

**Trade and Development Board**  
**Sixty-fifth session, Part II, Item 5**  
**“Investment for development”**

**Statement of James Zhan**

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- Setting the scene by presenting the main foreign direct investment (FDI) trends at the Global and Regional levels.
- Trends in national and international investment policymaking.
- Investment and New Industrial Policies.

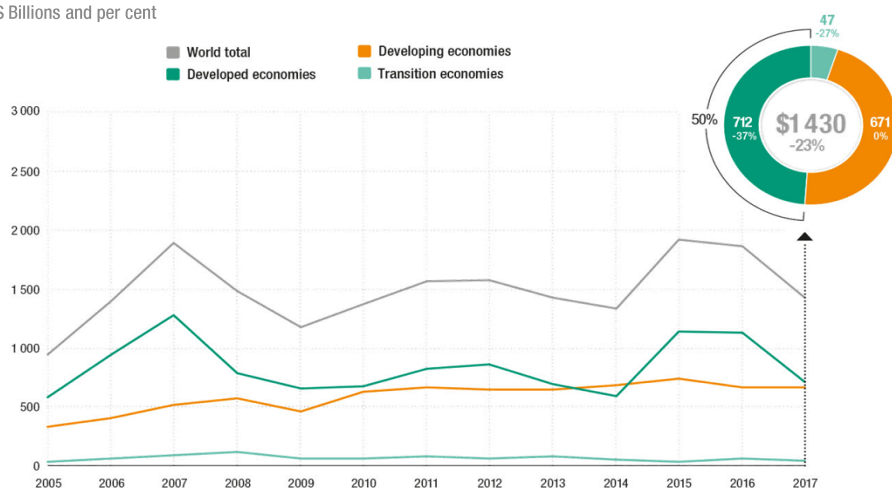
## Global and Regional FDI Trends

*Global FDI flows fell by 23 per cent to \$1.43 trillion in 2017. This is in stark contrast to growth in GDP and trade.*

### Global FDI flows fell by 23 per cent to \$1.43 trillion

FDI inflows, global and by group of economies, 2005-2017

\$ Billions and per cent



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Source: UNCTAD WIR 2018.

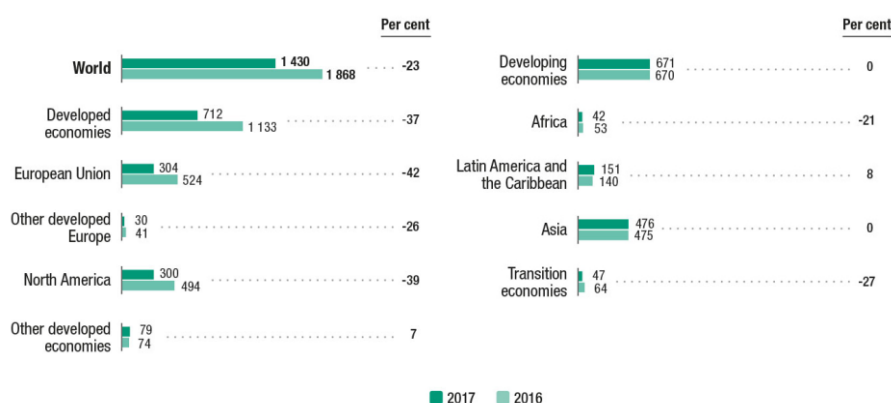


The fall was caused in part by a 22 per cent decrease in the value of cross-border mergers and acquisitions (M&As). But even discounting the large one-off deals and corporate restructurings that inflated FDI in 2016, the decline remained significant. The value of announced greenfield investment – *an indicator of future trends* – also decreased by 14 per cent.

### The decline was mostly concentrated in developed countries

FDI inflows, by region, 2016-2017

\$ Billions and per cent



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Source: UNCTAD WIR 2018.



*FDI flows to developing economies remained stable at \$671 billion, seeing no recovery following the 10 per cent drop in 2016.*

- FDI flows to Africa continued to slide, down 21 per cent from 2016. The decline was concentrated in the larger commodity exporters.
- Flows to developing Asia remained stable. The region regained its position as the largest FDI recipient in the world.

