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IN THIS ISSUE

OECD SUPPORTS G20 OBJECTIVES ON INTERNATIONAL INVESTMENT
PAGES 1-3

8TH GLOBAL FORUM ON INTERNATIONAL INVESTMENT
PAGE 3

LESSONS FROM PREVIOUS CRISES FOR INVESTMENT POLICY TODAY
PAGE 4-5

LAUNCH OF THE INVESTMENT POLICY REVIEW IN CHINA
PAGE 5

OECD LAUNCHES THE PFI USER'S TOOLKIT
PAGE 6

WATER: OECD LAUNCHES THE CHECKLIST FOR PUBLIC ACTION
PAGE 6

RECENT PUBLICATIONS
PAGE 7

CALENDAR OF EVENTS AND AFRICA BRIEF
PAGE 8

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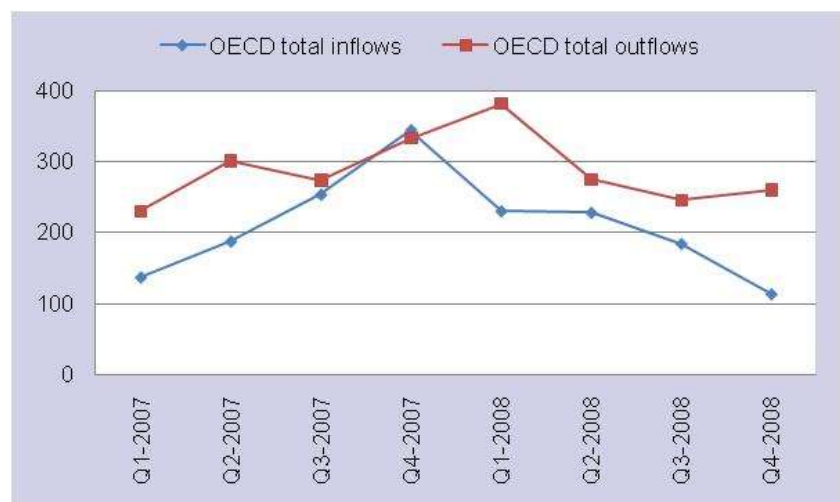
OECD SUPPORTS G20 OBJECTIVES ON INTERNATIONAL INVESTMENT

At its meeting on 14 March 2009, the G20 issued a communiqué that emphasised the importance of open markets for investment and the need for “helping emerging and developing economies to cope with the reversal in international capital flows”. The threat to development was also underscored by the BRIC members of the G-20 (Brazil, China, Russia and India), who issued a joint communiqué emphasising that “the crisis has led to a massive withdrawal of private capital in 2009 and this is likely to continue in 2010”.

New OECD data provide the first direct evidence that FDI flows have been relatively resilient up to this point in the crisis. Figure 1 presents OECD FDI inflows and outflows by quarter during 2007-8 for the 17 OECD countries that have reported results through year-end 2008. As might be expected, both series follow a downward trend in 2008. However, OECD inflows experienced much sharper declines as the crisis deepened. FDI inflows declined by an average of almost 25% per quarter through 2008. In contrast, OECD outflows only declined by 5% per quarter on average in 2008, and actually increased by 6% between Q3 and Q4.

Continued on page 2

Figure 1. OECD inflows fall, but outflows show resilience in 2008
US\$ billion



Source: OECD

OECD SUPPORTS G20 OBJECTIVES ON INTERNATIONAL INVESTMENT continued...

Although these data do not give direct evidence, we know that the gap between OECD inflows and outflows makes up the lion's share of FDI flows to developing countries. Hence, the relative stability exhibited by OECD outflows as OECD inflows continue to decline indicates that OECD flows to non-OECD countries remained strong during the second half of 2008.

