



**UNITED NATIONS  
CONFERENCE  
ON TRADE AND  
DEVELOPMENT**

Distr.  
RESTRICTED

TD/B/COM.2/CRP.1  
9 September 1998

Original: ENGLISH

---

TRADE AND DEVELOPMENT BOARD  
Commission on Investment, Technology and  
Related Financial Issues  
Third session  
Geneva, 14 September 1998  
Item 3 of the provisional agenda

**BACKGROUND NOTE ON RECENT DEVELOPMENTS IN  
FOREIGN INVESTMENT TRENDS AND WORK UNDERTAKEN  
IN THIS AREA**

This note has been prepared in accordance with the guidelines for the servicing of UNCTAD's intergovernmental machinery adopted at the mid-term review. It contains a brief overview of recent trends in foreign investment flows and policies. It also contains a review of the actions undertaken by the secretariat in pursuance of the mandates received at the second session of the Commission on Investment, Technology and Related Financial Issues, as well as the technical assistance activities implemented by the secretariat in the areas of investment, technology and enterprise development since that session. As a background to this note, the secretariat has prepared a note on "Foreign direct investment in Africa: performance and potential" (UNCTAD/ITE/Misc.5) and a "DITE's Activities Report 1997-1998" (UNCTAD/ITE/Misc.6). The latter will be made available upon request.

## CONTENTS

	Paragraph
I. Recent trends in foreign investment . . . . .	1-6
II. Progress report on implementation of recommendations made by the Commission at its second session . . . . .	7-16
III. Technical assistance activities . . . . .	17-26
Annex tables and figures	

## I. RECENT TRENDS IN FOREIGN INVESTMENT

1. World foreign direct investment (FDI) flows continued to grow in 1997, with outflows reaching \$424 billion and inflows amounting to about \$400 billion (annex table 1). Although the growth of FDI flows slowed in 1997, FDI grew at a faster rate in 1997 than did other major macroeconomic indicators such as gross domestic product (GDP), exports, or domestic investment, continuing a tendency towards faster growth that began in the 1980s.

2. It was not until 1987 that the level of FDI flows reached the order of \$100 billion, but it took only five years more to double to \$200 billion and another five years to double again to \$400 billion in 1997. This rapid growth of FDI reflects the growing internationalization of the global economy and further contributes to the integration of national economies. The degree of economic integration as measured by trade (exports plus imports) as a percentage of GDP has remained almost constant during the past decade and half. But integration in terms of FDI flows (outward plus inward FDI flows) as a percentage of GDP has risen from 1.0 per cent in 1980 to 2.3 per cent in 1996; in terms of FDI stock (outward plus inward FDI stocks), it increased from 10 per cent to 21 per cent during the same period (annex figure 1). This acceleration indicates that firms are producing more and more outside their home countries. As much as seven per cent of world GDP is now generated by the production of foreign affiliates of transnational corporations (TNCs) alone.

3. Despite different and divergent economic performance of countries in different regions, FDI continued to grow in all major country groupings in 1997. Developed countries invested \$359 billion globally (up by 27 per cent over the previous year) and attracted \$233 billion in inward FDI (19 per cent more than in 1996) in 1997. Inflows to developing countries were \$149 billion (15 per cent more than in 1996) and outflows \$61 billion (24 per cent more than in 1996) in 1997. The economies in transition of Central and Eastern Europe, as a group, experienced dramatic increases in both inflows and outflows in 1997: FDI inflows increased by 44 per cent to \$19 billion and FDI outflows rose more than threefold to \$3 billion. Investments to all three groups of countries represent record levels.

4. The most important factor behind the increases in FDI in 1997 was the growth of cross-border mergers and acquisitions (M&As) that accounted for about one quarter of all M&As. The value of majority cross-border M&As increased from 49 per cent to 58 per cent in relation to total FDI inflows. Large-scale M&As have led the growth of FDI. Cross-border M&As involving more than \$1 billion announced in 1997 amounted to \$161 billion. These M&As have been facilitated, among others, by ongoing FDI liberalization and deregulation.

