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Recent Trends and Policies in Investment and Enterprise Development

Statement by

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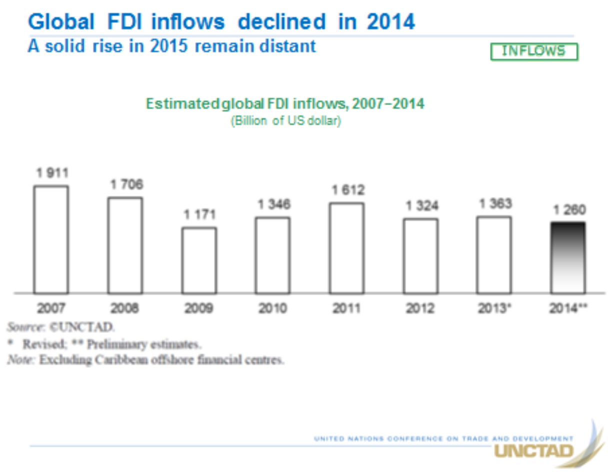
Chairperson, […]
Excellencies,
Distinguished Delegates,

The presentation is structured around three main topics: global and regional FDI trends; recent policy developments related to FDI, both at national and international levels; and recent trends and policies in enterprise development.

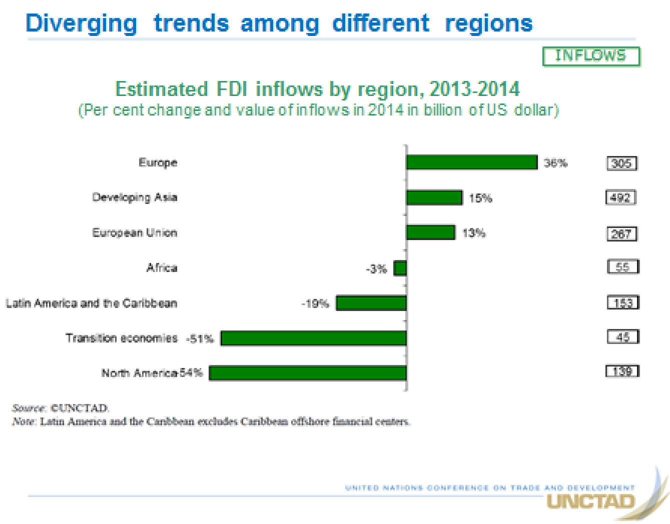
Let me start with **global trends in FDI**.



In 2014, global FDI *<u>inflows</u>* *declined by 8 per cent to an estimated $1.26 trillion* due to the fragility of the global economy, policy uncertainty and geopolitical risks. A large divestment in the United States also lowered global FDI flows.

For prospects: A sustained upward FDI recovery remains elusive. A subdued global economic outlook, volatility in currency and commodity markets and elevated geopolitical risks are likely to negatively influence FDI flows. On the other hand, the strengthening of economic growth in the United States, the demand-boosting effects of lower oil prices and proactive monetary policy in the Eurozone, coupled with increased liberalization and promotion measures should have a favorable effect on FDI flows.

Looking more closely at the regional level, there were diverging trends in 2014



FDI flows to developed countries fell by 14 per cent to an estimated $511 billion. Of this figure, FDI flows to the EU reached an estimated $267 billion, which represents a 13 per cent increase over 2013, but is still only one-third of the EU's 2007 peak. Among the largest economies, the United Kingdom saw its inflows rise to an estimated $61 billion. FDI flows to Sweden, Portugal, the Netherlands and Luxembourg increased also. In contrast, inflows to Germany and France were in negative territory.

FDI flows to the United States fell to an estimated $86 billion − almost a third of their 2013 level. This was mainly explained by cross-border M&A sales in the United States that declined from $60 billion in 2013 to just $10 billion in 2014, primarily due to the mega-deal between Verizon and Vodafone ($130 billion buy-back shares by Verizon from Vodafone).

FDI in Developing economies reached a new high of more than $700 billion, 4 per cent higher than 2013. This now represents a share of 56 per cent of total global FDI flows.

