FDI liberalisation in OECD and selected non-member countries: Trends and recent developments

Stephen Thomsen

Senior Economist, OECD

Outline

- OECD FDI Restrictiveness Index
  - FDI liberalisation over time for OECD members and selected non-member countries
- New developments in the investment policy landscape
  - Emergency measures during the global crisis
  - New actors on the scene: sovereign wealth funds, emerging market investors
  - Freedom of Investment process
  - OECD-UNCTAD monitoring for the G20

OECD FDI Restrictiveness Index

- Origins
  - Increasing emphasis on measurement for policy reform
  - OECD product market regulation indicators
- What does it measure?
  - Statutory restrictions: exceptions from national treatment pre- and post-establishment
- What is not covered?
  - How or whether measures are implemented: institutional quality
  - National security

FDI Index: Sources of information

- Reservations under the OECD Code of Liberalisation of Capital Movements
- Exceptions under the OECD National Treatment Instrument
- Other sources
  - OECD Investment Policy Reviews
  - WTO Trade Policy Reviews
  - National legislation
  - Other private and official sources

FDI Index: Methodology

- Four types of restrictions
  - Sectoral equity limits
  - Screening
  - Restrictions on key personnel
  - Other restrictions: land, capital repatriation, branches, reciprocity
- Weighting
  - Each restriction given a score based on an assessment of its importance
  - All sectors are assigned equal weights

FDI Index: Sectors

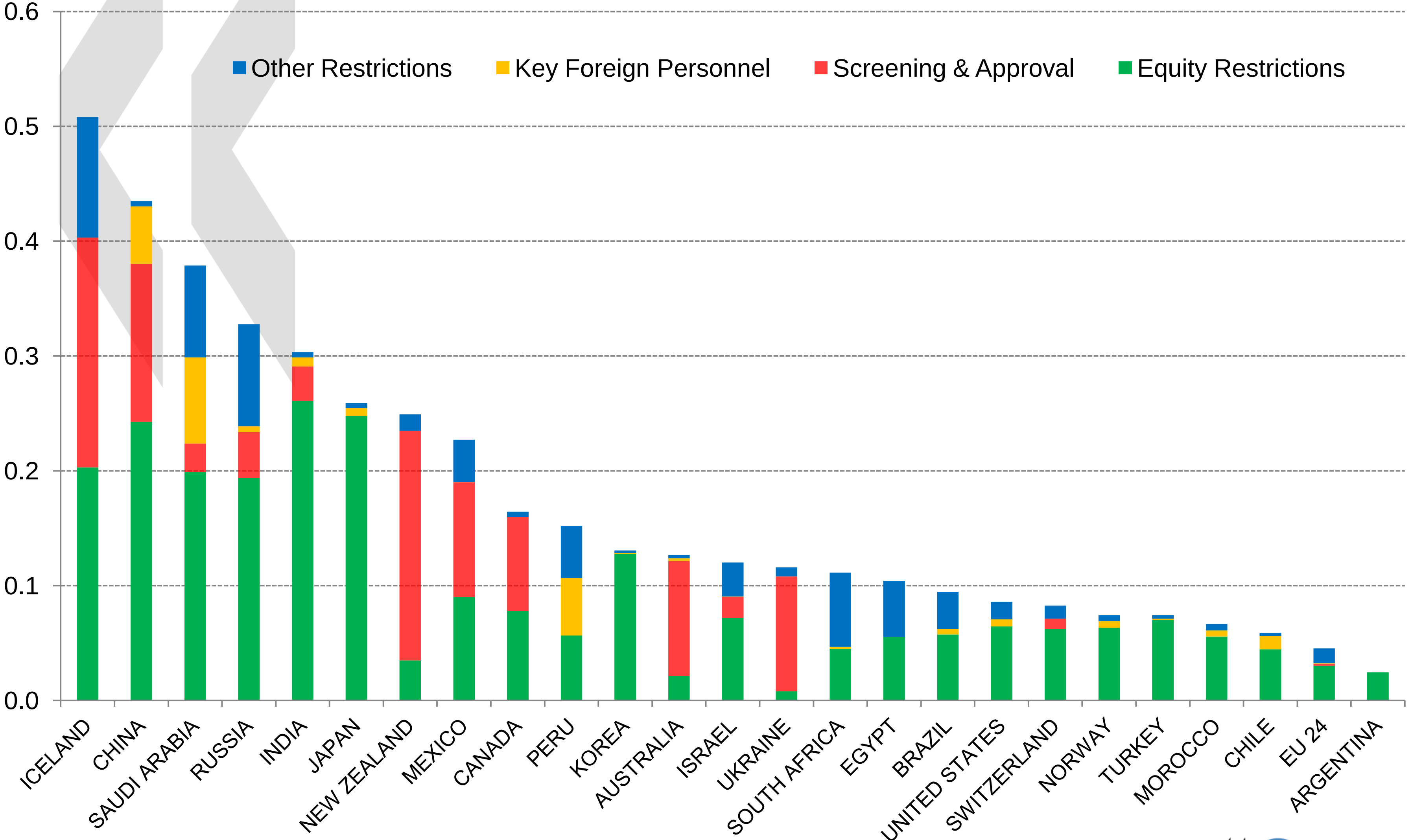
– Agriculture, forestry, fishing
– Mining & quarrying
– Manufacturing (5 sub-sectors)
– Electricity (generation, distribution)
– Construction
– Distribution (wholesale, retail)
– Transport (surface, water, air)
– Hotels & restaurants
– Information & communication (fixed & mobile telecoms, broadcasting, other media)
– Financial services (banking, insurance, other)
– Real estate
– Professional services (acctg, legal, architecture, engineering)

