

# **FDI & jobs**

## **Is employment creation a specific objective of foreign direct investment promotion?**

A background paper for  
the Policy Integration Department of  
the International Labour Office

Frank Vorhies  
[fvorhies@earthmind.net](mailto:fvorhies@earthmind.net)

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### **Website**

The documents referenced in this paper, as well as other related materials, are available at: <http://earthmind.net/fdi> (username: fdi - password: jobs)

## **1 Introduction**

Interest in this study is motivated by two circumstances in the world today. First, ILO research shows that there has been a decline in the employment content of growth since the late 1990s. In other words, the “employment threshold” of growth, or the rate of output growth required for net employment creation to occur has risen. Second, the IMF has documented historically low levels of global savings and investment at this stage of the business cycle.

The consequence of these two trends is that the nexus of growth, investment, and employment creation appears to have weakened. While there may be many reasons for this to have occurred, one factor might involve the employment content of foreign direct investment (FDI). For example, while the recent World Investment Report shows a resurgence of FDI, previous such reports have noted a rising share of FDI that is engaged in mergers and acquisitions, rather than in so-called “greenfield” investments. High levels of foreign investment, therefore, could be consistent with minimal employment creation.

One question that arises in this context is the extent to which national agencies for investment promotion make explicit reference to the objective of employment creation when policies are put in place for the purpose of attracting FDI. This study undertakes a rough empirical stocktaking of the degree to which the employment objective is an explicit criterion of investment policy. It also reports on the findings and perspectives of relevant reports and experts. (See Appendix C for a list of references.) The study concludes with a set of recommendations.

## **2 Agencies for investment promotion**

Most, if not all, countries have one or more official agencies set up to promote foreign direct investment. Many of these agencies are members of the Geneva-based World Association of Investment Promotion Agencies. WAIPA is a relatively young association established in 1995 as a Swiss non-governmental organization. Current WAIPA has more than 175 member agencies from all parts of the world. (See Appendix A.)

WAIPA acts as a forum for investment promotion agencies to provide networking opportunities and facilitate the exchange of best practices in investment promotion. The topic of employment, for example, is expected to be addressed in the WAIPA’s 2006 World Investment Conference, taking place in early March in Geneva, Switzerland.

A survey of the websites of the WAIPA membership was undertaken for this study. Of the roughly 200 members listed on WAIPA website, just over 160 of their websites were reviewed for explicit or implicit linkages between FDI promotion and employment creation. Though, on the whole, the sites highlighted the importance of FDI for economic development, only 50% of them made some reference to employment creation in the context of FDI.

As investment promotion sites, they naturally focus on the benefits of investing in their respective countries. In this context, many of the sites highlight the affordability and the quality of the workforce and also the flexibility of national labour laws. Explaining why the labour situation is good for FDI, however, is different than explaining how FDI is good for employment.

Explicit references to employment creation on the sites usually refer to employment creation as a rationale for FDI. The emphasis here is almost always on the quantity of jobs created by FDI. The quality of the jobs, their sectoral and geographic distribution, and the working conditions resulting from FDI do not feature. A notable exception to this is the site of the Invest in France Agency which provides extensive information on the linkages between FDI and the labour markets.

In some instances, employment creation is presented as a criterion for approval of an investment project. Here the emphasis is also on numbers of jobs created and not on the quality of the jobs. With the trend towards liberalised financial flows, however, very few countries have regulated processes for FDI.

Rather than regulatory approaches, the sites often highlight their incentives schemes available to foreign direct investors. Surprisingly few sites market incentives for employment creation. It may well be that in some countries employment incentives do exist, but these have not been picked up by their investment promotion agencies. The notable exception can be found in the European Union. Within the EU, there are established programmes to subsidise job creation in particular regions or sections. Where such employment incentives exist, they are usually in the form of tax breaks or subsidies and they are marketed on the sites of the national investment promotion agencies.

Virtually no references were found to the indirect employment impacts of FDI. Nor was there a focus on FDI promotion as a catalyst for improvement employment conditions, labour standards, and workers' rights. On the other hand, however, the quality of the labour market was often used as a reason for FDI.

By way of demonstrating how employment creation is addressed on the websites of investment promotion agencies, examples of explicit references are listed in Appendix B. These are grouped under three broad topics:

- employment creation as a rationale for FDI,
- employment creation as a criterion for FDI approval, and
- employment creation as a criterion for FDI incentives.

First, regarding employment creation as a rationale for FDI, this rationale is widely accepted and promoted within the investment promotion community. Reports on the level of investment and the associated number of jobs created are often cited on their websites. Understandably, however, the investment promotion sites do not provide in-depth analyses of the linkages between FDI and employment creation. Their mandates are to attract foreign capital, not create domestic jobs.

Nevertheless, FDI is generally believed to be good for employment. For example, Fiji “recognises that it is only through high levels of investment ... that the economy of the Fiji Islands will sustain ... the creation of new employment.” Uganda sees FDI “as a catalyst of national development, export growth and job creation” and the UK states that “inward investment brings job and wealth creation.”

Second, regarding employment creation as a criterion for FDI approval, of those countries that have a more explicit regulatory approach to FDI, surprisingly few have such a criterion. For those that do, such as Kiribati and Mauritius, the number of domestic jobs created features in their FDI application procedures. The emphasis here is on the quantity of jobs created and not the quality of the jobs.

To the extent that decent work is a core element of sustainable development, it would seem that there is an opportunity here for the ILO to assist governments who regulate FDI and their investment promotion agencies in the development of decent employment criteria for FDI applications.

Third, regarding employment creation as a criterion for FDI incentives, as noted, this does feature on some investment promotion websites, particularly for EU countries. For example, the Wallonia region of Belgium states that “the creation of new jobs is a determining factor in ... its decision to give a financial incentive to a new investor.” Additionally in

France “several forms of financial support are available to encourage companies to invest, create jobs and train their employees.”

