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WORLD INVESTMENT REPORT 2019

SPECIAL ECONOMIC ZONES

UNITED NATIONS

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

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UNITED NATIONS
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PREFACE

The *World Investment Report* supports policymakers by monitoring global and regional foreign direct investment trends and documenting national and international investment policy developments. The policy chapter of this year's report takes stock of efforts being made towards the reform of international investment agreements and surveys new measures.

Inclusive sustainable development depends on a global policy environment that is conducive to cross-border investment. Last year, global flows of foreign direct investment fell by 13 per cent, to $1.3 trillion. This represents the lowest level since the global financial crisis and underlines the lack of growth in international investment this decade. The significant acceleration required to meet the investment needs associated with the Sustainable Development Goals is not yet apparent. We need to raise ambition on climate action, address debt vulnerabilities and reduce trade tensions to foster environments that are conducive to scaling up long-term and sustainable investments.

Among the most important instruments for attracting investment are Special Economic Zones. The number of zones around the world has grown rapidly this decade to more than 5,000, with many more planned. This *World Investment Report* provides an overview of the global SEZ landscape and offers advice on how to respond to fundamental challenges for zones posed by the sustainable development imperative, the new industrial revolution and changing patterns of international production.

I commend this year's *World Investment Report* for both industrial and investment policymakers, and as an important tool for the international development community.

António Guterres
Secretary-General of the United Nations

FOREWORD

For some time now, the global policy climate for trade and investment has not been as benign as it was in the heyday of export-led growth and development. Yet the need to attract investment and promote exports to support industrialization, economic diversification and structural transformation is as great as ever for developing countries, especially the least developed countries.

The many new industrial policies that have been adopted in recent years – in both developing and developed countries – almost all rely to a significant degree on attracting investment. At the same time, we are observing a declining trend in cross-border productive investment.

The market for internationally mobile investment in industrial capacity is thus becoming increasingly difficult and competitive. The demand for investment is as strong as ever, the supply is dwindling and the marketplace is less friendly then before.

It is in this context that we are seeing explosive growth in the use of special economic zones (SEZs) as key policy instruments for the attraction of investment for industrial development. More than 1,000 have been developed worldwide in the last five years, and by UNCTAD's count at least 500 more are in the pipeline for the coming years.

There are many examples of SEZs that have played a key role in structural transformation, in promoting greater participation in global value chains and in catalyzing industrial upgrading. But for every success story there are multiple zones that did not attract the anticipated influx of investors, with some having become costly failures.

In countries with an SEZ portfolio or with ambitious SEZ development programmes, policymakers and practitioners – in ministries responsible for industry, trade and investment; in SEZ authorities; and in export and investment promotion agencies, to mention a few – are looking to turn around underperforming zones and to ensure that new ones meet expectations.

In doing so, they not only have to contend with the challenges associated with a more difficult trade and investment climate. They face other challenges as well. One is the new industrial revolution, which could erode the importance of low labour costs, the traditional competitive edge of most SEZs. SEZs will need to anticipate trends in their targeted industries and adapt.

But even more important is that, today, sustainable development – as embodied in the UN Sustainable Development Goals – must guide SEZ strategy and operations. In a break from the past, adopting the highest social, environmental and governance standards for zones is becoming a competitive advantage.

The *World Investment Report 2019* surveys the universe of SEZs today, provides an overview of SEZ laws and regulations, and assesses the sustainable development impact of SEZs. The report offers recommendations through three lenses: lessons learned from the past, a forward-looking perspective and a pioneering idea in the form of "SDG model zones".

I hope that the report will inspire and reinvigorate efforts around the world to make investment work for development through SEZs. UNCTAD stands ready to support stakeholders in this endeavour.

Mukhisa Kituyi
Secretary-General of UNCTAD

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ABBREVIATIONS

ACIA	ASEAN Comprehensive Investment Agreement
ACP	African, Caribbean and Pacific Group of States
ADOZONA	Asociación Dominicana de Zonas Francas
AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
BEZA	Bangladesh Economic Zones Authority
BIT	bilateral investment treaty
BRICS	Brazil, Russian Federation, India, China, South Africa
CEPA	Comprehensive Economic Partnership Agreement
CETA	Comprehensive Economic and Trade Agreement
CFTA	Continental Free Trade Agreement
CFIUS	Committee on Foreign Investment in the United States
CIS	Commonwealth of Independent States
CJEU	Court of Justice of the European Union
CLMV	Cambodia, the Lao People's Democratic Republic, Myanmar, Viet Nam
CNZFE	National Free Zones Council
COCZ	China Overseas Economic Cooperation Zone
COMESA	Common Market of Eastern and Southern Africa
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CSR	corporate social responsibility
EPA	Economic Partnership Agreement
EPZ	export processing zone
ESA	Eastern and Southern Africa States
ESG	environmental, social and governance
FET	fair and equitable treatment
FTA	free trade agreement
FTZ	free trade zone
GVC	global value chain
HTDZ	high-tech development zone
ICT	information and communication technology
ICSID	International Centre for Settlement of Investment Disputes
IIA	international investment agreement
ILO	International Labour Organization
IMMEX	Manufacturing, Maquila and Exports Services
IOSCO	International Organization of Securities Commissions
IPA	investment promotion agency
ISDS	investor–State dispute settlement
IT	information technology
LDC	least developed country
LLDC	landlocked developing country
M&As	mergers and acquisitions
MNE	multinational enterprise
NAFTA	North American Free Trade Agreement
ODA	official development assistance
OECD	Organization for Economic Co-operation and Development
OIC	Organisation of Islamic Cooperation
OFDI	outward foreign investment
PPP	public-private partnership
R&D	research and development
RCEP	Regional Comprehensive Economic Partnership
RTA	regional trade agreement
SCM	Subsidies and Countervailing Measures (WTO Agreement)
SDGs	Sustainable Development Goals
SEZ	special economic zone
SIDS	small island developing States
SMEs	small and medium-sized enterprises
SO-MNE	State-owned multinational enterprise
SOE	State-owned enterprise
SSE	Sustainable Stock Exchanges (initiative)
TAD	territory of advanced development (zone type)
TIFA	Trade and Investment Framework Agreement
TIP	treaty with investment provision
TPP	Trans-Pacific Partnership
TRIMs	Trade-Related Investment Measures (WTO Agreement)
UIC	ultimate investing country
UNCITRAL	United Nations Commission on International Trade Law
USMCA	United States–Mexico–Canada Agreement
WFE	World Federation of Exchanges
WTO	World Trade Organization

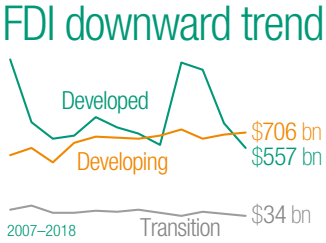
KEY MESSAGES

INVESTMENT TRENDS AND PROSPECTS

Global foreign direct investment (FDI) flows continued their slide in 2018, falling by 13 per cent to $1.3 trillion. The decline – the third consecutive year's fall in FDI – was mainly due to large-scale repatriations of accumulated foreign earnings by United States multinational enterprises (MNEs) in the first two quarters of 2018, following tax reforms introduced in that country at the end of 2017.

FDI flows to developed economies reached the lowest point since 2004, declining by 27 per cent. Inflows to Europe halved to less than $200 billion, due to negative inflows in a few large host countries as a result of funds repatriations and to a sizeable drop in the United Kingdom. Inflows in the United States also declined, by 9 per cent to $252 billion.

Flows to developing countries remained stable, rising by 2 per cent. As a result of the increase and the anomalous fall in FDI in developed countries, the share of developing countries in global FDI increased to 54 per cent, a record.



- FDI flows to Africa rose by 11 per cent to $46 billion, despite declines in many of the larger recipient countries. The increase was supported by continued resource-seeking inflows, some diversified investments and a recovery in South Africa after several years of low-level inflows.
- *Flows to developing Asia, the largest recipient region, were up 4 per cent.* In a sign of continued dynamism, greenfield project announcements in the region doubled in value, recovering from their 2017 pause.
- *FDI in Latin America and the Caribbean was 6 per cent lower,* failing to maintain momentum after the 2017 increase halted a long slide. FDI in the region is still 27 per cent lower than during the peak of the commodities boom.
- *FDI flows to structurally weak and vulnerable economies continued to account for less than 3 per cent of the global total.* Flows to the least developed countries recovered from their 2017 fall, back to $24 billion, the average for the decade.

FDI flows to economies in transition continued their downward trend in 2018, declining by 28 per cent to $34 billion, driven by a 49 per cent drop in flows to the Russian Federation.

The tax-driven fall in FDI was cushioned by increased transaction activity in the second half of 2018. The value of cross-border merger and acquisitions (M&As) rose by 18 per cent, fueled by United States MNEs using liquidity in their foreign affiliates that was no longer encumbered by tax liabilities.

In 2019, FDI is expected to see a rebound in developed economies as the effect of the tax reforms winds down. Greenfield project announcements – indicating forward spending plans – also point at an increase, as they were up 41 per cent in 2018 from their low 2017 levels. Despite this, *projections for global FDI show only a modest recovery of 10 per cent to about $1.5 trillion,* below the average over the past 10 years. The underlying FDI trend remains weak. Trade tensions also pose a downward risk for 2019 and beyond.

The underlying FDI trend has shown anemic growth since 2008. FDI net of one-off factors such as tax reforms, megadeals and volatile financial flows has averaged only 1 per cent growth per year for a decade, compared with 8 per cent in 2000–2007, and more than 20 per cent before 2000. Explanations include declining rates of return on FDI, increasingly asset-light forms of investment and a less favourable investment policy climate.

The long-term slide of greenfield investment in manufacturing halted in 2018, with the value of announced projects up 35 per cent from the low value in 2017. Among developing countries – where manufacturing investment is key for industrial development – the growth was mostly concentrated in Asia and pushed up by high-value projects in natural resource processing industries.

The number of State-owned MNEs (SO-MNEs) stabilized, and their acquisitions abroad slowed down. There are close to 1,500 SO-MNEs, similar to 2017. Their presence in the top 100 global MNEs increased by one to 16. The value of their M&A activity shrank to 4 per cent of total M&As in 2018, following a gradual decline from more than 10 per cent on average in 2008–2013.

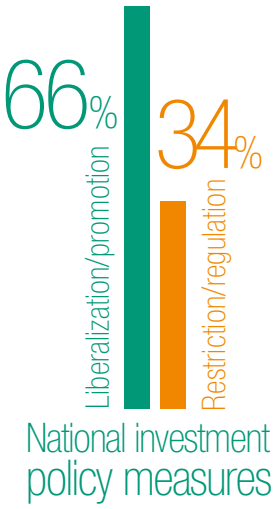
Much of the continued expansion of international production is driven by intangibles. Non-equity modes of international production are growing faster than FDI, visible in the relative growth rates of royalties, licensing fees and services trade. The top 100 MNE ranking for 2018 confirms that industrial MNEs are sliding down the list, with some dropping out.

MNEs in the global top 100 account for more than one third of business-funded R&D worldwide. Technology, pharmaceutical and automotive MNEs are the biggest spenders. The R&D intensity (relative to sales) of the developing-country top 100 is significantly lower. International greenfield investment in R&D activities is sizeable and growing.

A significant part of investment between developing countries (South–South FDI) is ultimately owned by developed-country MNEs. New data on the global network of direct and indirect bilateral FDI relationships shows the important role of regional investment hubs in intraregional FDI and in South–South FDI. Indirect investment also has implications for the coverage of international investment agreements.

INVESTMENT POLICY DEVELOPMENTS

New national investment policy measures show a more critical stance towards foreign investment. In 2018, some 55 economies introduced at least 112 measures affecting foreign investment. More than one third of these measures introduced new restrictions or regulations – the highest number for two decades. They mainly reflected national security concerns about foreign ownership of critical infrastructure, core technologies and other sensitive business assets. Furthermore, at least 22 large M&A deals were withdrawn or blocked for regulatory or political reasons – twice as many as in 2017.



Screening mechanisms for foreign investment are gaining importance. Since 2011, at least 11 countries have introduced new screening frameworks and at least 41 amendments have been made to existing regimes. Changes included adding sectors or activities subject to screening, lowering the triggering thresholds or broadening the definition of foreign investment. Other new regulations have expanded disclosure obligations of foreign investors, extended statutory timelines of screening procedures or introduced new civil, criminal or administrative penalties for not respecting notification obligations.

+40
in 2018

Total IIAs in force
2658

Nevertheless, attracting investment remains a priority. The majority of new investment policy measures still moved in the direction of liberalization, promotion and facilitation. Numerous countries removed or lowered entry restrictions for foreign investors in a variety of industries. The trend towards simplifying or streamlining administrative procedures for foreign investment continued. Also, several countries provided new fiscal incentives for investment in specific industries or regions.

International investment policymaking is in a dynamic phase, with far-reaching implications. In 2018, countries signed 40 international investment agreements (IIAs). For at least 24 existing treaties, terminations entered into effect. The impact on the global IIA regime of novel features in new agreements, including some megaregional treaties with key investor countries, will be significant. Many countries are also developing new model treaties and guiding principles to shape future treaty making.

71 new
ISDS cases

IIA reform is progressing, but much remains to be done. Almost all new treaties contain numerous elements in line with UNCTAD's Reform Package for the International Investment Regime. UNCTAD's policy tools have also spurred initial action to modernize old-generation treaties. Increasingly, countries interpret, amend, replace or terminate outdated treaties. However, the stock of old-generation treaties is 10 times larger than the number of modern, reform-oriented treaties. Investors continue to resort to old-generation treaties; in 2018, they brought at least 71 new investor–State dispute settlement (ISDS) cases.

IIA reform actions are also creating new challenges. New treaties aim to improve balance and flexibility, but they also make the IIA regime less homogenous. Different approaches to ISDS reform, ranging from traditional ad hoc tribunals to a standing court or to no ISDS, add to broader systemic complexity. Moreover, reform efforts are occurring in parallel and often in isolation. Effectively harnessing international investment relations for the pursuit of sustainable development requires holistic and synchronized reform through an inclusive and transparent process. UNCTAD can play an important facilitating role in this regard.

Sustainable capital market trends

Capital market policies and instruments designed to promote the integration of sustainability into business and investment practices are transitioning from niche to mainstream. A growing number of investors are integrating ESG factors into their investment decision making to enhance performance and mitigate risk. The positive track record of sustainability-themed products is reinforcing the views of asset managers and securities regulators that such factors are material to long-term investment performance. As these sustainable investment trends take root and expand, they can have a stronger influence on the operational policies and practices of MNEs.

5 400
zones
across
147
economies

SPECIAL ECONOMIC ZONES

Special economic zones (SEZs) are widely used in most developing and many developed economies. Within these geographically delimited areas governments facilitate industrial activity through fiscal and regulatory incentives and infrastructure support. There are nearly 5,400 zones across 147 economies today, up from about 4,000 five years ago, and more than 500 new SEZs are in the pipeline. The SEZ boom is part of a new wave of industrial policies and a response to increasing competition for internationally mobile investment.

SEZs come in many types. Basic free zones focused on facilitating trade logistics are most common in developed countries. Developing economies tend to employ integrated zones aimed at industrial development, which can be multi-industry, specialized or focused on developing innovation capabilities. The degree and type of specialization is closely linked to countries' level of industrialization, following an *SEZ development ladder*.

Many new types of SEZs and innovative zone development programmes are emerging. Some focus on new industries, such as high-tech, financial services or tourism – moving beyond the trade- and labour-intensive manufacturing activities of traditional SEZs. Others focus on environmental performance, science commercialization, regional development or urban regeneration.

International cooperation on zone development is increasingly common. Many zones in developing countries are being built through bilateral partnerships or as part of development cooperation programmes. Regional development zones and cross-border zones spanning two or three countries are becoming a feature of regional economic cooperation.

SEZs can make important contributions to growth and development. They can help attract investment, create jobs and boost exports – both directly and indirectly where they succeed in building linkages with the broader economy. Zones can also support global value chain (GVC) participation, industrial upgrading and diversification. However, none of these benefits are automatic.

In fact, *the performance of many zones remains below expectations.* SEZs are neither a precondition nor a guarantee for higher FDI inflows or GVC participation. Where they lift economic growth, the stimulus tends to be temporary: after the build-up period, most zones grow at the same rate as the national economy. And too many zones operate as enclaves with limited impact beyond their confines.

Only a few countries regularly assess the performance and economic impact of zones. Doing so is critical, because the turnaround of unsuccessful SEZs requires timely diagnosis, especially when there has been a significant level of public investment in zone development. UNCTAD's *SEZ Sustainable Development Profit and Loss Statement (P&L)* can guide policymakers in the design of a comprehensive monitoring and evaluation system.

The decades-long experience with SEZs provides important lessons for modern zone development:

- *Strategic design of the SEZ policy framework and development programme is crucial.* Zone policies should not be formulated in isolation from their broader policy context, including investment, trade and tax policies. The types of zones and their specialization should build on existing competitive advantages and capabilities. And long-term zone development plans should be guided by the SEZ development ladder.
- *Zone development programmes should take a frugal approach.* The Sustainable Development P&L emphasizes the need for financial and fiscal sustainability of zones, as their broader economic growth impact can be uncertain and take time to materialize. High upfront costs due to overspecification, subsidies for zone occupants and transfers to zone regimes of already-operating firms pose the greatest risks to fiscal viability.
- *The success of individual SEZs depends on getting the basics right.* Most failures can be traced back to problems such as poor site locations that require heavy capital

Bilateral partnerships building ZONES in developing countries

SEZ Sustainable Development Profit and Loss Statement

expenditures or that are far away from infrastructure hubs or cities with sufficient pools of labour; unreliable power supplies; poor zone design with inadequate facilities or maintenance; or overly cumbersome administrative procedures.

- *Active support to promote clusters and linkages is key to maximizing development impact.* Firms operating in zones have greater scope to collaborate, pool resources and share facilities – more so in specialized zones, but multi-activity zones can extract some of the benefits of co-location. Pro-active identification of opportunities, matching efforts and training programmes, with firms within and outside the zone, significantly boosts the impact.
- *A solid regulatory framework, strong institutions and good governance are critical success factors.* The legal infrastructure of SEZs should ensure consistent, transparent and predictable implementation of SEZ policies. The responsibilities of SEZ governing bodies should be clearly defined. Zones benefit from having public and private sector representatives on their boards.

Looking ahead, SEZs face *new challenges*:

- The sustainable development agenda increasingly drives MNEs' strategic decisions and operations, which should be reflected in the value proposition that SEZs market to investors. *Modern SEZs can make a positive contribution to the ESG performance of countries' industrial bases.* Controls, enforcement and services (e.g. inspectors, health services, waste management and renewable energy installations) can be provided more easily and cheaply in the confined areas of SEZs.

  SEZs are traditionally big employers of women, with about 60 per cent female employees on average. Some modern zones are implementing gender equality regulations, such as anti-discrimination rules, and support services, such as child care and schooling facilities, setting new standards for SDG performance.
- The new industrial revolution and the digital economy are changing manufacturing industries – the main clients of SEZs. *SEZs will need to adapt their value propositions to include access to skilled resources, high levels of data connectivity and relevant technology service providers.* SEZs may also have new opportunities to target digital firms.
- The current challenging global policy environment for trade and investment, with rising protectionism, shifting trade preferences and a prevalence of regional economic cooperation, is causing changes in *patterns of international production and GVCs*. These changes can significantly affect the competitiveness of SEZs, which function as central nodes in GVCs. International cooperation on zone development is likely to become increasingly important.

New type of SEZ: SDG model zone

Finally, the 2030 Agenda to achieve the Sustainable Development Goals (SDGs) provides an opportunity for the development of an entirely new type of SEZ: the SDG model zone. Such zones would aim to attract investment in SDG-relevant activities, adopt the highest levels of ESG standards and compliance, and promote inclusive growth through linkages and spillovers.

The recommendations in this report aim to provide guidance for policymakers in their efforts to revitalize and upgrade existing zones, and to build new ones that avoid the pitfalls of the past and are prepared for the challenges ahead. The key objective should be to make SEZs work for the SDGs: *from privileged enclaves to sources of widespread benefits.*

CHAPTER I

GLOBAL INVESTMENT TRENDS AND PROSPECTS

A. CURRENT FDI TRENDS

1. Global trends

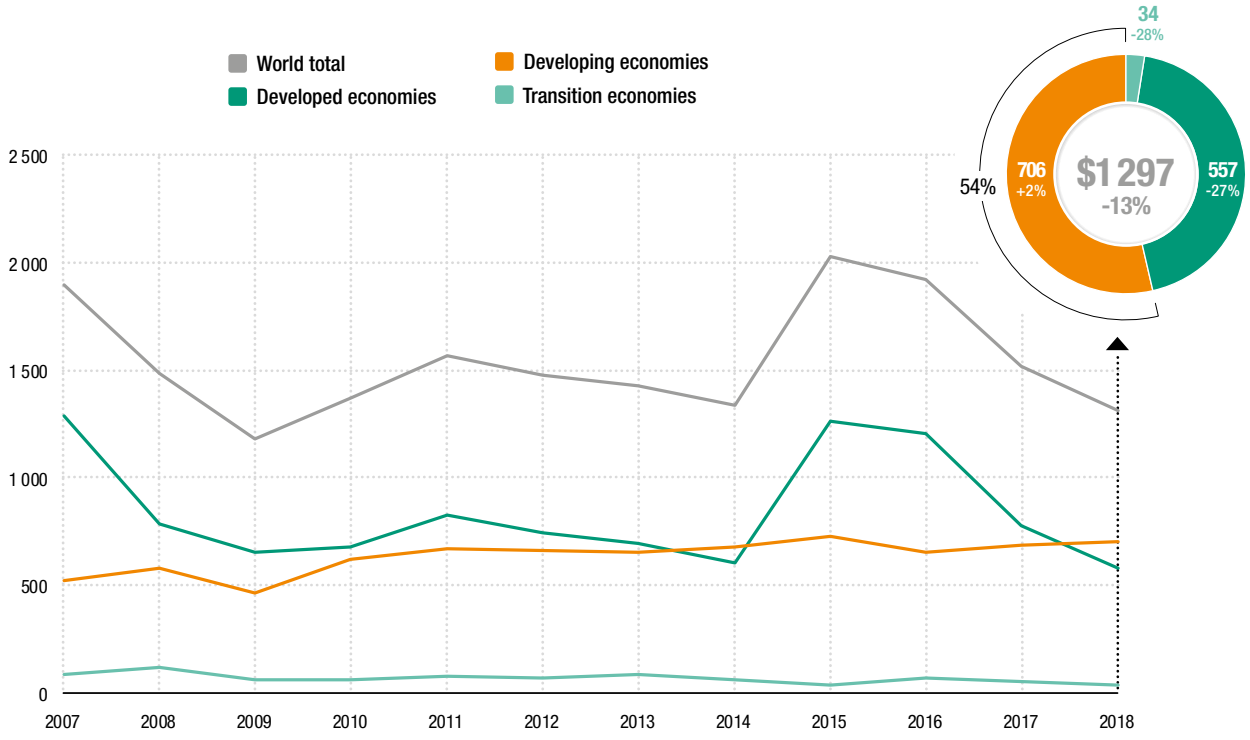
Global foreign direct investment (FDI) flows continued their slide in 2018, falling by 13 per cent to $1.3 trillion from a revised $1.5 trillion in 2017 (figure I.1).[1] The decline – the third consecutive fall in FDI – was mainly due to large repatriations of accumulated foreign earnings by United States multinational enterprises (MNEs) in the first two quarters of 2018, following tax reforms introduced at the end of 2017, and insufficient compensation from upward trends in the second half of the year.

The fall took place despite an 18 per cent rise in cross-border merger and acquisitions (M&As) (from $694 billion in 2017 to $816 billion in 2018). The negative trend is also in contrast to a 41 per cent jump in announced greenfield investment values (from $698 billion to $981 billion).

FDI flows declined sharply in developed countries and economies in transition while those to developing countries remained stable, rising by 2 per cent. As a result, developing economies accounted for a growing share of global FDI, at 54 per cent, from 46 per cent in 2017.

Repatriations of United States multinationals' foreign earnings abated in the second half of 2018. The lifting of tax liabilities on accumulated foreign earnings of United States MNEs may have contributed to the M&A boom recorded in the last quarter, limiting the global FDI decline for the year, after projections based on the first six months had estimated that annual inflows would be down by more than 40 per cent.

Figure I.1. **FDI inflows, global and by economic group, 2007–2018** (Billions of dollars and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Even disregarding the fluctuations caused by the tax reform and the increase in cross-border M&As, the underlying FDI trend – which discounts the volatility caused by one-off transactions and swings in intra-firm financial flows – was still negative. Average annual growth in the underlying trend, which was above 10 per cent until a decade ago, has since stagnated at less than 1 per cent. That weak underlying trend will continue to affect FDI prospects (see section I.B.)

2. Trends by geography

a. FDI inflows

FDI flows to developed economies reached their lowest point since 2004, declining by 27 per cent (figure I.2). Flows to Europe more than halved to $172 billion while those to North America were more resilient, declining by 4 per cent to $291 billion. Although cross-border M&A deal making remained active, rising by 21 per cent in value, it was not enough to compensate for the negative outward FDI from the United States caused by the tax reforms.

In Europe, a few important host countries, such as Ireland and Switzerland, registered negative inflows of -$66 billion and -$87 billion, respectively. FDI flows to the United Kingdom also declined, by 36 per cent to $64 billion, as new equity investments halved. Despite the repatriations, the completion of a number of megadeals resulted in higher flows to the Netherlands (up 20 per cent to $70 billion) and Spain (where inflows doubled to $44 billion).

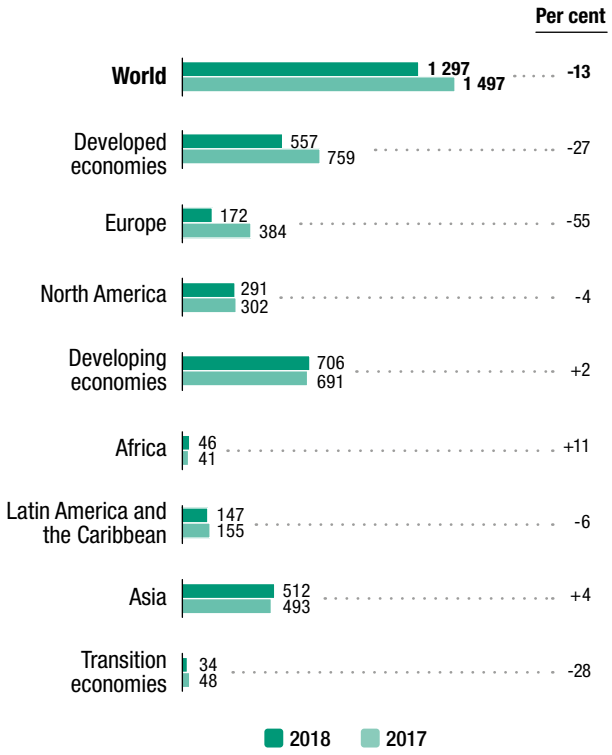
In the United States, FDI inflows declined by 9 per cent, to $252 billion, mainly due to a fall of one third in cross-border M&A sales. Australia's FDI inflows reached $60 billion – a record level – as foreign affiliates reinvested a record $25 billion of their profits in the country.

FDI flows to developing economies remained stable, rising by 2 per cent to $706 billion, with significant differences among regions. Developing Asia and Africa recorded higher FDI inflows in 2018, while FDI contracted in Latin America and the Caribbean.

Developing Asia, already the largest recipient region of FDI flows, registered an FDI rise of 4 per cent to $512 billion in 2018, with positive growth occurring in all subregions. China, the largest developing-economy FDI recipient, attracted $139 billion, an increase of 4 per cent. Flows to South-East Asia rose – for the third consecutive year – by 3 per cent to a new record level ($149 billion).

FDI flows to Africa expanded by 11 per cent to $46 billion, still below the annual average of the last 10 years (at about $50 billion). The rise in flows was mainly due to the continuation of resource-seeking investments, slowly expanding diversified

Figure I.2. **FDI inflows, by region, 2017–2018**
(Billions of dollars and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

investments in a few economies, and a more than doubling of FDI flows to South Africa (from $2 billion to $5.3 billion).

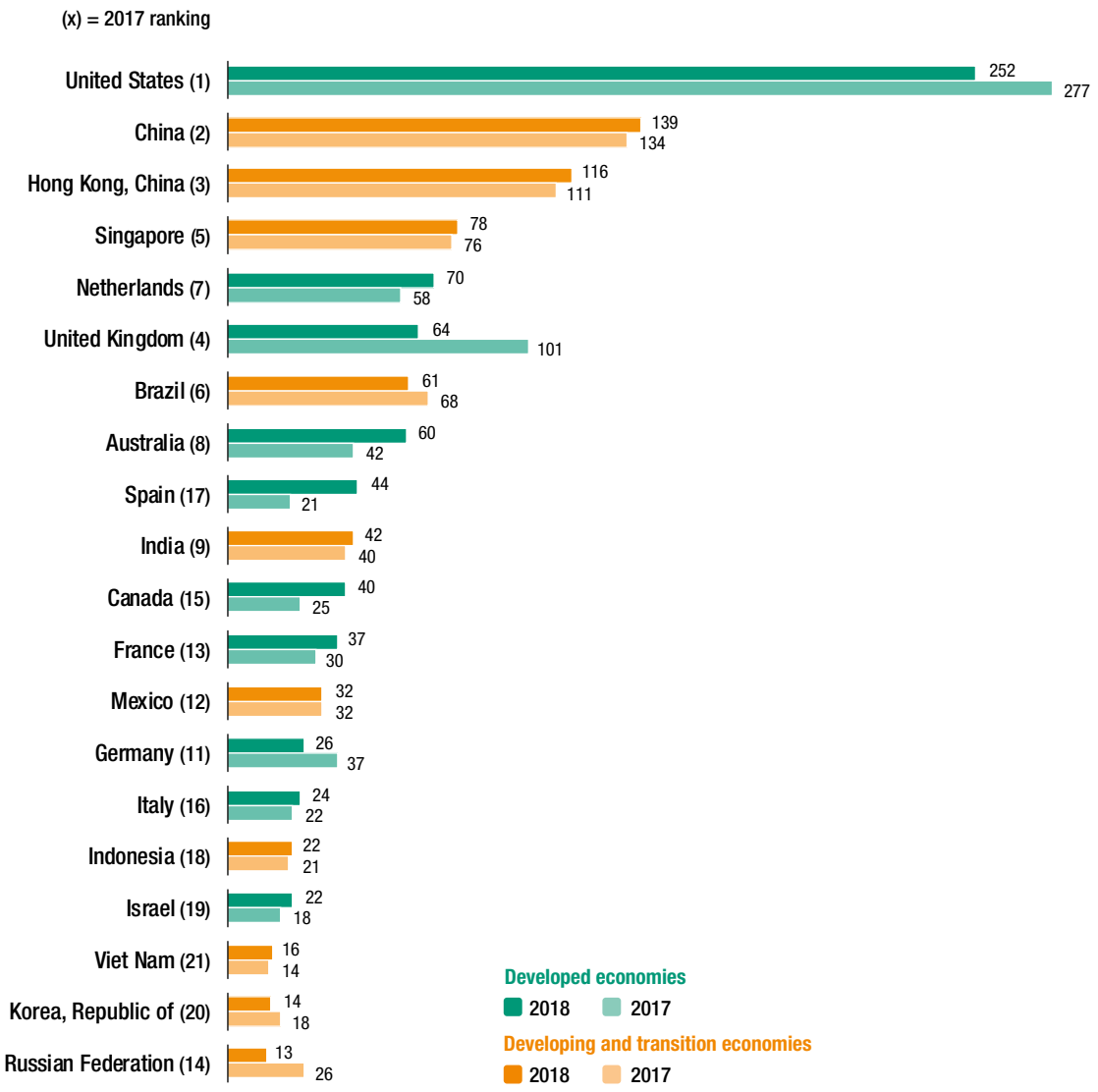
FDI in Latin America and the Caribbean was 6 per cent lower ($147 billion) in 2018, failing to maintain momentum after the 2017 increase (which followed five years of negative growth). In South America, FDI declined due to lower flows to Brazil and Colombia; in Central America inflows remained stable.

After a plunge in 2017, FDI flows to transition economies continued their downward trend in 2018, declining by 28 per cent to $34 billion. The contraction was driven by a halving of flows to the Russian Federation, by far the biggest economy and largest FDI recipient in the group, from $26 billion to $13 billion. Part of the decline was due to re-domiciliation of overseas entities that hold assets in the Russian Federation.

Half of the top 20 host economies in the world continue to be developing and transition economies (figure I.3). Despite the FDI decline, the United States remained the largest recipient of FDI, followed by China, Hong Kong (China) and Singapore.

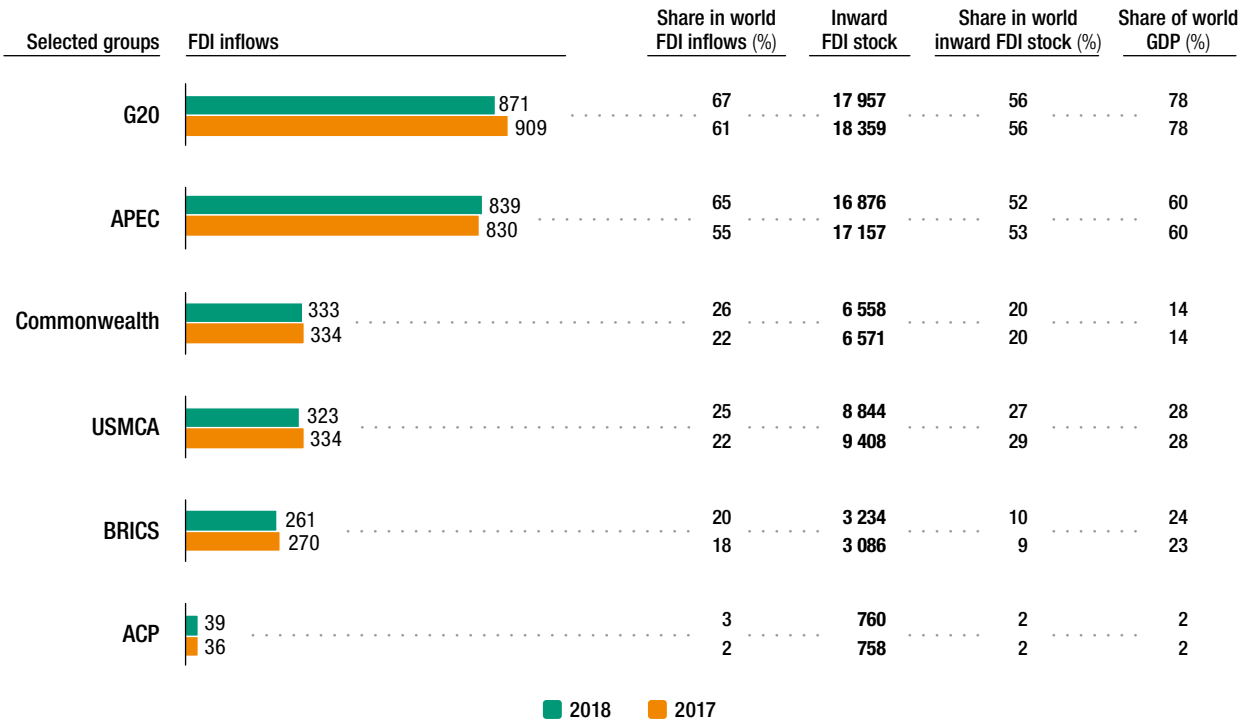
Looking at FDI to selected regional and interregional economic groups, flows remained relatively stable (figure I.4).

Figure I.3. FDI inflows, top 20 host economies, 2017 and 2018 (Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure I.4. FDI inflows to selected groups, 2017 and 2018 (Billions of dollars and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Data for G20 do not include the European Union.

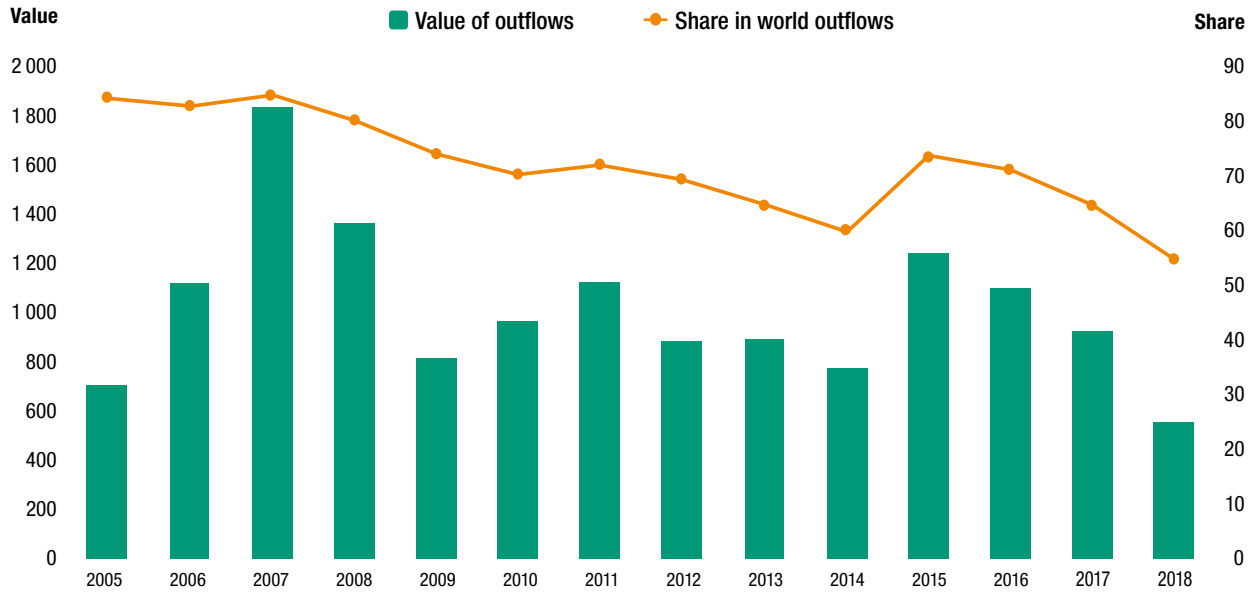
b. FDI outflows

In 2018, MNEs from developed countries reduced their investments abroad by 40 per cent to $558 billion. As a result, their share in global outward FDI dropped to 55 per cent – the lowest ever recorded (figure I.5). The significant decline was less a reflection of real investment intentions than of the impact of the large-scale repatriations of accumulated foreign earnings by United States MNEs, which resulted in negative outflows. In the first half of 2018, the reinvested earnings of United States MNEs slumped by a net $367 billion and turned sharply negative, at -$200 billion, compared with a positive $168 billion in the same period in 2017. Although reinvested earnings in the second half of the year reverted to a positive value, FDI outflows from the United States for the full year still declined sharply, to -$64 billion, compared with $300 billion in 2017. In addition to the immediate repatriation effect, the tax reforms resolved the tax liability overhang on overseas assets, which may have contributed to a jump in cross-border M&A purchases by United States MNEs to $253 billion – a record high. Almost half of those purchases were registered in the fourth quarter of 2018. The majority of acquisitions took place in the EU, mainly in the United Kingdom and Germany, but also in India and Japan.

Outflows from European MNEs rose by 11 per cent to $418 billion. French MNEs invested more than 100 billion in 2018, all in equity investment, becoming the third largest investor country in the world. Outflows from Ireland and Switzerland, both of which had recorded negative outflows in 2017, turned positive, reaching $13 billion (up $52 billion) and $27 billion (up $62 billion) respectively.

In contrast, outflows from the United Kingdom declined to $50 billion from $118 billion in 2017 despite a significant rise in cross-border M&As. Investment from German MNEs also declined by 16 per cent to $77 billion. Although the value of their net M&A purchases more

Figure I.5. **Developed economies: FDI outflows, and share in world outflows, 2005–2018**
(Billions of dollars and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

than doubled to $73 billion due to the merger of Bayer with Monsanto (United States) for $57 billion – the largest deal in 2018 – large negative flows of intracompany loans netted out much of the increase in equity investment.

Japanese MNEs became the largest investors in the world, despite a decline in outward FDI of 11 per cent to $143 billion. The slow-down in the overall M&A activity of Japanese MNEs was the result of a 40 per cent decline in their outward FDI in developed countries, mainly in the United States but also in the United Kingdom. Their investment in Asia increased by 31 per cent to $49 billion, mainly in China, India and the Republic of Korea.

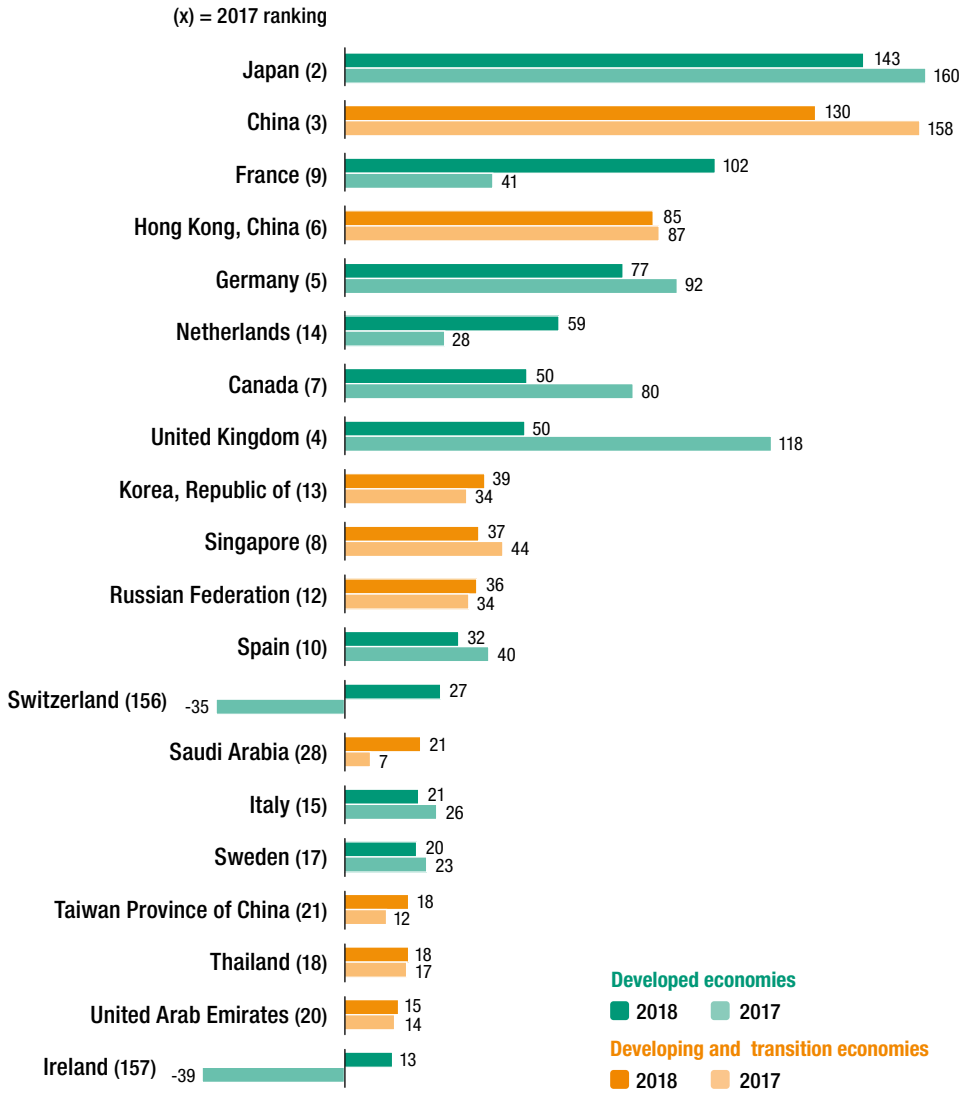
Outward investment by MNEs from developing economies declined by 10 per cent to $418 billion. Outflows from developing Asia fell by 3 per cent to $401 billion. Investment from Chinese MNEs declined for the second consecutive year – by 18 per cent – to $130 billion, as a result of government policies to curb overseas investment, as well as increased screening of inward investment in the United States and Europe. The country, nonetheless, was the second largest investor in the world after Japan (figure I.6).

Outward FDI from West Asia reached a historic high of $49 billion in 2018, with MNEs from Saudi Arabia, the United Arab Emirates and Turkey mainly responsible for the increase. FDI from Saudi Arabia almost tripled to $21 billion, mainly in technology, finance and infrastructure activities. Turkish companies are increasingly investing in Africa.

Outward investment by Latin American MNEs plunged in 2018 to a record low of $7 billion, heavily influenced by negative outflows from Brazil and decreased investments from Chile. Outflows from Brazil fell to -$13 billion, as foreign affiliates continued funneling financial resources (often raised in overseas capital markets) back to their parents. MNEs from Mexico increased their outward FDI to $6.9 billion.

At $38 billion, FDI outflows from transition economies were unchanged in 2018. The Russian Federation accounts for the bulk of the outward FDI in this group (95 per cent). The country's outflows rose by 7 per cent to $36 billion, driven mainly by reinvested earnings and the extension of intracompany loans to established affiliates.

Figure I.6. | **FDI outflows, top 20 home economies, 2017 and 2018** (Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

3. Trends in cross-border M&As and greenfield projects by sector

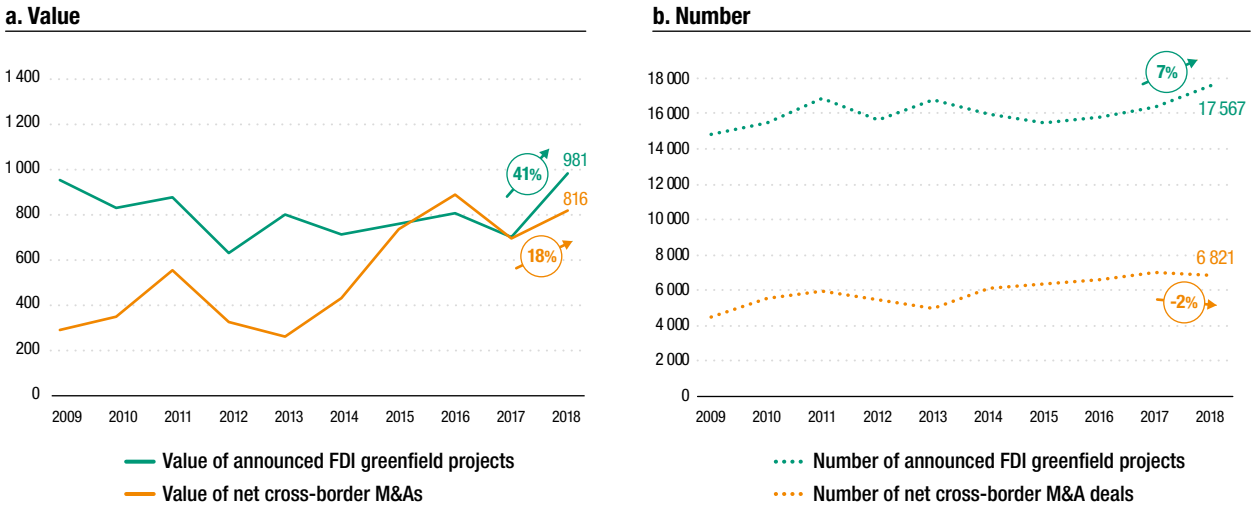
In 2018, the values of net cross-border M&As and announced FDI greenfield projects increased (figure I.7). The value of net cross-border M&As rose 18 per cent to $816 billion, recovering ground after the 22 per cent fall in 2017. The increase was driven by large deal sizes, especially in the chemicals industry and the services sector, while the number of deals actually declined.

The value of announced greenfield projects rose by 41 per cent to $981 billion. Also here, the average project size was the main driver of the increase, as investment activity measured by the number of projects increased by only 7 per cent. The gains in value were mostly in extractive and processing industries, and in construction.

a. M&A trends

The value of global net M&As expressed as a percentage of FDI inflows reached 62 per cent, the highest level since the height of the dotcom boom in 2000. In developed economies,

Figure I.7. **Value and number of net cross-border M&As and announced greenfield FDI projects, 2009–2018** (Billions of dollars and numbers)



Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for announced greenfield projects.

net M&A sales rose by 21 per cent to $689 billion, 84 per cent of the global total. In developing and transition economies, net M&A sales remained steady at $127 billion.

The increase was driven mainly by a doubling of acquisitions by United States MNEs, with the jump concentrated in the second half of 2018. The removal of tax liabilities on accumulated retained earnings overseas following the 2017 tax reforms may have contributed to the boom. Domestic M&A activity in the United States grew at an even faster pace than cross-border M&As.

In the primary sector, the largest deal was the acquisition of the oil and gas producer Maersk Olie og Gas (Denmark) by Total (France) for $7.4 billion as part of continued restructuring in the sector.

In manufacturing, net M&A sales at the global level remained close to the 2017 level. Deal making in the pharmaceutical industry, which reached $113 billion in 2015, declined for the third successive year to $28 billion. The chemical industry made up for the decline through megadeals, as M&A sales more than doubled to $149 billion. They included the merger of Bayer (Germany) with Monsanto (United States), worth $57 billion, and that of Praxair (United States) with the industrial gases group Linde (Germany), worth $32 billion.

In services, net M&A sales rose by over one third to $469 billion. The main driver was the increase in value of M&As in the financial industry, which almost doubled to $108 billion. Within this industry, M&As involving real estate investment trusts were particularly numerous. Separately, net M&A sales in real estate activities (part of business activities in table I.1) were worth $57 billion in 2018. Real estate-related investments thus formed a sizeable part of cross-border M&As in 2018. Almost all the deals in real estate investment trusts and three quarters of the deals in real estate targeted assets in developed economies.

b. Greenfield investment trends

The global total value of announced greenfield projects in the primary sector doubled to $41 billion (table I.2), mostly due to projects in metals mining, which trebled in value to $20 billion in 2018, the highest level since 2011. Karo Resources (Cyprus) announced a

Table I.1. Value and number of net cross-border M&As, by sector and selected industries, 2017–2018

Sector/industry	Value (Billions of dollars) 2017	Value (Billions of dollars) 2018	Growth rate (%)	Number 2017	Number 2018	Growth rate (%)
Total	**694**	**816**	**18**	**6 967**	**6 821**	**-2**
Primary	24	39	60	550	406	-26
Manufacturing	327	307	-6	1 690	1 600	-5
Services	343	469	37	4 727	4 815	2
Top 10 industries in value terms:						
Chemicals and chemical products	65	149	129	198	211	7
Business activities	107	112	5	1 817	1 848	2
Financial and insurance activities	59	108	84	617	599	-3
Information and communication	39	90	131	611	612	0.2
Food, beverages and tobacco	88	55	-37	227	205	-10
Transportation and storage	23	47	109	306	269	-12
Electrical and electronic equipment	26	42	65	307	257	-16
Mining, quarrying and petroleum	23	38	70	466	329	-29
Electricity, gas and water	54	38	-30	171	191	12
Trade	12	35	188	486	501	3

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Table I.2. Value and number of announced FDI greenfield projects, by sector and selected industries, 2017–2018

Sector/industry	Value (Billions of dollars) 2017	Value (Billions of dollars) 2018	Growth rate (%)	Number 2017	Number 2018	Growth rate (%)
Total	**698**	**981**	**41**	**16 350**	**17 567**	**7**
Primary	21	41	101	83	122	47
Manufacturing	345	466	35	7 855	8 049	2
Services	332	473	43	8 412	9 396	12
Top 10 industries in value terms:						
Construction	61	113	84	279	475	70
Electricity, gas and water	90	111	23	302	429	42
Coke and refined petroleum products	15	86	480	75	87	16
Business services	61	78	28	4 419	4 686	6
Motor vehicles and other transport equipment	61	74	20	1 123	1 131	1
Chemicals and chemical products	54	66	21	588	569	-3
Electrical and electronic equipment	60	58	-3	996	1 046	5
Hotels and restaurants	17	49	189	163	422	159
Transport, storage and communications	39	48	24	936	1 018	9
Mining, quarrying and petroleum	20	41	102	79	118	49

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

project worth $4.3 billion in a platinum mine in Zimbabwe, supported by the Africa Finance Corporation. Large projects were also announced in Chile and Peru.

Announced greenfield projects in manufacturing increased by 35 per cent to $466 billion. In line with higher investments in extractive industries, the processing of natural resources was a big driver of the increased investment in manufacturing. Projects in coke, petroleum products and nuclear fuel increased six-fold to $86 billion. A project by Shell Canada, a joint venture of Shell, Petronas, PetroChina, Mitsubishi Corp. and Korea Gas, to build a liquefied natural gas export facility in Canada was the largest project, with planned capital expenditures totalling $30 billion.

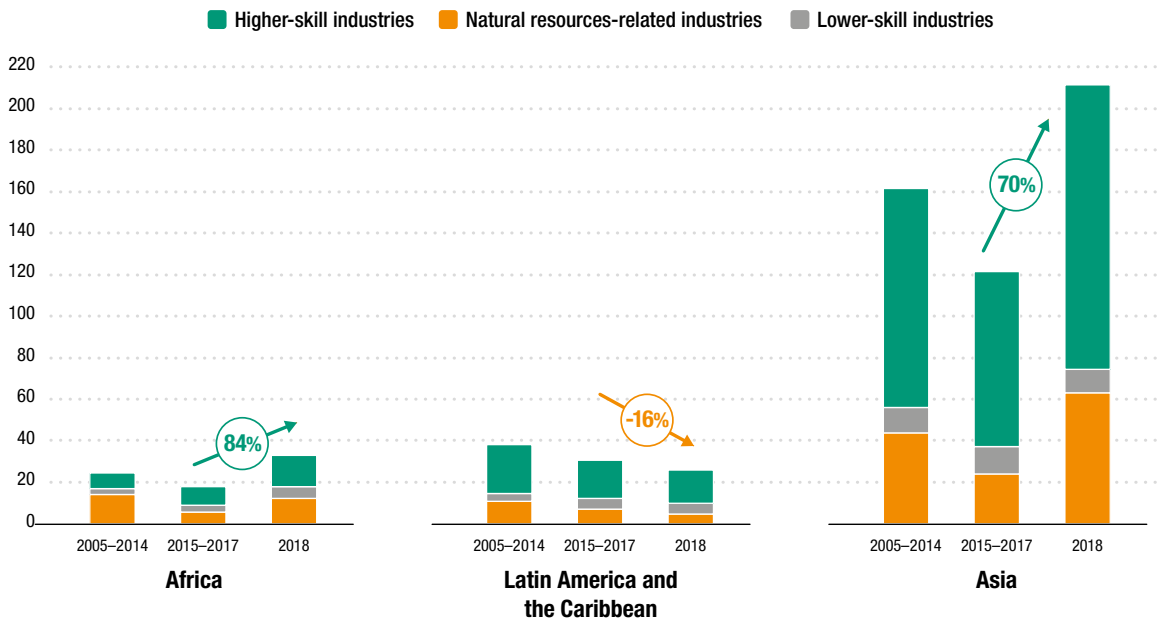
In developing economies, the value of announced projects in manufacturing – of critical importance for industrial development – rose by 68 per cent to $271 billion, halting the downward trend of recent years (figure I.8). However, projects remained concentrated in Asia, where announced greenfield investments in manufacturing doubled to $212 billion. In a positive sign, manufacturing investments also jumped 60 per cent in Africa, to $33 billion. However, those in Latin America and the Caribbean declined.

The number of manufacturing projects in developing countries rose by a more modest 12 per cent, suggesting that announcements of relatively few large-scale projects explain the increase in value. For instance, the five largest manufacturing projects in China had a combined value of $33 billion, accounting for much of the value of announced projects in China, which doubled from 2017 to $80 billion. The largest announced project was the plan by BASF (Germany) to invest $10 billion in a new chemical manufacturing base in Zhanjiang. In the same industry, ExxonMobil (United States) announced plans to build a $7 billion ethylene plant in Zhoushan.

In East Asia, the largest increases in greenfield projects were in higher-skilled industries. In addition to the mega projects in the chemicals industry, a series of projects in automotive manufacturing as well as in electrical and electronic equipment boosted the value of announced projects in China. In East Asia as a whole, the value of projects in the chemicals industry trebled to $24 billion, that in electrical and electronic equipment rose by half to $25 billion, and that in motor vehicles and other transport equipment also trebled to $25 billion.

The processing of natural resources was a key part of the upturn in West Asia and South-East Asia and, to a lesser extent, South Asia. In Saudi Arabia, for example, Total (France) signed a memorandum of understanding with Saudi Aramco to develop a petrochemical complex in Jubail in a project worth $9 billion. In India, CPC (Taiwan Province of China) announced its plan to invest $6.6 billion in a petrochemical project in Paradip. As a result, projects in this industry almost quadrupled to $25 billion in West Asia, those in South Asia

Figure I.8. **Value of announced FDI greenfield projects in manufacturing, 2005–2018**
(Billions of dollars and per cent)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: Natural resources-related industries include (i) coke, petroleum products and nuclear fuel; (ii) metals and metal products; (iii) non-metallic mineral products; and (iv) wood and wood products. Lower-skill industries include (i) food, beverages and tobacco and (ii) textiles, clothing and leather; higher-skill industries include all other manufacturing industries.

increased to $8 billion. In South-East Asia, metal processing attracted investment, more than doubling the value of announced projects to $12 billion from the value in 2017.

In contrast to the higher-skill and natural resource-related industries, the trend in announced projects in lower-skill industries was generally lacklustre, not only in Asia but also in other developing regions. While the value of projects in food, beverages and tobacco in developing economies rose by 29 per cent to $16 billion, those in textiles declined by 36 per cent to $7 billion. For low-income countries, especially in Africa, the decline in projects in typical early-industrialization industries is a concern. The need for developing countries to attract more FDI in these industries to support their structural transformation remains urgent, explaining the proliferation of industrial policies (*WIR18*) and special economic zones (SEZs; see chapter IV).

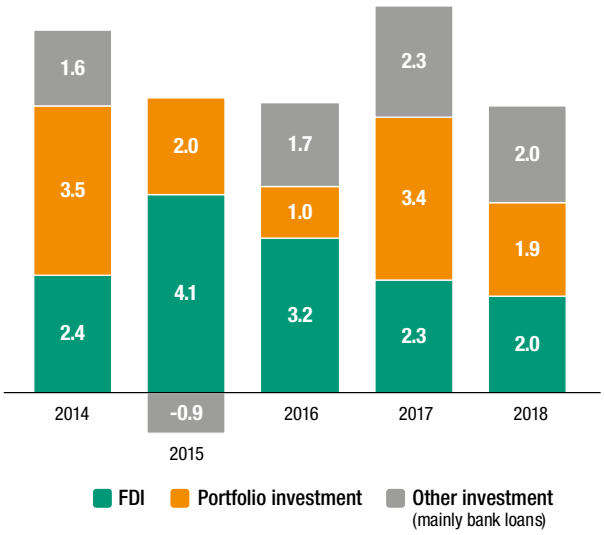
The global total of announced greenfield projects in services rose by 43 per cent to $473 billion. There were large increases in both construction and power generation. Projects in construction rose by 84 per cent to $113 billion. Projects in industrial building were subdued after the 2008 economic crisis, but there has been a revival since the mid-2010s. Some of these projects are related to the construction of SEZs. For instance, in 2015, Thailand-based Rojana Industrial Park, a subsidiary of Nippon Steel and Sumikin Bussan (Japan), announced the project to develop the Dawei Special Economic Zone in Myanmar. In 2016, Wei Yu Engineering (Taiwan Province of China) announced plans to invest $2.5 billion in the Vung Ang Economic Zone in Viet Nam to construct docks with logistics areas and agricultural areas. In 2018, the textile manufacturer Shandong Ruyi Technology (China) announced its project to invest $830 million to establish a textile industrial zone in the Suez Canal Economic Zone in Egypt.

Greenfield projects in power generation rose by 23 per cent in 2018, to $110 billion, accounting for almost all projects in utilities. Whereas total investment, including domestic investment, in power generation is only slowly reducing its reliance on fossil fuels, international investment through greenfield FDI is focused predominantly on renewable energy. In the past decade, the value of greenfield projects in renewable electricity exceeded that of fossil fuel-based electricity generation every year. In 2018, announced capital expenditures in renewable electricity totalled $78 billion and in fossil fuel-based electricity only $27 billion (see chapter II.C). The positive trend in international greenfield investment in this sector should be put in context. In developing economies, announced greenfield capital expenditures on power generation projects (all types) came to $70 billion. This compares with an annual investment gap of over $500 billion to achieve the United Nations SDGs, as estimated in *WIR14*.

4. FDI and other cross-border capital flows

The decline in global FDI flows was in line with the trend in other cross-border capital flows. Together FDI, portfolio flows and other investment (mostly bank loans) amounted to $5 trillion, or 5.9 per cent of global GDP in 2018, a decline of more than 20 per cent from 2017 (figure I.9).

Figure I.9. **Global cross-border capital flows, 2014–2018** (Per cent of GDP)



Source: UNCTAD, based on IMF World Economic Outlook Database.

Note: The percentages presented here are based on available data from 187 economies. The IMF World Economic Outlook database tracks FDI flows measured according to the asset/liability principle. Hence, the value of FDI flows is not directly comparable with UNCTAD's FDI data presented elsewhere in this report.

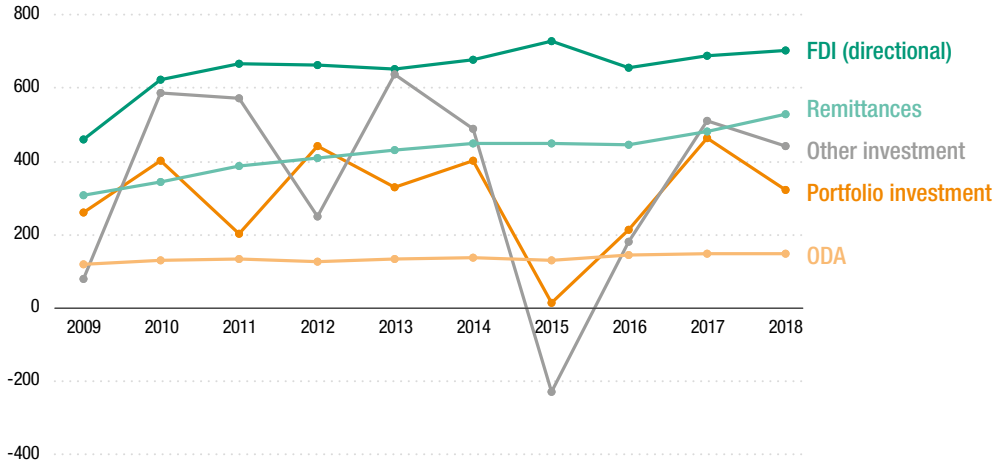
While all three categories of capital flows fell, the decline was the largest in portfolio investment (down 40 per cent). Portfolio flows are closely linked to financial market performance, as well as interest rate and currency movements. They are also more sensitive to geopolitical tensions and country-specific political uncertainty.

Developing economies received just over one third of global cross-border capital flows. Compared with flows to developed economies, which declined by 27 per cent, flows to developing economies were more resilient, declining by only 8 per cent, because FDI – the more stable type of finance – represents a larger share of their capital inflows. Portfolio inflows and other investment in developing economies declined by 30 per cent and 14 per cent, respectively. Declines in portfolio flows were particularly large in Latin America and in West Asia. Policy uncertainty and currency instability in major regional recipients of portfolio flows, including Argentina, Mexico and Turkey, contributed to the declines. In those countries, too, FDI inflows proved more stable and actually increased in 2018 (chapter II).

The size and relative stability of FDI makes it the most importance source of external finance for developing economies (figure I.10). Preliminary data for official development assistance (ODA) (bilateral and multilateral) show an increase of 1.5 per cent to $149 billion. Preliminary data for remittances show an increase of 9.6 per cent to $529 billion.

However, capital flows to developing economies remain concentrated in a relatively small number of countries. Asia receives three quarters of capital flows to developing economies. Portfolio investment and other investment flows are even more skewed towards that region. The least developed countries (LDCs), with a combined population of 1 billion, receive just 3 per cent of those cross-border capital flows. For these countries, remittances remain substantially higher than FDI. They increased by 11 per cent to $40 billion in 2018, compared with FDI inflows worth $24 billion.

Figure I.10. **Developing economies: sources of external finance, 2009–2018**
(Billions of dollars)



Source: UNCTAD, based on KNOMAD (for remittances), UNCTAD (for FDI), IMF World Economic Dataset (for portfolio investment and other investment) and OECD (for ODA).

Note: Remittances and ODA are approximated by flows to low- and middle-income countries, as grouped by the World Bank.

B. FDI PROSPECTS

Global investment is expected to see a modest recovery of 10 per cent in 2019. This expectation is based on current forecasts for a number of macroeconomic indicators, UNCTAD's econometric forecasting model of FDI inflows and its underlying trend analysis, and preliminary 2019 data for cross-border M&As and announced greenfield projects. It is complemented by UNCTAD's survey of investment promotion agencies (IPAs).

1. Short-term prospects

Projections for FDI in 2019 point to a 10 per cent increase to almost $1.5 trillion – still below the average of the last 10 years. The main factor driving up expectations is the likely rebound from anomalously low levels of FDI in developed countries in 2018. Following the subsiding of repatriations of foreign earnings of United States multinationals in the second half of 2018, developed-country inflows are likely to revert to prior levels, implying a significant jump in some countries that normally receive sizeable inflows. The expected increase of FDI flows in 2019 is also apparent in the 41 per cent jump in greenfield project announcements (planned expenditures) from their low levels in 2017.

Despite these upward-pointing signs the size of the expected increase in FDI is relatively limited because the long-term underlying FDI trend remains weak (section I.B.2). M&A data for the first four months of 2019 confirm the need for caution; the value of cross-border M&As was about $180 billion, 10 per cent lower than the same period in 2018.

The likelihood of an increase in global FDI is further tempered by a series of risk factors. Geopolitical risks, trade tensions and concerns about a shift towards more protectionist policies could have a negative impact on FDI in 2019. Moreover, longer-term forecasts for macroeconomic variables contain important downsides (table I.3).

The projected increase of FDI flows is highest in developed economies, with Europe expected to see an increase of more than 60 per cent (recovering but remaining at only about half of 2016 values) (table I.4). Flows to developing economies are expected to hold steady, with projections showing a marginal increase of about 5 per cent. Among developing regions, FDI in Africa is likely to increase by 15 per cent, in view of an expected acceleration of economic growth and advances in regional integration. Prospects for developing Asia are cautiously optimistic, especially in South-East Asia and South Asia, with flows rising

Table I.3. Real growth rates of GDP and gross fixed capital formation (GFCF), 2016–2020
(Per cent)

Variable	Region	2016	2017	2018	2019	2020
GDP growth rate	World	3.4	3.8	3.6	3.3	3.6
	Advanced economies[a]	1.7	2.4	2.2	1.8	1.7
	Emerging and developing economies[a]	4.6	4.8	4.5	4.4	4.8
GFCF growth rate	World	2.8	4.1	4.0	3.7	4.1
	Advanced economies[a]	2.0	3.8	3.1	2.5	2.4
	Emerging and developing economies[a]	3.3	4.3	4.6	4.5	5.3

Source: UNCTAD, based on IMF (2019).
Note: GFCF = gross fixed capital formation.
[a] IMF's classifications of advanced, emerging and developing economies are not the same as the United Nations' classifications of developed and developing economies.

Table I.4. FDI inflows, projections, by group of economies and region, 2016–2018, and projections, 2019 (Billions of dollars and per cent)

Group of economies/region	2016	2017	2018	Projections 2019
World	**1 919**	**1 497**	**1 297**	**1 370 to 1 500**
Developed economies	**1 198**	**759**	**557**	**640 to 720**
Europe	612	384	172	330
North America	508	302	291	310
Developing economies	**656**	**691**	**706**	**700 to 740**
Africa	46	41	46	52
Asia	473	493	512	530
Latin America and the Caribbean	135	155	147	140
Transition economies	**65**	**48**	**34**	**45 to 55**
Memorandum: annual growth rate (per cent)				
World	**-6**	**-22**	**-13**	**(5 to 15)**
Developed economies	**-6**	**-37**	**-27**	**(15 to 30)**
Europe	-14	-37	-55	~ 65
North America	-1	-41	-4	~ 5
Developing economies	**-10**	**5**	**2**	**(0 to 5)**
Africa	-18	-11	11	~ 15
Asia	-8	4	4	~ 5
Latin America and the Caribbean	-13	15	-6	~ -5
Transition economies	**78**	**-26**	**-28**	**(40 to 50)**

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Percentages are rounded.

slightly (by 5 per cent) thanks to a favourable economic outlook and improving investment climate. Flows to Latin America and the Caribbean are expected to remain relatively stable, with a projected decline of about 5 per cent, while in transition economies flows are likely to see a recovery in 2019, reaching $50 billion.

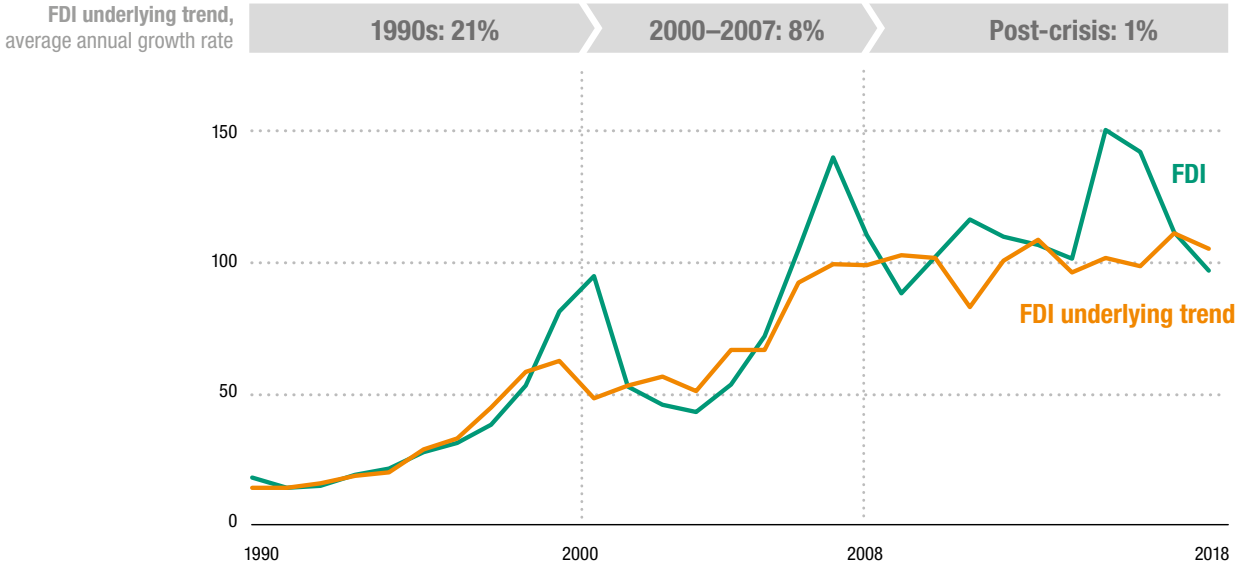
2. Long-term trends

The relatively modest increase in global FDI projected for 2019 is in line with the slow growth over recent years in the underlying trend. That trend – net of fluctuations driven by one-off factors such as tax reforms, megadeals and volatile financial flows included in FDI – has shown anemic growth since the global financial crisis (figure I.11). Key drivers for the long-term slowdown in FDI include policy, economic and business factors.

Policy factors. The gradual opening of emerging markets worldwide that spurred FDI growth until the late 2000s is no longer fueling FDI to the same extent. In the last few years, restrictions on foreign ownership, based on national security considerations or strategic technologies, have again been front of mind for policymakers (chapter III). Uncertainty over the development of the international policy frameworks for trade and investment is also not supporting investor confidence.

Economic factors. Declining rates of return on FDI are a key factor behind the long-term slowdown (table I.5). In 2018, the global rate of return on inward FDI was down to 6.8 per cent, from 8 per cent in 2010. Although rates of return remain higher on average in developing and transition economies, most regions have not escaped the erosion. In Africa, for example, return on investment dropped from 11.9 per cent in 2010 to 6.5 per cent in 2018.

Figure I.11. FDI inflows and the underlying trend, 1990–2018 (Indexed, 2010 = 100)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics); UNCTAD estimates.
Note: The FDI underlying trend is a composite index (incorporating balance of payments and other variables), constructed by removing the effect on FDI of fluctuations in M&As, intracompany loans and offshore financial flows through appropriate smoothing techniques.

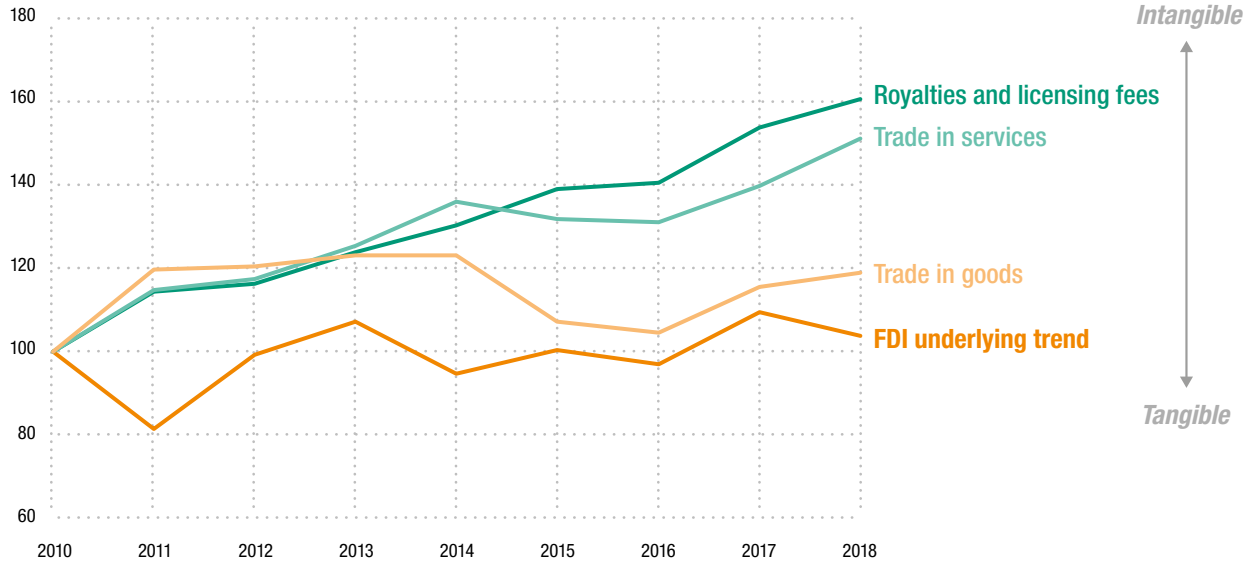
Table I.5. Inward FDI rates of return, 2010–2018 (Per cent)

Region	2010	2011	2012	2013	2014	2015	2016	2017	2018
World	**8.0**	**8.5**	**7.7**	**7.5**	**7.6**	**6.9**	**6.8**	**6.8**	**6.8**
Developed economies	**6.4**	**6.7**	**6.1**	**5.9**	**6.4**	**6.0**	**5.9**	**5.9**	**6.0**
Developing economies	**11.0**	**11.5**	**10.1**	**9.9**	**9.5**	**8.4**	**8.2**	**8.1**	**7.8**
Africa	11.9	12.0	11.7	11.4	9.6	6.5	5.0	6.0	6.5
Latin America and the Caribbean	9.7	9.8	8.5	7.0	6.3	4.5	5.4	6.2	6.2
Asia	11.4	12.2	10.6	10.8	10.7	10.0	9.6	9.0	8.5
East and South-East Asia	12.5	13.4	11.6	11.9	11.8	11.1	10.4	9.9	9.4
South Asia	8.9	7.6	7.2	6.7	6.1	5.5	6.4	5.6	5.3
West Asia	6.0	6.8	5.6	5.5	5.0	4.7	4.8	3.5	3.4
Transition economies	**12.1**	**14.8**	**14.6**	**13.2**	**13.2**	**9.0**	**10.2**	**11.6**	**12.4**

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.

Business factors. Structural changes in the nature of international production are also at work. The adoption of digital technologies in global supply chains across many industries is causing a shift towards intangibles and increasingly asset-light forms of international production, as reaching global markets and exploiting efficiencies from cross-border operations no longer requires heavy asset footprints (*WIR17*). The trend is visible in the divergence of key international production indicators – on a scale from tangible to intangible – with a substantially flat trend for FDI and trade in goods and much faster growth for both trade in services and international payments for intangibles (royalties and licensing fees) (figure I.12).

Figure I.12. **Indicators of international production, tangible and intangible, 2010–2018** (Indexed, 2010 = 100)

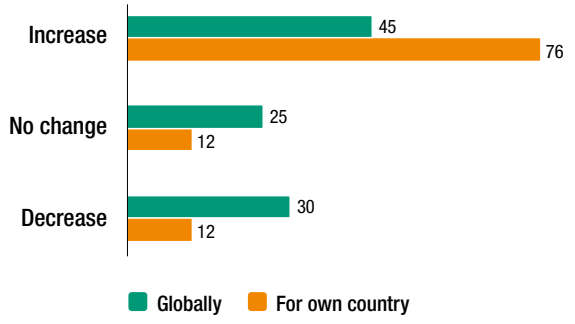


Source: UNCTAD.

3. IPAs' expectations

Despite the third consecutive decrease in global FDI in 2018 and the weak underlying trend, UNCTAD's survey of investment promotion agencies (IPAs) shows continued optimism on the part of IPAs. Their expectations for FDI flows into their own countries to 2021 remain high. However, expectations were more tempered at the global level (figure I.13). Only 45 per cent of respondents expect global FDI flows to increase, indicating that IPAs acknowledge the challenges of and competition for the attraction of FDI in the current global investment climate.

Figure I.13. **IPAs' expectations for changes in FDI, 2019–2021** (Percentage of respondents)



Source: UNCTAD Investment Promotion Agencies Survey.
Note: The survey was conducted from February to April 2019. Results are based on information from 114 respondents.

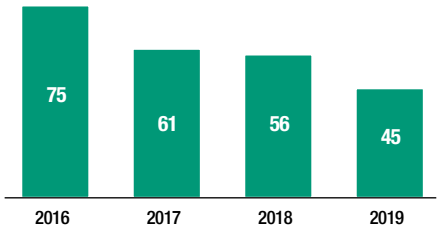
Comparing IPAs' perceptions for global FDI prospects between 2016 and 2019 shows that expectations have been progressively less optimistic in every year of the survey (figure I.14).

IPAs rank the United States and China – in joint first place – as the most likely sources of foreign investment to their countries. Three large European economies – the United Kingdom, Germany and France – were considered the next most important sources of FDI. India and the United Arab Emirates, not traditionally in the top 20 outward investor countries, were also considered as among the top 10 most important sources of FDI for the 2019 to 2021 period.

IPAs in developed economies expect most investment to go to information and communications industries, followed by professional services, and finance and insurance. In developing and transition economies, IPAs expect more investment in agriculture, followed

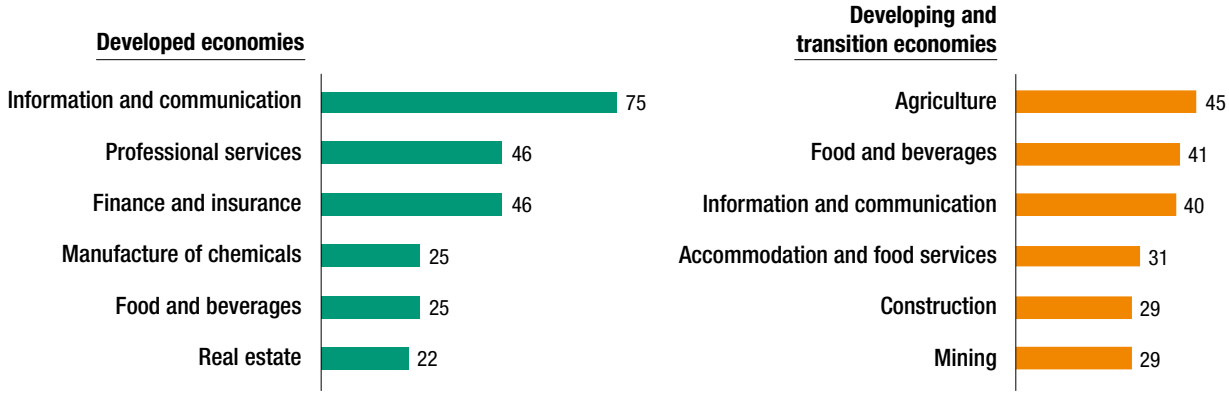
by food and beverages, and information and communication (figure I.15). More and more countries are looking to attract investment in digital technologies and innovation as key drivers of economic growth. The high ranking of the ICT sector for FDI prospects is also a reflection of the investment promotion efforts of IPAs in this sector. The selection of agriculture and food processing among the most promising sectors in developing and transition economies indicates that IPAs in those economies expect a significant share of FDI to remain connected to natural resources for the foreseeable future.

Figure I.14. IPAs expecting an increase in global FDI flows, 2016–2019
(Per cent of respondents)



Source: UNCTAD Investment Promotion Agencies Surveys (2016–2019).
Note: Percentages reflect survey results of each year.

Figure I.15. IPAs' selection of most promising industry for attracting FDI in their own economy, by region, 2018 (Per cent of respondents)



Source: *Source*: UNCTAD, Investment Promotion Agencies Survey.

C. INTERNATIONAL PRODUCTION

1. Key indicators of international production

International production continues to expand. Estimated values for sales and value added of MNEs' foreign affiliates rose in 2018 by 3 per cent and 8 per cent, respectively. Employment of foreign affiliates reached 76 million, at an annual growth rate of about 3 per cent (table I.6).

Relatively fast growth in value added, compared with sales, suggest that foreign affiliates of MNEs are able to extract increasing value from their operations. At the same time, more modest growth in employment appears to indicate a gradual shift in the distribution of value added between production factors towards capital rather than labour. This is consistent with the ongoing trend of international production shifting towards digital and intangible activity (see *WIR17*).

Intangibles also play an important role in the significant growth of foreign assets over the past decades. The trend towards asset-light operations documented in *WIR17* and the increasing importance of non-equity modes of international operations (including licensing

Table I.6. Selected indicators of FDI and international production, 2018 and selected years

Item	Value at current prices (Billions of dollars)					
	1990	2005–2007 (pre-crisis average)	2015	2016	2017	2018
FDI inflows	205	1 414	2 034	1 919	1 497	1 297
FDI outflows	244	1 451	1 683	1 550	1 425	1 014
FDI inward stock	2 196	14 475	26 313	28 243	32 624	32 272
FDI outward stock	2 255	15 182	26 260	27 621	32 383	30 975
Income on inward FDI[a]	82	1 028	1 513	1 553	1 691	1 799
Rate of return on inward FDI[b]	*5.3*	*8.6*	*6.9*	*6.8*	*6.8*	*6.8*
Income on outward FDI[a]	128	1 102	1 476	1 478	1 661	1 792
Rate of return on outward FDI[b]	*8.0*	*9.6*	*6.3*	*6.1*	*6.3*	*6.4*
Net cross-border M&As	98	729	735	887	694	816
Sales of foreign affiliates	7 136	24 621	26 019	25 649	26 580[c]	27 247[c]
Value added (product) of foreign affiliates	1 335	5 325	6 002	5 919	6 711[c]	7 257[c]
Total assets of foreign affiliates	6 202	50 747	91 261	95 540	104 915[c]	110 468[c]
Employment by foreign affiliates (thousands)	28 558	59 011	69 533	70 470	73 571[c]	75 897[c]
Memorandum						
GDP[d]	23 439	52 366	74 664	75 709	80 118	84 713
Gross fixed capital formation[d]	5 820	12 472	18 731	18 781	20 039	21 378
Royalties and licence fee receipts	31	174	321	325	355	370

Source: UNCTAD.

Note: Not included in this table are the value of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and of the sales of the parent firms themselves. Worldwide sales, gross product, total assets, exports and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of MNEs from Australia, Austria, Belgium, Canada, Czechia, Finland, France, Germany, Greece, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Portugal, Slovenia, Sweden, and the United States for sales; those from Czechia, France, Israel, Japan, Portugal, Slovenia, Sweden, and the United States for value-added (product); those from Austria, Germany, Japan and the United States for assets; and those from Australia, Austria, Belgium, Canada, Czechia, Finland, France, Germany, Italy, Japan, Latvia, Lithuania, Luxembourg, Macao (China), Portugal, Slovenia, Sweden, Switzerland, and the United States for employment, on the basis of three-year average shares of those countries in worldwide outward FDI stock.

[a] Based on data from 165 countries for income on inward FDI and 144 countries for income on outward FDI in 2018, in both cases representing more than 90 per cent of global inward and outward stocks.

[b] Calculated only for countries with both FDI income and stock data.

[c] Data for 2017 and 2018 are estimated based on a fixed-effects panel regression of each variable against outward stock and a lagged dependent variable for the period 1980–2016.

[d] Data from IMF (2019).

and contract manufacturing) suggests that fixed assets are not the driver of this growth. The growth of total assets relative to sales over the last decade is in line with the trend in assets-to-sales ratios of the S&P500.

The rate of return on inward FDI generated by foreign affiliates in host economies remained at 6.8 per cent in 2018. After a pronounced gradual decline since 2010 it appears to have reached a plateau in the last three years, at 6.8 per cent of total FDI stock.

2. Internationalization trends of the largest MNEs

In 2018, seven companies entered the UNCTAD ranking of the top 100 MNEs. Three companies entered following cross-border mergers: Atlantia Spa (Italy), a construction company, which bought Spanish competitor Albertis; the new Linde Plc (United Kingdom), which emerged from the merger of two industrial gas companies, Praxair (United States) and Linde AG (Germany); and Takeda Pharmaceuticals (Japan), which acquired Shire Plc (Ireland). Four MNEs from developing countries entered the list: three Chinese State-owned MNEs (SO-MNEs), Chem China, State Grid and China MinMetals, and Tata Motors from India. Broadcom Inc exited the top 100 because of its decision to move its headquarters from Singapore to the United States, where most of its operations are based. A second MNE exited because of financial difficulties: HNA Group (China) entered a severe liquidity crisis in the second half of 2017 and has since shed more than $40 billion in assets as it tried to pay off debt accumulated during a spree of acquisitions in the preceding years. Other companies at the bottom of the ranking slid out as the threshold of foreign assets continued to increase.

The average level of internationalization of the top 100 MNEs (the ratio of foreign over domestic assets) decreased in 2018 (table I.7). This was caused by the new Chinese entries (with large domestic operations), by a number of mergers that boosted domestic operations, and by the divestment of foreign operations by a few MNEs.

The presence of technology companies in the top 100 MNEs from developing countries is increasing. New entries in 2017 included the electrical appliance manufacturer Midea Group (China), following three major acquisitions in 2016: the home appliances business of Toshiba (Japan), the German robotics company KUKA, and Eureka, a floorcare brand, from Electrolux (Sweden). During 2018, many semiconductor MNEs from emerging economies entered joint ventures or increased investment in production capacity, with some poised to enter the list next year (e.g. SK Hynix, ASE Technologies, TWC). SK Hynix (Republic of Korea) plans to invest almost $150 billion over the next 10 years into its semiconductor business to maintain its position as one of the world's largest chipmakers. Also, last year, Advanced Semiconductor Engineering (Taiwan Province of China) and Siliconware Precision Industries formed a new holding company, as part of the consolidation in the global semiconductor industry.

The top 100 MNEs from developing and transition economies also saw the relative growth of their foreign operations slow, on average, although the absolute growth of their foreign sales, assets and employees remained significantly higher than that of the firms in the global top 100. For both top 100 groups, foreign sales are growing faster than foreign assets and employees, in line with the increasing importance of intangibles, asset-light operations and non-equity modes of international production.

Since 2010 the number of (non-automotive) industrial MNEs in the top 100 ranking has dropped by half, from 20 to 10 in 2018. Figure I.16 shows the acquisitions and divestments of top industrial corporations (excluding automotive firms, which saw little

Table I.7. Internationalization statistics of the top 100 non-financial MNEs, global and from developing and transition economies, 2016 and 2017
(Billions of dollars, thousands of employees and per cent)

Variable	Global top 100 MNEs					Top 100 MNEs from developing and transition economies		
	2016[a]	2017[a]	2016–2017 Change (%)	2018[b]	2017–2018 Change (%)	2016[a]	2017	Change (%)
Assets (billions of dollars)								
Foreign	8 337	8 996	7.9	9 231	2.8	1 895	2 119	11.8
Domestic	4 894	5 538	13.2	6 262	14.8	5 100	5 613	10.1
Total	13 231	14 534	9.8	15 492	7.2	6 995	7 732	10.5
Foreign as share of total (%)	63	62	-1.1	60	-2.3	27	27	0.3
Sales (billions of dollars)								
Foreign	4 765	5 200	9.1	5 587	8.1	1 535	1 897	23.6
Domestic	2 737	2 817	2.9	3 790	35.5	2 066	2 537	22.8
Total	7 502	8 017	6.9	9 377	18.1	3 601	4 433	23.1
Foreign as share of total (%)	64	65	1.3	60	-5.3	43	43	0.2
Employment (thousands)								
Foreign	9 535	9 662	1.3	9 611	0.8	4 618	4 521	-2.1
Domestic	6 920	7 037	1.7	7 876	13.8	8 622	8 652	0.4
Total	16 455	16 699	1.5	17 488	6.3	13 240	13 174	-0.5
Foreign as share of total (%)	58	58	-0.1	55	-2.9	35	34	-0.6

Source: UNCTAD.
Note: Data refer to fiscal year results reported between 1 April of the base year and 31 March of the following year. Complete 2018 data for the top 100 MNEs from developing and transition economies are not yet available.
[a] Revised results
[b] Preliminary results

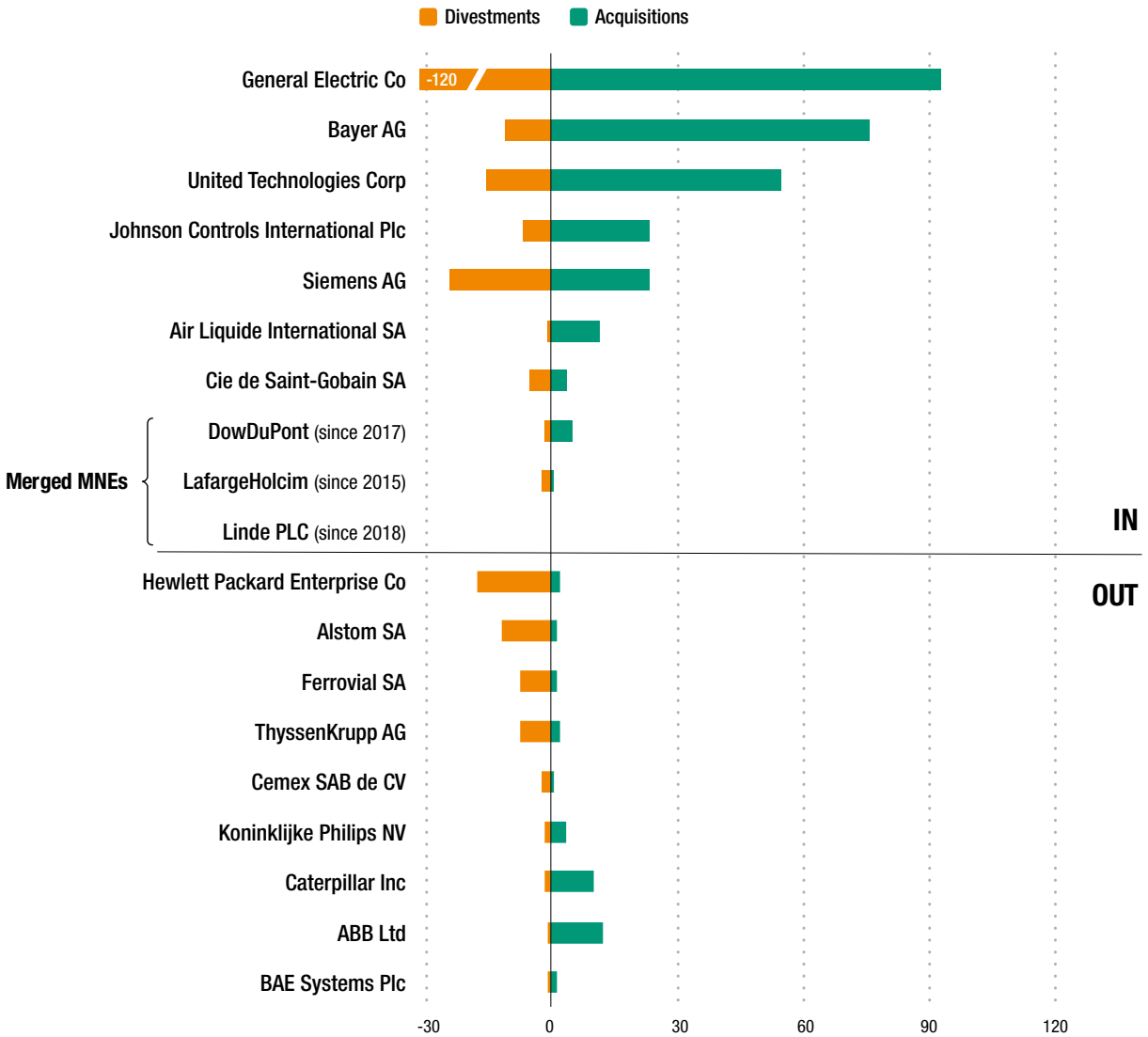
change) that were in the top 100 ranking in 2010, those that are still in the ranking (above the line) and those that dropped out (below the line).

The decline in the number of industrial MNEs in the ranking is only partly the result of the growing presence of technology and digital companies. It is also driven by the scaling-down of industrial conglomerates. Industrial MNEs disappearing from the top ranking or losing positions are often undergoing restructuring programmes to focus on their core business. Of those that left the ranking, ThyssenKrupp (Germany) – after a series of divestments – announced that it will spin off its lift business. Similarly, ABB (Switzerland) announced the sale of its power-grid division to Hitachi (Japan) in December.