FDI Index: How can it be used?

- Relative restrictiveness of each country towards FDI
- Changes in restrictiveness over time
- Relationship between restrictiveness and FDI performance

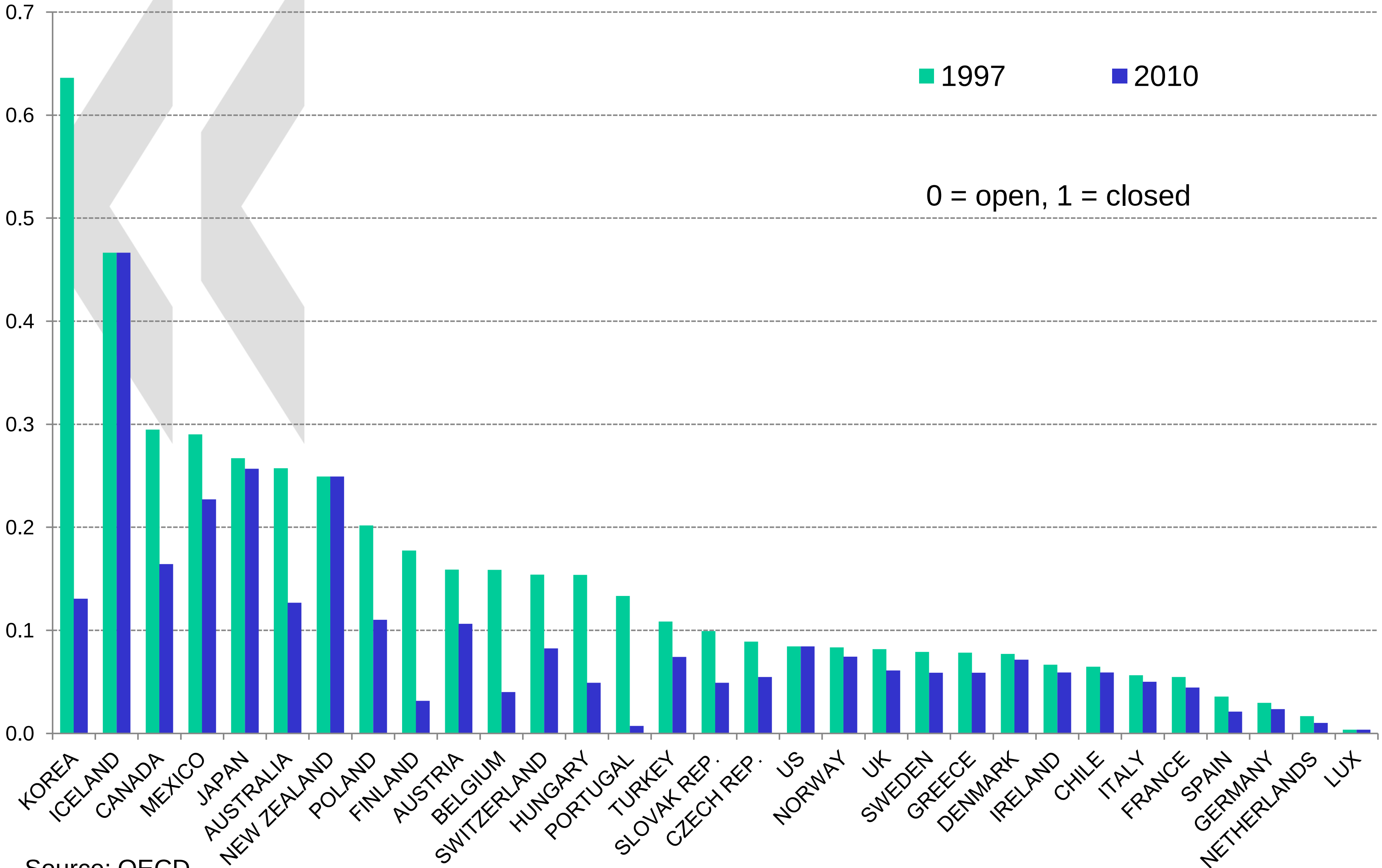
FDI restrictions by country & type of measure

