UNITED
NATIONS

E

Economic and Social Council

Distr.
LIMITED

E/C.10/1994/L.1/Add.1
6 May 1994

Original: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Twentieth session
Geneva, 2-11 May 1994
Agenda item 11

ADOPTION OF THE REPORT OF THE COMMISSION ON ITS TWENTIETH SESSION

Rapporteur: ....

Draft report

Chapter ___

TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY AND TRENDS IN FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES IN PARTICULAR, INCLUDING THE INTERRELATIONSHIP OF INVESTMENT, TRADE, TECHNOLOGY AND DEVELOPMENT

Transnational corporations in the world economy and trends in foreign direct investment in developing countries

1. The Commission considered item 3 of its agenda at the 1st to 4th meetings on 2 and 3 May 1994. It had before it the following documents:

(a) Report by the UNCTAD Secretariat on trends in foreign direct investment (E/C.10/1994/2);

(b) Report by the UNCTAD Secretariat on transnational corporations and employment (E/C.10/1994/3).

2. In his opening statement, the Assistant Director, Research and Policy Analysis Branch of the UNCTAD Division on Transnational Corporations and Investment stated that transnational corporations were both cause and effect of rapid changes in the world economy. He observed that in the early 1990s, the universe of transnational corporations comprised some 37,000 parent firms

and 200,000 affiliates - a significant increase in comparison with the 7,000 or so transnational corporations that were based in the major home countries in 1970. He attributed part of the increase to the transnationalization of firms from developing countries as well as of small- and medium-sized enterprises, but emphasized the importance of the largest transnational corporations for the world economy. The largest 100 companies by foreign assets accounted for one third of the worldwide stock of foreign direct investment and controlled $3.3 trillion in global assets in 1991, of which an estimated $1.3 trillion represented assets outside their home countries. The Assistant Director noted that after a decline in worldwide outflows in 1991 and 1992, investment flows recovered in 1993 to $185 billion; and that the worldwide stock of foreign direct investment continued to increase to reach $2.2 trillion in 1993. Moreover, he emphasized that there had been a continued rise of foreign direct investment to developing countries to reach $50 billion in 1992 and about $70 billion in 1993 - a level that exceeded worldwide inflows in 1985. As a result, developing countries accounted for an increasing share of worldwide investment flows, at 37 per cent in 1993. Strikingly, foreign direct investment now accounted for a larger share of gross domestic capital formation in developing countries than in developed countries. Indicators were encouraging as regards the ability of developing countries to continue to maintain or increase their volumes of foreign direct investment. Improved growth prospects, good economic performance, and enabling policy frameworks arising from greater macroeconomic stability, privatization and liberalization, as well as regional integration schemes that expanded market opportunities and the scope for further expansion of foreign direct investment in services were important contributory factors towards sustaining foreign direct investment flows to developing countries.

3. The Assistant Director emphasized that the growing pressures of those trends enhancing globalization and integrated international production had been associated, in many minds, with the persistence of high levels of unemployment. Employment by transnational corporations had grown along with the growth of foreign direct investment flows and stock, but at a rate considerably lower. Transnational corporations were estimated to employ some 73 million persons at home and abroad, an amount that represented only 2 to 3 per cent of the world’s labour force, but they accounted for about one fifth

of paid employment in non-agricultural activities in developed and developing countries, and moreover, generated considerable indirect employment. Moreover, transnational corporations typically provided higher paying and more attractive jobs, on average, than domestic firms, reflecting their industrial distribution, productivity differences and corporate strategies. Integrated international production had further reinforced the higher-wage and higher-skill profile of transnational corporations, contributing to increased competition among Governments to attract and retain transnational corporation activities. There was, however, no significant link, in his view, between increased international production and higher unemployment in the developed countries. In particular, the relocation of jobs to developing countries compared to the total labour force in developed countries remained quite limited for several reasons: first, labour costs were only one factor determining the location of production in developing countries and also, differences in labour costs across developed and developing countries were, to a considerable degree, offset by parallel differences in labour productivity; second, to the extent that a shift in production occurred from developed countries to developing countries and Central and Eastern Europe, it typically involved an incremental process in which new production facilities were established in the latter countries; and finally, the bulk of foreign direct investment was in services, and most foreign direct investment in this sector was location bound, given the still limited tradability of services. All those factors suggested that although international production was a key factor in the wider process of industrial restructuring at the global level, its effects on the growth and distribution of employment were limited, and that macroeconomic and cyclical factors, technological changes and labour market inflexibilities were the most important influences on the growth and distribution of employment. The Assistant Director cautioned that, although low labour costs could still be a locational advantage for foreign direct investment in developing countries, countries could only hope to maintain their levels and growth of foreign direct investment and related employment by investments in education and skill enhancement and encouragement of transnational corporations to invest in more technology-intensive processes and products. The enhanced growth and employment opportunities associated with integrated international production - owing to changing structures of national specialization - requires a long-term perspective from policy makers both at the national and international levels. In that context, he concluded that greater cooperation might be required both among Governments and between Governments and the private sector.

