



**United Nations
Conference
on Trade and
Development**

Distr.
LIMITED

TD/B/COM.2/L.14
22 January 2002

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on Investment, Technology
and Related Financial Issues
Sixth session
Geneva, 21-25 January 2002

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

21-25 January 2002

Rapporteur: Ms. Vanessa Head (United Kingdom)
Introduction, agenda item 3 and organizational matters

Speakers:

Secretary-General	China
Egypt (for the Group of 77 and China)	India
Uganda (for the African Group)	Uganda
Spain (for the European Union)	Bangladesh
Bangladesh (for the LDC Group)	Zambia
Japan	European Commission
Representative of UNCTAD secretariat	Dominican Republic
Chairperson of the Expert Meeting	Malaysia
Sri Lanka (for the Asian Group and China)	United States of America
Benin (for the African Group)	International Confederation of Free Trade Unions
United States of America	Director, DITE
Jamaica	
Spain (for the EU)	

Note for delegations

This draft report is a provisional text circulated for clearance by delegations.
Requests for amendments to statements by individual delegations should be communicated by **Friday, 1 February 2002** at the latest, to:
UNCTAD Editorial Section, Room E.8102, fax no. 907 0056, tel. no. 907 5654/1066.

I. INTRODUCTION

Opening statements

1. The **Secretary-General of UNCTAD** outlined the main issues to be considered during the Commission's session. He noted that it was taking place at a critical juncture for the world economy, with falling FDI flows. The UNCTAD secretariat had estimated that world FDI inflows had dropped by 40 per cent in 2001. The decline had been experienced by almost all regions, although FDI flows to Africa had proved resilient and were even slightly higher than the level reached in 2000. Recent corporate surveys suggested that investors intended to continue with their worldwide expansion and that the aftermath of the events of 11 September was not influencing the medium-to-long-term investment plans of the majority of companies.

2. Against this background, he observed that the quality of FDI, and how to enhance its developmental impact through host country policies and home country contributions, would be increasingly debated. One aspect of the "development dimension" of FDI – namely, the link between FDI and industrialization, export competitiveness and the development of supply capacity – was to be reviewed under agenda item 3. He noted that the *World Investment Report 2001* had examined in depth how various policies could be used to promote backward linkages between foreign affiliates and local suppliers.

3. He made particular reference to the final Ministerial Declaration adopted by the WTO Conference in Doha. It called for an ambitious work programme, including a number of issues of great relevance to the work of UNCTAD in the area of investment, such as the need for strengthened and adequately resourced support for technical assistance and capacity-building for the benefit of developing countries and LDCs, and the need for a better evaluation of the implications of closer multilateral cooperation for those countries' development policies and objectives. The UNCTAD secretariat was ready to take up this challenge, despite resource constraints, and was preparing a comprehensive technical assistance programme on post-Doha support activities.

4. As production became increasingly knowledge-intensive, the need to access and utilize technologies had become critical for economic development in a competitive world. A key question was how to enhance the effectiveness of international arrangements for transfer of technology and capacity-building through effective implementation of the relevant provisions, on which an Expert Meeting had been held, which would be reviewed under agenda item 4.

5. He then turned to the area of investment policy reviews (IPRs). Reflecting the desire expressed by delegations and regional groups that the modalities for handling forthcoming IPRs in the intergovernmental machinery should be allowed more time for the discussion of each review, the IPR of the United Republic of Tanzania had been given one full meeting. The Commission would also review progress in follow-up activities, which had been undertaken in several countries that had completed the full review cycle, including Uganda, Mauritius and Ecuador.

6. He stated that, in accordance with the decision taken by UNCTAD X in Bangkok, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting had intensified its work on corporate governance and that it was expected to provide a template for applying the principles of improved corporate governance to diverse economic, political, social and cultural environments under agenda item 6.

7. Turning to the important area of helping developing countries in the field of competition laws and policies, he informed participants that the Intergovernmental Group of Experts on Competition Law and Policy would examine at its next session a study on the role of possible dispute mediation mechanisms and alternative arrangements, including voluntary peer reviews. He also mentioned that a project to extend technical assistance to emerging competition authorities in the Common Market for Eastern and Southern Africa (COMESA) had been launched in December in Kampala. Moreover, an International Competition Network had been created, of which developing countries and relevant organizations, including UNCTAD, would be members. Referring to the Doha Ministerial Declaration, he said that UNCTAD was ready to make its contribution, in full cooperation with the WTO and other organizations and national competition authorities.

