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PRESS RELEASE

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**WORLD ECONOMIC DOWNTURN IS OVER,
BUT REGIONAL CONFLICTS POSE THREAT**

“Some recovery” can be expected this year in the overall global economy, said Harvard economist Jeffrey Sachs yesterday at a Geneva meeting on investment promotion. His optimism was shared by Klaus Friedrich, Chief Economist at Allianz Group and Dresdner Bank, who asserted that “the global downturn is over”. However, much will depend on the threat posed by regional conflicts, which according to Mr. Sachs are “the greatest risk to the world today”.

Mr. Sachs said that the business cycle would continue if peace were achieved. The pace of the recovery, which would begin in the United States, depended on multinational production. While there would still be “spillovers from Latin America”, however, and a “modest drop” in foreign direct investment (FDI) flows this year, this would not amount to a “cataclysmic fall” in portfolio flows, he predicted.

Addressing the seventh annual conference of the World Association of Investment Promotion Agencies (WAIPA) by videolink from Boston, Mr. Sachs pinpointed risks in the battered telecommunications sector, which he said would grow more slowly over the next year or two. By contrast, the sharp investment collapse of the computer and non-telecommunications technology sectors was starting to reverse, with a foreseeable build-up in exports and increase in FDI leading to some recovery in the global economy.

Mr. Sachs also blamed the “crisis mode” prevailing in Latin America on the “meltdown” under way in Argentina, whose policy makers would be well advised not to fix the exchange rate or to peg it to the dollar. Dedollarization of dollar accounts, he said, was “a sure way to have government popularity plummet”.

Rubens Ricupero, Secretary-General of UNCTAD, which is organizing the meeting, remarked that one of the organization’s future roles would be to help developing countries and the least developed countries in particular to use FDI in improving their competitiveness. Linkages between foreign affiliates and the domestic economy were critical if FDI were to have the desired long-term impact. Countries should also develop their small and medium enterprises in order to “spread the advantages of the managerial culture”, he said.

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He agreed with Mr. Sachs that incentives were “the trickiest part of the process”, citing his own country, Brazil, as having “exaggerated” incentives to the point of “disinvestment”. It was regional integration schemes that should define “what is admissible in investment promotion and what is beyond the scope of national governments”. Secretary-General of the International Chamber of Commerce, Maria Livanos Cattai, who moderated the discussion, said “the devil is in the details”, with no one formula applicable to all countries.

Following comments by Mr. Sachs on the need for more incentives for FDI in African countries, panellists said incentives needed to be appropriately matched to the industries targeted by national promotion efforts and that investment decisions were in any case not made purely on the basis of incentives but of “fundamentals” – such as a liberalized regulatory framework, an adequate technology base and overall competitiveness. “I have never seen an investment incentive that can paper over a bad investment environment”, said Paul Laudicina, Vice President of AT Kearney, an international management consulting firm.

Taking the “F” out of “FDI”

Mr. Friedrich of Dresdner Bank and Allianz Group, an international asset management group, said that “the ‘F’ in ‘FDI’ no longer means much”; these days, as a result of globalization, virtually all investment is foreign. With FDI generally shrinking, the world market for FDI is becoming more competitive, added Karl Sauvart, Director of UNCTAD’s Investment Division. He warned that investment promotion agencies should guard against “a race to the bottom” in terms of liberalizing their regulations and against “a race to the sky” in offering financial incentives.

“Target, target, target” are the three rules for promoting investment, urged Mr. Laudicina. In today’s environment would-be host countries would have to “do more with less”. The “geopolitical calculus” that had receded from the consciousness of CEOs prior to 11 September had now returned to the forefront, he said, noting that the US had suffered the single greatest loss in its attractiveness as an investment destination since the terrorist attacks because of heightened risk perceptions of both old and new markets.

“Companies are backburning projects in places facing prospective conflicts”, agreed Dennis Smith of NY-based Pac Tac Advisors Inc. Mr. Laudicina said they are becoming “much more sophisticated”, looking at diversifying their assets geographically and sector by sector and moving from a “just-in-time” to a “just-in-case” logistical system.

Panellists from developing countries offered other views of the problems and successes to be had in investment promotion. They could opt out of the generally accepted but frequently harmful development formula and turn to strategies geared to enhance their environment and human resources rather than exploit and degrade them. This was the policy undertaken by Costa Rica, as described by José Maria Figueres, former president of that country and currently Managing Director of the World Economic Forum. Costa Rica’s main goal had been to use foreign investment to become an information society posited on sustainable development. Accordingly it had targeted investors in the electronic components, medical devices, call centres and shared services fields, and FDI had risen from \$612 million in 1999 to \$628 million in 2000.

In a keynote speech to the gathering, WTO Director-General Designate Supachai Panitchpakdi of Thailand summarized last November’s decision at the WTO Doha Conference to adopt a work programme on investment. FDI, he said, had become “a

major force” in the globalization process, playing a leading role in the integration of national markets into the world economy and becoming “the most important source of external finance for developing countries”. However, the increase in FDI since the mid-eighties had benefited only a select group of such countries, leaving a “considerable number” of low-income countries without any significant flows. He attributed that in part to the fact that those countries still had relatively unfavourable investment climates and lacked the ability and knowledge to attract and facilitate foreign investment.

The WAIPA meeting, which continues through 25 January and is being attended by some 200 IPA officials and corporate executives from 72 countries, is discussing how to influence transnational corporations’ decision-making processes for investment location through more proactive promotion measures. WAIPA (www.waipa.org), established in 1995 under UNCTAD auspices and based in Geneva, has 121 members and serves as a forum for networking opportunities and the exchange of best practices in investment promotion. Yesterday evening it honoured three of its members for their practices: the Chilean Foreign Investment Committee (global winner); the Foreign Investment and Foreign Trade Agency of Mongolia (global runner-up); and the Gambian Investment Promotion and Free Zones Agency (best LDC IPA).

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