OECD – CUTS Roundtable
Foreign direct investment in transition economies: Challenges, Policies and Good practices

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RECENT OECD WORK ON INTERNATIONAL INVESTMENT AND MULTINATIONAL ENTERPRISES

Note by the OECD Secretariat

I. Introduction

1. The growth of foreign direct investment (FDI) in the past two decades has been spectacular, despite a recent declining trend over the past two years. FDI remains a powerful engine for promoting growth, development and poverty reduction at a time when levels of official development assistance (ODA) have declined, and the global economic downturn has resulted in increased competition for FDI among developing and transition economies. While some concerns have been expressed regarding the negative externalities sometimes attributed to FDI flows, a recent OECD study, *Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs*, concludes that on balance, the benefits FDI far exceed its potential drawbacks.

2. The OECD is paying increasing attention to maximising the benefits of FDI for development. The recent Ministerial Council Meeting in April 2003 noted that "at Doha, Monterrey and Johannesburg, OECD Members affirmed their commitment to promoting sustainable economic growth, achieving the United Nations Millennium Development Goals, and lifting many millions of people out of poverty" and in this context, supported a proposal from Japan for additional work on a strategy to promote investment in developing countries. This proposal includes the development of policy guidelines for attracting investment; the launching of a project on strengthening co-ordination between ODA and FDI; and work on transferring OECD know-how on investment policy peer reviews to other partners.

II. Role of OECD in International Investment

3. Since its creation in 1961, the OECD has been at the forefront in efforts to promote international investment as a catalyst for sustainable growth, development and poverty reduction. This has come naturally from OECD countries' importance as a source and destination of international investment flows – they still account for around 80 per cent of such flows. Over these years, the OECD has acted as a forum to foster co-operation aimed at encouraging transparent and non-discriminatory investment policies and practices of governments and at enhancing the positive contribution of responsible international business.

4. This OECD mission has been entrusted to the Committee on International Investment and Multinational Enterprises (CIME). Representing the investment policy community from the 30 OECD Member governments, CIME has expanded its co-operation with non-Members very significantly in the

recent past. The OECD Global Forum on International Investment (GFII), created under CIME sponsorship, addresses a variety of issues of mutual interest. The next annual GFII event will feature the theme of improving governance and transparency for investment.[1] Capacity building activities with investment policy authorities in developing countries and important analytical work on the development of FDI have been undertaken. In addition to the China and Russia programme, there are a number of regional initiatives, including for Africa, Asia, South-East Europe, the Black Sea, and the Caribbean Rim. This co-operation figures among the most dynamic outreach programmes of the OECD.

5. The Committee is the guardian of the instruments embodied in the 1976 OECD Declaration on International Investment and Multinational Enterprises. Argentina, Brazil and Chile, which have an observer status in CIME, have adhered to the Declaration. The other adherents are Estonia, Lithuania, Latvia, Slovenia and Israel and they participate as a result in related CIME work. More non-Member applications for adherence to the Declaration are in the pipeline.

6. The CIME has also given special attention to developing good co-operation with civil society. The revisions to the OECD Guidelines for Multinational Enterprises in 1999-2000 provided the opportunity to create a constructive dialogue with business, trade unions and NGOs. Since then, interested stakeholders have been participating in CIME Roundtables on Corporate Responsibility and in consultations back-to-back with National Contact Points (NCPs) annual meetings. They have also been regularly consulted on other FDI matters and invited to Global Forum and regional investment outreach events.

III. Recent activities

7. The OECD is a leading source of investment analysis and policy assistance. CIME's work programme falls into three categories: improving the international investment architecture; mobilising investment for development; and promoting corporate responsibility.

8. In the first category, on-going project topics include, among others, the following:

i) *Transparency*. Following the release in April 2003 of a general report on the benefits of public sector transparency for foreign investment and beyond,[2] CIME is working on the development of a framework of transparent investment policy practices. This framework is to help OECD and non-OECD governments as they conduct self-evaluation, wish to report on measures and engage in peer reviews. OECD work on transparency would also contribute to assisting WTO members in their discussions in Geneva.

ii) *Checklist on FDI incentives*. The Checklist, released by CIME in April 2003[3], serves as a tool to assess the costs and benefits of using incentives to attract FDI; to provide operational criteria for avoiding wasteful effects and to identify the potential pitfalls and risks of excessive reliance on incentive-based strategies. The Committee believes that careful

1. The first GFII held in Mexico in 2001 focused on New Horizons for International Investment, the second GFII on FDI and Environment: Lessons from the Mining Sector (Paris, February 2002) and the third GFII on Promoting International Investment for Development (Shanghai, November 2002).

