

Need More Multilateral Efforts on Facilitating FDI Flow

Zhang Yunling

Professor, Director

International Studies, CASS



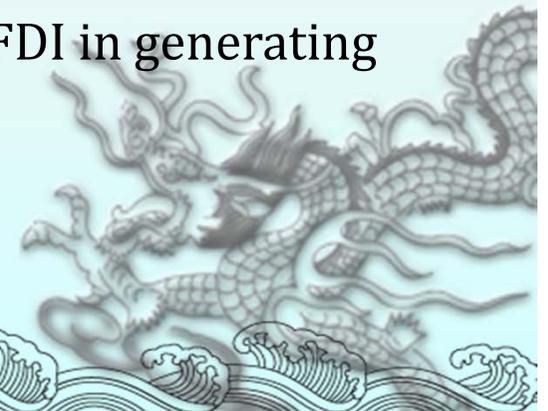
I. Trend of FDI Flow

- ◆ FDI flow plays a key role in globalization. The size of FDI flow has increased dramatically
- ◆ FDI supports by business incentive(gov.), business strategy(cost), host market environment (market potential, infrastructure). In general, all economies now have adopted the open policy and welcome FDI inflow
- ◆ FDI becomes an integrated part of the global economic restructure. As the global economy is in the post financial/economic crisis recovery and restructure, it is crucial to improve the environment for facilitating FDI flows.
- ◆ There are still great many barriers on FDI flow. Among them, the policy restrictions are the major ones. The governments usually make controls on the key or sensitive sector.
- ◆ Unlike trade, FDI policies are more selective



Trend of FDI Flow (2)

- ◆ FDI flow to developing economies increased faster than to the developed economies, and the size to the developing economies seems close to the developed economies by 2010.
- ◆ One of the key factors supports Asia miracle is FDI flow. With more and more economies adopted the open-development policy, FDIs found more opportunities to extend the business network, thus the regional based production network was formulated and FDI flows become multiple oriented(link to network). As the production network is based on the reprocessing (multiple)-assembly structure, the cross border transactions of goods as well as services in the region increased significantly.
- ◆ There is clear linear between FDI flow and trade (supply chain, value added).
- ◆ China provides a special case for the positive role of FDI in generating export and economic growth.



Trend of FDI Flow (3)

- ◆ Compared with trade, there are more restrictions on FDI flow (including the outflow and inflow). The reasons for setting restrictions are various, ranging from protecting infant sectors to national security. The protectionism rises generally in the economic crisis or in face of external competition.
- ◆ Although a seamless investment environment is not possible, but further liberalization and reduction of barriers for FDI flow seems highly demandable since FDI flow plays a crucial role in facilitating economic recovery and generating the new dynamism of the global economy.



II. Efforts on Facilitating FDI

- ◆ Most of WTO round efforts were made on the trade liberalization. The Uruguay Round negotiations of WTO produced TRIMs. The nature of TRIMs is to reduce the barriers on the investments that related to trade in goods.
- ◆ Although WTO opened the window for FDI liberalization through TRIMs, it is not clear that FDI issue could be fully handled by WTO in the future.
- ◆ Others, like OECD, UNCTAD, G20, have also made efforts on producing guidelines, assessment and research



Efforts on Facilitating FDI (2)

- ◆ Investment liberalization and facilitation are key parts of the regional arrangements. EU has realized full liberalization by the single market, NAFTA guaranteed the principle of national treatment, prohibited investment related performance.
- ◆ ASEAN established AIA that helps to encourage and facilitate FDI in ASEAN.
- ◆ Five “10+1” FTAs all cover the areas of trade in goods, service and investments. As for the investment liberalization and facilitation, the agreements include major issues like national-treatment, non-discriminate treatment, performance requirement, range of application, transparency etc.



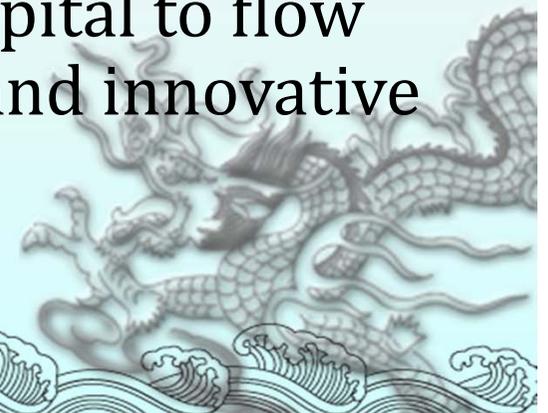
Efforts on Facilitating FDI (3)

- ◆ RCEP will include a comprehensive part of investment which will be surely beyond AIA. The key role for RCEP investment arrangement is to be helpful in promoting and restructuring the production network and inclusive development.
- ◆ CJK IPA includes all the important principles ranging from the definition of investment, scale of investment, most-favored-nation treatment, national treatment to dispute settlement.



Efforts on Facilitating FDI (4)

- ◆ The major forms of FTAs are bilateral ones. All bilateral FTAs made efforts on investment liberalization and facilitation, having comprehensive investment commitments.
- ◆ Although great efforts have been made on investment liberalization and facilitation, but visible and invisible barriers for FDI are still mounting.
- ◆ After the global financial crisis, it is important to make further efforts on encouraging capital to flow to real sectors, especially to the green and innovative sector.



III. Future Perspective

- ◆ Over half century's efforts the barriers for international trade, especially the tariff barrier, have been reduced significantly. However, the barriers for FDI are still very high. Compared with trade barriers, those on FDI are far more complex and invisible.
- ◆ WTO may find some new framework to solve the existing problems. The new framework can be obtained by finding the real cases from G20, or inviting other organizations like UNCTAD, OECD to complement the TRIMs by combining with the IIA or other FDI polices.
- ◆ It is considered that a global investment facilitation agreement should be launched.