Interestingly, most of the employment creation incentives for FDI are found in developed countries, while the need for decent employment creation is probably greater in developing countries. Again, there may be an opportunity here for the ILO, governments and their investment promotion agencies to review and assess existing employment incentive programmes and to share these experiences with other countries that could be doing more to encourage employment-generating FDI.

### **3 Findings and perspectives of relevant reports**

A literature search was undertaken with a focus on relevant institutional publications which might provide some insights into the impacts of FDI promotion on employment creation. These are grouped under four headings:

- ILO
- OECD
- UNCTAD
- Miscellaneous

The commentary in this section focuses on key insights from the documents regarding the impacts or potential impacts of FDI promotion on decent employment creation.

#### **3.1 ILO documents**

Though a comprehensive search of relevant ILO documents has not been undertaken, a selection of potentially relevant documents have been reviewed including the following:

- **Key Indicators of the Labour Market (2005)**

The summary of this major ILO report states: “A balanced strategy that leads to the creation of more productive and better paid jobs is the vehicle towards improved competitiveness that can also be sustained in the long run.” Such thinking, however, is not linked to FDI promotion.

In the press release of the report, ILO Director-General Juan Somavia explains: "Globalization has so far not led to the creation of sufficient and sustainable decent work opportunities around the world. That has to change, and as many leaders have already said we must make decent

work a central objective of all economic and social policies.” Again, in the context of globalisation, the role of FDI in the creation of decent employment opportunities should be addressed.

- **The Effects of Core Workers Rights on Labour Costs and Foreign Direct Investment: Evaluating the “conventional wisdom” (2001)**

In this International Institute for Labour Studies paper, David Kucera reports on the finds of his research: “In short, no solid evidence is found in support of the “conventional wisdom” that foreign investors favour countries with weaker worker rights.” If indeed FDI does not naturally flow to countries with “indecent” employment conditions, then it would seem that promotion of FDI could be shaped to have a positive impact on a country’s employment conditions and opportunities.

- **Promoting Sustainable Development for Sustainable Livelihoods (2005)**

Although this paper does not explicitly cover FDI, it suggests that the promotion of, and investment in, sustainable livelihoods can generate investment opportunities in growing non-polluting sectors which can contribute to converting economic activities towards job creation in environmentally sustainable sectors. For countries at all levels of development, labour-intensive infrastructure development can provide a cost-effective means of job creation that protects and restores the environment. There may be an opportunity here to link the objectives of FDI promotion, employment creation and sustainable development.

### **3.2 OECD documents**

The OECD has an interest in FDI flows both within its membership – primarily developed countries – and between its membership and developing countries.

- **Business Dynamics And Policies (2004)**

This study questions the belief that “New firms are thought to be especially innovative and to play an important role as job creators. It finds that “Reflecting the small average size of entrants relative to incumbents, job creation rates associated with firm entry are significantly lower than firm entry rates.” The implication here is that FDI is not necessary a major factor in new employment creation.

- **Checklist for Foreign Direct Investment Incentive Policies (2003)**

The document highlights the “veritable bidding wars” which are fought for large scale FDI and observes that one of the benefits of these is said to be job creation. The document also notes that investors can be faced with a shortage of qualified labour and that host governments will even go so far as to offer publicly-supported education programmes.

- **Corporate Responsibility Practices of Emerging Market Companies – A Fact Finding Study (2005)**

Interestingly, this paper notes that the OECD sees job creation as an outcome of the core responsibility of companies:

“The OECD views the primary contribution of business – its core responsibility – as the conduct of business itself. The role of business in society is to develop investments so as to yield competitive returns to the suppliers of capital. In so doing, companies create jobs and produce goods and services that consumers want to buy. However, corporate responsibility goes beyond this core function. Companies are expected to obey the various laws that are apply to them and, as a practical matter, must respond to societal expectations that are not written down in law books.”

Job creation, however, is not seen as a component of the broader responsibilities of companies. The linkages between FDI, employment creation, corporate social responsibility and sustainable development in emerging markets are not explored.

- **Globalisation: Coping with the Challenge (2005)**

This editorial covers job insecurity and how rising imports and outflows of FDI affect OECD countries. It concludes:

“Overall, claims that globalisation is the main cause of the labour market problems experienced by OECD countries are exaggerated. The process through which the gains from open markets occur, however, leads to adjustment costs. And these costs should be acknowledged and addressed mainly by general policy measures that compensate job losers while promoting re-employment chances.”

Clearly the implication here is that the FDI impacts on employment creation in development countries and employment loss in developed countries is a real issue and requires strategic attention.

- **OECD Handbook on Economic Globalisation Indicators (2005)**  
(Introduction and Table of Contents)

It does not appear that employment creation indicators have been developed.

- **The OECD Guidelines for Multinational Enterprises: (Revision 2000)**

The report suggests that through labour management practices multinational enterprises can create high quality, well paid jobs and play a positive role in helping to address the root causes of poverty in general and of child labour in particular. The guidelines make recommendations to “support local capacity building and to facilitate innovative capacities in science and technology in host countries“. They also recommend creating employment and training opportunities for employees within the higher skilled areas such as science and technology development work to address host countries’ market needs

- **Multilateral influences on the guidelines for multinational enterprises (2005)**

Though this paper notes the linkages of the guidelines to “various ILO instruments,” no linkages are made between policies for FDI and policies for employment creation.

- **Investing for development: The Policy Framework for Investment (2005)**

This article reports on the development of OECD’s Policy Framework for Investment (PFI). It states that “the most effective way to realise the full potential of investment is to put in place a range of conditions needed to attract and sustain those investments in the long term.” What it does not do, however, is to describe the concept of “full potential of investment.” And thus labour issues are seen as “human resource development” factor to attract FDI and not as a outcome of strategic FDI promotion.

- **Investment for Development – Investment Policy Co-operation with Non-OECD Economies (2005)**

This annual report clearly sees FDI as a driver for employment creation. It states:

“Rapid and sustained growth is facilitated by a virtuous circle whereby entrepreneurship and investment lead to higher productivity, making it possible to invest larger sums in the future. In the course of this process, jobs are created and new technologies are introduced, especially through international trade and investment linkages.”