8. He made special reference to the recommendations made at the Expert Meeting on Mainstreaming Gender in Order to Promote Opportunities, held in Geneva in November 2001, and asked delegates to consider them in their deliberations. He noted also that the seventh annual conference of the World Association of Investment Promotion Agencies was taking place in parallel with the Commission's session and that some joint sessions were scheduled.

9. In closing, he expressed satisfaction with the presence of other international organizations active in the field of trade and investment, such as MIGA, FIAS, WTO, UNIDO, OECD and FTAA. In this way, the Commission became an important forum for the exchange of views among member States and intergovernmental agencies. On the eve of a new round of world trade negotiations and in the light of the current global economic slowdown, a productive exchange of views on appropriate economic policy responses at the national as well as the regional and multilateral levels had never been more important. He hoped that the Commission would make an important contribution to such a dialogue within the framework of its mandate.

10. The representative of **Egypt**, speaking on behalf of the **Group of 77 and China**, said that a third generation of investment promotion policies was necessary in the face of declining FDI flows. Given constraints on fiscal policies, Governments needed to be clear about their priorities, and a targeted approach to FDI promotion, ideally with the involvement of the private sector, was recommended as a cost-effective strategy to be considered. He also highlighted the importance of enhancing supply capacity, for which a linkage promotion programme could be a useful tool.

11. Enhancing export competitiveness remained a challenge for developing countries. As market access could be seen both as a development objective in itself and as a tool for attracting FDI, he urged developed countries and international institutions to provide the

technical and financial assistance needed to achieve that goal. In conclusion, he asked UNCTAD to assist developing countries in the design and implementation of their FDI policies and local suppliers' development strategies, and encouraged discussions on the developmental dimensions of those FDI policies.

12. The representative of **Uganda**, speaking on behalf of the **African Group**, noted that FDI flows to Africa had fallen despite the more favourable regulatory frameworks that had been put in place, and that this called for action on the supply-side constraints that many African nations faced, in particular the LDCs. He stressed the link between trade and investment and the importance that market access had for developing and least developed countries in this respect.

13. He emphasized the critical role that technology played in the economic development of nations and, while acknowledging the existence of numerous international arrangements for the transfer of technology, called for more effective implementation of these arrangements. Regarding policy reviews, he was pleased that more African countries were able to participate in this process and called for follow-up mechanisms.

14. The representative of **Spain**, speaking on behalf of the **European Union**, highlighted the *World Investment Report* as a source of valuable information and encouraged UNCTAD to continue its research in the area of FDI. In the light of the Doha Ministerial Declaration, UNCTAD should provide support for policy analysis, human resources development and institutional development that would allow developing countries to participate effectively in multilateral discussions on investment. He said that UNCTAD was the appropriate forum in which to discuss the developmental dimension of a multilateral framework on FDI. UNCTAD should complement the work done in the WTO Working Group on clarifying certain issues, and deepen understanding, particularly from a development point of view. The EU supported this work and was committing resources for technical assistance and capacity-building activities in this field. Finally, he noted the relevance of the work of the Commission's subsidiary bodies on competition policy and the establishment of appropriate accountancy rules for SMEs.

15. The representative of **Bangladesh**, speaking on behalf of the **LDC Group**, stressed the importance of FDI for development, given insufficient local savings and the shortcomings of other types of financing, including official development assistance (ODA). However, he also emphasized that the relationship between foreign and domestic investment had to be complementary. To avoid foreign exchange shortages, export-oriented FDI would be particularly desirable. He expressed concern that preferential market access for LDCs, which was a vital tool for compensating the extra risk that investors faced in those countries, was being phased out.

16. He pointed out that, in spite of increasingly friendly FDI regimes, LDCs received only 0.3 per cent of world FDI inflows. Many of those countries, given their small size, remoteness and vulnerability, were unlikely to attract significant amounts of FDI, and new tools should be identified to overcome these barriers. He called for new initiatives aimed at overcoming the risk that investors faced in LDCs.

17. The representative of **Japan** noted the importance of improving business conditions in developing countries, and that, in this regard, ODA should be combined with FDI in order to promote the necessary improvements in skills and infrastructure. He called for improved availability of information on FDI opportunities and more active South-South cooperation through which developing countries could exchange their experiences in this field.

II. IMPACT OF INTERNATIONAL INVESTMENT FLOWS ON DEVELOPMENT:

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

(Agenda item 3)

18. For its consideration of this item, the Commission had before it the following documentation:

“The Impact of FDI Policies on Industrialization, Local Entrepreneurship and the Development of Supply Capacity, Policy Issues to consider” (TD/B/COM.2/EM.10/2)

“Report of the Expert Meeting on the Impact of FDI Policies” (TD/B/COM.2/35)

“Impact of International Investment Flows on Development: the Impact of FDI Policies on Industrialization”, Note by the UNCTAD secretariat (TD/B/COM.2/38).

