

International Business: a European Perspective

12. Emerging Country Multinationals: Threats and Opportunities for European FDI policy



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Southern Multinationals: Threats and Opportunities for European Policy.

The Context.

- 1) Shifting wealth and global imbalances (EC 2004; [OECD 2010](#) and [2013 -> Industrial Policies in a Changing World](#))
- 2) Related FDI boom from South-North and South-South ([UNCTAD 2013 Global Value Chains](#))
- 3) Manifested in the “coming of age” of Southern MNC in Europe ([Emerging Southern MNC](#) The Economist 2013 - > COST 2010-2014) and future research
- 4) Ongoing financial and economic crises.

Southern Multinationals: Threats and Opportunities for European Policy. Initial underestimation of the challenges.

- 1) Europe recognised the challenge of shifting wealth and started to rethink its Trade Policy from the 2000s.
- 2) Compounded by perception multilateral negotiations (WTO) were plodding.

=> *“Global Europe: Competing in a Global World” (EC 2006)*

- Multilateralism “plus”.
- Trade in Service Agreement (TISA)
- New generation Free Trade Agreements (FTA)
- Reform
 - GSP: Generalized system of preferences
 - TDI: Trade Defence Instruments
 - Reciprocity Instrument: secure access to public procurements in third countries.

Southern Multinationals: Threats and Opportunities for European Policy.

Too little, too late?

- 1) The EU recognised it had foregrounded concerns on the internal market to the detriment of developing robust external economic governance.
- 2) It stated it now aimed to “...*play a role in foreign affairs and global management commensurate with economic weight*”
- 3) *Treaty change: Art. 207..TEU : “the common commercial policy shall be conducted in the context of the principles and objectives of the external action”* (foreign policy, development)

=> The verdict: **“Global Europe: Competing in a Global World” (EC 2006)**

— Inadequate to face BRICS and stalling WTO

Southern Multinationals: Threats and Opportunities for European Policy. **Change with Lisbon**

The Treaty of Lisbon signals substantial changes to FDI policy

Before Lisbon

- EC governs Trade (competition and state aid...)
- Member States (MS) govern FDI through BITs.
- EU MS signed 1,200 BITS with 148 countries (half of worlds' BITS!)

After Lisbon

- EC governs Trade and FDI (some role to European Parliament)
- MS lose competence over FDI.
- Other changes: EU competence in trade in services and public procurement.

Southern Multinationals: Threats and Opportunities for European Policy. Was change sudden?

Research on consequences of Lisbon for FDI is emerging

Peterson & Ceyssens (2003) claim the EU has long sought to maximise its bargaining power in international investment negotiations

EU Parliament (2010) state this was a “rational” and “natural” decision making EU rules on international investment and protection more in line with the new reality of FDI in the economy (protecting European assets abroad)

Meunier (2014) argues the Commission did this by “stealth” against the preferences of MS

=> Lisbon was a culmination of previous attempts to regulate FDI

Southern Multinationals: Threats and Opportunities for European Policy. **Previous non-FDI Policy**

Van Den Bulcke argued the Commission previously used non-FDI Policy to govern FDI ([Van Den Bulcke & Zhang, 2013](#))

- 1) **Competition Policy** used to govern FDI, such as EU Merger Regulation (1989). FDI screening was an “unintended consequence” affecting acquisitions made in Europe by SOE if they met the size criteria.
- 2) **Trade Defense Instruments**, such as anti-dumping and rules of origin, were designed in the 1980s against the Japanese practice of investing to circumvent trade barriers.
- 3) The Program of **Critical Infrastructure Protection** allowed the Commission to restrict FDI after a 2004 initiative to combat terrorism.
- 4) The Commission gained responsibility for negotiating TRIMS and GATS at the WTO.
- 5) The EU negotiated the (failed) MAI, alongside MS, at the OECD
- 6) The EU has been negotiating comprehensive FTA including investment chapters on market access and protection (South Korea, Mexico, etc.).

Southern Multinationals: Threats and Opportunities for European Policy. Operationalizing Lisbon FDI Policy

Lisbon drafted 2007 in force since December 2009.

How will the new FDI regime be applied?

