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Commission on Investment, Technology
and Related Financial Issues
Fourth session
Geneva, 4 October 1999
Agenda item 8

**DRAFT REPORT OF THE COMMISSION ON INVESTMENT, TECHNOLOGY
AND RELATED FINANCIAL ISSUES ON ITS FOURTH SESSION
(4-8 October 1999)**

Rapporteur: Mr. Luis Castro Joo (Peru)

Introduction and organizational matters

Speakers:

Chairperson
Deputy Secretary-General of UNCTAD
UNCTAD secretariat
Finland (for the European Union)
Ethiopia (for the African Group)
Colombia (for the Latin American and Caribbean Group)
Islamic Republic of Iran (for the Asian Group and China)
Japan

Note for delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments to statements of individual delegations - to be submitted in English or French - should be communicated by **Friday, 15 October 1999**, at the latest to:

UNCTAD Editorial Section, Room E.8104, Fax No. 907 0056, Tel. No. 907 5365/5655

INTRODUCTION

1. The fourth session of the Commission on Investment, Technology and Related Financial Issues was held at the Palais des Nations, Geneva, from 4 to 8 October 1999. In the course of the session, the Commission held ... plenary meetings (20th to meetings) and a number of informal meetings.

Opening statements

2. The **Chairperson** said that the issues dealt with by the Commission were important, on the one hand in light of the accelerated process of globalization and the increasing rate of investment flows and mega-mergers, and on the other hand in light of the financial crisis in Asia and other countries and its devastating effects on development. The Commission was the appropriate place to discuss the need for a coherent policy response to the problems arising from those challenges, building on a proven track record of successfully exploiting synergies between the three pillars of its work programme: technical cooperation, policy research and analysis, and consensus-building. It had achieved excellence in the field of research with the *World Investment Report*, and in the area of technical cooperation with its work on investment policy reviews (IPRs) - which had added a new dimension to its work - and science, technology and innovation policy reviews (STIPs). She hoped it would also excel in consensus-building.

3. The **Deputy Secretary-General of UNCTAD** reflected on the achievements of the Commission in its work since Midrand. He said it had established the fact that foreign direct investment (FDI) can play a significant role in the development process and that, in a globalizing world where new technologies are becoming ever more essential to economic growth, that role was becoming increasingly important. FDI could benefit host countries by providing finance, technology and employment and by boosting export competitiveness; it could also complement and catalyse economic activities and the performance of domestic enterprises. On the down side, FDI distribution to developing countries tended to be highly uneven, most of it being concentrated in a handful of countries; it could also have negative effects on development by creating balance-of-payments problems and massive lay-offs due to enterprise restructuring and by crowding out domestic firms

and indigenous research and development (R&D) capabilities. Public policy did matter, and national public policies were of crucial importance, not only in attracting FDI but also in maximizing its development potential.

4. He said the Commission had contributed to greater understanding of the importance of competition policy in a globalizing world. It had pointed to the need to achieve coherence between FDI liberalization, trade policy and competition policy. The three expert meetings it had convened in the past year on international investment agreements had established that such agreements, growing in number, should not only provide an appropriate, stable and predictable investment environment, but should also provide space for Governments to promote individual development objectives. The Commission had convened two expert meetings on foreign portfolio investment (FPI), which along with FDI was an increasing source of finance. The expert meetings had examined the developmental impact of FPI and its role in the growth of domestic capital markets and FPI liberalization, as well as the challenges facing Governments in that respect.

5. Referring to the Commission's work in the area of financial disclosure and FDI, the Deputy Secretary-General noted the need for increased transparency and accountability in financial markets and mentioned the Commission's endorsement of the expert guidelines on environmental financial disclosure and professional qualification requirements as a contribution to policy coherence and better financial disclosure. Noting that the session of the Commission was taking place on the eve of the initiation of substantive preparations for UNCTAD X, he underlined the efforts made over the past four years at integrating policy research and analysis, consensus-building and technical cooperation issues in the Commission's work -- a feature which he deemed worth keeping in any proposals on UNCTAD's future work programme.