The report further states that FDI provide significant development impacts through indirect job creation:

“FDI can create linkages that increase local value creation and result in substantial indirect employment creation in local companies that supply inputs to multinational enterprises (MNEs), either directly or through sub-contracting for other local companies. In many cases, the local supply companies are farmers, particularly outgrowers, or small and medium-sized enterprises.”

The report also highlights addition human resource impacts of FDI:

“MNEs in developing countries are consistently found to provide more training to their staff than comparable domestic enterprises. However, as they also enjoy a comparably high degree of staff loyalty, the spillovers through migration of labour are limited. One of the main sources of human capital spillovers is probably the entrepreneurship of individuals previously employed as specialist staff by MNEs.”

Various national and regional efforts are reviewed. For example, the report highlights the NEPAD-OECD Africa Investment Initiative which “aims at mobilising private investment for poverty reduction, job creation and sustainable development in Africa.” It notes that a number of African countries have made progress in mobilising foreign investment for job creation. The report also highlights the recently established MENA-OECD Investment Programme whose key objective “is to mobilise investment –foreign, regional and domestic– as a driving force for economic growth and employment throughout the Middle East and North Africa.”

The report also extensively covers the OECD approach to “meso” and “micro” interventions for enhancing development through investment. Regard labour issues, again the emphasis on developing human resources to attract FDI. Though targeted investment promotion measures to stimulate employment creation are not discussed, as this report makes clear, the OECD programmes on investing for development

is clearly a potential partner in an ILO initiative to encourage decent employment creation through FDI promotion.

- **Human Capital Formation and Foreign Direct Investment In Developing Countries (2003)**

This report synthesises literature on human capital formation and FDI and concludes that: “The literature indicates that a high level of human capital is no doubt one of the key ingredients for attracting FDI, as well as for host countries to gain maximum benefits from their activities.” Thus to the extent that countries have a demand for FDI, they may well undertake beneficial employment policies to attract FDI.

The paper also recognises a role for FDI promotion explaining that: “FDI promotion policies can target high value-added MNEs that are more likely to bring new skills and knowledge to the economy that can be tapped by domestic enterprises.” The paper further suggests that these policies should focus on “reforms to improve the investment climate” so as to attract such multinational enterprises.

- **A Policy Framework for Investment: Human Resource Development Policy (HRD) (2005)**

One of the four main elements of HRD is “a set of employment policies that connect people to business enterprises with the required skills to reap the maximum benefit from economic opportunities and to quickly adapt to new challenges”. The report argues that HRD “contributes to civil liberties, political stability, improved population health and reduced crime and corruption, advancing economic development and further attracting inward FDI”. Again, countries interested in FDI have an incentive to improve their labour situation.

### **3.3 UNCTAD documents**

UNCTAD pays particular attention to the role of FDI in economic development and in this context has an interest in the employment impacts of FDI flows. Its major publication on the topic is the annual World Investment Report. UNCTAD also has produced a number of country investment policy reviews – several of which are reviewed below.

- **World Investment Report 2005: Transnational Corporations and the Internationalization of R&D**

FDI is recognised as a source of improved employment conditions. In the host country, benefits are seen in the area of human resource development including the areas of R&D, employment, training, support to higher education and reverse brain drain effects.

- **Investment Policy Review – Botswana (2003)**

FDI in Botswana has been concentrated in capital-intensive mining. This has increased government revenues, but has had little direct impact on employment. FDI has also demanded a variety of skills. However, these are often acquired through the employment of expatriates. Thus there is some discrepancy between stated government policies welcoming FDI as a source of employment and the actual domestic employment it generates.

- **Investment Policy Review – Ecuador (2001)**

FDI in Ecuador is limited and mostly directed to the petroleum industry. However, the government is keen to change this situation and to diversify FDI into other sectors so as to capture perceived indirect benefits such as employment generation. In the late 1990s the government introduced a series of measures with the ambitious target of 20% of employment to be generated through FDI by 2003. It might be of interest to see if the measures have had the desired results.

- **Investment Policy Review – Egypt (1999)**

The review explains that FDI projects have generated employment, particularly in the country's new industrial zones, new communities and free zones. Also, in Upper Egypt where the investment projects are small in size and labour intensive, there has been a notable contribution to employment creation.

- **Investment Policy Review – Ethiopia (2002)**

In Ethiopia, it appears that FDI policies do not have national employment requirements. Nor do they have limits on hiring expatriate staff. A recent trend, however, to attract investment in relatively labour-intensive small and medium enterprises (SMEs).

- **Investment Policy Review – Ghana (2003)**

This report recognises that FDI in Ghana has had direct and multiplier effects on the level of employment, its quality, and the skills of the

labour force. In some sectors, such as mining, capital-intensive production has created relatively few low-skilled jobs, but it has led to productivity improvements and skills upgrading. FDI has also generated new occupational skills and higher wages in non-traditional exports, resulting in poverty reduction, particularly for rural households.

- **Investment Policy Review – Kenya (2005)**

For Kenya, FDI has also been an important source of employment in recent years. Notably there has been a rise in employment in the labour-intensive garment production sector developing in the Export Production Zone. Estimates are that 35,000 direct and 12,000 indirect jobs have been created.

- **Investment Policy Review – Lesotho (2003)**

In Lesotho, FDI in the apparel industry has also created new jobs, particularly for female workers. FDI is also seen as having created new skills and work attitudes. This sector, however, is focused solely on exports and thus does not have significant multiplier effects within the national economy.

- **Investment Policy Review – Mauritius (2001)**

FDI has been instrumental in diversifying the economy of Mauritius. This has led to rising exports and the creation of new skills and better paid jobs. The review observes that FDI helped lower unemployment rates from as high as 20% in the 1970s down to around 3% at the end of the 1980s. FDI in tourism sector – primarily in the development of luxury hotels – also created new direct and indirect employment opportunities. Interestingly, Mauritius has also encouraged FDI in services by encouraging the growth of an offshore banking sector and thus new jobs for accountants, lawyers, managers and auditors.

