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Agenda item 3

**IMPACT OF INTERNATIONAL INVESTMENT FLOWS ON DEVELOPMENT:
THE IMPACT OF FDI POLICIES ON INDUSTRIALIZATION, LOCAL
ENTREPRENEURSHIP AND THE DEVELOPMENT OF SUPPLY
CAPACITY OF DEVELOPING COUNTRIES, IN PARTICULAR
THE LEAST DEVELOPED COUNTRIES**

Agreed recommendations¹

1. The Commission took note of the secretariat documents available for consideration under this item.²
2. The Commission noted that most Governments acknowledge today that foreign direct investment (FDI) can provide important benefits for the development of host countries. Governments seek to implement policies that enhance the beneficial impact of FDI, while seeking to avoid any possible negative effects. One aspect of the developmental dimension of

¹ As adopted by the Commission at its closing plenary meeting on Friday, 25 January 2002.

² “World Investment Report 2001, Promoting Linkages” (UNCTAD/WIR/2001); “The impact of FDI policies on industrialization, local entrepreneurship and the development of supply capacity, policy issues to consider” (TD/B/COM.2/EM.10/2); “Report of the Expert Meeting on the Impact of FDI Policies” (TD/B/COM.2/35); “Impact of international investment flows on development: the impact of FDI policies on industrialization”, note by the UNCTAD secretariat (TD/B/COM.2/38); “Comments made by member States on the Outcome of the Expert Meeting on the Impact of FDI Policies on Industrialization, Local Entrepreneurship and the Development of Supply Capacity” (TD/B/COM.2/CRP.3); “Report of the Expert Meeting on Mainstreaming Gender in order to Promote Opportunities” (TD/B/COM.3/40).

FDI is the link between FDI and industrialization, export competitiveness and development of local supply capacity. However, benefits cannot be taken for granted. The extent to which the developmental impact of FDI can be enhanced depends on many factors, including the corporate strategies that drive the FDI, the cost and risk concerns of potential investors, and the appropriate conditions for the realization of potential benefits. Host country policies play a key role in this respect, and home countries and the international community can contribute to that effect.

3. The Commission accordingly made the recommendations set out below.

A. Governments

4. Beyond setting up an open and transparent investment framework nationally, Governments in host countries are encouraged to consider cost-efficient ways of promoting FDI policies that are consistent with their country's overall development objectives and industrialization strategies, taking into account the country's capacities and opportunities, and fully involving the private sector. A good knowledge of corporate strategies would support effective implementation of such policies.

5. For the implementation of FDI promotion policies, it is recommended to provide an efficient institutional and administrative framework, consisting of a lead agency, and benefiting from good coordination among government agencies and departments, as well as a strong political commitment and close interaction with both domestic and foreign-owned companies. Governments are encouraged to consider a targeted approach to FDI promotion policies which are transparent, use limited resources in the most efficient way, and are adapted to and develop with the country's evolving strategic goals (such as employment generation, domestic market development, export development, technology inflow and upgrading of domestic industries).

6. To increase the beneficial leverage of FDI on the host economy, Governments are encouraged to pay special attention to promoting linkages between foreign affiliates and local suppliers and service providers. The extent of linkages will much depend on efforts to upgrade the technology and capacity of local enterprises, and to enhance the skills and capacity of the local workforce. Governments are therefore encouraged to consider setting up an institutional and administrative framework to implement and monitor an efficient and

targeted linkage promotion programme. Policies play a role in promoting linkages, through various measures to encourage the integration of foreign affiliates and the contribution they can make to local enterprise development. Government measures, including performance requirements, consistent with international rules can play a role.

7. Governments are also encouraged to assess how FDI policies impact on gender equality in the economy in general and in individual FDI-intensive industries and sectors. Support should be given to women entrepreneurs. Recording statistics taking into account a gender perspective would be useful.

8. Home countries should share experiences in targeting and linkage promotion, and assist in this respect. Taking into account the special needs of the least developed countries (LDCs), home countries are also encouraged to provide financial assistance to developing countries for the establishment of an appropriate framework for FDI promotion and linkage development.

9. Improved access to developed country markets for products and services from developing countries, especially from the LDCs, can help those countries to attract FDI.

B. The international community

10. Taking into account the special needs of the LDCs, international institutions dealing with FDI should assist developing countries and countries in transition in setting up an appropriate institutional framework and identifying concrete measures to encourage the formation of clusters, and linkage promotion.

11. International institutions are encouraged to intensify their efforts in assisting developing countries to set up appropriate financial frameworks and instruments with a view to helping local enterprises in benefiting from foreign investments and promoting linkages with transnational corporations.

12. Cooperation and coordination among United Nations agencies and other relevant institutions on these issues are desirable.

13. The international community should assist the LDCs in building and improving the infrastructure necessary for attracting FDI.

C. UNCTAD

14. Taking into account the special needs of the LDCs, and in line with the Bangkok Plan of Action, UNCTAD should:

- (a) Continue to analyse the international systems of production, by sector and industry, and make the information thus obtained available to member countries, and, where relevant, take into account a gender perspective;
- (b) Assist developing countries in assessing their existing capabilities in line with their competitive situation in the international market and defining policies accordingly in order to maximize the benefits derived from FDI;
- (c) Help developing countries to design, implement and monitor FDI targeting and linkage programmes consistent with their industrialization and development strategies;
- (d) Disseminate information on successful experiences of FDI targeting and linkage programmes;
- (e) Conduct, in cooperation with other international organizations, regular research on and analysis of FDI policy approaches and options, based on country experiences, as related to such development aspects as the role of performance requirements, the relationship between foreign and domestic investments, and the impact of FDI on the balance of payments;
- (f) Undertake a study on the impact on FDI flows to LDCs resulting from the phasing out of market access preferences.