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GLOBAL INVESTMENT ACTIVITY STAGNATES INTO 2010

The most recent monthly data on global merger and acquisition (M&A) activity through February 2010 (figure 1) and OECD FDI inflows and outflows through the third quarter of 2009 (figure 6) paint a picture of caution and persistent sluggishness.

The average monthly M&A activity in the past 12 months was just under US$50 billion. The last time monthly M&A activity fell below US$50 billion was in April 2006. Year-on-year, global M&A activity is now at its lowest level since the beginning of the global economic crisis, at around 35% of the levels reached two years ago (March 2007 through February 2008).

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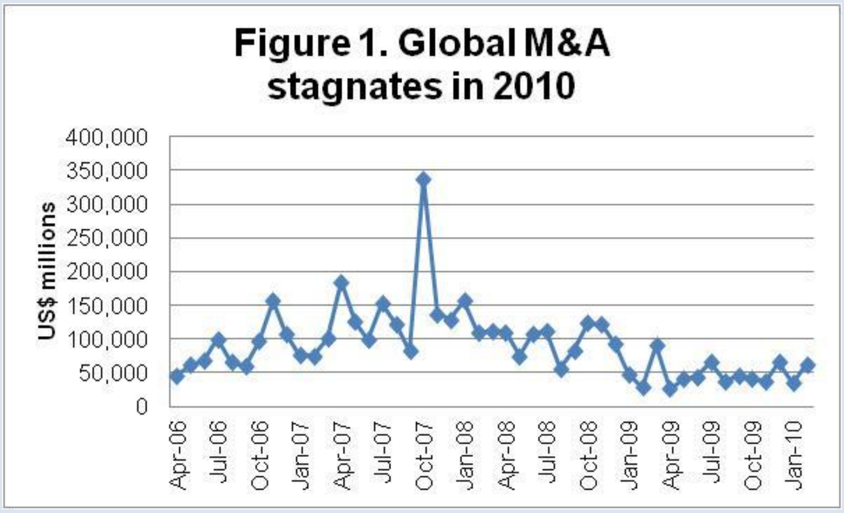

Source: Dealogic.

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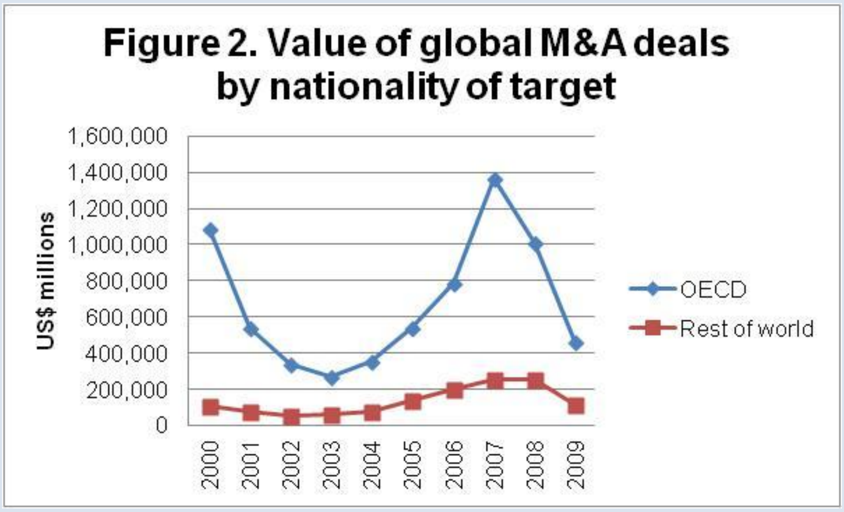
GLOBAL INVESTMENT ACTIVITY STAGNATES INTO 2010 continued…

The declines in international investment activity during the crisis have been concentrated in the OECD area (Figure 2). After the peaks reached in 2007 (US$1.6 trillion in FDI inflows, of which around US$1.4 trillion in inward M&A), international investment into the OECD area has declined by almost 70% over the past 2 years. This compares with a decline in international investment inflows of around 55% for the rest of the world. Global M&A activity according to the nationality of the acquirer shows a similar pattern.

International investment into the OECD area has declined by almost 70%



Source: Dealogic.

The global economic crisis has resulted in a collapse of international investment activity, but has not significantly changed the geographic distribution of international investment location between the OECD and the rest of the world (figure 3). The general trend over the past decade has been for more international investment to locate outside of the OECD area, but after a doubling of the non-OECD share during the economic crisis of 2001-2003 from around 10% to 20%, the distribution of international investment into the OECD area and the rest of the world has stayed constant at a ratio of around 80/20.

