



OECD GLOBAL FORUM ON
INTERNATIONAL INVESTMENT

*NEW HORIZONS AND POLICY CHALLENGES FOR FOREIGN
DIRECT INVESTMENT IN THE 21ST CENTURY*

Mexico City, 26-27 November 2001

PANEL B
GOVERNMENT RESPONSIBILITY:
BEYOND TRADITIONAL FDI POLICIES

Mr. Wesley Scholz
Director, Investment Affairs, State Department, United States
(and Vice-Chairman of the Committee on
International Investment and Multinational Enterprises)

- Welcome to Panel B: “*Government Responsibility: Beyond Traditional FDI Policies.*”
- This conference and its focus on the policy framework comes at a particularly important time given the slowing global economy and the recent controversy at Doha over the issue of investment rules.
- When I came to my job six years ago, I came as a lawyer masquerading as an economist. As a lawyer I was quite comfortable with the emphasis my office placed on negotiating investment agreements.
- But increasingly I came to understand that the interests of U.S. investors and those countries desirous of their investment were most strongly affected by the policy framework.
- Agreements, whether bilateral investment treaties, regional agreements or multilateral rules could make a contribution, but they were not an end in themselves.
- To often our interlocutors in negotiations came to the table with the view that simply concluding an agreement would cause investment to flow without the need for fundamental changes in policy in key areas.
- Adapting a phrase from the political campaign of our previous President, “It’s the policy stupid.”

- For this reason we should not be too concerned about differences over whether the new Global Trade Round produces comprehensive rules on investment.
- Investment is an area where good policy drives out bad and the competition for investment is the driving force.
- Over aggressiveness in pressing for multilateral rules when there are legitimate concerns among some about their capacity to realize the benefits of existing trade rules can be counterproductive.
- The danger of multilateral negotiations in such an environment is that they tend toward the least common denominator.
- In such circumstances, rulemaking can actually impede the policy reform and liberalization rather than stimulate it.
- All of our governments need to reflect on this as we approach the subject of investment in the New Round. Careful thought will need to be given to how to develop a realistic progressive agenda that will reinforce the reform that is already underway at the national level.
- In particular, proponents of an ambitious negotiating agenda need to modulate their expectations.
- I apologize for this digression, but I believe it does help to put the importance of the issues to be addressed by this panel in perspective.
- Panel B's focus is how governments can adopt and **integrate both traditional and innovative investment policy tools** to fare better in the global competition for investment.
- Earlier speakers have noted the anticipated decline of FDI flows in 2001 and the urgency it brings to **coordinating the broadest possible set of policies** to attract foreign investors.
- As Dept Sec Gen Moe pointed out in his opening remarks, "**traditional liberal FDI policies**" i.e. **National Treatment, Most Favored Nation, investment protection, and market access**, are only the starting point.
- Although necessary they are **not alone sufficient**.
- They must be complimented by **sound rules on corporate governance, effective public administration, shared responsibility in capacity building, fair and non-distortionary tax policy, effective competition policy an efficient banking and financial sector, and linkages to trade policy**.
- In addition they **must take account** of growing **societal expectations** in home and host countries in other areas such as **environmental protection, improved working standards and respect for human rights**.
- The more effective countries are in integrating policies in all of these areas, the more success they are having in attracting significant flows of foreign investment.
- Economic determinants and locational advantages will remain vital, but increasingly for most countries the competition for foreign investment is being fought and won on the basis of a well integrated policy framework.
- Our **First Speaker, Mr. Vudayagi Balasubramanyam (who kindly introduces himself as "Baloo")** is a Professor of Development Economics, at the Management School of Lancaster University in the United Kingdom. He was educated at the Universities of Mysore, Chicago and Illinois and is a specialist on international trade and investment issues. Widely published, Baloo will be talking to us about the challenges facing policy makers in developing countries -- how best to attract substantial volumes of FDI

and utilize it effectively in the promotion of development objectives. Baloo may make a case for multilateral rules for investment and for increased assistance from source countries in much-needed capacity building, especially in the building of government structures.

- Our second speaker, **Ambassador Marino Baldi**, is someone with whom I have had the pleasure of working through the OECD Committee on International Investment and Multinational Enterprises for many years. Ambassador Baldi is a member of the Executive Board of the State Secretariat for Economic Affairs in Switzerland's Ministry of Economic Affairs. He also serves as Chairman of the Advisory Group on Non-Members of the OECD Committee on International Investment and Multinational Enterprises. Ambassador Baldi, in part, responding to some of the points raised by Mr. Baloo, is prepared to speak with us today about the shared responsibility between governments, MNEs, international organizations and other stakeholders, to create favorable conditions for maximizing the benefits of FDI. He will also offer a home (source) country and OECD-member perspective.

- We now turn to our third Panel B presenter, **Mr. Pierre Poret**, another OECD colleague with whom I have had the honor of working over the past years. Mr. Poret is Head of the Capital Movements, International Investment and Services Division in the OECD's Directorate for Financial and Fiscal Affairs. Previously, he served as Deputy Head in the OECD Secretary General's Cabinet. A sound and efficient banking and financial sector is often a key determinant of where investors decide to locate. Mr. Poret will speak to us today about making FDI and financial sector policies mutually supportive.

- Break -

- Panel Discussions

Given the high interest in individual presentations, the conference organizers have given us the opportunity this afternoon to hear from four experts, including OECD Non-Member perspectives.

- To begin this session, I would like to welcome **Ms. Nataliya Yacheistova**, who comes to us from Russia's Ministry for Antimonopoly Policy and Support of Entrepreneurship. She serves as Advisor to the Minister and is a member of the Intergovernmental Council for Competition Policy. Ms. Yacheistova has received training at the European Institute of State Administration, the WTO, the European Commission and at the OECD. The topic of Ms. Yacheistova's talk is "The Russian Experience Regarding the Impact of **Competition Policy on FDI Flows**."

- **Second speaker (TBD)** will address **taxation** issues, focusing on FDI policies regarding tax incentives and transfer pricing. (Will be either a Brazilian or South African speaker.)

- **Mr. Michael Gestrin** comes to us from the OECD Trade Directorate, and in this capacity is excellently positioned to discuss the theoretical and empirical arguments on the proposition that **export-oriented FDI** is better than FDI that is not export oriented. Mr. Gestrin previously served as an economist at UNCTAD where he conducted research on the activities of MNEs and also lectured on international business at the University of Toronto. "Mr. Gestrin, is export-oriented FDI better?"

- Panel B's final panelist comes to us from the world-renowned World Wide Fund for Nature (formerly the World Wildlife Fund). **Ms. Aimee Gonzales** is a Senior Policy Adviser, who will address FDI, the environment and setting a framework for **sustainable development**.