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Forty years of UNCTAD research on FDI
by
Torbjörn Fredriksson



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Torbjörn Fredriksson *

UNCTAD has established itself as the most authoritative source of data and analysis related to foreign direct investment, development and related policies. This article considers the main contributions UNCTAD has made in this area over the past 40 years, since its inception. Contributions are classified in terms of collection and development of data; conceptual development and economic analysis; and policy development and normative work. The emphasis of the review is on the period 1991 to 2003, thus capturing more than a decade of *World Investment Reports*, the main outlet for the organization's research and policy analysis.

Key words: foreign direct investment, transnational corporations, development, government policies

UNCTAD's evolving treatment of FDI

The international expansion of activities by transnational corporations (TNCs) through foreign direct investment (FDI) has evoked mixed reactions over the years. There has been heated debate regarding the relative significance of the potential benefits that inflows of FDI can bring (in terms of capital, technology, access to markets, competition, etc.) and the possible negative consequences an increased level of foreign ownership can imply. Understanding the full implications of FDI is complex since it interacts with many other issue areas relating to, e.g. finance, trade, employment, environment,

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technology and, more broadly, development. Meanwhile, the issue of FDI has grown more important during the past 40 years as TNCs have become key agents of change in the globalizing world economy.

In the broad context of UNCTAD's development-oriented thinking, the perception of the role FDI plays in the development process has evolved over time. At the first UNCTAD Conference in 1964, member States generally acknowledged the role that FDI can play in economic development and underlined the need to remove obstacles to the flow of FDI from industrialized to developing countries.¹ Parts of its recommendations dealt explicitly with the issue and called upon member States to "adopt measures which will stimulate the flow of private investment capital for the economic development of the developing countries, on terms that are satisfactory both to the capital-exporting countries and the capital-importing countries", noting the responsibilities of home countries, host countries, investors and the international community (box 1).

Box 1. Recommendations at UNCTAD I with regard to the promotion of foreign investment to developing countries

UNCTAD I adopted a recommendation concerning actions by capital-exporting and capital-importing countries, investors and relevant institutions in order to encourage the flow of private capital towards developing countries.

It recommended among other things that the Governments of capital-exporting developed countries avoid measures "preventing or limiting the flow of capital from such countries to developing countries, and ... take all appropriate steps to encourage the flow of private investments to developing countries, such as tax exemption or reductions, giving investment guarantees to private investors, and by facilitating the training of managerial and technical staff".

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¹ Even before UNCTAD, the United Nations had addressed the role of FDI. In the Havana Charter, the investment provisions were among the most controversial, contributing to the downfall of the International Trade Organisation in the late 1940s (see United Nations Conference on Trade and Employment, 1948).

Box 1 (concluded)

With regard to private-capital-importing countries, the Conference recommended them to take “all appropriate steps to provide favourable conditions for direct private investment”. It further recommended that developing countries “set up investment bureaux and investment advisory services and ... establish and strengthen credit institutions and development banks and ... determine and publicize the areas of investment, manner of investment and investment policy.” The Conference also recommended developing countries “to establish information centres in capital markets and adopt other suitable means to supply all the necessary information about the information about investment conditions, regulations and opportunities in the developing countries”. Moreover, United Nations bodies and developed country Governments were encouraged to assist developing countries in these endeavours.

Another part of the recommendation focused on the role of investors. It said that “foreign private investment, based upon respect for the sovereignty of the host country, should co-operate with local initiative and capital, rely as far as possible on existing resources in developing countries, and should work within the framework and objectives of the development plans with a view to supplying domestic markets and, in particular, expanding exports”. The Conference expressed its expectation that foreign private investment would “recognize the desirability of re-investment of profits in the developing countries concerned, ...availability of “know-how” ... employment opportunities ... and other corresponding measures”.

Finally, the World Bank was requested to “expedite its studies on investment insurance, in consultation with Governments in both developing and developed countries, and submit [...] the results [...] to the United Nations”. The Conference also requested the Secretary-General of the United Nations to arrange further studies to cover all aspects of foreign private investment.

Source: UNCTAD, 1964, pp. 49-50.

The views expressed in 1964 emphasizing the benefits of FDI contrast with what followed. By the early 1970s, TNCs were in many quarters mainly perceived to be huge economic powers, being beneficial in some cases but necessary evils at best. Their actions in developing countries were often interpreted as a threat to the sovereignty of recipient economies and, if not controlled, could be detrimental to their welfare, with economic colonialism and/or environmental and social degradation as possible results. Against this background, the policy response was to seek ways for national and international bodies to monitor, restrict and regulate the activities of TNCs.

Resolution 56(III) adopted at UNCTAD III in Santiago, Chile, in 1972, dealt with FDI, placing the emphasis on the right of developing countries to regulate it in line with national development needs and to avoid its possible adverse effects, highlighting the negative impact outflows of private foreign capital had had on the balance of payments. The Conference affirmed:

“the sovereign right of developing countries to take the necessary measures to ensure that foreign capital operates in accordance with the national development needs of the countries concerned [...].”

It also expressed “its concern [about certain aspects of FDI] that disrupt competition in the domestic markets, and their possible effects on the economic development of the developing countries.”

Furthermore, the Conference recognized “that private foreign investment, subject to national decisions and priorities, must facilitate the mobilization of internal resources, generate inflows and avoid outflows of foreign exchange reserves, incorporate adequate technology, and enhance savings and national investment”.

Finally, it urged “developed countries to take the necessary steps to reverse the tendency for an outflow of capital from developing countries” (United Nations, 1973a, p. 89).

Consideration of issues related to FDI at UNCTAD temporarily subsided in the early 1970s when the venue for the focus within the United Nations system on the issues was moved to New York. This

decision was sparked by a speech of Chilean President Allende at the General Assembly in November 1972, in which he accused ITT of intervening in Chile's domestic affairs. In consequence, the United Nations Secretariat was asked to prepare a study on *Multinational Corporations in World Development* (United Nations, 1973b), which would serve as a basis for the deliberations of a Group of Eminent Persons of that subject matter. The recommendations of that Group led to the creation of the United Nations Commission on Transnational Corporations, serviced by the United Nations Centre on Transnational Corporations (UNCTC), which began functioning in 1975. The initiative was part of the broader drive towards a New International Economic Order (NIEO).² The UNCTC had three tasks:

- to collect and interpret data on FDI and TNC activities, undertake research on various economic and social aspects of TNCs and on policy issues, particularly in developing countries, with a view to furthering the understanding of TNCs and their effects;
- to service the negotiations on a United Nations Code of Conduct on TNCs that began in 1977 under the aegis of the United Nations Commission on TNCs; and
- to advise governments of developing countries on how best to negotiate with TNCs, and pursue appropriate policies to maximize the benefits from inward FDI.

²The Programme of Action of the Establishment of a New International Economic Order (Assembly resolution 3202 (S-VI), section V) stated that: "All efforts should be made to formulate, adopt and implement an international code of conduct for transnational corporations:

(a) To prevent interference in the internal affairs of the countries where they operate and their collaboration with racists regimes and colonial administrations;

(b) To regulate their activities in host countries, to eliminate restrictive business practices and to conform to the national development plans, and in this context facilitate, as necessary, the review and revision of previously concluded agreements;

(c) To bring about assistance, transfer of technology and management skills to developing countries on equitable and favourable terms;

(d) To regulate the repatriation of the profits accruing from their operations, taking into account the legitimate interests of all parties concurred;

(e) To promote reinvestment of their profits in developing countries".

