World Investment Report 2010

Investing in a Low-Carbon Economy

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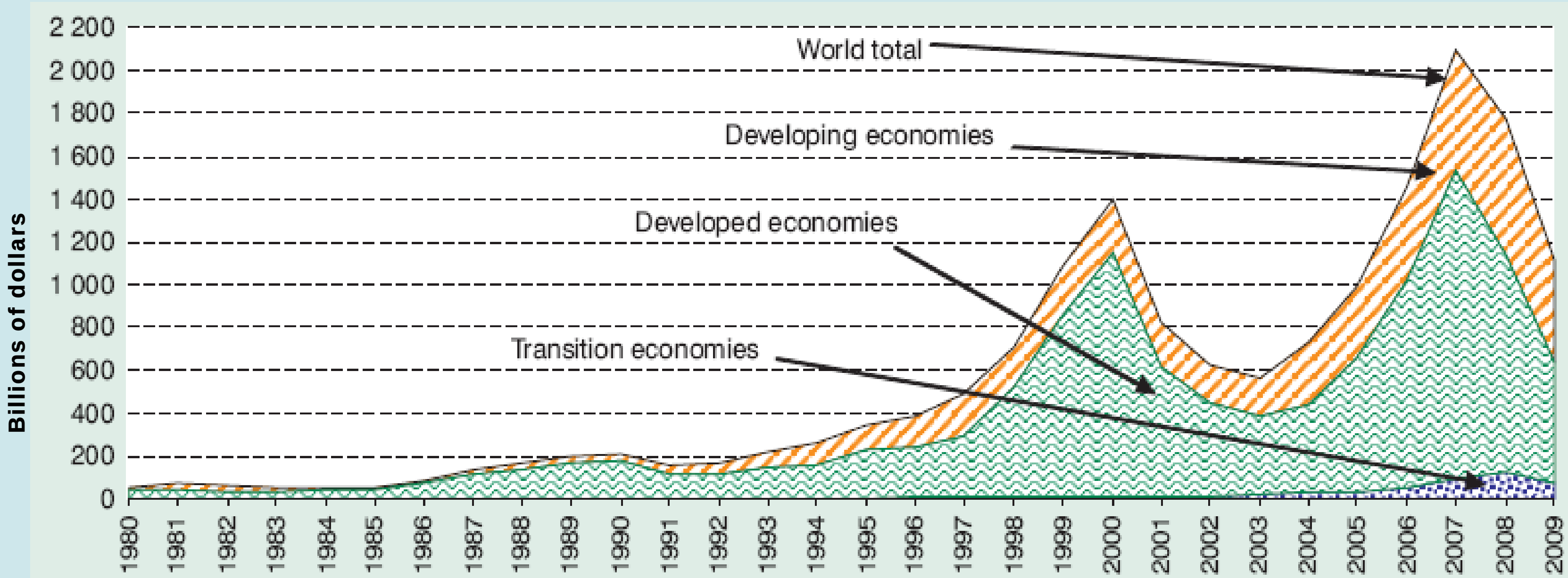
Key messages: FDI trends and prospects

- Global FDI witnessed a modest and uneven recovery in the first half of 2010.
- Cautious optimism in short-term: a modest recovery; optimism in the medium-term; regain growth momentum.
- Developing and transition economies attracted half of global FDI, and invested one quarter of global outflows.
- They are leading the FDI recovery and will remain favorable destinations for FDI.

Global FDI inflows declined further in 2009...

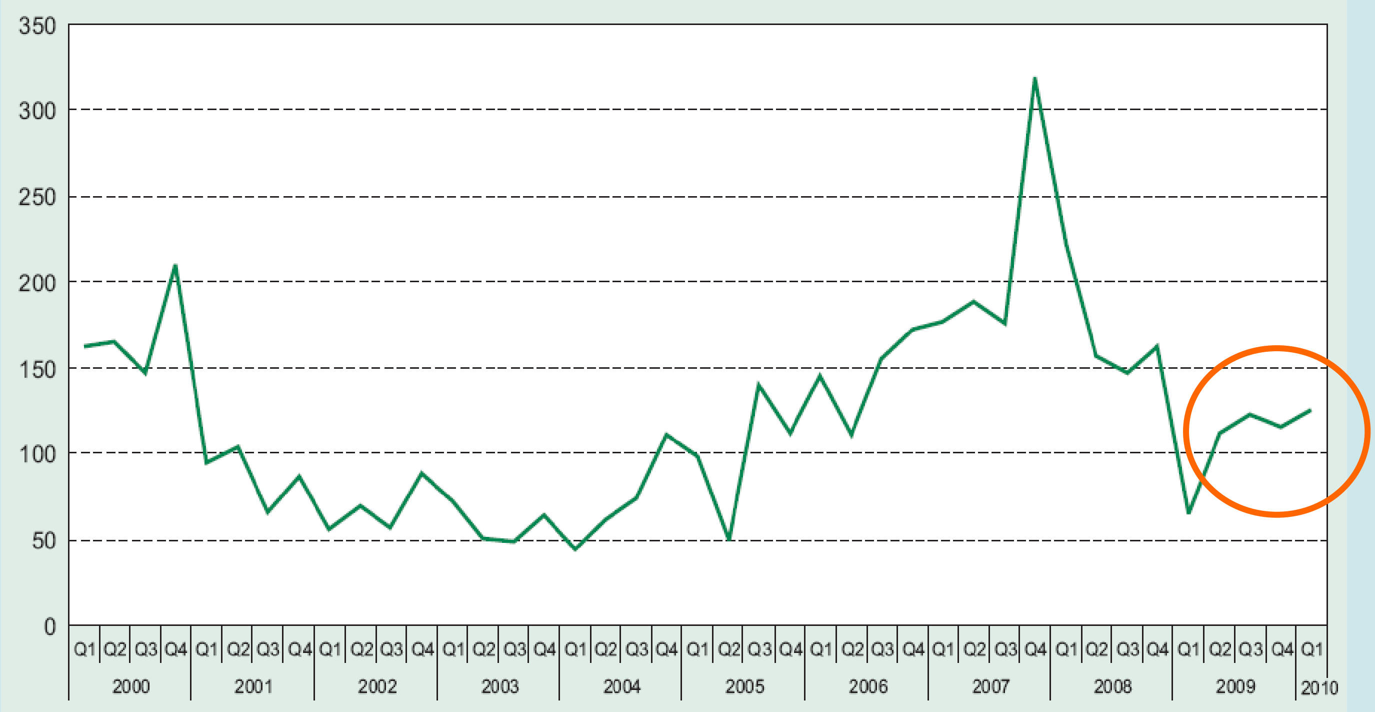


Details for 2009:

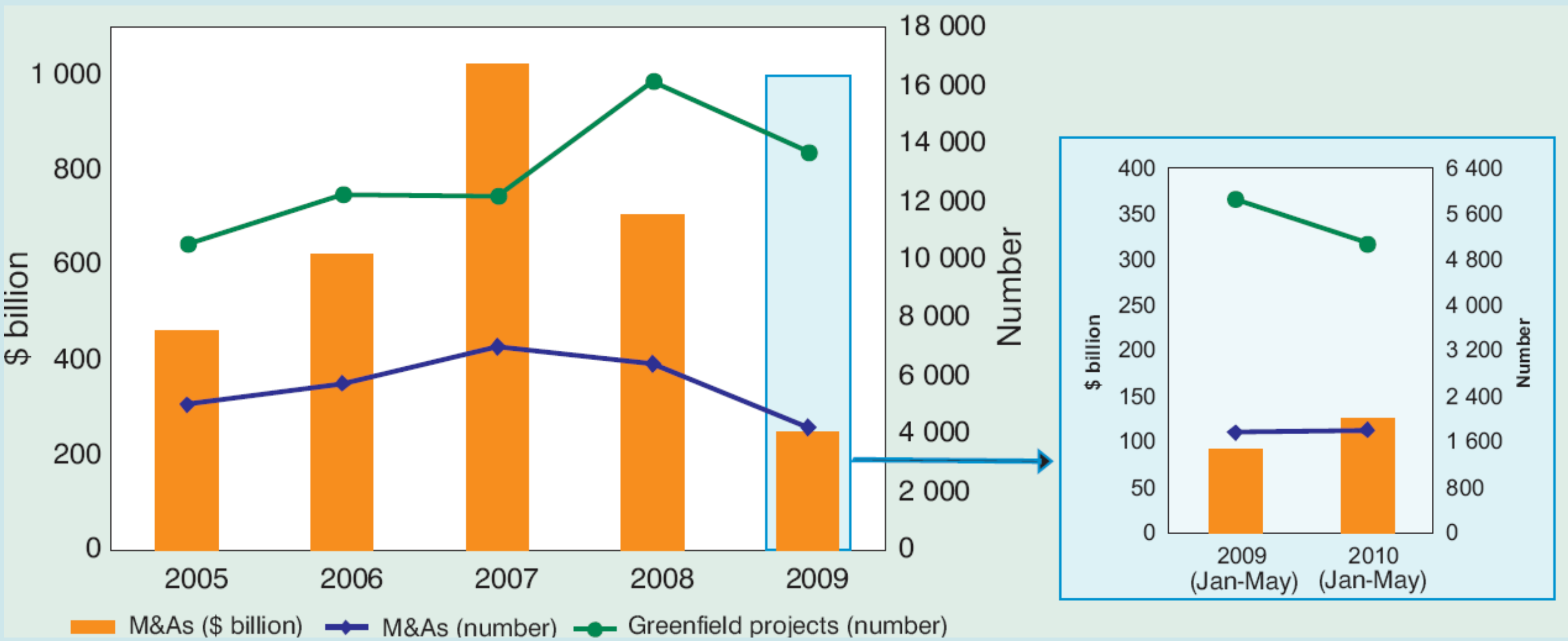
- ❑ Developed: $566 billion, 44% decline
- ❑ Transition (South-East Europe and the CIS): $70 billion, 43% decline
- ❑ Developing: $478 billion, 24% decline
- ❑ Africa: $59 billion, 19% decline
- ❑ LAC: $117 billion, 36% decline
- ❑ South, East, and South-East Asia: $233 billion, 17% decline
- ❑ West Asia: $68 billion, 24% decline

…but they bottomed out in the latter half of 2009, followed by a modest recovery in the first half of 2010.

UNCTAD Global FDI Quarterly Index
(Base 100: quarterly average of 2005)

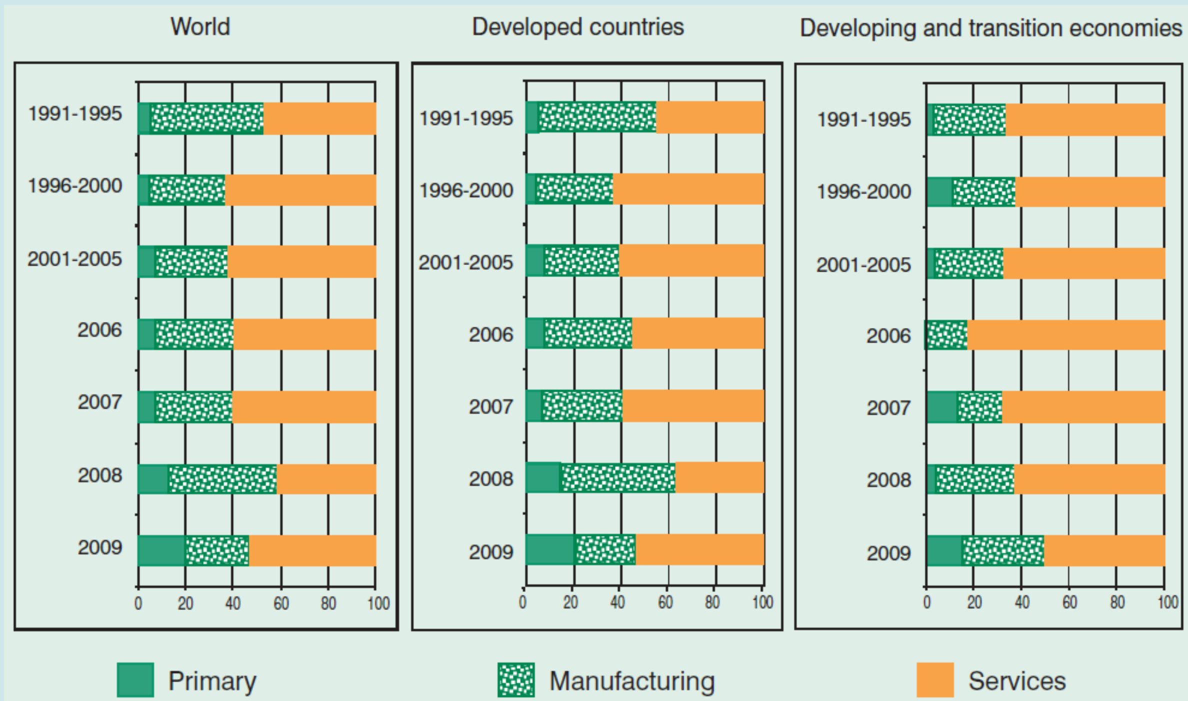


Cross-border M&As experienced a faster recovery, while greenfield investments were more resilient during the crisis