5. Regulatory frameworks for FDI continued to change, overwhelmingly in the direction of creating a more favourable investment climate. In 1997, the great majority of changes made by 76 countries to FDI regulations (135 out of 151) were in the direction of liberalization (annex table 2); 153 bilateral investment treaties (BITs) were concluded, bringing the total number of BITs to 1,513. The number of double taxation treaties concluded by 1997 had reached 1,794 (108 treaties in 1997 alone).

6. Even though the majority of large-scale M&As were concluded among developed regions, the relative importance of developing countries as recipients for FDI remained almost the same as in the previous year: they accounted for more than one-third of world FDI flows. However, there have been significant changes in the pattern of flows to developing countries. A detailed analysis of FDI trends and related issues for each region of the world will be discussed in the *World Investment Report 1998: Trends and Determinants*. The *Report* will also discuss the locational determinants of FDI to help understand better the trends and pattern of FDI.

## II. PROGRESS REPORT ON IMPLEMENTATION OF RECOMMENDATIONS MADE BY THE COMMISSION AT ITS SECOND SESSION

7. At its second session (TD/B/44/14, agreed recommendations, para.3), the Commission requested the secretariat to undertake a number of activities related to the investment experience of LDCs and developing countries in Africa, to be reflected in the forthcoming *World Investment Report 1998*, and appropriate competition policy, and in particular the coherence between FDI liberalization, trade policy and competition policy, reports on experiences gained so far with

international cooperation on competition policy, and the impact of competition policy on inflows of investment and on the overall growth of the domestic economy. The Commission also pointed to the need to increase the understanding of the interrelationship between FDI liberalization and competition policy, in cooperation with the WTO (agreed recommendations, paragraph 5). In addition, the Commission requested a continuation of UNCTAD's work programme on a possible multilateral framework on investment, and in particular work on the development dimension of international investment arrangements in the future (agreed recommendations, paragraph 7).

8. The Commission also requested the convening of four expert meetings, as follows: (1) to examine and review existing regional and multilateral investment agreements and their development dimension in pursuance of the mandate of paragraph 89(b) of a "Partnership for Growth and Development"; (2) on environmental accounting: examination of national standards and regulations for environmental financial accounting and identification of key environmental performance indicators and their relation to financial performance (Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting); (3) on competition law and policy (Intergovernmental Group of Experts on Restrictive Business Practices); and (4) on the growth of domestic capital markets, particularly in developing countries, and its relationship with foreign portfolio investment.

9. In response to these requests, the secretariat has undertaken the following activities: with respect to the experience of LDCs and developing countries, the secretariat prepared, as a background document for the third session of the Commission, a factsheet on "Foreign direct investment in Africa: performance and potential" (UNCTAD/ITE/Misc.5). The fact sheet takes issue with the image of Africa as an inhospitable FDI location, advocating a differentiated look at 54 African countries. This approach permits the identification of countries which have performed well in terms of attracting FDI, as well as countries with unexploited FDI opportunities to be seized by foreign investors. It outlines policy actions which should be undertaken by host African countries, home countries and the international community to help realize or even increase the FDI potential. In addition, one chapter in the forthcoming *World Investment Report 1998: Trends and Determinants* deals with FDI in Africa, focusing on current

front runners in terms of FDI inflows.

10. With respect to the benefits that can be gained from competition policy, the secretariat prepared a report (for the Intergovernmental Group of Experts on Competition Law and Policy) on "Empirical evidence of the benefits from applying competition law and policy" (TD/B/COM.2/EM/10/Rev.1), which was reviewed by the experts in November 1997 and is currently being finalized on the basis of comments received during that meeting. The experts also considered an outline of a study on "Experiences gained so far with international cooperation on competition policy issues and mechanisms used" which is currently being prepared by the secretariat. As requested by the Commission, as well as by the expert meeting in its agreed conclusions (TD/B/COM.2/9), the secretariat and the WTO are cooperating closely in the area of competition law and policy. Two joint WTO/UNCTAD/World Bank symposiums on "Competition policy and the multilateral trading system" have been organized (in November 1997 and July 1998). In addition, the secretariat participates actively in the WTO Working Group on the Interaction between Trade and Competition Policy. Similarly, the WTO has made presentations in UNCTAD regional and subregional seminars and workshops.