The setting up of the UNCTC did not mean, however, that TNC-related issues were not discussed in the inter-governmental machinery of UNCTAD in the interim period until 1992. In the sixth session of the Conference and the Committee on Invisibles and Financing related to Trade (CIFT), for example, a report concluded that it was impossible to draw general conclusions on the effect of private foreign investment on the economies of developing countries and that the outcome would vary from case to case.³ Furthermore, in the spirit of the NIEO, UNCTAD IV in 1976 adopted Resolution 97(IV) on TNCs, recommending action at the national, regional and international levels to achieve a reorientation in the activities of TNCs and thus to safeguard the interests of developing countries. The Resolution also recommended that measures be designed and implemented to strengthen the participation of developing countries' national enterprises in TNC activities. The content of this resolution reflected the overall critical sentiment of many developing countries pushing for the formulation of an international code of conduct for TNCs.

During the second half of the 1970s, UNCTAD was active in formulating a set of Multilaterally Agreed Equitable Principles and Rules on Restrictive Business Practices, which was eventually adopted by the General Assembly in 1980 (see also the section on policy analysis below).

In the 1980s, the pendulum started to swing back. After the onset of the commercial bank debt crisis, member countries became more interested in non-debt creating sources of external private finance, of which FDI was naturally an important component. The lingering debt crisis in many developing countries, however, continued to stifle FDI by feeding the general perception of high risk, diminished profitability and poor growth prospects. In fact, the volume of net FDI inflows in real terms to developing countries in total FDI fell from more than one quarter in the early 1980s to less than one fifth in the late 1980s.

³ The report was entitled "Main findings of a study of private foreign investment in selected developing countries" (TD/B/C.3/111).

UNCTAD re-entered the picture after UNCTAD VIII, which established, in 1993 and 1994, within UNCTAD *ad hoc* working groups on non-debt creating flows, focusing on FDI and equity portfolio flows. In parallel, the UNCTC was closed down in 1992 by the new Secretary General of the United Nations, Boutros Boutros-Ghali, as part of the organizational restructuring of its economic sector. In this process, UNCTC's work programme became part of UNCTAD one year later. This meant that UNCTAD was assigned the responsibility for research, policy analysis, technical assistance and consensus building on matters related to the impact of TNCs on economic development, albeit with fewer resources than the UNCTC had at its disposal.⁴ By that time, work on a Code of Conduct on TNCs had ceased due to a combination of reduced interests by virtually all countries in the negotiations on such a Code, resulting among other things from insurmountable differences among the negotiating parties. Instead, attention shifted to strengthening national policies, expanding the network of bilateral investment treaties (BITs) and understanding more fully the impact of international investment agreements of all kinds. The return of investment issues to Geneva also meant that the division of investment and technology was ended.

Thus, since the late 1980s, more attention is being paid to the possible role of FDI in economic development. This shift mirrors several factors. One is that, at the aggregate level, external financing for development has shifted from official to private sources, because of aid fatigue, the unwillingness of many industrialized countries to meet the targets for official development assistance (ODA); and sometimes inefficient use of ODA. The more positive attitude also reflected in part the successful role played by inward FDI – or, more broadly, TNC activities – in some economies, particularly in East Asia, notably Malaysia, Singapore and Thailand. Moreover, governments had improved their administrative capabilities and had become more comfortable in dealing with TNCs. While many

⁴ The “Division on Transnational Corporations and Investment” – the initial name of the relevant division within the UNCTAD Secretariat – has been changed to the “Division on Investment, Technology and Enterprise Development”.

questions related to the impact of TNCs on development have remained controversial, the focus now is more on how to maximize the positive effects of FDI. In fact, all countries today welcome (or even actively compete for) inward FDI, and the vast majority of the world's countries have established specialized agencies to attract and facilitate inflows of FDI, as was once proposed at UNCTAD I. At the same time, it is generally recognized that FDI is only a complement to domestic investment and that sustainable development benefits to host countries depend, to a high degree, on the absorptive capacity among the local enterprise sector.

During the past 40 years, the international reach of TNCs has expanded rapidly. Changes in the global environment, in terms of technological progress as well as investment and trade liberalization, have facilitated the global spread of TNC operations across national frontiers. A snapshot of the universe of TNC activities indicates the high pace at which they have expanded. According to UNCTAD's own estimates, the number of TNCs of 14 Organisation for Economic Co-operation and Development (OECD) countries increased from some 7,000 in the late 1960s to 24,000 as of 1990 and 64,000 at the turn of the century. These firms control some 870,000 foreign affiliates, account for some two thirds of world trade, an even greater share of industrial research and development (R&D) and employ directly more than 53 million workers in their foreign affiliates around the world (*WIR03*). In 2002, moreover, total sales of foreign affiliates amounted to \$18 billion – more than twice the value of world exports of goods and non-factor services (table 1). Some of the largest TNCs (such as ExxonMobil and General Motors) are today comparable to economies such as Chile or Pakistan in terms of value added (*WIR02*).

The growing role of TNCs in the world economy has important implications for the effectiveness of policies, at national as well as international levels. Consequently, although FDI should be seen primarily as a complement to investment by domestic enterprises, and may cause unwanted effects, it is increasingly difficult to discuss policy options in various areas without taking the activities of TNCs into account.

Table 1. Selected indicators of FDI and international production, 1982-2002
(Billions of dollars and percentage)

Item	Value at current prices (Billion dollars)				Annual growth rate (Per cent)						
	1982	1990	2002		1986-1990	1991-1995	1996-2000	1999	2000	2001	2002
FDI inflows	59	209	651		23.1	21.1	40.2	57.3	29.1	-40.9	-21.0
FDI outflows	28	242	647		25.7	16.5	35.7	60.5	9.5	-40.8	-9.0
FDI inward stock	802	1 954	7 123		14.7	9.3	17.2	19.4	18.9	7.5	7.8
FDI outward stock	595	1 763	6 866		18.0	10.6	16.8	18.2	19.8	5.5	8.7
Gross border M&As ^a	..	151	370		25.9 ^b	24.0	51.5	44.1	49.3	-48.1	-37.7
Sales of foreign affiliates	2 737	5 675	17 685 ^c		16.0	10.1	10.9	13.3	19.6	9.2 ^c	7.4 ^c
Gross product of foreign affiliates	640	1 458	3 437 ^d		17.3	6.7	7.9	12.8	16.2	14.7 ^d	6.7 ^d
Total assets of foreign affiliates	2 091	5 899	26 543 ^e		18.8	13.9	19.2	20.7	27.4	4.5 ^e	8.3 ^e
Export of foreign affiliates	722	1 197	2 613 ^f		13.5	7.6	9.6	3.3	11.4	-3.3 ^f	4.2 ^f
Employment of foreign aff's (000s)	19 375	24 262	53 094 ^g		5.5	2.9	14.2	15.4	16.5	-1.5 ^g	5.7 ^g
GDP (in current prices)	10 805	21 672	32 227 ^h		10.8	5.6	1.3	3.5	2.6	-0.5	3.4 ^h
Gross fixed capital formation	2 286	4 819	6 422 ⁱ		13.4	4.2	1.0	3.5	2.8	-3.9	1.3 ⁱ
Royalties and licences fees receipts	9	30	72 ^j		21.3	14.3	6.2	5.7	8.2	-3.1	..
Export of goods and non-factor services	2 053	4 300	7 838 ^k		15.6	5.4	3.4	3.3	11.4	-3.3	4.2 ^j

Source: WIR03, p.3.

^a Data are only available from 1987 onward.

^b 1987-1990 only.

