External Economic Policy

Statement

Main Obstacles When Investing Abroad and How They Can Be Addressed Through Investment Facilitation Policy

Date
10. July 2017

World Trade Organization (WTO)/
Friends of Investment Facilitation for Development (FIFD)

FIFD Workshop on Investment Facilitation for Development: What Investment can do for Trade Connectivity and Development – Investment Needs and Bottlenecks

10. July 2017
Geneva, Switzerland

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Investment is a Driver of Globalization and Development

Foreign direct investment is a main driver of globalization. It is the fuel for employment and prosperity. Compared to parameters like the growth of the world's population, global production, or world trade, cross-border investment is growing much faster.

Since 1980, the global FDI stock has increased by a factor of 44.[1] Between 2000 and 2016, the global stock of foreign direct investment (FDI) has more than tripled. My home country of Germany benefits significantly from its FDI abroad. German industry is responsible for 7 million jobs in other countries. At the same time, Germany also benefits from FDI by its partner countries. Foreign investors created about three million jobs in Germany.[2]

However, not only Germany is becoming increasingly globalized. The entire global economy is more and more interconnected because of FDI. This process is yielding positive results worldwide. For decades, prosperity has increased in most regions of the world. FDI creates jobs in local markets, supports infrastructure development, and allows for the production and sale

[1] UNCTAD, *World Investment Report 2017*, <https://www.unctad.org>.
[2] Deutsche Bundesbank, *Bestandserhebung über Direktinvestitionen, Statistische Sonderveröffentlichung 10*, April 2017.

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of new goods. Although the world population is increasing quickly, income per capita is rising globally. At the same time, famine, diseases, infant mortality, and illiteracy are decreasing.

Concerns about Globalization

Unfortunately, not all people can enjoy these changes in the same way. A few days ago, we were reminded that there are many reservations about globalization. We have all seen the pictures of the G20 Summit in Hamburg, Germany last weekend. We saw thousands of protesters marching against capitalism and globalization. The protests were extremely strong. We saw riots, burning cars, and crowds marching through the streets.

Of course, most people in Germany and in this room know that globalization creates wealth. But globalization is changing a lot and many people are worried about the future. The protests in Hamburg have shown us the magnitude of these worries. Business takes these concerns very seriously.

I want to show that the topic of our workshop today, investment facilitation for development, is more important today than ever before. It is important because our topic is directly linked to the growing concerns against globalization.

Inclusive Globalization, FDI, and SDGs

I want to ask: How could globalization become more sustainable and inclusive? If investment really is a driver of globalization and of prosperity, then we must make investments contribute to a more inclusive globalization.

Regularly, investors invest capital to increase their capital. They invest in locations where they expect profits. Politics cannot change this basic fact. But politics can change the legal frameworks so that investors become interested in new destinations for their capital.

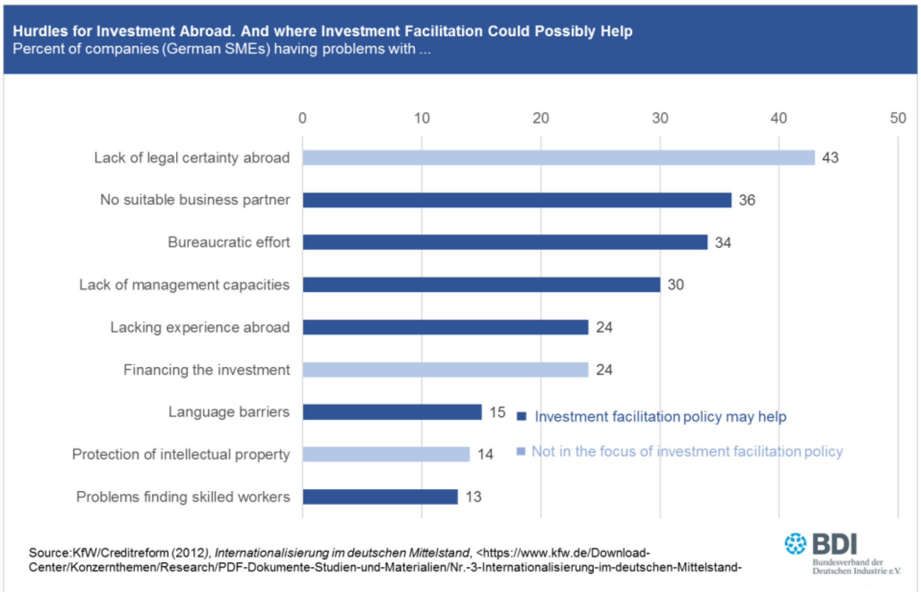
That is why investment facilitation politics are so important today, especially for least developed countries (LDCs). In LDCs, the capitalization of the economy is lower than in developed economies. For instance, in order to achieve the Sustainable Development Goals, an additional US$ 2.5 trillion will be needed, and this cannot be financed by the states alone. To close this huge gap, private investment has to be facilitated.

From the perspective of business, these investment gaps are a big opportunity. There is a great need for investment in infrastructure. The production and transmission of electricity, the construction of rails and roads, the installation of a digital infrastructure, and a functioning health care system must be developed and expanded.

