Recent Global Investment Trends and Policies

James X. Zhan

Director, Investment and Enterprise,

UNCTAD

Presentation at

Commission on Investment, Enterprise and Development

Geneva, 11 November 2019

KEY POINTS

1. Global FDI trends and prospects

- Global FDI flows: too low for too long
- Global value chains: stagnation in growth – a turning point
- External financing for DCs: FDI continues to be the largest

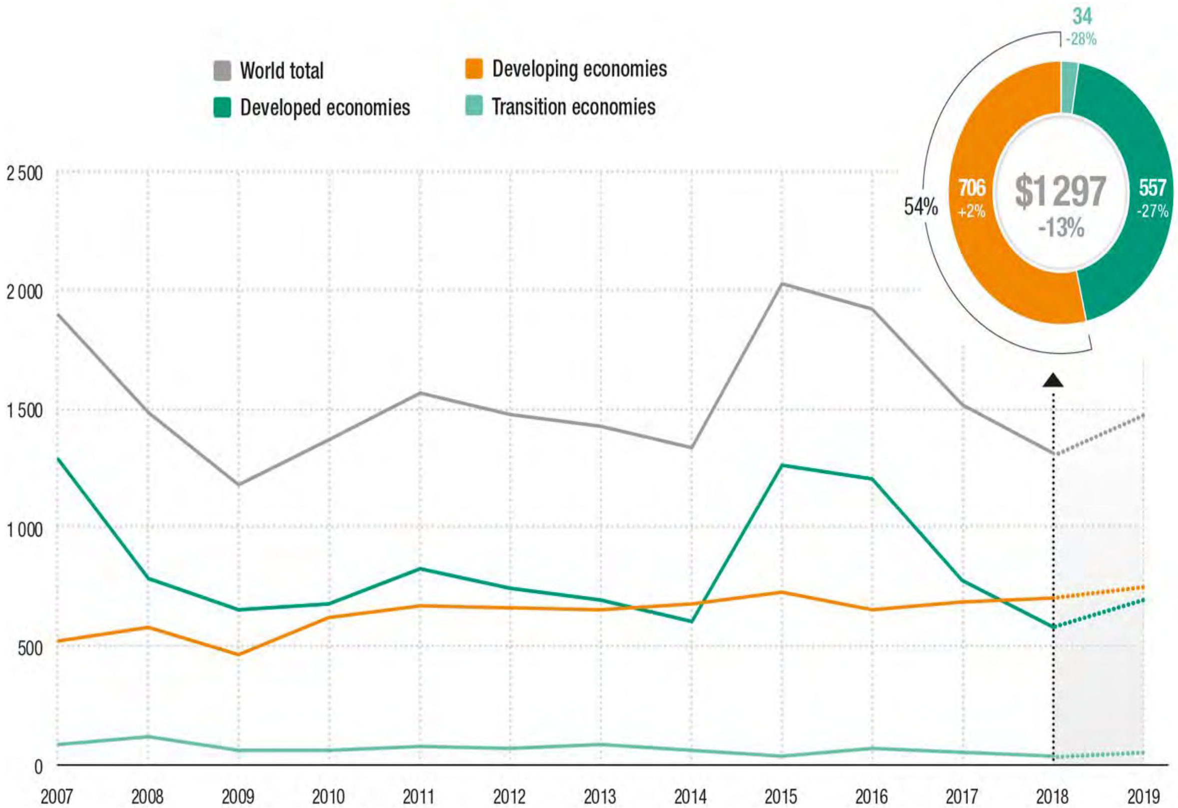
2. Investment policy challenges

- Dichotomy in direction of national policies
- Divergence in approach to International regime
- Dilemma in SDGs investment

James Zhan, DIAE

1. Global FDI trends and prospects

Global FDI flows, 2005–2018 and estimation 2019
(Billions of dollars and per cent)



Key factors for 2019 and 2020:

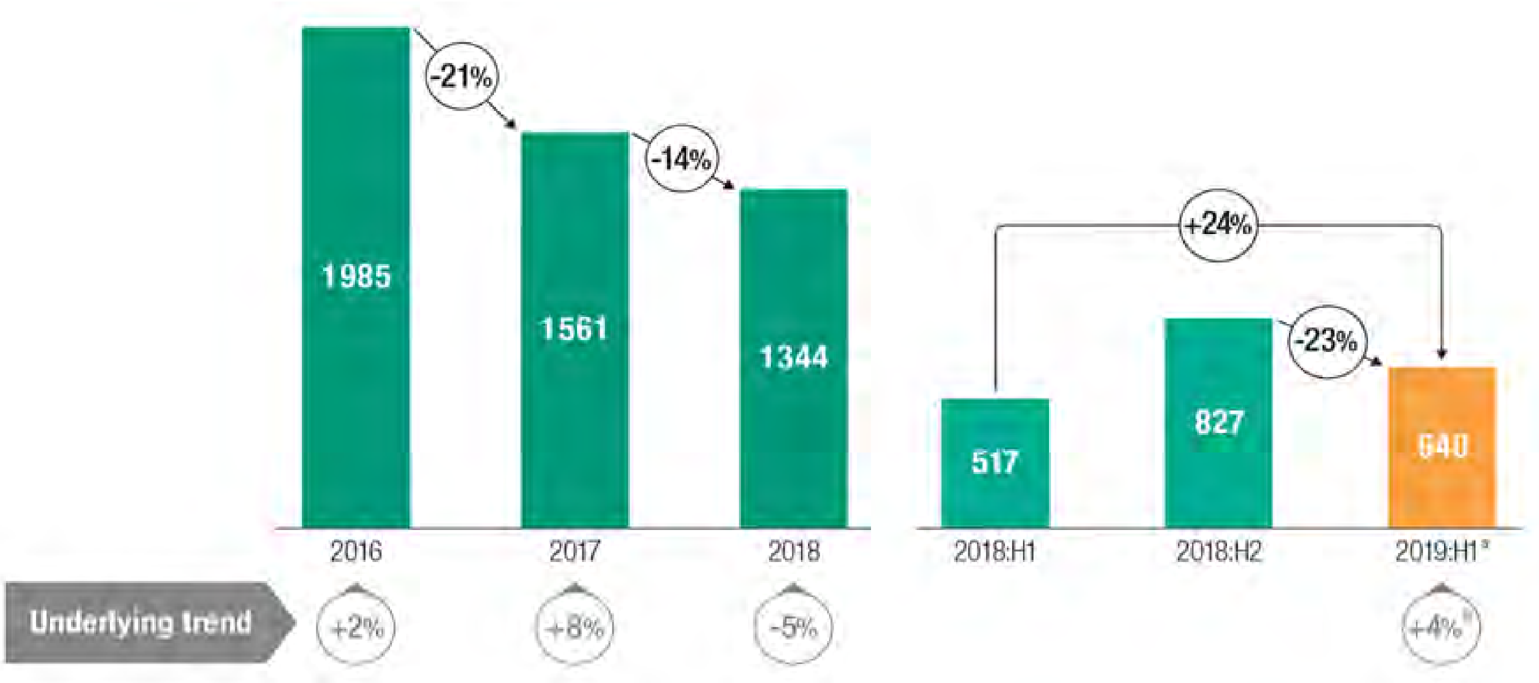
- Underlying trend remains weak
- Rebound expected after anomalous low due to tax reforms
- Risk factors: geopolitical risks, trade tensions, shift to protectionist policies, downsides to macro-economic forecasts

