

Global Financial Environments and Challenges

Threats to International Investments

Comments at G20 Global Financial Stability Conference 2019

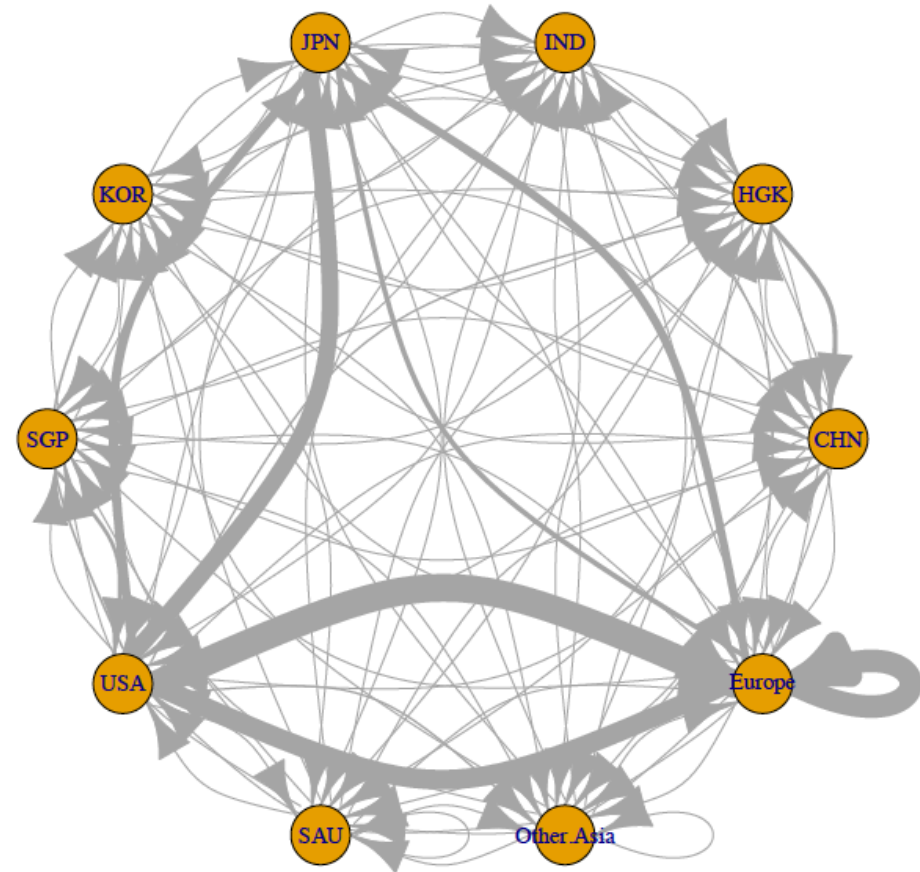
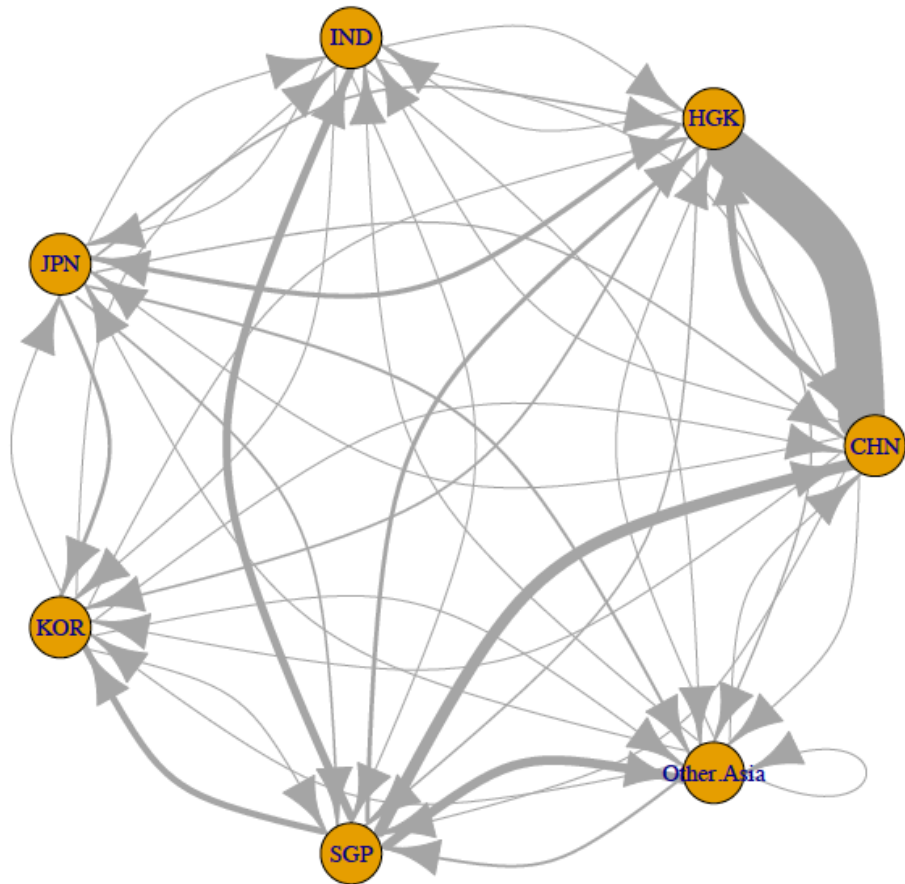
Tuesday, November 5, 2019