(0 = open, 1 = closed)



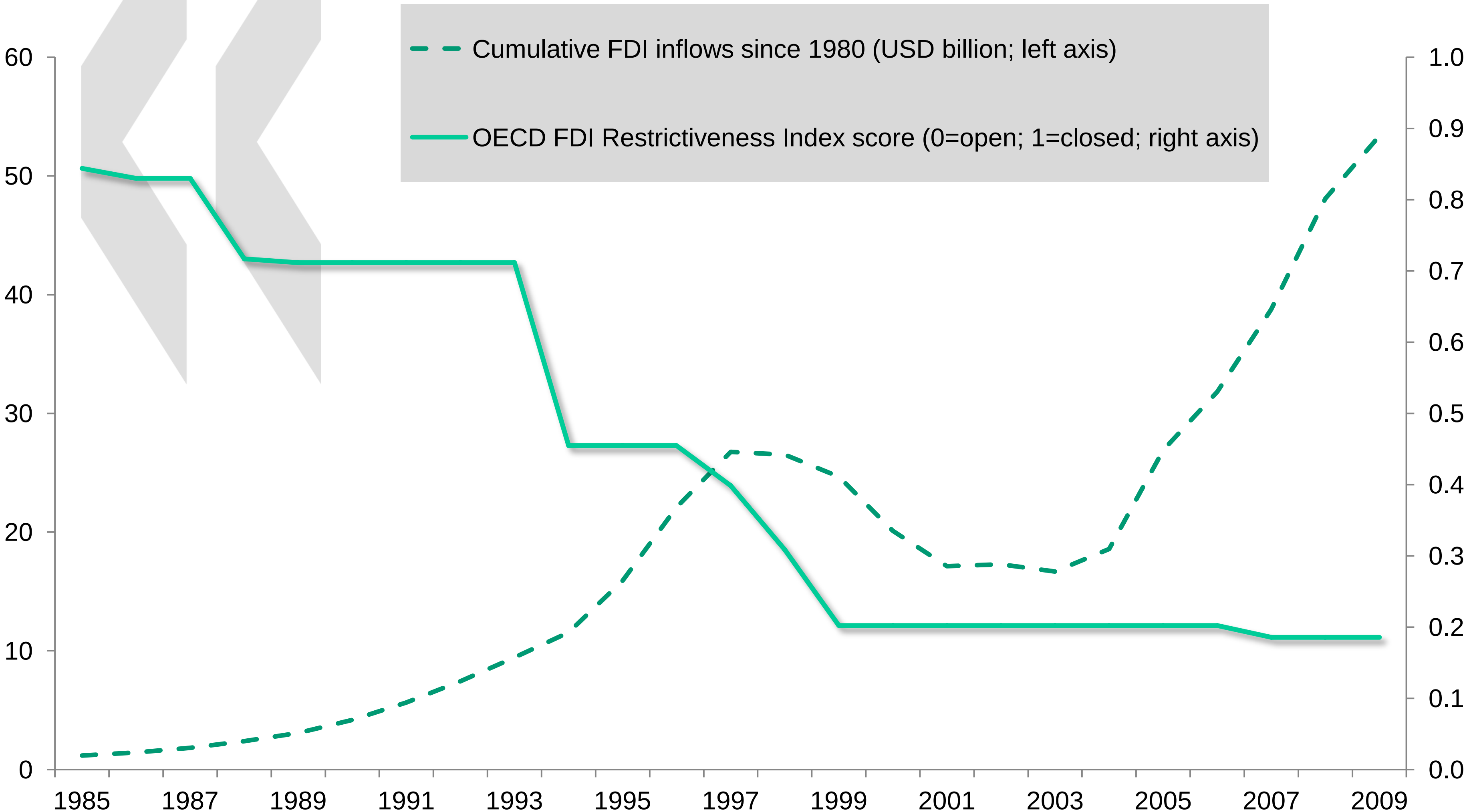
Source: OECD

FDI liberalisation in OECD countries, 1997-2010



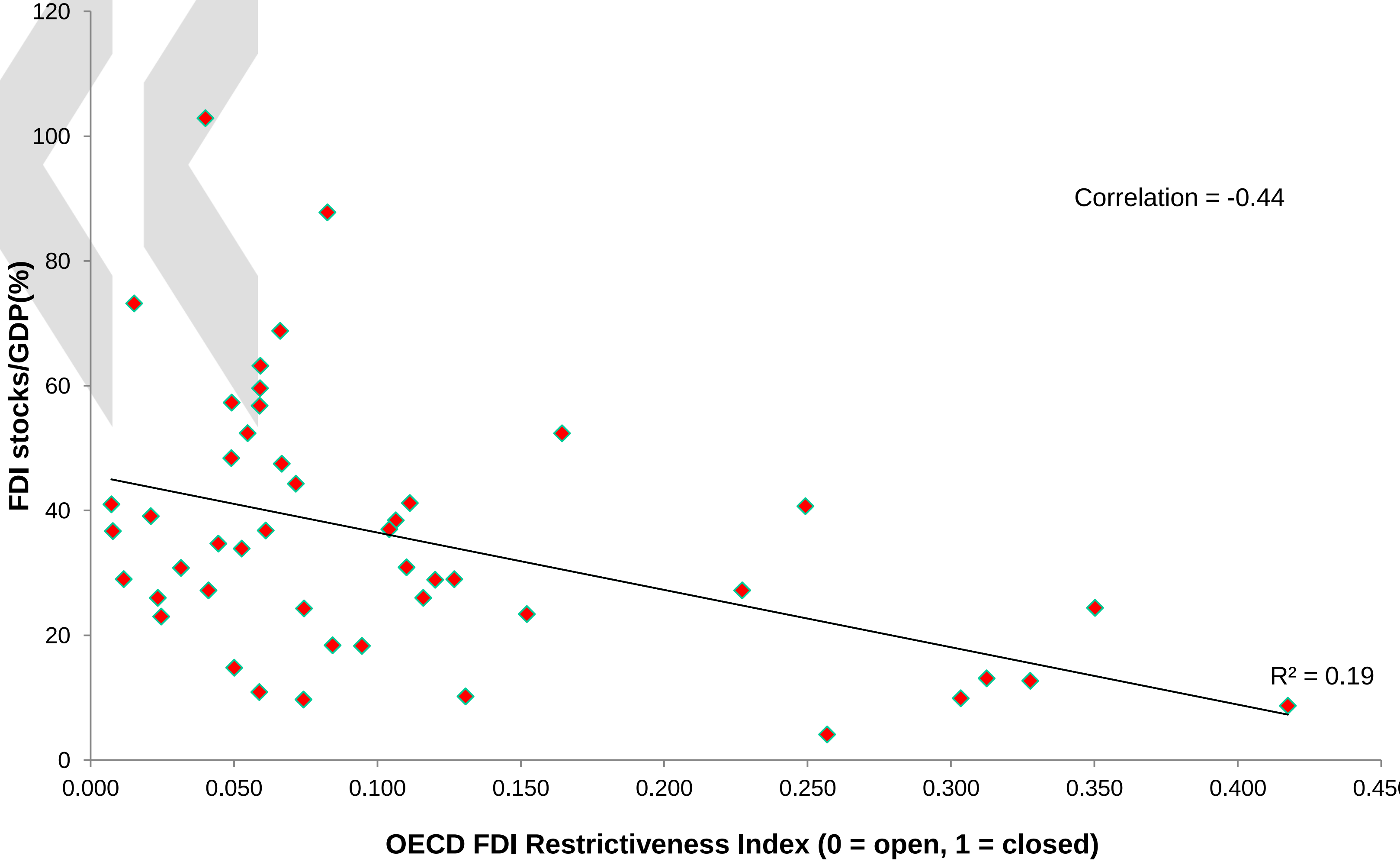
Source: OECD

FDI liberalisation in Indonesia, 1985-2009



Source: OECD

More open economies receive more FDI



Source: OECD, based on 31 OECD member countries and 16 emerging economies

The new investment policy landscape

- New or increasing concerns
  - National security
  - Access to energy and scarce raw materials
- New actors
  - Sovereign wealth funds, state-owned enterprises
  - Emerging market investors
- New sectors
  - Agriculture, green protectionism
- Strategic issues
  - Foreign takeovers in “strategic” industries
  - Protection of key technologies
- Global financial crisis
  - Emergency measures, exit strategies

Freedom of Investment process

Helps governments to reconcile the need to preserve and expand an open international investment environment with their duty to safeguard the essential security interests of their people.

- Launched at the OECD in 2006
- Broad participation: 50 governments, SWFs, international organisations, NGOs
- Roundtables, monitoring and reporting
- *Guidelines for Recipient Country Investment Policies Relating to National Security* (2008)
- *OECD Declaration on Sovereign Wealth Funds and Recipient Country Policies* (2008)

