

**MULTI-YEAR EXPERT MEETING ON INVESTMENT FOR
PRODUCTIVE CAPACITY-BUILDING AND
SUSTAINABLE DEVELOPMENT**

Geneva, 28 January, 2013

Regional Integration and Foreign Direct Investment

Opening Statement

By

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Director

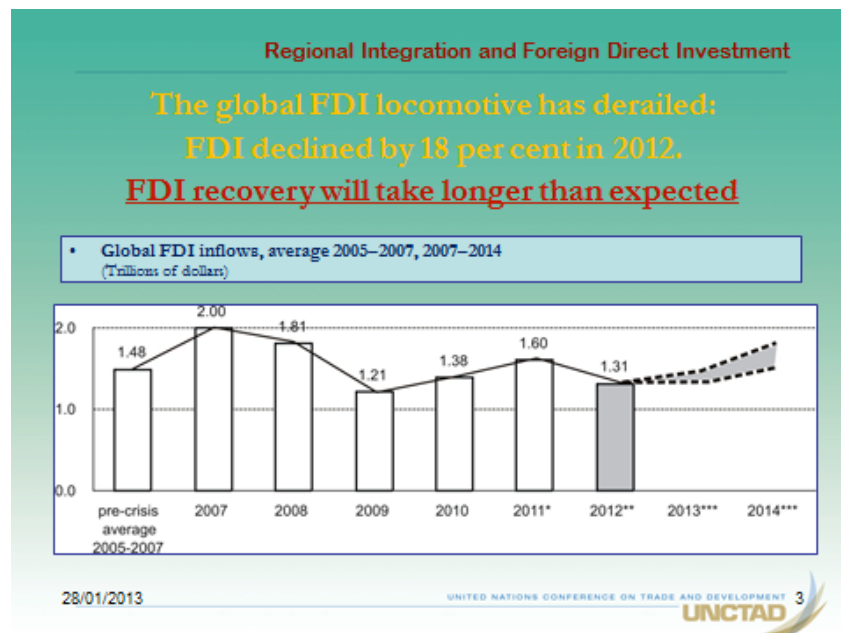
UNCTAD Division on Investment and Enterprise

Chair, Excellencies, Ladies and Gentlemen,

Before moving to the main topic of the meeting, I would like to take this opportunity to brief you on the latest trends and prospects for foreign direct investment (FDI), that were covered by our recent Global Investment Trends Monitor.

I. Latest Developments in FDI Trends

Turning first to global FDI trends and prospects...



It is too strong to say that the global FDI locomotive became derailed in 2012; and, consequently, FDI recovery will take longer than previously expected. FDI inflows declined by 18% in 2012, to an estimated US\$1.3 trillion – a level close to the trough reached in 2009. This is due mainly to macroeconomic fragility and policy uncertainty for investors. This uncertainty is driven by a weakening macroeconomic environment and by a number of perceived risk factors in the policy environment, related to the Eurozone crisis, the United States' fiscal cliff, changes of government in a number of major economies, and broad-based policy changes worldwide with implications for FDI.

The FDI recovery that had started in 2010 and 2011 will now take longer than expected. FDI flows could rise moderately to US\$1.4 trillion in 2013 and US\$1.6 trillion in 2014, due to slight improvements in macroeconomic conditions and the re-profiling of transnational corporations (TNCs). However, significant uncertainties to this scenario persist, including structural weaknesses in major developed economies and in the global financial system, and significant policy uncertainty in areas crucial for investor confidence. Should these risks prevail, the FDI recovery could be further delayed.

