

**Twenty-Fifth Meeting of the
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World Investment Report 2012

**Prepared by
UNCTAD**

WORLD INVESTMENT REPORT 2012

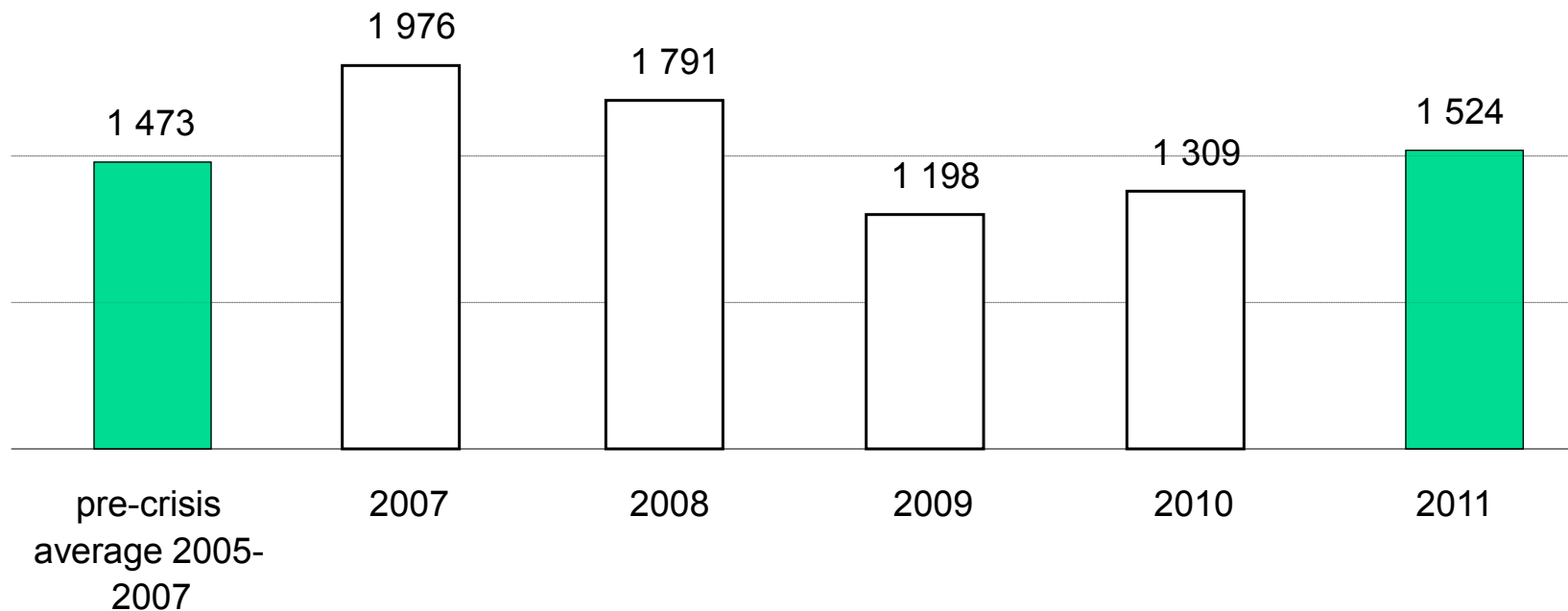
Towards A New Generation of Investment Policies

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Global foreign direct investment (FDI) flows surpassed the pre-crisis average in 2011

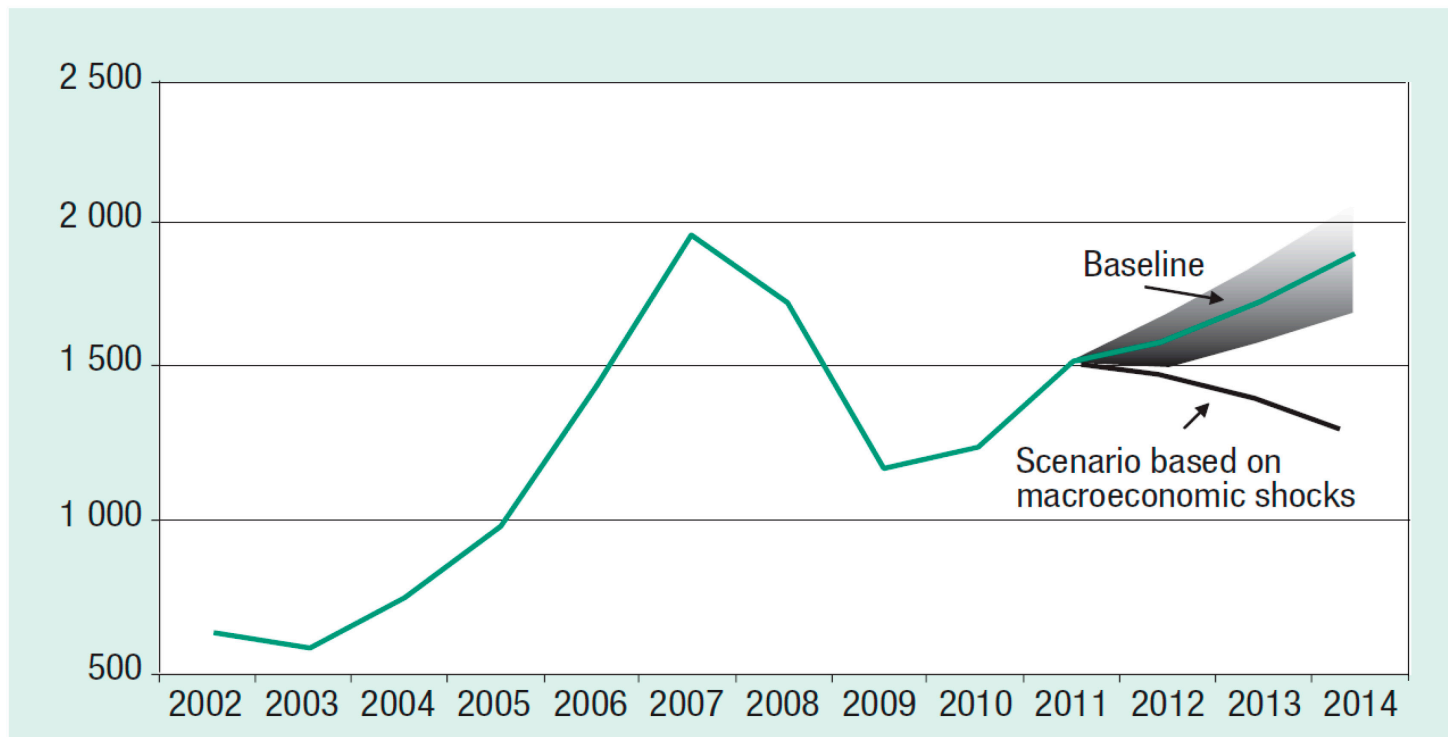
FDI inflows

(Billions of dollars)



