Global Investment: Salient Features and Policy Challenges

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A presentation in 3 parts:

I. Global FDI Trends
II. Investment Policy developments
III. Trends in Entrepreneurship and SME development
Global FDI recovery is moving from a steady to a bumpy road; it is taking longer to recover than expected.

Global FDI inflows, 2000–2012
(billions of dollars)

Source: UNCTAD.
* Revised.
** Projection.
FDI versus real GDP growth rate and trade: longer term prospects for FDI are promising

Real GDP growth rates, global merchandise trade and FDI, 2008–2014
(Per cent and trillions of dollars)

<table>
<thead>
<tr>
<th>Variable</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2013&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2014&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate (IMF)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World (%)</td>
<td>2.8</td>
<td>-0.6</td>
<td>5.1</td>
<td>3.8</td>
<td>3.3</td>
<td>3.6</td>
<td>4.1</td>
</tr>
<tr>
<td>Trade volume</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global merchandise trade (%)</td>
<td>2.3</td>
<td>-12.5</td>
<td>13.9</td>
<td>5.0</td>
<td>2.5</td>
<td>4.5</td>
<td>..</td>
</tr>
<tr>
<td>FDI global</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value (trillion of dollars)</td>
<td>1.8</td>
<td>1.2</td>
<td>1.4</td>
<td>1.6</td>
<td>up to 1.6</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Growth rate (%)</td>
<td>-9.5</td>
<td>-32.9</td>
<td>12.3</td>
<td>17.6</td>
<td>0.0</td>
<td>6.9</td>
<td>7.0</td>
</tr>
</tbody>
</table>

<sup>a</sup> Estimation.

<sup>b</sup> Projections.
TNCs have been an engine of the global economy, even though they are in a low gear at the moment.
International production by transnational corporations (TNCs)

In 2011, foreign affiliates of TNCs…

… employed an estimated 69 million workers …

… generated $28 trillion in sales …

… produced $7 trillion in value added (~10% of global GDP) …

… and managed assets of $82 trillion
TNC-governed GVCs generate around one-third of global private sector GDP

GDP and value added (gross output) by type of operation, 2010
(trillions of dollars)

- Global private sector GDP: ~48
- Value added of domestic businesses: ~32
- TNC value added in home countries: ~8.8
- TNC foreign affiliates value added: ~6.6
- Cross border NEM value added: ~0.6

TNC governance of global value chains: ~33%
International operations: ~15%

Source: UNCTAD estimates, based on WIR12 (table I.8) and WIR11 (table IV.4); BEA; EFIGE.
Growing importance of the South inward and outward FDI, but with a nuance

Share of developing and transition economies in global flows, 2000-2012
(Per cent)

Source: UNCTAD, FDI/TNC database.
...but flows retreated in the first half of 2012, with an uneven pattern among regions.

The growth rate and the amount of FDI inflows, by group of economies
2011:H1–2012:H1
(Per cent and billions of US dollars)

- Latin America and the Caribbean: 8% (117 billions)
- Europe: 6% (189 billions)
- Africa: 5% (23 billions)
- European Union: -4% (176 billions)
- Developing Asia: -11% (197 billions)
- Transition economies: -28% (33 billions)
- North America: -35% (82 billions)

Source: UNCTAD.
Africa and the least developed countries (LDCs) remained in FDI recession in 2011; but in the first half of 2012 Africa saw a sign of FDI recovery.

**FDI inflows, 2008–2011**  
(Billions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Africa</th>
<th>LDCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>57.8</td>
<td>18.5</td>
</tr>
<tr>
<td>2009</td>
<td>52.6</td>
<td>18.3</td>
</tr>
<tr>
<td>2010</td>
<td>43.1</td>
<td>16.9</td>
</tr>
<tr>
<td>2011</td>
<td>42.6</td>
<td>15.0</td>
</tr>
<tr>
<td>2012*</td>
<td>10.0</td>
<td>2.5</td>
</tr>
</tbody>
</table>

* Projection.

Source: UNCTAD.
Primary and services sector: FDI turns around after 2 years of decline

Sectoral distribution of FDI projects, 2005 – 2011
(Billions of dollars and per cent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Average 2005–2007</td>
<td>130</td>
<td>670</td>
</tr>
<tr>
<td>2008</td>
<td>230</td>
<td>980</td>
</tr>
<tr>
<td>2009</td>
<td>170</td>
<td>510</td>
</tr>
<tr>
<td>2010</td>
<td>140</td>
<td>620</td>
</tr>
<tr>
<td>2011</td>
<td>200</td>
<td>660</td>
</tr>
</tbody>
</table>
National investment policies continued to be favourable to foreign investors

National investment policy changes, 2000 – 2011
(Per cent of measures)
International investment policies: Shifting from the bilateral to the regional level

Trends of BITs and “other IIAs”, 1980 – 2011 (Number of treaties)
Recent international investment instruments enhance sustainable development

