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CPTPP and the Evolving FDI Landscape

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Abstract

CPTPP promotes foreign direct investment (FDI) through provisions that safeguard investments. Since the initial implementation by specific member countries in 2018, FDI inflows in the CPTPP bloc increased by 10% to 294 billion USD in 2019. Greenfield investments from Japan, Singapore, Australia, and Canada drove the within-CPTPP bloc investment creation. With regard to bilateral FDI ties, Japan has the most strong FDI links within the CPTPP bloc. Applying a difference-in-difference framework to monthly industry-level bilateral greenfield FDI inflows during the period January 2018 to December 2019, this study shows evidence of strong investment creation effects of CPTPP implementation, driven by an increase in greenfield FDI originating within the CPTPP bloc. Sectors such as manufacturing, accommodation and food services, companies and enterprises management, wholesale trade, and other services experienced the within-CPTPP bloc investment creation effect. Although the Covid-19 pandemic dented overall investment creation, the manufacturing sector greenfield FDI in CPTPP showcased a post-pandemic rebound from 17.6 billion USD in 2020 to 25.5 billion USD in 2021, an increase of 45%.

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1 Introduction

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a Free-Trade Agreement (FTA) between 11 Asia-Pacific (APAC) parties - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam ([Global Affairs Canada, 2015](#)). The agreement is the successor to Trans-Pacific Partnership (TPP), which was earlier signed by all 11 CPTPP countries and the United States (US). In 2017, the US withdrew from TPP soon after the inauguration of former US president Donald Trump ([Council on foreign relations, 2021](#)). As a result, all the remaining parties came forward and renegotiated a new trade agreement - CPTPP.

The CPTPP initially came into force on December 30, 2018 for six countries - Australia, Canada, Japan, Mexico, and New Zealand. Since then, CPTPP eventually came into force in four more economies - Vietnam, Peru, Malaysia and Chile. Brunei is currently the only signatory yet to ratify the deal. Upon the complete implementation of the agreement across all its members, CPTPP parties are expected to form a trading bloc representing 500 million consumers and 13.5% of global GDP, offering its signatories preferential access to key APAC markets.

The CPTPP agreement consists of 30 chapters covering all the technicalities related to trade, investment, protection of the environment and labour rights, and the digital economy. Chapter nine of the CPTPP agreement lays out the provisions and measures related to investment flows in the trade bloc. The investment chapter governs the treatment of investors and their investments and safeguards the member party's right to regulate investments in the public interest. It aims to offer its investors greater stability, transparency, and protection to their investments ([Global Affairs Canada, 2018](#)). The agreement provides a wide range of investment provisions under the core obligations of its investment chapter. Based on their purpose, these obligations can be categorised into three groups.

1. Protection against discrimination

- National treatment - member parties should not discriminate against each other's investors to favour domestic investors
- Most-favoured nation treatment - member parties should not favour investors from most-favoured nations vis-a-vis other investors
- Minimum standard of treatment - investments from trading parties should be treated based on customary international laws which include fair and equitable treatment, due process, complete protection and security.

2. Predictability and transparency of investments

- Expropriation and compensation - under certain circumstances, payment of compensation is required if covered investments are protected from expropriation or nationalisation.
- Performance requirements - CPTPP prohibits placing conditions on covered investments that favour domestic industry. E.g., investors are required to purchase local goods, export a share of goods produced based on their investment contribution, and transfer technology to the host country.

3. Mobility of capital and profits

- Investment-related transfers - investors have the flexibility to freely transfer capital and investment-related profits in and out of the host member nation, except in case of special events such as financial crisis.

These key obligations of the investment chapter are supported by a fair and effective **Investor-State Dispute Settlement (ISDS) mechanism**. It is an independent arbitral tribunal responsible for resolving disputes for breaches of the investment rules, including discriminatory treatment, without relying on the host government's domestic judicial system. However, any compensation for damages can be claimed only if certain obligations of the investment chapter or the financial services chapter are breached. Additionally, it is not plausible for ISDS tribunal to overturn a member party's domestic measures. They can only offer compensation to the investors for damages caused by the breach of the agreement.

That said, the CPTPP agreement offers greater flexibility to regulate investment flows for public interest through the “**non-conforming measures**” which allow the member parties to maintain exceptions to the CPTPP investment chapter by identifying measures, sectors, or activities where the above-mentioned obligations do not apply ([Department of Foreign Affairs and Trade, Australian Government, 2019a](#)). The non-conforming measures related to the investment and services chapter are given in Annexes I and II of the CPTPP agreement. Annex I lists the existing non-conforming measures that the member nations are expected to maintain after the implementation of CPTPP, whereas Annex II lists the reservation for certain sectors or activities where members wish to retain absolute policy flexibility in the present and the future.

Considering these obligations and non-confirming measures, many member nations have taken different actions to promote foreign investment, including deregulating FDI in the non-sensitive and fast-growing market sectors. Countries such as Australia, Canada, and New Zealand increased the investment screening threshold for private investments by CPTPP investors in non-sensitive sectors, after the implementation of the agreement. The screening threshold for the private foreign investments from CPTPP countries to

Australia went up from AU\$261 million to AU\$1,134 million, whereas Canada and New Zealand increased their threshold to CA\$ 1.5 billion and NZ\$ 200 million, respectively. On the other hand, Vietnam, for example, liberalised its mining sector to attract investments from CPTPP ¹.

Against this backdrop, one could say that CPTPP enables a fostering environment for foreign direct investment (FDI) by providing improved protection and transparency of investments, as well as safeguarding their right to regulate FDI based on their domestic priorities. This study explores the dynamics in FDI inflows to CPTPP, with a particular focus on greenfield FDI (GF FDI). The remainder of the report is as follows. [Section 2](#) analyses the recent trends in FDI inflows to CPTPP based on region, type and sector. It also deep dives into the experience of the CPTPP economies during and after the COVID-19 pandemic. [Section 3](#) provides empirical evidence of investment creation from CPTPP implementation using a difference-in-difference framework. Lastly, [Section 4](#) concludes.

2 FDI in CPTPP

Since 2018, the share of CPTPP economies in the global FDI flows remained above 18% (see [Fig. 1](#)). While the global FDI flows were experiencing a downward trend even before the pandemic, owing to weak global economic growth, investment flows to the CPTPP trade bloc appeared to have significant momentum ([UNCTAD, 2018a](#)). Parallel to global FDI inflows, CPTPP economies registered a sharp decline in foreign investments in 2020 (see [Fig. 2](#)). The trade bloc witnessed a strong rebound in investment flows in 2021, mainly due to the re-opening of regional economies, increased vaccination coverage, and relaxed travel restrictions. Also, the recovery in the FDI flows was uneven across the CPTPP economies. ([UNCTAD, 2022](#)).

This section explores the pre- and post-pandemic trends in the FDI inflows to the CPTPP countries. We also take a closer look at the mode of entry and sources of cross-border investments. Lastly, we identify the major industry sectors attracting a significant share of investment inflows.

2.1 FDI Inflows in CPTPP economies

Looking at the FDI flows to the CPTPP economies over the last five years in [Fig. 3](#), three major observations can be drawn. First, before the pandemic, the investment flows to all the CPTPP economies showcased an increasing trend, except Australia and Peru. Australia witnessed a dramatic drop in the FDI in 2019 because the acquisition of Westfield by Unibail-Rodamco at a large sum of AU\$ 30 billion inflated the value of FDI inflows

¹For more details regarding investment deregulation, refer to [Appendix A](#).

