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DRAFT REPORT OF THE COMMISSION ON INVESTMENT, TECHNOLOGY AND RELATED FINANCIAL ISSUES ON ITS SEVENTH SESSION

20–24 January 2003

Rapporteur: **Ms. Visitacion Asiddao (Philippines)**

Introduction and organizational matters

Speakers:
Deputy Secretary-General
Thailand (for the Group of 77 and China)
India (for the Asian Group and China)
Benin (for the LDCs)
Morocco (for the African Group)
Greece (for the European Union)
Bangladesh
Switzerland
Venezuela (for GRULAC)
Director of DITE

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I. OPENING STATEMENTS

1. The **Deputy Secretary-General of UNCTAD,** in his opening statement on behalf of the Secretary-General of UNCTAD, welcomed the delegates to the seventh session of the Commission on Investment, Technology and Related Financial Issues. This session was taking place at an important and challenging time for the world economy, which required organizations such as UNCTAD to formulate adequate policy responses.

2. The state of the global economy in 2002 had contributed to a decline in foreign direct investment (FDI) flows worldwide. Even though developing countries on the whole were less affected by the decrease than developed countries, the decline had intensified the competition for FDI between countries, while at the same time forcing policy makers to think even harder about appropriate policy responses designed to maximize FDI's positive contributions to development. He referred to UNCTAD's recent activities in this area, including the *World Investment Report 2002* (*WIR 2002*), which focused on the interface between FDI and export competitiveness as an area where FDI could make substantial contributions to a country's competitiveness and trade balance. This publication would also be a useful basis for discussion at the special event on the future of export processing zones that was taking place in Geneva later in the week under the joint auspices of the World Association of Investment Promotion Agencies (WAIPA) and the Commission. Another important example of relevant activity in this area by UNCTAD was the Expert Meeting on the Development Dimension of FDI: Policies to Enhance the Role of FDI in Support of the Competitiveness of the Enterprise Sector and the Economic Performance of the Host Economies, Taking into Account the Trade/Investment Interface, in the National and International Context, which had concentrated on key policy areas, including incentives, performance requirements, home country measures, corporate social responsibility, the right to regulate, and safeguards. Delegates would surely find it useful to continue the debate on many of these issues under agenda items 3 and 4.

3. He also drew delegates' attention to recent Expert Meetings on International Standards of Accounting and Reporting (ISAR) and on Competition Law and Policy, both areas deserving the careful consideration of policy makers.

4. Returning to the issue of increased challenges facing policy makers in the area of FDI, he stressed the importance of the secretariat's extensive technical assistance and advisory activities to support countries in their efforts to attract and benefit fully from FDI. He mentioned the *Investment Policy Reviews* as one example of the many activities by the secretariat in this area that would be specifically dealt with by the Commission under a separate agenda item.

5. UNCTAD's closer cooperation with other international agencies active in the field of trade and investment – such as the WTO, the United Nations Industrial Development Organization, the Organisation for Economic Co-operation and Development (OECD), the Multilateral Investment Guarantee Agency and the International Finance Corporation – was continuing. These organizations would participate in the work of the Commission, thereby

enhancing its role as a forum for exchange among member States and intergovernmental agencies.

6. With reference to the upcoming WTO Ministerial Meeting in Cancún and the economic difficulties being experienced by many developed and developing countries, he emphasized the importance of a productive exchange of views on appropriate economic policy responses.

7. The representative of **Thailand**, speaking on behalf of the **Group of 77** and **China**, mentioned the prevailing uncertainty regarding the global economy and its impact on general economic conditions and FDI trends in developing countries. For many developing countries, FDI was the largest component of external resources; thus, smaller FDI inflows implied fewer resources to finance development. He expressed concern regarding the intensifying competition to attract FDI among host countries.

8. At this session of the Commission, the Group of 77 wished to assess the policy implications of the global economic downturn and to discuss policy challenges, taking into account the new dimension of the post-Doha work programme. It was important to identify national policies that were key to increasing benefits from FDI in both host and home countries, given that the room for manoeuvring to align national policies with development objectives was becoming more restricted.