Other industrial MNEs are still in the 2018 ranking, often as a result of M&As. Examples of mergers between traditional industrial companies include the new Linde Plc (United Kingdom), DowDuPont (United States) and LafargeHolcim (Switzerland). Others acquired major competitors: in 2018 Bayer Ag (Germany) purchased Monsanto (United States), and United Technologies Corp (United States) bought Rockwell Collins (United States). Post-merger moves to shed non-core businesses or to realize synergies could negatively affect the ranking in the top 100 of these companies. For example, United Technologies already announced it will split into three companies, with the aviation business remaining the largest. Similarly, DowDuPont (merged in 2017) is splitting this year into three more focused companies. LafargeHolcim (merged in 2015) has already sold its business in Indonesia and plans to sell assets in South-East Asia for $2 billion over the next five years.

The downsizing of industrial MNEs appears to be a general trend. For example, Siemens (Germany) floated its medical equipment business to attract investors for businesses outside its core industrial engineering operations, and it separated its wind power operations. In 2018, Siemens announced that it will spin off its gas and power operations into an independent company to be listed next year. The most dramatic restructuring is

Figure I.16. **Top industrial MNEs' total divestments and investments (foreign and domestic), cumulative 2010–2018** (Billions of dollars)



Source: UNCTAD, based on information from Refinitiv Eikon.

Note: The figure lists non-automotive industrial firms in the 2010 ranking of the global top 100 MNEs. Firms above the line are still in the 2019 ranking. In 2010, in place of the three merged companies there were either one company (Dow Chemical, Linde AG) or two (Lafarge and Holcim). Caterpillar Inc (United States) and ABB Ltd (Switzerland) exited the ranking despite acquisitions as these were either domestic or not large enough to stay above the threshold level of foreign assets for the top 100 list.

represented by General Electric (United States), which was at the top of the ranking for many years and is now sliding down the list following a series of divestments totalling more than $120 billion at the end of 2018. These divestments started in 2016 with its financial services division, which until then provided about half of the group's profits, and will ultimately reduce the company's sectors of operation from more than 10 to just two: aviation and power.

The shedding of non-core businesses by industrial conglomerates in the top 100 has also been the result of pressure from shareholders. Conglomerates' shares are no longer commanding a premium as in the past but are trading at a discount. Active hedge fund managers have been playing a key role behind the trend, as in the case of Cevian pushing for the break-up of ThyssenKrupp, and ABB and Third Point influencing United Technologies.

In 2018, top global companies invested more than $350 billion in R&D, representing over a third of business-funded R&D worldwide. The top 100 list includes global leaders

in the key industries contributing to R&D: ICT, pharmaceuticals and automotive. The top three R&D investors were all from technology and digital industries: Amazon.com (United States) with almost $29 billion of expenditures in 2018, followed by Alphabet (United States) with $21 billion, and Samsung Electronics (Republic of Korea) with $17 billion. Including in the sample the top 100 MNEs from developing and transition economies produces a list of the top 20 R&D investors that captures a large part of innovation expenditures across the world. The top innovators are concentrated among technology MNEs from the United States and a few emerging economies (mainly the Republic of Korea and China), followed by developed-economy pharmaceutical and automotive firms (table I.8). Among the top MNEs, global international traders, utilities and extractive companies invested the least in R&D. Top R&D investors from emerging economies were – after Samsung Electronics – Huawei Technologies (China) with $15 billion, and China Mobile (China) with $6 billion.[2]

Given the differences in size between MNEs, the absolute value of R&D expenditures is not a reliable guide to the importance of R&D in maintaining a company's competitive edge. For example, the oil company Sinopec (China) invested $1.2 billion in R&D in 2018, representing only 0.3 per cent of its revenues. Thus, especially for the ranking of MNEs from developing and transition economies, it is more indicative to look at R&D expenditure as a percentage of total revenue (i.e. R&D intensity). This changes the ranking among industries, with pharmaceuticals showing the highest intensities.

In the top 100 MNEs from developing and transition economies, only a few spend more than 5 per cent of sales on R&D. This is due mostly to the industry composition of the list and the prevalence of big industrial or extractive conglomerates (table I.9). However, even comparing like for like industries, the R&D expenditures by companies from developing countries remain lower. For example, comparing the R&D intensity in the automotive industry shows an average of 1.2 per cent for the two companies in the developing-country list (Hyundai and Tata Motors), compared with 4.7 per cent in the global list (11 companies).

Table I.8. Top 20 R&D investors from the top 100 MNEs (global and developing and transition economies), by expenditure, 2018 (Billions of dollars, R&D intensity)

Ranking	Company	Country	Industry	R&D expenditures ($ billion)	R&D intensity
1	Amazon.com, Inc	United States	Tech	28.8	12.4
2	Alphabet Inc	United States	Tech	21.4	15.7
3	Samsung Electronics Co, Ltd	Korea, Rep. of	Tech	16.5	7.5
4	Huawei Technologies	China	Tech	15.3	14.1
5	Microsoft Corp	United States	Tech	14.7	13.3
6	Apple Inc	United States	Tech	14.2	5.4
7	Intel Corp	United States	Tech	13.5	19.1
8	Roche Holding AG	Switzerland	Pharmaceuticals	12.3	20.3
9	Johnson & Johnson	United States	Pharmaceuticals	10.8	13.2
10	Toyota Motor Corp[a]	Japan	Automotive	10.0	3.6
11	Volkswagen AG	Germany	Automotive	9.6	3.4
12	Novartis AG	Switzerland	Pharmaceuticals	9.1	16.5
13	Robert Bosch GmbH	Germany	Automotive	8.7	9.2
14	Ford Motor Co	United States	Automotive	8.2	5.1
15	Pfizer Inc	United States	Pharmaceuticals	8.0	14.9
16	General Motors Co	United States	Automotive	7.8	5.3
17	Daimler AG	Germany	Automotive	7.5	3.9
18	Honda Motor Co Ltd	Japan	Automotive	7.3	5.1
19	Sanofi	France	Pharmaceuticals	6.7	16.0
20	Siemens AG	Germany	Industrial	6.4	6.7

Source: UNCTAD, based on information from Refinitiv Eikon and Orbis.
[a] 2017 data.

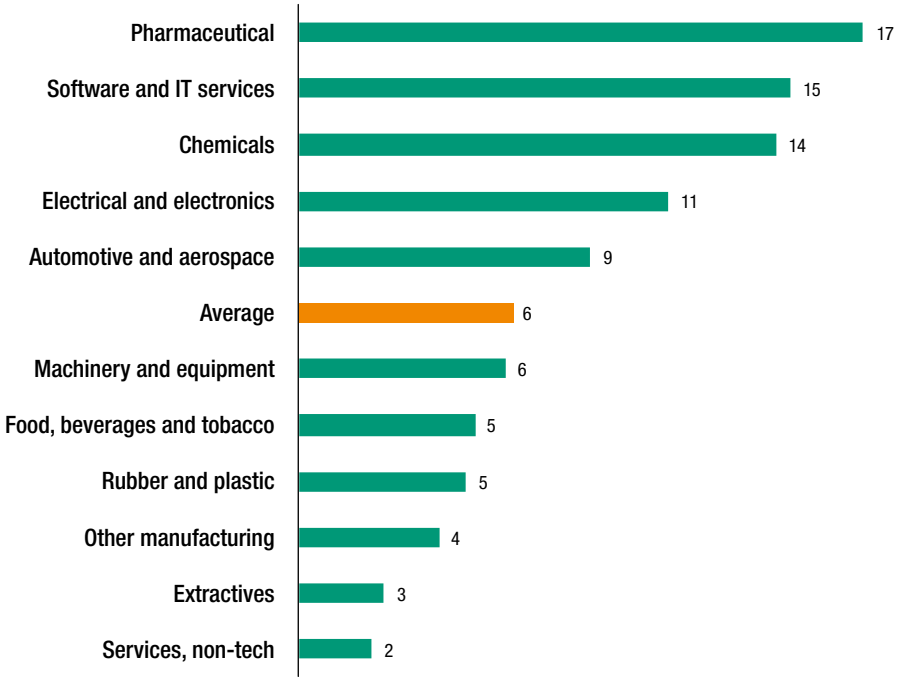
Table I.9. Top 15 R&D investors among the top 100 MNEs from developing and transition economies, 2017 (Millions of dollars, R&D intensity)

Ranking	Company	Country	Industry	R&D expenditures	R&D intensity
1	Huawei	China	Tech	15 300	14.1
2	United Microelectronics Corp	Taiwan Province of China	Tech	424	8.5
3	Samsung Electronics Co, Ltd	Korea, Rep. of	Tech	16 451	7.5
4	Tencent Holdings Ltd	China	Tech	3 465	7.3
5	China Mobile Ltd	China	Telecom	6 421	5.9
6	SK Hynix Inc	Korea, Rep. of	Tech	2 047	5.6
7	Cheng Shin Rubber Industry Co, Ltd	Taiwan Province of China	Industrial	173	4.8
8	Advanced Semiconductor Engineering Inc	Taiwan Province of China	Tech	394	4.0
9	Midea Group Co Ltd	China	Tech	1 218	3.1
10	Lenovo Group Ltd	China	Tech	1 274	2.8
11	Qingdao Haier Co Ltd	China	Industrial	739	2.7
12	Oil and Natural Gas Corp Ltd	India	Extractives	1 236	2.2
13	POU Chen Corp	Taiwan Province of China	Industrial	203	2.1
14	China Communications Construction Co Ltd	China	Construction	1 457	2.0
15	Wistron Corp	Taiwan Province of China	Tech	469	1.6

Source: UNCTAD, based on information from Refinitiv Eikon and Orbis.

FDI in R&D activities is growing. MNEs establish R&D activities abroad to locate close to markets, to access pools of skilled resources, or to cluster near knowledge centres. R&D-related greenfield investment projects are significant in number and growing. During the last five years 5,300 R&D projects were announced, representing about 6 per cent of all investment projects, and up from 4,000 in the previous five years. For pharmaceutical companies, R&D-related projects can account for as much as 17 per cent of all greenfield projects (figure I.17). Software and IT services follow, with about 15 per cent of their greenfield projects related to R&D.

Figure I.17. R&D-related projects as a share of total announced projects, by industry, 2010–2018 (Per cent of projects)

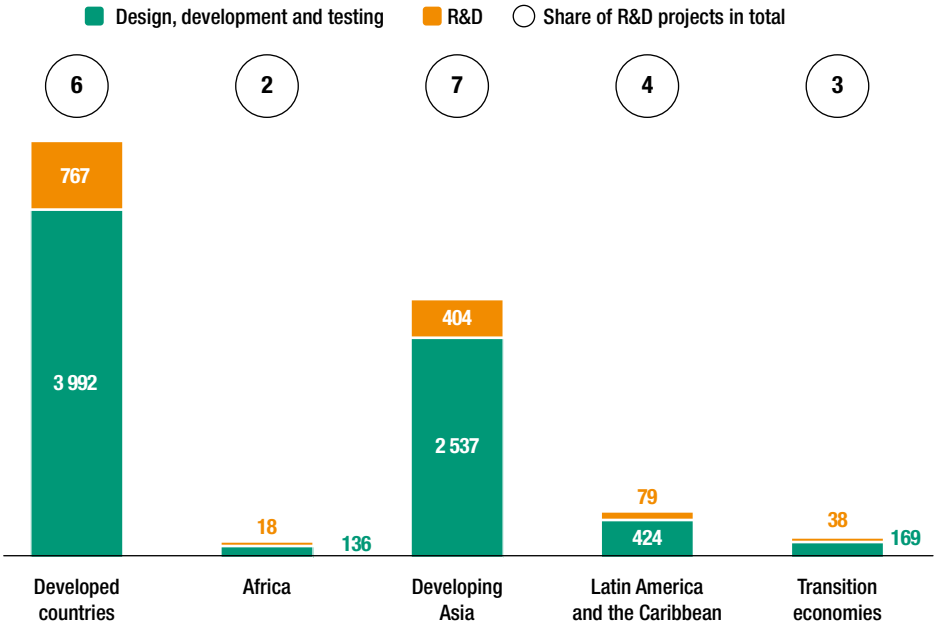


Source: UNCTAD, based on information from Financial Times Ltd fDi Markets, (www.fdimarkets.com).

The majority of R&D-related FDI projects is in relatively lower value added design, development and testing activities, rather than basic research. These activities are also driving most of the growth in R&D projects abroad. Such projects may seek to access lower-cost skilled resources or to locate closer to markets where the research phase is aimed at adapting products to different consumer needs.

Developing and transition economies capture 45 per cent of all innovation-related FDI. Projects in developing Asia are transforming some economies, including Singapore, Hong Kong (China), India and Malaysia, into global hubs of applied research. The share of R&D projects directed towards other developing regions is smaller (figure I.18).

Figure I.18. **R&D-related announced greenfield FDI projects, by type and region, cumulative 2010–2018** (Number and per cent)



Source: UNCTAD, based on Financial Times Ltd, fDi Markets (www.fdimarkets.com).

3. State-owned multinational enterprises

The total number of SO-MNEs[3] is stable. The 2019 update of UNCTAD's database of SO-MNEs includes close to 1,500 firms, as in 2017. Last year, three new SO-MNEs – ChemChina, State Grid of China and China Minmetals – entered the top 100 MNEs ranking, bringing the number of SO-MNEs in the top 100 to 16 in all, one more than in 2017. These SO-MNEs include five from China and 11 with developed-country shareholdings (table I.10).

Overall, about 10 per cent of companies in the database are new entrants. In the majority of cases, the new entrants are SO-MNEs from major emerging markets that have newly opened subsidiaries abroad. These have replaced an equal number of SO-MNEs that left the data set for various reasons:

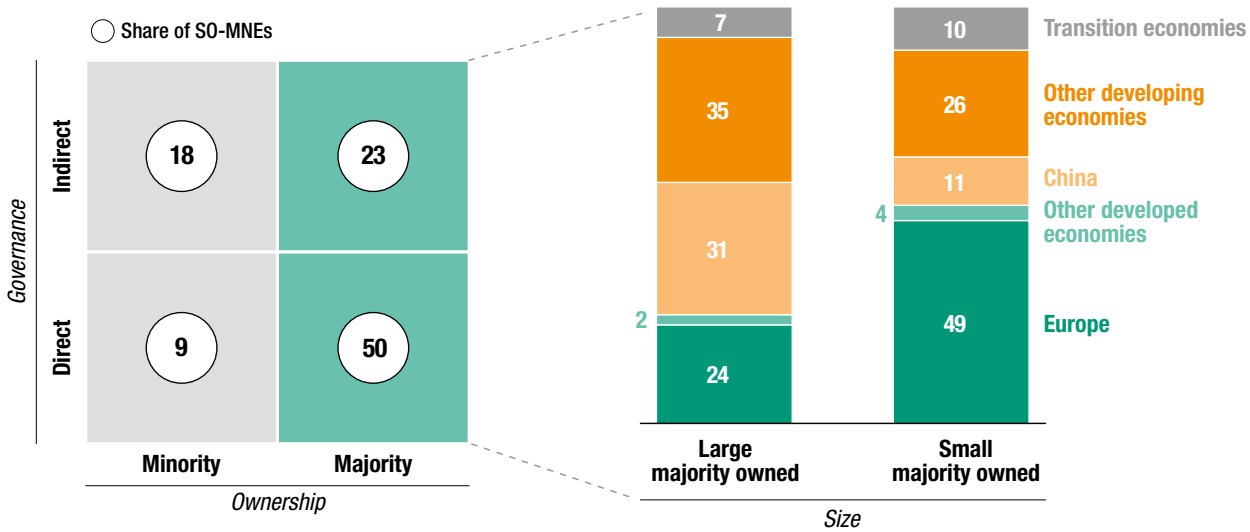
- State ownership shrank below 10 per cent. An example is the French utilities company Veolia Environment.
- The SO-MNE dissolved or went bankrupt. Examples include Italian terminal services company Alitalia Servizi and Russian aircraft company Oboronprom.
- The SO-MNE merged or was taken over by other companies. For example, CPFL Energia from Brazil was acquired by another SO-MNE, State Grid of China. Another

Table I.10. SO-MNEs in the UNCTAD ranking of the top 100 MNEs, 2017 and 2019

Ranking in *WIR19*	Ranking in *WIR17*	Company	Home economy	Industry
6	(6)	Volkswagen Group	Germany	Motor vehicles
18	(18)	Enel SpA	Italy	Electricity, gas and water
28	(27)	Deutsche Telekom AG	Germany	Telecommunication
30	(33)	EDF SA	France	Electricity, gas and water
32	(23)	Eni SpA	Italy	Petroleum refining and related industries
40	(81)	China COSCO Shipping Corp Ltd	China	Transport and storage
42	(54)	Nippon Telegraph & Telephone Corp	Japan	Telecommunication
50	(46)	Airbus SE	France	Aircraft
51	(37)	Engie	France	Electricity, gas and water
52	(52)	Orange SA	France	Telecommunication
56	(44)	China National Offshore Oil Corp (CNOOC)	China	Mining, quarrying and petroleum
59	(55)	Equinor ASA	Norway	Petroleum refining and related industries
62	(..)	State Grid Corp of China	China	Electricity, gas and water
67	(..)	China National Chemical Corp (ChemChina)	China	Chemicals and allied products
69	(68)	Renault SA	France	Motor vehicles
97	(..)	China Minmetals Corp (CMC)	China	Metals and metal products

Source: UNCTAD.

Figure I.19. Distribution of SO-MNEs by ownership, governance and size, 2018 (Per cent)



Source: UNCTAD.
Note: Majority-owned shares in voting rights greater than 50 per cent; minority includes golden shares; large have total assets over $5 billion.

example involves Tri-ring Group, a Chinese provincial SO-MNE, which was purchased by a private company, the Wuhan Kingold Industrial Group.

The resulting geographical distribution of SO-MNEs did not change significantly compared with that reported in *WIR17*. European SO-MNEs accounted for a little more than a third of all SO-MNEs, and another 45 per cent were in China and other developing Asian economies.

SO-MNEs vary considerably:

Ownership: The influence governments can exercise on companies varies significantly according to their shareholding, from minority participation (or golden share) to majority (or total ownership). Although it is possible for governments holding a minority stake or a golden

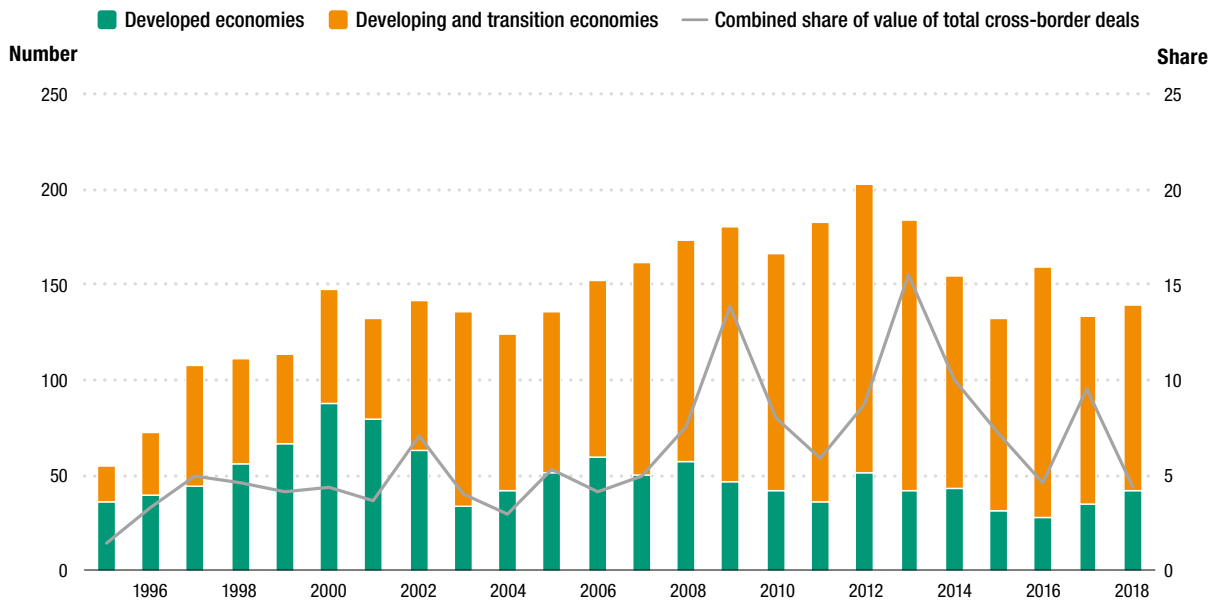
share to exercise significant control over SOEs, their influence is felt more when they hold a majority shareholding; 73 per cent of SO-MNEs are majority owned (figure I.19).

Governance: State ownership can be exercised either directly through share ownership by the government, or indirectly when shares are held by State-owned entities such as sovereign wealth funds, government pension funds or central banks. Indirect participations are often smaller. In some cases, such as in Malaysia, Singapore and West Asian countries, sovereign wealth or investment funds can own majority participations. Some sovereign wealth funds, such as Norway's Government Pension Fund Global, can be very influential even through minor shareholdings (Cuervo-Cazurra, 2018). Finally, State ownership is increasingly exercised through multiple shareholders, combining sovereign wealth funds, pension funds and other SOEs.

Size and transnationality: Many smaller SO-MNEs have few foreign affiliates, often in neighbouring countries, and their overseas presence remains stable over time. Large SO-MNEs have in recent years more actively invested and expanded abroad. The geographical distribution of SO-MNEs changes significantly depending on their size and on the level of participation held by the State. SO-MNEs from emerging economies are, on average, predominantly majority owned and large. The nine SO-MNEs in the top 100 with a minority State participation are all from developed countries. In Europe, many relatively small utility, transportation or bank SOEs – often owned at the subnational level – maintain a few affiliates in neighbouring countries due to the integrated nature of the region's economies and small national territories. These SOEs account for almost half of majority-owned SO-MNEs with assets under $5 billion. In developed countries, many large SO-MNEs were (partially or fully) privatized in the 1990s. As a result, SO-MNEs in developed economies are split among small but majority-held SO-MNEs and a few large but minority-controlled SO-MNEs.

SO-MNEs' M&A activity is slowing down. Until 2012, the growth in cross-border deals was in line with the growth in the number of SO-MNEs, with increasing numbers of emerging-markets SO-MNEs internationalizing their operations (figure I.20). In the last five years, however, cross-border acquisitions from emerging markets have been on a downward trend, mostly due to increasing concerns about competition and foreign State ownership of

Figure I.20. **Cross-border acquisitions by majority-owned SO-MNEs, number and share of total value by home region, 1995–2018** (Number and per cent)



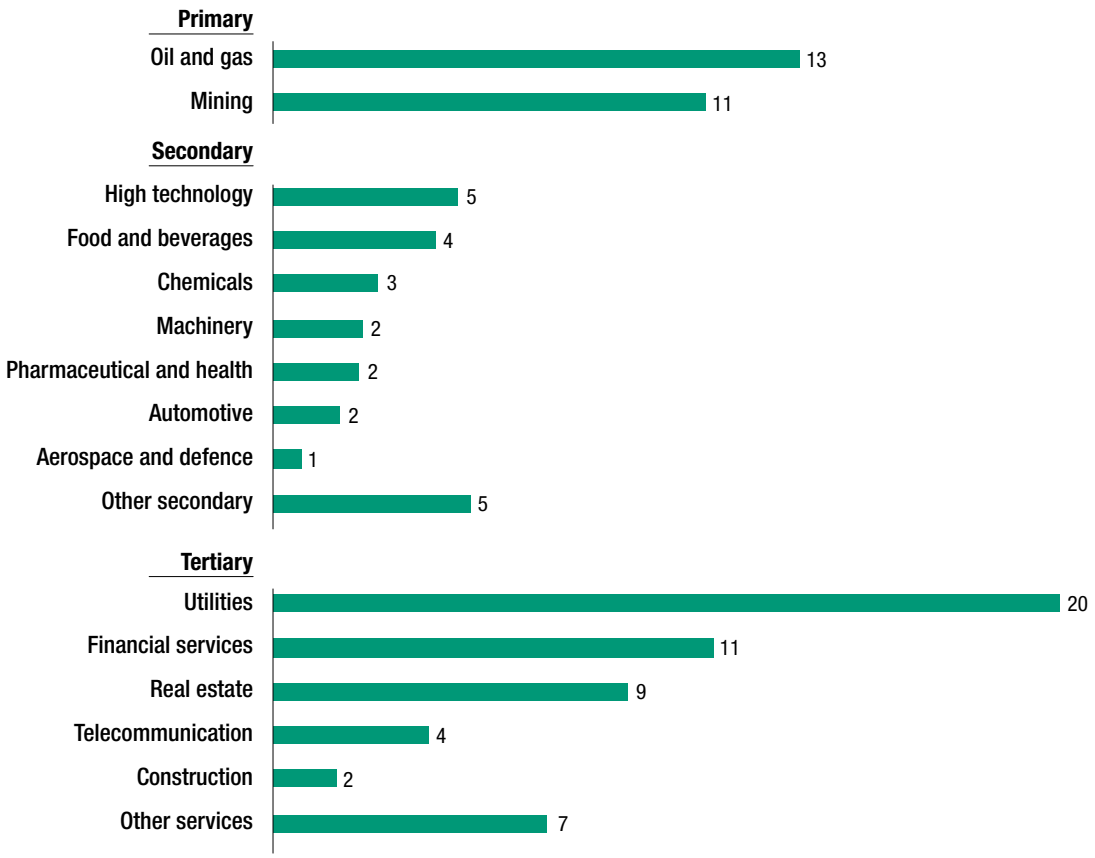
Source: UNCTAD, based on information from Refinitiv Eikon.

domestic assets and mounting scrutiny of acquisitions, especially in the United States and Europe. (See also chapter III on investment measures related to national security.)

The number of SO-MNEs' cross-border acquisitions has never accounted for more than 2 per cent of the total number of deals, but such deals are typically larger than the average value of international deals. The value of SO-MNEs' cross-border acquisitions accounted for less than 7 per cent of the total in the last five years, down from almost 10 per cent between 2009 and 2013. The spike in 2009 was due to a general decline in all cross-border deals, but the spikes recorded in 2002, 2013 and 2017 are all explained by very large single transactions. In 2002, Swedish majority State-owned Telia AB merged with Finnish majority State-owned Sonera Corp to create a single telecommunication group worth $6.3 billion. In 2013, Russian oil company Rosneft purchased TNK-BP Ltd for $55 billion. And in 2017, Chinese chemical giant ChemChina purchased Swiss group Syngenta for almost $42 billion.

Over the 2010–2018 period, the highest numbers of acquisitions by SO-MNEs occurred in utilities, followed by the hydrocarbon and mining industries. These three industries together attracted almost half of all deals (figure I.21). Other attractive industries were financial services and real estate. High-technology industries, including both hardware providers and software and IT services, accounted for 5 per cent of the acquisitions. This industry breakdown largely holds across SO-MNE home regions, except in the mining industry, where SO-MNEs from emerging markets target foreign mining companies more often than SO-MNEs from developed economies do.

Figure I.21. **SO-MNEs' cross-border acquisitions by industry, cumulative 2010–2018**
(Per cent of all SO-MNE deals)



Source: UNCTAD, based on information from Refinitiv Eikon.

D. THE GLOBAL FDI NETWORK

A new view on bilateral investment relationships. Bilateral FDI stock data from the balance of payments focus on *direct* investment relationships among countries. They provide a granular and detailed map of the relative positions of countries in the global investment network, showing where financial claims and liabilities are created and where they are held. (Bilateral FDI data are accessible at UNCTAD Stat.)

The direct investor perspective is significantly affected by financial centres and investment hubs, which play a systemic role in global FDI. An alternative view by *ultimate investor* reveals some key underlying patterns – where the investment decision is made, where the capital is originated, who bears the risks and reaps the benefits of the investment – that can be more relevant in the analysis of international production. In the special case of *round-tripping,* the ultimate investor perspective unveils the underlying domestic nature of a foreign direct investment.

UNCTAD has created a new database of bilateral investment positions by ultimate investors for more than 100 recipient countries, covering about 95 per cent of total FDI stock and including many developing countries (box I.1). In addition to its analytical value for mapping international production, a comprehensive picture of the global FDI network by ultimate investors can provide important policy insights. Such information can inform policy areas such as the coverage of international investment treaties, national policies to attract and facilitate foreign investment and ongoing efforts to reform the international tax system (*WIR15* and *WIR16*).

UNCTAD FDI estimates by ultimate investing country (UIC) highlight the leading role of large industrial economies in global investment (table I.11). The rankings of bilateral FDI links based on UIC versus direct investors are considerably different: only two of the top 10 FDI links based on UIC appeared in the top 10 ranking based on direct investors in 2017. This difference highlights the prominent role that investment hubs now play as a tool for investors.

Comparing the current picture based on ultimate investors with the picture based on direct investors as of 2005 shows that the difference then was not as pronounced. That indicates that investors' reliance on investment hubs to channel their FDI has become far more significant over the past decade. The discrepancy between the two rankings – by direct and by ultimate investor – could narrow over the next few years, however, as a result of initiatives to tackle tax avoidance.

Table I.11 reveals that cross-border investment from the United States to China is far more significant than direct investment data would suggest. Based on estimates by ultimate investors, FDI by United States MNEs in China features among the 10 largest bilateral investment stocks worldwide, accounting for some 10 per cent of total Chinese inward FDI. Yet according to official FDI data, that share is only 3 per cent, as much of the FDI from United States MNEs has been channeled through (mainly regional) investment hubs, including Singapore and Hong Kong (China). FDI estimates based on UICs thus provide a more accurate perspective on the bilateral investment relationship between the United States and China, as well as intra-firm trade between United States MNEs and their Chinese foreign affiliates.

Table I.11. Top 10 FDI links by ultimate investor, estimated bilateral inward stock, 2017

Bilateral FDI by ultimate investor (estimates)			Bilateral FDI by direct investor (data)	
Rank 2017	Investor	Recipient	Rank 2017	Rank 2005
1	United Kingdom	United States	6	1
2	Hong Kong, China	China	1	2
3	Japan	United States	11	5
4	Canada	United States	12	7
5	United States	United Kingdom	15	3
6	Germany	United States	20	6
7	United States	Canada	18	4
8	Switzerland	United States	21	12
9	France	United States	27	13
10	United States	China	30+	30+

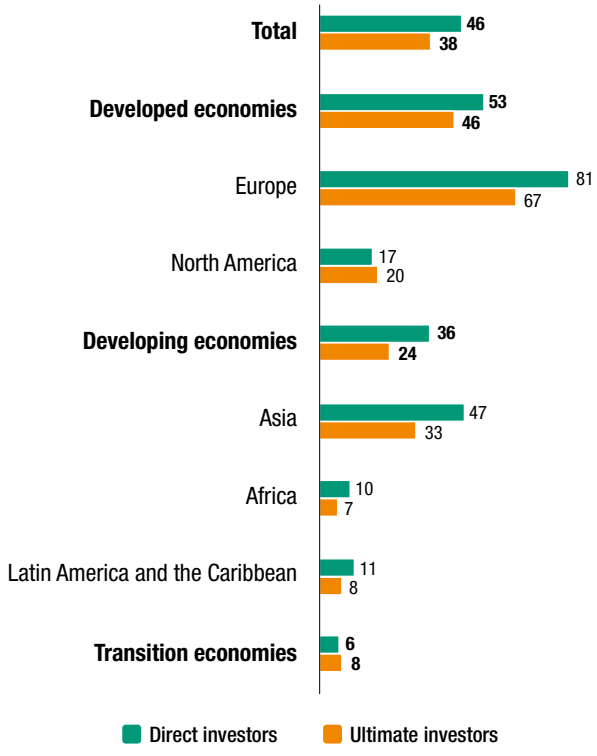
Source: Bilateral FDI by ultimate investing countries: UNCTAD estimates. Bilateral FDI by direct investing countries: UNCTAD bilateral FDI database (complemented by data on investment from and to special purpose entities).

The ultimate investor perspective, when applied to FDI from the European Union to the United Kingdom (relevant to the current discussion on *Brexit*), results in the opposite effect. The share of EU firms as ultimate investors in the United Kingdom remains sizeable at 33 per cent, but it is nonetheless lower than the 47 per cent measured by standard bilateral FDI data. Official data are affected by major investments hubs located within the EU, which channel FDI from UICs located elsewhere.

Regional integration. According to standard bilateral FDI data, cross-border investment within the same geographic region accounts for about half of total FDI stock (figure I.22). This share has been stable since 2005 (46 per cent of total stock in 2017, compared with 49 per cent in 2005). Such intraregional investment is particularly high in Europe and Asia, accounting for 81 and 47 per cent of these regions' total inward FDI, respectively. In Africa, this share is only 10 per cent, similar to the ratio in Latin America and the Caribbean (11 per cent). The regional proportion of total GVC flows is also low in Africa, as well as in Latin America and the Caribbean (see *WIR13*, figure IV.10).[4] Modest intraregional FDI and GVC flows in these regions suggest that regional economic cooperation initiatives still have significant potential to promote regional trade and investment links.

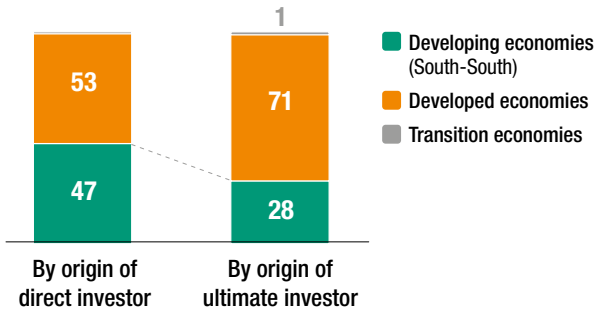
Yet the share of intraregional investment in global FDI decreases from 46 to 38 per cent when bilateral FDI is based on UICs. This illustrates the outsized role that regional investment hubs play in intraregional investment flow. For example, the Netherlands and Luxembourg in Europe, as well as Hong Kong (China) and Singapore in Asia, are often gateways for investment in the region. In Africa, Mauritius

Figure I.22. Intraregional investment, bilateral inward stock, 2017
(Per cent of regional FDI in total FDI)



Source: Bilateral FDI by ultimate investing countries: UNCTAD estimates. Bilateral FDI by direct investing countries: UNCTAD bilateral FDI database (complemented by data on investment from and to special purpose entities).

Figure I.23. **Investment in developing economies, bilateral inward stock, 2017** (Per cent)



Source: Bilateral FDI by ultimate investing countries: UNCTAD estimates. Bilateral FDI by direct investing countries: UNCTAD bilateral FDI database (complemented by data on investment from and to special purpose entities).

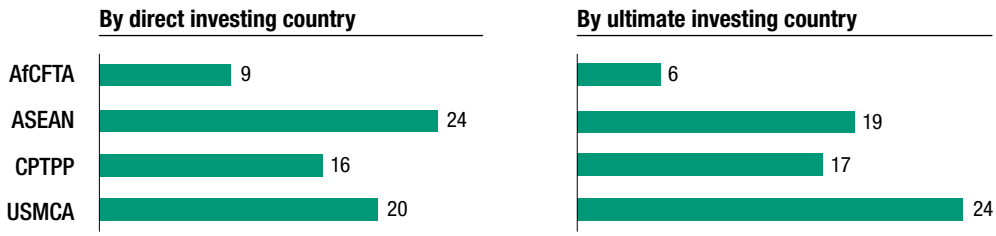
plays the same regional hub role, although on a smaller scale.

In developed economies, the correction is relatively small (from 53 to 46 per cent), as the situations in North America and Europe balance each other. In Europe, regional hubs inflate intraregional FDI in official data. In North America, in contrast, FDI based on UICs reveals a stronger regionalization than in official data, highlighting that part of the investment between the United States and Canada is channeled through investment hubs. In developing countries, however, the correction is more significant: the share of intraregional investment drops from 36 per cent (based on official FDI data) to 24 per cent (according to UNCTAD's estimates by ultimate investors). This is mostly driven by developing Asia (from 47 to 33 per cent). In relative terms, however, the reduction is sizeable in Africa (from 10 to 7 per cent), as well as Latin America and the Caribbean (from 11 to 8 per cent). Transition economies, by contrast, register a higher proportion of intraregional investment when taking ultimate investors into account.

South–South FDI. Behind regional gateways to developing economies are often ultimate investors based in the developed world. The share of South–South investment in total investment to developing economies plummets from almost 50 per cent (when measured based on standard FDI data) to 28 per cent when based on UICs (figure I.23). Although the rise of investment in developing economies from other developing economies, such as China or India, is an important trend in the global investment landscape, FDI estimates by UICs reveal that it is nonetheless less significant than what official data indicate. As a result, South–South FDI is likely to take longer than expected to reshape the global production landscape. A thorough assessment of the investment links between developing economies is especially important in the year of the Buenos Aires Conference on South–South Cooperation.

The coverage of international investment agreements. The gap between immediate and ultimate investors generated by indirect FDI has implications for the coverage of international agreements and regional economic cooperation frameworks (see also *WIR16)*. The share of investment covered by an agreement in the total inward investment to member countries may change significantly depending on the view (figure I.24). The UIC perspective highlights the *multilateralizing effect* of indirect FDI. For some treaties and economic groupings, such as the African Continental Free Trade Area (AfCTA) and the Association of Southeast Asian Nations (ASEAN), in which regional hubs (Mauritius and Singapore, respectively) have a relevant role, the share of direct investment covered by the

Figure I.24. **Intraregional investment in selected economic groupings, share of inward stock, 2017** (Per cent)



Source: Bilateral FDI by ultimate investing countries: UNCTAD estimates. Bilateral FDI by direct investing countries: UNCTAD bilateral FDI database (complemented by data on investment from and to special purpose entities).

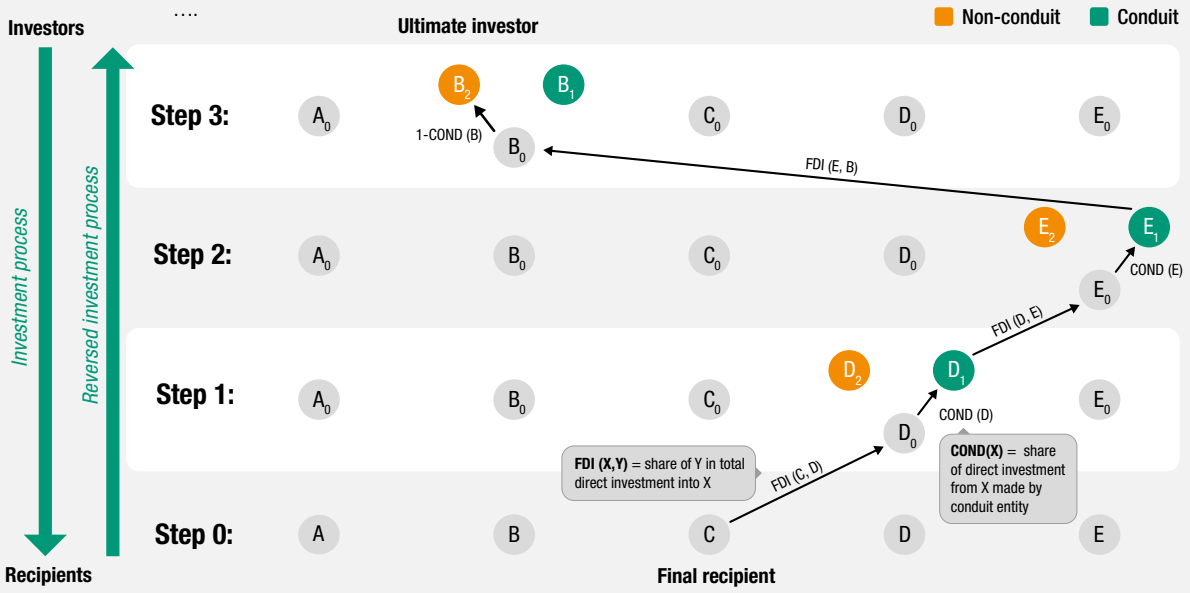
treaties is higher than the share of investment by UICs. For others, the opposite is true: the treaty's weight is more relevant under the ultimate investor perspective. This occurs when the agreement includes major industrial partners, as is the case of the United States–Mexico–Canada Agreement (USMCA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Box I.1. UNCTAD estimates of bilateral FDI by ultimate investing country

The large and growing divergence between bilateral FDI positions held by direct investors (as reported by standard bilateral FDI data) and by ultimate investors is one of the main issues affecting FDI statistics. According to 2016 FDI statistics reported by Germany, for example, Luxembourg and the Netherlands account for a combined 41 per cent of total bilateral inward FDI in Germany, and the United States for only 8 per cent. FDI positions by ultimate investors (reported by Germany and few other developed countries) radically modify this picture, however: the share of the United States rises to 21 per cent, and Luxembourg and the Netherlands combined make up only 14 per cent of German inward FDI stock. Similar differences apply to all other countries whose reported data allow direct comparison.

In this context, standard bilateral FDI data cannot properly uncover ultimate investor relations. The need for bilateral statistics by ultimate investors to complement standard bilateral FDI is now largely acknowledged by the international community (OECD Benchmark Definition of Foreign Direct Investment, edition 2008, page 110, item i). Nevertheless, progress in reporting FDI positions on the basis of ultimate investors has been slow; currently only 14 developed countries provide statistics by ultimate investors. Statistical and analytical efforts at the international level to bridge this gap are ongoing (Damgaard and Elkjaer, 2017; Borga and Caliandro, 2018).

Box figure I.1.1. UNCTAD approach to search ultimate investors illustrated



Source: UNCTAD.

UNCTAD's probabilistic approach to estimating investment positions held by ultimate investors combines standard bilateral FDI data, available for a large set of countries, with appropriate assumptions on conduit FDI. This provides a transition rule to link final recipient countries to ultimate investors, effectively *looking through* conduit jurisdictions. More specifically, the distribution of FDI based on direct investing countries provides the overall exposure of recipient country *X* to direct investment from investor country *Y*; at the same time, assumptions on conduit FDI define whether direct investor *Y* is an intermediate or an ultimate investor. If investor *Y* qualifies as intermediate, the investment process iterates until an ultimate investor arises. Box figure I.1.1 illustrates the logic behind this approach. Framing the dynamics represented in the figure within the probabilistic setting of *absorbing Markov chains* makes it possible to analytically derive the distribution of ultimate investors. The final outcome of the UNCTAD approach is a novel bilateral matrix providing inward positions by ultimate counterparts for more than 100 recipient countries, covering about 95 per cent of total FDI stock and including many developing countries.

Source: UNCTAD.

Note: Full methodological details and an empirical validation can be found in the technical background paper on UNCTAD's UIC data set, published as UNCTAD Insights in *Transnational Corporations* (Casella, 2019).

NOTES

[1] FDI data may differ from one WIR issue to another as data are continually revised, updated and corrected by relevant national authorities, such as central banks and statistical offices, which provide FDI data to UNCTAD.

[2] Only about a third of the MNEs in the top 100 ranking from developing and transition economies reported R&D expenditures, as most of the State-owned MNEs from extractive or industrial sectors are private and do not report sufficient information in this context. These are, however, not top R&D investors.

[3] State-owned MNEs are defined here as separate legal entities engaged in commercial activities, including FDI operations through foreign affiliates. In addition, a governmental entity should either own at least 10 per cent of the capital, be the largest shareholder, or hold a "golden share" – a type of share that gives the government special voting rights to block key strategic decisions, especially takeovers by other shareholders. Subnational entities in countries with federal governments but significant functions at the state level (e.g. German Länder, Republics as federal subjects in the Russian Federation, states in the United States) as well as municipalities are considered State owners.

[4] The updated UNCTAD-Eora GVC database can be found at http://worldmrio.com/unctadgvc.

CHAPTER II

REGIONAL TRENDS

DEVELOPING ECONOMIES

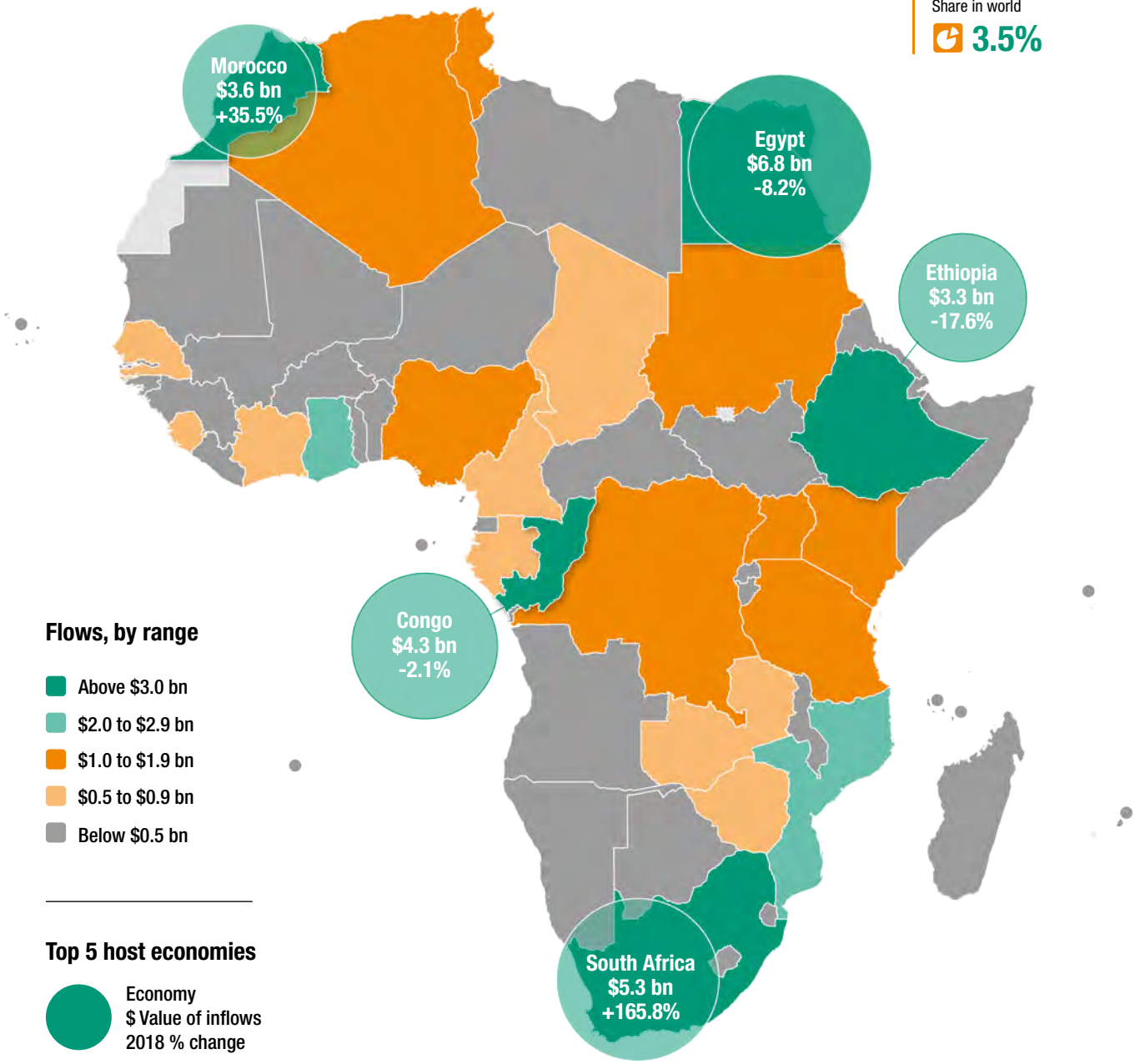
AFRICA

FDI flows, top 5 host economies, 2018 (Value and change)

2018 Inflows
45.9 bn

2018 Increase
+10.9%

Share in world
3.5%



Flows, by range

- Above $3.0 bn
- $2.0 to $2.9 bn
- $1.0 to $1.9 bn
- $0.5 to $0.9 bn
- Below $0.5 bn

Top 5 host economies

Economy
$ Value of inflows
2018 % change

Outflows: top 5 home economies

(Billions of dollars and 2018 growth)

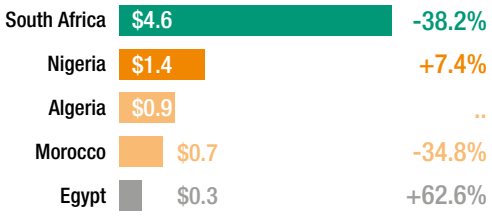
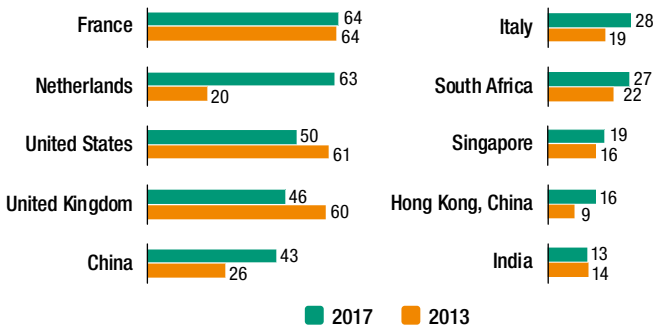


Figure A. **Top 10 investor economies by FDI stock, 2013 and 2017** (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Sudan and South Sudan has not yet been determined. Final status of the Abyei area is not yet determined.

HIGHLIGHTS

- FDI flows rose by 11 per cent
- Except in some diversified economies, FDI flows still largely resource oriented
- Better growth prospects and AfCFTA could boost 2019 flows

Figure B. FDI inflows, 2012–2018
(Billions of dollars and per cent)

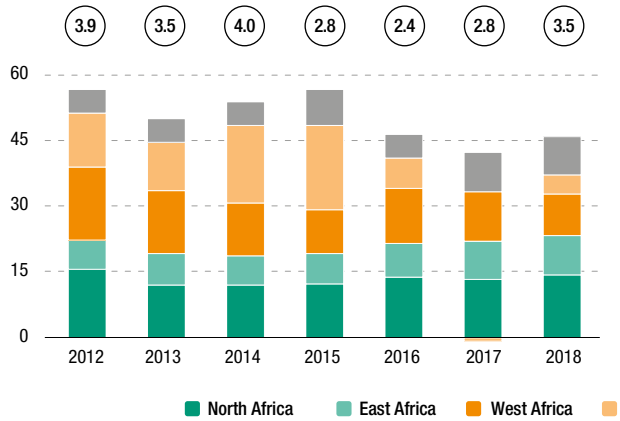


Figure C. FDI outflows, 2012–2018
(Billions of dollars and per cent)

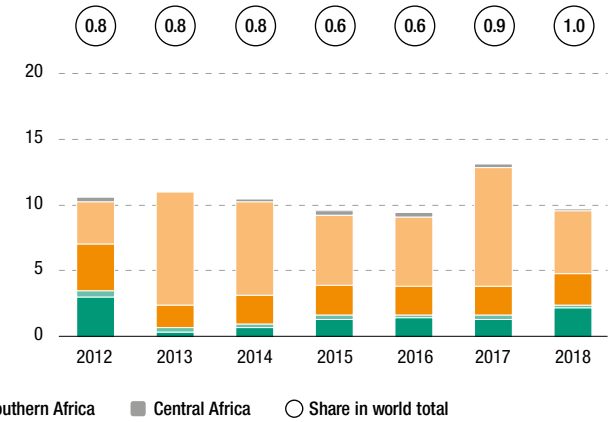


Table A. Net cross-border M&As by industry, 2017–2018 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2017	2018	2017	2018
Total	**3 452**	**1 570**	**1 967**	**3 651**
Primary	**30**	**-59**	**2 136**	**205**
Mining, quarrying and petroleum	30	-59	2 136	205
Manufacturing	**284**	**-247**	**316**	**-67**
Food, beverages and tobacco	9	426	55	-73
Coke and refined petroleum products	-	-973	-10	-
Motor vehicles and other transport equipment	-	215	-	-
Services	**3 137**	**1 876**	**-485**	**3 513**
Trade	80	-	383	-253
Accommodation and food service activities	45	-50	26	-
Information and communication	-373	37	-5 254	497
Financial and insurance activities	506	1 615	3 542	2 970
Business activities	2 699	215	231	274

Table B. Net cross-border M&As by region/economy, 2017–2018 (Millions of dollars)

Region/economy	Sales		Purchases	
	2017	2018	2017	2018
World	**3 542**	**1 570**	**1 967**	**3 651**
Developed economies	**1 780**	**-1 606**	**556**	**2 266**
European Union	-7 227	1 483	-928	2 455
United Kingdom	700	1 840	1 685	1 535
Switzerland	480	-1 713	-	-
United States	5 674	-1 405	1 330	-
Developing economies	**527**	**2 914**	**1 410**	**1 386**
Africa	796	1 175	796	1 175
Mauritius	-	74	28	6
South Africa	417	1 033	7	31
China	1 248	554	-10	-
India	-715	26	494	134
United Arab Emirates	-6	1 158	-	15

Table C. Announced greenfield FDI projects by industry, 2017–2018 (Millions of dollars)

Sector/industry	Africa as destination		Africa as investor	
	2017	2018	2017	2018
Total	**83 044**	**75 722**	**5 278**	**8 579**
Primary	**10 587**	**16 795**	**-**	**2**
Mining, quarrying and petroleum	10 587	16 778	-	2
Manufacturing	**20 583**	**32 996**	**2 864**	**2 890**
Chemical and chemical products	6 175	11 006	1 229	1 128
Coke and refined petroleum products	1 472	6 480	9	-
Food, beverages and tobacco	1 990	4 982	124	65
Metals and metal products	1 078	3 919	-	195
Services	**51 874**	**25 932**	**2 414**	**5 687**
Business services	2 539	5 291	680	1 306
Construction	5 667	4 789	192	1 420
Electricity, gas and water	37 073	5 697	29	969
Transport, storage and communications	3 656	4 243	444	342

Table D. Announced greenfield FDI projects by region/economy, 2017–2018 (Millions of dollars)

Partner region/economy	Africa as destination		Africa as investor	
	2017	2018	2017	2018
World	**83 044**	**75 722**	**5 278**	**8 579**
Developed economies	**31 162**	**38 232**	**1 741**	**2 247**
European Union	21 674	25 462	1 457	1 469
United Kingdom	2 226	5 626	59	124
United States	3 347	10 275	197	245
Switzerland	2 418	992	14	16
Developing economies	**20 385**	**35 094**	**3 531**	**6 149**
Africa	1 658	5 096	1 658	5 096
South Africa	745	2 074	106	292
China	8 705	11 930	261	81
United Arab Emirates	1 816	3 931	150	84
Saudi Arabia	3 746	2 314	5	44
Transition economies	**31 497**	**2 396**	**6**	**183**

In 2018, FDI flows to Africa defied the global downward trend and rose to $46 billion, an 11 per cent increase after successive declines in 2016 and 2017. Reduced FDI flows to some major economies of the continent, including Nigeria, Egypt and Ethiopia, were offset by large increases in others, most significantly in South Africa. Growing demand for and prices of some commodities, as well as sustained non-resource-seeking investments in a few countries, were largely responsible for the higher FDI flows to the continent. However, lower than expected global economic growth, rising trade tensions and tepid economic growth in Sub-Saharan Africa limited the extent of this increase. MNEs from developing economies were increasingly active in Africa, although investors from developed countries remained the major players. FDI outflows from Africa dropped to $10 billion, mainly due to reduced outward investment from Angola and South Africa. In 2019, the expected acceleration of economic growth in Africa, progress towards the implementation of the African Continental Free Trade Area Agreement and the possibility of some large announced greenfield investments materializing could result in higher FDI flows to the continent.

Inflows

FDI inflows to North Africa increased by 7 per cent to $14 billion, due to elevated investments in most countries of the subregion. *Egypt* remained the largest FDI recipient in Africa in 2018, although inflows decreased by 8 per cent to $6.8 billion. Foreign investment in Egypt was skewed towards the oil and gas industry, as significant discoveries of offshore gas reserves attracted investments from MNEs, and the country became a net exporter of gas in January 2019. British Petroleum, for example, has increased its greenfield and merger and acquisition (M&A) investments in the country in the last two years, bringing the company's investment stock in the country to more than $30 billion. Egypt signed at least 12 exploration and production agreements with international oil companies in 2018. Some large foreign projects were announced in other sectors also, such as a $2 billion project of Nibulon (Ukraine) to upgrade Egypt's grain storage infrastructure and a $1 billion project of Artaba Integrated Holding (Saudi Arabia) for the construction of a medical city. In addition, Shandong Ruyi Technology Group (China) signed an agreement to invest $830 million for the construction of a textile area in the Suez Canal Special Economic Zone (SEZ).

FDI flows to *Morocco* rose by 36 per cent to $3.6 billion. The country continues to benefit from relatively stable economic performance and a diversified economy, which is drawing foreign investment in finance, renewable energy, infrastructure and the automotive industry, among others. The largest investment was the acquisition of the remaining 53 per cent of Saham Finances, Morocco's largest insurer, by Sanlam Emerging Markets (South Africa) for $1 billion.

FDI to the *Sudan* increased by 7 per cent to $1.1 billion in 2018, aimed primarily towards oil and gas exploration and agriculture. Political instability, foreign exchange shortages and expensive banking channels constrain FDI to the country, despite the lifting of sanctions by the United States. Small investment flows were registered in non-traditional sectors in 2018, however. For example, ride-sharing company Careem (based in the United Arab Emirates; now owned by Uber Technologies Inc.) started operating in the capital Khartoum and plans to expand further in the next two to three years.

In *Tunisia*, FDI flows increased by 18 per cent to $1 billion. The highest share went to the industrial sector ($375 million), followed by energy ($300 million) and services ($200 million). France was the largest investor country in Tunisia in 2018, followed by Qatar. In addition, Chinese companies announced key greenfield investments. Chinese automaker SAIC Motors, for example, signed an agreement with the Tunisian Group Meninx to establish a manufacturing plant targeting the African and European markets.

FDI flows to *Algeria* increased by 22 per cent to $1.5 billion. In addition to FDI in the oil and gas sector, Algeria received significant investment in the automotive industry in 2018. BAIC International (China), for instance, opened a manufacturing plant, with an investment of more than $100 million to serve both the domestic and regional markets. Hyundai (Republic of Korea) and Ford (United States) also received approvals from the Algerian Investment Council to set up manufacturing plants.

After a significant contraction for two years, FDI flows to Sub-Saharan Africa increased by 13 per cent to $32 billion in 2018. This increase can largely be attributed to an uptick in resource-seeking FDI and to recovering inflows to South Africa, the second largest economy in the continent. This more than outweighed the substantial decline in inward FDI registered in a number of countries in the subregion, which was due in part to political uncertainty and unfavourable economic fundamentals.

FDI to West Africa fell 15 per cent to $9.6 billion, the lowest level since 2006. This was largely due to the substantial drop in *Nigeria*, for the second consecutive year. Inward FDI to that country declined 43 per cent to $2 billion, and Nigeria is no longer the largest FDI recipient in West Africa. Foreign investors may have adopted a cautious approach and withheld planned investments in light of the risk of instability associated with Nigeria's elections and disputes between the Government and some large MNEs. In 2018, both HSBC (United Kingdom) and UBS (Switzerland) closed their local representative offices in the country, and the telecommunication giant MTN (South Africa) remained embroiled in litigation related to the repatriation of profits. In addition, international oil companies have been ordered to pay $20 billion in back taxes. Nevertheless, investments by oil companies, which included significant reinvested earnings by established investors, remained prominent in 2018. The new policy to reduce public ownership in joint-venture oil assets to 40 per cent could drive up FDI in Nigeria in the coming years.

Ghana became the largest FDI recipient in West Africa, even though FDI inflows decreased by 8 per cent to $3 billion. Most of the FDI is oriented towards gas and minerals, with the largest greenfield investment project coming from Eni Group, which is set to expand the Sankofa gas fields. The largest M&A was the acquisition by Gold Fields Ltd (South Africa) of a 50 per cent share in Asanko Gold Ghana Ltd, a Greater Accra-based gold mine operator, for $185 million.

FDI flows to East Africa were largely unchanged at $9 billion in 2018. Inflows to *Ethiopia* contracted by 18 per cent to $3.3 billion. Yet the country continued to be the biggest FDI recipient in East Africa, with investments in petroleum refining, mineral extraction, real estate, manufacturing and renewable energy. FDI to the country was diversified in terms of both sectors and countries of origin. Prospects remain positive due to economic liberalization, investment facilitation measures and the presence of investment-ready SEZs (chapter IV). Recently, Hyundai Motor Company (Republic of Korea) opened a manufacturing plant in the country, its first in East Africa, with a planned production capacity of 10,000 vehicles per year.

In *Kenya*, FDI flows increased by 27 per cent to $1.6 billion. Investments were received in diverse industries including manufacturing, chemicals, hospitality, and oil and gas. The country has been making strides to facilitate private enterprise and foreign investment, which are contributing to increasing FDI. It improved its "Ease of Doing Business" ranking and has also been marketing its export processing zones (EPZs) as attractive destinations for manufacturing-oriented foreign investment. Uganda and the *United Republic of Tanzania* saw increases in FDI flows of 67 and 18 per cent (to $1.3 billion and $1.1 billion), respectively. FDI to Uganda reached a historic high in 2018, largely due to investments in the oil and gas sector, as well as in manufacturing and in the hospitality industry. The development of the country's oil fields, led by a consortium made up of Total (France),

CNOOC (China) and Tullow Oil (United Kingdom), is gaining momentum. Plans to ramp up investment in upstream and downstream oil facilities could drive FDI flows to Uganda significantly higher in the next few years.

FDI flows to Central Africa were largely stagnant at $8.8 billion in 2018. The *Congo* recorded the highest FDI levels in the region ($4.3 billion), with the bulk of investments directed towards oil exploration and production. Intracompany loans from existing investors accounted for a high proportion of these FDI flows. In addition, some investments from the first phase of the Congo Offshore Licensing Round materialized in 2018. The second phase comes into effect in 2019, which is expected to generate more investment in the coming years.

FDI to the *Democratic Republic of the Congo* increased by 11 per cent, to $1.5 billion. Continued investments in mineral exploration (especially for cobalt, for which the country holds 60 per cent of the world's known reserves) underpinned flows to the country. International mining companies including Glencore (Switzerland) and Molybdenum (China) expanded their presence in the country in 2018. Extractive-industry investors will now operate under an amended mining code, with new provisions that increase royalties, remove the 10-year amnesty on new rules for existing miners and impose a super-profits tax.

FDI flows to Southern Africa recovered to nearly $4.2 billion in 2018, from -$925 million in 2017. FDI flows to *South Africa* more than doubled to $5.3 billion in 2018, contributing to progress in the Government's campaign to attract $100 billion of FDI by 2023. The surge in inflows was largely due to intracompany loans, but equity inflows also recorded a sizeable increase. In 2018, China-based automaker Beijing Automotive Industry Holding opened a $750 million plant in the Coega Industrial Development Zone, while automakers BMW (Germany) and Nissan (Japan) expanded their existing facilities in the country. In addition, Mainstream Renewable Energy of Ireland began building a 110 MW wind farm, with a planned investment of about $186 million.

FDI flows to *Angola* in 2018 continued to be negative (-$5.7 billion). Angola has traditionally been an attractive FDI destination because of its oil and gas sector; however, FDI inflows to the country have been negative for the last two years due to both profit repatriations by foreign parent companies and the decline in the country's oil production, which weighed on new investments. The current negative FDI flows contrast with almost $7 billion a year invested on average in the country between 2014 and 2015. Recently the Government, in an attempt to encourage FDI, introduced an investment law that removes the mandatory national ownership share of 35 per cent in greenfield investments and the minimum investment requirements.

Mozambique received FDI flows amounting to $2.7 billion in 2018, up from $2.3 billion in 2017. New equity investment accounted for less than 20 per cent of inward investment flows, however. The balance was due to intracompany transfers, i.e. loans and other transfers by parent companies to affiliates already established in the country, mainly for gas exploration and production.

MNEs from developing economies were increasingly active in Africa but investors from developed countries remained the major players. On the basis of FDI stock data through 2017, France continues to be the largest foreign investor in Africa both due to its historical links with a number of countries on the continent and due to large investments in major hydrocarbon-producing economies, particularly Nigeria and Angola. However, the total stock of France's FDI in Africa was not significantly different in 2017 than in 2013. The Netherlands holds the second largest foreign investment stock in Africa, more than two thirds of which is concentrated in only three countries, Egypt, Nigeria and South Africa. The total stock of FDI in Africa from both the United States and the United Kingdom

has decreased in the last four years, as a result of divestments and profit repatriations. The stock of China's FDI in Africa, in contrast, increased by more than 50 per cent between 2013 and 2017.

Outflows

FDI outflows from African countries in 2018 dropped by 26 per cent to nearly $10 billion. Significant reductions in outflows from Angola and South Africa largely accounted for the drop. In Angola, outflows nearly halted, compared with $1.4 billion in 2017. In South Africa, outflows slowed by nearly 40 per cent to $4.6 billion. A few large deals accounted for a large part of Africa's outward investment. South Africa's First Rand Ltd, for example, acquired Aldermore Group Plc (United Kingdom) from AnaCap Financial Partners LLP for $1.4 billion.

Prospects

In 2019, a number of factors could support additional FDI flows to Africa. Although commodity prices are projected to remain stable in 2019, moderately higher prices are forecasted for some minerals that Africa is a major producer of, as well as for oil and gas. Combined with the development of newly discovered mineral mines and hydrocarbon fields, this forecast could encourage further investment in a number of countries on the continent. Investment in manufacturing and services is expected to remain mostly concentrated in a handful of economies in North and Southern Africa, as well as emerging manufacturing destinations in East Africa.

The Better Utilization of Investments Leading to Development Act passed by the United States in late 2018 could have a positive effect on FDI flows to Africa. The Act created the International Development Finance Corporation, which is authorized to make equity investments and is anticipated to manage an annual budget of $60 billion. It is expected to help the United States take a more active role in Africa, among other developing regions, by mitigating the risk to private United States companies of investing in large-scale projects, as well as by providing technical assistance and administering special funds.

The ratification of the African Continental Free Trade Area Agreement could also have a positive effect on FDI, especially in the manufacturing and services sectors. The elimination of tariffs under the Agreement could support market-seeking FDI, as foreign investors venture to tap into a market of 1.2 billion people with a combined GDP of more than $2.2 trillion. In addition, regional integration could encourage foreign investment that targets value addition to local commodities and natural resources, as well as increased intra-African investment as major economies on the continent seek a first-mover advantage.

Against these potentially positive factors for future investment prospects is the trend in announced greenfield investment plans, which decreased in value by 9 per cent to $76 billion in 2018. This was largely due to the drop in investment in the services sector, from $52 billion in 2017 to $26 billion in 2018.

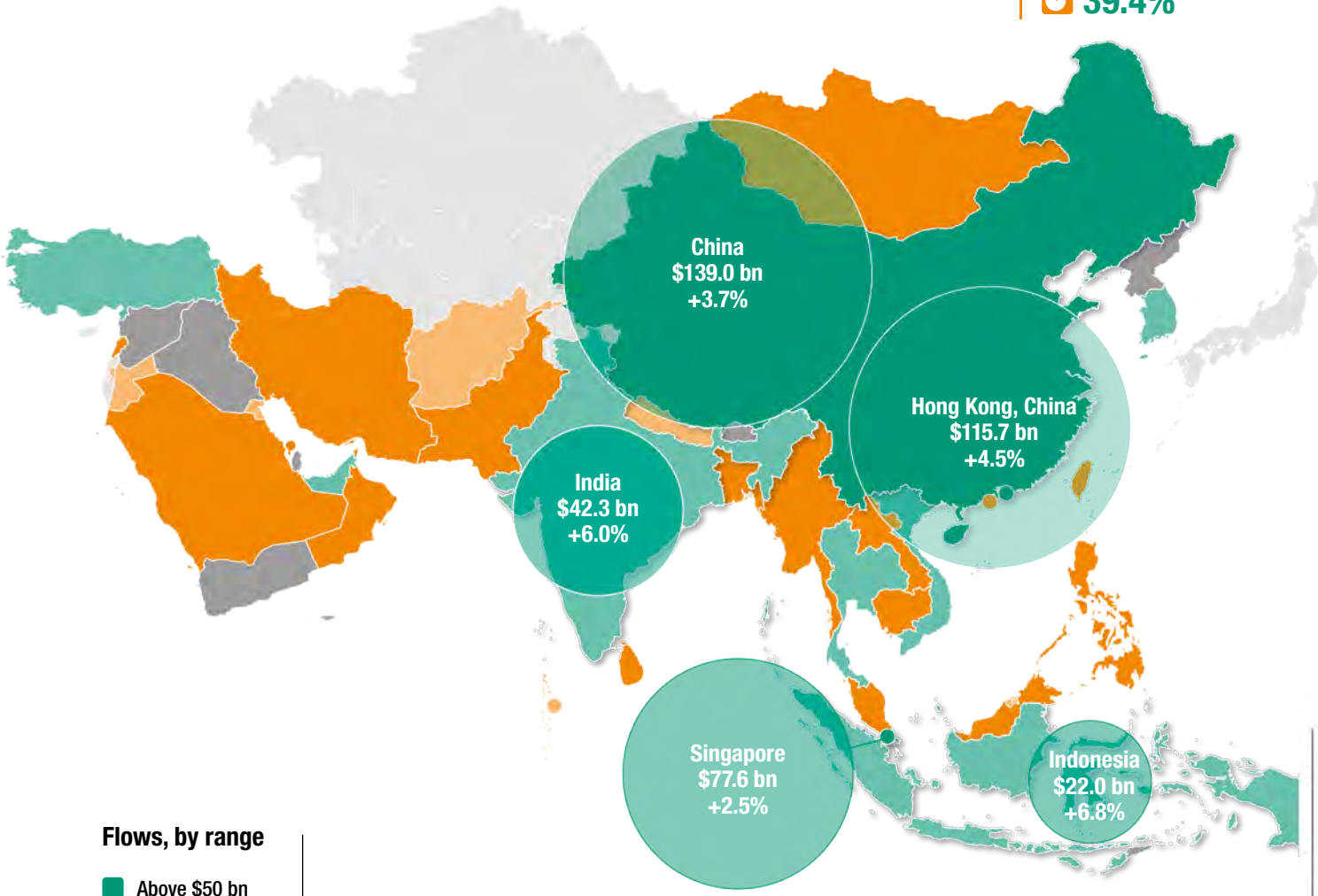
DEVELOPING ASIA

FDI flows, top 5 host economies, 2018 (Value and change)

2018 Inflows
511.7 bn

2018 Increase
+3.9%

Share in world
39.4%



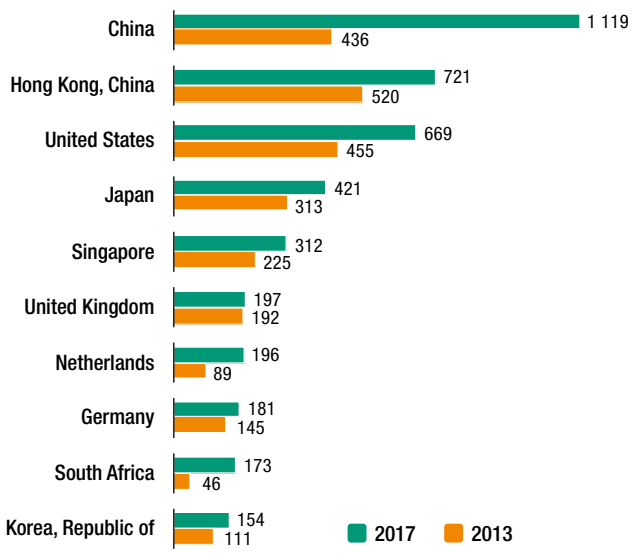
Flows, by range

- Above $50 bn
- $10 to $49 bn
- $1.0 to $9.9 bn
- $0.1 to $0.9 bn
- Below $0.1 bn

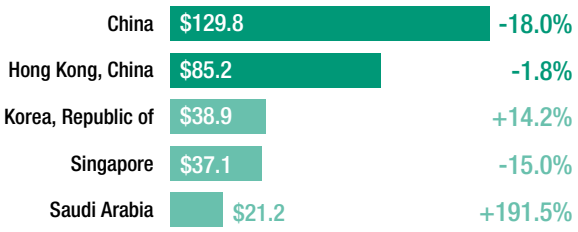
Top 5 host economies

Economy
$ Value of inflows
2018 % change

Figure A. **Top 10 investor economies by FDI stock, 2013 and 2017** (Billions of dollars)



Outflows: top 5 home economies
(Billions of dollars and 2018 growth)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- FDI flows rose, region remained the largest recipient
- Outward FDI flows flat, still a major source of global investment
- Prospects promising, with higher inflows expected

Figure B. FDI inflows, 2012–2018 (Billions of dollars and per cent)

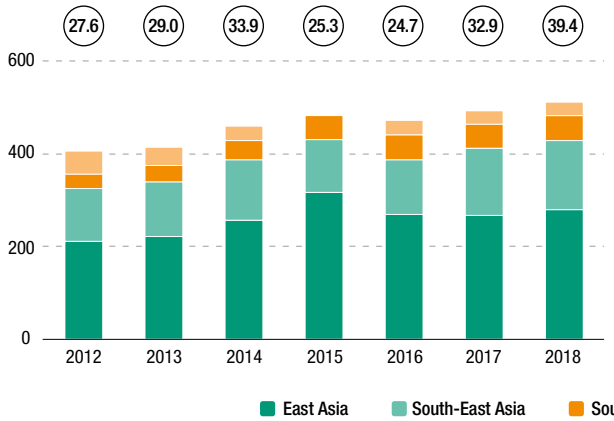


Figure C. FDI outflows, 2012–2018 (Billions of dollars and per cent)

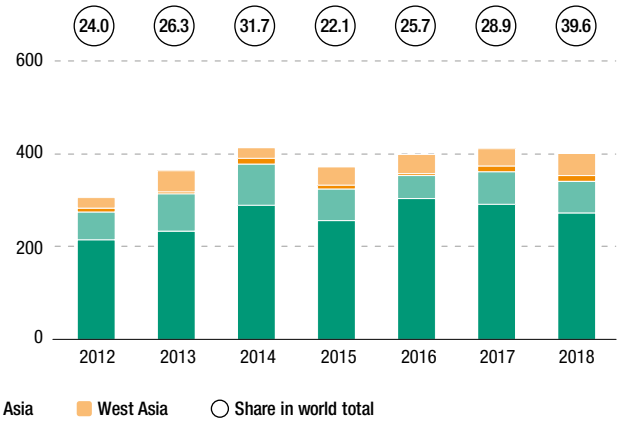


Table A. Net cross-border M&As by industry, 2017–2018 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2017	2018	2017	2018
Total	**79 363**	**83 769**	**193 789**	**89 256**
Primary	**18 489**	**3 670**	**4 829**	**4 640**
Mining, quarrying and petroleum	17 551	3 575	5 568	6 338
Manufacturing	**17 146**	**13 584**	**61 052**	**12 563**
Food, beverages and tobacco	6 780	6 008	1 794	1 136
Chemicals and chemical products	2 790	2 099	44 816	4 093
Computer, electronic, optical products and electrical equipment	1 851	2 011	8 686	3 174
Machinery and equipment	437	492	596	1 097
Services	**43 727**	**66 515**	**127 907**	**72 053**
Trade	47	17 291	-95	239
Information and communication	18 317	14 074	14 572	1 479
Financial and insurance activities	7 824	1 256	74 082	54 827
Business activities	6 597	16 133	21 374	2 588

Table B. Net cross-border M&As by region/economy, 2017–2018 (Millions of dollars)

Region/economy	Sales		Purchases	
	2017	2018	2017	2018
World	**79 363**	**83 769**	**193 789**	**89 256**
Developed economies	**26 410**	**43 311**	**141 676**	**39 930**
European Union	8 100	16 478	40 061	28 026
United States	5 676	20 668	44 825	1 380
Japan	9 562	6 523	1 832	1 503
Developing economies	**38 510**	**38 308**	**50 936**	**48 208**
Africa	588	191	528	1 739
Latin America and the Caribbean	190	-715	12 792	7 643
Asia	37 800	38 826	37 800	38 826
China	23 001	31 959	9 872	5 395
Hong Kong, China	8 826	6 658	15 177	13 618
Singapore	1 687	-257	4 450	13 313
Transition economies	**12 598**	**273**	**1 176**	**1 119**

Table C. Announced greenfield FDI projects by industry, 2017–2018 (Millions of dollars)

Sector/industry	Developing Asia as destination		Developing Asia as investor	
	2017	2018	2017	2018
Total	**207 730**	**417 874**	**180 665**	**315 901**
Primary	**656**	**5 309**	**2 208**	**11 854**
Mining, quarrying and petroleum	527	5 230	2 079	11 759
Manufacturing	**109 470**	**211 556**	**106 340**	**140 597**
Coke and refined petroleum products	8 600	41 689	2 277	18 503
Chemicals and chemical products	17 504	39 124	25 153	22 218
Electrical and electronic equipment	27 374	36 019	30 211	28 653
Motor vehicles and other transport equipment	16 474	38 345	12 158	14 509
Services	**97 604**	**201 008**	**72 117**	**163 450**
Electricity, gas and water	22 096	55 829	20 359	43 429
Construction	25 352	59 164	25 462	60 562
Hotels and restaurants	4 803	22 224	1 468	16 592
Business services	16 613	22 907	8 201	14 632

Table D. Announced greenfield FDI projects by region/economy, 2017–2018 (Millions of dollars)

Partner region/economy	Developing Asia as destination		Developing Asia as investor	
	2017	2018	2017	2018
World	**207 730**	**417 874**	**180 665**	**315 901**
Developed economies	**112 195**	**200 540**	**54 209**	**56 891**
European Union	49 305	88 023	12 455	20 706
United States	31 205	59 080	32 463	24 398
Japan	22 988	37 568	2 158	3 511
Developing economies	**88 273**	**205 507**	**112 492**	**241 365**
China	17 035	51 458	23 777	40 137
Indonesia	86	4 327	7 733	31 597
Singapore	10 528	18 677	5 212	5 386
India	2 403	7 353	6 295	26 575
Turkey	1 037	705	1 417	6 035
United Arab Emirates	6 185	22 185	2 581	5 085
Transition economies	**7 263**	**11 827**	**13 964**	**17 645**

FDI inflows to developing Asia rose by 4 per cent to $512 billion in 2018. Growth occurred mainly in China, Hong Kong (China), Singapore, Indonesia and other ASEAN countries, as well as India and Turkey. Asia continued to be the world's largest FDI recipient region, absorbing 39 per cent of global inflows in 2018, up from 33 per cent in 2017. Outflows from Asia declined by 3 per cent to $401 billion. However, the region remained a significant source of investment, representing 40 per cent of global FDI outflows in 2018. The decline was mainly due to reduced investments from China, for the second consecutive year, and from Singapore. In contrast, outward investment from the Republic of Korea, Saudi Arabia, the United Arab Emirates and Thailand increased. The prospects for FDI flows to the region are cautiously optimistic, thanks to a favourable economic outlook and ongoing efforts to improve the investment climate in several major economies. These prospects are underpinned by a doubling in value of announced greenfield projects in the region, suggesting continued growth potential for FDI. However, uncertainties stemming from global trade tensions could weigh on them.

Inflows

FDI inflows to East Asia rose by 4 per cent to $280 billion in 2018 but remained significantly below their 2015 peak of $318 billion. Inflows to *China* increased by 4 per cent, reaching an all-time high of $139 billion – over 10 per cent of the world's total. Despite trade tensions between China and the United States, foreign investors established more than 60,000 new companies in China in 2018, a 70 per cent increase over the number established in 2017.[1] The elimination or relaxation of foreign ownership limits in industries such as automotive, power grids, ship and aircraft manufacturing since July 2018 pushed up by 20 per cent FDI in manufacturing industries, which accounted for one third of total inflows to the country.

China continued to absorb increasing investment flows from developing Asia, including Hong Kong (China), the Republic of Korea and Singapore. Inflows from some developed countries also rose significantly: investment from the United Kingdom and Germany increased by 150 per cent and 79 per cent, respectively, as a result of an increase in the number of M&A megadeals. Diageo (United Kingdom), for example, acquired a majority stake in Sichuan Swellfun, a Chinese spirit brand, for $9 billion. Also, BMW (Germany) invested an additional $4 billion in its Chinese joint venture in October 2018 to raise its stake to 75 per cent; this was the first move by a global carmaker to seek control of local partnerships in China after the elimination of ownership limits. In contrast, inflows from the United States to China went down from $10 billion in 2017 to only $6 billion in 2018.

Flows to *Hong Kong (China)* increased by 4 per cent to $116 billion in 2018, mostly invested in services sector operations (including regional headquarters and finance functions that facilitate indirect FDI flows). FDI to the *Republic of Korea* dropped by 19 per cent to $14 billion in 2018, due in part to a significant decrease in intracompany loans.

FDI flows to South-East Asia rose by 3 per cent to an all-time high of $149 billion in 2018. As a result, the subregion's share in global inflows rose from 10 per cent in 2017 to 11 per cent in 2018. The growth in FDI was mostly driven by an increase in investment in Singapore, Indonesia, Viet Nam and Thailand. Manufacturing and services, particularly finance, retail and wholesale trade, including the digital economy (box II.1), continued to underpin rising inflows to this subregion. Strong intra-ASEAN investments and robust investment from other Asian economies also contributed to the trend. However, inflows to some countries (Malaysia and the Philippines) declined.

Singapore remains the subregion's largest FDI recipient with inflows of $78 billion in 2018 – a 3 per cent increase from 2017. The EU countries were the largest source of investment, particularly the Netherlands and the United Kingdom. FDI growth was largely due to robust investment in services and to a 94 per cent rise in cross-border M&As. M&A activities, worth $19 billion in 2018, were concentrated in real estate, energy and finance, and were dominated by two megadeals. Nesta Investment (China) acquired Global Logistic Properties (Asia's biggest warehouse operator) for $11 billion, and Global Infrastructure Partners (United States) acquired Equis Energy for $5 billion.

FDI flows to *Indonesia* grew by 7 per cent to $22 billion. Intra-ASEAN investments, mainly from Singapore, accounted for more than 50 per cent of the flows. Increased investment from China and Japan further contributed to the record inflows. Investment in manufacturing, infrastructure, real estate and the digital economy was strong. In 2018, major infrastructure projects involving foreign MNEs, such as new segments of the Jakarta Light Rail Transit, were completed. New SEZs, such as Galang Batang and Sei Mangkei, are also contributing to FDI inflows, both in the construction phase and through the attraction of new investments in the zones (chapter IV).

Inflows to *Thailand* grew by 62 per cent in 2018 to $10 billion – the steepest FDI growth in ASEAN. Following the uptick already registered in 2017, this suggests that FDI in the country is recovering from its downward trend earlier in the decade. Thailand's growth was due to significant inflows from Asia, led by investors from Japan, Hong Kong (China) and Singapore. Reinvestment by MNEs already present in Thailand doubled to $7.4 billion, which contributed significantly to FDI flows.

Investment into the CLMV countries (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam) remained strong, however inflows into the *Lao People's Democratic Republic* and *Myanmar* declined. These countries continued to attract active investment flows from intra-ASEAN sources and other Asian economies (China, Japan, the Republic of Korea). The relocation from China of labour-intensive operations, such as garment and footwear production, is lifting investment in these countries. The participation by Chinese firms in infrastructure development and the influence of the Belt and Road Initiative are also affecting investment inflows.

Chinese investment in ASEAN is becoming increasingly significant: outward flows nearly doubled, to $14 billion between 2013 and 2017. In 2018, M&A sales to Chinese MNEs more than tripled, and the value of greenfield projects in ASEAN announced by Chinese MNEs increased five-fold. Investment from the United States – historically a major investor in the subregion – has been on a downward trend, shrinking by 33 per cent between 2013 and 2017, to $15 billion.

Box II.1. Rising investments in ASEAN's digital economy

Encouraged by the digital potential and e-commerce growth in ASEAN, digital MNEs and start-ups continued to invest in digital infrastructure, data centres and e-commerce businesses. As of June 2018, the 50 largest digital start-ups in the region had raised $13.8 billion of capital, compared with only $1 billion in 2015. Global venture capital, as well as Asian companies such as Alibaba (China), Tencent (China), Softbank (Japan), Golden Gate Ventures (Singapore) and Vertex Ventures (Singapore), are significant sources of investment in these start-ups. For example, Tokopedia (an Indonesian e-commerce platform) raised $1.1 billion from a group of investors led by Alibaba (China) and SoftBank Vision Fund (Japan). The subregion's largest start-ups are fast expanding beyond their home markets. Most of the 50 largest operate in at least one other ASEAN country, strengthening intraregional investment. Almost half are involved in either e-commerce or fintech, with the rest focusing mainly on entertainment, marketing, social media, logistics and food delivery. In addition, major technology MNEs such as Google, Facebook and Alibaba are building more data centres in Singapore.

Source: AIR18.

FDI inflows to South Asia grew by 4 per cent in 2018 to $54 billion. FDI to *India*, which has historically accounted for 70 to 80 per cent of inflows to the subregion, increased by 6 per cent to $42 billion. Investment was strong in manufacturing, communication and financial services – the top three industry recipients. The growth in cross-border M&As from $23 billion in 2017 to $33 billion in 2018 was primarily due to transactions in retail trade ($16 billion), which includes e-commerce, and telecommunication ($13 billion). Notable megadeals included the acquisition of Flipkart, India's biggest e-commerce platform, by Walmart (United States). In addition, telecommunication deals involving Vodafone (United Kingdom) and American Tower (United States) amounted to $2 billion.

FDI flows to *Bangladesh* rose by 68 per cent to a record level of $3.6 billion. This was driven by significant investments in power generation and in labour-intensive industries such as ready-made garments, as well as the $1.5 billion acquisition of United Dhaka Tobacco by Japan Tobacco (see LDCs section). Inflows to *Sri Lanka* also reached a record level of $1.6 billion, pushed by robust Asian investments, including from China, India and Singapore. Infrastructure, particularly ports and telecommunication, absorbed a significant portion of inflows to the country.

Pakistan, the fourth largest recipient of FDI in the subregion, registered a 27 per cent decrease in investment to $2.4 billion. This was largely due to the completion of some projects related to the China–Pakistan Economic Corridor, and a balance-of-payments challenge that may have delayed new inflows. China remained the single largest investor in the country, thanks mainly to construction and power generation projects related to the Corridor. With other Corridor projects also nearing completion, Pakistan's FDI inflows could slow down further in 2019.[2]

FDI flows to *West Asia* grew by 3 per cent to $29 billion in 2018, halting an almost continuous 10-year downward trend. Inflows were still only one third of their $85 billion peak in 2008. The small rise in FDI can be attributed to higher inflows to Turkey and a pickup of investment in Saudi Arabia, which compensated for declines in other countries. Investments from the United States to West Asia increased to $5 billion, a recovery from low levels in the last two years. China is also consolidating its position as an investing country in the subregion, diversifying its involvement as compared with its past ties, which were based predominantly on oil purchases.

FDI flows in the subregion remained uneven. Four countries – Turkey, the United Arab Emirates, Saudi Arabia and Lebanon – absorbed approximately 90 per cent of FDI in West Asia. *Turkey* was the largest recipient, with inflows rising by 13 per cent to $13 billion, despite slower than usual economic growth and uncertainty surrounding the Turkish lira. Investment from Asian economies increased from 12 per cent to 27 per cent of FDI into Turkey and was instrumental both in driving FDI upwards and in its diversification. The $6.3 billion Star Refinery built by the State Oil Company of the Azerbaijan Republic, one of the largest foreign investments in Turkey, started operating in late 2018. The largest M&A deal was the acquisition by DFDS (Denmark) of a 98.8 per cent interest in UN Ro-Ro Isletmeleri, a provider of deep-sea freight transportation services, for $1.2 billion.

FDI flows to *Saudi Arabia* rose from $1.4 billion in 2017 to $3.2 billion in 2018, still significantly lower than the 2008 peak of $39 billion. Political factors and lower oil prices were largely responsible for lower than usual FDI flows to Saudi Arabia. Recent efforts aimed at economic diversification in the country have identified FDI as a key priority, however. Some new projects outside the oil and gas sector have been generated. In 2018, Aubin Group (United Kingdom) invested $743 million to establish a chemical manufacturing facility in Saudi Arabia. DuPont (United States) opened a reverse osmosis water treatment facility, its first outside the United States, and Alphabet (United States) started building multiple data centres in the country.

FDI flows to the *United Arab Emirates* remained largely unchanged in 2018, at $10 billion. Investment targeted a diverse range of sectors, from oil and gas to digital technologies. Inflows to *Lebanon* increased from $2.5 billion to $2.9 billion, while those to *Bahrain* rose by 6 per cent to $1.5 billion, mainly due to growing interest in manufacturing activities. In 2018, Mondelez International (United States) and Ariston Thermo Group (Italy) set up manufacturing facilities in the Bahrain International Investment Park, an SEZ (chapter IV).

Outflows

Outflows from Asia declined by 3 per cent to $401 billion. This was mainly due to reduced investments from China for the second consecutive year. In contrast, outward investment from the Republic of Korea, Saudi Arabia, the United Arab Emirates and Thailand increased. Developing Asia is an increasingly significant source of global FDI for both developed and developing economies. The region accounted for about 40 per cent of global FDI outflows in 2018. More than 75 of the UNCTAD top 100 MNEs from developing and transition economies today are from developing Asia, and a majority of these companies in the ranking are headquartered in China.

Outward FDI flows from *East Asia* decreased for the second consecutive year to $271 billion in 2018. This was largely due to investment from China, which declined by 18 per cent to an estimated $130 billion. Government policy to curb overseas investment in industries such as real estate, entertainment and sports clubs continued in 2018, with tightened foreign exchange controls. Investment policy uncertainties and tightened investment screening regulations also weighed on Chinese outward FDI to the United States and the EU, which declined significantly.[3] Outward flows nonetheless included new strategic stakes in manufacturing companies and acquisitions in technology-intensive sectors. For example, Chinese automotive manufacturer Geely acquired stakes in Daimler (Germany) and Volvo (Sweden) for $9 billion and $4 billion, respectively. An investor group composed of China Grand Pharmaceutical and Healthcare Holdings acquired Sirtex Medical, a Sydney-based manufacturer of medical equipment, for $1.4 billion.

Despite the overall decline in China's outward FDI, Chinese investment in ASEAN countries continued to increase in 2018. This was partly due to several large M&A deals in the services sectors in Singapore, Indonesia and the Philippines. Chinese outward FDI to the Belt and Road countries expanded as well: investment in non-financial industries increased by 8.9 per cent to $16 billion – about 13 per cent of China's total outward FDI.[4]

Outflows from Hong Kong (China) remained stable at $85 billion. Flows from the Republic of Korea, in contrast, rose by 14 per cent to $39 billion, driven by overseas investments from major Korean MNEs such as LG, Samsung Electronics, Hyundai and KIA. These MNEs are investing in new growth areas such as artificial intelligence and 5G technology through both new and expansion projects. Samsung, for example, opened overseas artificial intelligence centres in Cambridge (United Kingdom), Toronto and Montreal (Canada), and Moscow (Russian Federation), as well as Silicon Valley and New York (United States) in 2018.[5]

Outward FDI from South-East Asia was flat, at $70 billion. The subregion accounted for 7 per cent of global outward flows in 2018. Investment from Singapore – the subregion's largest investor – declined by 15 per cent to $37 billion, which contributed to the stagnating level of investment from ASEAN. However, strong intraregional investment in ASEAN, and in particular in Indonesia and the CLMV countries, is helping forge closer production and industrial linkages. At more than 19 per cent of inflows between 2015 and 2017, intraregional investment is a key feature of FDI flows in the subregion (*AIR17*, *AIR18*). Intraregional investment is mostly driven by investments from Singapore – including

investment channeled through Singapore (chapter I). In 2018, for example, companies from Singapore invested more than $10 billion in Indonesia. However, investments from other ASEAN countries (Thailand and Indonesia) are also increasing.

Outward FDI from *West Asia* reached a historic high of $49 billion in 2018, up from $39 billion in 2017. Saudi Arabia, the United Arab Emirates and Turkey were mainly responsible for the increase. Turkish companies, which are increasingly investing in Africa, increased their outward FDI by 37 per cent to $3.6 billion in 2018. FDI from Saudi Arabia almost tripled to $21 billion, mainly in technology, finance and infrastructure activities. This was driven by an investment push from the country's sovereign wealth fund (Public Investment Fund), as well as large private investors, such as the Kingdom Holding Company. Prominent deals in 2018 included a $1 billion investment by the Public Investment Fund in Lucid Motors, an electric vehicle start-up based in California. The Fund also invested $400 million in a virtual reality start-up, Magic Leap (United States).

Prospects

Investment prospects for the region in 2019 are cautiously optimistic, with improving investment environments, growing intraregional investment and strong economic fundamentals. The 100 per cent rise in the value of announced greenfield investment projects in the region, from $207 billion in 2017 to $418 billion in 2018, confirms the region's investment prospects. However, trade tensions could weigh on the prospects of higher inflows or they could also lead to further investment diversion.

Inflows to China are expected to continue to grow. In early 2019, China adopted a new Foreign Investment Law and announced the relaxation of foreign investment limits in several services industries. Despite the trade tensions, investment from the United States rose in the first quarter of 2019.[6]

The outlook for *South-East Asia* is also promising, as countries in the subregion continue to introduce measures to improve the investment environment.[7] Strong economic fundamentals in the subregion will continue to attract market-seeking FDI. In addition, low-cost and resource-rich countries will remain attractive destinations for efficiency-seeking and resource-seeking FDI. The digital economy, as well as industrial activities such as automotive, electronics, services, retail trade, and real and industrial estate, are expected to remain particularly attractive to foreign investors. Growing demand and commitments to develop and upgrade information and communication technology (ICT), transport and power facilities will continue to encourage FDI. A doubling of announced greenfield investment projects in the subregion to $139 billion in 2018 corroborates this promising outlook.

The prospects for FDI inflows into *South Asia* are largely determined by expectations of growing investment into India. Announced greenfield investment in the country doubled to $56 billion in 2018, with projects in a number of manufacturing industries, including automotive.