Global FDI flows risk losing momentum in 2012, but projections for 2013 and 2014 still show steady growth

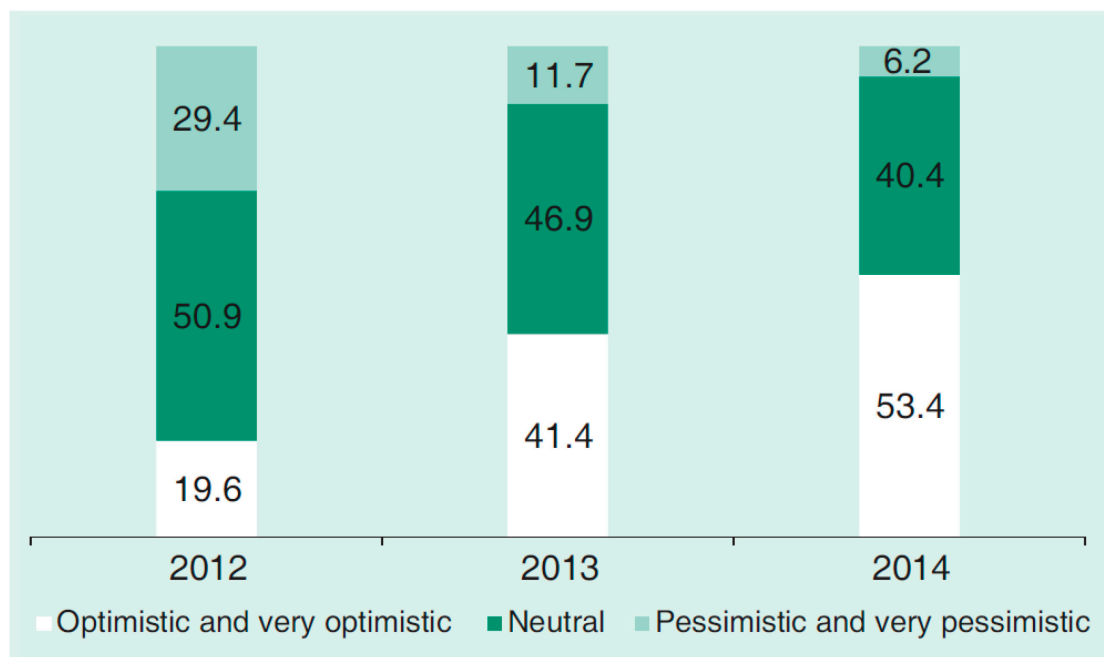
Global FDI inflows
(Billions of dollars)



...FDI to level off at \$1.6 trillion in 2012, rising to \$1.8 trillion in 2013 and \$1.9 trillion in 2014, barring any macroeconomic shocks...

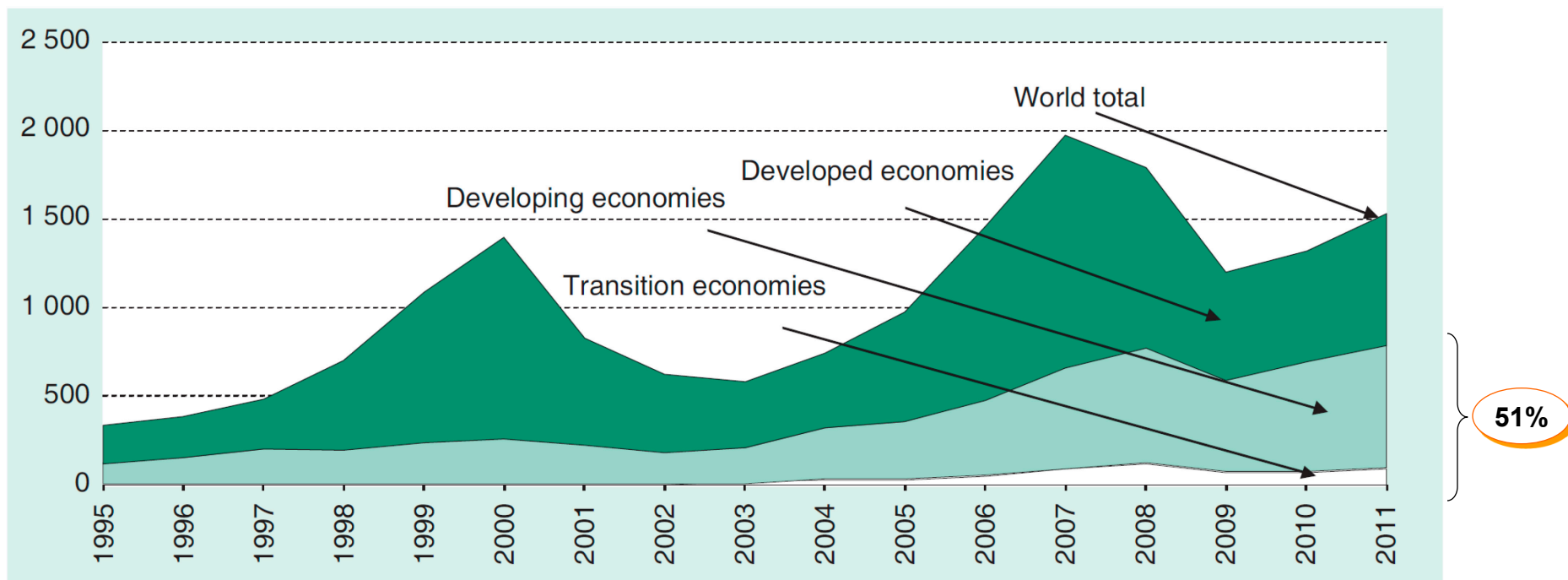
Investor uncertainty is high in the short-term, but medium-term prospects are cautiously optimistic

TNCs' perception of the global investment climate, 2012–2014
(Percentage of WIPS survey responses)



