WAIPA World Investment Conference 2011: Global Investment Trends and Implications for IPAs

5 September, 2011
Geneva

Opening Statement

By
James Zhan
Director
Division on Investment and Enterprise
UNCTAD

Ladies and Gentlemen,

The post-crisis recovery in FDI represents both an opportunity and challenge for investment promotion agencies and policymakers in all countries.

Global foreign direct investment (FDI) flows rose moderately to $1.24 trillion in 2010, but were still 15% below their pre-crisis average. This was in contrast to global industrial output and trade that have already recovered to pre-crisis levels. UNCTAD estimates that global FDI will reach $1.4–1.6 trillion in 2011 and approach its 2007 peak in 2013. This positive scenario holds, barring any unexpected global economic shocks that may arise from a number of risk factors still in play. Indeed, the post-crisis business environment is still beset by uncertainties. Risk factors such as the unpredictability of global economic governance, a widespread sovereign debt crisis and fiscal and financial sector imbalances in some developed countries, as well as rising inflation and signs of overheating in major economies, may yet derail the FDI recovery.

The slow recovery of FDI flows in 2010 masked starkly divergent trends among regions, sectors and modes of FDI:

- ***Regions***. While East and South-East Asia, and Latin America, experienced strong growth in FDI inflows (with increases of 34% and 14%, respectively), those to Africa, South Asia, West Asia, and transition economies continued to decline. Flows to developed countries as a whole also declined marginally (to $602 billion), with some European countries seeing significant falls. Inflows to the United States, however, increased markedly.

- ***Sectors***. FDI in services accounted for the bulk of the fall in FDI flows since the crisis and continued on its downward path in 2010. All the main service industries (business services, finance, transport and communications and utilities) fell, although at different rates. In contrast, FDI in manufacturing bounced back in the aftermath of the crisis, rising to account for almost half of all FDI projects. Within manufacturing, however, investments still fell in business-cycle-sensitive industries such as metal and electronics. FDI in extractive industries (which had not suffered during the crisis) also declined in 2010.

- ***Modes of entry***. Cross-border mergers and acquisitions (M&As) are picking up. Their value increased by 36% in 2010, although this was still only around one-third of their peak in 2007. In contrast to the increase in M&As, greenfield projects – which account for the majority of FDI – continued to fall in 2010. On a positive note, however, greenfield investments registered a significant rise in both value and number during the first five months of 2011.

Ladies and Gentlemen,

What is notable is that, for the first time, ***developing and transition economies*** absorbed more than half of global FDI inflows, accounting for some $642 billion or 52 per cent of global FDI flows. As international production and more recently international consumption shift to developing and transition economies, TNCs are increasingly investing in both efficiency- and market-seeking projects in those countries.

International production is expanding, with foreign sales, employment and assets of TNCs all increasing. TNCs’ production worldwide generated value added of approximately $16 trillion in 2010, about a quarter of global GDP. Foreign affiliates of TNCs accounted for more than one-tenth of global GDP and one-third of world exports.

Ladies and Gentlemen,

In today's world, policies aimed at improving the integration of developing economies into global value chains must look beyond FDI and trade. IPAs need also to consider non-equity modes (NEMs) of international production. NEM activities occur throughout the global value chains of TNCs. They include contract manufacturing, services outsourcing, contract farming, franchising, licensing, management contracts, and other types of contractual relationship through which TNCs coordinate the activities of host-country firms, without owning a stake in those firms.

Cross-border NEM activity worldwide is significant. It is estimated to have generated over $2 trillion of sales in 2010. Contract manufacturing and services outsourcing accounted for $1.1–1.3 trillion, franchising $330–350 billion, licensing $340–360 billion, and management contracts around $100 billion. In most cases, NEMs are growing more rapidly than the industries in which they operate.

NEMs can yield significant development benefits. A key advantage of NEMs is that they are flexible arrangements with local firms, with a built-in motive for TNCs to invest in the viability of their partners through dissemination of knowledge, technology and skills. This offers host economies considerable potential for long-term industrial capacity-building through a number of key development impact channels such as employment, value added, export generation and technology acquisition. NEMs employ an estimated 14–16 million workers in developing countries. Contract manufacturing and services outsourcing in industries such as garments, footwear and electronics have accounted for the bulk of employment generation. NEMs also generate significant value added in developing countries, representing up to 15% of GDP in some economies. Their exports account for 70–80% of global exports in several industries.