- FDI to Latin America and the Caribbean rose 8 per cent, lifted by the region's economic recovery. This was the first rise in six years.
- FDI in structurally weak and vulnerable economies remained fragile. Flows to the least developed countries fell by 17 per cent.

*Inward FDI flows to developed economies fell sharply, by 37 per cent.* The decrease was in large part the effect of a return to prior levels in the United Kingdom and the United States, after anomalous spikes in 2016 caused by megadeals and corporate restructurings.

*FDI flows to transition economies declined by 27 per cent to the second lowest level since 2005.* The decline reflects geopolitical uncertainties and sluggish investment in natural resources.

### A decrease in rates of return is a key contributor to the investment downturn

Inward FDI rates of return, 2012-2017

Per cent

Region	2012	2013	2014	2015	2016	2017
<b>World</b>	<b>8.1</b>	<b>7.8</b>	<b>7.9</b>	<b>6.8</b>	<b>7.0</b>	<b>6.7</b>
<b>Developed economies</b>	<b>6.7</b>	<b>6.3</b>	<b>6.6</b>	<b>5.7</b>	<b>6.2</b>	<b>5.7</b>
<b>Developing economies</b>	<b>10.0</b>	<b>9.8</b>	<b>9.5</b>	<b>8.5</b>	<b>8.1</b>	<b>8.0</b>
Africa	12.3	12.4	10.6	7.1	5.4	6.3
Asia	10.5	10.8	10.6	9.9	9.5	9.1
East and South-East Asia	11.5	11.8	11.7	11.0	10.3	10.1
South Asia	7.2	6.7	6.1	5.5	6.4	5.7
West Asia	5.5	5.4	4.9	4.6	4.6	3.4
Latin America and the Caribbean	7.9	6.7	6.6	5.2	5.3	5.6
<b>Transition economies</b>	<b>14.4</b>	<b>13.9</b>	<b>14.6</b>	<b>10.2</b>	<b>11.1</b>	<b>11.8</b>

Source: UNCTAD based on data from IMF Balance of Payments database.

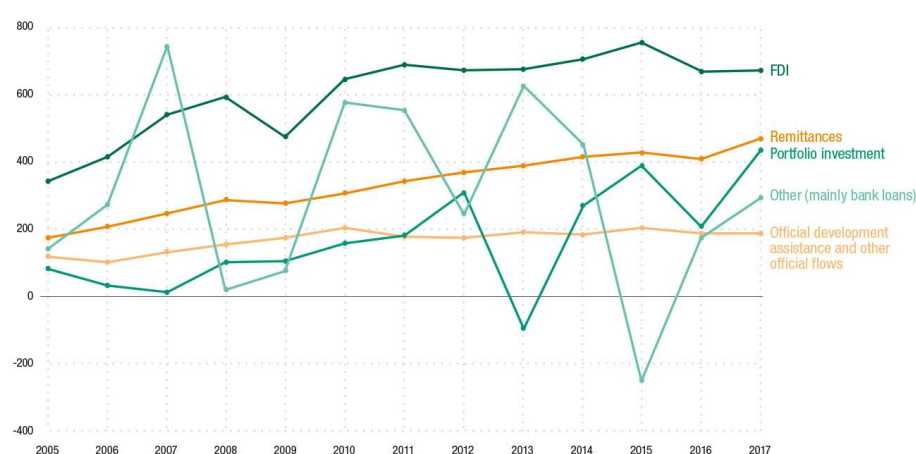
Note: Annual rates of return are measured as annual FDI income for year  $t$  divided by the average of the end-of-year FDI positions for years  $t$  and  $t - 1$  at book values.

*A decrease in rates of return is a key contributor to the investment downturn.* The global average return on foreign investment is now at 6.7 per cent, down from 8.1 in 2012. Return on investment is in decline across all regions, with the sharpest drops in Africa and in Latin America and the Caribbean. The decline can be explained in part by lower commodity prices, but structural factors are also playing a role. The lower returns on foreign assets could affect longer-term FDI prospects.