Investors based in non-OECD countries now account for 25% of international M&A activity, up from 4% in 2000

In contrast, changes to the distribution of global sources of international investment have been more pronounced during the global economic crisis. In 2000, 96% of international M&A activity originated from OECD countries. By 2007, just before the crisis, this share had declined to 84%, and tumbled further during the ►

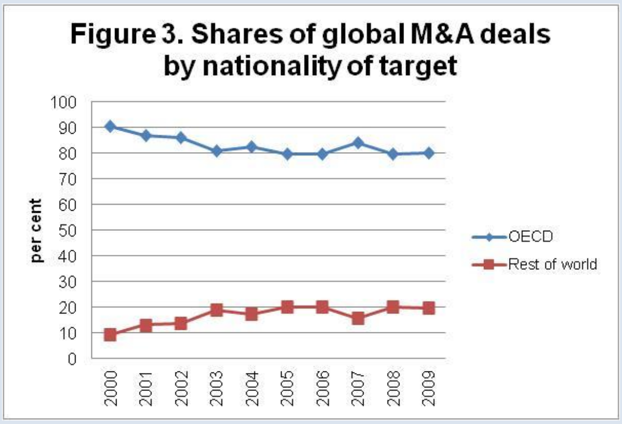
India and Viet Nam talk about their investment policy reviews

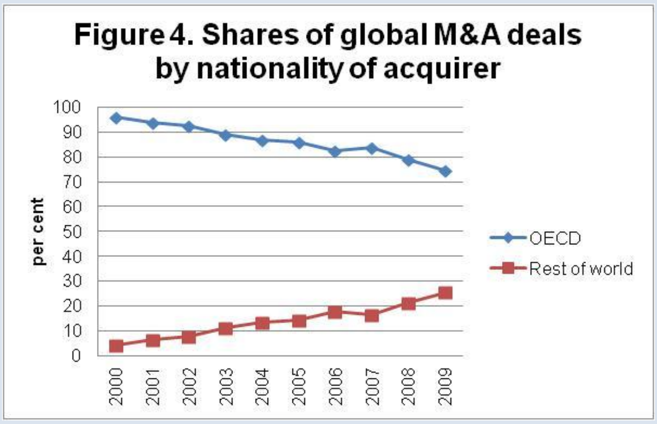
"It was desirable to subject our policy to a review by an international body like the OECD, a group of developed economies of the world, which would provide an opportunity to secure international recognition of India's progress in improving the investment environment and support future investment reform plans."

Anand Sharma, Minister of Commerce and Industry, Government of India, at the New Delhi launch of the OECD investment policy review of India

"The investment policy assessment of Viet Nam based on the Policy Framework for Investment constitutes a special effort by the Vietnamese government to revisit its investment strategy… It is our wish that the co-operation between Viet Nam and the OECD continues to expand in the forthcoming future."

Vo Hong Phuc, Minister of Planning and Investment, Government of Viet Nam, on the OECD investment policy review of Viet Nam



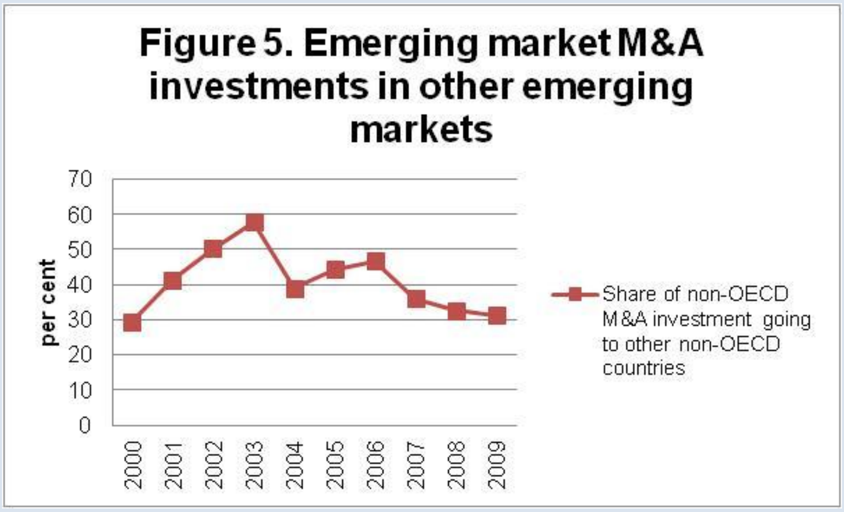


Source: Dealogic.

crisis to 75% in 2009 (figure 4). Investors based in non-OECD countries therefore now account for 25% of international M&A activity, up from 4% in 2000. This dramatic increase in international investment from the non-OECD area has meant that for the past 3 years non-OECD countries have played a more important role as sources of international investment than they have as hosts for international investment in the global economy.

