The reach of OECD investment instruments expands

The OECD has long been at the forefront in efforts to develop internationally recognised “rules of the game” relating to international investment.

As the geographic distribution of OECD investors has broadened and a new group of outward investors from Asian, Latin American and African economies emerges, our economic ties have become both deeper and wider. Managing this process of globalisation necessitates co-operation.

Promoting the OECD investment instruments is a major part of our investment policy co-operation efforts. These instruments are the Code of Liberalisation of Capital Movements, the Code of Liberalisation of Current Invisible Operations and the Declaration on International Investment and Multinational Enterprises. As more countries adhere to these instruments and adopt good investment policy practices, their value expands to the benefit of all.

This issue of the Investment Newsletter puts the spotlight on the OECD’s investment instruments. We report on Egypt becoming the 40th country to adhere to the OECD Declaration on International Investment and Multinational Enterprises. Also included are reports highlighting how the OECD investment instruments are being used to inform policy deliberations relating to the investments of Sovereign Wealth Funds and we report on the application of the OECD Guidelines for Multinational Enterprises – one part of the OECD Declaration – in the financial sector.
Recent FDI developments in OECD countries

FDI outflows from the OECD area are poised to reach record levels in 2007. Over the first half of this year outflows picked up strongly to reach 736 billion US dollars, equivalent to 65 per cent of the whole year total for 2006. FDI inflows to the OECD area also rose, to reach $26 billion US dollars. High global economic growth and buoyant corporate profits are underpinning the upward trends in FDI, and in all major sectors.

FDI flows to and from the OECD area rising sharply...

OECD total FDI inflows for the year 2006 reached USD 916 billion, up 22 per cent from the previous year, and increased further over the first half of 2007 (see Table). The U.S. the U.K and France are the largest recipients of inward FDI in the OECD area. Together, they account for almost half total OECD inflows so far this year.

FDI outflows from the OECD area are traditionally higher than inflows, and have picked up even more strongly than inflows. Following an almost 30 per cent increase in 2006, to reach USD 1125 billion, outflows in the first half of 2007 stood at USD 736 billion. As a result total net OECD outflows in the first half of the year are close to the amounts recorded for the whole of last year.

...with G7 countries accounting for about 2/3 of total OECD flows

The main OECD countries for outward FDI in the first half of 2007 were the U.S., France, the UK, Germany, Italy, and Japan. Together they accounted for over half of the OECD total. Following sustained FDI outflows from the OECD area since the beginning of the decade the OECD’s outward position of FDI is now almost double the level recorded in 2000.

Cross-border M&A activity also points toward a record year for FDI in 2007

Based on the latest data for cross-border mergers and acquisitions (M&A) – a major part of FDI – the size of FDI flows in the 3rd quarter of 2007 appears to have eased from the levels recorded in the second quarter (see Figure). Nonetheless, 2007 looks likely to break the record level of FDI activity reached in year 2000.

Most FDI is in service sectors

M&A data also provide insights into the composition of international investment by sector. Based on over 7,000 announced deals with target and acquirer from different nationalities in the first three quarters of this year with an overall value of nearly USD $1½ trillion, services accounted for almost two-thirds of global activity. Manufacturing was the second most important sector, at 30 per cent of global activity, followed by natural resources, which accounted for a surprisingly small 7 per cent share.

Financial services are the sector with the largest average deal size. In the first 3 quarters of this year the average deal was equivalent to 403 million US dollars, and in October a consortium took over ABN Amro in the largest ever banking deal.

Cross-border mergers & acquisitions by sector, billion US$

For further reading on this topic:

OECD work on FDI statistics:
www.oecd.org/daf/investment/statistics

Egypt adheres to the OECD Investment Declaration

On 11 July 2007, Egypt became the 40th country to adhere to the OECD Declaration on International Investment and Multinational Enterprises. This Declaration is a way for governments to commit to improving their investment climates, ensuring equal treatment for foreign and domestic investors and encouraging the positive contribution that multinational companies can bring to economic, social and environmental progress. As part of the process of adherence to the Declaration, Egypt undertook a thorough review by OECD members of its international investment policies, using the Policy Framework for Investment. This article presents the results of this review.

International direct investment inflows to Egypt have increased rapidly in recent years...

Historically, Egypt has not been a major destination for international direct investment. However, since the beginning of the decade FDI inflows have increased more than fifteen-fold, to reach over US$9 billion in just the first three quarters of the 2007 financial year.

