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Recent trends and policies in the area of investment and enterprise

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As prepared for delivery

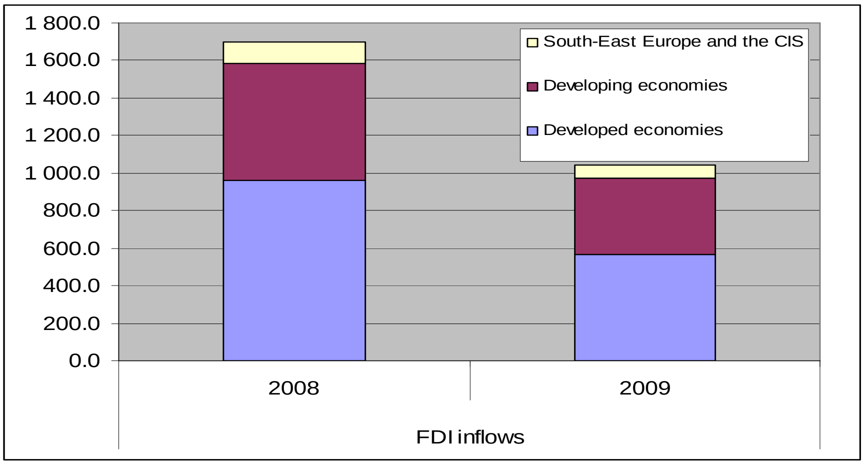
At last year's Commission, Member States requested the Secretariat to further its analytical work on "the crisis' impact on the level, structure and evolution of investment, and policy responses by home and host countries", and "welcomed the call on international bodies to monitor and report on investment measures within their respective mandates".

In response to these requests, the Division on Investment and Enterprise has launched two new core products – the *Global Investment Trends Monitor* and the *Investment Policy Monitor*. The *Investment Trends Monitor* provides the investment and development community with timely and e-based quarterly analysis on the latest global FDI trends and prospects. The *Investment Policy Monitor* provides updated analysis on investment policy developments, including the impact of the crisis on FDI policy making. Furthermore, in response to the request of the G20 Summits, the Division is also producing regular reports on the *Trade and Investment Policy Measures of G20 Countries*, in collaboration with WTO and OECD.

Today, I would like to brief the Commission on the recent trends and developments in global FDI flows and policies, based on the main messages from the latest issues of the two Monitors. Afterwards, I would like to talk about the impact of the crisis on entrepreneurship and policy responses.

I – Global Investment Trends

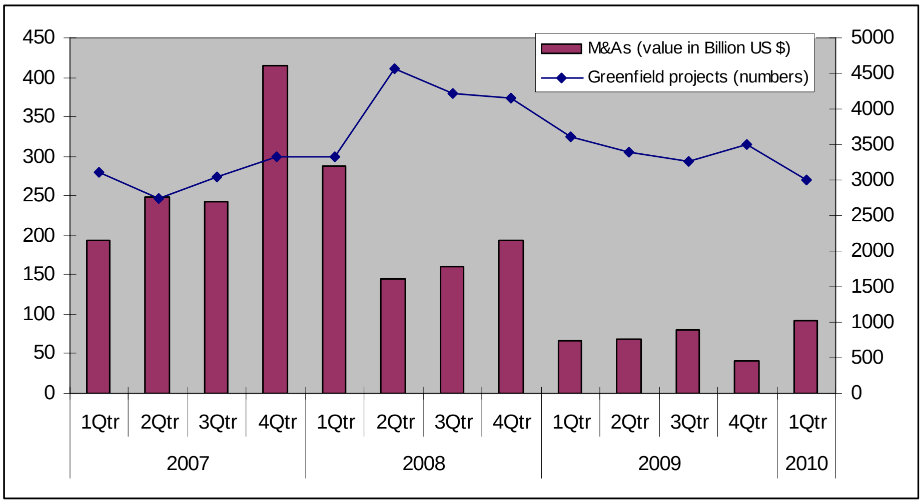
- A sharp decline in global FDI flows



The global financial crisis brought to an end the recent four-year growth cycle in global FDI. According to estimates by the Secretariat, global FDI flows fell by 39% from US$1.7 trillion in 2008 to about US$1 trillion in 2009.