“World Investment Report 2001, Promoting Linkages”, Overview (UNCTAD/WIR/2001)

“Report of the Expert meeting on Mainstreaming Gender in order to Promote Opportunities” (TD/B/COM.3/40).

19. The representative of the **UNCTAD secretariat** introduced the agenda item. She stressed that the link between FDI and industrialization, export competitiveness and the development of supply capacity in host countries was an important development dimension. Governments needed a clear development strategy and to ensure that there was consistency between FDI promotion efforts and each country’s capacities and opportunities. She also noted that the private sector had a key role to play in attracting FDI and promoting linkages. Host countries needed to be well informed about the motivations and corporate strategies behind TNCs’ decisions to invest. She made special reference to the so-called third generation of investment promotion policies, whereby foreign investors were targeted in accordance with a country’s developmental priorities.

20. The *World Investment Report 2001* had paid special attention to the importance of the promotion of linkages. Linkages with local firms and institutions constituted the best channel for diffusing knowledge and technology from foreign affiliates to host economies and could contribute to the growth and strengthening of a domestic enterprise sector and its supply capacity. Governments had an important role to play by addressing specific obstacles to the linkage formation process, increasing the benefits and/or reducing the costs of using domestic suppliers.

21. As FDI and linkage promotion could be costly to implement, she underlined the need for technical and financial assistance from the international community and home countries. She also referred to the role of preferential access to developed country markets as an important factor in attracting FDI to beneficiary developing countries, and the contribution that rules of origin could make to the process of linkage formation.

22. Finally, she stressed that the present agenda item had important implications for the development dimension of FDI and for related policies. She asked the Commission to consider further exploring other aspects of the development dimension of FDI, against the backdrop of an evolving international policy context, particularly in the post-Doha period.

23. The **Chairperson of the Expert Meeting on the Impact of FDI Policies on Industrialization, Local Entrepreneurship and the Development of Supply Capacity** reported on the discussions at the Expert Meeting. She noted that although policies varied substantially among countries, it was always important to have clear policy objectives that were consistent with each country's capabilities. A number of policy issues had been considered at the Expert Meeting, including cooperation among government agencies involved in the process of attracting FDI, the role of targeting in investment promotion and the development of linkages, which had been treated extensively in the *World Investment Report 2001*.

24. It had been noted that the tools to target FDI had evolved from cost reduction tools to differentiation and specialization. Effective tools included the presence of clusters and subnational agglomerations, certain government incentives, public-private partnerships and alliances, and aftercare for existing investors. Belonging to a preferential trade area or having access to larger markets had also been noted as an important advantage in attracting FDI, particularly with regard to attracting export-oriented activities. Once FDI had been attracted to a country, promotion of linkages between foreign affiliates and local suppliers could be considered. If and when countries decided to implement a linkage promotion programme, some practical lessons could be drawn from international experience. This included the importance of measures to upgrade local supply capacity, selective supplier development support, coordination among government agencies and context-specific measures adapted to the circumstances of each country or subnational location.

25. She mentioned some possible roles that home countries could play in this regard, for instance by giving market access to the products of LDCs or by providing financial assistance for the implementation of appropriate FDI frameworks in developing countries. The international institutions should coordinate efforts to assist developing countries and LDCs in particular in building the necessary infrastructure for attracting FDI, while UNCTAD should continue its research on the international production systems of TNCs, assist developing countries in assessing their capabilities and design consistent FDI targeting and linkage programmes.

26. The representative of **Sri Lanka**, speaking on behalf of the **Asian Group and China**, recalled the experiences of Asia in FDI-related industrialization. They had shown the importance of a clear development strategy designed by the Government, the availability of

skilled human resources, market access and the strengthening of local supply capacity. He mentioned that the *World Investment Report 2001* had described some of the Asian experiences, and he commended the report for its comprehensiveness.

27. The current decline in FDI inflows around the world called for new policy thinking and in particular for a more focused strategy in which FDI could complement and upgrade local capacities and develop local linkages. In this context it was important that countries in the Asian region align their FDI promotion activities in order to avoid a “race to the bottom” when attracting FDI. He suggested that developed countries should provide expertise and financial assistance for setting up investor-targeting initiatives in developing countries. Finally, he encouraged UNCTAD to continue its analysis in the area of FDI and proposed that regional and subregional policies be included in this analysis.

