

International Efforts to Liberalize FDI

- “Problem” policies:
 - local content requirements
 - export performance requirements
 - foreign exchange restrictions (restrictions on profit and capital repatriation)
 - technology transfer
 - employment requirements
 - equity restrictions (foreigners allowed to own only so much--49%).
 - absence of dispute settlement mechanism like WTO's

From the “Code of Conduct” to the MAI

- Code of Conduct: Since 1970s, rich countries (OECD) operated under a code grounded in principal of national treatment
- Uruguay Rd and TRIMs: 1994, national treatment norm extended to include poor nations. However, limited progress in many areas.
- Multilateral Agreement in Investment (MAI)
 - Between 1995-99, rich countries try (but fail) to develop a comprehensive agreement on FDI

Origins of the MAI

- **Institutional Considerations:** MAI a stand-alone agreement (outside of WTO) among subset of nations (OECD)
- **Institutional Advantages**
 - Small group setting (similar, like-minded countries)
 - Amenable to major liberalization (no poor countries to mollify).
- **Institutional Disadvantages**
 - Limited possibility of reciprocity (trading of concessions).

Why did the MAI Fail?

1. Cross-national differences in goals.

- Helm's Burton
- “cultural” investments

* Few possibilities for concession trading
(absence of reciprocity).

2. Opposition labor/environmental groups

- Strong anti-FDI opposition from labor/enviro
- Weak pro-FDI lobbying from Business

*** (1) is an international argument while (2)
is domestic-societal***

Evaluating the claims of Labor Groups

- Does outward FDI “export jobs”?
 - Answer: On net, no, but some jobs are lost (low skilled sector) while others are created (in high skilled sector).
- Does outward FDI lower wages at home?
 - Answer: on net, no, but some wages rise and some fall (Stolper-Samuelson works here too).
- Does outward FDI reduce worker bargaining power?
 - Answer: Probably. Firms can threatened to move abroad is labor unions don’t relent.