

**COMMITTEE  
MEETING**

EB/LC/Mtg/19/3

March 26, 2019

To: Members of the Committee on Liaison with the World Bank and Other International Organizations

From: Sabina Bhatia, Committee Secretary

Subject: **Committee on Liaison with the World Bank and Other International Organizations—Summary Record of Meeting 19/3**

Committee Action: Committee members' **information**

Additional Distribution: Members of the Executive Board



**SUMMARY RECORD**  
**COMMITTEE ON LIAISON WITH THE WORLD BANK AND**  
**OTHER INTERNATIONAL ORGANIZATIONS**

**Meeting 19/3**  
**February 19, 2019—10:30 a.m.**

**Members present:** Ms. Riach (Chair); Mr. Al-Kohlany (representing Mr. Beblawi), Mr. Gokarn, Mr. Kaizuka, Ms. Levonian, Mr. Merk (representing Mr. Meyer), Mr. Rashkovan (representing Mr. De Lannoy), Mr. Sylla (representing Mr. Raghani); Ms. Bhatia (Committee Secretary).

**Also present:** Mr. Amor, Mr. Anwar, Mr. Badsy, Mr. Bernatavicius, Mr. Benk, Ms. Cai, Mr. Castets, Ms. Crane, Ms. Florestal, Mr. Guerra, Mr. Mouminah, Mr. Rojas Ulo, Mr. Sishi, Mr. Snisorenko, Mr. Trabinski.

**Agenda for the meeting:** Presentation by James Zhan, Senior Director of Investment and Enterprise, UNCTAD.

Drawing from UNCTAD's 2018 World Investment Report (WIR), Dr. Zhan spoke about global foreign direct investment (FDI) trends and prospects. Global FDI slid in 2017 to the lowest level in over a decade. Although a moderate and short-lived rebound is expected, heightened policy uncertainty, trade wars and structural changes, including evolving global value chains and the U.S. tax reform, could impact FDI flows over the long run.

Directors asked several questions, mostly on the following topics:

**Tax.** On the effects of tax harmonization on FDI, Dr. Zhan noted that revenue losses in developing countries from tax avoidance practices by global multinational enterprises (MNEs) is estimated at over \$100 billion. In tackling tax avoidance, Dr. Zhang noted the importance of investment policy, in addition to a focus on tax rules and transparency principles. Dr. Zhan also noted that almost 50 percent of global FDI stock will be affected by the US tax reforms.

**Investor-state dispute settlement (ISDS) mechanism.** On best practices, Dr. Zhan emphasized that the ISDS mechanism could be strengthened through the inclusion of investment treaty arbitration, international mediation, and dispute prevention policies.

**FDI to low-income countries (LICs).** On data constraints, Dr. Zhan agreed that data availability is limited in LICs, particularly in Sub-Saharan Africa, and that the economic impact of investment by non-traditional lenders—often a combination of FDI with concessional finance—tends to be underestimated.

**Leapfrogging.** A Director asked about the potential to “leapfrog” the manufacturing stage of economic development by harnessing technological innovation. Dr. Zhan noted that although the digital economy potentially offers an alternative development model for LICs, to succeed countries need infrastructure. Relative to the scale of investment needs, FDI in infrastructure remains relatively low because of a lack of bankable projects that meet investor requirements in terms of risk, liquidity and tenure. Dr. Zhan noted that there has been a sharp increase in investment restrictions and regulations globally to protect vital infrastructure and suggested that countries consider initiatives to promote SDG-related infrastructure investment, including by offering incentives.

**Governance.** Responding to a question on UNCTAD’s work on analyzing corruption in GVCs and/or FDI, Dr. Zhan highlighted the UN’s Sustainable Stock Exchanges (SSE) initiative. Under this initiative, UNCTAD has partnered with various stock exchanges to incorporate reporting on environmental, social, and governance (ESG) information into their listing rules and to provide formal guidance to issuers.

The meeting concluded at 12:26 p.m.

