



SESSION 1: ATTRACTING FDI FOR SUSTAINABLE DEVELOPMENT IN SOUTHEAST ASIA

Stephen Thomsen
Head, OECD Investment Policy Reviews

Alexandre de Crombrugghe
Manager, OECD IPA Network





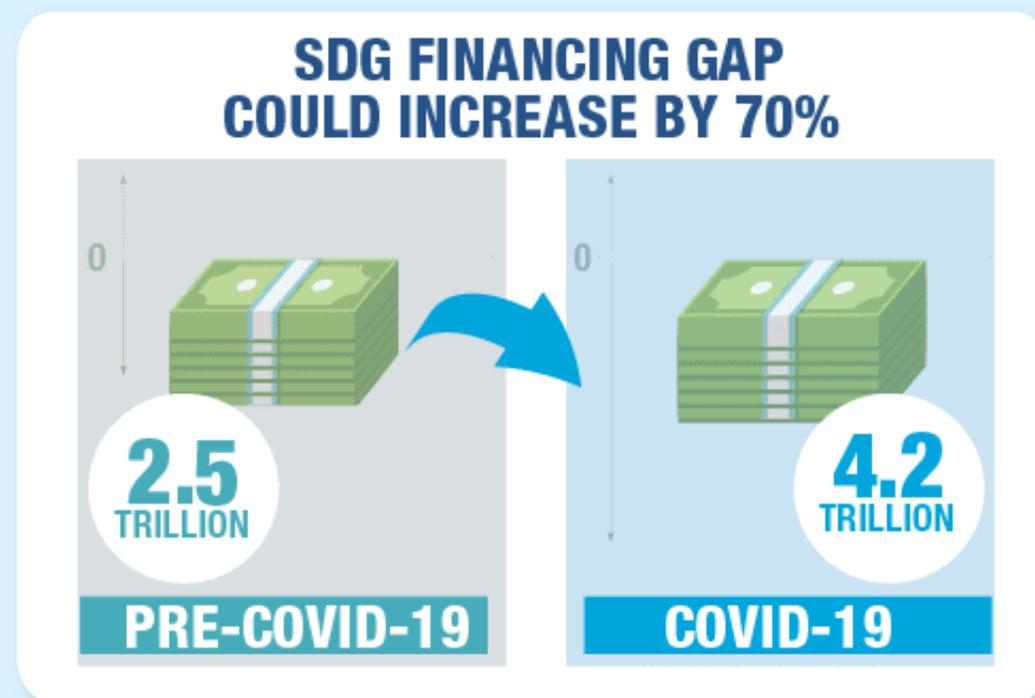
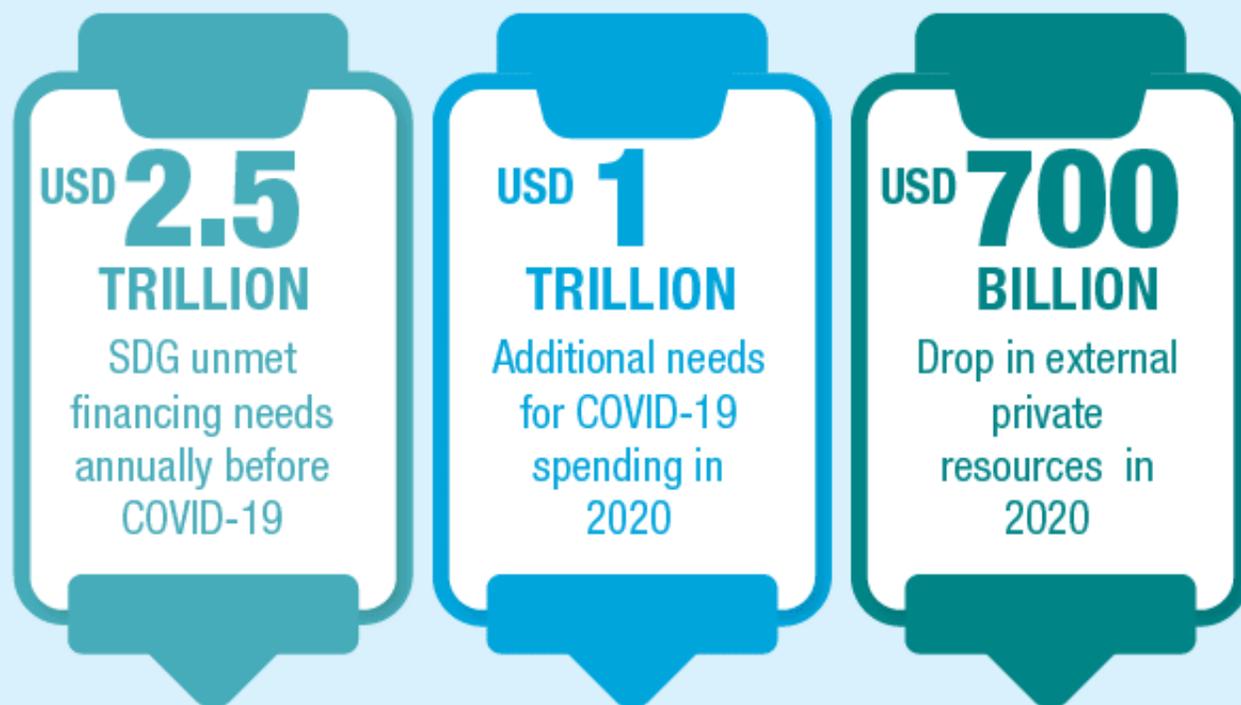
OECD Investment Policy Reviews Southeast Asia

Reviews are undertaken jointly by the OECD and the government and based on the Policy Framework for Investment

