ATTACHMENT I

PERFORMANCE CRITERIA STIPULATED BY HOST COUNTRIES

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PERFORMANCE CRITERIA STIPULATED BY HOST COUNTRIES

Introduction: One of the issues identified by the Task Force as requiring further study is the stipulation of performance criteria by host countries on foreign firms investing in them. Such criteria constitute an aspect of host country regulation of foreign investment in the context of the macro objectives of their national economic policies which aim at augmenting national output and employment and attaining viability in balance of payments. Host countries naturally seek to weigh the benefits of additional income generation arising out of the foreign investment against its likely impact on balance of payments or on the growth of domestic (indigenous) industry so as to maximise what they regard the positive and minimise the negative aspects of foreign investment.*

Performance criteria can (and generally do) take several forms but this paper focuses attention on the two

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*Performance criteria have been stipulated "in order to shift benefits from trans-national corporations and home countries to host countries, to minimise the cost of private investment and to force investors (without, however, losing them) to contribute as much as possible to the achievement of the host country's development objectives". - K. Billerbeck & Y. Yasugi. Private Direct Foreign Investment in Developing Countries - World Bank Staff Working Paper No. 348 - Washington (July 1979) P. 19.

"The significance is their(performance oriented policies) clear intent to shift toward the host country the package of benefits brought by the foreign firms" C. Fred Bergsten: Coming Investment Wars? Foreign Affairs, October 1974.

most widely stipulated forms of regulation.* These require:

(i) that firms shift procurement of inputs to host countries as against importing such inputs; and

(ii) that they export a specified percentage of production either by volume or value.

2. The Rationale for Performance Criteria: The justification for the above mentioned types of performance requirements are based on the following objectives of national economic policy:

(i) Increasing national output and domestic employment and protecting domestic industry.

(ii) Strengthening the balance of payments.

(iii) Controlling transfer pricing practices.

(iv) Helping the transfer of technology.

The application of performance criteria as an instrument in the achievement of these objectives is discussed below.

3. Performance Criteria and National Output & Employment: The contribution of foreign investment to domestic output and employment in the recipient country, both directly and through forward and backward linkages, is a point that does not need to be laboured.** Nonetheless, a major concern of host countries

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*Some of the other types of performance criteria are requirements that over a period foreign firms indigenise management and/or that the share of local capital in the total equity be increased to a specified percentage or restricting access to local capital/money markets. For other types of performance criteria, please see K. Billerbeck & Y. Yasugi's Op. cit. PP 19-2

**There has, of course, been a lively debate, perhaps beginning with H.W. Singer's celebrated article (American Economic Review 1950) about the impact on host countries of private foreign investment

arises from what is perceived to be inadequate secondary processing of raw material in sectors where one of the motivations of foreign investment is securing raw material resources. This leads host countries to indicate a phased program for an increasing proportion of local value addition to the product designed for export as against material export in rawer forms. In many LDCs where labour is surplus and underemployment (or unemployment)is endemic, labour intensive processing clearly makes sense.

Even where the motivation for foreign investment is domestic market related, foreign investment tends to move into import substitute industries which invariably are built behind the shelter of tariff walls or quantitative import restrictions leading to generation of monopolistic/oligopolistic rents. If one accepts the logic of import substitution for the final product it follows that the import substitute argument can be extended to inputs as well. The stipulation of procurement of inputs locally thus widens the base of domestic economic activity and employment. It could raise the cost structure of production for the investor but this may not represent a greater 'tax' on the domestic consumer if its impact is only to cut monopoly rents. In any event,the externalities associated with such a stipulation of local inputs by way of its impact on domestic production and employment has to be set against a possible higher price to the domestic consumer. Especially in those LDCs which have large and expanding domestic markets and have a developed resources base and labour availability, the attractiveness

of domestic input stipulation is readily apparent.

A related aspect is concerned with the protection of indigenous industry in the light of the fear that foreign investment"tends to preempt the good investment opportunities, leaving only the marginal projects to domestic enterprise".* The other related concern is with the impact of foreign investment on indigenous small industry. In India, for instance, certain industries have been reserved for the (domestic) small scale sector broadly on the ground that such industries are labour intensive and can be promoted through economically viable small units with relatively low capital-labour ratios. If the foreign investor (or indeed even the domestic large scale sector) wishes to manufacture items reserved for the small scale sector, such investment is permitted only if the manufacturing activity has a strong export orientation so that the apprehension of the foreign investment (with, in several cases, well known brand names) swamping the domestic market to the disadvantage of the indigenous producer. The protection to the domestic small and medium sized industry derives from the viewpoint of enlarging employment opportunities, widening the base of economic activity and avoiding market domination by any single (or group of) concern. Export obligations thus fit into overall industrial policies by insulating, in varying degrees, the domestic market from the penetration of the foreign investor.

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*Bos, Sanders and Secchi: Private Foreign Investment in Developing Countries. P.25

4. Performance Criteria and the Balance of Payments: The balance of payments barrier to growth is a widely observed phenomenon and does not require much elaboration. The implications for inflow and outflow of foreign exchange constitute crucial elements in developing countries' planning of investment, especially industrial investment and approvals of foreign investment. Foreign investment in the extractive industries with an export motivation may pass the test though it may have other implications for national control and ownership of natural material resources. In service sectors, on the other hand, the foreign exchange outflow tends to make foreign investment in them comparatively unattractive to the host country.

As regards the manufacturing sector, experience in a number of developing countries indicates that much of such investment in the early phase of their industrialisation represents import substituting investment. In such a situation, most countries either prescribe entry criteria to cover these aspects or tend, at the time of considering foreign investment proposals, to scrutinise the foreign exchange implications of a proposed investment - weighing the outflow on account of imports of raw material and components, the payment of royalties, technical fees and dividends against the savings in foreign exchange as a result of the import substituting effects of the investment, and the earnings of foreign exchange as a consequence of exports of the product, in short to calculate (whether explicitly described as such or not) the foreign exchange cost benefit ratio.
Hence the attractiveness of stipulating

either domestic input procurement or exports in the hope that the sum of the benefits would outweigh the costs.

In several instances foreign investment is accompanied by restrictive clauses with regard to limiting exports either in quantum or to certain specified geographical areas as part of the foreign investors' global marketing strategy. LDCs have resisted this with varying degrees of success. The imposition of export obligations in some cases has gone hand in hand with such restrictive clauses.*

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*It is interesting to observe, in this connection, that among the ownership or firm specific advantages which Dunning mentions, two that figure in the list are "exclusive access to inputs, e.g., raw materials essential to the production of a product and/or control over market outlets"
Prof. John Dunning: Factors Influencing the Location of Foreign Direct Investment. Mimeograph (1979) P.21

5. Performance Criteria and Control of Transfer Pricing: One of the major areas of concern for host countries with regard to foreign investment is in respect of transfer pricing - to ensure that only "arms' length" prices are, in fact, charged. Stipulation of indigenous raw material procurement and local value addition stems from the desire to correct the distortions arising out of high transfer pricing. A tendency - perhaps less common now than previously - is for the foreign investor to write into the investment or collaboration terms the import of raw material, intermediates or components from specified sources - often from the parent firm or its affiliates - with its own implications for transfer pricing. The drug and pharmaceutical sector in several developing countries is a case in point. National policy in several cases has required that foreign investors not confine themselves to importing bulk drugs and converting them into formulations and packaging them but to go into production of intermediates and basic drugs. This follows from the perception that continued import of raw materials and equating manufactures with only conversion, assembly or packaging hardly represents acquisition of technology apart from providing the opportunity to the foreign investor to charge high transfer prices. Cases are not wanting where the foreign investor wishes to stipulate sources of procurement of inputs (from

the foreign parent or affiliate/subsidiary in third countries) and sometimes of capital equipment leading to suspicions about transfer pricing. The imposition by host countries of a local value addition stipulation acts as a defence mechanism.

6. Performance Criteria and Transfer of Technology: One of the considerations for the stipulation of export performance arises from the host countries' desire to ensure the adoption and absorption of technology and to help domestic manufacturers to conform better to international costs, standards and quality. The stipulation of export obligations (in the absence of export subsidisation) is expected to achieve this. In several cases, foreign investment takes place to obtain an 'export platform' to take advantage of a host country's resource base and its labour force and organisation. The stipulation of export obligation in such cases, though seemingly reundant, is a confirmation by the host country of this objective. Export obligations would help to ensure that the product manufactured satisfied the test of price competitiveness and quality. This explains also why some performance criteria set not only quantitative goals but also qualitative goals such as requiring export of processed and high technology exports. The imposition of such obligations also seeks to obtain the benefit for the developing country of access to the global marketing strategy of the foreign investor; a related aspect of this is the institution of buy-back arrangements between the parent firm and affiliate of the foreign investor and the host country enterprise, though this may have implications for transfer pricing.