- **Investment Policy Review – Nepal (2003)**

The impact of FDI in Nepal has been modest with respect to job creation. Foreign affiliates, however, have imparted skills to local employees, and in a few instances have introduced new export products and upgraded technology. The FDI contribution to employment creation is most significant in the manufacturing sector, but the overall FDI inflows are so low that, all in all, FDI has not been a significant employment or development catalyst.

- **Investment Policy Review – Peru (2000)**

FDI has had a employment impact in the tourism sector. In light of this, the review surveys policies and measures to further encourage FDI in the tourism particularly in diversifying products and destinations.

- **Investment Policy Review – Sri Lanka (2003)**

In terms of employment, FDI has made a notable contribution in Sri Lanka. As of end 2000, an estimated 200,000 people were employed by foreign affiliates.

- **Investment Policy Review – Tanzania (2002)**

In Tanzania, the impact of FDI is, at present, confined to the transfer of technologies and skills. Because of pre-1990 policies, foreign companies are concerned about creating jobs which they may not be able to cancel easily should the need arise. Two sectors in which FDI is clearly having an employment impact, however, are mining and tourism.

- **Investment Policy Review – Uganda (2000)**

Perhaps the most visible aspect of FDI in Uganda has been its recent contribution to job creation. At the time of this review, FDI was expected to create nearly 100,000 jobs, half of which in the manufacturing sector. It would be interesting to see if the projections made in the review have proven to be correct.

- **Investment Policy Review – Uzbekistan (1999)**

This review recognises that FDI in the country's industrial sector will increase job opportunities and wages. Uzbekistan is also to include employment and social obligations in its FDI policy statements. Again, the results of these policies could be reviewed.

### **3.4 Miscellaneous documents**

- **African Labour Research Network (ALRN) Foreign Direct Investment (2003)**

The report argues that FDI through mergers and acquisitions does not generate employment at the time of entry into the host economy, and may lead to lay-offs as the acquired firm is restructured. Furthermore,

the type of jobs that are created are often characterised by poor working conditions and very low salaries.

- **European Central Bank Working Paper Series no. 401 (2004)**

The report recommends adding a variable measuring foreign profitability to the specification of wage or employment equations as a useful first step towards the incorporation of the FDI channel into (large-scale) econometric models.

- **The Economics of Foreign Direct Investment Incentives (2003)**

The report argues that the desired benefits of FDI include not only increased employment but also the prospect of knowledge spillovers.

- **The Value of Diversity: Foreign Direct Investment and Employment in Central Europe During Economic Recovery (2000)**

Beside of its effect on aggregate employment, the report argues that “FDI has a strong influence on domestic employment through: types of jobs created; regional distribution of new employment; wage levels; income distribution; and skill transfer.” FDI also operates as an important buffer by either generating or preserving employment thus preventing erosion of employment. However, FDI cannot operate as a complete substitute for domestic-led restructuring.

- **Globalization, Corporate Social Responsibility and Poverty (2005)**

FDI’s impact on poverty is limited by the relatively small numbers directly involved. UNCTAD estimates the total employment by TNC affiliates in developing countries to be 19 million in 1998. Furthermore, the direct and indirect effects of FDI are only rarely extend to include the poor.

- **Core Labour Standards and Foreign Direct Investment (2002)**

This report finds that FDI consistently had a positive impact on sector productivity, output and employment, although cases of large companies such as Wal-Mart moving into Mexico are expected to lead to a decline in employment as they gain market share.

- **The Truth about Foreign Direct Investment In Emerging Markets (2004)**

The report found that companies seeking to export cheaply produced goods are unambiguously positive for the local economy as they create jobs and boost output without threatening domestic companies.

Multinational corporations were found to have a positive or neutral effect on employment in two thirds of the cases studied. Both labour productivity and employment have increased moderately since 1995. When foreign companies have searched out new markets, the effects on employment have been mixed as benefits came at a cost to local less productive companies.

- **Creating an Investment Promotion Strategy (2005)**

The report shows that depending on the area, between 11% and 16% of jobs in the UK are created by foreign investors. Investors may only hold 2-3% of business sites but they have a disproportionate impact on employment levels.

- **Foreign Direct Investment by African Countries (2003)**

Though employment creation is a critical issue across Africa, this report does not identify any linkages between FDI and employment creation. It does, however, indirectly reference the possibility that FDI may be targeted to cheap labour.

- **Globalization and Workers in Developing Countries (2003)**

The report argues that although initially openness to trade can have a negative impact on wages, it only takes a few years for this effect to be reversed. Attention is also drawn to the definition of unemployment which is problematic in countries where the salaried relationship is not prevalent, and employment in household enterprises and farms is common.

#### **4 Comments from experts**

As part of the research for this paper, expert guidance from key institutions, including the World Bank Group, OECD and UNCTAD, was sought. Several of the reports referred to in the previous section were recommended by these experts. A selection of their comments follows:

Andrea Anayiotos of the IFC recommended that we look at reports from the OECD and UNCTAD. Nigel Ntwose of the World Bank noted that the subject of this review “has not been an area of focus for us, to date.” He also recommended that we look at reports from the OECD as well as McKinsey. It would seem, however, that for the World Bank, the linkages between FDI promotion, employment creation and poverty reduction could become an area of focus – perhaps in partnership with the ILO.

Pierre Poret of the OECD explained that “Certainly governments seek FDI because they think that this is going to bring inter alia more jobs. And if you look at IPA annual reports, typically they make an employment case for FDI by providing statistics on how many workers are employed by MNEs.” However, he also cautioned that “If you think on the other hand of performance requirements making mandatory the employment of x number of persons in order for the foreign company to be authorised to operate, these are banned by a number of investment treaties and are not a recommended practice by OECD more generally as most often being counter-productive.” Poret does note that: “Performance requirement accepted by the company as a condition to receive tax and other advantages is another matter.” These comments are important as they provide some guidance on the possibilities and limitations of explicit FDI incentives for employment creation.

