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# Europe as an Investment Treaty Actor: Are IIAs significant for economic development and FDI?

**Joerg Weber**

**Head, Investment Policies Branch, UNCTAD**

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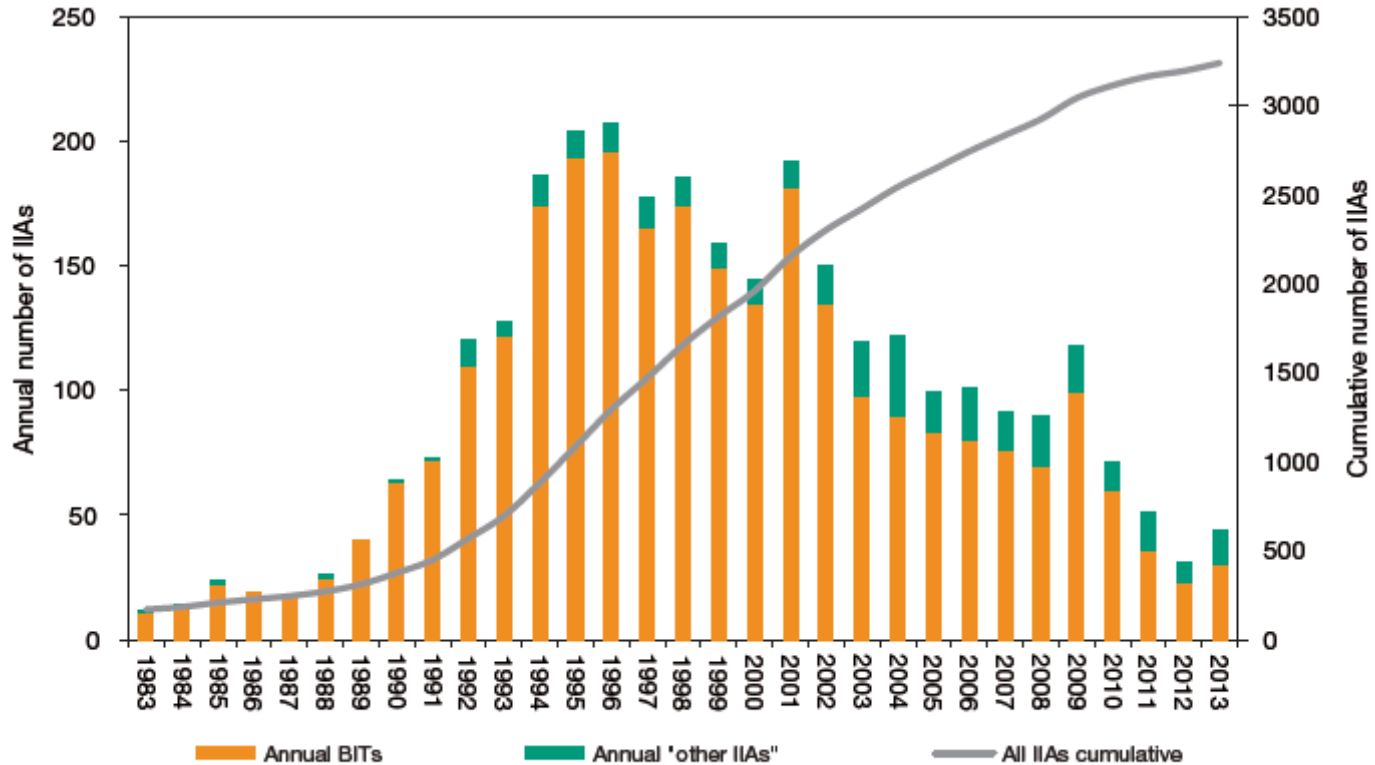
# Outline

- Background: IIA and FDI trends
- FDI determinants and IIAs as determinants of FDI
- Econometric studies and their limitations
- Other empirical studies and counterfactuals
- Conclusions