11. With respect to the possible multilateral framework on investment (MFI), the secretariat continued its work programme with the organization of two joint UNCTAD/WTO seminars for Geneva-based delegates on "Investment, trade and economic development", held in Glion-sur-Montreux on 26-27 February and 8-9 June, respectively. The series of regional symposia was also continued with the symposium for Asia, held in New Delhi, India, on 15-16 July 1998. The symposium concluded with the "Message from New Delhi" that called for continued pursuance of UNCTAD's work on development dimensions of a possible multilateral framework on investment. Work also commenced as regards the preparation of the regional symposium for Latin America and the regional symposium for the Caribbean, with the latter to be held on 28-29 September in Kingston, Jamaica, organized jointly with the Organization of American States and the Government of Jamaica. In addition, the training component of this work programme commenced with a training seminar undertaken jointly with the United Nations Staff College in Turin, held on 1-3 December 1997. Work also progressed on the MFI Technical Papers Series, six of which have reached a final draft stage. As an additional feature of the programme, a

number of civil society events were organized in 1998, ranging from the Ambassador-European industrialist round table held in Geneva on 8 December 1997 and the NGO-Ambassador round table held in Geneva on 10 June 1998 to the joint UNCTAD-CUTS symposium for Asian NGOs (in cooperation with the Rajiv Gandhi Institute), held in New Delhi on 17 June 1998; a similar round table is planned for late this year with the International Confederation of Free Trade Unions (ICFTU).

12. The Expert Meeting on Existing Regional and Multilateral Investment Agreements and their Development Dimensions took place from 1 to 3 April 1998. As background documentation, the Division prepared a note entitled "Existing regional and multilateral investment agreements and their relevance to a possible multilateral framework on investment: issues and questions" (UNCTAD/TD/B/COM.2/EM.3/2, dated 21 January 1998). The note contained a brief overview of recent trends in international policies and international instruments on FDI and a list of issues typically addressed in them. The note also raised a number of issues and questions regarding the objectives of such agreements and arrangements, with particular reference to their development objective. (The report of the Expert Meeting and its conclusion will be discussed under item 4 of the provisional agenda for the third session of the Commission.) The meeting was scheduled so as to dovetail with the second session of the WTO Working Group on the Relationship between Trade and Investment, held on 30-31 March 1998. Its results were presented at the 16-17 June session of that Working Group, together with a presentation on UNCTAD's work on the development dimension in international investment agreements. The Working Group concluded by asking UNCTAD to prepare background documentation for its next sessions

13. The fifteenth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) was held from 11 to 13 February 1998. It was attended by 66 member countries (148 experts), 15 international organizations and 9 professional associations. The main agenda item was environmental accounting. The Group reviewed the existing guidance and research on this subject at the national level. Based on its review, the Group produced a position paper containing best practices, entitled "Accounting and financial reporting for environmental costs and liabilities" (TD/B/COM.2/10). The paper will

guide enterprises, regulators and standard-setting bodies in choosing best practices for accounting for environmental transactions in corporate financial statements. The Group requested that this paper be published and given the widest possible circulation. The Group also discussed the role of accounting in the Asian crisis and asked UNCTAD to conduct research on this topic. It decided that its sixteenth session should be devoted to the components of national systems of training for professional accountants, including a model curriculum, and that the seventeenth session should consider accounting for SMEs. In addition to the fifteenth session of the Group, a number of informal consultations with experts have been held on the subjects of environmental accounting and strengthening the accounting profession in developing countries. These informal consultations have helped prepare inputs for the fifteenth and sixteenth sessions and contributed to research within UNCTAD.

14. The Intergovernmental Group of Experts on Competition Law and Policy was convened from 29 to 31 July 1998. The deliberations and conclusions of this meeting will be reported to this session of the Commission under agenda item 5 and are contained in document TD/B/COM.2/13.

15. The Expert Meeting on the Growth of Domestic Capital Markets, particularly in Developing Countries, and its Relationship with Foreign Portfolio Investment was convened on 27-29 May 1998. The Meeting included three informal sessions dealing with (i) portfolio investment in the context of structural changes in international financial markets; (ii) capital market development and portfolio investment; and (iii) markets and fundamentals: policy issues. The meeting adopted a set of agreed conclusions, and the chairperson summed up the discussion of the meeting (TD/B/COM.2/12).