Basically, the host country seeks to turn the foreign investments to advantage by obtaining a foothold in the international market. This assumes special significance in an environment of increasing protectionism in the international trade.*

7. Other Aspects of Performance Criteria:

An interesting use of export performance criteria is provided by Indian policy which seeks to relate the quantum of export obligations to the extent of foreign equity ownership. Indian regulations prescribe that a foreign investor exporting 60% or more of his production is permitted to retain ownership upto 74% . On a sliding scale basis, if the exports are above 40%, foreign equity ownership of upto 51% is permitted. Industries in what Indian policy refers to as 'core sector' and those that require sophisticated technology are permitted to have foreign equity upto 51% if their exports are at least 10% of their production.

8. Performance Criteria - Some General Observations:

The impact of performance criteria related to input procurement and export obligations on international trading patterns - in terms of distortions in the

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*"Intra-firm International trade does have anti-protectionist advantages" - K.Billerbeck & Y.Yasugi - op. cit. p iii

international trade flows - is difficult to quantify in the absence of adequate data; some qualitative observations may however be attempted. Performance criteria, as mentioned earlier, seem to serve the macro economic objectives of promoting domestic economic activity and strengthening the balance of payments of the host countries. In doing so there could be a conflict between these objectives and international economic objectives. To the extent that host countries require export obligations or domestic input use, there could be some reduction in such activity in other countries with resultant impact on economic activity in them. They could also lead to larger share in international trade of the exports of these countries than what competitive market trends might suggest. They could lead to demands in other countries for countervailing or protective action.* The stipulation of input procurement or of local value addition is an aspect of import substitution and its distorting impact on international trade is perhaps no greater than that of import restrictions through tariff and non-tariff barriers on the final product. One is not writing on a clean slate. The alternative to local input procurement by stipulation could be import restriction on the

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* Stipulations that an investing firm export a sizeable share of output "go directly to the location of world production, jobs and the most sensitive aspects of each country's external position"
C.Fred Bergsten loc. cit

inputs, which, of course, would have a more generalised impact than a covenant stipulating domestic procurement of inputs by a foreign investor.

In the case of export obligation also some distortion to trade patterns is likely but here again the measurement of its impact is difficult. To say that export performance criteria should be insisted on only where the product is basically export worthy in terms of costs and quality begs the question. If such were not the case, the stipulation can be complied with only by exporting on the basis of a subsidy, either overt or otherwise, with its own implications for distortion in the international trading pattern. The domestic resource cost of such products may not justify the export calling for subsidisation. Similarly, with respect to domestic procurement of inputs there is the danger of high cost industries being set up. Such distortion, it could be argued, would be deterimental to maximisation of global welfare as they negate the principle of comparative advantage. This calls for careful evaluation by a host country of the basic viability of the export and constant reappraisal of such stipulation. The necessity for obligation to export or use local inputs is itself an indication that, barring restrictive clauses, there is an economic cost in conforming to these stipulations. Whether this cost is justified or not depends on other objective of economic policy and particularly the foreign exchange situation. As the latter improves, there is a strong case for reviewing and reappraising the need for such obligation.

While the impact on international trade both as between LDCs and the developed countries and as between LDCs themselves would be adversely affected to some degree, the stipulation of local input procurement and of exports have helped domestic economic activity and the establishment of an export base which over time could be sustained even in the absence of these requirements. In many developing countries, industries which started off as import substitute industries have now grown to a point where they do not require the earlier degree of protection and indeed have emerged as exporting sectors.

9. Conclusion: Performance criteria, in a sense, represent the obverse of incentives and constitute host countries' attempts to transfer to themselves what they perceive to be as much of the benefits of foreign investment without stretching these requirements to the point of positive disincentive to such investment*.

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*It should be added, in parenthesis, that such requirements are not necessarily confined to Direct Foreign Investment. Several countries impose such requirements in respect of industrial investment in general and these thus constitute aspects of industrial and trade policy rather than specific regulations governing foreign investment. India is a case in point.

Any impact of performance requirements on expansion of domestic economic activity and strengthening the balance of payments is clearly to the advantage of the host country but when such requirements begin to impinge on other countries - whether home countries or other developing countries - they have the same effect as protection or subsidies in altering international trade flows with possible consequences of affecting the international division of labour and going against the principle of comparative advantage. It is, of course, not always possible to determine at what point these regulations become 'excessive' or when the situation calls for attempts to resolve possible conflict situations between the interests of different countries and to harmonise to the extent possible performance requirements preferably on a multilateral basis. In this as in the case of competitive incentives, or of home country policies to prevent relocation of industry towards developing countries, the attempt must be to seek an international consensus and a generally accepted code of conduct.

Performance Criteria in terms of exports or import substitution

--Indian experience.

This paper seeks to set out the Indian policy and experience with respect to performance criteria in terms of exports or import substitution under its foreign financial and/or technical collaboration policy. The rationale for stipulating expert performance or import substitution criteria has been explained and the manner in which the foreign exchange situation, in particular, influences the policy has also been highlighted.

2. At the outset, it may be relevant to refer briefly to the foreign investment policy of India. Foreign Investment has always been regarded more as a vehicle for the acquisition of advanced technology that is needed by the country but is not available indigenously than as a source for foreign capital to supplement domestic savings. It may be said that foreign money capital has not played any significant part in India's industrial development. Over the years, the country has built up a reasonably strong and diversified industrial base and has developed domestic technological capabilities to a significant extent. More importantly, it has built up a vast reservoir of scientific and technological manpower and skilled and semi-skilled labour. As a result, the areas where foreign technology needs to be imported either as a new technology not yet available indigenously or to upgrade existing local technology are increasingly becoming selective and sophisticated. Apart from the acquisition of advanced technology, the other pillar on which the

foreign investment policy rests is export oriented production. Foreign investment is welcomed in ventures which are predominantly export oriented, and in such ventures majoirity ownership is also permitted depending on the extent of exports. A hundred percent export oriented venture can have even hundred percent foreign ownership.

3. Coming now to the rationale for imposing export obligations or import substitution when a new foreign collaboration is approved or an existing foreign company (that is, a company with more than 40% foreign equity) is given an industrial licence for the manufacture of a product, it needs to be made clear at the very beginning that an export obligation is not imposed as a matter of course in each and every case. Where such an obligation is stipulated, it is generally on account of one or other of the following factors: (a) the foreign exchange situation (b) the impact on domestic industry and market (c) transfer pricing and (d) transfer and absorption of technology. These are explained in the following paragraphs.

4. From the late 1950s till early 1970s, the foreign exchange situation of the country was so stringent that the inflow and outflow of foreign exchange acted as a crucial factor in industrial approvals and investment decisions. The foreign exchange balance in terms of the inflow of foreign exchange through export earnings or saving on current imports and the outflow on account of royalties, lumpsum payments, technical know-how fees, capital goods and raw material imports, and dividends thus assumed considerable significante under industrial licensing or foreign collaboration

approvals. Since export earnings improved the balance and made the proposals acceptable from the foreign exchange angele, the export obligation was either offered by the parties themselves or was stipulated as a condition of the industrial licence or foreign collaboration approval. It needs, however, to be stated that the export obligation was seldom unduly excessive or for unlimited duration.

5. The significant improvement in the countfy's foreign exchange position since the early 1970s has led to a reappraisal of this policy. Experience showed that in many cases, the export obligation had come to be imposed in a routine manner for the sake of "window dressing" the foreign exchange balance, although the products were not economically export worthy or were required on the domestic market. It was also found that such exports had resulted in loss to the company concerned on the one side and had absorbed governmental subsidies for exports on the other. With the improvement in the foreign exchange situation, the present policy is, therefore, that export obligations should not be imposed merely for the sake of earning foreign exchange or improving the foreign exchange balance of the foreign collaboration proposal. Such obligation should be stipulated only if the product is export worthy and the export is economically viable or if it is essential as a part of the industrial policy to safeguard the interests of domestic enterprises in thesmall or medium sector. In other words, export obligation will be a relevant factor under industrial licensing policy only and not under foreign collaboration approvals. In the light of this position, past cases where export obligation had been imposed in a routine way are also being reviewed and the obligation removed wherever they

were unjustified on economic or industrial policy considerations. Thus, the earning of foreign exchange is no longer a determining factor in approving of foreign collaboration proposals but it must be noted that this change of approach is the result of the comfortable foreign exchange position of the country. Such an approach may not be valid for a developing country in the throes of acute balance of payments difficulties, as India itself was until a few years ago.