^c Based on the following regression result of sales against FDI inward stock (in millions dollars) for the period 1980-2000: Sales=934.0435+2.351837*FDI inward stock.
^d Based on the following regression result of gross product against FDI inward stock (in millions dollars) for the period 1982-2000: Gross product=436.3332+0.421268*FDI inward stock.

^e Based on the following regression result of assets against FDI inward stock (in millions dollars) for the period 1980-2000: Assets=-1 443.239+3.929293*FDI inward stock.
^f For 1995-1998, based on the regression result of exports of foreign affiliates against FDI inward stock (in millions dollars) for the period 1982-1994: Exports=291.5394+0.453183*FDI inward stock. For 1999-2002, the share of exports of foreign affiliate

^g Based on the following regression result of employment (in thousands) against FDI inward stock (in millions dollars) for the period 1980-2000: Employment=13 865.43+5.507718*FDI inward stock.

^h Based data on data for the International Monetary Fund, International Financial Statistics, June 2003 and World Economic Outlook, April 2003.

ⁱ data for 2002 was extrapolated using the share of countries and economies with available 2002 data in 2001 world gross fixed capital formation.

^j 2001.

^k Based on the International Monetary Fund, World Economic Outlook, April 2003.

In the selection of the most important intellectual contributions by the UNCTAD Secretariat in the area of FDI, the focus here is on its publications and documents during the period 1991-2002.⁵ It may seem odd to start in 1991 given that the responsibility for analysis of TNC-related activities was transferred back to UNCTAD only in 1993.⁶ However, 1991 is used as the point of departure in order to capture the contribution of the *World Investment Report (WIR)*, which was published initially by the UNCTC but has subsequently become one of the flagship reports of the UNCTAD Secretariat.⁷ Today, the *WIR* often sets the parameters surrounding the policy analysis in the area of FDI and TNC activities. Indeed, the more than 700,000 downloads as of November 2003 of the *WIR03* (or parts of it) from the UNCTAD website after its launch in September is a rough indicator of its wide dissemination. The review of intellectual contributions furthermore covers also other work and publications.

UNCTAD's intellectual contribution in the field of FDI can be divided into three main categories:

- *Data development to measure the expansion of TNC activities.* Given that the area is relatively new to both researchers and policy makers, the development of data and their presentation in user-friendly ways have been a key and necessary contribution to a better measurement and understanding of the FDI phenomenon.
- *Conceptual development and economic analysis.* The various issues of the *WIR* as well as other publications have contributed to the development of new concepts and new approaches to analyzing ideas, facts, scholarly research etc.

⁵ For a review of UNCTAD's work during the period 1964-1984, see UNCTAD 1985.

⁶ Earlier work undertaken by the UNCTC will be covered in a forthcoming book, *The UN and Transnational Corporations: From Code to Compact: in the Eye of the Storm* by Tagi Sagafi-nejad, in collaboration with John H. Dunning.

⁷ The annual *WIRs* replace the previous quinquennial surveys produced by the UNCTC, the last of which was published in 1988 (UNCTC, 1988).

to form a coherent picture of particular aspects of TNC activities. This work has often involved the development of original ideas, as well as research or critique on, or about, various aspects of the determinants and consequences of TNC activities. It has formed a basis for policy analysis and international consensus building.

- *Policy analysis and normative work.* Based on the above, UNCTAD has been in a position to provide advice to governments and/or intergovernmental entities – and indeed to the international community as a whole – as to what action might be taken to ensure that FDI and TNC-related activities increase their contribution to world development and structural transformation in not only efficient but also socially acceptable ways and to ensure stakeholder confidence through increased transparency and accountability.

The remainder of this article examines UNCTAD's work and contribution in the three areas outlined above, with particular emphasis on the second component. Thus, the next section looks at the role the UNCTAD Secretariat has played in the collection, presentation and dissemination of data related to FDI and international production. The following section highlights important intellectual contributions in the form of economic analysis presented in various UNCTAD publications, and the *WIR* in particular. The subsequent section notes some of UNCTAD's contributions in terms of policy analysis and consensus building. The last section concludes.

Measuring the expansion of TNC activities

Without reliable and comprehensive data, it is impossible to measure and analyze accurately the implications of any economic phenomenon. Given that TNC activities and economic development and their links are relatively recent areas of economic research and policy analysis, the development of a database covering FDI and other TNC-related statistics represents a key contribution by the Secretariat.

There are different forms of data. First, UNCTAD's database (www.unctad.org/fdistatistics) contains global data for more than 190

economies on inward and outward flows and stocks of FDI as well as various ratios comparing them with the GDP or gross fixed capital formation of individual countries. A more recent addition is information on cross-border mergers and acquisitions (M&As). All these statistics are featured regularly in the statistical annex of the *WIR* and in other publications on FDI and TNCs. These data also form the basis for the analysis of global and regional trends presented in the Part One of the *WIR* and some standard tables in the *WIR* on the trends, scope and nature of FDI and TNC activity. Judging from the number of downloads from the UNCTAD website, UNCTAD's global and regional analyses of trends in FDI and international production are very much in demand.

This global picture is complemented by in-depth national data on up to 88 specific variables on inward and outward FDI flows and stocks, their composition and sectoral and geographical distribution. The information also covers the operations of foreign affiliates located in a country and TNCs based in a country, as well as the legal framework relevant for FDI in a country. Such information has been published in different forms, from UNCTAD's *World Investment Directories (WID)* to the *WID Country Profiles* available on-line (since 2003). Finally, depending on the focus of various publications and the special theme selected for the *WIR*, each year a wealth of data is collected and presented on an *ad-hoc* basis.

Second, in addition to FDI-related data, the UNCTAD Secretariat produces basic information on the largest TNCs. Some of the more important statistics include corporate information on the top 100 TNCs,⁸ the top 50 TNCs based in the developing world and, recently, the top 25 TNCs based in Central and Eastern Europe. These statistics have, for instance, allowed for the monitoring of the emergence of TNCs from developing countries. The first list of the world's top 100 TNCs was introduced in *WIR93* and was related to the situation in 1990. At that time, all of the firms included were based in developed countries. This state of affairs lasted until 1995

⁸ The largest TNCs are ranked according to the size of their foreign assets.

(WIR97), when *Daewoo Corporation* (Republic of Korea) and *Petróleos de Venezuela* (Venezuela) entered the top 100 list as the first developing country TNCs. By 2001 (WIR03), four companies from developing economies appeared in the list: Cemex (Mexico); Hutchison Whampoa (Hong Kong, China); LG Electronics (Republic of Korea); and Singtel (Singapore).

A third category of statistics relates to the evolving policy framework governing FDI. At the *national* level, the tracking of changes in FDI laws and regulations has shown the significant shift that has taken place in the attitude of countries vis-à-vis FDI. For example, between 1991 and 2002, out of the more than 1,640 changes that were made in national laws and that were observed by UNCTAD, 95% intended to create a more favourable investment climate for inward FDI. At the international level, UNCTAD monitors the evolving use of bilateral investment treaties, double taxation treaties and other international instruments related to FDI.⁹ As part of these efforts (starting in 1996), UNCTAD has published a total of twelve volumes of *International Investment Instruments: A Compendium*. They contain a comprehensive collection of relevant instruments on international investment law, conventions, treaties, declarations, codes and resolutions. The first three volumes start with the Havana Charter of 1948 and end with the 1994 Energy Charter Treaty and the Marrakesh Agreement of the World Trade Organization (WTO). In the subsequent volumes, more recent developments at the bilateral, regional and multilateral levels are captured.