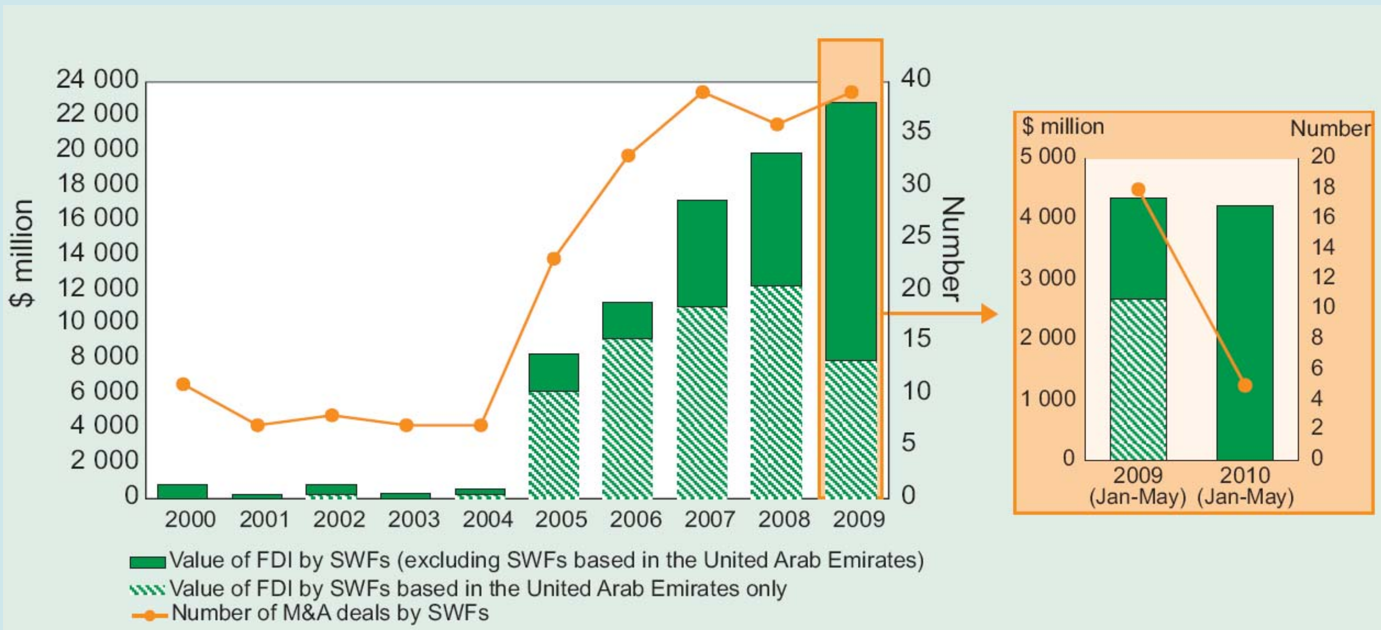


Services and the primary sector continue to capture an increasing share of FDI

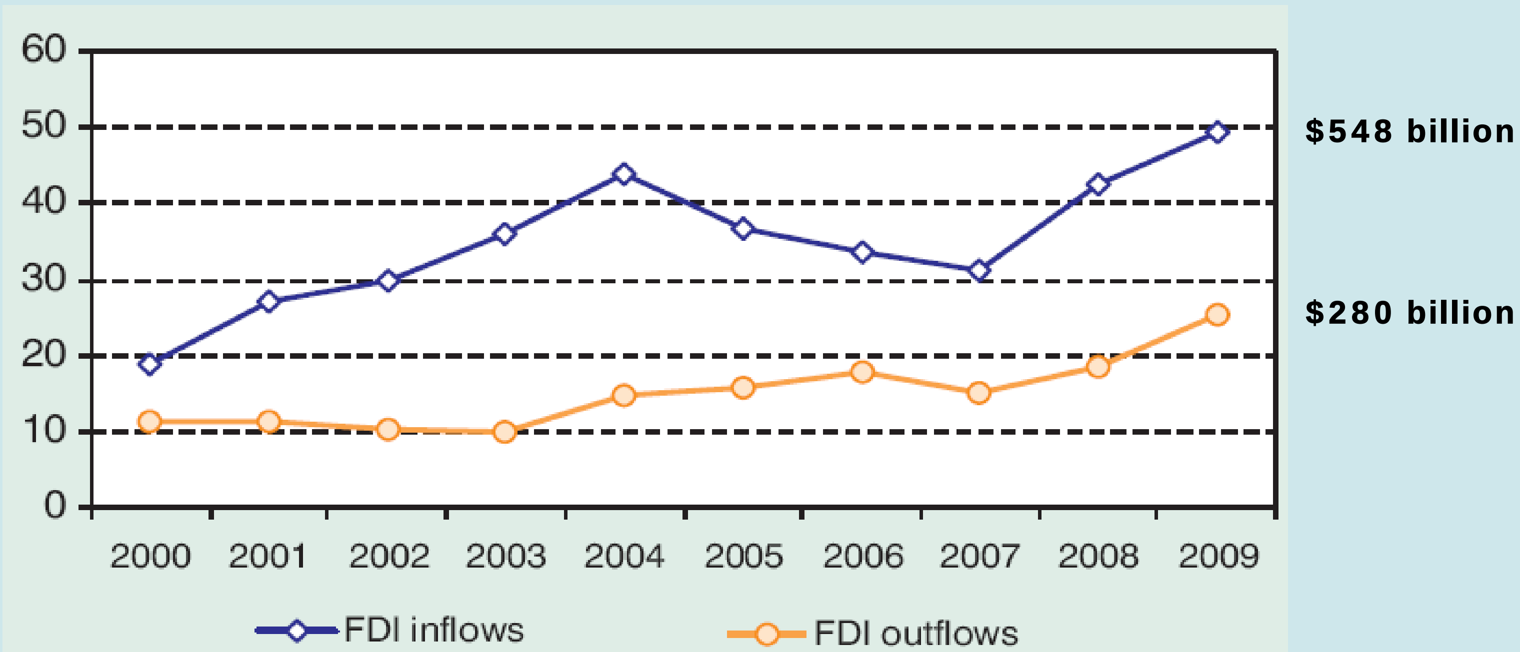
Sectoral distribution of cross-border M&As, 1990-2009



FDI by sovereign wealth funds was resilient during the crisis



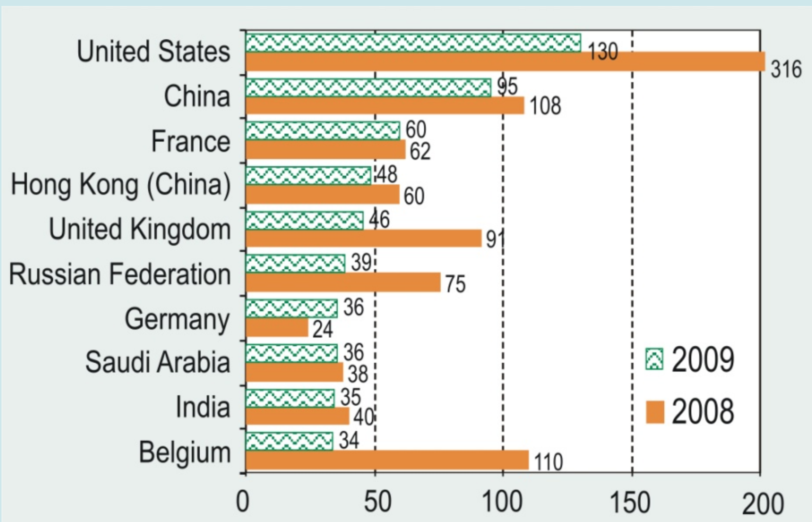
Developing and transition economies share half of global FDI inflows and a quarter of outflows…



…ranking high among top destinations and investors.