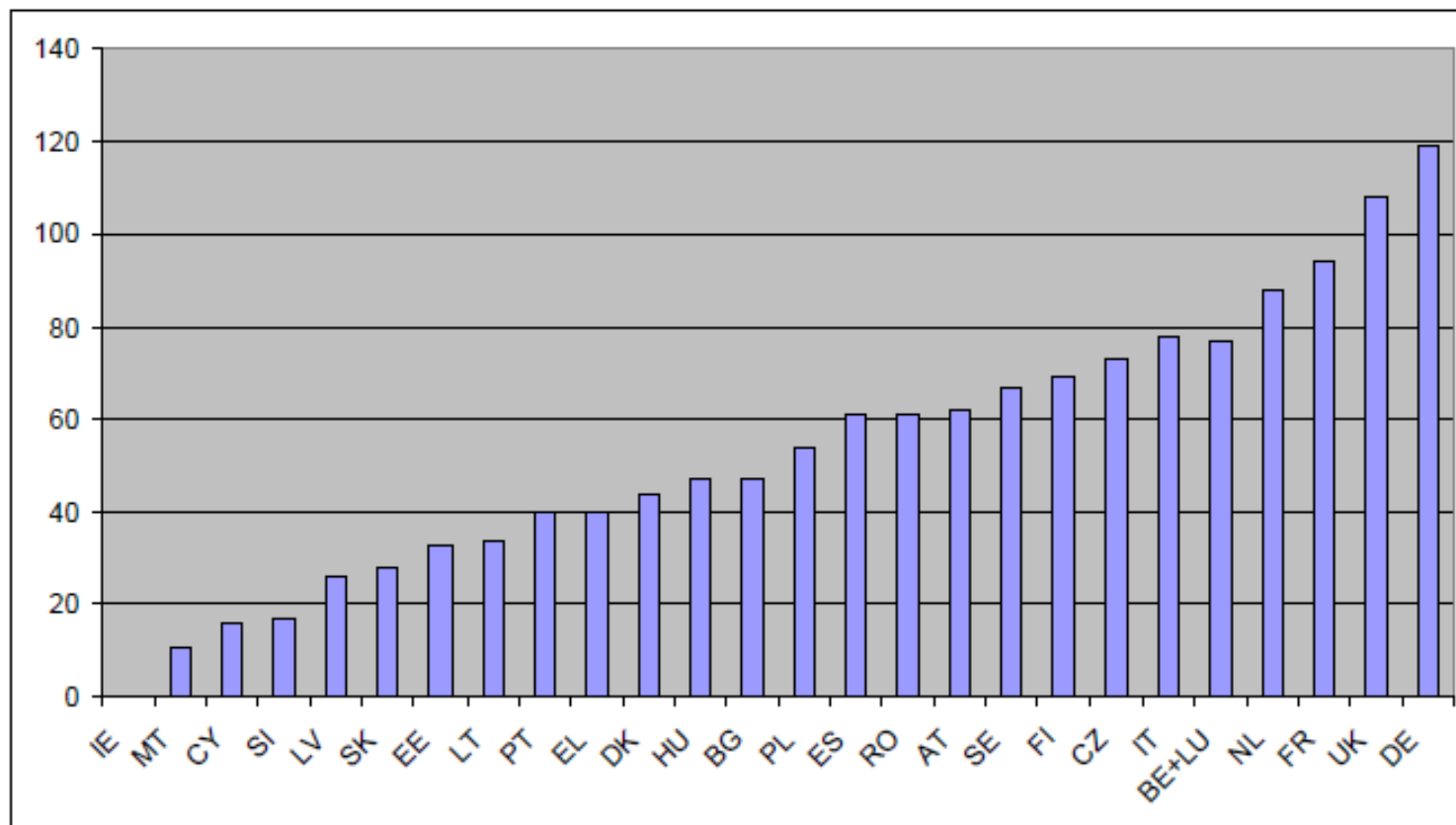
Towards a comprehensive European international investment policy (EC 2010).

“Old” BITS will be “grandfathered”; taken over by the EU.

Draft Regulation of the EP and the Council establishing transitional BITs: “grandfathering regulation”.

New ones cannot be negotiated without permission

Old BITs will be grandfather by the EU



Note: Information as known to the Commission services on 15 June 2010

Southern Multinationals: Threats and Opportunities for European Policy. Operationalizing Lisbon FDI Policy

- The EU inherits power to **negotiate** BITs for the MS, focusing initially on market access for Outward EU FDI and investment protection for EU MNC .It can also **harmonize** the rules governing the establishment of FDI inside the EU.
- The **European Parliament**, which was granted **new powers** of approving or rejecting all trade and investment agreements under Lisbon, has produced several reports and resolutions on this issue.
- The EU has launched BIT negotiations with **China, India** and other **emerging economies**.