4. All delegations took note of the recent trend towards increased flows of foreign direct investment to developing countries coupled with decreased flows to the developed countries that had resulted in an unprecedented share of 37 per cent of world flows for developing countries in 1993. They attributed the increase in flows to developing countries to economic factors, including robust expansion and higher returns on investment, as well as policy reform that created ample opportunities for foreign direct investment and transnational corporation participation in their economies, including in sectors previously closed to transnational corporations. Some delegations from developing countries outlined the liberalization measures that had taken place in their economies including, among others, revision of laws and regulations relating to foreign direct investment, removal of impediments to the free functioning of a market economy, and privatization, as well as removal of bureaucratic hurdles to foreign investment. Delegations agreed that transnational corporations were both cause and effect of development. They played an important role in economic development and growth by easing capital shortage, disseminating know-how and technology and stimulating competition through trade and foreign investment.

5. A number of delegations addressed the issue of the continued growth of foreign direct investment in the world economy in the context of expected recovery in world economic performance and growth and continuing structural changes in the world economy. The resurgence of growth in developed countries could contribute to renewed expansion of foreign direct investment in these countries. At the same time, the increasing importance of services in the domestic economies of developed countries might involve a further shift of manufacturing production to developing countries in industries in which the latter enjoyed a comparative advantage, resulting in further changes in the pattern of foreign direct investment flows. Some concerns were raised about the implications of the increased mobility of capital across national borders - brought about in recent times by financial deregulation and privatization - in terms of the increased vulnerability of the world economy to large and rapid movement of financial resources across the globe.

6. Some delegations from the transitional economies of Central and Eastern Europe outlined developments with respect to their countries' policies with respect to foreign direct investment as well as broader policy changes for shifting towards a market-oriented system. They stated that the legal framework for liberalization and privatization offered significant opportunities for private enterprise including transnational corporations. The delegations mentioned that their Governments provided similar treatment to transnational corporations as to national firms. They referred to recent experience with respect to foreign direct investment flows. One delegation from an economy in transition mentioned that continued efforts to improve the investment framework had yielded results, and that the majority of transnational corporations investing in his country were small and medium enterprises, mainly from the European Union and the European Free Trade Area. Another delegation referred to the limited success that his country had in attracting foreign direct investment thus far, despite liberalization and privatization and the availability of a skilled labour force. It was stated that the work of the secretariat on foreign direct investment was useful in enabling a better assessment on the contributions of transnational corporations. One delegation called for the organization of workshops on foreign investment and privatization that could be useful for countries in transition.

Box 1. Foreign direct investment trends and prospects

At its second meeting, on 2 May 1994, the Commission held an informal panel discussion on recent trends in foreign direct investment. Presentations were made by two expert advisers, Ms. Sylvia Ostry, Chairperson, Centre for International Studies, Toronto, and Mr. Sanjaya Lall, Lecturer, University of Oxford. The experts focused on the remarkable growth of investment flows to developing countries (particularly in East and South-East Asia and Latin America) alongside the decline of investment flows to developed countries. Ms. Ostry found it too early to tell whether the above pattern was sustainable in the longer run. Structural changes and reforms would be important determinants of foreign direct investment in developing countries. The developed countries, for their part had experienced shocks in the 1990s - of a much more profound and pervasive nature than the oil shock at the end of the 1970s and beginning of the 1980s - that were likely to influence foreign direct investment in and from these countries. Ms. Ostry cited factors that had contributed to the recent shocks: the bursting of the assets price "bubble" in the United States and, more recently, in Japan; the reunification of Germany; profound technological advances, especially in information and communication technologies on the restructuring of the manufacturing, the increasing role of the services sector and the changing nature of the enterprise ("organovation"). Ms. Ostry noted that notwithstanding the recent shocks the United States was on a new growth trajectory and that there were some developing and Central and Eastern European countries whose economies were increasingly converging with those of the United States, Japan and Europe in terms of per capita incomes and productivity through technology, trade and investment flows. However, countries of the Middle East and Africa that remain outside the "convergence club" faced increasing marginalization - a trend that could not be ignored in an interdependent world economy. A regional approach to infrastructure development and aid might be required to allow countries lagging behind to "leap-frog" the process of development in order to catch up with the rest of the world. Ms. Ostry also mentioned that foreign direct investment and relocation of industry had implications for employment, and that the issue of social dumping that had emerged in recent policy discussion had implications for the "twin" flows of trade and foreign direct investment.