John Potter of the OECD explained that “our FDI and Local Development reviews are not focused on stock-taking the degree to which employment is an explicit objective of investment promotion.” He went on to state that: “It's an interesting question. Basically everyone we talk to in the investment promotion business seems to have employment as an implicit objective, but of course often the full expected outcomes of investment promotion are not made explicit in documentation.” Interestingly, even for OECD countries an analysis of the linkages between FDI promotion and employment creation appears not to have been undertaken.

Hans Christiansen (OECD) observed that “I haven't often heard of employment being cited as an explicit criterion for investment policy in OECD member countries ... this partly reflects that fact that FDI policy regimes in most of the OECD - except for a few prioritised sectors here and there - are pretty liberal.”

Importantly, Christian also explained that: “Non-OECD countries are a different matter. In the context of our work with NEPAD and the Middle East and North Africa initiative we repeatedly come across countries which maintain elaborate screening and authorisation procedures for foreign direct investment. These often lay down a number of

macroeconomic benefits criteria to be taken into account by regulators - including, in many cases, direct job creation and/or a need to avoid competition with local "job generators" such as the low-tech parts of the service sector. Moreover, they sometimes make the generosity of their overall investment incentives (though generally not the access to free economic zones, etc.) dependent on employment criteria." These comments are especially interesting as the neither the websites of the investment promotion agencies nor the literature reviewed provide much information on the employment creation elements of FDI promotion policies and practices. Clearly, more direct research into this matter is needed.

Khalil Hamdani from UNCTAD made a strong statement that "just about every country includes the objective of employment creation in its strategy to attract FDI, usually explicitly. A number of countries also make employment creation a performance requirement for receiving incentives, and in a few cases for the entry of FDI." He then advises "If you want a specific stocktaking of the degree to which the employment objective is an explicit criterion of investment policy, you might consider sending a short questionnaire to the members of the World Association of Investment Promotion Agencies." Rather than undertaking a questionnaire, as discussed in detail above, an extensive review of investment promotion agencies websites was undertaken. As this review did not find much evidence of a focus on employment creation, further research might want to take up Hamdani's suggestion of a survey.

Fiorina Mugione of the UNCTAD suggested a look at their Investment Compass where "in the regulatory framework questionnaire we have taken up the issue of performance requirements, key workers scheme and other policy issues." Frank Gonzel of UNCTAD suggested we look at their investment gateway and its description of investment procedures. Unfortunately, neither of these appeared to provide clear linkages between FDI promotion and employment creation, but later refinements could include attention to such linkages.

## **5 Concluding remarks and recommendations**

To conclude, national agencies for investment promotion do not as a rule make explicit reference to the objective of employment creation when policies are put in place for the purpose of attracting FDI. Nevertheless, these agencies – as evidenced in a review of their internet sites – do recognise the importance of healthy labour markets for attracting FDI and they do recognise that employment creation is a powerful justification for FDI. (Please see Appendix B for a selection of relevant quote from these websites.)

The literature reviewed for this paper has also highlighted the importance of labour market conditions for FDI and the apparent impact that FDI has on employment creation. The explicit role of FDI promotion agencies in employment creation, however, is generally not addressed. Nevertheless, interestingly, the experts at the World Bank Group, OECD and UNCTAD contacted for this paper all appeared to express an interest in a greater understanding of the linkages of between FDI promotion and employment creation.

In light of these observations, the ILO may want to consider undertaking a more in-depth study of the current state of play and level of interest by governments. This could probably best be undertaken in partnership with the World Association of Investment Promotion Agencies and its members through a process of surveys and direct interviews.

Following such a more in-depth study, the ILO may then want to consider developing a set of practical guidelines for FDI promotion agencies regarding employment creation policies, practices and measures. These guidelines could perhaps be developed in partnership with the World Bank Group, OECD and UNCTAD. Such guidelines, of course, would need to take into account the ILO's objective of decent work.

Finally, and perhaps most importantly, the ILO may want to consider how FDI promotion as a core feature of globalisation and decent employment creation as a core element of sustainable development together provide evidence of the tangible impacts of globalisation on sustainable development.

In summary, the ILO has both an opportunity and a responsibility to further address the impacts of foreign direct investment promotion on decent employment creation.

## Appendix A : World Association of Investment Promotion Agencies (WAIPA) members (as of February 2006)

About 160 of the WAIPA members appear to have promotional websites. These are indicated with an X in the Web column.

Employment creation features directly or indirectly in about half of these and is indicated by an X in the Jobs column.

Country	Agency	Web	Jobs
Afghanistan	Afghan Investment Support Agency (AISA)	X	X
Albania	Albanian Foreign Investment Promotion Agency (ANIH)	X	
Algeria	Agence Nationale de Développement des Investissements (ANDI)	X	
Angola	National Agency of Private Investment (ANIP)	X	X
Anguilla	Ministry of Finance	X	X
Antigua and Barbuda	Industrial Development Board (IDB)	X	
Armenia	Armenian Development Agency (ADA)	X	
Aruba	Aruba Foreign Investment Agency (AFIA)	X	
Australia	Invest Australia	X	X
Australia	Invest Victoria	X	
Austria	Austrian Business Agency (ABA)		
Azerbaijan	Azerbaijan Investments Promotion and Advisory Foundation (AIPAF)	X	X
Bahrain	Bahrain Promotions and Marketing Board	X	
Bangladesh	Board of Investment (BOI)	X	X
Barbados	Barbados Investment and Development Corporation (BIDC)	X	X
Belarus	Belarusian Foreign Investment Promotion Agency (BFIPA)	X	X
Belgium	Flanders Foreign Investment Office (FFIO)	X	X
Belgium	Office for Foreign Investors Limited (OFI Ltd) in Wallonia S.A.	X	X
Belize	Belize Trade and Investment Development Services (BELTRAIDE)	X	
Benin	Centre de Promotion des Investissements	X	
Benin	S.K. Sarl, Agence des Promoteurs d'Investissements		
Bolivia	The Bolivian Agency for the Promotion of Exports and Investment (CEPROBOL)	X	
Bosnia-Herzegovina	Foreign Investment Promotion Agency of Bosnia-Herzegovina (FIPA)	X	
Botswana	Botswana Export Development and Investment Authority (BEDIA)	X	X
Brazil	Agencia de Promoção de Exportações e Investimentos (APEX Brazil)	X	
Brazil	Banco do Nordeste	X	X
Brazil	Instituto de Desenvolvimento Industrial de Minas Gerais (INDI)	X	

