GLOBAL FORUM ON INTERNATIONAL INVESTMENT

ATTRACTING FOREIGN DIRECT INVESTMENT FOR DEVELOPMENT

Shanghai, 5-6 December 2002

Summary of Discussions

1. The third GFII event focusing on "Attracting Foreign Direct Investment for Development China, was hosted by China's Ministry of Foreign Trade and Economic Co-operation (MOFTEC) and the Municipal People's Government of Shanghai, took place in Shanghai. Also organised back-to-back with the GFII were the OECD-China Steering Group meeting on 4 December, where the preliminary findings of the OECD study of China's FDI policies were discussed with MOFTEC, and the OECD-Emerging Asia Exploratory Meeting on 6 December, which identified main areas of investment policy dialogue with Asian partners.

2. About 160 participants contributed to the GFII, including investment officials from eighteen OECD countries, twenty-eight non-Members (from Tanzania to Russia, from Brazil to Saudi Arabia as well as representatives of China's central government and provincial governments), business executives, multilateral organisations (Asian Development Bank, European Commission, United Nations Industrial Development Organisation, World Association of Investment Promotion Agencies, Black Sea Economic Co-operation, Commonwealth Secretariat), and civil society partners such as India's Consumer Unity & Trusts Society, Malaysian Trade Unions Confederation, Brotherhood of Saint Lawrence.

3. More than twenty commissioned papers were presented, or tabled as backgrounder, to the audience. Discussions were lively and interactive. There was good coverage by China Central Television, China Daily, and in local Shanghai press, local press, Financial Times FDI Magazine, Economist Intelligence Unit, Far Eastern Economic Review, German radio station, which reported the event and carried exclusive interviews with OECD staff and conference speakers.

4. The following issues and conclusions emerged from GFII conference presentations and deliberations:

Session 1

5. Over the past two years the surge in FDI flows and the decline in aid have transformed external finance to the developing countries. FDI flows to the developing countries rose from 0.4 per cent of the gross domestic product in the late 1980s to 2.8 per cent in the late 1990s in response to the globalisation of production and improvements in domestic policies. In virtually every region, FDI has become a driving force of globalisation and has risen relative to total capital expenditures during the 1990s. It has doubled in middle-income countries and has tripled in low-income countries. However, recently FDI flows have fallen - a situation that makes not only attracting but also retaining FDI more important.

6. The interrelationship between FDI and development was the overarching theme throughout the conference. In the first session, following the presentation of the main findings from OECD's recent report "*FDI for Development: Maximising Benefits, Minimising Costs*" two particular cases were discussed. First, the case of Thailand, where extensive investment incentives were used to attract FDI, and second Chile, which had very little incentives but a highly favourable economic and legal environment. It was argued that, although the investment incentives were a fact in many countries, such competition for FDI based on incentives could divert resources from other areas such as infrastructure and education, which were also of high importance for attracting investment. It was emphasised that replacing incentives-based competition by rules-based means of attracting FDI may reduce the costs and maximise benefits of FDI for development.

7. Speakers from the business community insisted that they were most interested in access to customers and a stable economic/political environment in the host countries. If such conditions prevailed, they said no special incentives would be needed to attract foreign direct investment, or indeed domestic investment. An Indian panellist pointed to the extensive bureaucratic obstacles in his country, not only for FDI but also for domestic investors. Also in many developing countries excessive and inconsistent regulations were in fact deterring investments.

8. There were a few notes of dissent from the floor, particularly to the notion that FDI generally brought in higher environmental and social standards, increased domestic investment and exports, reduced imports and enhanced linkages with domestic companies. Concern was expressed by a trades union leader from the ASEAN, who argued that competition from neighbouring countries with low labour and environmental standards did serve to lower the quality of investment in his country.

9. It was generally agreed that FDI was good for growth because it facilitated technology transfer, international trade, a competitive business environment, and encouraged efficient management techniques. In addition to this, as some speakers underlined, was the long-term nature of FDI.

10. However, speakers cautioned that there should be no illusion that: FDI is the only instrument for solving the developmental problems. It is a valuable supplement to domestically provided fixed capital rather than a primary source of finance. FDI has to be competed for and won. Therefore, improving the domestic investment climate, particularly through sound macroeconomic policies and governance, will reduce the volatility of capital flows and attract less-volatile FDI.

