Commission on Investment, Enterprise and Development
Third Session

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Trends and policy developments in the area of investment and enterprise

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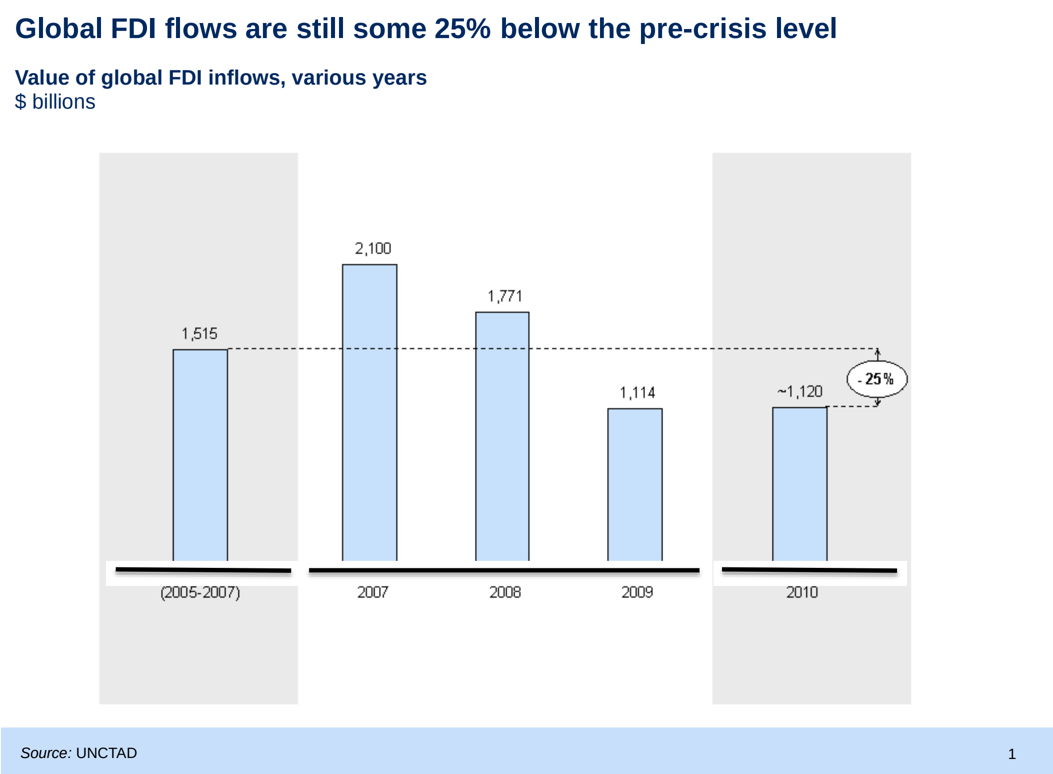
Chairperson, distinguished delegates and guests,

It is my honour and pleasure to highlight recent trends in FDI, investment policies and enterprise development. Let me start with trends in FDI.

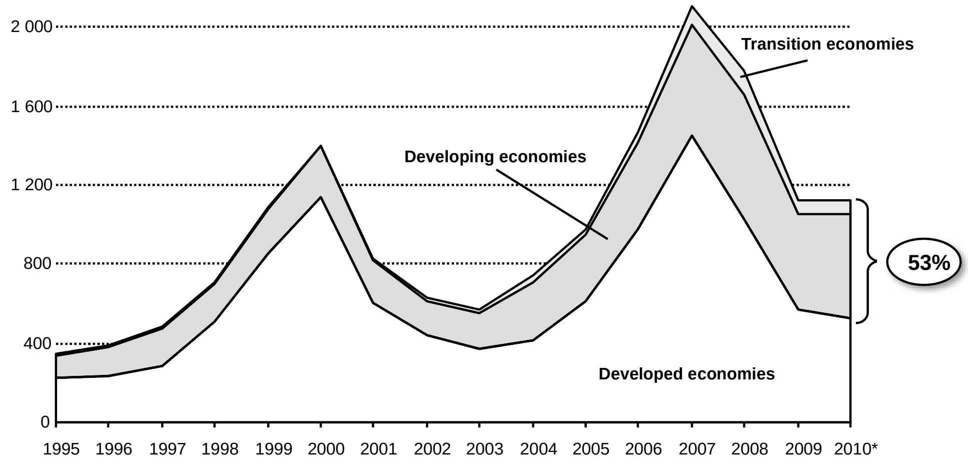
Global FDI inflows rose marginally (1%) in 2010 to $1.1 trillion, following large declines in 2008 and 2009 **(slide 1)**. Although this suggests that FDI flows bottomed out in 2010, it is far from a robust recovery. Global FDI flows remain some 25% below the pre-crisis average and nearly 50% below the 2007 peak. Thus while governments in many countries are already cutting back on public investment, private sector investment in the form of FDI is only just re-starting the engine.



