



WORLD INVESTMENT REPORT **2020**

**INTERNATIONAL PRODUCTION
BEYOND THE PANDEMIC**

**KEY MESSAGES AND
OVERVIEW**

30th
anniversary
edition



UNITED NATIONS

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD



WORLD INVESTMENT REPORT 2020

**INTERNATIONAL PRODUCTION
BEYOND THE PANDEMIC**

**KEY MESSAGES AND
OVERVIEW**

30th
anniversary
edition



UNITED NATIONS
Geneva, 2020

© 2020, United Nations

This work is available through open access, by complying with the Creative Commons licence created for intergovernmental organizations, at <http://creativecommons.org/licenses/by/3.0/igo/>.

The designations employed and the presentation of material on any map in this work do not imply the expression of any opinion whatsoever on the part of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Photocopies and reproductions of excerpts are allowed with proper credits.

This publication has been edited externally.

United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/WIR/2020 (Overview)

PREFACE

Global flows of foreign direct investment (FDI) will be under severe pressure this year as a result of the COVID-19 pandemic. These vital resources are expected to fall sharply from 2019 levels of \$1.5 trillion, dropping well below the trough reached during the global financial crisis and undoing the already lackluster growth in international investment over the past decade. Flows to developing countries will be hit especially hard, as export-oriented and commodity-linked investments are among the most seriously affected.

The consequences could last well beyond the immediate impact on investment flows. Indeed, the crisis could be a catalyst for a process of structural transformation of international production this decade, and an opportunity for increased sustainability, but this will depend on the ability to take advantage of the new industrial revolution and to overcome growing economic nationalism. Cooperation will be crucial; sustainable development depends on a global policy climate that remains conducive to cross-border investment.

The World Investment Report, now in its thirtieth year, supports policymakers by monitoring global and regional FDI trends and documenting national and international investment policy developments. This year's Report naturally takes stock of the COVID-19 crisis. It also includes a new chapter, added at the request of the UN General Assembly, on investment in the Sustainable Development Goals. This analysis shows that international private sector flows to four out of ten key SDG areas have failed to increase substantially since the adoption of the goals in 2015. With less than a decade left to the agreed deadline of 2030, this makes it all the more important to evaluate the implications of the expected changes in the investment landscape over the coming years.

As such, this year's World Investment Report is required reading for policymakers and an important tool for the international development community. I commend its information and analysis to a wide global audience.



António Guterres
Secretary-General of the United Nations

FOREWORD

The global economy is in the midst of a severe crisis caused by the COVID-19 pandemic. The immediate impact on FDI will be dramatic. Longer term, a push for supply chain resilience and more autonomy in productive capacity could have lasting consequences.

But COVID-19 is not the only gamechanger for FDI. The new industrial revolution, the policy shift towards more economic nationalism, and sustainability trends will all have far-reaching consequences for the configuration of international production in the decade to 2030.

The overall directional trend in international production points towards shorter value chains, higher concentration of value added and declining international investment in physical productive assets. That will bring huge challenges for developing countries. For decades, their development and industrialization strategies have depended on attracting FDI, increasing participation and value capture in GVCs, and gradual technological upgrading in international production networks.

The expected transformation of international production also brings some opportunities for development, such as promoting resilience-seeking investment, building regional value chains and entering new markets through digital platforms. But capturing these opportunities will require a shift in development strategies.

Export-oriented investment geared towards exploiting factors of production, resources and low-cost labour will remain important. But the pool of such investment is shrinking, and the first rungs on the development ladder could become much harder to climb. A degree of rebalancing towards growth based on domestic and regional demand and promoting investment in infrastructure and domestic services is necessary.

That means promoting investment in SDG sectors. The large amounts of institutional capital looking for investment opportunities in global markets does not look for investment projects in manufacturing, but for value-creating projects in infrastructure, renewable energy, water and sanitation, food and agriculture, and health care.

The findings in the dedicated chapter in this report on investment in the SDGs show that sustainability-themed funds in global capital markets are growing rapidly. At the same time, they show these finances are not yet finding their way to investments on the ground in developing countries.

We have now entered the last decade for the implementation of the SDGs. We need action to translate increased interest in SDG finance into increased SDG investment in the least developed countries.

I hope that the Action Plan for Investment in the SDGs presented in this report will inspire and reinvigorate efforts around the world to make this happen.



Mukhisa Kituyi
Secretary-General of UNCTAD

ACKNOWLEDGEMENTS

The *World Investment Report 2020* was prepared by a team led by James X. Zhan. The team members included Richard Bolwijn, Bruno Casella, Arslan Chaudhary, Joseph Clements, Hamed El Kady, Kumi Endo, Kálmán Kalotay, Joachim Karl, Isya Kresnadi, Oktawian Kuc, Jing Li, Anthony Miller, Kyoungho Moon, Abraham Negash, Yongfu Ouyang, Diana Rosert, Amelia Santos-Paulino, Astrit Sulstarova, Claudia Trentini, Elisabeth Tuerk, Joerg Weber and Kee Hwee Wee.

Research support and inputs were provided by Chantal Dupasquier, Vicente Guazzini, Yvan Rwananga, Christoph Spennemann, Alessandro Storchi, Nina Vujanovic and Paul Wessendorp. Comments and contributions were provided by Yoseph Asmelash, Vincent Beyer, Stephania Bonilla, Tatiana Krylova, Mathabo Le Roux, Maha El Masri, Massimo Meloni, Alina Nazarova, Selahattin Selsah Pasali and Ian Richards.

Statistical assistance was provided by Bradley Boicourt, Mohamed Chiraz Baly and Smita Lakhe. IT assistance was provided by Chrysanthi Kourti and Elena Tomuta.

The manuscript was copy-edited by Lise Lingo. The design of the charts and infographics, and the typesetting of the report were done by Thierry Alran and Neil Menzies. Production of the report was supported by Elisabeth Anodeau-Mareschal and Katia Vieu. Additional support was provided by Nathalie Eulaerts, Rosalina Goyena and Sivanla Sikounnavong.

The report benefited from feedback and advice on chapter IV from Richard Baldwin, Gary Gereffi, Rajneesh Narula and Taffere Tesfachew, as well as Caroline Freund (and the colleagues of the World Bank Trade, Investment and Competitiveness Global Practice). The team is also grateful for comments and inputs from Emily Blanchard, Fernando Cantu, Alisa DiCaprio, Sami Hamroush,

Hyoungmin Han, Francesca Jaworska, Romain Julia, Alexey Kuznetsov, Magdalena Lizardo, Nicolas Maystre, Andrew Mold, Juan Carlos Moreno-Brid, Edo Mahendra, Themba Munalula, Melinda Posey, Andy Prasetyo, Heba Salama, Magdolna Sass, Premila Satyanand, Rita Schmutz, Dietmar Scholz, Ilan Strauss, David Wong and Sangjun Yea.

The report benefited from collaboration with colleagues from the United Nations Regional Commissions for its sections on regional trends in chapter II.

Also acknowledged are comments received from the UNCTAD Division on Technology and Logistics, and Division on Trade and Commodities as part of the internal peer review process, as well as comments from the Office of the Secretary-General.

Numerous officials of central banks, national government agencies, international organizations and non-governmental organizations also contributed to the report.

TABLE OF CONTENTS

PREFACE	iii
FOREWORD	iv
ACKNOWLEDGEMENTS	vi
KEY MESSAGES	ix
OVERVIEW	1
GLOBAL TRENDS AND PROSPECTS	1
REGIONAL TRENDS	8
INVESTMENT POLICY DEVELOPMENTS	16
INTERNATIONAL PRODUCTION: A DECADE OF TRANSFORMATION AHEAD	22
INVESTING IN THE SDGs	32

KEY MESSAGES

INVESTMENT TRENDS AND PROSPECTS

The COVID-19 crisis will cause a dramatic fall in FDI. Global FDI flows are forecast to decrease by up to 40 per cent in 2020, from their 2019 value of \$1.54 trillion. This would bring FDI below \$1 trillion for the first time since 2005. FDI is projected to decrease by a further 5 to 10 per cent in 2021 and to initiate a recovery in 2022. A rebound in 2022, with FDI reverting to the pre-pandemic underlying trend, is possible, but only at the upper bound of expectations.



The outlook is highly uncertain. Prospects depend on the duration of the health crisis and on the effectiveness of policy interventions to mitigate the economic effects of the pandemic. Geopolitical and financial risks and continuing trade tensions add to the uncertainty.

The pandemic is a supply, demand and policy shock for FDI. The lockdown measures are slowing down existing investment projects. The prospect of a deep recession will lead MNEs to re-assess new projects. Policy measures taken by governments during the crisis include new investment restrictions. Starting in 2022, investment flows will slowly recover, led by GVC restructuring for resilience, replenishment of capital stock and recovery of the global economy.

MNE profit alerts are an early warning sign. The top 5,000 MNEs worldwide, which account for most of global FDI, have seen expected earnings for the year revised down by 40 per cent on average, with some industries plunging into losses. Lower profits will hurt reinvested earnings, which on average account for more than 50 per cent of FDI.

Early indicators confirm the immediacy of the impact. Both new greenfield investment project announcements and cross-border mergers and acquisitions (M&As) dropped by more than 50 per cent in the first months of 2020 compared



with last year. In global project finance, an important source of investment in infrastructure projects, new deals fell by more than 40 per cent.

The impact, although severe everywhere, varies by region. Developing economies are expected to see the biggest fall in FDI because they rely more on investment in global value chain (GVC)-intensive and extractive industries, which have been severely hit, and because they are not able to put in place the same economic support measures as developed economies.

- Among developed countries, FDI flows to *Europe* are expected to fall by 30 to 45 per cent, significantly more than those to *North America* and other developed economies (with falls of 20 to 35 per cent on average), because the region entered the crisis on a relatively more fragile footing. In 2019, flows to developed economies as a group increased by 5 per cent to \$800 billion.
- FDI flows to *Africa* are forecast to fall by 25 to 40 per cent in 2020. The negative trend will be exacerbated by low commodity prices. In 2019, FDI flows to Africa already declined by 10 per cent to \$45 billion.
- Flows to *developing Asia* will be severely affected due to their vulnerability to supply chain disruptions, the weight of GVC-intensive FDI in the region and global pressures to diversify production locations. FDI is projected to fall by 30 to 45 per cent. In 2019, FDI flows to the region declined by 5 per cent, to \$474 billion, despite gains in South-East Asia, China and India.
- FDI in *Latin America and the Caribbean* is expected to halve in 2020. Investment prospects are bleak because the pandemic compounds political turbulence and structural weaknesses in several economies. The industry profile of FDI in the region also makes it vulnerable. In 2019, FDI in Latin America and the Caribbean grew by 10 per cent to \$164 billion.
- FDI flows to *economies in transition* are expected to fall by 30 to 45 per cent. The decline will largely undo a recovery of FDI to the region in 2019 (up 59 per cent to \$55 billion) after several years of low inflows.
- *The outlook for FDI in structurally weak and vulnerable economies is extremely negative.* Many least developed countries (LDCs) are dependent on FDI in extractive industries, many small island developing States are dependent on investment in tourism, and landlocked developing countries are disproportionately affected by supply chain blockages. In 2019, FDI inflows to LDCs declined by 6 per cent to \$21 billion, representing just 1.4 per cent of global FDI.

Despite the drastic decline in global FDI flows during the crisis, the international production system will continue to play an important role in economic growth and development. Global FDI flows will remain positive and continue to add to the existing FDI stock, which stood at \$36 trillion at the end of 2019.

INVESTMENT POLICY DEVELOPMENTS

Investment policy is a significant component of the pandemic response. Several multilateral groupings, including the G20, have issued declarations in support of international investment. More than 70 countries have taken measures either to mitigate the negative effect on FDI or to shield domestic industries from foreign takeovers.

Support measures include online investment facilitation, pandemic-related services of investment promotion agencies (IPAs) and new incentives for investment in health care. Several countries have tightened foreign investment screening mechanisms to protect health care and other strategic industries. Other interventions include mandatory production, export bans on medical equipment and a reduction of import duties for medical devices. The crisis has also slowed the pace of negotiating international investment agreements (IIAs).

The pandemic could have lasting effects on investment policymaking. On the one hand, it may solidify the shift towards more restrictive admission policies for foreign investment in strategic industries. On the other, it may trigger increased competition for investment as economies seek to recover from the crisis. At the international level, the pandemic will accentuate the need for IIA reform as government responses to the health crisis and its economic fallout could create friction with IIA obligations.

Already in 2019, continuing the trend of recent years, several countries – almost all developed – introduced more rigorous screening of investment in strategic industries on the basis of national security considerations. At least 11 large cross-border M&A deals were withdrawn or blocked for regulatory or political reasons.

Attracting FDI remains an important policy objective. Overall, 54 economies introduced at least 107 measures affecting foreign investment in 2019; three-quarters were in the direction of liberalization, promotion and facilitation, with developing countries and emerging economies in Asia most active. Steps toward liberalization were made in mining, energy, finance, transportation and telecommunication. Several countries streamlined administrative procedures for investors or expanded investment incentive regimes.



Total IIAs
3 284

Change in the IIA regime is underway. In 2019, the number of IIA terminations (34) exceeded the number of new IIAs (22) for the second time. This brought the total to 3,284 IIAs and 349 effective terminations. Several other developments will affect the international investment policy landscape, including the agreement by European Union (EU) member States to terminate intra-EU bilateral investment treaties, Brexit and the entry into force of the agreement establishing the African Continental Free Trade Area.