### FDI remains the largest external source of finance for developing economies

Sources of external finance, developing economies, 2005-2017

\$ Billions



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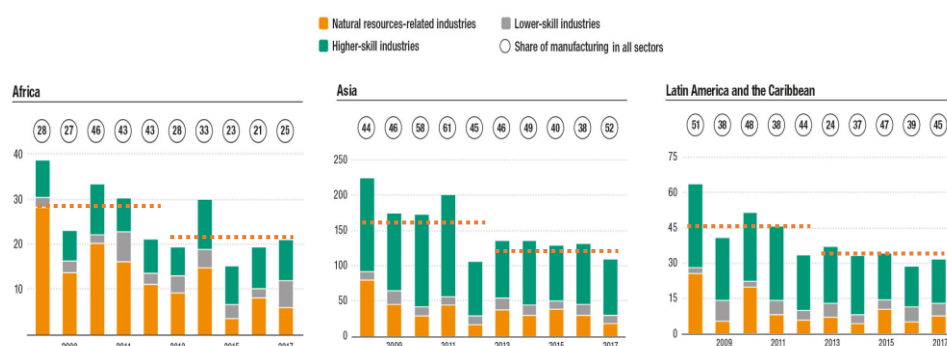


*Lower FDI is an important development concern. FDI remains the largest external source of finance for developing economies.* It makes up 39 per cent of total incoming finance in developing economies as a group, but less than a quarter in the LDCs, with a declining trend since 2012.

## Manufacturing greenfield projects in decline?

Value of announced greenfield projects in manufacturing, 2008-2017

\$ Billions and per cent



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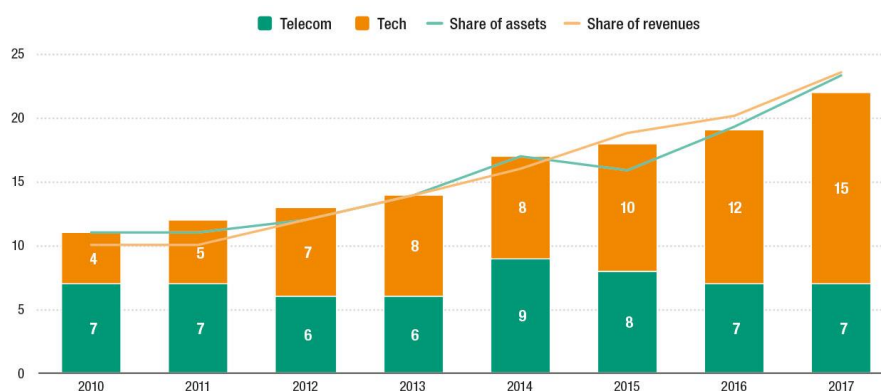
More importantly, FDI is more than a source of finance for development. Over the past five years, the level of *greenfield projects in manufacturing has been consistently lower* than in the preceding five-year period across all developing regions. This has important implications for industrial development.

*The negative trend is causing a slowdown in the rate of expansion of international production.* The modalities of international production and of cross-border exchanges of factors of production are gradually shifting from tangible to intangible forms. One indicator of this trend is the growth in the number of digital MNEs in our annual ranking of the Top 100. There are now 15 tech companies in the Top 100 global MNEs, up from just 4 in 2010.

## Tech MNEs in the Top 100 continue to increase

ICT MNEs in UNCTAD's Top 100 MNEs, 2010-2017

Number of companies and share of assets and revenues



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Our international production statistics also confirm the trend towards intangible forms. Sales of foreign affiliates continue to grow but physical assets and employees are increasing at a slower rate. This could negatively affect the prospects for developing countries to attract investment in productive capacity.

*The slowdown also impacts growth in global value chains, which has stagnated.* Foreign value added in global trade (i.e., the imported goods and services incorporated in countries' exports, and the key measure of GVCs) peaked in 2010–2012 after two decades of continuous increases. UNCTAD's latest GVC data shows foreign value added down 1 percentage point to 30 per cent of trade in 2017.

