INVESTMENT NEWS
RESULTS OF THE WORK OF THE OECD INVESTMENT COMMITTEE

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IN THIS ISSUE

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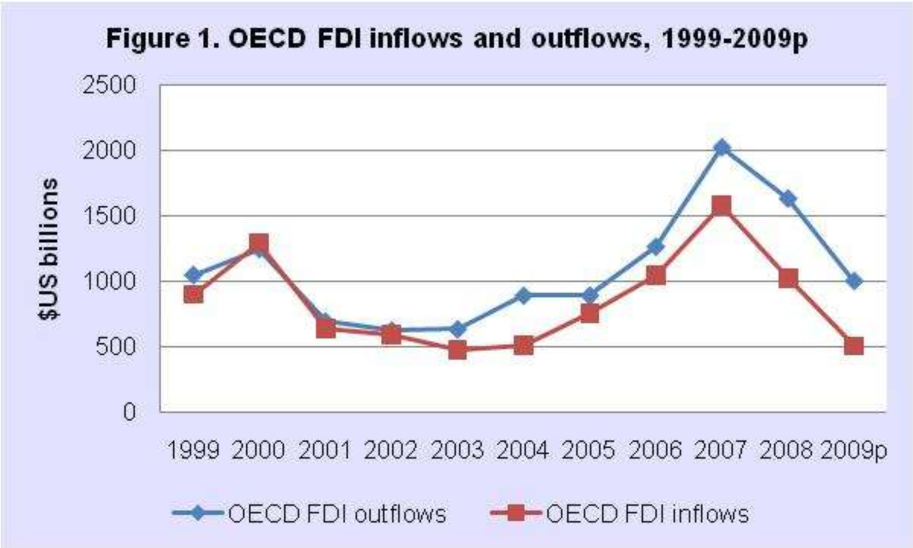
INTERNATIONAL INVESTMENT FLOWS COLLAPSE IN 2009

According to official OECD FDI statistics released today, OECD FDI inflows fell by 35% and outflows by 19% in 2008 (Figure 1 and Table 1). These declines were modest in comparison to the last major downturn in 2001, when OECD FDI inflows and outflows fell by 51% and 45%, respectively (see OECD Investment News, Issue 8, November 2008).

However, according to preliminary FDI data for 2009, the downward FDI trend accelerated in the first quarter of 2009, with FDI inflows declining by 50% and outflows by 40% from the fourth quarter of 2008 for the 17 OECD countries that have reported (Figure 2). If this rate of decline continues through 2009, inflows would fall to around $500 billion and outflows could dip below $1 trillion for the first time since 2005.

Continued on page 2



Source: OECD

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INVESTMENT NEWS

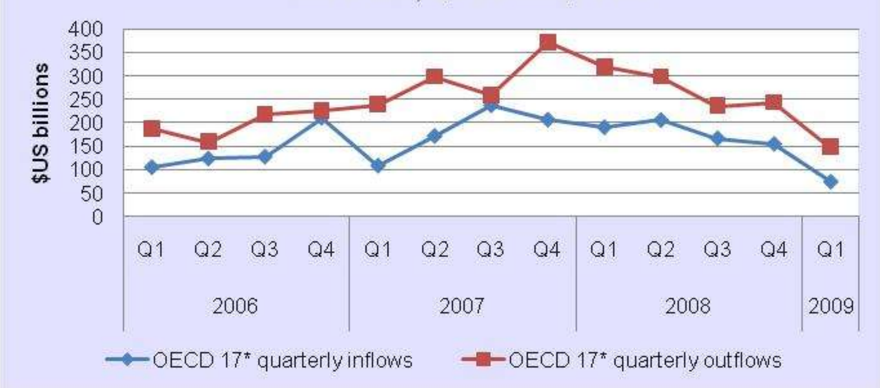


Figure 2. Quarterly FDI inflows and outflows for OECD countries*, Q1/2005 - Q1/2009

* Countries covered are: Australia, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Japan, Norway, Poland, Portugal, Spain, Sweden, Turkey, United States

Source: OECD

Table 1. OECD FDI inflows and outflows, 2007-2008 ($ US billions)

