An institutional roadmap to sustainable investment

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FOREIGN VIEWS

TRANSITIONING to a carbon-free world economy and meeting the Sustainable Development Goals by 2030 requires, annually, trillions of dollars. Massive private investment, including foreign direct investment (FDI), has to be mobilized for this purpose.

However, developing countries, especially the least developed countries, simply lack the capacity to compete successfully in the highly competitive FDI world market.

What is needed, therefore, is an international support program for sustainable investment facilitation. It would focus on practical ways of encouraging sustainable FDI flows to developing countries: commercially viable investment that makes a maximum contribution to the economic, social and environmental development of host countries and takes place in the context of fair governance mechanisms, as defined by host countries and reflected in their incentive programs.

There is the challenge to define FDI's sustainability characteristics. An international organization or a non-governmental organization could establish a working group to prepare, in a multi-stakeholder process, an indicative list of FDI sustainability characteristics.

A FDI support program would complement the World Trade Organization (WTO)-led Aid-for-Trade Initiative and the WTO Trade Facilitation Agreement. In a world of global value chains, these two instruments address one side of the equation, trade, while a FDI support program would address the other side of the equation, investment.

Analogue to the WTO efforts, a FDI support program would be entirely technical in nature, focusing on practical actions to encourage sustainable investment flows to developing countries.

Investment promotion agencies (IPAs) could be the FDI support-program's focal points, coordinating with the national committees on trade facilitation once established under the Trade Facilitation Agreement. Finally, as for the WTO trade instruments, donor countries could support IPA capacity building in developing countries, to help implement the FDI support program.

One option to create such a program is to extend the Aid-for-Trade Initiative to cover investment. The initial emphasis could be on investment in services, given the WTO's General Agreement on Trade in Services (and that services account for nearly two-thirds of the world's FDI stock). Alternatively, this Initiative could be complemented with a separate Aid-for-Investment Initiative.

Another option is to expand the Trade Facilitation Agreement to cover sustainable investment.

A third option is for all governments to launch a Sustainable Investment Facilitation Understanding. The WTO could work on such an Understanding as part of a post-Doha agenda, but it could begin in another international organization with experience in FDI matters, especially UNCTAD, or the OECD or World Bank. Or leading outward FDI countries could launch a plurilateral initiative, mandated by the G20. (The top 10 outward FDI economies, which include four emerging markets, accounted for four-fifths of world FDI outflows in 2014.)

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