



# Enhancing Regional Competitiveness Development in Eurasia countries

## The perspective of the OECD



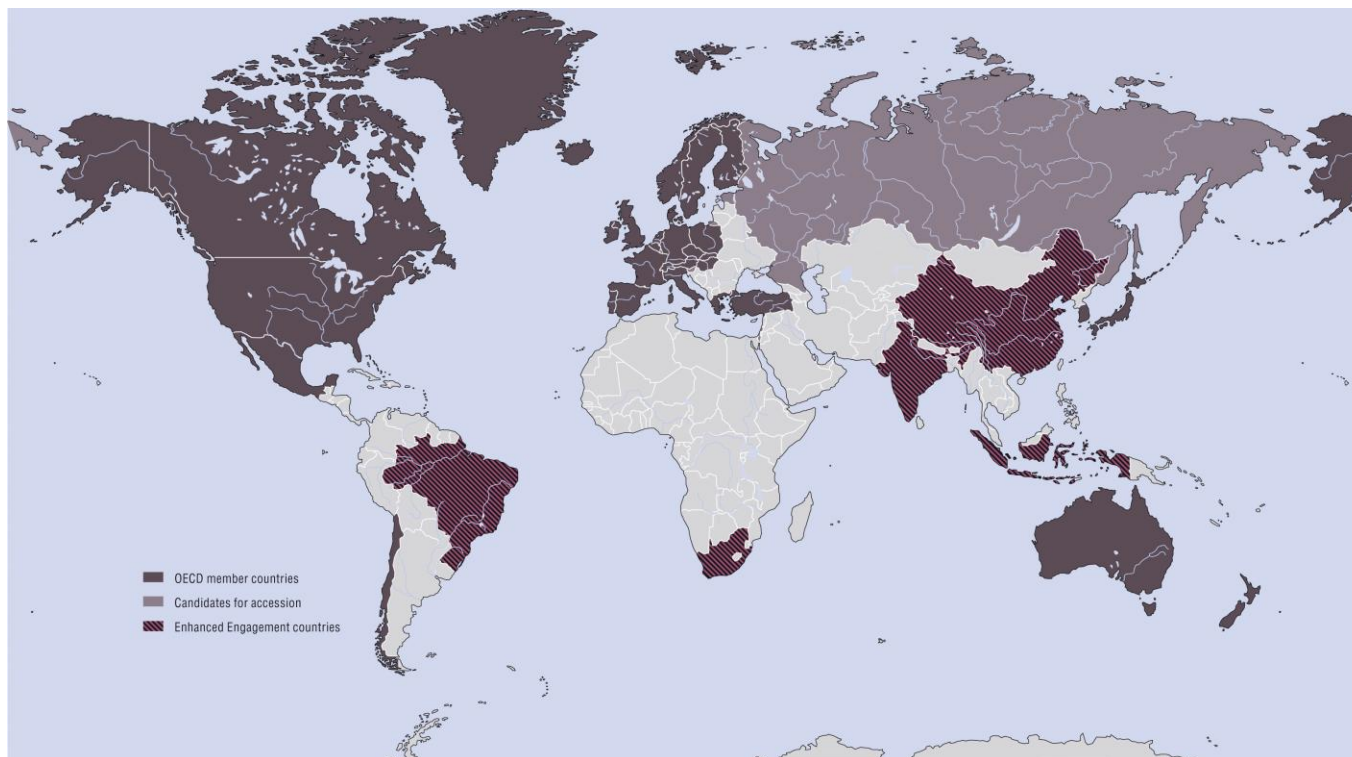
« Competitiveness of Russian Regions: Innovations, Investments, Partnerships »

Antonio Somma – OECD Eurasia Competitiveness Programme

23 November 2011

Moscow, Russia

# The OECD at a glance



This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map

- OECD countries account for **69.4% of the world's GNI**.
- A forum to address the **economic, social and governance challenges of globalisation** as well as to exploit its opportunities.
- A setting where governments can **compare policy experiences, seek answers to common problems**, identify good practice, and co-ordinate domestic and international policies.

# The OECD Eurasia Competitiveness Programme

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## Enhancing Regional Business Climate

- ▶ **Prioritisation of policies to improve the business climate**
- ▶ **Policy Working Groups**
- ▶ **Competitiveness report on Central Asia**

## Improving National Competitiveness

- ▶ **OECD Sector Competitiveness Strategy and Reviews**
- ▶ **Surveys of investors and private sector perception**
- ▶ **Evaluation of policy reforms and official reviews**
- ▶ **Support in implementing reforms**

## Building Capacity

- ▶ **Training and coaching focused on policy makers and SME business intermediaries**

# **Which questions would a foreign investor to a Eurasia country ask?**

Questions addressed by the OECD Eurasia Competitiveness Programme

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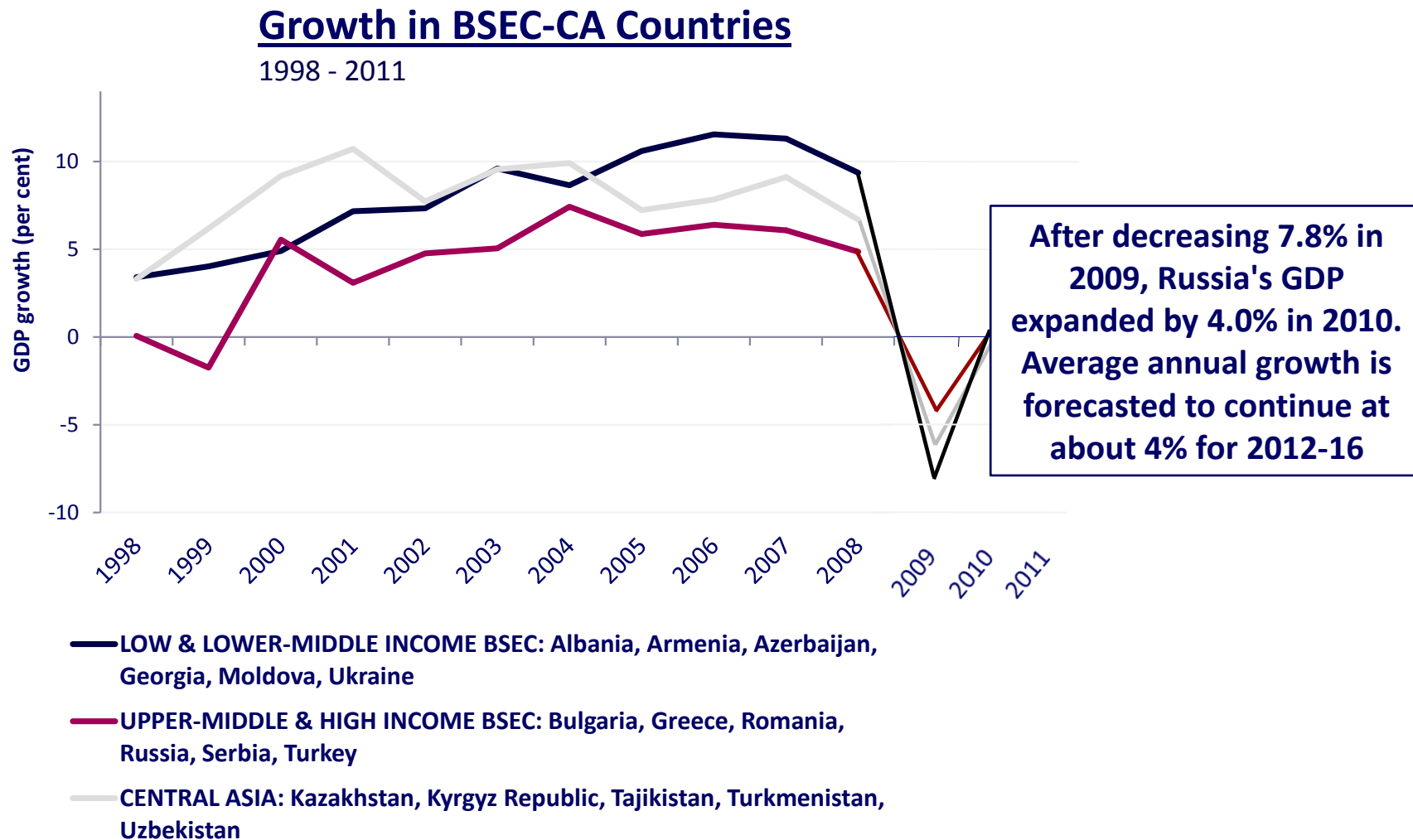
- 1. How open is the country to key investments?**
- 2. How is the country enhancing FDI and trade in specific sectors?**
- 3. Which is the most appropriate location to invest in the country?**

