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Latest Developments in FDI and Entrepreneurship Trends and Policies

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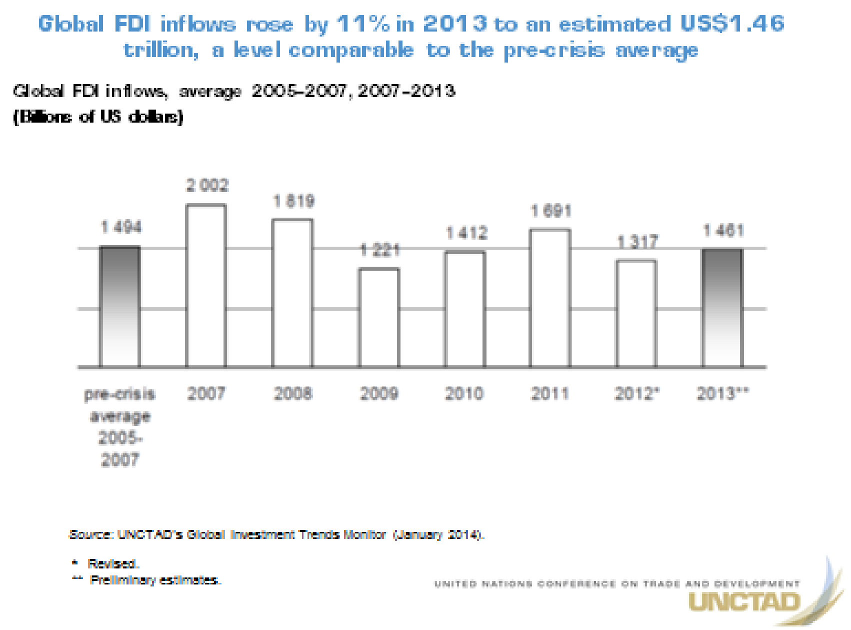
Geneva, 28 April 2014

Mr. Chairman,
Excellences,
Distinguished delegates,

My presentation this morning will follow the structure used previously in this Commission. Firstly, I will outline recent global and regional trends in FDI, then move to developments in the national and international policy environment; and I will conclude with trends in entrepreneurship development. So let me begin with the latest developments in FDI trends.

1. Trends in FDI flows in 2013

[Slide 3]



Global foreign direct investment (FDI) inflows flows increased by 11% in 2013, to $1.46 trillion - the pre-crisis 3 year average. The prospects for global FDI are therefore cautiously optimistic. Flows are forecast to reach $1.6 trillion in 2014 and $1.8-1.9 trillion 2015, approaching the historical peak in 2007.

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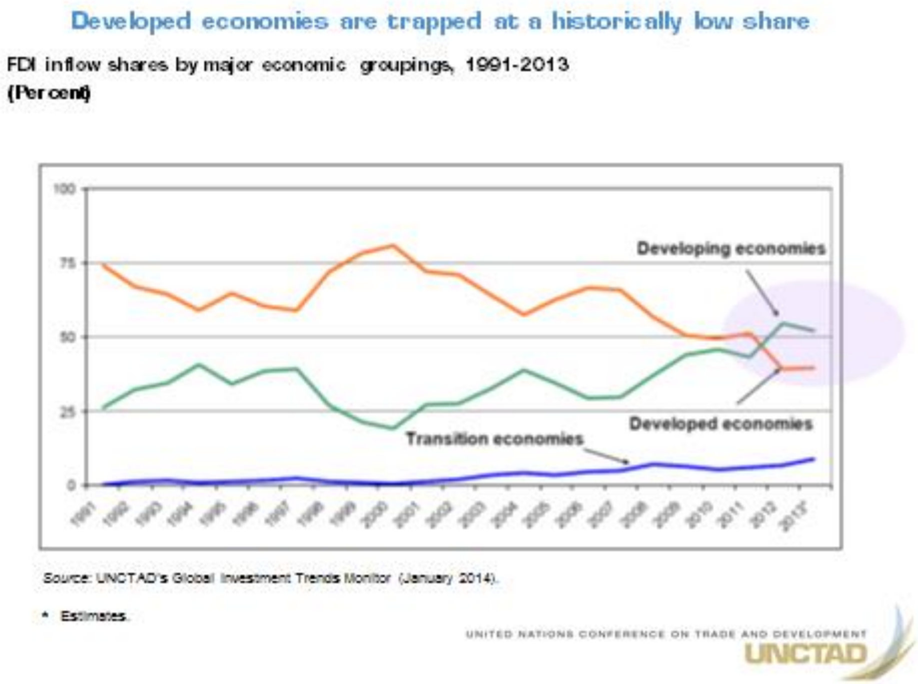

Developed countries' share of global FDI remains at a historically low level, of 39%, but they enjoyed higher FDI growth than the global average in 2013. Developing countries continue to attract more than half of global FDI: that is, 52% of the global total, a record level. Transition economies attracted a record level of FDI, and their share of global FDI reached 9%.

