FDI recovery was strong in 2015, but lacked productive impact

Global FDI inflows by group of economies, 2005–2015, and projections, 2016–2018
(Billions of dollars and per cent)

Source: ©UNCTAD.
FDI flows to developed countries nearly doubled. Developing Asia remains largest FDI host region

FDI inflows, by region, 2013–2015 (Billions of dollars)

Source: ©UNCTAD.
Half of top 10 FDI hosts are developing economies

FDI inflows, top 20 host economies, 2014 and 2015 (Billions of dollars)

(x) = 2014 ranking

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>107</td>
<td>380</td>
<td>114</td>
<td>175</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>114</td>
<td>175</td>
<td>129</td>
<td>136</td>
</tr>
<tr>
<td>China</td>
<td>101</td>
<td>129</td>
<td>73</td>
<td>52</td>
</tr>
<tr>
<td>Ireland</td>
<td>69</td>
<td>73</td>
<td>68</td>
<td>52</td>
</tr>
<tr>
<td>Netherlands</td>
<td>65</td>
<td>68</td>
<td>73</td>
<td>87</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7</td>
<td>69</td>
<td>68</td>
<td>52</td>
</tr>
<tr>
<td>Singapore</td>
<td>65</td>
<td>73</td>
<td>68</td>
<td>52</td>
</tr>
<tr>
<td>Brazil</td>
<td>49</td>
<td>59</td>
<td>52</td>
<td>73</td>
</tr>
<tr>
<td>Canada</td>
<td>44</td>
<td>59</td>
<td>52</td>
<td>73</td>
</tr>
<tr>
<td>India</td>
<td>35</td>
<td>44</td>
<td>52</td>
<td>73</td>
</tr>
</tbody>
</table>

Source: ©UNCTAD.
Megagroupings now account for a significant share of global FDI

FDI inflows in selected megagroupings, 2014 and 2015
(Billions of dollars and per cent)

<table>
<thead>
<tr>
<th>Megagrouping</th>
<th>FDI inflows</th>
<th>Share in world FDI</th>
<th>FDI inflows</th>
<th>Share in world FDI</th>
<th>Inward FDI stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>G20</td>
<td>652</td>
<td>51%</td>
<td>926</td>
<td>53%</td>
<td>14 393</td>
</tr>
<tr>
<td>TTIP</td>
<td>399</td>
<td>31%</td>
<td>819</td>
<td>46%</td>
<td>13 361</td>
</tr>
<tr>
<td>APEC</td>
<td>669</td>
<td>52%</td>
<td>953</td>
<td>54%</td>
<td>12 799</td>
</tr>
<tr>
<td>TPP</td>
<td>353</td>
<td>28%</td>
<td>593</td>
<td>34%</td>
<td>9 037</td>
</tr>
<tr>
<td>RCEP</td>
<td>341</td>
<td>27%</td>
<td>330</td>
<td>19%</td>
<td>4 156</td>
</tr>
<tr>
<td>BRICS</td>
<td>271</td>
<td>21%</td>
<td>256</td>
<td>15%</td>
<td>2 373</td>
</tr>
</tbody>
</table>

Source: ©UNCTAD.
The services sector accounts for almost two thirds of global FDI stock in both developed and developing economies.

Global inward FDI stock, sectoral distribution by grouping and region, 2014 (Per cent)

- **World**: 64% Services, 27% Manufacturing, 7% Primary, 2% Unspecified
- **Developed countries**: 65% Services, 27% Manufacturing, 6% Primary, 2% Unspecified
- **Developing economies**: 64% Services, 27% Manufacturing, 8% Primary, 2% Unspecified
- **Africa**: 51% Services, 20% Manufacturing, 28% Primary, 2% Unspecified
- **Latin America and the Caribbean**: 42% Services, 31% Manufacturing, 22% Primary, 5% Unspecified
- **Developing Asia**: 70% Services, 26% Manufacturing, 2% Primary, 2% Unspecified

**Transition economies**: 70% Services, 15% Manufacturing, 15% Primary, 2% Unspecified

Source: ©UNCTAD.
Prospects: FDI flows are expected to decline by 10–15 per cent in 2016

- Fragility of the global economy
- Persistent weakness of aggregate demand
- Sluggish growth in some commodity exporting countries
- Effective policy measures to curb tax inversion deals
- A slump in MNE profits
The global economic outlook and lower commodity prices directly affected the profits and profitability of MNEs.

Profitability and profit levels of MNEs, 2006–2015
(Billions of dollars and per cent)

Source: ©UNCTAD.
UNCTAD Business survey reveal muted overall FDI spending intentions in 2016, but improving over the medium term

Executives’ global FDI spending intentions, 2016–2018, with respect to 2015 levels (Per cent of responding executives, based in each region and sector)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All</strong></td>
<td>26</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td><strong>Top MNEs</strong></td>
<td>45</td>
<td>29</td>
<td>22</td>
</tr>
<tr>
<td>Developed countries</td>
<td>24</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>Developing and transition economies</td>
<td>35</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Primary</td>
<td>60</td>
<td>40</td>
<td>33</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>Services</td>
<td>22</td>
<td>11</td>
<td>4</td>
</tr>
</tbody>
</table>

- Orange: Decrease
- Light blue: No change
- Green: Increase
- Light grey: Don’t know

Source: ©UNCTAD.
The top prospective destinations remained unchanged

MNEs’ top prospective host economies for 2016–2018 (Per cent of executives responding)

(x) = 2014 ranking

- United States (2): 47%
- China (1): 21%
- India (3): 19%
- United Kingdom (4): 15%
- Germany (7): 13%
- Japan (10): 13%
- Brazil (4): 11%
- Mexico (8): 11%
- Indonesia (14): 8%
- Malaysia (14): 5%

Developed countries
Developing economies

Source: ©UNCTAD.
RECENT POLICY DEVELOPMENTS

WIR2016
World Investment Report
Most new investment policy measures continue to be geared towards investment liberalization and promotion.

