

**EMBARGO**

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**Statement by  
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**World Investment Report 2010: Investing in a Low-Carbon Economy**

Geneva, 22 July 2010

*AS PREPARED FOR DELIVERY*

Ladies and Gentlemen,

I welcome you to the launch of the twentieth anniversary edition of the World Investment Report. This year's Report focuses on investing in a low-carbon economy: it examines, in particular, the role that transnational corporations can play in supporting the transition of developing countries to such an economy. The climate change negotiations in Copenhagen in 2009 centered on targets for emissions and the costs of climate change mitigation and adaptation. As UNCTAD reported in its Trade and Development Report last year, we believe that there are opportunities for developing countries offered by climate change adaptation. This year's WIR builds on that analysis and provides arguments for the role that the private sector can play in the process of adapting to a low-carbon economy.

In last year's WIR, we reported the continuation of a decline in global FDI flows, which began in the second half of 2008. This year's Report examines the latest trends in FDI flows and policies, especially as the global economy starts to emerge from the crisis, and contains two key messages:

- First, the outlook for FDI flows in the short to medium term is “cautiously optimistic”;
- Second, governments the world over are rebalancing their approach to FDI promotion, with an increasingly closer scrutiny and regulation of FDI inflows, albeit with the continuation of long-standing trends towards liberalization.

Ladies and Gentlemen,

Let me first discuss the latest trends in FDI flows before addressing the main topic of the Report. After falling a further 37 per cent last year, caused mainly by continued weakness in the global cross-border M&A market, global FDI flows began to bottom out in the latter half of 2009, and witnessed a modest recovery in the first half of 2010. This suggests brighter FDI prospects in the short term. UNCTAD estimates that global inflows are expected to increase to over \$1.2 trillion in 2010, rising further to \$1.3–1.5 trillion in 2011, and then \$1.6–2 trillion in 2012. However, I should add a caveat here: FDI flows are recovering in the wake of a drastic decline in 2009 and the brighter FDI prospects for 2010–2012 remain fraught with risks and uncertainties, especially because of the fragility of the global economic recovery.

Major transformational changes in the global pattern of FDI flows continued in 2009, and are expected to last into the short and medium terms as the momentum in FDI flows gathers pace. First, developing and transition economies absorbed half of global FDI inflows in 2009 and accounted for a quarter of the global outflows. Their relative weight as both FDI destinations and sources is expected to increase further, as these economies lead the FDI recovery. Secondly, services and the primary sector continue to capture an increasing share of FDI, as the historical shift away from manufacturing intensifies. And, thirdly, FDI stock and assets continued to increase despite the impact of the crisis on TNCs' sales and value added.

All regions experienced a decline in FDI inflows in 2009, with an upswing commencing in early 2010 in most cases. The evolving characteristics and role of FDI varies, with distinctive features by region. For instance,

- *Africa* is witnessing the rise of new geographical sources of FDI, in particular from developing Asia. With commodity prices recovering, a slow upturn in inward FDI is expected in the region in 2010.
- FDI to *South, South East and East Asia* has been less affected by the global financial and economic crisis and was the first to bottom out. Industrial upgrading through FDI in Asia is spreading to more industries and countries.
- In *West Asia*, governments' commitment to ambitious infrastructure plans is expected to support a recovery in FDI in 2010.
- Cross-border M&As collapsed in *Latin America* in 2009, as many foreign affiliates were purchased by local firms – contributing to a contraction in FDI inflows. Inflows are expected to recover this year,

while FDI outflows are rebounding strongly: the region's TNCs are going global, after many years of being regionally orientated.

- With regards to FDI inflows to *transition economies* – South-East Europe and the CIS – stronger commodity prices, a new round of privatization and economic recovery should support a rebound in FDI in 2010. Foreign banks have played a stabilizing role in South-East Europe, but their large-scale presence also raises potential concerns.
- In *developed countries*, having been falling for the past two years, inward FDI is expected to rise in 2010. High levels of unemployment in developed countries have triggered concerns about the impact of outward investment on employment at home.