28. The representative of **Benin**, speaking on behalf of the **African Group**, noted that the benefits of FDI had not yet reached Africa, in spite of increases in FDI inflows into some African countries. He mentioned the high levels of debt, declining ODA, deteriorating terms of trade and restrictions on market access as the main constraints that African countries faced with regard to attracting more FDI.

29. He stressed the importance of FDI for development and suggested a number of actions to attain that objective in Africa: improvements in the national FDI policy frameworks; improvements in human resources and infrastructure; regional integration to enlarge the potential market; improved market access, in particular to developed country markets; the establishment in Africa of specialized banks for financing private investments; a targeted approach to FDI promotion; support of an international network of investment promotion agencies and the involvement of the private sector.

30. The representative of the **United States of America** noted the relevance of market access for attracting FDI and called for conclusions and recommendations that were succinct and focused.

31. The representative of **Jamaica** said that the benefits of FDI were not automatic, and mentioned that her country was implementing an integrated strategy in that regard. She stressed that FDI must be promoted in accordance with each country’s capacities and characteristics.

32. The representative of **Spain**, speaking on behalf of the **European Union**, suggested that UNCTAD continue its analysis of the impact of FDI on sustainable development, advise developing countries on policies that would allow them to benefit from FDI inflows, increase technical assistance and capacity-building in these countries, and supply relevant data and statistical information on FDI trends worldwide.

33. The representative of **China** endorsed the views expressed by the Group of 77 and the Asian Group. He expressed his concern about the decline of world FDI flows in 2001. If the trend was not reversed in 2002, developing countries would face severe difficulties in attracting FDI. He was satisfied with the outcome of the Expert Meeting on the Impact of

FDI Policies on Industrialization, Local Entrepreneurship and the Development of Supply Capacity of Developing Countries, in particular the Least Developed Countries, and suggested that the policy recommendations which it had formulated be fully reflected in the agreed conclusions of the Commission. He also called for improved links between various levels of the UNCTAD intergovernmental machinery in the area of investment, technology and related financial issues.

34. The representative of **India** drew attention to his comments on the outcome of the Expert Meeting, which India had circulated in writing. He found the concepts of proactive investment promotion and targeting useful. Nevertheless, he warned against using proactive investment promotion as a justification for a “race to the bottom”. The latter would be in disregard of the fact that the benefits of FDI varied widely according to the nature of the individual projects. Not all projects were in line with the development priorities of host countries. In such cases, a one-size-fits-all approach to attracting FDI would be harmful for development. Furthermore, while endorsing the views of the LDC Group as expressed by Bangladesh, he suggested a number of areas of concern to be analysed in detail in the future, the first of which was the degree to which FDI and domestic investment were complementary and to what extent the former crowded out the latter. The second was the issue of performance requirements. The third issue was the link between FDI and host country growth, including whether FDI tended to crowd out domestic investment. The impact of FDI on the balance of payments of host countries was the fourth area of concern, especially in conjunction with the impact of other forms of investment such as portfolio investment. These issues could be analysed through, for example, stocktaking of existing empirical studies on the development impact of FDI in different countries.

35. The representative of **Uganda** reiterated the importance of mainstreaming gender considerations into the analysis and promotion of FDI. She referred to her country’s experience in encouraging women to become actors in that area, its assistance to networking, and its efforts in the area of dissemination of information and capacity-building. She also highlighted the key role that women could play in joint ventures, as foreign companies were often more inclined to work with local firms run by women. With regard to measures for improvement, she mentioned the need for innovative banking methods to help women.

36. The representative of **Bangladesh**, speaking on behalf of the **LDC Group**, welcomed the outcome of the Expert Meeting but wished to mention a couple of points. He noted that an enabling framework, such as a free investment regime, had not been enough for the LDCs to ensure significant FDI inflows and that the correct form of targeting was needed. He noted, however, that the views of potential investors were not well reflected in the outcome of the Expert Meeting. He also expressed some concern about the phasing out of the preferential access of LDCs to developed markets.

37. The representative of **Zambia** stressed the importance of FDI for his country as an LDC. He said that the best way to design strategies to attract FDI involved clarifying, first of all, who the main beneficiaries of FDI inflows would be. He also referred to the impact of structural adjustment programmes on FDI, which, it had been suggested, had not been

adequately analysed. He endorsed India's suggestion that the impact of the WTO Agreements on FDI be examined.

