

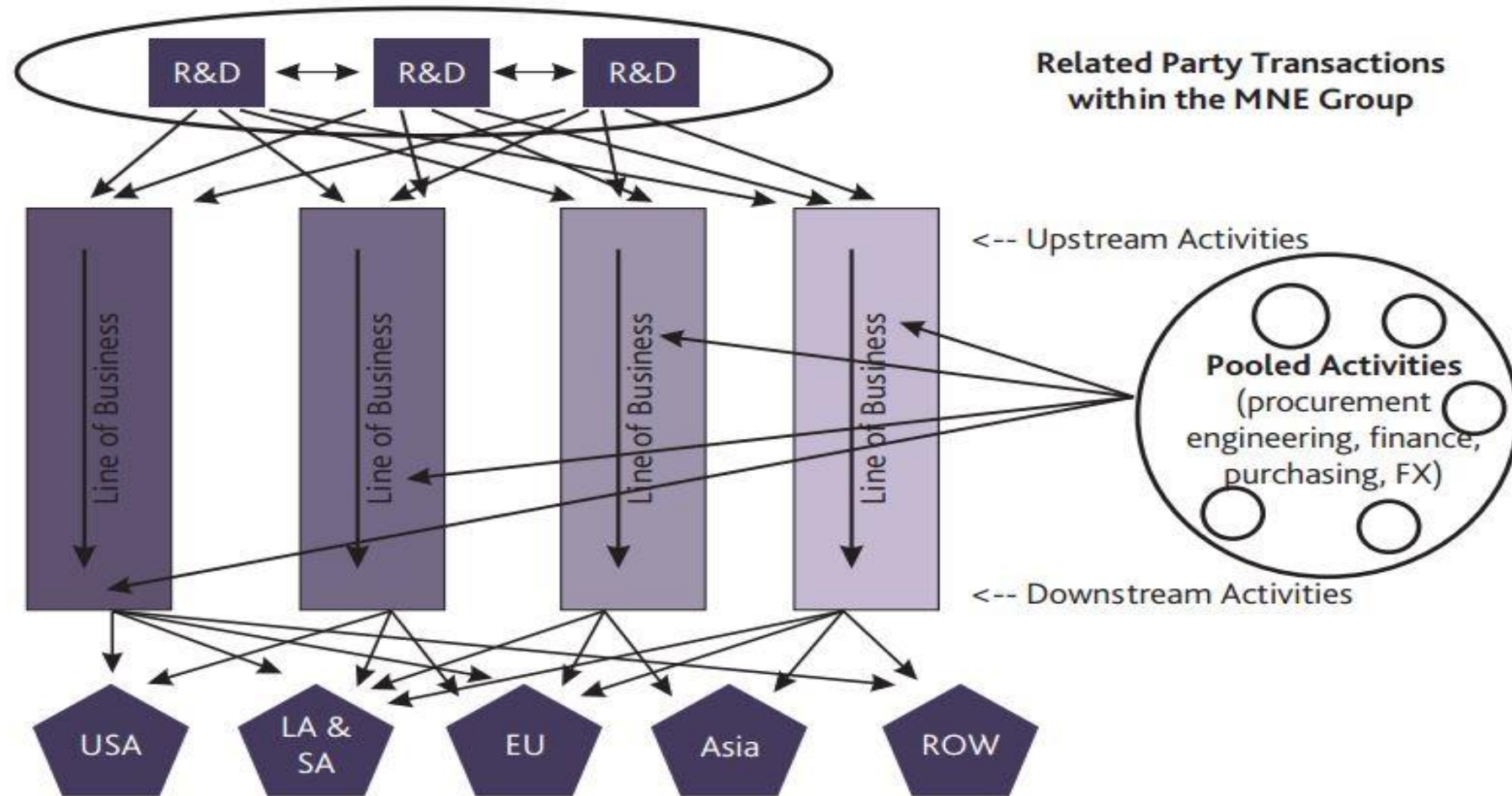
RICARDO MELENDEZ-ORTIZ

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Investment and trade policy coherence

Ricardo MELENDEZ-ORTIZ, *Chief Executive, ICTSD*

Complex integration and the MNE



Eden, Lorraine. Multinationals and Foreign Investment Policies in a Digital World. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum, 2016. www.e15initiative.org/