The number of treaty-based investor–State dispute settlement (ISDS) cases reached over 1,000. Most of the 55 publicly known ISDS cases initiated in 2019 were brought under IIAs signed in the 1990s or earlier. ISDS tribunals rendered at least 71 substantive decisions. In the decisions holding the State liable, the amounts awarded ranged from several millions to \$8 billion.

Progress on the reform of the IIA regime is visible in treaties concluded in 2019. Nearly all new IIAs contain features in line with UNCTAD’s Reform Package for the International Investment Regime, with the preservation of States’ regulatory space being the most frequently seen area of reform. To support the IIA reform process, UNCTAD will launch its IIA Reform Accelerator later in 2020.

INTERNATIONAL PRODUCTION: A DECADE OF TRANSFORMATION AHEAD



The World Investment Report has monitored FDI and the activities of MNEs for 30 years, during which international production saw two decades of rapid growth followed by one of stagnation. Flows of cross-border investment in physical productive assets stopped growing in the 2010s, the growth of trade slowed down and GVC trade declined.

The 2010s were only the quiet before the storm. The crisis caused by the COVID-19 pandemic arrives on top of existing challenges to the system of international production arising from the new industrial revolution (NIR), growing economic nationalism and the sustainability imperative. These challenges were already reaching an inflection point; the pandemic looks set to tip the scales. *The decade to 2030 is likely to prove a decade of transformation for international production.*

Trade and investment trends unfold in three key dimensions of international production: the degree of fragmentation and the length of value chains, the geographical spread of value added, and the governance choices of MNEs that determine the prevalence of arm's-length trade versus FDI. This report identifies several archetypical configurations covering industries that, together, account for the lion's share of global trade and investment.

Three key technology trends of the NIR will shape international production going forward: robotics-enabled automation, enhanced supply chain digitalization and additive manufacturing. Each will have distinct effects on the length, geographical distribution and governance of GVCs. Each technology, depending on industry-specific deployment, will flatten, stretch or bend the "smile curve" of international production in its own way.

The pace and extent of adoption of these technologies will depend in part on the policy environment for trade and investment, which is trending towards more interventionism, rising protectionism and a shift away from multilateral to regional and bilateral frameworks. They will also depend on sustainability concerns, including differences in approach between countries and regions on emission targets and environmental, social and governance (ESG) standards, market-driven changes in products and processes, and supply chain resilience measures.

The effects on international production of the technology, policy and sustainability trends are multifaceted.

They are at times mutually reinforcing, they occasionally push in opposite directions and they will play out differently across industries and geographies. Depending on the starting point of individual industries – their archetypical international production configurations – they will tend to favour one of four trajectories.



(1) *Reshoring* will lead to shorter, less fragmented value chains and a higher geographical concentration of value added. It will primarily affect higher-technology GVC-intensive industries. The implications of this trajectory include increased divestment and a shrinking pool of efficiency-seeking FDI. For some economies it implies the need to re-industrialize, for others to cope with premature de-industrialization. Access to and upgrading along the GVC development ladder becomes more difficult for developing countries.

(2) *Diversification* will lead to a wider distribution of economic activities. It will primarily affect services and GVC-intensive manufacturing industries. This trajectory will increase opportunities for new entrants (economies and firms) to participate in GVCs, but its reliance on supply chain digitalization will cause those GVCs to be more loosely governed, platform-based and asset-light, and value capture in host countries will become more difficult. GVC participation will require high-quality hard and soft digital infrastructure.

(3) *Regionalization* will reduce the physical length but not the fragmentation of supply chains. The geographical distribution of value added will increase. This trajectory will affect regional processing industries, some GVC-intensive industries and even the primary sector. It will imply a shift from global efficiency-seeking investment to regional market-seeking investment, and from investment in vertical GVC segments to investment in broader industrial bases and clusters. Regional economic cooperation, industrial policy and investment promotion will become indispensable to build regional value chains.

(4) *Replication* will lead to shorter value chains and a rebundling of production stages. It will lead to more geographically distributed activities, but more concentrated value added. It will be especially relevant for hub-and-spoke and regional processing industries. This trajectory implies a shift from investment in large-scale industrial activity to distributed manufacturing, which relies on lean physical infrastructure and high-quality digital infrastructure. A local manufacturing base and producer services become prerequisites to attract the final stages of GVCs, but value capture and technology dissemination will not be guaranteed.

Although the different trajectories show that the expected transformation of international production is not unidirectional, overall, the trends show a system under severe pressure with heightened risks of a dismantling and hollowing-out of GVCs and declining cross-border investment in productive assets. Given the importance of international production for post-pandemic recovery, for economic growth and job creation, and for the development prospects of lower-income countries, *policymakers need to maintain a trade and investment policy environment that favors a gradual – rather than shock – adjustment of international production networks.*

The transformation of international production will bring both challenges and opportunities for investment and development policymakers:

- *Challenges* include increased divestment, relocations and investment diversion, and a shrinking pool of efficiency-seeking investment, implying tougher competition for FDI. Value capture in GVCs and development based on vertical specialization will become more difficult. Infrastructure built for a world of GVCs will see diminishing returns. Changes in locational determinants of investment will often negatively affect the chances of developing countries to attract MNE operations.
- *Opportunities* arising from the transformation include attracting investors looking to diversify supply bases and building redundancy and resilience. The pool of regional market-seeking investment will increase. Shorter value chains will bring more investment in distributed manufacturing and final-goods production with broader industrial capacity-building and clustering. And digital infrastructure and platforms will enable new applications and services and improve bottom-up access to GVCs.

Confronting the challenges and capturing the opportunities requires a change in the investment-development paradigm: (i) From a focus on export-oriented efficiency-seeking investment in narrowly specialized GVC segments to an “export-plus-plus” focus – plus investment in production for regional markets, plus investment in a broader industrial base. (ii) From cost-based competition for single-location investors to competition for diversified investments based on flexibility and resilience. And (iii) from prioritizing large-scale industrial investors with “big infrastructure” to making room for small-scale manufacturing facilities and services with “lean infrastructure”. This report proposes a new framework for investment-development policies to reflect this change.

Finally, a shift in investment promotion strategies towards infrastructure and services is necessary. For the past three decades international production and the promotion of export-oriented manufacturing investment have been the pillars of development and industrialization strategies of most developing countries. Investment geared towards exploiting factors of production, resources and low-cost labour will remain important, but the pool of such investment is shrinking.

This calls for a degree of rebalancing towards growth based on domestic and regional demand and on services. *Investment in the green economy and the blue economy, as well as in infrastructure and domestic services, presents great potential for contributing to achieving the Sustainable Development Goals (SDGs).*



INVESTING IN THE SDGs

SDG-investment trends in developing countries

UNCTAD first estimated investment requirements for the SDGs in *WIR14*, identifying 10 relevant sectors (encompassing all 17 SDGs) and estimating an annual investment gap of in developing countries of \$2.5 trillion. Progress on investment in the SDGs – from all sources (domestic and international, public and private) – is now evident across six of the 10 SDG sectors: infrastructure, climate change mitigation, food and agriculture, health, telecommunication, and ecosystems and biodiversity. *However, overall growth is falling well short of requirements.*

SDG-financing trends in global capital markets

Sustainability funds have grown rapidly in number, variety and size. UNCTAD estimates that funds dedicated to investment in sustainable development have reached \$1.2-1.3 trillion today. However, most of these funds are invested in developed countries (e.g. in renewable energy).

The global effort to fight the pandemic is boosting the growth of sustainability funds, particularly social bonds. In the first quarter of 2020, social bonds related to COVID-19 crisis relief raised \$55 billion, exceeding the total value of social bonds issued in all of 2019. Stock exchanges actively support the fast-growing COVID-19 response bond market, for example by waiving listing fees.

Over the next 10 years, the “decade of delivery” for the SDGs, capital markets can be expected to significantly expand their offering of sustainability-themed products. The challenge will be *how to combine growth with a greater focus on channeling funds to SDG-relevant investment projects in developing countries, and especially LDCs.*

ESG integration trends

Progress on investing in the SDGs is not just about mobilizing funds and channeling them to priority sectors. It is also about *integrating good environmental, social and governance (ESG) practices in business operations to ensure positive investment impact.* Global capital markets are again instrumental in this process. Stock exchanges provide a platform for sustainable finance and guidance for

corporate governance. More than half of exchanges worldwide now provide guidance to listed companies on sustainability reporting. Security regulators and policymakers, as well as international organizations, such as the UN Sustainable Stock Exchanges initiative and IOSCO, also push for ESG integration.

Companies and institutional investors acknowledge the need to align investment and business decisions with positive SDG outcomes. *The SDGs are increasingly becoming a focus of investor interest and company reporting for impact.* A key challenge is the quality of disclosure and harmonization of reporting standards.

One SDG on which companies are increasingly expected to report is gender equality. *About 70 per cent of the world's 5,000 largest MNEs now report on progress in this area.* Overall, women's representation remains unequal. Regulation and investor pressure have led to better representation at the board level, but not at managerial levels. The implementation of gender equality policies related to flexible work and childcare remains weak.



70% of Top
5,000 MNEs
report
on gender

Mainstreaming the SDGs in investment policies

More than 150 countries have adopted national strategies on sustainable development or revised existing development plans to reflect the SDGs. An analysis by UNCTAD shows that although many of these strategies highlight the need for additional financial resources, *very few contain concrete road maps for the promotion of investment in the SDGs.*

Existing investment promotion instruments applicable to the SDGs are limited in number and follow a piecemeal approach. UNCTAD's global review of national investment policy regimes shows that less than half of UN member States maintain specific tools for promoting investment in the SDGs. Countries promote inward investment in the SDGs primarily through incentive schemes. Nevertheless, several key SDG sectors, such as health, water and sanitation, education and climate change adaptation, are rarely covered by specific investment promotion measures.

Since the adoption of the SDGs, some efforts have been made to enhance the promotion of investment in sustainable development. More than 150 investment measures have been put in place worldwide to specifically liberalize or promote

investment, targeting mostly transportation and innovation, as well as food and agriculture. This is far from sufficient to re-orient the entire national investment regime towards SDGs investment.

Factoring the SDGs into the international investment treaty regime also presents a daunting task. The vast majority of the 3,300 existing treaties pre-date the SDGs and need to be modernized. Recent treaties increasingly incorporate them, and many countries are reformulating their treaty models in line with UNCTAD's Reform Package for the IIA regime.

A more systematic approach is needed for mainstreaming SDGs into national investment policy frameworks and the IIA regime, and to factor investment promotion into national SDG strategies.



A big push for investment in the SDGs – a new set of transformative actions

A new set of global actions to facilitate a “Big Push” in private sector investment in the SDGs is urgently needed. Building on the six transformative actions proposed in its Investment Policy Framework for

Sustainable Development, UNCTAD’s new Action Plan combines several policy instruments to provide an implementation framework for the UN Secretary-General’s Strategy for Financing the 2030 Agenda for Sustainable Development.

The Action Plan presents a range of policy options to respond to the investment mobilization, channeling and impact challenges faced especially by developing countries. Its transformative actions include these six:

- Mainstreaming the SDGs in national investment policy frameworks and in the international investment treaty regime
- Re-orienting investment promotion and facilitation strategies toward SDG investment
- Establishing regional SDG Investment Compacts
- Fostering new forms of partnerships for SDG investment
- Deepening ESG integration in financial markets by establishing a global monitoring mechanism with a harmonized approach to disclosure
- Changing the global business mindset

The updated Action Plan is a response to the call in the United Nations General Assembly resolution on “Promoting investments for sustainable development” (A/RES/74/199), for “concrete recommendations for the advancement of investment for the implementation of the 2030 Agenda”.

As requested by the General Assembly, UNCTAD will continue its regular monitoring of global SDG investment trends and policies through the *Global SDG Investment Trends Monitor*, the *Global SDG Investment Policy Monitor* and the *World Investment Report*. It will also continue to promote investment in the SDGs through global platforms, such as the World Investment Forum, in partnership with all key investment-development stakeholders.

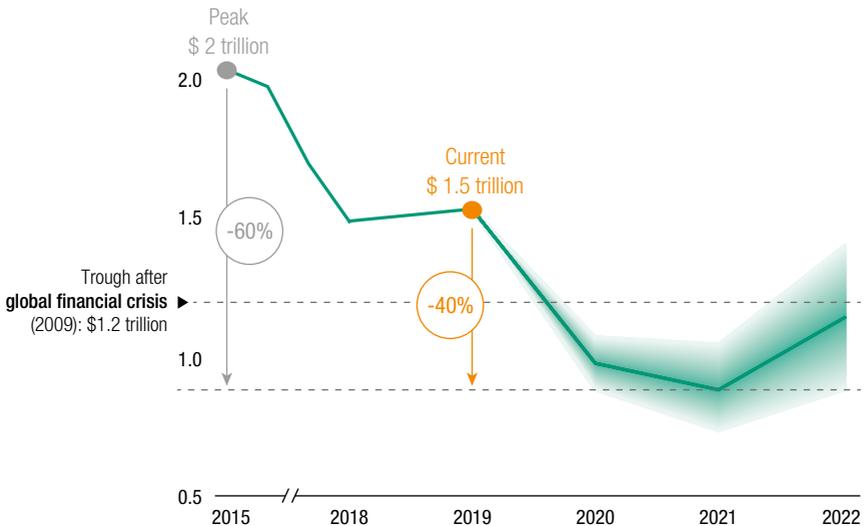
OVERVIEW

GLOBAL TRENDS AND PROSPECTS

FDI prospects for 2020–2021 are bleak

The COVID-19 crisis will cause a dramatic fall in FDI. Global FDI flows are forecast to decrease by up to 40 per cent in 2020, from their 2019 value of \$1.54 trillion (figure 1). This would bring FDI below \$1 trillion for the first time since 2005. FDI is projected to decrease by a further 5–10 per cent in 2021 and to initiate a recovery in 2022. A rebound, with FDI reverting to the pre-COVID underlying trend in 2022, is possible, but only at the upper bound of expectations.

