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WORLD INVESTMENT REPORT 2018

INVESTMENT AND NEW INDUSTRIAL POLICIES

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PREFACE

Global flows of foreign direct investment fell by 23 per cent in 2017. Cross-border investment in developed and transition economies dropped sharply, while growth was near zero in developing economies. With only a very modest recovery predicted for 2018, this negative trend is a long-term concern for policymakers worldwide, especially for developing countries, where international investment is indispensable for sustainable industrial development.

This troubling global investment picture underscores the importance of a conducive global investment environment, characterized by open, transparent and non-discriminatory investment policies. The theme chapter of the report shows that over 100 countries have adopted industrial development strategies in recent years. New types of industrial policies have emerged, responding to the opportunities and challenges associated with a new industrial revolution. The report presents options for investment policy tools in this new environment.

I commend this year's *World Investment Report* as a timely contribution to an important debate in the international investment and development community.

António Guterres
Secretary-General of the United Nations

FOREWORD

We are at the dawn of a fourth industrial revolution, propelled by frontier technologies and robotization advances that make production better, cheaper and faster than ever before. This new industrial revolution offers enormous opportunities for economic growth and sustainable development with potential benefits on a scale that is difficult to imagine. New technologies promise possibilities of industrial upgrading and leapfrogging. Cheaper transportation and communication, coupled with more efficient logistics, can also help developing countries better link to global value chains. Some of the most advanced emerging economies are already on the verge of becoming global technological leaders in a number of industries.

Yet, the new economic age and the accelerating pace of technological innovation could also result in serious economic disruption and more inequality. Existing investment patterns, for instance, might go through profound and far-reaching changes, in terms of both flows and content. Last year's *World Investment Report* highlighted the emerging structural impact of the digital economy on foreign direct investment.

In this context, developing countries, and least developed countries in particular, face considerable challenges. They range from structural constraints, such as the lack of adequate infrastructure and scarce access to finance, to strategic issues. Offshoring and relocation towards destinations offering cheaper domestic labour become less relevant in a world of increasingly automated manufacturing. At the same time, improving living conditions requires creating jobs, which in turn still relies heavily on manufacturing. Developing countries with small markets face additional pressure on their investment policies as companies increasingly look for investment locations offering the best conditions to deliver new and high-quality products rapidly, close to the customer and through flexible production processes.

Challenges are particularly pronounced in Africa. Despite a period of strong economic growth, the level of economic transformation has been low. The share of manufacturing in the GDP of African countries is small, and it has further declined or stagnated over the past decade. However, manufacturing has the potential of creating a large number of jobs in the formal sector and therefore raising living conditions.

Confronted with an altering global economic landscape and deep structural reconfiguration, governments around the globe have invigorated their industrial policies in recent years. There is a growing consensus that structural transformation does not occur by itself, but rather requires a proactive policy that facilitates a transition towards new sectors and activities with higher productivity and more value added, while fostering sustainable and inclusive development.

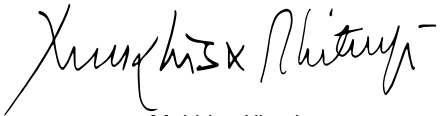
As they pursue multifaceted objectives, new industrial policies have become more complex and intertwined, wielding multiple instruments, from trade to education. Central to these industrial policies is foreign investment. Investment builds and upgrades industries. It connects to international markets. It also drives essential innovation and competitiveness. All in all, the current debate is less about whether governments should intervene, but rather how.

Industrial policies and accompanying investment policies need to revolve around a clearly articulated vision but, at the same time, they have to contain practical and detailed recommendations, a clear timeline for action and a division of responsibilities among the public and private sectors.

Against this background, the *World Investment Report 2018* aims to provide a better understanding of the interaction between new industrial policies and investment policies. It provides an overview of industrial policy models – based on an inventory of industrial policies adopted by more than 100 countries over the last decade – and the role of investment policies within each model. The Report illustrates how investment policy instruments are used differently across various models and suggests ways to improve the impact of industrial policy through more effective and efficient investment policies. Finally, the Report offers recommendations to update existing investment policy instruments, including investment incentives, special economic zones, investment facilitation and foreign investment screening mechanisms.

Building from this Report, UNCTAD will host a discussion of the interface between industrial and investment policies at its 6th World Investment Forum, which will take place in Geneva on 22–26 October 2018.

Together, let us work towards finding solutions to ensure that economic change does not create new hardships, but benefits that are widely shared and lead to a better life for all.



Mukhisa Kituyi
Secretary-General of UNCTAD

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ABBREVIATIONS

ACP	African, Caribbean and Pacific
AfCFTA	African Continental Free Trade Area
ASEAN	Association of Southeast Asian Nations
BIT	bilateral investment treaty
BRICS	Brazil, Russian Federation, India, China, South Africa
CCIA	COMESA Common Investment Agreement
CEPA	Comprehensive Economic Partnership Agreement
CETA	Comprehensive Economic and Trade Agreement
CIS	Commonwealth of Independent States
CLMV	Cambodia, the Lao People's Democratic Republic, Myanmar, Viet Nam
COMESA	Common Market of Eastern and Southern Africa
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CSR	corporate social responsibility
DAC	Development Assistance Committee
DVA	domestic value added
EAC	East African Community
ECJ	European Court of Justice
EPA	Economic Partnership Agreement
ESG	environmental, social and governance
FA	foreign affiliate
FET	fair and equitable treatment
FTA	free trade agreement
FVA	foreign value added
GATS	General Agreement on Trade in Services
GVC	global value chain
ICJ	International Court of Justice
ICT	information and communication technology
ICSID	International Centre for Settlement of Investment Disputes
IIA	international investment agreement
ILO	International Labor Office
IPA	investment promotion agency
IPFSD	Investment Policy Framework for Sustainable Development
ISDS	investor–State dispute settlement
LDC	least developed country
LLDC	landlocked developing country
M&A	merger and acquisition
MFN	most-favoured nation
MNE	multinational enterprise
MSME	micro, small and medium-sized enterprises
MW	megawatt
NAFTA	North American Free Trade Agreement
NIR	new industrial revolution
NT	national treatment
ODA	official development assistance
OECD	Organization for Economic Co-operation and Development
OFC	offshore financial centre
OIA	outward investment agency
OIC	Organisation of Islamic Cooperation
OT	operational technology
PACER	Pacific Agreement on Closer Economic Relations
PPP	public-private partnership
R&D	research and development
RCEP	Regional Comprehensive Economic Partnership
RTA	regional trade agreement
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SIDS	small island developing States
SME	small and medium-sized enterprises
SSE	Sustainable Stock Exchanges (initiative)
TIFA	Trade and Investment Framework Agreement
TIP	treaty with investment provision
UNCITRAL	United Nations Commission on International Trade Law
WEO	World Economic Outlook
WTO	World Trade Organization

KEY MESSAGES

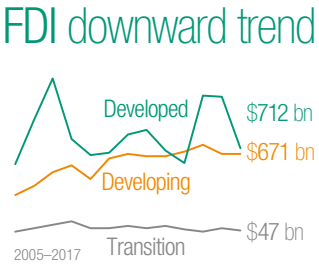
INVESTMENT TRENDS AND PROSPECTS

Global foreign direct investment (FDI) flows fell by 23 per cent to $1.43 trillion. This is in stark contrast to the accelerated growth in GDP and trade. The fall was caused in part by a 22 per cent decrease in the value of cross-border mergers and acquisitions (M&As). But even discounting the large one-off deals and corporate restructurings that inflated FDI numbers in 2016, the 2017 decline remained significant. The value of announced greenfield investment – an indicator of future trends – also decreased by 14 per cent.

FDI flows to developing economies remained stable at $671 billion, seeing no recovery following the 10 per cent drop in 2016.

- FDI flows to Africa continued to slide, reaching $42 billion, down 21 per cent from 2016. The decline was concentrated in the larger commodity exporters.
- Flows to developing Asia remained stable, at $476 billion. The region regained its position as the largest FDI recipient in the world.
- FDI to Latin America and the Caribbean rose 8 per cent to reach $151 billion, lifted by that region's economic recovery. This was the first rise in six years, but inflows remain well below the 2011 peak during the commodities boom.
- FDI in structurally weak and vulnerable economies remained fragile. Flows to the least developed countries fell by 17 per cent, to $26 billion. Those to landlocked developing countries increased moderately, by 3 per cent, to $23 billion. Small island developing States saw their inflows increase by 4 per cent, to $4.1 billion.

Inward FDI flows to developed economies fell sharply, by 37 per cent, to $712 billion. Cross-border M&As registered a 29 per cent decrease, with fewer of the megadeals and corporate restructurings that shaped global investment patterns in 2016. The strong decrease in inflows was in large part the effect of a return to prior levels in the United Kingdom and the United States, after spikes in 2016.



FDI flows to transition economies declined by 27 per cent, to $47 billion, the second lowest level since 2005. The decline reflects geopolitical uncertainties and sluggish investment in natural resources.

Projections for global FDI in 2018 show fragile growth. Global flows are forecast to increase marginally, by up to 10 per cent, but remain well below the average over the past 10 years. Higher economic growth projections, trade volumes and commodity prices would normally point to a larger potential increase in global FDI in 2018. However, risks are significant, and policy uncertainty abounds. Escalation and broadening of trade tensions could negatively affect investment in global value chains (GVCs). In addition, tax reforms in the United States and greater tax competition are likely to significantly affect global investment patterns.

A decrease in rates of return is a key contributor to the investment downturn. The global average return on foreign investment is now at 6.7 per cent, down from 8.1 per cent in 2012. Return on investment is in decline across all regions, with the sharpest drops in Africa and in Latin America and the Caribbean. The lower returns on foreign assets may affect longer-term FDI prospects.

FDI activity was lower across all sectors. M&A values were down in the primary, manufacturing and services sectors. The fall in greenfield announcements in 2017 was concentrated in services. However, over the past five years, the level of greenfield projects in manufacturing has been consistently lower than in the preceding five-year period across all developing regions. This has important implications for industrial development.

The sharp fall in global FDI contrasted with the trend in other cross-border capital flows. Total capital flows increased from 5.6 to 6.9 per cent of GDP, as bank lending and portfolio investment (mostly debt) compensated for the FDI slump. Capital flows to developing countries increased more modestly, from 4.0 to 4.8 per cent of GDP.

FDI remains the largest external source of finance for developing economies. It makes up 39 per cent of total incoming finance in developing economies as a group, but less than a quarter in the LDCs, with a declining trend since 2012.

The rate of expansion of international production is slowing down. The modalities of international production and of cross-border exchanges of factors of production are gradually shifting from tangible to intangible forms. Sales of foreign affiliates continue to grow (+6 per cent in 2017) but assets and employees are increasing at a slower rate. This could negatively affect the prospects for developing countries to attract investment in productive capacity.

Growth in GVCs has stagnated. Foreign value added in global trade (i.e., the imported goods and services incorporated in countries' exports) peaked in 2010–2012 after two decades of continuous increases. UNCTAD's GVC data shows foreign value added down 1 percentage point to 30 per cent of trade in 2017. Growth in GVC participation decreased significantly this decade compared with the last, across all regions, developed and developing. The GVC slowdown shows a clear correlation with the FDI trend and confirms the impact of the FDI trend on global trade patterns.

MNEs in the global Top 100 and the developing-economy Top 100 are leading the way towards more gender-balanced boardrooms, although they have a distance to go. On average 22 per cent of board members of the Top 100s are women, better than both the S&P average and national averages.

INVESTMENT POLICY DEVELOPMENTS

Many countries continued policy efforts aimed at attracting FDI. In 2017, 65 countries and economies adopted at least 126 investment policy measures, of which 84 per cent were favourable to investors. They liberalized entry conditions in a number of industries including transport, energy and manufacturing. They also promoted and facilitated investment by simplifying administrative procedures, providing incentives and establishing new special economic zones (SEZs).

Recently, an increasing number of countries have taken a more critical stance towards foreign investment. New investment restrictions or regulations in 2017 mainly reflected concerns about national security and foreign ownership of land and natural resources. Some countries have heightened scrutiny of foreign takeovers, in particular of strategic assets and technology firms. Several countries are considering tightening investment screening procedures.

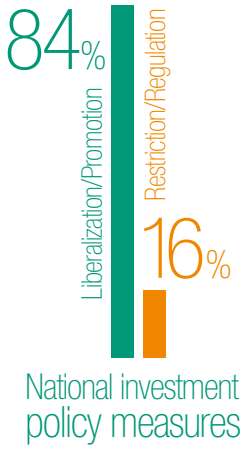
Investment treaty making has reached a turning point. The number of new international investment agreements (IIAs) concluded in 2017 (18) was the lowest since 1983. Moreover, for the first time, the number of effective treaty terminations outpaced the number of new IIAs. In contrast, negotiations for megaregional agreements maintained momentum, especially in Africa and Asia.

The number of new investor–State dispute settlement (ISDS) claims remains high. In 2017, at least 65 new treaty-based ISDS cases were initiated, bringing the total number of known cases to 855. By the end of 2017, investors had won about 60 per cent of all cases that were decided on the merits.

IIA reform is well under way across all regions. Since 2012, over 150 countries have taken steps to formulate a new generation of sustainable development-oriented IIAs. For example, some have reviewed their treaty networks and revised their treaty models in line with UNCTAD's Reform Package for the International Investment Regime.

Countries are also beginning to modernize the existing stock of old-generation treaties. An increasing number of countries are, for example, issuing interpretations or replacing their older agreements. Countries have also been engaging in multilateral reform discussions, including with regard to ISDS.

After improving the approach to new treaties and modernizing existing treaties, the last step in the reform process (Phase 3) is to ensure coherence with national investment policies and with other bodies of international law. Striving for coherence does not necessarily imply legal uniformity – inconsistencies and divergence may be intended – but different policy areas and legal instruments should work in synergy.



INVESTMENT AND NEW INDUSTRIAL POLICY

Formal industrial development strategies:

101 countries
+90% Global of GDP

Industrial policies have become ubiquitous. UNCTAD's global survey of industrial policies shows that, over the past 10 years, at least 101 economies across the developed and developing world (accounting for more than 90 per cent of global GDP) have adopted formal industrial development strategies. The last five years have seen an acceleration in the formulation of new strategies.

The survey shows that modern industrial policies are increasingly diverse and complex, addressing new themes and including myriad objectives beyond conventional industrial development and structural transformation, such as GVC integration and upgrading, development of the knowledge economy, build-up of sectors linked to sustainable development goals and competitive positioning for the new industrial revolution (NIR).

UNCTAD's survey groups industrial policies into three categories: build-up, catch-up and NIR-based strategies. Some 40 per cent of industrial development strategies contain vertical policies for the build-up of specific industries. Just over a third focus on horizontal competitiveness-enhancing policies designed to catch up to the productivity frontier. And a quarter focus on positioning for the new industrial revolution.

About 90 per cent of modern industrial policies stipulate detailed investment policy tools, mainly incentives and performance requirements, SEZs, investment promotion and facilitation and, increasingly, investment screening mechanisms. Investment policy packages across the three models use similar investment policy instruments with different focus and intensity.

Modern industrial policies are thus a key driver of investment policy trends. In fact, more than 80 per cent of investment policy measures recorded since 2010 are directed at the industrial system (manufacturing, complementary services and industrial infrastructure), and about half of these clearly serve an industrial policy purpose. Most are cross-industry; about 10 per cent target specific manufacturing industries.

Incentives remain the tool most commonly used for industrial policy. Significant progress has been made in making incentives more effective instruments for industrial development. About two-thirds of incentives schemes applicable to manufacturing target multiple or specific industries, and even horizontal schemes tend to focus on defined activities, such as research and development (R&D), or on other industrial development contributions. Performance requirements (mostly conditions attached to incentives) are also widely used to maximize MNE contributions to industrial development, but much of their functionality could be achieved by better designed, cost-based incentive mechanisms.

Industrial policy packages

Strategies and measures

SEZs continue to proliferate and diversify. In most countries, the transition from pure export processing zones to value added zones continues, and new types of zones are still emerging. Targeted strategies to attract specific industries and link multiple zones have supported industrial development and GVC integration in some countries that have adopted build-up and catch-up industrial policies, although enclave risks remain. High-tech zones or industrial parks are also becoming a key tool for NIR-driven industrial policies.

Modern industrial policies have boosted investment facilitation efforts, which until recently played a secondary role in investment policy frameworks. Many developing countries have made investment facilitation one of the key horizontal measures in industrial development strategies. Targeted investment promotion (beyond incentives and SEZs) also remains important: two-thirds of investment promotion agencies (IPAs) are guided by industrial policies in defining priority sectors for investment promotion, and three-quarters have specific promotional schemes to upgrade technology in industry.

Investment screening procedures are becoming more common. Manufacturing sectors are rarely affected by outright foreign ownership restrictions except in highly sensitive industries. However, restrictions remain common in some infrastructure sectors that are relevant for industrial development. Most measures adopted over the past decade have removed or relaxed foreign ownership restrictions, but entry rules – or rather procedures – have been tightened in some cases through new screening processes or requirements.

In summary, investment policies (in particular FDI policies) are a key instrument of industrial policies. Different industrial policy models imply a different investment policy mix. Build-up, catch-up and NIR-based industrial policies emphasize different investment policy tools and focus on different sectors, economic activities and mechanisms to maximize the contribution of investment to the development of industrial capabilities. The investment policy toolkit thus evolves with industrial policy models and stages of development.

Modern industrial policies, be they of the build-up, catch-up or NIR-driven variety, tend to follow a number of design features that distinguish them from previous generations of industrial policies. These include openness, sustainability, NIR readiness and inclusiveness. *Investment policy choices should be guided by these design criteria, and by the need for policy coherence, flexibility and effectiveness.*

In line with these developments, countries need to ensure that their investment policy instruments are up-to-date, including by re-orienting investment incentives, modernizing SEZs, retooling investment promotion and facilitation, and crafting smart mechanisms for screening foreign investment. The new industrial revolution, in particular, requires a strategic review of investment policies for industrial development.

For modern industrial policies to contribute to a sustainable development strategy, policymakers need to enhance their coherence and synergy with national and international investment policies and other policy areas, including social and environmental policies. They need to strike a balance between the role of the market and the State, and avoid overregulation. They also need to adopt a collaborative approach, open to international productive-capacity cooperation, and avoid beggar-thy-neighbor outcomes.

CHAPTER I

GLOBAL INVESTMENT TRENDS AND PROSPECTS

A. CURRENT FDI TRENDS

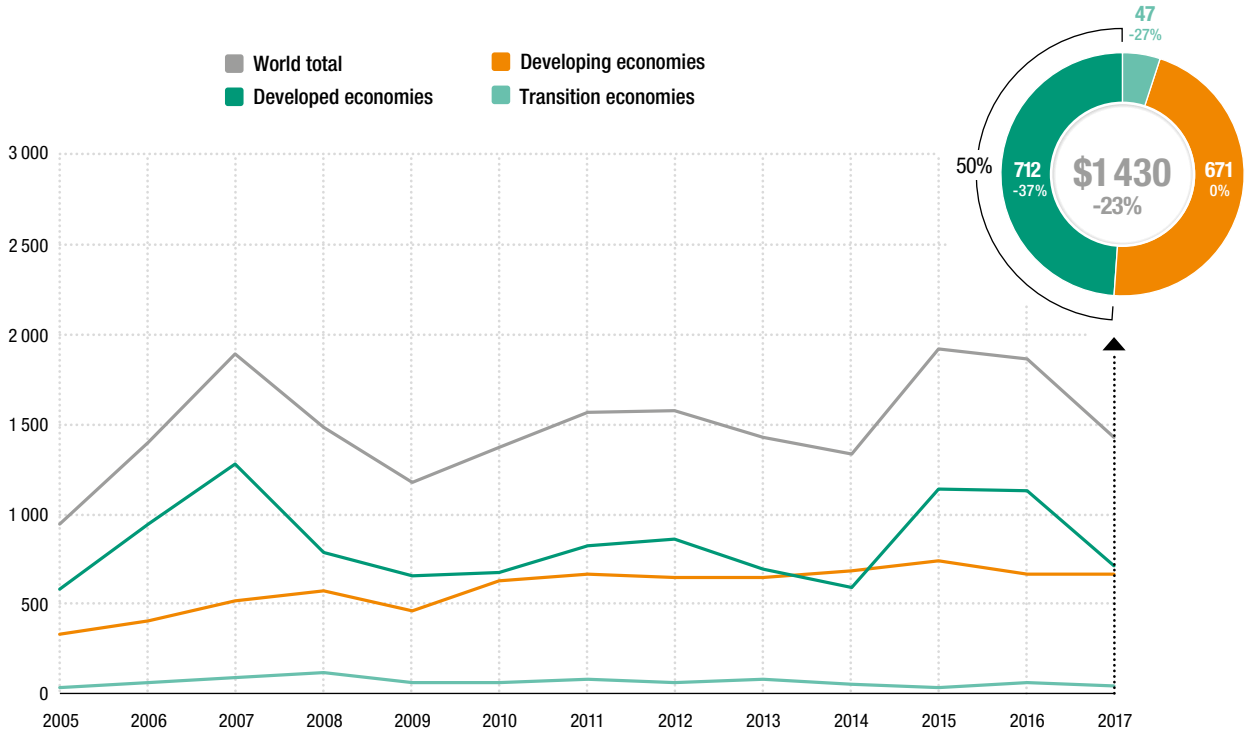
1. Global trends

Global foreign direct investment (FDI) flows fell by 23 per cent in 2017, to $1.43 trillion from a revised $1.87 trillion in 2016 (figure I.1).[1] The decline is in stark contrast to other macroeconomic variables, such as GDP and trade, which saw substantial improvement in 2017. A decrease in the value of net cross-border mergers and acquisitions (M&As) to $694 billion, from $887 billion in 2016, contributed to the decline.[2] The value of announced greenfield investment – an indicator of future trends – also fell by 14 per cent, to $720 billion. FDI flows fell sharply in developed economies and economies in transition while those to developing economies remained stable. As a result, developing economies accounted for a growing share of global FDI inflows in 2017, absorbing 47 per cent of the total, compared with 36 per cent in 2016.

Even discounting the volatile financial flows, large one-off transactions and corporate restructurings that inflated FDI numbers in 2015 and 2016, the 2017 decline was still sizeable and part of a longer-term negative cycle.

This negative cycle is caused by several factors. One factor is asset-light forms of overseas operations, which are causing a structural shift in FDI patterns (see *WIR17*[3]). Another major factor is a significant decline in rates of return on FDI over the past five years. In 2017, the global rate of return on inward FDI was down to 6.7 per cent (table I.1), extending the steady decline recorded over the preceding five years. Rates of return in developed economies have trended downwards over this period but stabilized. Although rates of return remain higher on average in developing and transition economies, most regions

Figure I.1. FDI inflows, global and by group of economies, 2005–2017 (Billions of dollars and per cent)



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

Table I.1. Inward FDI rates of return, 2012–2017 (Per cent)

Region	2012	2013	2014	2015	2016	2017
World	**8.1**	**7.8**	**7.9**	**6.8**	**7.0**	**6.7**
Developed economies	**6.7**	**6.3**	**6.6**	**5.7**	**6.2**	**5.7**
Developing economies	**10.0**	**9.8**	**9.5**	**8.5**	**8.1**	**8.0**
Africa	12.3	12.4	10.6	7.1	5.4	6.3
Asia	10.5	10.8	10.6	9.9	9.5	9.1
East and South-East Asia	11.5	11.8	11.7	11.0	10.3	10.1
South Asia	7.2	6.7	6.1	5.5	6.4	5.7
West Asia	5.5	5.4	4.9	4.6	4.6	3.4
Latin America and the Caribbean	7.9	6.7	6.6	5.2	5.3	5.6
Transition economies	**14.4**	**13.9**	**14.6**	**10.2**	**11.1**	**11.8**

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.

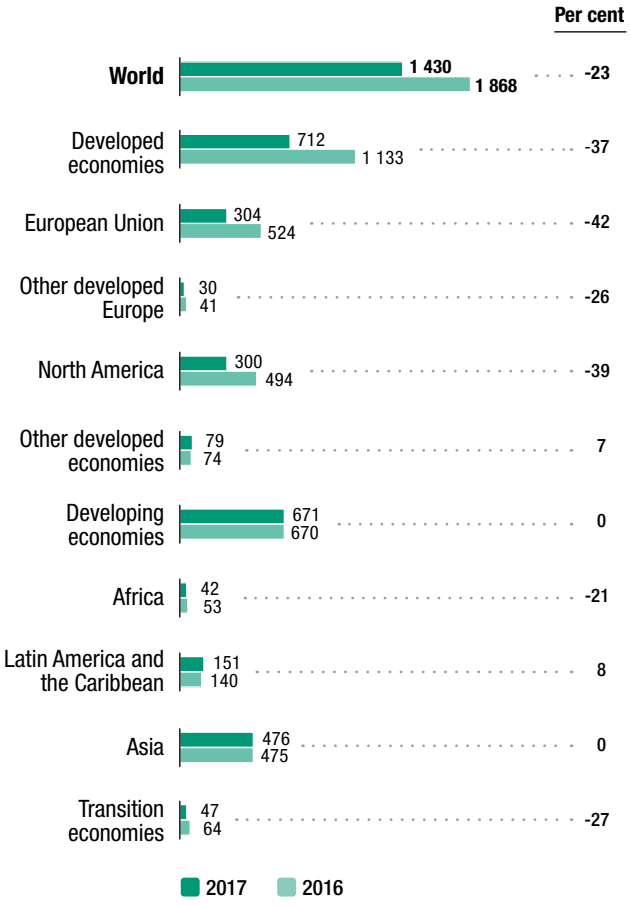
have not escaped this erosion. In Africa, for instance, return on investment dropped from 12.3 per cent in 2012 to 6.3 per cent in 2017. This can be partly explained by the fall in commodity prices during the period. Yet the decline persisted in 2016 when prices stabilized, and rates of return on FDI to oil-rich West Asia did not weaken as much as in Africa. This suggests that structural factors, mainly reduced fiscal and labour cost arbitrage opportunities in international operations, may also be at work.

2. Trends by geography

a. FDI inflows

FDI flows to developed economies fell by one-third to $712 billion (figure I.2). The fall can be explained in part by a decline from relatively high inflows in the preceding year. Inflows to developed economies in 2015–2016 exceeded $1 trillion, mainly due to a surge in cross-border M&As and corporate reconfigurations (i.e. changes in legal or ownership structures of multinational enterprises (MNEs), including tax inversions) (*WIR16*, *WIR17*). A significant reduction in the value of such transactions resulted in a decline of 40 per cent in flows in the United States (from $466 billion in 2015 and $457 billion in 2016 to $275 billion in 2017). Similarly, the absence of the large megadeals that caused the anomalous peak in 2016 in FDI inflows in the United Kingdom caused a sharp fall of FDI in the country, to only $15 billion. In developed economies, while equity investment flows and intracompany loans recorded a fall, reinvested earnings rose by 26 per cent, accounting for half of FDI inflows. Reinvested earnings were buoyed by United States MNEs, in anticipation of a tax relief on repatriation of funds. FDI flows increased in other developed economies (7 per cent).

Figure I.2. FDI inflows, by region, 2016–2017
(Billions of dollars and per cent)



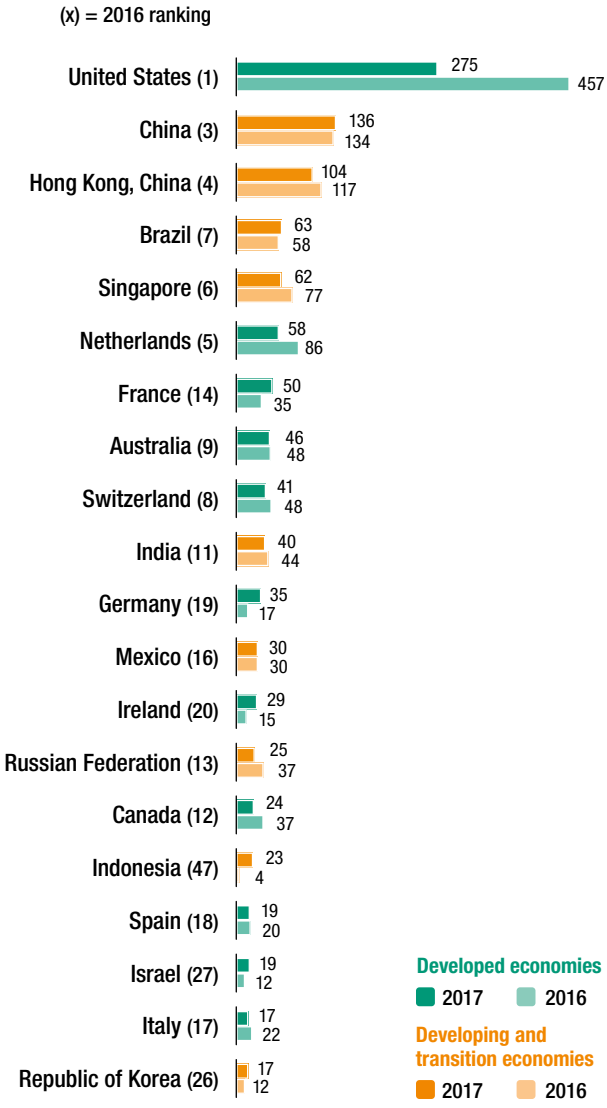
Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

FDI inflows to developing economies remained close to their 2016 level, at $671 billion. FDI flows to developing Asia were stable at $476 billion. The modest increase in Latin America and the Caribbean (+8 per cent to $151 billion) compensated for the decline in Africa (–21 per cent to $42 billion).

The slump in FDI flows to Africa was due largely to weak oil prices and lingering effects from the commodity bust, as flows contracted in commodity-exporting economies such as Egypt, Mozambique, the Congo, Nigeria and Angola. Foreign investment to South Africa also contracted, by 41 per cent. FDI inflows to diversified exporters, led by Ethiopia and Morocco, were relatively more resilient.

Developing Asia regained its position as the largest FDI recipient region. Against the backdrop of a decline in worldwide FDI, its share in global inflows rose from 25 per cent in 2016 to 33 per cent in 2017. The largest three recipients were China, Hong Kong (China) and Singapore. With reported inflows reaching an all-time high, China continued to be the largest FDI recipient among developing countries and the second largest in the world, behind the United States.

Figure I.3. FDI inflows, top 20 host economies, 2016 and 2017 (Billions of dollars)



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

The increase in FDI flows to Latin America and the Caribbean (excluding financial centres) constituted the first rise in six years. Inflows are still well below the peak reached in 2011 during the commodity boom. Although commodities continued to underpin investment in the region, there is now a shift towards infrastructure (utilities and energy, in particular), finance, business services, ICT and some manufacturing.

FDI flows to transition economies in South-East Europe and the Commonwealth of Independent States (CIS) declined by 27 per cent in 2017, to $47 billion, following the global trend. This constituted the second lowest level since 2005. Most of the decline was due to sluggish FDI flows to four major CIS economies: the Russian Federation, Kazakhstan, Azerbaijan and Ukraine.

As a result of these regional variations, the share of developed economies in world FDI flows as a whole decreased to 50 per cent of the total. Half of the top 10 host economies continue to be developing economies (figure I.3). The United States remained the largest recipient of FDI, attracting $275 billion in inflows, followed by China, with record inflows of $136 billion despite an apparent slowdown in the first half of 2017.

The FDI environment in some regional and interregional groups (figure I.4) could be significantly affected by ongoing policy developments (chapter III).

Figure I.4. FDI in selected groups, 2016 and 2017 (Billions of dollars and per cent)

Selected groups	FDI inflows		Share in world FDI inflows		Inward FDI stock		Share in world inward FDI stock		Share of world GDP	
G20	833	1 169	58%	63%	**18 245**	**15 875**	58%	57%	78%	78%
APEC	815	1 028	57%	55%	**17 035**	**14 706**	54%	53%	60%	60%
NAFTA	329	524	23%	28%	**9 381**	**8 003**	30%	29%	28%	28%
BRICS	266	276	19%	15%	**3 243**	**2 906**	10%	11%	23%	22%
Commonwealth	237	451	17%	24%	**6 181**	**5 558**	20%	20%	14%	14%
ACP	37	46	3%	2%	**735**	**684**	2%	2%	2%	2%

2017 2016

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

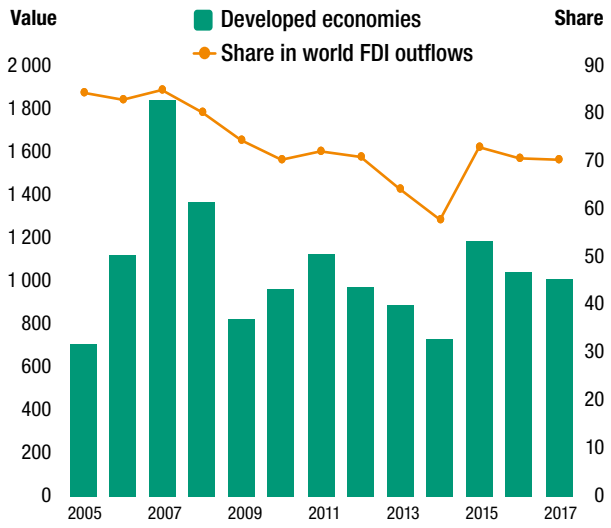
b. FDI outflows

MNEs from developed economies reduced their overseas investment activity only marginally. The flow of outward investment from developed economies declined by 3 per cent to $1 trillion in 2017. Their share of global outward FDI flows was unchanged at 71 per cent (figure I.5). Flows from developing economies fell 6 per cent to $381 billion, while those from transition economies rose 59 per cent to $40 billion.

Outward investment by *European* MNEs fell by 21 per cent to $418 billion in 2017. This was driven by sharp reductions in outflows from the Netherlands and Switzerland. Outflows from the Netherlands – the largest source country in Europe in 2016 – dropped by $149 billion to just $23 billion, owing to the absence of the large megadeals that characterized Dutch outward investment in 2016. As a result, the country's equity outflows fell from $132 billion to a net divestment of –$5.2 billion. In Switzerland, outflows declined by $87 billon to –$15 billion. Equity flows fell by $47 billion and intracompany loans fell by $42 billion.

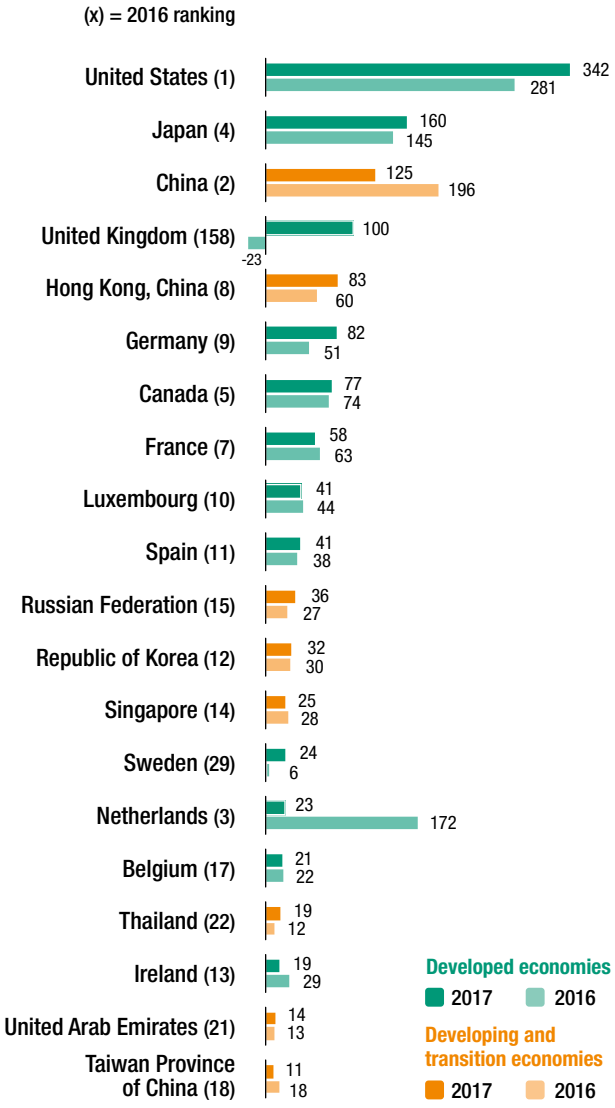
In contrast, outflows from the United Kingdom rose from –$23 billion in 2016 to $100 billion in 2017,

Figure I.5. Developed economies: FDI outflows and their share in total world outflows, 2005–2017 (Billions of dollars and per cent)



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

Figure I.6. FDI outflows, top 20 home economies, 2016 and 2017 (Billions of dollars)



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

as a result of large purchases by MNEs based in the United Kingdom. For instance, British American Tobacco purchased the remaining shares in Reynolds American (United States) for $49 billion, and Reckitt Benckiser acquired Mead Johnson Nutrition (United States) for $17 billion. Reinvested earnings, which had been low over 2014–2016, recovered to $29 billion. Outflows from Germany rose by 60 per cent to $82 billion, mainly owing to rises in reinvested earnings and intracompany loans.

Investment by MNEs in *North America* rose by 18 per cent to $419 billion in 2017. Most outward FDI from the United States – the largest investing country (figure I.6) – is in the form of retained earnings. Reinvested earnings in the fourth quarter of 2017 were 78 per cent higher than during the same period in 2016, in anticipation of tax reforms (see section B, Prospects).

Investment activity abroad by MNEs from developing economies declined by 6 per cent, reaching $381 billion. Outflows from *developing Asia* were down 9 per cent to $350 billion as outflows from China reversed for the first time since 2003 (down 36 per cent to $125 billion). The decline of investment from Chinese MNEs was the result of policies clamping down on outward FDI, in reaction to significant capital outflows during 2015–2016, mainly in industries such as real estate, hotels, cinemas, entertainment and sport clubs. The decline in China and Taiwan Province of China (down 36 per cent to $11 billion) offset gains in India (up 123 per cent to $11 billion) and Hong Kong, China (up 39 per cent to $83 billion).

Outward FDI from *Latin America and the Caribbean* (excluding financial centres) rose by 86 per cent to $17.3 billion, as Latin American MNEs resumed their international investment activity. Yet outflows remained significantly lower than before the commodity price slump. Outflows from Chile and Colombia – the region's largest outward investors in 2016 – declined by 18 per cent in 2017, at $5.1 billion and $3.7 billion respectively, as equity outflows dried up. Investment from Brazil remained negative at about –$1.4 billion.

FDI outflows from *Africa* increased by 8 per cent to $12.1 billion. This largely reflected increased outward FDI by South African firms (up 64 per cent to $7.4 billion) and Moroccan firms (up 66 per cent to $960 million). South African retailers continued to expand into Namibia, and Standard Bank opened several new branches there.

In 2017, FDI outflows from economies in transition recovered by 59 per cent, to $40 billion, after being dragged down by the recession in 2014–2016. This level, however, remains 47 per cent below the high recorded in 2013 ($76 billion). As in previous years, the bulk of investment from transition economies is by Russian MNEs. In 2017 their investment activity rose by 34 per cent, mainly due to two large transactions – Rosneft

acquired a 49 per cent share in Essar Oil (India) for close to $13 billion and a 30 per cent stake in the offshore Zohr gas field in Egypt from the Italian firm Eni for $1.1 billion.

3. Trends by sector and mode of entry

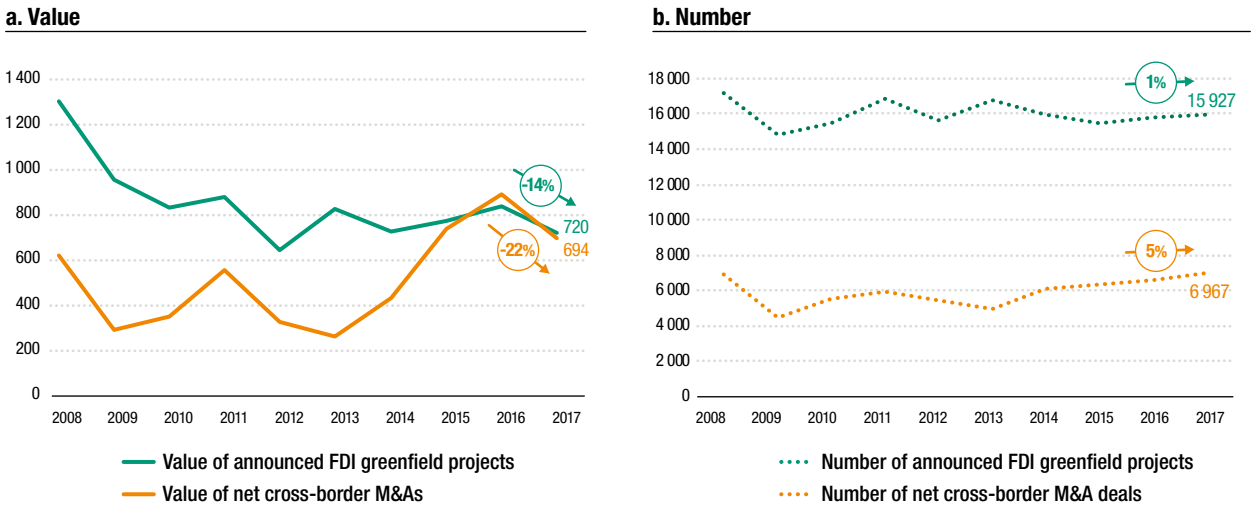
In 2017, both the value of announced FDI greenfield projects and the value of net cross-border M&As declined significantly (figure I.7). The former dropped by 14 per cent to $720 billion. The latter decreased by 22 per cent to $694 billion. Although total global M&A activity (including domestic deals) has been robust over the past few years, the aggregate value of net cross-border M&As, which had been on the rise since 2013, contracted in 2017. The number of M&A transactions, however, sustained its upward trend to almost 7,000.

The value of net cross-border M&As decreased in all three sectors (table I.2). The drop in the primary sector was sharp – by 70 per cent – to only $24 billion in 2017. The number of deals in extractive industries trebled but lacked large-scale transactions such as those concluded in previous years. At the industry level, extractive industries, food and beverages, and electronics registered the largest declines in value terms. In contrast, the value of net transactions in machinery and equipment, business services, as well as information and communication increased considerably.

The value of announced FDI greenfield projects, an indicator of future FDI flows, declined by 25 per cent in services and 61 per cent in the primary sector. In contrast, manufacturing announcements increased by 14 per cent. As a result, the values of greenfield projects in manufacturing and services were nearly the same, at about $350 billion in 2017. Greenfield project values decreased in several key services industries – construction, utilities (electricity, gas and water), business services, and transport, storage and communications (table I.3). Small projects in business services accounted for half of the number of greenfield announcements in services and more than a quarter of the total.

Although activity in some manufacturing industries, such as chemical products and electronics, picked up in 2017, overall greenfield announcements in the sector remained

Figure I.7. **Value and number of net cross-border M&As and announced greenfield FDI projects, 2008–2017** (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 FDI projects.

Table I.2. Value and number of net cross-border M&As, by sector and selected industries, 2016–2017

	Value (billions of dollars)			Number		
	2016	2017	%	2016	2017	%
Total	**887**	**694**	**-22**	**6 607**	**6 967**	**5**
Primary	83	24	-70	206	550	167
Manufacturing	406	327	-19	1 745	1 690	-3
Services	398	343	-14	4 656	4 727	2
Top 10 industries in value terms:						
Chemicals and chemical products	130	137	5	345	322	-7
Business services	75	107	43	1 716	1 817	6
Food, beverages and tobacco	138	88	-36	200	227	14
Finance	97	59	-39	585	617	5
Electricity, gas and water	66	54	-18	209	171	-18
Machinery and equipment	32	52	63	195	183	-6
Information and communication	24	39	66	618	611	-1
Electrical and electronic equipment	75	26	-66	349	307	-12
Transportation and storage	46	23	-51	293	306	4
Mining, quarrying and petroleum	79	23	-71	138	466	238

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

Table I.3. Value and number of announced FDI greenfield projects, by sector and selected industries, 2016–2017

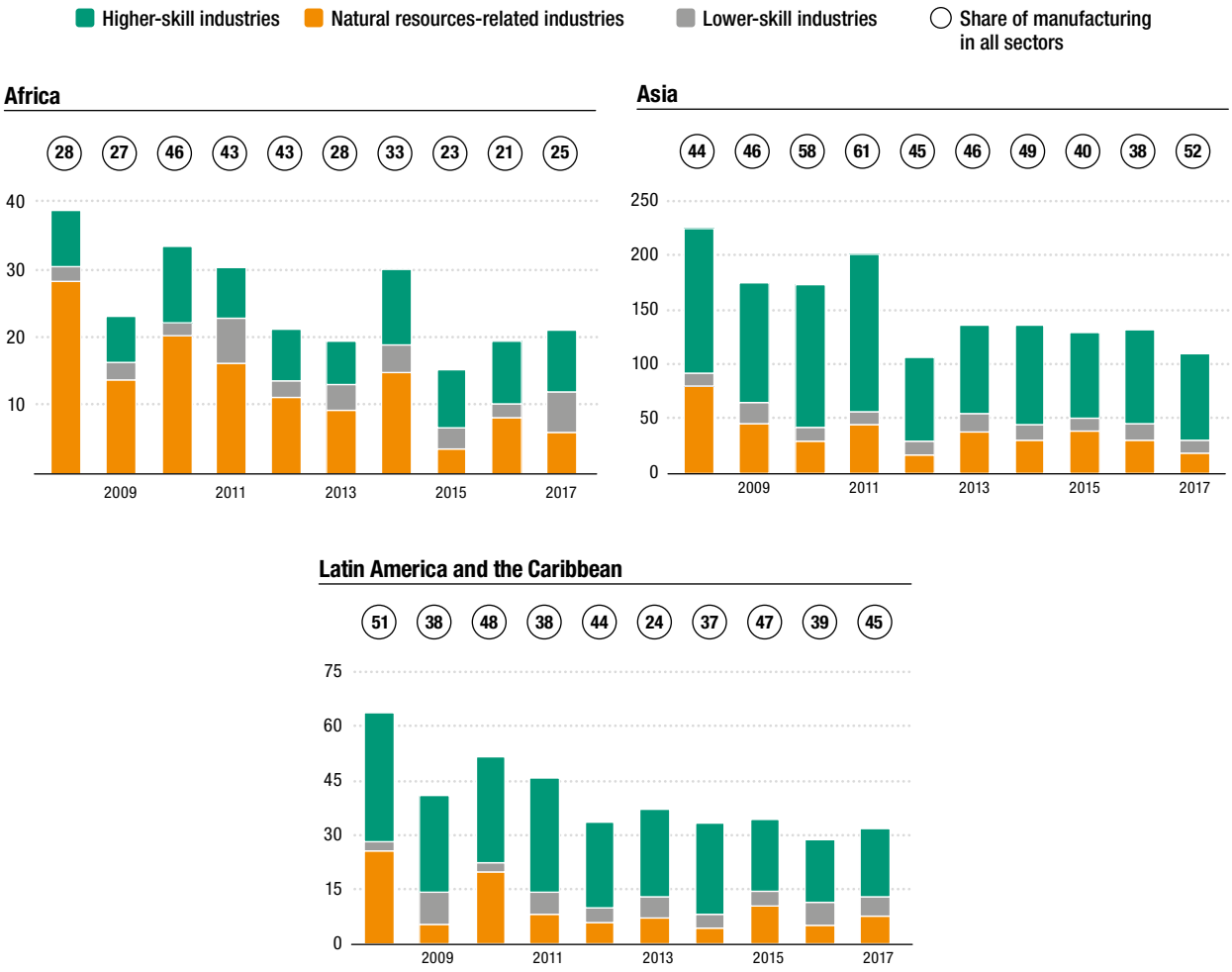
	Value (billions of dollars)			Number		
	2016	2017	%	2016	2017	%
Total	**833**	**720**	**-14**	**15 766**	**15 927**	**1**
Primary	54	21	-61	52	63	21
Manufacturing	295	338	14	7 703	7 678	0
Services	484	362	-25	8 011	8 186	2
Top 10 industries in value terms:						
Electricity, gas and water	129	95	-26	404	296	-27
Business services	96	80	-16	4 125	4 278	4
Motor vehicles and other transport equipment	56	62	12	1 077	1 103	2
Construction	126	62	-51	322	276	-14
Chemicals and chemical products	43	61	42	804	856	6
Electrical and electronic equipment	44	52	20	1 005	958	-5
Transport, storage and communications	56	41	-26	935	903	-3
Trade	27	32	21	902	1 001	11
Food, beverages and tobacco	24	29	17	596	664	11
Textiles, clothing and leather	28	28	1	1 558	1 476	-5

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

relatively depressed across all developing regions from a longer-term perspective. In Africa, Asia and Latin America and the Caribbean alike, the average annual value of greenfield project announcements in manufacturing was significantly lower during 2013–2017 than during the previous five-year period (figure I.8).

Greenfield investment in manufacturing – important for industrial development (see chapter IV) – shows different patterns across developing regions. Asia attracts relatively higher-skill manufacturing than other regions. In Africa, the share of manufacturing related to natural resources in greenfield projects (important for moving up the commodity value chains) is still relatively high, even though, as in Latin America and the Caribbean, that share has been declining. These industries used to account for nearly three-quarters of total greenfield investment in manufacturing in Africa. In recent years, owing to lower mineral prices,

Figure I.8. **Value of announced FDI greenfield projects in manufacturing and share of manufacturing in all sectors, 2008–2017** (Billions of dollars and per cent)



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

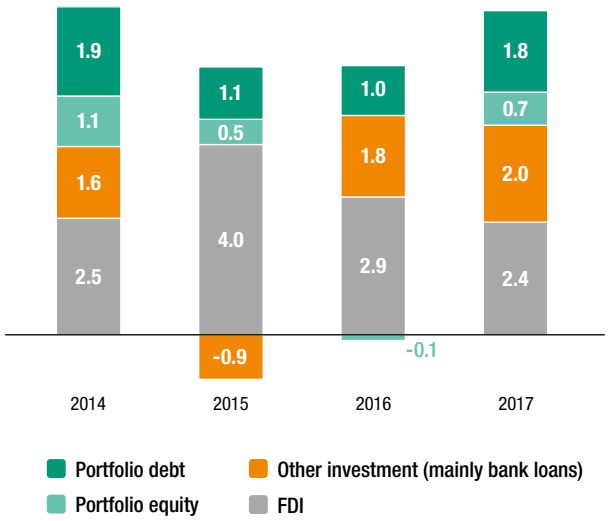
Note: Natural resources-related industries include 1) coke, petroleum products and nuclear fuel, 2) metals and metal products, 3) non-metallic mineral products and 4) wood and wood products; lower-skill industries include 1) food, beverages and tobacco and 2) textiles, clothing and leather; higher-skill industries include all other manufacturing industries.

foreign investment in these manufacturing industries has been relatively low – in Africa, the total amount in 2017 was $6 billion. However, there was little growth in other manufacturing industries to compensate, in particular in Latin America and the Caribbean.

The negative longer-term trend in manufacturing greenfield projects is potentially of greater consequence for industrial development in Asia and Latin America, where higher-skill manufacturing greenfield projects are in decline, because value added in these sectors tends to be higher. In Africa, the decline in natural resource related manufacturing is at least partly compensated by growth in other manufacturing sectors.

Lower-skill manufacturing can be an important starting point for industrial development. In Africa, greenfield FDI in textiles, clothing and leather has been relatively strong over the past few years, reaching $4 billion in 2017 – twice the level recorded in 2014 and 20 times the 2008 amount. South–South investment in this industry, particularly from Asian investors into Africa, is significant; however, the largest projects are highly concentrated in a few countries, e.g. Ethiopia.

Figure I.9. **Global cross-border capital flows, 2014–2017** (Per cent of GDP)



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

Note: To ensure comparability with other variables, FDI data are consistent with the IMF WEO database and are not directly comparable with UNCTAD's FDI data as presented elsewhere in this report. For more information, refer to the Methodological Note to the WIR. The data presented here covers only the 115 countries for which the breakdown of portfolio flows into debt and equity is available.

4. FDI and other cross-border capital flows

The decline in worldwide FDI contrasted with other cross-border capital flows. Total global capital flows – including FDI, portfolio (equity and debt) flows and other private sector capital flows (mostly bank lending) – continued to recover in 2017. Capital flows reached 6.9 percent of global GDP in 2017, up from the post-crisis low of 4.7 per cent of GDP in 2015 (figure I.9). An overall improvement in global financial and liquidity conditions was buttressed by better short-term economic growth prospects and expectations of a smooth monetary transition in the United States. Signs of recovery in international bank lending, rising risk appetite among portfolio investors, a pickup in global trade and lower financial volatility in major asset classes all contributed to improved conditions for cross-border capital flows. Global capital flows nevertheless remain well below pre-crisis levels (box I.1).

This recent recovery has been predominantly driven by capital flows other than FDI. The sell-off of foreign portfolio equity seen in 2016 was reversed in 2017, when cross-border portfolio equity flows became positive. Global portfolio debt flows rose from 1.0 per cent to 1.8 per cent of GDP between 2016 and 2017. International banking lending flows remained strongly positive, in contrast to the retrenchment seen in 2015.

Consistent with the trend observed at the global level, cross-border capital flows to developing economies also gained momentum in 2017, after falling to a multi-decade low in 2015. Total inflows to developing economies, equivalent to 2.4 per cent of GDP in 2015, rose to 4.8 per cent of GDP in 2017. The increase was driven not by FDI but primarily by debt-related flows: cross-border banking and portfolio debt. The collapse in cross-border bank lending, due to the deleveraging of European banks, had been a major contributor to the post-crisis slump in capital flows to developing economies. Cross-border bank flows to developing economies are now tentatively recovering, as the financial position of developed economies' banks improves, and South–South lending from developing economies' banks continues to expand. Improved liquidity conditions in global financial markets have led to increases in portfolio debt and equity flows to developing economies.

At the regional level, the pickup in capital flows was most pronounced in developing Asia, where they have risen from 1.2 per cent of GDP in 2015 to 3.7 per cent in 2016 and 4.7 per cent in 2017, driven primarily by increased inflows of international bank lending. In Africa, inflows rose modestly from 6.1 per cent of GDP to 6.6 per cent. Flows to Latin America and the Caribbean declined from 4.7 per cent of GDP to 4.3 per cent. In transition economies, inflows of bank lending remained negative in 2017, albeit less so than in 2016. Added to the contracting FDI flows, this trend pushed overall capital flows down from 2.2 per cent of GDP to 1.3 per cent.

Box I.1. FDI in the context of cross-border capital flows

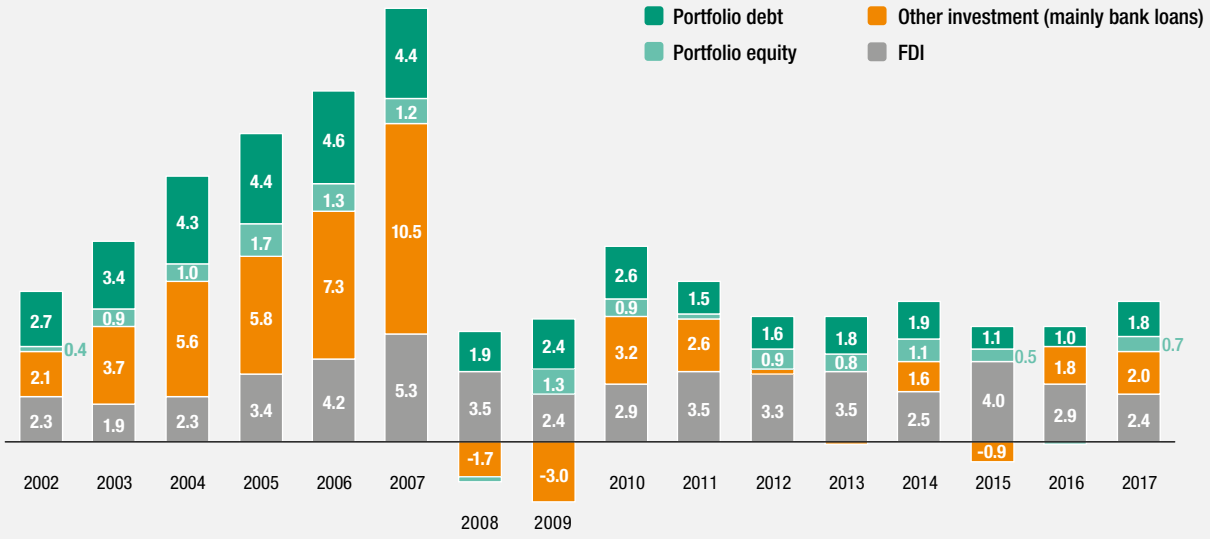
It is important to consider FDI in the context of other components of the financial account in the balance of payments – portfolio debt and equity investment, other bank and derivative flows – as well as other cross-border financial flows that have development implications, such as official development assistance (ODA) and migrants' remittances. The Addis Ababa Action Agenda on Financing for Development recognizes the important contribution that FDI can make to sustainable development, while noting that the other flows are also critical.

An additional motivation for considering other types of capital flows is that the dividing lines between FDI and other types of flows are becoming increasingly blurred, for three main reasons:

- FDI, as measured in the balance of payments, contains components that behave like portfolio flows. They can be relatively short-term and volatile.
- Portfolio equity flows can be used for FDI-like purposes. MNEs can acquire long-term strategic stakes in foreign enterprises, with a measure of control (even if below the 10 per cent threshold – see *WIR2016*).
- Flows used for identical purposes can be classified differently depending on how funds are transferred across borders. For example, when MNEs from developing economies raise debt in developed economies with deeper financial markets, they can either use the services of a bank and transfer the proceeds back to the parent through a cross-border deposit, which would be counted as "other flows" in the balance of payments; or transfer funds through an intracompany loan by way of a local affiliate, which would be counted as FDI.

FDI has been the most stable component of the balance of payments over the past 15 years, and the most resilient to economic and financial crises. Debt-related flows, especially bank loans, have been the most volatile external source of finance, both globally and for developing economies specifically. Portfolio equity remains a relatively small share of total external finance and tends to be more volatile because it is invested in liquid financial assets rather than in fixed capital.

Box figure I.1.1 Global capital flows, 2002–2017 (Per cent of GDP)



Source: UNCTAD, based on IMF World Economic Outlook database. Includes only the 115 countries for which the breakdown of portfolio flows into debt and equity is available.

Global capital movements, driven mainly by debt-related flows, increased rapidly in the run-up to the financial crisis but then collapsed from 22 per cent of global GDP in 2007 to 3.2 per cent in 2008. The subsequent recovery was modest and short lived. In 2015, flows slumped to 4.7 per cent of global GDP — a multi-decade low in global cross-border capital flows except for the crisis years of 2008 and 2009. Although some regions began to experience a revival in 2017, cross-border capital flows remain well below pre-crisis levels (box figure I.1.1).

The weakness in cross-border capital flows has been especially pronounced in developing economies. Overall net capital flows to those economies (inflows minus outflows, excluding official reserve accumulation) were negative in 2015 and 2016, before turning positive in 2017.

Source: UNCTAD.

5. FDI as a component of financing for development

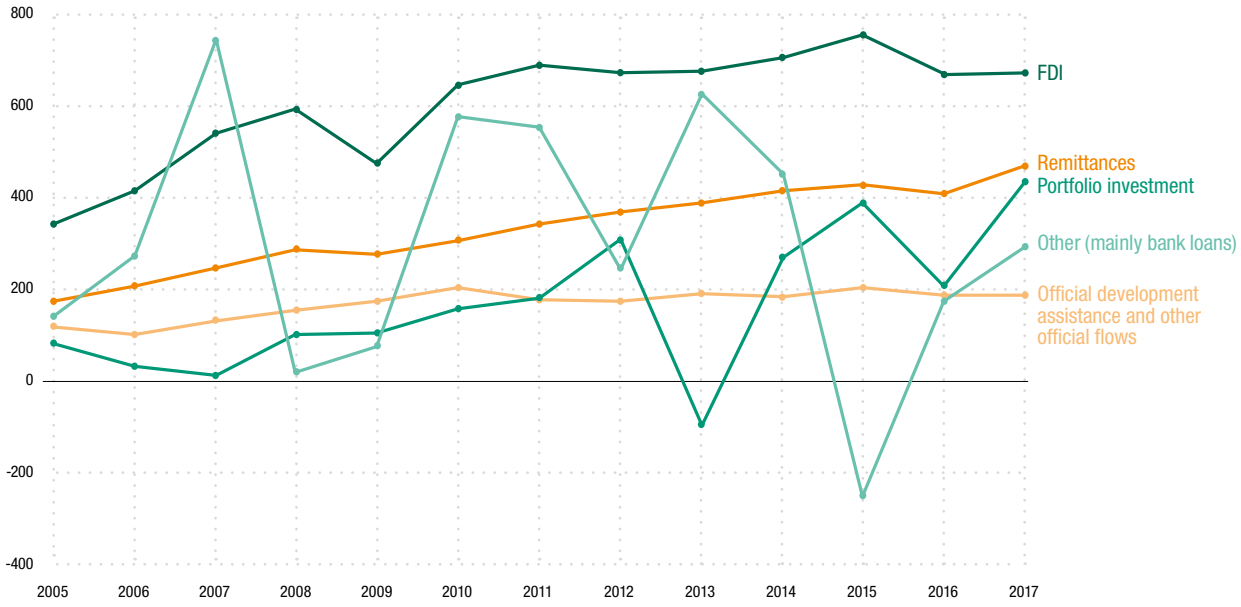
Developing economies can draw on a range of external sources of finance, including FDI, portfolio equity, long-term and short-term loans (private and public), ODA, remittances and other official flows (figure I.10). FDI has been the largest source of external finance for developing economies over the past decade, and the most resilient to economic and financial shocks.

On average, between 2013 and 2017 FDI accounted for 39 per cent of external finance for developing economies (figure I.11). For the LDCs, however, ODA is the most significant source of external finance, at 36 per cent of external finance over the same period, compared with 21 per cent for FDI.

FDI also exhibits lower volatility than most other sources. Debt-related flows are susceptible to sudden stops and reversals. For example, the widespread retrenchment of European banks' foreign lending in 2015 caused a drop in long-term loans to developing economies. Short-term loans declined sharply in the same year, as Chinese firms repaid dollar debt and foreign investors reduced exposure to renminbi-denominated assets. Portfolio equity flows account for a low share of external finance to developing economies, especially where capital markets are less developed. They are also relatively unstable because of the speed at which positions can be unwound.

The growth of ODA has stagnated over the past decade. It amounts to about a quarter of FDI inflows to developing economies as a group. Preliminary data indicate that net ODA from members of the OECD Development Assistance Committee fell by 0.6 per cent in 2017.

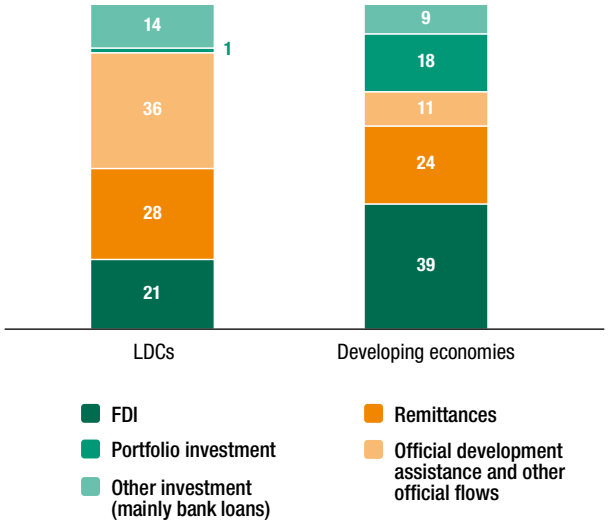
Figure I.10. Sources of external finance, developing economies, 2005–2017 (Billions of dollars)



Source: UNCTAD, based on World Bank World Development Indicators (for remittances), UNCTAD (for FDI), IMF World Economic Dataset (for portfolio investment and other investment) and OECD (for ODA and other official flows).

Notes: ODA and other official flows is the sum of net disbursements from Development Assistance Committee (DAC) countries, non-DAC countries and multilateral donors, from OECD DAC Table 2a, and net other official flows from all donors, from OECD DAC Table 2b. Remittances data for 2017 are World Bank estimates. ODA and other official flows data for 2017 are estimated using preliminary OECD data on the annual growth rate of disbursements by OECD DAC countries.

Figure I.11. Sources of external finance, developing economies and LDCs, 2013–2017 (Per cent)



	Growth rates (%)		
	2017	2013–2017 average	Volatility index
Developing economies			
FDI	0	0	20
Remittances	9	5	27
ODA and other official flows	-1	2	19
Portfolio investment	110	-80	88
Other investment (mainly bank loans)	70	-25	90
Least developed countries			
FDI	-17	6	23
Remittances	4	3	35
ODA and other official flows	-1	2	17
Portfolio investment	21	-13	237
Other investment (mainly bank loans)	-58	6	113

Source: UNCTAD based on World Bank World Development Indicators (for remittances), UNCTAD (for FDI), IMF World Economic Dataset (for portfolio investment and other investment) and OECD (for ODA and other official flows).

Note: Percentages are each source's share of total inflows to LDCs and developing economies during 2013–2017. Volatility index is the standard deviation divided by the mean of annual absolute values for 2005–2016, multiplied by 100.

Remittances are becoming an increasingly important component of external finance for developing economies in general, and LDCs in particular. Remittances to developing economies are estimated to have risen by 8.5 per cent in 2017, with notably strong upticks in sub-Saharan African, Latin America and the Caribbean, and transition economies, owing to higher economic growth in the United States and the European Union. Growth in remittances to South Asia is expected to be weaker because of low oil prices and the tightening of labour market policies in the Gulf Cooperation Council countries.

Apart from volatility, there are important differences between types of flows. First, FDI represents not only a source of funds, but also a package of tangible and intangible assets that can help build productive capacity in developing economies. From a host or recipient country's macroeconomic perspective, FDI and portfolio equity are relatively more expensive types of external finance (i.e. they typically require a higher rate of return), but returns are contingent on profits (i.e. on business success or successful implementation of projects). Short- and long-term debt is cheaper, but interest payments must be made with regularity, and the repayment of interest and principal is independent of profitability. ODA and remittances do not generally create a liability for the recipient country. ODA is mainly used for direct budgetary support, as opposed to investment, but it can be spent on investment in projects related to the Sustainable Development Goals that might otherwise not be attractive to private sector investors. Remittances are predominantly spent on household consumption, with limited investment in productive assets, although there is increasing evidence that remittances are used to finance small businesses.

B. FDI PROSPECTS

Global FDI flows are projected to increase marginally, by about 5 per cent in 2018, to $1.5 trillion. This expectation is based on current forecasts for a number of macroeconomic indicators and firm-level factors, UNCTAD's survey of investment promotion agencies (IPAs) regarding investment prospects, UNCTAD's econometric forecasting model of FDI inflows and preliminary 2018 data for announced greenfield projects.

1. Overall prospects assessment

The fragile growth of FDI flows expected for 2018 reflects an upswing in the global economy, strong aggregate demand, an acceleration in world trade and strong MNE profits (total profits, which may not reflect the profitability of overseas operations). The improving macroeconomic outlook has a direct positive effect on the capacity of MNEs to invest; business survey data indicates optimism about short-term FDI prospects. Also, the expected increase in FDI inflows in 2018 is consistent with project data (M&As and announced greenfield projects) for the first quarter.

However, the expectation of an increase in global FDI is tempered by a series of risk factors. Geopolitical risks, growing trade tensions and concerns about a shift toward protectionist policies could have a negative impact on FDI in 2018. In addition, tax reforms in the United States are likely to significantly affect investment decisions by United States MNEs in 2018, with consequences for global investment patterns. Moreover, longer-term forecasts for macroeconomic variables contain important downsides, including the prospect of interest rate rises in developed economies with potentially serious implications for emerging market currencies and economic stability (IMF, 2018).

Projections indicate that FDI flows could increase in developed and transition economies, while remaining flat in developing economies as a group (table I.4).

- FDI inflows to *Africa* are forecast to increase by about 20 per cent in 2018, to $50 billion. The projection is underpinned by the expectation of a continued modest recovery in commodity prices, and by macroeconomic fundamentals. In addition, advances in interregional cooperation, through the signing of the African Continental Free Trade Area (AfCFTA) could encourage stronger FDI flows in 2018. Yet Africa's commodity dependence will cause FDI to remain cyclical.
- FDI inflows to *developing Asia* are expected to remain stagnant, at about $470 billion. Inflows to China could see continued growth as a result of recently announced liberalization plans. Other sources of growth could be increased intraregional FDI in ASEAN, including to relatively low-income economies in the grouping, notably the CLMV countries. Investments from East Asia will also continue to be strong in these countries. In West Asia, the evolution of oil prices, the efforts of oil-rich countries to promote economic diversification, and political and geopolitical uncertainties will shape FDI inflows. If trade tensions should escalate and result in disruptions in GVCs, the subsequent effect on FDI would be more strongly felt in Asia.
- Prospects for FDI in *Latin America and the Caribbean* in 2018 remain muted, as macroeconomic and policy uncertainties persist. Flows are forecast to decline marginally, to some $140 billion. Economic prospects remain challenging. Uncertainty

Table I.4. FDI inflows, projections, by group of economies and region, 2015–2017, and projections, 2018 (Billions of dollars and per cent)

Group of economies/region	2015	2016	2017	Projections 2018
World	**1 921**	**1 868**	**1 430**	**1 450 to 1 570**
Developed economies	**1 141**	**1 133**	**712**	**740 to 800**
Europe	595	565	334	~380
North America	511	494	300	~320
Developing economies	**744**	**670**	**671**	**640 to 690**
Africa	57	53	42	~50
Asia	516	475	476	~470
Latin America and the Caribbean	169	140	151	~140
Transition economies	**36**	**64**	**47**	**50 to 60**
Memorandum: annual growth rate (per cent)				
World	**44**	**-3**	**-23**	**(1 to 10)**
Developed economies	**91**	**-1**	**-37**	**(5 to 10)**
Europe	117	-5	-41	~15
North America	96	-3	-39	~5
Developing economies	**9**	**-10**	**0**	**(-5 to 5)**
Africa	8	-6	-21	~20
Asia	12	-8	0	~0
Latin America and the Caribbean	-1	-17	8	~-5
Transition economies	**-36**	**78**	**-27**	**(~20)**

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

associated with upcoming elections in some of the largest economies in the region, and possible negative spillovers from interest rate rises in developed countries and international financial market disruptions might have an impact on FDI flows in 2018.

- FDI flows to *transition economies* are forecast to rise by about 20 per cent in 2018, to $55 billion, supported by firming oil prices and the growing macro-stability of the Russian economy. However, they may be hindered by geopolitical risks.
- FDI flows to *developed countries* are projected to increase to about $770 million. Based on macroeconomic fundamentals, flows to Europe should increase by 15 per cent and to North America by 5 per cent. However, the repatriation of retained profits by United States MNEs as a result of tax reforms will have a dampening effect on FDI inflows in Europe, as will uncertainties arising from tensions in trade relations.

2. Key factors influencing future FDI flows

Economic fundamentals

A positive short-term global macroeconomic outlook underpins an expected recovery of FDI in 2018, although growth will be fragile. GDP is expected to grow in all developed economies (table I.5) and in leading emerging economies. Commodity exporters will also experience a modest upswing following stronger export prices. Gross fixed capital investment is expected to pick up significantly in emerging and developing economies, but also in developed economies (see table I.5). And more buoyant economic activity will help lift world trade, which is already estimated to have expanded by 3.8 per cent in 2017, compared with just 2.3 per cent in 2016.

Table I.5. Real growth rates of GDP and GFCF, 2016–2019 (Per cent)

Variable	Region	2015	2016	2017	2018	2019
GDP growth rate	World	3.5	3.2	3.8	3.9	3.9
	Advanced economies[a]	2.3	1.7	2.3	2.5	2.2
	Emerging and developing economies[a]	4.3	4.4	4.8	4.9	5.1
GFCF growth rate	World	2.8	2.7	3.7	5.5	5.2
	Advanced economies[a]	2.7	1.9	3.5	4.5	4.3
	Emerging and developing economies[a]	2.9	3.3	3.9	6.3	5.9

Source: UNCTAD based on IMF (2018).
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.

However, prospects are softer in the mid-term, influenced by elevated geopolitical risks and policy uncertainty. Financial conditions are expected to tighten as central banks in major developed economies normalize monetary policy.

Policy factors

In recent months, significant tensions have emerged in global trade, encompassing a number of major economies. The resultant atmosphere of uncertainty could cause MNEs to cancel or delay investment decisions until the trade and investment climate is more stable. If tariffs come into force, trade and global value chains in the targeted sectors will be affected and so, consequently, would be efficiency-seeking FDI. MNE profitability would be affected in some sectors, further weakening the propensity to invest. MNEs could also be incentivized to relocate production activities to avoid tariffs.

Tensions and scrutiny extend beyond trade. The Committee on Foreign Investment in the United States (CFIUS), has become more proactive in blocking and discouraging acquisition of United States firms. More restrictive investment screening procedures are also being considered elsewhere. The European Commission, Germany, Italy and the United Kingdom have announced reforms to their investment control regime in the past year (see also Chapter III).

The tax reform bill adopted in the United States in December 2017 will also have a significant impact on global FDI stocks and flows (box I.2). The immediate impact of the one-off deemed repatriation measure will be the freeing up of more than $3.2 trillion in accumulated overseas retained earnings of United States MNEs, a significant portion of which could be repatriated. Such repatriations would result in a drop in outward FDI stock and negative outflows from the United States, with a mirror effect on inward stocks and flows of other countries.

MNE and IPA expectations

The global economic upswing and short-term positive outlook have, for now, inspired optimistic spending plans among MNE executives. Almost 80 per cent of the executives surveyed reported plans to increase investment in the coming year. Top MNEs, and those operating in tech sectors, declared above-average spending intentions, suggesting that they foresee using part of their cash reserves. Corporations from developing and transition

Box I.2. The potential impact of tax reforms in the United States

The United States tax reform bill, adopted in December 2017, could have a significant impact on global investment patterns, given that almost half of global FDI stock is either located in the United States or owned by United States multinationals.

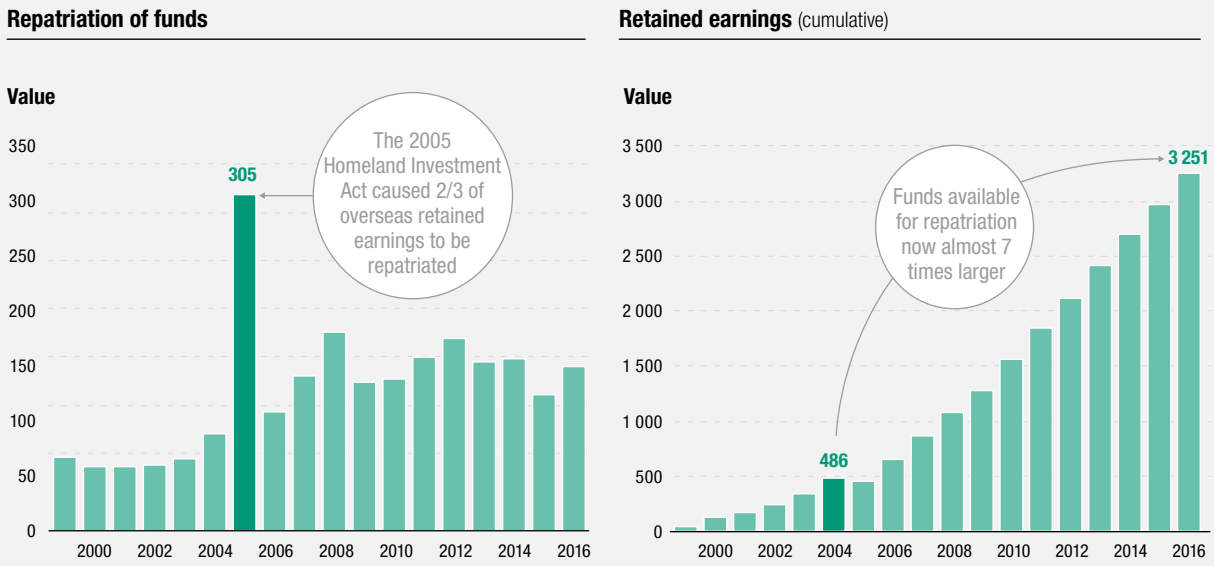
The bill includes changes to the corporate tax regime that directly affect the investment climate in the United States, and measures to encourage United States MNEs to bring overseas funds back home. The package also contains measures to tackle tax avoidance through complex cross-border corporate structures.