FDI prospects for *West Asia* are moderately positive, thanks to the introduction of new policies and investment facilitation measures in several countries. Some economies are also easing foreign investment regulations. Saudi Arabia's Vision 2030 includes plans to open up the economy and diversify away from hydrocarbons. In 2018, the country started allowing 100 per cent foreign ownership in the transport, recruitment, audiovisual and real estate industries. The United Arab Emirates has also started allowing 100 per cent foreign investment in certain industries. Qatar's new FDI law paves the way for full foreign ownership in all industries, with a few exceptions that require special permission, such as banking. Qatar could also benefit from increased foreign investment due to the upcoming

FIFA World Cup. The agreement for the development of the first phase of the estimated $86 billion Silk City project between China and Kuwait in February 2019 could further bolster FDI to the region in the medium term. FDI prospects for other countries in the subregion will continue to be affected by ongoing instability and conflict. Growth projections for oil-exporting countries have been adjusted downwards as well, which could have a negative impact on future FDI flows.

Outflows from the region will remain high. Outward investment from China is expected to stabilize or increase slightly, based on the growth in announced greenfield investment projects and the more than $20 billion worth of M&A deals awaiting approval in Europe at the beginning of 2019.[8] Bilateral cooperation under the Belt and Road Initiative is expected to continue to encourage outward FDI along the routes, particularly in infrastructure. Investment projects worth over $64 billion were agreed in the second Belt and Road Forum for International Cooperation held in China in 2019. By some estimates, the Initiative's proposed transportation network could lead to a 5 per cent increase in total FDI flows to countries involved (Chen and Lin, 2018).

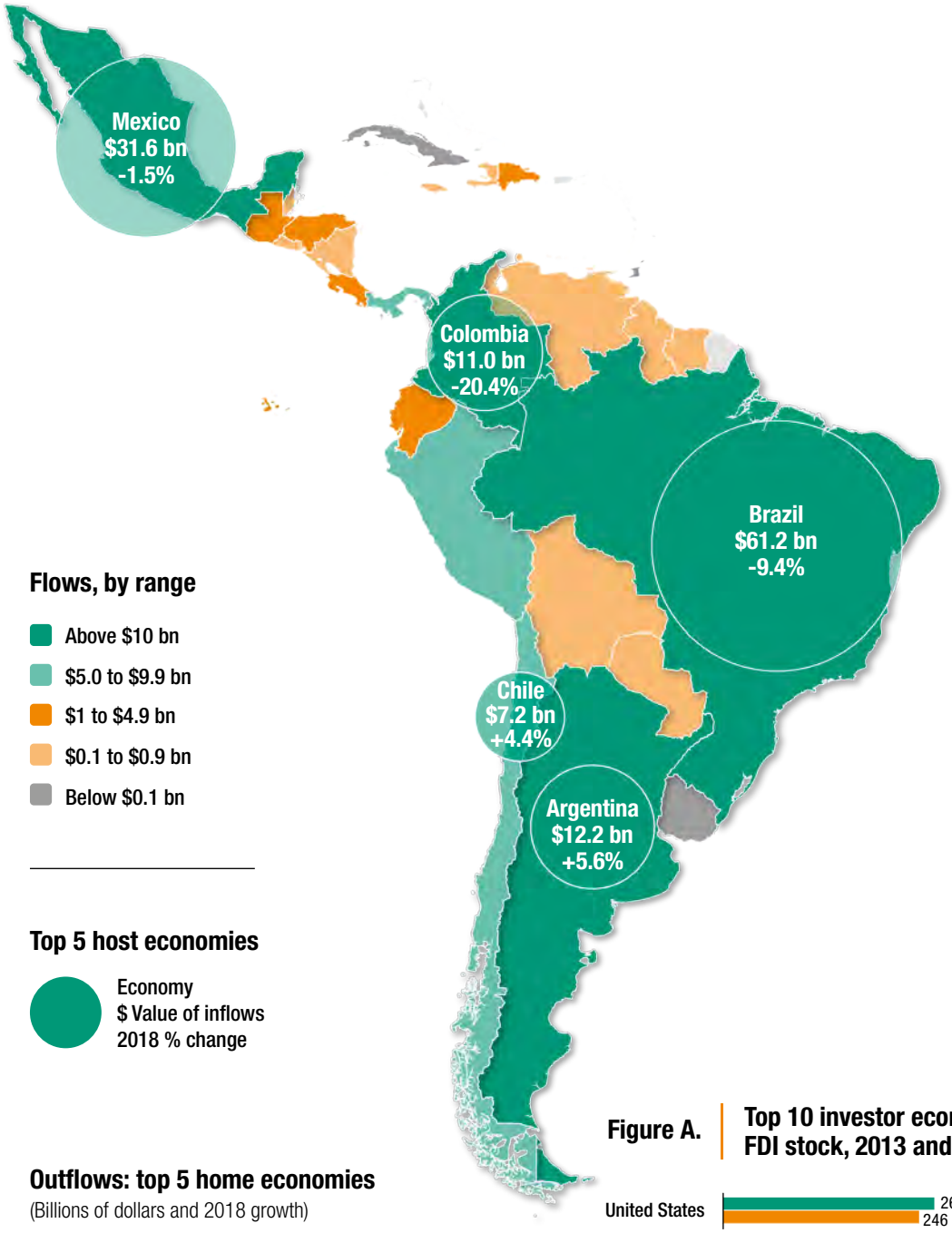
LATIN AMERICA AND THE CARIBBEAN

FDI flows, top 5 host economies, 2018 (Value and change)

2018 Inflows
$ 146.7 bn

2018 Decrease
-5.6%

Share in world
11.3%



Flows, by range

- Above $10 bn
- $5.0 to $9.9 bn
- $1 to $4.9 bn
- $0.1 to $0.9 bn
- Below $0.1 bn

Top 5 host economies

Economy
$ Value of inflows
2018 % change

Outflows: top 5 home economies

(Billions of dollars and 2018 growth)

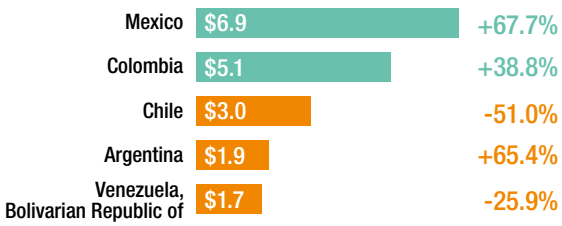
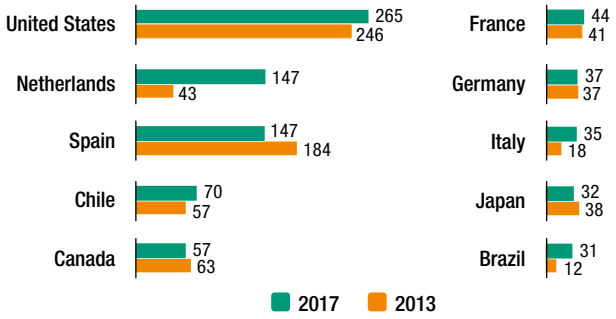


Figure A. Top 10 investor economies by FDI stock, 2013 and 2017 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- Inflows decreased as the region's economic recovery stalls
- IT industry attracting the interest of foreign investors
- Flows set to remain relatively steady

Figure B. FDI inflows, 2012–2018 (Billions of dollars and per cent)

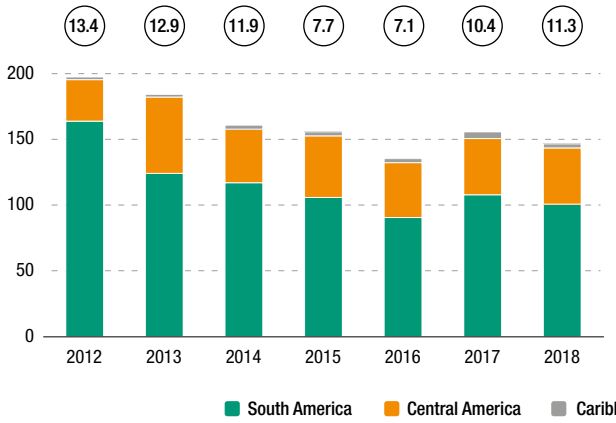


Figure C. FDI outflows, 2012–2018 (Billions of dollars and per cent)

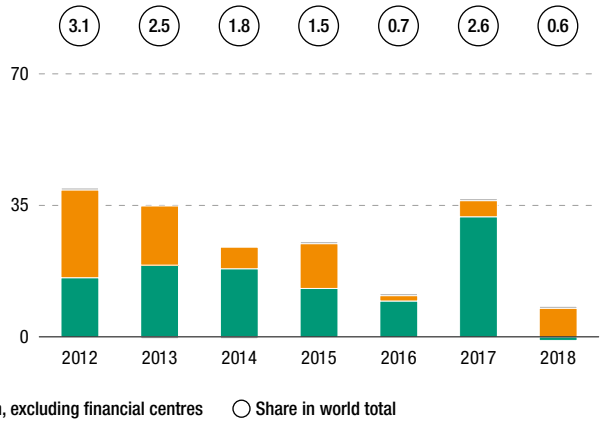


Table A. Net cross-border M&As by industry, 2017–2018 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2017	2018	2017	2018
Total	**29 535**	**39 148**	**5 426**	**3 469**
Primary	**1 809**	**6 237**	**-2 060**	**547**
Manufacturing	**5 207**	**9 429**	**3 390**	**348**
Food, beverages and tobacco	2 923	2 063	3 203	-757
Chemicals and chemical products	195	6 987	1 116	1 930
Pharmaceuticals, medicinal chemicals and botanical products	430	108	-	258
Services	**22 519**	**23 482**	**4 096**	**2 573**
Electricity, gas and water	18 726	9 040	324	57
Trade	-736	483	1	1 317
Accommodation and food service activities	-206	140	162	806
Transportation and storage	996	2 019	1 739	59
Information and communication	510	8 384	232	4
Financial and insurance activities	345	2 265	1 542	1 554

Table B. Net cross-border M&As by region/economy, 2017–2018 (Millions of dollars)

Region/economy	Sales		Purchases	
	2017	2018	2017	2018
World	**29 535**	**39 148**	**5 426**	**3 469**
Developed economies	**14 193**	**28 612**	**3 586**	**1 361**
France	1 278	2 229	-	-
Italy	563	2 738	-	-
Spain	-416	-2 963	36	-596
United Kingdom	-587	2 252	1 100	-13
Canada	6 313	5 728	2	-
United States	2 841	12 704	2 605	-418
Israel	33	316	11	1 895
Developing economies	**15 127**	**10 486**	**1 701**	**2 108**
China	12 273	5 731	-	-
Mexico	1 872	1 645	-27	118
Peru	-	21	19	910

Table C. Announced greenfield FDI projects by industry, 2017–2018 (Millions of dollars)

Sector/industry	LAC as destination		LAC as investor	
	2017	2018	2017	2018
Total	**67 092**	**78 124**	**7 362**	**19 016**
Primary	**4 456**	**12 440**	**62**	**5 950**
Manufacturing	**30 949**	**26 073**	**3 401**	**4 937**
Textiles, clothing and leather	562	984	180	472
Chemicals and chemical products	1 375	2 565	322	363
Electrical and electronic equipment	1 427	1 598	54	57
Metals and metal products	4 354	2 174	285	1 321
Motor vehicles and other transport equipment	8 855	7 024	359	918
Services	**31 686**	**39 611**	**3 900**	**8 129**
Construction	232	2 207	94	531
Hotels and restaurants	2 855	6 916	370	2 867
Finance	1 525	3 305	69	304
Business services	3 164	6 957	1 101	1 007

Table D. Announced greenfield FDI projects by region/economy, 2017–2018 (Millions of dollars)

Partner region/economy	LAC as destination		LAC as investor	
	2017	2018	2017	2018
World	**67 092**	**78 124**	**7 362**	**19 016**
Developed economies	**55 138**	**58 854**	**2 612**	**6 771**
Germany	3 746	4 527	5	3
Italy	3 303	3 626	14	29
Spain	10 506	10 091	45	403
Canada	1 615	3 993	57	2 302
United States	14 920	18 335	1 809	3 133
Developing economies	**11 848**	**18 445**	**4 707**	**12 191**
China	3 745	1 545	36	798
Chile	672	1 986	130	270
Colombia	658	259	593	1 063
Peru	14	262	1 461	4 114
Mexico	1 582	3 297	174	1 940

FDI flows to Latin America and the Caribbean decreased by 6 per cent in 2018 to $147 billion, as the economic recovery that started in 2017 began to stall and external factors weighed down growth prospects. FDI fell most in Brazil and Colombia; flows remained stable in the rest of the region, with the exception of a boom in both Panama and Ecuador, sustained by heavy investment in mining activities. The information technology (IT) industry attracted the interest of big investors, supporting inflows in the otherwise relatively weak investment landscape. Softbank (Japan) is setting up a $5 billion tech fund focused on Latin America. Outward investment by Latin American MNEs plunged in 2018 to a record low of $6.5 billion, due to negative outflows from Brazil and lower investments from Chile. Looking forward, expectations are steady, supported by continued investor interest in natural resources, infrastructure and consumer goods (especially goods and services related to information and communication technology (ICT)).

Inflows

In *South America*, FDI declined by 6 per cent to $101 billion due to lower flows to Brazil and Colombia. The challenging economic situation and a sharp decline in M&A deals from record levels in 2017 led to the decline in flows to *Brazil*, to $61 billion. In 2018, there were only six acquisitions by Chinese companies, half of the number in 2017, with only two worth $1 billion or more: State Grid's final acquisition for $1 billion of the remaining minority stake of CPFL Energia, following up 2017's majority acquisition, and the acquisition by Sygenta (now a subsidiary of ChemChina) of Nidera Sementes Ltda, a provider of crop production services, for an estimated $1.4 billion. While total new equity flows (excluding retained earnings and intracompany loans) declined by 23 per cent, a few industries attracted increasing flows: the extractives sector (oil, gas and mining) registered a 45 per cent increase; in manufacturing, FDI into non-metallic mineral products doubled, while the automotive industry maintained the growing trajectory observed over the last few years, with investment recorded at $4.5 billion; and in services, inflows into ICT and financial services more than doubled, reaching $2 billion and $3.5 billion respectively. Prospects for foreign investment significantly depend on progress in the new Brazilian administration's reform programme. The confidence of domestic investors, as reflected in stock markets, has so far not been matched by foreign (direct) investors, who appear to be waiting for stronger signals. Higher inflows are expected in 2019 on the back of positive economic forecasts, supportive investment policies[9] and the value of announced greenfield projects increasing by more than 50 per cent in 2018.

Despite currency turbulence, flows to *Argentina* appeared resilient at $12 billion, buoyed by a surge of flows into shale gas production at the Vaca Muerta field that alone attracted about a third of the flows.[10] Foreign investors (other than portfolio investment) were not affected by the domestic economic conditions, as reinvested earnings remained constant at 62 per cent of total flows while new equity flows increased by 66 per cent, to $3.3 billion. Despite recent restrictive measures such as export taxes and a decline in subsidies for power production, FDI in 2019 could be bolstered by the energy and the mining industries, owing to three factors: the rapid expansion of the Vaca Muerta field, the government's continuing RenovAr renewable energy auction programme, and the increasing interest of foreign companies in developing lithium projects in the country.

In *Colombia*, FDI inflows fell by 20 per cent to $11 billion. Flows to the oil industry declined 24 per cent to $2.4 billion, while investment in manufacturing tumbled by 70 per cent to $0.8 billion. Similarly, flows to trade and logistics services halved to $1.5 billion. These reductions were partly offset by rising inflows in mining (up 78 per cent at $1.7 billion), as well as trade and tourism (up 60 per cent at $1.3 billion). The Government is trying to

boost foreign investment to revive its stagnant crude and gas production and to increase exploration efforts to secure energy independence. In addition to free zone status offered to companies exploring offshore sites (chapter IV), the national hydrocarbons agency is improving contractual regimes and increasing the number of blocks available for exploration. However, canceled auctions of exploration rights in 2018 delayed investment. Prospects for FDI in the short term are positive, with solid economic growth and increasing internal demand, the continued effect of the country's infrastructure investment programme, and the new regulations and incentives for oil exploration.

Flows into *Chile* rose marginally – by 4 per cent to $7.2 billion – sustained by higher copper prices and record levels of M&A sales in the mining, health services and electricity industries. Among interventions meant to increase FDI, the Government enacted a law aimed at cutting red tape and signed a memorandum of understanding with China to participate in its Belt and Road Initiative, joining other countries in the region. In 2018, Chinese investments increased substantially in electricity, renewable energy, agribusiness and mining. The largest foreign investment in 2018 was China-based Tianqi Lithium Corp., which acquired a 24 per cent stake in Chilean lithium miner SQM for $4 billion (unrelated to the Belt and Road Initiative).

In *Peru*, flows decreased by 9 per cent to $6.2 billion, despite solid economic growth and heavy investment in the mining industry. Asset sales reached a record high at more than $3.2 billion, boosted by the I Squared (United States) acquisition of Latin America and the Caribbean business of Inkia Energy, an electric power generation facility operator, for almost $2 billion. Prospects for inflows in 2019 are up, backed by positive economic growth forecasts and an improved investment environment.[11] In addition, the Government announced six new mining projects last year, and the Ministry of Energy and Mines had 26 projects listed at the development stage by the end of 2018.

Flows to *Ecuador* more than doubled to $1.4 billion, driven by a surge in investment in the mining industry. A substantial amount of the inbound investment flows went to the Mirador (copper) and Fruta del Norte (gold) mines, which should start production by the end of 2019. This follows the government policy of designating the industry as a priority, which translated into pro-market reforms and relaxation of restrictive measures on foreign investment. Prospects for FDI in mining may be further driven by the Government's efforts to reform the mining tax regime, including the elimination of a 70 per cent windfall tax on mining profits.

Flows to the *Plurinational State of Bolivia* plummeted to $255 million, despite strong economic growth. FDI to the country has always been small relative to the size of the economy, as restrictive regulations deter private investment in high-potential industries, such as lithium mining. Increases in zinc and gas prices were therefore not enough to attract new FDI flows. Bolivia, which with Chile and Argentina is part of South America's lithium triangle, has estimated lithium reserves of 21 million tonnes. Yet, in 2018 only 250 tonnes of lithium carbonate were produced in the country (against 70,000 and 30,000 in Chile and Argentina, respectively). Investors have been deterred by the Government's joint-venture model. Past increases in taxes and royalties on mineral extraction are another concern.[12] Foreign investment in the sector could pick up: in early 2019, State-owned Yacimientos de Litio Bolivianos signed a cooperation agreement with a Chinese conglomerate to construct processing plants and exploit highland salt lake deposits at Coipasa and Pastos Grandes through a joint venture that will be 51 per cent controlled by the Bolivian State.

In *Central America* FDI inflows were stable at $43 billion, decreasing by 1 per cent in 2018. *Mexico* received $32 billion of inward investment, a level similar to the previous year. Foreign investors were reassured by the final signature of the revised North American Free Trade Agreement (now called the USMCA). Most of the flows were reinvested earnings

of existing foreign affiliates (increasing by 27 per cent to $12 billion), while new equity flows remained relatively stable at $11 billion and intracompany loans fell. The manufacturing sector absorbed almost half of the FDI inflows (49 per cent) with $15.5 billion, equivalent to 16 per cent growth. FDI to the utilities industry more than quadrupled to over $4 billion. Other industries registering increases were mining (up 38 per cent to $1.4 billion) and ICT (up 96 per cent to $1.2 billion), while flows to the rest of the economy declined. Investments from the United States – the major investor into the country, accounting for 39 per cent of flows – decreased by about 12 per cent. The decline was not due to the expected repatriation of retained earnings, however, but to lower equity inflows and intracompany loans.[13] For 2019, FDI inflows could contract, mostly due to uncertainties related to domestic policy.[14] The new administration is considering a number of policy reversals,[15] including cancelling the SEZ programme launched in 2016 and halting the opening of the oil industry to foreign investors.

Flows to *Panama* bounced up 21 per cent to $5.5 billion, boosted by record M&A deals. Transactions included the $1 billion acquisition by Millicom International Cellular of Luxembourg of an 80 per cent interest in Cable Onda, a Panama City-based provider of subscription programming services. Other inflows were primarily directed towards the massive $6.3 billion Cobre Panamá copper mine and companies operating out of the Zona Libre de Colón (a free trade zone), where investment increased by 68 per cent. Reinvested earnings ($3.3 billion) accounted for most of the flows, however.

In *Costa Rica*, large-scale protests and slow economic activity in the second half of the year were contributing factors to a 22 per cent decrease in FDI inflows to $2.1 billion. A sudden stop of investment in tourism was responsible for most of the decline. Investment into SEZs (free zones) was resilient, however, falling only marginally (by 6 per cent) to $1.2 billion – 57 per cent of the flows to the country. Inflows to the ICT industry more than doubled to $347 million. Amazon invested more than $10 million to open a new service centre in San José, to support small and medium-size companies selling their products on the platform.[16] FDI prospects remain positive, thanks to the country's dynamic SEZs (chapter IV).

In the *Caribbean*, excluding offshore financial centres, flows declined by 32 per cent to $3 billion. The contraction was due to lower FDI ($2.5 billion) in the *Dominican Republic*, the major recipient in the subregion, despite its strong economic growth in 2018. The conclusion of the two-stage acquisition of a local brewer (Cerveceria Nacional Dominicana) by AB InBev (Belgium), which had pushed FDI to record highs in 2012 and 2017, accounted for this adjustment. Flows to *Haiti* and *Jamaica*, the other two major recipients of FDI in the Caribbean, also fell, to $105 million and $775 million, respectively.

Looking at sources of FDI in Latin America and the Caribbean as a whole, the most important investor in the region remains the United States, with an FDI stock of about $265 billion in 2017. FDI held by investors from the United States registered a 8 per cent increase over the last five years. In contrast, the region's other historical partner, Spain, has reduced its investment stock by about 20 per cent over the same period and has been overtaken by the Netherlands. The major intraregional investor is Chile, with an FDI stock that grew rapidly (by 20 per cent) to $70 billion in the five years from 2013 to 2017. Chile's regional holdings are more than double Brazil's stock, due to the regional expansion of companies such as retail chains Falabella and Cencosud, as well as wood and paper companies CMPC and Arauco.

Outflows

Outward investment by Latin American MNEs plunged in 2018 to a record low of $6.5 billion, heavily influenced by negative outflows from Brazil and decreased investments from Chile. Investments from Argentina, Colombia and Mexico increased.

Outflows from Brazil fell to -$13 billion, as foreign affiliates continued funneling financial resources (often finance raised in overseas capital markets) back to their parents. In addition to negative intracompany loans, the value of cross-border net purchases turned negative, to -$2 billion, due to the divestment by Marfrig Global Foods from its United States-based affiliate Keystone Foods. Negative intracompany loans also reduced flows from Chile (to $3 billion), the most important investor in the region.

In contrast, MNEs from Mexico increased their outward FDI to $6.9 billion. The most important acquisition was Mexichem's purchase of an 80 per cent interest in Netafin, an Israeli water supply system operator, for $1.9 billion.

Prospects

Investment flows to and from the region are expected to remain steady in 2019, as commodity prices and economic conditions in major economies stabilize. Natural resources, infrastructure and consumer goods (especially ICT-related goods and services) should continue to attract foreign investors. Most countries have reduced barriers to foreign investment in infrastructure, and announced greenfield projects in construction are back to the levels of commodity boom years. In general, positive expectations are supported by a 16 per cent increase in the value of announced greenfield projects, led by mining, tourism, finance, IT, chemicals and pharmaceuticals, and electronics.

Yet the region's lower growth projections compared with last year's expectations and its vulnerability to external factors, such as monetary policy in the United States and trade tensions among its main trading partners, put a downward risk on their economies and prospective FDI inflows. For example, slower economic growth in China or tariffs being imposed on the automotive industry would pose a major risk to the price of copper – one of the main exports of the region.

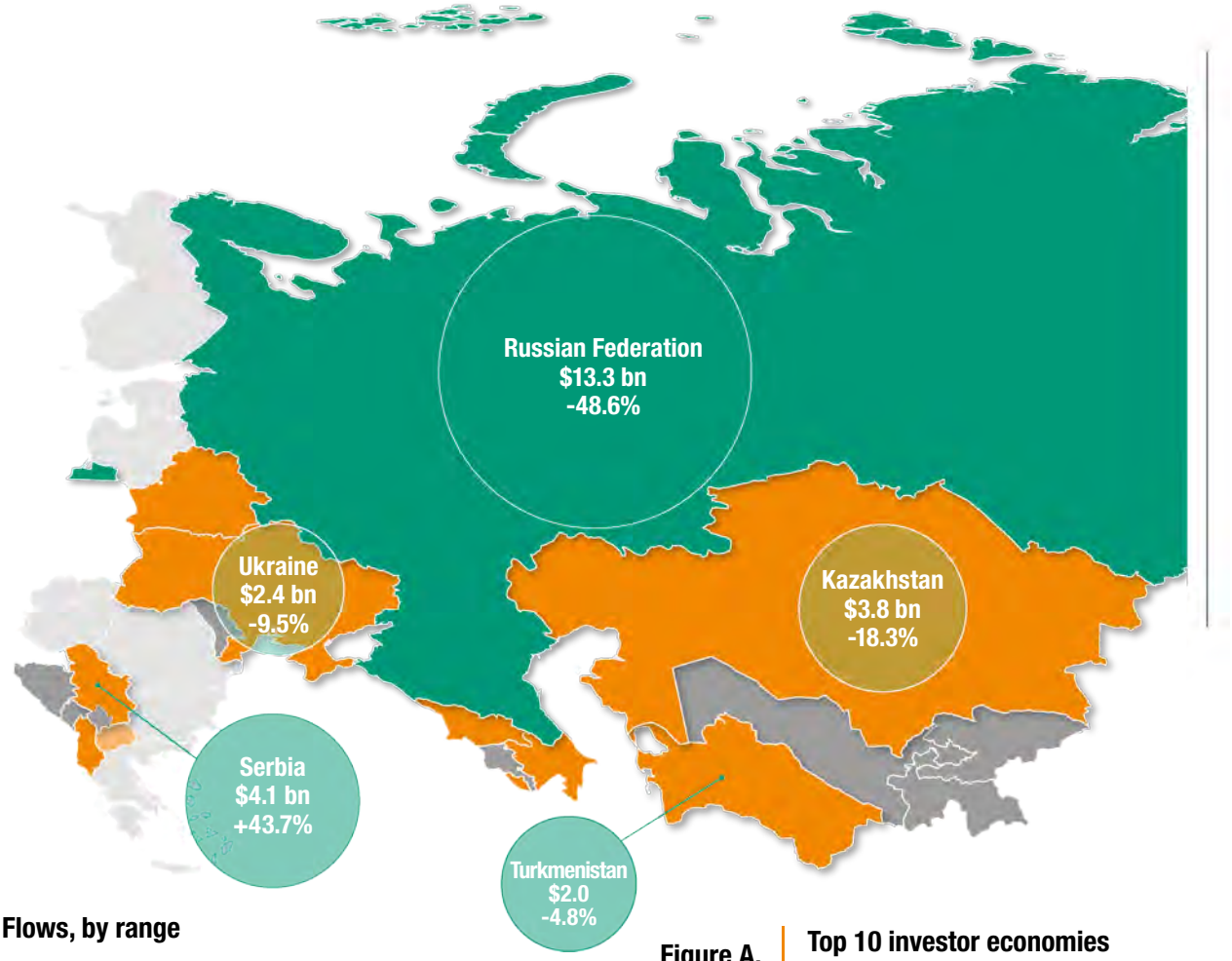
TRANSITION ECONOMIES

FDI flows, top 5 host economies, 2018 (Value and change)

2018 Inflows
34.2 bn

2018 Decrease
-28.0%

Share in world
2.6%



Flows, by range

- Above $10.0 bn
- $5.0 to $9.9 bn
- $1.0 to $4.9 bn
- $0.5 to $0.9 bn
- Below $0.5 bn

Top 5 host economies

Economy
$ Value of inflows
2018 % change

Outflows: top 5 home economies

(Billions of dollars and 2018 growth)

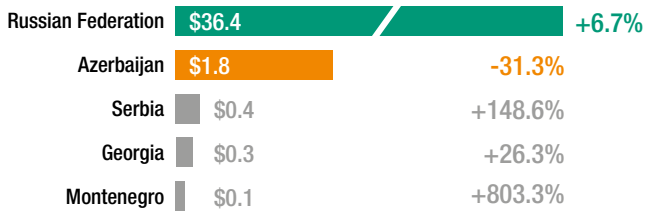
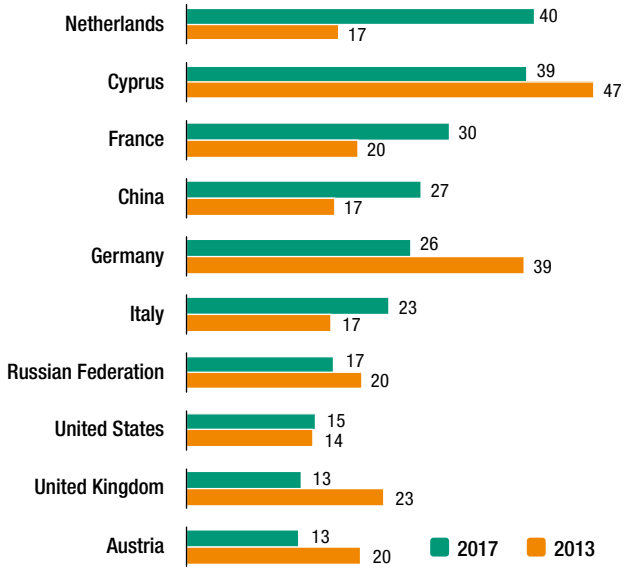


Figure A. Top 10 investor economies by FDI stock, 2013 and 2017 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- FDI inflows continued their downward trend
- Outflows unchanged in 2018
- Partial recovery of inflows expected in 2019

Figure B. FDI inflows, 2012–2018 (Billions of dollars and per cent)

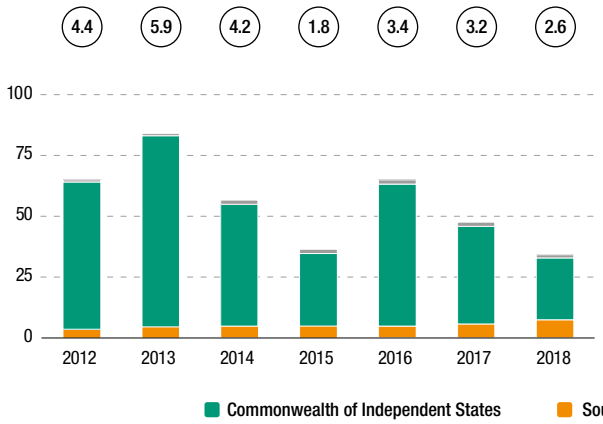


Figure C. FDI outflows, 2012–2018 (Billions of dollars and per cent)

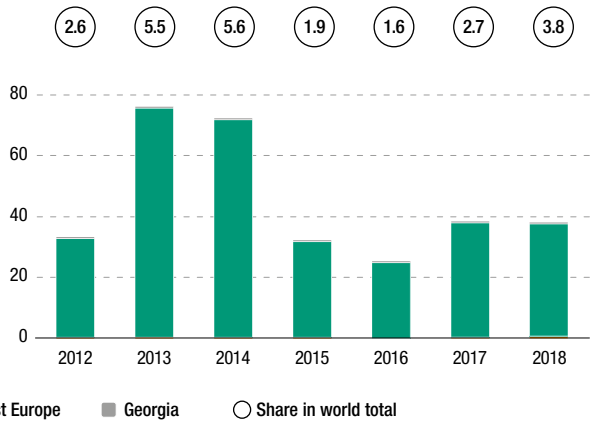


Table A. Net cross-border M&As by industry, 2017–2018 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2017	2018	2017	2018
Total	**12 703**	**2 602**	**13 948**	**1 914**
Primary	**13 235**	**610**	**13 989**	**-34**
Manufacturing	**104**	**2 275**	**4**	**653**
Food, beverages and tobacco	48	1 914	-	-
Computer, electronic, optical products and electrical equipment	10	16	-	-
Motor vehicles and other transport equipment	2	358	-	-
Machinery and equipment	-11	-	85	654
Services	**-635**	**-282**	**-44**	**1295**
Electricity, gas and water	-124	40	-	-
Trade	46	242	-	3
Transportation and storage	344	61	-	-
Information and communication	9	-795	-187	275
Financial and insurance activities	-118	166	161	1 012

Table B. Net cross-border M&As by region/economy, 2017–2018 (Millions of dollars)

Region/economy	Sales		Purchases	
	2017	2018	2017	2018
World	**12 703**	**2 602**	**13 948**	**1 914**
Developed economies	**11 143**	**458**	**143**	**663**
European Union	496	-1295	163	8
Cyprus	-571	-1182	132	8
Germany	100	320	-	-
Japan	-	1 741	-	-
Switzerland	10 788	1	-	654
Developing economies	**1 316**	**1 119**	**13 721**	**273**
China	1 152	542	9	-
India	-6	-	12 589	-
Turkey	2	-599	-	273
Transition economies	**84**	**978**	**84**	**978**
Russian Federation	-24	972	-	1 004

Table C. Announced greenfield FDI projects by industry, 2017–2018 (Millions of dollars)

Sector/industry	Transition economies as destination		Transition economies as investor	
	2017	2018	2017	2018
Total	**34 378**	**51 051**	**42 478**	**21 003**
Primary	**595**	**1 729**	**21**	**1 266**
Manufacturing	**22 995**	**30 802**	**9 608**	**11 656**
Food, beverages and tobacco	3 278	3 501	315	2 465
Textiles, clothing and leather	1 040	3 836	8	72
Coke and refined petroleum products	2 217	4 050	7 489	6 832
Chemicals and chemical products	4 989	4 657	117	355
Motor vehicles and other transport equipment	3 823	4 718	1 019	407
Services	**10 789**	**18 520**	**32 850**	**8 080**
Electricity, gas and water	1 309	7 390	31 309	3 718
Construction	4 047	2 198	160	1 240
Hotels and restaurants	226	2 814	-	819
Transport, storage and communications	1 181	2 521	482	935

Table D. Announced greenfield FDI projects by region/economy, 2017–2018 (Millions of dollars)

Partner region/economy	Transition economies as destination		Transition economies as investor	
	2017	2018	2017	2018
World	**34 378**	**51 051**	**42 478**	**21 003**
Developed economies	**18 146**	**29 244**	**1 393**	**2 029**
European Union	12 798	17 962	1 331	968
France	1 858	2 607	20	2
Germany	1 710	3 992	88	53
Japan	951	5 613	-	102
United States	3 118	2 297	16	325
Developing economies	**14 014**	**17 882**	**38 866**	**15 048**
China	8 990	9 204	1 016	1 778
Korea, Republic of	1 420	1 517	7	-
Turkey	879	1 635	3 022	6 347
Transition economies	**2 219**	**3 925**	**2 219**	**3 925**
Russian Federation	1 768	1 886	95	359

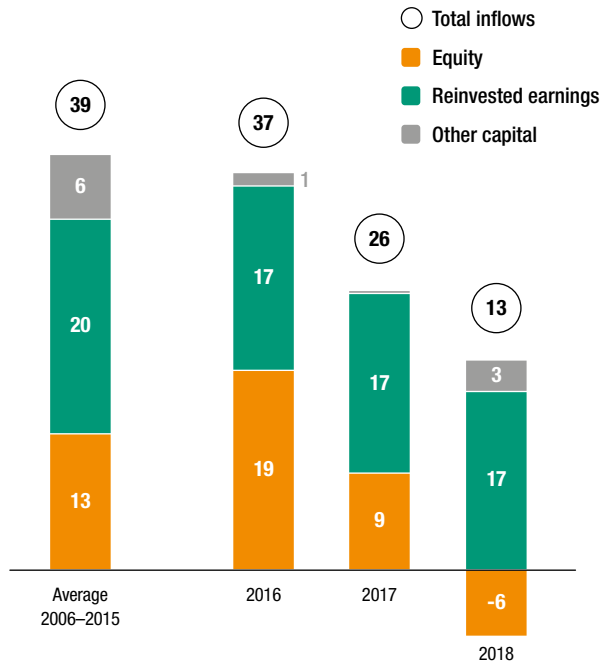
FDI flows to the transition economies of South-East Europe and the Commonwealth of Independent States (CIS) continued on their steep downward trend in 2018. Investment to the region declined by 28 per cent to $34 billion. The contraction in FDI was driven by the halving of flows to the Russian Federation, by far the biggest economy and largest recipient in the group, from $26 billion to $13 billion. Some other large recipients in the region – Azerbaijan, Kazakhstan and Ukraine – also experienced declines in inflows. Bucking the general downward trend, flows were buoyant in South-East Europe, especially in Serbia and North Macedonia. FDI inflows rose in all countries in that subregion except Montenegro. Outflows remained unchanged at $38 billion, making the region a net FDI capital exporter in 2018. Prospects for FDI inflows are moderately positive in 2019 and beyond.

Inflows

Inbound FDI in economies in transition declined again in 2018, largely due to falling flows to the Russian Federation, Azerbaijan and Kazakhstan. Flows to the CIS and Georgia contracted by 36 per cent to $27 billion. The decline affected seven of the 12 countries in that subgroup (the exceptions were Armenia, Belarus, the Republic of Moldova, Tajikistan and Uzbekistan).

In the *Russian Federation*, FDI inflows declined by more than half to $13 billion. Investor sentiment remained cautious, in part due to geopolitical concerns and sluggish GDP growth. Equity capital registered an unprecedented negative value (-$6 billion; figure II.1), due to both divestments (sales of foreign affiliates to Russian investors)[17] and the de-offshoring of MNEs of Russian origin. De-offshoring has been a policy aim of the Russian Government since 2012 (Kheyfets, 2018), to counteract the strategies of some Russian firms to domicile their head office and/or part of their share capital in economies with sizeable corporate services industries, such as Cyprus, Ireland and the Netherlands. Various amendments to the tax code have been adopted since the entry into force of the first anti-offshoring legislation on 1 January 2015, all of them rewarding the return of capital and making offshoring less attractive. In 2018, Federal Law No. 291-FZ created "inner offshore zones" within the Kaliningrad Oblast[18] and the Primorsk Territory – an attempt by authorities to establish an alternative to foreign offshore centres. These measures encouraged the repatriation of some Russian offshore capital in 2018, resulting in largely negative inflows from Cyprus and Ireland. Reinvested earnings by established foreign affiliates – historically the most stable component of inward FDI in the country – remained unchanged in 2018. Cross-border M&A sales of firms from the Russian Federation dropped by 79 per cent to $2.7 billion.

Figure II.1. **Russian Federation: FDI inflows, total and by component, 2006–2018**
(Billions of dollars)



Source: UNCTAD, FDI/MNE database.

FDI flows to *Kazakhstan* – the biggest of the nine landlocked CIS countries and the third largest recipient of FDI among transition economies – declined again. Large divestments brought FDI down by 18 per cent to $3.8 billion. Some divestments were publicly announced, such as the departure of Telia (Sweden) and Turkcell (Turkey) from mobile

telephony service in the country. Others (by large oil companies) went largely unreported. Inflows consisted mostly of reinvested earnings and intracompany loans. Net cross-border M&A sales remained negligible. The value of the largest deal – the acquisition by Lotte Confectionery (Republic of Korea) of Almaty-based chocolate producer Rakhat – was less than $100 million.

FDI flows to *Ukraine* declined for the second consecutive year – by 9 per cent, to $2.4 billion. Political and policy uncertainty continued to affect investors. Cross-border M&A sales dried up; however, the value of announced greenfield projects doubled to $3.3 billion, indicating the potential for a turnaround.

Belarus, in contrast, recorded positive FDI growth in 2018. Inflows rose by 15 per cent to $1.5 billion. Equity capital and reinvested earnings both leaped, as established and new investors alike explored new business opportunities. Some located their projects in the country's SEZs (chapter IV). The China–Belarus Industrial Park Great Stone attracted Chinese firms Chengdu Sinju Silk Road Development LLC to produce electric bus components and Zoomlion to manufacture utility vehicles. The Minsk Free Economic Zone drew United States-based EnergoTech for power engineering and machine building. Outside SEZs, Knauf Gips (Germany) invested in building materials production.

FDI flows to *Uzbekistan* grew four-fold to over $400 million in 2018, as the country gradually opens up to foreign investment. Russian MNEs started investing a few years ago, focusing on oil and gas. New investors in 2018 included MNEs from China, India, the Republic of Korea and Turkey, as well as the Russian Federation outside the hydrocarbon industries (in agribusiness, near the Afghan border). Investors have also shown interest in alternative and renewable energy.[19]

***South-East Europe* bucked the general downward trend, with FDI flows growing by 34 per cent to $7.4 billion.** The rise in FDI was distributed across almost all countries in the subregion.

In 2018, *Serbia* became the second largest recipient of FDI among transition economies as inflows grew by 44 per cent to $4.1 billion, driven by a surge in equity capital. Serbia's economy is the largest in the subregion and is relatively diversified. The country's strategic location facilitates logistics investment, such as the Vinci Airports (France) stake in Nikola Tesla Airport in Belgrade. Its natural resources (especially copper) are also attracting resource-seeking firms. The Zijin Mining Group (China), for example, acquired RTB Bor's copper production. FDI in Serbia's growing automotive cluster (e.g. the projects of the United Kingdom-based wire producer Essex Europe and Japan-based cable producer Yazaki) benefits from the country's skilled labour force. Finally, the country's knowledge base is attracting R&D centres, such as German tyre maker Continental's development centre in Novi Sad.

Flows to *North Macedonia* more than tripled, to a record $737 million. Most FDI targeted the country's export-oriented investment cluster, predominantly automotive production, located in its technological-industrial development zones (see chapter IV). In one of the large deals, the Skopje 2 Free Zone attracted the United States-based car parts manufacturer Dura Automotive Systems.

The cross-border M&A sales of firms from transition economies fell to $2.6 billion. This was the lowest value in more than a decade, except for the net divestment recorded in 2013. M&As in the Russian Federation dropped by 79 per cent; the Japan Tobacco acquisition of Donskoy Tabak was the only large transaction registered in the whole region in 2018.[20] Food, beverages and tobacco accounted for almost three quarters of cross-border M&As (table A), and Japan accounted for more than two thirds of FDI by source country (table B). Smaller transactions took place in the mining industry and, to a lesser degree,

in trade, as well as in financial and insurance services. In mining, the largest takeover was initiated by Zijin Mining Group (China) in Serbia. In trade, Metro Kaufhaus (Germany) acquired a minority share in a Moscow-based computer and software retailer. In finance, a Chinese investor group acquired a 60 per cent stake in Altyn Bank of Kazakhstan.

The profile of key investors in transition economies has changed markedly in the past few years. The Netherlands and Cyprus remained important conduits for FDI from third countries, as well as for capital from the Russian Federation. By 2017, the Netherlands had become the largest investor and Cyprus the second largest, holding $40 billion and $39 billion of FDI stock in the region, respectively. Germany's stock in the region declined to $26 billion in 2017. At the same time, FDI stock held by MNEs from France and China rose significantly (to $30 billion and $27 billion, respectively). Chinese MNEs have been targeting host countries across the transition economies, whereas the surge of French FDI has been concentrated mostly in large natural resource projects in Kazakhstan.

Outflows

At $38 billion, FDI outflows from transition economies were unchanged in 2018. As in previous years, the *Russian Federation* accounted for the bulk of outward FDI (95 per cent). The country's outflows rose by 7 per cent to $36 billion – almost three times more than inflows ($13 billion). The rise of outflows was, however, driven mainly by reinvested earnings in projects and the extension of intracompany loans to established affiliates. Equity investment in new greenfield ventures and foreign acquisitions declined by almost half, reflecting both Russian MNEs' caution about foreign expansion and Russian governmental policies encouraging de-offshoring. Russian investors' caution in international markets is also linked to international sanctions, which affect some large Russian MNEs (Kheyfets, 2018). A large part of Russian outward FDI is carried out by a limited number of large MNEs. At the end of 2017, the 15 largest MNEs (excluding such big State-owned banks as Bank VTB and Sberbank; table II.1) accounted for 28 per cent of the country's outward FDI stock. Many of these MNEs are engaged in natural resources value chains (including Lukoil, Gazprom and Rosneft, occupying the top three positions), and six of the 15 firms are State owned (chapter I).

Prospects

Macroeconomic and policy developments may lay the basis for a modest and partial FDI recovery in 2019. In the Russian Federation, the largest economy of the region, GDP growth prospects for 2018–2020 are subdued (under 2 per cent), and uncertainties in the international political context continue to hamper FDI. Yet Government policies to increase investment in new economic activities and planned additional spending on infrastructure to remove bottlenecks could both have a positive impact on foreign investment.

Economic growth will most likely remain sluggish in other large CIS economies, such as Kazakhstan and Ukraine. South-East Europe is expected to register more robust growth rates, well above 3 per cent. Moreover, closer links with the EU confer additional competitive advantages to the subregion.

Greenfield project announcements, an indicator of future investor intentions, are encouraging but uneven. In 2018, greenfield commitments grew by 48 per cent to $51 billion. Practically all countries of the region recorded an increase. They more than doubled (to $11 billion) in South-East Europe and increased by 35 per cent (to $40 billion)

Table II.1. Largest Russian non-financial MNEs, by foreign assets, 2017

Rank	Company	Industry	Foreign assets (Billions of dollars)	Share of foreign assets in total assets (Per cent)	State ownership (Per cent)
1	Lukoil	Oil and gas	24.3	27	–
2	Gazprom	Oil and gas	19.5	6	50.2
3	Rosneft	Oil and gas	17.6	8	69.5
4	Sovkomflot	Transportation	5.7	78	100.0
5	Severgroup	Conglomerate	5.4	..	–
6	En+	Conglomerate	5.0	23	–
7	Atomenergoprom	Nuclear energy	4.7	9	100.0
8	Evraz	Steel	3.7	36	–
9	Russian Railways	Transportation	3.5	5	100.0
10	TMK	Steel	2.0	36	–
11	Eurochem	Chemicals	1.7	17	–
12	Sistema	Conglomerate	1.5	8	–
13	NLMK	Steel	1.5	14	–
14	Zarubezhneft	Oil and gas	1.2	38	100.0
15	Polymetal	Non-ferrous metals	1.0	32	–
Total or average			**105.1**	**12**	**..**

Source: UNCTAD, based on Kuznetsov (2018) and UNCTAD data.
Note: The list does not include financial MNEs (e.g. Bank VTB and Sberbank). It includes MNEs that have registered headquarters abroad but majority Russian ownership (En+, Eurochem, Evraz and Polymetal).

in the CIS and Georgia. The rise of announced greenfield projects was more modest in the Russian Federation and Kazakhstan – only 8 per cent, to $18 billion and 7 per cent, to about $7 billion – but rose substantially in Turkmenistan, Ukraine and Uzbekistan. In the first quarter of 2019, cross-border M&A sales in the transition economies rose to $444 million, up from a negative value of $53 million in the first quarter of the previous year. These data indicate a chequered outlook for FDI in 2019.

Outward FDI from economies in transition is expected to grow, as indicated by greenfield project commitments. Announced deals were valued at $21 billion in 2018, $7 billion of which was in coke, petroleum products and nuclear fuel, where Russian MNEs enjoy a strong competitive advantage. More than 70 per cent of greenfield announcements from MNEs in transition economies concerned projects in developing countries ($15 billion).

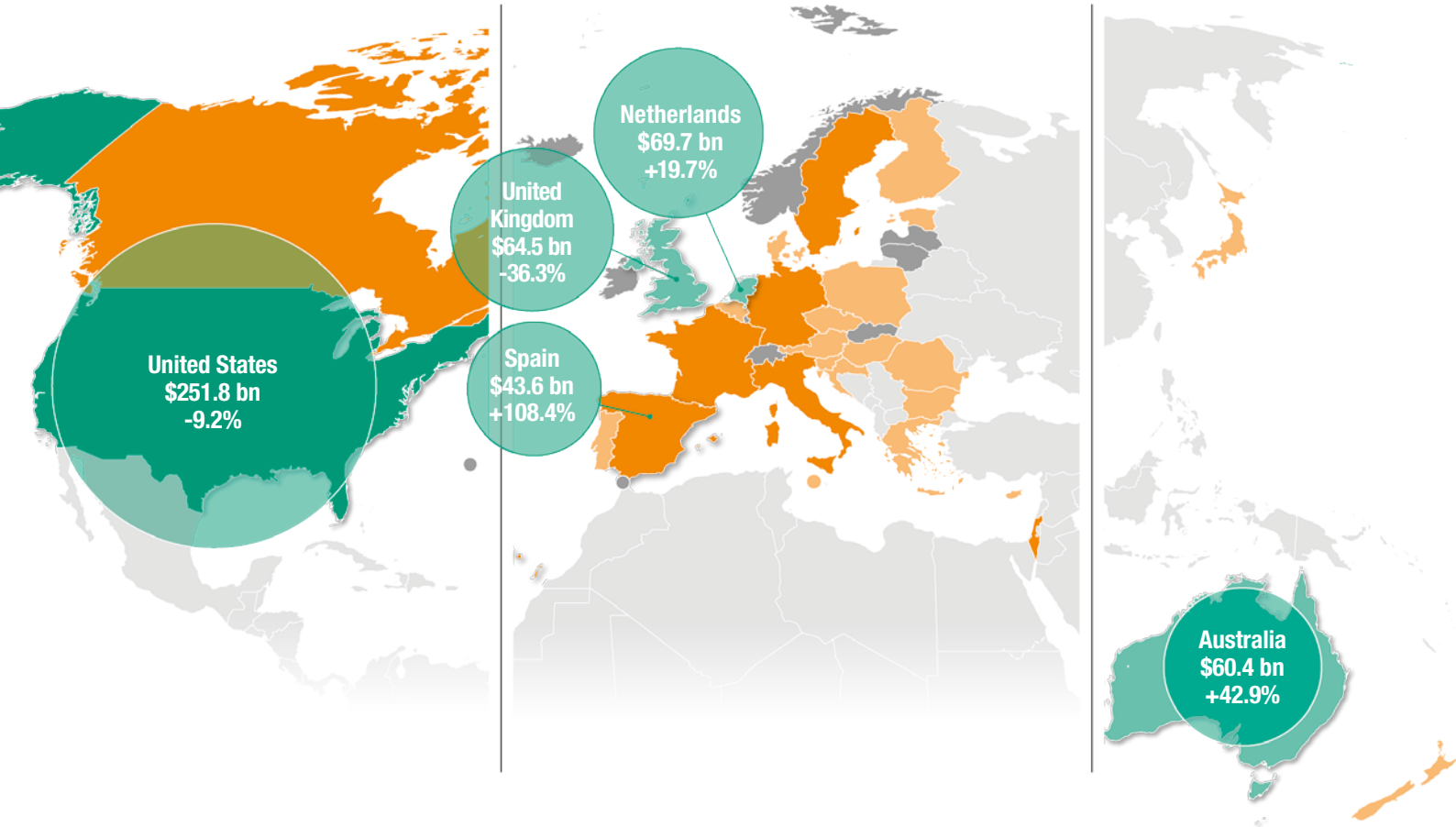
DEVELOPED ECONOMIES

FDI flows, top 5 host economies, 2018 (Value and change)

2018 Inflows
556.9 bn

2018 Decrease
-26.7%

Share in world
42.9%



Flows, by range

- Above $100 bn
- $50 to $99 bn
- $10 to $49 bn
- $1 to $9 bn
- Below $1 bn

Top 5 host economies

Economy
$ Value of inflows
2018 % change

Outflows: top 5 home economies

(Billions of dollars and 2018 growth)

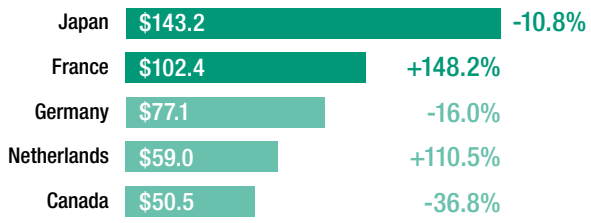
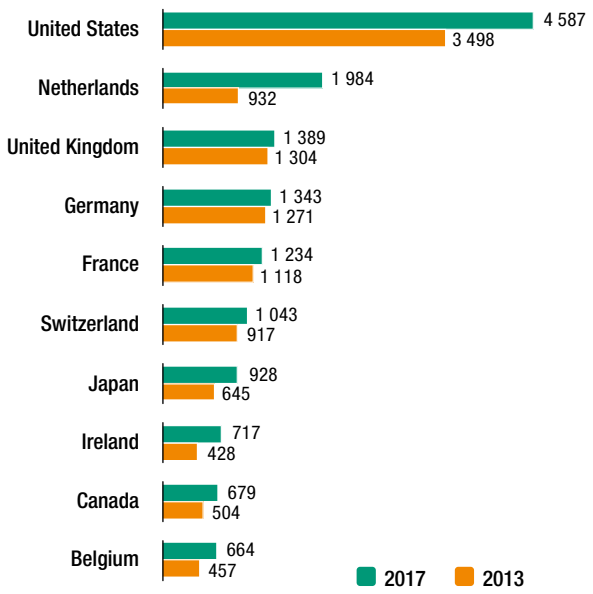


Figure A. Top 10 investor economies by FDI stock, 2013 and 2017 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- Repatriation of accumulated earnings by United States MNEs dented FDI flows
- Cross-border M&As surged, mainly by United States MNEs
- Prospects are positive; rebound expected in Europe

Figure B. FDI inflows, 2012–2018 (Billions of dollars and per cent)

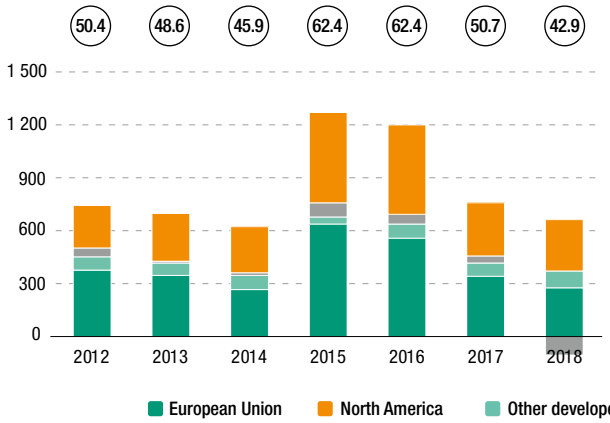
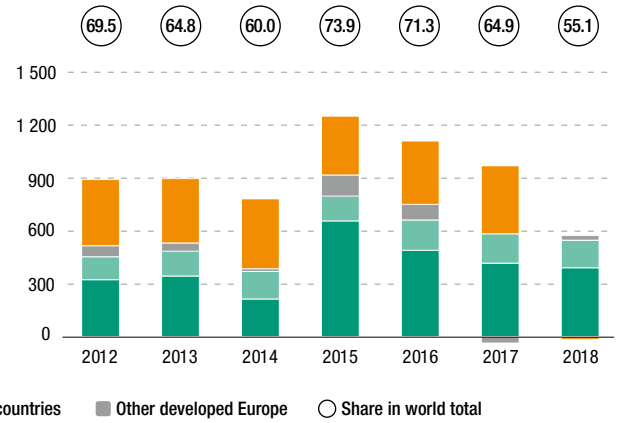


Figure C. FDI outflows, 2012–2018 (Billions of dollars and per cent)



European Union | North America | Other developed countries | Other developed Europe | Share in world total

Table A. Net cross-border M&As by industry, 2017–2018 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2017	2018	2017	2018
Total	**568 909**	**688 859**	**463 956**	**701 976**
Primary	**-9 082**	**28 632**	**-21 068**	**24 253**
Manufacturing	**304 070**	**282 163**	**206 077**	**228 778**
Food, beverages and tobacco	78 005	44 451	70 186	40 008
Chemicals and chemical products	62 291	140 207	28 327	107 250
Pharmaceuticals, medicinal chemicals and botanical products	69 428	27 149	15 531	43 906
Computer, electronic, optical products and electrical equipment	23 678	40 186	34 981	7 216
Machinery and equipment	51 146	3 907	52 775	6 176
Services	**273 921**	**378 065**	**278 947**	**448 945**
Transportation and storage	17 412	37 325	41 685	17 451
Information and communication	20 484	68 345	18 542	78 646
Financial and insurance activities	50 304	103 091	152 932	261 181
Business activities	96 877	94 852	40 637	42 499

Table B. Net cross-border M&As by region/economy, 2017–2018 (Millions of dollars)

Region/economy	Sales		Purchases	
	2017	2018	2017	2018
World	**568 909**	**688 859**	**463 956**	**701 976**
Developed economies	**410 246**	**631 423**	**410 246**	**631 423**
Europe	176 491	317 220	136 638	340 902
North America	165 869	278 564	238 099	213 650
Other developed economies	67 887	35 640	35 510	76 871
Developing economies	**146 008**	**43 556**	**42 567**	**70 095**
Africa	556	2 266	1 780	-1 606
Latin America and the Caribbean	3 586	1 361	14 193	28 612
Asia and Oceania	141 866	39 930	26 595	43 089
China	93 201	18 611	-1 752	1 247
India	1 868	470	5 518	32 492
Singapore	10 753	4 206	5 170	5 727
Transition economies	**143**	**663**	**11 143**	**458**

Table C. Announced greenfield FDI projects by industry, 2017–2018 (Millions of dollars)

Sector/industry	Developed countries as destination		Developed countries as investor	
	2017	2018	2017	2018
Total	**304 894**	**357 139**	**461 950**	**616 137**
Primary	**4 212**	**4 933**	**18 215**	**22 134**
Manufacturing	**161 346**	**164 065**	**223 152**	**305 920**
Coke and refined petroleum products	1 351	33 220	5 003	60 849
Chemicals and chemical products	32 554	17 924	35 786	51 212
Electrical and electronic equipment	30 018	18 509	29 706	29 243
Motor vehicles and other transport equipment	30 678	21 226	47 715	57 949
Services	**139 336**	**188 140**	**220 582**	**288 083**
Electricity, gas and water	20 161	33 156	38 013	62 789
Construction	25 949	44 542	35 339	49 147
Trade	21 200	19 576	28 105	25 614
Transport, storage and communications	12 607	20 291	30 374	34 833
Business services	37 797	41 694	50 706	60 115

Table D. Announced greenfield FDI projects by region/economy, 2017–2018 (Millions of dollars)

Partner region/economy	Developed countries as destination		Developed countries as investor	
	2017	2018	2017	2018
World	**304 894**	**357 139**	**461 950**	**616 137**
Developed economies	**244 937**	**289 201**	**244 937**	**289 201**
Europe	139 604	187 934	143 957	172 187
North America	75 399	75 751	70 703	90 488
Other developed economies	29 933	25 517	30 277	26 526
Developing economies	**58 563**	**65 909**	**198 867**	**297 692**
Africa	1 741	2 247	31 162	38 232
Asia and Oceania	54 210	56 891	112 567	200 607
China	11 892	18 335	28 808	67 766
Singapore	2 835	7 687	11 875	10 959
India	5 552	3 778	18 807	28 487
Latin America and the Caribbean	2 612	6 771	55 138	58 854
Transition economies	**1 393**	**2 029**	**18 146**	**29 244**

FDI trends in developed countries were anomalous in 2018. Inflows fell by a quarter to $557 billion, with investment to Europe contracting by half. This was largely owing to tax reform in the United States, which resulted in the country's MNEs repatriating accumulated overseas earnings, particularly from Europe. M&A deal making rose by 21 per cent but was not active enough to compensate, and inflows to developed countries sank to their lowest level since 2004, well below the troughs in 2009 ($649 billion) and 2014 ($623 billion). Outward FDI from developed economies declined by 40 per cent to $558 billion, as the United States recorded large negative outflows reflecting the repatriation of earnings. The expected rebound after the drop in 2018 will affect FDI flows in 2019.

Inflows

FDI inflows to *Europe* halved to $172 billion. The repatriation of accumulated earnings by United States MNEs following the tax reform had a major impact on FDI flows to some countries that host financial functions of United States MNEs, such as Ireland (-$66 billion) and Switzerland (-$87 billion). However, the sharp decline in FDI was the result only of intrafirm financial flows and did not reflect a sell-off of assets of United States MNEs or otherwise affect real investment trends.

In fact, net M&A sales of European assets bounced back to $378 billion, due to buoyant sales to United States MNEs. Sales had fallen sharply in 2017, primarily due to sluggish intra-European M&A activity. In 2018, such M&As surged to $137 billion, led by purchases by MNEs in France (up $30 billion to $40 billion), the United Kingdom (up $29 billion to $35 billion) and Italy (up $33 billion to $31 billion).

While net M&A sales of European assets to United States MNEs more than doubled to a record $172 billion, net M&A sales to Chinese MNEs declined from $66 billion in 2017 to $14 billion, following the introduction of more stringent review processes for foreign investments in Europe (chapter III). The largest deals included the acquisition of Sky (United Kingdom) by telecommunication conglomerate Comcast (United States) for $40 billion and the merger of industrial gases companies Praxair (United States) and Linde (Germany) for $32 billion.

FDI flows to the *United Kingdom* declined by 36 per cent to $64 billion. The impact of the impending Brexit on FDI, however, is still unclear. Equity investment halved to $40 billion. But reinvested earnings rose by 73 per cent to $33 billion, and net M&A sales trebled to $94 billion. The number of cross-border acquisitions targeting United Kingdom assets (gross sales) also increased by 8 per cent. The average number of such deals before and after the EU referendum indicate an unchanged upward trend (822 annual transactions in 2012–2016 compared with 953 annual transactions in 2017–2018). The average number of announced cross-border greenfield projects – an indicator of future FDI trends – also registered a 20 per cent increase after the referendum (from 1,192 projects per year over the period 2012–2016 to 1,428 projects over 2017–2018), compared with a 24 per cent increase in the rest of the EU.

Inflows to *Spain* more than doubled to $44 billion, the highest level since 2008, driven by net M&A sales worth $71 billion. The largest deal was the $23 billion acquisition of Spanish highway operator Albertis by a consortium of Atlantia (Italy), ACS (Spain) and Hochtief (Germany). Economic growth since 2014 revived foreign investors' interest in the country's real estate-related assets. Private equity firm Blackstone, for instance, acquired a 51 per cent interest in the real estate assets of the failed Banco Popular Español for $6 billion. Another United States private equity firm, Cerberus, acquired 80 per cent of the real estate business of Banco Bilbao Vizcaya Argentaria for an estimated $4.7 billion.

Flows to the *Netherlands* rose by 20 per cent to $70 billion. Reinvested earnings remained stable at $26 billion, but volatile intracompany loans swung positive in 2018, rising to $17 billion. Net M&A sales more than doubled to $40 billion. Among the largest deals, a partnership of private equity group Carlyle, Singapore State-owned GIC and other investors acquired the specialty chemicals business of Akzo Nobel for $13 billion.

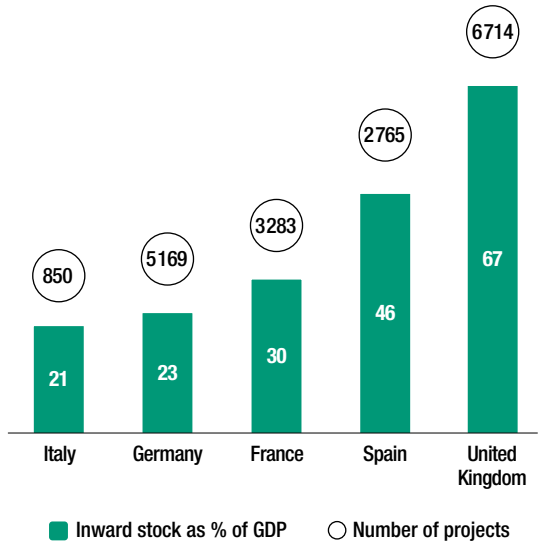
Inflows into *Italy* rose by 11 per cent to $24 billion. Historically, Italy has attracted less FDI than other major European economies (figure II.2). In an effort to boost investment, the Government of Italy signed a memorandum of understanding with China to join the Belt and Road Initiative in March 2019.

In the *United States*, FDI inflows declined by 9 per cent to $252 billion. The decline was owing to a contraction in intracompany loans (from -$16 billion to -$62 billion) and in equity investment (down by 3 per cent to $195 billion). Reflecting steady economic growth, however, investment income on inward FDI increased to $200 billion, of which $119 billion (up 28 per cent from 2017) was retained as reinvested earnings.

Net M&A sales of United States assets to foreign investors slumped by one third to $199 billion, largely due to the absence of cross-border megadeals in 2018 (figure II.3). This contrasts with booming domestic M&A activities in the United States. Eight of the world's 10 largest deals completed in 2018 were acquisitions of assets in the United States, but only one (Bayer-Monsanto) was a cross-border deal. Acquisitions by United Kingdom MNEs, which had totalled an exceptional $118 billion in 2017, contracted to $21 billion in 2018. At the same time, net M&A sales to Chinese MNEs collapsed to $0.6 billion in 2018, down from $30.8 billion in 2016 and $24.6 billion in 2017, against the backdrop of tighter screening and strained trade and investment relations.

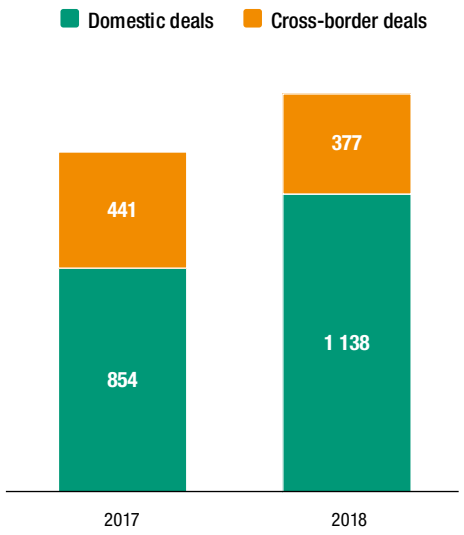
Inflows to *Canada* recovered to $40 billion – a 60 per cent increase from 2017. The decline of inflows in 2017 was primarily a result of divestments from oil and gas assets worth $25 billion. Only one such divestment, worth $0.7 billion, was recorded in 2018. FDI flows to *Australia* rose by 43 per cent to $60 billion. Growing investment income lifted reinvested earnings to $25 billion. Over half of net M&A sales in 2018 were related to financial and insurance activities ($19 billion), mostly acquisitions of real

Figure II.2. **Developed economies: Inward FDI stock as percentage of GDP and number of greenfield projects, 2014–2018**



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) and FDI/MNE database (www.unctad.org/fdistatistics).

Figure II.3. **United States: value and number of M&A deals, by nationality of acquiring firm, 2017 and 2018**
(Billions of dollars and number of deals)



Source: UNCTAD, based on Thomson Reuters and cross-border M&A database (www.unctad.org/fdistatistics).

Note: Includes divestments. The figures for all deals are from Thomson Reuters. To make the numbers comparable, cross-border deals in this table includes all M&A deals including divestments, acquisitions of equity less than 10 per cent as well as acquisitions by firms based in the Caribbean Financial Centres.

estate investment trusts. Investment in Australia's extractive industries, which peaked in the late 2000s, remained subdued. Over the period 2014–2018, the annual value of greenfield projects in the sector averaged $1.5 billion, down from $13 billion in 2008. Over the same period, net M&A sales averaged only -$0.2 billion a year, compared with $26 billion in 2008. Yet extractive industries are generating higher investment income, as the past investment boom has translated into growing exports of commodities.

Outflows

Outflows from European economies were $418 billion, 11 per cent up from 2017. France became the largest source of FDI, with outflows rising to $102 billion. Outflows from Germany declined by 16 per cent to $77 billion. The value of net M&A purchases by German MNEs more than doubled to $73 billion, due to Bayer's merger with Monsanto (United States) for $57 billion. However, large negative flows of intracompany loans netted out much of the increase in equity investment. Outflows from Ireland and Switzerland, both of which had recorded large negative outflows in 2017, turned positive, reaching $13 billion (up $52 billion) and $27 billion (up $62 billion) respectively.

Outflows from the United States declined from $300 billion in 2017 to a net divestment of -$64 billion, as firms opted to repatriate funds in line with United States Government tax reforms designed to achieve that objective. The slump in FDI from the United States was recorded not only in Europe (down $150 billion), but also in the offshore financial centres in the Caribbean (down $193 billion – an effect that is excluded from UNCTAD's aggregate FDI data). In Asia, United States outflows to Singapore also fell, by $38 billion.[21]

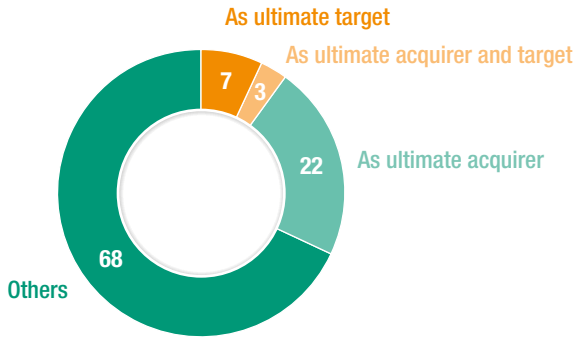
Prior to 2018, reinvested earnings accounted for almost all FDI outflows from the United States. In 2018, however, reinvested earnings fell to -$157 billion, down from $307 billion in 2017. Most of these negative flows took place in the first two quarters. The 2017 tax reform lifted tax liabilities from liquid overseas assets, making them available for repatriation and spending, including on M&As (For detailed accounts of the impacts of the tax reforms on FDI, see UNCTAD (2018a, 2019a)). This may have contributed to the jump in net cross-border M&A purchases by United States MNEs, which reached a record high of $253 billion, almost half of which was registered in the fourth quarter.

Outflows from Japan declined by 11 per cent but remained high at $143 billion. Net M&A purchases totalled $36 billion in 2018, down from $65 billion in 2017 and $73 billion in 2016. The relatively subdued M&A activity resulted in the halving of Japanese FDI flows to the United States. Outflows to Asia, by contrast, increased by 31 per cent to $49 billion. Outflows to most major economies in the region expanded, including those to China (up 12 per cent to $10 billion), India (doubling to $3.2 billion) and the Republic of Korea (trebling to $4.8 billion). Outflows to the ASEAN region increased by 26 per cent to $25 billion.

In 2018, a number of Japanese overseas investment projects for the construction of nuclear power plants were cancelled. Increased costs arising from stricter safety standards following the meltdown at the Fukushima nuclear power plant in 2011 were mostly cited as the reason. In November 2018, Toshiba announced it was withdrawing from a nuclear power project in the United Kingdom, liquidating its affiliate NuGen. Toshiba's United States nuclear plant construction business Westinghouse, which had filed for bankruptcy in 2017, was sold to private equity group Brookfield in August 2018. Mitsubishi Heavy Industries' project to build nuclear power plants in Turkey in partnership with Framatome (France) was reportedly abandoned in December 2018. In January 2019, Hitachi pulled out of a project to build nuclear power plants in the United Kingdom.

In 2018, over 80 percent of global cross-border M&A deals targeted assets in developed countries – totalling 8,500 deals valued at just over $1 trillion. A sizeable part of this activity was fuelled by private equity firms, which were involved in almost one third of transactions by value (figure II.4) and 40 per cent by number of deals, making private equity firms increasingly important players in the global FDI landscape.

Figure II.4. **Involvement of private equity firms in cross-border M&As by deal value, 2018** (Billions of dollars)



Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Prospects

Although economic growth is slowing in most developed economies, investment activity is still expanding. The number of greenfield projects in developed economies announced in 2018 is on par with the number in 2017, but the value of planned capital expenditures rose by 17 per cent to $357 billion. Project announcements in Europe were up 23 per cent and those in North America rose by 13 per cent. Cross-border M&As targeting assets in developed economies announced in 2018 were worth $1.4 trillion, a 17 per cent rise from 2017.

FDI prospects for developed regions in 2019 are also affected by the likely rebound from the anomalously low 2018 levels. As the initial flood of earnings repatriations of United States MNEs has abated, the developed economies that experienced the largest drops in inflows are likely to see a rebound to average levels of inflows, which would imply large upward swings in countries that normally make up a significant part of FDI flows from developed countries.

As for outward FDI, foreign greenfield projects announced in 2018 by MNEs from developed economies totalled $616 billion, up 33 per cent from 2017. MNEs from developed economies also announced foreign acquisitions worth $1.4 trillion. Japanese MNEs alone announced acquisitions worth $169 billion, more than twice the value of deals announced in 2017.

STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES

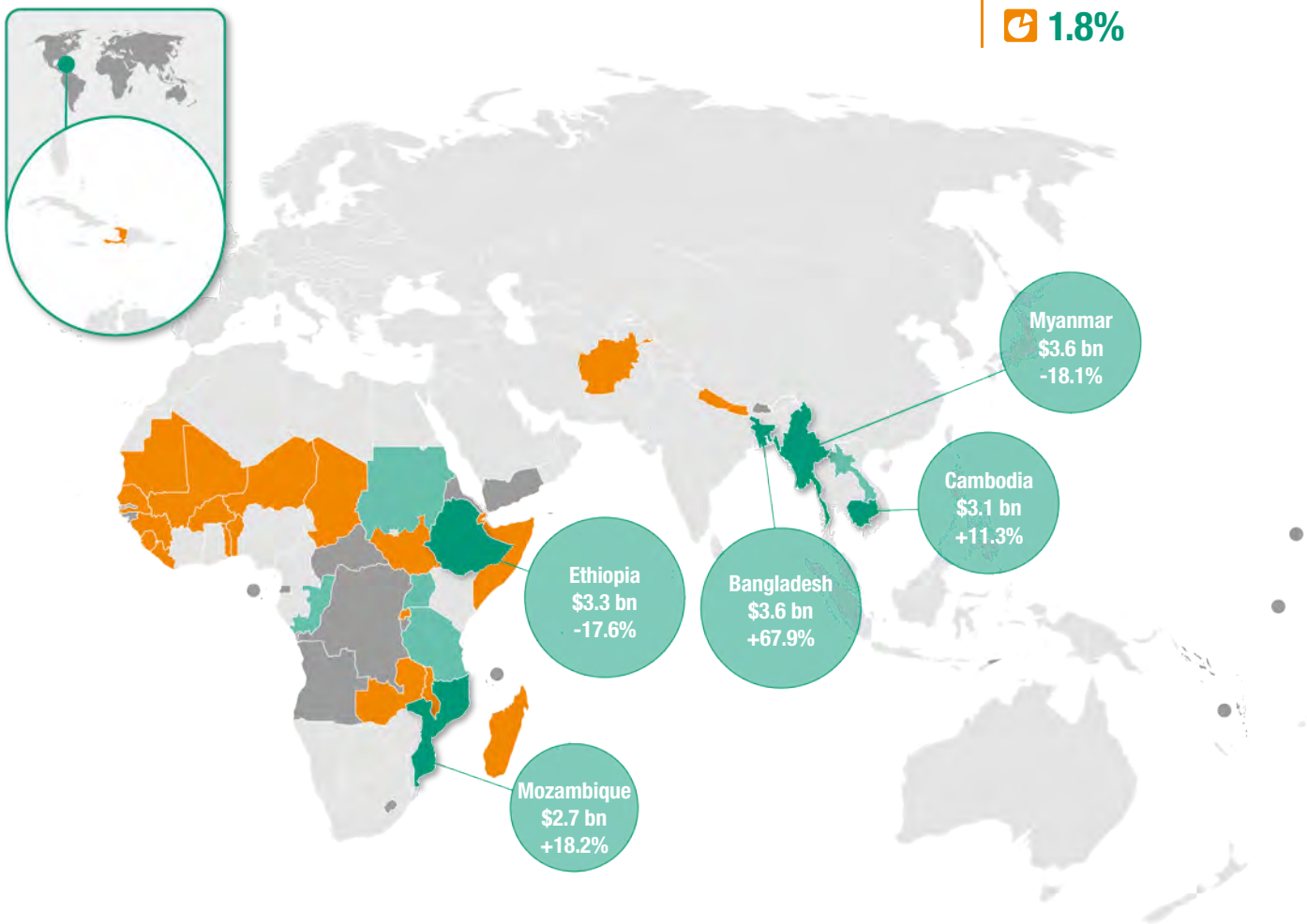
LEAST DEVELOPED COUNTRIES

FDI flows, top 5 host economies, 2018 (Value and change)

2018 Inflows
23.8 bn

2018 Increase
+15.1%

Share in world
1.8%



Flows, by range

- Above $2.0 bn
- $1.0 to $1.9 bn
- $0.5 to $0.9 bn
- $0.1 to $0.4 bn
- Below $0.1 bn

Top 5 host economies

Economy
$ Value of inflows
2018 % change

Outflows: top 5 home economies

(Billions of dollars and 2018 growth)

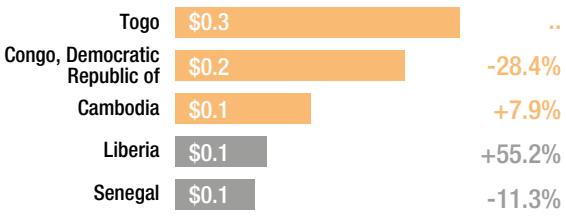
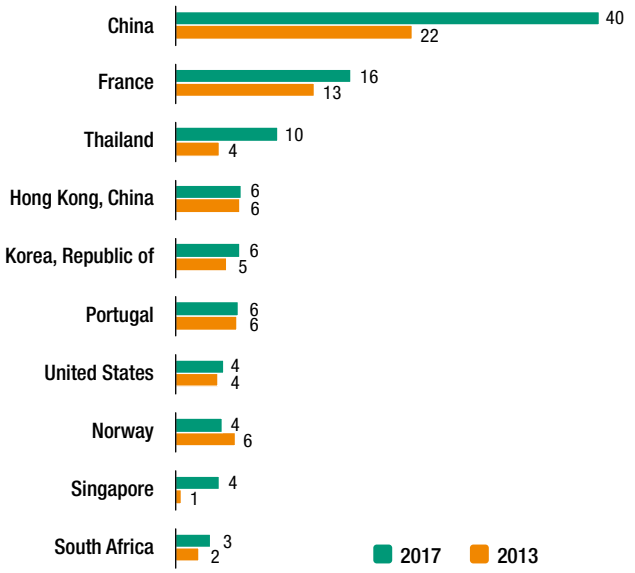


Figure A. Top 10 investor economies by FDI stock, 2013 and 2017 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined. Dotted line in Jammu and Kashmir represents approximately the Line of Control agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- FDI inflows partially recovered from six-year low in 2017
- Asian LDCs reached a record high
- Announced value of greenfield projects rebounded strongly

Figure B. | FDI inflows, 2000–2018 (Billions of dollars and per cent)

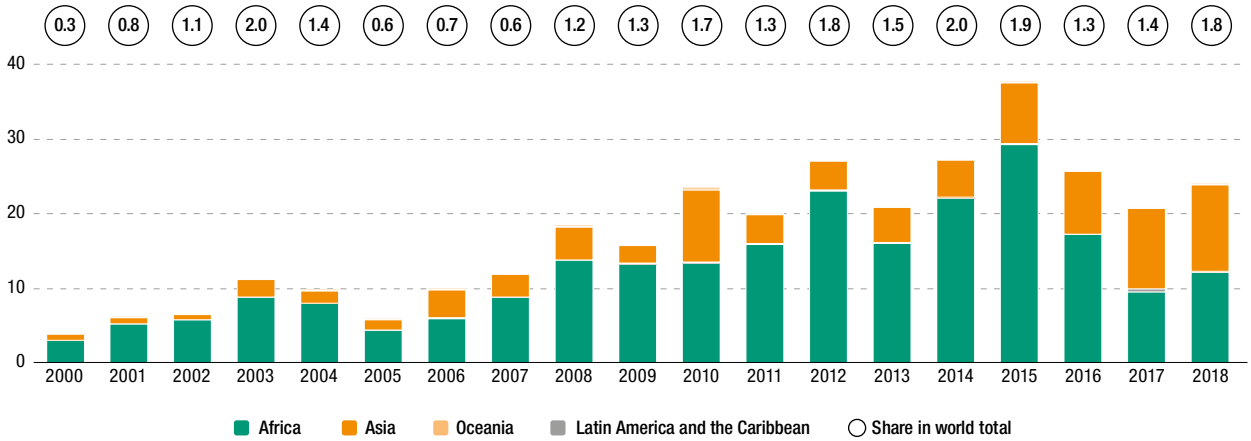


Table A. Net cross-border M&As by industry, 2017–2018 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2017	2018	2017	2018
Total	**327**	**1 342**	**9**	**130**
Primary	**13**	**-310**	**-**	**-**
Agriculture, forestry and fishing	-	20	-	-
Mining, quarrying and petroleum	13	-329	-	-
Manufacturing	**11**	**1 501**	**-30**	**77**
Food, beverages and tobacco	10	1 474	-	-
Textiles, clothing and leather	-	7	-	77
Chemicals and chemical products	1	6	-	-
Pharmaceuticals, medicinal chemicals and botanical products	-	14	-	-
Services	**304**	**150**	**39**	**53**
Financial and insurance activities	234	83	38	30
Business activities	5	64	-	-
Human health and social work activities	-	14	-	-

Table B. Net cross-border M&As by region/economy, 2017–2018 (Millions of dollars)

Region/economy	Sales		Purchases	
	2017	2018	2017	2018
World	**327**	**1 342**	**9**	**130**
Developed economies	**-233**	**1 157**	**2**	**-**
European Union	-2 912	-10	1	-
North America	2 043	19	2	-
Australia	114	-338	-	-
Japan	952	1 486	-	-
Developing economies	**560**	**185**	**6**	**130**
Africa	-153	80	-	-
Asia	1 511	105	6	130
China	1 243	-	-	-
Taiwan Province of China	-	81	-	-
Singapore	256	-13	-	23
Viet Nam	10	20	-	-

Table C. Announced greenfield FDI projects by industry, 2017–2018 (Millions of dollars)

Sector/industry	LDCs as destination		LDCs as investor	
	2017	2018	2017	2018
Total	**23 899**	**39 653**	**742**	**1 619**
Primary	**2 315**	**7 324**	**-**	**-**
Mining, quarrying and petroleum	2 315	7 324	-	-
Manufacturing	**12 421**	**12 890**	**91**	**195**
Textiles, clothing and leather	1 492	960	-	4
Coke and refined petroleum products	1 430	5 601	-	-
Metals and metal products	419	1 196	-	-
Services	**9 163**	**19 439**	**651**	**1 423**
Electricity, gas and water	1 582	9 695	-	953
Business services	623	1 566	271	170
Construction	2 502	1 971	-	-
Hotels and restaurants	225	3 217	-	-
Transport, storage and communications	2 877	1 824	83	195

Table D. Announced greenfield FDI projects by region/economy, 2017–2018 (Millions of dollars)

Partner region/economy	LDCs as destination		LDCs as investor	
	2017	2018	2017	2018
World	**23 899**	**39 653**	**742**	**1 619**
Developed economies	**13 359**	**18 385**	**7**	**14**
Italy	1 202	4 494	-	-
United States	2 243	9 833	-	-
Developing economies	**10 357**	**21 150**	**717**	**1 522**
Africa	819	2 182	222	295
Asia and Oceania	9 448	18 968	325	1 058
China	3 446	8 408	81	-
Hong Kong, China	588	1 083	-	-
Philippines	-	1 265	-	-
Thailand	693	2 456	-	-
United Arab Emirates	1 394	1 547	-	15
Transition economies	**183**	**118**	**18**	**82**

FDI flows to the LDCs rebounded to $24 billion (up 15 per cent from 2017), representing 1.8 per cent of global FDI inflows. FDI in Ethiopia and Myanmar slowed and the major gains came in Bangladesh. The value of cross-border M&A sales was boosted by a single deal in Bangladesh. China remained the top investor in LDCs in terms of FDI stock. Foreign investment in LDCs continued to be concentrated in a few larger recipients. As a forward-looking indicator, the value of greenfield FDI projects announced in 2018 bounced back from a 5-year low in 2017, with large-scale projects in mining, coke and petroleum products, and electricity.

Inflows

FDI inflows to the 33 African LDCs increased by 27 per cent to $12 billion, but they were 44 per cent below the annual average of 2012–2016. FDI to *Ethiopia*, the largest FDI host economy among African LDCs, decelerated (down 18 per cent to $3.3 billion), after the record high in 2017. In *Mozambique*, where investor confidence has yet to be restored after hidden public debt was discovered in 2016, FDI inflows rose for the first time in five years (up 18 per cent to $2.7 billion). *Uganda* posted record FDI inflows of $1.3 billion (up 67 per cent), driven by new investment in oil and gas.

Volatile FDI flows mostly attributable to the operations of mining MNEs boosted FDI in Burkina Faso (from a 26-year low of $2.6 million in 2017 to a record $480 million in 2018) and Sierra Leone (up 365 per cent to a six-year high of $599 million, with record-high reinvested earnings of $562 million). In contrast, FDI in *Zambia* dipped to a 13-year low (down 49 per cent), after showing signs of recovery in 2017. FDI flows to *Mauritania* also contracted sharply (down 88 per cent to $71 million).

In oil-exporting *Chad*, FDI inflows doubled to $662 million, the highest level in 15 years. Positive contributions came from new oil projects and, following the request of the International Monetary Fund, the sale of a 60 per cent stake in a State-owned company, CotonTchad ($22 million), to Olam International (Singapore). An agreement on restructuring a $1.4 billion oil-backed loan owed to Glencore (Switzerland) and commercial banks also eased fiscal constraints.

FDI flows into three relatively large investment recipients stayed on a course of gradual recovery: the *Democratic Republic of the Congo* (up 11 per cent to $1.5 billion), the *Sudan* (up 7 per cent to $1.1 billion) and the *United Republic of Tanzania* (up 18 per cent to $1.1 billion). FDI inflows to *Angola* remained negative, due to large repatriations of earnings in the oil and gas industry.

In *Haiti*, inward FDI dropped, after hitting a record high in 2017. The country's duty-free access to the United States market has promoted FDI in light manufacturing, especially in the export-oriented textile industry.[22] Whereas textiles and apparel MNEs contributed to a strong uptick in FDI flows in 2017, a slowdown in their activities in 2018 lowered FDI inflows (down 72 per cent) to $105 million, a level similar to that in the period 2014–2016.

FDI inflows to the 13 LDCs in Asia and Oceania reached a record high of $12 billion (up 8 per cent). Two manufactures exporters – Bangladesh and Cambodia – registered new record levels of $3.6 billion (up 68 per cent) and $3.1 billion (up 11 per cent), respectively. In *Bangladesh*, the gains were mostly the result of a $1.5 billion M&A deal in tobacco and new investments in power generation. Also, reinvested earnings in the country, mainly by MNEs in banking, textiles and wearing apparel, more than trebled to $1.3 billion. In *Cambodia*, FDI in financial services and real estate projects grew strongly. Both new equity and reinvested earnings expanded for a third consecutive year.

In *Myanmar*, FDI inflows retreated by 18 per cent to $3.6 billion. Major foreign investors slowed their investment, with the humanitarian crisis in Rakhine state being a contributing factor. On the basis of approved projects, foreign investments in the Thilawa SEZ – the country's first such zone, in its second phase of construction – exceeded its cumulative investment target of $6 billion in early 2018.[23] FDI inflows to the *Lao People's Democratic Republic*, where China has been the largest investor, also contracted (down 17 per cent to $1.3 billion), after peaking in 2017. Yet FDI inflows in 2018 were still 30 per cent higher than in 2016. In *Yemen*, FDI inflows remained negative (-$282 million).

In Oceania, FDI inflows stagnated. FDI into *Solomon Islands* shrank by 73 per cent to $12 million, the lowest in 14 years, due to lower FDI in wholesale and retail and the absence of major new FDI projects in 2018. *Vanuatu*, which is scheduled to graduate from LDC status in December 2020, posted six-year high FDI inflows of $38 million (up 56 per cent).

Cross-border M&A sales recorded a four-year high of $1.3 billion, driven by a single deal. The most notable sale took place in Bangladesh, where Japan Tobacco acquired United Dhaka Tobacco for $1.5 billion. This was the second major acquisition in three years concluded by this Japanese MNE in an LDC.[24] Despite the record value of deals in LDCs, the number of transactions was down 17 per cent from the previous year. Unlike in 2012–2017, Chinese investors did not participate in any M&A deals in LDCs in 2018.

Another major cross-border M&A deal was registered in Timor-Leste, but it was a divestment of $350 million. The Government acquired a 30 per cent stake in a multinational joint venture in oil and gas extraction.

The top 10 investors in LDCs are very different from the top 10 worldwide. Measured by the outward FDI stock reported by selected home economies, half of the top 10 investors in LDCs are from emerging Asian economies (figure A). China's FDI stock in LDCs almost doubled from 2013 to 2017, almost evenly distributed between LDCs in Africa and those in Asia. Yet the pace of accumulation of outward FDI from China to LDCs in Asia during that period was much faster (up 113 per cent) than the pace in Africa (up 41 per cent). In 2017, more than 45 per cent of FDI from China to LDCs was held in three ASEAN economies: the Lao People's Democratic Republic ($6.7 billion in 2017), Myanmar ($5.5 billion) and Cambodia ($5.4 billion).

Gains in FDI stock held by investors from other developing economies in LDCs were attributed to growing investment in a small number of neighbouring economies. For example, the 131 per cent growth in outward FDI stock from Thailand to LDCs was due to the country's investment in ASEAN economies, in particular in Myanmar ($4.2 billion in 2017) and the Lao People's Democratic Republic ($3.4 billion). Similarly, the expansion of FDI by Singaporean investors in Myanmar from $263 million in 2013 to $3.5 billion in 2017 accounted for all the growth of their FDI stock in LDCs. And South Africa's FDI stock in neighbouring Mozambique represented more than half of its aggregate FDI stock in LDCs in both 2013 and 2017.

Prospects

FDI to LDCs will remain concentrated in larger FDI recipients and in a few sectors. Trends in announced greenfield FDI projects suggest that the more sizeable investments will target natural resources in Africa and power generation projects in Asia. The value of announced greenfield FDI projects bounced back from a 5-year low of $24 billion in 2017 to nearly $40 billion in 2018. MNEs, mostly from the United States (25 per cent of the total project value announced in LDCs) and China (21 per cent of the total), resumed their large-scale investment plans in power generation infrastructure and in the extraction or processing

of natural resources (table II.2). Most announced greenfield investment was concentrated in the larger FDI recipients in the group, such as Bangladesh, Ethiopia and Myanmar.

The announced value of electricity projects ($9.7 billion in total) was boosted by two projects in Myanmar by investors from China and from the Philippines (table II.2). Bangladesh also attracted a $3 billion project for the construction of oil and liquefied natural gas terminals, announced jointly by General Electric (United States),[25] Mitsubishi (Japan) and Summit (Singapore).

In the extractive industries, major energy MNEs maintained their interest in Angola and Mozambique. In Guinea, whose largest trading partner is China, the Chinese firm Tebian Electric Apparatus announced an integrated bauxite mining project, including aluminium production and logistics, totalling $2.9 billion. The importance of Chinese investors in this LDC has been growing since the two Governments signed a $20 billion framework agreement in 2017, under which Guinea is to receive $1 billion annually for 20 years for infrastructure development, in exchange for granting mining concessions to Chinese investors.[26]

The predominance in LDCs of investors from the South over MNEs from developed economies is likely to continue. Investors from developing economies were responsible for 53 per cent of the total announced value of greenfield FDI projects in these countries in 2018 (compared with an average of 62 per cent in 2015–2017 and 47 per cent in 2012–2014).

Many of the major investment recipients in both Africa and Asia expect FDI to pick up in the coming years, thanks to SEZs and investments in natural resources. Ongoing SEZ developments through public-private partnerships in Bangladesh and other Asian LDCs may contribute to attracting and retaining more FDI, not only from potential zone tenants in manufacturing, but also from zone developers or service operators to build infrastructure (chapter IV). The Bangladesh Investment Development Authority expects to register $3.7 billion of FDI in 2019, supported by policy reforms. Ethiopia's newly built industrial parks are expected to help the country register FDI inflows exceeding $5 billion as early as 2019. Zambia also expects higher FDI flows in agriculture and energy projects, thanks to the development of multiple farm blocks and economic zones.[27] In Mozambique, new investments in oil and gas are projected to push the country's FDI inflows in 2019 back to the 2012–2013 levels of $5–6 billion. And in Myanmar, new oil and gas projects are expected to boost FDI to nearly $6 billion in the next five years.[28]

Table II.2. LDCs: 10 largest announced greenfield projects, 2018

Host economy	Industry segment	Parent company	Home economy	Estimated capital expenditure (Millions of dollars)
Ethiopia	Petroleum refineries	Fairfax Africa Fund	United States	4 000
Bangladesh	Fossil fuel electric power	General Electric	United States	3 000
Angola	Oil and gas extraction	Eni SpA	Italy	2 236
Mozambique	Natural, liquefied and compressed gas	ExxonMobil	United States	1 400
Guinea	Other metal ore mining	Tebian Electric Apparatus	China	1 160
Myanmar	Fossil fuel electric power	Yunnan Investment Holding Group	China	1 147
Myanmar	Fossil fuel electric power	Aboitiz Equity Ventures	Philippines	1 147
Bangladesh	Fossil fuel electric power	China Huadian Corporation	China	984
Malawi	Commercial and institutional building construction	Anhui Foreign Economic Construction	China	668
Zambia	Industrial building construction	Elsewedy Electric (Elsewedy Cables)	Egypt	668

Source: UNCTAD, based on information from the Financial Times Ltd. fDi Markets (www.fDimarkets.com).