Investment policy monitoring for G20

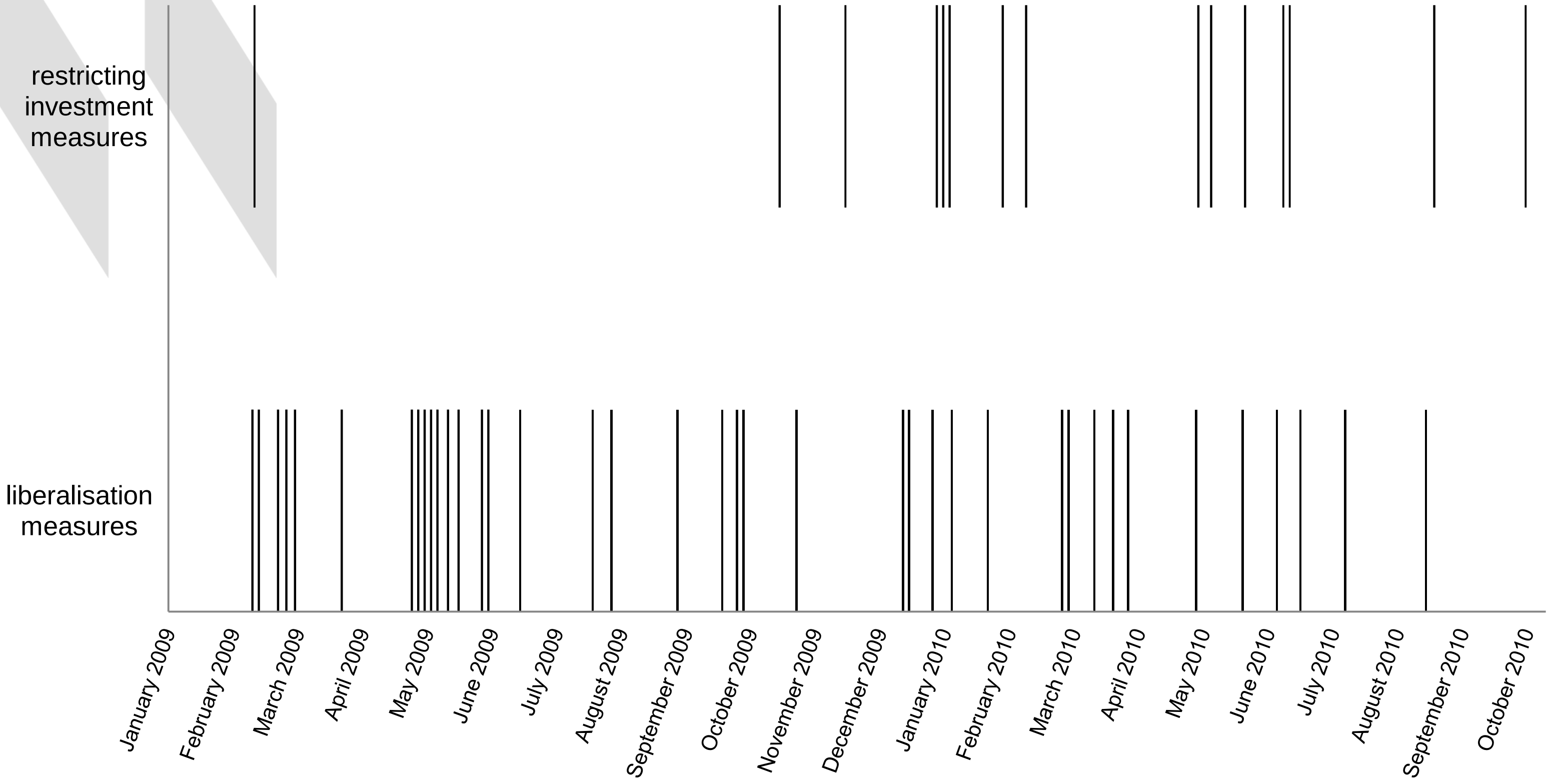
Measures introduced since April 2009

➢ Emergency measures	54
➢ National security	4
➢ Other investment policy measures	35
➢ International investment agreements	43