Changes in national investment policies, 2001-2015 (per cent)

- Liberalization/Promotion
- Restriction/Regulation

Source: ©UNCTAD.
The universe of international investment agreements (IIAs) continues to grow

Cumulative number of IIAs

Source: ©UNCTAD.
The number of new treaty-based ISDS cases reached a record high

Known ISDS cases, annual and cumulative, 1987-2015

Source: ©UNCTAD.
IIA reform is intensifying and yielding the first concrete results. UNCTAD’s Roadmap for IIA Reform is shaping key reform activities

6 Guidelines
- Harness IIAs for SD
- Focus on critical reform areas
- Act at all levels
- Sequence properly
- Inclusive / transparent process
- Multilateral support structure

5 Areas
- Safeguarding the right to regulate, while providing protection
- Enhancing systemic consistency
- Reforming investment dispute settlement
- Promoting and facilitating investment
- Ensuring responsible investment

4 Levels
- Multiilateral
- Regional
- Bilateral
- National

Source: ©UNCTAD.
UNCTAD's Global Action Menu for Investment facilitation

Action lines:
1. Promote accessibility and transparency in the formulation of investment policies, regulations and procedures relevant to investors
2. Enhance predictability and consistency in the application of investment policies
3. Improve the efficiency and effectiveness of investment administrative procedures
4. Build constructive stakeholder relationships in investment policy practice
5. Designate a lead agency or investment facilitator with a specific mandate for disputes prevention and mediation
6. Establish monitoring and review mechanisms for investment facilitation
7. Enhance international cooperation for investment facilitation
8. Strengthen investment facilitation efforts in developing-country partners through technical assistance
9. Enhance investment policy and proactive investment attraction in developing-country partners
10. Enhance international cooperation towards investment for development, including through provisions in IIAs

Source: ©UNCTAD.
INVESTOR NATIONALITY: POLICY CHALLENGES
More than 40 per cent of foreign affiliates worldwide have multiple "passports"

- 100 MNE foreign affiliates
  - 44 Directly owned by ultimate owner
  - 56 Direct owner different from ultimate owner
  - 15 Direct owner and ultimate owner in same country
  - 41 Cross-border ownership links between direct owner and ultimate owner

Share at 60% for foreign affiliates of largest MNEs

- Economic weight: ~50%
- Average number of countries in ownership chains: 2.5

Source: ©UNCTAD.
Multiple-passport affiliates are the result of indirect foreign ownership, transit investment and round-tripping.
Investor nationality “mismatches” involve half of foreign affiliates in developed economies, and more than a quarter in developing economies.

<table>
<thead>
<tr>
<th></th>
<th>Share of foreign affiliates with direct and ultimate owners from different countries (mismatch index)</th>
<th>Average number of countries crossed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>41%</td>
<td>2.5</td>
</tr>
<tr>
<td>Developed economies</td>
<td>47%</td>
<td>2.4</td>
</tr>
<tr>
<td>Developing economies</td>
<td>27%</td>
<td>2.9</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>27%</td>
<td>2.9</td>
</tr>
<tr>
<td>Africa</td>
<td>26%</td>
<td>2.9</td>
</tr>
<tr>
<td>Latin America</td>
<td>26%</td>
<td>2.9</td>
</tr>
<tr>
<td>Caribbean</td>
<td>26%</td>
<td>2.8</td>
</tr>
<tr>
<td>Transition economies</td>
<td>30%</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Domestic direct owner and foreign ultimate owner: green
Foreign direct owner and foreign ultimate owner: orange
Foreign direct owner and domestic ultimate owner: gray

Source: ©UNCTAD.
Rules on foreign ownership are ubiquitous: 80% of countries restrict majority foreign ownership in at least one industry

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>78%</td>
</tr>
<tr>
<td>Developed economies</td>
<td>90%</td>
</tr>
<tr>
<td>Europe</td>
<td>100%</td>
</tr>
<tr>
<td>Others</td>
<td>33%</td>
</tr>
<tr>
<td>Developing economies</td>
<td>76%</td>
</tr>
<tr>
<td>Africa</td>
<td>64%</td>
</tr>
<tr>
<td>Asia</td>
<td>87%</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>93%</td>
</tr>
<tr>
<td>Transition economies</td>
<td>73%</td>
</tr>
</tbody>
</table>

Source: ©UNCTAD.
Up to 30% of companies benefit from (prospective) megaregional agreements through "double passports"

Source: ©UNCTAD.
WIR advocates a re-evaluation of ownership-based policy tools, as the nationality of investors is blurring

➢ At the *national* policy level, *rethinking ownership-based investment policies* means

  • *Safeguarding the effectiveness of ownership rules* – including improved disclosure requirements

  • *Considering alternatives* – including a "fit-for-purpose" test

➢ At the *international* level, policymakers should be aware of the *de facto multilateralizing effect* of ownership complexity:

  • Avoid uncertainty for both States and investors about the coverage of IIAs

  • Build a common understanding of “effective control”, a common set of criteria for “substantial business activity”, and a common approach to identifying the origin of investors

Source: ©UNCTAD.
For further information on the work on foreign direct investment and multinational enterprises, please address inquiries to:

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United Nations Conference on Trade and Development
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Telephone: +41 22 917 17 81

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