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# Putting FDI on the G20 Agenda

*Aug 3, 2018* **KARL P. SAUVANT**, **AXEL BERGER**

*With the right controls, foreign direct investment can be a reliable source of external finance to help countries meet their economic goals. But with many countries discouraging new FDI flows, rule-making and policy changes are urgently needed to help avoid costly investment wars.*

NEW YORK – While much of the world's attention is focused on the economic damage being wrought by US President Donald Trump's trade wars, global trade's twin – foreign direct investment – has largely been neglected. And yet, with FDI flows valued at $1.43 trillion in 2017 – on top of the $28 trillion already invested – how these flows are managed matters.

International investment has become an important source of external finance for many countries; for developing economies, in particular, FDI can exceed official development assistance by wide margins. But if FDI is to contribute meaningfully to economic growth and sustainable development, existing flows must increase even more. For that to happen, international investment policies need better coordination, and we believe that the G20 is the best forum to facilitate this process.

The current FDI framework – a muddled mess of more than 3,000 agreements – is insufficient to attract the level of investment needed to meet the United Nations' Sustainable Development Goals for the year 2030. For example, some of the world's largest economies are encouraging domestic firms to "re-shore" their operations and invest more at home. Many countries are also tightening controls on inward FDI; applying stricter screening measures to mergers and acquisitions; and demanding reciprocal market access in return for investment.

Moreover, an increase in the number of disputes being filed by foreign investors against host countries has challenged efforts to improve dispute-settlement mechanisms, as some countries withdraw from global arbitration forums altogether.

If these trends are not reversed, the result could be declines in FDI flows, and perhaps even the emergence of "investment wars" stemming from the over-politicization of foreign investment approvals. Yet, increased investment flows obviously are needed to meet global development goals; what is less clear is how to bring them about.

Unlike the global trading system, the international investment regime does not currently have a multilateral organization to facilitate rule-making, monitor policy developments, or adjudicate disputes. But one can be built, and the G20 is the most sensible place to start. At the very least, the G20 can offer the appropriate level of guidance to help advance FDI policy.

The G20's members already account for two-thirds of global outward FDI flows. Moreover, they participate in most investment treaties, and include both developed and developing countries. Not only is the G20 an important venue for policy dialogue and coordination; it is also well suited to lead on efforts to address key international investment issues.

To be sure, this is not a new idea. For example, during China's G20 presidency in 2016, the G20 adopted the "Guiding Principles for Global Investment Policymaking." This set of nine concepts was designed to foster an open, transparent, and conducive policy environment for investment, while promoting coherence between national and international rules.

Still, as we argued in a recent policy brief for the G20's T20 think-tank, work on this issue has only just begun. In fact, at least three additional steps need to be taken if efforts to improve the international investment regime are to succeed.

First, the G20 should call on other international groupings to conduct analyses of their investment policies to ensure alignment with the bloc's nine principles. When gaps are identified, strategies for plugging them must be developed. Furthermore, to promote compliance and knowledge-sharing – and to chart a course for the negotiation of future agreements – the G20 should facilitate a peer-learning network that links interested governments and regulators.

Second, the G20 should encourage the United Nations Commission on International Trade Law (UNCITRAL) and the International Center for Settlement of Investment Disputes (ICSID) to intensify efforts to reform their own dispute-settlement mechanisms. Because dispute resolution is key to any successful investment regime, the process for resolving disagreements must be beyond reproach. To make certain that it is, the G20 should track progress by requesting regular updates from UNCITRAL and ICSID.

Lastly, the G20 should support the World Trade Organization's discussions on investment facilitation. More precisely, the G20 should stress that future agreements need to be compatible with the "most-favored-nation" principle while prioritizing sustainable FDI over other forms of foreign investment.

The G20 can play a leading role in overcoming the deficiencies that plague the international investment regime. To do this, however, current and future G20 presidencies must provide a home for discussions about action-oriented policymaking. International investment can avoid the type of tensions currently enveloping global trade, but only if the rules of the game receive the attention they need.

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