A NEW WAY TO INVEST FOR PEOPLE AND PLANET



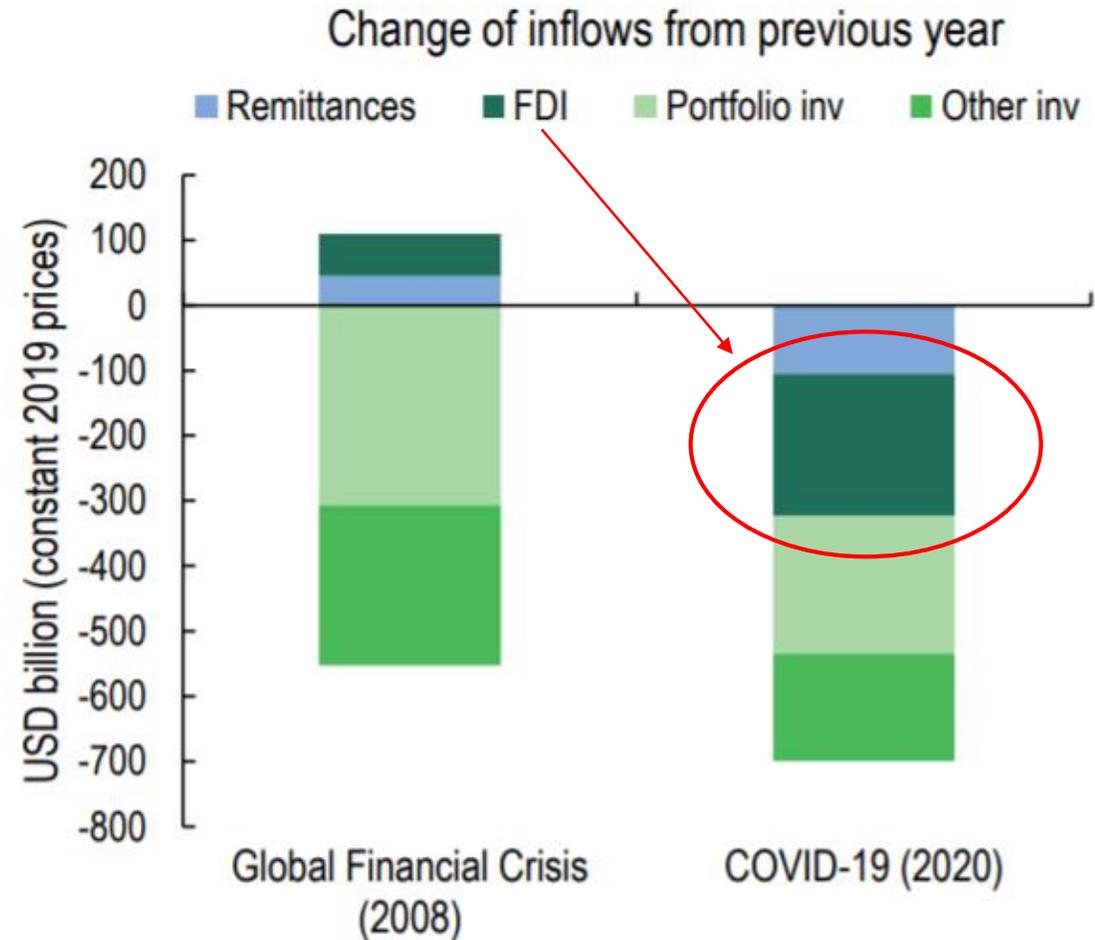
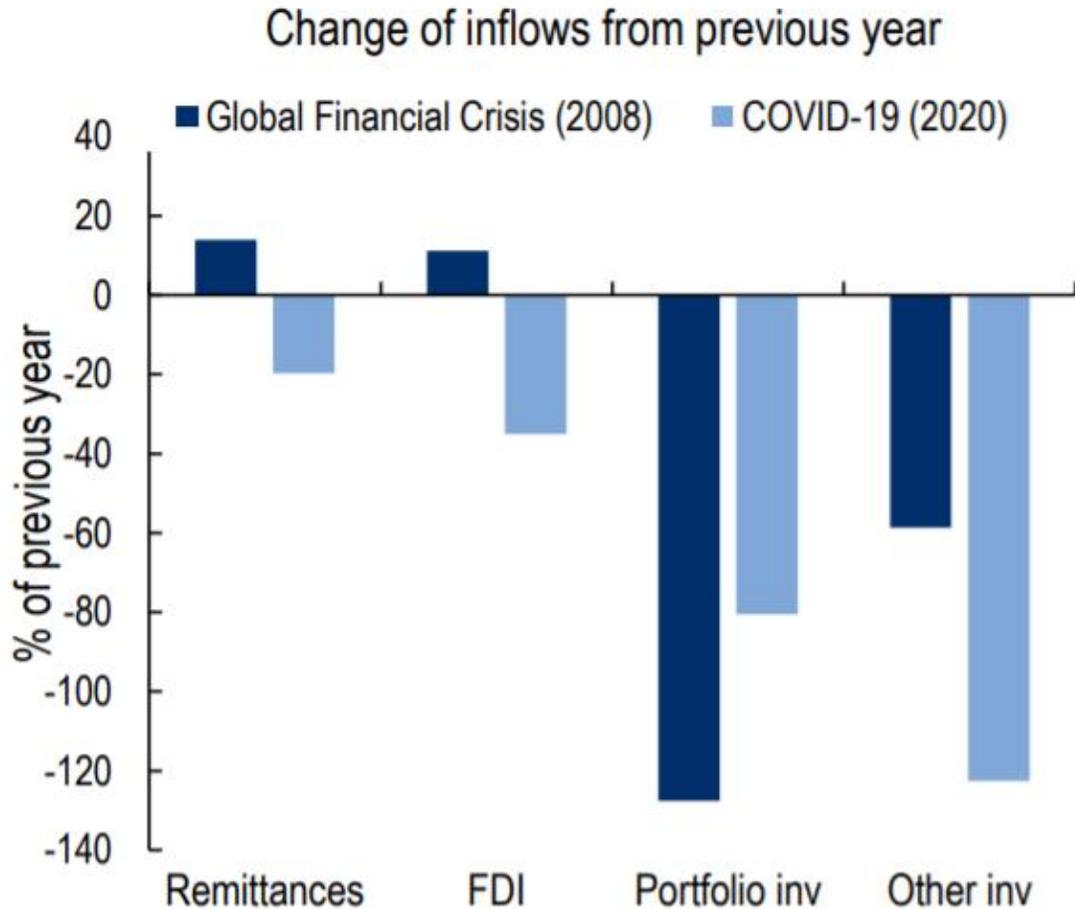
COVID-19's impact on the SDG financing gap in developing countries is devastating...



...and yet, aligning **1.1%** of USD **379 trillion** in global finance with the SDGs could fill that gap