Figure 1. Global FDI inflows, 2015–2019 and 2020–2022 forecast
(Trillions of dollars)



Source: UNCTAD.

This outlook is highly uncertain. It will depend on the duration of the global crisis and on the effectiveness of policy interventions to mitigate the economic effects of the pandemic. Geopolitical and financial risks and continuing trade tensions add to the uncertainty.

The projected fall is significantly worse than the one experienced in the years following the global financial crisis. At their lowest level (\$1.2 trillion) then, in 2009, global FDI flows were some \$300 billion higher than the bottom of the 2020 forecast.

The downturn caused by COVID-19 follows several years of negative or stagnant growth; as such it compounds a longer-term declining trend. The expected level of global FDI flows in 2021 would represent a 60 per cent decline since 2015, from \$2 trillion to less than \$900 billion.

The pandemic is a supply, demand, and policy shock for FDI. It has short-, medium-, and long-term effects (figure 2). The lockdown measures are slowing down existing investment projects. The prospect of a deep global recession will lead MNEs to re-assess new projects. Policy measures taken during the crisis include new investment restrictions. Longer term, investment flows will slowly recover starting in 2022, led by GVC restructuring for resilience, replenishment of capital stock and recovery of the global economy.

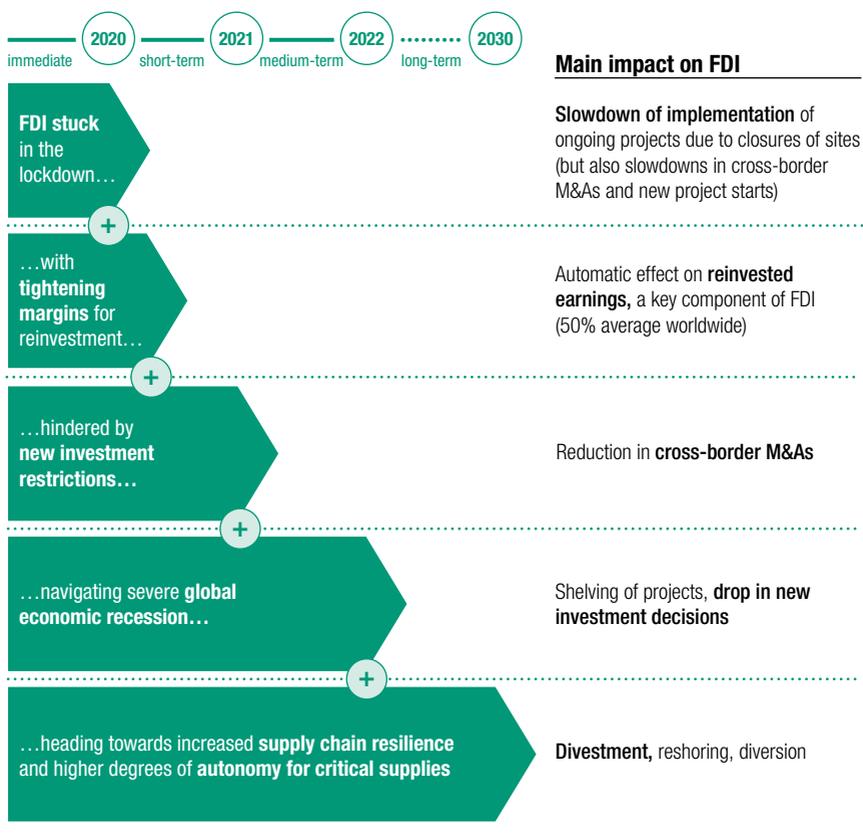
Over the two critical years of 2020 and 2021, the demand shock will be the biggest factor pushing down FDI. Although in general the trend in FDI reacts to changes in GDP growth with a delay, the exceptional combination of the lockdown measures and the demand shock will cause a much faster feedback loop on investment decisions. The demand contraction will hit FDI in the first half of 2020 and then fully unfold in the second half and 2021.

Early indicators confirm the immediacy of the impact. Both new greenfield investment project announcements and cross-border M&As dropped by more than 50 per cent in the first months of 2020.

MNE profit alerts are an early warning sign. The top 5'000 MNEs worldwide, which account for most of global FDI, have seen expected earnings for the year revised down by 40 per cent on average, with some industries plunging into losses. Lower profits will hurt reinvested earnings, which account for more than 50 per cent of FDI on average.

In terms of the severity of the earnings revisions, services industries directly affected by the lockdown are among the most severely hit, particularly travel and leisure sectors. Commodity-related industries suffer from the combined effect of the pandemic and plummeting oil prices. In manufacturing, some industries that are global value chain (GVC) intensive, such as automotive and textiles, were hit hard by supply chain disruptions. Because of their cyclical nature and global spread, they are vulnerable to both supply and demand shocks. Overall, industries that are projected to lose 30 per cent or more of earnings together account for almost 70 per cent of FDI projects.

Figure 2. | Impact of the pandemic on FDI: transmission mechanisms



Source: UNCTAD.

The impact, although severe everywhere, varies by region. Developing economies are expected to see the biggest fall in FDI because they rely more on investment in GVC-intensive and extractive industries and because they are not able to put in place the same economic support measures as developed economies.

FDI increased marginally in 2019

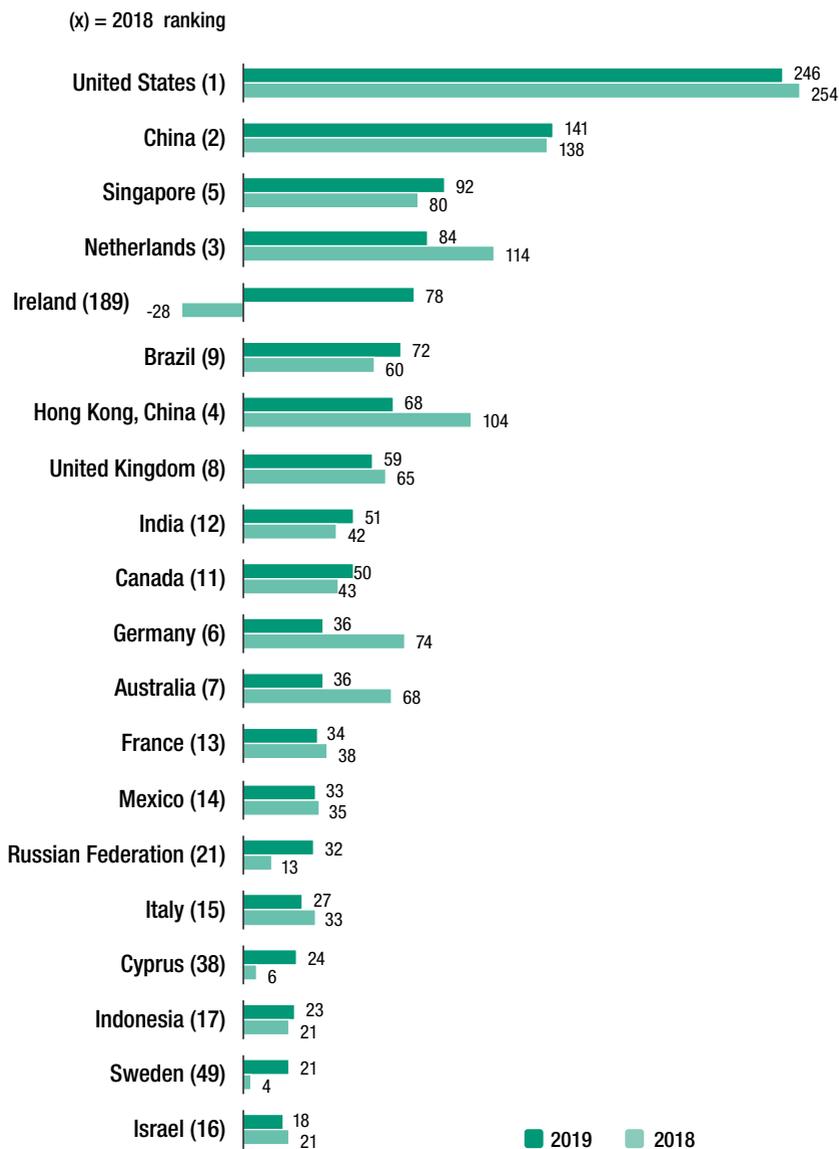
In 2019, global FDI flows still increased marginally, by 3 per cent, to \$1.54 trillion. Inward FDI flows to developed economies rose by 5 per cent, to \$800 billion. It was concentrated in Europe (up 18 per cent to \$429), but mainly because of jumps in a few economies, such as Ireland and Switzerland, after sharply negative inflows in 2018. However, FDI to some of the larger economies in the region declined. FDI in the United States, the largest recipient economy (figure 3), declined by 3 per cent to \$246 billion.

FDI flows to developing economies declined marginally, by 2 per cent, to \$685 billion. Since 2010, flows to developing economies have been relatively stable, hovering within a much narrower range than those to developed countries, at an average of \$675 billion.

The 2019 uptick in global FDI flows also hides differences between groups of economies clustered by income level. On average, FDI to all the higher and middle-income level groups was stable or marginally increased. Only least developed countries (LDCs) saw a fall in FDI flows, by 5.7 per cent.

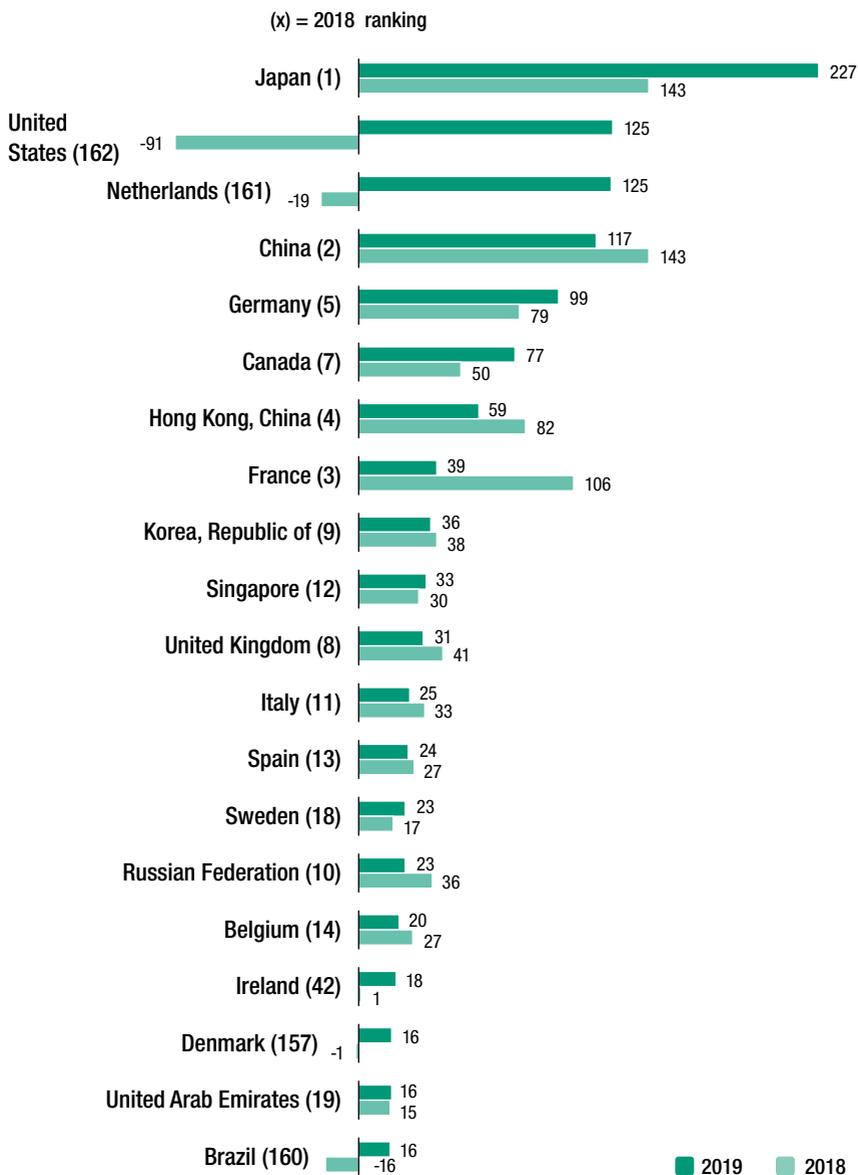
Outward investment by MNEs based in developed economies increased significantly in 2019. Tax-reform driven repatriations of accumulated foreign earnings by United States MNEs that had caused large negative outflows in 2018 slowed down. MNEs from developed economies invested \$917 billion abroad – a 72 per cent increase from the abnormally low 2018 values. Japan was again the largest overseas investor (figure 4), with a jump in outflows to \$227 billion, with much of the increase accounted for by one large megadeal.