6. The main consideration in stipulating export obligation now is the protection of the domestic industry, especially in the small or medium sector. Under the industrial development policy, certain industries have been reserved for in the small scale sector broadly on the grounds that they are labour intensive and can be promoted through economically viable small units requiring very low capital investments. Similarly, the industries which are open to "Indian large business houses" and foreign companies have been listed, these are "core industries" considered to be vital to the national economy and requiring heavy capital investments and advanced technology. If an Indian large business house or a foreign company wants to manufacture items reserved for the small scale sector, it is permitted only if the manufacture is entirely export oriented. Likewise, if they want to take up the manufacture of items not included in the list of "core industries" and outside the items reserved for the small scale sector, they should export 60% of the production. It needs to be made clear that if a small unit takes up the manufacture of an item with foreign collaboration or if an Indian large business house or foreign company takes up the manufacture of an item specified in the list of "core industries", no

export obligation is imposed. The rationale is that the small and medium entrepreneurs should be protected in areas which is within their capabilities from the onslaught of large business houses and foreign companies. Such protection is essential from the point of view of enlargement of employment opportunities, diffusion of entrepreneurship, avoidance of market dominance and prevention of concentration of economic power. Thus, export obligation in these cases is an integral part of the overall economic and social policies of the country.

7. 'Transfer pricing' is also one of the factors - albeit not a decisive factor - influencing government policy in the matter of domestic production of the goods and avoidance of imports, especially from the parent companies. For example, in the drug sector, the present policy is that the manufacture must start from the basic or intermediate stage because experience has shown that the import of bulk drugs for conversion into formulations is leading to high prices being charged for them, apart from perpetuating the manufacture of ~~only~~ formulations, requiring no sophisticated technology, ~~in the country~~ Similarly, under foreign collaboration cases, the manufacturing plan is carefully gone into and a "phased indigenisation programme" is insisted upon. The reason for this is not only that domestic production capabilities should be strengthened and condinued dependence on external sources should be progressively minimised, but also that such tied imports run the risk of excessive prices being charged for equipment, components and spares. At the same time, it is ensured that domestic production or import substitution is not made a condition if domestic manufacture will be economically unviable (taking into account the demand and optimum state of manufacture) and imports will be a better proposition.

8. Lastly, export obligation - even if it is of a small magnitude - serves the purpose of ensuring that the domestic manufacture conforms to international quality and standards. Apart from gaining access to international markets, this enhances the possibility of current technology being transferred and absorbed under the collaboration arrangements.

9. There is yet another area where export obligation is currently in force. It is in terms of the guidelines issued under the Foreign Exchange Regulation Act (FERA) for association of domestic ownership in existing foreign companies. This is applicable only to those foreign companies which were already operating in India as on 1st January 1974. Under these guidelines, a foreign company exporting more than 60% of its own production can retain foreign equity upto 74%. Similarly, if it exports more than 40% of its own production, it can retain foreign equity upto 51%. Companies having more than 60% of their turnover from 'core sector industries' and sophisticated technology can also maintain their foreign equity at 51% if they exported at least 10% of their own production. Thus, the retention of foreign majority ~~xxxx~~ status has been linked to the export performance of the foreign companies. In fact, the FERA guidelines revolve around three fundamental factors, namely , "core sector industries", sophisticated technology, and exports, and existing foreign companies having or augmenting their activities predominantly in these areas have been made eligible to maintain their foreign subsidiary status with foreign equity of upto 74% or 51% depending on the exte nt of their turnover from them. It may be pointed out that such companies have established their capabilities to fulfil the stipulated level of exports.

10. There is little evidence to show that the export or import substitution requirements have adversely affected investment and trade flows. As observed earlier, with the improvement in the foreign exchange situation, export obligations are now not being stipulated as a part of the foreign investment policy irrespective of whether the exports are a viable proposition. Where they are considered necessary, it is mainly as a part of the industrial policy for protecting the interests of the small and medium sector of domestic industry. Such protection, experience has amply shown, is essential, especially in consumer goods industries, where the market dominance of foreign companies arises on account of trade marks and brand names. Experience has further shown that where export obligations tend to act as an inhibiting factor in foreign collaborations, it is due to the interest of the foreign investor in having predominant access to the huge domestic market. But it is precisely such predominant access to domestic market that will drive out existing domestic enterprises, particularly the small and medium units. It is, therefore, imperative that this issue is viewed not only from the point of view of foreign investment or technical collaboration but also from the angle of the implications for the growth of domestic industries. Where the foreign investor is interested in establishing a predominantly export oriented unit, such a conflict does not arise because the unit will be based on the factor endowments of the country and its being competitive in the export markets. In many cases, such units are based on "buy back arrangements" or established in "free trade zones". As stated earlier, foreign majority ownership is permitted in such cases, with even hundred percent

foreign ownership for entirely export oriented ventures. Thus, taking an over all view, it will be difficulty to say that such performance requirements for exports do not serve a significant purpose or impede desirable investment or trade flows into the country.

11. TNC investments in developing countries are commended on the plank that apart from offering a unique package of capital, technology, management and marketing skills, they give the developing countries a much needed access to international markets. While evaluating the costs and benefits of TNC investments, the generation of this export potential (or conversely the import substitution effect) is counted as a major benefit accruing to the developing countries. It has also been witnessed that the restrictions operated by the developed countries in the matter of imports from developing countries generally tend to apply more in the case of goods manufactured in the labour intensive domestic sector of the developing countries (for example, handloom garments in the case of India) and that the markets of developed world are generally more open to goods manufactured by multinationals. In such a situation, it is not unrealistic for the developing countries to explore the possibility of securing the benefits of TNC investments by obliging them to fulfil ~~ear~~ certain minimum export performance. It may be argued that if the local production is internationally competitive, TNCs will on their volition export those products and it is therefore not necessary to stipulate such export obligation. Here also, experience has shown that the operations of the TNCs and the development objectives of the host developing countries are always not in harmony, and where a

conflict arises, the TNCs prefer to place their own global interests over those of the countries in which they operate. The restrictive practices followed by them in regard to exports from the local affiliates will also point to the need for some binding obligation on them. It would, therefore, be desirable to consider performance criteria, not only on the export front but also in other areas, as a measure necessary to enhance the positive contribution of TNC investments than in the context of their impact on investment and trade flows.

PERFORMANCE CRITERIA STIPULATED BY HOST COUNTRIES

SUMMARY

This paper is divided into two parts. The first discusses in general terms the rationale of performance criteria stipulated by host countries. The second part narrates the Indian experience.

Host countries stipulate performance criteria in an effort to maximise the positive and minimise the negative aspects of foreign investment. More specifically, they weigh the benefits of additional income generation arising out of foreign investment against its likely impact on the balance of payments or the growth of indigenous industry.

The two forms of performance criteria discussed are:

(1) Those that require that procurement of inputs be shifted to host countries; and

(2) Those that require that the foreign investor export a specified percentage of his production, either by volume or value.

Performance criteria can be related to the following objectives of national economic policy:

(i) Increasing national output and domestic employment and protecting domestic industries;

(ii) Strengthening the balance of payments;

(iii) Controlling transfer prising practices; and

(iv) Helping the transfer of technology.

The impact of performance criteria related to input procurement and export obligations on international trading patterns in terms of possible distortion of internal trade flows is difficult to quantify in the absence of adequate data.

However, the qualitative observations may be made that the imposition of performance criteria by host countries could lead to some reduction in economic activity in other countries and could lead to demands in the latter for countervailing or protective action. In this sense they have the same effect as protection or subsidies on international trade flows with the possible consequence of affecting the international division of labour. It is not possible always to determine at what point these regulations become excessive or when the situation calls for demands to resolve possible conflict situations. The attempt must be to seek an international consensus and a generally accepted code of conduct.

The Indian Experience:

This part of the paper explains the background to the stipulation in India of performance criteria in terms of export obligations and input procurement. Indian policy in this regard has taken into account the foreign exchange situation of the country, the impact on domestic industry and markets of foreign investment as well as issues of transfer pricing and technology transfer. It is pointed out that in the period between 1950 and 1970 when the foreign exchange situation of the country was under severe strain export obligations were imposed, but with the improvement in the country's foreign exchange position there has been some reappraisal of this policy and that export obligations are stipulated only if the product is export worthy and the export economically viable or if it is necessary to safeguard the interests of domestic enterprises in the small and medium sectors.

