G20 STAYS OPEN TO FOREIGN INVESTMENT

A joint OECD-WTO-UNCTAD report concludes that G20 governments have so far withstood protectionist pressures on investment policies, but they need to remain vigilant.

G20 governments have by and large honoured their commitment to refrain from protectionism. This is the conclusion of a joint OECD-WTO-UNCTAD report that the three organisations delivered to G20 Leaders ahead of the Pittsburg Summit.

Continued on page 2
The report covers both trade and investment, as requested by G20 leaders in April 2009, and finds that “the thrust of G20 policy changes has been, for the most part, towards greater openness and clarity.” G20 members also continued to conclude international investment agreements. However, the report finds that some G20 governments have established emergency support schemes that can discriminate against foreign-controlled companies or raise barriers to outward investment flows. These schemes – and more recent moves to exit from them – pose the major challenge to open international investment.

The report argues that WTO and OECD rules continue to provide a strong defense against protectionism in trade and investment policies. However, it warns that trade and investment policy risks remain until economic recovery is well-rooted and job and business opportunities have started to grow again.

At their summit in Pittsburgh on 24 and 25 September 2009, G20 leaders renewed their call for policy monitoring by WTO, OECD and UNCTAD.

For further reading on this topic: www.oecd.org/daf/investment
Report on G20 Trade and Investment Measures
OECD COUNTRIES STRENGTHEN THEIR INVESTMENT COMMITMENTS

OECD countries have strengthened their commitments under the legally binding OECD Codes of Liberalisation of Capital Movements and of Current Invisible Operations, as well as the companion OECD National Treatment instrument.

Following a thorough review, OECD members have agreed to update their liberalisation commitments under the OECD Codes of Liberalisation and the OECD National Treatment instrument. This extensive review, carried out in 2008-2009, concerned measures affecting foreign direct investment (FDI) other capital movements and cross border services. As a result:

- 13 countries have eased restrictions on FDI and 4 have liberalised cross-border services since the last update 5 years ago;
- a number of countries have entered new reservations on particular Code items, reflecting agreed clarification of the Codes’ application, but in none of these cases has there been a material breach of standstill;
- two countries – Korea and Mexico – have removed their remaining capital movements restrictions and, despite the pressures of the financial crisis, only Iceland has had recourse to exchange controls.

At the same time, six members have taken measures to clarify or enforce national security reviews of foreign investments. The recently adopted OECD Recommendation on Guidelines for Recipient Country Investment Policies relating to National Security is designed to avoid misuse of national security measures for disguised protectionist purposes.

For further reading on this topic:
International investment instruments
www.oecd.org/daf/investment/instruments

OECD legal instruments on international investment and services

Codes of Liberalisation
The Code of Liberalisation of Capital Movements and the Code of Liberalisation of Current Invisible Operations constitute legally binding rules, stipulating progressive, non-discriminatory liberalisation of capital movements, the right of establishment and current invisible transactions (mostly services). All non-conforming measures must be listed in country reservations against the Codes. The Codes are implemented through policy reviews and country examinations, relying on “peer pressure” to encourage unilateral rather than negotiated liberalisation. The Codes were initially adopted in 1961 but have since been revised and expanded in scope.

Declaration and Decisions on International Investment and Multinational Enterprises
The 1976 Declaration by the Governments of OECD member countries on International Investment and Multinational Enterprises constitutes a policy commitment to improve the investment climate, encourage the positive contribution multinational enterprises can make to economic and social progress and minimise and resolve difficulties which may arise from their operations. The Declaration consists of 4 elements:

- The Guidelines for Multinational Enterprises
- National Treatment for Foreign-Controlled Enterprises
- Conflicting requirements
- International investment incentives and disincentives
OECD DEVELOPS NEW GUIDELINES TO AVOID PROTECTIONIST NATIONAL SECURITY MEASURES


Countries have shown growing interest in the use of investment policy to safeguard national security. In only five years, Canada, China, France, Germany, Japan, Korea, Russia and the United States revised their policies in this regard. In the last six months alone, Canada introduced its first security-related investment review and Germany expanded the scope of its reviews.

The OECD has developed guidelines for recipient country investment policy relating to national security. The Guidelines recommend that governments design and implement their national security measures so as to make them:
- least-discriminatory,
- transparent and predictable,
- proportionate to the objective pursued,
- accountable in their application.

Recent action by the OECD Council raises the legal status of these guidelines and makes them a more authoritative source for international law.

OECD countries, together with other countries participating in the Freedom of Investment process are monitoring use of national security measures and publicly report on observance of the new Guidelines (see Inventory of investment measures taken between November 2008 and June 2009).

For further reading on this topic:
- OECD work on freedom of investment
  www.oecd.org/daf/investment/foi
- Guidelines for recipient country investment policy relating to national security
  www.oecd.org/investment/guidelines
- Inventory of investment measures taken between November 2008 and June 2009
OECD INITIATES WIDE-RANGING CONSULTATIONS FOR REVIEW OF THE GUIDELINES FOR MULTINATIONAL ENTERPRISES

The 41 governments that adhere to the OECD Guidelines for Multinational Enterprises are launching a wide-ranging consultation process in support of a planned review to update the instrument’s content and clarify private sector responsibilities.

Consultations are planned for the 7 October meeting of the OECD Investment Committee; during a regional conference on corporate responsibility organised by the OECD and UN ESCAP in co-operation with ILO, UN Global Compact and the GFI in Bangkok, Thailand on 2-3 November; and on 8 December immediately following the Global Forum on International Investment to be held at OECD headquarters in Paris.