FDI inflows up across all major economic groupings

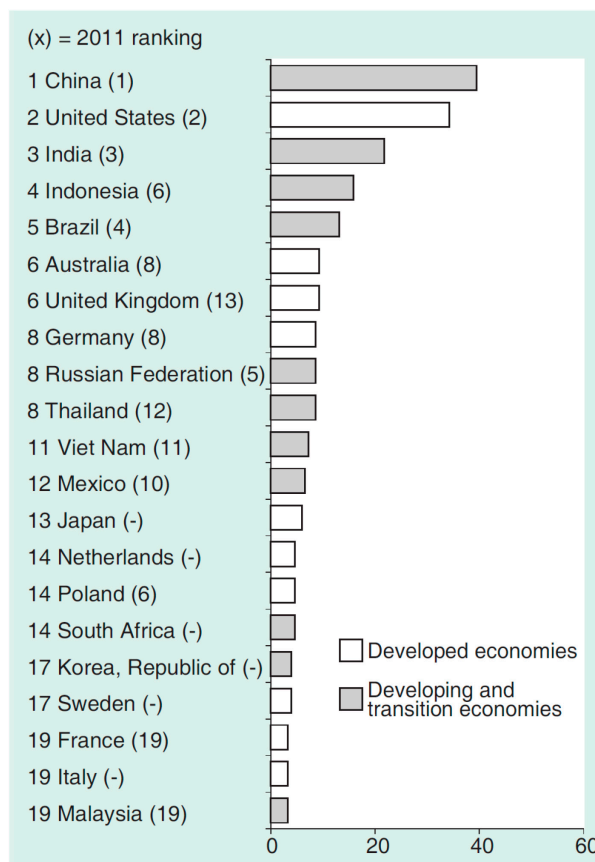
FDI inflows by group of economies, 1990–2011
(Billions of dollars)



Developing and transition economies dominate TNCs' top prospective investment destinations

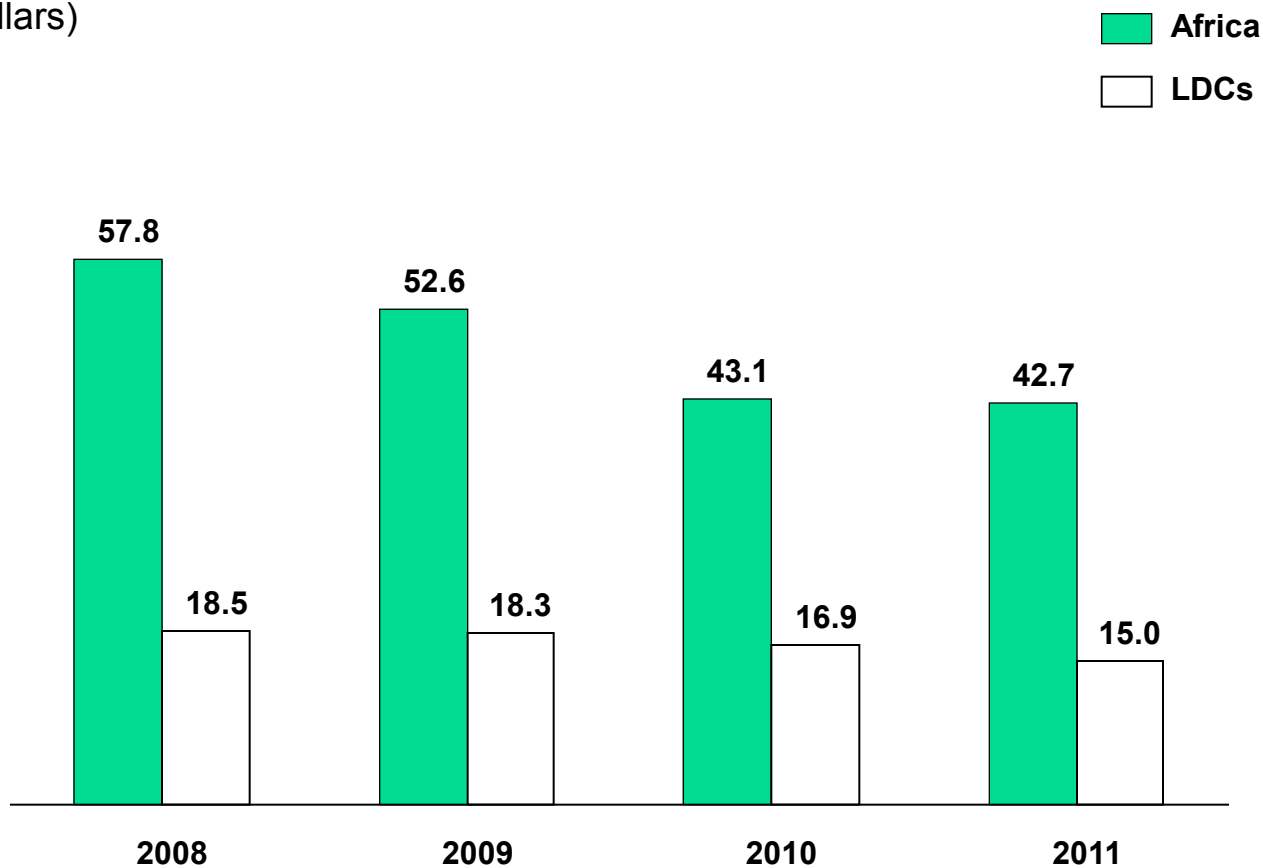
TNCs' top 20 prospective host economies for 2012–2014

(Percentage of WIPS survey respondents selecting economy as a top destination)



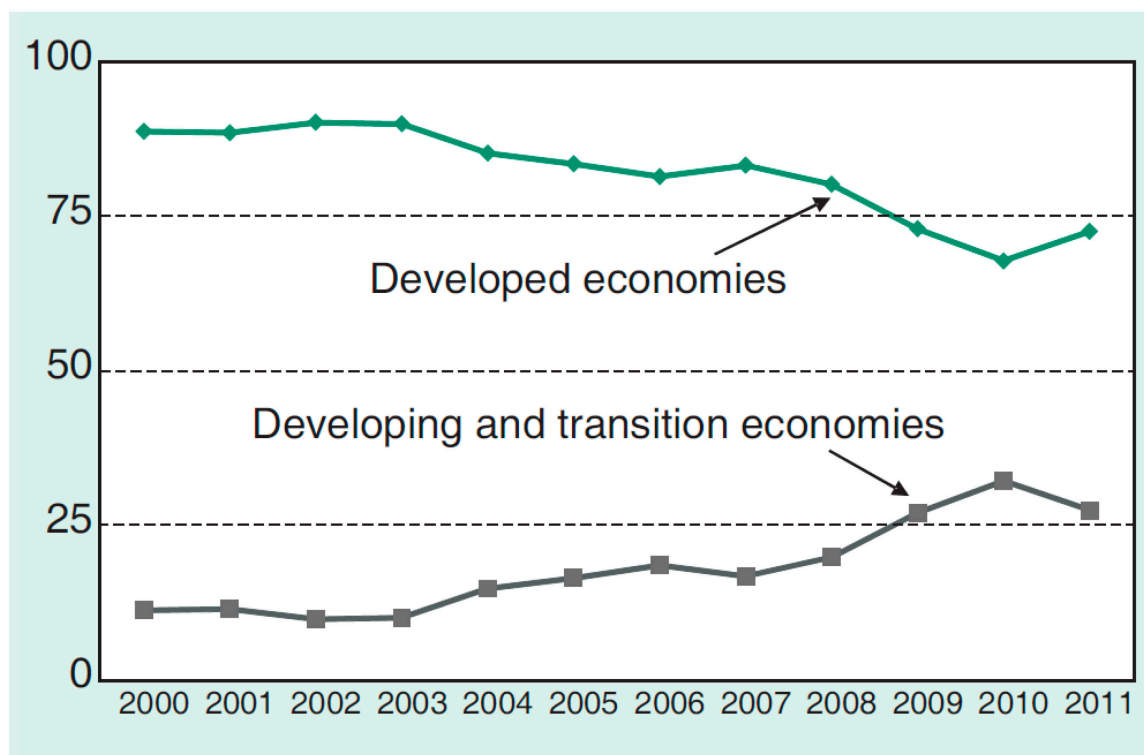
Africa and the least developed countries (LDCs) remained in FDI recession

