

INVESTMENT AND THE DIGITAL ECONOMY: DEVELOPMENT CHALLENGES AND POLICY FRAMEWORK

Trade and Development Board

James Zhan

Director, Investment and Enterprise, UNCTAD

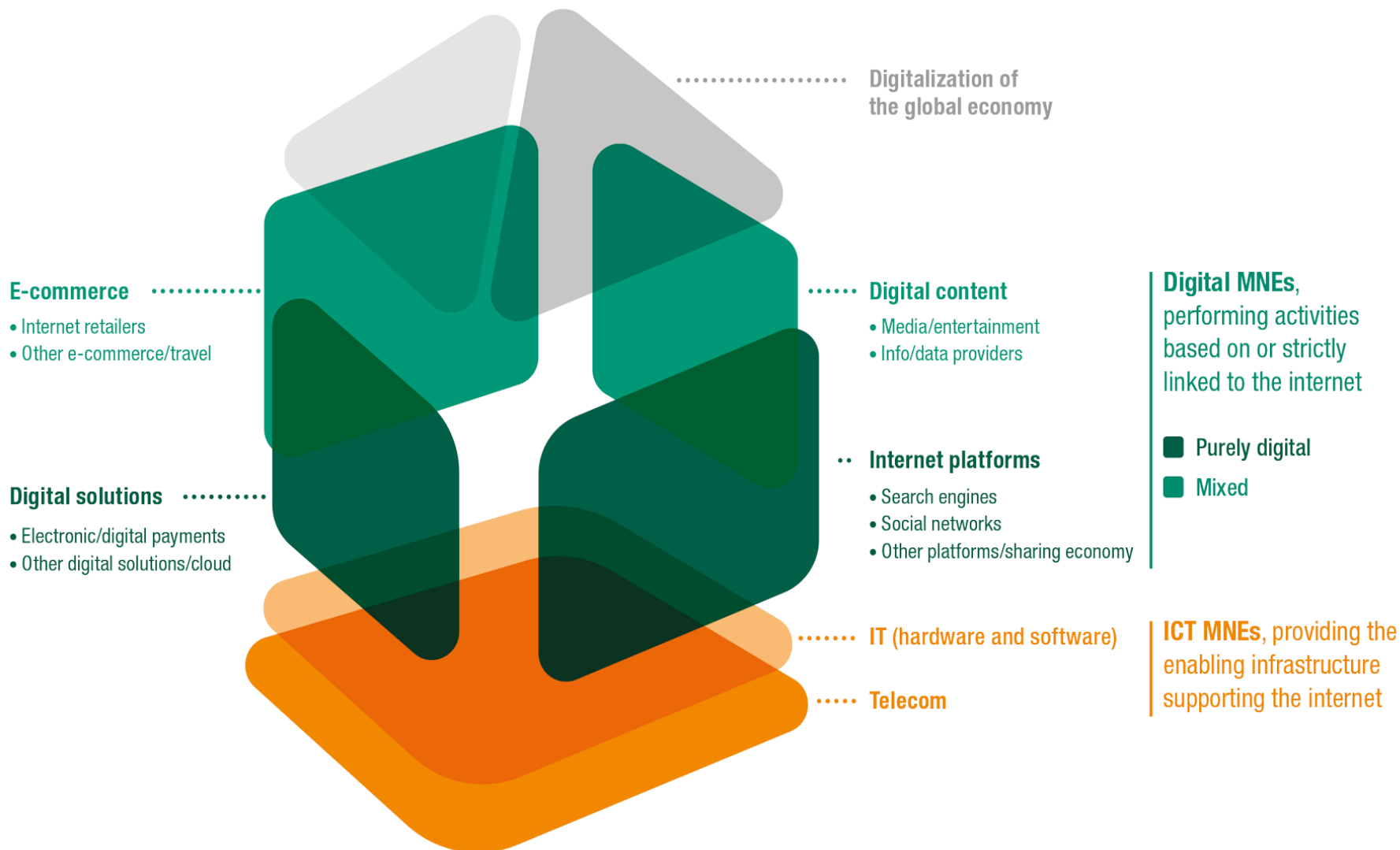
Geneva

12 September 2017

Contents

- **4 salient features of GVCs in the digital era**
- **3 dimensions for digital economy development**
- **3 challenges for attracting digital FDI**
- **4 building blocks for Policy framework**