- UN Guiding Principles on Business and Human Rights (2011)
- **UNCTAD**, FAO, World Bank, IFAD Principles on Responsible Agricultural Investment (2011)
- Revised OECD Guidelines on Multinational Enterprises (2011)
- Revised ICC Guidelines for International Investment (2012)
- **UNCTAD**, GC, PRI, UNEP FI Sustainable Stock Exchange Initiative (2012)
- SADC model BIT template (2012)
- **UNCTAD**’s IPFSD (2012)
Challenges for investment treaty making

- How to address both a host and home country perspective?
- How to balance investment liberalization and regulation? How to avoid investment protectionism, while recognizing that countries may have legitimate reasons to restrict foreign investment?
- How to factor in sustainable development and inclusive growth into IIAs?
- How to address the systemic complexity of today’s IIA regime?
- How to ensure coherence between investment policies and other policies in pursuit of wider development goals?
- How to promote multilateral investment cooperation in the absence of a multilateral investment framework?
UNCTAD’s Investment Policy Framework for Sustainable Development helps policymakers responding to these challenges

Structure and components of the IPFSD

Core Principles
"Design criteria" for investment policies and for the other IPFSD components

**National investment policy guidelines**
Concrete guidance for policymakers on how to formulate investment policies and regulations and on how to ensure their effectiveness

**IIA elements: policy options**
Clause-by-clause options for negotiators to strengthen the sustainable development dimension of IIAs
## Core principles for investment policymaking

<table>
<thead>
<tr>
<th>Principle</th>
<th>Core Principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment for sustainable development</td>
<td>• …overarching objective of investment policymaking …</td>
</tr>
<tr>
<td>Policy coherence</td>
<td>• …grounded in a country’s overall development strategy … coherent and synergetic …</td>
</tr>
<tr>
<td>Public governance and institutions</td>
<td>• …involving all stakeholders … standards of public governance … predictable, efficient and transparent procedures for investors</td>
</tr>
<tr>
<td>Dynamic policymaking</td>
<td>• …regular reviews for effectiveness and relevance …</td>
</tr>
<tr>
<td>Balanced rights and obligations</td>
<td>• …setting out rights and obligations of States and investors in the interest of development</td>
</tr>
<tr>
<td>Right to regulate</td>
<td>• …in the interest of the public good and to minimize potential negative effects</td>
</tr>
<tr>
<td>Openness to investment</td>
<td>• …in line with development strategy … open, stable and predictable entry conditions …</td>
</tr>
<tr>
<td>Investment protection and treatment</td>
<td>• …adequate protection to established investors … non-discriminatory</td>
</tr>
<tr>
<td>Investment promotion and facilitation</td>
<td>• …aligned with sustainable development goals … minimize risk of harmful competition for investment</td>
</tr>
<tr>
<td>Corporate governance and responsibility</td>
<td>• …promote adoption of and compliance with best international practices of CSR …</td>
</tr>
<tr>
<td>International cooperation</td>
<td>• …address shared investment-for-development challenges … avoid investment protectionism</td>
</tr>
</tbody>
</table>
Recent Trends: Entrepreneurship and the Crisis (1)

Source: World Bank 2010 Entrepreneurship Snapshots
Recent Trends: Entrepreneurship and the Crisis (2)

- The most productive entrepreneurs start their business to seize an economic opportunity, others mainly because they lack an alternative employment choice.
- The number of “entrepreneurs out of opportunity” has rebounded strongly after the crisis in developing countries …

... however, this is not yet the case for some developed countries, where the crisis lingers on.

Source: GEM Global Reports 2007-2011, UNCTAD Analysis
UNCTAD’s flagship programme: EMPRETEC  www.empretec.net

- UNCTAD actively promotes entrepreneurs’ abilities to recognize and act upon economic opportunities through its flagship Empretec Programme
- To date, more than 240,000 Empretecos have been trained all over the world, out of which 30% are women
Recent Trends: Entrepreneurship-friendly Regulations

• According to the World Bank’s latest *Doing Business* report, developing countries continue to adopt legislation supportive of a move towards more entrepreneurial economies.
The UNCTAD Entrepreneurship Policy Framework comprises 6 areas that have a direct impact on entrepreneurial activity.

1. Formulating national entrepreneurship strategy
2. Optimizing the regulatory environment
3. Enhancing entrepreneurship education and skills
4. Facilitating technology exchange and innovation
5. Improving access to finance
6. Promoting awareness and networking
Experience of Pilot Countries

• June 2012. Based on UNCTAD’s database of good practices, the Government of Brazil mapped out the current state of entrepreneurship in Brazil, as a first step to designing a national entrepreneurship policy.

• Nigeria’s revised MSME Policy (May 2012) draws on UNCTAD’s Entrepreneurship Policy Framework.

• Eleven policy recommendations on entrepreneurship development were presented to the Government of Panama in May 2012. The recommendations were the result of a National Forum on Entrepreneurship which made use of the tools and recommendations of UNCTAD’s Entrepreneurship Policy Framework.

• UNCTAD's Entrepreneurship Policy Framework methodology was applied to the Ghanaian context.