16. Further details of the secretariat's activities in the areas of investment, technology and enterprise development during the period from September 1997 to October 1998 can be obtained from "DITE's activities report, 1997-1998" (UNCTAD/ITE/Misc.6), which is made available upon request.



### III. TECHNICAL ASSISTANCE ACTIVITIES

17. Since the second session of the Commission, the secretariat has undertaken technical assistance activities in the areas of a possible multilateral framework on investment (see above); policy frameworks for attracting foreign investment (FORINVEST); investment policy reviews (IPRs); negotiating international business arrangements (TRANSACT); strengthening/streamlining agencies concerned with maximizing and promoting FDI (STAMP); science, technology and innovation policy reviews (STIPs); centres for innovation and enterprise development (CIED); and entrepreneurship and SME development (EMPRETEC). In addition, the Division has been active in enhancing the participation of women entrepreneurs in LDCs' economies; international standards of accounting and reporting; and enterprise networking, in particular commodity production and trade diversification through Asian-African partnerships. (Annex table 3 summarizes the technical cooperation programmes offered by DITE over the course of the reporting period and indicates the countries and regions that have benefited from these activities.)

18. During the reporting period, a technical cooperation project on the expansion and strengthening of the role of FDI by SMEs in the developing countries of Asia culminated in a regional conference (International Conference on SMEs-FDI-Development: Attracting SMEs and Promoting Development in Developing Asia) that took place in Kunming, China on 29-31 October 1997, where more than 80 participants from 15 countries benefited from the policy discussions. The *Handbook on Foreign Direct Investment by Small and Medium-sized Enterprises: Lessons from Asia* (Sales publication E.98.II.D.4), released in 1998, contains a technical cooperation manual on practical measures to assist SME investors. Also finalized was the country report on Tunisia for the interregional joint UNCTAD/World Bank/UNDP project on the "Expansion of foreign direct investment and trade in services".

19. In addition, components of the FORINVEST programme were implemented in Albania, Bangladesh, Bolivia, Congo, Egypt, Eritrea, Gambia, Lebanon, Morocco, Niger, Oman, Pakistan, Sao Tome and Principe, Saudi Arabia, and the West Bank and Gaza Strip. Furthermore, activities involved several regional organizations. Components of the TRANSACT programme

were implemented in the following countries and territories: Eritrea, Oman, Sao Tome and Principe, Uganda and West Bank and Gaza Strip. Components of the STAMP programme were implemented in Albania, Bangladesh, Bolivia, Colombia, Gambia, India, Jordan, Kenya, Pakistan, Uganda, Uzbekistan, and West Bank and Gaza Strip. Furthermore, the Division supported the secretariat of the World Association of Investment Promotion Agencies (WAIPA)

20. In the area of IPRs and STIP reviews, the Division initiated IPRs in Egypt, Peru, Uganda and Uzbekistan. The Colombian STIP country review was prepared for publication, and the review in Jamaica was finalized. A third STIP review, in accordance with the concept of an investment and innovation policy review, was initiated in Ethiopia in November 1997. Requests for STIP reviews have been received from a number of other countries and are subject to the availability of financial resources.

21 During the reporting period, over 1,500 new participants were trained through EMPRETEC while over 6,500 participating entrepreneurs continue to make use of EMPRETEC's training and networking facilities. Among other EMPRETEC activities, projects in Egypt, Morocco, Namibia and Nicaragua were formulated and/or initiated. In addition, a meeting of EMPRETEC Directors, Heads of EMPRETEC Associations, and Leading Empretecocos took place on 6-12 November 1997 in Geneva/Lons-le-Saunier for the purpose of exchanging information on best practices among EMPRETEC national projects and other SME support programmes. The meeting also assessed the first 10 years of EMPRETEC and identified a series of new activities to multiply the impact of the programme on the enterprise sector during the second decade.