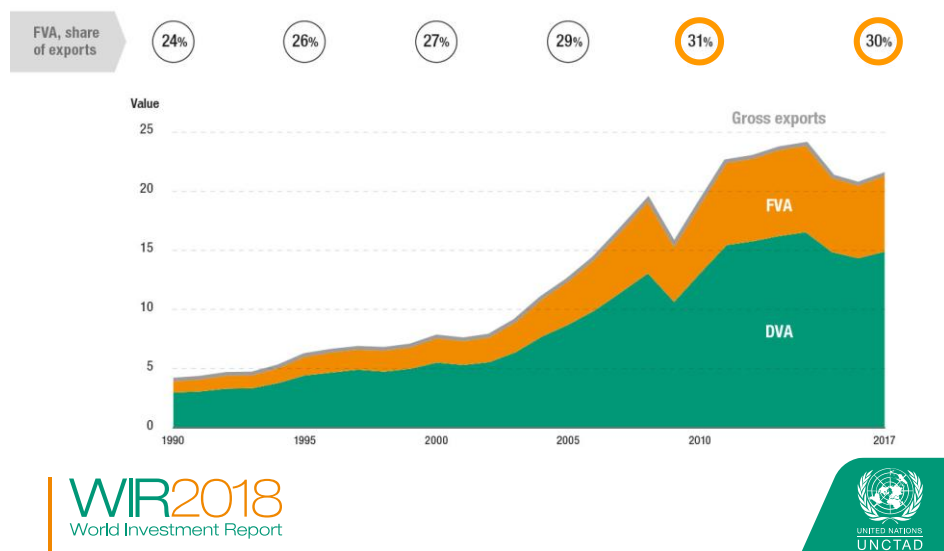
Growth in GVC participation decreased significantly this decade compared with the last, across all regions, developed and developing.

The GVC slowdown shows a clear correlation with the FDI trend and confirms the impact of the FDI trend on global trade patterns.

## Growth in GVCs has stagnated

Value added in trade, 1990-2017

\$ Trillions and per cent

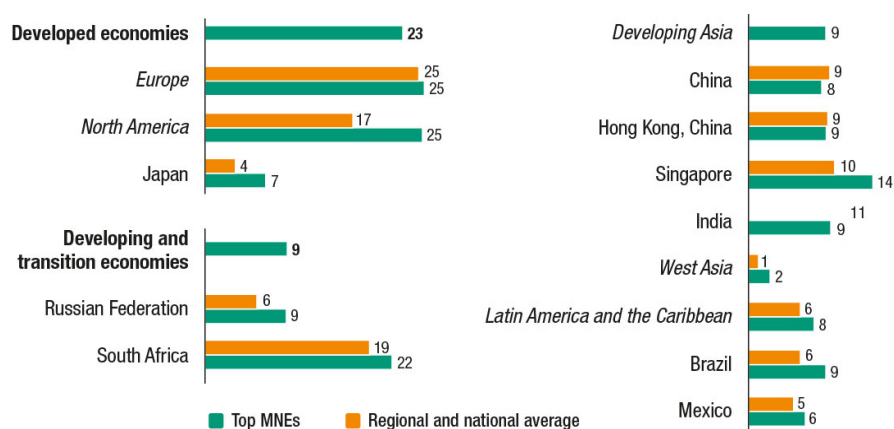


*On a positive note, MNEs in the global Top 100 and the developing-country Top 100 are leading the way towards more gender-balanced boardrooms, although they still have a distance to go. On average 22 per cent of board members of the Top 100s are women, better than both the S&P average and national averages.*

## Top 100 MNEs lead on more gender-balanced boardrooms

Board seats held by women, top MNEs, regional and national averages

Per cent



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*Projections for global FDI in 2018 are highly uncertain.* Higher economic growth projections, trade volumes and commodity prices would normally point to a potential increase in global FDI in 2018. However, risks are significant, and policy uncertainty abounds. Escalation and broadening of trade tensions could negatively affect investment in global value chains. Early indications, based on first quarter data, shows significant repatriations of funds from United States Foreign Affiliates, which will have implications for global investment positions.