FDI motivation and key drivers

FDI Motivation	Factors Affecting FDI
Market seeking: Going abroad to sell products	Transport costs and tariffs discourage exports, favour tariff-jumping, horizontal integration, and distribution/local sales affiliates. Bilateral investment treaties (BITs) and double tax treaties (DTTs) encourage FDI. Digital trade needs strong ICT infrastructure. Strong intellectual property rights (IPR) and GATS (General Agreement on Trade in Services) needed to promote micro-MNEs and born globals.
Resource seeking: Going abroad to buy inputs (natural resources, labour, capital).	Transport costs and tariffs discourage imports, favour vertical integration and offshoring to take advantage of differences in factor endowments. MNEs engaging in greater segmentation of global value chains (trade in tasks). BITs, DTTs and PTAs encourage FDI. Greater natural resource-seeking FDI by state owned MNEs from emerging markets.
Knowledge/strategic asset seeking: Going abroad to learn (acquire strategic assets)	Knowledge-seeking FDI by emerging market MNEs greater importance. Depends on FDI policy openness (e.g., M&A and IRP policies) in developed markets. Need for high skilled labour. Quality of information and communication technology (ICT) industries. BITs and DTTs encourage FDI.
Efficiency/growth seeking: Rationalising activities and tasks within the MNE network.	
Efficiencies from arbitrage. Rationalising activities within the MNE network to exploit differences in factor endowments, tastes and policies across countries.	Global value chains take advantage of arbitrage efficiencies based on differences in factor endowments and costs. MNEs engage in regulatory arbitrage, exploiting loopholes in regulatory framework (e.g. tax avoidance). BITs and DTTs encourage FDI. New policy focus on promoting FDI for sustainable development.
Efficiencies from integration. Pooling and clustering activities within the MNE network so as to exploit economies of scale and scope and gain group synergies.	Network economies of scale and scope encourage integration and centralisation. BITs, DTTs and PTAs encourage clustering FDI. Clustering more important for emerging market MNEs engaged in market seeking and knowledge-seeking FDI, but less so for ICT investments.
Competitive positioning/rivalry.	First mover advantages more important as network economies of scale and scope (EOSS) increase in the digital economy, creating lock-in benefits and temporary monopolies. Competition policy can dampen competitive rivalry moves.

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Changing composition of global FDI stocks

Global Outward FDI Stock, by Industry

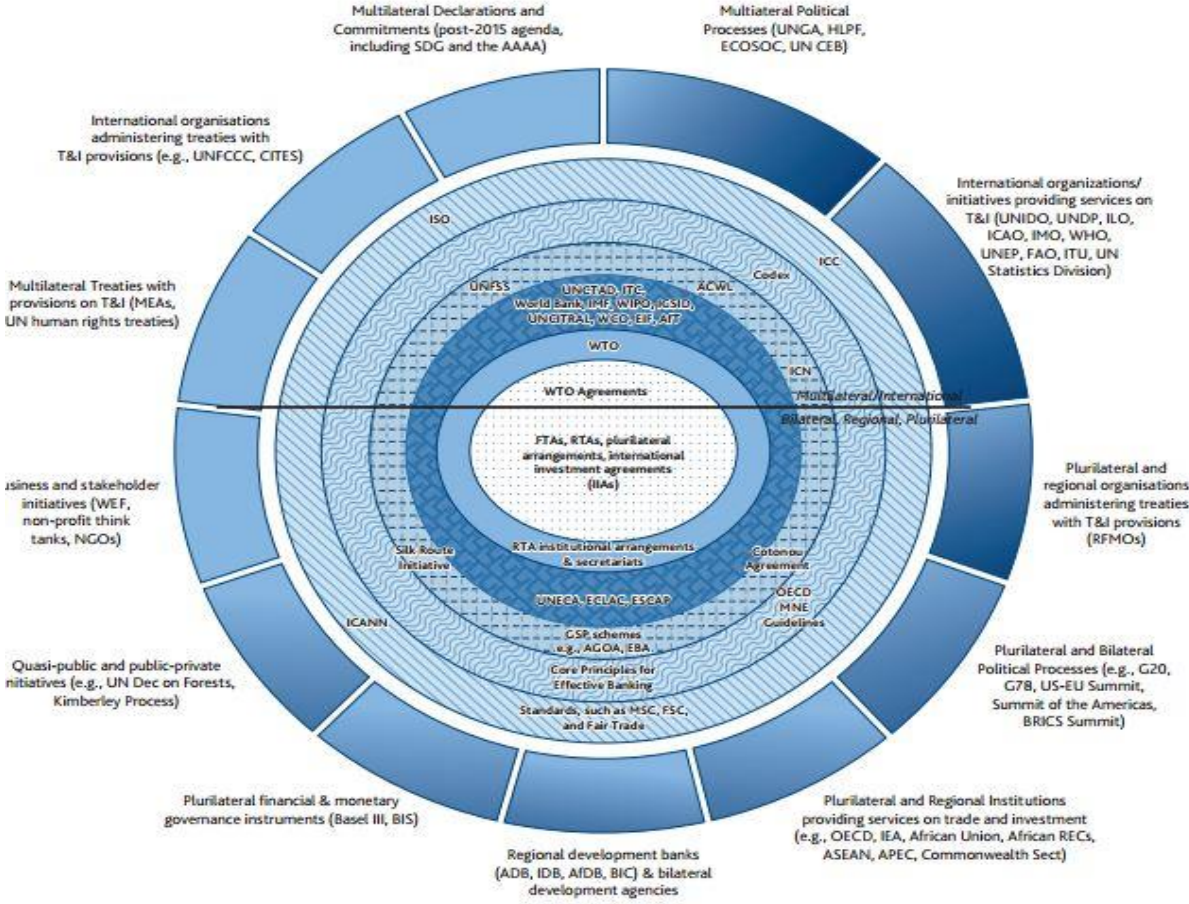
Note: 1966 figures refer to US outward FDI.

