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WORLD INVESTMENT REPORT 2014
Investing in the SDGs — an Action Plan

- Ladies and Gentlemen,
- The Report, as always, examines recent trends in FDI flows and policies, to which I will first turn.
- In addition, this year’s special topic focuses on Investment in the Sustainable Development Goals (SDGs), which are currently being formulated by the United Nations, in consultation with a wide range of stakeholders.
The presentation is structured around three main topics: global and regional FDI trends; recent policy developments related to FDI, both at national and international levels; and – this year's special topic – investing in the SDGs.

Let me start with the trends in FDI.
- **Cautious optimism returned to global FDI in 2013.** After the 2012 slump, global FDI returned to growth, with inflows rising 9 per cent in 2013, to $1.45 trillion. FDI inflows increased in all major economic groupings – developed, developing, and transition economies. Global FDI stock also rose by 9 per cent, reaching $25.5 trillion.

- **FDI flows are expected to rise over the next three years, driven mainly by developed countries, although flows to developing countries will remain high.** UNCTAD projects that global FDI flows could rise to $1.6 trillion in 2014, $1.7 trillion in 2015 and $1.8 trillion in 2016. The rise will be mainly driven by investments in developed economies as their economic recovery takes hold and spreads wider.

- As a result of this trend, the regional distribution of FDI may return to a more “traditional pattern”, i.e. one in which developed countries receive a higher share of global FDI inflows.

- Nevertheless, FDI flows to developing economies will remain at a high level in the coming years. In 2013 developing countries share of global inward investment was 54 per cent.

- The fragility in some emerging markets and risks related to policy uncertainty and regional conflict could still derail the expected upturn in FDI flows.
- Developing countries and transition economies now constitute a half of the top 20 economies ranked by FDI inflows. In fact 5 of the top 6 largest recipients of FDI were from the developing or transition economies; and Mexico moved into tenth place.

- China recorded its largest ever inflows and maintained its position as the second largest recipient in the world. Countries such as India, Chile and Colombia were also in the top 20, making the high developing country share a widespread phenomenon.
FDI flows increase to all major regions

FDI inflows by region, 2007 and 2012–2013
(Billions of dollars)

- **FDI flows to all major regions increased.** FDI flows to developed countries increased by 9 percent in 2013 to $566 billion, some 39 per cent of global flows, while those to developing economies reached a new high of $778 billion, or 54 per cent of the total. The balance of $108 billion went to transition economies.

- Developing Asia remains the region with the highest FDI inflows, significantly above the EU, traditionally the region with the highest share of global FDI.

- FDI inflows were up also in the other major developing regions, Africa (up 4 per cent) and Latin America and the Caribbean (up 6 per cent, excluding offshore financial centres).
- **FDI outflows from developing countries reached a record level.** Transnational corporations (TNCs) from developing economies continue to increase their share of global FDI outflows. This includes through the acquisition of foreign affiliates being sold by TNCs from developed countries located in their regions.

- Developing and transition economies together invested $553 billion, or 39 per cent of global FDI outflows, compared with only 12 per cent at the beginning of the 2000s.
Six developing and transition economies ranked among the 20 largest investors in the world in 2013. The rise of TNCs from developing and transition economies is reflected in the ranking of their home economies.

In 2013 China, the Russian Federation, Hong Kong (China), Republic of Korea, Singapore and Taiwan Province of China were all among the top 20 investors.
The poorest countries are less and less dependent on extractive industry investment. Although historically FDI in many poor developing countries has relied heavily on extractive industries, the dynamics of greenfield investment over the last 10 years reveals a more nuanced picture.

- The share of the extractive industry in the cumulative value of announced cross-border greenfield projects is substantial in Africa (26 per cent) and in LDCs (36 per cent).
- However, over the past decade the share of announced projects dropped from 52 per cent in 2004 to 11 per cent in 2013 for Africa, and from 74 per cent to 9 per cent for LDCs. Data on announced greenfield investments in 2013 show that manufacturing and services make up about 90 per cent of the total value of projects both in Africa and in LDCs.
International production continues its steady growth. International production continued to expand in 2013, rising by 9 per cent in sales, 8 per cent in assets, 6 per cent in value added, 5 per cent in employment, and 3 per cent in exports.

- TNCs from developing and transition economies expanded their overseas operations faster than their developed country counterparts, but at roughly the same rate of their domestic operations, thus maintaining – overall – a stable internationalization index.
I move now to the presentation of recent policy developments related to FDI. Developments in national investment policy making are discussed first, followed by an examination of international investment policies.
Looking at national investment policymaking, we can see that governments continued to liberalize and promote foreign investment in 2013. At the same time, the overall share of regulatory or restrictive investment policies further increased from 25 per cent in 2012 to 27 per cent in 2013.