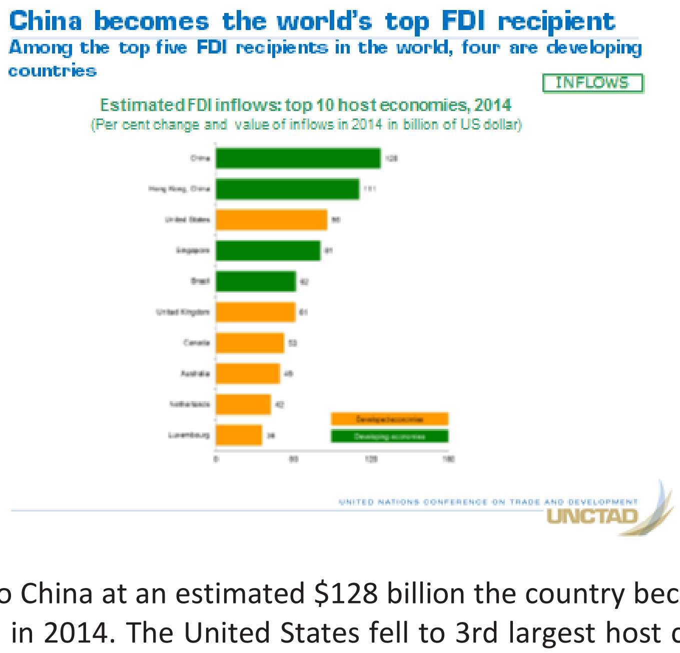
Developing Asia witnessed its FDI inflows grow to a historic high of almost half a trillion US dollars in 2014, further consolidating its position as the largest recipient region in the world.

Africa saw its FDI inflows fall 3 per cent to $55 billion, largely explained by a decrease of FDI into North Africa. FDI into Sub-Saharan Africa remained flat. Among subregions, FDI in Southern Africa was buoyed by increased inflows.

FDI flows to Latin America and the Caribbean decreased in 2014, after four years of consecutive increase, mainly due to a decline in cross-border M&As in Central America and the Caribbean, and lower commodity prices.

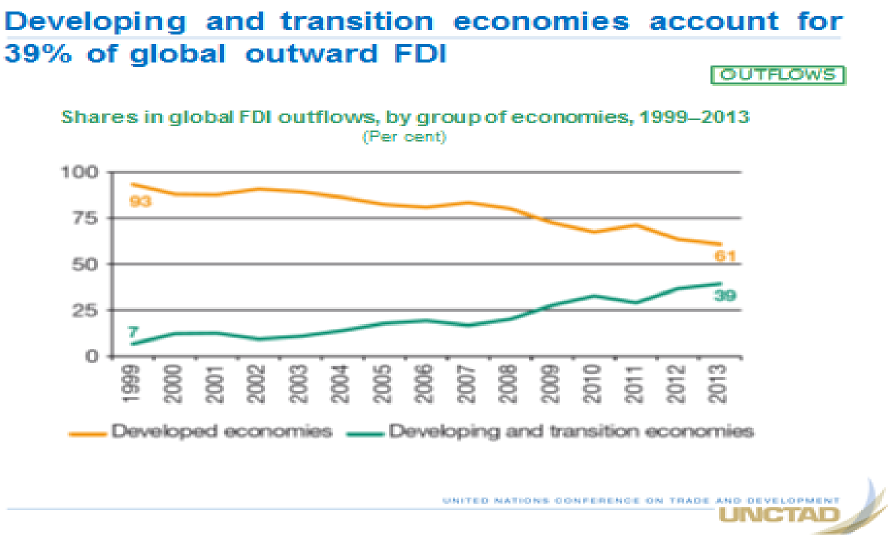
Flows to transition economies more than halved, declining to $45 billion as regional conflict, sanctions on the Russian Federation, and negative growth prospects deterred foreign investors (especially from developed countries) from investing in the region.

At the individual country level, developing countries further consolidated their position in the top 5 FDI recipients



With inflows to China at an estimated $128 billion the country became the largest FDI recipient in the world in 2014. The United States fell to 3rd largest host country. Among the top five FDI recipients in the world, four are now developing economies.

