Investment Facilitation for Development Agreement: Potential gains

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Background & Motivation

Investment Facilitation

SET OF PRACTICAL MEASURES

Transparency, predictability and streamlining of investment laws and regulations

UNLIKE OTHER INVESTMENT APPROACHES

Does not include investment liberalisation and protection or investor-state dispute settlements

IMPROVES DOMESTIC INVESTMENT ENVIRONMENT

Without substantive changes to domestic regulations

WORLD TRADE ORGANIZATION

WTO IFD Agreement

INITIATIVE FROM LOW & LOWER-MIDDLE INCOME COUNTRIES

Structured discussions: December 2017
Formal negotiations: September 2020
Conclusion of text negotiations: November 2023

NEGOTIATED BY MORE THAN 125 WTO MEMBERS

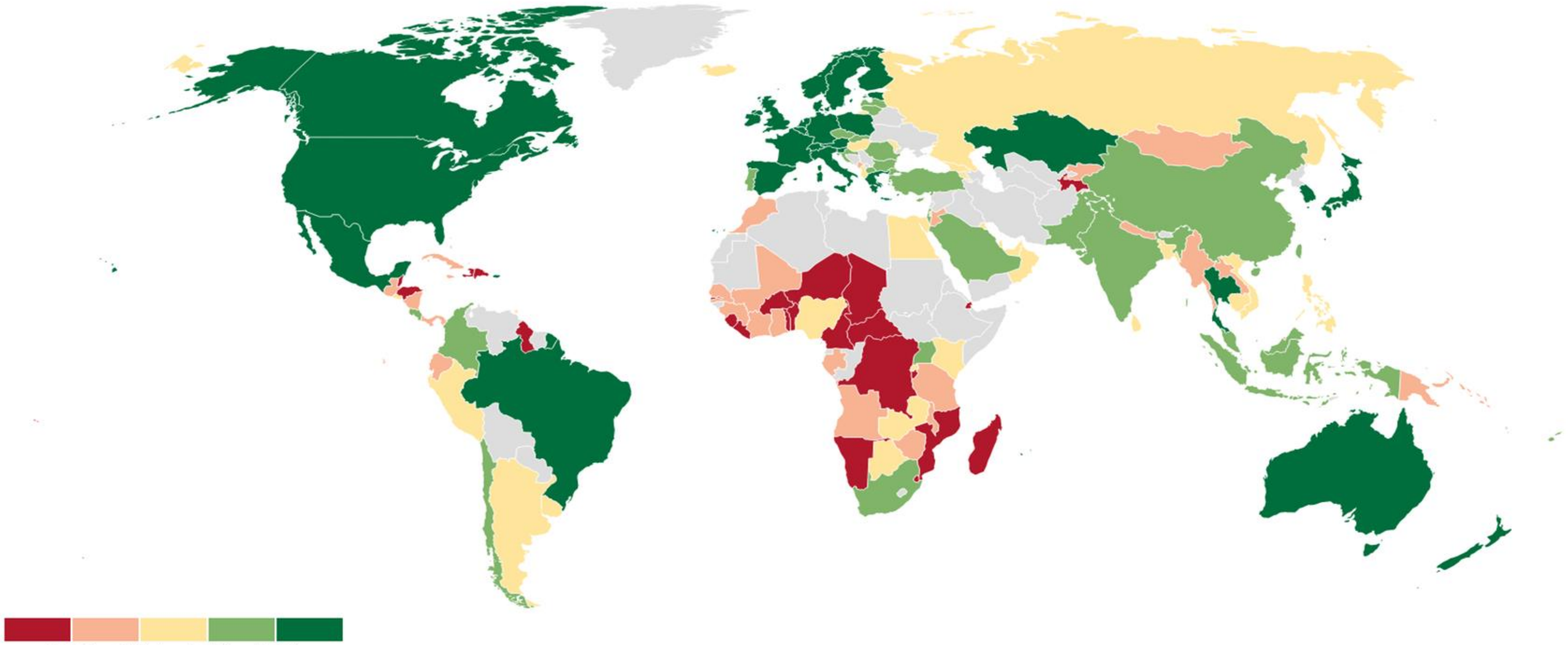
Three-quarters of WTO members with 85 developing economies, among which 25 are LDCs

INCREASE AND RETAIN FDI FLOWS

Through improved investment frameworks in host countries

Investment Facilitation Index (IFI)