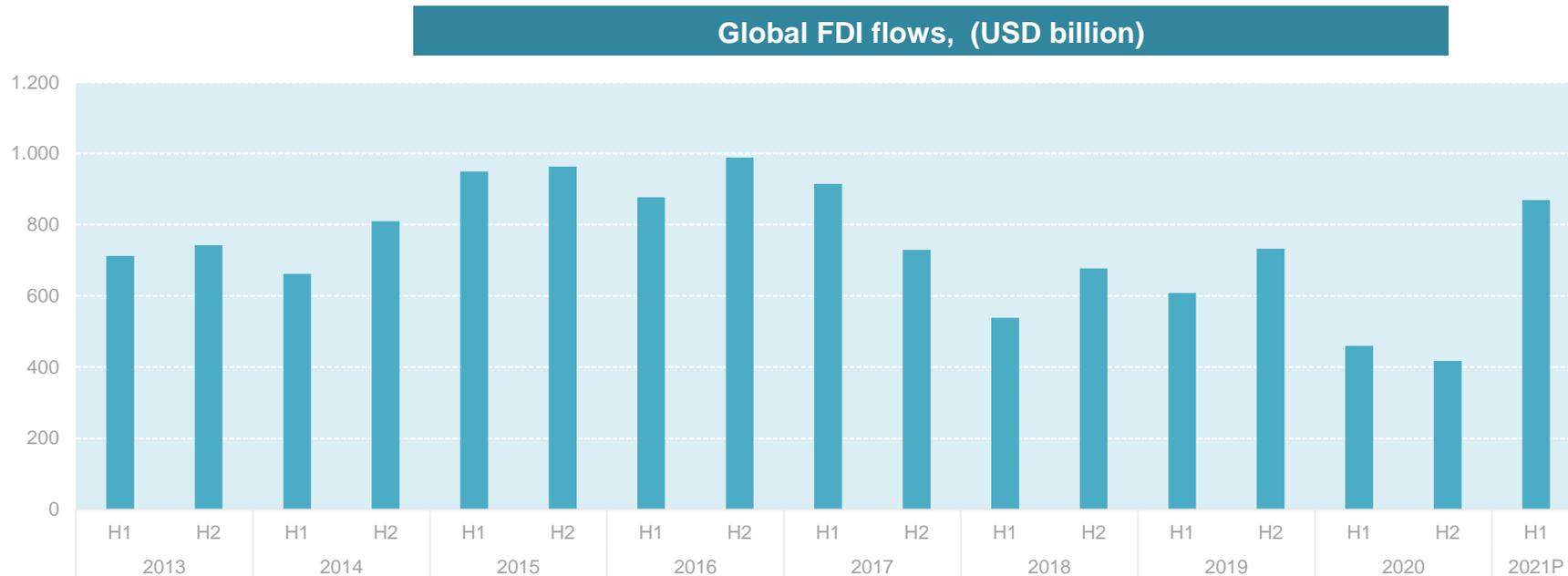


30% of the USD 700 billion drop in external private finance to developing countries is a drop in foreign direct investment (FDI)





Global FDI rebounds to exceed pre-pandemic levels



Notes: p: preliminary estimates. World totals for FDI flows are based on available data at the time of update as reported to the OECD and IMF. Missing data for countries for Q1 and Q2 2021 were estimated using the overall growth rate observed between, respectively, Q4 2020 and Q1 2021 and between Q1 and Q2 2021. Growth rates were calculated from data for OECD countries, for non-OECD G20 countries, and for 60 non-OECD and non-G20 countries in Q1 and 20 non-OECD and non-G20 countries in Q1.
Source: OECD FDI statistics database.

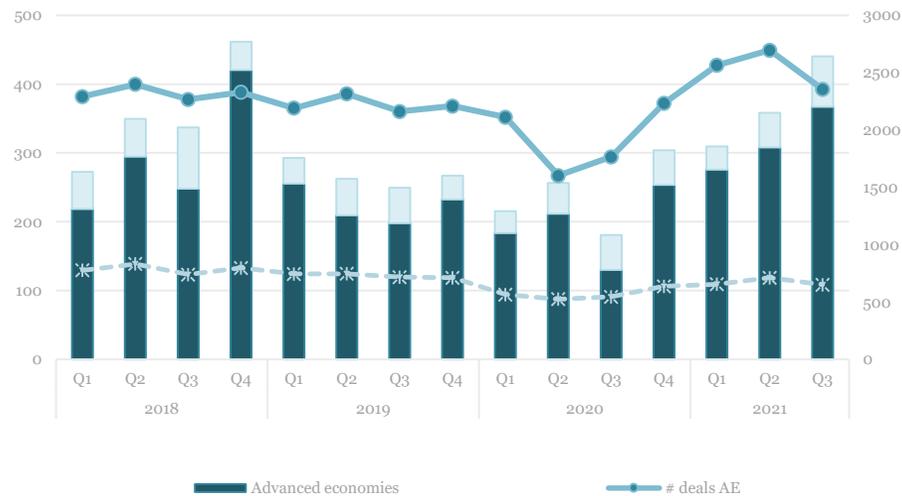
Notes: p: preliminary estimates. / Source: OECD FDI database

- **Global FDI flows rebound to USD 870 billion in H12021, after hitting record low levels in 2020**
- **Global investment flows were more than double those of the last half of 2020 and 43% higher than pre-pandemic levels (H1 2019)**
- **More information: *FDI in Figures – October 2021* (<https://www.oecd.org/investment/FDI-in-Figures-October-2021.pdf>)**