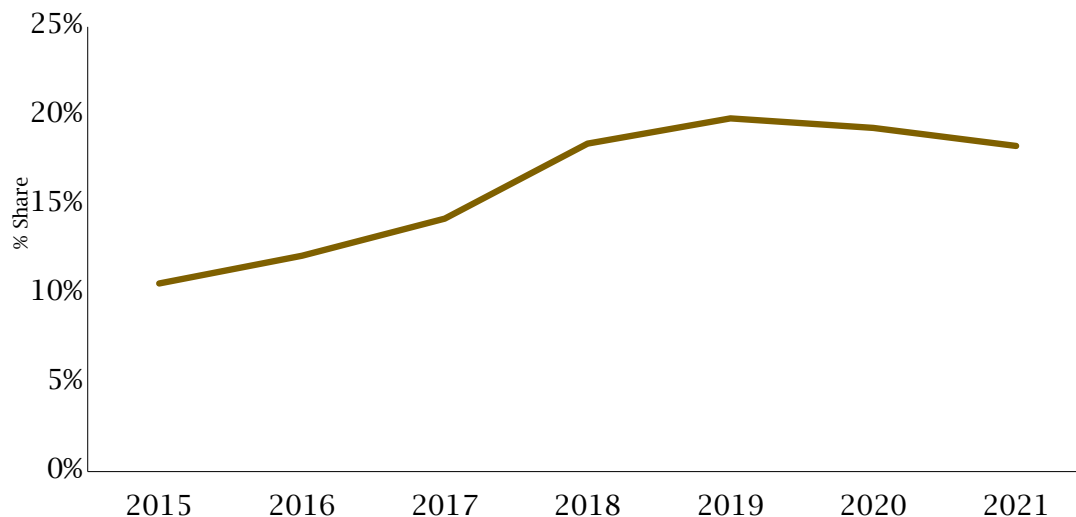


Figure 1: Share of CPTPP economies in Global FDI flows
Source: Authors' estimates using UNCTAD data

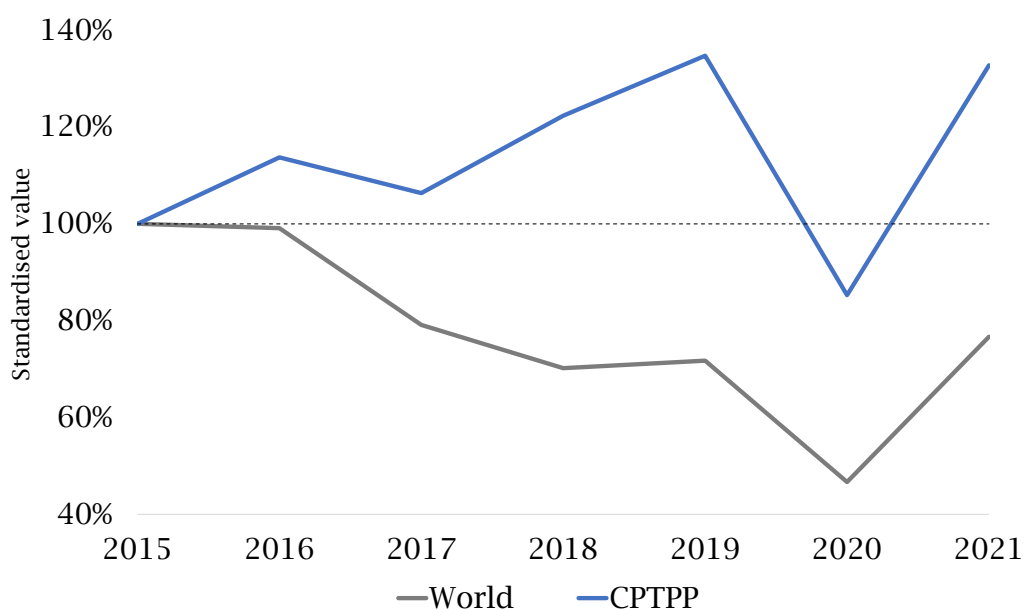


Figure 2: FDI inflows to world and CPTPP economies (standardised values)
Source: Authors' estimates using UNCTAD data

in 2018 ([Department of Foreign Affairs and Trade, Australian Government, 2019b](#)). In Peru's case, the economic slowdown and rising political uncertainty contributed to the decline in FDI flows in 2019 ([Human Rights Watch, 2019](#)).

Second, the COVID-19 pandemic created a dent in the investment flows to the CPTPP economies. Repeated waves of COVID-19 outbreaks, mobility restrictions, and a looming recession led to delays in investment flows ([United Nations Conference on Trade](#)

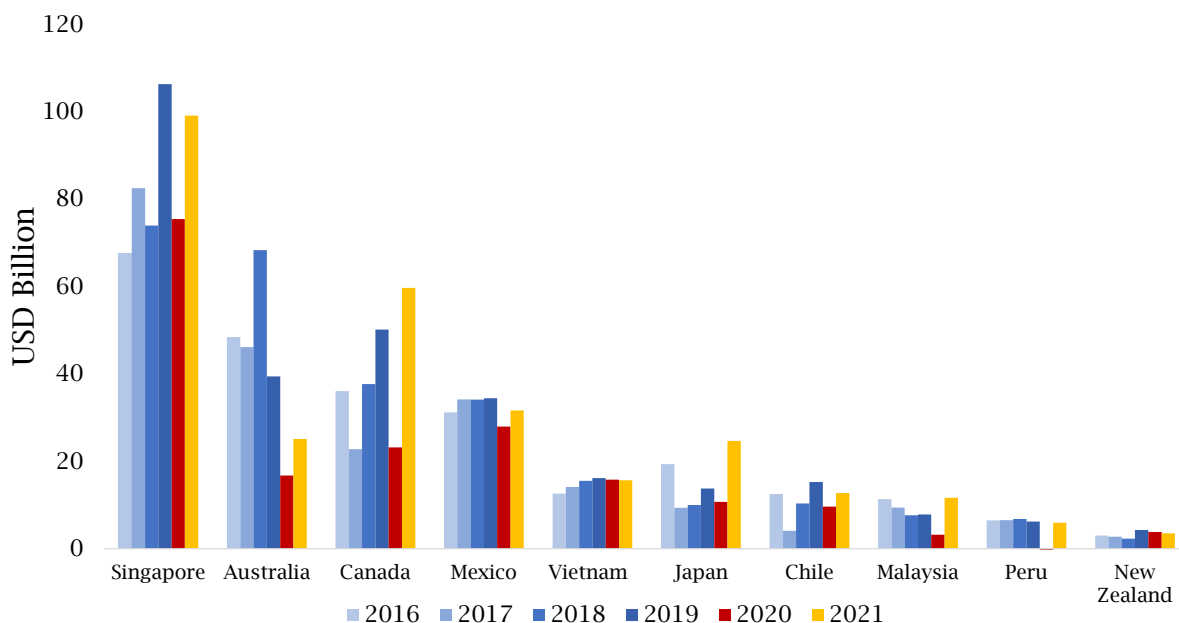


Figure 3: FDI Inflows to CPTPP economies
Source: Authors' estimates using UNCTAD data

and Development, 2021). In some CPTPP economies such as Singapore, Australia, and Canada, FDI inflows fell due to low cross-border sales and declining investments in major industries - chemicals, manufacturing and financial services. FDI flows to other emerging economies in the bloc, including Malaysia, Chile, and Peru, were also hit hard by the pandemic. In Malaysia's case, continued political unrest and the weakened fiscal position exacerbated the decline in FDI inflows (FDI Intelligence, 2022). In the context of Chile and Peru, FDI flows plummeted due to factors such as strict and prolonged lockdowns, lower capital investments, and decreased reinvested earnings.

Finally, Fig. 3 showcases an uneven post-pandemic recovery pattern among CPTPP economies. FDI inflows to Canada, Japan, Malaysia and Peru surpassed their pre-pandemic level in 2021. In Canada, foreign investments reached 30% above its 10-year average before the pandemic, owing to the double-digit growth in reinvested savings, equity flows, and cross-border M&A deals (UNCTAD, 2022). A majority of the M&A deals were attracted by extractive industries, information and communication, and finance and insurance services. Inward FDI flows to Japan also doubled in 2021 due to a strong rebound in M&A transactions. Similarly, a massive surge in the FDI inflows to Malaysia can be observed, mainly due to the policy actions taken to improve the country's business environment, including the relaxation of sector-specific FDI restrictions. In the case of Peru, rapid economic recovery and the policy efforts to attract foreign investments led to an increase in the FDI flows in 2021. At the same time, the remaining CPTPP economies

show signs of recovery but are yet to achieve their pre-pandemic level of FDI inflows.