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**First: Which are the main challenges affecting Eurasia and neighbouring countries during the global crisis?**

# The crisis impacted the Eurasia region and neighbouring countries

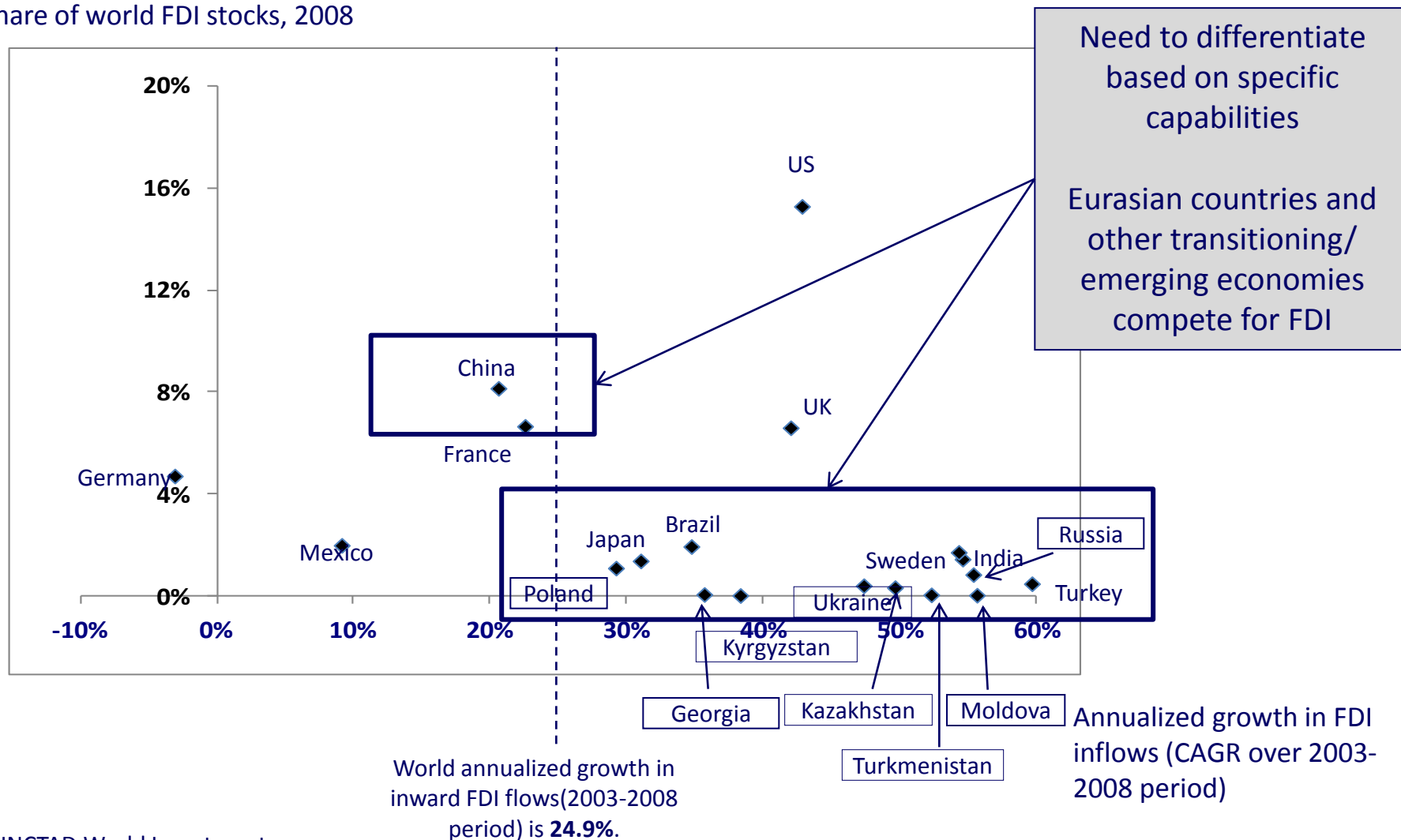
Average GDP growth recovered in 2010 but much lower than pre-2008 and 2009 crisis



