28 June 2021

# Twenty-fifth Report on G20 Investment Measures[1]

When the Global Financial Crisis broke in 2008 and early 2009, governments around the globe rallied to prevent a repeat of the mistakes of the Great Depression of the 1930s: Avoid protectionism and beggar-thy-neighbour policies, as this would lead to a further deepening of the crisis.[2] Their call was followed by a specific and firm commitment to refrain from introducing new barriers to investment or trade and complemented by a mandate for the WTO, OECD and UNCTAD to report publicly on new trade and investment policy measures. So far, 24 reports have been issued under this mandate.[3]

The COVID-19 pandemic set off a further crisis in early 2020 that is expected to be deeper and more consequential in many countries than the Global Financial Crisis of 2008/2009. While some indicators suggest that ambitious government responses have mitigated the human suffering in many countries and have absorbed part of the economic shock that resulted from measures to avert even greater suffering, the trajectoire of this crisis remains uncertain.

Part of the efforts to limit the damage of the COVID-19 pandemic was an early pledge by G20 Members to remain open to trade and investment, following their example of resolve and commitment in 2008.[4]

This 25th report, jointly prepared by the OECD and UNCTAD Secretariats, documents measures that G20 governments have taken in relation to their pledge. It covers investment and investment-related measures that G20 Members have taken between 16 October 2020 and 15 May 2021.

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1 This report on investment measures is issued under the responsibility of the Secretary-General of the OECD and the Secretary-General of UNCTAD. It has no legal effect on the rights and obligations of member states of the OECD or UNCTAD. Nothing in this report implies any judgment, either direct or indirect, as to the consistency of any measure referred to in the report with the provisions of any OECD or UNCTAD agreement or any provisions thereof. As in previous reports, this document distinguishes between measures related to foreign direct investment (prepared jointly by OECD and UNCTAD) and measures related to other international capital flows (prepared solely by OECD).

2 G20 Leaders "Declaration of the Summit on Financial Markets and the World Economy", Washington, 15 November 2008.

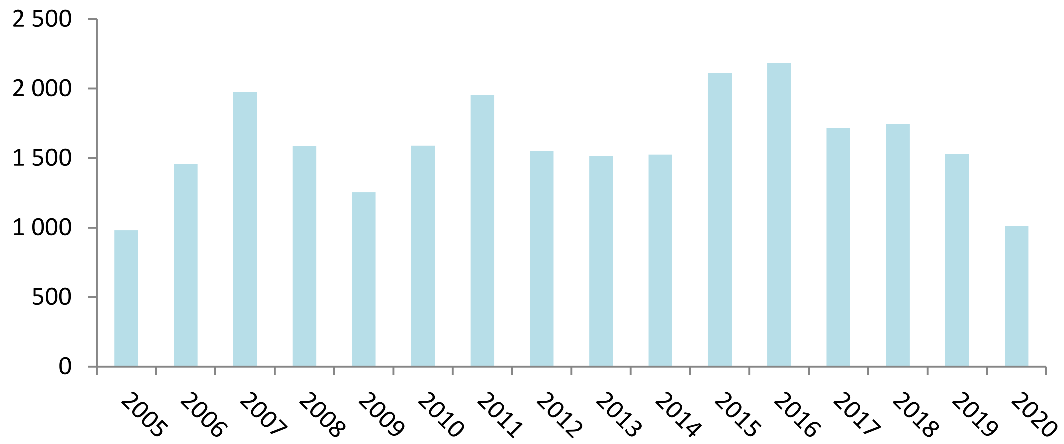
3 Earlier reports on investment measures by OECD and UNCTAD to G20 Leaders are available on the websites of the OECD and UNCTAD. A summary table of all investment measures taken since 2008 is also available on those websites.

4 Extraordinary G20 Leaders' Summit "Statement on COVID-19", 26 March 2020. G20 Trade and Investment Ministers and guest countries statement "G20 Actions to Support World Trade and Investment in Response to COVID-19", 14 May 2020.

## I. Development of Foreign Direct Investment (FDI) flows

In 2020, global FDI inflows fell by about a third compared to 2019, reaching USD 1 trillion.[5] The pandemic accelerated an already steady decline and contributed to bringing global FDI inflows down to their lowest level in 15 years (Figure 1).