Figure 3. FDI inflows, top 20 host economies, 2018 and 2019
(Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure 4. FDI outflows, top 20 home economies, 2018 and 2019
(Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Tech MNEs further consolidate their position

In 2019, the internationalization rates of the top 100 MNEs remained flat. The average Transnationality Index (TNI) of the top 100 – the relative shares of their foreign assets, sales and employees – has plateaued in the last decade at about 65 per cent. This is caused in part by changes in the composition of the list, with new emerging-market entrants starting out at lower levels of internationalization. However, established top 100 MNEs may have reached a “glass ceiling” of transnationality that only a few can break through.

After reaching a peak of 15 companies in 2017, the number of tech and digital companies in the top 100 decreased to 13 in 2019. However, the share of tech and digital MNEs in total foreign sales and foreign assets of the top 100 still increased over the same period. The trend towards a stronger role for tech and digital firms in the top 100 thus continues. Large tech MNEs have been consolidating their position by buying successful start-ups. They are also pursuing vertical integration, engaging in the creation of content for their platforms or expanding into retailing and other services. The pandemic could reinforce the position of tech and digital companies with the growth of e-commerce solutions.

REGIONAL TRENDS AND PROSPECTS

FDI trends vary by regions (table 1).

Region	FDI flows, by region, 2017–2019 (Billions of dollars and per cent)					
	FDI inflows			FDI outflows		
	2017	2018	2019	2017	2018	2019
World	1 700	1 495	1 540	1 601	986	1 314
Developed economies	950	761	800	1 095	534	917
Europe	570	364	429	539	419	475
North America	304	297	297	379	-41	202
Developing economies	701	699	685	467	415	373
Africa	42	51	45	12	8	5
Asia	502	499	474	417	407	328
East and South-East Asia	422	416	389	367	345	280
South Asia	52	52	57	11	12	12
West Asia	28	30	28	39	50	36
Latin America and the Caribbean	156	149	164	38	0.1	42
Oceania	1	1	1	0.1	-0.3	-1
Transition economies	50	35	55	38	38	24
Structurally weak, vulnerable and small economies^a	40	39	39	6	2	0.4
LDCs	21	22	21	2	1	-1
LLDCs	26	22	22	4	1	0.5
SIDS	4	4	4	0.3	0.3	1
<i>Memorandum: percentage share in world FDI flows</i>						
Developed economies	55.9	50.9	52.0	68.4	54.1	69.8
Europe	33.5	24.3	27.9	33.7	42.5	36.1
North America	17.9	19.9	19.3	23.7	-4.1	15.3
Developing economies	41.2	46.8	44.5	29.2	42.0	28.4
Africa	2.4	3.4	2.9	0.8	0.8	0.4
Asia	29.5	33.3	30.8	26.0	41.2	24.9
East and South-East Asia	24.8	27.8	25.2	22.9	34.9	21.3
South Asia	3.0	3.5	3.7	0.7	1.2	0.9
West Asia	1.6	2.0	1.8	2.4	5.1	2.7
Latin America and the Caribbean	9.2	10.0	10.7	2.4	0.01	3.2
Oceania	0.1	0.1	0.1	0.01	-0.03	-0.1
Transition economies	2.9	2.3	3.6	2.4	3.8	1.8
Structurally weak, vulnerable and small economies^a	2.4	2.6	2.5	0.4	0.2	0.03
LDCs	1.2	1.5	1.4	0.1	0.1	-0.04
LLDCs	1.5	1.5	1.4	0.2	0.1	0.04
SIDS	0.2	0.2	0.3	0.02	0.04	0.1

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Note: LDCs = least developed countries, LLDCs = landlocked developing countries, SIDS = small island developing States.

^a Without double counting countries that are part of multiple groups.

FDI in Africa set to fall sharply, following the decline in 2019

The COVID-19 pandemic will severely curtail foreign investment in Africa, mirroring the global trend. The downturn will be exacerbated by low oil and commodity prices because of the resource-oriented investment profile of the continent. FDI flows are forecast to decline by 25 to 40 percent to \$25-\$35 billion, based on GDP growth projections and a range of investment-specific factors. Investment in GVC-intensive manufacturing industries will be among the hardest hit, which will hurt efforts to promote economic diversification and industrialization in Africa. Announced greenfield investment projects already show a strong negative trend in the first quarter of 2020, although the value of projects (-62 per cent) has declined more than their number (-23 per cent).

Despite the immediate negative prospects for FDI to Africa, there are some mitigating factors that could limit the extent of the investment decline and help initiate a stabilization and recovery in 2021 and beyond. Several major investment partners outside the continent are increasingly engaged in initiatives to strengthen investment ties with the continent, promoting investment in infrastructure, resources, but also industrial development. Also, deepening regional integration with the implementation of the African Continental Free Trade Area Agreement (AfCFTA) and the expected conclusion of its investment protocol could have a positive effect.

In 2019, FDI flows to Africa already declined by 10 per cent to \$45 billion. Tepid global and regional GDP growth and dampened demand for commodities inhibited flows to countries with diversified and natural resource-oriented investment profiles alike, although a few received higher inflows from large new projects. FDI inflows to North Africa decreased by 11 per cent to \$14 billion, with reduced inflows in all countries except Egypt. Egypt remained the largest FDI recipient in Africa in 2019, with inflows increasing by 11 per cent to \$9 billion. After an increase in 2018, FDI flows to Sub-Saharan Africa decreased again by 10 per cent in 2019 to \$32 billion. FDI to West Africa fell by 21 per cent to \$11 billion in 2019 largely driven by the steep decline in investment in Nigeria. FDI flows to East Africa also decreased, by 9 per cent to \$7.8 billion as inflows to Ethiopia contracted by a fourth to \$2.5 billion. Central Africa received \$8.7 billion in FDI, marking a decline of 7 per cent mainly due to the fall in flows to the Democratic Republic of the Congo. Southern Africa was the only sub-region that received higher inflows in 2019 (a 22 per cent increase to \$4.4 billion) but only due to the slowdown in net divestment from Angola. FDI inflows to South Africa decreased by 15 per cent to \$4.6 billion in 2019.

FDI inflows to Asia expected to fall by 30 to 45 per cent

FDI in Asia is expected to be severely hit by the COVID-19 crisis. The region was the first to experience lockdown measures and factory stoppages, causing major supply chain disruptions in industries such as automotive, electronics and apparel. GVC-intensive industries, which are among the worst affected by the crisis, are an important part of the investment profile in the region. Falling corporate profits will affect reinvested earnings of MNEs; in several major recipient economies in the region reinvested earnings make up a significant share of FDI flows. In addition, export-oriented investment in the region is affected by trade tensions which have not waned during the pandemic. FDI in Asia is expected to decline by between 30 and 45 per cent. The number of announced greenfield investment projects in the first quarter of 2020 dropped by 37 per cent from the quarterly average of 2019. The number of M&As dropped by 35 per cent in April 2020 as compared with the monthly average of 2019.

In *East Asia*, FDI flows to China dropped by 13 per cent in the first quarter of 2020 as compared with the same period last year. The outlook for FDI in Hong Kong, China is bleak because of declining corporate earnings and the impact of the continuing social unrest. In *South-East Asia*, FDI is expected to decline. The number of announced greenfield investment projects in Singapore in the first quarter fell by 20 per cent; investment commitments in Indonesia and Viet Nam declined by 10 per cent. These three countries together received more than 80 per cent of inflows in South-East Asia in 2019. In *South Asia*, the value of greenfield investments in the first quarter of 2020 declined by 31 per cent, and M&As fell by 56 per cent. FDI inflows in *West Asia* will suffer the combined effects of plummeting oil prices, the pandemic and economic contraction.

In 2019, FDI flows into developing Asia declined by 5 per cent, to \$474 billion. The decline was driven mostly by a 13 per cent drop in investment in East Asia to \$233 billion, primarily due to a fall in investment in Hong Kong, China and the Republic of Korea. Inflows to China, the world's second largest FDI recipient, rose to an all-time high of \$141 billion, despite trade tensions. In South-East Asia, inflows grew 5 per cent to a record level of \$156 billion, propelled by strong investment in Indonesia, Singapore and Viet Nam. Inflows to South Asia grew 10 per cent to \$57 billion, with 20 per cent growth in inflows to India. West Asia recorded a 7 per cent decline in inflows to \$28 billion, despite a significant increase in investment in the United Arab Emirates and Saudi Arabia.

Outflows from Asia declined by 19 per cent to \$328 billion, owing to the decline in commodity prices, geopolitical tensions and the decline of outward FDI from China. M&A purchases by companies based in Asia declined 52 per cent to \$43 billion.

FDI in Latin America and the Caribbean projected to halve in 2020

FDI flows to Latin America and the Caribbean are expected to halve in 2020 from the \$164 billion received last year. The pandemic compounds political and social unrest and structural weaknesses in several countries, pushing the region into a deep recession and exacerbating challenges in attracting foreign investment. Data on announced greenfield investments show a decline by 36 per cent in the number of projects in the first quarter of this year, while the number of foreign acquisitions in the region is down almost 80 per cent. The low oil and commodity prices will hurt investment in major economies in South America – Colombia, Brazil, Argentina, Chile and Peru – that depend on FDI in extractive industries. Other economies, especially those in the Caribbean, will be hit hard by the collapse in tourism and the halt to investment in the travel and leisure sector. In manufacturing, automotive and textiles, two important industries in the region, are suffering simultaneous supply and demand shocks. The automotive industry is contracting severely; in the first quarter the number of announced greenfield projects in the industry decreased by 73 per cent. Mexico and Brazil reported first quarter flows to the automotive industry decreasing by 48 and 64 per cent, respectively.

New projects in the manufacturing of medical devices increased by a third in the first quarter of 2020. FDI in medical supplies in Costa Rica, the Dominican Republic and Mexico is leading to new manufacturing of medical gear, and MNEs already present in these countries are now expanding production.

In 2019, FDI in Latin America and the Caribbean grew by 10 per cent to \$164 billion, driven by increased flows to Brazil, Chile and Colombia. Outflows grew to \$42 billion, sustained by intra-regional flows and a reduction of negative outflows that dampened the totals in previous years.

Brazil registered a 20 per cent increase in inward FDI to \$72 billion, with investors attracted by the oil and gas extraction and electricity industries and supported by a privatization programme. In Colombia, FDI inflows increased by 26 per cent

to \$14 billion, mostly in extractive industries. Flows into Chile increased by 63 per cent to \$11 billion in 2019, sustained by investment in utilities, mining and services. In Peru, flows increased by 37 per cent to \$8.9 billion, boosted by non-financial services. In Mexico falling flows to the automotive and power generation industries led to a decrease by 5 per cent of flows to \$33 billion. In Costa Rica, FDI inflows increased by 13 per cent to \$2.5 billion driven by investment in Special Economic Zones. In the Caribbean, flows to the Dominican Republic increased by 19 per cent to \$3 billion, pushed by investments in the telecommunication and power industries.

FDI flows to transition economies hit hard by the pandemic

The economies in transition in South-East Europe, the Commonwealth of Independent States and Georgia, are being hit hard by the economic downturn caused by the pandemic. FDI flows to the region could fall by 30 to 45 per cent in 2020, to \$30 to \$40 billion. The decline in inward FDI will come after a rise in FDI to the region in 2019 (up 59 per cent, to \$55 billion), prompted by a rebound of FDI in the Russian Federation and, to a lesser degree, in Ukraine following several years of decline, and by a rise in FDI to newly liberalizing Uzbekistan. In the rest of the region, flows remained mostly unchanged in 2019.

In natural-resource-based projects, prospects are being revised downward as demand for commodities weakens and the price of oil, one of the main exports from several economies in transition (Azerbaijan, Kazakhstan, the Russian Federation, Uzbekistan), remains depressed. In less natural-resource-dependent South-East Europe and Republic of Moldova, export-oriented production located in special economic zones and producing for GVCs is equally affected. The situation could prove particularly difficult in the automotive value chain, in which some foreign affiliates have had to scale down or suspend operations. Several South-East European economies will also be affected through their heavy exposure to the tourism and hospitality industries. In all economies in transition the recession will reduce market-seeking FDI.

Greenfield project announcements, an indicator of investors' intentions, were already on a downward slope in 2019 and are falling further in 2020. In 2019, greenfield commitments dropped by 9 per cent to \$46 billion. In the first quarter of 2020, the number of greenfield project announcements in the region declined by 44 per cent from the average quarterly level of 2019.

FDI flows to and from developed countries in decline

The outbreak of the COVID-19 pandemic will cause a decline in FDI flows to developed economies of between 25 and 40 per cent, from \$800 billion inflows in 2019. Falling corporate profits will have a direct impact on reinvested earnings – a major component of FDI in the group. New equity investments will be curtailed, as already reflected in the decline of cross-border M&As and announced greenfield investments in the first quarter of the year. FDI trends could also be affected by COVID-19-related emergency measures, including increased scrutiny of inward investment. An expected push to improve supply chain resilience in critical industries could affect longer-term trends. In April 2020, the number of cross-border M&As targeting developed economies was 53 per cent lower than the monthly average of 2019. The drop in the number and value of announced greenfield projects in the first quarter of 2020 (-25 per cent) is a further sign that MNE capital expenditures will be cut drastically. Flows to Europe are expected to fall most (30–45 per cent), due to the dramatic impact of the pandemic on several major economies in the region and pre-existing economic fragility. FDI flows to North America are forecast to fall by up to 35 per cent.