The overall picture of stagnant FDI flows masks significant differences between regions **(slide 2)**. Developing countries together with transition economies absorbed more than half of global FDI inflows, and account nearly 30 per cent of global FDI outflows.

For the first time, developing and transition economies received more than half of global FDI *inflows*

Value of global FDI inflows by economy grouping, 1995 - 2010
$ billions



Source: UNCTAD 2

Let me give some highlights about FDI inflows by region **(slide 3)**:

- FDI flows to *developed countries* further contracted in 2010 as the global economic and financial crisis continued to be felt. Europe stood out as the sub-region where flows fell most sharply. Declining FDI flows were also registered in Japan due to a number of large divestments. In contrast FDI in the United States surged largely due to a significant recovery in reinvested earnings of foreign affiliates. However, flows to the United States were still only about half of their peak level of 2007.

- In contrast, flows to *developing economies* rose by 10 per cent (to $525 billion) in 2010, thanks to a relatively fast economic recovery, the strength of domestic demand and burgeoning South–South flows. The value of cross-border M&As into developing economies doubled. Behind this general increase lie significant differences among regions:

The stagnant flows overall mask stark differences by region

FDI inflows by region and major economy, 2009 - 2010[a]
$ billions

Region / economy	2009	2010	***Change*** (%)
World	**1 114.1**	**1 122.0**	***0.7***
Developed economies	**565.9**	**526.6**	***-6.9***
Europe	378.4	295.4	*-21.9*
United States	129.9	186.1	*43.3*
Japan	11.9	2.0	*-83.4*
Developing economies	**478.3**	**524.8**	***9.7***
Africa	*58.6*	*50.1*	*-14.4*
Latin America and the Caribbean	*116.6*	*141.1*	*21.1*
Asia and Oceania	*303.2*	*333.6*	*10.0*
West Asia	*68.3*	*57.2*	*-16.2*
South, East and South-East Asia	*233.0*	*274.6*	*17.8*
South-East Europe and the CIS	**69.9**	**70.5**	***0.8***

[a] Preliminary estimates by UNCTAD

Source: UNCTAD 3

– Inflows to *Africa*, which peaked in 2008, appear to continue the downward trend since 2009. The downward trends of inflows to North Africa was stabilized in 2010 (the impact of current turmoil is some countries is not reflected here). In sub-Saharan Africa, inflows to South Africa declined to barely a quarter of the 2009 level, contributing to the large fall of FDI inflows in the sub-region.

– Thanks to its position as a leader of the global economic recovery, FDI flows to *South, East and South-East Asia* have picked up markedly, outperforming other developing regions due to booming inflows in countries, notably China and Hong Kong, China.

