BOPCOM-10/22

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World Investment Report 2010
Investing in a Low-Carbon Economy

Prepared by the
United Nations Conference on Trade and Development

World Investment Report 2010

Investing in a Low-Carbon Economy

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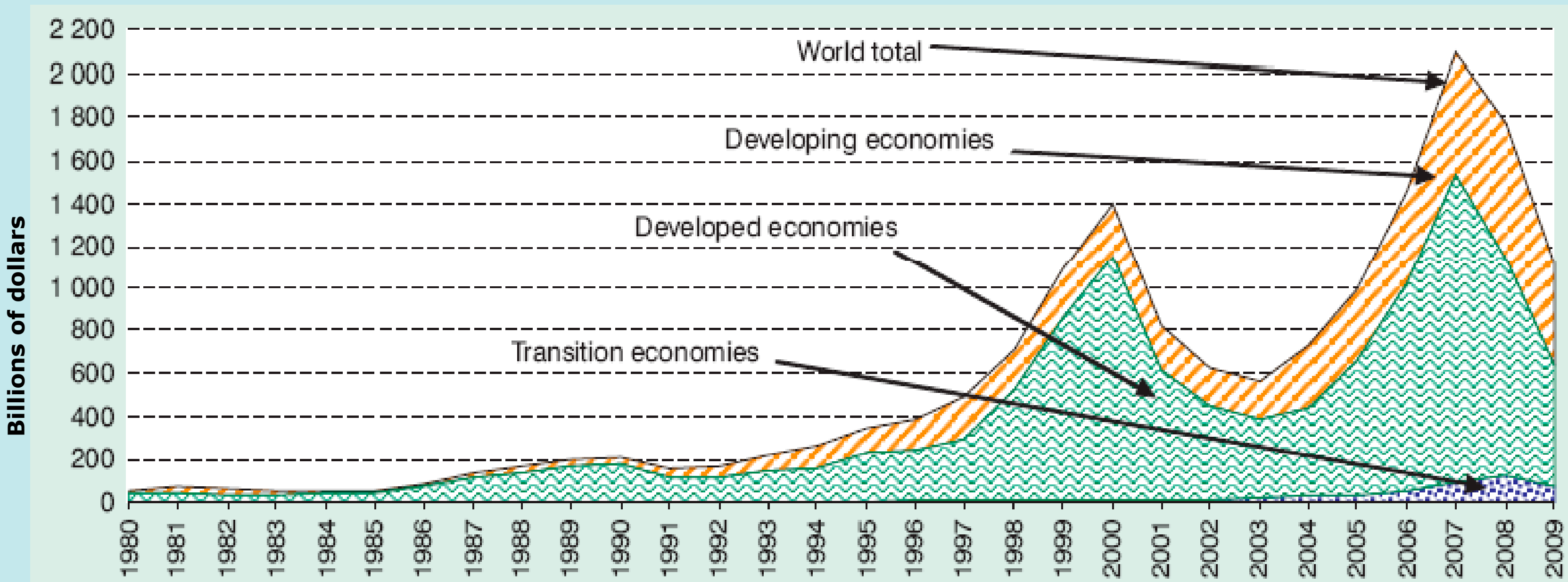
UNITED NATIONS

20th anniversary edition

Key messages: FDI trends and prospects

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

Global FDI inflows declined further in 2009...