# Eurasia and neighbouring countries are competing for FDI

Dynamic growth of FDI inflows is in emerging economies

Share of world FDI stocks, 2008

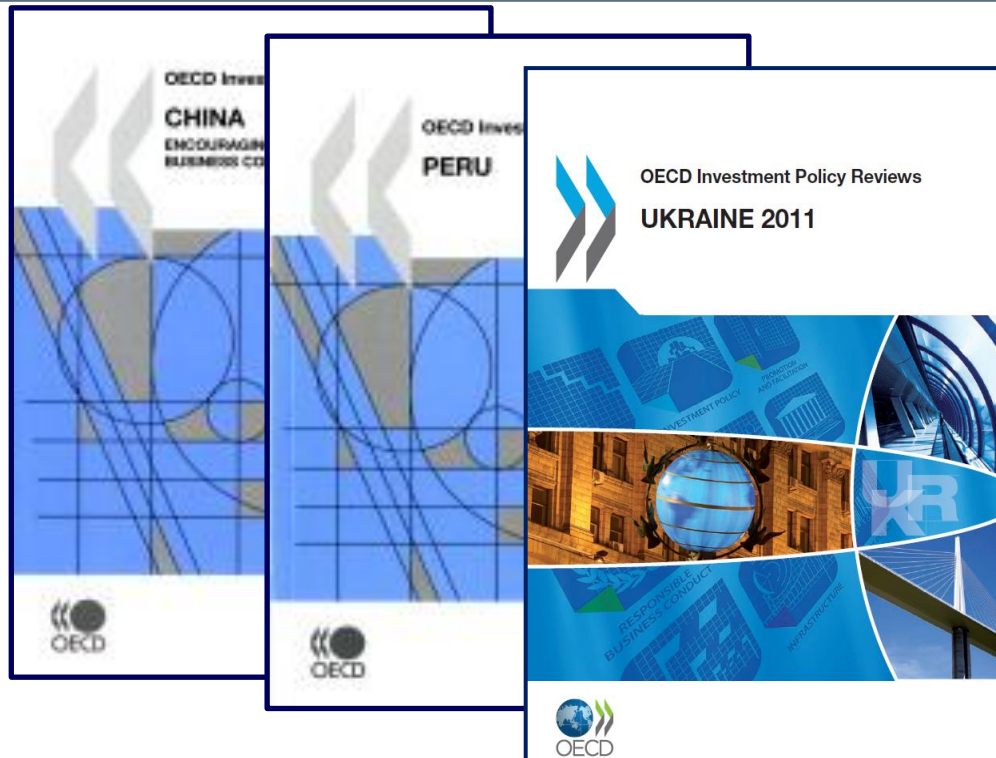


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# **Question #1**

## **How open is the country to key investments?**

# The OECD Investment Policy Review: evaluating investment regime according to OECD principles

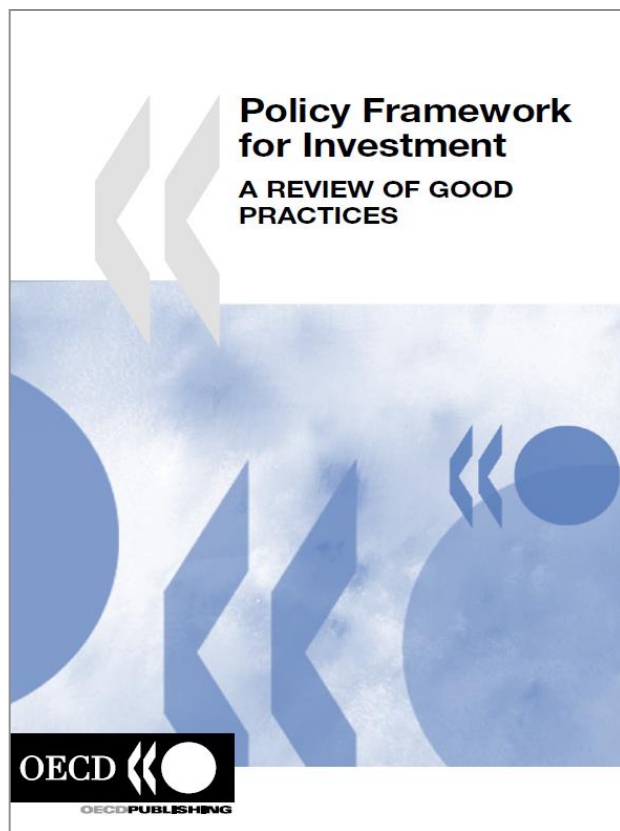


IPRs published since 1993 cover both OECD and non-OECD countries ; most recently Egypt, (2007), Peru (2008), China (2008), Russia (2008), Ukraine (2011).

- Peer examination in the OECD Investment Committee in the presence of representatives of the IPR's country, often followed by the presentation of the IPR in the examined country ;
- Main objective: help the governments improving the investment climate through peer learning and the sharing of best practices in investment policies ;
- The OECD Policy Framework for Investment and the OECD legal instruments for investment, in particular the OECD Declaration on International Investment and Multinational Enterprises are used in conducting recent IPRs.

# Leveraging OECD best practices to identify policy barriers

## The OECD Policy Framework for Investment



### I. Business Operational Environment

- Investment Policy and Facilitation
- Tax Policy and Administration
- Trade Policy and Facilitation
- Competition Policy
- Better Business Regulation

### II. Business Integrity

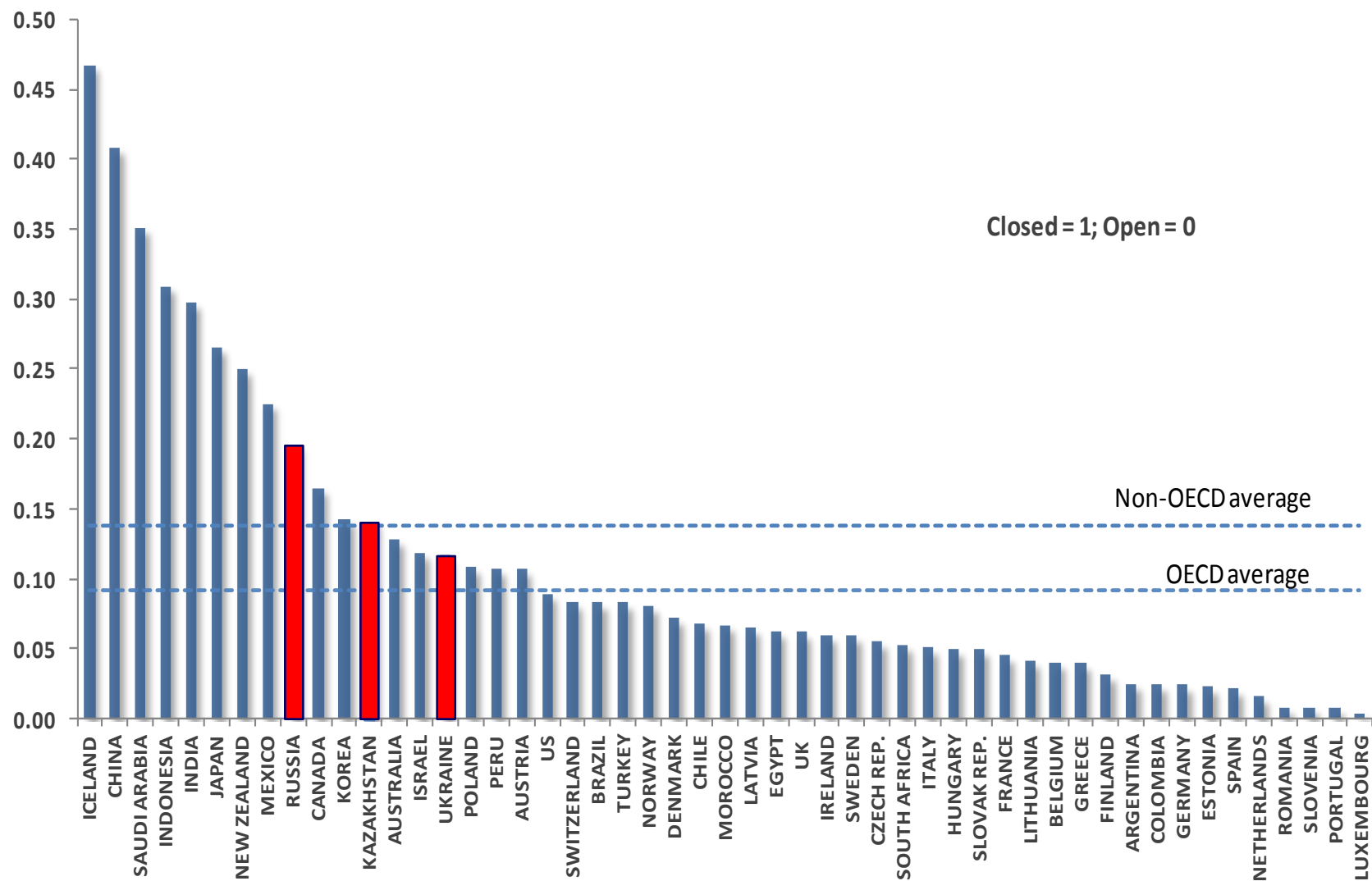
- Anti Corruption
- Corporate Governance & Corporate Social Responsibility
- Commercial Conflict Resolution

