Quest for Investment Liberalization

Luncheon Address
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Distinguished Guests, Ladies and Gentlemen,

It is a great pleasure for me to be here today at this event and to address such a distinguished gathering. This is a unique occasion where we have government officials, business representatives, and academia from APEC member economies as well as representatives from international organizations, all gathered here in Bangkok to discuss how APEC should move forward to achieve freer investment flows.

I believe there is no need to stress the importance of the topic that you, distinguished guests, are focusing on at this symposium. We are all aware that investment is an area without concrete frontiers. A broad spectrum of issues is related to investments. It is undeniably a complex, difficult issue with far-reaching implications for every economy. Nevertheless, this challenge is worth exploring, particularly for APEC, which has a goal to achieve free and open trade and investment by the year 2010 for developed members and 2020 for developing members.

Investment liberalization is a prevalent policy theme around the globe in recent years. The Agreement on Trade-Related Investment Measures (TRIMs) has been created under the Uruguay Round trade talks to discipline the use of performance requirements imposed on investors, and stresses non-discriminatory practices. APEC has produced its own set of non-binding investment principles. Thailand supports the notion of the WTO as the best forum for negotiating actual regulations because of its inclusive, multi-lateral nature. OECD is currently in the process of negotiating its Multi-lateral Agreement on Investment. Bi-lateral negotiations on investment issues are conducted on a continual basis. These are just a few examples that indicate how active development of international investment is right now.

The question is not so much on whether or not governments should liberalize their investment regimes. Long-term benefits arising from liberal investment environments are well recognized. In an area with strong intra-regional investment like APEC, increasing investment flow is certainly desirable as long as it does not isolate the region or polarize global markets.

I believe that questions of investment liberalization concern “how” and “when” rather than “whether or not”. The Bogor Declaration has set a general goal for APEC to achieve free and open trade and investment by the target dates. The details of “how” and “when” are left to most of you here to figure out. This is not an easy task, and should be thought about in the larger context of the WTO as well as APEC.

As a former diplomat and presently a businessman, I would like to take this opportunity to share my views with you. When I assumed the responsibilities of Prime Minister of Thailand, I had a chance to be involved in various investment facilitation and liberalization schemes. As Prime Minister, I also chaired the Board of Investment. My experience tells me that the agenda in front of you is extremely complicated. A broad range of factors has to be taken into consideration, and theoretical expectations may diverge widely from realities.

We often hear of two motives underlying investment liberalization. One is to enhance an economy's attractiveness as a foreign investment location. Creation of a level playing field is often cited as one of the most effective means to attract foreign investment. The other motive is to benefit consumers. Perfect competition, as the basic economic theory goes, creates a win-win situation: The industries of an open market and the global market as a whole are stimulated to work more cost-effectively and efficiently as a result. Consumers then enjoy the largest range of products at the best prices.

In effect, I believe that most policy makers have no quarrel with the benign objectives of investment liberalization. Most governments recognize that competitiveness is a key to thriving in today's global economy where distinct borderlines between international economic transactions do not exist. However, whether these desired objectives can truly and effectively be materialized remains a moot point.

As one of the creators of the ASEAN Free Trade Area, I certainly have all the reasons to believe in removal of major barriers to investment. One crucial motive behind the establishment of AFTA is to induce more foreign investment into this region. It was not to form a trade bloc. Our idea is that it is easier to begin removing barriers in a smaller region - and then to keep expanding the barrier-free environment with the long-term goal of creating a truly free global market.

Common international rules governing the treatment of foreign investment by host governments are believed to be a means to promote its flow. More freedom and less unpredictability will occur in an environment where everyone observes the same rules and practices. You will probably hear about the development of the creation of the Multi-lateral Agreement on Investment Agreement being pursued by OECD at this symposium. This so-called "MAI" is expected to provide foreign investors from every part of the world with the same rules of the game. So, ostensibly, the level playing field can become a reality.