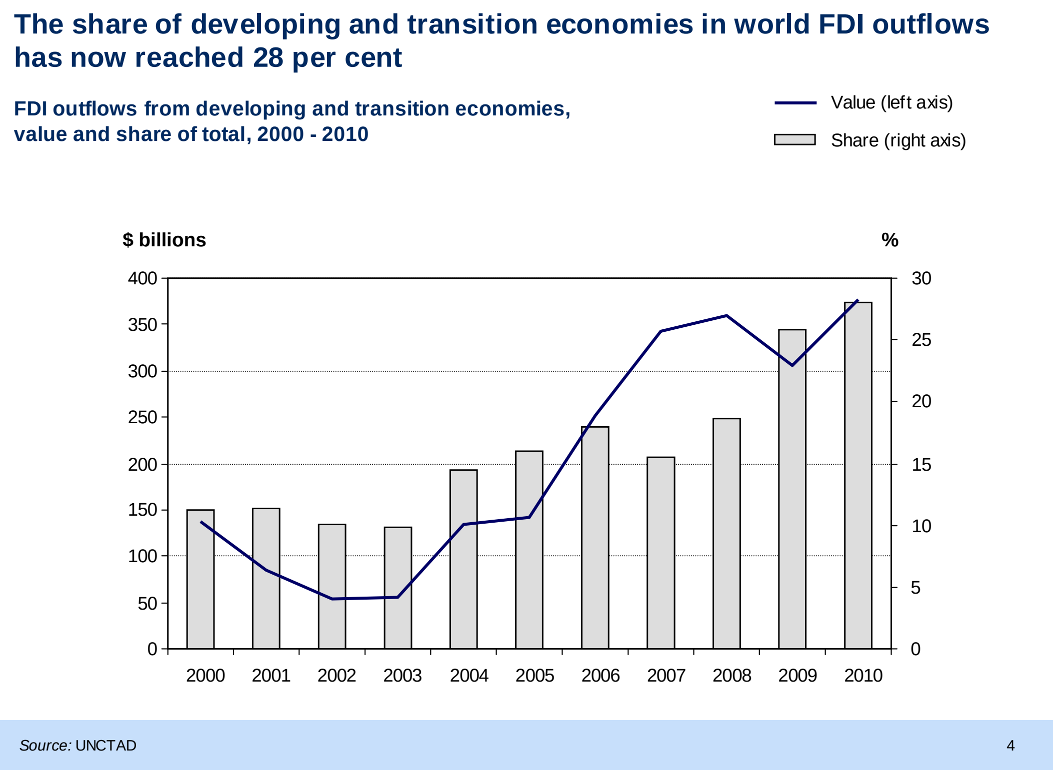
– FDI flows to *West Asia* continued to be affected by the global economic crisis, despite the steady economic recovery in the region. Sizeable increases in government spending by oil-rich countries helped push their economies forward, but conditions in the private sector remained subdued. (Again, the current turmoil in some countries are not reflected here).

– A surge in cross-border M&As is the main factor explaining the significant increase in FDI flows to *Latin America and the Caribbean*. Strong economic growth, spurred by robust domestic and external demand, good macroeconomic fundamentals and higher commodity prices explain the quick recovery of FDI flows to the region.

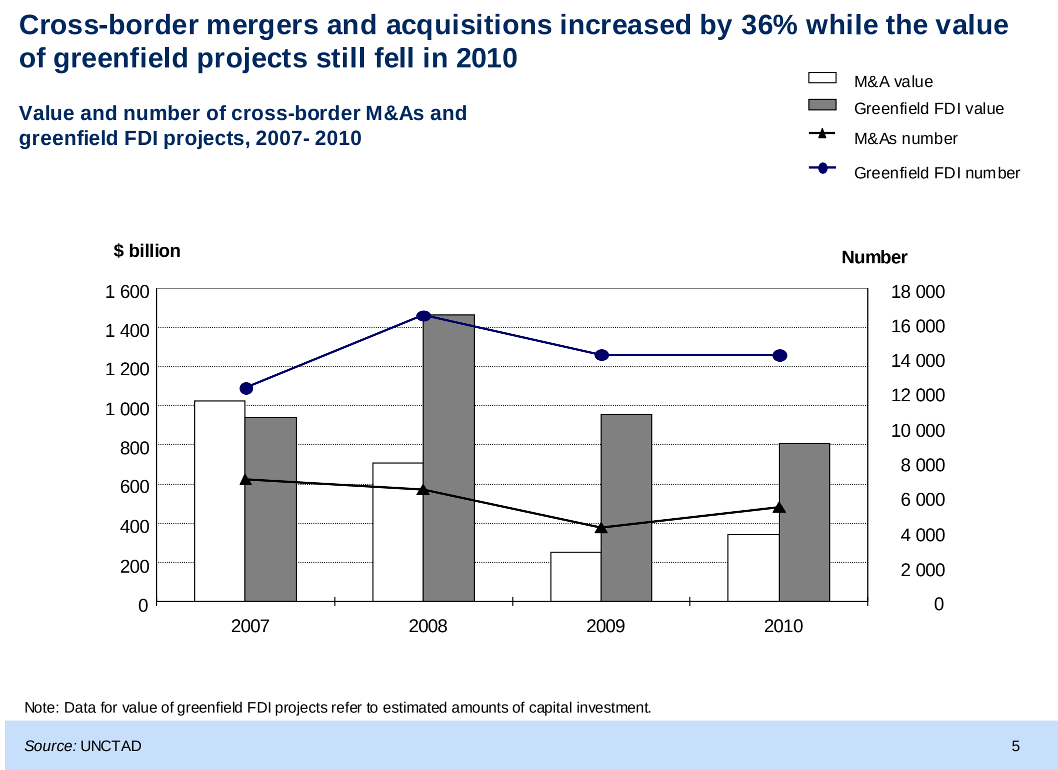
- *Transition economies* registered a marginal increase in FDI inflows in 2010, after falling significantly in 2009. A further decline of FDI flows to South-East Europe was more than compensated by increases in FDI flows to CIS sub-region on the back of stronger commodity prices, a faster economic recovery and improving stock markets.