IFI is a composite index measuring the adoption of 101 investment facilitation measures in 2021 for 142 countries



Source: Berger, A., Gitt, F., & Dadkhah, A. 2024 (forthcoming)."Domestic investment facilitation frameworks: Measuring their extent and variation". In The Making of an International Investment Facilitation Framework: Legal, Political and Economics Perspectives, edited by A. Berger and M. Chi. Cambridge University Press, forthcoming. The data is available at https://zenodo.org/doi/10.5281/zenodo.7755521
Note: Overall score ranges between 0 and 2, color scale features five bins based on first to fifth quintile of the distribution of global IFI scores.

Classification of IFD provisions mapped to the IFI

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Binding

Including 27 “shall” commitments

Examples of mapped IFI measures:

- A.4 Publication of information and procedures on laws and regulations affecting investment
- C.46 Focal Point provides guidance concerning related legislation, institutions, process, and responsible agencies
- C.41 Opportunity to support or defend respective positions in judicial review
- D.65 Inform the applicant of the decision concerning an application

Conditional

Including 20 conditional commitments

Examples of mapped IFI measures:

- A.9 Information published on fees and charges
- B.33 Simultaneous submission of all documents necessary for investment applications
- B.25 Electronic payment system for the investor to pay all fees and charges
- D.68 Provide the applicant with an explanation of why the application is considered incomplete

Best endeavor

Including 15 non-binding commitments

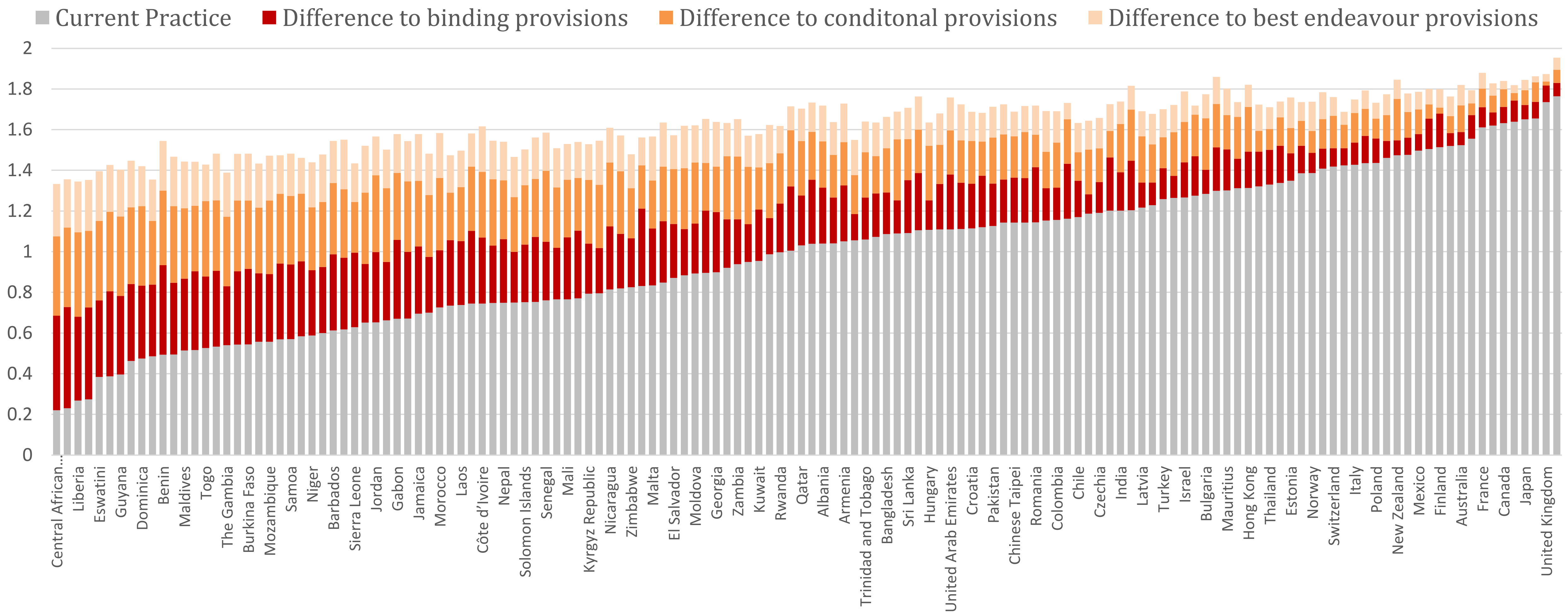
Examples of mapped IFI measures:

- B.24 Establishment of a national investment website for information purpose
- C.54 Focal Point recommends to the competent authorities measures to improve the investment environment
- D.77 Fees and charges periodically reviewed to ensure they are still appropriate and relevant
- E.89 Establishment of a domestic supplier database

Altogether

62 (61.4%) out of 101 measures of the Investment Facilitation Index (IFI) are mapped to the IFD Agreement text

Reform gaps based on IFI



Source: Berger, Dadkhah, Gitt, Olekseyuk and Schwab (2024), IFI data available at https://zenodo.org/records/7755522

Policy shocks based on IFI, %

Countries and regions		IFD binding provisions	IFD conditional provisions	IFD binding & conditional	IFD all provisions	Extended IFD all
ARG	Argentina	18.10	27.33	45.43	64.46	64.46
BRA	Brazil	5.90	8.07	13.98	18.46	18.46
CHL	Chile	15.27	12.03	27.30	39.58	39.58
CHN	China, incl. Hong Kong	16.31	16.46	32.77	42.96	42.96
COL	Colombia	13.78	19.12	32.90	46.23	46.23
KAZ	Kazakhstan	13.67	10.47	24.15	30.01	30.01
KOR	Korea, Republic of	3.71	3.68	7.39	10.78	10.78
MEX	Mexico	5.42	8.08	13.50	19.33	19.33
NGA	Nigeria	31.41	27.49	58.89	70.47	70.47
PAK	Pakistan	18.49	20.15	38.64	52.01	52.01
QAT	Qatar	23.86	25.94	49.80	65.31	65.31
URY	Uruguay	25.85	33.71	59.56	77.34	77.34
E27	EU27	6.96	7.34	14.30	19.74	19.74
HIC	High-income participants	7.33	7.10	14.43	19.05	19.05
LAS	Low and middle-income from Asia	18.83	22.07	40.90	55.53	55.53
LAM	Low and middle-income from Latin America	28.93	34.10	63.03	88.33	88.33
LAF	Low and middle-income from Africa	50.70	51.88	102.58	134.43	134.43
USA	USA					12.49
IND	India					44.65

Scope of the GTAP 11-based model

- **Four aggregate goods:**
  - AGR: Agriculture (CRTS/Armington)
  - ENG: Energy (CRTS/Armington)
  - MAN: Manufacturing (FDI with IRTS/BRF)
  - SRV: Services (FDI with IRTS/BRF)

- **Four primary factors of production aggregated from GTAP:**
  - LAB: Labor (mobile)
  - CAP: Capital (mobile); plus
  - CAP: Capital (sector-specic: 5% of MAN and SRV revenue)
  - LND: Land (CET=1 across sectors)
  - RES: Resources (CET=0.001 across sectors)

- **Extended country/regional coverage** focused on countries engaged in IFD negotiations

- **Extensions of the canonical multiregion model:**
  - Introduction of a simplified structure that tracks ***Bilateral Representative Firms (BRF)*** as they engage in monopolistic competition and FDI: Balistreri, Böhringer, and Rutherford (2018)
  - FDI formulation and calibration using foreign affiliates sales data from Fukui and Lakatos (2012) to augment GTAPinGAMS model (Lanz and Rutherford, 2016)
  - Changes in FDI barriers are implemented as pure (TFP) cost savings for FDI firms
  - Extensive-margin adjustments due to monopolistic competition

A model of Bilateral Representative Firms (BRF)

- Consider the bilateral supply of firm varieties:
  - Krugman:

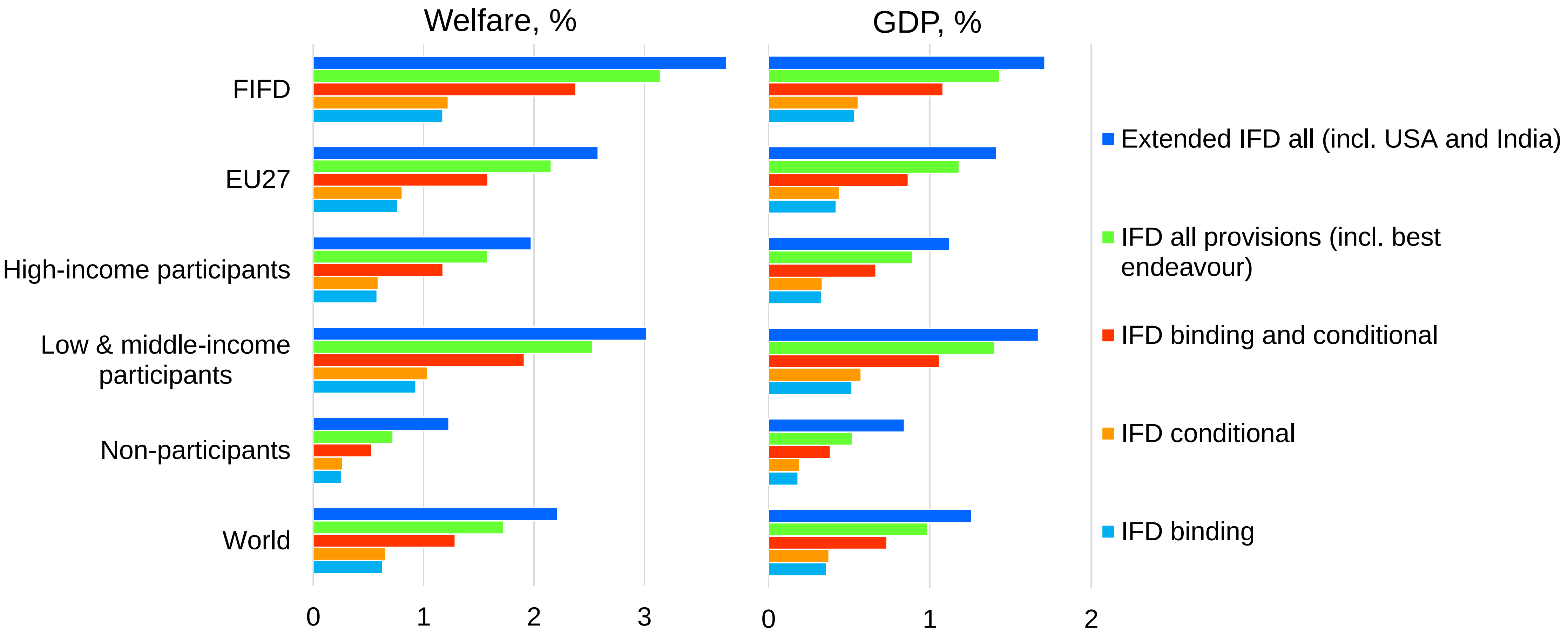
    N_r = the number of region-r varieties
  - Melitz:

    M_r = mass of potential varieties (entry) and

    N_{rs} = the number of varieties on the r-s bilateral link (selection)
  - Why not a bilateral Krugman model where bilateral entry replaces the selection margin in Melitz?

- Specific-factor payments: convexity and tractability
- The local supply elasticity replaces the shape parameter, and Ricardian rents replace sunk-cost payments
- The formulation naturally applies to both cross-border and FDI provision

IFD simulations - aggregate results



Note that except non-participants, all regions include countries involved in the negotiations: *Non-participants:* USA, India, rest of the world (ROW); *FIFD*: Argentina, Brazil, Chile, China (incl. Hong Kong), Colombia, Kazakhstan, South Korea, Mexico, Nigeria, Pakistan, Qatar, Uruguay; *High-income participants*: Australia, Bahrain, Canada, Japan, Kuwait, Mauritius, New Zealand, Norway, Oman, Saudi Arabia, Chinese Taipei, Singapore, Switzerland, United Arab Emirates, United Kingdom; EU27: all EU countries without UK; *Low and middle-income*: 41 participating countries not elsewhere included. Source: Balistreri and Olekseyuk (2024)

Welfare impact (% equivalent variation)