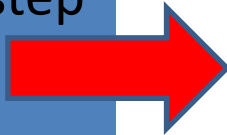
Southern Multinationals: Threats and Opportunities for European Policy. **Lisbon FDI Policy – Pros & Cons**

Pros

- EU is a stronger block to negotiate with the Russia, India, China, Brazil...
- Symmetry principle in practice.
- Open services, procurements and business opportunities for European MNC
- Harmonisation of policy

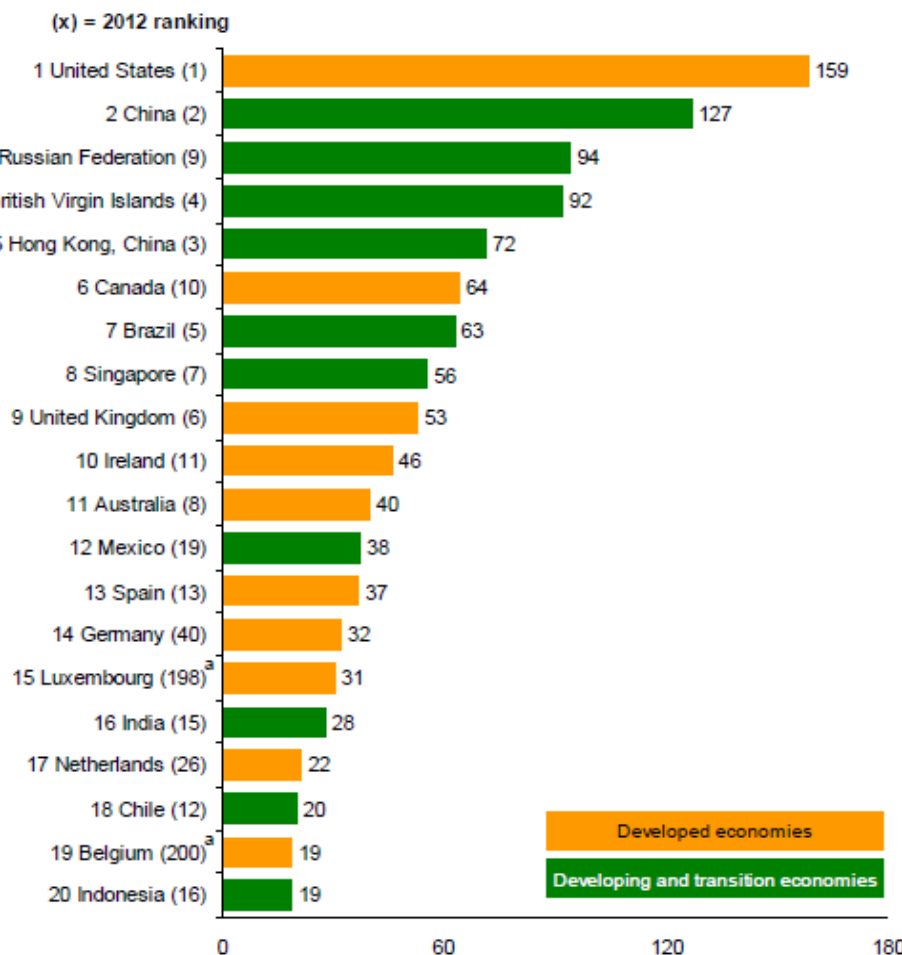
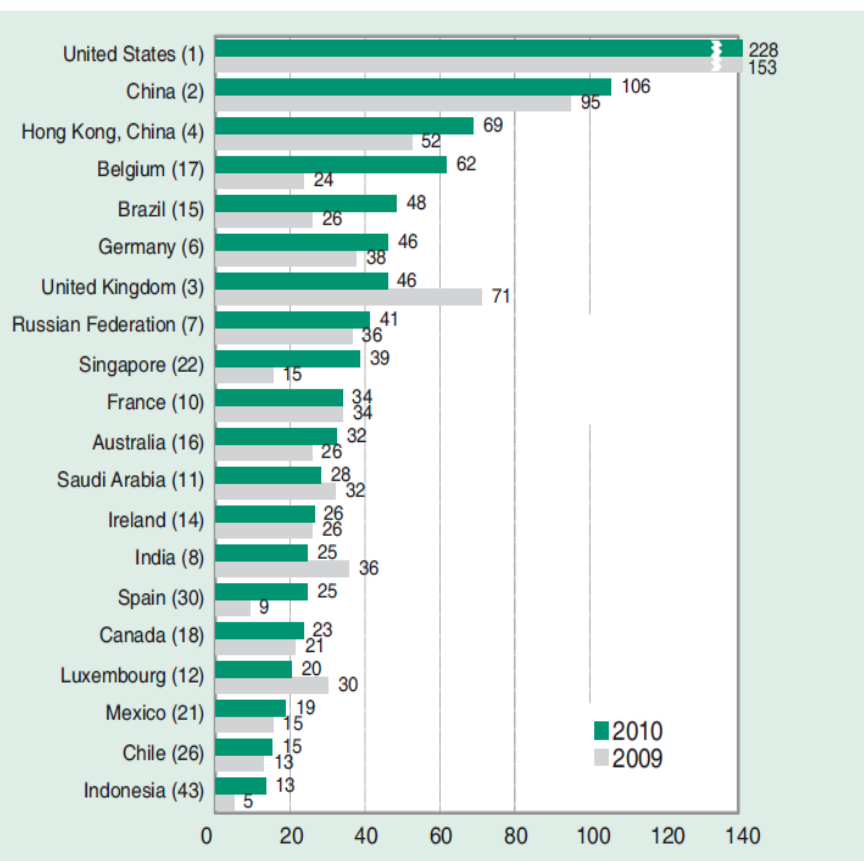
Cons