Attachment

# GLOBAL INVESTMENT TRENDS AND KEY EMERGING ISSUES

**James X. Zhan**

Senior Director, Investment and Enterprise, UNCTAD  
Lead, UN World Investment Report

Executive Board Meeting, International Monetary Fund  
Washington D.C., 19 February 2019



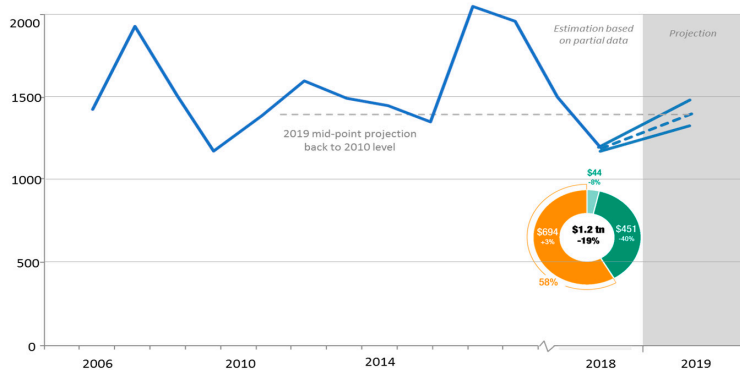
## Contents

- **Global FDI trends and prospects (presentation)**
  - Stagnation in FDI and GVC growth
  - Dynamics and divergence in FDI policy developments
- **Key emerging issues (discussion)**
  - Interaction between FDI and industrial policies
  - Implication of tax reforms for global FDI patterns
  - Impediments to investing in SDGs
  - Reform of investment treaties regime
  - Impact of trade tensions on investment



## Global FDI trends and prospects

Global FDI flows, 2006–2017, estimation 2018 and projection, 2019  
(Billions of dollars and per cent)



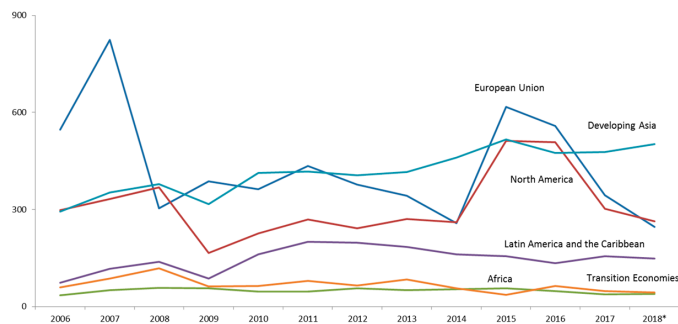
- FDI slid in 2018 to the lowest level in a decade
- Rebound is expected in 2019 but remains below 10-year average
- Risks abound

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## Regional trends: salient features

FDI inflows by region, 2006 and 2018\*  
(Billions of US dollars)



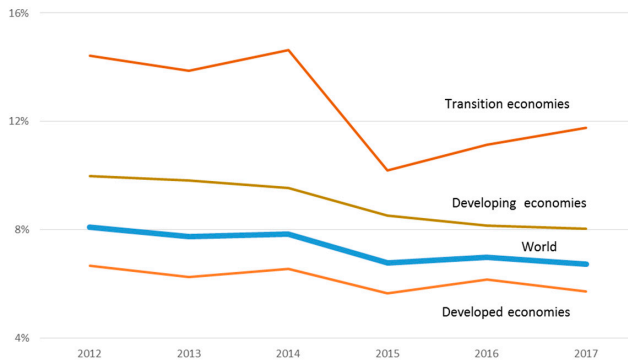
- **Developed (EU and North America):** volatile and drastic decline in the last three years;
- **Developing:** resilient and gaining a larger global share (58%);
- **Developing Asia:** the world largest FDI recipient in 2017-2018.
- **Africa:** remained at very low level (4%)
- **LAC:** declines in 6 out of 7 years
- **Transition:** continue to suffer from a downward trend

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## Rates of investment return

Inward FDI rates of return, 2012-2017  
Per cent



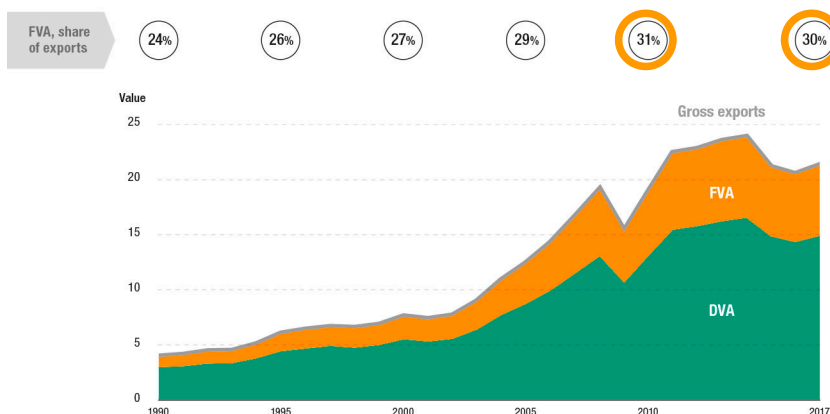
- A decrease in rates of return could be a contributor to the investment downturn.
- The global average return on foreign investment is now at 6.7%, down from 8.1% in 2012.
- Return on investment is in decline across all regions, with the sharpest drops in Africa and in Latin America.
- The lower returns on foreign assets may affect longer-term FDI prospects

