Twenty-seventh Report on G20 Investment Measures[1]

7 July 2022

When the Global Financial Crisis broke out, in 2008 and early 2009, G20 members committed to refrain from introducing new barriers to investment or trade.[2] They complemented this commitment by a request that WTO, OECD and UNCTAD monitor and report publicly on their new trade and investment policy measures. So far, 26 reports have been issued under this mandate.[3]

Since the Global Financial Crisis, two more major crises have shaken the global economy: The COVID-19 pandemic triggered a crisis in early 2020 that continues to have a lasting impact on societies and economies around the globe; in February 2022, the war in Ukraine set off an additional, entirely human-made crisis that leads to immense human suffering and manifold disruptive consequences, especially for poorer countries, such as the looming food-crisis.

When the impact of the COVID-19 pandemic first became apparent, G20 members showed leadership as they did in response to the Financial and Economic Crisis of 2008/2009: They pledged to remain open to

[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). It introduces a new category of measures affecting FDI adopted in the context of the war in Ukraine, including sanctions against and by the Russian Federation.

[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.

trade and investment to limit the damage of the pandemic on their economies.[4] The WTO, OECD and UNCTAD continue to inform the public about the respect of the commitment through public reports on G20 trade and investment policy making.

Investment policy measures that many governments have taken since February 2022 in response to the war in Ukraine constitute a hitherto unseen collective effect on international investment. The measures do not constitute a change in the overall stance of governments, as they continue to afford openness to investors from countries not associated with the invasion, but they are highly consequential for international investment globally. They are thus included in this 27th monitoring report on investment measures by G20 members, albeit as a separate category and in separate inventories, so as to underscore their different and potentially temporary nature.

The report as a whole documents measures that G20 governments have taken between 1 October 2021 and 15 May 2022. As all previous reports in this series, it was jointly prepared by the OECD and UNCTAD Secretariats.

I. Development of Foreign Direct Investment (FDI) flows

After a steady decline since 2015, which was further accelerated by the COVID-19 crisis in 2020, global FDI inflows surged by around 60% in 2021,[5] surpassing their pre-pandemic levels. However, the outlook remains uncertain given the current geopolitical context.

A significant upswing in earnings on FDI in 2021, particularly in OECD countries, contributed significantly to the increase in FDI flows. Fewer of those earnings were distributed to parent companies, resulting in higher levels of reinvested earnings (Figure 1).[6] Equity flows also contributed to the surge in global FDI inflows. They grew in many G20 economies, but exceeded pre-pandemic levels mostly in advanced economies. Intra-company debt flows remained negative in G20 economies for the second consecutive year.

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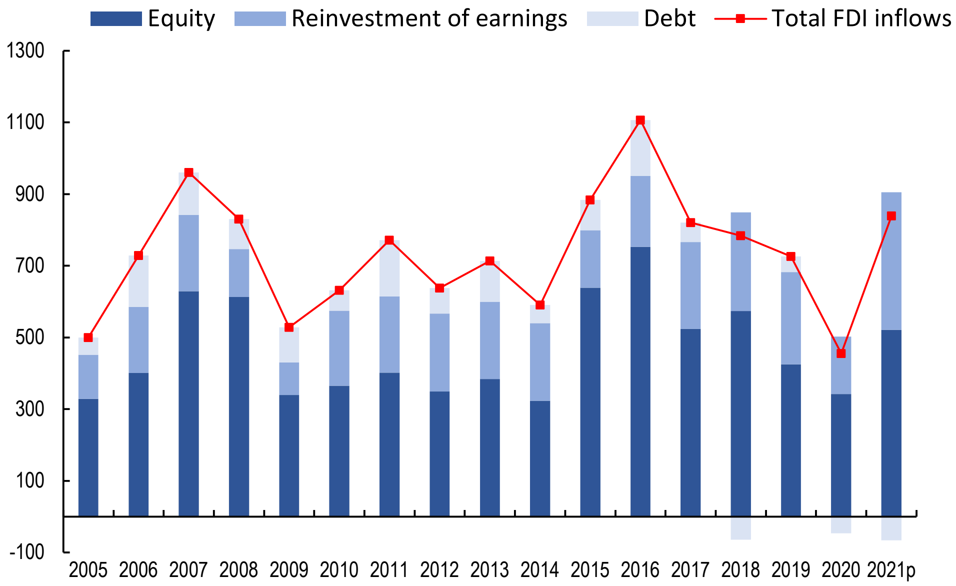
4 Extraordinary G20 Leaders' Summit "Statement on COVID-19", 26 March 2020. G20 Trade and Investment Ministers and guest countries statement "G20 Actions to Support World Trade and Investment in Response to COVID-19", 14 May 2020.