22. In the area of centres for innovation and enterprise development (CIED), a project was launched with an expert meeting on diagnostic tools and initial training in Geneva from 10 to 20 November 1997, to develop tools that would have common characteristics for application in the CIED countries. The workshop was attended by a total of eight CIED team members drawn from Côte d'Ivoire, Ghana, the United Republic of Tanzania and Zimbabwe. Full-scale start-up of CIED-Ghana and CIED-Zimbabwe in September 1998, as well as the field testing of the diagnostic tools developed during the workshop (CAST and GIST) and the finalization of the third tool (IDEAS), has been assured through further financial support from the International

Development Research Centre (IDRC).

23. In addition, the first subregional Workshop on Asia-Africa Trade and Investment Diversification and Networking took place in Harare, Zimbabwe (24-28 November 1997), as the follow-up activity to second study visits by African entrepreneurs to Jakarta and Bangkok in 1996. Sixty-six Asians and Africans - of whom 12 were African women entrepreneurs - participated in the Harare Workshop. The majority were private entrepreneurs who met their own external travel expenses to and from Zimbabwe. African participants came from 12 different countries, namely Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Malawi, Mauritius, Namibia, Nigeria, South Africa, United Republic of Tanzania, Uganda and Zimbabwe. Participants in the Workshop proposed more than 150 trade and investment proposals covering a large range of commodities-based production, processing and manufactures; many of the proposals embodied integrated, multi-activity operations.

24. In 1997, a project on "Feasibility studies on the creation of private risk capital funds for LDCs", funded by the Government of Norway, allowed the preparation of case studies on investment opportunities in the three sectors of tourism, agro-related industries and infrastructure. Preliminary results of these case studies were presented at the Pilot Seminar on the Mobilization of the Private Sector in order to Encourage Foreign Investment Flows towards the Least Developed Countries. A publication on these investment opportunities, entitled *Investing in Pre-emerging Markets, Opportunities for Investment of Risk Capital in the LDCs* (Sales No. E.98.II.D.2), has been produced and targeted at potential investors.

25. In 1998, as a follow-up to the Pilot Seminar, the Government of Norway provided funding for a project on "Building capacity in LDCs to attract foreign investment through venture capital funds". This project will have three core activities (i) study on best practices for attracting risk capital through venture capital funds; (ii) training entrepreneurs in LDCs on preparing project proposals for venture capital investment; and (iii) organization of regional workshops on non-FDI investment in LDCs.

26. Further details of the secretariat's technical assistance activities in the areas of investment,

technology and enterprise development during the period from September 1997 to October 1998 can be obtained from "DITE's activities report, 1997-1998" (UNCTAD/ITE/Misc.6), which is made available upon request.

## ANNEX

**Annex table 1. World FDI and FDI-related indicators, 1996 and 1997**

(Billions of dollars and percentages)

Item	1996	1997	Growth rate 1996-1997
FDI inflows	338	400	18.6
FDI outflows	333	424	27.1
FDI inward stock	3 065	3 456	12.7
FDI outward stock	3 115	3 541	13.7
Cross-border M&As <sup>a</sup>	163	236	45.2

*Source:* UNCTAD, based on FDI/TNC database and UNCTAD estimates.

<sup>a</sup> Majority-held investments only.