James Zhan, DIAE

UNITED NATIONS UNCTAD

Global FDI recovered in 2019H1 compared to 2018H1
Underlying trend is up 4%

Global FDI flows and growth rates, 2016-2018 and 2018:H1–2019:H1
(Billions of US dollars and per cent)

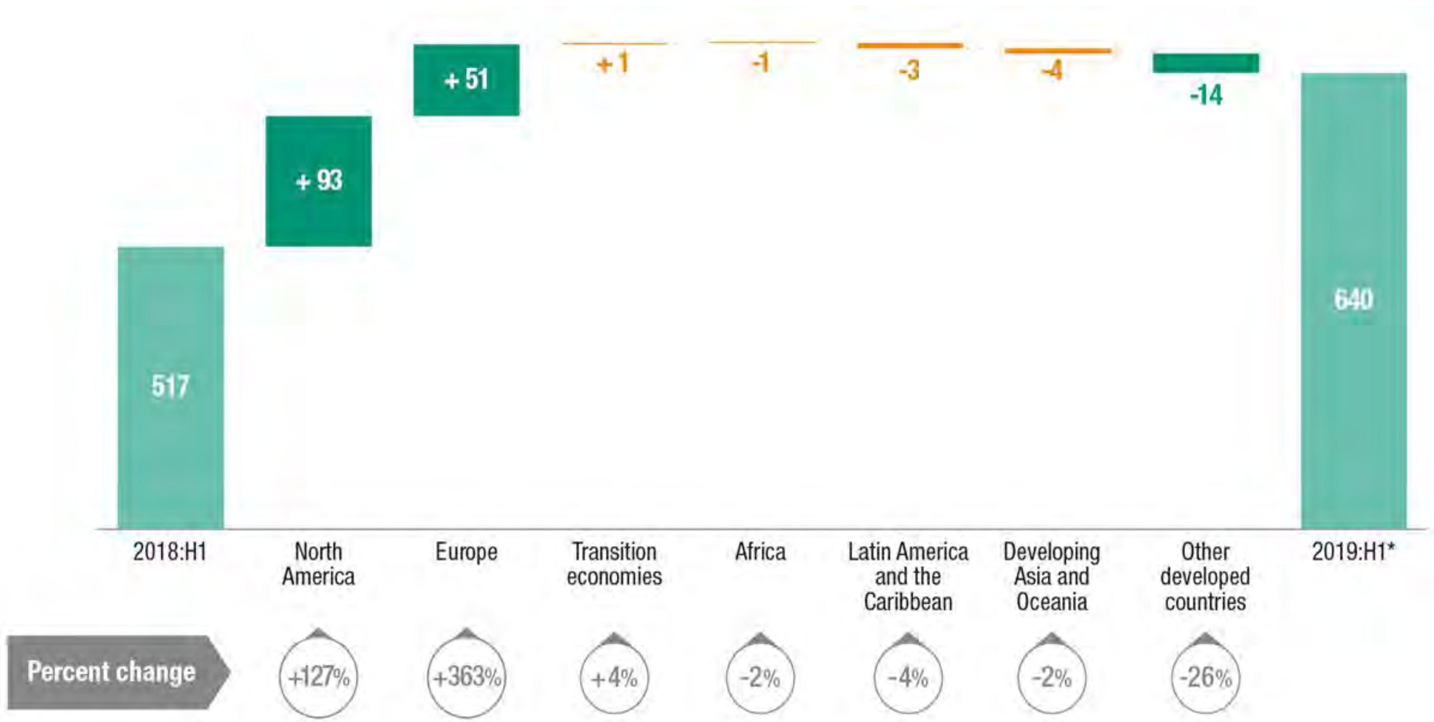


Source: UNCTAD.

FDI in developed countries rose, flows to developing economies stable

Regional contributions to changes in global FDI flows, H1 2018 – H1 2019

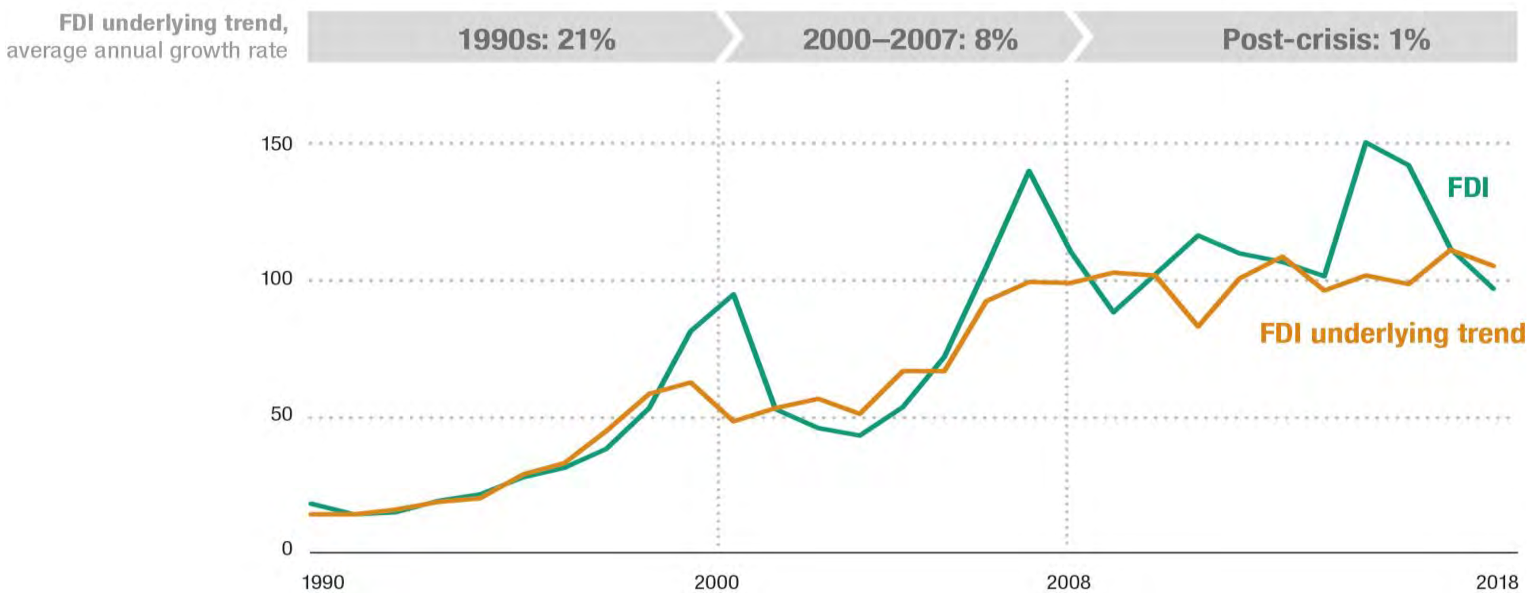
(Billions of US dollars)



Source: UNCTAD.