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## Growth in GVCs has stagnated

Value added in trade, 1990-2017  
\$ Trillions and per cent



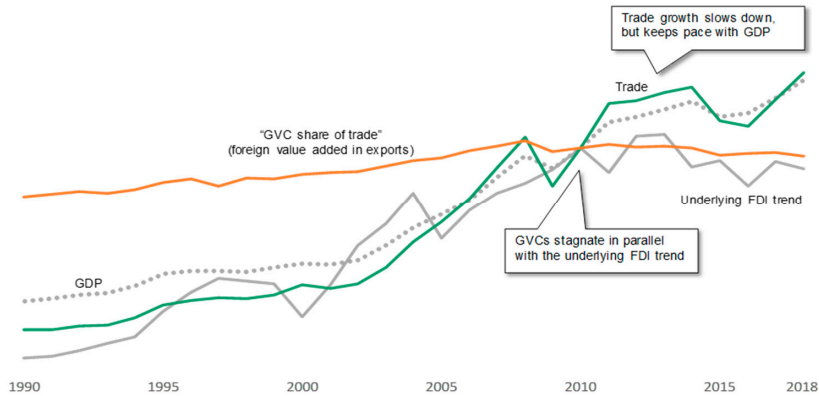
- Growth in GVCs has stagnated. Foreign value added in global trade peaked in 2010–2012 after two decades of continuous increases.
- Foreign value added down 1 percentage point to 30 per cent of trade in 2017.
- Growth in GVC participation decreased significantly this decade compared with the last, across all regions, developed and developing.
- The GVC slowdown shows a clear correlation with the FDI trend and confirms the impact of the FDI trend on global trade patterns.

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## Global FDI in broader perspective

Trade, GVCs, and the underlying FDI trend, 1990-2018  
(Indexed, 2010=100)



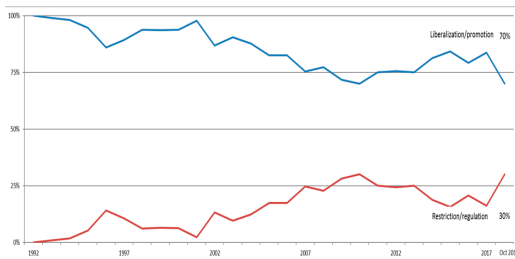
- The underlying FDI trend index (net of the effect of one-off events, M&As and the more volatile components of FDI) suggests that the decline started even earlier than is apparent from the headline FDI figure. The underlying FDI trend has shown weak growth since the global financial crisis and has been on a downward trajectory since 2013.
- The longer-term FDI downturn shows clear parallels with the slowdown of growth in trade and the slowdown of GVCs. FDI is closely linked to GVCs because about 80% of global trade is linked to the international production networks of MNEs and their overseas affiliates.

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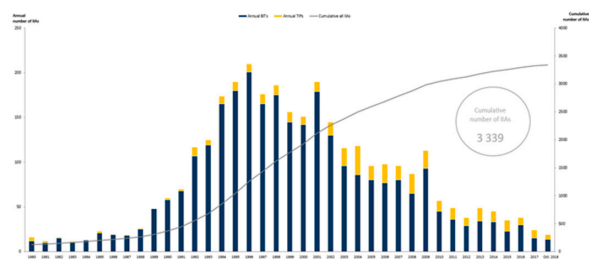


## Investment policy developments

Changes in national investment policies, 1992–2018  
(per cent)



International Investment Agreements signed, 1980–2018 (number)