6. The **Director of the Division on Investment, Technology and Enterprise Development** presented an overview of the agenda of the fourth session of the Commission, stressing that the Commission's objective was to deepen the understanding of the key issues in international investment and technology and to analyse their implications for development. The *World Investment Report 1999*

provided a primer for in-depth discussion of that issue, and she hoped the Commission would reach consensus on some of the policy implications related to foreign investment and identify issues for further analysis and debate.

7. The rationale behind the IPRs and STIPs was to exchange national experiences in attracting and utilizing FDI and in formulating effective technology and innovation policies, and the Commission's deliberations on those reviews at the present session represented a new departure. The Commission would also consider the reports of its subsidiary bodies, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) and the Intergovernmental Group of Experts on Competition Law and Policy. It would take stock of its mandate at the levels of intergovernmental deliberation, policy analysis and technical cooperation. Through its consideration of the implementation of the agreed conclusions and recommendations adopted at previous sessions, the Commission was expected to identify and highlight issues of relevance to and beyond UNCTAD X which could possibly be submitted to the Trade and Development Board (TDB) as input to its preparations for UNCTAD X.

8. The representative of **Finland**, speaking on behalf of the **European Union**, stressed the need to distinguish further between cross-border mergers and acquisitions (M&As) and greenfield investment, noting that the two might have different implications for economic development. The Asian financial crisis had had less impact on FDI than previously thought. Many of the least developed countries (LDCs) had registered an increase in FDI flows in 1998 due to their efforts to adopt appropriate domestic policies, although their overall share in global FDI flows was still too low. He also stressed the share of European Union investors in total FDI flows and their consequent contribution to the economic growth of developing countries. Some of the policy frameworks adopted in those regions were partly responsible for the positive changes.

9. The representative of **Ethiopia**, speaking on behalf of the **African Group**, praised UNCTAD's work in the areas covered by the Commission and hoped it would continue to deal with the growing disparities across regions and countries in attracting FDI and with fostering competitiveness and building technological capabilities in Africa. *The World Investment Report 1999*

made it easier to understand the mechanics and dynamics of globalization and its impact on developing countries, especially in Africa. The Report described clearly how much Africa had remained on the sidelines of the globalization process. He stressed the continued marginalization of African countries, and the LDCs in particular, in a rapidly globalizing world economy. Low levels of FDI flows into Africa prevailed, despite substantial economic reform and adjustment programmes aimed at creating a positive investment environment. In addition to the various domestic and external factors underlying this situation, Africa also suffered from a severe image problem. There was more to the continent than the crises appearing in magazines or on television programmes. He praised UNCTAD's contributions in the areas of image-shaping and capacity-building in Africa, such as its booklet on "FDI in Africa: performance and potential", its Africa fact sheet and its project on investment guides and capacity-building for LDCs, which had been successfully implemented in Ethiopia and was well under way in Mali. In addition, there was the success of the IPRs on Egypt, Ethiopia and Uganda. UNCTAD's recent symposium for LDCs on international investment agreements and their development dimension was another step in the right direction. Those activities should contribute to improving Africa's ability to attract and retain more FDI.

10. While the work undertaken by the Division since UNCTAD IX had been appreciated, in view of the upcoming Conference in Bangkok, more needed to be done. The secretariat should be given the fullest possible support in continuing its excellent work on Africa in the areas of research and policy analysis, technical assistance and investment promotion, in order to help African countries realize their full potential for attracting FDI. Home country measures to enhance such flows, including the recent United States initiative, were welcome.

11. The representative of **Colombia**, speaking on behalf of the **Latin American and Caribbean Group (GRULAC)**, said that, in the context of the 4 per cent reduction in FDI flows to developing countries, the 5 per cent increase reported for his region was a good performance, taking into account the circumstances of the time and the results of the other developing regions. The significant rise in FDI going to developed countries meant that developing countries would have to change their investment promotion strategies, going beyond the creation of a favourable legal investment

framework -- which had virtually been achieved in the Latin American and Caribbean region -- to focus on policies aimed at improving such investment determinants as business facilitation, access to technology, and local technological capabilities. UNCTAD could be very helpful in that area.