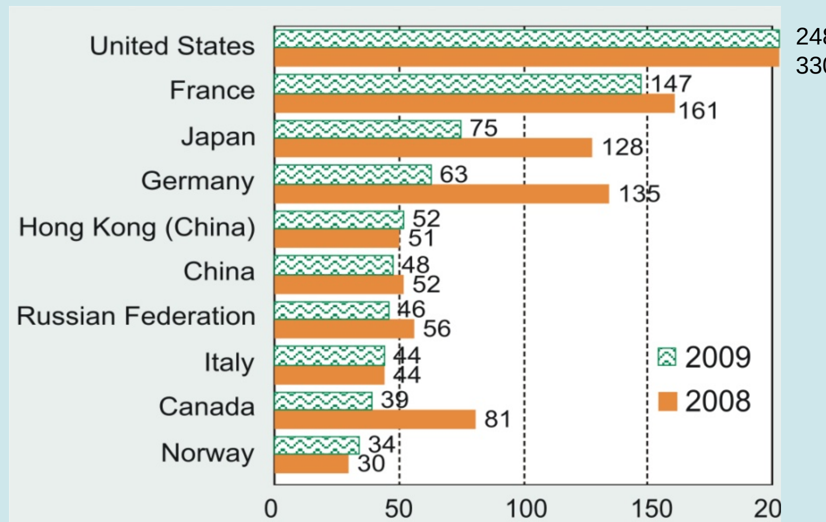
Top 10 *host* economies of FDI

(Billions of dollars)



Top 10 *home* economies for FDI

(Billions of dollars)



The evolution and role of FDI varies among regions

FDI flows, by region, 2007–2009
(Billions of dollars)

Region	FDI inflows			FDI outflows		
	2007	2008	2009	2007	2008	2009
World	2 100	1 771	1 114	2 268	1 929	1 101
Developed economies	1 444	1 018	566	1 924	1 572	821
Developing economies	565	630	478	292	296	229
Africa	63	72	59	11	10	5
Latin America and the Caribbean	164	183	117	56	82	47
West Asia	78	90	68	47	38	23
South, East and South-East Asia	259	282	233	178	166	153
South-East Europe and the CIS	91	123	70	52	61	51
Structurally weak, vulnerable and small economies [a]	42.5	62.1	50.5	5.3	5.8	4.2
LDCs	26	32	28	2	3	1
LLDCs	16	26	22	4	2	3
SIDS	5	8	5	0	1	0

[a] Without double counting as a number of countries belong to two of these three groups.

Africa: The rise of new sources of FDI

Asia: Industrial upgrading assisted by FDI is spreading to more industries and more countries

Latin America: Region's TNCs are going global (in contrast to a more intra-regional strategy in the past)

Transition economies: Foreign banks have played a stabilizing role in parts of South-East Europe, but their large scale presence also raises potential concerns.

Developed countries: High levels of unemployment in developed countries have triggered concerns about the impact of outward investment on employment at home.

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Overcoming barriers to attracting FDI remains a key challenge for *small, vulnerable and weak economies*

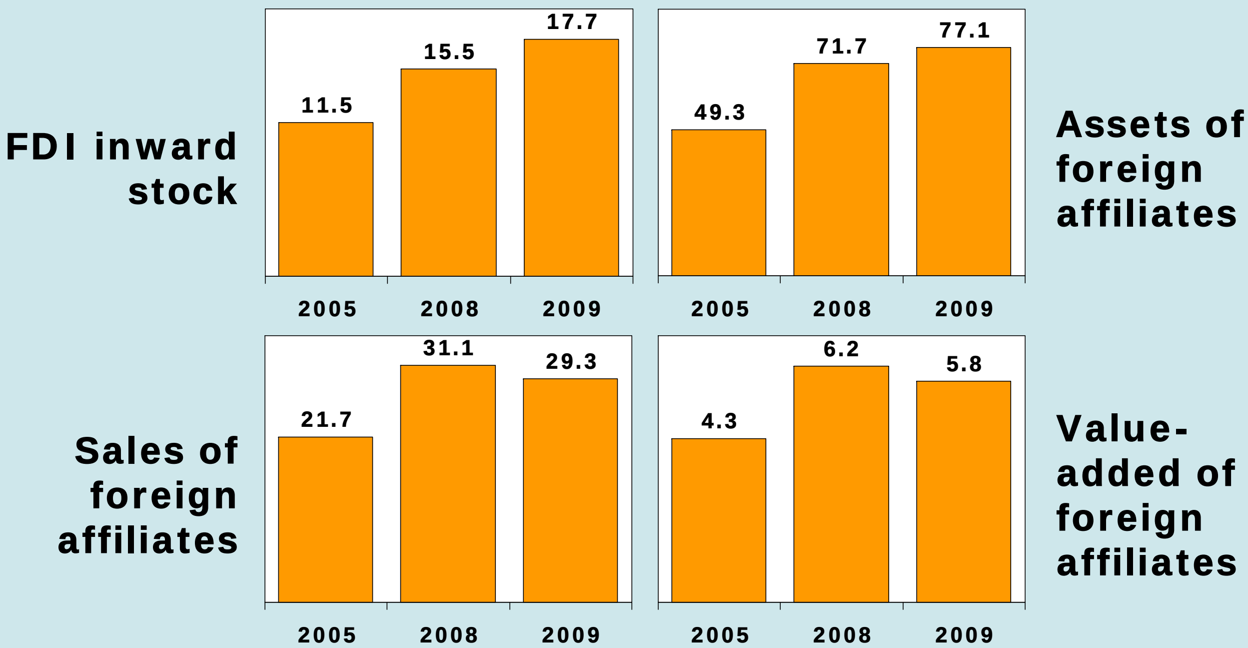
LDCs: ODA can act as a catalyst for boosting the role of FDI.

LLDCs: To succeed in attracting FDI they need to shift their strategy to focus on distance to markets rather than distance to ports.

SIDS: Focusing on key niche sectors is crucial if they are to succeed in attracting FDI.

