New Chairman of the Administrative Council

On June 1, 1995, James D. Wolfensohn succeeded Lewis T. Preston as President of the World Bank. Mr. Wolfensohn also succeeded Mr. Preston as Chairman of the Administrative Council of ICSID, a position occupied ex officio by the President of the World Bank.

Prior to joining the World Bank, Mr. Wolfensohn was President and Chief Executive Officer of James D. Wolfensohn Incorporated. In addition, Mr. Wolfensohn became in 1990 Chairman of the Board of Trustees of the John F. Kennedy Center for the Performing Arts in Washington, D.C. He has also served as chairman or member of the boards of a number of other cultural, educational and charitable private organizations.

Further Signatures and Ratifications of the ICSID Convention

Since the publication of the Winter 1995 issue of News from ICSID, the ICSID Convention has been signed by five countries and ratified by six countries. The five new signatories of the ICSID Convention are Algeria, Bahrain, the Kyrgyz Republic, Mozambique and Oman. The six new ICSID Contracting States are Bolivia, Mozambique, Oman, St. Kitts & Nevis, Uzbekistan and Venezuela.

Including Bolivia and Venezuela, there are now eleven Latin American Contracting States, the other nine being Argentina, Chile, Costa Rica, Ecuador, El Salvador, Honduras, Nicaragua, Paraguay and Peru. Oman’s ratification brought also to eleven the number of Arab Contracting States, the other ten being Egypt, Jordan, Kuwait, Mauritania, Morocco, Saudi Arabia, Somalia, Sudan, Tunisia and the United Arab Emirates.

In total, there are now 136 signatories of the ICSID Convention and 122 Contracting States.
Disputes Before the Centre

- **American Manufacturing & Trading, Inc. v. Republic of Zaire (Case ARB/93/1)**
  
  *June 20–21, 1995*
  
  The Tribunal meets in Paris.

- **Philippe Gruslin v. Government of Malaysia (Case ARB/94/1)**
  
  *June 13–15, 1995*
  
  The Sole Arbitrator meets with the parties in Bangkok.

  *August 7–12, 1995*
  
  The Sole Arbitrator meets with the parties in Kuala Lumpur.

- **SEEDITEX Engineering Beratungsgesellschaft für die Textilindustrie m.b.H. v. Government of Madagascar (Case CONC/94/1)**
  
  *June 2, 1995*
  
  SEDITEX files its Reply.

  *June 30, 1995*
  
  The Republic of Madagascar files its Rejoinder.

  *August 22, 1995*
  
  SEDITEX files its observations on the Republic of Madagascar’s proposals.

  *September 19, 1995*
  
  The Conciliation Commission meets with the parties in Paris.

- **Leaf Tobacco A. Michaelides S.A. and Greek Albanian Leaf Tobacco & Co. S.A. v. Republic of Albania (Case ARB/95/1)**
  
  *April 27, 1995*
  
  The Secretary-General registers a request for the institution of arbitration proceedings.

Since the publication of the last issue of *News from ICSID*, there have been no new developments to report in a further case before the Centre, **Tradex Hellas S.A. v. Republic of Albania (Case ARB/94/2)**.

New Designations to the ICSID Panels of Conciliators and of Arbitrators

**AUSTRALIA**

*Panel of Conciliators*

Designations effective as of April 7, 1995: The Hon. Andrew Rogers QC and the Hon. Sir Laurence Street AC KCMG.

*Panel of Arbitrators*

Designations effective as of April 7, 1995: Dr. Maureen Brunt AO, the Hon. Robert Ellicott QC, Dr. Gavan Griffith AO QC and Professor Michael Pryles.

**AUSTRIA**

*Panel of Conciliators*

Designations effective as of June 6, 1995: Ambassador Dr. Franz Cede, Mr. Max Kothbauer.

*Panel of Arbitrators*

Designations effective as of June 6, 1995: Mr. Gerhard Praschak, Dr. Thomas Lachs (re-appointment).

