INVESTMENT POLICY WORK AT THE OECD

WAIPA CONSULTATIVE COMMITTEE

XIAMEN, 8 SEPTEMBER 2018

OCDE
DES POLITIQUES MEILLEURES POUR UNE VIE MEILLEURE

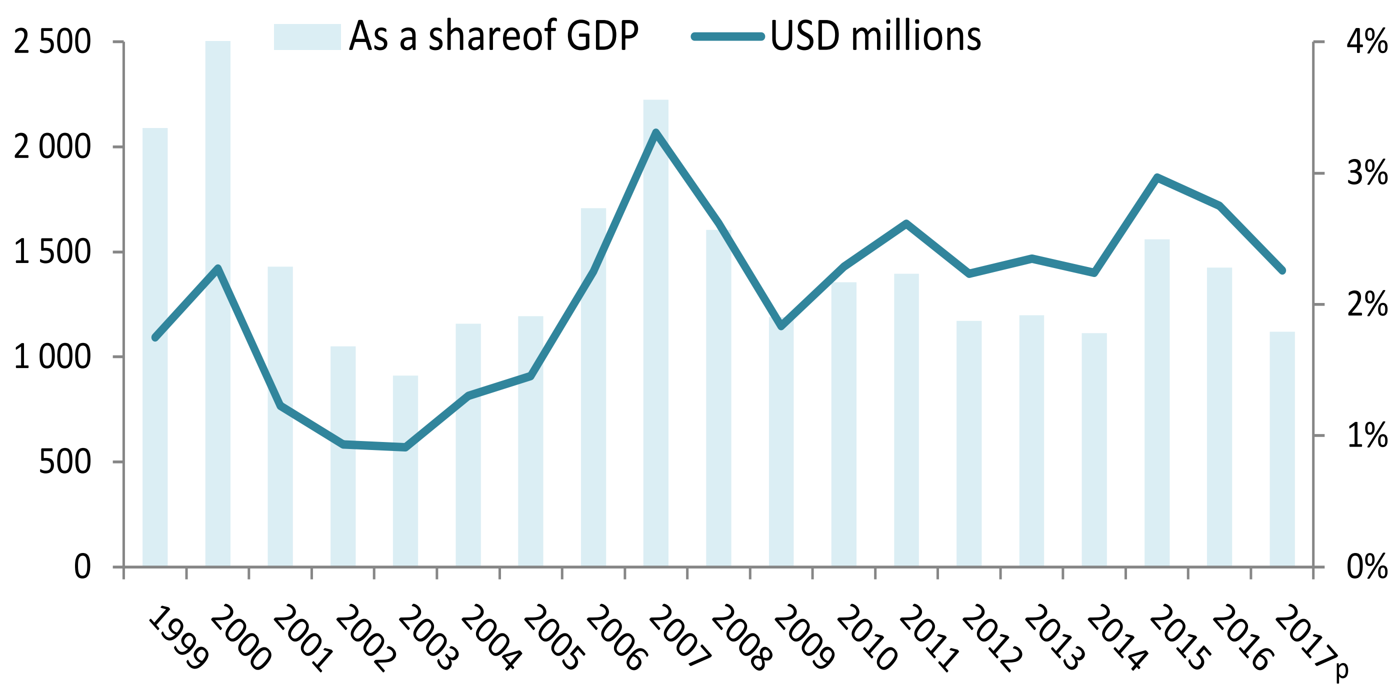
OECD and WAIPA

- The OECD is pleased to be represented as a member of the Consultative Committee of WAIPA which is a leading institution in the field of international investment promotion.
- The OECD is keen to explore areas for potential collaboration with WAIPA.
- The OECD looks at investment promotion and facilitation in Investment Policy Reviews based on the Policy Framework for Investment.