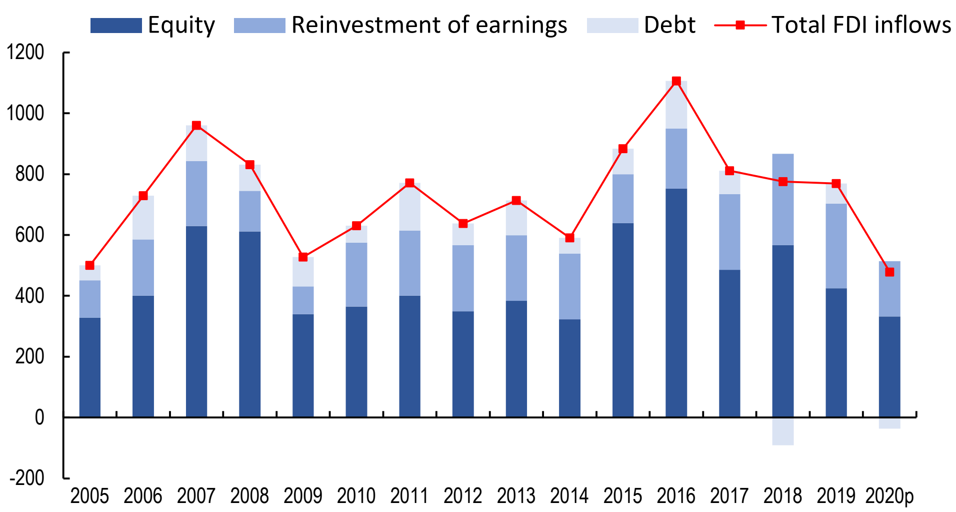
**Figure 1: Global FDI inflows, 2005-2020 (USD billions)**




Source: OECD/UNCTAD.

Individual countries experienced different drops of inward FDI: Advanced economies recorded particularly strong declines of inward FDI, with inflows to the OECD area decreasing by 51% in 2020. Equity flows into OECD countries dropped to their lowest level seen since 2005, mostly resulting from major divestments from Switzerland and the Netherlands as well as large decreases of FDI flows to the United States and other OECD countries. Overall, and in G-20 economies, negative intra-company debt flows further accentuated the drop in total FDI flows as did the drop in equity flows, which, however, was less prominent for G-20 economies than in some advanced countries (Figure 2).

**Figure 2: G20 FDI inflows by instrument, 2005-2020 (USD billions)**




Note: p data for 2020 are preliminary. G20 aggregate excludes data for P.R. China and Saudi Arabia who do not report on FDI components. Reinvested earnings for South Africa are included in the category "equity". Indonesia does not report seperately on reinvested earnings.
Source: OECD Foreign direct investment statistics database (for OECD-G20 countries)/UNCTAD (for non OECD-G20 countries).

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[5] The most recent figures are available in UNCTAD, *World Investment Report 2021, Investing in Sustainable Recovery*, June 2021 and OECD, *FDI in Figures*, April 2021.

Flows to developing countries fell less steeply, although this was mainly due to resilient flows in Asia. However, new greenfield project announcements – more indicative of trends in new capital expenditures on productive capacity – fell sharply, by more than those in OECD countries.

Different kinds of equity capital flows to individual countries also performed differently. For example, cross-border M&A transaction values in advanced economies dropped by 12%, despite a few large transactions in specific sectors and despite a greater number of transactions in the Healthcare and Technology sectors in 2020 than were observed in previous years. On the other hand, Emerging Markets and Developing Economies (EMDE) experienced a greater decline on announced greenfield investment projects than advanced economies did. Most of the fall in EMDE occurred in the second quarter of the year.

Sectoral breakdowns show that capital expenditures in manufacturing, services and infrastructure dropped by about 43% in each sector and by 85% in extractive industries, the latter likely driven by investors' concerns about the long-term return on fossil fuels given lower oil prices in 2020. Despite the drops at the aggregate level, a large boost in announced greenfield investment activity was observed in biotechnology and communications, where capital expenditures nearly doubled since 2019.

There are some signs of an early pickup ahead: Cross-border M&A activity surged in the last quarter of 2020 and continued this course in the first quarter of 2021 in advanced economies, as many companies turned to international transactions emboldened by lower borrowing costs and a more optimistic outlook as COVID-19 vaccine campaigns show effects. This could further boost FDI equity flows in 2021, unless large divestments continue in 2021.