*Panels of Conciliators and of Arbitrators*

Designations effective as of June 6, 1995: Prof. Dr. Hanns Pichler (re-appointment), Dr. Werner Melis (re-appointment).

**THE NETHERLANDS**

*Panel of Arbitrators*

Designation effective as of April 18, 1995: Prof. P.J. Slot.

APEC Investment Symposium

*Bangkok, Thailand*  
October 2–3, 1995

The secretariat of the Asia-Pacific Economic Cooperation (APEC) forum, whose members comprise eighteen Pacific Rim economies, sponsored an Investment Symposium which took place in Bangkok on October 2–3, 1995. The purpose of the symposium was “to provide an opportunity for APEC investment policy officials to discuss, with representatives from the private sector and other multilateral fora, the investment policies which best attract and retain foreign direct investment.” Two of the presentations which were made at the symposium are reprinted at pages 3–7 of this issue.
FDI and the Asia Pacific Region

by Karl P. Sauvant, Chief Research and Policy Analysis Branch, Division on Transnational Corporations and Investment, UNCTAD

Remarks made on October 2, 1995, at the APEC Investment Symposium in Bangkok

My presentation is based on the World Investment Report 95 prepared by the UNCTAD Secretariat which is scheduled to be released before the end of 1995. Today I will focus on three issues: the growth of foreign direct investment (FDI) and international production, to provide the global context in which FDI in Asia is located; competition among transnational corporations (TNCs) in the FDI market in Asia; and competition among countries in the FDI market in Asia, with special attention, of course, to APEC countries.

Today, FDI is the most important vehicle to bring goods and services to foreign markets, and the principal mechanism to link national economies. This is perhaps best exemplified by the fact that, in 1992, world sales by foreign affiliates amounted to $5.2 trillion, compared with world exports of $4.8 trillion, of which one-third were intra-firm. These sales were generated by an investment stock of $2.4 trillion, to which some $220 billion were added in 1994. A similar amount, if not larger, is expected to be added in 1995.

FDI is, of course, being undertaken by TNCs, of which we estimate that there are some 40,000 with some 250,000 foreign affiliates. Many TNCs are small and medium-sized enterprises, a fact that is often not appreciated by governments when trying to attract FDI. Because small and medium-sized enterprises represent a reservoir of FDI, we have initiated—with the support of the Government of Japan—a project on FDI by small and medium-sized enterprises in Asia, a project specifically focused on how to attract small and medium-sized enterprises to the Asian market.

Regardless of their size, an ever increasing number of TNCs—in their relentless pursuit of efficiency and hence competitiveness—are pursuing corporate strategies that make their geographically dispersed foreign affiliates subject to unified corporate strategies. The result of such integrated corporate strategies is the emergence of an international production system which, in a sense, is the productive core of the globalizing world economy. To be linked to this production system, to be part of it, becomes of central importance for countries wishing to grow and develop. Investment is, after all, at the root of all growth, and FDI has the additional advantage of bringing with it not only capital, but also technology, organizational and managerial practices and access to markets. In short, FDI is really a package of a number of tangible and intangible assets that enhances the performance of national economies. In fact, as we discussed in some detail in the World Investment Report 1992, FDI is an engine of growth.

Given the importance of FDI, it is not surprising that countries compete intensely to attract it. Since market size and growth, as well as a favourable investment climate, are principal determinants for the location of FDI, it is not surprising that the developed countries have attracted the lion's share of FDI, some 75% of stock and some 60% of flows. Given that, in the developing world, Asia is by far the most dynamic region, it is equally unsurprising that Asia attracts the lion's share of FDI, some 70% (or $60 billion) of all the FDI in developing countries in 1994 and probably the same amount in 1995.