OECD flows to non-OECD countries remained strong during the 2nd half of 2008

These findings are not completely unexpected or unusual. A number of surveys and estimates have suggested that FDI could prove resilient. For example:

- The Boston Consulting Group finds that European companies' merger and

acquisition plans for 2009 remain relatively robust (BCG, December 2008);

- McKinsey (2009), in another survey, concludes that "M&A may be more resilient and more relevant to the general economy in this downturn than in previous ones" and that the next round of M&A activity will be more global than ever before and include significant participation by new players from developing countries;

- Deutsche Bank Research (2008) calculates that SWFs had assets under management worth just under US\$4 trillion in 2007 (i.e. over four times total private flows to developing countries). To the extent that these funds might eventually be used as FDI in 2009, they could play an important role in supporting global FDI flows;

- The Institute of International Finance (2009) suggests that FDI will account for 120% of net private flows to developing countries in 2009, since the balance of all other net flows is expected to be negative.

The new data on OECD FDI flows provide the clearest indication yet that FDI has been relatively resilient compared with other forms of financial flows to developing countries.

The quarterly FDI data reported above can be used to estimate annual OECD FDI flows for 2008. Figure 2 shows OECD annual flows beginning in 1999, including estimates for inflows and outflows in 2008. According to these, inflows declined by 18% between 2007 and 2008, while outflows increased by 2% over the same period. This contrasts with FDI performance during the much milder recession of 2001, when FDI outflows dropped by 49% and inflows by 42%. It is not yet possible to explain why FDI flows seem to be showing greater resilience during the current, more serious crisis (keeping in mind that these estimates could change as more data become available).

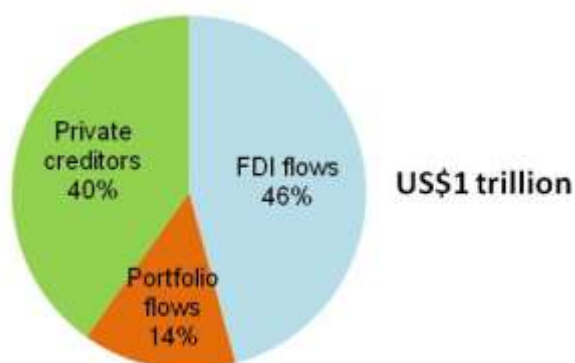
Policy choices will matter

The resilience of FDI flows during the second half of 2008 cannot be taken for granted and policy choices can influence how flows evolve in 2009. The global investment policy community will need to focus on two strategic issues, both of which are the focus of investment work at the OECD: first, the need to improve investment environments around the world and second, the need to avoid the spread of investment protectionism.

Improving policy frameworks is always important but has become even more so under the current conditions. During good times, weaknesses in a country's policy framework for investment can often be ignored because businesses are better able to absorb extra costs when markets are strong and margins fat. However, during a crisis, weaknesses in the policy framework can make the difference between survival and failure for investors. Keeping a focus on fundamental investment policy issues will not only help investors survive today, but will also lay the groundwork for recovery and more attractive investment environments tomorrow. ►

Box. Distribution of international financial flows to developing countries: 2007

Private capital flows to developing countries take two broad forms: equity investment (FDI and portfolio investment) and private sources of credit (commercial banks and non-banks). The FDI component of these flows, which accounted for just under 50% of the US\$1 trillion received by developing countries in 2007, has generally been considered more stable than other flows. The extent to which FDI holds up under the pressure of the global economic crisis will be a critical factor in determining how much external financing reaches developing countries as the crisis runs its course.