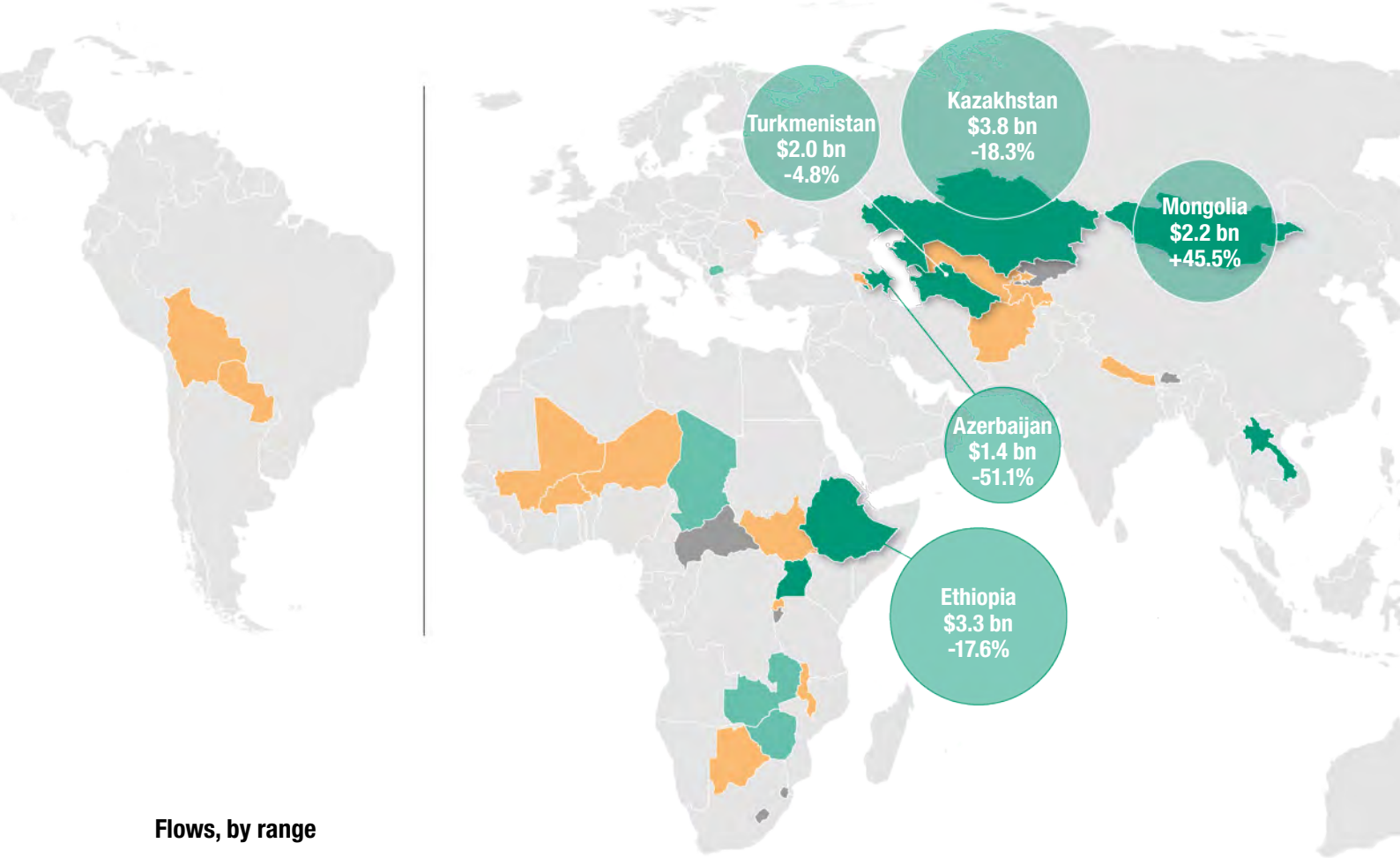
LANDLOCKED DEVELOPING COUNTRIES

FDI flows, top 5 host economies, 2018 (Value and change)

2018 Inflows
22.6 bn

2018 Decrease
-2.2%

Share in world
1.7%



Flows, by range

- Above $1 bn
- $0.5 to $0.9 bn
- $0.1 to $0.5 bn
- $10 to $99 mn
- Below $10 mn

Top 5 host economies

Economy
$ Value of inflows
2018 % change

Outflows: top 5 home economies

(Billions of dollars and 2018 growth)

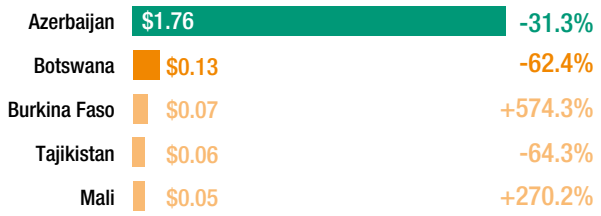
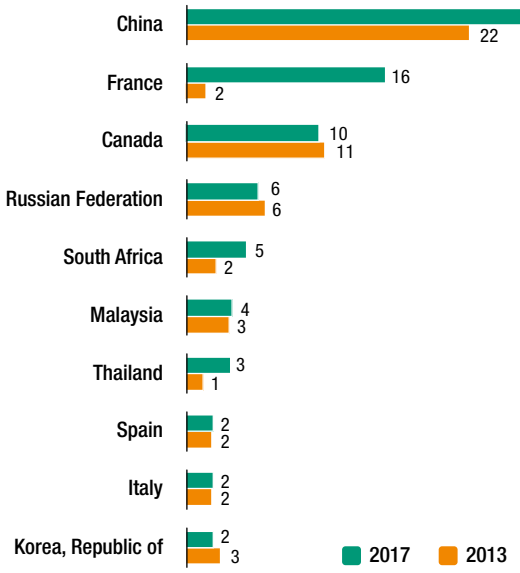


Figure A. Top 10 investor economies by FDI stock, 2013 and 2017 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined. Dotted line in Jammu and Kashmir represents approximately the Line of Control agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- FDI flows declined again in 2018
- Recovery of inflows, with large variations by country, expected in 2019
- LLDCs still struggle to attract sustained diversified investment

Figure B. FDI inflows, 2000–2018 (Billions of dollars and per cent)

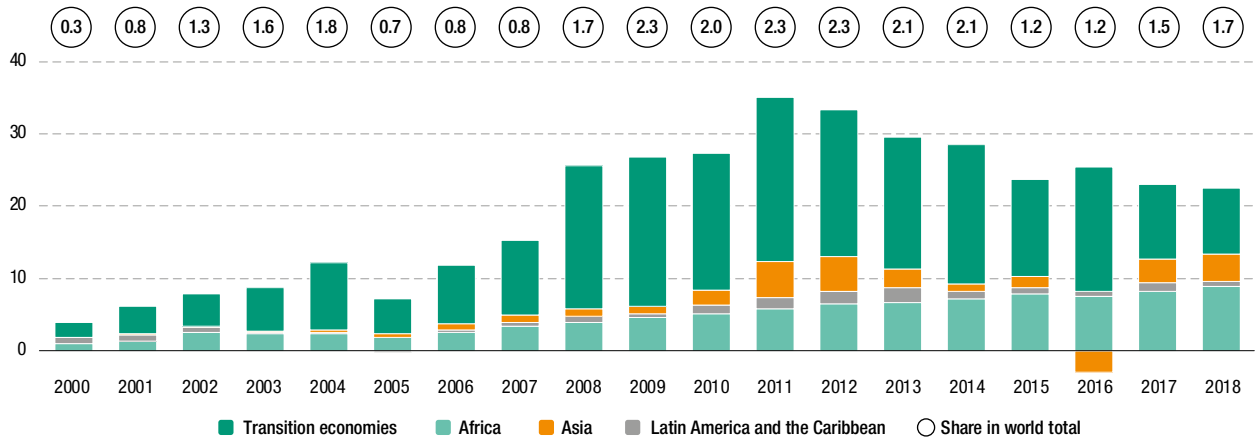


Table A. Net cross-border M&As by industry, 2017–2018 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2017	2018	2017	2018
Total	**15**	**-236**	**1**	**323**
Primary	**5**	**130**	**-2**	**-**
Agriculture, forestry and fishing	-	20	-	-
Mining, quarrying and petroleum	5	111	-2	-
Manufacturing	**-**	**93**	**-**	**-**
Food, beverages and tobacco	-	79	-	-
Pharmaceuticals, medicinal chemicals and botanical products	-	14	-	-
Services	**10**	**-459**	**3**	**323**
Electricity, gas and water	-	37	-	-
Transportation and storage	11	-	-	-
Information and communication	-	-630	-	274
Financial and insurance activities	-1	113	-4	45
Human health and social work activities	-	14	-	-

Table B. Net cross-border M&As by region/economy, 2017–2018 (Millions of dollars)

Region/economy	Sales		Purchases	
	2017	2018	2017	2018
World	**15**	**-236**	**1**	**323**
Developed economies	**8**	**-116**	**2**	**-**
European Union	-399	-101	-	-
Australia	158	9	-	-
Canada	467	22	2	-
United States	124	-46	-	-
Developing economies	**-2**	**-115**	**1**	**319**
China	-45	190	-	-
Chile	-	85	-	-
Korea, Republic of	-	-	-	30
South Africa	-91	31	7	12
Turkey	-	-446	-	273
Transition economies	**-1**	**-34**	**-2**	**3**

Table C. Announced greenfield FDI projects by industry, 2017–2018 (Millions of dollars)

Sector/industry	LLDCs as destination		LLDCs as investor	
	2017	2018	2017	2018
Total	**16 434**	**40 099**	**4 416**	**8 002**
Primary	**1 343**	**5 012**	**6**	**-**
Mining, quarrying and petroleum	1 343	5 012	6	-
Manufacturing	**10 080**	**19 586**	**3 746**	**6 458**
Textiles, clothing and leather	1 526	3 550	-	7
Coke and refined petroleum products	946	8 110	3 625	6 327
Chemicals and chemical products	4 388	1 287	30	2
Non-metallic mineral products	984	1 387	72	34
Services	**5 011**	**15 501**	**664**	**1 544**
Electricity, gas and water	2 333	6 478	-	-
Construction	664	2 275	45	-
Hotels and restaurants	151	2 858	76	819
Business services	675	1 669	14	3

Table D. Announced greenfield FDI projects by region/economy, 2017–2018 (Millions of dollars)

Partner region/economy	LLDCs as destination		LLDCs as investor	
	2017	2018	2017	2018
World	**16 434**	**40 099**	**4 416**	**8 002**
Developed economies	**5 472**	**20 641**	**667**	**119**
European Union	4 112	8 683	667	119
Cyprus	-	4 510	-	-
United Kingdom	2 067	1 289	-	14
Japan	151	4 354	-	-
United States	974	5 574	-	-
Developing economies	**9 605**	**17 779**	**3 534**	**6 884**
China	5 166	7 832	143	-
Korea, Republic of	223	1 355	-	-
Singapore	1 037	1 259	-	-
Thailand	37	2 050	-	-
Transition economies	**1 357**	**1 679**	**214**	**1 000**

After a temporary recovery in 2017, FDI flows to the 32 landlocked developing countries (LLDCs) declined again in 2018, by 2 per cent to $23 billion – or 1.7 per cent of global FDI inflows. In transition-economy LLDCs, the decline in FDI was modest, while Latin American LLDCs experienced a more pronounced downturn. Flows to LLDCs remained concentrated in a few economies, with the top five recipients (Kazakhstan, Ethiopia, Mongolia, Turkmenistan and Azerbaijan) accounting for 56 per cent of total FDI to the group. Chinese MNEs are increasingly active sources of investment and are present in practically all LLDCs. Prospects for FDI vary according to LLDCs' level of development and industrialization, with the fastest growth expected in those with good potential for economic diversification.

Inflows

FDI flows to the 16 African LLDCs increased by 9 per cent to $8.9 billion. This increase contrasts with the 11 per cent growth of FDI (to $37 billion) in non-landlocked African economies. FDI to African LLDCs increased despite falling investment in two major host economies: Ethiopia and Zambia. In *Ethiopia*, inflows declined by 18 per cent (to $3.3 billion). In *Zambia*, the 49 per cent decline (to $569 million) was due to the lack of new projects in mining, as FDI in manufacturing compensated only partly for the decline in the extractive industries. In contrast, flows increased to 12 other African LLDCs. In *Uganda* and *Zimbabwe*, a small number of projects resulted in fast-growing FDI flows, but from an extremely low basis. Some new investments in the processing of natural resources may support the industrialization process and a move up the value chain, such as the investment by Sinosteel (China) in *Zimbabwe*'s metal production, which has potential for major expansion in the medium term.[29] Other investments relevant for development prospects, such as in the digital economy and new industries, include the establishment of Fenix International, a provider of solar energy equipment, by Engie (France)[30] and the opening of Raxio, a data processing centre created by Roha (United States),[31] both in Uganda.

FDI in four landlocked Asian countries[32] declined by 8 per cent to $1.6 billion, after the temporary respite of 2017. Most of the decline is due to FDI flows to the *Lao People's Democratic Republic*, the group's largest recipient, which registered a 17 per cent drop to $1.3 billion. The contraction was mostly due to a deceleration of new investment from China. FDI flows increased in *Nepal* (up 24 per cent to $161 million). Investment commitments increased, indicating the potential for higher flows going forward.[33] The decline of investment flows to these four LLDCs is at odds with the regional trend, as FDI to developing Asia as a whole rose by 4 per cent, to $512 billion. This contrast highlights the relatively weak investment attraction potential and the structural disadvantages in LLDCs, compared with the region's larger economies and markets with better access to sea links.

In the two Latin American LLDCs, FDI inflows contracted sharply, by 39 per cent, to $709 million. This compares with a more limited decline of 6 per cent (to $147 billion) in Latin America and the Caribbean as a whole. The decline was mostly due to lower inflows to the *Plurinational State of Bolivia*, where FDI plummeted by 64 per cent to $255 million, after an exceptional peak in 2017 caused by investment in transport and in ICT, as well as a major cross-border M&A deal in mining (*WIR18*). Investment in *Paraguay* remained practically unchanged at about $450 million. The 108 export-processing maquilas continued to play an important role in the country's FDI strategy. The maquilas are intended to overcome the handicap of the small local market, but their success depends on the development of international logistics.

Inflows to the nine landlocked transition economies and to Mongolia experienced a decline for the second consecutive year. The 5 per cent contraction (to $11 billion) in 2018, however, was more limited than the one experienced in economies in transition as a group (down by 28 per cent to $34 billion). Flows to *North Macedonia* reflected from both favourable international demand for the output of foreign firms located in the country's EPZs and positive political developments in the conflict about the country's name. This is facilitating North Macedonia's cooperation with the EU, the country's main export market. Equity investment rose two and a half times, and intracompany loans turned positive after negative flows in 2017. Beyond the traditionally strong automotive cluster, new investments were also recorded in other activities. Caffè di Artisan (United Kingdom), for example, invested in high-end food products in the country.

FDI flows to *Mongolia* rose by 45 per cent to $2.2 billion in 2018, mainly due to the development of the Oyu Tolgoi underground mine, one of the largest sources of copper reserves worldwide. It is being developed through a joint venture between the Government of Mongolia (34 per cent) and an affiliate of Rio Tinto (Australia–United Kingdom) (66 per cent). In addition to the planned and ongoing $5.3 billion underground expansion of the mine, Rio Tinto invested to build a power plant on site and opened a new office in Ulaanbaatar in 2018.

In contrast, flows to the three large transition economies, which are heavily based on oil and gas extraction and processing contracted for the second consecutive year: by 51 per cent in *Azerbaijan* (to $1.4 billion), by 18 per cent in *Kazakhstan* (to $3.8 billion), and by 5 per cent (to $2 billion) in *Turkmenistan*. The lack of new projects and divestments from existing projects were responsible for the FDI downturn. For example, in Turkmenistan, some investors in natural gas (such as Germany's RWE) are closing down their operations.[34]

With an FDI stock of $33 billion, Chinese MNEs were by far the largest investors in LLDCs in 2017. Thanks to public support, particularly through the Belt and Road Initiative, Chinese investors are present in LLDCs across all continents, especially in natural-resource-rich economies. As of 2019, more than two thirds of the LLDCs (22 of 32), including economies as distant from China as the Plurinational State of Bolivia, were part of the initiative. The FDI stock of French MNEs reached $16 billion in 2017, following a rapid increase in their investment in LLDCs. This increase was due to large projects in Kazakhstan (carried out by major MNEs such as Total in oil and gas production and Alstom in transport) and, to a lesser degree, in Niger (with Areva's investment in uranium), the Plurinational State of Bolivia (with Thales' transport project in 2017 (*WIR18*)) and Azerbaijan (e.g. Total is now operating in oil and gas exploration, extraction, refining, power generation, marketing and shipping).[35]

Prospects

A modest recovery of FDI to LLDCs is expected in 2019 and subsequent years, but with large variations among countries, reflecting the group's heterogeneity. FDI to the 32 LLDCs is forecast to benefit from dynamic South–South FDI, especially from China, and potential diversification from natural resources to (mostly downstream processing) manufacturing activities. The 32 LLDCs, however, constitute a very heterogenous group in terms of resource endowments, levels of development and growth trajectories. They also operate in four very different regional contexts. Some, such as Ethiopia, the Lao People's Democratic Republic, North Macedonia, the Republic of Moldova and Paraguay, are making major efforts to attract manufacturing FDI, which must be export oriented given the limited local markets. LLDCs such as Azerbaijan, the Plurinational State of Bolivia, Kazakhstan, Mongolia and Turkmenistan have based their development mostly on abundant natural

resources. These countries can attract large projects in some years but are exposed to investment and price cycles. Finally, the remaining LLDCs typically have very small and underdeveloped economies, and they are highly vulnerable, which makes attracting significant FDI challenging. Their investment potential is also strongly tied to developments in neighbouring countries, through which their exports and imports transit.

Despite their differences, LLDCs all struggle to attract diversified FDI in a sustained manner. Announced greenfield projects, the main indicator for future FDI inflows, suggest a possible upturn in 2019. Their value more than doubled in 2018, to $40 billion. They grew fastest in mining (almost fourfold to $5 billion), highlighting continued interest in natural resources, with Fairfax Africa Fund's (United States) petroleum refinery in Ethiopia accounting for a major part of the value (table II.3). The bulk of announced greenfield investments to the group was in manufacturing, where planned projects almost doubled in value to $20 billion, suggesting improving prospects for more diversified economies. Within that sector, petroleum products was the largest and most dynamic industry (with such large projects as Japanese Kawasaki Heavy Industries' gas manufacturing plant in Turkmenistan), followed by textiles and leather (China's Cathay Industrial Biotech started a $2.5 billion garment project in Kazakhstan). In services, the growth in announced value was threefold, to more than $15 billion. Electricity remained the most important industry, followed by tourism, construction and, as a new dynamic element, business services. FDI flows to LLDCs in general could benefit significantly from regional integration projects, especially in Africa and the CIS, and from initiatives seeking to improve transit capacity and connectivity, such as the Belt and Road Initiative.

Table II.3. LLDCs: 10 largest announced greenfield projects, 2018

Host economy	Industry segment	Parent company	Home economy	Estimated capital expenditure (Millions of dollars)
Zimbabwe	Other metal ore mining	Karo Resources Limited	Cyprus	4 200
Ethiopia	Petroleum refineries	Fairfax Africa Fund	United States	4 000
Kazakhstan	Textiles and textile mills	Cathay Industrial Biotech	China	2 500
Turkmenistan	Natural, liquefied and compressed gas	Kawasaki Heavy Industries	Japan	1 700
Turkmenistan	Fossil fuel electric power	Sumitomo Group	Japan	950
Mongolia	Fossil fuel electric power	Rio Tinto Group	United Kingdom	950
Kazakhstan	Petroleum refineries	R Way Solution	Singapore	940
Uzbekistan	Petroleum refineries	Kawasaki Heavy Industries	Japan	940
Malawi	Commercial and institutional building construction	Anhui Foreign Economic Construction	China	668
Zambia	Industrial building construction	Elsewedy Electric (Elsewedy Cables)	Egypt	668

Source: UNCTAD, based on information from the Financial Times Ltd. fDi Markets (www.fDimarkets.com).

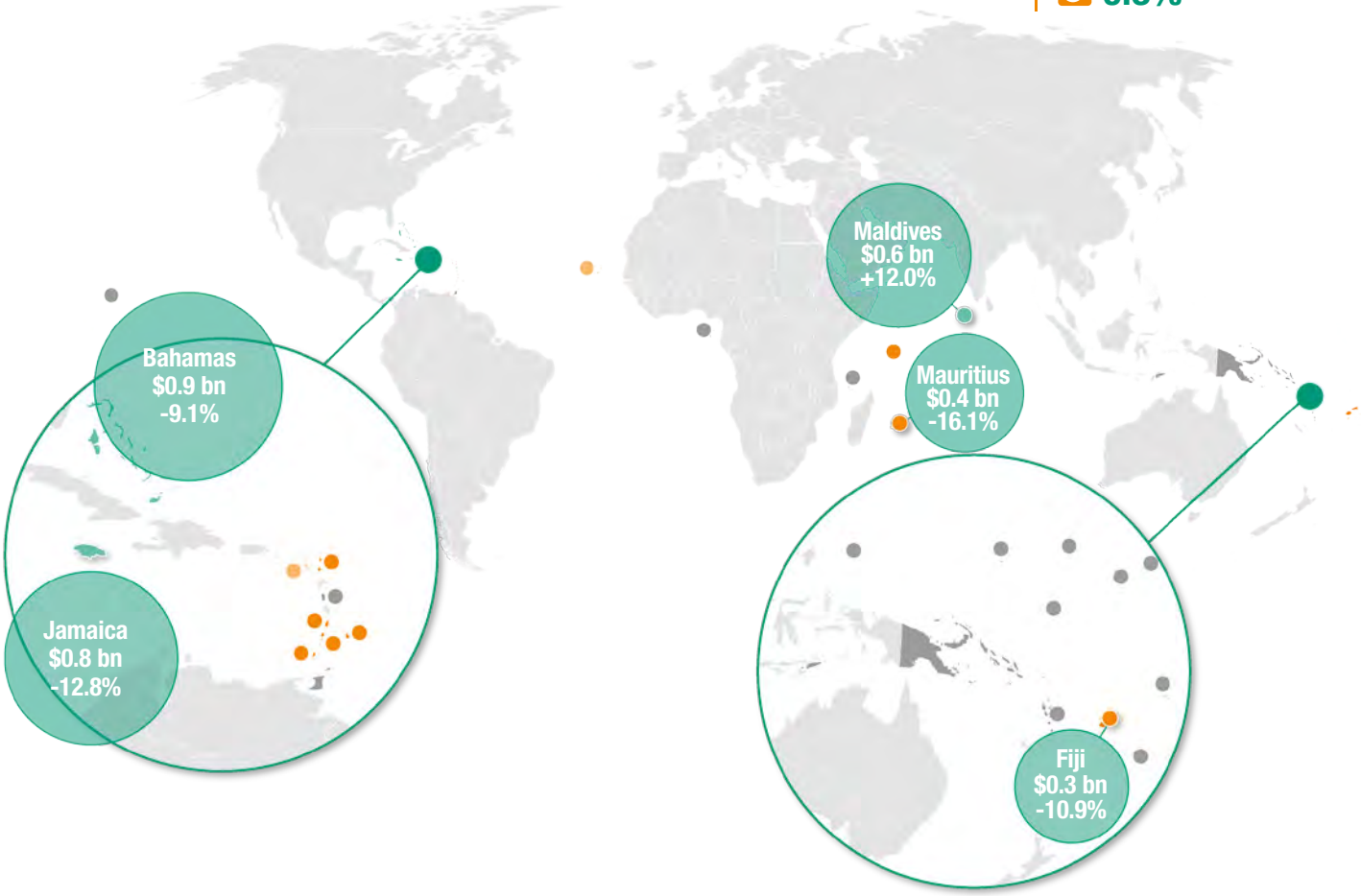
SMALL ISLAND DEVELOPING STATES

FDI flows, top 5 host economies, 2018 (Value and change)

2018 Inflows
3.7 bn

2018 Decrease
-9.7%

Share in world
0.3%



Flows, by range

- Above $1 bn
- $500 to $999 mn
- $100 to $499 mn
- $50 to $99 mn
- Below $50 mn

Top 5 host economies

Economy
$ Value of inflows
2018 % change

Outflows: top 5 home economies

(Millions of dollars and 2018 growth)

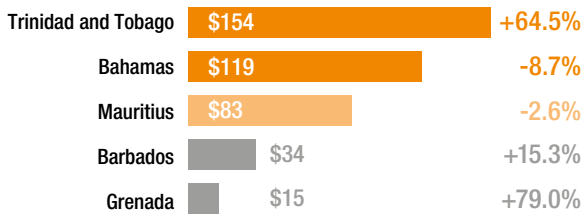
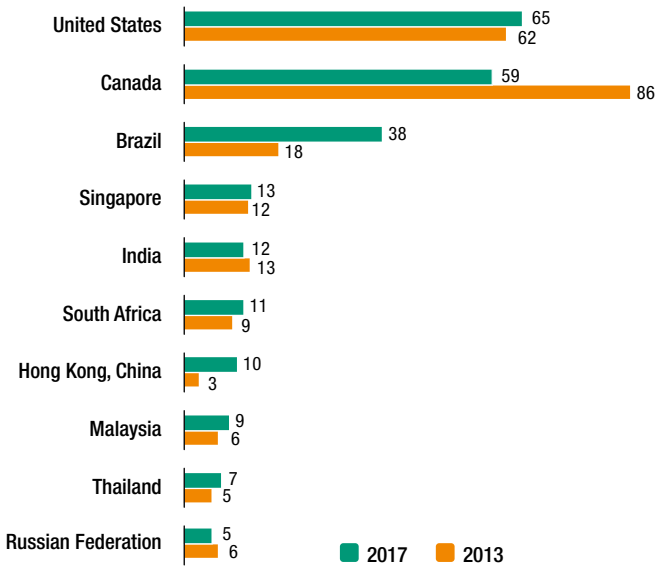


Figure A. Top 10 investor economies by FDI stock, 2013 and 2017 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Sudan and South Sudan has not yet been determined. Final status of the Abyei area is not yet determined. Dotted line in Jammu and Kashmir represents approximately the Line of Control agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- FDI flows contracted for a second year
- Flows to Caribbean SIDS dropped to a five-year low
- Value of greenfield projects announced in hotels and tourism at a three-year high

Figure B. | FDI inflows, 2000–2018 (Billions of dollars and per cent)

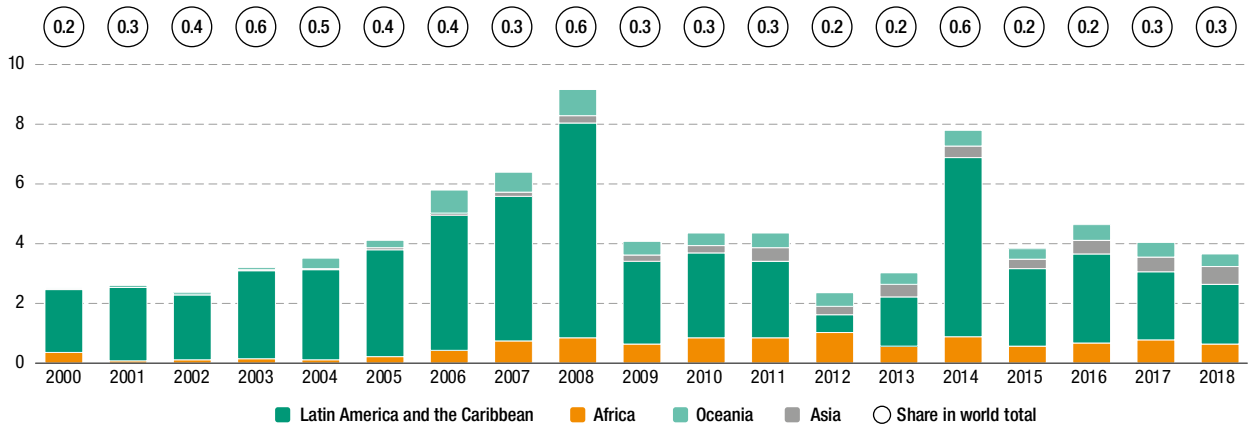


Table A. Net cross-border M&As by industry, 2017–2018 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2017	2018	2017	2018
Total	**2 615**	**834**	**4 127**	**1 793**
Primary	**144**	**219**	**2 314**	**822**
Mining, quarrying and petroleum	144	219	2 314	813
Manufacturing	**100**	**-**	**- 30**	**-**
Non-metallic mineral products	100	-	-	-
Services	**2 371**	**615**	**1 843**	**971**
Electricity, gas and water	-	-	-	103
Trade	-	-	-	583
Accommodation and food service activities	45	- 131	-	-
Information and communication	-	- 91	-	-
Financial and insurance activities	4	510	2 016	279
Business activities	2 322	326	120	6
Human health and social work activities	-	-	- 293	-

Table B. Net cross-border M&As by region/economy, 2017–2018 (Millions of dollars)

Region/economy	Sales		Purchases	
	2017	2018	2017	2018
World	**2 615**	**834**	**4 127**	**1 793**
Developed economies	**2 652**	**323**	**198**	**30**
European Union	334	478	25	21
North America	-	195	-1	9
Australia	25	-350	-	-
Developing economies	**-38**	**511**	**3 928**	**1 763**
Africa	28	6	-	74
South Africa	28	5	-	19
Latin America and the Caribbean	140	-	-	663
Asia	-206	505	3 928	1 026
China	-25	505	-	103
Hong Kong, China	-181	-18	-1	-36
India	-300	-	3 925	946

Table C. Announced greenfield FDI projects by industry, 2017–2018 (Millions of dollars)

Sector/industry	SIDS as destination		SIDS as investor	
	2017	2018	2017	2018
Total	**1 838**	**1 652**	**681**	**1 060**
Primary	**-**	**-**	**-**	**-**
Manufacturing	**179**	**44**	**-**	**-**
Metals and metal products	165	2	-	-
Services	**1 659**	**1 608**	**681**	**1 060**
Electricity, gas and water	219	-	-	-
Construction	278	93	-	-
Trade	59	22	-	-
Hotels and restaurants	787	992	-	-
Transport, storage and communications	91	159	70	94
Finance	37	87	76	402
Business services	129	256	535	564
Community, social and personal service activities	59	-	-	-

Table D. Announced greenfield FDI projects by region/economy, 2017–2018 (Millions of dollars)

Partner region/economy	SIDS as destination		SIDS as investor	
	2017	2018	2017	2018
World	**1 838**	**1 652**	**681**	**1 060**
Developed economies	**901**	**1 035**	**104**	**26**
France	5	208	16	-
Switzerland	-	112	-	16
United States	510	569	-	7
Developing economies	**937**	**618**	**578**	**1 034**
Africa	10	2	10	471
Latin America and the Caribbean	49	96	534	266
Asia and Oceania	879	520	34	298
China	165	93	-	-
Hong Kong, China	337	-	34	-
Sri Lanka	-	112	-	-
United Arab Emirates	63	179	-	15

Inward FDI in SIDS contracted for a second year to $3.7 billion in 2018, and the group's share in FDI flows to all developing economies remained marginal (0.5 per cent). The minor gains posted by the majority of SIDS were offset by divestment in Trinidad and Tobago. Net cross-border M&A sales totalled only $834 million in 2018, about a third of the value reported in 2017. FDI stock data show that investment to this group continues to be highly concentrated in two Caribbean SIDS. Prospects for most SIDS remain fragile and volatile. Among announced greenfield FDI projects, however, estimated capital spending in hotel and tourism grew to a three-year high of $992 million. SEZ development may create new opportunities.

Inflows

FDI in the 10 Caribbean SIDS slipped to a five-year low of $2 billion. FDI flows in the *Bahamas*, the largest FDI host economy of all SIDS, contracted for a second year (down by 9 per cent to $943 million). This was despite a 42 per cent gain in the equity component of FDI, which was driven by construction projects. FDI flows into *Jamaica* also fell, by 13 per cent, to $775 million, largely owing to reduced FDI in tourism. Equity investments in Jamaica dried up, and intracompany loans dipped to a three-year low of $593 million. In contrast, *St. Lucia* posted a nine-year high of $135 million (up 3 per cent), supported by the Citizenship by Investment Programme. FDI inflows to *Grenada* were also up by 14 per cent to a three-year high of $127 million, driven by the expansion of construction and tourism activities. FDI inflows to *Trinidad and Tobago* remained negative (-$436 million). Higher reinvested earnings were not sufficient to offset repayments of intracompany loans from energy MNE affiliates in the country. Divestment in *Dominica* intensified to -$37 million, while the country's economy struggled to recover from the damages of Hurricane Maria.

FDI in the five African SIDS fell by 22 per cent to $620 million. FDI to all African SIDS but Comoros contracted in 2018. Inflows to *Mauritius* fell by 16 per cent to $372 million, owing mostly to severe reductions in construction projects, as well as financial and insurance projects. The reduction in FDI flows from Luxembourg was most notable, followed by those from France. In *Seychelles*, FDI inflows contracted by 35 per cent to $124 million. A slowdown in the implementation of new FDI projects and a moratorium for 2015–2020 on new large hotel projects adversely affected reinvested earnings (down by 59 per cent to a four-year low) and intracompany loans (down by 44 per cent to a five-year low).

FDI flows to the 13 SIDS in Asia and Oceania stagnated at $1 billion. The majority of SIDS in this region posted lower FDI inflows than in the previous year. FDI flows in *Maldives* grew by 12 per cent, to $552 million, driven by new equity investments in tourism. FDI flows into *Timor-Leste* reached a four-year high of $48 million. In *Fiji*, in contrast, FDI contracted for a second year to $344 million (down 11 per cent), as major construction projects were completed. The equity component of FDI shrank by more than 60 per cent, while reinvested earnings declined by 9 per cent.

Without a single megadeal, the net value of cross-border M&A sales in SIDS slumped from $2.6 billion in 2017 to $834 million in 2018. Two large transactions were registered in financial services in Seychelles ($505 million)[36] and in oil and gas in Trinidad and Tobago ($569 million).[37] As a result of those deals, the largest investors in SIDS as a whole were the United Kingdom ($569 million, up from $329 million in 2017) and China ($505 million, as compared with its net divestment of $25 million in 2017).

Two other major sales were recorded in Asia and Oceania, but their impact on FDI flows was negative (divestments by MNEs). In Timor-Leste, the Government invested $350

million to acquire a 30 per cent stake in a joint venture producing crude petroleum and natural gas, owned by Royal Dutch Shell (Netherlands), Osaka Gas (Japan), ConocoPhillips (United States) and Woodside Petroleum (Australia). In Fiji, Marriott International sold its entire stake in a resort to the Fiji National Provident Fund for $131 million.

FDI stock in SIDS remained highly concentrated in the Bahamas and Barbados. MNEs from North America have been by far the largest investors in SIDS. Five of the top 10 sources of FDI are developing Asian economies (figure A). FDI stock held by the United States in SIDS represents 5–6 per cent of the United States' total holdings in all developing economies. About 30–40 per cent of Canadian investors' outward FDI stock in all developing economies is held in SIDS. The geographical distribution of this North American FDI stock among the 28 SIDS has been highly skewed towards the Bahamas and Barbados.[38]

Similarly, the significant gains in FDI stock held by Brazil and Hong Kong (China) from 2013 to 2017 were almost all attributed to investment in either the Bahamas, Barbados or both. FDI stock from India, Malaysia, Singapore, South Africa and Thailand to SIDS, in contrast, is almost all concentrated in Mauritius, in part as a gateway to other African markets. This highlights the challenge for other SIDS to attract more FDI.

Prospects

FDI in SIDS remains fragile and dependent on a few capital-intensive projects. The trends in announced greenfield projects suggest further concentration of FDI in a narrow range of industries in the services sector (e.g. business activities, hotels and restaurants). The group's investment outlook remains heavily influenced by capital-intensive projects in construction, as well as hotels and tourism. Prospects in the manufacturing sector remain weak, with a record low of $44 million of new project announcements in 2018 (down 75 per cent from 2017).

Several SIDS in Africa and the Caribbean can expect major investments in new hotel and tourism projects (table II.4). Greenfield FDI projects announced in 2018 for this industry reached a three-year high of $992 million, accounting for 60 per cent of total estimated capital expenditures. In Maldives, multiple projects ranging from $15 million to $70 million were announced by investors based in developing Asia (namely, Singapore, Sri Lanka, Thailand and the United Arab Emirates).

The United States became the largest prospective investor in greenfield projects with $569 million (up 11 per cent), followed by France ($208 million, compared with only $5 million in 2017) and the United Arab Emirates ($179 million, compared with $63 million in 2017). MNEs from China were less active than in previous years, and the value of their announced projects in SIDS dropped by 44 per cent to $93 million in a single construction project in Jamaica (table II.4).

Given the group's narrow and fragile economic base, investment decisions made by MNEs in capital-intensive greenfield projects (lasting five to 10 years) or cross-border megadeals in a small number of SIDS continue to have a sizeable impact, not only on the domestic economy, but also on the overall direction of FDI inflows to all SIDS.

SEZ development may create new investment opportunities. Some SIDS are undertaking new SEZ projects to accelerate economic diversification and promote sustainable growth (see chapter IV, box IV.2). Maldives, for instance, seeks to attract foreign investors to finance multiple theme-based SEZ projects.

Jamaica, whose economy is already more diversified than that of other SIDS, is transitioning to a new SEZ regime (chapter IV). In addition to several multi-user zones and specialized

Table II.4. SIDS: Largest announced greenfield projects, 2018

Host economy	Industry segment	Parent company	Home economy	Estimated capital expenditure (Millions of dollars)
Cabo Verde	Hotels and tourism accommodation	Hilton Hotels (Hilton Worldwide)	United States	104
Mauritius	Hotels and tourism accommodation	Club Méditerranée	France	104
Seychelles	Hotels and tourism accommodation	Club Méditerranée	France	104
Seychelles	Hotels and tourism accommodation	Dutco Group of Companies	United Arab Emirates	104
Jamaica	Business support services	Sutherland Global Services	United States	101
Jamaica	Support activities for transportation	Grupo Aeroportuario del Pacifico	Mexico	96
Mauritius	Data processing, hosting and related services	CloudFlare	United States	94
Jamaica	Commercial and institutional building construction	China Communications Construction Company	China	93

Source: UNCTAD, based on information from the Financial Times Ltd. fDi Markets (www.fDimarkets.com).

zones under development, three SEZ megaprojects are in the pipeline: Caymanas SEZ (an integrated zone with light manufacturing, knowledge process outsourcing and logistics); Jamaica–Gansu Industrial Park (an integrated zone with manufacturing and agro-processing, as well as logistics); and Vernamfield Aerotropolis (a logistics and air cargo hub).[39] Capital requirements for these megaprojects are estimated at $8 billion – nearly 60 per cent of the country's GDP – which could have a sizeable impact on FDI inflows.

NOTES

[1] Data on China from the Ministry of Commerce, China, www.mofcom.gov.cn/article/ae/sjjd/201901/20190102826598.shtml.

[2] State Bank of Pakistan, 3rd Quarterly Report for the year 2017–18.

[3] "Chinese FDI into North America and Europe in 2018 Falls 73% to Six-Year Low of $30 Billion", https://www.bakermckenzie.com/en/newsroom/2019/01/chinese-fdi.

[4] Ministry of Commerce, China. http://www.mofcom.gov.cn/article/ae/sjjd/201901/20190102827466.shtml.

[5] "Samsung Opens Global AI Centers in the U.K., Canada and Russia", https://news.samsung.com/global/samsung-opens-global-ai-centers-in-the-u-k-canada-and-russia.

[6] "US investors 'confidently' pouring money into China despite trade war, says commerce minister", South China Morning Post, 29 April 2019.

[7] Myanmar, for example, raised the foreign ownership cap from 49 to 80 per cent in the agriculture sector. The country also formed a new investment institution in November 2018, the Ministry of Investment and Foreign Economic Relations). The Philippines relaxed some investment restrictions through an updated negative list that took effect on November 2018. For details, see chapter III and the UNCTAD Policy Monitor.

[8] "Chinese FDI into North America and Europe in 2018 Falls 73% to Six-Year Low of $30 Billion", https://www.bakermckenzie.com/en/newsroom/2019/01/chinese-fdi.

[9] UNCTAD, *Investment Policy Monitor*, No. 21, March 2019.

[10] El Economista, "Lopetegui afirmó que Vaca Muerta registró US$ 4.000 M en inversiones en 2018", 15 March 2019.

[11] UNCTAD, *Investment Policy Monitor*, No. 21, March 2019.

[12] EIU, "Chinese investment will fund new mineral extraction project", 26 February 2019.

[13] Centro de estudios de las finanzas publicas, "Comentarios al informe estadístico sobre el comportamiento de la inversión extranjera directa en México (enero-diciembre de 2018)".

[14] Banco de Mexico. "Encuesta sobre las Expectativas de los Especialistas en Economía del Sector Privado: Febrero de 2019".

[15] Before the end of the year, the new president Andrés Manuel López Obrador decided to discontinue the construction of a new airport (worth $13 billion), causing a sharp fall of the peso and changes to the country's credit rating. The airport bondholders had to be reimbursed into a deal reached just before the end of the year to avoid a messy default. Construction at the Texcoco airport is continuing while the president's team negotiates with creditors. Bloomberg, "Mexican Peso Rallies as AMLO Resolves Airport Bond Dispute", 12 December 2018.

[16] CentralAmericanData.com, "New BPO Investment in Costa Rica", 14 February 2018.

[17] One of the large divestment deals involved Russian Copper purchasing Amur Minerals from Freeport-McMoRan (United States) and its Russian joint-venture partner.

[18] Kaliningrad Region Development Corporation (2018). "Special Administrative Region – Kaliningrad Region" (http://sar.kgd-rdc.ru/en/).

[19] Bullock, Niall (2018). "FDI into Uzbekistan on the rise in 2018". fDi Belfast, 17 December, https://www.fdiintelligence.com/Trend-Tracker/FDI-into-Uzbekistan-on-the-rise-in-2018.

[20] Japan Tobacco's acquisition of Donskoy Tabak for $1.7 billion was the only large transaction registered in the country.

[21] These numbers include FDI flows to offshore financial centres and special purpose entities, which are excluded from UNCTAD's inflows data.

[22] Under the 2008 Haitian Hemispheric Opportunity Through Partnership Encouragement Act and the 2010 Haiti Economic Lift Program, certain products manufactured in Haiti, mostly apparel products, were granted duty-free access to the United States. The Trade Preferences Extension Act of 2015 extended trade benefits provided to Haiti in the Acts through September 2025 (Source: United States Department of State (2018), "US relations with Haiti", Bureau of Western Hemisphere Affairs Fact Sheet, 16 March, www.state.gov/r/pa/ei/bgn/1982.htm).

[23] "Summary on Annual Investment Report of the Myanmar Investment Commission 2017–2018 Financial Year (1st April to 31st March)", www.dica.gov.mm/sites/dica.gov.mm.

[24] In 2016, Japan Tobacco concluded a $510 million acquisition in Ethiopia (*WIR17*).

[25] During 2018, General Electric signed an agreement for another power generation project of $4.4 billion in Bangladesh.

[26] "China to loan Guinea $20 billion to secure aluminum ore", 6 September 2017, www.reuters.com.

[27] Investment commitments by foreign investors in 2017 already exceeded $17 billion, of which $8 billion was in energy and nearly $7 billion in agriculture. Source: Bank of the Republic of Zambia (2018), *Foreign Private Investment and Investor Perceptions in Zambia 2018: Enhancing Investment for Export Promotion and Industrialisation Towards Inclusive Growth*, www.boz.zm.

[28] Myanmar Times (2018), "Myanmar targets FDI from East Asia in long-term investment plan", 19 October, www.mmtimes.com/news/myanmar-targets-fdi-east-asia-long-term-investment-plan.html.

[29] Sinosteel (2018), "Sinosteel Group Signed Memorandum of Understanding on Investment with the Government of Zimbabwe". Sinosteel Group News, 17 May, http://en.sinosteel.com/art/2018/5/17/art_314_15776.html; Marawanyika, Godfrey (2018), "Sinosteel Will Invest $1 Billion to Boost Zimbabwe Output". *Bloomberg*, 14 May, https://www.bloomberg.com/news/articles/2018-05-14/sinosteel-boosts-zimbabwe-ferrochrome-output-in-1-billion-deal.

[30] See the corporate website: https://www.fenixintl.com.

[31] See the corporate website: https://www.raxio.co.ug.

[32] Mongolia is analysed with the transition-economy LLDCs.

[33] *Kathmandu Post* (2018), "FDI pledges up Rs34.9b in first 8 months: Survey", 29 May, https://kathmandupost.ekantipur.com/news/2018-05-29/fdi-pledges-up-rs349b-in-first-8-months-survey.html.

[34] U.S. Embassy in Turkmenistan (2018), *U.S. Country Commercial Guide Turkmenistan 2018*. https://tm.usembassy.gov/wp-content/uploads/sites/124/TurkmenistanCountryCommercialGuide2018.pdf. See also Auyezov, Olzhas, and Ece Toksabay (2018), "Foreign companies struggle in cash-strapped Turkmenistan", Reuters, 3 June, https://www.reuters.com/article/us-turkmenistan-economy/foreign-companies-struggle-in-cash-strapped-turkmenistan-idUSKCN1IZ0Q4.

[35] Total (n.d.), "Our Business in Azerbaijan", https://www.total.com/en/azerbaijan (accessed 7 May 2019).

[36] Addentax Group (China), a provider of garment decoration and textile printing services, acquired a majority stake in Yingxi Industrial Chain Group, a supply chain management consulting company focusing exclusively on the textile and garments industry. Addentax plans to develop its new business segment: assisting clients in opening textile and garment sales outlets throughout China (https://sec.report/Document/0001493152-18-003260/#c_005).

[37] Columbus Energy Resources (United Kingdom) acquired Steeldrum Oil, producer of crude petroleum and natural gas, at an estimated $569 million in a stock swap transaction.

[38] In 2017, 98 per cent of FDI stock from Canada to SIDS was recorded in the Bahamas (33 per cent) and Barbados (65 per cent). United States investors also held two thirds of their FDI stock in SIDS in those two countries: 36 per cent in the Bahamas (compared with more than 50 per cent in 2013) and 31 per cent in Barbados (compared with 20 per cent in 2013). Mauritius was the third largest destination, accounting for 16 per cent (compared with 12 per cent in 2013) of the United States FDI stock in SIDS.

[39] Information from the Jamaica SEZ Authority.

CHAPTER III

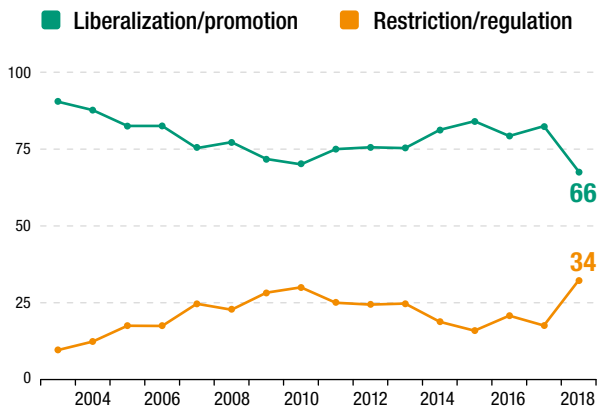
RECENT POLICY DEVELOPMENTS AND KEY ISSUES

A. NATIONAL INVESTMENT POLICIES

1. Overall trends

In 2018, according to UNCTAD's count, 55 countries and economies introduced 112 policy measures affecting foreign investment – a decrease of more than 11 per cent over the previous year's figure. Thirty-one of these measures related to new restrictions or regulations relevant to FDI, while 65 related to investment liberalization, promotion and facilitation. The remaining 16 were of neutral or indeterminate nature (table III.1). Accordingly, the proportion of more restrictive or more regulatory policy measures introduced soared from 21 per cent in 2017 to 34 per cent – an increase of more than 60 per cent. This ratio is the highest since 2003 (figure III.1).

Figure III.1. **Changes in national investment policies, 2003–2018** (Per cent)



Source: UNCTAD, Investment Policy Hub.

New investment restrictions or regulations for foreign investors were mainly based on national security concerns about foreign ownership of critical infrastructure, core technologies, elements of the defence sector, sensitive business assets or residential property. In particular, numerous governments blocked M&A deals on the basis of national security concerns, with the aggregate amount of the transactions being approximately $153 billion. At the same time, many countries introduced policy measures for liberalizing, promoting or facilitating foreign investment. Steps toward liberalization were made in various industries, including agriculture, media, logistics, mining, energy, retail trade, finance, transportation, infrastructure and internet business. In addition, several countries made efforts to simplify or streamline administrative procedures, and some others expanded their investment incentive regimes.

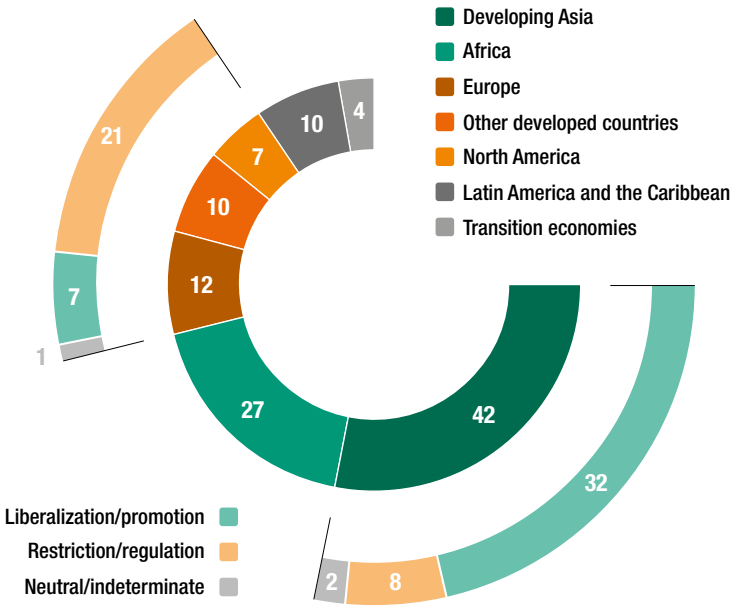
Table III.1. **Changes in national investment policies, 2003–2018** (Number of measures)

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of countries that introduced changes	59	79	77	70	49	40	46	54	51	57	60	41	49	59	65	55
Number of regulatory changes	**125**	**164**	**144**	**126**	**79**	**68**	**89**	**116**	**86**	**92**	**87**	**74**	**100**	**125**	**144**	**112**
Liberalization/promotion	113	142	118	104	58	51	61	77	62	65	63	52	75	84	98	65
Restriction/regulation[a]	12	20	25	22	19	15	24	33	21	21	21	12	14	22	23	31
Neutral/indeterminate	-	2	1	-	2	2	4	6	3	6	3	10	11	19	23	16

Source: UNCTAD, Investment Policy Hub.
[a] "Restriction" means a policy measure that introduces limitations on the establishment of foreign investment; "regulation" means a policy measure that introduces obligations for established investment, be it domestically or foreign-controlled.

In geographical terms, developing countries in Asia continued to take the lead in adopting new investment policy measures, followed by developed countries and Africa (figure III.2). The nature of the new measures, however, differed significantly between regions. Thirty-two policy measures adopted in developing countries in the Asian region were about liberalization, promotion and facilitation of investment, while only two related to restrictions or regulations. In contrast, 21 investment policy measures introduced in developed countries aimed at reinforcing restrictions or regulations, while only seven were more favourable to investment. In Africa, these numbers were somewhat more balanced, with 14 policy measures favorable to investment and eight less favourable.

Figure III.2. **Regional distribution of national investment policy measures, 2018**
(Number of measures)



Source: UNCTAD.

a. National security concerns a main focus

(i) Rising national security-related concerns

Most of the newly introduced investment restrictions and regulations reflected the national security-related concerns of host countries, particularly in respect of foreign investment in strategic industries and critical infrastructure. For example, *Australia* tightened investment screening procedures in the electricity industry and strengthened regulations on the purchase of agricultural land by foreign investors. The Government of *Flanders* in *Belgium* established a new screening mechanism to intervene in foreign acquisitions under certain conditions. *China* set up national security review procedures for the acquisition by foreign investors of domestic enterprises and for the outbound transfer of intellectual property in the context of exporting technologies. *France* and *Germany* extended the scopes of their foreign investment screening systems to several new strategic technology activities. *Hungary* adopted a new law, introducing a foreign investment screening mechanism related to national security in politically sensitive activities such as defence, dual-use products, cryptography, utilities, the financial industry, electronic communication and public communication systems. *Lithuania* amended the Law on Enterprises and Facilities of Strategic Importance to National Security, mainly seeking to safeguard national security in certain industries such as military equipment, energy and information technologies. The

United Kingdom and the *United States* expanded the conditions or scope of application of their foreign investment review mechanisms related to national security. At the regional level, the *European Union* (EU) established a framework for FDI screening in April 2019. (For further information on rising national security-related concerns, see subsection III.3.)

(ii) New local content requirements

Several countries introduced new local content requirement for investors. For example, *Nigeria* issued a Presidential Executive Order requiring that all public procuring authorities give preference to local companies in the award of contracts. It also prohibits the Ministry of Interior from giving visas to foreign workers whose skills are readily available in the domestic labor force. *South Africa* adopted a 60 per cent local content requirement for the defence sector and also introduced a higher ratio for black ownership. The *United Republic of Tanzania* adopted regulations to promote the use of local expertise, goods and services, businesses and financing in the mining value chain. It also requires domestic Tanzanian companies to hold an equity participation of at least 20 per cent in a mandatory joint-venture arrangement, for the supply of goods and services. In January 2019, *Senegal* changed its petroleum code to reinforce the preservation of national interests and local content.

(iii) New regulations on access to land and on other industries

Several countries adopted new regulations on ownership of land by foreign investors. For instance, *Canada* increased the property transfer tax on residential property transfers to foreign entities. *Singapore* increased the Additional Buyer's Stamp Duty applicable to foreigners who acquire residential property. In February 2019, *India* introduced several restrictive changes in its FDI policy for e-commerce in order to safeguard the interests of domestic offline retailers.

b. Investment facilitation and promotion prominent

Investment facilitation and promotion continued to be a major part of newly adopted investment policy measures. Thirty-four such measures – about one third of the total – fall into this category. In several cases, facilitation and promotion measures are included in newly adopted laws.

(i) Streamlined administrative procedures

Several countries undertook measures to ensure that investors receive speedy administrative clearances from the pertinent authorities. For instance, *Australia* established a new online application portal to facilitate the process of foreign investment applications. *Côte d'Ivoire* reorganized the approval process for investment applications and determined that it would grant additional tax credits to companies in such industries as agriculture, agribusiness, health care and tourism. *Indonesia* lowered the minimum equity requirement for foreign investors to use the Online Single Submission portal from Rp 10 billion to Rp 2.5 billion. It also abolished the approval requirement for several business transactions involving foreign investors – e.g. changes of shareholders, changes of capital structure and conversion of a domestic firm into a foreign company. *Saudi Arabia* extended the licensing period for foreign investors to five years – up from the previous one-year period. The *United Republic of Tanzania* established an online registration system, simplifying investment registration processes by significantly reducing time and costs. *Uzbekistan* initiated a project to develop a special information portal, available in several languages, to provide information on visas, residence permits, registrations and tax mechanisms, among other matters.

(ii) Simplified procedures for work and residence permits

Some countries undertook measures to facilitate the issuance of work and residence permits for foreigners. For instance, *China* increased the quota for foreign technical personnel in foreign-invested construction and engineering design enterprises, and relaxed restrictions on recruitment agencies. *Thailand* introduced a new visa system (Smart Visa) to attract foreign highly skilled talent. *Uzbekistan* increased its quota for the issuance of work permits for highly qualified foreign specialists.

(iii) Fiscal incentives still an important investment promotion tool

Numerous countries expanded their systems of fiscal investment incentives. For instance, *Burkina Faso* reduced by one quarter the threshold for incentives to invest in strategic sectors. *China* expanded income tax benefits for overseas investors, exempting them from withholding of income tax on the reinvestment of profits made in *China*. *Ecuador* revised its investment law, establishing new incentives to promote FDI and providing a new arbitration route for settling disputes arising out of investment contracts. *Italy* introduced a reduced tax rate for profits reinvested to acquire assets or to increase employment. *Mauritius* introduced a five-year tax holiday for companies to collaborate in developing infrastructure in SEZs. *Poland* extended the fiscal incentive schemes previously available only in SEZs to the entire country. *Thailand* enacted the Eastern Economic Corridor Act, which provides fiscal incentives for investors in the Corridor. *Uganda* introduced tax incentives to promote both domestic and foreign investment focusing on industrialization, exports and tourism.

In January 2019, *Cameroon* introduced, inter alia, several tax incentives for the rehabilitation of an economic disaster area. In February 2019, *Guatemala* established fiscal incentives for companies operating in its new SEZs called special public economic development zones. Among the tax benefits provided are an exemption for 10 years from income tax and a temporary suspension of taxes associated with imports. To promote investment in hotels and recreation activities, in February 2019 *Panama* extended its fiscal incentives for the tourism industry until 2025. Also in February 2019, *Poland* introduced financial incentives aimed at boosting the audiovisual industry.

(iv) Other investment-facilitating and -promoting measures

Numerous countries adopted other policy measures to promote and facilitate investment. *Argentina* published a decree with 170 measures aimed at eliminating rules and regulations considered to reduce the country's competitiveness. *Egypt* relieved limited liability companies from the requirement to appoint Egyptian managers. *India* amended the Model Concession Agreement on public-private partnerships in the port sector. Among other things, the new Agreement provides easier exit routes for developers and lowers standard rents for land. *Myanmar* established the Ministry of Investment and Foreign Economic Relations to promote domestic and foreign investment. The country also allowed all branches of foreign banks to provide commercial services. In *South Africa,* the Protection of Investment Act entered into force, following the termination by that country of a series of investment treaties. The *United Arab Emirates* established an FDI unit within the Ministry of Economy, with the mandate to propose and implement FDI policies.

In January 2019, *Ecuador* introduced new regulations to clarify the Productive Development Law, to simplify environmental rules and to provide additional tax incentives. *Kazakhstan* liberalized the arbitration framework, allowing investors to opt for the applicability of a foreign law in a dispute involving the State and bringing its enforcement provisions in line with the New York Convention. In March 2019, *China* passed a new Foreign Investment Law, which

will enter into force on 1 January 2020 and which aims at improving the transparency of FDI policies and investment protection.

c. FDI liberalization ongoing

Thirty-two policy measures – about 30 per cent of those introduced – were related to partial or full investment liberalization in a variety of industries, including agriculture, media, logistics, mining, energy, retail trade, finance, transportation, infrastructure and internet business.

Developing countries in Asia took the lead in adopting investment liberalization measures in 2018, accounting for about 60 per cent of such measures. For example, *China* revised its foreign investment negative list for 11 pilot free trade zones, relaxing or removing restrictions on foreign investment in several industries. *India* liberalized rules on inward investment in several industries, including single-brand retail trading, airlines and power exchanges. *Kuwait* made a change to allow foreign investors to own and trade in Kuwaiti bank shares. *Myanmar* shifted to allow 100 per cent foreign ownership in the wholesale and retail industries, and in mining operations as well as 80 per cent foreign ownership in the agricultural sector. It also now permits foreign investors to hold up to 35 per cent of shares of domestic companies without those companies losing their domestic status. The *Philippines* revised its "negative list", relaxing foreign ownership ceilings in such industries as construction and repair of locally funded public works projects, private radio communication networks, internet businesses and financing companies. *Saudi Arabia* opened four more industries to foreign investment – recruitment and employment services, real estate brokerage, audiovisual and media services, and land transport services. The *United Arab Emirates* established a framework to permit foreigners to own up to 100 per cent of companies in certain industries to be identified in a "positive list". *Viet Nam* allowed foreign investors to contribute capital to establish commodity exchanges, not to exceed 49 per cent of their charter capital. Foreign investors are also now permitted to trade goods on the commodity exchange as clients and can become members of the exchange (brokers or traders) without any ownership restraint. In January 2019, *India* abolished the approval procedure used for foreign companies in defence, telecommunication and private security, among other industries, wishing to open branch offices under certain conditions. As of January 2019, *Qatar* permits, in principle, 100 per cent foreign ownership in all economic sectors except some businesses such as banking and insurance.

Countries outside of Asia also adopted investment liberalization measures. For instance, *Angola* introduced a new private investment law, abolishing the local partnership requirement for certain industries or activities and designating numerous priority industries including agriculture, textile, tourism and infrastructure development. *Canada* extended the foreign ownership ceiling for Canadian air carriers from 25 per cent to 49 per cent, subject to the conditions that a single foreigner may not own or control more than 25 per cent of the voting interests in a Canadian air carrier and that foreign air carriers may not own more than 25 per cent of the voting interests in a Canadian carrier. *Ethiopia* abolished the investment restriction in the logistics industry and initiated the process of privatizing major State-owned enterprises. *Namibia* abolished the requirement for companies seeking mining exploration licenses to be partly owned and managed by historically disadvantaged Namibians. *Ukraine* adopted a bill on the privatization of public property, which aims to make the privatization process more transparent and faster for investors.

2. Merger controls affecting foreign investors

In 2018, numerous host-country governments blocked a significant number of foreign takeover proposals, particularly those related to the sale of critical infrastructure or other strategic domestic assets to foreign companies (table III.2). Among all the cross-border M&A proposals of which the value exceeded $50 million, UNCTAD found at least 22 deals withdrawn for regulatory or political reasons – twice as many cases as in 2017.

Table III.2. Foreign takeovers blocked or withdrawn for regulatory or political reasons, 2018
(Illustrative list)

For national security reasons	
Ant Small & Micro Financial Services Group Ltd–MoneyGram International Inca	On 2 January 2018, Ant (a company owned by the Alibaba Group) withdrew its $1.2 billion offer to acquire MoneyGram, a United States provider of financial transaction services. According to a statement by MoneyGram, the parties had been advised that CFIUS clearance of the merger would not be forthcoming and both parties agreed to terminate the deal.
HNA Group Co Ltd– UDC Finance[b]	On 17 January 2018, HNA (China) withdrew its plan to acquire UDC Finance (a subsidiary of ANZ Bank New Zealand Ltd) after New Zealand's Overseas Investment Office blocked the deal. According to the explanation provided by the Overseas Investment Office, the $460 million deal was declined because of "uncertainty over HNA's ownership structure, reflecting mounting international concerns about the aviation-to-shipping group's transparency and governance."
BlueFocus International Ltd–Cogint, Inc[c]	On 20 February 2018, Cogint (United States), a data solutions provider, and BlueFocus (Hong Kong, China) agreed to terminate their business combination agreement worth $100 million. Cogint stated that the CFIUS had indicated its unwillingness to approve the transaction.
Unic Capital Management Co Ltd–Xcerra Corporation[d]	On 22 February 2018, Xcerra (United States) terminated its $580 million merger agreement with Unic Capital Management. Xcerra stated that after careful review of feedback received from the CFIUS, it considered that approval of this merger would be highly unlikely.
Broadcom Ltd–Qualcomm Inc[e]	On 12 March 2018, the President of the United States prohibited the proposed takeover of chipmaker Qualcomm (United States) by Broadcom (Singapore) for national security reasons. In February 2018, Broadcom had proposed a $117 billion bid for the takeover of Qualcomm.
Atlantia SpA–Abertis Infraestructuras SA[f]	In October 2018, Atlantia withdrew its bid offer to acquire Abertis Infraestructuras. The bid had faced political opposition because the Spanish Government was concerned that the deal could leave the country's most important roads under full foreign control. Thereafter, the deal (€16.5 billion) was re-arranged as a joint acquisition by Atlantia and Hochtief (a German subsidiary of the Spanish company Actividades de Construccion y Servicios SA - ACS).
China Communications Construction Company International Holding Ltd (CCCI)–Aecon Group Inc[g]	On 23 May 2018, the Canadian Government blocked a proposed $1.5 billion acquisition of the Canadian construction company Aecon, by CCCI, a Chinese State-owned company and one of the world's largest engineering and construction firms. According to an official statement from the Canadian Minister of Innovation, Science and Economic Development, the deal compromised national security: The minister stated that the Canadian Government "is open to international investment that creates jobs and increases prosperity, but not at the expense of national security."
CK Asset Holdings Ltd–APA Group[h]	On 20 November 2018, the Investor Group, a consortium led by CK Asset Holdings Ltd, withdrew its agreement to acquire the entire share capital of APA Group, a Sydney-based owner and operator of a natural gas infrastructure business. The Australian Federal treasurer justified the decision to prohibit the $9.8 billion offer, stating "The FIRB was unable to reach a unanimous recommendation, expressing its concerns about aggregation and the national interest implications of such a dominant foreign player in the gas and electricity sectors over the longer term."
Grandland Holdings Group Co Ltd–Lixil Group[i]	On 27 November 2018, Grandland Holdings Group, a developer of real estate properties, withdrew its offer to acquire Lixil's building unit – Permasteelisa – for €467 million after the deal was disapproved by the CFIUS on the basis of national security.
For competition reasons	
NZME Ltd–Fairfax New Zealand[j]	On 3 March 2018, NZME abandoned its proposed merger agreement of $39 million with Fairfax New Zealand, following a rejection by New Zealand's Commerce Commission on the basis that it would create a concentration of power.
Aperam SA–VDM Metals Holding GmbH[k]	On 11 April 2018, Aperam announced the termination of the €438 million share purchase agreement with Falcon Metals and Lindsay Goldberg Vogel to acquire VDM Metals Holding because of concerns by the European Commission regarding the impact of the proposed merger on competition.
MEO Serviços de Comunicações & Multimedia –Media Capital[l]	On 18 June 2018, the Portuguese Competition Authority rejected the €404 million deal proposed by MEO Serviços de Comunicações & Multimedia, owned by Altice, to take over Media Capital through the purchase of the entire share capital of Vertix SGPS (which owns 95 per cent of the share capital of Media Capital) because the parties had inadequately addressed concerns about a restriction of competition. Consequently, the parties agreed to terminate the deal.

/…

Table III.2. Foreign takeovers blocked or withdrawn for regulatory or political reasons, 2018
(Illustrative list) (Concluded)

For other regulatory reasons	
Aeolus Tyre Co Ltd–Prometeon Tyre Group Srl[m]	Aeolus Tyre (China) withdrew its offer to acquire the remaining 90 per cent stake in Prometeon Tyre Group (Italy), a manufacturer and wholesaler of tyres, from other investors in a stock swap transaction. On 4 January 2018, Aeolus released a statement saying that the Chinese authorities had failed to grant approval for the overseas acquisition before the 31 December 2017 deadline. The parties were unable to reach a consensus on an extension, it said, so the deal was terminated.
Sparton Corporation–Ultra Electronics Holdings Plc[n]	On 5 March 2018, Sparton withdrew its plan to acquire the joint-venture partner Ultra Electronics Holdings for $234 million, after the United States Department of Justice had indicated that it may block the deal.
Blackstone Group LP–AMA Group Ltd[o]	On 22 June 2018, AMA Group (Australia) terminated a deal to sell its vehicle panel repairs business to Blackstone Group for $375 million, following an adverse tax ruling from the Australian Taxation Office.
Withdrawn while waiting for host-country approval	
Warburg Pincus India Pvt Ltd–Tata Technologies Ltd[p]	On 6 February 2018, Warburg Pincus India, a unit of Warburg Pincus (United States), a private equity firm, withdrew its offer to acquire a 43 per cent stake in Tata Technologies (for $360 million), an engineering service and design arm of India's largest truck maker Tata Motors. In a media statement, Tata Motors explained that the deal was mutually terminated "due to delays in securing regulatory approvals as well as due to the recent performance of the company not meeting internal thresholds because of market challenges."
UPC Polska–Multimedia Polska SA[q]	On 23 March 2018, UPC Polska, a subsidiary of Liberty Global, withdrew its application to acquire Multimedia Polska for $876 million, while waiting for approval from the Polish Office of Competition and Consumer Protection.
VEON Ltd–Global Telecom Holding SAE[r]	On 3 April 2018, VEON announced that it withdrew its plan to acquire $1 billion in assets of Global Telecom Holding, due to the lapse of time and absence of approval from the Egyptian Financial Regulatory Authority.
Horizon Global Corporation–Brink Group[s]	On 15 June 2018, Horizon Global, one of the world's leading manufacturers of branded towing and trailering equipment, announced that the company and H2 Equity Partners had mutually agreed to terminate the $200 million agreement to acquire the Brink Group (owned by H2 Equity Partners). The acquisition was withdrawn from regulatory review in Germany and the United Kingdom.
CC Logistics–Rand Refrigerated Logistics[t]	On 2 July 2018, the Automotive Holdings Group withdrew the disclosed sale of its subsidiary,Rand Refrigerated Logistics, to CC Logistics, a subsidiary of HNA International. The $207 million deal was terminated because of the delayed administrative process of the Australian Foreign Investment Review Board and liquidity problems of HNA International.
Shenzhen Energy–Recurrent Unit[u]	On 9 August 2018, Shenzhen Energy Group issued a statement terminating the $232 million deal to acquire Recurrent Energy, a unit of Canadian Solar. According to the company, the planned acquisition did not receive approval from the CFIUS within the agreed time.
Norsk Hydro ASA–Rio Tinto Iceland Ltdv	On 14 September 2018, Norsk Hydro terminated a $345 million deal to acquire Rio Tinto's Iceland subsidiary, an aluminum smelter, after a delay in the European Commission competition approval process.

Source: UNCTAD.

[a] https://www.reuters.com/article/us-moneygram-intl-m-a-ant-financial/u-s-blocks-moneygram-sale-to-chinas-ant-financial-on-national-security-concerns-idUSKBN1ER1R7.
[b] https://www.reuters.com/article/us-anz-bank-sale-hna/new-zealand-blocks-chinas-hna-due-to-ownership-doubts-idUSKBN1EE2VS.
[c] https://www.sec.gov/Archives/edgar/data/1460329/000129993318000201/htm_55915.htm.
[d] https://www.sec.gov/Archives/edgar/data/357020/000119312518054209/d533034d8k.htm.
[e] https://www.whitehouse.gov/presidential-actions/presidential-order-regarding-proposed-takeover-qualcomm-incorporated-broadcom-limited.
[f] https://www.reuters.com/article/us-abertis-m-a-atlantia-acs-es/italys-atlantia-joins-acs-to-end-22-billion-battle-for-spains-abertis-idUSKCN1GP2R4; https://www.ft.com/content/c5ae2fa4-22bf-11e8-ae48-60d3531b7d11.
[g] https://ca.practicallaw.thomsonreuters.com/w-014-9233?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1.
[h] http://jaf.ministers.treasury.gov.au/media-release/046-2018/; https://www.reuters.com/article/us-apa-m-a-ck-infra/hong-kongs-cki-launches-9-8-billion-bid-for-australias-top-gas-transporter-idUSKBN1J832A.
[i] https://www.permasteelisagroup.com/news-media/press-releases/lixil-and-grandland-agree-to-terminate-planned-permasteelisa-transaction.
[j] https://de.reuters.com/article/us-newzealand-australia-media/nzme-says-new-zealand-high-court-upholds-move-to-block-purchase-of-fairfax-unit-idUSKBN1EC2JG.
[k] https://www.globenewswire.com/news-release/2018/12/21/1677412/0/en/Aperam-announces-the-termination-of-the-Share-Purchase-Agreement-with-Lindsay-Goldberg-to-acquire-VDM-Metals-following-objections-by-the-European-Commission.html.
[l] https://thelawreviews.co.uk/edition/the-technology-media-and-telecommunications-review-edition-9/1178052/portugal, https://shifter.sapo.pt/2018/06/meo-altice-tvi-media-capital-compra; https://www.anacom.pt/render.jsp?contentId=1418151.
[m] http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-01-05/600469_20180105_6.pdf.
[n] https://sparton.com/news/sparton-corporation-reports-fiscal-2018-second-quarter-results-2.
[o] https://www.reuters.com/article/us-ama-group-divestiture-regulator/australias-ama-group-calls-off-blackstone-deal-after-tax-ruling-shares-slide-idUSKBN1JI02H.
[p] https://www.bloombergquint.com/business/warburg-pincus-calls-off-tata-tech-investment.
[q] https://www.spglobal.com/marketintelligence/en/news-insights/trending/t8lflbdxlpqcowpmdorf6g2.
[r] https://markets.businessinsider.com/news/stocks/veon-announces-withdrawal-of-mandatory-tender-offer-in-relation-to-global-telecom-holding-s-a-e-1020316801.
[s] https://www.apnews.com/8a203fcd3c3c48a986bd30b04b62762d.
[t] https://www.ahgrl.com.au/news/sale-of-ahg-refrigerated-logistics-terminated.
[u] http://westdollar.com/sbdm/finance/news/1354,20180810923796086.html.
[v] https://www.reuters.com/article/us-riotinto-m-a-norskhydro/norways-hydro-drops-plan-to-buy-rio-tinto-assets-idUSKCN1LU1TV.

Calculated in terms of the number of deals, this represents approximately 20 per cent of all withdrawn cross-border mergers and acquisitions (M&As) exceeding $50 million in 2018. The main industries in which M&A offers were withdrawn for regulatory or political reasons were high-tech businesses (e.g. data solution providers, precision instrument manufacturers and chipmakers), financial services, infrastructure business and telecommunication.

One of the most notable developments in 2018 was the significant increase in the number of cases – nine out of 22 – that were rejected or withdrawn over concerns about national security – three times more than in 2017. The aggregated value of these cases amounts to approximately $153 billion, with one case having a value of $117 billion. Given that UNCTAD's survey of such cases is limited to deals exceeding $50 million, the total number and value of all M&As withdrawn for national security considerations is still higher.

Among the nine rejected or discontinued deals, five were disapproved by the host-country authorities while the remaining four deals were voluntary withdrawals following an advice communicated before the official decision was made. This outcome mirrors recent investment policy trends in several countries, which are aiming at strengthening or expanding national security screening mechanisms. By the home economies of the targeted companies, the United States ranked first – five out of nine deals did not receive governmental approval. On the buyers' side, investors from China were the ones predominantly affected (table III.3).

Three M&As were withdrawn in 2018 because of concerns from competition authorities, and three more foreign takeovers were aborted for other regulatory reasons. In addition, seven M&A deals were withdrawn due to delays in receiving approval from the host-country authorities.

Table III.3. Foreign takeovers withdrawn for regulatory or political reasons, January–April 2019 (Illustrative list)

For competition reasons	
Alstom SA–Siemens AG[a]	On 6 February 2019, the merger proposal by Alstom (France) to acquire the mobility business of Siemens – which aimed at creating a European rail champion – was terminated due to serious competition concerns from the European Commission. According to the Commissioner Margrethe Vestager, "without sufficient remedies, this merger would have resulted in higher prices for the signaling systems that keep passengers safe and for the next generations of very high-speed trains".
Experian Plc–ClearScore Technology Ltd[b]	On 27 February 2019, Experian (the world's largest credit data firm) and ClearScore withdrew from their $364 million merger agreement after the British Competition and Markets Authority demonstrated its reluctance to approve the deal.
For other regulatory reasons	
Hydro One Ltd–Avista Corp[c]	On 23 January 2019, the Canadian State-owned company Hydro One and Avista (United States) agreed to end their $5 billion merger agreement after the Washington Utilities and Transportation Commission and the Idaho Public Utilities Commission denied approval. According to the Washington Utilities and Transportation Commission, "the proposed merger agreement did not adequately protect Avista or its customers from political and financial risk or provide a net benefit to customers as required by state law."
Withdrawn while waiting for host-country approval	
Tuvalu spzoo–Serenada and Krokus Shopping Centers[d]	On 4 January 2019, NEPI Rockcastle announced the termination of the $546 million acquisition deal between its subsidiary, Tuvalu, and Serenada and Krokus Shopping Centers, because certain regulatory approvals and the waiver of the right of first refusal had not been completed by the December 2018 deadline.

Source: UNCTAD.

[a] https://www.siemens.com/press/en/pressrelease/?press=/en/pressrelease/2019/corporate/pr2019020150coen.htm&content[]=Corp&content_0=Corp&sheet=1; https://www.reuters.com/article/us-alstom-m-a-siemens-eu/eu-antitrust-policy-under-fire-after-siemens-alstom-deal-blocked-idUSKCN1PV12L.

[b] https://www.reuters.com/article/us-clearscore-m-a-experian/experian-clearscore-scrap-merger-plans-idUSKCN1QG1CA; https://www.proactiveinvestors.co.uk/companies/news/215392/experian-abandons-clearscore-deal-after-cma-objections-215392.html.

[c] https://www.wsj.com/articles/hydro-one-and-avista-terminate-deal-11548285424; https://www.newswire.ca/news-releases/hydro-one-and-avista-mutually-agree-to-terminate-merger-agreement-822704964.html.

[d] https://www.spglobal.com/marketintelligence/en/news-insights/trending/GtlNn2CToc_Ywu61h2BdnA2; https://www.sharenet.co.za/v3/sens_display.php?tdate=20190104171500&seq=25.

In the first four months of 2019, two M&A deals were terminated because of the concerns of competition authorities. The remaining two known deals were withdrawn for other regulatory reasons.

3. Entry regulations for inward investment: recent developments in FDI screening

a. Entry regulation tools for inward investment

Host countries have various policy instruments at their disposal to exercise their sovereign right to regulate the entry and establishment of foreign investment on their territory.[1] They may fully or partially restrict foreign investment in certain sectors of the economy. They may also link the entry of foreign investment to the fulfilment of certain conditions. Another regulatory tool is the screening of individual foreign investments for national security reasons and other public concerns. Finally, host countries can use competition policies to regulate M&As involving foreign investors.

These different types of FDI entry regulations and procedures may overlap. For instance, the fact that a country has sector-specific FDI restrictions does not prevent it from also having a general review system related to national security that also covers these sectors. In such cases, the latter process provides an additional layer of entry regulation for the host country.

(i) Sector-specific FDI restrictions

Despite ongoing investment liberalization, countries continue to maintain numerous sector-specific restrictions to keep selected industries fully or partially in domestic hands. For this purpose, foreign ownership restrictions or other limits are put in place.

(ii) FDI entry subject to certain conditions

Other entry regulation tools are investment rules that allow full foreign ownership but make the establishment of the investment subject to certain conditions. Examples are requirements concerning minimum capital or the composition of the key management of the new company. Countries may also check on whether the planned investment conforms with their general economic development policies. Often an investment certificate is issued as a confirmation of meeting these criteria (box III.1).

(iii) Specific FDI screening procedures

Besides general legal safeguards related to national security and other public interests present in a number of investment laws, numerous countries have established distinctive FDI screening frameworks. Such frameworks include specific rules and procedures under which they assess whether a planned investment may negatively affect their national security or other essential public interests. If this is determined to be the case, the investment project may be blocked or may be allowed under the condition that the investment be modified in order to eliminate the risk.

In recent years, these FDI screening mechanisms have mainly targeted foreign M&As. This reflects the fact that a change of control over critical infrastructure or domestic key technologies has become a major policy concern.

Specific FDI screening procedures are predominantly used in developed countries, with a few important exceptions. UNCTAD research has identified 24 countries that have such

Box III.1. Establishment conditions for FDI (Policy examples)

- Under the Investment Promotion Act of 2004, the Kenya Investment Authority will issue an investment certificate to a foreign investor that commits at least $100,000, under the further condition that the investment is lawful and beneficial to *Kenya*.
- Foreign investors in *Fiji* need to obtain a foreign investment registration certificate, which is issued after a due diligence and credibility check aimed at ascertaining e.g. whether an investment complies with the foreign investment policy.
- In *Viet Nam*, foreign investors need to hold an investment certificate issued by the relevant local authorities. Before certifying an investment, a province office assesses the conformity of the project with the master socioeconomic development planning, industrial planning and land planning and evaluates the socioeconomic effects of the project.

Source: UNCTAD.

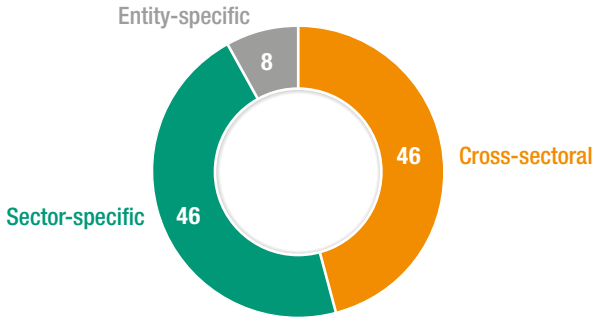
a mechanism. They are *Australia, Austria, Belgium, Canada, China, Finland, France, Germany, Hungary, Iceland, India, Italy, Japan, Latvia, Lithuania, Mexico, New Zealand, Norway, Poland*, the *Republic of Korea*, the *Russian Federation*, *South Africa*, the *United Kingdom* and the *United States*. In 2018, FDI inward stock of these 24 countries amounted to about 56 per cent of global FDI inward stock and their combined GDP equalled about 76 per cent of global GDP.

The concentration of these FDI screening mechanisms in developed countries may be explained by the fact that these economies show a relatively high degree of openness towards foreign investment, including in key economic sectors and infrastructure. FDI screening may thus serve as a safety valve for regulating the entry of foreign investment in critical cases. Moreover, the 24 countries identified as applying these mechanisms are the main global destinations for foreign investment in these sensitive sectors and activities, making them therefore more vulnerable to undesired foreign acquisitions.

Foreign investment screening mechanisms can be categorized in three main groups depending on their depth and scope (figure III.3). First, most countries that have specific screening procedures provide for sector-specific screening. National legislation enumerates sectors or activities (in particular, military and dual-use manufacturing, utilities, and the energy, telecommunication, transportation, media and financial industries) that are considered sensitive to national interests, thus requiring screening of inward investment. Second, some countries have implemented cross-sectoral screening with broadly defined review criteria that focus on specific risks rather than industries. These criteria differ significantly between countries and may include e.g. fundamental interests of society (*Finland*), national security (*United States*) or "national steady economic growth and basic social living order" (*China*). Third, a few countries have adopted an entity-specific screening mechanism. They identify individual domestic companies, mostly operating in sensitive sectors, and engage in reviewing planned foreign acquisitions in these entities. A few countries apply a blend of the first two types of FDI screening.

In addition, some countries use foreign investment screening regimes to address specific concerns relating to investments by *foreign State-owned enterprises* in strategic industries and companies (see also *WIR16*). These countries often introduce additional screening requirements in this regard, throughout all three categories of mechanisms. For example, in *Australia*, foreign State-owned enterprises must comply with extended disclosure

Figure III.3. FDI screening mechanisms by category (Per cent)



Source: UNCTAD.

obligations and generally require prior governmental consent for their investment. In the *Russian Federation*, an approval is compulsory for transactions involving foreign State-owned enterprises in minority stakes of domestic firms and such transactions are prohibited if a majority participation is intended.

As to the institutional set-up, FDI screening is conducted mostly at the highest governmental level – either ministerial or cabinet. On occasion, a separate public agency is formed. Frequently, national security agencies are involved – if not in the decision-making process, then at the consultation stage. As investment is a cross-cutting issue, quite often representatives of different ministries, agencies and authorities are involved. One example is the Committee on Foreign Investment in the *United States (CFIUS)*, which works under the auspices of the United States Treasury and the White House. It comprises the heads of the departments of the Treasury, Justice, Homeland Security, Commerce, Defense, State and Energy, as well as the Office of the U.S. Trade Representative and the Office of Science and Technology Policy, with the Director of National Intelligence and the Secretary of Labor as non-voting members.

(iv) Control of foreign acquisitions in competition policies

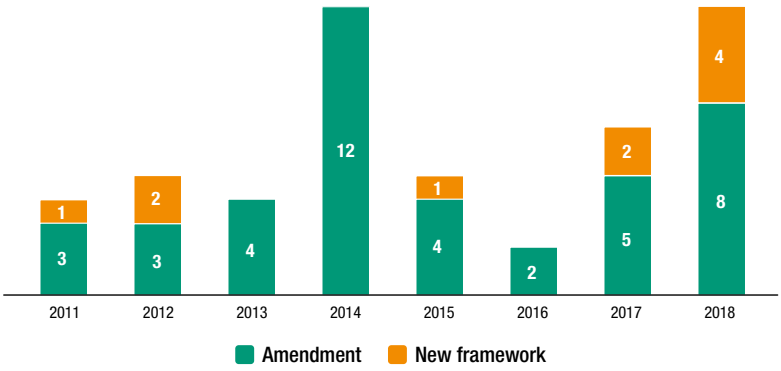
Another policy instrument that affects the establishment of foreign investors is merger control under antitrust laws. It allows a host country's competition authorities to block an acquisition or to impose certain conditions for it to avoid the emergence or abuse of a dominant market position. In recent years, the number of cases in which competition policies have prohibited foreign takeovers, including those involving the high-tech industry, have risen significantly (subsection III.A.2). Competition authorities may also block mergers in third countries because the deals would negatively affect competition in their own territory.

b. Specific FDI screening related to national interests on the rise

From January 2011 to March 2019, at least 11 countries introduced new regulatory frameworks for screening foreign investment. They are *Austria*, *Belgium* (the Flanders region), *China*, *Hungary*, *Italy*, *Latvia*, *Norway*, *Poland*, the *Republic of Korea*, the *Russian Federation* and *South Africa*. In addition, at least 41 significant amendments to regulatory regimes were recorded in 15 jurisdictions in this period. Most of them occurred in 2014 and 2018 (figure III.4).

Furthermore, legislative actions are currently under way in several countries. This is likely to result in some further new policy measures in the remaining months of 2019 (box III.2).

Figure III.4. **FDI screening, legislative changes by type of enactment, 2011–2018**
(Number of measures)



Source: UNCTAD.

Box III.2. Planned legislative acts relating to FDI screening (Policy examples)

- In July 2018, the Government of the *United Kingdom* published a white paper on national security and investment that presented plans for legislative reform of the FDI screening mechanism. They aim at introducing a comprehensive national security review process that will cover approximately 200 transactions a year.
- Within the broader context of *France*'s "company and business growth and transformation reform", at the last stage of the legislative process as of April 2019, the Government aims to strengthen its control over foreign investment. The Ministry of Economy would have at its disposal additional instruments related to unauthorized acquisitions, including injunctions and precautionary measures as well as increased administrative and pecuniary sanctions.

Source: UNCTAD.

The vast majority of legislative measures adopted had a restrictive nature; 80 per cent were less favourable to investors. Only nine were liberalization measures, pertaining to the partial narrowing of the economic sectors in which foreign investment is subject to screening or the raising of certain thresholds that trigger these procedures (box III.3).

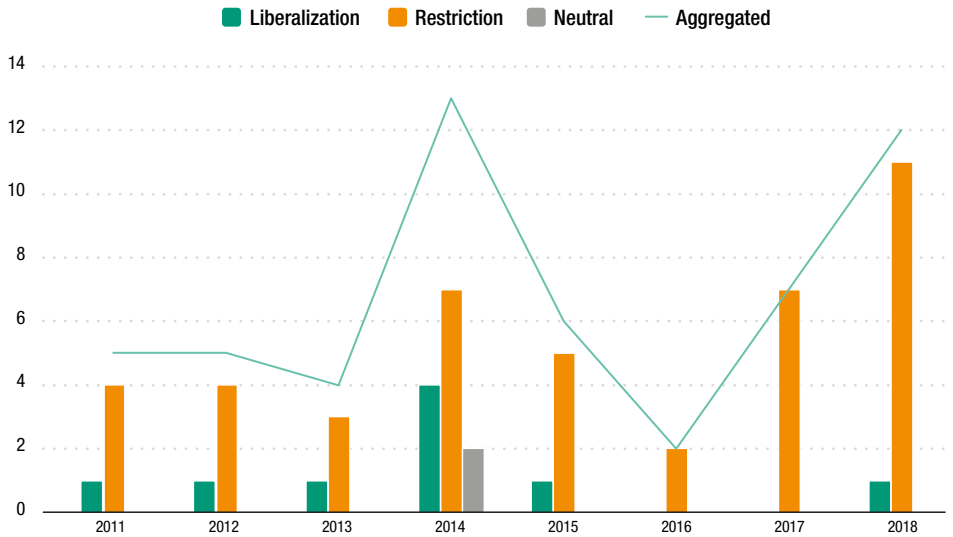
From 2011 to 2016, the number of restrictive legislative measures per year stayed roughly the same, but in 2017 and 2018, they increased substantially (figure III.5). New investment screening policies focus on the widening of the review scope in three main ways: First, they add new sectors or activities subject to FDI screening. Second, they lower the

Box III.3. Narrowing the scope of FDI screening mechanisms (Policy examples)

- In 2014, *Mexico* narrowed the scope of the sectors in which foreign investor involvement requires a favourable resolution of the National Investment Commission, by excluding activities focused on gas and oil well drilling and pipeline construction, cellular telephony and the business of credit information companies, securities rating agencies and insurance agents.
- In 2014, the *Russian Federation* excluded from the FDI screening requirement investors involved in industries that use "infectious agents" for food production, as well as intragroup transactions.
- In *Australia*, the threshold for a foreign interest in a domestic business requiring governmental approval was raised from 15 per cent to 20 per cent in 2015.

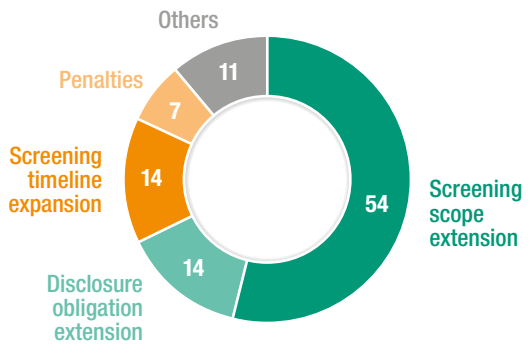
Source: UNCTAD.

Figure III.5. FDI screening, legislative changes by nature of measure, 2011–2018
(Number of measures)



Source: UNCTAD.

Figure III.6. **New FDI screening policies by category, 2011–March 2019** (Per cent)



Source: UNCTAD.

thresholds that trigger investment screening. Third, they broaden definitions of foreign investment subject to screening. In addition, some new policies expand the disclosure obligations of foreign investors during screening procedures and also extend their statutory timelines. Other legal acts introduced new civil, criminal or administrative penalties for not fulfilling or circumventing notification and screening obligations (figure III.6 and box III.4).

In parallel with the tightening of FDI screening mechanisms, the number of individual government decisions blocking foreign investments for national security reasons and other public concerns is also on the rise. Foreign acquisitions with a value exceeding $50 million that were blocked or withdrawn for national security reasons in 2018 were listed in table III.2. In some cases, host-country governments have found other means than a formal interdiction to prevent a foreign takeover or have allowed it only under the condition that the foreign ownership share be reduced (box III.5).

Finally, tighter control of foreign acquisitions due to national security and public interest concerns is also becoming a regional concern, as the example of the EU indicates. On 10 April 2019, the regulation establishing a framework for the screening of FDI into the EU entered into force after being approved by the Council of the EU and the EU Parliament. It aims at establishing an information-sharing mechanism for cooperation between national authorities and at including EU institutions in the screening processes, if a foreign acquisition affects the broader European market.

c. Conclusions and outlook

It is each country's sovereign right to design and apply those policy tools that it deems most fit for the entry of inward investment. This is also the case for the increasing number of FDI screening mechanisms to protect national interests.

This investment policy instrument has evolved significantly over the years. Originally, governments used FDI screening procedures for defence and other sectors strictly related to security. With the progress of technology and modern warfare, host countries added dual-use products and sophisticated cryptology systems as well as technologies and communication equipment.

In a second phase, the concept of national security advanced from countering military threats to also protecting strategic industries and critical infrastructure. The reasoning behind this move is that the protection of core domestic economic assets may be as important for a country's well-being as the absence of military threats. A further explanation may be that governments considered some sort of FDI screening in this area as a necessary counterweight to earlier privatization of State-owned companies and infrastructure facilities. Extending the scope of screening was in part also a reaction to the increasing investment activities of foreign State-owned enterprises.

The latest phase in FDI screening emanates from the unprecedented acceleration in technological development across industries with the new industrial and digital revolutions. Advanced countries that compete in this technological race may wish to protect domestic cutting-edge technologies that are considered key assets in the global competition against foreign takeovers.

Box III.4. New FDI screening policies (Policy examples)

Adding new sectors and activities:

- In the *Republic of Korea*, an amendment in 2011 provided for FDI screening when targeted companies are in possession of national core technologies defined as having high technological and economic value in the Korean and overseas markets or bringing high growth potential to its related industries.
- In 2014, *France* extended its list of sectors in which foreign acquisitions require screening to include water, electricity, gas, oil and energy supply, transport network operation, electronic communication, public health and the operation of critical plants and facilities.
- In 2018, *Germany* broadened the definition of critical infrastructure in its screening process to include news and media companies critical for the formation of public opinion.
- At the end of 2018, the *United States* launched the Critical Technologies Pilot Program, aimed at extending and clarifying the scope of foreign investment screening in relation to acquisitions of companies engaged in emerging and foundational technologies.

Lowering screening thresholds:

- In 2012, *Finland* adopted a new law on foreign corporate acquisitions, lowering the threshold for control over entities subject to review from 33 per cent to 10 per cent.
- In 2018, the *United Kingdom* lowered the thresholds that trigger investment screening from £70 million to £1 million in high-tech industries, specifically computing hardware design and production, and quantum technology development and production.

Broadening the definition of investment or control that triggers FDI screening:

- Starting in 2017, *Japan* began reviewing foreign acquisitions of shares and equity in all corporations in selected sectors, not only listed ones.
- In the *United States* the Foreign Investment Risk Review Modernization Act of 2018 adds new types of transactions covered by FDI screening, such as those that result in gaining access to material, non-public technical information, acquiring a right to nominate an individual to a position on the board of directors or an equivalent governing body, or being involved in substantive decision-making in regard to critical infrastructure and technologies as well as sensitive personal data of United States citizens.

Expansion of screening timelines

- In 2015, *Canada* extended certain deadlines provided in the National Security Review of Investments Regulations to enable the Government to take a more flexible approach. For example, the relevant minister is entitled to prolong the examination of an acquisition for an additional 45 days upon sending a notification.
- In 2017, *Germany* prolonged the maximum time frame for screening procedures from two to four months.

Extension of disclosure obligations:

- In 2011, *China* specified the documents to be disclosed in the screening procedure in its "Provisions for the Implementation of the Security Review System". The documents include a list of board members, general managers, partners and other senior managerial personnel to be appointed in the post-merger enterprise.
- In 2014, *Italy* specified the information to be disclosed in the FDI screening process (e.g. a financial plan, a general description of an acquisition project and its effects, detailed information on the purchaser and on its scope of operation).

Penalties related to FDI screening:

- In 2015, *Australia* introduced third-party liability for assisting in contravening the FDI screening requirements.
- Starting in 2017, any foreign investor in the *Russian Federation* acquiring 5 per cent or more of share capital in a company without having gone through a required screening has had its voting rights in the company suspended.

Source: UNCTAD.

Box III.5. Other means of government intervention in FDI screening (Policy examples)

- Although the planned acquisition of a 20 per cent minority share of 50Hertz – a German grid operator with 18 million connected users – by the State-owned State Grid Corporation of China did not meet the screening threshold, the Government of *Germany* succeeded in preventing the transaction in 2018 through a purchase of the Stake by the State-owned bank Kreditanstalt für Wiederaufbau.
- In 2017, Shanghai Fosun Pharmaceutical Group decided to scale down its acquisition of Hyderabad-based Gland Pharma to only a 74 per cent stake as the Government of *India's* Cabinet Committee on Economic Affairs raised some national security concerns. Governmental approval is required for takeovers of pharmaceutical companies when more than 75 per cent of the share capital is involved.