There are a few points that are particularly noteworthy about FDI in Asia. While China was particularly successful in attracting FDI, it received $34 billion in 1994 and, I estimate, slightly more in 1995. FDI flows to ASEAN countries continued to grow—all this, despite the fact that a number of ASEAN countries are becoming more selective with respect to the kind of FDI they seek to attract, focusing especially on technology intensive FDI. Presently, the countries to watch are India, Indonesia and Vietnam, with Indonesia having attracted record levels of FDI flows in 1995. The FDI market in Asia is becoming more competitive, both, as far as TNCs and as far as countries are concerned.

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Despite their importance, European TNCs have largely neglected the Asian developing countries. Today, only some 4 per cent of the total FDI stock of the European Union, and about 3 per cent of the Union's FDI outflows, are directed towards Asia. As compared to Europe, Japanese TNCs give four times as much attention to developing countries in Asia. Similarly, United States TNCs give two-to-three times more attention to developing Asia than their counterparts in the
European Union. Concrete examples of the little presence of European investors in Asia are abundant. Germany's FDI stock in developing Asia, for example, is about half the size of its stock in Spain, and Germany's flows to Asia are less than Germany's flows to Austria. Along the same lines, United Kingdom's FDI stock in developing Asia is about that of its stock in Australia, while flows to Asia are about the size of flows to Spain.

However, there are strong signs that EU firms are changing course. Encouraged by the European Commission and national governments, outflows to Asia are rising. Given the relative neglect so far, there is indeed great potential to increase European Union FDI in Asia, a possibility that ought to be of particular interest to Investment Promotion Agencies.

The rise of TNCs from Asian developing countries, especially China and the newly industrializing economies, is making the FDI market in Asia more competitive. Three indicators tell the story. First, the share of FDI from developing Asian countries in the total FDI stock of Asian countries increased from about 30 per cent in 1980 to 45 per cent in 1993. In other words, almost every second FDI dollar in developing Asia comes from another developing country in the region. Second, the Republic of Korea and Taiwan Province of China (and probably Singapore) have become net-outward investors. And third, FDI inflows to Japan decreased in 1993 from all groups of countries—except from the Asian newly industrializing economies.

My conclusion is, therefore, that FDI competition among TNCs in developing Asia will increase as a result of the “discovery” of Asia by European Union TNCs, the increasing engagement of United States TNCs in the region, and the growth of TNCs from Asian developing countries. In a sense, this is not surprising since Asia is, after all, the most dynamic region worldwide in terms of economic growth.

Competition among countries for FDI is fierce in the world market, but particularly so in the Asian market. This competition takes two principal forms: pro-active policies to attract FDI; and efforts to create an appropriate enabling framework.

For the purpose of attracting FDI, most Asian countries offer incentives and have established Investment Promotion Agencies. As regard incentives, we are witnessing a rapidly escalating incentives competition among countries. In most instances, however, fiscal and financial incentives play only a minor role in the country-location decisions of TNCs. Other factors—especially market size and growth—are much more decisive. Incentive competition is therefore largely wasteful, and, where it succeeds, distortive. Governments need to consider—in their own interest—how to curtail at least the worst outgrowth of incentives competition.

A good part of competition for FDI involves, of course, policy competition, i.e., efforts to establish the best possible enabling framework for FDI. UNCTAD has monitored changes in FDI laws throughout the world, and we found that, in 1994 alone, 108 out of 110 legislative changes made in this respect in 49 countries were in the direction of a more liberal framework. Similar changes took place in 1991, 1992 and 1993. As a result, FDI frameworks worldwide are converging around broadly similar standards. These standards typically permit the right of establishment, provide for national treatment, guarantee against nationalization, allow international arbitration in cases of disputes and permit the free transfer of funds. In the highly competitive world and Asian regional market for FDI, countries wanting to attract FDI, and wanting to be part of the international production system, need to establish liberal policy frameworks that incorporate most if not all of these standards. After all, in the world market for FDI “best practices” by one government in respect to FDI and the treatment of TNCs rapidly become “benchmarks” for all governments. And benchmarking among governments is particularly relevant in a regional context.