The underlying FDI trend anemic since 2008

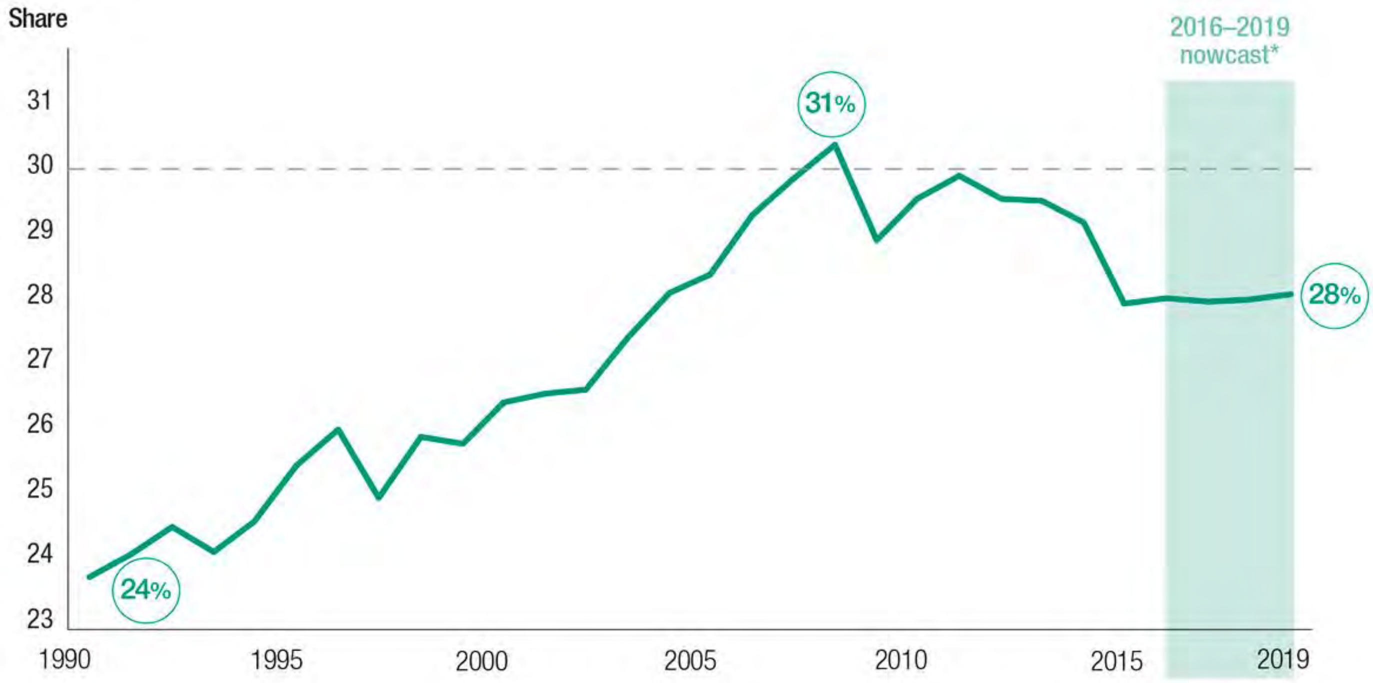
FDI inflows and the underlying trend, 1990–2018
(Indexed, 2010 = 100)



Source: UNCTAD WIR 2019.

Low level of FDI flows affects the growth of GVCs

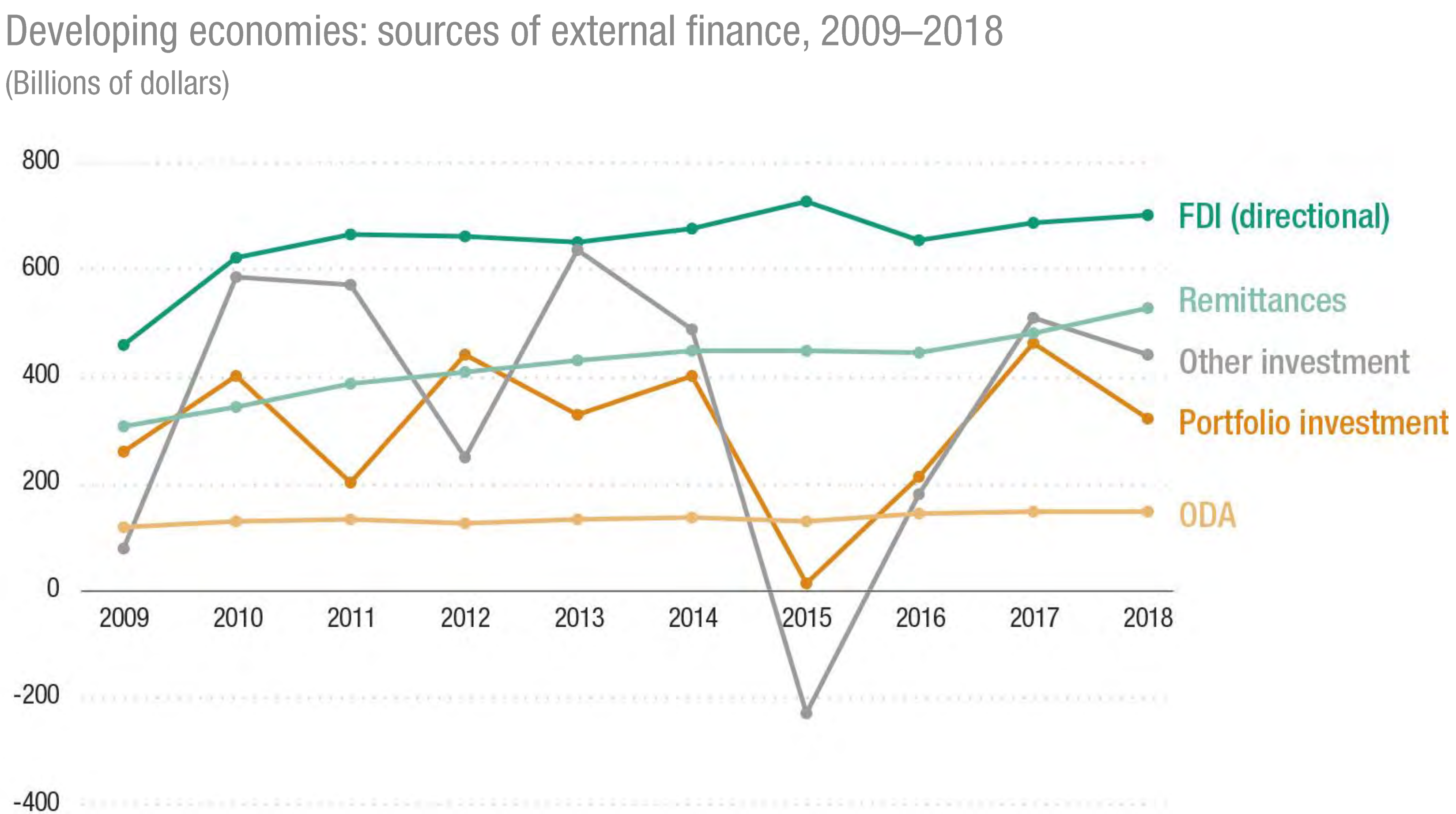
Foreign value added as share of global trade, 1990-2019
(Per cent)



