OECD Tokyo Policy Forum on Investing for Development:
Making the most of the Policy Framework for Investment
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Opening remarks by Angel Gurría, Secretary-General, OECD

Minister Aso, Mr. Kuroda, distinguished guests,

It is a pleasure for me to be here today. This is the first event to promote the Policy Framework for Investment since OECD Ministers welcomed the completed work in May. Indeed, it is fitting that the PFI should be launched here in Tokyo – since it is in Tokyo that the idea of an initiative on "Investment for Development" first took shape. And it was Japan who proposed this Initiative at the OECD Ministerial meeting in 2003, where it received widespread and strong support from OECD Ministers. Now, after three years hard work by the OECD Secretariat, our members and other governments, the PFI is ready to be put into action.

The PFI comprises the most comprehensive and systematic approach for improving investment conditions ever developed. It covers ten different 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. It is based on principles of the rule of law, transparency, and non-discrimination, in tandem with human rights and public and corporate sector integrity. These are principles that must be championed by any country that wants a strong and functioning economy. These principles also provide the broad basis for international co-operation.

The PFI was developed through an open and inclusive process. All interested governments were invited to participate and some 60 governments engaged in the extensive inter-governmental consultations that underpinned the development of the PFI. Furthermore, representatives from business, labour, civil society, and other international organisations, such as the World Bank and UNCTAD, also played an active role.

I want to spend a few minutes speaking about the two overarching themes that run through the PFI. Firstly, I would note that the PFI is an instrument that seeks the responsible participation by all governments in the global system. This I would call the "universal theme" of the PFI. The other theme I would mention is the "development dimension". Using these themes to remind ourselves what the PFI was ultimately designed to achieve will be helpful as we put this challenging policy initiative into action.

The PFI's universal theme

Turning first to what I have characterized as the PFI's universal theme - the PFI is a statement of good policy for attracting investment. It draws on recognized best practices. It is applicable for all governments whether in industrialized, emerging or developing countries. In particular, the PFI emphasizes the fundamental principles of rule of law, transparency, non-discrimination, and the protection of property rights.

This message is particularly relevant today given recent developments that suggest that the commitment of some governments to these principles may have become less robust. In Europe there has been some reticence about international mergers or acquisitions in sectors as diverse as steel, banking, energy and even yoghurt. The United States has expressed concern about takeovers of a small oil company and of some of its port facilities. In March of this year Chinese officials began to make warning statements about foreign involvement in their economy. And, we have recently witnessed a resurgence of expropriation in some Latin American countries.

Governments obviously have the right to safeguard national security and other public interests. And governments can have other legitimate concerns, for example where a foreign company proposing a merger is owned by a foreign government or has financial support from a foreign government. Governments are also sensitive when other countries do not reciprocate access to investment as they offer. And sometimes foreign companies – or their home country – have a poor reputation for corporate governance or corporate behaviour.

But we need to be clear – protectionism is not the solution. It poses a serious threat to the health and good functioning of the world economy. Protectionism undermines the many benefits associated with investment, including the efficient allocation of scarce resources, entrepreneurship, healthy competition, innovation, and lower prices and better quality for consumers.

Let me give an example of a sector where we can not afford such protectionism. Energy is a sector where we have seen some resistance to cross-border investment. This is worrying given the crucial role that energy plays in the global economy and in development. Investment is vital for the energy sector – investment in the search for energy, investment in the extraction of energy, investment in the distribution of energy, and investment in new sources of energy, including alternatives to help fight global warming.

The investments required to meet rising energy demand are immense. Recent estimates by the International Energy Agency put the cumulative investment needs through 2030 at around 16 trillion dollars. This is about 1 per cent of global GDP per annum. Most countries will not be able to meet their own needs without investment by the private sector, including by companies based outside their own borders. In light of these needs, recent protectionist tendencies, if they persist, are very worrisome.

The PFI represents a strong statement by both OECD and non-OECD countries in support of the benefits of open and transparent investment regimes. It promotes rules of the game and responsible participation in the global system that all countries should be able to accept -- in their own self interest and in order to preserve and build the global economy that is the source of so much of the world's new prosperity. The OECD and its members will be using the PFI in discussions about investment policy with major emerging partners, including through APEC.

The PFI's development theme

Turning to the PFI's development theme, the very first sentence of the PFI states that it should (and I quote) "contribute to the prosperity of countries and their citizens and the fight against poverty".

The PFI has this strong development theme because the international community has come to understand that poverty can not be overcome unless we engage the power of private investment. And please remember that poverty is the ultimate systemic threat.

In 2000 the international community agreed the Millennium Development Goals (or MDGs). These include eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality, reducing child mortality, improving maternal health, combating devastating diseases, and ensuring environmental sustainability. In 2002, the world's governments backed up these goals with the Monterrey Consensus, which addressed how to leverage the enormous investments needed to achieve these goals.

The Monterrey Consensus recognized that governments (and international development banks) do not, by themselves, have enough funds, or expertise or initiative to meet the investment requirements for achieving the MDGs. The Monterrey Consensus recognized that more private investment, both domestic and international, is essential. And it asks governments to undertake the policy reforms needed to encourage more private sector investment. Many people don't fully appreciate the historical significance of this feature of the Monterrey Consensus. Just ten years ago, many people still considered that business and private investment were part of the problem, and not an essential part of the solution!

The PFI has been designed to help governments address the investment challenge laid out for them in the Monterrey Consensus. In fact, the topics covered in the chapters of the PFI are based upon policy areas identified in the Monterrey Consensus.

Of course the PFI is just one of the elements of the global partnership for development called for in the Millennium Development Goals – and just one of many contributions by the OECD. While the PFI is addressed to governments, the *OECD Guidelines for Multinational Enterprises* are directed to businesses and how they conduct themselves when investing abroad. The PFI is also complemented by the OECD/DAC policy guidance for donors – a sister project to the PFI developed at the OECD – which aims to help countries use their official development assistance more effectively to mobilise private investment for development.

The importance of mobilising investment for development can be seen in a few examples. Consider the problem of providing clean water to the 1 billion people who are estimated to lack access to safe water and 2.6 billion who are without access to basic sanitation. In order to meet the MDGs, annual investment in water supply and sanitation in developing countries needs to be doubled, from the current level of $15 billion per annum. Another example is electricity. The investment in infrastructure required to provide electricity to the 1.4 billion people who currently live without this essential commodity is approximately $700 billion.

A major reason for these discrepancies between investment needs and actual investment levels is that less than 10 per cent of the investment in essential infrastructure in developing countries comes from the private sector. In water, private investment in developing countries is even declining! And without sufficient investment in basic infrastructure, investment throughout an economy is discouraged.

The PFI addresses this situation by helping governments establish the conditions that will make it easier for the private sector to play a greater role – and by helping governments to understand what they should do to obtain the best social returns from investment. The extent to which the PFI contributes to poverty reduction and improving living standards will be one of the ultimate measures of its success.

I hope that with these general observations, first on the universal dimension of the PFI and then on its development dimension, I have been able to convey the idea that the PFI is more than just a technical manual. Investment underpins economic growth at all levels of development, and the PFI has been developed to reflect this.

I wish you a constructive discussion and look forward to hearing your ideas for how we – governments, business, the OECD, and our key partners, such as the Asian Development Bank -- can work together to make the most of the PFI in the years to come.

Thank you.