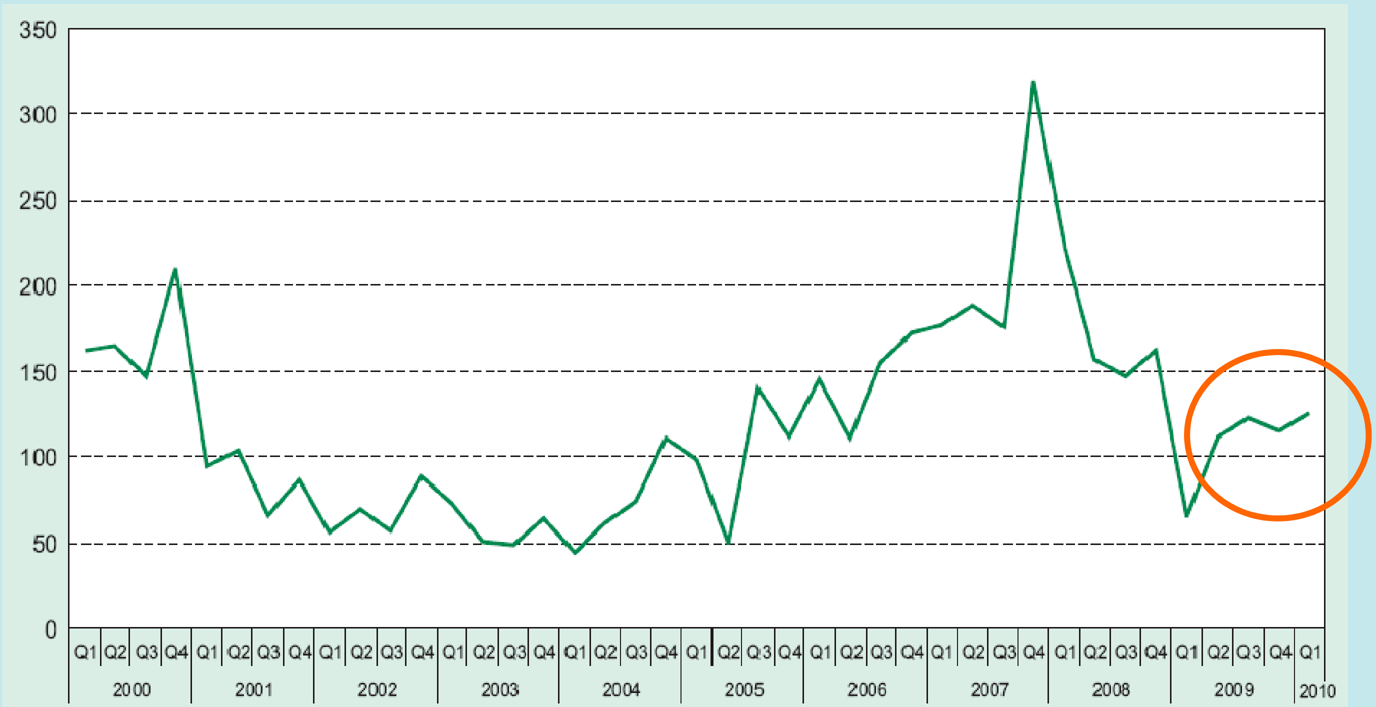


Details for 2009:

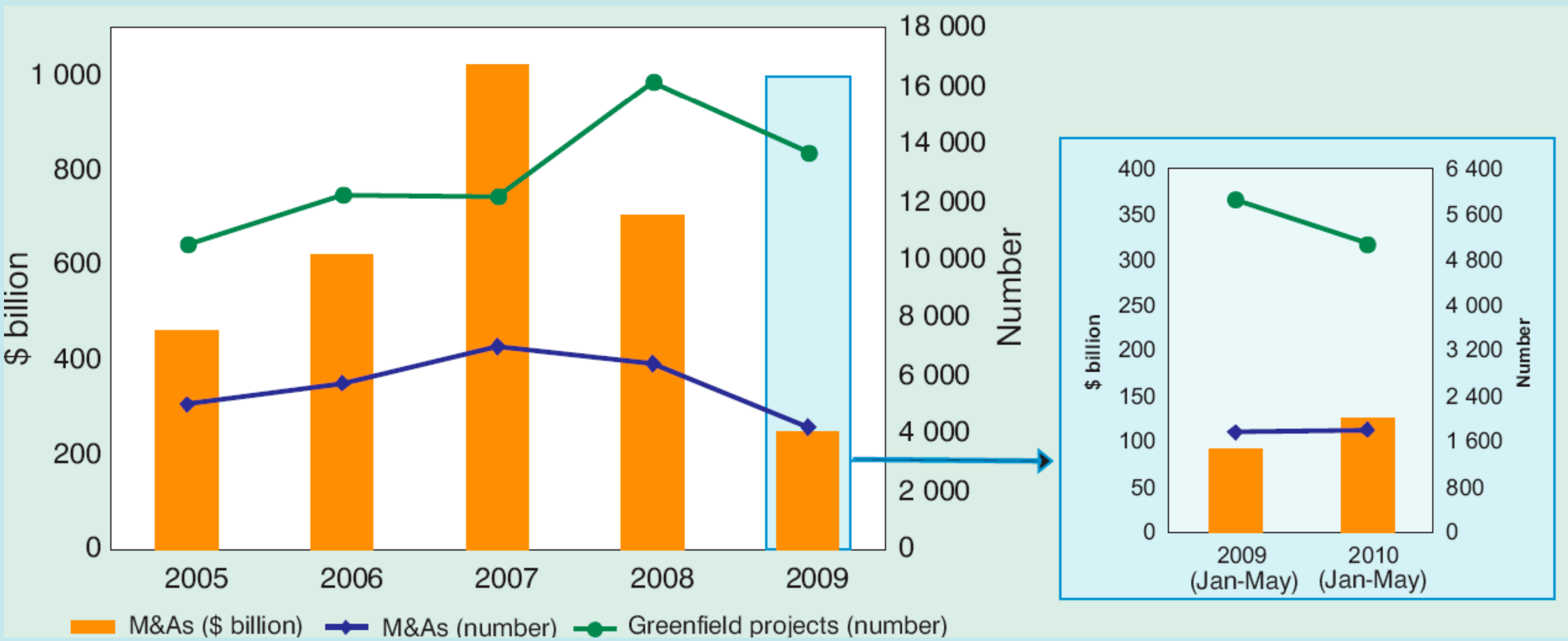
- ❑ Developed: $566 billion, 44% decline
- ❑ Transition (South-East Europe and the CIS): $70 billion, 43% decline
- ❑ Developing: $478 billion, 24% decline
- ❑ Africa: $59 billion, 19% decline
- ❑ LAC: $117 billion, 36% decline
- ❑ South, East, and South-East Asia*:* $233 billion, 17% decline
- ❑ West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