While the data compiled by the Secretariat on FDI and international production activities are far from perfect and suffer from various limitations,¹⁰ they have provided valuable information to those wishing to know the facts about the growing significance of TNCs in the global economy. A comparison of the length of the statistical

⁹ The full listing of bilateral investment treaties is available on-line at <http://stats.unctad.org/fdi/eng/ReportFolders/Rfview/explorerp.asp>. The actual texts of BITs will be available on-line as of early 2004.

¹⁰ These are discussed at length in the methodological annex of each WIR.

annexes of the first few *WIRs* (25 pages) with the most recent one (80 pages) depicts the progress that has been made in this area during the past decade. A massive data collection effort takes place on a continuous basis, with the cooperation of numerous national data collecting agencies, to ensure that the data presented are as reliable, up to date and comprehensive as possible. In order to facilitate easy reference, more and more data are being made available on-line (see <http://stats.unctad.org/fdi>), as part of a major push by the secretariat to enhance their availability.

Based on the wealth of statistics, a number of novel analytical and statistical tools have been developed to measure and assess better globalization and its implication for developing countries. For example, in *WIR95* the *transnationality index for the largest TNCs* in the world was introduced. This index captures the average of three ratios: the shares of foreign to total assets; foreign employment to total employment; and foreign sales to total sales. Another innovation, the *transnationality index of host countries* (introduced in *WIR99*), and measures the degree of transnationalization of economic activities in host economies, taking into account the production potential created through inward FDI. More recent additions include the FDI performance and potential indices (see *WIR01* to *WIR03*). Moreover, its database has allowed the UNCTAD Secretariat to publish analytical monographs and key indications on topical and relevant areas, e.g. on the Asian financial crisis (UNCTAD, 1998a), the performance and potential of FDI in Africa (UNCTAD, 1999a) and FDI in least developed countries (LDCs) (UNCTAD, 2002a). Obviously, the database is of major importance to the research, policy analysis and technical assistance undertaken by the Secretariat.

Conceptual development and economic analysis

The Secretariat's work on FDI has contributed intellectually at both the conceptual and practical levels. At the conceptual level, it has introduced a number of new ideas and methodologies and broadened the scope or enabled innovative analysis of existing ones. It has explored new topics or shed new light on topics already

analyzed in the literature. At the practical level, numerous new policy recommendations and proposals have been put forward. Among the many facets of FDI and international production and their interaction with economic and social development, UNCTAD's publications, and especially the *WIR*, have provided new or more comprehensive analysis of what was available in the literature of several important issues, including the following ones:

- FDI determinants;
- the impact of FDI on growth and development;
- the geography of FDI;
- strategies and structures in the international organization of TNC activities;
- modes of FDI entry (especially the role of M&As);
- FDI and trade;
- linkages and clusters involving FDI; and
- economic development and outward FDI.

Against this background, selecting the most important contributions is no easy task. Indeed, since the audience UNCTAD caters to is heterogeneous – covering especially policy makers in developing countries, but also the research community and civil society at large – the views on what parts are the most important diverge. Thus, the selection below does not claim to be comprehensive, but it reflects discussions with some of those who have been involved either as contributors to UNCTAD's work or as readers of the output. An important source of guidance has been the many book reviews that have been published over the years, in which reviewers highlight the merits and weaknesses of individual *WIRs*.¹¹ All of the issues listed above remain high on the agenda of national and international policy making fora as well as in the academic community.

¹¹ For reviews of various *WIRs*, see www.unctad.org/wir.

FDI Determinants

Understanding what determines where companies invest is an important factor for attracting FDI and benefiting from it. *WIR98* took a close look at the determinants of FDI in one of its chapters. Whereas these determinants had been carefully studied in the literature, from various perspectives, UNCTAD's work added value in several ways. First, it explored the impact of globalization on the locational determinants of FDI. The volume found that the importance of traditional FDI determinants (e.g. natural resources, low-cost labour, national market size) was declining while access to "created assets" (such as skills and technology) and access to regional markets (such as the European Union and the North American Free Trade Agreement) had become critical. Second, the *Report* contributed by linking the discussion on determinants to the role of government policy. Third, it provided a careful examination of developments at regional levels. The question of what determines the location of FDI has been revisited to in many other publications, such as in *FDI Determinants and Brazil* (UNCTAD, 2000b) and throughout UNCTAD's technical assistance work.

The impact of FDI on growth and development

Analyzing the relationship between FDI and development and improving the understanding of how the international expansion of TNCs affects the growth prospects of developing countries are the overriding purpose of the work of the UNCTAD Secretariat on investment. Whereas the various issues of the *WIR* normally focus on a specific topic of importance, three *WIRs* have undertaken more comprehensive assessments of the impact of FDI on growth, competitiveness and development. The special topic of *WIR92* was *Transnational Corporations as Engines of Growth*, and contained the Organization's first full-scale assessment of the links between FDI and development. In *WIR99*, intended as an input to UNCTAD X, this topic was revisited under the title *FDI and the Challenge of Development*. The volume provided a comprehensive examination of the role of FDI in economic development through structural transformation and growth, focusing specifically on five areas in which TNCs can complement domestic efforts to meet development

objectives.¹² In an Issues Paper related to international investment agreements, one chapter provided a succinct survey of the direct effects of FDI on development (UNCTAD, 1999d). *WIR95* also covered relevant issues, although its focus was on how FDI influences the instrumental variables for growth (resources, markets and restructuring) without going to the next step and examining the impact on growth itself. *WIR01* too, contributed to the understanding of the links between FDI and development by examining the linkages that constitute the channels for the transmission of growth-enhancing factors from TNCs to host-country enterprises. The relevant parts of the *WIRs* mentioned are among the few comprehensive studies on this subject.

UNCTAD has also provided important intellectual contributions at critical moments in the form of economic analysis of the impact FDI has on various development-related aspects. In an in-depth study related to the Asian financial crisis for example, the Secretariat helped clarify the role and impact of FDI in the crisis and the subsequent recovery. The findings have since been used in various contexts, including as an input to a special high-level session of the Trade and Development Board in 1998.

The geography of FDI

The evolving geography of FDI has been a recurrent focus, partly reflected in the global and regional trends discussions that appear in each *WIR*. It was also the special topic of the very first issue of the *WIR* published in 1991. It applied the Triad (the United States, the European Community and Japan) concept to the geographical distribution of FDI and noted that these economies accounted for the bulk of both inward and outward FDI. With regard to FDI between developed and developing countries, *WIR91* described how TNC networks often have a strong regional dimension with significant links between individual home regions and associated

¹² The five areas are: increasing financial resources and investment; enhancing technological capabilities; boosting export competitiveness, generating employment and strengthening the skills base; and protecting the environment.

host countries (outside the Triad).¹³ Moreover, the geography of international production featured prominently in *WIR01*, in which an effort was made to map various geographical dimensions of TNC activities.