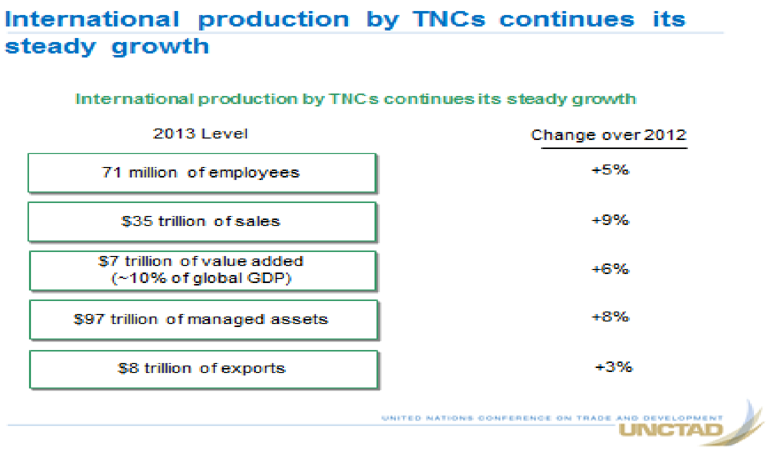
Outward FDI is also characterized by the rise of developing countries



FDI outflows from developing and transition countries reached a record level of $500 billion, or almost 40 per cent of total global outflows. This compares with just 7 per cent in 1999. In recent years the increasing investment by TNCs from developing countries has been partly characterized by developing country TNCs acquiring foreign assets owned by developed country TNCs in third countries.

While data presented here are for 2013, UNCTAD will issue the 2014 data for outward FDI flows in a few weeks' time.

Despite a fall in FDI inflows, international production by TNCS continues its growth.


International production by TNCs continues its steady growth

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2013 Level	Change over 2012
71 million of employees	+5%
$35 trillion of sales	+9%
$7 trillion of value added (~10% of global GDP)	+6%
$97 trillion of managed assets	+8%
$8 trillion of exports	+3%

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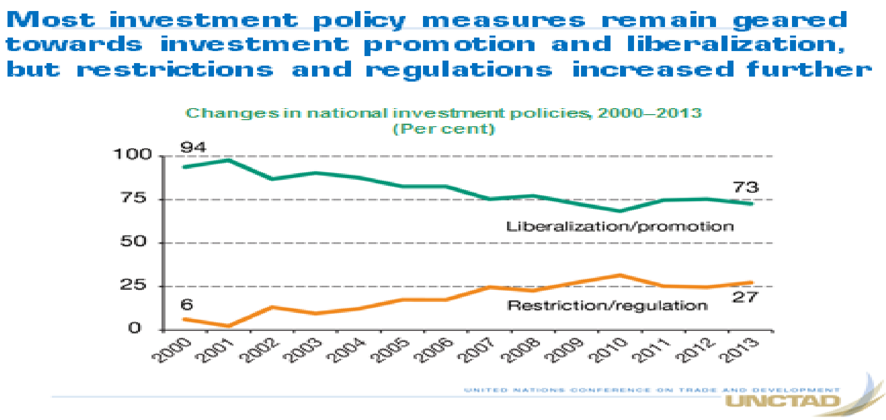
International production continued to expand in 2013, with the number of employees engaged by TNCs increasing 5 per cent, rising sales of 9 per cent, a growth in value added of 6 per cent, an increase in the value of managed assets of 8 per cent, and rise in exports of 3 per cent.

TNCs from developing and transition economies expanded their overseas operations faster than their developed country counterparts, but at roughly the same rate as domestic firms.

2. Trends in investment policymaking

Turning to investment policies, it is apparent that the past years have brought increasing dichotomy in investment policy making at both the national and international levels.



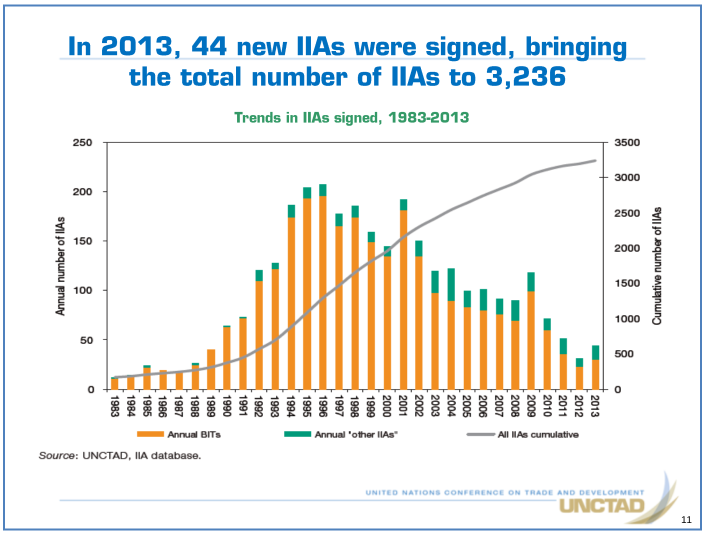
At the national level, this can be seen in many countries that have introduced new investment liberalization and promotion policies while setting-up new regulations and restrictions. The observed pattern is one of liberalization and facilitation in sectors conducive to economic growth and the use of regulations and screening measures in sensitive industries in the same country.

