



**MIDDLE EAST  
AND CENTRAL ASIA  
DEPARTMENT**

# **Facilitating FDI in CAREC**

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**2<sup>ND</sup> MEETING OF THE CAREC REGIONAL  
TRADE GROUP**

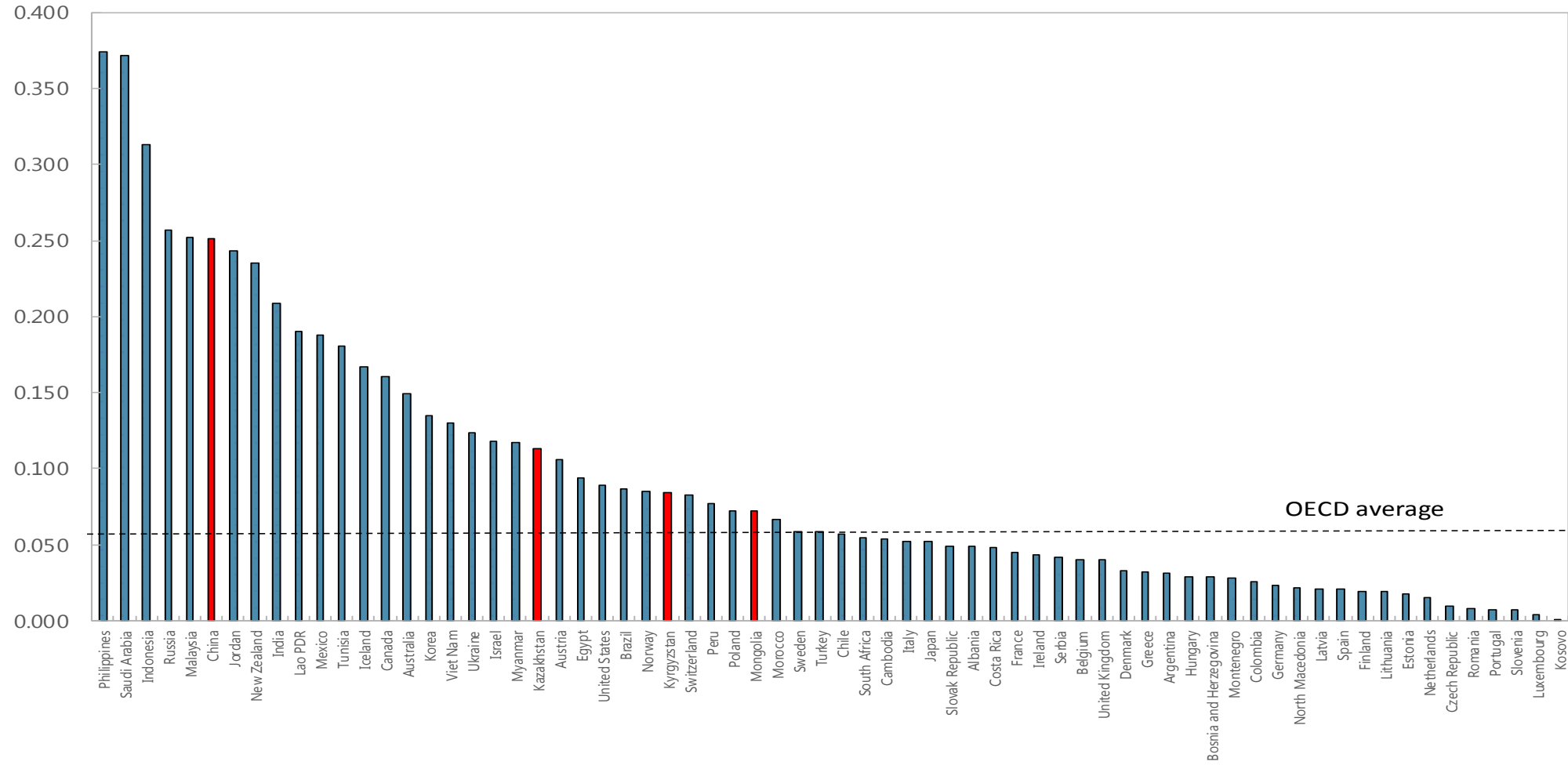
**TASHKENT, UZBEKISTAN, JUNE 26, 2019**



# Background

- CAREC 2030 Strategy
- CAREC countries are not well integrated with the global economy due to:
  - Poor market access
  - Limited economic diversification
  - Weak institutions for trade
- Fostering FDI could help address these issues
- Important question: **How to facilitate FDI in CAREC?**

# FDI Regulatory Restrictiveness Index (2018)



Source: OECD.