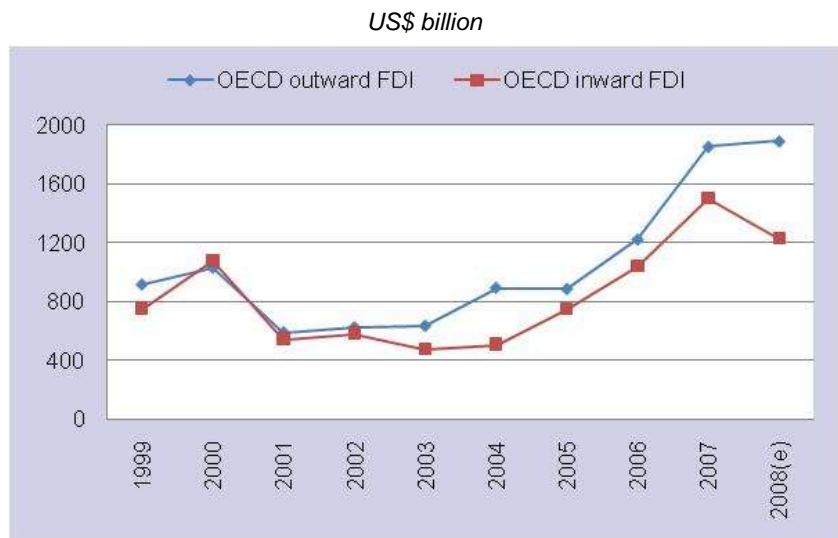
Source: World Bank, Global Development Finance 2008.

The second strategic investment issue originates in the intense pressure on governments to respond rapidly and massively to this crisis. Emergency measures have included bail outs, subsidies, tax measures, and government spending more broadly. Many of these measures will affect international investment, trade and competition in various ways. However, up to this point in the current crisis there has been limited evidence of discrimination against foreign investors as a result of the selection criteria to qualify or of conditions attached for public support. Governments should nonetheless remain vigilant of the impact of their policies on international investment and mindful of the potential harm caused by discriminatory measures. International co-operation plays an important role in underpinning government efforts to co-ordinate policy responses, to keep markets open and avoid the dangers of retaliatory protectionist dynamics. ■

For further reading on this topic:

OECD work on investment for development
www.oecd.org/daf/investment/development

Figure 2. OECD FDI inflows and outflows, 1999-2008



Note: e = estimate
 Source: OECD

GLOBAL FORUM



8TH OECD GLOBAL FORUM ON INTERNATIONAL INVESTMENT

The 8th Global Forum taking place in Paris on 7-8 December 2009 will focus on “International investment and the global economic crisis: Part of the solution or yet another victim?”

The global economic crisis has already wiped out trillions in global wealth and the prospects for 2009 and even into 2010 are grim. This is why governments and interna-

tional organisations like the OECD have put so much effort into developing new policy strategies for bringing the crisis to an end.

This conference will focus on two core elements of a strategy aimed at ending the crisis and achieving sustainable, long-term economic growth. These are, first, the need to improve investment environments around the world and, second, the need to avoid the spread of investment protectionism. Discussions will be grouped under 3 broad sub-themes:

- Re-establishing a balance between markets and government;
- Keeping markets open for international investment; and
- The different ways that international investment can be part of the solution.

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 frame-

works 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.

Although primarily intended as a forum for intergovernmental dialogue, the GFII is also an opportunity for policy makers to interact with other stakeholders in the investment policy community, including business, labour, and civil society.

Participating governments and other stakeholders are invited to submit their written contributions for the different sessions to the Secretariat. 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 reading on this topic:

Global Forums on International Investment
www.oecd.org/daf/investment/gfii.

ANALYSIS

LESSONS FROM PREVIOUS CRISES FOR INVESTMENT POLICY TODAY

The present crisis, the deepest and most widespread in our lifetimes, is causing economic hardship worldwide. As governments respond with emergency measures, their main concern other than restoring financial stability is to preserve employment in the face of a sharp economic contraction worldwide.

In such a climate, governments need to remain mindful of the international repercussions of remedies and risks of retaliation by other governments in the face of protectionist measures. An open environment for international investment will not by itself bring about recovery, but it is an essential element of a return to growth and sustainable development in the future.