The distribution of these flows has also been changing, diversifying away from the petroleum sector and bringing much-needed investment to a broad range of manufacturing and service industries.

...as Egypt creates a more favourable environment for investment...

These increasing FDI inflows have largely been in response to the ambitious reform programme started in 2004. Openness to foreign direct investment and the principle of national treatment for foreign investors is enshrined in general investment legislation. Foreign investment in manufacturing has been fully liberalised (with the exception of defense-related industries), and foreign equity participation in financial services and privately operated telecommunications services is now permitted up to 100 per cent.

...but there is room for further progress

The Egypt Investment Policy Review also finds that many challenges still lie ahead. These include:

- Ongoing efforts to phase out unnecessary sectoral restrictions on investment, notably in construction, maritime and air transport, courier services, foreign trading intermediation and preferential treatment arrangements for domestic bidders in public procurement;
- Maintaining the momentum for broadening the privatisation programme; and
- Encouraging entrepreneurship by promoting transparency, accountability and competition.

Addressing these impediments to investment is an important part of Egypt’s on-going reform agenda.

The benefits from Egypt’s adherence to the Declaration will continue

Adherents to the Declaration commit to providing national treatment to foreign investors and promoting responsible international business conduct. With regards to the Guidelines for MNEs, Egypt has already subscribed to most of the multilateral instruments underpinning the principles and standards embodied in the Guidelines and will establish a National Contact Point (NCP) at the Ministry of Investment.

“What we are doing today is maintaining the stability of our economy, and the efforts of enhancing the employability of the Egyptians is being recognised.”

Dr Mahmoud Mohieldin, Minister of Investment at the Declaration signing ceremony

The Egyptian government has also accepted the commitments under the International Investment Incentives and Disincentives, and the Conflicting Requirements instruments of the OECD Declaration on multinational enterprises.

These commitments will help to sustain implementation of the on-going reform agenda and to consolidate progress already made in mobilizing beneficial private investment. In short, Egypt’s adherence to the OECD Declaration ensures that the benefits which both Egypt and the OECD have drawn form their recent close co-operation will continue.

For further reading on this topic:
www.oecd.org/investment
MENA-OECD Investment Programme
www.oecd.org/mena/investment
International investment of sovereign wealth funds: are new rules needed?

The emergence of sovereign wealth funds (SWFs) as major international investors has aroused public unease. Concerns relate to risks that SWFs’ investment flows may destabilise financial markets, and that investments by foreign government-controlled investors – SWFs or state-owned enterprises - may be motivated by political objectives and pose potential security threats. OECD countries and non-OECD partners are looking for ways to address these concerns while avoiding unnecessary restrictions on international investments.

**SWFs have been growing rapidly**

Sovereign wealth funds (SWFs) – government-owned investment vehicles that are funded by foreign exchange assets - have existed for several decades. What is new is their spectacular growth, driven by large current account surpluses and increased revenues in oil producing economies, and the size of their overseas investments, especially by SWFs from non-OECD emerging economies (see table).

<table>
<thead>
<tr>
<th>Country</th>
<th>Year established</th>
<th>Assets under management (US$ bn.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Arab Emirates</td>
<td>1976</td>
<td>688</td>
</tr>
<tr>
<td>Norway*</td>
<td>1990</td>
<td>316</td>
</tr>
<tr>
<td>Singapore (GIC)</td>
<td>1981</td>
<td>215</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1976</td>
<td>174</td>
</tr>
<tr>
<td>Russia</td>
<td>2004</td>
<td>122</td>
</tr>
<tr>
<td>Singapore (Temasek)</td>
<td>1974</td>
<td>108</td>
</tr>
<tr>
<td>China</td>
<td>2003</td>
<td>66</td>
</tr>
<tr>
<td>Qatar</td>
<td>2005</td>
<td>50</td>
</tr>
<tr>
<td>Algeria</td>
<td>2000</td>
<td>43</td>
</tr>
<tr>
<td>United States (Alaska)</td>
<td>1976</td>
<td>40</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1961</td>
<td>39</td>
</tr>
</tbody>
</table>

Sources: Peterson Institute for International Economics, August 2007, and OECD Secretariat.
* SWF classified by OECD Global Pension Statistics as pension reserve fund.