Export obligation is increasingly becoming an aspect of industrial licensing policy rather than foreign collaboration/ investment approvals.

ATTACHMENT II

SOME THOUGHTS ON PRIVATE FOREIGN INVESTMENT IN THE DEVELOPING COUNTRIES

Ph. Lévy

SOME THOUGHTS ON PRIVATE FOREIGN INVESTMENT IN THE DEVELOPING COUNTRIES

One gets the impression that private foreign investment in developing countries is stagnating in real terms, and even declining in some regions. Yet the figures available suggest the contrary. This seeming contradiction is due to two things: the lack of precise figures and the vast differences in situation observable among regions, among countries and also among investment sectors. This paper will first of all recapitulate the most significant figures and then attempt an interpretation of them.

1. The facts

1.1 Total flows

Between 1971 and 1976, although private foreign investment originating in the market-economy developed countries increased from US$12.8 billion to US$24.4 billion,1/ these flows remained stable in relation to GNP (accounting for 0.59% in 1971 and 0.60% in 1976). Total real private investment originating in the developed countries has therefore not declined over the past few years. According to some authors,2/ the contrary may well be true: there was an apparent growth in real terms, at least among the seven most important industrial countries, which would appear to have increased their foreign investment by 34% between 1968-72 and 1973-76.

1.2 Geographical distribution of private investment

In recent years, certain regions have been the major beneficiaries of private investment flows. The figures in the table in Annex 2 show that between 1968-72 and 1973-76 the United States, Asia and Latin America received an increased share of foreign capital flows (albeit with substantial variation as to origin). The share of Europe, Africa and the Middle East dropped for reasons which varied greatly from one region to another (decrease in profit rates, political risks, nationalizations, etc.).

1.3 The share of the developing countries

In any event, the share of total private foreign investment received by the developing countries has grown. This is brought out clearly in the table in Annex 3, which shows that their share rose from 30 to 36% between 1969/70 and 1975/76--an increase not only in relative but also in absolute terms, since the foreign investment they received in 1977 had risen in real terms by 40% compared with 1970. 3/

1/ See Annex 1 (figures cover all recipient countries, including developed countries).

2/ "Recent Trends in Direct Investment Abroad", Problèmes Economiques, No. 1599, November 29, 1978, pp. 19 to 22.

3/ See table, Annex 4.

The table in Annex 5, however, shows clearly the differentiation that has appeared among the developing countries over the last few years. Asia today is at the head of the list of regions receiving foreign private capital; South America, now in second place, its relative share having decreased significantly, is followed by Central America/Caribbean, whose share has increased appreciably. There has been a marked decrease in Africa's share, while Europe and the Middle East, coming last, show a slight increase.

Asia's newly acquired preeminence is doubtless the result of its expanding role in international trade, although some countries in the region--those in fact whose international trade has grown most in recent years--received only a relatively small amount of foreign investment. The reasons for the drop in South America's share are difficult to explain and are worth studying further. As to the reduction in the African share, this can no doubt be attributed to a sizable drop in primary sector investments and also to the tense situation prevailing in the region.

1.4 Distribution of private foreign investment by field of activity

The target of private capital exports varies according to the country of origin. While one country may concentrate its foreign investment on industry, another may focus on services and a third on raw materials. Thus, 4/ extractive industries attracted a gradually decreasing volume of capital from the United States between 1971 and 1974, this applying for all recipient regions, but particularly for the developing countries. Japan and West Germany, on the other hand, increased their investment in this type of activity during the same period. It is generally true, however, that the trend is for a very rapid increase in foreign investment in the area of services.

We get a slightly different picture if we take a few significant examples among the developing countries. 5/ In the case of some of the semi-industrialized developing countries, the share of foreign investment in industry is stagnating. In others, however, which are still at the import substitution stage or are successfully expanding in the direction of outside markets, the share of foreign investment in industry is increasing. It is interesting to note that the share of foreign investment directed to the primary sector is rising in those countries that are making a major effort to expand the use of their natural resources. This, of course, is also the case of those countries that have benefitted from important oil discoveries while not extracting the oil themselves.

1.5 Private investment and other flows to developing countries

Private foreign investment in developing countries has therefore not been declining in recent years. The most recent figures published by OECD 6/ show that private investment from DAC member countries increased from an annual average of US$2,639 million in 1967-69 to US$11,463 million in 1978 (US$9,498 million in 1977). Allowance should be made, however, for delays in investment

4/ See table, Annex 6.
5/ See table, Annex 7.
6/ See table, Annex 8.

operations, and for the fact that 1977/78 figures therefore reflect investment decisions taken well beforehand. For this reason, the trend may very possibly not be the same in 1979 and the following years, but we cannot be certain at this point.

Yet if it does appear at times that private foreign investment in developing countries is dropping, there would be two reasons for this. The first, as we said, is that investments tend to be concentrated in some countries and in certain fields of activity. The result is that whole regions and sectors of activity seem to have been left out. The second reason is that foreign investment suffers by comparison with other forms of private capital transfer, which have grown far more rapidly. In fact, while private investment by DAC member countries of OECD in developing countries increased more than four times between 1967-69 and 1978 (in nominal terms), total privately arranged transfers under market conditions went up nearly eight times. During this period, bilateral portfolio investments went up 24 times, from US$870 million in 1967-69 to US$20,971 million in 1978-79! This new development, which has without question completely transformed the nature of financial relations between developed and developing countries, is an indication that over the last ten years the methods of capital transfer to developing countries have changed radically. It is this change that will be discussed in the second part of this paper.

2. Interpretation

The data set out in the foregoing section indicated three major trends in private capital transfers to developing countries: geographical concentration, concentration by field of activity and a growing preference for indirect transfers (credit operations). We should now add a fourth, which is not brought out by these figures, namely the new forms of direct investment (joint ventures, management contracts, franchising, etc.).

2.1 Geographical concentration

The tables in Annex 9 give an idea of the disparities in the extent of private foreign investment in the developing countries. We see that the OPEC countries in 1977—the last year for which figures are available—received 15.9% of total foreign investment in the developing countries (US$13,500 million out of a total of US$85,000 million).

Yet the OPEC share would appear to have decreased appreciably, if we accept other sources, which state that it accounted for 26.8% of all private foreign investment in the developing countries in 1971. 7/ Furthermore, still in 1977, Brazil's share amounted to 12.6% (US$10,700 million), that of Mexico to 5.9% (US$5,000 million), that of Malaysia to 3.2% (US$2,700 million). India's share, on the other hand, amounted to only 2.8% (US$2,400 million), while private foreign investment in Mali amounted to only US$10 million.

7/ Transnational Corporations in World Development: A Re-examination, Commission on Transnational Corporations, United Nations, New York, 1978, p. 254 (Doc. E/C.10/38).

There are many reasons for this concentration. In the first place, a number of countries are unwilling to accept foreign investment, although more detailed study would no doubt confirm some reversal in that trend, since it seems that certain countries with a traditionally reserved attitude to foreign investment have in fact become more flexible. Other countries do not encourage foreign investment because they already have a balance of payments surplus and therefore prefer to modernize their production structure while keeping financial control over new enterprises. In yet other countries, the lack of infrastructure, or uncertainty as to the general economic situation or the political outlook, leads to some holding back on the part of foreign investors. Conversely, countries with a vast and/or dynamic domestic market, or which have successfully penetrated international markets, do succeed in attracting foreign capital. It should also be noted that new forms of investment, discussed below, lead automatically to a reduction in the foreign component of total investment.

2.2 Concentration in certain sectors of activity

Although reliable data are harder to come by here, the tables in Annexes 6 and 7 at least give an idea of the diversity of situation to be observed in both capital-exporting and capital-importing countries and enable general trends to be discerned. It is clear that private foreign investment is stagnating or declining in the extractive industries and agriculture. There are many reasons for this, among them no doubt the introduction of local restrictive regulations, the acquisition of necessary technology by the developing countries themselves (especially in agriculture), the uncertain rate of return on investments owing to the instability of raw materials markets, and the takeover by the State of extractive industries (which in many cases are the economic backbone of the developing countries). Thus, for example, some developing countries are making very substantial investments in the oil sector without any resulting increase in foreign investment (while conversely their foreign debt may be increasing vastly).

Annexes 6 and 7 also show that the situation varies considerably as regards private foreign investment in the industrial sector. Although such investment is very active wherever the general investment climate is not unfavorable and domestic or export market prospects are attractive, if one of these two conditions is lacking, there is stagnation or a decline in direct private foreign investment.