Earlier crises – whether national, international or sectoral – help us to understand better both the nature of the various investment policy responses and their implications for international investment and long-term sustainable growth. The OECD has studied the Great Depression and financial crises in Argentina, Finland, Indonesia, Korea, Malaysia, Mexico and Thailand, as well as the ‘new protectionism’ of the 1970s

in OECD countries. The following are key points to emerge from this historical experience:

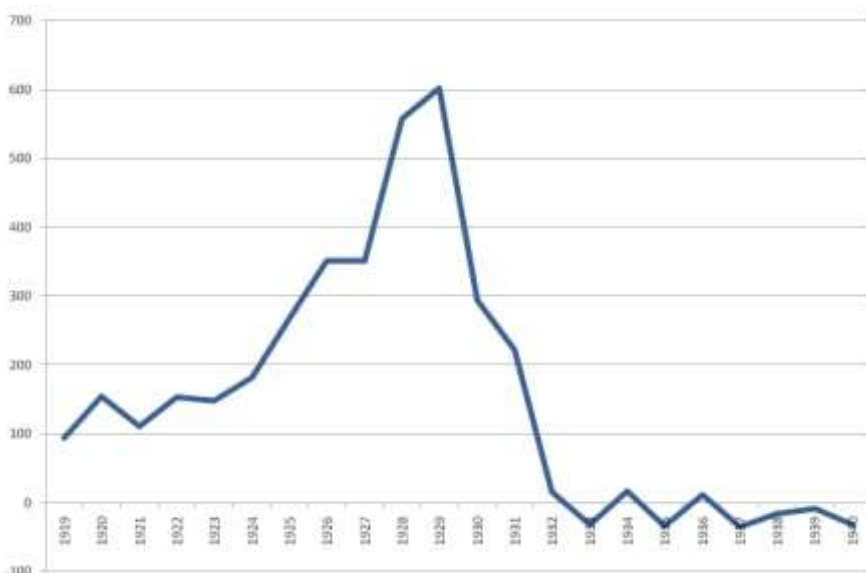
- **There has been little evidence of outright prohibitions on foreign investment during past crises:** Indeed, in crisis situations, governments have tended to place a premium on capital, regardless of its origin. As a result, past crises have sometimes opened up opportunities for foreign investors in national economies, especially in banking but also in other sectors or across the board. The same seems to be true in the current crisis, with a greater tendency for governments to encourage rather than restrict inward investment.
- **An official welcome has not always implied public acceptance:** Foreign investors have sometimes been seen to be

acquiring local firms at “fire sale” prices, especially when there was also a perception of exchange rate misalignment. A similar sentiment may emerge in the current crisis, creating public hostility to inward investment at a later date, particularly if foreigners divest themselves of local assets at a hefty profit.

- **Crises have often led governments to try to keep domestic capital at home, without usually going so far as to restrict capital outflows:** There have also been calls – both from the public and even within government – in the past to restrict outflows in order to preserve jobs at home. Certain conditions attached to emergency measures during the current crisis might have implications for the ability of local firms to invest abroad if by doing so there is a threat to jobs at home. The growing financial and ownership role of national governments in key sectors may also increase public pressure to constrain the freedom of local firms to invest abroad in the future.

- **The short-term beneficial effects of policies enacted during a crisis have sometimes been outweighed by their longer-term negative effects:** The much greater degree of global economic integration today implies that even seeming small restrictions would have larger economic impact measures harming not only partner country economies and collective efforts to recover from the crisis, but also the economy of the country applying the measure.

US Direct Investment Abroad, 1919-1940
US\$ billion



Source: US Department of Commerce

Avoiding discriminatory measures

Neither in the past nor at present have many measures been enacted to restrict international investment in the domestic economy. But many measures in the past have nevertheless affected the business climate by discriminating among firms on the basis of nationality of ownership, and there is a risk that measures implemented today could have the same discriminatory effect. With the benefit of the lessons from past policy errors and the level of international policy coordination today, governments have the opportunity not to repeat the beggar-thy-neighbour policies of the 1930s. Governments have a shared responsibility to work together to seize this opportunity.