Measures that will directly affect the investment climate in the United States include (i) a reduction of the statutory corporate income tax (CIT) rate from 35 per cent to 21 per cent effective from 2018, (ii) immediate full expensing of investment cost, and (iii) the capping of deductible interest to 30 per cent of taxable income.

Measures directed at the international tax regime for MNEs include (i) a switch from a worldwide system (taxing worldwide income) to a territorial tax system (taxing only income earned at home) through a 100 per cent deductibility of dividends of foreign affiliates, (ii) a transitional measure for existing overseas retained earnings in the form of a mandatory deemed repatriation subject to a one-off tax payment (15.5 per cent on cash, 8 per cent on illiquid assets), and (iii) a set of anti-avoidance measures, including a tax on global intangible low-tax income and a tax on payments to overseas affiliated firms that erode the tax base in the United States.

A tax break on repatriation has been long awaited by MNEs since the last such break in 2005, in the form of the Homeland Investment Act (HIA). The HIA brought back two-thirds of the total funds available for repatriation at the time, or some $300 billion of retained earnings. Overseas retained earnings of United States MNEs are now much higher. At $3.2 trillion – with some $2 trillion held in cash – they are now about seven times the level in 2005 (box figure I.2.1). Repatriations could cause significant negative outward FDI flows and a large drop in the outward FDI stock position of the United States, from the current $6.4 trillion to possibly as low as $4.5 trillion, with inverse consequences for inward FDI stocks in other countries.

Box figure I.2.1 **Retained and repatriated earnings of United States MNEs, 1999–2016** (Billions of dollars)



Source: UNCTAD analysis based on United States Bureau of Economic Analysis data.

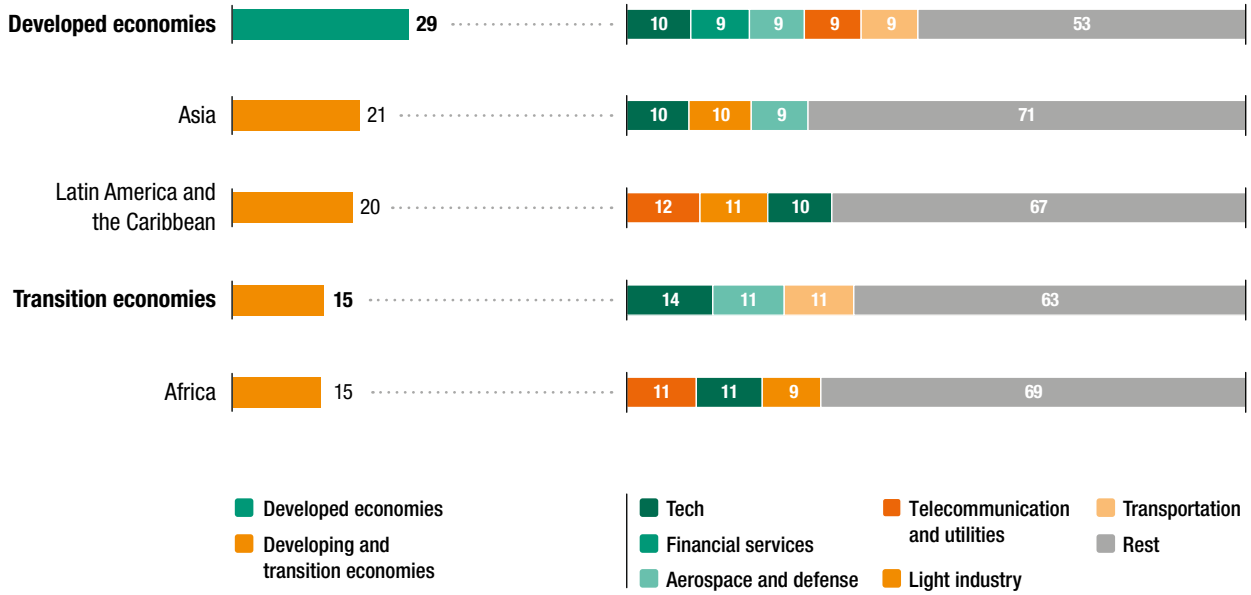
Beyond the immediate effect of the deemed repatriation measure, the impact of the overall tax reform package on global FDI and on capital expenditures by MNEs in the United States is likely to differ substantially by sector and industry. Likely implications include the following:

- The removal of the need to keep earnings overseas could lead to structurally lower retained earnings in foreign affiliates of United States MNEs and to a re-routing of FDI links in the international corporate structures of United States MNEs.
- The greater degree of freedom in the use of overseas cash could lead to a further increase in M&As (although perhaps more domestic M&As than cross-border M&As), but the curbs on interest deductibility could dampen this effect.
- The stimulus to investment in the United States provided by a lower CIT rate and full investment expensing could lead to higher inward investment in the United States, and possibly to further re-shoring of manufacturing activity.

In the longer term, global investment patterns could also be affected by a greater degree of tax competition.

Source: UNCTAD, Investment Trends Monitor, "Tax reforms in the United States: implications for international investment", Special edition, 5 February 2018.

Figure I.12. **Executives' selection of targets by region and industry** (Percentage of executives rating an investment in the region as highly likely or likely; on the right, industries they represent)



Source: Data provided by AT Kearney.

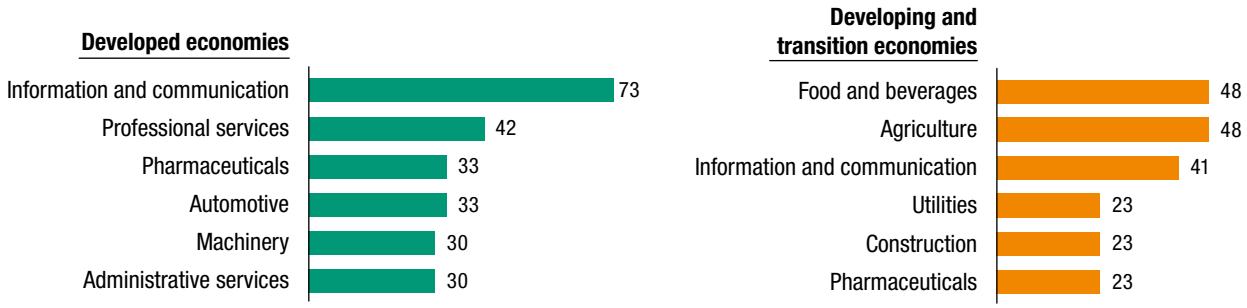
economies also traditionally have bolder spending plans. The survey was conducted in January, before trade tensions heightened. Should tensions subside, these spending intentions could translate into a more positive scenario for global FDI.[4]

Looking at likely locations, 30 per cent of executives who rated investment in the next three years as highly likely or likely prioritized developed economies as targets, and almost 20 per cent chose destinations in developing Asia and in Latin America and the Caribbean (figure I.12). Transition economies and African destinations were selected by 15 per cent of investors. Tech companies expect to be the most active investors; they are planning to expand in all regions. Financial companies are focusing mostly on developed economies, while light industry companies (such as those in consumer goods) are targeting developing economies, attracted by growing domestic markets and lower labour costs.

Executives from aerospace and defense corporations place more importance on technological and innovation capabilities. This results in their preference for developed countries as well as leading economies in developing Asia and transition economies. Executives in these industries rated investment in India at a similar probability as investment in France or the Netherlands, where a leading aeronautical producer (Airbus SE) is based. Telecommunication and utilities companies are mostly driven by domestic economic performance, hence investing in large domestic economies where the market is not yet saturated.

Investment promotion agencies (IPAs) in developing economies expect most investment to come from agribusiness corporations, followed by information and communication MNEs (figure I.13). IPAs also expect to attract utilities and construction investors to fill infrastructure gaps. IPAs in developed economies expect most investments to come from information and communication companies and professional services, and from specialized manufacturing industries: pharmaceuticals, automotive and machinery. There are some parallels within MNE expectations: IPAs from developing and transition economies all

Figure I.13. **IPAs' selection of most promising industries for attracting FDI in their own economy, by region** (Per cent of IPAs responding)



Source: UNCTAD, IPA Survey.

forecast investments from the food and beverages industry (light industry), matching corporations' plans of investments across the developing world. Another promising industry for developing economies is information and communication (that includes both tech and telecom corporations) as the digital economy spreads to frontier markets.

C. INTERNATIONAL PRODUCTION

1. Key indicators of international production

International production continues to expand, but the rate of expansion is slowing down, and the modalities of cross-border transactions and exchanges of goods, services and factors of production are shifting. Table I.6 provides key indicators of international production (see box I.3 on the use of FDI statistics to measure international production).

The gradual growth in the sales and value added of MNE foreign affiliates, as reported in UNCTAD's annual statistics, is inherent in the functioning of international production networks. Existing stocks of investment, accumulated in affiliates already located overseas, generate returns that can be reinvested in foreign markets. Approximately 50 per cent of the income of foreign affiliates is reinvested, on average.

The average annual growth rates over the last five years of foreign affiliates' sales (1.5 per cent), value added (1.5 per cent) and employment (2.5 per cent) were all lower than during

Table I.6. Selected indicators of FDI and international production, 2017 and selected years

Item	Value at current prices (Billions of dollars)				
	1990	2005–2007 (pre-crisis average)	2015	2016	2017
FDI inflows	205	1 415	1 921	1 868	1 430
FDI outflows	244	1 452	1 622	1 473	1 430
FDI inward stock	2 196	14 487	25 665	27 663	31 524
FDI outward stock	2 255	15 188	25 514	26 826	30 838
Income on inward FDI[a]	82	1 027	1 461	1 564	1 581
Rate of return on inward FDI[b]	*5.4*	*9.2*	*6.8*	*7.0*	*6.7*
Income on outward FDI[a]	128	1 101	1 394	1 387	1 553
Rate of return on outward FDI[b]	*7.8*	*9.5*	*6.1*	*5.8*	*6.2*
Net cross-border M&As	98	729	735	887	694
Sales of foreign affiliates	6 755	24 217	27 559	29 057[c]	30 823[c]
Value added (product) of foreign affiliates	1 264	5 264	6 457	6 950[c]	7 317[c]
Total assets of foreign affiliates	5 871	54 791	94 781	98 758[c]	103 429[c]
Employment by foreign affiliates (thousands)	27 034	57 392	69 683	71 157[c]	73 209[c]
Memorandum					
GDP[d]	23 433	52 383	74 407	75 463	79 841
Gross fixed capital formation[d]	5 812	12 426	18 561	18 616	19 764
Royalties and licence fee receipts	31	174	299	312	333
Exports of goods and services[d]	4 414	14 957	20 953	20 555	22 558

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, and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of MNEs from Australia, Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Greece, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Portugal, Slovenia, Sweden, and the United States for sales; those from the Czech Republic, France, Israel, Japan, Portugal, Slovenia, Sweden, and the United States for value-added (product); those from United Kingdom and the United States (excluding financials) for assets; those from Czech Republic, Japan, Portugal, Slovenia, Sweden, and the United States for exports; and those from Australia, Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Italy, Japan, Latvia, Lithuania, Luxembourg, Macao (China), Portugal, Slovenia, Sweden, Switzerland, and the United States for employment.

[a] Based on data from 180 countries for income on inward FDI and 156 countries for income on outward FDI in 2017, in both cases representing more than 90 per cent of global inward and outward FDI stocks.

[b] Calculated only for countries with both FDI income and stock data. The stock is measured in book value.

[c] Data for 2016 and 2017 are estimated based on a fixed effects panel regression of each variable against outward stock measured in book value and a lagged dependent variable for the period 1980–2015.

[d] Data from IMF (2018).

Box I.3. FDI statistics and international production

FDI data from the balance of payments have historically been a key source of information on the international activity of multinational enterprises (MNEs). Although the limitations of this approach have been recognized over the past decade (Lipsey, 2007; Beugelsdijk et al., 2010), concerns about the adequacy of FDI statistics for capturing patterns of international production have intensified and gained prominence in recent years (Leino and Ali-Yrkko, 2014; Blanchard and Acalin, 2016; Sauvant, 2017).

UNCTAD's *World Investment Report* is providing annual estimates of total sales, value added, assets and employees generated by foreign affiliates globally (see table I.6). The underlying idea is to employ FDI weights to estimate global values of foreign affiliates' relevant indicators from the subset of countries reporting official statistics on foreign affiliates (i.e. foreign affiliate statistics). Details of the approach are provided in the note to table I.6.

This extrapolation procedure based on FDI data leads to an acceptable approximation of foreign affiliates' operational metrics at the global level, thanks to good overall correlation between aggregate FDI and foreign affiliate statistics (Casella, forthcoming; Fukui and Lakatos, 2012; Ramondo and Rodríguez-Clare, 2013). However, the use of FDI data for more granular analysis of international production at the country or industry level requires addressing the main empirical issues involved in the relationship between FDI statistics and foreign affiliates' operational data. Box table I.3.1 summarizes these issues and points to counter-arguments and mitigating factors.

Despite their various limitations, FDI statistics remain a useful source of information on international production. In particular, for FDI recipients that are lower-income countries, FDI statistics from the balance of payments *must* be the starting point, given the dearth of good alternative sources of information on foreign affiliates' activity. For these countries, each of the three main critiques of the use of FDI to describe international production appear less relevant, as FDI in developing countries is more oriented towards productive assets (more greenfield investments) and relatively less affected by conduit flows, while local financial markets are less mature.

Thus, a pragmatic approach to the analysis of international production should be adopted, in which FDI is used as the main indicator of MNEs' activity, especially in developing and lower-income countries, complemented by other available data including project-based data (section I.A.3), survey-level data (section I.C.1), firm-level data (section I.C.3), and value added trade data (section I.C.2).

Box table I.3.1. The use of FDI data from the balance of payments to describe MNE international activity: critiques and responses

Critique	Response
FDI is a financing instrument, not necessarily an investment in productive assets (source of funds vs. use of funds)	▸ The relative stability of FDI, among financing instruments, is indicative of its long-term, productive investment nature ▸ Data on foreign affiliates and global value chains indicate a link between FDI and MNEs' foreign operations ▸ The geographic and time coverage of FDI data from the balance of payments is superior to alternative data sources, especially for developing countries; data collection is hard-coded into international balance-of-payments reporting standards, thereby ensuring a minimum degree of reliability and comparability
Conduit FDI through offshore financial centres have weakened the relationship between FDI and international production, and affected the bilateral links in international production networks (direct vs. ultimate investors)	▸ Conduit FDI through offshore financial centres can, to some extent, be excluded from FDI data and analysis, either directly (for those countries that report special purpose entities) or indirectly with estimation techniques ▸ Standard FDI reporting is being expanded to include statistics on the basis of ultimate investors; analytical techniques are under development to estimate bilateral FDI by location of the ultimate investor
FDI ignores other financing options and does not capture the full extent of international production (FDI vs. local financing)	▸ There are no systematic measures of foreign affiliate financing other than FDI, and literature seeking to estimate non-FDI financing is sparse

Source: UNCTAD.

the equivalent period before 2010 (at 9.7, 10.7 and 7.6 per cent, respectively). This is in line with the loss of growth momentum in the longer-term FDI trend – net of peaks caused by one-off transactions and corporate restructurings. The deceleration in international production is also a contributing factor behind slower growth in trade and in GVCs (see section I.C.2).

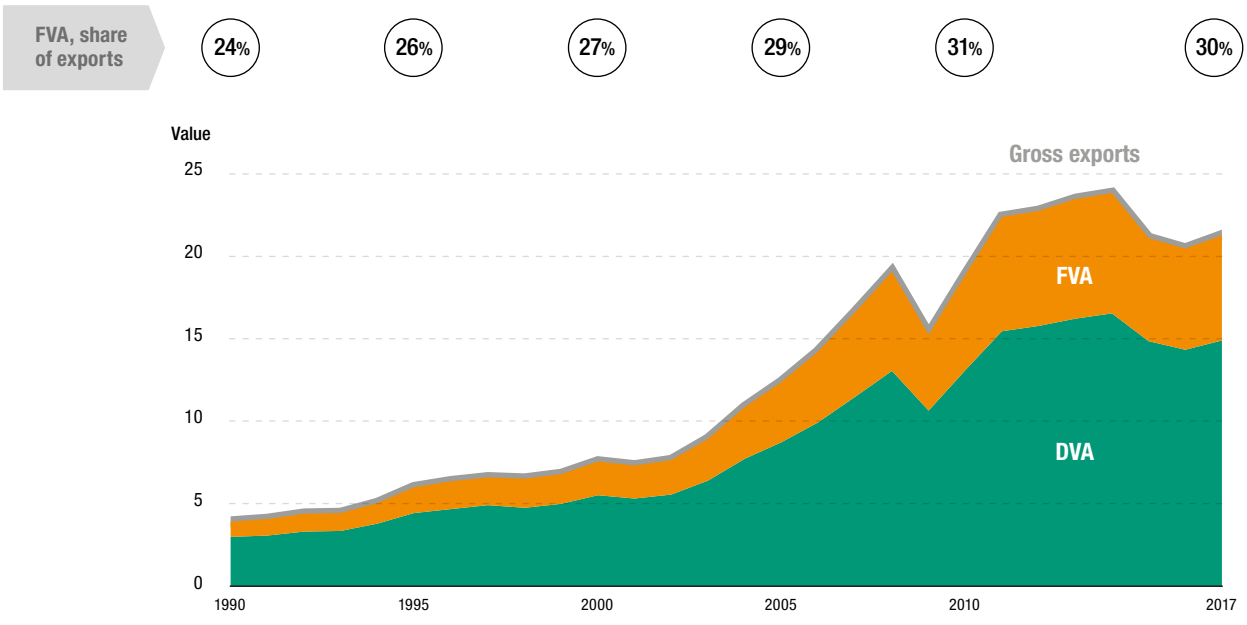
After the global financial crisis, the slowdown in the rate of growth of trade in goods and services, relative to global GDP, was only the first, most visible manifestation of a broader change. The relative rates of growth over the last five years of royalties and licensing fee receipts (almost 5 per cent annually) compared with trade in goods and FDI (less than 1 per cent per year) show how international production is shifting from tangible cross-border production networks to intangible value chains. The asset-light international production trend described in *WIR17* is visible again in this year's statistics, with assets and employment in foreign affiliates growing significantly more slowly than sales.

2. Trends in global value chains

Growth in global value chains (GVCs) has stagnated. Foreign value added (FVA) in trade – the imported goods and services incorporated in a country's exports, and a key measure of the importance of GVCs – appears to have peaked in 2010–2012 after two decades of continuous increase.

Figure I.14 shows the long-terms trends of gross exports, broken down into domestic value added (DVA) and FVA.[5] From 1990 until 2010, the share of FVA in total exports rose continuously, contributing to the growth in global trade. The rise was gradual – 7 percentage points in 20 years — but steady, without interruptions. In the past decade, for the first time in 30 years, the growth of GVCs has come to a halt, with the share of FVA declining to 30 per cent in 2017. This reversion in the trend of FVA share is consistent with the recent slowdown in economic globalization and with the FDI trend.

Figure I.14. Global trade: long-term trends in value added terms, 1990–2017 (Trillions of dollars and per cent)



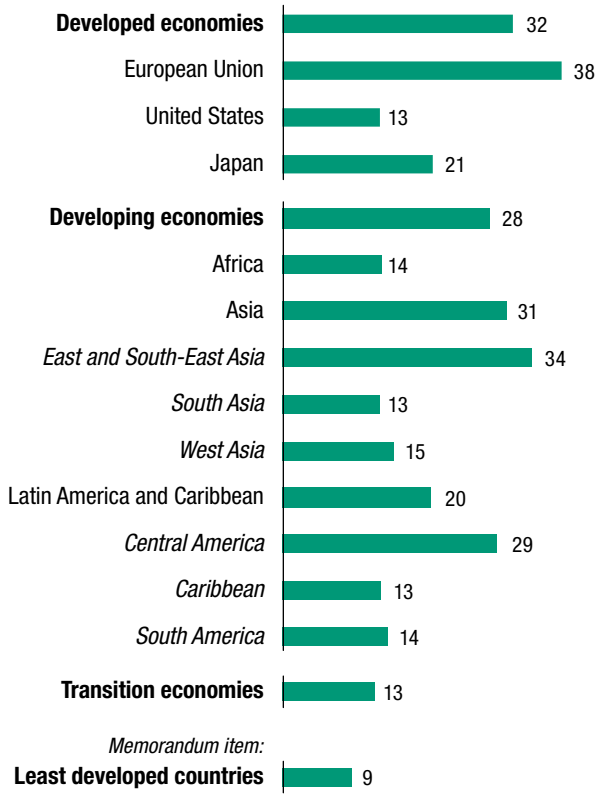
Source: UNCTAD; based on data from the UNCTAD-EORA GVC database.

Developed economies lead in FVA. In 2017, the share of FVA in total exports from developed economies stood at 32 per cent, above the global average of 30 per cent (figure I.15). The high average is driven largely by the European Union (38 per cent), where highly integrated markets and shared institutional settings have favoured the rise of strong regional value chains. Conversely, in the United States and Japan, the share of FVA is limited; as global service and technology leaders, they capture a large part of trade-generated value added domestically.

The share of FVA for developing economies as a whole is slightly lower than for developed economies, at 28 per cent of total exports. The subregions of East and South-East Asia and Central America stand out, with shares at 34 per cent and 29 per cent respectively. GVC integration in these regions has been boosted by a set of economies acting as major global and regional trade hubs, such as Singapore and Hong Kong (China) in East and South-East Asia, and Mexico in Central America.

The share of FVA for the other developing-economy groups is significantly lower, below 15 per cent. It is lowest in the LDCs, at 9 per cent. Low levels of FVA in these regions are due to poor overall participation in GVCs or to participation that is limited to the provision of natural resources, whereby countries provide input to other countries' exports (i.e. they are integrated *downstream*) but use limited input from other countries' exports (they are not integrated *upstream*).

Figure I.15. **Share of foreign value added in exports, by region, 2017** (Per cent)



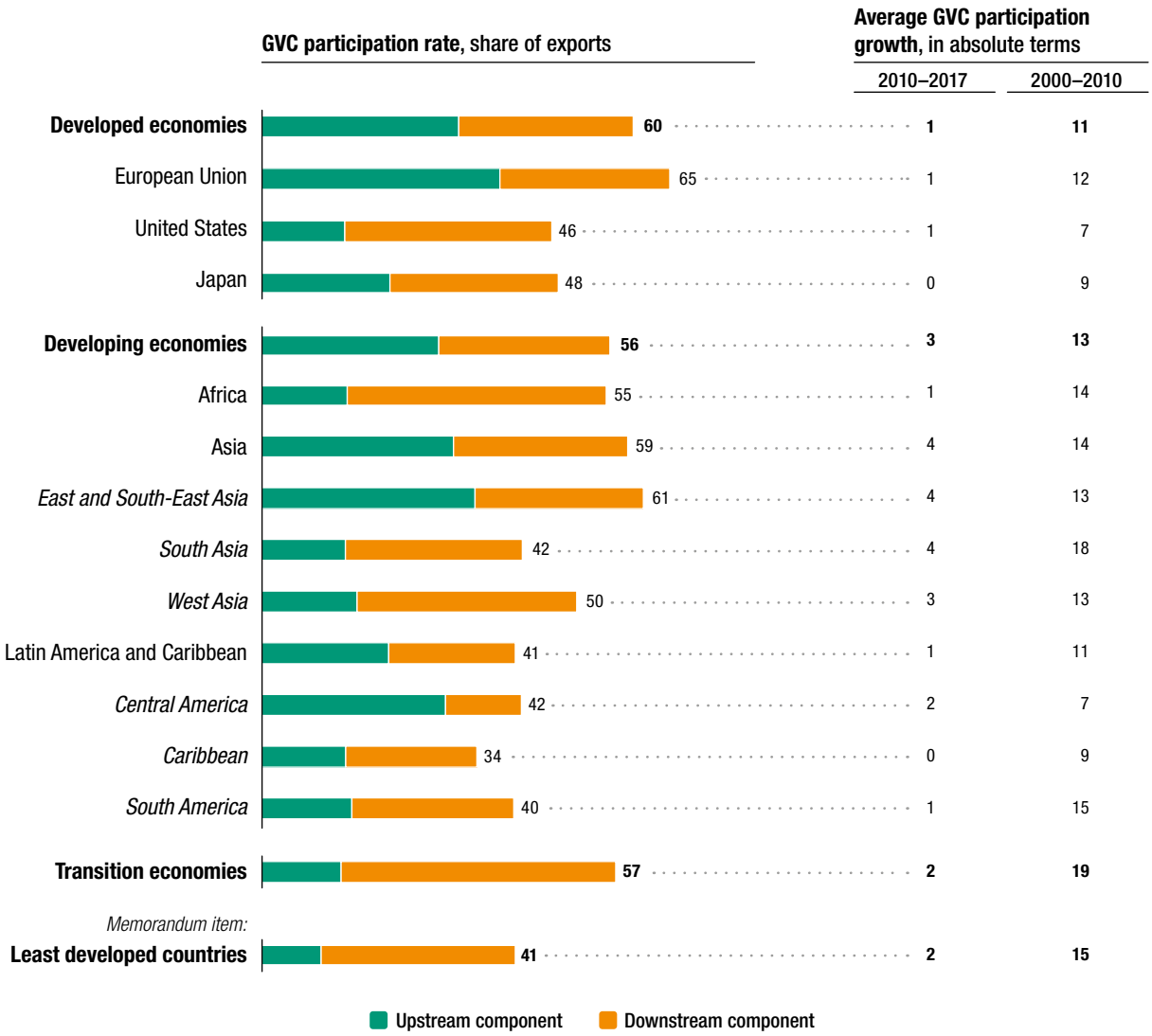
Source: UNCTAD; based on data from the UNCTAD-EORA GVC database.

The GVC participation rate provides a more nuanced picture. The GVC participation rate, capturing both upstream and downstream integration,[6] smooths the large differences in the regional patterns of FVA (figure I.16, in comparison with figure I.15). Regions with lower shares of FVA tend to have relatively larger downstream components. In the context of developed economies, this is clearly the case for the United States and for Japan. As the downstream component is part of DVA, under certain conditions, its prominence is an indicator of a country's ability to extract domestic value from participation in GVCs.

For developing and transition countries as well, the inclusion of the downstream component contributes to softening differences across regions. The most visible effect is on regions and groups dominated by commodity exporters, particularly Africa, transition economies and, to some extent, LDCs. In particular Africa and the transition economies moved from very low levels of FVA to a GVC participation rate aligned to the global average. GVC participation led by the (downstream) contribution of commodity exports has specific development implications. On the one hand, almost all exports translate into DVA creation; on the other, however, the share of value added captured on the upstream side of the value chain tends to be small relative to the value of the final output.

Figure I.16 also shows the regions' average annual growth in GVC participation over two periods, 2000–2010 and 2010–2017. Since 2010 the relative importance of GVCs in global

Figure I.16. GVC participation rate, by region, 2017 and growth rates, 2010–2017 and 2000–2010 (Per cent)

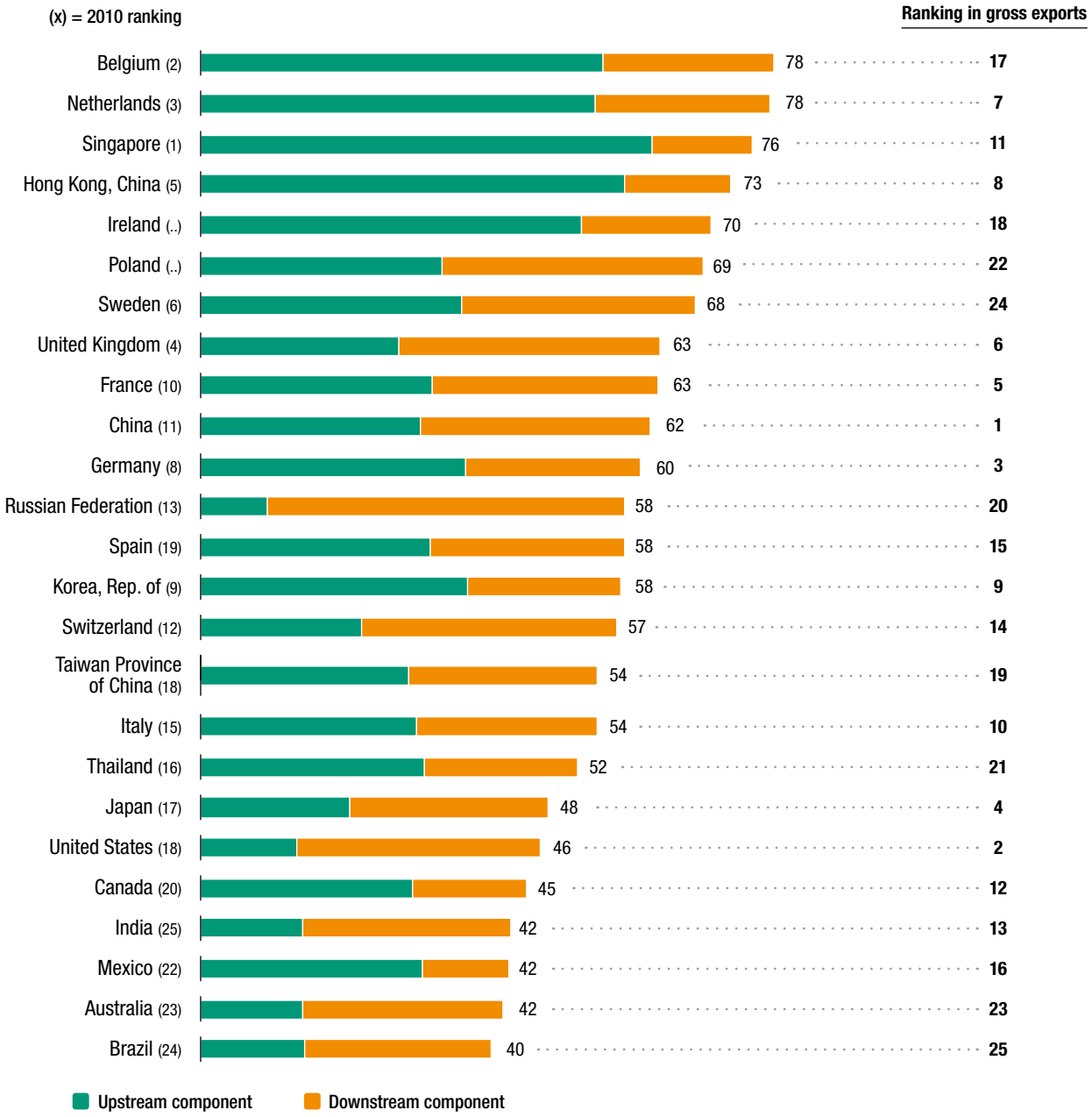


Source: UNCTAD; based on data from UNCTAD-EORA GVC database.

trade has been in retreat, as shown by the trend in FVA share in figure I.14; nonetheless, GVC participation has continued to increase in absolute terms, although with a substantial slowdown compared with the previous decade across all regions. Developing countries have integrated into GVCs more quickly than more mature economies, particularly in Asia. Growth in GVC participation in Africa and in Latin America and the Caribbean has been very weak recently (at about 1 per cent annually between 2010 and 2017). As deeper integration in GVCs can be an important development lever for poor countries, the struggle to further integrate into GVCs for some of the poorest regions of the world remains a challenge (for extensive analysis and discussion of the relationship between GVCs and development, see *WIR13*).

At the global level, the countries most integrated into GVCs are regional headquarters and logistical centres (as well as financial hubs) for MNE operations (Belgium; the Netherlands; Singapore; Hong Kong, China; and Ireland). Faced with a relatively small domestic market, these economies have gained a major role as global service, technological and financial hubs (figure I.17). Surprisingly, the upstream component (FVA) of the GVC participation rate is prominent in these economies. This suggests that even economies that provide high value added services to global production – which are commonly perceived as

Figure I.17. Top 25 exporting economies by GVC participation rate, 2017 (Per cent)



Source: UNCTAD; based on data from UNCTAD-EORA GVC database.

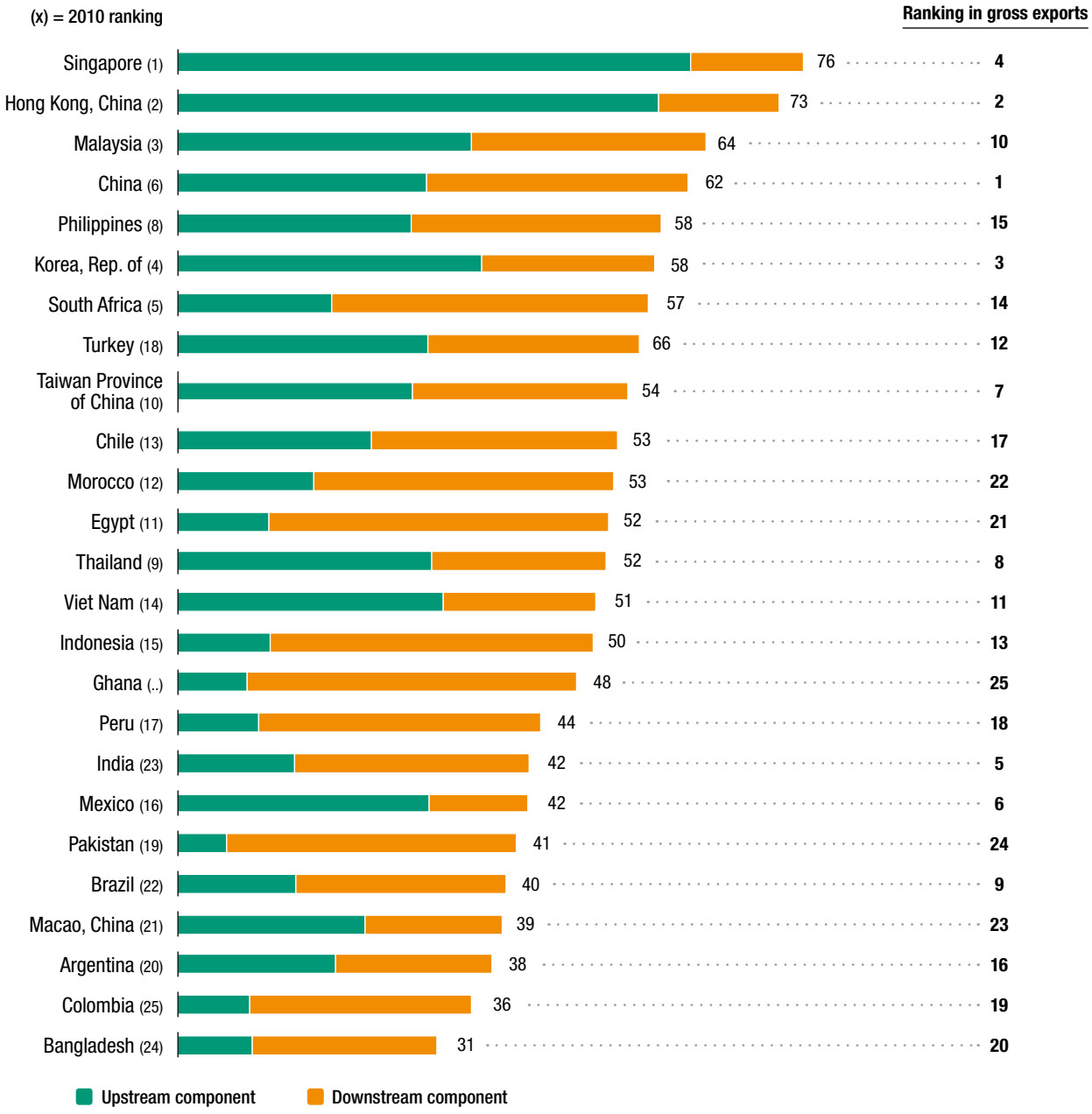
Note: Ranking excludes predominantly oil-exporting countries. The symbol (..) identifies countries that were not in the list of top 25 exporters in 2010.

requiring little foreign imports – still rely substantially on foreign inputs. In addition to foreign inputs, re-exports contribute significantly to high FVA, particularly in the top four countries (Belgium; the Netherlands; Singapore; and Hong Kong, China), which are characterized by the presence of very large commercial ports.

In developing countries, after Singapore and Hong Kong, China, the top positions are occupied by Asian countries that have become the site of large global factories, such as Malaysia, China and the Republic of Korea (figure I.18 on the following page).

The relative weight of countries in GVCs remains quite consolidated, with no major changes in rankings between 2010 and 2017, both at the global level and for developing countries as a group.

Figure I.18. Top 25 exporting developing economies by GVC participation rate, 2017 (Per cent)



Source: UNCTAD; based on data from UNCTAD-EORA GVC database.
Note: Ranking excludes predominantly oil-exporting countries. The symbol (..) identifies countries that were not in the list of top 25 exporters in 2010.

3. Internationalization trends of the largest MNEs

In 2017, the top 100 global MNEs' foreign operations represented 9 per cent of world foreign assets, 17 per cent of world foreign sales and 13 per cent of foreign employment.[7] The top global MNEs represented a tiny 0.1 per cent of the estimated universe of MNEs, but their total sales in 2017 were equivalent to about 10 per cent of world GDP. The relative importance of the top 100 MNEs is a function partly of globalization and partly of concentration among the universe of MNEs.

In 2017, top MNEs scaled up their global operations, increasing assets and sales by 8 per cent, although internationalization statistics remained roughly stable. Assets and sales were boosted by a wave of megadeals across virtually all industries

Box I.4. The updated UNCTAD-EORA GVC database

UNCTAD launched its UNCTAD-EORA GVC database in the context of the empirical and policy analysis conducted for the *World Investment Report 2013* (*WIR13*), whose theme was "Global Value Chains: Investment and Trade for Development". The database helps analysts explore trends and patterns in international production through the analysis of GVCs. GVCs are coordinated by MNEs investing in productive assets worldwide and trading inputs and outputs within firms, at arm's length or through their networks of non-equity mode partners. UNCTAD estimates that up to 80 per cent of global trade involves MNEs (*WIR13*). Thus, the analysis of GVCs is fully complementary to the analysis of FDI and international production developed in this chapter.

Recently, major analytical developments in the treatment of national input-output tables have opened new avenues in the empirical research on GVCs. In particular, the availability of databases of trade broken down according to the origin of its value added (value added trade data) enables systematic analysis of GVC patterns by countries and industries. Box table I.4.1 identifies the most important databases and the main ongoing projects.

Box table I.4.1. Mapping value added in trade: selected initiatives

Project	Institution	Data sources	Countries	Industries	Years	Comments
UNCTAD-Eora GVC Database	UNCTAD/Eora	National supply-use and I-O tables, and I-O tables from Eurostat, IDE-JETRO and OECD	187	25–500 depending on the country	1990–2015 (nowcast for 2016, 2017 and 2018)	Meta database, drawing together many sources and interpolating missing points to provide broad, consistent coverage, even of data-poor countries
Trade in Value Added (TiVA) Data Set	OECD	National I-O tables	62	34	1995–2011	Information on all OECD countries, and 27 non-member economies (including all G20 countries)
World Input-Output Database (WIOD), 2016 Release	Consortium of 11 institutions, EU funded	National supply-use tables	43	56	2000–2014	Based on official national accounts statistics, uses end-use classification to allocate flows across partners and countries
Other multiregion input-output databases						
EXIOBASE	EU-based consortium, exiobase.eu	National supply-use tables	44+5	200	1995–2013	Covers 44 countries plus five rest-of-world regions
ADB Multi-Region Input-Output Database (ADB MRIO)	Asian Development Bank	An extension of WIOD that includes 5 additional Asian economies (Bangladesh, Malaysia, Philippines, Thailand and Viet Nam)	45	35	2000, 2005–2008, 2011	Information for the 5 additional Asian countries are estimates methodically produced to assist research and analysis, not official statistics
Asian International I-O Tables	Institute of Developing Economies (IDE-JETRO)	National account and firm-level surveys	10	76	1975, 1980, 1985, 1990, 1995, 2000, 2005	United States–Asia tables, as well as bilateral tables, including China-Japan
Global Trade Analysis Project (GTAP)	Purdue University	Contributions from individual researchers and organizations	120 countries and 20 regions	57	2004, 2007, 2011	Unofficial data set; includes data on areas such as energy volumes, land use, carbon dioxide emissions and international migration
South American Input-Output Tables	ECLAC and Institute of Applied Economic Research (IPEA) from Brazil	National I-O tables	10	40	2005	Based on official information from national accounts

Source: UNCTAD.

The distinctive feature of the UNCTAD-EORA database is its broad geographic coverage, including virtually all countries. This inclusiveness has made the UNCTAD-EORA database the reference source for value added trade data in GVC analysis involving developing economies (AfDB, OECD and UNDP, 2014; UNECA, 2015; UNIDO, 2016).

/...

Box I.4. The updated UNCTAD-EORA GVC database (Continued)

Given the importance of GVC analysis in the context of globalization and development and the high demand for value added trade data, in particular for developing countries, UNCTAD has collaborated with EORA to enhance the database. This effort has produced an update of the 2013 data as well as an improved version, using a "nowcasting" methodology to project value added trade data up to the current year (2018, for this edition of WIR). This step addresses one of the main issues of the value added trade databases (including the WIOD, the TiVA and the previous version of the UNCTAD-EORA database), namely a time lag of at least three years between the most recent year of data and the time of publication of the GVC database.

The UNCTAD-EORA nowcasting methodology

The UNCTAD-EORA GVC results are based on data reported for the years 1990–2015 and are "nowcasted" to estimate results for 2016–2018. The nowcasting is based on the International Monetary Fund's World Economic Outlook (WEO), which provides estimates of the annual change in GDP, imports and exports in each country. These estimates are provided for recent years and with near-term forecasts for the next five years.

The nowcasting is done at country level in two stages. First, total exports from each country are scaled up or down according to the WEO forecast. Then, the contribution of value added from each country feeding into total exports is adjusted according to the relative change in GDP. If, for example, all countries have a 2 per cent increase in GDP, there will be no change in the composition of suppliers, but if GDP in country A grows by 2.2 per cent and GDP in country B grows by 1.8 per cent, then sources of value added will be rebalanced towards country A (specifically, the contribution of country A will increase 10 per cent and that of country B will decrease 10 per cent). As a direction for future work, a natural development of this approach is to extend the estimation to near-term forecasts based on WEO projections.

UNCTAD plans to systematically update GVC analysis and make it a recurring annual feature of the WIR. Granular GVC indicators at the country and industry levels underlying the GVC analysis in the WIR are available at EORA's website at http://worldmrio.com.

The methodology underlying the UNCTAD-EORA GVC database is presented in full in Moran et al. (2018).

Source: UNCTAD.

represented in the Top 100 that brought five new companies into the ranking: DowDuPont Inc., the chemical conglomerate formed after the merger of Dow Chemical and DuPont; the Canadian multinational energy transportation company Enbridge Inc.; the United Kingdom consumer goods company Reckitt Benckiser Group Plc; the German health care services group Fresenius SE & Co KGaA; and the Chinese conglomerate HNA Group Co Ltd. A sixth new company, the Chinese tech conglomerate Tencent Holding, was not involved in megadeals but rather accumulated foreign assets over the last few years, operating like an investment holding company. Among the companies exiting the rankings this year, some divested or split up (Schlumberger Ltd., ConocoPhillips, General Motors and Hewlett-Packard, all from the United States), while others simply slid out of the list as the threshold level of foreign assets increased (reaching over $40 billion this year) while they maintained constant assets (E.ON Ag (Germany), WPP Plc (United Kingdom)).

Internationalization statistics remained roughly stable (table I.7). Foreign assets decreased by 1.4 per cent influenced by some national deals including the Dow–DuPont merger, luxury goods group LVHM (France) consolidating its shares in fashion house Christian Dior and French electric utility EDF SA acquiring Areva's nuclear business. By contrast, foreign employees and foreign sales as a share of the total increased by 1.2 and 2.2 per cent, following the "asset-light" trend (*WIR17*). This trend is not visible in the Top 100 developing-economy MNEs, which are still dominated by large conglomerates.

Companies not involved in cross-border megadeals expanded their business as well, especially in the automotive and tech industries. Even in the consumer goods industry – a relatively slow-growing industry in developed economies – the British–Dutch conglomerate Unilever Plc grew revenues by investing in fast-growing opportunities and start-ups, including digital tools and platforms.[8] The corporation is planning to move its headquarters to the Netherlands, leading to a likely, albeit small, increase in its share of

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

Variable	100 largest MNEs worldwide					100 largest MNEs from developing and transition economies		
	2015[a]	2016[a]	2015–2016 Change (%)	2017[b]	2016–2017 Change (%)	2015[a]	2016	Change (%)
Assets (billions of dollars)								
Foreign	8 015	8 337	4.0	9 004	8.0	1 716	1 886	9.9
Domestic	4 875	4 894	0.4	5 491	12.2	4 289	4 511	5.2
Total	12 891	13 231	2.6	14 495	9.6	6 004	6 397	6.5
Foreign as share of total (%)	62	63	0.8	62	-1.4	29	29	0.9
Sales (billions of dollars)								
Foreign	4 802	4 765	-0.8	5 170	8.5	1 734	1 559	-10.1
Domestic	2 851	2 737	-4.0	2 793	2.1	1 903	1 965	3.3
Total	7 653	7 502	-2.0	7 964	6.2	3 638	3 524	-3.1
Foreign as share of total (%)	63	64	0.8	65	2.2	48	44	-3.4
Employment (thousands)								
Foreign	9 130	9 535	4.4	9 757	2.3	4 003	4 603	15.0
Domestic	7 141	6 920	-3.1	6 889	-0.4	7 900	7 434	-5.9
Total	16 271	16 455	1.1	16 646	1.2	11 903	12 038	1.1
Foreign as share of total (%)	56	58	1.8	59	1.2	34	38	4.6

Source: UNCTAD.
Note: Note: Data refer to fiscal year results reported between 1 April of the base year and 31 March of the following year. Complete 2017 data for the 100 largest MNEs from developing and transition economies are not yet available.
[a] Revised results
[b] Preliminary results

Table I.8. Composition of top 100 global MNEs by industry and home economy, 2012–2017 (Number of firms)

Industry	2012	2017	Economy	2012	2017
Mining, petroleum and refining	19	13	United States	24	20
Automotive and aircraft	13	13	United Kingdom	17	14
Pharmaceuticals	10	12	France	13	12
Utilities	10	9	Germany	9	11
Wholesale and retail trade	10	6	Japan	9	11
Food, beverages and tobacco	9	8	Switzerland	6	5
Tech	7	15	Ireland	..	4
Telecom	6	7	**Other developed economies**	**22**	**23**
Other industry	12	13	**Developing economies**	**7**	**8**
Other services	4	4	China	3	4
Total	**100**	**100**		**100**	**100**

Source: UNCTAD.

foreign assets. Automotive MNEs grew their assets by an average of 10 to 20 per cent, as they have been heavily investing in the development of new products, often seeking collaboration with tech companies. A notable exception is General Motors (United States), which, following a strategy of global downsizing, divested assets around the world (e.g. South Africa, Kenya, India, Australia, Indonesia, Europe) and exited the Top 100 ranking for the first time.

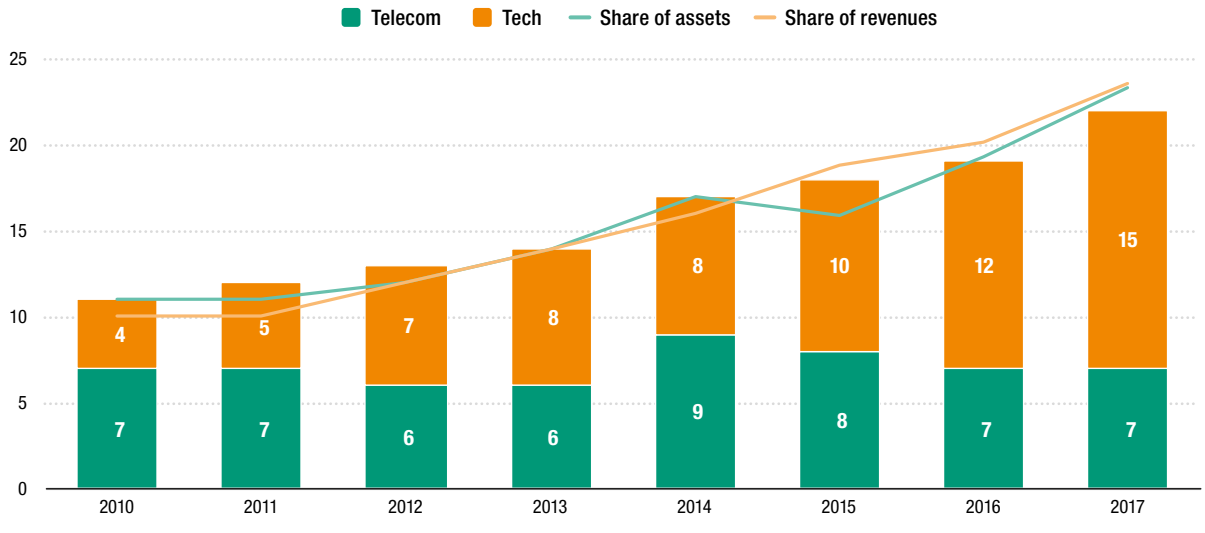
The composition of the global Top 100 MNEs changed significantly in the past five years, with extractive industries and trade corporations leaving the ranking. Most of the extractive companies exited the ranking in 2017, following divestments (table I.8). BG Group (United Kingdom) was bought by Royal Dutch Shell (United Kingdom–Netherlands)

in 2015. Among trading corporations, retailing MNEs (Carrefour (France), Tesco (United Kingdom)), which have long struggled to gain local scale in emerging markets, decided to leave countries where they could not be market leaders. The geography of MNEs' home economies changed slightly, with Ireland becoming the headquarters site of four corporations, and the number of MNEs from Japan and Germany in the ranking increasing. The representation of developing economies in the Top 100 increased by only one because although developing-economy MNEs are internationalizing at faster rates, the level of foreign assets necessary to be in the Top 100 keeps rising, allowing only the most dynamic of them to remain on the list.

The presence of digital firms in the Top 100 global MNEs continues to increase (figure I.19). The 2017 ranking includes 15 tech and 7 telecom MNEs. Since 2012, the number of tech companies has more than doubled, as eight companies joined the top ranking: Samsung Electronics Ltd (Republic of Korea), SAP SE (Germany), Nokia OYJ (Finland), Hitachi Ltd (Japan), Amazon.com (United States), Broadcom (Singapore), Intel Corporation (United States), Oracle Corporation (United States) and Tencent Holding Ltd (China). All companies have been investing heavily to maintain their leadership positions. The most recent entry, Tencent, has transformed into a very active investment holding conglomerate with a recent special focus on financing Asian tech start-ups. In the past year alone, it more than trebled its international assets, entering the Top 100 global MNE ranking for the first time. The semiconductor company Broadcom acquired competitors continuously over the past five years, until last year's hostile bid for United States chipmaker Qualcomm. That transaction, had it been approved, would have been the biggest tech deal in history ($142 billion). The e-commerce platform Amazon.com has invested in assets and processes including its own fleet of trucks, a crowd-sourced delivery service, robot-enhanced warehouses and its own aircraft. These investments made the company much less "intangible".

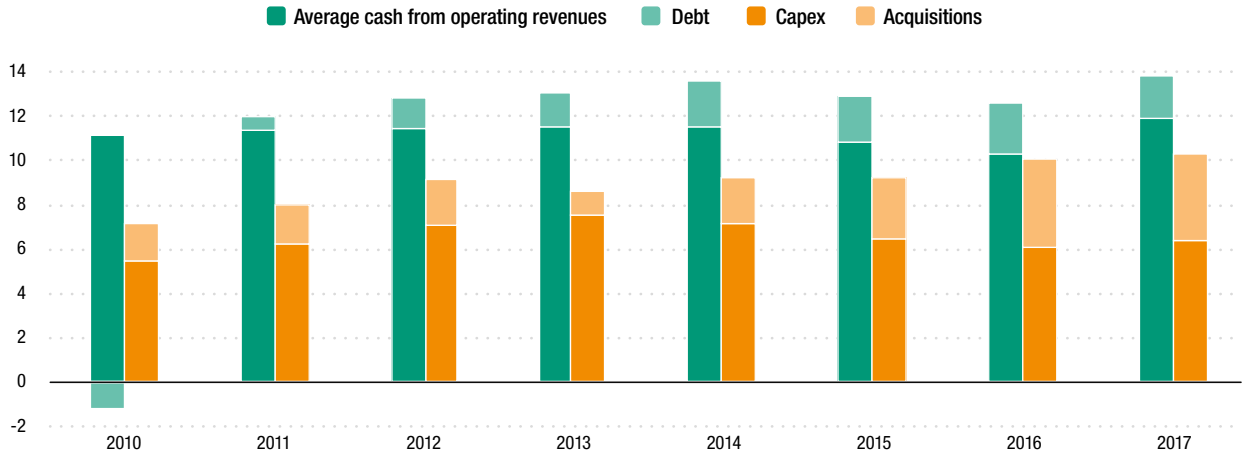
Capital expenditures by the Top 100 MNEs have gradually declined since 2013 (figure I.20). This trend is partly explained by the low commodity prices that hit extractive companies in 2014. Also, tech MNEs, whose share in the Top 100 is increasing, are not deploying their high average cash flows towards capital expenditures or acquisitions as much as other MNEs. The average cash from operating revenues for the 15 tech MNEs has

Figure I.19. **Evolution of ICT MNEs in UNCTAD's ranking of the top 100 MNEs, 2010–2017**
(Number of companies and share of assets and revenues)



Source: UNCTAD.

Figure I.20. Sources and uses of cash for top 100 MNEs, 2010–2017 (Average per company, values in billions of dollars)



Source: UNCTAD.

constantly been in excess of $15 billion per company since 2012, well above that of other MNEs, which maintained relatively stable cash flows of between $10 billion and $15 billion each. However, with the exception of 2017, tech companies' investments in the form of capital expenditures and acquisitions have been in line with those of other MNEs, ranging between $6 billion and $10 billion.

In 2016, top MNEs from developing economies further increased their foreign operations, with Asian companies leading the way in cross-border megadeals. For example, in just two years, the Chinese conglomerate HNA Group gained a lead position in the ranking of the top 100 MNEs from developing economies and entered the ranking of the top global MNEs. Some of its 2016 acquisitions include targets as diverse as technology distributor Ingram Micro (United States), London-based International Currency Exchange and Carlson Hotels (United States). Technological companies from South-East Asia engaged in several purchases and mergers to consolidate the semiconductors and electronic components industry. Tech companies that more than doubled their foreign assets during 2016 include Broadcom (Singapore), Flex Ltd (Singapore), Tencent Holding Ltd (China) and United Microelectronics Corp (Taiwan Province of China).

In the five years from 2011 to 2016, the geographical mix of the Top 100 MNEs from developing and transition economies shifted towards a more pronounced representation of Chinese conglomerates (table I.9). In 2016, there were 24 Chinese companies in the list, up from just 12 in 2011. The new entries did not alter significantly the industrial mix of the list, which remained almost unchanged.

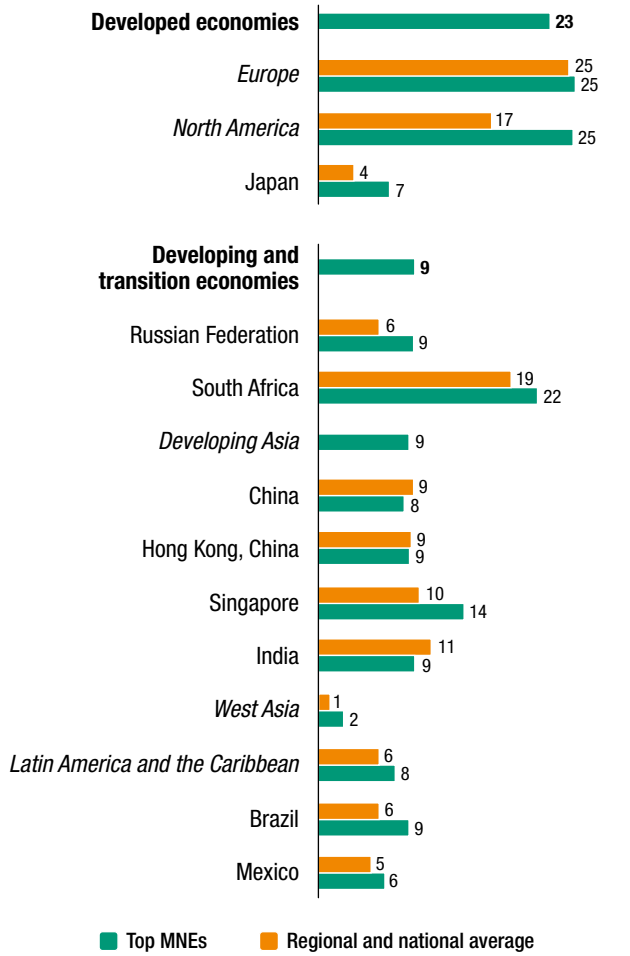
At the end of 2017, women held an average of 22 per cent of board seats in the top 100 MNEs, and five corporations had a female CEO (figure I.21). Board representation is slightly better than the S&P500 companies' average of 19.9 per cent (Catalyst, 2013) and compares favorably with other global studies, which place this percentage between 12 and 15 per cent (Credit Suisse, 2016; MSCI 2017; Deloitte, 2017). In recent years, board diversity has been increasingly perceived as a factor that improves corporate governance. A diverse board is more open to novel information and perspectives, and benefits from a better mix of talents and skills, and is thus believed to have more nuanced and informed discussions, as well as to better capture consumers' preferences. Studies have been linking board diversity with various measures of corporate performance, showing that companies with a gender-balanced board had better financial results than

Table I.9. Composition of top 100 MNEs from developing and transition economies by industry and home country, 2011–2016 (Number of firms)

Industry	2011	2016	Economy	2011	2016
Mining, petroleum and refining	16	15	**Africa**	**9**	**7**
Tech	13	15	South Africa	8	6
Telecom	11	10	**Asia**	**75**	**77**
Food, beverages and tobacco	9	10	Hong Kong, China	20	13
Wholesale and retail trade	9	6	China	12	24
Construction	8	8	Singapore	9	9
Metals and metal products	7	8	Taiwan Province of China	9	6
Utilities	5	6	India	8	6
Other industry	12	12	Malaysia	6	5
Other services	11	10	**Latin America and the Caribbean**	**10**	**14**
			Brazil	4	5
			Mexico	4	7
			Russian Federation	6	2
Total	**100**	**100**		**100**	**100**

Source: UNCTAD.

Figure I.21. Board seats held by women, top MNEs, regional and national averages (Per cent)



Source: Data from UNCTAD (top 100) and Credit Suisse, Deloitte and MSCI (national averages).

those without (Credit Suisse, 2016; McKinsey, 2018; MSCI, 2017). Although it is difficult to claim any causation, it is apparent that companies have a long way to go to improve their gender balance at the top. Only 3–4 per cent of all CEOs in the world are women. The MNEs with the most diverse boards are from Europe, where some countries have introduced quotas and targets, followed by North America, where the appointment of women is not regulated.[9] Among developing countries, South African corporations have a comparable share of women on their boards of directors. Companies in other developing countries, along with Japanese corporations, lag significantly behind their Western and South African counterparts.

Financial MNEs' geographical spread has been declining, as global financial MNEs continue to restructure and reorient their global strategies. UNCTAD's Geographical Spread Index (GSI) – a measure of global presence for MNEs – shows that financial MNEs scored a lower GSI in 2017 than they did in 2012, when GSI data were last calculated (table I.10).

The decline in GSI scores, along with a 5 per cent contraction in asset size, reflect financial MNEs' continued restructuring of assets and affiliates – a move intended to manage asset risk and reinforce capital. Overall, the financial MNEs in UNCTAD's ranking shed 15 per cent of their affiliates between 2012–2017, divesting some 5 per cent of their domestic affiliates and 20 per cent of their foreign

Table I.10. Geographical spread trends among UNCTAD's ranking of the top 50 financial MNEs

Indicators	2012	2017	Change, 2012–2017 (%)
GSI score (group average)	44.6	39.3	-11.9
Assets (group average, US$ billions)	1 020.1	966.1	-5.3
Total number of affiliates	19 768.0	16 778.0	-15.1
Foreign	12 352.0	9 731.0	-21.2
Domestic	7 416.0	7 047.0	-5.0
Number of host countries (group average)	33	28	-15.2

Source: UNCTAD top 50 financial MNEs (see box I.5), Thomson Reuters, company financial reports.
Note: GSI score is calculated by comparing the number of of foreign affiliates and country presence relative to domestic affiliates.

ones (box I.5). Though for some, divesting foreign assets was a move to comply with government regulations, the higher divestment in foreign affiliates compared with domestic ones may indicate MNEs' higher aversion towards the risk of operations abroad.

As international banks from developed economies retrenched, banks from developing Asia have emerged in the top global ranking. More than half of the banks in UNCTAD's ranking of the Top 50 financial MNEs had a lower GSI score in 2017 than in 2012, due to reductions in holdings of foreign affiliates. Banks headquartered in Europe and North America drove most of this reduction. Citigroup, which has exited more than 20 countries and divested affiliates all over Asia Pacific, the Middle East and South America since 2012, scored the largest decline. Asian banks are following an opposite trend.[10]

Other than South Africa's Standard Bank Group, most of the new entrants in the top 50 ranking are headquartered in Asia. The newcomers are First Abu Dhabi Bank (United Arab Emirates), UOB (Singapore), DBS (Singapore), Qatar National Bank (Qatar), Maybank (Malaysia), and three Chinese banks (namely ICBC, Bank of China and China Construction Bank). The foreign expansion of the three Chinese State-owned banks has been exceptionally rapid. Their GSI scores almost doubled, and they are now present in twice as many foreign countries as in 2012. Overall, banks headquartered in Asia represent nearly a third of the total assets of the top 50 group – a significant increase from just 9 per cent in 2012.

Asset growth trends suggest that a more global presence is likely to continue for banks headquartered in Asia. In the past five years, they have grown substantially more than – and did not experience as much asset reduction as – European and North American

Box I.5. UNCTAD Top 50 Financial MNEs

UNCTAD periodically ranks the largest financial MNEs by their Geographical Spread Index (GSI) scores to build its ranking of the Top 50 financial MNEs (see WIR Web Annex). They are ranked separately from the Top 100 MNEs because their international operations are disparate from other sectors. Financial MNEs are an important part of international production, not only because of their historically large assets – on average five times bigger than those of non-financial MNEs in 2017 – but also because of their role in facilitating trade and investments.

The list of the top 50 financial MNEs includes the largest banks, insurance and other financial services companies, by asset size. Commercial banks have consistently dominated, making up some 70–80 per cent of the group's total assets. For each financial MNE, a GSI score is calculated by comparing the number of foreign affiliates and country presence (outside their headquarters) with the number of domestic affiliates.

Source: UNCTAD.

Figure I.22. Annual asset growth of global banks, 2012–2017 (Per cent)

Source: UNCTAD Top 50 Financial MNEs, Thomson Reuters, company financial reports.
Note: Time series data for the 30 banks within UNCTAD's Top 50 ranking 2017. Data refer to fiscal year results reported between 1 April of the stated year to 31 March of the following year.

banks, which have historically dominated the Top 50 ranking (figure I.22). Both groups have experienced an apparent rebound since 2016 driven by loan growth, which increased from 3 per cent in 2016 to 8 per cent in 2017.

The geographical spread of global banks will continue to be constrained by relatively flat profits and by prudential requirements. In the past three years, interest income relative to total assets – a measure of profitability – has remained flat for the banks in the top 50 ranking, hovering around 3 per cent. These stagnating profits could further dampen the appetite to expand abroad. Correspondingly, UNCTAD's data on the numbers of both cross-border M&As and greenfield projects in the financial sector shows a decline in 2017 (see tables I.3 and I.4). Any further international expansion will be driven by Asian MNEs, as the developments in UNCTAD's global ranking suggests. Recent acquisition deals also show how Asian banks are actively acquiring global financial companies. Ping An Insurance Group (China), for example, became the second largest stakeholder of HSBC Holdings in the last quarter of 2017.

Global financial MNEs will continue to be constrained by prudential requirements phased in since 2015–2016, which were part of reform efforts prompted by the global financial crisis. An example at the global level is the Financial Stability Board's rule on global systemically important banks, of which there are 30.[11] Phased in starting in 2016, the rule applies supplemental safety measures, which include higher capital and liquidity requirements, for these banks. Though there will be variations in the timing of implementation for each bank (planned between 2016 and 2019), the rules will affect how the biggest global banks manage their books and, in turn, their operations at home and abroad.

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] All values and numbers referring to cross-border M&As in the report are presented on a net basis. Net cross-border M&As are calculated considering sales of companies in a host economy to foreign MNEs. It excludes sales of foreign affiliates (already owned by foreign MNEs) to other foreign MNEs. Divestments (sales of foreign affiliates to domestic firms) are subtracted from the value (number). Calculations for 2016 and 2017 net cross-border M&As are based on information reported by Thomson Reuters Eikon (TRE). For previous years, please see *WIR17* and its web annex tables.

[3] See also Casella and Formenti, 2018.

[4] Survey data provided by AT Kearney. Survey conducted in January 2018.

[5] Broadly, exports can be decomposed into a domestic value added (DVA) component and a foreign value added (FVA) component. The former is the "real" value added exchanged in trade; all countries participating in GVCs contribute to its creation through their own ("domestic") factors of production. The latter component is value added traded as part of imported inputs in multi-stage, multi-country production processes. In value added terms, it is thus double-counting rather than the creation of fresh value. The more ingrained the GVCs in the global economy, and the more fragmented the global production processes, the higher is the foreign value added. (At the other extreme, in the absence of GVCs, trade would serve only final consumers. In that situation, foreign value added would be null and domestic value added would equate to exports.)

[6] The interplay between the upstream and downstream components is an important dimension in the analysis of GVCs. It is best summarized by the GVC participation index (Koopman et al., 2014). For a given country, the index is computed as the sum of its FVA (upstream component) and the part of its DVA embedded in other countries' exports (downstream component), usually expressed as shares of the country's total exports (GVC participation rate). This indicator, although less intuitive than FVA, provides a more detailed picture of countries' and regions' participation in GVCs.

[7] Figures for foreign sales from the international production estimates and from the top 100 are not totally comparable as in one case they are defined as sales of foreign affiliates while the statistics of top corporations use reported geographical splits of revenues. Most corporations report foreign sales including exports (i.e. sales are reported by customer location and not by origin).

[8] For example, in 2017 investments by Unilever Venture (the capital venture arm of Unilever) included meal-kit outfit Sun Basket, skincare brand True Botanicals, customer care platform Limitless, digital ad platform Celtra and home-cleaning platform Helpling.

[9] In South Africa, State-owned enterprises are required to ensure gender equality in all appointed boards, with a minimum of 30 per cent of either gender. Also, the Broad-Based Black Economic Empowerment Act, passed in 2003 and revised in 2013, provides a financial incentive for companies to advance black women onto boards and into senior leadership roles.

[10] See also Lane and Milesi-Ferretti (2017), Bank for International Settlement 87th Annual Report (2017), which observed a diverging trend in cross-border activities between regions.

[11] See Financial Stability Board (2017) on post-crisis reform implementation.

CHAPTER II

REGIONAL TRENDS

DEVELOPING ECONOMIES

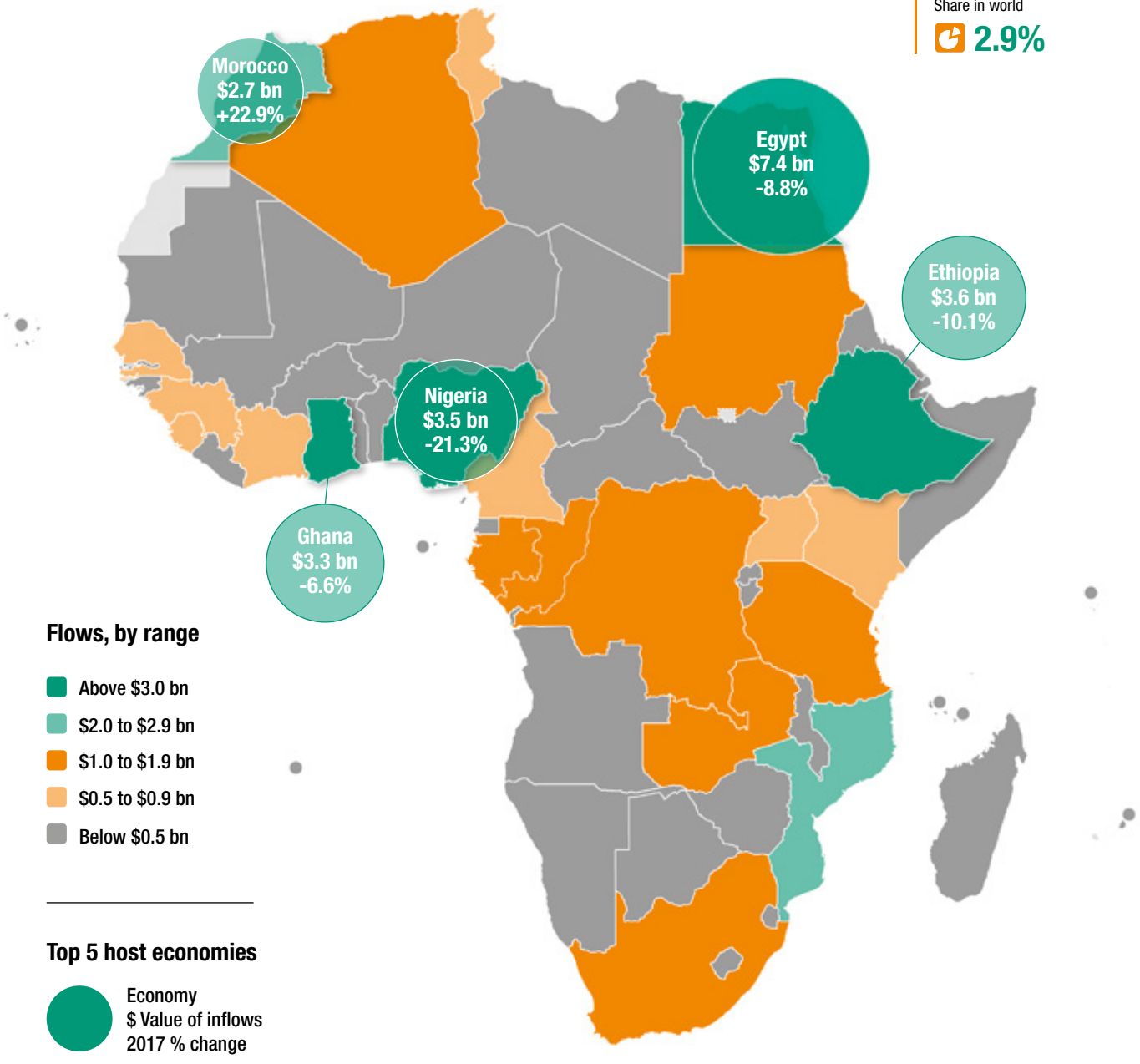
AFRICA

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
41.8 bn

2017 Decrease
-21.5%

Share in world
2.9%



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

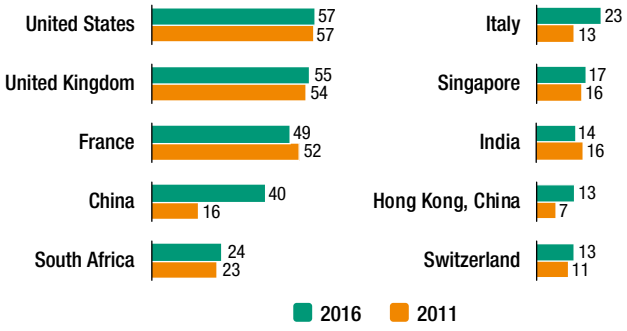
Economy
$ Value of inflows
2017 % change

Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

South Africa	$7.4	+64.5%
Angola	$1.6	+40.3%
Nigeria	$1.3	-1.4%
Morocco	$1.0	+65.7%
Togo	$0.3	+22.9%

Figure A. **Top 10 investor economies by FDI stock, 2011 and 2016** (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 were down by more than one-fifth
- Larger commodity-exporting countries declined most
- Commodity uptick and AfCFTA could support a recovery

Figure B. FDI inflows, 2011–2017
(Billions of dollars and per cent)

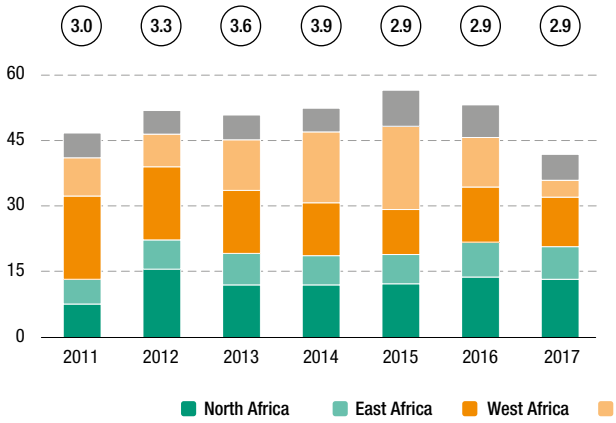
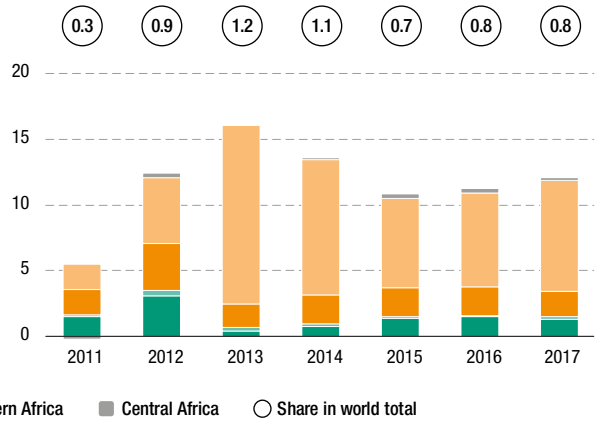


Figure C. FDI outflows, 2011–2017
(Billions of dollars and per cent)



North Africa | East Africa | West Africa | Southern Africa | Central Africa | Share in world total

Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**9 684**	**3 452**	**7 161**	**1 967**
Primary	**52**	**30**	**329**	**2 136**
Mining, quarrying and petroleum	45	30	329	2 136
Manufacturing	**-345**	**284**	**3 667**	**316**
Food, beverages and tobacco	780	9	-35	55
Pharmaceuticals, medicinal chemicals and botanical products	87	2	566	444
Basic metal and metal products	-1 102	244	-	-
Services	**9 977**	**3 137**	**3 165**	**- 485**
Trade	6	80	- 174	383
Information and communication	-39	-373	342	-5 254
Programming and broadcasting activities	-	-	130	-4 527
Financial and insurance activities	512	506	1 927	3 542
Business activities	103	2 699	667	231

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**9 684**	**3 452**	**7 161**	**1 967**
Developed economies	**-2 115**	**1 780**	**6 883**	**556**
European Union	1 016	-7 227	4 221	- 928
Belgium	-	-3 150	-	-
Italy	-	-4 300	-	-55
United States	-3 085	5 674	2 445	1 330
Developing economies	**12 832**	**527**	**172**	**1 410**
Africa	400	796	400	796
Morocco	-	439	375	350
Brazil	-	-798	16	-
China	2 932	1 248	-	-10
India	141	-715	335	494
Transition economies	**-1 135**	**1 125**	**106**	**-**

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	Africa as destination		Africa as investor	
	2016	2017	2016	2017
Total	**94 039**	**85 305**	**11 772**	**5 796**
Primary	**3 713**	**10 574**	**-**	**-**
Mining, quarrying and petroleum	3 713	10 574	-	-
Manufacturing	**19 357**	**21 060**	**5 991**	**2 907**
Textiles, clothing and leather	1 077	3 998	46	91
Chemicals and chemical products	5 107	5 644	4 596	1 194
Non-metallic mineral products	1 144	3 036	576	314
Motor vehicles and other transport equipment	2 754	1 506	28	40
Services	**70 969**	**53 671**	**5 782**	**2 889**
Electricity, gas and water	15 601	37 485	156	156
Construction	16 372	6 488	2 542	204
Transport, storage and communications	12 872	3 215	698	452
Business services	22 734	3 063	1 030	829

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	Africa as destination		Africa as investor	
	2016	2017	2016	2017
World	**94 039**	**85 305**	**11 772**	**5 796**
Developed economies	**19 945**	**32 398**	**1 411**	**1 961**
European Union	11 864	22 704	1 209	1 658
Italy	4 006	10 383	-	-
United Kingdom	2 395	2 287	444	83
United States	3 640	3 901	55	197
Developing economies	**73 643**	**21 582**	**10 342**	**3 829**
Africa	8 604	1 949	8 604	1 949
South Africa	1 618	841	74	151
China	36 144	8 920	110	224
Saudi Arabia	4 057	3 972	743	6
United Arab Emirates	10 997	2 023	117	163
Transition economies	**452**	**31 324**	**19**	**6**

FDI flows to Africa slumped to $42 billion in 2017, a 21 per cent decline from 2016. Weak oil prices and harmful ongoing macroeconomic effects from the commodity bust saw flows contract in Egypt, Mozambique, the Congo, Nigeria, and Angola. In addition, foreign investment to South Africa continued to underperform. FDI inflows to diversified exporters, including Ethiopia and Morocco, were more resilient. FDI outflows from Africa rebounded by 8 per cent to $12 billion. The beginnings of a commodity price recovery, as well as advances in interregional cooperation through the signing of the African Continental Free Trade Area (AfCFTA) agreement, should encourage stronger FDI flows – to about $50 billion – in 2018, provided the global policy environment remains supportive.