The majority of investment liberalizations were reported for countries in Asia; and most were related to the telecommunications industry and the energy sector. Newly introduced restrictions and regulations included a number of non-approvals of foreign investment projects.

Recently some governments have also expressed concerns regarding divestments by foreign investors. Affected by economic crises and persistently high domestic unemployment, some countries have introduced new approval requirements for relocations and lay-offs.

In addition, some home countries have started to promote re-shoring of overseas investment by their transnational corporations.
In this year’s Report, UNCTAD specifically looked at the use of investment incentives. Incentives are widely used by governments as a policy instrument for attracting investment, despite persistent criticism that they are economically inefficient and lead to misallocation of public funds. According to UNCTAD’s policy monitor, in 2013, more than half of new liberalization, promotion or facilitation measures were related to the provision of investment incentives.
- Economic performance is currently the core focus of investment incentives. UNCTAD's survey of investment promotion agencies found that investment incentives mostly focus on economic growth objectives and less on social and environmental goals.

- We believe that linking investment incentives schemes to the sustainable development goals (SDGs), the theme of this year’s Report, could make them a more effective policy tool to remedy market failures and offer a response to the criticism raised against the way investment incentives have traditionally been used.

- Governments should carefully assess their incentives strategies and strengthen their monitoring and evaluation practices, as also stipulated in UNCTAD’s Investment Policy Framework for Sustainable Development.

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In 2013, 44 new IIAs were signed, bringing the total number of IIAs to 3,236

- Let us now turn to international investment policies, notably international investment agreements (IIAs). In 2013 44 IIAs were concluded. This includes:
  - 30 bilateral investment treaties, or BITs, and
  - 14 other economic cooperation agreements with investment related provisions, or "other IIAs".

- These 44 new IIAs brought the total number of agreements to 3,236 by year-end.

- If you are interested in details regarding your country's IIAs, please visit our recently upgraded IIA database, which you can access through the Investment Policy Hub.
- In 2013, several BITs were also terminated.
  - South Africa, for example, gave notice of the termination of its BITs with Germany, the Netherlands, Spain and Switzerland in 2013; and
  - Indonesia gave notice of the termination of its BIT with the Netherlands in 2014.
- In sum, while some countries scale up their treaty negotiations, others disengage.
- Another important development is the ongoing negotiations for megaregional agreements, which have become increasingly prominent in public debate. The Report looks into the systemic implications which megaregional agreements, once concluded, will have for parties to the agreement; for non-participating third parties; and for the IIA regime overall.

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- The year 2013 saw the second largest number of known investment arbitrations filed in a single year - 56 new cases. This brings the total number of known cases to 568.
- In 2013, investors brought an unusually high number of cases - 26 - against developed States (26). Of the new claims, more than 40 per cent were brought against member States of the European Union, with all but one of them being intra-EU cases.
- Investors continued to challenge a broad number of measures in various policy areas, particularly in the renewable energy sector.
- With the potential inclusion of investment arbitration in megaregional agreements, investment arbitration is at the centre of public attention.
- Let me remind you here that last year's World Investment Report looked at possibilities for reforming investment arbitration. This year's Report, in turn, discusses different paths for
reforming the IIA regime. And, later this year, 13-16 October, UNCTAD's World Investment forum can offer a platform for discussing issues related to IIA reform.

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I will dedicate the remaining time to examine this year’s special topic: Investing in the SDGs - An action plan for promoting private sector contributions.

Faced with common global economic, social and environmental challenges, the international community is defining a set of Sustainable Development Goals (SDGs). The SDGs, which are being formulated by the United Nations, together with the widest possible range of stakeholders, are intended to galvanize action worldwide through concrete targets for the 2015–2030 period. Key target areas will include poverty reduction, food security, human health and education, climate change mitigation, and a range of other economic, social and environmental pillars objectives.

WIR14 focusses on identifying the investment gap needed to achieve the SDGs, in particular the private sector contribution. This requires (i) assessing the primary sources from which these funds can be obtained, and how best to mobilize them; (ii) determining how best to channel them into “SDG sectors” such as water and sanitation, agriculture, climate change mitigation, and health; and how to maximize the positive impact of such investment while minimizing risks and drawbacks. Finally, the Report proposes an "Action Plan for Promoting Private Sector Contributions."
At current levels of investment in SDG-relevant sectors, developing countries face an annual gap of $2.5 trillion. The SDGs will have very significant resource implications across the developed and developing world.