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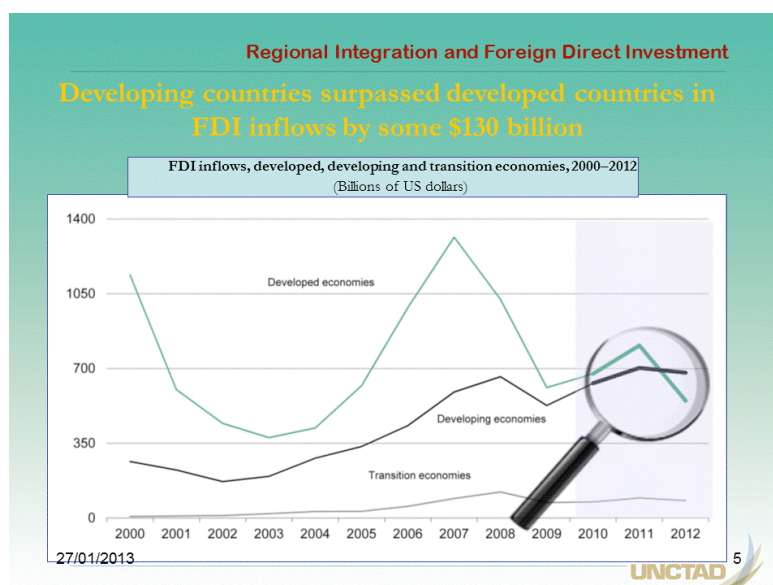
**The marked decline of FDI flows
is in stark contrast to other macroeconomic variables
which remain in positive territory**

Growth rates of global GDP, GFCF, trade, employment and FDI, 2008–2014 (Per cent)							
Variable	2008	2009	2010	2011	2012 ^a	2013 ^b	2014 ^b
<i>GDP</i>	1.4	-2.1	4.0	2.7	2.3	2.4	3.1
<i>Trade</i>	3.0	-10.4	12.6	5.8	3.2	4.5	5.8
<i>GFCF</i>	2.3	-5.6	5.3	4.8	4.6	5.3	6.0
<i>Employment</i>	1.1	0.4	1.4	1.5	1.3	1.3	1.3
<i>FDI</i>	-9.5	-33.0	14.1	16.2	-18.3	7.7	17.1
Memorandum:							
FDI value (in trillions)	1.81	1.21	1.38	1.60	1.31	1.4	1.6

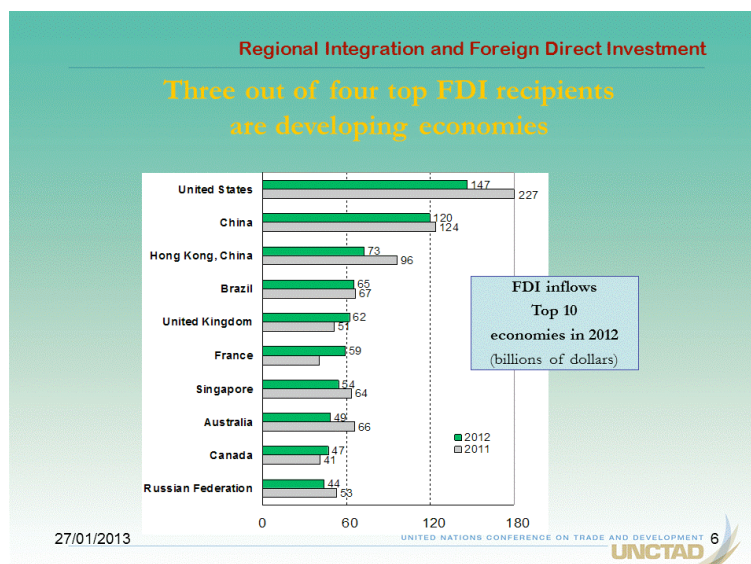
Source: UNCTAD based on World Bank for GDP, IMF for GFCF and Trade and ILO for employment.
^a Estimation. ^b Projections.
 GFCF=gross fixed capital formation.

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The marked decline of FDI flows is in stark contrast to other macroeconomic variables, including GDP, trade and employment growth which remain in positive territory.



FDI flows to developing economies, for the first time ever, exceeded those to developed countries, by some US\$130 billion. FDI flows to developing economies remained resilient, declining only 3% while in developed countries FDI flows fell drastically to values last seen almost ten years ago.



The changing pattern of FDI flows is also confirmed by the global ranking of the largest FDI recipients: in 2012, 3 of the top 4 host economies were from developing economies. While the United States and China maintained their top position, Hong Kong (China) and Brazil moved up one place from their 2011 rankings.