2.2 FDI Inflows by modes of entry

The two major modes of FDI entry are - Greenfield (GF) FDI inflows and cross-border mergers and acquisitions (M&A) transactions. In the case of GF investments, the investors build new productive units from the ground. In contrast, M&A transactions arise when foreign investors acquire a company's existing assets in destination (Nguyen et al., 2021). In other words, GF FDI inflows involve capital accumulation, whereas M&A constitute the transfer of ownership of the assets.

As shown in Fig. 4, FDI in the CPTPP trade bloc is predominantly driven by GF investments. Most CPTPP economies have been attracting a more significant share of GF FDI inflows than M&A deals. GF investments can positively impact economic activity in the destination country (Byun et al., 2012). First, GF investments make a notable contribution to the *capital stock* for production as it entails building production units from scratch. The number of multinational enterprises (MNEs) investing in CPTPP economies has been rising over the years (see Fig. 5). Furthermore, due to the increased presence of MNEs, the level of technology and innovation in the economy also improves, leading to *higher productivity gains*. Additionally, GF investments facilitate the job market by creating *new employment opportunities* and increasing competition. It is important to note that external factors such as the COVID-19 pandemic strongly influence the magnitude of the impact on job markets. Figure 5 shows that the number of jobs created from GF FDI inflows nosedived in 2020.

Over the last few years, market-seeking FDI has propelled GF investments in the CPTPP economies (see Fig. 6). As the name suggests, market-seeking investments are fuelled by the size of the domestic market and its growth potential. Through market-seeking FDI, MNEs overcome any trade barriers and have complete access to new markets where they can invest and sell. Therefore, markets with large populations and growing middle-income households are the ideal destinations for investments. Besides increased access and untapped domestic potential, a conducive business environment also attracted market-seeking FDI to CPTPP (see Fig. 7).

When the MNEs aim to access scarce or cheap factors of production, investors choose resource-seeking FDI as their direct investment mode. In other words, the primary motivation behind resource-seeking investments is access to cheap raw materials, the pool of labour, and infrastructure. The resource-seeking FDI share is much less in CPTPP (see Fig. 6). The motivation for the inflow of resource-seeking FDI to CPTPP is the availability of a skilled labour force, industry cluster, and technology & innovation.

The COVID-19 pandemic greatly affected GF investments in CPTPP economies.

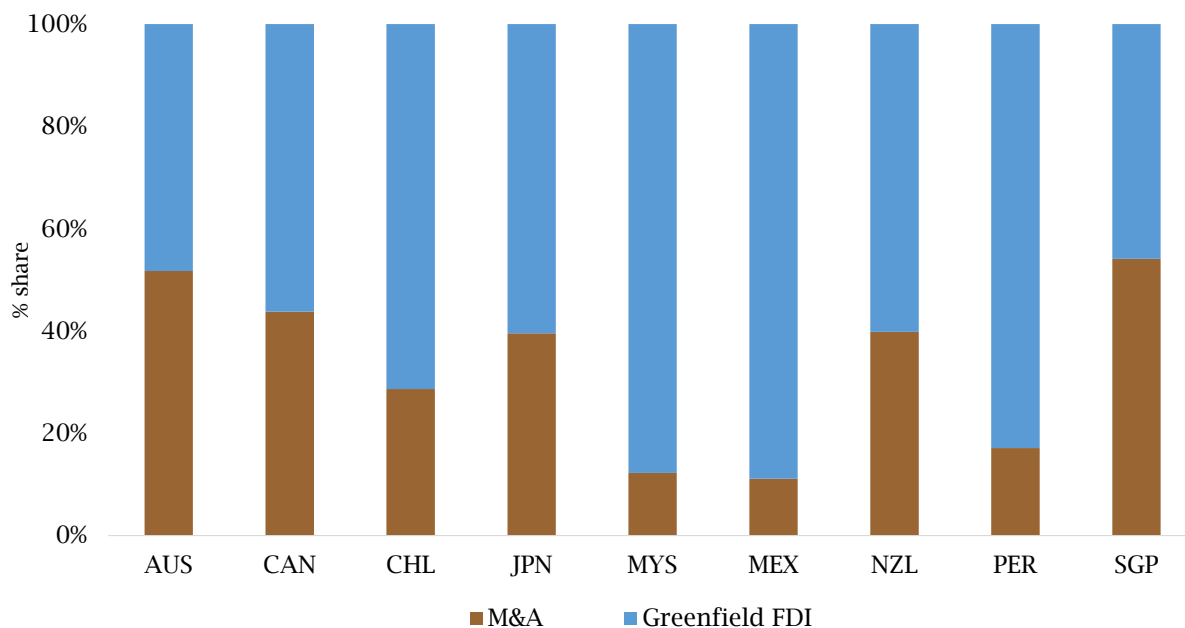


Figure 4: FDI Inflows by modes of entry (2016-2021)
Source: Authors' estimates using UNCTAD data

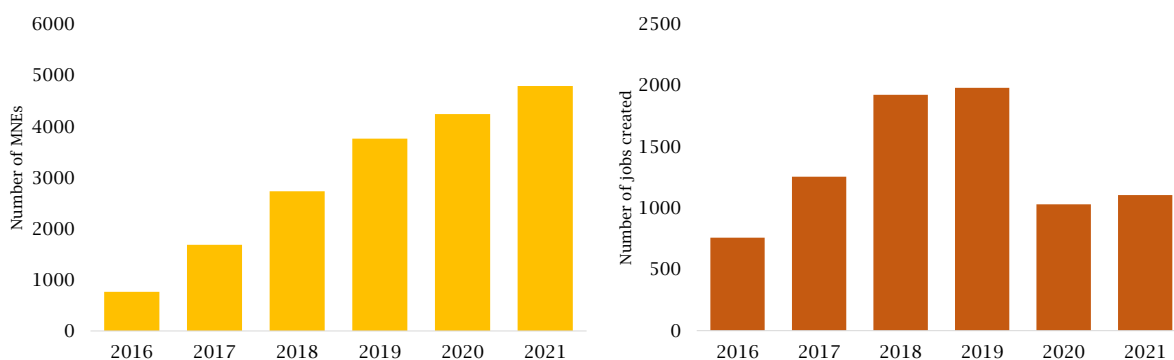


Figure 5: Number of MNEs engaging in GF FDI in CPTPP (left) and job creation from GF FDI inflows to CPTPP (right)
Source: Authors' estimates using orbis BVD FDI data

In 2020, the rapid spread of COVID-19 infections and widespread lockdown measures contributed to the massive contraction in the primary and manufacturing sectors. Furthermore, many economies, including Australia and New Zealand, took several measures to screen investments in businesses related to national security and real estate. That said, most of the CPTPP economies experienced a solid rebound in GF investments after the first year of the COVID-19 pandemic (see Fig. 8). This recovery in GF investments can be attributed to the opening of the regional economies and the complete resumption of activities in industrial sectors such as manufacturing and GVC-intensive industries (UNESCAP, 2021). However, economies that maintained significant travel restrictions

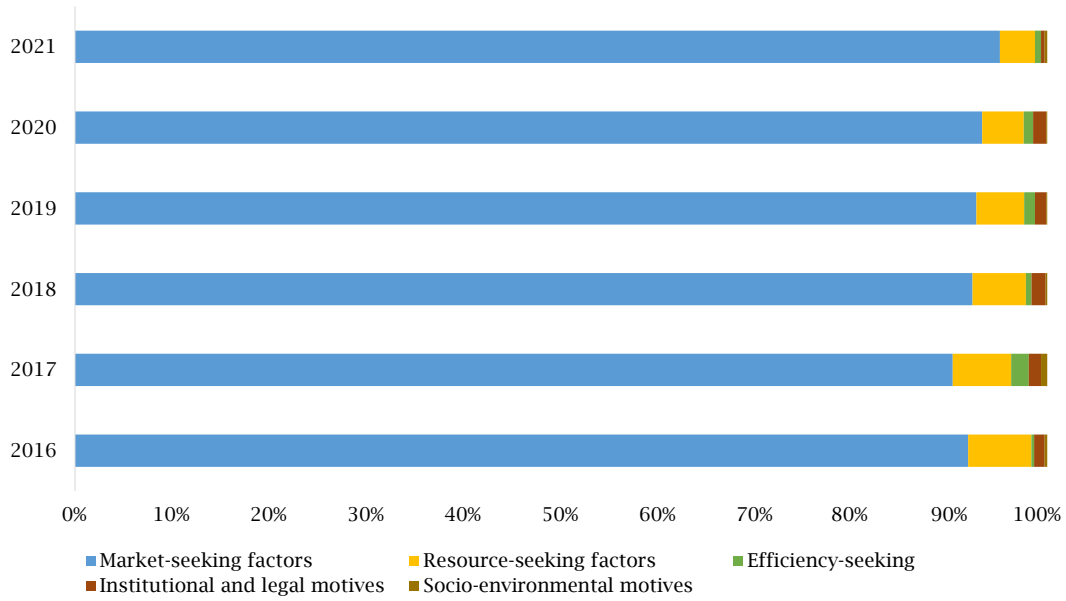


Figure 6: Leading motives for GF FDI in CPTPP economies
Source: Authors' estimates using orbis BVD FDI data

