FOREIGN DIRECT INVESTMENT IN SERVICES

Meeting of the OECD Advisory Group on Investment
Bucharest, 2nd-4th November 1994

More foreign investment is needed if the services industries in Central and Eastern European Countries and the New Independent States are to assume fully their crucial role in the transition process. Policy measures to promote FDI include both the progressive liberalisation of the investment regime and the establishment and implementation of regulatory frameworks for service activities. These were the main conclusions drawn from the fourth plenary meeting of the OECD Advisory Group on Investment (AGI) held in Bucharest on 2nd-4th November, 1994.

The meeting was opened by the Governor of the National Bank, Mr. M. Isarescu, and the Head of the Romanian Development Agency, Mr. N. Jantea. Participants included government officials from transition economies and OECD countries, outside experts and representatives from the private sector and other international institutions, such as the IMF, World Bank, UNCTAD, and the European Commission.

Despite encouraging signs in a few transition economies, the share of services in GDP and employment is still far below the levels in developed market economies. The inheritance of a large industrial base and underdeveloped services from the Communist period and an insufficient awareness of the importance of these industries among policy makers in transition economies are major factors contributing to the weak performance.

Although conditions vary considerably from country to country and are typically sector-specific, greater participation of foreign investors in the services industries will:

-- broaden the range of services immediately available for the benefit of faster economic development;

-- increase competition and efficiency in the services sector through quality leadership;

-- give access to know-how and management;
-- create employment opportunities; and

-- provide sources of foreign exchange earnings.

Restrictions to foreign participation apply in certain service industries which are considered "sensitive" in transition economies and OECD countries as well. FDI in these sectors has been low. Participants noted the beneficial effects of liberalisation in these sectors generating efficiency gains without necessarily displacing domestic suppliers. It was recommended to address the concerns about foreign penetration by putting FDI in the perspective of wider financial sector reform. This would have to include privatisation, restructuring of former state-owned banks, and regulation in order to provide a level-playing field for foreign and domestic banks. In the insurance industry, legislation is required that guarantees competition among insurance providers and protects consumers through effective supervision.

Participants felt that a number of follow-up activities would be desirable. In particular the need for more training opportunities for regulators, supervisors, and staff in the insurance and banking industries was underlined. There was also the recommendation to develop a model legislation for the insurance industry to provide concrete guidance to transition economies. Great interest was expressed in elaborating in greater detail on programmes for financial sector reform.

The next AGI meeting will discuss the role of foreign direct investment in and by small and medium-sized enterprises. The meeting is scheduled to take place in the fall of 1995.

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