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FDI flows to developed countries fell drastically, while flows to developing remained resilient

FDI inflows, by region, 2011–2012
(Billions of dollars and per cent)

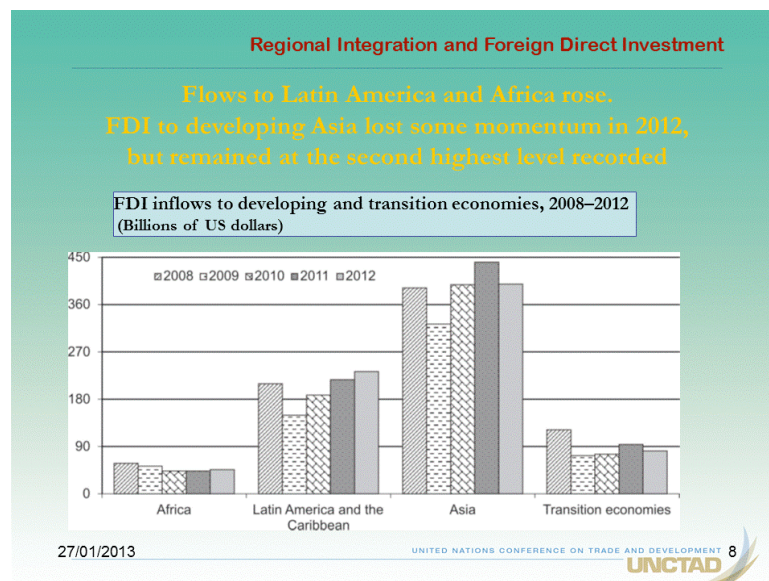
Region / economy	2011 ^a	2012 ^b	Growth rate 2011–2012 (%)
World	1 604.2	1 310.7	-18.3
Developed economies	807.8	548.9	-32.1
Europe	459.3	293.5	-36.1
United States	226.9	146.7	-35.3
Japan	-1.8	-0.4	...
Developing economies	702.7	680.4	-3.2
Africa	43.4	45.8	5.5
Latin America and the Caribbean	217.0	232.6	7.2
Asia	440.7	399.0	-9.5
East Asia	237.5	213.1	-10.3
South Asia	39.6	32.3	-18.4
South-East Asia	115.0	108.5	-7.3
West Asia	48.6	47.0	-3.3
Transition economies	93.7	81.4	-13.1

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In developed countries FDI flows fell by 32 per cent. The majority of EU countries saw significant drops in FDI flows with the total fall amounting to some US\$150 billion. United States' FDI flows also fell by US\$80 billion.

In 2012, FDI flows to developed countries fell drastically to \$550 billion, a level last seen almost ten years ago. Of the US\$300 billion global decline in FDI inflows, almost 90% was accounted for by developed countries. FDI declined sharply in Europe and in the United States. In Europe, Belgium and Germany saw the largest declines in FDI inflows. FDI flows to the Southern European countries hit by the crisis (Greece, Italy, Portugal, and Spain) together more than halved from 2011. The United States remained the largest recipient of FDI flows in the world, despite the FDI fall in 2012. Elsewhere, Japan saw a net divestment for the third successive year.

A few other developed countries bucked the trend and saw their FDI inflows increase, namely France, Canada, Ireland, and the United Kingdom, although none of these increases were significant in historic terms.



FDI flows to developing economies remained resilient in 2012, declining by only 3%, to US\$680 billion – still the second highest level ever recorded.

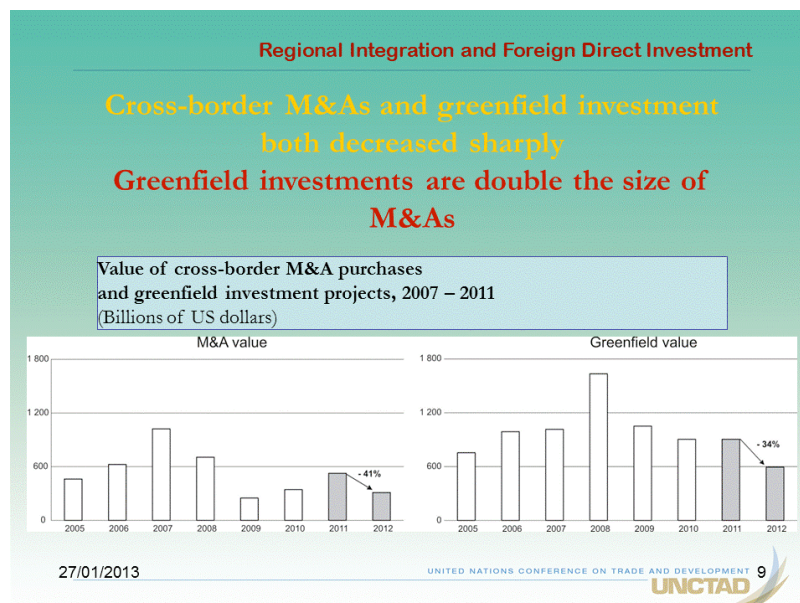
However, there is a diverging trend among developing country regions. *Flows to developing Asia lost some momentum, although they remained at historically high levels. Latin America and Africa saw a small increase.*