- Looking at *Least Developed Countries*, FDI flows to this group grew at an annual rate of 15 per cent during the last decade, increasing their share in global FDI flows from less than 1 per cent to over 2 per cent. However, 2009 and 2010 saw a reversal in this trend. FDI in LDCs fell by 12 per cent in 2009 to $28 billion and again in 2010 by 14 per cent to $24 billion. The current lack of a post-crisis FDI recovery in LDCs is a matter of concern, as FDI is a major contributor to LDCs' capital formation. We have just published a dedicated report on LDCs, as one of our contributions to next week's Conference. In addition to reviewing FDI trends in LDCs over the last decade, the report proposes an Action Plan for Investment in LDCs.

As I mentioned, developing and transition economies are also increasingly important as investors. Outward FDI from these economies reached record level in 2010, reaching $377 billion. These economies now account for 28 per cent of global FDI outflows, compared with 10-15 per cent during 2000-2005 **(slide 4)**. Our quarterly Global Investment Trends Monitor, the most recent of which was just launched last week, looks at this issue in more detail.



Looking at so called 'modes of entry' of investors in overseas markets, *cross-border M&As*, which typically react more quickly to changing economic conditions, jumped by 36% in 2010 **(slide 5)**, reflecting both the growing value of assets on the stock market and the increased financial capability of buyers to carry out such operations. However, international greenfield investments, which generally have a longer gestation period and are an indicator of a more 'healthy' FDI recovery, still registered a drop in both value and number in 2010.



To conclude my review of trends in FDI let us briefly look at prospects for this year.

For 2011, UNCTAD projects that FDI flows will be between $1.3 trillion and $1.5 trillion. Improved macroeconomic conditions in 2010 have strengthened TNCs' corporate profits and boosted stock market valuations. These favourable conditions coupled with rising business confidence in 2011 will help translate TNCs' record levels of cash holdings (in the order of $5 trillion) into new investments. TNCs will also face increasing pressure to make strategic investments to cement their business plans for the post-crisis period. Indeed in the first quarter of 2011 greenfield investments have started to rise again.

Clearly, a number of risks to this positive scenario persist. Worldwide GDP growth, after the "recovery-boost" in 2010, will slow down. Sovereign debt problems in the euro area, instability in the Middle East and Northern Africa, the rise of trade and investment protectionism (particularly the covert ones), the currency volatility, etc are additional risk factors.