The investment policy community faces new challenges

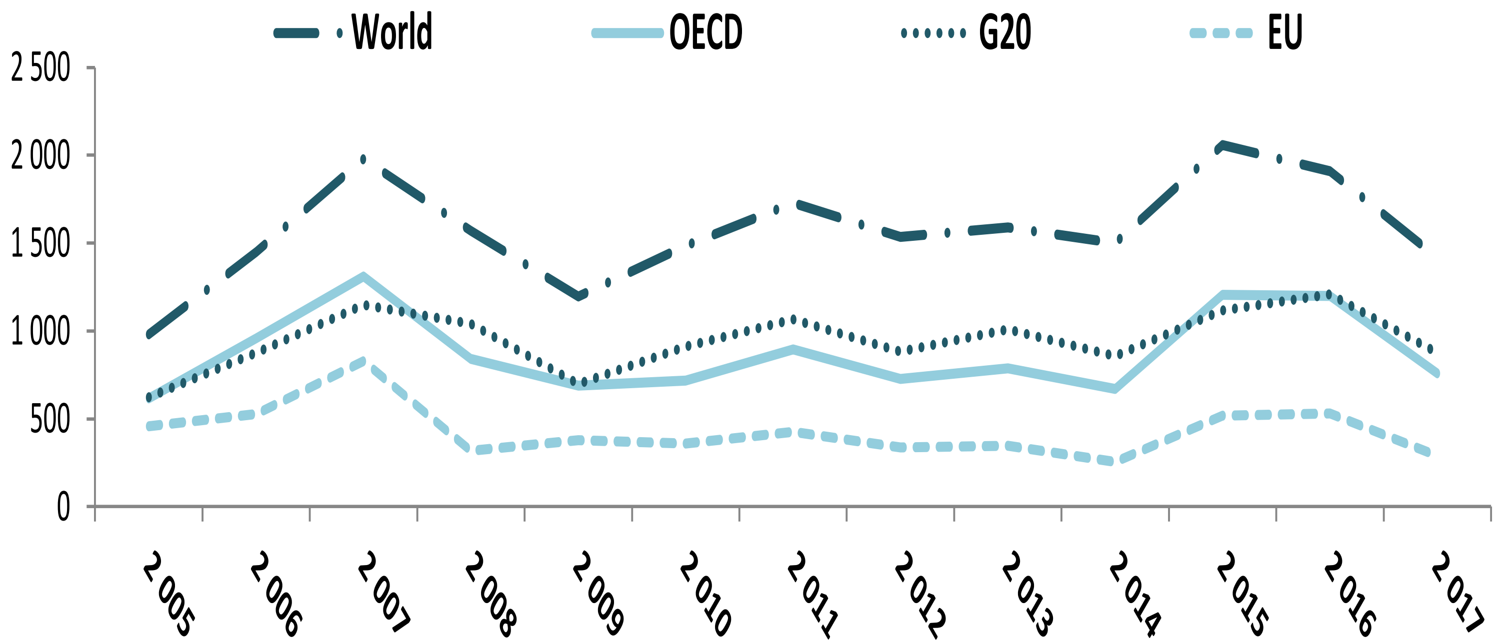
- Evolution and complexity of the global economy
  - global value chains
  - new actors emerging
  - the digital economy
  - sustainable development
  - inclusive growth
  - climate change mitigation
  - societal skepticism
  - end of multilateralism?
- greater emphasis must be placed on analytical capacity to ensure informed investment policy-making

Global FDI flows, 1999-2017



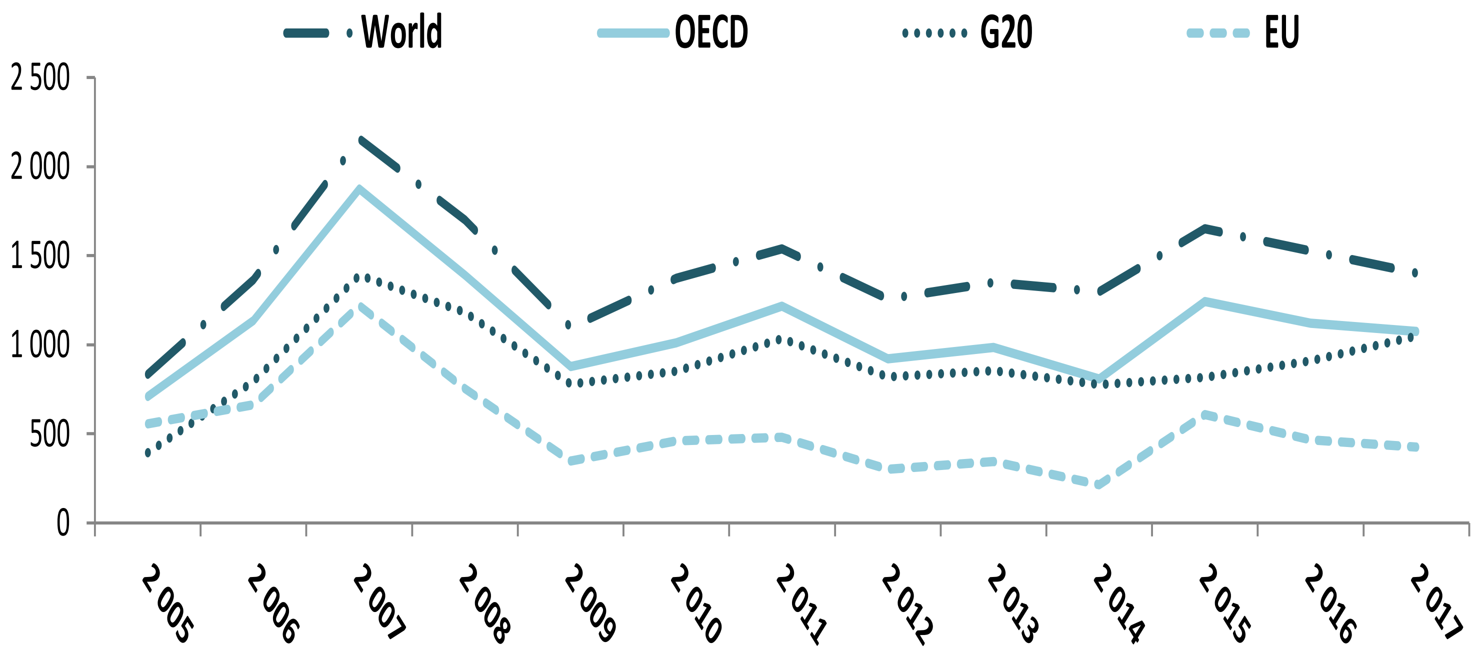
Source: OECD International Direct Investment Statistics database