Countries and regions		IFD binding provisions	IFD conditional provisions	IFD binding & conditional	IFD all provisions	Extended IFD all
ARG	Argentina	0.58	0.78	1.33	1.79	2.25
BRA	Brazil	0.40	0.46	0.87	1.17	1.46
CHL	Chile	0.82	0.74	1.51	2.06	2.59
CHN	China, incl. Hong Kong	1.74	1.78	3.49	4.60	5.39
COL	Colombia	0.60	0.76	1.34	1.84	2.25
KAZ	Kazakhstan	0.49	0.46	0.95	1.25	2.00
KOR	Korea, Republic of	0.66	0.69	1.36	1.87	2.39
MEX	Mexico	0.36	0.41	0.77	1.05	1.41
NGA	Nigeria	0.76	0.69	1.38	1.65	2.00
PAK	Pakistan	0.52	0.55	1.06	1.42	1.57
QAT	Qatar	1.51	1.62	3.05	3.98	4.50
URY	Uruguay	0.83	1.01	1.74	2.20	2.60
E27	EU27	0.77	0.81	1.58	2.16	2.58
HIC	High-income participants	0.58	0.59	1.18	1.58	1.98
LAS	Low and middle-income from Asia	0.90	1.00	1.88	2.52	2.96
LAM	Low and middle-income from Latin America	0.86	0.98	1.76	2.35	3.03
LAF	Low and middle-income from Africa	1.47	1.51	2.59	3.07	3.68
USA	USA	0.24	0.25	0.49	0.67	1.16
IND	India	0.28	0.29	0.58	0.79	1.98
ROW	Rest of the world	0.32	0.34	0.67	0.91	1.13

Conclusions

- We illustrate significant economic impacts of the IFD Agreement: global welfare gains of 1.73% for the IFD_all scenario
- Implementation of binding commitments provides only limited gains (global welfare increase of 0.63%), a full implementation of conditional and best endeavor provisions is crucial for high benefits
- Friends of Investment Facilitation for Development (FIFD) and other low and middle-income countries have the most to gain
- Benefits increase if more countries sign up the Agreement: the worldwide welfare goes up by 2.22% when India and the USA join the deal
- Notable spillovers: free ride for the US (+0.67 for the IFD_all) and India (+0.79 for the IFD_all)
- But India has a lot to gain from participation: welfare gain of 1.98% - 2.5 times higher compared to the pure spillover effect
- Results depend critically on how much of the measured distortions are actionable (central results adopt conservative assumption of 5% actionable)
- Extensive sensitivity analysis proves the strong positive impact of the IFD Agreement and suggests that illustrated results are closer to the lower bound

Comparative steady-state experiment

Aggregate welfare results for the IFD binding and conditional scenario (% equivalent variation)

	IFD_B_C	Comparative steady state
FIFD	2.38	39.9
EU27	1.58	33.5
High-income	1.18	28.0
Low & middle-income	1.91	30.0
Non-participants	0.53	9.6
World	1.29	30.2

Sensitivity to different scalar adjustments

Aggregate welfare results (% equivalent variation)

	IFD_B		IFD_C		IFD_B_C		IFD_all		IFD_all_X	
	5%	10%	5%	10%	5%	10%	5%	10%	5%	10%
FIFD	1.17	2.33	1.22	2.43	2.38	4.68	3.15	6.13	3.75	7.35
EU27	0.77	1.54	0.81	1.62	1.58	3.21	2.16	4.39	2.58	5.27
High-income	0.58	1.17	0.59	1.19	1.18	2.39	1.58	3.24	1.98	4.06
Low & middle-income	0.93	1.81	1.03	2.01	1.91	3.59	2.53	4.63	3.02	5.40
Non-participants	0.26	0.52	0.27	0.55	0.53	1.11	0.72	1.53	1.23	2.55
World	0.63	1.26	0.66	1.32	1.29	2.57	1.73	3.45	2.22	4.43

Sensitivity: structural and parametric assumptions

Aggregate welfare results for the IFD_B_C scenario (% equivalent variation)

	$\eta = 1$		$\eta = 2$	
	ARM	BRF	ARM	BRF
FIFD	1.72	2.38	1.89	2.65
EU27	1.10	1.58	1.18	1.72
High-income	0.83	1.18	0.82	1.16
Low & middle-income	1.40	1.91	1.63	2.28
Non-participants	0.40	0.53	0.25	0.33
World	0.93	1.29	0.93	1.31

Indirect spillover benefits for Qatar and China

Welfare results for the IFD_B_C scenario (% equivalent variation)

	IFD_B_C	*IFD_B_C* excluding CHN and QAT
CHN	3.49	0.86
QAT	3.05	0.61
IND	0.58	0.34
USA	0.49	0.30

Thank you!

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