May 2020

Investment, the key to recovery

Investment drives trade and creates jobs. However, international investment has been severely impacted by supply chain disruptions, countrywide lockdowns and the emerging economic crisis caused by the Covid-19 pandemic. Moreover, negotiations about international trade and investment agreements are currently on hold, and policy environments are becoming increasingly hostile. Going forward, earnings reductions will likely exert additional pressure on investment while the reserves of companies needed to finance investments are being depleted by the crisis. In the longer term, there may even be divestment.

According to recent OECD estimates, FDI flows are expected to fall by more than 30% in 2020 even under the most optimistic scenario .There are still many unknowns, and the precise effects will depend on the severity and duration of the pandemic as well as the policy measures taken by governments. However, it is undisputed that massive investments will be needed to face the twin challenges of recovering from the crisis while at the same time realizing deep transformations in our societies such as addressing climate policy and fostering digitalization.

The unprecedented nature and the severity of the impact underlines the need for determined action at the national and international levels. Yet, the voices calling for protectionism are getting louder and louder. Wrong policy choices now will have dire consequences later. More than ever, the OECD, with its excellent expertise and analytical strength in the field of investment, its unique instruments and its global convening power, is needed to provide an authoritative, convincing, fact-based foundation for growth-, technology- and employment-enhancing national and international investment policies in the coming years.

- **The OECD has a key role to play in pushing back against unilateralism:** In the first emergency phase of the crisis, governments have been implementing unilateral measures as emergency responses for fighting the health and economic consequences of Covid-19. At the same time, as countries fear or experience shortages, calls are surfacing to reduce the dependence on international supply chains and step up national security policies. Protectionism and inward looking policies had already been on the rise in pre Covid-19 times. It is now critical to ensure that sentiments do not turn further against globalization and foreign investment. **The OECD should play a prominent and pro-active role in upholding the importance of open international trade and investment**, providing countries with a forum for discussion to find evidence-based, coherent solutions to the current crisis and to put the structures in place that allow for swift recovery.

- **Implementation of OECD standards on investment is more relevant than ever:** The OECD possesses a set of unique instruments to ensure policy coherence and a level playing field for investment. These include the OECD Declaration on International Investment and Multinational Enterprises, with its respective chapters on national treatment, conflicting requirements, investment incentives and disincentives, the OECD MNE Guidelines, the OECD Codes of Liberalization of Capital Movements, the OECD Policy Framework for Investment, and the OECD Guidelines for recipient country investment policies relating to national security. An important starting point is that an open investment environment must go hand in hand with responsible business conduct (RBC). **Monitoring the implementation of these instruments as well as further outreach should remain high on the OECD agenda**.

- **We need sound data and analysis to inform policy discussions**: The OECD is a key provider of investment data and empirical facts (FDI restrictiveness index, FDI in figures reports, etc.), which can help identify critical trends, steer evidence-based discussion and address rising skepticism about foreign direct investment. **We recommend giving OECD analysis increased political visibility and attention to inform discussions on the recovery from the crisis and support an enabling environment for investment,** drawing on private sector data and expertise as appropriate.

- **The key to economic recovery is more investment, not less:** While the most urgent health challenges of the Covid-19 pandemic must be addressed, governments also need to focus on providing stimulus for domestic and foreign investment and address bottlenecks. Both private investment and reinforced public investment will be essential to get the economy back on track, generating employment and income, while at the same time improving 'pandemic preparedness'. Supporting the business community, including both large and small enterprises, is thus not only essential during the crisis to ensure companies can continue to provide basic services, but also in the recovery phase and in the longer term. Given the twin supply and demand shocks hitting the global economy, there is a significant risk that private investment will not pick up by itself.