APEC countries have made great progress in this direction as well, and this progress is reflected in its “Non-binding Investment Principles.” Governments may wish to consider whether they should build on the momentum they have achieved in this area so far, with a view towards formulating an agenda for FDI. Some of the elements of such an agenda could be the following:

- Improving the Investment Principles and forging a world-class FDI instrument that creates the best possible enabling framework for the APEC region and, therefore, makes the best possible contribution to further economic growth. Such an instrument could provide inspiration to the OECD negotiations and, eventually, to discussions in the WTO. Of course, any effort to strengthen these Principles may require an in-depth examination of key issues—such as national treatment, right of establish-
ment and incentives—so as to ensure that the formulation of the principles reflects fully the interests of all parties involved. Perhaps a regional seminar for government negotiators, dealing with such key issues, could be of help here, preferably with the participation of the private sector. Such a seminar could also be part of a broader process of increasing awareness in the area of FDI standards in general.

It is important to note in this context that more and more APEC countries are also becoming outward investors. The Investment Principles are, therefore, increasingly relevant to countries in their capacity as both host and home countries. This fact, namely that an increasing number of countries of the region are becoming outward investors, is a development, the importance of which should not be underestimated.

- Any investment principles, whether voluntary or not, prove their value ultimately in the way in which they are implemented at the national level. Perhaps systematic investment policy reviews at the national level could be of help here, leading eventually to benchmarks of best practices. Such reviews could also identify ways in which the national regulatory framework for FDI could be improved, and it could suggest a technical assistance programme that would help bring about such improvements. Such reviews might also be of interest to firms looking for investment opportunities. UNCTAD, on suggestion of its Commission for International Investment and Transnational Corporations, is embarking on such investment policy reviews and, in fact, has just completed the draft of a common format for these reviews.

- Independent of such investment policy reviews, governments could take a hard look at their incentives schemes to attract FDI. National incentive reviews could be a first step towards a coordinated approach to rationalize the use of incentives and contain excessive FDI incentives competition. APEC governments could indeed take a leadership role here, to their own benefit, and as an example for other parts of the world.

- In many countries, Investment Promotion Agencies, or similar organizations play a key role in attracting FDI and in influencing the FDI regulatory framework. Cooperation among Investment Promotion Agencies could be encouraged in order to exchange information, learn about best practices and, where appropriate, undertake joint activities, e.g., to tap the FDI potential of small and medium-sized enterprises.

UNCTAD earlier this year helped to establish a World Association of Investment Promotion Agencies. Perhaps this organization could be of help in such cooperation.

- Finally, one should not forget that, whatever APEC does, it is part of the much larger world market for FDI. APEC should, therefore, not lose sight of efforts that take place in this wider environment. Particularly relevant here are the negotiations that began last month on an OECD Multilateral Agreement on Investment and the instruments that exist (and may be developed) in the WTO. Important as the APEC work is in and of itself, perhaps it can also become a stepping stone for a broader multilateral understanding.

These are some of the areas in which the APEC process could move ahead if it so desired by the governments involved.

Given the importance of FDI and international production for economic growth, and considering the transnational nature of the activities associated with FDI, it is almost unavoidable that regional and multilateral frameworks will be established within which enterprises can prosper internationally and contribute to economic growth. Not surprisingly, therefore, virtually all efforts to establish such frameworks for FDI are driven by the private sector. This is precisely a reflection of the need to have international stability, predictability, and transparency in the investment area. Governments too know that they benefit from such frameworks. In fact, Sir Leon Brittan, Vice President of the European Commission, predicted that the next big boost to the world economy will come from an international investment agreement. Such boost to the world economy is, indeed, desirable.
During the last three years, there have in multilateral settings been adopted eight instruments with provisions on the treatment of foreign investments by their host States. These new multilateral instruments are the September 1992 World Bank Guidelines on the Treatment of Foreign Direct Investment; the October 1992 European Community Statement on Investment Protection Principles; the December 1992 North American Free Trade Agreement; the January and August 1994 Investment Protocols of the Common Market of the Southern Cone or Mercosur; the June 1994 Colombia, Mexico and Venezuela Free Trade Agreement; the November 1994 APEC Non-Binding Investment Principles; and the December 1994 Energy Charter Treaty.