5 The most recent figures are available in UNCTAD, *World Investment Report 2022, International Tax Reforms and Sustainable Investment*, June 2022 and OECD, *FDI in Figures*, April 2022.

6 Overall, 48% of OECD earnings on inward FDI were distributed to foreign parents, compared to more than 55% in 2016-2020.

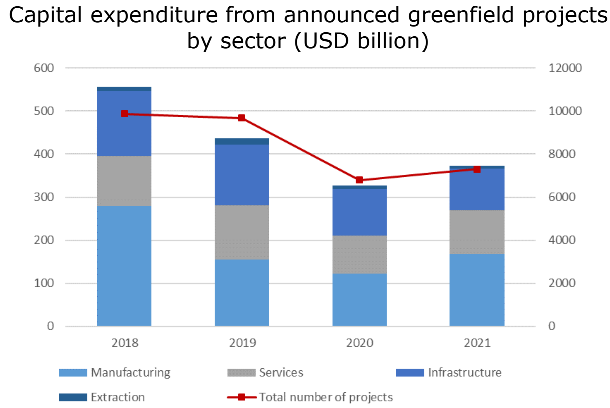
Figure 1: G20 FDI inflows by instrument, 2005-2021 (USD billions)



Note: p data for 2021 are preliminary. G20 aggregate excludes data for P.R. China and Saudi Arabia who do not report on FDI components. Reinvestment of earnings for Indonesia and South Africa are included in the category "equity".
Source: OECD/UNCTAD.

While new investment activity was generally strong in 2021, prospects for 2022 remain uncertain due to the war in Ukraine.[7] New greenfield project announcements in emerging and developing economies – more indicative of trends in new capital expenditures on productive capacity – remain weak.

Figure 2. Cross-border investment activity in G20 economies



Source: FT FDI Markets database, OECD calculations.

The latest data on announced greenfield investment projects from the Financial Times fDI Markets database show signs of recovery from the COVID-19 pandemic for some economies. In 2021, capital expenditure increased by 14% in G20 economies (Figure 2). However, compared to pre-pandemic levels, the overall capital expenditure in G20 economies decreased by 15%. On a sectoral level, the largest annual increase in capital expenditures was observed in manufacturing and services (by 38% and 15%, respectively).[8]

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[7] See for details OECD (2022), FDI in Figures – April 2022 edition and OECD (2022), *International investment implications of Russia's war against Ukraine*, and UNCTAD, *World Investment Report 2022, International Tax Reforms and Sustainable Investment*, June 2022.

[8] Among these sectors, a significant annual increase was recorded for semiconductors, where the value of greenfield investment projects in 2021 increased by 378% over the previous year. Greenfield investment activity in the

Nevertheless, the value of new announced investment projects in infrastructure and in extractive industries (mainly coal, oil and gas) dropped by 12% and 19% in 2021 compared to 2020.

The war in Ukraine and the international response constitute a significant negative shock to the world economy and have a profound and immediate impact on FDI and other capital flows to Ukraine and the Russian Federation, as well as significant knock-on effects for global capital flows through business linkages and displacement effects.

II. G20 Members' investment policy measures

In the reporting period, G20 Members have made few adjustments to their investment policies, continuing the observation made for the previous semester. This confirms that the haste to adopt emergency pandemic-related investment policy measures has subsided and G20 members have now returned to less frequent adjustments of their policies that had been observed in the pre-pandemic period.[9]

Concerns about the implications that certain investments can have for essential security interests continue to occupy G20 members, as documented by several adjustments in this area of investment policy.

1. Foreign direct investment-specific measures

Four G20 members – Australia, P.R. China, India and Mexico – changed their investment policies specific to FDI in the reporting period. Many of the changes seek to open further to foreign investment. Specifically,

- *Australia* streamlined the procedures of its foreign investment review framework for less sensitive transactions;
- *P.R. China* amended several rules to grant broader market access for foreign investors in certain sectors;
- *India* relaxed some limitations on foreign investment in certain sectors or companies; and
- *Mexico* established a public monopoly on the exploration, exploitation and use of lithium, thus excluding foreign investment in the sector.