FDI inflows, 2008–2011
(Billions of dollars)



FDI outflows from emerging markets fell slightly, but remained high

Shares in global FDI outflows, by group of economies, 2000–2011
(Billions of dollars)



International production by transnational corporations (TNCs) advanced...

In 2011, foreign affiliates of TNCs...

... employed an estimated 69 million workers ...

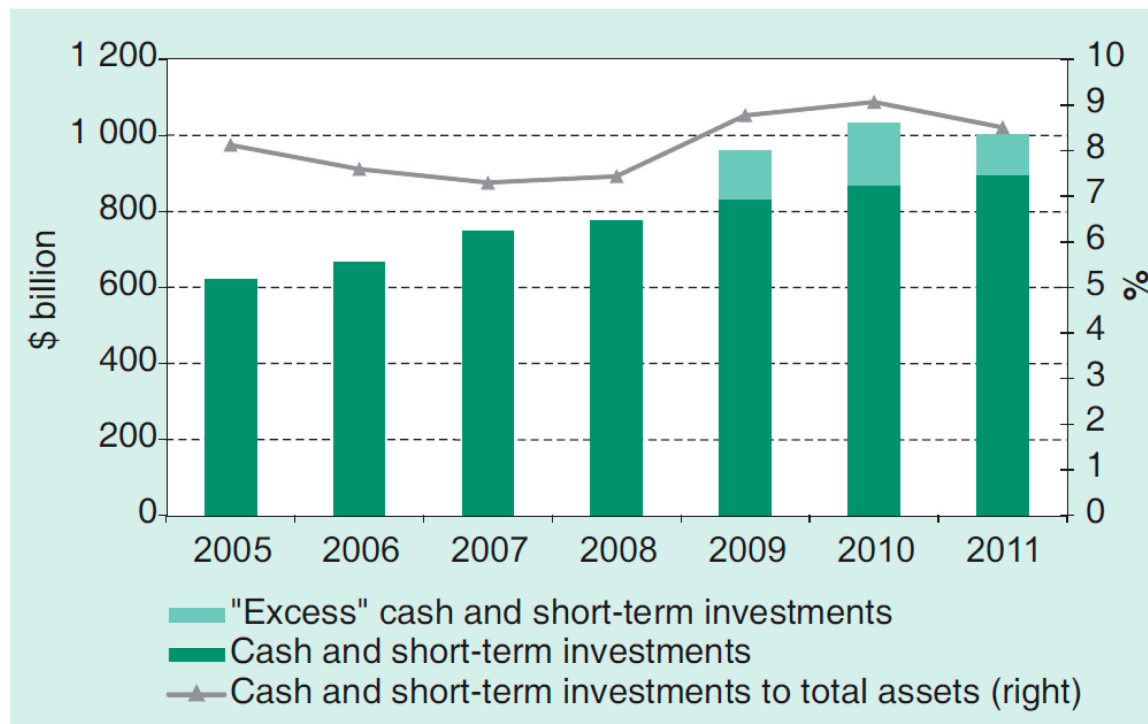
... generated \$28 trillion in sales ...

... produced \$7 trillion in value added (~10% of global GDP) ...

... and managed assets of \$82 trillion

... but they are still holding back from investing record cash holdings

Top 100 TNCs: cash holdings, 2005–2011
(Billions of dollars and per cent)



Globally TNCs had estimated cash holdings of \$4-5 trillion in 2011

...

Top 100 TNCs alone had \$1 trillion, with \$100 billion "additional" compared to their previous holdings

...

Projecting the top 100 data over the estimated \$5 trillion total TNC cash results suggests upwards of \$500 billion in investable funds, or one third of global FDI flows