Country	Agency	Web	Jobs
British West Indies	Turks and Caicos Islands Investment Agency (TCInvest)	X	X
Bulgaria	Invest Bulgaria Agency (BFIA)		
Cameroon	Cellule de Gestion du Code des Investissements (CGCI)		
Canada	Investment, Science and Technology Brance (IIT)		
Cape Verde	Center for Tourism, Investment and Export Promotion (PROMEX)		
Chile	Foreign Investment Committee (FIC)	X	X
China	Ministry of Commerce (MOFCOM)	X	
Hong Kong, China	InvestHK	X	X
Macao, China	Macao Trade and Investment Promotion Institute	X	
Colombia	Invest in Colombia Corporation (COINVERTIR)	X	
Congo (Democratic Republic of the)	Agence Nationale pour la Promotion des Investissements (ANAPI)	X	X
Costa Rica	Costa Rican Investment & Development Board (CINDE)	X	X
Côte d'Ivoire	Centre de Promotion des Investissements en Côte d'Ivoire (CEPICI)	X	
Croatia	Trade and Investment Promotion Agency	X	X
Cuba	Centro de Promoción de Inversiones (CPI)	X	
Curacao (Netherlands Antilles)	Curacao Industrial and International Trade Development Company (CURINDE)	X	
Cyprus	Foreign Investors Service Centre		
Czech Republic	CzechInvestTop of Form	X	X
Denmark	Invest in Denmark	X	
Djibouti	Agence nationale pour la promotion des investissements (ANPI)	X	X
Dominica	National Development Corporation	X	X
Dominican Republic	Center for Export and Investment of the Dominican Republic (CEI-RD)	X	X
Ecuador	Corporación de Promoción de Exportaciones e Inversiones (CORPEI)	X	
Egypt	General Authority for Investment & Free Zones (GAFI)	X	X
El Salvador	Comision Nacional de Promocion de Inversiones (PROESA)	X	X
Estonia	Estonian Investment Agency (EIA)	X	X
Ethiopia	Ethiopian Investment Commission (EIC)	X	
Fiji	Fiji Islands Trade & Investment Board (FITIB)	X	X
Finland	Invest in Finland	X	X
France	Invest in France	X	X
French Polynesia	Tahiti Invest	X	
Gabon	Agence de Promotion des Investissements Privés (APIP)		
Gabon	Commission Nationale de Mise en Place de la Zone Franche de l'Île Mandji		
Gambia	The Gambia Investment Promotion and Free Zones Agency		
Georgia	Georgian National Investment and Export Promotion Agency (GNIEPA)	X	
Germany	Invest in Germany	X	X

Country	Agency	Web	Jobs
Ghana	Ghana Investment Promotion Centre (GIPC)	X	
Greece	Hellenic Centre for Investment S.A. (ELKE S.A.)	X	X
Guatemala	Guatemalan Development Foundation (FUNDESA)	X	
Guinea	Office de Promotion des Investissements Privés (OPIP)	X	
Guyana	Guyana Office for Investment (GO-INVEST)	X	
Haiti	Ministère du Commerce & Industrie		
Honduras	Foundation for Investment and Development of Exports (FIDE)	X	
Hungary	Hungarian Investment and Trade and Development Agency (ITDH)	X	X
Iceland	Invest in Iceland Agency	X	
India	Indian Investment Centre (IIC)	X	
India	Investment Promotion and Infrastructure Development Division	X	
India	Bureau of Investment Promotion Rajasthan (BIP)	X	X
India	India Brand Equity Foundation	X	X
Indonesia	Ministry of Investment & State Owned Enterprises	X	X
Iraq	Kurdistan Board of Promoting Investment (KBPI)	X	
Iran (Islamic Republic of)	Organization for Investment, Economic and Technical Assistance of Iran (OIETAI)	X	
Ireland	Industrial Development Agency of Ireland (IDA Ireland)	X	X
Israel	Investment Promotion Centre (IPC)	X	X
Italy	Italian Institute for Foreign Trade (ICE)	X	
Jamaica	Jamaica Promotions Corporation (JAMPRO)	X	X
Japan	Japan External Trade Organization (JETRO)	X	X
Jordan	Jordan Investment Board (JIB)	X	
Jordan	Aqaba Special Economic Zone Authority	X	
Kazakhstan	Kazinvest	X	X
Kenya	Investment Promotion Centre (IPC)	X	X
Kenya	Export Processing Zones Authority (EPZA)	X	X
Kiribati	Foreign Investment Commission	X	X
Korea (Republic of)	Gyeonggi Provincial Government - Investment Promotion Division	X	X
Korea (Republic of)	Korea Trade-Investment Promotion Agency (KOTRA)	X	X
Korea (Republic of)	Busan-Jinhae Free Economic Zone Authority	X	
Kosovo (Serbia and Montenegro)	Agency for Investment Promotion, Ministry of Trade and Industry		
Kuwait	The Inter Arab Investment Guarantee Corporation (IAIGC)		
Kuwait	Kuwait Foreign Investment Bureau (KFIB)		
Kyrgyzstan	Investment Promotion Center		
Latvia	Latvian Development Agency (LDA)	X	X
Lebanon	Investment Development Authority of Lebanon (IDAL)	X	X
Lesotho	Lesotho Tourism Development Corporation		
Lesotho	Investment Promotion Center (IPC)	X	X
Libya	Libyan Foreign Investment Board (LFIB)	X	
Lithuania	Lithuanian Development Agency (LDA)	X	
Macedonia	Privatisation Agency of the Republic of Macedonia		
Malawi	Malawi Investment Promotion Agency		

