

Challenges in Trade and Investment Regime in 2011-2012

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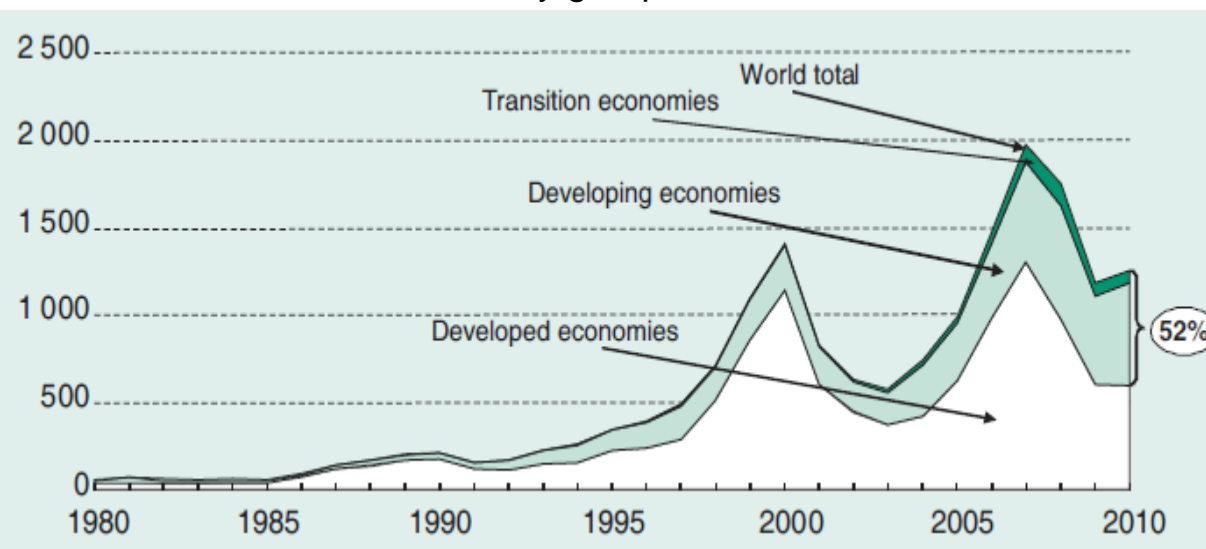
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CURRENT & PROSPECTIVE
“SOUTH-SOUTH” & “SOUTH-NORTH”
FOREIGN DIRECT INVESTMENT

FDI inflows shift to the South

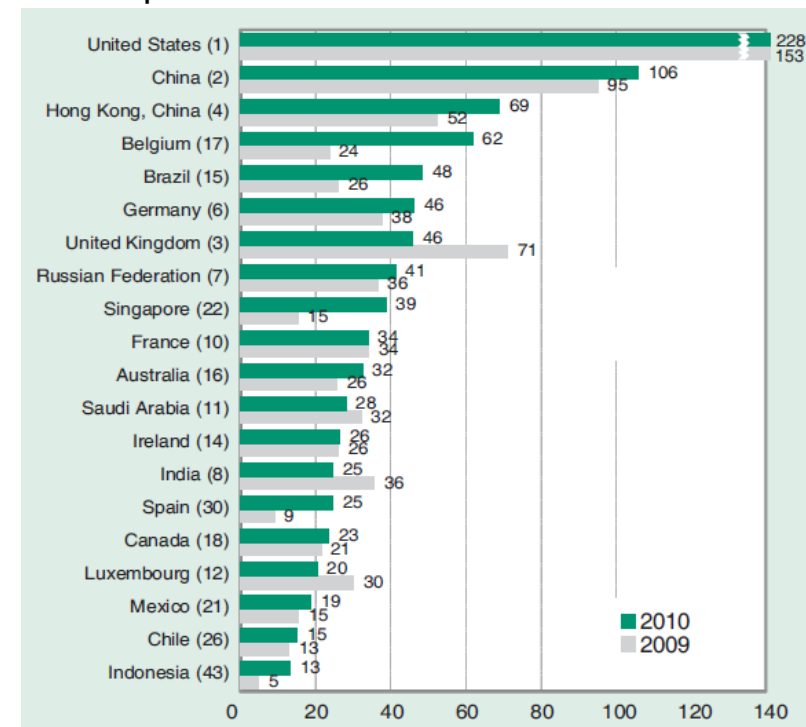
- The inflows of FDI to the South have increased
- In 2010, the South absorbed over 50% of global FDI flows for the first time