International production by TNC foreign affiliates continues to advance

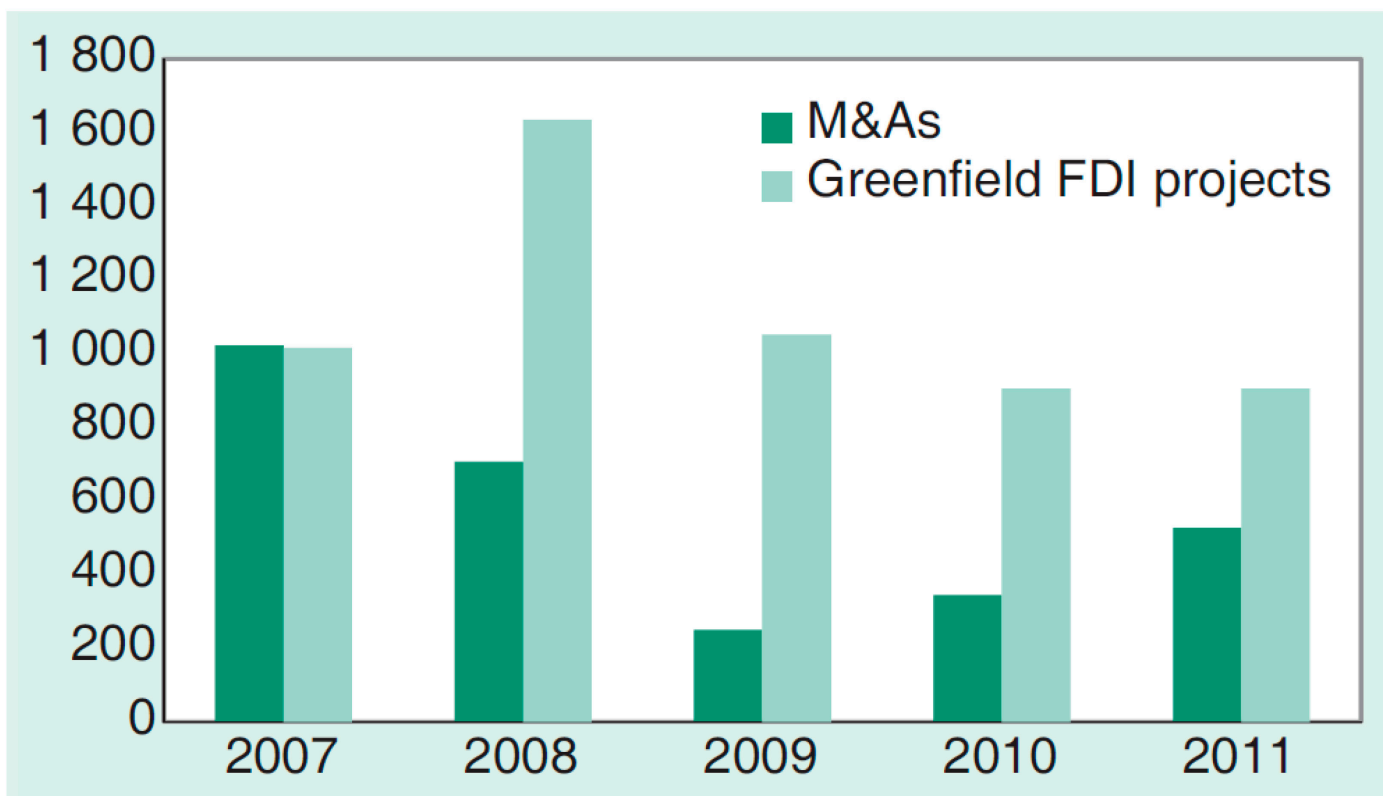
Selected indicators of FDI and international production, 1990–2011

(Billions of dollars, values at current prices)

Item	1990	2005–2007 pre-crisis average	2009	2010	2011
FDI inflows	207	1 473	1 198	1 309	1 524
FDI outflows	241	1 501	1 175	1 451	1 694
FDI inward stock	2 081	14 588	18 041	19 907	20 438
FDI outward stock	2 093	15 812	19 326	20 865	21 168
Income on inward FDI	75	1 020	960	1 178	1 359
<i>Rate of return on inward FDI</i>	4.2	7.3	5.6	6.3	7.1
Income on outward FDI	122	1 100	1 049	1 278	1 470
<i>Rate of return on outward FDI</i>	6.1	7.2	5.6	6.4	7.3
Cross-border M&As	99	703	250	344	526
Sales of foreign affiliates	5 102	20 656	23 866	25 622	27 877
Value-added (product) of foreign affiliates	1 018	4 949	6 392	6 560	7 183
Total assets of foreign affiliates	4 599	43 623	74 910	75 609	82 131
Exports of foreign affiliates	1 498	5 003	5 060	6 267	7 358
Employment by foreign affiliates (thousands)	21 458	51 593	59 877	63 903	69 065
<i>Memorandum:</i>					
GDP	22 206	50 411	57 920	63 075	69 660
Gross fixed capital formation	5 109	11 208	12 735	13 940	15 770
Royalties and licence fee receipts	29	156	200	218	242
Exports of goods and services	4 382	15 008	15 196	18 821	22 095

Greenfield remains dominant, but M&As drive 2011 growth

Cross-border M&A purchases and greenfield investments, 2007 – 2011
(Billions of dollars)



Primary sector and Services sector FDI turn around after 2 years of declines

Sectoral distribution of FDI projects, 2005 – 2011

(Billions of dollars and per cent)

Year	Value			Share		
	Primary	Manufacturing	Services	Primary	Manufacturing	Services
Average 2005–2007	130	670	820	8	41	50
2008	230	980	1 130	10	42	48
2009	170	510	630	13	39	48
2010	140	620	490	11	50	39
2011	200	660	570	14	46	40

Sovereign wealth funds (SWFs) show significant potential for investment in development

SWFs as FDI actors

... roughly \$5 trillion in assets under management ...

... cumulative FDI of only \$125 billion to date ...

... of which only a quarter in developing countries

Significant future potential

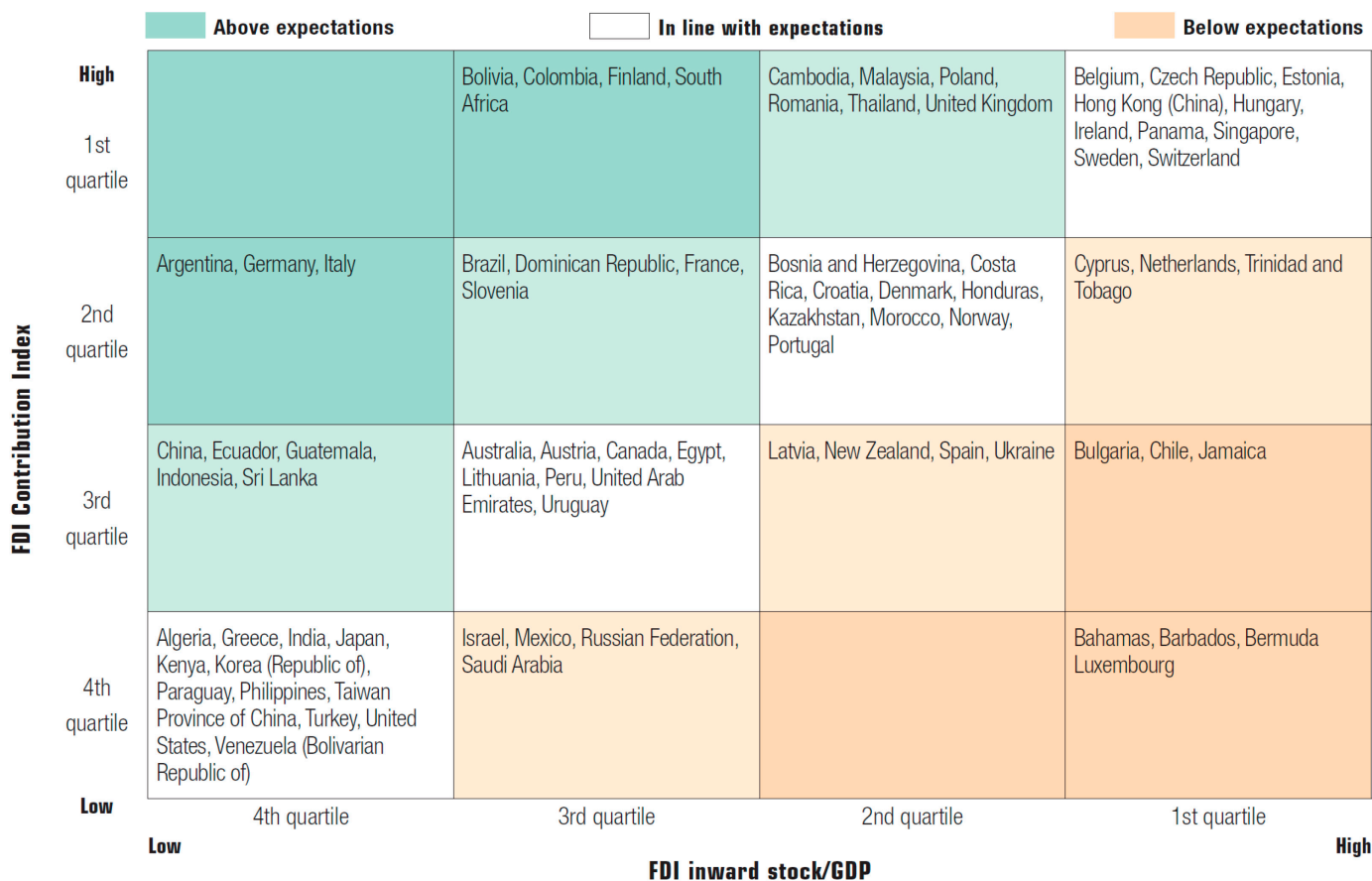
... long-term and strategically oriented investment outlook...