	Inflows			Outflows		
	2007	2008	% change	2007	2008	% change
Australia	44	47	7	17	36	113
Austria	30	14	-54	33	28	-16
Belgium	111	60	-46	94	68	-27
Canada	108	45	-59	60	78	30
Czech Republic	10	11	10	2	2	0
Denmark	12	11	-8	21	27	29
Finland	12	-4	-100	8	2	-79
France	104	97	-7	169	200	18
Germany	56	25	-56	180	156	-13
Greece	2	5	150	5	3	-40
Hungary	6	7	17	4	2	-50
Iceland	3	0	-100	13	-8	-100
Ireland	31	-12	-100	21	13	-36
Italy	40	17	-58	91	44	-52
Japan	23	24	4	74	128	74
Korea	2	2	0	15	13	-13
Luxembourg	186	80	-57	251	104	-59
Mexico	27	22	-20	8	1	-88
Netherlands	118	-9	-100	29	53	-83
New Zealand	2	2	0	3	0	-100
Norway	4	0	-100	16	28	75
Poland	23	16	-30	5	3	-40
Portugal	3	4	33	5	2	-62
Slovak Republic	3	3	0	0	0	0
Spain	69	65	-5	139	77	-44
Sweden	22	40	83	38	40	6
Switzerland	49	17	-65	50	86	72
Turkey	22	18	-18	2	3	50
United Kingdom	183	96	-48	276	110	-60
United States	276	320	16	399	332	-17
Total OECD FDI flows	**1583**	**1021**	**-35**	**2024**	**1631**	**-19**

Source: OECD

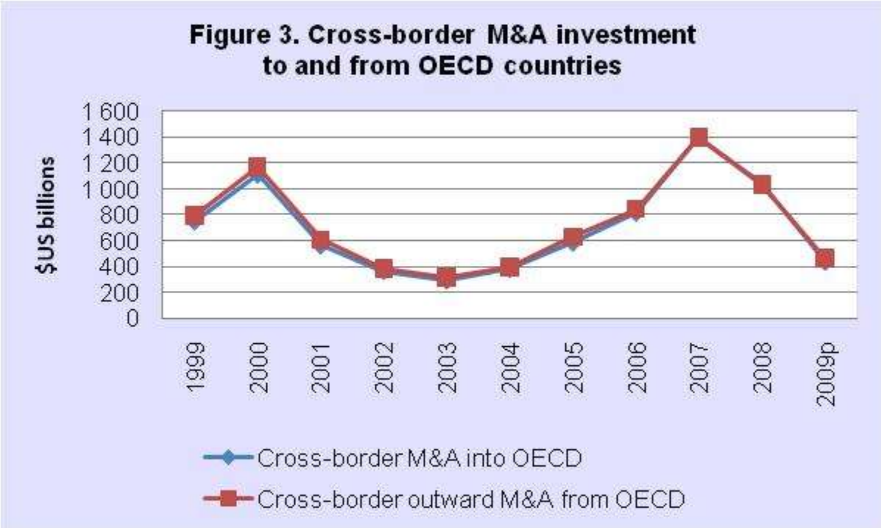
International M&A activity in the OECD could decline by 60% during 2009

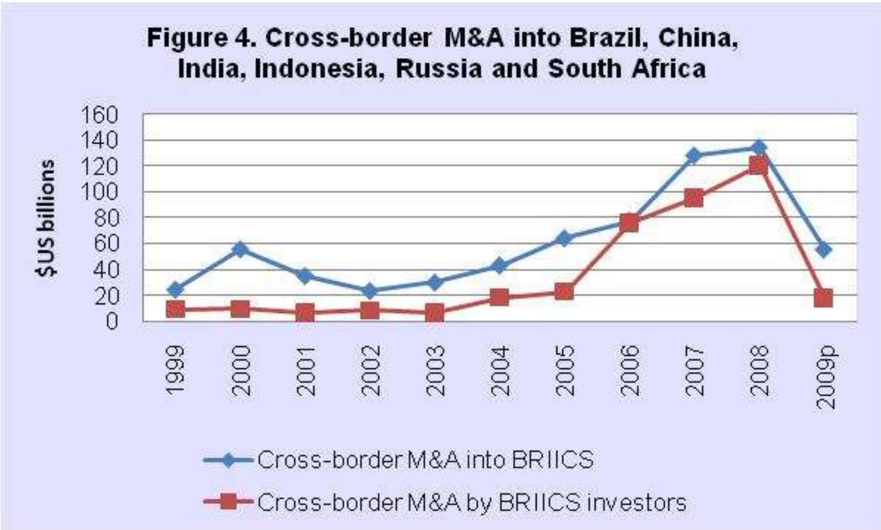
Recent data on international mergers and acquisitions (which account for 80% of FDI flows) provide further support for the idea that the FDI situation is deteriorating and could be on the verge of collapse. Data on international mergers and acquisitions through May 2009, as reported to the OECD by Dealogic, suggest that international M&A activity both to and from OECD countries is on course to decline by almost 60% from the record $1.4 trillion (both inward and outward M&A) reached in 2007 (Figure 3). Given the close relationship between international M&A activity and FDI flows, the latter would be expected to experience a similar decline in 2009.

