

Response to referee report on

Theodore Moran, Holger Görg, Adnan Serić, and Christiane Krieger-Boden (2018). Attracting FDI in middle-skilled supply chains. Economics Discussion Papers, No 2018-2, Kiel Institute for the World Economy. <http://www.economics-ejournal.org/economics/discussionpapers/2018-2>

Dear Reviewer,

Thank you for your very thoughtful comments and valid objections. We reformulated and rearranged parts of the paper in order to meet your suggestions and those of an earlier commentator. To answer your comments in more detail:

- 1) *“Focus of the paper: In the abstract the authors put an emphasis on attracting quality FDI. On p. 2 the authors state that they are interested in the question under what conditions the quality of FDI can be enhanced. Given the fact that policy recommendations might differ depending on whether the focus is on attracting quality FDI (better market access, protection of IPRs, improved infrastructure etc.) or on improving the contribution of FDI to the development of the host country (education, training, matching programmes etc.) I would suggest that the authors make clear what the specific focus of the paper should be.”*

The idea is that the developing countries should try to attract a portfolio of FDI engagements linking back into their indigenous economy and thereby being a benefit to this indigenous economy. This requires both: to look out for the right “bride” and to adequately “dress up” for her. In our view, “education, training, matching programmes” are at least partly an element of this dressing-up requirement. We deal less with the task of making the host economy more responsive to impulses from FDI, but we think that this can hardly be separated from the task of dressing-up.

- 2) *“Framing: the paper starts with a classification of different types of FDI. I would suggest to include information about the classification of FDI types and their pros and cons in a separate text box. Instead, I would suggest to write the first paragraphs in a way that it attracts the attention of policy makers in FDI host countries (I guess this is the main target group). Why are your suggestions of relevance for a policy maker hoping to attract quality FDI? Why do you write this paper now? What is new and surprising? Also, a bit more framing might be useful. Why not link this paper to broader policy discussions about the 2030 Agenda for Sustainable Development or the Addis Ababa Action Agenda (AAAA)?”*

We followed your suggestions and reformulated our introductory overview.

- 3) *“Policy suggestions: You provide a list of 13 suggestions (and three notes of caution and three suggestions for external actors). This is a lot! They range from very general suggestions (open up markets) to rather specific ones (set up vendor development programmes). From my perspective, this list is too long and unprioritized to be of use for policy makers. I see different options to deal with this: cluster the suggestions into broader sets of interventions, or priorities (what should be done first? What are general suggestions? What is needed to specifically promote quality FDI?), or who should do what? Furthermore, I am missing a focus on improving the institutions of the home states that are needed to implement many of the reforms you suggest (this publication*

might be useful in this respect: <https://www.cambridge.org/core/journals/world-politics/article/the-middle-income-trap/68926E62CA9AE38B9D48FDA3E572AC62>).”

The paper is supposed to provide a comprehensive overview of evidence-based measures, as far as we are aware of them. Leaving out measures that have proven to yield promising results would reduce this overview character of our paper. Of course, there might be studies that escaped our attention, and of course, we agree with your assessment that institutional reforms are essential, so thank you for your hint. However, so far, we do not know of studies that put forward well-designed and successfully-tested means to overcome deep-rooted institutional deficiencies.

As to prioritization and sequence of measures: Since our paper summarizes the evidence from various single studies that are in no way interrelated to one another, we cannot answer the question what of the suggested policy actions might have the largest impact, and what would be the best sequence of the suggested policy actions. Still, the order in that the measures in our paper appear should indicate our ideas as to where to start, what to do next, and so on. Actually, we rearranged this order a bit to make it more plausible.