A more 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, six G20 members took measures in this regard: Australia, France, Italy, Japan, United Kingdom, and United States.

This area of investment policy making continues to experience significant attention in G20 economies and beyond.[10] The exceptional circumstances of the COVID-19 pandemic accelerated the reform process

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biotechnology sector also surged in G20 economies, with the value of announced new investment projects more than doubling that observed in 2020.

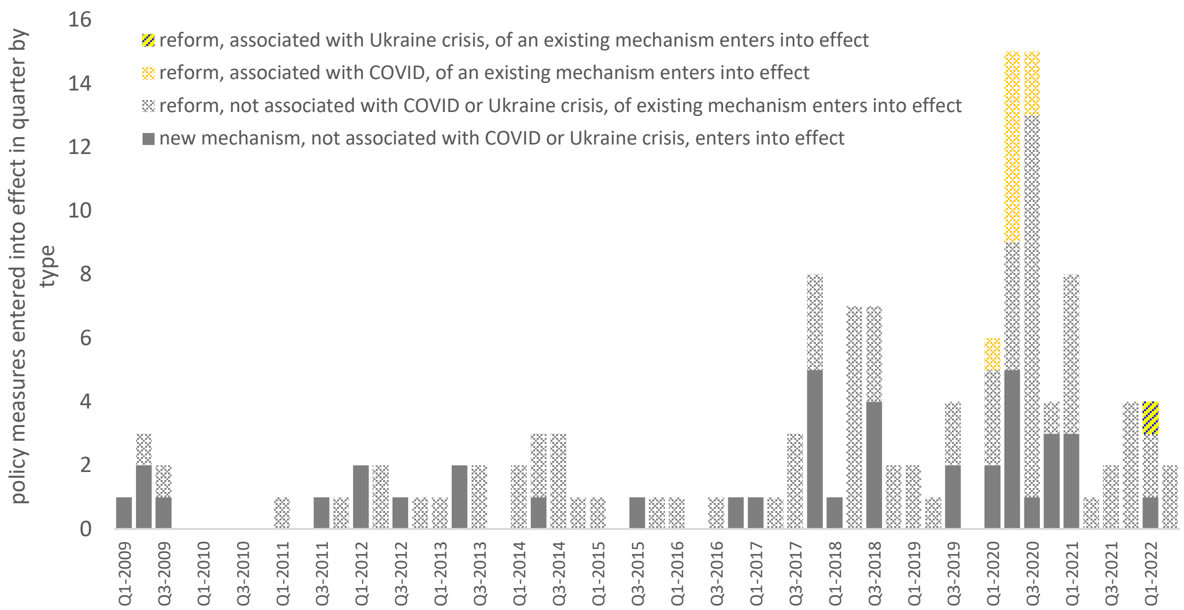
9 See for example the findings of the 22nd OECD/UNCTAD investment policy monitoring report, which was released in November 2019 and noted that only three G20 members had taken FDI-specific measures in the reporting period; and the 23rd OECD/UNCTAD Report on G20 Investment Measures, covering the period from 16 October 2019 to 15 May 2020, 24th OECD/UNCTAD Report on G20 Investment Measures (16 May to 15 October 2020), and the 25th OECD/UNCTAD Report on G20 Investment Measures (16 October 2020 and 15 May 2021). The three latter reports found that G20 Members had taken an unusually high number of investment policy measures in the respective reporting period.

10 See for a broader set of 62 economies, OECD (2021), "*Investment policy developments in 62 economies between 16 October 2020 and 15 March 2021*", and UNCTAD (2020), "*Investment Policy Monitor: Special Issue –*

further. In particular, they led to temporarily lower trigger thresholds in some countries as testimony of lower risk-tolerance and to a broadening of sectors identified as sensitive for essential security interests.

The war in Ukraine has also led to some adjustments of policies in light of a reassessment of the global security environment. The scale of policy changes has so far been limited, however, partly because temporary lower trigger thresholds from COVID-19 continue to remain in place and partly because the changes to the global security environment impact mainly sectors that are traditionally covered by investment review mechanisms. A time profile of policy making activity over the period covered by OECD/UNCTAD policy monitoring reports under the G20 mandate is available in Figure 3.

Figure 3: Entry into force of new or reformed investment policies to safeguard essential security interests in G20 members, Q1-2009 to Q2-2022.