FDI inflows by group of economies



Source: World Investment Report 2011

Top 20 FDI Host Economies



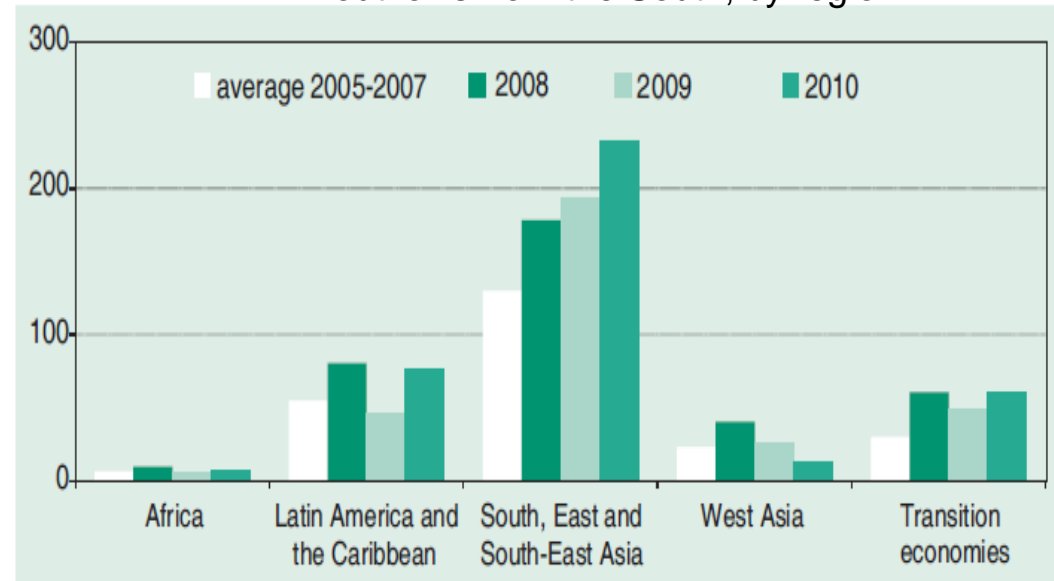
The South has emerged as investors

- Developing countries have strengthened their presence as investors
- Especially, outflows from Hong Kong and China increased by more than \$10 billion in 2010, comparing to 2009
- In 2010, six developing countries were among the top 20 investors
- UNCTAD survey confirms this trend is likely to continue

