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Global Trends in Investment Flows and Policies

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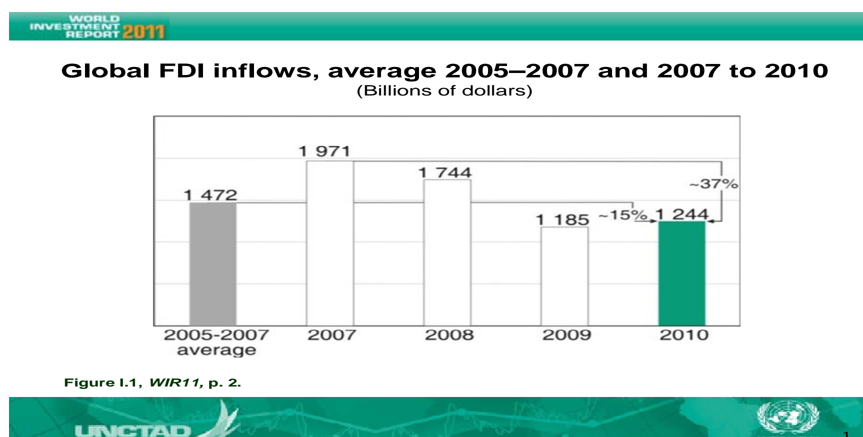
The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

Global FDI has not yet recovered fully to its pre-crisis level. One key concern is that as public investment, and more specifically fiscal stimulus measures, run out steam, private investment is yet to resume its role as an engine of growth. This poses a huge challenge for policymakers in all countries. An additional challenge for the development community will be to make investment work towards achieving the Millennium Development Goals, which were already off course before the crisis.



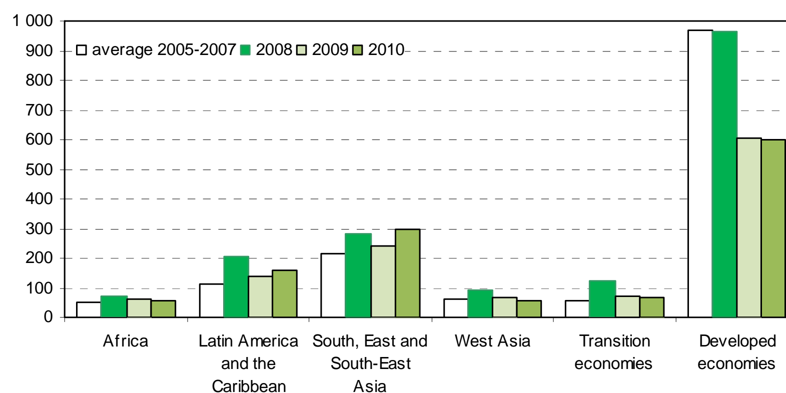
Global foreign direct investment (FDI) flows rose moderately *to $1.24 trillion in 2010*, but were still 15% below their pre-crisis average. This was in contrast to global industrial output and trade, which have already returned to their pre-crisis levels. UNCTAD estimates that global FDI may recover to its pre-crisis level in 2011, increasing to $1.4–1.6 trillion. This positive scenario holds, barring any unexpected global economic shocks. A number of risk factors are still in play, including the unpredictability of global governance (financial system, investment regimes, etc.); the worsening sovereign debt crisis and fiscal austerity measures; regional instability; energy price hikes and huge currency volatility; and fears of investment protectionism.

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

- ***Regions***. *[Slide 3]* East and South-East Asia, and Latin America experienced strong growth in FDI inflows (with increases of 34% and 14%, respectively). However, FDI flows 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 increased markedly, by over 40%, but were still much below their pre-crisis level.

FDI inflows, by region,
average 2005–2007 and 2007 to 2010
(Billions of dollars)



- ***Sectors****.* FDI in services, which accounted for the bulk of the fall in FDI flows due to the crisis, 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 the 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 the 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.

