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Press Statement by

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**World Investment Report 2011:
Non-Equity Modes of International Production and Development**

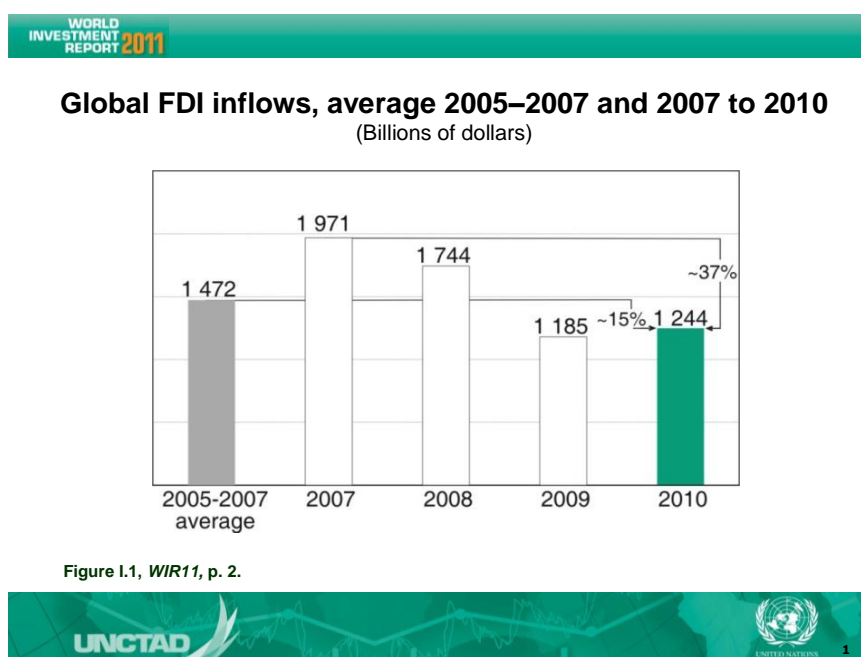
Ladies and Gentlemen,

Welcome to the launch of the 2011 edition of the World Investment Report. This year's Report focuses on non-equity modes of international production. These modes, in which there is growing interest from transnational corporations (TNCs), present opportunities for developing and transition economies to integrate more closely into the rapidly evolving global economy, to strengthen the potential of their home-grown productive capacity, and to improve their international competitiveness.

The Report, as always, also examines recent global and regional trends in FDI flows and policies. Global FDI has not yet recovered fully to its pre-crisis

level, but is likely to do so during the course of this year. This recovery will represent both a huge opportunity and a challenge for policymakers in all countries. Above all, the challenge for the development community will be to make investment work towards achieving the Millennium Development Goals.

Ladies and Gentlemen, *[Slide 2]*



Global foreign direct investment (FDI) flows rose moderately to \$1.24 trillion in 2010, but were still 15% below their pre-crisis average. This was in contrast to global industrial output and trade, which were already back to pre-crisis levels. UNCTAD estimates that global FDI will recover to its pre-crisis level in 2011, increasing to \$1.4–1.6 trillion; and approach its 2007 peak in 2013. This positive scenario holds, barring any unexpected global economic shocks that may arise from a number of risk factors still in play.

The slow recovery of FDI flows in 2010 masked starkly divergent trends among regions, sectors and modes of FDI:

- **Regions.** [Slide 3] While East and South-East Asia, and Latin America, experienced strong growth in FDI inflows (with increases of 34% and 14%, respectively), those to Africa, South Asia, West Asia, and transition economies continued to decline. Flows to developed countries as a whole also declined marginally (to \$602 billion), with some European countries seeing significant falls. Inflows to the United States, however, increased markedly.