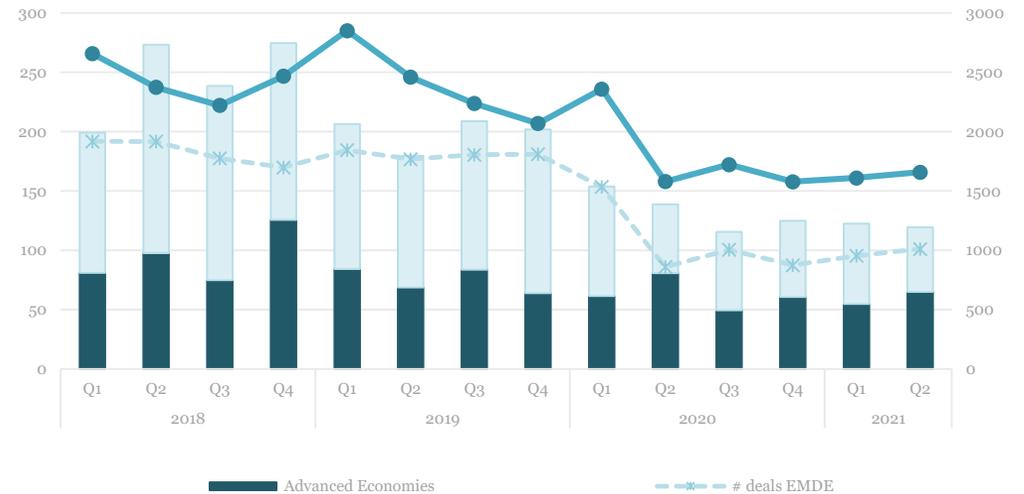


Spotlight on cross-border M&A and greenfield investment activity

Completed M&A deals USD billion and nb of deals



Announced greenfield FDI projects USD billion and nb of deals



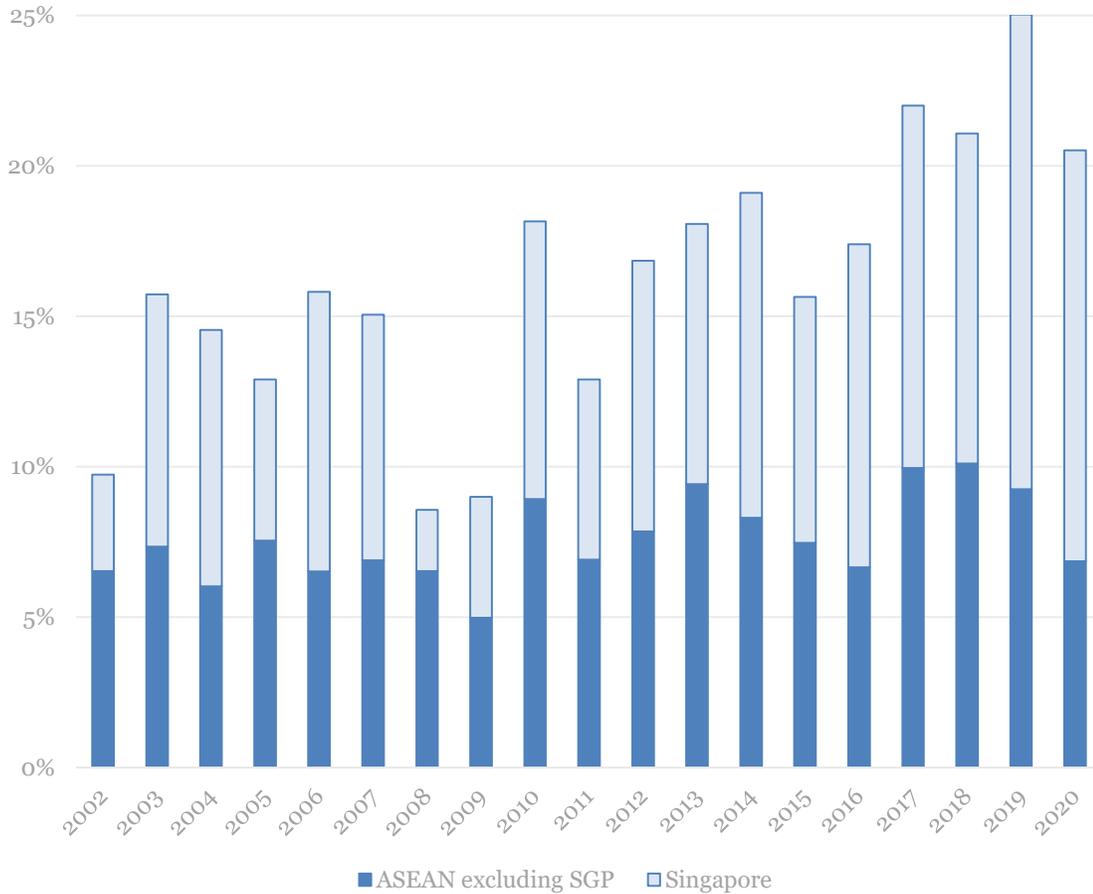
Note: *Cross-border M&A deals are available until Q3 2021. 'Advanced economies' and 'Emerging and developing economies' are defined as per the IMF definition. Source: Refinitiv and FT FDI Market databases, OECD calculations

- Completed cross-border M&A deals in advanced economies were higher than pre-pandemic levels.** Though the growth was not evenly spread, with completed M&A deal values dropping by 18% in emerging markets and developing economies.
- Announced greenfield projects in emerging markets and developing economies continued to decline.** By contrast, announced projects in advanced economies grew by 9%, mostly in the healthcare and manufacturing sectors.