Distinguished delegates, *[Slide 4]*

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FDI inflows, global and by group of economies, 1980–2010
(Billions of dollars)

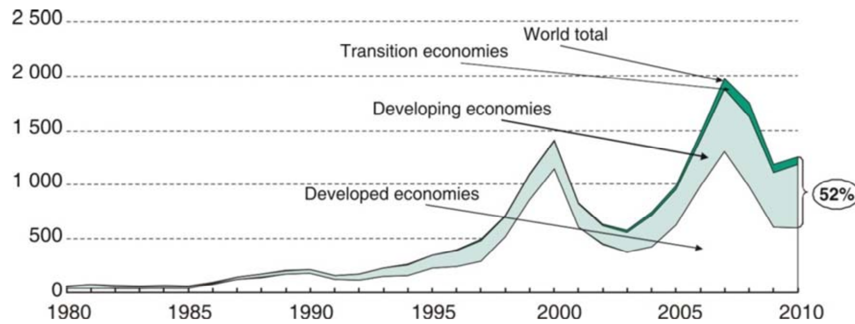

Figure I.3, *WIR11*, p. 3.

It is worthy of note that, for the first time ever, ***developing and transition economies*** **absorbed more than half of global FDI inflows** in 2010, 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.

Furthermore, **developing and transition economies generated nearly 30% of global *outflows*** – a record level at $388 billion – with much of the investment directed to other countries in the South. This reflects the growing confidence and dynamism of emerging-market TNCs and demonstrates the growing importance of these economies as sources of international investment.

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. *[Slide 5]* Foreign affiliates of TNCs accounted for more than one-tenth of global GDP and one-third of world exports.

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TNCs account for one-quarter of world GDP, 2010
(Per cent and trillions of dollars)

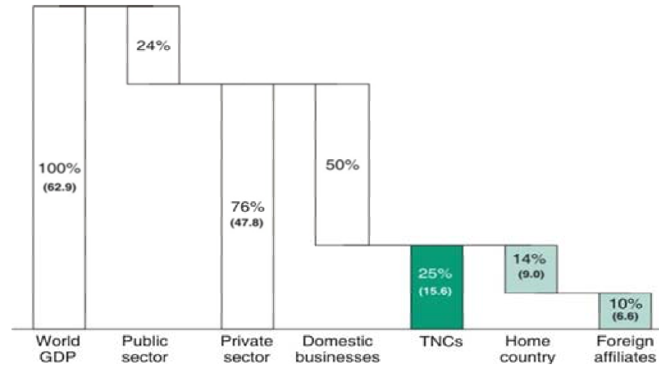

Figure I.22, *WIR11*, p. 25.

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State-owned TNCs have emerged as important FDI players. **[Slide 6]** Their combined FDI accounted for 11% of global outflows in 2010, even though they make up less than 1% of the universe of TNCs. Their international production networks now number more than 8,500 foreign affiliates, spread across developed and developing countries. The bulk of State-owned TNCs operate in services industries (455).

Asian State-owned TNCs are growing in importance, but Europe is still the region with the largest number of State-owned or State-participating TNCs, accounting for more than 260 out of some 650 State-owned TNCs world-wide.

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Distribution of State-owned TNCs by home region/economy, 2010

Region/economy	Number of TNCs	Share
World	**653**	**100**
Developed countries	**285**	**43.6**
Europe	264	40.4
North America	3	0.5
Other developed countries	18	2.8
Developing countries	**345**	**52.8**
Africa	82	12.6
South Africa	54	8.3
Latin America and the Caribbean	28	4.3
Brazil	9	1.4
West Asia	70	10.7
United Arab Emirates	21	3.2
South, East and South-East Asia	165	25.3
China	50	7.7
South-East Europe and the CIS	**23**	**3.5**
Russian Federation	14	2.1

Table I.8, *WIR11*, p. 31.

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Growing importance of non-equity modes of TNC operations.