The decline in FDI was widespread in all major groups of economies. After experiencing a drastic fall in 2008, FDI flows to developed countries continued to decline by a further 41% in 2009. FDI flows to developing and transition economies, which were resilient to the crisis in 2008, declined in 2009 (35% and 39%, respectively). Hence, global FDI has been in recession over the past two years.

- The crisis affected M&As more seriously than greenfield projects



Regarding the mode of entry, cross-border mergers and acquisitions (M&As) were the most affected by the drop in international investment, with a 66% decrease in 2009. The value of cross-border M&As dropped during the 4th quarter of 2009 to its lowest level in recent years: US$41 billion (or one tenth of its historical peak in the 4th quarter of 2007).

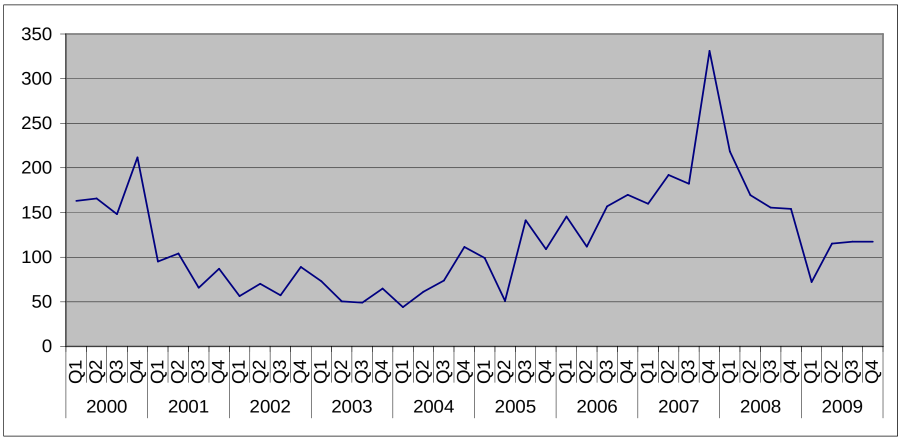
The number of international greenfield projects also declined markedly, but to a much lesser extent (-23%).

- Quarterly data show a bottoming-out of FDI flows

The quarterly FDI index, newly introduced by the Secretariat, demonstrates that the global FDI downturn has probably bottomed out. After a sharp fall during Q1 2008-Q1 2009, worldwide FDI flows "turned the corner" in the second quarter of 2009 and remained relatively stable in the third and fourth quarters of the year.

However, the FDI Quarterly Index also shows that global flows were at a level much lower than those in 2007 and 2008. In the last quarter of 2009, only a handful of economies – including China, Hong Kong (China) and Ireland – received more inflows than the 2007 average. In general, growth of FDI inflows trails economic growth. This time, the time lag is about two quatres.

UNCTAD's Global FDI Quarterly Index,[a] 2000 Q1- 2009 Q4
(Base 100: quarterly average of 2005)



Source: UNCTAD.

a This index is based on national data on FDI inflows for over 60 major FDI recipients around the world, representing more than 90% of total FDI inflows in 2008

- Global FDI prospects are positive

FDI prospects for the 1st quarter of 2010 look better than in the previous quarters, as indicated by improvements of the global business environment, and a growing optimism of TNC executives regarding their own company's situation.

There are signs of a rebound in global FDI flows in 2010. In particular, global cross-border M&As picked up in the 1st quarter of 2010, although still remaining at a low level. Despite the uncertainties, a recovery in global FDI seems to be on its way.

Our assessment of the short-to-medium term prospects is that global FDI is expected to be out of recession in 2010 with a recovery towards a level of up to $1.4 trillion. It may gain greater growth momentum in 2011, thereby approaching ($1.8 trillion) the pre-crisis level.

In general, FDI to the developing world is likely to recover sooner and in a stronger manner than that to the developed world. Now, developing and transition economies may have attracted nearly half of global FDI flows.

II - Investment Policies

Between December 2009 and March 2010, 62 countries introduced new national policy measures affecting their policy framework for foreign investment.

Generally, investment policy trends continued in the direction of openness and facilitation. However, increased State ownership in ailing firms and "policy slippage" in the trade area are creating potential challenges.