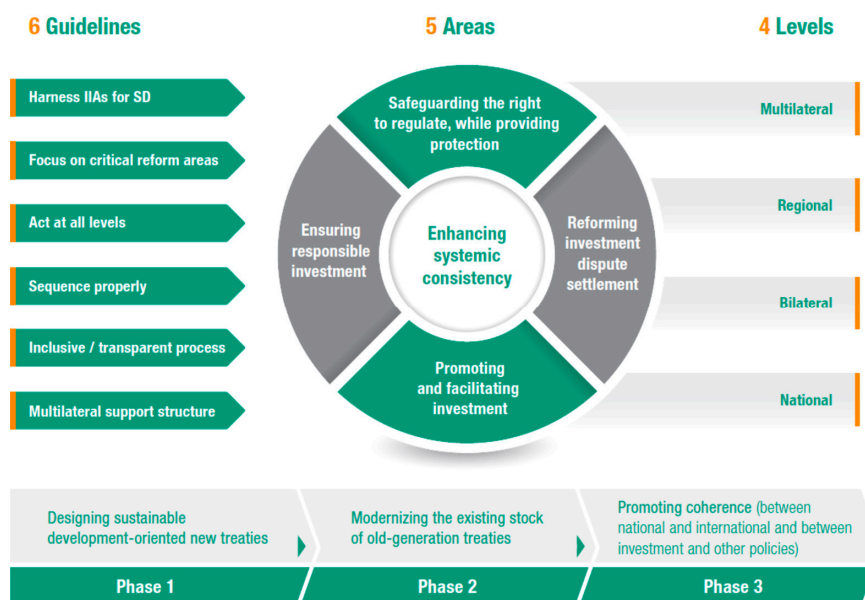
- **Dynamics** in policymaking
- **Dichotomy** in regulatory directions
- **Divergence** in IIA approach
- **Dilemma** in investing in SDGs

A turning point:  
22 IIA terminations  
in 2017

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# UNCTAD's Reform Package for the Investment Treaty Regime (2018)



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## Contents

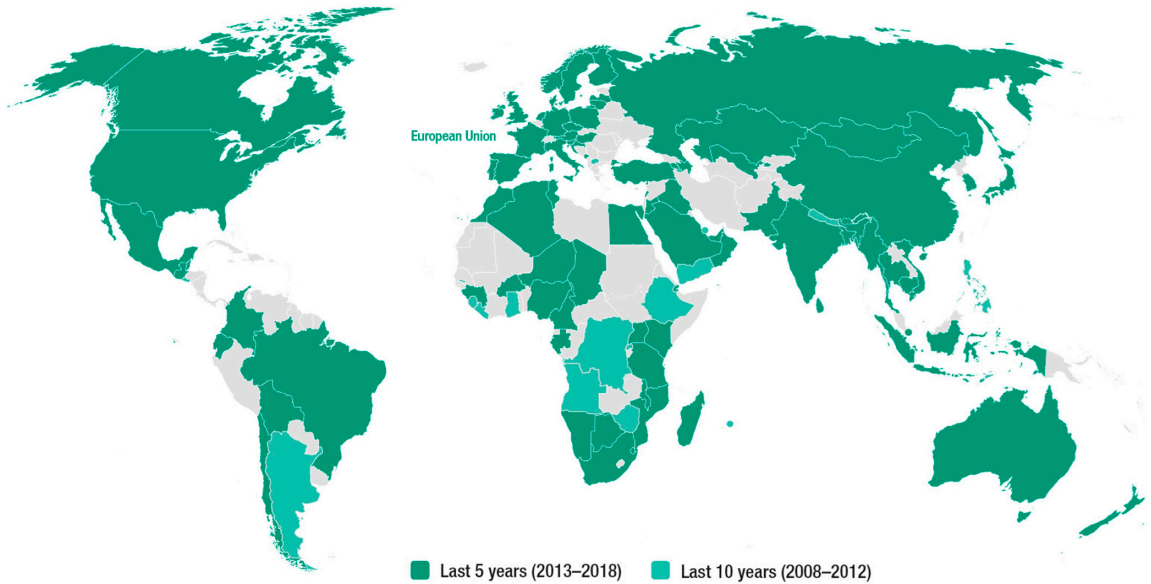
- **Key emerging issues (discussion)**
  - Interaction between FDI and industrial policies
  - Implication of tax reforms for global FDI patterns
  - Impediments to investing in SDGs
  - Reform of investment treaties regime
  - Impact of trade tensions on investment

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# Industrial policy has become ubiquitous