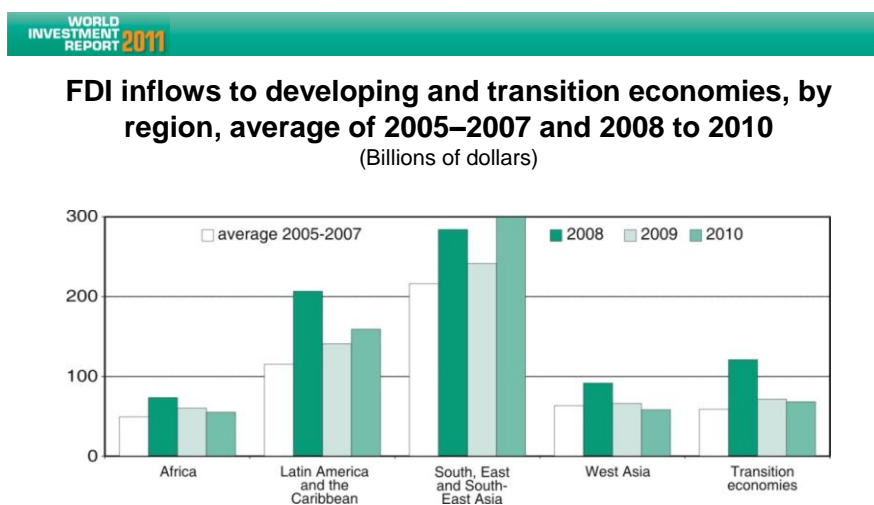


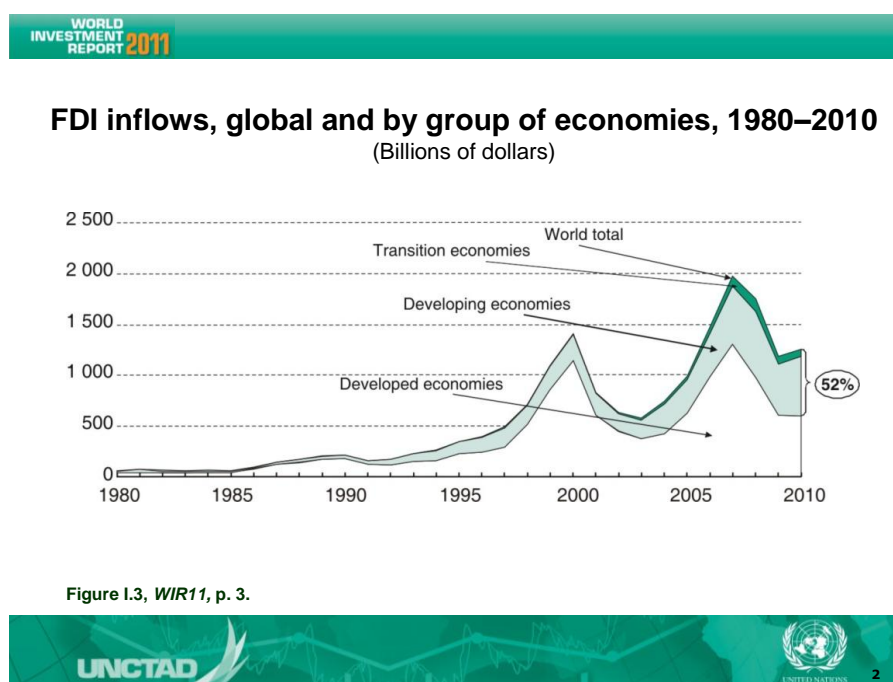
Figure I.6, WIR11, p. 5.



- **Sectors.** FDI in services, the decline in which which accounted for the bulk of the fall in FDI flows due to the crisis, continued on its downward path in 2010. All the main service industries (business services, finance, transport and communications and utilities) fell, although at different rates. In contrast, FDI in manufacturing bounced back in the aftermath of the crisis, rising to account for almost half of all FDI projects. Within manufacturing, however, investments still fell in business-cycle-sensitive industries such as metal and electronics. FDI in extractive industries (which had not suffered during the crisis) also declined in 2010.

- **Modes of entry.** Cross-border mergers and acquisitions (M&As) are picking up. Their value increased by 36% in 2010, although this was still only around one-third of the peak in 2007. In contrast to the increase in M&As, greenfield projects – which account for the majority of FDI – continued to fall in 2010. On a positive note, however, greenfield investments registered a significant rise in both value and number during the first five months of 2011.

Ladies and Gentlemen, [Slide 4]



2010 was notable in that, for the first time, *developing and transition economies* absorbed more than half of global FDI inflows, accounting for some \$642 billion or 52 per cent of global FDI flows. As international production and more recently international consumption shift to developing and transition economies, TNCs are increasingly investing in both efficiency- and market-seeking projects in those countries.