Therefore, it is no surprise that FDI in developing counties has increased strongly in recent years. Since 2000, the FDI stock in the LDCs has increased ninefold - three times faster than in the developed economies.[3]

Hurdles for Investment Abroad

However, from the perspective of investors, FDI is always a risky business. FDI comes with many difficulties for the management, especially for small and medium-sized enterprises, which make up about 95 percent of German industry. A study showed that the biggest obstacle to German SMEs when investing abroad is the lack of legal certainty. Nearly half of the companies (43%) have problems with this obstacle. According to our common understanding, investment facilitation policy is not meant to deal with this specific problem. Tackling this problem is rather a problem of investment protection policy. But SMEs have a lot of further problems when investing abroad. Many of these problems could possibly be solved through a targeted investment facilitation policy by host countries.



For instance:

- 36 percent of SMEs have the problem that they cannot find a suitable business partner.
- For 34 percent, the costs of bureaucracy are too high.
- 30 percent do not have sufficient management capacity.
- 24 percent lack foreign experience.
- 15 percent have linguistic barriers.
- 13 percent have problems finding skilled workers.[4]

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[3] UNCTAD, *World Investment Report 2017*, <https://www.unctad.org>.
[4] KfW/Creditreform (2012), *Internationalisierung im deutschen Mittelstand*, < https://www.kfw.de/Download-Center/Konzernthemen/Research/PDF-Dokumente-Studien-und-Materialien/Nr.-3-Internationalisierung-im-deutschen-Mittelstand-LF.pdf> (accessed on 08.07.2017), p 35f.

A good investment facilitation policy by host countries could potentially be helpful for companies struggling with these problems.

Shaping an Investment Facilitation Framework for Development

Unfortunately, investment facilitation policy measures currently play a subordinate role, not only in the investment policy toolboxes of Germany and the European Union, but also on a global scale. It is important to intensify political activity in the field of investment facilitation. A lot of good preparatory work has been done in the last months by the UNCTAD[5], the G20[6], the B20[7], and, with a look to the Friends of Investment Facilitation, also in the WTO[8].

This preparatory work of shaping a political framework for investment facilitation must be accelerated and the phase of practical implementation must be initiated. Time is pressing because the challenges of globalization are increasing.

Facilitating Investment in Practice: Compact with Africa

One current practical example of the pressing needs of globalization is the continent of opportunities, Africa. Here, private investment could stimulate inclusive growth in weaker economies.

A project to put this into practice is the Compact with Africa. BDI and the B20 welcome that the G20 wants to tackle the existing investment gap in Africa through this initiative.[9] The Compact with Africa is based on the conviction that private FDI is a key to inclusive growth.

I am sure that in the Compact with Africa all stakeholders will be able to learn a lot, especially about the relevance of investment facilitation policy.

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[5] UNCTAD (2016), *Global Action Menu for Investment Facilitation*, Geneva.
[6] G20, *G20 Trade Ministers Meeting Statement. Annex III: Guiding Principles for Global Investment Policymaking*, 9 July 2016, < https://www.wto.org/english/news_e/news16_e/dgra_09jul16_e.pdf>.
[7] B20, *Creating Benefits for All. Driving Inclusive Growth through Trade and Investment*, <https://www.b20germany.org/fileadmin/user_upload/documents/B20/B20_Trade___Investment_Final_Policy_Paper.pdf> (accessed by 08.07.2017).
[8] India/WTO, *Possible Elements of a Trade Facilitation in Services Agreement*, <https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-Html.aspx?Id=232684&BoxNumber=3&DocumentPartNumber=1&Language=E&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True&Window=L&PreviewContext=DP&FullTextHash=371857150>, November 2016 (accessed by 08.07.2017).
[9] B20, *Boosting Investment in Africa*, <https://www.b20germany.org/fileadmin/user_upload/documents/B20/b20_compact_with_africa_recommendations.pdf> (accessed by 10.07.2017).

Political Objectives for the Future

The Compact with Africa is still in its early phase. There are many lessons still to be learned. But even today, we can say a lot about what makes a good investment facilitation policy. From today's perspective, I would like to formulate some requirements for investment facilitation policies for development:[10]

- We all have to recognize the critical role of investment.
- States should adopt policy plans for investment facilitation.
- We need more dialogue on investment facilitation.
- Developing countries need assistance to implement investment facilitation policies.
- International organizations should monitor the progress.

Conclusion

Over the next few years, it will be important to adjust the framework conditions for FDI to promote inclusive investment and inclusive growth. This is especially important for the countries that have high investment needs, in particular LDCs.

To achieve this goal, states must work together on a global scale. The challenges cannot be solved by one country alone. The WTO and the Friends of Investment Facilitation for Development are a very good place to promote dialogue on a multilateral level.

The objective of this dialogue must be to improve the framework conditions for a globalization that continues to increase prosperity especially for those who have been losers so far. We must regain people's confidence in an inclusive globalization.

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[10] B20, *B20 Trade and Investment Taskforce Policy Paper*, July 2016, p. 20.