Top 20 FDI home countries, 2009 & 2010



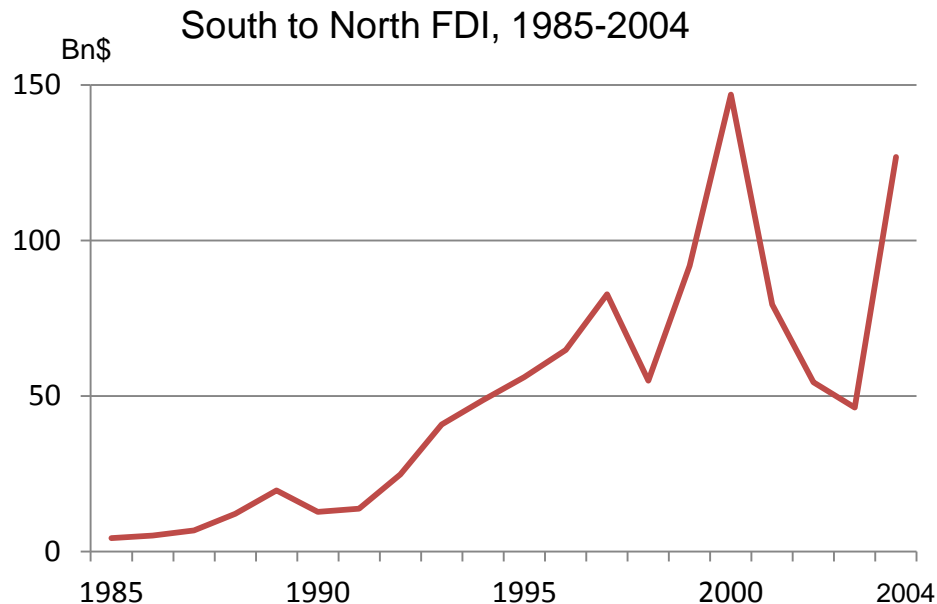
FDI outflows from the South, by region



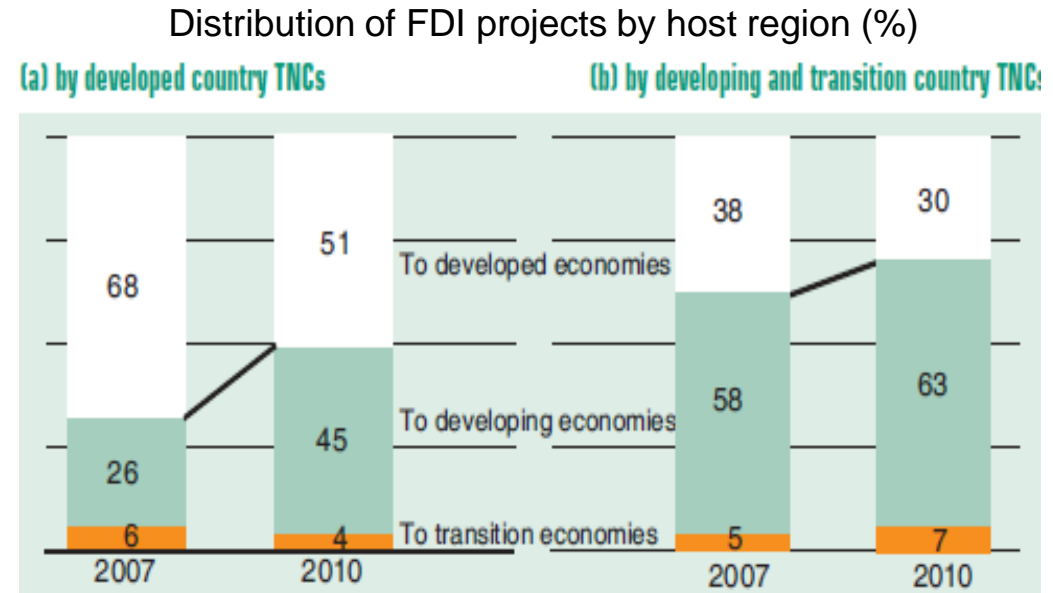
Source: UNCTAD World Investment Report 2011

“South-North” investment has been increasing

- South to North investment has increased compared to 1980s and early 90s
- However, after the economic crisis in 2008, investment to the North declined



Source: UNCTAD World Investment Report 2006



Source: UNCTAD World Investment Report 2011

Barriers to invest in developing countries

- Various non-tariff barriers exist in “South to South” as well as “North to South” investment
- Setting and implementing appropriate rules are the key solution

Sudden change of regulations



Case

- Sudden change or strengthening of domestic regulations by the foreign governments

Rules to be prepared (examples)

- Procedure of explanation before the change of regulations
- Obligatory consultation to the public

Handicaps against foreign business



Case

- Regulations to restrict FDI and the employment of foreign nationals
- Discriminatory financial support to domestic companies

Rules to be prepared (examples)

- Restriction of capital controls
- Limitation to local employment requirement
- Prohibition of local procurement and local content requirement