At the regional level, flows to Latin America and the Caribbean, and Africa were up; developing Asia, with its flows at a level similar to 2012, remained the largest host region in the world.

However, in 2013 the growth of FDI inflows to developing countries has slowed down to 6%, compared with an average growth rate over the last ten years of 17%. With concerns about economic growth in emerging markets, there is a risk of a further slowdown in FDI inflows. In light of the current regional FDI performance and other macro-economic indicators, the regional pattern of FDI may move back towards a 'traditional pattern': that is, an increase in the share of developed countries and a decline in the share of developing and transition economies.

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TTIP accounts for 30 per cent of global in-flows

FDI inflows to selected regional and inter-regional groups, average 2005-2007, 2008–2013 (Billions of US dollars)

Regional / inter-regional groups	2005-2007 average	2008	2009	2010	2011	2012	2013
G20	879	992	629	740	887	712	789
APEC	559	809	486	656	781	699	757
TTIP	834	852	502	573	700	375	444
TPP	362	523	276	379	466	404	413
RCEP	195	293	227	284	350	329	326
BRICS	158	284	201	237	286	267	322
NAFTA	279	396	183	249	290	226	260
ASEAN	64	51	48	98	110	113	116
MERCOSUR	31	59	30	61	85	85	83
Memorandum: percentage share in world FDI flows							
G20	59	55	52	52	52	54	54
APEC	37	44	40	46	46	53	52
TTIP	56	47	41	41	41	28	30
TPP	24	29	23	27	28	31	28
RCEP	13	16	19	20	21	25	22
BRICS	11	16	16	17	17	20	22
NAFTA	19	22	15	18	17	17	18
ASEAN	4	3	4	7	7	9	8
MERCOSUR	2	3	2	4	5	6	6

Source: UNCTAD's Global Investment Trends Monitor (January 2014).

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Mega-regional developments: Among major regional and inter-regional groupings, APEC and BRICS almost doubled their share of global FDI inflows from the pre-crisis level. APEC now accounts for more than half of global FDI flows, on a par with the G20, while BRICS jumped to over one fifth. In ASEAN and MERCOSUR, the level of FDI inflows doubled compared to the pre-crisis level. Regional and inter-regional groups to which developed economies are main members (e.g. G20, NAFTA) are all experiencing a slower recovery.

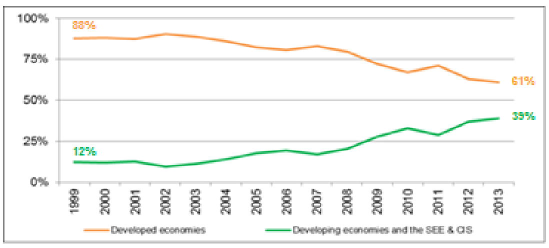
The share in global FDI inflows of the 12 countries participating in the Trans-Pacific Partnership (TPP) negotiations was 28% in 2013, markedly smaller than their share of world GDP (40%). While that share has remained stagnant since 2008, the distribution of the inflows has shifted in favour of developing members. The share of developing countries within the group more than doubled from 15% in 2008 to 36% in 2013.

[Slide 6]

Investment by South TNCs reached a record level, accounting for 39%

The share of FDI outflows by major economic groupings, 1999-2013

(Per cent)



Source: UNCTAD's Global Investment Trends Monitor (April 2014).

* Estimates.

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Outward FDI by South TNCs reached a record level. Accounting for just 12% of global outflows at the beginning of the 2000s, FDI by TNCs from the South (together with transition economies) last year grew to a record 39% of total global FDI outflows.