Source: Lipsey (1992); 1990 and 2012 figures are world outward FDI from UNCTAD (2014).

	1966	1990	2012
Agriculture, fishing	1%	0%	0%
Mining and Oil	29%	9%	8%
Manufacturing	42%	44%	19%
Services	29%	47%	69%

Source: Hufbauer, Gary and Tyler Moran. Investment and Trade Regimes Conjoined: Economic Facts and Regulatory Frameworks. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum, 2015. www.e15initiative.org/

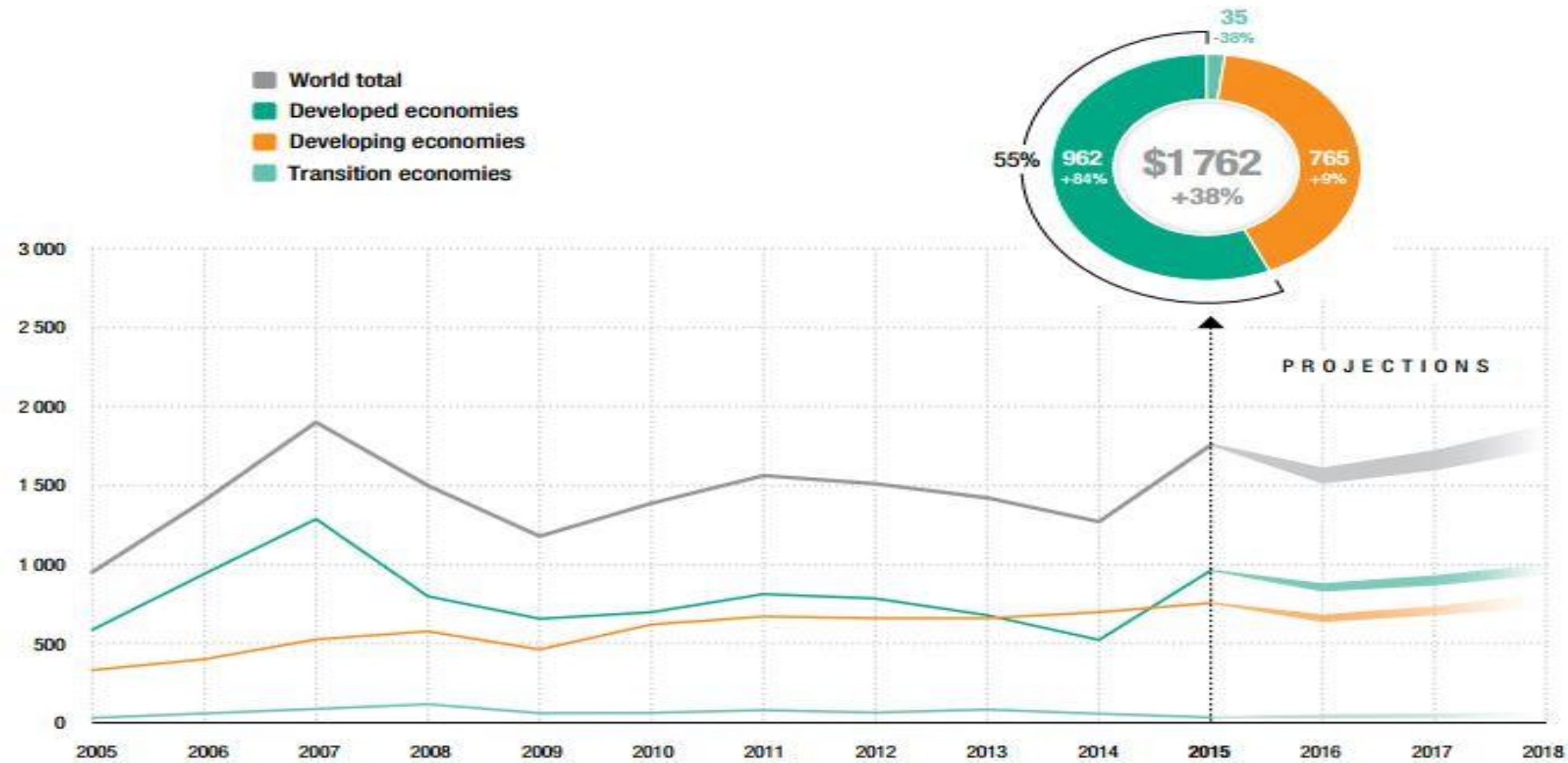
Global trade and investment architecture mapped



LEGEND

	International trade and investment treaties		International institutions and secretariats charged with administering trade and investment agreements		International organisations & programmes centrally concerned with trade/investment & associated rules
	Other inter-government arrangements and unilateral initiatives on trade and investment		International soft law and guidelines		Private-public initiatives, mechanisms and private standards

Global FDI inflows by group of economies and projections



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).