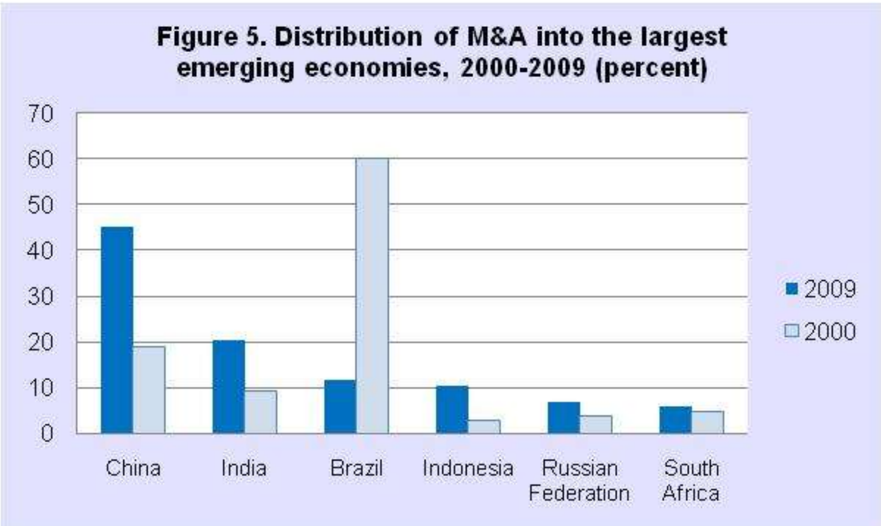
Emerging economies finally fall victim to the collapse in international investment

In 2008, international investment in many emerging economies continued to grow. For example, cross-border mergers and acquisitions into the largest emerging economies (Brazil, Russia, India, Indonesia, China, and South Africa) increased by 5% while they declined by 26% in the OECD countries. However, data for the first five months of 2009 suggest that this positive trend for the largest emerging economies has now reversed itself, with these countries poised to suffer a decline in cross-border M&A activity of 60% in 2009 (Figure 4).

International investment flows from the largest emerging economies also look set to fall sharply. After a twenty-fold increase in outward M&A activity from the same group of emerging economies mentioned above between 2003 and 2008, international investment flows from these countries are on course to decline by 85% on current trend, down to 2004 levels (Figure 4).►







Source: Dealogic

DID YOU KNOW…

… that 80% of cross-border M&As are into OECD countries?

These declines in inward and outward international investment from the major emerging economies mirror the declines expected in the OECD area in 2009. The global distribution of international investment activity will therefore remain largely unchanged, with the OECD countries accounting for 80% of inward M&A activity, the largest emerging economies for 10%, and all other countries for the remaining 10%. Despite the downturn, FDI will remain the main source of net private financial flows to emerging economies in 2009, with the balance of all other net financial flows expected to be negative (see OECD Investment News, Issue 9, March 2009).