Inflows

Strong diversified investment into Morocco contrasted with declines in FDI to the rest of North Africa – the only subregion yet to surpass its 2007 peak. FDI flows to North Africa were down 4 per cent to $13 billion. FDI into *Morocco* was up 23 per cent to $2.7 billion, thanks to considerable investment into new car technologies (electrical, battery, cameras). By the end of 2017, the Government had confirmed 26 auto industry investments worth $1.45 billion, including a deal with Renault (France) to increase local sourcing of components to 55 per cent. FDI into the country's financial sector also expanded, as banking relations with China deepened. In addition, Uber (United States) expanded operations in both Morocco and Egypt. Despite a decline in FDI of 9 per cent, *Egypt* continued to be the largest recipient in Africa with $7.4 billion. Inflows were supported by a large increase in Chinese investment across light manufacturing industries and wide-ranging economic reforms beginning to pay off: financial liberalization, for instance, fostered more reinvestment of domestic earnings.

FDI flows to *Tunisia* remained flat at $0.9 billion, a 1 per cent decline from 2016. Nonetheless, improved investment incentives following the promulgation of the recent investment law, as well as new legislation on public-private partnerships, supported inflows from Belgium's Windvision into the country's renewable energy industry, as well as FDI in the electronics, software and IT industries from French and regional investors. FDI into *Algeria*, which depends heavily on investment in oil and gas, fell 26 per cent to $1.2 billion, despite the bundle of incentives offered by the country's new investment law. Diversification was supported by FDI from Huawei (China) to help with Houari Boumediene Airport in Algiers and from Samsung (Republic of Korea), which opened its first smartphone assembly plant in the country. Proposed amendments to the energy law could increase foreign participation in the country's oil sector considerably in the future, if successfully implemented.

FDI flows in *the Sudan* remained stable at $1.1 billion. The country is largely reliant on Chinese investment into its oil sector and the reaching of an agreement with *South Sudan* to access its once-productive oil fields. The lifting of United States sanctions on *the Sudan* in 2017 should help increase FDI.

Harmful lingering macroeconomic effects from the commodity bust weighed on FDI to sub-Saharan Africa – even though debt levels, foreign currency shortages and inflation rates appear to be improving. FDI to West Africa fell by 11 per cent to $11.3 billion, due to *Nigeria's* economy remaining largely depressed. FDI to that country fell 21 per cent to $3.5 billion. With domestic demand well below investor expectations, several consumer-facing companies from South Africa exited Nigeria in 2016. A modest recovery in oil production and the general economy in 2017, as well as the introduction of an investor and export window to bid for foreign exchange, should help entice companies to return to Nigeria in the future. At the same time, new technology start-ups in Nigeria, backed by venture capitalists from South Africa and elsewhere, are helping to diversify FDI inflows.

Nigeria has attracted strong market-seeking technology inflows from United States firms, including Uber, Facebook, Emergent Payments and Meltwater Group. Chinese investments in the country consisted of efficiency-seeking manufacturing FDI into the textile, automotive and aerospace industries.

Ghana attracted $3.3 billion in FDI flows (down 7 per cent), on the back of fiscal consolidation and self-imposed reductions in Government investment spending. Until this past year, Ghana's diversified economy had facilitated a continuous increase in its FDI flows since the 2000s. A firm price for gold and ongoing investment from Italy's Eni to develop the large Sankofa gas field could further encourage FDI in 2018. Sankofa produced its first oil in 2017, with Eni having contributed the largest amount of FDI in Ghana's history through its 44 per cent stake in the company. In contrast, FDI into *Côte d'Ivoire,* was up 17 per cent to $675 million, reflecting supportive public investments by the Government and economic diversification. As one of the two fastest-growing economies in Africa (along with Ethiopia), the country has attracted FDI into consumer goods. Heineken (Netherlands) invested $35 million in 2017 to double beer production and compete with Castel (France). Hershey (United States) is set to help the country process more of its cocoa locally, boding well for future investment prospects. FDI into *Senegal* was up 13 per cent to $532 million. Russian producer KAMAZ will invest approximately $60.5 million in the first phase of truck assembly production in the country.

FDI flows to Central Africa decreased by 22 per cent to $5.7 billion. Flows to *the Congo* fell by 67 per cent to $1.2 billion from $3.6 billion in 2016. The deepening economic crisis in the country, volatility in oil FDI and weak FDI in non-oil sectors contributed to the decline. In contrast, the global race for cobalt used in electric car batteries supported a 11 per cent rise of FDI flows into the *Democratic Republic of Congo*, reaching $1.3 billion. Glencore (Switzerland) bought two mining assets for nearly $1 billion, increasing its stake in cobalt and copper mines. Flows rose also in *Equatorial Guinea* (to $304 million from $54 million in 2016) and in *Gabon*, a major oil producer (up 21 per cent to $1.5 billion).

East Africa, the fastest-growing region in Africa, received $7.6 billion in FDI in 2017, a 3 per cent decline from 2016. *Ethiopia* absorbed nearly half of this amount, with $3.6 billion (down 10 per cent), and is now the second largest recipient of FDI in Africa after Egypt, despite its smaller economy (the eighth largest in Africa). Chinese and Turkish firms announced investments in light manufacturing and automotive after Ethiopia lifted the state of emergency in the second half of 2017. United States fashion supplier PVH (Calvin Klein and Tommy Hilfiger); Dubai-based Velocity Apparelz Companies (Levi's, Zara and Under Armour); and China's Jiangsu Sunshine Group (Giorgio Armani and Hugo Boss) all set up their own factories in Ethiopia in 2017. Several of these firms are located in Ethiopia's flagship, Chinese-built, Hawassa Industrial Park.

Kenya saw FDI increase to $672 million, up 71 per cent, due to buoyant domestic demand and inflows into ICT industries. The Kenyan Government provided additional tax incentives to foreign investors. South African ICT investors Naspers, MTN and Intact Software continued to expand into Kenya. United States companies were also prominent tech-oriented investors, with Boeing, Microsoft and Oracle all investing in the country. Significant consumer-facing investments by Diageo (United Kingdom) in beer and Johnson and Johnson (United States) in pharmaceuticals also bolstered FDI into the country. The strong gold price and a diversified productive structure contributed to FDI inflows worth $1.2 billion into the *United Republic of Tanzania*. Facebook and Uber (both United States) expanded into that country while India's Bharti Airtel continued to invest. The country's inflows nonetheless recorded a 14 per cent decline compared with 2016. Foreign telecommunication companies now must list at least a quarter of their equity on the local stock exchange, an effort by the Tanzanian Government to increase domestic ownership.

In addition, a ban on exports of unprocessed minerals may adversely affect the country's foreign mining assets.

In Southern Africa, FDI declined by 66 per cent to $3.8 billion. FDI into *Angola*, Africa's third largest economy, turned negative once again (–$2.3 billion from $4.1 billion in 2016) as foreign affiliates in the country transferred funds abroad through intracompany loans. In addition, oil production declined and macroeconomic fundamentals deteriorated. Tenders for onshore oil blocks were suspended in 2017 but are to be relaunched in 2018 after a new government is appointed. A tender for oil blocks off southern Angola may also be opened in 2018 to offset declines in older fields.

FDI to *South Africa* declined by 41 per cent to $1.3 billion, as the country was beset by an underperforming commodity sector and political uncertainty.[1] Investors from the United States, which remain the largest source of FDI into the country, focused on services industries. The standout project was the investment by DuPont (United States) into a regional drought crop research centre. Automotive FDI also remained significant. General Motors sold its South African plant to Japan's Isuzu, and Beijing Automotive Group Co. announced an $88 million investment in a vehicle manufacturing plant in a joint venture with South Africa's Industrial Development Corporation. European investors, led by Germany and the United Kingdom, remained very active in South Africa, through initiatives such as BMW's retooling of factories. Automotive FDI into South Africa is increasingly developing regional value chains: Lesotho now produces car seats, and Botswana ignition wiring sets, for auto manufacturers in South Africa. FDI into *Mozambique* also contracted severely, down 26 per cent to $2.3 billion, amid austerity and debt defaults. Long-term prospects rely on the country's liquefied natural gas potential being exploited and profits reinvested to advance domestic development. Mozambique's coal sector attracted investor interest from a consortium of Chinese, British and South African firms, but the project is in its early stages.

FDI into *Zambia*, by contrast, increased by 65 per cent, to $1.1 billion, supported by more investment in copper. The Government, which is keen to diversify the economy away from copper, announced the building of a $548 million cement plant in a joint venture between the country's mining investment arm and China's Sinoconst. Israeli Green 2000, already active in seven other African countries, also invested in food production, further contributing to economic diversification.

Geographical sources of FDI to Africa are becoming more diversified. Investors from the United States, the United Kingdom and France still hold the largest direct investment stakes in Africa. Italy has also emerged as a major source of investment, particularly in the energy sector. At the same time, developing-economy investors from China and South Africa, followed by Singapore, India and Hong Kong (China), are among the top 10 investors in Africa. China's FDI stock in the continent reached $40 billion in 2016, as compared with $16 billion in 2011.

Outflows

FDI outflows from Africa increased by 8 per cent to $12.1 billion. This largely reflected a significant increase in outward FDI by South African firms (up 64 per cent to $7.4 billion) and Moroccan firms (up 66 per cent to $960 million). Outward FDI by Nigerian firms, in contrast, remained flat at $1.3 billion, focused almost exclusively on Africa. Major African MNEs other than South African firms have, in the last few years, expanded their international footprints both within the region and elsewhere, with extraregional FDI heading to both developed and developing economies.[2]

South African retailers continued to expand into Namibia, and Standard Bank opened several new branches there. The Africa Private Equity Fund of South Africa's Investec made several prominent intra-African acquisitions with other partners, including in SJL Group in Morocco (logistics) and Kamoso, a Botswana-based retailer. Intra-African M&A was largely concentrated in Morocco and Egypt. South Africa's media giant Naspers sold an online auction site, Alegro, for $3.2 billion at the end of 2016, resulting in a large divestment from Poland.

Prospects

FDI inflows to Africa are forecast to increase by about 20 per cent in 2018, to $50 billion. The projection is underpinned by the expectations of a continued modest recovery in commodity prices and macroeconomic fundamentals. In addition, advances in interregional cooperation, through the signing of the African Continental Free Trade Area (AfCFTA) agreement (box II.1), could encourage stronger FDI flows in 2018. Yet Africa's commodity dependence will continue to direct FDI into commodity enclaves, causing FDI to remain cyclical, with fewer spillovers, unless Government policy actively works to foster linkages and diversify inflows.

Foreign-financed infrastructure projects will help boost economic growth and should help generate FDI inflows into the region. The Mombasa–Nairobi section of the standard-gauge railway in Kenya was completed in 2017. The project is being 90 per cent financed by the Exim Bank of China and constructed and operated by China Road and Bridge Corporation. The railway will eventually connect several East African countries. The Addis Ababa–Djibouti Railway was inaugurated on 1 January 2018, administered by a joint venture between Ethiopia (75 per cent stake) and Djibouti (25 per cent stake). Until the end of 2023, all operations on the new railway will be jointly undertaken by two Chinese companies, State-owned China Railway, and privately owned China Civil Engineering Construction. The Ethiopia–Djibouti joint venture will take over operations in 2024, until which time the local staff is being trained with Chinese assistance. Construction began in 2017 on a regional oil pipeline to transport oil produced in landlocked Uganda – by Total E&P (France), Tullow Oil (United Kingdom) and China National Offshore Oil Corporation – to the United Republic of Tanzania for export.

Box II.1. The African Continental Free Trade Area (AfCFTA) and FDI

On 21 March 2018 in Kigali, 44 of the 55 African Union member economies signed the Agreement Establishing the African Continental Free Trade Area (AfCFTA). Notably absent were Nigeria, Africa's most populous country, and South Africa, which only signed onto the Kigali Declaration (which is the document establishing the AfCFTA). If successfully ratified and implemented, it will be the biggest trade agreement since the formation of the World Trade Organization in 1995. Its aim is to create a single market for goods, services and movement of people.

The plan is to establish and negotiate a continental trade protocol in goods which, although in its advanced stages, remains to be completed. The objective is to cut 90 per cent of tariffs from their current average of 6.1 per cent to eventually zero and address the multiplicity of non-tariff barriers, such as poor infrastructure and inefficient border posts, which are often the dominant barrier and cost to trading on the continent. Protocols on intellectual property rights, investment and competition will be added to the umbrella agreement later (see chapter III).

The impact of the AfCFTA on FDI will mainly be on non-commodity-seeking investment. To the extent that the AfCFTA accelerates economic growth and consumer income on the continent, market-seeking FDI will increase. Reductions in the price of goods and services, as well as the integration of product markets, will stimulate both market-seeking FDI and efficiency-seeking FDI for value chains, but only if non-tariff barriers are adequately addressed.

Source: UNCTAD, based on G. Erasmus (2018), "How will the AfCFTA be established and its legal instruments be implemented?", TRALAC.

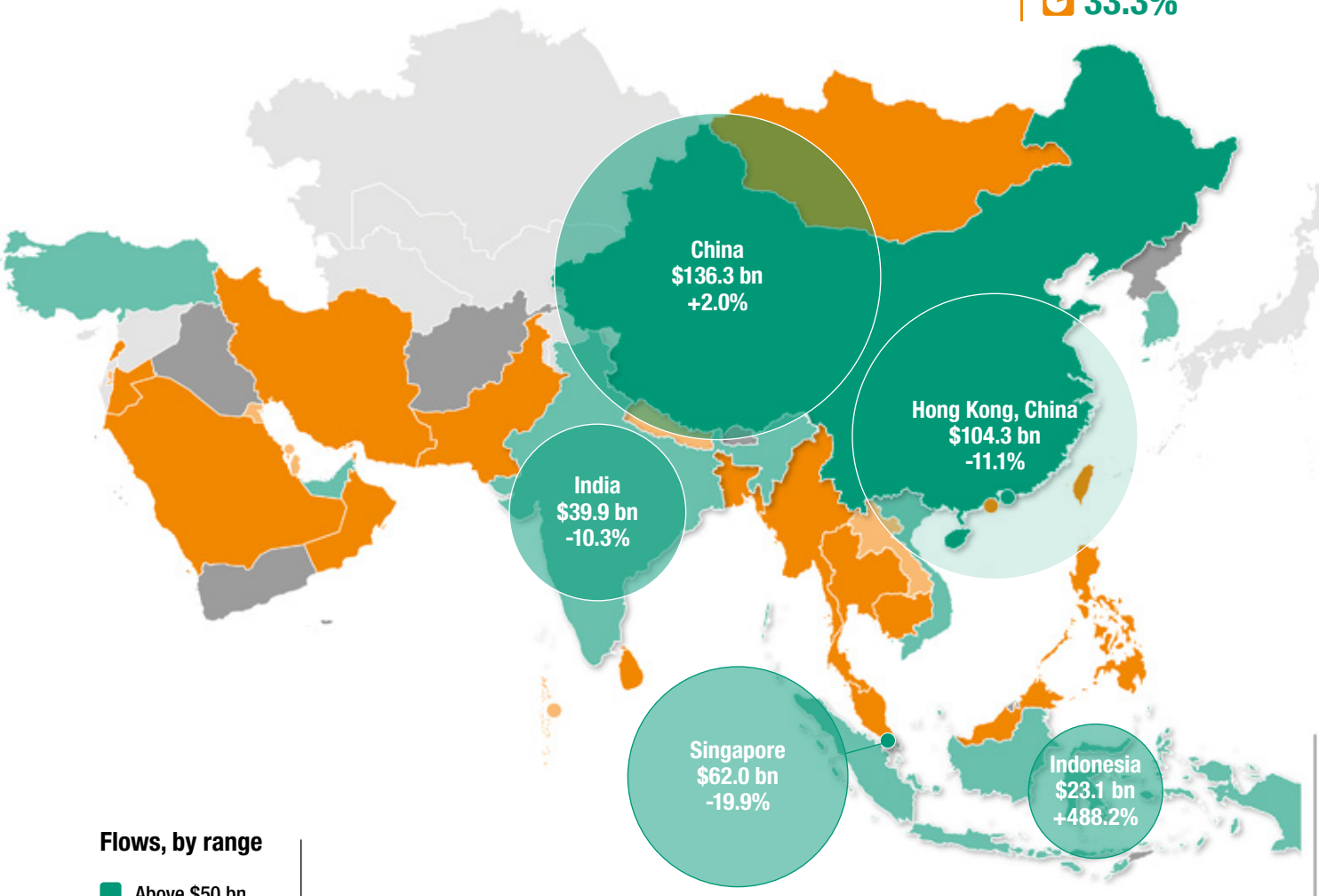
DEVELOPING ASIA

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
475.8 bn

2017 Increase
+0.1%

Share in world
33.3%



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
2017 % change

Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

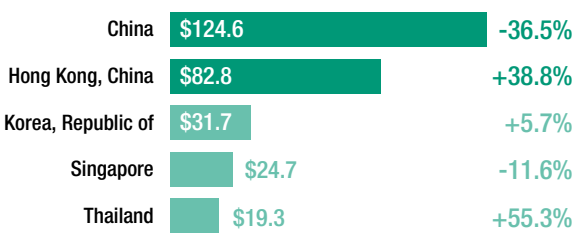
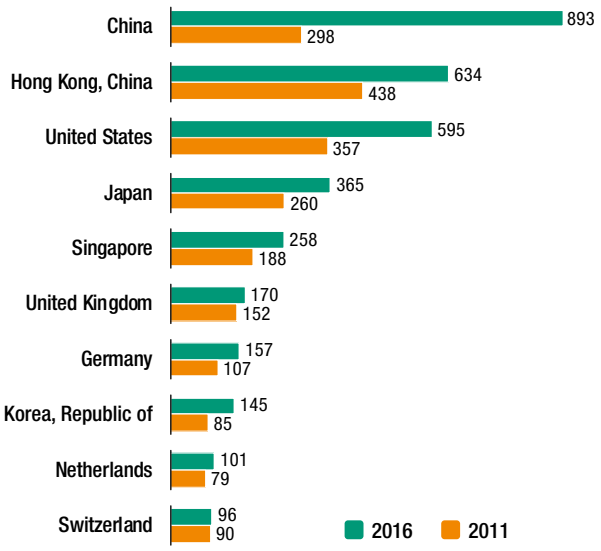


Figure A. Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



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. 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 stagnated, but the region regained its position as the largest recipient
- Outward FDI declined due to a significant drop in outflows from China
- Looking ahead, FDI inflows are expected to remain at about the same level

Figure B. FDI inflows, 2011–2017
(Billions of dollars and per cent)

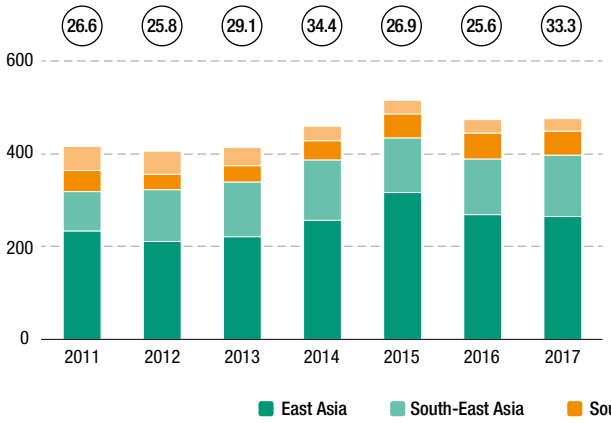


Figure C. FDI outflows, 2011–2017
(Billions of dollars and per cent)

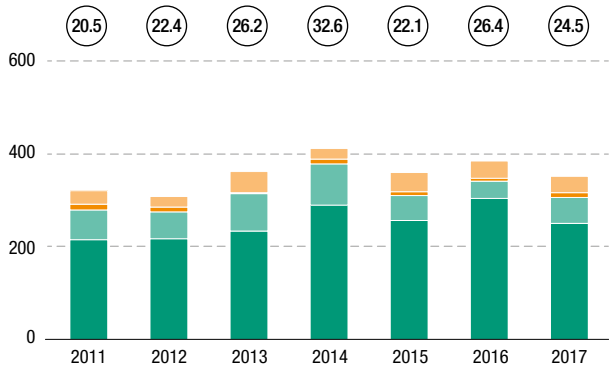


Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**47 699**	**79 363**	**163 822**	**193 789**
Primary	**-1 763**	**18 489**	**13 398**	**4 829**
Mining, quarrying and petroleum	-1 850	17 551	13 293	5 568
Manufacturing	**17 307**	**17 146**	**24 781**	**61 052**
Food, beverages and tobacco	4 781	6 780	3 170	1 794
Chemicals and chemical products	1 298	2 790	3 313	44 816
Computer, electronic, optical products and electrical equipment	4 265	1 851	7 010	8 686
Machinery and equipment	3 420	437	6 210	596
Services	**32 155**	**43 727**	**125 643**	**127 907**
Transportation and storage	5 707	3 876	20 355	9 509
Information and communication	4 375	18 317	511	14 572
Financial and insurance activities	5 590	7 824	67 000	74 082
Business activities	7 200	6 597	11 457	21 374

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**47 699**	**79 363**	**163 822**	**193 789**
Developed economies	**-1 141**	**26 410**	**89 321**	**141 676**
European Union	-5 961	8 100	19 962	40 061
United States	3 087	5 676	44 295	44 825
Japan	2 657	9 562	5 337	1 832
Developing economies	**47 857**	**38 510**	**68 652**	**50 936**
Africa	186	588	12 421	528
Latin America and the Caribbean	543	190	9 111	12 792
Asia	47 119	37 800	47 119	37 800
China	17 828	23 001	16 994	9 872
Hong Kong, China	12 381	8 826	9 810	15 177
Singapore	3 090	1 687	3 798	4 450
Transition economies	**150**	**12 598**	**5 849**	**1 176**

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	Developing Asia as destination		Developing Asia as investor	
	2016	2017	2016	2017
Total	**345 532**	**210 540**	**301 857**	**186 027**
Primary	**5 541**	**1 063**	**5 549**	**2 252**
Mining, quarrying and petroleum	5 541	941	5 430	2 131
Manufacturing	**131 806**	**110 006**	**84 628**	**109 163**
Chemicals and chemical products	19 761	17 389	8 232	25 128
Metals and metal products	14 216	7 105	7 462	7 446
Electrical and electronic equipment	33 039	27 696	24 939	30 492
Motor vehicles and other transport equipment	19 728	16 723	9 869	13 570
Services	**208 186**	**99 471**	**211 680**	**74 612**
Electricity, gas and water	63 271	22 646	57 749	21 124
Construction	74 917	24 562	87 317	25 895
Transport, storage and communications	15 429	12 303	21 437	6 319
Business services	21 109	17 547	28 376	9 298

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	Developing Asia as destination		Developing Asia as investor	
	2016	2017	2016	2017
World	**345 532**	**210 540**	**301 857**	**186 027**
Developed economies	**164 093**	**113 939**	**46 250**	**57 452**
European Union	71 901	50 277	17 045	14 455
United States	49 556	31 451	12 483	33 341
Japan	27 997	22 972	4 512	2 185
Developing economies	**174 098**	**89 072**	**246 830**	**114 299**
China	43 544	17 529	31 279	23 888
India	9 996	2 453	25 619	6 268
Malaysia	16 833	3 977	13 992	1 921
Korea, Republic of	22 608	22 137	1 219	543
Singapore	19 659	10 553	1 693	4 536
United Arab Emirates	9 564	5 904	4 009	2 788
Transition economies	**7 341**	**7 530**	**8 778**	**14 277**

FDI inflows to developing Asia remained stable at $476 billion in 2017, thanks to the high-tech sector in China, a rebound in Indonesia, and increases in most ASEAN countries. This was enough to offset declines in other large recipient economies in the region, including Hong Kong (China), Singapore, India and Saudi Arabia. Against the backdrop of a significant decline in worldwide FDI, the region's share in global inflows rose from 25 per cent in 2016 to 33 per cent in 2017. The region regained its position as the largest FDI recipient in the world, ahead of the European Union and North America. FDI outflows from developing Asia dropped by 9 per cent to $350 billion in 2017, or 24 per cent of the global total. This was mainly due to a significant decline in outward investment from China, following more than a decade of sustained expansion. In 2018, FDI inflows in the region are expected to remain stagnant.

Inflows

FDI inflows to developing Asia were characterized by rising inflows in China, most ASEAN member countries and the Republic of Korea, and a significant increase in cross-border M&A sales in the region. Total M&A sales rose from $48 billion in 2016 to $79 billion in 2017. A number of large transactions took place in Hong Kong (China), India and Singapore. The five largest recipients — China, Hong Kong (China), Singapore, India and Indonesia — absorbed four-fifths of FDI inflows to the region.

FDI inflows to East Asia were stable at $265 billion, with a decline in Hong Kong (China) but an all-time high in China. FDI flows to *China* increased by 2 per cent to $136 billion in 2017. The rise was supported by a 28 per cent increase in 2017 in the number of foreign affiliates, to more than 35,650. FDI in the country's free trade zones increased, and Government efforts to achieve a better geographical spread of investment led to inflows to central China growing faster than other regions. An increase in high value added investment activities further contributed to the rise; FDI inflows to the high-tech sector (e.g. manufacturing of electronics, medical devices, communications equipment, computers, pharmaceutical products, as well as the digital economy) rose significantly – by 62 per cent – to about $40 billion,[3] accounting for 29 per cent of total inflows. For instance, Samsung Electronics (Republic of Korea) is investing $7.2 billion to expand its production line of NAND flash memory chips in Xi'an; this follows an investment of $10 billion in the first phase of the project, which was completed in 2016. An investor group involving Soft Bank (Japan) and others contributed to a $5.5 billion funding round for Didi Chuxing, a mobile transportation platform.

FDI inflows to *Hong Kong (China)* slowed for the second consecutive year, to $104 billion. The decline (11 per cent) was more moderate than in 2016. Inflows to Hong Kong (China), which serves as a hub for foreign MNEs' regional headquarters, have been considerably affected by the fluctuation of intracompany loans in 2016 and 2017. FDI inflows to the *Republic of Korea* increased by 41 per cent, to $17 billion, primarily because of a significant increase in cross-border M&A sales in the country.

Reversing a continuous decline since 2011, FDI inflows to *Mongolia* improved to $1.5 billion in 2017. Improving commodity prices heavily influence investment in this country. In 2016, it recorded negative FDI inflows (–$4 billion) due to funds transfers through intracompany loans by foreign MNEs in the mining industry. Inflows turned positive in 2017 as the price of metal minerals bottomed out and stabilized. With the macroeconomic situation improving, mineral prices are projected to rise and the expansion of the Oyu Tolgoi mine, FDI inflows to Mongolia could grow further. For example, extractive companies such as Rio Tinto (Australia), Turquoise Hill Resources (Canada) and Erdene Resources (Canada) are expanding their operations in the country.

FDI inflows to South-East Asia rose by about 11 per cent to $134 billion, propelled by an increase in investment in most ASEAN countries and a strong rebound in Indonesia. Intra-ASEAN investment remained strong, accounting for a quarter of total inflows to the grouping. This reflected growing regional investment opportunities, as well as the financial strength of ASEAN-based MNEs and their intensified drive to internationalize (ASEAN Secretariat and UNCTAD, 2017).[4]

Indonesia registered the largest FDI increase in developing Asia as a whole, with inflows rising fivefold to a new record of $23 billion. The scale of the rebound, however, reflects the very low base of $4 billion recorded in 2016, which resulted from large negative equity inflows in late 2016 due to Indonesian companies acquiring foreign-owned assets in Indonesia and the influence of a tax measure that reduced round-tripping investment (ASEAN Secretariat and UNCTAD, 2017). The recovery in 2017 was spread across sectors, with FDI growing in agriculture, manufacturing (automotive and electronics), finance and trade. Significant growth in cross-border M&A sales, propelled by Chinese companies' expansion into the South-East Asian market, also played a role. For example, Alibaba Group acquired PT Tokopedia, one of the top three e-commerce companies in Indonesia, for $1.1 billion. Other Chinese companies, such as Sinochem, also acquired large assets in Indonesia. FDI to *Thailand* rose by 3.7 times on the back of an increase in investment from the European Union and strong inflows from Japan and ASEAN. By contrast, inflows to *Singapore* – the largest FDI recipient in the subregion – declined by 20 per cent to $62 billion, due to a significant fall in foreign investment in the financial sector.

Combined FDI inflows to the CLMV countries (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam) rose 16 per cent to a new high of $22 billion. In *Viet Nam,* inflows rose to a record level of FDI ($14 billion) aided by a significant rise in investment in utilities (electricity) and real estate activities. Licenses were issued in 2017 for the expansions of some major power plants. They include large projects such as the 1,200 MW Nghi Son 2 Thermal Power Plant, the 1,320 MW Van Phong Thermal Power Plant 1 and the 1,109 MW Nam Dinh 1 Thermal Power Plant. Despite a decline in FDI in manufacturing, the industry remains the largest recipient, with active investment from Japan and the Republic of Korea. Inflows to *Myanmar* also increased significantly – by 45 per cent – to $4 billion, as the country's manufacturing sector attracted large greenfield investments by foreign MNEs, especially from within the region. For instance, Malaysia-based Kian Joo Group, one of the largest can manufacturer and packaging businesses in ASEAN, has started to invest in the Thilawa Special Economic Zone to build a new plant. Foreign investment in telecommunication and real estate also rose significantly in Myanmar. In *Cambodia,* FDI in finance and real estate pushed total inflows up to $3 billion. Only in the *Lao People's Democratic Republic* did inflows decline – slightly, to $800 million.

FDI inflows to South Asia contracted by 4 per cent to $52 billion, owing to a drop in inflows to India. FDI to *India* decreased from $44 billion in 2016 to $40 billion in 2017. Cross-border M&A sales, however, rose from $8 billion to $23 billion driven by a few large deals in extractive and technology related industries. Petrol Complex Pte Ltd (Singapore), owned by Rosneftegaz (Russian Federation) acquired a 49 per cent stake of Essar Oil Ltd, the second largest privately owned Indian oil company, for $13 billion. An investor group including eBay (United States), Microsoft Corporation (United States) and Tencent Holdings (China) acquired a stake in Flipkart Internet for $1.4 billion, and Soft Bank (Japan) acquired a 20 per cent stake in One97 Communications also for $1.4 billion.

Inflows to the *Islamic Republic of Iran* increased by nearly 50 per cent to $5 billion. Following the lifting of sanctions in 2015, the country's rich reserves started to attract significant foreign participation in the exploration and production of oil and gas. In July 2017, Total (France), CNPC (China) and the National Iranian Oil Company signed a contract to develop

phase 11 of South Pars, the world's largest gas field. In August, Unit International (Turkey), Zarubezhneft (Russia) and the local Ghadir Investment Holdings agreed jointly to invest $7 billion in three oil fields and a gas field. The Turkish company has also reached an agreement with the Iranian Government to build seven power plants in the country. However, the United States' decision to withdraw from the Iran nuclear deal has led to uncertain prospects for these investment projects.

Pakistan has continued to attract Chinese investment related to the Belt and Road Initiative, with FDI inflows rising from $2.5 billion in 2016 to $2.8 billion in 2017.

FDI to West Asia continued to decline, dropping from $31 billion in 2016 to $26 billion in 2017. Inflows to the region have been almost continuously declining since the peak of $85 billion in 2008. Inflows to *Saudi Arabia* – traditionally the largest FDI recipient in the region – slid by four-fifths to $1.4 billion, due to significant divestments and negative intracompany loans by foreign MNEs. For instance, Shell (United Kingdom–the Netherlands) sold its 50 per cent interest in the petrochemical joint venture company (SADAF) to its partner Saudi Basic Industries Corporation (SABIC) for $820 million. FDI to the country has been contracting since the global financial crisis and, as a result, Saudi Arabia's share in total FDI inflows to West Asia has collapsed from 53 per cent in 2009 to 27 per cent in 2015 and a mere 6 per cent in 2017.

Turkey, the other larger FDI recipient in West Asia, accounted for more than a quarter of total inflows to the subregion during 2007–2015. Since July 2016, however, political instability has had a negative impact on the Turkish economy and on FDI. Leading rating agencies have downgraded Turkey's sovereign credit rating, which has acted as a deterrent both to international borrowing and to foreign investment in the country. FDI inflows continued to decline, to $11 billion, in 2017, following the substantial drop in 2016.

FDI to six countries (Bahrain, Jordan, Lebanon, Oman, Qatar, and the United Arab Emirates) rose but not sufficiently to help the subregion overcome the decline. FDI to the *United Arab Emirates* rose by 8 per cent to $10.4 billion in part due to rising cross-border M&A sales. Inflows to *Jordan* and *Qatar* grew by 7 per cent and 27 per cent, reaching nearly $2 billion and $1 billion, respectively.

Outflows

Outward FDI flows from developing Asia declined by 9 per cent, from $385 billion in 2016 to $350 billion in 2017, due to a reversal in China for the first time since 2003. Despite this decline, the region remained a major source of FDI worldwide, still accounting for nearly one-fourth of global outflows.

Outward FDI from China declined by nearly 36 per cent to an estimated $125 billion. During the last five years it had increased from $88 billion in 2012 to $196 billion in 2016. The decline was the result of policies to clamp down on outward FDI, in reaction to significant capital outflows during 2015–2016. In late 2016, the Chinese Government identified several areas of "irrational investment" and started to curb overseas investments (especially M&As) in certain industries, including real estate, hotels, cinemas, entertainment and sport clubs. Accordingly, outward FDI in these industries shrank by more than four-fifths in 2017.

Overall, *East Asia* experienced a 17 per cent decrease in FDI outflows. The significant drop in China was partially offset by the rise of FDI outflows from Hong Kong (China) – from $60 billion in 2016 to $83 billion in 2017. In addition, outflows from the Republic of Korea rose by 6 per cent to $32 billion, driven by leading MNEs such as Samsung Electronics and LG. East Asian MNEs are investing significantly in lower-income countries in the region, including the CLMV countries. For example, Samsung expanded assembly plants for

products such as smartphones in Viet Nam. In 2017, the company had about 160,000 employees in Viet Nam and exported more than $50 billion worth of goods.[5]

Outflows from *South-East Asia* and *South Asia* increased by 41 per cent and 111 per cent, respectively. Those from Singapore, the leading source of FDI in ASEAN, declined by 12 per cent to $25 billion. FDI outflows from Thailand, now ASEAN's second largest investing country, expanded by 55 per cent to $19 billion, driven by intraregional investments by Thai MNEs. Outflows from India, the main source of FDI in South Asia, more than doubled to $11 billion. India's State-owned oil and gas company ONGC has been actively investing in foreign assets in recent years. After acquiring a 26 per cent stake in Vankorneft (Russian Federation) in 2016, it bought a 15 per cent stake in an offshore field in Namibia from Tullow Oil (founded in Ireland and headquartered in the United Kingdom) in 2017. By the end of 2017, ONGC had 39 projects in 18 countries, producing 285,000 barrels of oil and oil-equivalent gas per day.[6]

FDI outflows from *West Asia* decreased from $37 billion in 2016 to $33 billion in 2017. Expanding outflows (8 per cent to $14 billion) from the United Arab Emirates, the subregion's largest source of FDI in 2017, were not enough to offset declining outward FDI from all other major West Asian economies.

Prospects

FDI inflows to developing Asia are projected to remain stagnant in 2018. Inflows to China could see continued growth, due to recently announced plans to facilitate foreign investment in industries such as automotive and finance, which still have considerable restrictions on the share of foreign ownership.[7] Other sources of growth could be increased intraregional FDI, including to relatively low-income economies in the grouping, most notably the CLMV countries. Investments from ASEAN, China, Japan and the Republic of Korea in these countries are likely to continue. In South Asia, inflows are expected to stagnate or decline marginally. In West Asia, the evolution of oil prices, the efforts of oil-rich countries to promote economic diversification,[8] and political and geopolitical uncertainties will shape FDI inflows.

After the United States withdrew from the Trans-Pacific Partnership (TPP), the developing Asian partner countries chose to pursue the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (see chapter III). This is likely to have a long-term impact on FDI they receive.

Modest growth in FDI outflows from developing Asia is expected in 2018. After a sharp decline in 2017, outflows from China are expected to stabilize or rebound. In particular, outward FDI in infrastructure and manufacturing could grow further, driven by intensified efforts to implement the Belt and Road Initiative.

HIGHLIGHTS

- FDI to the region rose for the first time in six years
- Outflows rebounded but remained lower than before the commodity slump
- FDI prospects for 2018 remain muted

Figure B. FDI inflows, 2011–2017
(Billions of dollars and per cent)

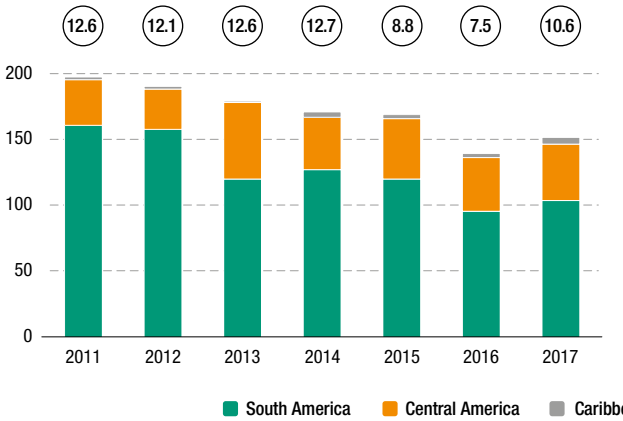
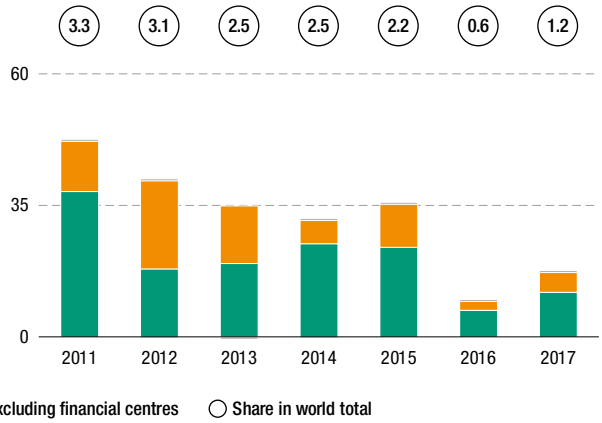


Figure C. FDI outflows, 2011–2017
(Billions of dollars and per cent)



South America | Central America | Caribbean, excluding financial centres | Share in world total

Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**18 099**	**29 535**	**272**	**5 426**
Primary	**1 848**	**1 809**	**-797**	**-2 060**
Mining, quarrying and petroleum	1 839	1 241	-797	-1 487
Manufacturing	**7 527**	**5 207**	**3 895**	**3 390**
Food, beverages and tobacco	2 065	2 923	1 340	3 203
Paper and paper products	1 105	1 271	164	-
Chemicals and chemical products	1490	195	78	1 116
Pharmaceuticals, medicinal chemicals and botanical products	2 298	430	22	-
Basic metal and metal products	227	-	-224	-167
Services	**8 724**	**22 519**	**-2 826**	**4 096**
Electricity, gas, water and waste management	7 917	18 726	86	324
Transportation and storage	4 495	996	-	1 739
Real estate activities	804	1 614	-197	4

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**18 099**	**29 535**	**272**	**5 426**
Developed economies	**11 500**	**14 193**	**1755**	**3 586**
Europe	1 380	5 844	-135	960
France	973	1 278	-	-
Spain	2 462	-416	915	36
United Kingdom	-6 343	-587	49	1 100
North America	5 740	9 154	1 890	2 607
Canada	3 497	6 313	16	2
Developing economies	**6 661**	**15 127**	**-1 483**	**1 701**
Brazil	-4 761	-157	1 199	1 618
Mexico	1 541	1 872	-	-27
China	7 875	12 273	17	-
Korea, Republic of	-	320	-	-

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	LAC as destination		LAC as investor	
	2016	2017	2016	2017
Total	**74 215**	**70 054**	**7 999**	**7 539**
Primary	**4 407**	**4 463**	**18**	**76**
Mining, quarrying and petroleum	4 407	4 463	18	76
Manufacturing	**28 830**	**31 825**	**2 514**	**3 385**
Food, beverages and tobacco	5 399	4 849	793	958
Paper and paper products	148	4 779	1	80
Metals and metal products	2 032	4 511	36	262
Motor vehicles and other transport equipment	9 434	8 605	126	354
Services	**40 979**	**33 766**	**5 467**	**4 078**
Electricity, gas and water	15 525	10 209	587	564
Trade	2 881	3 450	1 252	484
Transport, storage and communications	9 702	11 460	1 826	1 520
Business services	7 103	3 698	738	976

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	LAC as destination		LAC as investor	
	2016	2017	2016	2017
World	**74 215**	**70 054**	**7 999**	**7 539**
Developed economies	**58 653**	**57 781**	**1 799**	**2 572**
Europe	31 942	37 210	997	694
Finland	115	4 849	-	-
Spain	10 439	11 201	155	45
United States	17 515	16 497	771	1 765
Developing economies	**15 289**	**12 178**	**6 143**	**4 927**
Brazil	1 643	638	1 104	175
Chile	1 137	905	657	130
China	2 718	3 834	30	33
Korea, Republic of	2 934	1 368	-	74
Mexico	2 055	1 670	157	275
Peru	61	14	305	1 463

FDI flows to Latin America and the Caribbean increased by 8 per cent in 2017 to $151 billion. Lifted by the region's economic recovery, this was the first rise in six years, although inflows remained well below the peak reached in 2011 during the commodity boom. The turnaround was fueled by solid global and domestic demand and rising prices for commodities – especially for soy beans, metals and oil, the region's main exports. Favourable financial conditions also played a role. Although commodities continue to underpin investment in the region, there is now a shift toward infrastructure (utilities and energy, in particular), finance, business services, ICT and some manufacturing. In the manufacturing sector, investment in food industries, and more generally consumer goods, are increasing, prompted by higher consumer spending in key markets such as Brazil, Mexico, Argentina and Colombia. International carmakers are also resuming expansion in the region, attracted by pent-up demand and the prospect of export growth. Outflows from the region bounced back 86 per cent in 2017, to $17.3 billion. Going forward, inflows are expected to stagnate or decline marginally as macroeconomic and policy uncertainties persist.

Inflows

FDI to South America increased by 10 per cent as recessions in two leading economies, Argentina and Brazil, ended. Flows into *Argentina* more than trebled to $11.9 billion on the back of the economic recovery and the introduction of new policies to attract investment and upgrade infrastructure. The German engineering company Siemens, for example, announced plans to spend $5.6 billion on infrastructure, mobility and energy management over four to five years, supported by public funding. Carmakers including Renault-Nissan (France and Japan), PSA (France) and Fiat Chrysler Automobiles (United States and Italy) announced plans to invest in the country, each spending between $300 million and $800 million. Amazon has been reported to be considering investment in a new data centre for the region.[9] The Government is also planning to raise the contribution of renewable energy to the country's electricity supply, and to attract international investors. It has been developing a new legal framework for renewable energy that includes fiscal incentives as well as competitive and transparent market rules. The energy ministry launched an innovative renewable energy bidding program called RenovAr, and the World Bank approved a $480 million guarantee to support private investment in it. In its last round of an energy tender, RenovAr 2 drew 228 offers, which are expected to bring $11 billion in investment in wind, solar, biomass, biogas, small-scale hydroelectric and landfill biogas projects. Prospects are now highly dependent on continued investor confidence.

FDI to *Brazil* increased by 8 per cent to $62.7 billion. Brazil is the largest economy in the region, attracting more than 40 per cent of total flows to Latin America. Nine of the 10 largest acquisitions by foreign companies in the region were in Brazil; seven involved Chinese buyers. Acquisitions involved electricity, oil, infrastructure (gas transmission) and agribusiness companies. For example, the Chinese State-owned MNE State Grid bought, in three separate deals, a majority stake in CPFL Energia SA, a São Paulo-based electric power distributor, for an estimated $4.4 billion. These deals underlie a boom in FDI to the energy sector, which more than tripled to $12.6 billion. Inflows to the transport and storage industries quadrupled to $6.6 billion. In the manufacturing sector, flows to the chemical products and food industries doubled, reaching $3.2 billion and $2.6 billion respectively, and investment in metallurgy increased by 45 per cent to $3.1 billion. These large increases were partly offset by declining flows to the extractive industries (down by about 33 per cent), financial and real estate (down 20–25 per cent) and automotive sectors (–40 per cent). The oil sector, despite attracting declining FDI flows in 2017 (down by 12 per cent to $3.7 billion), is expected to play a key role in the country's economic recovery. In October,

Brazil awarded six of eight blocks on offer in an auction for the rights to pump oil from its offshore "pre-salt" region. Royal Dutch Shell (United Kingdom–Netherlands) won half the blocks, BP Plc (United Kingdom) two and ExxonMobil Corporation (United States) one. The Government expects the oil blocks to generate $30.2 billion in investment from the winning companies and $39.3 billion in royalties and other revenues.[10]

Investment in *Chile* fell to $6.7 billion. A gradual degradation of copper ore grades combined with tense industrial relations and higher labour costs led to stagnant investments into new projects. However, flows are expected to rebound, sustained by recovering copper prices and Government initiatives to reduce barriers to foreign investment in the mining sector. In addition to copper, Chile holds more than half of the world's proven lithium deposits. Lithium is used in making rechargeable batteries and electronic equipment as well as for generating nuclear power. To date, lithium-based products have all been manufactured outside Chile, a trend the Government is trying to reverse by increasing extraction of the metal and incentivizing value addition in the country. New extraction concession agreements require mining companies to sell their lithium production at favourable prices to companies that add value in the country. In March 2017, the Government invited bids to produce lithium-based products, which attracted the interest of mining and engineering companies from all over the world. In March 2018, the Chilean Economic Development Agency (Corfo) named Molymet of Chile, Samsung SDI and Posco of the Republic of Korea, and China's Sichuan Fulin Industrial Group as the successful bidders.[11] The winners secured a steady supply of lithium at a favourable price as part of a deal Corfo made with United States-based supplier Albemarle Corp. Projects selected from the auction should come on line in 2019.

In *Peru*, flows remained stable at $6.8 billion. After starting the year with a downturn and weak FDI, the country's economy recovered in the last months, thanks to rebounding commodities prices in mining, growing export volumes, and higher public and private spending. The Government reacted to the commodity-led downturn by strengthening the local regulatory framework and institutions such as the national investment promotion agency, ProInversion, and by launching a sweeping Public-Private Partnerships (PPP) programme to boost infrastructure investment. In 2017, ProInversion signed some PPPs, including a $95 million project for the development of a waterway network in the Amazonian region with a consortium led by Chinese-owned Sinohydro and a $278.4 million transmission line, awarded to the Colombian utility company ISA. Between 2018 and 2020, the agency hopes to create a pipeline of more than $20 billion worth of projects, with transport accounting for two-thirds of the total investment, water and irrigation 11 per cent, mining another 10 per cent, health 6 per cent and the remainder dedicated to energy, property development, telecommunication and education.[12]

Investment in *Colombia* increased by 5 per cent to $14.5 billion, supported by the year-end recovery in oil prices, infrastructure investment and rising domestic demand. Flows to the oil sector increased 45 per cent to $3.5 billion, while FDI in transport, storage and telecommunication more than doubled, to a similar amount. Flows to the manufacturing sector increased by 23 per cent to $2.3 billion. The *Bolivarian Republic of Venezuela* experienced net divestment of –$68 million. In the face of a severe economic, humanitarian and social crisis, many MNEs (including General Mills, General Motors and Kimberly-Clark from the United States) left the country, selling their assets on the cheap or abandoning them outright. However, about 150 MNEs still maintain a presence in the economy, awaiting an upturn. They halted or scaled back production and furloughed workers, however, while continuing to provide them with a minimum income and in many cases with meals.[13]

FDI in Central America grew by 2 per cent to $42 billion, sustained by strong economic growth in Costa Rica. In *Costa Rica* (up 18 per cent to $3 billion), investors continued to target the pharmaceutical and medical devices manufacturing industries, with big MNEs

(including Pfizer (United States), AstraZeneca (United Kingdom), Merck & Co (United States) and the Roche Group (Switzerland)) expanding their operations in the country. Last year, investments going to free trade areas in Costa Rica (where most large MNEs are based) accounted for almost half of all flows to the country ($1.4 billion) and were more than three times the amount received five years ago. Although less prominent, inflows into the tourism industry more than trebled, to $440 million. In *El Salvador,* FDI doubled to $792 million, a record high. Most of the increase was accounted for by higher retained earnings.

Inflows to *Mexico* remained stable at $29.7 billion. Despite uncertainty about the outcome of the renegotiation of the North American Free Trade Agreement, flows remained remarkably unchanged. Foreign investment into the traditionally strong automotive industry reached a new high with $7 billion (up 32 per cent). Similarly, flows to construction and transport and to telecommunication almost doubled (to $3 billion and $3.2 billion, respectively), and investments into the trade industry grew by 65 per cent. By contrast, extractive, utilities (power and water) and manufacturing industries in general saw declining flows. Flows to the energy sector should pick up in the next few years, as foreign companies announced investments in renewable energy projects for a record amount of nearly $5 billion in 2017. This is in response to the Government's efforts to change its oil-heavy power mix; the country has set clean energy targets and holds regular auctions for large-scale renewable energy and gas power projects. Last year's auction winners included Spanish developer X-Elio, French independent power producer Neoen, Chinese-Canadian module maker Canadian Solar, French energy giant Engie, Italian power utility Enel Spa and a Chinese-Japanese consortium formed by Mitsui and Trina Solar.

Flows to *Panama*, the second largest economy in Central America, were up 2 per cent to $5.3 billion, lured by the canal expansion and the country's position as a logistics hub and financial centre. Although the actual works to expand the canal had been completed by 2017, they spurred investment in other infrastructure, particularly ports. Enel Spa of Italy also announced five greenfield projects in alternative energy production.

FDI in the Caribbean subregion grew to $5 billion, driven by growing flows to the Dominican Republic. Flows to the *Dominican Republic*, the biggest recipient in the Caribbean, grew by 48 per cent to $3.6 billion, bolstered by booming investment into trade activities (which more than doubled to $1.4 billion) and positive flows to telecommunication and energy industries. Investment in free trade zones has been slowly picking up (up 18 per cent in 2017) but remain relatively small at $263 million. In contrast, the usually predominant tourism industry attracted lower flows (down 11 per cent to $704 million). FDI to *Haiti* trebled to a historical record of $375 million. Although still limited, this could be a turning point, heralding more investment in the country. China announced plans to invest $30 billion in developing Haiti's infrastructure, including power plants, sanitation works, water systems, railways, affordable housing and marketplaces. In 2017, Port-au-Prince, the capital, formally accepted the project's initial phase, which will begin with an investment of almost $5 billion in the city, in partnership with Haitian companies.

Outflows

Outward flows rose by 86 per cent to $17.3 billion, as Latin American MNEs resumed their international investment activity. Yet, outflows remained significantly lower than before the commodity price slump. Mexican MNEs' deals have pushed the country's outflows to more than $5 billion. Outflows from Chile and Colombia – the region's largest outward investors in 2016 – declined by 18 per cent each in 2017, at $5.1 billion and $3.7 billion respectively, as equity outflows dried up. In 2017, investment from Brazil was still negative at about –$1.4 billion. Although Brazilian foreign affiliates significantly

reduced the amount of intracompany loans flowing to parent companies, equity outflows also declined and total FDI outflows remained negative. At the same time, the spate of withdrawals from neighbouring countries by corporations involved in corruption scandals in recent years seems to be ebbing.

Among the biggest outward deals for the region are Grupo Mexico's acquisition of Florida East Coast Railway Co. (United States), a railroad operator, for $2.1 billion; Mexican Grupo Lala SAB de CV's acquisition of a 92 per cent interest in Vigor Alimentos SA, a São Paulo-based producer and wholesaler of dairy products for $1.6 billion; and the acquisition by Brazilian Natura Cosmeticos of the cosmetics company The Body Shop (United Kingdom) for $1.1 billion. About half the number of purchases and announced greenfield projects were intraregional, affirming the importance of regional ties in the location of Latin America MNE operations. These percentages increase significantly for industries in which the presence of local MNEs is more concentrated. For example, in the telecommunication industry – dominated by América Móvil (Mexico) – 84 per cent of projects announced in the past three years targeted countries within the region. Similarly, Latin American retailers and food and beverage producers are rooting firmly in the region, with about 60 per cent of announced projects being intraregional.

Prospects

Investment flows to and from the region are expected to stagnate or decline marginally, to some $140 billion. Economic growth in the region is set to remain tepid, challenged by many downside risks, including economic and policy uncertainty associated with upcoming elections in some of the largest economies (i.e. Colombia, Mexico and Brazil), and possible negative spillovers from international financial market disruptions. Tightening monetary conditions in developed economies could prompt debt concerns and strains on exchange rates.

Many economies of the region are looking to diversify commercial ties with trade partners and to deepen regional integration. After the United States withdrew from the Trans-Pacific Partnership (TPP), Chile, Mexico and Peru each opted to pursue the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). In April 2018, Mexico and the EU concluded negotiations to modernize their 1997 Economic Partnership Agreement, while negotiations of a trade agreement between the four founding members of Mercosur (Argentina, Brazil, Paraguay and Uruguay) and the EU are ongoing (see chapter III). Furthermore, the two trade blocs of Mercosur and the Pacific Alliance are discussing a possible merger. These developments are likely to have a long-term impact on FDI in the region.

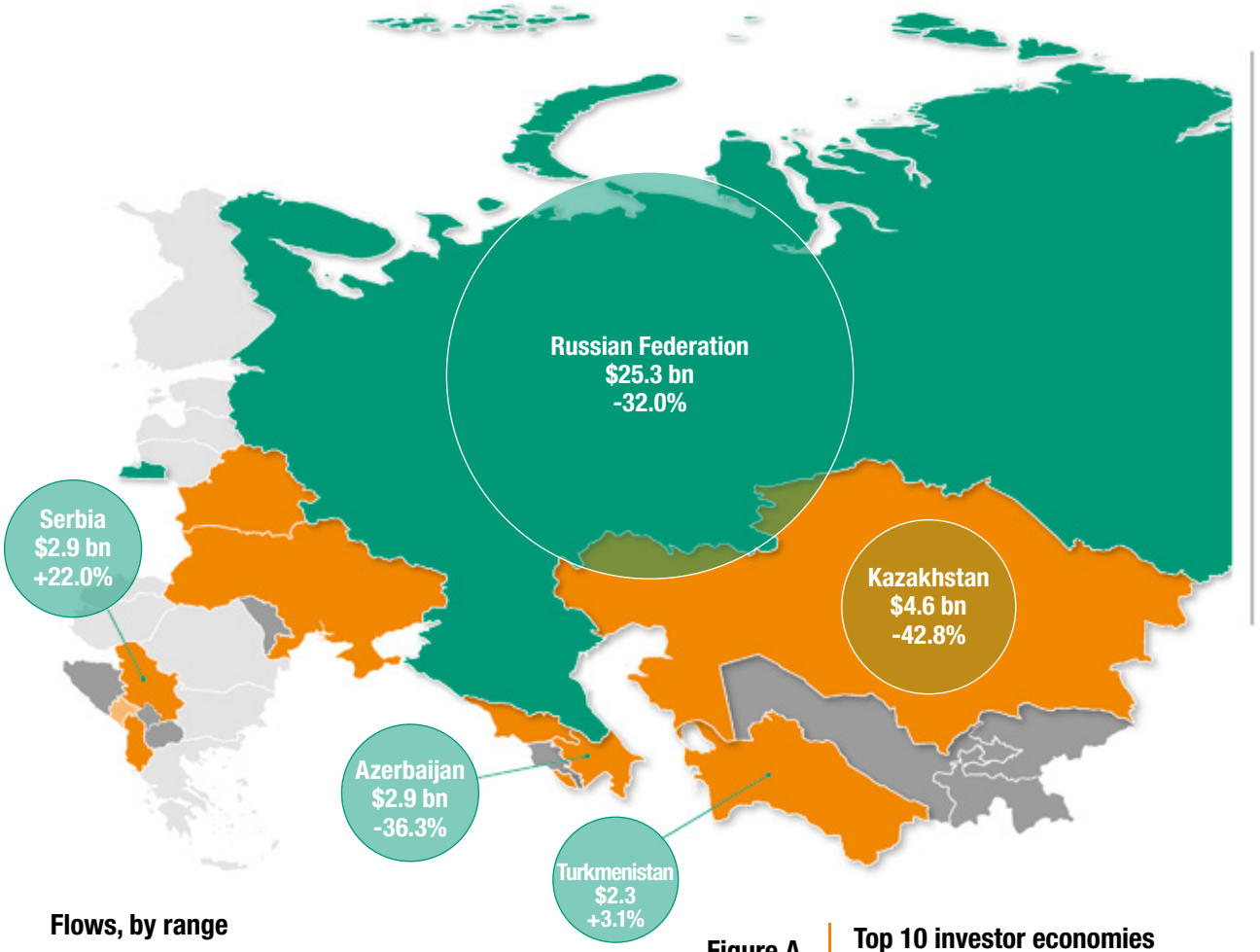
TRANSITION ECONOMIES

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
46.8 bn

2017 Decrease
-27.1%

Share in world
3.3%



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
2017 % change

Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

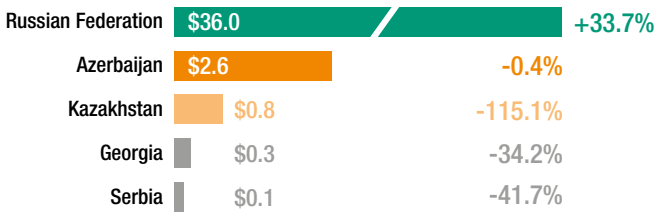
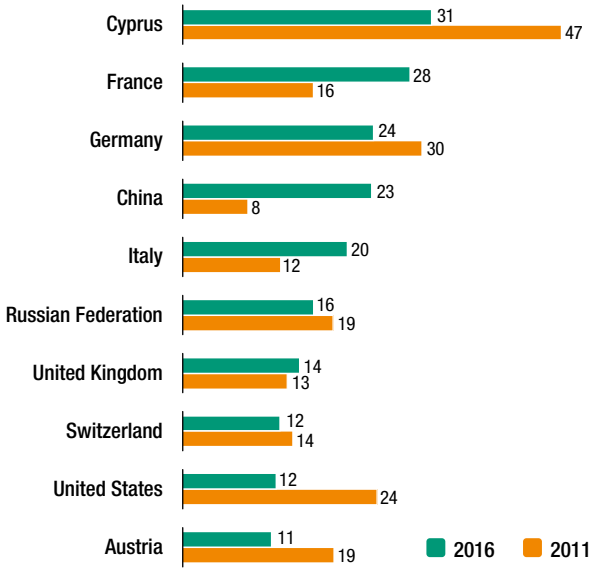


Figure A. Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



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 flows declined to the second-lowest level since 2005
- Outflows recovered following the 2014–2016 recession
- Prospects are moderately optimistic, with potential for manufacturing FDI

Figure B. FDI inflows, 2011–2017
(Billions of dollars and per cent)

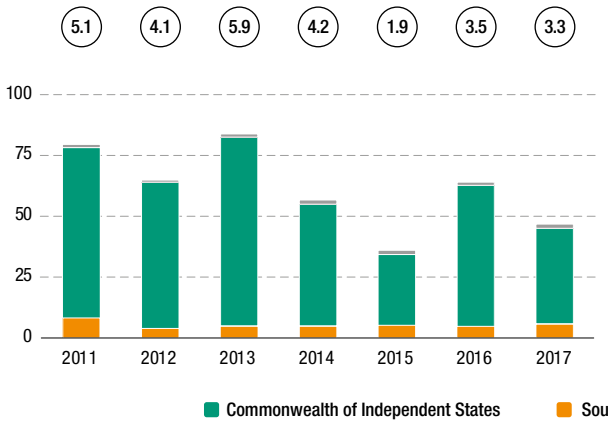
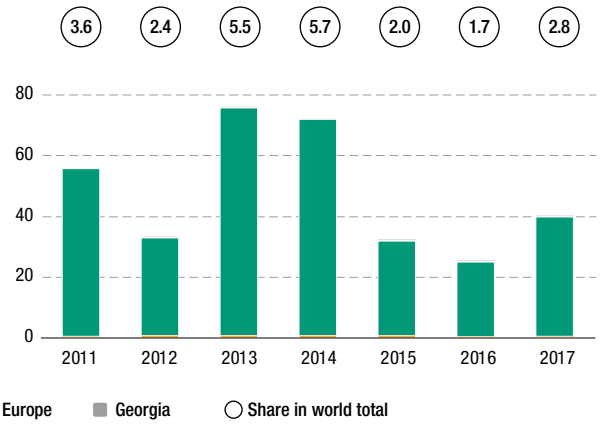


Figure C. FDI outflows, 2011–2017
(Billions of dollars and per cent)



Commonwealth of Independent States | South-East Europe | Georgia | Share in world total

Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**5 018**	**12 703**	**-809**	**13 948**
Primary	**5 602**	**13 235**	**164**	**13 989**
Mining, quarrying and petroleum	5 628	13 235	205	14 032
Manufacturing	**263**	**104**	**-276**	**4**
Food, beverages and tobacco	-23	48	-	-
Basic metal and metal products	104	54	-299	-55
Services	**-847**	**-635**	**-698**	**-44**
Electricity, gas, water and waste management	83	-124	-	-
Construction	-209	11	64	-
Trade	-163	46	-1 135	-
Transportation and storage	360	344	-	-
Financial and insurance activities	-751	-118	85	161
Real estate activities	-7	-826	-	2

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**5 018**	**12 703**	**-809**	**13 948**
Developed economies	**-1 204**	**11 143**	**393**	**143**
European Union	-1 065	496	393	163
Austria	16	970	-	-
Cyprus	-851	-571	252	132
United Kingdom	231	194	23	-
Switzerland	-167	10 788	-	-
Developing economies	**5 955**	**1 316**	**-1284**	**13 721**
China	214	1 152	150	9
India	5 520	-6	-	12 589
Korea, Republic of	7	27	-	-
Transition economies	**82**	**84**	**82**	**84**
Russian Federation	205	-24	-23	-

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	Transition economies as destination		Transition economies as investor	
	2016	2017	2016	2017
Total	**64 860**	**35 424**	**10 410**	**42 613**
Primary	**37 682**	**654**	**850**	**7**
Mining, quarrying and petroleum	37 562	654	850	7
Manufacturing	**16 028**	**23 498**	**4 828**	**9 916**
Food, beverages and tobacco	3 774	3 584	111	324
Coke and refined petroleum products	2 152	2 373	2 939	7 863
Chemicals and chemical products	1 082	4 982	107	116
Motor vehicles and other transport equipment	2 121	3 833	1 050	964
Services	**11 150**	**11 271**	**4 731**	**32 691**
Electricity, gas and water	1 949	1 567	2 800	31 138
Construction	3 370	4 109	65	21
Trade	1 501	2 609	133	100
Transport, storage and communications	2 102	1 248	440	533

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	Transition economies as destination		Transition economies as investor	
	2016	2017	2016	2017
World	**64 860**	**35 424**	**10 410**	**42 613**
Developed economies	**54 360**	**18 855**	**696**	**1 418**
European Union	13 329	13 304	574	1 328
France	2 016	1 894	17	19
Germany	2 908	1 713	13	88
United States	39 284	3 289	115	24
Developing economies	**8 853**	**14 323**	**8 067**	**38 948**
China	4 335	9 165	132	1 057
Korea, Republic of	105	1 425	38	7
Turkey	1 346	873	23	3 029
United Arab Emirates	224	961	117	48
Transition economies	**1 647**	**2 247**	**1 647**	**2 247**
Russian Federation	615	1 832	169	99

Following the global trend in 2017, FDI flows to the transition economies of South-East Europe and the Commonwealth of Independent States (CIS) declined by 27 per cent, to $47 billion, the second lowest level since 2005. Most of the decline was due to sluggish FDI flows to four major recipient economies of the Commonwealth of Independent States: the Russian Federation, Kazakhstan, Azerbaijan and Ukraine. In contrast, Georgia, Montenegro and Serbia posted significant gains; however, these were insufficient to compensate for the losses registered in the larger, natural resource-based economies in the group. The geographical distribution of flows remained highly concentrated: of the 18 transition economies, the top 5 (the Russian Federation, Kazakhstan, Azerbaijan, Serbia and Turkmenistan), received 81 per cent of all FDI to the group. Outflows rebounded by 59 per cent to $40 billion, due to significant greenfield investments and a few large acquisitions by MNEs based in the Russian Federation. Prospects are moderately positive, bolstered by firmer commodity prices and higher macroeconomic growth.

Inflows

FDI to South-East Europe recovered by 20 per cent, to $5.5 billion, after the decline in 2016. Inward FDI was lifted by robust GDP growth, support for private sector job creation and growing cooperation with the EU. In *Serbia*, the largest economy of the subregion, foreign investment grew by 22 per cent, to $2.9 billion. However, much of that was through reinvested earnings in and intracompany loans to foreign affiliates. Equity investment in new projects declined from $505 million in 2016 to $281 million in 2017, accounting for less than 10 per cent of FDI inflows. Important equity inflows resulted from the acquisition of Zelezara Smederovo by Chinese State-owned Hebei Iron & Steel for more than $50 million.

Inflows to the smallest economy of the subregion, *Montenegro*, more than doubled, to $546 million. The number of cross-border M&A deals in this small economy remained limited (the largest deal was the acquisition by Özata Shipyard (Turkey) of a majority stake in the State-owned Adriatic Shipyard Bijela for $2 million). Italy was the largest source country of inward FDI, mostly in the form of loans to affiliates. Sources of investment also included the transition economies of Azerbaijan and the Russian Federation, whose companies invested mostly in real estate.

In *Bosnia and Herzegovina,* FDI inflows grew by 40 per cent, from $303 million to $425 million, due to a doubling of reinvested earnings (from $109 million to $221 million). FDI flows to Albania increased marginally (2 per cent) in 2017, to $1.1 billion, their second highest level ever, with energy and mining attracting the lion's share. As two major energy projects (the Trans-Atlantic Pipeline and the Devolli hydropower plant) neared completion, established foreign investors began expanding their presence in renewable energy projects (including Austrian Verbund Company's participation in the Ashta hydropower plant and Turkish Ayen Enerji's investment in the Pocem hydropower project). Although the bulk of inflows came from developed countries in Europe in 2017, Chinese firms also began to invest, in banking, aviation and tourism. The amount of Chinese investment may grow further once Pacific Construction of China starts work on the "Blue Corridor" (the Adriatic–Ionian Motorway).

Flows to the CIS and Georgia contracted by 31 per cent, to $41 billion, after their rebound in 2016. GDP growth remained subdued in the CIS, with the recovery following the 2014–2015 recession still modest. Policy uncertainty remained high, linked in part to geopolitical concerns. As a result, flows declined, especially to the *Russian Federation* (by 32 per cent, to $25.3 billion). Equity investment in new projects declined by almost half,

to $8.8 billion. Natural resources continued to dominate inward FDI in the country. Mining and quarrying accounted for more than 30 per cent of inward FDI flows, followed by trade (20 per cent) and finance (11 per cent). In manufacturing, only the share of metallurgy and food and beverages exceeded 6 per cent. More than 60 per cent of inflows came from Europe, with Cyprus accounting for 25 per cent and Luxembourg 14 per cent, indicating the relative importance of transhipped FDI.[14] Sources of FDI appear to be diversifying, with new investors including select Asian economies (Singapore and Hong Kong, China), each with 7 per cent). The Russian Federation registered one M&A megadeal – the sale of a 19.5 per cent stake in State-owned oil and gas company Rosneft to a consortium of Glencore (Switzerland) and the Qatar Investment Authority for an estimated $11 billion, originally reported in 2016 but not finalized until 2017. The second largest deal was the acquisition of a 20 per cent stake in the Rosneft affiliate Verkhnechonskneftegaz by Beijing Gas Group of China for an estimated $1 billion.

FDI also declined in other large CIS recipient economies. Investment into Azerbaijan slumped by 36 per cent, to $2.9 billion, related to a continued downturn in the natural resource cycle of the country. Inflows continued to be concentrated in the oil and gas sector, accounting for 73 per cent of the total. Following a large investment announced in 2016, flows to *Kazakhstan* shrank by 43 per cent, to $4.6 billion, in 2017. Oil and gas accounted for 46 per cent of inflows, followed by metallurgy (22 per cent). The value of cross-border acquisitions was modest; among the most notable transactions was Russian Polymetal increasing its stake in the Aktogai Mys gold mine from 25 to 50 per cent ($1.6 million). FDI flows to *Ukraine* contracted by 33 per cent, to $2.2 billion, in the face of policy and political uncertainty. Equity capital in new projects declined by 57 per cent, to $1.5 billion.

China is becoming an important source of inward FDI in transition economies. Its FDI stock held in the region increased from $8 billion in 2011 to $23 billion in 2016, making it the fourth largest source country.

Outflows

In 2017, FDI outflows from economies in transition recovered by 59 per cent, to $40 billion, after being dragged down by the recession in 2014–2016. However, this level remains 47 per cent below the high recorded in 2013 ($76 billion). A handful of economies still account for most FDI outflows: the Russian Federation alone is responsible for 90 per cent of the regional total. The country's outflows rose by 34 per cent, to $36 billion, on the back of large M&A transactions. The second largest home economy, Azerbaijan, maintained the same level of outward FDI in 2017 ($2.6 billion, or 6 per cent of the regional total), while in Kazakhstan, outflows recovered from a negative $5.2 billion in 2016 (largely due to negative intracompany loans) to $787 million (2 per cent of the regional total). FDI outflows from other transition economies were relatively small. The combined FDI from the five South-East European economies amounted to $224 million.

The net cross-border M&A purchases of transition-economy MNEs rebounded from –$809 million in 2016 to almost $14 billion in 2017, due to two large transactions. Russian Rosneft acquired a 49 per cent share in Essar Oil in India for close to $13 billion (through its Singapore affiliate, Petrol Complex). In Egypt, the same Russian company acquired a 30 per cent stake in the offshore Zohr gas field from the Italian firm Eni for $1.1 billion. These two acquisitions pushed the value of the region's total up, despite the net decline in the number of transactions, from 24 in 2016 to 14 in 2017. Of these transactions, six took place in the financial industry and four in extractive industries, including oil and gas.

Greenfield projects were the engines of the recovery of outward FDI and indicate a potential for further growth. In Egypt, the Russian State-owned nuclear energy company Rosatom started a nuclear plant mega-investment of $30 billion, to be carried out over several years. The first reactor of the Dabaa plant is projected to come on line in 2020. In Turkey, the State Oil Company of the Azerbaijan Republic started petrochemical investments with an estimated value of $3 billion. In Iraq, Russian GazpromNeft opened the Badra gas plant in 2017. In Nigeria, Rosatom started the construction of a nuclear plant and an adjacent research centre. In China, Belarusian Autoworks created a joint venture with Chinese Sangjian to construct a heavy-duty truck facility. In Uzbekistan, Lukoil (Russian Federation) launched a gas extraction and processing facility in Gissar.

Prospects

Prospect for 2018 are moderately optimistic. FDI inflows to the region are expected to rise to about $55 billion, supported by better prospects for natural resource prices and improving macroeconomic stability in various key economies of the region (including the Russian Federation). The value of announced greenfield projects – an indicator of investor intentions – reached $35 billion in 2017.

In the medium term, the firmness and structural diversification of announced greenfield projects could lead to a rise in manufacturing FDI, given the region's human resources assets (particularly trained engineering personnel) and technological expertise. Increasing investment in transition economies by MNEs from developing countries also signals further geographical diversification of FDI sources going forward. However, these prospects hinge on policy and political factors.

