

Sustainable Investment

7th Asia-Pacific FDI Network

2-3 November, 2017

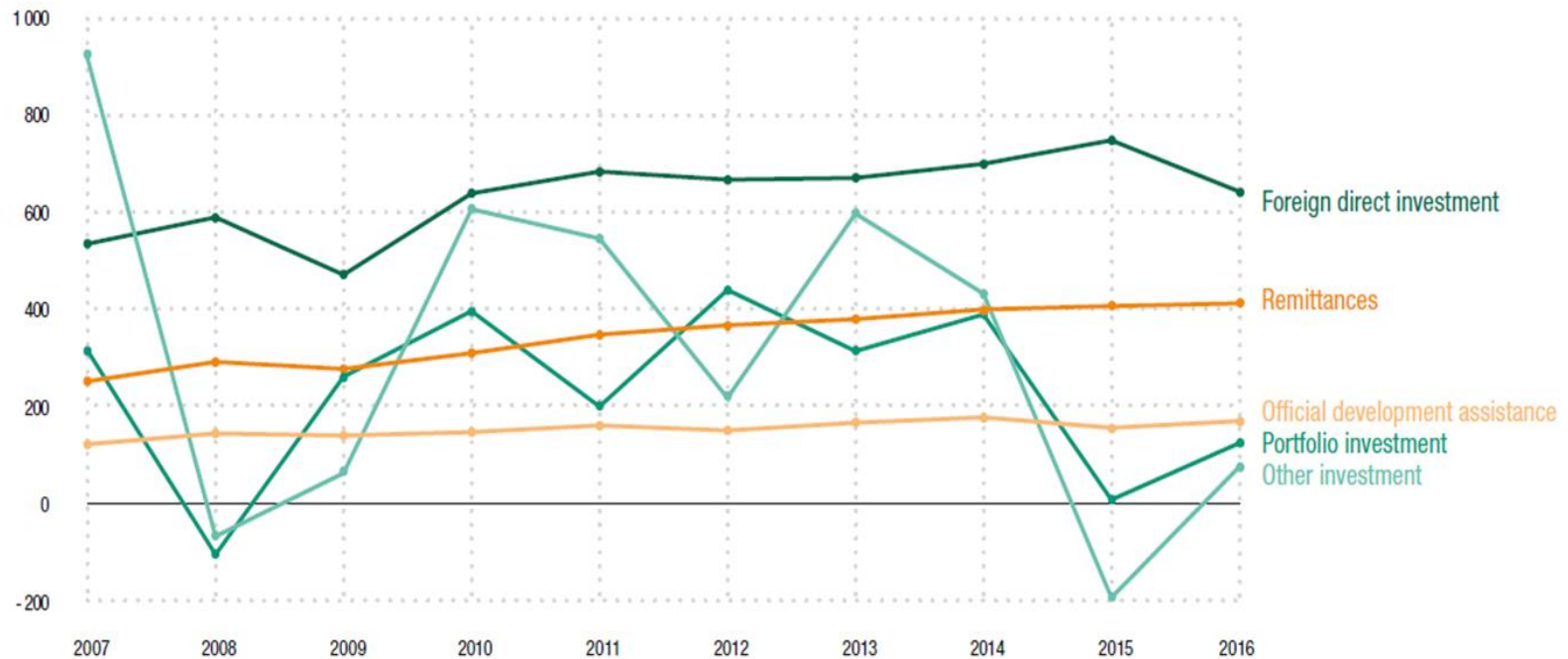
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Features of Investment

- Trade liberalization vs investment liberalization
 - Goods (trade) come and go; investment stays.
- Long-term perspectives
 - FDI becomes part of national economy
 - Very difficult to “close” investment
 - Domestic reform
 - Simply signing a large number of IIAs does not help
 - Reform of investment law and signing of IIAs
 - Attracting service FDI could be more challenging
- Key for economic growth
 - Participation in GVC
 - Source of skill/knowledge (growth of human capital)
 - More stable than short-term capital
 - Economic/financial crisis

Stability of External Funds

Figure I.12. External sources of finance for developing economies, 2007–2016 (Billions of dollars)



Source: ©UNCTAD, based on data from IMF (for portfolio and other investment), from the UNCTAD FDI/MNE database (for FDI inflows), from the Organization for Economic Cooperation and Development (for ODA) and from the World Bank (for remittances).

Note: Other investment includes loans among non-affiliated enterprises.

