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

Held at the Palais des Nations
from 8 to 14 March 2007

Rapporteur: Mr. Edward Brown (United Kingdom)

POLICY ISSUES RELATED TO INVESTMENT AND DEVELOPMENT

(Agenda item 3)

Chairperson's summary

1. The Head of the Investment Issues Analysis Branch of the Division on Investment, Technology and Enterprise Development (DITE) introduced item 3 entitled "Policy issues related to investment and development", reviewing two expert meetings held by the Division over the previous year and outlining the remarkable expansion during the previous decade of foreign direct investment (FDI) from developing and transition countries, the topic of the *World Investment Report 2006*. That represented a long-term structural phenomenon caused by three groups of factors. The first was the need to respond to the pressures created by the process of globalization. The second was a set of home country drivers or push factors (small market size, rising production costs and increasing levels of competition), while the third was a set of host country pull factors (large markets, natural resource abundance, labour resources and opportunities arising from liberalization of policies, including privatization). FDI from those developing and transition countries was mostly directed towards other developing countries, which meant greater diversity in sources of investment for developing countries and opportunities for greater South–South cooperation but also raised potential concerns. The phenomenon had implications for both developed and developing countries. In developed countries, concerns had in several cases been expressed about loss of control in strategic industries and job losses related to investment from developing countries. There were also potential implications for international rules on foreign investment. The speaker commented that as the phenomenon was recent, there was a need for further research. Encouraging both South–South and South–North dialogue on the phenomenon could also prove useful.

2. She argued that the rise of developing country FDI was closely related to the growing importance of FDI in natural resources, particularly extractive industries (oil, gas and minerals), which was the subject of the *World Investment Report 2007*. The growth of such investment had been fuelled by large increases in the prices of natural resources in recent years. She also highlighted the need to effectively diffuse the results of research and noted the Division's efforts to disseminate findings and stimulate discussion with policymakers through regional workshops. Finally, she stressed the importance of capacity-building in the field of statistics and of the technical assistance activities undertaken to follow up the recommendations of the Commission's session of the previous year.

3. The Secretary General of the International Chamber of Commerce (ICC), commenting on current investment issues as seen from a business perspective, reaffirmed the importance of strengthening cooperation among UN bodies in the promotion of international trade and investment. Cooperation with UNCTAD in the production of investment guides and the establishment of an Investment Advisory Council provided an example of joint efforts to promote FDI in LDCs. He raised several concerns about the obstacles faced by foreign companies in their investment decisions, and urged the Commission to include those issues in its agenda. It was important to work with Governments to reverse the trend towards investment protectionism, which would be detrimental to FDI and to developing countries.

4. Two experts from developing countries presented their views on the new trends and investment flows and the importance of the South–South dimension for developing countries. The first expert emphasized the significance of the extractive industries and the growing importance of agro-business. He questioned the sustainability of investments and noted that the growing role of TNCs from the South could also help to create new opportunities for

developing countries. The other expert raised concerns about the role of FDI from the South in host-economy development. He emphasized the role that a sound regulatory environment could play in incorporating FDI into a country's development objectives. He explained how host Governments should organize their incentives and leveraging framework in the light of domestic alternatives, and concluded by calling for good corporate social conduct in developing countries.

5. In discussions on the presentations, the issue of the impact of intellectual property rights (IPRs) on inflows of FDI into host countries was explored. It was stated that market size and growth were the most important factors driving FDI flows and that intellectual property was clearly of secondary importance; at the same time, however, countries that introduced and implemented good IPRs were more attractive for foreign investors. Also, it was suggested that UNCTAD undertake research on whether foreign exchange reserves could be used effectively to fund infrastructure investment. One delegate asked if UNCTAD had evidence on whether South–South FDI had helped to benefit developing countries by creating backward and forward linkages. He emphasized that South–South FDI should not be seen as a substitute for North–South FDI. A question was raised concerning a possible contradiction between the *Trade and Development Report 2006* and the *World Investment Report 2006*. In response, it was pointed out that the latter referred solely to FDI flows rather than broad capital markets.

6. One delegate said that the goal of FDI must be to strengthen development in developing countries, and suggested that the Commission consider concrete indicators of the impact of FDI in those countries in order to judge its impact on development. Countries should be responsible for their sectoral choices. It was not clear whether the increase in the number of mergers and acquisitions as part of FDI really benefited developing countries. Those countries needed to find alternative arrangements for FDI and to develop complementarities at the regional level that would benefit all partners. Some concrete examples were the development of social programmes and the development of joint ventures such as ALBA (the Bolivarian Alternative for the Americas), which in a few months had provided his country with concrete results on development issues. Another delegate added that developing countries should decide for themselves which sectors they viewed as being desirable for opening up to FDI, adding that this represented a legitimate policy option for them.

7. In her answer, the Head of the Investment Issues Analysis Branch said that there was no definitive conclusion on the importance of strong IPR protection in attracting FDI and that the impact varied by sector. UNCTAD was undertaking a programme of study to investigate the role of IPRs in the context of access to medicines. As for the issue of research topics, infrastructure was a topic that the Division was developing, and it would include the issue of financing investment. With regard to the linkages created in developing countries by FDI from other developing countries, some surveys had been conducted by organizations such as UNIDO; these had provided some preliminary evidence on employment, but little evidence was available as yet on technology transfer, given the recent nature of the phenomenon. Finally, the speaker assured delegates that South–South FDI was an important issue for UNCTAD that would continue to be studied.

Expert Meeting on FDI in Natural Resources

8. The Chairperson of the Expert Meeting on FDI in Natural Resources, which had been held from 20 to 22 November 2006, said that the event had been very timely because issues related to the supply and demand of natural resources were at the top of the international agenda. At the meeting, the role and operations of TNCs had been discussed, with particular emphasis on the importance of State-owned companies. The meeting had addressed how TNC involvement affected development, including the creation of local linkages, how important the legal and institutional framework was for countries and, in that context, the need to improve governance and transparency. The experts had also considered human rights violations and steps taken at the international level to ensure that firms complied with agreed standards and procedures, with a view to promoting or strengthening benefits for countries. The experts had stressed the importance of technical assistance and the role that UNCTAD could play in assisting developing countries endowed with natural resources in implementing and monitoring appropriate policies. They had recommended that technical assistance should also aim at improving the regulatory framework and institutional capabilities in order to allow countries to benefit more from extractive industries. Technical assistance was also needed to strengthen the capability of developing countries to negotiate with TNCs. More policy analysis should be undertaken to encourage industrialization, improve taxation schemes, develop geological survey data to attract investors and encourage international initiatives. Finally, experts had recommended that the scope for South–South collaboration be further explored.

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