The international organization of TNC activities

In response to changes in the global environment, driven by technological progress, liberalization in the area of investment and trade and enhanced competition, corporate strategies have likewise evolved over time, affecting the way in which international production systems are organized. *WIR93* was described by some scholars as a “milestone” in that it documented the culmination of a process that had emerged over three decades – the ascension of international production over international trade in importance for the delivery of goods and services to foreign markets and the integration of national production systems.¹⁴ *WIR93* noted that the integration of international production had moved from “simple” to “complex” integration, reflecting a shift in management strategy and leading to new production structures. It showed the alternative structures and various phases many TNCs have gone through as regards structure when establishing international operations:

¹³ For example, TNCs from the United States played a dominant role in Latin American countries such as Argentina, Chile, Mexico, Panama and Venezuela as well as in the Philippines and Saudi Arabia; the European Community’s firms dominated FDI in many countries in Central and Eastern Europe, Brazil, Ghana and Indonesia; whereas Japanese firms accounted for more than 50% of total FDI into Hong Kong (China), Republic of Korea and Thailand. As of 2002, this picture had not changed much, which draws attention to the underlying geographical structure of FDI and international production (*WIR03*). While there have been some alterations in the composition of these associate partners over the past years, many of the block members still remain to be so. For example, the United States is still the dominant investor in Argentina, Chile, Mexico, Saudi Arabia and Venezuela, but recently also in the Russian Federation.

¹⁴ Behrman, 1993, p.188.

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- the “stand-alone” foreign affiliate, that operate largely as an independent concern within the host economy;
 - simple integration, involving international production through which the activities of the parent company to some extent rely on production activities undertaken either by a foreign affiliate abroad or outsourced to a foreign subcontractor but controlled by the parent firm;
 - complex integration, under which any affiliate operating anywhere may perform functions for the firm as a whole. These strategic dimensions were combined with the geographical scope of international production as well as with the functional scope of the firm to form the basis for what UNCTAD called *integrated international production*. The fact that FDI can take place in any part of the value-added chain has implications for attracting FDI.¹⁵

In this context, a distinction was also introduced between “shallow integration” (which occurs mainly through trade in goods and services and international movement of capital) and “deep integration” (which extends to the level of the production of goods and services and increases visible and invisible trade) (*WIR93*).

Several writers have subsequently tried to document empirically the integrated international production systems of TNCs, but the specific examples provided in *WIR93* remain among the most vivid and illustrative. The changing organizational structures of international production raise a number of issues, including that of the “nationality” of TNCs and their affiliates, criteria for taxation of multi-country activities, and the responsibilities of TNCs for generating and supporting sustainable production in the countries in which they operate. These issues remain at the centre of international discussions on the international strategies of TNCs and associated policy implications.

¹⁵ *WIR04* will explore the role of services in such international production systems.

Modes of entry

Understanding the strategy of TNCs is essential in order to formulate and implement an adequate policy response for the achievement of various development impacts. In this context, an important factor to consider is the mode of entry chosen by a firm when investing in a host location. Traditionally, most countries have sought to attract investment in new projects – so-called greenfield investment – as this mode of entry has been perceived to bring the greatest benefits in terms of additional resources and capabilities to the host economy, thereby contributing to its development. Over time, however, the share of greenfield investments in world FDI flows has declined while that of M&As has risen, sometimes giving rise to considerable concern among policy makers.¹⁶ When the *WIR2000*, which focused on *Cross-border Mergers and Acquisitions and Development*, was launched, the timing could not have been better. It coincided with the unprecedented boom in FDI (valued at \$1.4 trillion) – a boom that was fuelled primarily by M&As. Indeed, the volume showed that an international market for firms had emerged and that M&As now represent the dominant form of FDI in developed countries. In one of the chapters of this report, recent trends in cross-border M&As were explained, distinguishing between patterns of various countries and different levels of development, highlighting the largest M&A deals and comparing data on M&As and FDI to try to make sense of a very new area of international statistics that plays an increasingly important role in the globalizing world economy. In another chapter of the same volume, an evaluation of the impact of cross-border M&As on development is made, and a distinction was made between “normal” and “exceptional” situations on the one hand, and between short-term and longer-term impacts on the other. *WIR00* was the first full-blown examination of this topic. Among others, it raised questions as regards the explanatory power of the dominant FDI paradigm – the “ownership-location-internalization” explanation – for the phenomenon of cross-border M&As.

¹⁶ While the growing role of M&As in global FDI flows as well as in different regions is unquestioned, there is still no simple way of calculating the precise ratio of FDI that is accounted for by M&As (see *WIR00*).

FDI and trade

The linkages between trade and investment are a much researched area of international economics. UNCTAD has contributed in a number of ways in this process. A comprehensive assessments of this relationship was undertaken in *WIR96*, in which the old debate of whether FDI should be seen as a substitute or complement to trade was reexamined. It argued that the issue no longer is whether trade leads to FDI or FDI leads to trade. Rather, the principal question is rather where firms access resources and decide to locate their value-added activities – which then determines the direction of investment and trade flows. In *WIR99* one of the areas that was studied in depth was the role of FDI in boosting export competitiveness, a topic that was made the special theme of *WIR02*.¹⁷ These volumes showed that this role is pervasive and has led to dramatic shifts in the geographical composition of world trade. In this context, *WIR02* noted that just 20 economies together accounted for over three-quarters of the value of world trade, with the developed countries being the largest traders. However, during the period 1985-2000, mainly developing economies, such as China, Mexico, the Republic of Korea, Singapore, Taiwan Province of China and Thailand, and such economies in transition as the Czech Republic, Hungary and Poland, accounted for the largest *gains* in market share. The volume showed that the growth of exports from many of these countries was directly linked to the expansion of international production systems, especially in the electronics and automotive industries. Meanwhile, it was also noted that export-oriented foreign affiliates often rely on imported inputs to a high degree, sometimes implying a low level of local value-added in the exported products. Hence the importance of addressing various ways to augment the interaction between foreign affiliates and the local economy (see below). The analysis has been carried forward into the area of policy analysis and technical assistance, especially as regards possible instruments to ensure that a location is conducive to export-oriented FDI, and in terms of the organization of targeted investment promotion, an area in which UNCTAD has developed a specific technical assistance programme.

¹⁷ The role of FDI in the area of services will be reviewed in *WIR04*.

FDI, linkages and clusters

While FDI can bring important benefits to a host economy, it is merely a complement to what goes on in the domestic enterprise sector – the bedrock of a country’s economic development. Moreover, the capability of domestic enterprises and the absorptive capacity of a host economy affect the kind of FDI that is attracted as well as the extent to which knowledge and technology are disseminated by foreign affiliates and mastered by local firms. Perhaps the most important way to tap such benefits is through production linkages between foreign affiliates and domestic firms as well as clustering. Where such linkage creation takes place, production and exports by foreign affiliates are not only likely to be more sustainable and broadly beneficial for host countries, but also to involve higher domestic value added and contribute to strengthening the competitiveness of the domestic enterprise sector. The question of how best to promote linkages between foreign affiliates and domestic firms was addressed specifically in *WIRO1*. The work has been translated into concrete actions in the field, in the form of an UNCTAD linkage promotion programme. Such concrete actions are taking place through EMPRETEC, a technical cooperation programme started in 1988 at former UNCTC to help developing countries establish the institutional structures for the promotion of entrepreneurship and small and medium-sized enterprise (SME) development.

A closely related issue is that of enterprise development and industrial clusters development. Clusters are a significant unit of policy intervention aimed at upgrading local competitive advantages and creating a conducive environment for business activities and external investors. Such intervention can also serve to enhance the benefits from FDI by “embedding” foreign affiliates in the local context through long term productive linkages with indigenous firms. In this framework, three UNCTAD publications deserve special attention, as they were forerunners in bridging the vast and consolidated literature on clusters in developed countries and the scattered information from Latin America and Asia. More importantly, they pioneered the investigation of the issue from a developing country policy perspective at a time when most of the existing information

was of high analytical value but could not easily be translated into concrete policy recommendations in a developing country context.