Mr. Sanjaya Lall addressed the issues of sustainability of foreign direct investment to developing countries, the effects of an integrated international production system, investment flows to Africa and the least-developed countries and small and medium-sized transnational corporations. Although the recent growth of foreign direct investment flows might be cyclical in nature and determined by business conditions in home and host countries, there were also structural factors that had provided the impetus to recent growth in developing countries. The large size of China as well as that country’s fast pace of economic growth and the recent opening of South Asia provided considerable scope for upward adjustment in their foreign direct investment levels. According to Mr. Lall, the issue of the sustainability of foreign direct investment to developing countries required qualification. On the one hand, structural factors, economic growth and policy reforms in developing countries, as well as their increasing competitiveness were likely to ensure that the level of foreign direct investment in these countries could be sustained. However, sustaining their present share of worldwide investment flows might be difficult if flows to developed countries rebounded with economic recovery in those countries. He noted, however, that there might be countervailing factors such as intra-developing country foreign direct investment which was particularly significant in Asia and would likely spread to Latin America and perhaps Africa, particularly if South Africa could be a magnet for foreign direct investment and an engine of growth for the region. On the subject of recovery of flows to the developed countries, Mr. Lall noted that although there was some shifting comparative advantage from developed to developing countries in some industries, there were new industries in which developed countries were developing new comparative advantages. These new and emerging industries in the developed countries might not be labour-intensive and thus might contribute to greater structural unemployment.

Mr. Sanjaya Lall also touched on the effects of an internationally integrated production system. He emphasized that there were different forms of integration: there was integration of corporate functions - production, marketing, technologies - but there was also integration across companies in the form of strategic alliances, both of which were leading to the shrinking economic space. Although the large firms stood to benefit most from the integrated production system, developing countries could also benefit, depending on a number of factors: the presence of an enabling framework for foreign direct investment, the openness of regimes on trade and labour migration, the existence of advanced infrastructure and strong technological capabilities - the cornerstone of industrial competitiveness - harnessed by supporting research and scientific institutions and education and training. With respect to foreign direct investment in Africa and the least developed countries, Mr. Lall indicated that despite the fact that most countries had liberalized their foreign direct investment regimes and had undertaken structural economic reforms, and in spite of the existence of the lowest wage costs in manufacturing, those countries had attracted little foreign capital in the form of foreign direct investment and portfolio investments. Political uncertainty, economic instability and structural problems ranging from poor infrastructure, small (sometimes underpopulated) and fragmented domestic markets and weak industrial capabilities combined with limited regional integration explained why foreign direct investment in those countries continued to be concentrated in natural resource industries instead of higher value-added manufacturing. Although political uncertainty and economic instability could be resolved by policy measures, structural problems that impeded industrial competitiveness took longer to be resolved and involved the development of local entrepreneurship, investments in training in science and technology, the establishment of local support industries and improvement of infrastructure. Finally, Mr. Lall noted that small- and medium-sized transnational corporations were a dynamic source of growth and employment in developing countries and of innovation in developed countries. The greater problems that these firms faced in transnationalization owing to their small size (lack of information, capital shortages and access to support systems) necessitated special efforts to promote their foreign direct investment.

7. Some delegations referred to factors that were conducive towards sustainability of foreign direct investment flows to developing countries. Among the factors that were likely to lead to increasing foreign direct investment in these countries were continued prospects for higher growth and improvements of the economic climate, economic reforms, including privatization of State-owned enterprises and openness towards foreign direct investment, structural changes, including a shift of some manufacturing production from developed countries and the growth of intra-developing country foreign direct investment. Higher returns to investment in developing countries compared with developed countries also contributed to the attractiveness of the former for foreign investment. The strong link between trade and foreign direct investment made the latter susceptible to regional trading arrangements and the sustainability of those investments therefore depended on developments in trade relationships among countries. Efforts on the part of Governments to make their domestic economies more efficient, less wasteful and more productive would free up resources for investment purposes, including foreign direct investment.