Investment from the South also faces legal barriers

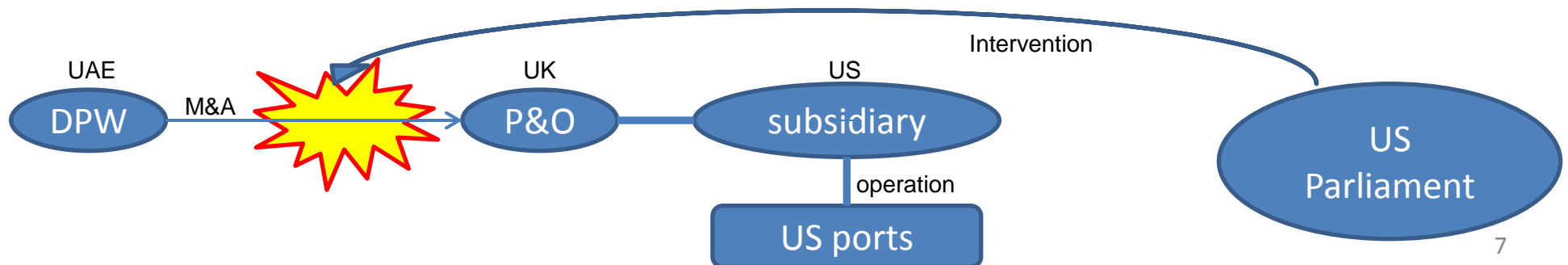
- In developed countries, the authority has been strengthened to stop inward investment when there are security concerns
- Sometimes antagonism against the South blocks “South-North” investment substantially

Examples of strengthened regulation

- US: Strengthen the “Exon-Florio amendment” (2007)
- France: Set 11 sectors of strategic importance in the foreign investment regulation (2005)
- Germany: Add the subjects of import & investment control (2005)
- Japan: Strengthen the controls on export and inward-investment for security reasons(2007)

Case

Dubai-Ports World vs. US government case (2005)



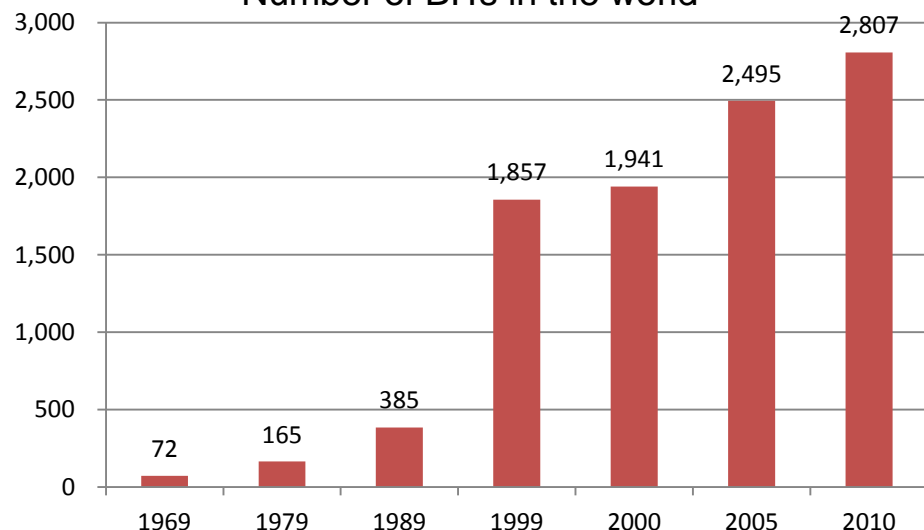
Improvement of the regimes for FDI

- Improvement of business environment is the key for promoting FDI
- Legal provisions including bilateral investment treaties (BITs) are the basis
- Plurilateral investment agreements should also be pursued to protect & promote FDI, including both “South-South” “South-North” FDI