Source: UNCTAD –Eora GVC database, October 2019

- Foreign value added in global trade peaked in 2010 after two decades of continuous increases.
- Growth in GVC participation decreased this decade compared with the last, across all regions, developed and developing.

FDI flows prove resilient as a source of external finance



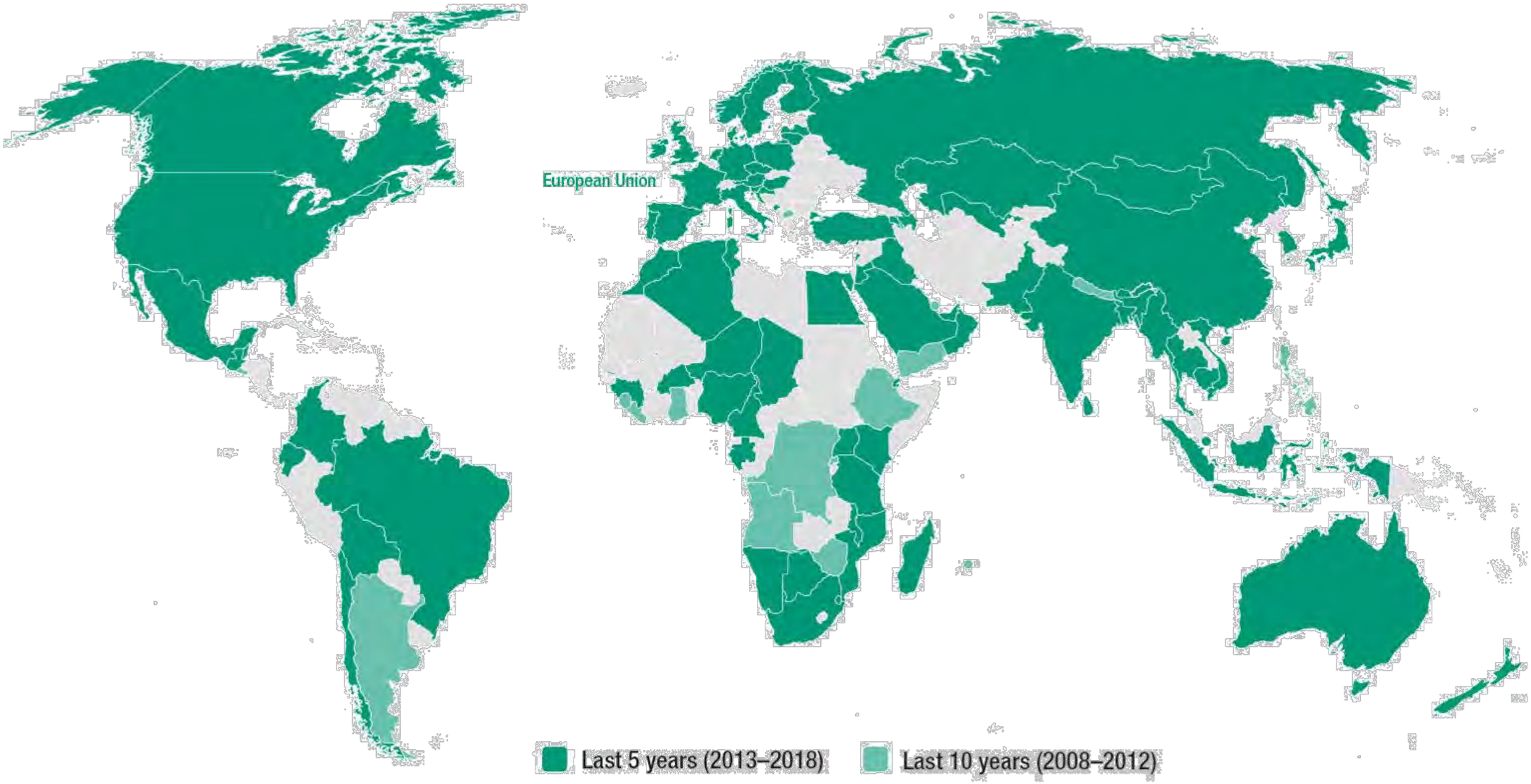
Source: UNCTAD WIR 2019.

2. Investment Policy Challenges

- **Dynamics** in policymaking (driven by new industrial development policies)
- **Dichotomy** in regulatory directions
- **Divergence** in IIA approach
- **Dilemma** in investing in SDGs