**Annex table 2. National regulatory changes, 1991-1997**

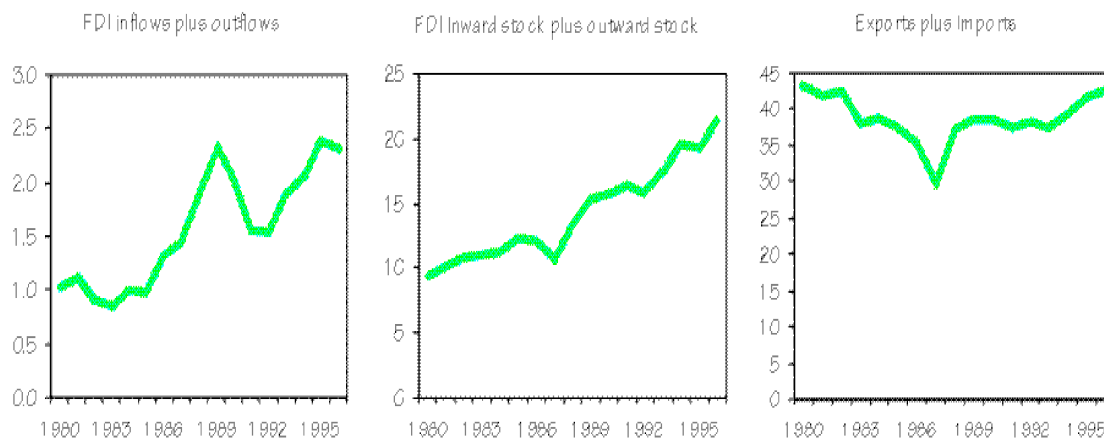
Item	1991	1992	1993	1994	1995	1996	1997
Number of countries that introduced							
changes in their investment regimes	35	43	57	49	64	65	76
Number of regulatory changes	82	79	102	110	112	114	151
Of which:							
More favourable to FDI <sup>a</sup>	80	79	101	108	106	98	135
Less favourable to FDI <sup>b</sup>	2	-	1	2	6	16	16

*Source:* UNCTAD, based on national sources.

<sup>a</sup> Including liberalizing changes or changes aimed at strengthening market functioning, as well as increased incentives.

<sup>b</sup> Including changes aimed at increasing control as well as reducing incentives.

**Annex figure 1. The degree of internationalization through FDI and through trade,  
1980-1996**  
(Percentage of GDP)



*Source:* UNCTAD, FDI/TNC database.

*Note:* The scales used for the three panels are different.

**Annex table 3: Economies and regions that benefited from DITE's technical cooperation**

**activities during the reporting period**

<b>Programme</b>	<b>Economy</b>	<b>Regions</b>
Possible multilateral framework on investment (MFI)	Member countries of UNCTAD	Asia, Latin America, Africa, economies in transition
Expansion of foreign direct investment and trade in services (EFDITS)	Thailand, Tunisia, Uganda, Uruguay	
Foreign direct investment by small and medium-sized enterprises in the developing countries of Asia	Member countries of UNCTAD	Asia
Policy framework for attracting foreign investment (FORINVEST)	Albania, Bangladesh, Bolivia, Congo, Egypt, Eritrea, Gambia, Lebanon, Morocco, Oman, Pakistan, Sao Tome and Principe, Saudi Arabia, West Bank and Gaza Strip	Arab region, UEMOA
Investment policy reviews (IPRs)	Egypt, Peru, Uganda	
Negotiating international business arrangements (TRANSACT)	Eritrea, Oman, Sao Tome and Principe, Uganda, West Bank and Gaza Strip	
Strengthening agencies concerned with maximizing and promoting FDI (STAMP)	Albania, Bangladesh, Bolivia, Colombia, Gambia, India, Jordan, Kenya, Pakistan, Uganda, Uzbekistan, West Bank and Gaza Strip	Worldwide through WAIPA activities
Science, technology and innovation policies (STIPs)	Colombia, Jamaica	
Entrepreneurship and enterprise development (EMPRETEC)	Bolivia, Cuba, Egypt, Ethiopia, Morocco, Namibia, Nicaragua, Russian Federation, Thailand, Venezuela, Zimbabwe	Africa, Asia, Latin America, Mediterranean region, economies in transition
Centres for innovation and enterprise development (CIED)	Cote d'Ivoire, Ghana, United Republic of Tanzania, Zimbabwe	Africa
SME development	Gambia, Somalia	
National policies and measures for growing small and micro enterprises	Burkina Faso, Nepal, Samoa, Zambia	
Enhancing the participation of women entrepreneurs in LDC economies	Burkina Faso, Cambodia, Ethiopia, Gambia, Haiti, Madagascar, Nepal, United Republic of Tanzania, Vanuatu, Zambia	

Enterprise networking	Democratic Republic of Congo, Ethiopia, Ghana, Malaysia, Malawi, Mauritius, Namibia, Nigeria, Indonesia, Kenya, Tanzania, Thailand, Uganda, Zimbabwe	Africa, Asia
International Standards of Accounting and Reporting (ISAR)	Azerbaijan, Uzbekistan	