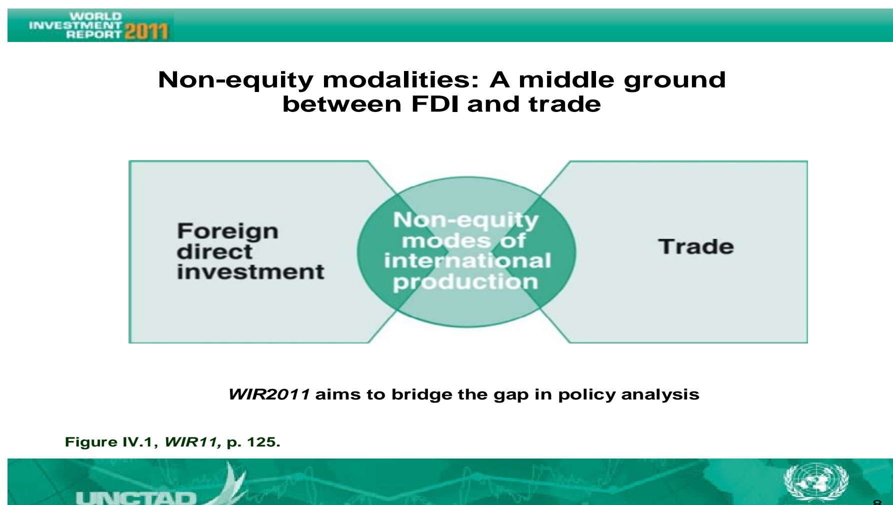

Figure IV.1, *WIR11*, p. 125.

In today's world, policies aimed at improving the integration of developing economies into global value chains must look beyond FDI and trade. Policymakers need also to consider non-equity modes (NEMs) of international production. NEM activities occur throughout the global value chains of TNCs. *[Slide 10]* 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.

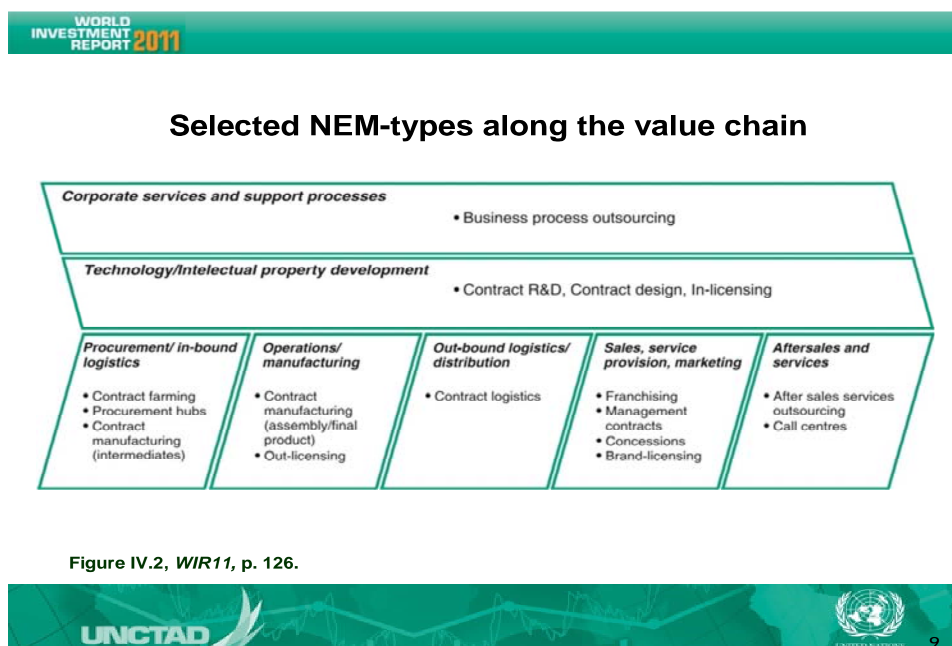

Figure IV.2, *WIR11*, p. 126.