Digital firm-led coordination: the architecture of the digital economy

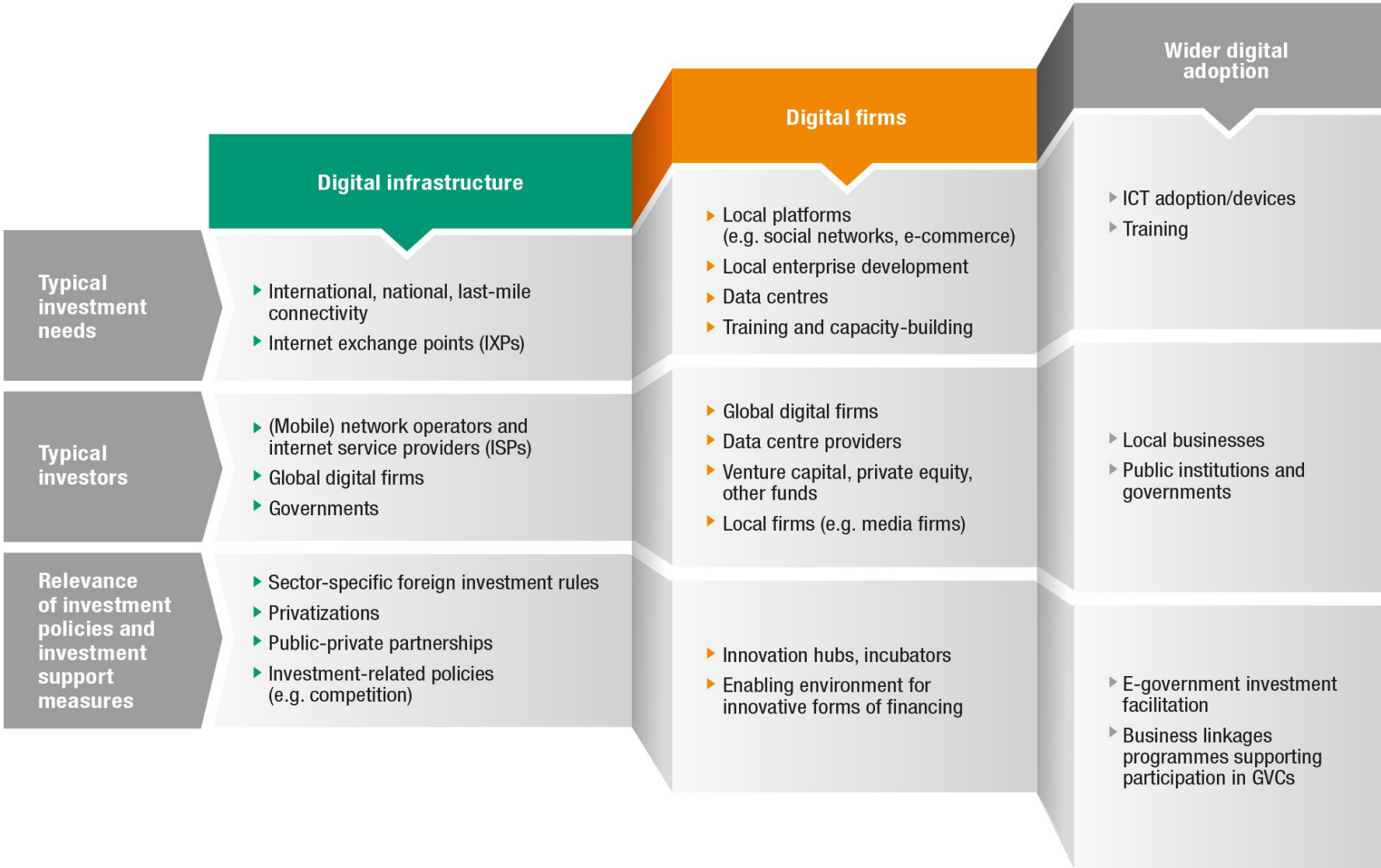


Four salient features of GVCs in the digital era

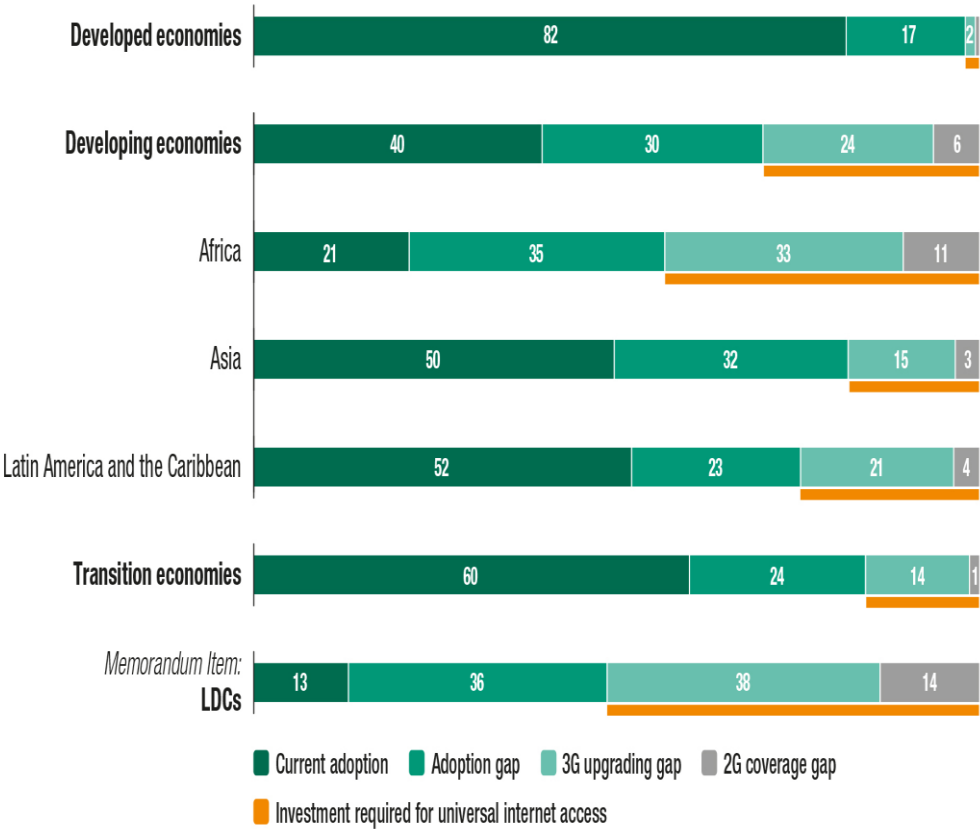
Scenario	Descriptive elements	Possible international production implications
Distributed production	<ul style="list-style-type: none"> • Localized manufacturing closer to the point of consumption • Factory replication (digital twins) under centralized control 	<p><i>Patterns of investment and modes of governance:</i></p> <ul style="list-style-type: none"> • More, smaller production locations, rather than few, large locations • Sophisticated centralized coordination and quality control
Accelerated servicification	<ul style="list-style-type: none"> • Product servicization (power-by-the-hour models) • Increased use of contract manufacturing and outsourcing of ancillary operations across more industries 	<p><i>Types of investment:</i></p> <ul style="list-style-type: none"> • More investment in services • More non-equity modes of production
Extended disintermediation	<ul style="list-style-type: none"> • Direct delivery of products and services to end users • Branded manufacturers reaching out to end users; "Intel inside" model 	<p><i>Investment impact:</i></p> <ul style="list-style-type: none"> • Increased value capture by MNEs • Fewer local distribution partnerships, new service partnership opportunities
Flexible production	<ul style="list-style-type: none"> • Automation to support <ul style="list-style-type: none"> ▸ Customization (increased product variety) ▸ Production to order (volume flexibility) 	<p><i>Investor behaviour:</i></p> <ul style="list-style-type: none"> • More fluctuations in output and use of labour • More footloose production

Source: © UNCTAD WIR17

Three dimensions for digital development



Internet adoption and connectivity gaps



The SDG connectivity target is attainable with the right policies:

- **The initial investment** required for universal 3G broadband coverage in developing and transition economies is estimated at close to **\$100 billion**.
- However internet connectivity investment should be supported by **power supply infrastructure**.
- Furthermore **handset availability, skills development and content supply** are needed to narrow the significant adoption gap.