... large scale holdings ...

... well placed to invest in productive activities and infrastructure

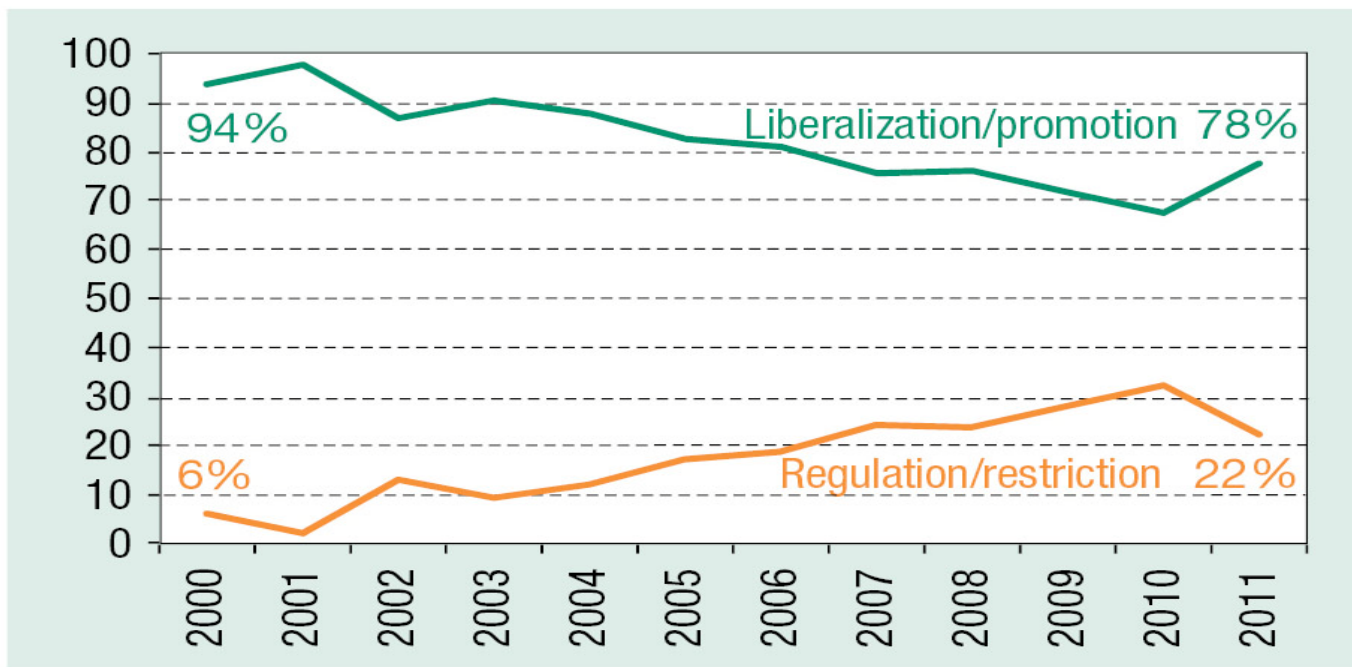
UNCTAD's new FDI Contribution Index highlights differing economic development impact “per unit of FDI”

FDI Contribution Index vs FDI presence matrix, 2011 (Quartiles)