Angel Gurría, OECD Secretary-General, warns of the dangers of investment protectionism

History reminds us not to be complacent. The beggar-thy-neighbour policies of the early 1930s may not have triggered the Great Depression, but they clearly made a bad situation much worse.

In recognition of this, G20 leaders at the Washington Summit last year pledged to refrain from raising new barriers to trade and investment. In addition, stronger legal obligations – whether multilateral, regional or bilateral – limit what governments can legally do and as a result, a repeat of the tariff wars of the early 1930s seems like only a remote possibility. International co-ordination among governments is also much better now than it was in the 1930s.

The OECD currently hosts the so-called "Freedom of Investment process" which aims to help governments reconcile the need to preserve and expand an open international investment environment with their duty to safeguard the essential security interests and to take action to recover from the current crisis

Angel Gurría, OECD Secretary-General

The risk of protectionism in terms of foreign investment is more diffuse but may be even greater than for trade. In bailing out local companies, governments have implicitly or explicitly taken on a role in the management of these firms, including in their future investment decisions. We need to ensure that these firms retain the flexibility to structure their activities on a global or regional basis – which is the key to their long-term survival. We also have to make sure that increased government involvement doesn't protect firms from takeovers by bonafide foreign investors.

These are indeed serious issues. If emergency measures are not well-conceived, they may deepen and prolong the crisis, and could also have severe long-term consequences. For many countries, it took until the 1970s for trade as a share of GDP to return to its level of 1929.

Faced with these short- and long-term risks, how can we help governments – and politicians – to make the right choices? We know that political concerns will influence solutions to this economic crisis. How can we promote today solutions that are carefully thought out and which preserve longer term interests; that are conceived and implemented as temporary and are fully monitored in order to ensure discipline? Open markets are essential if we are to prevent long-run harm when economic conditions stabilise.

The OECD has a role to play in this area. As part of the OECD's Strategic Response, we are developing new analysis and guidance to governments for restoring sustainable long-term growth and designing effective exit strategies.

Concerning investment, the OECD has, since its inception, been the leading forum for co-operation on investment policies. It has developed guidance for recipient country policies towards sovereign wealth funds which will allow such funds to invest freely at this critical juncture where the world needs more, not less, international capital. The OECD currently hosts the so-called "Freedom of Investment process" which aims to help governments reconcile the need to preserve and expand an open international investment environment with their duty to safeguard essential security interests and to take action to recover from the current crisis. ■

Excerpts from a speech given at the International Chamber of Commerce, Paris, 5 March 2009

For further reading on this topic:
 OECD work on freedom of investment:
www.oecd.org/daf/investment/foi
 OECD strategic response to the crisis:
www.oecd.org/crisisresponse

CHINA



LAUNCH OF OECD INVESTMENT POLICY REVIEW OF CHINA (CHINESE EDITION)

On 21 March, the OECD launched the Chinese language version of the OECD Investment Policy Review of China in Beijing. OECD Secretary General Gurría participated in the event, which opened with a welcome address from People's Bank of China Deputy Governor Su Ning. The China M&A Association, a business organisation, presented the Secretary General with an open letter addressed to the OECD and to multinationals worldwide condemning protectionism and defending open markets. The Association expressed its willingness to work with the OECD to fight protectionism.

For further reading on this topic:
 OECD Investment Policy Review of China, including the Chinese language edition:
www.oecd.org/daf/investment/china



POLICY FRAMEWORK FOR INVESTMENT

OECD LAUNCHES THE PFI USER'S TOOLKIT

To assist governments in using the Policy Framework for Investment, a PFI User's Toolkit has been developed. The Toolkit responds to a need for specific and practical implementation guidance in the ten policy chapters of the PFI.



The Toolkit builds on the experience of countries that have already used the PFI. It is web-based in order to be able to incorporate rapidly the feedback from PFI users. It is more than just a technical manual. It also highlights how the core principles of the PFI influence investment, how the various chapters of the PFI relate to one another and how the PFI can assist in an on-going and iterative process of reform and in fostering public/private dialogue.