Globally, at least 59 countries and economies adopted 87 policy measures affecting foreign investment in 2013. The bulk of these measures (73 per cent) related to investment liberalization, facilitation and promotion, targeted at numerous industries, especially in the services sector. Privatization policies were an important component of this trend. Other policy measures include the establishment of special economic zones (SEZs).

At the same time, the share of new FDI-related regulations and restrictions increased slightly, from 25 per cent in 2012 to 27 per cent in 2013. At least 13 countries introduced new restrictions targeted specifically at foreign investors. These measures included the revision of investment entry regulations, rejection of investment projects after review and one nationalization. Some countries introduced restrictive or regulatory policies affecting the operation and management activities of both domestic and foreign investors.

In 2014, according to UNCTAD's preliminary data, 37 countries and economies adopted 63 policy measures affecting foreign investment. The majority of newly adopted policy measures affecting foreign investment continue to improve entry conditions, reduce restrictions and facilitate foreign investment. Only 9 countries introduced new restrictions or regulations on investment. The share of new FDI regulations and restrictions decreased from 27 per cent in 2013 to 14 per cent in 2014.

Another interesting recent development included government efforts to prevent divestment by foreign investors. Several countries introduced new approval requirements for de-localisation and layoffs, while others have started to promote reshoring of overseas investments by their TNCs.



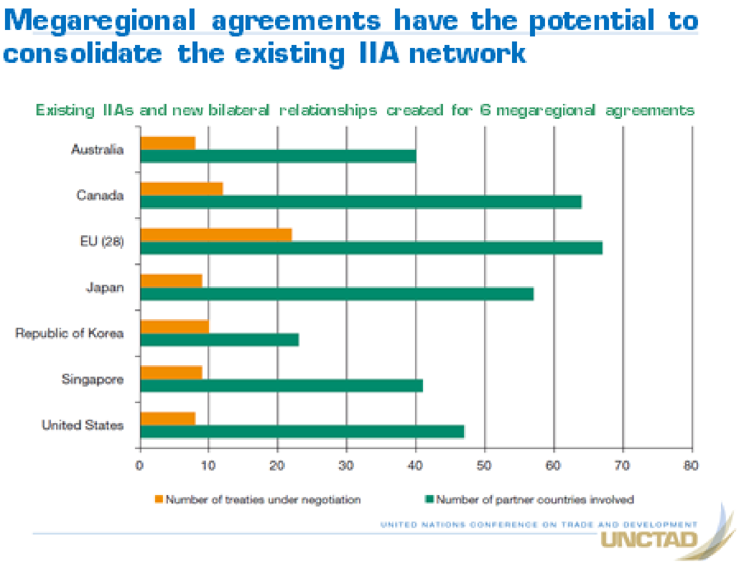
At the international level, investment policy making continues to be at a crossroads as countries simultaneously move to expand the global IIA regime and to disengage from it.

In 2013, States continued to sign IIAs, many of which included sustainable development provisions. 2013 saw the conclusion of 44 new International Investment Agreements, consisting of 30 Bilateral Investment Treaties and 14 "other IIAs" bringing the IIA universe to more than 3,200 agreements.

Last year, according to UNCTAD preliminary data, 28 new IIAs were signed, that is 15 BITs and 13 other IIAs. The IIA universe stands today at almost 3,300 treaties. Agreements signed in 2014 build on previous years' trends by including sustainable development oriented features. In addition, the number of agreements with pre-establishment commitments is on the rise. As of the end of 2014, about 10 per cent of all IIAs included pre-establishment commitments. However among the IIAs concluded in 2014, about half extend national treatment and most-favoured-nation treatment obligations to the acquisition and establishment of investments.