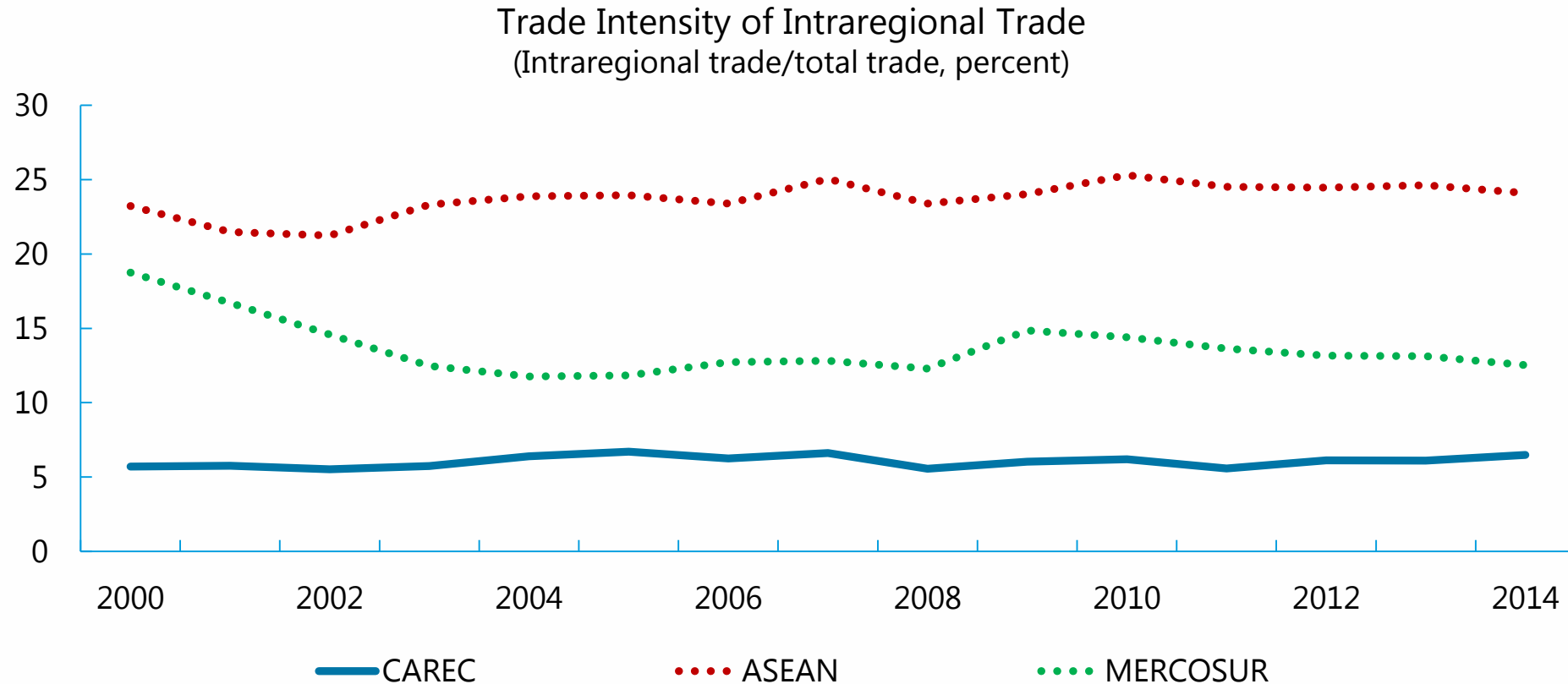
# Literature: FDI Restrictiveness Index and FDI