All this requires public-private partnership in investment.

Three challenges for attracting digital FDI:

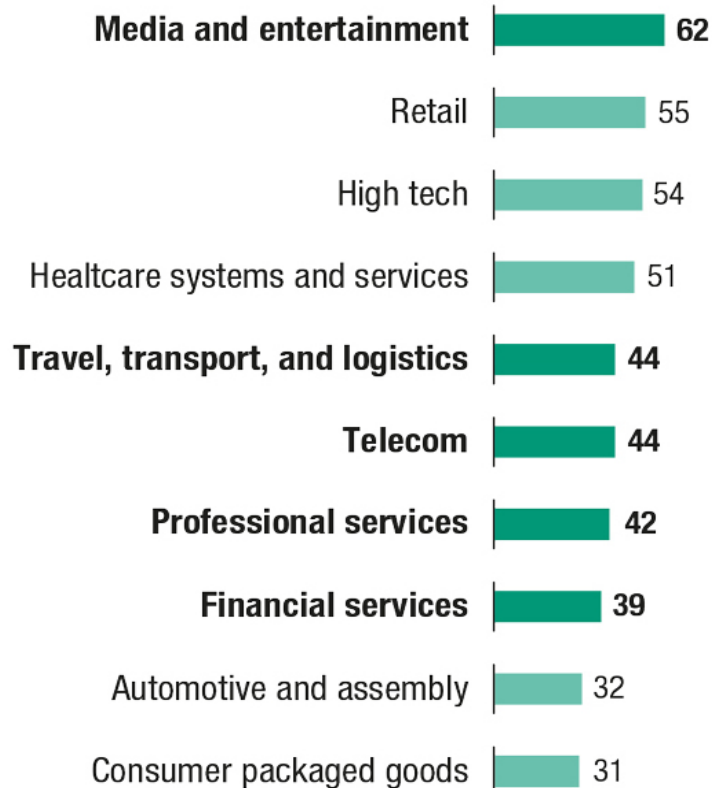
a. Openness

Top 10 industries affected by digitalization and by FDI restrictions

Per cent

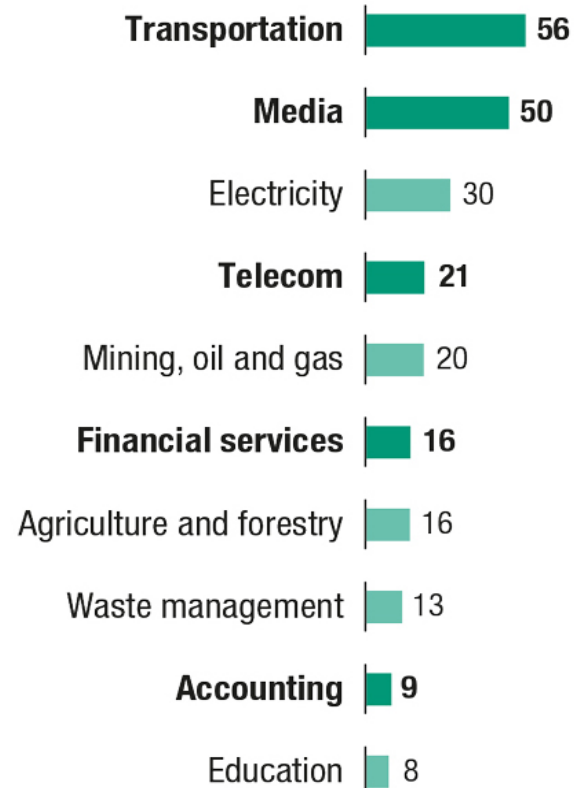
Industries ranked by digital impact

Share of executives (survey respondents)



