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International Investment Perspectives:
Freedom of Invesment in a Changing World
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Chapter 1

International Investment – Working Together for Common Prosperity

by

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International investment and the policies underpinning it stand at a crossroads, and as I see it policy makers face at least three major challenges.

First, in a number of OECD countries concerns about international investment and in particular foreign takeovers of national enterprises are on the rise. Policy makers must find ways of addressing public concerns without yielding to protectionist pressures and throwing away the benefits of decades of work to create an open, rules-based international investment environment.

Second, the increase in cross-border corporate investment is part of a larger picture of international specialisation and the emergence of major new players in the global economy, which has contributed to an extended period of exceptional growth and rising prosperity. But policy makers in OECD and emerging economies need to work together to ensure that the public continues to support the open markets that deliver these benefits by fostering greater transparency, a level playing field and effective international co-operation.

Third, harnessing international investment for combating poverty remains an urgent priority. While an increasing number of developing and emerging economies have benefited from international integration, many of the poorest countries especially in Africa, have been left behind.

Strengthening and safeguarding achievements

International investment flows in and out of OECD countries have grown spectacularly in recent decades, underpinned by a widespread commitment to liberalisation. Over the last 20 years FDI from OECD countries has grown twelvefold, compared with a fourfold increase in exports. The creation of a single European market, new regional agreements such as the North America Free Trade Agreement and a multitude of new bilateral investment treaties involving the majority of the world's countries are visible evidence of this commitment.

At the same time national authorities need to respond to a growing number of public concerns, including fears over the loss of control over "strategic" industries, access to raw materials as well as the broader consequences of cross-border competition in a globalising economy. Regulation has been tightened recently in a number of countries, and public interventions have in some cases been used to deter foreign investment. This new challenge to the freedom of international investment flows must not be allowed to undermine the confidence of economic actors and the determination of public authorities to manage the global economy to the benefit of all.

It is not too late to respond. The top priorities are, first, to demonstrate convincingly to our citizens the benefits of an open international investment environment. The benefits include more opportunities for employment, higher incomes and more innovation in all countries, as well as a more stable and secure international environment. Secondly, there is a need to build and sustain trust and co-operation among governments through dialogue on concrete policy challenges, shared principles and values.

OECD is at the forefront of these efforts. Since the start of the Organisation more than 40 years ago, it has been our mission to promote growth and development through an open and transparent investment and trade environment. Our member countries have made great progress in dismantling barriers and improving the treatment of foreign investors through policy dialogue, peer review and formal OECD agreements such as the Code *of Liberalisation of Capital Movements* and the *Declaration on International Investment and Multinational Enterprises*. More recently through a new project entitled *Freedom of Investment, National Security and "Strategic" Industries* OECD countries and other key players have begun to work together to ensure that past achievements are safeguarded in a changing international environment.

The integration of new players in the global economy

The last decade has witnessed the emergence of a new group of active outward investors domiciled in developing and emerging economies. In itself this is a cause for celebration, for it attests to the economic success of a number of countries and has generated tangible benefits throughout the global economy. At the same time, where the new outward investors are based in jurisdictions where regulatory frameworks lack transparency and standards for corporate behaviour are weak, a number of concerns about a level global playing field have arisen. Issues that keep coming up include the quality of corporate governance, standards for responsible business conduct, including in terms of employment conditions, human rights, the environment and the fight against corruption, the protection of intellectual property rights and the more general question of reciprocal market access.

The strategy of OECD is to engage a comprehensive dialogue with non-member economies, jointly addressing the issues of freedom of investment and the need to safeguard an inclusive and competitive international environment. The OECD is working with the governments of Brazil, China, India, Russia, South Africa and other countries to widen access to its consensus-driven approach to international co-operation, including through adherence to the investment instruments and membership accession.

Investment for development

While an increasing number of developing and emerging economies have benefited from international investment to integrate into the global economy, many of the poorest countries have been left behind. The African continent is a case in point. Private investment is currently focused on the limited number of sectors that yield high returns and the broader benefits of these investments are not widely distributed in African societies. Creating stronger policy frameworks for investment in Africa will lower risk premia, allow more investment to flow into a wider range of sectors and extend the benefits of investment.

The OECD's *Policy Framework for Investment* offers governments advice and a practical approach on how best to achieve this, based on the experience of OECD members and a large number of partners in the developing world. To assist in its implementation world wide, the Organisation co-operates with regional intergovernmental organisations such as NEPAD and APEC, and engages in regional investment capacity building initiatives including in the Middle East & North Africa and South-East Europe. The OECD development community working with the investment policy community have also adopted policy guidance to donors on using ODA to promote private investment for development.

At the same time, the OECD has responded to the United Nations' recent call for responsible investment in natural-resource rich African countries. The *OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones* provides guidance for companies operating in countries where governments are unable or unwilling to assume their regulatory and other responsibilities.

The governments of developed countries are challenged to make the most of their development assistance, including by using it to leverage private investment for development. An area where this is particularly pertinent is the need to attract private investment in the infrastructure sectors. For example, in order to meet the Millennium Development Goals in water supply and sanitation, investment in developing countries needs to be doubled from its current annual levels. The costs to the public purse of undertaking this investment purely in the public domain would in many cases be prohibitive. An open investment environment combined with appropriate regulation and protection of property and other human rights will allow public authorities, business and citizens to work together to meet essential human needs. A recent OECD recommendation, the *Principles for Private Sector Participation in Infrastructure,* offers advice to authorities when deciding on private involvement in infrastructure and maximising its benefits to the host society.

OECD in the 21st century

The area of investment is in many ways indicative of the broader OECD approach to international policy co-operation and decision making. Good public policies are needed to take full advantage of the globalisation process, to maximise the benefits while at the same time ensuring that they are fairly shared. The Organisation's rigorous analysis and peer learning methodology contribute directly to the design and implementation of good policies. The OECD is, and must remain, the world's hub for the dialogue on global issues.

Exercising this role effectively implies adaptation and responding to new challenges. The OECD has decided to embark on a process of enlargement and enhanced engagement involving important players in the international economy which will contribute to more openness and better representation. Moreover, at a time when national governments are "losing the monopoly of policy decisions", as I expressed myself in an address to the last OECD Ministerial Meeting, the OECD will engage more actively with a broad range of stakeholders. The call on the OECD to serve as a platform for the new dialogue between the G8 and the O5 countries, including Brazil, China, India, Mexico and South Africa is just another important indication for the potential of the Organisation to contribute to more structured efforts of international policy co-operation.