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My Brother's Keeper or Reaper? Justification and Effectiveness of FDI in Development

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Abstract: In debating whether FDI (foreign direct investment) is useful for a country's development, proponents of a retreat from international assistance overlook issues of unequal power and the powerful grip that industrialized nations retain on poor countries, whether through colonialism and neo-colonialism, unequal trade, and the destabilization of governments of poor countries by foreign powers. Through these measurements, resources and wealth flows from the poorer countries to the richer countries at an unfair, usually much lower, price. Thus, FDI would be proven useful. Moreover, the effects of FDI extend far beyond improving the economy of a nation, but also extend the living standard and decrease the social inequality of the receiver countries.
keywords: Foreign Direct Investment; Effects of FDI; Correlation Analysis

Introduction

"Am I my brother's keeper?" This quote comes from the Bible story of Cain and Abel. Cain murdered his brother Abel out of extreme selfishness and jealousy. When God later asks about Abel whereabouts, Cain replies by asking: "Am I my brother's keeper?" This famous quote is generally taken to suggest that all humans should be responsible for their brother/sibling's well-being, and by extension, the welfare of other humankind. Partly as an extension of this biblical principle, many analysts wonder about international assistance—specifically why the people in rich countries would have to give up their lifestyles to help people in poor nations, especially if it seems like their poverty is their own doing?

Proponents of a retreat from international assistance overlook issues of unequal power and the powerful grip that industrial nations retain on poor countries, whether through colonialism and neo-colonialism, unequal trade, and the destabilization of governments of poor countries by foreign powers. As European powers continued to colonize the rest of the world, the idea of mercantilism is that the world's wealth is finite. Thus, the global metropoles seek to control their colonial markets and make sure that they serve the interest of the mother country—These efforts are exemplified by the Navigation Acts published by the British Empire in the seventeenth and eighteenth centuries. The Navigation Acts included terms that restricted colonial exportation only to the master country and demanded that the colonies only import manufactured goods from their master country. The enforcement of this act ensured that all the colonies' resources would serve the mother country at low prices. At the same time, the colonists/indigenous people would have to purchase the manufactured goods at a much higher price, thus ensuring the benefit of the mother country and depriving the colonies of creating local wealth with their resources. Therefore, the case for foreign assistance can be made on the basis of reparations or effectiveness. The first requires evidence that colonies that were subjected to a long colonial experience paid a heavy economic price. The second requires evidence that FDI has beneficial economic effects on currently poor nations. We examine both ideas based on both a review of the literature and on correlation analysis of FDI receipt and economic growth and poverty reduction.

1. My Brother’s Reaper?

1.1 Economic Neo-Colonialism: Unequal Exchange

After the Second World War, the colonial system started to shatter as many former colonies sought to gain their independence. However, the unfair economic trade system did not disappear as much as they become more subtle, benefiting the more affluent countries at the expense of the development of their poorer countries. According to dependency theory, there exist two kinds of countries, the Asia & Africa-centered South (“periphery”) and the Europe & America-centered North (“core”). Resources and money usually flow from the poorer periphery to the core. In the modern trade system, the global north heavily relies on a large “net appropriation” from the global South, which mainly consists of cheap labor and resources. In 2015, this amounted to 10.1 billion tons of embodied raw material equivalences and 182 million person-years of embodied work from low and middle-income nations.Net appropriation benefits the core countries by utilizing the immensely different prices between the global north and the global South. For example, the average salary for skilled workers in the United States is $3258per month, while for India, the number is merely ₹15,524($209.10) per month. This considerable difference indicates that for every unit of embodied labor India imports from the United States, they would have to export 15.5 units to pay for it. This process is known as “unequal exchange”, and it implies a hidden transfer of value from the developing countries to the rich countries. As Karl Marx points out in his book Grundrisse, “One of the nations may continually appropriate for itself a part of the surplus-labor of the other, giving back nothing for it in the exchange, except that the measure here [is] not as in the exchange between capitalist and worker.” To better visualize this inequality in trade, Professor Gernot Köhler proposed the equation of value transfer:

$T=d*X-X$

-T: value transferred through unequal exchange

-X: exports from the periphery to the core

-d: ratio of periphery country’s ERDI (Exchange Rate Deviation Index) core country’s ERDI (15.5, in the example above). In the global north countries, the ERDI ratio is usually 1.

This equation indicates the additional income the peripheral country may earn if the northern and the southern government conduct a fair trade. From this equation, we can see that due to the enormous difference in ERDI, the trade inequality between rich and developing countries is also considerable, thus enriching the global north countries and impoverishing the global south.