Source: UNCTAD.

This trend towards a more expansive interpretation of "national interests" or "public concerns" in connection with the screening of foreign investment shows that a growing number of countries see a need to take economic considerations into account when assessing their national security interests. At the same time, concerns have been expressed that an overly broad interpretation of these interests could create new investment barriers and make the investment climate less predictable.

International cooperation can contribute to minimizing these concerns. It includes, above all, aiming at a level playing field between countries where foreign investors have comparable access to foreign markets. It also includes establishing and maintaining an effective intergovernmental consultation mechanism that enables governments and other stakeholders to discuss problems in connection with investment screening. International dialogue may also aim at identifying international good practices and developing common criteria for FDI screening related to national security and other public interests, thus strengthening the transparency and legitimacy of adopted measures.

Finally, there is a role for international investment agreements. To the extent that they include establishment rights for foreign investors, they may affect host countries' sovereign power to reject foreign investment for reasons of national security and other public concerns. However, this can be the case only if (i) the establishment rights extend to those industries or activities for which an investment screening mechanism exists and (ii) the investment agreement lacks an exception clause releasing host countries from their treaty obligations for national security reasons or other public concerns.[2]

B. INTERNATIONAL INVESTMENT POLICIES

1. Trends in IIAs: new treaties and other policy developments

In 2018, countries concluded 40 IIAs. New treaties vary in content and nature and contribute to a more diversified IIA regime. Regional developments, particularly in Africa and Europe, have the potential to further change the contours of the global IIA regime. Sustainability, also reflected in policymaking principles that are developed across the globe, is at the core of modern treaty making.

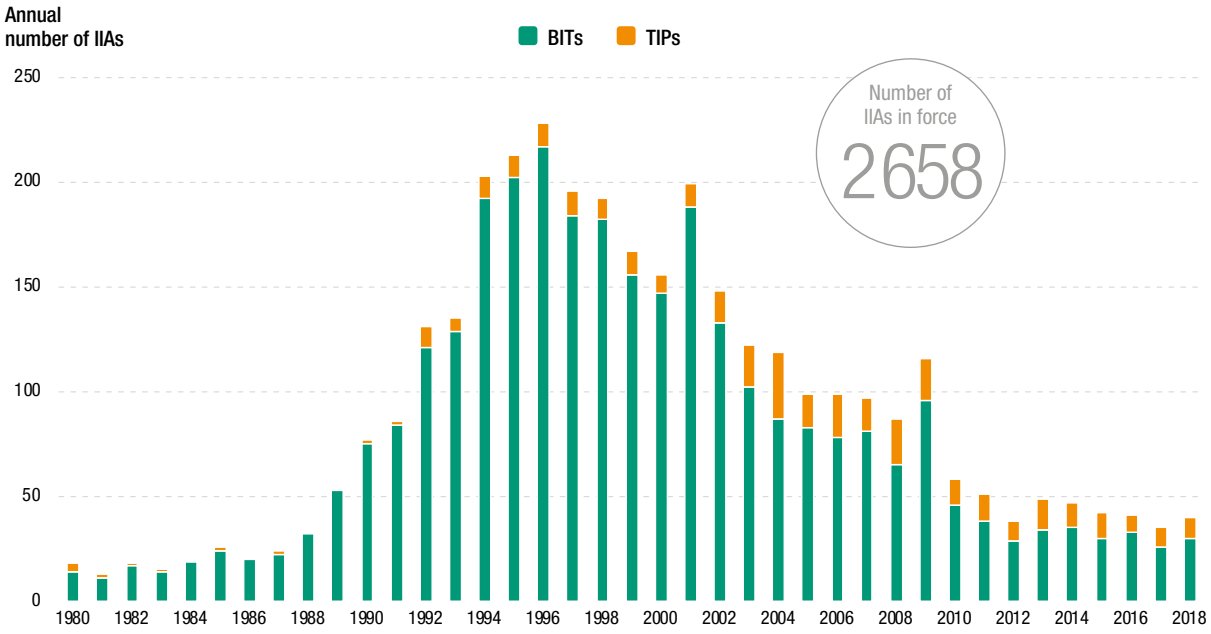
a. Developments in the conclusion of IIAs

In 2018, countries concluded 40 IIAs. During the same period 24 IIA terminations entered into effect, and more are expected in the years to come. New model treaties are being developed to guide future treaty making.

In 2018, countries concluded 40 international investment agreements (IIAs): 30 bilateral investment treaties (BITs) and 10 treaties with investment provisions (TIPs). This brought the size of the IIA universe to 3,317 agreements (2,932 BITs and 385 TIPs).[3] At least nine IIAs entered into force in 2018. By the end of the year, at least 2,658 IIAs were in force (figure III.7).

The economy most active in concluding IIAs in 2018 was Turkey, with eight BITs, followed by the United Arab Emirates with six BITs and Singapore with five treaties (two BITs and three TIPs).

Figure III.7. | Number of IIAs signed, 1980–2018



Source: UNCTAD, IIA Navigator.

In parallel with the conclusion of IIAs, the number of IIA terminations continued to rise: In 2018, at least 24 terminations entered into effect ("effective terminations"), of which 20 were unilateral and 4 were replacements (through the entry into force of a newer treaty). These terminations concern, among others, 12 BITs concluded by Ecuador and five concluded by India. By the end of the year, the total number of effective terminations reached 309 (61 per cent having occurred since 2010).

The 10 TIPs concluded in 2018 can be grouped into three categories.

1. Six agreements with obligations commonly found in BITs, including substantive standards of investment protection and investor–State dispute settlement (ISDS):

- Australia–Peru Free Trade Agreement (FTA)
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[4]
- European Union (EU)–Singapore Investment Protection Agreement (IPA)
- Central America–Republic of Korea FTA
- Singapore–Sri Lanka FTA
- United States–Mexico–Canada Agreement (USMCA)[5]

2. Three agreements with limited investment provisions (e.g. national treatment with regard to commercial presence or the right of establishment of companies) or provisions on free movement of capital relating to direct investments:

- EU–Japan Economic Partnership Agreement (EPA)
- European Free Trade Association (EFTA) States–Ecuador Comprehensive EPA
- EFTA States–Indonesia Comprehensive EPA

3. One agreement with investment provisions that emphasize investment promotion and facilitation as well as several investment protection provisions – but no ISDS:

- Brazil–Chile FTA

The past year has also seen important developments with respect to new model treaties. Countries develop model treaties with a view to concluding "new-generation" IIAs or amending existing agreements. Noteworthy among the recently adopted treaty models are those of Saudi Arabia (adopted in December 2018) and the Netherlands (in October 2018). Canada, Egypt and Morocco are expected to adopt new models by the end of 2019. Each of these models contains a number of innovative features aimed at addressing its sustainable development dimensions.

b. Developments at the regional level

Regional developments, particularly in Africa and in Europe, including non-binding guiding principles, have the potential to further change the contours of the global IIA regime.

African, Caribbean and Pacific (ACP) Group of States–EU Partnership Agreement (to replace the Cotonou Agreement): The ACP–EU Partnership Agreement, covering more than 100 countries, was signed in Cotonou on 23 June 2000 and will expire in 2020. The parties are currently negotiating a new framework that will include investment-related provisions. Negotiations are expected to focus on investment promotion, private sector development support and investment finance. The ACP and EU negotiating directives[6] reflect the need to include sustainable development and inclusive growth objectives in the investment provisions.

African Continental Free Trade Area (AfCFTA) Investment Protocol: Expert meetings hosted by the African Union Commission, UNCTAD and the Economic Commission

for Africa took place in November 2018 and February 2019 to develop a first draft of the Investment Protocol, to be negotiated in the second phase of the AfCFTA process. The draft is expected to be submitted to member States in the second half of 2019 for negotiations and adoption.

ASEAN Comprehensive Investment Agreement (ACIA): In April 2019, during the Association of Southeast Asian Nations (ASEAN) Economic Ministers meeting in Thailand, attending ministers signed the Fourth Protocol, amending the ACIA and the ASEAN Trade in Services Agreement. The amendments to the ACIA introduce clearer and additional commitments prohibiting the imposition of performance requirements on investors. The meeting also discussed the conclusion of negotiations for the Regional Comprehensive Economic Partnership, which is expected for 2019.

Brexit and the United Kingdom's continuity agreements: Having notified its decision to leave the EU, the United Kingdom has been concluding so-called "rollover" or continuity agreements with those countries that have a trade agreement with the EU. The objective is to prevent the disruption of trade relationships with those countries as a result of Brexit. As of 1 May 2019, the United Kingdom has concluded 10 continuity agreements (together covering 27 partner countries) and has several more in the pipeline.[7] The agreements are designed to take effect when the relevant existing EU trade agreements stop applying to the United Kingdom (i.e. if the country leaves the EU without a deal, or at the end of any agreed implementation period). The agreements are not homogenous. Seven of them incorporate by reference the provisions of the relevant existing EU agreements, listing only the required amendments. The remaining three treaties – with the CARIFORUM States (the Forum of the Caribbean Group of ACP States), Eastern and Southern Africa (ESA) States, and Pacific States (Fiji and Papua New Guinea) – set out their provisions in full.[8] None of them contain fully fledged rules on investment protection; the latter remain confined to the United Kingdom's BITs.

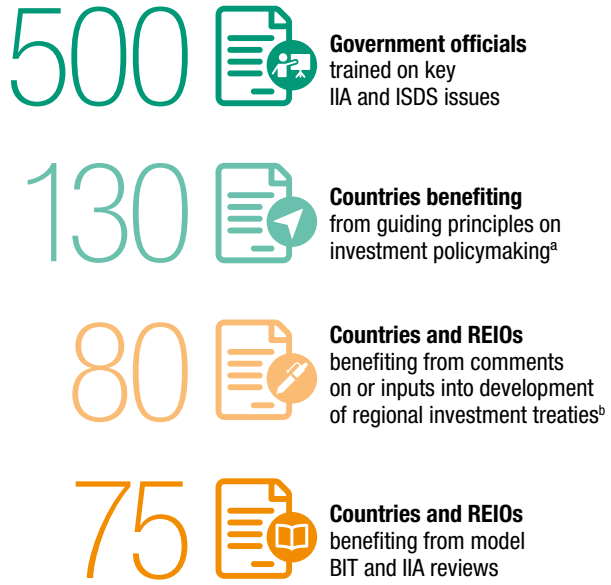
EU investment policymaking: Several significant developments occurred at the EU level (UNCTAD, 2019a). Confirming the European Commission's long-held position, the judgment of the Court of Justice of the European Union (CJEU) in the *Achmea* case in March 2018 found that the ISDS clause in the Netherlands–Slovakia BIT (1991) was incompatible with EU law. Following up on the legal consequences of the *Achmea* ruling, EU member States issued declarations in January 2019 that set a timeline for the termination of intra-EU BITs by 6 December 2019.

The EU continues to pursue its initiative to establish a multilateral investment court, following a March 2018 mandate by the EU Council to start inclusive and transparent negotiations under the auspices of the UN Commission on International Trade Law (UNCITRAL). Meanwhile, the EU's two-tier investment court system (set out in 2015) has been implemented with slight variations in the Canada–EU Comprehensive Economic and Trade Agreement (CETA) (2016), the EU–Singapore IPA (2018) and the EU–Viet Nam IPA (not yet signed).

In an opinion delivered on 30 April 2019, the CJEU (full court sitting) concluded that the new investment tribunal system included in the Canada–EU CETA is compatible with EU law. The CJEU proceeding concerned a request made by Belgium in 2017.

Guiding Principles on Investment Policymaking: An increasing number of country groupings and regional organizations are adopting non-binding principles for investment policymaking that aim to guide the development of national and international investment policies. These principles are typically in line with or based on the Core Principles contained in UNCTAD's Investment Policy Framework for Sustainable Development (UNCTAD, 2015c). Following on the adoptions of the G20 Guiding Principles for Global Investment

Figure III.8. **UNCTAD's technical assistance on IIA-related issues since 2012**



Source: UNCTAD.
REIO = regional economic integration organization.
[a] Developed with UNCTAD's assistance or facilitation.
[b] Such as the AfCFTA investment protocol and the COMESA (Common Market for Eastern and Southern Africa) Investment Area.

Policymaking in 2016 and the ACP Guiding Principles for Investment Policymaking in 2017, two additional sets of principles were adopted during the reporting period of this report.

In 2018, high-level experts of the member States of the Organization of Islamic Cooperation (OIC) agreed on 10 principles, in line with the OIC Action Programme and the UNCTAD Policy Framework.[9] The 10 principles cover areas such as policy coherence, balanced rights and obligations, the right to regulate, openness to investment, investment protection and intra-OIC cooperation. In 2019, Saudi Arabia adopted seven Guiding Principles for Investment Policymaking. In line with the country's Vision 2030 agenda and the UNCTAD Policy Framework, the principles include non-discrimination, investment protection, investment sustainability, enhanced transparency, protection of public policy concerns, ease of entry for employees, and the transfer of knowledge and technology.

Many of the above-mentioned developments benefited from UNCTAD's work on IIA-related technical assistance and capacity building. This work stream builds on the results of UNCTAD's policy research and analysis, notably the Reform Package for the International Investment Regime (UNCTAD, 2018b) and the updated Investment Policy Framework for Sustainable Development (UNCTAD, 2015c). Through national and regional training courses, as well as through demand-driven and tailor-made advisory services (e.g. IIA reviews, model commentaries), UNCTAD aims to assist countries by identifying policy options for maximizing the sustainable development dimension of IIAs. The reform-focused technical assistance that UNCTAD has carried out since 2012 has had an extensive impact (figure III.8).

2. Trends in ISDS: new cases and outcomes

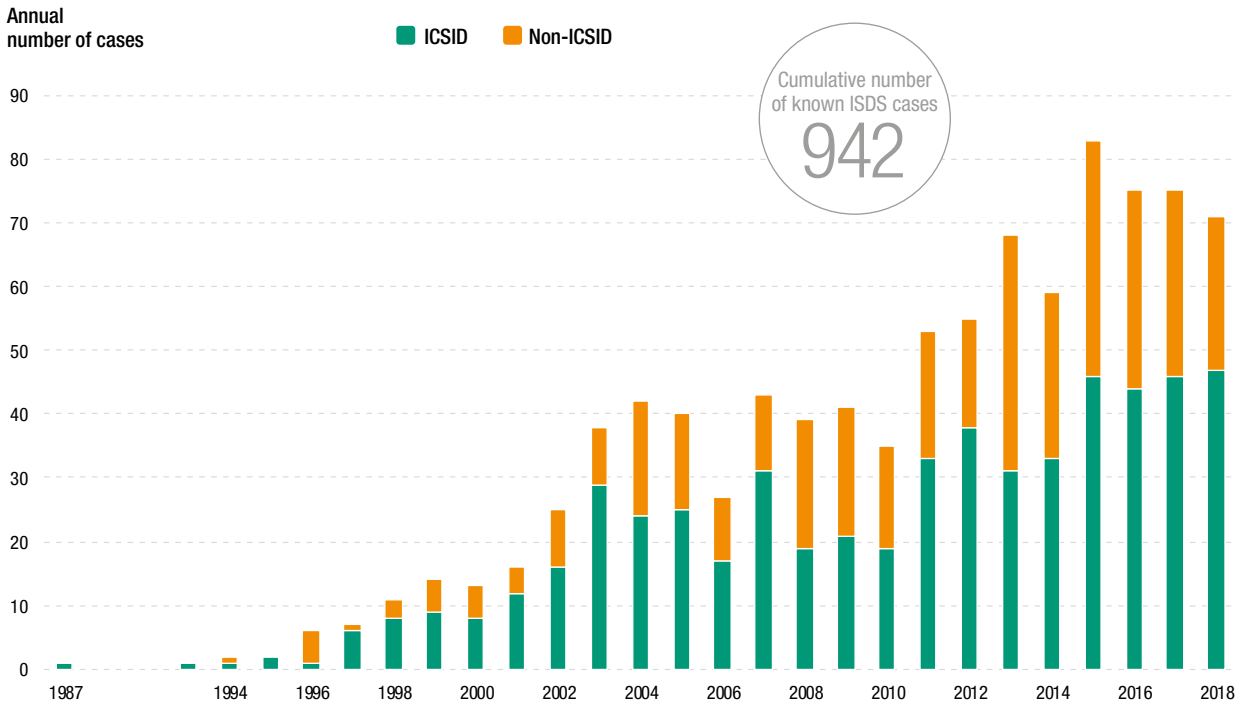
As the surge in ISDS cases continues, with at least 71 new arbitrations initiated in 2018, the total ISDS case count may reach one thousand by the end of 2019. About 70 per cent of the publicly available arbitral decisions in 2018 were rendered in favour of the investor, either on jurisdiction or on the merits.

a. New cases initiated in 2018

The number of new ISDS cases remains high. In 2018, at least 71 new treaty-based ISDS cases were initiated, all but one under old-generation treaties signed before 2012.

In 2018, investors initiated 71 publicly known ISDS cases pursuant to IIAs (figure III.9), a number nearly as high as in the previous three years. As of 1 January 2019, the total number of publicly known ISDS claims had reached 942. To date, 117 countries are known to have been respondents to one or more ISDS claims. As some arbitrations can be kept fully confidential, the actual number of disputes filed in 2018 and previous years is likely to be higher.

Figure III.9. | Trends in known treaty-based ISDS cases, 1987–2018



Source: UNCTAD, ISDS Navigator.

Note: Information has been compiled from public sources, including specialized reporting services. UNCTAD's statistics do not cover investor–State cases that are based exclusively on investment contracts (State contracts) or national investment laws, or cases in which a party has signaled its intention to submit a claim to ISDS but has not commenced the arbitration. Annual and cumulative case numbers are continually adjusted as a result of verification processes and may not match exactly case numbers reported in previous years.

(i) Respondent States

The new ISDS cases in 2018 were initiated against 41 countries. Colombia was the most frequent respondent, with six known cases, followed by Spain with five. Three economies – Belarus, Qatar and Rwanda – faced their first known ISDS claim. As in previous years, the majority of new cases were brought against developing countries and transition economies.

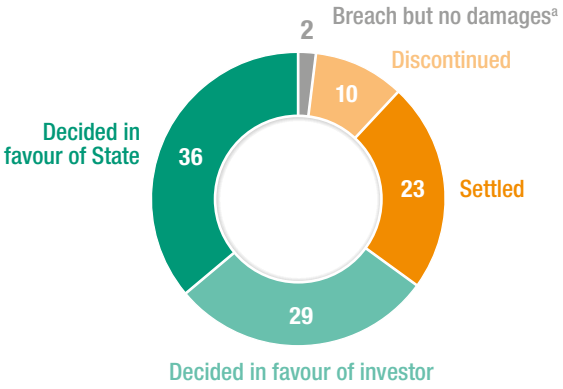
(ii) Claimant home States

Developed-country investors brought most of the 71 known cases in 2018. The highest numbers of cases were brought by investors from the United States and the Russian Federation, with 15 and six cases respectively.

(iii) Applicable investment treaties

About 60 per cent of investment arbitrations in 2018 were brought under BITs and TIPs signed in the 1990s or earlier. The remaining cases were based on treaties signed between 2000 and 2011, except for one case that was based solely on a later treaty (*Manolium Processing v. Belarus*). The Energy Charter Treaty (1994) was the IIA invoked most frequently in 2018 (with seven cases), followed by the Canada–Colombia FTA (2008), the Republic of Korea–United States FTA (2007) and the Treaty on the Eurasian Economic Union (2014), with three cases each. Looking at the overall trend, about 20 per cent of the 942 known cases have invoked the Energy Charter Treaty (121 cases) or the North American Free Trade Agreement (NAFTA) (63 cases).

Figure III.10. **Results of concluded cases, 1987–2018** (Per cent)



Source: UNCTAD, ISDS Navigator.
[a] Decided in favour of neither party (liability found but no damages awarded).

b. ISDS outcomes

Over two thirds of the publicly available arbitral decisions rendered in 2018 were decided in favour of the investor, either on jurisdictional grounds or on the merits.

(i) Decisions and outcomes in 2018

In 2018, ISDS tribunals rendered at least 50 substantive decisions in investor–State disputes, 29 of which are in the public domain (at the time of writing). Of these public decisions, most – about 70 per cent – were decided in favour of the investor, either on jurisdictional grounds or on the merits.

Eight decisions (including rulings on preliminary objections) principally addressed jurisdictional issues, with six upholding the tribunal's jurisdiction and two denying jurisdiction.

Sixteen decisions on the merits were rendered, with 11 accepting at least some investor claims and 5 dismissing all the claims. In the decisions holding the State liable, tribunals most frequently found breaches of the fair and equitable treatment (FET) provision.

In addition, five publicly known decisions were rendered in annulment proceedings at the International Centre for Settlement of Investment Disputes (ICSID). Ad hoc committees of ICSID rejected the applications for annulment in all five cases.

(ii) Overall outcomes

By the end of 2018, some 602 ISDS proceedings had been concluded. The relative share of case outcomes changed only slightly from that in previous years (figure III.10).

3. Taking stock of IIA reform

Forward-looking IIA reform is well under way and involves countries at all levels of development and from all geographical regions. Almost all the treaties concluded in 2018 contain a large number of reform features, and the core focus of reform action is moving towards ISDS. However, a lot remains to be done in Phase 2 of IIA Reform, as the stock of old-generation treaties is 10 times larger than the number of new, reform-oriented treaties.

a. Phase 1: concluding new-generation IIAs

All of today's new IIAs include several sustainable development-oriented reform elements, in line with UNCTAD's policy tools.

All of today's new IIAs include several clauses that were set out in UNCTAD's Investment Policy Framework for Sustainable Development (*WIR12*, updated in 2015) or follow UNCTAD's Road Map for IIA Reform as included in UNCTAD's Reform Package for the International Investment Regime (UNCTAD, 2018b). The latter sets out five action areas: safeguarding the right to regulate, while providing protection; reforming investment dispute settlement; promoting and facilitating investment; ensuring responsible investment; and enhancing systemic consistency. This section reviews the extent to which recent treaties use reform features in their substantive and procedural clauses.

(i) Treaties concluded in 2018: key features of substantive clauses

UNCTAD reform tools are shaping modern treaty making. Reform-oriented clauses abound in IIAs concluded in 2018.

Twenty-seven of the 29 IIAs concluded in 2018 (with texts available) (table III.4) contain at least six reform features and 20 of the 29 contain at least nine reform features. Provisions that were considered innovative in pre-2012 IIAs now appear regularly. Highlights of modern treaty making include a sustainable development orientation, preservation of regulatory space, and improvements to or omissions of investment dispute settlement. The most broadly pursued area of reform is preservation of regulatory space.

Sustainable development orientation. IIAs concluded in 2018 include a large number of provisions explicitly referring to sustainable development issues (including the right to regulate for sustainable development-oriented policy objectives). Of the 29 agreements reviewed, 19 have general exceptions – for example, for the protection of human, animal or plant life or health, or the conservation of exhaustible natural resources. Sixteen recognize that the parties should not relax health, safety or environmental standards to attract investment. Twenty-five of the preambles refer to the protection of health and safety, labour rights, the environment or sustainable development. Finally, corporate social responsibility (CSR) obligations and the inclusion of pro-active investment promotion and facilitation provisions are becoming more prevalent, but they still do not feature consistently in recent IIAs. This is especially true for CSR provisions, which appeared in only 13 of the 29 IIAs.

Preservation of regulatory space. Treaties concluded in 2018 include elements that aim more broadly than ever at preserving regulatory space and/or at minimizing exposure to investment arbitration. The number of new treaties that incorporate these reforms are substantial. Elements include (i) general exceptions (19 IIAs), (ii) clauses that limit the treaty scope (e.g. by excluding certain types of assets from the definition of investment (27 IIAs)), (iii) clauses that limit or clarify obligations (e.g. by omitting or including more detailed clauses on FET (all 29 IIAs) and/or indirect expropriation (23 IIAs)) and (iv) clauses that contain exceptions to transfer-of-funds obligations and/or carve-outs for prudential measures (all 29 IIAs). Notably, 28 of the 29 treaties omit the so-called umbrella clause (thus also narrowing the range of possible ISDS claims).

Investment dispute settlement. Nineteen of the 29 IIAs concluded in 2018 carefully regulate ISDS, and four omit ISDS (see next subsection).

It is worth highlighting a number of innovative features included in IIAs in 2018. These features either go beyond traditional reform-oriented clauses, have rarely been encountered in earlier IIAs and/or break new ground:

- Conditioning treaty coverage on the economic contribution of the investment to the host State economy, by including this requirement in the definition of investment (e.g. Argentina–United Arab Emirates BIT, Belarus–India BIT, Belarus–Turkey BIT, Lithuania–Turkey BIT, State of Palestine–Turkey BIT).
- Excluding intangible rights from the definition of investment. Noting that rights such as goodwill, brand value and market share are excluded from the definition of investment (e.g. Belarus–India BIT).
- Excluding measures by local governments from the scope of the treaty. Clarifying that measures taken by local governments fall outside the scope of the treaty (e.g. Belarus–India BIT).
- Formulating general public policy exceptions as self-judging (e.g. Argentina–United Arab Emirates BIT).

Gender balance. Some recent IIAs or treaty models also contain explicit references to gender: The Netherlands model BIT emphasizes the importance of women's contribution to economic growth through their participation in international investment and encourages the contracting parties to remove barriers to women's participation in the economy by promoting gender-responsive policies. The USMCA, in the CSR provision of its investment chapter, refers to gender equality as an example of CSR policies that the contracting parties should encourage investors to comply with. The CPTPP reaffirms the promotion of gender equality in its preamble (which also applies to investment).

(ii) Treaties concluded in 2018: ISDS reform approaches

Investor–State arbitration continues to be controversial, spurring debate in the investment and development community and the public at large. Five principal approaches emerge from IIAs signed in 2018: (i) no ISDS, (ii) a standing ISDS tribunal, (iii) limited ISDS, (iv) improved ISDS procedures and (v) an unreformed ISDS mechanism.

As part of broader IIA reform, countries have implemented many ISDS reform elements in recent IIAs. From the IIAs signed in 2018 emerge five principal approaches to ISDS, used alone or in combination:

(i) *No ISDS:* The treaty does not entitle investors to refer their disputes with the host State to international arbitration (either ISDS is not covered at all or it is subject to the State's right to give or withhold arbitration consent for each specific dispute, in the form of the so-called "case-by-case consent") (four IIAs entirely omit ISDS and two IIAs have bilateral ISDS opt-outs between specific parties).[10]

(ii) *Standing ISDS tribunal:* The treaty replaces the system of ad hoc investor–State arbitration and party appointments with a standing court-like tribunal (including an appellate level), with members appointed by contracting parties for a fixed term (one IIA).

(iii) *Limited ISDS:* The treaty may include a requirement to exhaust local judicial remedies (or to litigate in local courts for a prolonged period) before turning to arbitration, the narrowing of the scope of ISDS subject matter (e.g. limiting treaty provisions subject to ISDS, excluding policy areas from the ISDS scope) and/or the setting of a time limit for submitting ISDS claims (19 IIAs).

(iv) *Improved ISDS procedures:* The treaty preserves the system of investor–State arbitration but with certain important modifications. Among other goals, such modifications may aim at increasing State control over the proceedings, opening proceedings to the public and third parties, enhancing the suitability and impartiality of arbitrators, improving the efficiency of proceedings or limiting the remedial powers of ISDS tribunals (15 IIAs).

(v) *Unreformed ISDS mechanism:* The treaty preserves the basic ISDS design typically used in old-generation IIAs, characterized by broad scope and lack of procedural improvements (six IIAs).

Some of the reform approaches have more far-reaching implications than others. The extent of reform engagement within each approach can also vary (significantly) from treaty to treaty. For example, "limited ISDS" covers a very broad array of options which may range from a treaty that requires exhaustion of local remedies to a treaty that sets a three-year time limit for submitting claims.

For 2018, the most frequently used approaches were "limited ISDS" and "improved ISDS procedures", often in combination.

About 75 per cent of IIAs concluded in 2018 contain at least one mapped ISDS reform element, and many contain several (table III.5). Most of these reform elements resonate

Table III.4. Reform–oriented provisions in IIAs concluded in 2018

	1	2	3	4	5	6	7	8	9	10	11
Argentina–Japan BIT	■	■	■	■	■	■	■	■	■	■	■
Argentina–United Arab Emirates BIT	■	■	■	■	■	■	■	■	■	■	■
Armenia–Japan BIT	■	□	■	□	■	■	■	■	□	■	■
Australia–Peru FTA	■	■	■	■	■	■	■	■	■	■	■
Belarus–India BIT	■	■	■	■	■	■	■	□	■	■	■
Belarus–Turkey BIT	■	■	■	■	■	■	■	□	□	■	■
Brazil–Chile FTA	■	■	■	■	■	■	□	■	■	■	■
Brazil–Ethiopia BIT	■	■	■	■	■	■	□	■	■	■	■
Brazil–Guyana BIT	■	■	■	■	■	■	□	■	■	■	■
Brazil–Suriname BIT	■	■	■	■	■	■	□	■	■	■	■
Cambodia–Turkey BIT	■	■	■	■	■	■	■	□	□	■	■
Canada–Republic of Moldova BIT	■	■	■	■	■	■	■	■	□	■	■
Central America–Republic of Korea FTA	■	■	■	■	■	■	■	■	□	■	■
Congo–Morocco BIT	■	■	■	□	■	■	■	□	□	□	□
CPTPP	■	■	■	■	■	■	□	■	■	■	■

	1	2	3	4	5	6	7	8	9	10	11
EU–Singapore IPA	■	■	■	■	■	■	□	□	■	■	■
Japan–Jordan BIT	■	■	■	□	■	■	■	■	□	■	■
Japan–United Arab Emirates BIT	■	■	■	□	■	■	□	■	□	■	■
Kazakhstan–Singapore BIT	□	■	■	■	■	■	■	□	□	■	□
Kazakhstan–United Arab Emirates BIT	□	■	■	□	■	■	□	□	□	□	■
Kyrgyzstan–Turkey BIT	■	■	■	■	■	■	■	□	□	□	■
Lithuania–Turkey BIT	■	■	■	■	■	■	■	■	■	■	■
Mali–Turkey BIT	■	■	■	■	■	■	■	□	□	□	■
Mali–United Arab Emirates BIT	□	■	■	□	■	□	□	■	□	□	□
Mauritania–Turkey BIT	■	□	■	■	■	■	■	□	□	□	■
Singapore–Sri Lanka FTA	□	■	■	■	■	■	■	□	■	■	■
State of Palestine–Turkey BIT	■	■	■	■	■	■	■	□	□	■	■
United Arab Emirates–Uruguay BIT	■	■	■	■	■	■	■	□	□	■	■
USMCA	■	■	■	■	■	■	□	■	■	■	■

■ Yes □ No

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 FET (in accordance with customary international law, equated to the minimum standard of treatment of aliens under customary international law or clarified with a list of State obligations), or FET omitted
4. Clarification of what does and does not constitute an indirect expropriation, or indirect expropriation omitted
5. Detailed exceptions from the free-transfer-of-funds obligation, including for 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 for the conservation of exhaustible natural resources
8. Explicit recognition in the treaty text 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 the ISDS mechanism)
11. Specific proactive provisions on investment promotion and/or facilitation (e.g. facilitating the entry and sojourn of personnel, furthering transparency of relevant laws and regulations, enhancing exchange of information on investment opportunities)

Source: UNCTAD.

Note: Based on 29 IIAs concluded in 2018 for which texts are available, not including "framework agreements" that lack substantive investment provisions.

Table III.5. ISDS reform elements in IIAs concluded in 2018

	1	2	3	4	5	6	7	8	9	10
Argentina–Japan BIT	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Argentina–United Arab Emirates BIT	No	No	No	No	Yes	Yes	Yes	Yes	No	Yes
Armenia–Japan BIT	No	No	No	No	Yes	Yes	No	Yes	Yes	Yes
Australia–Peru FTA	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Belarus–India BIT	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Belarus–Turkey BIT	No	No	No	No	Yes	No	No	No	No	No
Brazil–Chile FTA	Yes	NA	NA	NA	NA	NA	NA	NA	NA	NA
Brazil–Ethiopia BIT	Yes	NA	NA	NA	NA	NA	NA	NA	NA	NA
Brazil–Guyana CIFA	Yes	NA	NA	NA	NA	NA	NA	NA	NA	NA
Brazil–Suriname BIT	Yes	NA	NA	NA	NA	NA	NA	NA	NA	NA
Cambodia–Turkey BIT	No	No	No	Yes	No	No	No	No	No	No
Canada–Republic of Moldova BIT	No	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Central America–Republic of Korea FTA	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Congo–Morocco BIT	No	No	No	No	No	No	No	No	No	No
CPTPP	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
EU–Singapore IPA	No	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Japan–Jordan BIT	No	No	No	No	Yes	Yes	No	No	Yes	Yes
Japan–United Arab Emirates BIT	No	No	No	No	Yes	Yes	No	No	Yes	Yes
Kazakhstan–Singapore BIT	No	No	No	Yes	Yes	No	No	No	No	No
Kazakhstan–United Arab Emirates BIT	No	No	No	No	No	No	No	Yes	No	No
Kyrgyzstan–Turkey BIT	No	No	No	No	No	No	No	No	No	No
Lithuania–Turkey BIT	No	No	No	No	Yes	Yes	Yes	No	Yes	No
Mali–Turkey BIT	No	No	No	No	No	No	No	No	No	No
Mali–United Arab Emirates BIT	No	No	No	No	No	No	No	No	No	No
Mauritania–Turkey BIT	No	No	No	No	No	No	No	No	No	No
Singapore–Sri Lanka FTA	No	No	Yes	Yes	Yes	No	No	Yes	No	Yes
State of Palestine–Turkey BIT	No	No	No	Yes	No	No	No	No	No	No
United Arab Emirates–Uruguay BIT	No	No	No	No	Yes	No	No	Yes	No	Yes
USMCA	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Yes No Not applicable

Selected aspects of IIAs

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

I. No ISDS

1 Omitting ISDS (e.g. in favour of domestic courts and/or State–State dispute settlement)

II. Standing ISDS tribunal

2 Replacing the system of ad hoc arbitrations and party-appointed arbitrators with a standing court-like tribunal (including an appellate level) consisting of adjudicators with fixed terms

III. Limited ISDS

3 Requiring investors to pursue local remedies (for 18 months or more) or to exhaust local remedies before turning to arbitration

4 Limiting treaty provisions subject to ISDS and/or excluding certain policy areas from ISDS

5 Setting a time limit for submitting ISDS claims (limitations period)

IV. Improved ISDS procedures

6 Enhancing the State role in ISDS: binding joint interpretations, renvoi for joint determination, non-disputing party participation, review of draft arbitral award, submission of counterclaims

7 Enhancing the suitability and impartiality of arbitrators or adjudicators: rules on qualifications, code of conduct, rules on conflicts of interest, "double hatting" prohibition

8 Enhancing the efficiency of dispute settlement: early dismissal of frivolous claims, consolidation of claims, time limit on maximum duration of proceedings, voluntary alternative dispute resolution procedures

9 Opening ISDS proceedings to the public and third parties: transparency rules, amicus curiae participation

10 Limiting remedial powers of tribunals: legal remedies, types of damages

Source: UNCTAD.

Note: Based on 29 IIAs concluded in 2018 for which texts are available, not including "framework agreements" that lack substantive investment provisions.

with the options identified by UNCTAD in the Investment Policy Framework for Sustainable Development (*WIR12,* updated in 2015) and in the Road Map for IIA Reform (*WIR15*), subsequently included in UNCTAD's Reform Package for the International Investment Regime (UNCTAD, 2018b).

Alongside ISDS-specific reform elements, a large number of the IIAs reviewed also include important modifications to other treaty components that have implications for ISDS reform (e.g. refined treaty scope, clarified substantive provisions and added exceptions; table III.4).

ISDS reform is being pursued across various regions and by countries at different levels of development. Some countries and regions have been the driving forces behind certain approaches (e.g. Brazil for the "no ISDS" approach, India for "limited ISDS", the EU for the "standing ISDS tribunal").

In parallel, multilateral engagement on ISDS reform is gaining prominence at UNCITRAL and ICSID, among other institutions. On the basis of the three-phase mandate provided by the UNCITRAL Commission in July 2017, deliberations in UNCITRAL Working Group III on possible reform options have so far focused mostly on the "improved ISDS procedures" approach, while giving some consideration to the "standing ISDS tribunal" approach. The proposed amendments to the ICSID Arbitration Rules published by the ICSID Secretariat in August 2018 put forward procedural improvements.

These plurilateral and multilateral efforts have the potential to contribute to Phase 2 of IIA Reform. However, the current undertakings may be unlikely to generate "big picture" results for Phase 2, as a number of caveats apply (e.g. related to the processes' focus on procedural improvements to ISDS).

b. Phase 2: modernizing old-generation treaties

UNCTAD's reform tools are spurring action on Phase 2 reforms. However, a lot remains to be done. The stock of old-generation treaties is 10 times larger than the number of new, reform-oriented treaties.

Since the launch of UNCTAD's options for Phase 2 of IIA Reform (*WIR17*), a growing number of countries have taken steps to modernize their old-generation treaties. Given that so far such reform actions have addressed a relatively small number of IIAs, there is broad scope and urgency to pursue them further. The stock of old-generation IIAs, which typically do not include reform-oriented features, still amounts to more than 3,000 (10 times larger than the number of IIAs concluded since 2012) (figure III.11). The great majority of known ISDS cases have thus far been based on old-generation treaties. Modernization of treaties remains an important policy challenge.

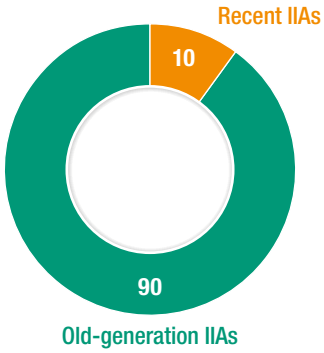
An overview of recent Phase 2 reform actions follows.

(i) Jointly interpreting treaty provisions

Several countries have recently issued joint interpretations for existing IIAs and/or established joint bodies in their IIAs with a mandate to issue binding interpretations of treaty provisions. This can help reduce uncertainty and enhance predictability for investors, contracting parties and tribunals.

In 2018, Colombia and India signed a joint interpretative declaration on their 2009 BIT. It refines key clauses found in the 2009 treaty to reflect

Figure III.11. **Stock of old-generation (1959–2011) and recent (2012–2018) IIAs** (Per cent)



Source: UNCTAD, IIA Navigator.

sustainable development objectives, to strengthen the right of the parties to regulate in the public interest and to clarify the provisions on FET, expropriation, national treatment, most-favoured-nation treatment and ISDS.

In 2017, Bangladesh and India signed a similar joint declaration on their 2009 BIT. Also in 2017, Colombia and France signed a joint interpretative declaration for their 2014 BIT. The latter clarifies that Article 16 on "Other Dispositions" should not be read as a stabilization clause and that a violation of a state contract between an investor and a party does not constitute a treaty violation.

Several recent IIAs and models establish joint bodies with a mandate to issue binding interpretations of treaty provisions (e.g. the Australia–Peru FTA (2018), the Belarus–India BIT (2018), the Central America–Republic of Korea FTA (2018), the CPTPP (2018), the EU–Singapore IPA (2018), the proposed EU–Viet Nam IPA, the 2018 amendments to the Republic of Korea–United States FTA (2007), the USMCA (2018), the Netherlands model BIT (2018)).

(ii) Amending treaty provisions

Amendments were used in both bilateral and regional contexts in 2018. In megaregional IIAs, parties used protocols and exchanges of side letters or notes. Amendments can achieve a higher degree of change and ensure that the amended treaty reflects evolving policy preferences.

The 11 parties to the CPTPP agreed to retain core elements of the TPP text with amendments in select areas. With respect to investment (Chapter 9), the parties agreed to suspend the application of the provisions related to investor–State contracts and investment authorizations.

In September 2018, the Republic of Korea and the United States signed an amendment to their FTA (2007). The amendment includes clarifications on the meaning of minimum standard of treatment and excludes ISDS procedures from the scope of the most-favoured-nation clause. It also tasks the joint committee to consider improvements to the ISDS provision that meet both countries' objectives (e.g. ways to resolve disputes and eliminate frivolous claims).

The Energy Charter Conference approved the timeline for the discussion on modernization of the Energy Charter Treaty and agreed on a set of topics to be reviewed as part of its discussion. These include the right to regulate, sustainable development, CSR, FET and indirect expropriation. The modernization process will identify the possible policy options for each of the topics listed. The members of the Subgroup of the Energy Charter Conference will commence negotiations to modernize the Energy Charter Treaty in accordance with the proposed topics and the identified policy options.

(iii) Replacing "outdated" treaties

An increasing number of recently concluded IIAs are replacing old-generation treaties, typically substituting a new treaty for an old one. Replacement offers an opportunity to undertake a comprehensive revision of the treaty.

Of the 30 BITs signed in 2018, four replaced older BITs between the two countries (e.g. the Belarus–Turkey BIT replaced their 1995 BIT; the Kyrgyzstan–Turkey BIT replaced their 1992 BIT; the Lithuania–Turkey BIT replaced their 1994 BIT; the Serbia–Turkey BIT replaced their 2001 BIT).

Three TIPs concluded in 2018 replaced one treaty each or are set to do so. The Singapore–Sri Lanka FTA replaced one BIT (1980); the Australia–Peru FTA (2018) foresees the

replacement of the Australia–Peru BIT (1995) (unless replaced upon the CPTPP's entry into force for the two countries). Once in force, the USMCA will replace NAFTA (1992). Three other TIPs replaced several agreements at once (see next subsection).

The effective transition from an old to a new treaty can be ensured through transition clauses. Such clauses specify how long after an old IIA's termination an investor may invoke the old IIA to bring an ISDS case. In three TIPs, this period is limited to three years after the entry into force of the new agreement (e.g. the USMCA (2018), the Singapore–Sri Lanka FTA (2018), the Australia–Peru FTA (2018)).

(iv) Consolidating the IIA network

A growing number of regional IIAs include specific clauses providing for the replacement of treaties between the parties. Abrogating two or more old treaties through the creation of a single new one can help to modernize treaty content and avoid fragmentation of the IIA network.

Three TIPs concluded in 2018 replaced more than one older BIT. Replacements were recorded in specific clauses in the text of the new IIAs or in side letters providing for termination and replacement. For example, the EU–Singapore FTA (2018) will replace 12 older BITs between the EU member States and Singapore. The Central America–Republic of Korea FTA (2018) will replace five BITs.

In the CPTPP, some parties provide for replacement of pre-existing BITs (e.g. the Australia–Viet Nam BIT (1991), the Australia–Peru BIT (1995), the Australia–Mexico BIT (2005)) under terms set out in relevant side letters.

The Investment Protocol of the AfCFTA, scheduled to be negotiated as part of phase II of the African continental integration process, could potentially replace over 170 intra-African BITs.

(v) Managing relationships between coexisting treaties

Managing treaty relationships is crucial when pursuing policy coherence.

In some TIPs, countries continue to be bound by overlapping, pre-existing treaties. In the case of the CPTPP, a total of 37 earlier IIAs remain in force and coexist with the CPTPP. For example, Australia and Singapore have an overlapping FTA (2003) between them. Japan and Viet Nam have two older treaties in force (Japan–Viet Nam BIT (2003) and Japan–Viet Nam EPA (2008)), with the BIT incorporated into the EPA.

At least 12 BITs signed in 2018 have parallel treaty relationships. For example, the Azerbaijan–Turkmenistan BIT (2018) and the Belarus–Turkey BIT (2018) overlap with the Energy Charter Treaty (1994) for the sector in question. The Indonesia–Singapore BIT (2018) coexists with the ASEAN Comprehensive Investment Agreement (2009). The Kazakhstan–United Arab Emirates BIT (2018) and the Mauritania–Turkey BIT (2018), among others, overlap with the OIC Investment Agreement (1981).

The parties to the Australia–Indonesia CEPA remain bound by the Australia–Indonesia BIT (1992) and the ASEAN–Australia–New Zealand FTA (2009). The Australia–Indonesia CEPA includes a relationship clause that provides for consultations between the parties where a party considers there is an inconsistency between agreements, with a view to reaching a mutually satisfactory solution.

To mitigate the potentially adverse consequences arising from overlapping treaty relationships, some TIPs include conflict clauses clarifying which of the coexisting treaties will prevail in case of conflict or inconsistency. The relationship clause included in the Australia–Peru FTA (2018) provides that the parties should consult with each other in case of inconsistency between agreements.

(vi) Referencing global standards

Reference to global standards, with a view to ensuring more responsible and regulated investment activities, has become an increasingly prominent treaty feature. It can help overcome the fragmentation between IIAs and other bodies of international law and policymaking.

Of the 29 treaties signed in 2018 for which texts are available, at least 18 refer to the achievement of sustainable development objectives. At least four refer to one or more specific global standards related to the promotion of sustainable development. The UN Charter and the Universal Declaration of Human Rights were both mentioned three times. The UN Global Compact, obligations tied to membership in the International Labour Organization (ILO) and the OECD Guidelines for Multinational Enterprises were all mentioned in two treaties.

Most significantly, the EFTA–Indonesia EPA (2018) specifically refers to the UN 2030 Agenda for Sustainable Development (the second treaty to do so, after the Canada–EU CETA (2016)). EFTA treaties refer to the largest number of global standards (up to seven standards in the EFTA–Indonesia EPA (2018), followed by four in the Ecuador–EFTA EPA (2018)).

(vii) Engaging multilaterally

Multilateral engagement is potentially the most effective but also most difficult avenue for reforming pre-existing IIAs.

Multilateral developments in investment policymaking continued to gain prominence in 2018, with discussions taking place in several fora (e.g. ICSID, the OECD, the World Trade Organization, UNCITRAL, UN Working Group on Business and Human Rights). However, the current undertakings may be unlikely to generate "big picture" results for the sustainable development-oriented modernization of old-generation investment treaties. Of particular relevance is work at the Energy Charter, where the Conference approved a timeline for the discussion on modernization of the Energy Charter Treaty and agreed on a set of topics to be reviewed.

(viii) Abandoning unratified old treaties

For old-generation treaties that have not yet entered into force, a country can formally indicate its decision to not be bound by them as a means to help clean up its IIA network.

Although explicit actions to abandon unratified treaties have been rare, notable examples include India's "termination" of several BITs that had been signed but not entered into force (e.g. BITs with Ethiopia (2007), Ghana (2002), Nepal (2011) and Slovenia (2011)). Close to 480 IIAs were signed more than 10 years ago and have not yet entered into force. This may signal that States have abandoned efforts to ratify them.

(ix) Terminating existing old treaties

Terminating outdated BITs – whether unilaterally or jointly – is a straightforward (although not always instantaneous) way to release the parties from their obligations. IIA terminations are on the rise, reaching a total of 309 by the end of 2018.

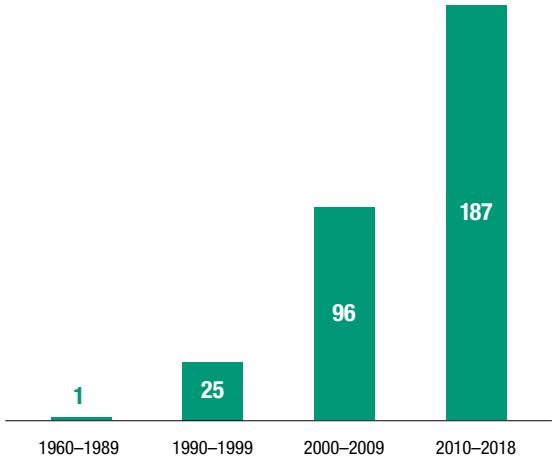
Between 2010 and 2018 alone, 187 terminations of IIAs took effect (figure III.12), of which 128 were the result of unilateral terminations. In 2018, at least 24 terminations entered into effect. Half (12) concerned BITs signed by Ecuador; another five were BITs signed by India.

At least two intra-EU BIT terminations took effect in 2017 and two more at the beginning of 2019. A number of termination notifications were sent in 2017 and 2018 (e.g. by Poland), which have yet to enter into effect.

The number of treaty terminations is expected to increase in the years to come:

- The planned termination of intra-EU BITs, which concerns some 190 treaties in force between EU member States, will outpace previous termination actions. In a January 2019 declaration, 22 EU member States announced their intention to terminate all BITs concluded between them by 6 December 2019. In separate declarations, the six remaining member States reaffirmed, in essence, the statement on intra-EU BITs.
- Once several recently signed regional, plurilateral or megaregional treaties (e.g. the EU–Singapore IPA) enter into force, they will effectively replace older BITs; i.e. those BITs will be terminated.

Figure III.12. Effective IIA terminations
(Number of IIAs by selected period)



Source: UNCTAD, IIA Navigator.
Note: This includes treaties (i) unilaterally denounced, (ii) terminated by consent, (iii) replaced by a new treaty and (iv) expired automatically.

Terminating IIAs does not necessarily mean that a country envisages fully disengaging from the system. Terminations can form part of a country's overall approach to recalibrating its international investment policymaking, accompanied by the development of a revised treaty model and the start of new IIA negotiations. Two countries – India and Indonesia – that recently terminated a large number of their IIAs, many of them on a unilateral basis, concluded new BITs in 2018 (e.g. the Belarus–India BIT, the Indonesia–Singapore BIT).

Moreover, terminations do not always instantaneously release the parties from their treaty obligations. They may trigger the operation of a survival clause, typically included in IIAs, unless it is neutralized by the treaty parties at the time of termination. Survival clauses are designed to prolong a treaty's application to covered investments made prior to the termination date for an additional period (commonly ranging between 10 and 20 years).

(x) Withdrawing from multilateral treaties

No example could be found of this reform option during this reporting period, suggesting that withdrawal from multilateral treaties is not currently a preferred reform path.

4. Conclusions: lessons learned and way forward

Today's IIA regime is characterized by diversity, with clauses that aim to pursue sustainable development by providing clarity, parity and flexibility. However, some new clauses remain untested and much remains to be done. For reform to become truly successful, the international investment community needs to meet four challenges.

Sustainable development-oriented reform has made its way into today's investment policymaking. Reform actions have taken place at all levels (national, bilateral, regional and multilateral), and they cover all five areas of reform set out in UNCTAD's Reform Package for the International Investment Regime (UNCTAD, 2018b).

Following the gradual changes in investment treaty making practices over the past 15 years, today's IIA regime is characterized by a number of distinctive features (table III.6).

Table III.6. Salient features of new IIAs

Cross-cutting feature	Manifestation in treaties	Examples
Diversity	Different approaches to overall treaty objective or coverage	• Protection-focused • Facilitation-focused • Liberalization-focused
	Different approaches to investment dispute settlement	• No ISDS • Standing ISDS tribunal • Limited ISDS • Improved ISDS procedures • Unreformed ISDS mechanism
	Different approaches to specific treaty elements	• Treaty scope (definitions of investment and investor, exclusions for policy areas or economic sectors) • FET (customary international law, specific State obligations, no FET)
Sustainability	Inclusion of sustainable development-oriented provisions that…	• Flag overall importance of sustainable development (e.g. preamble, clause on objectives) • Preserve policy flexibility (e.g. exceptions for health, environment, social policies) • Guide government behaviour and investor expectations (e.g. clauses on not lowering standards, CSR, impact assessments)
Clarity	Clarification of the scope and meaning of key clauses	• Coverage (investor or investment) • Protections (FET, indirect expropriation, national and most-favoured-nation treatment, full protection and security, free transfers)
Parity	Balance between investor protections and investor obligations through investor's duty to…	• Comply with host State domestic laws and regulations • Abstain from corruption • Uphold labour rights • Undertake impact assessments • Meet CSR standards
	Balance between powers of arbitrators and those of State parties through right to…	• Jointly determine certain issues under consideration by a tribunal • Issue joint interpretations binding on tribunals • Preview and comment on draft arbitral awards • Launch counterclaims
	Balance between host and home States through home-country obligations that…	• Promote CSR uptake by outward investors and through technical assistance (e.g. for investment facilitation) • Encourage responsible investment • Commit to abstaining from requiring transfers
Flexibility	Preservation of the right to regulate through…	• Exceptions (e.g. for general public policy objectives, national security, prudential measures) • Exclusions (e.g. from treaty scope, specific obligations, ISDS)
	Allowance for asymmetry in parties' obligations through…	• Reservations • Bilateral side letters
	Plans for adjustments over time through…	• Programmes for future work or negotiations (e.g. ISDS provisions, pre-establishment schedules) • Periodic reviews of the treaty
Untested	New provisions untested by tribunals, such as…	• Requirement for investments to contribute to (sustainable) development of the host State • Requirement for investors to uphold human rights and core labour standards • Clarification of FET with a list of State obligations

Source: UNCTAD.

Key among them is diversity, and the fact that modern treaties aim to pursue sustainable development by providing clarity, parity and flexibility. However, some new clauses remain untested, and much remains to be done.

In their further pursuit of sustainable development-oriented IIA reform, policymakers need to consider four key issues.

First, modernizing old-generation treaties remains a priority. Despite ongoing reform efforts, the stock of treaties belonging to the old generation of IIAs that do not include reform-oriented features still accounts for over 3,000 IIAs (10 times as many as the number of "modern" IIAs concluded since 2012) (figure III.12). This illustrates the magnitude of the task of reforming the bulk of the IIA regime to make it more balanced, manageable and sustainable development-friendly.

Second, reform needs to be holistic. Although reform efforts converge in their objective to make the IIA regime more sustainable development-oriented, they are implemented only intermittently by countries and they focus on specific aspects of the regime that are often addressed in isolation. The reform of investment dispute settlement for example, a focus of worldwide attention recently, is not synchronized with the reform of the substantive rules embodied in IIAs. However, reorienting the investment policy regime towards sustainable development requires reforming both the rules on dispute settlement and the treaties' substantive rules.

Third, some reform clauses may yet be tested. It is too early to assess the effectiveness of some of the innovative language introduced in IIAs in achieving their objectives of safeguarding countries' right to regulate. Many of the new refinements in IIAs have yet to be tested in investment disputes, and doubts remain about how arbitrators may interpret them in ISDS proceedings. This applies to both new clauses that are widely used in treaties and those that have been used relatively rarely so far.

Fourth, reform efforts must be inclusive and not be constrained by capacity constraints. Successful reform requires a transparent and inclusive process. Governments and international fora need to ensure the availability of possibilities for meaningful stakeholder engagement and build the skills and experience of negotiators and policymakers. Bilateral or regional technical assistance programmes can follow up on the capacity-building needs identified by governments. Sharing of experiences and best practices on IIA reform can foster peer-to-peer learning about sustainable development-oriented reform options.

UNCTAD, as the United Nations' focal point for international investment and development, backstops ongoing policymaking processes in the pursuit of sustainable development-oriented IIA reform. It supports such reform through its three pillars of work: development of policy tools based on research and policy analysis; technical assistance (including capacity-building and advisory services) and intergovernmental consensus building. The November 2019 High-level IIA Conference will provide an opportunity to take stock of reform efforts so far.

C. CAPITAL MARKETS AND SUSTAINABILITY

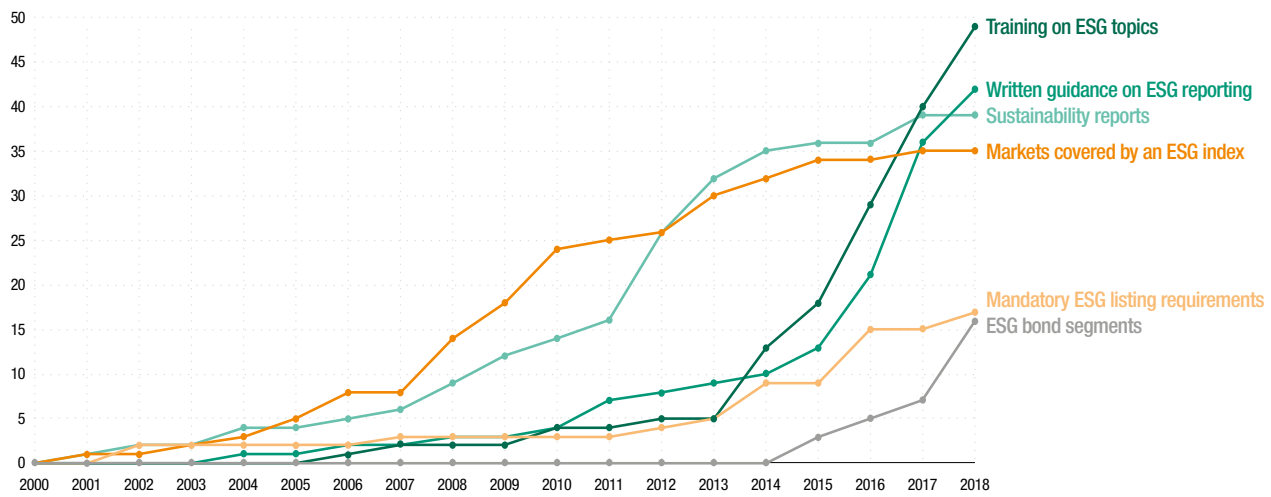
Capital markets play an important role in global investment chains. Portfolio investment is the third largest form of external finance for developing countries, and capital market practices in developed countries can influence the sustainable development practices of MNEs engaged in FDI worldwide. Key actors influencing capital markets include security market regulators, stock exchanges, issuers (listed companies), asset owners and asset managers (investors). Stock exchanges sit at the centre of this web of actors, and as such the sustainability practices of stock exchanges can be a useful benchmark for monitoring trends in sustainable finance.

1. Stock exchanges' sustainability trends

The United Nations Sustainable Stock Exchanges (SSE) database tracks the global universe of stock exchanges. It contains data on 95 stock exchanges worldwide, including all of the world's major exchanges, as well as a large number of smaller national exchanges in developing countries. These exchanges collectively list over 52,000 companies, with a market capitalization of close to $90 trillion. The database focuses specifically on the sustainability activities at stock exchanges – those related to environmental, social and governance (ESG) factors – which have increased exponentially since the beginning of the century (figure III.13).

The number of exchanges with written guidance on ESG disclosure for issuers continues to grow rapidly, from 14 exchanges in 2015 to at least 42 at the end of 2018. Likewise, the number of stock exchanges providing training on ESG topics to issuers and/or investors continues to rise rapidly, from fewer than 10 in 2013 to nearly 50 by the end of 2018. Mandatory ESG reporting is also on the rise in recent years, supported by both exchanges

Figure III.13. Stock exchange sustainability mechanisms offered (Number of exchanges)



Source: UNCTAD, SSE initiative database.

Box III.6. WFE Principles for Sustainable Exchanges

In 2018, the World Federation of Exchanges (WFE), the main industry association for stock exchanges worldwide, launched its "Principles for Sustainable Exchanges". These principles mark a major milestone in the evolution of WFE members' engagement with sustainability. With the launch, WFE member exchanges formally recognized their role in contributing to the achievement of the United Nations Sustainable Development Goals and explicitly acknowledged their role in fostering and promoting the development of a sustainable financial system, making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development, and promoting the transition towards an inclusive and sustainable economy. The five principles:

Principle 1: Exchanges will work to educate participants in the exchange ecosystem about the importance of sustainability issues.

Principle 2: Exchanges will promote the enhanced availability of investor-relevant, decision-useful ESG information.

Principle 3: Exchanges will actively engage with stakeholders to advance the sustainable finance agenda.

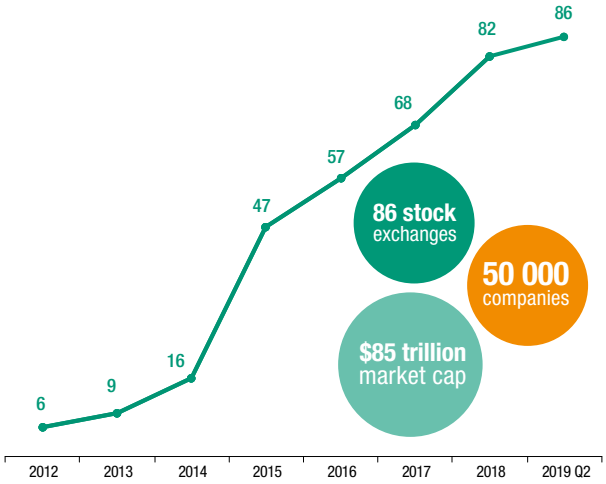
Principle 4: Exchanges will provide markets and products that support the scaling-up of sustainable finance and reorientation of financial flows.

Principle 5: Exchanges will establish effective internal governance and operational processes and policies to support their sustainability efforts.

Source: World Federation of Exchanges.

and security market regulators. Collectively these trend lines show a sharp uptake in sustainability activities among the world's stock exchanges. This overall upward trend is expected to continue as public policies to promote sustainable development continue to strengthen in a number of jurisdictions and more stock exchanges recognize the important role that they can play in promoting investment in sustainable development (box III.6).

Figure III.14. SSE initiative members, 2012–2019 Q2 (Number of stock exchanges)



Source: UNCTAD, SSE initiative database.

a. Sustainable Stock Exchanges initiative

Since its launch in 2009, the United Nations SSE initiative has grown to include over 90 per cent of stock exchanges tracked in the SSE database: as of Q2 2019 the initiative included 86 exchanges, listing 50,000 companies with a combined market capitalization of over $85 trillion, and it is still growing.[11] The SSE counts most of the world's stock exchanges as members, including all 10 of the largest exchanges in the world as well as many small and medium-sized exchanges from developing countries. The growth of this UN partnership programme, now in its tenth year, illustrates that participating in a conversation on ESG factors has become a necessary part of the investor-exchange-issuer dialogue. The SSE has emerged as the premier platform for collaboration and learning for stock exchanges together with capital market regulators, investors, issuers and financial service providers to meet global sustainability goals. In the context of economic and technology transitions, social pressures, climate change and regulatory intervention, the SSE supports exchanges in fully integrating sustainability across service lines, in turn supporting policymakers, investors and companies in achieving their sustainability objectives.

Since 2012, when the five founding SSE partner exchanges signed a commitment to promote sustainable and transparent capital markets, the number of stock exchanges committing to sustainability has grown rapidly (figure III.14).

b. ESG training activities

Stock exchanges are increasingly playing an important capacity-building role in helping issuers and investors to better understand new ESG standards, products, services and practices. This can be done through promotional activities such as bell-ringing ceremonies or communication campaigns, or through training activities including seminars, online courses and workshops. These activities include the development of printed educational materials, workshops, larger conferences and mentorship programmes.

In addition, some exchanges are adding training to listing requirements. For example, Oslo Børs has made ESG training mandatory for board members of listed companies as well as for management and board members of companies that have applied to list on the exchange. The exchange provides this training, as well as continuing education courses, for listed company management and advisors.

By the end of 2018, at least 48 stock exchanges were providing ESG training to their listed companies, investors or other relevant stakeholders: 18 in Europe, 17 in Asia, eight in Latin America and the Caribbean, four in Africa and one in North America. Figure III.14 illustrates the sharp increase in training activities provided by stock exchanges from 2014 onwards. One of the first programmes was launched in 2010, when Brazil's B3 (formerly BM&F Bovespa) stock exchange launched a partnership with the World Bank to organize seminars and other education activities to increase the participation of public and private sector actors in the carbon market. In 2014, the number of exchanges providing training on sustainability nearly tripled, from five to 13 and, over the following four years, it increased nearly four-fold. Some stock exchanges have organized one-time specially designated events or ESG-related sessions as a component of broader training programmes. Other exchanges stand out through their consistent and well-coordinated strategies for training and raising awareness among market participants about sustainable development.

Common topics addressed by stock exchanges' sustainability training programmes include training issuers on ESG reporting and criteria for inclusion in ESG-themed indexes, training investors on sustainability-themed financial products and training issuers on gender equality in boardrooms and in the workplace more generally.

2. Securities regulators and sustainability

a. Increasing involvement of securities regulators

As noted in figure III.14, the use of mandatory ESG disclosure for listed companies is increasing, with the number of stock exchanges with such rules having more than tripled between 2013 and 2018. In some cases, these rules originate from stock exchanges with devolved regulatory authority, but in most instances, they emanate from securities market regulators that are sharpening their focus on sustainability issues.

In October 2018, the Secretary-General of the International Organization of Securities Commissions (IOSCO) announced the creation of the IOSCO Sustainable Finance Network, which provides a platform for IOSCO's members to share their experiences and discuss sustainability-related issues. The network was formed at the initiative of the Swedish Capital Market Authority Finansinspektionen, whose Director General will chair the network.

In January 2019, IOSCO released a statement on disclosure of ESG matters by issuers.[12] The statement sets out the importance performance for issuers of considering the inclusion of ESG issues when disclosing information that is material to investors' decisions. IOSCO

emphasized that ESG matters, "though sometimes characterized as non-financial, may have a material short-term and long-term impact on the business operations of the issuers as well as on risks and returns for investors and their investment and voting decisions."[13] IOSCO announced at the time that it is monitoring developments in this area closely, given the growing importance of ESG matters to investors and the continuing need to enhance transparency in the capital markets. IOSCO indicated that this statement aimed to remind issuers of their obligations to consider the disclosure (voluntary or otherwise) of the potential impact on their businesses of ESG-related risks and opportunities when these are material.

Also in early 2019, IOSCO's Growth and Emerging Markets Committee released for public comment a draft report entitled "Sustainable Finance in Emerging Markets and the Role of Securities Regulators". This report recognizes the trend over the past several years whereby market participants, regulators and policymakers have increased their focus on issues concerning sustainable finance. The Committee finds these issues particularly relevant for developing countries that seek to expand their capital markets, and it aims to assist emerging-markets regulators in better understanding the issues and challenges that affect the development of sustainable finance (box III.7). The draft report contains a proposed set of 11 recommendations regarding sustainability-themed products and ESG disclosure requirements. Although the recommendations are nonbinding, the Committee encourages its members to consider the extent to which the guidance should be implemented in the context of their legal and regulatory frameworks, given the significance of the associated risk and opportunities.

b. How securities regulators can promote the SDGs

The sustainability objectives identified in the SDGs, as well as policy responses to these issues, can create financially material risks and opportunities for investors and may affect the resilience of the financial system as a whole. These impacts and consequences are of direct relevance to securities regulators' three overarching and interrelated objectives: to protect investors; to ensure that markets are fair, efficient and transparent; and to reduce systemic risk. Consequently, a number of securities regulators around the world have begun to act on sustainability-related risks and opportunities.

Box III.7. Importance of ESG performance for attracting portfolio investment to emerging markets

Two new reports by the WFE found a strong, positive correlation between foreign portfolio investment inflows and markets that adopted a range of widely accepted corporate governance practices.[a]

The qualitative elements of the studies revealed differences in how investors approach corporate governance and ESG performance more generally. Some investors indicated that they would not invest in firms that exhibited poor corporate governance practices or "failures" on environmental or social measures. Others said they used corporate governance to assess how well the firm was likely to manage risks and opportunities, including those arising from environmental and social factors. Some investors used their assessment of the firm's ESG performance in determining a suitable discount rate for the valuation of the firm.

Several investors interviewed for the WFE studies (particularly those who did not adopt an exclusionary approach but looked for best-in-class performers) said they would engage with firms on their ESG performance, both prior to investing and throughout the period of the investment. These themes were repeated during a 2019 meeting of the WFE's Emerging Markets Working Group, with participants stressing the importance of good-quality data and reporting on ESG topics.

These findings provide support for emerging-market exchanges, many of which have implemented measures to improve the quality of corporate governance among their listed issuers, increase awareness of the relevance of environmental and social issues for corporate performance, and enhance the quality of ESG disclosure.

Source: World Federation of Exchanges.

[a] WFE (2018), "What Attracts International Investors to Emerging Markets"; WFE (2019), "Investing in Emerging and Frontier Markets: an Investor Viewpoint".

Working with such regulators, the SSE initiative published in 2018 the report "How Securities Regulators Can Support the SDGs", which includes a compilation of 35 examples from jurisdictions around the world. The report identifies five main action areas along with concrete steps by which securities regulators can contribute to a more stable and resilient financial system that better supports the SDGs (table III.7).

3. Sustainability-themed indexes, segments and products

Capital market participants have been promoting sustainable companies and projects through products such as indexes and ratings, as well as helping to channel funds towards these companies and projects through listing thematic products such as exchange-traded funds and bonds by supporting the development of these products or services, stock exchanges are helping investors better align their investment practices with sustainability considerations, while rewarding companies that demonstrate strong sustainability performance.

Table III.7. SSE action plan for securities regulators

Main action area		Concrete steps
Facilitate Investment	**1.1**	Convening and supporting dialogue and projects to develop innovative financing solutions (e.g. green securities, green bonds, social bonds) for SDGs
	1.2	Developing guidance and case studies on how to access the investment opportunities presented by the SDGs
	1.3	Identifying the role of different market participants in contributing to sustainable finance
	1.4	Developing, supporting or incentivizing labelling processes or framework for fund, index and sustainable investment product certification
Strengthen corporate sustainability-related disclosures	**2.1**	Supporting the development of voluntary reporting guidelines
	2.2	Integrating sustainability reporting guidance into listing requirements that define who should report, what should be reported and how reporting should be practiced
	2.3	Working with counterparts in other jurisdictions, and with relevant international organizations such as IOSCO, to encourage internationally consistent and comparable disclosures of financially material sustainability-related information
Clarify investor duties on sustainability	**3.1**	Clarifying that institutional investors and asset managers should understand and take account of the views and interests of their clients and beneficiaries
	3.2	Introducing/strengthening stewardship and corporate governance codes
	3.3	Encouraging institutional investors to report on how they are exercizing their stewardship responsibilities, delivering on their ESG responsibilities to beneficiaries and contributing to the delivery of the SDGs
	3.4	Supporting efforts at the international level to harmonize policy instruments on the integration of sustainability issues by institutional investors and asset managers regarding investment decision-making, corporate engagement and investor disclosure
Strengthen corporate governance to support sustainability	**4.1**	Integrating sustainability factors into corporate governance codes
	4.2	Encouraging boards of directors to produce formal statements that set out their duties as stewards of the company and that commit them to long-term decision-making and to acting in ways that promote the long-term interests of the company
	4.3	Enabling investors to engage effectively with companies on sustainability and SDG issues, by allowing them to raise and discuss these issues with boards through established corporate governance processes and by ensuring that the formal rights granted to investors function effectively
Build market capacity and expertise on sustainability	**5.1**	Analysing the specific capacity, expertise and information gaps in the market related to sustainability, and providing capacity-building sessions for issuers, investors and other market participants based on these gaps
	5.2	Supporting the development of professional qualifications to require a recognized level of sustainability training and knowledge
	5.3	Supporting the formation of peer-to-peer learning platforms for sharing of best practices related to the SDGs and highlighting examples and case studies of successful SDG-related investments
	5.4	Building capacity to assess and monitor the potential for sustainability issues to lead to corporate failure and to impact the stability and resilience of the financial system

Source: SSE (2018). How securities regulators can support the SDGs.

a. Sustainability equity indexes

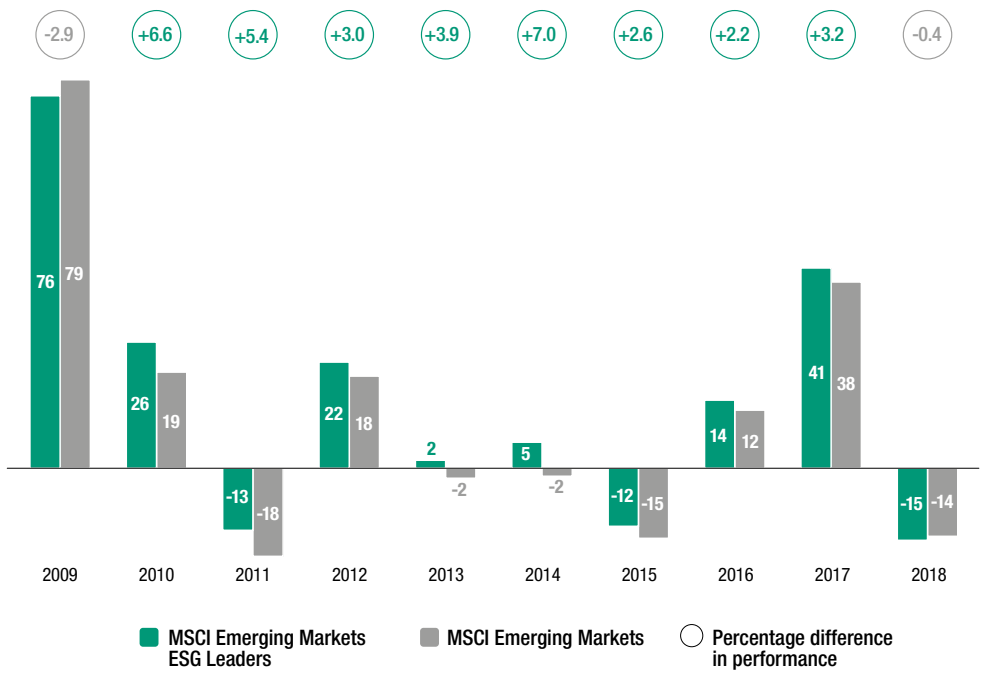
Sustainability indexes, whether created by an exchange itself or by a third party, track the performance of companies listed on the exchange selected using ESG metrics or sustainability themes. Such metrics and themes include greenhouse gas emissions, renewable energy, human rights, water management and gender equality.

As of Q2 2019, sustainability indexes (covering either social or environmental factors or ESG themes) covered companies on 35 stock exchanges across five continents: 12 each in Asia and Europe, eight in the Americas and three in Africa. These indexes are typically created by investment services firms such as Dow Jones, FTSE Russell, MSCI, Standard & Poor's, Stoxx and Thomson Reuters. They are often licensed to large asset managers that create specific products, such as exchange-traded funds, that are used by both institutional and retail investors. ESG indexes can help asset managers who seek to incorporate material sustainability factors into their asset allocation strategies. ESG indexes are also encouraging greater voluntary transparency among listed companies.

A growing number of investors believe that ESG factors will increasingly affect investment performance, especially over the longer term. This belief is supported by data coming in from ESG index providers. For example, the MSCI emerging-markets "ESG Leaders" index has outperformed its conventional benchmark in eight of the past 10 years (figure III.15).

Environmental issues, and climate-related issues in particular, are increasingly seen as material risk factors by portfolio investors. Large asset owners and asset managers are especially concerned about the medium- to long-term viability of fossil fuel companies faced with the risk of a possibly permanent oil price decline. Climate change concerns have exposed the way fossil fuel companies are valued by capital markets, which is to assume that a company's value could be determined in large part by its proven reserves (e.g. number of barrels of oil still underground). If however, the fuel reserves cannot be burned

Figure III.15. **ESG index versus conventional index, 2009–2018**
Calendar-year returns and relative performance (Per cent)



Source: MSCI.

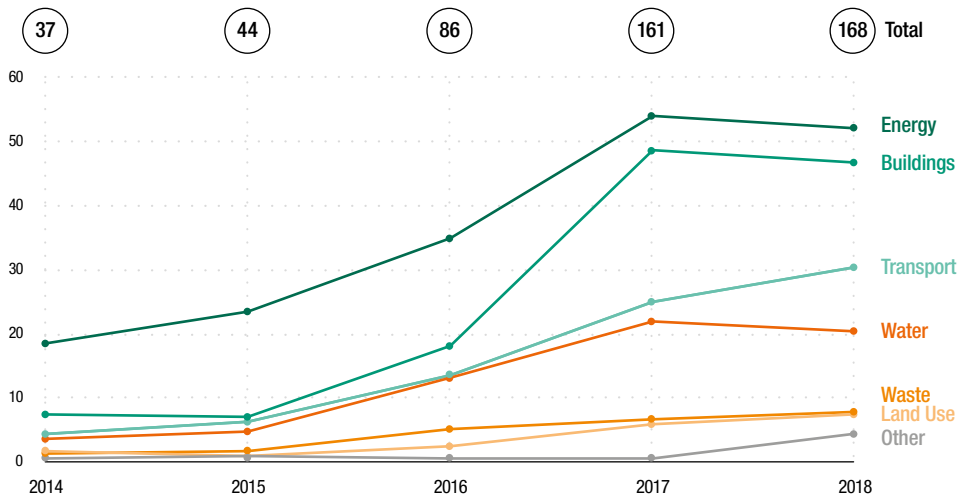
due to new public policies aimed at reducing CO_2 emissions, then these reserves cease to have value and become "stranded assets". Awareness of this valuation flaw is leding to new patterns in risk analysis and asset allocation, including divestment from companies holding fossil fuel reserves. For example, in early 2019, Norway's Government Pension Fund Global – the world's largest sovereign wealth fund, with approximately $1 trillion in assets under management – announced a plan to divest $7.5 billion from oil and gas companies that are focused purely on exploration and production. As global efforts to combat climate change increase, in line with the outcomes of the UN Paris Agreement and the SDGs, more investors are considering divesting from the fossil fuel industry and civil society activism is further encouraging this trend. This investment trend has given rise to "fossil-free" equity indexes, and the out performance of these indexes over their conventional benchmarks further has strengthened investor confidence in the materiality of sustainability issues. For both all-world and emerging market indexes, the fossil-fuel-free versions have outperformed their conventional benchmarks in seven of the past 10 years.

b. Sustainability bonds

Sustainability bonds have seen significant growth in recent years, particularly green bonds aimed at funding climate mitigation, adaptation and resilience projects (figure III.16). The industries receiving the largest investment through green bonds are energy, buildings, transport and water: all key elements of basic infrastructure. The green bond market exceeded $168 billion in 2018 with a five-year growth rate of 466 per cent. Although green bonds remain a small portion of the global debt market, they continue to attract interest from issuers.

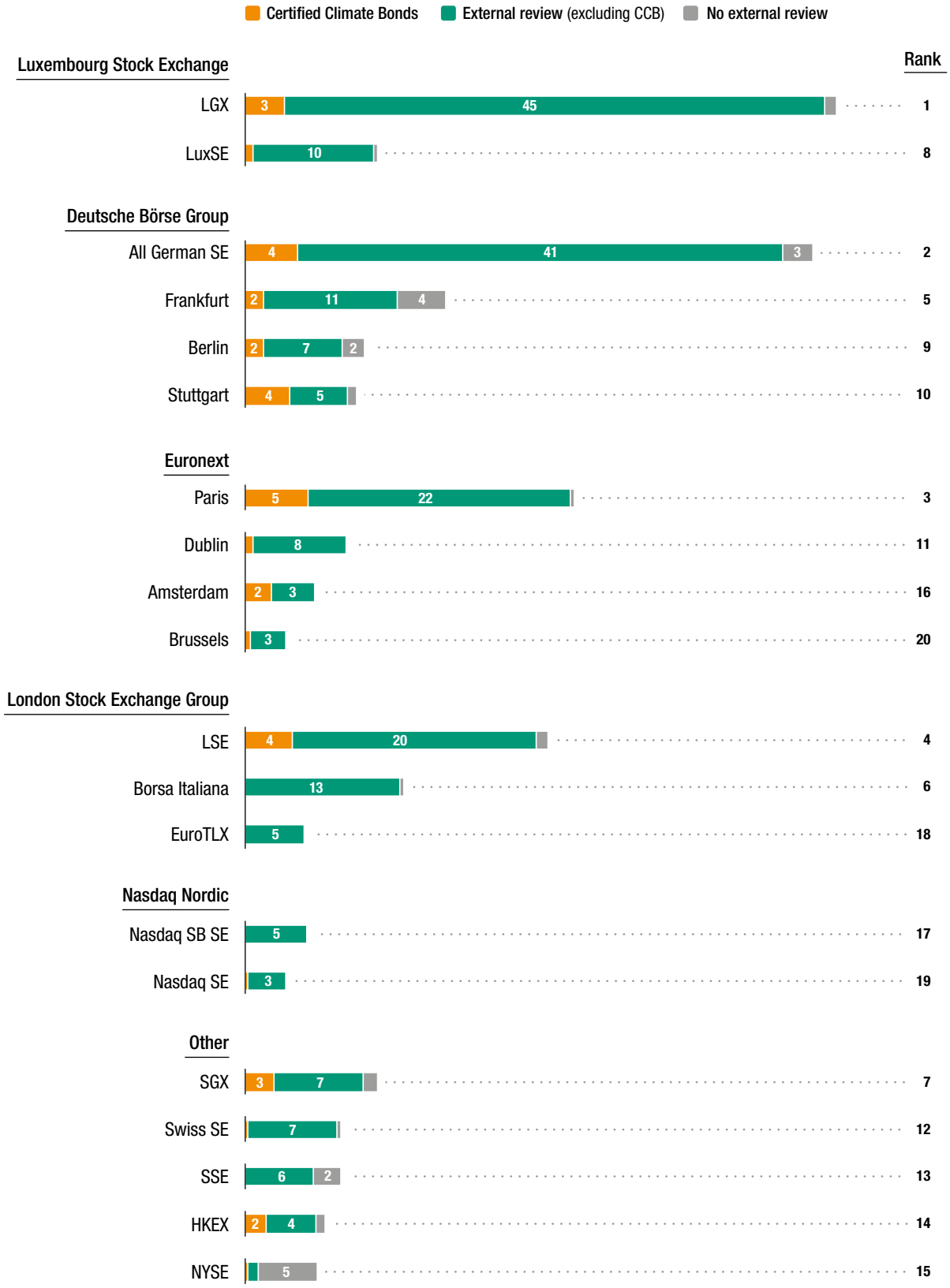
Stock exchanges have been active in building markets for tradable green bonds (figure III.17). European exchanges in particular have taken a lead, with the Luxembourg Green Exchange currently the largest single platform for trading green bonds, followed closely by exchanges in Germany, France and the United Kingdom. Three of the 20 largest exchanges for green bonds are in Asia, with two in China and one in Singapore.

Figure III.16. **Green bond market size and industries financed, 2014–2018**
(Billions of dollars)



Source: Climate Bonds Initiative.

Figure III.17. Top 20 exchanges for green bonds, 2014–2018 (Billions of dollars)



Source: Climate Bonds Initiative.

c. Real estate

Another asset class in which investors are integrating ESG factors is real estate. Worldwide approximately $57 trillion is invested in income-producing real estate that is tradeable between investors, with an additional $3.3 trillion invested in over 2,200 listed real estate companies.[14] The real estate industry (commercial and residential property), with about 28 per cent of global emissions and 6 per cent more than the transportation industry, represents one of the largest sources of climate-related emissions.[15] Consequently, transforming efficiency of buildings and drastically reducing or eliminating their climate emissions will be a central component of public policies aimed at achieving the global emission reduction targets defined in the Paris Agreement. This presages an imminent transformation in the industry that asset managers have begun to anticipate and incorporate into their investment analysis and portfolio allocations. FTSE Russell warns investors that "as policymakers seek ways to accelerate emission reductions, buildings with poor environmental performance face growing regulatory risks that could substantially reduce their asset value and liquidity."[16] A number of national, regional and municipal rules have already been introduced (e.g. in the United Kingdom, the Netherlands, and Singapore, as well as in California and in New York City), mandating a range of schemes that all aim at drastically reducing emissions in the sector over the next decade.

4. Conclusions

ESG factors continue to be increasingly integrated into capital market activities and instruments: in the operations of exchanges, investors and issuers; in the oversight functions of securities regulators; and in product innovation on both the equity and the debt side. As the inclusion of ESG factors transitions from a niche practice to a mainstream practice, three key areas will need to be addressed:

- *Fully integrating sustainability throughout the entire investment chain.* This means integrating ESG issues into every stage of the investment chain from the fiduciary duty of asset owners, to the portfolio allocation and proxy-voting practices of asset managers, to the listing rules of exchanges, to the FDI practices of large listed MNEs.
- *Connecting upstream asset managers to downstream investment projects.* Promoting investment in the SDGs in particular will require more work to develop investment-ready projects on the ground in developing and least developed countries. An enormous amount of capital currently held in low-yield investments in developed countries could be unleashed to fund SDG-related investments, but doing so requires more project development work and capital market development in recipient countries.
- *Strengthening the credibility of ESG-themed financial products.* As the mainstream investment community increasingly integrates ESG factors, more work will be required on standards and assessment criteria to establish minimum standards for sustainability-themed investment products.

To address these challenges, all actors in the global investment chain will need to work together.

NOTES

[1] This section does not deal with control tools that exist for both domestic and foreign investors, such as business registration requirements and licensing requirements for specific economic activities.

[2] See also UNCTAD (2015c), Investment Policy Framework for Sustainable Development; UNCTAD, The Protection of National Security in IIAs, UNCTAD Series on International Investment Policies for Development, 2009.

[3] The total number of IIAs is being revised in an ongoing manner as a result of retroactive adjustments to UNCTAD's IIA Navigator.

[4] No ISDS is available between specific parties (five bilateral ISDS opt-outs).

[5] No ISDS is available between Canada and the United States or between Canada and Mexico; the treaty's ISDS provisions apply only to the Mexico–United States relationship.

[6] ACP negotiating mandate: http://www.acp.int/sites/acpsec.waw.be/files/acpdoc/public-documents/ACP0001118_%20ACP_Negotiating_Mandate_EN.pdf. EU negotiating directive: http://data.consilium.europa.eu/doc/document/ST-8094-2018-ADD-1/en/pdf.

[7] The concluded agreements include the ones with the CARIFORUM States, Chile, the ESA States, Faroe Islands, Iceland and Norway, Israel, Liechtenstein, the Pacific States, the State of Palestine, and Switzerland.

[8] The pact with the CARIFORUM States contains a chapter on commercial presence (not confined to services sectors), while the agreement with the ESA States includes provisions on investment-related cooperation, including in specific areas such as industrial development, small and medium-sized enterprises, mining and tourism.

[9] The Guiding Principles were submitted to OIC Member States for comments and formal endorsement following the meeting.

[10] The two IIAs with ISDS opt-outs between specific parties are the CPTPP (five bilateral ISDS opt-outs) and the USMCA (ISDS opt-out for Canada–Mexico and for Canada–United States).

[11] The SSE is administered by UNCTAD, the UN Global Compact, UN Environment and the PRI. For more information, visit www.SSEinitiative.org.

[12] IOSCO (2019), "Statement on Disclosure of ESG Matters by Issuers".

[13] IOSCO (2019), "Statement on Disclosure of ESG Matters by Issuers".

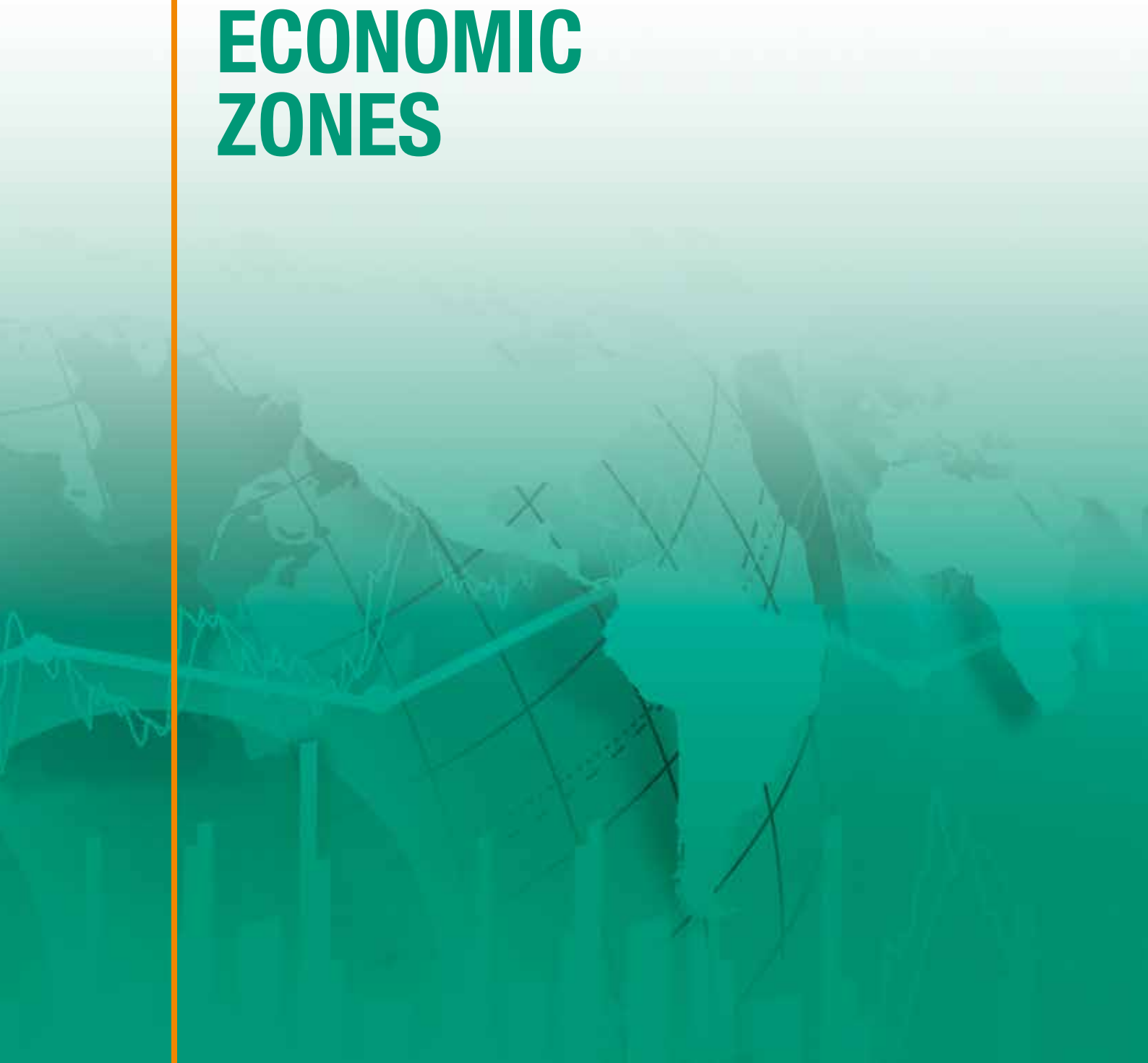
[14] FTSE Russell (2018), "Building Blocks for the Low Carbon Economy: Managing Climate Risk in Real Estate Investing".

[15] UNEP (2017), "Towards a Zero-Emission, Efficient and Resilient Buildings and Construction Sector".

[16] FTSE Russell (2018), "Building Blocks for the Low Carbon Economy: Managing Climate Risk in Real Estate Investing".

CHAPTER IV

SPECIAL ECONOMIC ZONES



INTRODUCTION

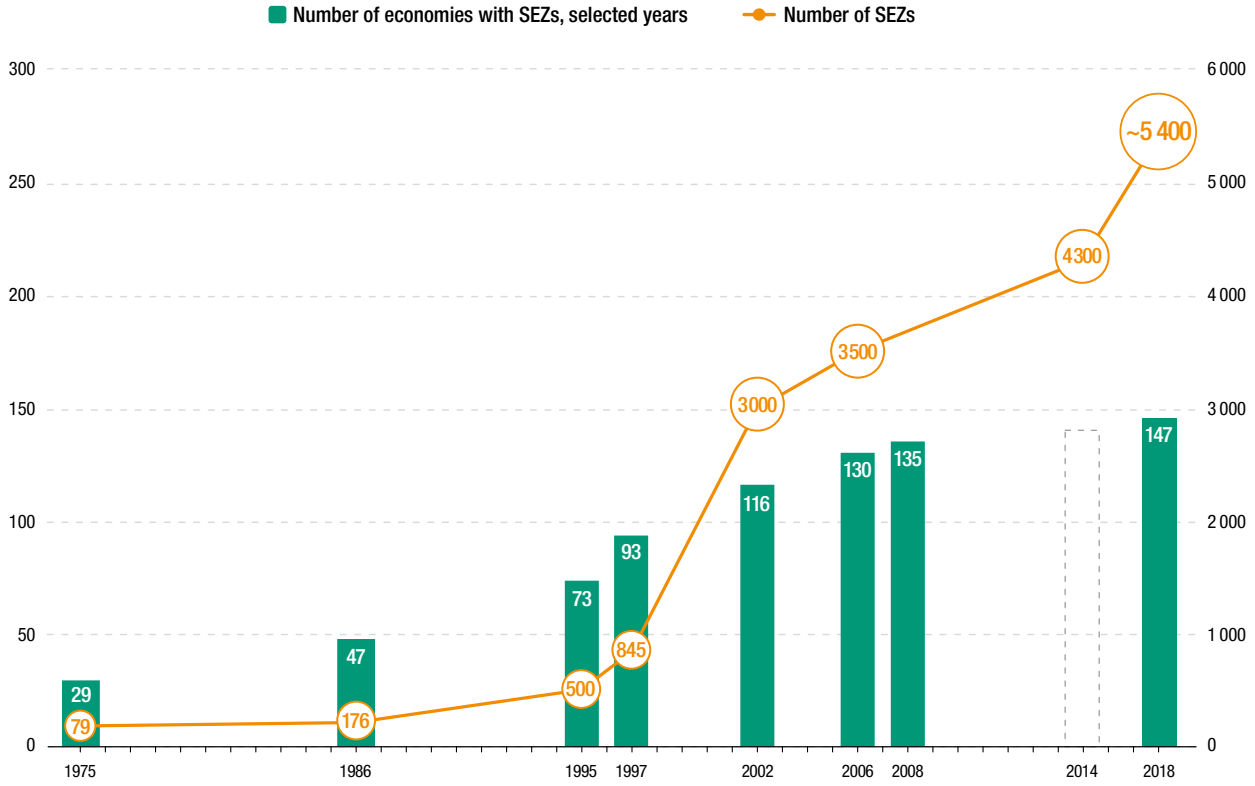
Special economic zones (SEZs) – geographically delimited areas within which governments facilitate industrial activity through fiscal and regulatory incentives and infrastructure support – are widely used across most developing and many developed economies. Although the performance of many zones remains below expectations, failing either to attract significant investment or to generate economic impact beyond their confines, new zones continue to be developed, as governments increasingly compete for internationally mobile industrial activity. Policymakers face not only the traditional challenges of making SEZs succeed, including the need for adequate strategic focus, regulatory and governance models, and investment promotion tools, but also new challenges brought about by the sustainable development imperative, the new industrial revolution and changing patterns of international production.