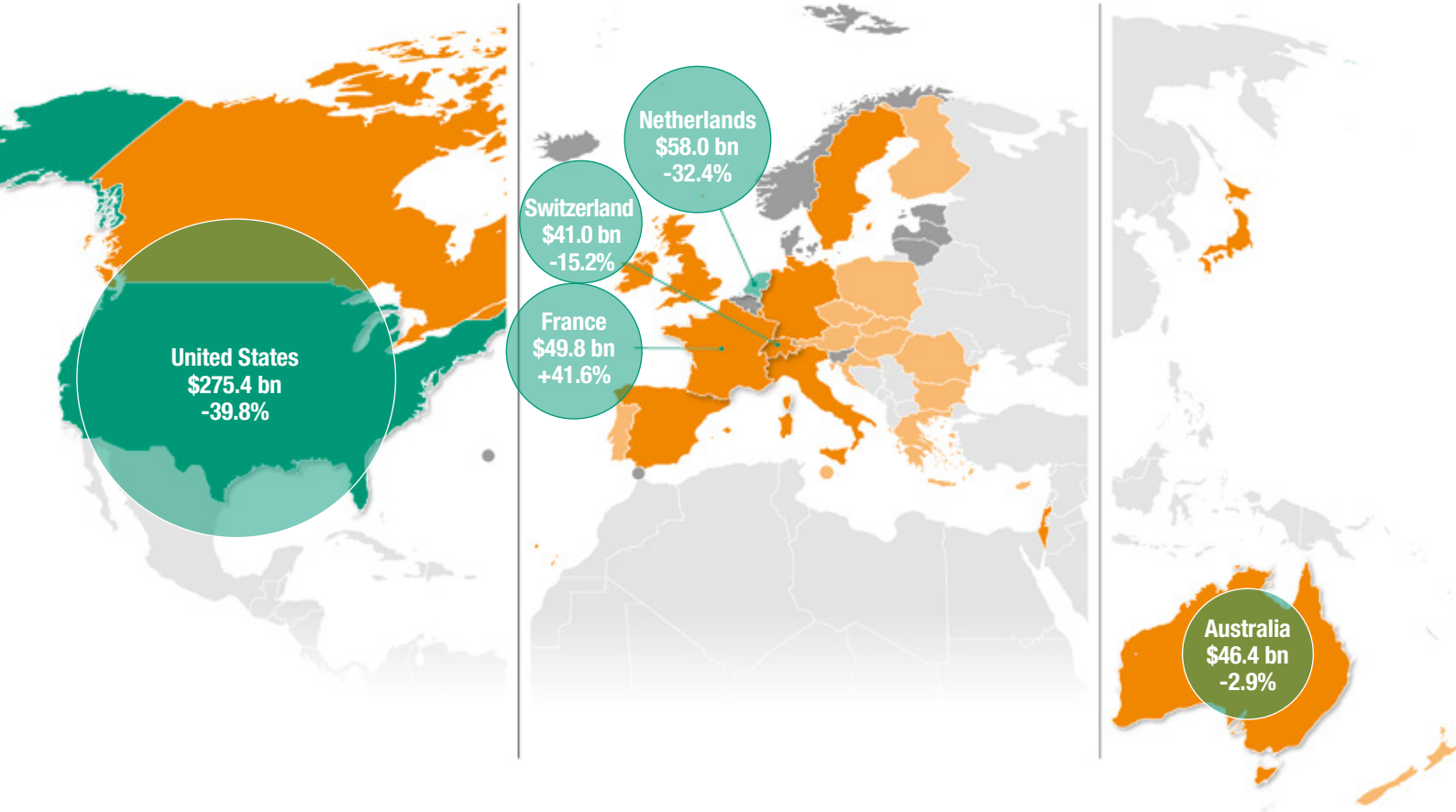
DEVELOPED ECONOMIES

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
712.4 bn

2017 Decrease
-37.1%

Share in world
49.8%



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
2017 % change

Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

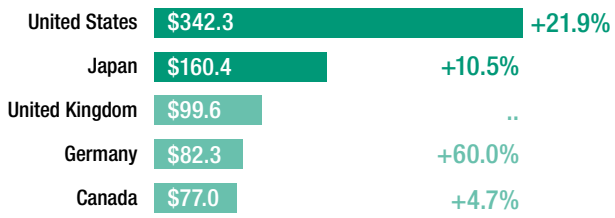
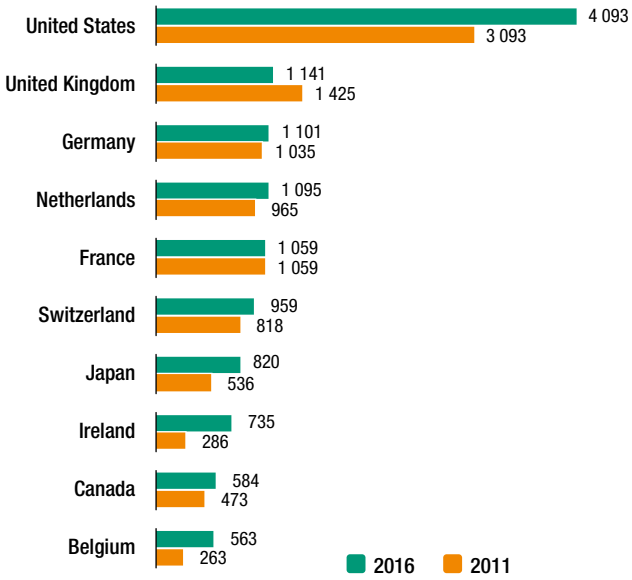


Figure A. Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



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 flows were lower, mostly due to fewer megadeals and intrafirm financial flows
- Short-term outlook is positive, with higher greenfield announcements
- Tax reforms and trade tensions significantly affect prospects for 2018

Figure B. FDI inflows, 2011–2017
(Billions of dollars and per cent)

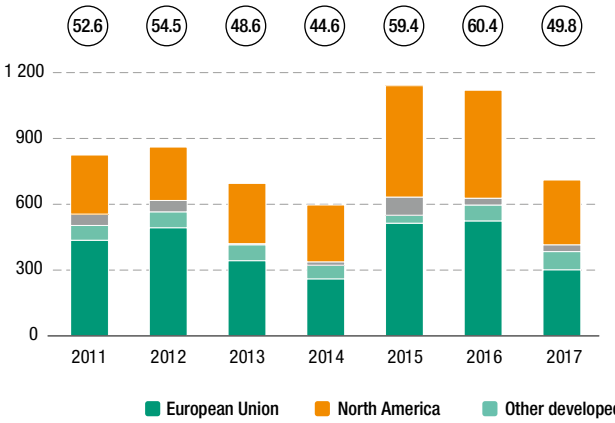
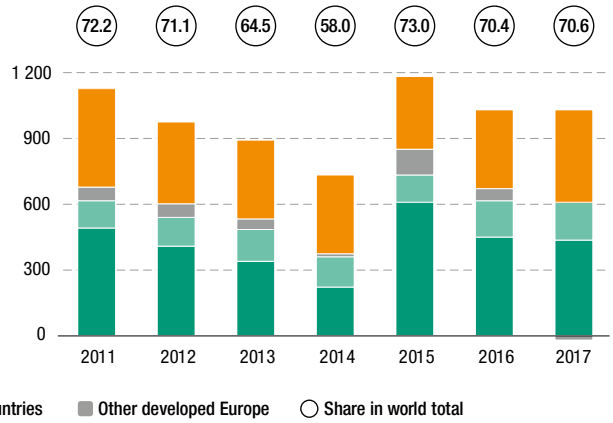


Figure C. FDI outflows, 2011–2017
(Billions of dollars and per cent)



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

Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**806 398**	**568 909**	**703 781**	**463 956**
Primary	**77 223**	**-9 082**	**-3 771**	**-21 068**
Manufacturing	**381 131**	**304 070**	**366 176**	**206 077**
Food, beverages and tobacco	130 438	78 005	116 995	70 186
Chemicals and chemical products	32 102	62 291	36 727	28 327
Pharmaceuticals, medicinal chemicals and botanical products	92 646	69 428	102 949	15 531
Computer, electronic, optical products and electrical equipment	70 716	23 678	24 826	34 981
Machinery and equipment	28 120	51 146	9 131	52 775
Services	**348 045**	**273 921**	**341 376**	**278 947**
Electricity, gas, water and waste management	53 435	30 800	34 103	-3 764
Transportation and storage	35 607	17 412	25 232	41 685
Financial and insurance activities	96 669	50 304	184 416	152 932
Business activities	66 814	96 877	43 144	40 637

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**806 398**	**568 909**	**703 781**	**463 956**
Developed economies	**696 738**	**410 246**	**696 738**	**410 246**
Europe	441 968	176 491	351 458	136 638
North America	131 293	165 869	316 621	238 099
Other developed countries	123 476	67 887	28 659	35 510
Developing economies	**97 833**	**146 008**	**8 247**	**42 567**
Africa	6 883	556	-2 115	1 780
Latin America and the Caribbean	1 755	3 586	11 500	14 193
Asia and Oceania	89 196	141 866	-1 138	26 595
China	70 483	93 201	-6 105	-1 752
Korea, Republic of	2 341	11 403	99	5 752
Singapore	2 400	10 753	560	5 170
Transition economies	**393**	**143**	**-1 204**	**11 143**

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	Developed countries as destination		Developed countries as investor	
	2016	2017	2016	2017
Total	**254 187**	**318 406**	**501 218**	**478 359**
Primary	**2 446**	**3 996**	**47 371**	**18 415**
Manufacturing	**99 300**	**151 314**	**197 404**	**212 357**
Textiles, clothing and leather	18 162	16 127	22 617	20 643
Chemicals and chemical products	12 813	32 060	30 361	34 738
Electrical and electronic equipment	8 161	21 669	18 574	21 746
Motor vehicles and other transport equipment	21 586	31 817	44 561	47 555
Services	**152 441**	**163 096**	**256 443**	**247 587**
Electricity, gas and water	32 287	23 404	67 613	42 330
Construction	30 314	26 292	35 371	35 475
Trade	15 823	20 967	21 622	27 860
Transport, storage and communications	15 498	12 954	31 220	32 356
Business services	44 096	54 950	65 390	68 721

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	Developed countries as destination		Developed countries as investor	
	2016	2017	2016	2017
World	**254 187**	**318 406**	**501 218**	**478 359**
Developed economies	**204 031**	**255 003**	**204 031**	**255 003**
Europe	127 061	150 934	131 859	160 778
North America	55 627	72 810	54 370	70 537
Other developed countries	21 343	31 259	17 802	23 687
Developing economies	**49 460**	**61 985**	**242 827**	**204 501**
Africa	1 411	1 961	19 945	32 398
East and South-East Asia	36 604	35 810	94 060	76 881
South Asia	6 759	5 986	46 873	23 479
West Asia	2 887	15 655	23 159	13 579
Latin America and the Caribbean	1 799	2 572	58 653	57 781
Oceania	-	0.4	137	383
Transition economies	**696**	**1 418**	**54 360**	**18 855**

FDI flows to developed economies fell by 37 per cent to $712 billion. The recovery in FDI over 2015–2016, when annual inflows to developed countries exceeded $1 trillion, came to an abrupt end, as inflows to both Europe and North America contracted. Large reductions in FDI flows to the United Kingdom, following an exceptionally high value of M&As in 2016, and to the United States, where authorities clamped down on tax inversions, were the major factors behind this sharp decline. Cross-border M&As targeting developed economies registered a 29 per cent decrease, to $569 billion, owing primarily to the completion of fewer megadeals. Divestments by MNEs pursuing debt reduction strategies also resulted in lower net M&As. Diminishing intracompany loans further reduced FDI flows, especially in the United States. In contrast, outflows from developed economies remained similar to the levels observed in 2016. Increases from the United States, due to reinvested earnings, and Japan, where MNEs continued to seek growth abroad, offset an aggregate decline from Europe. FDI to developed economies is projected to increase moderately in 2018. The rise in the value of announced greenfield projects (up 25 per cent to $318 billion) is a positive sign.

Inflows

FDI to France and Germany bounced back in 2017, but overall flows to Europe declined due to a normalization of FDI to the United Kingdom following a string of megadeals in 2016. FDI inflows grew in 15 of the 32 European economies in 2017, compared with 14 in 2016. Inflows more than doubled in *Germany* (to $35 billion), as cross-border M&As targeting assets in the country rose to $23 billion. FDI flows to *France* rose 42 per cent (from $35 billion to $50 billion), mainly due to large M&A deals such as the acquisition of Sanofi's animal health business by Boehringer Ingelheim (Germany). Nevertheless, FDI inflows to Europe as a whole declined by 41 per cent to $334 billion, mainly due to a contraction in the United Kingdom.

Cross-border M&As in the *United Kingdom* had been exceptionally large in 2016, at $255 billion (compared with an average of $45 billion over 2011–2015). The four largest deals alone had a combined value of $224 billion (table II.1). In contrast, the largest deals in 2017 were much smaller in value, and a greater share of transactions were changes of ownership between foreign investors (with no net effect on FDI) or divestments (which result in negative FDI). As a result, inflows to the United Kingdom declined by 92 per cent to $15 billion.[15]

Other European countries that registered large declines in FDI inflows were *Belgium*, *Luxembourg* and the *Netherlands*. Belgium's tax regime had made it advantageous for MNEs to locate capital-intensive operations, most notably treasury centres, in the country to provide loans to affiliates elsewhere. In recent years, both outstanding loans and equity stocks have been declining, suggesting that MNEs are unwinding such financial arrangements. At the end of 2017, foreign affiliates in Belgium had a stock of outstanding intracompany loans to their parent group's affiliates outside Belgium worth –$88 billion in net aggregate terms, compared with a peak of –$297 billion in 2012. Equity divestment continued in 2017, but intracompany loans also slumped (from $46 billion in 2016 to $20 billion in 2017), resulting in declining FDI inflows.

Intra-European cross-border M&As declined from $230 billion in 2016 to $25 billion in 2017. Net sales of European assets to Japanese MNEs declined from $38 billion to $17 billion. Net M&A sales to Chinese MNEs were worth $66 billion, although the acquisition of Syngenta by China National Chemical accounted for two-thirds of that value.

Diminishing intracompany loans and fewer corporate reconfigurations shrank United States inflows. Inflows to North America fell by 39 per cent to an estimated

$300 billion, partly due to falling cross-border M&As in both *Canada* (down $22 billion) and the *United States* (down $54 billion). The resulting net divestment in Canada was a result of the partial sale of oil sands assets by major oil and gas MNEs to domestic counterparts. A prolonged period of low oil prices has prompted global oil MNEs to adjust asset profiles, and Canadian oil and gas companies to seek economies of scale. ConocoPhillips (United States) sold its stake in the Foster Creek Christina Lake oil sands partnership to its Canadian joint-venture partner Cenovus Energy. Shell sold most of its stake in the Athabasca oil sands project to Canadian Natural Resources. Both ConocoPhillips and Shell implemented divestment programmes to reduce debt.

Divestment was also a factor in the 40 per cent decline of FDI inflows to the United States. M&A deals resulting in divestments rose substantially in 2017 (up 65 per cent to $49 billion), made up of relatively small transactions in diverse industries. Motives behind the divestments varied. Debt reduction was a consideration in a number of transactions, including the sale by Medtronic (Ireland) of its medical supplies business to Cardinal Health for $6.1 billion and the sale by Reckitt Benckiser (United Kingdom) of its food business to McCormick for $4.2 billion.

Tax inversion deals, which had boosted M&A sales in recent years, dried up. In response to the wave of corporate inversion deals over 2011–2015, the United States Government tightened regulations through successive announcements of new rules in September 2014, November 2015 and April 2016. In 2015, there were eight such deals, worth $63 billion (*WIR15*), and in 2016, there were seven, worth $56 billion (*WIR16*). In 2017, such deals withered to only one, worth $28 billion. The announcement in April 2016 specifically targeted "earnings stripping" through intracompany lending.[16] Intracompany loans to the United States, which amounted to $117 billion in 2016, collapsed to $-7 billion in 2017, contributing to the decline in FDI to the United States.

FDI flows to developed economies in Asia-Pacific held steady, in contrast to the global trends. Flows to *Australia*, which had more than doubled in 2016, maintained their high level, at $46 billion. M&A sales remained sluggish (down 21 per cent to $11 billion), in part because MNEs based in the United Kingdom continued to dispose of their assets in Australia, resulting in an overall net divestment for the sixth successive year. Rio Tinto (United Kingdom), for example, completed at least $7.7 billion worth of divestments over 2013–2017, including assets in Australia.[17] FDI flows to *Japan* exceeded $10 billion for the second year running, as European manufacturing MNEs compensated for divestments by European services MNEs. France was the largest direct investor country.

Outflows

Aggregate outflows from developed countries remained close to the level observed in 2016. The reduction in the number of megadeals meant that net M&A purchases declined by 34 per cent. Increased reinvested earnings by United States MNEs partly offset this decline.

In Europe, combined outflows fell by 21 per cent to $418 billion. Outflows from the *Netherlands* – the largest source country in the subregion in 2016 – declined by $149 billion to just $23 billion. M&A purchases, which had totaled an exceptional $120 billion in 2016, turned into a net divestment of –$8.3 billion. As a result, the country's equity outflows fell from $132 billion to a net divestment of –$5.2 billion. Another large decline was registered in *Switzerland*, where outflows shrank by $87 billion to –$15 billion.

Outflows from the United Kingdom increased from –$23 billion to $100 billion. The value of net M&A purchases by MNEs based in the United Kingdom rose by about $110 billion to $128 billion, due to a string of acquisitions in the United States, such as British American

Tobacco's purchase of the remaining shares in Reynolds American for $49 billion and the $17 billion acquisition of Mead Johnson Nutrition by Reckitt Benckiser. Reinvested earnings also recovered (to $29 billion).

Outflows from Germany rose by 60 per cent to $82 billion. In recent years, outward FDI from Germany has fluctuated widely, owing to volatile flows of intracompany loans. Outflows of such loans, recorded at –$27 billon in 2016, turned positive in 2017, to $2.1 billion. The rise in reinvested earnings, which more than doubled from 2016, also contributed to the overall increase. France maintained high outflows ($58 billion). Net M&A purchases by French MNEs remained solid at $28 billion. Like their counterparts in the United Kingdom, French MNEs looked to the United States for their acquisitions, which included transactions such as the merger of WhiteWave Foods with Danone in a deal worth $10 billion. Although acquisitions of all foreign assets (gross purchases) by European MNEs as a whole declined by 43 per cent, acquisitions of United States assets held steady. As a result, such assets accounted for 61 per cent of acquisitions made by European MNEs in 2017.

Outflows from North America rose by 18 per cent. Of United States outflows worth $342 billion, reinvested earnings accounted for $324 billion. Reinvested earnings in the fourth quarter of 2017 were 78 per cent higher than during the same period in 2016. As the prospect of tax reform became more certain towards the end of 2017, United States MNEs postponed the repatriation of overseas earnings, analogous to the peak in reinvested earnings registered in 2004 in anticipation of the 2005 Homeland Investment Act. Luxembourg, the Netherlands, Singapore and the Caribbean subregion together received 38 per cent of United States outflows. In contrast, United States outflows to Central and South America contracted by more than a third to $6.1 billion, while those to Africa declined further from a net divestment of –$0.5 billion to –$1.7 billion. FDI outflows to Asia from the United States increased by a third, to $46 billion, owing primarily to investment in Hong Kong (China) and Singapore.

In Asia-Pacific, outflows from Japan expanded to $160 billion. The increase is chiefly explained by the recovery in flows to Asian countries (excluding West and Central Asia), to $36 billion, following the decline in 2016 resulting from a large divestment from Singapore. The United States remained the largest recipient of Japanese FDI, followed by the United Kingdom. Japanese FDI to Latin America and the Caribbean amounted to $4 billion. Japanese FDI to Africa was $1.8 billion.

Prospects

Projections based on macroeconomic fundamentals suggest a 15 per cent increase in FDI inflows to Europe and a 5 per cent increase in North America in 2018. Inflows to developed countries as a group could rise to about $770 billion. M&A deal making, which accelerated in the fourth quarter of 2017, carried that momentum into 2018. Greenfield projects announced in 2017 were valued at $318 billion, the highest level since 2009, which, if confirmed, could translate into FDI flows over the next few years.

However, current tensions in global trade policymaking create uncertainty, which tends to discourage investment. The repatriations of accumulated profits by United States MNEs as a result of the tax reform will also reduce FDI outflows from the United States, with mirror effects on flows in Europe.

STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES

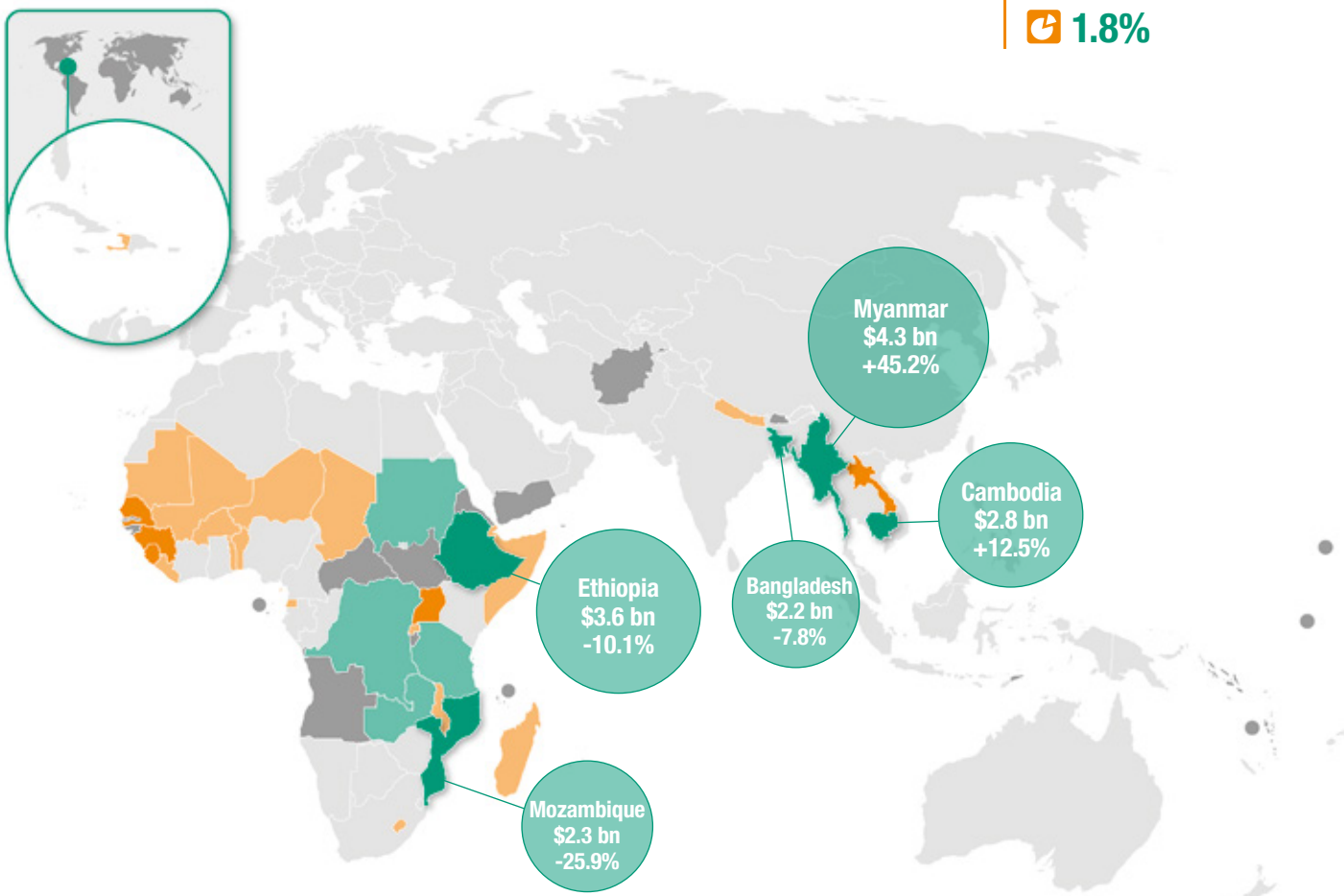
LEAST DEVELOPED COUNTRIES

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
25.5 bn

2017 Decrease
-17.1%

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
2017 % change

Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

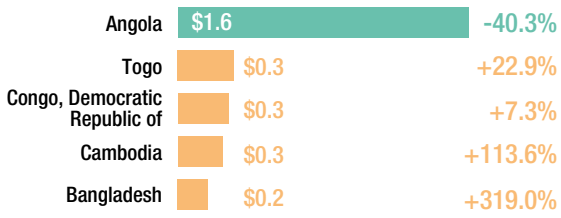
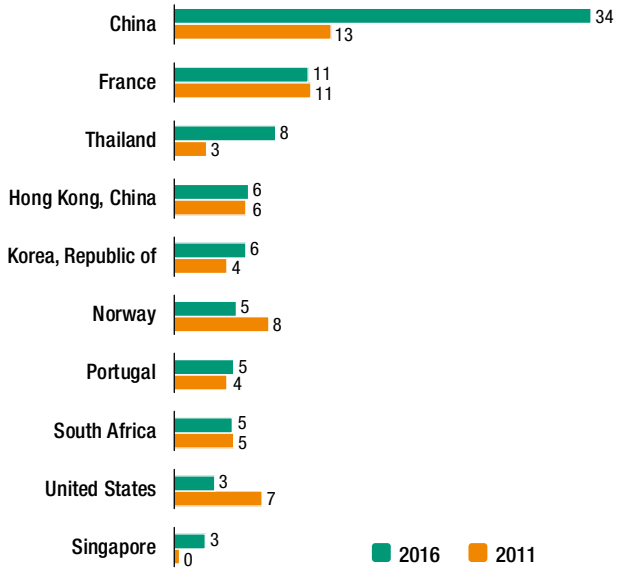


Figure A. **Top 10 investor economies by FDI stock, 2011 and 2016** (Billions of dollars)



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 to the group declined for the second consecutive year
- Asian LDCs registered growth
- The slump in greenfield project announcements weakens FDI prospects

Figure B. FDI inflows, 2000–2017 (Billions of dollars and per cent)

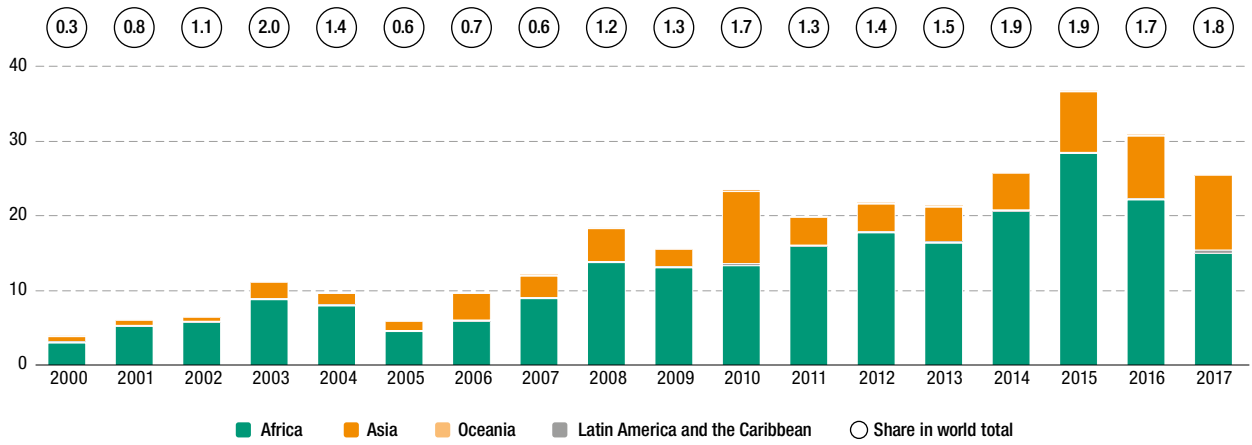


Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**998**	**327**	**9**	**9**
Primary	**5**	**13**	**-**	**-**
Mining of metal ores	3	13	-	-
Manufacturing	**588**	**11**	**-**	**-30**
Food, beverages and tobacco	506	10	-	-
Machinery and equipment	-	-	-	-30
Services	**405**	**304**	**9**	**39**
Electricity, gas, steam and air conditioning supply	-	48	-	-
Trade	5	18	-	-
Transportation and storage	-	- 1	-	-
Information and communication	0.1	-	-	1
Financial and insurance activities	337	234	9	38
Administrative and support service activities	-	5	-	-

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**998**	**327**	**9**	**9**
Developed economies	**-2 485**	**-233**	**9**	**2**
Australia	- 3	114	9	-
Canada	0.1	430	-	2
Italy	-	-2 800	-	-
Japan	510	952	-	-
Switzerland	-	493	-	-
United States	-2 749	1 613	-	-
Developing economies	**3 483**	**560**	**-**	**6**
Brazil	-	-798	-	-
China	2 848	1 243	-	-
Singapore	45	256	-	-
South Africa	2	-91	-	-

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	LDCs as destination		LDCs as investor	
	2016	2017	2016	2017
Total	**44 315**	**25 270**	**1 577**	**797**
Primary	**559**	**2 302**	**-**	**-**
Mining, quarrying and petroleum	559	2 302	-	-
Manufacturing	**11 682**	**12 534**	**194**	**91**
Textiles, clothing and leather	968	1 656	16	-
Coke, petroleum products and nuclear fuel	2 199	1 699	20	-
Chemicals and chemical products	4 613	4 690	62	56
Non-metallic mineral products	427	2 286	-	-
Services	**32 075**	**10 435**	**1 383**	**706**
Electricity, gas and water	13 561	1 599	-	-
Construction	6 559	3 384	282	-
Transport, storage and communications	7 860	3 157	517	61
Finance	1 248	1 000	84	300

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	LDCs as destination		LDCs as investor	
	2016	2017	2016	2017
World	**44 315**	**25 270**	**1 577**	**797**
Developed economies	**9 050**	**13 484**	**302**	**7**
Denmark	72	2 133	-	-
Norway	24	2 010	-	-
United Kingdom	103	1 542	-	-
United States	3 397	2 424	-	-
Developing economies	**35 265**	**11 591**	**1 198**	**771**
Africa	6 453	816	465	257
Asia	28 812	10 689	734	334
China	14 041	3 668	-	81
India	3 439	633	427	197
Malaysia	3 388	375	71	56
Thailand	2 334	995	70	-

FDI flows to the LDCs declined by 17 per cent to $26 billion, or 4 per cent of inflows to all developing economies. Led by Myanmar and Cambodia, Asian and Oceanian LDCs registered robust FDI growth. However, aggregate FDI flows to African LDCs and Haiti sank by 31 per cent, with major contractions in Angola and Mozambique. Cross-border M&A sales made little difference to FDI inflows to LDCs, since major deals in mining, quarrying and petroleum represented changes of foreign owners. The value of greenfield FDI projects announced in 2017 plummeted by 43 per cent to a four-year low, as foreign investors, mostly from developing economies, scaled down their capital spending plans, especially in the services sector, targeting Bangladesh, Cambodia and Myanmar. This weakens FDI prospects for the leading Asian LDCs. Over the medium term, prospects in LDCs depend on the implementation of large infrastructure projects in the pipeline. FDI in Africa is expected to increase.

Inflows

Inward FDI flows to the 33 African LDCs[18] and Haiti contracted by 31 per cent to $15.4 billion. Ranked by the volume of FDI inflows in 2017, among the top FDI host LDCs in this region were Myanmar, Ethiopia, Mozambique, the Democratic Republic of the Congo, the United Republic of Tanzania, and Zambia. They attracted about 60 per cent of aggregate FDI flows to these LDCs. Among them, only two – the *Democratic Republic of the Congo* (+11 per cent) and *Zambia* (+65 per cent) – posted a gain, thanks to the recovery in mining MNE activities and manufacturing investments from China. Yet their FDI flows in 2017 were about half of their peaks in 2012–2013. Even though two-thirds of LDCs in the region attracted more inward FDI than the previous year, the contractions in Angola and in three of the top five host economies were severe. The losses in these four LDCs from 2016 to 2017 amounted to $7.7 billion, accounting for almost all the aggregate loss registered in the region.

In *Ethiopia*, FDI growth decelerated (–10 per cent to $3.6 billion) after posting a record in 2016, but remained strong, almost $1 billion higher than the level posted in 2015. Depressed FDI in Mozambique (–26 per cent to $2.3 billion) and the United Republic of Tanzania (–14 per cent to $1.2 billion) diminished further. In *Mozambique*, in the face of serious macroeconomic challenges, the recovery of MNE operations in mining alone was not enough to turn around FDI flows across sectors. In the *United Republic of Tanzania*, foreign investors held back their investments because of policy changes in tax administration and mining royalty. In *Angola*, FDI flows fluctuated significantly from $4.1 billion in 2016 to –$2.3 billion in 2017, as energy MNEs transferred funds abroad through intracompany loans. High inflation and foreign currency shortages deterred MNE operations.

FDI inflows to the 13 LDCs in Asia and Oceania grew by 20 per cent to $10.2 billion, in contrast to the stabilized FDI in the region. Two ASEAN LDCs – Myanmar and Cambodia – continued attracting the lion's share of aggregate FDI flows to the region. In *Myanmar*, FDI flows reached a six-year high of $4.3 billion, driven by strong investments in telecommunication and real and industrial estate development. The expansion of the Thilawa Special Economic Zone (SEZ) and companies that started operations during 2017 (e.g. Nissan-Tan Chong Motor) also contributed to the rise in inflows by an estimated $0.4 billion.

FDI flows to *Cambodia* rose by 12 per cent to a record high of $2.8 billion, thanks to strong investments in banking and telecommunication. FDI in non-textile manufacturing, such as beverages and cement products, also contributed to the growth. Albeit from a low base, FDI in *Nepal* almost doubled to a record high of $198 million, driven by Chinese

investments in infrastructure, cement products and mining. The introduction of new policies has contributed to improving this country's investment climate since the devastating 2015 earthquake.

In the *Lao People's Democratic Republic*, with a slowdown of Chinese investments, FDI declined for a second year (-18 per cent to $813 million) after reaching a record in 2015. Although China remains the largest home economy, investors from other ASEAN members, led by Thailand and Viet Nam, are increasingly present (ASEAN Secretariat and UNCTAD 2017). Following record levels in 2016, FDI flows to *Bangladesh* also slowed, to $2.2 billion (–8 per cent), as investment in energy and telecommunication levelled off. Progress in major public-financed infrastructure development has been slow.

In cross-border M&A sales, the major deals in resource-rich African LDCs represented changes of foreign owners and made little impact on FDI flows to LDCs. The net sales value in 2017 was at a four-year low, reflecting higher divestments by EU investors than the previous year and lower investments by developed-economy investors. *Mozambique* attracted four deals, totalling $3.6 billion. The largest cross-border deal in LDCs ($2.8 billion) was the United States-based ExxonMobil's acquisition of a 35.7 per cent stake in ENI East Africa, a Maputo-based gas exploration and production company, from Eni (Italy). In mining, a Japanese general trading firm, Mitsui, which also participates in an LNG project, invested a total of $0.8 billion to acquire partial stakes in coal mining and auxiliary transportation projects from Vale (Brazil). Accordingly, the sales of assets by Vale to Mitsui pulled down the total net sales value to developing economies by $0.8 billion.

Other major sales in mining were registered in the *Democratic Republic of the Congo.* As in 2016,[19] Chinese investors participated actively in the country's mining sector. In 2017, Bohai Harvest RST Shanghai Equity Investment Fund Management (China) acquired a 30 per cent stake in a metal ore mine operator, TF Holdings, a unit of Freeport-McMoRan DRC Holdings, from Lundin Mining (Canada) in a cash payment of $1.2 billion. Separately, another Chinese company, Wanbao Mining, invested $56 million to acquire a 61 per cent stake in a gold ore mine operator from Managem (Morocco). Despite these transactions, total Chinese investments in cross-border M&A sales in LDCs halved in 2017. Glencore (Switzerland) increased its stake in this LDC by investing a total of $922 million in a copper and nickel ore mine operator, Mutanda Mining from Gibraltar-based Fleurette Properties, and another copper and cobalt mining company, Katanga Mining.

Prospects

FDI to LDCs could see a recovery, pulled by the expected increase of FDI in Africa. African LDCs stand to benefit from the African Continental Free Trade Area (AfCFTA) and its stimulus for FDI flows to the region. Driven by ASEAN-based MNEs, the outlook for FDI in ASEAN LDCs is positive. However, announced greenfield FDI projects – a key indicator of future investment activity – plummeted in 2017 by 43 per cent to a four-year low. MNEs, mostly from developing Asian economies, scaled down their capital spending plans in electricity, construction and telecommunication, which had propelled announced greenfield FDI in Bangladesh, Cambodia and Myanmar in 2016. This weakens prospects for the leading Asian LDCs. Over the medium term, therefore, prospects depend on the extent of implementation of capital-intensive projects in the pipeline. Although the relative importance of announced greenfield FDI projects in the primary sector has been declining over the decade, investment activities by energy and mining MNEs in African LDCs will continue generating volatility in overall FDI flows to the 47 LDCs.

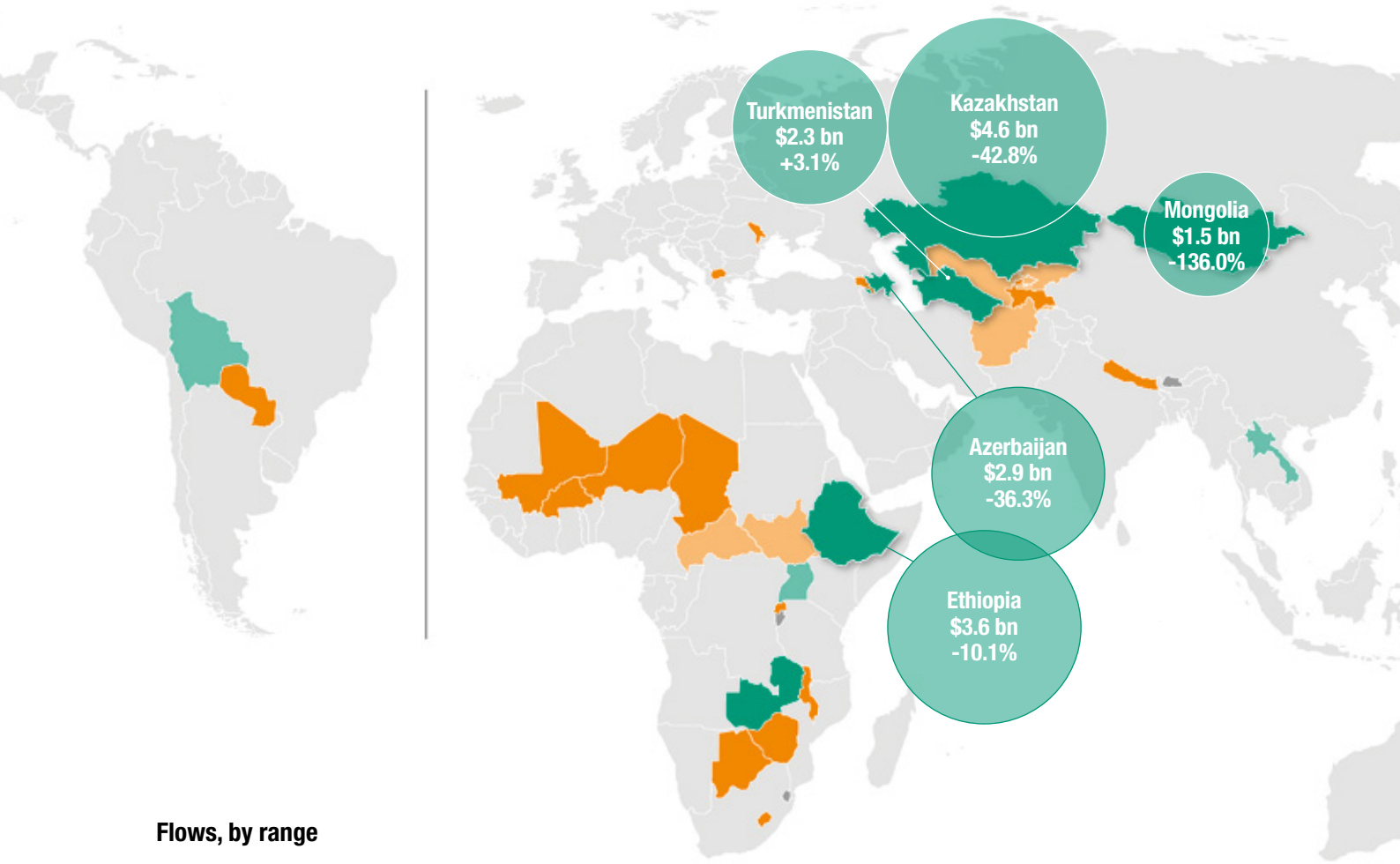
LANDLOCKED DEVELOPING COUNTRIES

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
$ 22.7 bn

2017 Increase
+2.6%

Share in world
1.6%



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
2017 % change

Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

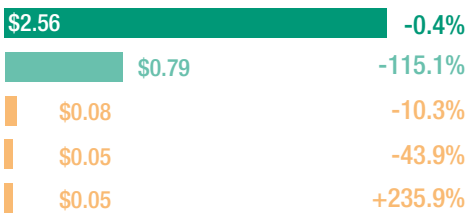
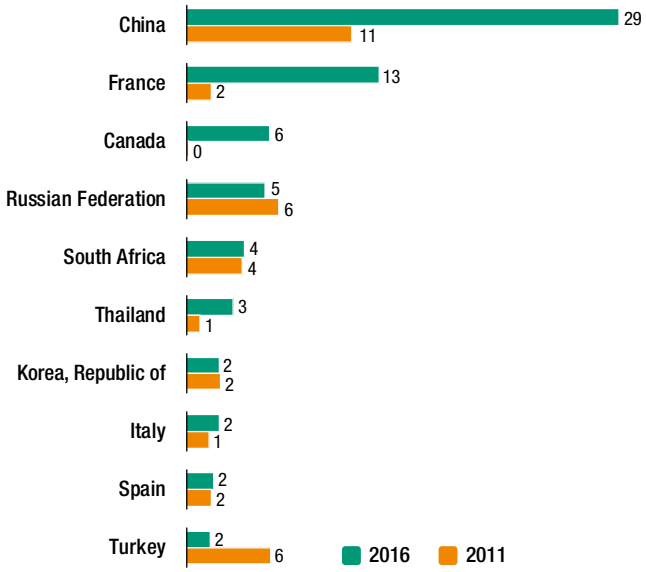


Figure A. **Top 10 investor economies by FDI stock, 2011 and 2016** (Billions of dollars)



Source: UNCTAD.

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HIGHLIGHTS

- Flows recovered marginally after five consecutive years of decline
- FDI rose in all subgroups except landlocked transition economies
- Recovery of flows is expected to continue, despite uncertainty and fragility

Figure B. FDI inflows, 2000–2017 (Billions of dollars and per cent)

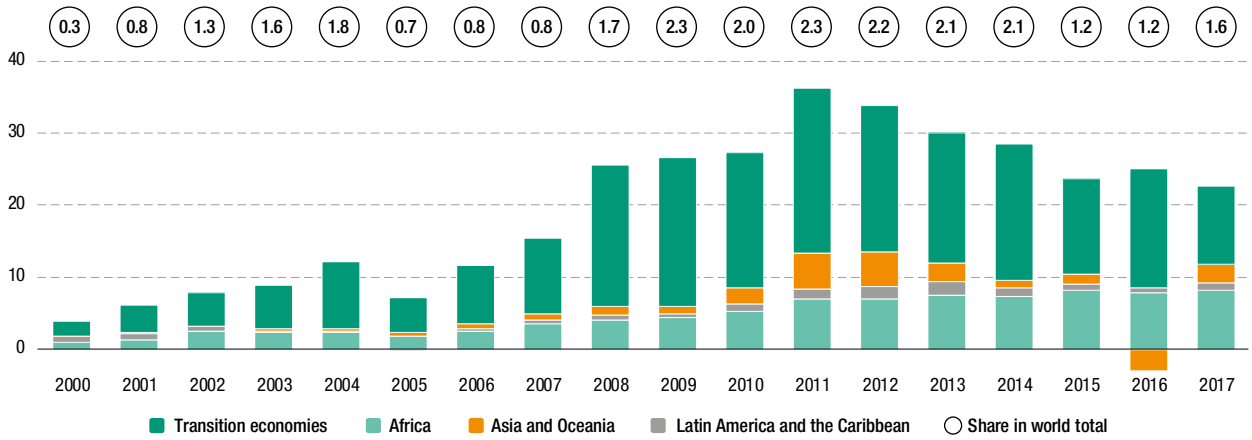


Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**590**	**15**	**138**	**1**
Primary	**7**	**5**	**-41**	**-2**
Mining, quarrying and petroleum	7	5	-	-2
Manufacturing	**507**	**-**	**-**	**-**
Food, beverages and tobacco	507	-	-	-
Services	**77**	**10**	**179**	**3**
Electricity, gas, water and waste management	2	-	-	-
Construction	-	0.1	55	-
Trade	18	-	-	7
Transportation and storage	16	11	-	-
Information and communication	-40	-	-	-
Financial and insurance activities	74	- 1	124	-4
Business activities	6	-	-	-

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**590**	**15**	**138**	**1**
Developed economies	**-39**	**8**	**161**	**2**
Australia	-17	158	-	-
Canada	-50	467	-	2
Japan	510	88	-	-
United States	-	124	-	-
Developing economies	**508**	**-2**	**0.3**	**1**
China	10	-45	-	-
Korea, Republic of	7	-	-	-
Malaysia	511	-	-	-
Turkey	25	-	0.3	-
Transition economies	**105**	**-1**	**-23**	**-2**
Russian Federation	205	1	-23	-

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	LLDCs as destination		LLDCs as investor	
	2016	2017	2016	2017
Total	**57 180**	**17 198**	**2 340**	**4 402**
Primary	**37 606**	**1 388**	**-**	**-**
Mining, quarrying and petroleum	37 606	1 388	-	-
Manufacturing	**11 790**	**10 652**	**360**	**3 747**
Food, beverages and tobacco	1 791	1 083	110	11
Textiles, clothing and leather	871	1 687	-	-
Coke and refined petroleum products	2 106	1 061	66	3 625
Chemicals and chemical products	4 785	4 358	-	31
Non-metallic mineral products	508	968	178	72
Metals and metal products	1 056	843	-	-
Services	**7 783**	**5 159**	**1 980**	**655**
Electricity, gas and water	2 637	2 496	-	-
Construction	2 000	666	282	49

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	LLDCs as destination		LLDCs as investor	
	2016	2017	2016	2017
World	**57 180**	**17 198**	**2 340**	**4 402**
Developed economies	**42 656**	**5 882**	**300**	**668**
European Union	2 666	4 593	295	668
United Kingdom	747	2 160	-	-
United States	38 221	925	5	-
Developing economies	**13 991**	**9 907**	**1 163**	**3 514**
China	4 025	5 408	14	142
United Arab Emirates	93	1 017	15	28
Singapore	80	938	-	-
Malaysia	42	594	-	-
India	143	434	427	99
Transition economies	**533**	**1 409**	**877**	**220**
Russian Federation	375	1 339	169	21

After five consecutive years of decline (2011–2016), FDI flows to the 32 landlocked developing countries (LLDCs) rose by 3 per cent in 2017, to $23 billion. This modest increase still left total flows to LLDCs – the majority of which (17) are also LDCs – almost 40 per cent below the peak of 2011. All LLDC subgroups by region, except for transition economies, registered gains. In 2017, LLDCs' share of total global flows was 1.6 per cent, up from a historical low of 1.2 per cent in 2016. However, flows remain concentrated in a few LLDCs, with the top five hosts (Kazakhstan, Ethiopia, Azerbaijan, Turkmenistan and Mongolia) accounting for 66 per cent of total flows to the group.

Inflows

FDI flows to the 16 African LLDCs increased by 4 per cent, to $8.2 billion. As a result, LLDCs' share of total flows to the continent, while still modest, rose from 15 per cent in 2016 to 20 per cent. Flows grew robustly to Botswana, Burkina Faso, the Central African Republic, Uganda and Zambia. In contrast, FDI declined in Mali, Swaziland and Zimbabwe, where political uncertainty dampened investment prospects. The growth of FDI also came to a halt in Ethiopia but remained at high levels. In 2017, Zambia became the second largest African LLDC host of FDI. Production expanded in the Konkola Copper Mines, an affiliate of the Indian–United Kingdom conglomerate Vedanta Resources, and Sinoconst (China) started the construction of a cement plant in Ndola. The Continental Free Trade Agreement (box II.1) could give impetus to foreign investment in African LLDCs, provided that appropriate measures are implemented to facilitate trade and transit of goods through seaports.

FDI in the five landlocked Asian countries recovered from –$3 billion to +$2.6 billion. Flows to Mongolia rebounded to $1.5 billion from a net flow of –$4.2 billion the previous year caused by negative intracompany loans, and FDI picked up in Nepal, although from a low level. Neighbouring China and India were the main sources of new investments in manufacturing and services. Inflows to the Lao People's Democratic Republic dropped by 18 per cent to $0.8 billion, despite the commencement of large projects in electricity and services. LLDCs' share of total flows to developing Asia rose from –0.6 per cent in 2016 to 0.5 per cent in 2017, still a marginal participation. The marginal recovery of investment flows to LLDCs mirrored the regional trend.

In the two Latin American LLDCs, FDI inflows grew by 65 per cent, to $1.1 billion. This compares with a modest rise of 8 per cent, to $151 billion, in Latin America and the Caribbean as a whole. Most of the rise is due to a 116 per cent increase of flows to the Plurinational State of Bolivia, which received $725 million. This was spurred in part by investment in sales, marketing and support operations in transport (by Thales Group of France) and in ICT (by Huawei of China). A major cross-border M&A deal in mining, which saw New Pacific Investment of Canada increase its share in the silver ore mine operator Empresa Minera Alcira, also contributed to the spike in FDI.

The nine landlocked transition economies saw FDI inflows decline by 35 per cent to $11 billion in 2017. This drop was even sharper than the one experienced in the economies in transition as a whole (–27 per cent, to $47 billion). Flows to two of the three large and heavily oil- and gas-based economies contracted: by 36 per cent in Azerbaijan (to $2.9 billion) and 43 per cent in Kazakhstan (to $4.6 billion). However, they rebounded slightly in Turkmenistan (by 3 per cent, to $2.3 billion). In the rest of the group, flows remained small and contracted by 41 per cent, from $1.8 billion to $1 billion. The Belt and Road Initiative has yet to make its impact felt on Central Asian LLDCs, as investment activity in these economies lacked new infrastructure projects as targets in 2017.

Net cross-border M&A sales in LLDCs continued to fall, plummeting from $590 million in 2016 to $15 million in 2017, with few attractive targets available for acquisition aside from natural resources. The oil and gas downturn that persisted in 2017 weighed heavily on the M&A deal flow. Divestment by investors from Europe and developing countries was barely offset by new transactions from North America. The sectoral spread also crimped, with no M&A activity in manufacturing, although some deals were concluded in transportation and storage services.

Prospects

FDI to LLDCs could recover further in 2018, but uncertainty and fragility remain. FDI in the 32 LLDCs could grow on the back of dynamic South–South FDI and the potential for more manufacturing FDI. Uncertainty stems from the fact that the value of announced greenfield projects, the main indicator for future projects, declined in 2017, if the one-off impact of the 2016 megadeal in Kazakhstan is disregarded. The value of announced greenfield projects fell to a modest $17 billion. Most of the LLDC economies remain vulnerable to adverse external factors when attempting to attract FDI for development. Their investment potential is strongly tied to developments in neighbouring countries through which their exports and imports transit. 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.

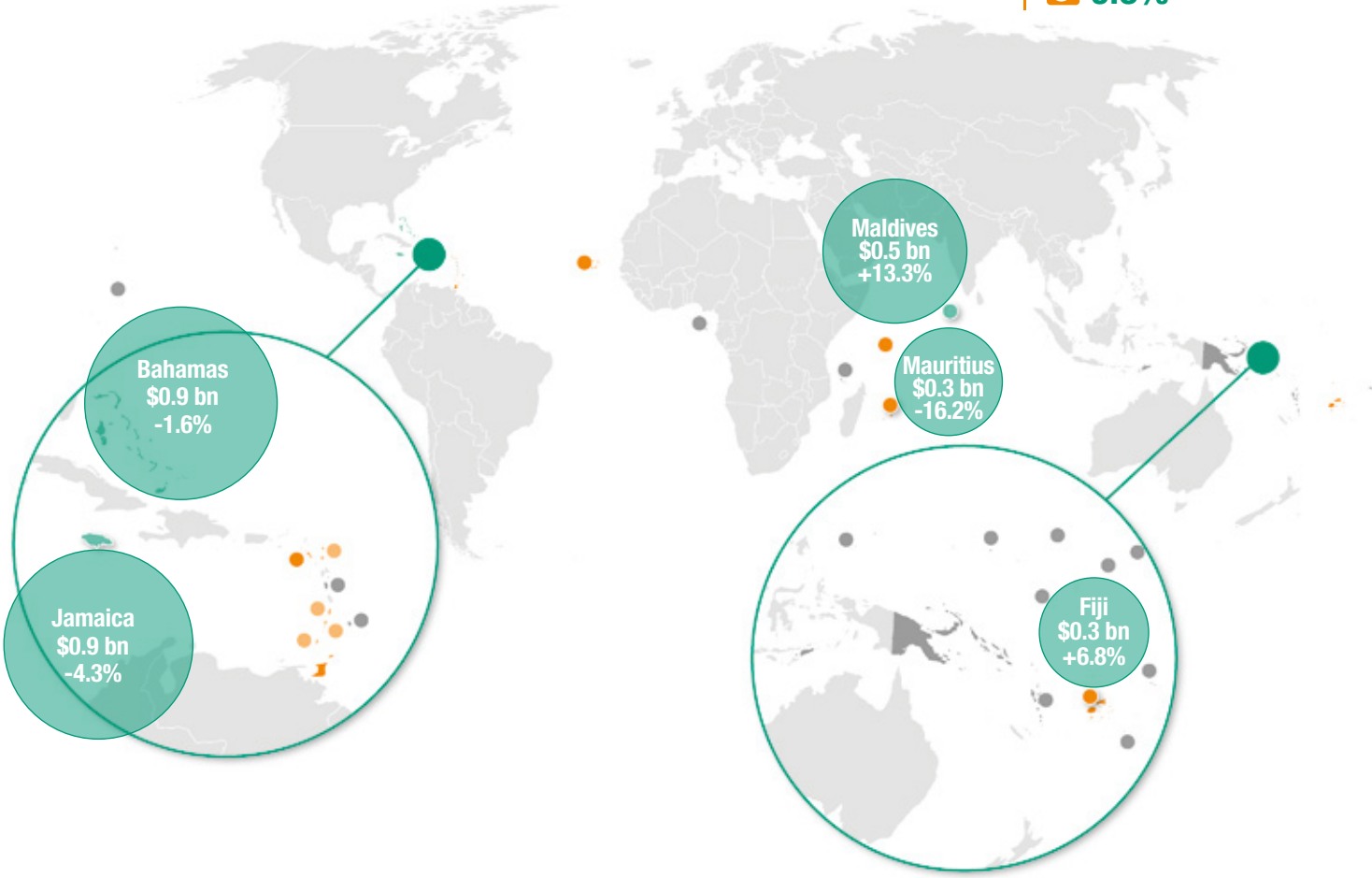
SMALL ISLAND DEVELOPING STATES

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
4.1 bn

2017 Increase
+3.5%

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
2017 % change

Outflows: top 5 home economies

(Millions of dollars and 2017 growth)

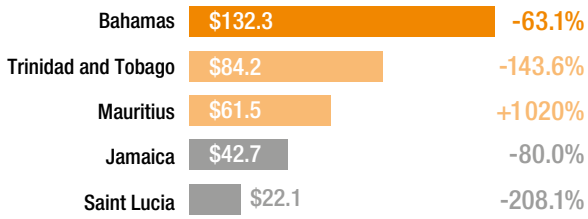
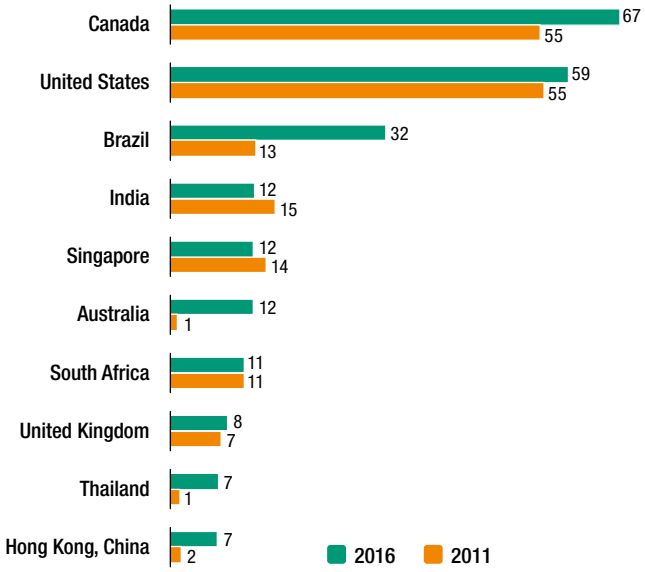


Figure A. Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



Source: UNCTAD.

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HIGHLIGHTS

- Fragile growth in inward FDI flows continued
- China was an important source for capital-intensive projects in some SIDS
- Greenfield announcements were down, and highly concentrated in a few SIDS

Figure B. FDI inflows, 2000–2017 (Billions of dollars and per cent)

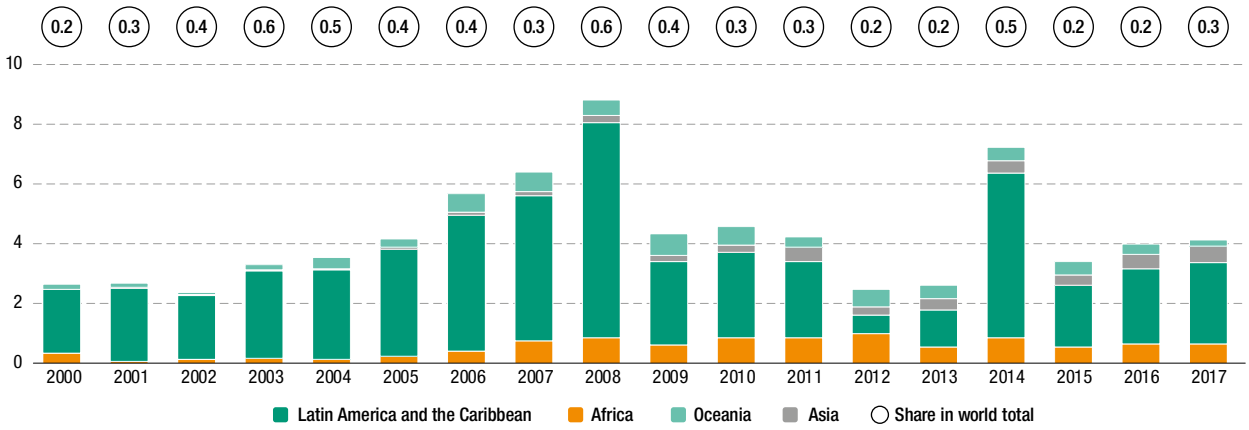


Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**83**	**2 615**	**460**	**4 127**
Primary	**3**	**144**	**-**	**2 314**
Extraction of crude petroleum and natural gas	-	-	-	158
Mining of metal ores	3	144	-	2 156
Manufacturing	**22**	**100**	**-**	**-30**
Chemicals and chemical products	22	-	-	-
Non-metallic mineral products	-	100	-	-
Machinery and equipment	-	-	-	-30
Services	**58**	**2 371**	**460**	**1 843**
Accommodation and food service activities	23	45	-	-
Activities auxiliary to financial service and insurance activities	4	4	-8	2 016
Real estate activities	31	2 322	451	120
Human health and social work activities	-	-	16	-293

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**83**	**2 615**	**460**	**4 127**
Developed economies	**-5**	**2 652**	**562**	**198**
European Union	-12	334	539	25
Other developed Europe	-	2 293	-	-
Other developed countries	15	25	-	175
Developing economies	**379**	**-38**	**- 108**	**3 928**
Africa	4	28	100	-
Latin America and the Caribbean	-	140	- 417	-
Asia	375	-206	209	3 928
China	299	-25	-41	-
Hong Kong, China	1	-181	-	- 1
India	-	-300	249	3 925
Singapore	31	300	-	-38

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	SIDS as destination		SIDS as investor	
	2016	2017	2016	2017
Total	**1 868**	**1 988**	**505**	**832**
Primary	**-**	**-**	**-**	**-**
Manufacturing	**145**	**245**	**13**	**-**
Metals and metal products	-	220	-	-
Services	**1 724**	**1 742**	**492**	**832**
Electricity, gas and water	367	262	-	-
Construction	-	296	-	-
Trade	29	48	29	-
Hotels and restaurants	308	812	-	-
Transport, storage and communications	251	107	15	62
Finance	168	15	30	107
Business services	592	136	417	662
Community, social and personal service activities	-	67	-	-

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	SIDS as destination		SIDS as investor	
	2016	2017	2016	2017
World	**1 868**	**1 988**	**505**	**832**
Developed economies	**524**	**977**	**73**	**124**
Netherlands	-	99	-	-
Spain	195	253	-	-
United States	192	521	-	-
Developing economies	**1 344**	**1 010**	**432**	**708**
Africa	273	11	70	11
Latin America and the Caribbean	454	23	320	662
Asia and Oceania	617	976	42	35
China	11	229	-	-
Hong Kong, China	-	365	-	35
Thailand	5	183	-	-
Viet Nam	-	107	-	-

Inward FDI in SIDS rose for a second year to $4.1 billion, led by 9 per cent growth in the Caribbean SIDS. Major gains came from tourism in Barbados and energy in Trinidad and Tobago. FDI in other regions, however, shrank, largely owing to an accelerated divestment in Papua New Guinea. Although China is not yet in the top 10 FDI home economies for SIDS, it has become an important source for financing capital-intensive projects in some SIDS. The stagnating volumes of greenfield FDI projects announced in 2016–2017 underscore a persisting challenge for SIDS to attract and sustain FDI. Services will continue to dominate, but FDI flows to the sector are slowing down.

Inflows

FDI in the 10 Caribbean SIDS increased by 9 per cent to $2.7 billion, in contrast to a 7 per cent reduction in all economies in the region. Although FDI flows to the majority of SIDS in this region shrank, the strong gains posted by Barbados (+25 per cent to $286 million), Saint Kitts and Nevis (+50 per cent to $127 million), and Trinidad and Tobago (from -$17 million in 2016 to $179 million in 2017) pushed this region's aggregate FDI flows to a three-year high. This was also helped by the resilient FDI flows into the Bahamas (–2 per cent to $928 million) and Jamaica (–4 per cent to $888 million). In the services-based economies of Barbados and of Saint Kitts and Nevis, tourism-related construction projects were the major driver. In energy-based Trinidad and Tobago, a decline in negative reinvested earnings in oil and gas activities contributed to the rebound (Central Bank of Trinidad and Tobago, 2018). Two projects by BP Plc (United Kingdom) began operation.

Despite the slowdown in the two largest FDI host SIDS in the region, the Bahamas and Jamaica, foreign investors remained active. In the Bahamas, where FDI dipped in 2017, after a 131 per cent rebound from 2015 to 2016, the opening of a megaresort project, Baha Mar, created nearly 4,000 jobs.[20] Jamaica, where FDI fell for the second year after the record high in 2015, continued attracting diversified FDI activities. The $299 million acquisition of a bauxite mining company, Alpart, owned by Jiuquan Iron and Steel (JISCO) in 2016 (*WIR17*), resulted in an additional investment of $160 million for expansion in 2017 and a strong uptick in Jamaica's alumina production (Bank of Jamaica, 2017).

FDI in the five SIDS in Africa fell by 2 per cent to $643 million, with a 16 per cent contraction in Mauritius. FDI flows to the largest FDI host in the region, Mauritius ($293 million), declined due to the slowdown in integrated resort and property development projects. Investment from China, which surged nearly sixfold from 2015 to 2016, halved from 2016 to 2017.[21] In contrast, FDI in Seychelles, the second largest FDI host SIDS in this region, rebounded to $192 million (+24 per cent), led by new tourism projects and reinvestments by operational foreign investors in tourism, telecommunication, manufacturing and fishing (Central Bank of Seychelles, 2017).

FDI flows to the 13 SIDS in Asia and Oceania shrank by 8 per cent to $744 million, as divestment in Papua New Guinea accelerated from –$40 million in 2016 to –$200 million in 2017. Owing to policy uncertainties and a persistently weak investment environment, including foreign exchange controls (ADB, 2017), commodity-based Papua New Guinea struggles to sustain FDI flows. Some mining investments were put on hold.[22] The majority of SIDS in the region attracted more FDI flows than the previous year; the two largest FDI host SIDS in the region saw sizeable increases, Maldives (+13 per cent) to $517 million and Fiji (+7 per cent) to $299 million. Maldives continued setting new records, driven by large-scale tourism projects. In 2017, more than 20 resort establishments opened, and two dozen more projects are scheduled to be completed during 2018. In connection to the tourism-related construction projects, FDI in wholesale trading rose, with more foreign investors in construction trade. Already-established projects also reinvested strongly.

Although China does not appear among the top 10 home economies for FDI in SIDS, it has become an important source for financing capital-intensive infrastructure projects in some SIDS. In Jamaica, for instance, Gansu Province of China, the owner of Alpart through JISCO, has agreed to provide financial support to develop a $6 billion industrial park. In Fiji, China has financed multiple infrastructure projects (including the construction of two bridges for $15 million), and a $0.5 billion hotel resort project is scheduled to start in 2018 in partnership with Guangdong Province of China. In Vanuatu, Chinese concessional loans have also financed multiple public infrastructure projects, such as a 1,000-seat convention centre and the upgrading of Luganville wharf.

Prospects

FDI flows into SIDS will remain fragile. Greenfield FDI projects announced in 2016–2017 stagnated ($1.9 billion in 36 projects in 2016 and $2.0 billion in 36 projects in 2017), well below levels observed in 2014 and 2015. This underscores a persisting challenge for SIDS to attract new and more FDI in volume. In the Caribbean, policy developments in renewable energy are expected to facilitate implementation of FDI projects in the pipeline and attract more in the coming years. Given the highly concentrated distribution of announced projects and infrastructure PPPs, however, only few SIDS are likely to see significant FDI growth going forward.

For example, among the Caribbean SIDS, Jamaica, which hosts larger infrastructure PPPs involving MNEs,[23] continued attracting the highest value of announced greenfield projects in 2017. In Saint Lucia, where FDI flows stabilized around $90 million in 2013–2017, capital spending plans announced in hotel and real estate projects in 2017 exceeded $500 million. In Africa, Mauritius attracted the majority of services FDI projects. In Oceania, Fiji attracted diversified projects, ranging from a hotel construction project by Hilton World Wide (United States) to a $40 million upgrading investment in China-owned Vatukoula Gold Mines and a $10 million expansion by Douglas Pharmaceuticals (Australia). Despite the depressed inward FDI flows to Papua New Guinea, this country's resource potential remains attractive for MNEs; the short-term outlook is positive, driven by a surge in investment from Malaysia in hospitality and catering to prepare for hosting the APEC 2018 Summit.

NOTES

[1] The value of announced greenfield projects indicates the capital expenditure planned by the investor at the time of the announcement. Data can differ substantially from the official FDI data as companies can raise capital locally and phase their investments over time, and a project may be canceled or may not start in the year when it is announced.

[2] Ibeh, K. I. N. (2018), "Why do African multinationals invest outside their home region? Should they?" Transnational Corporations, 25(1): 43–72.

[3] Ministry of Commerce of China.

[4] For instance, a review of 100 major ASEAN companies demonstrates their presence in multiple ASEAN countries and the expansion of their regional footprint (ASEAN secretariat and UNCTAD, 2017).

[5] Remarks of Shim Won Hwan, general manager of Samsung Electronics (Viet Nam) (https://vietnam.vnanet.vn).

[6] "ONGC Videsh Vankorneft acquires 15% stake in Namibia's offshore block", Sputnik International (https://sputniknews.com).

[7] See e.g. the Report on the Work of the Government delivered by Premier Li Keqiang at the First Session of the 13th National People's Congress of the People's Republic of China on March 5, 2018, and the speech delivered by President Xi Jinping at the opening of the Boao Forum for Asia on April 10, 2018.

[8] Including, for instance, the United Arab Emirates' Vision 2021 and Saudi Arabia's Vision 2030.

[9] Bloomberg, "Amazon is said to pit Argentina versus Chile in data-center race", 10 January 2018.

[10] Fair Observer, "Latin America 2018: Why Commodities Are Still King", 14 January 2018.

[11] Lithium News, "Chilean, Korean, Chinese companies to invest in lithium products in Chile", 12 March 2018. www.indmin.com/Lithium-LatestNews.html.

[12] FDI Markets, "Peru turns the page", December 2017/January2018.

[13] Reuters, "Awaiting better days, multinationals keep Venezuelan units alive - barely", 6 October 2017.

[14] To this list of financial centres as sources of FDI is to be added the Bahamas (19 per cent of inflows), Bermuda (5 per cent) and the British Virgin Islands (4 per cent).

[15] "Change of foreign ownership" type deals accounted for 8 per cent of all deals in 2016 but 42 per cent in 2017. Divestment deals accounted for 7 per cent in 2016, but 12 per cent in 2017.

[16] United States Department of the Treasury, "Fact Sheet: Treasury Issues Inversion Regulations and Proposed Earnings Stripping Regulations", 4 April 2016.

[17] "Rio Tinto agrees sale of Coal & Allied". Rio Tinto media release, 24 January 2017.

[18] With the graduation of Equatorial Guinea from the LDC category in June 2017, the number of African LDCs has become 33. The total number of LDCs, therefore, stands at 47.

[19] Two Chinese manufacturers announced new investment plans exceeding $420 million in metal products. In a cross-border M&A sale, Freeport-McMoRan (United States) sold its stake in Freeport-McMoRan DRC Holdings to China Molybdenum for $2.8 billion (WIR17).

[20] IMF, "The Bahamas: Staff Concluding Statement of the 2018 Article IV Mission", 28 March 2018, www.imf.org.

[21] Based on the provisional data available from the Bank of Mauritius, "Gross Direct Investment Flows for calendar year 2017 (Provisional)", www.bom.mu.

[22] EIU Country Report: Papua New Guinea, February 2018.

[23] In the Old Harbour Combined Cycle Power Station project ($330 million), Korea East-West Power (Republic of Korea) and Marubeni (Japan) hold a 25 per cent interest each. A $60 million solar power (build, own, and operate) project is owned by Neoen (Australia) and Rekamniar (United Kingdom) and financed by the USAID Clean Energy Finance Facility for the Caribbean and Central America (http://ppi.worldbank.org/ppinew/snapshots/country/jamaica).

CHAPTER III

RECENT POLICY DEVELOPMENTS AND KEY ISSUES

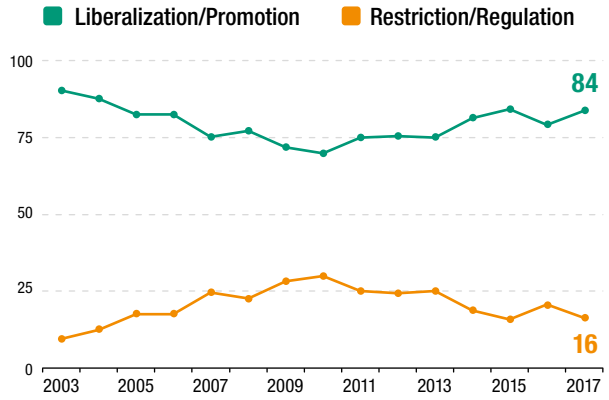
A. NATIONAL INVESTMENT POLICIES

1. Overall trends

Most countries continued to actively attract FDI in 2017, and the share of investment liberalization or promotion measures increased compared with 2016. However, the overall share of restrictive or regulatory investment policy measures has significantly increased in recent months and some countries have become more critical of foreign takeovers. Also, additional ways and means to strengthen investment screening mechanisms are under discussion, particularly in some developed countries.

In 2017, according to UNCTAD's count, 65 economies adopted 126 policy measures related to foreign investment.[1] These figures constitute the highest number of countries over the past decade, as well as the highest number of policy changes. Of a total of 126 investment policy measures, 93 liberalized, promoted or facilitated investment, while 18 introduced restrictions or regulations. The remaining 15 were of a neutral or indeterminate nature (table III.1). The share of investment liberalization and promotion among all measures climbed to 84 per cent – an increase of five percentage points compared with 2016 (figure III.1). New investment restrictions or regulations for foreign investors were mainly based on considerations of national security, local producers' competitiveness or foreign ownership of land and natural resources.

Figure III.1. Changes in national investment policies, 2003–2017 (Per cent)



Source: UNCTAD, Investment Policy Monitor database.

By region, developing countries in Asia continued to take the lead in adopting investment policy measures. Countries in Africa, the transition economies and Europe also introduced numerous measures (figure III.2).

In contrast to the overall favourable developments for foreign investment in 2017, the share of more

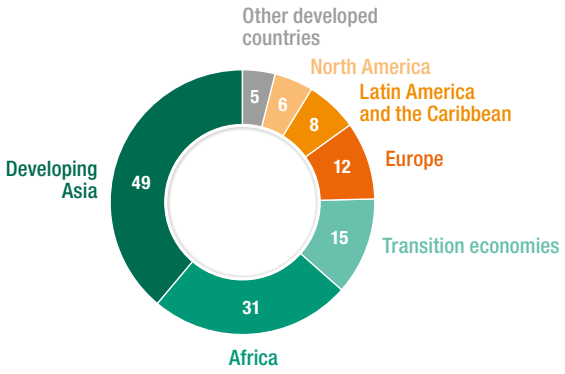
Table III.1. Changes in national investment policies, 2003–2017 (Number of measures)

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of countries that introduced changes	59	79	77	70	49	40	46	54	51	57	60	41	49	59	65
Number of regulatory changes	**125**	**164**	**144**	**126**	**79**	**68**	**89**	**116**	**86**	**92**	**87**	**74**	**100**	**125**	**126**
Liberalization/promotion	113	142	118	104	58	51	61	77	62	65	63	52	75	84	93
Restriction/regulation	12	20	25	22	19	15	24	33	21	21	21	12	14	22	18
Neutral/indeterminate[a]	-	2	1	-	2	2	4	6	3	6	3	10	11	19	15

Source: UNCTAD, Investment Policy Monitor database.
[a] In some cases, the expected impact of the policy measures on the investment is undetermined.

restrictive or regulatory investment policy measures increased significantly in recent months. From October 2017 to April 2018, about 30 per cent of newly introduced measures were restrictive or regulatory. Some countries are taking a more critical stance towards foreign takeovers, in particular when they relate to national security or the sale of strategic domestic assets. In addition, ways and means to further strengthen investment screening mechanisms are being discussed, particularly in some developed countries (see chapter IV.C.2.d).

Figure III.2. Regional distribution of national investment policy measures in 2017 (Number of measures)



Source: UNCTAD, Investment Policy Monitor database.

a. Investment liberalization prominent in 2017

Investment liberalization was among the prominent features of policy measures in 2017.[2] About one third of policy measures were related to partial or full investment liberalization in industries such as transport, energy and manufacturing.

(i) Countries in Asia particularly active in investment liberalization

As in previous years, emerging economies in Asia were the most active. *China* revised its foreign investment negative list for 11 free trade zones, lifting investment restrictions in a number of industries. It also issued an updated version of its Investment Industry Guidance Catalogue, which reduced the number of restrictive measures for the entry of foreign investment from 93 to 63 and opened up more activities in services, manufacturing and mining. It also issued a guideline that lists businesses in which outbound investment is encouraged, limited or prohibited. In April 2018, the country announced a timeline for the liberalization of the automobile and financial industries. In January 2018, *India* liberalized rules on inward investment in several industries including single-brand retail trading, airlines and power exchanges.

The *Lao People's Democratic Republic* abolished the minimum registered capital requirements for certain foreign investors. In its newly adopted Companies Act, *Myanmar* allowed foreign investors to hold up to 35 per cent of shares in a domestic company without the company losing its categorization as a "local company". It also permitted foreign companies to engage in trading of fertilizers, seeds, pesticides, hospital equipment and construction materials. Previously, only local companies and joint ventures of local and foreign companies were allowed to do so. *Saudi Arabia* fully liberalized foreign investment in engineering services and associated consultancy services, provided that the investor company is at least 10 years old and operates in at least four countries. *Viet Nam* amended the list of conditional business lines under which domestic and foreign companies must satisfy certain "business conditions" (e.g. technical and staffing requirements). Although 16 business lines were added to the list, 24 – out of a total of 267 – were removed.

Some noteworthy investment liberalization measures have been undertaken in other regions. For example, *Egypt* introduced a new law for the setting up of a natural gas regulatory authority charged with licensing and devising a plan to open the gas market to competition. *Mexico* increased foreign ownership caps for the supply of fuels and lubricants for ships, aircraft and railway equipment, as well as for certain air transport services. The *United Republic of Tanzania* allowed foreign investors to acquire shares in the listed paid-up capital

of a telecommunication company. *Zimbabwe* removed the majority-indigenous threshold, except in the diamond and platinum industries. In 2018, *Angola* passed a new investment law abolishing a joint venture requirement for foreign investors and the minimum investment requirement. The law does not apply to investments in oil and mining exploration as well as other activities related to financial institutions governed by specific law.