Industrial policy: proliferating worldwide

Industrial policies adopted since 2008

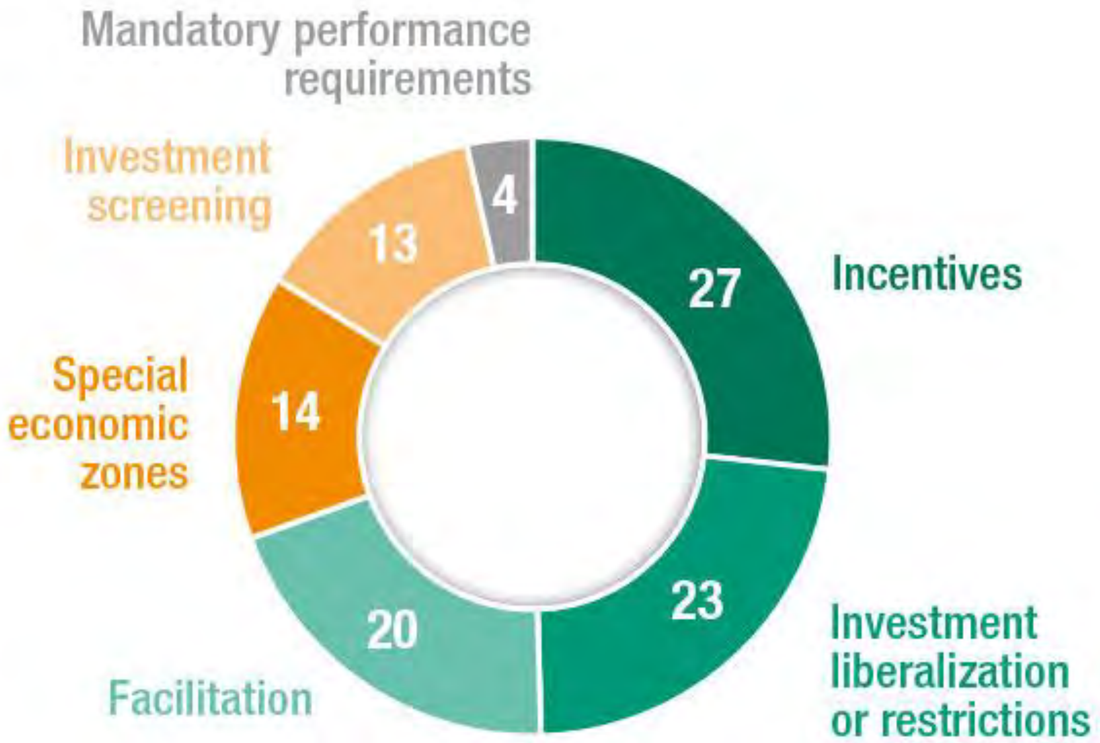


James Zhan, DIAE

UNITED NATIONS
UNCTAD

Modern industrial policies drive investment policy trends

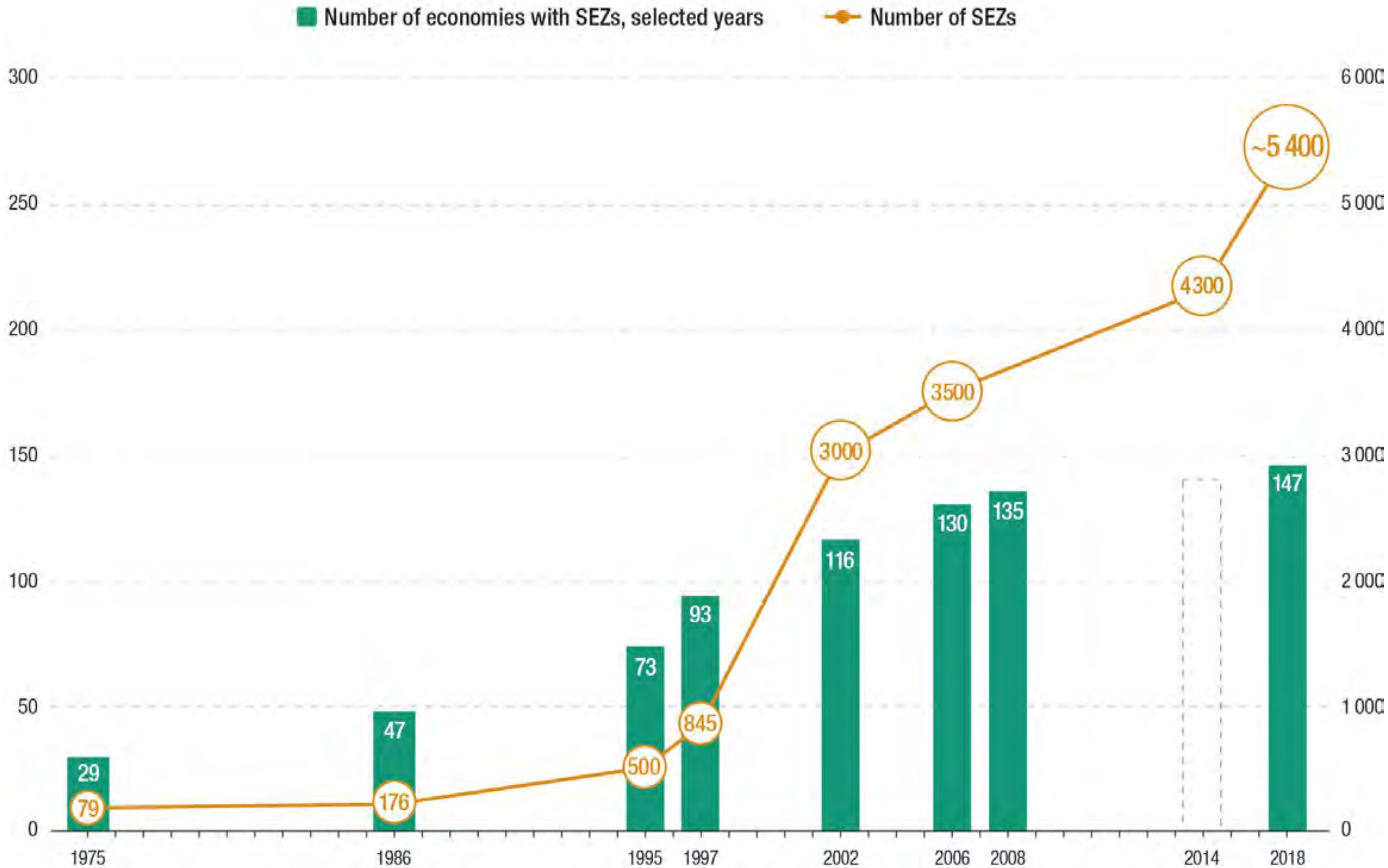
Investment policy measures for industrial policy purposes, by type, 2010-2017
Per cent of total (n=387)



Special economic zones (SEZs) widely used around the world

Historical trend in SEZs

(Numbers of countries and SEZs)

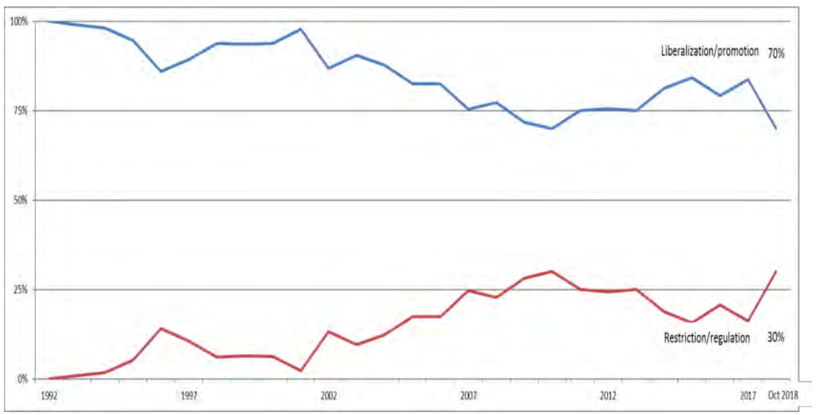


Source: UNCTAD WIR 2019.