In 2019, after three successive years of contraction, inflows to developed economies rose by 5 per cent to \$800 billion despite investor uncertainties related to trade tensions and Brexit and weakening macroeconomic performance. FDI flows to Europe rose by 18 per cent to \$429 billion, regaining some of the ground lost since 2015. They remained at only half of their 2007 peak value. Moreover, the increase was due largely to jumps in Ireland and Switzerland after negative levels in 2018. Inflows halved in Germany to \$36 billion mainly due to a sharp fall of new equity investment and they fell slightly in France and the United Kingdom. In North America FDI remained flat at \$297 billion. Flows to the United States decreased by 3 per cent to \$246 billion as cross-border M&A sales targeting the country continued to decline for the fourth consecutive year, reaching \$156 billion.

Outward FDI flows from developed economies rose by 72 per cent to \$917 billion in 2019. The increase was mainly due to the waning of the effect of the United States tax reforms at the end of 2017, which had caused large negative outflows in 2018. The value of cross-border M&A purchases by MNEs in developed countries actually fell by 34 per cent, mainly in manufacturing and services.

Outflows from Japan – the largest investor in the world in 2019 – rose by 57 per cent to a record \$225 billion, mainly due to a jump in cross-border M&As from \$36 billion to \$104 billion, including one megadeal accounting for the bulk.

Pandemic accentuates FDI fragility in structurally weak economies

The specific challenges of structurally weak and vulnerable economies in the attraction of FDI are accentuated by the crisis. Many LDCs are dependent on FDI in extractive industries, many small island developing states (SIDS) on investment in tourism, and landlocked developing countries (LLDCs) are disproportionately affected by supply chain blockages.

The outlook for FDI into the 47 LDCs is extremely weak. LDCs are highly dependent on investment in natural resources, which is negatively affected by the oil and commodity price shocks. Tourism-dependent LDCs will also see a fall of FDI in this industry. The value of announced greenfield FDI projects was already down in 2019 and contracted further (by 19 per cent) during the first quarter of 2020. In 2019, FDI inflows to LDCs declined by 6 per cent to \$21 billion, representing 1.4 per cent of global FDI. FDI in the 33 African LDCs rose by 17 per cent to a three-year high of \$12.4 billion, while FDI in the nine Asian LDCs was dented for the first time in eight years to \$8.6 billion, a decline of 27 per cent. Many of larger host economies saw a major decline in inflows.

In the 32 LLDCs, with the closing of borders, transportation links with the global economy are cut and export-oriented activities seriously disrupted. Deficiencies in health infrastructure are forcing economic activities across most LLDCs to function at a low ebb, which is expected to prolong the downturn in FDI. The severity of the potential decline in inward FDI is evidenced by the fall in the number of announced greenfield projects. In the first quarter of 2020 only 40 projects were announced, a decline of 55 per cent from the quarterly average of 2019. The decline will compound the effects of two years of negative growth in inbound FDI, which in 2019 reached \$22 billion – or 1.4 per cent of global FDI inflows. Flows to LLDCs remain concentrated in a few economies, with the top five recipients (Kazakhstan, Ethiopia, Mongolia, Uzbekistan and Turkmenistan) accounting for 57 per cent of total FDI to the group in 2019. Investment into transition-economy LLDCs proved more resilient. FDI to African LLDCs declined moderately, while Asian and Latin American LLDCs experienced the most pronounced downturn.

The outlook for FDI in the 28 SIDS is bleak. Tourism-dependent SIDS will be hit the hardest, with the travel and tourism industries suffering from travel restrictions, the demand shock, and uncertainties about possible prolonged protective measures in source countries as the global economy reopens. The first quarter of 2020 already showed signs of the looming contraction in FDI flows. The value and number of announced greenfield projects in SIDS declined by 28 per cent and 18 per cent, respectively, compared with the quarterly average of 2019. In 2019, FDI flows to SIDS increased to \$4.1 billion after two years of decline, representing 0.3 per cent of global FDI. The top five FDI recipients (Jamaica, the Bahamas, the Maldives, Mauritius and Fiji) attracted nearly two-thirds of total FDI to the group, but only two (the Maldives and Mauritius) registered higher flows than in 2018. Thanks to a rise of \$932 million in FDI in Trinidad and Tobago, FDI inflows to the 10 Caribbean SIDS rose to a three-year high of \$2.3 billion. FDI to the five African SIDS increased by more than 20 per cent to \$767 million. FDI in the 14 SIDS in Asia and Oceania declined by 9 per cent to \$1.1 billion.

INVESTMENT POLICY DEVELOPMENTS

Investment policies are part of the response to COVID-19

There is a significant investment policy component to the COVID-19 response. More than 70 countries have taken measures either to mitigate the negative effect on FDI or, conversely, to shield domestic industries from foreign takeovers.

The crisis has led to new policies to facilitate, retain and promote investment. Several countries have taken steps to alleviate the administrative burden for firms and to reduce bureaucratic obstacles with the aim of speeding up production or delivery of goods during the pandemic. The crisis and the resulting disruption of regular government services have also accelerated the uptake of online tools and e-government platforms providing continuity of essential services for businesses and investors. UNCTAD's *IPA Observer* of April 2020 documents efforts by investment promotion agencies (IPAs) worldwide to respond to the emergency.

Several countries have included incentives for the development of medication and vaccines in their state aid packages. Other incentive schemes concern the expansion or conversion of production lines to increase medical supplies. To help domestic air carriers, several governments have decided or are considering acquiring equity or nationalizing companies. Finally, most State aid packages contain fiscal or financial aid for SMEs to help keep supply chains intact.

The COVID-19 pandemic has resulted in intensified screening of foreign investment in the health industry and other strategic sectors. At least nine countries introduced measures to safeguard domestic productive capacities in health care, pharmaceuticals, medical supplies and equipment. Almost all these measures were adopted by developed countries.

Other State interventions in the health industry affecting investors include obliging private firms to shift production to goods needed in response to the COVID-19 pandemic, and making it possible to requisition factories, production units, private health care facilities or public health related goods.

The COVID-19 pandemic is slowing down the pace of international investment agreement (IIA) negotiations. Several rounds of negotiations of BITs and treaties with investment provisions (TIPs) scheduled for 2020 have been cancelled or postponed. Some of the policy responses to the health crisis and its economic

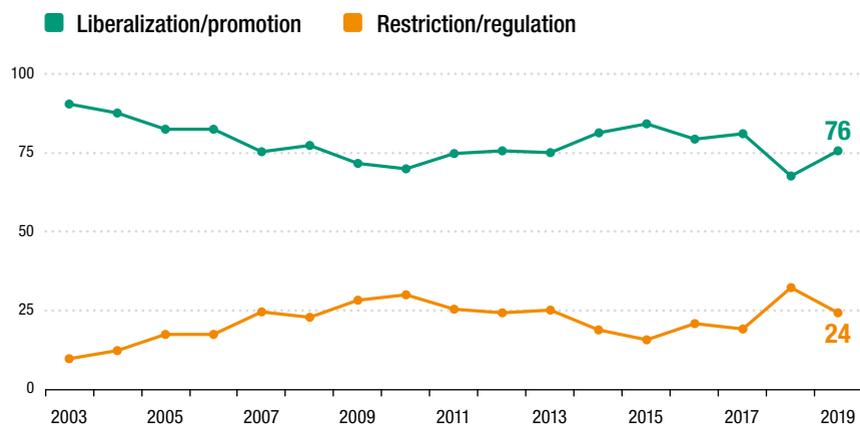
fallout could be challenged by foreign investors through arbitration proceedings under IIAs. This highlights the need to safeguard sufficient regulatory space in IIAs to protect public health and to minimize the risk of investor–State dispute settlement (ISDS) proceedings.

The pandemic is likely to have lasting effects on investment policymaking. It may reinforce and solidify the ongoing trend towards more restrictive admission policies for foreign investment in industries considered of critical importance for host countries. At the same time, the pandemic may result in more competition for investment as economies strive to recover from the crisis.

Screening of foreign investment intensified in 2019

In 2019, 54 countries and economies introduced at least 107 policy measures affecting foreign investment, with developing economies in Asia the most active, accounting for almost 50 per cent. The total number of new policy measures continued to decrease for the second consecutive year since the peak in 2017. Seventy-six per cent of newly introduced measures aimed at liberalizing, promoting and facilitating investment, while the remaining 24 per cent related to new restrictions or regulations (figure 5).

Figure 5. Changes in national investment policies, 2003–2019 (Per cent)



Source: UNCTAD, Investment Policy Hub.

The policy trend of recent years towards more stringent foreign investment screening related to national security continued in 2019. Six countries, mostly developed economies, adopted new measures in this area, targeting strategic industries and critical infrastructure. Methods to reinforce screening systems included, for example, the expansion of the sectoral scope of reviews, the lowering of the capital threshold for triggering screening, the broadening of review criteria, the strengthening of the sanctions system, the extension of the review period and the establishment of special screening bodies.

Numerous cross-border M&A deals fell through in 2019 because of regulatory or political concerns. Several involved the sale of strategic domestic assets (such as in the energy sector or medical services) to foreign investors. At least 11 large M&As (deals exceeding \$50 million) were withdrawn by the parties because of concerns related to national security, competition policy or other public interests.

At the same time, 34 countries introduced policy measures in 2019 in the direction of liberalization, promotion, or facilitation of foreign investment. These measures continue to constitute the majority, accounting for 76 per cent of all newly introduced investment policy measures in 2019. Steps toward liberalization were taken in at least 13 countries. They covered various industries, including mining, energy, financial services, transportation, and telecommunication.

To promote investment, at least 13 countries offered new incentives. Seven countries simplified or streamlined administrative procedures. Steps taken in this direction included the establishment of one-stop shops, the abolition of approval requirements, the lowering of administrative fees, the elimination of discriminatory treatment of foreign investors in licensing processes, and the setting up of an investment portal to facilitate matchmaking between domestic and foreign investors.

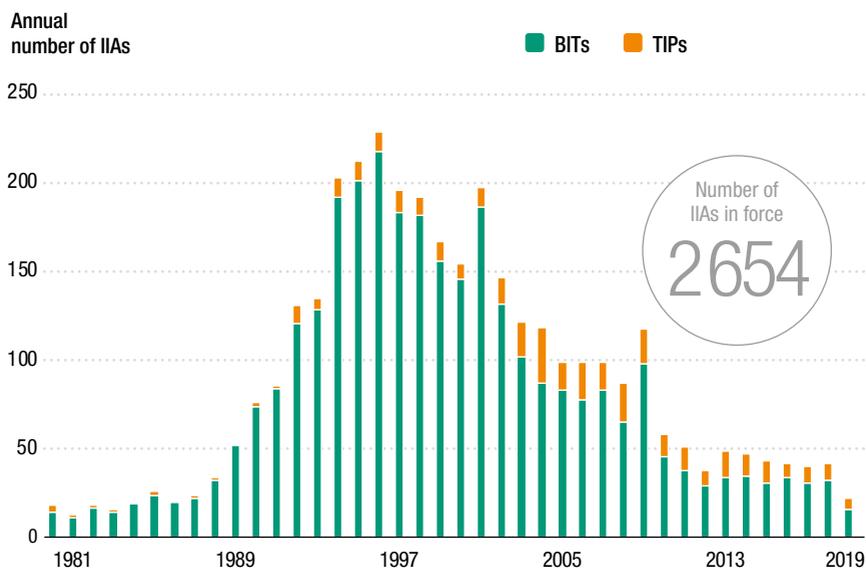
Other investment policy developments included the adoption of new investment laws, the establishment of special government bodies to promote high quality investment as well as new legislation on special economic zones, public-private partnerships and arbitration procedures.

The IIA landscape is changing

In the international investment policy arena, change in the IIA regime is underway. In 2019, 22 new IIAs were signed. The new treaties included 16 BITs and six treaties with TIPs. The most active economies in concluding IIAs were Australia, Brazil and the United Arab Emirates, each with three new IIAs. With these new IIAs, the size of the IIA universe rose to 3,284 (2,895 BITs and 389 TIPs). By the end of the year, at least 2,654 IIAs were in force (figure 6).

The number of IIA terminations continued to increase. In 2019, at least 34 treaties were effectively terminated, of which 22 unilaterally, six by consent, four by replacement and two by expiry. Particularly active in terminating treaties was Poland, with 17 BITs terminated, followed by India, with seven. For the second time since 2017, the number of IIA terminations exceeded the number of new treaty conclusions. By the end of the year, the total number of effective terminations reached 349.

Figure 6. | Number of IIAs signed, 1980–2019



Source: UNCTAD, IIA Navigator.

Note: This includes treaties (i) unilaterally denounced, (ii) terminated by consent, (iii) replaced by a new treaty and (iv) expired automatically.

Several other significant developments affected the international investment policy landscape. They include an agreement by EU member States to terminate intra-EU BITs, as well as Brexit and the entry into force of the agreement establishing the AfCFTA.