## Investment Policy Developments

Now let us move to trends in national and international investment policies.

*At the National level, many countries continued policy efforts aimed at attracting FDI.* In 2017, 84 per cent of new formal investment policy measures were favourable to investors. Countries liberalized entry conditions in a number of industries. They also promoted and facilitated investment by simplifying administrative procedures, providing incentives and establishing new special economic zones (SEZs).

### Most policy measures favourable to investors

Changes in national investment policies, 2003-2017

Per cent



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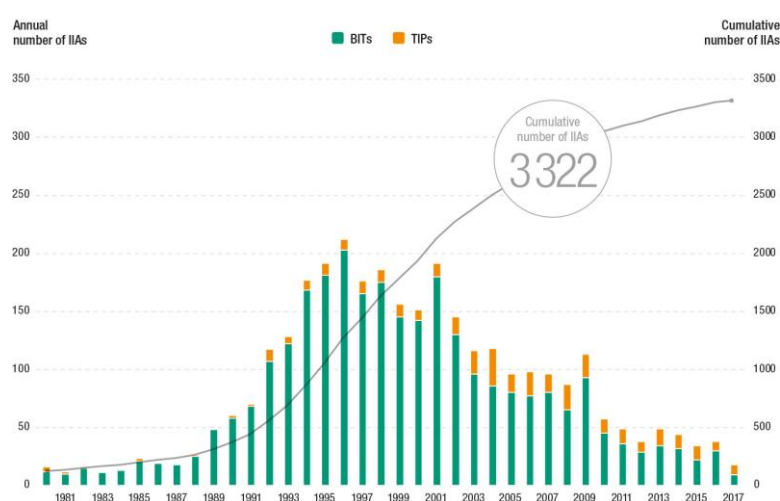


*But, recently, an increasing number of countries have taken a more critical stance towards foreign investment.* Some countries have heightened scrutiny of foreign takeovers, in particular of strategic assets and technology firms. Several countries are considering tightening investment screening procedures.

At the International level, Investment treaty making has reached a turning point. The number of new international investment agreements (IIAs) concluded in 2017 (18) was the lowest since 1983. Moreover, for the first time, the number of effective treaty terminations was higher than the number of new IIAs.

## Investment treaty making at a turning point

Trends in IIAs signed, 1980-2017



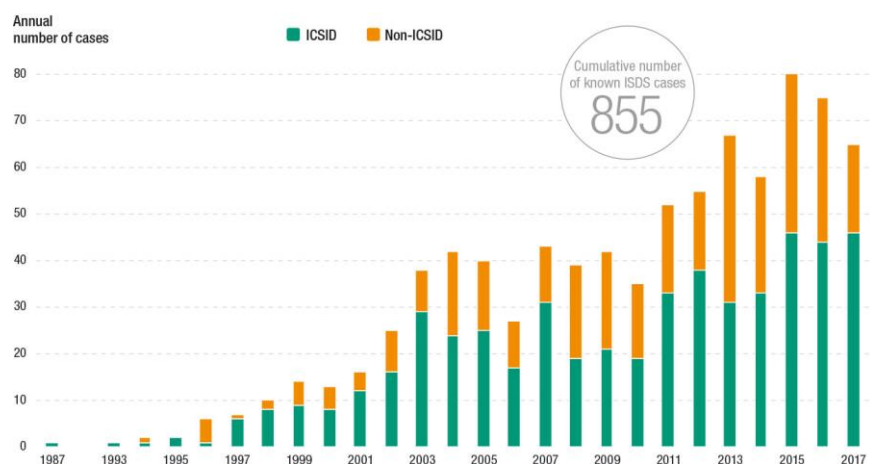
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The number of new Investor-State dispute settlement (ISDS) claims remains high. In 2017, at least 65 new treaty-based ISDS cases were initiated, bringing the total number of known cases to 855. By the end of 2017, investors had won about 60 per cent of all cases that were decided on the merits.

