



JUNE 2018

Where to with APEC's investment framework?

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APEC is now embarking on a most important review of a post 2020 Vision for a region which has as its fundamental objective the Bogor goals of open trade and investment. APEC is also considering its approach to the Next Generation of Trade and Investment Issues (NGenTI).

The Bogor goals established the concept of free and open investment across the APEC region by 2020 as a crucial aspect of regional economic integration. Since the inception of APEC, FDI flows have grown strongly but more recently, and particularly since the Global Financial Crisis, growth has stalled.

There is an inter-relationship between the post 2020 Vision review and NGenTI. The central issue under consideration is how to promote an environment in the region that encourages cross-border investment flows.

The benefits of such flows have often been stated. Foreign direct investment (FDI) can complement domestic savings and investment thus allowing more rapid economic development than would otherwise occur. FDI can be associated with raising technology inputs in an economy, contributing to better production and marketing practices, jobs growth, increases in efficiency and productivity in domestic markets and increasing the prospects of better export performance and consumer choice. All are benefits.

Most international organisations do work to promote FDI and its benefits. Sound principles to protect the rights of foreign investors and those of the economies that are recipients of FDI flows have evolved and are reflected in treaties of a multilateral, plurilateral and bilateral character.

The principles include most favoured nation treatment, national treatment, recognition of concepts of compensation for losses incurred when a government determines to acquire an asset owned by a private citizen, foreign or domestic, and treaties usually include methods to settle to disputes between investors and the states they invest in.



In a broad sense, FDI occurs because there is a degree of confidence in laws and practices under which investments take place. There is recognition of laws and practices that provide a balance in the interests of investors and those economies in which they invest.

APEC has developed the Investment Facilitation Action Plan (IFAP) to promote investment flows in the region. The plan was launched in Sydney at the APEC Leaders meeting in 2007. Because it is an APEC initiative it is of a non-binding character; it incorporates 8 principle and 35 articles that member economies might consider to improve their investment attractiveness.

IFAP includes principles to promote accessibility and transparency in investment decision-making by a home economy, measures to promote a stable investment environment, consistency and predictability in policies, efficiency in procedures, the building of stakeholder relationships and international cooperation. IFAP is thus a guide for the region which recognises well-established international principles, discussed later in this article.

IFAP is but one aspect of APEC's broad agenda that incorporates other aspects of economic policy making that impact on the environment in which investment decisions are made. Other aspect of APEC's agenda include those relating to structural reform, regulation and competitiveness, market access and efficiencies in financial systems, to name just a few.

These inter-relationships across APEC's agenda are important in ensuring a mature and cohesive approach as economies draw on their membership of APEC in formulating domestic policy-making directives.

As well as formulating IFAP, APEC draws on the work of, and collaborates closely with, relevant international organisations responsible for trade and investment, including the WTO, UNCTAD, UNICTRAL, the OECD, World Bank, IMF and the ADB as well as industry and trade associations, academia and think tanks.

Moreover, APEC, through the APEC Business Advisory Council, ABAC, absorbs advice on infrastructure investment through the Asia Pacific Infrastructure Partnership and the Global Infrastructure Hub.

Notwithstanding the quantity and quality of and the variety of work to promote and facilitate investment flows in the Asia Pacific region, there has been only partial recovery in flows since the end of the Global Financial Crisis. Most recent figures by



UNCTAD in the 2017 World Investment Report show that global flows of FDI fell by about 2% to \$US1.5 trillion in 2016 and flows in developing economies declined even more by 14%. Flows to lesser developed countries and structurally weak economies remain volatile and low. Although a modest recovery of FDI flows is expected to be recorded in 2017, flows over 2017-2018 are likely to remain well below the 2007 level.

The 2017 UNCTAD report also draws attention to the impact of the digital economy on investment decision- making. Digitisation is impacting on all aspects of economic activity, including global value and supply chains. UNCTAD warns that the development of digital strategies either fail to address investment or discuss investments needs only at a very general level.

Given the massive infrastructure needs and investment associated with the Sustainable Development Goals, higher rates of FDI flows must remain as a regional and global priority and highly relevant to APEC's post 2020 review and to consideration of the NGenTI .

At this juncture in APEC, the following issues are highly relevant to the post 2020 vision and to NGenTI:

- The need for strong FDI flows to and across the Asia Pacific remains as an imperative;
- APEC initiatives to promote a sound investment environment in member economies sufficient to realise the Bogor goals of a free and open investment region are unlikely to be achieved by 2020. That said, FDI has been, and will continue to be, a major contributor to the Asia Pacific region and to regional economic integration – attainment of the Bogor goals is an imperative for APEC;
- The interests of states (economies) is being influenced perhaps more sharply than previously by domestic and global community concerns on significant issues such as the environment, health, climate change and development issues generally which impact on FDI flows;
- These interests of governments might usefully be considered as one of balancing public and private investor interests and should be recognised as such in creating an environment in which FDI flows are encouraged; in some if not in all economies, they are reflected in investment policies which involve decision making on national interest terms;



- APEC is not empowered to be involved as a party to treaty negotiations of multilateral, plurilateral and bilateral investment negotiations that are being required to reflect the types of concerns just noted; however, APEC investment guidelines might be reviewed with a view to advocating a realistic and flexible approach in treaties its members may enter into to reflect those concerns;
- The IFAP principles include measures to improve stakeholder relationships and measures to promote international cooperation; these principles could usefully be assessed to see if they can usefully be extended to incorporate the concepts noted above, reflecting the interests of governments;
- The key principles of non-discrimination, MFN and National Treatment that have evolved in treaties and agreements to fairly reflect the interests of investors (and states) should continue to be essential components of reviews and measures that seek to promote investment flows in the region;
- The need to develop a more effective pathway to deliver on Action Plan reviews to show performance in policy making, judged against IFAP principles;
- Encouragement of like-minded interested economies in developing systematic approaches to reviewing key sections of IFAP over say the next three to four years by a group comprising APEC members and external experts drawn from respected international organisations and publish reports drawing out key lessons learned;
- The need to promote continuing work on quantitative and qualitative analysis, started under the Regional Investment Analytical Group, and focused on APEC-wide research key aspects of investment that enhances trade, competitiveness, productivity growth and employment;
- Review of UNCTAD's report and consult with UNCTAD, on digitisation and innovation and determine a pathway to give effect to key recommendations involving these issues in strategic investment planning at economy level;
- Increase collaboration with the private sector, MDBs and the Global Infrastructure Hub and APIP to identify most effective ways to promote sustained growth in quality infrastructure in the region.