Seoul, Republic of Korea

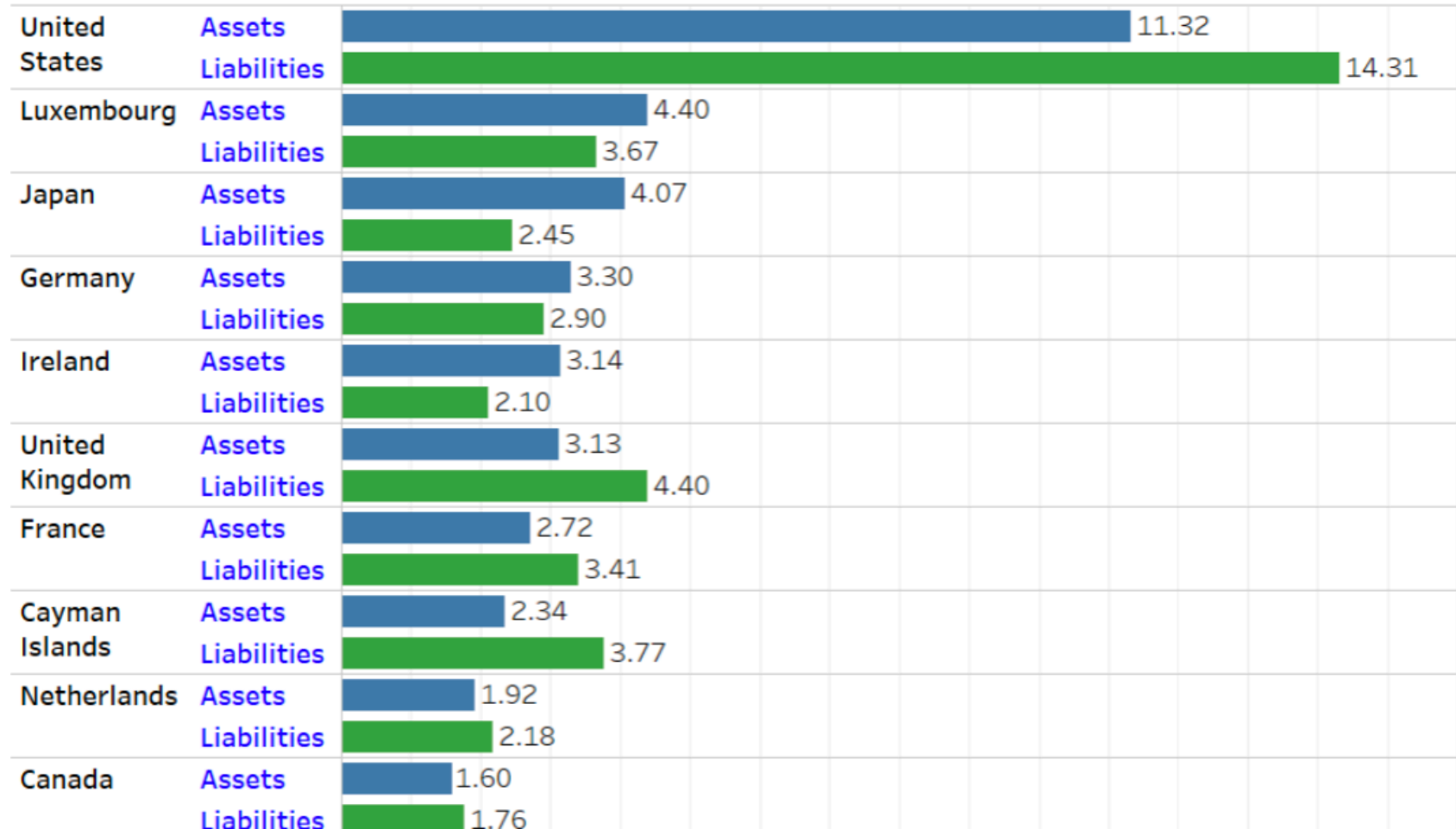
By Kenichi Ueda, The University of Tokyo