- MS have less power to block or shape IFDI, or promote OFDI “chilling effect”.
- EU industrial policy out of step with the world economic trends
- EU industrial policy limited to 6 areas and in tension with EC competition and state aid policy.
- Industrial policy: at what level should this be defined?
local/regional/national/EU



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BRIC Consolidation: Top Economies (billions \$) FDI inflows 2009-2010 and 2013

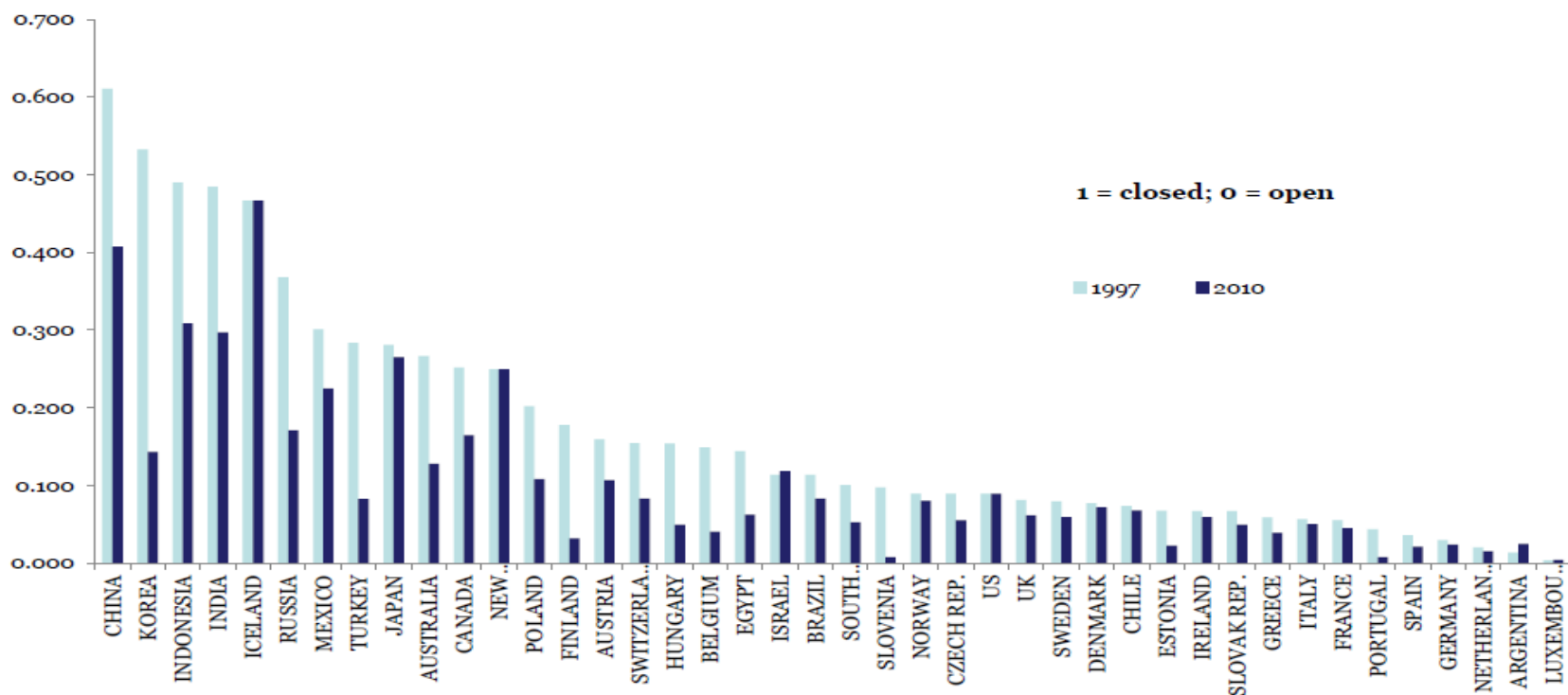


Source: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).

^a Ranked on the basis of the magnitude of 2010 FDI inflows.

Note: The number in bracket after the name of the country refers to the ranking in 2009. British Virgin Islands, which ranked 12th in 2010, is excluded from the list.