### III. Factor Markets

- Infrastructure
- Human Capital and Labour Regulations
- Financial Market Development

# Evaluating investment regime according to OECD principles

## Level of FDIs restrictiveness compared to OECD average



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## **Question #2**

**How is the country enhancing FDI and trade in specific sectors?**

# Sector Competitiveness Reviews: evaluating competitiveness to attract more FDIs and increase productivity



## Sector Competitiveness Review

Key questions addressed

- Which sectors are or could be the most competitive to attract investments?
- What is the recommended competitive positioning to attract investment to the selected sectors?
- What are the main barriers and how can they be removed?
- What are the implementation steps needed to attract investment and support private sector development?

Overall deliverables

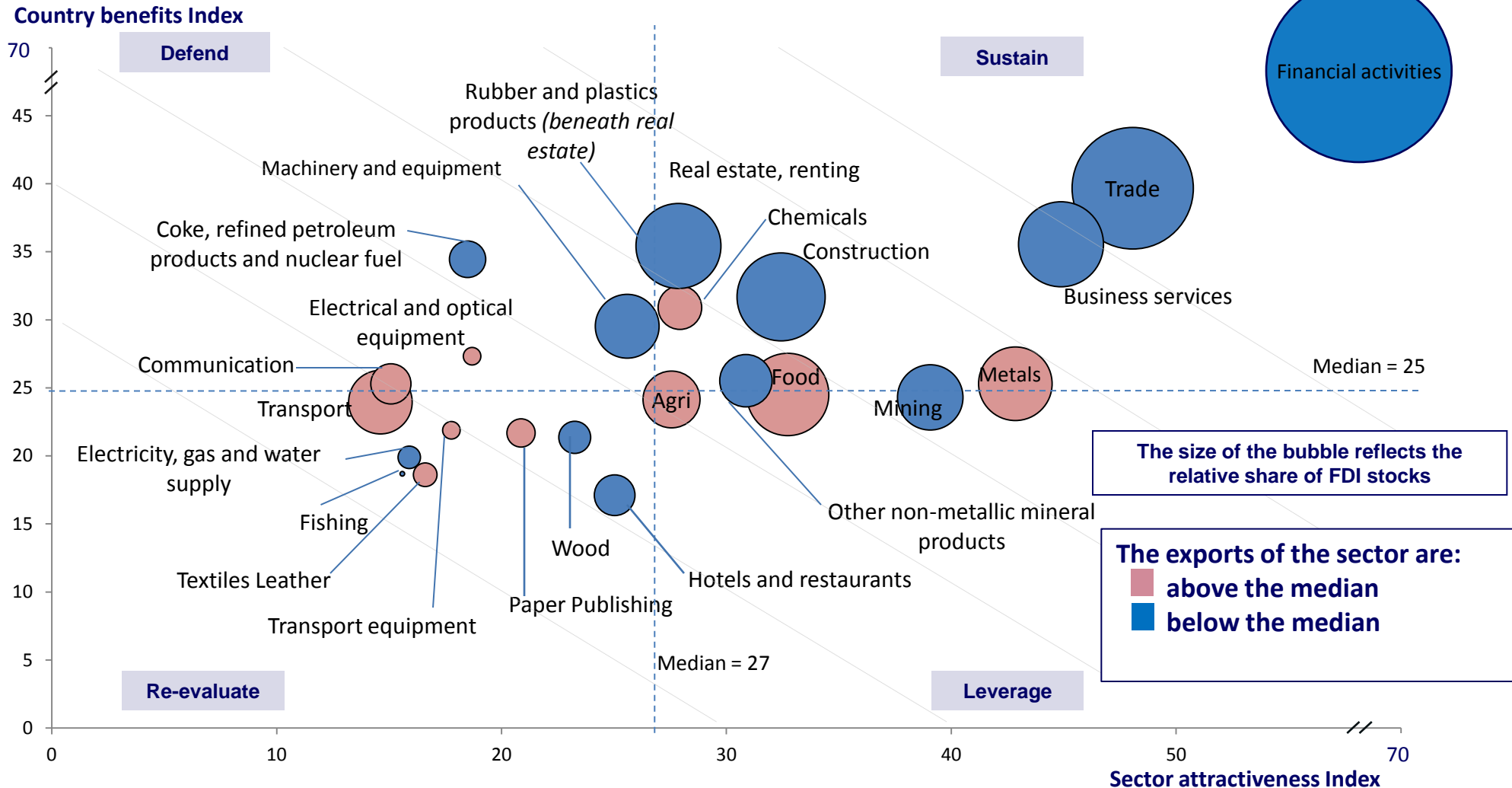
- Identification of industrial sector sources of competitiveness
- Recommendation on how to remove sector specific policy barriers
- Support in implementation of reform