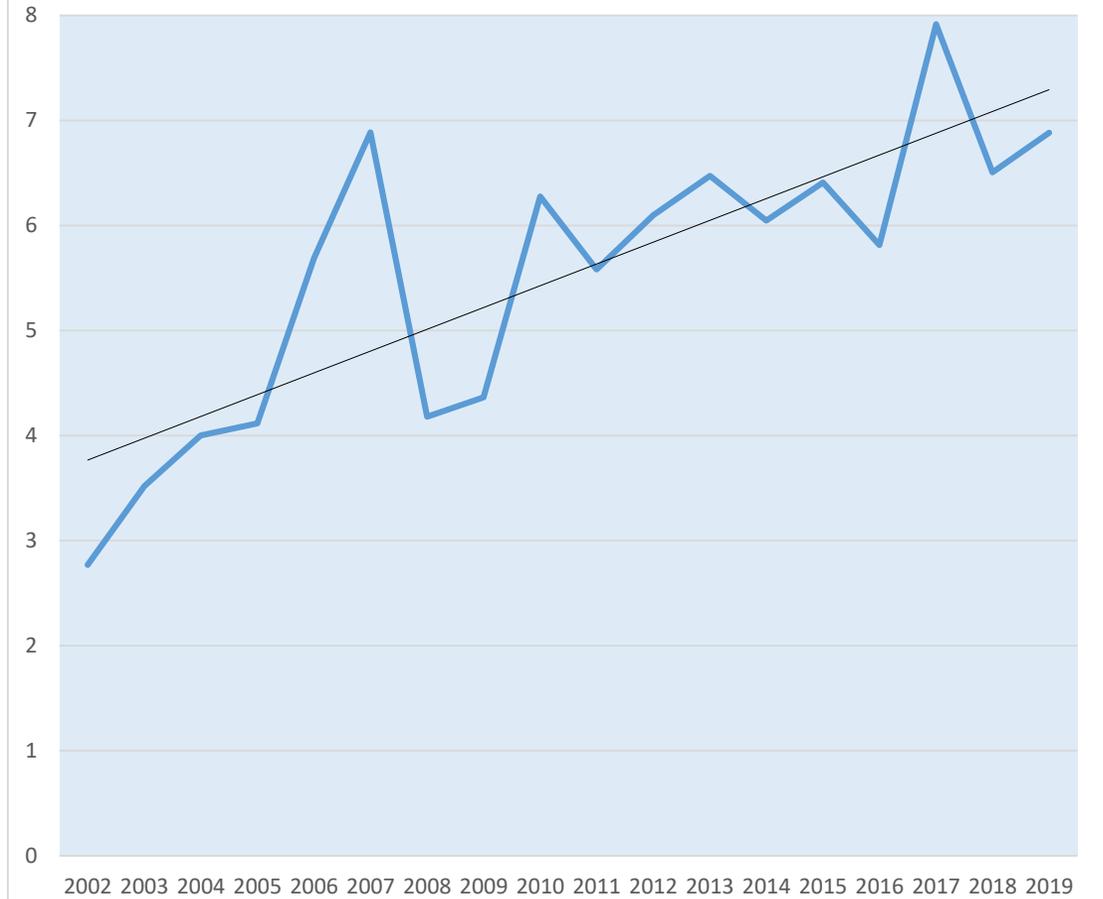


ASEAN has performed well in attracting FDI in relative terms

ASEAN share of developing country FDI inflows



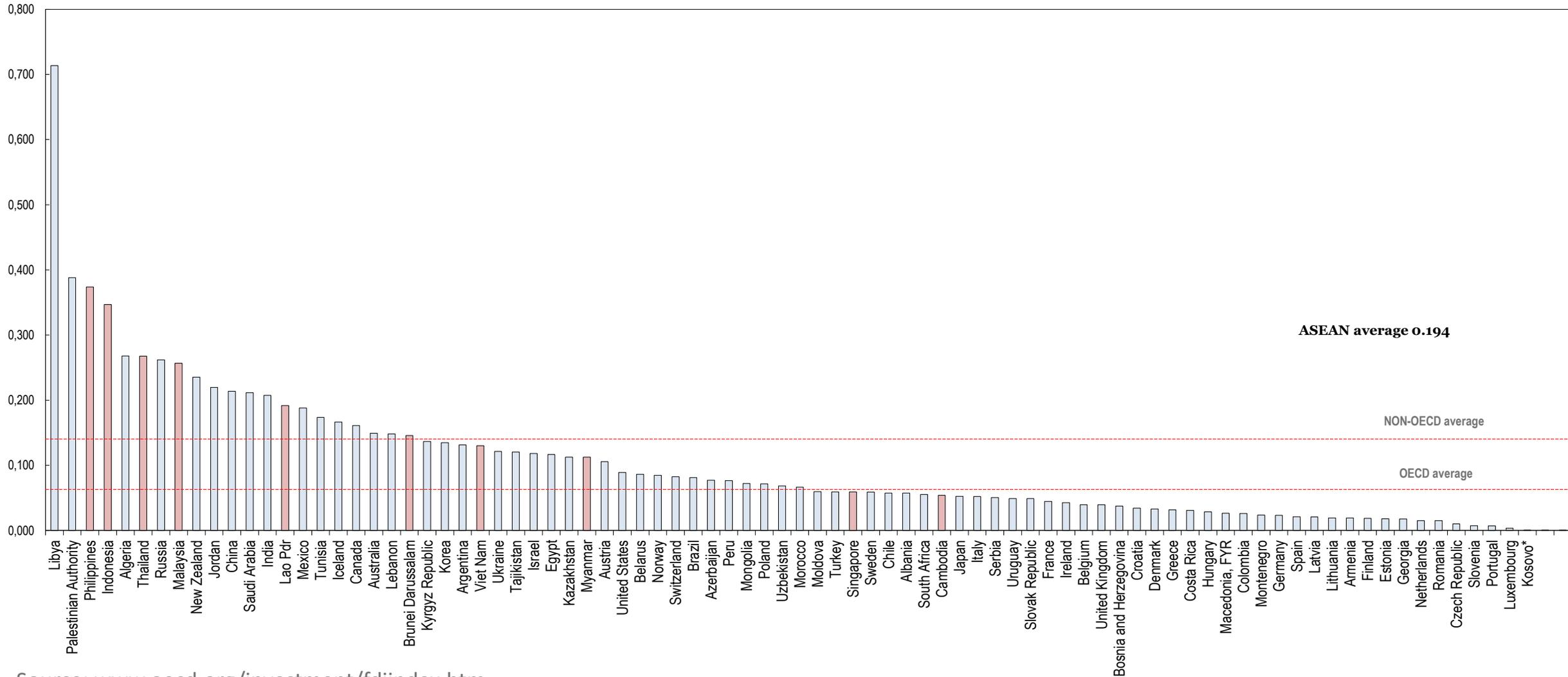
ASEAN FDI inflows (% of GDP)





But many AMS are still relatively restrictive, particularly for FDI in services

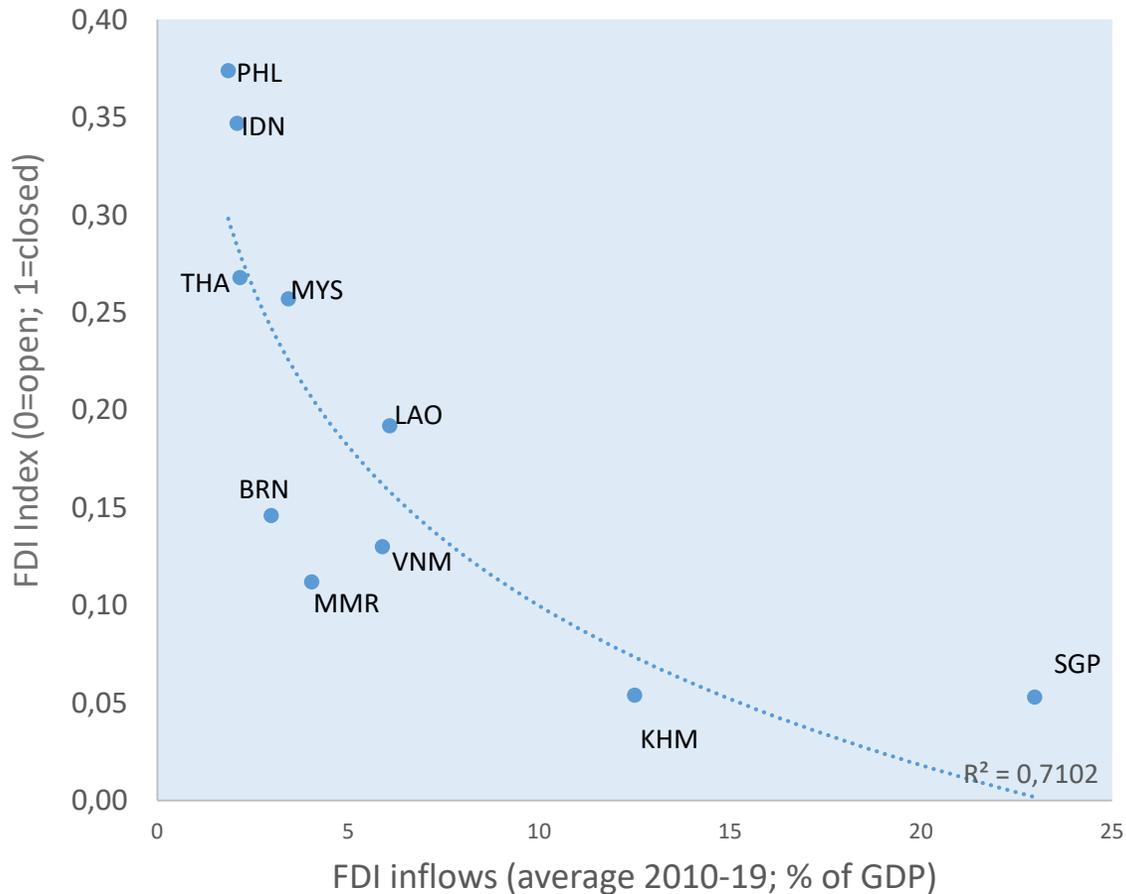
OECD FDI Regulatory Restrictiveness Index, 2020 (open=0; closed=1)