Many policy makers may argue against the necessity of international rules, claiming investment policies lie within the sovereign rights of host governments. Moreover, the exact same set of rules cannot be equally appropriate for both developing and post-industrial economies. This principle is recognized by GATT, which allows countries trying to attract investment to poor rural areas to use incentives to lure industries.

It should be noted that barriers to investment do not come from public policies alone; natural resources, history, geography and other factors all come into play. However, one school of thought holds that by creating a set of common rules, economies will ensure the requisite environment for foreign investment.

However, it is not my intention today to debate for or against the formation of the MAI but to use this as one example of the numerous on-going attempts to establish universal rules for investment which are believed to promote greater flows. In the long run, the larger the arena of players, the more efficiently the market should function. In the shorter term, though, we need to look carefully at the motives of those pushing regulations on smaller economies. Sometimes, those demanding common standards are really seeking advantage for themselves, not a cleaner planet or better treatment of workers.

It is notable that even without a set of common universal rules, liberalization is the current theme for policy makers in most economies. If we look around the globe, we witness actions taken by many governments attempting to deregulate and liberalize their investment regimes with an intention to improve their competitiveness. Rivalry for foreign investment is growing increasingly severe. This situation naturally prompts contemplation of positive changes. These actions may have nothing to do with obligations of governments under international agreements or legal obligations. Some economies experience success whereas others are still struggling with adjustment.

Thailand is also one of the countries that has chosen a pro-active, yet gradual approach towards liberalization. We realize that benefits cannot be possible without appropriate adjustments to cope with the new environment. Gradual steps have been taken to minimize negative effects. This leads to the whole question of approaches.

When facing external pressure to open up investment regimes, many policy-makers, like some of you here, may query whether governments should design their own liberalization regimes rather than having legal “boiler-plate” forced upon them. To create change is a challenge, because you face resistance arising from inertia and other reasons. Many people argue that if there is no channel to force things to happen, change will never take place. It is often said that governments will only take liberalization steps when they have no alternatives, because they cannot take the short-term political “heat.” This may hold true in many circumstances, but we have seen a great number of governments taking bold steps in liberalizing their investment regimes for economic reasons.

The key point here is the readiness of economies to embark on a liberalization journey. Benefits such as “increased competitiveness” or “greater efficiency” remains theoretical and abstract until a country has advanced to a certain level of industrial development. Until that point, when its economy can begin to cope with a globally oriented environment, such terms lack the meaning and substance attached to them in developed countries.

Given the great diversity in socio-economic development among APEC economies, there is not one ready-made formula for successful liberalization. The needs and priorities of one economy greatly differ from those of others. Ways and means to open up an economy have to be designed specifically to accommodate relevant settings.

With the same goal and objective, we may take varying routes leading to a common target. Some governments may prefer gradualism, while others choose to take more radical steps. Thailand is among the economies that opt for a gradual route.

Sustainability of economic development is probably the single most important factor that determines ultimate success. Liberalization that leaves an economy in a poorer and more vulnerable situation than it was should not be APEC‘s goal, or WTO’s. Economic sustainability is particularly crucial in developing countries, when designing liberalization packages. I know that many of you here are facing this challenge at this very moment, and feeling some pressure from countries with larger, stronger economies.

Investment liberalization creates positive effects to economic systems in the long run, but tends to lead to negative impacts in the shorter run. Can short-term problems be avoided? Not completely. However, disturbance can be minimized when the right mechanisms are in place. Gradualism is one way to avoid sudden shocks to domestic entrepreneurs. Steady, measured change that gradually reaches the goal, is often the best path for developing economies.

Short-term agitation has to be carefully dealt with; otherwise, backlash can occur and the expected long-term benefits of liberalization will never be realized. “Equal footing” competition is often quoted as an objective for which we should strive Today’s world does not consist of economies or companies with the same features, operating in similar competitive environments.

In concluding, no one doubt the merits of investment liberalization, but how to go about it still pose several questions. No success formula that applies equally to every economy exists. We have to create our own individual concoctions that address particular features of our economy. I truly believe that we do have many options to choose from, in achieving the goal of free and open investment.