Key provisions to be included in legal regimes

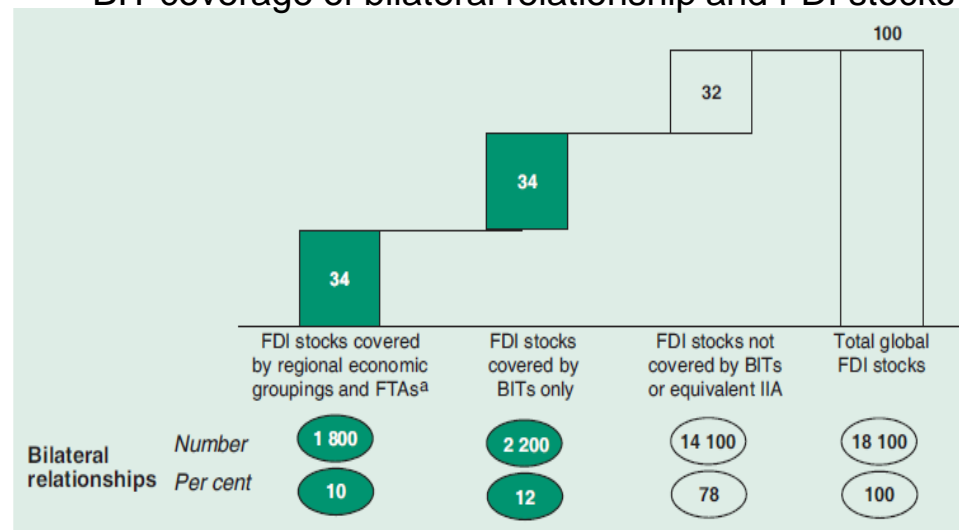
- Transparency & due process
- Non-discrimination (pre- & post- NT & MFN)
- Prohibition of requirements on technology transfer, local content and local employment
- Appropriate dispute settlement procedures

Number of BITs in the world



Source: UNCTAD IIA Monitor No.3 (2009), World Investment Report 2011

BIT coverage of bilateral relationship and FDI stocks



Source: UNCTAD World Investment Report 2011

CHALLENGES IN TRADE REGIME

Recent Development of the Doha Round

November 2010 APEC Leaders/Ministers Meeting at Yokohama
G20 Summit Meeting at Seoul

2011 will be a critically important “window of opportunity.”

January 2011 WTO Informal Ministerial at Davos

Sharing a schedule;

- Chair’s texts/documents in all areas by April
- Overall agreement on the package by July
- The finalization of legal texts and scheduling by the end of 2011

April 21, 2011 Issued chair’s texts/documents in all areas

May 2011 APEC MRT at Montana / WTO Informal Ministerial at Paris

Sharing a view;

- Little prospect to conclude the Doha Round by 2011
- Maintaining the goal of single undertaking of the Doha mandate
- Making some deliverables at the 8th Ministerial Conference in Dec. 2011

December 2011 WTO Ministerial Conference

A Shared “Sense of Responsibility” as the Key to Break This Current Impasse

The reasons of current impasse

- Substantial gaps among major countries
- Changing global economic structure
- 153 WTO members with veto power
- A wide range of topics



No shared sense of responsibility among major countries

- At the Uruguay Round, the Quads (the US, the EU, Japan, Canada) shared a sense of responsibility for concluding the round.
- At the Doha Round, there's no such shared responsibility among major countries

Major Countries' GDP Growth, 2001-2010

The global economic structure has changed

- Since the launch of the Doha Round, the structure of world economy has significantly changed.
- The responsibilities of emerging economies to the world economy have increased.

GDP in 2010(GDP in 2001=1)	
U.S.A.	1.4
Japan	1.3
EU	1.9
China	4.4
India	3.1
Brazil	3.8

Nominal GDP (Source: IMF Data)

Resisting Protectionism

➤ Transition of the division of labor;



- The risk of the protectionism in the era of global division of labor.

Share of trade in 1929	About 10 percent of GDP	(ITI)
Share of trade in 2011	About 50 percent of GDP	(the Sutherland Report)

- There exists the incomparable risk to the global economy of protectionism in the era of global division of labor.

➤ “Made in World”

- Do WTO members share the sense of danger?