FDI Exporters and Importers

- Who is FDI importer/exporter?
 - China: FDI exporter
 - All countries start to attract FDI; even countries like the US and Japan
 - Investment-human capital nexus

Figure I.7. IPAs' selection of most promising home economies for 2017–2019
(Per cent of IPAs responding)

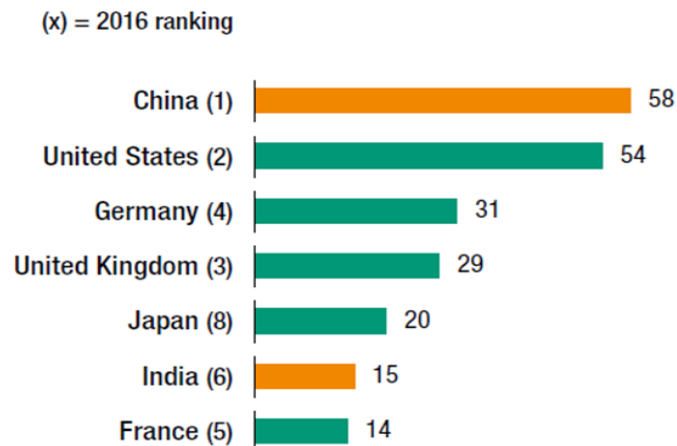
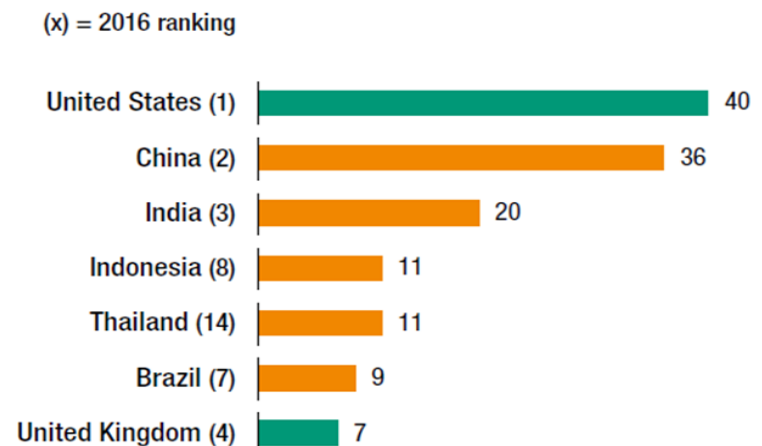


Figure I.8. MNEs' top prospective host economies for 2017–2019
(Per cent of executives responding)

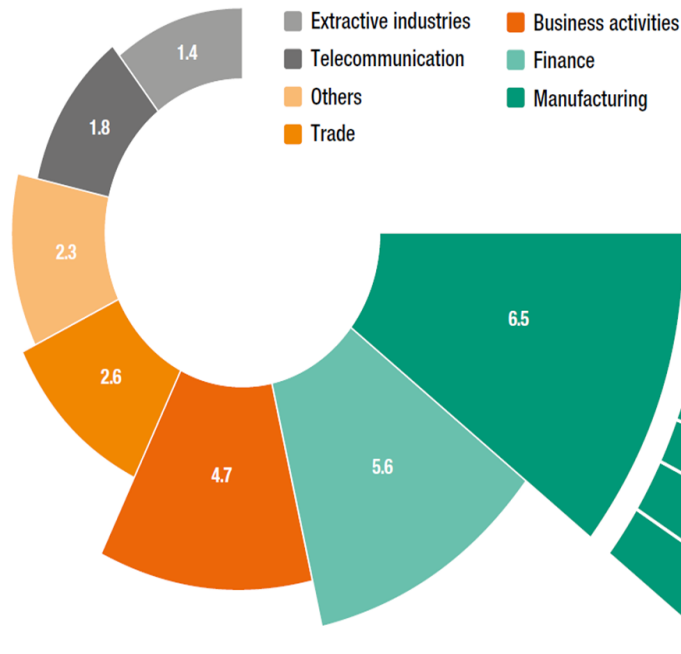
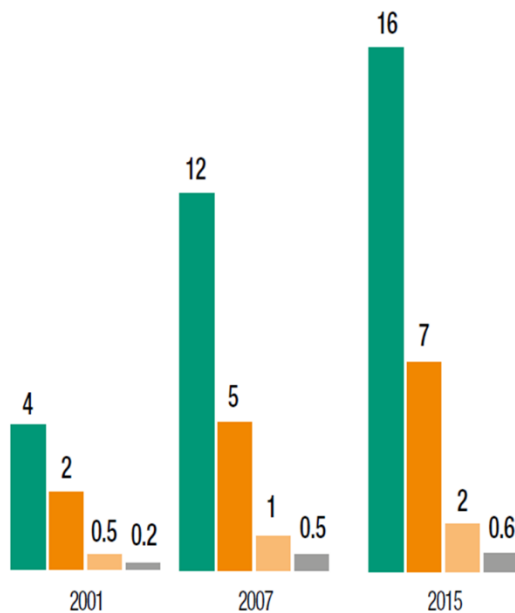