ISDS cases pass the 1,000 mark

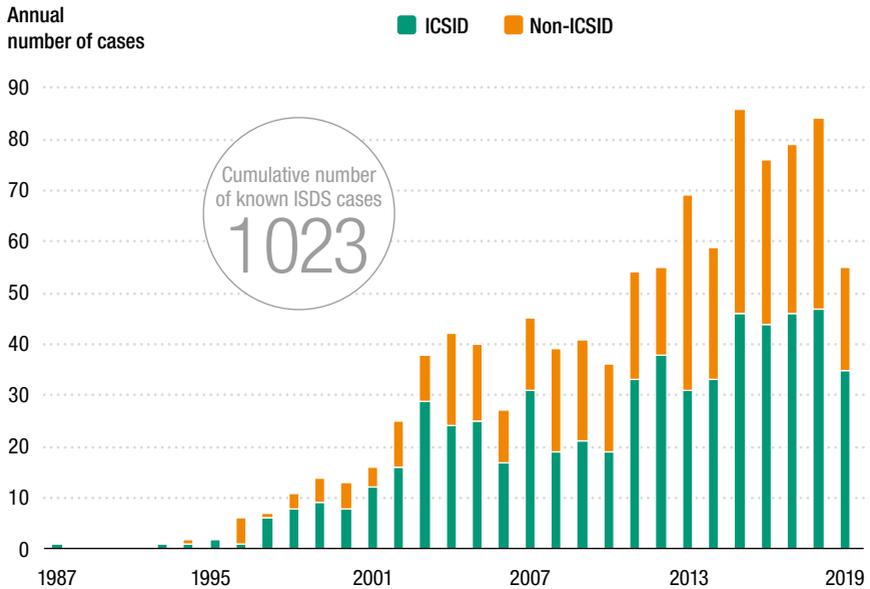
In 2019, investors initiated 55 publicly known ISDS cases pursuant to IIAs (figure 7), the lowest number in five years. As of 1 January 2020, the total number of publicly known ISDS claims had reached 1,023. As some arbitrations are kept confidential, the actual number of disputes filed in 2019 and previous years is higher. To date, 120 countries and one economic grouping are known to have been respondents to one or more ISDS claims.

More than half of the arbitral decisions rendered on jurisdictional grounds in 2019 were in favour of the State. Those on the merits more frequently ended in favour of the investor. By the end of 2019, at least 674 ISDS proceedings had been concluded.

IIA reform continues

Progress on the reform of the IIA regime is visible in treaties concluded in 2019. Nearly all new IIAs contain features in line with UNCTAD's Reform Package for the International Investment Regime, with the preservation of States' regulatory space being the most frequent area of reform. Countries continue to implement ISDS reform elements in new IIAs, using four principal approaches: (i) no ISDS, (ii) a standing ISDS tribunal, (iii) limited ISDS and (iv) improved ISDS procedures. Since 2012, over 75 countries and regional economic integration organizations benefited from UNCTAD's support for the development of new model BITs and IIA reviews. To further support the IIA reform process, UNCTAD will launch its IIA Reform Accelerator later in 2020.

Figure 7. Trends in known treaty-based ISDS cases, 1987–2019



Source: UNCTAD, ISDS Navigator.

Note: Information has been compiled from public sources, including specialized reporting services. UNCTAD's statistics do not cover investor–State cases that are based exclusively on investment contracts (State contracts) or national investment laws, or cases in which a party has signaled its intention to submit a claim to ISDS but has not commenced the arbitration. Annual and cumulative case numbers are continually adjusted as a result of verification processes and may not match exactly case numbers reported in previous years.

INTERNATIONAL PRODUCTION: A DECADE OF TRANSFORMATION AHEAD

WIR@30: two decades of growth, one of stagnation

The *World Investment Report* has monitored FDI and the activities of MNEs for 30 years. During that time, international production saw two decades of rapid growth followed by one of stagnation.

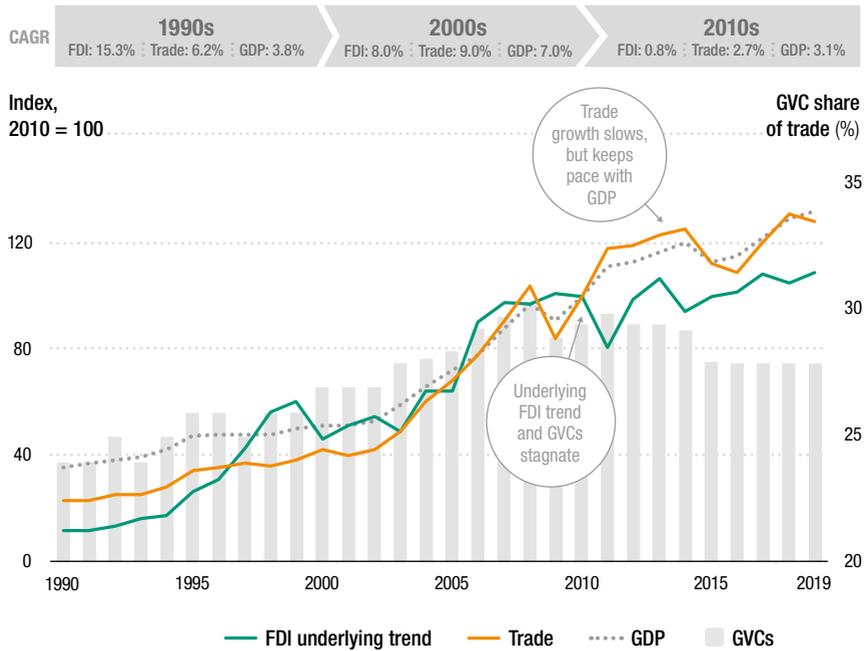
The growth of international production in the first two decades was driven by policies (a wave of liberalization and export-led growth policies), economics (labour-cost arbitrage opportunities and declining costs of trade) and technology (advances allowing the fine-slicing of production processes and coordination in complex cross-border supply chains). These same factors started pushing in the opposite direction after the global financial crisis, with a return of protectionist tendencies, a gradual decline in the rate of return on FDI and increasing technology-enabled asset lightness in international operations.

As a result, after 2010, the growth momentum of international production stalled. This was first reflected in trade: worldwide exports of goods and services, which had grown at more than double the rate of GDP for decades, slowed down significantly relative to economic growth. Stagnation in cross-border investment in productive capacity was a key driver of the slowdown in overall trade, and GVC trade in particular (figure 8).

The pandemic magnifies existing challenges

The 2010s were only the quiet before the storm. The crisis caused by COVID-19 at the dawn of this new decade arrives on top of existing challenges to the system of international production arising from the new industrial revolution (NIR), growing economic nationalism and the sustainability imperative (table 2). These challenges were already reaching an inflection point. Their impact was felt, but they had not yet begun to fundamentally reshape international production networks. The pandemic looks set to tip the scales. The decade to 2030 is likely to prove a decade of transformation for international production.

Figure 8. FDI, trade, GDP and GVC trends, 1990–2019
 (FDI, trade and GDP indexed, 2010 = 100; GVCs, per cent)



Source: UNCTAD.

Note: Trade is global exports of goods and services. GVC share of trade is proxied by the share of foreign value added in exports, based on the UNCTAD-Eora GVC database (see Casella et al., 2019). The underlying FDI trend is an UNCTAD indicator capturing the long-term dynamics of FDI by netting out fluctuations driven by one-off transactions and volatile financial flows.

Table 2.

Megatrends shaping the future of international production

	Trends	Key elements
Technology/ New Industrial Revolution	<ul style="list-style-type: none"> • Advanced robotics and AI • Digitalization in the supply chain • Additive manufacturing (3D printing) 	<ul style="list-style-type: none"> • Industrial automation, AI-enabled systems (“white collar” robots) • Platforms, cloud, IoT, blockchain • Distributed manufacturing, mass customization, commodification of production
Policy and economic governance	<ul style="list-style-type: none"> • More interventionism in national policies • More protectionism in trade and investment • More regional, bilateral and ad hoc economic cooperation 	<ul style="list-style-type: none"> • Industrial policies, competition policy, fiscal policy • Tariffs and non-tariff measures, shielding of strategic/sensitive industries • Trade deals among select groups and on common-ground issues
Sustainability	<ul style="list-style-type: none"> • Sustainability policies and regulations • Market-driven changes in products and processes • Physical supply chain impacts 	<ul style="list-style-type: none"> • Major green plans (and varying implementation timelines), carbon border adjustments • Increased reputational risks and demand for sustainably produced goods and services • Supply chain resilience measures, changing sources of agricultural inputs

Source: UNCTAD.

Trade and investment trends unfold in three key dimensions of international production: the degree of fragmentation and the length of value chains (short to long), the geographical spread of value added (concentrated to distributed), and the governance choices of MNEs that determine the prevalence of arm's-length trade vs FDI. This report identifies several archetypical configurations covering industries that, together, account for the lion's share of global trade and investment. They include capital- and labour-intensive industries in the primary sector; high- and low-tech GVC-intensive industries; geographically dispersed regional processing and hub-and-spoke industries; and high and lower value added services industries.

Three technology trends shape future GVCs

Three key technology trends of the NIR will shape international production going forward: robotics-enabled automation, enhanced supply chain digitalization and additive manufacturing. Each of these technologies will have distinct effects on the length, geographical distribution and governance of GVCs.

For example, robotics-enabled automation reduces the labour cost component in production, increases economies of scale, and can lead to the rebundling and reshoring of fragmented processes. The application of digital technologies results in a reduction of governance and transaction costs in production networks, more effective coordination of complex supply chains and improved bottom-up access to GVCs for SME suppliers through platforms. Additive manufacturing leads to a higher geographic distribution of often out-sourced activities in the final stages of GVCs, location closer to markets and customers, and concentration of value added in the design phase of the value chain. Thus, each technology, depending on industry-specific deployment, will flatten, stretch or bend the “smile curve” of international production – the conceptual representation of value chains with higher value added activities at the beginning (e.g. research and development) and end (e.g. marketing) and lower value added activities in the middle (e.g. assembly).

Policy and sustainability trends shape the playing field

The pace and extent of adoption of these technologies will depend to a significant extent on the policy environment for trade and investment, which is trending towards more interventionism, rising protectionism and a shift away from multilateral to regional and bilateral frameworks. New industrial policies tend to push for the clustering of know-how and technology and for the rebundling of fragmented activities to increase value capture. Protectionism will lead to rising trade costs and increase the risk of technological fragmentation. And regionalism will shift trade preferences from global to regional value chains.

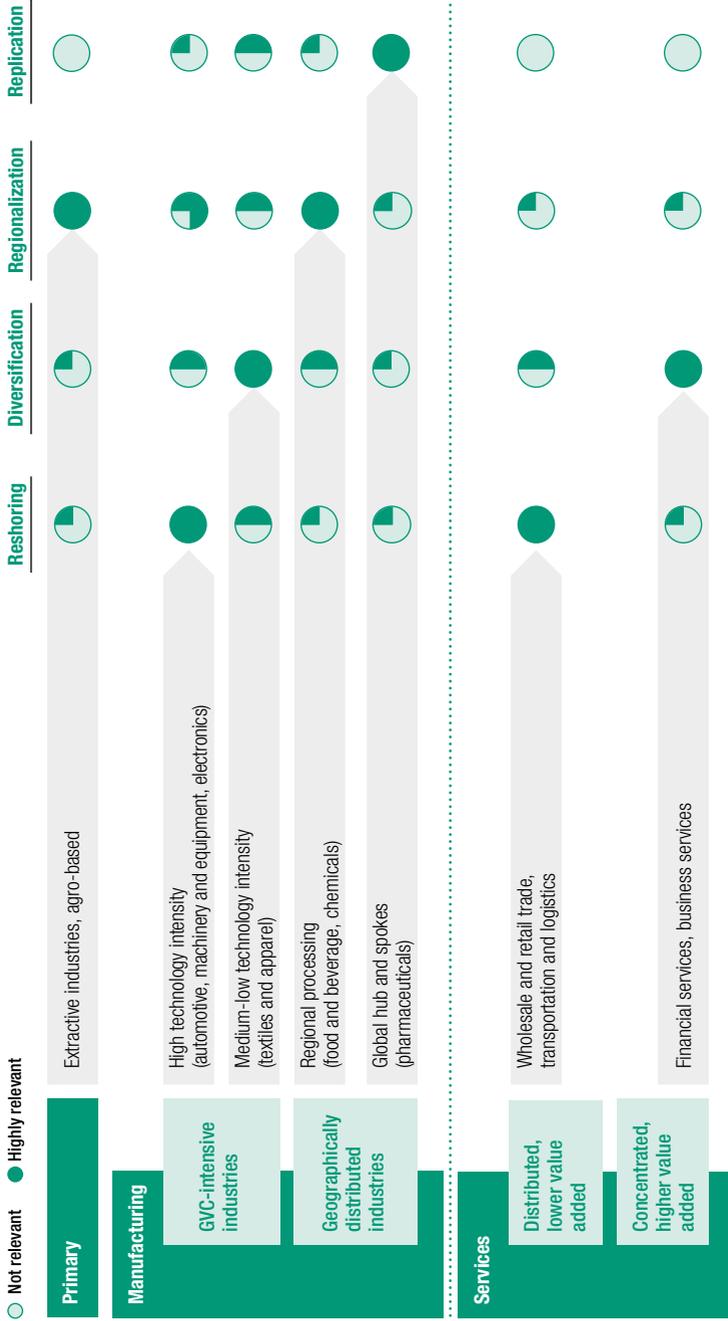
Sustainability concerns will also be an important driver of the transformation of international production. Differences in approach between countries and regions on emission targets and environmental, social and governance (ESG) standards will add to trade and investment policy pressures through the need for, for example, carbon border adjustments. Markets – including both risk-averse financial markets and reputation-aware consumers – are pushing for changes in products and processes. And supply chain resilience measures were already in vogue in response to increasingly frequent extreme weather events; they will become even more important as a result of the pandemic.

Four trajectories for the decade of transformation

The effects on international production of technology, policy and sustainability trends are multi-faceted. They are at times mutually reinforcing, they occasionally push in opposite directions, and they will play out differently across industries and geographies. Depending on the starting point of individual industries – their archetypical international production configurations – they will tend to favour one of four trajectories (figure 9).

