



**International Chamber of Commerce**

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Trade and Investment Contributions to Development Financing:  
A World Business Perspective at Intermission

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on behalf of the  
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UN Financing for Development Office Hearings:  
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## **“Trade and Investment Contributions to Development Financing: A World Business Perspective at Intermission.”**

### **Introduction**

Thank you for the opportunity to present on behalf of the International Chamber of Commerce (ICC). I am Joe Gavin, Vice President for Trade and Customs for the United States Council for International Business. Our organization is the American affiliate of the ICC.

ICC is the voice of the world business community, representing member companies and associations, large and small, in all sectors, in 130 countries. ICC promotes an open international trade and investment system and the market economy, and helps business corporations meet the challenges and opportunities of globalization. Business leaders and experts drawn from ICC’s global membership establish the business stance on broad issues of trade and investment policy as well as on vital technical subjects. ICC was founded in 1919.

As a private sector organization ICC is acutely aware of the constant and often rapid adjustments that its member companies must make to their business models and practices to meet changes in market conditions and policy environments. 2008 is the half way year on the timeline to meet the U.N. Millennium Development Goals (set in 2000). As such, this may be a practical time for members of the Monterrey Consensus to consider economic and policy trends and changes since the launch of the Consensus in March 2002.

ICC would like to call attention to the following trends and developments, which are new or at least more established since the Consensus was reached.

### **Economic trends and developments**

- **Achievement of the most vigorous and balanced global economic growth that has ever been experienced.** There have been four record years of global economic expansion up through 2007. Many areas of the developing world are experiencing high rates of growth, Latin America, Africa, India. Africa had a 5.5 percent economic growth rate in 2006. Led by the accelerating demand for commodities and a sharp improvement in the terms of trade in many cases, real economic growth of 6 percent or higher is the norm in Africa, the Middle East, Central Asia and Russia. China is experiencing the most rapid economic growth on the largest scale that any country has ever experienced. This trend has pulled hundreds of millions of people out of poverty level- existences. “...no other period of globalization has ever seen or experienced as many new workers and consumers entering the global economy as quickly and as suddenly as those who have joined the world economy in the past fifteen years.”<sup>1</sup>

- **Increased gaps between richer and poor elements in many societies**, caused, in part, because of the unprecedented success of trade and economic opportunities in rapidly lifting the now richer elements out of poverty. The share of trade in world output has risen from 36 percent to 55 percent since 1980 and global inequality has fallen, but within countries inequality has been rising.<sup>2</sup>
- **Rapidly rising costs for energy, raw materials and food prices**, triggered in large measure by unprecedented global growth rates and higher living standards among many in the developing world. “Between January 2003 and January 2008, the world price of metals jumped 180 percent and of energy by 170 percent, according to Goldman Sachs, in large part because of China’s demand.”<sup>3</sup> Since 2005 the price of staples is up 80 percent and the World Bank estimates 33 countries face potential social unrest because of the fast rise in food and energy prices.<sup>4</sup>
- **Rapid growth of investment in developing countries.** Since 1990 cross border capital flows have grown more than ten percent annually but flows to emerging markets have grown twice as fast as flows to developed countries. Investment flows to developing countries now account for nearly half of global FDI flows, compared to only 20 percent in 1990 (without China the share is 32 percent). New actors—private equity, hedge funds, sovereign wealth funds and state-controlled companies, are driving these flows, in part.<sup>5</sup>
- **A huge transfer of wealth to the developing world**, caused by the vigorous global economic growth and the rapid rise in energy and commodity prices. In the aggregate, the developing nations held 70 percent of global international reserves in mid-2007. Much of this gain has accelerated sharply, multiplying roughly by a factor of four from the 2002 levels, coinciding with the rise in energy and commodity prices mentioned above.<sup>6</sup>
- **An international contraction in credit and lending triggered by the U.S. sub prime loan crisis.** However, long-term liquidity remains ample despite the contraction in short-term credit.<sup>7</sup>

### **Policy Developments**

- An elevated priority to address climate change, which needs a global solution.
- Immediate needs to address hunger and high energy costs to maintain social stability in a considerable number of countries.
- The emergence of new sources of development funding, both public and private. Examples of each type are the Chinese government and semi official investment in Africa and Gates Foundation.
- Increased political pressure for restrictions on trade and investment flows.

- A rapidly closing window of opportunity to complete a successful Doha trade round.

Observers will have varied causal explanations for these trends and assess different magnitudes but they are new realities. There are, of course, many other new things happening but these are the trends and developments that appear most relevant to the Monterrey mission.

### **Implications for the Monterrey Consensus**

Does the success of global economic growth in reducing poverty among developing countries and the huge transfer of wealth to developing countries mean that there are fewer countries that require development aid and that those that do require less aid?