The growth of international investment from emerging economies described above has been identified as an increasingly important trend in investment globalistion. In addition, south-south international investment has also been identified as an area of growing activity.

70% of M&A investment from emerging economies flows to developed economies



Source: Dealogic.

However, the trend for south-south M&A investment is sharply down. Figure 6 shows the share of international M&A investment originating from non-OECD countries going to other non-OECD countries. Since 2003, this share has been cut in half, falling from 60% in 2003 to 30% in 2009. From a development perspective, this trend will be viewed with disappointment given the hoped for potential of south-south investment to reach many developing countries that have traditionally not received sufficient international investment to meet their development objectives. ■

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

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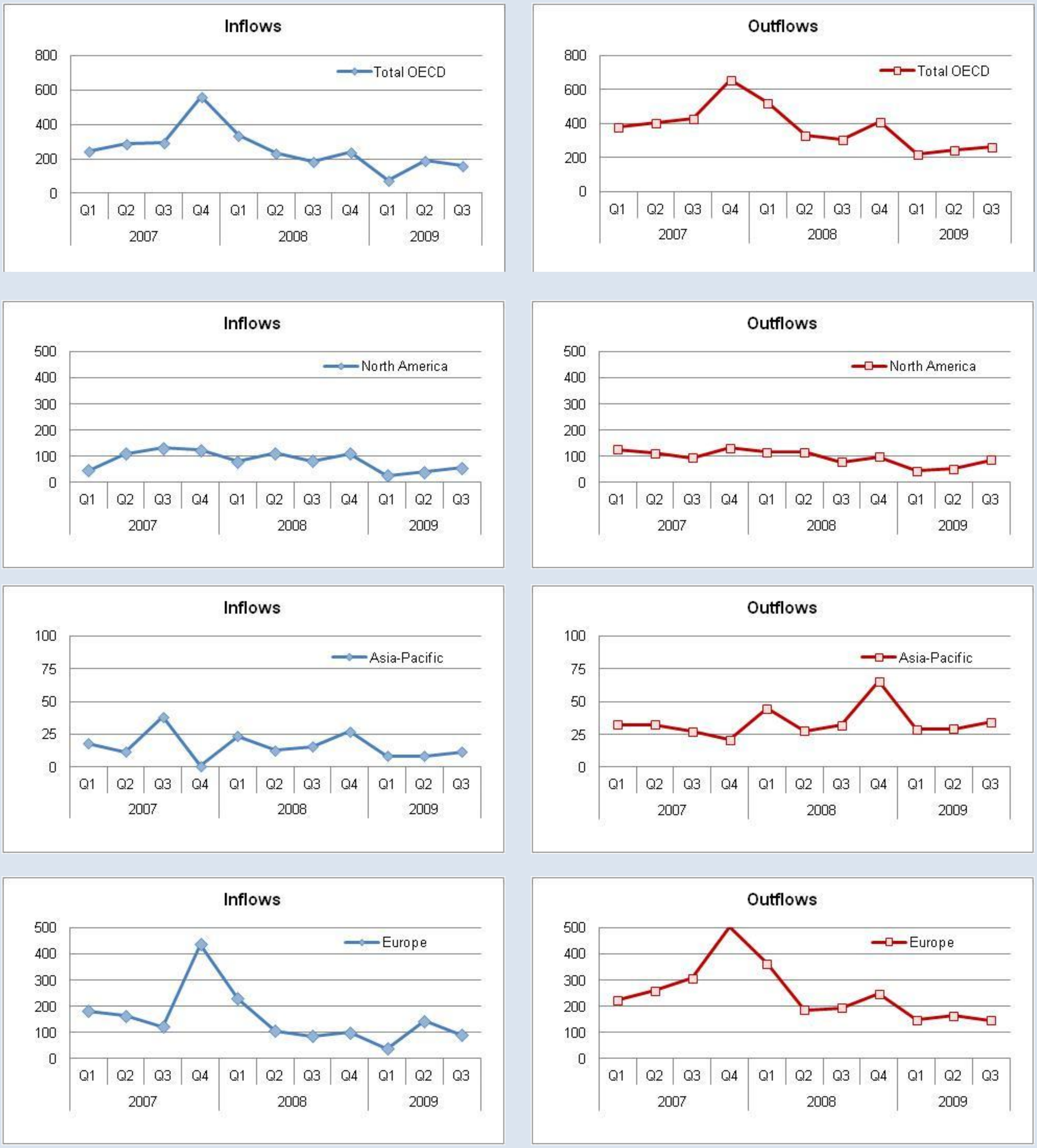
Figure 6. OECD FDI inflows and outflows, 2007 Q1 - 2009 Q3
by geographical zone (US$ billions)



Source: OECD International direct investment database.