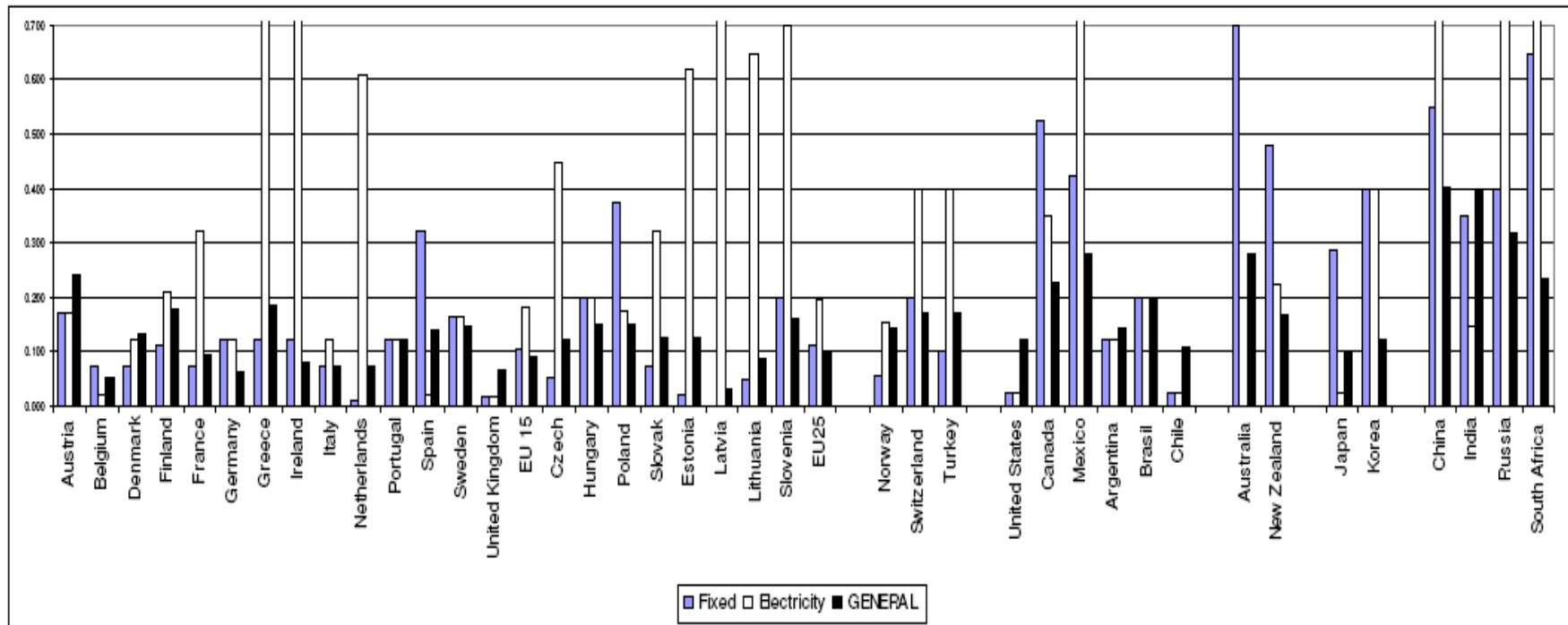
But the BRICS remain way too closed



Source: OECD

OECD: FDI Regulatory Restrictiveness Index 1997-2010

Governments have generally **open FDI regimes** to even “sensitive” sectors – BRICS trail behind



OECD: FDI Regulatory Restrictiveness Index 2007. General, Telecoms and Electricity

Southern Multinationals: Threats and Opportunities for European Policy. **After Lisbon I**

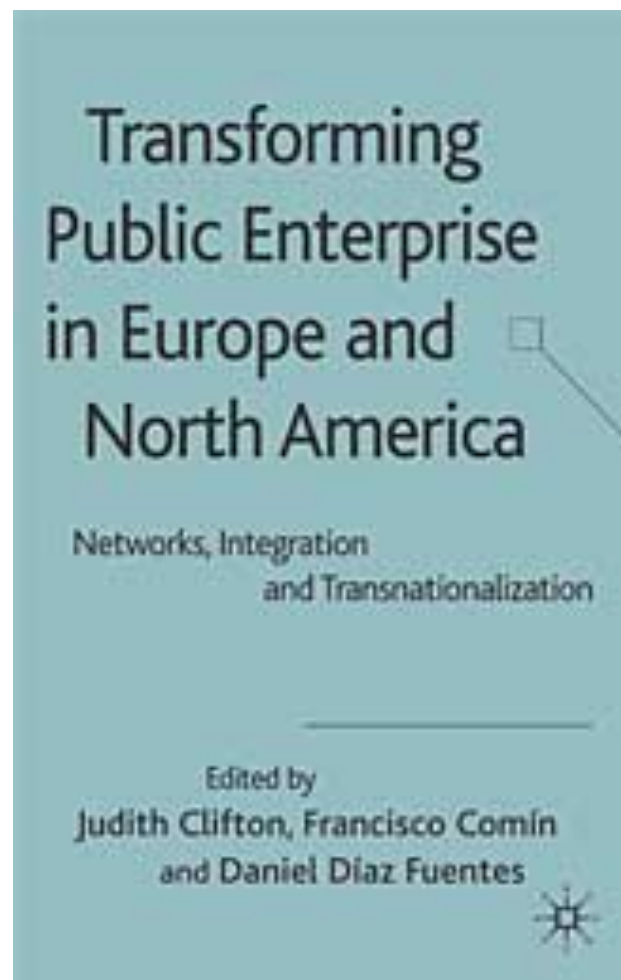
EC (2010) Trade, Growth and World Affairs.