9. The Group endorsed UNCTAD's programme of *Investment Policy Reviews* and requested stronger support for the programme, in particular financial support to help countries implement the follow-up recommendations. These recommendations were important guidelines for improving the investment environment and generating further discussion of investment policies not only in countries already reviewed but also in other host countries.

10. The Group hoped that the deliberations during the session would result in the identification of a concrete work programme in support of UNCTAD's efforts to integrate FDI as an important tool for the development strategies of Group member countries.

11. The representative of **India,** speaking on behalf of the **Asian Group** and **China,** expressed concern regarding the recent global downturn, which was a major challenge to the achievement of Group members' development objectives. Efforts to revive economic strength and speed recovery needed to be supported by steady flows of external financing, primarily FDI, rather than by short-term and speculative financial flows.

12. The Group recognized the increasing challenge and importance of the design and implementation of effective FDI-related policies to ensure that all countries enjoyed the benefits of globalization. In line with the development objectives of host countries, the Group hoped that the discussions of the Commission would assess the impact and effectiveness of policies and measures to enhance the benefits and minimize the negative effects of FDI.

13. The Group stressed that identification of development priorities should be left to host countries and that developing countries should be allowed to determine the types of investment as well as the manner, terms and conditions of attracting it.

14. Given the constraints resulting from international investment rule-making, the Group hoped, through the discussions of this session, to deepen its understanding of the policies and policy tools that were most important from a development perspective and their potential impact. International agreements should not limit the ability of Governments to regulate, including economic, social, environmental and administrative regulation, and issues related to the safeguarding of national policy space were of the utmost importance to Group members' economies. The Group was interested in identifying how commitments by home countries and transnational corporations (TNCs) could best be directed to support the development objectives of host economies.

15. The Group appreciated and supported UNCTAD's work in the area of FDI in the pursuit of the Group's policy objectives. It hoped that the discussions at this session would identify the policy issues that were of future importance for Group members' economies.

16. The representative from **Benin,** speaking on behalf of the **Least Developed Countries** (LDCs), stressed the role of states in improving the investment climate and the promotion of development in general. Recent experience had shown that attention had to be paid to improving the legislative and regulative framework and infrastructure facilities. The current decrease in global FDI flows called for responses at the national, bilateral, regional and multilateral levels. It also called for closer cooperation between home and host countries for FDI in order to stimulate further FDI into developing countries, particularly LDCs.

17. The LDCs had already made considerable efforts to this effect as they pursued a closer integration into the global economy based on policies that were strongly directed towards promotion of the private sector, including FDI. This had been done with the understanding that FDI could play a complementary and catalytic role in building domestic supply capacity.

18. The LDCs were continuing to create an economic, judicial and political environment favourable to investment. They invested in improvement of their trade policies, their educational systems and their labour laws, as well as in strengthening of their domestic enterprises. The investment promotion agencies had been created to support these efforts. Also, many agreements to promote and protect investments at the bilateral, regional and interregional levels had been concluded.

19. However, to achieve their objectives, these measures had to be matched by actions on the part of bilateral or regional partners. These included support for human resources and capacity-building measures; the abolishing of measures restricting investments; better market access and the facilitation of exports by LDCs to developed-country markets; the organization of investment and business forums; investment guarantees and insurance; the provision of risk capital; support for enterprise linkage programmes; technology transfer; and

implementation of commitments provided for in bilateral, regional and interregional agreements concerning the promotion of FDI.

20. The LDCs welcomed UNCTAD's activities supporting LDCs in negotiation of bilateral agreements and in promoting FDI in the form of advice, the facilitation of the exchange of experiences between developed countries and LDCs, and the creation of a forum enabling such exchanges at the enterprise level. The LDCs hoped that, in order to consolidate and improve on the progress already made by LDCs, the partner countries of LDCs would increase their resource contributions, including to UNCTAD, so as to realize the goals expressed in the Millennium Declaration and in the Programme of Action of the Third UN Conference on LDCs.