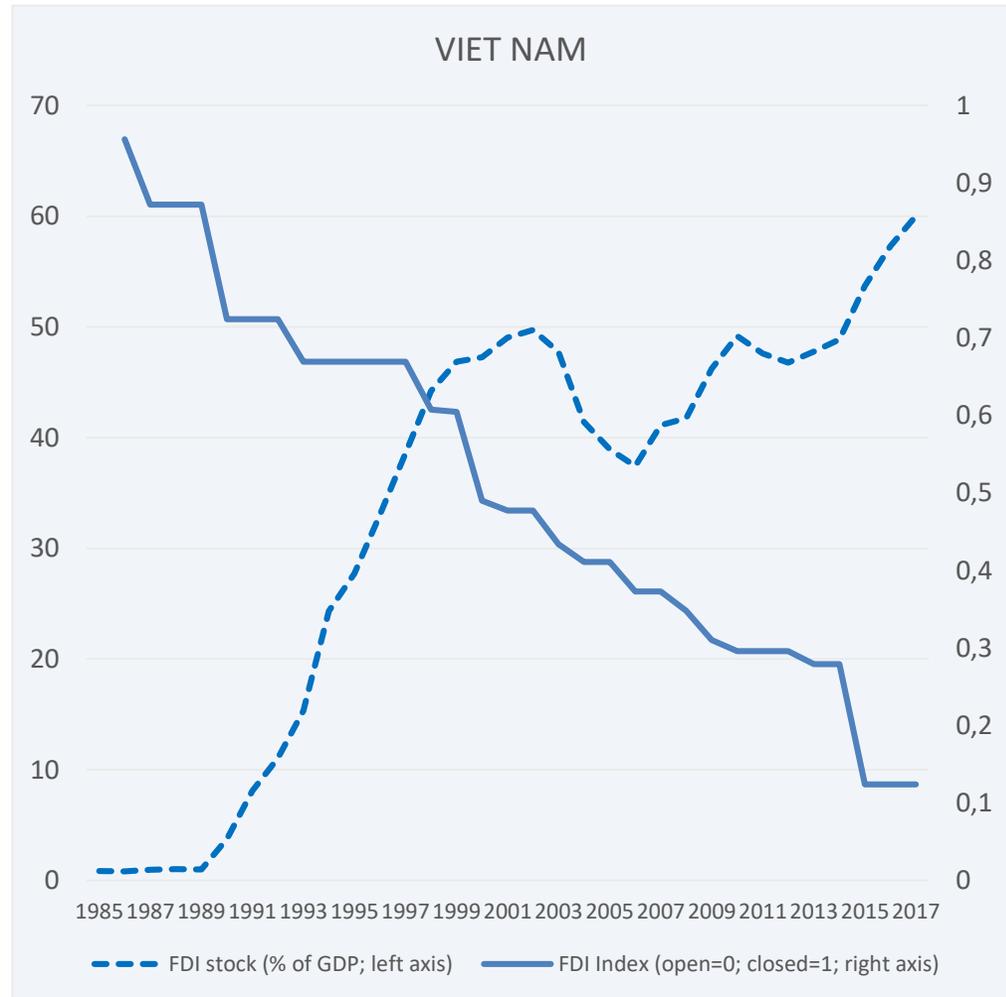


Many AMS have substantial scope to improve their FDI performance through further reforms

FDI inflows and openness in ASEAN



VIET NAM





Statutory restrictions matter for investors

- A 10% FDI liberalisation as measured by the *Index* could increase bilateral FDI inward stocks by 2.4% on average
- If the most restrictive economies were to achieve OECD levels of average openness, their FDI stocks could increase by up to 95%
- Foreign equity restrictions and screening policies (excluding national security) are found to significantly deter FDI
- The effect is estimated to be greater in the **services** sector, partly reflecting the greater incidence of restrictions in services sectors
- But even FDI into manufacturing sectors – which are typically open to foreign investment – is negatively affected by economies' overall restrictiveness

Source: Mistura, F. and Caroline Roulet (2018), “The Determinants of Foreign Direct Investment: Do Statutory Restrictions Matter?”, *OECD International Investment Working Paper Series*, forthcoming.

Based on an augmented gravity model with fixed effects for 60 countries, 1997-2016



Investment facilitation and retention can support more and better investment

- Focus reforms on **investment facilitation** to make it easy for businesses to establish, operate and expand
 - Transparent, predictable and efficient regulatory and administrative framework for investment
 - Tools and mechanisms to reduce or eliminate obstacles faced by investors
 - Processes to support inter-institutional coordination and public-private dialogue
- **Investment retention and expansion** can also support sustainable outcomes
 - Encouraging linkages with domestic firms
 - Preventing potential disputes
 - Promoting responsible business conduct and sustainable practices in business operations

➔ Growing role of digitalisation

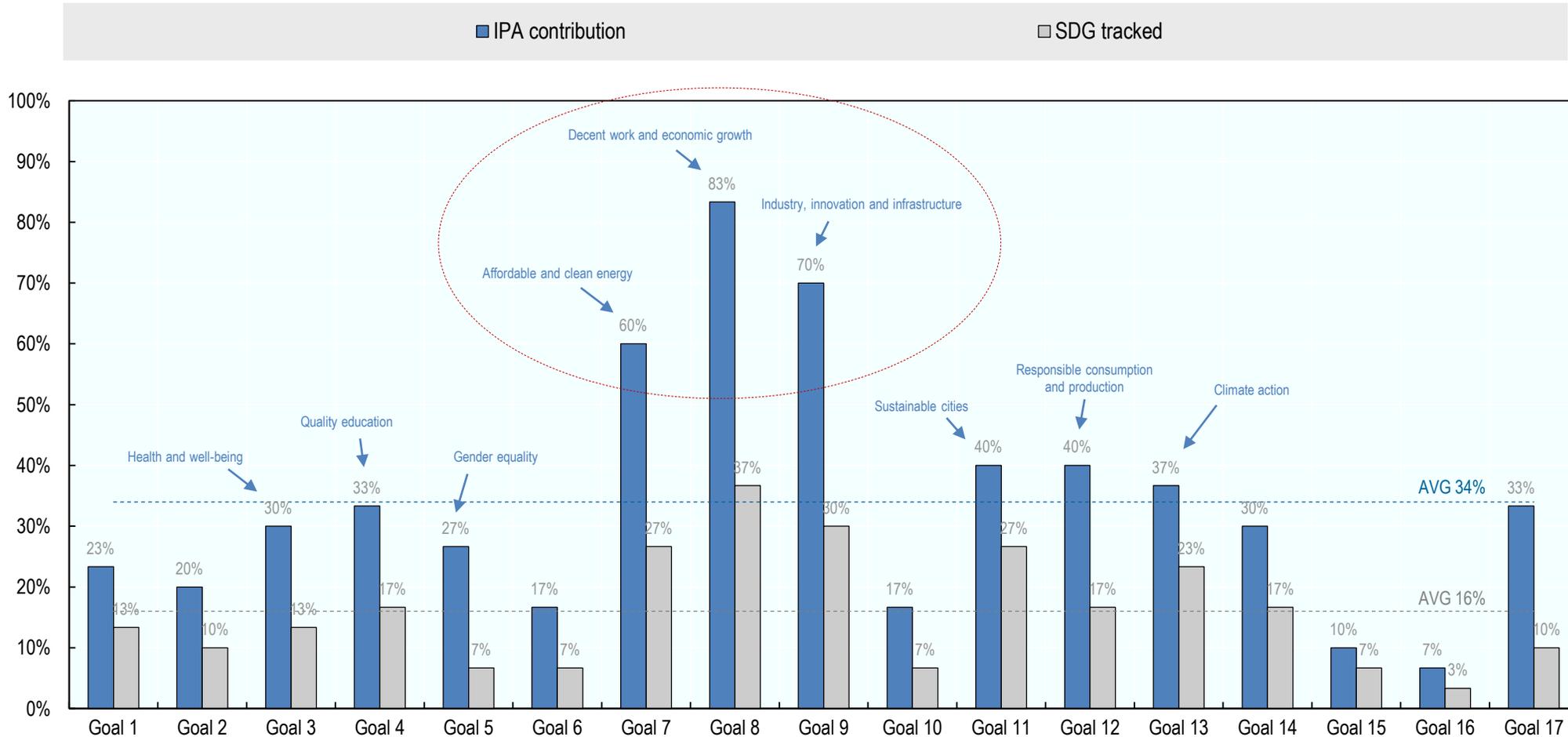
The process to invest and set up a business is fully digitalised in 31% of OECD countries; 22% still have only a minority of procedures available online.