India and China increase their share of inward global investment during the crisis

Ten years ago, India and China accounted for 28% of inward international investment into the largest emerging economies and 1.3% of global inward M&A activity. During the first five months of 2009, China and India accounted for 65% of international investment into the largest emerging economies and 6.6% of global M&A activity (Figure 5). This is also up significantly from their 5.1% share of global M&A activity in 2008. India and China have therefore reinforced their dominant positions as the leading host countries for international investment outside the OECD during the global economic crisis.■

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

ANALYSIS

ECONOMIC CRISIS SHARPENS GOVERNMENTS' FOCUS ON INTERNATIONAL INVESTMENT POLICY

The OECD Secretary-General released a report for the 2009 OECD Ministerial meeting held on 24-25 June which provides an inventory of factual information on investment-related policy developments since the November 2008 G20 Summit, held in Washington DC. This article reproduces key findings from this report.

The thrust of investment policy changes is, for the most part, toward greater openness and clarity…

Between November 2008 and June 2009, six countries changed the laws governing their investment policies. Although the intended thrust of the policies is somewhat ambiguous, most of the changes aimed (according to announcements or notifications by governments) at increasing openness and clarity for investors. Measures include the following:

- Argentina relaxed capital controls it had introduced in 2005.
- Australia relaxed restrictions on residential real estate investment.
- Canada changed its investment review procedure in ways that, by its own assessment, will lower the number of investments it reviews.
- The People's Republic of China streamlined its foreign investment review process and simplified approval processes for outward investment, but introduced a ban on delivery of express letters by foreign courier services. It also authorised two foreign banks to issue Yuan bonds in China.
- India relaxed restrictions in some sectors (including by changing the way it calculates the amount of foreign investment in Indian companies), but replaced automatic approval of investments in several "capped" sectors with a requirement for prior approval.
- Indonesia facilitated foreign investment in residential real estate.

…but decisions to not approve specific investment projects and the public debate surrounding these decisions suggest that suspicions remain about certain foreign investors

Australia's Foreign Investment Review Board accepted a number of proposals to invest in the extractive industry sector from the People's Republic of China, but imposed conditions relating to competition and corporate governance practices on three of the proposals. In a decision citing concerns about market dominance under its Anti-Monopoly Law, the People's Republic of China blocked an acquisition of a beverage company by a large multinational enterprise. However, some observers questioned whether protectionist motives played a role in the decision. Dialogue on investment matters in international fora allows governments to explain their policies, air concerns about international investment, find mutually beneficial solutions to problems and enhance benefits for both home and recipient societies.

Two countries introduced or amended investment policies relating to national security and one cited national security concerns when it imposed conditions on an investment

Australia cited national security grounds when it advised Chinese investors that the acquisition of a mining property situated in the vicinity of a weapons testing site would not be approved. The Chinese investors submitted a revised proposal to which no objection was taken provided certain conditions were complied with. Canada added national security as a consideration for its investment reviews. Germany extended the scope of its security-related investment reviews. International investment law accords countries flexibility in taking measures to safeguard national security, but, in an OECD context, such measures are monitored to help countries enact policies that are effective in safeguarding security and to ensure that such measures are not disguised protectionism.

Emergency responses to the crisis account for the vast majority of measures taken

Thirty-nine of the 42 economies covered took emergency measures during the reporting period. These include sector-specific ►

The Secretary-General's report covers the 42 economies represented at the Trade and Investment session of the OECD Ministerial and the European Union. The reporting period is from 15 November 2008 to 15 June 2009. The report uses broad definitions of international investment and of investment measures. Measures covered include: investment policy measures (involving removal or imposition of discrimination against foreign or non-resident investors); investment measures relating to national security; and emergency and related measures with potential impacts on inward and outward international investment. In future reporting with WTO and UNCTAD, and in collaboration with the IMF, the methodology will be adjusted to reflect the other organisations' practices.

and cross-sectoral support schemes and measures. The overall volume of public guarantees, capital injections, as well as support to the real economy provided by the 42 economies included in this report exceeds $3 trillion. Viewed as a whole, the sheer size of these measures and their effects on competitive conditions (e.g. on firm entry and exit) in globalised sectors such as finance and automobiles create a strong presumption that they influence international investment. It is for this reason that these measures are included in this inventory. OECD and WTO rules recognise that governments may need to take exceptional measures to respond to crises, but specify that these measures should be temporary and should not cause unnecessary damage to foreign interests.

Governments have adopted different approaches to emergency response, with varying amounts of discrimination against foreign investors

Some crisis response schemes are open to participation by foreign-controlled companies (e.g., for the banking sector, those of European Union members, Korea and New Zealand), while, in others, they are not eligible (e.g. in some of the United States schemes). Some schemes in the banking sector (e.g. in Finland and New Zealand) have been made available to branches of foreign banks.