21. The representative of **Morocco,** speaking on behalf of the **African Group,** stated that his region, including South Africa, continued to attract the smallest FDI inflows of any region (as reported in *WIR 2002*). Although FDI inflows to the region had increased in 2001, they had declined by about 65 per cent in 2002, increasing the Group's concerns regarding FDI-led development strategies. This weak performance was consistent with global FDI downturns and resulted mainly from the following three factors: the inflated FDI figure recorded in 2001 as a result of two large one-off transactions in Morocco and South Africa; the loss of confidence following recent financial scandals that had affected the corporate earnings outlook and investment plans in Africa; and the political uncertainty in certain African countries. Differing FDI patterns among African countries called for assessing opportunities and needs on a country-by-country basis. Equally important to the region were policies to increase capacity not only to attract FDI but also to benefit from it as part of regional development goals.

22. African representatives had benefited from participating in UNCTAD expert meetings and sharing experiences with developing countries from other regions. *Investment Policy Reviews* carried out in seven countries of the region and *Investment Guides* had also been helpful in assessing the region's strengths and weaknesses. *Investment Policy Reviews* were a valuable instrument for analysing and evaluating policies in countries that saw FDI as a vehicle for development in surmounting scarcity of resources, creating employment, stimulating industrial development through backward and forward linkages, upgrading technical and management skills, and accessing international markets. Institutional capacity-building and the design of appropriate policies and regulations were crucial for promoting FDI. It was also important to be able to benefit from international cooperation for strengthening the negotiating capacity of African countries. In this respect, the UNCTAD-WTO training programme had been very useful. The Group expected that offerings of intensive courses as well as national seminars would be increased in the region.

23. International cooperation with the support of international agreements should reinforce national policies aimed at attracting FDI and benefiting from it. The question was how to strengthen home countries' role in helping developing countries to attract investments, upgrade technology and enhance competition.

24. The representative of **Greece,** speaking on behalf of the **European Union** and the **Central and Eastern European states associated with the EU, as well as Cyprus, Malta and Turkey,** thanked the UNCTAD secretariat for including a wide range of issues on the agenda and combining the session with the annual WAIPA conference so as to allow exchanges with WAIPA representatives on current affairs and important issues. The *World Investment Report* was UNCTAD's best-known flagship report and a leading source of information on FDI research and statistics, and the 2002 edition provided valuable information on TNCs and their contribution to development. The European Union agreed with the report regarding the main forces that would drive the expansion of TNC-led international production systems. These were policy liberalization and the opening of national markets, technological change and increased competition. From the European Union's point of view, the contribution of TNCs in upgrading and increasing exports from developing countries by making production in these countries more competitive was of particular importance. At the same time, WTO rules and agreements such as that of Doha would also contribute to that process. FDI could play a key role in the economic growth and development of host countries. The importance of FDI for development had increased dramatically in recent years because of its role as a major source of long-term capital and the fact that it came with a package of assets, including not only capital but also technology, managerial capacities and skills, and access to foreign markets, which would help countries in their development and the integration of their supply capacity into the world economy. In this context, the stimulating effects of FDI on technological capacity-building and the development of domestic entrepreneurs through catalysing of backward and forward linkages deserved mention.

25. FDI usually represented a long-term commitment to the host country and contributed significantly to gross fixed capital formation in developing countries. FDI had several advantages over other types of capital flows, in particular its greater stability and the fact that it would not create obligations for the host country, as had been observed in the context of the financial crisis of the past few years.

26. She emphasized the role of an enabling environment for FDI as a key factor in attracting and maintaining investors. Such an environment would consist, among other things, of a legal framework maximizing a country’s potential for attracting FDI; adequate infrastructure; good governance; an effective judicial system; and respect for the rule of law. The benefits of such an environment would be widespread: they would increase a country's attractiveness for FDI, contribute to better absorbing FDI, and help reduce capital flight and encourage domestic investment. For all these reasons, the European Commission was a major provider of funds for capacity-building and technical assistance. Finally, the conclusions and recommendations of the Commission should be short and action-oriented.