8. Several delegations drew attention to the heterogeneity of experience and the caveats that needed to be noted regarding the growth of foreign direct investment to developing countries. Many least developed countries and countries in Africa had not participated in the surge of foreign direct investment and may even have fallen behind. Those disparities were part of the general problem of structural imbalance in the world economy, including growing gaps between the least developed and other countries in terms of output, trade and investment. Delegations drew attention to the instabilities that existed in some of the most attractive locations for foreign direct

investment in developing countries, fostered in part, by income inequalities. Reference was also made to the potential for inflationary pressures and for shortages of skilled labour in countries with dynamic growth and foreign direct investment performance.

Box 2. The Commission on Transnational Corporations at twenty, and its future role

At the third meeting of the Commission, a panel of experts was assembled to discuss the contribution of the Commission since its inception in 1974 and its likely direction over the coming decade in the light of the rapidly changing world economy and needs of countries. The panellists included Dr. Sylvia Ostry, Dr. Peter Frerk, a member of the Board of Management of Volkswagen AG and a former expert adviser to the Commission on Transnational Corporations; Dr. Sanjaya Lall, Ms. Lilia Bautista, Permanent Representative of the Philippines to the United Nations in Geneva and former Governor of the Philippines Board of Investment.

All the panellists agreed that the Commission provided a valuable forum for policy makers and the corporate community, commended the Commission on the high standards of debate over important policy issues and had unreserved praise for the quality of research output and technical assistance provided by the UNCTAD secretariat under the Commission's guidance. There was also broad agreement that the issues covered by the Commission had increased rather than decreased in importance over the last two decades and, that an increasingly interdependent world economy would present many new challenges over the coming decade.

The panellists provided a provocative overview of the emerging challenges of a new world economy. Ms. Ostry predicted a continuation of the trend towards deeper economic integration through transnational corporations and foreign direct investment and sketched a new growth dynamic for the world economy based on the creation and transfer of intangible assets such as technology, skills and knowledge. However, these developments also presented profound economic and political challenges due, among others, to the juxtaposition of relocation of industry and a high rate of unemployment in developed countries. Ms. Ostry predicted that the post-cold war era would be one of growing frictions between economic rather than political systems and foresaw a danger of protectionism, cartelization and marginalization of large parts of the world's population. One disturbing trend was the extension of the idea of reciprocity from the traditional area of trade to that of investment. National and international policy frameworks were ill-equipped to confront these problems and would require a new focus on linkages and better coordination among existing international regulatory institutions. Dr. Frerk complimented many of Ms. Ostry's observations from the perspective of transnational corporations. At the corporate level, fundamental changes in business strategy emphasizing research and development, innovation and the need to establish group alliances were creating a new environment both for the transnational corporation and for small- and medium-sized enterprises. Those changes reinforced the importance of the traditional determinants of foreign direct investment such as the reliability of the legal system, a sound macroeconomic environment and political stability. He predicted increased regional and national competition for foreign direct investment and suggested that the resulting frictions could best be managed through existing international agencies such as the ILO, WTO and UNCTAD. Dr. Frerk observed that underemployment and human resource development, both of which urgently needed to be addressed by the international community, were issues requiring a traditional tripartite response, but that there was also a pressing need for new approaches, including from the Commission.

Dr. Sanjaya Lall saw a world of increasing opportunities opened, in part, by a more liberal policy environment and technological progress. There were, however, considerable differences across the developing world which would require specific policy responses. Those deserved the close attention of the secretariat. Dr. Lall stated that the dynamic centre of the world economy had clearly shifted to the Asian region, including not only the newly industrializing countries but also the second tier industrializers - such as Malaysia and Indonesia - and, perhaps most significantly, China. However, the rapid pace of change in that region was already creating infrastructural bottlenecks, particularly in education. Latin America had also experienced a genuine economic revitalization, but it was too early to tell how sustainable its growth path was: Dr. Lall noted considerable sectoral and regional imbalances in the pattern of growth and foreign direct investment in Latin America and, in contrast to the Asian region, a relative weakness of its industrial base. Dr. Lall also expressed optimism that the economies in transition could use their regional advantages to generate a sustainable growth path, and noted the increase of foreign direct investment into some higher value-added sectors of those countries. However, the process had been extremely uneven. Finally, with respect to the least developed countries, particularly those in sub-Saharan Africa, Dr. Lall emphasized the urgency of a long-term and comprehensive development agenda, including efforts to increase foreign direct investment flows, to address structural imbalances in these countries.

