Investment

WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Private investment, both domestic and foreign, is key to promoting the economic growth and employment which are essential to reducing poverty. Foreign Direct Investment (FDI) is a major source of finance and an important channel for the transfer of skills and technology. It can, on the other hand, also have undesirable effects, such as when foreign investors do not follow international standards for responsible business conduct. Sources of FDI are becoming increasingly diverse. The emerging economies in the G20 accounted for only 1% of G20 international investment in 2000. By 2010 this figure had risen to 20%.

As in other areas, the economic crisis has had a major impact on investment. International investment declined by over 50% globally in 2009. Developing countries had shown resilience during the crisis, but in 2009, they suffered their first serious declines in inward international investment flows. International investment activity remained flat in 2010, and with markets still fragile and the spectre of various forms of protectionism, further declines can not be excluded.

Investment decisions are taken by investors themselves. At the same time, much can be done by governments at the national level, in both host and home countries and through regional initiatives, to improve the policy environment for investment. At the international level, co-operation on investment issues continues to be fragmented across a range of different institutional settings and separate policy instruments. There is an important role for national governments and donor agencies in helping to strengthen institutional capacity.

Key areas for wider international co-operation are:

- keeping markets open and transparent;
- improving international rules for investment and ensuring a balance between rights and obligations;
- promoting responsible value-added investment;
- promoting international standards for responsible business conduct and monitoring their observance.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Keeping markets open and transparent

Open markets are important for accelerating the integration of developing countries and their investors in the global economy. The political commitment by G20 leaders to refrain from imposing new barriers to investment, underpinned by the joint monitoring process assigned by the G20 to the WTO, the OECD, and the UNCTAD, together with the 'Freedom of Investment' process hosted at the OECD, have helped to ensure that the international investment regimes of the OECD and developing economies have remained open and transparent. The original commitment has been extended to the end of 2013.

The fourth joint WTO-OECD-UNCTAD monitoring report in November 2010 warned, however, that rising tensions could degenerate into protectionism. It found that although most new investment measures were aimed at facilitating and encouraging investment, some countries had put in place capital controls and regulations to buffer their economies from foreign exchange volatility and capital flows. While such measures can serve legitimate purposes, widespread capital controls could lead to a fragmentation of international capital markets and may be difficult to dismantle once in place.

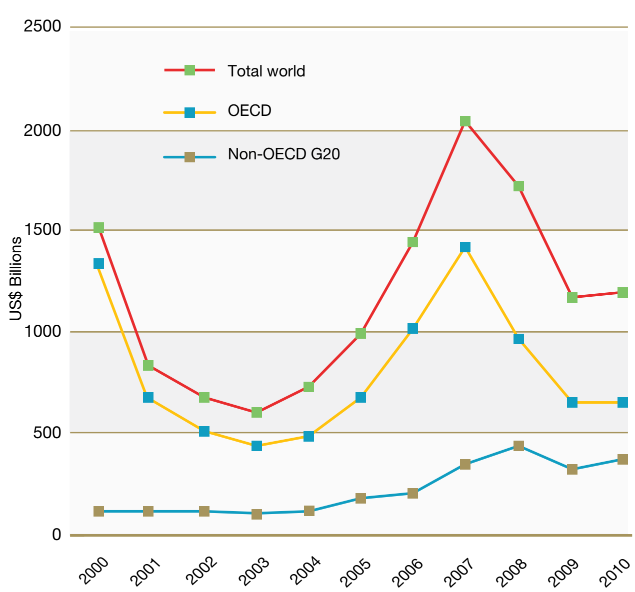
The next step is:

- governments should continue to resist protectionist pressures and should adopt transparent exit strategies to unwind any restrictive measures that have been taken.

(ii) Improving international rules for investment

Advanced, emerging and developing countries have continued to negotiate actively bilateral investment agreements and regional trade agreements with investment chapters. This has resulted in a proliferation of treaties, currently numbering around 3,000. There is, however, no common legal framework for such agreements. The next steps include:

Foreign Direct Investment (FDI) inflows 2000-2010



Source: OECD Investment News, Number 15, 2011.

- policy dialogues, such as those held at the OECD, to explore options to foster more consistency and a higher degree of certainty about interpretations in investment rules;

- helping governments to ensure a balance of home and host-country rights and obligations;

- strengthening existing international investment agreements with low-income countries.

(iii) Promoting responsible value-added investment

There are a number of existing initiatives in this area aimed at helping to improve domestic policy frameworks and institutional capacity, including the Policy Framework for Investment and the Principles for Private Sector Participation in Infrastructure developed by the OECD.

The next steps include:

- development by international organisations of key quantifiable economic and financial indicators for measuring economic value-added and job-creating investment, and recommendations to developing countries on how to attract and negotiate such investment;

- development of options for promoting responsible investment in agriculture (see also Topic 10).

(iv) Promoting international standards for responsible business conduct

The implementation of the ILO standards is being more closely monitored and work is currently underway to strengthen the OECD Guidelines for Multinational Enterprises (MNEs). These Guidelines have been adopted by 42 developed and developing countries.

Work on providing guidance for international investors operating in weak governance zones has intensified, most recently with the endorsement of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas by the UN Security Council's Group of Experts on the Democratic Republic of Congo and the Ministerial Meeting of the UN/African Union's International Conference on the Great Lakes Region (Lusaka, December 2010).

The next step is:

- renewed efforts to both strengthen and broaden multilateral co-operation on responsible business conduct, by both the OECD and emerging country multinational enterprises.

HOW CAN THE OECD, WORKING WITH OTHER ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD is actively engaged on international investment issues, including through its joint monitoring reports to the G20; its 'Freedom of Investment' process, in which 48 developed and developing countries participate; its work on international investment agreements; the OECD Guidelines for Multinational Enterprises, which encourages enterprises to integrate business ethics into their decision-making; and using its investment instruments to help host and home governments work together and make the most of foreign investment.

The OECD can contribute to the above priorities:

(i) Keeping markets open and transparent

Continuing the joint monitoring of investment policies with the WTO and the UNCTAD; and actively engaging developing countries as full and equal partners in the 'Freedom of Investment' process.

(ii) Improving international rules for investment

Working with UNCTAD, the International Centre for Settlement of Investment Disputes (ICSID) and other institutions on advancing mutual understanding and shared practice in investment treaty-making and investment dispute settlement.

(iii) Promoting responsible value-added investment

• Continuing to serve as a platform for peer learning between developed and developing countries, especially through the Global Forum on International Investment, organised with the UNCTAD and the World Bank and hosted by the OECD; programmes such as the NEPAD-OECD Africa Investment Initiative, the MENA Investment Programme, and tools such as the Policy Framework for Investment, the Principles for Private Sector Participation in Infrastructure and their applications to agriculture and water sectors;

• Contributing to discussions within the Committee on World Food Security on how to promote implementation of the Principles for Responsible Agricultural Investment.

(iv) Promoting international standards for responsible business conduct

Updating the Guidelines for MNEs in 2011 in order to increase their relevance and help enterprises use them more effectively: a process which has included inputs from non-OECD Members and other international organisations and the private sector, and will help advance consensus on global standards for responsible international business and promote a level playing field between international investors; and application of guidance on managing investments with transparency and integrity in conflict zones and fragile states (see also Topic 13).

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