# Mapping the past sectoral trends - Sector Prioritisation Framework

Project Example

## SPF model: Sector attractiveness, country benefits and share of FDI stocks of each sector

Performed in 2010, based on data from 2003-2008

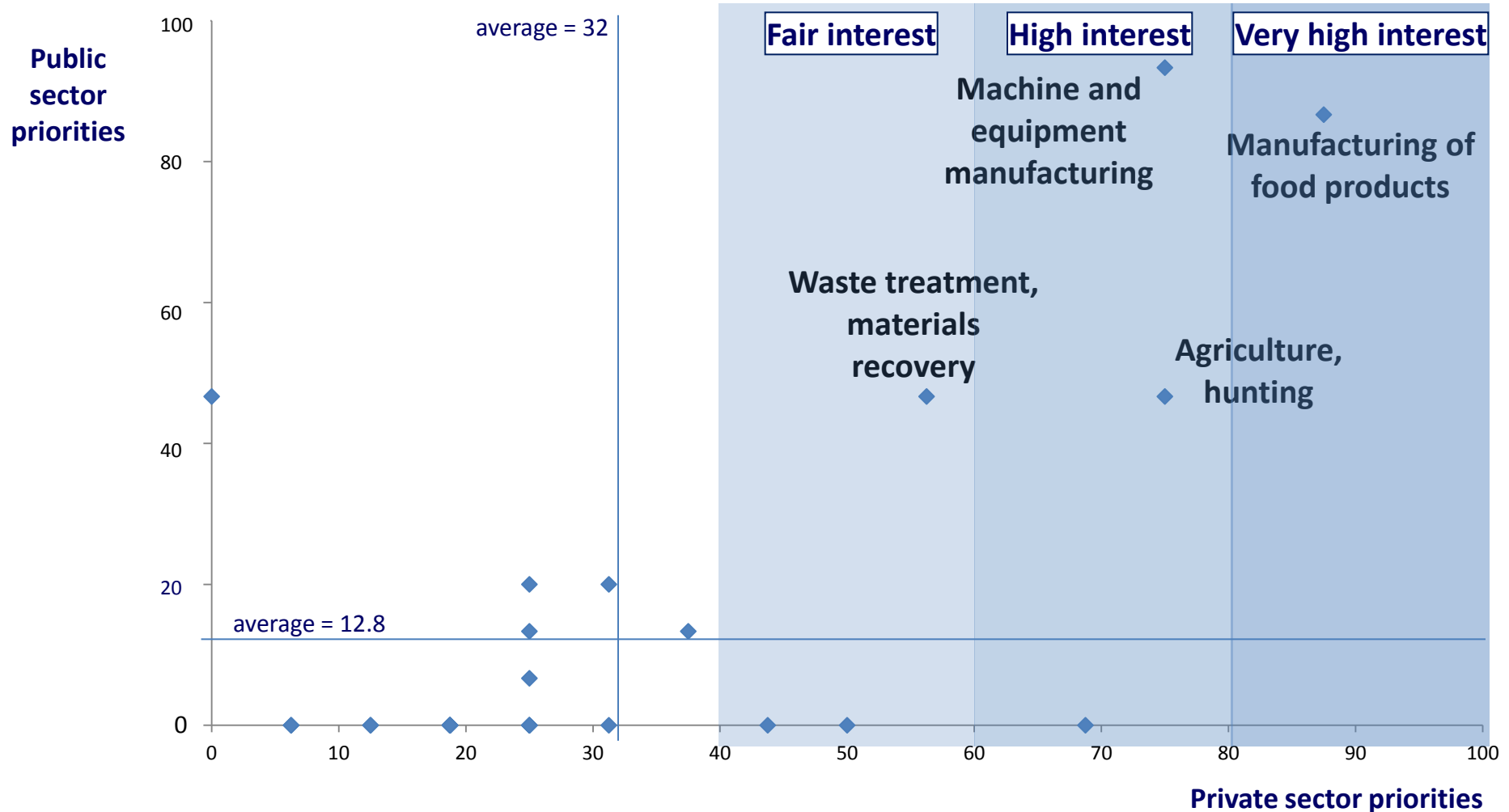


# Surveying potential OECD investors' interest for a Eurasia country: sectors that should be promoted

Project Example

## “What sectors of the Country’s economy should be promoted and developed to attract FDI?”

OECD survey, 2009-2010



Source: OECD survey on public authorities, domestic and foreign employers and business associations, 2009-2010

Note: (2) Ranking based on priority mentioned per sector

# Surveying private and public players in each selected sector

## The OECD Country Capability Survey

Project Example

### Quantitative interviews

Sector	Company type	Number of companies surveyed <sup>1</sup>
Agri-business	Producer (farm)	168
	Processor	95
Energy production	Inputs providers	44
	Machinery producers	17
	Public utilities	40
Manufacturing	Manufacturers	31
Total		395

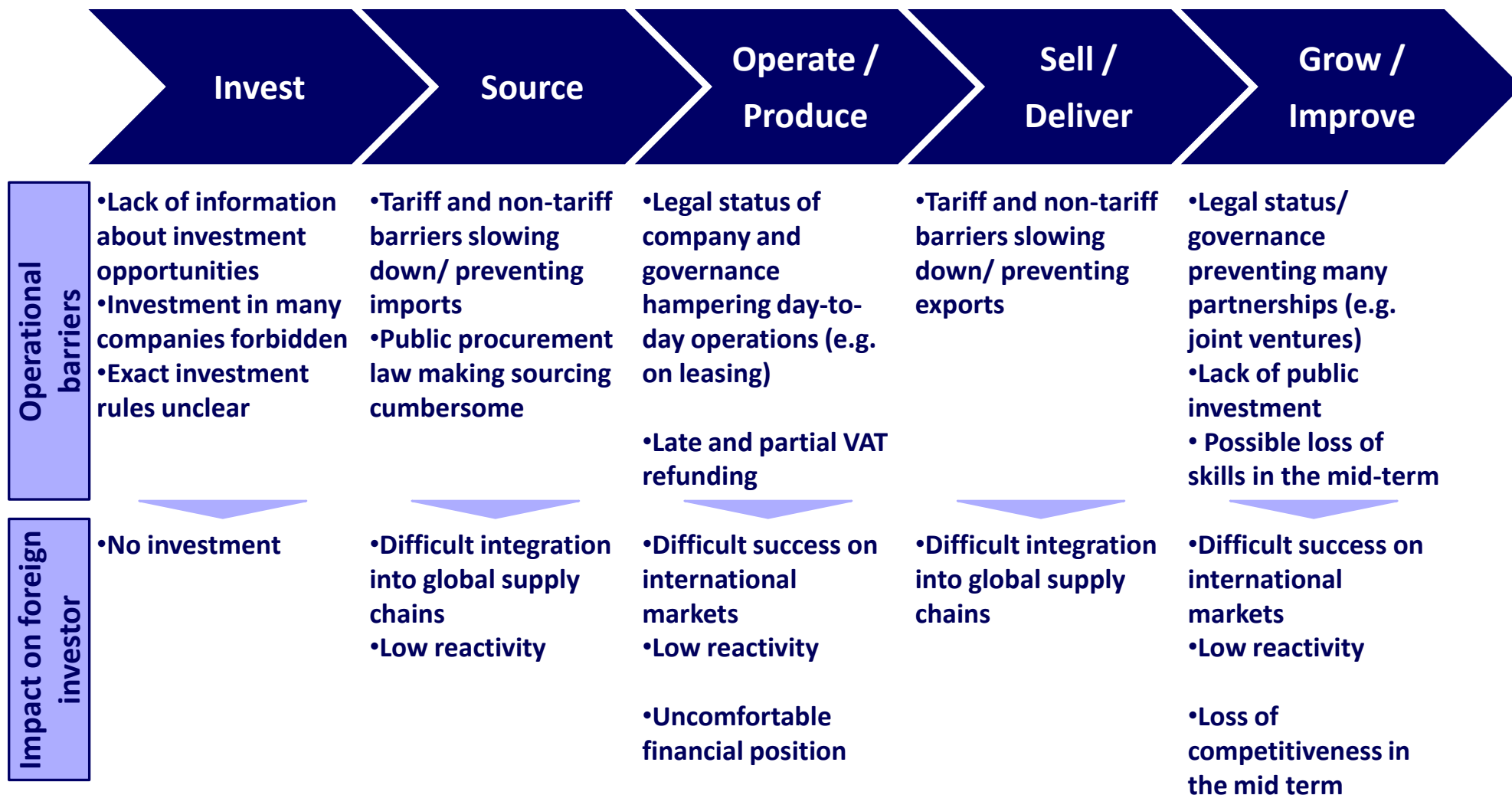
### Qualitative interviews

- **Company visits**
  - Farms
  - Machinery producers
  - Assembler
- **Meetings with foreign investors, domestic and foreign experts, government officials**