Finally, note should be taken of the substantial private foreign investment activity in the services sector. Developing countries generally have no other means of acquiring the technology the services sector provides and have to accept this mode of obtaining it if they wish to modernize their way of life. It is interesting, however, that some countries impose substantial restrictions against foreign incursion in certain types of services (banking and insurance).

2.3 New forms of direct and indirect investment

2.3.1 New forms of direct investment

Foreign investors have everything to gain in terms of security by forming associations with local partners (either public or private). From the point of view of the recipient countries, there is a growing desire to get involved in business. This desire is due in part to the need to find as profitable and secure an outlet as possible for the often abundant local capital which they have now succeeded in accumulating, and for many investors, the preferred avenue is association with a foreign partner. In addition, there is the existence of an already quite substantial number of young local managers and university graduates increasingly capable of playing an active role in business operations.

Thus today the concept of "private foreign investment" has broadened considerably. It is now no longer simply a form of financial participation, above a given percentage, in a local enterprise but more generally consists of building up a lasting stake involving long-term agreements on management, production sharing, supply or technical assistance. It is evident that such forms of foreign participation, to the extent they create close and enduring links, do not show up in the statistics, and thus contribute to the apparent sizable reduction in the share of private investment in total private flows to developing countries. In any event, major foreign investors today are virtually forced to accept this system, at least in the ten or so most important recipient countries, which use very similar systems characterized principally by a closed domestic market and the establishment of limitations on foreign participation in local enterprises. It should be noted that this applies in particular to investments geared to supplying the domestic market.

2.3.2 Indirect investment

As the table in Annex 8 shows, there has been a striking increase in foreign loans, a form of indirect investment which has now become the principal means of private capital transfers to developing countries. This reversal is in part due to changes at each end of the financial chain linking developed with developing countries. As regards the former, the major holders of capital are no longer only production enterprises but also include investors whose sole object is to find a profitable and secure outlet for their funds. These investors merely place their funds with international banks, leaving questions of financial management to them. These banks, which are not involved in direct production activities, make contact at the other end of the chain, at the developing country end of things, with producers anxious to acquire capital. Such producers may be either private or public; they may be exclusively local, or an association of local and foreign interests or even exclusively foreign (although the last case is certainly not the most frequent); finally, they will be located in countries where, for a number of reasons, the rate of return has not decreased as much since 1973 as in the developed countries, and where it is sufficiently high to compensate for any lack of security, which in any event is relative.

3. Conclusions

The relations between foreign private enterprises and developing countries can be defined in terms of placements. These placements for a long time were combined with direct control by the foreign enterprise: this is direct investment. Control of this type seems to be becoming relatively less frequent--which does not mean that foreign private enterprises are losing interest in developing countries but that their operations are becoming increasingly varied, involving associations with local enterprises, both public and private. There is no reason to believe that foreign private enterprises will turn away from the developing countries; on the contrary, it is probable they will accept having to give up centralized, exclusive control in order to move toward more flexible formulas.

It is nonetheless true that the relations between foreign private enterprises and developing countries tend to be concentrated in certain countries and fields of activity. This may have unfortunate consequences for some developing countries which see themselves as neglected, and for certain areas of activity where there may be no locally generated investment funds, either public or private, to compensate for the lack of foreign investment.

Table III-31. Developed market economies: gross national product and outflow of direct investment, 1971-1976

Year	Gross national product	Outflow of direct investment a/	Outflow of direct investment as share of GNP
	(Billions of dollars)		(Percentage)
1971	2 181.2	12.8	0.59
1972	2 512.8	14.5	0.58
1973	3 061.2	22.7	0.74
1974	3 380.0	21.0	0.62
1975	3 757.1	25.0	0.67
1976	4 093.4	24.4	0.60

Source: United Nations Centre on Transnational Corporations, based on Organisation for Economic Co-operation and Development, Development Co-operation (Paris, various issues); International Monetary Fund, Balance of Payments Yearbook (Washington, D.C., various years).

a/ Including reinvested earnings.

Annex 2

TABLE 1. - GEOGRAPHICAL SPREAD OF DIRECT FOREIGN INVESTMENT BY PRINCIPAL COUNTRIES OF ORIGIN (% of total)

Recipient Country	North America		United States		Europe		C.E.		South & Central America		Asia		Africa		Middle East	
Country of Origin	1968-1972	1973-1976	1968-1972	1973-1976	1968-1972	1973-1976	1968-1972	1973-1976	1968-1972	1973-1976	1968-1972	1973-1976	1968-1972	1973-1976	1968-1972	1973-1976
United States	22.1	19.4			37.0	43.6	31.9	33.5	13.6	15.9	9.2	7.4	5.3	1.5	1.0	2.6
Japan	21.5	24.7	17.5	22.2	30.1	9.5	29.5 (e)	6.9 (e)	11.5	18.3	16.5	32.3	2.4	5.0	6.9	5.2
West Germany	18.2	20.8	8.9	15.6	61.3	54.9	38.0	33.0	12.8	13.7	3.8 (a)	5.2 (a)	7.4	5.1	(a)	(a)
UK (b)	24.3	29.4	18.2	21.2	33.1	31.0	27.4	24.1	2.5	5.6	5.4	4.9	18.5	18.0	--	0.1
France (c) (d)			7.8	18.0			25.8	31.2								

(a) Asia, including Middle East

(b) Excluding oil sector

(c) Excluding banking sector

(d)

	1968-1972	1973-1976
Other OECD Countries	24.5	20.2
Rest of the world	41.7	30.5

(e) Leaving aside investment financed through the London capitals market and a substantial project ... (illegible) ... in the UK, the EC share was 4.4% and 5.2%, respectively.

Comments concerning the countries of origin: United States: (1) net capital outflows plus retained earnings. (2) statistical series which is adjusted from time to time. Japan: authorized direct foreign investment (shares and long-term loans). West Germany: net capital outflows. United Kingdom: net capital outflows plus retained earnings. France: net capital outflows. General comment: the method of calculating net capital outflows varies from country to country.

Sources: United States: USDC, Survey of Current Business. Japan: Bank of Japan. West Germany: Der Bundesminister für Wirtschaft, Vermogensanlagen Gebietsansässiger in fremden Wirtschaftsgebieten. United Kingdom: Business Monitor, a publication of the Government Statistical Service. France: the Notes Bleues of the Service de l'Information of the Ministry of Economic Affairs and Finance.

Annex 3

TABLE 7. THE SHARE RECEIVED BY DEVELOPING COUNTRIES OF TOTAL DIRECT INVESTMENT ABROAD BY THE PRIVATE SECTOR OF DAC MEMBER COUNTRIES

	Annual Averages			
	1969-1970		1975-1976	
	Total direct investment in millions of dollars	of which developing country share in %	Total direct investment in millions of dollars	of which developing country share in %
Australia	110	61	163	38
Belgium	85*	32	224*	68
Canada	321*	17	599*	61
France[1]	283	80 (est.)	1127	23
Germany	790	32	2230	35
Italy	196*	61	251*	72
Japan	280	66	1878	35
Netherlands	512*	29	1104*	21
Sweden	225	14	513	20
UK	1314	20	2938	26
US	6662	27	13300	39
Others[2]	57	40	304[3]	27
All DAC member countries	10835[4]	30	24631[4]	36

* These figures do not include retained earnings, which add up to very large amounts, but for which no estimates are available.

1. Including overseas departments and territories.
2. Austria, Denmark, Finland, Norway and New Zealand.
3. Norway accounting for 180.
4. Excluding Switzerland (figures not available).

Source: Balance of Payments Yearbook, Volume 28; OECD: DAC Statistics on financial resources contributed to developing countries.

Annex 4

TABLE 2. DIRECT PRIVATE SECTOR INVESTMENT (NET) IN DEVELOPING COUNTRIES 1970 TO 1977 AT EXCHANGE PRICES AND RATES FOR 1976

(millions of dollars)

	1970	1971	1972	1973	1974	1975	1976	1977p
Australia	236	99	187	145	129	50	75	78
Austria	11	--	7	7	9	7	33	17
Belgium	98	54	98	66	60	69	236	-25
Canada	117	127	278	184	237	336	430	(360)
Denmark	18	53	19	23	32	31	30	--
Finland	2	2	1	1	1	3	1	2
France	451	311	370	372	269	261	245	245
Germany	620	623	923	959	772	837	765	780
Italy	223	359	419	318	118	141	213	150
Japan	506	416	323	1589	739	234	1084	668
Netherlands	415	259	552	125	294	237	245	450
New Zealand	--	--	-3	2	3	1	1	8
Norway	43	23	13	21	19	18	43	14
Sweden	74	74	70	31	62	87	125	116
Switzerland	126	132	124	106	149	209	226	203
UK	617	383	575	897	808	754	954	(560)
US	2171	1829	1815	880	-1907	5626	3119	4500
All DAC member countries	5728	4744	5771	5726	1794	8901	7824	(8130)

1. See notes for Table 1.

Source: Figures from DAC, OECD.