27. The representative of **Bangladesh** noted that most developing countries were starting to look to FDI as a source of capital when flows of official development assistance (ODA) declined sharply in the 1990s. However, FDI flows to most developing countries had remained small, even though they had liberalized their investment regimes and concluded numerous bilateral investment treaties. While one should expect the bulk of FDI flows to be

North-South, in reality FDI remained concentrated among developed countries. LDCs accounted for only 0.5 per cent of global FDI flows, and even within this group FDI was highly concentrated, with five major oil-exporting countries accounting for more than half of the flows going into LDCs. For countries at Bangladesh's stage of development, the question of whether FDI would promote development was secondary, as FDI was seen as a catalyst of growth rather than an initiator. The East Asian experience revealed that, for these countries, the direction of causality was from economic growth to FDI and not vice versa, since the behaviour of TNCs and their investment decisions would not necessarily be aligned with the development objectives of host countries. Investors were influenced by three broad groups of factors: the expected profitability of projects, the ease with which subsidiary operations could be integrated into a TNC’s global strategy, and the overall quality of the host country's environment. The second and third factors favoured developed countries, explaining why most FDI was concentrated there. As for the first issue, most factors influencing the profitability of investments would be outside the influence of policy makers, leaving them with little leverage to influence investment decisions by TNCs. UNCTAD should further intensify its analysis in six areas:

28. Since opening up to FDI did not by itself guarantee inflows, other measures such as privatization might be needed to attract FDI. The implications of such measures, however, would need careful consideration, as privatization, for instance, could prove counterproductive if not accompanied by appropriate trade liberalization and competition policies.

29. FDI had to complement domestic investment, and investment incentives should not discriminate against domestic investors. The net benefits of discretionary policies needed examination.

30. Since capital formation continued to be a national phenomenon, the nexus between FDI and growth needed further scrutiny.

31. Achieving stable macroeconomic policies was easier said than done, and there was no universal set of policies appropriate to all countries.

32. Trade barriers in OECD countries, in particular for agricultural products from developing countries, were having a negative effect on FDI. The UNCTAD secretariat should study the relationship between high tariffs in developed countries and the flow of FDI into developing countries.

33. The huge increase of FDI flows that had occurred until very recently in the absence of a multilateral investment agreement raised the question of whether such an agreement was needed. UNCTAD should study the impact such an agreement would have on the allocative efficiency of FDI and the flows to developing countries.

34. ODA to LDCs targeting physical infrastructure and improving human capital could enable these countries to attract more FDI, since it might create a virtuous circle of saving and investment.

35. The representative of **Switzerland** commended the UNCTAD secretariat on its high-quality and efficient work in this area, saying it was seen as very useful to policy makers. He referred particularly to activities in the area of international investment agreements, the *Investment Policy Reviews* and the *World Investment Report*. He also mentioned the high quality of the expert meetings organized by the Commission, in particular those on experiences with bilateral and regional approaches to multilateral cooperation and the one dealing with the development dimension of FDI. From his country's viewpoint, UNCTAD – in the absence of a multilateral agreement on FDI – had a clear comparative advantage for multilateral cooperation in this area. Regarding the coordination of UNCTAD and WTO activities in this area, it was preferable to apply a back-to-back approach, whenever possible, to the timing of UNCTAD's Commission and the work of the relevant WTO working groups. (Such an approach was already practised in the area of competition policy and trade.) The African Group's proposal concerning follow-up to the *Investment Policy Reviews* deserved careful attention. He stressed the positive experiences with the Quick Response Window approach as an instrument that would ensure the flexible and non-bureaucratic disbursement of resources in response to technical cooperation requests. Finally, UNCTAD should focus its work on international investment agreements, the *Investment Policy Reviews* and the *World Investment Report* in order to avoid dispersion of activities.