# Providing a foreign investors' perspective

Example - activity-based analysis of barriers to FDI in the aircraft sector

Project Example

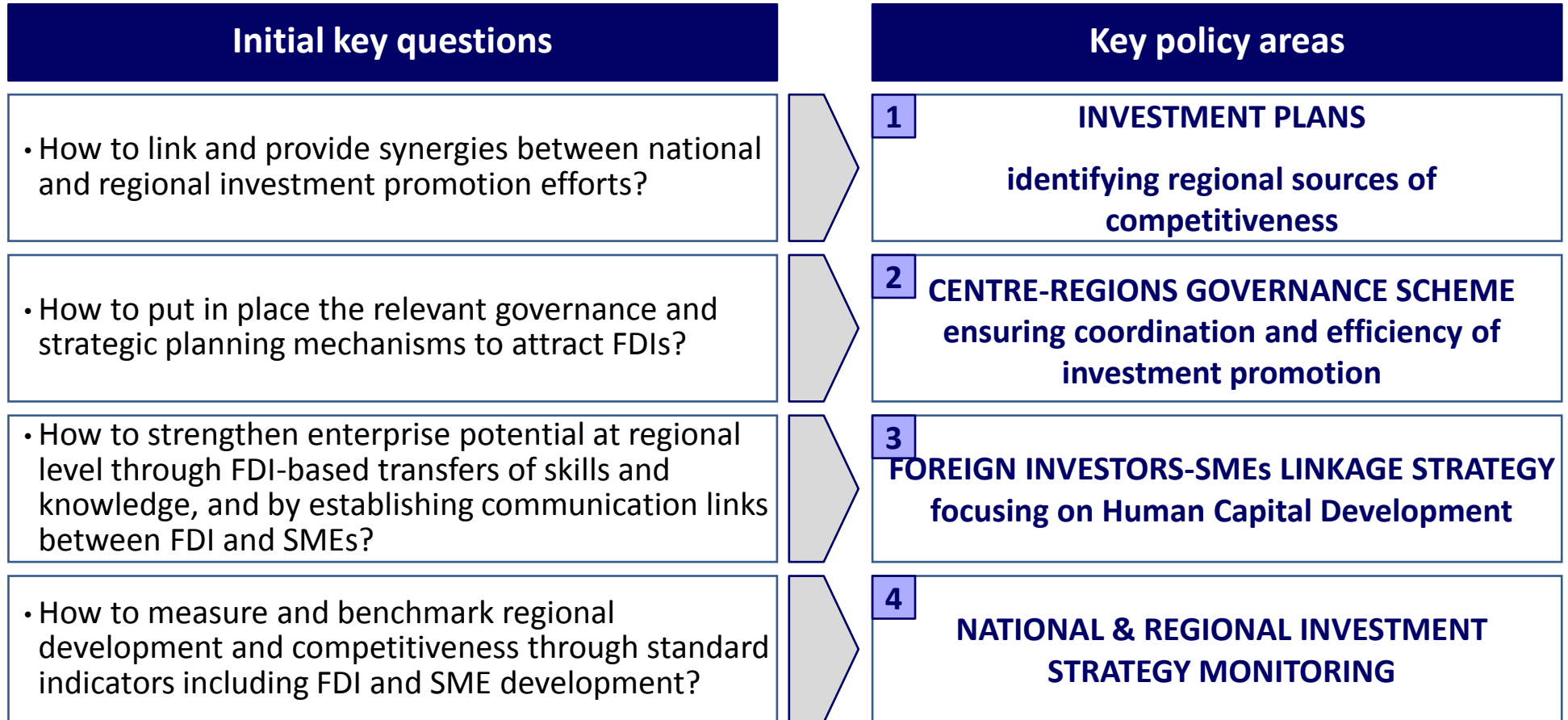


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## Question #3

**Which is the most appropriate location to invest in the country?**

# The Regional Competitiveness approach: supporting the design and launch of an FDI approach to regional SME development on 4 policies areas



**Objective:** to maintain and create permanent jobs and entrepreneurship in the regions:

- Attract FDI and reduce policy barriers
- Lead to stronger regional, sector and SME competitiveness
- Reduce gross regional product inequalities
- Highlight regional capabilities