Industries ranked by FDI restrictions

Share of countries with restrictions

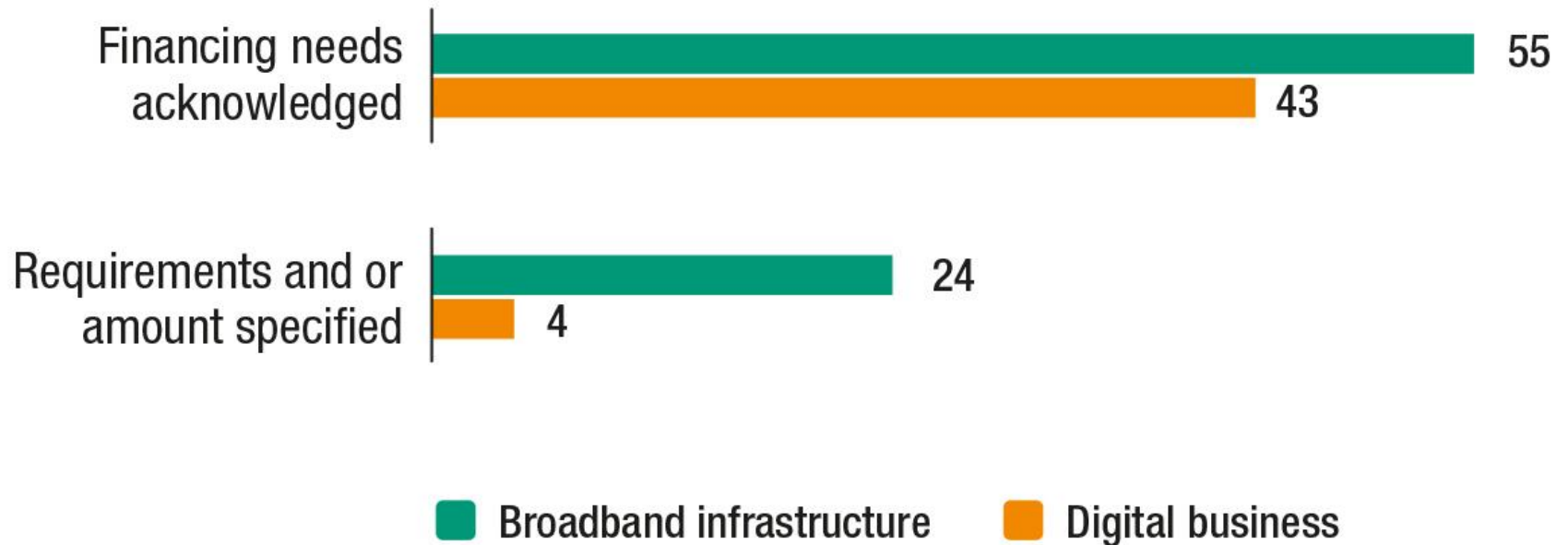


Three challenges for attracting digital FDI:

b. Embedding

The investment dimension in digital development strategies, by objective

Results of a survey of 102 strategies (Per cent)



