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Statement by Pakistan on behalf of the Asia Pacific Group
The Seventy First Executive Session of the Trade and Development Board
16 February 2022

Agenda item 3: Investment for development: Investing in sustainable recovery

Madam President,
Secretary-General of UNCTAD,
Director of Division on Investment and Enterprise,
Excellencies,
Ladies and Gentlemen,

The Asia Pacific Group thanks the distinguished panelists for their insightful remarks and commends work of the Investment and Enterprise Division, in particular Mr. Jamez Zhan in producing yet another useful edition of the World Investment Report 2021 entitled, "*Investing in sustainable recovery*".

The Report takes stock of key and emerging issues related to investment and investment policies, investment trends and challenges for developing countries and offers some concrete recommendations.

Madam President,

The theme, context and timing of today's discussion is significant because of the pandemic-induced downturn in global investment outlook.

The lockdowns caused by the COVID-19 pandemic around the world have slowed down existing investment projects, leading to 35% plunge in global FDI flows - the lowest level of FDI flows since the 1990s and more than 30 % below the 2009 level (after the global financial crisis).

What is significant is the economic and social consequences arising from COVID-19 have hit poor people and developing countries the hardest. According to the UNCTAD Report, developing countries will, through 2025, be $12 trillion poorer because of the pandemic and that the failure to roll out vaccines could knock another $1.5 trillion from incomes across the South.

In terms of economic recovery and FDI flows, the trajectory is uneven. High-income countries have more than doubled quarterly FDI inflows from rock bottom 2020 levels, middle-income economies saw a 30 per cent increase, and low-income economies a further nine per cent decline.

Madam President,

Investment is obviously a key enable of economic growth and development, especially in developing countries.

FDI inflows are perhaps more necessary now than ever. They have a critical role in global economic recovery from the devastating effects of COVID pandemic.

The Group notes that the World Investment Report 2021 has highlighted four main points:

- First, mobilizing investment and channelling it towards SDGS more urgent than ever before and requires bold and concrete solutions.

- Second, neither public sector funds nor development flows – singly or combined – are adequate to fill the SDGs financing gap. Report calls for a big push to attract private sector investment.

- Three, policy prods to support investment in countries with the greatest needs. The idea of sustainability bonds, or "SDG bonds", to bridge the SDG financing gap in developing countries. Specially developed to fund projects that have positive social or environmental benefits.

- Four, to attract FDI, call for focusing on domestic reforms in the area of investment facilitation - including regulatory transparency, streamlining administrative processes and dispute prevention.

Madam President,

As the adage goes, no one is safe from COVID-19 until everybody is safe. It equally applies to economic recovery given the globalized nature of the economy and interconnected nature of challenges.

The key challenge is not the absence or dearth of international capital or finance, especially from the private sector. The challenge is not even the rate of return on investments. We know that international investments do get between 10-12 per cent rates of return. The issue is not even the impact of these investments given that we have an internationally agreed framework of SDGs.

The real challenge is the gap between demand and supply of international investments. We know that there is annual shortfall of 4 trillion US dollars to meet the SDGs across the world. How do we bridge this gap between demand and supply in ways that it secures good returns on investments and creates the desired social and environmental impacts?

The Group wishes to present four points:

First, to attract additional FDI, it would be prudent to prioritize regulations and policies that are aimed at <u>de-risking investment.</u> To do so, deployment of public finance would be required to de-risk private investments. It would also require prioritizing and aligning investment flows with SDGs. Working together, Multilateral Development Banks (World Bank, Asian Development Bank), Development Aid Agencies and Private Sector can play a major role to mitigate potential risks. This shift in approach can create substantial impact in terms of human development, poverty alleviation, public health, education, jobs and livelihoods.

Second, the issue of credit rating. Currently, the global credit rating agencies have a short-term horizon of one year to determine sovereign ratings. This is too short a timeframe. It is a handicap for developing countries. This needs to change to a more long-term horizon to allow for a more reasonable sovereign rating mechanism. At the same time, many countries which are re-evaluating their national investment priorities and strategies, would need to look for ways to mitigate the uncertain regulatory landscapes and protective approaches to some sectors. In doing so, they would need to do a balancing act vis-à-vis liberalization and state's right to regulate. A combination of actions by credit rating agencies and national measures can be helpful.

Third, the issue of dispute resolution. There are over 20,000 international investment agreements, many of which have encountered disputes between investors and states. There is need to revisit the present approach with a special focus on reforming the investor-state dispute resolution mechanism. I would also suggest placement of moratorium on claims that may arise due to the pandemic-induced investment disputes. UNCTAD has done commendable work to reform International Investment Agreements including dispute resolution mechanism. These proposals deserve serious consideration.

Four, the issue of sustainable infrastructure. There is a proposal of an integrated sustainable infrastructure facility under the UN umbrella. The idea is for this facility to harmonize investment policies, provide assistance to developing countries for preparation of project and feasibility studies, and to access financing both from public and private sources. The required 1.5 trillion dollars annual investment in sustainable infrastructure can be mobilized.

Lastly, Finally, the Group suggests that UNCTAD could consider organizing an annual multi stakeholder dialogue with the participation of businesses and relevant UN and international organizations and academia with a focus on fetching investment in one SDG theme i.e. education, health, infrastructure, water and sanitation. UNCTAD could leverage its unique insights, expertise and global network in convening such an annual dialogue.

Thank you.