The OECD Guidelines are recommendations by 41 OECD and non-OECD countries on actions companies should take wherever they operate to obey the law, observe internationally-recognised standards and respond to other societal expectations. They cover all major areas of business ethics, including anti-corruption, disclosure, labour, environment and tax.

The Guidelines have a unique follow-up mechanism, through the National Contact Points which are government offices charged with promoting the Guidelines and conciliating disputes.

Consultations on the update are to consider both content and follow-up procedures of the Guidelines.

For further reading on this topic:
Guidelines for Multinational Enterprises: www.oecd.org/daf/investment/guidelines

Governments adhering to the OECD Guidelines for Multinational Enterprises

OECD members: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

Non-members: Argentina, Brazil, Chile, Egypt, Estonia, Israel, Latvia, Lithuania, Peru, Romania, Slovenia.
FDI STATISTICS

END OF GLOBAL FDI CRISIS? LATEST FDI DATA PROVIDE GLIMMER OF HOPE

The latest FDI data released by the OECD provide a glimmer of hope that the global FDI crisis that has accompanied the broader global economic crisis might be coming to an end.

After 5 quarters of steady declines, inflows for the second quarter of 2009 jumped 44%, while outflows remained stable. Inflows rose across all regions (see figures). Europe performed particularly well, with a second consecutive quarter of growth and a doubling of FDI inflows from $74 billion to $142 billion between Q4 of 2008 and Q2 of 2009.

This recent improvement in the situation is fragile however and highly dependent on a number of factors, including the continued commitment of the major economies to keeping their markets open to FDI. Indeed, given the magnitude of the sharp declines for both inflows and outflows in Q1 (-35% and -25% respectively), FDI flows in the first half of 2009 are still sharply down over the first and second halves of 2008 (see table). Therefore, unless the most recent quarterly uptick can be sustained, the current trend supports our previous forecast for sharp declines in both inflows and outflows in 2009 as a whole, with inflows on track to tumble to $600 billion and outflows to dip below $1 trillion (see Investment News Issue 10, June 2009).

For further reading on this topic: www.oecd.org/daf/investment

OECD FDI inflows and outflows, 2008-2009 ($ billions)

<table>
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<tr>
<th></th>
<th>Inflows</th>
<th>Outflows</th>
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<tbody>
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<td>Total OECD</td>
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* Data exclude Special Purpose Entities.
Source: OECD International direct investment database.
OECD FDI inflows and outflows, 2007-Q2 2009
by geographical zone ($ billions)

Source: OECD International direct investment database.
The OECD has been working with governments and international organisations to help end the global economic crisis and lay the foundations for a stronger, cleaner, and fairer global economy. Co-organised with UNCTAD, this year’s Global Forum will focus on what governments can do to ensure that international investment is an important part of the solution for achieving these objectives.

Call for papers - Participating governments and other stakeholders are invited to submit their proposals for written contributions. Accepted contributions will be included in the GFII documentation. Submissions should be addressed to Michael Gestrin [Tel: +33(0)145247624 michael.gestrin@oecd.org].

For further information: www.oecd.org/investment/gfii-8

GLOBAL FORUM preliminary programme

DAY 1
- Opening high-level plenary: Beyond the Crisis: International Investment for a Stronger, Cleaner, Fairer Global Economy
- Session 1.1. Outward investment from emerging markets in a time of crisis
- Session 1.2. Unlocking investment potential in Africa
- Session 1.3. Special lecture on exploring the interface between responsible business conduct and corporate governance: lessons from the Japanese experience

DAY 2
- Session 2.1. Foreign investment and national security: future challenges to a balanced approach
- Session 2.2. Investment policy challenges and priorities in Latin America
- Session 2.3. Promoting responsible international investment in agriculture
- Special plenary consultation on the Review of the OECD Guidelines for Multinational Enterprises

AFRICA

Ministerial Meeting on mobilising resources for growth and innovation
Expert Roundtable on boosting investment in energy and carbon financing in Africa

Eighty percent of Africans lack access to electricity. This constrains both human development and economic growth across the continent. Yet the development of carbon finance mechanisms and innovations in renewable energy technology have resulted in a range of new incentives for investors. On 11-12 November, African and OECD ministers and high-level officials will join industry chiefs in Johannesburg, South Africa, to look at how investment reforms can take African countries through the current financial crisis and beyond, and expand Africa’s access to energy. Discussions will make a timely contribution to the United Nations Framework Convention on Climate Change talks in Copenhagen in December this year.

The conference will focus on what African countries can do to channel domestic and international resources into productive investment, research and innovation, to increase Africa’s growth and export diversification. Discussions will notably focus on how to make tax work for development, and how to deepen financial markets.

Innovative policy papers and country-specific analysis will serve as background for discussions involving high-level political actors, the private sector, development partners and technical experts. All sessions will be results-oriented, aiming to catalyse concrete actions at country, regional and international levels. A final report will include policy recommendations and proposals for action.

The conference will also launch the most comprehensive and up-to-date stock-taking exercise on African Infrastructure – the Africa Infrastructure Country Diagnostic (AICD) study. The project has been carried out jointly by the African Union, African Development Bank, Development Bank of Southern Africa and the World Bank.

For further information: www.oecd.org/daf/investment/africa