(1) *Reshoring* will lead to shorter, less fragmented value chains and a higher geographical concentration of value added. It will primarily affect higher-technology GVC-intensive industries. The implications of this trajectory include increased divestment and a shrinking pool of efficiency-seeking FDI. For some economies it implies the need to re-industrialize, for others to cope with premature de-industrialization. Access to and upgrading along the GVC development ladder becomes more difficult for developing countries.

Figure 9. The relevance of different trajectories, by industry



Source: UNCTAD.

(2) *Diversification* will lead to a wider distribution of economic activities. It will primarily affect services and GVC-intensive manufacturing industries. This trajectory will increase opportunities for new entrants (economies and firms) to participate in GVCs, but its reliance on supply chain digitalization will cause those GVCs to be more loosely governed, platform-based and asset-light, and value capture in host countries will become more difficult. GVC participation will require high quality hard and soft digital infrastructure.

(3) *Regionalization* will reduce the physical length, but not the fragmentation of supply chains. The geographical distribution of value added will increase. This trajectory will affect regional processing industries, some GVC-intensive industries, and even the primary sector. It will imply a shift from global efficiency-seeking investment to regional market-seeking investment, and from investment in vertical GVC segments to broader industrial bases and clusters. Regional economic cooperation, industrial policy, and investment promotion will become indispensable to build regional value chains.

(4) *Replication* will lead to shorter value chains and a rebundling of production stages. It will lead to more geographically distributed activities, but more concentrated value added. It will be especially relevant for hub-and-spoke and regional processing industries. This trajectory implies a shift from investment in large-scale industrial activity to distributed manufacturing, which relies on lean physical and quality digital infrastructure. A local manufacturing base and producer services become a prerequisite to attract the final stages of GVCs, but value capture and technology dissemination will not be guaranteed.

The four trajectories all have different implications for investment-development policymakers (table 3). The push for reshoring will cause a shock for economies that depend on export-led growth and GVC participation. Diversification and digitalization will imply a challenge to value capture in GVCs but will also lead to new opportunities to participate in them. Regionalization will make cooperation with neighbours on industrial development, trade and investment of critical importance. And replication will change the model of investment promotion focused solely on large-scale industrial activities.

Table 3.

Key investment-development implications of different trajectories for host economies

Reshoring



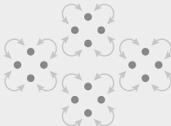
- Possible shock of restructuring, including divestment, relocation; investment diversion
- Shrinking pool of efficiency-seeking FDI
- Need to re-industrialize or cope with (premature) de-industrialization
- Access to and upgrading along the GVC development ladder becomes more difficult

Diversification



- Broader opportunity to participate in GVCs, but loosely governed, platform-based and asset-light
- Acceleration of the shift to intangibles and services-based GVCs
- Concentration of value, value capture in host countries becomes more difficult
- Quality of hard and soft digital infrastructure drives GVC participation

Regionalization



- Shift from global efficiency-seeking investment to regional market-seeking investment
- Shift from investment in dispersed vertical GVC segments to investment in broader industrial bases and clusters
- Nearshoring replicates restructuring effects of reshoring (but softens others)
- Regional economic cooperation, industrial policy and investment promotion indispensable to build regional value chains

Replication



- Shift from investment in large-scale industrial activity to small-scale distributed manufacturing
- Local manufacturing base and producer services a prerequisite to attract final stages of GVCs
- Increased outsourcing to local producers and service providers, value capture and technology dissemination not guaranteed
- Greater need for cost-effective physical supporting infrastructure and quality digital infrastructure (hard and soft)

Source: UNCTAD.

Shorter value chains, more concentrated value added, asset-light investment

Although the different trajectories show that the expected transformation of international production is not unidirectional, on balance, the trends point towards shorter value chains, more concentrated value added, and reduced cross-border investment in physical productive assets. They show a system under pressure with heightened risks of a retreat and hollowing-out of GVCs. Given the importance of international production for post-pandemic recovery, for economic growth and job creation, and for the development prospects of lower-income countries, policymakers need to maintain a trade and investment policy environment that favours a gradual – rather than shock – adjustment of international production networks.

The transformation of international production will bring both challenges and opportunities for investment and development policymakers:

- *Challenges* include increased divestment, relocations, and investment diversion, and a shrinking pool of efficiency-seeking investment implying tougher competition for FDI. Value capture in GVCs and development based on vertical specialization will become more difficult. Infrastructure built for a world of GVCs will see diminishing returns. Changes in locational determinants of investment will often negatively affect the chances of developing countries to attract MNE operations.
- Opportunities arising from the transformation include attracting investors looking to diversify supply bases and building redundancy and resilience. The pool of regional market-seeking investment will increase. Shorter value chains will bring more investment in distributed manufacturing and final-goods production with broader industrial capacity building and clustering. And digital infrastructure and platforms will enable new applications and services and improve bottom-up access to GVCs.

A new investment-development paradigm

Confronting the challenges and capturing the opportunities requires a change in the investment-development paradigm. (i) From a focus on export-oriented efficiency-seeking investment in narrowly specialized GVC segments, to an “export-plus-plus” focus – plus investment in production for regional markets,

plus investment in a broader industrial base. (ii) From cost-based competition for single-location investors to competition for diversified investments based on flexibility and resilience. And (iii) from prioritizing large-scale industrial investors with “Big infrastructure” to making room for small-scale manufacturing facilities and services with “Lean infrastructure”. The report proposes a new framework for investment–development policies to reflect this change.

Finally, a shift in investment promotion strategies towards infrastructure and services is necessary. For the past three decades international production and the promotion of export-oriented manufacturing investment has been the pillar of development and industrialization strategies of most developing countries. Investment geared towards exploiting factors of production, resources and low-cost labour will remain important, but the pool of such investment is shrinking. A degree of rebalancing towards growth based on domestic and regional demand and on services is unavoidable.

Attracting investment in infrastructure and domestic services, as well as in the green and blue economies, implies marketing new sectors (e.g. renewable energy, water and sanitation, health – i.e. typical SDG-relevant sectors), targeting a different type of finance (project finance rather than traditional FDI), and targeting different types of investors (impact investors, institutional investors and social entrepreneurs, rather than focusing solely on MNEs) operating in a different policy ecosystem (financial market standards and regulations). A new chapter in the *World Investment Report* looks specifically at trends and policies of investment in the SDGs.

INVESTING IN THE SDGs

SDG-investment trends in developing countries

UNCTAD first estimated investment requirements for the SDGs in *WIR14*, identifying 10 relevant sectors (encompassing all 17 SDGs) and estimating an annual investment gap of in developing countries of \$2.5 trillion. Progress on investment in the SDGs in developing countries – from all sources (domestic and international, public and private) – is now evident across six out of ten SDG sectors, including infrastructure, climate change mitigation, food and agriculture, health, telecommunications, and ecosystems and biodiversity (table 4). However, even in sectors where investment shows signs of growth, the order of magnitude is not yet in the range that would make a significant dent in estimated investment gaps. In addition, investment in important sectors, including education and water and sanitation, appears stagnant at best.

Of the various sources of investment, *international private* investment in SDG sectors is not yet landing on the ground in developing countries. FDI, and in particular greenfield investment and project finance, have been lacklustre in relevant sectors, partly reflecting stagnant global investment trends.

Capital spending announcements for greenfield FDI projects (in eight SDG sectors for which data is available) amounted to \$134 billion annually on average during 2015–2019, marking an increase of 18 per cent from 2010–2014. However, this increase was due largely to heightened investment levels in the first two years of the SDG framework (2015 and 2016). In the last three years, it fell back to pre-SDG levels. One positive sign was the number of renewable energy projects, which almost doubled over the period.

Project finance in developing countries in SDG sectors – mostly power, infrastructure, telecommunication, and water and sanitation – announced in 2015–2019 amounted to an annual average of \$418 billion, down 32 per cent from the pre-SDG period (2010–2014). The number of projects increased by more than 40 per cent, because of many relatively low-cost renewable energy projects. The value of financed projects targeting LDCs remained negligible (about \$8 billion, or 6 per cent of the total in all developing economies) and failed to grow over the last five-year period.

The COVID-19 crisis will make the task of channelling private investment to SDG-relevant sectors in developing countries even more daunting and risks upending scant progress made in the last five years.

Table 4. Summary of SDG investment gaps and directional trends				
Main investment requirements	Most relevant SDGs	UNCTAD estimated annual investment gaps (Billion of dollars)	Overall SDG investment trends	International private sector investment trends
<p>POWER (excl. renewables) Investment in generation, transmission and distribution of electricity</p>		370–690		
<p>TRANSPORT INFRASTRUCTURE Investment in roads, airports, ports and rail</p>	 	50–470		
<p>TELECOMMUNICATIONS Investment in infrastructure (fixed lines, mobile and internet)</p>		70–240		
<p>WATER, SANITATION AND HYGIENE (WASH) Provision of water and sanitation to industry and households</p>		260		
<p>FOOD AND AGRICULTURE Investment in agriculture, research, rural development, etc.</p>		260		

/...

Table 4.

Summary of SDG investment gaps and directional trends (concluded)

Main investment requirements	Most relevant SDGs	UNCTAD estimated annual investment gaps (Billion of dollars)	Overall SDG investment trends	International private sector investment trends
CLIMATE CHANGE MITIGATION Investment in relevant infrastructure, renewable energy generation, research and deployment of climate-friendly technologies, etc.		380–680		
CLIMATE CHANGE ADAPTATION Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.		60–100		N.D.
ECOSYSTEMS AND BIODIVERSITY Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.	 	N.D.		N.D.
HEALTH Investment in infrastructure, e.g. new hospitals, and R&D on vaccines and medicines		140		
EDUCATION Infrastructural investment, e.g. new schools		250		

Source: UNCTAD.

Notes: The estimated investment gaps are based on *World Investment Report 2014*. The overall trend assessments for the SDG investment areas are from UNCTAD's *SDG Investment Trends Monitor 2019* and based on available data covering all types of investment and financing, including domestic and cross-border, public and private, and finance mobilization (in addition to capital expenditures). The assessment based on FDI, greenfield and project finance is a specific feature of WIR using the latest data generated for this year's report. For data sources see chapters I and II and the annexes to the report.

SDG-financing trends in global capital markets

Sustainability funds target ESG or SDG-related themes or sectors, such as clean energy, clean technology or sustainable agriculture and food security. They have grown rapidly in number, variety, and size. UNCTAD estimates that funds dedicated to investment in sustainable development have reached \$1.2–\$1.3 trillion today. They include sustainability-themed funds, green bonds, and social bonds.

Sustainability-themed funds include mutual funds and exchange-traded funds that use ESG criteria as part of their security selection process or seek a measurable positive impact alongside financial returns. UNCTAD estimates there are close to 3,100 such funds worldwide, with assets under management of about \$900 billion. From 2010 to 2019, the number of sustainable funds in Europe and the United States, the two largest markets for sustainable investment, rose from 1,304 to 2,708, with assets under management growing from \$195 billion to \$813 billion. Sustainable funds in developing economies remain a relatively new phenomenon. In China there are 95 sustainability-themed funds, with assets under management of nearly \$7 billion as of 2019. Most were created in the last five years. ESG funds also have experienced growing traction in Brazil, Singapore and South Africa in recent years, albeit from a low starting level.

Green bonds promote investment in climate action (SDG 13), affordable and clean energy (SDG 7), and sustainable cities and communities (SDG 11). The global green bond market saw rapid growth in 2019, to nearly \$260 billion, a 51 per cent year-on-year increase. The proceeds of green bonds are primarily used in three sectors (energy, buildings and transport).

Social bonds are seeing significant growth this year, as the global effort to fight the COVID-19 pandemic is boosting their number. In the first quarter of 2020, social bonds related to COVID-19 crisis relief raised \$55 billion, exceeding the total value of social bonds issued in all of 2019. Stock exchanges actively support the fast growing COVID-19 response bond market, for example by waiving listing fees.

In addition to sustainability funds, the much broader category of responsible investment refers to general investment funds that adopt sustainability-linked investment criteria. This type of investment does not directly target SDG-relevant sectors. The total assets under management of these funds could be about \$29 trillion.

Over the next 10 years, the “decade of delivery” for the SDGs, capital markets can be expected to significantly expand their offering of sustainability-themed products. The challenge will be how to combine growth with a greater focus on channelling funds to SDG-relevant investments in developing countries, especially LDCs, and generate sustainable development impact. To date, most of the assets that sustainability-themed funds invest in are in developed countries.

ESG integration trends

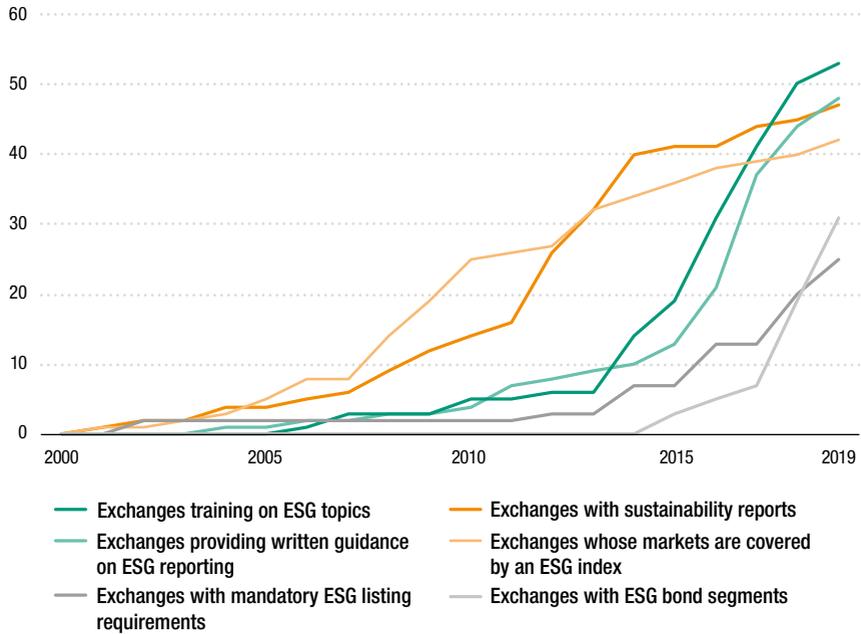
Progress on investing in the SDGs is not just about mobilizing funds and channelling them to priority sectors. It is also about integrating good environmental, social and governance (ESG) practices in business operations to ensure positive investment impact. Global capital markets are again instrumental in this process. Security regulators and policymakers, as well as international organizations, such as the UN Sustainable Stock Exchanges initiative and International Organization of Securities Commissions, push for ESG integration in capital markets.