Service FDI

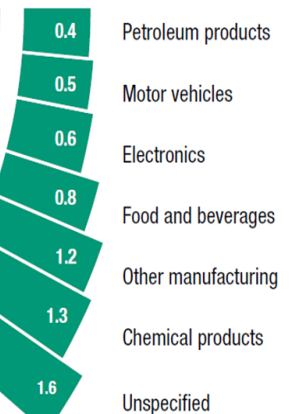
- Growing trend of services FDI
 - Traditionally, Recourses and Manufacturing
 - Note: some data problem, service activities, not sector.
 - “Minor” service (health, environment etc): huge potential.

■ Services
 ■ Manufacturing
 ■ Primary
 ■ Unspecified

a. FDI stock in all sectors



b. FDI stock in manufacturing



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

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Service Trade and Investment

- Service FDI is critical to GVC
 - Service is input to GVC (transport; finance)
 - Service is input to service GVC
 - Digital Economy: E-value chains
 - Huge implication to domestic sectors/people
- WTO Services Trade
 - 4 Modes of services trade
 - 1. Cross-border
 - 2. Consumption abroad
 - 3. Transaction through commercial presence: Closely related with investment regulations
 - 4. Movement of natural persons
 - Mode 3 is closely related with other modes
 - Holistic approach is necessary, especially for services, because service is a regulatory industry.

IIA and FDI

- Do IIAs increase investment from the partner?
- Do IIAs increase investment from outside parties?
 - Not necessarily zero-sum
 - A gateway to the region
 - Regional Hub (Regional HQ) : Competition over FDI
 - Regional Gateway: positive effect on the other regional members
 - EU “passport right”: London (UK): Gateway to Europe?
 - Mexico: Gateway to NAFTA?
 - ASEAN
 - A larger market by integration
 - Free trade and investment
 - Regulatory harmonization

Preference

- MFN
 - All foreign entities are treated equally
 - Regional economic integration organization (REIO) exception; such as FTA
- NT
 - Foreign entities can be better treated than domestic entities
 - Trade: “zero” tariff equalizes the treatment; negative tariff?
 - Investment: FDI may be better treated
 - Incentives for FDI
 - FDI can be better protected
 - » Is this fair?
 - » Comprehensive reform?
 - This could make investment flows/policies complicated.
 - » Round-trip investment
 - Investment promotion and facilitation: Less discriminatory
- SEZ: Can produce preference to foreign entities
 - Can be a good pilot case
 - Risk of isolation from the national economy (little spill-over, if poorly operated)

Development Strategy: Different Views

	FDI-led Development	Government-led Industrial Policy
Region	<ul style="list-style-type: none"> • Southeast Asia 	<ul style="list-style-type: none"> • Northeast Asia (CJK)
Timing	<ul style="list-style-type: none"> • Late-comers 	<ul style="list-style-type: none"> • Early-comer (China?)
Policy	<ul style="list-style-type: none"> • Incentives for FDI 	<ul style="list-style-type: none"> • Restriction on FDI • Request of technology transfer
Domestic industries	<ul style="list-style-type: none"> • Building up industries by FDI; 	<ul style="list-style-type: none"> • Domestic industries are protected (tariff etc)
Deregulations	<ul style="list-style-type: none"> • Nation-wide or SEZ deregulation 	<ul style="list-style-type: none"> • Modest nation-wide deregulation; deregulation limited in SEZ
GVC	<ul style="list-style-type: none"> • Participation in existing GVC 	<ul style="list-style-type: none"> • Building up its own GVC

Technology Transfer

- FDI leads to technology transfer
- Does the request of technology transfer lead to actual technology transfer?
 - Request of technology transfer
 - Not prohibited under WTO TRIMs
 - Prohibited by some IIAs
 - Perfectly prohibited
 - Prohibited as a condition of investment; allowed as an incentive mechanism
 - Other forms of requesting technology transfer
 - Joint venture
- Difficult to force private sectors to transfer technology, though
 - Not necessarily the latest technology transferred...
 - Market size etc.