Estimates for total investment needs in developing countries alone range from $3.3 trillion to $4.5 trillion per year, for basic infrastructure (roads, rail and ports; power stations; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health, and education.

At today’s level of investment – public and private – in SDG-related sectors in developing countries, an annual funding shortfall of some $2.5 trillion remains.

Bridging such a gap may seem a daunting task, but it is achievable. The potential for increased private sector investment contributions is significant, especially in infrastructure, food security and climate change mitigation sectors.

Structurally weak economies need special attention; UNCTAD estimates that a doubling of the growth rate of private investment from an annual 8 per cent increase to 15 per cent in the least developed countries (LDCs) is required to reduce pressure on public sector funding requirements to meet the investment gap in key SDG sectors.
The potential for increased private sector investment is significant, especially in infrastructure industries, food security and climate change.

- The potential for increasing private sector participation is greater in some sectors than in others. Infrastructure sectors, such as power and renewable energy (under climate change mitigation), transport and water and sanitation, are natural candidates for greater private sector participation, under the right conditions and with appropriate safeguards.

- Other SDG sectors are less likely to generate significantly higher amounts of private sector interest, either because it is difficult to design risk-return models attractive to private investors (e.g. climate change adaptation), or because they are at the core of public service responsibilities and highly sensitive to private sector involvement (e.g. education and health care).
UNCTAD’s proposed Strategic Framework for Private Investment in the SDGs addresses key policy challenges and options in relation to:

i. guiding principles and global leadership to galvanize action for private investment;

ii. the mobilization of funds for investment in sustainable development;

iii. the channelling of funds into investments in SDG sectors; and

iv. maximizing the sustainable development impact of private investment, while minimizing risks or drawbacks involved.

For instance, increasing the involvement of private investors in SDG-related sectors, many of which are sensitive or of a public service nature, leads to policy dilemmas.

With this in mind, a common set of principles for investment in SDGs can establish a collective sense of direction and purpose, while addressing sensitivities. The Report proposes the following principles:

i. Balancing liberalization and the right to regulate.

ii. Balancing the need for attractive risk-return rates with the need for accessible and affordable services.

iii. Balancing a push for private investment with the push for public investment.

iv. Balancing the global scope of the SDGs with the need to make a special effort in LDCs.
Each element of the framework requires policy options to galvanize and target investment effectively. For example,

- Leadership necessitates establishing guiding principles (as mentioned earlier), targets and ensuring policy coherence at all levels.

- Mobilizing finance for investment requires putting in place both a fertile environment and specific measures and instruments, such as sustainable stock exchanges.

- Channelling these funds to investment in SDG sectors involves
  - an alleviation of bottlenecks (albeit putting safeguards in place)
  - the creation of public-private partnerships to direct investments to crucial areas
  - and innovative ways to encourage investment. For instance, IPAs could be transformed into SDG investment development agencies, in parallel with a redesign of investment incentives, facilitating SDG investment projects, and supporting impact objectives of all investments.

- Finally, maximizing impact of investment implies putting a number of conditions in place: sufficient local capacity to establish linkages with investors and build on knowledge gained; an effective regulatory regime, as well as capable institutions; and ongoing monitoring of investment outcomes.
A Big Push for private investment in the SDGs: Action Packages

- UNCTAD’s Action Plan for Private Investment in the SDGs contains a range of policy options to respond to the mobilization, channelling and impact challenges.

- A concerted push by the international community and by policymakers at national levels needs to focus on a few priority actions – or packages.

- Such a focused set of action packages can help shape a Big Push for private investment in sustainable development. The action packages proposed by UNCTAD – which are further elaborated on in the report – would include:

  1. A new generation of investment promotion strategies and institutions.
  2. SDG-oriented investment incentives.
  3. Regional SDG Investment Compacts.
  4. New forms of partnership for SDG investments.
  5. Enabling innovative financing mechanisms and a reorientation of financial markets.
  6. Changing the global business mindset and developing SDG investment expertise.
The Action Plan for Private Investment in the SDGs is meant to serve as a point of reference for policymakers at the national and international levels in their discussions on ways and means to implement the SDGs and the formulation of operational strategies for investing in the SDGs.

It has been designed as a “living document” and incorporates an online version that aims to establish an interactive, open dialogue, inviting the international community to exchange views, suggestions and experiences.

It thus constitutes a basis for further stakeholder engagement. UNCTAD aims to provide the platform for such engagement through its biennial World Investment Forum, and online through the Investment Policy Hub.
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