Many governments have engaged in one-on-one negotiations with troubled companies, sometimes with direct implications for international investment

In many cases, governments have entered into direct negotiations with companies and at times have become deeply involved in their management. Governments took control of a number of banks during the reporting period. Germany and the United States participated in negotiations leading up to the sale of GME and Chrysler, respectively. Belgium and France provided guarantees to a troubled financial institution in order to facilitate *inter alia* the sale of a foreign subsidiary. Many of the support schemes for financial institutions impose obligations on beneficiaries to be particularly attentive to the financing needs of domestic businesses.

Crisis-related policies create considerable discretion for governments, raising challenges for public sector management in general and for non-discriminatory treatment of investors in particular

Many recent policies give new powers and considerable discretion to governments in their application. Although it cannot be assumed that governments will use this discretion for protectionist purposes, it does create scope to favour certain firms over others and, more specifically, to disguise discrimination against foreign investors. Governments appear to be concerned about this and some have taken steps to limit or monitor their use of discretion. The European Commission has a long tradition of monitoring of state aid and has been actively involved in reviewing EU member states' crisis response measures. New Zealand has published guidelines on the use of discretion in the choice of beneficiaries of some of its financial sector programmes and other countries have also issued detailed guidelines. Extensive public reporting on crisis measures and results (e.g. Canada, the United Kingdom and United States) and oversight commissions (e.g. France and United States) are also used to enhance transparency and accountability

Some governments are beginning to dispose of assets acquired during the crisis and this also poses challenges for non-discriminatory treatment of investors

In the course of their response to the crisis, governments have acquired stakes in companies, and during the reporting period, some began disposing of these assets. The processes of divestiture are also often subject to discretion and case-by-case arrangements that might create further scope to favour certain firms over others and, more specifically, to discriminate against foreign investors.■

For further reading on this topic:
OECD work on freedom of investment
www.oecd.org/daf/investment/foi

AFRICA

A NEW RISK MITIGATION FACILITY FOR INVESTMENT IN AFRICA

The NEPAD-OECD Africa Investment Initiative is supporting the Italian G8 Presidency in developing a strategy for a Risk Mitigation Brokerage and Evaluation Facility for investment in infrastructure, to be hosted by the African Development Bank (AfDB).

This project acknowledges the lack of resources mobilised by development finance institutions and African governments, as well as the difficulty to raise long-term debt and equity to finance infrastructure projects in Africa. It assumes that advisory and brokerage services provided to various kinds of stakeholders (in particular public and private investors in infrastructure) could facilitate the mobilisation of private capital through transferring certain risks from project financiers to creditworthy third parties (guarantors and insurers) that have a better capacity to absorb them. It aims to transfer human and financial resources to the AfDB for building knowledge on coverage instruments and mobilising brokerage expertise for specific projects.

Following a special session on risk mitigation for infrastructure financing during the annual meeting of the Infrastructure Consortium for Africa in Rome on 9-11 March 2009, the Initiative is working with the AfDB on terms of reference for the Facility.■

For further reading on this topic:
NEPAD-OECD Africa Investment
www.oecd.org/daf/investment/africa