- **Updates FDI** chapters in the negotiating mandate: Canada, Singapore and India.
- **Services:** (EU-South Korea). Market access to Korean goods in exchange for access to EU services.
- **Public Procurements in third countries.** More open and competitive. Opposition from trading partners who have free access to EU while protecting their own procurements.
- **Principle of symmetry.** Includes a chapter in second generation FTAs.
- **Regulatory issues.** Strengthening links between internal and external regulations

Southern Multinationals: Threats and Opportunities for European Policy. **After Lisbon II**

- But EC (2010) *Towards a comprehensive European international investment policy* reveals tension between the Parliament (more human rights, social content); the Council (wants MS to retain power) and the EC (wants full competence).
- The EU has proceeded to negotiate “mega-deals”, often incorporating investment, and other issues.
 - Until the moment (only) South Korea.
 - Canada, Singapore, India (??)
 - Mercosur (Brazil?), Central America, Colombia, Peru, Chile
 - Euro med : Morocco
 - Eastern Partnership vs. Eurasian Custom Union..Russia and Ukraine
 - China ...
 - US TTIP .. Japan...

Are Southern MNC really so different?



Southern Multinationals: Threats and Opportunities for European Policy. **Policy Challenges need new thinking**

- OECD Industrial Policy insights
- knowledge-Stiglitz/
- New Structural Economics –Lin
- Rejuvenating Industrial Policy (Stiglitz, Lin & Monga)
- Entrepreneurial State Mariana Mazzucato.



SHIFTING UP A GEAR

INDUSTRIAL POLICIES IN A CHANGING WORLD



Mario Pezzini

Director, OECD Development
Centre

Rio de Janeiro, 25 September

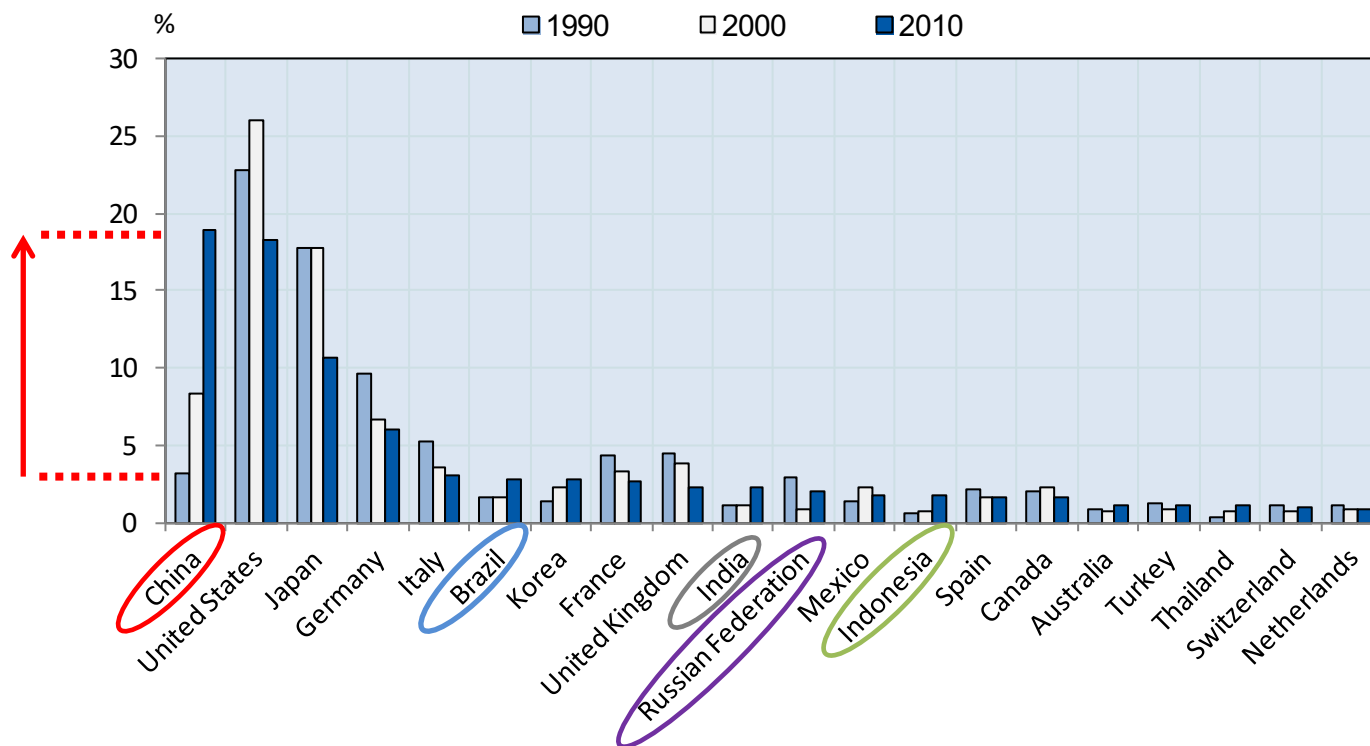
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- The impacts of Shifting Wealth (3):
- Changing the global geography of production