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

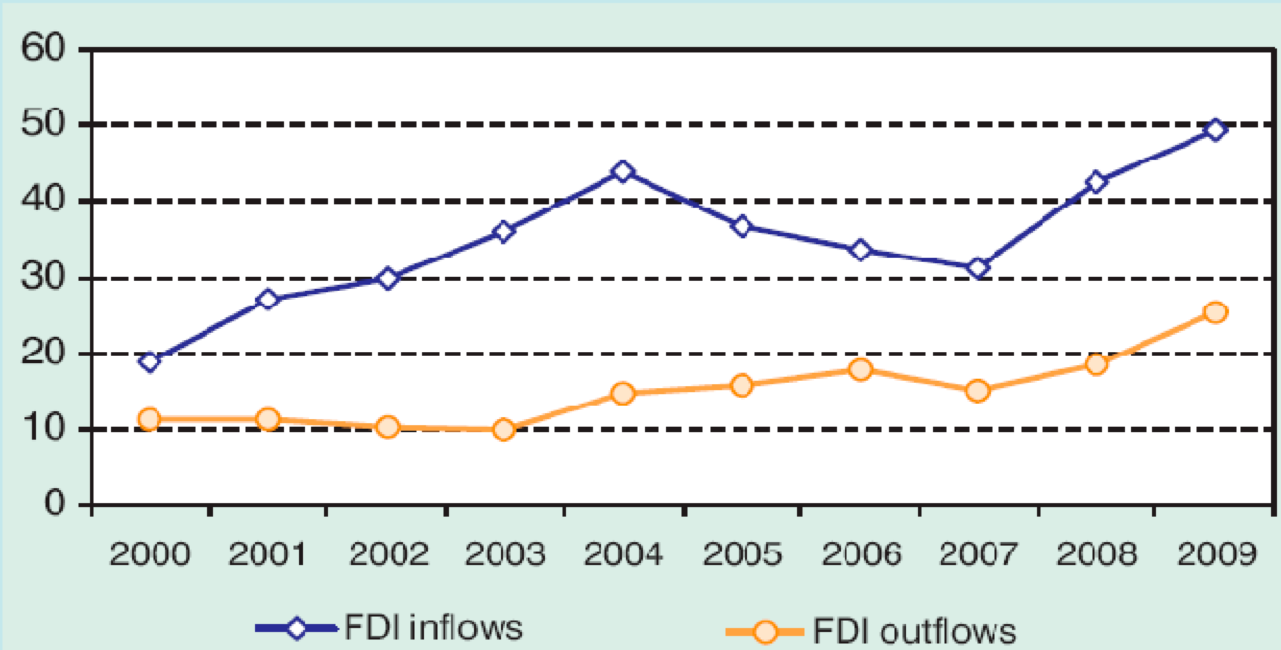
UNCTAD Global FDI Quarterly Index
(Base 100: quarterly average of 2005)