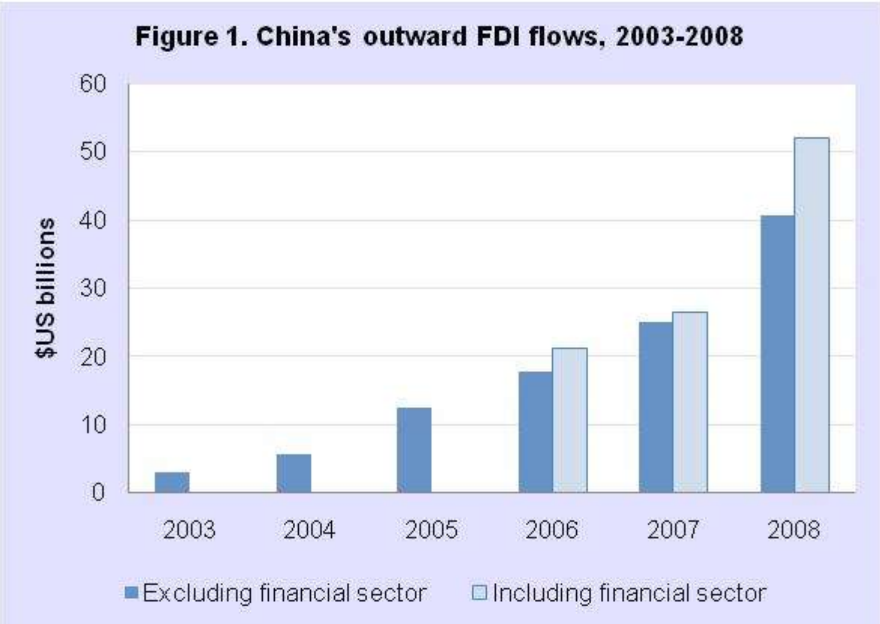
DID YOU KNOW…

… that only 1.6% of OECD outward FDI stocks are located in Africa?

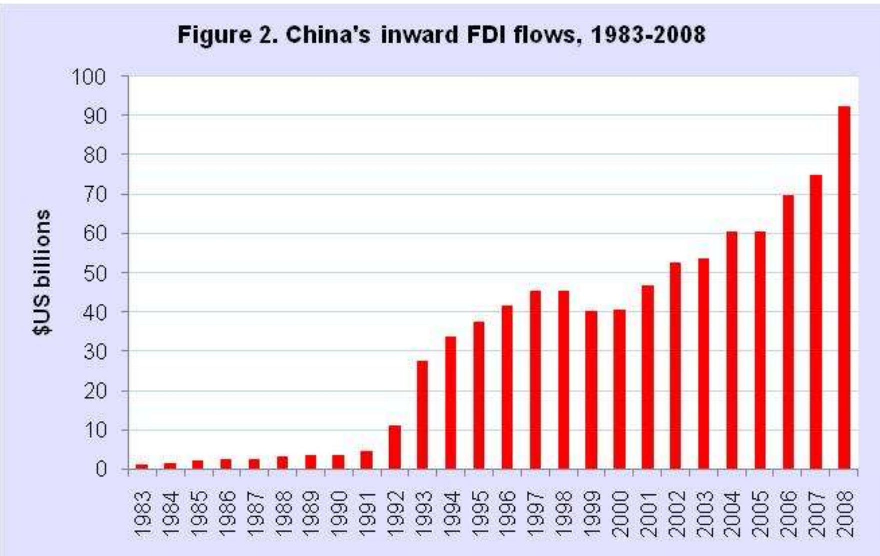
CHINA

CHINA'S OUTWARD FDI FACES CHALLENGES AS IT CONTINUES TO EXPAND

There was no deceleration in China's outward direct investment in 2008, even as global FDI flows were declining (see lead article). China is likely to exit the crisis an even more significant player in the world economy and a major opponent of investment protectionism. Further policy reform can strengthen this role.



Source: Ministry of Commerce (MOFCOM) FDI website, www.fdi.gov.cn. Financial sector FDI is not shown before 2006, the first year such data were included in MOFCOM reports.



Source: MOFCOM FDI website, www.fdi.gov.cn. Figures are for "actually utilised" FDI.

The OECD's 2008 Investment Policy Review of China: Encouraging Responsible Business Conduct documents China's rapid rise as a source of direct investment to the rest of the world. China's FDI outflows (excluding the financial sector) averaged \$453 million per year in the 1980s and \$2,323 million in the 1990s before accelerating from \$2.8 billion in 2003 to \$5.5 billion in 2004 to \$40.7 billion in 2008, when \$11.5 billion financial-sector investment brought the overall total to \$52.2 billion.

Growth of FDI inflows has slowed

At the same time, growth of FDI inflows has slowed, though the total nevertheless reached \$78.3 billion in 2007 and \$95.3 billion in 2008. Latest figures show that inward FDI totalled only \$27.7 billion in the first four months of 2009, a fall of 21% year on year, as FDI from the United States fell 25.1% and FDI from Europe decreased by 8%. Due to more rapid GDP growth, the share of FDI in China's gross fixed capital formation fell from a peak of just over 14% in 1994 to 4% in 2007 and its share in GDP at the same time from 6% to just over 2% (note that FDI and gross fixed capital formation are not strictly comparable, since FDI includes elements other than fixed capital formation).

