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*INVESTMENT FOR DEVELOPMENT:
FORGING PARTNERSHIPS*

Chairpersons' Conclusions from the OECD Global Forum on International Investment (GFII)

Overview

1. Investment, both domestic and foreign, is critical for sustained economic growth and poverty reduction. Developing a business environment that is conducive to attracting investment as well as maximising its contribution to economic and human development, requires the forging of effective partnerships— between developing and developed countries, between home and host countries, between governments, business and civil society, and between regional and international organisations.

2. Progress towards the Millennium Development Goals can be facilitated by such partnerships, which constitute a means of realising complementarities, synergies and cross-fertilisation. In this context, the GFII is a useful platform for discussing ways of forging such partnerships.

3. Mr. Dayanidhi Maran, Minister for Communication and Information Technology, India, indicated that the theme of the GFII *Investment for Development: Forging Partnerships* “was timely and appropriate in that we need to forge partnerships for increased investments for faster growth”. The keynote speech by Ms. Ma Xiuhong, Deputy Minister of Commerce, People’s Republic of China, stressed the vital role that foreign investment has played in China’s economic development.

Policy Framework for Investment

4. Minister Maran welcomed the OECD-supported process to develop the Policy Framework for Investment, a non-prescriptive operational checklist of issues in support of government efforts to create a healthy policy environment for investment, both domestic and foreign. The Policy Framework for Investment is also intended to help countries maximise the developmental benefits of investment, including through a constructive and open dialogue between OECD members and their partners.

5. Participants supported the nature of the project and noted that the work in progress was not a negotiation aimed at creating a legally binding agreement; rather, the Policy Framework would be a voluntary checklist that interested governments could utilise in the context of domestic policy reform, regional co-operation and international policy dialogue with regard to foreign and domestic investment.

6. The discussion on the relations/interactions between trade policy and investment and between competition policy and investment focused on key experiences and lessons, and identified the following issues to be considered in the next steps:

- On trade policy, it was recognised, from Indian and other participants' experience, that trade liberalisation and increased investment, both domestic and foreign, tend to go hand in hand.
- Participants recognised from the Indian example and from the perspectives of other participants that enhancement of investment will not be realised and not be sustained solely by trade liberalisation. It is recognised that investment is enhanced and sustained by coherence between investment-related policy areas such as trade liberalisation, infrastructure development, human resource development and human capital development. In this sense, policy areas proposed for coverage in the Policy Framework are consistent with the experience of India with broad-based policy reform for increasing investment.
- It is recognised that trade liberalisation can be a long-term process but the eventual gains and positive impact on investment is clearly observed from the Indian experience. Furthermore, India's experience clearly shows that the gains from liberalisation have been cumulative, with a rapid acceleration of exports over time with each successive round of reforms. It was observed that this acceleration of exports was dependent upon significant increases of productive capacity through investment and this investment has been encouraged by more open trade policies.
- As in the case of trade policy, it was recognized that competition policy is an important part of developing an appropriate environment for investment.
- Participants recognised the importance of promoting competitive practices as a means of increasing economic efficiency and, in particular, the efficiency of investment. In view of the limited investment resources available to developing countries achieving allocative efficiency is particularly important.
- In developing a competition policy three different stages often characterise the process depending on the level of development of each country. The first is the *policy formulation stage*. Many countries are at this stage, with some 80 countries having introduced new legislation since 2000. The second stage is the *implementation and enforcement stage* during which capacity building is crucial. Finally, there is the *international cooperation and exchange of information stage*. During this stage best practices and knowledge can be transferred between partners at different levels in their development of competitive policy.
- Participants also noted that developed countries, and international organizations could usefully support efforts to promote competitive practices through advocacy and research in anti-competitive practices.
- Finally, participants in the discussions agreed that the list of questions at the end of the Secretariat's background document represents a useful first step toward identifying the competition policy issues to be included in the checklist for the Policy Framework for Investment and encouraged the co-chairs to pursue this approach for other policy areas in developing the checklist.

7. The Co-Chairs of the Task Force (comprised of OECD and non-OECD government officials) which oversees the development of the Policy Framework encouraged participants to contribute to the further advancement of this work by taking an active part in the next stages of the project. The Task Force Co-Chairs will report upon the outcome of the GFII discussions to the OECD Investment Committee and its non-Member participants at its meeting in December 2004. A plenary meeting of the Task Force is scheduled for April 2005. Ahead of this meeting, further consultation of the Task Force will take place at an OECD Investment Policy Capacity Building Roundtable with NEPAD support scheduled in Uganda in March 2005.

Synergy between official development assistance and investment

8. Official development assistance (ODA) alone will not be sufficient to meet the Millennium Development Goals. Private investment – domestic and foreign – is key to growth and poverty reduction. ODA can play an important role by acting as a catalyst for investment. Investment cannot act as a substitute for ODA; to achieve the hoped-for results an adequate quantity and quality of ODA is prerequisite.