**International investment by SWFs raises concerns in host countries**

In fact, the assets managed by SWFs represent a small part of global financial markets. But since SWFs (and other new investment vehicles) are not closely supervised by home country financial market authorities, there is less opportunity to control for possible negative impacts of their investments on global market stability.

When an investor, such as a SWF or a state-owned enterprise (SOE), is controlled by a foreign government, host countries perceive a risk that the investment decisions can be motivated by political objectives, rather than by normal profit considerations, and that they can target security-sensitive and other “strategic” assets.

**SWFs provide benefits**

Several of the objectives that guide SWFs, in particular diversification of assets, search for better returns than on exchange reserves and longer-term strategies, suggest that they can contribute to greater stability in the global financial system.

Recent major deals by non-OECD SWFs

Apart from a few exceptions it is difficult to keep track of many deals concluded by SWFs, unless they are notified to financial services regulators. Recent examples by non-OECD SWF so far in 2007 include:

- Singapore’s Temasek invested £975 million in Barclays bank, equivalent to 2.1% of issued share capital; US$315 million in China Eastern Air, equivalent to 8.3% of the enlarged capital and acquired a 10% stake in Minh Phu, Vietnam’s largest shrimp processor and exporter for an undisclosed sum.
- China’s newly-formed state investment fund purchased the largest external stake in Blackstone, a private equity group that, indirectly through its holdings, is one of the largest employers in the US;
- Delta Two, a fund backed by the Qatar Investment Authority, is close to gaining control of J. Sainsbury, one of Britain’s largest supermarket chains; and purchased jointly with Borse Dubai, which is 60% owned by the Investment Corporation of Dubai a 50% stake in the London Stock Exchange.

SWFs’ overseas investments also provide new capital to the host countries’ enterprises and can deliver other benefits normally associated with foreign investment.

**OECD countries wish to avoid unnecessary discriminatory restrictions on foreign government-controlled investments**

OECD countries have a long-standing commitment to promote the freedom of investment. The OECD Codes of Liberalisation and the National Treatment instrument of the Declaration on International Investment and Multinational Enterprises provide standards of open and transparent investment policy.

During the past year, in view of changing perceptions of national security, OECD countries and non-OECD partners have worked together on “freedom of investment and national security”. They agree that any policy responses to national security concerns should remain consistent with rights and obligations under international agreements. And they agree that any restrictions on
investment should also be guided by the principles of proportionality, regulatory transparency and predictability, and accountability of the implementing authorities.

In particular, “proportionality” means that a restriction and the burden imposed on a foreign investor should be proportional to the objective pursued and that other available remedies to the problem should be used before considering new restrictions.

For instance, host country financial market regulations, including disclosure rules, apply to SWFs and will promote transparency and discipline; merger reviews under competition law can help address market distortions which might arise from foreign government support for corporate takeovers. National security-focussed investment reviews and related intelligence services are designed to protect essential security interests.

Restrictions on foreign government controlled investors

Very few OECD countries practice statutory discrimination against foreign government controlled investors.

Four, out of thirty, OECD members have lodged reservations under the OECD Code of Liberalisation of Capital Movements in order to allow the maintenance of restrictions targeted at inward investment by foreign governments or foreign state-owned enterprises.

Foreign government ownership is reported by as another OECD member to be a consideration in applying the public interest test of merger reviews under its competition law. In another OECD Member, this commands a second-stage investigation in its national security-related investment review mechanism.

None of the ten non-OECD countries that have adhered to the OECD Declaration on International Investment and Multinational Enterprises have exceptions to its National Treatment Instrument in this area.

Home countries can ease concerns by promoting transparency of their SWFs

There is little systematic information on the corporate governance and objectives of SWFs. And practices among SWFs vary widely. For instance, the Norwegian Government Pension Fund – the biggest equity owner in Europe – is very transparent and adopts high standards, including the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises. Other SWFs publicly disclose little information on their governance or investment strategies.

It is in the interest of SWFs and their home country governments to ensure that high standards of transparency, risk management, disclosure and accountability are observed. This will not only facilitate public acceptance of SWFs’ access to foreign markets, but will also support their financial management and ultimately benefit the country’s own development.