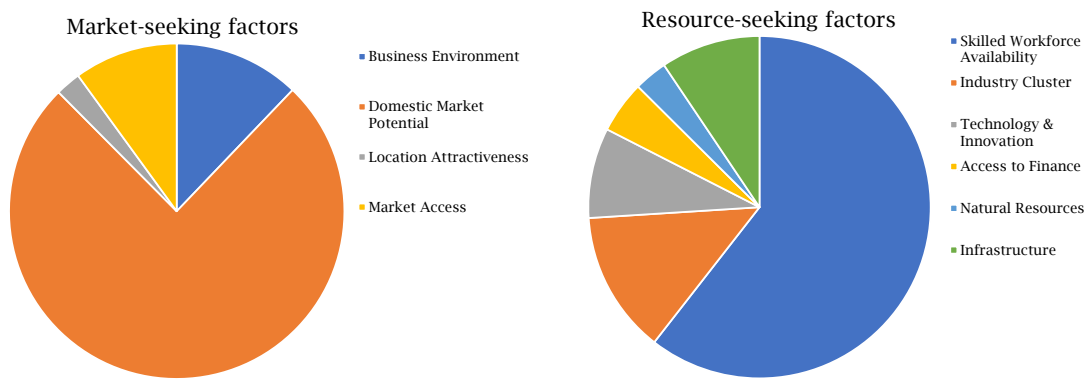


Figure 7: Market- & resource-seeking factors influencing GF FDI in CPTPP economies (2016-2021)
Source: Authors' estimates using orbis BVD FDI data

in 2021 did not witness an uptick in their inward GF investment (for example, Australia). Additionally, CPTPP economies also extended the COVID-19-related restrictive measures on FDI inflows, such as tightening in reporting, monitoring, and the ex-ante screening of investments.

2.3 GF FDI by origin

Having looked at the level of GF investments to the CPTPP economies, its essential to identify the origin of these investments. More importantly, it is critical to examine the impact of an external shock, such as the pandemic, on the investment flow originating

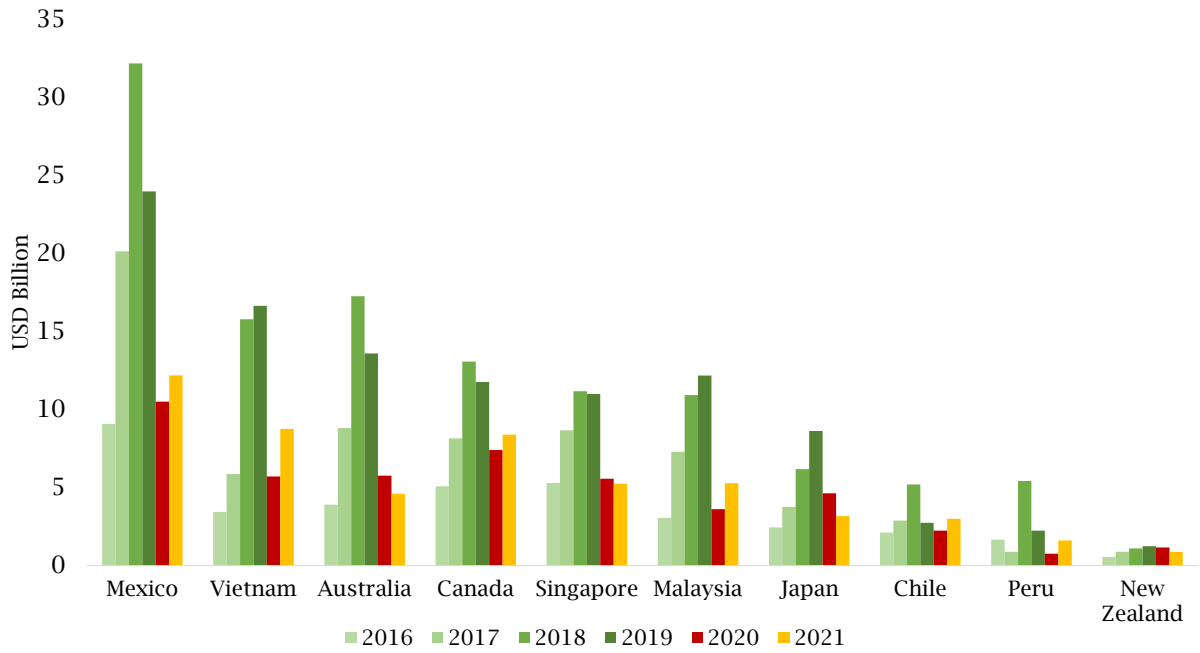


Figure 8: GF FDI inflows to CPTPP economies
 Source: Authors' estimates using orbis BVD FDI data

within the trade bloc. To study this, we first look at sources of GF FDI in the CPTPP economies before the onset of the pandemic.

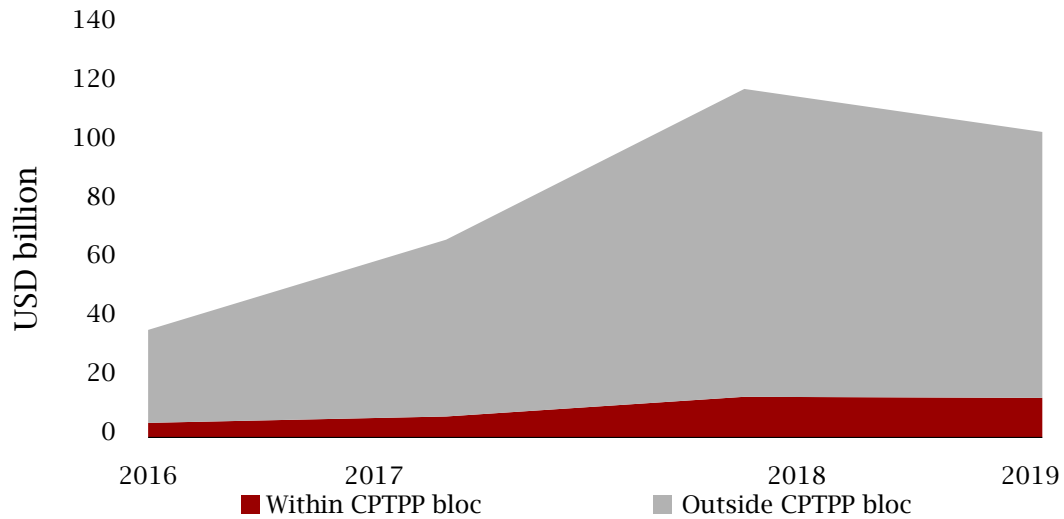


Figure 9: Origins of GF FDI flows in CPTPP
 Source: Authors' estimates using orbis BVD FDI data

Fig. 9 shows the FDI inflows in CPTPP originating from within and outside the CPTPP bloc. We can see that GF FDI from outside the trade bloc was on an upward trajectory till 2018. However, the investments fell dramatically in 2019 owing to escalated

