3. *Incentives and Returns to Private Capital*

Perhaps the most important problem relating to foreign investment concerns the distribution of the economic benefits derived. On the assumption that operation in a developing country involves substantial starting-up cost and an additional degree of economic and non-economic risk, investors have demanded major concessional incentives and extra margins of profit. Because of the competition among various developing countries for scarce capital resources, the cost of these concessions has risen steadily.

Extended tax holidays and very high rates of profit repatriation will inevitably lead to local frustration and resentment. This is particularly the case in resource industries where the resource in question is believed to have a fairly limited life-span. The absence of reliable public information leaves room for exaggerated estimates of the actual rates of profit realized. All of these effects can be observed in the Caribbean. They have created a less favourable climate for Canadian investment and have diminished general goodwill toward Canada.

The basic justification for foreign enterprise is its risk-taking capacity. Foreign companies must recognize that excessive demands for concessions and guarantees will ultimately undermine and endanger their own position. It is possible for firms to enter under moderate guarantees, operate at reasonable rates of return and, in the process, provide more long-term security for their investments.

4. *Local Participation*

The need for foreign investment in developing countries grows out of a basic capital shortage. By definition, under these conditions, it will be impossible for nationals to retain ownership over many sectors of the economy while meeting the need for capital. As Canadians are fully aware, this situation can give rise to widespred apprehensions and resentment.

As the local capacity for capital formation grows, there is increasing pressure to supply more new capital from local sources and "buy back" at least a share of existing investment. This pressure is now very strong in the Caribbean.

With regard to new investment, it seems clear that a larger proportion will in future be provided locally, either by governments or private investors. There will be increasing emphasis on joint ventures and management contracts, mechanisms which combine local capital with the resources of international companies, and which, in many countries, are proving highly satisfactory.

The growth of development financing facilities will permit an acceleration of the rate of local investment and the regime of outright ownership by foreign