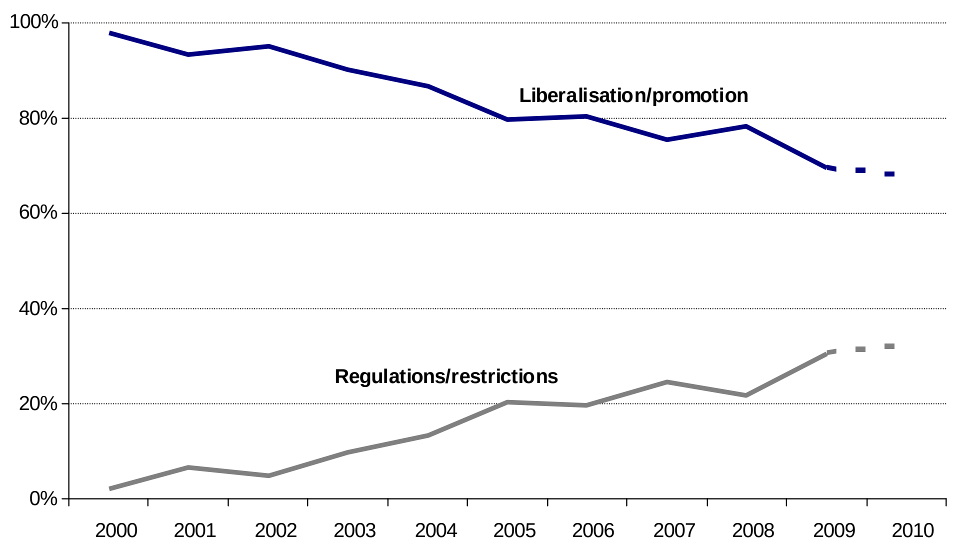
Mr. Chair,

After this review of trends in FDI, let's look at recent policy developments.

National investment policies continue to be characterized by two trends in opposite directions **(slide 6)**. On the one hand, many countries seek to attract FDI through liberalization, facilitation and promotion policies. On the other hand, there is a move towards more regulation and restriction of FDI.

Governments are sending mixed signals to investors

National investment policy measures, by policy direction
Per cent of total



Note: Data for 2010 are preliminary

Source: UNCTAD 6

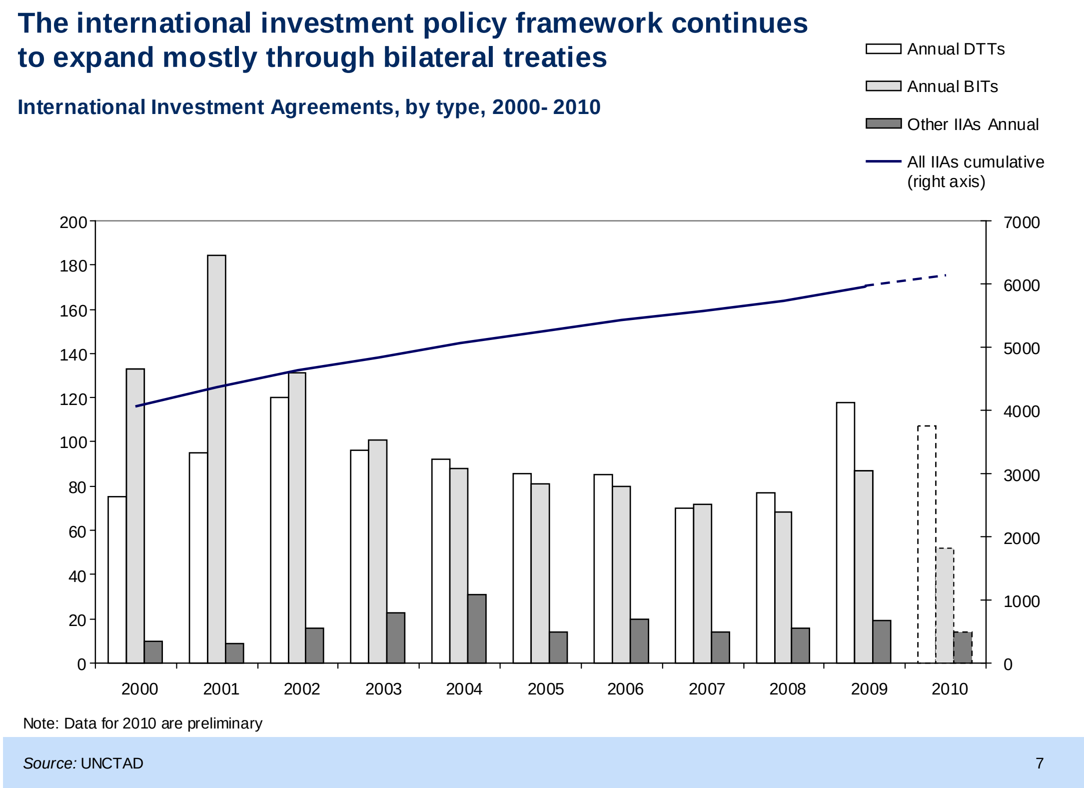
Various drivers are behind these contrasting developments. Investment liberalisation and promotion is primarily pushed by the need for more private capital in the aftermath of the financial crisis and by policies that encourage FDI as part of industrial development strategies. Financial crisis-related exit strategies of governments and the accompanying disposal of state assets that governments acquired as part of rescue packages can also have an encouraging effect on FDI. Vice versa, new investment regulations and restrictions have different motives, such as strengthening regulatory oversight, raising environmental or social standards, protecting domestic industries and individual “national champions”, ensuring state control over natural resources or safeguarding national security.