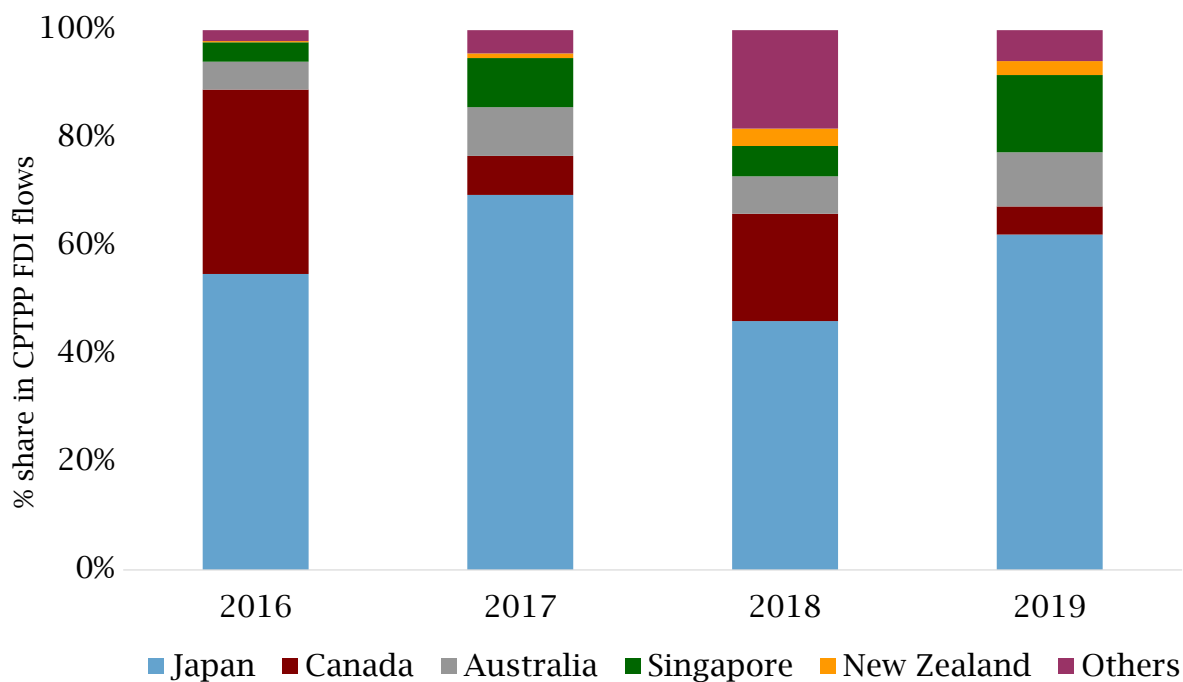


Figure 10: Top GF FDI flows origins within CPTPP economies
Source: Authors' estimates using orbis BVD FDI data

trade tensions and related supply-chain disruptions. On the contrary, the GF investments from within the CPTPP bloc grew at a steady rate till 2018 and remained flat practically in 2019, showcasing resilience in the within-bloc investment creation.

On average, more than 90% of the investments within the bloc originate from four CPTPP economies - Japan, Canada, Singapore and Australia (see Fig. 10). Out of these four economies, Japan has remained the largest investor within the bloc since 2018. On the other hand, Canada's share in FDI inflows to CPTPP economies fluctuated in the pre-pandemic period. This inconsistency can be attributed to a sizeable contraction in Canada's global outward FDI in 2017 and a sharp decline in new GF investments in three key sectors - manufacturing, ICT, and food services - in 2019 (UNCTAD, 2018b). Additionally, investment flows from Canada to Mexico dwindled in 2019, probably due to the uncertainties related to the North-American Free Trade Agreement (NAFTA), which was later substituted by the United States – Mexico – Canada Agreement (USMCA). We also find the share of investments from Singapore and Australia to the CPTPP bloc increased between 2016 and 2019.

Fig. 11 presents the bilateral FDI dynamics of the CPTPP economies, where the X-axis represents the origin economy and the Y-axis represents the destination economy. The darker the colour of the cell, the stronger the country-to-country investment ties ².

²The diagonal values in the matrix are 0 as the analysis does not take into account domestic FDI flows.

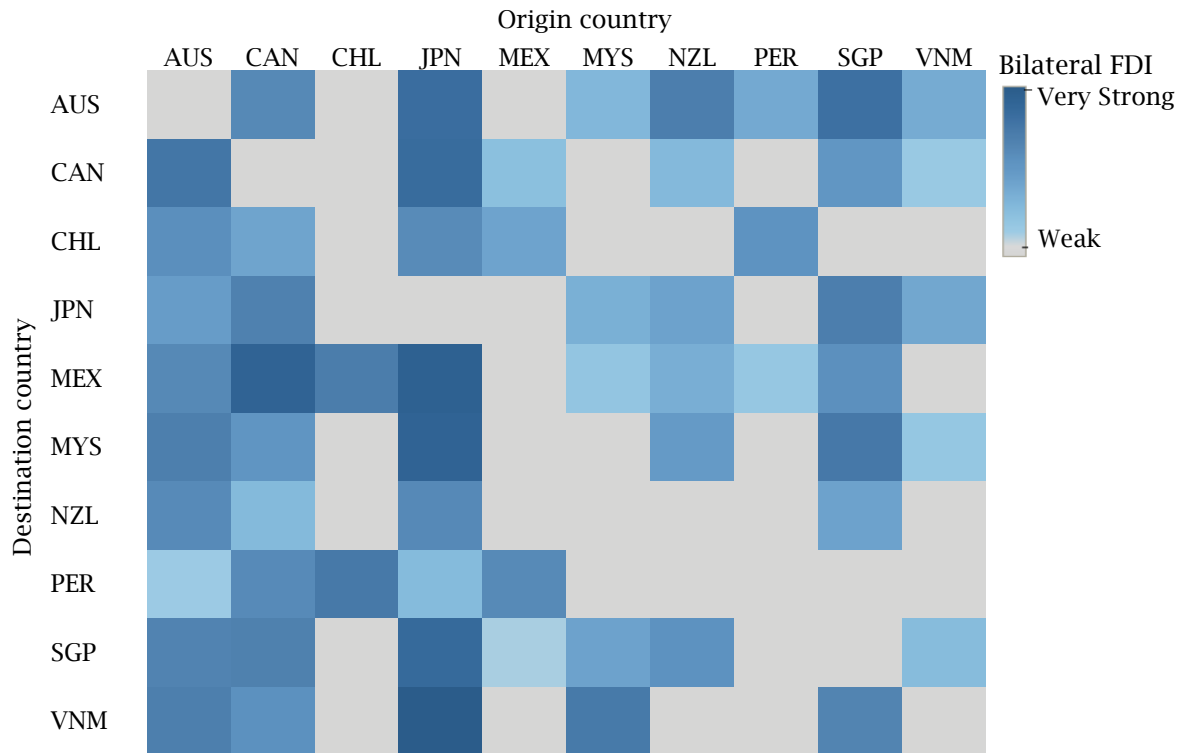


Figure 11: Bilateral GF FDI flows CPTPP bloc (2016-2019)
 Source: Authors' estimates using orbis BVD FDI data