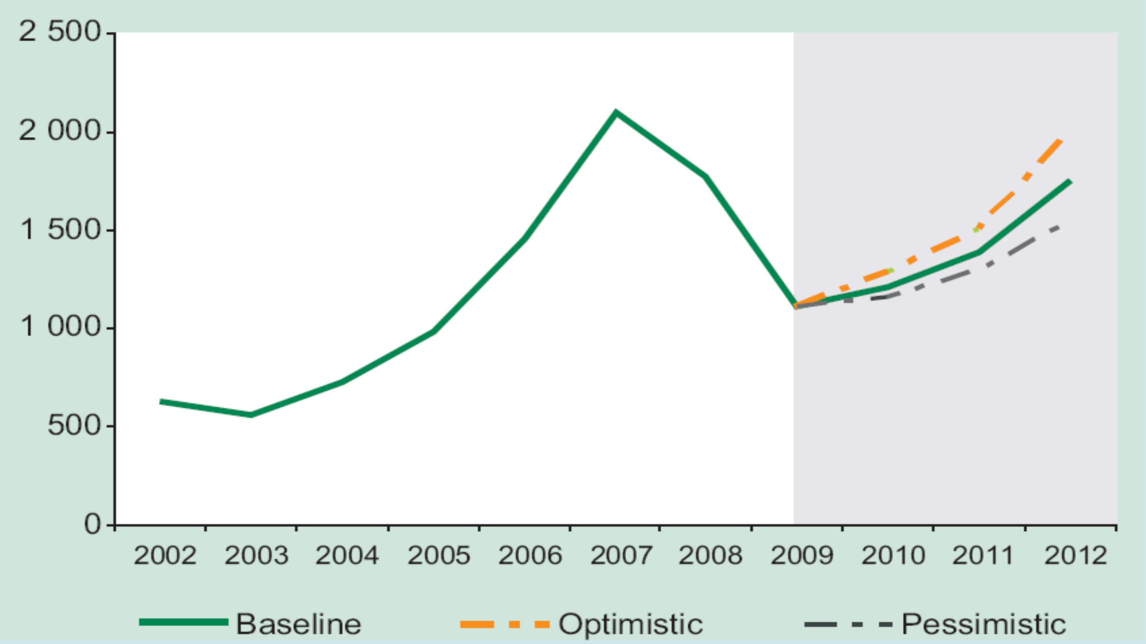
FDI stock and assets continued to increase despite the toll taken by the crisis on TNCs' sales and value added

Selected indicators of FDI and international production
(Trillions of dollars)



Prospects for global FDI: cautious optimism in the short-term and regaining momentum in the medium term

Global FDI flows, 2002-2009, and projections for 2010–2012
(Billions of dollars)



2010: $1.2 trillion

2011: $1.3–1.5 trillion

2012: $1.6–2 trillion

Key messages: Investment policy trends

- Dichotomy in investments policy trends
  - Further liberalization & promotion of FDI in response to intensified competition for FDI
  - Regulation in pursuit of broader policy objectives
- Rebalancing rights & obligations between investors and the state
  - At both national and international investment policy levels
- Impact of economic stimulus packages & state aid on FDI
  - So far no significant investment protectionism, but risk remains

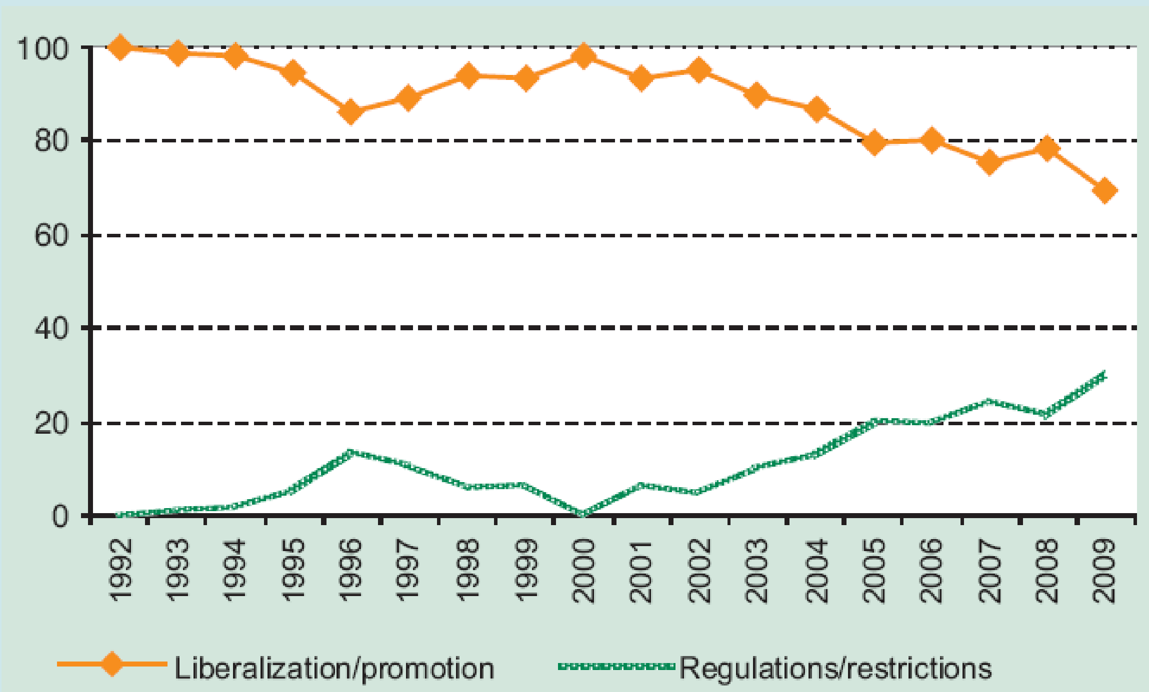
Key messages: Investment policy trends (continued)

- The multifaceted & multilayered network of international investment agreements (IIAs)
  - Rapidly growing body of law
  - Emerging trend of consolidation at the regional level
  - Emerging trend of rebalancing within the IIA regime
  - Efforts to improve coherence (within the IIA regime & between the IIA regime & other regulatory frameworks)

- Nationally & internationally
  - Closer interaction between investment & other policies

National policy developments: increasing regulation with continued liberalization

National Policy changes 1992–2009 (per cent)



Liberalization/promotion:

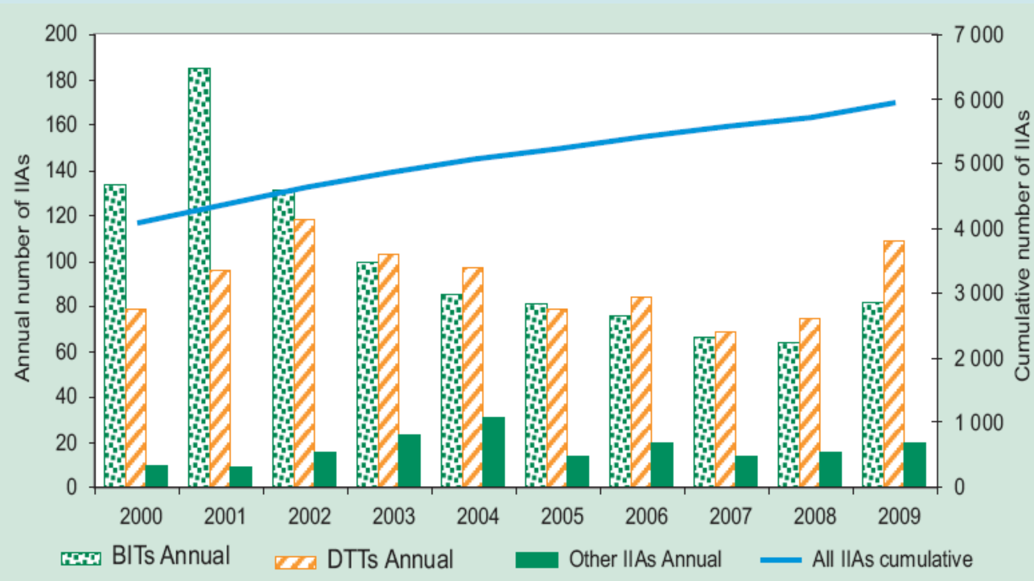
98% in 2000 to
70% in 2009 of changes

Regulations/restrictions:

