

Boosting Investment for ACP Inclusive Trade and Development

Harnessing Investment Opportunities to Empower ACP Member States as the World's Next Emerging Economy

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Background Note

1 Sustained Growth Momentum of ACP Economies

The ongoing transformation in the ACP States will have a significant impact on the world. ACP's huge mineral and hydrocarbon deposits, agro-land and forestry, and water resources provide a strong base for trade and investment expansion. In addition, the expansive oceans and their coastlines will continue to provide the ACP Group's populace with a vast array of resources and ecosystem services that should underpin the countries' initiatives for sustainable expansion of their economies.

The Africa part of the ACP Group, has been the fastest growing continent over the past decade and is forecast to sustain that growth momentum going forward through, *inter alia*, an effective agenda for economic transformation and industrialisation. Trade and investment will be instrumental in addressing those growth ambitions and the inherent challenges.

Economic think tanks and multilateral financial institutions have simulated a global economic landscape for 2050/60. The simulations suggest that both GDP and GDP per capita in ACP will increase steadily throughout the period to 2060; with GDP per capita rising from US\$1,667 in 2010 to over US\$5,600 by 2060. By then, most ACP countries will attain upper MIC status and the extreme forms of poverty will have been eliminated.

The balance of evidence in these simulations suggests that the next half century offers good prospects for realizing an ACP Group's vision of a dynamic, diversified and competitive economic zone in which extreme poverty is eliminated within peaceful, stable and vibrant societies. The transformation of fragile and vulnerable economies into more robust and developed markets is envisaged, thereby creating opportunities for sustainable growth, poverty reduction, and trade and investment expansion.

2 ACP's Trade and investment Landscape

The increase in output and trade expansion in ACP countries has been and will continue to be supported by large inflows of FDI both from the North and increasingly from the South. Recent trends in capital inflows have principally been driven by foreign portfolio investment (FPI) as institutional investors search for better yields in developing economies' equities and bonds. Remittances have also increased, providing an important source of external financing for many countries. This has led to smoothing consumption and supporting domestic investment.

For generations, FDI was targeted toward reaping the bounty of developing countries' mineral and natural resources. Now, FDI trends have changed such that the share of inward FDI into consumer-related greenfield ventures—such as financial services, retail stores, food and beverage industries, telecommunications, and motor vehicles—has more than tripled over the past decade.

The expansion of investment inflows into the three ACP regions – Africa, Caribbean and the Pacific – clearly indicates that the greater spending power of ACP consumers contributes to attracting investors. The growth in FDI has in turn led to stimulation of local entrepreneurship, expansion of local markets, and facilitation of skill creation through backward linkages. These inflows—FDI, FPI, private flows and remittances—are bound to increase further in the medium-term as macroeconomic fundamentals strengthens and economic links between countries and among regions are enhanced.

ACP Group's favourable economic conditions and improving political environment will continue to offer opportunities to foreign investors seeking better returns on their investments as clearly evident from the growth in FDI inflows for all regions over the past two decades. (UNCTAD-WINR, 2016). Going forward, the focus on trade and investment should be on, *inter alia*:

- Creating an enabling environment to facilitate increased investments and value addition to ACP products for trade expansion;
- Facilitating movement of persons and capital between the ACP states and regions in order to pave the way for increased investment and trade as well as greater integration;
- Sustainably managing the ample natural and cultural resources including attention to the blue and green economy;
- Trade facilitation and communications infrastructure;
- Embracing the opportunities for South-South Cooperation and expanding intra-ACP trade.

ACP Group is emerging as an attractive investment destination and a key market for goods and services. With a working population of about 1 billion set to double by 2040, overtaking both China and India, and an improving business environment, the ACP Group is poised to become the “World's Next Emerging Economy”.

3 Investment Facilitation: filling a systemic gap

Facilitating investment is crucial for the post-2015 development agenda. UNCTAD's Global Action Menu for Investment Facilitation provides options to adapt and adopt for national and international policy needs. Investment promotion and facilitation work hand in hand. The former is about promoting a location as an investment destination (and is therefore often country-specific and competitive in nature), while the latter is about making it easy for investors to establish or expand their investments, as well as to conduct their day-to-day business in host countries.

At the national level, many ACP countries have set up policy measures to promote foreign investment. Overall, the number of investment facilitation actions adopted by countries over the past six years remains relatively low compared with the numbers of other investment promotion measures.

To respond to this systemic gap, UNCTAD, in January 2016, launched an Action Menu on Investment Facilitation to support investment facilitation for development in low income countries. The following package includes actions that countries can choose to implement unilaterally and options that can guide international collaboration or that can be incorporated in International Investment Agreements (IIAs).

- Action line 1:* promoting accessibility and transparency in the formulation of investment policies and regulations and procedures relevant to investors;
- Action line 2:* enhancing predictability and consistency in the application of investment policies;
- Action line 3:* improving the efficiency and effectiveness of investment administrative procedures;
- Action line 4:* building constructive stakeholder relationships in investment policy practice;
- Action line 5:* designating a lead agency or investment facilitator;
- Action line 6:* establishing monitoring and review mechanisms for investment facilitation;
- Action line 7:* enhancing international cooperation for investment facilitation;
- Action line 8:* strengthening investment facilitation efforts in developing-country Partners;
- Action line 9:* enhancing investment policy and proactive investment attraction in developing-country partners;
- Action line 10:* enhancing international cooperation for investment promotion for development, including through provisions in IIAs.