SEZs go by many names and come in many varieties and sizes. They have in common that, within a defined perimeter, they provide a regulatory regime for businesses and investors distinct from what normally applies in the broader national or subnational economy where they are established. The most common types of SEZs are variations on free zones, which are essentially separate customs territories. In addition to relief from customs duties and tariffs, most zones also offer fiscal incentives; business-friendly regulations with respect to land access, permits and licenses, or employment rules; and administrative streamlining and facilitation. Infrastructure support is another important feature, especially in developing countries where basic infrastructure for business outside these zones can be poor. In return for these customs, fiscal and regulatory concessions; business-support measures; and investments in physical infrastructure, governments expect investors operating in SEZs to create jobs, boost exports, diversify the economy and build productive capacity.

SEZs have a long history (figure IV.1). The concept of freeports dates back many centuries, with traders operating off ships, moving cargoes and re-exporting goods with little or no interference from local authorities. Modern free zones, adjacent to seaports or airports or along border corridors, appeared in the 1960s. They began multiplying in the 1980s, with the spread of export-oriented industrial development strategies in many countries, especially in Asia, as well as the increasing reliance of global manufacturers on offshore production. The acceleration of international production in the late 1990s and 2000s and the rapid growth of global value chains (GVCs) generated another wave of new SEZs, with many developing countries across all regions aiming to emulate the early success stories. Global trade rules limiting incentives linked to exports and the phasing out of exemptions to those rules for low-income countries were expected to curtail the growth of export processing zones (EPZs). Yet the trend barely slowed, as SEZ policies adapted to the new rules, while maintaining the basic offer to investors – business-friendly environments with relief from customs and fiscal duties. The global financial crisis and the resulting dip in global trade only marginally slowed the establishment of new SEZs. The current deceleration in globalization and international production is having the opposite effect, as governments are responding to greater competition for mobile industrial activity with more SEZs and new types of SEZs. There are nearly 5,400 SEZs today, more than 1,000 of which were established in the last five years. At least 500 more zones (approximately 10 per cent of the current total) have been announced and are expected to open in the coming years.

The continued enthusiasm for SEZs among governments around the world belies the impact of these zones, which is often mixed. In developing economies that followed export-

Figure IV.1. **Historical trend in SEZs** (Numbers of countries and SEZs)



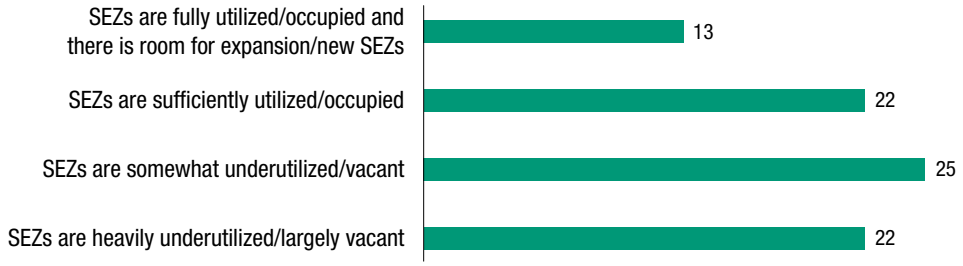
Source: UNCTAD.

Note: The trend is indicative only. Historical estimates are based on ILO (2014) for 1975, 1986, 1995, 1997, 2002 and 2006; FIAS (2008) for 2008; *The Economist* (2015) for 2014; and UNCTAD for 2018. Scope and definitions of the various estimates across years may differ.

oriented development strategies, there are many examples of highly successful SEZs that played a key role in industrial transformation. But even in those economies, examples abound of zones that did not attract the anticipated influx of investors or did so only late. In latecomer countries, there are many more cases of zones that, once established by law, remained un- or underdeveloped for decades, and today's stock of SEZs includes many underutilized zones (figure IV.2). Even where zones have successfully generated investment, jobs and exports, the benefits to the broader economy – a key part of their rationale – have often been hard to detect; many zones operate as enclaves, with few links to local suppliers and few spillovers.

In addition to doubts about the economic benefits of SEZs, the very concept of establishing a regulatory regime distinct from – and in many respects laxer than – the rest of the

Figure IV.2. **Level of utilization of SEZs according to national investment promotion agencies** (Percentage of survey respondents)



Source: UNCTAD Investment Promotion Agencies Survey.

Note: The survey was conducted from February to April 2019. Results are based on information from 114 respondents.

economy has raised concerns about social standards and labour conditions in EPZs, and about their environmental impact. Looser regulations have mostly focused on labour rules, including, for example, precarious employment arrangements and the discouragement of unions (although some studies also highlight the formal nature of jobs in SEZs and the often relatively high wages compared with those in the surrounding economy). Even where there may not be formal exemptions from national rules such as those on health and safety, weaker controls and limited enforcement within the zones resulting from a desire to avoid disrupting businesses have often meant that standards within zones differed significantly from the rest of the economy.

Despite these concerns, SEZs remain top of mind for industrial and investment policymakers, for a number of reasons.

First, the relative ease of implementing business reforms through SEZs. In countries where governance is relatively weak and where the implementation of reforms nationwide is difficult, SEZs are often seen as the only feasible option, or as a first step. Yet developing countries that have made progress towards more attractive investment climates also continue to rely on SEZs. When such progress fails to deliver better competitiveness rankings or expected foreign investment, SEZs may still be seen as a necessary complement to the investment promotion package and as a signal of the country's progress in building an attractive investment climate.

Second, the perceived low cost of establishing SEZs. A key rationale for SEZs is their low cost in relative terms, compared with that of building equivalent industrial infrastructure in the entire economy. But even in absolute terms, the upfront investment costs can be contained. Capital expenditures for the development of an SEZ – especially basic zones offering plots of land rather than hyper-modern "plug-and-play" zones – are often limited to basic infrastructure connections to the zone perimeter. Additional costs, which are mostly outsourced to a private development company, are then incurred gradually as the zone attracts investors and develops individual plots. In such cases, the government considers basic zone development costs as largely "no cure, no pay". The development cost, as well as the cost of common services in the zones, is subsequently recovered from tenants. Much of the cost of SEZs is the income foregone from the incentives provided, which can amount to substantial revenue loss. Such foregone income is rarely a concern for policymakers when they consider establishing SEZs, however.

Third, increased competitive pressure. SEZs, especially EPZs, traditionally attract internationally mobile efficiency-seeking investments, for which countries compete. Despite the emergence of new forms of zones linked to natural resources, aimed at domestic markets or targeting innovation capabilities (e.g., science, high-tech or green zones), most SEZs remain essentially part of countries' competitive investment promotion package, together with other forms of incentives. Global FDI has been weak over the last decade. Manufacturing FDI across all developing regions has been structurally lower over the last five years than in the preceding period. In response to the tight market for investment in industrial activity, governments continue to make their investment promotion packages more attractive.

With the long experience and widespread use of SEZs, there is a vast amount of research documenting success stories and failures, describing key characteristics of SEZs and analysing their economic, social, environmental and development impacts. Policy advice tends to centre on three dimensions: (i) the strategic focus of SEZs, (ii) the regulatory framework and governance of SEZs and (iii) the design of the SEZ value proposition, or the package of benefits for investors.

Strategic focus. Economies that have most successfully achieved rapid industrial development through the use of SEZs underscore that zones are not only an investment

promotion tool, but first and foremost an industrial policy tool. East and South-East Asian economies, by design or by implementation, present many cases of zones focused on specific industries or on economic activities and value chain components that rely on similar factors of production, skills, technologies and market linkages. The scope for synergies, as well as for sharing resources and costs, in such clusters is an important factor driving the success of these SEZs and their contribution to national economic development. Latecomers to SEZs, including many of the least developed countries (LDCs), have often followed a multi-activity approach with no active efforts to promote specialization or clustering, reducing the zones to mere investment promotion tools – essentially incentives available in limited geographic areas.

Regulatory framework and governance. SEZs, as territories with regimes that depart from national rules, are necessarily a public initiative. The development, ownership and management of individual zones, however, can be public, private or a public-private partnership (PPP). Private developers are often engaged to minimize initial public outlays and to access international expertise in zone design, construction and marketing. Zone management and oversight can involve various government levels (local, regional, national), investors and businesses operating in the zone, and numerous other stakeholders, such as financiers, industry associations and representatives from local communities or other interest groups. Numerous governance models exist, sometimes within the same jurisdiction, and the choice depends on the objectives and desired strategic focus of individual SEZs. The legal framework for SEZs – mostly national SEZ laws or provisions in customs or other legal frameworks – often sets the parameters for these zones' governance and institutional set-up.

Value proposition. SEZ legal frameworks almost always define the package of benefits for investors in zones, especially exemptions from customs, tax and other national regulatory regimes. As SEZs all derive from the concept of free zones – free from tariffs, taxes and red tape – the basic components of incentives package are very similar across most types of zones and most geographies. Much research identifies the provision of hard and soft infrastructure around the zones, the availability of adequate skills and supplier bases, and business facilitation and shared services as critical success factors for zone development and impact. These are also the benefits that can more easily support active clustering and specialization efforts in the zones.

In today's global business and investment climate, the strategic focus, the regulatory and governance models, and the incentives package offered remain the key ingredients of a successful SEZ policy framework. However, policymakers also face emerging challenges resulting from the sustainable development imperative, the new industrial revolution and changing patterns of international production.

The global sustainable development agenda embodied in the United Nations Sustainable Development Goals (SDGs) is affecting the strategic decisions and operations of businesses

Key dimensions driving SEZ success	**New challenges facing SEZs**
• Strategic focus	• Sustainable development imperative
• Regulatory framework and governance	• New industrial revolution and digital economy
• Value proposition for investors	• Changing patterns of international production

around the world. The efficiency and cost savings that might be associated with lower social and environmental standards are no longer considered a viable competitive advantage, especially in industries that have incurred or are at high risk of reputational damage. As such, offering laxer social and environmental rules or controls is no longer a competitive

advantage to attract investment in SEZs. As reported in a recent UNCTAD study on the contribution of SEZs to the SDGs, some zones are beginning to shift away from lower standards and are instead incorporating sustainable development into their operating model, with sustainability-related shared services (e.g. common health and safety services, waste management plants, renewable energy installations) among the clustering synergies that SEZs can deliver.

The new industrial revolution – the adoption across all industries of digital technologies, advanced robotics, 3D printing, big data and the internet of things – is transforming manufacturing processes, related services and business models, with wide-ranging implications for international production and GVCs. Some of these changes, mainly the heightened technological scope for reshoring production and the declining importance of labour costs as a locational determinant for investment, have fundamental implications for SEZs and their use in industrial development and investment promotion strategies. The new industrial revolution also comes with opportunities for SEZs (or SEZ development programmes) that can offer access to skilled resources and clusters of relevant business and technology service providers.

Changing patterns of international production, as routinely documented in the *World Investment Report* over recent years, are driven in part by structural changes in international business, with a shift towards intangibles and overseas operations that are increasingly asset light. These patterns are therefore less concerned with the production advantages offered by SEZs. They are also driven by economic and policy factors. The growing weight of emerging markets in global trade and investment has implications for SEZ clientele. The return of protectionist tendencies and slow progress in the international policy regimes for trade and investment are leading industrial investors to constantly assess strategic locations for low-cost production in light of potential new trade barriers or shifts in preferential market access. The regionalization of trade and investment agreements has further implications for SEZ competitiveness, depending on import sources and export destinations, as well as the status of SEZs in regional agreements.

* * *

This year's *WIR* takes stock of SEZs as key industrial and investment policy tools around the world. It provides an overview of how governments have approached the key challenges related to strategic focus, regulatory and governance models and investment promotion packages. In its policy guidance, the report then focuses on the new challenges of supporting sustainable development, adapting to the new industrial revolution and responding to shifts in international production.

To do so, the first section of this chapter documents the current universe of SEZs, details archetypes of zones and maps zones around the world, as well as identifying different approaches to functionality, governance and investment promotion tools across countries.

The subsequent section looks at policy support and legislative frameworks for SEZs through a global data set of national SEZ laws. The section also discusses the international policy framework for SEZs.

The third section examines lessons learned about the SEZs' impact in terms of investment, jobs and exports, as well as their broader impact on sustainable development.

The concluding section brings together insights from the mapping of SEZs, SEZ laws and impacts, and offers recommendations to address today's "triple challenge".

A. THE UNIVERSE OF SEZs

1. Mapping SEZs: scope, definitions and taxonomy

SEZs go by many different names (including free zones, export processing zones and industrial parks), and come in many varieties. For the purpose of data collection, this report focuses on zones with a distinct regulatory regime. However, governments also use other zone-based concepts (e.g. science parks, regional development zones, urban regeneration zones), which are included in the policy discussion. The report proposes a taxonomy of zones based on (i) specialization and (ii) design and governance characteristics.

Estimates of the number of SEZs worldwide in studies carried out over the last few decades range significantly. This lack of certainty reflects the absence of a universal definition for SEZs. The terminology used across countries varies wildly, with the most common terms – free zones, special economic zones, free trade zones, export processing zones, free economic zones, and freeports, in that order – all used inconsistently.[1] *This report has opted to use the term special economic zones or SEZs as the generic term covering all types.*

As part of the research undertaken for this report, UNCTAD has collected data on SEZs worldwide. The data, from public sources or from relevant institutions in each economy, have been verified with national authorities where possible. A summary data set with key statistics by economy is included as a web-based annex to this report.

UNCTAD's data set is based on the most commonly used definition of SEZs, which centres on three key criteria:

- A clearly demarcated geographical area
- A regulatory regime distinct from the rest of the economy (most often customs and fiscal rules, but potentially covering other relevant regulations, such as foreign ownership rules, access to land or employment rules)
- Infrastructure support

Data sets developed by other organizations and researchers have used similar criteria. One of the most comprehensive catalogues of zones, used by the World Free Zone Organization and based on the "Atlas mondial des zones franches" (Bost, 2010), uses the same criteria but focuses on customs-free zones only, excluding SEZs that provide other regulatory exemptions. Other organizations, notably the International Labour Organization (ILO) and the World Bank, have also developed data sets that differ from UNCTAD's data set, mainly because the broad definition of SEZs leaves room for different interpretations.

On the basis of the three criteria above, some types of economic zones commonly assimilated in or equated with SEZs either fall outside the definition or should be regarded as borderline candidates. Common industrial parks, which can be found in almost all urban agglomerations, especially in developed economies, have a clearly demarcated area and may even provide some publicly funded basic infrastructure, but they do not offer a special regulatory regime or incentives. With the exception of those in some Asian countries, which are combined with active clustering initiatives, they are generally not driven by a national industrial policy.

Similarly, many science parks, which are particularly popular in developed countries (there are more than 360 in the European Union (EU), for example), occupy a defined area and enjoy infrastructure support (box IV.1). Unlike industrial parks, they are established

Box IV.1. Science parks and high-tech SEZs

Like SEZs, science parks come in different forms and under different names. The United Nations Educational, Scientific and Cultural Organization (UNESCO) has estimated that there were over 400 science parks by the early 2010s. Other estimates vary depending on how such institutions are defined. The International Association of Science Parks and Areas of Innovation defines the aim of a science park as "promoting the culture of innovation and the competitiveness of its associated businesses and knowledge-based institutions".

Relatively few entities meet the criteria for both SEZs and science parks. Most science parks are not SEZs as defined in this report, as they tend to lack a distinct regulatory framework. Conversely, not all SEZs that focus on science, technology and innovation qualify as science parks since they may not have recognizable links to knowledge-based institutions (e.g. universities). The activities in science parks and high-tech zones tend to be distinct, with the former focusing on the commercialization of research and the incubation of start-ups, and the latter on scaled-up manufacturing in technology-intensive industries.

An EU report in 2013 estimated that there were 366 science and technology parks in the EU member States, covering about 28 million square metres of completed building floor space and hosting some 40,000 organizations that employed approximately 750,000 people (European Union, 2013). The report estimates capital investment in these parks to have been about €11.7 billion in the period 2000–2012, of which €4.8 billion was public funding. Much of the capital expenditure was for building works.

China had established 156 high-tech development zones (HTDZs) by the end of 2017. Starting in the late 1990s, HTDZs were established in major cities such as Beijing and Shanghai and in provincial capitals, building on the existing knowledge and industrial base. They then spread across the country. Incentives offered include access to quality infrastructure, corporate income tax exemptions for the first two years, a preferential 15 per cent corporate income tax, exemptions from tariffs on high-tech equipment and special treatment for employees at the discretion of each zone, such as exemptions from income tax, subsidies on housing, cars, etc. In 2017, the 156 HTDZs contributed $1.42 trillion to China's GDP, or 11.5 per cent of the economy. In these zones, the ratio of research and development (R&D) expenditures to total production value was 6.5 per cent, three times the average in the national economy. Patents granted to enterprises in the zones account for 46 per cent of all business patents granted nationwide.

In Turkey, technology development zones (TDZs) are areas designed to support R&D activities and attract investments in high-tech fields. There are 83 TDZs, 20 of which are under construction. Incentives include exemption of corporate income tax on profits for software development, R&D and design activities; exemption from value added tax on the sale of software produced in TDZs; and exemption from income tax for employees engaging in R&D, design and support activities. Exemption from customs duties on imported goods and subsidies on social security premiums are also offered.

In the transition economies, the Russian Federation established six techno-innovative SEZs between 2005 and 2015, three in the Moscow region, one in St. Petersburg and two in other regions. These six zones have been among the most successful SEZs in the country (Kuznetsov and Kuznetsova, 2019). By early 2018, they hosted 374 residents, including 39 foreign firms. With over 14,000 jobs created, they exceeded the job creation performance of industrial SEZs in the country (13,000 jobs). The Skolkovo Innovation Centre (Moscow), a high-tech business area established by a separate law in 2010, enjoys tax privileges similar to those of SEZs. In addition to hosting firms in advanced microelectronics, nanotechnology and other science-based areas, the Centre also aims to spearhead sustainable development by sourcing at least half of the energy consumed by the zone from renewable sources and by constructing energy-neutral buildings, recycling water and minimizing pollution by transport.

In Belarus, the Free Economic Zone Gomel-Raton (established in 1998) and the China–Belarus Industrial Park Great Stone (established in 2012, designated an SEZ since 2018) target high-technology investors. The two host a combined 111 residents, not only from Belarus but also from Austria, China, Germany, the Russian Federation and the United States, among others. In Kazakhstan, the SEZ Technological Innovation Park in Almaty (established in 2003) focuses on attracting technology-based activity by hosting an information technology (IT) centre, robotics facilities and business solutions in the form of a special cluster.

Source: UNCTAD.

by the public or semi-public sector to foster active clustering, attracting businesses in high-tech industries and nurturing start-ups linked to university research institutions. But like industrial parks, they generally do not offer exemptions from customs, fiscal or other regulatory obligations.

Differences in terminology and the appropriation of terms for other purposes can also cause confusion. For example, the term "free zone" – a form of SEZ focused on customs relief – is used in some countries for concepts that fall outside the definition of SEZs. For example, "urban free zones" in France are initiatives that support small businesses and local services in underprivileged inner-city areas.

Similar initiatives to revive local areas or regions with relatively high unemployment exist in other, mostly developed countries. Some of those initiatives may include some form of fiscal incentives, making them borderline SEZs. For example, in the United Kingdom, enterprise zones promoted by local governments provide discounts on local property taxes (but not corporate income taxes, which is the norm in most SEZs). These zones mostly focus on supporting small and medium-sized enterprises (SMEs), and are not part of active clustering efforts or a national industrial policy. Opportunity zones in the United States are another example. These provide relief from capital gain taxes when investing in economically distressed areas.

Some countries also provide the benefits of free zones to individual production sites. The maquiladoras in Mexico were the original example of this approach. Such a free-point regime can be considered a form of free zone, without the demarcated geographical area. In some countries individual free points are counted as zones, resulting in reports of hundreds of SEZs. (For the purpose of the inventory in this report, the nearly 8,400 free points worldwide have been excluded from the count.)

At the other extreme are province-sized SEZs, originally conceived in China. (The Chinese Government reserves the term "special economic zone" for its five original province-sized zones.) Most SEZs around the world range from less than a hundred to a few hundred hectares in area (about 1 square kilometre on average). Free zones, which usually are fenced to demarcate the separate customs territory, tend to be particularly limited in surface area. Province-sized zones, whose original purpose was to pilot economic or business reforms, provide distinct regulatory regimes. A province can also arguably be considered a defined area (if not, perhaps, demarcated). However, the infrastructure in such areas consists of existing urban or provincial infrastructure and is not dedicated to the zone.

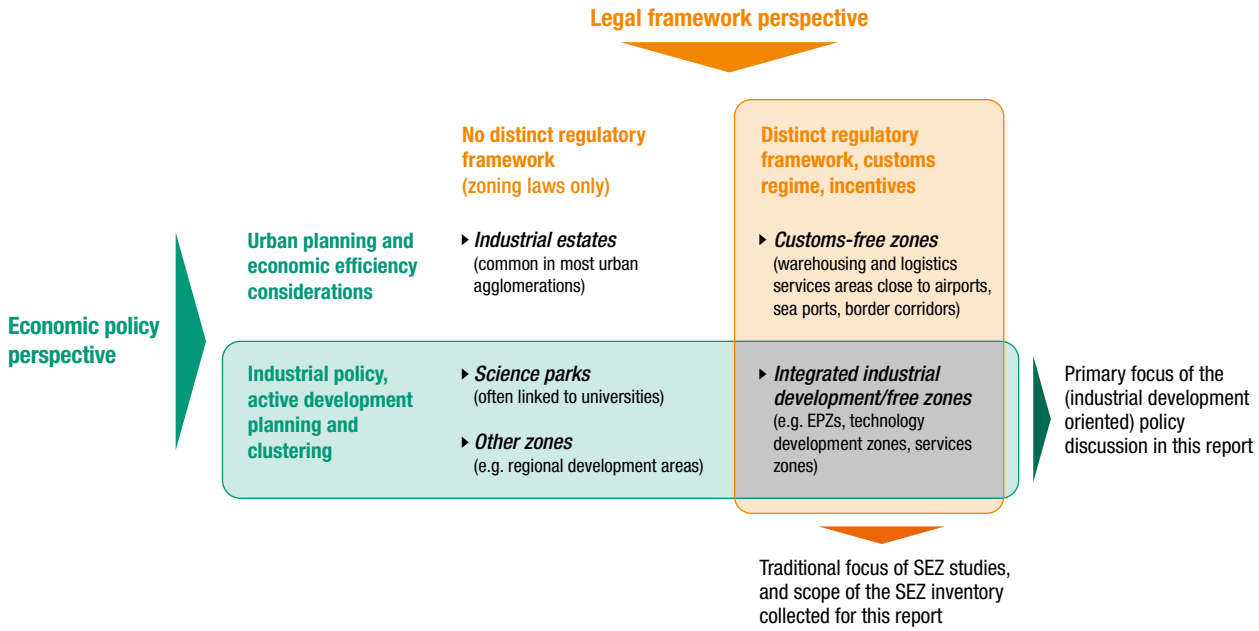
If defining the exact parameters of SEZs is difficult, distinguishing between different types of SEZs can be similarly complex. Most SEZs derive from the concept of free zones (also called free trade zones or commercial free zones), the defining characteristic of which is a separate customs area. Free zones tend to be located next to seaports, airports or border corridors, hosting mostly firms that provide warehousing, logistics and services. In most developed economies, the free zone model has remained close to this original concept. Often, such zones have adjacent industrial parks for businesses that rely on these services and on easy access to international markets, but these adjacent areas generally do not fall under a distinct regulatory regime themselves. In developing countries, in contrast, most SEZs are meant to attract investment in diversified industrial activity and therefore tend to provide customs, fiscal and regulatory benefits to all businesses in larger, integrated industrial free zones.

To add to the complexity, there are numerous examples of zones within zones. The province-sized zones in China often contain various other types of SEZs. But even smaller SEZs that offer fiscal or regulatory incentives sometimes host a free zone (thereby adding customs exemptions) within their perimeters.

The approach followed in this report combines a *legal framework perspective* – what is special about the regulatory framework within a zone – with an *economic purpose perspective* – to what extent is a zone part of an active industrial policy or clustering effort (figure IV.3).

For the purpose of mapping SEZs around the world, this report takes a pragmatic approach focusing on zones with a distinct regulatory framework (i.e. the right-hand column in the matrix in the figure). That criterion ensures an objective source in the form of a national law and, in the vast majority of cases, a national authority that can verify and confirm the data.

Figure IV.3. SEZ scope and definitions: a matrix combining two perspectives



Source: UNCTAD.

From a development perspective, as well as an investment policy perspective, zones that are established as an integral part of industrial policy with active clustering efforts (i.e. the bottom half of the matrix) are the more relevant. Although free trade zones (FTZs), which mostly focus on logistics and warehousing services, are important – especially in developed countries – most existing and planned zones in the developing world are integrated free zones that aim to attract investment in industrial activity.

Many zones that do not have a distinct regulatory regime are established with clear industrial development objectives in mind. Government authorities, often at the subnational level, as well as semi-public and private institutions, have brought enormous innovations to the concept of zones, building specialized zones for science, start-up incubation, R&D, biotech, greentech and many other purposes. Such zones can certainly be valid policy options and alternatives to SEZs. Although it is impossible to provide an exhaustive catalogue of these zones – national governments often do not keep statistics on initiatives of this kind – this report includes them in the policy discussion where relevant.

The statistics presented in the next sections present further complexities. For example, the tallying of zones depends on whether to consider zones as planned, established, under development or operational. There is no uniform approach: studies assessing the impact of SEZs, for example, need to focus on operational zones, while those assessing SEZs as part of investment promotion focus on established zones. An added difficulty is that countries are inconsistent in their labeling of zone status, and zone development pipelines vary – for example, "under development" can mean that several tenants are operating in the zone already, but additional investors are being sought. This report includes all zones established by law. Information on planned zones, where available, is included separately in the web-based annex table.

In addition, SEZs can be classified according to their specific objectives or industrial focus (e.g. high-tech parks, services parks), their location (e.g. port-based zones, border zones), or the type of regulatory regime that applies (e.g. FTZs, commercial free zones). Table IV.1

Table IV.1. A functional taxonomy of SEZs

Organizing principle	Type	Description
Specialization	Logistics hubs (FTZs)	• Commercial, warehousing and logistics services • Trade facilitation services for trans-shipping and re-exports, at airports, seaports, borders • Can be located next to or within larger industrial estates
	Multi-activity SEZs	• General industrial development, non-specialized
	Specialized SEZs	• Focused on sectors (e.g. services, resource or agro-based) • Focused on industries (e.g. automotive, electronics, garments) • Focused on GVC activities (e.g. business process outsourcing, call centres, R&D centres)
	Innovation-driven SEZs	• Focused on industrial upgrading and new industries, e.g. high-tech zones, biotech zones, ecozones
Design and governance	Wide-area zones	• Large, integrated zones, often coinciding with a subnational administrative region or built as townships with residential areas and amenities • Original purpose of the largest zones was to pilot economic reforms
	OFDI/ODA-driven zones	• Established under a partnership between capital-exporting economies and lower-income economies
	Cross-border/regional development zones	• Established to foster regional economic cooperation and to exploit economies of scale associated with regional markets

Source: UNCTAD.
FTZ = free trade zone, GVC = global value chain, ODA = official development assistance, OFDI = outward foreign direct investment, R&D = research and development, SEZ = special economic zone.

takes a different approach, combining as organizing principles (i) the focus of zone activities and (ii) the design and governance of zones. It provides a functional taxonomy of zones that is referred to throughout the report.

2. Overview of SEZs worldwide

a. Global patterns: the SEZ development ladder

SEZs are used by more than 140 economies around the world, almost three quarters of developing economies and almost all transition economies. Their number has grown rapidly in recent years, and at least 500 more are in the pipeline. Most SEZs are multi-activity zones. Industry-specialized zones and zones focusing on innovation are concentrated in more advanced emerging markets. Most developed-country SEZs focus primarily on logistics. The use of zones by countries at different stages of industrialization shows a clear SEZ development ladder.

UNCTAD's inventory for this report includes at least 5,383 SEZs in 147 economies (tables IV.2 and IV.3).

The economic significance and policy objective of SEZs differ substantially among economies at different levels of development. In developed economies, most SEZs are customs-free zones. Their role is to provide relief from tariffs and, more importantly, from the administrative burden of customs procedures, in order to support complex cross-border supply chains. In developing economies, in contrast, the primary aim of SEZs is generally to build, diversify and upgrade industries by attracting FDI. In fact, economies that have

Table IV.2. Number of SEZs, by region 2019

	Total number of SEZs	… of which under development	Additional SEZs planned
World	**5 383**	**474**	**507**
Developed economies	**374**	**5**	**..**
Europe	105	5	..
North America	262	..	..
Developing economies	**4 772**	**451**	**502**
Asia	4 046	371	419
East Asia	2 645	13	..
China	2 543	13	..
South-East Asia	737	167	235
South Asia	456	167	184
India	373	142	61
West Asia	208	24	..
Africa	237	51	53
Latin America and the Caribbean	486	28	24
Transition economies	**237**	**18**	**5**
Memorandum			
LDCs	173	54	140
LLDCs	146	22	37
SIDS	33	8	10

Source: UNCTAD.
Note: Zones are counted on the basis of their establishment by law. They exclude 8,368 single-enterprise zones (free points) found in 18 economies. SEZs in other developed economies (Australia, Israel, Japan and New Zealand) and in Oceania were counted towards the respective economic group's aggregate and the global total. Data for those individual economies are available in the web annex table.

Table IV.3. Number of economies with SEZs, by approach to SEZ regime, 2019

	SEZs only	SEZs + free points	Free points only	No SEZ/ No information
World	**129**	**17**	**1**	**51**
Developed economies	**26**	**0**	**0**	**12**
Europe	23	0	0	12
North America	1	0	0	1
Developing economies	**87**	**16**	**1**	**38**
Africa	32	5	1	16
Asia	33	2	0	5
East Asia	4	1	0	2
South-East Asia	11	0	0	0
South Asia	6	0	0	3
West Asia	12	1	0	0
Latin America and the Caribbean	20	9	0	7
Transition economies	**16**	**1**	**0**	**1**
Memorandum				
LDCs	26	3	1	17
LLDCs	20	2	1	9
SIDS	6	4	0	18

Source: UNCTAD.
Note: The total number of economies examined is 198, consisting of all UN Member States, Hong Kong (China), Macao (China), Taiwan Province of China and other non-UN Member States with at least one established SEZ (Aruba, Cayman Islands, Curaçao, Kosovo and the State of Palestine). Information on other developed economies (Australia, Israel, Japan and New Zealand) and the 12 economies in Oceania was counted towards the respective economic group's aggregate and the global total. Data for those individual economies are available in the web annex table.

traditionally struggled to attract FDI show a higher propensity to adopt SEZ programmes. Excluding small island developing States (SIDS), where the availability of resources to build zones is limited (box IV.2), SEZs are found in most structurally weak economies (LDCs and landlocked developing countries (LLDCs)) (see table IV.3). All but one of the transition economies operate SEZs, which, as in China, were considered instrumental in building market economies and increasing participation in international trade.

Although SEZs are widely used, a handful of economies account for the majority of them. China alone hosts over half of all SEZs in the world. Other countries with high numbers of SEZs include India, the United States and the Philippines. Zone concentration is observed at the regional level, too. Economic activity among SEZs is also relatively concentrated, with a few large zones attracting significant amounts of investment and generating a large share of exports while many others, often smaller zones, remain relatively inactive (FIAS, 2008). Nevertheless, even one or two zones can significantly affect a country's FDI and export performance.

Three groups of economies have relatively low SEZ densities. Most developed economies do not have SEZs apart from free zone programmes. The business environment in these countries is considered sufficiently attractive, and many offer alternative policy schemes to facilitate trade in cross-border supply chains, such as duty drawbacks or systems of bonded warehouses. Second, economies that face particular geographical challenges – most notably, as mentioned above, SIDS – have limited resources to create zones, and their locations often make the development of export-oriented manufacturing less viable.

Box IV.2. SEZs in SIDS

Reflecting the limited public resources in small island developing States (SIDS), SEZ programmes are found in only one third of the 28 SIDS economies, most of which run a system of free points. Given the limited potential for manufacturing, newer SEZ regimes in SIDS are seeking to attract diverse industries, especially services.

To overcome the problem of limited land availability, most SEZ programmes in SIDS offer a special SEZ license or certificate that is not tied to a designated multi-user zone. In Mauritius, for example, the concept of an EPZ has never been limited to any specific geographical zone. Likewise, in Seychelles, the international trade zone license is granted to qualified companies, while the country's fenced-in area, called the Financial Services Authority zone, does not stipulate a special incentives regime for zone occupants, which can be domestic or foreign enterprises with or without an international trade zone license.

Traditionally, the SEZ regime has been used to attract export-oriented FDI in the manufacturing sector. The majority of SIDS economies, however, are increasingly targeting foreign investments in business process outsourcing, information and communication technology, and large-scale hotel and resort projects, as well as private and public investors for developing new zones.

To comply with the World Trade Organization's rules on subsidies, some middle-income SIDS (e.g. Cabo Verde and Jamaica) are modernizing their existing EPZ-type regimes. Mauritius amended its Income Tax Act and the Freeport Act in 2018 to remove the corporate tax exemption on export of goods.

SIDS economies without established SEZs are considering new schemes. Maldives, where the SEZ law was adopted in 2014, has proposed several SEZ projects, including an integrated port and EPZ, as well as an island-wide "Youth City" project to curb youth unemployment by attracting private sector investors. Vanuatu is preparing a new framework to implement a pilot FTZ project (covering 50 ha) in 2019. The proposed zone will seek to attract manufacturing plants as well as call centres, data centres and other digital services.

Source: UNCTAD.

Third, economies with insufficient resources or relatively weak institutional or governance capabilities also tend to have fewer SEZs; the multiplication of zones driven by outward FDI (OFDI) or official development assistance (ODA), however, has eased these constraints.

The development of SEZs has occurred in a series of regional waves (Bost, 2010). In each region, the majority of economies adopted zone programmes within a short period of time. Most countries in East and South-South East Asia began establishing SEZs in the 1970s and the early 1980s. In Latin America, the majority of SEZ programmes were introduced in the late 1980s and 1990s. Transition economies adopted SEZ regimes mostly in the 1990s. In Africa, most programmes were adopted in the 1990s and 2000s.

The adoption of SEZ programmes in waves was due to a combination of emulation and competition. Successful SEZ programmes in East and South-East Asia, which were part of export-led development strategies, provided a model for other regions to emulate. Within regions, individual countries both followed the example of, and competed with, early adopters' successful programmes. As regions compete for investment, SEZs may be seen as both a tool to attract FDI and an instrument to limit the "race to the bottom" to confined areas. Changes in the political climate have also contributed to the adoption of SEZ programmes in waves, particularly in formerly planned economies, where they facilitated economic experimentation and relatively rapid business reforms.

As a result of the development of SEZs in different contexts and at different times, the distribution of zones across regions by type varies (table IV.4). The majority of zones are multi-activity zones (following the functional taxonomy proposed in table IV.1). Industry-specialized zones are more common in transition economies. Innovation-driven zones are most common in the more advanced emerging markets in Asia (they are absent in developed countries because science parks without a distinct regulatory regime are not included in the inventory developed for this report). The bulk of zones in developed markets are pure free zones focusing on facilitating trade logistics.

Countries tend to adopt specific types of SEZs according to their stage of economic development (table IV.5.). Relative newcomers to SEZ programmes, such as numerous economies in Africa, are using SEZs to kick-start manufacturing, industrialization and exports. Many more advanced economies use zones to stimulate industrial upgrading. In transition economies, technology-focused zones are important.

The SEZ development ladder is also apparent in the evolution of zones within economies, especially early adopters of SEZ programmes. In high-income Asian countries (e.g. the Republic of Korea, the United Arab Emirates), for example, zones that were initially intended to attract export-oriented manufacturing are now diversifying towards services and vertical integration, whereas in Latin America and the Caribbean, SEZs that initially focused on warehousing and logistics only have evolved towards manufacturing and services.

Table IV.4. Distribution of zone types, by region or grouping (Per cent)

	Logistics hub	Multi-activity[a]	Specialized	Innovation-driven
World	**8**	**62**	**24**	**5**
Developed economies	91	9	1	0
Africa	1	89	10	0
Asia	2	65	26	7
China	1	93	1	6
Latin America and the Caribbean	9	77	13	1
Transition economies	3	34	59	5

Source: UNCTAD.
[a] Includes unspecified and unknown.

Table IV.5. The SEZ development ladder

	Zone policy objectives	Prevalent zone types
High-income economies	• Provide an efficient platform for complex cross-border supply chains • Focus on avoiding distortions in the economy	• Logistics hubs free zones only (not industrial free zones) • Innovation and new industrial revolution objectives pursued through science parks without separate regulatory framework, or though incentives not linked to zones
Upper-middle-income economies	• Support transition to services economy • Attract new high-tech industries • Focus on upgrading innovation capabilities	• Technology-based zones (e.g. R&D, high-tech, biotech) • Specialized zones aimed at high value added industries or value chain segments • Services zones (e.g. financial services)
Middle-income economies	• Support industrial upgrading • Promote GVC integration and upgrading • Focus on technology dissemination and spillovers	• Specialized zones focused on GVC-intense industries (e.g. automotive, electronics) • Services zones (e.g. business process outsourcing, call centres)
Low-income economies	• Stimulate industrial development and diversification • Offset weaknesses in investment climate • Implement or pilot business reforms in a limited area • Concentrate investment in infrastructure in a limited area • Focus on direct employment and export benefits	• Multi-activity zones • Resource-based zones aimed at attracting processing industries

Source: UNCTAD.

Many countries develop more than one type of zone; for example, FTZs and EPZs in Brazil, and SEZs, single-enterprise free points and FTZs in Mexico. This is often the result of a transition to new SEZ models.

b. Regional patterns and innovations

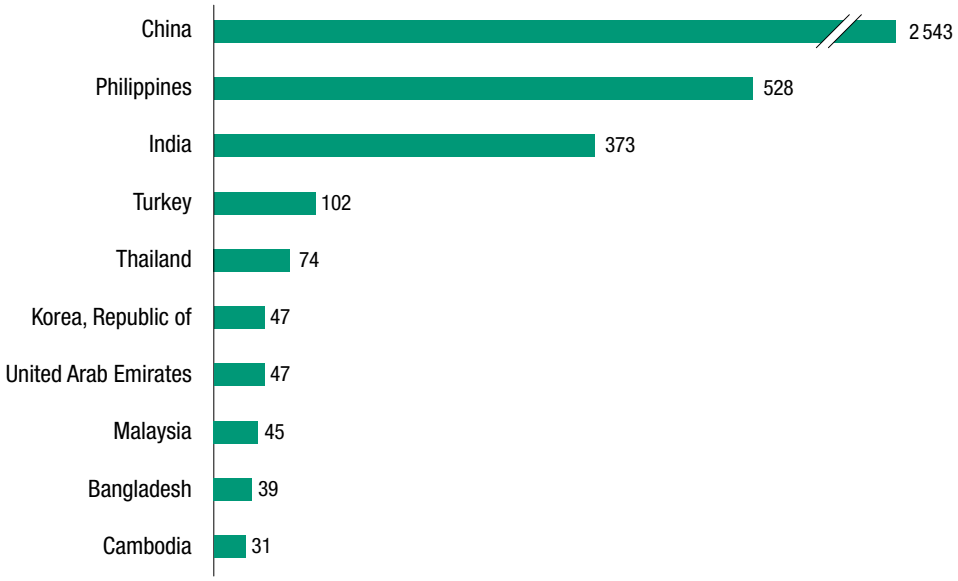
SEZs are used extensively across most regions. The highest numbers of SEZs are found in China, the Philippines, India, the United States, the Russian Federation, Turkey, Thailand, the Dominican Republic, Kenya and Nicaragua, in that order. Countries vary their approach to zone development along several dimensions: the number and physical dimensions of zones; the concentration of zones in a few large ones, multiple free points, or combined schemes; the level of specialization of zones; and the design of zones as stand-alone industrial sites or integrated townships. Examples abound of ambitious zone development schemes, shifts in strategic focus, efforts to turnaround underperforming zones and zone phase-outs.

(i) Asia

Asia is host to three quarters of all SEZs in the world (figure IV.4). Thirty-five economies in the region have SEZ programmes. The nature and history of SEZs vary greatly across the region's diverse economies.

In East and South-East Asia, economies that pursued successful export-oriented development strategies were early adopters of SEZ programmes in the 1960s. In recent decades, the more advanced economies in the region have transformed their SEZs and launched new types of zones, such as high-tech zones and integrated wide-area zones, which include residential areas and amenities. Less developed economies in the region are now rapidly building and expanding SEZ programmes to attract some of the labour-intensive manufacturing activities that more advanced neighbouring economies used to host.

Figure IV.4. Developing Asia: economies with the most SEZs, 2019



Source: UNCTAD.

In both West and South Asia, SEZ programmes introduced in the 1970s have also recently been revitalized. Since the 2000s, these economies have introduced different types of zones, such as specialized SEZs focusing on services and innovation-driven SEZs, to diversify and upgrade their industries.

A few resource-rich Asian economies, such as Indonesia and the Islamic Republic of Iran, are experimenting with SEZs that specialize in natural resource processing, to attract investment in downstream activities.

Asian foreign investors (e.g. from China, India, Japan, Malaysia and Thailand) participate in the development and operation of OFDI-driven zones in the region. Some of these are being developed in conjunction with bilateral and multilateral assistance in finance and capacity building (e.g. in Bangladesh and Myanmar).

(ii) East and South-East Asia

Among the first economies to establish EPZs were Taiwan Province of China (1966), Singapore (1969) and the Republic of Korea (1970). Through their EPZs these economies succeeded in developing labour-intensive, export-oriented industries, providing a model for others to follow. Most other economies in South-East Asia adopted EPZ policies in the 1970s.

The Asian economic crises in the late 1990s led governments to focus on productivity improvements and industrial upgrading, to reduce reliance on low-cost labour. As a result, SEZs shifted from multi-activity zones to specialized and, in the more advanced economies, innovation-driven SEZs. For instance, Taiwan Province of China established three science parks in the 1980s and four environmental science and technology parks in the 2000s. Three specialized SEZs focusing on agricultural biotechnology were also launched in the 2000s as part of an industrial upgrading strategy. The original Kaohsiung EPZ, the first SEZ in Taiwan Province of China, now includes designated areas for the software industry and for logistics.

Wide-area (or township) zones have been introduced to boost economic growth in underdeveloped regions. In the Republic of Korea, for example, free economic zones were launched in the early 2000s to promote FDI and balance regional growth. These zones

offer not only productive facilities but also residential areas, quality medical services, leisure opportunities and educational institutions. There are eight such zones in the country, along with 13 FTZs and 26 specialized SEZs (complex foreign trade zones).

Similar SEZ policy transformations have taken place in South-East Asia. Singapore established multi-activity zones in the 1960s and specialized SEZs (e.g. petroleum refinery activities) in the 1970s. In the 2000s, its SEZ policy shifted to creating knowledge-intensive clusters through the establishment of innovation-driven SEZs focused on R&D and other high value added activities. In the Philippines, SEZs evolved from customs-free zones limited to foreign trade, first introduced in 1969, to multi-activity zones (EPZs hosting only manufacturing) in the 1970s, and then to specialized SEZs in the 1990s ("ecozones" hosting both manufacturing and services activities, including information and communication technology (ICT) and business process outsourcing). Today, all the zones in the country have an industry focus – either manufacturing, information technology (IT), agroindustry, tourism or health services.

The CLMV countries (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam) began establishing SEZs to attract labour-intensive manufacturing in the late 1990s and 2000s. Cambodia launched a new SEZ programme in 2005, establishing specialized SEZs to diversify its industrial base beyond electronics and automobile parts. Other low-income countries in the region are just starting their SEZ programmes. Myanmar has one SEZ, with a further two under construction in partnership with China, Japan and Thailand.

Besides their impact on national economies, SEZs in East and South-East Asia also significantly contribute to regional economic integration by facilitating regional value chains (*AIR17*). A number of recent SEZs in the region were expressly established to facilitate not only regional trade but also exchanges of resources. In Cambodia, the Lao People's Democratic Republic and Thailand, most SEZs have been developed near border corridors with neighbouring countries, to promote cross-border trade and investment.

In addition, some SEZs in South-East Asia explicitly seek to address uneven development within economies, as in the Korean example. One of the objectives of Cambodia's SEZs is to establish economic links between urban and rural areas. In Malaysia, regional economic corridors – a new type of SEZ – were launched in the 2000s to promote development in rural provinces.

(iii) China

China's SEZs originated in its "reform and opening up" policy in the early 1980s. To experiment with market economy reforms, SEZs were established in four coastal cities (Shenzhen, Zhuhai, Shantou and Xiamen) located close to Hong Kong, China; Macao, China; and Taiwan Province of China. These were followed in the mid-1980s by zones established in cities along the east coast, to fully leverage the geographical advantages of those cities as foreign investment destinations. In the early 1990s and 2000s, two waves of SEZ expansion built on the previous successes. As economic growth took hold in the coastal regions, the geographical focus of new SEZs shifted inland and to the west of China, to promote regional development. The 2018 official Zone Directory records five categories of 552 State-level zones and 1,991 provincial zones, together accounting for over half of all SEZs in the world (table IV.6). This total excludes SEZs established at local levels.

China has been experimenting with new types of wide-area zones. The pilot FTZ established in 2013 is the latest programme of this kind. After 2010, the original four SEZs were expanded to include their entire city administrative areas. These new-generation wide-area zones are expected to test institutional innovations in tackling specific development issues, before being replicated at the State or regional level. Instead of traditional fiscal incentives,

Table IV.6. State-level zones in China

Five categories in the official Directory	Selected types of wide-area zones
• Economic and technological development zone (ETDZ)	• Special economic zone
• High-tech industrial development zone (HIDZ)	• National new area
• Special customs zone (SCZ)	• National innovation demonstration zone
• Border/cross-border economic cooperation zone (BECZ)	• National key experimental zone for development and opening-up
• Other types	• Pilot FTZ
	• Cross-border e-commerce pilot zone

Source: UNCTAD, based on the Directory of Development Zones of China (Announcement No. 4, 2018), the National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Land and Resources, the Ministry of Housing and Urban-Rural Development, the Ministry of Commerce and the General Administration of Customs.

support from the central government to these zones focuses on economic liberalization, including investment policy experimentation. For example, the negative list approach for foreign investment (a more open approach to foreign investors that restricts access only in those industries explicitly listed) was first tested in the Shanghai pilot FTZ in 2013, further extended to other pilot FTZs and provinces from 2015 to 2017, and ultimately adopted as national policy in 2018.

(iv) South Asia

India was among the first in the region to adopt SEZs, establishing an EPZ in 1965. Its SEZ programme largely stagnated in the 1960s and the 1970s, however. In the 1990s, in the context of economic liberalization, many of the controls that had stymied SEZ operations were removed. A new scheme introduced in 2000 permitted state governments as well as the private sector to establish SEZs. The SEZ Act in 2005 aimed to push private sector investment to support industrial development. The Act converted EPZs to SEZs and clarified the rules for establishing other SEZs, resulting in a proliferation of new zone plans – although many were subsequently withdrawn in the face of contentious land acquisitions, a lack of demand for SEZ space, economic slowdown and a change in the tax incentive regime for SEZs (Moberg, 2015; Aggarwal, 2010) Today, 231 SEZs are operational, more than 60 per cent of which specialize in ICT-related manufacturing and services. India is now taking a more cautious approach to SEZ development, having eliminated incentives for developers in 2016 and currently phasing out direct tax benefits for tenants by 2020.

Bangladesh's eight public and one private EPZ are all specialized SEZs focusing on apparel and textiles. The private EPZ, the Korean Export Processing Zone, was developed and is managed by a subsidiary of Youngone Corporation (Republic of Korea). In addition to the nine EPZs, the country hosts another 30 economic zones, 24 of which are under development. Four of these are being developed by international partnerships (box IV.3).

The number of SEZs in South Asia is set to increase substantially in the coming years. India has over 200 new zones in the pipeline, although growth may lose momentum now that permits for a substantial number of zones have been retracted. In Bangladesh, a further 60 SEZs are in the approval process. Pakistan is planning another 39 SEZs, in addition to its existing seven. Nepal, which has two zones, one of which is under construction, has plans to create 12 more.

(v) West Asia

Turkey, which enacted its Free Zone Law in 1985, operates 18 active free zones and has one more under development. Located on the coast or within easy access to ports, the zones are designed to promote classic export-oriented manufacturing investment. In the 2000s, Turkey created a new type of SEZ – technology development zones – to attract

Box IV.3. Setting ambitious goals for SEZ expansion: Bangladesh

To accelerate economic growth and diversification, Bangladesh established two new agencies in 2010, tasked with leading the development of economic zones and high-tech parks: the Bangladesh Economic Zones Authority (BEZA) and the Bangladesh Hi-Tech Park Authority. Moving away from the EPZ model, the new agencies rely mainly on private capital and expertise to build, own, manage and operate new zones serving both domestic and foreign markets.

BEZA's mission is to establish 100 economic zones across the country between 2015 and 2030, with the goal to create 10 million jobs (compared with the cumulative employment of half a million people created by the country's eight existing EPZs over three decades) and an additional $40 billion in exports (almost equivalent to the country's total exports in 2017). The programme's FDI target of $9.6 billion is also ambitious, given the country's annual average FDI flows of $2.2 billion in 2015–2017, 15 to 20 per cent of which was attracted by the eight EPZs. Additional objectives include fostering linkages between the economic zones and local industries and narrowing regional economic disparities.

BEZA's list of approved economic zone projects grew from two at the beginning of 2015 to 88 at the end of 2018, 29 of which are being developed by the private sector. The development programme is supported by a multi-year technical assistance scheme of the Japan International Cooperation Agency. The total value of expected investment in just three of the economic zones amounts to nearly $17 billion – more than two thirds of the country's GDP in 2017 – $8 billion of which will come from foreign investment in manufacturing.

As of the beginning of 2019, development work was continuing on 28 approved projects, of which 11 are already operating while adding new buildings or facilities. The remaining 17 projects are at various stages of development.

The 12 Government EZs under development include four "G2G/PPP" economic zones, in which the Government of Bangladesh assumes 30 per cent of the equity and allows public and private partners from China, India and Japan to develop and operate the zones. Land for the Chinese-run economic zone (321 ha in Anowara), two Indian-run zones (204 ha in Mirsarai and 83 ha in Mongla) and the Japanese-run zone (202 ha in Araihazar) has already been purchased. A preliminary list of target industries in these four economic zones combines foreign investors' continuing interest in Bangladesh's traditional EPZ activities (textiles, footwear and ready-made garments) with additional manufacturing activities (e.g. liquified natural gas, steel, automotive, pharmaceuticals and food processing).

Private economic zone projects are moving faster than public ones, reflecting the fact that most private economic zones are single-entity zones covering smaller areas of no more than 40 ha. The public projects, in contrast, cover areas that are often larger than 100 ha and sometimes exceed 10,000 ha, including underdeveloped areas where basic infrastructure is not always in place.

Besides the need to build infrastructure, key challenges in the rapid development of the economic zones include delays in the acquisition of land, the limited availability of long-term finance for private developers and the lack of expertise in zone marketing.

Source: UNCTAD, based on information from BEZA.

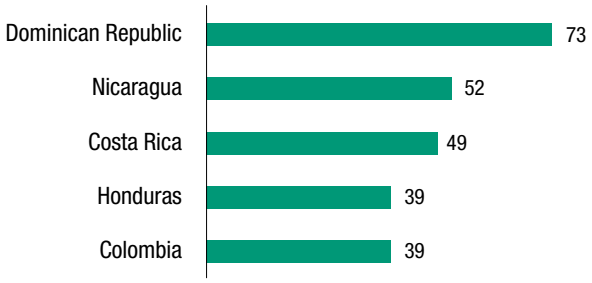
investments in R&D and high-tech industries. These zones offer tax incentives focused on research, software development and other innovative activities.

The Gulf Cooperation Council countries use SEZ programmes to support strategic transformation in key industries (e.g. finance). Many are built with public finance and boast state-of-the-art facilities. The most notable examples are SEZs in the United Arab Emirates, where the first free zone was established at the Jebel Ali Port in 1985. The objective was to assist the development of the port, which was located far from populated areas and was struggling to attract business, by drawing in multinational enterprises (MNEs) to establish regional distribution hubs. Following the success of the Jebel Ali Port, SEZs proliferated in the country. Many of the free zones in the United Arab Emirates operate as re-export hubs. In 2000, the first non-trade free zone – a technology, e-commerce and media free zone – was established, targeting investment in a range of IT-related services. Subsequently, other specialized free zones were established, including Dubai Internet City, Dubai Media City, Knowledge Village, Dubai Multi Commodities Centre and Dubai Health Care City.

(vi) Latin America and the Caribbean

Free trade zones have a long tradition in Latin America, with some established as early as the early 19th century. The Colonia and Nueva Palmira FTZs in Uruguay were created in 1923. Most countries in the region drafted their current SEZ legislation during the 1990s.

Figure IV.5. **Latin America and the Caribbean: economies with the most SEZs, 2019**



Source: UNCTAD.

Since 2010, however, much activity has taken place – renaming, re-focusing and expanding zones, and opening new zones – as part of a drive to revive SEZs as engines of economic growth and employment creation. Currently, the region has almost 500 SEZs, hosting more than 10,000 enterprises and employing about 1 million people (figure IV.5).[2] SEZs are found in almost all economies in Central America and South America, except Suriname and Guyana. In the Caribbean, in contrast, only a few economies have an SEZ regime.

Single-enterprise free points are popular in the region, especially in countries that are relatively more dependent on SEZs for exports, including Colombia, the Dominican Republic, Jamaica, Mexico, and Trinidad and Tobago. Although free points, like SEZs, typically seek to attract large projects and foreign capital, the prevalence of this model in some countries in the region was driven

Box IV.4. **The single-enterprise free-point approach**

Many countries have adopted single-enterprise free points schemes that provide SEZ incentives to individual enterprises regardless of location. Leading examples include Colombia, the Dominican Republic, Guatemala, Mexico, the Republic of Korea and the United Republic of Tanzania. The free points approach is similar to a bonded manufacturing warehouse scheme but offers a broader set of benefits.[a]

The schemes' official objectives often align with industrial policy goals[b] and can include the development of an "investment project with high economic and social impact" (Colombia), the "alleviation of unemployment problems" and efforts to "modernize infrastructure [and] promote the adoption of new technologies and knowledge" (Mexico). Governments allow single-enterprise free points to target a specific industry that either needs significant capital investment, knowledge or technology not available in the country or requires a location close to natural resources or existing customers, and ultimately cannot benefit from the clustering economies offered by the SEZ model. Examples include farmers or agribusiness companies that need to import machinery; ports, hospitals and clinics (Colombia); or offshore exploration platforms (Colombia), as well as – as in the case of Mexico – manufacturing companies looking for low-cost workers.

Free points allow governments to target specific industries while avoiding specifying the location of zone investors. Not being located in delimited zones, free points companies potentially avoid the "enclave risk" and are believed to be better integrated into local economies. However, granting free zone status for existing enterprises increases the cost of zone programmes by absorbing existing businesses under incentives schemes – thereby reducing the tax base – rather than attracting new investment. Single-enterprise free points are also considered more susceptible to corrupt practices, with companies bribing officials in exchange for free-zone status (Moberg, 2015). Also, control and enforcement of social and environmental rules is more complex in distributed zones than in designated areas. Finally, the normal benefits of zone-based industrial development, including synergies, clustering effects and savings on infrastructure and services development, are foregone.

Typically, the most critical and difficult aspect of operating this kind of scheme is customs compliance and monitoring. Physical control measures can be particularly costly, involving stationing customs officers at licensed premises. This is why, in many cases, countries have moved from physical arrangements to documentary and accounts-based systems. In Mexico, for example, companies operating under the IMMEX (Manufacturing, Maquila and Exports Services) scheme[c] are required to use specialized software to track all imports, exports and scrap. Detailed reporting of these activities and a correct classification of the inventory is also required when audits and non-compliance can result in large fines and possibly the loss of the company's IMMEX permit. In fact, the Mexican public administration encourages IMMEX companies to outsource customs, as well as general accounting and administrative tasks, to a reputable shelter company so as to avoid any liability and exposure in Mexico.

Source: UNCTAD.

[a] Bonded warehousing is a customs procedure allowing the import of goods for storing in a secure area without payment of import taxes until the goods are removed for domestic consumption or re-exported.

[b] Single-enterprise free-point schemes can be considered industrial policies that use selective investment promotion tools and measures to maximize positive spillovers (see WIR17).

[c] Until its new SEZ programme started in 2016, Mexico relied solely on single-enterprise free points formally known as the IMMEX programme. The maquiladora system was established in the 1960s. In December 2018, there were some 6,200 IMMEX enterprises, employing more than 3 million workers.

by policy choices to provide free zone benefits to local SMEs (in their existing location) and by a focus on industrial activities that cannot easily be moved to a delimited area (box IV.4).

The most well-known free points are Mexico's maquiladoras, which originate from the National Border Industrialization Program launched in the 1960s. Under this programme, authorized factories along the border with the United States, were able to import materials and production equipment duty-free and export their outputs to the United States at lower tariffs than those from other countries. As the objective of the Maquiladora Program was economic development of the vast border region, the regime was based on individual factories anywhere in the area, rather than in geographically confined zones. Maquiladoras initially focused on textiles, simple electronics and industrial products, but by the 21st century, they had turned Mexico into a top 100 exporter of auto parts and a strong player in other industries such as aerospace, electronics, medical devices and alternative energy. The success of maquiladoras, boosted by the country's accession to the North American Free Trade Agreement in 1994, has contributed to making the northern part of Mexico prosperous, with a high level of foreign investment; however, the southern part of the country has been left behind. To address the regional disparity, a law was introduced in 2016 to establish seven new SEZs in the south-east and an additional zone in the northern border region (although a recent government decision may reverse these plans).[3]

Another prominent user of free points is Colombia. Legislation was introduced in 2005 that allowed individual companies (foreign or domestic) that invest in sizeable projects with high economic and social impact to become FTZs. The requirements for investment and employment to qualify as single-enterprise free points are slightly different from those entering a free trade park or SEZ, depending on the sector. Today, there are 72 such free points, active in a range of industries including agribusiness, ports, hospitals and clinics, and offshore exploration activities. Free points have been a significant source of employment: the 72 single-enterprise free points represent less than 10 per cent of the total number of investors operating under the combined free zone schemes (a total of 979 in 2018) but account for 42 per cent of the jobs generated by the scheme.

Although SEZs in lower-income countries in the region, such as Honduras and Nicaragua, still focus on labour-intensive industries, mainly apparel and textiles, many – under pressure from low-cost competitors from Asia – are restructuring SEZs to attract higher value added activities. The Dominican Republic, for example, has increased efforts to attract new investors in more advanced manufacturing and services (box IV.5). Some exporters (notably Grupo M) have responded to increasing competition among SEZs by opening zones in neighbouring Haiti to take advantage of lower labour costs and preferential access to the United States market (through the HELP Act).[4]

In Costa Rica, SEZs evolved from hosting low value added manufacturing (e.g. textiles) and services (e.g. BPO operations) to more high-tech manufacturing, most notably medical devices, and advanced services such as sophisticated shared service centres and R&D operations (Gereffi et al., 2019). Colombia is using the concept of SEZs and single-enterprise free points as public-private partnership ventures to innovate, fill financing and knowledge gaps and develop selected industries, including public services. Since 2000, single-enterprise free points have financed the construction and operation of 12 hospitals and clinics, contributing to the country's emergence as a destination for health tourism.

Countries in Latin America, especially the smaller economies in Central America, face a number of challenges besides competition from Asian economies. Their reliance on the United States market makes them vulnerable to trade shocks. The recent fiscal reform in the United States has weakened the attractiveness of some Latin American SEZs, especially in those countries not yet well positioned in GVCs. Facing the possible expiration

Box IV.5. Refocusing and turning around SEZs: the Dominican Republic example

The Dominican Republic is one of the world's pioneers in SEZs. The programme is widely considered a success, attracting FDI and fueling sustained economic growth in the 1990s. At its peak in 2003, SEZ companies accounted for 7.5 per cent of GDP in the country. The key factors driving this performance include the country's proximity to the United States consumer market, preferential trade agreements, incentives granted to SEZs and the availability of low-cost labour.

At the turn of the century, however, the country faced several external shocks: a global economic slowdown, a rise in oil prices and, for the textiles sector then at the heart of the SEZ scheme, the end of the Multi-Fiber Arrangement in 2005 and China's accession to the World Trade Organization in 2001. The number of companies in, and exports from, SEZs fell, and the programme stagnated until 2010 (Burgaud and Farole, 2011).

In this context, local SEZ investors pushed at the national and regional (Caribbean) level towards expanded market access in the United States. Through the leadership of the SEZs' official trade association (the Asociacion Dominicana de Zonas Francas, or ADOZONA) and the SEZ regulating body, the National Free Zones Council, they lobbied successfully for the Dominican Republic's accession to the Central America Free Trade Agreement (2007) and to the Economic Partnership Agreement between the Caribbean and the EU (2008).

In collaboration with workforce development agencies, human resource development was encouraged so as to support the upgrading of the country's production profile. While foreign manufacturers in the textiles industry relocated to lower-cost economies, local firms invested in new technology (new types of fibres) and human capital to be able to integrate vertically and stay competitive with low-cost producers.

Local investors developed inter-industry linkages and diversified production. Some shifted production from apparel to footwear, some opened call centres and pursued joint ventures with Indian IT companies (Schrank 2008), and others opened factories and SEZs in neighbouring Haiti. As part of this private engagement, the SEZ regulating authority – the National Free Zones Council – and ADOZONA increased their efforts to attract new investors from emerging industries, including services (call centres and business process outsourcing), surgical equipment, pharmaceuticals, jewellery and electrical appliances.

Since 2010, SEZ exports, output and employees have rebounded and continued growing, although not yet to the levels of the early 2000s in terms of relative contribution to GDP or total exports. Their contribution to total exports and GDP has stabilized at 55 per cent for exports and 3.2 per cent for GDP – lower than the past levels of 85 and 8 per cent, respectively – indicating that the non-SEZ economy is also growing.

The number of industrial parks has grown by a third since 2012, standing at 73 zones today. Production in SEZs has grown more diversified, with exports of medical and pharmaceutical products representing over a quarter of total exports, and electrical and electronics products representing about the same share (16 per cent) as the traditional garment and textile industry in 2018. The United States still represents the biggest market, with the majority of companies exporting there (58 per cent), even though that share has declined since 2000 (from 86 per cent).

In 2017, SEZs provided about 166,000 direct jobs and an estimated 250,000 indirect ones, the majority of which were still low-skilled workers (blue collar, 71 per cent), even though the share of technical workers has steadily grown since 2012. A growing number of SEZs are entering into collaboration agreements with local universities. Training through a programme offered by the National Institute of Technical-Vocational Training and ADOZONA is reaching increasing shares of SEZ workers. In 2018, the Ministry of Education signed an agreement with ADOZONA and the CNZFE to improve the quality of tertiary education, making it more relevant for SEZ companies.

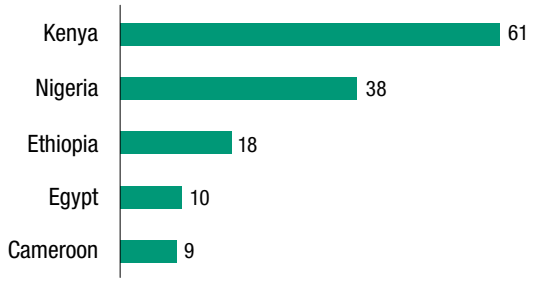
Source: UNCTAD, based on information from the National Council for Export Free Zones (CNZFE).

of the Dominican Republic Earned Import Allowance Programme (EIAP), which grants duty free export of apparel to the United States, the National Free Zones Council is not only lobbying for its extension but also working to open new export opportunities in Europe (including in Spain, Germany, and Finland), while exploring collaborations with China and with African countries (Morocco).

Another challenge is the sustainability of fiscal incentives. In countries where SEZs account for a sizable part of the economy, governments are foregoing a substantial amount of potential tax revenues. In 2018, Costa Rica enacted a tax reform bill to replace the sales tax with a value added tax. Although the exemption for FTZ regime companies was maintained, this was highly controversial, as the Government was dealing with a severe fiscal crisis.

Argentina, Brazil, Ecuador, El Salvador, Guatemala, Mexico, Paraguay, Peru, and Uruguay have all re-examined their FTZ strategies in the last five years, seeking to make special regimes more conducive to economic development. New regimes focus more on the internal market and on cluster specialization, making them more similar to industrial parks and development zones. This could result in 20 to 30 new SEZ being established or brought into operation in the next five years.

Figure IV.6. Africa: economies with the most SEZs, 2019



Source: UNCTAD.

(vii) Africa

SEZs were adopted relatively late in Africa, although they have been gaining increased traction recently. Mauritius was the first African country to establish an EPZ, introducing its EPZ Act in 1970. Others such as Ghana, Liberia and Senegal followed in the 1970s. Yet SEZs and free zones were adopted more widely only in the 1990s, as governments sought to replicate the rapid development of East Asian economies. With infrastructure and institutional weaknesses widely recognized as major factors hampering economic development in Africa, the creation of zones that allow governments to concentrate administrative resources and infrastructure provision in confined areas is often seen as a pragmatic solution to structural shortcomings.

Today, there are an estimated 237 established SEZs in Africa, although some are still under construction (table IV.2). In addition, there are more than 200 single-enterprise zones (or free points). SEZs are found in 38 of the 54 economies on the continent, with the highest number in Kenya (figure IV.6). SEZ programmes in the three largest economies on the continent — Nigeria, Egypt and South Africa – are well developed. Many smaller economies have established SEZ frameworks only in the last 10 to 15 years and tend to have a relatively smaller number of zones.

Although the objective of most SEZs on the continent, especially in Sub-Saharan Africa, is to enhance manufacturing and exports in low-skill, labour-intensive industries such as garments and textiles, some countries are targeting diverse sectors and higher value addition. For example, Morocco has oriented some its free zones to high-tech activities and the automotive industry. Even in Sub-Saharan Africa, the SEZ regimes (re-)established in the last decade (e.g. in Rwanda and Senegal) are focusing on a broader range of value added activities. Some countries link SEZs to natural resource endowments, aiming to attract investors in downstream processing industries, to diversify an export profile that is skewed towards unprocessed resources. For example, Nigeria established a number of zones focused on oil refining (box IV.6).

Some African countries, especially the LDCs, have benefited from bilateral and multilateral assistance in finance and capacity building for the construction of SEZs, notably from China (see also section IV.A.3). The first instance of Chinese involvement in the establishment of SEZs in Africa was in 1999, when China signed an agreement with Egypt to develop an industrial zone in the Suez Canal area. In 2006, as part of the implementation of its 11th five-year plan, China announced the development of 50 SEZs overseas, seven of which were to be in Africa. Subsequently, as Chinese investment and interest in Africa deepened, plans were announced for several additional zones to be built with Chinese support. For instance, China signed an agreement with Djibouti in 2016 to build an FTZ as part of the Belt and Road Initiative; the first phase of the zone was launched in 2018. This 10-year

Box IV.6. Natural resource-based zones: promoting investment in downstream integration

Where natural resources are a substantial part of the economy, natural resource-based zones are common. These zones host a subset of the manufacturing sector, processing raw materials and intermediate products derived from agriculture, fisheries, forestry or extractive industries. The objective is to pursue vertical integration, higher value added exports and broader economic transformation.

African governments are developing agro-zones to promote both food security and a shift from subsistence farming to agro-industrial development. To this end, they are developing agricultural corridors, agro-based clusters, agro-industrial parks and agro-incubators (IISD, 2017). These zones range from a few hectares in urban areas to tens of thousands across regional, national or supranational areas, offering benefits from infrastructure to customs facilitation as well as advantageous regulatory frameworks. South Africa's Dube AgriZone, which is part of the Dube TradePort SEZ, is one such example. The zone hosts the region's largest climate-controlled, glass-covered growing area and also includes packhouses, a central packing and distribution centre, and a laboratory.

Zones based on minerals and hydrocarbons are also gaining popularity in Africa to promote downstream value addition locally. In Nigeria, for example, at least 10 SEZs intended to promote oil and gas processing (among other activities) are under construction or have been announced. The flagship Lagos Free Trade Zone is being developed as a multi-product and logistics hub for the West Africa subregion. Plans are for the fully developed zone to host petroleum and petrochemical complexes, as well as agri-commodity and other manufacturing industries.

Natural-resource based zones are not only being developed in Africa. In Asia, Indonesia plans to attract downstream activities in both agricultural and extractive industries through SEZs. The Sei Mangkei zone offers incentives for investors processing palm oil and rubber. In 2016, a year after the zone became operational, Unilever opened an oleochemical factory processing palm oil for various consumer goods products, targeting the domestic market and South-East Asia. The country is also using SEZs to attract refineries, such as in the Galang Batang SEZ which has opened for alumina refining.

Investments in natural resources zones can be a tool for economic transformation and diversification, as well as poverty alleviation and improved food security. However, the planning and implementation of such zones is not without pitfalls, including potential controversies related to land access, risks to the livelihoods of small farmers, environmental concerns and quality control issues.

Source: UNCTAD.

project, costing $3.5 billion, is to create Africa's largest FTZ, spanning 4,800 ha. The zone will be managed by a joint venture comprising the Government of Djibouti as the majority shareholder and three Chinese companies: the China Merchants Group, Dalian Port Authority and IZP. Involvement by Chinese development companies has also been reported in Algeria, Angola, Ethiopia, Kenya, Mauritius, Nigeria, Rwanda and Zambia, among others.

Although on a much more limited scale, other countries and development agencies have also been involved in development of SEZs in Africa. In 2015, Turkey signed an agreement with Djibouti to create a 500-ha SEZ where Turkish companies would invest to manufacture and export goods to East African and other regional markets. In 2018, the Singapore Cooperation Enterprise, a Singaporean Government agency, signed a tripartite agreement to develop a single electronic window solution to facilitate trade and increase trade efficiencies for the special economic zone in Nkok, Gabon. The other two parties to the agreement were the Gabon Special Economic Zone – an international public-private partnership comprising the Government of Gabon, Olam International (Singapore) and the African Finance Corporation – and the Singapore-based global trade facilitation platform provider vCargo Cloud.

Other examples include the involvement of the Mauritius Development Board and the Mauritius Africa Fund in the development of Senegal's first industrial park. The development of the Gambia's only EPZ, the July 22nd Business Park, was funded by the World Bank. This business park will be upgraded to become the GIETAF Special Economic Zone by a private-sector developer, TAF Africa Global, through a joint venture agreement with the Gambia Investment & Export Promotion Agency.

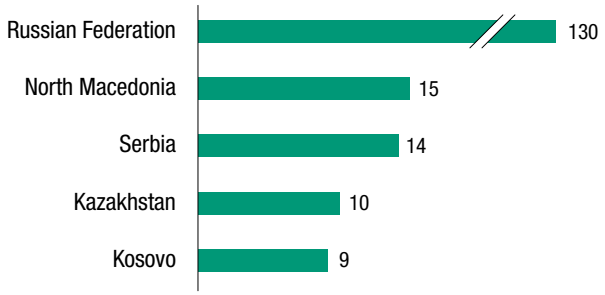
The appeal of SEZs in Africa is likely to continue to grow. The success of a few countries, such as Ethiopia, in using SEZs as springboards for participation in GVCs is likely to prompt

others to follow suit. Many LDCs in Africa that have no or few zones (e.g. the Democratic Republic of the Congo, Lesotho, Madagascar and Rwanda) are planning to set up at least one new SEZ.

(viii) Transition economies

Transition economies began adopting SEZ regimes in the 1990s, soon after the they embarked on their transition from planned economies. The pace of newly established SEZs accelerated from the second half of the 2000s onwards, especially over the 2015–2019 period, due to the creation of Territories of Advanced Development (TADs; also called advanced special economic zones) in the Russian Federation, as a response to the global crisis. The rapid expansion of the number of zones also included failures: 11 SEZs were abolished between 2010 and 2017 (Kuznetsov and Kuznetsova, 2019). During the same period, SEZ programmes also went through a rapid expansion in 10 other economies in the region, although the vast majority of SEZs in the region are concentrated in the Russian Federation (figure IV.7).

Figure IV.7. Transition economies with the most SEZs, 2019



Source: UNCTAD.

With the exception of Ukraine,[5] all the transition economies now have some form of SEZ. The Russian Federation, which accounts for over 70 per cent of the region's GDP, hosts more than half of the 237 zones in the region. The country has a complex network of different types of zones, including two wide-area zones (Kaliningrad and Magadan); 26 SEZs falling under the SEZ law adopted in 2005; the Innovation Centre Skolkovo, which enjoys SEZ privileges according to a 2010 law; 100 TADs in the Russian Far East and in single-industry towns (also called monotowns); and the Free Port of Vladivostok, consisting of at least five subzones (ports). Smaller economies undertaking significant export processing activities, such as North Macedonia and Serbia, also host many SEZs (15 and 14, respectively). Transition economies include a number of LLDCs; as SEZs are often integral parts of infrastructure hubs, typically close to urban zones, border crossings and transportation corridors, they are a favoured policy tool of LLDC policymakers.

A few transition economies have SEZs that cover large areas. The large surface areas of SEZs in some transition economies reflect their availability of land and the focus of some zones on resource-based industries (e.g. petrochemicals zones require relatively large surface areas).

SEZs in the region vary significantly by size, numbers of tenants, industry focus and governance models (public versus private involvement). Export-oriented zones tend to attract mostly foreign firms, whereas zones geared towards regional development, such as those in the Russian Federation, host mostly domestic firms. At the end of 2017, only 19 per cent of the 656 resident firms in the Russian Federation's 26 zones established on the basis of the SEZ law were foreign affiliates, but they accounted for some 60 per cent of investment.

SEZs in transition economies tend to focus on general manufacturing, although in the Russian Federation, technology-oriented zones also play an important role. In addition, the Russian Federation hosts nine tourism zones (box IV.7). The SEZs' industry focus often reflects the host countries' industrial traditions and resource endowments. Due to the recent addition of 82 single-industry cities among SEZs, more than half of the zones in the region now focus on a specific industry.

Box IV.7. SEZs in non-traditional industries: tourism zones

Various countries have created SEZs to promote tourism or tourism-related industries: examples include Bangladesh, China, Indonesia, the Lao People's Democratic Republic, Malaysia and the Russian Federation. Others, such as Uzbekistan, are considering the creation of such zones. In countries such as the Republic of Korea, tourism is allowed in combination with other activities (e.g. in zones catering to health tourism).

Tourism SEZs offer similar advantages as SEZs in manufacturing: customs reduction on capital goods, tax benefits, infrastructure support and facilitation of business registration. Given the characteristics of tourism (mostly bound to certain locations of natural beauty or cultural value), most countries do not consider SEZs a policy tool to promote the industry, relying instead on general incentives schemes or for the development of remote or underdeveloped areas, or other clustering techniques.

Countries using SEZs to promote tourism do so for a number of reasons:

- SEZs have administration companies that can look after investor needs, especially in countries with no one-stop shop.
- Tourism zones, given their confined and homogenous nature, can offer a better framework for integrated resort and leisure community development.
- Tourism zones can also be a conduit to bring in specific foreign investors (such as Chinese investors in the SEZ Grand Baikal in the Russian Federation).
- Environmental protection and sustainable, green development (including ecotourism) can be better administered in the confined area of the SEZs than in the national territory at large.

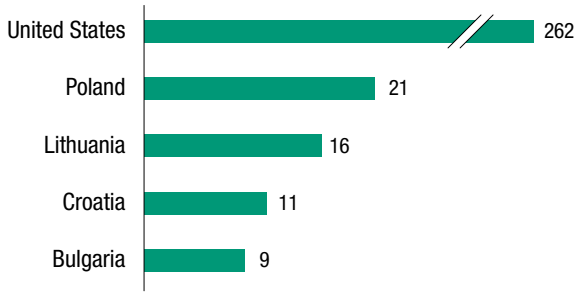
Source: UNCTAD.

Urban and inland SEZs dominate, due to the landlocked situation of a large part of the region. Ownership is often private but the larger zones are usually publicly owned. Foreign zone operators are present in Belarus (in the Chinese–Belarussian Industrial Park Great Stone), in Armenia (the high-tech FEZ Alliance in Yerevan is managed by Sitronics of the Russian Federation) and in Georgia (the Free Industrial Zone Hualing Kutaisi 2 is managed by a Chinese firm). Various countries in the region are planning to add new zones, and at least 18 are under construction, particularly in the Russian Federation, Serbia and Turkmenistan.

(ix) Developed economies

SEZs are found in about 70 per cent of developed countries. Almost all the zones are customs-free zones, and their economic significance as a share of the overall economy in which they are located is relatively limited, except possibly in the United States. Foreign-trade zones in that country account for over 70 per cent of the zones in developed countries (figure IV.8). Most European countries have either no SEZs or only customs-free zones. Bulgaria, Lithuania and Poland, however, have both customs-free zones and zones in which other fiscal incentives are offered.

Figure IV.8. Developed economies with the most SEZs, 2019



Source: UNCTAD.

The general thrust of economic policy in developed countries is to create a level playing field across the economy, rather than setting up privileged areas. The main rationale for establishing SEZs in developed economies is to reduce the distortionary effects of tariffs and regulatory "costs" associated with importing.

Governments of many developed economies do assist in the establishment of various forms of science and technology parks. However, government involvement mostly takes the form of capital expenditures rather than fiscal or other regulatory incentives conditioned on locating in

defined zones (see box IV.1). Science and technology parks without a distinct regulatory regime are not included in the inventory of SEZs produced for this report.

Regional development or support for underprivileged or high-unemployment areas also provides a rationale for SEZs in developed countries. Japan and Poland offer incentives (or more generous incentives) to investors in less developed regions of the country through SEZ mechanisms. Enterprise zones in the United Kingdom and urban free zones in France are other examples of such zones which, however, do not function as special economic areas with separate regulatory regimes.

The SEZs in the United States, known as foreign-trade zones, are customs-free zones. The objective of these zones is to encourage firms to undertake distribution or manufacturing operations at United States facilities, rather than elsewhere. Foreign-trade zones provide relief from tariffs and customs administrative burdens that put United States locations at a disadvantage in relation to competing locations abroad. Their benefits are extended to local firms without the need for those firms to relocate or establish a presence in the zones: foreign-trade zones can establish subzones for use by individual companies in the area, similar to free points. There are over 500 approved subzones that may undertake manufacturing activities. The largest industries currently using these zone procedures include oil refining, automotive, electronics, pharmaceutical, and machinery and equipment.

In the EU, member States are permitted to designate parts of the customs territory of the Union as free zones, where goods from outside the EU can be brought in free of import duties and other charges. Consequently, many of the free zones in the EU are located on the periphery of the Union.

Some customs-free zones most common in developed economies are referred to as "freeports". These are essentially warehouse facilities that are designated as tax-free and used for storage of valuable items such as artwork, jewellery, precious metals and other luxury goods. In Europe, such freeports exist in Luxembourg, Monaco and Switzerland.

SEZs aimed at industrial or regional development are found in Central and Eastern European countries (i.e. Bulgaria, Lithuania and Poland), where SEZ programmes mostly predate EU accession, as noted earlier.

The European Commission considers tax incentives in SEZs to be state aid. All measures that constitute state aid must be notified by the member State for approval by the Commission, unless they fall under the de minimis regulation or the general block exemption regulation. The latter permits categories of state aid that are deemed to bring benefits to society that outweigh their possible distortions of competition. It includes, among other categories, aid to address regional problems.

In those European countries that operate SEZs, there is typically substantial public involvement in their management. Bulgaria's SEZs are managed by a State-owned company. SEZs in Czechia and Poland are also publicly owned. In Croatia, real estate in the port free zones is mostly owned by the Government and managed under the jurisdiction of local port authorities. In Slovenia, the free zone Koper is managed by a public limited company which is majority owned by the State. In Switzerland, the management company of the freeport, Geneva Free Ports & Warehouses, is a limited company whose principal shareholder is the State of Geneva. Only the freeport in Luxembourg is privately owned.

In the United States, foreign-trade zones are created at the instigation of local organizations rather than the federal Government. A local organization (e.g. city, county or port authority, economic development organization) applies to a federal body for a license to establish and operate a foreign-trade zone, which may be granted by a federal body, the Foreign-Trade Zones Board.

Box IV.8. SEZs in Poland: a phase-out strategy example

SEZs in Poland were initially established for a period of 20 years. Subsequently,in 2008 and again in 2013, their lifetime was extended to the end of 2026. In 2018, however, Poland adopted a new law to create the "Poland Investment Zone". This new regime enables investors to benefit from the preferential conditions associated with SEZs in the entire territory of Poland, provided that they meet certain criteria.

Poland's zones were generally considered a success. The main benefits offered to investors were exemptions from corporate income tax. To qualify, investors needed to obtain an SEZ permit, which was granted on the basis of capital expenditures and newly created jobs. (Since the accession to the EU, preferential conditions offered to investors in SEZs have had to conform to the EU's General Block Exemption Regulation, which stipulates exemptions to the state aid rules.) SEZs in Poland have succeeded in attracting investment and generating employment. By June 2018, the cumulative number of jobs created in the 14 zones had reached 448,000 while the cumulative investment had reached $35 billion.

Despite the success of the zones, their disadvantages also became apparent. By their nature, SEZs discriminated against firms based outside the zones. Since the criteria for obtaining an SEZ included the size of investment, most investment projects by domestic SMEs did not qualify for tax exemption. In addition, neighbouring countries, such as Czechia, Hungary and Slovakia, offered income tax exemptions to investors regardless of their location. The system of zones therefore risked putting Poland at a disadvantage both as a destination for FDI and as a location for domestic SME investment.

The New Investment Support Act lowered the criteria for obtaining public support so that more SMEs can qualify for it. Moreover, the system is designed so that investors in less developed regions are able to obtain more generous public support. Whereas the previous system granted SEZ permits only to newly installed businesses, the new regime also provides support to expanded projects. The new criteria are not just based on quantitative measures, but also take into account the sustainability and innovative aspects of projects. Thus, the Act removed or loosened discriminatory elements of the older SEZ legislation in terms of geography and investment size, while placing more emphasis on externalities, including knowledge and skill generation as well as social and environmental impacts.

Source: UNCTAD.

Looking at the trend in developed countries, while the number of foreign-trade zones has been on the rise in the United States, the use of customs-free zones and SEZs in Europe is in decline. In 2018, Poland adopted a law to create a "Poland Investment Zone". This new regime enabled investors to benefit from preferential conditions in the entire territory of Poland. The existing SEZ authorities assumed the function of administering the new regime in their respective regions. But the current SEZ permits are set to expire in 2026, when the existing demarcated SEZs will effectively dissolve into the broader territories (box IV.8). Cyprus recently converted its free zone to free warehouses, a system also in use in major ports such as Rotterdam and Antwerp.

The loss of free zone status does not mean that these zones cease to operate. For instance, Shannon, which is widely considered the first modern SEZ, no longer offers special tax incentives or a regulatory regime different from the rest of Ireland. However, Shannon continues to attract businesses. There are 170 companies based in the Shannon Free Zone, employing approximately 8,000 workers. In addition to forming Ireland's largest aviation/aerospace cluster, Irish and multinational companies have invested in a range of other industries including medical devices, high-tech, ICT, financial services and manufacturing of electric and self-driving cars.

3. International cooperation and regional development zones

Foreign investment in SEZ development has been increasing. In addition to private foreign zone developers, governments have increasingly engaged in developing SEZs overseas. Deepening regional integration has accelerated the development of border SEZs, and cross-border SEZs spanning two or more countries with joint ownership have emerged, fostering regional and international cooperation.

a. Foreign partnership zones

FDI in SEZ development is on the rise. Large conglomerates and industrial estate developers are increasingly involved in economic zone development abroad. For instance, Sembcorp Industries (Singapore), Ascendas-Singbridge (Singapore), and Mitsubishi, Sojitz and Sumitomo (all Japan) are major international zone developers. Chinese companies, such as Holley Group and Yantian Port Group, are also increasingly visible in economic zone development, particularly in Asia and Africa.

There are various zone development models that host economies tend to label as "zones constructed with the cooperation of a foreign partner" (table IV.7.). Despite the attention that government-to-government partnership zones have attracted, the majority of such zones are developed by foreign private companies with no bilateral government agreements. Some foreign (manufacturing) MNEs have developed their own economic zones to house their suppliers and improve logistical efficiency. For instance, since 1998 Toyota has established an agglomeration of supply chain networks in its industrial parks in India. Samsung developed its own large industrial complex within a major industrial park in Viet Nam in 2016 (*AIR17*).

Many zones are developed as PPP projects in host economies, and foreign developers have undertaken these projects through joint-venture arrangements with both public and private local partners. In most cases, the foreign developer becomes the manager of the zone or a partner in the management company.

Government-to-government partnership SEZs have also become popular in recent years. They are underpinned by a bilateral agreement to jointly develop SEZs, setting up the cooperation framework, the division of responsibilities, and the development and management mechanism of the zones. Government partnership zones can be built and

Table IV.7. Types of SEZs developed with foreign partners

Types of SEZs	Examples
Zones developed by foreign developers or through joint ventures with local companies as private FDI	• Amata City Bien Hao, developed by Amata (Thailand) in Viet Nam (1994) through a joint venture with Viet Nam's State-owned enterprise Sonadez • Techno Park Poipet, developed by Toyota Tsusho (Japan) in Cambodia (2015) • Cali Tech Park, developed by Zonamerica (Uruguay) in Colombia (2016) • Pearl River SEZ, developed by New South (China) in Kenya (2017) through a joint venture with African Economic Zones Ltd
Zones developed through public-private partnerships with foreign developers	• Savan-Seno SEZ in the Lao People's Democratic Republic (2003), developed through a joint venture between Malaysian private companies and the Government • Free Industrial Zone Hualing Kutaisi 2, developed by Hualing Group (China) in Georgia (2015), on the basis of a memorandum of understanding with the Ministry of Economy and Sustainable Development of Georgia • Lekki FTZ, developed by Chinese consortiums in Nigeria (2006) through a joint venture with the Lagos State Government
Zones developed as government-government partnership projects	• Suzhou Industrial Park, developed in China (1994) through a joint venture between Singaporean and Chinese consortiums • Thilawa SEZ, developed in Myanmar (2011) through a joint venture between the Myanmar and Japanese governments, and private consortiums from Myanmar and Japan • Belarus–China Industrial Park Great Stone in Belarus (2011), developed through a joint venture between a Chinese private developer and Belarus Public Administer • Russia Industrial Zone, developed in Egypt (2018) by a Russian Federation developer

Source: UNCTAD.

managed by host-economy developers, home-country developers, joint ventures or third-country developers, to benefit from their capital or expertise in zones development. One of the Japanese townships in India, OneHub Chennai, was developed by Japan's Mizuho Bank and engineering company JGC, along with Ascendas, an experienced business complex developer from Singapore.

Government partnership zones are being established at the initiative of both the host country and the partners (table IV.8). A mixture of development assistance, economic cooperation and strategic considerations is encouraging the development of partnership zones initiated by investor home-country governments. Major ODA donors and multilateral development institutions have included development of SEZs as part of development assistance. The World Bank, along with the U.S. Agency for International Development and the European Investment Bank, supported the establishment of the Gaza Industrial Estate in 1999 to increase employment and GDP, for example. Japan added industrial park development to its menu of industrial development assistance in the early 2000s and through the Japan International Cooperation Agency helped build SEZs in the Middle East and Africa. Since 2000, France, Germany, India, the Republic of Korea and Turkey have all engaged in the construction of FTZs in the State of Palestine to promote economic development and Israeli–Palestinian cooperation.

In the case of Singapore, building a network of strategic zones in key markets[6] was a critical component of the country's Regionalization 2000 programme. The programme intended to facilitate Singapore's transition to a "total business centre" by relocating low value added manufacturing activities to regional sites, while restructuring Singapore's economy into a regional hub for the higher-end activities of Singapore-based MNEs (Yeung, 1999).

Table IV.8. Selected government partnership zones

Zone	Home economy	Host economy	Bilateral agreement	Development model
Batamindo Industrial Park	Singapore	Indonesia	1989	Joint venture between Singapore Government-linked companies and Salim Group, Indonesia
Suzhou Industrial Park	Singapore	China	1994	Joint venture between Singaporean and Chinese consortiums
Lekki Free Trade Zone	China	Nigeria	2006	Joint venture between Chinese consortiums and the Lagos State Government
Bethlehem Multidisciplinary Industrial Park	France	State of Palestine	2008	Joint venture between the Agence Française de Développement, and French, Palestinian, and other private investors
Sihanoukville SEZ	China	Cambodia	2010	Joint venture between a Chinese conglomerate and Cambodia International Investment Development Group
Belarus-China Great Stone Industrial Park	China	Belarus	2011	Joint venture between a Chinese private developer and a Belarus public administrator
Caracol IP	Unites States	Haiti	2012	Developed by the Government of Haiti, the Inter-American Development Bank, the United States Government and Sae-A Trading (Republic of Korea), which is also the anchor tenant; managed by Haiti National Society of Industrial Parks
oneHub Chennai	Japan	India	2013	Joint venture between an Indian public administrator, a Singaporean private developer and a Japanese consortium
Sittwe SEZ	India	Myanmar	2016	Still in the planning stage
Russia Industrial Zone	Russia	Egypt	2018	To be developed by a Russian industrial developer

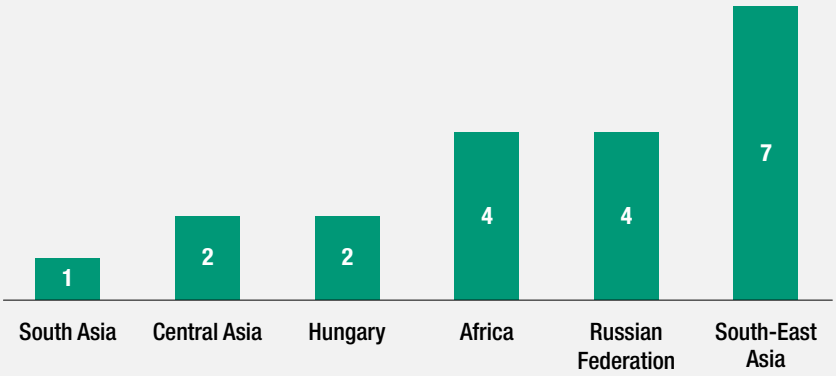
Source: UNCTAD.

Box IV.9. Development of China's Overseas Economic Cooperation Zones

Although the Chinese Government announced in 2006 that it would establish up to 50 overseas economic and trade cooperation zones, only 19 overseas zone proposals were selected as China's Overseas Cooperation Zones (COCZs) through two rounds of tenders in 2006 and 2007. The zones were required to submit an annual report to the Ministry of Commerce and the Ministry of Finance and to be evaluated annually on the basis of their performance in zone construction, investment committed, number of tenants, investment of tenants, corporate social responsibilities, environmental protection and the like. Zones that failed to pass the evaluation for three consecutive years would be no longer eligible for government incentives.

The tender experiment was suspended in 2014. Enterprises are now encouraged to build overseas industrial zones on the basis of their business needs and apply for verification as national COCZs from the Ministry of Commerce. Verified zones can then apply for concessional loans or low-cost finance from development banks and funds. There were 20 verified zones as of 2018 (box figure IV.9.1).

Box figure IV.9.1. Distribution of the 20 verified COCZs, 2018



Source: UNCTAD, based on Ministry of Commerce, China.

Since the early 1990s, over a dozen Singapore Industrial Parks have been built in Indonesia, Viet Nam and China by Singapore Government-linked companies.

China announced its Overseas Economic Cooperation Zone programme in 2006 with multiple objectives (box IV.9). They included boosting China's domestic economic restructuring and moving up the value chain; creating economies of scale for Chinese overseas investment and assisting SMEs in venturing overseas; and achieving strategic objectives including South–South cooperation, sharing China's industrial experience with other developing countries. Avoiding trade frictions and barriers imposed on exports from China by producing overseas has also become a more prominent objective. Chinese enterprises are encouraged to participate in overseas SEZ development, taking the lead in proposing and developing SEZs overseas for profit and competing through an open tender system for support from the Chinese Government (Farole, 2011; Farole and Akinci, 2011).

The latest large-scale overseas-zone project is the development of 12 "Japan Industrial Townships" in India. The project, agreed in 2014 as one of the initiatives in the Japan–India Investment Promotion Partnership, aims to encourage Japanese SMEs to invest in India. The Russian Federation and Egypt also signed an agreement in March 2018 to build the Russian Industrial Zone in the Suez Canal Economic Zone in Egypt. This $7 billion investment, to be undertaken in three phases, will be built by a Russian industrial developer and is expected to be finalized by 2031, providing some 35,000 direct and indirect jobs in Egypt.[7] In Africa, Mauritius has been actively participating in the development of SEZs in Côte d'Ivoire, Ghana, Madagascar and Senegal to create a conducive environment for

local operators to tap into business opportunities in these countries and develop business corridors, as well as to enhance the demand for Mauritian products and share Mauritius' experience in zone development.

Host countries welcome foreign partners in SEZ development for a number of reasons. The first advantage is to share the development cost. Modern zone development can require large amounts of capital and entail long payback periods. Limited budgets and the need for more economic zones have led some countries to actively attract FDI for this purpose. Cooperation with foreign governments or enterprises can provide access to various sources of finance or lower costs of borrowing.

Second, host countries benefit from the expertise and experience of foreign zone developers. Most of those involved in the development of overseas zones have many years of experience in delivering successful economic zone projects domestically and abroad. Singaporean zone developers such as JTC and SembCorp Industries are Singapore's main industrial infrastructure planners and builders. Companies such as Sumitomo and Sojitz (both Japan) have strong zone marketing and management experience in overseas zones.

Third, having foreign partners in SEZ development brings a certain guarantee of attracting foreign investments into these SEZs. Some private zone developers have close business networks with many major MNEs. They play a crucial role in bringing anchor and major tenants to the zone. Some private zone developers are themselves anchor tenants in the SEZs they develop, such as Toyota Tshuno in the industrial parks it develops. These anchor tenants in turn play a significant role in attracting their suppliers and in creating an industrial cluster. In addition to developers' expertise in infrastructure development and zone management, a government-endorsed zone also provides some degree of certainty to home-country enterprises venturing into a relatively undeveloped locale.