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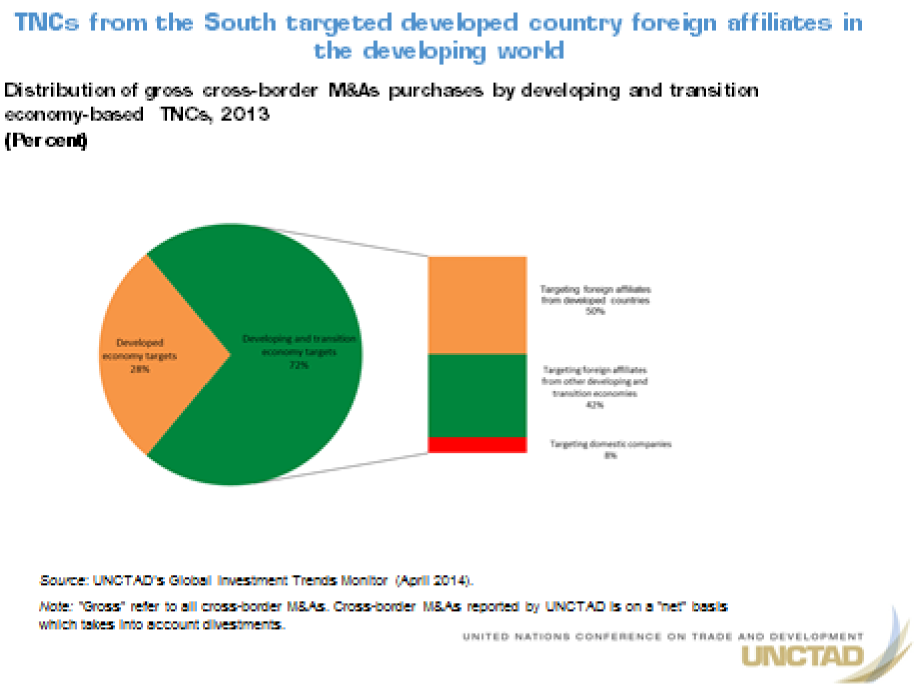

Moreover, UNCTAD observed that developing country TNCs are acquiring developed country affiliates in the developing world. Whilst more than 2 out of 3 developing country TNC targets are in other developing markets, 50% of these acquisitions are affiliates of developed country TNCs.

Developed country TNCs' outward investment was virtually on a par with their investment of the previous year. It remained 55% off its peak level in 2007. Furthermore, some developed country TNCs have been undertaking significant divestment over the past couple of years.

2. Trends in investment policymaking

Turning to investment policies, it is increasingly apparent that investment policy making is at the crossroads, with divergent paths at both the national and international levels.

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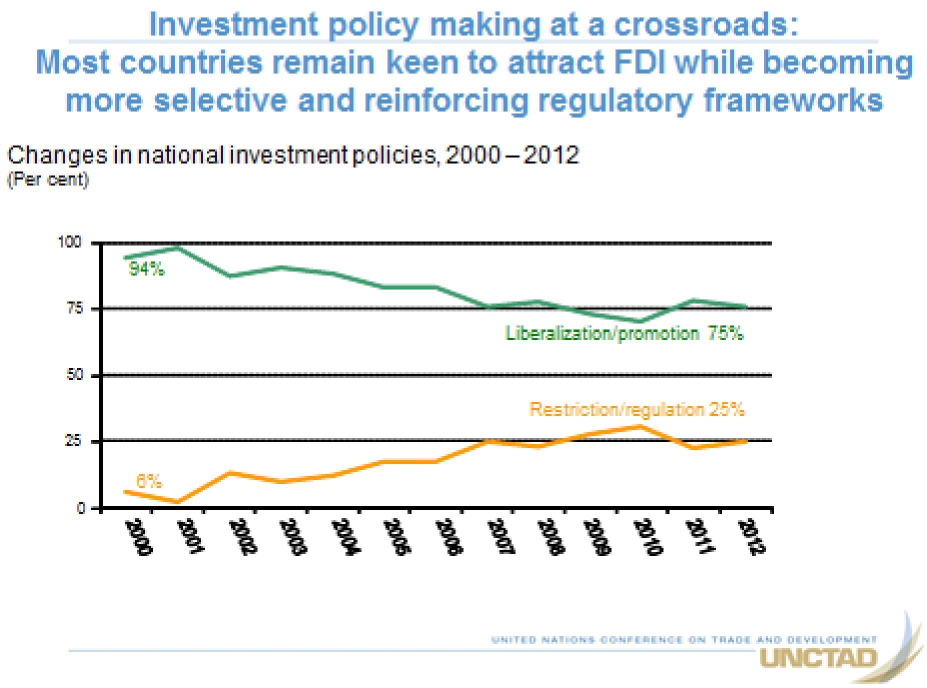

At the national level, this can be seen in many countries that are introducing new liberalization and facilitation policies at the same time as putting in place regulatory measures. The observed pattern is of liberalization and facilitation in sectors conducive to growth and the use of regulations and screening measures in sensitive industries in the same country.