(ii) Ongoing privatization in several countries

Another important investment policy feature in 2017 was privatization. Several countries undertook full or partial privatizations, benefiting both domestic and foreign investors. For instance, *Brazil* awarded three European groups the rights to operate four airports. The Government of *Côte d'Ivoire* approved the sale of State mining company Sodemi's 30 per cent stake in the Ity gold project. *Greece* signed a concession contract with a German consortium concerning 14 regional airports. In 2018, the country concluded the sale of a 67 per cent stake in Thessaloniki Port to a consortium of investors. *Montenegro* sold the public stake in one of the country's major port operators (Luka Bar) and in a rail cargo firm (Montecargo). *Portugal* signed an agreement with private equity fund Lone Star to sell a 75 per cent stake in State-rescued lender Novo Banco. *Uzbekistan* issued a decree to simplify the procedures and speed up the process of sale of State property, and to eliminate administrative barriers to privatization. *Viet Nam* privatized a 54 per cent stake in its largest brewer (Sabeco). It also issued a decree to facilitate privatization of State-owned enterprises by, for instance, shortening the lock-in period of strategic partners.

b. Ongoing efforts for investment facilitation and promotion

Investment facilitation and promotion continued to be a major element of new investment policy measures in 2017.

(i) Numerous countries simplified administrative procedures

Argentina published a decree with 170 measures aimed at eliminating rules and regulations considered to reduce the country's competitiveness. *Australia* introduced a series of changes to its foreign investment framework by simplifying related regulations and the fee framework. *Azerbaijan* established a single online portal for the issuance of business licenses and permits. *Benin* launched an online platform (iGuide), providing information for domestic and foreign investors on building and developing business plans. *Colombia* modernized its foreign investment registration scheme, in particular by eliminating registration deadlines. The *Dominican Republic* established ProDominicana, an entity tasked with the promotion and facilitation of foreign direct investment (FDI) and exports. *Egypt* promulgated the Industrial Permits Act and its executive regulations, aiming to ease procedures for obtaining licenses for industrial establishments. The country also put into effect a new Investment Law, aiming to promote domestic and foreign investment by offering further incentives, reducing bureaucracy and simplifying administrative processes. *India* abolished its Foreign Investment Promotion Board and issued standard operating procedures for handling FDI proposals, such as the designation of competent authorities and time frames for applications. *Indonesia* replaced the license requirement for establishing a business with a procedure for registering an investment. *Jordan* simplified regulations to stimulate investment and improve the business environment. *Mauritius* introduced the Business Facilitation Act 2017, to eliminate regulatory and administrative bottlenecks to investment. The *Philippines* launched a digital platform called the Philippine Business Data Bank, aiming to shorten the time needed for applying for and renewing permits. *South Africa* launched

the "InvestSA One-Stop Shop Initiative" as a focal point of the Government, coordinating and facilitating registration and licensing procedures for all investors.

(ii) Investment incentives remain an important promotion tool

Some countries introduced fiscal and financial incentives to attract foreign investment. The *Republic of Korea* restructured tax incentives for foreign companies engaged in high-tech businesses and extended their benefits. The *Lao People's Democratic Republic* promulgated a new investment promotion law, offering various incentives to attract investment in both promoted industries and hardship areas. *Morocco* enacted a new Finance Law, which provides, inter alia, for corporate income tax exemptions for newly established industrial companies for a certain period. *Nigeria* granted "Pioneer Status" to the creative industry and published a list of 27 new industries that are eligible to enjoy the Pioneer Status incentive. *Thailand* introduced its new Investment Promotion Act to provide more incentives for advanced technology and innovation activities as well as research and development (R&D). *Tunisia* passed a bill on tax incentives, aiming to streamline that system by focusing on the priorities of the next period. The *United States* introduced the Tax Cuts and Jobs Act, which provides a corporate income tax cut and other measures to encourage MNEs to bring overseas funds back home.

(iii) Establishment of new SEZs

Several countries established special economic zones (SEZs) or revised policies related to existing SEZs. For instance, *Bangladesh* approved the construction of four new SEZs. *Congo* introduced two laws implementing the policy of diversification of the Congolese economy and creating SEZs. *Egypt* issued a decree establishing the "Golden Triangle Economic Zone". *Mexico* established three new SEZs in Puerto Chiapas, Coatzacoalcos and Lázaro Cárdenas–La Unión. *Viet Nam* provided some incentives for the Hoa Lac Hi-Tech Park, including preferential tax treatment, land use incentives and favourable conditions for immigration of foreign employees. *Zimbabwe* exempted investors operating in SEZs from paying duty on imported capital equipment, materials and products on the condition that they are used in SEZs. In 2018, *Thailand* enacted the Eastern Economic Corridor (EEC) Act, which provides incentives for investors in the EEC, such as tax grants, the right to land ownership and the issuance of visas.

(iv) Reform of domestic investment dispute resolution system

Meanwhile, a couple of countries reformed their domestic systems of investment dispute resolution. *Fiji* and *Qatar* each enacted new arbitration laws based largely on the Model Law on International Commercial Arbitration of the United Nations Commission on International Trade Law (UNCITRAL). *Saudi Arabia* issued Implementing Regulations of the Arbitration Law, to enhance its business environment.

c. New investment restrictions or regulations mainly reflect concerns about national security and foreign ownership of land and natural resources

(i) Increasing concerns about implications of foreign investment for national security

Some countries introduced new investment restrictions or regulations, mainly reflecting concerns about national security considerations or foreign investment in strategic industries. For instance, *China* restricted certain outward investment by specific State-

owned enterprises. *Germany* and *Japan* introduced amendments to their foreign investment review mechanisms, mainly to clarify rules and address shortcomings that were identified in their application. *Italy* extended the Government's so-called "golden powers" to block takeovers in high-tech industries by non-EU companies that may pose a serious threat to essential national interests or present a risk to public order and national security. The *Russian Federation* introduced certain prohibitions for inward investment by offshore companies. It now also requires prior Government approval for foreign investment in certain transactions involving assets of strategic importance for national defence and state security. The *Bolivarian Republic of Venezuela* published the new Constitutional Law on Foreign Productive Investment. Among other changes, it states that foreign investors may not participate directly or indirectly in national political debates. In 2018, *Lithuania* amended a law related to enterprises, mainly seeking to safeguard national security in certain economic sectors or when investing in certain protected zones.

More recently, further changes to investment screening procedures related to national security have been considered or prepared in several developed economies. For example, following an initiative by France, Germany and Italy,[3] the European Commission proposed in September 2017 to establish an EU-wide FDI screening framework, mainly to protect legitimate interests with regard to FDI that raises concerns about security or public order.[4] In October 2017, the Government of the United Kingdom published a Green Paper, "National Security and Infrastructure Investment Review", asking for comments on proposed new structures for reviewing foreign investments.[5] In January 2018, the United States Government stated that it supports the Congress's efforts to pass the "Foreign Investment Risk Review Modernization Act of 2017". The Act would expand the scope of transactions reviewable by the Committee on Foreign Investment in the United States (CFIUS) to more effectively address national security concerns.[6]

(ii) New regulations on access of foreign investors to land and natural resources

Several countries adopted new regulations on ownership of land or natural resources by foreign investors. *Australia* introduced an annual charge on foreign owners of underutilized residential property and increased fees that foreign investors must pay when seeking approval to purchase residential real estate. It also introduced a quantitative restriction on the acquisition of certain real estate assets by foreigners. Territorial subdivisions of *Canada* introduced the Non-Resident Speculation Tax, relating to the acquisition of residential property in areas with overheated housing markets. *New Zealand* tightened screening procedures for foreign acquisitions of sensitive land. *South Africa* introduced a new Mining Charter, which raises the minimum threshold for black ownership of mining companies. The *United Republic of Tanzania* adopted new mining laws, requiring, among other elements, that the Government obtain at least a 16 per cent stake in mining and energy projects.

(iii) Some countries introduced new local content requirements

Several countries imposed local content requirements for investors. For example, *Indonesia* increased the minimum local content requirement for domestically produced 4G smartphones that are sold in the Indonesian market, from 20 per cent to 30 per cent. *Kenya* reinforced the local procurement requirements for existing mineral rights holders. In 2018, the *United Republic of Tanzania* adopted separate "Mining Regulations on Local Content" to promote the use of local expertise, goods and services, businesses and financing in the mining value chain.

2. Merger controls affecting foreign investors

In 2017, several host-country governments raised objections to various foreign takeover attempts, in particular when they involved the sale of critical or strategic domestic assets to foreign investors. Among all cross-border M&As with a value exceeding $100 million, there were at least 10 deals withdrawn for regulatory or political reasons – 3 more than in 2016 *(WIR17*, p. 105). Calculated on the basis of the number of deals, this represents approximately 17 per cent of all cross-border M&As exceeding $100 million in 2017. The approximate gross value of the 10 withdrawn deals was roughly $35.3 billion. Of the 12 M&As that had a value over $50 million and up to $100 million, one was withdrawn for regulatory reasons.

The main industries in which M&As were withdrawn for regulatory or political reasons were high-tech manufacturing (e.g. semiconductors and electronics), financial services, digital mapping services, security services and telecommunication.

As far as the home economies of targeted companies are concerned, the United States ranked first, followed by New Zealand. On the buyer's side, investors from China were predominantly affected.

Of the 11 withdrawn deals in 2017, 3 were terminated in the screening process because of concerns related to national security. All related to attempts by Chinese or German investors to acquire the assets of high-tech firms, including in semiconductor manufacturing.

Five M&As were withdrawn in 2017 because of concerns by competition authorities, and one foreign takeover was aborted for prudential regulatory reasons. With regard to the latter, the planned acquisition was declined by the New Zealand authority, which was not able to determine the ownership structure of the acquiring group.

In addition, one M&A was withdrawn in 2017 for other regulatory reasons and another one because the companies involved did not want to wait longer for host-country approval (table III.2).

In the first four months of 2018, the trend from 2017 continued and even intensified (table III.3). From January to April 2018, seven deals were abandoned, mostly in the United States, which is more than 60 per cent of all the deals withdrawn in 2017.

Table III.2. Foreign takeovers withdrawn for regulatory or political reasons in 2017
(Illustrative list)

For national security reasons	
Infineon Technologies AG – Cree Inc, Wolfspeed[a]	On 16 February 2017, Cree Inc (United States) announced that it would terminate its agreement to sell Wolfspeed, which includes its silicon carbide substrate business, to Infineon Technologies AG (Germany). It stated that "Cree and Infineon have been unable to identify alternatives which would address the national security concerns of the Committee on Foreign Investment in the United States (CFIUS), and as a result, the proposed transaction will be terminated."
Canyon Bridge Capital Partners LLC – Lattice Semiconductor Corporation[b]	On 13 September 2017, the president of the United States issued an order prohibiting the acquisition of Lattice Semiconductor Corporation by a Chinese-backed private equity firm. The president followed a recommendation of the CFIUS, which had found that the acquisition by a group of investors, including the State-controlled venture capital fund, would pose a threat to United States national security.
A consortium led by Navinfo Co – HERE International BV[c]	On 26 September 2017, a group of investors led by the digital map provider NavInfo Co (China) abandoned its proposed acquisition of a 10 per cent minority stake in the digital mapping service and software company HERE International BV, following opposition from the CFIUS.
For competition reasons	
Bain Capital Fund IV LP – Resilux NV[d]	On 28 March 2017, Bain Capital Fund IV (United States) withdrew its plans to launch a tender offer to acquire the entire share capital of Resilux NV, a Belgium-based packaging company, in a leveraged buyout transaction because of an antitrust ruling in Germany for the intended combined acquisition.
London Stock Exchange – Deutsche Börse AG[e]	On 29 March 2017, the European Commission vetoed the planned merger between Deutsche Börse AG and the London Stock Exchange Group. The Commission found that by combining the activities of two of the major stock exchange operators, a de facto monopoly in the markets of bonds would have been created and, in addition, the merger would have removed horizontal competition for the trading and clearing of single stock equity derivatives. The value of this deal was estimated to amount to roughly $31 billion.
ZIMEN SP Z O O – Konsalnet Holding SA[f]	ZIMEN SP Z O, a unit of a Chinese security company, withdrew its plans to acquire Konsalnet Holding SA (Poland), a provider of security guard and patrol services, because of concerns about a concentration issue raised by the Polish Competition Authority in April 2017.
Vero Insurance New Zealand Ltd – Tower Ltd[g]	Vero Insurance New Zealand Ltd, ultimately owned by Suncorp Group – an Australian financial company – withdrew its offer to acquire the remaining 80 per cent share in Tower Ltd, a New Zealand–based insurance company. In July 2017, the Commerce Commission of New Zealand declined the merger attempt as it was not satisfied that the merger would not have the effect of substantially lessening competition in the personal insurance market.
Melita Ltd – Vodafone Malta Ltd[h]	On 8 December 2017, Vodafone Group Plc withdrew its plan to combine Vodafone Malta (a wireless telecommunication carrier) with Melita Ltd, aiming to create a fully integrated communications company in Malta. In its media release, Vodafone stated that the parties decided to terminate the transaction as it had become clear that they were unable to satisfy the Maltese Competition Authority's requirements.
For prudential reasons	
TIP-HNA New Zealand Holdings Ltd – UDC Finance Ltd[i]	On 21 December 2017, the Overseas Investment Office (OIO) of New Zealand declined TIP-HNA New Zealand Holdings Ltd's application to acquire 100 per cent of the shares in UDC Finance Ltd (a subsidiary of ANZ Bank). The OIO emphasized that the information provided about ownership and control interests was not sufficient. HNA Group is a Chinese firm from southern China that operates in the aviation business.
For other regulatory reasons	
Dolphin Fund Ltd – FIH Group Plc[j]	In April 2017, Dolphin Fund Ltd – owned by an Argentine investor – withdrew its offer to acquire FIH Group Plc (United Kingdom), which plays an important role in the economy of the Falkland Islands. This followed the Falkland Islands Government's letter to FIH, stating that if the ownership of the company changed it could lose the status that allowed it to acquire land without a license.
Withdrawn while waiting for host-country approval	
Cowen Group Inc – CEFC China Energy Co Ltd[k]	CEFC China Energy Co agreed to acquire a 19.9 per cent minority stake in Cowen Group Inc (United States), an investment bank, in a privately negotiated transaction. However, on 24 November 2017, both parties announced that they had mutually agreed to withdraw from the filing with the CFIUS and not to pursue the deal owing to delays and uncertainty in securing approval from the CFIUS.

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

[a] https://www.sec.gov/Archives/edgar/data/895419/000089541917000021/ex9918k021617.htm.
[b] https://www.treasury.gov/press-center/press-releases/Pages/sm0157.aspx.
[c] http://www.navinfo.com/news/detail.aspx?id=1217&sort=1.
[d] https://www.resilux.com/downloads/press/RESILUX-20170328-EN-Resilux%20-%20Bain%20Capital.pdf.
[e] http://europa.eu/rapid/press-release_IP-17-789_en.htm.
[f] https://www.uokik.gov.pl/koncentracje.php?news_id=13094&print=1.
[g] http://www.comcom.govt.nz/the-commission/media-centre/media-releases/2017/commission-declines-vero-insurance-clearance-to-acquire-tower-/.
[h] http://www.vodafone.com/content/index/media/vodafone-group-releases/2017/termination-merger-malta-and-melita.html.
[i] https://www.linz.govt.nz/news/2017-12/overseas-investment-office-declines-consent-tip-hna.
[j] http://en.mercopress.com/2017/04/14/falklands-dolphin-fund-desists-from-taking-over-fih-group-at-this-time.
[k] http://www.cowen.com/news/cowen-and-cefc-china-announce-mutual-agreement-to-withdrawal-from-filing-with-the-cfius.

Table III.3. Foreign takeovers withdrawn for regulatory or political reasons in 2018, January–April (Illustrative list)

For national security reasons	
Ant Financial Services Group – MoneyGram International Inc[a]	On 2 January 2018, Ant Financial (China) withdrew its offer to acquire the entire share capital of MoneyGram International Inc (United States), a 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.
BlueFocus International Ltd – Cogint, Inc[b]	On 20 February 2018, Cogint, Inc (United States) a data solutions provider, and BlueFocus International Ltd (Hong Kong, China) agreed to terminate their business combination agreement. Cogint stated that the CFIUS had indicated its unwillingness to approve the transaction.
Unic Capital Management Co Ltd – Xcerra Corporation[c]	On 22 February 2018, Xcerra (United States), a manufacturer of electrical signals measuring and testing instruments, terminated its merger agreement with Unic Capital Management and the China Integrated Circuit Industry Investment Fund. 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[d]	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.
For prudential reasons	
Consortium led by Chinese investors – Chicago Stock Exchange[e]	On 15 February 2018, the Securities and Exchange Commission (SEC) of the United States rejected a takeover of the Chicago Stock Exchange by a group led by Chinese-based investors. The SEC said in a statement that the review process had raised questions about "whether the proposed ownership structure [would] allow the Commission to exercise sufficient oversight of the Exchange."
For other regulatory reasons	
Aeolus Tyre Co Ltd – Prometeon Tyre Group Srl[f]	Aeolus Tyre Co Ltd (China) withdrew its offer to acquire the remaining 90 per cent stake in Prometeon Tyre Group Srl (Italy), a manufacturer and wholesaler of tires, 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 relevant parties were unable to reach a consensus on an extension, it said, so the deal was terminated.
Withdrawn while waiting for host-country approval	
Warburg Pincus India – Tata Technologies Ltd[g]	In 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, an engineering service and design arm of India's largest truck maker, Tata Motors. In a media statement, Tata Motors stated that the deal has been 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."

Source: UNCTAD.

[a] https://www.sec.gov/Archives/edgar/data/1273931/000119312518000668/d517771d8k.htm.
[b] https://www.sec.gov/Archives/edgar/data/1460329/000129993318000201/htm_55915.htm.
[c] https://www.sec.gov/Archives/edgar/data/357020/000119312518054209/d533034d8k.htm.
[d] https://www.whitehouse.gov/presidential-actions/presidential-order-regarding-proposed-takeover-qualcomm-incorporated-broadcom-limited.
[e] https://www.sec.gov/rules/sro/chx/2018/34-82727.pdf.
[f] http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-01-05/600469_20180105_6.pdf.
[g] https://www.bloombergquint.com/business/2018/02/05/warburg-pincus-calls-off-tata-tech-investment.

B. INTERNATIONAL INVESTMENT POLICIES

1. Recent developments in the international investment regime

a. Trends in the conclusion and negotiation of IIAs

Investment treaty making has reached a turning point. The year 2017 concluded with the lowest number of new international investment agreements (IIAs) since 1983, signalling a period of reflection on, and review of, international investment policies. Moreover, for the first time, the number of effective treaty terminations outpaced the number of new IIA conclusions. In contrast, negotiations for certain megaregional agreements maintained momentum, especially in Africa and Asia.

(i) Developments in the conclusion of IIAs

In 2017, 18 new IIAs were concluded, bringing the total to 3,322 treaties by year-end. The year marks the lowest number of IIAs concluded since 1983, and for the first time, effective treaty terminations exceeded the number of new treaty conclusions.

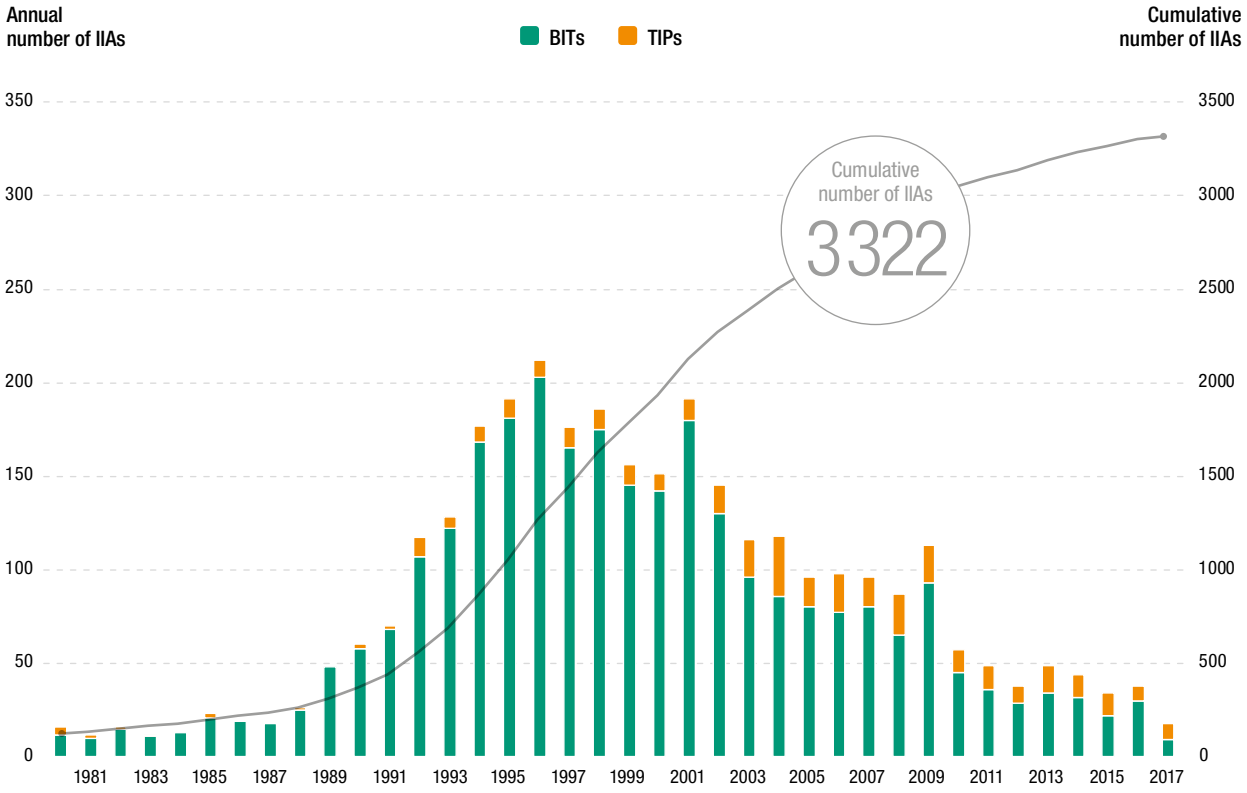
In 2017, countries concluded 18 new IIAs: 9 bilateral investment treaties (BITs) and 9 treaties with investment provisions (TIPs).[7] This brought the size of the IIA universe to 3,322 agreements (2,946 BITs and 376 TIPs), of which 2,638 were in force at year-end (figure III.3). The most active economy was Turkey, concluding four treaties, followed by Hong Kong, China with two. Forty-five economies were parties to one new treaty each. Of the 18 new IIAs, three were regional agreements (the ASEAN–Hong Kong, China Investment Agreement, the Intra-MERCOSUR Investment Facilitation Protocol and the Pacific Agreement on Closer Economic Relations (PACER) Plus Agreement between Australia, New Zealand and 12 Pacific island States).[8] In addition, 15 IIAs entered into force. Between January and March 2018, three additional IIAs were signed.[9]

At the same time, at least 22 terminations entered into effect ("effective termination"). Particularly active in terminating treaties was India with 17. Ecuador sent 16 notices of termination in 2017.[10] Among intra-European Union (EU) BITs, at least two terminations took effect in 2017 (see also *WIR17*, box III.6).[11]

For the first time, the number of effectively terminated IIAs (22) exceeded the number of newly concluded treaties (18) and the number of new treaties entering into force (15). However, the low number of IIAs concluded in 2017 does not necessarily translate into fewer treaty relationships among countries. Unlike BITs, a single regional IIA creates many treaty relationships, depending on the number of contracting parties.[12]

Moreover, effective treaty termination must also be seen in light of survival clauses, according to which treaty application is extended for a further period after termination (some for 5 years, but most commonly for 10, 15 or even 20 years). And the stock of IIAs remains very large, comprising more than 3,300 treaties, most of them belonging to the "first generation" IIAs that are in need of reform.

Figure III.3. | Trends in IIAs signed, 1980–2017



Source: UNCTAD, IIA Navigator.
Note: The cumulative number of all signed IIAs, independently of whether they have entered into force, is 3,322. IIAs for which termination has entered into effect are not included.

The nine TIPs concluded in 2017 can be grouped into four categories:

a. Four agreements with obligations commonly found in BITs, including substantive standards of investment protection:

- Argentina–Chile Free Trade Agreement (FTA)
- ASEAN–Hong Kong, China Investment Agreement[13]
- China–Hong Kong, China Investment Agreement[14]
- Pacific Agreement on Closer Economic Relations (PACER) Plus[15]

b. One agreement with investment provisions emphasizing investment promotion and facilitation as well as a number of investment protection provisions – although no investor–State dispute settlement (ISDS) clause:

- Intra-MERCOSUR Investment Facilitation Protocol (2017)

c. One agreement with limited investment provisions (e.g. national treatment (NT) and most favoured nation (MFN) treatment with regard to the right of establishment of companies) or provisions on free movement of capital relating to direct investments:

- Armenia–EU Comprehensive and Enhanced Partnership Agreement

d. Three agreements that establish a process for negotiation or an institutional framework to promote and cooperate on investment but do not contain substantive investment protection provisions:

- Paraguay–United States Trade and Investment Framework Agreement (TIFA)
- Chile–Indonesia Comprehensive Economic Partnership Agreement[16]
- China–Georgia Free Trade Agreement (FTA)

(ii) Developments at the regional level

The year 2017 witnessed maintained momentum in negotiations for megaregional agreements, particularly in Africa and Asia. The EU continued several FTA negotiations, including with Japan. The renegotiations of NAFTA, including the chapter on investment, began. In addition, a number of country groups are developing non-binding guiding principles for investment policy making.

African Continental Free Trade Area (CFTA): The December 2017 African Union (AU) ministerial meeting concluded the first phase of the negotiations on the CFTA, bringing together 55 African economies. Ministers endorsed the Agreement Establishing the CFTA together with the Protocol on Trade in Services and agreed to establish a CFTA Secretariat. Heads of State signed the CFTA in March 2018. The next phase of negotiations will focus on the protocols on competition, intellectual property rights and investment.

African, Caribbean and Pacific (ACP) Group of States – Guiding Principles for ACP Countries Investment Policymaking: The 79 ACP members have developed Guiding Principles jointly with UNCTAD. The Principles are based on UNCTAD's Investment Policy Framework for Sustainable Development (2015 version), reflect ACP countries' specificities and priorities for investment policymaking, and emphasize the special needs and concerns of developing countries, least developed countries (LDCs) and small island developing States (SIDS). The non-binding Principles were approved by the ACP Committee of Ambassadors in June 2017.

COMESA Common Investment Agreement (CCIA): The text of the CCIA was revised to strengthen the sustainable development dimension of the agreement and to safeguard the right of host States to regulate investment in their territories. The revised text was submitted to the COMESA Committee on Legal Affairs in September 2017.

Comprehensive and Progressive Agreement for a Trans-Pacific Partnership (CPTPP): Following the United States' withdrawal from the Trans-Pacific Partnership (TPP) agreement in January 2017, in November 2017, the 11 parties[17] to the TPP agreed on the core elements for a CPTPP. Annexes set out TPP treaty provisions that will be maintained in the CPTPP and those that will be suspended. With respect to investment (in Chapter 9), the parties agreed to suspend the application of the provisions related to investment agreement, investment authorization and the selection of arbitrators (in part). The agreement was signed on 8 March 2018, in Chile, and will enter into force after 6 of the 11 signatories ratify the treaty.

Economic Partnership Agreement (EPA) between the EU and Japan: In December 2017, the EU announced that the negotiations between the EU and Japan on the EPA had been finalized. However, for the investment chapter, some aspects remain subject to further negotiation. The EU has tabled during the negotiations its reformed proposal on the Investment Court System.

Free Trade Agreement (FTA) between the EU and Mexico: In April 2018, the EU and Mexico reached an agreement on the modernization of the 1997 Economic Partnership, Political Coordination and Cooperation Agreement between the EU and Mexico, with investment featuring among the chapters. The agreement includes a reference to the establishment of an investment court system (following the court system contained in the recent agreements between the EU and Canada (the Comprehensive Economic and Trade Agreement, or CETA), Singapore and Viet Nam).

North American Free Trade Agreement (NAFTA): The NAFTA parties (Canada, Mexico and the United States) held several rounds of renegotiations of the treaty. Although a

handful of chapters have been finalized (e.g. competitiveness, and customs and border facilitation), the investment chapter remained in flux at the time of writing. A number of proposals have been reported in the early part of 2018, including regarding the status of ISDS.[18]

Organisation of Islamic Cooperation (OIC) – Guiding Principles for Investment Policymaking for Member States of the OIC: The 57 OIC countries are developing in cooperation with UNCTAD non-binding Guiding Principles for the OIC countries to use in the development of national and international investment policies. The Principles are based on a joint OIC–UNCTAD proposal containing 10 non-binding investment principles that draw on UNCTAD's Investment Policy Framework for Sustainable Development (*WIR12*, updated 2015), covering areas such as policy coherence, balanced rights and obligations, the right to regulate, openness to investment, investment protection and intra-OIC cooperation. The Principles, which are in line with the OIC Action programme (OIC-2025), were reviewed favourably at a high-level expert meeting organized by the Islamic Centre for Development of Trade and UNCTAD in January 2018.

Regional Comprehensive Economic Partnership (RCEP): Negotiations continued on the RCEP, involving the 10 members of ASEAN[19] plus 6 other countries from the region.[20] At least 20 rounds of negotiations concluded thus far have covered topics such as goods, services, trade remedies, customs clearance, investment, government procurement, competition policy, e-commerce and dispute settlement. RCEP members aim to bring the negotiations to a conclusion in 2018. The investment chapter seeks to create an enabling investment environment in the region based on the following four pillars: investment protection, liberalization, promotion and facilitation.

Tripartite COMESA–EAC–SADC FTA (TFTA): The first phase of negotiations focused on trade in goods. The three regional economic communities (the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC)) adopted annexes on rules of origin, trade remedies and dispute settlement. Negotiations on Phase II have started while a few outstanding issues are being finalized for the market integration pillar. Phase II includes trade in services, intellectual property rights, competition policy and consumer rights, and cross-border investment. For the investment chapter, possible options include a full investment chapter or annex, or a more limited approach focusing on investment cooperation.

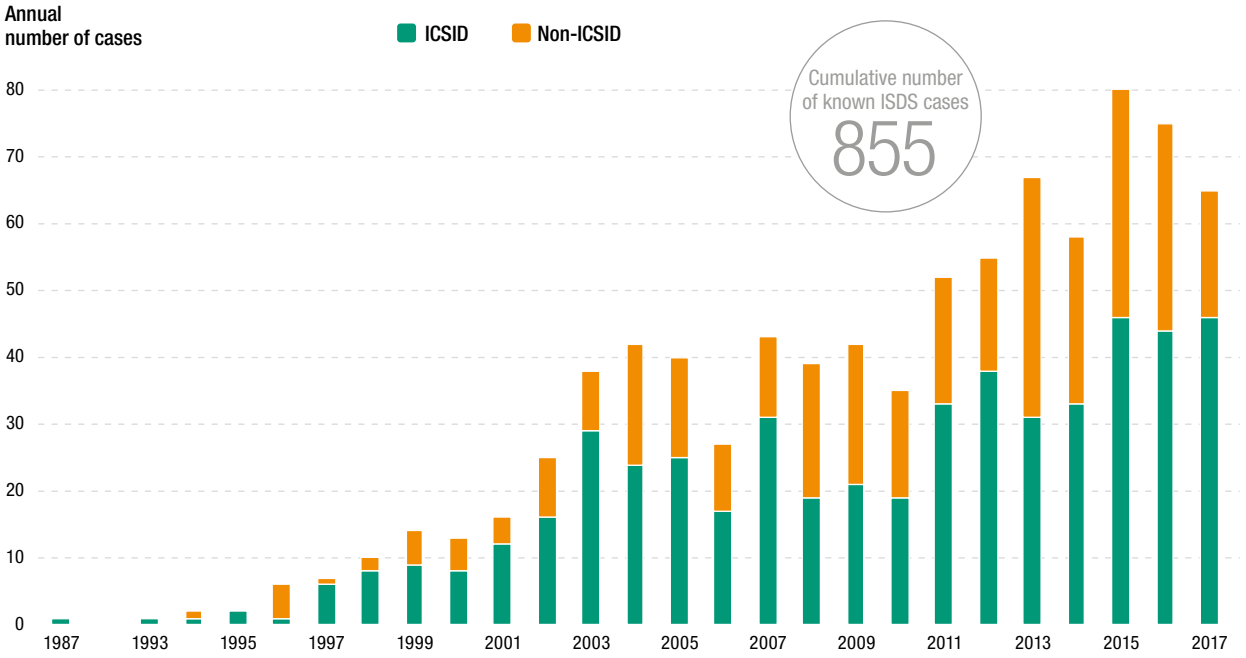
b. Trends in ISDS: new cases and outcomes

The number of new investor–State dispute settlement (ISDS) claims remains high. In 2017, at least 65 new treaty-based ISDS cases were initiated, bringing the total number of known cases to 855. More than half of the arbitral decisions on jurisdictional issues that were rendered in 2017 were decided in favour of the State, whereas those on the merits were mostly decided in favour of the investor.

(i) New cases initiated in 2017

In 2017, investors initiated at least 65 ISDS cases pursuant to IIAs (figure III.4). As of 1 January 2018, the total number of publicly known ISDS claims had reached 855. (On the basis of newly revealed information, the number of known cases for 2016 was adjusted to 75, and for 2015 to 80.) As some arbitrations can be kept fully confidential, the actual number of disputes filed in 2017 and previous years is likely to be higher.

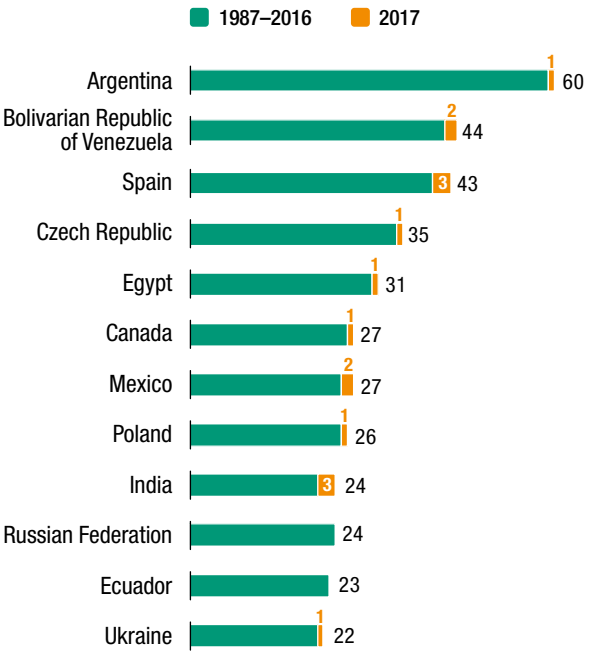
Figure III.4. Trends in known treaty-based ISDS cases, 1987–2017



Source: UNCTAD, ISDS Navigator.

Note: Information has been compiled on the basis of 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 signalled its intention to submit a claim to ISDS but has not commenced the arbitration. Annual and cumulative case numbers are continuously adjusted as a result of verification processes and may not match case numbers reported in previous years.

Figure III.5. Most frequent respondent States, 1987–2017 (Number of known cases)



Source: UNCTAD, ISDS Navigator.

Respondent States

The new ISDS cases in 2017 were initiated against 48 countries. Croatia was the most frequent respondent with four cases, followed by India and Spain with three cases each (figure III.5). Four economies – Bahrain, Benin, Iraq and Kuwait – faced their first (known) ISDS claims. As in previous years, the majority of new cases were brought against developing countries and transition economies. So far, 113 countries have been respondents to one or more known ISDS claims.

Home States of claimants

Developed-country investors brought most of the 65 known cases in 2017. Investors from the Netherlands and the United States initiated the most cases with eight cases each, followed by investors from the United Kingdom with six (figure III.6). Investors from Turkey were the most active claimants from developing countries, with four cases filed in 2017.

Intra-EU disputes

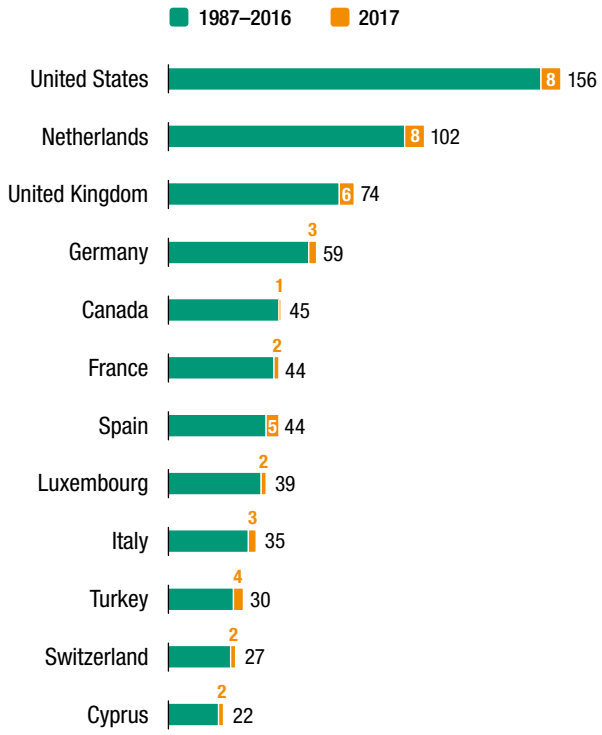
Intra-EU disputes accounted for about one-fifth of all investment arbitrations initiated in 2017, down from one-quarter in the preceding year. The overall number of arbitrations initiated by an investor from one EU member State against another totalled 168 by the end of 2017, i.e. 20 per cent of the total number of cases globally.

A recent judgment of the EU Court of Justice found that the arbitration clause contained in the Netherlands–Slovakia BIT (1991) was incompatible with EU law.[21] This decision may have important implications for intra-EU BITs and future intra-EU disputes.

Applicable investment treaties

About 80 per cent of investment arbitrations in 2017 were brought under BITs. The remaining arbitrations were based on TIPs, or on BITs and TIPs in combination. The majority of the IIAs invoked in 2017 date back to the 1980s and 1990s. The IIAs most frequently invoked in 2017 were the Energy Charter Treaty (with six cases), the Austria–Croatia BIT (three cases) and NAFTA (two cases). Looking at the overall trend, about 20 per cent of all known cases have invoked the Energy Charter Treaty (113 cases) or NAFTA (61 cases).

Figure III.6. Most frequent home States of claimants, 1987–2017
(Number of known cases)



Source: UNCTAD, ISDS Navigator.

Economic sectors involved

About 70 per cent of the cases filed in 2017 related to activities in the services sector, including these:

- Financial and insurance services (11 cases)
- Construction (9 cases)
- Supply of electricity, gas, steam and air (7 cases)
- Information and communication (6 cases)
- Transportation and storage (4 cases)

Primary industries and manufacturing each accounted for 15 per cent of new cases. This is broadly in line with the overall distribution of the 855 known ISDS cases filed to date.

Measures challenged

Investors in 2017 most frequently challenged the following types of State conduct:

- Domestic legal proceedings and decisions (at least 7 cases)
- Termination of contracts or concessions, and revocation or non-renewal of licenses (at least 7 cases)
- Placement under administration and other actions allegedly resulting in bankruptcy or liquidation (at least 6 cases)
- Alleged takeover, seizure or nationalization of investments (at least 5 cases)

- Legislation prescribing changes in the currency of loans and mortgages (at least 4 cases)
- Tax-related measures such as allegedly unlawful tax assessments or the denial of tax exemptions (at least 4 cases)
- Legislative reforms in the renewable energy sector (at least 2 cases)

Other conduct that was challenged included alleged harassment by State authorities, unfair or discriminatory treatment, fraudulent misrepresentation and anti-money laundering regulations.

Amounts claimed

Where information regarding the amounts sought by investors has been disclosed (in about one-quarter of the new cases), the amounts claimed range from $15 million (*Arin Capital and Khudyan v. Armenia*) to $1.5 billion (*MAKAE v. Saudi Arabia*).

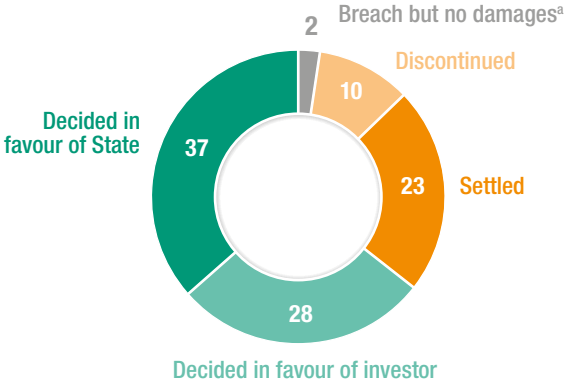
(ii) ISDS outcomes

Decisions and outcomes in 2017

In 2017, ISDS tribunals rendered at least 62 substantive decisions, 34 of which are in the public domain (at the time of writing). Of these public decisions, more than half of the decisions on jurisdictional issues were decided in favour of the State, whereas those on the merits were mostly decided in favour of the investor. More specifically:

- Thirteen decisions (including rulings on preliminary objections) principally addressed jurisdictional issues, with five upholding the tribunal's jurisdiction and eight denying jurisdiction.
- Eighteen decisions on the merits were rendered in 2017, with 12 accepting at least some investor claims and 6 dismissing all of the claims. In the decisions holding the State liable, tribunals most frequently found breaches of the expropriation and the fair and equitable treatment (FET) provisions. In one decision, the tribunal found that the State had breached the IIA but decided that no compensation was due.
- Three publicly known decisions were rendered in ICSID annulment proceedings. ICSID ad hoc committees rejected two applications for annulment and partially annulled one award.

Figure III.7. Results of concluded cases, 1987–2017 (Per cent)



Source: UNCTAD, ISDS Navigator.

[a] Decided in favour of neither party (liability found but no damages awarded).

Overall outcomes

By the end of 2017, some 548 ISDS proceedings had been concluded. The relative shares of case outcomes changed only slightly from that in 2016. About one-third of all concluded cases were decided in favour of the State (claims were dismissed either on jurisdictional grounds or on the merits), and about one-quarter were decided in favour of the investor, with monetary compensation awarded. A quarter of cases were settled; in most cases, the specific terms of settlements remain confidential. In the remaining proceedings, cases were either discontinued or the tribunal found a treaty breach but did not award monetary compensation (figure III.7).

Of the cases that were resolved in favour of the State, about half were dismissed for lack of jurisdiction. Looking at the totality of decisions on the merits (i.e. where a tribunal determined whether the challenged

measure breached any of the IIA's substantive obligations), about 60 per cent were decided in favour of the investor and 40 per cent in favour of the State (figure III.8).

Overall amounts claimed and awarded

On average, successful claimants were awarded about 40 per cent of the amounts they claimed. In cases decided in favour of the investor, the average amount claimed was $1.3 billion and the median $118 million. The average amount awarded was $504 million and the median $20 million. These amounts do not include interest or legal costs, and some of the awarded sums may have been subject to set-aside or annulment proceedings.

The combined $114 billion claimed and $50 billion awarded in three cases related to the Yukos company (brought by Hulley Enterprises, Veteran Petroleum and Yukos Universal against the Russian Federation) were the highest in the history of investment treaty arbitration. These arbitration awards have been set aside by The Hague District Court; its judgment was appealed and the appeal is currently pending. Excluding these values from the calculations above, the average amount claimed falls to $454 million and the amount awarded to $125 million, i.e. about 28 per cent of the amount claimed.

Appointments of arbitrators

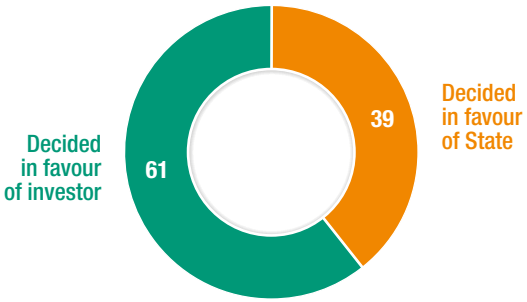
About 500 people have been appointed as arbitrators in known ISDS cases (original proceedings). About half have served on more than one known case. A small number of people have been appointed to more than 30 cases each (figure III.9), with three having received the most appointments. All but one are citizens of European or North American countries. Interesting from a gender perspective is that 11 of the 13 are men, and that the two women are among the three people having received the most appointments.

2. Taking stock of IIA reform

a. The new generation of IIAs: features and developments (Phase 1)

IIA reform is well under way across all regions. Most of today's new IIAs include sustainable development-oriented reform elements. Highlights of modern

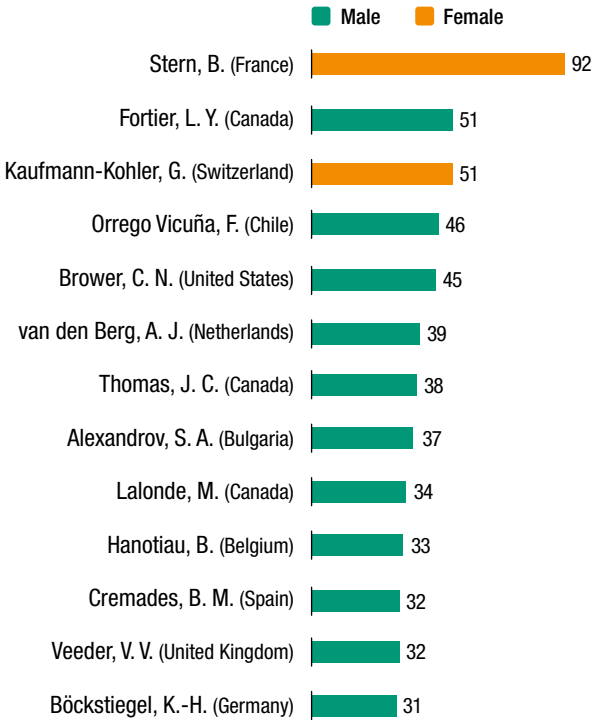
Figure III.8. Results of decisions on the merits, 1987–2017 (Per cent)



Source: UNCTAD, ISDS Navigator.

Note: Excluding cases (i) dismissed by tribunals for lack of jurisdiction, (ii) settled, (iii) discontinued for reasons other than settlement (or for unknown reasons) and (iv) decided in favour of neither party (liability found but no damages awarded).

Figure III.9. Most frequently appointed ICSID arbitrators, 1987–2017
(Number of appointments)



Source: UNCTAD, ISDS Navigator.

Note: Information on nationality and gender compiled on the basis of ICSID's database of arbitrators, conciliators and ad hoc Committee members.

treaty making include a sustainable development orientation, preservation of regulatory space and improvements to or omissions of ISDS.

Since 2012, over 150 countries have undertaken at least one action in the pursuit of sustainable development-oriented IIAs as set out in UNCTAD's Reform Package for the International Investment Regime (including either Phase 1 or Phase 2 reform actions, discussed below). For example, they have reviewed their treaty networks or revised treaty models.

Most of today's new IIAs follow UNCTAD's Road Map (*WIR15*), which 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) or include clauses that were set out in UNCTAD's Investment Policy Framework for Sustainable Development (*WIR12*, updated in 2015). In addition, some IIAs concluded in 2017 contain innovative features that have rarely been encountered in earlier IIAs.

Today's reform-oriented treaty making is in striking contrast to treaty making at the turn of the millennium. A comparison between the 13 IIAs concluded in 2017 for which texts are available (eight BITs and five TIPs) and a sample of 13 IIAs concluded in 2000 shows remarkable differences (table III.4). Clearly, reform-oriented clauses are becoming more common in modern treaties. All IIAs concluded in 2017 contain at least six reform features, and some provisions that were considered innovative in pre-2010 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.

Sustainable development orientation. In contrast to the IIAs signed in 2000, the 2017 IIAs include a larger number of provisions explicitly referring to sustainable development issues (including by preserving the right to regulate for sustainable development-oriented policy objectives). Of the 13 agreements concluded in 2017, 12 have general exceptions – for example, for the protection of human, animal or plant life or health, or the conservation of exhaustible natural resources. All but one also explicitly recognize that the parties should not relax health, safety or environmental standards to attract investment; and 11 refer to the protection of health and safety, labour rights, the environment or sustainable development in their preambles.

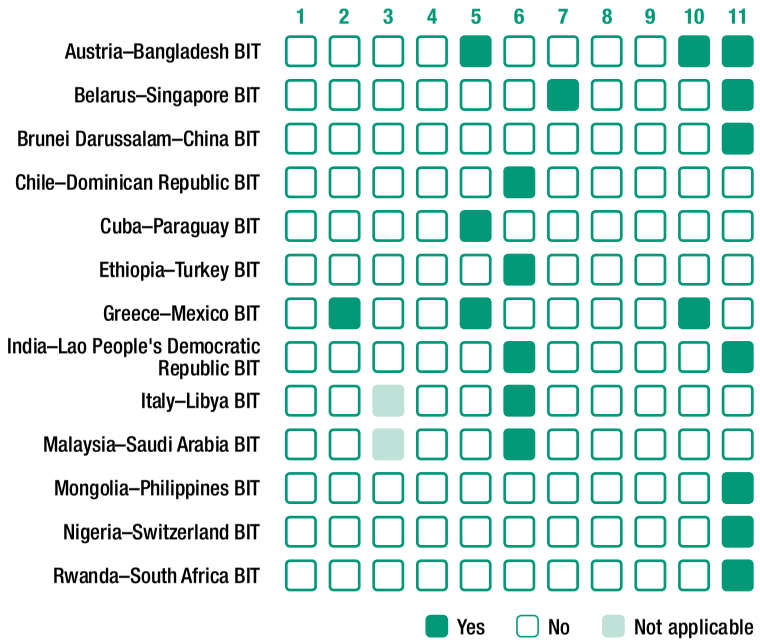
Preservation of regulatory space. Recent treaties frequently differ from old-generation treaties in other elements that aim more broadly at preserving regulatory space and/or at minimizing exposure to investment arbitration. These elements include clauses that (i) limit the treaty scope (e.g. by excluding certain types of assets from the definition of investment) (12 IIAs); (ii) clarify obligations (e.g. by including more detailed clauses on FET (11 IIAs) and/or indirect expropriation (10 IIAs)); and (iii) contain exceptions to transfer-of-funds obligations and/or carve-outs for prudential measures (all 13 IIAs). Notably, all but one of the treaties reviewed omit the so-called umbrella clause (thus also reducing access to ISDS). Interestingly, already in 2000, 5 of the 13 treaties did not include umbrella clauses.

Investment dispute settlement. Modern IIAs carefully regulate ISDS (e.g. by specifying treaty provisions that are subject to ISDS, excluding certain policy areas from ISDS, setting out a special mechanism for taxation and prudential measures, and/or restricting the allotted time period within which claims can be submitted) (eight IIAs). In addition, four IIAs omit ISDS-type international arbitration (or note that parties agree to discuss ISDS in the future).

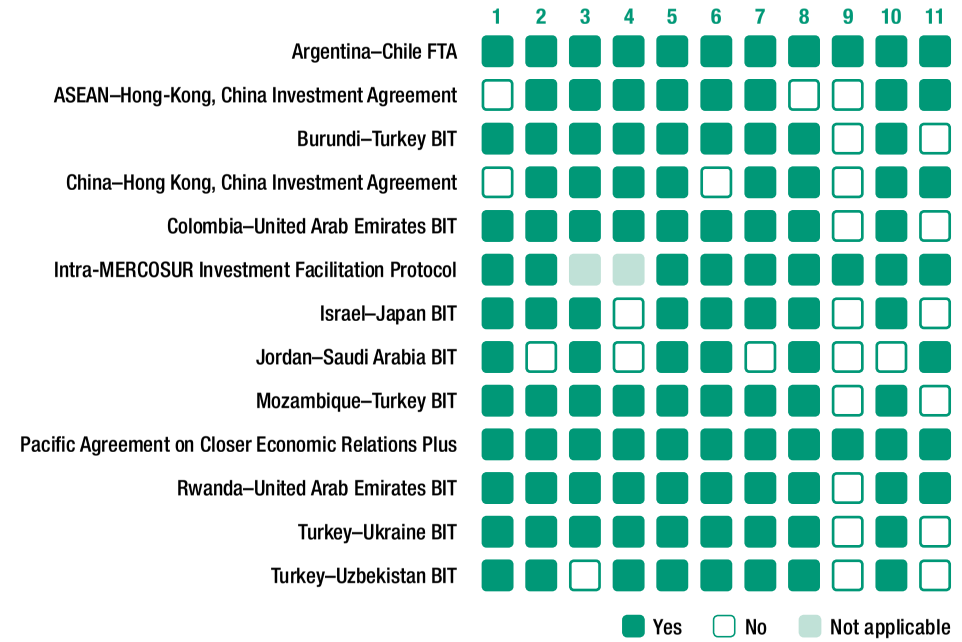
With the current momentum of ISDS reform, important questions of policy coherence arise. Taking the examples of Canada and Mexico, in their respective arrangements with the EU, they have committed to a multilateral initiative for an investment court, replacing

Table III.4. Reform-oriented provisions in IIAs concluded in 2000 and in 2017

2000



2017



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 fair and equitable treatment (with reference to customary international law (CIL), equated to the minimum standard of treatment of aliens under CIL or clarified with a list of State obligations
4. Clarification of what does and does not constitute an indirect expropriation
5. Detailed exceptions from the free-transfer-of-funds obligation, including 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 the conservation of exhaustible natural resources
8. Explicit recognition 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 an ISDS mechanism)
11. Specific proactive provisions on investment promotion and/or facilitation

Source: UNCTAD.

Note: BITs listed for 2000 are a sample of IIAs signed in that year. IIAs listed for 2017 are those concluded in that year for which texts are available; this list does not include "framework agreements" that lack substantive investment provisions. Available IIA texts can be accessed at UNCTAD's IIA Navigator at http://investmentpolicyhub.unctad.org/IIA.

the traditional ISDS system. By contrast, in the recently concluded CPTPP, Canada and Mexico have agreed to maintain a more traditional ISDS mechanism. And finally, in NAFTA renegotiations, the parties have considered a number of proposals since the start of 2018, among them removing ISDS, including an opt-out provision and providing for binding arbitration for Canada and Mexico only.

In addition to the reform-oriented elements presented in table III.4, some of the IIAs concluded in 2017 contain innovative features that have rarely been encountered in earlier IIAs:

- *Conditioning treaty coverage on investors' contribution to sustainable development.* Requiring that a covered investment contribute to the host State's economy or sustainable development (e.g. Burundi–Turkey BIT, Mozambique–Turkey BIT, Turkey–Ukraine BIT)
- *Reducing the role of investor expectations in FET.* Specifying that the mere act of taking, or the failure to take, an action that may be inconsistent with an investor's expectations does not constitute a breach of FET, even if it results in loss or damage to the investment (e.g. China–Hong Kong, China Investment Agreement)
- *Fostering responsible investment.* Including a "best efforts" obligation for investors to respect the human rights of the people involved in investment activities and to promote the building of local capacity and the development of human capital (e.g. Intra-MERCOSUR Agreement)
- *Building capacity for investment facilitation.* Requiring the home State to assist host States in the promotion and facilitation of investment through capacity-building, insurance programmes or technology transfer (e.g. China–Hong Kong, China Investment Agreement; ASEAN–Hong Kong, China Agreement; PACER Plus)
- *Facilitating counterclaims by the respondent party against the claimant investor.* Establishing a mechanism for obtaining investor's consent for counterclaims (e.g. Colombia–United Arab Emirates BIT)

It must be noted that these innovative features do not necessarily translate into a reduced level of investment protection, as most of the IIAs signed in 2017 maintain substantive investment protection standards.

b. Modernizing the existing stock of old-generation treaties (Phase 2)

Countries are engaging in modernizing the existing stock of old-generation treaties. Initial reform actions correspond to UNCTAD's 10 Options for Phase 2 of IIA Reform (WIR17). In particular, in the past year, countries have been engaging in multilateral reform discussions, including with regard to ISDS, and a small but growing number of countries are issuing interpretations or replacing their old-generation agreements.

This stocktaking of Phase 2 reform actions (table III.5) focuses on progress made in 2017 and during the first months of 2018 (and, where relevant, 2016) (figure III.10).

Jointly interpreting treaty provisions. Countries have not only developed – and sometimes adopted – joint interpretative statements for existing IIAs, but also strengthened the basis for binding interpretation in recently concluded treaties.

- In early 2016, India proposed a Joint Interpretative Statement to approximately 25 countries with which it has IIAs for which the initial period of validity had not expired.
- In October 2017, Bangladesh and India signed the Joint Interpretative Notes for the Bangladesh–India BIT (2009). The Notes add clarity to a number of BIT provisions, including the definitions of investment and investor, the exclusion of taxation measures, FET, NT and MFN, expropriation, essential security and ISDS.

Table III.5. Overview of reform options: actions and outcomes

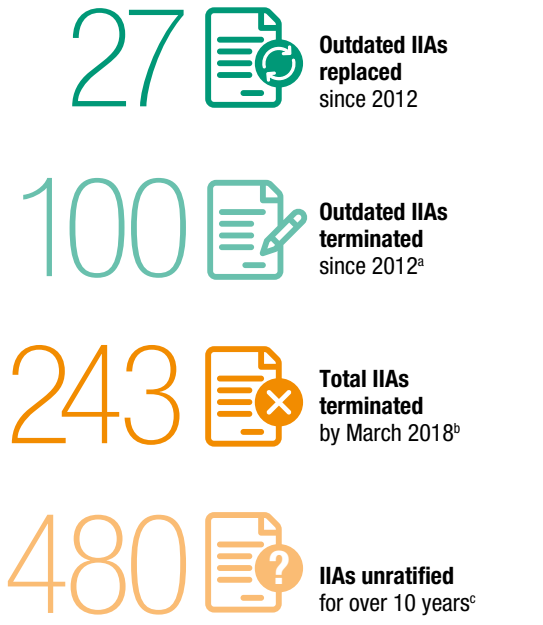
Action option	Outcome
1. Jointly interpreting treaty provisions	Clarifies the content of a treaty provision and narrows the scope of interpretive discretion of tribunals
2. Amending treaty provisions	Modifies an existing treaty's content by introducing new provisions or altering or removing existing ones
3. Replacing "outdated" treaties	Substitutes an old treaty with a new one
4. Consolidating the IIA network	Abrogates two or more old IIAs between parties and replaces them with a new, plurilateral IIA
5. Managing relationships between coexisting treaties	Establishes rules that determine which of the coexisting IIAs applies in a given situation
6. Referencing global standards	Fosters coherence and improves the interaction between IIAs and other areas of international law and policymaking
7. Engaging multilaterally	Establishes a common understanding or new rules among a multitude of countries, coupled with a mechanism that brings about change "in one go"
8. Abandoning unratified old treaties	Conveys a country's intent to not become a party to a concluded but as yet unratified treaty
9. Terminating existing old treaties	Releases the parties from their obligations under a treaty
10. Withdrawing from multilateral treaties	Similar in effect to termination, but leaves the treaty in force among the remaining parties who have not withdrawn

Source: UNCTAD.
Note: This classification is made for illustration purposes only. The table should not be seen as placing possible reform actions in any order of priority.

- In October 2016, the EU, its member States and Canada agreed to a Joint Interpretative Instrument on the CETA that sets out the parties' agreement on a number of provisions that have been the subject of public debate and concern (such as the right to regulate and compensation).
- In October 2017, Colombia and France signed a Joint Interpretative Declaration for the Colombia–France BIT (2014) which clarified that the reference to "obligations that arise from international law" means treaties ratified by both parties and should not be interpreted as a legal stability clause or as allowing claims based upon mere breach of contract.
- In October 2017, the Joint Commission of the FTA between Canada and Colombia (2008) adopted a Joint Interpretative Declaration, which reaffirms the parties' right to regulate and clarifies the provisions on "like circumstances", full protection and security, and minimum standard of treatment.
- Several recent IIAs establish joint bodies with a mandate to issue binding interpretations of treaty provisions (e.g. Rwanda–United Arab Emirates BIT (2017); Australia–Peru FTA (2018); Republic of Korea–Republics of Central America FTA (2018)).

Amending treaty provisions. Although amendments were used relatively sparingly in the bilateral context, protocols or exchanges of letters or notes were used in important regional IIAs.

Figure III.10. Selected Phase 2 reform actions: facts and figures



[a] These are IIAs for which termination has entered into effect (2012–2018). They include expired treaties, treaties replaced by new ones, terminations by consent and unilaterally denounced treaties.
[b] These are all IIAs for which termination has entered into effect. They include expired treaties, treaties replaced by new ones, terminations by consent and unilaterally denounced treaties.
[c] This includes IIAs concluded through December 2008.

- In March 2018, the remaining 11 parties to the CPTPP agreed to an amended text in select areas while retaining the core elements. With respect to investment (in Chapter 9), the parties agreed to suspend the application of the provisions related to investment agreement, investment authorization and the selection of arbitrators (in part).
- Canada and Chile have updated the investment chapter in their FTA at least three times, the most recent being in 2017, when they added "new and progressive elements" to the chapter (e.g. clarifying existing obligations, reaffirming the States' right to regulate, including a provision on corporate social responsibility (CSR), improving the ISDS mechanism and adding a "rendezvous clause", enjoining the parties to adopt a permanent multilateral tribunal, should such a tribunal be established in the future).

Replacing "outdated" treaties. Since 2012, at least 27 outdated IIAs have been replaced by newer, more modern, treaties.[22]

- In 2017, at least 3 of the 13 IIAs signed replaced older-generation BITs (Argentina–Chile FTA (2017) replaced Argentina–Chile BIT (1991); Turkey–Ukraine BIT (2017) replaced Turkey–Ukraine BIT (1996); Turkey–Uzbekistan BIT (2017) replaced Turkey–Uzbekistan BIT (1992)).
- Since 2016, Turkey has replaced eight outdated treaties (with Belarus, Georgia, Jordan, Moldova, Serbia, Tunisia, Ukraine and Uzbekistan). Among the reforms implemented are more detailed definitions of investment, more precisely formulated general treatment standards (e.g. FET, NT and MFN treatment), new general exceptions and balance-of-payments exceptions, a denial of benefits clause and refinements to ISDS (i.e. exemptions from the scope of ISDS and time limitations for the referral of disputes to ISDS).
- In recent years, Australia has replaced several of its first-generation BITs with investment chapters upon the conclusion of comprehensive FTAs with BIT partner countries (e.g. Australia–Chile (1996)). Australia continues reviewing and renegotiating those BITs that are not captured by current FTA negotiations.
- In March 2018, Ecuador presented its new model treaty, which will be the basis for future negotiations, including with the countries' prior treaty partners. Among the model's most prominent features are a mechanism aimed at the prevention of disputes, exceptions to avoid possible conflicts between the disciplines and the pursuit of legitimate policy objectives by the States, and an appellate stage.

Consolidating the IIA network. Although consolidation is a prominent feature in the EU's nascent treaty practice, it is less common – or yet to be decided on – in other regional or megaregional agreements.

- In March 2018, in conjunction with its signing of the CPTPP, Australia is terminating the underlying BITs it had with Mexico, Peru and Viet Nam.[23]
- Negotiations have concluded for investment chapters in the FTA between the EU and Mexico but continue for investment chapters in the FTAs between the EU and Chile, and the EU and Tunisia and for an investment agreement with China. These agreements are expected to replace all prior BITs concluded with the respective countries by individual EU member States.

Managing relationships between coexisting treaties. Managing treaty relationships is crucial when pursuing policy coherence, an issue taken up in the updated version of UNCTAD's Reform Package for the International Investment Regime (UNCTAD, forthcoming).

Referencing global standards. Some recent IIAs have included provisions aimed at ensuring more responsible and regulated investment activities through reference to global standards:

- At least 13 recent IIAs refer to CSR standards in a general manner, typically to "internationally recognized standards" in areas such as labour, environment, human

rights, anti-corruption and the like (e.g. Intra–MERCOSUR Investment Facilitation Protocol (2017); PACER Plus (2017)).

- At least 6 recent IIAs are more specific, referring to global standards such as the Sustainable Development Goals (SDGs) (e.g. Morocco–Nigeria BIT (2016)); the UN Charter, Universal Declaration of Human Rights and/or International Labour Organization instruments (e.g. EFTA–Georgia FTA (2016); CETA (2016); Armenia–EU Comprehensive and Enhanced Partnership Agreement (2017)); or the Organization for Economic Co-operation and Development (OECD) MNE Guidelines and OECD Principles of Corporate Governance (e.g. CETA (2016); Argentina–Chile FTA (2017)).

Engaging multilaterally. Multilateral developments on international investment issues have gained momentum in 2017, with some of them having a clear IIA reform dimension.

Most clearly related to IIA reform are multilateral discussions on improving ISDS:

- In January 2017, ICSID commenced a public consultation regarding amendments to its arbitration rules. The goal is to modernize and simplify the rules, with a particular focus on reducing the time and cost of ICSID arbitration. Topics under consideration include the appointment and disqualification of arbitrators, third-party funding, consolidation of cases, and transparency and non-disputing party participation.
- In July 2017, during UNCITRAL's 50th annual session, the Commission asked its Working Group III to identify concerns regarding ISDS, to consider whether reform was desirable and, if so, to develop any relevant solutions. At sessions in November 2017 and April 2018, the Working Group completed a review of issues in relation to procedural aspects of ISDS, including the arbitral process, overall consistency and coherence of its outcomes, and issues relating to decision-makers in ISDS proceedings.
- In October 2017, the Mauritius Convention on Transparency in Treaty-based Investor–State Arbitration, also known as the Mauritius Convention on Transparency, entered into force.[24] According to the Convention, the UNCITRAL transparency rules will become part of treaty-based investor–State disputes involving countries that have ratified it. The Mauritius Convention effectively modifies a number of first-generation IIAs (of those countries that have ratified the Convention), thus rendering it a collective IIA reform action.

And one process potentially goes beyond dispute settlement:

- Work on the potential modernization of the Energy Charter Treaty is under way, with discussions set to take place in 2018, involving member States, observers and the industry. The process takes into consideration all the provisions of the ECT, not just the investment protection standards. It is expected that a list of topics for the potential negotiation on modernization will be decided upon by late 2018.

Following the issuance of the 2016 "G20 Guiding Principles for Global Investment Policymaking", some other country groups embarked on designing their own sets of principles, typically informed by those set out in UNCTAD's Investment Policy Framework for Sustainable Development. The formulation of the guiding principles is an important and efficient means to build consensus on the core issues related to international investment policymaking.

- In June 2017, the Joint ACP–UNCTAD Guiding Principles for Investment Policymaking, covering 79 countries, were approved by the ACP Committee of Ambassadors meeting.
- In January 2018, the Guiding Principles for Investment Policymaking for OIC countries, developed in cooperation with UNCTAD and covering 57 OIC countries, were examined at a high-level expert meeting.

Two additional work streams address specific reform areas as set out in the UNCTAD Road Map:

- *Facilitating investment*. In December, 70 WTO members issued a Joint Ministerial Statement on Investment Facilitation for Development on the margins of the WTO's Eleventh Ministerial Conference. Many of the key elements of these proposals for an Investment Facilitation Agreement built on UNCTAD's Global Action Menu for Investment Facilitation.[25] These elements included transparency, efficiency in procedures, national focal points, technical assistance, investor principles and standards.
- *Ensuring responsible investment*. Initiated in 2014 by the Human Rights Council, work towards an international instrument to regulate the activities of transnational corporations and other business enterprises continued. The third meeting of the open-ended intergovernmental working group on transnational corporations and other business enterprises with respect to human rights focused its discussions on the content, scope and nature of a future agreement.
- *Multilateral platform for IIA reform*. Benefiting from UNCTAD's comprehensive platform for multilateral engagement, more than 300 experts, including high-level IIA negotiators, representatives from intergovernmental organizations, civil society, academia and the private sector convened in Geneva during 9–11 October 2017, for UNCTAD's Annual High-level IIA Conference. Attendees discussed UNCTAD's Reform Package for the International Investment Regime, and exchanged experiences and good practices.

Abandoning unratified old treaties. Although explicit abandonment actions have not been taken, several countries seem to have – de facto – abandoned unratified treaties or put their BIT negotiations on hold:

- More than 480 IIAs that were concluded over 10 years ago have not entered into force, suggesting that the parties to these IIAs have decided to not pursue their ratification. Moreover, as stated in UNCTAD's October 2017 High-level IIA Conference, in 2008, Ecuador interrupted the ratification of treaties that had been signed but not ratified (with Costa Rica and with the Russian Federation) and, in 2017, Pakistan announced that it had halted certain BIT ratification processes.
- Several countries have also issued moratoriums on the conclusion of new BITs (e.g. Botswana, in 2013, citing implementation challenges; Namibia, in 2014, halting any future BIT negotiations until a new investment policy is implemented; Montenegro, in 2016, linking the moratorium to the development of a new model; Pakistan, in 2017, pending the design, in close cooperation with UNCTAD, of a new legal framework for future BITs and a road map for the existing ones). In addition, as of 2003, Chile stopped negotiating BITs, instead negotiating investment-related provisions as part of FTAs.
- Several countries that previously had actively negotiated BITs have not concluded any new BITs for the past five years (among them, Malaysia, Namibia and the Philippines).

Terminating existing old treaties. Countries have continued the trend of terminating old treaties, with several new terminations coming into effect in 2017.

- At least 22 terminations entered into effect in 2017, including 17 for India. Ecuador sent 16 notices of termination.
- At least two intra-EU BITs were terminated in 2017 (Denmark's BITs with Estonia (1991) and Romania (1994)).
- Since 2012, at least 100 IIAs have been effectively terminated, either by consent or unilaterally.

Withdrawing from multilateral treaties. No example could be found for this reform option during this reporting period (see *WIR17*), suggesting that withdrawal from multilateral treaties is not currently a preferred reform path.

c. Lessons learned and way forward

Countries have different but related motivations to engage in Phase 2 reform actions, and they face a number of challenges in tackling their outdated IIAs effectively. Through its evidence-based policy analysis and advisory work, together with its intergovernmental consensus-building function, UNCTAD can help countries overcome challenges related to Phase 2 of IIA reform.

Phase 1 of IIA reform has seen steady progress and significant achievements, and Phase 2 is gaining significant momentum, as a small but growing number of countries have begun to directly tackle their outdated BITs. In addition, an increasing number of countries are actively considering the best policy options for initiating Phase 2 of IIA reform. The more than 3,000 first-generation treaties in existence today (representing some 90 per cent of the IIA universe) present further opportunities for Phase 2 reform actions.

A better understanding of the motivations and challenges related to Phase 2 of IIA reform can help strengthen current reform efforts. With a view to providing the best possible backstopping functions, UNCTAD has conducted a survey of negotiators, relating to motivations, challenges and early results of Phase 2. Some of the results are discussed here.

Countries have different but related motivations to start engaging in Phase 2 reform actions. Motivations relate predominantly to minimizing the risk of the State's exposure to ISDS claims as well as wishing to enhance the sustainable development dimension of IIAs and ensure the State's right to regulate.

When aiming to tackle their outdated IIAs effectively, countries face a number of challenges. These include opposition from treaty partners to reforming existing IIAs, insufficient or unavailable capacity (e.g. human resources, legal, financial), and challenges related to internal procedures and coordination processes for building consensus and political will on the need to reform (e.g. interministerial coordination challenges, identification of priority treaties to be reformed, assurance of coherence between reform efforts at different levels of policymaking).

Initial lessons learned can already be identified for engaging in Phase 2 of IIA reform. They relate overwhelmingly to the importance of developing a national IIA reform strategy in light of national development objectives, conducting an IIA review to identify inconsistencies and setting up interministerial working groups.

From the survey responses, one can distil potential reasons for the relatively slow progress associated with Phase 2 of reform:

- Reforming the existing stock of IIAs requires, for the most part, the agreement of more than one country (with the exception of unilateral terminations).
- Countries have a preference for adopting a more gradual approach (BIT by BIT reform) instead of reforming national IIA networks in a wholesale manner.
- Some policymakers may have the perception that Phase 2 IIA reform will reduce a country's attractiveness to foreign investors.
- There is lack of awareness at the domestic level of the importance of Phase 2 IIA reform.

Policymakers and IIA negotiators should carefully consider the pros and cons of maintaining the existing stock of outdated IIAs and formulate a comprehensive IIA policy in line with their country's national development strategy. Through its evidence-based policy analysis and advisory work, together with its intergovernmental consensus-building function, which create opportunities for sharing experiences and lessons learned, UNCTAD can help countries move forward on this endeavour. At the same time, consideration should also be given to maximizing synergies between IIAs and national legal frameworks for investment, and managing the interaction between investment and other bodies of law. These topics are addressed in the next section, Phase 3 of IIA Reform.

C. PHASE 3 OF IIA REFORM

1. Improving investment policy coherence and synergies

After improving the approach to new treaties and modernizing existing treaties, the last step in the reform process (Phase 3) is to ensure coherence with national investment policies and with other bodies of international law. Striving for coherence does not necessarily imply legal uniformity – inconsistencies and divergence may be intended – but different policy areas and legal instruments should work in synergy.

Sustainable development has entered the mainstream of investment policymaking, particularly at the international level. As part of the first phase of IIA reform, countries have built consensus on the need for reform, identified reform areas and approaches, reviewed their IIA networks, developed new model treaties and started to negotiate new, more modern IIAs. The majority of reform-oriented actions follow UNCTAD's Reform Package for the International Investment Regime. In this context, an increasing number of countries have also embarked on the second phase of IIA reform, shifting policy attention towards comprehensively modernizing the stock of outdated, first-generation treaties (*WIR17*, pp. 130–145). With Phase 1 consolidating and Phase 2 under way, the time has come to consider Phase 3 of reform: enhancing investment policy coherence and synergies holistically across two dimensions:

- First, maximizing synergies between IIAs and the national legal framework for domestic and foreign investment
- Second, managing the interaction between IIAs and other bodies of international law that also touch upon investment

For each dimension, policy interaction manifests itself in different ways, gives rise to different challenges and requires different solutions in line with countries' specific national development priorities. This report takes stock of the status quo, outlines potential challenges and offers policy responses.

Two issues merit particular consideration:

- First, policy coherence does not necessarily require uniform legal language. Rather, mutually supportive policies allow countries the flexibility to decide, on a case-by-case basis and in line with their national development strategies (guided by the UNCTAD Policy Framework's core principles), where on the scale between consistency and divergence individual policy interactions should be placed. Factors influencing this choice include strategic considerations, evolution over time and capacity.
- Second, achieving a satisfactory level of investment policy coherence is not instantaneous. For example, a country's shift towards sustainable development-oriented investment policymaking will almost always produce a temporary phase of inconsistency. Such temporary inconsistency should not discourage investment policy reform. Instead, it should create momentum and foster more rapid and dynamic reform.

Working towards maximizing synergies from policy interactions in a regime consisting of thousands of investment treaties, national laws regulating domestic and foreign investment, and other bodies of international law affecting investment is a significant challenge for all countries, and for developing countries and LDCs in particular. This challenge calls for responses through a combination of individual, bilateral, regional and multilateral reform steps. Such steps should reflect on evidence-based policy analysis and, for many countries,

may require backstopping through technical assistance and advisory services. UNCTAD can offer comprehensive support through its three pillars of (i) research and policy analysis, (ii) capacity-building and advisory services, and (iii) intergovernmental consensus building.

2. Maximizing synergies between the IIA regime and the national legal framework for investment

Countries' investment policy regimes typically have both a national and an international dimension. Although these dimensions often diverge intentionally, they nevertheless should interact in a way that maximizes synergies, including from a sustainable development perspective. Shaping such interaction requires a solid understanding of the different objectives, functions and natures of the legal instruments involved. Strengthening cooperation between national and international investment policymakers, improving interaction and ensuring cross-fertilization between the two regimes (including by identifying lessons learned that can be transferred from one policy regime to the other) are crucial tasks for countries striving to create a mutually supporting, sustainable development-oriented investment policy regime.

a. Similarities and differences between IIAs and the national legal framework for investment

When assessing the best possible approaches to fostering synergies between national and international policy dimensions, it is important to recognize key structural and contextual differences. These relate to (i) the context and nature of the two policy regimes, (ii) their overall purpose and scope, (iii) their process of development and (iv) their evolution (table III.6).