International financial flows \neq Trade flows or GDP or GDP per capita

Portfolio Flows within Asia and World, 2012-2015 average from IMF CPIS
(note that FDI figures are similar) [Ueda report for JBIC, 2017]



Total Portfolio Investment Assets and Derived Liabilities*/ Top 10 Reporting Economies (Trillions USD), December 2018



From IMF Coordinated Portfolio Investment Survey (CPIS)

Now facing structural issues

- Cyclical and booming issues— issues (almost) as usual
- Structural issues
 - Trade / Investment barriers by economic reasons (protectionism) – big issue
 - But, economists can analyze and fight against them.
 - Key issues are whether international risk sharing can be achieved and whether EMs and LICs can receive investments from AEs (against Lucas Paradox).
 - Trade / Investment barriers by security (military) reasons – bigger issue
 - E.g. limit on foreign investment on IT sector due to security concerns
 - Economists can point out economic costs but cannot have sufficient powers to fight against.
 - Need to say it loud that tighter economic ties reduce probability of real conflicts.
 - Institutions – bigger and deeper issue
 - Rule of Law and Property Rights are key institutions that support a market-based economy.
 - Many studies have shown that these institutions mostly explain international investment patterns (Lucas Paradox) and structural economic growth rates.

Rule of Law and Property Rights

- If a country violates them, a country scares off investors.
 - Risk premium from the viewpoint of investors shoots up.
- Heightened risk premium has little to do with causes or reasons behind the country's action. (As non-specialist on laws and politics, I would not make any value judgement whether the cause is good or bad.)
- But, it is a fact that risk premium goes up if a country violates them without due process, without gaining stakeholders' understanding.
 - Zimbabwe: 2005 nationalization of white settlers' land without compensation
 - Do foreigners feel safe to invest in Zimbabwe? Is land collateralizable?
 - Hong Kong: not fully respecting 1984 China-UK treaty (on HK governing rules)
 - Do hedge funds feel safe to keep operating? Do English laws survive?
 - Korea: not fully respecting 1965 treaty with Japan (no more claims each other)
 - Do (Japanese) investors feel safe to invest in Korea?
- Need to contain disputes and lower barriers to international investments!