- Nicoletti et al. (2003), “The influence of policies on trade and foreign direct investment,” OECD Economic Studies No. 36
  - 28 OECD countries, 1980-2000
  - FDI restrictions depress bilateral FDI stocks by 10-80 percent
- Ghosh et al. (2012), “Impact of FDI restrictions on inward FDI in OECD countries,” Global Economy Journal, 12(3)
  - 23 OECD countries, 1981-2004
  - Negative elasticity of FDI restrictions in short- (0.06-0.14) and long-run (0.64-1.49)
- OECD (2011), “The impact of trade liberalization on jobs and growth: Technical note,” OECD Trade Policy Papers No. 107
  - Focus on the services sector in OECD countries
  - Policy change from full restrictiveness to full liberalization would increase FDI stock by 25 percent

# Other determinants of FDI

- Market size and growth potential
- Trade openness
- Governance/Rule of law

# Market size: Scope to boost intraregional trade



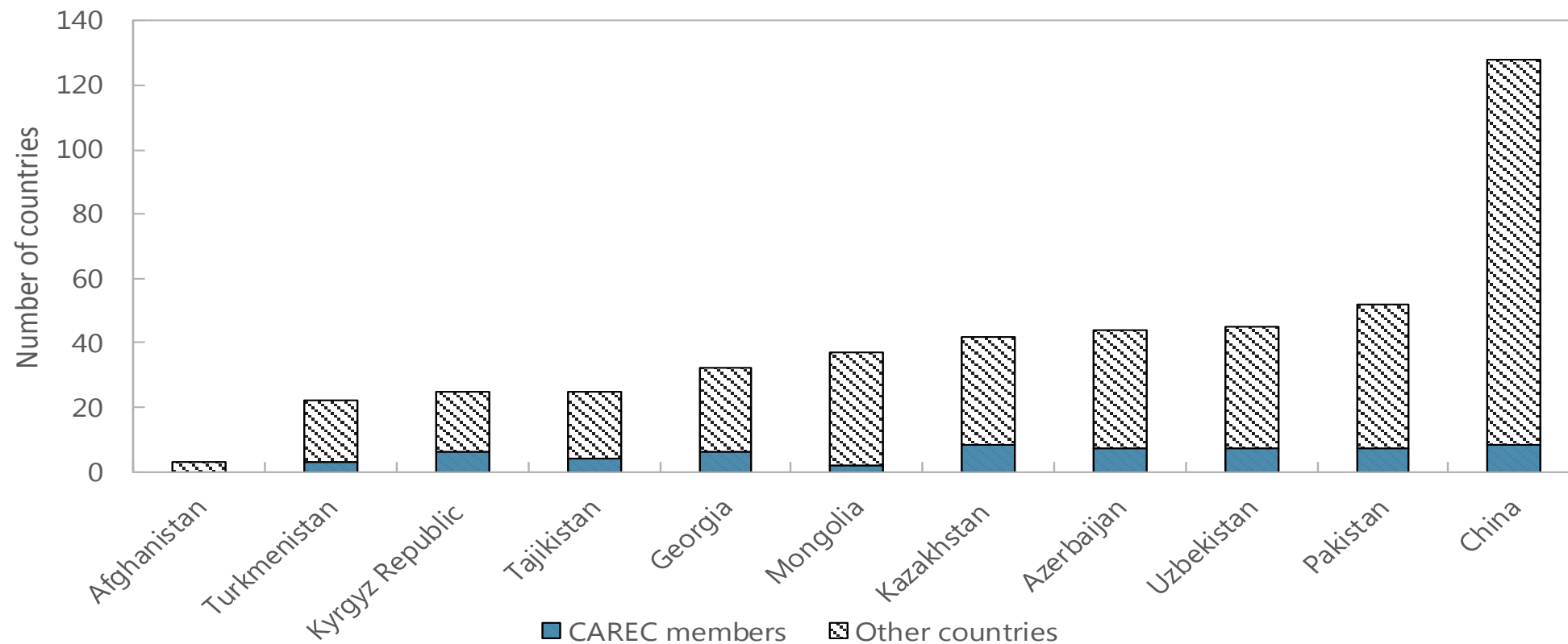
ASEAN: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

MERCOSUR: Argentina, Brazil, Paraguay, Uruguay, Venezuela

Source: Direction of Trade, IMF.