Annex 5

TABLE 10. DISTRIBUTION BY RECIPIENT REGION OF STOCKS OF NET ASSETS OBTAINED OUT OF DIRECT INVESTMENT BY PRIVATE SECTOR OF DAC MEMBER COUNTRIES IN DEVELOPING COUNTRIES

Recipient region	End 1970		End 1976	
	Billions of dollars	% of total	Billions of dollars	% of total
Europe	2.7	6.2	6.9	9.1
Africa	7.9	18.3	9.7	12.7
Central America	8.6	19.8	18.5	24.3
South America	13.8	31.7	19.2	25.2
Middle East	3.4	7.8	2.2	2.9
Asia[1]	7.0	16.2	19.7	25.8
Total	43.4	100.0	76.2	100.0

1. South Asia, Far East and Oceania

Source: Figures from DAC, OECD.

Table III-38. Selected developed market economies: stock of direct investment abroad by major industrial sector, total and in developing countries, 1971 and latest available year

Country and industrial sector	Total stock				Stock in developing countries			
	1971 a/		1974 a/		1971 a/		1974 a/	
	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage
United States								
Total industry	101 313	100.0	137 244	100.0	22 904	100.0	29 050	100.0
Extractive b/	30 989	30.6	36 771	26.8	8 339	36.4	5 191	17.9
Manufacturing	44 370	43.8	61 062	44.5	7 820	34.1	11 362	39.1
Services	25 954	25.6	39 411	28.7	6 745	29.5	12 497	43.0
Banking and insurance	9 726	9.6	16 392	11.9	2 309	10.1	5 986	20.6
United Kingdom c/								
Total industry	23 717	100.0	31 277	100.0	4 511	100.0	5 059	100.0
Extractive	8 051	33.9	8 747	28.0	1 159 d/	25.7	989 d/	19.6
Manufacturing	10 043	42.3	14 131	45.2	1 828	40.5	2 409	47.6
Services	5 633	23.8	8 399	26.8	1 524 d/	33.8	1 661 d/	32.8
Banking and insurance	1 212	5.1	1 410	4.5	...	...	...	...
Canada								
Total industry	6 524	100.0	9 390	100.0	1 575	100.0	2 214	100.0
Extractive b/	938	14.4	1 963	20.9	...	...	...	...
Manufacturing	3 437	52.7	4 729	50.4	...	...	...	...
Services	2 149	32.9	2 698	28.7	...	...	...	...
Banking and insurance	405	6.2	622	6.6	...	...	...	...
Germany, Federal Republic of								
Total industry	7 277	100.0	19 915	100.0	2 044	100.0	6 015	100.0
Extractive	350	4.8	1 419	7.1	92	4.5	569	9.5
Manufacturing	5 796	79.6	14 032	70.5	1 605	78.5	3 633	60.4
Services	1 131	15.6	4 464	22.4	347	17.0	1 813	30.1
Banking and insurance	494	6.8	1 941	9.7	161	7.9	520	8.6
Japan e/								
Total industry	3 962	100.0	10 620	100.0	...	...	5 678	100.0
Extractive f/	892	22.5	2 778	26.2	...	...	1 362	24.0
Manufacturing	1 092	27.6	3 723	35.0	...	...	2 887	50.8
Services	1 978	49.9	4 119	38.8	...	...	1 429	25.2
Commerce, banking and insurance	843	21.3	2 376	22.4	...	...	603	10.6

Table III-38 (continued)

Country and industrial sector	Total stock				Stock in developing countries			
	1971 a/		1974 a/		1971 a/		1974 a/	
	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage
Italy								
Total industry	3 343	100.0	2 864	100.0	1 208	100.0	1 078	100.0
Extractive	849	25.4	861	30.1	642	53.9	616	57.1
Manufacturing	881	26.4	907	31.7	292	24.2	345	32.0
Services	1 613	48.2	1 096	38.2	274	22.7	117	10.9

Note: Extractive industries include agriculture, mining and petroleum.

a/ Years for United States are 1973 and 1976; for Federal Republic of Germany, 1971 and 1976; for Italy, 1972 and 1976.

b/ Refers to mining and smelting and petroleum.

c/ Total and the relevant sectoral stock data include investment in the petroleum and insurance sectors which are not included in the corresponding items for developing countries.

d/ Refers to agriculture and petroleum only; mining and quarrying is included in manufacturing.

e/ Developing country totals are calculated by adding figures for Asia, Africa, Oceania (except Australia) and the Middle East.

f/ Refers to mining, agriculture and fishing.

Source: United Nations Centre on Transnational Corporations, based on: for the United States: Department of Commerce, Survey of Current Business (various issues); for the United Kingdom: Department of Industry, Trade Prices and Consumer Protection, Trade and Industry (various issues); for the Federal Republic of Germany: Ministry of Economic Affairs, Runderlass Aussenwirtschaft (various issues); for Japan: for 1967, 1971, 1973 and 1975, data based on Ministry of Finance, Annual Report of the International Finance Bureau, 1977; for 1976, Toyokeizai shinpo sha, Japanese Multinationals: Facts and Figures, 1977/1978; for Switzerland: Union Bank of Switzerland, Switzerland in Figures, (unofficial estimate); for France: for 1967, H.E. Scharrer, ed., Förderung privater Direktinvestitionen (Hamburg, 1972); for 1975, H. Krägenau, ed., International Direktinvestitionen 1973-1975 (Hamburg, Institut für Wirtschaftsforschung, 1977), (unofficial estimate); data for 1971, 1973 and 1976 estimated on basis of cumulative annual flows of direct investment as reported to the International Monetary Fund; for Canada: Ministry of Industry, Trade and Commerce, Statistics Canada (various issues); for the Netherlands: for 1967, source as for France; for subsequent years, 1967 stock plus cumulative annual flows of direct investment abroad; for Sweden: for 1965 and 1970, total assets of majority-owned manufacturing affiliates; data for subsequent years derived by addition of annual flows of direct investment abroad; for Belgium-Luxembourg: for 1967, estimate based on number of foreign affiliates and average book value per affiliate; stock data for subsequent years estimated on basis of annual flows of direct investment abroad; for Italy: information supplied by Italian Foreign Exchange Office. Data for other countries estimated by the United Nations Centre on Transnational Corporations. For further information on data, see annex VII.

Table III-50. Stock of direct investment in selected developing countries and territories, by major industrial sector, selected years

Country or territory and year	Total stock of foreign direct investment (Millions of dollars)	Share of distribution			
		Extractive sector a)	Manufacturing sector	Service sector	Other
		a) Including agriculture	(Percentage)		
Latin America:					
Argentina . . 1973	2 275.2	5.6	65.0	24.5	4.5
Brazil . . . 1971	2 911.0	0.9	81.8	14.9	1.4
. . . 1976	9 005.0	2.5	76.5	18.6	2.0
Colombia . . 1971	692.0	27.3	50.0	19.0	3.7
. . . 1975	965.0	36.0	44.2	18.3	1.5
Mexico . . . 1971	2 297.4	5.9	75.2	16.4	2.5
. . . 1975	4 735.8	4.1	77.5	18.1	0.2
Panama . . . 1969	214.1	21.1	27.0	51.7	-
. . . 1974	353.5	16.1	37.4	46.4	-
Asia:					
Hong Kong . . 1971	759.5	-	100.0	-	-
. . 1976	1 952.4	-	100.0	-	-
India . . . 1974	1 682.8	4.2	92.0	3.7	-
Indonesia . . 1970	1 581.4	74.9	19.2	5.5	-
. . 1976	7 077.0	37.5	57.0	10.3	-
Philippines . 1973	146.0	5.7	39.2	52.5	2.6
. 1976	513.0	12.6	48.7	34.0	4.7
Korea, . 1973	582.2	1.3	76.9	21.8	-
Republic of. 1975	926.9	1.4	80.1	18.5	-
Singapore . . 1971	1 575.0	47.7	52.2	-	-
. . 1976	3 739.0	40.6	59.3	-	-
Thailand . . 1969	70.2	0.1	97.3	2.5	-
. . 1975	174.7	-	93.1	6.8	-
Africa:					
Nigeria . . . 1968	999.2	53.7	24.5	18.8	2.0
. . . 1973	1 998.6	63.3	25.2	10.3	1.2

