Investment Promotion and Facilitation in a Broader Policy Context

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Thank you very much, Mme. Chairperson, and good morning, ladies and gentlemen.

Thank you also for the opportunity to speak at this important event. It is important because we are dealing with the need to increase FDI flows to meet the investment needs of the future, not least to implement the SDGs.

Like Mr. Schekulin's introductory remarks, I will take a broad approach to the topic of this workshop, focusing on three issues: the determinants of FDI; defining investment facilitation and the role of IPAs; and the need for a global approach.

1. Determinants

Let me begin by talking briefly about the determinants of FDI.

I distinguish three sets of FDI determinants: the economic determinants, the regulatory framework and investment facilitation.

The economic determinants are key. They include the size and growth of the market, the quality of infrastructure and the availability of skills at competitive prices. If the economic determinants are not right – i.e., firms cannot make a profit – chances are very high that no FDI will take place, regardless of how good the regulatory framework and investment facilitation are. It is worthwhile to emphasize this basic point because especially policy makers often seem to think that the regulatory framework is everything. In fact, everything is nothing if the economic determinants are not right.

However, once the economic determinants are reasonably attractive, the regulatory framework for FDI comes into play, especially for non-natural resource investment, i.e., market-seeking and efficiency seeking investment.

In this respect, I think it is fair to say that pretty much all countries have made considerable progress over the past two decades to improve their regulatory FDI frameworks, often with the help of the OECD, UNCTAD and the World Bank, as well as other organizations. These improvements have taken place at the national level, where countries have modernized their FDI laws and, more generally, improved the business environment. It has also taken place at the international level, where
countries have negotiated some 3,000 BITs (not to count other IIAs) to protect foreign investors.

The implication of this development is that the FDI regulatory frameworks across countries are now relatively similar, both at the national and international levels. And this, in turn, puts the spotlight on investment facilitation. In fact, the more similar FDI regulatory frameworks are across countries, the more important investment facilitation becomes as a means to attract FDI and benefit from it.

And this brings me to my second point, namely, defining investment facilitation and the role of IPAs.

**2. Defining investment facilitation and the role of IPAs**

Let me say at the outset that, of course, any definition -- of investment facilitation or, for that matter, pretty much anything else -- is often an arbitrary exercise. It depends for what you want to use it.

For me, “investment facilitation” includes both investment promotion (i.e., attracting FDI) and benefitting from FDI as much as possible. This is, admittedly, a broad definition, as it includes “benefitting from FDI”. The reason that I think we need to include “benefitting from FDI” in the definition is that we always have to keep in mind that, for countries, FDI is just another tool to advance their growth and development -- in other words, countries attract FDI not for its own sake, but with a particular purpose in mind, namely to advance their growth and development. This is obvious, but I think it deserves to be re-iterated lest we forget what it is all about from the perspective of countries.

I realize of course that there may be tensions between attracting FDI on the one hand and benefitting from it as much as possible on the other hand. If you wish we can discuss this issue later.

In any event, IPAs are key, both for attracting FDI and benefitting from it as much as possible.

I will not elaborate on the range of issues that relate to investment promotion and benefitting from it as much as possible. Let me just mention two issues, as I think they will become increasingly important.

- The first one concerns the quality of FDI. On balance, pretty much all FDI can contribute to growth and development. But some investment, especially when supported by government policies, can make more of a contribution to development than other investment, especially when it is “sustainable FDI”. This raises of course immediately another question, namely, what is “sustainable FDI”?
Well, I don’t think we know the answer to this question. It should be FDI that exhibits certain “sustainability characteristics”, e.g., develops strong backward linkages. But this is only one example. What we should do therefore, I submit to you, is to initiate a process to create an indicative list of “sustainability characteristics”. Such an indicative list, I am convinced, would also be of great help to IPAs that seek to facilitate “sustainable FDI” in order to advance the growth and sustainable development of their countries. At a time where the SDGs have become the lodestar for our policy making, I think it is high time that we move forward in terms of facilitating sustainable FDI for sustainable development.

- The second issue I want to highlight briefly as relating to the role of IPAs concerns the resolution of disputes between investors and host countries. The reason is that such disputes are frequent and often almost unavoidable. But it is avoidable that perhaps most of these disputes reach the international level through the ISDS mechanism, which can be very costly for host countries and investors. Hence dealing with these disputes at the national level is of key importance. IPAs should therefore develop a dispute-avoidance function, perhaps by creating an early warning system that would alert them to disputes that are developing; or by encouraging the establishment of an inter-ministerial committee that screens such disputes; or by creating the office of an Ombudsperson who, as a neutral institution, can seek to mediate any disputes. Traditionally, this has not been a function of most IPAs, but I think it should become one.

Let me now conclude with my final point, namely:

3. The need for a global approach

IPAs are at the center of investment facilitation. It is therefore imperative that they are as strong and competent as possible. We know that this is not always the case – not because governments do not recognize the importance of IPAs, but because of a lack of resources. Assistance can come – and does come – from individual donor countries, intergovernmental organizations, organizations such as WAIPA, and through partnerships between IPAs in various countries. But the question is whether a more coordinated international approach towards investment facilitation is needed.

It is encouraging in this respect that the G20, in its recent summit in China, encouraged UNCTAD, the World Bank, the OECD, and the WTO to advance this idea within their respective mandates. I think making investment facilitation an item on the international agenda represents a recognition of the importance of investment facilitation. Let us hope that we will see rapid progress in this area.

Thank you very much for your attention.