Government partnership zones require a higher level of coordination by both home-economy and host-economy governments (table IV.9). Some governments have established special coordination mechanisms between relevant government agencies to supervise and monitor zone development and solve issues through dialogue and consultation. Some make use of an existing bilateral mechanism to discuss issues raised during the zone development process. For instance, the Singapore–China Suzhou Industrial Park established a three-level coordination mechanism: a Joint Steering Council chaired by vice premiers with members from relevant ministries, a Bilateral Working Committee between the Suzhou Municipal Government and Singapore's Ministry of Trade and Industry, and an Organ for Liaison with representatives from both sides.[8] For the Russia Industrial Zone in Egypt, however, no special coordination mechanism was established. Instead, the Russian Ministry of Industry and Trade and the General Authority for the Development of the Suez Canal Economic Zone were designated as competent authorities for coordination.

Table IV.9. Key governance elements of foreign partnership zones

Elements	Function
Memorandum of understanding or bilateral agreement	• Political commitment • Institutional framework
Coordination mechanism	• Monitor and review • Effective dialogue
Joint-venture framework	• Zone development and management • Participation of relevant stakeholders
Third-party participation	• Foreign capital • Expertise on zone development and management

Source: UNCTAD.

Overseas cooperation zones have raised concerns about lack of transparency and accountability and about ownership complexity. Many African governments have not published contracts they have signed for the Chinese overseas zones (Farole and Akinci, 2011). The Jericho Agro-Industrial Park was considered to lack Palestinian ownership, as project developers spoke only English and Japanese and no reports existed in Arabic. The project was also criticized for lacking clear financial reports and budgets (Bisan Center for Research and Development, 2012).

b. Border and cross-border SEZs

The geographic advantage of border SEZs is their proximity to targeted foreign investment and foreign markets, especially for specialized export-processing zones. Mexico's first maquiladoras were established in the northern border areas of Tijuana, in Baja California and Ciudad Juarez, in Chihuahua in the 1960s. The United States manufacturers were encouraged to build assembly plants in a 12-mile-wide free zone starting at the border, which offered special incentives provided by Mexico, lower labour costs and proximity to their markets in America. LLDCs are also more likely to plan their SEZs near borders, to offer better economic connection to neighbouring countries. SEZs in Mongolia and the Lao People's Democratic Republic, for example, are almost all located in border areas.

Border SEZs are developed at different stages in SEZ programmes. In some countries, they are among the first group of SEZs established. Other countries have built border SEZs at a later stage to reduce domestic regional disparity. After its initial success with SEZs in eastern coastal areas, for instance, China established SEZs in its less developed regions near borders to boost local economic development.

Deepening regional integration has also accelerated the development of border SEZs. Regional development initiatives and cooperation programmes have promoted the establishment of SEZs along regional economic corridors. The development of the Greater Mekong Subregion corridors, a regional economic cooperation programme that involves Cambodia, China, the Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam, has encouraged these countries to build SEZs in border areas to better utilize the improved connectivity along the corridors. Thailand adopted a new SEZ programme in 2015 to establish 10 SEZs at its border. The CLMV countries have also adopted similar strategies (table IV.10).

GVC-based industrial development benefits from strong ties with supply bases and markets in neighbouring economies (*WIR13* highlighted the value of "regional industrial development

Table IV.10. Border zones within the Greater Mekong Subregion economic corridors

Bavet Cambodia	Moc Bai Viet Nam
Chiang Kong Thailand	Houaysai Lao People's Democratic Republic
Dong Kralor Cambodia	Khong Phapeng Lao People's Democratic Republic
Koh Kong Cambodia	Trat/Souy Cheng Thailand
Lao Bao Viet Nam	Dansavanh Lao People's Democratic Republic
Mohan China	Boten Lao People's Democratic Republic
Myawaddy Myanmar	Mae Sot Thailand
Pak Nhai Cambodia	Pleiku Viet Nam
Poipet Cambodia	Aranyaprathet Thailand
Savan–Seno Lao People's Democratic Republic	Mukdahan Thailand
Tachileik Myanmar	Mae Sai Thailand
Thadeua Lao People's Democratic Republic	Nong Khai Thailand
Vang Tao Lao People's Democratic Republic	Chong Mek Thailand

Source: UNCTAD, based on ADB (2018).

compacts" to create cross-border industrial clusters through joint investment in GVC-enabling infrastructure and productive capacity building). SEZs in border areas can exploit advantages that arise from resources available in neighbouring countries, proximity to their markets and the potential for cross-border linkages with suppliers. For instance, in 2016, most firms operating in the Mae Sot SEZ in Thailand were Thai firms using domestic inputs and finance to produce goods for the Thai market but employing day labour from Myanmar to reduce their wage bills. With the business environment in Myanmar improving, some entrepreneurs have relocated to Myawaddy, the Myanmar side of a border zone (ADB, 2018).

In Africa, intercontinental trade and economic cooperation through border SEZs is also high on the agenda. The Musina/Makhado SEZ of South Africa is strategically located along a principal north–south route into the Southern African Development Community and close to the border between South Africa and Zimbabwe. It has been developed as part of greater regional plans to unlock investment and economic growth, and to encourage the development of skills and employment in the region. Similarly, the governments of Burkina Faso, Côte d'Ivoire and Mali launched a cross-border zone encompassing all three countries to leverage the opportunities provided by regional integration.

Cross-border SEZs – where zones physically straddle borders, under joint ownership by neighbouring countries – involve even deeper integration. The Horgos/Khorgos Cross-Border Economic Zone straddling China and Kazakhstan, as well as the Mohan/Boten Cross-Border Economic Zone between China and the Lao People's Democratic Republic, are two such zones, albeit with different approaches. The former was designed to be a hub for trade, entertainment and intercultural exchange, where merchants and travelers from China, Central Asia, Europe, the Russian Federation and Turkey could meet and stay for 30 days visa-free to communicate and trade. Since its opening in 2012, the SEZ has served mainly as a duty-free commercial centre, hosting shopping centre and convention facilities.

The zone on the Chinese–Lao border, in contrast, sought to incorporate two border SEZs into one joint zone. The Mohan SEZ on the Chinese side was established in 2001 as a border trading zone. The Boten Zone on the Lao side was developed in 2003 as a warehouse, tourism and trade centre. The development plan of the cross-border zone was finalized in 2015 between the two governments, and the construction is still under way (Chen, 2019).

Cross-border SEZs are a relatively recent phenomenon, and it is still early to draw any definitive conclusions. Political support from all governments involved is key to their success, as is close coordination at both state and local levels. Such zones challenge zone developers and management companies to find innovative ways to work with governments on both sides of the border. Although the development of cross-border zones is challenging, more countries are trying to combine their SEZ strategies within regional cooperation efforts. On 1 March 2019, for example, Ethiopia and Kenya agreed to establish an FTZ and enhance infrastructural development along the Moyle border region, to create a commonly administered economic hub.

B. THE REGULATORY AND INSTITUTIONAL FRAMEWORK FOR SEZs

SEZs, including their establishment, operation and eventual dissolution, are regulated by legal frameworks enacted at different levels of governance. This section reviews specific aspects of this regulatory framework at the national and international levels. The national analysis covers domestic SEZ laws in 115 countries and models of institutional set-up. The international review includes relevant rules contained in three bodies of international economic law: international investment agreements (IIAs), the agreements of the World Trade Organization (WTO) and regional trade agreements (RTAs).

1. The national regulatory framework

a. Overall regulatory framework

National SEZ policies around the world differ considerably, reflecting countries' specific industrial structures, current development stages and growth opportunities. Nonetheless, they all include a special regulatory regime for SEZs and a separate institutional set-up.

The SEZ regulatory framework deals with a variety of policy issues, mainly trade, investment promotion and facilitation, establishment of investment, access to land, taxation, as well as labour and environmental issues.

Rules and regulations that apply in SEZs are contained in countries' general regulatory framework and in SEZ-specific legislation, such as SEZ laws and decrees (figure IV.9).

Figure IV.9. Main elements of the regulatory framework of SEZs

Source: UNCTAD.

SEZ-specific rules are generally more favourable for zone users, as they offer certain benefits and privileges not available outside the zones. The manner in which this special regime and the general legislation interact, as well as the degree to which SEZ rules differ from the general legal framework, vary considerably between countries.

Trade rules establish tariff systems for imports and stipulate other non-tariff related requirements and administrative procedures to be fulfilled for both imports and exports. In SEZs, investors are often fully or partially exempt from these **customs duties**. Zone users may also benefit from **trade facilitation** through, e.g., expedited customs clearance procedures or the possibility to store items in special warehouses.

Host countries **protect, promote and facilitate investment** through various means, including protection against certain political risks, the granting of investment incentives and various services offered by investment promotion agencies. In SEZs, investment incentives and facilitation services normally exceed those available in other parts of the country. Investors may also benefit from additional protection, e.g. through stabilization clauses in investment contracts.

FDI entry rules of the host country determine to what extent foreign companies face investment restrictions. SEZ regulations may provide foreign investors with additional entry rights in industries that are otherwise closed or restricted. Investment liberalization may also be piloted in SEZs first, before a subsequent country-wide opening to foreign investors.

Real estate laws establish the general rules on access to land by foreigners. These general rules are often relaxed in SEZs, allowing foreign ownership or preferential long-term leases that are otherwise not available. In addition, SEZ regulations may provide privileged access to investors by offering land for free or at a reduced price, or by exempting investors from real estate taxes.

Firms are subject to the **tax regime** of their host country. In SEZs, they often enjoy certain fiscal benefits, such as a partial or complete exemption from paying corporate taxes for a specific time or the application of a reduced tax rate.

Companies are also subject to the **general labour and environmental regulations** of their host countries. SEZ rules may stipulate labour-related obligations that go beyond those existing in the rest of the country (e.g. skills development of local personnel) – in exchange for certain benefits granted to the investors. Also, investors in SEZs may be expected to undertake particular measures against pollution or excessive noise, or related to water treatment and waste disposal. At the same time, some SEZ legislation allows employers to demand work requirements that go beyond those contained in the general laws (e.g. more flexibility for zone employers to arrange working hours).

b. SEZ laws: a core part of the regulatory framework

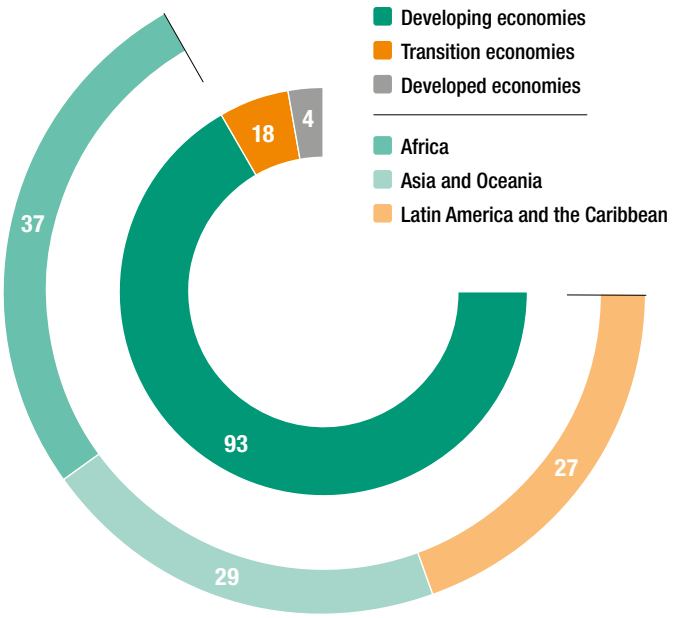
A key element of the regulatory framework for SEZs are SEZ laws. These laws provide a special regulatory regime for the establishment and operation of SEZs and specify the rights and obligations of SEZ authorities, zone developers, operators and users. They are implemented through executive decrees establishing each SEZ. These decrees specify the particularities of a zone, including the assignment of concrete plots of land to be developed, targeted industries or activities, detailed objectives and other zone-specific regulations. The remainder of this section presents the results of a recent UNCTAD survey of SEZ laws (and of investment laws containing SEZ provisions).

Although national SEZ laws are the most common SEZ policy instrument around the world, some countries have adopted other approaches by establishing separate legislation for each SEZ or delegating powers to local governments – with China being one prominent example.

(i) Distribution of SEZ laws

Some 115 countries have adopted at least 127 SEZ laws; they are most commonly used in developing countries. Twenty-seven SEZ laws have been identified in Latin America and Caribbean economies (in 69 per cent of countries in the region), 29 in Asian and Oceanian economies (57 per cent) and 37 in African countries (69 per cent). All transition economies regulate SEZs through SEZ laws (figure IV.10). Furthermore, 62 per cent of all LDCs have SEZ laws. In developed economies, SEZ-related legislation is rare and deals primarily with customs and state aid, among other matters.

Figure IV.10. Regional distribution of SEZ laws (Number of countries, n = 115)

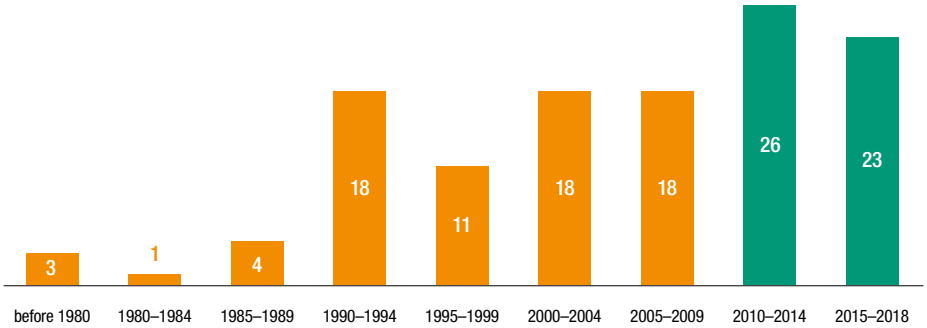


Source: UNCTAD.

The number of SEZ laws in force has increased significantly since the 1990s, with almost 70 per cent adopted since 2000 (figure IV.11). This trend has accelerated over the last decade, with nearly 40 per cent of all recorded national legislation having entered into force since 2010 – the vast majority in developing countries. The existing legal frameworks are therefore relatively recent.

SEZ laws usually enable the setting up of a variety of zone models, including free zones and EPZs. The decree establishing an individual zone then determines which model is chosen. This openness of SEZ laws to different categories of zones implies that their content is usually limited to some core policy issues that are relevant for any type of zone. This gives host-country authorities flexibility to design the regulatory framework for each individual zone in accordance with the specific situation and objectives. Federal states such as the Russian Federation, may have more complex SEZ regimes, consisting of diverse legal acts approved at different levels of government (box IV.10).

Figure IV.11. | Current SEZ laws, number adopted by period



Source: UNCTAD.

Box IV.10. Regulatory framework for SEZs in the Russian Federation

In the Russian Federation, there are more than 130 SEZs established under several SEZ laws.

The Federal Law on Special Economic Zones adopted in 2005 is a generic legal framework for the establishment and operation of four major types of SEZs: industrial, technological, touristic and logistical. It aims to develop targeted sectors and industries. The law provides customs benefits and financial preferences at the federal, regional and local levels, and facilitates administrative procedures. It stipulates that the establishment of an SEZ requires a federal government decree. As of April 2019, there were 26 such SEZs operating in the country.

In addition, the regional development policy is supported by the Federal Law on Territories of Advanced Social-Economic Development, which distinguishes between two types of territories of advanced development. As of April 2019, there were 18 such territories in the Far East part of the country that are run by the public entity, JSC Far East Development Corporation. The law also allows for the establishment of "single-industry town" territories of advanced development, which are confined to municipal boundaries and operated by local authorities. There are 89 territories of that type.

Furthermore, some additional federal laws have set up specific zones and regulate all aspects of these SEZs' operations without needing implementing decrees. Their aim is the development of specific regions.

Finally, the Federal Law on Innovation, Science and Technology Centres adopted in 2017 allows for the establishment of special zones focused on scientific and technological development, as well as commercialization. The first centre was established in March 2019 at the Moscow State University.

Source: UNCTAD, based on information from the Russian Academy of Sciences.

(ii) Content of SEZ laws

SEZ laws share some core elements. They include provisions on SEZ definitions and their different types, the objectives of SEZ regimes and targeted sectors, and investment attraction measures. They also regulate establishment procedures and operational conditions for zone users. Finally, they deal with institutional matters – an issue covered in subsection 2.

Definition of SEZs

Almost 90 per cent of SEZ laws contain a general definition of an SEZ, while less than one third (30 per cent) explicitly mention specific zone types as well and define them. Most laws use similar core criteria for their general definition of SEZs (table IV.11).

Objectives of SEZs and targeted sectors

Close to two thirds of SEZ laws (61 per cent) indicate the **objectives of the zones**. The most frequently mentioned goal is quantitative growth, followed by dynamic growth objectives. Much less attention is given to socioeconomic objectives. This breakdown is similar in all regions (figure IV.12).

Table IV.11. SEZs: general definitions and types

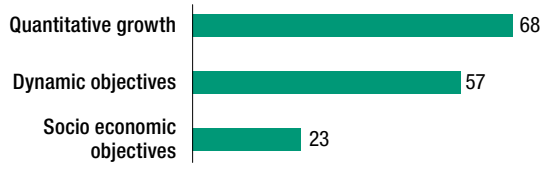
		Examples
General definitions	Geographical location Special regulatory regime Economic activity	**Poland:** a separated, uninhabited part of the territory, on which a business activity may be conducted in accordance with the rules of the Act **Pakistan:** a geographically defined and delimited area that has been notified and approved for economic, industrial and commercial activities **Indonesia:** zones with certain boundaries within the territory that are designated to carry out an economic function and are granted certain facilities and incentives **The Gambia:** any area designated as a free zone where goods and services are deemed, insofar as import duties and taxes are concerned, as being outside the customs territory, where the benefits provided under the law apply
Types	Broad coverage of many zone types	**Botswana:** free trade zone or commercial special economic zone, export processing zone, enterprise zone, free port, single-factory economic zone, specialized zones, and others
	Typology based on specific purposes of each type	**Uzbekistan:** free trade zones (trade focused); free production areas (stimulating entrepreneurship and priority sectors), free scientific and technical zones (development of scientific and production potential)
	Typology based on geographical considerations	**Dominican Republic:** other free zones of border character (at the frontier with Haiti), special free zones (proximity to natural resources processed), industrial free zones or services (any location)

Source: UNCTAD.

Quantitative growth goals are those aiming at attracting investment, promoting trade, increasing exports or creating jobs. Dynamic growth objectives seek innovation, industrial upgrading, skills development, economic diversification and structural change, as well as integration into value chains. Socioeconomic objectives relate to sustainable development, the quality of employment or environmental protection (box IV.11). Gender issues have received very little attention so far.

Only a minority of SEZ laws **target specific sectors and industries**. This means that the zones are either open to any kind of economic activity or that the designation of targets is left to the subsequent decrees establishing an individual SEZ. Manufacturing and the services sector are most frequently mentioned, whereas the primary sector and new cross-sectoral growth engines figure much less prominently. The latter category includes a variety of activities related to digitalization, industry 4.0, new technologies, software development and R&D centres (figure IV.13).

Figure IV.12. Objectives of SEZs as defined in SEZ laws (Number of laws)



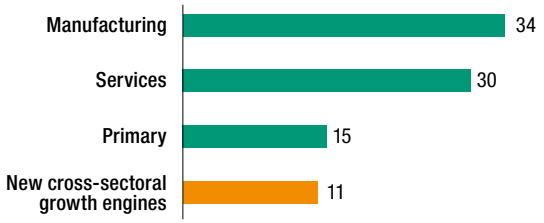
Source: UNCTAD.

Box IV.11. Socioeconomic objectives (Examples from SEZ laws)

- In *Mexico*, the Federal Law on Special Economic Zones specifies that the purpose of establishing SEZs is to promote sustainable economic growth, reduce poverty, allow the provision of basic services and expand opportunities for healthy and productive lives in the regions of the country where social development is lagging.
- In *South Africa*, the Special Economic Zones Act states that the creation of decent work and other economic and social benefits, including the broadening of economic participation by promoting medium-size enterprises and cooperatives, as well as skills and technology transfer, are among the purposes of SEZ establishment.
- In *Liberia*, the Special Economic Zone Act declares that its purpose is to carry out de-urbanization of highly populated cities; achieve long-term environmental, labour, and gender sustainability; promote the advancement of human rights; increase the standard of living; reduce poverty levels; and achieve sustainable economic development.

Source: UNCTAD.

Figure IV.13. **Sectors targeted in SEZ laws**
(Per cent)



Source: UNCTAD.

Investment attraction tools in SEZ laws

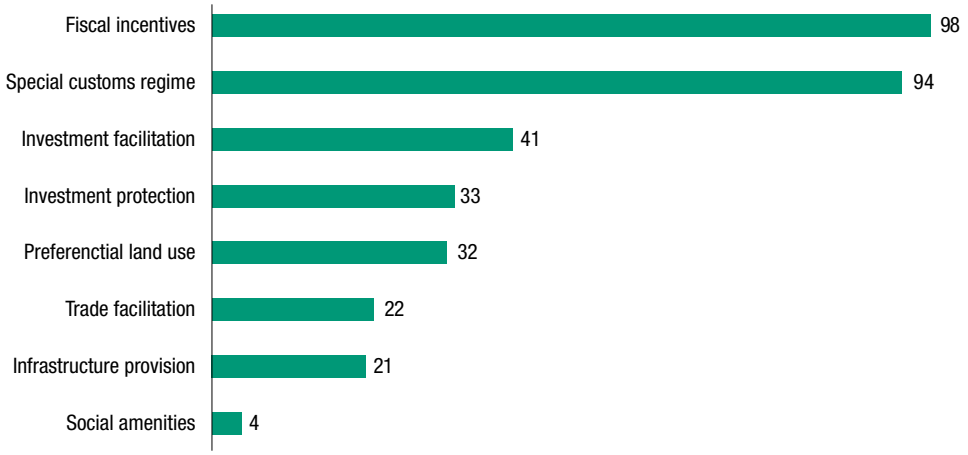
Most SEZ laws include investment attraction instruments for the zones (figure IV.14).

Almost 80 per cent of the SEZ laws provide for **fiscal incentives**, such as tax holidays for a defined period (often 5 to 10 years) or the application of a reduced tax rate. Tax exemptions may apply to the payment of profit taxes, corporate taxes, wages and salaries taxes, and value added taxes invoiced by local suppliers of goods, services and works necessary for carrying out SEZ activities (e.g. *Kenya,* Special Economic Zones Act and Export Processing Zones Act). Some countries allow the deduction of a certain percentage of training expenses for local personnel from the tax bill. Others link the granting of fiscal incentives to specific investor performance, for example, reliance on the use of local content or local employees, or compliance with certain export targets (e.g. *Mali,* Code des Investissements) or training of personnel (e,g. *Mexico*, Ley Federal de Zonas Económicas Especiales).

Similarly, most SEZ laws provide for a **special customs regime**, eliminating or reducing tariffs on goods, plants or machinery imported into the zone. This applies to items to be used exclusively inside the zone (e.g. *Azerbaijan,* Law on Special Economic Zones). In addition, there may be expedited and simplified customs procedures. In most SEZs, customs officers are present to conduct on-site checks.

Approximately one third of the SEZ laws include rules on **investment facilitation**. One frequently used tool is the streamlining of registration procedures, for instance by providing a list of documents required for admission or by setting deadlines for the completion of approval procedures. Other laws require zone operators to establish a single point of contact or a one-stop shop to deliver government services to businesses within SEZs (e.g. the *Philippines,* Special Economic Zone Act). Other laws provide for the creation of business incubators in zones to assist enterprises in their initial periods of operation by offering technical services and to ensure the availability of physical work space (e.g. *Kosovo,* Law on Economic Zones). Some laws also eliminate restrictions on recruitment and employment of foreign personnel within the zones (e.g. *Nigeria,* Export Processing Zones Act).

Figure IV.14. **Investment attraction tools in SEZ laws**
(Number of laws, n = 127)



Source: UNCTAD.

About one fourth of SEZ laws address **investment protection.** In some cases this may go beyond the level applicable in the rest of the country. For instance, some laws guarantee that investors operating in SEZs may not be expropriated or nationalized (e.g. *Republic of Yemen,* Free Zones Law). Other SEZ laws guarantee that future changes of the existing regulatory framework will not negatively affect investors in SEZs (e.g. *Turkmenistan*, Special Economic Zone Law). Another option is to ensure that in case of any conflict or discrepancies between the SEZ law and other domestic legislation, the former shall prevail (e.g. the *Lao People's Democratic Republic,* Law on Investment Promotion).

Preferential land use is mentioned in less than 30 per cent of SEZ laws. It mainly includes a permanent or temporary exemption from lease payment or the application of a reduced rent (e.g. *Republic of Korea,* Act on Designation and Management of Free Economic Zones).

Only about one fifth of SEZ laws deal with some sort of **trade facilitation**. Examples include the simplification of tax records for import and export operations involving companies in SEZs, or the possibility to report any movement of goods to or from zones or between SEZ companies on a single form filed monthly with a one-stop service (e.g. *Paraguay*, Ley No 523/95 and *Gabon*, Law No. 010/2011).

The **provision of infrastructure** as a promotion tool is mentioned in less than 20 per cent of SEZ laws. Authorities may be required to supply zones with electricity, fuel, water and telecommunication services, among others (e.g. *Islamic Republic of Iran,* Special Economic Zone Law, Article 18). In some cases, governments grant preferential fees for port services, telecommunication, electricity and water supplied to enterprises established in the zones (e.g. *Togo,* Loi n°2011-018 portant statut de Zone Franche Industrial).

Only a few SEZ laws provide for the installation of **social amenities**. These may include educational institutions, hospitals, recreation facilities (e.g. *El Salvador,* Ley de zonas francas industriales y de comercializacion; *Costa Rica*, Ley de Régimen de Zonas Francas).

Establishment and operational requirements for SEZ users

Slightly more than one third of all SEZ laws (38 per cent) include criteria that companies must meet in order to invest and operate in the zone. The overwhelming majority of SEZ laws open the zones to both domestic and foreign companies.

The establishment and operational requirements fall into three broad categories: (i) minimum amount of investment, (ii) expectation to contribute to certain development goals, and (iii) specific performance requirements, which typically focus on employment-related obligations, export performance and skills transfer (box IV.12).

2. Institutional set-up of SEZs

a. Key stakeholders

The institutional set-up of SEZs is complex. It involves a multitude of actors both public and private, with different responsibilities. Furthermore, it is highly dependent on country-specific political, economic, regulatory and administrative systems. Thus, there is no uniform institutional model for SEZs. Nonetheless, existing SEZ regimes share some key commonalities concerning the main stakeholders involved (table IV.12).

The **government** is the pivotal player in the domestic SEZ regime. It sets the overall economic development goals, adopts underlying industrial policies and implements them through, inter alia, the establishment of SEZs. The government coordinates its SEZ policies

Box IV.12. **Establishment and operational requirements for SEZ users**
(Examples from SEZ laws)

Minimum investment requirements

- In *Jamaica*, the Special Economic Zones Act, 2016 stipulates that investment in machines, equipment, facilities, buildings and other assets during the first year must exceed $50,000.
- In *Turkmenistan*, a participant in a free economic zone must invest an amount fixed in the investment contract.
- In *Costa Rica*, companies may settle in a zone only with initial new investment in fixed assets of at least $150,000 initially (or its equivalent in local currency).

Expectation to contribute to certain development goals

- In *North Macedonia*, the Law on Technological Industrial Development Zones requires zone users to meet the following criteria: job creation, compliance with high environmental standards, production based on new technologies and high energy efficiency.
- In *Botswana*, while evaluating applications to operate within SEZs, the authorities must consider "indicative performance standards" such as exports, target export volumes, values and their markets, and expected benefits from the investment in terms of production and exports.
- In *Eswatini*, investors operating in SEZs are expected, among other things, to generate new and innovative economic activities, create employment and other economic and social benefits, promote integration with local industry and increase value added production.

Specific performance requirements

Employment-related obligations:

- In *Djibouti*, investors in SEZs must employ Djiboutian personnel for at least 30 per cent of their workforce by the end of the first year of operation and at least 70 per cent after five years of activity.
- In *Cambodia*, foreign managers, technicians or experts may be employed, provided that the number of foreign staff does not exceed 10 per cent of total personnel.

Export requirements:

- In *Nepal*, at least 75 per cent of services and materials produced within a zone must be exported.
- In *Malaysia*, goods manufactured in a free industrial zone may be transported from the zone only for export or with the approval of the relevant authority.
- In *Gabon*, the law requires that at least 75 per cent of production in a zone be exported.

Skills transfer:

- In *Ethiopia*, an industrial park enterprise is obliged to replace expatriate personnel or professionals with Ethiopian nationals by transferring the required knowledge and skills through specialized trainings.
- In *Madagascar*, the Law on Special Economic Zones obliges zone users to report to zone developers on training provided to local staff.
- In *Maldives*, under the Special Economic Zones Act, approval from an SEZ Authority to employ expatriate staff above statutory limits may be granted only temporarily and under the condition that a zone user provides for adequate training for Maldivians to fill the position.

Source: UNCTAD.

with other relevant policy areas and its international obligations and allocates necessary resources – budgetary, personnel and the like – to SEZs. Through individual decrees, it establishes particular zones on its territory on its own volition or in response to demand from specialized agencies, local governments or private companies. The government is also responsible for the overall administration of the SEZ regime.

Most countries have established a separate **SEZ authority** to support the government's policymaking functions. It is either a specialized agency or a State-owned company, supervised by the highest governmental officials, such as the president, the prime minister, another minister, or a separate unit – predominantly within the ministry of economics, trade or finance.

SEZ authorities coordinate zone policies and initiate related programmes. They are responsible for strategic and operational planning, conducting feasibility studies in relation to planned zones as well as for evaluating applications for zone development. They monitor

Table IV.12. Main stakeholders in SEZ regimes

Stakeholders	Main Functions (selected)
Government	• Adopts SEZ-relevant policies and supervises its implementation • Establishes specific SEZs through decrees
SEZ Authority	• Conducts strategic planning and assessment • Licenses private sector stakeholders
Zone developer	• Provides essential infrastructure • Makes land arrangements
Zone operator	• Manages and administers a zone • Promotes a zone and selects zone users
Zone user	• Invests and undertakes business activities in a zone

Source: UNCTAD.

the SEZ regime, promote and enforce underlying policies and standards, and collect relevant data on the effectiveness of individual zones and the entire system. They may also suggest SEZ policy changes to the government and prepare relevant decisions. This may include, for example, the selection of zone developers and contract negotiations with successful candidates. The SEZ authorities may also plan and execute the integration of SEZs into the local economy, for example, through the construction of off-site infrastructure.

Furthermore, SEZ authorities are often, directly or indirectly, responsible for issuing relevant permits and approvals within zones, including construction permits, environmental impact assessments, work permits, and visas for foreigners and approvals of foreign land ownership. In addition, SEZ authorities may assist and facilitate the operations of zone developers and zone users by offering training, liaising with local authorities, utilities companies, customs and tax officials and other entities. Accordingly, SEZ authorities are normally physically present within the zones through branches or representatives.

Zone developers are responsible for the establishment of a particular zone. Their main functions include land arrangements and provision of essential infrastructure. Zone developers may buy land, or public authorities may assign plots to them. In addition, they initiate and participate in zoning and land use processes leading to the adoption of a master plan for the zones. In relation to infrastructure, zone developers construct on-site networks and utilities, and connect them to existing systems.

The technical and financial capacities and expertise of zone developers are critical to the success or failure of SEZs. Because of a lack of domestic public resources, many developing countries have turned to the private sector to fill the gap. In 2008, an estimated 62 per cent of SEZs in developing and transition countries were privately developed (and operated), compared with only 25 per cent in the 1980s (FIAS, 2008). To attract private partners, governments have introduced promotion programmes. They mainly include financial incentives but may extend to preferential land access, investment facilitation or simplified capital access. At least 40 per cent of SEZ laws include some kind of support scheme for private zone developers. In countries that prefer public zone developers, there is room for public-private partnerships.

Under most SEZ regimes, zone developers are also responsible for the day-to-day operations of SEZs. Yet **zone operators** may also be separate entities. Operators also attract individual investors to the zone, often in cooperation with domestic investment promotion agencies. In addition, they are responsible for the smooth operation of a zone

by providing basic infrastructure services, such as electricity, telecommunication and water supply, security and maintenance. Potential additional services include consultancy desks, one-stop shops, training centres, focal points for recruitment, as well as the provision of office space and conference facilities. In cooperation with local authorities, they may offer health care, education, transport, housing and recreation facilities as well.

Finally, SEZs are created with **zone users** in mind. Investors are the direct beneficiaries of the special regulatory regimes instituted in each zone. Their productive, technological and trading capacities make them essential for zone performance.

b. Institutional models

Although the broad institutional set-up is similar among countries with regard to its general structure and the principal actors involved (governments, SEZ authorities, zone developers, operators and users), differences exist, in particular concerning the legal status and responsibilities of zone developers. Most institutional set-ups fall within three basic models.

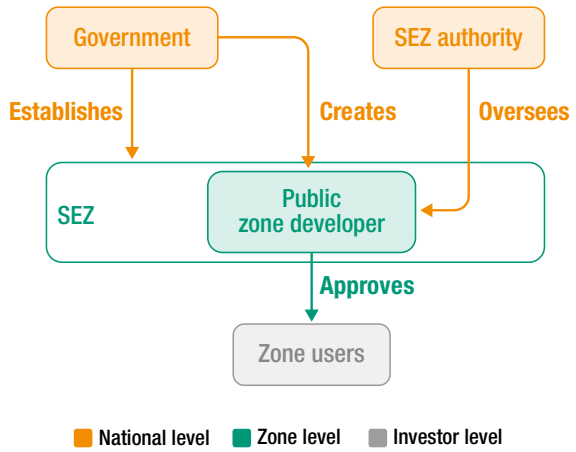
In the **public model** (figure IV.15), all institutions at the national and the zone level, including zone developers, are public or publicly controlled. Zone developers are often called "zone administrations". Although these administrations may be organizationally and financially autonomous, SEZ authorities exercise strong control and oversight over their operations. In this model, the selection of zone users is an administrative decision. Often, central and local governments delegate regulatory powers to zone administrations. A strong zone administration with the government's backing may also help to coordinate the responsibilities of differente public authorities having a stake in SEZs.

This model is widespread in economies where zone land and utilities are mainly in public hands. It can be found with some variations in countries such as the Russian Federation, Tajikistan and Viet Nam.

At the opposite end of the spectrum is the **private model** with private zone developers being selected in a competitive process on the basis of statutory criteria (figure IV.16). They have broad operational autonomy and report to the SEZ authorities, which have limited and strictly defined regulatory powers. Most importantly, zone developers are responsible for the admittance of zone users, with which they conclude investment contracts that regulate land leases, relevant fees and charges, or other operational issues. In addition, this model creates an opportunity for zone users to link to the private developer's existing business networks and to receive direct training and other knowledge transfer from that developer. This institutional set-up is found in Georgia, Serbia and Uruguay, for example.

The **hybrid model** is a combination of the two models (figure IV.17). It provides for the possibility of public or private zone developers that retain relatively broad autonomy in their operations. As regulators, SEZ authorities licence all private stakeholders and thus retain some control over the admission process. Nevertheless, the admission of zone users at the zone level falls again into the purview of zone developers, as user status in the zone is governed predominantly by a contract. This model gives broad flexibility to policymakers to shape SEZ regimes according to zone activities and specific investment

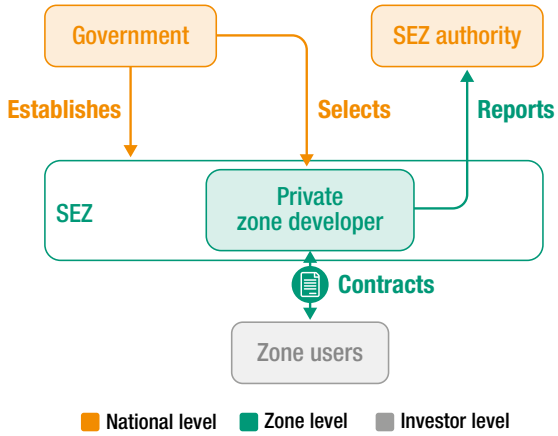
Figure IV.15. Public model of SEZ institutional set-up



Source: UNCTAD.

projects. It also allows for greater involvement of local governments (e.g. they can be the sole zone developer). This hybrid approach is most common in China, Ethiopia, and Poland, among others.

Figure IV.16. Private model of SEZ institutional set-up



Source: UNCTAD.

c. Other SEZ stakeholders and the role of subnational authorities

Other stakeholders may also have a role in the SEZ regime. Tax and customs authorities administer special fiscal regimes applicable in zones and undertake on-site inspections in relation to goods entering and leaving the zones. Investment promotion agencies may assist in attracting new investors to the zones, preparing ready-made investment packages, sharing information on new developments in SEZ policies and building an investor-friendly image of the country abroad. In addition to to the central government, regional and local governments may also have important roles.

The UNCTAD World Investment Prospects 2019–2021 survey of investment promotion agencies found that almost 50 per cent of respondent agencies promote investment both within and outside SEZs, whereas more than 23 per cent have dedicated promotion programmes targeting SEZ investments. These agencies may also be involved in other SEZ-related activities, such as evaluating SEZs' performance and impact (9.5 per cent), acting as an SEZ authority (7.5 per cent) or being involved in establishing and managing SEZ developers (6 per cent).

Other stakeholders may include industry associations, staff unions and zone employees' representatives, as well as civil society.

The central government may share SEZ responsibilities with subnational or local authorities (box IV.13). Regional or local governments often have better knowledge of local conditions in relation to infrastructure, availability of land and utilities, and the specific regional or local investment needs and conditions. In addition, they may have the power to provide additional investment incentives or facilitation measures for engaging companies in zones. Furthermore, they can be instrumental in creating spillovers and linkages with local companies, because of their specific knowledge of the local economy and local training centres. It is also quite common for regional or local governments to petition the central government for the establishment of an SEZ on their territory.

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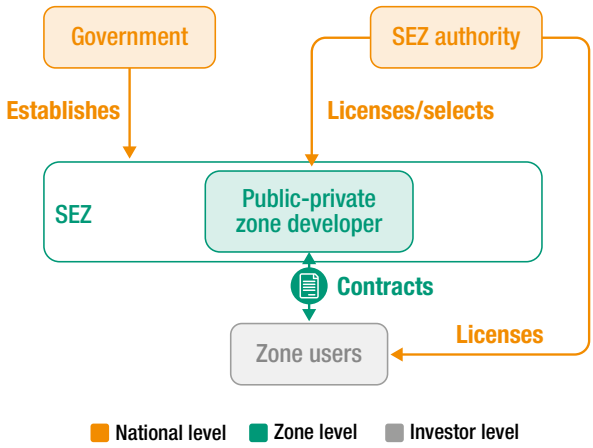
Properly designing and implementing the regulatory and institutional framework for SEZs is a challenging task, and one that determines the success or failure of a zone. Key decisions to be taken relate to the type of zone to be created, the specific development objectives pursued through SEZs, the kind of promotion tools to be offered to SEZ investors, the content of investor obligations and the integration of the zone into the broader economy to avoid an enclave effect.

Figure IV.17. Hybrid model of SEZ institutional set-up



Source: UNCTAD.

Box IV.13. Regional and local governments and SEZs
(Examples from SEZ laws)

- In *Indonesia*, Zone Councils consisting of central and regional administration representatives are established on the provincial level to assist the National Council in administering SEZs and to oversee administrative services in each zone.
- The Federal Law of Special Economic Zones in *Mexico* stipulates that, once a zone is established through a decree, three levels of government – federal, state and municipal – must enter into a coordination agreement. The agreement is meant to coordinate their respective actions, including financial involvement, granting incentives at the local level and facilitating administrative procedures. As a rule, local governments need to have authorization from their respective local legislatures or town councils.
- In *Poland*, zone operators are companies in which either the Treasury or the regional government holds the majority of shares. If the Treasury is the majority shareholder, the supervisory board of a zone operator consists of representatives of the Minister of Economy and Finance and the President of the Office of Competition and Consumer Protection, as well as up to two representatives of the local governments with the highest share of capital. However, if the regional government controls a zone operator, it appoints two board members, the Minister of Economy appoints one, and up to additional two members are appointed by other local governments with the highest capital participation.

Source: UNCTAD.

The multitude of policy areas that are relevant for SEZs add to the challenge. Governments need to ensure policy coherence and seek synergies between trade, investment, tax, labour and environmental policies – to mention the most important ones. Fostering coordination in SEZ policymaking and ensuring transparency are critical.

The success of SEZs also depends on the "right" institutional set-up. All relevant stakeholders should be involved in the process, starting from the design stage through to the operational phase. Governments need to identify the SEZ institutional model that is most appropriate to their country's specific situation and administrative system. The responsibilities of the various government authorities, zone developers and operators should be clearly defined and assigned.

3. International regulations and SEZs

Although the SEZ regime is typically a tool of national policymaking, governments need to be mindful of SEZ interaction with their international obligations. International rules can either facilitate or constrain such national policymaking (table IV.10).

Two key areas of SEZ-related national policymaking interact with countries' international obligations:

- Support measures granted to SEZ resident companies (e.g. tax and other benefits, exemptions from customs and duties, relaxed regulatory requirements, easier establishment and foreign ownership requirements, streamlined administrative services)
- Requirements placed on SEZ investors (e.g. certain performance requirements or duties applicable to imports)

International rules can either facilitate (allowing or requiring) or constrain (prohibiting or requiring phasing out) such measures (table IV.13). States are advised to design and administer SEZs in a way that does not breach their international obligations and that maximizes the benefits these obligations may provide (Cheng, 2019b).

Table IV.13. SEZs and international law: the interface (Examples)

Impact of measure	Measures	International rules limiting the measure (prohibiting it or phasing it out)	International rules allowing or requiring the measure
Supporting firms	• Tax and other benefits • Exemption from customs and duties • Relaxed regulatory requirements • Additional liberalization for foreign investors • Streamlined administrative procedures	• WTO SCM • Human rights instruments • ILO conventions • Environmental agreements	• Kyoto Convention • WTO GATT • WTO GATS/RTA (establishment commitments) • WTO TFA • IIA (investment facilitation rules)
Constraining firms	• Establishment and operational requirements	• WTO TRIMs • IIA/RTA rules on performance requirements	• RTA/IIA reservations for performance requirements

Source: UNCTAD.

a. International investment agreements

International investment agreements (IIAs) typically guide government action with respect to investment protection – and to a lesser extent investment liberalization (investor entry rights), promotion, facilitation and investor obligations. Host countries sign IIAs, among other reasons, to attract investment, which is also a key objective of SEZs.

Typically, bilateral investment treaties (BITs) and treaties with investment provisions (TIPs) do not single out investments in SEZs. Rather, they apply equally to SEZ-hosted investments as they do to other covered investments. Most BITs allow investors to enforce substantive protections through international arbitration against host States (investor–State dispute settlement, ISDS) (see chapter III). A search through over 900 publicly known treaty-based ISDS cases revealed 11 disputes relating to investments in SEZs.

Measures challenged in these cases include the revocation of benefits, such as tax benefits or free zone status (seven cases) and the imposition of restrictions or additional charges or requirements on investors (four cases). Thus far, three disputes were decided in favour of the State and four in favour of the investor. In two cases, the parties settled, and two cases are still pending.

The relevance to SEZs of these 11 cases varies. The most pertinent cases involve three actions:

- The SEZ authority's termination of the investor's land lease agreements (*Lee John Beck v. Kyrgyz Republic*)
- The revocation of the investor's SEZ tax status (*Ampal v. Egypt*)
- The imposition of environmental requirements, allegedly in breach of the stabilization clause in the host country's SEZ law (*Bogdanov v. Moldova*)

In the cases decided in favour of the investor, tribunals held, for example, that certain adverse changes to the regulatory regime (e.g. revocation of SEZ benefits) frustrated investors' legitimate expectations and breached the obligations of fair and equitable treatment and/or indirect expropriation.

Other IIA clauses may also affect the design and operation of SEZs:

- Clauses prohibiting performance requirements, if included in an IIA, potentially limit the type of industrial policies that a government may wish to pursue through an SEZ (i.e. certain export requirements imposed on foreign investors). Many BITs do not include such clauses.

- Not lowering standards clauses can signal that governments do not wish to compromise environmental or labour regulations through their SEZs. These clauses may help in the process of re-orienting SEZs towards the sustainable development imperative.

b. World Trade Organization

Like BITs, the World Trade Organization (WTO) rules do not single out SEZs. Accordingly, WTO rules apply to covered government measures that are taken in the context of SEZs (Defever and others, 2017; Shadikhodjaev, 2011).

Most relevant is the WTO Agreement on Subsidies and Countervailing Measures (SCM). While not referring to SEZs explicitly, the SCM Agreement prohibits export subsidies and subsidies that are contingent on the use of domestic goods over imported goods (Art. 3 and Annex 1 SCM).[9] To the extent that SEZs employ such measures, questions of WTO compatibility – or lack thereof – may arise.

At the same time, the SCM provides flexibility for certain subsidy-related measures possibly applied in the SEZ context (Coppens, 2013). For example, general infrastructure that is available to all (or nearly all entities) within SEZs is not deemed a subsidy and thus not subject to the rules of the SCM Agreement.[10] Similarly, exempting an exported product from duties or taxes borne by the like domestically consumed product, or the remission of such duties under duty-drawback schemes[11] are also not subject to the rules of the SCM Agreement.[12]

Through its provision on special and differential treatment, the SCM Agreement provided some flexibility to developing-country members (e.g. phase-outs for export subsidies and subsidies contingent on the use of domestic goods).[13] Most of the phase-out periods and processes for transition periods, however, have since expired (Coppens, 2013). As a result of the expiry, only LDCs and developing countries with a GNP per capita below $1,000 per year can maintain export subsidies.[14] Several WTO members have carefully managed the transition and phase-out of this flexibility and may offer lessons in this regard. A prominent example of a country having undergone this process is the Dominican Republic (see box IV.5).

Like the SCM Agreement, the WTO Agreement on Trade-Related Investment Measures (TRIMs) does not mention SEZs but potentially affects SEZ-related measures. Trade-related investment measures, such as local content requirements or import-export balancing requirements, are examples. To the extent that SEZs employ such measures (typically referred to as performance requirements), questions of WTO compatibility – or lack thereof – would arise. The TRIMs Agreement also offers transitional arrangements (for developing and least developed countries). These arrangements will expire in 2020.[15]

Given the importance of customs facilitation measures in SEZs, the WTO Trade Facilitation Agreement affects SEZ policies as well. Concluded in 2013, the Agreement entered into force in February 2017. It establishes rules aimed at expediting the movement, release and clearance of goods (including goods in transit) with flexibility for developing and least developed country members. A developing or least developed country's obligation to implement the provisions of the Agreement is conditional upon that member's acquisition of the necessary technical capacity. This may require donor support, based on each member's own evaluation of its needs.

Box IV.14. A recent WTO dispute involving SEZs: India – Export Related Measures

At its meeting on 28 May 2018, the WTO's Dispute Settlement Body established a dispute panel to examine certain alleged export subsidies in India (DS541) pursuant to a request from the United States.

The measures at issue are, among others, (i) the Export-Oriented Units Scheme and sector-specific schemes, including the Electronics Hardware Technology Parks Scheme; (ii) the Merchandise Exports from India Scheme; (iii) the Export Promotion Capital Goods Scheme; (iv) SEZs; and (v) a duty-free import for exporters programme.

According to the United States, India appears to be providing prohibited export subsidies inconsistent with Articles 3.1(a) and 3.2 of the SCM Agreement. Incentives are allegedly given to SEZs on condition that they generate positive net foreign exchange earnings for a five-year period. This requirement allegedly implies that fiscal incentives given to SEZs are export contingent and, hence, are "prohibited subsidies" in terms of the SCM Agreement.

The Panel is expected to issue its final report to the parties later in 2019.

Source: UNCTAD, based on WTO.

In addition, several WTO processes involve SEZ-related issues:

- **WTO accession:** Prospective WTO members are expected to document their trade-related policies, including regulations and incentives in SEZs and/or plans for future SEZs. They may make additional commitments that relate to, or specifically mention, SEZs.
- **Trade Policy Review Mechanism:** WTO members are to provide a full and detailed report on their trade policies and practices, including those related to SEZs, to the Trade Policy Review Body.
- **WTO dispute settlement:** A pending case, *India – Export Related Measures* (DS 541), brings into the spotlight issues regarding SEZs and the SCM Agreement's prohibition of export-oriented subsidies (box IV.14). Earlier WTO disputes involving SEZ-related measures include Colombia – *Customs Measures on Importation of Certain Goods from Panama* (DS348), and *Colombia – Indicative Prices and Restrictions on Ports of Entry* (DS 366).[16]

c. Regional trade agreements

Similar to BITs and WTO agreements, RTAs also cover the SEZs of the RTA parties, unless such SEZs are explicitly excluded from the RTA or from specific provisions. Exclusion from the entire Agreement happens rarely, if ever: the limited review of RTAs undertaken for this chapter did not identify any such instances.

A modern RTA is typically a complex agreement that consists of multiple chapters addressing various aspects of the parties' economic relationship. Although RTAs focus on issues concerning trade in goods and services, they also cover other subjects, including investment, entry of businesspeople, government procurement, intellectual property, competition policy, State-owned enterprises, labour, environment and regulatory cooperation. The rules covering these areas interact to different degrees with SEZ-related policies.

Two types of interests are at play when SEZs are considered in the RTA context. Countries that host SEZs typically seek to have as few constraints as possible on their capacity to create and administer SEZs (e.g. by protecting policy space to provide incentives, introduce industrial policy requirements and transition SEZs to focus on sustainable development).

Other RTA members, however, have an interest in preventing partner countries' SEZs from hampering their own competitiveness and economic performance (e.g. "free riders" from outside the RTA areas or products whose production process benefits from SEZ support). Countries' interests are not necessarily static, as new SEZs may appear while others are being phased out. Therefore, developing balanced rules benefits all RTA partners.

The great majority of regular RTA provisions apply to SEZs in the same manner as they apply to the remainder of a party's territory. Sometimes, however, RTAs include rules that explicitly refer to SEZs; such rules are normally rare. Such rules include definitions, reaffirmations of treaty obligations, exceptions or reservations from obligations, provisions on institutional cooperation, or rules setting out specific SEZ-focused content. Some rules specific to SEZs set out how products originating from partners countries' SEZs should be treated upon importation. Others modify general rules of origin for products originating from SEZs (by making them more stringent, for example) (Koyama, 2011).

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The interactions between SEZ-related policy action and the respective legal frameworks (at the national and international level) pose several challenges, but also create a number of opportunities. In order to maximize benefits, countries should consciously shape this interface at three levels:

- The strategic level: set investment policy priorities that maximize SEZs' development contribution. National and international investment policies, as they apply to SEZs, should be geared towards the realization of national development goals. These goals may be grounded in a country's overall development strategy and linked to the globally agreed Sustainable Development Goals.
- The policymaking level: shape the rules to foster synergies and support sustainable development objectives. Examples include fostering synergies between international law and SEZ objectives, and between national and international law and policies.
- The policy implementation level: strengthen cooperation among relevant entities to ensure transparency, due process and policy coherence in the governance, management and administration of SEZs.

C. THE PERFORMANCE AND IMPACT OF SEZs

1. A sustainable development impact assessment of SEZs

There is little systematic research on the impact of SEZs, and few countries have a comprehensive process for monitoring and evaluating SEZ performance. A sustainable development impact assessment of SEZs should consider their direct and indirect economic contributions, fiscal and financial sustainability, technology and skills contributions, social and environmental impacts, support to regional integration, and policy experimentation and learning opportunities.

SEZs are widely used and have been around for decades, yet there is relatively little systematic research on their performance or economic impact. Although the research for this report has painted a comprehensive picture on the number and types of SEZs, large gaps remain in the data on their design and on the benefits they offer. Data on zone performance, in terms of investment, jobs and exports, are even more sketchy. (The lack of data on exports is inherent in zones where trade does not pass through standard customs procedures.) With little comparable cross-country data on SEZs, the measurement of their performance and impact must be largely based on case studies.

Case studies can provide evidence on the potential for SEZs to contribute to economic growth and development, and insights on the characteristics that make them successful. However, many focus on the more successful cases, and lessons learned from such cases are not always replicable. In addition, research often focuses on a detailed analysis of specific areas of impact, zooming in on export performance or job creation, spillovers, or social and environmental impacts. Few case studies provide a comprehensive cost-benefit assessment of zones.

Table IV.14 illustrates the key areas of impact and performance that, together, determine the success or failure of SEZ programmes (in the form of an SEZ sustainable development "profit and loss statement"). The expected economic contributions from zone development are both direct and indirect. The direct benefits include FDI attraction, job creation and income generation, export growth and diversification, and foreign exchange earnings. Some of these benefits can be especially important in poorer countries where jobs and foreign exchange earnings are scarce.

Indirect economic benefits are more difficult to define and measure, yet they are an essential component of the sustainable development impact of zones beyond their confines. They include supplier linkages beyond the zones and the indirect employment they create, as well as the induced income and jobs resulting from zone-based wages being spent in the surrounding economy.

Ultimately, the combination of direct and indirect economic contributions should result in higher economic growth. The establishment and early development of zones provides a temporary boost to GDP growth. Yet given the benefits and incentives continuously provided to investors in SEZs, they should also provide a sustained stimulus to growth – in other words, the growth of economic activity in the zones should outpace overall economic growth after the zone's early development phase.

To measure the impact of SEZs, these economic benefits should be weighed against the costs of zones, and both their efficiency and effectiveness considered. Zone development entails financial costs and capital expenditures, including infrastructure development outlays, the costs of operating the zone authority and other operating expenses, and revenues foregone through exemptions from import duties and taxes. Some of these costs increase when existing domestic businesses relocate from the national customs territory to the zone or when they obtain free-point status. The investment and operating costs of zones can be recovered through rent income and service charges. Public expenditures on SEZs tend to be highest where governments develop and manage zones, and especially if they provide subsidies.

Table IV.14. SEZ sustainable development "profit and loss statement"

Cost-benefit areas	Key elements
Direct economic contributions	• Attraction of FDI • Job creation • Export growth • Foreign exchange earnings
+	
Indirect economic contributions	• Supplier linkages beyond the zones • Indirect and induced job creation
=	
Combined economic impact	• *Additional GDP growth*
+/-	
Net cost of/revenue from zones	• Investment expenditures • Operating costs • Foregone revenues and subsidies • Income from zones
=	
Fiscal/financial viability of zones	• *Payback time of zone investment* • *Fiscal burden*
+	
Dynamic economic contributions	• Technology dissemination • Skills and know-how transfers • Industrial diversification and upgrading • Enhanced regional economic cooperation
+/-	
Social and environmental impacts and externalities	• Labour conditions • Environmental impact • Appropriation or misuse of land • Illicit flows
+/-	
Policy learning and broader reform impact	• Pilot function of zones • Catalyst function for reforms • Reduced motivation to reform
=	
Overall sustainable development impact	• *Evolution of the role of zones in the economy* • *Long-term zone transformations*

Source: UNCTAD.

The combined economic impact of SEZs measured against their development and running costs provides a picture of their fiscal and financial sustainability, including the payback period of initial capital outlays and the burden (or benefit) that zones might generate for the public budget in the long run.

The impact and performance of zones, however, should not be measured against economic and financial benchmarks only. The dynamic economic effects, as well as social and environmental factors, play a key role in determining SEZs' overall sustainable development impact.

The dynamic effects of SEZs, especially their impact on technology and skills development and their spillover effects on the broader economy, are especially important to industrial development and upgrading. Many zones have raised concerns about their dependence on low-skill, low-technology, assembly-type operations and the concentration of their activities in one sector (such as apparel). But there are examples of zones that have promoted industrial upgrading and economic diversification. Enhanced regional economic cooperation – including through cross-border or international cooperation zones – is another dynamic benefit of zones that can be important, especially in the context of the development of regional value chains (*WIR13*).

SEZs have long been criticized for negative social and environmental impacts. The treatment of women, labour standards and working conditions in zones have been highlighted (ILO, 2017), as have pollution and misuse of land. Common concerns regarding labour issues include the suppression of core labour rights (e.g. collective bargaining), poor employment conditions (e.g. working hours, health and safety standards), lack of training or skill upgrading, use of trainees to lower wage costs, and exploitation of women (e.g. lower wage levels, lack of childcare, inadequate rights during pregnancy).

Finally, and cutting across the economic, social and environmental impacts of SEZs is the potential for zones to support broad-based reforms. On the one hand, as enclaves of differential regulation, zones can reduce the pressure for governments to pursue difficult nationwide structural reforms. On the other hand, zones can serve as regulatory laboratories by allowing countries to test different policies and new approaches, with successful experiments serving as a catalyst for countrywide policies. China is well known for using SEZs to pilot economic policies that later have been introduced across the country. Zones have been used as pilots in other regions as well, including South and West Asia, where SEZs have been used to test the liberalization of foreign ownership restrictions.

The fiscal and financial viability of SEZs and their overall sustainable development impact are both equally important. Governments may well accept bearing the fiscal burden of zones for some time in order to support industrial development objectives and to spur broader business reforms. Yet they cannot endlessly cover the costs of zones that do not pay for themselves through direct and indirect economic contributions that lead to higher fiscal revenues. Zones that are not run on a cost-recovery basis or that entail significant subsidies are at higher risk of becoming financially unviable.

Ultimately, a positive overall sustainable development impact contributes to gradual industrial transformation. This implies that the role of SEZs needs to evolve over time. The economic activities within zones should change, along with the emphasis that governments place on different parts of the cost-benefit analysis.

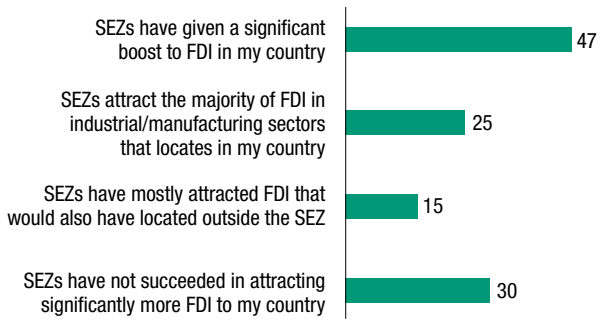
2. Direct and indirect economic contributions of SEZs

Zones can give a boost to investment, exports and jobs. However, they are neither a precondition nor a guarantee for above-average performance on FDI and GVC participation. The overall impact on economic growth tends to be temporary: after a build-up period, most zones grow at the same rate as the national economs.

Investment attraction. Zones are a key investment promotion tool and can play an important role in attracting FDI (figure IV.18). Through adequate infrastructure and best practice, zones can to a certain degree compensate for an adverse investment climate. Unfortunately, the impact of zones on FDI – and especially on additional FDI that would not have been attracted without SEZs – is hard to measure because data are scarce. Countries and international statistics (including UNCTAD's FDI data) do not track investment in zones separately from investment outside zones, and SEZs themselves mostly do not register foreign investment flows separately.

Research on China, however, has shown that SEZs can have a strong positive effect on FDI, including on new greenfield investments. Importantly, SEZs do not seem to crowd out domestic investment (World Bank, 2017a). Early research on the Philippines showed that the share of FDI flows going to SEZs increased from 30 per cent in 1997 to over 81 per cent in 2000 (UNCTAD, 2002). Scattered data available for current zone programmes demonstrate that SEZs are an important destination for FDI in many countries. In China, SEZs account for over 80 per cent of cumulative FDI. In Malaysia, almost 90 per cent of total investment found in SEZs originates from foreign investors. In Viet Nam, between 60 and

Figure IV.18. Contribution of SEZs to investment promotion (Percentage of respondents)



Source: UNCTAD Survey of Investment Promotion Agencies (IPAs).

Note: UNCTAD's World Investment Prospects Survey 2019; respondents from 120 IPAs from 110 economies.

70 per cent of all FDI is located in SEZs. In Myanmar, 80 per cent of investors in the Thilawa SEZ are foreign owned, and another 15 per cent are joint ventures with foreign firms. In the other low-income countries in the region, Cambodia and the Lao People's Democratic Republic, zones also almost exclusively attract foreign investment and account for a significant share of total FDI (*AIR17*). Similarly, in Bangladesh, foreign investors represent 72 per cent of zone tenants in eight publicly owned zones. In some other countries, however, zones either have failed to attract significant investment or have attracted primarily domestic investors rather than FDI. In Colombia, for example, the free-point scheme has resulted in many domestic SMEs obtaining free-zone status.

Export generation and diversification. Another primary goal of SEZs is export development, in terms not only of export growth, but also of diversification. The latter is particularly important for developing countries that rely on the export of commodities and aim to add value to these exports.

In many countries, zone programmes account for a major share of exports, particularly manufactured exports. In Latin America and the Caribbean, SEZs contribute more than 50 per cent of total exports in Costa Rica, the Dominican Republic and Nicaragua; 31 per cent in Mexico; and 13 per cent in Colombia. In Asia, SEZs are credited with more than 60 per cent of the Philippines' exports and close to 10 per cent of India's. In Bangladesh, just eight publicly owned zones account for about 20 per cent of the country's exports of goods. In West Asia and North Africa, a number of countries rely heavily on oil and gas exports, and SEZs account for approximately 60 per cent of net non-oil exports in Morocco, 25 per cent in Egypt and 40 per cent in the United Arab Emirates. Even in Sub-Saharan Africa, where the proportion of manufactured goods in total exports tends to be low, zones account for nearly 10 per cent of exports in Kenya and Ghana.

Some African governments have used SEZs as part of their export promotion strategies, backed by trade preferences. EPZs have played a pivotal role in Kenya's export strategy – enabled by the African Growth and Opportunity Act (AGOA) – by attracting foreign investors in the apparel industry and orienting them to target exports to the United States. Strategically focusing SEZs on specific trade preferences does carry risks. Changes in trade preferences may require strategic re-focusing of zone specialization, as in the case of the Dominican Republic after the end of the Multi-Fiber Arrangement (see earlier box IV.5).

SEZ programmes have been a key component of export diversification efforts in many countries. For example, countries in Central America and the Caribbean have used SEZs to reduce their reliance on fruit and vegetable exports. In Costa Rica, the SEZ share of manufactured exports increased from less than 10 per cent in 1990 to 55 per cent in 2003 (FIAS, 2008; Gereffi, 2019). At the same time, SEZs have diversified production from apparel and textile to electronic components.

SEZs have been instrumental in the development of GVCs and, as policy tools, in boosting countries' participation in GVCs. Trade costs such as tariffs, transportation and insurance, as well as other border taxes and fees, accumulate when intermediate goods are imported, processed and then re-exported downstream in complex GVCs, going through various transformation steps in different countries. By lowering such transaction costs within GVCs, SEZs contribute to the profitability of MNE operations, which explains much of the zones' success.

Table IV.15 shows, within the three developing regions and transition economies, the top- and bottom-ranked economies in terms of trade growth, GVC integration and FDI attraction, as well as the number of SEZs they host. (The analysis is illustrative only and ignores the significant variations in types and sizes of SEZs and in the export composition of economies.)

Box IV.15. SEZs and trade preferences: Kenya's EPZs and AGOA

Kenya actively pursues a strategy based on the African Growth and Opportunity Act (AGOA), which provides duty-free market access to the United States for qualifying Sub-Saharan African countries. Since the AGOA was enacted in 2000, Kenya has increased the value of its exports to the United States from $110 million to $550 million in 2016.

Kenya was one of the first countries on the continent to establish SEZs. By the time the AGOA came into force, zones already had a well-functioning manufacturing ecosystem, including adequate infrastructure. EPZs were given a pivotal role in the AGOA-based strategy by targeting foreign investors in the apparel industry seeking to export to the United States.

Kenya currently has 71 EPZs (including 10 single-firm zones); they account for 55,000 jobs and an annual sales turnover of about $650 million, more than 90 per cent through exports (compared with national exports of approximately $6 billion). In 2017, EPZs accounted for 94 per cent of the $340 million in apparel exports from Kenya to the United States. EPZs have made Kenya the biggest exporter of apparel and textiles to the United States from Sub-Saharan Africa, with an estimated $4.3 billion worth of garments exported to the United States duty-free since 2000. Most of the apparel firms in EPZs are foreign owned; foreign companies invested an estimated $460 million in 2017.

The deliberate targeting of FDI in the apparel industry has not only generated large-scale employment, but also integration in manufacturing GVCs and utilization of local textiles and raw material. Moreover, using the industrial capacities developed, apparel firms in Kenya's EPZs have now started to diversify their markets and are increasing exports to other developed economies, such as the EU and Canada. In recent years, as part of broader economic planning, Kenya has issued a five-year National AGOA Strategy and Action Plans which prominently feature the role of SEZs. It also announced the intention to increase the value of total exports and of SEZ exports in non-apparel industries to the United States. The targeted products include processed food, coffee, tea, fresh fruit and cut flowers.

Source: UNCTAD, based on information from the Office of the United States Trade Representative, International Trade Administration (United States Department of Commerce) (2019); African Growth and Opportunity Act; Kenya's National AGOA Strategy and Action Plan 2018–2023; and the Kenyan EPZ Authority.

Looking at growth in exports of goods, the top-ranked economies tend to have a higher number of SEZs relative to both bottom-ranked ones and the regional median. This is particularly clear for Asia and Latin America and the Caribbean. In these two regions, the countries with the fastest growth in exports generally show a number of SEZs aligned or significantly higher than the regional median. Yet, both groups include countries with high growth rates in exports and little use of SEZs; thus, while SEZs can support trade expansion, they are not a precondition.

In Africa, which has the largest number of economies with no SEZs to date, the impact is less clear. However, all the countries whose exports are growing the fastest have one or more SEZ. In this region, the presence of SEZs at the very least signals policy efforts to stimulate international trade and investment. Some countries, such as Ghana and Ethiopia, have gone further, explicitly pursuing an SEZ-driven strategy to fuel their trade growth.

It is important to note that, across the three developing regions, SEZ statistics for the countries with the lowest growth rates in exports show that the mere establishment of SEZs is not a sufficient condition. A number of countries show no growth in trade despite a relevant number of SEZs.

The relationship between the number of SEZs and GVC integration confirms these findings. In Asia and in Latin America and the Caribbean, some champions of GVC integration such as the Republic of Korea, Malaysia or Mexico have heavily relied on SEZs to sustain their GVC integration strategy, but others have achieved good results with a limited presence of SEZs (e.g. Chile). In Africa, the results are again mixed. Some countries with relatively high GVC participation, such as the United Republic of Tanzania and Botswana, have a significant number of SEZs relative to the median, while others, such as Namibia, have no SEZs. Tunisia used SEZs to achieve its relatively high GVC participation and has since extended SEZ benefits to the broader economy. With some exceptions, the least integrated countries in each developing region have few SEZs.

Table IV.15 Impact analysis of SEZs

A. Trade growth. Economies ranked by average annual growth rate of trade goods, CAGR 2007–2017

	Africa			Asia		
	Economies	**CAGR 07–17[a]** (%)	**SEZs[b]** (number)	**Economies**	**CAGR 07–17[a]** (%)	**SEZs[b]** (number)
Top five economies	Rwanda	20	2	Lao People's Dem. Rep.	18	12
	Burkina Faso	17	2	Viet Nam	16	19
	Ghana	13	4	Cambodia	13	31
	Ethiopia	9	18	Mongolia	12	3
	Madagascar	9	4	Bangladesh	11	39
Bottom five economies	Angola	-2	1	Malaysia	1	45
	Gabon	-3	2	Saudi Arabia	-0	10
	Nigeria	-4	38	Iraq	-1	4
	Algeria	-5	1	Kuwait	-1	4
	Equatorial Guinea	-9	2	Brunei Darussalam	-3	1
Median		**4**	**2**		**4**	**16**

B. GVC integration. Economies ranked by foreign value added share, 2017

	Africa			Asia		
	Economies	**FVA share[c]** (%)	**SEZs[b]** (number)	**Economies**	**FVA share[c]** (%)	**SEZs[b]** (number)
Top five economies	Eswatini	43	2	Singapore	62	10
	United Republic of Tanzania	39	8	Korea, Republic of	37	47
	Namibia	27	0	Malaysia	35	45
	Tunisia	27	0	Viet Nam	32	19
	Botswana	27	8	Thailand	31	74
Bottom five economies	Ghana	8	4	Pakistan	6	7
	Gabon	8	2	Kuwait	3	4
	Côte d'Ivoire	7	1	Qatar	3	2
	Nigeria	6	38	Iraq	2	4
	Angola	5	1	Myanmar	0	3
Median		**13**	**2**		**14**	**19**

C. FDI attraction. Economies ranked by ratio of inward FDI stock to GDP, 2017

	Africa			Asia		
	Economies	**FDI/GDP** (%)	**SEZs[b]** (number)	**Economies**	**FDI/GDP** (%)	**SEZs[b]** (number)
Top five economies	Mozambique	301	2	Singapore	397	10
	Congo	239	4	Mongolia	162	3
	Mauritania	142	1	Cambodia	94	31
	Equatorial Guinea	110	2	Jordan	83	16
	Tunisia	72	0	Viet Nam	58	19
Bottom five economies	Cameroon	19	9	Sri Lanka	13	12
	Eswatini	17	2	China	12	2 543
	Algeria	17	1	Iran, Islamic Republic of	12	23
	Kenya	16	61	Bangladesh	6	39
	Angola	10	1	Iraq	6	4
Median		**38**	**2**		**25**	**19**

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Table IV.15 Impact analysis of SEZs (Concluded)

A. Trade growth. Economies ranked by average annual growth rate of trade goods, CAGR 2007–2017

	Latin America and the Caribbean			Transition		
	Economies	**CAGR 07–17[a]** (%)	**SEZs[b]** (number)	**Economies**	**CAGR 07–17[a]** (%)	**SEZs[b]** (number)
Top five economies	Guyana	8	0	Bosnia and Herzegovina	8	4
	Nicaragua	7	52	Armenia	7	4
	Uruguay	7	23	Moldova, Republic of	6	8
	Haiti	7	13	North Macedonia	6	15
	Honduras	6	39	Georgia	6	4
Bottom five economies	Barbados	-1	0	Belarus	2	7
	Cuba	-1	1	Kazakhstan	0	10
	Trinidad and Tobago	-3	1	Russian Federation	0	130
	Jamaica	-6	17	Turkmenistan	-2	7
	Venezuela, Bolivarian Republic of	-8	14	Azerbaijan	-3	6
Median		**4**	**14**		**3**	**7**

B. GVC integration. Economies ranked by foreign value added share, 2017

	Latin America and the Caribbean			Transition		
	Economies	**FVA share[c]** (%)	**SEZs[b]** (number)	**Economies**	**FVA share[c]** (%)	**SEZs[b]** (number)
Top five economies	Mexico	30	17	North Macedonia	36	15
	Barbados	29	0	Turkmenistan	24	7
	El Salvador	26	17	Bosnia and Herzegovina	21	4
	Jamaica	24	17	Armenia	20	4
	Chile	23	4	Georgia	16	4
Bottom five economies	Paraguay	10	2	Kazakhstan	14	10
	Peru	10	4	Russian Federation	9	130
	Colombia	9	39	Azerbaijan	9	6
	Trinidad and Tobago	8	1	Uzbekistan	6	7
	Venezuela, Bolivarian Republic of	7	14			
Median		**16**	**14**		**16**	**7**

C. FDI attraction. Economies ranked by ratio of inward FDI stock to GDP, 2017

	Latin America and the Caribbean			Transition		
	Economies	**FDI/GDP** (%)	**SEZs[b]** (number)	**Economies**	**FDI/GDP** (%)	**SEZs[b]** (number)
Top five economies	Barbados	150	0	Georgia	115	4
	Jamaica	108	17	Kazakhstan	92	10
	Chile	99	4	Turkmenistan	90	7
	Guyana	90	0	Serbia	86	14
	Nicaragua	78	52	Azerbaijan	73	6
Bottom five economies	Haiti	20	13	Moldova, Republic of	45	8
	Paraguay	19	2	Armenia	41	4
	Ecuador	17	12	Belarus	36	7
	Argentina	12	14	Russian Federation	28	130
	Venezuela, Bolivarian Republic of	9	14	Uzbekistan	19	7
Median		**46**	**14**		**49**	**7**

Source: UNCTAD Stat for data on trade, GDP and FDI stock; UNCTAD-EORA GVC Database for data on FVA. FVA = foreign value added.
Note: For each region excluded from the ranking and computation of the median: offshore financial centres and countries with trade in goods below the region's first quartile in 2017.
[a] CAGR 07-17: the compound average of annual growth rates of trade goods over the period 2007–2017.
[b] SEZs: the number of special economic zones.
[c] FVA share: share of foreign value added in exports.

Direct and indirect employment creation. One of the key rationales for SEZ development is to generate employment. Zones are generally considered an effective tool for job generation, particularly for women entering the workforce. Worldwide, an estimated 90–100 million people are directly employed in SEZs and free-zone programmes.[17]

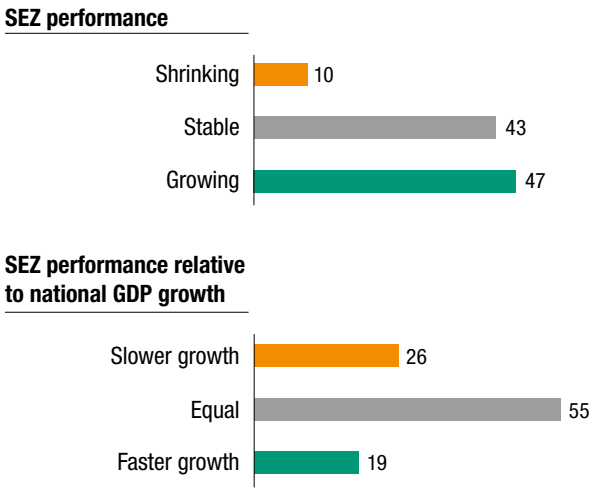
The indirect employment impact of zones can also be substantial. The ratio of indirect to direct jobs created ranges from one fourth in countries where zones function as relative enclaves, to multiples of two in countries where zones are significantly linked to the domestic economy. This implies that the indirect employment effect of SEZs globally could range from 50 million to 200 million jobs.

Zones can play a major role in employment creation in individual countries. In several countries, the rate of job creation in national SEZ programmes has significantly outpaced employment growth in their economies as a whole. Job creation in the United States FTZ programme since 2013 has averaged over 7 per cent per year, compared to less than 2 per cent for the wider economy. Employment in Tunisia's SEZs has grown from 8 per cent of the workforce to in 2008 to 8.7 per cent today. Ethiopia has been able to generate nearly 50,000 jobs within a few years through its SEZs, with a high proportion of the jobs going to women, while in Kenya, EPZs account for close to 60,000 jobs. In Colombia, FTZs have created more than 65,000 direct jobs and 155,000 indirect jobs. Similarly, in the Dominican Republic, SEZs are credited with generating 166,000 direct jobs and an estimated 250,000 indirect ones, a growing share of which are higher-skilled technical jobs.

The impact of these jobs in countries with high rates of unemployment and underemployment is significant. Especially in the poorest countries, SEZs can be an important avenue to formal employment. Yet although SEZs can be effective tools to boost employment, zone jobs can be relatively insecure. The flexible use of labour can lead to fluctuations in employment levels with shifts in production. Also, MNEs in the industries prevalent in SEZs can be prone to relocate or restructure when costs in the host economy rise.

Overall economic growth impact. SEZ success can be measured directly by looking at FDI, exports and employment indicators, and at overall production growth in the zones. But in order to isolate the economic growth effect of SEZs, a comparison to the rest of the country provides the necessary counterfactual (figure IV.19).

Figure IV.19. **Absolute and relative growth performance of SEZs, 2007–2012**
(Per cent)



Source: Frick et al. (2019).

A recent study (Frick et al., 2019; World Bank, 2017a), based on a sample of 346 SEZs across developing regions over the period 2007–12, found that the average economic growth rate across all SEZs was about 14.7 per cent over the period, with significant variation, and the median growth rate was only 2.8 per cent. Looking at the SEZs' performance relative to the broader economy in which they are located, however, showed that the growth of SEZs was on average 2 to 5 per cent lower than national GDP growth.

Even in countries where SEZs' absolute growth was relatively high, such as Kenya, Turkey, and Ghana, it remained below overall national GDP growth. In other countries with high SEZ growth, such as Viet Nam and the Russian Federation, zones grew faster than the national average. The average differential over national growth, however, never exceeded 5 per cent.

The analysis further concluded that zone growth is difficult to sustain over time. SEZs provide a temporary boost during their development phase. The additional growth effect gradually wanes as zones mature.

There are exceptions across the overall sample. A study on SEZs in India (Hyun and Ravi, 2019), based on similar performance data and methods, concluded that they had an overall positive and persistent impact on economic activity that extended well beyond their geographical limits. In addition, it found robust evidence that SEZs led to a formalization of the economy, with resources moving away from the informal sector.

Yet the study also revealed that the SEZ growth stimulus mostly benefited workers at the upper end of the income distribution. Those at the lower end of the wage and educational scale did not benefit significantly. Moreover, the transition towards formalization did not occur as a result of upgrading but rather at the cost of informal firms. This highlights potential unintended downsides of SEZs for parts of the population, even in cases where SEZs are successful and outperform the rest of the economy.

3. Zone costs and revenues

The direct and indirect economic contributions of SEZs should be weighed against their construction and running costs. Factors that can negatively affect the financial and fiscal viability of zones include high up-front costs due to over-specification, subsidies for zone occupants, transfers to zone regimes of already operating firms and illicit financial flows.

The growth of economic activity in an SEZ does not necessarily ensure that the zone makes a net positive contribution to the economy, because zones may rely on significant government subsidies. SEZs' economic contribution should thus be weighed against the resources they receive from the public sector.

The decision to establish a zone programme tends first and foremost to consider the investment expenditures required to build SEZs. Capital outlays can be substantial. A recent review of the World Bank portfolio of SEZ projects (World Bank, 2017b) shows several projects with capital outlays exceeding $100 million, although early projects below $10 million are also cited.

Capital expenditures for the initial construction of the zone depend chiefly on three elements:

i. The location, which determines the need to build expensive additional transport infrastructure to serve the zone
ii. The quality and coverage of the existing utilities and telecommunication infrastructure, as zones in some countries may require dedicated power, water and waste management plants
iii. The type and specifications of zones

The latter element is a key factor in the relatively high costs associated with many modern zones. On the one hand, with the extensive zone construction experience that developers have today, modern zone programmes tend to ensure that new projects are located close to existing public infrastructure and facilities, thereby reducing government outlays. On the other hand, many modern zones offer "plug and play" models for investors with pre-built facilities, warehouses and offices, or they combine residential areas and other amenities with traditional industrial facilities in township (wide-area SEZ) models. Both types of development multiply the initial capital outlays for zones. In contrast to the high commitments for such modern zones, entry-level zones can be relatively inexpensive to build. In addition, outlays tend to be spread over time, as the site develops gradually with the addition of new tenants.

SEZs' operating costs are largely associated with the running of the zone authority. Other operating costs are usually recouped from investors in the zone through building rentals, fees and service charges. Most zones are thus established on a cost-recovery basis, although government-run SEZs regularly subsidize operating costs and utilities, which can make these zones expensive to run. Both zone development and zone management are increasingly outsourced to the private sector, however, significantly reducing government outlays and risk.

Conversely, governments can derive significant revenues from SEZs. Government-run zones generate rents paid by investors (tenants) in the zone and fees for service costs. In private zones, government revenues consist of concession fees for the zone area and for other facilities (e.g. port structures, power plants, waste management sites). Further revenues for the public sector include personal income taxes on zone wages (more relevant in higher-income economies), as well as import duties and charges on zone production sold in the domestic market. Corporate income taxes, by contrast, are usually only a marginal part of revenues, given the tax holidays or discounted rates associated with most SEZs.

Yet a comprehensive assessment of SEZs' financial impact for the public sector is made difficult by two further complications. First, much of the real cost of zone programmes is in the form of foregone revenues from duties and taxes. Assessing such costs would require an evaluation of the efficiency and effectiveness of the incentives provided, i.e. an understanding of how much economic activity the zones would have attracted in the absence of incentives. Second, SEZs' final cost to the public increases when domestic enterprises shift their activity to zones in order to benefit from fiscal relief, thereby reducing the existing tax base. Some SEZ programmes, especially free-point programmes that do not require physical relocation in designated zone territories, risk attracting mostly domestic exporting firms that are already operating – and some are designed for that purpose.

Finally, negative financial impacts can also arise through the misuse of zones for illicit financial flows and trade mis-invoicing, which can be an important problem in zones with laxer government controls. Leakages of duty-free goods from zones into the domestic economy can cause further damage, with not only negative fiscal consequences but also unfair competition with domestic products. Zones can also be constructed as a solution to the problem, however. The Tunisian Government recently announced that it will build a zone at the border with Libya to discourage the smuggling of contraband.

4. Dynamic zone contributions: industrial development and upgrading

SEZs are an important instrument of industrial policy because of the opportunity they can provide for technology and skills development and upgrading in GVCs. Linkages with local firms, spillovers, crowding in and demonstration effects are key to maximizing the industrial development impact of SEZs, but these effects do not occur automatically.

SEZs have been criticized for perpetuating the middle-income trap, due to their typical focus on low labour costs, the low value added activities for exports and their enclave nature with consequent limited spillovers and technology transfer to the domestic industry. Various studies have shown that the average skill level of SEZs' workforce is relatively low and rarely increases over time (FIAS, 2008).

Yet there are numerous examples of how development strategies that incorporate SEZs have contributed to industrial development and upgrading. Early examples include the Republic of Korea and Taiwan Province of China, which successfully developed extensive backward supplier linkages with domestic firms. ASEAN countries, such as

the Philippines and Malaysia, have also been able to attract FDI to SEZs and upgrade to higher value added and technology-intensive industries, including electronics, services and software development (*AIR17*). Outside of Asia, zones have also contributed to structural transformation in a number of countries . The Dominican Republic was a commodity exporter before SEZs turned it into a hub for export manufacturing. Other examples include Mauritius and Lesotho.

SEZs' contribution to industrial development strategies is driven in large part by workforce upgrading and skills development that occurs through formal training and work experience. As zone-based production processes typically involve basic skills and low technology, however, such skills development is often limited. In zones that attract efficiency-seeking investors and focus on processing industries, labour is often primarily considered as a cost to be contained, rather than a resource to develop (UNCTAD, 2002).

SEZ programmes in East and South-East Asia have increased the domestic value added in exports over time, which indicates both higher value added activities in the zones and greater linkages with the domestic economy. A number of early Latin American examples, however, illustrate that this process is not automatic. For example, value added in exports from the Mexican maquiladoras during their rapid growth in the 1990s and 2000s did not increase significantly, despite their success in attracting FDI and generating employment (FIAS, 2008).

Several factors can explain why some zones tend to remain enclaves with few linkages to the rest of the economy:

i. The relatively high import intensity of some of the industries common in SEZs, such as apparel, footwear and electronics
ii. The tendency of MNE affiliates in zones to rely on internal suppliers or on suppliers that are already in their international network as part of global sourcing strategies
iii. The scarcity of competitive local suppliers in relevant industries – or unawareness of their existence by zone-based firms. Local firms in many developing countries may lack the capacity to serve zone-based investors, may not produce according to the required standards or may struggle to access zone-based firms

Linkages between zone-based investors and domestic suppliers are important not just to transmit technological and skills spillovers that support broader industrial development. They are also important to ensure that zones become bridges to structural reform in the broader economy, as SEZ investors interact with the local business environment and local firms indirectly experience SEZs' business climate. This is the key rationale for the continued use of SEZs in the recent wave of new industrial policies (*WIR18*).

5. Social and environmental impacts

Modern SEZs can make a positive contribution to the environmental, social and governance (ESG) performance of countries' industrial base. Controls and enforcement, as well as support services (e.g. inspectors, health services, waste management and renewable energy installations) can be provided more easily and cheaply in confined areas. New zones are increasingly competing on the basis of high ESG standards.

Since the earliest EPZs were launched in developing countries, concerns have been raised about working conditions and environmental impacts. SEZs have also been criticized for misappropriating or destroying agricultural land in the pursuit of industrialization, or for fraudulent private gains (Moberg, 2015).

As of 2017, the ILO concluded that "problems persist [in zones] in the protection of fundamental principles and rights at work, in particular freedom of association and collective bargaining, and gender equality" and that "other violations of workers' rights are also common, especially concerning hours of work and safety and health." Most countries with zone programmes have ratified relevant ILO conventions, yet some countries have pursued "a low-wage strategy for EPZ development, where labour law either does not apply or is not enforced" (ILO, 2017).

ILO surveys continue to report instances of unpaid overtime, unremunerated work at night and lack of social security. The survey of SEZ laws and regulations conducted for this report, however, shows that such practices are less and less the result of lax regulatory standards. Instead, divergent practices mostly result from insufficient resources for effective inspection and administration of labour (ILO, 2017). In contrast, some countries have developed mechanisms to monitor labour practices and avoid disputes, such as involving trade union representatives on SEZ boards (Farole and Akinci, 2011).

It is also important to note that SEZs' working conditions and environmental impacts have sometimes more to do with general conditions in the surrounding economy or within a specific industry than with the SEZ status per se. Wage levels and occupational safety and health standards tend to be higher in SEZ-based foreign affiliates of MNEs than in domestic firms outside the zones. Wages and labour practices depend on the local context and on prevalent industries and economic activities in the zones. The most cited incidents have generally been associated with zones hosting low value added manufacturing operations.

Furthermore, SEZs have a significant impact on the formal employment of women. Female workers are estimated to account for more than 60 per cent of zone workforces worldwide (FIAS, 2008). This share is highest in EPZs focused on light manufacturing (e.g. garments, footwear and electronics); it is lower in zones focusing on heavy manufacturing or diversified economic activities, although it nonetheless remains above 50 per cent on average in those zones.

Poor environmental practices in SEZs have also long been of concern. An often-cited example of environmental degradation relates to Mexican maquiladoras (e.g. FIAS, 2008). Their rapid growth caused air and waste pollution that became a health hazard for nearby populations. Weak monitoring and enforcement capabilities compounded the problem. SEZ programmes in other countries, especially free points or single-factory free zones, have also caused environmental concerns.

However, SEZs operating as confined industrial areas, as opposed to dispersed single-factory zone programmes, can actually make it easier for governments to enforce environmental standards. More modern zones, in particular, offer facilities tailored to the needs of target industries (e.g. high-tech, petrochemicals, software development). Such SEZs tend to have zone-specific environmental regulations and dedicated facilities for waste treatment. Modern zones also use effective environmental management as a selling point for investors, especially those operating in industries perceived to carry higher reputational risks.

Services provided by zone operating companies or shared services among zone investors are increasingly used to support higher social and environmental standards. Many EPZs assist companies operating within the zone with labour-related issues (UNCTAD, 2015b). This assistance comes in a variety of forms, from inspection services (such as labour inspectors), to management assistance (such as on-site labour and human resources bureaus that help resolve labour disputes). Some SEZs set out clear labour standards for companies operating within their confines, addressing minimum wages, hours and conditions for the operation of unions. Mostly, these stated labour standards conform to

local and national laws, but in some cases (including SEZs in China and India), standards are higher than those required at the state or national level (UNCTAD, 2015).

More than half the SEZs polled in UNCTAD's survey on their sustainable development contribution have policies on environmental standards and regulations, and a few have adopted international environmental standards (UNCTAD, 2015). In some cases, these policies are further developed or controlled through a dedicated committee. It is not uncommon for zones to have relatively well-developed environmental reporting requirements under which companies are required to disclose their anticipated amounts of waste and pollutants, and the decibel level of noise expected to be produced. Examples from UNCTAD's poll include zones in Turkey; two of the three zones in South Africa; several in India, Morocco and the United Arab Emirates; and zones in Argentina and China.

Leading SEZs provide technical assistance, institutional mechanisms and physical infrastructure to assist companies with incorporating environmental standards and to promote compliance. Most notable is the availability of hazardous waste management systems in SEZs in, for example, Argentina, the Republic of Korea, Saudi Arabia, South Africa and Turkey (UNCTAD, 2015). This type of service is particularly important because many zones host manufacturing activities that generate significant waste. Whereas numerous zones provide services related to the disposal of hazardous waste, only a few provide recycling services (UNCTAD, 2015). Several EPZs around the world, including in China and India, have been certified as compliant with the ISO 14001 environmental management system standard. The EPZ authority of Kenya launched a strategic plan to achieve the ISO 14001 certification for all of the country's zones. An SEZ in India polled as part of UNCTAD's survey actively encourages companies operating within the zone to become ISO 14001 certified. The use of these standards by SEZ management companies positively steers companies operating within their zone towards responsible business practices.

UNCTAD (2015b) provided a Framework for Sustainable Economic Zones to help SEZs enhance their competitiveness by switching from a narrow focus on cost advantages and lower standards to championing sustainable business (table IV.16). Zones can find new grounds for competitiveness by meeting the growing expectations placed on MNEs and their suppliers to exercise good social and environmental practices. "Next generation" SEZs can gain a competitive advantage by providing not only conventional benefits, but also cost-effective support for good environmental and social practices for firms operating within their boundaries.

6. Critical success factors of SEZs

The performance of SEZs is dependent on external factors as well as factors that can be managed by governments and zone developers. External factors include high competition for internationally mobile investment and changes in the policy environment, such as shifting trade preferences. Manageable factors revolve around the strategic focus of zones, the regulatory and institutional framework and the infrastructure, services and benefits provided to investors in zones.

The failure of SEZs is often related to basic problems such as poor site locations that require heavy capital expenditures or that are far from infrastructure hubs or cities with sufficient pools of labour; unreliable power supplies; poor zone design with inadequate facilities or maintenance; cumbersome administrative procedures; and/or weak governance structures or too many institutions involved in zone management.

Table IV.16. Framework for Sustainable Economic Zones (Key elements for promoting Sustainable EPZs)

	Policies/standards	Infrastructure assistance	Administrative assistance
	Maintains and enforces policies and standards, including:	Provides services or specialists to insure compliance/offer assistance, including:	Provides guidance and training to companies, covering how to:
General Approach	*Create multi-stakeholder partnerships to identify opportunities and develop an action plan*		
Labour	• Minimum wage • Working hours and benefits • Respecting right of unions to be active within the zone • Gender equality and related issues • Incentives for third-party certifications	• Labour inspectors • Conflict resolution specialists • Reporting hotlines • Gender focal points	• Improve labour conditions • Engage in social dialogue
Environment	• Emissions • Waste disposal • Energy use • Incentives for third-party certifications • Promoting circular economy	• Centralized effluent treatment • Water reclamation systems • Recycling services • Hazardous waste management services • Alternative energy sources • Reporting hotlines • Enabling circular economy	• Further reduce natural resource use • Reduce waste • Increase recycling • Improve energy efficiency • Adopt renewable energy
Health & Safety	• Employee health and safety protection • Incentives for third-party certifications	• Medical clinic • Fire brigade • Reporting hotlines	• Prevent health and safety emergencies
Corruption	• Anti-corruption standards and policies	• Hotlines • Information on reporting corruption	• Build capacity to detect and avoid corrupt business practices
Economic linkages	• Employer support for staff training and development	• Assistance with local sourcing	• Identify and upgrade local suppliers

Source: UNCTAD (2015b).

The turnaround of unsuccessful SEZs requires a timely diagnosis of the factors impeding success and targeted action to address them. This is especially critical if there has been a significant level of public investment to develop zone facilities (box IV.16).

Apart from factors directly related to SEZs' location, design and management, contextual considerations are also critical for SEZs' success. Proximity to large markets is an important driver for zone performance (Frick et al., 2019), and traditional advantages attracting FDI to the broader economy – in particular a pool of adequately skilled and relatively low-cost labour – remain key determinants of zone success.

Yet high competition for investment among neighbouring countries is listed by investment promotion agencies (IPAs) as the top challenge for SEZs (figure IV.20). Infrastructure support to investors and the domestic presence of capable suppliers outside the zones are also top concerns, more important than incentives packages, the cost of labour or strategic concerns such as zone specialization.

Policy debates on SEZs and what makes them successful have generally focused on three key considerations, however: the need for strategic focus; appropriate regulatory frameworks and governance structures; and the value proposition for investors in the zone – the package of advantages that zones provide.

Strategic focus. Despite recent diversification efforts, most zone enterprises worldwide are engaged in labour-intensive, assembly-oriented activities such as apparel, textiles, and electrical and electronic goods. The degree of product specialization tends to be linked to the host country's level of industrial development, with the least developed countries generally hosting multi-activity non-specialized zones, and more developed economies focusing on industries and value chain segments that promote industrial upgrading.

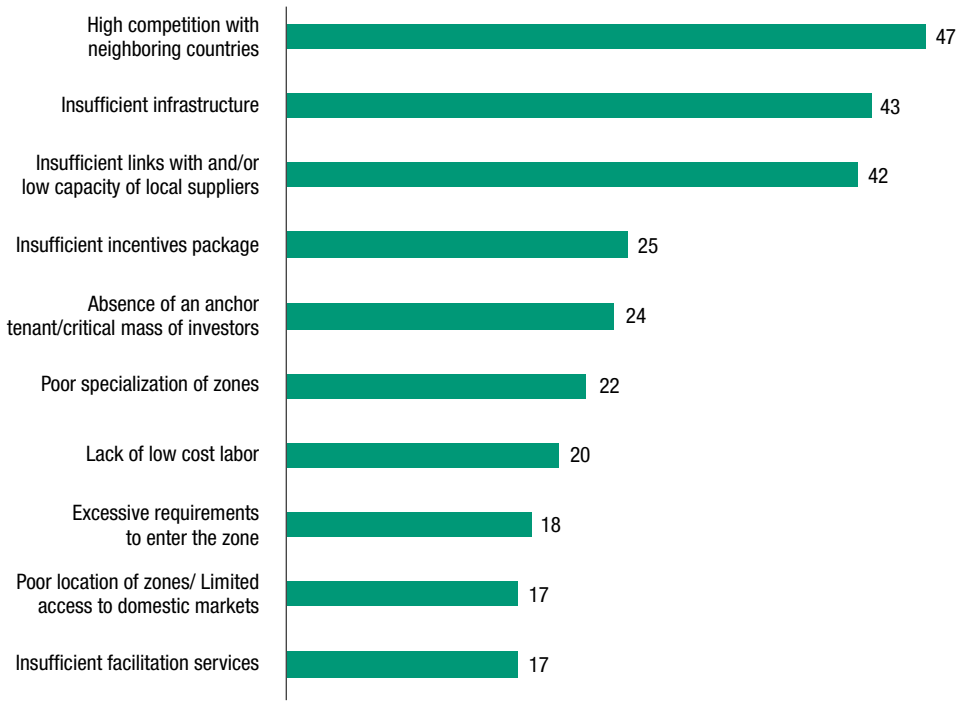
Box IV.16. Turning underperforming SEZs around: the Tema Free Zone in Ghana

Ghana has one of the more successful SEZ programmes in Africa today. Only four EPZs generated approximately $1.25 billion of exports in 2018, of the country's estimated total of $14 billion. The biggest and most successful SEZ is the flagship Tema free zone. Yet the programme, which was initiated in 1995, did not always perform well. In 2005, only $105 million worth of exports could be attributed to the country's free zones, against imports of $46 million (Angko, 2004). The Tema zone in particular was performing well below expectations, owing to problems with the developer, high vacancy rates and inactive tenants.