ANALYSIS

CHINA EMERGES AS STRONGER INTERNATIONAL INVESTMENT PLAYER WHILE INDIA FALLS BACK

Brazil, China, India, Indonesia, Russia, and South Africa (the BRIICS) have emerged as major players shaping global investment patterns over the past decade. Before the global economic crisis caused international investment to the emerging economies to collapse in 2009, these countries almost tripled the amount of international investment they received in the form of mergers and acquisitions (M&A) between 2000 and 2008. With respect to outward investment, these countries collectively accounted for only $7 billion in outward international M&A in 2000 but increased this figure to $111 billion in 2008, an average annual increase of just under 200% over 8 years.

The global economic crisis brought this spectacular international investment performance to an end in 2009. However, not all countries were affected in the same way, as the divergent experiences of India and China illustrate.

Figures 1 and 2 show India's inward and outward M&A investment respectively. Each graph depicts the absolute value of M&A investment, as well as India's share of M&A investment among the BRIICS.

India's share among the BRIICS tracks closely the absolute values of its inward and outward M&A investments. This symmetrical pattern underscores the extent to which India has suffered a double impact from the global economic crisis. First, it has experienced the global slowdown in international investment activity. Second, its share of international investment going to the emerging economies also shrank drastically, going from 28% to 13% for inward M&A investment and from 39% to 4% for outward M&A investment between 2007 and 2009.

Figures 3 and 4 show the same data for China. In this case, we see that although China's absolute values of M&A investments decline, its share of international investment to and from the BRIICS climbs, sharply in the case of outward investment. Between 2007 and 2009, China increased its share of international M&A investment into the BRIICS from 25% to 40% and its share of outward M&A investment from the BRIICS from 17% to 60%.

The divergent international investment paths China and India have followed these past two years suggest that the crisis is not just causing a cyclical reduction in international investment, but is also bringing about structural change to global investment patterns.■

