

## Comments of the Government of Japan

### Review Session on Chapter II of the Monterrey Consensus “Mobilizing international resources for development: Foreign direct investment and other private flows”

February 15, 2008

#### 1. General Principles

According to the OECD/DAC statistics, non-ODA funding accounts for 64 percent of the total flow of financing from DAC members to developing countries. The majority of this funding is private capital, notably foreign direct investment (FDI). In 2006, private financing from Japan to developing countries totaled \$48.9 billion. These numbers illustrate the importance of private capital flows as financing for development.

To attract private investment, countries must create business-friendly environments. The sustained economic growth of East Asia is proof that environments which invite foreign capital also foster domestic investment. By introducing new technologies and international competition, FDI boosts domestic competitiveness and contributes to lasting economic growth. This reality is not lost on Japan. My country is trying to attract foreign investment through the “Invest Japan” campaign in an effort to revive its economy. Japan is also improving the climate for investment through infrastructure development and deregulation.

Since FDI tends to flow to countries with business-friendly environments and abundant natural resources, assistance is needed to broaden the range of countries that can attract investment. Support for infrastructure and institutional development is therefore crucial. It is also important to provide public funding to mitigate risks of investing in developing countries and to encourage investments by the private sector.

Japan is encouraged to note that developing countries are increasingly becoming sources of investment. At the same time, we stress the importance of socially responsible investing that respects the environment and workers’ rights and contributes to the sustainable development of local communities.

#### 2. Specific Areas and Good Practices

Many developing countries are making progress in building investment-friendly environments, and Japan has supported their ownership through intergovernmental and public-private dialogue and the dispatch of experts. The following are examples of Japan’s support.

### (1) Investment Treaties

Bilateral investment treaties (BITs) attract FDI by increasing the predictability and stability of the legal and regulatory systems. Economic Partnership Agreements, which Japan has concluded with ASEAN members and other countries, are more than simple trade agreements. They often include rules on investment, intellectual property rights and competition, and provide mechanisms for cooperation and the resolution of day-to-day troubles encountered by investors. These agreements aim at improving the climate for investment in a comprehensive manner.

### (2) Promotion of Business-friendly Environment

One example of a successful partnership aimed at boosting investment is the Vietnam-Japan Joint Initiative to Improve Business Environment. Under this initiative, both governments and several Japanese corporations jointly developed an Action Plan regarding problems faced by investors and closely cooperated with each other in its implementation. As a result, Vietnam achieved most of the goals of the action plan and Japan's annual investment in Vietnam surged from \$1 billion in 2003 to \$10.8 billion in 2006.

### (3) Multilateral Efforts toward development of Investment Environment

The OECD's Policy Framework for Investment (PFI) provides a non-prescriptive checklist of issues for consideration by governments seeking to create environments attractive to investors. The aim of the PFI, which is based on the Monterrey Consensus, is to help countries achieve development through private investment. Japan has hosted a policy forum on the PFI in Tokyo and supported related projects in Vietnam and sub-Saharan Africa. We also intend to promote the PFI in ASEAN countries and elsewhere.

### (4) Development of Infrastructure

Each country's approach to infrastructure development should be tailor-made to its needs. Also important is the ownership of the recipient country and its partnership with the country that is the source of investment. It is also important to effectively coordinate ODA, non-ODA public funding, and private funding. Based on these principles, Japan is supporting the development of essential infrastructure such as roads and ports through ODA and promoting trade and investment through investment financing and trade insurance, thereby paving the way for investment by Japan's private sector.