Ladies and Gentlemen,

The current trends in global investments and their prospects have significant implications for investment promotion agencies.

In UNCTAD's World Investment Prospects Survey 2011-2013, IPAs from developed economies expressed much less optimism regarding global FDI prospects (only 23% expressed an optimistic view) than IPAs in developing and transition economies (46% had an optimistic view). IPAs in South, East and South-East Asia are the most optimistic (75%). This optimism is understandable with the latest FDI trends showing an increase of inflows in South, East and South-East Asia of 24% against a global increase of 5% in 2010. Much of these inflows come from within the region.

The financial crisis followed by slow recovery of global FDI combined with austerity measures in a number of countries has affected the operations of IPAs. This has led to reorganization of national investment promotion programmes and institutions in some countries (like in the UK) and reassessment of investment promotion strategies in others. There are some implications for IPAs:

1. The crisis has made it necessary for governments to focus their investment promotion policies and programmes on industries and activities in which they possess existing or potential comparative advantages. This means <u>better targeting of industries for FDI</u> and at the same time focusing on investments that will bring economic growth as well as sustainable development. Attraction of emerging industries (e.g. clean-tech) often requires investment incentives and will need close coordination with policy makers on strategies to promote these industries.

2. In many regions, targeting efforts have seen a geographical shift from West to East, with more promotional activities directed at emerging economies. The steady increase of FDI outflows from developing countries and transition economies to nearly one-third of global outflows in 2010 – a record level at $388 billion – explains this shift. This reflects the dynamism of emerging-market TNCs and demonstrates the growing importance of these economies as sources of international investment.

3. The crisis increased the need for investment retention through IPA aftercare services. These services should not be restricted to periods of economic crisis, but should become a permanent feature of IPA functions.

4. Since 2000, there has been a global trend towards more restrictive policy measures affecting foreign investment. While in 2000 only 2% of national regulatory changes were considered more restrictive against 98% more liberalizing, in 2010 these percentages were 32% and 68%, respectively. The crisis may have reinforced this trend and IPAs can therefore play a strong advocacy role with policy makers to inform them of the adverse effects of those measures. IPAs should also continue to inform policy makers on measures that facilitate investment, including the streamlining of procedures.

5. Not many IPAs are involved in the promotion of non-equity modes of investment (NEMs). Given the growing importance of NEMs, IPAs should evaluate the potential of particular NEMs for their location and sensitize policy makers on legal and regulatory measures that need to be taken to facilitate these NEMs. IPAs should also play a role in promoting NEMs to TNCs and in assisting potential domestic partners.

Ladies and Gentlemen,

UNCTAD has a number of products that can help IPAs and policy makers in mapping out a course of action. Besides the World Investment Report, UNCTAD offers through its World Investment Network (WIN) regular updates on the latest FDI trends and policy developments to a network of over 3,000 investment policy makers, investment promoters, business representatives, investment experts and academics. UNCTAD also organizes the World Investment Forum (WIF), a high-level, biennial, multi-stakeholder gathering for discussion on the role of international investment in development. The next WIF 2012 is scheduled in Doha, Qatar, from 20 to 22 April 2012 and I invite all of you to join us at this important event in the international investment calendar.

In their search for strategies to meet the challenges and opportunities ahead, cooperation among IPAs and the exchange of best practices has also been of great help to many agencies. In the past 17 years, WAIPA has played an important role in promoting such cooperation often in collaboration with UNCTAD.

With a continuously growing membership of IPAs from over 160 countries, WAIPA has become an important international platform for the promotion of cooperation between agencies from the East, West, North and South, helping especially IPAs from developing economies. I would like to congratulate the Association, its steering committee and especially the WAIPA President, Mr. Alessandro Teixeira, as well as the Executive Director of the WAIPA secretariat Mr. Carlos Bronzatto, for this achievement. As in the past, UNCTAD offers its full cooperation in helping WAIPA to achieve its goals.

Let me wish you all a successful Conference,
Thank you.