Such policies – as justified as they may be in an individual case – have given rise to concerns about investment protectionism. Last November, at the Seoul Summit, the G20 leaders re-confirmed their commitment to resist protectionism and generate strong, sustainable and balanced growth. In line with G20 leaders' commitment, UNCTAD – together with the OECD – is monitoring the situation and through our "Investment Policy Monitor" and the World Investment Report, we also regularly report on more general investment policy developments in the world. I am pleased to announce that our most recent Investment Policy Monitor will be launched this week.

Taking the two most recent Policy Monitors, covering the period from October 2010 to April 2011, more than 50 countries took at least 83 national policy measures affecting foreign investment. Of these measures, approximately 65 per cent supported liberalization and promotion of foreign investment. The remaining 35 percent relate to more regulatory/restrictive measures, which is the highest level since 1992 – the first year when UNCTAD published data on this issue. Such new restrictive measures range from tighter entry requirements to expropriation and nationalizations. In addition, countries have exercise more stringent application of national regulations for established investment – a rise of “covert” investment protectionism.

Overall, there is a pendulum swing between the liberalization, at one end, and restriction, at the other end. It is challenging for policymakers to strike the right balance between the liberalization and regulation.

At the international level, the regime of international investment agreements (IIAs) continued to evolve through the conclusion of new treaties and through arbitral awards issued in the context of investor-State dispute settlement **(slide 7)**. During the last 6 months, 89 economies concluded 82 new IIAs. This includes 23 Bilateral Investment Treaties, 51 Double-Taxation Treaties and 8 other IIAs.



In 2010, the number of known treaty-based investor-State dispute settlement (ISDS) cases filed under international investment agreements (IIAs) grew by at least 25. This brings the total number of known treaty-based cases to 390 by the end of 2010 and the total number of countries that have responded to investment treaty arbitration to 83 by the end of 2010

While countries continue to rely on IIAs as a means to protect and promote FDI, there is, at the same time, an increasing recognition of the systemic challenges and development challenges that are present in the current regime. It is becoming too large for many States to handle, too complicated for firms to take advantage of, and so complex that it is difficult for stakeholders at large to monitor. At the same time, the IIA universe is still too small to cover the whole investment universe.

In the absence of a multilateral framework for investment, there is limited coordination within the international investment regime, for example, to avoid a race to the bottom of regulatory standards or a race to the top of incentives and handouts. Likewise, there are hardly any mechanisms for coordination between the IIA regime and other parts of the global economic system, such as trade, finance, competition or environmental (e.g. climate change) policies.

A stronger and effective global coordination mechanism for international investment policies is desirable to encourage and harness more investment for development. Let me highlight the main goals of such a mechanism:

- *consolidating the myriad of agreements***,** better to handle the multitude of 6000-plus IIAs and their associated gaps, overlaps and inconsistencies;
- *improving international coordination* in investment policymaking, both within the investment regime, as well as between the investment regime and other areas of policy making such as trade and finance;
- *improving linkages between investment policies and development strategies*, including with a view to establishing a proper balance between regulation and liberalization in national investment policies; and
- *putting development at the centre stage in investment policy making,* nationally and internationally, to ensure benefits for all.

And that brings me to the final part of my speech, on Enterprise Development.

