



UNITED ARAB EMIRATES  
MINISTRY OF ECONOMY

# Investing in Global Trade Growth

## Harnessing FDI for Driving Trade

Global Trade Growth  
Research Insights Series

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# Introduction & Methodology

# Introduction & Methodology

Over the past thirty years, international trade has played a pivotal role in fostering economic growth and alleviating poverty. Between 1990 and 2019, global trade grew by an average of 4.7% per year, while global GDP grew by an average of 3.1% per year. In the same period, the share of global trade in global GDP increased from 29% to 58%. This growth in trade has helped to lift hundreds of millions of people out of poverty.

However, the benefits of trade have not been evenly distributed. Developed countries have generally benefited more from trade than developing countries. This is due to a number of factors, including differences in economic development, trade policy, and infrastructure.

There is room for greater inclusivity in reaping the benefits of trade. Ensuring a more equitable distribution of trade advantages can serve as a crucial strategy for emerging markets and developing countries to accelerate economic growth and development.

However, substantial expenses associated with transportation and border management are contributing factors to the limited integration of certain nations and regions. Significant investments in logistics infrastructure on a grand scale entail significant modifications to the network linking various regions and countries.



**Ensuring a more equitable distribution of trade advantages can serve as a crucial strategy for emerging markets and developing countries to accelerate economic growth and development.**

These investments have the potential to lower the costs associated with trade, thereby promoting greater international trade integration. Yet, investing in trade and logistics infrastructure in developing and least-developed countries still carries many risks that deter FDI in this domain. Some of these risks include political and economic instability, corruption, poor infrastructure such as roads, ports, and railways, lack of skilled workers, and high cost of capital.

Despite these risks, there are a number of reasons why FDI in trade and logistics infrastructure in developing and least-developed countries is important. These countries often have large and growing populations, which means there is a growing demand for goods and services. They also often have strategic locations, which can make them attractive hubs for trade and logistics.

## Research Methodology

A comprehensive review of existing literature was conducted to examine the relationship between global trade and foreign direct investment directed towards trade infrastructure. Following this, in depth interviews were conducted with trade experts, economists, policy makers, and leaders in international organizations.

These experts provided an understanding of current perceptions and experiences, and in-depth knowledge, insights, and nuances about the importance of foreign investment to boost trade infrastructure (see Appendix for full list). Moreover, policy design labs were conducted with trade practitioners, multilateral trade experts, policymakers and academics during WTO's Public Policy Forum. The aim of this policy lab was to validate the research findings and expert insights collected through the 1-1 expert engagement.



# Defining Trade Infrastructure

# Defining Trade Infrastructure

For the purpose of this paper, trade infrastructure will refer to the physical and logistical elements that support and facilitate the movement of goods and services across borders and within a country. Trade infrastructure encompasses various components and facilities that contribute to the efficient and cost-effective exchange of goods and services between nations, regions, and markets.

Key elements of trade infrastructure include:

**Transportation Networks:** This includes roads, highways, railways, airports, seaports, and inland waterways. An efficient transportation network ensures the swift movement of goods within a country and across borders.

**Logistics and Warehousing:** Adequate warehousing facilities and efficient logistics networks are crucial for storing, packaging, and distributing goods. This is especially important for ensuring that products reach their intended destinations in a timely manner.

**Customs and Border Facilities:** Customs checkpoints and border crossings play a significant role in regulating the flow of goods between countries. Streamlined customs procedures can reduce delays and administrative burdens.

**Information and Communication Technology (ICT):** Modern ICT systems, such as electronic data interchange (EDI), online customs clearance, and tracking systems, facilitate the exchange of information and documentation related to international trade.

**Trade Ports and Free Trade Zones:** Ports and free trade zones provide strategic locations for international trade activities, offering advantages like reduced tariffs, simplified customs procedures, and proximity to transportation hubs.



Trade infrastructure encompasses various components and facilities that contribute to the efficient and cost-effective exchange of goods and services between nations, regions, and markets.

It is important to note here that several definitions of trade infrastructure also include energy infrastructure that supports manufacturing, transportation and other trade-related activities. However, for the purpose of this paper, these will not be included in the category of trade infrastructure as investment in energy infrastructure is a complex and broad sector that encompasses various elements, including power generation, transmission, distribution, and energy sources (e.g., fossil fuels, renewables).