Proponents of the net appropriation theory and the unequal exchange theory believe that the inequality between countries regarding labor wages and resource profits occurs because of both colonial and contemporary factors. During the colonial period, the colonizers deliberately hindered the industrial and economic development of the colonized countries for their better exploitation. For example, even after those colonies managed to gain independence, the newly born countries’ deformed industry left them with massive unemployment, combined with the citizen’s inadequate level of education, leading to the limited wage of domestic workers. Following their independence, the scarcity of manufactured goods meant that the developing countries had to accept the economic dominance of the rich countries and trade with them within their rules to survive. Furthermore, such dependence on the “core” countries means that the “periphery” countries must compete in terms of lower labor & resource prices to attract foreign investment, leading to an increasing unbalance between the core and periphery countries while trading, making the rich countries richer at the expense of the low living standard of their people.

1.1.1 Unbalanced International Trade System

Besides the unequal exchange, the international trade system is strongly biased toward the benefit of the more prosperous and powerful countries. For example, high-income countries obtain more power in trade and economic institutions such as the World Bank and the International Monetary Fund. In the IMF, for example, the vote shares are determined by the quota paid by each country. As a result, the more affluent countries with larger market sizes usually obtain a more prominent quote and, therefore, a more significant percentage of votes—the United States controls 16.50 percent of the voting power, Japan controls 6.14 percent, while smaller and

poorer countries, like Albania, only control 0.09 percent.This vast imbalance of voting power in such international institutions enables high-income countries to set their trade rules considering their benefits by forcing the poorer countries to remove specific tariffs and protections on their infant industries in the name of "market liberalization". Thus, the growth of the already vulnerable industries in the global southern countries is severely hindered, so they could never compete with the northern international countries. In Martin Khor's presentation "Rethinking Liberalization and Reforming the WTO", he points out that WTO does not serve the interest of the less-developed nations. Instead, a systematic bias exists toward the more developed countries and their megacorporation. His speech could be summarized into the following key point:

Rich countries could maintain high import tax rates on certain products, therefore blocking imports from poorer countries

Extreme agricultural protectionism in rich countries while pressuring the poorer countries to open their agricultural market to the developed countries.

The TRIPs (Agreement on Trade-Related Aspects of Intellectual Property Rights) require treaty members to respect intellectual property, copyrights, and patents.

According to UNCTAD, the rich countries' abusive usage of anti-dumping measures, export credits, tariffs, and quotas cost the developing countries $700 billion annually, which is a large sum considering their lack of money to improve their domestic living standards. Moreover, the TRIPs Agreement requires member countries to pay for the use of patents, thus limiting developing countries' ability to utilize technological patents that aremainly owned by developed countries. The inability to use patents in places like the pharmaceutical or agricultural industries hinders developing countries' healthcare and food supply.

1.1.2 Neo-colonialism: Foreign Intervention

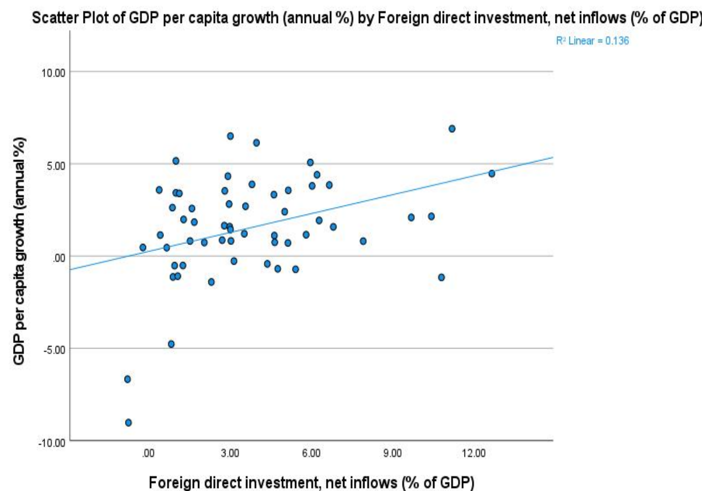
Moreover, during their colonial administration, the colonists deliberately created racial conflicts and famines to better control the indigenous people and profit more from their colonial administration. Since Belgian King Leopold II declared Congo as his own personal possession, massive atrocities were conducted against the people of Belgium. Leopold II ordered that every indigenous person who failed to meet their quota of rubber extraction would have their hands amputated as a measure to increase rubber production and benefit the Belgian export. Under such atrocities, as many as 10 million indigenous people died. Similarly, under the design of John Keynes and Winston Churchill of the British Empire, the Bengal Famine deprived 300 million people of their lives. John Keynes and Winston Churchill deliberately caused massive inflation in British India, resulting in this famine to divert the resources from the needs of the colonial population into war production. To reinforce their administration, the rich colonial powers also deliberately instigated racial conflicts in their colonies. An example would be Rwanda, where the Belgian colonists divided the people of the same race into the Tutsis and the Hutus since they believe that they could utilize the Tutsis, who are the minority, to help control the massive population of their colonies. However, after the colonial period ended, the racial problems quickly aggravated into a whole class conflict, and finally, the infamous and astonishing Rwanda massacre, resulting in 5 million causalities.