- Overall policy trends continue to favour foreign investment

Twenty-eight economies adopted investment-specific measures, most of which aimed at liberalizing the entry of foreign investment into previously closed sectors. Among these entry-related measures are those taken by Australia and Canada, with respect to air transportation services; Cameroon, Malaysia and the Syrian Arab Republic, with respect to banking or residential property; India, with respect to mobile television services; and Qatar, with respect to consultancy and distribution services, information technology, and services related to sports, culture and entertainment.

Nine countries enacted investment-specific policies aimed at promoting and facilitating foreign investment. Among them are Costa Rica, the Libyan Arab Jamahiriya and the Russian Federation, which established or revised free economic zones; and Jordan, Mexico and Peru, which implemented tax incentives for investment in special industries or areas.

Ten investment-specific measures were undertaken with regard to the operations of foreign investors. These include South Africa’s move to remove restrictions on inward and outward capital transfers.

Only a few countries tightened their regulations for foreign investment, or undertook nationalizations.

Several countries introduced measures aimed at facilitating outward investment. These include Madagascar, South Africa and Thailand, which relaxed foreign exchange regulations or related approval requirements.

- Stimulus packages and exit strategies may affect FDI flows

Forty-three economies enacted measures *related to* foreign investment.

Over half of these measures (undertaken by 23 economies) involved the adoption of new, or the prolongation of existing, State aids and stimulus packages implemented to counter the continuing financial and economic crisis.

At the same time, some economies began to terminate existing stimulus programmes. While such exit strategies could have a potentially dampening effect on investment flows, they could also create opportunities for firms to acquire shares released by governments.

- International investment policy-making is at a rapid pace

Seventy-three economies concluded new investment agreements, continuing the rapid pace of international investment rule-making. On average, more than two IIAs have been signed per week over the last two years. The 37 new international investment agreements (IIAs) signed between December 2009 and March 2010 include 7 BITs, 23 DTTs and 7 other IIAs. It seems that countries continue to rely on IIAs as a means to attract and promote FDI.

Other notable international investment policy developments include the shift in EU competencies due to the Lisbon treaty, the continued G20 monitoring of trade and investment policies, and the initiatives for Responsible Investment in Agriculture, on which you will hear more later this afternoon.

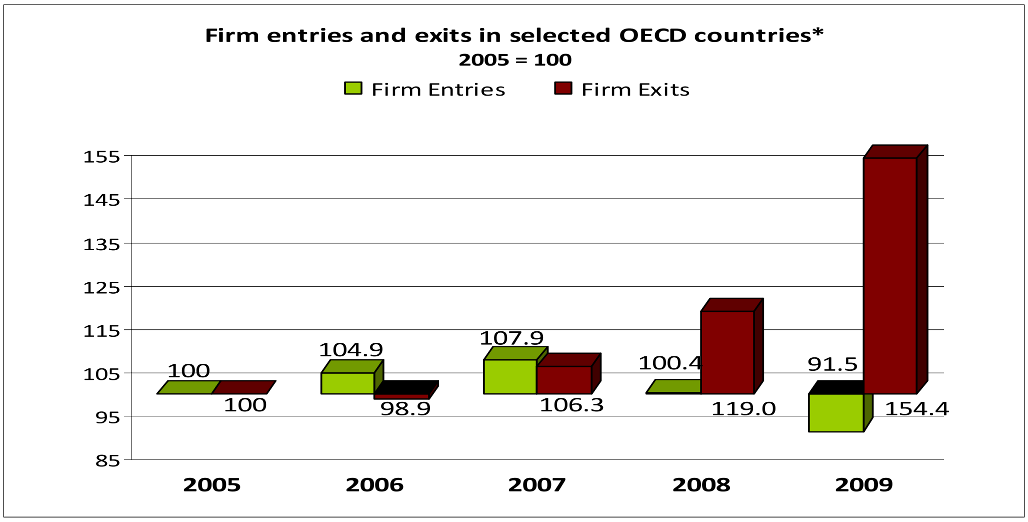
III – Recent trends and policies regarding enterprise development