In terms of numbers, at least 53 countries and economies around the globe adopted 86 policy measures affecting foreign investment in 2012. The bulk of these measures (75 per cent) related to investment liberalization, facilitation and promotion, targeted to numerous industries, especially in the services sector. Privatization policies were an important component of this trend. Other policy measures include the establishment of special economic zones (SEZs).

At the same time, the share of FDI-related regulations and restrictions increased to 25 per cent, confirming a long-term trend after a temporary reversal in 2011. Governments made more use of industrial policy, adjusted previous investment liberalization efforts, tightened screening and monitoring procedures, and closely scrutinized cross-border M&As. Restrictive investment policies were applied particularly to strategic industries, such as the extractive industries. In general, governments became more selective about the involvement of FDI in different industries in their economies.

At the international level, two salient features can be observed with regards to the negotiation of international investment agreements (IIAs):

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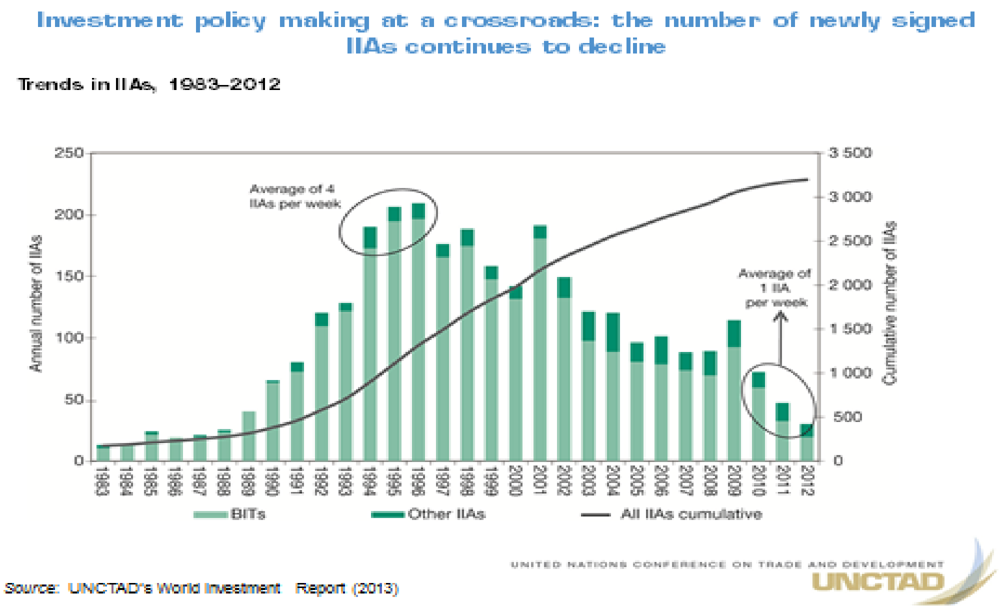

First, there has been a slowdown in the negotiation of bilateral investment treaties (BITs). However, this slowdown has been replaced by a trend towards the negotiation of regional investment treaties, particularly by the increasing number of countries (over 100) participating in negotiations of so-called 'mega-regionals' like the TTIP, TPP and RCEP.

These developments contribute to a growing set of systemic challenges. The international investment regime remains somewhat incoherent: its multiple layers create overlaps and inconsistencies, resulting in systemic complexity. For example, there are too many agreements to manage them coherently (more than 3,200 IIAs currently exist) and yet too few agreements to cover the entire set of global bilateral investment relationships (which would require a further 14,000 BITs to be negotiated). Added to which, there are also growing concerns about how to mainstream the sustainable development dimension into investment negotiations and the existing international investment regime.