Industrial policies adopted since 2008



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## Three categories: build-up, catch-up and NIR-based strategies

Recent industrial policy models  
Share of sample (per cent) and number per country grouping

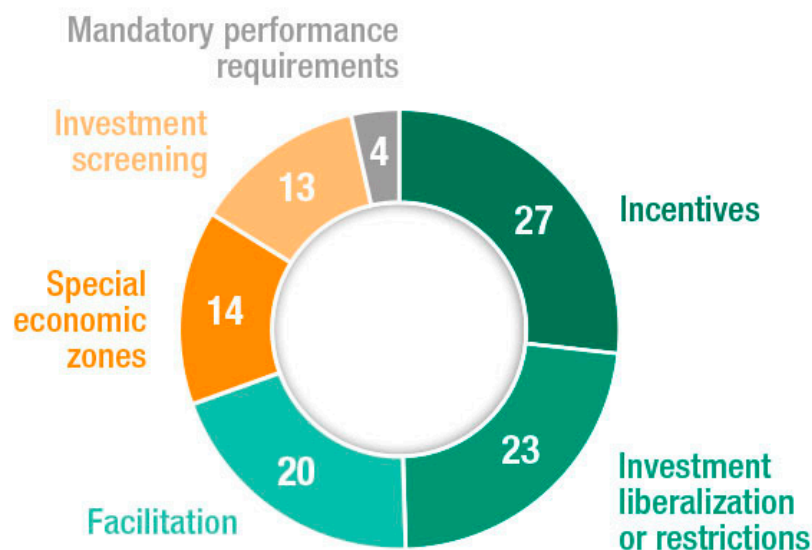


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# Modern industrial policies drive investment policy trends

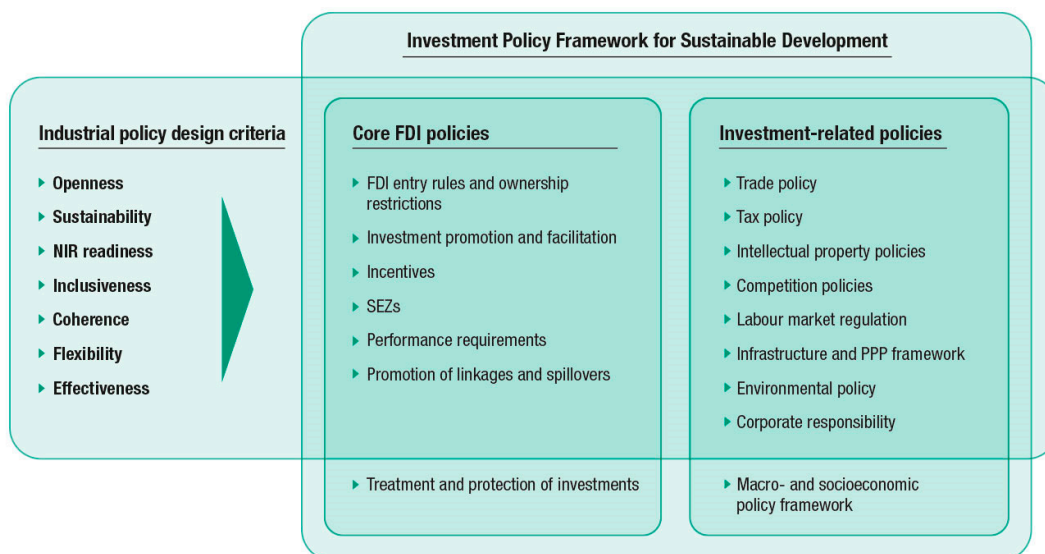
Investment policy measures for industrial policy purposes, by type, 2010-2017  
Per cent of total (n=387)



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## Investment policy choices guided by industrial policy-inspired design criteria