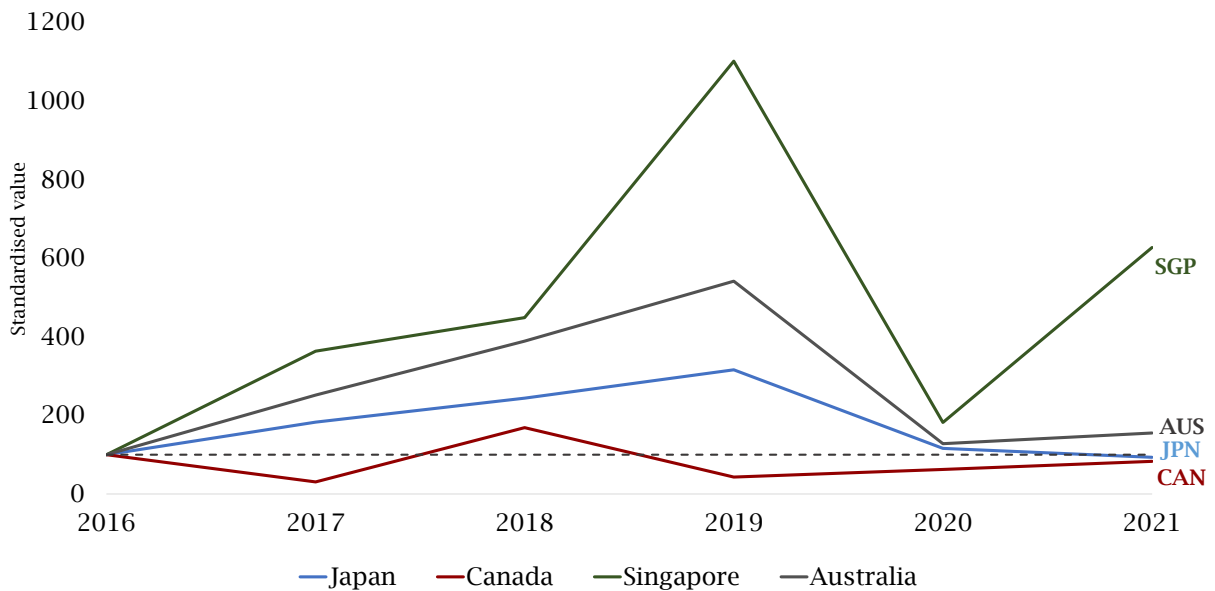


Figure 12: Outward GF FDI flows from top origins within CPTPP bloc
 Source: Authors' estimates using orbis BVD FDI data

It can be observed that out of the 11 CPTPP parties, Japan has the strongest GF FDI links within the bloc, especially with Vietnam, Mexico and Malaysia. Interestingly, the

left-hand side of the Fig. 11 forms a darker cluster than the right-hand side, indicating a solid investment relationship between Australia, Canada, Japan and the remaining CPTPP countries.

The GF investments from the top investors experienced a steep decline in 2020 due to the pandemic (see Fig. 12). The reduced investor confidence led to delays in the announcement of new GF project investments in these economies. Surprisingly, outward GF FDI from Canada remained resilient during the first year of the pandemic primarily due to few big-ticket investments made in the manufacturing, and finance and insurance industries. In 2021, Singapore was the only economy that showcased a strong V-shaped recovery in outward investments to CPTPP. The country registered a sharp increase in the within-bloc GF investments in industries such as manufacturing and ICT. A majority of these investments were attracted by Japan, Mexico, and Vietnam. On the other hand, the outward GF investments from the remaining economies are yet to completely recover after the pandemic shock.

2.4 Industries attracting GF FDI

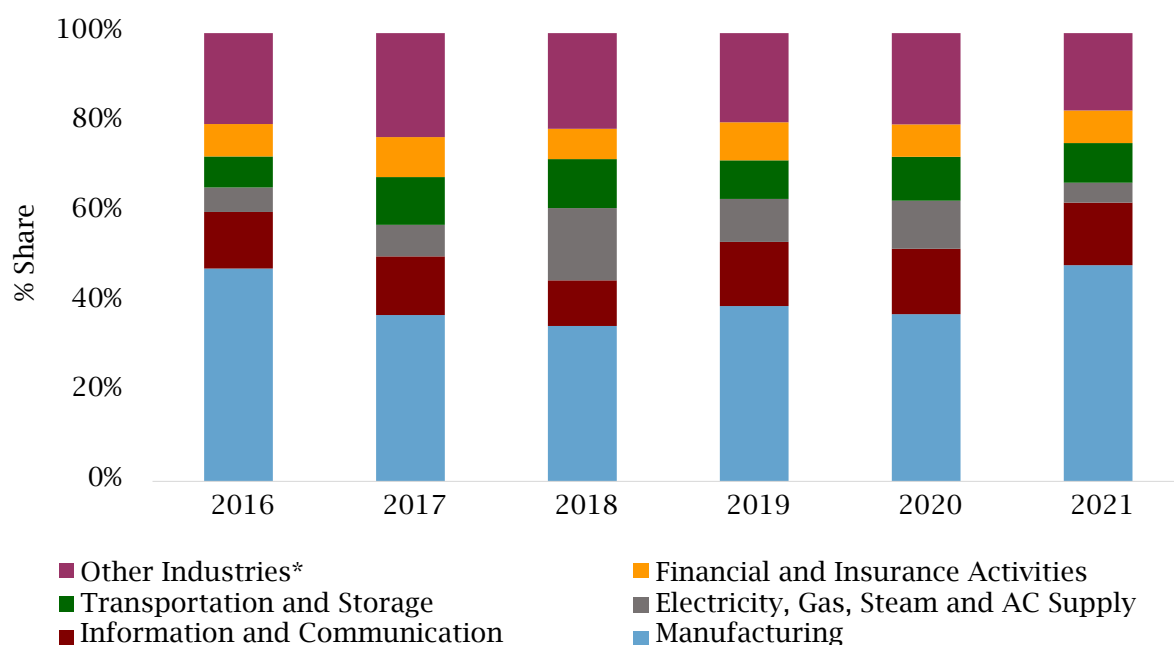


Figure 13: Top GF FDI industries in CPTPP economies
Source: Authors' estimates using orbis BVD FDI data

The industrial allocation of the GF FDI inflows in the CPTPP economies suggests that the manufacturing sector has been attracting a greater share of GF investments in both pre-and post-pandemic periods. Fig. 13 illustrates GF FDI allocation of the

top 5 industries that account for more than 80% of the total FDI inflows to CPTPP since 2016. Before the onset of the pandemic, the share of GF FDI to transportation and storage, and electricity and related industries, declined considerably after expanding in 2018. In the case of electricity and related industries, a record low oil price made investments in new clean energy projects less attractive. Additionally, investments to the transportation and storage industries fell due to supply chain disruptions caused by rising trade tensions (UNCTAD, 2020). On the other hand, the share of investments in ICT, and finance and insurance industries increased owing to sizeable investments attracted by Singapore, Malaysia, and Canada. Besides these industries, the share of manufacturing investments also grew marginally. Japanese investments in the manufacturing industries of Malaysia and Vietnam majorly drove this growth. In 2020, all top industries did not register a substantial change in their share of GF FDI flows (see Fig. 13). Although the manufacturing sector's share fell by a narrow margin in 2020, mainly due to a contraction in the industry caused by strict lockdown and safe-distancing measures, the share of the manufacturing sector in total FDI inflows to CPTPP enlarged in 2021.

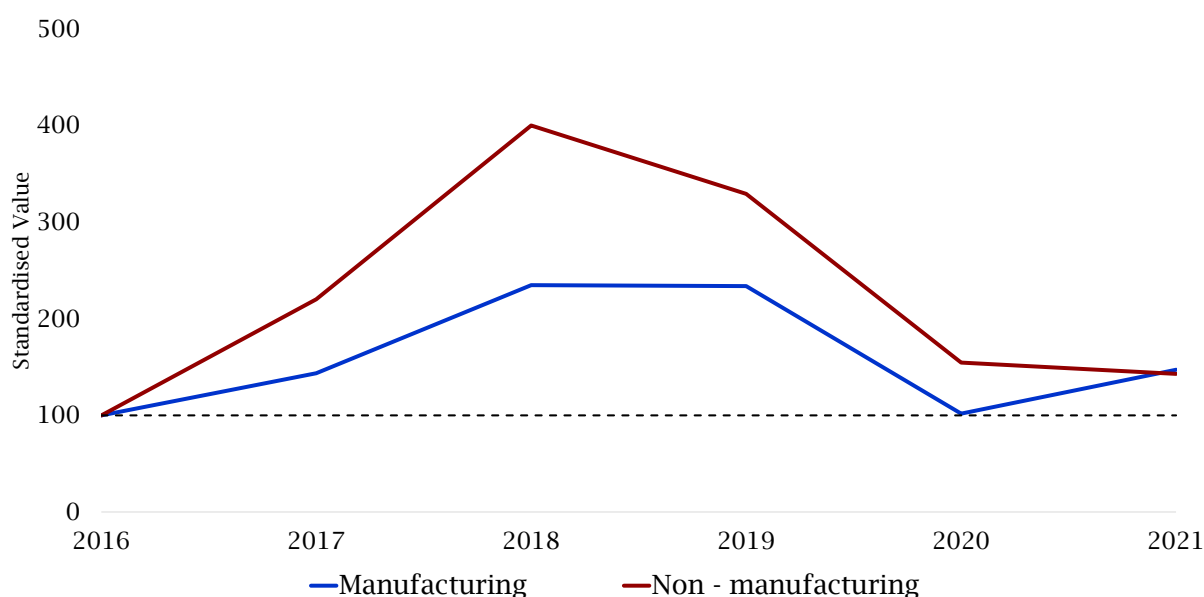


Figure 14: GF FDI in CPTPP economies: Manufacturing vs Non-manufacturing
Source: Authors' estimates using orbis BVD FDI data

Since it has been established that the manufacturing sector attracts a majority of GF FDI inflows to CPTPP, it's important to identify the allocation of investments between manufacturing and non-manufacturing sectors. Fig. 14 shows the standardised change in the GF investments in manufacturing and non-manufacturing sectors with 2016 as the base period. Overall, the growth in non-manufacturing GF FDI surpassed the growth of manufacturing GF FDI. This trend reversed in 2019 (post the initial CPTPP ratification) when the gap between manufacturing and non-manufacturing FDI narrowed.