FDI inflows to developing Asia decreased by 9.5% as a result of declines across most sub-regions and major economies, including China, Hong Kong (China), India, the Republic of Korea, Singapore and Turkey. *However, 2012 inflows to Asia still remained at their second highest level, accounting for 59% of FDI flows to developing countries.* FDI flows to China declined slightly but the country continues to be a major FDI recipient – the second largest in the world. FDI to India declined by 14%, although it remained at the high levels achieved in recent years. For ASEAN as a whole, FDI inflows declined by 7%. However, some member countries (such as Cambodia, Myanmar, the Philippines, Thailand and Viet Nam) registered increases in inflows. FDI flows to West Asia declined for the fourth consecutive year.

Latin America and the Caribbean registered positive growth in FDI in 2012. The rise was strongest in South America. The persistent strength of commodity prices continues to encourage investments in the extractive industries, particularly in Chile, Colombia and Peru. FDI to Brazil slowed but remained robust, and the country is still the top investment destination in the region.

FDI flows to Africa rose in 2012. Flows to North Africa reversed their downward trend, as Egypt saw a rebound of investment from European investors. The positive growth of FDI flows to South Africa contributed to a rise in inward FDI flows to the Southern African region.

Transition economies experienced a decline in FDI flows of 13% as a result of sluggishness of investment from EU countries in South-East Europe, and the fall of FDI flows to the Russian Federation.



Data on cross-border mergers and acquisitions (M&As) show that developed country investors are divesting large amounts, *but investors from developing countries are bucking the trend*. In 2012, the value of cross-border M&As fell by 41%, to the lowest level since 2009. The weak M&A market reflects global macroeconomic uncertainty and its impact on corporate confidence, especially in developed markets. A number of developed countries such as Australia, France, Luxembourg, Portugal and the United Kingdom saw large divestments by their TNCs from assets abroad in 2012. In contrast, acquisitions by TNCs from developing economies reached US\$115 billion, accounting for a record-high share of 37% of total world M&A purchases. The value of announced greenfield projects also declined for the fourth straight year, falling by 34% to their lowest level ever. However, the value of greenfield investments is still double the size of M&As.

II. Regional integration and FDI

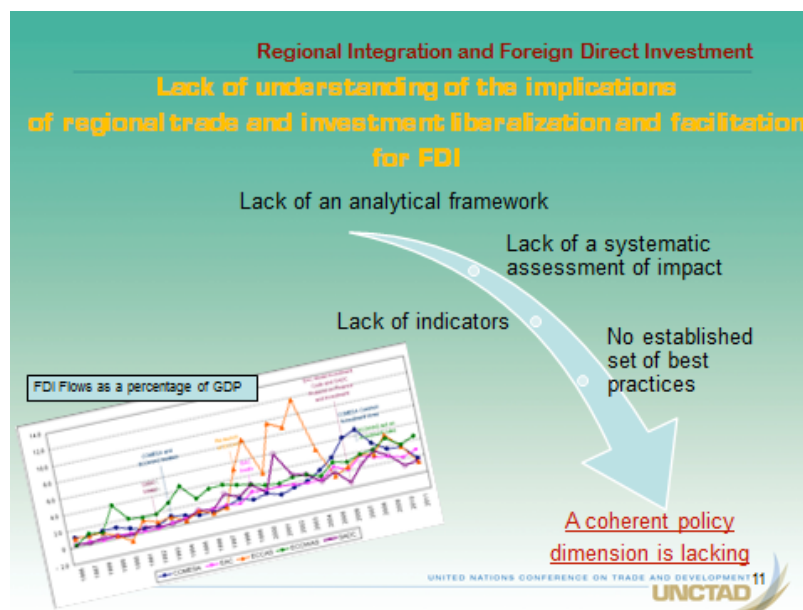
Chair, Ladies and Gentlemen, I would now like to turn to the theme of this meeting, regional integration and FDI.

