Investment Provisions in Trade Agreements: Empirical Findings on FDI

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Investment Provisions in DTA

- **Key element of trade agreements**
  - Deep Trade Agreements: DTA
- **Economic gains from FDI inflows**
  - Greater investor confidence for less uncertainty
  - Global value chains, jobs, technology
- **Cost of ceding sovereignty**
  - Constrain discretionary power: regulation, control
  - Costs can be offset by gains from FDI inflows
- **Key policy question (on gains)**
  - Do investment provisions in DTA promote FDI?

Empirical Findings: DTA

- **Wang, Shi, & Xie (2025, ROIE)**
  - Bilateral FDI stock; 224 countries, 2009-2022
- **Key takeaways**
  - Inward FDI stock increases by 120% on average
    - If countries sign TA with investment provisions
    - Relative to countries without such provisions
  - 10% increase in investment-provision number
    - -> 3% increase in FDI
  - Investment provisions in DTA promoted FDI

Empirical Findings: DTA

- **Larch & Yotov (2025, WBER)**
  - Bilateral FDI stock, 89 countries, 1990-2011
  - Simulating global impact of DTA on FDI
- **Econometric findings**
  - Inward FDI stock increases by 21% on average
    - Effects vary by provision number: 3% ~ 55%
- **Simulated impacts for 2011 baseline**
  - Larger inward FDI in hosts with more DTAs
  - 0.16% increase for Bangladesh (few DTAs in 2011)
    - 2.7% India; 6.8% Thailand; 10.7% Singapore

Findings: Investor Protection

- **Brada, Drabek, & Iwasaki (2021, JES)**
  - Meta analysis: 2107 estimates in 74 studies
  - On average, small effect of investment provisions on FDI
- **Inada & Jinji (2024, ROIE)**
  - Negative-list sectors in investment agreement
    - Foreign investors face higher policy uncertainty (PU)
  - PU (national treatment, MFN) reduces Japanese FDI
- **Ozawa (2022, WE)**
  - Investment agreements promotes US outward FDI
    - Substitute for weak protection of intellectual property right
- **Frenkel & Walter (2019, WE)**
  - Stronger int'l dispute settlement provisions promote FDI

Policy Implications

- **Benefits of investment provisions**
  - Future impact is uncertain; case by case
  - Not a key driver, but supporting policy for FDI
- **Remaining policy questions**
  - What are key costs of investment provisions?
- **Identification of sovereignty costs**
  - Sensitive sectors: energy, public utilities, etc.
  - National economic security: strategic sector
- **Past lessons: restricted policy space**
  - Environment, public health, resources, land

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