Are there new possibilities to refocus aid efforts to areas of greatest need?

Would a fewer number of aid recipients and the emergence of new donors put a higher premium on coordination to maximize efficient use of resources?

Does the rapid rise in food prices, which threatens to undo the progress brought by rapid economic growth, suggest a greater priority on aid to restructure agricultural production?

Similarly, does the rise in energy prices along with the concern about climate change suggest a greater priority on aid to build state of the art green power plants?

Does the growing disparity of rich and poor within countries suggest a greater priority for aid to assist restructuring and to bolster social safety nets?

Does the U.S. experience with mortgage investment vehicles and the contraction in lending, particularly by banks, have ramifications for proposals to augment long-term debt financing for developing countries?

### **Implications for Governments to Support the Monterrey Mission**

There are also implications for government policies to provide maximum support for the Monterrey mission.

### **Trade**

The situation is now critical for the Doha trade negotiation. ICC believes that the Doha Round can make a very important contribution to development and the reduction in poverty, building on the success of the vigorous global growth trend described above.

- Trade, that is export earnings, is by far the largest source of funding flowing into these countries. In rough comparison: ODA was \$107 billion for 2005<sup>8</sup>; FDI to developing countries for 2005 was \$376 billion<sup>9</sup>; and developing country exports were in the order of \$3 trillion in 2005.<sup>10</sup>
- Trade earnings have large potential leverage. African merchandise exports for 2006<sup>11</sup> were \$363 billion. A ten percent increase would be \$36 billion.

- The World Bank estimates that eliminating trade barriers to goods alone (not including services) could boost incomes in developing countries by at least \$142 billion and lift 65 million people out of poverty by 2015.<sup>12</sup>
- Any progress toward lower food prices through increased production would need private foreign direct investment and would depend critically on open markets for agricultural trade. Negotiators are very close to that kind of outcome in the Doha Round, which is the only instrument for removing subsidy distortions from those markets.

It is an urgent matter for all members of the development partnership in this room to help their governments find the political will and flexibility to achieve a balanced and comprehensive result that includes new market opportunities for all WTO members. The Round must be concluded this year, before the opportunity is lost.

Governments must also stand firm against pressures for protectionist trade measures, which could erode the global growth described above.

### **Investment**

Investment is the second largest source, after trade, for funding development. As we have seen above, it is roughly about 3-4 times the size of ODA.

The total value of global foreign direct investment (FDI) soared in 2006 to reach \$1,306 billion (\$1.3 trillion), up 38 percent; fueled in large part by cross-border mergers and acquisitions.<sup>13</sup>

The Monterrey Consensus recognizes the critical importance of mobilizing private sector investments, both within developing countries and from foreign sources.

“Private international capital flows, particularly foreign direct investment, along with international financial stability, are vital complements to national and international efforts.” (Para. 20) “We underscore the need to sustain sufficient and stable private financial flows to developing countries and countries with economics in transition.” (Para. 25)

ICC is very concerned about the rise of investment protectionism. It observes more and more cases of governments taking actions or using subtler pressures to impede or obstruct the flow of cross-border investment in the name of protecting so-called strategic sectors or national security. UNCTAD reports the number of changes in domestic laws that are less welcoming to FDI have been rising steadily to peak increases of 20 percent in 2005 and 2006, for example, protection and enhancement of “national champions.”<sup>14</sup> The incidents involve both developing and developed countries, including a surprising number of the developed countries that have benefited most from flows of foreign direct investment. Examples of developing country restrictions include raising the mandatory level of participation by national state-owned enterprises or by imposing new contracts on foreign investors in extractive industries or industries considered to have “strategic” importance.

Investment protectionism represents a serious threat to the expansion of foreign direct investment, which is a key pillar in the development funding equations. It is the opposite of the policies that are needed to facilitate FDI.

ICC urges governments in all parts of the world to safeguard freedom of investment by avoiding investment protectionism and upholding their domestic and international commitments to welcome market-driven investment.

To help attract FDI governments should set policies based on high-standard bilateral investment treaties, which include provisions on transparency, market access, non-discrimination, and strong protections for investor rights.

In doing this, it is also important for policymakers to foster better environments for internal sources of investment. As powerful as foreign direct investment is, it was still less than fourteen percent of gross fixed capital formation in developing countries in 2006.<sup>15</sup> The real leverage lies in improving the policy framework for domestic investment, which will also serve to attract foreign investment.

### **Trade and Investment Policy Coherence**

The trade and investment variables in the development equation have become separated policy areas for reasons of history and differing political sensitivities. Responsibilities for them are usually assigned to different ministries.

