

12 February 2001

Statement by H.E. Ambassador Jorge Iván Mora Godoy, Ambassador, Permanent Representative of Cuba, on behalf of the Group of 77 and China at the Commission on Investment, Technology and Enterprise Development on agenda item 3 - Cross-border M&As

Distinguished delegates,

In June 2000, UNCTAD convened an expert meeting on cross-border M&As. It is the view of the Group of 77 [and China], that this expert meeting was both timely and pertinent.

It was timely, since FDI is increasingly taking the form of an acquisition of, or merger with, an existing enterprise, as opposed to a so-called greenfield investment. The share of cross-border M&As in total FDI inflows varies by region: in the 1997-99 period, such acquisitions amounted to roughly 60 per cent of FDI inflows in Latin America, almost 40 per cent in Africa, and 20 per cent in Asia (data are for 1997-99 averaged) with higher shares observed in the economies that were affected by the financial crisis of 1997.

The Expert Meeting was pertinent, because, conventionally, our discussions of FDI have implicitly assumed that it is in the form of greenfield investment and hence would, in principle, couple external financial inflows with a creation of production capacity, and come with a concomitant injection of technology, creation of jobs, and increase in trading opportunities. The rising share of M&As in cross-border investment flows coming to DCs has therefore raised a pressing question: How does it affect our countries' development prospects when FDI is not greenfield, but takes the form of an M&A?

To come to grips with this question, the Meeting looked closely at the trends in cross-border M&As, and discussed the pertaining issues, ranging from their potential impact on economic development and the performance of industries and enterprises in developing countries, to questions of national sovereignty, the risk of fire-sales, and the impact on employment. There is not time to go into the nuances of the wide-ranging exchange of experience of the Expert Meeting, so I urge you to read the report of the Meeting, as well as the World Investment Report 2000 which capture much of the discussion.

At this juncture, I should like to focus on the policy discussions that emanated from the Meeting. The Group of 77 has identified a number of policy recommendations which this Commission might consider adopting.

* Since cross-border M&As can have positive or negative effects in a host country economy, depending on many factors, developing countries need to have in place mechanisms to analyse their impact. Policy responses will vary from country to country, depending on domestic and regional considerations, as well as on the state of economic development. Responses to cross-border M&As are also likely to differ when an economy is in the process of restructuring and privatising its public enterprises, or facing a financial crisis, but regardless of circumstances, the Group of 77 feels it of the utmost importance that policies and guidelines on M&As are in harmony with each country's long-term developmental objectives.

* An area of common understanding is that of competition policy. Since a large number of DCs have not yet been able to introduce competition policy laws and authorities, or lack the resources required for effective competition monitoring, major efforts are necessary in this domain. This applies both to national competition policy, and to the area that concerns us here, cross-border M&As. For this, developing countries solicit the support of the international community, especially for those LDCs which are in the process of developing

their competition institutions. For all developing countries, support in the area of cross-border M&A reviews could take the form of consultations and co-operation among competition authorities, both at the regional level, and between advanced developed countries - which have a much longer experience with large-scale domestic and cross-border mergers - and developing countries. The G-77 would encourage that modalities be explored for an ex-ante exchange of information between countries in which M&As are taking place, or which are effected as third parties. Perhaps there could be joint review mechanisms.

* It is crucial to have up-to-date information on trends in FDI and in cross-border M&As, including the industrial composition of such M&As. Continuous analysis is also required regarding the impact of FDI in the form of M&As on the domestic enterprise sector and on market structure in developing countries. Comparative compilations and analyses of policy responses are indispensable for each DC's policy making. We therefore urge the UNCATD secretariat to continue its work in this area..

* Last but not least, many developing countries lack an effective social security system. When cross-border M&As lead to closures of enterprises or layoffs of skilled or unskilled workers, compensatory measures are required. They could be in the form of vocational or skill training and of placement agencies. Often, the resources for even such comparatively minor services are lacking and therefore, here too, DC Governments would need support both from the international community and from the private sector.