Despite the continued growth in investment agreements, some countries have decided to disengage from the IIA regime, including by unilaterally terminating their IIAs.

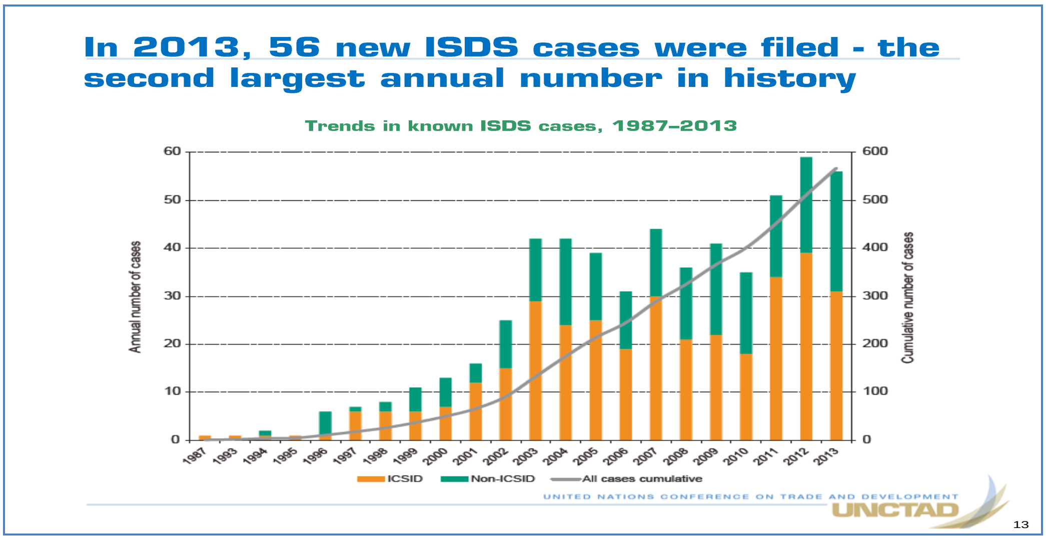
In addition, at least 45 countries and four regional integration organizations are currently revising, or have recently revised their model IIAs. Notable examples include work on a new model agreement by Brazil and India.



Last year also saw the continuation of negotiations of the so-called mega-regional agreements, which include the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership agreement (RCEP).

Mega-regional agreements present an opportunity to consolidate today's network of over 3,300 IIAs. Overlapping with 140 agreements, the six mega-regional agreements in which BITs-type provisions are on the agenda have the potential to transform the fragmented network of IIAs into a consolidated and manageable system of fewer, but more inclusive agreements. The six mega-regional agreements would also create close to 200 new bilateral IIA relationships.

At the same time the extent of consolidation of the IIA regime by mega-regionals crucially depends on whether the negotiating parties opt to replace existing bilateral IIAs with the relevant mega-regional agreement. As identified in the World Investment Report 2013, the prevailing approach to regionalism has resulted in a degree of parallelism between treaties that adds further inconsistencies to the system.



The last few years have witnessed growing discontent over the investor-state dispute settlement system (ISDS). According to preliminary UNCTAD data, in 2014, investors initiated 42 known ISDS cases pursuant to IIAs. This is lower than the record high number of new claims in 2013 (59 cases) and 2012 (54 cases) and closer to the annual averages observed in the period between 2003 and 2011. As most IIAs allow for confidential arbitration, the actual number of non-ICSID cases could be higher. Last year's developments brought the overall number of known ISDS claims to 608. One hundred and one governments around the world have been respondents to one or more known ISDS claims.

Reform of the IIA regime – four paths of action in WIR 2014

Path	Policy action
Status quo	Abstaining from substantive changes to IIA policies
Disengagement	Eliminating international investment-related commitments
Selective adjustments	Pursuing selective changes to integrate selected sustainable development elements and other features into *future* IIAs
Systematic reform	Redesigning IIAs to promote sustainable development, balance rights and obligations and reform ISDS, including in *existing* treaties

The IIA regime has entered a period of review and reform. While almost all countries are parties to one or several IIAs, few are satisfied with the current regime. This is partly due to growing uncertainty about the effectiveness of IIAs to boost FDI attraction, as well as the perceived reduction of host State policy space. Other areas of dissatisfaction concern the rise of international investment arbitrations and the absence of specific sustainable development objectives.