12. Latin America and the Caribbean had managed since the mid-1990s to reduce the proportion of short-term capital and increase that of FDI, a trend that would hopefully be strengthened over the years and that would help modernize production processes in the region's economies, through technology transfer and job creation. UNCTAD should play an active role in designing mechanisms that would foster FDI by facilitating capital flows. UNCTAD's support to developing countries in investment agreements was of crucial importance. One of UNCTAD's tools, and one which GRULAC wished it to strengthen, was its analytical work, exemplified by the *World Investment Report* and the analytical studies series. He expressed GRULAC's satisfaction with the IPRs and STIPs. In the area of investment, UNCTAD should further analyse the relationships between investment policies and development, particularly between FDI and domestic investment and between FDI and trade. He also indicated the Group's support for the work of ISAR.

13. The representative of the **Islamic Republic of Iran**, speaking on behalf of the **Asian Group and China**, noted that, partly as a result of the Asian financial crisis, in 1998 FDI had declined into Asian countries as a group, for the first time in many years; that decrease had been largely concentrated in some countries in South and South-East Asia. FDI flows behaved differently from other types of financial flows, however, and had proven more resilient and less volatile in the face of the crisis. Flows from Asia into other developing countries had fallen as well. He noted the development of M&As as a new form of FDI in Asia, and while there was no doubt that they could be beneficial for host countries because of the positive impact on the restructuring of domestic enterprises, they also raised many controversies as to the prices paid for the enterprises acquired and as to their overall contribution to development; UNCTAD should further study their developmental dimension.

14. The topics addressed by the Commission over its term had been timely and well selected, and the analytical materials prepared by the secretariat had been helpful for developing countries in

formulating policy responses. The sessions of the Commission, as well as the expert group meetings, had provided very useful forums for discussion on issues related to FDI and its impact on development; the Asian Group and China were also looking forward to IPRs. Given the rapid increase in international production, the strength of the globalization process and the increasing importance of FDI compared to trade as a factor linking countries, there was no doubt that the relevance of investment issues and FDI for development would continue well into the next century. Accordingly, UNCTAD should strengthen the Commission's mandate.

15. The representative of **Japan** stressed the importance of establishing a better international investment framework and called on UNCTAD to contribute to deepening the understanding of the issues. He appreciated UNCTAD's analytical work on FDI and transnational corporations (TNCs), including the *World Investment Reports* and issues papers on international investment agreements. UNCTAD's expertise and research work on investment issues should be fully utilized to enhance FDI flows in various forums and economies. He stressed his Government's readiness to share its experiences in Asia and the Pacific at the time of the financial crisis in order to promote FDI flows.

Chapter I

ORGANIZATIONAL MATTERS

A. Opening of the session

16. The fourth session of the Commission on Investment, Technology and Related Financial Issues was opened on 4 October 1999 by Mr. Carlos Fortin, Deputy Secretary-General of UNCTAD.

B. Election of officers

(Agenda item 1)

17. At its 20th plenary meeting, on 4 October 1999, the Commission elected its Bureau as follows:

Chairperson:	Ms. Magda Shahin	(Egypt)
Vice-Chairpersons:	Mr. Lyudmil Kotetzov	(Bulgaria)
	Mr. Antonio Rodas Pozo	(Ecuador)
	Mr. Jean-Luc Le Bideau	(France)
	Mr. Jalal Alavi	(Islamic Republic of Iran)
	Mr. Masahiko Kiya	(Japan)
Rapporteur:	Mr. Luis Castro Joo	(Peru)

C. Adoption of the agenda and organization of work

(Agenda item 2)

18. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.2/18. Accordingly, the agenda for the fourth session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Trends in FDI and ways and means of enhancing FDI flows to and among developing countries, in particular LDCs and countries receiving relatively low FDI inflows, with a view to increasing the benefits they entail, and taking into account the factors which play a part in private sector firms' choices of investment locations
4. Investment policy and science, technology and innovation policy reviews: methodology and experiences
5. Reports of the subsidiary bodies of the Commission
6. Progress report on the implementation of agreed conclusions and recommendations of the Commission
7. Other business
8. Adoption of the report

E. Other business

(Agenda item 7)

[To be completed as appropriate]

F. Adoption of the report of the Commission

(Agenda item 8)

[To be completed]