The instruments vary in legal character. Some record aspirations or suggest guidance for the activities of States in regard to foreign investment. Others are full-fledged multilateral treaties. There are also important substantive differences among them on investment issues. They nevertheless have much in common. In varying degrees, the instruments all call on States to accord foreign investments national and most-favored-nation treatment, to make their investment regimes transparent to foreign investors and to avoid imposing on such investors currency transfer restrictions and uncompensated expropriatory measures. Most of the instruments also encourage policies of open admission and the extension to foreign investors of guarantees of fair and equitable treatment and full protection and security.

These general features of the instruments are important to an understanding of another broad area of agreement among them, the settlement of disputes between any of the States concerned and foreign investors.

In this regard, the instruments generally refer to at least two, and sometimes three or four, different possible methods of resolving such disputes. These methods include direct negotiations between the disputing parties, conciliation and recourse to local courts. A further method mentioned by all of the new multilateral instruments is arbitration. The instruments generally devote more attention to this method of dealing with disputes than to any other. This reflects the position that arbitration has come to have as the preferred means of settling investment disputes which the parties are unable to resolve by direct negotiations.

Among the instruments that do not have the status of treaties, the World Bank Guidelines encourage States to submit disputes with investors to arbitration under the ICSID Convention or the ICSID Additional Facility Rules. The European Community Statement recommends ICSID arbitration as “the primary choice” while also suggesting that investors should, if they prefer, be allowed to resort to arbitration under the rules of the International Court of Arbitration of the ICC or under the UNCITRAL Arbitration Rules.

Following the example of some recent bilateral investment treaties, the majority of the new multilateral treaties entitle covered investors to submit disputes with their host States to arbitration under the ICSID Convention, or under the ICSID Additional Facility Rules, or under the UNCITRAL Arbitration Rules. This approach is particularly appropriate in the multilateral context, where the countries involved may include both ICSID members and non-members. (Arbitration under the ICSID Convention is only available for cases where both the home and the host State of the foreign investor are ICSID members; ICSID Additional Facility arbitration is available for cases where one of the two States is not an ICSID member; and UNCITRAL Rules arbitration can be used where both countries are non-ICSID members.)

The merits of a careful selection of possible arbitration fora under an investment treaty seem apparent from the relevant provision of the August 1994 Investment Protocol of Mercosur. Unlike the other recent multilateral treaties, this one appears to entitle covered investors to resort to any form of ad hoc or institutional arbitration of their choosing. If nothing else, this approach can
create procedural confusion and inconsistencies, with possibly numerous different sets of arbitration rules being brought to bear on similar disputes under the same treaty.

Under any investment treaty, a single measure by a State party may elicit a large number of claims from covered investors. This may result in the State having to defend numerous arbitration proceedings involving similar questions. To deal with this problem, the NAFTA incorporates consolidation provisions which are worthy of emulation in future investment treaties.

The new multilateral treaties generally define arbitrable investment disputes as including disputes over the host State’s compliance with the substantive guarantees extended under the treaty. One noteworthy result of this is to make it clear that investors themselves may, through the arbitral mechanism, contribute to the enforcement of the treaty. In the process, arbitrators are given an important role in the interpretation of the substantive provisions of the treaty.

Within the framework of the GATT, there have recently been concluded the Agreements on Trade-Related Investment Measures, Trade in Services and Trade-Related Aspects of Intellectual Property Rights. Some of the obligations of States under these agreements, such as obligations respecting performance requirements and national treatment, overlap with undertakings of States under bilateral and multilateral investment treaties.

