BUILDING PROSPERITY THROUGH INVESTMENT:

A COMMON APEC/OECD AGENDA

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APEC 2005 Investment Opportunities
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Introduction

Dear Dean Hwang, Professor Mundell, distinguished representatives from APEC economies, business leaders, ladies and gentlemen.

I would like to thank the Government of Korea for inviting me to this important event and for the opportunity to address the APEC business community. I learned during my first visit here several years ago that Busan is twinned with my home city Montreal and, from a personal viewpoint, I am delighted to be back in this city. Moreover, Busan is a very appropriate location for holding this event – this is a city that has an attractive investment climate, diverse investment opportunities and that has successfully integrated itself into the global economy.

Building prosperity, in both OECD and non-OECD economies, is at the heart of the OECD's mission, reflecting every governments desire to improve the well-being of its citizens. And as you are well aware, you cannot sustain increases in well-being without investment. There are many challenges that need to be met, in order to attract foreign direct investment (FDI). One challenge is to put in place the right policies, but another is to ensure effective implementation of such policies. Incidentally, I should emphasise that these challenges apply equally to attract investment from domestic savings, which is where the bulk of investment capital is to be found in all countries.

Let me offer an example to show this point. Foreign investors require security. They must be assured that should an enterprise in which they have invested fail, they will have actionable rights against the assets of that enterprise. This means public policy must include appropriate bankruptcy and insolvency laws. But laws are not enough. There must be effective and timely execution of bankruptcy procedures through a transparent and fair judicial process. The OECD, incidentally, can help countries in both respects, namely the design of laws and the necessary mechanisms for their implementation.

However, even the right policies and their effective implementation (in other words the establishment of a pro-investment policy climate) are not always enough to attract investment, and something more is needed. I will return to the "more" in a moment.

APEC economies are major players

First, I would like to say a few words on the APEC economies, and on our increasing co-operation with the APEC.

The APEC economies have become major players; the eyes of the world are focused on this region and its economies. This is hardly surprising. The organisation's 21 members account for nearly 60% of world GDP, almost half of world trade and more than a third of the world's population.

I note in passing that I deliberately use the term “economies”, because it is worth reminding ourselves that – notwithstanding more economic integration – major differences persist between the region's economically mature countries (most of which are members of the OECD) and the other rapidly industrialising APEC economies in Asia and Latin America.

Expectations for the APEC region are high. Certainly the Asian APEC economies are no strangers to strong economic growth. The five Asian Tiger economies grew by almost 9 per cent per year in the 1980s and early 1990s. Recently, attention has turned to China whose GDP growth is close to 10 per cent per year and according to our recent economic review seems set to continue at that pace for some time, provided the right policy mix is in place.

Many APEC economies are now broadly recognised as major players in the global economy. The challenge facing APEC is how to retain this extraordinary dynamism and ensure it extends to the APEC region as a whole. It is evident that private investment from within the OECD will be important in meeting that challenge, as will the unlocking of savings within APEC countries and applying them to productive purposes.

OECD and APEC have much in common and much to share

Any strategy designed to meet this challenge should draw upon the experience of others. In this context, the OECD and APEC have a lot in common and much to share. Notwithstanding our different membership, geographical focus and working methods, the two constituencies share the same values, pursue similar objectives, and make agreements on the basis of consensus. Moreover, seven of the Members of APEC are also members of the OECD and contribute close to 60% of the OECD budget.

OECD and APEC Cooperation is expanding

Returning to the subject at hand, the OECD and APEC already co-operate in several areas besides international investment. These other areas include taxation, regulatory reform, fight against corruption, promoting good corporate governance, digital economy, trade facilitation, and developing small and medium-sized enterprises.

Specifically on investment, a recent example of OECD/APEC co-operation was a joint seminar held in Chile last year. At this event, we discussed and shared our understanding of key obligations in investment agreements. And I am happy to see that a second OECD and APEC investment seminar has been organised in the context of this conference.

I realise that there is no need to elaborate on the importance of FDI with this audience. Today there is a broad consensus that increased world investment brings new opportunities for raising living standards worldwide. A recent OECD study indicates the order of magnitude. It suggests that every percentage point increase in the share of private investment relative to output, that is to GDP, leads to a permanent increase in per capita incomes of about 1.3 per cent. But FDI, as opposed to domestic investment, also brings benefits in terms of diffusing knowledge, technology and know how as well as management expertise.

China provides an interesting example of how a country may benefit from FDI at various stages of its development. Initial inflows were essentially focussed on labour intensive sectors, benefiting from the low wages on the Chinese mainland. As the economy developed and became more competitive, more "global" money started to arrive, to partake in the economic boom of eastern China and gain access to the huge domestic market. In the last few years China has been approaching America as the foremost destination for FDI: China received 114 billion USD in the 2003 and 2004, compared with 151 billion USD received by the United States.