Moreover, energy infrastructure affects multiple sectors of the economy, not just trade. It influences industries such as manufacturing, agriculture, healthcare, and transportation.

Including energy infrastructure in discussions about trade infrastructure can lead to a broader and less focused analysis.

For practical purposes, this paper will focus only on specific aspects that directly impact the movement of goods and services.



# Trade and Infrastructure Nexus

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According to a 2005 study of 75 economies, improved trade facilitation could increase trade by 10%.

It found that port efficiency and the proxies for infrastructure quality for the services sector, such as the use, speed, and cost of the internet, significantly affected trade flows.

This study supported an earlier study by the same researchers on the Asia-Pacific, which showed that improving trade facilitation increased intra-Asia-Pacific Economic Cooperation (APEC) trade by 21%.

In a later study conducted by Hertel and Mirza, the effects of trade facilitation reforms in South Asia were explored.

Their findings revealed a remarkable 75% surge in intraregional trade and a substantial 22% rise in trade with other regions as a direct result of these reforms.

Additionally, another study observed a 7.5% increase in trade within Southeast Asia, attributable to trade facilitation measures, including enhancements in port quality.



**According to a 2005 study of 75 economies, improved trade facilitation could increase trade by 10%.**

This link between trade facilitation and economic benefits for the country is indeed documented in various studies.

A study by the World Bank found that trade facilitation measures can increase trade volumes by up to 15%.

Another study by the World Economic Forum found that a 10% improvement in infrastructure quality can lead to a 1% increase in GDP growth.

Moreover, a study by the Asian Development Bank found that every 1% increase in trade openness leads to a 0.2% increase in GDP growth.

The IMF also concluded that countries with better infrastructure have higher levels of economic growth and development. Recent examples are encouraging.

In Vietnam, the government implemented a number of trade facilitation measures, such as streamlining customs procedures and reducing red tape. These measures resulted in a 10% increase in trade volumes and a 1% increase in GDP growth.

In Rwanda, the government invested heavily in infrastructure, including roads, railways, and airports. This investment helped to reduce the cost of transportation and logistics, which boosted exports and led to economic growth.

These are just a few examples of the many ways that investing in trade facilitation and better infrastructure can lead to economic development growth. The global challenge today is that these examples are the exception, not the rule. They are too few and far between.

In fact, today's poor trade infrastructure in most developing countries is significantly limiting the global integration of developing economies in the realm of global trade.





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The following is an outline of the direct impact of sub-par investment in trade infrastructure and facilitation.



#### Limited Access to Markets

Developing economies often struggle with subpar transportation networks, including roads, ports, and railways. This lack of infrastructure makes it difficult to access global markets efficiently, as it results in delays and increased transportation costs. Consequently, these countries may find it challenging to compete in international trade, particularly in industries that rely on timely deliveries.



#### Higher Transaction Costs

Inefficient customs procedures and border crossings can lead to higher transaction costs. Delays in customs clearance and bureaucratic red tape can discourage international trade, making it less attractive for businesses to engage in cross-border transactions. This can hinder the flow of goods and reduce the competitiveness of products from developing economies.



#### Limited Export Diversification

Poor trade infrastructure can limit a developing economy's ability to diversify its exports. This makes them overly reliant on a narrow range of goods, which can be vulnerable to price fluctuations and changes in global demand. Diversification is key to building resilience in international markets.



#### Lower Trade Volumes

High transport costs and logistical bottlenecks can result in lower trade volumes. This means that developing economies may not be able to take full advantage of global markets and the economies of scale that come with larger trade volumes. Lower trade volumes can also limit their bargaining power in trade negotiations.



#### Limited Foreign Direct Investment (FDI)

Investors often consider the quality of trade infrastructure when deciding where to invest. Developing economies with poor trade infrastructure may struggle to attract foreign direct investment, which could bring technology, expertise, and capital. In the absence of FDI, these countries may find it challenging to upgrade their trade-related infrastructure. On the other hand, research reveals that the impact of infrastructure investment on trade is significant.



# Enhancing Investment in Trade Infrastructure: Key risks and challenges

# Enhancing Investment in Trade Infrastructure: Key risks and challenges

As countries adapt to the digital age, trade processes and systems are undergoing profound changes.

From finance and security to shipping and certification, digital transformation is reshaping global trade.

To foster inclusive global trade growth in this digital era, investment plays a pivotal role in promoting economic diversification and modernizing trade infrastructure.