China is the main driver, but other countries are also contributing

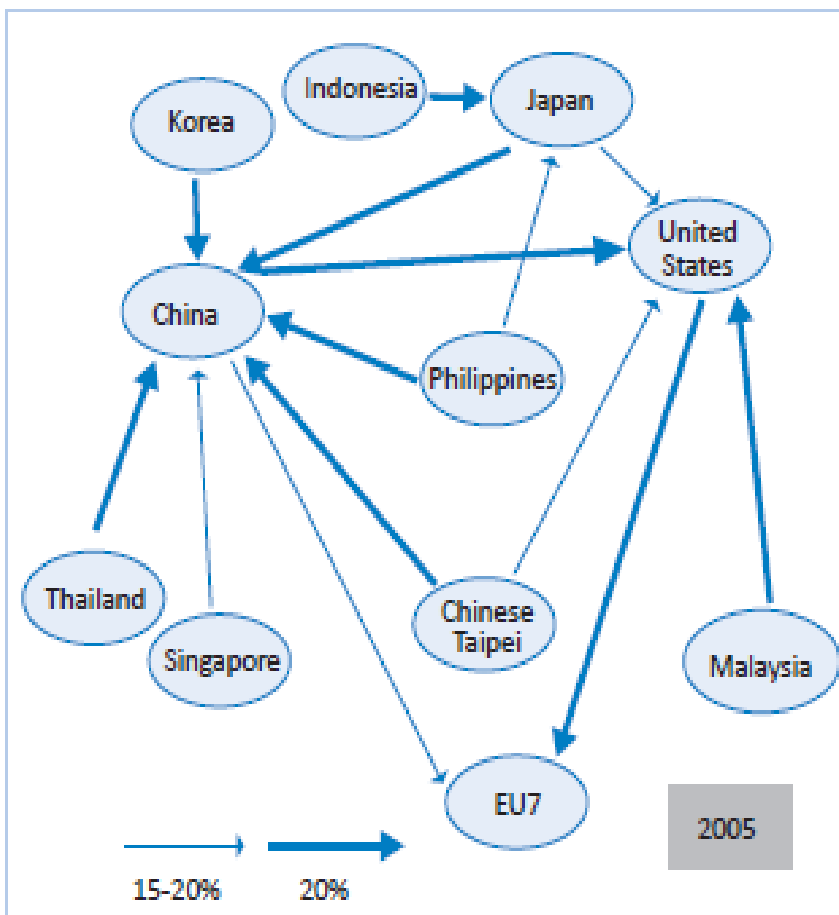
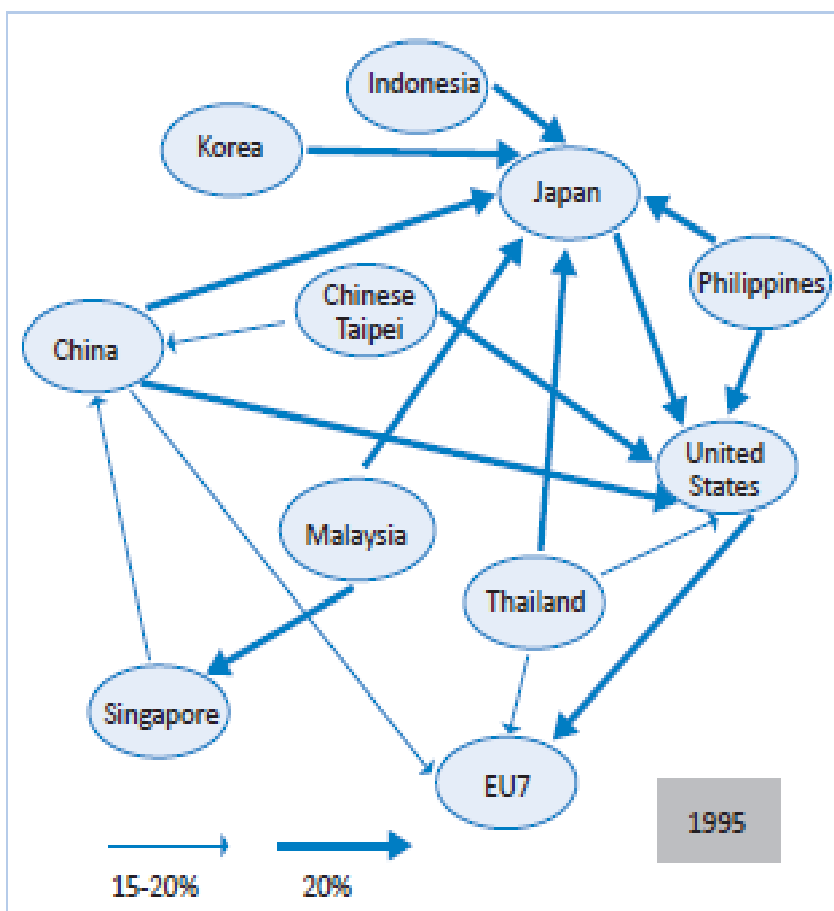
World top 20 manufacturers, 2010