2% in 2000 to
30% in 2009 of changes

The IIA regime is rapidly evolving

Growing number of BITs, DTTs & other IIAs



- IIAs
  - End of 2009: ~5,940 IIAs
  - 2009: ~4 new IIAs per week
- Arbitrations
  - End 2009: ~357 ISDS cases
  - 2009: ~32 new known cases
- Systemic evolution
  - Review of model BITs, termination and renegotiation of IIAs, modernization of IIA content, dispute prevention

The challenge for IIA stakeholders: *how to best harness the opportunity for a more coherent, balanced, development-friendly & effective regime*

Global challenges: impact on international investment

- **Food crisis** & Draft Principles for Responsible Agricultural Investment
  - A joint FAO/World Bank/UNCTAD/IFAD project
  - June 2010, G8 Declaration at Muskoka Summit calls on UNCTAD and sister agencies to continue on principles and other associated work
- **Financial crisis**
  - G8 summit in L'Aquila (2009)
    - ➔Predictability & stability in the int'l investment environment emphasized
  - G20 summit in Toronto (2010)
    - ➔Committed to refrain from trade and investment protectionism until 2013
  - Important monitoring role for UNCTAD and OECD

Global challenges: impact on international investment (continued)

- **Financial system reforms**
  - Ongoing reform discussions in G20
  - Short term: mixed impact on FDI
  - Long term: a healthier system can help long-term growth of FDI
  - Coherence between financial system and IIAs regime

Investing in a low-carbon economy
(focus of WIR10)
Key messages

- TNCs are both part of the problem and the solution. They can offer low-carbon investment and technology.

- Low-carbon FDI is already large and its potential is huge

- “Carbon leakage” is a concern, but instead of dealing with it at the border it could be addressed at source, e.g. working through corporate governance mechanisms

Investing in a low-carbon economy
Key messages (continued)

- Policy needs to maximize benefits and minimize costs associated with a move towards attracting low-carbon foreign investment

- UNCTAD proposes a global partnership with five major components:
  - Establishing clean-investment promotion strategies
  - Enabling the dissemination of clean technology: policy framework
  - Securing IIAs' contribution to climate change mitigation
  - Harmonizing corporate GHG emissions disclosure
  - Setting up an international low-carbon technical assistance center (L-TAC)

TNCs, foreign investment and climate change (focus of WIR10)

The global policy debate on tackling climate change is *no longer* about *whether* to take action. It is *now* about *how much* action to take and *which* actions need to be taken – and *by whom*.

- The current national and international policy frameworks are in flux and do not target private sector and TNC contributions sufficiently and effectively
- Low-carbon foreign investment can be leveraged better

Integrating international investment policies into the climate change framework is essential when designing the new post-2012 regime.

What is low-carbon foreign investment?

It is the transfer of technologies, practices or products by TNCs to host countries (through FDI and non-equity forms)

Low-carbon processes investments…

…reduce GHG emissions related to how products or services are produced. E.g. upgrading of TNC operations, and those of related firms along their global value chains.

Low-carbon products and services investments…

…lower GHG emissions through their use. E.g. electric cars, "power-saving" electronics and integrated mass transport systems, as well as rendering technology solutions by reengineering GHG-emitting processes in local companies.

Demand for low-carbon foreign investment

Emissions are classified into a number of sectors with which TNCs are related in different ways

Power and Industry	Transport, buildings, and waste management	Agriculture and forestry
Direct emissions occur in TNCs' foreign operations. Low-carbon *process* foreign investments required.	Emissions arise from the use of TNCs' products by consumers. Low-carbon *product and services* are in demand.	Emissions from changing land-use patterns. TNCs impact these emissions through their interaction with suppliers.

FDI in low-carbon business is growing rapidly…

- FDI flows in alternative/renewable electricity generation, recycling, and manufacturing of environmental technology products *alone* reached some $90 billion in 2009.
- Some 40% of low-carbon FDI projects, by value, during 2003–2009 were in developing countries.
- Established TNCs are major investors, but new players are also emerging.
- TNCs from other industries are expanding into low-carbon business areas.
- About 10% of identifiable low-carbon FDI projects in 2003–2009 were generated by TNCs from developing and transition economies, many targeting other developing countries.

… and its potential is huge.

- The continuing transition to a low-carbon economy requires huge *additional* investments in all sectors
- By 2030 additional investments to maintain GHG emissions at current levels are estimated to be in the region of **$1 trillion per annum** (with some variation depending on the methodology used).
- If FDI flows remain at the current level of 15% of global investments, an appreciable share of these additional investments will be by TNCs. Most likely the FDI share of global investments will be higher.
- TNCs also invest through non-equity modalities, such as build-own-operate and franchising arrangements – so low carbon foreign investment as a whole will be greater than low-carbon FDI alone.
- As developing countries take a greater share of global GDP, this will also be reflected in low-carbon foreign investment into the South

Some key drivers of TNCs low-carbon investment abroad

- Home market and trade conditions
  - Limited home markets for low-carbon products and services
  - Green branding strategies
- Home government policies
  - Incentives, tax and trade policies supporting overseas investment in low-carbon production
  - Specific environmental regulations
- Costs of production
  - High costs of salient skilled labour
  - High energy costs in home economy
- Business conditions
  - Public opinion or shareholder pressure encouraging low-carbon investments throughout global operations

What determines low-carbon investment locations?

Policy framework, economic determinants and business facilitiation

1 **General policy framework**
(Energy policy (renewables); environmental and climate change policies)

Economic Determinants (by motive)

2 **Market-seeking motives**
(Markets for low-carbon products, incl. energy)

3 **Natural resource-seeking motives**
(Access to sun, wind etc.; access to precious metals)

4 **Efficiency-seeking motives**
(Technology upgrades of affiliates)

5 **Strategic asset-seeking motives**
(Access to technology; participation in clusters)

6 **Business facilitation measures**
(Investment promotion, aftercare, incentives)

Choice of specific location based on these determinants

Weighing the pros and cons of low-carbon foreign investment for developing countries

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- **Investment and technology opportunities**
- **Strengthened productive capacity and export competitiveness**
- **Technological leapfrogging**
- **First-mover advantages**
- **Export opportunities**

