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Note by the Secretariat.

The attached paper on the problem of foreign investment was presented by M. Duret, the Representative of the World Federation of Trade Unions, to the Consultative Committee (Non-Governmental Organizations) at its meeting on Thursday, July 3. The paper is circulated herewith for the information of Members of the Preparatory Committee.

THE PROBLEM OF FOREIGN INVESTMENTS.

The problem of foreign investments is one of the fundamental problems of our time, but it involves an internal contradiction which it is very difficult to resolve.

The economic recovery of a great many countries would have been considerably facilitated by foreign loans and investments. This applies not only to poor and economically under-developed countries but also to certain countries which themselves were formerly exporters of capital but, having suffered considerably as a result of the war, would have been able to reconstruct more speedily with the help of foreign loans and investments.

But it is precisely these two types of country which are very anxious to retain complete national independence and are afraid that a tremendous wave of foreign investment would render such independence illusory. These fears are not unfounded.

In the past, (as was eloquently shown by Rudolf Hilferding in his work "FINANZKAPITAL"), the export of capital has always led to ever-increasing interference on the part of the lending country in the affairs of the borrowing country. Investments at variable rates of interest (industrial investments and others) are particularly conducive to such interference. When a considerable amount of foreign capital is fixed permanently in a country in the form of installations, buildings, etc., the country investing or whose capitalists are investing cannot fail to be interested in the domestic, foreign, economic and social policy of the country in which the capital is invested, as it is on this policy that depend not only the way in which the capital bears fruit but sometimes the fate of the capital

itself. When the volume of investment reaches a certain level lender countries are bound to take an interest in the domestic policy of the borrowing state, and to wish to influence this policy. This is precisely what all these States are afraid of. They have their own ideas as to how their economies should be developed and as to how their social problems should be solved. These ideas may differ considerably from those of the capitalist lenders, but it is usually the latter whose ideas prevail.

An attempt must be made to resolve this contradiction, but how?

I confess that the solution put forward by the International Chamber of Commerce does not seem to me to be a good one, and I must say frankly (despite the solidarity of the "badly treated") that various amendments seem to be a little too impregnated by these ideas.

The International Chamber of Commerce states that, in principle, it favours equality of treatment for all invested capital; in actual fact it declares for preferential treatment of foreign capital. The latter enjoy a transfer privilege which domestic capital does not possess. If foreign investments reach a certain volume, this creates the risk of disrupting the whole national economy. Capital, technicians, etc. ... enjoy preferential treatment:

> "The principle of equality of treatment must be applied to foreigners without restriction on condition that the civic and property rights of nationals are fully protected by the Government of the country importing capital. In cases where the rights of nationals in this connexion are limited, special protection shall be accorded to foreign capitalists and to foreign staff employed in their undertakings, even if this were to result in treatment more favourable than that accorded to nationals." (p.20/E "Foreign investment and Economic Expansion").

In the event of nationalisation, owners of foreign capital are compensated in cash:

> "Such compensation shall be paid in cash and be freely transferable within a reasonable period of time" (Op.cit.J).

In practice, this would prevent any nationalisation, as the countries which nationalise are nearly always in a difficult financial position.

If the Conference adopts these ideas of the International Chamber of Commerce, even in part, the peoples would be given the unfortunate impression that they had to choose between their own economic and social ideas and foreign investment.

An analogous proposal was that a distinction should be drawn between industries of vital interest and others. In the latter case, foreign capital investments would enjoy the same treatment as domestic capital and most favoured nation treatment in relation to other foreign capital.

This thesis, which seems attractive at first sight, presents nevertheless a very serious danger in view of the difference in economic potential of the various countries. A rich country would be able to make much bigger investments than economically weaker countries and it is clear that the influence on domestic economy may be much greater in the case of very considerable capital coming from a rich country than in the case of a relatively small amount of capital from a country with a weaker economic potential. And this reminds us of the classical story of the horse and the lark.

Take an industry which, in any case, cannot be considered vital,(e.g. sock-suspenders, coca cola). If, as a result of the importation of foreign capital, such an industry develops abnormally, it may become a disruptive element by absorbing too large a quantity of fuel, labour, raw materials, etc.

We consider that the only reasonable solution would be for holders of capital for investment to have an exact knowledge of the actual situation in the countries where they wish to invest, and the precise aims of the economic policy of these countries. In this way they could know in what branches of economic activity they could invest with the maximum security and yield, i.e. that their investments would harmonise with and further the policy of the borrowing country instead of running counter to it.

There might be, for example, a system of visas issued by the economic authorities of the country of investment, testifying that the investment was in conformity with the political and economic aims of the country in question.

This solution must not, however, be confused with that of official publication of conditions of investment, which might produce a sort of discriminatory policy on the part of lender States towards States which declined to adopt a sufficiently conciliatory attitude.

In order to enlighton lender States, the ITO might assemble all the necessary documentation.