The publication *Technological Dynamism in Industrial Districts: an Alternative Approach to Industrialization for Developing Countries* (UNCTAD, 1994) returned to the original cluster model, which can be traced in some regions of Northern and Central Italy. The book presented the industrial district model as a dynamic approach to local economic development, and emphasizes that a major challenge for developing countries is to use the related principles of industrial organization as a lever for local development. The “overview of activities in the area of inter-firm cooperation” (UNCTAD, 1997a) emphasized the importance of public awareness and support, as competitive enterprise clusters and networks do not emerge in a policy of institutional vacuum, but are often the result of deliberate economic and social policies at the local, regional and national level.¹⁸ However, not all clusters are innovative and dynamic by nature; nor should clusters be considered a panacea in terms of industrial or locational policies. The issues paper “Promoting and sustaining SMEs clusters and networks for development” (UNCTAD, 1998c) concluded that many clusters are caught in the spiral of stagnation and decline. A useful distinction was made between three different types of clusters: informal, organized and innovative. The paper recommended that policy interventions should be confined to revitalizing existing clusters with high growth potential rather than to create new clusters.

¹⁸ On the one hand, local forces are essential to stimulate the generation of common externalities and the creation of a support structure for providing innovative, value-adding services. Traditional habits and practices of local actors with respect to innovation and technology are also decisive in the transformation of simple agglomeration of firms into competitive clusters. On the other hand, focused measures (e.g. the creation of technical schools, research centres, export promotion boards, quality certification institutes) can be equally important in stimulating and supporting change, tacit knowledge flows and interactive learning. Therefore, all actors at the macro, meso and micro level have an appropriate role to play in the promotion of clusters.

Economic development and outward FDI

Given that developing countries are predominantly net recipients of FDI, UNCTAD has traditionally focused on inward FDI and its impact. It is recognized, however, that outward FDI can also bring important development benefits to home countries. In *WIR95*, one of the most important contributions in this volume was the section addressing the impact of outward FDI on a firm's competitiveness. The volume noted that outward FDI tends to increase firm competitiveness, which in turn improves the performance of their home countries. The issue of outward FDI has over time become increasingly relevant for a number of developing countries. Economies such as China, Hong Kong (China), Malaysia, Mexico, Republic of Korea, South Africa and Taiwan Province of China, have all become significant sources of outward FDI. Between 1985 and 2002, the total stock of outward FDI from developing economies rose from \$78 billion to \$849 billion, most of which emanated from Asia. In a globalizing world economy, firms face competition increasingly from both imports and inward investors. It therefore becomes more important for companies from developing countries too to invest abroad to maintain their competitiveness and to develop a portfolio of locational assets.

As internationalization has progressed, more and more companies have invested outside their home countries. As noted above, this has led to the emergence of a number of TNCs from developing countries. Moreover, while TNCs are generally perceived to be giant corporations controlling huge resources, the fact is that a growing number of all TNCs are relatively small in size. An analysis of *Small and Medium-sized Transnational Corporations: Role, Impact and Policy Implications* was made of the nature, scope and implications of transnationalization by SMEs (UNCTAD, 1993a).

Policy analysis and normative work

Policy matters. It matters whether a country is seeking to attract more inward FDI, maximize the benefits from FDI or address concerns related to FDI. Although the process of globalization has generated new opportunities and more space for companies to

reorganize their international activities, policy making at both the national and international levels in the area of investment remains crucial. Thus, while UNCTAD caters to a diverse audience, special efforts are made to reach out to one group in particular, namely, policy makers in developing countries. To this end, various publications have increasingly devoted attention to presenting clearly defined and concrete policy options derived from an economic analysis of key issues. As once called for in UNCTAD I (box 1), policy recommendations have addressed possible efforts by host countries, home countries, investors and the international community at large.

Host-country policies

The *WIR01* and *WIR02* went beyond policy recommendations at a fairly general level and presented in a concrete manner how countries have addressed the questions of linkage promotion and export promotion involving foreign affiliates. Taking into account the growing competition for especially export-oriented FDI, changing corporate strategies, new technological developments, as well as the evolving international regulatory framework, these reports explored various options governments can consider to promote export-oriented FDI and linkages between foreign affiliates and domestic companies. The message conveyed underlined the importance of domestic enterprise development and the need to “work with the market” and create the necessary conditions, coupled with proactive government intervention, to induce TNCs to forge local linkages and establish export platforms with a high local value added. In this context, UNCTAD also introduced the concept of three generations of investment promotion, from general liberalization and opening up to FDI (first generation), to setting up investment promotion agencies and related activities (second generation), and moving to the proactive marketing of investment opportunities in a targeted way (third generation).

Reflecting the expanded use of incentives to attract FDI, the 1996 publication *Incentives and Foreign Direct Investment* offered a comprehensive survey of their use for the attraction of FDI and to affect the behaviour of foreign affiliates (UNCTAD, 1996a). This

survey remains the most authoritative and cited source of information in this area. Another important publication in this field was *Tax Incentives and Foreign Direct Investment: A Global Survey*, which was published in 2000 (UNCTAD, 2000a).

Until the mid 1990s, the links between market structure, competition policy and cross-border M&As had been largely neglected by academic researchers and policy makers.¹⁹ It is particularly important in the context of FDI, since TNCs tend to be especially well represented in industries characterized by a high level of market concentration. By making sure that markets in which TNCs invest are competitive, host governments stand a better chance of reaping the full benefits from FDI. In this context, UNCTAD provided a new focus, with particular reference to policy formation and action by intergovernmental entities. The policy discussion in *WIR97* explored the balance between liberalization and competition policy, elements of competition and merger laws conducive to development, and the need for, and obstacles to, international cooperation. In *WIR00*, the impact on market structure and competition was identified as one of the key differences between FDI through M&As as opposed to greenfield investment. The volume observed the emergence of an international market for firms and called for adequate policy responses not only by national governments but also at the international level.

This policy analysis has formed the basis for technical assistance. Understanding what drives FDI is an important contribution to advisers on FDI policy and to providers of assistance on investment policy formulation and investment promotion. Equally important, technical assistance helps to keep a finger on the pulse of the times, i.e. what policy issues are important and relevant. UNCTAD's technical assistance work in the area of investment

¹⁹ As noted above, however, UNCTAD has for a long period worked actively on issues related to competition and to the control of restrictive business practices by TNCs. UNCTAD was *inter alia* responsible for the negotiations on and conclusion of the United Nations Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, which was approved by the United Nations General Assembly on 5 December 1980 in its resolution 35/63.

covers a diverse field, including *Investment Policy Reviews* (first advocated in the *WIR93*),¹⁹ investment promotion activities, the production of *Investment Guides for LDCs*²¹ and reports on *Best Practice in Investment Promotion* (UNCTAD, 1997b and 2001a).

Home country measures

UNCTAD also recognized the influence of home country policies and measures on the volume and nature of FDI flows. This is a subject that, even to date, has received little attention. An important question that has been addressed in several contexts is how these measures can help developing countries and economies in transition to attract and benefit more from FDI.

Many developed countries have made special efforts to facilitate their firms' foreign expansion through FDI. As was noted e.g. in *WIR03*, a number of measures could be identified:

- *Liberalize outflows.* Home countries can remove obstacles to FDI outflows.
- *Provide information.* They can assist developing countries in collecting and disseminating information related to investment opportunities through cooperation with investment promotion agencies (IPAs), the provision of technical assistance, the organization of investment missions and seminars and the like.
- *Encourage technology transfers.* Home countries can promote technology transfer by providing assistance to strengthen a host country's technological base, its capacity to act as a host to FDI and technology-intensive industries and its capacity in reaching specific technology-intensive goals.
- *Provide incentives to outward investors.* Various forms of financial and fiscal incentives can be provided to outward investors or to support feasibility studies and environmental assessments.