## II. G20 Members' investment policy measures

In the reporting period, G20 Members have again taken a substantial number of investment policy measures, continuing the trend observed in the previous report. Many relate to concerns about implications that certain investments can have for essential security interests. This aspect also presents a continuity over the past few years: G20 Members (and many countries beyond G20 membership) have given a high priority to this area since around 2017.

### *1. Foreign direct investment-specific measures*

Australia, P.R. China, India, Indonesia and the United Kingdom changed their investment policies that are specific to FDI in the reporting period. Some of these measures lead to further liberalisation or otherwise more favourable conditions for FDI, some included steps to simplify procedures or otherwise facilitate:

- *Australia* reformed its inward investment review framework;
- *P.R. China* issued new negative lists that contain fewer sectors in which restrictions apply, and removed a cap on foreign investment in insurance companies;
- *India* relaxed rules for FDI in insurance companies and clarified and adjusted the application of several aspects of its inward investment rules;
- *Indonesia* established the principle of National Treatment for inward foreign investment; rescinded restrictions in certain sectors; and introduced rules that require foreigners to meet certain obligations (form joint ventures when investing in certain sectors or commit higher paid-up capital when investing in other), or bar foreign investors from using certain legal forms for their enterprises operating in the country; and
- The *United Kingdom* introduced a surcharge on real estate acquisitions by non-resident purchasers.

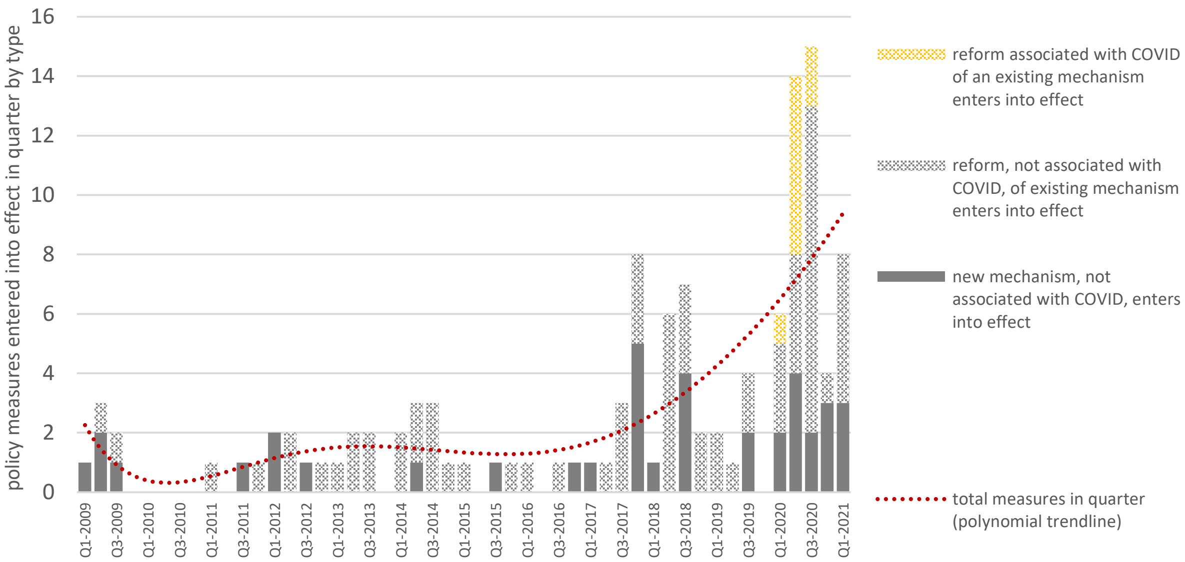
A detailed description of these policy changes is available in Annex 1 of this report.

## 2. *Investment measures related to national security*

G20 Members continued to adjust their policies related to the protection of essential security interests to manage risks that occasionally arise with foreign investment. In the reporting period, nine G20 Members took measures in this regard: Australia, Canada, P.R. China, France, Germany, Italy, Russian Federation United Kingdom and United States. As in the previous reporting period, this area of investment policy making has experienced more intense activity among G20 Members than other policy domains specific to FDI.

