



Joining the OECD Code of Liberalisation of Capital Movements

THE BENEFITS OF OPEN AND ORDERLY CAPITAL FLOWS

An open and transparent international system of orderly capital flows can underpin global growth and stability. In light of the increasingly interconnected global financial and economic system, as well as heightened capital flow volatility, significant value is attached to credible commitment mechanisms that signal to economic partners that investment channels will remain open. This, in turn, can help countries to continue to attract the long-term, high-quality capital needed to support inclusive growth and sustainable development.

As the premier forum for international economic co-operation, the G20 is well placed to foster constructive dialogue and transparency around the management and monitoring of capital account liberalisation, while G20 members should assume shared responsibility for resisting all forms of harmful protectionism. In this way the global economy can benefit from both strongly positive market signals and enhanced trust in global economic governance.

THE OECD CODE: AN IMPORTANT PLATFORM FOR GLOBAL DIALOGUE AND CO-OPERATION

The OECD Code of Liberalisation of Capital Movements, a long-standing and legally binding instrument, incorporates a tried and tested process of international dialogue and multilateral co-operation. The Code is underpinned by several key premises, validated by evidence and experience. One acknowledges that an open multilateral regime for international capital flows serves the global economy better than closed capital accounts. A second determines that an adhering country benefits from the liberalisation measures of other adhering countries regardless of its own degree of openness. A third resolves that flexibility is needed within the Code, such as the possibility of reintroducing capital flow restrictions in specific circumstances. Generally speaking, the Code is designed to reflect members' search for a balanced and orderly process where liberalisation could be pursued in a safe manner, taking into account individual countries' specific needs and circumstances and preferred

pace of liberalisation. Countries can pursue liberalisation progressively over time, in line with their level of economic development. In the past, several adherents to the Codes, which were then emerging economies, availed themselves of a special dispensation from their obligations under the Code for countries in the process of development while still enjoying the same rights as other adhering countries.

However, and critically, transparency and international co-operation have supported accountability between adherents and have led to positive collective outcomes that avoided "beggar-thy-neighbour" approaches.

Thus, the Code can be an important vehicle to support the G20's commitment to "carefully calibrate and clearly communicate" its actions "to mitigate uncertainty, minimise negative spillovers and promote transparency" as well as "promote financial stability through appropriate frameworks, including by ensuring an adequate global financial safety net, while reaping the benefits of financial globalisation... against the background of risks arising from large and volatile capital flows".

The Code is open for adherence by all countries with equal rights, privileges, and responsibilities.

A REVIEW TO FACILITATE COLLECTIVE ACTION

The OECD is currently conducting a review of the Code. The review will facilitate collective action by boosting transparency and shared understandings on good practices relating to managing and liberalising capital flows. A particular area of interest is the treatment of capital flow measures that are used as macro-prudential measures.

The review is being conducted by the Advisory Task Force on the OECD Codes (ATFC). The ATFC hosts technical discussions on the agreement and includes the vast majority of G20 countries in addition to all OECD countries and relevant international organisations.

A High-Level Policy Dialogue Seminar on Global Orderly Capital Flows and the OECD Code will take place at the OECD in Paris on 25 October 2016.

HOW DO COUNTRIES BENEFIT FROM ADHERING TO THE CODE?

- The Code provides an effective way of framing a concrete plan towards progressive liberalisation by systematically defining a list of operations covered by the liberalisation obligations, and a transparent list of reservations to lodge restrictions. Such plans can be designed to fit countries' policy priorities in global financial markets.
- The Code provides a two-way dialogue platform between a liberalising country and its peers, where the country can highlight the challenges of liberalisation and its peers can share their own experiences in meeting these.
- An adhering country enjoys the liberalisation measures of other adherents, regardless of its own degree of openness.
- An adhering country has the right to transparency regarding the measures of other adhering countries.
- All Code adherents are protected against unfair and discriminatory treatment of their investors established in other adhering countries or of their enterprises seeking to raise capital abroad, and will be entitled to bring problems to the Code's dialogue and seek remedy.
- A country in the process of requesting adherence, or already adhering, reassures market participants that it does not intend to maintain restrictions broader or longer than necessary.
- As an adherent with equal rights and responsibilities, a country fully participates in reviewing and influencing other adherents' policies, shaping jurisprudence and improving rules under the Code.

This paper is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and the arguments employed herein do not necessarily reflect the official views of OECD member countries. This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

www.oecd.org/investment/codes.htm