Developing countries often face financial constraints, hindering their ability to build and maintain the needed trade infrastructure, especially in this new era dominated more and more by trade technology, resulting in limited participation in global trade.



Foreign direct investment channeled towards trade infrastructure can play a vital role. However, this endeavor, particularly in emerging and developing economies, comes with a myriad of challenges and risks, which deter investors.

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For a start, trade infrastructure projects in emerging economies often come with long payback periods.

This extended timeline for realizing returns on investment can test the patience and commitment of investors.

This is amplified by 4 critical risk categories:

## 1. Financial Risks

Investors who offer foreign direct investment (FDI) to developing nations in trade infrastructure face a number of financial risks. At the top of these risks is corruption, which is one of the major problems in many developing nations.

Moreover, currency fluctuations can significantly affect the value of investments and expected returns, especially if the local currency depreciates against the investor's home currency. Inadequate or unpredictable regulatory environments may result in unexpected costs or hurdles, affecting the financial viability of projects. Limited access to local financing options can lead to higher borrowing costs, while uncertainties in taxation policies might affect profitability projections. Additionally, potential defaults or delays in infrastructure projects can disrupt projected cash flows.

Each of these financial risks necessitates meticulous planning and risk mitigation strategies for investors venturing into developing nations.

## 2. Political and Regulatory Uncertainty

The inherent Political and Regulatory Uncertainty in many developing nations can make these territories a high-risk arena for potential investors. As they navigate the complexities of infrastructure investment, they often have to contend with shifting political landscapes where policies can change overnight.

Elections, coups, or political transitions might result in a shift in priorities, leading to the withdrawal of support for certain projects or a revision of previously agreed-upon terms.

Moreover, corruption, which might be more pervasive in certain developing economies, can introduce unpredictable costs and complexities into the investment process. It not only erodes investor confidence but also impacts the overall efficiency and success rate of project implementations.

The regulatory environment is another crucial factor. An inconsistent or frequently changing regulatory landscape makes it hard for investors to plan long-term, given that they cannot accurately predict future costs or requirements. This unpredictability often requires investors to allocate additional financial buffers, making projects more expensive or, in some cases, financially unviable.

Lastly, without a robust legal framework, investors face challenges in safeguarding their assets and rights. In the absence of clear legal recourse and efficient judiciary systems, resolving disputes can become protracted, leading to financial drains and stalled projects.

For all these reasons, political and regulatory certainty is a premium for investors. Many choose to engage in extensive risk assessments, forge partnerships with local entities, or seek political risk insurance to mitigate potential adversities.

### 3. Local Market Capabilities and Project Implementation Challenges

Local Market Capabilities often dictate the ease with which a trade infrastructure project can be implemented in emerging economies. Many of these countries may lack the mature industrial and technological ecosystems of more developed nations. As a result, investors might find a shortage of local suppliers with the necessary technical proficiency, leading to reliance on costly international vendors. Furthermore, the local workforce might not have the specialized skills required for specific stages of the project, necessitating expensive training programs or the hiring of international experts.

Project implementation challenges emerge prominently in these contexts.

For instance, navigating bureaucratic processes can be time-consuming, given the lack of streamlined procedures or clear regulatory frameworks in some emerging economies. Local stakeholders, from government officials to community leaders, may have differing views on project priorities, leading to potential conflicts and delays. There's also the challenge of understanding and respecting local customs, traditions, and societal norms, which, if overlooked, can lead to misunderstandings and project disruptions.

Taken together, these challenges related to local market capabilities and project implementation can significantly affect the timelines, budgets, and quality of trade infrastructure projects. For investors, this translates into heightened risks, and potentially, diminished returns.

### 4. Social and Environmental Concerns

Trade infrastructure projects, particularly those of a large scale, invariably cast a significant footprint on both the social fabric and the natural environment of the regions they touch.

Starting with the social implications, one of the most pressing concerns is the potential displacement of local communities. The construction of roads, ports, or other facilities often requires vast tracts of land, which in turn might necessitate the relocation of residents.

Such displacements can engender a sense of loss among the affected populace not only in terms of physical assets but also with regards to cultural ties, historical connections, and communal bonds to the land. This can lead to local opposition, which, if not addressed with empathy and efficiency, can escalate into social unrest. Such disruptions can adversely impact project timelines, escalating costs, and even jeopardizing the project's completion.