Country	Agency	Web	Jobs
Malaysia	Malaysian Industrial Development Authority (MIDA)	X	
Malaysia	Selangor State Investment Centre (SSIC)	X	
Malaysia	Kulim Technology Park Corp. Berhad	X	
Malaysia	Melaka State Investment Centre Berhad (MSIC)	X	
Maldives	Foreign Investment Services Bureau (FISB)	X	
Mali	Centre National de Promotion des Investissements (CNPI)	X	
Malta	Malta Enterprise Corporation	X	
Mauritania	Direction de la Promotion de l'Investissement Privé		
Mauritius	Board of Investment of Mauritius	X	X
Mexico	Mexican Bank for Foreign Trade (BANCOMEXT)	X	
Mexico	Secretaria de Promocion Economica (SEPROE)	X	
Mexico	Industrial Development Commission of Mexicali	X	
Moldova (Republic of)	Moldovan Export Promotion Organization (MEPO)	X	
Mongolia	Foreign Investment and Foreign Trade Agency (FIFTA)		
Montenegro (Serbia and Montenegro)	Montegegrin Investment Promotion Agency (MIPA)	X	
Morocco	Ministère de l'Economie et des Finances	X	
Namibia	Namibia Investment Centre (NIC)	X	
Nepal	Industrial Promotion Division	X	
Netherlands	Netherlands Foreign Investment Agency	X	
Netherlands	West-Holland Foreign Investment Agency (WFIA)	X	
New Zealand	Investment New Zealand	X	
Nicaragua	ProNicaragua		
Niger	Centre de Promotion des Investissements (CPI)		
Nigeria	Nigerian Investment Promotion Commission (NIPC)	X	X
Oman	Omani Centre for Investment Promotion & Export Development (OCIPED)	X	
Pakistan	Board of Investment (BOI)		
Palestine National Authority	Palestinian Investment Promotion Agency (PIPA)	X	X
Papua New Guinea	Investment Promotion Authority (IPA)	X	
Paraguay	Proparaguay	X	
Peru	ProInversión	X	X
Philippines	Board of Investments (BOI)	X	X
Poland	Polish Information and Foreign Investment Agency (PAIIZ)	X	X
Portugal	Invest in Portugal	X	X
Qatar (State of)	Investment Promotion Department	X	
Romania	Romanian Agency for Foreign Investments (ARIS)	X	
Russian Federation	Trade and Investment Promotion Agency (TIPA)		
Rwanda	Rwanda Investment and Export Promoting Agency	X	X
Saint Lucia	National Development Corporation	X	X
Saint Vincent and the Grenadines	National Investment Promotions Incorporated	X	
Samoa	Department of Trade, Commerce and Industry	X	X
Saudi Arabia	Saudi Arabia General Investment Authority (SAGIA)	X	

Country	Agency	Web	Jobs
Saudi Arabia	Royal Commission for Jubail and Yanbu	X	
Senegal	Investment Promotion and Major Works Agency (APIX)	X	
Seychelles	Seychelles International Business Authority (SIBA)	X	
Seychelles	Seychelles Investment Bureau (SIB)	X	X
Sierra Leone	Ministry of Trade, Industry and State Enterprises		
Slovakia	Slovak Investment and Trade Development Agency (SARIO)	X	X
Slovenia	Slovenian Trade and Investment Promotion Agency (TIPO)	X	X
Solomon Islands	Ministry of Commerce and Tourism	X	X
South Africa	Durban Investment Promotion Agency	X	
South Africa	Gauteng Economic Development Agency (GEDA)	X	
South Africa	Invest North West	X	
South Africa	Trade and Investment KwaZulu-Natal (TIK)	X	
South Africa	Trade and Investment Limpopo (TIL)	X	
Spain	Subdirección General de Inversiones Exteriores	X	X
Spain	Investment Promotion Agency of Catalonia (CIDEM)	X	X
Spain	Service Center for the internationalisation of the Catalan Companies	X	
Sri Lanka	Board of Investment of Sri Lanka (BOI)	X	
Sudan	Sudanese Investment Authority	X	
Swaziland	Swaziland Investment Promotion Authority (SIPA)	X	
Sweden	Invest in Sweden Agency (ISA)	X	
Tadjikistan	Agency for Promotion of Foreign Investments (APFI)	X	
Tanzania (United Republic of)	Tanzania Investment Centre (TIC)	X	
Tanzania (United Republic of)	Zanzibar Investment Promotion Agency (ZIPA)	X	X
Thailand	Office of the Board of Investment (BOI)	X	
Trinidad and Tobago	Tourism and Industrial Development Company (TIDCO)	X	
Tunisia	Foreign Investment Promotion Agency (FIPA)	X	
Turkey	Under Secretariat for Treasury, General Directorate for Foreign Investment	X	
Uganda	Uganda Investment Authority (UIA)	X	X
Ukraine	Ukrainian Center for Foreign Investments Promotion	X	
United Arab Emirates	Dubai Development and Investment Authority (DDIA)	X	
United Arab Emirates	Dubai Airport Free Zone Authority (DAFZA)	X	X
United Arab Emirates	Ras Al Khaimah Free Trade Zone Authority	X	X
United Kingdom	UK Trade & Investment	X	X
United Kingdom	Manchester Investment Development Agency Service (MIDAS)	X	
Uzbekistan	Foreign Investment Agency		
Vanuatu	Vanuatu Investment Promotion Authority (VIPA)	X	
Venezuela	Consejo Nacional de Promoción de Inversiones (CONAPRI)	X	

Country	Agency	Web	Jobs
Yemen (Republic of)	General Investment Authority (GIA)	X	
Zambia	Zambia Investment Centre (ZIC)	X	X
Zambia	COMESA Regional Investment Agency	X	X
Zimbabwe	Zimbabwe Investment Centre	X	

## Appendix B : Employment creation references on investment promotion agency websites (as of February 2006)

As an indication of how the issue of employment creation is addressed in the websites of investment promotion agencies, this appendix presents a selection of quotations grouped under three themes: (a) employment creation as a rationale for FDI, (b) employment creation as a criterion for FDI approval, and (c) employment creation as a criterion for FDI incentives.