UNITED NATIONS
UNCTAD

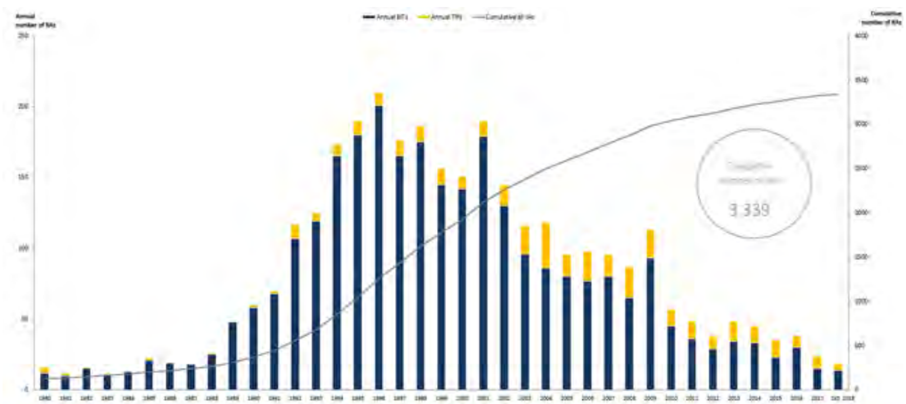
Investment policy developments

Changes in national investment policies, 1992– 2018
(per cent)



- **Dichotomy** in regulatory directions

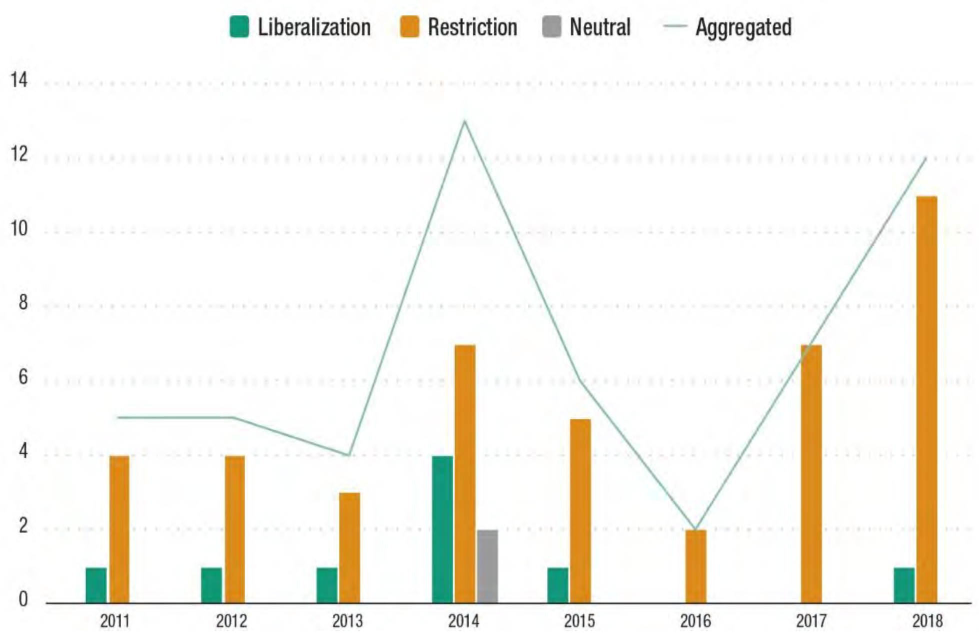
International Investment Agreements signed, 1980–2018
(number)



- **Divergence** in IIA approach

James Zhan, DIAE

National security-related FDI screening enhanced

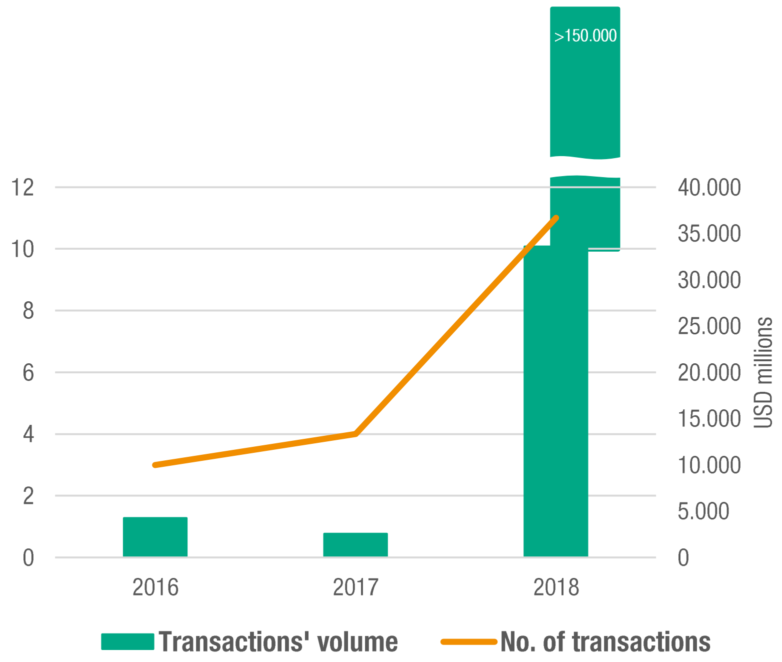


- Foreign investment screening for national security reasons has gained prominence in recent years.
- At least 26 major economies have FDI screening mechanisms relating to national security.
- FDI inward stock of these 26 countries amounted to about 56 per cent of global FDI inward stock in 2018.
- Legislative changes mainly focus on widening the screening scope, expanding the disclosure obligations of foreign investors or extending the statutory timelines for the length of screening procedures.

