statements which, though seemingly obvious, I believe should guide any actions taken by national governments and international investing agencies seeking to gain the most from being part of the global economy.

1. ***While both outward and inward FDI can help a country to benefit from globalization and foster economic growth and development, it should not be regarded as a panacea for its economic ills.*** **With a few**

exceptions, a country's long term economic success and social welfare must rest on its ability to upgrade its *indigenous* resources and capabilities, and the competitiveness of its own firms. In pursuance of this objective, I believe that it is essential that countries such as Korea should retain full ownership of their critical institutions, their cultural identities and their belief systems

2. ***History and geography matter.* Both policy makers and indigenous firms should seek to learn from their own past successes and failures, and from the experiences of other countries and firms most similar to those of their own. However, they should not be bound by, or slaves to, those successes, failures and experiences. In the light of the perceived contribution of both inward and outward FDI to economic development, and of the axiological changes now occurring in the global human environment, they should (a) devise the macroeconomic and microeconomic strategies most suited to their unique particular situations and needs; and (b) ensure that they have the appropriate institutional mechanisms to efficiently and sympathetically implement these strategies.**
3. ***Both public and private organizations – not to mention individuals and private interest groups - should be cautious about making easy generalizations about the economic and social consequences of FDI.* Not only will these effects vary according to the motive for, and kind of, inward and outward FDI undertaken, but also to the values, attitudes and actions of the societal stakeholders most affected by it, and to the strategies and policies pursued by the home and host governments most concerned.**

One final observation. In a speech given in London in February 2005, the UK Chancellor of the Exchequer, Gordon Brown set out his vision for the UK to become one of the most successful enterprise countries in the world. This vision was couched in the form of a challenge to Britain's corporations and workforce to (I quote) 'reform, liberalise, meet and master the high-tech value added competition.' To do so, he argued, the UK needed to become world leaders in education, science and creativity and to offer both foreign owned and domestic firms the most attractive location to do business and to create new businesses. The result of a more enterprising Britain, he suggested, would not only be the creation of new wealth but, equally important, the best way of opening up a life enhancing opportunity for all, and particularly for those most economically deprived.

If this vision is to be embraced by the UK - the pioneer of the first Industrial Revolution - , how much more so is it of relevance for the important emerging players

- such as Korea - in today's global economy. I for one strongly believe that both inward and outward FDI - and indeed, FDI policy - has a critical role to play in this highly worthwhile task.

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