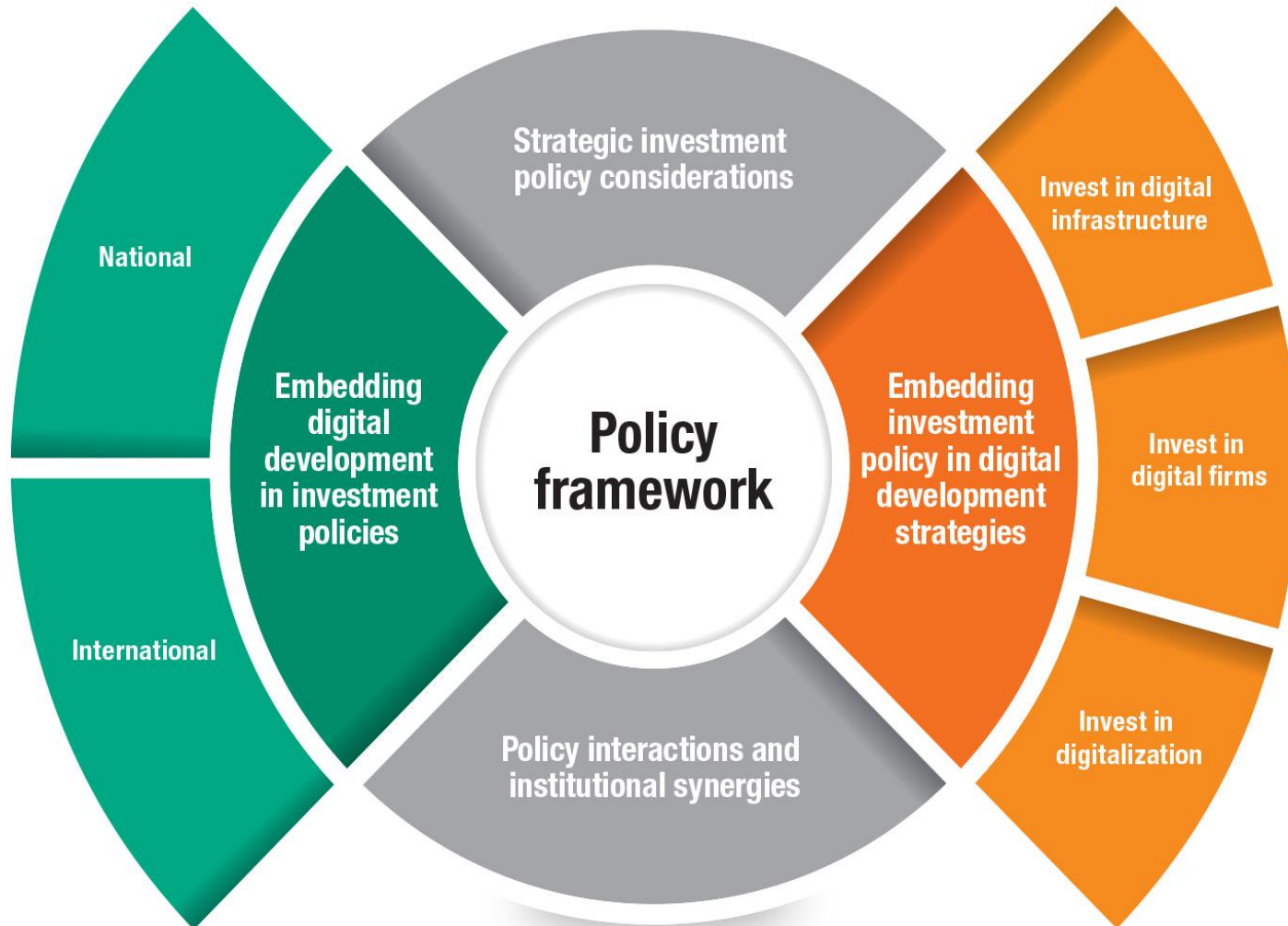
Three challenges for attracting digital FDI:

c. Balancing

Selected determinants	Public policy concerns	Investor concerns
Data protection, localization laws	<ul style="list-style-type: none"> • Privacy • National security • Industrial development 	<ul style="list-style-type: none"> • Scale economies • Free flow of data
Content restrictions	<ul style="list-style-type: none"> • Politically sensitive (dis-)information • National security • Cultural or religious values 	<ul style="list-style-type: none"> • Predictability of the business environment
Intermediary liability rules	<ul style="list-style-type: none"> • Illegal content distribution 	<ul style="list-style-type: none"> • Legal certainty • Operating costs
Telecommunication and media regulations (applied to online services)	<ul style="list-style-type: none"> • Public service responsibilities 	<ul style="list-style-type: none"> • Network access • Operating costs
Mandatory source code disclosure policies	<ul style="list-style-type: none"> • National security • Technology dissemination • Industrial development 	<ul style="list-style-type: none"> • Intellectual property protection
Sector regulations in other sectors of the economy	<ul style="list-style-type: none"> • Professional standards • Social protection 	<ul style="list-style-type: none"> • Market access