Figure 1. India's inward M&A investment

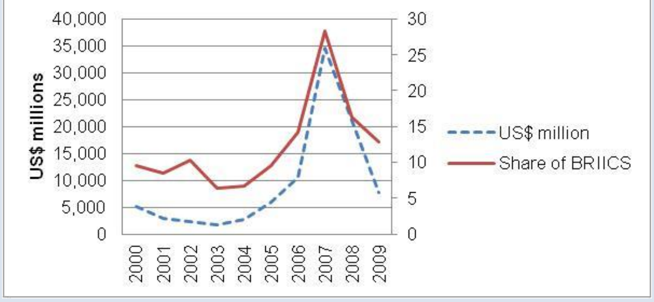


Figure 2. India's outward M&A investment

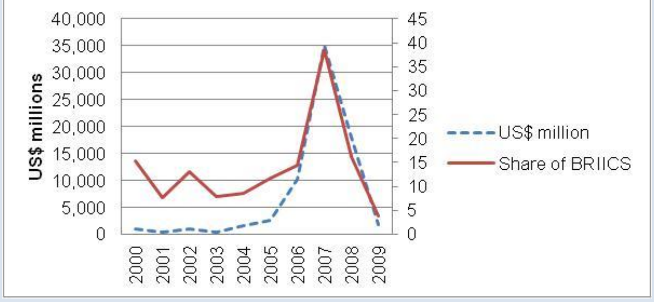


Figure 3. China's inward M&A investment

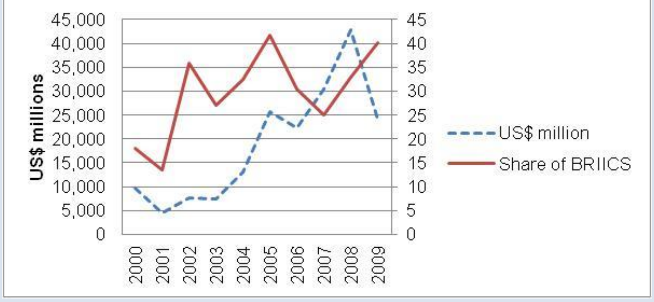
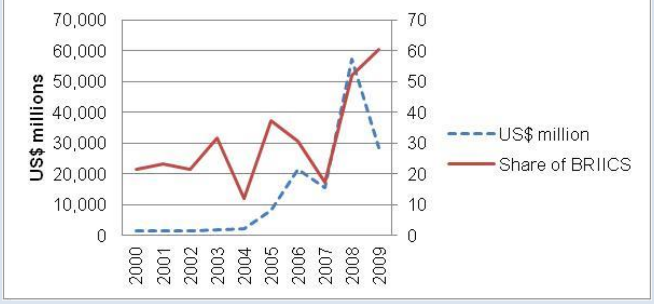


Figure 4. China's outward M&A investment



Source: Dealogic.

INVESTMENT LIBERALISATION

OECD, WTO AND UNCTAD RENEW CALLS TO G20 TO RESIST PROTECTIONISM

In their second combined report on G20 Trade and Investment Measures, the three organisations find that most G20 members are holding to their commitments to open trade and investment in the wake of the global economic crisis. However, they say protectionist pressures may continue to gather force in the face of job losses and high unemployment.

> **Openness to international investment is a precondition for a strong global economy, job creation, and innovation.**
>
> *Angel Gurría, OECD Secretary-General*

The OECD, co-author with UNCTAD of the report's chapter on investment, says there was no open discrimination against foreign investors in the six months to mid-February 2010, but warns that discretion in the application of the many state support and rescue programmes for troubled firms may be used to favour domestic companies and disguise protectionism.

Strengthening countries' resistance to protectionism

The report cautions that the holdings acquired by governments as a response to the crisis may jeopardise governments' impartiality in policy making and law enforcement. Government ownership and rescue of firms may also distort and protract restructuring of economic sectors. It also notes that recent G20 investment measures have continued to point towards greater openness and clarity for foreign investors. The OECD's own investment instruments strengthen countries' resistance to protectionism.

OECD Secretary-General Angel Gurría said: "Openness to international investment is a precondition for strong global economy, job creation, and innovation. The OECD will continue to monitor investment policy developments closely."

Monitoring trade and investment policy developments

The leaders of the G20, which comprises the world's largest economies, committed to resist protectionism and promote global trade and investment at summits in November 2008, in April 2009 and again in September 2009. They mandated WTO, OECD and UNCTAD – the leading international organisations in the area of international trade and investment policies – to monitor policy developments and report publicly on these commitments.

This second report to G20 leaders covers measures taken or announced by G20 members between 1 September 2009 and mid-February 2010. The previous report was issued ahead of the G20 Summit in Pittsburgh in September 2009.

Under its Freedom of Investment process, the OECD has stepped up monitoring of investment policies to match the heightened risks of protectionism triggered by the crisis.■

Access the reports and learn more about the Freedom of Investment process:
www.oecd.org/daf/investment/foi

CAPITAL CONTROLS AND THE OECD CODES OF LIBERALISATION

Recently, a few countries have introduced or tightened capital controls. Some others have debated – but so far refrained from imposing – new controls. Two countries relaxed restrictions on capital outflows.

Controls can have a role in difficult situations but also entail risks. The OECD's long-standing view is that temporary capital controls can play a role as last-resort measures when adjustments to macroeconomic and exchange rate policies and prudential safeguards are insufficient to deal with serious balance-of-payments difficulties or financial disturbance. But controls should be designed and implemented in a way that minimises distortions on long-term investments and ordinary business activities. Adoption of controls could lead other affected countries to adopt them as well. The OECD warns against widespread adoption of controls as they could aggravate global imbalances and compromise economic recovery. ►

International co-operation is essential. The OECD agrees with the IMF's recent position paper that an inter-governmental framework governing the re-imposition of controls is helpful in managing possible cross-country spillovers. The Code of Liberalisation of Capital Movements has provided members with such a framework since 1961.

OECD rules do not prohibit capital controls but neither do they encourage them. Under the OECD Code, members undertake binding liberalisation, non-discrimination and transparency commitments. The Code allows for derogations to liberalisation obligations if the economic and financial situation justifies such a course of action. But it imposes time limits on such derogations and asks members to avoid unnecessary damage to others. The Code does not apply its standstill obligation to liberalisation of short-term capital flows. Notifications and examinations of the countries introducing capital controls by their peers ensure that measures are implemented in a transparent and fair manner and are not maintained longer than necessary.