Cross-border NEM activity worldwide is significant, and particularly so in developing countries. [Slide 11] 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.

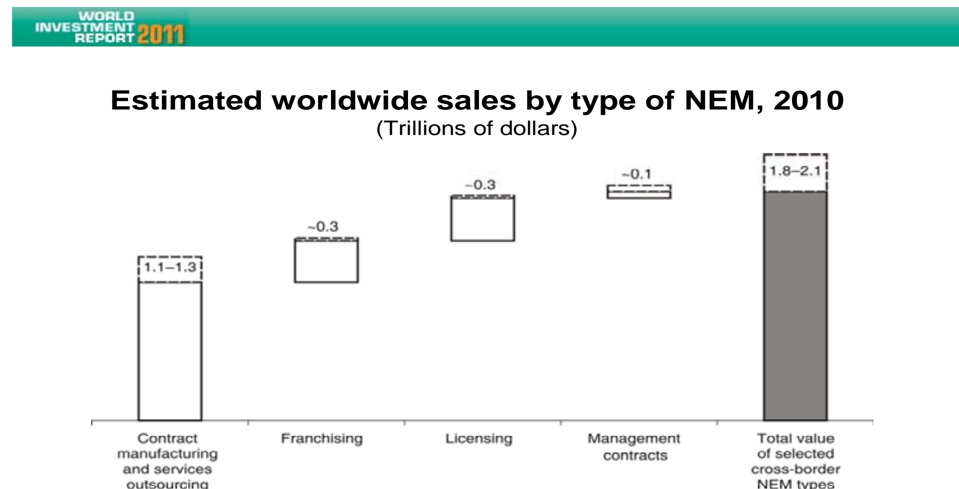

Figure IV.3, *WIR11*, p. 132.

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. *[Slide 12]* 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.

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Estimated global employment in contract manufacturing, selected industries, 2010

(Millions of employees)

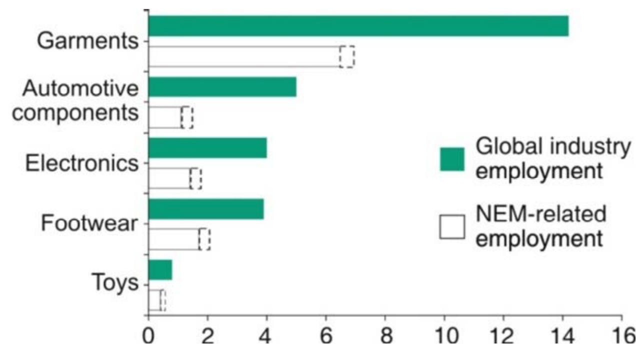

Figure IV.8, *WIR11*, p. 149.

Recent investment policy trends

Let me now turn to ***recent policy trends*** related to FDI. *[Slide 7]* Investment liberalization and promotion remained the dominant tendency in 2010, with 68% of the measures identified in 2010 operating in a direction more favourable to FDI. However, the risk of investment protectionism has increased, as investment-related restrictions and administrative procedures have accumulated over recent years. Almost one-third of measures in 2010 related to regulation or restriction of FDI, compared to only 2% of measures at the start of the decade.

Liberalisation measures benefited numerous industries, mainly electricity, gas and water distribution, as well as financial services and manufacturing. Promotion measures included the streamlining of admission procedures and the opening or expansion of special economic zones. Various countries also maintained economic stimulus packages and state aid, although the phasing out of some of the schemes has started. On the other hand, the rebalancing of investor rights and obligations continued, with a particular focus on the financial sector and more state intervention in sensitive industries, such as extractive industries and agribusiness. As regards geographical distribution, developing countries were particularly active in revising investment policies with the most changes occurring in Asia.