Note: Extensions of the duration of measures that were initially time-limited are not counted as additional measures. Data for Q2-2022 preliminary and only covering the period until 15 May 2022.
Source: OECD/UNCTAD monitoring reports on G20 investment measures 2009-2022.

In addition to formal policy changes in response to the war in Ukraine, some G20 members have announced that they would adjust their administrative practice and would pay greater attention to foreign acquisitions by investors controlled by or subject to influence by the Russian Federation or Belarus. Canada published a Policy Statement in this regard and the European Commission has called on all EU Member States to pay particular attention to these threats.

3. Measures adopted in relation to the Russian Federation and Belarus in the context of the invasion of Ukraine and measures taken by the Russian Federation in this context

Immediately after the start of the war in Ukraine on 24 February 2022, ten G20 members and some other countries adopted a series of measures with a view to stifle access by the Russian Federation and designated

Investment Policy Responses to the COVID-19 Pandemic". For an analysis of the drivers of this trend, see UNCTAD (2019), "*Investment Policy Monitor: National Security-Related Screening Mechanisms For Foreign Investment. An Analysis of Recent Policy Developments*" as well as OECD (2020), "*Acquisition- and ownership-related policies to safeguard essential security interests – current and emerging trends, observed designs, and policy practice in 62 economies*".

individuals and entities close to the Russian Government to the benefits of international investment.[11] These measures went significantly beyond sanctions that governments, including G20 members had adopted since the Russian Federation's annexation of Crimea in 2014. The measures target primarily the Russian Federation, but some economies have also taken measures against Belarus and actors in the territories of Donetsk and Luhansk oblasts of Ukraine that are not currently controlled by Ukraine's Government.

Many of these measures have considerable implications for cross-border capital flows and transactions to and from the Russian Federation.[12] They will also likely shape international investment on a global scale, because they expose the degree to which every country, including those with limited exposure to FDI, depend on access to international investment and capital markets. The Russian Federation swiftly adopted a number of measures in response to sanctions and to a fast depreciating currency, including stringent capital controls to slow the currency devaluation, capital outflows and the further drop in asset prices. As such, the international policy response by ten G20 members to the Russian Federation and the measures taken by the Russian Federation are likely to constitute one of the most consequential events for international investment for many years.

This report focuses on sanctions and measures specific to international investment, related to investments in the territory of the Russian Federation and to investments originating in or associated with investors close to the Russian authorities. Other sanctions unrelated to international investment or measures that affect international investment only indirectly are not covered in this report. Many of the measures were extended to Belarus. They include, *inter alia*:

- the prohibition of access by the Russian Government and companies to capital markets;
- the prohibition of listing of shares of Russian State-owned enterprises (SOEs) and selling of securities to Russian clients;
- the prohibition of sale or transfer of banknotes to the Russian Federation;
- caps on deposits by Russian residents;
- the removal of selected Russian banks from the SWIFT messaging system;
- the freezing of the foreign assets of a number of sanctioned Russians individuals and entities;
- the prohibition to provide financial rating services to Russian companies; and
- the prohibition of transactions with the Central Bank of Russia (CBR), the Russian Government and specific Russian SOEs, including the trading of Russian sovereign bonds, and the freezing of the CBR's assets held abroad.

Several G20 members have also adopted sanctions affecting investments made by individuals and entities associated with the Russian Federation to exert economic pressure on identified actors such as Russian SOEs and other individuals or entities whose activities are linked to the war effort.

Nationals and entities based in jurisdictions that have issued these sanctions are also barred from providing funds or any economic resources to listed persons or entities owned or controlled by them. Australia, the European Union, Japan, among others have adopted individual sanctions. Others, like France, the United Kingdom, and the United States have set up specific task forces to explore and identify assets belonging to listed persons, so as to enhance the effectiveness of their sanctions, and a multilateral taskforce was put in place by the EU, G7 members and Australia to increase multilateral cooperation and share information.

Several economies have progressively introduced specific regimes to prohibit transactions with designated Russian economic actors. The European Union for example has adopted a full prohibition on transactions with certain Russian SOEs associated with the military sector.

[11] In addition to government measures, a considerable number of companies from a wide array of industries suspended their operations in the Russian Federation or withdrew and divested their operations from the country for various reasons, including reputational and liability risks, human rights considerations, volatile market conditions, and practical challenges to doing business as a result of the sanctions. These measures are not covered by this report as they are not attributable to G20 governments. For details on these measures see OECD (2022), *International investment implications of Russia's war against Ukraine*.

