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Editorial statement

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Forty years of UNCTAD research on FDI

Torbjörn Fredriksson *

UNCTAD has established itself as the most authoritative source of data and analysis related to foreign direct investment, development and related policies. This article considers the main contributions UNCTAD has made in this area over the past 40 years, since its inception. Contributions are classified in terms of collection and development of data; conceptual development and economic analysis; and policy development and normative work. The emphasis of the review is on the period 1991 to 2003, thus capturing more than a decade of *World Investment Reports*, the main outlet for the organization's research and policy analysis.

Key words: foreign direct investment, transnational corporations, development, goverment policies

UNCTAD's evolving treatment of FDI

The international expansion of activities by transnational corporations (TNCs) through foreign direct investment (FDI) has evoked mixed reactions over the years. There has been heated debate regarding the relative significance of the potential benefits that inflows of FDI can bring (in terms of capital, technology, access to markets, competition, etc.) and the possible negative consequences an increased level of foreign ownership can imply. Understanding the full implications of FDI is complex since it interacts with many other issue areas relating to, e.g. finance, trade, employment, environment,

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* Transnational Corporations Affairs Officer, United Nations Conference on Trade and Development, Geneva, Switzerland. The author has benefited greatly from useful comments received from many people, especially John H. Dunning, Persephone Economou, Fulvia Farinelli, Masataka Fujita, Charles Gore, Shigehasa Kasahara, Padma Mallampally, Lorraine Ruffing, Karl P. Sauvant, Satwinder Singh, Anh-Nga Tran-Ngyuen and Jörg Weber. A revised version of this article will appear in a volume which covers key contributions of UNCTAD over the past 40 years in the areas of international trade; money, finance and debt; FDI, shipping, competition and technology. It is being prepared for the UNCTAD XI Conference in Sao Paulo, Brazil in June 2004.

technology and, more broadly, development. Meanwhile, the issue of FDI has grown more important during the past 40 years as TNCs have become key agents of change in the globalizing world economy.

In the broad context of UNCTAD's development-oriented thinking, the perception of the role FDI plays in the development process has evolved over time. At the first UNCTAD Conference in 1964, member States generally acknowledged the role that FDI can play in economic development and underlined the need to remove obstacles to the flow of FDI from industrialized to developing countries.[1] Parts of its recommendations dealt explicitly with the issue and called upon member States to "adopt measures which will stimulate the flow of private investment capital for the economic development of the developing countries, on terms that are satisfactory both to the capital-exporting countries and the capital-importing countries", noting the responsibilities of home countries, host countries, investors and the international community (box 1).

Box 1. Recommendations at UNCTAD I with regard to the promotion of foreign investment to developing countries

UNCTAD I adopted a recommendation concerning actions by capital-exporting and capital-importing countries, investors and relevant institutions in order to encourage the flow of private capital towards developing countries.

It recommended among other things that the Governments of capital-exporting developed countries avoid measures "preventing or limiting the flow of capital from such countries to developing countries, and … take all appropriate steps to encourage the flow of private investments to developing countries, such as tax exemption or reductions, giving investment guarantees to private investors, and by facilitating the training of managerial and technical staff".

/…

[1] Even before UNCTAD, the United Nations had addressed the role of FDI. In the Havana Charter, the investment provisions were among the most controversial, contributing to the downfall of the International Trade Organisation in the late 1940s (see United Nations Conference on Trade and Employment, 1948).

Box 1 (concluded)

With regard to private-capital-importing countries, the Conference recommended them to take "all appropriate steps to provide favourable conditions for direct private investment". It further recommended that developing countries "set up investment bureaux and investment advisory services and … establish and strengthen credit institutions and development banks and … determine and publicize the areas of investment, manner of investment and investment policy." The Conference also recommended developing countries "to establish information centres in capital markets and adopt other suitable means to supply all the necessary information about the information about investment conditions, regulations and opportunities in the developing countries". Moreover, United Nations bodies and developed country Governments were encouraged to assist developing countries in these endeavours.

Another part of the recommendation focused on the role of investors. It said that "foreign private investment, based upon respect for the sovereignty of the host country, should co-operate with local initiative and capital, rely as far as possible on existing resources in developing countries, and should work within the framework and objectives of the development plans with a view to supplying domestic markets and, in particular, expanding exports". The Conference expressed its expectation that foreign private investment would "recognize the desirability of re-investment of profits in the developing countries concerned, …availability of "know-how" … employment opportunities … and other corresponding measures".

Finally, the World Bank was requested to "expedite its studies on investment insurance, in consultation with Governments in both developing and developed countries, and submit […] the results […] to the United Nations". The Conference also requested the Secretary-General of the United Nations to arrange further studies to cover all aspects of foreign private investment.

Source: UNCTAD, 1964, pp. 49-50.

The views expressed in 1964 emphasizing the benefits of FDI contrast with what followed. By the early 1970s, TNCs were in many quarters mainly perceived to be huge economic powers, being beneficial in some cases but necessary evils at best. Their actions in developing countries were often interpreted as a threat to the sovereignty of recipient economies and, if not controlled, could be detrimental to their welfare, with economic colonialism and/or environmental and social degradation as possible results. Against this background, the policy response was to seek ways for national and international bodies to monitor, restrict and regulate the activities of TNCs.

Resolution 56(III) adopted at UNCTAD III in Santiago, Chile, in 1972, dealt with FDI, placing the emphasis on the right of developing countries to regulate it in line with national development needs and to avoid its possible adverse effects, highlighting the negative impact outflows of private foreign capital had had on the balance of payments. The Conference affirmed:

> "the sovereign right of developing countries to take the necessary measures to ensure that foreign capital operates in accordance with the national development needs of the countries concerned […]."
> It also expressed "its concern [about certain aspects of FDI] that disrupt competition in the domestic markets, and their possible effects on the economic development of the developing countries."
> Furthermore, the Conference recognized "that private foreign investment, subject to national decisions and priorities, must facilitate the mobilization of internal