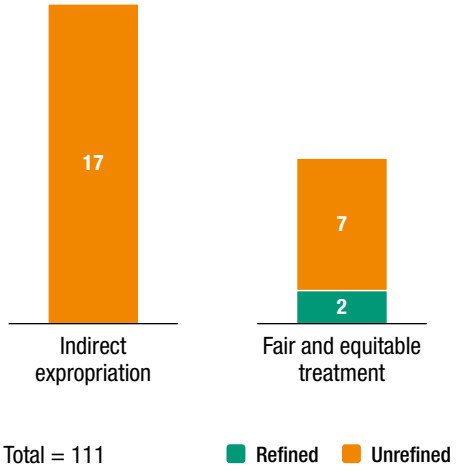
IIAs are considered the primary international instrument governing foreign investment, and they operate in a relatively well-defined universe. National legal frameworks for investment consist of a multitude of investment-related laws. Among them, national investment laws are an important element. They are complex and vary from country to country. Although they display significant divergences in their scope and content,

Table III.6. IIAs and national legal and policy frameworks for investment: structural and contextual differences

Differences	IIAs	National legal framework
Context and nature	• Consist of BITs and TIPs, considered the primary international instruments governing foreign investment	• Consists of a broad system of investment-related laws, regulations and policies • May include a national investment law as an important element of the investment policy framework
Purpose and scope	• Offer (substantive and procedural) protections to foreign investors of a particular home country, which may go beyond what is available at the domestic level	• Covers foreign investors from any country; may also cover domestic investors • May offer protection, but can also include other elements, such as promotion, facilitation, admission, liberalization or regulation
Process of development	• Adopted as a result of a negotiation process at the international level, which typically involves bargaining power	• Adopted relatively autonomously by a country and dependent on internal political and legislative processes
SDG-oriented evolution over time	• Subject to global debate on sustainable development-oriented IIA reform • Exhibits reform approaches to IIAs by many States (based on UNCTAD Reform Package)	• Some elements (e.g. environmental laws) at the core of SDG-oriented policy reform • Other elements (e.g. national investment laws) less exposed to SDG discourse

Source: UNCTAD.

Figure III.11. Selected provisions in national investment laws



Note: "Refined" clauses are those that contain features reflected in table III.4.

some features are relatively consistent among them (box III.1), and some contain provisions similar to those of IIAs (*WIR17*; UNCTAD, 2016; UNCTAD Investment Law Navigator).

Yet, to the extent that investment laws have typical IIA clauses, these clauses frequently lack the refinements and clarifications that are characteristic of modern IIA drafting. For example, in investment laws, none of the 17 clauses on indirect expropriation and only 2 of the 9 FET clauses are "refined" (figure III.11). For IIAs, these kinds of refinements have become standard features of modern treaty drafting (*WIR17*). Regarding investment dispute settlement, whereas it is typically addressed in IIAs through ISDS, providing advance consent to international arbitration (95 per cent of IIAs), 66 of the 111 national investment laws (59 per cent) refer to international arbitration as a means for settling investor–State disputes; and of those, only 24 laws provide for advance consent to international arbitration (see box III.1).

Divergence between the two types of instruments is not necessarily undesirable. Importantly, the absence of some IIA-type protection clauses in national laws can be in line with what the national legal framework for investment aims to achieve (e.g. investment promotion or facilitation).

Against this investment policy landscape, the issue that arises is how to best foster synergies between the national legal framework for investment and the IIA regime.

Box III.1. A primer on national investment laws

For many developing and transition countries, the investment law is at the core of the domestic regulatory framework for foreign investment. UNCTAD's Investment Laws Navigator shows that at least 109 countries have such a law. Almost all of these are either a developing country (91) or an economy in transition (13), while in developed countries key FDI provisions can be found in various other laws. Of the investment laws, 64 per cent (71 laws) apply to both foreign and domestic investors, whereas the others target foreign investors only (40). Countries in Asia are more likely to have foreign investment laws, whereas most countries in Africa have adopted investment laws that cover both foreign and domestic investors. Most all of the investment laws that are in force were adopted after 1989. Especially in the 1990s (after the end of the Cold War period), many countries (39) embraced new investment laws.

The main objective of investment laws is to promote (foreign) investment by regulating access to the domestic market; stipulating investor rights and guarantees; clarifying access to dispute settlement; setting up institutions, including investment promotion agencies and one-stop-shops; and providing incentives schemes. However, although most investment laws share the same objective and basic structure, they differ considerably in terms of content and quality of key FDI provisions (*WIR17*). Their specific content may also depend on their differing functions (Bonnitcha).

In addition, national investment laws operate within a complex web of domestic laws, regulations and policies that relate to investment (e.g. competition, labour, social, taxation, trade, finance, intellectual property, health, environmental, culture). Investment-related issues are typically also enshrined in countries' company laws, and – sometimes – in countries' constitutions. Accordingly, to the extent a country has an investment law, this law must be assessed in the context of the country's larger policy framework.

Source: UNCTAD Investment Laws Navigator.
Note: Data limited to laws that cover (or aim to cover) the basic legal framework for investment and include key FDI provisions (total is 111). Not included are laws that focus on only one specific element of this framework, such as incentives, access to land or national security.

b. Challenges arising from the interaction between IIAs and the national legal framework for investment

Although national and international investment policymaking is structurally distinct in the ways outlined above, there are instances where the two dimensions interact. Such interaction gives rise to at least three specific challenges:

- Policymakers in charge of national and international investment policies might be operating in silos and create outcomes that are not mutually supportive or, worse, conflicting.
- Incoherence (e.g. between a clearly defined FET clause in one or several IIAs and a broad FET clause in an investment law) may have the effect of rendering IIA reform ineffective. Similarly, broadly drafted provisions in "old" IIAs risk cancelling out reform efforts in new, more modern investment laws.
- Incoherence between investment laws and IIAs may also create ISDS-related risks when national laws include advance consent to international arbitration as the means for the settlement of investor–State disputes, which could result in parallel proceedings (box III.2).

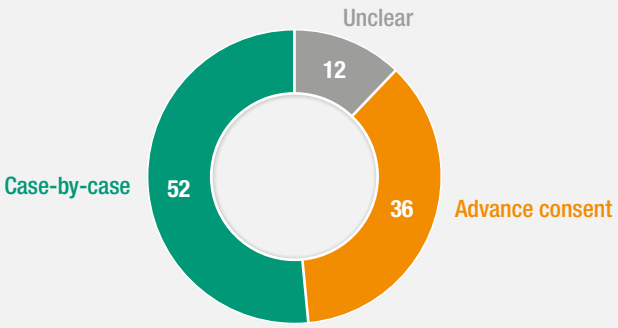
Box III.2. ISDS: facts, figures and risks

Although treaty-based ISDS has come to the forefront of today's international investment policy debate, the inclusion of ISDS in national investment laws and the resulting ISDS cases have thus far triggered less controversy. In fact, the number of ISDS cases brought on the basis of national investment laws is relatively low.

By the numbers: ISDS clauses in different legal instruments

- ISDS is typical for IIAs: 95 per cent have ISDS clauses
- ISDS is less common but still present in national investment laws: 59 per cent have ISDS clauses (only 24 out of 66 laws provide advance consent; see above)
  - Laws in Africa are most likely to include ISDS: 77 per cent
  - Laws in transition economies are also likely to include ISDS: 70 per cent
- When including ISDS, national investment laws take a more cautious approach, often using so-called case-by-case consent. Such clauses offer the possibility of ISDS but require an additional act of consent by the host State government before an ISDS arbitration can go forward.
  - National investment laws that allow for ISDS on a case-by-case basis: 52 per cent
  - BITs that provide for case-by-case consent: 4 (total), most of which were concluded in the 1970s (Sweden–Yugoslavia BIT (1978), Sweden–Malaysia BIT (1979), Egypt–Sweden BIT (1978) and Sri Lanka–Switzerland BIT (1981); see also the Pan African Investment Code (2015)).

Box figure III.1.1. Types of consent to international arbitration in national investment laws (Per cent, total = 66)



Source: UNCTAD, Investment Laws Navigator.

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Box III.2. ISDS: facts, figures and risks (Continued)

By the numbers: ICSID-registered cases based on different legal instruments[a]

- ICSID cases brought based on national investment laws only: 26 cases
- ICSID cases brought based on both national investment laws and IIAs: 35 cases
  - Total: 61 cases brought on the basis of an investment law
- Certain States have been subjected to higher numbers of ICSID cases based on their national laws.

Box table III.2.1. ICSID-registered cases based on national laws

Country	Based on national law	Total IIA-based ICSID cases
Venezuela (Bolivarian Republic of)	12	39
Uzbekistan	6	6
Guinea	5	0
Kazakhstan	5	11
Albania	4	6
Egypt	3	28
El Salvador	3	3
Kyrgyzstan	3	3
Congo, Dem. Rep. of	2	4
Tunisia	2	1

Other states that have been subjected to at least one ICSID case based on a national investment law include Cameroon, Côte d'Ivoire, Gabon, Georgia, Jordan, Madagascar, Mauritania, Montenegro, Mozambique, Niger, Nigeria, Papua New Guinea, Senegal, South Sudan, Tanzania, Timor-Leste and Yemen.

Possible risks of advance ISDS consent in both IIAs and national investment laws

Advance ISDS consent in both IIAs and national investment laws can increase countries' exposure to ISDS, prolong proceedings and impose higher costs on the defending States, with the potential for contradictory awards.

- *Increased exposure*: e.g. in *Caratube v. Kazakhstan*, after the original IIA claim had been dismissed on jurisdictional grounds, the investor renewed its claim based on the same IIA and, in addition, brought a claim based on the national investment law; the investor was ultimately awarded $39 million in damages[b]
- *Prolonged proceedings*: e.g. in *Champion Holding Company et al. v. Egypt*, investors brought a subsequent claim based on both the national law and the IIA after treaty-based claims were dismissed (case still pending)[c]
- *Higher costs*: e.g. in *Pac Rim Cayman v. El Salvador*, an arbitral tribunal dismissed the treaty-based claim in the jurisdictional phase but allowed the national law-based claim to go forward; proceedings drew out for an additional four years and generated significant legal and arbitration costs[d]

Source: UNCTAD.

[a] Based on 640 cases registered under ICSID Arbitration or Additional Facility Rules as of January 2018, pending or concluded.
[b] *Caratube International Oil Company LLP and Devincci Salah Hourani v. Republic of Kazakhstan* (ICSID Case No. ARB/13/13).
[c] *Champion Holding Company et al. v. Arab Republic of Egypt* (ICSID Case No. ARB/16/2).
[d] *Pac Rim Cayman Ltd v. Republic of El Salvador* (ICSID Case No. ARB/09/12); see also *ABCI Investments N.V. v. Republic of Tunisia* (ICSID Case No. ARB/04/12).

c. Policy options

Maximizing sustainable development benefits requires maximizing synergies between IIAs and the national legal framework for investment. There are several entry points for countries to address the challenges (table III.7).

(i) Strengthening cooperation between policymakers

There is a risk that investment policymaking occurs in silos, and that instruments are formulated in a vacuum, without sufficient coordination between the authorities in charge of IIAs and those in charge of domestic investment rules. Lack of interaction may also

Table III.7.	IIAs and the national legal framework for investment: entry points for maximizing synergies
Strengthening cooperation between policymakers	• Improve coordination between institutions charged with national and international investment policymaking • Encourage consultation between the various stakeholders in the investment regime
Improving interaction between the two regimes	• Establish clear principles for inter-operation of the different elements of the regimes • Condition IIA protections on investors' compliance with domestic law, provided that such laws are in line with international commitments • Use divergence to pursue strategic policy objectives
Ensuring cross-fertilization between the two regimes	• Determine where the national legal framework for investment can benefit from elements found in modern IIAs • Determine where IIA negotiators can consider features common to national investment policymaking

Source: UNCTAD.

occur between ministries in charge of investment and those in charge of related policies (see discussion below). These challenges occur in all countries but can be particularly pronounced in small, developing countries that have insufficient human resources and institutional or administrative capacities. Strengthening cooperation between the authorities in charge of the various dimensions of a country's investment policy framework is crucial for ensuring a coherent approach that reflects the country's overall strategy on investment for development. One option for doing so is the establishment of special agencies or interministerial task forces with a specific mandate to coordinate investment policy-related work (including the negotiation of IIAs) of different ministries and other government units. In addition, stakeholder consultations can help maximize synergies.

(ii) Improving interaction between regimes

Well-managed legal interaction between different investment policy instruments, based on a clear understanding of the different functions and objectives of the two regimes and the way they relate to each other, can help minimize challenges arising from diverging or conflicting clauses. Both IIAs and national investment laws sometimes contain elements that address the interaction between the two bodies of law:

- *Establishing the precedence of one regime over the other in the event of conflict*. Technical provisions, such as "relationship management" clauses, can help guide the legal interaction between intersecting and overlapping instruments, and establish clear precedence. More than 30 per cent of national investment laws (34) contain such "relationship management" clauses. Of these 34 laws, 16 explicitly acknowledge that the IIA takes precedence over national laws. Others include more vague formulations, such as providing that rights guaranteed under the investment law are "without prejudice to" rights derived from international instruments. Clear drafting can help provide legal guidance to government actors, investors and tribunals (in the event of dispute) on how these regimes should interact.[26]
- *Conditioning IIA protections on investor compliance with domestic law*. To benefit from the protection of the agreement, more than 60 per cent of IIAs require that an investment must be made in accordance with domestic law. This can include safeguards and requirements related to corporate disclosure and to social, environmental or public health protections. This approach can help improve coherence between the two regimes with respect to certain, albeit limited, aspects and can also promote responsible investor behaviour. This is particularly so if compliance with domestic laws is also extended post-entry (e.g. to the operations or post-operations stage; UNCTAD, 2015, option 7.1.1), provided that such laws are in line with international commitments.

- *Using divergence to pursue strategic policy objectives*. Although the management of policy interaction would typically strive for consistency, conscious and temporary divergence between the national and international investment policy regimes can also foster the achievement of strategic goals. For example, the international regime could drive change at the national level, as sometimes seen in the context of pre-establishment agreements (*WIR04*).[27] At the same time, changes in countries' domestic policy priorities (and subsequently national laws and policies) can also spur change in a country's approach to international investment policymaking.

(iii) Ensuring cross-fertilization between the two regimes

Cross-fertilization between domestic investment rules and IIAs can ensure that lessons learned in one realm of policymaking benefit the other. Facilitating cross-fertilization not only requires intensified cooperation between policymakers (as noted above), but also the careful identification of potentially transferable lessons learned. It is important to note that lessons learned cannot be transferred mechanically. Instead, careful attention must be given to the key structural and contextual differences between the different regimes.

For example, the fact that a country has a widely liberalized investment regime at the domestic level does not automatically translate into the need to inscribe this level of openness into IIAs. Instead, countries may wish to preserve regulatory space as regards the entry conditions for foreign investment. Similarly, the fact that a country has started to carefully circumscribe key protection clauses, e.g. FET, in IIAs does not mean that such a clause should automatically be "exported" into national laws. Instead, countries may wish to refrain from having FET clauses in national investment laws at all.

Considering these dynamics is of particular importance in light of today's imperative of sustainable development-oriented IIA reform. There is a concern that, under certain conditions (where a national investment law includes advanced consent to international arbitration as a means for the settlement of investor–State disputes as well as traditional investment protection clauses), unreformed national investment laws may render sustainable development-oriented IIA reform more challenging. Similarly, unreformed IIAs can dilute the relevance of and even cancel out more modern investment-related laws that contain sustainable development features.

IIA policymakers may wish to consider reflecting the following national law approaches in investment treaties:

- *Investment facilitation*: Investment laws generally include a range of investment facilitation provisions (UNCTAD, 2016). In addition to the provisions found in some IIAs (e.g. clauses on transparency and on entry and sojourn of foreign personnel), many investment laws also contain references to the facilitation services of investment promotion agencies and one-stop shops.
- *Investor obligations*: About two-thirds of investment laws make explicit reference to investor obligations. Beyond the commonly stated obligation to comply with host-country laws, investment laws often also include one or more specific requirements, such as corporate disclosure, respect for labour rights and standards (e.g. those pertaining to social security, minimum wages and trade union rights) and respect for environmental and public health legislation. In addition, some laws specify that investors must honour fiscal obligations or refer to obligations regarding hiring, training and skill transfer for local staff.
- *Settlement of investment disputes*: More than half of the investment laws analysed here include provisions for international arbitration for the settlement of investment disputes, frequently on a case-by-case consent basis (box III.2). Many laws also include clauses on recourse to local courts and alternative dispute resolution (64 and 21 laws,

respectively). For current reform efforts to improve international investment dispute settlement, policymakers may wish to consider whether lessons can be learned from the national level.

National investment policymakers may wish to consider reflecting the following IIA approaches in domestic law:

- *Refinements*: To the extent that national investment laws have typical IIA clauses (e.g. on FET, expropriation or transfer of funds), these clauses frequently do not have the refinements and clarifications that are typical of modern IIA drafting (for IIAs, see *WIR16*, *WIR17*).
- *Sustainable development orientation*: Only a small number of national investment laws refer – in their preamble or another dedicated clause on the objectives of the law – to sustainable development (or environmental or human health protection). It should be noted, however, that sustainable development-related concepts may be found in other national laws and policies. For IIAs, in turn, a focus on sustainable development-oriented reform has become standard (*WIR16*, *WIR17*).

In maximizing synergies between the international and national investment policy dimensions, it is important to remain flexible. Divergences between IIAs and national investment laws are often desirable and, in fact, may be intentional. While recognizing the need for different approaches to the legal framework for investment at the national and international levels, policymakers should strive for a more synergetic approach to the formulation of IIAs and the national legal framework for investment in order to produce an investment regime that is in line with a country's broader national development strategy and with sustainable development imperatives.

3. Managing the interaction between IIAs and other bodies of international law affecting investment

The fragmentation of international law has led to different systems that each pursue their own objectives, with each system often being developed and decided on in isolation. In line with today's SDG imperative, IIA reform should take into account the interaction between IIAs and other bodies of international law affecting investment. IIA reform can help avoid conflict and maximize synergies, notably through clearer treaty drafting, exceptions in IIAs and guidance on interpretation of IIA provisions.

a. Examples of interaction between IIAs and other bodies of international law affecting investment

The investment policy regime does not exist in a vacuum; it interacts with other areas of economic law and policy (e.g. competition, finance, intellectual property, development,[28] taxation and trade), as well as with areas of law and policy that are typically considered "non-economic" (e.g. culture, environment, health, labour, social or gender-related issues; land rights; national security issues).[29]

Different areas of international law diverge from each other in important ways. For example:

- *Type of regime*: Some international regimes, such as IIAs and double taxation treaties (DTTs), comprise mostly bilateral agreements, while others, such as human rights, trade and environment, are largely multilateral. Also, some areas of law are governed by enforceable legal instruments while others promulgate "soft law" norms, such as guidelines.

- *Type of dispute settlement*: At the international level, the IIA and trade regimes stand out as two regimes containing litigation-type dispute settlement, as opposed to dispute prevention or other types of mechanisms (multilateral environmental agreements, DTTs' mutual agreement procedures, etc.). Both IIAs and some international human rights conventions allow private parties (companies and individuals), as opposed to States, to bring direct international claims.[30]
- *Type of protection and content*: Some regimes govern the relationships between States and private parties (IIAs, human rights), while others seek to regulate or shape States' policies with a view to achieving certain global objectives, such as environmental protection, financial stability or preservation of cultural heritage.

These differences result in a multitude of types of interrelationships between these legal regimes, as well as interactions in policy practices. Moreover, by its very nature, economic activity (such as investment or trade) will affect both the environment and the social conditions for the public and laborers.

b. Challenges resulting from the interaction between IIAs and other bodies of international law affecting investment

The various ways in which the IIA regime interacts with other bodies of international law give rise to several distinct, but often interrelated, challenges (table III.8). These challenges can be placed in three broad categories: reduction of regulatory space, administrative complexity and uncertainty about dispute settlement.

The reduction of regulatory space manifests itself in several interrelated ways. Most prominent in the public debate is the risk that IIAs can constrain policymakers in the pursuit of important public policy objectives in a manner that was not anticipated. Such constraints could have a chilling effect on future, non-investment related national or international law-making (van Harten; Bonnitcha et al.). For example, in the wake of the (ultimately unsuccessful) tobacco-related disputes brought against Australia and Uruguay, several developing countries claimed an inability to enact strong tobacco control laws given the threats that multinational tobacco companies might bring international investment claims.

Second, there are administrative difficulties inherent in managing an international legal regime consisting of many different policy areas layered on top of an already intricate domestic policy framework. For States in which different ministries negotiate and implement international agreements across subject matters, these issue areas can and do conflict.

Table III.8. IIAs and other bodies of international law and policies: policy challenges

Reduction of regulatory space	• Unexpected chilling effect on future, non-investment-related law-making • Exposure to ISDS
Administrative complexity (for States and investors)	• For States: difficulty in managing distinct but overlapping policy areas and international obligations • For investors: investment decisions taken in light of fragmented web of international (and national) laws
Dispute settlement	• Risk of isolated treaty interpretation • Litigation of one issue in multiple fora • In case of ISDS competence, uncertainty about interpretation

Source: UNCTAD.

Small and resource-constrained countries may find this situation particularly difficult to navigate. These challenges also result in more uncertainty for States that are trying to determine which measures could constitute an IIA violation. Administrative complexity also arises for investors, for example, in the determination of which operational rules apply and/or prevail for their investment at any given point in time or place.

Third, dispute settlement poses three distinct challenges: the risk of isolated treaty interpretation, litigation in multiple fora and uncertainty about ISDS tribunals' approach to another body of law.

The risk of isolated treaty interpretation arises from the special nature of international law. Treaties can be interpreted in a fragmented way (International Law Commission Study Group). Legal scholars have analysed the intensity with which international legal regimes engage and reference other areas of law. Interestingly, ISDS tribunals interact more with other bodies of law, than, for example, dispute settlement processes under the WTO (Charlotin). Moreover, in ISDS there is convergence around certain public international law norms, as interpreted by the International Court of Justice (ICJ). This is reflected in the frequency with which ICJ jurisprudence is cited in ISDS. For example, ISDS tribunals have cited as many as 184 ICJ decisions in numerous awards, decisions or orders.[31]

Litigation in multiple fora could also arise. Bringing the same facts, claims or arguments before multiple fora (e.g. ISDS and WTO dispute settlement; ISDS and European Court of Justice) risks conflicting or confusing judgments. Thus far, litigation has been brought in multiple fora in both the economic realm (e.g. investment and trade) and the non-economic realm (e.g. investment and human rights).

Uncertainty about ISDS tribunals' approach to another body of international law, particularly in light of the multitude of scenarios which may require arbitrators to consider such rules. Such scenarios include the State alleging that a measure is either permitted or required by another norm of international law; the claimant arguing that the State's violation of a non-investment rule entails a breach of the IIA; and the State arguing that the claimant has breached an obligation and therefore may not make a claim under the IIA. For example:

- In *S.D. Myers v. Canada*,[32] to justify the imposition of an export ban for a certain chemical, Canada referred to its international obligations under the Basel Convention and the Transboundary Agreement between Canada and the United States.[33] The tribunal examined the environmental instruments invoked; it concluded that the true reason for the export ban was protectionist rather than environmental.
- In *UPS v. Canada*,[34] the claimant asserted that certain provisions of NAFTA's Chapter 15 (addressing competition policy, monopolies and State enterprises) could be used as a basis for claiming damages in ISDS. The tribunal held that its jurisdiction was limited to failures to abide by the terms of the investment chapter (Chapter 11) but nevertheless found that conduct in violation of a party's obligation under NAFTA as a whole (including Chapter 15) could also constitute a violation of Chapter 11.[35]
- In *Urbaser v. Argentina*,[36] Argentina lodged a counterclaim, invoking several international instruments[37] and alleging that the investor's failure to invest in service expansion compromised the human right to water. Pointing to developments in CSR and the United Nations Guiding Principles on Business and Human Rights, the tribunal stated that it could no longer be said "that companies operating internationally are immune from becoming subjects of international law".

Also of relevance is a recent judgment by the European Court of Justice, which held that the arbitration provisions of the Netherlands–Slovakia BIT were incompatible with EU law.[38]

c. Policy options

In order to foster sustainable development-oriented policy coherence, IIA reform must take into account the interaction between IIAs and other bodies of international law. Addressing this relationship in IIA reform can help avoid conflicts and provide arbitral tribunals with guidance on how to interpret such interaction (see also UNCTAD Reform Package for the International Investment Regime).

One way of managing some of the above-mentioned risks is through clearer drafting in IIAs.[39]

- *Including exceptions for other areas of policymaking*. A first option is clearer and more sustainable development-oriented exceptions clauses or carve-outs for other areas of policymaking (e.g. temporary safeguards in the event of serious balance-of-payments difficulties; clauses for prudential measures; environmental, cultural or national security exceptions).[40]
- *Cross-referencing*. A second option is to manage the interaction of policy regimes, as some treaties have begun to do. For example, some of the more than 300 BITs that include balance-of-payments exceptions specify that the exceptional measures to derogate from the free transfer provision must be consistent with the Articles of Agreement of the International Monetary Fund (e.g. Cambodia–Japan BIT, Article 19 (2007); Colombia–Turkey, Article 9 (2015); Japan–Kenya, Article 17 (2016)). Interestingly, the WTO GATS specifies that, in consultations related to restrictions to safeguard the balance of payments, all findings of statistical and other facts presented by the Fund shall be accepted, and conclusions shall be based on the assessment by the Fund.
- *Guiding interpretation*. A third option is clauses that can guide ISDS tribunals in their interpretation of key treaty terms (in terms of both jurisdictional and merits questions). References to other bodies of law or the SDGs in IIAs, e.g. through preamble language, can also guide tribunals that are grappling with overlapping legal regimes in the resolution of a dispute.

UNCTAD's Reform Package for the International Investment Regime (2017) can help States identify the key areas of policy incoherence between its IIAs and other non-investment laws and policies, and consider solutions.

4. Dynamics of policymaking: flexibility and policy space

Striving for coherence does not necessarily imply legal uniformity – inconsistencies and divergence may be intended – but different policy areas and legal instruments should work in synergy.

A country's strategic considerations may result in policy divergences that are intentional. For example, as mentioned above, a country may wish to conclude IIAs that give greater (pre-)establishment rights than its national legal framework for investment. This greater level of openness in IIAs can be used – intentionally – to drive change at the national level (e.g. IIA-induced liberalization; *WIR04*). Similarly, a country may choose to stop short of enshrining the country's actual level of openness, as set out in the national legal framework for investment, in IIAs. In that case, the differences can also be intentional, with the goal of giving the country policy space to explore opening new sectors to foreign investment and, if need be, reintroducing limitations on investment in those sectors in the future (*WIR15*; UNCTAD, 2015).

Similarly, country policies may evolve. Indeed, policy shifts are a regular feature at both the national and international levels of policymaking. For example, new factors may emerge on the domestic policy scene, including a new government in power, economic or financial

crises, social pressures or environmental degradation. Similarly, a country's shift towards sustainable development-oriented investment policymaking will almost always produce a temporary phase of inconsistency. Such temporary inconsistency should not discourage investment policy reform. Instead, it should create momentum and foster more rapid and dynamic reform. At the same time, countries must embrace flexibility in adjustment periods and time lags, which are nearly always present in governmental shifts or promulgation of new policies.

Lastly, policy divergence may result from differential levels of development, which translates into different policy needs and objectives, as well as different capacity to implement policies. Policy interaction should be tailored to the particular conditions prevailing in a country and to the realities of the economic asymmetries between countries. Finding the proper balance between flexibility and consistency, i.e. a coherent balance that leaves sufficient space for individual countries to pursue their needs, is crucial for countries in the pursuit of their national policy strategy on investment for sustainable development.

The need for flexibility in the pursuit of policy coherence and in the management of policy interaction also flows from UNCTAD's Core Principles for Investment Policymaking, as set out in UNCTAD's Investment Policy Framework for Sustainable Development. Principles such as policy coherence (noting that investment policy should be integrated in an overarching development strategy) and dynamic policymaking (recognizing that national and international investment policies need flexibility to adapt to changing circumstances) are key ideas to embrace when embarking on Phase 3 reform actions.

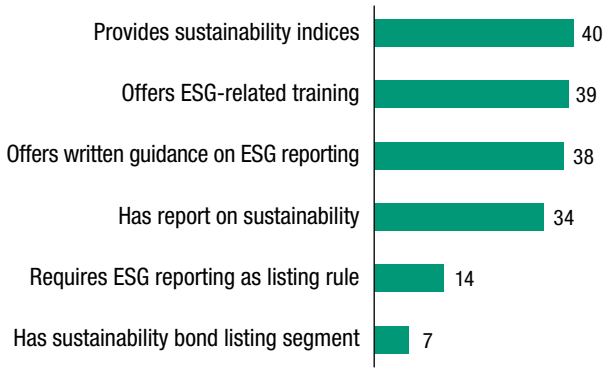
In addressing the interactions between national and international policy regimes, as well as between investment and other policies, policymakers should also bear in mind the complexity and incoherence of the IIA regime itself. The global IIA regime, consisting of more than 3,300 treaties concluded over more than 60 years, displays gaps, overlaps and inconsistencies, including with respect to sustainable development elements. At the country level, an incoherent IIA network can expose the host State to undesirable effects. Most prominently, it increases vulnerability in ISDS because of treaty shopping by investors and the possibility of importation of treaty elements from old-generation IIAs into modern, sustainable development-oriented treaties (for analysis and policy options, see updated version of UNCTAD's Reform Package for the International Investment Regime).

In sum, in considering next steps for investment policy reform, countries should be guided by the objectives of fostering coherence, maximizing synergies and improving interaction between various instruments that govern investment. However, investment policy consistency should not be pursued for its own sake, but rather in a way that is coherent and mutually supportive for investment as a driver of sustainable development.

D. CAPITAL MARKETS AND SUSTAINABILITY

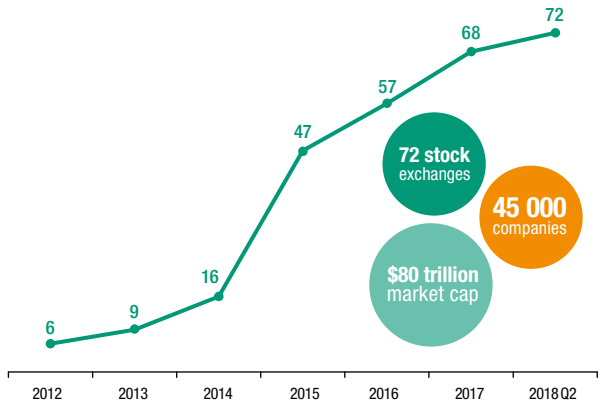
Capital market policies and instruments designed to promote investment in sustainable businesses and support the achievement of the SDGs are an increasingly important feature of the investment landscape. Key actors in promoting new policies, tools and instruments are stock exchanges, institutional investors (including both asset owners and asset managers) and security market regulators. The sustainability practices of stock exchanges can be a useful benchmark for monitoring innovation in sustainable finance, given stock exchanges' position at the intersection of portfolio investors, listed companies and capital market authorities.

Figure III.12. Overview of sustainability mechanisms used by stock exchanges (Number of exchanges)



Source: UNCTAD, SSE initiative database.

Figure III.13. SSE initiative members, 2012–2018 Q2 (Number of stock exchanges)



Source: UNCTAD, SSE initiative database.

1. Stock exchanges' ESG activities

An examination of stock exchange-related instruments around the world focusing on environmental, social and governance (ESG) factors indicates that 54 exchanges have in place at least one mechanism for promoting corporate ESG practices (figure III.12). Many exchanges provide sustainability indices or some form of guidance or training to listed companies regarding ESG factors.

a. Sustainable Stock Exchanges initiative

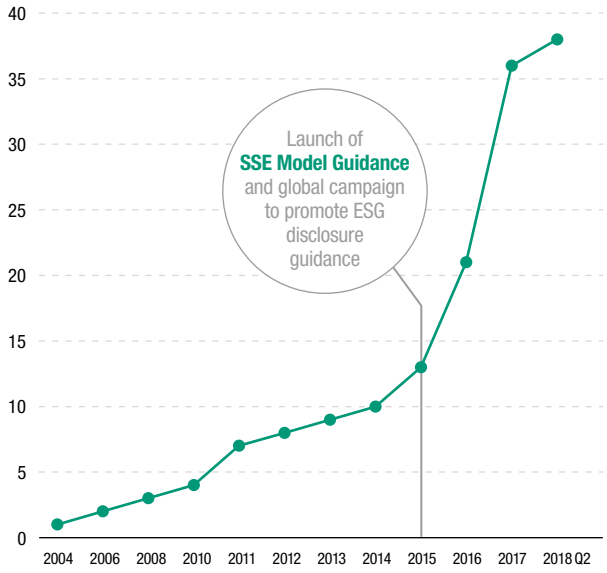
The United Nations Sustainable Stock Exchanges (SSE) initiative,[41] which has now grown to include most of the stock exchanges in the world (figure III.13), provides an indicator of the growing attention that exchanges are giving to sustainability in their markets. Launched in 2009, the SSE is a UN Partnership Programme administered by UNCTAD, UN Global Compact, UN Environment and Principles for Responsible Investment. Through the SSE's multi-stakeholder platform, exchanges engage in consensus- and capacity-building activities with portfolio investors, listed companies, capital market regulators and policymakers.

As of Q2 2018, public commitments to advancing sustainability in their markets have been made by 72 partner exchanges from five continents, listing over 45,000 companies and representing a market capitalization of more than $80 trillion. This includes 9 of the 10 largest exchanges in the world, as well as a number of small exchanges from developing countries.

b. Guidance and listing requirements on ESG disclosure

Exchanges continue to play an important role in helping markets navigate emerging ESG disclosure and management demands. By the end of Q1 2018 the number of stock exchanges providing formal guidance to issuers on reporting ESG information had reached 38. Only 13 did so in 2015, when the UN SSE launched its global campaign and model guidance to encourage exchanges to provide guidance on sustainability reporting and the World Federation of Exchanges introduced its guidance on the topic (figure III.14).

Figure III.14. Global trend in stock exchange ESG disclosure guidance, 2004–2018 Q2
(Number of stock exchanges with guidance)



Source: UNCTAD, SSE initiative database.

In addition to voluntary guidance, ESG information is increasingly incorporated into the listing rules on exchanges, either by the exchanges themselves or by securities regulators (depending on the jurisdiction and the respective authorities of each institution). As of the end of Q1 2018, 14 stock exchanges require ESG disclosure, up from 12 exchanges a year ago. As ESG issues are incorporated into the listing rules of more exchanges, and as the market for ESG-themed investment products grows (see following subsection), securities market regulators are taking a greater interest in this area. The Growth and Emerging Markets committee of the International Organization of Securities Commissions (IOSCO), for example, undertook a survey of its members in early 2018 to further inform discussions at IOSCO about the role of securities regulators in ESG issues. In addition, the SSE initiative in early 2018 convened a securities regulators advisory group to study practices in this area and facilitate the exchange of experiences between countries.

As mandatory ESG reporting is still a relatively new sustainability mechanism, the creation of listing requirements is often combined with other activities to assist with adoption and implementation. For example, to help listed companies comply with ESG disclosure requirements in Singapore, in 2017 the Singapore Exchange organized 23 capacity-building workshops to train company staff in the production of sustainability reports.

c. ESG training activities

Stock exchanges serve as more than a marketplace for issuers and investors, they also play a strong capacity-building role in helping issuers and investors to better understand new standards, products, services and practices. Within this role stock exchanges also provide training related to ESG practices; indeed, the provision of training is one of the most common activities stock exchanges take to promote ESG practices. Exchange training activities include the development of printed educational materials, workshops, larger conferences and mentorship programmes. To take one example, Norway's stock exchange, the Oslo Bors, 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 market. The exchange provides this training as well as the continuing courses for listed company management and advisers.

2. Green finance and ESG indices

Promoting green products and "greening" the mainstream financial markets are critical ways that stock exchanges and other capital market stakeholders can contribute to meeting global goals to combat climate change. To help stock exchanges start or enhance their work on green finance, the SSE released a guidance document at the UN Climate Summit (COP23) in November 2017, providing an action plan.[42] Developed by a multi-stakeholder advisory group of more than 70 experts from more than 60 institutions across 28 countries (as well as 6 international organizations), this document synthesizes efforts already being undertaken, identifies specific items of relevance for stock exchanges and highlights key areas of impact. It includes a Green Finance Diagnostic Checklist, which enables exchanges to benchmark their current activities in support of green capital markets (table III.9).

A significant feature of green finance is the continuing rapid growth of the market for green bonds, which provide investment for a diverse range of environmentally themed projects.[43] Although green bond listings represent only about 0.2 per cent of the overall bond market, the number and value of such listings have increased exponentially, with triple-digit year-on-year growth rates over the past five years (figure III.15). The absolute value of the green bond market exceeded $163 billion at the end of 2017. Just under half of all green bonds are listed on stock exchanges, with seven exchanges in the SSE database offering a specific category for sustainability bond listings. In addition to listing such bonds, stock exchanges are playing an important role in promoting standards for assurance and guidance for issuing such bonds, while opening new channels of finance for climate mitigation and adaptation projects.

The experience of the green bond market is also leading to innovations with other sustainability-themed bonds, such as "water bonds" (a subcategory of green bonds used to finance clean and sustainable water supplies) and "gender bonds" (a new subcategory that includes, for example, the Women's Livelihood Bond, listed on the Singapore Exchange in August 2017, and QBE Insurance's Gender Equality Bond, launched in Australia in 2017). Growing investor demand for sustainability-themed bonds has led the International Capital Market Association to issue new guidelines – "The Social Bond Principles" – in

Table III.9. SSE Green Finance Diagnostic Checklist

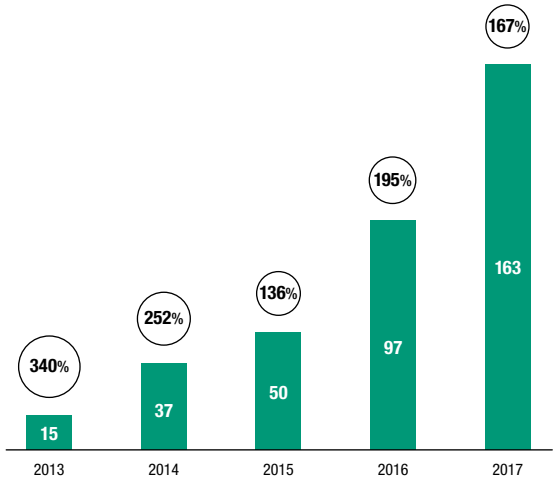
Action plan area		Action point
Promote green products and services	**1.1**	**Product offerings and partnerships**: Has your exchange developed and offered green products or services for your market or partnered with another financial services institution to do so?
	1.2	**Visibility**: Does your stock exchange make green products easy to find through dedicated platforms or listing labels?
	1.3	**Green terminology**: Does your exchange provide guidance to its market on green terminology?
Greening financial markets	**2.1**	**Market education**: Does your exchange educate issuers and investors on the importance of incorporating environmental issues into investment practices?
	2.2	**Standards**: Has your exchange incorporated environmental disclosure standards into its listing rules?
	2.3	**Benchmarking**: Does your exchange make benchmarks available for your market in the form of green indices or environmental rating systems?
Strengthen environmental disclosure	**3.1**	**Written guidance**: Does your exchange provide written guidance on environmental disclosure?
	3.2	**Training**: Is your exchange providing training for capital market participants on environmental disclosure and/or integration?
	3.3	**Leading by example**: Does your exchange produce a report on its own environmental policies, practices and impacts?
Grow green dialogue	**4.1**	**Green financial centres**: Does your exchange have an action plan or roadmap to grow green finance in your market?
	4.2	**Standards and policy dialogues**: Does your exchange stimulate policy dialogue on green standards?
	4.3	**Investor–issuer dialogue**: Does your exchange facilitate a dialogue between issuers and investors on green finance?

Source: SSE (2017).

2018. In another indication, the International Finance Corporation has merged its Banking on Women programme into a broader social bond programme in an effort to expand the investor base.

Environmental issues are also increasingly affecting equity markets, with portfolio investors beginning to incorporate climate risk and other environmental risks and opportunities into their analyses and asset allocations. For example, global efforts to combat climate change, in line with the outcomes of the UN Paris Agreement and the SDGs, have some major asset owners concerned about the medium- to long-term viability of fossil fuel companies. This is leading some portfolio investors to exclude such companies from their portfolios. This investor behaviour is giving rise to a new class of environmentally themed equity indices, and the performance of these indices against their conventional benchmarks gives an indication of the growing materiality of sustainability issues (figure III.16).

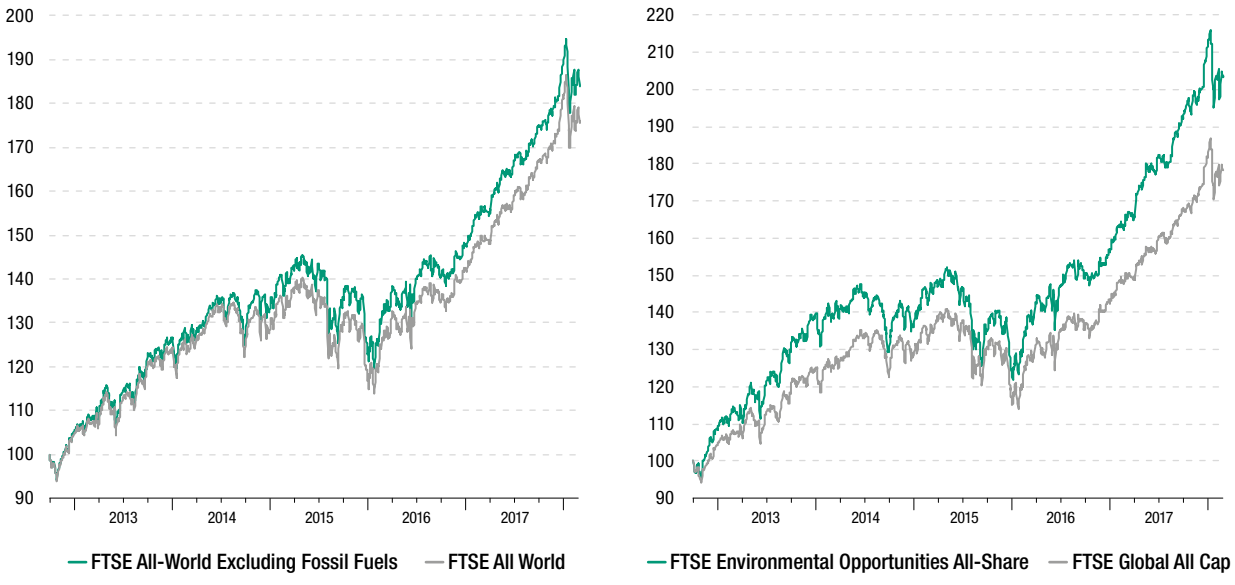
Figure III.15. **Total green bond issuance, 2013–2017** (Billions of dollars and per cent)



Source: UN Environment and Bloomberg.

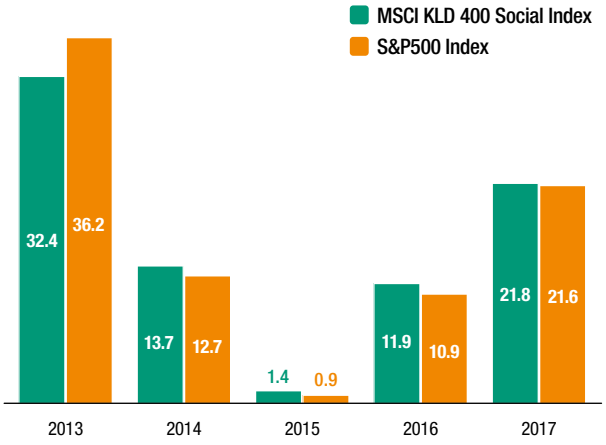
Fossil fuels, gender equality, renewable energy, human rights and water management are just a few of the diverse and rapidly growing themes addressed by ESG indices. ESG indices remain the most popular sustainability instrument among stock exchanges, with 40 of the 87 exchanges in the SSE database providing them. Exchanges are not the only entities creating such indices; there are over a hundred ESG-themed indices worldwide, created by specialist companies such as FTSE-Russell, Standard & Poor's, Dow Jones, Stoxx, Thomson Reuters and MSCI. These indices 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 indices are assisting asset managers who seek

Figure III.16. **Green equity indices' performance versus their conventional benchmarks, 2012 Q3–2017 Q3 and 2018 Q1** (100 = 10/2012)



Source: FTSE-Russell.

Figure III.17. **ESG index versus traditional broad market index, United States market, calendar year returns, 2013–2017**
(Per cent)



Source: MSCI and Standard & Poor's.

to incorporate material sustainability issues into their asset allocation strategies. ESG indices are also encouraging greater voluntary transparency among listed companies. Some of the earliest ESG indices are now over a decade old, providing a significant record for comparing their performance with more conventional market indices. The MSCI KLD 400 Social Index, for example, has outperformed its main benchmark, the S&P500, in four of the past five years (figure III.17).

3. Gender equality

Gender equality, the fifth SDG, is increasingly being addressed by capital markets. Gender equality in business operations and value chains is seen by companies and asset managers alike as an important metric for business success, often associated with the ability to attract better talent, higher productivity, more customers and higher revenues. The 2018 International Women's Day, on March 8, marked the fourth annual "Ring the Bell for Gender Equality" event, launched by the SSE and celebrated with partners including UN Women, the International Finance Corporation, Women in ETFs and the World Federation of Exchanges. This annual awareness-raising event saw 65 stock exchanges host a bell-ringing ceremony to highlight the pivotal role that the private sector can play in advancing gender equality.

Exchanges can play several roles. They can encourage reporting from listed companies on metrics related to gender equality: diversity objectives and how they are achieved; policies that support equality in the workplace; and diversity metrics, including the percentage of women across all levels of the organization, pay gap and turnover rates by gender, and actions taken to promote gender equality and women's human rights across the supply chain. Exchanges can also play a leading role in promoting training for listed companies on gender issues.

For example, in 2017 Peru's stock exchange, the Bolsa de Valores Lima (BVL), developed a workshop called "Breaking the Glass Ceiling" for executives of companies listed on the BVL. It provided training on the implementation of policies aimed at closing the gender gap. The BVL has also launched a free, confidential platform called Allied Group Ranking Par that enables companies to measure gender equality, with the goal that companies listed on the BVL can measure their relative performance on this issue and implement improvements in their organizations.

Some capital market stakeholders are also introducing new financial products designed to support the empowerment of women and gender equality in corporate leadership. Noted above were two gender-themed bonds. On the equity side, there are also gender-themed products such as the Bloomberg Gender Equality Index, which measures gender equality across internal company statistics, employee policies, external community support and engagement, and gender-conscious product offerings for more than 100 companies from 10 industries headquartered in 24 markets. In another example, the FTSE Women on Boards Leadership Index Series includes companies based on the strength of the gender diversity of their leadership at the board level and how well they manage broader impacts on society.

Capital markets play a critical role in the overall investment chain that is financing MNEs and their international activities. Market innovations related to sustainable development continue to attract interest from portfolio investors, and the positive track record of sustainability-themed products is reinforcing asset managers' views that ESG issues are material to long-term investment performance. As these sustainable investment trends take root and expand, they can have a stronger influence on the relationship between listed MNEs and their shareholders, and in turn the operational policies and practices of MNEs relative to sustainable development.

NOTES

[1] The sources for these investment measures can be found at UNCTAD's Investment Policy Hub (http://investmentpolicyhub.unctad.org).

[2] Some of these measures were also of a promoting nature.

[3] For details, see https://www.bmwi.de/Redaktion/DE/Downloads/S-T/schreiben-de-fr-it-an-malmstroem.pdf?__blob=publicationFile&v=5.

[4] European Commission, "Proposal for a regulation of the European Parliament and of the Council establishing a framework for screening of foreign direct investments into the European Union", 13 September 2017, http://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/com/2017/0487/COM_COM(2017)0487_EN.pdf.

[5] United Kingdom, Department for Business, Energy and Industrial Strategy, "National Security and Infrastructure Investment Review (Green Paper)", 17 October 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/652505/2017_10_16_NSII_Green_Paper_final.pdf.

[6] United States, The White House, "Statement by the Press Secretary Supporting the Foreign Investment Risk Review Modernization Act", 24 January 2018, https://www.whitehouse.gov/briefings-statements/statement-press-secretary-supporting-foreign-investment-risk-review-modernization-act.

[7] For the list of IIAs signed and entered into force in 2017, see UNCTAD's IIA Navigator, http://investmentpolicyhub.unctad.org/IIA.

[8] Cook Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

[9] The Australia–Peru Free Trade Agreement (FTA), the Comprehensive and Progressive Agreement for a Trans-Pacific Partnership Agreement (CPTPP) and the FTA between the Republic of Korea and the Republics of Central America. In addition, in March 2018, a number of side agreements to the CPTPP were signed related to ISDS. For example, ISDS is excluded between New Zealand and Peru, and a respondent host State must provide specific consent for an investor claim to proceed to arbitration (side agreements between Brunei Darussalam and New Zealand, and between Malaysia and Viet Nam).

[10] Terminations not effective as of April 2018.

[11] The BITs of Denmark with Estonia (1991) and with Romania (1994).

[12] For example, the Intra-MERCOSUR Investment Facilitation Protocol (2017) creates six IIA relationships between the four contracting parties, and the CPTPP (2018) creates 55.

[13] The treaty contains a placeholder for an ISDS clause (Article 21); the parties agreed to conclude the discussions on ISDS within one year from the date of the agreement's entry into force.

[14] The agreement includes an ISDS clause that does not provide for international arbitration as an option.

[15] The agreement does not include an ISDS clause.

[16] The text of the agreement is not publicly available. The parties agreed that in the future the scope of the agreement will be expanded to include trade in services and investment protection.

[17] Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Viet Nam.

[18] Academic and policy discussions about dispute settlement in NAFTA raise the question of whether lessons can be learned from the 1994 Labour Side Agreement, which under certain conditions provides for the establishment of an arbitral panel to consider the matter where the alleged persistent pattern of failure by the party complained against to effectively enforce its occupational safety and health, child labour or minimum wage technical labour standards is (a) trade-related and (b) covered by mutually recognized labour laws.

[19] Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

[20] Australia, China, India, Japan, the Republic of Korea and New Zealand.

[21] *Slovak Republic v. Achmea B.V.* (Case C-284/16), Judgment, 6 March 2018.

[22] See e.g. CETA (2016), which will replace eight BITs between Canada and EU member States (Article 30.8), while the EU–Singapore FTA and the EU–Viet Nam FTA will replace 12 and 22 BITs respectively.

[23] Note that thus far other CPTPP parties have not taken steps to terminate their pre-existing IIAs.

[24] As of April 2018, the Convention has been signed by Australia, Belgium, Benin, the Plurinational State of Bolivia, Cameroon, Canada, the Congo, Finland, France, Gabon, The Gambia, Germany, Iraq, Italy, Luxembourg, Madagascar, Mauritius, the Netherlands, Sweden, Switzerland, Syria, the United Kingdom and the United States.

[25] In June 2016, UNCTAD launched its Global Action Menu for Investment Facilitation. Its more than 40 action items for countries to adapt and adopt are intended to fill a systemic gap in national and international investment policymaking. Since its launching, the Global Action Menu has received strong support from all investment development stakeholders, including at several high-level intergovernmental meetings.

[26] Although the Vienna Convention on the Law of Treaties provides that a State may not invoke its national law as justification for its failure to perform an international treaty (Art. 27), the legal status of a specific treaty (IIA) within a national legal regime may depend on whether that regime is monist or dualist.

[27] In such circumstances, a country's IIA negotiators would intentionally agree to internationally committing the country to a degree of openness that is more far-reaching than what is prescribed in terms of entry and establishment at the national level. At times combined with a phase-in schedule, such (temporary) divergence could translate into national-level policy action (e.g. domestic reforms such as liberalization; see WIR04, "IIA-driven policy interaction").

[28] Some FTAs include chapters on development, which could provide a means for State parties to assist other members with respect to the implementation of their treaty commitments, including commitments under investment chapters.

[29] The distinction between economic and non-economic areas of policymaking may be blurring. Many recent environmental treaties may also be considered economic in nature, e.g. the United Nations Framework Convention on Climate Change (UNFCCC).

[30] Nonetheless, in contrast to human right treaties, IIAs do not require claimants to exhaust local remedies before submitting claims to an international tribunal.

[31] A few ICJ or PCIJ cases are cited with regularity in ISDS decisions, e.g. Case concerning Elettronica Sicula S.p.A. (ELSI) (United States/Italy), Judgment (20 July 1989), Case concerning the Barcelona Traction, Light and Power Company, Ltd. (Belgium/Spain), Judgment (5 February 1970), and Case concerning the Factory at Chorzów (Claim for Indemnity) (Merits) (Germany/Poland), Judgment (13 September 1928).

[32] UNCITRAL, Partial Award, 13 November 2000.

[33] Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal, signed on 22 March 1989. The Basel Convention is a multilateral environmental agreement, to which Canada is a party, but the United States, the home country of the investor, is not.

[34] ICSID Case No. UNCT/02/1, Award on Jurisdiction, 22 November 2002; Award, 24 May 2007.

[35] Interestingly, in Al Tamimi v. Oman, the State successfully defended against the investor claims, in part, on the basis of non-investment chapters and provisions of the Oman–United States FTA (2006) related to environmental protection. Adel A Hamadi Al Tamimi v. Sultanate of Oman (ICSID Case No. ARB/11/33), Award, 3 November 2015.

[36] ICSID Case No. ARB/07/26, Award, 8 December 2016.

[37] Argentina invoked the Universal Declaration of Human Rights of 1948; the International Covenant on Economic, Social and Cultural Rights of 1966; the ILO Tripartite Declaration of Principles concerning Multinational Enterprises (as amended in 2006); and UN General Assembly Resolution 64/292 of 2010.

[38] Slovak Republic v. Achmea B.V. (Case C-284/16), Judgment, 6 March 2018.

[39] To this is added refining IIA clauses that deal with substantive and procedural protections, as suggested in the UNCTAD Investment Policy Framework for sustainable Development and the UNCTAD Reform Package for the International Investment Regime, and as implemented in recent treaties (see section III.B).

[40] This should be done with caution, however, as there is a risk that such clauses could be interpreted narrowly, thus circumscribing the State's regulatory space in a way that was not intended. See Bear Creek Mining v. Peru (ICSID Case No. ARB/14/2), Award, 30 November 2017, paragraph 473.

[41] For more information, visit www.SSEinitiative.org.

[42] SSE (2017), "How Stock Exchanges Can Grow Green Finance".

[43] Green bonds finance projects in the following sectors: renewable energy, energy efficiency, low-carbon transport, sustainable water, waste and pollution management, climate adaptation, and agriculture and forestry.

CHAPTER IV

INVESTMENT AND NEW INDUSTRIAL POLICIES

INTRODUCTION

Background and definitions

After several decades of divided opinions, industrial policy has once again become popular during the past 10 years among policymakers in both the developed and the developing world. The new generation of industrial policies, however, differs significantly, both in methods and in scope, from earlier interventions. Compared with the relatively heavy-handed industrial policies of the past, which tended to focus on the blunt protection of specific industries, industrial policies today are more agile, interactive, inclusive, flexible, integrative with other policy areas and responsive to broader issues such as sustainable development. Furthermore, FDI and MNE operations have become an integral part, either explicitly or implicitly, of contemporary industrial policies in many countries.

The definitions of industrial policy vary across studies.[1] However, there is agreement that they include *government policies directed at affecting the economic structure of the economy* (Rodrik, 2004). According to this definition, industrial policy has a very large ambit, covering a range of policies aimed at enabling a country to achieve its strategic objectives by enhancing domestic productive capabilities and international competitiveness. It includes both vertical policies focused on specific industries, as well as horizontal policies seeking to improve operational conditions and capabilities across several sectors. A review of industrial policies over time concludes that more recent policies rely significantly on an expanded range of support measures and instruments that aim to improve infrastructure, education and training, enterprise development, the building of clusters and linkages, entrepreneurship, innovation, access to finance and social policies (Salazar et. al. 2014). This reflects a change in the scope of industrial policies, compared with those used earlier in the context of import substitution.

With industrial policies aspiring to structurally change an economy's production structure and trajectory of growth, investment, in particular foreign direct investment (FDI), has become a prominent part of industrial policies. For instance, a detailed assessment of the empirical impact of industrial policies concluded that "*Industrial policies through FDI promotion may be more successful* than intervention in trade, in part because FDI promotion policies focus on new activities rather than on protecting (possibly unsuccessful) incumbents. If such measures are part of a broader effort to achieve technological upgrading then they may be helpful, whereas if they are implemented in isolation they are likely to fail" (Harrison et al., 2010). Likewise, Rodrik (2013: 51) states that the "focus these days may need to be more on segments of industries than on entire industries, and *more on foreign investors than locals*. But ultimately the principles of cooperative industrial policy based on public private partnerships … still apply".

Objectives

This chapter provides an overview of industrial policy models – based on an inventory of industrial policies adopted by over 100 countries over the past decade – and the role of investment policies within each model. It illustrates how investment policy instruments are used differently across various models. It also suggests ways to improve the impact of industrial policy through more effective and efficient investment policies.

Given the imperatives of the latest evolutionary phase of industrial policies, driven by the new industrial revolution (NIR) and by sustainability concerns, the chapter takes a specific look at the investment policy implications of the new generation of industrial policies.

Scope

The remit of this chapter is on the foreign investment policy dimension of industrial policy. The focus is on national investment policies – including entry and establishment, screening, promotion and facilitation, incentives and performance requirements special economic zones (SEZs) and the like. International policies (international investment agreements, or IIAs) are discussed only tangentially.

Major questions about the economic choices associated with specific industrial policies, such as whether they should build on current comparative advantage and strengths or rather develop strategic advantages in new areas and defy comparative advantage (Lin, 2012; Lin and Chang, 2009; Gereffi, 2014, Buzdugan and Tüselmann, 2018) are outside the scope of this chapter.

The chapter's data analyses and broader discussion focus mainly on the manufacturing sector (though including adjunct services sector industries). This is apt, as the manufacturing sector continues to be the main source of technology-driven growth in modern economies. The sector provides the basis for economic development in many developing countries, whereas in developed countries, the erosion of industrial commons and the loss of core manufacturing activities are of concern.

Structure

The structure of the chapter is as follows: Section IV.A provides an overview of the current proliferation of industrial policies and the many new themes they address, and broadly outlines the role of investment policies. Section IV.B identifies major industrial policy models and surveys current practices in industrial policy design, based on the inventory newly constructed by UNCTAD's Investment Division. Section IV.C analyses how investment policy instruments are being used across industrial policy models. Section IV.D puts forward ways and means to update investment policy approaches and instruments in line with the new generation of industrial policies and the sustainable development imperative, including a set of customized investment policy toolkits for different industrial policy models.

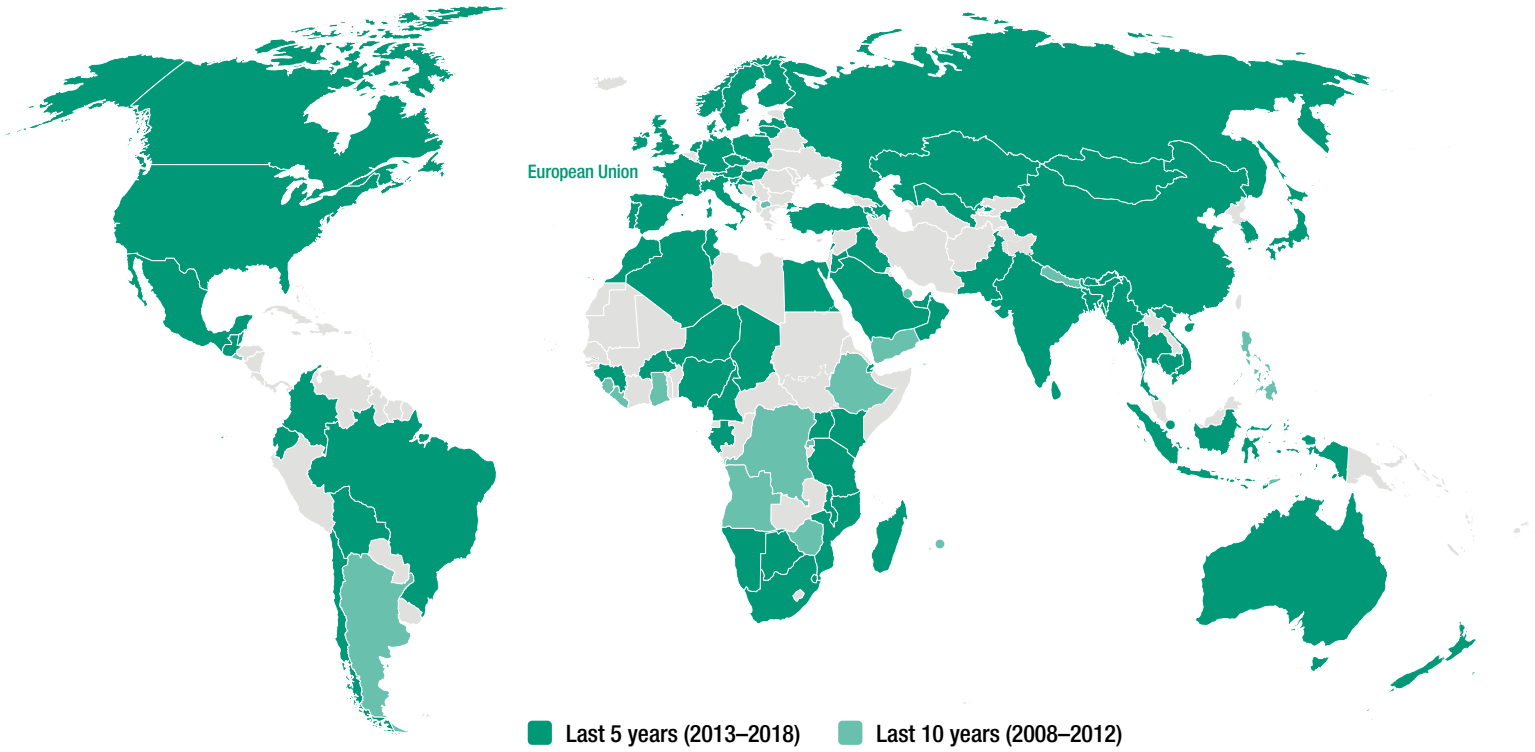
A. INDUSTRIAL POLICY: A MODERN PHENOMENON

1. The recent proliferation of industrial policies

Industrial policies have become ubiquitous. UNCTAD's global survey of industrial policies shows that, over the past five years alone, at least 84 countries – both developed and developing, accounting for about 90 per cent of global GDP – have adopted formal industrial development strategies.

In the decade since the global financial crisis, the number of countries adopting national industrial development strategies has increased dramatically. The rate of adoption of both formal industrial policies and individual policy measures targeted at industrial sectors appears to be at an all-time high. Over the past five years alone, at least 84 countries have issued industrial policy statements or explicit policy frameworks for industrial development (figure IV.1). Countries at all levels of development are using targeted industrial policies, not only for economic development purposes, but also to respond to myriad contemporary challenges, such as creating jobs and reducing poverty, participating in the technological revolution and in global value chains (GVCs), promoting efficient and clean energy and greening the economy (Salazar et al. 2014).

Figure IV.1. Industrial policies adopted since 2008



Source: UNCTAD global survey of industrial policies.
Note: Categorization of countries is not exhaustive.

The proliferation of industrial policy approaches across the developed and developing world is driven by several forces:

- First, the pressure to reduce unemployment and stimulate growth after the global financial crisis has led to more proactive government action to address socioeconomic problems and to manage the negative effects of globalization.
- Second, the success of fast-growing economies in East and South-East Asia has put pressure on developed countries to respond to intensified competition in trade, investment and technology. It has also inspired low- and middle-income economies to build on their experience and push industrial development through greater participation in GVCs.
- Third, fears of premature deindustrialization in middle-income economies and of "missing the boat" in low-income countries have increased pressure for policies that support the manufacturing sector. The development of advanced manufacturing is a priority across emerging and mature markets.
- Fourth, the focus on GVCs, which include both goods and services, implies that improving the capacities of the manufacturing sector requires concomitant supportive policies for related services and the relevant regulatory and facilitating regimes.

Finally, the drive for sustainable development and inclusive growth at the global level – as embodied in the Sustainable Development Goals (SDGs) – adds further pressure on governments to steer industrial development.

Industrial policies are now commonplace among developing and developed countries. Policies to push productivity growth in sectors key to industrial development – manufacturing first and foremost, but also adjunct services and supporting infrastructure – are widely considered indispensable to generate economic growth and jobs and to put a brake on excessive inequality. For developing countries, despite recent evidence that a singular focus on manufacturing in most industrial policies may be too narrow (IMF, 2018), most economists have recognized for some time that very few countries have developed successfully without passing through a manufacturing-based, and often export-driven, industrialization phase (Rodrik, 2011; UNCTAD, 2016c). (The few economies that did have tended to exploit special circumstances, such as abundant natural resources, a gateway location or a favourable fiscal environment for financial services.) Developed countries are today fully engaged in industrial policies, driven in large part by the need to offset the decline of manufacturing experienced during the period of rapid globalization in the 1990s and 2000s, and during the global financial crisis. They have increasingly adopted policies aimed at rebuilding their manufacturing base (incentives, subsidies, public investment in advanced manufacturing to increase internal production capacity) and at strategic positioning in advanced technology areas.

2. New themes in industrial policies

Modern industrial policies are increasingly diverse and complex, addressing new themes and including myriad objectives beyond conventional industrial development and structural transformation, such as GVC integration and upgrading, development of the knowledge economy, build-up of sectors linked to sustainable development goals and competitive positioning for the new industrial revolution (NIR).

Industrial policies have evolved and are increasingly diverse. Industrial policies generally used to focus on the protection or promotion of specific industries and on catalysing structural transformation. The gradual shift over the past decades to horizontal development strategies seeking to enhance overall industrial competitiveness, including in

international markets, has already been well documented (Singh, 2016; Andreoni, 2016; European Commission, 2010; Tarr, 2005; *WIR11*). With significant technological change, which seems to herald the beginning of a new technological paradigm, many economies have begun to focus on improving their capabilities and competitiveness in this area. Thus, modern industrial policies encompass a range that spans GVCs, the knowledge economy and the NIR. Table IV.1 provides a summary of developments, which inevitably implies a degree of generalization and overlap between phases; e.g. in the 1980s-1990s, some countries in East and South-East Asia pursued distinctly different industrial policies.

A key driver for the modernization of industrial policies has been the adoption in many developing countries of policies to promote GVCs and GVC-led development strategies (*WIR13*). Such policies encourage and support economic activities that generate exports in fragmented and geographically dispersed industry value chains, based on specific endowments and competitive advantages. Improving GVC participation requires timely delivery of and consistent quality in products within the value chain, efficiently combining goods and services to facilitate the chain, regulatory mechanisms, and addressing the increasing significance of private standards in global markets. This in turn implies active policies to encourage learning from GVC activities in which a country is present, to facilitate upgrading towards activities with higher value added and diversifying into higher value added chains.

Table IV.1. Evolution in industrial policies and new themes

			Modern industrial policies	
	Until the 1970s	**1980s–1990s**	**2000s and ongoing**	**Recent/emerging themes**
Key features/ themes	• Industrialization and structural transformation	• Stabilization, liberalization, laissez faire	• Knowledge economy • GVCs	• NIR • Sustainable development
Policy goals	• Creating markets, diversification	• Market-led modernization	• Specialization and increased productivity	• Modern industrial ecosystem development
Key elements	• Import substitution • Infant industry protection • Sector development • Gradual and selective opening to competition	• Limited government involvement • More horizontal policies • FDI opening • Exposure to competition	• Targeted strategies in open economies • Enabling business environment • Digital development (IT) and ICT diffusion • Participation in global production networks • FDI promotion combined with protection of strategic industries • SME support • Skills development	• Technical capabilities development • Innovation in production (OT) • Learning economy • SDG sector development • Public-private knowledge/ tech development institutions • Acquisition of foreign technology • Entrepreneurship development
Policy environment	• High political legitimacy for national development strategies	• Low political legitimacy for interventionist development strategies • Limitations to policy space through international commitments	• Regained legitimacy for national development strategies • Moderate policy space in selected areas	• More policy space in new fields • More emphasis on inclusiveness

Source: UNCTAD, adapted from Andreoni (2016).
Note: ICT = information and communication technology, IT = information technology, OT = operational technologies, SME = small and medium enterprise.

Another factor in modern industrial policies is digital development, the improvement of internet connectivity infrastructure and the wider adoption of information and communication technologies (ICTs) in firms. Information technology has provided opportunities to improve productivity across all sectors and to build new sectors. It has expanded the scope of industrial policies from a singular focus on manufacturing to include adjacent services industries. A number of countries, such as Costa Rica, India and the Philippines, have successfully increased their GVC participation through IT-based outsourcing operations.

Most recently, the technology driver of modern industrial policies is **digital transformation and operational technology (OT) development.** Growing numbers of countries are adopting policies explicitly linked to the NIR – the application of new digital technologies, advanced robotics, 3D printing, big data and the internet of things in manufacturing supply chains (UNCTAD, 2017e). Such policies can focus on promoting industrial capacity in new technology areas, safeguarding technological development or mitigating the negative side effects of disruptive technologies. These latest forms of industrial policy are proliferating even and especially among countries earlier considered averse to industrial policy.

The objectives of industrial policy have also started to incorporate sustainable development concerns. These find expression in the regulatory framework within which industrial firms operate, and in the sectoral preferences and selective support policies set out in industrial policies. Some countries have explicitly included sector-specific development targets focusing on new, clean energy industries. NIR-driven policies come with their own sustainable development concerns, related to inclusive growth and the employment impact of advanced manufacturing technologies.

The result is higher complexity in industrial policies. Basic picking-the-winner approaches and the traditional industrial policy tools of selective protection and import substitution have long given way to far more sophisticated methods to facilitate technological innovation and bridge productivity gaps, building systems and coordination mechanisms to promote interlinked activities with horizontal impact.

Looking at trends and the vast numbers of industrial development strategies adopted in the past decade, it is clear that many countries are grappling with new approaches and models. Traditional industrial policy elements are still common across groups of countries that need to build up basic productive capacities. Most of these are now combined with elements from other industrial policy models, especially those enhancing horizontal productivity. And while explicit industrial strategies targeting the NIR are currently adopted mostly by developed countries and a few emerging market economies, many industrial policies in developing countries are implicitly dealing with the consequences of adopting advanced technologies in manufacturing supply chains.

3. The central role of investment policies in industrial policies

Investment policies (in particular FDI policies) have always been a key instrument of industrial policies. Different industrial policy models carry different investment policy prescriptions. New themes in modern industrial policies need to be reflected in investment policies. The NIR, especially, requires a strategic review of investment policies for industrial development.

Foreign investment policies – policies to attract, anchor and upgrade FDI and to regulate it – are an important element of industrial policies. Investment promotion is integral to industrial policy because FDI is more than a flow of capital that can stimulate economic growth. It comprises a package of assets that includes long-term capital, technology, market access, skills and know-how, all of which are crucial

for industrial development. It can contribute to sustainable development by providing financial resources where such resources are often scarce; generating employment; strengthening export capacities; transferring skills and disseminating technology; adding to GDP through investment and value added, both directly and indirectly; and generating fiscal revenues. FDI can support industrial diversification and upgrading, and the build-up of productive capacity, including infrastructure. Importantly, it can contribute to local enterprise development through linkages with suppliers. Foreign investment is also key for integrating an industry into GVCs, given that 80 per cent of global trade is linked to the global production networks of MNEs (*WIR13*).

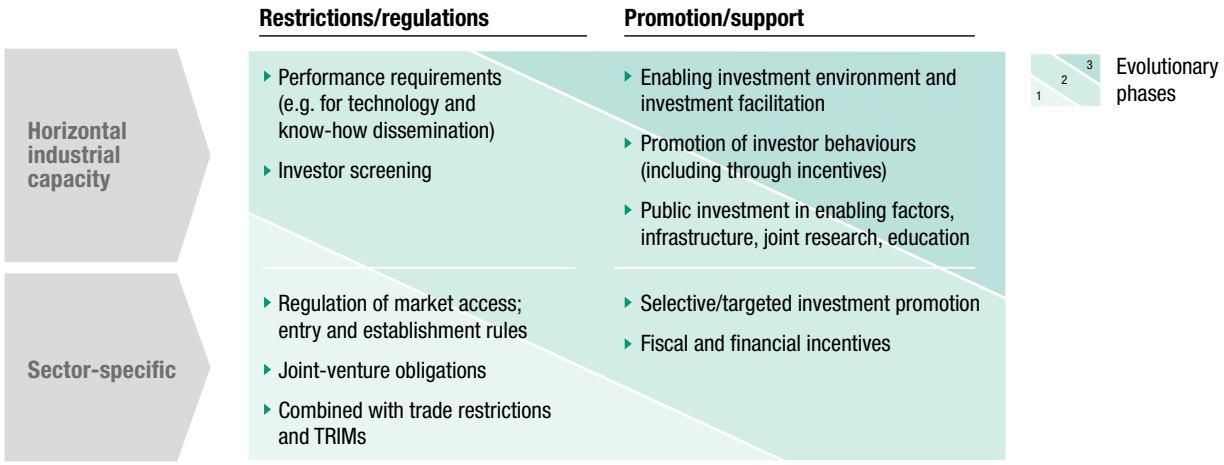
Regulation of FDI is an equally important component of industrial policies. Many of the potential benefits of investment do not materialize automatically or optimally, and policies to maximize positive spillovers for domestic industrial development are a common feature of industrial policy. Furthermore, industrial policies in some economies include foreign ownership limitations or joint-venture requirements to support domestic industrial build-up and to protect strategic industries and key technologies from foreign takeover.

Investment policies generally govern the entry and establishment of foreign investors, the treatment of foreign investors relative to that of domestic firms, the regulation of foreign investors' operations and the protection of their assets. Policies stipulate investment promotion measures (e.g. incentives) and investment facilitation approaches (e.g. single windows for investors), and influence operating conditions for investors by improving the ease of doing business. Investment policy includes efforts to maximize positive spillovers from the activities of foreign affiliates, e.g. by stimulating the dissemination of technology and know-how and by promoting linkages with domestic suppliers, and to minimize potential negative effects, e.g. through social and environmental safeguards. Taking a broader perspective, aspects of investment policy play an integral role in a host of closely interlinked policy areas, including trade, competition, tax, intellectual property, labour and other policies. For the full range of policy areas, options and approaches, see UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD). In addition to national investment policies, investment is also addressed in international investment agreements, including comprehensive trade and investment treaties.

With such a broad scope, investment policy necessarily employs a wide variety of approaches and instruments. Over time, as industrial policy has gone through different phases and models, the way in which the investment policy toolkit has been deployed has evolved too. Early industrial policies – primarily related to import substitution – made extensive use of foreign investment restrictions and performance requirements. Export-oriented industrial policies brought a sharp increase in the use of selective investment promotion tools and measures to maximize positive spillovers (Zhan, 2011). More recently, horizontal investment facilitation measures and investor targeting have become more prominent. Different industrial policy choices require different sets of investment policy measures (figure IV.2).

The composition of the investment policy package varies significantly depending on industrial policy choices and phases. For the overall design of the package, policymakers can draw on a vast body of research, both on the potential contributions of foreign investment to industrial development and on the impact of specific investment policy measures on investment attraction and on the behaviour of investors. The latest phase of industrial development strategies, driven by the NIR and by emerging themes in the context of sustainable and inclusive development, may change the current logical nexus between investment policies and industrial policies, and require that additional aspects of this relationship be considered.

Figure IV.2. Examples of investment policies across industrial policy models



Source: UNCTAD.

B. INDUSTRIAL POLICY MODELS

1. The complexity of modern industrial policy packages

In its recent incarnation, industrial policy is best seen as a package of interactive strategies and measures aimed at (i) building enabling industrial systems (infrastructure, financial system) and productive capacity (including productive assets, technology and skills), and (ii) supporting the development of internal and export markets. These objectives require initiatives at the firm, industry and economy levels. Each of these components has investment policy elements.