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National Regulatory Changes, 2000–2010
(Per cent)

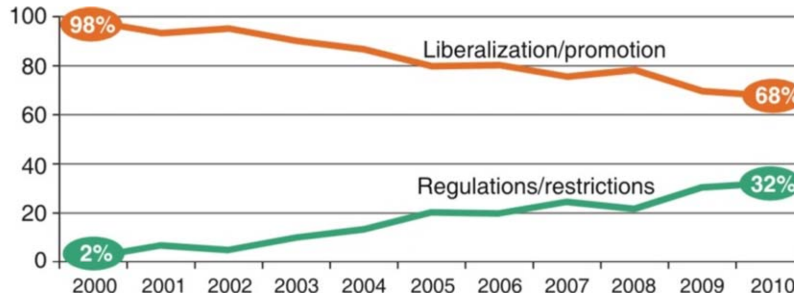

Figure III.1, *WIR11*, p. 94.

As far as international investment policies are concerned, the regime of international investment agreements is at a crossroads. *[Slide 8]* First, it is becoming ever more complex, with an average of three treaties concluded per week. During 2010 alone, a total of 178 new IIAs were concluded. The first five months of 2011 saw the trend continue, with the conclusion of 48 treaties, bringing the IIA universe to a total of about 6,140 agreements by end June 2011.

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Trends of BITs, DTTs and "other IIAs", 2000–2010

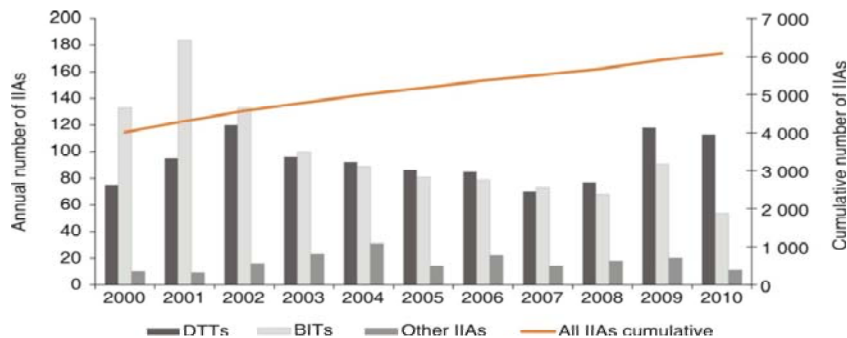

Figure III.2, *WIR11*, p. 100.

Secondly, there remains the question about the extent of protection that today's IIA regime can offer to FDI. The IIA regime is approaching the point where it is too big and complex for governments and investors to handle. At the same time, the system remains inadequate to cover all possible bilateral investment relationships (full coverage would require a further 14,100 bilateral treaties).

Finally, the policy discourse about the future orientation of the international investment regime and its development impact is intensifying. While countries conclude IIAs, sometimes with novel provisions aimed at rebalancing the rights and obligations between States and investors, different investment stakeholders have started to voice their concerns about the costs and benefits and the future orientation of IIAs. Partly as a consequence, industrial policies have a seen a comeback in recent years and these interact increasingly with FDI policies, both at the national and international level.

Lastly, an important area on the policy front concerns ***corporate social responsibility*** (CSR). The investment policy landscape is influenced more and more by a myriad of voluntary corporate social responsibility standards. Governments can maximize development benefits deriving from these standards through appropriate policies, such as harmonizing corporate reporting regulations, providing capacity-building programmes, and integrating CSR standards into international investment regimes.

Over the past 20 years, several dozen major international CSR initiatives have grown out of both public and (mainly) private sector initiatives. The impact CSR standards have on business activities can be significant, as industries concerned can account for global market share ranging from 5 to 30 per cent depending on the industry and type of standard. In the age of a globally consolidated market, the individual company CSR standards of large TNCs can influence more than 50% of global market share in a given industry. Addressing CSR and its relationship to responsible and sustainable investment has therefore also become an important facet of the international investment policy landscape.

Thank you.