Source: United Nations Centre on Transnational Corporations, based on: for Argentina: information supplied by Subsecretaría de Inversiones Extranjeras, Government of Argentina; for Brazil: Banco de Brasil, Relatorio Anual, 1977; for Colombia: Banco de la Republica, Reporte Anual, 1975; for Hong Kong: information supplied by Trade, Industry and Commerce Department; for India: Department of Company Affairs, Ministry of Justice, Research Statistics, 1976; for Indonesia: Bank of Indonesia, Indonesian Financial Statistics, 1977; for Mexico: Banco de Mexico S.A.; information supplied to the United Nations Centre on Transnational Corporations; for Nigeria: Central Bank of Nigeria, Economic and Financial Review (various issues); for Panama: Estadistica Panameña, Balanza de Pagos (various issues); for the Philippines: Central Bank of the Philippines, Philippines Business Review 2 (1977); for the Republic of Korea, Economic Planning Board; Economic Survey (various issues); for Singapore: Economic Development Board, Annual Report, 1976; for Thailand: Board of Investment Planning Division, "Report for 1976".

Table A.19 THE FLOW OF FINANCIAL RESOURCES TO DEVELOPING COUNTRIES AND MULTILATERAL AGENCIES

TOTAL DAC COUNTRIES

NET DISBURSEMENTS

	1967-1969 AVERAGE	1970	1975	1976	1977	1978
OFF.DEV.ASSIST.(ODA)	6446.3	6786.5	13587.2	13665.5	14695.7	17881.8
ODA AS % OF GNP	0.38	0.34	0.35	0.33	0.31	0.35
BILATERAL ODA	5624.1	5662.7	9815.1	9574.7	10243.6	13122.6
ODA GRANTS	3282.3	3309.2	6267.9	6541.9	7202.7	9410.2
TECHNICAL CO-OPER.	1427.4	1520.7	2921.6	2687.3	3160.5	3779.6
FOOD AID	425.4	355.9	826.3	846.1	795.3	742.6
DEBT FORGIVENESS	0.5	14.7	22.1	132.9	157.6	658.2
OTHER GRANTS	1466.1	1221.9	2497.7	2775.6	3263.2	4220.2
ODA LOANS	2340.1	2353.4	3547.2	2962.7	2881.1	3722.4
NEW ODA LOANS	2157.0	2296.9	2206.5	1827.9	1966.9	2855.1
FOOD AID LOANS	[illegible]	[illegible]	835.1	670.8	775.4	652.3
DEBT REORGANISATION	75.0	35.9	475.0	578.3	201.3	199.8
OTHER	8.1	20.7	38.6	24.6	18.9	15.3
MULTILATERAL ODA	824.2	1123.8	3772.1	4365.8	4612.1	6759.5
GRANTS	384.9	551.7	2026.7	1932.9	2235.0	2434.4
UN AGENCIES	281.0	367.0	1197.0	1152.8	1393.0	1596.5
EEC	88.3	157.6	672.8	622.6	716.7	536.4
OTHER	15.5	27.1	159.3	157.5	213.3	331.6
OF WHICH:FOOD GRANTS	22.3	59.3	478.0	342.3	507.1	567.0
CAP.SUBSCRIP.PAYMENTS	399.5	540.6	1734.0	2166.5	2336.2	4333.6
IBRD	6.1	3.9	3.6	27.1	74.9	179.2
IDA	253.1	280.7	1193.1	1356.8	1414.5	3448.1
REG.DEV.BANKS	140.2	247.6	535.2	729.5	795.3	909.2
OTHER INSTS.	6.7	1.0	25.9	51.1	51.4	167.1
MULT.CONCESS.LOANS	39.8	31.5	9.4	61.5	38.9	21.2
OTHER OFF.FLOWS (OOF)	598.9	1108.7	3323.7	3313.3	3312.2	5214.3
BILATERAL OOF	592.9	838.1	2944.1	3186.1	3185.5	5057.6
OFF.EXPORT CREDITS	516.6	547.8	1376.9	1822.8	2285.8	3497.2
OTHER	84.4	290.3	1573.7	1363.4	899.7	1559.7
MULTILATERAL OOF	-2.1	270.6	79.1	127.1	126.7	156.7
OF WHICH:IBRD	-1.1	296.6	-52.3	26.1	100.2	99.8
TOTAL OFF.FLOWS	7047.2	7895.4	16611.9	16979.8	18596.1	25096.1
GRANTS BY VOLUN.AGENC.	18.4	857.5	1341.8	1391.7	1498.7	1665.5
PRIVATE FLOWS	5686.7	7902.1	22427.5	22189.2	31227.7	48623.2
DIRECT INVESTMENT	2639.8	3689.1	13493.8	7623.9	9498.9	11439.4
BILAT.PORTFOLIO	870.0	696.9	5238.8	5233.8	10749.3	20971.8
MULTIL.PORTFOLIO	555.6	474.1	2552.7	3696.6	2642.4	2515.1
EXPORTS CREDITS	1546.2	2141.9	4341.9	6025.8	8337.1	9697.0
OF WHICH:MONET.SECTOR	353.0	174.6	4539.6	(4900.0)	6389.0	20280.1
CHANGE BIL.CLAIMS	188.4	226.8	4353.3	(4182.6)	5746.6	12736.1
IN FOREIGN CURR.	0.0	0.0	0.0	0.0	0.0	10894.4
IN DOMESTIC CURR.	0.0	0.0	0.0	0.0	0.0	555.1
MUL.MONET.PORTFOLIO	93.5	-52.2	186.3	717.4	642.4	1644.3
TOTAL RESOURCE FLOWS	12750.5	15754.8	40381.3	39159.0	50724.5	71384.9
TRF AS % OF GNP	0.75	0.78	1.05	0.97	1.08	1.26
PARENT BANK & AFFIL. ADJUST.RESOURCE FLOW						5694.3

GROSS DISBURSEMENTS

TOTAL OFFICIAL	8796.2	9998.9	21212.7	21565.9	23473.1	31969.3
OFFICIAL DEV.ASSIST.	7366.7	7590.4	14997.8	15305.6	16601.6	22570.1
OTHER OFFICIAL FLOWS	1431.5	2398.5	6215.1	6260.3	6871.5	9398.9
NEW DEVELOPMENT LOANS	256.8	2785.3	3316.9	3193.7	3214.6	4673.3
TOTAL DEBT REORGANIST.	199.3	225.4	715.6	792.1	669.6	1285.2
TOTAL FOOD AID	447.7	(620.4)	2224.4	1868.2	2014.7	2179.7
OFFICIAL EXP.CREDITS	1155.9	1512.9	3219.9	3776.2	4700.2	5947.7
PRIVATE EXP.CREDITS	3245.2	5216.8	1698.4	13340.5	13373.2	..

COMMITMENTS

OFF.DEV.ASSIST.(ODA)	8524.0	8139.8	16470.4	19418.1	21412.7	26164.1
BILATERAL ODA	6786.1	6705.7	12776.2	14168.6	15267.9	18796.3
OF WHICH: GRANTS	3615.7	3761.1	7693.5	8387.5	9156.2	11915.7
MULTILATERAL ODA	1237.8	1453.7	3764.2	5249.3	6134.8	7367.9
OTHER OFF.FLOWS (OOF)	1319.4	2436.0	9031.8	9555.9	8662.0	13266.3

MEMO ITEMS

FLOWS TO MUL.AGENCIES	1159.0	1506.6	6404.1	7384.7	7386.4	9431.3
OFF.SUPP.PRIV.EXP.CRED	151.4	0.0	163.4	450.1	813.2	777.7
OFF.SUPP.PRIV.INVEST.	0.0	0.0	1012.2	779.4	416.1	732.2
INTEREST ON ODA	376.6	448.0	815.5	871.5	927.6	1076.4
INTEREST ON OOF	239.7	245.2	616.1)	(671.2)	784.2	888.3
ADMINIST.EXPENSES	89.6	119.5	(44.9)	(141.4)	200.7	217.7