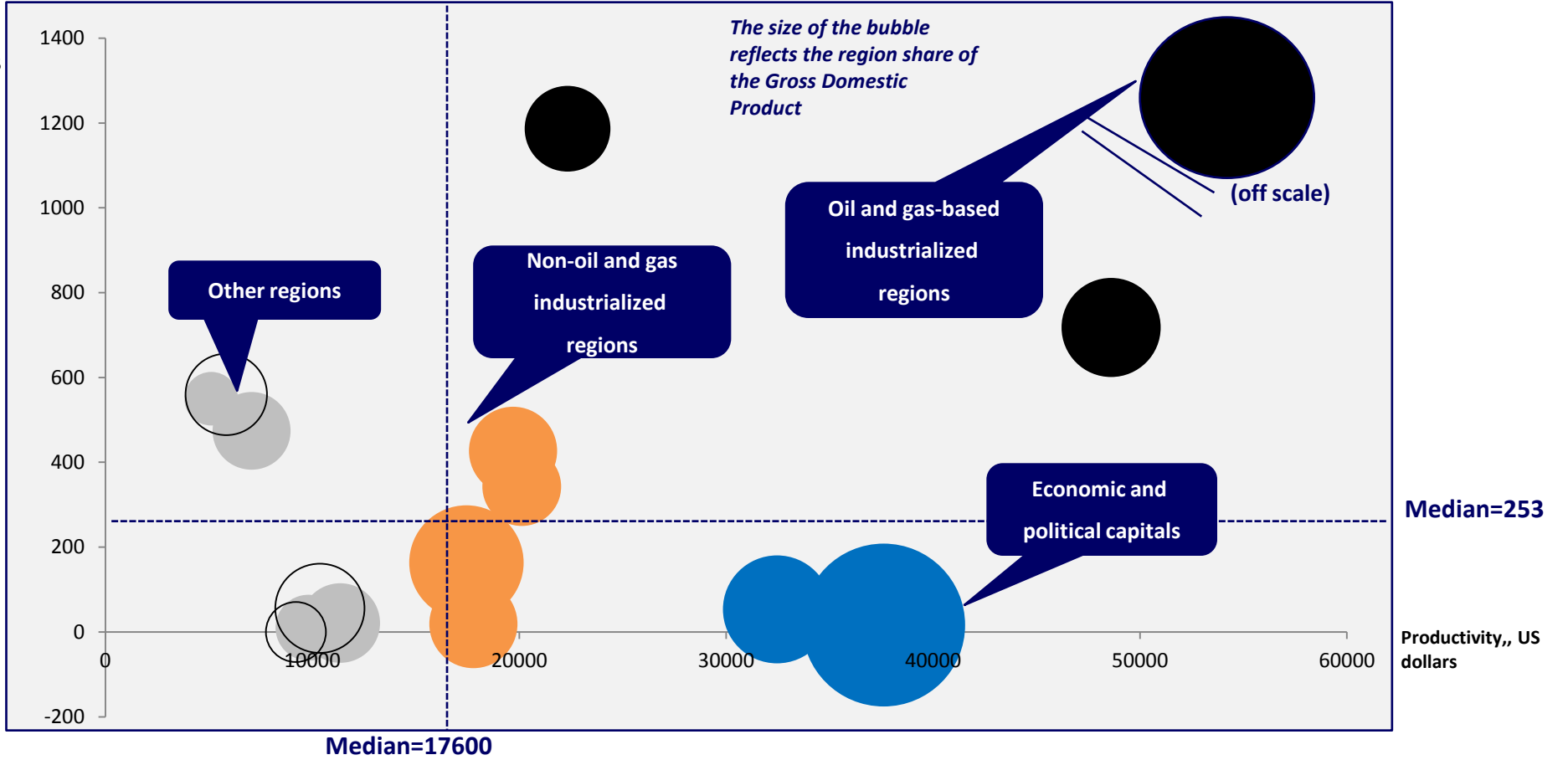
# Identifying regional sources of competitiveness

## Regional FDI and productivity disparities

Project Example

Scattering of regions based on labour productivity and foreign investors presence, 2008

Investments in fixed assets from foreign investors, millions of US dollars



- Wide regional FDI and productivity disparities
- 3 regions accounting for half of the gross regional product and 70% of FDIs

Methodological note: Productivity is defined as the labour productivity based on value added; level of regional presence of foreign investors is approximated by the regional level of investments in fixed assets coming from foreign investors; non-oil and gas industrialized regions are defined as regions having an industrial Gross Regional Product higher than the industrial share of the GDP, 33 %

# Building regional investment plans is a five-stage process

Project Example



**INVESTMENT PLANS IDENTIFYING  
REGIONAL SOURCES OF COMPETITIVENESS**



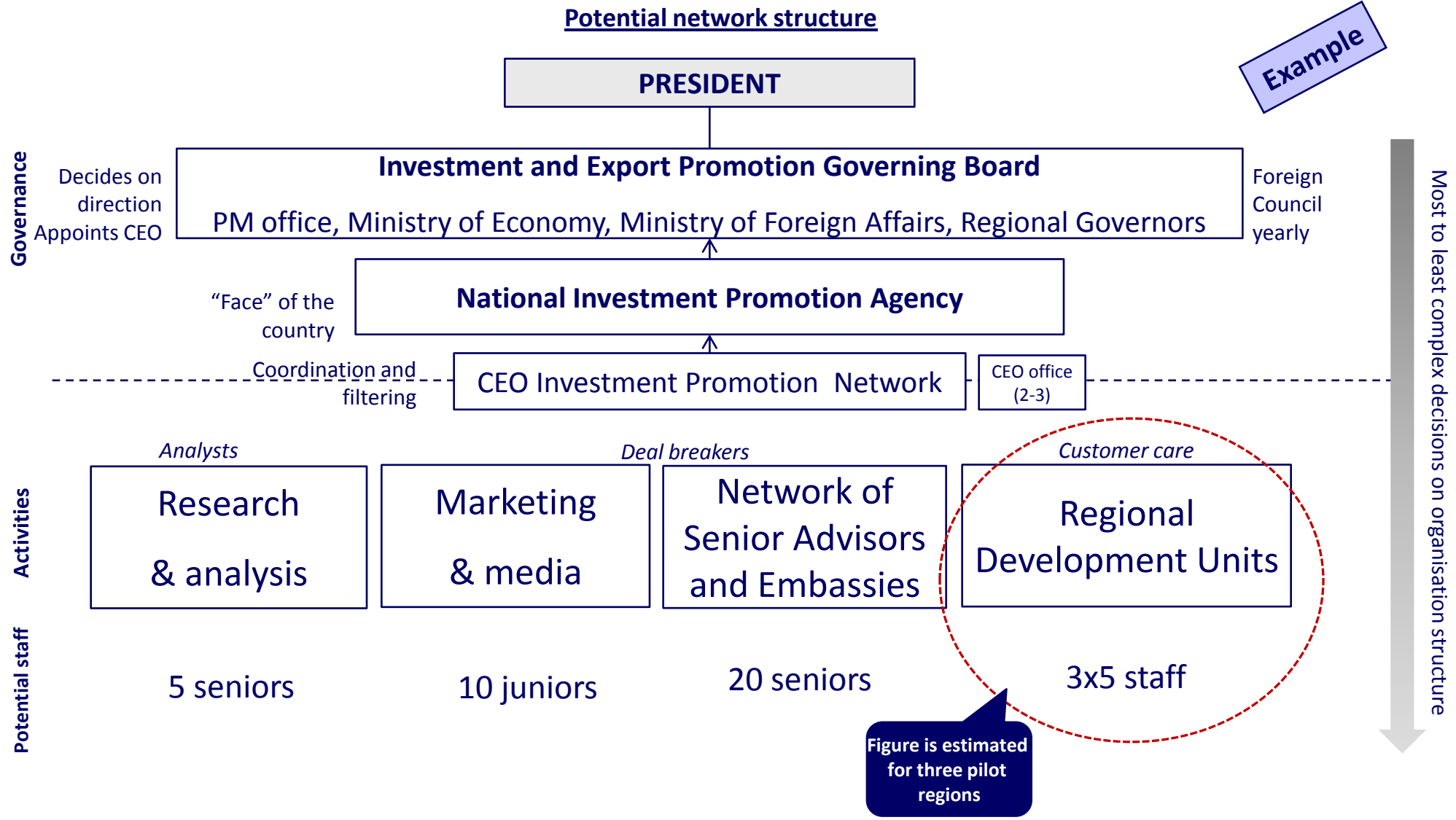
<b>Output</b>					
<b>Focus</b>	Country	Each region	High potential sectors In each region	High potential sectors In two pilot regions	High potential sectors In each region
<b>Objective</b>	Understanding strengths and opportunities in each region	Understanding of the high potential sectors in each region	Suggesting improvements of regional investment attractiveness	Effective improving of regional investment attractiveness in two pilot regions	Effective improving of regional investment attractiveness In all the regions