Country share in total world manufacturing value added



Partners for intermediate exports of goods and services 1995 vs. 2005 - OECD 2013

Asian economies are increasingly integrated with China through supply chains



Southern Multinationals: Threats and Opportunities for European Policy. In Search of a Sound Industrial Policy

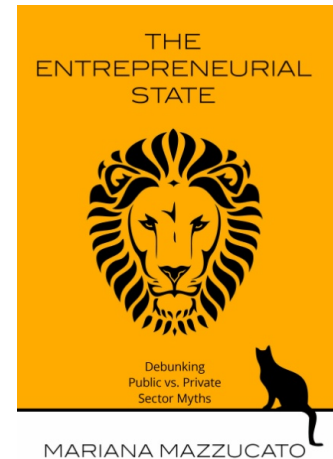
The OECD (2013) shows we have empirical and theoretical knowledge about what works and what does not work:

Avoid:

- Indiscriminate subsidies
- Never-ending support
- “Cathedrals in the desert”
- Preventing competition
- Closed-door bureaucracy-led prioritisation
- Capture by incumbents
- Low critical mass for investments
- Short-term horizon and annual budgeting
- Lack of monitoring and evaluation mechanisms

EU Investment Policy & Industrial Policy – Innovation for competitiveness

The Entrepreneurial State explores the leading role that the State plays in generating long run growth in modern capitalism. An important reason why the concept of market failure is problematic in understanding the role of government in the innovation process is that it ignores a fundamental fact about the history of innovation: not only has government funded the most risky research but it has indeed been the source of the most radical, trail-blazing types of innovation. To this extent it has actively created markets not just fixed them. It has led in the development of key 'General Purpose Technologies' such as the US 'mass production' system, aviation technologies, space technologies, information technology, Internet technologies and nuclear power. In each case it was not just funding innovation or creating the right conditions for it, but also envisioning the opportunity space, engaging in the most risky and uncertain early research, and overseeing the commercialization process. Far from the often-heard criticisms of the State potentially 'crowding out' private investments, such bold 'mission-oriented' public investments (amongst decentralized public actors) created new opportunities that later the private initiative seized. In detailed case studies of the investments that led to the IT revolution, the biotech revolution, and the emerging 'green' revolution, The book highlights the entrepreneurial—risk taking— investments that global public agencies have made along the entire innovation chain before the private sector invested. all the technologies behind the iPhone possible (internet, GPS, touch-screen display, Siri), the book asks a key question about the distribution of risks and rewards: Who will fund the next technological wave, if companies like Apple and Google pay so little tax?



EU FDI policy implications

How these competences will affect: economy, power and politics at domestic and international level.

- Law ...Treaty powers between the EU and the MS (Chaisse, 2012; Krajewski, 2005).
- Politics: Enable the EU to finally leverage its collective power of bargaining (Niemann, 2012; Meunier, 2013).
- Economic policy: growth, employment, innovation and competitiveness (Further research to be done. Blomkvist, 2012).

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