The Toolkit also discusses how potential users can get the most out of the PFI, including how to determine the scope, type and structure of a PFI assessment.

The PFI is a flexible instrument and hence this Toolkit has been designed to meet the needs of multiple PFI applications.

Visit the Toolkit online at www.oecd.org/investment/pfitoolkit

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The **Policy Framework for Investment (PFI)** is the most comprehensive and systematic approach for improving investment conditions ever developed. It was developed by a task force representing some 60 economies, as well as business, labour, civil society and international organisations and launched in 2006.

The PFI covers ten policy areas and addresses some 82 questions to governments to help them design and implement policy reform to create a truly attractive, robust and competitive environment for domestic and foreign investment. The ten policy areas are widely recognised, including in the Monterrey Consensus, as underpinning a healthy environment for all investors, from small- and medium-sized firms to multinational enterprises.

The PFI is neither prescriptive nor binding. It emphasises the fundamental principles of rule of law, transparency, non-discrimination and the protection of property rights but leaves for the country concerned the choice of policies, based on its economic circumstances and institutional capabilities.

WATER



OECD LAUNCHES THE CHECKLIST FOR PUBLIC ACTION

Timed for release at the 5th World Water Forum, the

OECD just launched the Checklist for Public Action, a practical guidance for governments wishing to engage the private sector in water infrastructure.

To face the tremendous challenge of providing water to their populations, many developing countries' governments have sought to involve the private sector in the management and development of their water systems in the last 20 years. This was seen as a way to inject much-needed investment capital and/or to improve the often poor operational performance of publicly-run utilities.

Experience, however, has not always matched expectations. Past difficulties underline the complex organisation and limited credit-worthiness of the water sector, the short-comings in the investment environments and poorly developed risk management tools and regulatory capacity in the host countries.

To facilitate a better understanding of the risks and opportunities associated with private participation in the water sector and help governments improve the quality of their PSP framework, the OECD has developed a Checklist for Public Action. It provides a coherent set of policy directions based on experiences from countries in Africa, Asia and Latin America and good practices from both OECD and non-OECD countries which covers:

- deciding on the nature and modalities of private sector participation
- providing a sound institutional and regulatory environment
- ensuring public and institutional support for the project and choice of financing
- making co-operation between the public and private sectors work in the public interest
- promoting responsible business conduct.

This project constitutes one element of a major OECD-wide programme on water policies for affordable services and sustainable resource management.

Find the Checklist online at: www.oecd.org/daf/investment/water
OECD portal on the water challenge: www.oecd.org/water

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RECENT PUBLICATIONS

2008 Annual Report on the OECD Guidelines for Multinational Enterprises: Employment and Industrial Relations

This publication provides an account of the actions the 41 adhering governments have taken over the 12 months to June 2008 to enhance the contribution of the Guidelines to the improved functioning of the global economy. It also publishes key findings from the high-level OECD-ILO conference on “Employment and industrial relations: promoting responsible business conduct in a globalising economy”.

OECD Investment Policy Perspectives

This publication focuses on multidisciplinary empirical and analytical research of practical relevance for the global investment policy community. While all of the papers share the common theme of best practices in promoting investment for development, together they also illustrate the broad range of investment policy issues that governments need to consider as they pursue their objectives.

Private Sector Participation in Water Infrastructure OECD Checklist for Public Action

The OECD has developed practical guidance to help governments and other stakeholders to assess and manage the implications of involving private actors in the financing, development and management of water and sanitation infrastructure. The resulting OECD Checklist for Public Action provides a coherent catalogue of policy directions for consideration by governments, including appropriate allocation of roles, risks and responsibilities, framework conditions and contractual arrangements necessary to make the best of private sector participation and to harness more effectively the capacities of all stakeholders.