Source: OECD survey on Investment Promotion and Digitalisation (2021)



Investment promotion agencies (IPAs) contribute to SDGs but few track them through indicators – experience from OECD

SDGs which IPAs contribute to and track
(% of total OECD IPAs)

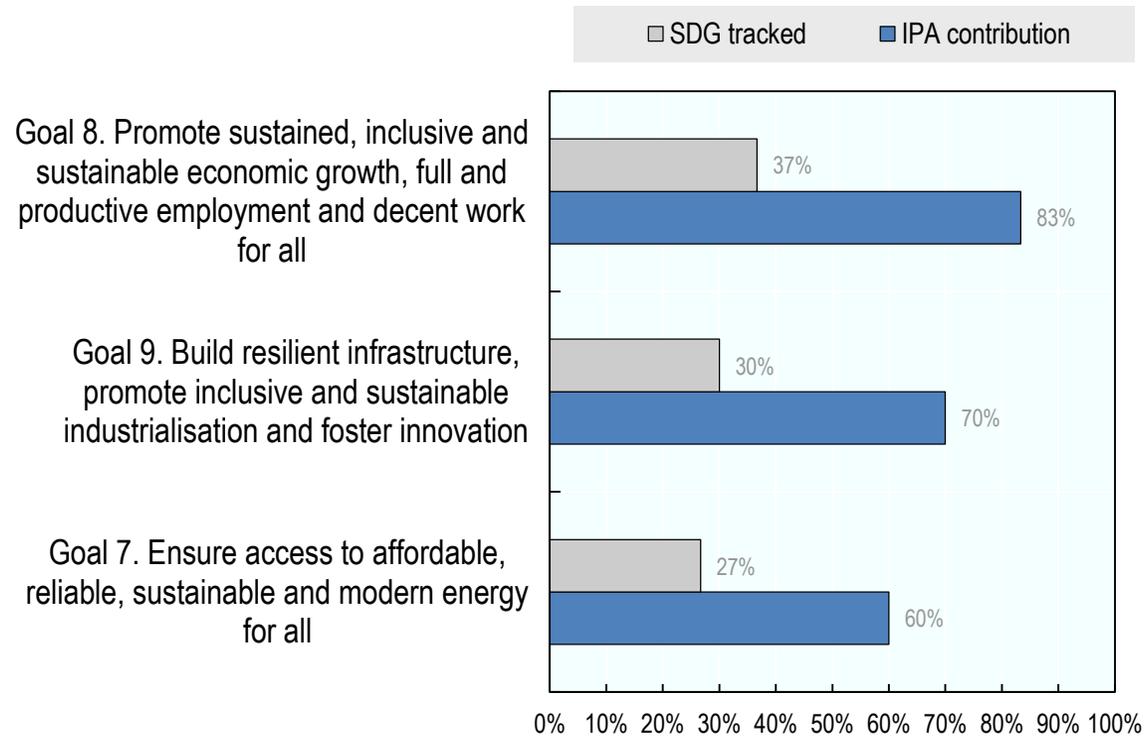




IPAs have different ways of measuring their contribution to the SDGs

Top 3 SDGs to which IPAs contribute and track

% of OECD IPAs



Examples of indicators

No. of jobs (total, created and maintained); No. of full-time equivalents; Average salaries; Number of greenfield projects; Specific scoring; Total investment and breakdown by region; No. of investment projects

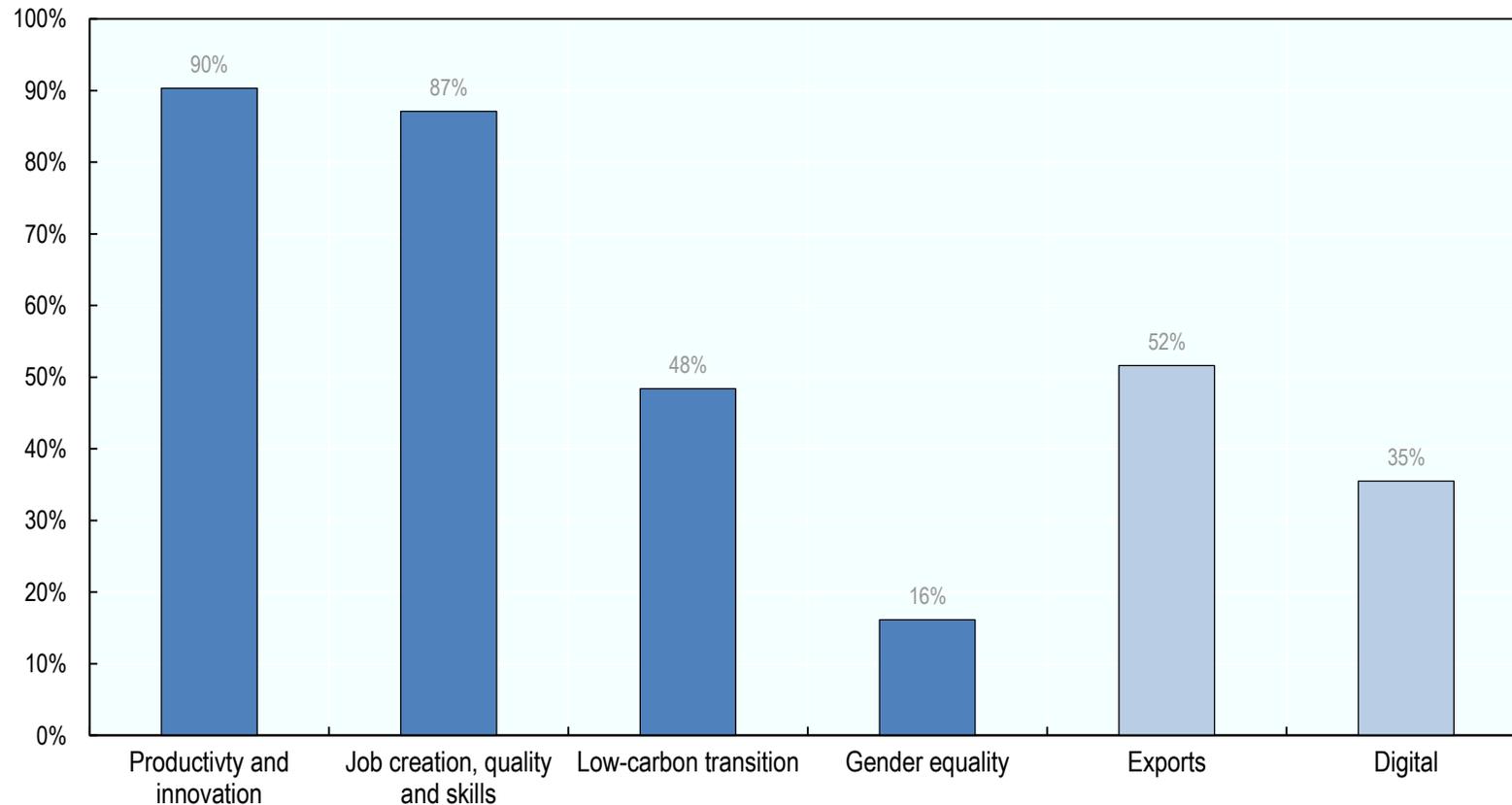
Priority sector; Investment in green technologies and projects with decarbonisation potential; Specific scoring; R&D investments won; R&D expenditure; No. of investment projects won; No. of jobs created