On the environmental front, these projects can pose significant challenges. The clearing of land can affect local ecosystems, endangering flora and fauna. Moreover, construction activities can result in pollution of the air, water, and soil and can deplete local natural resources. Such environmental degradation not only impacts the immediate vicinity but can have far-reaching consequences on regional biodiversity, water tables, and even climate patterns.



## A Potential Role for the International Trade Ecosystem

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This is where we see an opportunity for an ecosystem arrangement or mechanism to intervene and de-risk such investment, to boost global trade, and enable inclusive growth.

Investing in trade infrastructure in emerging and developing economies presents significant opportunities for economic growth and global trade integration.

However, home or source countries must recognize and address the challenges and risks inherent in such projects.

Effective risk assessment, due diligence, strategic partnerships, and capacity-building initiatives are essential for mitigating the financial, political, regulatory, and implementation risks.

By navigating these challenges adeptly, home countries can contribute to sustainable development and long-term economic prosperity in the recipient nations.

Despite the opportunities, this FDI in trade infrastructure is simply not available at the needed levels and shies away given the risks outlined.

This is where we see an opportunity for an ecosystem arrangement or mechanism to intervene and de-risk such investment, to boost global trade, and enable inclusive growth.

What if we can agree on a framework to de-risk FDI for trade infrastructure?

As the world becomes increasingly interconnected, the development of trade infrastructure is essential to facilitate efficient global trade flows.

However, attracting the necessary Foreign Direct Investment (FDI) for trade infrastructure projects, particularly in emerging and developing economies, remains a challenge due to various risks and uncertainties as outlined.

To address this challenge and promote inclusive global trade, there is a compelling need for a globally coordinated framework facilitated and supported by international organizations.

An ecosystem approach can play a critical role in establishing guidelines that support mitigation of risks associated with FDI directed specifically towards trade infrastructure.

Moving forward, this paper tables two options (for discussion) for initiatives to encourage FDI inflows into projects that enhance trade connectivity with the ultimate aim of integrating more developing and least developed countries into the international trading system, thereby facilitating their accelerated growth.



As the world becomes increasingly interconnected, the development of trade infrastructure is essential to facilitate efficient global trade flows.

# Proposal 1: A Framework for Trade Infrastructure

A high-level framework for trade infrastructure to encourage FDI inflows into projects that enhance trade connectivity. This framework would play a pivotal role in addressing the challenges and risks associated with investing in trade infrastructure in emerging and developing economies, ultimately promoting sustainable economic growth and facilitating inclusive global trade.

The framework would focus on providing a risk-mitigation mechanism for trade infrastructure investments (including direct FDI, PPPs, and others), thereby boosting investor confidence and attracting a wider range of investors.

## Key Components of the Framework



### 1. Risk Mitigation:

The framework would offer political risk insurance, credit enhancement, and guarantees for trade infrastructure projects. By minimizing risks related to political instability, regulatory changes, and currency fluctuations, the framework would attract private sector investments and accelerate project implementation.



### 2. Technical Assistance and Capacity Building:

The framework would provide technical assistance and capacity-building programs to host countries (investment recipient), supporting them to enhance their project preparation and implementation capabilities, reducing operational risks. This support would contribute to the successful execution of trade infrastructure projects.



### 3. Transparency and Accountability:

The framework would emphasize transparency in project selection, procurement processes, and risk assessment. By adhering to international best practices, the framework would ensure the credibility of trade infrastructure PPPs and attract responsible investors.



### 4. Public-Private Collaboration:

The proposed framework would foster collaboration between governments and the private sector, leveraging their respective strengths to develop sustainable and impactful trade infrastructure projects. The establishment of a framework for trade infrastructure PPPs is a visionary initiative that can offer risk-mitigation mechanisms, technical support, and promoting collaboration between the public and private sectors, this framework would catalyze FDI inflows into trade infrastructure projects.

Ultimately, this initiative would contribute to fostering inclusive global trade, supporting sustainable economic growth, and reinforcing the importance of international cooperation in addressing complex global challenges.

## Option Analysis

This option is promising in terms of comprehensive coverage of all topics related to FDI facilitation for trade infrastructure and fully promotes greater coherence between trade and investment rules.

Furthermore, a new framework can establish uniform international standards for investment protection, offering greater legal predictability and stability for investors.

Clear investment protection rules can enhance investor confidence, leading to increased foreign direct investment (FDI) in trade-related infrastructure and ultimately boosting integration of developing and emerging economies in global trade.