Freedom of Investment and the G8 Heiligendamm Declaration

“…we remain committed to minimize any national restrictions on foreign investment. Such restrictions should apply to very limited cases which primarily concern national security. The general principles to be followed in such cases are non-discrimination, transparency and predictability. In any case, restrictive measures should not exceed the necessary scope, intensity and duration. Applicable treaties relating to investment remain unaffected. We encourage the OECD to continue its work on these issues, especially by identifying best practices and by further developing general principles. We will work with the OECD and other fora to develop further our common understanding of transparency principles for market-driven cross border investment of both private and state-owned enterprises.”

Extract from Heiligendamm G8 Declaration June 2007, paragraph 11.

OECD countries have developed unique Guidelines for Corporate Governance of State Owned Enterprises (the SOE Guidelines). The Guidelines include guidance on issues that are of interest to both SWFs and SOEs.

International co-operation can build mutual trust and keep markets open

The OECD Investment Committee and its non-OECD partners have agreed that over the coming period they will follow a two-track approach to these issues:

- Dialogue among governments, SWFs and the private sector to improve understanding of both home and host country approaches to foreign investment;
- Exchange experiences in relation to national security protection and develop shared views on investment policies that observe the principles of proportionality, transparency and predictability, and accountability and that also avoid unnecessary restrictions to international investment, including by SWFs.

For further reading on this topic:


OECD work on freedom of investment
www.oecd.org/investment.
OECD Guidelines for MNEs and the financial sector

Increased awareness by the public that the financial sector can make a difference in promoting corporate responsibility through its direct and indirect investments has led to a demand that financial institutions all act responsibly. When the National Contact Points (NCPs) – government offices responsible for implementing and promoting the Guidelines - came together in June of this year, their annual roundtable was devoted to the role that the Guidelines could play in supporting the financial sector’s corporate responsibility efforts.

Taking stock of corporate responsibility practices in the financial sector

The profile of corporate responsibility in the financial sector has evolved in the last 25 years. This is reflected by the significant rise in codes of conduct, management systems and reporting by financial institutions on environment, social and governance issues.

These developments can be largely attributed to public pressure and increased recognition of the business case for corporate responsibility. However, 50 per cent of all financial institutions do not have corporate responsibility policies and only 30 per cent engage in serious corporate responsibility reporting.

Financial institutions have not waited for governments to act

Leading financial institutions have produced a number of corporate responsibility standards and principles for the industry, including the Equator Principles for major projects financed by banks and the UN Principles for Responsible Investment (UN PRI) for the investment activities of institutional investors. Such initiatives facilitate the promotion of corporate responsibility practices geared to the specificities of the financial sector.

Exploring synergies between the OECD Guidelines and financial sector instruments

The OECD Guidelines (see Box) and these financial sector instruments are complementary, sharing common values and mutually reinforcing missions. The Guidelines contain substantive standards in several business areas that can be taken into account in the implementation of financial sector instruments, while the financial sector initiatives identify the reporting and other management policies that deserve the special attention of financial practitioners concerned with business ethics.

The implementation processes are also complementary. While financial instruments focus on engagement and reporting, the Guidelines provide a unique facility for providing guidance and helping resolve issues that may arise in concrete situations.

Enhancing complementary elements…

Together, these instruments constitute a major force for corporate responsibility, although for their combined potential to be realised, political will and a real commitment by all players to make them work is essential.

NCPs have undertaken to explore increased co-operation and coordination between the OECD Guidelines, the Equator Principles and the UN PRI, especially with regard to associating the implementation processes.

The 2007 annual report on the OECD Guidelines provides a summary of the roundtable discussions and background information.

The OECD Guidelines for MNEs

The OECD Guidelines for Multinational Enterprises are one of the foremost international instruments for promoting responsible business conduct. Through them, the 40 adhering governments offer recommendations to companies in all major areas of business ethics. The Guidelines are supported by a unique implementation mechanism. Through their “specific instances” facility, National Contact Points, government agencies responsible for the Guidelines, offer their good offices to help parties resolve disputes.

This year’s implementation cycle shows a continuous increase in their visibility and use. Several adherents have strengthened their institutional arrangements by adopting important modifications to the organisation and functions of their NCPs or by amending their specific instances procedures to make them more user-friendly and accountable. There has also been a continued increase in the number of specific instances brought for conciliation over the years suggesting greater familiarity with the procedures.

At their Summit in Heiligendamm on 6–7 June 2007, the G8 leaders specifically committed themselves to promote actively the OECD Guidelines for Multinational Enterprises and better governance through the National Contact Points.