This strong activity confirms the trend observed since about 2017 and that continues to accelerate in G20 Members (Figure 3) – and well beyond G20 membership.[6]

**Figure 3: Introduction or reform of investment policies in G20 members to safeguard essential security interests, Q1-2009 to Q1-2021.**




Note: Extensions of the duration of measures that were initially time-limited are not counted as additional measures.
Source: OECD/UNCTAD monitoring reports on G20 investment measures 2009-2021.

As documented in Figure 3, the extraordinary economic circumstances of the COVID-19 pandemic had initially led to a further increase in the number of reforms, in particular in the second quarter of 2020. None of the policy measures taken after July 2020 was explicitly associated with COVID or the circumstances of the pandemic,[7] but the number of reforms of existing mechanisms and the introduction of new mechanisms remained high – confirming an earlier hypothesis that the onset of the COVID-19 pandemic had further accelerated policymaking, but was not ultimately the root cause of the heightened attention that this area currently receives.[8] The number of measures that are expected to become effective after 15 May 2021, the end of the survey period for this report, suggests that the strong policy-making activity in this area will be sustained in the near future.

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6 See OECD (2021), "*Investment policy developments in 62 economies between 16 October 2020 and 15 March 2021*", and, for a broader analysis of the drivers of this trend, UNCTAD (2019), "*Investment Policy Monitor: National Security-Related Screening Mechanisms For Foreign Investment. An Analysis of Recent Policy Developments*" and OECD (2020), "*Acquisition- and ownership-related policies to safeguard essential security interests – current and emerging trends, observed designs, and policy practice in 62 economies*".

7 Two measures that had been introduced with a sunset date were extended in the reporting period.

8 OECD/UNCTAD (2020), "*Twenty-fourth Report on G20 Investment Measures*", p.3 and OECD (2020), "*Investment screening in times of COVID-19 and beyond*".

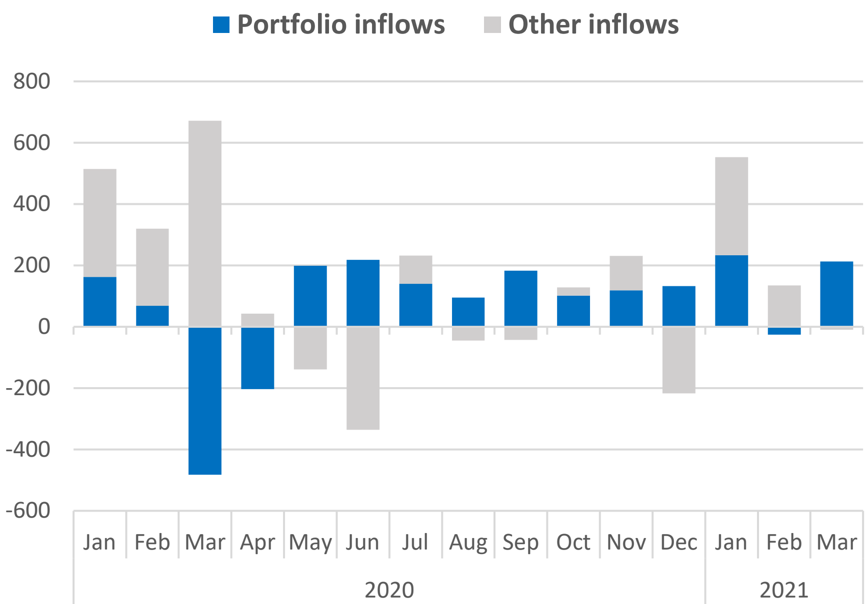
### 3. *Investment policy measures not specific to FDI*[9]

Following an unprecedented drop of portfolio flows (debt and equity) to G20 Members and notably emerging market economies (EMEs) in the first months of 2020, portfolio flows have rebounded strongly in the second half of 2020 (Figure 4). This rebound was initially led by flows into P.R. China, and followed by other emerging market economies in the last quarter of 2020. While the initial drop at the onset of the COVID-19 pandemic was larger than the decline during the Global Financial Crisis or the 2013 "taper tantrum", the rebound has been faster. This rebound was mainly driven by debt inflows that were complemented by material equity inflows from November 2020 to January 2021, as the global economic outlook was improving.