National investment policies continued to be favourable to foreign investors

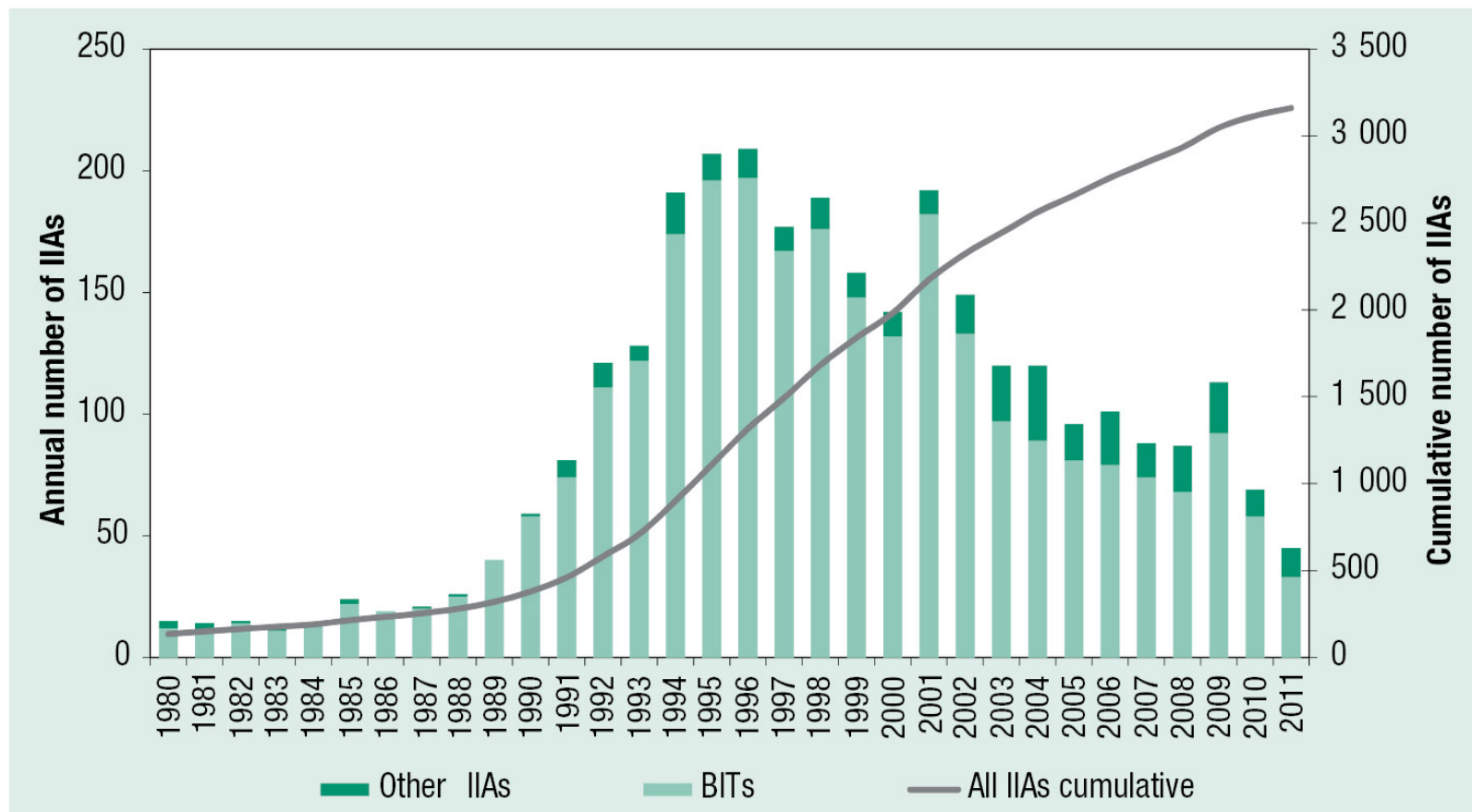
National investment policy changes, 2000 – 2011
(Per cent of measures)



International investment policies see a shift from the bilateral to the regional level

Trends of BITs and “other IIAs”, 1980 – 2011

(Number of treaties)



Small suppliers in developing countries need help to overcome CSR challenges

- The proliferation of CSR codes of TNCs in global supply chains poses challenges for suppliers in developing countries (particularly SMEs) having to comply with and report on multiple, fragmented standards
- Challenges with existing standards include
 - Use of international standards exceeding host country regulations
 - Diverging requirements from different TNCs and capacity constraints of suppliers
 - Consumer and civil society concerns
 - Competitiveness concerns for SMEs
- Policy options to meet these challenges include, inter alia, including CSR in enterprise development and capacity building programmes, and encouraging harmonization of standards by TNCs at the industry level

Towards a new generation of investment policies

*UNCTAD's Investment Policy Framework for
Sustainable Development*

A “new generation” of investment policies is emerging...

“New generation” investment policies place inclusive growth and sustainable development at the heart of efforts to attract and benefit from investment

“New generation” investment policies strive to:

- 1 Create synergies with wider economic development goals or industrial policies, and achieve ***seamless integration in development strategies***
- 2 Foster ***responsible investor behaviour*** and incorporate principles of CSR
- 3 Ensure ***policy effectiveness*** in their design and implementation and in the institutional environment within which they operate

... giving rise to challenges for investment policymaking at the ***national and international levels***

National Investment Policy Challenges

1

Integrating investment policy in development strategy

- Channeling investment to areas key for the building-up of productive capacity and international competitiveness
- Ensuring coherence with the host of policy areas geared towards overall development objectives

2

Incorporating sustainable development objectives in investment policy

- Maximizing positive and minimizing negative impacts of investment
- Fostering responsible investor behaviour

3

Ensuring investment policy relevance and effectiveness

- Building stronger institutions to implement investment policy
- Measuring the sustainable development impact of investment

International Investment Policy Challenges

1

Strengthening the development dimension of IIAs

- Safeguarding policy space for sustainable development needs
- Making investment promotion provisions more concrete and consistent with sustainable development objectives

2

Balancing the rights and obligations of states and investors

- Reflecting investor responsibilities in IIAs
- Learning from and building on CSR principles