In 2020, the FDI in both manufacturing and non-manufacturing sectors fell. However, the manufacturing sector FDI showcased a V-shaped recovery in 2021. Furthermore, it can be observed that this rebound helped to close the gap between manufacturing and non-manufacturing sector FDI in 2021.

3 Investment creation after CPTPP implementation

The previous sections highlighted the momentum in GF FDI flows to the CPTPP bloc since 2018. However, one could question the empirical validity of this statement, especially when the existing literature has no consensus on the FDI-FTA relationship. Some studies find that FTAs could result in investment diversion, especially in the context of horizontal FDI. Foreign firms set up firms in destination countries to cater to the destination economy purchases. In the event of an FTA with lower tariffs, firms shift to exporting instead of resorting to producing in the other markets of the FTA bloc (Yoo, 2016; Vo and Ho, 2021). Another strand of literature argues for the investment creation effects of FTA. Such investment creation could be driven within the FTA bloc, where member countries base their production in countries with low production costs, and the lower tariffs enable them to import the final goods to their home market. The investment creation could also arise from the export-platform argument where third-party non-FTA bloc members set up firms in FTA member countries where production costs are cheaper to supply to other member countries (Tekin-Koru and Waldkirch, 2010; Bhasin and Paul, 2016; Duong et al., 2021).

In this section, we empirically investigate the investment creation effects of CPTPP implementation using the GF FDI project-level data from the Orbis Cross-border investment database. The project-level data was aggregated to secure bilateral GF FDI flows between all source and destination markets at the four-digit NAICS industry level. Our sample comprises only source markets that are advanced economies as per the IMF classification. The period under consideration extends from January 2018 to December 2019, corresponding to one year before and after the initial CPTPP implementation date. We do not include the pandemic periods in our analysis. The final data sample used in our empirical analysis is a balanced panel of 35,958 observations that comprises 68 source and 202 destination markets.

Evidence of investment creation: To evaluate the impact of CPTPP implementation on investment creation within the CPTPP bloc, we estimate the below equation:

$$\ln(FDI_{ijt}) = \alpha + \sum_{s=-6}^{+12} \beta_{event,s} Period_s \times Treat_j^{CPTPP} + \delta_{ij} + \gamma_{iq} + \theta_{jq} + \epsilon_{ijt} \quad (1)$$

where FDI_{ijt} pertains to GF FDI flows from source market i to destination market j in period t . $Period_s$ is a binary variable which takes the value 1 in period s and 0 otherwise. We consider multiple period binary variables for periods from June 2018 to December 2019, $s \in Jun2018, \dots, Dec2019$. In other words, we consider period dummy variables for six periods before the event (initial CPTPP implementation) and 12 periods afterwards. $Treat_j^{CPTPP}$ is a binary variable that equals one if the destination market is one of the seven CPTPP parties - Australia, Canada, Japan, Mexico, New Zealand, Singapore, Vietnam and 0, otherwise³. δ_{ij} refers to origin-destination fixed effects which would control for time-invariant bilateral characteristics that could affect FDI inflows. γ_{iq} and θ_{jq} refer to origin-quarter and destination-quarter fixed effects that would control for the origin and destination-specific time-varying factors determining FDI inflows. A finding of statistically significant $\beta_{event,s} > 0$ indicates that the difference in the GF FDI inflows between CPTPP and non-CPTPP destinations increased in period s as compared to the pre-treatment period (Jan 2018-May 2018).

Figure 15 presents the results from estimating **Eq. (1)**. The blue dotted line pertains to the estimates of $\beta_{event,s}$, with the corresponding confidence interval (CI) at 90% indicated by the blue shaded area. The coefficient estimate is statistically insignificant if the range of CI falls above and below 0 (given by the dashed red line). By this argument, we can infer from **Fig. 15** that $\beta_{event,s}$ coefficients are statistically insignificant for the periods before the initial CPTPP implementation. In other words, on average, there was no economic difference in GF FDI inflows to CPTPP and non-CPTPP destinations before the CPTPP implementation. However, this changes after the initial CPTPP implementation, where the respective $\beta_{event,s}$ estimates are greater than zero and economically significant, as evidenced by the blue-shaded area above the red zero line. This empirically proves a surge in GF FDI inflows to CPTPP destinations compared to non-CPTPP destinations after CPTPP implementation.

Identifying the source of investment creation: Although there is evidence of investment creation in the CPTPP bloc after implementation, the question of the source of the investment creation remains. Specifically, we ask the question of whether the surge in the FDI flows to CPTPP bloc was driven by investments from countries within the bloc and/or outside the bloc. Towards this objective, we estimate the below equation:

$$\ln(FDI_{ijht}) = \alpha + \beta_{Post} D_t^{Post} + \beta_{within} D_t^{Post} T_j^{within} + \beta_{outside} D_t^{Post} T_j^{outside} + \delta_{ij} + \gamma_{iq} + \theta_{jq} + \vartheta_{hq} + \epsilon_{ijht} \quad (2)$$

³We consider seven CPTPP members in the study as the agreement came into force in these countries during the period of our study (Jan 2018 - Dec 2019). See **Fig. 18**.