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



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



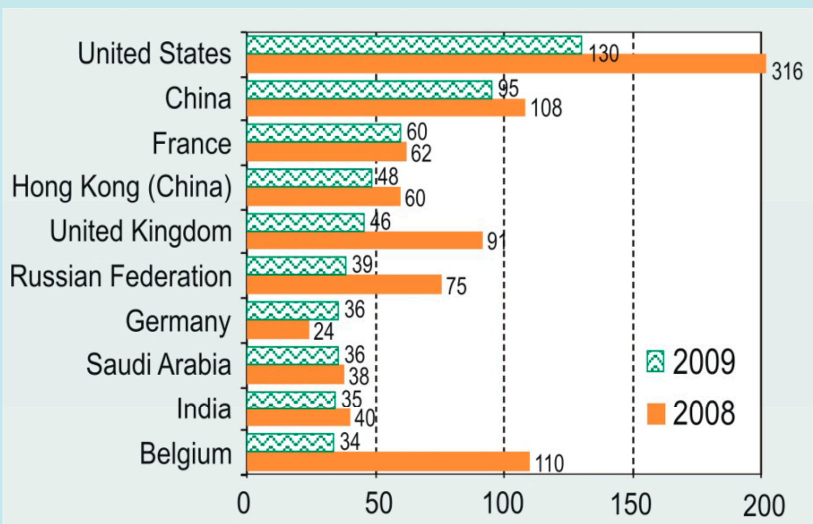
$548 billion

$280 billion

…ranking high among top destinations and investors.

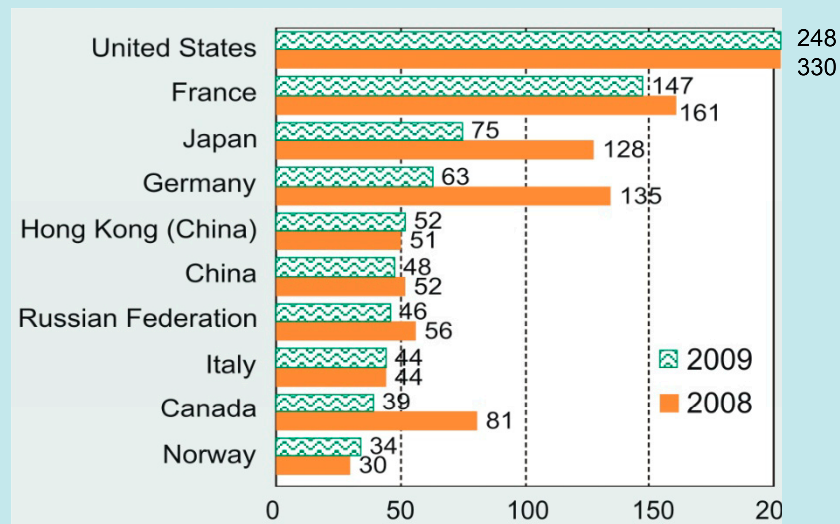
Top 10 *host* economies of FDI

(Billions of dollars)



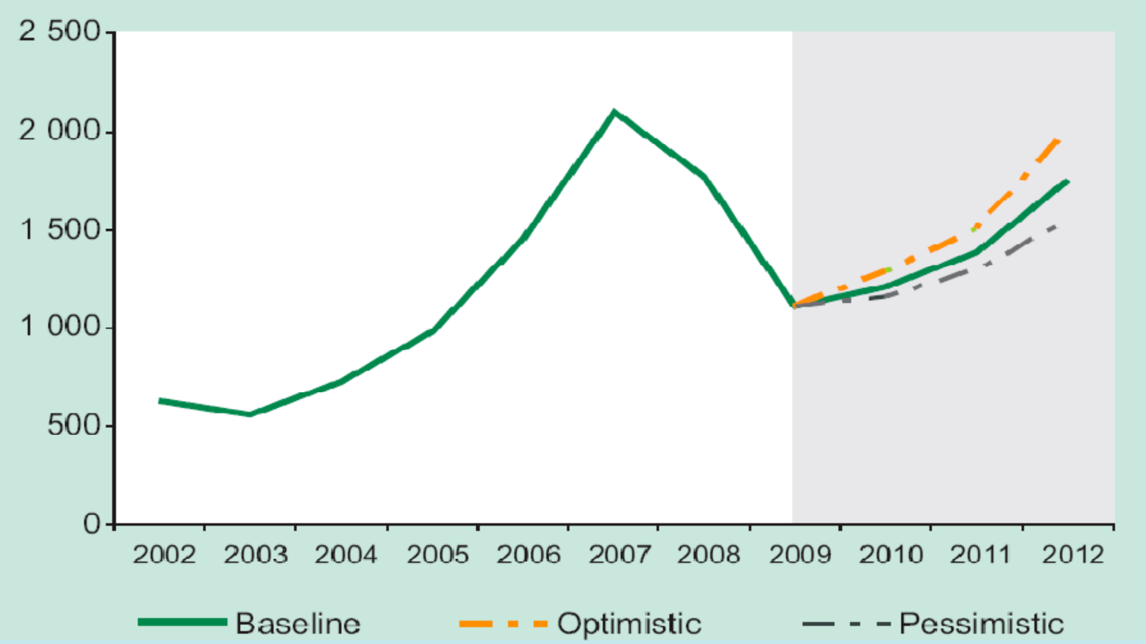
Top 10 *home* economies for FDI

(Billions of dollars)