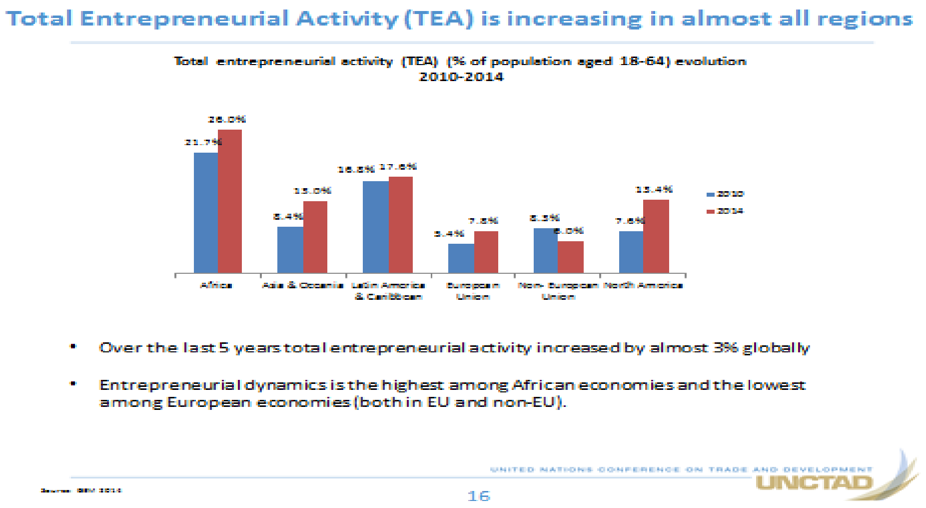
Last year UNCTAD identified four diverging paths of action in dealing with the existing IIA regime. These are:

- Maintaining the status quo
- Disengaging from the regime
- Introducing selective adjustments
- Engaging in systematic reform

Each of the four paths of action comes with its own advantages and disadvantages, and responds to specific concerns in a distinctive way. Depending on the overall objective that is being pursued, what is considered an advantage by some stakeholders may be perceived as a challenge by others.

The current IIA reform process requires a platform and backstopping. UNCTAD, in cooperation with other stakeholders, including international and regional organizations, can provide a multilateral platform for engagement on these issues. We have done so through the World Investment Forum's 2014 IIA Conference and the expert meeting on IIA Reform that UNCTAD hosted last February. And we stand ready to continue this engagement. We have also taken up the call emanating from these meetings to develop a roadmap for IIA reform. The forthcoming World Investment Report 2015 will deal with this issue in detail.

3. Trends in enterprise and enterprise policy.



Total entrepreneurial activity is the percentage of individuals aged 18-64 that are either a nascent entrepreneur or owner-manager of a new business. Over the last 5 years, total entrepreneurial activity increased by almost 3% globally. Entrepreneurial dynamism is the highest among African economies and the lowest among European economies (both in EU and non-EU).

Opportunity-driven entrepreneurs, who were inspired to start a business because they saw a market opportunity, have grown faster than necessity-driven entrepreneurs. Recently, opportunity-driven entrepreneurs are increasing faster in African and North American economies, while European economies lagged behind.

The UN General Assembly recognized *"the important contribution entrepreneurship can make to sustainable development".* Currently, government policies in many countries have shifted towards facilitating new firm creation to boost employment and growth. They have put entrepreneurship high on their agenda.

There is a growing recognition of the need for a holistic and systemic approach to formulating entrepreneurship policies, ensuring coordination and coherence to achieve a positive impact. Many countries have implemented National entrepreneurship strategies, based on UNCTAD's Entrepreneurship Policy Framework, or EPF.

Entrepreneurship is critical to poverty reduction, gender equality, social inclusion, and environmental sustainability. With this in mind, UNCTAD, in collaboration with the Commonwealth, has developed a comprehensive national framework on youth entrepreneurship, which aims to support policymakers in designing entrepreneurship policies and programmes for the youth.

Mr. Chairman,

Allow me to end my remarks here in order to save time for discussion and inputs from the floor.

Thank you.