Business for Development
Implications for Export Strategy-Makers
Strategic Alternatives? - FDI and In-Country Business Alliances

The Issue: National strategy-makers tend to assign highest priority to foreign direct investment (FDI) as the means for creating new export capacity and value-addition in the national export mix.

Competition for FDI is, however, intense and will become even more so if forecasts prove to be correct that FDI inflows will continue the current downward trend.

Of additional concern to strategy-makers in most developing countries should be the fact that FDI inflows into the “developing world” are highly concentrated on a few of the larger “host” countries.

In this situation, “best practice” suggests that national strategy-makers should be looking to alternative means, other than FDI, to generate new export and competitive capacities.

The Proposition: Strategy-makers must attach greater importance to supporting in-country business alliances as a means of creating new export capacity and competency.

At present, insufficient attention is paid to the potential contribution such alliances can make to competitiveness and export performance.

Indeed, the strategic emphasis should not simply be on promoting such commercial alliances, but on directly supporting them.

An integrated set of initiatives is required to establish the necessary environment for in-country business alliances to flourish. These initiatives should promote and support such in-country business alliances as:

- Industrial clusters designed to create production efficiencies and commercial synergy
- Backward/forward linkages between established exporters and local suppliers of materials, components and value-added services
- Agricultural alliances such as export production villages and contract farming
- Entrepreneurial and innovation partnerships between micro, small and medium enterprises, universities and research institutes, and export-oriented firms.

While not representing an alternative to FDI, in-country business alliances can make a critical contribution to export performance. This call for a more balanced approach to export capacity development is therefore required.

Focus of Debate: It is proposed that the debate focus on the following three “best practice” statements.

1. Strategy-makers should shift the balance from promoting FDI to directly supporting in-country business alliances.
2. Initiatives launched by developing countries to create new export capacity through in-country business alliances are suitable for application in other countries.
3. While in-country business alliances are, by definition, a private sector undertaking, it is imperative that the public sector is to act as the catalyst and that this role be reflected in national strategy.