Nonetheless, latest developments point to a decline in new inflows to EMEs since, despite an intermittent rebound in April. Long-term interest rates on government bonds of advanced economies, including United States government bonds, rose significantly at the beginning of 2021, reflecting inflation concerns and expectations of less accommodative monetary policy in these countries. This development triggered repricing across sovereign bond markets in emerging market economies and may have negatively impacted cross-border capital flows.

For their part, other inflows (mostly banking) to G20 countries have remained volatile throughout the period, oscillating between important negative inflows to large positive rebounds (Figure 4).

**Figure 4. Capital inflows to G20 members (bln USD, January to March 2021)**




Note: Sample of 13 G20 members (Brazil, P.R. China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, South Africa, Turkey, United States) with various capital flow coverage (see OECD Monthly Capital Flow Dataset).
Source: OECD Monthly Capital Flow Dataset.

The relative return to more normal conditions is reflected in a lower number of policy measures that G20 Members have taken in the reporting period compared to the previous reporting period. Four G20 Members – P.R. China, India, Republic of Korea and Turkey – took measures with regard to international capital flows, but not specific to FDI, in the reporting period (Annex 2).

[9] This section on "Investment policy measures not specific to FDI" has been prepared by the OECD Secretariat under the responsibility of the Secretary-General of the OECD. Annex 2 provides information on the coverage, definitions and sources of the information contained in this section.

## 4. *International Investment Agreements*

During the reporting period, Japan was the only G20 Member to conclude a new bilateral investment treaty (BIT)[10] while 15 "other IIAs"[11] were concluded. Twelve of these 15 "other IIAs" were concluded by the United Kingdom,[12] the three remaining by Indonesia and the Republic of Korea,[13] Israel and the Republic of Korea,[14] and by Australia, China, Indonesia, Japan and the Republic of Korea as parties to the RCEP.[15] An older BIT between China and Turkey was replaced and effectively terminated by the entry into force of a new BIT concluded in 2015.[16] The India-Bahrain BIT[17] was terminated without replacement following an earlier denunciation. One new BIT involving a G20 Member entered into force, concluded by Indonesia with Singapore.[18] One other IIA entered into force for Australia: the Pacific Agreement on Closer Economic Relations (PACER Plus) concluded with a number of countries in the Pacific region.[19] As of 15 May 2021, there were 2852 BITs and 420 "other IIAs".[20] Data on G20 Members' IIAs is available in Annex 3.

# III. Overall policy implications

The ongoing COVID-19 pandemic continues to leave a deep mark on individuals and societies. G20 Members try to contain the damages associated with the pandemic to their economies, not least by facilitating and remaining largely open to international investment.

G20 Members remain concerned about risks for their essential security interests that may occasionally arise with international investment. This concern continues to translate into investment policy adjustments that seek to manage this risk in several G20 Members. Comprehensive and detailed policies are now in place in ever more G20 Members.

In designing and implementing these policies, it is all the more important that G20 Members respect international policy principles and guides, such as the G20 Guiding Principles for Global Investment Policymaking, the 2009 OECD Guidelines for Recipient Country Investment Policies relating to National Security and UNCTAD's Investment Policy Framework for Sustainable Development. Non-discrimination, transparency, proportionality and accountability become all the more important as these policies are established more broadly.

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10 The Georgia-Japan BIT (signed on 19 January 2021).

11 "Other IIA" encompasses a variety of international agreements with investment protection, promotion and/or cooperation provisions – other than BITs. They include free trade agreements (FTAs), regional trade and investment agreements (RTIAs), comprehensive economic partnership agreements (CEPAs), cooperation agreements, association agreements, economic complementation agreements, closer economic partnership arrangements, agreements establishing free trade areas, and trade and investment framework agreements (TIFAs). Unlike BITs, "other IIAs" may also be plurilateral agreements.