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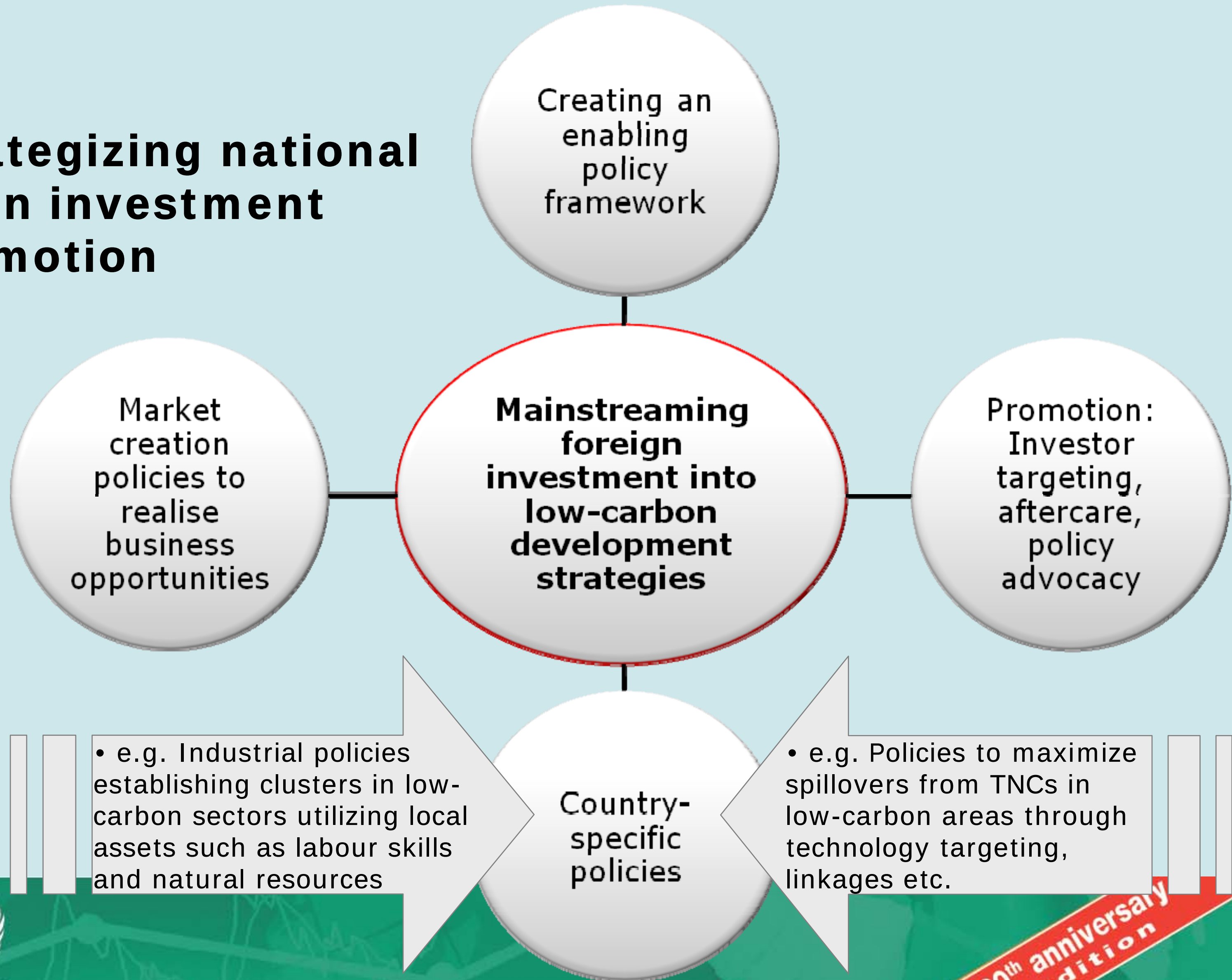
- **Crowding out of domestic companies**
- **Technological dependency**
- **Related social consequences**

- Need for country-specific policies to address these issues

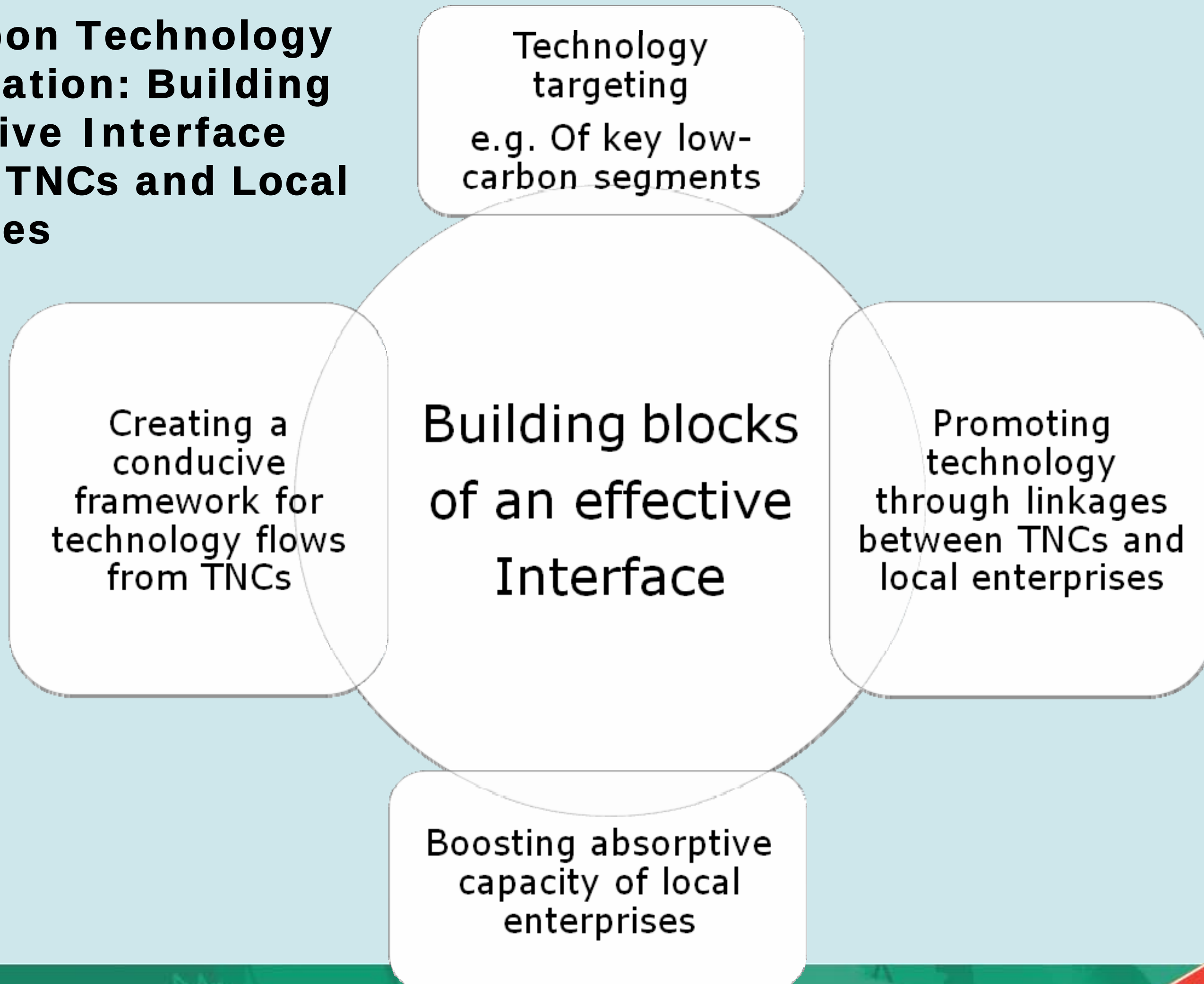
Minimizing the negative effects of low-carbon foreign investment

- In-depth understanding of opportunities and threats from low-carbon foreign investment
- Effective industrial and competition policies to tackle crowding-out of local enterprises and technological dependency
- Social policies to cushion employment and other social impacts
- *No one-size-fits-all*

Strategizing national clean investment promotion



Low-carbon Technology Dissemination: Building An Effective Interface Between TNCs and Local Enterprises



International investment agreements and climate change

The double-edged nature of IIAs

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IIAS can contribute to climate change mitigation by supporting government's endeavours to attract low-carbon FDI

Constraints on government policies: Investors hampered by domestic climate change measures may bring claims of violation of IIA provisions.

