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Summary of interactive thematic round table 2

Creating an institutional environment conducive to increased foreign investment and sustainable development

1. The interactive thematic round table on "Creating an institutional environment conducive to increased foreign investment and sustainable development" brought together key ministers and senior officials from all regions and heads of international organizations, as well as representatives from business and civil society.

2. Moderated by H.E. Mr. B. Mkapa, Co-Chair, Investment Climate Facility for Africa (and former President of Tanzania), the panel included H.E. Prof. G. L. Peiris, Minister of Export Development and International Trade, Sri Lanka; H.E. Mr. C. Mamoghli, Deputy Minister of Trade, Tunisia; H.E. Mr. S. Kiwanuka, Minister of State for Finance, Planning and Economic Development, Uganda; H.E. Mr. R. Robinson, Minister of State, Ministry of Foreign Affairs and Foreign Trade, Jamaica; H.E. Mr. Yi Xiaozhun, Vice-Minister of Commerce, People's Republic of China; H.E. Mr. A. B. Baiget, Vice-Minister and General Secretary for Trade, Ministry of Industry, Tourism and Trade, Spain; H.E. Mr. M. Belka, Executive Secretary, United Nations Economic Commission for Europe (and former Prime Minister of Poland); and Mr. M. Amano, Deputy Secretary-General, OECD. Discussants were Mrs. D.G. Wöhrl, Parliamentary State Secretary, Ministry of the Economy, Germany; Mr. M. Laanemae, Under-Secretary of Economic and Development Affairs, Ministry of Foreign Affairs, Estonia; Mrs. J. Coté, Permanent Representative of the ICC, Geneva; Ms. M. V. Stichele, SOMO – Centre for Research on Multinational Corporations; Mr. F. Sedano, Director of Investment Operations and Promotions, National Agency of Investment Promotion, Argentina; and the Honorable A. M. B. Daramy, Commissioner for Trade, Customs, Industry, Mines and Free Movement, ECOWAS.

3. The round table addressed the main issues in enhancing the development dimension of national and international investment policies and building the institutional capacities needed to augment the development benefits that could be derived from investment and enterprise development. The debate focused on eight strategic challenges in making foreign direct investment (FDI) work for

development, as they had emerged from UNCTAD's Investment Policy Reviews and the organization's other activities in the investment area. Those included upgrading the economy; building business linkages; overcoming size constraints of small economies; upgrading infrastructure; increasing systematic competitiveness; aiding transition economies; protecting the environment; and contributing to peacebuilding.

4. Participants noted that FDI could bring not only capital to host countries but also technology, management know-how and access to new markets, in addition to generating employment and tax revenues and contributing to the building of infrastructure and productive capacity. However, those positive impacts were not automatic, and policy measures were needed to facilitate FDI, safeguard the public interest in the conduct of business and minimize risks while maximizing the wider benefits that FDI could bring to the widest possible portion of the population.

5. Apart from making their "software environment" (i.e. judicial systems, partners sought for foreign investment treaties and guaranteed protection for intellectual property rights) more attractive to foreign investors, countries also needed to shore up their "hardware" environment, i.e. their public utilities and infrastructure. Private investment in infrastructure had to be strengthened, including through public–private sector partnerships. Of critical importance was the development of sound ICT structures.

6. FDI could contribute to the transition process of countries with economies in transition, i.e. the creation of the regulatory and institutional framework for a market-based economy, the diversification of the ownership structure, and the reform of State enterprises. At the same time, care needed to be taken to avoid negative effects from FDI, such as deterred or crowded-out local enterprises and home-grown investors, as well as negative effects of policies designed to attract FDI, such as a race to the bottom in terms of tax incentives.

7. Small countries faced special problems in overcoming size constraints in terms of attracting and benefiting from FDI. Local markets might be too small to attract significant amounts of foreign investment, and the entry of dominant foreign companies could undermine meaningful internal competition. Small countries would need to be proactive in enhancing infrastructure and skills, developing labour policies, facilitating diversification, and upgrading so as to overcome bottlenecks. Good governance, stability, and the quality, cost and availability of infrastructure and human capital were also very important, as was the enhancement of markets via regional trade agreements or bilateral agreements with larger economies.

8. Addressing the environmental challenges of global economic growth required global cooperation. Such cooperation had to focus on the promotion of efforts by the productive sector to help mitigate environmental degradation through the use of greener investment. Government rules and regulations were needed that could steer economic activity into environmentally friendly areas, such as development of cleaner technology.

9. Moreover, best investment policy practices had to be based on improved cost/benefit analyses in order to take account of the social costs and potential benefits of foreign investments. Such assessments should also cover the policies used to attract and benefit from FDI and should be shared by all stakeholders.

10. Country-specific policies were needed to help developing nations maximize their long-term economic gains from foreign investment. Maintaining vibrant small- and medium-sized enterprises and ensuring that the activities of foreign firms did not deter or undercut local investors was a key consideration in that regard, as was the promotion of the freedom of entrepreneurs and step-by-step privatization.

Bilateral investment treaties could help build an enabling institutional environment by strengthening the rule of law and creating the legal stability that companies needed, without impinging on the sovereignty of host countries to decide the kinds of investments they would allow.

11. Identifying best policy practices in meeting these broadest strategic challenges would help ensure that FDI was a positive and sustainable force in the process of development of all countries, enabling member States to seize the opportunities and meet the challenges of globalization for development. The role of investment promotion agencies and strengthened cooperation between UNCTAD and the World Association of Investment Promotion Agencies (WAIPA) was also highlighted.

12. The creation of an institutional environment that enabled countries to address those challenges remained a key policy task for all countries, in particular developing and transition economies. In addressing that issue, policymakers should draw on the lessons from successful experiences and past failures. The policy toolkit developed on the basis of the implementation experience of the OECD's Policy Framework for Investment could be useful in that regard. Policymakers should also engage in an exercise of collective learning aimed at sharing best practices. Those should be widely communicated, including through international dialogue, as called for at the 2007 G8 Summit and the Monterrey Consensus on Financing for Development.

13. As the forum for international consensus-building on FDI and development, UNCTAD was well placed to pursue the creation of an inventory of best practices with a view to helping developing countries and economies in transition make investment work for their development.