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

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



2010: $1.2 trillion

2011: $1.3–1.5 trillion

2012: $1.6–2 trillion

Key messages: Investment policy trends

- Dichotomy in investments policy trends
  - Further liberalization & promotion of FDI in response to intensified competition for FDI
    - ➔2009: 70% of total national policy changes were in liberalization/promotion; 2000: 98%
  - Regulation in pursuit of broader policy objectives
    - ➔2009: 30% of total national policy changes were in regulations/restrictions; 2000: 2%
- Rebalancing rights & obligations between investors and the state
  - At both national and international investment policy levels
- Economic stimulus packages & state aids impact on FDI
  - So far no significant investment protectionism, but risk continues

Key messages: Investment policy trends (continued)

- The multifaceted & multilayered network of international investment agreements (IIAs)
  - Rapidly growing body of law (end of 2009: ~5,939 IIAs; 2009: ~4 new IIAs per week)
  - Emerging trend of consolidation at the regional level
  - Emerging trend of rebalancing within the IIA regime
  - Efforts to improve coherence (within the IIA regime & between the IIA regime & other regulatory frameworks)

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

Key messages: Investing in a low-carbon economy

- TNCs are both part of the problem and the solution. They can offer low-carbon investment and technology.
- Low-carbon FDI is already large and its potential is huge
- "Carbon leakage" is a concern, but instead of dealing with it at the border it could be addressed at the source working through corporate governance mechanisms

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

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

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

FDI in low-carbon business is growing rapidly…

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

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

+

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

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

- Need for country-specific policies to address these issues

Strategizing national clean investment promotion

Creating an enabling policy framework

Market creation policies to realise business opportunities

Mainstreaming foreign investment into low-carbon development strategies

Promotion: Investor targeting, aftercare, policy advocacy

- e.g. Industrial policies establishing clusters in low-carbon sectors utilizing local assets such as labour skills and natural resources

Country-specific policies

- e.g. Policies to maximize spillovers from TNCs in low-carbon areas through technology targeting, linkages etc.

International support for developing countries

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

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

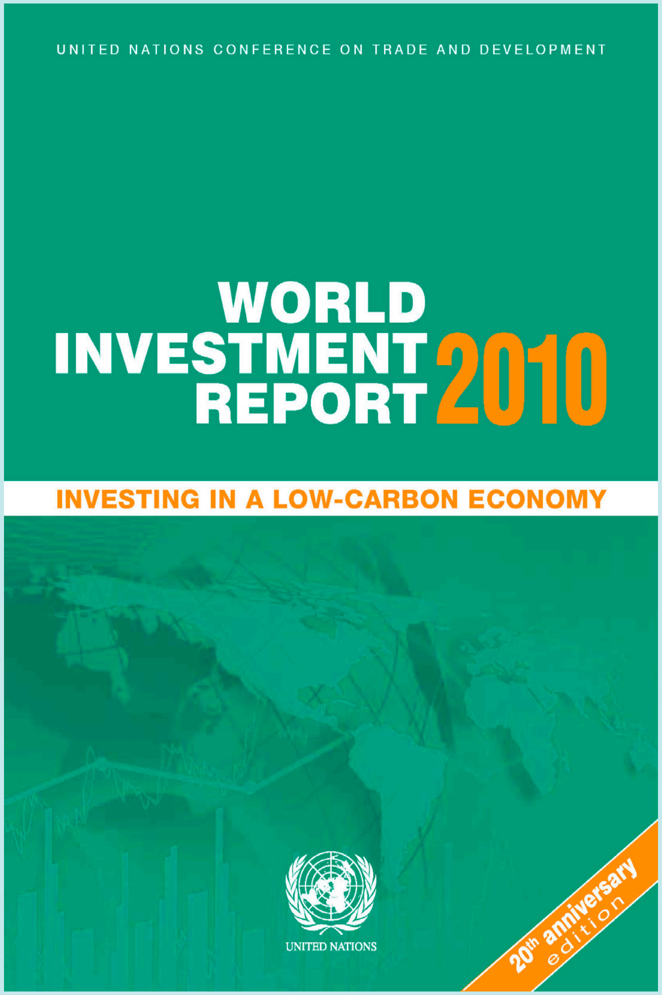
Developing countries leveraging low-carbon foreign investment

Int. financial institutions' should further public-private partnership

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

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

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



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