- The impact of the crisis on entrepreneurship

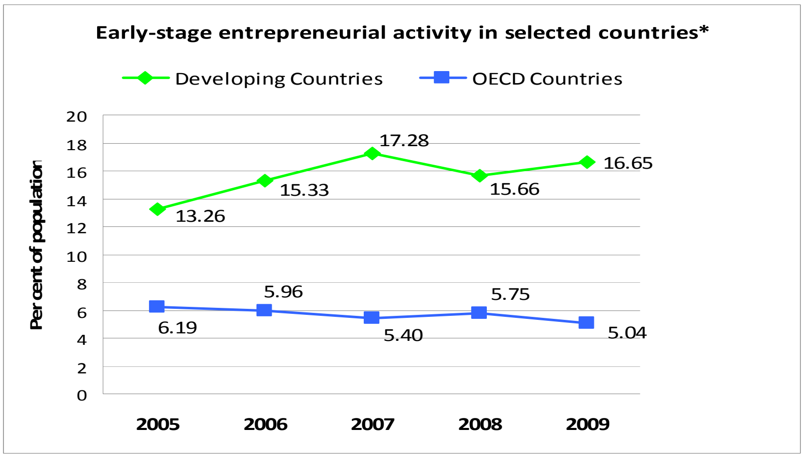
In the wake of the global financial and economic crisis, entrepreneurs and SMEs worldwide face a double challenge**:** a steep decline in business opportunities and demand for their goods and services; and a hardening in terms of access to financing.

Available evidence shows that the overall impact of the crisis on entrepreneurial activities differed between countries depending on their level of economic development.

The crisis has exerted a significant negative impact on entrepreneurs in developed countries. Data from selected OECD member states indicates that new business registrations (or: *firm entries*) have declined, and insolvencies and bankruptcies (or: *firm exits*) have risen sharply.



Formal sector entrepreneurs in developing countries have also been hit hard. However, official data on formal sector registrations is inadequate in capturing the full picture of the impact of the crisis on entrepreneurship in many developing countries, due to the size and prevalence of the informal sector. Survey data from *Global Entrepreneurship Monitor* indicates that many developing countries witnessed a largely "necessity-driven" increase in informal and micro-entrepreneurial activities, compared to pre-crisis levels. This is due to the fact that those who lost their jobs, as well as those first-time jobseekers that entered the labour market in the midst of the crisis, took up self-employment or contributed to family businesses.



- Policy responses

In the wake of the crisis, many countries shifted the focus of their policies towards facilitating new firm creation to boost employment and growth, encouraging entrepreneurship and innovation as a key component in their crisis response.

Of course, countries' abilities to deal with the crisis have depended to a large extent on the margin provided by their respective fiscal and monetary policies. Many countries' stimulus packages included specific measures aimed at supporting SMEs by addressing credit shortages and fall in demand for their goods and services. Tax relief for SMEs and increased public procurement were also popular policy options.

Far from simply being ad-hoc measures in response to the crisis, however, many countries have incorporated these policy responses into longer-term national competitiveness agendas and policy frameworks. They include:

- New national entrepreneurship policies seeking to nurture the culture of entrepreneurship, as well as provide assistance to entrepreneurs during the pre-start period and the early years thereafter.
- A number of governments have set up or expanded the role of dedicated agencies responsible for policy formulation and policy implementation on entrepreneurship and SMEs.
- Many countries have shown a continuous commitment to reforming their regulatory policies by lifting administrative burdens on firm formation and business operations. Overall, the World Bank's latest Doing Business Report recorded 287 favourable policy reforms in 131 economies between June 2008 and May 2009, a 20 per cent increase on the previous year. Over the years, developing countries have proved themselves to be the most determined reformers.

- Challenges and priorities on the way ahead

The global economy is on growth recovery, but in employment recession. The challenge for policymakers now is to continue on the reform path and create the framework for a robust and coordinated approach to entrepreneurship policy that may facilitate long-term recovery and growth. For recovery from the crisis to be successful and sustainable, a dynamic, job-creating business sector is vital. While there can be no one-size-fits-all answer to promoting entrepreneurship, a recent study by the UNCTAD Secretariat has identified six priority areas:

- *General entrepreneurship policy enhancement*
- *Awareness and network building*
- *Access to finance*
- *Education and skills upgrading*
- *Innovation and technology commercialization*
- *The regulatory environment and good governance*