Priority sector; New projects in renewable energy; FDI in innovation; Specific scoring; Number of investment projects.



FDI prioritisation strategies and indicators need to better target sustainable investment

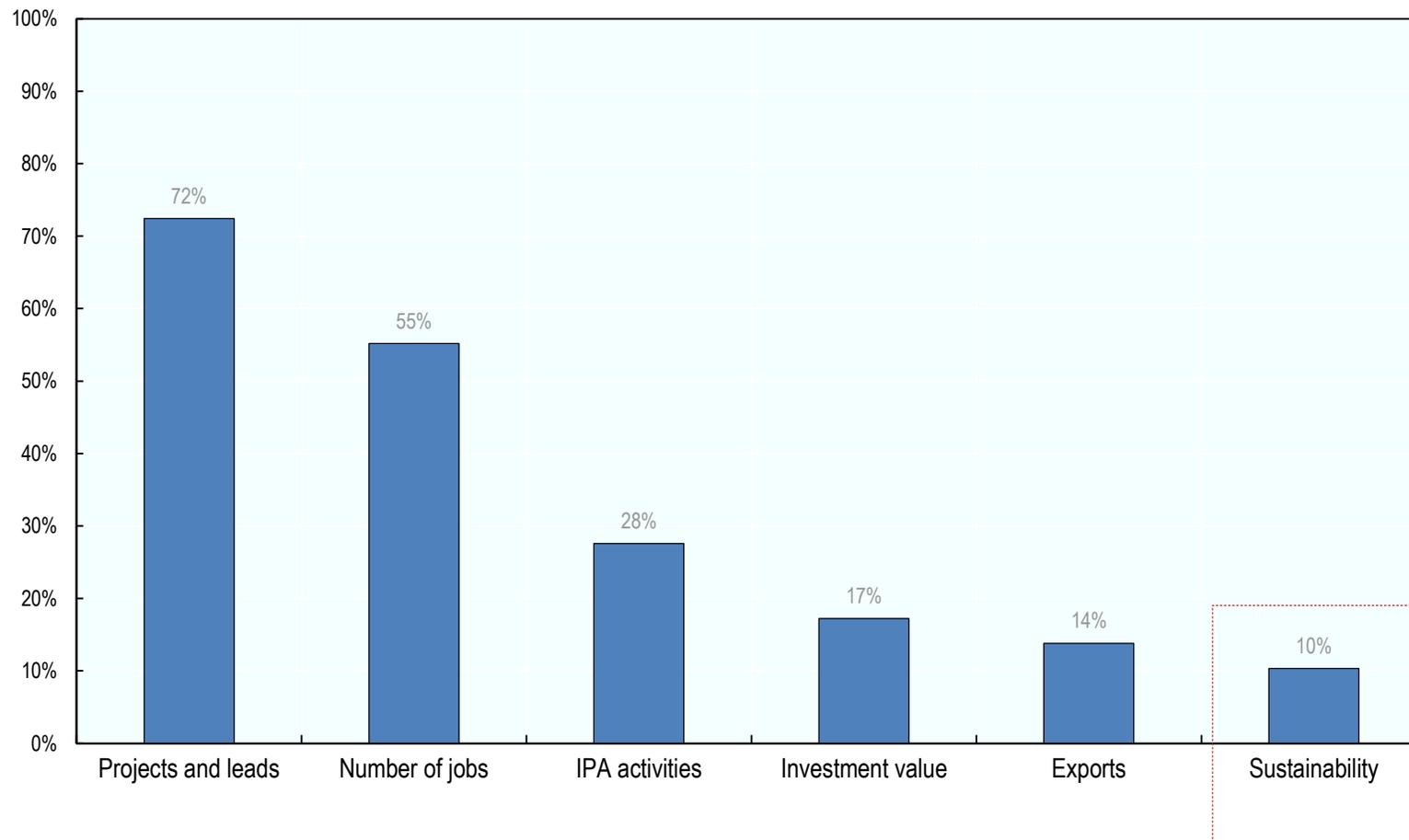
Key performance indicators used by OECD IPAs
(% of total OECD IPAs)





Monitoring & evaluation indicators need to be adapted to investment promotion priorities

Indicators used for monitoring and evaluation, by type
(% of total OECD IPAs)





Thank you

Contact

Stephen Thomsen

Head, Investment Policy Reviews,
OECD Investment Division

stephen.thomsen@oecd.org

Alexandre de Crombrugghe

Manager, OECD IPA Network,
OECD Investment Division

alexandre.decrombrugghe@oecd.org

For further information

FDI Regulatory Restrictiveness Index

www.oecd.org/investment/fdiindex.htm

Policy Framework for Investment

www.oecd.org/investment/pfi.htm

Investment Policy Reviews

www.oecd.org/investment/countryreviews.htm

ASEAN FDI regulatory restrictions database

https://qdd.oecd.org/subject.aspx?Subject=ASEAN_INDEX

Investment promotion and facilitation

www.oecd.org/investment/investment-promotion-and-facilitation.htm