UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE DEVELOPMENT DIMENSION OF FDI: POLICY AND RULE-MAKING PERSPECTIVES

Proceedings of the Expert Meeting held in Geneva from 6 to 8 November 2002

UNITED NATIONS
New York and Geneva, 2003

NOTE

UNITED NATIONS PUBLICATION

Sales No. E.03.II.D.22

ISBN 92-1-112596-0 UNCTAD/ITE/IIA/2003/4

Acknowledgements

This publication was edited by Americo Beviglia Zampetti and Torbjörn Fredriksson under the supervision of Anh-Nga Tran-Nguyen. Desktop publishing was done by Lynda Piscopo and Teresita Sabico.

The Secretariat is grateful to the authors of the articles included in this volume, which were presented at the Expert Meeting on: "The development dimension of FDI: policies to enhance the role of FDI in support of the competitiveness of the enterprise sector and the economic performance of host economies, taking into account the trade/investment interface, in the national and international context", held in Geneva from 6 to 8 November 2002. The views and opinions expressed are those of the authors and not of the United Nations.

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Preface

The past quarter century has witnessed remarkable growth in world foreign direct investment (FDI) flows, spurred by the evolving investment strategies of transnational corporations (TNCs) and the liberalization of national FDI policies. These policy changes have been accompanied by numerous bilateral investment treaties and more recently by a number of regional and interregional agreements on investment.

While FDI offers recipient economies important potential benefits in the form of capital inflows, technology transfer and improved access to export markets and sources of supply, such benefits cannot be taken for granted. Simply opening up to foreign investment does not guarantee inflows, and even when countries do manage to attract FDI, the implications for development differ considerably, depending on the circumstances. For instance, in order to secure the greatest possible positive impact of FDI inflows, a host country needs a minimum absorptive capacity and the ability among its domestic enterprises to link up with foreign-owned companies.

Government policies are vital for enhancing the developmental impact of FDI. Furthermore, at the same time as barriers to cross-border exchanges are being reduced, including in the area of investment, international cooperation has been strengthened through various international agreements to regulate these exchanges. Countries thus need to ensure that policies undertaken at the national level in pursuit of specific development objectives are enhanced, and not hindered, by international rule making.

Certain aspects of international rule making deserve particular attention from a development perspective. Most developing countries are still predominantly net recipients of FDI; very few of them have so far emerged as significant sources of outward FDI. Hence, interest among developing nations in the context of international investment agreements is likely to focus on ways of enhancing their ability to attract desirable forms of FDI and to realize its potential benefits.

These and many other multifaceted and complex issues have to be considered with great attention. In many parts of society, there is genuine uncertainty as to the advantages and disadvantages of globalization, especially regarding the most visible and widespread form of globalization, which is FDI by TNCs. Concerns have been raised about the expansion of "big business" and its impact on economic and social life. Such questions must be addressed, and new ways explored to facilitate a more equitable distribution of the benefits of globalization, while overcoming problems arising from it. In order to deepen the understanding of these issues, pursuant to a decision by the Commission on Investment, Technology and Enterprise Development at its sixth session, UNCTAD convened an Expert Meeting on the development dimension of FDI in Geneva from 6 to 8 November 2002. The development dimension of FDI has been particularly relevant since the 2001 WTO Ministerial Meeting in Doha in relation to the development implications of, and prospects for, closer multilateral cooperation on long-term cross-border investment, particularly FDI.

This volume contains the written submissions presented by scholars and experts, as well as representatives of the private sector and civil society, at the Expert Meeting. The overview chapter is based on a note prepared by the UNCTAD secretariat for the meeting. The Chairperson's summary of the discussion at the Expert Meeting is also included, reflecting the diversified (and at times contradictory) views expressed by scholars, experts from Governments and non-governmental organizations. The issues addressed are policy measures by FDI host countries, home country measures, the corporate social responsibility of TNCs and the right of countries to regulate. These issues are at the core of the international community's search for a balance between global objectives and the specific needs of developing countries in the area of FDI. The diversity of views expressed by the experts reflected the ongoing debate on the international agenda for investment regimes.

An overview of the issues*

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Foreign direct investment (FDI) can play a significant role in host economies' development process. In addition to capital inflows, FDI can be a vehicle for obtaining foreign technology, knowledge, managerial skills and other important inputs; integrating into international marketing, distribution and production networks; and improving the international competitiveness of firms and the economic performance of countries. At the same time, neither inflows of FDI nor the benefits from such inflows are automatic.

Governments need to consider what role they want inward FDI to play in their economies' development process, and then design their FDI policies accordingly. Thus, the broad policy objectives are to attract in particular investment that is in line with the identified development objectives; to maximize the potential benefits of FDI; and to minimize negative effects (e.g. balance-of-payments problems, crowding out, transfer pricing, abuse of market power, labour issues and environmental effects). Government intervention (by host or home countries) may be motivated by two primary types of market failures: information or coordination failures in the investment process; and the divergence of private interests of investors (foreign and/or domestic) from the economic and social interests of host economies. To optimize the impact of inward FDI (UNCTAD, 1999), Governments need to address the following four sets of