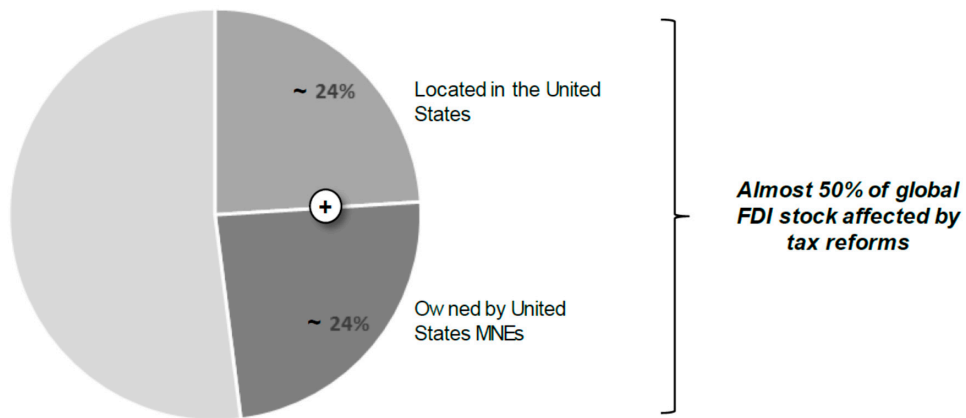


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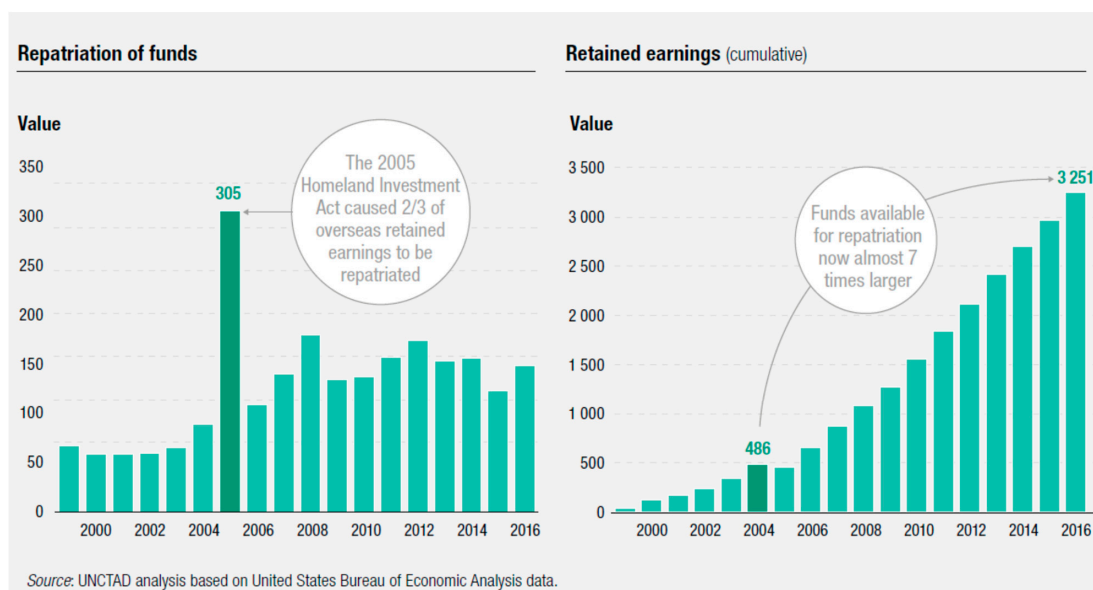


# US tax reforms: implications for global FDI

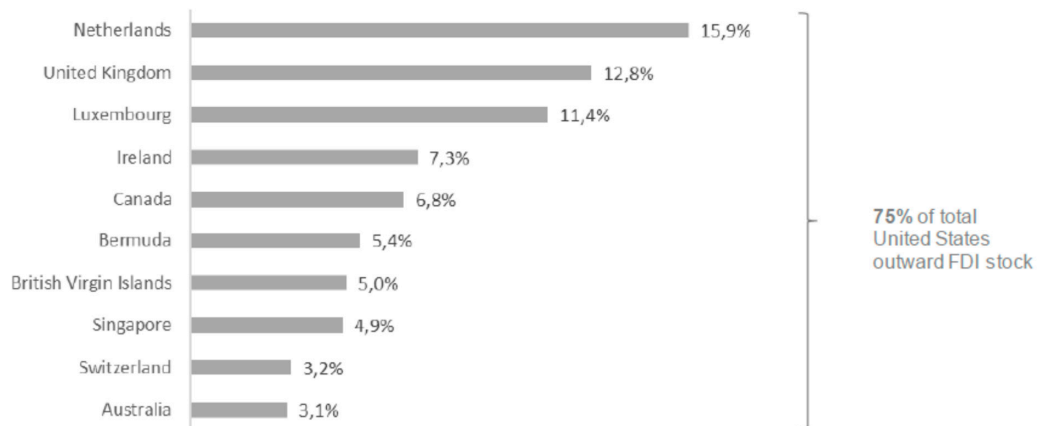
Global FDI positions affected by the US tax reform