²⁰ For more information, see <http://r0.unctad.org/ipr/>.

²¹ For more information, see <http://r0.unctad.org/en/pub/investguide.en.htm>.

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- *Mitigate risk.* Home countries can help to mitigate risk—say, by providing investment insurance against losses arising from political or other non-commercial risks that may not normally be covered through the private insurance market.

While initiatives in many countries have been documented, policy declarations aimed at encouraging outward FDI have seldom been linked to any specific international commitments. Rather, these remain at the discretion of each developed country and are commonly shaped to serve a home country's own business interests along with general development objectives. This home country perspective is especially evident in the design of many financial or fiscal assistance programmes as well as preferential market access measures. Weak links between the explicit needs of developing countries and the design and execution of home country measures, as well as the often uncertain commitment to the duration of assistance, may diminish the beneficial impact such programmes can have on development.

In *WIR03*, one of the key messages in the context of the interface between national policy making and international investment agreements was the potential role home country commitments could play in enhancing the development dimension of international investment agreements. Indeed, the *Report* went as far as arguing that future international investment agreements “should contain commitments for home country measures” (*WIR03*, p. 163).

Good corporate citizenship

Much of the international discussions on the role of FDI in developing countries concerns the social responsibility of TNCs. The notion of “good corporate citizenship”, as used in *WIR03*, covers a number of aspects, such as development obligations, socio-political obligations, consumer protection as well as emerging issues related to corporate governance, ethical business standards and the observance of human rights. While the Code of Conduct negotiated by the Commission on Transnational Corporations was never completed, the social responsibility dimension of TNC activities is receiving increased attention in various international agreements and fora. In its last chapter, *WIR99* and again in *WIR03*, as well as in a

special issues paper (UNCTAD, 2001b), UNCTAD revisited this topic and offered an update of recent developments, including the challenge by the United Nations Secretary-General Kofi Annan to TNCs to form a new “Global Compact” with society, whereby they would become global citizens adhering to a set of principles that would protect especially the environment, human and labour rights. There are growing expectations that TNCs can contribute directly to the advance of development goals as one aspect of good corporate citizenship: not only should they abide by the laws of the host country, they should also pay greater attention to contributing to public revenues, creating and upgrading linkages with local enterprises, creating employment opportunities, raising skills levels and transferring technology.

When UNCTAD in 1993 took over the work programme of the UNCTC it also inherited the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). This Group was formalized in 1982 by a United Nations Economic and Social Council (ECOSOC) resolution in response to the desire to increase the knowledge of what went on inside companies. It held its 20th session in 2003. It continues to offer guidance to policy makers, standard setters and the profession in the areas of accounting and reporting, and remains the only forum open to all developing countries and economies of transition on issues related to accounting and auditing. Since coming to UNCTAD, it has produced three guidelines: on integrating environmental costs and liabilities into financial statements (UNCTAD, 1999b); on the qualifications necessary for professional accountants (UNCTAD, 1999c); and yet another on accounting by SMEs. It is currently working on corporate governance and corporate social responsibility within the context of improving the transparency of information provided by enterprises and making them more accountable for their performance and impacts on society.

International rule making

An area in which UNCTAD has played a prominent role and one that has gradually moved up on the international agenda concerns international rule making on investment. In this regard, UNCTAD

continues a tradition started by the UNCTC, one of the most important projects of which involved servicing the then Commission on TNCs in the development of a Code of Conduct on TNCs. While this proposal eventually was abandoned, the discussion on the role of international rule making in the area of investment remains highly topical.

Mirroring international events, the special theme of the *WIR96* was “Investment, Trade and International Policy Arrangement”. It was a topic timely chosen as BITs proliferated, regional trade agreements expanded to cover investment, OECD negotiations on a Multilateral Agreement on Investment were on-going and some countries began to advocate the negotiation of an investment agreement in the WTO, as reflected in the 1996 Singapore Ministerial Declaration. In one section, the volume outlines the key issues under four topics requiring consideration as international arrangements develop: investment measures concerning the entry and operation of FDI; standards of treatment (especially national treatment, most-favoured-nation treatment and fair and equitable treatment); setting of appropriate standards to address such issues as transfer pricing, restrictive business practices, technology transfer, employment, environment and illicit payments; and, finally, investment protection and dispute settlement.

WIRO3 went into some detail to explore the implications of a number of key issues facing negotiators and policymakers in this regard. It focused in particular on policy measures aimed at attracting FDI (such as reducing obstacles to FDI (admission and establishment; improving standards of treatment for foreign investors (non-discrimination); protecting foreign investors (compensation for expropriation); and promoting FDI inflows (incentives)) and at benefiting more from FDI (such as increasing the contribution of foreign affiliates to a host country through mandatory measures (performance requirements) and by encouraging foreign affiliates to act in a desired way (incentives)). *WIRO3* stressed the importance of recognizing the need of developing countries to secure sufficient policy space for national policy making in order to promote development benefits from FDI. It also underlined the need to pay due attention to the balance of host and home country interests, as

well as to the potential treatment of good corporate citizenship in the context of international investment agreements (IIAs) – all with a view towards enhancing the development dimension of such agreements.

While multilateral negotiations in the OECD were abandoned in the end and discussions in the context of the WTO reached an impasse at the Organization's Cancún Ministerial in September 2003, investment agreements are proliferating at the bilateral and regional levels. As documented in *WIR03*, they are increasingly establishing parameters for national policy making:

- At the *bilateral* level, the most important instruments are BITs and double taxation treaties (DTTs), with 2,181 BITs and 2,256 DTTs by the end of 2002. The *WIR03* concluded that BITs as of 2002 covered an estimated 7% of the world stock of FDI and 22% of the FDI stock in developing countries and economies in transition, respectively. DTTs, meanwhile, covered some 87% of world FDI and 57% of FDI in developing countries and transition economies. In addition, more and more bilateral free trade agreements include investment provisions.
- At the *regional* level, few agreements deal exclusively with investment issues. The trend so far has been to address such issues in trade agreements. In effect, free trade agreements today are often also free investment agreements.
- At the *multilateral* level, finally, the few agreements deal with specific issues (such as trade-related investment measures, insurance, dispute settlement, social policy matters), or they are sectoral (such as the General Agreement on Trade in Services (GATS)).

UNCTAD has been actively following this trend, with a view towards assuring that developing countries are being put in a position that allows them actively and competently to engage themselves in discussions on, and negotiations of, international investment agreements at whichever level they wish to do so.

