7th International Investment Promotion Forum

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Opening Statement

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

Honorable Vice Govenor Sun,
Honorable Former Vice Minister Shen, President Miao,
Distinguished guests,
Ladies and gentlemen,

It is a great pleasure to welcome you to the ***7th International Investment Promotion Forum***. First of all, please allow me to thank, on behalf of UNCTAD, our hosts, the Ministry of Commerce of China, the Jiangxi Provincial Government, the China Council for International Investment Promotion, and other co-organizers and partners.

Taking place at a critical moment of fragile global economic recovery, this high-level event will offer us a precious opportunity to discuss the prospects of international investment, as well as opportunities and challenges facing international investment.

Ladies and gentlemen,

The world financial and economic crisis has drastically changed the trends and patterns of international investment flows, as it has for other economic flows, and has generated profound implications for policy makers and investors.

After rebounding from the financial crisis in the latter half of 2009, global foreign direct investment (FDI) flows rose moderately to $1.24 trillion in 2010, but still a level 15% below their pre-crisis average and 37% below the 2007 peak. This is in contrast to global industrial output and trade that have already returned to pre-crisis levels. After 2% growth in the first half of 2011, UNCTAD predicts that global FDI may approach the pre-crisis average level in 2011, although it is still some 20% below its 2007 peak.

Moreover, the recovery of global investment remains fraught with risks and uncertainties, which include the unpredictability of global economic governance; a widespread sovereign debt crisis and fiscal austerity measures; regional instability; huge currency volatility; and fears of investment and trade protectionism.

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

- While East and South-East Asia and Latin America, experienced strong growth in FDI inflows since 2010, those to Africa, South Asia, and transition economies only managed to reverse their downward path in 2011. Flows to developed countries as a whole also declined marginally (to $602 billion) in 2010. After a surge in the latter half of 2010, FDI flows to developed countries receded again in the first half of 2011, experiencing a decline of 4% compare to the previous half.

- With respect to **sectors**, FDI in services accounted for the bulk of the fall in FDI flows since the crisis and continued its downward path in 2010. In contrast, FDI in manufacturing bounced back, rising to account for almost half of all FDI projects. FDI in extractive industries, which had not suffered during the crisis, also declined in 2010.

- When we look at ***modes of entry,*** Cross-border mergers and acquisitions (M&As) are recovering in 2011. After an increase of 36% in 2010, the value of cross-border M&As rose to $352 billion during the first three quarters of 2011, up 38% year on year and the strongest increase since 2007. However, the spreading of the debt crisis in Europe and the United States in the second half of 2011 has truncated the growth of cross-border

M&A sales in the third quarter, and is likely to dampen enthusiasm for major acquisitions in the last quarter of the year. In contrast to the increase in M&As, greenfield projects – which account for the majority of FDI – continued to fall in 2010 and 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 in 2010 as well as in the first half of this year. Furthermore, **developing and transition economies generated nearly 30% of global outflows** – a record level at $388 billion in 2010 – with much of the investment directed to other countries in the South.

If we look at the company level, ***fundamentals for TNCs to expand internationally are still there.*** 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. This largely reflected an improvement of corporate profits and the increasing internationalization of TNCs. The financial crisis caused firms to rationalize their corporate structure and increase efficiencies, often by relocating business functions to cost-advantageous locations.

Ladies and gentlemen,

Let us now have a look at how governments are reacting on the policy front. In the aftermath of the crisis, **investment policies worldwide maintain the general tendency towards investment liberalization and promotion**, with about 70% of the measures identified in 2010 and the first half of 2011 operating in a direction more favorable 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 and the first half of 2011 related to regulation or restriction of FDI, compared to only 2%-5% of measures at the start of the decade. Recent deepening of the debt crisis in parts of the world and fears about possible macroeconomic shocks could increase the risk of new protectionist measures.

At the request by the G20 Summit, UNCTAD is closely monitoring international investment policy developments, and preparing regular reports on G20 countries' investment policy measures. UNCTAD will continue its efforts to promote a more enabling international investment framework through its policy analysis and involvement in intergovernmental policy consultation.