Because putting development centre stage in investment policymaking and improving linkages between investment policy and development strategy means ensuring that foreign investment contributes to building indigenous productive capacities and supports the development of a sustainable domestic private sector. At the same time, building a strong domestic enterprise sector will increase the attractiveness to foreign investment and enhance absorptive capacity of the host countries to reap the potential benefits derived from foreign investment. In today's world, in which

(1) the development of a local private sector depends on successful integration in global value chains, often governed by TNCs, and in which
(2) governments are increasingly assertive in guiding the development of local productive capacity through active industrial policies, and in which
(3) the policy space for such industrial policies is often determined or confined by international investment policy commitments,

It is no longer possible to view investment policymaking and domestic enterprise development policymaking as separate strands. We must look at them in an integrated way.

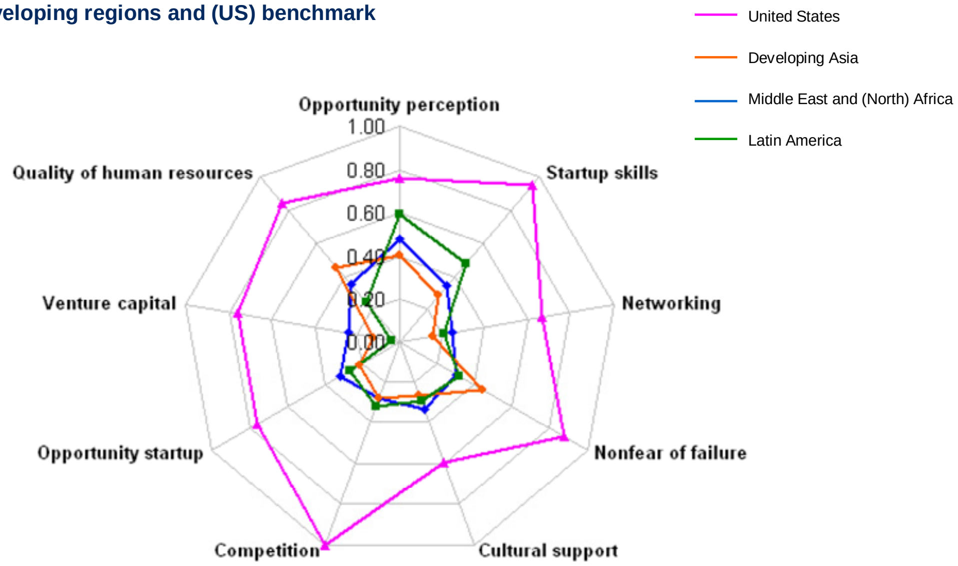
The formulation of effective enterprise development policies is all the more relevant in light of recent concerns highlighted by UNCTAD as well as the IMF and the G-20 of a job-less recovery in many countries across the world. In the final analysis, domestic enterprise development, and especially Micro-, Small- and Medium-Sized Enterprise development, is the most important source of job creation in developing countries.

An integrated Investment and Enterprise Development Policy framework would be better suited to address:

- Private (including foreign) investment in local productive capacity building, including basic infrastructure;
- Micro and SME development and investment in the bottom of the pyramid;
- The promotion of sustainable value chains linked to the global networks of TNCs; and
- Investment in opportunity areas such as social and green entrepreneurship and, in general, the promotion of opportunity entrepreneurship (as opposed to entrepreneurship out of necessity). In this context, it is encouraging to observe recent positive developments in entrepreneurship activities in developing countries, which show that necessity-driven activities are decreasing and opportunity-driven entrepreneurship activities are on their way to recovery. Still, in most developing regions significant room remains to strengthen entrepreneurship **(slide 8)**, as shown by the Global Entrepreneurship and Development Index which indicates wide gaps on almost all key success factors for entrepreneurial development.

Significant gaps remain across developing regions on almost all key success factors for entrepreneurial development

Global Entrepreneurship and Development Index, major developing regions and (US) benchmark



Source: Acs et al. (2011) Global Entrepreneurship and Development Index

Chairperson, distinguished delegates,

Our meetings this week will touch upon many of the issues I mentioned in this introductory speech, and more. I look forward to an insightful and productive session with you.

I thank you for your attention.