2. See http://www.oecd.org/daf/investment.

3. See http://www.oecd.org/daf/investment.

evaluations of the Checklist and its application to considerations of investment incentives can have a positive effect in minimising potential harmful effects of incentives both for those that employ them and for other governments seeking to attract foreign investment.

iii) *Analysis of Key Obligations in Investment Agreements:* The proliferation of international investment agreements has led the Committee to engage in a discussion of the implications of the co-existence and reach of key investment treaty obligations, such as MFN treatment and investment protection. This analysis is being conducted on the basis of a compilation of factual elements of information based on legal literature, arbitral jurisprudence and state practices.

9. The second category includes projects related to FDI-development nexus such as:

i) *Foreign Direct Investment for Development.* This is the title of a major CIME report released in September 2002.[4] As noted earlier, this year's OECD Ministerial Meeting – devoted to the central theme of growth and development – provided support for follow-up work by the Committee to follow up on this work and to develop with non-OECD partners a shared strategy to promote investment in developing countries. As part of this strategy, CIME is launching, in co-operation with the Development Assistance Committee, a new project aimed at exploring the role of official development assistance in support of developing countries' efforts to attract FDI and maximise its benefits.

ii) *Country Investment Policy Reviews*. CIME assesses obstacles to attracting and maximising the full benefits of FDI, encourages their removal and recommends alternative, better policies to meet legitimate public interest concerns. These policy peer reviews have been carried out for all non-Member adherents to the Declaration and their results have been published.[5] The release of an Investment Policy Review of China is due for this month. A CIME peer review of Russia is considered for April 2004. Other non-OECD country peer reviews are also under consideration.

iii) *The South East Europe (SEE) Investment Compact* was launched to assist the region to build a sustainable market economy and create a favourable investment climate. Since the end of the Kosovo conflict, SEE countries have entered a new phase of relative political stability. Sustainable economic growth in this region is vital to ensure stability, but this in turn requires more private direct investment, not foreign aid. Although over the last two years the region showed encouraging signs of economic recovery, FDI inflows have remained low, at around US$ 4 billion in 2002, just half of FDI inflow into Poland for the same year. The Investment Compact assists SEE countries in designing and implementing more effective policies for attracting private direct investment. The programme has a regional approach, fostering co-operation, dialogue and joint action amongst SEE countries. The Compact works closely with private investors and it has developed with their inputs a monitoring system to keep close track over the pace and direction of economic reforms in SEE.

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4. See Foreign Direct Investment For Development: Maximizing Benefits, Minimizing Costs, OECD, 2002.

5. See OECD Investment Policy Reviews series, such as OECD Reviews of Foreign Direct Investment: Israel, 2002 and OECD Reviews of Foreign Direct Investment: Slovenia, 2002.

iv) *Africa Initiative.* In support of the New Partnership for Africa's Development and other efforts for Africa, the OECD is expected to launch in the autumn 2003 an initiative to enhance the investment policy capacity of African countries with the involvement of other international organisations and stakeholders. This initiative would begin with the preparation of a Discussion Paper on OECD's experience with investment and other peer reviews, which could lead to a pilot country review at a later phase. Initial results are expected for the spring 2004. The Africa Investment Initiative will be further developed in areas of common interest in view of an OECD roundtable with African partners later this year.

10. The OECD Guidelines for Multinational Enterprises represents the third building block of CIME's work. The third year of Guidelines implementation since 2000 review has been marked by a clear consolidation of gains. The Guidelines have figured recently in high level political declarations such as the G8 Summit's Declaration on "Fostering Growth and Promoting a Responsible Market Economy" of 3 June 2003. In addition, the G8's 2002 "Africa Action Plan" noted the importance of their effective follow-up and cited their role in the fight against corruption. Support for the Guidelines has also been expressed in the context of the G8 Finance Ministers' statement of May 2003.

11. The Guidelines are actively promoted by the adhering governments and the European Commission as well as by business, labour unions and NGOs. Today the Guidelines are available in least 23 languages and the number of web pages with discussion of the Guidelines is estimated at around 20,000. Since the 2000 Review of the Guidelines, over 30 "specific instances" have been raised. They concerned company practices, in OECD as well as non-OECD countries, in areas that go to the heart of the current debate on globalisation, including the social implications of resettlement plans associated with natural resource development, child labour and human rights issues.

12. As provided for in the implementation procedures of the Guidelines, the National Contact Points (NCPs) hold annual meeting since the 2000 Review - an occasion for NCPs to submit their annual reports and discuss among themselves activities associated with the Guidelines at a national level. The results of the NCPs' annual meetings and roundtables are published in the Annual Reports on the Guidelines.[6]

IV. Conclusion

13. The present international momentum for promoting investment in developing countries, new perspectives on the global investment architecture following Doha, and OECD Ministerial mandates on promoting corporate responsibility and investment for development will offer ample opportunities for the OECD to make a positive contribution in the international investment field. Moreover, as the geo-political and economic landscape evolves, OECD will continue to monitor new developments and adjust its work programme to meet to new demands of the international investment community and its partner economies.

6. The Annual Report 2002 on the OECD Guidelines for Multinational Enterprises is available on http://www.oecd.org/daf/investment/guidelines.