Current state of play in OECD countries. Today, no OECD countries maintain capital controls, with the exception of Iceland which introduced controls in November 2008 during the financial crisis. Iceland is now phasing these controls out. None of the five countries currently in process of accession to OECD maintain capital controls.

OECD hosts a co-operation forum open to all major emerging economies. Adherence to the OECD Codes of Liberalisation is open to non-OECD countries. Furthermore, the Freedom of Investment Roundtables in which OECD, non-OECD G20 and other countries participate as equal partners provide a forum in which recourse to capital controls and their effects can collectively be monitored and lessons learnt from national experiences can be shared among governments. Future Roundtables will consider the development of investment policy principles for crisis measures relevant to capital controls, drawing on the OECD Codes and other sources of international law.■

For further reading on this topic:

Codes of Liberalisation
www.oecd.org/daf/investment/instruments

Freedom of Investment process
www.oecd.org/daf/investment/foi

BUSINESS AND THE GUIDELINES FOR MULTINATIONAL ENTERPRISES

OECD Secretary-General calls on business to support the Guidelines for Multinational Enterprises

At a conference organised by the U.S. Council for International Business on 10 March, OECD Secretary-General Angel Gurría urged business to support the Guidelines for Multinational Enterprises and to actively participate in consultations on an update:

"The OECD Guidelines for Multinational Enterprises encourage enterprises to integrate business ethics into their decision-making. Leading business associations have supported the implementation of Guidelines. Just recently, they engaged actively with the OECD to apply the Guidelines to the development of guidance on managing investments with transparency and integrity in conflict zones and fragile states.

An update of the OECD Guidelines starting in 2010 will provide an opportunity to discuss how to increase their relevance and help enterprises to use them more effectively. The process will include inputs from non-OECD G20 members and other interested parties. This will help advance consensus on a global standard for responsible international business and promote a level playing field between international investors. The update of the OECD Guidelines for Multinational Enterprises is a key opportunity for business to contribute to the development of this consensus."

In addition, Mr. Gurría called upon governments to support innovation and green growth as a basis for a sustainable recovery.

Access the full text of the speech.

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

INVESTMENT POLICY REVIEW

INDIA NEEDS TO CUT RED TAPE, SPEND MORE ON INFRASTRUCTURE IN ORDER TO BOOST GROWTH

India needs to strengthen and liberalise its regulatory framework and invest more in infrastructure in order to attract increased foreign direct investment (FDI), according to the OECD's first investment policy review of India.

This investment policy review says India has designed policies to encourage investment as part of market-oriented reforms since 1991 that have paved the way for improved prosperity.

"Restrictions on large-scale investment have been greatly relaxed. Many sectors formerly reserved to the public sector have been opened up to private enterprise. Import substitution and protectionism have been replaced by an open trade regime," the OECD report notes.

But further reforms are needed. India's policy framework for FDI still remains restrictive compared with most OECD countries. Meanwhile, its investment needs remain massive, with poor infrastructure holding back improvements in both living conditions and productivity.

Launching the report with India's Minister of Commerce and Industry, Anand Sharma, in New Delhi, OECD Secretary-General Angel Gurría praised the progress achieved so far.

(left to right) Anand Sharma, Minister of Commerce & Industry, Government of India; Ajay Shankar, Secretary, DIPP, Ministry of Commerce & Industry, Government of India; and Angel Gurria, OECD Secretary-General, at the presentation of the India Investment Policy Review. New Delhi, India.

"India's FDI performance and progress in the past year has been particularly strong, even in a very tough global environment," he said. "This is a vote of confidence in India."

But more needs to be done so that all of India benefits from needed investments. "One of the major challenges facing India is to take advantage of economic growth to reduce the gap between rich and poor," Mr. Gurría said. "While national economic growth has been impressive, the gap between the richer and poorer Indian states has widened. This trend needs to be reversed through measures at both the national and state level."

What needs to be done

The Investment Policy Review of India lists a series of recommendations to achieve these objectives. Among other things, it recommends:

- further relaxing restrictions on inward FDI in sectors such as banking, insurance and retail trade
- regularly reviewing remaining FDI restrictions in other areas to ensure that their costs do not outweigh their expected benefits.
- developing a system of comparable FDI statistics for States and Union Territories as a basis for cross-State monitoring of FDI performance.
- strengthening corporate transparency and responsibility to align India more closely with internationally-recognised standards and practices.

For further reading on this topic:

Investment policy review of India
www.oecd.org/daf/investment/india