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Securing IIAs' contribution to climate change mitigation

- Introducing climate-friendly provisions into future IIAs (e.g. low-carbon inv. promotion elements, environmental exceptions)

Leveraging IIAs

- Creating a multilateral understanding to ensure coherence of IIAs with global & national climate change policies

Dealing with carbon leakage

- Concerns exist about carbon leakage
  - Impeding emission reduction efforts
  - Loss of home country-employment and tax revenues.

- The current debate focuses on border measures, but these have their problems. These include:
  - Technical problems of assessing carbon intensity;
  - Questioned consistency with WTO rules; and
  - Creating disincentives for investments into poor countries.

- Working through corporate governance mechanisms could address the issue at its source.

Harmonizing corporate GHG emissions disclosure

- A reliable internationally harmonized approach to measuring and reporting corporate GHG emissions
- Current climate-related management and reporting lacks comparability and usefulness
- Unifying the work of regulatory bodies, standard-setters and multi-stakeholder initiatives

International support for developing countries

Home-country measures: e.g. preferential investment and credit risk guarantees

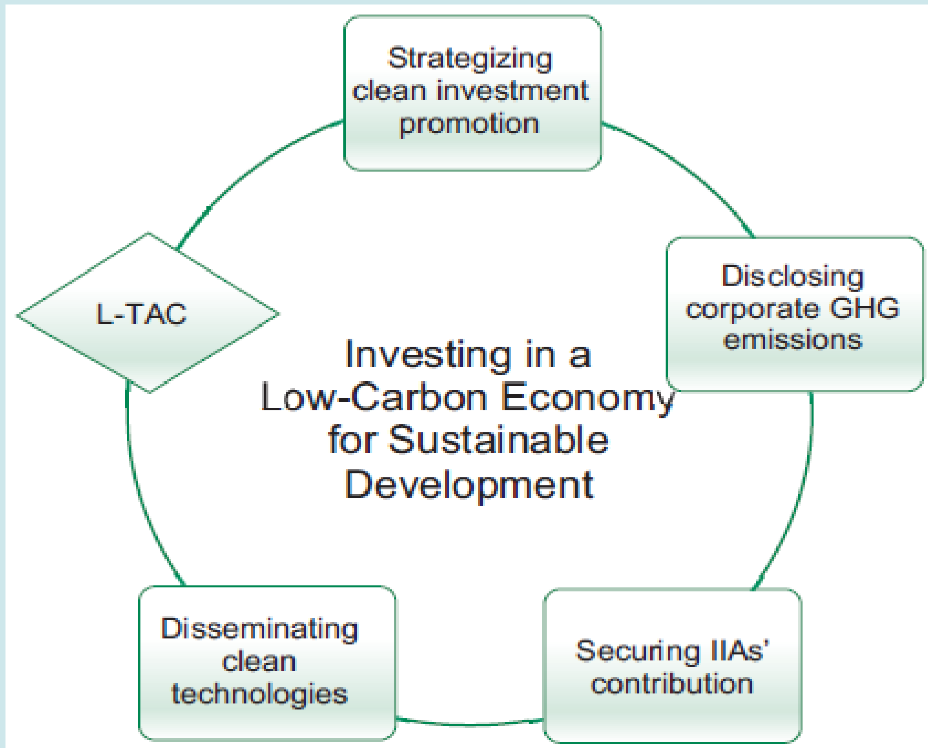
Developed country financial and technological support for low-carbon growth programmes

Developing countries leveraging low-carbon foreign investment

Int. financial institutions' should further public-private partnership

Establish a multi-agency supported low-carbon technical assistance centre

Global partnership for low-carbon investment: summation

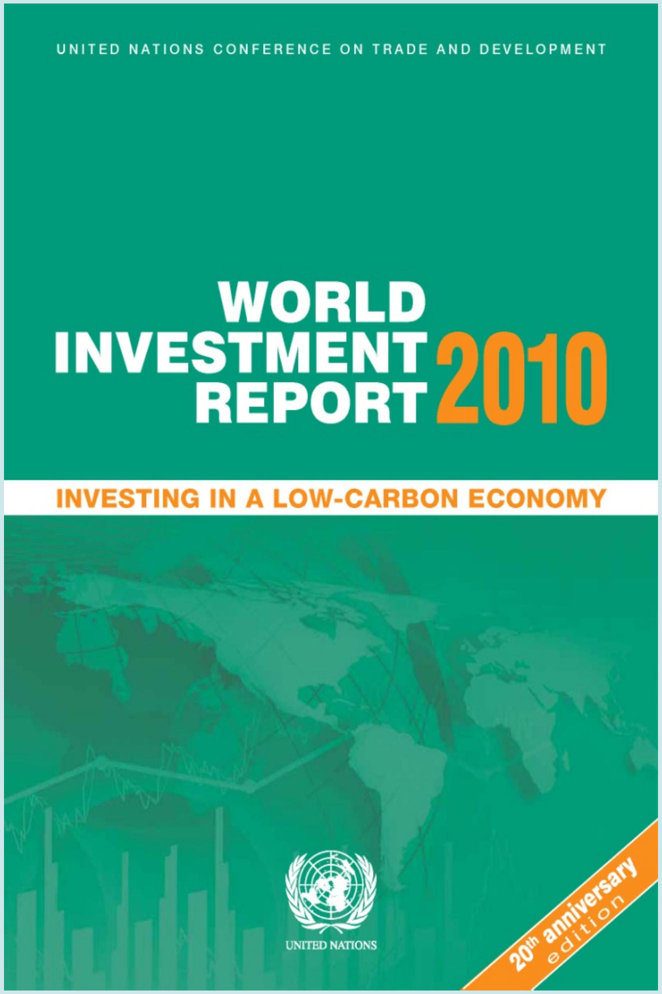


Investment *for* Development: Challenges Ahead

- Over 20 years since WIR 1991, the TNC universe has changed immeasurably:
  - The rise of integrated international networks
  - Widening use of non-equity modalities
  - A broader range and types of TNC players
- The evolving TNC universe and the emerging investment policy setting pose three sets of key challenges for investment *for* **development**:
  - The right policy balance
  - The critical interfaces between investment and poverty alleviation
  - The coherence between national and international investment policies, and between investment policies and other public policies.

Investment *for* Development: Building a Better World for All

- Policymakers and other stakeholders need to understand/manage the key interfaces between the TNC universe and the state
- A new investment-development paradigm is emerging
- A sound international investment regime that effectively promotes sustainable development is needed



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