UNCTAD's analytical contributions have been widely appreciated and acknowledged. In addition to contributions through various *WIRs*, work on international investment agreements has resulted in a series of "issues papers" designed to address key concepts and issues relevant to international investment agreements. The completed series encompasses 27 papers, to date the most comprehensive analysis of key issues in IIAs.²² Another important UNCTAD contribution in this field of work is the report entitled *Bilateral Investment Treaties in the Mid-1990s*, which included a comprehensive analysis of the scope, nature and role of BITs in a globalizing world economy (UNCTAD, 1998b). UNCTAD has furthermore contributed to various conceptual innovations. For example, the concept of investment-related trade measures (IRTM) was first introduced in *WIR* in the early 1990s. The concepts of flexibility and national policy space in the area of FDI were developed over a cycle of three expert group meetings. Based on UNCTAD IX (89(b)), UNCTAD reviewed the development dimension of IIAs, starting in 1997 with an expert meeting on "Existing agreements on investment and their development dimension" (May 1997),²³ continuing with the meeting on "Existing regional and multilateral investment agreements and their development dimensions" (April 1998),²⁴ and culminating in the expert meeting on "International investment agreements: concepts allowing for a certain flexibility in the interest of promoting growth and development" (March 1999).²⁵ UNCTAD also introduced the idea that the concept of "transparency" – now central to international investment agreements – should not

²² The series will eventually cover the following topics: admission and establishment; competition; dispute settlement (investor-State); dispute settlement (State-State); employment; environment; fair and equitable treatment; FDI and development; home country measures; illicit payments; incentives; IIAs: flexibility for development; investment-related trade measures; lessons from the MAI; most-favoured-nation treatment; national treatment; scope and definition; social responsibility; state contracts; taking of property; taxation; transfer of funds; transfer of technology; transfer pricing; transparency; and trends in IIAs – an overview.

²³ TD/B/COM.2/EM.1/2; question 7, page 11; and TD/B/COM.2/5, TD/B/COM.2/EM.1/3 (report), para 8).

²⁴ TD/B/COM.2/EM.2/2, para 5; and TD/B/COM.2/11, TD/B/COM.2/EM3/3, para 4.

²⁵ TD/B/COM.2/EM.5/2 and TD/B/COM.2/17, TD/B/COM.2/EM.5/3.

only be seen in reference to host countries, but also in reference to home countries and TNCs.

UNCTAD's normative work and consensus-building are similarly well recognized. Special reference to UNCTAD was, for example, made in the WTO Ministerial Declaration in Singapore²⁶ and more recently also in the Doha Declaration.²⁷ Considerable work has been conducted in the form of facilitating negotiations and training in the area of international investment agreements. In fact, the interplay of research and policy analysis with technical assistance work and consensus-building, including close interaction with Governments via the intergovernmental machinery, constitutes one of UNCTAD's special strengths. The organization's active participation jointly with the WTO in a significant post-Doha technical assistance programme on investment reflects the strong reputation UNCTAD enjoys in this field. These joint activities were reported to the WTO Working Group on Trade and Investment,²⁸ where UNCTAD, as an observer, also made presentations on the issues under discussion, focusing on the development perspective.

²⁶ Paragraph 20 of the Singapore Ministerial Declaration deals with matters related to investment and competition policy and notes that two new working groups on trade and investment and on trade and competition shall "draw upon and be without prejudice to the work in UNCTAD and other appropriate intergovernmental fora. As regards UNCTAD, we welcome the work under way as provided for in the Midrand Declaration and the contribution it can make to the understanding of issues. In the conduct of the work of the working groups, we encourage cooperation with the above organizations to make the best use of available resources and to ensure that the development dimension is taken fully into account."

²⁷ Paragraph 21 of the Doha Declaration stated that "To this end, we shall work in cooperation with other relevant intergovernmental organisations, including UNCTAD, and through appropriate regional and bilateral channels, to provide strengthened and adequately resourced assistance to respond to these needs."

²⁸ See "Progress report. Work undertaken within UNCTAD's work programme on international investment agreements between the 10th Conference of UNCTAD, Bangkok, February 2000, and July 2002" (UNCTAD/ITE/Misc.58); and "Progress Report: Implementation of post-Doha technical assistance work in the area of investment" (UNCTAD/ITE/IIT/2003/3).

Concluding remarks

During the past forty years, the relative emphasis on the pros and cons of development strategies relying on inward FDI has oscillated but it is now widely recognized that FDI, as a complement to domestic investment, can bring important development benefits, for host as well as home economies. At the same time, this should not lead policy makers to rely simply on an open environment and market forces alone. Rather, the vast amount of the UNCTAD Secretariat's research and policy analysis underscores the crucial role of government policies to ensure that FDI brings development gains. FDI is no panacea to break out of underdevelopment. The scope for benefiting from inward FDI is closely linked to a country's ability to foster its domestic capabilities, but under the right circumstances, FDI can act as a catalyst for economic growth and development. The policy challenge is to identify the best approaches to leveraging such investment. Moreover, it is crucial that international agreements at various levels recognize fully the need for governments to be able to design and implement national policies that can help advance development objectives.

At both national and international levels, the expansion of TNC activities is today regarded as a critical factor for the formulation of policy responses to the challenge of globalization. Throughout its work, UNCTAD has emphasized, mainly through its *World Investment Report*, the importance of FDI, picked up key themes at an early stage as well as developed new concepts and kept following them over time. In this way, UNCTAD has helped to bring out the subject of FDI and TNC activities from the fairly small corner it occupied in the study of and policy formulation related to international economic relations and accorded it a more central place as a factor in those relations. The UNCTAD Secretariat (and earlier UNCTC) has developed the field in the international system of political economy; defined the mainstream in the policy area; and helped with consensus building.

UNCTAD's contributions in the area of FDI and development have relied on a combination of in-house knowledge and experience and close interaction with policy makers and academic expertise.

Over time, the Secretariat has developed a unique network of experts that play a critical role not only in providing inputs to the various publications and inter-governmental meeting that UNCTAD organizes but also as part of a rigorous peer review process that is crucial to guarantee high quality outputs. As can be seen from the acknowledgements at the beginning of each *WIR*, between 50 and 100 academics and officials from central banks, investment promotion agencies and representatives of non-governmental organizations are normally involved in providing ideas, data or even draft texts. The final output benefits from a genuine interaction between UNCTAD staff and external experts. In this context, it is worth mentioning the journal, *Transnational Corporations*, which is the only policy-oriented refereed journal with a clear policy-oriented focus related to the role of TNCs and development. This journal has helped the Secretariat to remain in close contact with the academic community and encourage state-of-the-art policy-oriented research in this area.

In every respect, UNCTAD has taken a hands-on approach to its tasks of advancing our understanding of the changing role of TNCs and FDI in economic development. The research and policy work has successfully interacted with technical assistance work in the field as well as with close links with national Governments through UNCTAD's intergovernmental machinery. In the area of FDI and development, there are no clear-cut answers or one-size-fits-all solutions. UNCTAD has fulfilled an important role in advancing the intellectual comprehension of this phenomenon and developed policies to deal with it. As regards UNCTAD's role in the policy making process, John H. Dunning, the long-standing Senior Adviser to the *WIR* team, summarized his views in the following way:

“Successive *WIRs* have helped governments, in a way no other publication has done, to know about TNCs – their nature, strategies and likely impact; and to guide them in their information gathering, policy formulation, institution building, and implementation devices.”²⁹

²⁹ Communication by John H. Dunning to UNCTAD, 19 December 2002.

The expansion of international production under the common governance of TNC activities underlines the importance of the objectives that were once set for the UNCTC: to improve the understanding of the nature of TNCs and to analyze some of their effects on home and host countries, including economic relationships between the two. UNCTAD's work (and earlier that of the UNCTC) has provided vital inputs to policy makers and academics around the world. By collecting, disseminating and analyzing data, developing knowledge, applying it to FDI with a distinct focus on developing countries and assessing policy options, UNCTAD has contributed to placing the relationship between FDI and economic development firmly on the international economic and political agenda. While forty years of research and policy analysis has brought new insights and knowledge as regards the impacts of TNC activities, the same challenges that faced policymakers in 1964 are still largely relevant today. As once underlined in the UNCTAD I resolution, in order to address them in a satisfactory way, and to maximize the developmental impact, all parties concerned – host countries, home countries, investors and the international community at large – need to assume their respective roles and responsibilities. ■

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