Even after decolonization, imperialism still prevails in the newly born countries, harming their potential and development. Many post-colonial countries were ruld by incompetent and corrupt leaders who only cared about their well-being instead of improving the lives of their citizens. Strong global north countries usually support those leaders to maintain their influence and privileges in that area. Unwilling to give up their colonial legacy in Africa, the former colonial superpowers, such as France and England, tried to maintain their influence by appointing pro-France/Britain presidents against the locals' will. Many appointed presidents are famous tyrants and dictators, such as Jean-Bedel Bokassa and Idi Amin. Their poor leadership supported by those global north colonial powers directly led to civil wars, poverty, and widespread corruption in the developing countries, aggravating the extreme domestic inequalities. When those Southern international governments attempted to move away from the sphere of influence for independent development, the Western powers often intervened to remove those leaders from power, such as in Chile in 1973, Burkina Faso in 1987, and the US invasion of Grenada in 1983. By such moves, the Western powers could control the resources at an extreme advantage at the expense of the widespread poverty and chaos in the global South countries.

2. My Brother's Keeper?

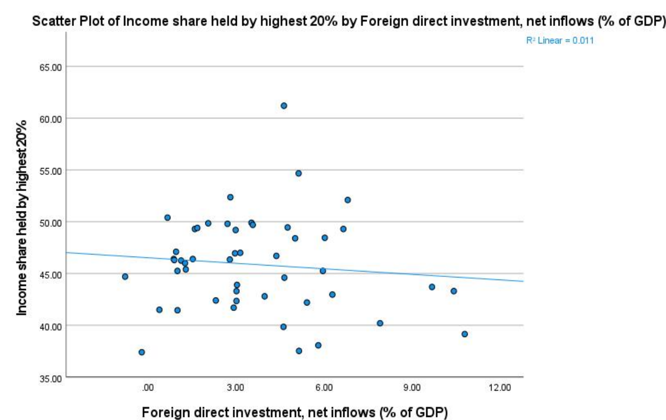
2.1 Effectiveness of Foreign Assistance

Due to the invisible transfer of wealth and unequal treatments of the poorer nations, many global southern nations have missed their best opportunity of development. However, there still exists solutions to cope with their domestic and international dilemma.



Graph 1-1 Foreign direct investment, net inflows

This graph (1-1) shows the correlation between the net inflows of the foreign direct investment and the growth of GDP per capita for African countries. For the African countries, with FDI, foreign companies with more capital and technology would be able to get involved with day-to-day operations of that FDI-receiving country, thus enhancing the knowledge and technology of that country, and thereby enhancing their economy. According to this graph, for all African countries except for Liberia and Mozambique, higher foreign direct investment usually leads to a higher GDP growth per capita. A higher GDP could translate into more money for those working in this country, and as a result, a reduction of poverty and starvation rates. FDI could be beneficial to both giving and receiving countries, where the giving countries could extend their market for more profit, while the receiving countries would be able to learn technology as well as providing more jobs for their civilians, thus lowering poverty rates.



Graph 1-2 Foreign direct investment, net inflows

The benefit of FDI from richer nations could not only prompt economic development, but it can also reduce poverty and inequality in the global southern countries. For example, this graph 1-2 shows the correlation between the net inflows of the foreign direct investment and the growth of GDP per capita for African countries. For the African countries, with FDI, foreign companies with more capital and technology would be able to get involved with day-to-day operations of that FDI receiving country, thus enhancing

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Conclusion

In conclusion, poor countries are poor not solely because of their own reasons. Some of that poverty and destitution is caused by rich nations because of colonial-era exploitation, but also because of post-colonial continued ambition to control former colonies , and the unfair global trade system decided by the minority rich nations. Those processes deprived the poorer countries of their independent development and industrialization and they contribute to the continued subjugation of countries at the global periphery. The only way to alleviate such plights in those countries would require more investments from the global richer countries.

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