Ms. Lilia Bautista brought her practical experience to the question of attracting foreign direct investment to developing countries. Ms. Bautista reiterated that new opportunities were opening for transnational corporations in developing countries, from a revival of economic growth, the privatization of State-owned enterprises and more liberal foreign direct investment policy regimes. However, the new strategies being adopted by transnational corporations, the emergence of regional blocs and the increasing interdependence of trade, technology and foreign direct investment were all contributing to a more complex environment for developing country policy makers, making technical assistance essential. Ms. Bautista emphasized that the links between sustainable development, technology transfer and transnational corporations would become areas of growing importance for the Commission over the coming decade and that in this and other areas the discussion of clear international rules and regulations governing transnational corporations and foreign direct investment should be continued at the Commission.

9. A number of delegations pointed out that it was difficult to establish a close link between foreign direct investment and employment. The contribution of transnational corporations lay, not so much in employment creation per se, but in providing investments, disseminating technology, strengthening competitiveness and lowering prices. With respect to employment, their effects on employment quality and indirect employment generation were more important than those on the numbers directly employed. However, some delegates noted the positive contribution of foreign direct investment to employment in developing countries, particularly China, where employment in foreign affiliates had increased to 6 million by 1993. Reference was also made to the fact that liberal treatment of foreign direct investment inflows and outflows, coupled with sound macroeconomic policies and investments in labour quality could maximize the employment and quality of labour effects. One delegation observed that it would not be correct to suggest, as was done

in the report on transnational corporations and employment, that foreign direct investment through mergers and acquisitions did not contribute to employment; the improvements in efficiency resulting from mergers and acquisitions could contribute to increased output and employment. One delegation stated that Governments should promote transnational corporation operations with harmonious social conditions. In that context, a social clause in international agreements was important even if it was viewed differently by different groups of countries. One developing country delegation referred to the constraints faced by developing countries, including his own, in rapidly increasing education and training provided as required by transnational corporations upgrading their activities, and stated that transnational corporations should also provide training for their workers.

Box 3. Transnational corporations and employment

The Commission’s deliberations under agenda item 3 included an informal meeting on transnational corporations and employment with a panel of experts comprising Mr. Gosta Karlsson, Secretary, Swedish Conference of Professional Employees and an expert adviser to the Commission, Mr. Duncan Campbell, Senior Research Officer, International Institute of Labour Studies, on deputation to the ILO, and Mr. Roger Decosterd, an executive of Nestle Ltd. The discussion addressed a number of issues related to the implications of international production and the trend towards increased cross-border integration of transnational corporations activities for employment and labour markets generally.

Mr. Gosta Karlsson observed that the implications of increased opportunities for relocation through transnational corporations were complex and could not be addressed without reference to national economic policies that were at the basis of the employment situation in countries. In recent years, the emphasis on supply-side policies and labour market flexibility was accompanied by relatively high levels of unemployment, and jobless growth in many developed countries. While relocation of activities by transnational corporations in pursuit of profits and market opportunities could create further problems in such an environment, policies to prevent such relocation were not the solution. However, if countries played off one side against the other in an effort to attract foreign direct investment for creating jobs, there might be an unnecessary downgrading of labour market conditions.

Mr. Duncan Campbell expressed the view that on balance, expanded opportunities for relocation of economic activity through transnational corporations reported an opportunity rather than a threat for developing host countries, although they were reducing opportunities for employment in low-skilled production in developed countries. At the same time, as companies became more fully integrated in their transnational activities, there was a wider dispersion of opportunities in both developed and developing countries and greater scope for specialization of different locations within firms' value-added chains. Opportunities for labour were also affected by the fact that many transnational firms now focused on their core activities and externalized the rest, creating employment opportunities in unrelated firms, as well as the fact that through electronic communications, labour could be accessed without investments.

Mr. R. Decosterd emphasized the need to understand that transnational corporations generally had a long-term perspective and did not invest unless there were clear prospects for growth. Thus, wages, or the gap in general conditions relating to employment, were only one among several criteria for making investment decisions. The present situation with respect to comparative costs did, however, work to the detriment of developed countries from an employment perspective. In order to maintain production and sustain exports, developed countries had to resort to increased automation, further exacerbating unemployment. Mr. Decosterd drew attention to the fact that transnational corporations created opportunities not only by generating employment but also creating better jobs and providing professional management training. He concluded that despite the limitations of transnational corporations with respect to employment generation in developed countries, there were interesting possibilities for creating employment in developing countries for expatriates from developed countries.