Disputes concerning compliance with the GATT instruments are referred to the World Trade Organization Dispute Settlement Body, which is an inter-State forum. Like the GATT instruments, most of the investment treaties provide for the settlement of disputes between the State parties over the interpretation or application of the treaties. In general, the investment treaties call for such disputes to be submitted to ad hoc arbitration. Under a typical investment treaty, a State-State dispute may result from the same alleged violation of the treaty as one that is the subject of a State-investor dispute. Some bilateral investment treaties provide that if in such cases State-investor proceedings are instituted under the treaty, there may be no recourse to the State-State mechanism unless the State involved in the proceedings with the investor fails to comply with any award rendered in those proceedings. There is no similar device for the coordination of WTO proceedings with the investor-State proceedings under the investment treaties. This is a point that might be borne in mind in the design of the projected APEC Dispute Mediation Service for trade disputes between member economies.

Fourteenth Inter-American Conference on Commercial Arbitration
San Antonio, Texas
September 20–22, 1995

The XIVth Inter-American Conference on Commercial Arbitration, which was organized by the Centre for Conciliation and Arbitration of St. Mary’s University School of Law, was held on September 20–22, 1995 in San Antonio, Texas. The Conference was dedicated to the topic of “Dispute Resolution in the Americas.” Co-sponsors of the Conference included, in addition to the Centre for Conciliation and Arbitration, the Inter-American Commercial Arbitration Commission, ICSID, the Organization of American States, the Inter-American Development Bank and the American Arbitration Association.

At the Conference, Nassib G. Ziadé, Counsel, ICSID, presented a paper on ICSID’s facilities for the settlement of disputes between States and foreign investors. The paper pointed out that eleven Latin American countries were now ICSID Contracting States and that two further Latin American countries had signed the ICSID Convention and were in the process of its ratification. The paper also pointed out that Latin American countries had in recent years concluded several multilateral investment treaties providing for the settlement of investment disputes by ICSID arbitration. These were the December 1992 North American Free Trade Agreement or NAFTA; the January 1994 Investment Protocol of the Common Market of the Southern Cone or Mercosur; and the June 1994 Colombia, Mexico and Venezuela Free Trade Agreement.
Recent Publications on ICSID

Bardeau, Geneviève

Dolzer, Rudolf & Stevens, Margrete

Layton, Robert

Nedjar, Didier
Chronique de droit de l’arbitrage international, 21 Droit et pratique du commerce international 151, 164-165 (1995).

Shihata, Ibrahim F.I.


New ICSID Publications

The Centre has recently completed the Spring 1995 issue of its ICSID Review—Foreign Investment Law Journal. The issue includes an article on the status of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards by Richard J. Graving, a study by Ewell E. Murphy, Jr. on the access and protection for foreign investment in Mexico under Mexico’s New Foreign Investment Law and the North American Free Trade Agreement and a paper on international conciliation and the ICC by Eric A. Schwartz.

The issue also includes a description of the Asian concept of conciliator/arbitrator by M. Scott Donahue and of international arbitration in the Asia-Pacific region by Michael Pryles.


The ICSID Review—Foreign Investment Law Journal, which appears twice yearly, is available on a subscription basis from the Johns Hopkins University Press, Journals Publishing Division, 2715 North Charles Street, Baltimore, Maryland 21218-4319, U.S.A. Annual subscription rates (excluding postal charges) are US$50 for persons with a mailing address in a member country of the Organisation for Economic Co-operation and Development and US$25 for others.

Other recent publications of the Centre include a new release (95-2) of ICSID’s collection of Investment Treaties and a new release (95-3) of the Centre’s Investment Laws of the World. Included in release 95-2 are 32 new bilateral investment treaties entered into by some 39 countries during the years 1989 to 1994. Release 95-3 contains the text of the basic investment legislation of Armenia, Cambodia, Eritrea, Ghana, Laos, Marshall Islands, Saint Lucia and Slovenia.

News from ICSID

is published twice yearly by the International Centre for Settlement of Investment Disputes. ICSID would be happy to receive comments from readers of News from ICSID about any matters appearing in these pages including the personal contributions of individual writers. Please address all correspondence to: ICSID, 1818 H Street, N.W., Washington, D.C. 20433, U.S.A.