## Retained and repatriated earnings of US MNEs



## Top 10 locations of outward US FDI stock, 2016



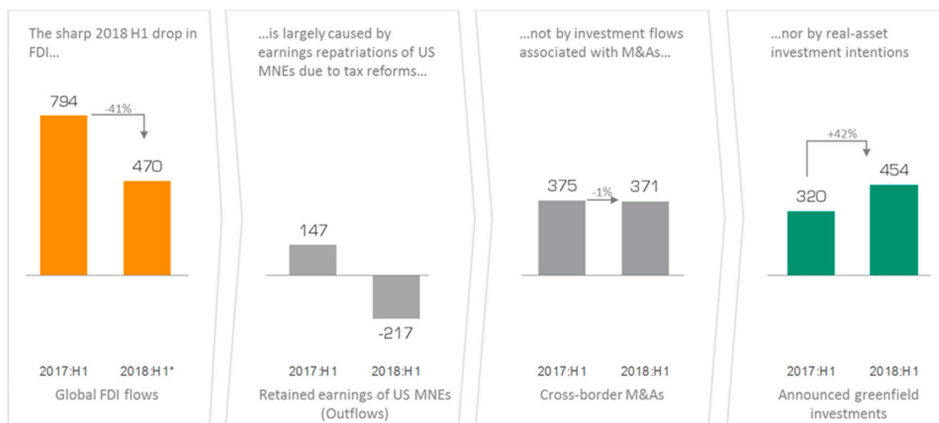
Source: UNCTAD FDI database.

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## US tax reforms: impact on global FDI, 2017-2018

Investment trends: 2017:H1 and 2018:H1  
(Billions of US dollars and per cent)

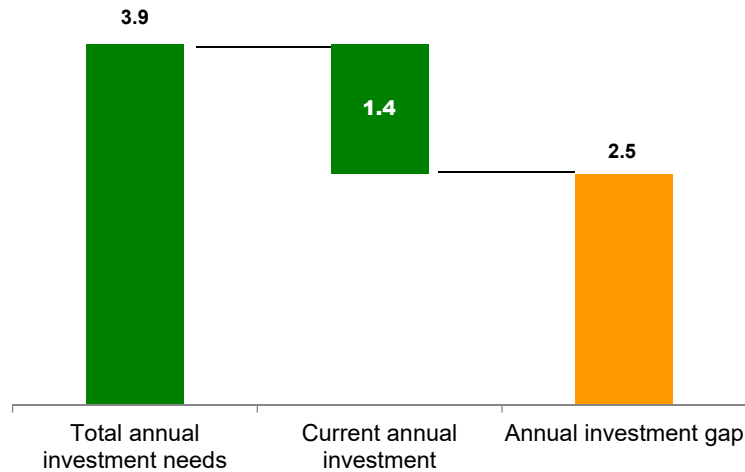


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# The UN SDGs – a large investment gap to bridge

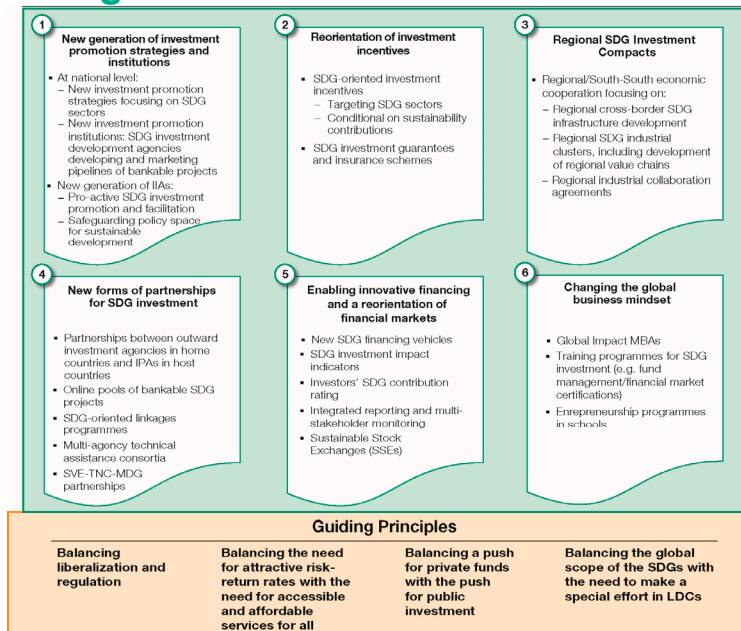
Estimated annual investment needs in key SDG sectors, 2015–2030  
(Trillions of dollars, annual average)