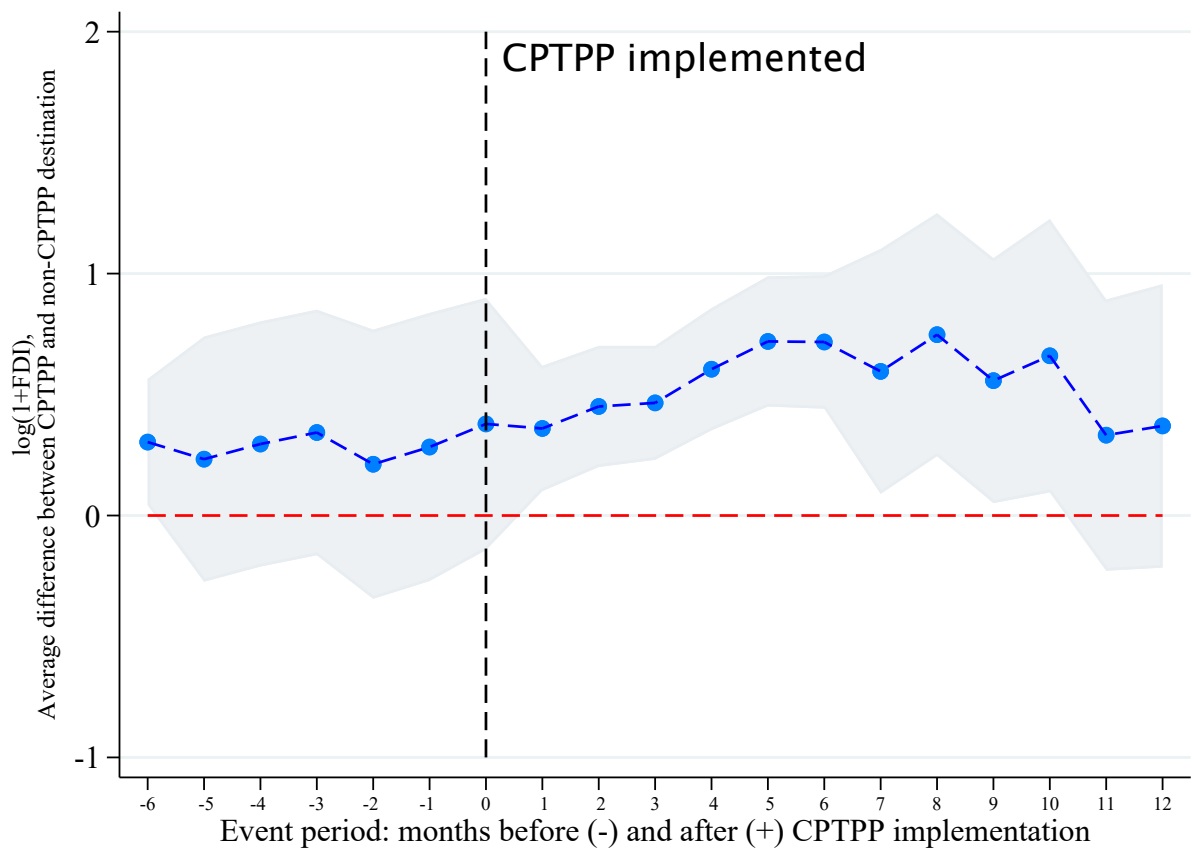


Figure 15: Event study plot

Source: Author estimates using Orbis BVD FDI database, CPTPP destinations comprise AUS, CAN, JPN, MEX, NZL, SGP and VNM

where FDI_{ijht} is GF FDI inflows from origin market i to destination market j in industry h (4 digit NAICS code) in period t . D_t^{Post} is a binary variable that takes the value 1 for periods from December 2018 to December 2019 and 0, otherwise. T_j^{within} is the first treatment variable which takes the value 1 if the origin market i and destination market j belong to the CPTPP bloc (within CPTPP bloc investment creation) and 0, otherwise. $T_j^{outside}$ is the second treatment variable which takes the value 1 if the origin market i is non-CPTPP and the destination market is a CPTPP economy (outside CPTPP bloc investment creation) and 0, otherwise. A finding of $(\beta_{Post} + \beta_{within}) > 0$ and $(\beta_{Post} + \beta_{outside}) > 0$ will indicate that the investment creation arose from within and outside the CPTPP bloc, respectively.

Table 1: Investment creation after CPTPP implementation

Treatment: CPTPP origin to CPTPP destination	
β_{within}	0.221** (0.093)
$\beta_{Post} + \beta_{within}$	0.189** (0.091)
Treatment: Non-CPTPP origin to CPTPP destination	
$\beta_{outside}$	0.010 (0.039)
$\beta_{Post} + \beta_{outside}$	-0.021 (0.036)
Fixed effects	Yes
Observations	29,415
R^2	0.50

The values in the parentheses denote robust standard errors clustered by bilateral pairs. ***, **, * refer to statistical significance at 1%, 5% and 10% respectively.

The results from the estimation of Eq. (2) are reported in Table 1. We find that $(\beta_{Post} + \beta_{within})$ is statistically significant at 5% confidence interval. However, the estimate of $(\beta_{Post} + \beta_{outside})$ is found to be statistically insignificant. This indicates that the source of the investment creation was primarily driven by FDI flows that originated within the CPTPP bloc (FDI flows from CPTPP origin to CPTPP destination markets). The magnitude of the coefficient estimate indicates that investment creation within CPTPP the bloc increased by 18.9% after implementation.

Industries benefiting from within-bloc investment creation: To identify the industries which benefitted the most from the within-bloc investment creation after CPTPP implementation, we conduct a sub-sample regression by estimating Eq. (2) for each of the two-digit NAICS industries in our sample. The coefficient estimates of $100 \times \beta_{within}$ along with the respective 90% confidence interval are showcased in Fig. 16. After implementation, the industries that witnessed an economically significant surge in FDI inflows within the CPTPP bloc are other services, wholesale trade, accommodation and food services, manufacturing and management of companies and enterprises. Interestingly, the results reiterate our highlights from Fig. 13 that the manufacturing sector has witnessed significant investment creation after the CPTPP ratification.



Figure 16: Investment creation in CPTPP vis-à-vis non-CPTPP destinations after implementation

Notes: Data points represent investment creation in CPTPP vis-à-vis non-CPTPP destinations after implementation (% change). Lines correspond to 90% confidence interval.

4 Concluding remarks

This study evaluates the FDI landscape of CPTPP economies. We find that the provisions for investment protection and safeguards for foreign investors in the CPTPP framework have helped amplify FDI inflows to CPTPP member countries. Singapore, Australia, and Canada are top FDI destinations within the CPTPP bloc. A sizeable share of FDI to these economies occurs through M&As, which involve ownership transfer of existing domestic assets. Apart from M&As, the other mode of FDI entry constitute GF FDI,

where foreign investors build new productive units from the ground up. More than 80% of the FDI inflows to CPTPP destinations like Vietnam, Mexico and Peru involve greenfield FDI. Since 2018, investment creation through GF FDI increased within the CPTPP bloc due to solid investments from Japan, Singapore, Australia, and Canada. Japan has the most substantial bilateral FDI relationship with all the other CPTPP members.

Using a difference-in-difference framework on bilateral GF FDI inflows data from Orbis BvD cross-border investment database, this study finds evidence of investment creation in CPTPP economies after implementation, with the source of investments arising from within the bloc. The investment creation primarily caters to the manufacturing industry, which received more FDI inflows after CPTPP came into force for six countries in 2018.

Unfortunately, the COVID-19 pandemic shock of 2020 created a dent in the investment creation patterns, with uneven impact across the CPTPP member countries. Although Singapore's outward greenfield FDI to the CPTPP bloc witnessed a strong rebound in 2021, other top investors like Japan, Australia, and Canada are yet to recover to pre-pandemic levels. On a brighter note, investment flows to the manufacturing sector have proven to be resilient and are expected to drive the post-pandemic recovery of GF FDI inflows to the CPTPP bloc.

Our estimated investment creation effect of CPTPP implementation is based on GF FDI data until December 2019. Since countries like Peru, Chile and Malaysia implemented CPTPP after 2019, the investment creation effects from CPTPP implementation could be much larger. As such, we expect the FDI landscape in CPTPP economies to evolve further as more economies, such as the United Kingdom (UK), join the trade pact. With rising geopolitical tensions such as the US-China trade war and the Russia-Ukraine war and countries responding with more protectionist measures, free trade agreements like CPTPP are tantamount to building economic resilience to global shocks through strong FDI linkages.

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A Appendix I

CPTPP members	Investment benefits	Examples
Australia	Increased screening threshold	<ul style="list-style-type: none"> Private investment in non-sensitive sector - AUD 1,134 million Government investment in agricultural land - AUD 15 million Government investment in agribusiness - AUD 57 million
Canada	Increased screening threshold	<ul style="list-style-type: none"> Private investment in non-sensitive sectors - CAD1.5 billion
New Zealand	Increased screening threshold	<ul style="list-style-type: none"> Private investments in non-sensitive sectors - NZD 200 million
Vietnam	Opening up of key market sectors	<ul style="list-style-type: none"> Mining sector open to investments from CPTPP Removal of foreign equity restrictions in private healthcare, telecommunications, courier, energy and environmental services.

Figure 17: Investment benefits offered to CPTPP members

Source: *Ministry of Trade and Industry, Singapore (2018)*, *Department of Foreign Affairs and Trade, Australian Government (2019a)*, *Riyaz Dattu, Gajan Sathananthan (2019)*, *The Treasury, New Zealand Government (2018)* & *Department of Foreign Affairs and Trade, Australian Government (2018)*

B Appendix II

CPTPP members	CPTPP enforcement date
Australia	30 December 2018
Canada	
Japan	
Mexico	
New Zealand	
Singapore	
Vietnam	14 January 2019
Peru	19 September 2021
Malaysia	29 November 2022
Chile	21 February 2023

Figure 18: Implementation date of CPTPP in member countries

Source: *Department of Foreign Affairs and Trade, Australian Government (2019a)*