However, FDI flows to the *poorest regions* continued to fall – a matter of grave concern. Africa, least developed countries, landlocked developing countries and small island developing States all experienced declines in FDI flows.

It should also be noted that developing and transition economies generated nearly 30% of global *outflows* – a record level at \$388 billion – with much of the investment directed to other countries in the South. This reflects the growing confidence and dynamism of emerging-market TNCs and demonstrates the growing importance of these economies as sources of international investment.

International production is expanding, with foreign sales, employment and assets of TNCs all increasing. TNCs’ production worldwide generated value added of approximately \$16 trillion in 2010, about a quarter of global GDP. [Slide 5] Foreign affiliates of TNCs accounted for more than one-tenth of global GDP and one-third of world exports.

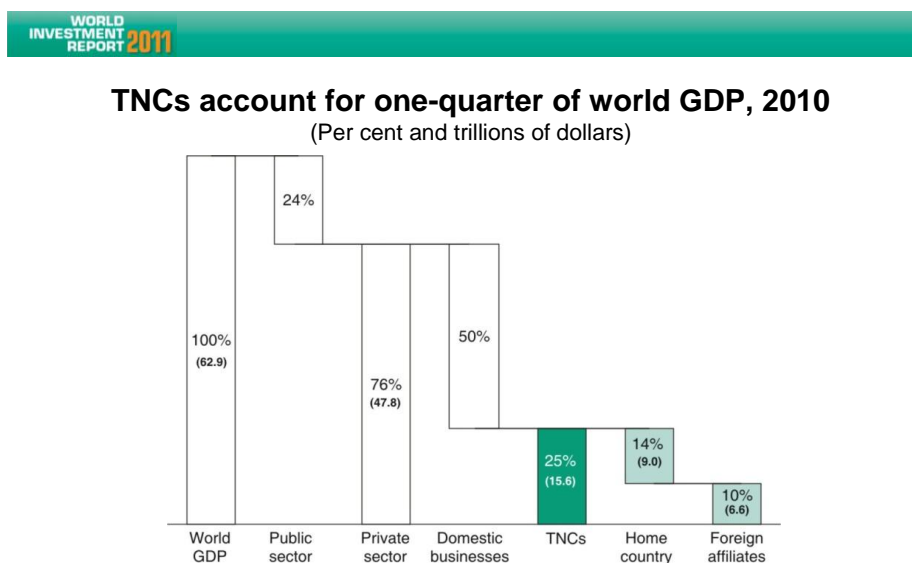


Figure I.22, WIR11, p. 25.



State-owned TNCs have emerged as important FDI players. [Slide 6] Their combined FDI accounted for 11% of global outflows in 2010, even though they make up less than 1% of the universe of TNCs. Their international production networks now number more than 8,500 foreign affiliates, spread across developed and developing countries.

Asian State-owned TNCs are growing in importance, but Europe is still the region with by far the largest number of State-owned or State-participated TNCs, accounting for more than 260 out of some 650 world-wide. The bulk of State-owned TNCs operate in services industries (455) and are often remnants of original national monopolies in infrastructure industries such as telecommunications. The finance sector also includes a significant number (126) of State-owned TNCs, some of them originating quite recently from government rescue operations during the financial crisis.



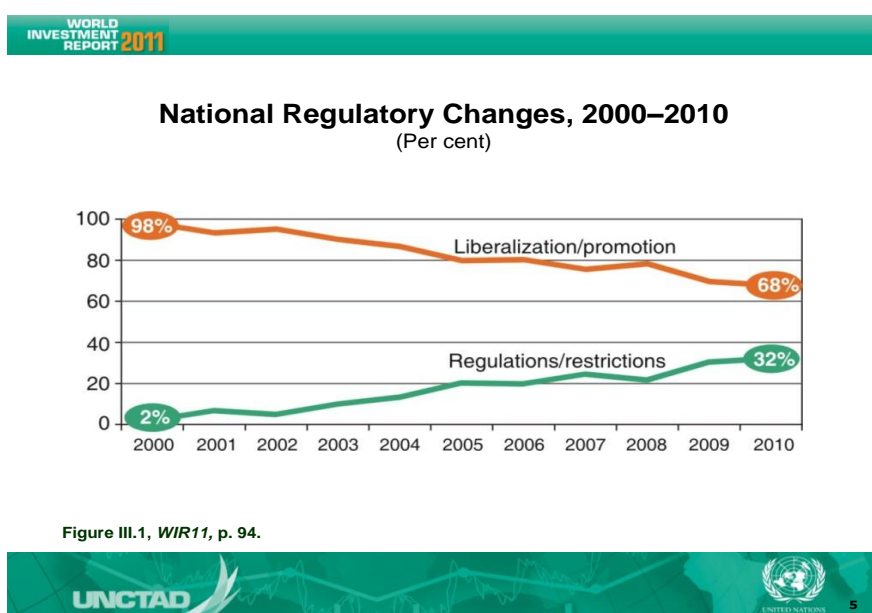
Distribution of State-owned TNCs by home region/economy, 2010