On the flipside, this option can be resource intensive, and expectations for resource dedication both from the pioneering country(s) and partners will be high.

Implementation challenges may also potentially hinder progress owing mainly to capacity constraints within developing countries.

Finally, from a political point of view, it can be potentially sensitive since finding common ground on investment protection issues may be challenging (mainly because countries have varying interests and policy objectives regarding FDI).



## Proposal 2: Collaboration platform between international organizations to promote FDI towards trade infrastructure

This proposition focuses on a potential collaboration between key international organizations (IOs) associated with trade-related matters to address investment protection issues related to trade infrastructure. While this option has not ready delivery tools, it does add value in terms of putting the topic on the table, and working with partner countries who want to advance their options to attract FDI in the trade facilitation domain.

### Key features of this collaboration could potentially include:



#### Policy Coordination and Research:

Global organizations can conduct research and provides policy analysis on trade and development issues, including investment protection. They can also collaborate with each other to leverage its research capabilities and policy expertise in identifying investment protection challenges specific to trade infrastructure projects.



#### Capacity Building:

International organizations often provide technical assistance and capacity-building programs to developing countries. This assistance can be tailored to help countries create a conducive environment for trade infrastructure investments by addressing issues related to investment protection. Training programs can be developed jointly by these organizations to enhance the capacity of policymakers and regulators in this regard.



#### Best Practices Sharing:

IOs can facilitate the sharing of best practices and success stories related to investment protection in trade infrastructure. This can involve organizing workshops, conferences, and knowledge-sharing events where countries can learn from one another's experiences.



#### Data and Information Sharing:

Several international organizations maintain databases on foreign direct investment (FDI) and provide valuable statistics on investment flows. Collaborating between these organizations will enable access and utilize this data to analyze trends in FDI related to trade infrastructure and assess the effectiveness of investment protection measures.



#### Advocacy and Outreach:

Joint advocacy efforts can promote the importance of investment protection for trade infrastructure. This can involve raising awareness among policymakers and investors about the benefits of such investments and the need for robust protection mechanisms.



#### Coordination in Technical Assistance:

When providing technical assistance to developing countries, these international organizations can coordinate their efforts to ensure a comprehensive and coherent approach to addressing investment protection challenges. This includes aligning training programs and capacity-building initiatives to cover all relevant aspects.



### Policy Dialogue Policy Recommendations:

Organizing high-level policy dialogues or forums where representatives from member countries, international organizations, and the private sector can discuss investment protection in the context of trade infrastructure. These dialogues can lead to concrete policy recommendations and collaborative initiatives.



### Monitoring and Reporting:

The partnering organizations can collaborate on monitoring the implementation of investment protection measures in various countries and regions, producing regular reports on progress and areas that require attention. By pooling their resources, expertise, and networks, IOs can create a synergistic approach to addressing investment protection concerns in trade infrastructure projects.

## Option Analysis

This option will leverage the expertise and resources of global trade-related international organizations, allowing for a more comprehensive approach to address investment protection issues in the context of trade infrastructure.

It lends itself to a more holistic perspective, as collaboration can promote a holistic perspective that encompasses various aspects of trade and investment, leading to more balanced and well-rounded policy recommendations.

It also allows international organizations to leverage each other's resources and expertise to create better trade outcomes.

However, this option can pose coordination challenges as partnering organizations may struggle to align objectives, resources, and priorities.

Furthermore, as the mandates of the partnering organizations differ, this can potentially lead to differing agendas, duplication of efforts or conflicting recommendations.

Implementation issues are likely to be encountered, as translating collaborative recommendations into actionable policies may require the cooperation of multiple stakeholders, which can be logistically complex.

This cooperative approach depends on non-binding recommendations and collaboration among organizations.

Since it is unlikely to have the authority to require countries to implement specific investment protection measures, the impact may be limited.

Alternatively, approaches that involve creating new binding frameworks or launching ambitious international agreements may have the potential to deliver more dramatic, attention-grabbing, and transformative moonshot results.



# Looking Ahead: A Declaration for Investment in Trade Infrastructure

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FDI serves as a catalyst for trade expansion by facilitating the establishment of trade-related infrastructure, such as ports, transportation networks, and logistics systems.