Over the next few years it is possible that China's outward FDI may for the first time exceed its FDI inflows. This situation reflects both the country's gathering economic might and the more open policies towards outward investment adopted in recent years.

While outward investment from China still faces a series of examination and approval procedures in several government agencies, these are gradually being streamlined, for instance by the Ministry of Commerce (MOFCOM), which cut some of its red tape in March 2009. ►

Unlike most other FDI sources, China has not been suffering a domestic credit crunch, though it has been unable to avoid the impact of the recession in its major markets: its exports and inward FDI have fallen sharply. The government's loose credit policies and fast-acting ¥4 trillion stimulus package have instead allowed its corporates the financial leeway to continue investing abroad at a time when foreign competitors have had to cut back.

Although it has attracted increasing media attention, China's outward direct investment has hitherto been relatively small, representing a smaller proportion of global FDI than China's share of world trade or inward FDI. However, this picture is changing as the steep growth rate of China's outward FDI is maintained into the crisis.

As China joins the ranks of major outward FDI providers, it has encountered a range of different obstacles. Some of these have related to concerns over the quality of the corporate governance of Chinese enterprises. In other cases, the obstacles have been less technical in nature. In recent years, several major acquisitions by Chinese MNEs of target companies in developed countries have been discontinued in the face of strong opposition from host-country publics, in some cases after having been approved by the authorities.

Because these MNEs are often closely held or listed state owned enterprises (SOEs), concerns have been voiced about acquisitions that might be politically-motivated perhaps even a representing a potential threat to the national security of host countries. Another priority in host countries has been maintaining a level playing field among foreign SOEs and privately owned companies – not least in respect of their access to, and cost of, financing. Much of the public criticism of Chinese-led takeover bids has focused on the perception that the bids were facilitated by subsidised government financing. A key step that Chinese authorities might take to alleviate such fears is the upgrading of corporate governance standards in SOEs in order to entrench the commercial orientation of these enterprises and strengthen governance mechanisms to raise the credibility of the commercial orientation.

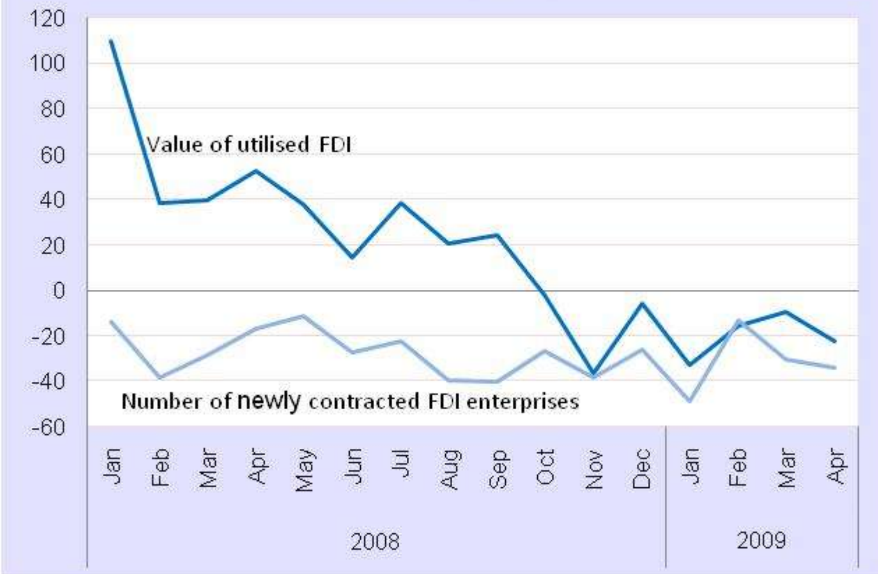
China campaigns against trade and investment protectionism

In recent months the Chinese government has been promoting an international campaign against trade and investment protectionism as part of its strategy for mitigating the impact of the global crisis on China. This is a welcome development, as it signals that policymakers are sustaining the policy of opening and up and reform which has produced accelerated economic growth over the past thirty years, and are not succumbing to protectionist temptation.