# IIA trends

## Trends in IIAs signed, 1983-2013

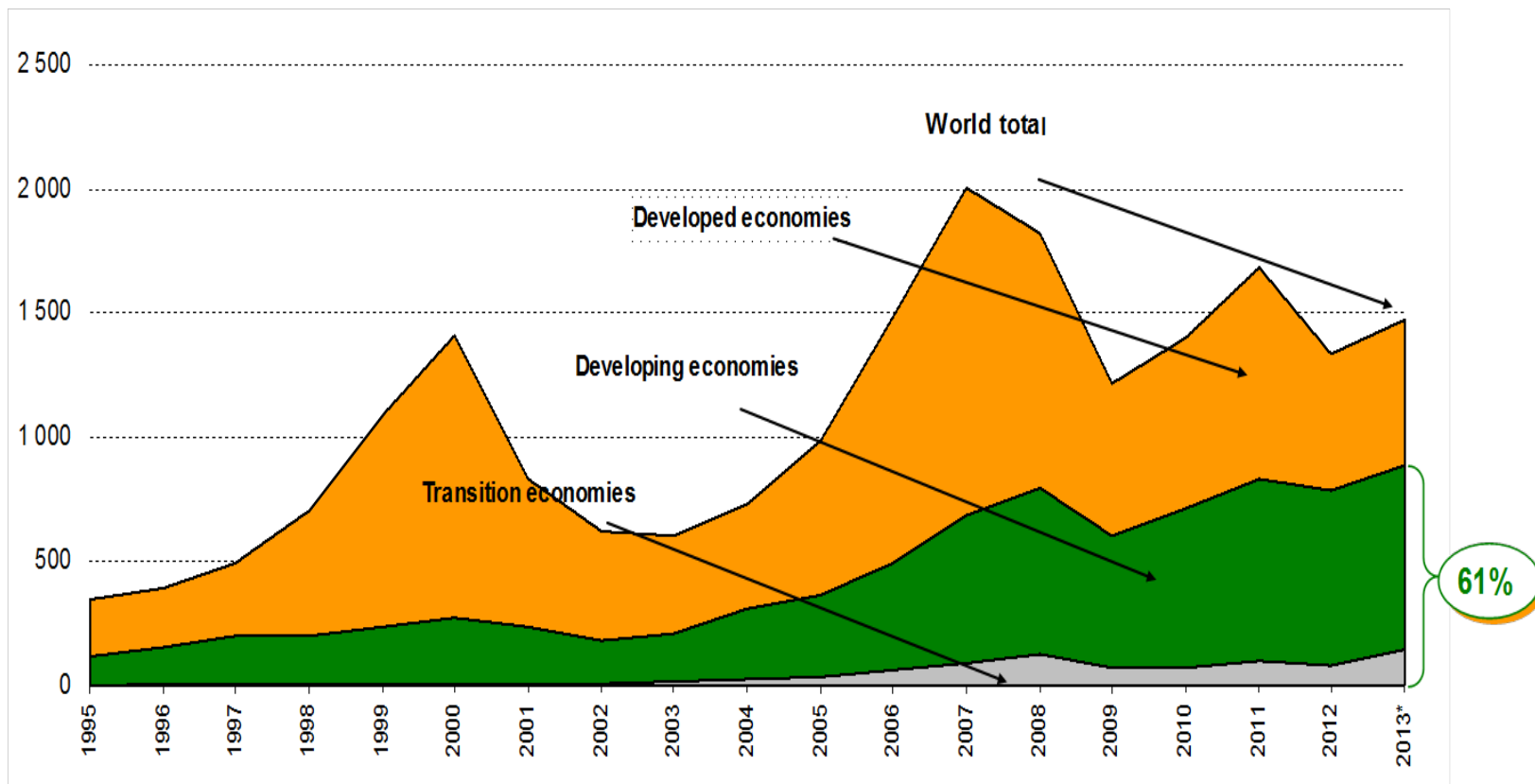


Source: UNCTAD, IIA database.

