WORLD ECONOMIC CRISIS:
INTERNATIONAL INVESTMENT POLICY CONTRIBUTIONS TO OECD ACTION PLAN

(Letter by the Chair of the Investment Committee)

On behalf of the Chair of the Investment Committee, his letter of 13 November 2008 to the OECD Secretary-General is reproduced in this document for the information of all Committee members. This letter was developed in consultation with the Bureau, building on the Committee’s PWB submission and the discussions at its meetings in October, as a contribution to the discussions at the meeting convened by the Secretary-General with OECD Committees’ Chairs on 14 November on OECD responses to the financial and economic crisis.

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Dear Secretary-General,

Thank you very much for inviting Committee chairs to discuss the proposed OECD Action Plan in response to the financial and economic crisis at a meeting on 14 November.

The Bureau of the Investment Committee has discussed how the Committee can best contribute to the OECD’s broader response to the crisis and wishes to share some initial views with you ahead of this meeting.

The Bureau fully supports the focus of the Action Plan [C(2008)191] on longer term, structural reforms and in areas where the OECD can add value relative to other international organisations. It strongly believes that international investment is one such area. G7 Ministers’ support for and the IMF’s public recognition of OECD work on recipient country policies towards SWFs at the October meeting of IMFC in Washington attest to the OECD’s ability to make distinctive contributions in this field.

The crisis brings both dangers and longer-term opportunities. One immediate danger is investment protectionism, which is already on the rise among both OECD and non-OECD countries. And protectionist pressures could further strengthen as corporate restructuring intensifies. The growing importance of non-OECD countries as sources of capital and the emergence of new classes of investors such as SWFs will also play a role. As the experiences of 1929 show, hostility against and restrictions on capital movements can amplify the severity of a crisis and retard economic recovery. Developing a better understanding of foreign investment’s role in overcoming the crisis and securing long term growth together with strong peer pressure under the Freedom of Investment process and strict monitoring of commitments under the OECD investment instruments will be vital to combating protectionism and its negative consequences.

On the other hand the crisis provides an opportunity to put the world economy on a more solid footing and to move forward on a positive agenda of strengthening confidence and trust in international investment. Governments and the business community need to establish a new social contract under which each side assumes more effectively its roles and responsibilities. While governments commit to non-discriminatory investment policies and well designed and carefully enforced regulatory frameworks, international business commits to operating with integrity and in harmony with host societies. Emerging economies are assuming a more prominent role in the global economy and it is the shared responsibility of OECD and non-member governments to maintain open and transparent investment regimes and high standards of responsible business conduct worldwide. In this way, OECD and non-OECD countries will reap the full benefits of economic interdependence. With its comprehensive and balanced approach to international investment and with many non-OECD economies already participating in the work of the Investment Committee, the OECD is uniquely placed to act as the focal point of these discussions. But efforts to maintain and enhance the engagement with China and other major emerging economies in the field of international investment need to be further strengthened.
The Bureau has identified the following deliverables in the context of the PWB 2009-10 as Investment Committee contributions to the OECD response to the financial and economic crisis:

- A Committee report on building trust and confidence in international investment. This report would be intended for discussion at the 2009 Ministerial. It will be based on findings so far from the Freedom of Investment process and will make proposals for moving the positive investment agenda forward. The preparation of this report will be moved up, with a first draft available next month.

- A Committee report updating all Members’ positions under the OECD Codes to ensure they live up to their legal commitments, including in respect to standstill and elimination of reciprocity. The finalisation of this report will be accelerated in order for its delivery to coincide with the release of the FOI report mentioned above in spring 2009.

- The topic of the next Global Forum on International Investment, currently scheduled for December 2009, will be “The world economy in crisis: Foreign investment as part of the solution or another victim?” The GFII will provide an ideal forum for in-depth discussions of the challenges facing the global investment regime and the way forward. Leading investment experts from around the world will be invited to submit contributions.

- The Committee’s proposed PWB 2010 includes a contribution to the OECD project on the Political Economy of Reform. Its topic has now been adjusted to “Keeping markets open to foreign investment in harsh economic times: Lessons from Fifty Years' Experience in the OECD and Past Crises”, and its preparation should be advanced to 2009.

- At this economic and social juncture, the concept of corporate responsibility seems more topical than ever - making the OECD Guidelines for Multinational Enterprises, one of the foremost international instruments in this field, even more relevant and work under the Guidelines all the more important. This includes (i) timely and effective follow-up to the recent joint statement by the OECD Investment Committee and the International Labour Organisation, (ii) co-operation with other organisations to promote business ethics in financial institutions, and (iii) (subject to funding) intensified engagement with emerging economies to promote responsible business conduct as part of OECD Investment Policy Reviews. Finally, the time may be ripe for an update of the OECD Guidelines which could be launched on the occasion of the 10th anniversary of their latest revision in June 2010.

I look forward to the discussions on 14 November.

Yours sincerely,

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cc: Investment Committee Bureau: Scholz (United States), Sone (Japan), MacKay (Canada), Nieuwenkamp (Netherlands), Canales (Mexico), Colmer (Australia), Igler (European Commission)