[12] See above section I. for details on immediate and expected near-term effects.

Detailed information on the measures is available in Annex 3 for measures specific to FDI, and Annex 4 for measures not specific to FDI.

4. Capital flows and investment policy measures not specific to FDI[13]

Direct global spill-overs of the war in Ukraine for global financial markets have been localised and limited by an overall low exposure to the Russian Federation. In this context, few non-FDI measures have been introduced in the period beyond country-specific cases, and beyond broader monetary policy tightening moves in reaction to global inflationary pressures. Detailed information on the measures by country is available in Annex 2.

Spill-overs of the war on global equity markets and sovereigns have remained limited. Eastern European equity markets were hit more substantially, including Hungary, Poland and Serbia, and to a lesser extent emerging Asian markets and Western European markets, reflecting investors' concerns about elevated commodity prices and the weakening economic outlook. Sovereign Credit Default Swap spreads also increased significantly in Serbia, Romania, Hungary, Poland and Bulgaria.

Spill-overs have also affected international banks, particularly European banks with substantial exposures to the Russian Federation. A number of banks from Austria, Italy and France have the largest absolute exposures to the Russian Federation, due to their Russian subsidiaries. The profitability of those banks is likely to decline following disruptions to their business activities in the Russian Federation. Nonetheless, the impact is limited by substantial retrenching of international banks' exposure on residents of the Russian Federation after the first wave of sanctions in 2014, with the aggregate exposures of European and U.S. banks to the Russian Federation standing pre-war at about 0.8 and 0.4%, respectively, of their total claims.

Despite such limited exposures, the war is worsening in the short run an already complicated macrofinancial outlook for emerging markets: the important inflation pressures are leading to monetary policy normalization in advanced economies and to proactive rate hikes in key emerging markets. The war, both by increasing global uncertainty and by boosting global inflation (notably in commodities and energy) is further weighting on already weak capital flows to emerging markets and heightening the risks of outflows.

In the longer run, the removal of the Russian Federation from all major emerging market indices should entail a small rebalancing of portfolio flows, as the country's previous weight in these indices will be redistributed among the other countries. The impact will nonetheless be limited by the low weight the Russian Federation has held in these indices in recent years. In the GBI-EM index for instance, the Russian Federation's weight had already fallen substantially from 10% at end-March 2014 to 4.7% at end-March 2015, and has decline further since then.

5. International Investment Agreements

During the reporting period, G20 Members concluded one bilateral investment treaty (BIT) and four "other IIAs".[14] The Australia–United Kingdom Free Trade Agreement (FTA), the Cambodia–Republic of Korea FTA, the India–United Arab Emirates Comprehensive Economic Partnership Agreement (CEPA), the New Zealand–United Kingdom FTA and the Türkiye–Uruguay BIT. Eight BITs involving G20 Members were

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[13] 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.

[14] "Other IIAs" encompass 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 cover plurilateral agreements.

effectively terminated;[15] five of them were based on the agreement to terminate intra-EU BITs. The Indonesia–United Arab Emirates BIT, the Regional Comprehensive Economic Partnership (RCEP), the Cambodia–China FTA, the Brazil–Chile FTA, the Australia–Uruguay BIT, the Japan–Morocco BIT and the India–United Arab Emirates CEPA entered into force during the reporting period.[16] As of 15 May 2022, the total number of IIAs worldwide stood at 2,860 BITs and 429 “other IIAs”.[17] Data on G20 Members’ IIAs is available in Annex 5.

III. Overall policy implications

Investment measures that G20 members have taken in the reporting period document their continued recognition of the benefits that foreign investment can bring to their societies and economies. Measures taken to manage the implications for host economies’ essential security interests also witness that G20 members remain vigilant about occasional downsides of individual foreign investment projects. Finally, the international policy response by ten G20 members to the Russian Federation and the measures taken by the Russian Federation in the context of the war in Ukraine have considerable implications for cross-border capital flows and are likely to constitute one of the most consequential events for international investment for many years.

Despite the continued collective appreciation of openness to international investment, the current developments may lead to a reflection on international investment’s wider implications. Following shortly on the exposure of dependencies experienced in the first months of the COVID-19 pandemic, the demonstration of vulnerabilities associated with international investment may lead some governments to turn inwards. In the meantime, the world is facing other crises, most notably the climate crisis, as well as continued and deepening poverty across and within societies that can only be addressed collectively and if the opportunities of international investment are fully realised.