Ladies and Gentlemen,

Turning to the second trend I referred to earlier, national and international investment policies are increasingly characterized by a move towards specific regulation of FDI, albeit with continued investment liberalization. This involves four main features:

- **First**, as implied, there is a dichotomy in policy orientation. Countries continue to liberalize and promote foreign investment, whilst at the same time strengthening their investment regulatory framework for various policy objectives.
- **Secondly**, governments seek to rebalance the rights and obligations of the State and investors. Almost one third of the policy measures identified by UNCTAD as affecting foreign investment in 2009 involved more stringent regulations - the highest share of such

measures observed since 1992. These rebalancing efforts are, among others, a response to recent crises in finance, food, and energy.

- The huge economic stimulus packages and state aid applied by many governments, which are now approaching their final phase, have not resulted in investment protectionism. The G20 Summit in Toronto last month mandated UNCTAD and the OECD to continue monitoring the investment policies of host countries.
  
- **Thirdly**, with regard to international investment agreements (IIAs), countries continue to conclude new treaties (at a rate of approximately four per week). The expanding IIA regime has also evolved substantively through, for instance, (i) the emerging trend of consolidation – particularly at the regional level; (ii) systemic changes such as reviews of model BITs or the termination and renegotiations of IIAs; and (iii) innovations in the content of IIAs.
  
- **Finally**, changes have also occurred in the Investor-State Dispute Settlement (ISDS) system. These changes together create an opportunity for an IIA regime that is more effective, coherent, balanced, and – most importantly – more development-friendly.

Policymakers are increasingly faced with the challenge of integrating investment policies into other policy areas, and to make them mutually coherent and supportive. They include the interface between investment policies, on the one hand, and agricultural, financial and climate change-related policies, on the other hand. It is a positive sign that an international initiative - spearheaded by FAO, the World Bank, UNCTAD and IFAD (and endorsed at the G8 Summit in June) - has been

launched to develop international principles for responsible agricultural investment. I very much hope that this project can be brought to a successful conclusion. Although financial sector reforms are progressing, care needs to be taken that the outcomes are consistent with countries' obligations under international investment agreements.

Ladies and Gentlemen,

Returning to the special theme of this year's report, *investing in a low-carbon economy*, it should be repeated that 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, which actions need to be taken, and by whom. 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. Whilst being major carbon emitters themselves, TNCs can also be a source of low-carbon investment and new technology to help tackle these challenges. They are therefore inevitably part of both the problem and the solution to climate change.

Indeed TNCs are already active in low-carbon foreign investment. UNCTAD estimates that in 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 billion. The potential for cross-border low-carbon investment is therefore enormous, as the world transitions to a low-carbon economy.

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 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.

Policymakers need to maximize the benefits and minimize the risks of low-carbon foreign investment but this is not straightforward, especially since most developing countries have little experience in this area. In addition, national strategies to promote low-carbon foreign investment and related technology dissemination need to be coordinated with climate change and investment policies at the international level. However, many developing countries lack financial resources and institutional capabilities to do this effectively. An international support structure is thus essential.

Against this background, UNCTAD is proposing a global partnership to coordinate synergies between investment and climate change policies to promote low-carbon foreign investment. The key elements of the partnership would include:

- Establishing clean-investment promotion strategies.
- Enabling the dissemination of clean technology.
- Securing the contribution of IIAs to climate change mitigation.
- Harmonizing corporate disclosure of GHG emissions.
- Setting up an international low-carbon technical assistance centre

Ladies and Gentlemen,

This year's Report reminds us that the world does not stand still. Indeed, the constantly evolving landscape of TNCs and investment, along with the emerging investment policy setting, poses three sets of key challenges for investment *for* development:

- One, to strike the right policy balance between the rights and obligations of investors and the State;
- Two, to enhance the relationship between investment and development; and
- Three, to ensure coherence between national and international investment policies, and between investment policies and other public policies.

Despite some progress in recent years, the world is still in need of a sound international investment regime that effectively promotes sustainable development for all. With the increasing impact of climate change on all countries, this need has become greater than ever before. Such a regime would go some way to redressing the deficit of trust between negotiating parties, witnessed at Copenhagen last year.

Thank you.