FDI inflows, 2005-2017 (USD billion)



Source: OECD International Direct Investment Statistics database

FDI outflows, 2005-2017 (USD billion)



Source: OECD International Direct Investment Statistics database

FDI drops 18% in 2017 as corporate restructurings decline

- **Global FDI flows decreased by 18%** to USD 1 411 billion in 2017 compared to 2016.
- In the fourth quarter of 2017, **FDI flows reached their lowest level since 2013** (USD 280 billion)**.**
- **Inflows to the OECD decreased by 37%,** largely driven by decreases in the United Kingdom and the United States from high levels in 2016. **Outflows from the OECD decreased by a more modest 4%**.
- In contrast, **FDI inflows to non-OECD G20 economies increased by 3%** while **FDI outflows decreased by 33%** as FDI outflows from China declined for the first time since 2005.
- The United States remained the largest source of FDI worldwide by a long stretch, followed by Japan, China, the United Kingdom, Germany and Canada.
- China, after being a net outward direct investor for the first time in 2016, became a net inward investor in 2017.
- Although the majority of OECD countries account for a smaller share of global GDP than they did at the start of the global financial crisis, most still account for a larger share of global inward and outward FDI, indicating that they remain among the more financially integrated economies in the world.

The shifting priorities of the Investment Committee

- The need for better data to understand what is happening in GVCs has brought the work on FDI statistics closer to different policy communities.
- Advances in promoting responsible business conduct have shifted the focus to implementation and the role of policy.
- The review of the Codes of Liberalisation of Capital Movements and of Current Invisible Operations has increased the relevance of the OECD to understand and discuss the impacts of international capital flows at global and national levels.
- The broadening of the dialogue on development beyond ODA to a more systematic focus on sustainability has required consideration of how this work should best be organised and conducted.

New mission & objectives

- The mission is to promote growth and sustainable development worldwide through international co-operation and policy reforms in support of sustainable investment policies;
- Its main objectives include:
  - Promoting fair, open and efficient markets through OECD investment instruments to address emerging investment policy challenges;
  - Promoting responsible business conduct globally by supporting the implementation of the due diligence guidance on RBC, through inter alia, multi-stakeholder engagement;
  - Working with governments to put in place policies to maximise the social and economic benefits of I/OFDI and help governments minimise any negative effects and support those who have been hurt
  - Promoting informed policy dialogue, formulation and implementation by improving
    - analysis of investment policies, including investment treaties
    - existing approaches for measuring international investment activities and developing new measures
  - Promoting understanding, awareness, use, and, where appropriate, adherence to the Committee's flagship investment instruments and policy tools, including
    - OECD Codes of Liberalisation of Capital Movements and of Current Invisible Operations
    - OECD Declaration on International Investment and Multinational Enterprises (including the MNE Guidelines)
    - Benchmark Definition of Foreign Direct Investment
    - Policy Framework for Investment.