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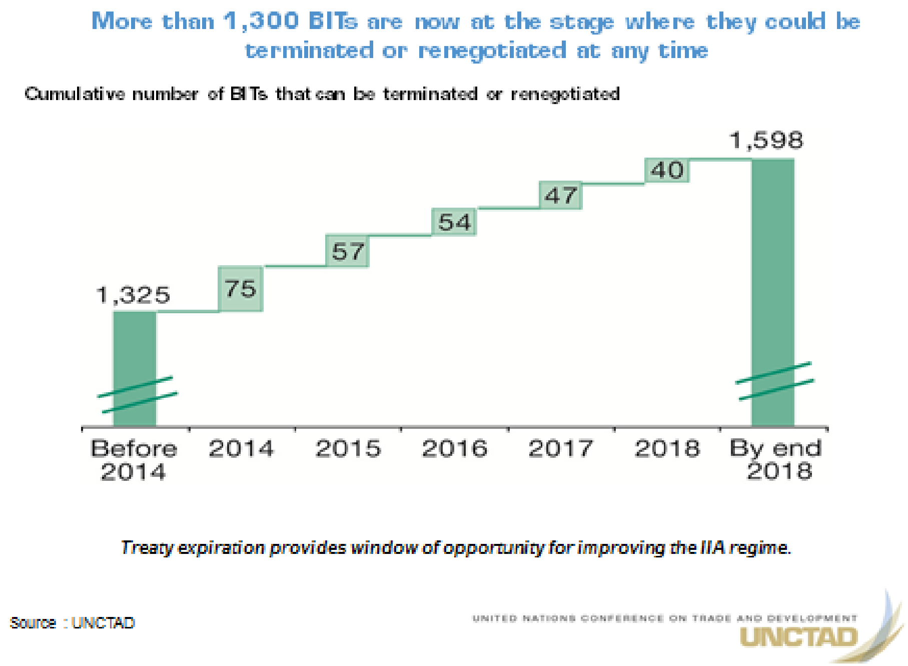

However, there are opportunities to address these systemic challenges, stemming from the upcoming - or past - expiration of a number of BITs. Currently one third of treaties are due to expire or can be renegotiated, a figure that will rise to one half of all BITs by the end of 2018. This provides opportunities for countries to address systemic and sustainable development concerns in treaties or to abandon the treaties altogether, as some countries have opted to do. In taking such actions, countries need to weigh the pros and cons in the context of their investment climate and their overall development strategies.

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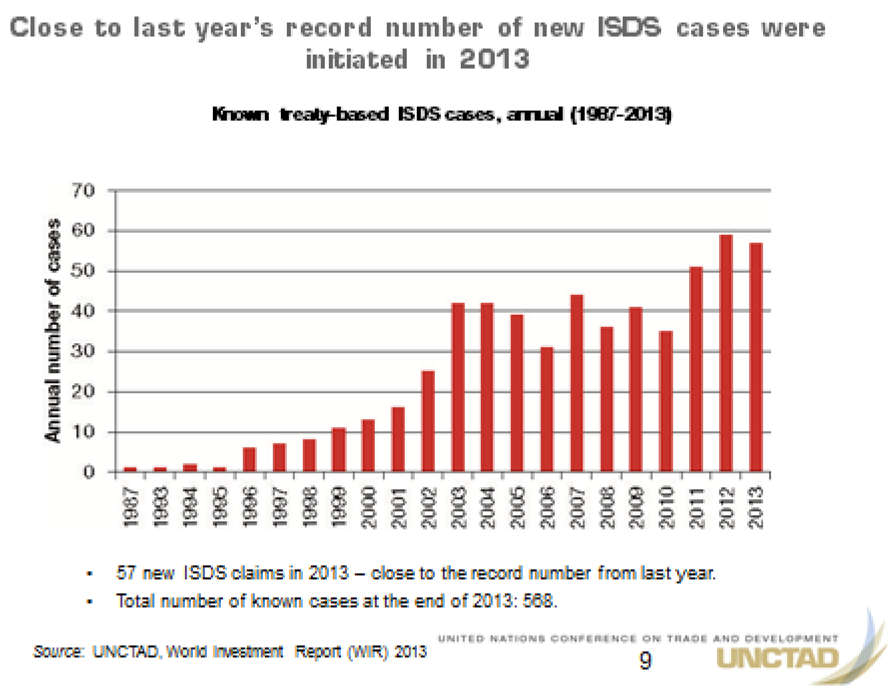

Another challenge is the growing discontent over investor-state dispute settlement (ISDS). The use of ISDS has been steadily increasing and last year, 57 new ISDS claims were known of – close to the record number in 2012. This brings the total number of known cases at the end of 2013 to 568.