An investment facilitation package could form the basis for formulating a legal instrument, or serve as an informative or guidance instrument, reflecting a collaborative spirit and best endeavour. Effective investment facilitation efforts should support the mobilization and channelling of investment towards sustainable development, including the build-up of productive capacities and critical infrastructure.

4 EU Trade and Investment Policy

The EU's new strategy—Trade For All—(2015) brings to the fore the following new policy thrusts:

- (a) Trade to deliver real economic results for consumers, workers and small companies;
- (b) Open markets do not require us to compromise on core principles, like human rights and sustainable development around the world or high quality safety and environmental regulation and public services at home;
- (c) The people want to know more about trade negotiations carried out in their name.

To that end, in the new strategy the Commission is adapting its approach to trade policy and make it **more responsible—that is, be more effective, more transparent and will not only project the EU interests, but also EU values.**

The new approach ensures that trade policy will effectively address issues that affect today's value chain-based economy, like services, digital trade and the movement of experts, senior managers and service providers.

Responding to the rise of global value chains would mean that trade policy can no longer be approached from a narrow mercantilist angle. EU trade policy must strengthen Europe's place in global supply chains. It must support the full range of economic activities through which Europeans create and sell value. Infrastructure investment and other public procurement in emerging and developed economies are likely to be major driving forces of economic growth in coming years.

EU's trade policy will also promote trade in services, facilitate digital trade, support the mobility of professionals, address regulatory fragmentation, secure access to raw materials, protect innovation and ensure the swift management of customs. Joined-up strategy across different areas of economic policy will also need to ensure responsible management of supply chains and to address aggressive corporate profit shifting and tax avoidance strategies that make use of the fragmentation of value chains.

Better implementation—the EU has the widest range of FTAs in the world, the challenge is now to ensure they make a difference for all. Better implementation is a joint responsibility of the Commission, Member States, the European Parliament and stakeholders. The Commission should tackle issues like complex rules of origin and customs procedures, as well as insufficient information and support. To that end:

- ▶ *the Commission will strive for simplicity and consistency of rules of origin and provide user-friendly information on trade opportunities. This is particularly important for SMEs.*

Investment is essential. Outward investment helps European companies improve their competitiveness. Inward investment is responsible for employing 7.3 million people in the EU. Investment in both directions is a key part of the infrastructure that connects the European economy to global value chains. The EU's 'Investment plan for Europe' aims to boost investment. A key requirement is to make smarter use of new and existing financial resources. International partners have a key role to play in that process. The EU's policy on FDI should support this, in line with the Europe 2020 objectives and priorities.

Promoting a new approach to investment—while boosting investment is at the heart of the Commission's economic priorities, investment protection and arbitration have triggered a heated debate about fairness and the need to preserve the right of public authorities to regulate both in the EU and in partner countries.

To that end, The Commission will:

- ▶ *in a first step, include modern provisions in bilateral agreements, putting stronger emphasis on the right of the state to regulate. EU bilateral agreements will begin the transformation of the old investor-state dispute settlement into a public Investment Court System composed of a Tribunal of first instance and an Appeal Tribunal operating like traditional courts;*
- ▶ *in parallel, engage with partners to build consensus for a fully-fledged, permanent International Investment Court;*
- ▶ *in the longer term, support the incorporation of investment rules into the WTO. This would be an opportunity to simplify and update the current web of bilateral agreements to set up a clearer, more legitimate and more inclusive system.*

Moving bilateral relationships forward—A redefined relationship with Africa—the EPAs that established a new dynamic partnership between the two continents, **are also a bridge to the future.** Current EPAs mostly cover trade in goods only. There is a strong rationale for progressively extending EPAs to other areas like services and investment. Facilitating and protecting investment will be fundamental as the next step to support sustained growth on the continent. To that end, **the Commission will:**

- ▶ *work with African partners to ensure effective implementation of EPAs by putting in place strong institutions, structures and mechanisms (including partnership with Member States, the*

European Parliament and civil society), which also contribute to enhancing rule of law reforms and good governance;

- ▮ *deepen relationships with those African partners that are willing to build on EPAs, using, in particular, the review clauses on services and investment;*
- ▮ *consider bilateral investment agreements with key African economies based on economic criteria and the existing legal framework for foreign investment; and*
- ▮ *develop principles on investment together with the African Union or the regional economic communities.*

The EPAs with the Caribbean and the Pacific ACP States are creating new dynamics for trade and investment and for promoting a shared agenda on sustainable development and regional integration.

5 Objectives and Outcomes

While taking into account the various interactions between trade and investment policies and expected opportunities from ACP countries, it is necessary to further reflect on concrete success stories and to initiate a forward-looking approach compliant with the economic vitality of a changing world. Trade policies and those related to investment are closely linked to a point where the WTO has designed an agreement on investment measures linked to trade.

The role of the panel of experts will be to shed light on the various issues raised. To that end, the panellists will address, *inter alia*, the following key issues:

- Interactions and impacts between investment and trade development in ACP countries necessary to sustain the growth momentum in these countries;
- Requisite measures for ACP countries to attract and retain foreign investments for trade expansion and economic growth;
- The measures that should feature in WTO and other trade agreements to tackle the barriers companies face in the modern global economy;
- Measures that must ensure that trade is not an end in itself but a tool to benefit people;
- Measures to ensure that trade and investment policy is effective, especially:
 - ✓ Noting that the world economy is tightly linked by global value chains;
 - ✓ Noting that Trade in services—including financial services—are increasingly important;
 - ✓ Noting that the digital revolution is transforming the international economy;
- Enforcement mechanisms for the implementation of trade and investment policies (and agreements)

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