The Ghana Free Zones Board, aided by external experts, launched a three-pronged restructuring of the Tema zone. First of all, firms were clustered on the basis of industry to promote agglomeration economies. This entailed physically collocating firms in the same industry along with suppliers and providing a minimal level of services tailored to specific industry needs. For example, a technology incubator and a garment village were designated within the zone. Second, a renewed effort was undertaken to provide hard and soft infrastructure geared towards exports, including offices for customs, immigration, the environment and the Export Promotion Council. Finally, a multi-purpose industrial park was established within the zone, allowing local firms in but not offering them the incentives extended to export-oriented foreign affiliates. This promoted forward and backward linkages between local and foreign firms, improving both zone performance and spillover benefits to the local economy. Within a few years, the performance of the Tema zone improved significantly. World Bank assessments revealed that from June 2008 to June 2009, companies in the free zone generated $281 million in exports and 2,085 jobs (Farole, 2010). Since then, the performance of the zone has steadily kept improving, and itis now considered a key component of the country's economic strategy and one of the few examples of SEZs done right in Africa.

Source: UNCTAD, based on information from Ghana Free Zones Board and the OECD.

Figure IV.20. Key challenges for SEZs according to national Investment Promotion Agencies (Percentage of respondents)



Source: UNCTAD Survey of Investment Promotion Agencies.
Note: UNCTAD's World Investment Prospects Survey 2019; respondents from 120 IPAs from 110 economies.

Some less developed countries have sought to attract high-tech investors into SEZs to leapfrog into higher value added activities and accelerate economic growth. Yet the viability of high-tech zones in less developed environments that lack key locational advantages for such activities – including sufficiently skilled resources, research institutions and the amenities to attract specialized foreign personnel – is questionable. For example, early zones in Bangladesh targeted high-tech firms but were unsuccessful; they started attracting significant investment only when the authorities allowed garment producers to invest (Farole and Akinci, 2011).

In fact, the fastest-growing SEZs in developing countries appear to be those with lower technological components (World Bank, 2017b). This reflects the difficulties that countries face when aiming to transition from low to higher value added industries.

Developing countries thus need to be careful in committing significant resources to building SEZs seeking to leapfrog directly into high-tech sectors; they may need to go through the stage of developing labour-intensive industries initially – in line with the SEZ development ladder discussed in section A – and then upgrade gradually, once more advanced industrial capabilities have been developed (Frick et al., 2019).

The strategic focus of zones and zone specialization are important to maximize the benefits of clustering. Firms co-located in zones benefit from network effects and economies of scale. Firms operating in the same or adjacent industries clearly have greater scope to collaborate, pool resources and share facilities than firms operating in unrelated industries. Larger SEZs have also been shown to perform better than smaller ones with less scope for cluster development (World Bank, 2017a).

Nevertheless, even multi-activity zones can extract some of the benefits of co-location. Clustering of the SEZ logistical function can enable firms in various industries with different peak production times to efficiently share warehouse space or to design shared transportation solutions. In addition, firms in different industries can still share common services in the zone. But specialized zones, whether by design or natural clustering, tend to show higher GVC participation, as well as higher and more sustained growth rates.

Regulatory framework and governance. The institutional framework and the degree of private sector involvement in zone development and management structure have often been linked to the success of zone programmes. An independent regulator or SEZ authority is considered a key factor in the success of zone programmes. The zone regulator should be shielded from political pressure and adequately funded to ensure the effective implementation of the programme (Farole and Kweka, 2011). The autonomy of the governing body, particularly in the context of an increasing number of private zones, is important to minimize conflicts of interest; zone authorities should preferably focus on regulatory functions, and not own, develop or operate zones (Cheng, 2019).

Most SEZs today are privately owned, developed and operated. About 60 per cent of modern SEZ laws establish the framework for private sector concessionaires. This contrasts with earlier zone programmes; in the 1980s and 1990s, less than a quarter of zones worldwide were privately owned. Outsourcing zone development to the private sector can greatly reduce the capital cost for governments, as well as some of the risks involved. In smaller zones, private developers tend to be more frugal than the public sector in zone design and construction, with relatively little investment in warehousing, transport infrastructure and skeleton buildings, generating higher returns (Moberg, 2015). In large modern zones, private developers have supported the growth of specialized SEZs with customized facilities through proactive and targeted investment promotion and marketing.

Despite the apparent advantages of private sector involvement in zone development and operation, the type of zone management (i.e., public, private or PPP) has not been found to have a significant structural impact on zone performance (Frick et al., 2019). The most appropriate structure is likely to depend on country-specific policy and legislative framework, and on the type of SEZ that governments aim to develop. Some of the advantages of private sector zone development, including a better understanding of appropriate levels of investment and facilities best suited to the zone, can also be achieved by decentralizing zone governance, involving local or regional levels of government in management or oversight boards (Moberg, 2015).

A key aspect of the institutional and governance framework for SEZs should be regular monitoring and evaluation mechanisms. To date, few countries systematically assess the performance of zones, and even fewer have instated mechanisms to deal with underperformance. China has formulated detailed assessment criteria for certain types of zones, which are used to rank its SEZs. Similarly, the Russian Federation has established a comprehensive methodology to monitor and evaluate the performance of its SEZs. Consistent underperformers have been removed from the list of SEZs: 11 were closed between 2010 and 2017 (box IV.17).

Finally, good governance ensures that zones are not tainted by illegal trade. A number of zones have been considered by the World Customs Organization and the Organisation for Economic Cooperation and Development (OECD) as being at risk of enabling trafficking in counterfeit and contraband products. This concerns many products, especially luxury

Box IV.17. Monitoring and evaluation of SEZs in China and the Russian Federation

In *China*, the performance of both HTDZs and ETDZs is regularly evaluated. A 1996 Administrative Decree from the Ministry of Science and Technology requires a periodical evaluation of HTDZs. "Poorly managed and slowly developing zones" are ordered to rectify their performance within a time limit, failing which they lose their HTDZ status. The Evaluation Index System of 2013 includes four categories and 40 indicators, such as:

- Knowledge creation and technological innovation: education level of employees, R&D expenditure, number of R&D institutions and incubators, etc.
- Industrial upgrading and structural optimization capabilities: number of high-tech enterprises, ratio of services sector firms, intellectual property registration, number of listed companies, etc.
- Internationalization and participation in global competition: ratio of employees who received higher education overseas, ratio of foreign personnel, number of overseas branches, intellectual property registration overseas, etc.
- Sustainable development capability: ratio of employees with masters and doctoral degrees, growth rate of number of companies or tax revenues, amount of new investment, energy consumption, etc.

In 2016, the Ministry of Science and Technology started to evaluate the innovative capacity of HTDZs as an additional performance criterion.

The Ministry of Commerce has conducted an annual assessment of ETDZs since 2016. An exit system is applied to the five lowest-ranking ETDZs for two consecutive years. The assessment of ETDZs is based on five considerations, namely, industrial capacity, technological innovation, regional integration, environmental protection and administrative efficiency. In the five categories are 53 indicators, including traditional indicators such as industrial output, revenue, productivity, GDP, R&D expense, FDI inflows, value of foreign trade and number of listed companies, as well as sustainability-oriented indicators, such as numbers of vocational training institutions, consumption of energy and water, emission of sulphur dioxide, nitrogen oxides and ammonia nitrogen, and recycle rate of wastes. An online single-window approval system for investment facilitation is also an indicator for administrative efficiency. The Ministry of Commerce publishes the list of the top 30 zones and the names of the top 10 in the categories of industrial capacity, innovation, FDI and foreign trade, respectively.

In the *Russian Federation*, the Government monitors and evaluates SEZs of several kinds: industrial production, technology innovative, tourism and recreational, as well as ports. The law establishes six indicators of SEZ efficiency: investment attractiveness, business environment, infrastructure provision, availability of land resources, SEZ residents' investment activity and information transparency of the SEZ website.

The evaluation is carried out annually and produces zone rankings along the criteria. The process has served mostly to create peer pressure on underperforming zones and the regional authorities of the area in which they are operating. Consistent underperformers have been removed from the list of SEZs and have been shut down. Using this mechanism, 11 zones were closed between 2010 and 2017 (Kuznetsov and Kuznetsova, 2019).

The revised resolution of 2018, having adopted a philosophy of broader impact assessment, adds four pillars for evaluation:

- Performance of residents of the SEZs
- Profitability of federal, subnational and local investment in engineering, transport, social, innovation and other infrastructure objectives of the SEZs
- Performance of the SEZs' governing bodies
- Effectiveness of the planning for SEZ creation

These general indicators are constructed from 18 subindicators. The evaluation methodology is differentiated by type of zone.

Source: UNCTAD, based on various sources.

goods and cigarettes (manufactured in free zones and exported and sold without customs duties). The OECD has undertaken a reflection on free zones to promote good governance (OECD/EUIPO, 2018).

Value proposition. The overall value proposition of individual SEZs includes a host of locational advantages, only some of which are determined or can be influenced by government policy. Focusing on those that depend on active policy decisions, the first and most important feature is the choice of location. SEZ policies often specifically aim to promote the economic development of certain regions, for example areas with high levels of unemployment. At the same time, a strategic location close to key infrastructure hubs (e.g. ports and airports) and close to labour pools is fundamental to attracting investors into the zone.

Several studies have shown that closeness to ports or large cities is more likely to spur zone dynamism than locating an SEZ in more remote areas. In fact, in most developing countries with one or very few major urban agglomerations, the distance to the largest city is negatively correlated with zone performance, indicating that SEZs may not be the most effective tool for the development of remote or relatively poor regions (Frick et al., 2019).

The incentives offered in zones are generally considered a key element of the value proposition. Nevertheless, the use of generous incentives packages to offset locational disadvantages may be ineffective. Recent analyses find no correlation between fiscal incentives offered to investors and zone growth in terms of jobs and exports (Farole, 2011; Frick et al., 2019). Incentives on their own are therefore insufficient to explain zone performance. The lack of correlation may be caused in part by the increasing convergence of zone investment incentives and the lack of differentiation. Some variations in fiscal incentives exists, but only at the margin; most incentives packages include exemptions from import duties on machinery and inputs, as well as reductions in or exemptions from corporate and other local taxes.

More important than the incentives package on offer may be the facilitation of administrative procedures for businesses and investors in the zone through regulatory streamlining and one-stop shops or single windows. Failed zones or zone programmes that have struggled with effective implementation, such as in India, have generally been negatively affected by excessive bureaucracy (Moberg, 2015). A policy approach encouraging zones to compete on the basis of streamlined administration, adequate facilities and efficient services rather than on (relatively undifferentiated) incentives is considered a better predictor of success. Elements commonly prioritized in business and investment facilitation efforts include simplified investment approval processes and expatriate work permits, removal of requirements for import and export licenses, accelerated customs inspection procedures and automatic foreign exchange access. Single windows dedicated to individual SEZs, such as those for five zones in Viet Nam, can boost facilitation efforts.[18]

Infrastructure and services are key for zone success. The raison d'être for most zones in lower-income countries is to ease the infrastructure challenges in the country and to concentrate public investment in infrastructure in a limited geographical area. Infrastructure connections should ideally provide access to at least two transportation modes to allow for intermodality and sufficient connectivity. Commonly developed basic infrastructure services further include reliable utilities, telecommunication, and water and waste management installations. Non-infrastructure services are equally important. Dedicated customs offices and inspection units are a common feature of SEZs by definition, but other services may include security, human resources-related services, and catering or housing services, among others. Such services are an integral part of modern wide-area or township-like zones, which include residential and commercial areas on site.

D. TOWARDS A NEW GENERATION OF SEZs

Moving towards a new generation of SEZs requires absorbing lessons learned on the design, operations and impact management of zones; responding to the new challenges raised by the sustainable development imperative, digitalization and the new industrial revolution, and changing patterns of international production; and experimenting with new ideas, including SDG model zones.

The analysis in this chapter has shown that SEZs are ubiquitous. They are used by more than 140 economies around the world, including more than 70 per cent of developing countries and nearly all transition economies. Their number has grown rapidly in recent years, in parallel with and as part of the wave of newly adopted or updated industrial policies documented in *WIR18*. More than 500 SEZs are in the pipeline. This reflects countries' response to increasing competition for internationally mobile investment and their desire to seek relatively low-cost shortcuts to economic development and integration into international production networks.

Countries' approach to zone development varies along several dimensions: the number and physical dimensions of zones; the predominance of a few large zones, multiple free points, or combined schemes; the level of zone specialization; the design of zones as stand-alone industrial sites or integrated townships; and the degree of international cooperation. Many new types of zones are being developed that focus on industries such as high-tech, financial services, tourism and environmental performance.

At the same time, the basic value proposition of SEZs, especially the package of fiscal and regulatory advantages they offer, remains similar across zone programmes. They offer customs duties and tax relief, regulatory facilitation and streamlined administrative procedures. Competitive differentiation among both individual zones and types of zones is based more and more on the level of infrastructure support and services provided, making new zones more costly to set up and run.

The policy and institutional framework for SEZs across the majority of developing and transition economies is remarkably similar, with most adopting a dedicated law that sets out the framework enabling the development of SEZs and the investment conditions within zones. Actual zone operating conditions are determined by zone-level decrees and lower levels of government, as well as developers and management companies, which are more and more often private operators. Although SEZs are by definition an exception to the general policy regimes in the countries where they are located, the attractiveness of zones is still significantly influenced by more general (national) policy frameworks beyond direct legislation on SEZs, including trade and investment policies.

Relatively little evidence is being collected on the impact of this policy tool of such widespread and growing application. No systematic data exist on investment, export and employment generation in zones. Anecdotal evidence suggests that a limited number of large and high-performing zones, mostly in Asia, account for a sizeable share of SEZs' economic activity worldwide. SEZs can make a significant economic contribution in individual countries, but there are also numerous examples of zones that languish for long periods after their initial creation.

Few countries conduct comprehensive assessments of zone performance against costs, including initial investment expenditures and operating costs. Zones have the potential to provide development benefits beyond direct economic and financial gains, supporting economic transformation objectives, technology and skills development, and policy experimentation opportunities. These development benefits can justify public investment in zones. The financial and fiscal viability of zones, however, is important for long-term sustainability. Equally important is the social and environmental performance of zones, which can cause negative externalities but can also make positive contributions.

The critical success factors for SEZs identified in the previous section emphasize the importance of gradual specialization and evolution along the SEZ development ladder, as well as active efforts to reap the benefits of co-location and clustering in zones. They highlight the potential benefits of private zone development – within appropriate regulatory parameters – including lower cost and lower risk for zone construction and management, as well as access to international expertise and marketing. Critical success factors also highlight the importance of locational choices, infrastructure and services provided in the zone, and business and investment facilitation features.

1. Lessons learned from past experience

The findings in the earlier sections of this chapter can be synthesized in a number of lessons learned about the design of SEZ programmes, the operation of SEZs and the optimization of the development impact of SEZs (table IV.17).

a. SEZ programme design

Critical in the design of SEZ programmes is their *dynamic integration in the country's long-term development strategy*. SEZs are not a static policy tool; the development ladder that emerged from the empirical analysis in this chapter shows that different stages of development require different forms of SEZs. As countries develop, it is important to continuously assess the extent to which SEZs are fit for purpose and to adapt zone programmes to evolving contexts and development objectives. This has significant implications. Adjusting SEZ programmes requires that the programmes have built-in flexibility and that long-term SEZ policy be taken into consideration when approaching international trade and investment commitments.

Table IV.17. Lessons learned from SEZ experience

Areas	Lessons learned
Programme design	• Integrate SEZs dynamically in development strategy • Complement existing competitive advantages • Take into account the national investment climate and governance capabilities • Design zones to be self-financing
Operations	• Get the basics right: business facilitation, infrastructure, labour pool • Promote clusters and linkages • Ensure strong institutions and good governance • Coordinated investment promotion
Development impact	• Set clear goals and performance metrics for economic and ESG contributions • Conduct effective monitoring and evaluation, with consequence management • Maximize synergies between institutions and levels of government

Source: UNCTAD.

SEZ programmes should aim to *complement existing competitive advantages and build dynamic capabilities* based on sustainable sources of competitiveness. Designing and building zones that require industrial and technological infrastructure and skills not yet available in the economy is likely to lead to zone failures. These failures can be expensive in terms of both capital and time. SEZs can modify but not nullify traditional locational determinants of investment. Competitiveness can be built around, for example, natural resources, strategic geographies or the workforce. The long-term sustainability of these sources of competitiveness depends on building up dynamic capabilities through, for example, industrial upgrading in resource value chains, improved connectivity of strategic geographies and skills development of the workforce.

The success of SEZ policies is *closely entwined with the national economy, the national investment climate and the governance capacities of relevant national and local authorities*. SEZs are not an end in themselves; they need to provide an impulse to the industrial development of the economy and yield benefits beyond their confined geographical area. Conversely, the successful development of SEZs depends on the parallel development of the surrounding economy. Just as SEZs should not be developed as isolated economic enclaves, SEZ policies should not be developed in isolation from the economy's broader policy framework. In other words, SEZ policies should be coherent with trade and investment policies, and with business and fiscal regulatory frameworks beyond the zones. Finally, effective zone governance by, and coordination between national and local authorities, developers and operating entities is key to gaining – and maintaining – investors' trust in the zone and is a precondition for zone success.

Finally, *zone programmes should be designed to ensure cost recovery.* Zone objectives may well extend to the development of long-term dynamic capabilities, industrial upgrading, and skills and technology dissemination. But the financial viability of zones is fundamental for their long-term sustainability. Long-term economic development contributions are uncertain and difficult to predict; if SEZs' immediate economic contributions, including their fiscal contributions, rents and services fees, are insufficient to cover zone costs, their fiscal impact will be increasingly difficult to justify. The risk of negative fiscal impacts is higher in programmes that allow existing domestic firms to convert to zone status – thereby eroding the tax base – without significant investment in new productive capacity.

b. SEZ operations

SEZ performance depends on an *attractive business environment, including good infrastructure, an adequately skilled labour force and efficient services*. Although fiscal incentives and subsidies are important to attract investors, zones can be developed successfully without excessive reliance on incentives. In contrast, primary reasons for the failure of many unsuccessful programmes are weak governance, complex procedures, and insufficient infrastructure and services. Effective zone development often relies on pragmatically resolving mundane problems ranging from slow connection of businesses to utilities to a lack of public transport links for workers living outside the zone. Priority services depend on zone context, objectives and investor profiles. For example, being able to provide effective security services can be a key competitive advantage in zones with extensive warehousing and logistics operations.

The attractiveness of SEZs for investors is further enhanced by the synergies and economies of scale that zones can deliver through the *promotion of clusters and linkages with the local economy*. Vertically specialized zones have a greater scope for synergies, but multi-activity zones can also promote cost-sharing arrangements, e.g. for warehousing and transportation, and shared services. Within large multi-activity zones, smart co-location

strategies can bring industries with greater scope for collaboration physically closer together. Matchmaking programmes and training initiatives for local SMEs outside the zone stimulate linkages that are important not only for SEZs' broader economic impact but also for their long-term prospects.

Well-designed legal and regulatory frameworks and institutions, as well as good governance, are vital to the success of an SEZ. The enabling legal infrastructure of an SEZ (national SEZ laws, in most cases) should be sufficiently stable to ensure consistent, transparent and predictable implementation of SEZ policy. Also, SEZ operating procedures should be practical and responsive to the needs of investors. The legal infrastructure should set out SEZ investment rules, institutional arrangements, fiscal incentives and tax administration, licensing and regulation of business activities, trade facilitation and customs control, and dispute settlement mechanisms. The effectiveness of the SEZ authority responsible for the enforcement of the legal framework will make or break an SEZ programme. Independent agencies under a board of directors including both public and private sector representatives have the better track record. Finally, good governance and the rule of law, including effective anti-corruption procedures, are crucial.

Coordinated promotion efforts between SEZ authorities, developers and IPAs are important for an effective approach to potential investors. The institutional set-up and the role of IPAs vary between countries. In most cases, IPAs do not distinguish their activities for SEZs from their other investment promotion efforts. A joint effort could lead to targeted initiatives for SEZs; it would have the advantage of more effective linkages with investment facilitation efforts in the rest of the economy; and it would integrate SEZs more seamlessly into national investment promotion strategies. Clearly assigned roles are important, separating responsibilities for promotion efforts, approval processes, the granting of incentives, and the monitoring of adherence to zone policies.

c. Optimizing development impact

Maximizing SEZs' positive development impact starts with the *establishment of clear goals for SEZ performance, economic contributions, labour rights, and social and environmental standards.* Many SEZ programmes are set up with broad objectives for investment, export and employment contributions. But maximizing long-term contributions to productive capacity and industrial development, as well as technology and skills, requires granular targets for aspects such as capital expenditures, skill levels, training and local content. Such targets are needed in order to design incentives schemes and active clustering support, investment promotion, facilitation, matchmaking and linkages programmes.

Clear goals are also a prerequisite for the development and implementation of *effective monitoring and evaluation mechanisms*. The SEZ sustainable development impact assessment (or "profit and loss statement") developed in section C can provide guidance on key evaluation areas. The monitoring process and the scope and modalities for corrective action are equally important. Such "consequence management" can be incorporated at programme level where SEZs are managed predominantly by public entities. They can be incorporated in contracts where SEZs are developed and operated privately. Programmes should include safeguards to ensure that SEZs remain aligned with development strategies.

Finally, the coherence of different policy areas – as remarked above – and *synergy creation between different parts of government at national and subnational levels* are key to achieving the desired impact of SEZs. As an extension of good governance, this requires effective coordination mechanisms for the multiple ministries and agencies involved in the regulation of SEZs.

d. Systemic and strategic considerations

Beyond the practical lessons learned about SEZ design, operation and impact optimization, current trends in the development of SEZs point to a number of systemic and strategic considerations – or notes of caution – for policymakers.

First, the proliferation of SEZs around the world, driven in large part by competitive pressures in a tightening market for internationally mobile investment in industrial capacity, raises concerns about a "race to the bottom" – with low taxation and relaxation of regulations and standards applicable to (predominantly international) investors.

The global consensus on the need for sustainable development should act as a brake on the downward slope. Still, the implications for development could be far-reaching. As most countries implement zone programmes that include the full spectrum of investment promotion levers, pre-existing investment determinants tend to prevail, and the traditional disadvantages of those countries most in need of investment for industrial development continue to be a barrier. Furthermore, competitive differentiation for efficiency-seeking investment increases the pressure to build ever more costly higher-specification zones and to provide subsidized services – again putting the LDCs at a disadvantage.

In addition, zones that attract a very large proportion of manufacturing investment in some developing countries can turn into enclaves of internationally mobile economic activity. That raises concerns for the level playing field relative to domestic firms and the local labour force – especially in large integrated zones that include townships or residential areas. This risk presents a policy trade-off that needs to be considered carefully: zones can help lift the incomes of part of the population but will not benefit all; they may even affect groups of the population negatively, such as those dependent on the informal sector. However, such outcomes need to be weighed against the need – especially for poor countries – to mobilize investment and to use SEZs as a stepping stone towards broader development, with zones potentially acting as gateways to GVCs and creating spillover, crowding-in and demonstration effects.

The zone development ladder presented earlier in the chapter addresses these concerns in part. It suggests that lower-cost zones, associated with a frugal approach to zone development and management, may be an option for lower-income countries. Limiting subsidized services and incentives, while making fiscal incentives temporary and dependent on sustainable development contributions, will further help limit the "dual economy" risks. Doing so would leave trade and investment facilitation levers as the only constant and lasting zone advantages.

But policymakers can question more generally the need to combine virtually all investment promotion levers in SEZs. Under certain circumstances and for certain types of investment, individual levers are often sufficient. Many common development or investment constraints can be addressed by alternative policy options applied throughout the economy rather than in confined areas. For example, common industrial parks (without special regimes) could be an appropriate policy option if the key constraint to industrial development is limited access to land or inadequate infrastructure. Similarly, targeted incentives that leave investors to decide on the most advantageous location in the country may be as effective as zones, if attracting investment in specific economic activities is a key objective. Even the facilitation of customs procedures for trade-dependent activities can be offered through alternative regulatory options, such as bonded warehouse programmes or duty drawback schemes. Individual constraints on development or investment attraction rarely justify the creation of an SEZ programme. SEZs can be the preferred option when multiple constraints apply and when alternatives are not feasible or too difficult to implement. This is often the case in low-income countries.

Alternatives to zones have the advantage of favouring national reforms rather than reforms limited to confined zones, thereby avoiding multiple regimes for trade, investment and taxation. Of course, SEZs do not necessarily stand in the way of national reforms. Early adopters of zones in Asia have deliberately used zones to introduce national reforms gradually in a dual-track approach that slowly exposed the rest of the economy. Still, the ultimate goal remains the extension of reforms (and their positive effects) to the broader economy.

Finally, the examples in previous sections of zone programmes that adjust to changing circumstances and of turnarounds of struggling zone programmes show that policymakers need to have a "Plan B". They need options for re-orienting their strategic approach, reforming zone regulations and repackaging zone benefits when zones fail to deliver on objectives.

2. A forward-looking perspective

The need for strategic re-orientation, reform and re-packaging may become increasingly acute with the evolution of the three key challenges highlighted in the introduction to this chapter: the sustainable development imperative, the new industrial revolution and the digital economy, and changing patterns of international production and GVCs. Table IV.18 provides an overview of possible policy responses to these three challenges.

The *sustainable development agenda* increasingly drives MNEs' strategic decisions and operations, which should be reflected in the value proposition that SEZs and IPAs market to investors. Laxer social and environmental rules or controls are not a viable long-term competitive advantage to attract investment in zones. On the contrary, they can lead to zone failure when the SEZ becomes associated with labour or human rights abuses, projecting a negative image that discourages investment. Shared services related to sustainability, such as common health and safety services, waste management installations and renewable energy sources will become increasingly important. SEZs that market their environmental performance (ecozones) are already emerging (UNCTAD, 2016), and the enforcement

Table IV.18. Overview of possible policy responses to emerging challenges

Policies/standards	Sustainable development imperative	New industrial revolution and the digital economy	Changing patterns of international production
Strategic reorientation	• Integrate sustainable development indicators in SEZ programme design • Explore new SEZ models focused on incubating business activities that promote sustainable development	• Modernize SEZ service provision by integrating digital technologies • Promote investment in business activities of digital firms • Partner with global platform providers to enhance SEZ competitiveness	• Focus specialized SEZs on services and manufacturing activities in line with global industrial restructuring • Link SEZ development to regional integration, including through new international cooperation models
Regulatory reform	• Establish, monitor and enforce ESG performance indicators for SEZ investors • Promote global standards in SEZs	• Consider the interaction between the policy framework for SEZs and the national regulatory regime for the digital economy	• Adapt facilitation and regulations to new forms of investment (non-equity modes of international production) • Anticipate shifts in international rules and trade preferences, and regional integration efforts
Repackaging of the value proposition	• Provide supporting services and training programmes in ESG factors • Reorient incentive schemes towards sustainable development contributions	• Provide adequate digital infrastructure within zones • Facilitate digital start-ups through focused clustering and linkages programmes • Adjust HRD programmes to include digital skills	• Incentivize upgrading and diversify exports • Strengthen entrepreneurship policies and mobilize dynamic local entrepreneurs to catalyze FDI in SEZs • Provide on demand or shared manufacturing, design or testing spaces or services

Source: UNCTAD.

Box IV.18. Using SEZs to promote green growth

SEZs play a pivotal role in Ethiopia's industrial development strategy and its Climate-Resilient Green Economy strategy, which entails the mitigation of both excessive emissions and unsustainable use of natural resources. The country has announced plans to build 30 industrial parks by 2025 to boost manufacturing output from 5 to 20 per cent of GDP. Five public industrial parks are already in operation, and six more are under construction. Government outlays so far amount to approximately $1.3 billion. Private investors are also being encouraged to develop parks, either independently or through PPPs. Currently, three private parks are operational, benefiting from similar incentives as the publicly owned sites.

The flagship Hawassa Eco-Industrial park is being developed as a model of the Climate-Resilient Green Growth strategy. The park is focused on the textile and apparel industry and houses a number of global manufacturers, including American luxury conglomerate PHV Corporation, which own brands such as Tommy Hilfiger and Calvin Klein. The government has installed a state-of-the-art zero-liquid-discharge common-effluent treatment plant, which enables the cleaning and recycling of 90 per cent of the water in the park and minimizes its impact on surrounding soil salinity, groundwater and river bodies. In addition, the zone is served entirely by renewable hydropower and has energy-efficient appliances such as LED lights installed in premises. In 2018, only the second complete year of its operation, the Hawassa Industrial Park reported exports of a little under $50 million (of the total exports from industrial parks of $100 million), a number which is set to grow in the coming years. This is significant, considering that total exports from Ethiopia are less than $3 billion, and the contribution of the country's consumer goods to total exports has historically been low (12.5 per cent in 2016).

Ethiopia's experience illustrates the potential value of environmentally sustainable zones to international investors. During the design of the Hawassa Park, the Government invited potential investors to provide input for design and construction, so that the park met the latest international standards. Many of its innovative elements, particularly those related to environmental and safety standards, were inputs provided by PVH, the largest manufacturing foreign investor in Ethiopia to date (World Bank, 2017b).

Source: UNCTAD, based on information from Industrial Parks Development Corporation of Ethiopia and Federal Democratic Republic of Ethiopia (2011).

and active promotion of high environmental, social and governance (ESG) standards will increasingly become a feature of SEZs (box IV.18).

Fiscal incentives conditional not only on employment, investment or export performance, but also on a range of social and environmental indicators have the potential to become a key tool for driving SEZs' ESG performance and sustainable development impact. Realizing this potential will require zone programmes to include ESG indicators and adequate monitoring capacity. Ultimately, new SEZ models could evolve to promote investment focusing on sustainable development contributions. Such zones could specialize in, for example, manufacturing activities in renewable energy or innovative products that offer low-cost solutions to social and environmental problems in low-income countries.

The *new industrial revolution* – the adoption across industries of digital technologies, advanced robotics, 3-D printing, big data and the internet of things – is changing manufacturing industries. The declining importance of labour costs as a locational determinant for investment will have fundamental implications for SEZs. SEZ development programmes will need to adapt their value propositions to include access to skilled resources, high levels of data connectivity and relevant technology service providers, potentially through partnerships with platform providers. Digital service provision by SEZ operators, e.g. through online single windows for administrative procedures, will become an increasingly important signal to potential investors. At the strategic level, SEZs may have new opportunities to target digital firms and orient their strategic strengths in logistics facilitation towards the distribution activities of e-commerce firms. SEZs could follow the incubator model and promote clustering and linkages with local digital start-ups within and outside their confines, transforming SEZs in Digital Innovation Hubs. To pursue such opportunities and see new SEZ models succeed, national digital policy – e.g. privacy legislation, data storage and security – will become an area to integrate with the SEZ regulatory and institutional framework.

Changing patterns of international production and GVCs, as overseas operations shift towards intangible and asset-light forms, risk making the traditional physical production advantages offered by SEZs less relevant. This trend is likely to result in increasing numbers of zones specializing in services, on the one hand, and smaller-scale manufacturing (e.g. digital twins, see *WIR17*), on the other. Both developments can potentially lead to higher technology and intellectual property content in SEZ production, requiring SEZ incentives to foster contributions to industrial upgrading and skills development. Smaller-scale manufacturing investments could provide opportunities for enhanced linkages with firms outside SEZs. Changing patterns in international production are also driven by policy factors. MNEs constantly shift GVCs in response to new trade barriers or changes in preferential market access. The return of protectionist tendencies, slow progress in international trade policymaking, and new regional trade and investment agreements can thus significantly affect SEZ competitiveness. The trend towards more regional rather than multilateral economic cooperation is likely to give further impetus to the development of regional zones, cross-border zones and other forms of international cooperation zones.

3. SDG model zones

This chapter has documented the emergence of a host of new SEZ models with innovations in their strategic focus (e.g. high-tech, financial services, tourism), in their design (e.g. integrated township models), in their governance (e.g. international cooperation models) and in their operations (e.g. new shared ESG-related services).

The sustainable development imperative described in section C is arguably the most urgent challenge facing policymakers, zone programme developers and zone managers today. The policy responses flagged above, taken together, provide the direction that existing SEZs are likely to take. These responses can be adapted and adopted in most current SEZ programmes worldwide.

The 2030 agenda to achieve the United Nations SDGs could provide an opportunity for the development of an entirely new type of SEZ: the SDG model zone. Conceptually, such zones would be built around three key elements:

- A strategic focus on attracting investment in “SDG-relevant” activities
- The highest levels of ESG standards and compliance
- Promoting inclusive growth through linkages and spillovers

ESG compliance, as well as linkages and spillovers, are of course among the objectives of most existing zones. The review of SEZs’ performance, however, has shown that much more can be done. Table IV.19 provides an overview of policy options for the creation of SDG model zones.

SDG model zones could *adopt the highest international standards, set the benchmark and act as catalysts* for improvements across all zones through innovation and experimentation with new approaches. SDG model zones could, for example, be designed for zero emissions and minimum waste (aspirational targets that would require complex, closed-circle designs). They could strive to achieve (and publish results on) ESG targets that are not commonly included in SEZ performance evaluations; for example, a gender-equality benchmark or the measurement of zone contributions to public revenues.

SDG model zones could *provide services to control and support the ESG performance of firms operating in the zone*. Such services could include inspection services on health and safety standards, as well as training and financial support to facilitate improvements, implement best practices and obtain third-party certifications. The same could apply to

Table IV.19. Illustrative list of policy options for the creation of SDG model zones

Policy option	Policy objectives	Focus	Promotion/facilitation
SDG investment strategy	• Catalyze SDG implementation • Incubate pro-SDG business activities	• Sustainable agriculture, food security and nutrition • Basic infrastructure, utilities, water and sanitation services • Health care and essential medicines • Renewable energy and climate change mitigation • Education	• Target SDG sectors and incubate SDG activities • Reorient incentive schemes towards SDG contributions • Prepare a pipeline of SDG projects • Facilitate impact investment and social entrepreneurs • Cooperate with development partners
ESG standards compliance	• Promote sustainable processes in production and services • Enhance CSR and good governance	• Aspirational goals: zero emissions and minimum waste • Highest labour, health and safety standards • Gender-equality benchmark • Measurement of zone contributions to public revenues	• Services in the zone to facilitate the implementation of standards • Inspection of standards compliance and exchange of best practices • Investors agree to codes of conduct and reporting on ESG performance
Inclusive growth via linkages and spillovers	• Shift from enclaved zones to models that facilitate backward and forward linkages • Spillovers of SDG best practice to the rest of the country	• Renewable energy installations that also supply outside the zone • Waste management plant with capacity beyond the zone • Amenities and services (health care, housing and education) that benefit the wider community	• Strengthen entrepreneurship policies • Mobilize local entrepreneurs to catalyze FDI and promote MNEs suppliers • Broaden incentive schemes to support local supplier development

Source: UNCTAD.

environmental performance, with services ranging from consultancy to identification of recycling opportunities and implementation of solutions for the reduction of waste, emissions and energy use.

SDG model zones could *offer facilities with benefits for the broader community*, such as renewable energy installations that serve the zone but also feed the grid (or supply outside the zone), waste management plants with additional capacity or other utilities with benefits beyond the zone (e.g. water treatment). They could also offer amenities and services that would benefit the broader community, including residential areas and social housing, health care and education facilities, recreational areas and other services (e.g. fire services).

SDG model zones would explicitly and demonstrably operate under the *highest standards of governance*. They would involve a broad range of stakeholder groups, allowing for the generation of new ideas for initiatives that would benefit the local community, the broader economy or the environment. For example, they could facilitate women's employment in the zones, instating anti-discrimination rules, providing child care infrastructure, protection and training, and promoting women entrepreneurship (UNCTAD, 2014). Such zones could be developed by involving specific investor groups with a stake in sustainable development, ensuring continuous monitoring of, and reporting on, ESG performance (e.g. through gender equality audits). Companies operating in the zone could voluntarily sign up to customized codes of conduct, making the SDG model zone a partnership between authorities, zone developers and zone investors. Alternatively, access to SEZ benefits could be subject to initial and continuing certification of ESG performance.

Operating at such high standards, SDG model zones would effectively transform the race to the bottom into a race to the top – making sustainable development impact a new locational advantage.

The more complex of the three elements of the SDG model zone concept is the *strategic focus on attracting investment in SDG-relevant sectors*. The 2014 *World Investment Report*

on Investing in the SDGs listed 10 priority SDG-relevant sectors. (The report, published on the eve of the formulation of the SDGs, estimated total investment needs in these sectors, leaving an annual investment gap of $2.5 trillion; this has informed deliberations in the Addis Ababa Agenda on financing for development.) These sectors, broadly including basic infrastructure, water and sanitation, energy, climate change mitigation and food security, as well as health and education, are not natural candidates for investment promotion in SEZs in their current conception.

SEZ benefits, including customs duties and tax relief, facilitation services and infrastructure support, are geared towards the promotion of internationally mobile investment in the production of mostly tradeable goods and services. SDG-relevant sectors are, of course, mostly untradeable services. Moreover, the contribution to sustainable development of investments in SDG-relevant sectors is, in most cases, highly dependent on the location of the invested asset being close to the populations that need access to the relevant infrastructure and services. For many SDG-relevant sectors, targeted (non-zone-based) incentives and facilitation efforts are the more appropriate investment promotion tools.

The SDG model zone is feasible. The international pool of private capital seeking opportunities to invest for both financial return and positive social and environmental impact is rapidly increasing. The number of impact investors has risen from hundreds to thousands. The value of impact investment assets under management is currently estimated at $500 billion.[19] The number of social entrepreneurs has also been growing exponentially over the past decade. There are signs that this sector will continue to grow. The challenge is for the developing countries and particularly LDCs to cultivate these impact investors and social entrepreneurs.

The proliferation of new SEZ types has included zones geared towards economic activities other than internationally mobile ones. These activities might include investments by local SMEs or initiatives pursuing economic development goals more closely aligned with the SDGs, such as boosting employment in impoverished areas. Such zones – including enterprise zones in the United States and the United Kingdom, and urban free zones in France – may not meet all the commonly used SEZ criteria. They may or may not involve a separate customs area or provide relief from corporate income taxes, but they are zone-based development tools nonetheless.

Furthermore, SDG model zones in low-income countries can be developed in collaboration with donors from advanced economies and through South-South cooperation mechanisms. Successful cases of international cooperation on SEZ development can provide a model. International development agencies, including multilateral and regional development banks, can also play a catalytical role by providing technical assistance and bridging the knowledge gaps in zone establishment and operation, as well as impact assessment.

SDG model zones could follow a pattern similar to that of more traditional SEZs, with specialized zones, a customized set of incentives and a location appropriate to their focus, which may or may not rely on proximity to major infrastructure hubs. Alternatively, SDG model zones could combine a traditional SEZ approach targeting internationally mobile investment with part of the perimeter dedicated to impact investment and social entrepreneurs in SDG sectors. A practical extension would be to use the subzone model developed in the United States, where SEZs combine a delimited geographical area as the core with associated subzones in surrounding locations more suited to a particular economic activity, but where such activities benefit from the same regulatory advantages as the core zone.

* * *

Some 500 SEZs are in the pipeline for development in the coming years, according to the survey carried out for this report. These new SEZs will face a global context for zone development that is quite different from that of previous waves. The trade policy environment no longer favours export-led development strategies to the same extent. Technology trends in industry are threatening to erode the key competitive advantage that the vast majority of SEZs rely upon: low labour costs. And sustainability trends no longer allow regulators to take a hands-off approach to operations in SEZs – in the name of avoiding hassling investors – but instead force them to actively pursue and market high ESG performance levels.

The concluding section of this chapter has drawn lessons from past experience, provided a forward-looking perspective and floated a pioneering idea in the form of SDG model zones. Together, the lessons learned and the policy options for future directions can help policymakers to revitalize and upgrade existing zones where needed and to avoid the pitfalls of the past while preparing for the future when developing new zones.

The process of modernizing zones and building SDG Model Zones can benefit from a global exchange of experience and good practices. Also, with more and more zones being developed through international partnerships, a global platform that brings together financing partners, SEZ developers, host countries, IPAs and outward investment promotion agencies can accelerate the transition towards sustainable-development-oriented zones. UNCTAD can play a leading role in establishing such a platform in connection with its World Investment Forum, and in supporting partnerships through its policy advice, technical assistance and training programmes. **The key objective should be to make SEZs work for the SDGs: from privileged enclaves to widespread benefits.**

NOTES

[1] For a detailed discussion of definitions and terms used across countries, see Bost (2019).

[2] The numbers on employment and firms are based on figures from the Asociación Zonas Francas de las Américas. Original data exclude some industrial parks counted as SEZs but include single-enterprise free points in the Dominican Republic and Colombia that are not counted as SEZs.

[3] The new administration in Mexico announced a policy reversal on SEZs in April 2019, with the intention to close the zones under development since 2017.

[4] In the earthquake on 12 January 2010, a number of apparel factories based in and around Port-au-Prince were heavily damaged, including the collapse of one major apparel factory that employed nearly 4,000 workers. As a result, the U.S. Congress passed the Haiti Economic Lift Program (HELP) Act. The bill extends the Caribbean Basin Trade Partnership Act (CBTPA) and the Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE) through September 30, 2025.

[5] The privileges of zones in the Ukraine were withdrawn in the mid-2000s, and the zones were formally closed in 2016.

[6] Singapore Economic Development Board 1995, quoted in Pereira (2003: 28).

[7] See "Establishing Russian Industrial Zone in Egypt comes into force", Egypt Today, 1 February 2019, www.egypttoday.com.

[8] Based on China-Singapore Suzhou Industrial Park Administrative Committee, www.sipac.gov.cn.

[9] The SCM Agreement divides subsidies into "actionable" and "prohibited" subsidies.

[10] If such treatment sought to benefit SEZ companies only, then it would fall outside of the definition of general infrastructure. See Article 1.1(a)(1)(iii) of the SCM Agreement.

[11] In some RTAs, the rules of origin prohibit the use of duty-drawback systems for certain materials (e.g. those imported in the SEZ country and used in the production of a good intended to receive preferential treatment when exported to the RTA partner country).

[12] Footnote 1 to the SCM Agreement. According to the Panel Report, EU – PET (Pakistan), paras. 7.36 and 7.37, excess remissions under duty-drawback schemes (government forgoes revenue or money that is due to it) will be subject to SCM rules. See also the respective Appellate Body Report (WT/DS486/AB/R).

[13] In 2007, the General Council adopted procedures for the extension of the phase-out period under Article 27.4 of the SCM Agreement (WTO, G/SCM/W/546/Rev.8.). Members with extensions were required to provide transparency notifications for the phase-out period. The decision to grant extensions lies with the SCM Committee.

[14] Article 27.2(a) in conjunction with Annex VII(a) of the SCM Agreement.

[15] Article 5 of the TRIMs Agreement provides for notification and transitional arrangements related to measures for TRIMs inconsistent with the Agreement. Developed-country members had two years, developing-country members had five years and LDC members had seven years to eliminate any measures not consistent with the TRIMs Agreement. The Hong Kong Ministerial Conference extended this deadline to 2020 for new TRIMs-inconsistent measures for LDCs.

[16] The decision in DS 348 ended with a mutually agreed settlement and in DS 366 with an unappealed panel report adopted by the WTO Dispute Settlement Body.

[17] Extrapolated for current numbers of SEZs from estimates in FIAS (2008) and ILO (2017).

[18] The online single window for SEZs in Viet Nam is accessible from the national site, https://vietnam.eregulations.org/, built with the support of UNCTAD's business facilitation programme.

[19] As reported by the Global Impact Investment Network, theGIIN.org.

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ANNEX TABLES

List of annex tables available on the UNCTAD website, www.unctad.org/wir

Annex table 1. FDI flows, by region and economy, 2013–2018 (Millions of dollars)

Region/economy	FDI inflows 2013	2014	2015	2016	2017	2018	FDI outflows 2013	2014	2015	2016	2017	2018
World[a]	1 431 164	1 357 239	2 033 802	1 918 679	1 497 371	1 297 153	1 376 642	1 298 772	1 682 584	1 550 130	1 425 439	1 014 172
Developed economies	694 848	623 078	1 268 594	1 197 735	759 256	556 892	892 147	779 536	1 243 500	1 105 083	925 332	558 444
Europe	351 197	283 392	715 017	611 693	384 023	171 878	389 705	232 181	774 860	579 563	375 472	418 363
European Union	345 034	265 619	635 840	556 118	340 570	277 640	342 914	214 230	654 956	489 526	412 873	390 388
Austria	5 720	4 577	1 488	-8 170	11 092	7 618	15 568	-726	7 026	-2 031	10 563	-747
Belgium	25 125	-12 390	23 533	50 987	-5 763	4 873	29 484	-3 680	39 889	20 974	24 201	6 910
Bulgaria	1 837	461	2 661	1 110	2 608	2 059	187	267	175	429	355	387
Croatia	961	2 879	270	1 808	2 037	1 159	-168	1 963	11	-338	687	354
Cyprus	-6 495	736	7 466	7 714	6 950	3 285	-6 898	-1 117	16 799	5 719	1 833	-2 237
Czechia	3 639	5 492	465	9 815	9 522	9 479	4 019	1 620	2 487	2 182	7 560	5 277
Denmark	908	4 682	3 616	38	3 447	1 789	7 039	8 257	9 420	9 881	8 896	-3 690
Estonia	769	684	36	1 096	1 712	1 309	513	43	183	539	744	-22
Finland	-169	18 304	1 484	9 250	-610	1 225	-2 402	1 182	-16 584	26 080	-320	10 961
France	34 270	2 669	45 347	23 061	29 802	37 294	20 369	49 783	53 197	64 803	41 257	102 421
Germany	15 572	4 864[b]	41 444[b]	23 500[b]	36 931[b]	25 706[b]	42 270	91 842[b]	109 892[b]	71 244[b]	91 799[b]	77 076[b]
Greece	2 817	2 683	1 268	2 763	3 611	4 257	-785	3 015	1 578	-1 666	580	848
Hungary	3 402	7 807	-14 797	-5 753	3 261	6 389	1 886	3 868	-16 119	-8 303	1 119	1 991
Ireland	50 596	48 183	217 782	39 389	-1 250	-66 346	29 169	41 181	168 413	30 064	-39 091	13 272
Italy	24 273	23 223	19 628	28 449	21 969	24 276	25 134	26 316	22 310	17 751	25 673	20 576
Latvia	903	780	708	174	732	879	412	387	68	148	140	150
Lithuania	469	-23	870	264	652	905	192	-29	85	108	33	838
Luxembourg	16 003	18 867	12 495	31 878	-6 799	-5 615	24 322	34 356	17 307	30 150	34 679	1 373
Malta	12 004	11 190	5 067	4 246	3 566	4 061	2 661	2 278	-5 161	-5 294	-7 052	-7 326
Netherlands	51 105	44 974	178 785	64 329	58 189	69 659	69 704	59 357	246 223	188 039	28 026	58 983
Poland	2 734	14 269	15 271	15 690	9 179	11 476	-1 346	2 898	4 996	11 600	2 760	864
Portugal	2 702	2 999	6 926	6 310	6 946	4 895	-1 205	-519	5 573	2 716	-2 409	271
Romania	3 601	3 211	3 839	4 997	5 406	5 888	-281	-373	562	5	-96	13
Slovakia	-604	-512	106	805	2 277	475	-313	43	6	99	350	234
Slovenia	-151	1 050	1 674	1 245	782	1 419	-214	275	267	290	315	82
Spain	37 436	25 238	11 911	27 658	20 918	43 591	12 823	33 837	40 264	43 621	39 964	31 620
Sweden	3 930	4 030	7 313	17 335	12 165	11 148	30 289	9 194	12 914	3 234	22 764	20 028
United Kingdom	51 676	24 690	39 186	196 132	101 238	64 487	40 486	-151 286	-66 821	-22 516	117 544	49 880
Other developed Europe	6 162	17 774	79 177	55 575	43 453	-105 763	46 791	17 950	119 904	90 037	-37 401	27 974
Iceland	397	447	709	-427	-41	-336	460	-257	-31	-1 147	-208	138
Norway	4 611	7 987	-1 932	-4 667	4 495	-18 215	7 792	18 254	32 431	2 656	-2 277	908
Switzerland	1 155	9 340	80 400	60 670	39 000	-87 212	38 539	-47	87 504	88 528	-34 916	26 928
North America	270 784	260 666	511 450	507 784	302 090	291 439	360 813	393 211	331 783	359 209	380 202	-13 095
Canada	69 391	58 933	43 825	35 992	24 832	39 625	57 381	60 197	67 424	69 948	79 824	50 455
United States	201 393	201 733	467 625	471 792	277 258	251 814	303 432	333 014	264 359	289 261	300 378	-63 550
Other developed economies	72 867	79 019	42 127	78 257	73 142	93 576	141 629	154 144	136 857	166 311	169 658	153 177
Australia	56 765	58 507	28 270	45 522	42 294	60 438	1 441	18 184	-10 219	328	3 320	3 635
Bermuda	93[c]	-3[c]	-143[c]	-73[c]	-288[c]	73[c]	51[c]	120[c]	-84[c]	95[c]	-42[c]	-31[c]
Israel	11 842	6 049	11 336	11 988	18 169	21 803	3 858	4 526	10 969	14 579	6 153	6 008
Japan	2 304	12 030	2 976	17 751	10 430	9 858	135 749	130 843	136 249	151 301	160 449	143 161
New Zealand	1 862	2 437	-311	3 069	2 538	1 404	530	471	-58	8	-223	404
Developing economies[a]	652 551	677 400	728 814	656 290	690 576	706 043	408 699	446 898	407 000	419 874	461 652	417 554
Africa	50 075	53 906	56 874	46 482	41 390	45 902	11 119	10 533	9 654	9 497	13 252	9 801
North Africa	11 964	12 039	12 256	13 833	13 353	14 307	392	770	1 364	1 514	1 384	2 218
Algeria	1 697	1 507	-584	1 637	1 232	1 506	-268	-18	103	46	-4	880
Egypt	4 256	4 612	6 925	8 107	7 409	6 798	301	253	182	207	199	324
Libya	702	-	-	-	-	-	6	77	395	440	110	315[d]
Morocco	3 298	3 561	3 255	2 157	2 686	3 640	332	436	653	580	1 021	666
South Sudan	-793[d]	44[d]	-71[d]	-17[d]	80[d]	191[d]	-	-	-	-	-	-
Sudan	1 688	1 251	1 728	1 064	1 065	1 136	-	-	-	-	-	-
Tunisia	1 117	1 064	1 003	885	881	1 036	22	22	31	242	57	34
Other Africa	38 110	41 867	44 618	32 650	28 037	31 595	10 727	9 763	8 290	7 983	11 868	7 583
West Africa	14 480	12 148	10 185	12 721	11 194	9 565	1 757	2 193	2 224	2 188	2 171	2 367
Benin	360	405	150	132	200	208	59	17	33	17	32	24
Burkina Faso	490	356	232	390	3	480	58	69	14	50	10	69
Cabo Verde	70	180	116	127	111	100	-14	-8	-4	-9	-14	-20
Côte d'Ivoire	407	439	494	577	973	913	-6	16	14	29	674	318
Gambia	26	36	13	-28	18	29[d]	-49	-	-23	-1	7	-6[d]
Ghana	3 226	3 357	3 192	3 485	3 255	2 989	9	12	221	15	16	81
Guinea	134	77	53[d]	1 618[d]	577[d]	483[d]	1	2	4[d]	-4[d]	1[d]	-

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Annex table 1. FDI flows, by region and economy, 2013–2018 (continued)

Region/economy	FDI inflows 2013	2014	2015	2016	2017	2018	FDI outflows 2013	2014	2015	2016	2017	2018
Guinea-Bissau	20	29	19	24	16	17	-	3	2	0.5	0.3	1
Liberia	1 061	277	627	453	248	122[d]	327[d]	-36[d]	30[d]	168[d]	54[d]	84[d]
Mali	308	144	275	356	562	366	3	1	82	97	15	55
Mauritania	1 126[d]	501[d]	502[d]	271[d]	587[d]	71[d]	19[d]	28[d]	0.2[d]	1[d]	10[d]	4[d]
Niger	719	822	529	301	338	460	101	89	34	40	29	44
Nigeria	5 608	4 694	3 064	4 449	3 503	1 997	1 238	1 614	1 435	1 305	1 286	1 381
Senegal	311	403	409	472	587	629	33	27	31	224	82	73
Sierra Leone	430	375	252	138	129	599[d]	-	-	-	-	-	-
Togo	184	54	258	-46	88	102	-21	358	349	257	-32	259
Central Africa	5 428	5 306	8 307	5 390	9 102	8 848	39	172	333	290	291	171
Burundi	7	47	7	0.1	0.3[d]	1[d]	0.2	-	0.2	-	-	-
Cameroon	567[c]	727[c]	627[c]	664[c]	814[c]	702[d]	-138[c]	-10[c]	-11[c]	-39[c]	22[c]	-9[d]
Central African Republic	2	3	3	7	7[d]	18[d]	-	-	-	-	-	-
Chad	520[d]	-676[d]	560[d]	245[d]	335[d]	662[d]	-	-	-	-	-	-
Congo	609	1 659	3 803	1 611	4 406	4 313	-14	-21	-16	10	45	14[d]
Congo, Democratic Republic of the	2 098	1 843	1 674	1 205	1 340	1 494	401	344	508	272	292	209
Equatorial Guinea	583[d]	168[d]	233[d]	54[d]	304[d]	396[d]	-	-	-	-	-	-
Gabon	771[d]	1 048[d]	991[d]	1 241[d]	1 498[d]	846[d]	-225[d]	-146[d]	-150[d]	45[d]	-84[d]	-63[d]
Rwanda	258	459	380	342	356	398	14	2	-	-	16	18
Sao Tome and Principe	12	27	29	22	41	17[d]	1	4	3	1	0.3	2[d]
East Africa	7 253	6 615	6 873	7 694	8 665	8 966	341	255	353	196	347	254
Comoros	4	5	5	4	4	8[d]	-	-	-	-	-	-
Djibouti	286[c]	153[c]	124[c]	160[c]	165[c]	265[d]	-	-	-	-	-	-
Eritrea	44[d]	47[d]	49[d]	52[d]	55[d]	61[d]	-	-	-	-	-	-
Ethiopia	1 344	1 855	2 627	3 989	4 017	3 310	-	-	-	-	-	-
Kenya	1 119	821	620[d]	681	1 275	1 626	199	75	242	157	257	164
Madagascar	551	314	436	451	389	349[d]	6	-4	1	0.1	-1[d]	0.1[d]
Mauritius	293	456	216	379	443	372	168	141	100	28	86	83
Seychelles	170	230	195	155	192	124	16	16	10	10	6	6
Somalia	258[d]	261[d]	303[d]	334[d]	384[d]	409[d]	-	-	-	-	-	-
Uganda	1 096	1 059	738	626	803	1 337	-47	27	0.3	0.2	0.3	0.3
United Republic of Tanzania	2 087	1 416	1 561	864	938	1 105[d]	-	-	-	-	-	-
Southern Africa	10 949	17 798	19 254	6 844	-925	4 217	8 590	7 144	5 379	5 308	9 058	4 791
Angola	-7 120	3 658	10 028	-180	-7 397	-5 732	922	887	-785	273	1 352	3
Botswana	67	515	379	122	177	229	82	105	180	318	333	125
Eswatini	85	26	41	21	-56	25	-4	1	-1	-5	65	-11
Lesotho	84	66	41	48	43	39	-	-	-	-	-	-
Malawi	89	387	510	116	90	102	-34	4	4	4	5	6
Mozambique	6 175	4 902	3 867	3 093	2 293	2 711	522	97	2	35	26	-19
Namibia	770	441	933	354	461	196	18	15	88	4	-59	76
South Africa	8 300[c]	5 771[c]	1 729[c]	2 235[c]	2 007[c]	5 334[c]	6 649[c]	7 669[c]	5 744[c]	4 474[c]	7 366[c]	4 552[c]
Zambia	2 100	1 489	1 305	663	1 108	569	409	-1 706	125	177	-72	32
Zimbabwe	400	545	421	372	349	745	27	72	22	29	42	27
Asia	415 405	459 982	514 424	473 325	492 713	511 707	362 731	412 231	372 558	399 125	411 913	401 467
East and South-East Asia	339 457	386 906	432 029	387 040	411 986	428 216	314 837	377 760	324 192	352 800	361 660	341 075
East Asia	221 276	257 500	317 753	270 271	267 808	279 522	232 934	288 710	255 212	302 716	290 829	271 474
China	123 911	128 500	135 610	133 710	134 063	139 043	107 844	123 120	145 667	196 149	158 290	129 830
Hong Kong, China	74 294	113 038	174 353	117 387	110 685	115 662[b]	80 773	124 092	71 821	59 703	86 704	85 162[b]
Korea, Democratic People's Republic of	119[d]	102[d]	79[d]	89[d]	-13[d]	52[d]	-	-	-	-	-	-
Korea, Republic of	12 767[c]	9 274[c]	4 104[c]	12 104[c]	17 913[c]	14 479[c]	28 318[c]	27 999[c]	23 687[c]	29 890[c]	34 069[c]	38 917[c]
Macao, China	4 527	3 421	1 121	1 876	375	1 113[d]	1 673	681	-684	-986	165	-496[d]
Mongolia	2 060	338	94	-4 156	1 494	2 174	41	107	11	14	49	37
Taiwan Province of China	3 598[c]	2 828[c]	2 391[c]	9 261[c]	3 291[c]	6 998[c]	14 285[c]	12 711[c]	14 709[c]	17 946[c]	11 552[c]	18 024[c]
South-East Asia	118 181	129 406	114 276	116 768	144 177	148 694	81 903	89 050	68 980	50 085	70 832	69 601
Brunei Darussalam	776	568	173	-150	460	504	-	-	-	-	-	-
Cambodia	2 068	1 853	1 823	2 476	2 788	3 103	62	82	88	79	115	124
Indonesia	18 817	21 811	16 641	3 921	20 579	21 980	6 647	7 077	5 937	-12 215	2 077	8 139
Lao People's Democratic Republic	427[c]	721[c]	1 119[c]	997[c]	1 599[c]	1 320[c]	-29[c]	7[c]	40[c]	15[c]	10[c]	-[c]
Malaysia	12 115	10 877	10 082	11 336	9 399	8 091	14 107	16 369	10 546	8 011	5 638	5 280
Myanmar	584	946	2 824	2 989	4 341	3 554	-	-	-	-	-	-
Philippines	2 280	5 285	4 447	6 915	8 704	6 456	2 189	6 299	4 347	1 032	1 752	602

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Annex table 1. FDI flows, by region and economy, 2013–2018 (continued)

Region/economy	FDI inflows 2013	2014	2015	2016	2017	2018	FDI outflows 2013	2014	2015	2016	2017	2018
Singapore	56 672	73 287	59 700	73 863	75 723	77 646	45 279[c]	52 477[c]	45 223[c]	39 782[c]	43 696[c]	37 143[c]
Thailand	15 493	4 809	5 624	1 815	6 478	10 493	11 679	5 575	1 687	12 367	17 064	17 714
Timor-Leste	50	49	43	5	7	48	13	13	13	13	-	-
Viet Nam	8 900	9 200	11 800	12 600	14 100	15 500	1 956	1 150	1 100	1 000	480	598
South Asia	35 606	41 429	51 167	54 220	52 345	54 200	2 179	12 020	7 816	5 521	11 493	11 217
Afghanistan	38	44	163	94[c]	53[c]	139[d]	1	-	1	15[c]	11[c]	6[d]
Bangladesh	1 599	1 551	2 235	2 333	2 152	3 613	34	44	46	41	142	23
Bhutan	22	22	4	-7	-10	6	-	-	-	-	-	-
India	28 199[c]	34 582[c]	44 064[c]	44 481[c]	39 904[c]	42 286[c]	1 679[c]	11 783[c]	7 572[c]	5 072[c]	11 141[c]	11 037[c]
Iran, Islamic Republic of	3 050	2 105	2 050	3 372	5 019	3 480[d]	189	3	120	104	76[d]	75[d]
Maldives	361[c]	333[c]	298[c]	457[c]	493[c]	552[c]	-	-	-	-	-	-
Nepal	71	30	52	106	129	161	-	-	-	-	-	-
Pakistan	1 333	1 868	1 621	2 488	3 232	2 352	212	122	25	52	52	8
Sri Lanka	933	894	680	897	1 373	1 611	65	67	53	237	72	68
West Asia	40 342	31 647	31 228	32 065	28 383	29 291	45 715	22 451	40 550	40 804	38 760	49 175
Bahrain	3 729	1 519	65	243	1 426	1 515	532	-394	3 191	-880	229	111
Iraq	-2 335	-10 176	-7 574	-6 256	-5 032	-4 885	227	242	148	304	78	188
Jordan	1 947	2 178	1 600	1 553	2 030	950[c]	16	83	1	3	7	-8[c]
Kuwait	1 434	953	311	419	348	346	16 648	-10 468	5 367	4 528	9 013	3 751
Lebanon	2 661	2 863	2 159	2 568	2 522	2 880[d]	1 976	1 241	660	1 005	1 317	1 058[d]
Oman	1 612[c]	1 287[c]	-2 172[c]	2 265[c]	2 918[c]	4 191[d]	934[c]	1 358[c]	336[c]	356[c]	2 424[c]	567[d]
Qatar	-840	1 040	1 071	774	986	-2 186	8 021	6 748	4 023	7 902	1 695	3 523
Saudi Arabia	8 865	8 012	8 141	7 453	1 419	3 209	4 943	5 396	5 390	8 936	7 280	21 219
State of Palestine	176	160	103	297	203	226	48	-187	-73	45	19	75
Turkey	13 463	12 972	18 989	13 705	11 478	12 944	3 536	6 685	4 811	2 893	2 633	3 608
United Arab Emirates	9 765	11 072	8 551	9 605	10 354	10 385	8 828	11 736	16 692	15 711	14 060	15 079
Yemen	-134	-233	-15	-561[d]	-270[d]	-282[d]	5[d]	12[d]	4[d]	1[d]	6[d]	4[d]
Latin America and the Caribbean[a]	184 392	161 205	155 912	135 349	155 405	146 720	34 707	23 990	24 898	11 132	36 380	6 515
South America	124 510	116 751	105 539	90 394	107 741	100 855	19 014	18 250	12 969	9 419	31 806	-1 117
Argentina	9 822	5 065	11 759	3 260	11 517	12 162	890	1 921	875	1 787	1 156	1 911
Bolivia, Plurinational State of	1 750	657	555	335	712	255	-	-33	-2	89	80	-89
Brazil	59 089	63 846	49 514	52 751	67 583	61 223	-478	-3 261	-7 686	-5 934	16 678	-13 036
Chile	20 326	23 671	20 011	11 942	6 856	7 160	9 390	12 735	14 886	6 801	6 175	3 027
Colombia	16 209	16 167	11 723	13 850	13 836	11 010	7 652	3 899	4 218	4 517	3 690	5 122
Ecuador	727	772	1 322	767	618	1 401	-	-	-	-	-	-
Guyana	214	255	122	58	212	495	-	-	-	26	-	-
Paraguay	245	412	308	371	456	454	-	-	-	-	-	-
Peru	9 800	4 441	8 272	6 863	6 769	6 175	137	801	189	1 156	500	19
Suriname	188	164	267	309	161	190	-	-	-	-	-	-
Uruguay	3 460	2 328	917	-1 181	-911	-626	671	-184	89	-63	1 294	273
Venezuela, Bolivarian Republic of	2 680	-1 028	769	1 068	-68	956[d]	752	2 373	399	1 041	2 234	1 655[d]
Central America	58 315	40 903	46 961	41 540	43 286	42 887	15 716	5 759	11 796	1 417	4 437	7 465
Belize	95[c]	153[c]	65[c]	44[c]	24[c]	120[c]	1[c]	3[c]	0.5[c]	2[c]	0.3[c]	1[c]
Costa Rica	2 741	2 927	2 752	2 204	2 742	2 134	340	109	211	77	159	58
El Salvador	179	306	397	347	889	840	0.1	-0.1	0.3	-0.4	0.2	-
Guatemala	1 353	1 166	1 176	1 175	1 013	1 056	91	-117	72	107	12	235
Honduras	1 060	1 417	1 204	1 139	1 186	1 226	68	103	252	239	173	80
Mexico	48 504	29 591	35 863	30 865	32 091	31 604	14 735	5 238	10 632	713	4 090	6 858
Nicaragua	816	884	950	899	772	359	150	94	45	65	65	75
Panama	3 567	4 459	4 556	4 866	4 569	5 549	331	329	584	214	-62	158
Caribbean[a]	1 567	3 551	3 412	3 416	4 377	2 979	-23	-20	133	296	137	167
Anguilla	42[b]	73[b]	79[b]	60[b]	54[b]	56[b]	-	-15[b]	11[b]	-2[b]	-1[b]	-1[b]
Antigua and Barbuda	95[b]	46[b]	107[b]	81[b]	113[b]	116[b]	-	3[b]	10[b]	12[b]	13[b]	9[b]
Aruba	227	208	-27	28	162	136	4	-35	10	-0	83	27
Bahamas	1 590	3 704	865	1 260	1 037	943	277	2 679	170	359	130	119
Barbados	56	559	69	230	286	195[d]	39	-213	141	-10	-28	34[d]
British Virgin Islands	113 424[d]	55 756[d]	25 360[d]	49 738[d]	57 635[d]	44 244[d]	104 600[d]	85 821[d]	79 624[d]	33 724[d]	54 710[d]	56 019[d]
Cayman Islands	68 000[d]	49 833[d]	86 944[d]	59 647[d]	25 559[d]	57 384[d]	20 014[d]	23 386[d]	72 184[d]	19 668[d]	29 281[d]	40 378[d]
Curaçao	-2	69	146	133	173	124[d]	-16	44	19	38	-148	45[d]
Dominica	23[b]	14[b]	13[b]	41[b]	-2[b]	-37[b]	-	-2[b]	-12[b]	-	-	-
Dominican Republic	1 991	2 209	2 205	2 407	3 571	2 535	-	-	-	-	-	-

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Annex table 1. FDI flows, by region and economy, 2013–2018 (concluded)

Region/economy	FDI inflows 2013	2014	2015	2016	2017	2018	FDI outflows 2013	2014	2015	2016	2017	2018
Grenada	113[b]	89[b]	151[b]	95[b]	112[b]	127[b]	-	6[b]	9[b]	5[b]	9[b]	15[b]
Haiti	162[c]	99[c]	106[c]	105[c]	375[c]	105[c]	-	-	-	-	-	-
Jamaica	545[c]	582[c]	925[c]	928[c]	888[c]	775[c]	-86[c]	-2[c]	4[c]	214[c]	43[c]	13[c]
Montserrat	4[b]	5[b]	5[b]	2[b]	2[b]	2[b]	-	-	-	-	-	-
Saint Kitts and Nevis	136[b]	163[b]	120[b]	94[b]	51[b]	85[b]	-	5[b]	-6[b]	-1[b]	-0.4[b]	-0.5[b]
Saint Lucia	92[b]	60[b]	114[b]	129[b]	131[b]	135[b]	-	68[b]	21[b]	5[b]	6[b]	13[b]
Saint Vincent and the Grenadines	160[b]	123[b]	58[b]	153[b]	98[b]	100[b]	-	5[b]	5[b]	-9[b]	-5[b]	-5[b]
Sint Maarten	47	48	28	42	33	-145[d]	3	1	0.1	2	2	5[d]
Trinidad and Tobago	-1 130[c]	661[c]	177[c]	-24[c]	-456[c]	-436[d]	63[c]	-18[c]	128[c]	83[c]	94[c]	155[d]
Oceania	2 679	2 307	1 603	1 133	1 069	1 713	142	144	-110	120	107	-229
Cook Islands	-	-	5	9	1	5[d]	-	-	0.2	0.3	0.3	0.3[d]
Fiji	243	380	205	390	386	344	4	38	-33	-16	-2	-4
French Polynesia	99	62	26	62	79	59[d]	65	31	23	24	15	22[d]
Kiribati	1[c]	3[c]	-1[c]	2[c]	1[c]	1[d]	0.2[c]	0.1[c]	0.1[c]	0.1[c]	0.1[c]	0.1[d]
Marshall Islands	33[c]	-8[c]	-6[c]	-3[c]	5[c]	-1[d]	-	-	-	-	-	-
Micronesia, Federated States of	-	20	-	-	-	-	-	-1	-	-	-	-
New Caledonia	2 167	1 757	1 210	605	659	874[d]	61	58	58	93	83	83[d]
Palau	19	41	36	36	27	22[d]	-	-	-	-	-	1[d]
Papua New Guinea	18	-30	28[c]	-40[c]	-180[c]	335[c]	-	-	-174[c]	-	-	-343[c]
Samoa	14	23	27	3	9	17	0.1	4	4	15	0.1	-
Solomon Islands	53	22	32	39	43	12	3	1	5	1	7	9
Tonga	51	56	12	9	14	8[d]	7	11	5	1	1	1[d]
Tuvalu	0.3	0.3[d]	0.3[d]	0.3[d]	0.3[d]	0.3[d]	-	-	-	-	-	-
Vanuatu	-19	-18	29	22	24	38[d]	0.5	1	2	1	1	1[d]
Transition economies	83 764	56 762	36 394	64 654	47 538	34 218	75 796	72 338	32 085	25 173	38 454	38 174
South-East Europe	4 749	4 626	4 935	4 613	5 515	7 366	501	482	525	235	311	622
Albania	1 266	1 110	945	1 100	1 146	1 294	40	33	38	64	26	83
Bosnia and Herzegovina	276	550	361	319	448	468	44	18	73	35	76	18
Montenegro	447	497	699	226	557	490	17	27	12	-185	11	103
North Macedonia	335	272	240	374	205	737	30	10	15	24	2	3
Serbia	2 053	1 996	2 347	2 350	2 871	4 126	329	356	346	250	146	363
CIS	77 995	50 318	29 807	58 475	40 129	25 620	75 176	71 450	31 250	24 531	37 874	37 211
Armenia	346	404	178	338	250	254	27	16	17	66	22	-12
Azerbaijan	2 632	4 430	4 048	4 500	2 867	1 403	1 490	3 230	3 260	2 574	2 564	1 761
Belarus	2 230	1 828	1 668	1 238	1 279	1 469	246	39	122	114	70	36
Kazakhstan	10 321	8 489	4 057	8 511	4 669	3 817	2 287	3 815	795	-5 235	913	-1 103
Kyrgyzstan	626	248	1 142	616	-107	47	-	-	-1	-	-29	1
Moldova, Republic of	233	338	228	91	163	228	22	37	19	9	14	31
Russian Federation	53 397	29 152	11 858	37 176	25 954	13 332	70 685	64 203	27 090	26 951	34 153	36 445
Tajikistan	215	432	559	344	270	317[d]	-	-	-	35	159	57[d]
Turkmenistan	2 861[d]	3 830[d]	3 043[d]	2 243[d]	2 086[d]	1 985[d]	-	-	-	-	-	-
Ukraine	4 499	410	2 961	3 284	2 601	2 355	420	111	-51	16	8	-5
Uzbekistan	635[d]	757[d]	66[d]	134[d]	98[d]	412[d]	-	-	-	-	-	-
Georgia	1 021	1 818	1 653	1 566	1 894	1 232	120	407	309	407	269	340
Memorandum												
Least developed countries (LDCs)[e]	20 881	27 176	37 634	25 769	20 702	23 833	2 813	372	612	1 776	2 118	1 027
Landlocked developing countries (LLDCs)[f]	29 591	28 564	23 831	22 472	23 147	22 641	4 477	5 851	4 616	-1 684	4 237	1 058
Small island developing States (SIDS)[g]	3 035	7 801	3 836	4 632	4 058	3 663	492	2 752	573	703	348	433

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

[a] Excluding the financial centers in the Caribbean (Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Barbados, the British Virgin Islands, the Cayman Islands, Curaçao, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sint Maarten and the Turks and Caicos Islands).

[b] Directional basis calculated from asset/liability basis.

[c] Asset/liability basis.

[d] Estimates.

[e] Least developed countries include Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, the Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, the Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[f] Landlocked developing countries include Afghanistan, Armenia, Azerbaijan, Bhutan, the Plurinational State of Bolivia, Botswana, Burkina Faso, Burundi, the Central African Republic, Chad, Eswatini, Ethiopia, Kazakhstan, Kyrgyzstan, the Lao People's Democratic Republic, Lesotho, North Macedonia, Malawi, Mali, the Republic of Moldova, Mongolia, Nepal, the Niger, Paraguay, Rwanda, South Sudan, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[g] Small island developing States include Antigua and Barbuda, the Bahamas, Barbados, Cabo Verde, the Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, the Marshall Islands, Mauritius, the Federated States of Micronesia, Nauru, Palau, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Príncipe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2018 (Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	2000	2010	2018	2000	2010	2018
World[a]	7 377 272	19 751 909	32 272 043	7 408 782	20 310 855	30 974 931
Developed economies	5 779 574	12 959 145	20 789 577	6 699 287	16 933 320	23 049 237
Europe	2 454 519	7 687 693	11 309 164	3 174 007	9 758 915	12 972 401
European Union	2 322 122	6 850 500	10 113 762	2 907 116	8 515 254	11 507 069
Austria	31 165	160 615	209 098	24 821	181 638	228 082
Belgium	-	366 407	522 348	-	328 660	577 960
Belgium and Luxembourg	195 219	-	-	179 773	-	-
Bulgaria	2 704	44 970	49 276	67	2 583	2 712
Croatia	2 664	31 517	32 884	760	4 443	6 634
Cyprus	2 846	198 097	224 284	557	197 454	211 141
Czechia	21 644	128 504	155 024	738	14 923	34 759
Denmark	73 574	96 136	114 532[b]	73 100	163 133	190 095[b]
Estonia	2 645	15 551	24 342	259	5 545	7 952
Finland	24 273	86 698	67 335	52 109	137 663	94 297
France	184 215	630 710	824 915	365 871	1 172 994	1 507 821
Germany	470 938	955 881	939 033[b]	483 946	1 364 565	1 645 415[b]
Greece	14 113	35 026	33 637	6 094	42 623	19 114
Hungary	22 870	90 845	88 736	1 280	22 314	29 019
Ireland	127 089	285 575	909 509	27 925	340 114	912 166
Italy	122 533	328 058	431 020	169 957	491 208	548 835
Latvia	1 691	10 935	17 310	19	895	1 993
Lithuania	2 334	13 403	17 748	29	2 107	4 232
Luxembourg	-	172 257	164 806	-	187 027	261 434
Malta	2 263	129 770	206 685	193	60 596	70 707
Netherlands	243 733	588 077	1 673 814	305 461	968 105	2 427 345
Poland	33 477	187 602	231 848[b]	268	16 407	28 510[b]
Portugal	34 224	114 994	135 777	19 417	62 286	55 074
Romania	6 953	68 699	94 021	136	2 327	745
Slovakia	6 970	50 328	57 109	555	3 457	3 689
Slovenia	2 389	10 667	16 809	772	8 147	6 749
Spain	156 348	628 341	659 038	129 194	653 236	562 931
Sweden	93 791	352 646	322 439	123 618	394 547	371 131
United Kingdom	439 458	1 068 187	1 890 384	940 197	1 686 260	1 696 529
Other developed Europe	132 397	837 193	1 195 402	266 891	1 243 661	1 465 332
Iceland	497	11 784	9 131	663	11 466	5 253
Norway	30 265	177 318	123 444[b]	34 026	188 996	196 636[b]
Switzerland	101 635	648 092	1 062 827	232 202	1 043 199	1 263 443
North America	3 108 255	4 406 182	8 358 637	3 136 637	5 808 053	7 799 704
Canada	325 020	983 889	893 959	442 623	998 466	1 325 014
United States	2 783 235	3 422 293	7 464 678	2 694 014	4 809 587	6 474 690
Other developed economies	216 801	865 270	1 121 775	388 643	1 366 352	2 277 131
Australia	121 686	527 728	682 866	92 508	449 740	490 986
Bermuda	265[b]	2 837[c]	2 346[c]	108[b]	925[c]	268[c]
Israel	20 426	60 086	148 045	9 091	67 893	103 602
Japan	50 323	214 880	213 754[b]	278 445	831 076	1 665 200[b]
New Zealand	24 101	59 738	74 764	8 491	16 717	17 075
Developing economies[a]	1 545 734	6 094 494	10 678 872	689 883	3 008 453	7 523 731
Africa	153 062	613 557	894 678	39 885	130 158	318 116
North Africa	45 590	201 105	284 137	3 199	25 777	37 276
Algeria	3 379[b]	19 540[b]	30 602	205[b]	1 513[b]	2 744
Egypt	19 955	73 095	116 385	655	5 448	7 750
Libya	471[b]	16 334	18 462[b]	1 903[b]	16 615	20 598[b]
Morocco	8 842[b]	45 082	64 227	402[b]	1 914	5 731
Sudan	1 398	15 690	27 669	-	-	-
Tunisia	11 545	31 364	26 792	33	287	453
Other Africa	107 472	412 452	610 542	36 687	104 381	280 840
West Africa	33 010	100 005	194 605	6 381	10 553	26 608
Benin	213	604	2 257	11	21	276
Burkina Faso	28	354	2 707	0	8	413
Cabo Verde	192[b]	1 252	1 989	-	1	-73
Côte d'Ivoire	2 483	6 978	10 234	9	94	1 152
Gambia	216	323	407[b]	-	-	-

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Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2018 (continued)

Region/economy	FDI inward stock 2000	FDI inward stock 2010	FDI inward stock 2018	FDI outward stock 2000	FDI outward stock 2010	FDI outward stock 2018
Ghana	1 554	10 080	36 126	-	83	463
Guinea	263[b]	486	4 797[b]	12[b]	144	71[b]
Guinea-Bissau	38	63	199	-	5	11
Liberia	3 247[b]	10 206	8 703[b]	2 188	4 714	4 646[b]
Mali	132	1 964	4 464	1	18	289
Mauritania	146[b]	2 372[b]	7 408[b]	4[b]	28[b]	88[b]
Niger	45	2 251	6 534	1	9	330
Nigeria	23 786	60 327	99 685	4 144	5 041	15 666
Senegal	295	1 699	5 304	22	263	784
Sierra Leone	284[b]	482	2 002[b]	-	-	-
Togo	87	565	1 790	-10	126	2 491
Central Africa	5 053	39 227	90 986	1 721	2 330	3 954
Burundi	47[b]	13	243[b]	2[b]	2	3[b]
Cameroon	917[b]	3 099[b]	7 224[b]	1 252[b]	971[b]	836[b]
Central African Republic	104	511	658[b]	43	43	43[b]
Chad	576[b]	3 594[b]	6 101[b]	70[b]	70[b]	70[b]
Congo	1 893[b]	9 261[b]	25 566[b]	40[b]	34[b]	57[b]
Congo, Democratic Republic of the	617	9 368	24 021	34	229	2 766
Equatorial Guinea	1 060[b]	9 413[b]	14 111[b]	-	-	-
Gabon	-227[b]	3 287[b]	10 335[b]	280[b]	946[b]	112[b]
Rwanda	55	422	2 265	-	13	61
Sao Tome and Principe	11[b]	260[b]	462[b]	-	21[b]	6[b]
East Africa	7 202	37 855	91 537	387	1 685	3 156
Comoros	21[b]	60[b]	122[b]	-	-	-
Djibouti	40	878	2 219[b]	-	-	-
Eritrea	337[b]	666[b]	1 055[b]	-	-	-
Ethiopia	941[b]	4 206[b]	22 253[b]	-	-	-
Kenya	932[b]	5 449[b]	14 421[b]	115[b]	494[b]	1 913[b]
Madagascar	141	4 383	6 360[b]	9[b]	14[b]	16[b]
Mauritius	683	4 658	5 313[b]	132	864	851[b]
Seychelles	515	1 701	3 023	130	247	294
Somalia	4[b]	566[b]	2 725[b]	-	-	-
Uganda	807	5 575	13 333	-	66	81
United Republic of Tanzania	2 781	9 712	20 712[b]	-	-	-
Southern Africa	62 208	235 365	233 413	28 198	89 813	247 122
Angola	7 977	32 458	23 704	-8	1 870	5 130
Botswana	1 827	3 351	4 826	517	1 007	1 011
Eswatini	536	927	802	87	91	125
Lesotho	330	929	614[b]	-	-	-
Malawi	358	963	1 399	-5	45	126[b]
Mozambique	1 249	4 331	40 664	1	3	9
Namibia	1 276	3 595	6 727	45	722	554
South Africa	43 451[c]	179 565[c]	128 809[c]	27 328[c]	83 249[c]	237 976[c]
Zambia	3 966	7 433	20 435[b]	-	2 531	1 585[b]
Zimbabwe	1 238	1 814	5 433	234	297	607
Asia	1 052 044	3 880 238	7 639 452	596 576	2 464 938	6 544 910
East and South-East Asia	952 016	3 018 872	6 389 152	579 262	2 199 734	5 936 155
East Asia	694 413	1 874 552	4 007 720	495 206	1 599 149	4 538 676
China	193 348	587 817[b]	1 627 719[b]	27 768	317 211	1 938 870
Hong Kong, China	435 417	1 067 520	1 997 220[d]	379 285	943 938	1 870 112[d]
Korea, Democratic People's Republic of	53[b]	160[b]	898[b]	-	-	-
Korea, Republic of	43 738[c]	135 500[c]	231 409[c]	21 497[c]	144 032[c]	387 591[c]
Macao, China	2 801[b]	13 603	29 308[b]	-	550	1 892[b]
Mongolia	182	8 445	20 223	-	2 616	533
Taiwan Province of China	18 875	61 508[c]	100 943[b]	66 655	190 803[c]	339 678[b]
South-East Asia	257 603	1 144 320	2 381 432	84 056	600 585	1 397 480
Brunei Darussalam	3 868[b]	4 140	6 702	-	-	-
Cambodia	1 580	6 329	23 741	193	345	993
Indonesia	25 060	160 735	226 335	6 940	6 672	72 279
Lao People's Democratic Republic	588[b]	1 888[b]	8 665[b]	26[b]	68[b]	159[b]
Malaysia	52 747	101 620	152 510	15 878	96 964	118 886
Myanmar	3 752[b]	14 507[b]	31 360	-	-	-
Philippines	13 762[b]	25 896	82 997[c]	1 032[b]	6 710	51 902[c]

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Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2018 (continued)

Region/economy	FDI inward stock 2000	FDI inward stock 2010	FDI inward stock 2018	FDI outward stock 2000	FDI outward stock 2010	FDI outward stock 2018
Singapore	110 570	632 760[c]	1 481 033[c]	56 755	466 129[c]	1 021 124[c]
Thailand	30 944	139 286	222 733	3 232	21 369	121 358
Timor-Leste	-	155	365	-	94	112
Viet Nam	14 730[b]	57 004[b]	144 991[b]	-	2 234[b]	10 668[b]
South Asia	30 743	268 963	522 909	2 761	100 441	173 794
Afghanistan	17[b]	930	1 569[b]	-	16	23[b]
Bangladesh	2 162	6 072	17 062	68	98	310
Bhutan	4	56	138	-	-	-
India	16 339	205 580[c]	386 354[c]	1 733	96 901[c]	166 193[c]
Iran, Islamic Republic of	2 597[b]	28 953	56 968[b]	411[b]	1 713[b]	3 894[b]
Maldives	128[b]	1 114[b]	4 259[b]	-	-	-
Nepal	72[b]	239[b]	1 938[b]	-	-	-
Pakistan	6 919	19 828	41 865	489	1 362	1 940
Sri Lanka	2 505	6 190	12 757	60	351	1 433
West Asia	69 286	592 403	727 391	14 553	164 763	434 961
Bahrain	5 906	15 154	28 997	1 752	7 883	19 344
Iraq	-48	7 965	..	-	632	2 674
Jordan	3 135	21 899	35 109[c]	44	473	611[c]
Kuwait	608	11 884	14 742	1 428	28 189	32 852
Lebanon	14 233	44 285	66 187[b]	352	6 831	16 055[b]
Oman	2 577[b]	14 987[b]	28 207[b]	-	2 796[b]	10 876[b]
Qatar	1 912	30 564[b]	32 743[b]	74	12 545[b]	56 406[b]
Saudi Arabia	17 577	176 378	230 786	5 285	26 528	105 656
State of Palestine	1 418[b]	2 176	2 721	-	241	347
Syrian Arab Republic	1 244	9 939[b]	10 743[b]	-	5[b]	5[b]
Turkey	18 812	188 447	134 524	3 668	22 509	49 935
United Arab Emirates	1 069[b]	63 869	140 319	1 938[b]	55 560	139 529
Yemen	843	4 858	2 313[b]	13[b]	571[b]	669[b]
Latin America and the Caribbean[a]	338 774	1 585 989	2 116 095	53 172	412 530	658 698
South America	186 641	1 085 149	1 414 501	43 634	287 349	491 704
Argentina	67 601	85 591	72 784	21 141	30 328	42 335
Bolivia, Plurinational State of	5 188	6 890	11 851	29	8	815
Brazil	-	640 330	684 213[b]	-	149 333	229 066[b]
Chile	45 753	160 904	269 298	11 154	61 126	119 312
Colombia	11 157	82 977	188 751	2 989	23 717	60 628
Ecuador	6 337	11 858	18 678	-	-	-
Guyana	756	1 784	3 680	1	2	28
Paraguay	1 219	3 254	6 482	-	-	-
Peru	11 062	42 976	104 411	505	3 319	5 467[b]
Suriname	-	-	2 185	-	-	-
Uruguay	2 088	12 479	29 036	138	345	7 003
Venezuela, Bolivarian Republic of	35 480	36 107	23 131[b]	7 676	19 171	27 051[b]
Central America	139 768	453 143	635 404	8 534	122 884	165 460
Belize	294[c]	1 461[c]	2 244[c]	42[c]	49[c]	58[c]
Costa Rica	2 809	15 936	39 290	22	1 135	3 224
El Salvador	1 973	7 284	9 705	104	1	2
Guatemala	3 420	6 518	16 365	93	382	1 191
Honduras	1 392	6 951	16 255	-	857	2 410
Mexico	121 691	389 571	485 807	8 273	116 906	152 524
Nicaragua	1 414	4 681	11 064	-	181	701
Panama	6 775	20 742	54 675	-	3 374	5 351
Caribbean[a]	12 365	47 697	66 191	1 004	2 297	1 535
Anguilla	-	-	660[d]	-	-	66[d]
Antigua and Barbuda	-	-	969[d]	-	-	81[d]
Aruba	1 161	4 567	4 369[b]	675	682	757[b]
Bahamas	3 278	13 438	21 577b	452	2 538	4 636[b]
Barbados	308	4 970	7 273[b]	41	4 058	4 088[b]
British Virgin Islands	30 289[b]	265 783[b]	745 449[b]	69 041[b]	376 866[b]	898 200[b]
Cayman Islands	27 316[b]	151 519[b]	525 493[b]	21 643[b]	75 212[b]	289 607[b]
Curaçao	-	527	1 352[b]	-	32	56[b]
Dominica	-	-	288[d]	-	-	2[d]
Dominican Republic	1 673	18 793	39 105	-	-	-

/...

Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2018 (concluded)

Region/economy	FDI inward stock			FDI outward stock		
	2000	2010	2018	2000	2010	2018
Grenada	-	-	1 125[d]	-	-	73[d]
Haiti	95	625[c]	1 850[c]	2[b]	2[c]	2[c]
Jamaica	3 317[c]	10 855[c]	16 589[c]	709[c]	176[c]	590[c]
Montserrat	-	-	28[d]	-	-	-[d]
Netherlands Antilles[f]	277	-	-	6	-	-
Saint Kitts and Nevis	-	-	1 683[d]	-	-	21[d]
Saint Lucia	-	-	1 066[d]	-	-	221[d]
Saint Vincent and the Grenadines	-	-	1 384[d]	-	-	65[d]
Sint Maarten	-	256	280[b]	-	10	23[b]
Trinidad and Tobago	7 280	17 424	8 647[b]	293	2 119	943[b]
Oceania	1 854	14 710	28 646	249	827	2 006
Cook Islands	-	-	79[b]	-	-	13[b]
Fiji	356	2 978	4 781	39	47	90
French Polynesia	146[b]	442[b]	1 115[b]	-	144[b]	395[b]
Kiribati	-	5	14[b]	-	2	2[b]
Marshall Islands	20[c]	120[c]	186[b]	-	-	-
Micronesia, Federated States of	-	7	235[b]	-	-	5[b]
New Caledonia	-41[b]	5 726[b]	15 523[b]	2[b]	304[b]	810[b]
Palau	173	232	442[b]	-	-	-
Papua New Guinea	935	3 748	4 563[b]	194[b]	209[b]	473[b]
Samoa	77	220	90[b]	-	13	18[b]
Solomon Islands	106[b]	552	557	-	27	67
Tonga	19[b]	220[b]	446[b]	14[b]	58[b]	109[b]
Tuvalu	-	5	8[b]	-	-	-
Vanuatu	61[b]	454	607[b]	-	23	25[b]
Transition economies	51 964	698 270	803 594	19 611	369 082	401 964
South-East Europe	1 237	43 479	71 861	16	2 912	5 701
Albania	247	3 255	7 902	-	154	563
Bosnia and Herzegovina	450	6 709	8 330[b]	-	195	529[b]
Montenegro	-	4 231	5 559[b]	-	375	331[b]
North Macedonia	540	4 351	5 961	16	100	80
Serbia	-	22 299	39 833	-	1 960	3 805
CIS	49 965	646 314	714 107	19 477	365 322	393 656
Armenia	513	4 405	5 511	0	122	606
Azerbaijan	1 791	7 648	31 060	1	5 790	23 684
Belarus	1 306	9 904	20 761	24	205	860
Kazakhstan	10 078	82 648	149 254	16	16 212	16 726
Kyrgyzstan	432	1 698	3 917	33	2	7
Moldova, Republic of	449	2 957	4 047	23	90	253
Russian Federation	29 738	464 228	407 362	19 211	336 355	344 090
Tajikistan	136	1 146	2 760[b]	-	-	-
Turkmenistan	949[b]	13 442[b]	36 012[b]	-	-	-
Ukraine	3 875	52 872	43 757	170	6 548	7 430
Uzbekistan	698[b]	5 366[b]	9 667[b]	-	-	-
Georgia	762	8 477	17 626	118	848	2 607
Memorandum						
Least developed countries (LDCs)[g]	36 035	160 061	353 771	2 676	11 487	21 657
Landlocked developing countries (LLDCs)[h]	33 846	179 669	391 122	1 095	29 221	47 629
Small island developing States (SIDS)[i]	16 546	60 681	83 499	1 811	10 287	12 223

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

[a] Excluding the financial centers in the Caribbean (Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Barbados, the British Virgin Islands, the Cayman Islands, Curaçao, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sint Maarten and the Turks and Caicos Islands).

[b] Estimates.

[c] Asset/liability basis.

[d] Directional basis calculated from asset/liability basis.

[e] Least developed countries include Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, the Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, the Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[f] Landlocked developing countries include Afghanistan, Armenia, Azerbaijan, Bhutan, the Plurinational State of Bolivia, Botswana, Burkina Faso, Burundi, the Central African Republic, Chad, Eswatini, Ethiopia, Kazakhstan, Kyrgyzstan, the Lao People's Democratic Republic, Lesotho, North Macedonia, Malawi, Mali, the Republic of Moldova, Mongolia, Nepal, the Niger, Paraguay, Rwanda, South Sudan, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[g] Small island developing States include Antigua and Barbuda, the Bahamas, Barbados, Cabo Verde, the Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, the Marshall Islands, Mauritius, the Federated States of Micronesia, Nauru, Palau, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Príncipe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

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The terms country and economy as used in this Report also refer, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgment about the stage of development reached by a particular country or area in the development process. The major country groupings used in this Report follow the classification of the United Nations Statistical Office:

- Developed economies: the member countries of the OECD (other than Chile, Mexico, the Republic of Korea and Turkey), plus the new European Union member countries which are not OECD members (Bulgaria, Croatia, Cyprus, Lithuania, Malta and Romania), plus Andorra, Bermuda, Liechtenstein, Monaco and San Marino, plus the territories of Faeroe Islands, Gibraltar, Greenland, Guernsey and Jersey.
- Transition economies: South-East Europe, the Commonwealth of Independent States and Georgia.
- Developing economies: in general, all economies not specified above. For statistical purposes, the data for China do not include those for Hong Kong Special Administrative Region (Hong Kong SAR), Macao Special Administrative Region (Macao SAR) and Taiwan Province of China.

Methodological details on FDI and MNE statistics can be found on the Report website (unctad/diae/wir).

Reference to companies and their activities should not be construed as an endorsement by UNCTAD of those companies or their activities.

The boundaries and names shown and designations used on the maps presented in this publication do not imply official endorsement or acceptance by the United Nations.

The following symbols have been used in the tables:

- Two dots (..) indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row.
- A dash (–) indicates that the item is equal to zero or its value is negligible.
- A blank in a table indicates that the item is not applicable, unless otherwise indicated.
- A slash (/) between dates representing years, e.g., 2010/11, indicates a financial year.
- Use of a dash (–) between dates representing years, e.g., 2010–2011, signifies the full period involved, including the beginning and end years.
- Reference to “dollars” ($) means United States dollars, unless otherwise indicated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

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