It also fits well with China's contribution to the anti-protectionist component of the G20 communiqué on dealing with the crisis. Commitment to this goal could be reinforced by further opening of China's own economy to foreign investment, for example by relaxing its restrictive foreign investment catalogue regime. As detailed in the 2008 OECD Investment Policy Review of China, China could also contribute to greater acceptance worldwide of investment by its MNEs by more effective promotion of responsible business conduct and the adoption of higher standards of corporate governance.■

For further reading on this topic:
OECD-China co-operation in the field of international investment:
www.oecd.org/daf/investment/china

Figure 3. China's inward FDI flows
% change year-on-year



Source: MOFCOM FDI website, www.fdi.gov.cn. The number of newly contracted FDI enterprises may provide a rough indication of the future trend of the value of actually utilised FDI. The fact that it continued to fall in the first four months of 2009 may suggest that a recovery in utilised FDI is not imminent.

INVESTMENT NEWS

GLOBAL FORUM

7-8 DECEMBER 2009, PARIS, FRANCE

8th OECD Global Forum on International Investment: The crisis and beyond - International investment for a stronger, cleaner, fairer economy

The global economic crisis has already wiped out trillions in global wealth and the prospects for 2009 and even into 2010 are grim.

This conference will focus on two core elements of any strategy aimed at ending the crisis and achieving sustainable, long-term economic growth:

- the need to maintain markets open for international investment
- the need to improve investment environments around the world

The mission of the OECD Global Forum on International Investment is to support the international investment policy community in its efforts to promote open, transparent and rules-based investment policy frameworks for growth and sustainable development worldwide through informed, evidence-based policy dialogue and peer learning on pressing current and emerging issues. OECD and non-OECD countries participate as full partners in the GFII.

Call for papers - Participating governments and other stakeholders are invited to submit their proposals for written contributions. Accepted contributions will be included in the GFII documentation. Submissions should be addressed to Michael Gestrin [Tel: +33(0)145247624 michael.gestrin@oecd.org].

For further information: www.oecd.org/investment/gfi-8

GUIDELINES FOR MNES

15 JUNE 2009, PARIS, FRANCE

OECD Roundtable on Corporate Responsibility: Consumer empowerment and responsible business conduct

The 2009 roundtable took place in the midst of a global reflection on the foundations of the international economic system and the role that enterprises and other actors could play in restoring the world economy and gearing it towards a sustainable path.

The OECD Guidelines for Multinational Enterprises are the sole public corporate responsibility instrument to define what constitutes responsible business conduct towards consumers. It is well known that the interests of corporations and consumers are closely linked and that they are both important actors in international markets.

The roundtable thus focused on the responsibilities of multinational companies toward consumers and how consumers can encourage multinational enterprises to live up to the recommendations of the OECD Guidelines.

16-17 JUNE 2009, PARIS, FRANCE

Annual meeting of the National Contact Points (NCPs) for the OECD Guidelines for Multinational Enterprises

National Contact Points met for the 9th time since the revision of the Guidelines in 2000 to review their experiences in performing and promoting the implementation of the Guidelines.

Further information on the roundtable and NCP meeting can be found at: www.oecd.org/daf/investment/guidelines.

NEWS IN BRIEF

OECD SUPPORT FOR PUBLIC PRIVATE PARTNERSHIPS IN THE WATER SECTOR

Following the completion of the OECD Checklist for Public Action, the OECD is working with Russia and Egypt to assess their frameworks for private sector participation in water and to implement the policy recommendations contained in the Checklist.

In Russia, the OECD will undertake this assessment in partnership with the Russian Development Bank (VEB). In Egypt, the OECD is partnering with the Global Water Partnership for the Mediterranean (GWP-Med) and is building on an on-going dialogue with the EU water Initiative.

For more information: www.oecd.org/daf/investment/water

ENGAGING THE PRIVATE SECTOR IN SUPPORT OF A LOW CARBON FUTURE

OECD has launched a project that aims to identify good practices in the design and use of public and corporate policies.

This project will review and analyse government policies to leverage private investment to mitigate climate change and identify corporate good practices in addressing climate change.

This project is being jointly managed by the Environment Policy Committee and the Investment Committee.