## The number of new ISDS claims remains high

Trends in known treaty-based ISDS cases, 1987-2017



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*IIA reform is well underway.* Since 2012, over 150 countries have taken steps to formulate a new generation of sustainable development-oriented IIAs. Some have reviewed their treaty networks and revised their treaty models in line with UNCTAD's Reform Package for the International Investment Regime.

*Countries are also beginning to modernize the existing stock of old-generation treaties.* An increasing number of countries are, for example, issuing interpretations or replacing their older agreements.

After improving the approach to new treaties and modernizing existing treaties, the last step in the reform process (Phase 3) is to make sure that national investment laws and other bodies of international law are not out of sync with reforms in IIAs.

## Investment and new industrial policy

### Industrial policies have become ubiquitous

Industrial policies adopted since 2008



*Industrial policies have become ubiquitous.* A global survey of industrial policies shows that, over the past 10 years, at least 101 economies across the developed and developing world (accounting for more than 90 per cent of global GDP) have adopted formal industrial development strategies. The last five years have seen an acceleration in the formulation of new strategies.

*The survey shows that modern industrial policies are increasingly diverse and complex.* They aim to address new themes, such as GVC integration and upgrading, development of the knowledge economy, build-up of sectors linked to sustainable development goals and competitive positioning for the new industrial revolution (NIR).

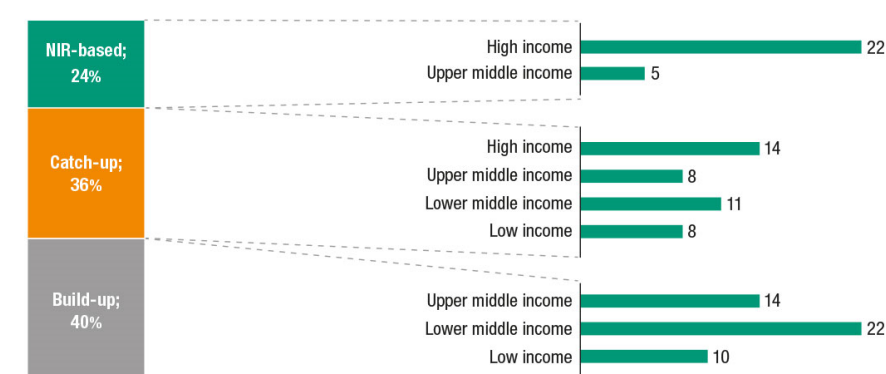
*UNCTAD's survey groups industrial policies into three categories: build-up, catch-up and NIR-based strategies.*

Some 40 per cent of industrial development strategies contain vertical policies for the build-up of specific industries. Just over a third focus on horizontal competitiveness-enhancing policies designed to catch up to the productivity frontier. And a quarter focus on positioning for the new industrial revolution.

### Three categories: build-up, catch-up and NIR-based strategies

#### Recent industrial policy models

Share of sample (per cent) and number per country grouping

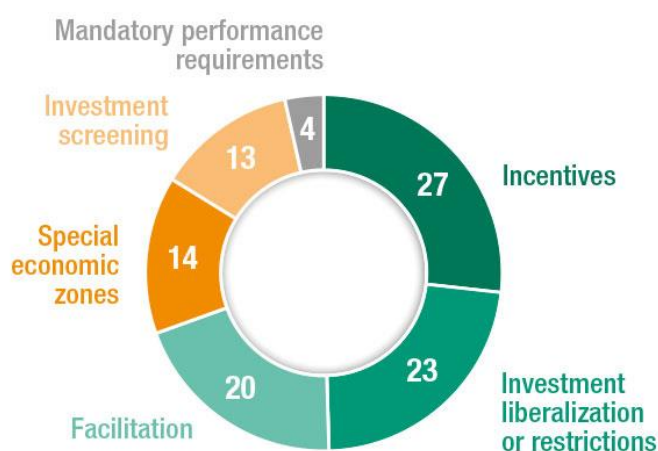


*90 per cent of modern industrial policies stipulate detailed investment policy tools, mainly incentives and performance requirements, SEZs, investment promotion and facilitation and, increasingly, investment screening mechanisms. Investment policy packages across the three models use similar investment policy instruments with different focus and intensity.*