Impact of national security-related FDI screening

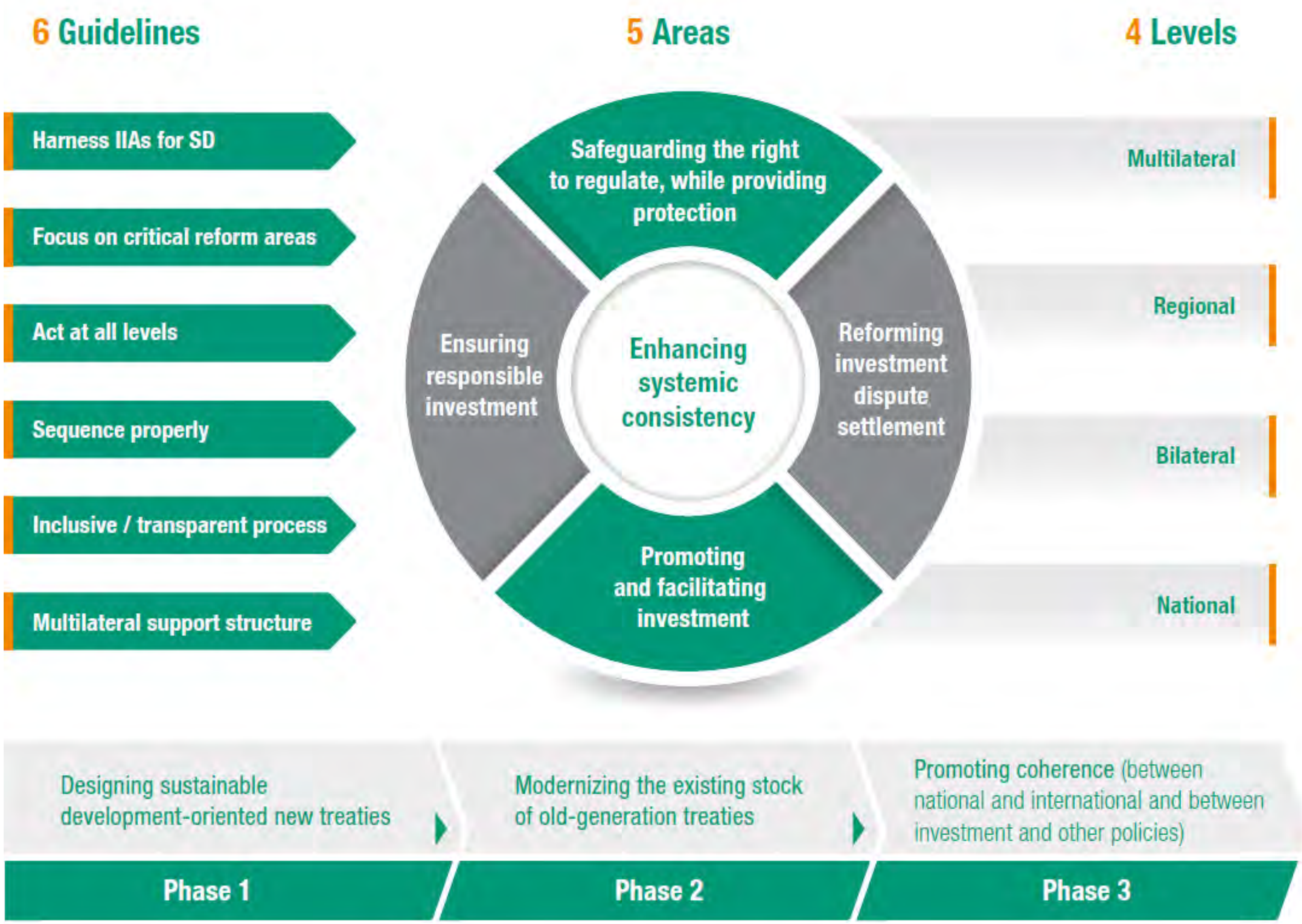
- UNCTAD identified at least twenty instances of planned foreign acquisitions with a value exceeding $50 million that were blocked or withdrawn for national security reasons in the period from 2016 to September 2019. The aggregated value of these transactions amount to more than $162,5 billion.

- These acquisitions are present in new technology and data sectors, but occur also in finance, utilities and energy, and construction and infrastructure.



Foreign acquisitions over $50 million blocked or abandoned for national security reasons, 2016-2018

UNCTAD's Reform Package for the Investment Treaty Regime



IIA reform is happening

Reform-oriented provisions in IIAs concluded in 2000 compared to 2017

2000

	1	2	3	4	5	6	7	8	9	10	11
Austria–Bangladesh BIT	No	No	No	No	Yes	No	No	No	No	Yes	Yes
Belarus–Singapore BIT	No	No	No	No	No	No	Yes	No	No	No	Yes
Brunei Darussalam–China BIT	No	No	No	No	No	No	No	No	No	No	Yes
Chile–Dominican Republic BIT	No	No	No	No	No	Yes	No	No	No	No	No
Cuba–Paraguay BIT	No	No	No	No	Yes	No	No	No	No	No	No
Ethiopia–Turkey BIT	No	No	No	No	No	Yes	No	No	No	No	No
Greece–Mexico BIT	No	Yes	No	No	Yes	No	No	No	No	Yes	No
India–Lao People's Democratic Republic BIT	No	No	No	No	No	Yes	No	No	No	No	Yes
Italy–Libya BIT	No	No	Not applicable	No	No	Yes	No	No	No	No	No
Malaysia–Saudi Arabia BIT	No	No	Not applicable	No	No	Yes	No	No	No	No	No
Mongolia–Philippines BIT	No	No	No	No	No	No	No	No	No	No	Yes
Nigeria–Switzerland BIT	No	No	No	No	No	No	No	No	No	No	Yes
Rwanda–South Africa BIT	No	No	No	No	No	No	No	No	No	No	Yes

Yes No Not applicable

2017

	1	2	3	4	5	6	7	8	9	10	11
Argentina–Chile FTA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ASEAN–Hong-Kong, China Investment Agreement	No	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes
Burundi–Turkey BIT	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
China–Hong Kong, China Investment Agreement	No	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Colombia–United Arab Emirates BIT	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Intra-MERCOSUR Investment Facilitation Protocol	Yes	Yes	Not applicable	Not applicable	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Israel–Japan BIT	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No
Jordan–Saudi Arabia BIT	Yes	No	Yes	No	Yes	Yes	No	Yes	No	No	Yes
Mozambique–Turkey BIT	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Pacific Agreement on Closer Economic Relations Plus	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rwanda–United Arab Emirates BIT	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Turkey–Ukraine BIT	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Turkey–Uzbekistan BIT	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes	No

Yes No Not applicable

Selected aspects of IIAs

The scope and depth of commitments in each provision varies from one IIA to another.

