STATEMENT BY MR. MOHAMMAD ALI ZARIE ZARE (ISLAMIC REPUBLIC OF IRAN), ON BEHALF OF THE GROUP OF 77, AT THE SECOND SESSION OF THE PREPARATORY COMMITTEE FOR THE HIGH-LEVEL INTERNATIONAL INTERGOVERNMENTAL EVENT ON FINANCING FOR DEVELOPMENT: MOBILIZING INTERNATIONAL RESOURCES FOR DEVELOPMENT: FOREIGN DIRECT INVESTMENT AND OTHER PRIVATE FLOWS

Wednesday, 14 February 2001

Mr. Chairman,

From the viewpoint of the Group of 77 and China mobilizing international resources for development through foreign direct investment and other private flows is a major topic before us, particularly in the light of the globalization process and financial liberalization. In recent decades international financial resources, private flows in particular, have become a major source of financing for a number of developing countries and increasing rapid flows of these resources has constituted an important trend in the globalization process. Although concentrated mainly in specific geographical regions and among a limited number of countries, nonetheless, their global impact on development has been quite pronounced and recognized. And as is known, low levels of income and domestic savings have impeded and constrained the capacities of developing countries to mobilize the necessary resources for development. Foreign capital can certainly help towards filling the domestic gap between national supply and demand of resources and, if managed properly at the macro-level, it can have substantial benefits for development. In addition, long-term capital flows in the form of foreign direct investment (FDI) could bring a range of dynamic benefits, such as transfer of technology and improved management practices, market access, stimulating competition among companies, lowering the cost of capital and building market confidence in the host country. However, these benefits also involve a high degree of risk. Past experiences clearly indicate that if the private flows, especially short-term inflows, are not been managed prudentially, enormous risks and costs may ensue. Despite the fact that the volume of international private flows has increased a great deal, in absolute terms, particularly when compared with that of the Official Development Assistance (ODA), their real impact on the socio-economic development of their host countries or sectors varies among countries and moreover, it is substantially skewed towards certain sectors in these countries thus leaving out some other productive sectors in dire need of resources for development. With this picture in mind, it should be made clear that international private flows should not be driven by profit motives alone. Rather, increase in their sheer volume and a more equitable distribution among developing countries is called for, while, of course, requisite efforts towards making foreign investment profitable to both the investors and the host country is equally imperative. In our deliberations on this issue the paramount role of three stakeholders; that is, host countries, home countries and international investors, need to be addressed, while bearing in mind that the primary as well as the ultimate objective of the developing countries is to attract private flows for their developmental efforts.

Let me now try to concentrate on a number of specific areas.

Facilitating long-term private flows. Developing countries are cognizant of the fact that they need to develop capacities of their financial and corporate sectors and to improve the institutional framework to be able to attract and absorb more private flows. Nonetheless, given the wide range of measures that many of our countries have already taken, the end result does not seem to be satisfactory at all. Instead, it appears that the external environment, especially the role of home countries, is extremely crucial in creating a conducive environment leading to the increase in and better distribution of these flows among the developing countries. Given the existing differences between developing and developed countries, including in the area of investment-related information and capacity, developed countries seem to be in position to provide concrete information on the investment opportunities in developing countries, particularly LDCs and African countries. In addition, exchange of information between home countries with the host developing countries on the investments and financial flows of their firms, whether short-term, portfolio or foreign direct investment is certainly helpful. Undoubtedly, access to detailed information on the volume and types of capital flows and the economic sectors which have absorbed them will be vital for the government of host country in its financial and sectoral decision- and policy-making. Equally important and necessary is the promotion and strengthening of the institutional infrastructure of developing countries, through provision of financial and technical assistance, in order to enable them to successfully manage the inflows of foreign private capital at the national level and to prevent emergence of crises. This is an area where developed countries can make a distinctive contribution. Relevant international organizations and developed countries can also encourage capital flows to developing countries through such policies and measures as extension of fiscal support to outward investors, insurance schemes and market access. Promotion of corporate governance, both for investors and hosts of the investment, including in the area of transparency of activities and accountability, are also important for all stakeholders and should be encouraged. In this context, strengthening of the traditional United Nations role in the formulation and development of codes of conduct would also be helpful and deserves serious consideration.