38. The representative of the **European Commission** supported the recommendations of the Expert Meeting. He was particularly pleased with the wording to the effect that investment promotion policies needed to be designed in the light of development objectives and should fully involve the participation of the private sector in a public-private partnership. There was a need to follow up on the usefulness of a simplified institutional setting for FDI promotion (in the form of one-stop shops), the role of targeting, and the role of the Government as a facilitator in various areas such as information exchange, matchmaking and training. He also endorsed the idea that policy recommendations should deal not just with host countries but with home countries and international organizations as well.

39. The representative of the **Dominican Republic** noted with surprise that targeting seemed to have been advocated by most previous speakers. He felt that it was quite complicated, and that there was thus a need for more discussion. He took note of the contradiction between the WTO obligations to reduce performance requirements on the one hand and the need to optimize the development impact of FDI on the other. He suggested that, to deal with those issues, UNCTAD hold an Expert Meeting on the trade-investment link.

40. The representative of **Malaysia** supported India's choice of topics, although there had been insufficient time to judge all the necessary details as far as substance was concerned.

41. The representative of the **United States of America**, referring to the statement made by the representative of the Dominican Republic, stressed that the outcome of the Expert Meeting had been formulated flexibly enough to allow countries to decide whether or not to adopt a particular policy measure. He also warned against a too dirigiste approach to FDI and development. With regard to gender issues, he referred to experience in the United States that helped to show how better access for women to credit, for example, could help resolve the sometimes little-known gender problem in FDI.

42. The representative of the **International Confederation of Free Trade Unions** stressed that investment promotion must not result in the suppression of basic labour rights or rights of association, either in a host country or in export processing zones. This was particularly important since FDI was not an aim in itself but should be used as a tool for achieving sustainable development not least in the area of human resources. She warned against forsaking tax revenues in order to promote investment. Finally, she emphasized that FDI policies should be consistent with other development objectives. Governments needed to work in close collaboration with the private sector and trade unions to ensure that FDI would help foster workers' development and workers' rights. UNCTAD had a key role to play as an adviser to Governments on how to design appropriate policies.

43. The **Director of the Division on Investment, Technology and Enterprise Development** agreed with the representative of India that not all FDI had a positive impact. In fact, the *World Investment Report 1999* had analysed in detail every key area where its

impact could be potentially negative. It had concluded, however, that the impact was positive on balance, and this was why most countries actively promoted FDI. The report also concluded that policies were important for dealing with potential negative impacts. He agreed that maintaining a national space for development policy was a main priority for developing countries. In this respect, while it was true that the TRIMs Agreement prohibited certain host country operational measures, most of the potential measures were still allowed. In this context, he referred to a report by the UNCTAD secretariat on host country operations measures.

III. ORGANIZATIONAL MATTERS

A. Opening of the session

44. The sixth session of the Commission on Investment, Technology and Related Financial Issues was held at the Palais des Nations, Geneva, from 21 to 25 January 2002. In the course of the session, the Commission held ___ plenary meetings and ___ informal meetings. The session was opened on 21 January 2002 by Mr. Jean-Luc Le Bideau, Chairperson of the fifth session.

B. Election of officers

(Agenda item 1)

45. At its plenary meeting, on 21 January 2002, the Commission elected its Bureau as follows:

Chairperson: Mr. Mohd. Hamid Aji Mohd. Jaafar (Brunei Darussalam)

Vice-Chairpersons: Mr. Falou Samb (Senegal)
Mr. Ruben Ramirez (Paraguay)
Mr. V.S. Seshadri (India)
Mr. Jean-Luc Le Bideau (France)
Mr. Vladimir Malevich (Belarus)

Rapporteur: Ms. Vanessa Head (United Kingdom)

C. Adoption of the agenda and organization of work

(Agenda item 2)

46. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.2/36, as orally amended by the European Union. Accordingly, the agenda for the sixth session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Impact of international investment flows on development: The impact of FDI policies on industrialization, local entrepreneurship and the development of supply capacity of developing countries, in particular the least developed countries
4. International policy issues: International arrangements for transfer of technology: Best practices for access to and measures to encourage transfer of

technology with a view to capacity-building in developing countries, especially in least developed countries

5. Investment policy reviews: Exchange of national experience
6. Reports of the subsidiary bodies of the Commission
7. Progress report on the implementation of agreed conclusions and recommendations of the Commission
8. Provisional agenda for the seventh session of the Commission
9. Implications for the work of the Commission following the Doha Ministerial Meeting
10. Other business
11. Adoption of the report

D. Other business

(Agenda item 10)

E. Adoption of the report

(Agenda item 11)