12 The 12 agreements are the Japan-United Kingdom CEPA (signed on 23 October 2020), the North Macedonia-United Kingdom Partnership, Trade and Cooperation Agreement (signed on 3 December 2020), the Egypt-United Kingdom Association Agreement (signed on 5 December 2020), the Kenya-United Kingdom EPA (signed on 8 December 2020), the Canada-United Kingdom Trade Continuity Agreement (signed on 9 December 2020), the Singapore-United Kingdom FTA (signed on 20 December 2020), the Moldova-United Kingdom Partnership, Trade and Cooperation Agreement (signed on 24 December 2020), the United Kingdom-Viet Nam FTA (signed on 29 December 2020), the Turkey-United Kingdom FTA (signed on 29 December 2020), the EU-United Kingdom Trade and Cooperation Agreement (signed on 30 December 2020), the Ghana-United Kingdom Interim Trade Partnership Agreement (signed on 2 March 2021), and the Cameroon-United Kingdom Economic Partnership Agreement (signed on 9 March 2021).

13 The Republic of Korea-Indonesia CEPA (signed on 18 December 2020).

14 The Republic of Korea-Israel FTA (signed on 12 May 2021).

15 The Regional Comprehensive Economic Partnership (RCEP) (signed on 15 November 2020).

16 Effectively terminated on 11 November 2020 following the entry into force of the 2015 China-Turkey BIT.

17 The termination took effect on 23 March 2021.

18 The Indonesia-Singapore BIT entered into force on 9 March 2021.

19 The Pacific Agreement on Closer Economic Relations (PACER Plus) entered into force on 13 December 2020.

20 The total number of IIAs is revised in an ongoing manner as a result of retroactive adjustments to UNCTAD's IIA Navigator.

International investment can make an important contribution to attenuate the impact of the ongoing COVID-19 pandemic on economies. It will also be crucial to tackle the other concurrent crises that need urgent responses, in particular the climate and environmental crises, as well as continued and deepening poverty across and within societies.

To unlock this potential, governments need to create conducive conditions to international investment to ensure a sustainable recovery that benefits all.

**Annex 1: Recent investment policy measures related to FDI (16 October 2020-15 May 2021) – Reports on individual economies**

| | Description of Measure | Date | Source |
|---|---|---|---|
| **Argentina** | | | |
| *Investment policy measures* | None during reporting period. | | |
| *Investment measures relating to national security* | None during reporting period. | | |
| **Australia** | | | |
| *Investment policy measures* | On 1 January 2021, reforms to Australia's foreign investment framework (which is set by the Foreign Acquisition and Takeovers Act 1975, the Foreign Acquisitions and Takeovers Fees Imposition Act 2015 and their associated regulations) entered into force.<br>The reforms update the framework in three broad ways: they address national security risks, streamline foreign investment in non-sensitive businesses, and strengthen the existing system including compliance and enforcement powers. These powers included increased penalties, directions powers and new monitoring and investigative powers, in line with those of other regulators. Amendments to the Foreign Acquisitions and Takeovers Fees Imposition Act 2015 and the introduction of the Foreign Acquisitions and Takeovers Fees Imposition Regulations 2020 made foreign investment fees fairer and simpler, and established new fees for new actions.<br>Other aspects of the reforms included a new register of foreign owned assets which will be an amalgamation of the existing registers which record all foreign interests acquired in Australian land, water entitlements and contractual water rights, and expanded to include business acquisitions that require foreign investment approval. | 1 January 2021 | Foreign Acquisition and Takeovers Act 1975, 1 January 2021;<br>Foreign Acquisition and Takeovers Regulation 2015, 1 January 2021;<br>Foreign Acquisitions and Takeovers Fees Imposition Act 2015, 1 January 2021;<br>Foreign Acquisitions and Takeovers Fees Imposition Regulations 2020, 1 January 2021 |
| *Investment measures relating to national security* | On 1 January 2021, the reforms to Australia's foreign investment review framework addressing national security risks came into effect.<br>The new rules test for a narrower set of national security interest and supplement the existing national interest test, which already allowed for national security concerns to be considered in relation to foreign investments above relatively higher monetary thresholds.<br>The national security test requires mandatory notification for foreign investments of any value (i.e. zero dollar monetary threshold) in national security businesses and national security land. It allows for investments not otherwise notified to be | 1 January 2021 | Foreign Acquisition and Takeovers Act 1975, 1 January 2021;<br>Foreign Acquisition and Takeovers Regulation 2015, 1 January 2021;<br>"Foreign Investment Review Board, Guidance 8 – National Security Test", Foreign Investment Review Board, 17 December 2020. |