1 References to the protection of health and safety, labour rights, environment or sustainable development in the treaty preamble

2 Refined definition of investment (e.g. reference to characteristics of investment; exclusion of portfolio investment, sovereign debt obligations or claims to money arising solely from commercial contracts)

3 Circumscribed fair and equitable treatment (with reference to customary international law (CIL), equated to the minimum standard of treatment of aliens under CIL or clarified with a list of State obligations

4 Clarification of what does and does not constitute an indirect expropriation

5 Detailed exceptions from the free-transfer-of-funds obligation, including balance-of-payments difficulties and/or enforcement of national laws

6 Omission of the so-called "umbrella" clause

7 General exceptions, e.g. for the protection of human, animal or plant life or health; or the conservation of exhaustible natural resources

8 Explicit recognition that parties should not relax health, safety or environmental standards to attract investment

9 Promotion of corporate and social responsibility standards by incorporating a separate provision into the IIA or as a general reference in the treaty preamble

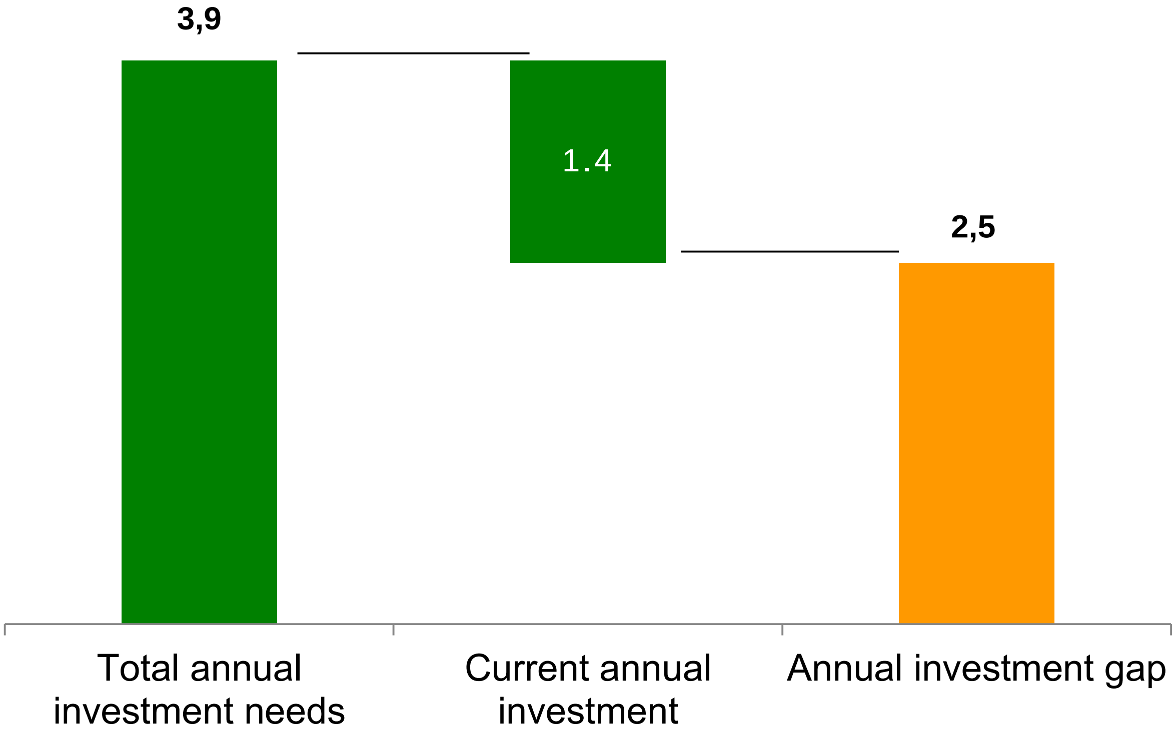
10 Limiting access to ISDS (e.g. limiting treaty provisions subject to ISDS, excluding policy areas from ISDS, limiting time period to submit claims, omitting an ISDS mechanism)

11 Specific proactive provisions on investment promotion and/or facilitation

James Zhan, DIAE

SDGs need to bridge a large investment gap

Estimated annual investment needs in key SDG sectors, 2015–2030
(Trillions of dollars, annual average)



James Zhan, DIAE

SDG Investment Trends Monitor

Summary of gaps, directional trends and data availability

Main investment requirements	Most relevant SDGs	*WIR14* estimated annual investment[1] (Billion of dollars)	Investment trend assessment	Data availability assessment
POWER Investment in generation, transmission and distribution of electricity	7	370–690		
TRANSPORT INFRASTRUCTURE Investment in roads, airports, ports and rail	9, 11	50–470		
TELECOMMUNICATIONS Investment in infrastructure (fixed lines, mobile and internet)	9	70–240		
WATER, SANITATION AND HYGIENE (WASH) Provision of water and sanitation to industry and households	6	260		
FOOD AND AGRICULTURE Investment in agriculture, research, rural development, etc.	2	260		
CLIMATE CHANGE MITIGATION Investment in relevant infrastructure, renewable energy generation, research and deployment of climate-friendly technologies, etc.	13	380–680		
CLIMATE CHANGE ADAPTATION Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.	13	60–100		
ECOSYSTEMS AND BIODIVERSITY Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.	14, 15	N.D.		
HEALTH Investment in infrastructure, e.g. new hospitals, and R&D on vaccines and medicines	3	140		
EDUCATION Infrastructural investment, e.g. new schools	4	250		

Overall, the data paint a mixed picture: signs of progress are evident in the 6/10 sectors. **Investment growth is far from enough to fill in the SDG financing gaps**.

A Big Push for private investment in the SDGs: Action Packages

1 New generation of investment promotion strategies and institutions

- At national level:
  - New investment promotion strategies focusing on SDG sectors
  - New investment promotion institutions: SDG investment development agencies developing and marketing pipelines of bankable projects
- New generation of IIAs:
  - Pro-active SDG investment promotion and facilitation
  - Safeguarding policy space for sustainable development

2 Reorientation of investment incentives

- SDG-oriented investment incentives
  - Targeting SDG sectors
  - Conditional on sustainability contributions
- SDG investment guarantees and insurance schemes

3 Regional SDG Investment Compacts

- Regional/South-South economic cooperation focusing on:
  - Regional cross-border SDG infrastructure development
  - Regional SDG industrial clusters, including development of regional value chains
  - Regional industrial collaboration agreements

4 New forms of partnerships for SDG investment

- Partnerships between outward investment agencies in home countries and IPAs in host countries
- Online pools of bankable SDG projects
- SDG-oriented linkages programmes
- Multi-agency technical assistance consortia
- SVE-TNC-MDG partnerships

5 Enabling innovative financing and a reorientation of financial markets

- New SDG financing vehicles
- SDG investment impact indicators
- Investors' SDG contribution rating
- Integrated reporting and multi-stakeholder monitoring
- Sustainable Stock Exchanges (SSEs)

6 Changing the global business mindset

- Global Impact MBAs
- Training programmes for SDG investment (e.g. fund management/financial market certifications)
- Enrepreneurship programmes in schools

Guiding Principles

Balancing liberalization and regulation	**Balancing the need for attractive risk-return rates with the need for accessible and affordable services for all**	**Balancing a push for private funds with the push for public investment**	**Balancing the global scope of the SDGs with the need to make a special effort in LDCs**

James Zhan, DIAE