

phasizes dramatically its importance in the development process. The truth is that although direct investment in developing countries during the past decade has increased faster than the growth in official development assistance, it has actually declined as a proportion of the annual flow of resources from OECD countries to the Third World. It thus becomes abundantly evident that international direct investment cannot replace development assistance but can only supplement it.

Another complexity in the international foreign investment picture is the role played by states with a centrally planned economy. In such countries, foreign investment is generally restricted to minority shares, so that the level of foreign investment usually remains at a low level. But many state-controlled corporations in these countries have themselves become transnationals. They, too, then must be factored into the rules of the game of international direct investment.

Canadian policy

In such a complex and changing investment environment, how can we usefully strengthen international co-operation? It seems to me that we have to link two elements. One is the responsibility of host governments to ensure that foreign investment contributes to national development. The other is the assurance that risk-taking transnational corporations are accorded fair treatment and the possibility of a reasonable return. That, in essence, is the basis of Canadian policy in this field.

We also think that governments should refrain from applying their laws to affiliates of transnational corporations which operate outside of that nation's jurisdiction. We believe that restrictions on licensing, limitations on freedom to export, procurement policies which favour overseas suppliers rather than competitive domestic sources, or the concentration of research and development in the transnational's home country are practices which should be avoided.

A case in point is the recent unfortunate US decision to restrict the export to the USSR of oil and gas equipment produced by foreign subsidiaries of US companies. Such unilateral, extraterritorial application of US law is unconscionable and can only hurt international investment flows and development. The US should reverse this decision as soon as possible. I feel sure that foreign companies operating in the US are expected to abide by US laws and policies. We who are hosting US companies demand no less respect for our domestic laws and policies.

We recognize that greater understanding is essential to making progress in this field of foreign investment. And many aspects require considerable study. We need better international understanding of investment incentives, particularly at a time when there is much scrambling among nations to attract new investment. We have to try to reduce the costs of competitive investment incentives offered to transnationals, at the same time working for a more equitable division of the world's investment resources. Canada endorses the work of the World Bank and the OECD in this area.