## Modern industrial policies drive investment policy trends

Investment policy measures for industrial policy purposes, by type, 2010-2017

Per cent of total (n=387)



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*Modern industrial policies are thus a key driver of investment policy trends.* In fact, more than 80 per cent of investment policy measures recorded since 2010 are directed at the industrial system, and about half of these clearly serve an industrial policy purpose.

*Incentives remain the tool most commonly used for industrial policy.* About two-thirds of incentives schemes applicable to manufacturing target specific areas of industry, and horizontal schemes tend to focus on activities such as research and development (R&D), or on other industrial development contributions. Performance requirements are also widely used to maximize MNE contributions to industrial development.

*SEZs continue to proliferate and diversify.* In most countries, the transition from pure export processing zones to value added zones continues, and new types of zones are still emerging.

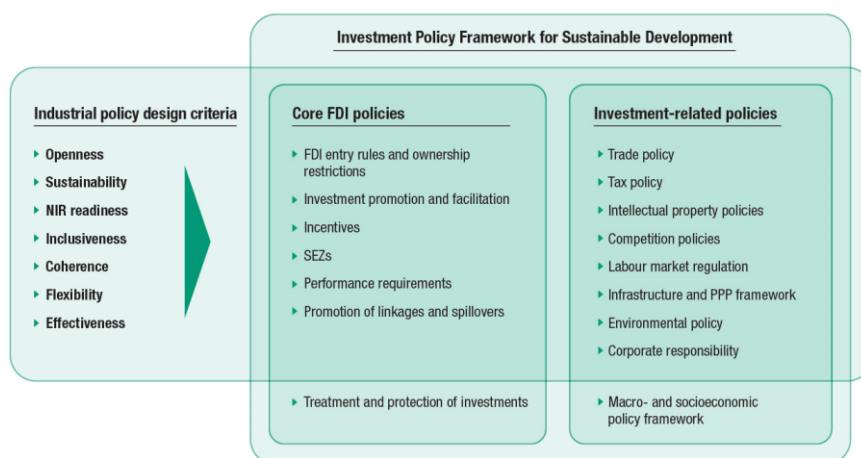
High-tech zones or industrial parks are also becoming a key tool for NIR-driven industrial policies.

*Modern industrial policies have boosted investment facilitation efforts.* Many developing countries have made investment facilitation one of the key horizontal measures in industrial development strategies. Targeted investment promotion also remains important: two-thirds of investment promotion agencies are guided by industrial policies in defining priority sectors for investment promotion, and three-quarters have specific promotional schemes to upgrade technology in industry.

*Investment screening procedures are becoming more common.* Most investment policy measures adopted over the past decade have removed or relaxed foreign ownership restrictions, but entry rules – or rather procedures – have been tightened in some cases through new screening processes or requirements, especially in industries considered strategic sensitive

*In summary, investment policies (in particular FDI policies) are a key instrument of industrial policies.* Different industrial policy models imply a different investment policy mix. Build-up, catch-up and NIR-based industrial policies emphasize different investment policy tools and focus on different sectors, economic activities and mechanisms to maximize the contribution of investment to the development of industrial capabilities.

## Investment policy choices should be guided by industrial policy inspired design criteria



Modern industrial policies, share a few design features that distinguish them from previous generations of industrial policies. These include openness, sustainability, NIR readiness and inclusiveness. *Investment policy choices should be guided by these design criteria, and by the need for policy coherence, flexibility and effectiveness.*

In line with these developments, countries need to ensure that their investment policy instruments are up-to-date. Policy options include re-orienting investment incentives, modernizing SEZs, retooling investment promotion and facilitation, and crafting smart mechanisms for screening foreign investment. The new industrial revolution thus requires a strategic review of investment policies for industrial development.