Obstacles to the Global Deployment of Investment

Panelists explored the relative importance of various obstacles to cross-border investing, including specific policies and broader macro-economic conditions. Strategies to counter such barriers were also discussed.

Kathryn Gordon, Acting Head of the OECD Investment Division, chaired the session. She discussed the definition of "investment obstacle" she employed and reviewed some of OECD's policy recommendations for addressing such barriers. She defined an investment obstacle as a formal and legal discrimination directed toward outside investors. Removing such obstacles was necessary for welcoming outside capital investment. Other barriers, such as distrust of state-owned enterprises, however, remained. The general approach of the OECD guidance in relation to host country policies toward SWF investments emphasized binding commitments to progressively liberalize, be transparent, and not discriminate. She then explained two particular components of the OECD's recommendations. First, SWFs are to be accorded the same open and fair treatment as other investors. Second, the OECD has offered new guidance on how security-related investment review policies should be designed and implemented.

Franco Bassanini, Chairman of Cassa Depositi e Prestiti, shared his knowledge of future global investment, dynamics of saving and investment rates, and increasing public debt. He argued that the public debt of advanced countries would increase because of the demand for investments in infrastructure, climate change adaptation, and aging populations in Europe. Given the low level of savings in Euorpe and the developed world, and high levels of savings elsewhere, there was an opportunity to better allocate current savings. Mr. Bassanini discussed some investment vehicles designed to meet this demand. *Marguerite*, an equity fund for infrastructure established by Cassa Depositi e Prestiti in December 2009, is an investment company with variable capital focusing on transport, energy, and renewables investment in the EU27 countries. *Inframed* is a private equity fund that invests in infrastructural projects within the South-East Mediterranean region. It focuses on renewable energy, transport and logistics, and urban infrastructure sectors. Other examples he discussed were Build America Bonds, EU Project Bonds, the Italian strategic fund Fondo Strategico Italiano, and the French investment fund Fond Stratégique d'Investissement.

Peter Bekx, Director of International Economic and Financial Affairs from the European Commission, discussed the economic situation in the EU and the US and how to deal with it. He said economic risk is still significant, and he is concerned about bank asset quality, in which CDS prices are crucial. He explained the European Commission's road map in dealing with the following problems: the Greek sovereign debt crisis, the spread of contagion, leveraging European resources, bank recapitalization and sovereign debt exposure. Mr. Bekx mentioned that the ability of many European governments' to fiscally stimulate their economies was limited, and that the EU requires stronger community governance.

Mark Sobel, Deputy Assistant Secretary of the US Department of Treasury, talked about the G20, the IMF, and global financial regulation. He said the upcoming G20 summit would discuss problems in Europe, including credit and liquidity. The downside risk still remained, but what was most important was how Europeans rebuilt the market's confidence in them. Mr. Sobel then discussed the US's "New Job Act", President Obama's statement about job creation and creativity, global demand problems, and

various problems with emerging markets' growth, including corruption. He emphasized the R&D situation, FDI, transparency and concerns about national security. He discussed his concerns about assets in the shadow banking system and the risks of financial interconnectedness, concluding that transparent trading of derivatives was needed to reduce systematic risk. He also emphasized the importance of an open investment environment in the US, and said that transparency of SWF investment was important.

Edouard Vieillefond, Managing Director in the Regulation Policy and International Affairs Division from Autorité des Marchés Financiers (AMF, France), spoke about how SWFs can provide long-term capital to companies and some of the specific regulatory issues pertaining to these funds. In regards to the former issue, Mr. Vieillefond discussed the reasons behind the lack of long-term investors in many EU countries, especially in France. These included weak pension funds; the difficultly experienced by national SWFs in covering their capital needs; the tendency for household savings to be invested in real estate and treasury bonds; and the structural reviews by both individuals and institutional investors of their shareholding positions in the wake of financial crises during the past decade. In addition, although some EU countries had dynamic employee ownership policies, their development was insufficient. Prudential regulation could also further aggravate the situation by enhancing competition for market-based, long-term financing and imply crowding effects.

Mr. Vieillefond argued that SWFs could help reinforce the capital structure of companies. Besides being long-term investors with limited liabilities, they did not face regulatory and contractual obligations to hold liquid assets and to withdraw quickly from declining markets. Because SWFs are typically not leveraged, they could exert a stabilizing effect on financial markets and increase market liquidity and financial resource allocation in global capital markets. He noted that a number of SWFs have already engaged in such activity.

From a macroeconomic perspective of financial stability and asset allocation, Mr. Vieillefond argued that regulators should focus on risks emerging from the concentration of holdings in specific market segments. Such issues were grounded in the increasing amount of assets under the management of SWFs. Other concerns regarding SWFs included their exposure to specific assets classes due to mismanagement; the potential for conflict of interest between political and economic objectives; and their contribution to market volatility by politically motivated abrupt assets sales. Mr. Vieillefond thus emphasized the importance SWFs being transparent about their structure, operations, financial risk management, and governance. Finally, he mentioned the need for international harmonization or guidance.