11. During the discussion on the responsibilities of home countries, the call was made on OECD countries to stimulate growth in their own countries, which would in turn fuel FDI outflows as well as provide increased market access opportunities to developing countries. This was seen as a key responsibility of home countries in addition to providing market access, technical assistance and capacity building, promoting responsible corporate behaviour and curbing offers of bribery and corruption.

Session 2

12. The second session focused on the responsible behaviour of investors in host countries and on the positive linkages that foreign investors could forge, notably through their supply chains.

13. Discussants noted the importance of a good investment climate to encourage foreign direct investment. Such a climate, participants pointed out, depended on policies implemented by host as well as home countries. Good corporate behaviour on the part of investors was also considered an important factor. In this regard, a dialogue between the public and private sectors was underlined as essential to the establishment of a favourable investment climate, for domestic and foreign investment alike.

14. Participants discussed, in particular, the issue of corporate social responsibility. It was widely acknowledged that good corporate behaviour was good business, and in the longer term interest of the corporations themselves. In this area as well, the participation of both host and home countries was underlined as essential: home governments of investors can encourage companies to act as ambassadors of good corporate behaviour, while host governments, notably through their investment promotion agencies, can provide a forum for dialogue on corporate social responsibility issues.

15. In this area, participants acknowledged the importance of international investment instruments for corporate social responsibility, which represent a framework for positive interaction by all stakeholders. The OECD Guidelines for Multinational Enterprises, the ILO Declarations, and the UN Global Compact were among the instruments mentioned in the discussions as particularly relevant.

16. Participants underlined, in particular, the unique role of OECD Guidelines for Multinational Enterprises, as the only multilaterally endorsed and comprehensive code that governments are committed to promoting. However, the need for a better understanding of the process and mechanisms of the Guidelines for non-Members was repeatedly stressed.

Session 3

17. Among the main discussion topics in this session were OECD's Code of Liberalisation of Capital Movements, recent capital account liberalisation experiences and how these may be of relevance to other countries. Policy objectives such as strengthening banking systems and developing long-term investing institutions and bond markets denominated in domestic currency would complement each other to bring a better balance between capital flows and economic

structures. Institutional investors could then provide quality non-opportunistic FDI through mature capital markets.

18. A "dynamic" policy sequencing was proposed for liberalisation and the strengthening of the main elements of an enabling environment against the one-size-fits-all approach To FDI. Most speakers were of the opinion that it was necessary to combine the opening of capital markets with the construction of a sound policy and regulatory framework. They emphasised that FDI and portfolio forms of cross-border investment were complementary and beneficial to national economies. There was a discussion of the FDI/portfolio investments in Brazil, which is the second largest recipient of FDI after China among developing countries, and where FDI almost entirely replaced portfolio investments.

19. The session concluded with an elaboration of the synergies to be explored between ODA and FDI. It was suggested that carefully targeted ODA could be instrumental in developing domestic financial systems and the regulatory framework. Such a synergy would help develop human capital and institutions of good governance, as well as leverage FDI flows and create a cycle of increasing savings and investment. It could also be used to reduce political country risk. More specifically, ODA funds could be used to support those areas considered important to investors in determining investment locations, i.e. public-private partnerships in infrastructure and human capital improvement. Water and sanitation infrastructure is an obvious example of an area where better public-private partnerships could bring benefits to the developing countries. The FDI-ODA linkage emerged as a priority area which participants asked OECD to focus in greater detail.

20. Several speakers underlined that developing countries should take the lead in setting up a country-driven investment capacity building framework and that the role of donors should be to support and facilitate this process. In this respect, the call for forging stronger and result-oriented partnerships was renewed between governments, multilateral organisations, businesses and civil society partners.

GFII 2003 FDI and Governance

21. Discussions reconfirmed the importance of good governance, both in public and private domains, not only for FDI, but also for domestic investors and society at large. A country's economic performance over time was determined to a great extent by its political, institutional and legal environment. These institutions and policies, known as the governance infrastructure, remain an important determinant of FDI inflows and outflows.

22. The African participants from Ghana and Tanzania called for the next GFII annual event to be held in sub-Saharan Africa – a proposal which was presented by the Secretariat to the last CIME meeting.

23. The full conference papers, the session chairs' report and conclusions would soon be available on the OECD website [www.oecd.org/daf/investment]. They will all be edited and incorporated into the post-conference proceedings.