Region/economy	Number of TNCs	Share
World	653	100
Developed countries	285	43.6
Europe	264	40.4
North America	3	0.5
Other developed countries	18	2.8
Developing countries	345	52.8
Africa	82	12.6
South Africa	54	8.3
Latin America and the Caribbean	28	4.3
Brazil	9	1.4
West Asia	70	10.7
United Arab Emirates	21	3.2
South, East and South-East Asia	165	25.3
China	50	7.7
South-East Europe and the CIS	23	3.5
Russian Federation	14	2.1

Table I.8, WIR11, p. 31.



Let me now turn to *recent policy trends* related to FDI. [Slide 7] Investment liberalization and promotion remained the dominant element in 2010, with 68% of the measures identified in 2010 operating in a direction more favourable to FDI. However, the risk of investment protectionism has increased, as investment-related restrictions and administrative procedures have accumulated over recent years. Almost one-third of measures in 2010 related to regulation or restriction of FDI, compared to only 2% of measures at the start of the decade.



As far as *international investment policies* are concerned, the regime of international investment agreements is at a crossroads. [Slide 8] With close to 6,100 treaties, many ongoing negotiations and multiple dispute-settlement mechanisms, it is approaching the point where it is too big and complex to handle for governments and investors alike, yet the system remains inadequate to cover all possible bilateral investment relationships (which would require a further 14,100 bilateral treaties). The policy discourse about the future orientation of the international investment regime and its development impact is intensifying.

Trends of BITs, DTTs and “other IIAs”, 2000–2010

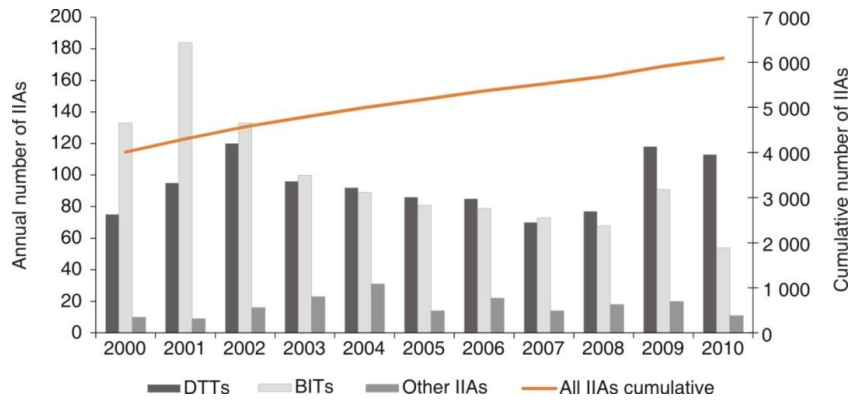


Figure III.2, *WIR11*, p. 100.



Recent years have witnessed a comeback of industrial policies, and these interact increasingly with FDI policies. This interaction poses important challenges for making the two policies work together for development. Striking a balance between building stronger domestic productive capacity, while also avoiding investment and trade protectionism, is of key importance, as is enhancing international coordination and cooperation.

A final important development on the policy front is *corporate social responsibility* (CSR). The investment policy landscape is influenced more and more by a myriad of voluntary corporate social responsibility standards. Governments can maximize development benefits deriving from these standards through appropriate policies, such as harmonizing corporate reporting regulations, providing capacity-building programmes, and integrating CSR standards into international investment regimes.

Ladies and Gentlemen, *[Slide 9]*

Let me return to the special topic of this year's WIR: non-equity modes of international production.

