



The Voice of OECD Business

G8 Business Summit

24 April 2009

BIAC key messages on open markets

Why open markets matter

International trade and investment, which are key drivers of global growth and poverty alleviation, have been falling considerably as a result of weakening global demand. The WTO projects a reduction of the global trade by 9% this year. According to the OECD, FDI inflows in its member countries have dropped by 13% in 2008 and they are continuing to fall. Business is concerned that re-emerging protectionism and economic nationalism will give an additional blow to cross-border activity and, through this, exacerbate the current economic crisis.

Beggar-thy-neighbour policies aggravated the Great Depression in the 1930s. In the current crisis, we have not yet seen the blunt forms of protectionism applied eight decades ago. However, governments, including from G8 countries, have applied discriminatory policies which give their domestic companies a competitive edge to the disadvantage of foreign investors and exporters. Actions taken include higher applied import tariffs, “buy national” requirements, state aid for specific industry sectors and increased government scrutiny applied to incoming foreign investment.

The trend towards economic nationalism and protectionism must be stopped and reversed because it implies high costs for our economies, companies, consumers and employees. Consumers will have to pay higher prices for less competitive goods and services. Necessary restructuring of domestic industries will be delayed. Increased investment costs and risks will reduce foreign capital inflows further. Global economic efficiency will be reduced thereby leading further losses of employment and welfare.

An important difference to the economic environment eight decades ago is that today even seemingly small policy changes can incur high costs. Multinational firms have established global supply chains to produce products and services anywhere in the world where this can be done best. These supply chains, which vitally depend on the seamless cross-border flow of goods, services and capital, have been driving global integration in the past decades thereby boosting cross-border trade and investment to unprecedented levels. Any increase

in barriers to international activity acts like a spanner in the works of these global supply chains and will inevitably lead to lower global trade, investment, productivity and welfare.

Keeping markets open for foreign trade and investment is vital for sustainable economic recovery. Governments must therefore avoid any discrimination between domestic and foreign companies. Further elimination of trade and investment barriers would support a swifter return to economic growth. A 10% increase in trade is usually associated with a 4% rise in per capita income, according to evidence reported by the OECD. Foreign investment also offers tangible benefits for companies and countries, of which the most important in the current climate is the embedded additional capital that our companies urgently need to invest, maintain production and save jobs.

Policy priorities

The London G20 Summit on 2 April represented an important step in helping rebuild the confidence in the global economy. An important result was the extension of the pledge by political leaders' not to raise any barriers to foreign trade and investment to 2010 combined with the call on international organisations to monitor and report about implementation. The G8 Summit in July provides a crucial opportunity to build on these results and to confirm the leading role of the major developed countries in keeping markets open. OECD business calls on the leaders of the G8 governments to take action in the following areas:

- **Implementation of existing commitments:** Governments should redouble their efforts to ensure that any measures taken in response to the economic crisis are fully consistent with the letter and spirit of WTO law, the G20 declaration and the commitments by all OECD countries to keep markets open for foreign investment.
- **Effective monitoring:** Rigorous monitoring is needed to ensure that countries take their existing commitments serious and fully implement them. The G20 declaration of April recognizes this and calls on "*the WTO, together with other international bodies, within their respective mandates to monitor and report publicly on our adherence*" to the commitments. Business believes the OECD should lead the monitoring of implementation as far as foreign investment is concerned. The OECD has championed open investment policies for decades. It is the only international organisation that possesses the instruments, knowledge and experience which is required for credible monitoring of investment policies. BIAC calls on the G8 leaders to openly support the OECD in taking the leadership in the monitoring of the investment related G20 commitments.
- **Opening markets further:** The heads of government must provide the political will and take leadership to achieve consensus among G8 countries and other leading WTO members on the details for trade in agricultural and industrial products to pave the way for a rapid conclusion of the WTO Doha Development Round with meaningful results across all the major areas, i.e. agricultural, industrial goods and services.