As the issues note produced for this meeting indicates, many renewed efforts are underway towards regional and inter-regional economic integration across the globe, involving developing, transition and developed economies alike. However, these efforts are being made in a partial policy vacuum, which is defined by a number of features:

- There is no multilateral investment system.
- The existing investment regime is complex: it is multi-layered, multi-faceted and highly atomized, consisting of 6100 IIAs, which includes both bilateral and regional agreements.

- Inconsistencies exist between investment treaties, as well as with national and international policies.
- There is a lack of coherence between trade and investment policy on the one hand, and other public policies on the other hand.
- Finally, a shift in our view of investment and development inevitably requires a policy model that can promote investment for sustainable development.

These features present a significant challenge, which has been reflected by national and regional (and inter-regional) trade and investment policy making that has sought variously to restrict, promote and liberalize investment. Such a situation, together with other complexities and inconsistencies, has led to policy incoherence, which at its worst may undermine sustainable development. Ultimately this meeting seeks to address such incoherence by asking how regional integration can foster sustainable development.



Although regionalization efforts could lead to increased FDI and non-equity investment activity by TNCs through the opening up of sectors for investment and by aligning investment policies with other relevant policy areas, we do not in fact know the extent to which this is done in practice, or its effectiveness. Nor do we have a full understanding of the development impact of regional investment (and regional value chains) encouraged by these policies. This is because the current situation is characterised by:

- A lack of an analytical framework.
- A lack of a systematic assessment of impact.
- A lack of indicators to assess the impact.
- And finally, because of this, we are lacking a set of best practices on which we can draw.

The aim of this meeting is therefore to address this lack of a coherent analytical and policy dimension “head on”.

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The Policy Challenge

- Identify key elements for future regional integration agreements
 - Feedback of lessons learnt
 - Factor in sustainable development objectives

Meeting objectives and format

- Examine the impact of regional integration on investment
- Discuss the lessons learnt to date
- Establish elements to ensure sustainable dimension
- Guided by the Issues Note and the four themes emerging from it
- Share the wealth of experience from the floor
- Building on Experts' knowledge, evidence and suggestions
- Brainstorming format – free-flowing, interactive debate in an informal environment

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The Meeting will be structured around four themes, which I will briefly set out for you in the following slides:

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STRUCTURE OF SESSIONS: Informal debate around key themes

THEME 1:

Regional integration: the trade and investment nexus

- How does regional integration affect TNCs' trade and investment strategies?
- How does FDI affect regional integration?
- What are the development implications of the increased role of the trade-investment nexus?

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THEME 2:

Regional value chains and productive capacity-building

- How does regional integration promote (regional) value chain development? Which factors are critical? How can they help mobilize domestic investment?
- To what extent - and how - do regional value chains enhance local productive capacity-building?
- What are the best practices, pitfalls and lessons learnt?

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THEME 3:

Regional integration and policy coherence

- How to maximize synergies between trade and investment policies?
- How to ensure coherence between national investment policies and regional investment policies in pursuit of regional integration?
- What are the "Do's" and "Don'ts" in this regard?

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THEME 4:
Regional integration and sustainable development

- How to ensure that regional integration fosters sustainable development?
- How to manage the interaction between trade/investment policies and other public policies?
- What institutional mechanisms are needed in the regional context?

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And finally, we expect the meeting to produce several outcomes: a preliminary assessment of the impact of regional integration on FDI and vice versa; a stock taking of lessons learnt to date which will hopefully inform a future way forward both for the analytical study of the field and for policy.

Expected Outcomes

- Preliminary assessment of the impact of regional integration on FDI and vice versa
- Taking stock: identifying lessons that have been learnt to date.
- The way forward

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The experience of long-established and relatively successful regional groups such as the European Union (EU) and ASEAN suggests that regional economic integration can provide a strong boost to intraregional cross-border investment linkages. But for these groups, as well as others, establishing, sustaining and benefiting from regional value chains - and the inter-regional interface - is not plain sailing. Coherent policies are essential. Which policies work, towards what objective, and under which conditions are among the key issues to be examined in this meeting. I look forward to our deliberations over the next few days.