Session Highlights

Retooling Global Foreign Direct Investment

The Davos Agenda

29 January 2021

Overview

In 2020 foreign direct investment (FDI) collapsed by 42% as a result of COVID-19, in some parts of the world to lows not seen for 25 years. At the same time, the pool of sustainable capital grew to over $1.2 trillion, as investors realized that sustainable investments would be more resilient to future shocks. While some markets are open for business, this trillion-dollar pool of capital is being held back from flowing to developing economies – liked a blocked reservoir – by bottlenecks, outdated regulations, uncertainty and risk.

Almost 160,000 people tuned in to watch a discussion by leading business executives, government officials and experts on how to collectively tackle this challenge.

Outcomes

- Participants discussed how a new public-private mechanism could systemically identify and address structural and administrative bottlenecks in developing countries – the Enabling Action for Sustainable Investment or EASI Alliance
- This could help de-risk investment climates, tap into new innovative financing instruments focused on increasing sustainable investment flows, and enable economies to "build back better"
- This new cooperation would build on a future World Trade Organization (WTO) Investment Facilitation for Development agreement, which will create both a framework and political commitment to tackle these issues

Summary

Challenges

Ville Skinnari, Minister for Development Cooperation and Foreign Trade of Finland, summarized the state of play. "The situation is very serious, with foreign investment falling more than 40% last year," he said. Private-sector investment is key, as development assistance is just a fraction of global financial needs. We can use development policy instruments to catalyse private investment."

Both developed and developing countries are affected by the collapse in FDI as they rely on foreign investment for development, jobs and technology. Moreover, although investment flows have declined, available capital, paradoxically, is growing, with over $1.2 trillion of available financing. Alix Zwane, CEO of the Global Innovation Fund, explained that while "the global pool of potential funds for sustainable finance is growing, it is prevented by a few structural reasons from reaching the markets where it's needed most." Red tape and perceived risk were cited as key impediments for investors, with stability and transparency in the regulatory framework as key criteria for attracting capital.

James Zhan, Director of Investment and Enterprise at the United Nations Conference on Trade and Development (UNCTAD), the leading repository of global FDI data, explained that FDI patterns are also undergoing a number of profound changes as a result of the Fourth Industrial Revolution, a desire for more sustainable value chains and growing corporate social responsibility, among others. These shifts create challenges, but also new investment opportunities.

Solutions

There was a call to action for governments to recognize the value of foreign investment, highlighting how crucial it is for the domestic economy. “If you really want to attract more foreign investment, you should treat foreign investment as good as your own domestic investment,” said Ning Gaoning, Chairman at Sinochem Group.

Pascal Cagni, Ambassador for International Investment and Chairman of Business France, pointed out the benefits of FDI to the French economy: “Ten per cent of the French population is linked to foreign investment. This represents 20% of the R&D in France, and 30% of exports, so it’s a good thing to have foreign investment come here and to welcome it the best we can.”

In order to encourage more private-sector sustainable financing, participants discussed the need for a paradigm shift in the way investments are measured and how risk is managed, for example, by valuing not only financial returns but also social impact.

The role of the multilateral, rules-based system was also underlined. Skinnari said that “trade and investment agreements have a very important role” because of the predictability and stability they provide for investors, while also potentially driving sustainability. The WTO’s Investment Facilitation for Development, supported by more than 100 economies, is therefore a key initiative.

In this context, the proposal for a public-private alliance to tackle these challenges was welcomed. “We can help capital get off the side-lines and get into the game to drive recovery and win back all the gains that we’ve lost over the past year because of the costs of the pandemic,” Zwane concluded.