Managing Water for All: An OECD perspective on pricing and financing

Water is a key prerequisite for human and economic development, and for maintaining ecosystems. However, billions of people lack access to water and sanitation services, mainly due to poor governance and inadequate investment and maintenance. This report, which emphasises the economic and financial aspects of water resources management and water service provision, the need for an integrated approach (including governance considerations) to address these complex policy challenges, and the importance of establishing a firm evidence base to support policy development and implementation, summarises the results of OECD work in this area. Chapter 4 of this publication, *Beyond Money: The Roles of Governments and Private Actors in Water Services*, is based on the work of the Investment Committee.

Several options are available for obtaining publications:

Additional information and links

can be found via the investment portal on the OECD website:

www.oecd.org/investment

Subscribers and readers at subscribing institutions can access the online edition via the online library: www.sourceoecd.org

Non-subscribers can purchase the PDF e-book and/or paper copy via our Online Bookshop:

www.oecd.org/bookshop

Government officials can find the PDF e-book via the publication locator on OLISnet:

www.oecd.org/OLISnet

CALENDAR OF EVENTS

15 JUNE 2009, PARIS, FRANCE

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

This year's event will take 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 2009 roundtable will thus focus 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 will meet for the 9th time since the 2000 Review of the Guidelines 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.

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26 MARCH 2009, PARIS, FRANCE

10th Roundtable on Freedom of Investment at the OECD

OECD and non-OECD governments will focus on:

- *Peer monitoring of commitments to open markets.* Peer monitoring of recipient country investment policies is a standard feature of FOI Roundtables. This Roundtable will discuss Australia's investment review legislation, the management of mitigation agreements under US investment law, recent liberalisation moves in India and observance of commitments to refrain from protectionist measures made in the G20 communiqué. Roundtable participants have agreed to invite non-member governments that feel that their investors have been adversely affected by an FOI participant's investment policy measure. Thus, the peer review gives non-members the possibility to query others about the treatment accorded to their investors.
- *Deeper analysis of investment issues.* Economic and legal studies are often undertaken in support of FOI Roundtable discussions. This Roundtable will consider a fact-finding report on the meaning attributed to the terms "national security", "essential security interests" and "public order" in international agreements, jurisprudence and national legal systems as well as in various national security strategies. This report is designed to support conversations preparing the inclusion in the OECD *acquis* of the OECD Guidelines for Recipient Country Investment Policies Relating to National Security, and includes the guidance on recipient country policies toward SWFs. Inclusion in the OECD *acquis* would strengthen the position of the Guidelines as a source of international investment law.

Participants will finalise a report to Ministers that reviews their work to date and sets forth the high priority issues to be dealt with at future Roundtables (e.g. including emerging forms of protectionisms, foreign sovereign immunity).

Further information about the freedom of investment project can be found at: www.oecd.org/daf/investment/foi.

Contact: Kathryn Gordon, Tel: +33(0)145249842

25 MARCH 2009, PARIS, FRANCE

Investment policy review of India

Senior officials from the Government of India will present recent achievements in India's development of policies to encourage investment, together with remaining challenges and India's agenda for the global dialogue on international investment issues. Participants will also discuss the draft OECD Investment Policy Review of India which is due for release towards the end of 2009.

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AFRICA



African governments look to strengthen investment reforms in response to the global financial crisis

Led by the President of the Republic of Uganda, African ministers and high-level representatives from African and OECD countries met in December 2008 to discuss strengthening investment policy reform in Africa and enhancing private investment in transport infrastructure. Expert papers from this meeting are available online.

In 2009, the work of the Initiative will focus on:

- continuing to provide a forum for regional dialogue and co-operation on improving the business climate.
- undertaking the first country-level project on investment reform implementation with Rwanda.
- engaging business by contributing to the session on risk mitigation for investment in infrastructure at the annual meeting of the Infrastructure Consortium for Africa in March.
- initiating a multi-year project which aims to unlock investment potential in Southern Africa. PFI-based investment reviews will be conducted in four Southern African countries, then followed-up by reform action plans.

Further information on the NEPAD-OECD Africa Investment Initiative is available at www.oecd.org/daf/investment/africa

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