Conclusion

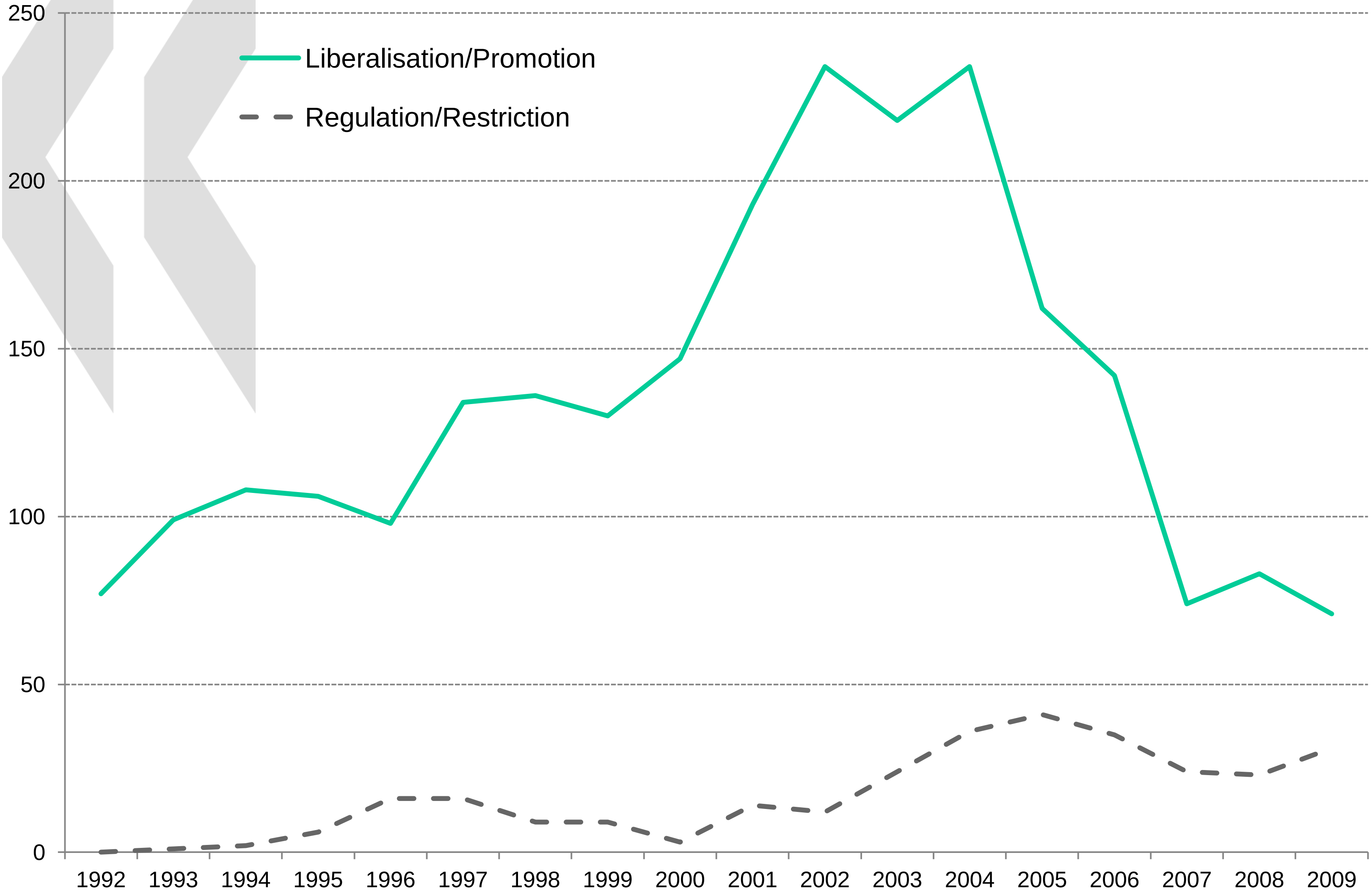
- *G20 members have largely honoured their pledge not to retreat into investment protectionism. On the contrary, most investment measures taken carry on the trend towards investment liberalisation and facilitation.*

Emergency measures by G20 countries
(January 2009 – October 2010)



Source: OECD

UNCTAD investment policy monitor



Source: UNCTAD

Conclusion

- The liberalisation trend continues, with no net deterioration as a result of the crisis.
- Crises are often accompanied by accelerated liberalisation – to restore bank solvency, rescue distressed companies and create jobs
- But there are no grounds for complacency
  - Macroeconomic imbalances, currency wars
  - Persistent high unemployment in OECD countries
  - Heightened role of governments in the economy