# Trade openness: Scope to improve intra-regional investment links

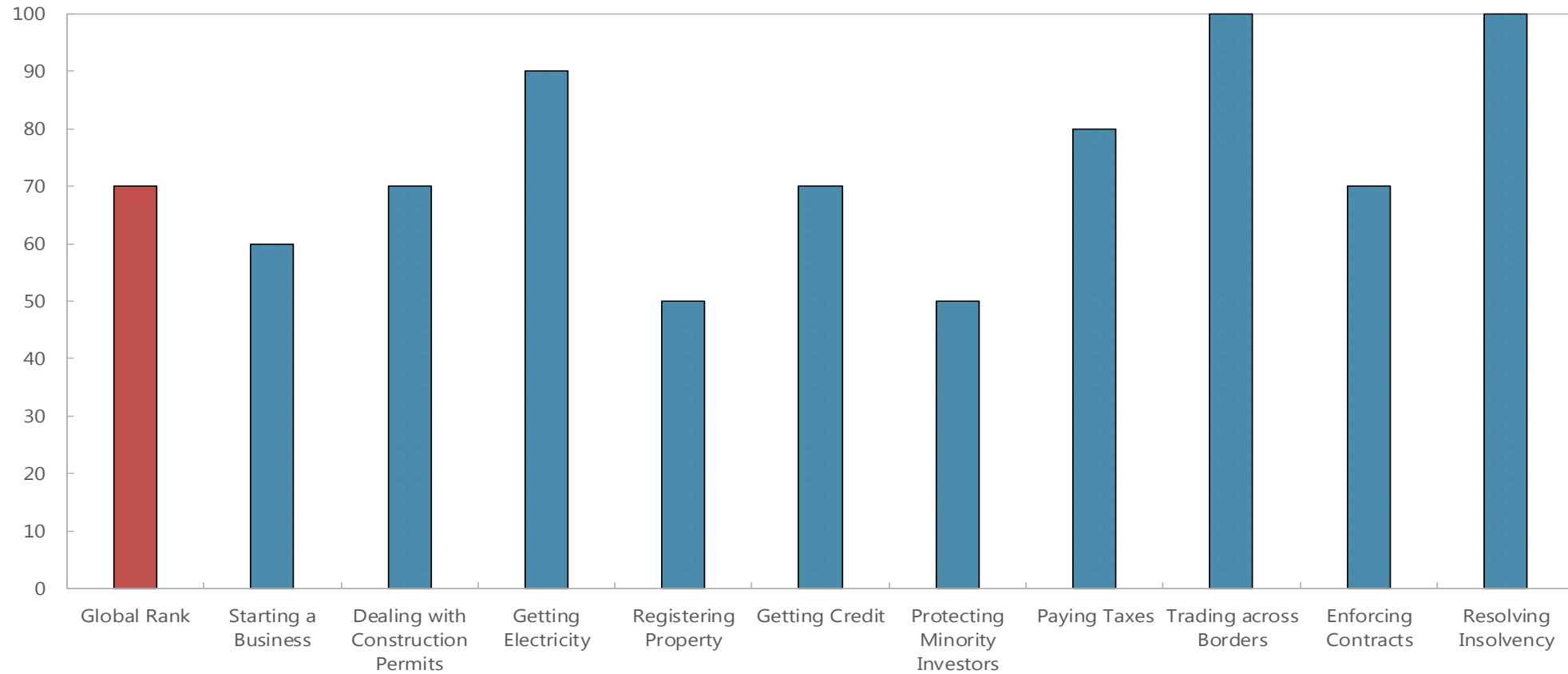
## CAREC: Bilateral Investment Treaties



Source: World Bank.

# Governance: Scope to improve standing in World Bank's Doing Business ranking

CAREC: Share of Countries with Doing Business Rank > 30



Source: World Bank.



**Thank you!**