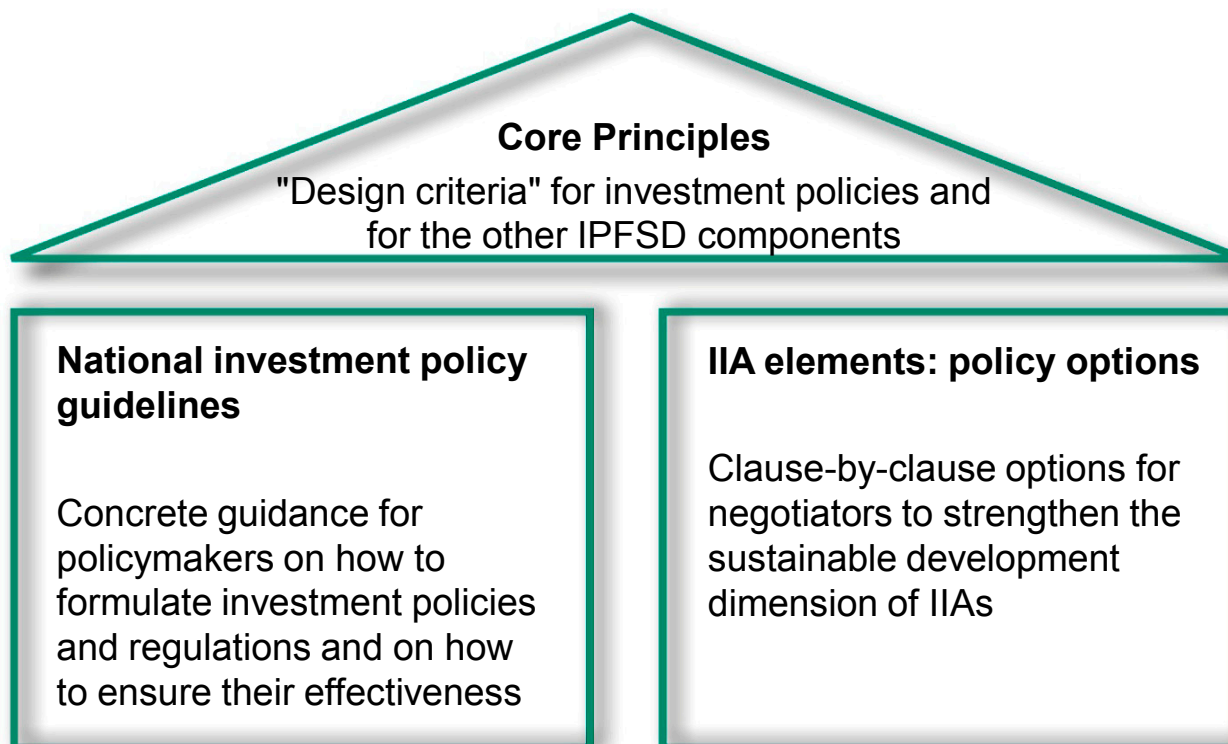
3

Managing the systemic complexity of the IIA regime

- Dealing with gaps, overlaps and inconsistencies in IIA coverage and content and resolving institutional and dispute settlement issues
- Ensuring effective interaction and coherence with other public policies and systems

UNCTAD's Investment Policy Framework for Sustainable Development helps policymakers address these challenges

Structure and components of the IPFSD



Core Principles for investment policymaking

- 1 **Investment for sustainable development** •...overarching objective of investment policymaking ...
- 2 **Policy coherence** •...grounded in a country's overall development strategy ... coherent and synergetic ...
- 3 **Public governance and institutions** •...involving all stakeholders ... standards of public governance ... predictable, efficient and transparent procedures for investors
- 4 **Dynamic policymaking** •...regular reviews for effectiveness and relevance ...
- 5 **Balanced rights and obligations** •...setting out rights and obligations of States and investors in the interest of development
- 6 **Right to regulate** •...in the interest of the public good and to minimize potential negative effects
- 7 **Openness to investment** •...in line with development strategy ... open, stable and predictable entry conditions ...
- 8 **Investment protection and treatment** •...adequate protection to established investors ... non-discriminatory
- 9 **Investment promotion and facilitation** •...aligned with sustainable development goals ... minimize risk of harmful competition for investment
- 10 **Corporate governance and responsibility** •...promote adoption of and compliance with best international practices of CSR ...
- 11 **International cooperation** •...address shared investment-for-development challenges ... avoid investment protectionism

Sustainable development features of the IPFSD's national investment policy guidelines

1 Integrating investment policy in development strategy

- Section on **strategic investment priorities** and investment policy coherence for **productive capacity building**, including sub-sections on investment and: Human resource development, Infrastructure (including section on PPPs), Technology, Enterprise development
- Attention to investment policy options for the **protection of sensitive industries**
- Sections on other policy areas geared towards overall sustainable development objectives to ensure **coherence** with investment policy

2 Incorporating sustainable development objectives in investment policy

- Specific guidelines for the design of investment-specific policies and regulations, including not only establishment and operations, treatment and protection of investments, and investment promotion and facilitation, but also **investor responsibilities**
- Guidance on the encouragement of responsible investment and on guaranteeing compliance with **international core standards**
- Guidance on investment promotion and use of **incentives in the interest of inclusive and sustainable development**
- Specific guidelines aimed at **minimizing potential negative effects of investment**, such as tax avoidance, anti-competitive behaviour, core labour standards, environmental impact
- A sub-section on access to land, incorporating the **Principles for Responsible Agricultural Investment** (PRAI)

3 Ensuring investment policy relevance and effectiveness

- Section on investment policy effectiveness, including guidance on **public governance and institutional capacity-building**
- Guidance on the **measurement of policy effectiveness**, with reference to quantitative investment impact indicators and UNCTAD tools (FDI Attraction and Contribution Indices)

Policy options to operationalize sustainable development objectives in IIAs

Options

Adjust existing/common provisions through clauses that safeguard policy space and limit State liability.


Add new provisions that balance investor rights and responsibilities, promote responsible investment, and strengthen home-country support

Introduce special and differential treatment to calibrate the level of obligations to the country's level of development

Mechanisms

- Hortatory language
- Clarifications
- Qualifications/limitations
- Reservations/carve outs
- Exclusions from coverage/exceptions
- Omissions
- Investor obligations and responsibilities
- Institutional set-up for SD impact
- Home country measures to promote responsible investment
- Lower levels of obligations
- Development-focused exceptions from obligations/commitments
- Best endeavor commitments
- Asymmetric implementation timetables

IPFSD: a reference point, common language, and platform for discussion with investment stakeholders



The screenshot displays the UNCTAD Investment Policy Hub website. The header features the UNCTAD logo and the text "UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT" and "DIVISION ON INVESTMENT AND ENTERPRISE". Below the header is a navigation bar with links: Home, Discussion forum, Core Principles, National Policy Guidelines, and Policy options for IIAs. The main content area is titled "Core Principles for Investment Policymaking" and includes a search bar. The first section, "1. Investment for sustainable development", states the overarching objective of investment policymaking and provides a "view history" link. A user comment by Stephen Young from the University of Glasgow, dated 14 June 2012, discusses the focus of the IPFSD. The right sidebar contains an "Account login" section with fields for Username and Password, a Submit button, and links for "Can't access your account?" and "Create an account.". At the bottom right of the sidebar is a link to the "Events calendar".

UNCTAD UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
DIVISION ON INVESTMENT AND ENTERPRISE
INVESTMENT POLICY HUB


Home Discussion forum Core Principles National Policy Guidelines Policy options for IIAs


Core Principles for Investment Policymaking

1. Investment for sustainable development

The overarching objective of investment policymaking is to promote investment for inclusive growth and sustainable development.

Last updated on 05 May 2012, at 12:05 AM [view history](#)

 **Stephen Young** [University of Glasgow] Posted on 14 June 2012, at 12:44 PM

 **Focus of the IPFSD (Stephen Young)**

Focus of the IPFSD. The notion of 'sustainable development' is central to the IPFSD, and its definition needs to be clarified and extended. For example, p5 notes that sustainable development issues include environmental, social and poverty alleviation – as well as investor responsibility in these areas; p5/6 comments on 'a desire to pursue sustainable development through responsible investment'; and p6 states that sustainable investment implies the promotion of specific types of investment e.g. 'green investments' and 'low carbon investment' (see also the definition on p11). Aside from clarifying the definition, I wonder if the notion of sustainable development is given sufficient attention in the National


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