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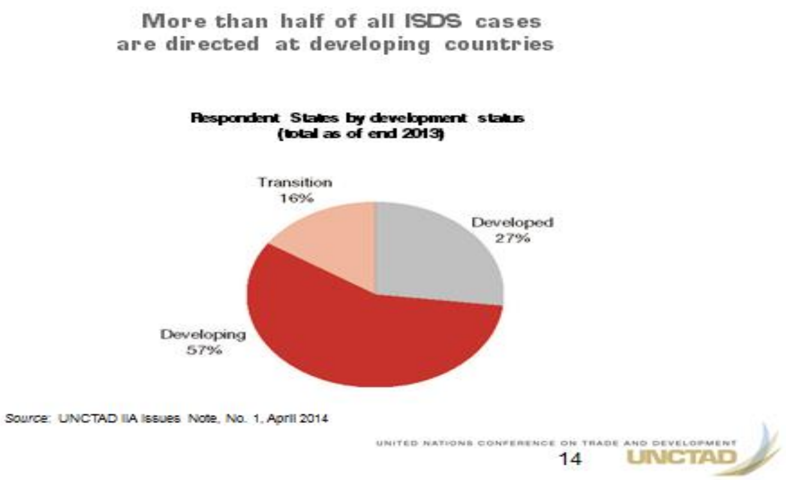

Of these ISDS cases, almost three quarters are directed at developing and transition economies. But the use of ISDS is not exclusively a developing country concern: currently we see an intensive debate about the nature and the potential use of ISDS in TTIP negotiations. Issues debated relate to a perceived lack of legitimacy and transparency, lack of consistency and erroneous decisions, the system for arbitrator appointment and the financial stakes involved.

All this has led to the reviewing and revising of treaty models and negotiation positions by countries. As a contribution to the debate over the reform of the international investment system, including ISDS, UNCTAD proposed an innovative agenda in its 2012 Investment Policy Framework for Sustainable Development (IPFSD). The UNCTAD policy framework gathers in one handbook a comprehensive list of options designed to support rule-makers in shaping modern investment policies, and since then, has offered a point of reference for all investment stakeholders.

Subsequently, we deepened our policy work on ISDS and, in our 2013 WIR, sketched five paths towards reform for improvements to the ISDS mechanism. These are: introducing an appeals facility, promoting alternative dispute resolution (ADR), modifying the existing ISDS system through individual IIAs, limiting investors' access to ISDS, and creating a standing international investment court. IIA stakeholders are invited to assess the current system, weigh the available options and embark on concrete steps for reform. Collective efforts at the multilateral level can help develop a consensus about the preferred course of reform and ways to put it into action.

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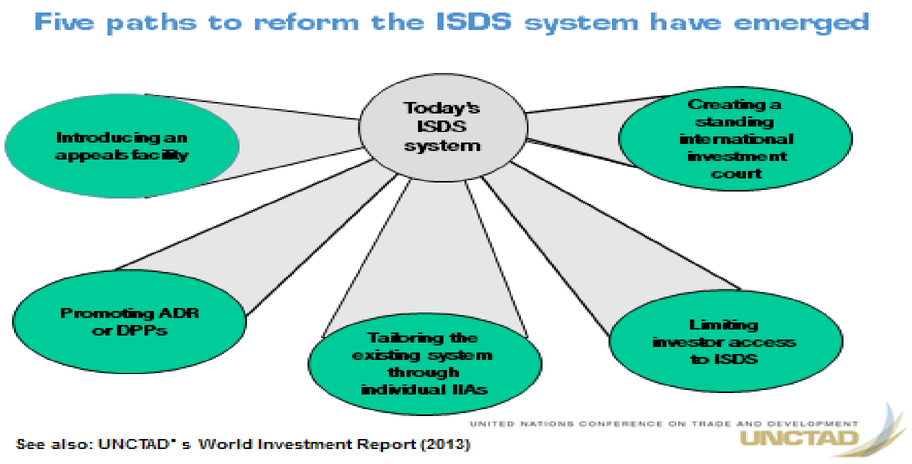

3. Trends in entrepreneurship development

I now come to the last part of my presentation concerning the work of this Commission: trends in entrepreneurship.