Table E.1 STOCK OF EXTERNAL RESOURCES AT END 1977 AND DEBT SERVICE IN 1977

$ million

Country or Territory	Cumulative grants 1960-1977	Overseas Direct Investments (PODI) stock end 1977	Debt (disbursed) end 1977		Debt Service in 1977	
			Total	of which DAC/ODA	Total	of which DAC/ODA
	(1)	(2)	(3)	(4)	(5)	(6)
TOTAL	100,657	84,996	264,422	40,904	41,227	1,965
Afghanistan	605	20	1,059	180	38	10
Algeria	2,903	360	10,065	344	1,409	14
Angola	90	(100)	120	3	28	-
Antilles (Netherlands)	223	2,000	270	150	28	6
Argentina	200	2,850	6,160	120	1,386	8
Bahamas	6	1,470	39	-	50	-
Bahrain	203	(200)	217	-	39	-
Bangladesh	1,849	80	2,305	1,290	83	16
Barbados	22	160	60	13	11	1
Belize	79	70	9	5	2	x
Benin	365	33	137	50	12	3
Bermuda	x	4,065	211	-	60	-
Bhutan	7	-	-	-	-	-
Bolivia	383	130	1,446	276	161	10
Botswana	269	55	294	90	39	x
Brazil	1,175	10,700	32,100	1,474	6,330	73
Brunei	2	270	20	-	3	-
Burma	470	60	515	201	34	8
Burundi	343	25	40	3	3	x
Cameroon	783	355	825	165	79	8
Cape Verde	60	-	-	-	-	-
Central African Empire	404	65	137	42	7	2
Chad	554	25	115	15	12	1
Chile	522	1,215	3,773	888	857	75
Colombia	579	1,410	2,956	889	399	39
Comoro Islands	119	-	39	6	1	x
Congo	401	165	581	71	73	3
Costa Rica	155	270	752	73	106	2
Cuba	112	-	2,906	25	304	x
Cyprus	315	85	222	15	34	1
Djibouti	187	12	27	26	4	1
Dominican Republic	316	370	864	204	99	12
Ecuador	257	580	1,345	145	158	9
Egypt	4,722	217	8,140	1,504	1,058	63
El Salvador	157	140	303	61	71	3
Ethiopia	649	(99)	472	187	32	8
Falkland Islands	15	-	x	x	-	-
Fiji	147	200	88	19	10	2
Gabon	338	740	1,281	55	240	8
Gambia (The)	71	14	28	11	1	x
Ghana	364	275	791	395	38	18
Gibraltar	34	28	8	4	1	x
Gilbert Islands	38	-	-	-	-	-
Greece	225	950	4,267	159	866	23
Guadeloupe	983	50	172	122	21	11
Guatemala	270	270	376	69	47	3
Guinea	137	198	817	113	155	6
Guinea (Equatorial)	5	20	-	-	1	-
Guinea-Bissau	46	-	3	1	x	-
Guiana (French)	388	35	29	26	3	2

Table E.1 (cont'd): STOCK OF EXTERNAL RESOURCES AT END 1977 AND DEBT SERVICE IN 1977

$ million

Country or Territory	Cumulative grants 1960-1977	Overseas Direct Investments (PODI) stock end 1977	Debt (disbursed) end 1977		Debt Service in 1977	
			Total	of which DAC/ODA	Total	of which DAC/ODA
	(1)	(2)	(3)	(4)	(5)	(6)
Guyana	91	210	428	109	46	6
Haiti	200	75	122	24	10	x
Honduras	174	250	475	67	53	2
Hong Kong	45	1,730	776	3	102	x
India	7,365	2,450	14,928	8,105	935	366
Indonesia	1,857	5,160	12,041	4,173	1,371	149
Iran	357	(1,000)	8,311	187	1,987	25
Iraq	144	(130)	1,625	110	668	4
Israel	2,284	920	5,105	1,382	664	68
Ivory Coast	806	500	2,132	194	299	11
Jamaica	129	900	932	83	150	5
Jordan	2,162	(70)	864	262	51	8
Kampuchea	686	-	36	31	x	x
Kenya	872	510	1,142	325	99	20
Korea (Republic of)	2,455	1,280	9,066	2,185	1,254	106
Kuwait	11	(160)	194	-	109	-
Laos	946	-	48	44	3	1
Lebanon	383	(100)	144	16	49	3
Lesotho	238	4	22	1	1	x
Liberia	199	1,035	514	105	86	5
Libyan Arab Republic	265	530	594	-	458	-
Macao	1	-	5	-	3	-
Madagascar	836	180	217	71	23	4
Malawi	324	100	357	178	18	6
Malaysia	398	2,700	2,645	332	500	18
Maldives	11	-	1	1	x	x
Mali	677	10	459	54	12	2
Malta	279	103	51	21	3	2
Martinique	1,164	-	131	92	18	10
Mauritania	543	25	457	26	42	5
Mauritius	125	23	75	21	15	2
Mexico	254	5,070	25,500	108	5,219	13
Morocco	1,283	325	3,608	749	307	32
Mozambique	148	(100)	87	4	17	-
Nepal	435	10	72	14	2	1
New Caledonia	400	140	152	140	18	10
New Hebrides	102	35	7	7	x	x
Nicaragua	135	90	868	134	101	4
Niger	767	80	209	102	17	3
Nigeria	738	1,040	1,764	384	735	22
Oman	303	(50)	578	-	128	-
Pacific Islands	738	-	x	-	x	-
Pakistan	2,959	760	6,850	3,816	391	160
Panama	194	2,750	1,453	108	173	3
Papua New-Guinea	2,190	800	355	26	51	6
Paraguay	146	100	356	88	36	4
Peru	523	1,930	5,148	255	696	16
Philippines	1,206	1,620	4,711	561	533	24
Polynesia (French)	360	40	66	53	6	3
Portugal	49	450	2,549	151	299	13

Table E.1 (cont'd): STOCK OF EXTERNAL RESOURCES AT END 1977 AND DEBT SERVICE IN 1977

$ million

Country or Territory	Cumulative grants 1960-1977	Overseas Direct Investments (PODI) stock end 1977	Debt (disbursed) end 1977		Debt Service in 1977	
			Total	of which DAC/ODA	Total	of which DAC/ODA
	(1)	(2)	(3)	(4)	(5)	(6)
Qatar	7	(100)	371	-	143	-
Reunion	1,716	-	174	130	29	16
Rhodesia	43	(350)	71	11	5	-
Rwanda	475	25	78	14	2	x
Sao Tomé and Principe	3	-	-	-	-	-
Saudi Arabia	56	(215)	1,537	9	1,046	-
Senegal	1,060	350	479	100	66	4
Seychelles Islands	73	11	4	1	x	x
Sierra Leone	136	80	207	49	28	2
Singapore	103	1,500	1,087	92	135	6
Solomon Islands	139	-	14	9	2	x
Somalia	663	98	422	38	12	1
Spain	176	5,114	10,963	132	1,598	24
Sri Lanka	506	65	799	450	137	20
St. Helena & Dependencies	24	-	-	-	-	-
St. Pierre & Miquelon	74	-	13	10	3	x
Sudan	674	55	2,035	161	136	5
Surinam	453	380	117	113	x	-
Swaziland	123	45	55	28	5	3
Syrian Arab Republic	1,812	(70)	1,551	97	137	1
Taiwan	530	1,720	2,955	102	567	23
Tanzania	1,122	160	1,173	412	42	9
Thailand	874	400	1,815	297	401	21
Timor	x	-	-	-	-	-
Togo	328	95	331	73	27	2
Tonga	18	-	2	2	x	x
Trinidad & Tobago	61	1,260	261	17	16	1
Tunisia	1,170	260	2,005	800	190	31
Turkey	1,019	500	5,300	1,758	448	100
Uganda	274	(7)	247	88	28	4
United Arab Emirates	57	(150)	1,188	1	310	-
Upper Volta	617	20	133	52	7	2
Uruguay	103	290	748	72	249	4
Venezuela	174	3,300	5,724	28	1,160	8
Vietnam	6,808	-	535	204	20	x
Wallis & Futuna	13	-	x	-	x	x
West Indies	399	830	52	31	8	1
Western Samoa	35	-	37	1	3	x
Yemen Arab Republic	734	-	315	74	8	1
Yemen (PDR)	441	-	307	10	6	x
Yugoslavia	455	140	8,589	605	1,583	66
Zaire	2,017	(1,110)	2,759	205	160	8
Zambia	490	315	1,481	113	205	6
TOTAL	87,559	84,996	260,648	40,780	41,068	1,956
plus: Unallocated	13,098	-	3,774	124	159	9
GRAND TOTAL	100,657	84,996	264,422	40,904	41,227	1,965

Source: Calculs du CAD de l'OCDE