  The OECD should therefore urge governments to **reduce existing impediments to private sector investment,** for instance by reducing red-tape and complexities in the regulatory environment, maintaining well-functioning capital markets, and protecting a competitive level playing field. **Adequate investment protection continues to be an important driver in encouraging investment**. The OECD should also help ensure governments publish information on their 'essentials services' policies in a transparent manner to provide investors with the necessary clarity.

- **Addressing the current crisis also provides an opportunity to foster other productivity enhancing investments**, including in the area of digitalization, investments to address global challenges such as climate change as well as sustainable growth and workforce development. The OECD should develop policy recommendations on creating the right synergies between the policies needed to recover from the crisis and address the other global challenges, as this is crucial for our future prosperity.

- **Tackling critical investment needs, a role for the public and private sector:** In addition to setting an enabling policy framework for private sector investment, the public sector has an important role as a key contributor to investment, at least initially. Such investments can also help trigger private investments, which are urgently needed. The OECD should therefore **advise governments to take an initial lead in making investments in key areas** such as health, innovation, infrastructure, transportation, digitalization, which are particularly critical and urgent to address the Covid-19 crisis and ensure better preparedness going forward.

- **We need fact based OECD analysis on the value of investment:** The OECD's FDI Qualities project bears a great potential for underlining the critical contribution of FDI to promoting economic and societal development, which is all the more important in the current context. The toolkit, which is to be developed in the second phase of the project, should be geared towards becoming a useful tool in guiding economic recovery – also considering specific requirements of the developing world. In this context, the Investment Committee may also consider reinforcing its collaboration with the Development Assistance Committee.

- **Recalling the essential aim of GVCs and making supply chains more resilient:** In light of rising pressures to secure national supply and reinforce national production, it is important to find a balance between domestic and foreign supply in particular in critical sectors, taking into account the need for diversification and maintaining open markets. Making supply chains more resilient requires diversification, both at domestic and international levels. Relying on one single supplier of a good may be a problem, but this problem may occur irrespectively of whether the supplier is foreign or domestic. GVCs continue to play a crucial role, allowing companies to benefit from the competitive advantages of specialized producers and diversify risk. Well-functioning and undisrupted GVCs also play a crucial role in the immediate fight against the virus given that medical devices typically comprise components, which are being produced in different countries all over the world. In the light of the widespread inward looking policy reflexes emerging in the current crisis, **we call upon the OECD to demonstrate the added value of GVCs and the damaging effects of disrupting GVCs**.

- **Restrictive measures on trade and investment must remain temporary:** While certain restrictive measures may be justified in the short term to address immediate concerns about public health, we underline that such measures need to remain transparent and temporary. Recognizing that countries may wish to introduce certain measures for reasons of national security, we caution against the hasty introduction of Corona-related investment screening mechanisms, which could hamper the longer-term potential of investment. It is also important to pay due attention to developments, which may disadvantage or discriminate against foreign investors in disguise. Such measures could include preferential treatment of domestic firms, the exclusion of foreign firms operating domestically from economic support measures or the introduction of local sourcing requirements. **The OECD Freedom of Investment Roundtable can play an important role in monitoring new restrictions and ensuring that they are transparent, proportional and limited in time.**

- **Maintaining a global level playing field.** On the issue of government support for domestic firms in the Covid-19 crisis, we underline the need of ensuring transparency, time limitation, proportionality and non-discrimination as well as the importance of targeted measures that do not only provide short-term gains, but which also support longer-term policy objectives of creating an enabling environment for investment. The OECD should help **ensure a global level playing field for FDI and monitor trends of unfair competition**, including undue advantage to SOEs in international investment, dumping in supply chains and national subsidization in a way that distorts markets.

- **Responsible business conduct remains a critical component of the investment agenda:** While it is more important than ever to get investment back on track, it is key that we do not lose the momentum on RBC during the Covid-19 crisis. This is especially relevant as there may be new RBC challenges, but also opportunities emerging from the crisis. Implementing OECD instruments in this area, including the OECD Guidelines for Multinational Enterprises, remains particularly important.