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Investment facilitation: new dynamism at the WTO on investment[*]

by
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The deliberations at the WTO since the second quarter of 2017 on an investment facilitation agreement (IFA) have brought about a new dynamism at the WTO. A past attempt by developed countries to initiate formal negotiations on an investment agreement at the WTO, as part of the Singapore issues, was blocked by developing countries, arguing that investment does not come under the mandate of that Organization and that the relationship between trade and investment is unclear. However, the developing countries now champion the deliberations of an IFA at the WTO, mainly led by China, Brazil, the Republic of Korea, Argentina, and Russia, for two reasons.

First, some developing countries have become prominent sources of outward FDI (OFDI). Out of the 15 countries that originally proposed an IFA in March-April 2017, five economies (Brazil, China, Hong Kong (SAR), Mexico, the Republic of Korea) have substantially increased their share in the global OFDI stock; their combined share has risen from 3% in 1990 to 13% in 2016.[1] China, along with Hong Kong, accounted for about two-thirds (62%) of the OFDI stock of this group of economies in 2016. A multilateral regime focused on the simplification of FDI approval procedures would be of interest to these countries, as it would help their OFDI.

Second, there is a growing need in many developing countries and least developed countries (LDCs) to attract FDI and integrate into global supply chains. Rising populations, a growing demand for jobs and rampant poverty pose critical challenges for them. According to the United Nations, the world population will increase from currently 7.3 billion to 8.5 billion by 2030, and 9.7 billion by 2050.[2] This increase will take place mainly in Africa. Many poor countries that are not able to generate sufficient resources internally to promote growth and create jobs look toward trade and FDI as a means for addressing these challenges. Hence the 2017 Abuja High Level Trade and Investment Facilitation Forum for Development, organized by Nigeria, the Economic Community for West African States and the WTO Friends of Investment Facilitation for Development, sought to mobilize African countries, spelling out in its concluding statement why an IFA is important and what is expected from it.[3]

Some countries also need FDI to sustain their economic growth. In 2017, the countries with the highest GDP growth were developing countries. In some of them, growth is underpinned by public investment which requires borrowing significant amounts of funds, thus resulting in huge public debt. Ethiopia (the fastest growing economy for the past few years), for example, has invested massively in infrastructure. Its public debt rose from 40% of GDP in 2014 to 50% of GDP in 2016. Countries are promoting FDI as a means for sustaining investment by facilitating non-debt creating investments.

The IFA proposal also reflects a critical shift in the position of developing countries on the relationship between trade and investment and the WTO's adequacy for addressing investment issues. The Abuja statement observed that "trade and investment are inseparable – and remain indispensable 'twin engines' for economic growth, modernization, and development."[4] Currently, the IFA-supporting developing countries are clear about the relationship between trade and investment. According to Chiedu Osakwe, Director General and Chief Negotiator at the Nigerian Office for Trade Negotiations, the WTO is the most suitable forum for negotiating an IFA because investment facilitation needs to be coupled with trade to be effective; decoupling investment facilitation from trade and the WTO would result only in minimal implementation with perverse outcomes.[5]

This change in the approach of many developing countries and LDCs indicates that their resentment about investment at the WTO is waning. This change in attitude will potentially alter the WTO dynamics on investment matters. Accordingly, developed countries will find it much easier to promote a full-fledged investment agreement instead of a mere IFA, if they choose to do so. That would also help obtain the support of major countries (e.g., the US) which have been keeping themselves away from the deliberations on an IFA, being reluctant to prioritize one area of investment (i.e., facilitation) over other areas such as market access and investment protection.

Moreover, while submissions at the WTO on an IFA and the Joint Ministerial statement on investment facilitation issued during the WTO Buenos Aires Ministerial Conference have emphasized the implications of facilitation for development, the deliberations on an IFA so far have focused only on facilitation. The need to channel FDI into development by screening, selecting and regulating FDI should be brought into the discussions on an IFA with the same vigor.

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[1] UNCTAD, *World Investment Report 2017* (Geneva: UNCTAD, 2017). The data have been computed by the author, using the data on OFDI stock provided in the annex tables.

[2] United Nations, *World Population Prospects: 2015 Revision* (New York: United Nations, 2015).
[3] WTO, "Deepening Africa's integration in the global economy through trade and investment facilitation for development. Abuja statement," Ministerial Conference, Eleventh Session, WT/MIN(17)/4 WT/GC/186, Nov. 7, 2017
[4] *Ibid.* 1.4, p. 2.
[5] Intervention of Chiedu Osakwe at the conference "Facilitating Investment for Sustainable Development," organized by ICTSD, the WEF and the Government of the Netherlands, Geneva, Sept. 26, 2017.

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