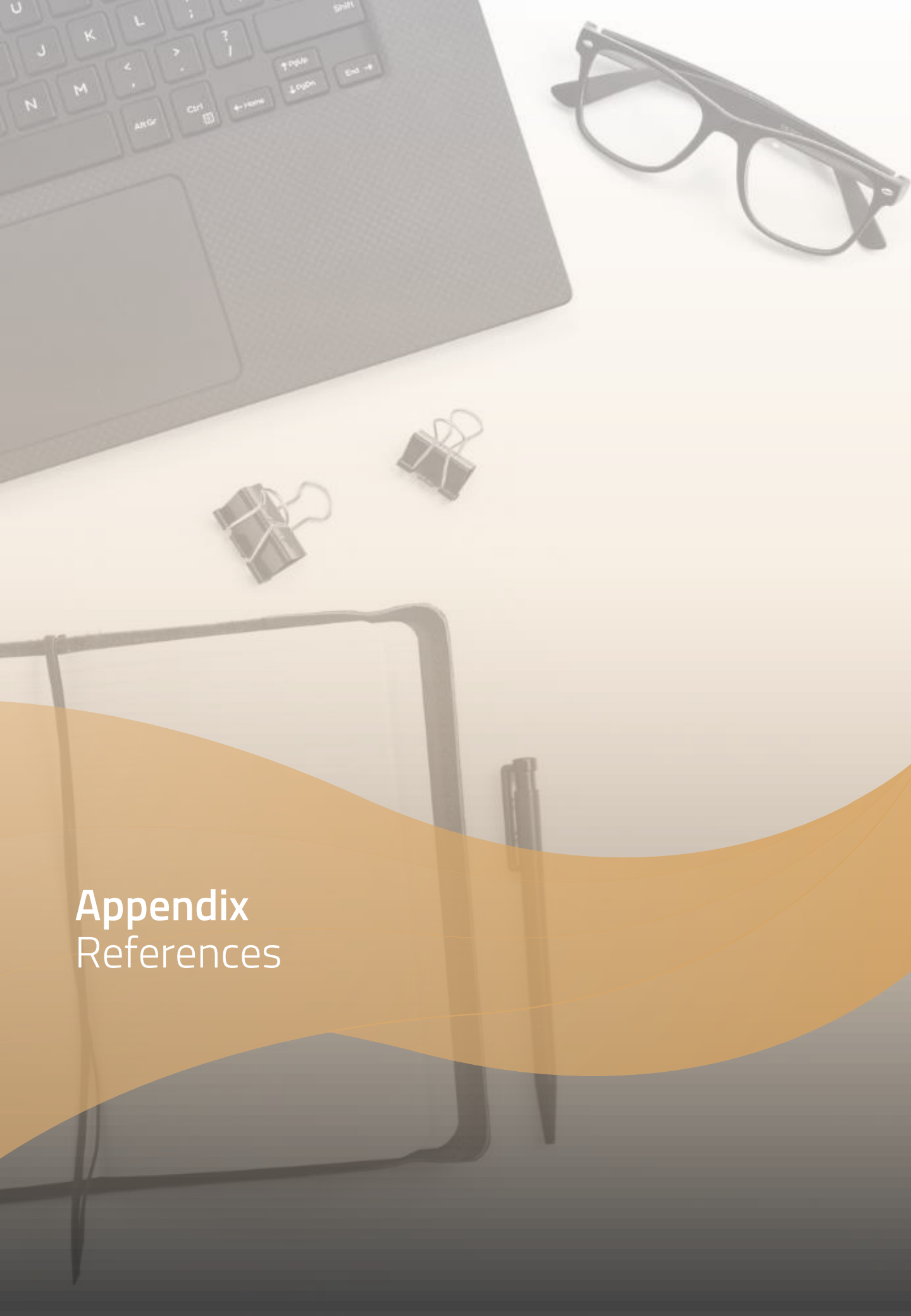
However, recognizing the full potential of FDI in trade demands not only attracting investments but also ensuring their protection.

Investment protection measures, whether achieved through collaborative efforts with international organizations or through the creation of new frameworks, are essential for cultivating an environment where investors feel secure and confident in committing capital to trade infrastructure projects in less developed parts of the world.

In an increasingly interconnected global economy, investment protection stands as a cornerstone for unlocking the transformative power of FDI, ushering nations, especially developing and least developed countries, toward prosperity, and fostering a more inclusive and interconnected world.



**By safeguarding these investments, nations can enhance their competitiveness, stimulate economic growth, create jobs, and ultimately achieve accelerated and sustainable development.**



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