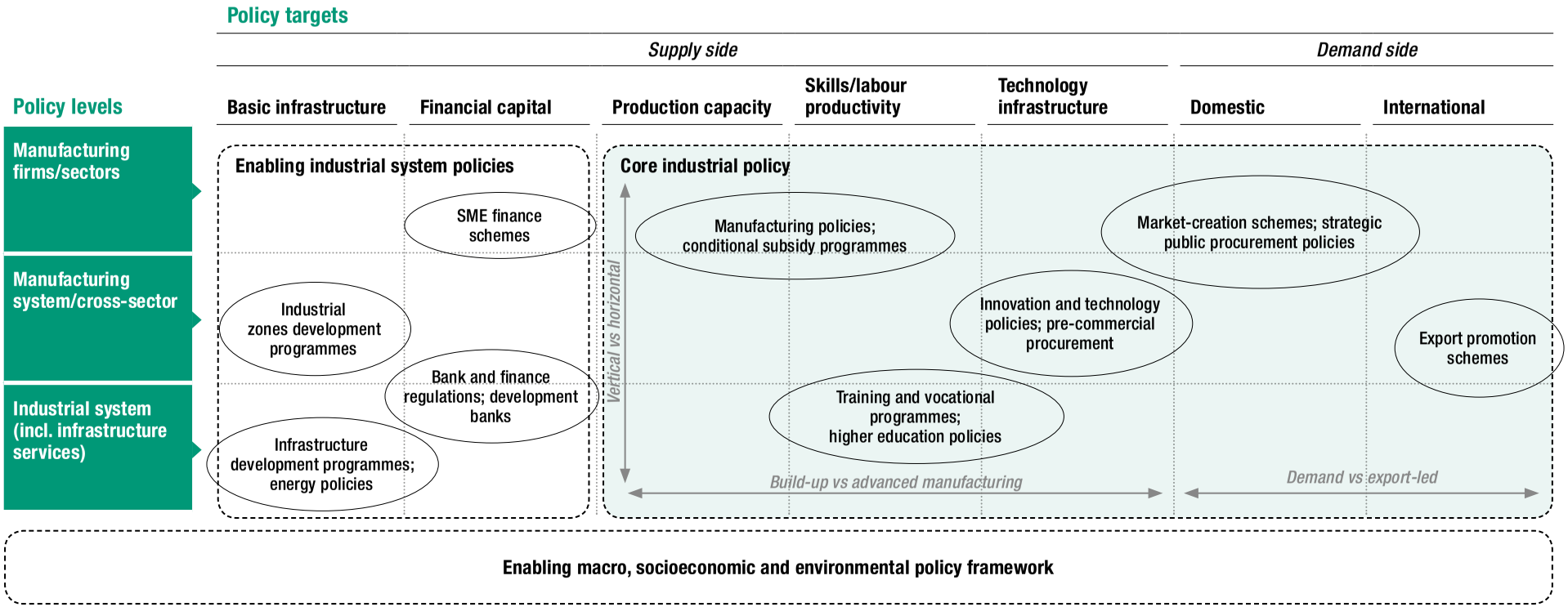
Industrial policy is often not a single integrated policy framework. It generally consists of multiple policy frameworks addressing different aspects of an economy's industrial system, different factors of production, different institutional layers and different targets. Even countries that do not intentionally formulate an explicit and integrated industrial policy nonetheless influence and steer industrial development through the implementation of combined individual policy measures ranging from subsidies to sector regulations.

Industrial policy is best seen as a combination of interactive strategies and measures, and of top-down and bottom-up policy interventions. Figure IV.3 illustrates how individual policy measures can target different factor inputs of a country's manufacturing system, including enabling infrastructure, finance, technology and skills. It also shows the multilayered character of industrial policy packages, with impacts at the firm, industry, and industrial system levels. The latter goes beyond manufacturing to comprise complementary services and infrastructure that are crucial for the creation of productive capacity. Policy measures to improve the overall macroeconomic, social and environmental setting in which industry develops form the foundation of the overall industrial policy package. Multilayered and multidimensional models have emerged in response to the need for flexibility and selectivity in the design of these packages.

Policy measures across the overall package are highly interdependent and need to be complementary and synergistic. The same policy measure in different policy packages can have different effects and implications. Each individual industrial policy measure can be more or less selective, and its effectiveness will depend on its integration in a package of interactive measures.

The design of the overall industrial policy package is informed by a country's industrial structure, development or growth opportunities, and institutional setting. At various stages of development, countries are characterized by different industrial structures, i.e. sectoral and export compositions, technological infrastructure, manufacturing system organization and degree of market concentration. As a result of these structural differences, countries face different challenges. Developing countries might need to build up entirely new sectors, upgrade their industrial structures to move up the value chain, absorb or adapt technologies, or meet quality or other standards required in international markets. Industrialized countries might prioritize efforts to connect scale-production capacity to their innovation systems, improve links between research and development (R&D) institutions and industry, or promote renewable energy generation and use.

Figure IV.3. The industrial policy packages matrix (Illustrative)



Source: UNCTAD, based on Andreoni (2016).

Table IV.2. Examples of industrial policy packages

Selected economies		Industrial policy packages (illustrative elements)	
Developed	Germany	• Industrie 4.0 – Smart Manufacturing for the Future • ZIM (Central innovation programme, Mittelstand) • New High-Tech Strategy Innovations for Germany • Collective Industrial Research (IGF) • Mittelstand-Digital	• Make It in Germany • INVEST (venture capital grant) • Go-Cluster Programme • Digital Strategy 2025
	Japan	• New Robot Strategy • Japan Revitalization Strategy • Industrial Cluster Policy • Industrial Competitiveness Enhancement Act	• Initiatives for Promoting Innovation • Basic Law on the Promotion of Manufacturing Technology • Support for SMEs' New Business Activities in Japan
	United States	• National Strategic Plan for Advanced Manufacturing • Small Business Jobs Act of 2010 • National Export Initiative (NEXT) • American Recovery and Reinvestment Act	• Making in America: U.S. Manufacturing Entrepreneurship and Innovation • America COMPETES Act
Developing	Brazil	• National Science, Technology and Innovation Strategy • ProFuturo Production of the Future, ICT Plan for Advanced Manufacturing in Brazil • Brazilian Strategy for Digital Transformation (E-Digital)	• Master Plan of Information Technology and Communications • Strategic Information Technology Plan • Digital Governance Strategy (EGD)
	China	• Made in China 2025 • Internet Plus Strategy • Next Generation Artificial Intelligence Development Plan	• Intelligent Manufacturing Plan 2016–2020 • Guiding Catalogue of Key Products and Services for Strategic Emerging Industries (2016 Edition)
	India	• National Policy on Skill Development • National Policy on Universal Electronic Accessibility • National Manufacturing Policy • Science, Technology & Innovation Policy 2013	• National Policy for Skill Development and Entrepreneurship 2015 • National Steel Policy, 2017
	South Africa	• National Industrial Policy Framework • Industrial Policy Action Plan • Automotive Production Development Programme • Integrated National Export Strategy (Export 2030) • DTI Strategic Plan (SP) 2014–2019	• National Advanced Manufacturing Technology Strategy for South Africa • Integrated Strategy on the Promotion of Small, Medium and Micro-Sized Enterprises (SMMEs)
	Viet Nam	• Industrial Development Strategy, Vision Toward 2035 • Strategy for Science and Technology Development for the 2011–2020 Period • Automobile Industry Development Plan of Vietnam • Development Plan of Garment and Textiles Industry of Vietnam to 2020, Vision to 2030 • Strategy of Using Clean Technology to 2020	• National Programme on Improving Productivity and Quality of Products of Vietnamese Enterprises to 2020 • Target Programme on Development of Information Technology Industry to 2020, Vision to 2025 • Science and Technology Programme for New Countryside Construction in the period of 2016–2020
LDCs	Bangladesh	• National Industrial Policy 2016 • Perspective Plan of Bangladesh 2010–2021 • Information and Communication Technology (ICT) Status, Issues and Future Development Plans of Bangladesh	• Strategic Priorities of Digital Bangladesh • National Motorcycle Industry Development Policy • National Science and Technology Policy 2011
	Rwanda	• National Industrial Policy • Small and Medium Enterprises (SMEs) Development Policy • Digital Development Strategy • Rwanda Private Sector Development Strategy	• Rwanda Craft Industry Strategic Plan • SMART Rwanda Master Plan 2015–2020 • Rwanda Vision 2020 • Special Economic Zones Policy
	Uganda	• Uganda Vision 2040 • National Textile Policy – a Framework for the Textile Subsector Transformation, Competitiveness and Prosperity • National Industrial Policy	• National Information and Communication Technology Policy for Uganda • Uganda Micro, Small and Medium Enterprise (MSME) Policy

Source: UNCTAD.

As a result of different situations and objectives, policy packages differ substantially. For example, among industrialized countries, Japan, which built its strong export performance primarily on the automotive and electronics industries, has implemented measures to diversify and strengthen its manufacturing resilience. Germany, with its longstanding diversified manufacturing system, has focused on technological upgrading and a renewable energy agenda. The United States, where manufacturing has shrunk to less than 15 per cent of GDP and where major industrial MNEs have offshored a large part of their production to low-cost locations, has begun to direct more investment towards rebuilding manufacturing competencies linked to its innovation system.

Most emerging economies also have horizontal competitiveness-enhancing policies to develop skills, improve quality or foster entrepreneurship, as well as programmes focused on technology such as digital development or clean energy (for an illustrative set of industrial policy packages, see table IV.2). They integrate these horizontal policies with strategic industry development plans, which can target emerging high-tech industries (e.g. China's Seven Strategic Emerging Industries), traditional heavy-industry sectors (e.g. South Africa's Automotive Production Development Programme) or sectors typical of early development that nonetheless provide important shares of national employment (e.g. Viet Nam's Development Plan of Garment and Textiles Industry).

Countries at earlier stages of development, in particular LDCs, tend to have a higher number of industry-specific programmes in their industrial policy packages, as well as initiatives that focus on segments of the economy that are key to their development, such as the Craft Industry Strategic Plan in Rwanda or the Micro, Small and Medium Enterprise Policy in Uganda (such initiatives are very common among lower-income countries). But even in these countries, modern industrial policy packages contain numerous initiatives to build horizontal productive capacity.

Most, if not all, elements of the overall industrial policy package have investment policy components. Many countries adopt explicit (foreign) investment strategies (e.g. China's Foreign Investment Industrial Guidance Catalogue, India's Consolidated FDI Policy, Kenya's National Investment Promotion Strategy). In others, foreign investment constitutes an important element of their industrial strategy (e.g. the recent industrial strategy of the United Kingdom specifically highlights the importance of attracting new FDI and shifting existing FDI towards higher value added activity). However, investment policy is not just a discrete package within the overall industrial policy framework. Rather, it permeates most strategies and measures that together constitute industrial policy. Investment policy can focus on the key supply-side factors of production, from the promotion of investment in infrastructure to policies stimulating business linkages between foreign investors and local SMEs to build skills and disseminate technology. It can target all policy levels, from incentives for individual firms to broad investment facilitation measures to support the industrial system. Measures to stimulate domestic demand, e.g. public procurement policies, are also closely linked to investment policy (especially where such policies discriminate against foreign investors). Finally, strategies to promote exports and increase participation or support upgrading in GVCs are an integral part of investment policy. (UNCTAD's IPFSD provides an overview of the multitude of policy areas and their links to investment policy.)

Differences in industrial policy design result in significant variation in investment policy and regulatory frameworks among countries. Investment policy is guided by industrial development strategies. Regulatory frameworks in many LDCs tend to focus largely on the protection of investors, to overcome structural deficiencies in attracting investment. As such measures are unable to distinguish between types of investments and their relative contribution to industrial development, such frameworks on their own are not sufficient. Emerging economies tend to have investment regulatory systems that have been

built on traditional models of industrial policies. Such investment regulatory frameworks are gradually being supplemented to include both a specific focus on particular sectors as well as more system-oriented horizontal policies. In addition, the policy framework requires the flexibility to address new and emerging issues as they become relevant. The wide range of resource endowments across countries results in diverse industrial policies, together with a recognition that changes in economic opportunities and technological conditions require more focused policy efforts to sustain competitiveness in global markets. Developed economies have long shunned selective investment policies and regulatory frameworks. With the return of industrial policy, they too are now looking to implement more selective investment regulations and screening mechanisms.

Both design and effective implementation also critically depend on institutional capacities. The way in which policy packages are designed depends on countries' institutional setting. A wide variety of government agencies, departments, development banks, R&D institutions, industry associations, chambers of commerce and other actors are involved. Countries at initial stages of development – especially LDCs, but also countries that have experienced de-industrialization, such as the United Kingdom and the United States – not only face the challenge of having to build or rebuild their industrial system. They also have to rebuild, at all levels of government, the institutional capacity to effectively support policy implementation (Andreoni, 2016). Governance is multilayered, with interventions at local, regional and national, or even supranational levels (e.g. European Union (EU) industrial policy). Such multilayered policy regimes by their nature run the risk of incoherence and of different levels undermining each other. Thus, even developed economies now need to focus on fostering and maintaining policy coherence, a priority which has long been associated mainly with low-income economies.

Investment authorities and IPAs are key implementation arms for industrial policy. Among the myriad institutions involved, IPAs are critically important. UNCTAD's annual survey of IPAs confirms that some two-thirds of them carry out their mandate on the basis of an overarching national industrial development strategy — 80 per cent in developing countries and 50 per cent in developed economies. These figures illustrate the significant role that an explicit national policy has in aligning institutions and promoting coherence and consistency in implementation. IPAs also wield some of the most effective industrial policy instruments. Survey results show the range of promotional tools at their disposal to support technological upgrading in industry, from general administrative facilitation to specific fiscal and financial incentives and special industrial zones.

The new industrial revolution (NIR), which is based on digital and advanced manufacturing supply-chain technologies, poses new challenges for the design of investment policies as part of industrial development strategies. The NIR is changing the investment planning processes of MNEs, with important implications for cross-border investment patterns. The NIR affects key decisions:

- *Whether to invest.* More firms are choosing to serve overseas markets through non-equity modes of operations and services trade rather than internal manufacturing capacity. Reverse investments and re-shoring are picking up. Also, new technologies such as M2M (machine-to-machine) communication and 3D printing could provide firms with significant flexibility to change the location of their operations more frequently than at present.
- *In what configuration.* New technologies are projected to lead to fundamental changes in international production networks; for example, from regional mass production hubs to distributed manufacturing.
- *Where to invest.* Locational decisions of MNEs are increasingly based on different criteria, with regard to both factors of production (e.g. from labour costs to skills,

and from physical to digital infrastructure) and the policy environment (e.g. from the protection of physical to intangible assets).

The NIR is also likely to affect investor behaviour in host countries, affecting the readiness of firms to engage in joint ventures, to share technology or data, to train local staff or to build supplier capacity, as well as the relative footlooseness of operations.

This has profound implications for the design of investment policies in the context of industrial development strategies, for both developed and developing economies. As investment determinants evolve, the competitive advantages of countries for the attraction of FDI change. Strategic investor targeting, and investment promotion and facilitation policy packages, need to take these changes into account. Investment restrictions and regulations need to keep pace with changes in investor behaviour and with the changing landscape of high-tech, advanced manufacturing and digital investors.

Investment policymakers in mature market economies are taking a closer look at investment regulations and restrictions that had not been part of policy consideration for decades under previous industrial development models. Emerging-market policymakers are increasingly looking at outward FDI policies as an integral part of industrial development strategies. Developing-economy policymakers are trying to assess the consequences of the diminished importance of low-cost labour and the increased weight of relatively sophisticated local supplier bases as selling points to attract foreign investment. The impact of the NIR is also relevant not only for countries that explicitly aim to support manufacturing industries; intelligent robots, for example, may equally affect foreign investment in the services sector, such as in call centres or back-office business processes, which have become significant economic growth pillars in numerous developing countries (UNCTAD, 2017d).

The NIR will not only bring challenges for industrial development in developing countries, it will also lead to new opportunities. Even though the current impact of the NIR in most developing countries is comparatively low, some could become early adopters and leapfrog to globally competitive levels with locally developed or adapted high-tech products and services. Distributed manufacturing for local and regional markets could lead to new opportunities to attract investment in product markets where they were previously importers. Reconfigured supply chains for advanced manufacturing could yield new opportunities to connect to GVCs. And, taking a macroeconomic perspective, a new wave of industrial development in emerging markets could give renewed impetus to dormant patterns of investment and industrialization flow, both through diffusion of new technologies and through lower-wage countries attracting industries that become uncompetitive in their higher-wage neighbours.

Industrial development strategies are taking on new themes, in which sustainable development plays a central role. Developing countries have further opportunities to use foreign investment to develop capacities in new industries or to exploit comparative advantages, e.g. for the generation of renewable energy (Rodrik, 2014). Sustainability is also becoming a major emphasis of the standards that are required for participation in GVCs. Greater emphasis on sustainable development objectives is now a part of countries strategies, owing to both local and international emphasis on these issues.

2. Recent industrial policy designs

Some 40 per cent of recently adopted industrial development strategies contain vertical policies for the build-up of specific industries. Just over a third focus on horizontal competitiveness-enhancing policies designed to catch up to the productivity frontier. And a quarter focus on positioning for the NIR. Among industrial policies, about 90 per cent

stipulate detailed investment policy tools, mainly fiscal incentives and SEZs, performance requirements, investment promotion and facilitation, and, increasingly, screening mechanisms.

To improve coordination among multiple policy packages and institutions, overarching national industrial policies are now common. As discussed above, the interdependent nature of industrial policy measures requires policy coordination and coherence, and alignment over time (Andreoni, 2016). Economies that adopted a top-down governance model for industrial development early on, such as those in East Asia, connected policy measures and initiatives with an overarching strategy to ensure coherence and to take effective action when high levels of investment were needed. Many other economies, notably developed ones, have tended to rely on a bottom-up model of governance, with industrial support measures taken at many different levels of government and in diverse institutions. However, multiple decentralized, initiative-based measures may lack coherence or may conflict or overlap. To counter this, many such economies have now defined national industrial policies as a coordination tool at national or regional levels, contributing to the mushrooming of new industrial policies.

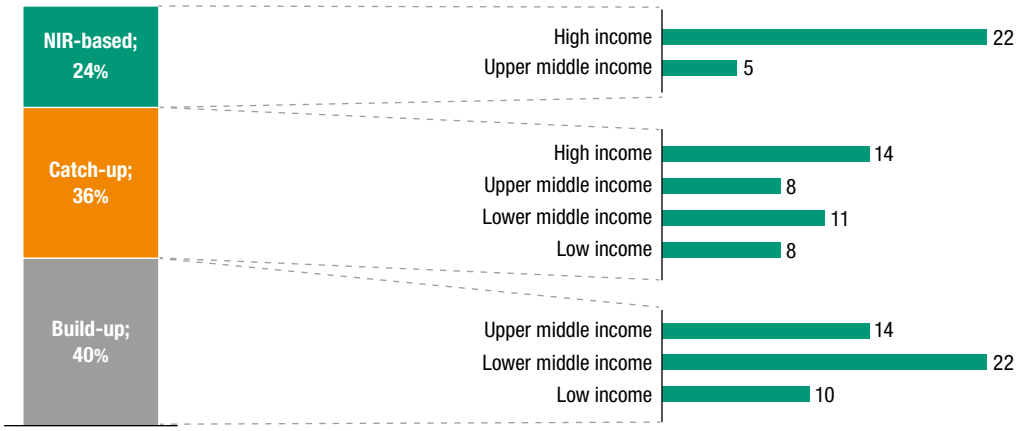
Overarching industrial policies take different forms. Some countries issue comprehensive formal strategies or even laws on industrial policy, with implementation schedules and legislative plans; in such cases, industry-specific laws and regulations can often be traced to the industrial strategy. Others issue statements on their industrial development strategy, at the national level or for specific industries, but with less clear paths to specific legislation or policy initiatives. Such strategies can be stand-alone or part of broader development strategies. Numerous countries formulate broadly scoped development plans addressing overall wealth creation, human development targets, social and cultural development goals, and other aspirations; industrial policy in such plans can be a means to an end, much like investment policy is an instrument of industrial policy.

UNCTAD has conducted a survey of recent industrial policies and industrial development strategies. The proliferation of overarching national policies makes it possible to collect a relatively homogenous (in terms of comparability) set of industrial development strategies. The survey considers only strategies that have been formally adopted by governments since 2008, with specific industrial development objectives, focusing on manufacturing industries, adjacent services sectors and enabling industrial infrastructure. It does not include issue-specific strategies (e.g. SME, entrepreneurship, digital development strategies), single-industry-specific strategies or strategies focusing on broad infrastructure services only – the focus is on overarching industrial policies. On the basis of these criteria, 114 formal policies are included, from 101 economies.[2]

The sample covers strategies from economies across all regions. It includes 30 strategies formulated by developed economies (including an EU-wide strategy), and 84 policies issued by developing and transition economies, including the 5 BRICS (Brazil, Russian Federation, India, China, South Africa) countries and 24 LDCs. More than three-quarters of the strategies in the sample were adopted in the past five years.

Some countries are covered by more than one industrial policy. These countries might have a national industrial policy focusing on advanced manufacturing and positioning for the NIR, but also maintain an industrial policy – usually preceding the NIR-based policy – to enhance general industrial competitiveness and boost specific manufacturing sectors. For example, Hungary has its Irinyi Plan for general industrial development as well as the Industry 4.0 National Technology Platform aimed at the NIR. Argentina has an industrial development plan as well as a technology and innovation plan. Some countries have integrated their industrial development plans in broader economic development strategies.

Figure IV.4. **Recent industrial policy models**
Share of sample (per cent), and number of strategies per country grouping



Source: UNCTAD.

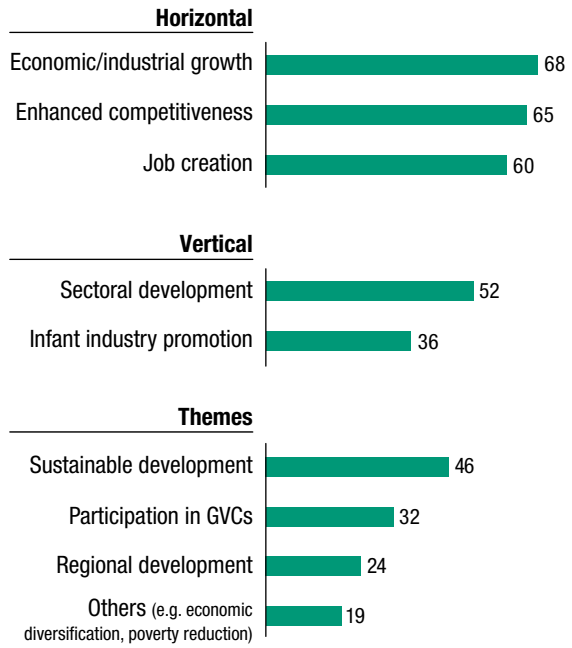
The surveyed policies can be grouped into three broadly defined categories. The vast majority of the surveyed strategies contain horizontal policies for broad-based industrial development, industrial capacity building, technology upgrading and skill building. None of them focuses exclusively on vertical, industry-specific development. About 40 per cent combine horizontal facilitation policies with measures to promote the *build-up* of specific industrial sectors – mostly focusing on natural-resource-based (processing) industries and light manufacturing. Just over a third focus mainly on horizontal policies, in some cases adding industry-specific *catch-up* objectives in higher-skill manufacturing industries (e.g. engineering industries). A quarter of the surveyed strategies – mostly in developed countries – specifically focus on advanced manufacturing industrial development, driven by the NIR (*NIR-based*).[3] Figure IV.4 divides the sample into policies that specifically aim to build up individual industries, those focusing on horizontal catch-up policies, and those driven by the NIR.

The three categories do not correspond to "industrial policy phases" as commonly discussed in the literature (Salazar et al., 2014). Instead, they capture the different kinds of aspirations embodied in industrial policy strategies and show some important overlap and distinctions among policies followed by countries at different levels of development. Purely vertical policies, aiming only at the build-up of specific industries through classical "infant-industry-type" industrial policy tools, are no longer common. In modern industrial policies, even such build-up policies are embedded in broader horizontal measures, and they rarely use primarily protective policy tools.

The three categories do, to some extent, correspond to stages of development, but they are not mutually exclusive. NIR-driven policies are clearly largely confined to high- and upper-middle-income countries. But these countries might also include catch-up elements in their industrial policy mix (as is the case, e.g., in the recent industrial strategy of the United Kingdom). The distribution by income group of catch-up and build-up policies is even less linear. A key reason is that a number of (upper-middle-income) emerging markets combine elaborate catch-up policies with separately issued build-up policies for specific industries. The distinction then is in the relative emphasis of vertical versus horizontal policies, and in the tools employed for implementation.

The stated goals of industrial policies are numerous (figure IV.5). They mostly share the objectives of enhancing competitiveness, creating jobs and generally promoting economic growth and development. About half the strategies aim to develop specific industries,

Figure IV.5. Stated objectives of industrial development strategies
Share of surveyed strategies (Per cent)



Source: UNCTAD.

including new or infant industries. Almost half emphasize sustainable development. Regional (subnational) development is pursued in about a quarter of cases, although national industrial policies may often be adapted for regions in separate strategies. One-fifth of the surveyed strategies mention other goals, such as economic diversification, poverty reduction or the protection of national security. For example, one strategy lists the goal of "ensuring the country's defence and state security", blurring the lines between economic development and security policies. Some strategies also mention gender issues (box IV.1).

Although many strategies do not contain specific implementation schedules or legislative plans, most identify a specific policy approach and the principal means to achieve industrial policy objectives. Most strategies set out horizontal measures to support technological upgrading, R&D and skill building. About 70 per cent of the strategies refer to export promotion tools. Classical industrial policy instruments also continue to be part of the toolbox of modern industrial policies; for example, 27 strategies refer to import substitution as a possible means for the development of domestic productive capacity. However, only 10 per cent of the strategies explicitly set out measures to protect the domestic market. In these cases, the strategies recognize the low level of domestic industrialization and the need to protect local companies at early stages of development. To achieve this goal, the strategies mention policy tools such as incubation support for nascent industries or temporary tariffs. It is significant to note that the few countries that have mentioned temporarily increasing tariffs recognize that doing so would entail relying on exceptions within their existing trade agreements, including under the World Trade Organization (WTO).

Most strategies specifically detail policy approaches to fund or attract the investment required for industrial development. More than 90 per cent set out public spending intentions in support of industrial development, to fund, e.g., industrial infrastructure, industrial zones or high-tech parks, or research or skills programmes.[4] Public-private partnerships (PPPs) – either purely for financing purposes, or to link public and private research or educational institutions – feature in more than two-thirds of recent industrial policies. PPPs are also used to stimulate activity in areas where the private sector alone may be reluctant to invest (e.g. where industrial policies aim to develop rural or remote areas, as envisaged in the strategies issued by India and Cambodia).

Almost 90 per cent of industrial policies stipulate measures to promote private investment in industrial activity or to stimulate investment in technological upgrading by private firms. About 60 per cent of industrial development strategies specifically aim to promote FDI (although only about 20 per cent refer to or contain specific measures to either liberalize or restrict FDI).

All strategies mentioned investment promotion measures most often as concrete implementation mechanisms. Many strategies include the introduction of investment incentives in the form of tax and tariff cuts or financial support through grants and loans in

Box IV.1. Gender issues in industrial development strategies

UN Sustainable Development Goal number 5 calls to end all forms of discrimination against all women and girls, and encourages countries to adopt and strengthen sound policies and enforceable legislation to promote gender equality and the empowerment of all women and girls at all levels. Among other objectives, it seeks to ensure women's full and effective participation in, and equal opportunities for, leadership at all levels of decision-making in political, economic and public life. Its objective is also to ensure that women have equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws.

In industrial policies, gender equality has not yet received the attention required. UNCTAD's research finds that just over a third of analysed industrial development strategies (39) refer to gender issues. Although such references are more common in general economic development strategies (71 per cent), very few specific industrial development strategies (23 per cent) and especially new industrial strategies (7 per cent) mention gender issues. However, even countries that do not include gender issues in their industrial policy have focused programmes to address gender issues. To the extent that industrial policies are increasingly incorporating social and sustainable development objectives, it would be suitable to include relevant aspects of gender issues within industrial policies themselves.

When strategies do address this issue, they mostly acknowledge the need to promote women's participation or mainstream gender issues in government policies. Some strategies do refer to concrete policy instruments, such as gender reviews and mainstreaming, awareness and training strategies for stakeholders, establishment of gender focal points, dedicated vocational and technical education, financial support for women entrepreneurs or prioritization of women entrepreneurs in funding programs.

Hardly any of the strategies go beyond promoting women's entrepreneurship or labour participation to include issues such as closing the salary gap between women and men or providing equal opportunities in terms of job promotion and leadership positions in businesses. This is also the case for other relevant issues, such as access to good-quality and affordable childcare facilities, facilitating part-time and flexible work arrangements or improving parental benefits for private sector employees.

By providing high-level and long-term direction to policymakers and legislators, industrial development strategies play a pivotal role in the promotion of gender equality and women's empowerment. Therefore, as a minimum, gender issues should be mainstreamed into all industrial policies, and ideally, they should provide concrete policy guidance on how to improve the position of women in industries.

Source: UNCTAD review of industrial policies and United Nations, Sustainable Development Knowledge Platform, accessible at https://sustainabledevelopment.un.org.

target sectors. Also included are measures to facilitate investment, for instance by reducing red tape or by providing necessary information through one-stop shops. Special economic zones, clusters, incubators and technology parks are other policy tools commonly found in industrial strategies.

Other investment policy tools, in particular FDI restrictions or (mandatory) performance requirements, are less commonly used in recent industrial policies, and hardly used in NIR strategies.

Investment promotion tools are heavily used in modern industrial policy across all models. NIR-based industrial development strategies almost exclusively use investment promotion tools (table IV.3). Build-up strategies rely relatively more on FDI restrictions and performance requirements, as well as investment facilitation. Almost 90 per cent (at least 101 strategies) cover more than one investment policy instrument.

Table IV.3. Investment policy tools in industrial development strategies, by type (Per cent of sample)

Industrial policy model	Incentives	Special zones/ incubators	Investment facilitation	Entry and establishment		Performance requirements
				Liberalization	Restriction	
Build-up	87	85	85	20	7	30
Catch-up	93	76	88	17	2	5
NIR-based	100	74	48	4	0	4

Source: UNCTAD.

Table IV.4 Investment policy tools in industrial development strategies, by economic grouping
(Per cent of sample)

Economic grouping	Incentives	Special zones/ incubators	Investment facilitation	Entry and establishment		Performance requirements
				Liberalization	Restriction	
Developed economies	97	83	67	3	0	3
Developing economies	92	78	82	18	5	20
LDCs	96	92	88	17	8	25

Source: UNCTAD.

Looking at country groupings, most promotion tools are used practically to the same extent across all countries. Investment facilitation tools are used relatively less commonly in developed countries. FDI-specific liberalization and restriction measures are used relatively more commonly in developing countries and LDCs (table IV.4). This is because most mature markets are already mostly open to foreign investment, and certainly to investment in the manufacturing sector. (The recent introduction of new screening measures does not feature in national industrial policy statements.) Performance requirements are largely confined to LDCs, which have more flexibility in their use (due to exceptions in WTO rules). They do occur also in other developing countries, linked to incentives.

More than half of the strategies (60 per cent) call for international industrial cooperation, with a focus on science and technology cooperation, the development of common technical standards and cross-border infrastructure links, as well as the promotion of bilateral and regional investments through the conclusion of IIAs. For example, these strategies recognize the potential benefits of cooperation and collaboration in regional industrial development through regional integration initiatives, intend to position the country as a regional platform for knowledge sharing and innovation, or announce that the country will develop strategic technologies jointly with other countries. Such collaboration becomes important even in the context of GVCs, where collaborative efforts are needed in regulatory regimes and in learning from successful cases.

3. Basic models and stages of development

Build-up, catch-up and NIR-based strategies are all modern versions of industrial policy, appropriate for sequential stages of development. They are not discrete models; all build-up policies contain horizontal competitiveness-enhancing measures, catch-up models promote innovation and the adoption of new technologies, and NIR-based models use build-up mechanisms for new industries. Investment policy packages across the three models use similar instruments, with different focus and intensity.

As shown in the previous section, industrial policies are a complex package of strategies and measures, and any approach to labelling industrial policy models runs the risk of oversimplification. In modern industrial policy development, countries tend to take a pragmatic approach, using a strategic blend of measures that mix import substitution with export promotion (so-called dual-track approaches), and industry-specific support measures with horizontal business facilitation and capacity-building elements. Nevertheless, the empirical evidence presented in the previous section shows that it is still possible to identify broad categories of industrial policies, on the basis of a few fundamental criteria (table IV.5). These criteria mostly revolve around the degree of sector specificity of policies (with build-up strategies containing more vertical policies); the degree of government

Table IV.5. Key dimensions defining industrial policy models

Key dimension	Industrial policy model		
	Build-up	**Catch-up**	**NIR-based**
Degree of sector specificity	Mostly vertical (industry-specific)	Mostly horizontal, combined with objectives for multiple industries	Mostly horizontal, with new industry-specific elements
Degree of intervention	Relatively more government-led	More market-led, focused on enablers	Mixed, with protection and support for new industries, and PPPs
Degree of openness to external competition	Selective and gradual opening to competition	Focus on external competitiveness	Mostly open, with safeguards for strategic technologies
Degree of export orientation	Domestic and regional demand driven	Export oriented, GVC integration	Mixed

Source: UNCTAD.

intervention (although all industrial policies are a form of government intervention in economic development, some catch-up and NIR-based forms are relatively more market-led); the degree of openness to external competition (with build-up and, paradoxically, NIR-based strategies taking a more careful approach to external market forces); and the degree of export orientation (with build-up strategies relying relatively more on production for domestic and regional markets).

The three types can be further distinguished by their main focus. Build-up strategies tend to put more emphasis on the improvement of physical infrastructure, roads, ports, airports, power and telecommunication infrastructure as an integral part of industrial policy. In addition to focusing on the build-up of a number of specific industrial sectors, they often push enterprise development and aim to improve access to finance for micro, small and medium-sized enterprises (MSMEs). Catch-up strategies put relatively more emphasis on skills development, SME support and promotion of linkages, export promotion, and strategic public procurement as a tool to promote domestic enterprise development. NIR-based strategies emphasize the strengthening of industrial eco-systems, with innovation-driven PPPs, R&D institutions and soft infrastructure common elements.

An additional taxonomic criterion could be the governance model and the degree of comprehensiveness and detail of industrial development strategies. Numerous strategies adopt a broad top-down approach, covering all aspects of industrial development and setting explicit development targets as well as lines of action for how these targets should be achieved (e.g. those of East Asian economies, as well as Brazil, India and South Africa). Catch-up and NIR-based models rely more on several measures and programs each targeting a specific component of the competitive strength of the country (e.g. those of the United States). The national industrial development strategy in the latter case fulfils a coordinating role between multitudes of bottom-up initiatives.

C. INVESTMENT POLICY PACKAGES

1. Industrial policy as the key driver of investment policy practice

More than 80 per cent of investment policy measures recorded since 2010 are directed at the industrial system (manufacturing, complementary services and industrial infrastructure) and about half of these clearly serve an industrial policy purpose. Most are cross-industry; about 10 per cent target specific manufacturing industries. In line with industrial policy models, the most frequent measures relate to incentives and performance requirements, SEZs, investment facilitation and investor targeting, and screening and monitoring procedures.

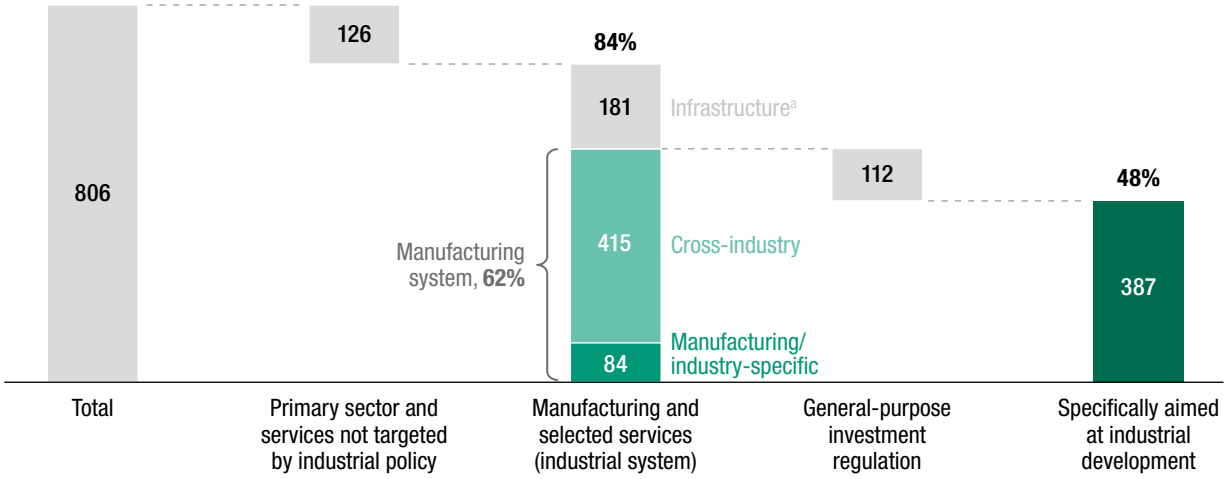
Industrial development strategies are often formulated with general fiscal or financial support programmes. Such support, e.g. in the form of investment incentives, is usually subject to requirements related to development in certain industries or regions, or linked to specific development goals, such as export promotion, job creation, technology transfer and upgrading. Incentives and subsidies are also used to help developing industries where as yet there is no sufficiently large market (e.g. renewables).

Industrial policies and their general support programmes interact closely with (foreign) investment policies. Industrial policies can give direction to investment policymakers on the use of foreign investment for industrial development. Vice versa, investment policies provide governments with an important set of regulatory instruments for the development of individual industries, the integration of domestic industries into GVCs and the general technological upgrading of the domestic industrial base. The overall objective of both industrial and investment policies, working synergistically, is to enhance sustainable development (see UNCTAD's Investment Policy Framework for Sustainable Development).

Among the most important investment policy tools that countries use for industrial policy are incentives and performance requirements (mandatory requirements or voluntary requirements linked to investment incentives), SEZs, investment facilitation and investor targeting, as well as FDI entry rules and screening procedures. Other investment policy instruments, in particular investment protection and dispute settlement rules (often regulated by national investment laws) do not directly serve industrial policies but can affect them indirectly. Such indirect impacts can consist of promoting investment flows, but also reducing the regulatory space of host countries.

Examining the range of investment policy tools for industrial development purposes applied in practice confirms the importance of these instruments. Of 806 investment policy measures recorded in UNCTAD's database since 2010, about 84 per cent of measures (680) apply to the manufacturing sector and to adjacent services and infrastructure industries relevant for industrial policy. Among these, about three-quarters (499) were investment policy measures for the manufacturing sector (either alone or in combination with other sectors). Of these, 387 policy measures clearly serve industrial policy purposes; the remainder concern updates of investment laws, transparency provisions or other general regulatory measures (figure IV.6).

Figure IV.6. **Investment policy measures for industrial policy purposes, 2010–2017** (Number and per cent of total)



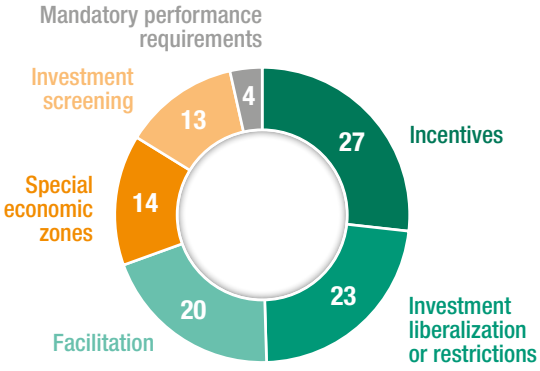
Source: UNCTAD, Investment Policy Monitor database, accessible at http://investmentpolicyhub.unctad.org.
[a] Physical and basic infrastructure industries, finance, construction.

Among the investment policy measures serving industrial policy purposes, more than one-fourth dealt with investment incentives (27 per cent), followed by FDI liberalization and/or restriction (23 per cent) and investment facilitation (20 per cent). Investment screening in strategic industries or for national security reasons as well as mandatory performance requirements accounted for 13 per cent and 4 per cent respectively (figure IV.7).

By region or economic grouping, Africa (65 per cent), North America (56 per cent) and developing Asia (51 per cent) were most active in introducing investment policy measures for the manufacturing sector. The ratio was relatively lower in Latin America and the Caribbean and in Europe. In terms of numbers of investment policy measures, developing Asia and Africa also have the highest shares (figure IV.8).

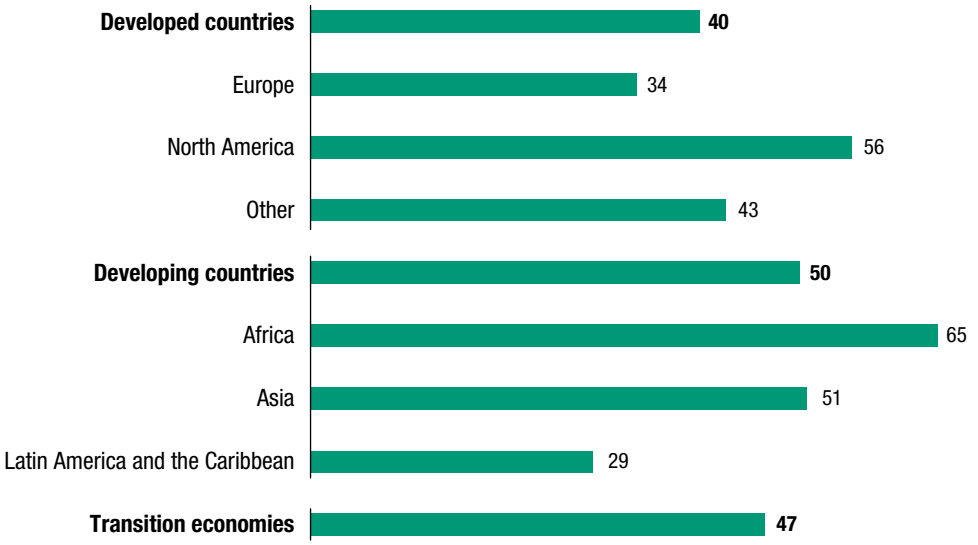
Industrial policy may also be pursued through selective FDI restrictions and screening procedures. In the past, restrictive FDI policy has been applied mainly to promote infant industries or for sociocultural reasons (e.g. land ownership restrictions). Nowadays, this relatively narrow policy scope has given way to a broader approach, under which numerous countries have strengthened their FDI-related policy instruments, in particular with regard to approval and screening procedures, and the beneficiaries of government protection also include national champions, strategic enterprises and critical infrastructure. Moreover, governments may see a need to protect ailing domestic industries and companies in times of financial crisis or to discourage or restrict outward foreign investment in order to keep employment at home. Increasingly, industrial policy considerations used to justify FDI

Figure IV.7. **Investment policy measures for industrial policy purposes, by type, 2010–2017** (Per cent of total, n = 387)



Source: UNCTAD, Investment Policy Monitor database, accessible at http://investmentpolicyhub.unctad.org.
Note: Some policy measures are categorized under more than one type.

Figure IV.8. **Investment policy measures for industrial policy purposes, by region**
(Share of total investment policy measures undertaken in the region, n = 387)



Source: UNCTAD, Investment Policy Monitor database, accessible at http://investmentpolicyhub.unctad.org.

restrictions have become blurred with other policies to protect national security, thus further enlarging the scope of State intervention relative to foreign investors. In this context, the role of instruments that reduce risks for FDI and provide greater stability becomes an important aspect of investment policy.

2. Investment policy as an instrument for industrial development – the evidence

As observed previously, all three basic models of industrial development strategies – build-up, catch-up and NIR-based strategies – use similar broad categories of investment policy instruments such as incentives or special zones. The main differences across these models, as well as across countries with different levels of development, lie in different emphases and at a more granular level. Incentives can target different priority sectors; they can take different forms; and they can be combined with different performance requirements. Similarly, SEZs can focus on general industrial activity development for employment generation or be specifically targeted at GVC participation or high-tech sectors. And FDI entry limitations and screening procedures may apply to different industries and have different degrees of intensity.

In addition, the key investment policy instruments for industrial policy are part of a broader investment policy remit that comprises initiatives and activities that are less easily categorized, mostly because they often do not translate into laws or policy measures – such as the aftercare activities of IPAs, business linkages programmes, skill-building programmes involving MNEs and suppliers, or research partnerships bringing together public institutions and firms. These broader policies play a central role in industrial upgrading and structural transformation.

The focus in this section is on the four key areas singled out in industrial policy packages as the most frequently used instruments, in order to identify current practices and key challenges in the context of new industrial policy themes.

a. Incentives and performance requirements

Incentives remain the most commonly used tool for industrial policy. Significant progress has been made in making incentives more effective instruments for industrial development. Two-thirds of incentives schemes apply to manufacturing sectors, and even horizontal schemes tend to focus on specific activities, such as R&D, or other industrial development contributions. Performance requirements (mostly conditions attached to incentives) are also widely used to maximize MNE contributions to industrial development, but much of their functionality could be achieved by better-designed, cost-based incentive mechanisms.

Investment incentives are a key instrument of industrial policy used in almost every policy package and at every stage of industrial development. They are common in developed countries, where incentives packages have at times been custom-designed for specific investment projects, often in competition with neighbouring locations (including among EU countries or between states in the United States). Their use is widespread in developing countries; three-quarters of developing economies use fiscal incentives such as tax holidays, preferential tax rates or tax allowances (World Bank, 2017).

New incentives schemes continue to be introduced, and existing schemes often become increasingly generous. Almost half of all countries introduced new tax incentives or increased existing ones in at least one sector in the five-year period to 2016 (World Bank, 2017). Fewer than a quarter abolished tax incentives or made them less generous in at least one sector over the same period. The strongest growth in incentives was in sub-Saharan Africa, where 65 per cent of countries introduced new or more generous incentives.

Traditionally, many incentives schemes are not specifically aimed at sectors relevant to industrial policy, but recent practice is more targeted. One of the main concerns with incentives is that they are often redundant. Tax incentives are clearly more effective in attracting efficiency-seeking investors looking for locations with the lowest production costs. Yet many developing countries still offer incentives indiscriminately, including to market- and resource-seeking FDI. Some 40 per cent of developing countries have incentive systems that grant fiscal incentives or low corporate income tax rates across all or most sectors of the economy (World Bank, 2017).

However, the manufacturing sector and adjacent services sector, owing to their high propensity to generate employment and exports and to contribute to industrial development, do attract significantly more incentives than other sectors. Signs of increasingly targeted incentives are also evident in recently adopted schemes, which often focus on innovative, pioneering or strategic industries (box IV.2).

A survey of recent Trade Policy Reviews indicates that investment incentives benefiting the manufacturing sector cover three types of schemes: horizontal, sector-specific and

Box IV.2. Policy examples: investment incentives

In 2013, *Canada* launched the Technology Demonstration Programme, which will provide non-repayable contributions of up to 50 per cent of eligible project costs for large-scale technology demonstration projects in the aerospace, defence, space and security sectors.

The Sudan ratified the National Investment Encouragement Act 2013, which offers tax and customs privileges in strategic industries.

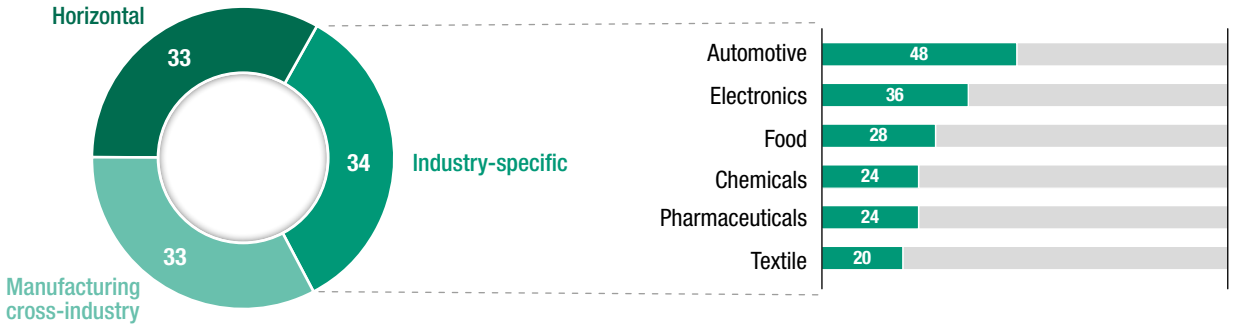
In 2017, *Nigeria* published a list of 27 industries newly eligible to enjoy the Pioneer Status incentive.

In 2016, *Singapore* amended its Economic Expansion Incentives Act to support "pioneering" activities.

In 2016, *Turkey* introduced an extensive support package for R&D and innovation-related activities.

Source: UNCTAD, Investment Policy Monitor database, accessible at http://investmentpolicyhub.unctad.org.

Figure IV.9. Investment incentives benefitting the manufacturing sector, by type and by industry (Per cent)



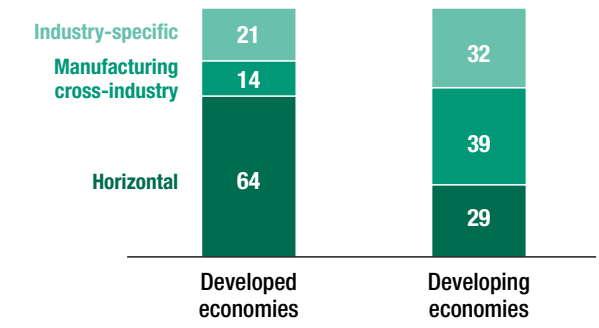
Source: UNCTAD, based on WTO Trade Policy Reviews conducted since 1 January 2015, plus complementary research to cover EU member States and non-WTO members.

industry-specific. Horizontal schemes cover all sectors, but they are typically directed towards specific activities deemed critical for industrial development, such as R&D, and therefore not necessarily applied indiscriminately. Sector-specific schemes focus on the manufacturing sector as a whole. Industry-specific schemes are limited to enterprises in one or more manufacturing industries. In such schemes the automotive industry was the industry most commonly targeted, followed by electronics and food (figure IV.9). Such schemes are significantly more common in developing countries, consistent with their use in build-up industrial policy models (figure IV.10). In the industries most targeted by incentives, corporate income tax reductions, financial grants and customs duty reductions are the most common tools.

Although financial incentives are used for priority sectors, fiscal incentives account for the bulk. In 80 selected schemes benefiting the manufacturing sector across 50 countries, fiscal incentives accounted for more than half of all incentives, with corporate income tax breaks alone representing 26 per cent. Customs duty reductions or exemptions, at 20 per cent of the total, are also important (figure IV.11).

Despite the progress towards more efficient and effective incentive schemes, significant problems remain. These include administrative and governance issues, such as lack of transparency, cumbersome procedures and high costs. The importance of independent governance of incentives schemes based on predetermined and transparent criteria is well documented and set out in detail in UNCTAD's IPFSD.

Figure IV.10. Investment incentives, by country grouping (Per cent)



Source: UNCTAD, based on WTO Trade Policy Reviews.

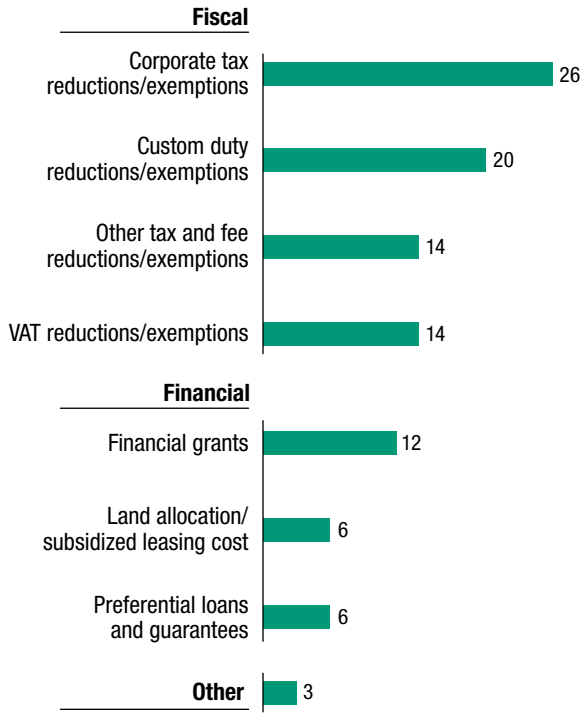
The effectiveness of incentives schemes also depends on the overall investment climate in a country. Fiscal incentives cannot compensate for infrastructure deficiencies or major shortcomings in the general investment climate. They are effective only when part of a broader approach to address investment climate constraints. Efficiency-seeking FDI is particularly sensitive to the quality of the investment climate and especially to transport costs, and it is prone to clustering in the most competitive locations.

Besides targeting, the design of incentive schemes is of critical importance for industrial policy. To date, tax holidays and preferential rates —

i.e. profit-based incentives — remain the most widely used instruments in developing countries. More than half of developing countries offer tax holidays in at least one sector (World Bank, 2017). The duration of tax holidays is on average 10 years, but they often get extended, too often automatically or without critical review. Preferential rates for specific sectors or investors are also common, with 40 per cent of countries offering them for at least one sector (World Bank, 2017). Far fewer countries use tax allowances or credits that grant investors the right to deduct investment expenses from taxable income or credit them against payable taxes, even though this type of incentive is much more effective, because "cashing in" the incentive depends on making specific investments, such as R&D or the purchase and installation of new machinery or technology.

With profit-based incentives, host countries can lose substantial revenue when firms become highly profitable. The risk of tax avoidance is also higher for profit-based incentives, because firms can artificially allocate profits within the firm to an affiliate that enjoys preferential tax treatment (*WIR15*). The widespread use of these incentive instruments in developing countries is a significant shortcoming in the design of tax incentives. Cost-based instruments are more effective for industrial policy purposes because they lower the cost of a specific production factor and because it is proportional to the size of the investment.

Figure IV.11. Investment incentives, by type
(Per cent)



Source: UNCTAD, based on WTO Trade Policy Reviews.

Incentives and performance requirements are closely linked. **In most cases, performance requirements are a condition to qualify for investment incentives.** Performance requirements that are imposed independent of incentives (so called mandatory performance requirements) make up only about 4 per cent of recently adopted investment policy measures applicable to individual industries. Most aim to safeguard local producers. Countries tend to relax mandatory performance requirements as the capabilities of domestic industries improve (box IV.3).

Box IV.3. Policy examples: mandatory and voluntary performance requirements

Mandatory

In 2017, *Indonesia* increased the minimum local content requirement for domestically produced 4G smartphones sold in the Indonesian market from 20 per cent to 30 per cent.

Voluntary

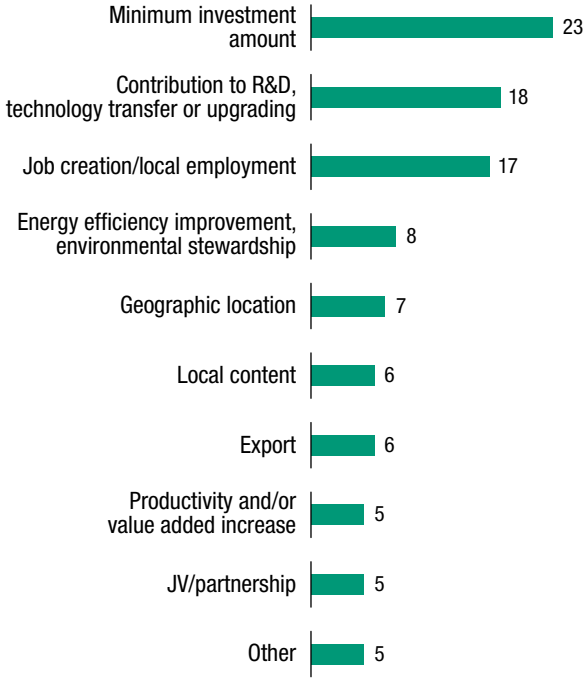
In 2015, *Angola* adopted Law No. 14/15, introducing performance requirements such as job creation, local partnerships and export activities for certain tax incentives.

In 2016, *Namibia* adopted the new Investment Act. Among other elements, the Act introduced the concept of performance agreements if deemed appropriate, on which the minister may sign an agreement with an investor.

In 2017, *Egypt* adopted the Investment Law with performance requirements including labour-intensive projects and geographical location for certain investment incentives.

Source: UNCTAD, Investment Policy Monitor database, accessible at http://investmentpolicyhub.unctad.org.

Figure IV.12. Performance requirements linked to investment incentives in the manufacturing sector (Per cent)



Source: UNCTAD, based on WTO Trade Policy Reviews.

Performance requirements linked to incentives are almost as common as incentives themselves. Full tax holidays are almost always granted on condition of location requirements; about 80 per cent of developing countries link such incentives to SEZ locations or requirements to establish in a designated region of the country (World Bank, 2017). Numerous developing countries have a myriad of other requirements in place. Common objectives for imposing performance requirements include the strengthening of the industrial base and increasing of domestic value added; generation of employment opportunities; linkage promotion; export generation and performance; trade balancing; regional development promotion; and technology transfer.

UNCTAD's survey of recent Trade Policy Reviews confirms that about 80 per cent of incentives schemes use performance requirements. In manufacturing, the most frequent requirement linked to incentives is a minimum capital investment (23 per cent of cases), followed by contributions to R&D and technological innovation (18 per cent), and local job creation and employment (17 per cent) (figure IV.12).

The most common types of performance requirements attached to incentives – in particular minimum investment requirements, but also other types that can be considered an expense for firms, such as R&D or training – would effectively become largely redundant if the design of the incentives programmes to which they are attached would move more in the direction of cost-based schemes, rather than profit-based schemes.

R&D requirements are still widely used – 59 per cent of IPAs responding to UNCTAD's annual survey indicate that they use R&D performance requirements linked to incentives – but they are gradually becoming rarer in developing countries (Moran, 2015). That is because countries increasingly recognize that firms are unlikely to set up R&D activities in the absence of local capabilities and technical skills to absorb, adapt and develop technology and know-how. In comparison with the availability and quality of appropriately skilled labour, the provision of fiscal or financial incentives is of limited relevance for R&D investments.

Similarly, technology transfer requirements are also becoming less common. The main reason is that enforcing and monitoring such requirements is exceedingly difficult. It is hard to measure objectively the extent of technology transfer and to identify the types of technology that would be most appropriate for a given economy at a given point in time. Furthermore, as in the case of the establishment of R&D activities in a host country, successful technology transfer is dependent upon local absorptive capacity.

Job creation targets are common, especially in the case of incentives that are custom-designed for specific investment projects. In addition, incentives might come with training requirements to induce firms to engage more actively in human resource development activities or to encourage the expansion of skill-intensive functions. However, the extent to which requirements in this area are effective depends on the value they create for the investors. The more companies themselves need enhanced skills in their workforce (or in suppliers and distributors), the more receptive they will be.

Box IV.4. Performance requirements potentially conditioned by IIAs

- Local content requirements
- Trade-balancing requirements
- Requirements to establish a joint venture with domestic participation
- Requirements for a minimum level of domestic equity participation
- Requirements to locate headquarters for a specific region
- Employment requirements
- Export requirements
- Restrictions on sales of goods or services in the territory where they are produced or provided
- Requirements to supply goods produced or services provided to specific region exclusively from a given territory
- Requirements to act as the sole supplier of goods produced or services provided
- Requirements to transfer technology, production processes or other proprietary knowledge
- Research and development requirements

Source: Adapted from UNCTAD (2003).

Local content requirements and export requirements are less common, mainly because such requirements in most countries risk conflict with WTO rules, in particular with the TRIMs agreement. However, World Bank findings suggest that 30 per cent of countries have them in place, and the WTO has observed an upward trend in their use. In some instances, this is due to industrial development strategies. For example, Ghana's industrial policy states that it will enact a local content law to support SME development. Kenya's industrial policy also announces local content requirements, including for its steel industry.

Joint-venture requirements (i.e. foreign ownership ceilings) are common in many countries, but they are rare in manufacturing and adjacent services industries. They are still numerous (in both developed and developing countries) in strategic resource sectors and sectors with a public service responsibility. In manufacturing industries, they have been used in the past, mainly to promote more rapid transfer of know-how and technology. However, in many countries, it has proven difficult to effectively implement domestic equity requirements in FDI projects, especially where host-country governments are in a relatively weak bargaining position – often the case in efficiency-seeking manufacturing projects that have a choice of locations. Countries that have small domestic markets or that are part of a common market where alternative sites and tariff-free access are available are in a weak position to implement domestic equity requirements effectively, and these requirements have in many cases been found to adversely affect the quality of technology transfer (leading to the use of older technologies) (Moran, 2015).

The range of existing performance requirements indicates that there is still room for them in industrial policies, especially when they are imposed as a condition for incentives. However, international commitments, in particular IIAs, can limit various types of performance requirements (box IV.4).

b. Special economic zones

SEZs continue to diversify. In most countries, the transition from pure export processing zones to value added zones is complete or well advanced, but new types of zones are still emerging. Targeted strategies to attract specific industries and link multiple zones

have supported industrial development and GVC integration in some countries that have adopted build-up and catch-up industrial policies, although enclave risks remain. High-tech zones and industrial parks are also becoming a key tool for NIR-driven industrial policies.

Special economic zones (SEZs) are an important instrument of industrial development in many countries. Many governments have created them to attract foreign investment, integrate local firms into GVCs, promote export-oriented growth and generate employment. They are widely deployed to kick-start industrial sectors and to promote technology transfer to local economies.

SEZs are geographic areas where the rules of business are different. In general, the business environment in an SEZ is more liberal from a policy perspective and more effective from an administrative perspective than in the rest of the country. These zones usually offer fiscal incentives, infrastructure and services, streamlined business registration and customs procedures, facilitated processing of labour and immigration permits, and other investment facilitation services.

Since the 1970s, most zones have been created in developing countries. In 1986, the International Labour Organization's database of SEZs listed 176 in 47 countries; in 1995, there were an estimated 500; by 2006, the number had grown to 3,500 in 130 countries. There are now estimates of over 4,500 SEZs worldwide, and they are still front of mind for investment policymakers (UNCTAD, 2015a). Numerous recent investment policy measures relate to SEZs, including the establishment of new zones or the modification of incentives schemes linked to existing ones (box IV.5).

Today, economies with the highest levels of zone-based exports tend to be developing countries, including China, Egypt, Indonesia and the Philippines. Although zones in developed countries, such as those in Ireland, New Zealand and the United States, are among the largest in terms of export quantity, developing economies have a much higher dependency on zones for their exports, on average.

SEZs have often played a catalytic role in supporting structural transformation in developing countries. In East Asia, China used SEZs as platforms to support the development of export-oriented manufacturing. In Latin America and the Caribbean, the Dominican Republic, El Salvador and Honduras used export processing zones (EPZs) to take advantage of preferential access to the United States market. These zones generated large-scale manufacturing sectors in economies previously dependent on agricultural commodities. In West Asia and North Africa, SEZs played an important role in promoting diversification in Egypt, Morocco and the United Arab Emirates, among others. Although most countries in

Box IV.5. Policy examples: special economic zones

In 2012, *Armenia* approved the establishment of its first free economic zone (FEZ) for high-tech industries such as electronics, engineering, biotechnology and information technologies. FEZ occupants can enjoy preferential treatment on corporate profit tax, VAT, property tax and customs duties.

In 2012, *Uzbekistan* issued a Decree establishing a special industrial zone called "Angren" to attract foreign and domestic investors in modern high-tech enterprises and produce internationally competitive goods with high value added.

In 2013, *Ethiopia* put into effect the "Bole Lemi Industrial Zone" Directive. It was designed to help companies such as agro-processors, pharmaceutical makers and textile manufacturers produce and sell value added goods and boost revenue from exports.

In 2014, *Mozambique* approved the Mocuba Special Economic Zone in the Lugela District, which focuses on establishing agro-processing industries.

Source: UNCTAD, Investment Policy Monitor database, accessible at http://investmentpolicyhub.unctad.org.

sub-Saharan Africa did not operationalize SEZ programmes until the 1990s or 2000s, today the majority have active SEZs, most of which function as traditional EPZs and industrial parks (World Bank, 2017).

There are many types of SEZs, and they continue to evolve. SEZs take different forms depending on the industrial structure of the country, the institutional environment and the broad policy objectives they aim to achieve (Farole and Akinci, 2011). For example, SEZs can serve to alleviate high levels of unemployment; the SEZs of Tunisia and the Dominican Republic are examples of programmes that were implemented first and foremost to create jobs. SEZs can be used as part of broader economic reform strategies, in particular for the development and diversification of exports, while keeping protective barriers in place; examples include SEZs in China, the Republic of Korea and Mauritius. SEZs can also function as laboratories for experimentation with new policies and approaches, such as China's largest SEZs, where FDI, legal, land and labour policies were tested before being extended to the rest of the economy.

SEZs are often general-purpose zones, attracting investors in a wide range of manufacturing and services industries. Some countries have developed SEZs that are specialized in specific industries or activities reflecting economic strengths (e.g. zones for IT and business process outsourcing in the Philippines). High-tech, aerospace and biotech parks, as well as digital incubator zones, are being developed in many countries to create a competitive advantage in new industries. High-tech zones such as the Electronic City in Bangalore, India, or renewables zones such as Masdar City in Abu Dhabi, can be used to pursue specific innovation objectives. Export generation is no longer the only feature of many SEZs, and numerous new forms have been developed around the world for specific purposes (table IV.6).

SEZs typically offer a suite of infrastructure and services to firms operating in the zone. They often facilitate rapid transfer of goods at lower costs, offering shipping ports, roads or direct linkages to airports. Key infrastructure includes stable power and water supplies, which can be a challenge to maintain in many developing countries. They often provide telephone and fibre-optic or internet connectivity. In addition to these infrastructure benefits, many offer management assistance to companies operating within the zone, such as for business licensing application or tax filing procedures (figure IV.13). Some provide assistance with labour-related issues, e.g. through an on-site labour and human resources bureau that helps resolve labour disputes, or with (environmental) compliance issues.

However, despite the range of services on offer, few zones to date offer specific services to help investors within the zone meet sustainability targets. Sustainable development-oriented services can consist of policies, infrastructure and administrative support provided to companies to assist with and promote improved social and environmental practices, such as responsible labour practices, environmental standards, worker health and safety, good governance. A 2015 UNCTAD survey of zones found that such services are not widely promoted or available. It did find a handful of leading examples that offer services across multiple areas of sustainable development (UNCTAD, 2015a).

The contribution of SEZs to industrial development can be significant, especially where they foster the creation of clusters. An industrial cluster is a group of interconnected firms and institutions, often located near each other. Clusters frequently include educational and research institutions, finance providers and government agencies. Both developed and developing countries use clusters to promote industrial development; they can be a mechanism to induce firms to join efforts and resources to work with a government to improve international competitiveness.

Table IV.6. Types of special economic zones

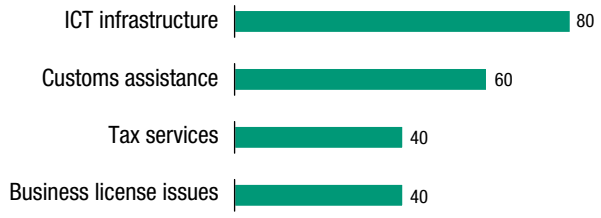
Selected economic zone	Description
Industrial zone or industrial estate	Facility promoting colocation and clustering of industrial activity through the provision of low-cost land, infrastructure and on-site services. Usually cover industrial and services sectors and target both foreign and domestic investors, providing an array of incentives and facilities.
Export processing zone (EPZ)	A specialized industrial estate located outside the customs territory and predominantly oriented to export production. Enterprises located there are allowed to import capital equipment and raw materials free from duties, taxes and other import restrictions.
Free zone, e.g. free industrial zone (FIZ), free trade zone (FTZ)	A designated and secured area in which commercial and industrial activities are carried out. Investment projects often benefit from incentives and are usually for export purposes. Customs checkpoints control the movement of goods at the entry and exit points. Zones can also cover commercial, trading and entrepôt trade activities. Many are located near a port.
Science and technology park	Facility or area that supports and promotes technological development, including through research and attracting technology-based companies. The purpose is to facilitate innovation and knowledge-based economies. Such parks provide an environment and ecosystem (e.g. proximity to research institutes, universities) conducive to innovation, knowledge-based work, and research and development activities.
Special pilot zone	Designed to experiment with economic reform measures and provide demonstrative effects.
Border special economic zone	An SEZ located in an area bordering neighbouring countries to facilitate investment, trade, services and production linkages.
Regional economic corridor	Large economic area involving a number of contiguous States or provinces. Their development draws on the sectoral and geographical strengths of the constituent areas to support economic clusters and benefit from economies of scale.

Source: Adapted from ASEAN Secretariat and UNCTAD, 2017.

Clusters are considered particularly important in NIR-driven industrial development strategies because they can foster innovation. Clustering offers opportunities for firms to take advantage of links between the economy's knowledge sector and its business sector. Such linkages have the potential to stimulate learning and innovation. Innovative clusters can operate in any industry; they are not confined to high-tech industries.

Facilitating the formation, growth or scale-up of industrial clusters is complex. Many efforts have failed, especially in countries with lower implementation capacities. Clusters in developing countries are initially formed mostly by chance or through market forces. Because governments have more control over the building and management of SEZs, zones can be a key policy tool to proactively influence the process of building clusters. Examples of SEZs that have been successfully used for cluster development include zones focusing on automotive and electronics industries in South-East Asia, where firms located in these zones produce for major SEZ anchor companies in the same or in nearby zones (supply linkages between zones are also common) (ASEAN Secretariat and UNCTAD, 2017).

Figure IV.13. Traditional business features provided by SEZs (Number of SEZs)



Source: UNCTAD review of public information on 100 SEZs.
Note: Figure lists only business services and excludes other SEZ benefits, such as incentives.

Not all SEZs are successful, and there are many challenges. Despite the advantages of SEZs and clear success cases such as in China, SEZs have a mixed record. Investments in zone infrastructure have in many cases resulted in zones that cost more to maintain than the benefit they bring to the economy is worth. SEZs can become zones where investors take advantage of tax breaks without delivering substantial employment or export earnings. Many zones have failed to extend benefits outside their enclaves or to contribute to upgrading domestic skills and the production base. Many traditional EPZs have been successful in attracting investment and creating employment in the short term but became uncompetitive when wages started to rise or when trade preferences disappeared. In general, because SEZs are a form of preferential treatment for specific firms or sectors, they can be seen as market distorting and a second-best solution compared with policies that promote competitiveness in the wider economy.

Common obstacles to zone success are poor site locations, requiring heavy capital expenditures; anti-competitive policies (e.g. excessive reliance on tax holidays, overly rigid performance requirements); poor labour policies and practices; poor zone development practices (e.g. inappropriately designed facilities, inadequate maintenance practices); and poor governance (e.g. inadequate administrative structures or too many bodies involved in zone administration).

Many zones, across all regions of the world, have failed to attract sufficient investment. In Africa, with the exception of zones in Mauritius and some successes in Kenya, Madagascar and Lesotho, most zones have attracted limited investment and failed to significantly improve exports and employment (World Bank, 2017). To date, only Mauritius has successfully used SEZs to support the process of structural transformation. Even where SEZs have had some initial success, the quality of investment and employment has often been poor, undermining their sustainability. Part of the reason is that, because many African countries launched their zones relatively late, they faced already established global competition. However, weak planning, implementation and governance capacity as well as lack of institutional coordination have also played a key role.

SEZs and regional economic cooperation initiatives can be synergistic. There is an apparent contradiction in the use of SEZs as part of regional economic cooperation initiatives, or regional trade agreements (RTAs). As a result, RTAs often face challenges in incorporating SEZs into their regulatory frameworks. This is because SEZs are tools for the promotion of investment and exports for an individual country, potentially in competition with RTA partners. Especially when SEZ programs provide firms with fiscal or tariff-related incentives, they can conflict with provisions in RTAs.

However, SEZs and RTAs can also generate significant synergies. Specifically, by lowering barriers to regional trade and facilitating economies of scale in regional production, RTAs stimulate investment by both domestic and foreign firms. By providing serviced land, infrastructure and an improved regulatory environment, SEZs lower the cost and risk for firms that undertake such investments. In addition, the growth of intraregional trade may create opportunities for specialized zones, for example, focusing on logistics or cross-border trade. Border SEZs, positioned to produce for regional production networks, are becoming increasingly common, especially in Asia. This confirms that, within the right cooperative framework, synergies can outweigh intraregional competitive downsides.

c. Investment facilitation and IPAs

Modern industrial policies have boosted investment facilitation, which until recently played a secondary role in investment policy frameworks. Many developing countries, especially, have made investment facilitation one of the key horizontal measures in industrial

development strategies. Targeted investment promotion (beyond incentives and SEZs) also remains important: two-thirds of IPAs are guided by industrial policies in defining priority sectors for investment promotion, and three-quarters have specific promotional schemes to upgrade technology in industry.

Investment facilitation is the set of policies and actions aimed at making it easier for investors to establish and expand their investments, as well as to efficiently conduct their day-to-day business in host countries. It focuses on alleviating ground-level obstacles to investment, for example, through improvements in transparency and information available to investors, more efficient and effective administrative procedures, or enhanced predictability and stability of the policy environment. Investment facilitation is distinct from investment promotion, which is about promoting a location as an investment destination (e.g. through marketing and incentives) and is therefore often country-specific and competitive in nature (UNCTAD, 2017a).

Investment facilitation is a horizontal policy instrument, applying to all sectors and industries. It may indirectly help industrial policies by attracting investment that contributes to better production capacities, skills development and improvements of the technological infrastructure – all important objectives of new industrial development strategies. Investment facilitation can also indirectly promote other industrial policy goals, such as faster integration into GVCs. In some instances, countries have opted to prioritize facilitation efforts for specific industries (see the example of Bangladesh in box IV.6).

Investment facilitation is an issue particularly for developing countries, where administrative hurdles are often cited by investors as an important impediment to doing business. UNCTAD's database on national investment policies shows that between 2010 and 2017, at least 261 new investment promotion and facilitation policies were introduced

Box IV.6. Policy examples: investment facilitation

In 2014, *Kazakhstan* established the office of an Investment Ombudsman.

Angola enacted new legislation in 2015 to reduce the bureaucracy surrounding procedures for the establishment of investments. The new regulations stipulate a "fast lane" to speed up procedures and technical support units in each ministry.

In 2015, *Indonesia* introduced a fast-licensing process for certain categories of investors planning to open businesses.

In 2016, the *Bangladesh* Investment Development Authority was established as a platform for foreign investors, identifying high-priority industries, priority industries and potential industries for investment, and providing clear information on investment areas and incentives available. In addition, it provides information about all laws and regulations relevant for foreign investment.

In 2016, *Cambodia* launched an online single window or business registration portal that enables existing and new businesses to register their companies.

In 2016, *Kazakhstan* introduced a one-stop shop, enabling investors to apply for more than 360 types of permits and licenses without having to visit multiple ministries or government agencies.

In 2016, the *Philippines* launched "Project Repeal: The Philippine Red Tape Challenge" to clean up regulations by revoking provisions that are no longer necessary or that may be detrimental to the economy.

In 2016, *Saudi Arabia* simplified licensing procedures for foreign investors by reducing the number of documents required for new licenses.

In 2016, *Tunisia* introduced a new Investment Law, which, among other reforms, creates a High Investment Authority to act as a focal point for foreign investors and to facilitate administrative procedures in an effort to reduce bureaucracy.

In February 2018, the *United Republic of Tanzania* established an online registration system, which simplifies investment registration processes, significantly reducing time and costs.

Source: UNCTAD, Investment Policy Monitor database, accessible at http://investmentpolicyhub.unctad.org.

worldwide. About 30 per cent of these measures were specifically meant to facilitate investment by, for example, setting up one-stop shops or online registration systems for investors.