As countries promote investment in the digital economy to harness its benefits, they will have to mitigate its potential negative impact and protect public interests. This requires up-to-date regulations – and the ability to implement them – in such areas as **data security, privacy, intellectual property protection, consumer protection and the safeguarding of cultural values.**

Four building blocks for Policy framework



Investment policymakers should take a proactive approach in the formulation of digital development strategies. A comprehensive investment policy framework for the digital economy should ensure not only that digital development is embedded in investment policies but also that investment policy is embedded in digital development strategies

REPORT AND SUPPORTING ANNEXES AVAILABLE ONLINE

<http://www.unctad.org/>
<http://www.worldinvestmentreport.org/>

Contact:

Division on Investment and Enterprise

Palais des Nations, 1211 Geneva 10, Switzerland

 diaeinfo@unctad.org

 [@unctadwif](https://twitter.com/unctadwif)

Join us on:

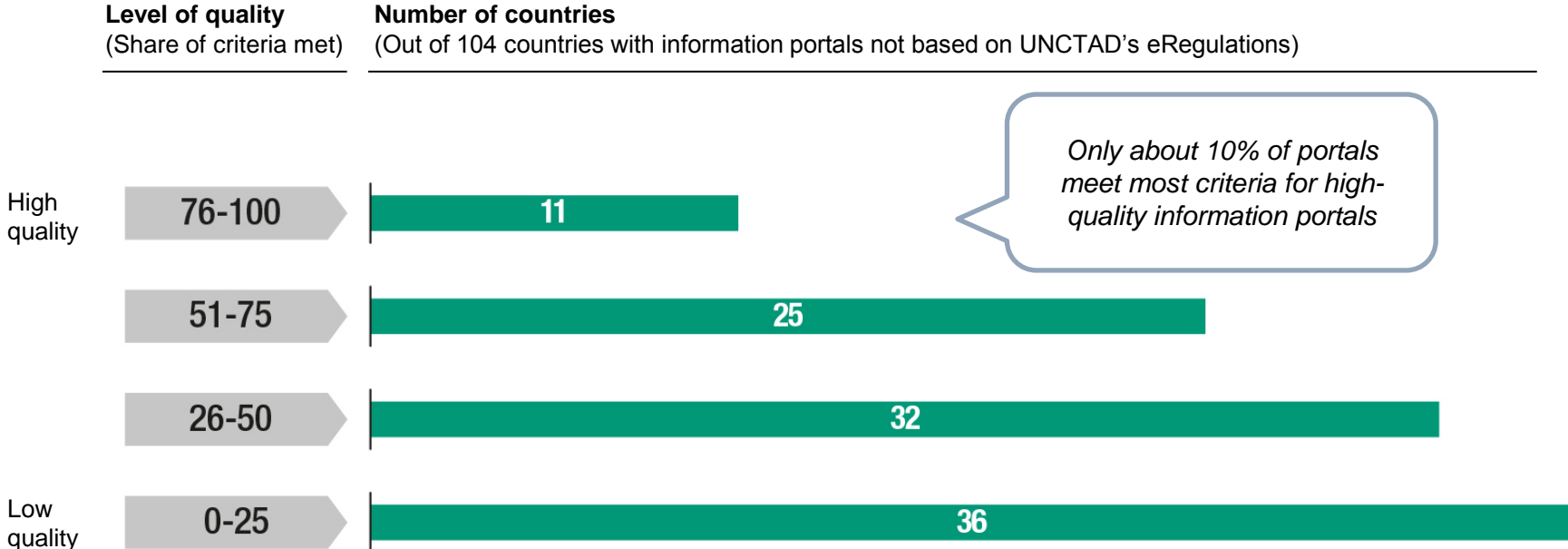
<http://investmentpolicyhub.unctad.org/ipfsd>

<http://unctad-worldinvestmentforum.org>

Policymakers: “improve the world, start with yourself” → eGovernment

Information portals for businesses and investors, by share of quality criteria met

Per cent



Go to **GER.CO** to check how your country's information portal or online single window for businesses and investors are rated!

Business and Investment Facilitation News Site