36. The representative of **Venezuela,** speaking on behalf of the **Group of Latin American and Caribbean Countries** (GRULAC), pointed out that FDI to the region had fallen by almost 30 per cent from the previous year, owing to the economic slowdown and to economic and political uncertainties in some countries in the region. According to *WIR 2002*, it was highly unlikely that the region would, in the near future, recover the level of FDI inflows seen in 1999. However, despite economic difficulties both inside and outside the region, some sectors and activities were still attracting almost as much FDI as in the past, notably the manufacturing sector.

37. She stressed the importance of improving domestic capacities and investment-friendly infrastructures and environments in order to attract FDI that was beneficial for regional development objectives. She also emphasized the importance of selecting and targeting the type of FDI that could best contribute to a country's development objectives in the framework of a coherent and integrated investment promotion strategy. In this respect, the *Investment Policy Reviews* were invaluable analytical and evaluation tools for countries seeking to improve their enabling environment for investment. Solid support had been given to the work on the *Investment Policy Reviews,* and similar support should be given to activities implementing their recommendations.

38. In commenting on UNCTAD's activities in the area of international investment agreements, she mentioned joint activities in the region by UNCTAD and the WTO (including a training course in Peru and regional seminars in Peru and Costa Rica) as well as workshops for Geneva delegates. Countries were facing the challenge of balancing the aim of ensuring a stable, reliable and transparent political framework with the need to preserve enough policy space to pursue particular development objectives. UNCTAD's work permitted identification of the obligations of host countries, investors and home countries in promoting

outward FDI, including transfer of technology. She proposed that the Commission discuss how to make more effective the role of home countries in supporting developing countries' efforts to attract FDI, enhance technology and promote competition.

39. Finally, UNCTAD needed to be fully involved in implementing the Doha mandate in the area of investment, since the mandate emphasized development and its implementation through human resources development and institutional capacity-building.

40. The **Director of UNCTAD's Division of Investment, Technology and Enterprise Development,** commenting on some of the group statements made under agenda items 1 and 2, referred particularly to the link between FDI and growth. It was undisputed that investment in general was a key stimulus for economic growth. Since this was true regardless of whether the investment was foreign or domestic in origin, it was clear that FDI was not only following growth but also inspiring it.

II. ORGANIZATIONAL MATTERS

A. Opening of the session

41. The seventh session of the Commission on Investment, Technology and Related Financial Issues was held at the Palais des Nations, Geneva, from 20 to 24 January 2003. In the course of the session, the Commission held ____ plenary meetings and ____ informal meetings. The session was opened on 20 January 2003 by Mr. Karl Sauvant, Director of the Division on Investment, Technology and Enterprise Development.

B. Election of officers

(Agenda item 1)

42. At its plenary meeting, on 20 January 2003, the Commission elected its Bureau as follows:

President:	Mr. Vladimir Malevich (Belarus)
Vice-Presidents:	Mr. Arthayudh Srisamoot (Thailand)
	Mr. Rafael Paredes (Ecuador)
	Mr. Hossam Hussein (Egypt)
	Mr. Douglas Griffith (United States)
	Mr. Jean-Luc Le Bideau (France)
Rapporteur:	Ms. Visitacion Asiddao (Philippines)

C. Adoption of the agenda and organization of work

(Agenda item 2)

43. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.2/43. Accordingly, the agenda for the seventh session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Policy issues related to investment and development
4. Issues related to investment arrangements
5. Investment policy reviews: exchange of national experiences
6. Reports of the subsidiary bodies of the Commission
7. Implementation of agreed conclusions and recommendations of the Commission, including post-Doha follow-up
8. Provisional agenda for the eighth session of the Commission
9. Other business
10. Adoption of the report of the Commission

D. Provisional agenda for the eighth session of the Commission

(Agenda item 8)

E. Adoption of the report

(Agenda item 10)