9. Synergies between ODA and private investment are achievable, as demonstrated by recent success stories. Development agencies can pursue synergies in at least three ways:

- Using ODA to help enhance a country's investment climate. Most discussants argued that regulatory reform, infrastructure and human capital are among the priority areas.
- ODA-backed public-private partnerships. Private investment, in utilities for instance, can be encouraged by using ODA to enhance the financial viability of projects. However, private investors have become less willing in recent years to engage in such partnerships.
- Using ODA to correct real market failures by helping to manage political and commercial risk. Some investors in developing countries have had to contend with types of risk not commonly borne by commercial operators. ODA could help in this respect.

10. Partnership and coordination are vital. This applies to almost all groups of stakeholders:

- Donor countries' domestic institutions. Often ODA/investment strategies would be more effective if they were more widely coordinated among the donor country's national authorities, including development finance institutions.
- Development agencies from different countries. Large projects are often coordinated, but for instance technical assistance can be uncoordinated and inefficient.
- Development agencies and companies. Agency representatives, in particular, stressed a need for more dialogue and better information from the corporate sector, both in the donor country and in the partner country.
- Development agencies and host country authorities. Donors could work in closer cooperation with those national governments that have shown a particular interest in enhancing their investment climate.

There is a good case for more evaluation of ODA's impact on private investment. Numerous aid programmes target key determinants of private investment (e.g. infrastructure; regulation), but no assessment of their impact on investment is made because their formal scope was not ODA/investment. Impact assessments that do acknowledge the ODA/investment angle are often found lacking or inconclusive because of the difficulties in making quantitative assessments.

Government and business roles in promoting corporate responsibility

11. Corporate responsibility has emerged as an important issue and a key component of international cooperation in the investment field. Home countries, host countries and multinational enterprises interact in many different ways. Expectations on corporate behaviour also vary across countries. At the heart of this debate is maximisation of foreign investors' contribution to economic, environmental and social development and the best ways to achieve it.

12. It was stressed that as major actors in this process -- home and host country governments and multinational enterprises -- have distinct and complementary roles to play in promoting corporate responsibility:

- Home governments have the responsibility of encouraging the positive contribution of their firms to the economic, environment and social welfare of the countries in which they operate.
- Host governments have the responsibility of ensuring that domestic and foreign firms abide fully by the laws and regulations which govern their activities while providing a policy environment capable of motivating investors to produce the economic and social benefits expected from them.
- Foreign firms must be good corporate citizens worldwide, contributing, to the extent they can, to the well being of the societies in which they invest.
- Civil society, including labour unions and NGOs, have also an important role to play in encouraging responsible business behaviour and positive and constructive actions on the part of governments and other players.

13. Integrating corporate social responsibility in the corporate agenda pays off in the longer run, notably in terms of increased competitiveness and more harmonious relations with governments and communities.

14. The OECD Guidelines for Multinational Enterprises is the only multilaterally agreed corporate responsibility instrument, adhered to by 39 countries representing the bulk of world outward FDI. It covers such diversified areas as labour relations, anti-corruption, taxation, the environment and consumer protection. Its objective is to build an atmosphere of confidence and predictability between all corporate responsibility actors. The Guidelines provide a constructive approach for the further elaboration of environmental and social standards by governments. The Guidelines are supported by implementation procedures.

15. While the adhering countries encourage the enterprises operating on their territories to observe the Guidelines wherever they operate and while these countries account for most of world's FDI, other countries may consider adhering to the Guidelines within the framework of the OECD Declaration on International Investment and Multinational Enterprises. Adherence will provide them with a privileged access to an influential capacity building forum and to a network of national contact points, one of whose basic functions is to address instances of non-observance to the Guidelines.

16. It was suggested that non-adherent countries could take advantage of the Guidelines in other ways. In particular, they could use the Guidelines in their relations with inward investors as well as an expression of their expectations as to the behaviour of their own investors abroad. They could collaborate with home country governments in providing information relevant to their enquiries on possible instances of non-observance of the Guidelines on their territories. They could also raise themselves specific instances of non-compliance with national contact points of adhering countries.

17. There was broad agreement that the subject of corporate responsibility and the Guidelines should continue to figure prominently in future GFII agendas. Participants noted that the next OECD Corporate Responsibility Roundtable will be dedicated to the subject of the application of the Guidelines in Non-Member countries. It was suggested that business roundtables could also be organised to discuss the Guidelines and share experiences between MNEs, local firms and other stakeholders on the application of corporate social responsibility standards.

Next GFII and themes

18. Participants welcomed that the GFII 2005 and 2006 would be hosted by Brazil and Turkey respectively and were invited to propose possible themes reflecting their priorities and interests.