Investment promotion and facilitation

- Not, until recently, a key objective of the Committee
- Mostly addressed through the PFI
  - includes a chapter on investment promotion and facilitation
  - the basis for country-specific Investment Policy Reviews
- An advisory report on the development of a new IPA in Chile was prepared in 2014.
- Since October 2016, annual workshop of the OECD IPA Network on *Trends and practices in investment promotion and facilitation*

Highlights from the 2017 workshop

- about 130 participants from over 50 OECD member countries and emerging economies
- Participants shared their experience and discussed emerging trends and good practices on:
  - *policy advocacy* – the complementary roles of IPAs and investment policymakers in facilitating investment and fostering investment climate reforms, with a focus on the human and financial resources allocated to this function as well as the detailed activities agencies perform to promote a policy framework conducive to private investment;
  - *prioritisation strategies* – how IPAs build their targeting strategies to focus their resources to attract investment that delivers most benefits to the local economies, including what IPAs prioritise (countries, sectors, types of projects, types of investors), why, and how (decision-making process, selection criteria and exclusion criteria);
  - *co-ordination* – interactions of IPAs with their institutional environment, including external cooperation (with the government and other public sector organisations, private sector, civil society and international organisation) and internal co-ordination (notably with their affiliated offices at sub-national level and/or abroad).

Third workshop on 22 October 2018

- High-level session to launch the ***Mapping of Investment Promotion Agencies in OECD economies***
  - an extensive publication presenting a benchmarking and comparative analysis of OECD IPAs based on a comprehensive survey jointly designed with the Inter-American Development Bank.
  - The study provides evidence on similarities and differences across agencies, lays out different profiles of IPAs, and explains existing trends and practices in investment promotion and facilitation.
- Other topics for discussion will include:
  - How to measure and maximise the impact of FDI on economic growth and other socio-economic objectives (e.g. sustainable development)
  - Monitoring and evaluation of IPAs: how to improve monitoring and evaluation tools to measures IPA activities (case studies will be discussed)
  - How institutional characteristics of IPAs affect their investment promotion strategies
- The workshop will also feature side-events with a regional focus, including a session on the preliminary results of the OECD mapping of IPAs in Middle East and North Africa.

Responsible business conduct

- RBC is important for ensuring that businesses contribute to economic growth without causing or contributing to negative social or environmental impacts.
- Expectations for corporations to manage environmental and social risks throughout their operations, including in their supply chains, has increased with the development and broad recognition of international standards on RBC, such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles for Business and Human Rights.
- There is also growing evidence that responsible companies have a better financial performance

RBC signals safe local sourcing opportunities

- Expectations about responsible business conduct (RBC) are growing and are increasingly reflected in international agreements
- Making an **explicit link between RBC and investment promotion** efforts can help:
  - Brand the country as a responsible business destination (e.g. Cambodia)
  - Reduce reputational risk that MNEs face for irresponsible sourcing, and risk of legal sanctions (e.g. EU investors)
  - Attract MNEs that are more inclined to source locally
- Including RBC principles and standards in **training programmes** can help build absorptive capacity of domestic companies
- Including elements of RBC in **supplier databases** and **match-making services** can encourage business linkages with foreign investors

RBC @ OECD

- The **OECD Guidelines for Multinational En**terprises are the main international instrument on responsible business.
  - directed to **all enterprises**, large and small, including in their supply chain and business relationships
  - align with the **UN Guiding Principles for Business and Human Rights**
  - include the expectations that businesses will undertake risk-based due diligence on issues such as human rights, employment and industrial relations, environment, and other areas to avoid and address any negative impacts of their operations.
  - offer a unique grievance mechanism: the **National Contact Points** (NCPs), which each adherent to the Guidelines is required to set up.
- The OECD has developed **due diligence guidance in specific high-risk sectors and supply chains** such as minerals, agriculture and garment and footwear, as well as for the financial sector (institutional investors).
- At the 2018 MCM, the OECD adopted the **OECD Due Diligence Guidance for Responsible Business Conduct** to help enterprises apply the recommendations of the Guidelines
- Governments have a crucial role to play in providing adequate **policy frameworks** that promote the uptake of RBC practices by companies operating in or from their jurisdictions. By enabling implementation of RBC standards, governments can facilitate companies' integration into GVCs, jobs development, skills creation and sustainable development.

Blockchain @ OECD

- Blockchain has the potential to transform the functioning of a wide range of industries.
- Its features can increase the transparency and traceability of goods, data and financial assets, facilitate market access and improve the efficiency of transactions.
- Governments will play a significant role in shaping policy and regulatory frameworks that help address challenges presented by the technology, and foster transparent, fair and stable markets as blockchain develops.
- The OECD is exploring its policy implications in a variety of areas including health, transportation, agriculture, environment, and supply chain management.