# An example of Centre-regions governance scheme

Establishing a network of regional IPAs is key to ensure effectiveness

Project Example

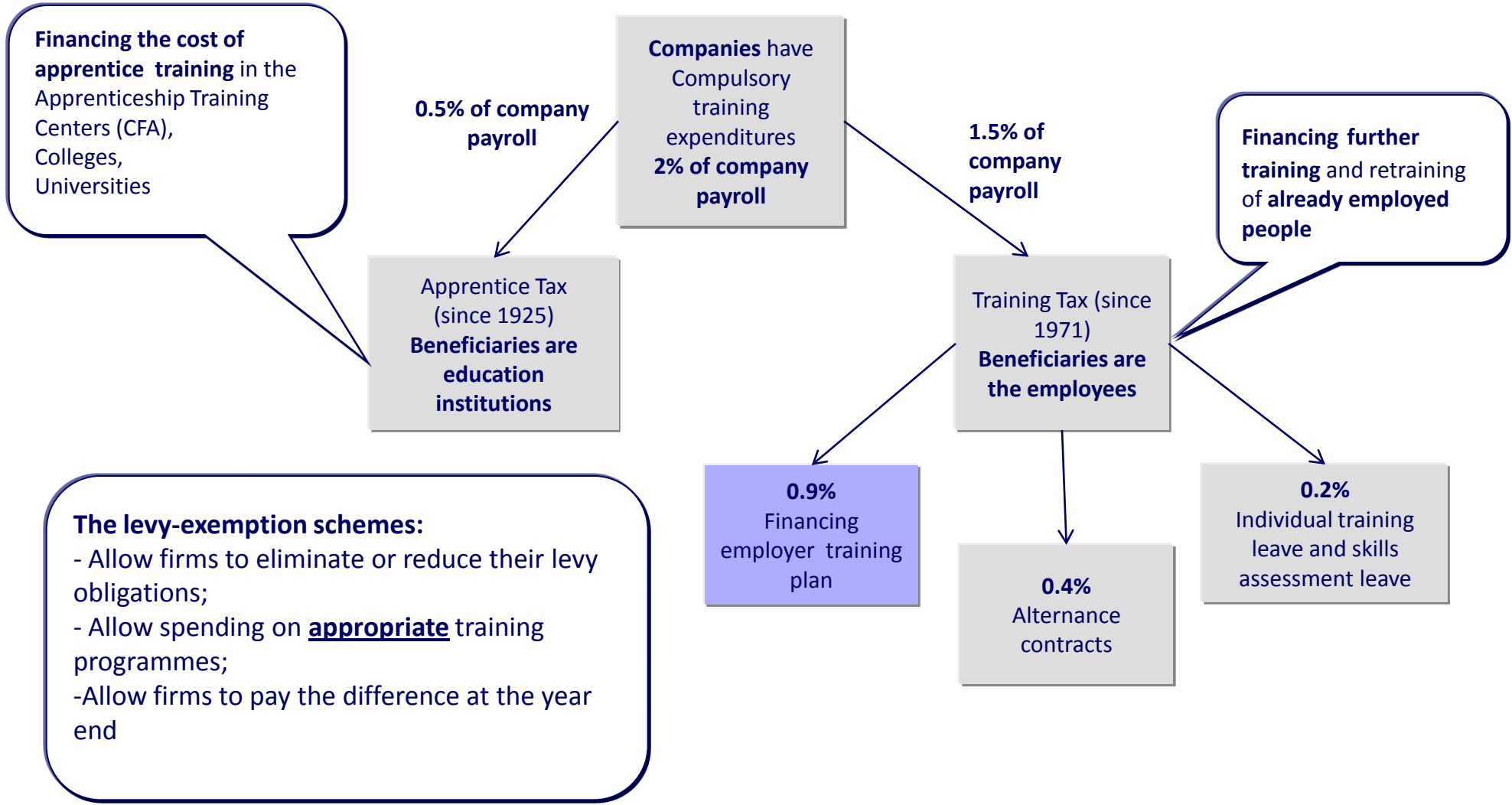
Example



# Foreign investors-SMEs linkage strategy

## Regional investment promotion support to diversify FDI

### How French companies tackle training through levy exemption mechanism



# National & regional investment monitoring

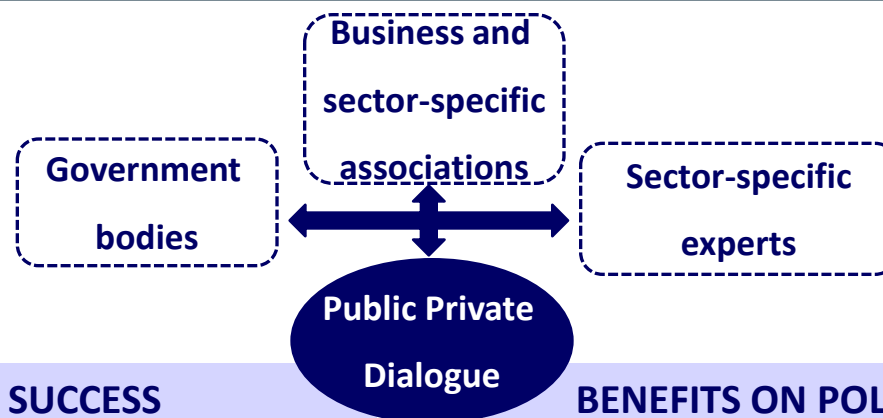
National and regional indicators may widely differ – e.g., investment promotion activities



Source: OECD Investment Compact pilot project in Serbia, indicators are currently being tested; OECD Investment Reform Index

# Implementing reforms

## Leveraging OECD expertise in public-private dialogue



KEY FACTORS OF SUCCESS	BENEFITS ON POLICY-REFORM PROCESS
<b>Open and transparent</b> – Publicized quality control –Inclusive	<b>Promoting better diagnosis of investment climate problems and design of policy reforms</b>
<b>Equal representation</b>	<b>Making policy reforms easier to implement:</b> when entrepreneurs understand what a government is trying to achieve with a reform package, they are more likely to accept the reforms in practice
<b>Clear agenda and proposals</b> – Manage expectations	<b>Promoting transparency, good governance,</b> the taking of a broader view by setting an example of openness and rigorous cost-benefit analysis, and by creating pressure of public scrutiny
<b>Include parliamentarians</b>	<b>Building an atmosphere of mutual trust and understanding</b> between public and private sectors
<b>Go local</b>	
<b>Include all the needed government institutions</b> – leverage ministerial staff	

# Contact details

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**ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT**

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# Annex

# The OECD Territorial Review provides detailed analyses of regional policies

Example

OECD Territorial Reviews  
POLAND



- The OECD Territorial Review explores opportunities for further regional policy reforms, focusing on governance requirements.
- In recent years, the main focus of territorial policy in OECD countries has been on sustaining growth, not only by addressing relative decline but by making regions more competitive, through for example innovation.