### (a) Employment creation as a rationale for FDI

- **Anguilla:** “enabling the private sector to undertake the necessary investments in the economy to generate the wealth, jobs and incomes”
- **Barbados:** “efforts will be concentrated in the areas of job creation”
- **China (Hong Kong):** “The investing companies expect these projects to lead to the creation of over 7,900 jobs.”
- **Congo (Democratic Republic of):** “new investments will generate new jobs and thus, noticeably reducing unemployment”
- **Costa Rica:** “the creation of direct employment through FDI companies, which to a great extent are located in the free zones”
- **Denmark:** “In 2005 Invest in Denmark participated in 36 investment projects and created 731 jobs.”
- **Dominica:** “main focus at this time is to attract investments that would create jobs for Dominicans”
- **Dominican Republic:** “Strategically promote the valuable conditions that the Dominican Republic offers as an investment destination ... by pursuing priority areas as defined by the Dominican Government, to increase employment ...”
- **Ecuador:** “Foreign Direct Investment also generates employment of higher quality”
- **El Salvador:** “Foreign investment is directly or indirectly responsible for the more than 250 thousand jobs, which represent close to 15% of the country’s total employment.”
- **Fiji:** “Employment creation is one of the key objectives of Government. ... Government recognises that it is only through high

levels of investment ... that the economy of the Fiji Islands will sustain ... the creation of new employment”

- **France:** “In 2004, foreign investments in France created or maintained 33,247 jobs, a one-year gain of 8% and a 30% increase over two years.”
- **India:** “The government’s policy was to raise annual FDI flows into the country to \$10 billion in 2006-07 compared with an estimated inflow of \$7.5 billion in the current financial year. This level of FDI would also create 15 million more jobs.”
- **India (Rajasthan):** “The Investment Policy of 2003 ... will also have all-round impact leading to creation of additional employment opportunities ...”
- **Ireland:** “While the greatest proportion of new jobs will come in the future from the renewal process in the existing companies we will need to continue to seek out the best available inward investment.”
- **Japan:** “FDI ... invigorates the economy and creates employment.”
- **Kenya:** “correlation between FDI and high skill job creation in the services sector”
- **Korea (Gyeonggi):** “through investment inducement, Gyeonggi Province seeks to increase the income levels of provincial residents”
- **Korea:** “higher employment”
- **New Zealand:** “helps creates jobs”
- **Palestine:** “Investment in Palestine is being encouraged ... to increase private sector employment.”
- **Poland:** “Thanks to the investments 7,000 new jobs will be created.”
- **Seychelles:** “New investments will generate up to 3000 additional jobs in the tourism sector in the next 2 to 3 years, and 500 jobs in the fishing industry.”
- **Solomon Islands:** “Create an investment climate which will yield more jobs through increased foreign investment and by providing more development opportunities in rural areas.”
- **Tanzania (Zanzibar):** “The impact of the direct investments (FDI) in Zanzibar is evident when looking at the ... employment condition ...”
- **Uganda:** “FDI as a catalyst of national development, export growth and job creation.”
- **United Kingdom:** “Inward investment brings job and wealth creation.”

#### (b) Employment creation as a criterion for FDI approval

- **Afghanistan:** criterion of “job creation potential”
- **Bangladesh:** “encouraging investment in labour intensive manufacturing industries”
- **Botswana:** “sustained employment opportunities”

- **Brazil (Northeast):** “sustainability of jobs generated”
- **British West Indies:** “total employment from the project and number of Turks and Caicos islanders that will be hired”
- **Chile:** “number of jobs created”
- **Congo (Democratic Republic of):** “commit to train national personnel for specific technical functions, supervision and responsibility”
- **Egypt:** criteria for a “private free zone” includes “creating more job opportunity”
- **Kiribati:** “the potential employment of I-Kiribati (the indigenous population)”
- **Mauritius:** “A project is appraised and approved on the following criteria: ... job creation”
- **Peru:** promotes investments “that create more jobs”

**(c) Employment creation as a criterion for FDI incentives**

- **Angola:** “tax breaks for creating jobs”
- **Azerbaijan:** “implement measures necessary for the attraction and promotion of inflow of investments for creating ... new jobs in the country, and particularly in its rural regions”
- **Belgium (Flanders):** various employment incentives
- **Belgium (Wallonia):** “The creation of new jobs is a determining factor in ... its decision to give a financial incentive to a new investor.”
- **Czech Republic:** “Job Creation Support Programme For Regions Worst Affected By Unemployment”
- **Estonia:** “All companies established in Estonia can apply for financial support for ... employee training projects”
- **Finland:** EU-based subsidies to SMEs to “improve the employment situation”
- **France:** “Several forms of financial support are available to encourage companies to invest, create jobs and train their employees.”
- **Germany:** “A condition attached to the granting of investment subsidies is that the created permanent jobs have to be maintained over a period of at least five years ...”
- **Greece:** “Cash grant for the expenses of wages relating to the employment created by the investment.”
- **Hungary:** tax incentives for “Realising job creating investments”
- **Israel:** related to investment “the government has decided to establish an additional program to increase employment in the outlying areas of Israel as well as specific centers with high unemployment.”

- **Latvia:** “Employers intending to hire new employees from unemployed or socially castaway population can apply for subsidies in the Employment State Agency”
- **Lebanon:** incentives criteria include “impact of the investment project on local job creation”
- **Nigeria:** tax breaks for “labour intensive mode of production”
- **Philippines:** “Foreign investments shall be encouraged in enterprises that significantly expand livelihood and employment opportunities for Filipinos.”
- **Portugal:** “tax benefits for creating jobs”
- **Rwanda:** “estimated number of persons to be employed and categories of jobs to be created”
- **Samoa:** “labour intensive activities that assist in the development of employment opportunities for local workers are particularly welcomed”
- **Slovenia:** “series of measures for encouraging employment”
- **Spain:** incentives for “fostering of local job creation”

## Appendix C: References

For copies of these documents and other related materials, please see <http://earthmind.net/fdi> (username: fdi - password: jobs).

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