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## A big push for private investment in the SDGs: Action Packages

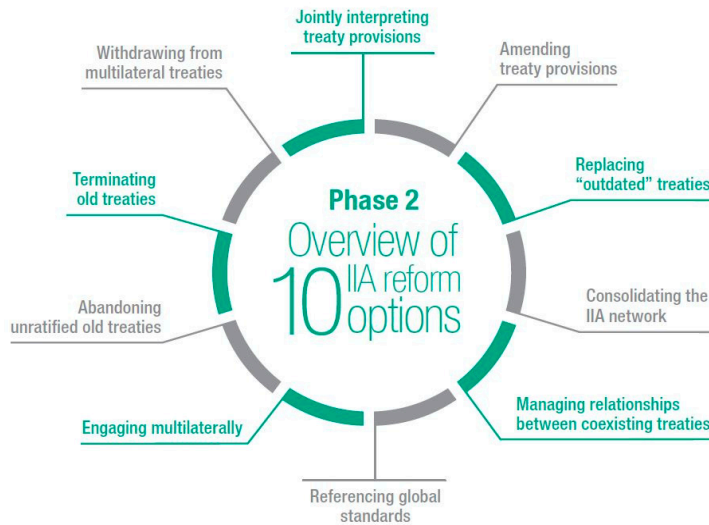


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# IIA reform – Phase 2

UNCTAD’s 10 Options for modernizing the existing stock of old-generation IIAs (2017)



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# IIA reform is happening (Phase 1)

Reform-oriented provisions in IIAs concluded in 2000 compared to 2017

2000	1	2	3	4	5	6	7	8	9	10	11
Austria–Bangladesh BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Belarus–Singapore BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Brunei Darussalam–China BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Chile–Dominican Republic BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cuba–Paraguay BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ethiopia–Turkey BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Greece–Mexico BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
India–Lao People’s Democratic Republic BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Italy–Libya BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Malaysia–Saudi Arabia BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mongolia–Philippines BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Nigeria–Switzerland BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rwanda–South Africa BIT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2017	1	2	3	4	5	6	7	8	9	10	11
Argentina–Chile FTA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
ASEAN–Hong Kong, China Investment Agreement	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Burundi–Turkey BIT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
China–Hong Kong, China Investment Agreement	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Colombia–United Arab Emirates BIT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Intra-MERCOSUR Investment Facilitation Protocol	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Israel–Japan BIT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Jordan–Saudi Arabia BIT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mozambique–Turkey BIT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Pacific Agreement on Closer Economic Relations Plus	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
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Turkey–Ukraine BIT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Turkey–Uzbekistan BIT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

**Selected aspects of IIAs**

- References to the protection of health and safety, labour rights, environment or sustainable development in the treaty preamble
- Refined definition of investment (e.g. reference to characteristics of investment; exclusion of portfolio investment, sovereign debt obligations or claims to money arising solely from commercial contracts)
- Circumscribed fair and equitable treatment (with reference to customary international law (CIL), equated to the minimum standard of treatment of aliens under CIL, or clarified with a list of State obligations)
- Clarification of what does and does not constitute an indirect expropriation
- Detailed exceptions from the free-transfer-of-funds obligation, including balance-of-payments difficulties and/or enforcement of national laws

- Omission of the so-called “umbrella” clause
- General exceptions, e.g. for the protection of human, animal or plant life or health; or the conservation of exhaustible natural resources
- Explicit recognition that parties should not relax health, safety or environmental standards to attract investment
- Promotion of corporate and social responsibility standards by incorporating a separate provision into the IIA or as a general reference in the treaty preamble
- Limiting access to ISDS (e.g. limiting treaty provisions subject to ISDS, excluding policy areas from ISDS, limiting time period to submit claims, omitting an ISDS mechanism)
- Specific proactive provisions on investment promotion and/or facilitation

The scope and depth of commitments in each provision varies from one IIA to another

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