New Horizons for International Investment and Sustainable Development

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I. OVERVIEW

Declarations at Doha and Monterrey—to improve market access to, and increase public and private investment flows from, countries of the Organisation for Economic Co-operation and Development (OECD)—represent important steps towards achieving sustainable development worldwide. They need to be vigorously pursued. At the World Summit on Sustainable Development in August-September 2002, Heads of State and governments will gather in Johannesburg, South Africa to assess their progress towards sustainable development since the 1992 Rio Earth Summit. New inter-governmental actions to close the gaps in implementing Agenda 21 will be set out, and innovative partnership initiatives between different actors—including national and local governments, the business community, civil society groups and other major groups—will be highlighted.

Clearly, OECD countries bear a special responsibility for leadership on global sustainable development, historically and because of the weight they continue to have in the world economy and environment. Achieving the targets set by the 2001 UN Millennium Development Declaration for 2015—including reducing extreme poverty by half and eliminating hunger—is a major challenge for all countries. OECD country efforts to work towards these goals, in co-operation with developing country partners, will be crucial. In addition to poverty eradication, the main priorities include: changing unsustainable patterns of consumption and production; protecting and managing the natural resource base; sustainable development in a globalizing world; health; sustainable development initiatives for Africa; means of implementation; and strengthening governance for sustainable development.

The process of globalization, including trade and investment liberalization, is widely believed to contribute to sustainable development worldwide, provided appropriate national policies are in place to ensure environmental and social protection.1


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Although increasing access of developing country products to OECD markets is an important element of this, OECD countries continue to maintain trade barriers and subsidies despite concerted efforts to reduce them. Removing or reforming many of the agricultural and energy subsidies would improve economic efficiency in OECD countries, free up funds for other purposes and potentially reduce pressures on the environment. As such, OECD countries can play a critical role in ensuring that the implementation of the Doha Development Agenda and the Monterrey Consensus contribute to sustainable development worldwide.

Without higher rates of growth and strong commitment to achieve these goals, many developing countries will likely continue to suffer serious consequences in terms of increased conflict, the spread of disease, migration pressures and environmental degradation, all of which have a direct bearing on OECD countries. Much of the financing for the investment to sustain growth, ensure stability and increase prosperity, thus making globalization work for all, must come from domestic resources, but external private flows, including foreign direct investment (FDI), are also essential.

In today's changed international environment, governments on all continents actively seek FDI inflows because they recognize that, with the right policy settings, it can contribute substantially to sustainable development and to reduction of social and environmental challenges. The recent global economic slowdown and the post-11 September uncertainties have intensified competition among nations to retain, attract and maximize the benefits of FDI.

The magnitude of FDI flows continued hitting new records in the course of the previous decade before falling back significantly (by more than 40 percent) in 2001. In 2000, world total inflows reached US$ 1.3 trillion—four times the levels that were recorded five years earlier. Over 80 percent of the recipients of these inflows and more than 90 percent of the initiators of the outflows are located in developed countries.

II. SUSTAINABLE DEVELOPMENT AND INVESTMENT

Undoubtedly, the "sustainable development dimension" of investment will increasingly be at the center of international investment issues and will preoccupy investors, financiers, host and source governments and civil society groups in the years ahead. Foreign investment can have significant impacts, positive as well as negative, on development, but one should distinguish between the effects of economic development

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5 Even the minority of FDI that does go to developing countries is spread very unevenly, with two-thirds of total OECD FDI flows to non-OECD countries going to dynamic Asian and Latin American economies. However, these FDI inflows do represent significant sums for many developing countries, several of them even recording FDI-to-gross-domestic-product ratios in excess of 50 percent.