



Lunch organised by the United States Council for International Business

The crisis and its impact on cross border investment

Remarks by Angel Gurría,
Secretary-General
OECD

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Ladies and Gentlemen,

Thank you for inviting me to participate in this event on the financial crisis and its impact on cross-border capital flows and investment.

Just a few months ago, we met around the subject of sovereign wealth funds. It is a great pleasure to be here again to bring our discussions forward.

International investment has spearheaded globalisation – it grew twice as fast as international trade over the 1990-2008 period. The OECD's "Freedom of Investment" project began in 2006 at a time of heightened concerns about national security, but surveys pointed to an overwhelming awareness and recognition of the benefits of increasing global commerce and keeping markets open. The results of a 2007 global opinion poll showed that in the majority of the 35 countries for which data were available, support for free markets had risen substantially over the 2002-2007 period.¹

Then came the economic crisis – the worst in living memory and the most global ever. . According to our Economic Outlook, the OECD countries will contract by an average of 4.3% during 2009; with the Euro area and the United States contracting by about 4% each, Japan's GDP by nearly 7% and Canada's by around 3%.ⁱ As a result, unemployment rates in many OECD countries may reach double digits by the end of 2010. Although these projections were released at the end of March and will soon be updated, the broad picture of our Interim Assessment, where we saw a sharp contraction in 2009 and some recovery in 2010, is still accurate.

¹ The Pew Global Attitudes Project, "World Publics Welcome Global Trade, But Not Immigration: A 47 Nation Pew Global Attitudes Survey". October 4, 2007.

Emerging economies have slowed down at a remarkable pace. GDP growth in these countries is now expected to decelerate to about 2% in 2009 (down from 5.8% in 2008)ⁱⁱ. Even China has experienced a slowdown, with its GDP growth expected to be 6.3% in 2009, down from 9% in 2008 and as much as 12% in 2007).

All these numbers have human and social consequences, as global poverty is increasing. Furthermore, the global crisis has altered the political climate for investment. It has imposed hardships on millions of people and heightened the public's fears and anxiety (e.g. about jobs and pensions). It has undermined confidence in economic institutions, both public and private.

Faced with rising public fear and distrust, governments are now focused on restoring national economic and employment growth and financial stability. They all recognise that open markets will ultimately contribute to a sustainable recovery. However, domestic economic and political pressures might make them less mindful of their international commitments to openness. The real risk is that countries will be tempted to adopt "beggar thy neighbour" policies, including investment protectionism and unfair incentives to attract or retain investments.

That's why this conference is so timely. It is crucial for the investment policy community to counter such pressures, now and firmly. The challenge is to stick to and adopt investment policies that are open, transparent, non-discriminatory and that effectively address legitimate host country concerns.

The OECD is ideally placed to help through our work on investment openness, and our parallel activities to promote fair competition. Our Code of Liberalisation of Capital Movements, was adopted in 1961. With its investment instruments, the OECD provides the only multilateral forum for countering investment protectionism. Strong peer monitoring under the "Freedom of Investment" project and the commitments under the OECD investment agreements, most notably not to discriminate against foreign investors under our "National Treatment Instrument" and to promote responsible business conduct under the Guidelines for Multinational Enterprises, provide illuminating examples of our capacities.

In the immediate future, OECD's work will continue to build on the Strategic Response to the Global Crisis, which we launched at the end of 2008. And a critical policy area will be keeping markets open for trade and investment on which we will be focusing on at this year's Council Meeting at Ministerial Level (MCM), scheduled to take place in Paris on the 24-25 June. The USCIB will be there, through its role in BIAC. You will in fact be addressing the Ministerial itself for the first time. We look forward to your participation there.

Looking beyond the urgency of the crisis, international cooperation in monitoring investment policy is also critical. Lack of confidence in fair treatment for investors may harm investment, and thus prospects for long-term growth in the future. The OECD has developed principles that help host countries to refine their policies to address national security and other legitimate concerns, while also ensuring the fair treatment of investors.

The OECD is also monitoring investment measures and a detailed report will be made available at the OECD Ministerial meeting in Paris in two weeks' time. The OECD WTO, UNCTAD and IMF have agreed to cooperate on a joint report to G20 countries on their commitment to refrain from raising new barriers to investment.

What developments have we seen recently?

Let me start with the good news. Our analysis so far shows that, overall, countries have by and large respected their standstill commitment on international investment, despite the crisis. Recent investment policy measures generally point toward greater openness. OECD instruments and peer pressure mechanisms maintain their power and validity even in times of crisis. Governments have understood that openness is crucial to overcome the crisis and that it is in their own best interest.

However, continued OECD monitoring will be vital to keep it this way. We have to be realistic. We have to acknowledge that the new powers of governments, temporarily created to restore national economic growth and employment, also pose risks for freedom of investment. In some cases, discrimination against foreigners is built into the programs. For example, the US excludes foreign-controlled banks from eligibility in some capital assistance schemes. Moreover, governments have considerable discretion in distributing the billions of dollars budgeted for emergency relief to business. This discretion may be needed, but it can also be used to restrict inward and outward investment flows.

Additional risks stem from the discriminatory application of competition, national security and other laws. For example, there has been considerable concern regarding decisions by China and Australia to block or impose conditions on some forms of inward investment. Through our work, we help countries to stay vigilant and to maintain the standards for fair treatment of foreign investors. Another example is our guidance on host country policies towards Sovereign Wealth Funds – which I described to you during my last visit. It is now being used as a benchmark for evaluating policies at the “Freedom of Investment” Roundtables hosted by the OECD.

Ladies and gentlemen, the business community shares responsibility for rebuilding trust and confidence in international investment and helping governments contain anti-globalisation sentiments. The OECD is firmly committed to promoting responsible business conduct. We

will explore, together with business, the merits of updating the OECD Guidelines for Multinational Enterprises. The goal of the update would be to increase their global relevance, further clarify private sector responsibilities and promote responsible international business worldwide.

This meeting is an opportunity to move the debate one step further and I welcome your input and ideas on how to make this possible.

Thank you very much.

ⁱ OECD's Economic Outlook Interim Report

ⁱⁱ World Bank, "As Global Economy Deteriorates, World Bank Predicts Sharply Slower Growth in Developing World In 2009; Weak Recovery in 2010", Press Release No:2009/285/DEC, Washington, DC, March 31. See:

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22121495~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>