Stock exchanges have an important role to play in promoting sustainability in the capital market. They provide a platform for sustainable finance and guidance for corporate governance. The last decade has witnessed a sharp increase across a range of sustainability initiatives undertaken by exchanges. More than half of exchanges worldwide now provide guidance to listed companies on sustainability reporting. Other activities include training and the development of relevant tools and platforms for the development and transaction of sustainability-themed financial products (figure 10).

Companies and institutional investors acknowledge the need to align investment and business decisions with positive SDG outcomes. The SDGs are increasingly becoming a focus of investor interest and company reporting for impact. A key challenge is the quality of disclosure and harmonization of reporting standards.

To take private sector contribution to the SDGs to the next level of implementation and delivery will require enhanced measurement and reporting by MNEs. The Global Reporting Initiative mapped the SDGs to its widely used reporting standard. In 2019, UNCTAD published the Guidance on Core Indicators as a framework for corporate reporting on their contribution towards the attainment of the SDGs. It was the outcome of extensive consultations among experts from over 190 UN Members States.

Figure 10. | Stock exchange trends (Number of exchanges)

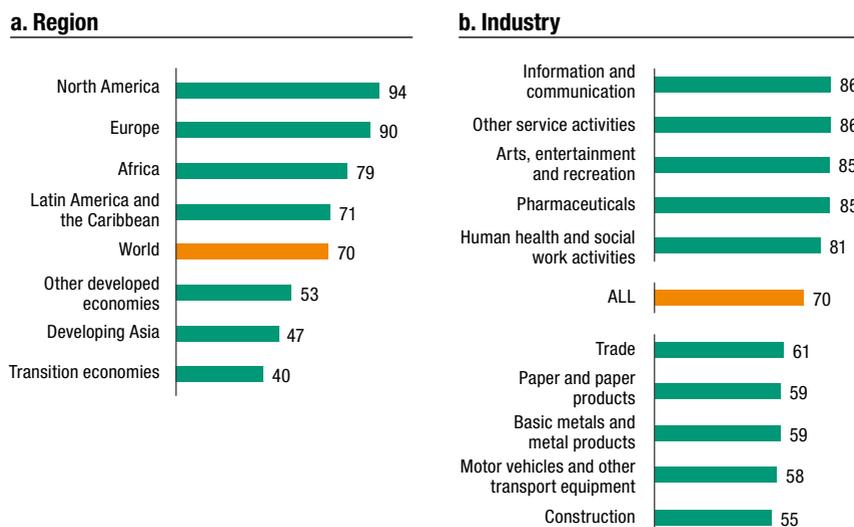


Source: UNCTAD, SSE database.

One SDG on which companies are increasingly expected to report is gender equality (figure 11). About 70 per cent of the world’s 5,000 largest MNEs now report on progress in this area. Overall, women’s representation remains unequal. At the global level, the reported share of women employees in the largest MNEs is 17 per cent, with 9 per cent at the managerial level, but a larger share (18 per cent) at board level, where regulation and investor pressure have led to better representation.

Globally, about four out of five companies have published a diversity policy. The degree to which such policies translate into concrete action can be proxied by the presence of flexible working arrangements or the provision of childcare services that might positively benefit women and facilitate their participation in the labour market. The number of companies with such arrangements or facilities is far lower than those with diversity policies.

Figure 11. Gender reporting rates, by region and top five and bottom five industries, 2018 (Per cent)



Source: UNCTAD.

Note: Share of companies reporting on gender (n = 3,103) out of all companies in data set (n = 4,439).

Mainstreaming the SDGs in investment policies

More than 150 countries have adopted national strategies on sustainable development or revised existing development plans to reflect the SDGs. An analysis by UNCTAD, based on 128 voluntary national reviews, reveals that although many of these strategies highlight the need for additional financial resources, very few contain concrete road map for the promotion of investment in the SDGs.

Existing investment promotion instruments applicable to the SDGs are limited in number and follow a piecemeal approach. UNCTAD's global review of national investment policy regimes shows that less than half of UN Member States maintain specific promotion tools for investment in the SDGs for these countries, on average, each targets no more than three SDG-related sectors or activities in its regulatory framework. Many other countries do not have such policies at all. Countries promote inward investment in the SDGs primarily through incentive schemes. Several key SDG sectors, such as health, water and sanitation, education and climate change adaptation, are rarely covered by specific

investment promotion measures. Developed economies also promote outward investment through state guarantees and loans using sustainability criteria.

Since the adoption of the SDGs, some efforts have been made to enhance the promotion of investment in SDG sectors. In total, 55 countries implemented almost 200 policy measures related to these sectors, with the vast majority of them aiming at liberalizing or facilitating investment in food and agriculture, transportation or innovation. Most policy changes were adopted by developing economies, with developing Asia alone responsible for 42 per cent of them. The pandemic has triggered a shift in priorities towards more promotion of investment in health, food security and digitalization.

Factoring in the SDGs in the international investment treaty regime presents a daunting task. The vast majority of the 3.300 existing treaties pre-date the SDGs. Since the adoption of the SDGs in 2015, 190 IIAs have been concluded. Of those, more than 30 per cent include provisions addressing the SDGs directly, and almost 60 per cent include a reference to sustainable development in their preamble. In addition, several countries are reformulating their treaty models in line with UNCTAD's Reform Package for the IIA regime.

A more systematic approach is needed for factoring investment promotion into national SDG strategies, and mainstreaming SDGs into national investment policy frameworks and the IIA regime.

A big push for investment in the SDGs – a new set of transformative actions

A new set of global actions to facilitate a “Big Push” in private sector investment in the SDGs is urgently needed. Current investment in SDG sectors, especially in developing countries, is too low, sustainability financing largely bypasses developing countries and SDG-specific investment policies are not being rolled out fast enough. This situation is compounded by the impact of the COVID-19 crisis, which risks subordinating progress on the SDGs to the priority of economic recovery.

Building on the six transformative actions proposed in its Investment Policy Framework for Sustainable Development (IPFSD), UNCTAD's new Action Plan combines several policy instruments to provide an implementation framework for the UN Secretary-General's Strategy for Financing the 2030 Agenda for Sustainable Development.

The framework of the IPFSD Action Plan, mobilizing funds, channelling them into SDG sectors and maximizing their impact, remains a valid point of departure. The four guiding principles for private sector investment in the SDGs proposed by the IPFSD, namely (a) balancing liberalization and regulation, (b) ensuring both attractive risk/return profiles and accessible and affordable goods and services, (c) aligning measures to attract private funds with the fundamental role of the State and (d) differentiating between the global scope of the SDGs and special efforts for LDCs and other vulnerable economies, must remain the overriding considerations in any policy agenda for boosting investment in the SDGs.

The new Action Plan presents a range of policy options to respond to the investment mobilization, channeling and impact challenges faced especially by developing countries (figure 12). Its transformative actions include the following six:

- Mainstreaming the SDGs in national investment policy frameworks and in the international investment treaty regime
- Re-orienting investment promotion and facilitation strategies toward SDG investment
- Establishing regional SDG Investment Compacts
- Fostering new forms of partnerships for SDG investment
- Deepening ESG integration in financial markets by establishing a global monitoring mechanism with a harmonized approach to disclosure
- Changing the global business mindset

The new Action Plan is a response to the call in the United Nations General Assembly resolution on “Promoting investments for sustainable development” (A/RES/74/199), for “concrete recommendations for the advancement of investment for the implementation of the 2030 Agenda”.

As requested by the General Assembly, UNCTAD will continue its regular monitoring of global SDG investment trends and policies through the Global SDG Investment Trends Monitor, the Global SDG Investment Policy Monitor and the *World Investment Report*. It will also continue to promote investment in the SDGs through global platforms, such as the World Investment Forum, in partnership with all key investment–development stakeholders.

Figure 12. | A big push for action: six policy packages



Source: UNCTAD, based on IPFSD 2015.

NOTE

The UNCTAD Investment and Enterprise Division is the focal point in the United Nations System for investment and enterprise development. As a global centre of excellence, the Division conducts leading-edge research and policy analysis, provides technical assistance to member States and regional groupings, and builds international consensus among the 195 member States of the organization. Its mission is to promote investment and enterprise for sustainable and inclusive development.

The Division provides, among others,

Two flagship products:

World Investment Report

World Investment Forum

Six key policy frameworks:

Investment Policy Framework for Sustainable Development

Action Plan for Investing in the SDGs

Entrepreneurship Policy Framework

Reform Package for the International Investment Regime

Global Action Menu for Investment Facilitation

Accounting Development Tool

Seven core services:

Investment databases and research

National and international investment policies

Investment promotion

Responsible investment

Business facilitation

Entrepreneurship development

Accounting and reporting

Information about these products, frameworks and services, as well as the publications of the Division, can be found on UNCTAD's website (www.unctad.org/diae) or the organization's investment policy hub (www.investmentpolicyhub.unctad.org).

The Overview is prepared based on the in-depth analysis contained in *World Investment Report 2020: International Production Beyond the Pandemic* (United Nations publication, Sales No. E.20.II.D.23).

WORLD INVESTMENT REPORT

PAST ISSUES

- WIR 2019: Special Economic Zones
- WIR 2018: Investment and New Industrial Policies
- WIR 2017: Investment and the Digital Economy
- WIR 2016: Investor Nationality: Policy Challenges
- WIR 2015: Reforming International Investment Governance
- WIR 2014: Investing in the SDGs: An Action Plan
- WIR 2013: Global Value Chains: Investment and Trade for Development
- WIR 2012: Towards a New Generation of Investment Policies
- WIR 2011: Non-Equity Modes of International Production and Development
- WIR 2010: Investing in a Low-carbon Economy
- WIR 2009: Transnational Corporations, Agricultural Production and Development
- WIR 2008: Transnational Corporations and the Infrastructure Challenge
- WIR 2007: Transnational Corporations, Extractive Industries and Development
- WIR 2006: FDI from Developing and Transition Economies: Implications for Development
- WIR 2005: Transnational Corporations and the Internationalization of R&D
- WIR 2004: The Shift Towards Services
- WIR 2003: FDI Policies for Development: National and International Perspectives
- WIR 2002: Transnational Corporations and Export Competitiveness
- WIR 2001: Promoting Linkages
- WIR 2000: Cross-border Mergers and Acquisitions and Development
- WIR 1999: Foreign Direct Investment and the Challenge of Development
- WIR 1998: Trends and Determinants
- WIR 1997: Transnational Corporations, Market Structure and Competition Policy
- WIR 1996: Investment, Trade and International Policy Arrangements
- WIR 1995: Transnational Corporations and Competitiveness
- WIR 1994: Transnational Corporations, Employment and the Workplace
- WIR 1993: Transnational Corporations and Integrated International Production
- WIR 1992: Transnational Corporations as Engines of Growth
- WIR 1991: The Triad in Foreign Direct Investment

SELECTED UNCTAD PROGRAMMES ON INVESTMENT AND ENTERPRISE

World Investment Report

worldinvestmentreport.org

World Investment Forum

worldinvestmentforum.unctad.org

UNCTAD Investment Policy Framework for Sustainable Development

investmentpolicyhub.unctad.org/ipfsd

UNCTAD Entrepreneurship Policy Framework

unctad.org/en/PublicationsLibrary/diaeed2012d1_en.pdf

Sustainable Stock Exchanges Initiative

sseinitiative.org

Business Facilitation

businessfacilitation.org

Business Schools for Impact

business-schools-for-impact.org

Investment Policy Hub

investmentpolicyhub.unctad.org

FDI Statistics

unctad.org/fdistatistics

Investment Trends and Policies Monitors

unctad.org/diae

International Investment Agreements

unctad.org/iiia

Investment Policy Reviews

unctad.org/ipr

ISAR Corporate Transparency Accounting

unctad.org/isar

Transnational Corporations Journal

unctad.org/tnc



worldinvestmentreport.org

HOW TO OBTAIN THE PUBLICATIONS

The sales publications may be purchased from distributors of United Nations publications throughout the world. They may also be obtained by contacting:

United Nations Publications
Customer Service
c/o National Book Network
15200 NBN Way
PO Box 190
Blue Ridge Summit, PA 17214
email: unpublications@nbnbooks.com

unp.un.org

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

Division on Investment and Enterprise
United Nations Conference on
Trade and Development
Palais des Nations, Room E-10052
CH-1211 Geneva 10 Switzerland

Telephone: +41 22 917 4533
Fax: +41 22 917 0498
unctad.org/diae