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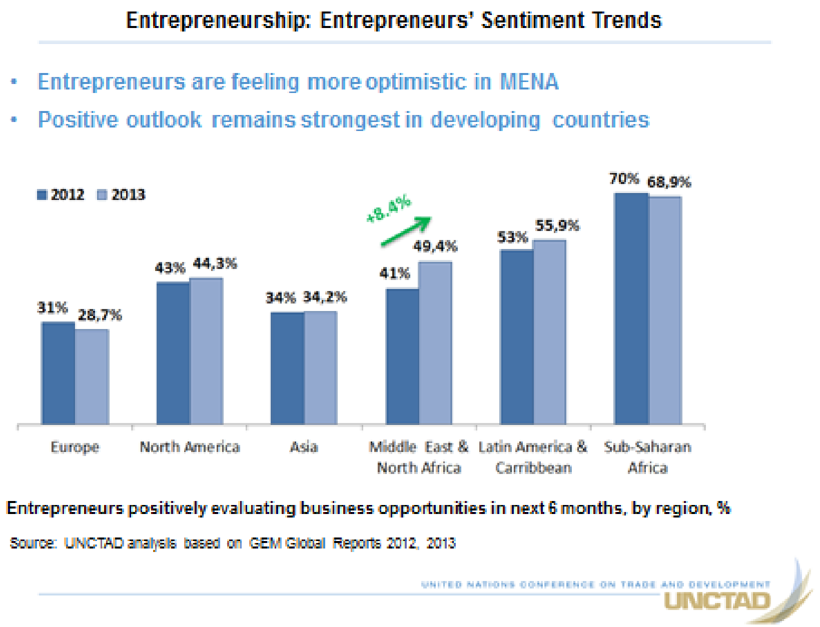

Surveys of entrepreneurs indicate a positive outlook for business in developing countries, especially in the Middle East and North Africa, where sentiment improved considerably over the past year. Overall, entrepreneurs have remained more optimistic in developing than developed countries since the global economic crisis.

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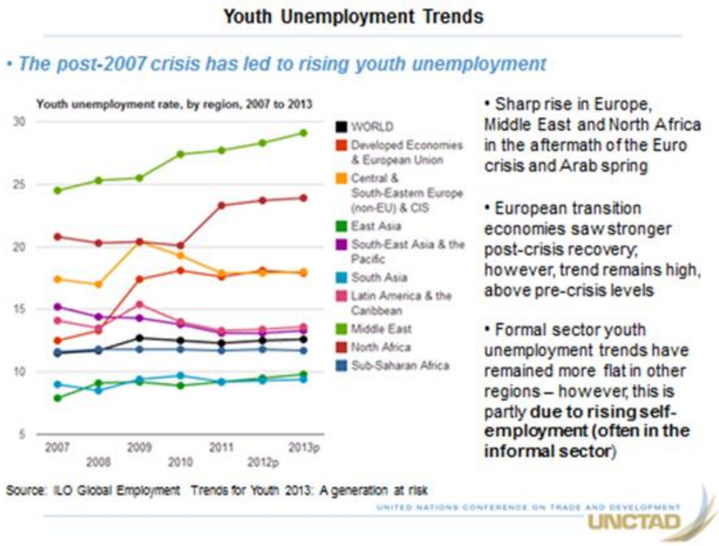

This is significant considering that, as a result of the economic crisis, youth unemployment has increased sharply in European and other high-income countries, as well as the Middle East and North Africa, with nearly 1 in 4 and 1 in 3 youth unemployed in these regions respectively. One area that could provide a solution to the employment challenge, therefore, are policies targeting youth entrepreneurship, education and training.

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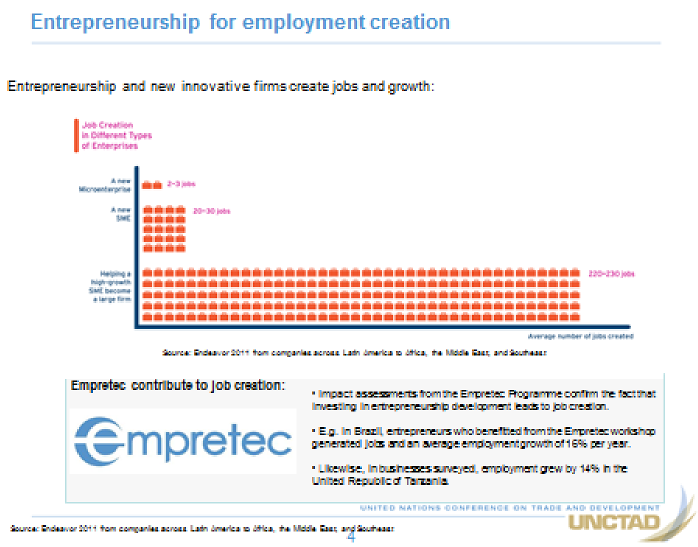