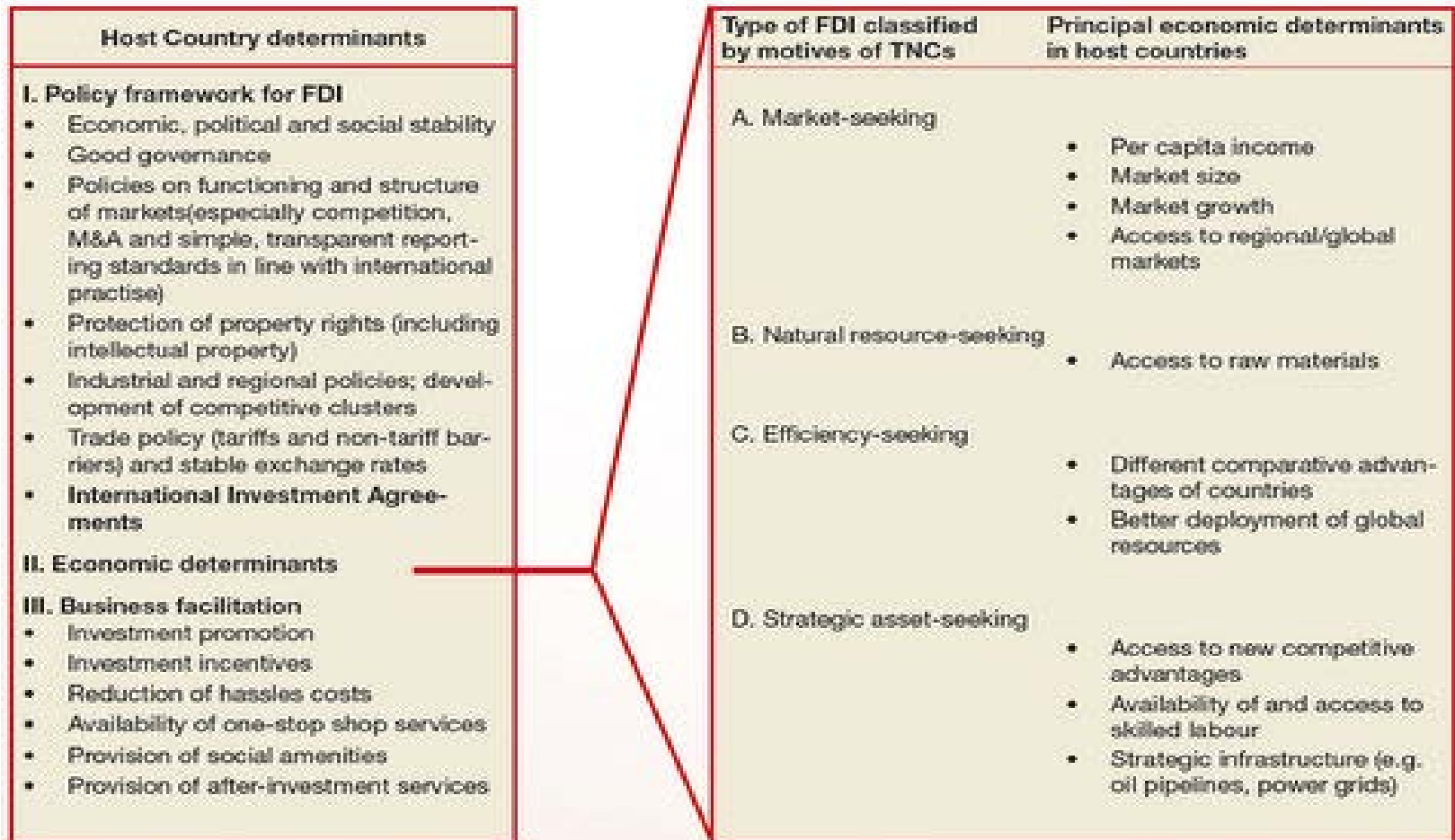


# FDI trends

FDI inflows, global and by group of economies, 1995–2013 (Billions of dollars)



# FDI determinants



Source: UNCTAD, 1996a and 2010.



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## IIAs as determinants of FDI

- Add an international dimension to investment protection
- Contribute to predictability, stability and transparency in investment relations
- Signal a good investment climate, foster good governance and support domestic reform
- Direct FDI promotion



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## Econometric studies

- Many econometric studies find a positive correlation between BITs and “other IIAs” and FDI
- Some studies found little – or no – effects of BITs on FDI
- More nuanced recent research finds that the content and type of IIAs matters



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## Limitations of econometric studies

- Empirical correlation does not imply causation
- Data limitations regarding bilateral FDI
- Interpretation challenges





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## Other empirical studies

- TNC surveys find that IIAs play a role in investment decisions
- Firm-level and transaction-level data analysis points to effectiveness of BITs as investment insurance
- Analysis of political risk insurers is ambivalent (some accounting for BITs, others not)



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## Counterfactuals?

- Several large developing countries are major recipients of FDI without IIA coverage
- Role of economic determinants
- Role of State contracts
- True?



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## Conclusions

- FDI decisions are determined by an array of factors – IIAs are an important part of the policy determinants
- Empirical studies provide heterogeneous results -- and have methodological limitations
- Impact of IIAs is conditioned on a number of other factors



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## Sources

- IIA Issues Note. “The Impact of International Investment Agreements on Foreign Direct Investment: An Overview of Empirical Studies 1998–2014,” UNCTAD (September 2014).
- WIR15. World Investment Report 2015: Reforming International Investment Governance, "*Chapter IV: Reforming the International Investment Regime: An Action Menu*", New York and Geneva: United Nations.



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