Expanding the spread of Foreign Direct Investment (FDI). Foreign Direct investment has various positive spill -over effects for economic development and transfer of technology. Ensuring the spread of this kind of investment to all developing countries, particularly LDCs and African countries and other small and vulnerable economies, poses a daunting challenge to all of us. This requires facilitation, in an institutional manner, of the spread and exchange of information on investment opportunities in developing countries. On the attraction of foreign direct investment and other private financial flows, it is argued that developing countries should enhance their locational assets which are essential for a growing economy and improving the quality of life. True indeed, however, it is only one side of the argument. The other equally true and yet important element concerns the practical ways and means to secure the resources needed to improve locational assets. It is an established empirical fact that the private sector, by its very raison d'etre, does not involve itself in the development projects that are not profitable or those considered to belong to the domain of the government and public sector unless there exists a reasonably adequate and well-functioning infrastructure in place and simultaneously no serious risk involved in investment. The supportive role of Official Development Assistance in this particular context needs to be underlined. Moreover, private flows should not be conceived as a substitute for ODA, rather, they should be considered complementary and mutually supportive. In a practical sense, we need to explore the ways and means to expand the spread of FDI among developing countries and look for clear and concrete actions acceptable to all stakeholders.

Enhancing development impact of investments and reducing negative aspects. The Group of 77 and China believes that optimization of the impact of Foreign Direct Investment and materialization of its potential benefits for development through strengthening technological capabilities and capacities, boosting export competitiveness, generating employment, and establishing networking between foreign affiliates with their host economies especially with small and medium size enterprises, should be encouraged through dissemination of experiences and best practices. Transfer of technology and assisting developing countries to create and develop their indigenous research and development capacities and expanding market access to the technology intensive products from developing countries should be considered as a priority in policy guidance in the field of foreign investment flows. It is also extremely crucial to study various options for better convergence of the private flows with the needs and priorities of recipient developing countries. On the other hand, the negative effects of FDI and the activities of transnational firms and corporations in the host countries, including through anti-competitive and tax evasion practices, could, and in fact, should be minimized through promulgation of necessary legal framework and standards.

Mr. Chairman,

Before concluding, I should also draw attention to the fact that the volatility of short-term and other pure financial flows and their impact on the economies of host developing countries is a serious challenge that needs to be addressed and discussed in all its aspects. In this connection, the speculative short-term financial flows, including trade in currencies, and their adverse impact on national financial and banking systems should be fully discussed. It is within this overall context that there exists an urgent need to strengthen the institutional capacities of developing countries to successfully manage these flows at the national level in order to prevent financial crises and to maximize their potential benefits. Therefore, devising practical mechanisms for effective monitoring of financial flows and strengthening the regulatory framework to assess these flows, harness their positive impact and minimize their risks should be encouraged at the national level. Exchange of information and promotion of transparency on the activities of financial institutions, especially non-bank institutions, and their investments in certain categories of assets or sectors between home countries and host of private flows, is considered quite vital for financial stability and prevention of crises. Credit rating agencies, as a major player in the provision of financial information, can also play a positive role in this regard. It should be emphasized, however, that transparency in their information is essential and that rating countries and firms should be based on the publicly known criteria, bearing in mind the impact of transparency on the financial flows to developing countries. The Group of 77 and China supports all measures to strengthen transparency of financial markets and credit-rating agencies. The Group also welcomes and stresses the need for extension of technical assistance to developing countries to promote their capacities to enable them to attract FDI and other financial flows, to enhance their development impact and to contain their negative effects.

Thank you very much, Mr. Chairman.