For further reading on this topic:


Selected investment publications

International Investment Perspectives, 2007: Freedom of Investment in a changing world

*International Investment Perspectives* is an annual publication. Each issue offers an update of recent trends and prospects in international direct investment and provides analyses of investment policy questions of topical interest. The publication aims to provide timely information to members of the international investment policy community, academia and members of the public with an interest in international investment. The 2007 issue contains two core analytic sections. The first includes four articles related to OECD work on Freedom of Investment, National Security and “Strategic” Industries. The second analytic section contains a series of articles that focus on the new opportunities arising from FDI, and the changing nature of the international economy in which investment takes place.


OECD member countries have committed themselves to maintaining and expanding the freedom for international capital movements and current invisible operations under the legally binding OECD Codes of Liberalisation. This publication explains the content and structure of the OECD Codes and the way they are implemented to achieve progressive liberalisation.

OECD Investment Policy Review of Egypt

In July 2007, Egypt became the 40th country to adhere to the OECD Declaration on International Investment and Multinational Enterprises. The adherents to the Declaration commit to providing national treatment to foreign investors and promoting responsible international business conduct. During this process, Egypt undertook a thorough review by OECD members of its international investment policies using the Policy Framework for Investment. This publication presents the results of this review.


Driven by technological change, global competition and the ongoing liberalisation of markets, international direct investment plays a key role in the process of global economic integration. Reliable and up-to-date statistics are essential for a meaningful interpretation of investment trends for the purpose of policy analysis and decision. Internationally comparable data makes it possible to measure the degree of economic integration and competitiveness of markets. This database gives access to a comprehensive set of statistics on foreign direct investment into and out of OECD countries.

Several options are available for obtaining publications:

- Additional information and links can be found via the investment portal on the OECD website: [www.oecd.org/investment](http://www.oecd.org/investment)
- Subscribers and readers at subscribing institutions can access the online edition via the online library: [www.sourceoecd.org](http://www.sourceoecd.org)
- Non-subscribers can purchase the PDF e-book and/or paper copy via our Online Bookshop: [www.oecd.org/bookshop](http://www.oecd.org/bookshop)
- Government officials can find the PDF e-book via the publication locator on OLISnet: [www.oecd.org/OLISnet](http://www.oecd.org/OLISnet)
- Accredited journalists can obtain password access via the Newsroom: [www.oecd.org](http://www.oecd.org)
Forthcoming events
27-28 November 2007, Lusaka, Zambia
NEPAD-OECD Africa Investment Initiative

A Roundtable will take place in Lusaka, Zambia on 27-28 November 2007. The aim of the Roundtable is to develop policy capacity building tools that will help NEPAD countries improve the investment related content of Africa’s peer review process (APRM) and to support implementation of investment climate reform policies, with a specific focus on the investment environment conditions conducive to attracting investment for development in the water and sanitation sector.

Further information on the Initiative and the Lusaka roundtable can be found at: www.oecd.org/daf/investment/africa.

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28 November 2007, Cairo, Egypt
Second MENA-OECD Ministerial Meeting

The second MENA-OECD Investment Ministerial meeting titled, Making Reforms Succeed: Moving Forward with the Investment Policy Agenda will be held in Cairo on 28 November 2007. The event will be held under the auspices of the Prime Minister of Egypt, H.E. Dr. Ahmed Nazif and will be chaired by H.E. Dr Mahmoud Mohieldin, Minister of Investment of Egypt. The Ministerial Meeting will gather high level delegations from the countries participating in the Programme to identify elements crucial to fostering a sound investment climate and to adopt new tools for implementation of investment policy reform.

Government representatives and private sector participants will be invited to participate in the Business Forum preceding the Ministerial Meeting on the 27th of November. Part of the Business Forum will be dedicated to the topic of strengthening the role of women business in the MENA region.

Further information on the MENA-OECD Programme can be found at: www.oecd.org/daf/investment/mena.

Contact: Alexander Böhmer [+33(0)145241912]

Symposium on Chinese and OECD Government Approaches to Encouraging Responsible Business Conduct
Beijing, China, date to be announced

The symposium will discuss a background report that outlines China’s recent progress in encouraging responsible business conduct (RBC), examines remaining challenges and offers proposals for advancing work in this area. Stakeholders will include Chinese and OECD government, business, labour and civil society representatives.

Contact: Ken Davies, Investment Division [+33(0)145241974]