The contribution of entrepreneurship and new innovative firms to job creation and growth has been emphasized by this Commission many times in recent years, and is illustrated on the slide. The creation of new business entities also generates value added, fiscal revenues and innovation. According to the latest report released by Youth Business International and the Global Entrepreneurship Monitor, the job creation potential of businesses is related to their growth orientation, which, in turn, largely depends on whether entrepreneurs operate in the informal or formal sectors.

According to UNCTAD's analysis, a significant part of entrepreneurial activity in developing countries continues to take place outside the formal sector. Official estimates put the importance of the informal sector in low-income countries at close to 40-60% of GDP, and a large part of the labour force in developing countries is engaged in informal activities. In Africa, for example, 9 out of 10 rural and urban workers have informal jobs, and most are women and youth. Policy measures, such as a youth entrepreneurship strategy and entrepreneurship development programmes like Empretec, can be an important contribution to decreasing business informality and bringing women and youth into the formal labour market.

Much too often youth entrepreneurship remains confined to sectors with marginal value addition to the wider economy. At UNCTAD, we believe that still more can be done to promote the inclusion of young entrepreneurs into national, regional and global value chains, promoting higher value addition by empowering youth to become effective actors in these chains and to connect with international markets. A strategy to link domestic entrepreneurs and small businesses to global supply chains and the export sector can therefore exploit the potential for growth that comes from a global market. For example, last year's UNCTAD World Investment Report showed that 80% of global trade now takes place as part of the supply chain operations of transnational corporations and participation in global value chains on average accounts for 28% of developing countries' GDP.

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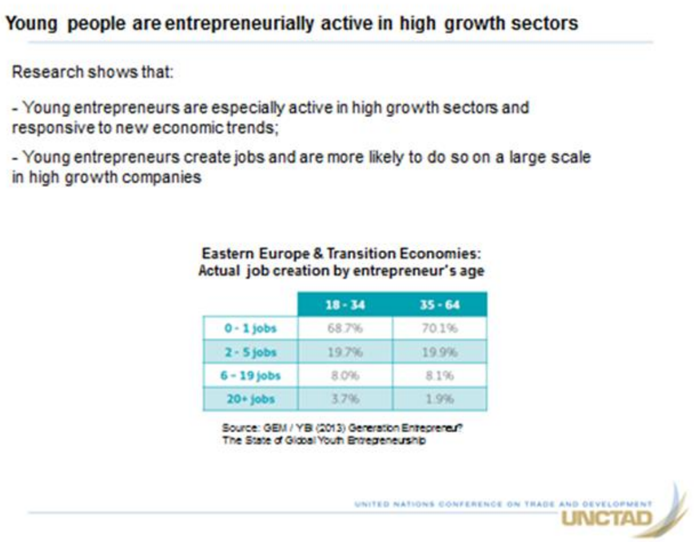

Research shows that young entrepreneurs are especially active in high growth sectors and responsive to new economic trends. Young entrepreneurs are more likely to create jobs on a large scale in high growth companies. Young entrepreneurs, therefore, could potentially make a key contribution to global prosperity.

For this reason, and others, it is imperative that public policy is oriented to harnessing the economic potential and creativity of underemployed young people rather than letting it go to waste. It is not surprising that policymakers around the world are currently looking to youth entrepreneurship as a strategy for sustainable and inclusive growth. This is also the reason that UNCTAD is developing a Guiding Framework for Youth Entrepreneurship, in collaboration with the Commonwealth Secretariat.

The issue of youth entrepreneurship will be further explored in the High Level Segment on Entrepreneurship for Development this afternoon.

Mr. Chairman

Distinguished delegates,

I will end my remarks there, but it remains for me to thank you for your attention this morning and I look forward to discussing with you this week as part of the Commission's deliberations and informally if time permits.

Thank you.