Ladies and gentlemen,

While posing daunting challenges for policy makers and investors, the evolving international investment landscape also opens up new business and investment opportunities, including those arising from the transition to a low-carbon economy, a topic that will be addressed by our Forum.

It should be reiterated that the global policy debate on tackling climate change is no longer about whether to take action: it is now about which actions to be take and by whom.

Initially introduced as an effort to combat climate change, low-carbon investment, including investment in renewable energies, is increasingly promoted by developed countries as a tool to

generate new jobs and growth. The United States, Germany and Japan have all come up with their own national green programmes.

While a large number of developing countries are not major greenhouse gas (GHG) emitters, attracting low-carbon foreign investment and technology still offers opportunities for them. Benefits could include improved production efficiency, strengthened productive capacities, enhanced export competitiveness, a contribution to global climate change mitigation and an acceleration of their own transition to a low-carbon economy, which is imperative in the long term.

Thanks to advances in technology, developing countries also have the potential to leapfrog other countries in the deployment of clean technologies. For example, with the price of solar panels drastically declining, decentralized solar projects have made energy supplies at community and family levels possible and enjoy potential to empower millions at the bottom of society. In fact, given the issues that remain surrounding problems of connectivity, stability and energy storage, which block the development of renewable energies, opportunities still exist for small and medium-sized renewable projects in less developed regions.

TNCs are already active in low-carbon foreign investment. UNCTAD estimates that in 2008-2009 low-carbon FDI flows into three key low-carbon business areas - renewables, recycling and manufacturing of products related to environmental technology - alone amounted to $90-120 billion. The potential for cross-border low-carbon investment is therefore enormous, as the world transitions to a low-carbon economy.

In response to the new environment, developing countries are actively pursuing green FDI. According to an UNCTAD survey of investment promotion agencies (IPAs) in 2010, more than half of the IPAs covered by the survey have started to promote low-carbon investment. Most IPAs seek to attract foreign investment into renewable energy, although other sectors such as transport, industry and agriculture are also targeted.

However, barriers remain high for both the public and private sectors to reap the potential benefits of clean technologies. In moving towards a low-carbon economy, developing countries are faced with two major challenges: first, securing financing for investment in appropriate activities; and, second, generating or accessing relevant technology. Uncertainties in the current international investment environment and the global climate change policy framework create further hurdles for developing countries to capitalize on emerging low-carbon opportunities.

To fully tap into the benefits of low-carbon foreign investment while minimizing its risks, developing countries should proactively promote low-carbon FDI through a combination of policy measures, which, among others, include:

- Integrating “green and responsible” elements in their foreign investment promotion to capture opportunities arising from the changing consumer behaviors in favor of greener and more responsible products.
- Streamlining market entry regulations on inflows of low-carbon foreign investment into strategic industries, such an energy, which have the greatest potential for efficiency improvement.
- Leveraging regional economic arrangements to overcome market size constraints affecting clean technologies, and create export and investment opportunities for domestic and foreign low-carbon companies.
- Promoting the use of more energy efficient modes of production and machinery through incentives such as accelerated depreciation of more efficient equipment and facilitating importation of inputs needed by low-carbon investors.

- Putting in place necessary market-creation mechanisms, which could include feed-in tariffs, green certificates or the adoption of renewable portfolio standards.
- Encouraging national and sub-national investment promotion agencies to play an active role in the attraction of low-carbon foreign investment through enhanced investor targeting, aftercare and policy advocacy.

Distinguished guests,
Ladies and gentlemen,

While full of promising opportunities, the global investment landscape continues to be clouded by significant uncertainties. One key concern for policy makers and investors today is that while public investments, and more specifically fiscal stimulus measures, are running out of steam, private investment has yet to resume its role as an engine of growth. A broader consensus and closer cooperation needs to be built among policy makers and investors to make investment work for much needed growth and sustainable development. I believe that your insightful discussions at this Forum will greatly contribute to this process.

I wish you all a stimulating and productive Forum.

Thank you.