WTO/ IDE-JETRO Study on global value chain

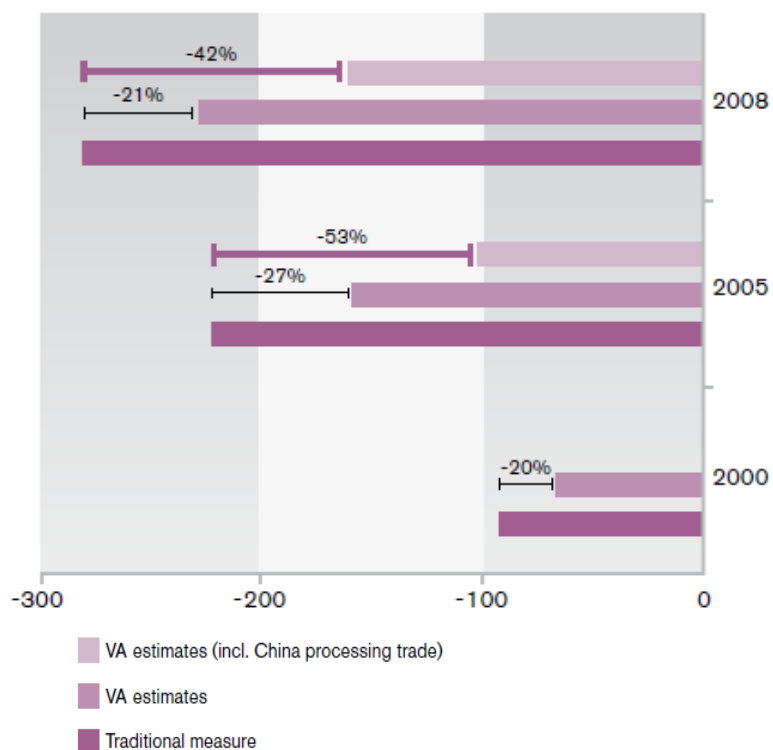
- Joint report was published in June 2011.
 - The report analyzes development of value-chain in the east Asian region.
- (http://www.wto.org/english/res_e/booksp_e/stat_tradePAT_globvalchains_e.pdf)



Global Value Chain (WTO/ IDE-JETRO Report)

- Issues of “global value chain” and “vertical specialization” highlighted
 - Diversity and complementarities of production networks cause “fragmented value chains”
 - The concept of “country of origin” is becoming increasingly difficult to apply
- Importance of lowering trade barriers
- A new trade regime is needed, as firms go beyond national boundaries

United States-China trade balance :
Traditional statistics versus value added (VA) terms
(in billions of US\$)



Note: China's processing trade data not available for 2000.

Sources: UN Comtrade Database and WTO estimates. Sources: IDE-JETRO

Development of cross-national production linkages, 1985-2005



New Trade-Related Economic Agenda

New Agenda

The Doha Agenda

- # Agriculture
- # NAMA
- # Services
- # Rules
- # TRIPs
- # Trade and Environment
- # Trade and Development
- # Trade Facilitation

Singapore Issues

- # Investment
- # Competition Policy
- # Transparency in Government Procurement
- # Trade Facilitation

New Agenda

- # Behind the Border Measures
- # Export Restrictions
- # Government Procurement
- # International Standards
- # Export Credit

New approaches are needed in order that global trade system can catch up the current business needs.

Towards Improving Global Governance

An institutional competition among multilateral-, bilateral- and pluri-lateral agreements could break the current impasse of the DDA and improve global governance.

Multilateral Agreements



➤ Strengthening WTO system.

Bilateral Agreements

e.g. TPP, Japan-EU EIA, ASEAN++



➤ WTO-consistency and transparency are essential.

Pluri-lateral Agreements

e.g. ITA, GPA, ACTA



➤ Potential for the basis of future multilateral system.

Development of Japan's EPA/FTA networks

- Took Effect/Signed (11 countries and 1 region)
 Under Negotiation (3 countries and 1 region)
 Under Study/discussion by the governments (3 countries and 4 regions)