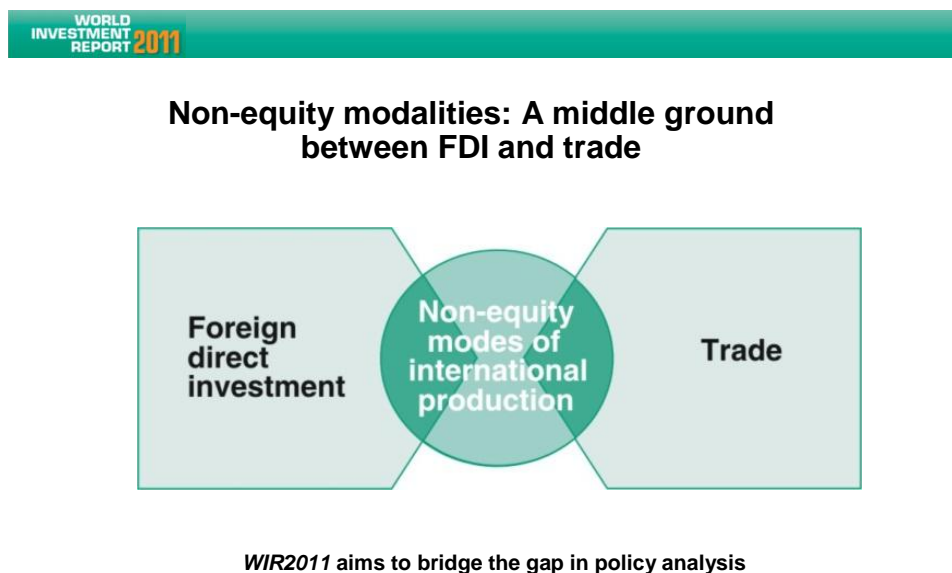


Figure IV.1, *WIR11*, p. 125.



In today's world, policies aimed at improving the integration of developing economies into global value chains must look beyond FDI and trade. Policymakers need also to consider non-equity modes (NEMs) of international production. NEM activities occur throughout the global value chains of TNCs. [Slide 10] They include contract manufacturing, services outsourcing, contract farming, franchising, licensing, management contracts, and other types of contractual relationship through which TNCs coordinate the activities of host-country firms, without owning a stake in those firms.

Selected NEM-types along the value chain

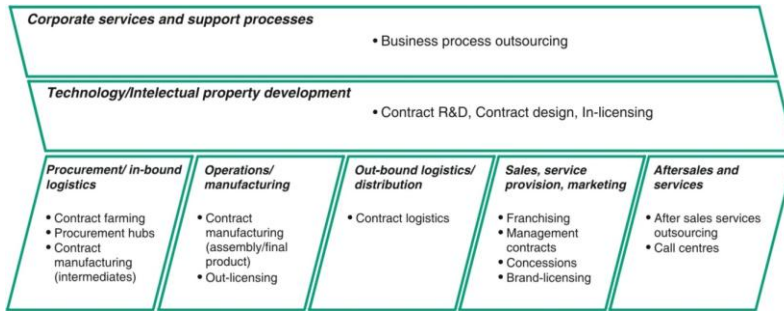


Figure IV.2, WIR11, p. 126.



Cross-border NEM activity worldwide is significant, and particularly so in developing countries. [Slide 11] It is estimated to have generated over \$2 trillion of sales in 2010. Contract manufacturing and services outsourcing accounted for \$1.1–1.3 trillion, franchising \$330–350 billion, licensing \$340–360 billion, and management contracts around \$100 billion. In most cases, NEMs are growing more rapidly than the industries in which they operate.

Estimated worldwide sales by type of NEM, 2010 (Trillions of dollars)

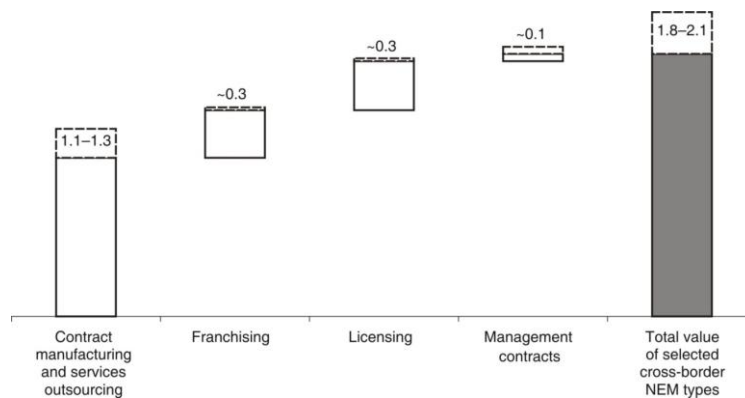


Figure IV.3, WIR11, p. 132.