But companies competing in the global market do not have the choice to separate trade from investment. Business must be able to do both. A prime example is the business model that depends on global supply chain networks, which has underpinned the burgeoning rise of manufactured exports from developing countries. If a company invests in a manufacturing plant in a foreign country it must have open trade policies in that country to import and export products related to that plant's operation. Either open trade or open investment policies alone are not sufficient to support that business model.

It is therefore key that governments adopt coherent open trade and open investment policies to advance development through trade and investment.

ICC recognizes that trade and investment alone do not complete the development equation, especially for the poorest countries that cannot fully engage in the global marketplace at this time--although increases in trade and investment offer a vast potential for lowering the amount of aid funding that is needed, and permitting more focus on the neediest situations. ICC also supports, in principle, the need for aid and capacity building to enable more countries to participate in global markets, for example the WTO-led Aid for Trade initiative, which is associated with but separate from the Doha Round. ICC has been a supporter of the Monterrey Consensus from its inception and has had an active role as one of the business interlocutors.

## **Development of Country Based Knowledge Tools for Development**

### **ICC-UNCTAD investment guides**

UNCTAD and ICC are engaged in a project on investment guides and capacity building for selected least developed countries. Its principal goals are to create a knowledge tool that enables LDCs to attract and maintain increased foreign direct investment and to forge a convergence of purpose between investors and LDC governments.

In each individual case in the pilot phase, workshops were established to focus on best investment promotion practices and policy options, and to consider the microeconomic issues relevant to FDI. The workshops analyzed the implementation of international support measures in the areas of ODA, investment and trade and produced investment guides to provide accurate information about investment conditions within a country. The guides provide a broad overview of current investment opportunities and prevailing socio-economic and political conditions; and general guidance on the legal and other issues related to undertaking investment in each individual country. Twelve investment guides had been produced as of March 2007. These guides are well regarded. Further work will depend on obtaining donor funding.

### **ICC-UNCTAD Investment Advisory Council (IAC)**

Related to this activity is the ICC-UNCTAD Investment Advisory Council (IAC), established in 2000, to provide a high-level forum of consultations between governments and business leaders. It has met 7 times, the latest in April 2008, on the occasion of UNCTAD XII in Accra, Ghana.

### **NEPAD Business Group (NBG)**

ICC brought together a number of business organizations around the world to support the NEPAD process by strengthening local business and encouraging business-friendly measures. The NGB encourages African governments to set up business advisory councils aimed at: consult on pending legislation, creation of a business-friendly environment, and measurement of progress. The advisory councils also encourage business peer reviews (to complement government peer reviews) and they work on actions needed to create regional markets.

### **Conclusion**

In conclusion, despite the setbacks of rising commodity prices and the credit contraction, ICC is optimistic about the fundamental trends in investment and trade funding for development. The Monterrey Consensus recognizes the primary importance of trade funding (para. 27) and the key importance of investment as a funding source. The most recent trends suggest that the magnitudes of these sources are, if anything, understated, and that there is great potential to increase the development funding from these sources if governments find the political will to complete an ambitious Doha Round and to resist the pressures for trade and investment protectionism.

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<sup>1</sup> Daniel S. Hamilton and Joseph P. Quinlan, Globalization & Europe: Prospering in the New Whirled Order (Washington, D.C.: Center for Transatlantic Relations, 2008), pp. 32 & 52.

<sup>2</sup> Chris Giles, "Inequality: Growing income gap gives blueprint for action," Financial Times, Oct. 17, 2007, reporting on the IMF's World Economic Outlook.

<sup>3</sup> Hamilton and Quinlan, op.cit. p. 39

<sup>4</sup> Robert B. Zoellick, "A Challenge of Economic Statecraft," As prepared for Delivery to the Center for Global Development, Washington, D.C., April 2, 2008, p. 3.

<sup>5</sup> Hamilton & Quinlan, op.cit. pp. 24-25.

<sup>6</sup> Ibid., 29-30. Hamilton and Quinlan have a graph showing the acceleration of developing country foreign exchange reserves, which begins about 2002.

<sup>7</sup> Zoellick, op.cit. p. 8.

<sup>8</sup> OECD Final ODA Data for 2005.

<sup>9</sup> UNCTAD World Investment Report for 2005

<sup>10</sup> WTO Statistics for 2006, Tables I.5, I.6, and III.3. My approximation subtracting OECD merchandise exports from total world merchandise exports.

<sup>11</sup> WTO Statistics for 2007, Table I.4.

<sup>12</sup> Reported in May 28, 2008 letter from Clay Lowery, Assistant Secretary for International Affairs, U.S. Department of Treasury, to ICC Chairman Marcus Wallenberg.

<sup>13</sup> UNCTAD World Investment Report, 2007, p. xv.

<sup>14</sup> Ibid. p. 15 and UNCTAD World Investment Report, 2006, p. 25.

<sup>15</sup> UNCTAD World Investment Report, 2007, p.261.