Attracting private investment through good policies

I return to the challenges I mentioned at the outset. To attract FDI there must be the right policies, the right implementation of those policies and more. I have already given a concrete example of the importance of implementation in the area of bankruptcy. I will leave the "more" until my conclusion and for a few moments I will focus on the Policy Framework for Investment (PFI) developed by the OECD in the wake of the Monterrey Consensus.

As you will recall, the Monterrey Consensus – signed by all of our governments three years ago – attaches central importance to fostering private investment through sound policies. It recognises the need for a broad and coherent strategy to attract and reap the benefits of investment and calls upon governments to pursue macro-economic stability; to fight corruption; to promote healthy competition; to follow more open trading relationships within the context of the Doha Development Agenda; to establish fair and efficient tax systems; and to put in place frameworks for good public and corporate governance.

The Policy Framework for Investment: a tool to advance the Monterrey Consensus

Translating the principles of Monterrey Consensus into practice is the objective of the PFI. The Framework draws on OECD experience and analysis, and finds that the most effective way to realise the full potential of investment is to put in place a range of policies needed to attract and sustain business sector development.

The PFI is best described as a tool that can assist countries to benchmark their policies for investment against broadly accepted international practices. It highlights ten domains that, beyond stable macroeconomic conditions, have a strong bearing on the investment environment. These are: investment policy; investment promotion and facilitation; trade policy; competition policy; tax policy; corporate governance; corporate responsibility; human resource development; infrastructure development and financial services; and public governance.

More than 50 OECD and non-OECD countries are, through a taskforce of government representatives, involved in the development of the PFI. Thanks to this collaborative approach, based on extensive regional consultation in every continent, the PFI can be adapted and made relevant to the specific legal and cultural circumstances that exist in countries at different levels of development.

Each of the policy areas considered under the PFI comes with a "checklist" of probing questions to test for quality and coherence, based on OECD and non-OECD experiences as well as established principles embodied in international instruments, including the OECD Declaration on International Investment and Multinational Enterprises.

How the PFI can be put into use was one of the topics addressed at the Global Forum on International Investment held in Rio de Janeiro last month, which I attended. A number of options were identified. These included using the PFI as a tool for conducting whole-of-government country self evaluations; as a basis for peer policy dialogues in the context of regional investment initiatives, with OECD support and in partnership with the World Bank and other organisations; and as an organising principle for aid donors' investment programmes. All these uses would help develop policy building capacity, facilitate a speedier consensus towards good policy practices and help to create more even, more transparent and a more attractive environment for investment.

APEC, with its diversified membership and experience with peer dialogue, is an ideal partner for co-operation with the OECD on the PFI initiative. That is why the second OECD and APEC investment seminar, organised in the context of this conference is important.

But it takes more than policy and indeed even more than effective policy implementation to attract and retain FDI. An investment climate is fragile. Moreover, it is trying to appeal to investors in a highly competitive globalised world. The ability to attract investment can be affected by externalities beyond the control of governments and by internal problems that may drive investors to look for more stable environments.

What better example than our host country Korea. Its performance has been spectacular in so many ways, including its stunning recovery from the financial crisis of 1997-8. Yet the latest figures (from 2002) that we have on FDI stock as a percentage of GDP, shows that Korea ranks 24th out of 30 OECD countries. Why so low?

There are two reasons often cited for its seeming inability to attract the levels of FDI its policy framework would seem to warrant. First, labour relations have worried foreign investors, and second they can be put off by the continuing challenge of North Korea. Fortunately, both of these problems seem to be on a more favourable track than previously, so perhaps we will now witness more substantial inflows of FDI to this country. Nevertheless, Korea up to now is a very good illustration that investment flows depend on more than good policies and their implementation.

Another challenge for many countries is the relatively small size of their economies, combined with their lack of access to larger markets. This is why the trade agenda, and the successful completion of the Doha Round, is so important. It is obvious that Slovakia would not be developing as a major source for automobile production without unfettered access to the European Union and other markets. That is also why smaller economies such as Chile have seized every opportunity to enter into free trade agreements on a bilateral basis. If the Doha Round should fail, multilateralism in trade may be put on hold, and we will see even more bilateral and regional agreements as we witnessed in the wake of the Seattle debacle. While better than nothing, these agreements do not provide the same incentives for FDI in production facilities which would reap the benefits of global trade opportunities.

As I conclude, I would remind you of a famous film, Field of Dreams, where a farmer in the State of Iowa became convinced that if he were to build a baseball stadium in the middle of what was a cornfield, baseball would come. “If you build it, he will come” is the phrase that became well known. Apart from some of the extraneous factors I mention above, this is also largely true for investment: build the right investment climate and they (the foreign investors) will come. And, just like in the world of real estate, this is especially likely when you also enjoy “location, location, location” as you do in this dynamic APEC region.

Thank you very much.