NEMs can yield significant development benefits. A key advantage of NEMs is that they are flexible arrangements with local firms, with a built-in motive for TNCs to invest in the viability of their partners through dissemination of knowledge, technology and skills. This offers host economies considerable potential for long-term industrial capacity-building through a number of key development impact channels such as employment, value added, export generation and technology acquisition.

NEMs employ an estimated 14–16 million workers in developing countries. *[Slide 12]* Contract manufacturing and services outsourcing in industries such as garments, footwear and electronics have accounted for the bulk of employment generation. NEMs also generate significant value added in developing countries, representing up to 15% of GDP in some economies. Their exports account for 70–80% of global exports in several industries. Overall, NEMs can support long-term industrial development by building productive capacity, including through technology dissemination and domestic enterprise development, and by helping developing countries gain access to global value chains. In Mozambique, for instance, contract farming has led to some 400,000 smallholders participating in global value chains.

Estimated global employment in contract manufacturing, selected industries, 2010

(Millions of employees)

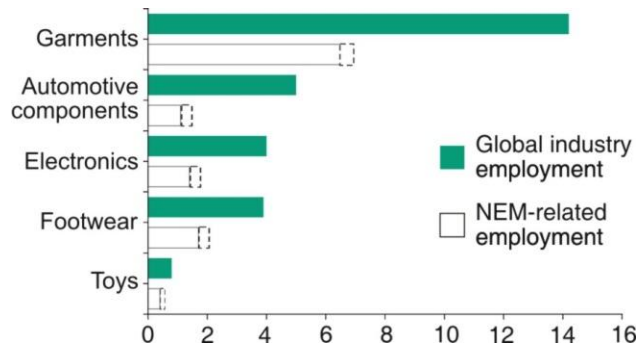


Figure IV.8, WIR11, p. 149.



NEMs also pose risks for developing countries. Employment in contract manufacturing can be highly cyclical and easily displaced. The value added contribution of NEMs can appear low if assessed in terms of the value captured out of the total global value chain. And concerns exist that TNCs may use NEMs to circumvent social and environmental standards. For example, working conditions in NEMs based on low-cost labour have often been a concern. Over recent years, corporate social responsibility standards have often focused on the operations of TNCs, which have been pushed to influence their NEM partners through codes of conduct, to promote international labour standards and good management practices.

A final concern relates to long-term industrial development. Developing countries need to mitigate the risk of remaining locked into low-value-added activities and becoming overly dependent on TNC-owned technologies and TNC-governed global value chains.

Policy matters. Maximizing development benefits from NEMs requires action in four areas. First, NEM policies need to be embedded in overall national development strategies, aligned with trade, investment and technology policies and addressing dependency risks. Second, governments need to support efforts to build domestic productive capacity to ensure the availability of attractive business partners that can qualify as actors in global value chains. Third, promotion and facilitation of NEMs requires a strong enabling legal and institutional framework, as well as the involvement of investment promotion agencies in attracting TNC partners. Finally, policies need to address the negative consequences and risks posed by NEMs by strengthening the bargaining power of local NEM partners, safeguarding competition, protecting labour rights and the environment.

* * *

Ladies and Gentlemen,

Foreign direct investment is a key component of the world's growth engine. However, the post-crisis recovery in FDI has been slow and unevenly spread, with especially the poorest countries still in "FDI recession". Many uncertainties haunt investors in the global economy. National and international policy developments are sending mixed messages to the investment community. And investment policymaking is becoming more complex, with international production evolving and with blurring boundaries between FDI, non-equity modes and trade. The growth of NEMs poses new challenges but also creates new opportunities for the further integration of developing economies into the global economy. The *World Investment Report 2011* aims to help developing-country policymakers and the international development

community to navigate those challenges and capitalize on the opportunities for their development gains.

Thank you.