The experts agreed that the growing importance of technology and created assets in integrated international production had significant implications for labour and its employment. Comparative advantage in production now depended much less on labour cost and much more on its quality. Labour was, indeed, being looked upon, especially in technology-intensive industry, more as an asset than a cost. However, firms that needed to access labour, as well as resources, were driven by cost conditions and tended to be footloose as a result of integrated production strategies that separate consumption from production through a wider dispersal of functional activities. This suggested that labour market flexibility continued to be an option. However, employment or development strategies based on labour market flexibility were misplaced and likely to create instability. The important role for countries, in the context of the growing importance of created assets, lay in strengthening education and training.

In the discussion following the experts presentations, there was a general confirmation of the importance of the employment issue for countries. The need for innovation in the area of employment, taking into account the vast changes that had taken place in labour markets and national and international economies and the anomaly that existed with tasks available and people looking for work. Attention was drawn to the difficulties developing countries faced in retaining their attractiveness to foreign investors by combining high labour quality with low costs. In addition to education and training through the formal education systems of countries, transnational corporations should contribute by training and upgrading the skills of the workers they hired.

10. Several delegations commented on policy issues relevant to transnational corporation participation, both general and with respect to foreign direct investment. They agreed that the growth of private investments in general and foreign direct investment in particular in developing countries was attributable to the trend towards economic liberalization and deregulation in a large group of developing countries. There had been renewed emphasis on private markets to provide goods and services. As regards foreign investment policies, new laws governing international participation have created ample scope for foreign investment expansion. Governments increasingly viewed private enterprises and transnational corporations as positive factors for economic efficiency and growth. To that end, national policies should ensure sustained and higher rates of growth. Furthermore, investment in infrastructure development, support services, monetary and fiscal policies for stable macroeconomic conditions and education and human resource development were necessary conditions to take full advantage of the participation of transnational corporations. In addition fair labour standards should be elaborated since they were a major criterion for foreign direct investment.

Moreover, the liberalization of the economy should continue to further private investment and private initiative, including the foreign component, so as to enhance national output and employment.

11. Specific discussions arose on the foreign direct investment policies. In particular, the costs and benefits of a focused versus targeted approach in attracting foreign direct investment were discussed. The role of incentives and performance requirements was discussed as well as the broader issue of the competition among countries for foreign direct investment. The discussions centred on whether incentives were unnecessary spending on the part of countries and whether they distort competition. One delegation expressed the opinion that incentives did not distort competition as long as they were not combined with performance requirements. Another delegation noted that performance requirements were a disincentive to FDI and add to the costs of private firms.

12. While expressing appreciation for the excellent quality of documentation provided for the agenda item, delegations drew attention to some areas for improvement: There should be more sufficient analysis of the factors that drive general foreign direct investment patterns and more detailed description of the lack of comparability of cross-country data. In addition, there was a need to focus more fully on developments in the republics of the former Soviet Union and in Central and Eastern Europe which were not reflected adequately in the report to the Commission.

13. In his concluding remarks, the Assistant Director, Research and Policy Analysis Branch, thanked the delegations for their comments and the rich discussion of the issues. While the discussion was too far-ranging for summary, he noted a few issues that deserved special attention. They were that all delegations had commented on the growth of foreign direct investment to developing countries and viewed it as a positive and desirable development. Secondly, there was good reason to be optimistic regarding flows to developing countries, but the world market for foreign direct investment was competitive and shifting, and countries had to be vigilant. Third, the least developed countries needed assistance. He noted that the reason for increased flows of foreign direct investment to developing countries related to basic determinants such as size and growth of markets, infrastructure development and the enabling framework. To the extent that foreign direct investment frameworks became similar, other factors assumed great significance; they

included appropriate legal framework, good governance, stable political and a sound macroeconomic environment. Special attention needed to be given to human resource development and upgrading of employment. The Assistant Director observed that given that foreign direct investment flows to developing countries were increasing and that their importance was recognized, it was important that UNCTAD and other institutions be in a position to assist and advise developing countries.

Action taken by the Commission

14. The Commission took note of the reports of the Secretary-General on trends in foreign direct investment (E/C.10/1994/2), and on transnational corporations and employment (E/C.10/1994/3), and requested the Secretary-General to continue its programme of research on transnational corporations in the world economy and flows of foreign direct investment to developing countries, and to disseminate the results of such research through various publications, including the World Investment Report and the World Investment Directory and submit to the Commission at its twenty-first session reports on trends and issues in foreign direct investment in the globalizing world economy.