Investment facilitation has long been a secondary issue in investment policies. An UNCTAD analysis of 115 investment laws from 111 developed, developing and transition economies shows that investment facilitation aspects, such as the transparency of laws and regulations or more effective administrative procedures, are still largely absent in these instruments (figure IV.14).

Figure IV.14. Presence of or references to key investment facilitation concepts
(Per cent share in 115 national investment laws analysed)

Source: UNCTAD.

In recent years, the focus on investment facilitation has increased substantially. UNCTAD's 2016 Global Action Menu for Investment Facilitation has supported numerous countries in developing and updating their investment facilitation policies and in making them more conducive for industrial development purposes.

Many countries have established IPAs to attract foreign investment, target specific investors and support investors through facilitation, aftercare services and policy advocacy (box IV.7). Through their work, IPAs contribute to a variety of mostly economic objectives, above all job creation, export promotion, technology dissemination and diffusion, linkages with local industry and domestic value added, as well as skills development.

IPAs have mostly been engaged in the promotion of investment projects prioritized according to scale or potential impact, such as the number of jobs created. Although these criteria remain important, the new industrial revolution (NIR) calls for an approach that also takes into account other factors, such as the contribution of the investment to technological upgrading, skills development and innovation. A recent UNCTAD survey of IPAs also shows that investment facilitation is increasingly used to attract advanced technologies; more than 80 per cent of surveyed countries (out of a total of 80 responses) use facilitation to promote technological upgrading.

Box IV.7. Policy examples: IPAs

In 2010, *The Gambia* adopted the Investment and Export Promotion Agency Act to establish an IPA.

In 2012, *Oman* issued a Royal Decree to reorganize the Public Authority for Investment Promotion and Export Development, placing the agency under the jurisdiction of the Ministry of Foreign Affairs. The decree also gives power to the chairman to design an overall strategy to promote the investment framework that is consistent with the general policy of the state, and to prepare necessary plans and conduct studies and research in the field of investment promotion.

In 2015, *Chile* promulgated a new Framework Law for Foreign Investment. Among other things, it establishes a Foreign Investment Promotion Agency with the mission of implementing the State policy to attract all types of foreign capital and investment to the country. The only body authorized to undertake this task, it works in coordination with the country's regional governments.

In 2017, the Investment and Export Promotion Agency of *Benin* officially launched an intelligence platform (iGuide) to facilitate investment. It is an online tool for directing and informing domestic and foreign investors about operating costs, salaries, taxes and laws they need to know in order to build and develop their business plans.

Source: UNCTAD, Investment Policy Monitor database, accessible at http://investmentpolicyhub.unctad.org.

d. Entry rules and screening procedures

Manufacturing sectors are rarely affected by outright foreign ownership restrictions. Restrictions remain common in some infrastructure industries relevant for industrial development, however. Most measures adopted over the past decade have removed or relaxed foreign ownership restrictions, but entry rules – or rather procedures – have still been tightened in some cases through new screening processes or requirements, including in developed countries following NIR-driven industrial policy models.

Most countries maintain sector-specific foreign investment restrictions. Such restrictions vary significantly by industry and country. **However, today, countries tend to impose fewer formal investment restrictions for industrial policy purposes** – in contrast to earlier models of industrial policy. According to World Bank data, restrictions are mostly confined to transportation, media and utilities sectors because of their political sensitivity. Manufacturing is one of the sectors with the lowest number of entry restrictions; more than 95 per cent of economies allow full foreign ownership of manufacturing facilities.[5]

The broad openness to foreign investment in industrial sectors in most countries is the result of an ongoing trend to relax formal FDI restrictions. About 80 per cent of the policy measures taken since 2010 in relation to FDI ownership eased or abolished foreign ownership limits (box IV.8).

Although the number of formal ownership restrictions has waned, many countries apply foreign investment screening mechanisms, which might ultimately result in blocking investments. Although this instrument emerged primarily for national security considerations, it increasingly encompasses broader national interests, including the protection of strategic industries, critical infrastructure and key technologies (see also *WIR16*).

In most cases, screening procedures affect strategic and defence-related industries, the energy sector and other tertiary sector industries with important public service elements, including transportation, telecommunication and utilities (critical infrastructure). The manufacturing, high-tech and other sectors that feature more prominently in industrial policies are generally not explicitly singled out in screening legislation or administrative procedures. Looking at a sample of screening procedures across 17 countries with formal screening rules,[6] five explicitly apply screening to certain manufacturing sectors and two single out investment related to "key technologies". However, most countries have created sufficient flexibility to apply screening across the board for national security purposes.

Investments by foreign State-owned enterprises in strategic industries are particularly sensitive. For example, the United States Foreign Investment and National Security Act

Box IV.8. Policy examples: Liberalization

In 2015, *India* introduced a comprehensive FDI liberalization strategy and relaxed FDI rules in 15 major sectors, including manufacturing.

In 2016, *Bahrain* amended its Commercial Companies Law, allowing 100 per cent foreign ownership in technical activities and manufacturing.

In its new "Negative List of Investment" of 2016, *Indonesia* increased the allowed ceiling for foreign investment in a number of sectors.

In 2017, *Viet Nam* amended the list of "conditional business lines" in the Law on Investment. It removed 24 business lines (e.g. management and operation services for common infrastructure facilities) from the list, and added 16 new ones (e.g. manufacturing, assembling and import of automobiles).

Source: UNCTAD, Investment Policy Monitor database, accessible at http://investmentpolicyhub.unctad.org.

requires an obligatory investigation in case of a foreign government-controlled investment. In the Russian Federation, State-owned enterprises are prohibited from gaining majority interests in businesses entities of strategic importance for national defence and state security, and governmental approval is mandatory for minority stakes. Under the Foreign Acquisitions and Takeovers Act 1975, foreign government investors in Australia have to comply with additional notification requirements and generally are required to obtain prior governmental approval.

Investment review mechanisms can be broadly categorized in three groups, depending on the scope and depth of the review process. First, some countries apply cross-sectoral screening procedures with broad and flexibly defined review criteria, such as national security (United States), public interest (United Kingdom) or the fundamental interests of society (Finland) (table IV.7).

Second, foreign investment screening can target specific sectors clearly identified in national legislation as sensitive (table IV.8). This approach provides more predictability for foreign investors, as an anticipated engagement in a sector not listed in the legislation will not be subject to a review. The sectors that fall most frequently under these screening procedures are utilities, telecommunication, transportation and media. The manufacturing sector is rarely included.

Table IV.7. Examples of national cross-sectoral general screening mechanisms

Country	Stated screening criteria	Statutory act
Australia	National interest	Foreign Acquisitions and Takeover Act 1975
Canada	Net benefit	Investment Canada Act
China	National economic security	National Security Law Interim Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors
Finland	Fundamental interests of society	Act on the Monitoring of Foreign Corporate Acquisitions in Finland
United Kingdom	Public interest	Enterprise Act 2002
United States	National security	Foreign Investment and National Security Act

Source: UNCTAD.

Table IV.8. Examples of sector-specific investment screening mechanisms in manufacturing

Country	Sectors covered (not exhaustive)	Stated screening criteria	Statutory act
India	Brownfield projects in pharmaceuticals	-	Foreign Exchange Management Regulations 2017
Japan	Aviation and space industry Nuclear industry Pharmaceuticals Fur and leather industry	Significant adverse effects on the smooth management of the economy	Foreign Exchange and Foreign Trade Act
Lithuania	High-technology activities	National security interests	Law on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises of Importance to Ensuring National Security
Russian Federation	Aviation and space industry Nuclear-related sectors	-	Federal Law N57-FZ, "Procedures for Foreign Investments in the Business Entities of Strategic Importance for Russian National Defense and State Security"
United Kingdom	Manufacturing undertakings with special importance to national interests	-	Industry Act 1975

Source: UNCTAD.

The third approach focuses predominantly on investment in key technologies considered of high economic value, independent of the sector in which the investment is made (table IV.9). This category of screening may be utilized in addition to cross-sectoral or sector-specific reviews.

In recent years, national investment screening mechanisms have been strengthened, particularly in developed countries. The main reason behind this development is the wish to improve control over the planned acquisition of strategic firms, critical infrastructure and key technologies by foreign investors, especially where such technologies are seen as crucial for the long-term competitiveness of the domestic economy (box IV.9).

The trend is likely to continue, as discussions on further tightening the regulatory framework continue in a number of countries. For example, in the wake of increased involvement of foreign State-owned enterprises in the EU and their search for cutting-edge technologies – and as a response to FDI barriers in their home markets – the European Commission has proposed an EU-wide regulatory framework for FDI screening.[7] The French Government

Table IV.9. Examples of national cross-sectoral, technology-targeted investment screening mechanisms

Country	Scope	Screening (not exhaustive)	Statutory act
China	Key technologies	Effect on the national steady economic growth and the basic social living order	Circular of the General Office of the State Council on the Establishment of Security Review System Regarding Merger and Acquisition of Domestic Enterprises by Foreign Investors
Republic of Korea	National core technologies (with high technological and economic value in the Korean and overseas markets or bringing high growth potential to related industries, or with strategic importance for national security)	Serious effect on national security	Act on Prevention of Divulgence and Protection of Industrial Technology

Source: UNCTAD.

Box IV.9. Policy examples: investment screening

In 2012, *Italy* established a new mechanism for Government review of transactions regarding assets of companies operating in in strategic industries. In 2017, it also extended the Government's powers to block takeovers by non-EU companies in high-tech sectors that may pose a threat to essential national interests or present a risk to national security.

In 2015, *China* passed a National Security Law which allows the State to establish, inter alia, a national security review and oversight mechanism for foreign investment.

In 2015, *Poland* adopted a law requiring investors to obtain approval from the Government to buy a stake of 20 per cent or higher in strategic industries.

In 2016, a presidential order based on the investigation of the Committee on Foreign Investment in the *United States* (CFIUS) prevented the acquisition by the Chinese company Fujian Chip Investment Fund of Aixtron, Inc., an American subsidiary of a German semiconductor producer.

In 2017, *Germany* expanded its national security reviews to encompass critical industries.

In 2017, the *Russian Federation* required prior Government approval for foreign investment in certain transactions involving assets of strategic importance for national defence and state security.

In the *United States,* the CFIUS investigated the bid of Singapore-based Broadcom for Qualcomm – a leading American ICT company engaged in 5G technology development. The bid was subsequently blocked (in March 2018) by presidential decision.

Source: UNCTAD, Investment Policy Monitor database, accessible at http://investmentpolicyhub.unctad.org.

is also preparing a strengthened review mechanism for foreign acquisitions in strategic sectors to extend them to information and communication technology (ICT), artificial intelligence, nanotechnologies, robotics, space, data storage and financial infrastructure.

Review of the use of FDI screening mechanisms in surveyed countries indicates that they have a cooling effect on anticipated transactions; instances of formal blocking of investments are relatively rare (table IV.10). For example, in the United States, between 2014 and 2016, only 0.65 per cent of investment review cases resulted in a negative decision for the investor, while in 11 per cent of cases, investors withdrew their application and discontinued the investment process. It has been noted that one of the reasons for this "preventive" effect can be that the process provides a platform for dialogue between investors and State authorities, enabling investors to adjust projects to the industrial and investment policy objectives of the host country. It should be noted, however, that most of the data on the outcomes of foreign investment screening procedures are not publicly available.

3. The role of international investment agreements

IIAs can both support and constrain industrial policy. They can foster investment by protecting it and liberalizing rules, but they can also limit policy space – for example, by precluding the use of certain restrictions or performance requirements or by regulating the use of subsidies. A number of flexibility mechanisms exist to mitigate the constraining effect of IIAs.

The interaction between international investment policy (IIAs) is characterized by the dual nature of IIAs, potentially both supporting and constraining industrial policy. With respect to their potential to support industrial policy, IIAs are expected to encourage foreign investment by (i) protecting and liberalizing investment (e.g. by easing entry or by offering national treatment), (ii) improving the overall investment policy framework and/or (iii) enlarging markets. In addition, some modern IIAs include specific promotion- or facilitation-oriented provisions. As most IIAs apply on a cross-sectoral basis, the potential enhancement of foreign investment would occur horizontally for all industries.

IIAs also have the potential to constrain investment-related industrial policy. Provisions that deserve most attention in this context include IIA rules regarding (i) the entry of foreign investors (e.g. potentially precluding countries from restricting foreign investment at the entry level), (ii) performance requirements (e.g. potentially constraining policies designed to generate certain local linkages or ensure positive spillovers from foreign investment); (iii) national treatment (e.g. potentially precluding countries from granting subsidies exclusively to domestically owned enterprises) and (iv) fair and equitable treatment (FET) (e.g. potentially limiting certain policy changes (e.g. those that affect investors' legitimate expectations).

Table IV.10. FDI screening cases, selected countries (Number of cases)

Country	Data available for last reporting cycle[a]				Data available for previous reporting cycle			
	Filed	Approved	Rejected	Withdrawn	Filed	Approved	Rejected	Withdrawn
Australia	-	662	0	-	-	592	0	-
Canada	737	-	3	-	641	-	1	-
New Zealand	-	11	0	-	-	11	0	-
United States	172	-	1	27	143	-	1	13

Source: UNCTAD.
Note: Excludes real estate transactions.
[a] For Australia it is 2015–2016, for Canada 2016–2017, for New Zealand 2016 (2017 data not comparable), and for the United States 2016.

Industrial policy-related measures have been the subject of investor–State dispute settlement (ISDS) cases; for example, a challenge to a requirement to invest a certain minimum amount in R&D activities; a challenge to a condition of a tax advantage on the exclusive use of a certain production input; and several challenges to changes to incentives under renewable energy schemes.

To avoid creating undue policy constraints, a number of flexibility mechanisms have been developed in some IIAs, taking the form of exceptions and/or exclusions to the treaty or of country-specific lists of reservations. Those particularly relevant for industrial policy include the following:

- Excluding certain industries (although most reservations in existing treaties relate to services industries)
- Excluding certain policies, such as taxation, subsidies or government procurement
- Circumscribing key protection standards and including general or national security exceptions, which have become highly relevant in the context of industrial policy

Managing the interaction between international investment policy and industrial policy implies striking a balance between liberalizing and protecting FDI, while preserving space for the dynamics of industrial policy. This challenge extends to identifying industries and existing or potential future domestic policies, for which flexibility is most needed; identifying IIA provisions that are particularly likely to affect industrial policy; and recognizing that industrial policy is likely to change over time. The latter is important in light of the so-called "lock-in" effect, implying that once a commitment is made to open an industry to foreign investment, host countries are bound by it as long as the IIA remains in force. The problem is further exacerbated if pre-establishment treaties contain rollback commitments with regard to remaining FDI restrictions, or so-called "ratchet clauses" according to which regulatory changes towards further liberalization are automatically reflected in a country's commitments under the IIA. In response, some selected IIAs establish a procedure for IIA signatories to modify or withdraw commitments in their schedules.

D. INVESTMENT AND NEW INDUSTRIAL POLICIES: THE WAY FORWARD

1. Design criteria for modern industrial-investment policies

Modern industrial policies, be they of the build-up, catch-up or NIR-driven variety, need to incorporate a number of design features in pursuit of countries' development objectives. These include openness, sustainability, NIR readiness and inclusiveness. Investment policy choices should be guided by these design criteria and by the need for policy coherence, flexibility and effectiveness.

Modern industrial policies, be they of the build-up, catch-up or NIR-driven variety, tend to follow a number of principles or design criteria. Industrial-investment policy choices should be guided by these design criteria.

The first is relative *openness*. Industrial policies are today more geared towards international competitiveness, designed to maximize the benefits of attracting external know-how and technology to improve domestic productive capacity, and focused on promoting sectors that can support higher participation in GVCs for the economy as a whole.

The second is *sustainability*. Sustainable development is now an imperative for all industrial policy packages. More and more overarching industrial policies emphasize environmental impact and social inclusiveness, incentivize the use of renewable energy or promote specific industries that respond to the global climate change challenge. Many countries have drawn up dedicated national strategies for this purpose.

Third, *NIR readiness*. Because of their number and distinct characteristics, this chapter has put NIR-driven industrial policies in a separate category. But it has also shown that build-up and catch-up industrial policies can no longer ignore the consequences of the NIR. This is especially important in the investment policy sphere, where patterns of international production and cross-border investment are already being shaped by the impact of advanced manufacturing technologies on global supply chains and location decisions.

Fourth, *inclusiveness*. A central objective of industrial policy is generally the creation of jobs. The very reason to pursue structural transformation through manufacturing is that it can generate large amounts of employment opportunities. Modern industrial policies have a more delicate balance to strike between the objectives of upgrading productivity and creating jobs. The NIR, in particular, can lead to jobs being replaced with technology; it also risks exacerbating the labour-displacing impact of international trade and investment. Modern industrial policies contain mitigating measures and often specific initiatives targeted at vulnerable regions or populations. In addition, some also include provisions to encourage better gender balance.

Fifth, *coherence*. By nature, industrial policy spans interventions across factors of production, from infrastructure and finance to skills and technology. It affects firm, sector and industrial system levels. It comprises national and international trade and investment issues. Measures in each of these areas are interdependent. More and more countries are finding that the measures- and initiatives-driven approach, often governed bottom-up

by lower levels of government, agencies and industry associations, is leading to myriad coordination problems. They are increasingly adopting national overarching industrial policies to improve coherence and consistency in implementation.

Sixth, *flexibility*. Many countries – including those that until recently might have shunned the idea of industrial policy – are now adopting national industrial development plans to improve coordination. In most cases, they are not supplanting bottom-up implementation capacity with rigid, plan-based systems. Many new industrial policies set a broad strategic direction, leaving space for initiative at multiple levels. Industrial policy packages can comprise dozens of narrower-scope packages focused on specific sectors, factors of production or layers of the industrial system. The flexibility that such bottom-up governance can provide is even more important in the NIR, given the high rate and uncertain directions of technological change.

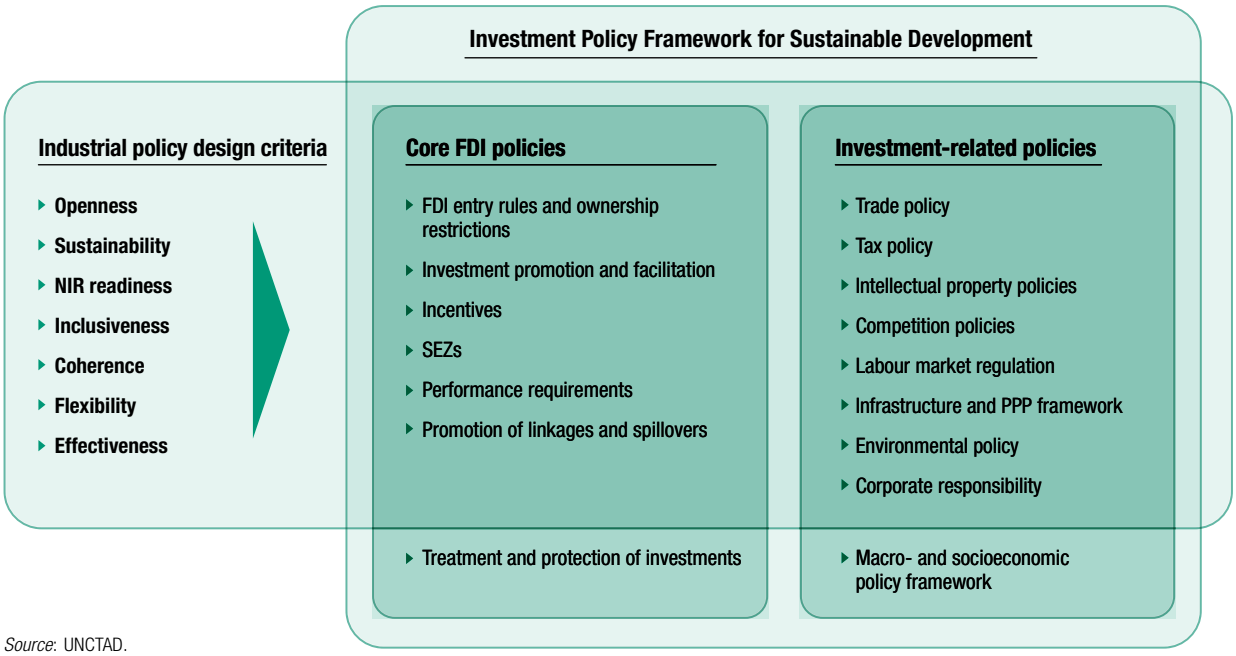
Seventh, *effectiveness*. Effective interaction between industrial policies and investment policies implies choosing the "right" investment policy tools for specific industrial policy purposes and creating synergies between them. It also means monitoring the success of investment policies in pursuit of industrial policies and the readiness to correct ineffective policy interactions.

These industrial policy design criteria need to be reflected across the full range of core investment policies and other areas relevant to both industrial policy and investment policy – usually referred to as investment-related policy areas by investment policymakers and in UNCTAD's Investment Policy Framework for Sustainable Development. Figure IV.15 shows how, conceptually, the design criteria apply to key elements of investment policy.

The IPFSD Guidelines can help policymakers examine the relevant investment policies. Box IV.10 provides a set of strategic investment policy priorities, which also indicate the priorities that would likely be part of an effective industrial policy regime.

The multitude of policy areas that are part of industrial policy packages include investment, trade, tax, intellectual property, competition, labour market and environmental policies, as

Figure IV.15. UNCTAD's IPFSD and the interaction between industrial and investment policies



Source: UNCTAD.

Box IV.10. IPFSD Policy Guidelines and Industrial Policy

1.1 Strategic investment policy priorities	1.1.1	Investment policy should be geared towards the realization of national sustainable development goals (which may be linked to globally defined sustainable development goals, or SDGs) and grounded in a country's overall development strategy. It should set out strategic priorities, including: • Investment in specific economic activities, e.g. as an integral part of an industrial development strategy, *or in specific priority sectors for sustainable development ("sustainable-development sectors").* • Areas for mutual reinforcement of public and private investment (including a framework for public-private partnerships). • Investment that makes a significant development contribution by creating decent work opportunities, enhancing sustainability, and/or by expanding and qualitatively improving productive capacity (see 1.2) and international competitiveness. Investment policy priorities should be based on a thorough analysis of the country's competitive advantages and development challenges and opportunities, and should address key bottlenecks for attracting FDI.
1.2 Investment policy coherence for productive capacity building	1.2.2	The potential for the dissemination of appropriate technologies and know-how should be one of the criteria for determining investment priorities. Where investment priorities are driven by the objective to increase participation in and benefits from global value chains (GVCs), technology and skill requirements along GVC development paths, as well as upgrading opportunities, should inform policy.
	1.2.5	The potential for FDI to generate business linkages and to stimulate local enterprise development should be a key criterion in defining investment policy and priorities for FDI attraction.
2.1 Entry and establishment of foreign investors	2.1.2	Ownership restrictions or limitations on the entry of foreign investment, in full accordance with countries' right to regulate, should be justified by legitimate national policy objectives and should not be influenced by special interests. They are best limited to a few explicitly stated aims, including: • Protecting the national interest, national security, control over natural resources, critical infrastructure, public health and the environment; or • Promoting national development objectives in accordance with a published development strategy or investment strategy.
	2.1.3	Restrictions on foreign ownership in specific industries or economic activities should be clearly specified.
2.4 Promotion and facilitation of investment	2.4.8	The work of national and subnational IPAs, as well as that of authorities promoting investment in special economic zones, should be closely coordinated to ensure maximum efficiency and effectiveness.
	2.4.24	Governments should specifically consider measures to improve access to finance for SMEs and entrepreneurs with the potential to supply foreign investors, e.g. through guarantee schemes; encouragement of supplier finance programmes; banking sector development programmes; and programmes that build the financial skills of entrepreneurs and SMEs (see UNCTAD's Entrepreneurship Policy Framework, or EPF).

Source: UNCTAD.

well as the overall macroeconomic and social policy framework.. The overlaps call for greater policy coordination within government and between policymakers and the private sector. Policymakers need to coordinate and discuss details with various relevant government departments and public institutions, as well as with the private sector, to implement the system-oriented initiatives required for contingent policy issues (see chapter III).

With regard to the new industrial revolution, the relationship between intellectual property (IP) rights regimes, on the one hand, and industrial policies and investment policies, on the other hand, is important. All 191 WIPO member States and the 164 WTO Members have IP regimes. The great majority of IP rights in developing countries are granted to foreigners. These rights may be an important source of technology transfer through voluntary agreements between foreign investors and local firms.

2. Updating investment policy instruments for industrial policies

Investment policy practices in the core industrial policy-relevant areas of incentives, SEZs, investment facilitation and targeted promotion, as well as FDI entry rules and screening procedures, all need to evolve in light of modern industrial policy development and the new industrial revolution (NIR).

a. Reorienting investment incentives

Investment incentives will remain an important policy tool in the new era of industrial policies. On the bases of the key challenges in investment incentives discussed in previous sections and the design criteria for modern industrial-investment policies, there are several options for their reorientation.

Horizontal but targeted incentives. Significant progress has been made in improving the targeting of investment incentives towards industrial development and in reducing the extent to which incentives are granted indiscriminately. Targeted incentives for specific industries can play a key role in industrial policy. However, horizontal incentives packages are also fully compatible with modern industrial policies, which highlight the importance of capacity building in technology development and innovation, and adoption of new technology in manufacturing supply chains. Incentives applicable across industries can target, for instance, R&D, training of personnel or technology infrastructure development.

Better "nudging" policies through smart incentive mechanisms. Although performance requirements are still widely used, and nudging policies aimed at maximizing the contribution of investors to industrial development are an important part of industrial policy, in many countries they have proved ineffective or difficult to implement and monitor. Cost-based tax incentives, which, by their nature, are granted only when desired investment expenditures are made, can effectively achieve many of the objectives of performance requirements. They are also less costly and less prone to abuse than profit-based tax incentives.

Monitoring effectiveness of investment incentives. Considering the new industrial policy design criteria, the realization that industrial policy can take a trial-and-error approach and that implementation therefore needs to be flexible is key for incentives, which are a costly investment policy tool. For industrial policy, a common method to ensure flexibility is to formulate implementation measures in a time-limited manner, with phase-out mechanisms. For incentive programmes, this translates into automatic sunset clauses, built-in reviews, constant monitoring and clear benchmarks for success (see also UNCTAD's IPFSD).

Factoring in SDGs in investment incentives schemes. As the findings of this chapter indicate, modern industrial policies often directly promote SDG-related industries (e.g. clean energy, electric cars, ecotourism, health care). Investing in key SDG sectors (e.g. infrastructure or the education system) can also help to improve the general investment climate of a country. Strategic investment funds and PPPs can be effective policy tools to foster investment related to the SDGs (Zhan and Karl, 2016; see also UNCTAD's Action Packages in *WIR14*).

Avoiding a "race to the bottom". The NIR is increasing competition among countries for high value added and high-tech investments. Proliferation of tax incentives should be avoided to minimize the risk of harmful tax competition between countries (for further detail on the use of incentives, see UNCTAD's IPFSD and box IV.11). Countries also need to avoid the risk of violating investment-related provisions in the WTO Agreement on Trade-Related Investment Measures and the Agreement on Subsidies and Countervailing Measures.

Box IV.11. IPFSD on incentives

Investment incentives and guarantees	2.4.12	Investment incentives, in any form (fiscal, financial or other), should be carefully assessed in terms of long-term costs and benefits prior to implementation, giving due consideration to potential distortion effects. The costs and benefits of incentives should be periodically reviewed and their effectiveness in achieving the desired objectives thoroughly evaluated.
	2.4.13	Where investment incentives are granted to support nascent industries, self-sustained viability (i.e. without the need for incentives) should be the ultimate goal so as to avoid subsidizing non-viable industries at the expense of the economy as a whole. A phase-out period built in the incentive structure is good practice, without precluding permanent tax measures to address positive or negative externalities.
	2.4.14	The rationale and justification for investment incentives should be directly and explicitly derived from the country's development strategy. Their effectiveness and suitability for stated objectives should be fully assessed before adoption, including through international comparability.
	2.4.15	Investment incentives should ideally be targeted at investment in sustainable-development sectors and made conditional on social and environmental performance.
	2.4.16	The administration of incentives should be the responsibility of an independent entity or ministry that does not have conflicting objectives or performance targets for investment attraction. The ultimate responsibility for financial outlays associated with incentives should be with the Ministry of Finance, and integrated in the normal budgeting process.
	2.4.17	Environmental, labour and other regulatory standards should not be lowered as a means to attract investment, or to compete for investment in a "regulatory race to the bottom".
	2.4.18	Investment incentives should be granted on the basis of a set of predetermined, objective, clear and transparent criteria. They should be offered on a non-discriminatory basis to projects fulfilling these criteria. Compliance with the criteria (performance requirements) should be monitored on a regular basis as a condition to benefit from the incentives.
	2.4.19	Investment incentives over and above pre-defined incentives must be shown to make an exceptional contribution to development objectives, and additional requirements should be attached, including with a view to avoiding a "race to the top of incentives".
	2.4.20	Investment incentives offered by subnational entities which have the discretion to grant incentives over and above the pre-defined limits, should be coordinated by a central investment authority to avoid investors "shopping around".
Fiscal incentives	3.2.8	Where governments choose to provide fiscal incentives for investors, these should be provided on a non-discretionary basis and should not by nature seek to compensate for an unattractive or inappropriate general tax regime. As much as possible, fiscal incentives should have sunset clauses after which investor should follow the general fiscal rules.
	3.2.9	The general corporate income tax regime should be the norm and not the exception and proliferation of tax incentives should be avoided as they quickly lead to distortions, including harmful tax competition between countries and a "race to the bottom", generate unintended tax avoidance opportunities, become difficult to monitor, create administrative costs and may end up protecting special interests at the expense of the general public.
	3.2.10	Foreign direct investment incentives schemes should be designed and structured in such a way that they do not provide additional avenues for tax avoidance. They should not create an additional low-tax location in multinational corporate structures. Governments should consider options to design and administer fiscal incentives schemes in such a way that they remove the motivation to shift profits and erode the tax base, e.g. by providing tax breaks for earnings reinvested in productive assets, or focusing tax incentives on capital goods (e.g. rollover relief). Incentives could also be made conditional upon pre-defined or agreed tax behaviour and on disclosure criteria.

Source: UNCTAD.

b. Modernizing SEZs

SEZs today operate in a challenging environment. Many fail to attract significant investment because of high competition between zones – competition that is likely to increase due to the NIR. The NIR is also eroding the importance of traditional locational advantages

associated with SEZs (e.g. cheap labour, abundant land). Further, SEZs have to respond to the imperative to pursue business activities in a socially and environmentally responsible manner that advances the SDGs.

SEZs: sustainable economic zones. SEZs provide a range of on-site services to investors, but limited sustainability-related services. Changes to international trade rules and growing international business interest in corporate social responsibility mean that SEZ management agencies and IPAs have an opportunity to explore investment promotion strategies that relate to social, environmental and governance performance, rather than cheap labour, exemption from regulations or broadly applied tax breaks. UNCTAD's Framework for Sustainable Economic Zones can provide guidance (UNCTAD, 2015a).

Pursuing a partnership approach. Forming strategic alliances between IPAs and outward investment promotion agencies (OIAs, which include development banks) in strategic FDI-source countries could benefit SEZs, particularly if such alliances are organized around promotion and facilitation of private investment in sustainable-development sectors (*WIR14*). The potential goals and benefits from such partnerships could include information sharing, technical cooperation and the marketing of SDG investment opportunities, among others. Inclusive, multi-stakeholder platforms, such as UNCTAD's World Investment Forum and its technical assistance packages, can provide opportunities to facilitate such partnerships.

Promoting digitalization. The incorporation of digital technologies in global supply chains across most industries has had profound effects on international production and is key to the survival of SEZs. SEZs provide value chain linkage opportunities to firms located in them. SEZs can introduce both infrastructure facilities and targeted investment facilitation instruments and incentives to advance digital adoption and connectivity, which can help them to remain competitive and relevant players within international production networks in the NIR.

Strengthening domestic and regional linkages. The imperative for SEZs to strengthen linkages with domestic firms is well known. They can do so by attracting lead firms and promoting supplier development programmes and activities that link with other producers. Lead firms can provide technical support, training, finance and inputs to other firms, and help supply firms negotiate and meet complex private standards. Such activities can be the foundation of successful cluster development programmes in the context of industrial policies. Value chain links between zones – either in the same economy or across the region through border zones or regional corridors – can also boost the contribution of SEZs to industrial development, as witnessed by examples in ASEAN.

Tapping new sources of financing for innovation-driven zones. Various forms of new technology-oriented zones are springing up around the world as part of NIR-driven industrial policies. Such SEZs could benefit from forming partnerships with new forms of private finance, including venture capital funds, fintech, impact investment funds and crowdfunded ventures. Although still in their infancy in many developing countries, such investors nevertheless provide viable funding streams to the smaller firms that often set up shop in SEZs. In India, for instance, venture capital has helped boost start-ups in sectors with high growth potential, with international and domestic operators providing funding to promote growth in sectors such as ICT and biotechnology.

c. Retooling investment promotion and facilitation

Developments in industrial policies should also be reflected in the approach to investment promotion, including the work of IPAs.

Adapting investment promotion to changing economic circumstances. The dynamics of technological development and the resulting rearrangements of the division of labour in regional and global value chains imply that IPAs can no longer rely on traditional locational advantages, such as low labour costs. IPAs need to promote other factors that have gained prominence for industrial development, such as the availability of a modern infrastructure, broadband connectivity or a well-trained domestic labour force.

Aligning the marketing of locations with industrial development strategies. IPAs need a coherent approach that targets the industries and activities prioritized in national industrial development strategies. If the focus is on technological upgrading within GVCs, IPAs should promote domestic expertise and local universities in the host country, as well as technology-related SEZ measures.

Developing partnerships in non-traditional sectors. IPAs should identify suitable partners, establish appropriate contact channels and regularly exchange information, in order to benefit from new growth opportunities in niche segments of international production. Possible international partners are OIAs that can support IPAs in the home countries of investors (UNCTAD, 2017b).

Promoting "matchmaking" between domestic firms and international market leaders. IPAs have a critical role in identifying and targeting international lead firms in priority industries. IPAs can be instrumental in the conclusion of cooperation contracts with foreign firms or in the formation of R&D consortiums with foreign participation.

Strengthening investment facilitation. Bureaucratic difficulties in obtaining required permits and approvals, accessing land or office space, or bringing in qualified personnel can derail or delay projects, discourage other investors and tarnish the reputation of the IPA and the country as a place in which to do business. UNCTAD's Global Action Menu for Investment Facilitation includes measures that agencies can take and recommendations for national and international investment policies.

Mainstreaming the promotion of investment in SDG sectors and building capacity to develop and market pipelines of SDG-related projects. UNCTAD has presented "Action Packages" for investment to mainstream the SDGs into investment promotion strategies and institutions (*WIR14*). SDG-related projects should become a priority of the work of IPAs and business development organizations. The promotion and facilitation of investment in sustainable development should include the preparation and marketing of pre-packaged and structured projects with priority consideration and sponsorship at the highest political level. This requires specialist expertise and dedicated units (e.g. government-sponsored "brokers" of sustainable development investment projects and technical assistance from international organizations and multilateral development banks) (*WIR14*).

d. Crafting smart foreign investment screening and monitoring mechanisms

Given that screening or review mechanisms for FDI are increasingly being used as a tool for industrial policies, a regulatory balance needs to be found between the legitimate interests of the host country in monitoring the entry of FDI on the one hand and a sufficient degree of predictability and transparency for investors on the other.

Separating national security screening from other FDI screening purposes. Existing FDI screening mechanisms do not always distinguish between reviews related to national

security and those related to broader industrial policy purposes. As "national security" is an undefined term, host-country authorities have ample discretion to decide whether a specific foreign investment poses a national security risk. To improve the predictability of the outcome of FDI screening, it may be advisable to explicitly limit national security reviews to the defence, security and dual-use sectors, leaving investment in all others under separate industry-related screening procedures.

Setting clear and transparent screening criteria. The criteria used in FDI screening should be publicly available. Host-country authorities may wish to publish a list of sectors and industries (e.g. strategic industries, critical infrastructure, acquisition of core technologies) to which the review mechanism applies. Given the changing importance of individual industries for a country's economic development, the list should be revisable. Executive guidelines could provide further details and assist applicant investors in preparing for the screening procedures.

Providing for investor–host-country dialogue. Investment review mechanisms should provide for sufficient dialogue between host-country authorities and foreign companies about planned investments. This allows investors to modify proposed deals in accordance with the wishes of the host country and avoid rejection of the investment.

Building in procedural safeguards. Host-country authorities need to have enough time to consider all aspects of each investment. Setting an appropriate time frame is also in the interest of investors, because it gives them clarity about when they can expect a decision. Procedures should be non-discriminatory and ensure the protection of confidential business information. Ex post investment screening should be limited to clearly defined exceptional circumstances.

Allowing for pre-screening FDI clearance. Host countries may consider providing potential investors with the possibility of requesting an ex ante official confirmation whether an anticipated transaction falls within the scope of the investment screening mechanism. This approach can be a useful and efficient device for governments to deal with straightforward cases that do not pose any political or legal problems.

3. Investment policy toolkits for industrial policy models

Policy practice shows how build-up, catch-up and NIR-based industrial policies emphasize different investment policy tools and focus on different sectors, economic activities and mechanisms to maximize the contribution of investment to the development of industrial capabilities. The investment policy toolkit evolves with industrial policy models and stages of development.

As observed previously, the three basic models of industrial development strategies – build-up, catch-up and NIR-based strategies – use investment policy instruments with different emphases. *Build-up strategies* focus incentives on attracting investment in basic industrial infrastructure industries (or overcoming basic infrastructure deficiencies). For example, Rwanda grants preferential tax rates to investors in energy generation, transmission and distribution – a common incentive in build-up strategies. They also frequently prioritize investment in various light industry sectors, which are often a first step towards industrial development. As they generally apply to countries at lower levels of development, they tend to be fiscal incentives, which do not require up-front financial outlays. To create successful SEZs, build-up strategies can focus efforts on attracting anchor MNEs that help attract supplier investors and kick-start export-oriented manufacturing. This is a common approach in the ASEAN region; for instance, Viet Nam grants special preferences to developers and anchor investors in industrial parks and other types of economic zones. Build-up strategies

can also comprise initiatives aimed at working with MNEs to grow domestic enterprise through supplier development programmes and supplier finance.

Catch-up strategies aim to attract higher value added activities in GVCs by directing incentives to sectors and activities that support technological upgrading. They can include targeted investment promotion focused on building clusters and regional SEZ production networks. For example, Argentina adopted a preferential tax regime for the automotive sector in 2017 to promote regional car production chains among MERCOSUR countries. Catch-up strategies focus on business linkages and supplier development programmes targeting higher skills development. For example, Morocco created an industrial development fund in 2015 to grant support to projects undertaken by firms looking to expand with a significant structural impact on the economic fabric of suppliers, and involving training or technology transfer. Similarly, South Africa adopted a tax allowance incentive in 2010 to support industrial projects in manufacturing that have an impact on industrial upgrading, business linkages and SME supply opportunities, and skills development. And catch-up strategies often put in place strong horizontal programmes for investment facilitation and support initiatives for widespread adoption of both ICT and technology.

NIR-based strategies focus much less on infrastructure development and more on technology development, including through various forms of public-private collaboration. For example, the National Network for Manufacturing Innovation in the United States is a PPP programme bringing together private industry, leading universities, and federal agencies to co-invest in emerging technologies such as additive manufacturing and next-generation power electronics. Partnerships with research and educational institutions can extend beyond technology development to knowledge development initiatives for the enhancement of capabilities and international competitiveness of domestic firms (Fletcher et al., 2018), and NIR-based strategies can support broad-based adoption among SMEs, of digital and advanced manufacturing technologies. For example, Germany's Mittelstand Digital programme supports SME digitalization and links the craft industry with regional Mittelstand 4.0 Competence Centres. They might adopt build-up type policies to support new industries, but also alternative approaches, e.g. through innovative financing mechanisms. And they will target SEZs and clustering activities on high-tech and advanced manufacturing development; for instance, the Pan-Gyo Techno Valley in the Republic of Korea, established in 2011, focuses on information technology, biotechnology and fusion technology, and provides business support facilities including a global R&D centre and an industry–academy R&D centre. NIR-based policies can also introduce screening measures for technologies deemed crucial for industrial development.

Investment policy instruments are thus similar across models, but the focus and emphases are vastly different. For the calibration of foreign investment policies for industrial development, appreciating the complexities of internationalization processes within MNEs is of fundamental importance. Empirical evidence from both developed and developing countries in relation to successful FDI attraction and upgrading in the context of industrial policy points to the importance for policymakers and inward investment agencies of having a good understanding of the complex interactions involved in MNE subsidiary upgrading, the internationalization processes within MNEs and the emerging needs of MNEs, in order to generate "win-win" situations for both investors and host countries (*WIR13*, *WIR15*, Buzdugan and Tüselmann, 2018; Gilmore et al., 2018).

As shown in this chapter, policy measures in modern industrial policy packages can be distinguished according to the factor inputs they target, namely knowledge (in particular manufacturing R&D), labour (including skills and education), production capacity (e.g. availability and capacity to use and organise manufacturing machinery, factories, equipment), resources and infrastructure (in particular support for energy and resource efficiency) and

finance (mainly credit and financial capital). The functioning of the manufacturing system critically depends upon the availability, productivity and integration of these factor inputs.

Independently from the policy model or package, investment policy measures used as instruments of industrial policy can be clustered around these factors of production (the targets of policy) and around the level at which they operate (firms or individual sectors, the manufacturing sector as a whole, or the broader industrial system including supporting services). The matrices in tables IV.11 to IV.13 show how investment policy packages tend to vary across the three basic industrial policy models, illustrating the different emphases and types of instruments used in each model.

Table IV.11. Investment policy in the industrial policy packages matrix: Build-up

Policy level	Policy targets (factors of production)				
	Basic infrastructure	**Financial capital**	**Production capacity**	**Skills/labour productivity**	**Technology infrastructure**
Manufacturing firms/individual sectors	• Incentives to overcome infrastructure deficiencies • Cost-based incentives for private-sector-built infrastructure • Investor access to land policies	• Promotion of MNE supplier credit/guarantee schemes	• Targeted investment promotion in priority sectors, including export-oriented investment • Incentive-linked performance requirements: e.g. content requirements	• Matchmaking and business linkages programmes • Supplier development/ training programmes	• Cost-based incentives schemes for the promotion of ICT adoption
Manufacturing system/cross-sector	• SEZs to promote priority manufacturing sectors or cross-sectoral capacity • Investment promotion focused on attracting SEZ anchors and developers	• Promotion of earnings reinvestment in productive assets by manufacturing foreign affiliates	• Targeted investment promotion in manufacturing facilities, focused on value-chain tasks • Supplier development programmes	• Incentive-linked performance requirements: e.g. skills training	
Industrial system (incl. supporting/ infrastructure services)	• Investment promotion in basic infrastructure sectors (transport infrastructure, energy, telecom, etc.) • PPP regulatory framework	• Promotion of financial sector FDI/ strengthened financial sector governance to improve access to capital for SME suppliers			

Source: UNCTAD.

Table IV.12. Investment policy in the industrial policy packages matrix: Catch-up

Policy level	Policy targets (factors of production)				
	Basic infrastructure	**Financial capital**	**Production capacity**	**Skills/labour productivity**	**Technology infrastructure**
Manufacturing firms/individual sectors	• Incentives packages including infrastructure provision	• Promotion of MNE supplier credit/guarantee schemes	• Targeted promotion of investment in GVC activities, regional corridors and SEZs	• Matchmaking and business linkages programmes • Supplier development/ training programmes	• PPP/joint R&D programme development with specialist investors
Manufacturing system/cross-sector	• SEZs to promote export-oriented manufacturing and cross-sectoral capacity • Investment promotion focused on building clusters and regional SEZ production networks	• Promotion of earnings reinvestment in productive assets by manufacturing foreign affiliates	• Targeted investment promotion in manufacturing facilities, focused on value-chain tasks • Supplier development programmes, including on international standards	• Incentive-linked performance requirements: e.g. skills training, set-up of vocational excellence centres	• Cost-based incentive schemes for the adoption of ICT and the upgrading of manufacturing technology
Industrial system (incl. supporting/ infrastructure services)	• Investment promotion in infrastructure sectors to lower trade costs (e.g. international transport infrastructure)	• Promotion of financial sector FDI/ strengthened financial sector governance to improve access to capital for SME suppliers	• Broad-based investment facilitation (investor administrative procedures, governance)	• Facilitation of links between investors and educational institutions	

Source: UNCTAD.

Table IV.13. Investment policy in the industrial policy packages matrix: NIR-driven

Policy level	Policy targets (factors of production)				
	Basic infrastructure	**Financial capital**	**Production capacity**	**Skills/labour productivity**	**Technology infrastructure**
Manufacturing firms/individual sectors			• Targeted investment promotion in new/emerging sectors	• Matchmaking and business linkages programmes • Supplier development/ training programmes	• Incentives for the promotion of R&D • Cost-based incentives schemes for adoption of advanced manufacturing technologies
Manufacturing system/cross-sector	• High-tech or R&D-oriented SEZ facilities	• Promotion of venture capital investors and access to credit for high-tech SMEs	• Targeted investment promotion focused on advanced manufacturing value chains • Supplier development programmes	• Incentive-linked performance requirements: e.g. specialist skills training	• Targeted investment promotion focused on technology cluster anchor firms • Facilitation of linkages and clustering programmes
Industrial system (incl. supporting/ infrastructure services)	• Investment promotion in advanced digital infrastructure	• Promotion of innovative financing instruments for digital development (infrastructure, digital industries, digital adoption)	• Regional/ cross-border high-tech zones or corridors	• Facilitation of links between investors and educational institutions	• PPPs linking technology institutions and investors/ innovation centres • Investment screening to assess impact on key technologies/ development of advanced manufacturing

Source: UNCTAD.

E. CONCLUDING REMARKS

This chapter has shown that industrial policy is a continuous work in progress for countries at all levels of development. Industrial policy packages evolve with a country's level of development and productive capabilities, as well as with the adoption of new technologies in industrial value chains. The content and focus of key policy instruments, including investment policy tools, differ across countries and evolve depending on development paths and objectives. The evidence from the survey of industrial policies of over 100 countries has also shown that they are increasingly multifaceted and complex, addressing myriad new objectives such as participation in GVCs, strategic positioning for the new industrial revolution (NIR) and support for the achievement of the SDGs.

For modern industrial policies to contribute towards a collaborative and sustainable development strategy, they need to be part of an *integrated framework.* Overall development strategy, industrial policy, macroeconomic policy, trade and investment policies, and social and environmental policies are interdependent and interactive. This requires a holistic and "whole-of-government" approach to mutually reinforce and create synergies among different sets of policies in order to avoid inconsistency and offsetting effects.

A crucial condition for successful industrial policies is *effective interaction* with investment policies, with the aim to create synergies. Countries need to ensure that their investment policy instruments are up-to-date, including by reorienting investment incentives, modernizing SEZs, retooling investment promotion and facilitation, and crafting smart foreign investment screening mechanisms. The new industrial revolution, in particular, requires a strategic review of investment policies for industrial development.

Modern industrial policies need to take a *balanced approach.* An adequate equilibrium needs to be found between laissez faire and re-regulation that clearly defines the role of the market and the state. The market plays a critical role in resource allocation, while the government's role is to enable, to act as a catalyst and to deal with market failures and systems failures. Policymakers need to balance horizontal and vertical measures, direct and indirect intervention. The key is smart regulation and effective governance.

Modern industrial policies require *win-win strategies.* Industrial policy and investment policies are primarily national policy efforts. Yet they have far-reaching implications for international rules and commitments. International cooperation is indispensable. There is a need for strengthened regional and multilateral collaboration in the new era of globalization and industrialization, in order to avoid beggar-thy-neighbour policies.

Finally, industrial policies need *effective implementation.* High-level strategy formulation that remains a paper exercise will not achieve sustainable development goals. Effective implementation requires efficient and empowered institutions, built-in mechanisms for feedback and lessons learned, flexible and adaptive policy monitoring, and correction systems. Institutional capacity building is crucial for the effective formulation and implementation of industrial policies.

These overarching principles are the foundation of modern industrial policies. They should also guide investment policymakers, across the developed and developing world.

NOTES

[1] See, for example, Pelkmans, 2006; Chang et al., 2013; Salazar et al., 2014; Stiglitz, 2016, Naudé, 2010; Rodrik, 2004.

[2] Algeria, Angola, Argentina, Armenia, Australia, Austria, Azerbaijan, Belize, Bhutan, the Plurinational State of Bolivia, Botswana, Brazil, Burkina Faso, Cambodia, Cameroon, Chad, Canada, Chile, China, Colombia, Congo, Croatia, the Czech Republic, Denmark, Djibouti, Ecuador, Egypt, El Salvador, Ethiopia, the European Union, Finland, France, Gabon, The Gambia, Germany, Ghana, Guatemala, Guinea, Hungary, India, Indonesia, Iraq, Ireland, Italy, Japan, Jordan, Kazakhstan, Kenya, the Republic of Korea, Latvia, Lebanon, Liberia, Lithuania, Luxembourg, the former Yugoslav Republic of Macedonia, Madagascar, Malawi, Mauritius, Mexico, Mongolia, Montenegro, Morocco, Mozambique, Myanmar, Namibia, Nepal, the Netherlands, New Zealand, Niger, Nigeria, Norway, Oman, Pakistan, the Philippines, Poland, Portugal, Qatar, the Russian Federation, Rwanda, Saudi Arabia, Sierra Leone, Singapore, Slovenia, South Africa, Spain, Sri Lanka, Swaziland, Sweden, the United Republic of Tanzania, Thailand, Timor-Leste, Tunisia, Turkey, Uganda, the United Arab Emirates, the United Kingdom, the United States, Uzbekistan, Viet Nam, Yemen, Zimbabwe.

[3] Such strategies may go by various names, e.g. Industry 4.0, Smart Manufacturing, Manufacturing Innovation 3.0. They generally aim to transform industrial production through the application of digital and other advanced technologies in conventional industry.

[4] Some industrial policies, e.g. those of Myanmar, Rwanda, and the United Republic of Tanzania, make reference to official development assistance by institutional donors or the United Nations Capital Development Fund.

[5] Based on World Bank (2010), updated to 2017 with data from UNCTAD's Investment Policy Measures Database.

[6] Based on the methodology developed in the dedicated section on national security screening in *WIR16*, chapter III. Countries include Australia, Austria, Canada, China, Finland, France, Germany, India, Italy, Japan, the Republic of Korea, Lithuania, Mexico, New Zealand, the Russian Federation, the United Kingdom and the United States.

[7] http://europa.eu/rapid/press-release_IP-17-3183_en.htm.

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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, 2012–2017 (Millions of dollars)

Region/economy	FDI inflows						FDI outflows					
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
World[a]	1 574 712	1 425 377	1 338 532	1 921 306	1 867 533	1 429 807	1 369 508	1 380 875	1 262 007	1 621 890	1 473 283	1 429 972
Developed economies	858 263	693 154	596 699	1 141 251	1 133 245	712 383	973 654	890 112	731 670	1 183 568	1 041 458	1 009 208
Europe	542 242	349 502	274 550	595 163	564 937	333 722	467 070	387 670	240 296	728 175	526 427	417 806
European Union	492 007	344 675	259 933	515 866	524 010	303 580	406 638	340 879	222 244	606 648	452 870	435 736
Austria	3 989	5 720	4 577	1 270	-9 001	9 630	13 109	15 568	-726	6 980	-3 520	10 892
Belgium	6 516	25 125	-12 390	23 872	30 307	740	33 821	29 484	-3 680	39 837	22 300	20 926
Bulgaria	1 697	1 837	1 540	2 746	1 194	1 071	325	187	370	163	413	296
Croatia	1 510	958	2 877	267	1 756	2 104	-86	-168	1 962	8	-337	644
Cyprus	47 199	-6 495	736	7 466	2 118	6 343	49 761	-6 898	-1 117	16 799	555	1 332
Czech Republic	7 984	3 639	5 492	465	9 815	7 412	1 790	4 019	1 620	2 487	2 182	1 623
Denmark	776	908	4 682	3 616	-159	-3 115	7 421	7 039	8 257	9 420	9 419	10 031
Estonia	1 565	769	655	13	915	784	1 054	513	43	156	352	19
Finland	4 154	-169	18 304	1 484	11 644	1 328[b]	7 543	-2 402	1 182	-16 584	25 622	1 727[b]
France	16 062	34 270	2 669	45 347	35 165	49 795	35 438	20 369	49 783	53 197	63 232	58 116
Germany	28 181[c]	15 573[c]	4 863[c]	33 276[c]	16 982[c]	34 726[c]	62 164[c]	42 271[c]	99 584[c]	108 177[c]	51 460[c]	82 336[c]
Greece	1 740	2 817	2 688	1 272	3 069	4 046	677	-785	3 020	1 582	-1 529	672
Hungary	14 409	3 402	7 807	-14 751	-5 855	2 492	11 703	1 886	3 868	-16 192	-8 552	322
Ireland	46 923	46 625	37 414	215 791	14 523	28 975	22 565	29 366	41 438	168 330	29 383	18 614
Italy	93	24 273	23 223	19 628	22 243	17 077	8 007	25 134	26 316	22 310	17 752	4 417
Latvia	1 109	903	780	710	148	721	192	411	387	17	144	92
Lithuania	700	469	-23	870	264	595	392	192	-36	85	108	-31
Luxembourg	143 003	19 616	22 747	11 320	45 123	6 623	89 806	22 090	34 206	28 221	44 353	41 155
Malta	14 184	12 004	11 343	4 645	3 813	3 185	2 601	2 661	2 341	-5 236	-5 368	-7 115
Netherlands	25 013	51 105	44 974	69 565	85 778	57 957	17 935	69 704	59 357	194 056	172 061	23 318[b]
Poland	12 424	2 734	14 269	15 271	13 928	6 434	2 901	-1 346	2 898	4 996	8 074	3 591
Portugal	8 858	2 702	2 999	6 926	6 310	6 946	-8 206	-1 205	-519	5 573	2 716	-2 409
Romania	3 199	3 601	3 211	3 839	4 997	5 160	-114	-281	-373	562	5	10
Slovakia	2 982	-604	-512	106	-295	2 277	8	-313	43	6	248	350
Slovenia	339	-151	1 050	1 674	1 260	702	-259	-214	275	267	287	107
Spain	25 696	37 436	25 238	19 560	19 660	19 086	-3 982	12 823	33 837	50 531	38 101	40 786
Sweden	16 257	3 930	4 030	6 897	12 177	15 396	29 371	30 289	9 194	14 392	5 925	24 303
United Kingdom	55 446	51 676	24 690	32 720	196 130	15 090	20 700	40 486	-151 286	-83 492	-22 516	99 614
Other developed Europe	50 235	4 828	14 618	79 297	40 926	30 143	60 432	46 791	18 052	121 527	73 557	-17 931
Gibraltar	952[b]	-1 335[b]	-3 156[b]	-2 175[b]	-2 293[b]	-2 541[b]	-	-	-	-	-	-
Iceland	1 025	397	447	709	-427	-5	-3 206	460	-257	-31	-1 147	-85
Norway	18 774	4 611	7 987	-1 121	-4 668	-8 297	19 561	7 792	18 254	27 668	2 221	-2 930
Switzerland	29 483	1 155	9 340	81 884	48 314	40 986	44 077	38 539	55	93 890	72 484	-14 915
North America	242 145	270 784	260 667	511 367	494 423	299 625	374 060	360 813	354 951	330 389	354 239	419 257
Canada	43 111	69 391	58 933	45 602	37 297	24 244	55 864	57 381	60 197	67 820	73 557	76 988
United States	199 034	201 393	201 734	465 765	457 126	275 381	318 196	303 432	294 754	262 569	280 682	342 269
Other developed economies	73 876	72 867	61 482	34 721	73 885	79 036	132 523	141 629	136 423	125 004	160 793	172 146
Australia	59 574	56 766	40 970	20 463	47 756	46 368	7 892	1 441	463	-20 056	2 321	4 881
Bermuda	48	93	-3	-143	-73[d]	-288[d]	240	51	120	-84	95[d]	-42[d]
Israel	9 018	11 842	6 049	11 337	11 903	18 954	2 276	3 858	4 526	10 969	13 072	6 275
Japan	1 732	2 304	12 030	3 309	11 388	10 430	122 549	135 749	130 843	134 233	145 243	160 449
New Zealand	3 504	1 862	2 437	-245	2 911	3 572	-433	530	471	-58	62	582
Developing economies[a]	651 500	648 539	685 292	744 032	670 158	670 658	362 661	414 976	457 994	406 237	406 668	380 775
Africa	51 985	50 790	52 440	56 633	53 190	41 772	12 393	16 072	13 598	10 844	11 234	12 078
North Africa	15 759	11 952	12 039	12 256	13 831	13 271	3 098	392	770	1 364	1 514	1 323
Algeria	1 499	1 684	1 507	-584	1 635	1 203	-41	-268	-18	103	46	-4
Egypt	6 031	4 256	4 612	6 925	8 107	7 392	211	301	253	182	207	199
Libya	1 425	702	-	-	-	-	2 509	6	77	395	440	110
Morocco	2 728	3 298	3 561	3 255	2 157	2 651	406	332	436	653	580	960
South Sudan	161[b]	-793[b]	44[b]	-71[b]	-17[b]	80[b]	-	-	-	-	-	-
Sudan	2 311	1 688	1 251	1 728	1 064	1 065	-	-	-	-	-	-
Tunisia	1 603	1 117	1 064	1 003	885	880	13	22	22	31	242	57
Other Africa	36 226	38 838	40 401	44 377	39 359	28 501	9 295	15 680	12 829	9 480	9 720	10 756
West Africa	16 874	14 480	12 148	10 179	12 694	11 307	3 537	1 757	2 193	2 224	2 188	1 888
Benin	282	360	405	150	132	184	40	59	17	33	17	23
Burkina Faso	329	490	356	232	390	486	73	58	69	14	50	34
Cabo Verde	126	70	180	116	122	109	-8	-14	-8	-4	-9	-14
Côte d'Ivoire	330	407	439	494	577	675	14	-6	16	14	29	27
Gambia	41	26	36	13	-28	87[b]	-10	-49	-	-23	-1	7[b]
Ghana	3 293	3 226	3 357	3 192	3 485	3 255	1	9	12	221	15	16
Guinea	606	134	77	48	1 597	577	3[c]	1[c]	2[c]	4[c]	-4[c]	1[b]

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Annex table 1. FDI flows, by region and economy, 2012–2017 (continued)

Region/economy	FDI inflows						FDI outflows					
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Guinea-Bissau	7	20	29	19	24	17	-0.1	-	3	2	0.5	1
Liberia	985	1 061	277	627	453	248	1 388[b]	327[b]	-36[b]	30[b]	168[b]	54[b]
Mali	398	308	144	275	356	266	16	3	1	82	97	54
Mauritania	1 389[b]	1 126[b]	501[b]	502[b]	271[b]	330[b]	-3[b]	19[b]	28[b]	0.2[b]	1[b]	10[b]
Niger	841	719	822	529	301	334	2	101	89	34	40	33
Nigeria	7 127	5 608	4 694	3 064	4 449	3 503	1 543	1 238	1 614	1 435	1 305	1 286
Senegal	276	311	403	409	472	532	56	33	27	31	224	40
Sierra Leone	722[b]	430[b]	375[b]	252[b]	138[b]	560[b]	-	-	-	-	-	-
Togo	122	184	54	258	-46	146	420	-21	358	348	257	316
Central Africa	5 461	5 428	5 306	8 305	7 345	5 733	337	58	185	345	305	193
Burundi	1	7	47	7	0.1	0.3	-	0.2	-	0.2	-	-
Cameroon	739[b]	567[b]	727[b]	627[b]	664[b]	672[b]	-71[b]	-138[b]	-10[b]	-11[b]	-39[b]	-20[b]
Central African Republic	70	2	3	3	7[b]	17[b]	-	-	-	-	-	-
Chad	580[b]	520[b]	-676[b]	559[b]	244[b]	335[b]	-	-	-	-	-	-
Congo	-283	609	1 659	3 802	3 565	1 159[b]	-26[b]	5[b]	-8[b]	-4[b]	25[b]	4[b]
Congo, Democratic Republic of the	3 312	2 098	1 843	1 674	1 205	1 340	421	401	344	508	272	292
Equatorial Guinea	985[b]	583[b]	168[b]	233[b]	54[b]	304[b]	-	-	-	-	-	-
Gabon	-221[b]	771[b]	1 048[b]	990[b]	1 241[b]	1 498[b]	13[b]	-225[b]	-146[b]	-150[b]	45[b]	-84[b]
Rwanda	255	258	459	380	342	366	-	14	2	-	-	-
Sao Tome and Principe	23	12	27	29	22	41	0.4	1	4	3	1	0.3
East Africa	6 561	7 253	6 578	6 865	7 883	7 625	398	280	157	110	82	174
Comoros	10	4	5	5	8[b]	9[b]	-	-	-	-	-	-
Djibouti	110	286	153	124	160	165	-	-	-	-	-	-
Eritrea	41[b]	44[b]	47[b]	49[b]	52[b]	55[b]	-	-	-	-	-	-
Ethiopia	279[b]	1 344[b]	1 855[b]	2 627[b]	3 989[b]	3 586[b]	-	-	-	-	-	-
Kenya	1 380	1 119	821	620	393	672	154	138	28	45	66	107
Madagascar	778	551	314	436	451	389	1[b]	6[b]	-4[b]	1[b]	0.1[b]	-1[b]
Mauritius	589	293	418	208	349	293	180	168	91	54	5	61
Seychelles	261	170	230	195	155	192	16	16	16	10	10	6
Somalia	107[b]	258[b]	261[b]	303[b]	334[b]	384[b]	-	-	-	-	-	-
Uganda	1 205	1 096	1 059	738	626	700	46	-47	27	0.3	0.2	0.3
United Republic of Tanzania	1 800	2 087	1 416	1 561	1 365	1 180[b]	-	-	-	-	-	-
Southern Africa	7 330	11 677	16 370	19 028	11 437	3 836	5 024	13 585	10 294	6 801	7 146	8 500
Angola	-6 898	-7 120	1 922	9 282	4 104	-2 255	2 741	6 044	4 253	1 047	2 748	1 642
Botswana	487	398	515	679	129	401	-8	-85	-111	-185	-312	-333
Lesotho	139	123	162	169	132	135	-	-	-	-	-	-
Malawi	129	446	599	288	326	277	-50	4	5	5	4	5[b]
Mozambique	5 629	6 175	4 902	3 867	3 093	2 293	9	522	97	2	35	26
Namibia	1 122	770	441	1 247	361	416	5	18	14	41	-3	-96
South Africa	4 559[d]	8 300[d]	5 771[d]	1 729[d]	2 235[d]	1 325[d]	2 988[d]	6 649[d]	7 669[d]	5 744[d]	4 474[d]	7 360[d]
Swaziland	32	85	26	41	21	-137[b]	-8	-4	1	-1	-5	3[b]
Zambia	1 732	2 100	1 489[d]	1 305[d]	663[d]	1 091[d]	-702	409	-1 706[d]	127[d]	177[d]	-149[d]
Zimbabwe	400	400	545	421	372	289	49	27	72	22	29	42
Asia	405 845	415 394	459 971	516 407	475 347	475 839	306 751	362 126	411 963	358 731	384 656	350 147
East and South-East Asia	324 219	340 239	387 074	435 077	390 392	398 286	274 146	314 324	377 118	310 217	341 693	305 253
East Asia	212 357	221 275	257 480	317 755	269 778	264 515	215 517	232 976	288 750	255 285	302 724	250 226
China	121 080	123 911	128 500	135 610	133 710	136 320	87 804	107 844	123 120	145 667	196 149	124 630
Hong Kong, China	70 180[c]	74 294[c]	113 038[c]	174 353[c]	117 387[c]	104 333[c]	83 411[c]	80 773[c]	124 092[c]	71 821[c]	59 703[c]	82 843[c]
Korea, Democratic People's Republic of	228[b]	119[b]	83[b]	82[b]	26[b]	63[b]	-	-	-	-	-	-
Korea, Republic of	9 496[d]	12 767[d]	9 274[d]	4 104[d]	12 104[d]	17 053[d]	30 632[d]	28 360[d]	28 039[d]	23 760[d]	29 961[d]	31 676[d]
Macao, China	3 894	4 527	3 421	1 121	1 477	1 997[b]	469	1 673	681	-684	-987	-329[b]
Mongolia	4 272	2 060	337	94	-4 156	1 494	65	41	106	11	14	49
Taiwan Province of China	3 207[d]	3 598[d]	2 828[d]	2 391[d]	9 231[d]	3 255[d]	13 137[d]	14 285[d]	12 711[d]	14 709[d]	17 884[d]	11 357[d]
South-East Asia	111 862	118 963	129 594	117 322	120 613	133 771	58 629	81 348	88 368	54 931	38 969	55 026
Brunei Darussalam	865	776	568	173	-150	-46[b]	853	271	-590	78	258	-85[b]
Cambodia	2 001	2 068	1 853	1 823	2 476	2 784	36	46	43	47	121	259
Indonesia	19 138	18 817	21 811	16 641	3 921	23 063	5 422	6 647	7 077	5 937	-12 215	2 912
Lao People's Democratic Republic	294	427	721	1 119	997	813[b]	0.1[b]	-0.3[b]	12[b]	53[b]	24[b]	30[b]
Malaysia	9 239	12 115	10 877	10 082	11 336	9 543	17 143	14 107	16 369	10 546	8 011	5 792
Myanmar	497	584	946	2 824	2 989	4 341	-	-	-	-	-	-
Philippines	2 449	2 280	5 285	4 447	6 915	9 524	3 407	2 189	6 299	4 347	1 032	1 614

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Annex table 1. FDI flows, by region and economy, 2012–2017 (continued)

Region/economy	FDI inflows						FDI outflows					
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Singapore	59 837	57 453	73 475	62 746	77 454	62 006	20 058[d]	44 441[d]	52 418[d]	31 123[d]	27 922[d]	24 682[d]
Thailand	9 135	15 493	4 809	5 624	2 068	7 635	10 497	11 679	5 575	1 687	12 414	19 283
Timor-Leste	39	50	49	43	5	7	13	13	13	13	13	-
Viet Nam	8 368	8 900	9 200	11 800	12 600	14 100	1 200	1 956	1 150	1 100	1 388	540
South Asia	32 366	35 598	41 439	51 180	54 197	52 047	10 022	2 179	12 020	7 816	5 505	11 613
Afghanistan	47	38	44	163	86[b]	54[b]	-9	1	-	1	-1	-
Bangladesh	1 293	1 599	1 551	2 235	2 333	2 152	43	34	44	46	41	170
Bhutan	49	14	32	17	-13	10[b]	-	-	-	-	-	-
India	24 196[d]	28 199[d]	34 582[d]	44 064[d]	44 481[d]	39 916[d]	8 486[d]	1 679[d]	11 783[d]	7 572[d]	5 072[d]	11 304[d]
Iran, Islamic Republic of	4 662	3 050	2 105	2 050	3 372	5 019[b]	1 356[b]	189[b]	3	120	104	-
Maldives	228[d]	361[d]	333[d]	298[d]	457[d]	517[d]	-	-	-	-	-	-
Nepal	92	71	30	52	106	198	-	-	-	-	-	-
Pakistan	859	1 333	1 868	1 621	2 479	2 806	82	212	122	25	52	67
Sri Lanka	941	933	894	680	897	1 375	64	65	67	53	237	72
West Asia	49 260	39 558	31 458	30 150	30 759	25 506	22 584	45 623	22 825	40 698	37 458	33 281
Bahrain	1 545	3 729	1 519	65	243	519	516	532	-394	3 191	-880	229
Iraq	3 400	-3 120	-10 176	-7 574	-6 256	-5 032	490	227	242	148	304	78
Jordan	1 548	1 947	2 178	1 600	1 553	1 665	5	16	83	1	3	7
Kuwait	2 873	1 434	953	311	419	301	6 741	16 648	-10 468	5 367	4 528	8 112
Lebanon	3 111	2 661	2 907	2 353	2 610	2 628[b]	1 026	1 981	1 255	662	642	567[b]
Oman	1 365[d]	1 612[d]	1 287[d]	-2 172[d]	1 680[d]	1 867[b]	884[d]	934[d]	1 358[d]	336[d]	356[d]	396[b]
Qatar	396	-840	1 040	1 071	774	986	1 840	8 021	6 748	4 023	7 902	1 695
Saudi Arabia	12 182	8 865	8 012	8 141	7 453	1 421	4 402	4 943	5 396	5 390	8 936	5 625
State of Palestine	58	176	160	103	297	203	29	-48	187	73	-45	-19
Turkey	13 745	13 463	12 739	17 717	12 942	10 864	4 106	3 536	6 670	4 811	2 746	2 630
United Arab Emirates	9 567	9 765	11 072	8 551	9 605	10 354	2 536	8 828	11 736	16 692	12 964	13 956
Yemen	-531	-134	-233	-15	-561[b]	-270[b]	9[b]	5[b]	12[b]	4[b]	1[b]	6[b]
Latin America and the Caribbean[a]	190 090	179 645	170 603	169 233	139 698	151 337	41 941	34 599	31 038	35 627	9 337	17 328
South America	157 356	119 834	126 866	119 870	95 151	104 206	18 086	19 359	24 734	23 652	6 919	11 611
Argentina	15 324	9 822	5 065	11 759	3 260	11 857	1 055	890	1 921	875	1 787	1 168
Bolivia, Plurinational State of	1 060	1 750	657	555	335	725	-	-	-33	-2	89	80
Brazil	76 098	53 564	73 370	64 291	57 999	62 713	-5 301	-1 180	2 230	3 092	-7 433	-1 351
Chile	28 100	21 168	24 262	19 541	11 163	6 730	18 364	10 232	13 326	14 515	6 254	5 135
Colombia	15 039	16 209	16 167	11 736	13 849	14 518	-606	7 652	3 899	4 218	4 517	3 690
Ecuador	567	727	772	1 322	755	606	81[b]	71[b]	301[b]	309[b]	249[b]	287[b]
Guyana	294	214	255	122	58	212	-	-	-	-	26	-
Paraguay	697	252	412	306	320	356	56[d]	134[d]	101[d]	29[d]	-	-
Peru	11 788	9 800	4 441	8 272	6 863	6 769	78	137	801	127	303	262
Suriname	174	188	164	278	222	-87[b]	-1	-	-	-	-	-
Uruguay	2 242	3 460	2 328	920	-743	-125	67	671	-184	89	85	107
Venezuela, Bolivarian Republic of	5 973	2 680	-1 028	769	1 068	-68	4 294	752	2 373	399	1 041	2 234
Central America	30 926	58 245	40 187	45 934	41 125	42 119	23 390	15 654	6 147	11 820	2 288	5 563
Belize	189[d]	95[d]	133[d]	59[d]	33[d]	77[b]	1[d]	1[d]	3[d]	0.5[d]	2[d]	0.3[b]
Costa Rica	2 258	2 741	2 927	2 752	2 541	3 007	455	340	109	211	79	159
El Salvador	467	179	306	397	347	792	1	0.1	0.1	-0.1	-0.4	0.2
Guatemala	1 245	1 296	1 389	1 221	1 185	1 147	39	34	106	117	117	180
Honduras	1 059	1 060	1 417	1 204	1 139	1 186	208	68	103	252	239	173
Mexico	21 730	48 492	28 672	34 858	29 755	29 695	22 897	14 730	5 403	10 668	1 604	5 083
Nicaragua	768	816	884	950	899	897	63	150	94	45	64	80
Panama	3 211	3 567	4 459	4 494	5 226	5 319	-274	331	329	528	185	-114
Caribbean[a]	1 807	1 566	3 551	3 429	3 423	5 012	466	-414	157	155	130	154
Anguilla	44	42	73[c]	66[c]	48[c]	62[b]	-	-	-15[c]	12[c]	1[c]	-1[b]
Antigua and Barbuda	133	95	42[c]	93[c]	49[c]	61[b]	-	-	2[c]	-3[c]	6[c]	2[b]
Aruba	-316	227	252	-24	28	88	3	4	9	10	0.5	9
Bahamas	1 034	1 133	3 244	408	943	928	158	277	2 679	170	359	132
Barbados	548	56	559	69	230	286	41	39	-213	141	-10	-28
British Virgin Islands	75 493[b]	109 577[b]	45 896[b]	25 680[b]	43 498[b]	38 358[b]	53 955[b]	110 356[b]	92 446[b]	83 159[b]	36 733[b]	70 780[b]
Cayman Islands	8 299[b]	51 048[b]	20 004[b]	52 431[b]	39 865[b]	37 433[b]	3 323[b]	11 869[b]	13 702[b]	61 993[b]	15 418[b]	30 371[b]
Curaçao	70	-2	69[c]	146[c]	133[c]	163[b]	12	-16	44[c]	19[c]	38[c]	139[b]
Dominica	59	23	12[c]	13[c]	32[c]	19[b]	-	-	-2[c]	-10[c]	-	-4[b]
Dominican Republic	3 142	1 991	2 209	2 205	2 407	3 570	274[d]	-391[d]	177[d]	22[d]	109[d]	27[d]

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Annex table 1. FDI flows, by region and economy, 2012–2017 (concluded)

Region/economy	FDI inflows						FDI outflows					
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Grenada	31	113	60[c]	86[c]	91[c]	79[b]	-	-	2[c]	-2[c]	1[c]	0.1[b]
Haiti	156	161	99	106	105	375	-	-	-	-	-	-
Jamaica	413[d]	545[d]	582[d]	925[d]	928[d]	888[d]	3[d]	-86[d]	-2[d]	4[d]	214[d]	43[d]
Montserrat	3	4	5[c]	5[c]	8[c]	6[b]	-	-	-	-	-	-
Saint Kitts and Nevis	108	136	164[c]	132[c]	84[c]	127[b]	-	-	5[c]	-0.1[c]	-4[c]	0.4[b]
Saint Lucia	74	92	87[c]	95[c]	96[c]	92[b]	-	-	67[c]	19[c]	-20[c]	22[b]
Saint Vincent and the Grenadines	115	160	119[c]	51[c]	91[c]	87[b]	-	-	11[c]	3[c]	1[c]	5[b]
Sint Maarten	14	47	47	28	41	40[b]	-3	3	1	0.1	2	1[b]
Trinidad and Tobago	-1 904	-1 130	661	194	-17	179[b]	189	63	-18	128	-193	84[b]
Oceania	3 580	2 710	2 277	1 759	1 923	1 710	1 575	2 179	1 395	1 034	1 441	1 222
Cook Islands	-9[b]	9[b]	-2[b]	45[b]	18[b]	20[b]	1 310[b]	2 037[b]	1 248[b]	793[b]	1 359[b]	1 133[b]
Fiji	376	264	350	307	280	299	2	4	38	-33	-16	-2
French Polynesia	155	99	61	26	62	47[b]	43	65	30	23	24	25[b]
Kiribati	-2[b]	-0.1[b]	1[b]	1[b]	2[b]	1[b]	0.1[b]	0.1[b]	0.1[b]	-	-	-
Marshall Islands	21[b]	33[b]	9[b]	-5[b]	-3[b]	0[b]	-	-	-	-	-	-
Micronesia, Federated States of	-	-	20[b]	-	-	-	-	-	-1[b]	-	-	-
New Caledonia	2 831	2 169	1 745	1 226	1 498[b]	1 422[b]	109	61	61	62	55[b]	57[b]
Palau	22	18	40	31	35	35[b]	-	-	-	-	-	-
Papua New Guinea	25	18	-30	28	-40	-200	89	-	-	174	-	-
Samoa	26	14	23	27	3	9	11	0.1	4	4	15	0.1
Solomon Islands	24	53	22	32	37	37	3	3	1	5	1	6
Tonga	31	51	56	12	9	14	7	7	11	5	1	1
Tuvalu	1[b]	0.3[b]	0.3[b]	0.3[b]	0.3[b]	0.3[b]	-	-	-	-	-	-
Vanuatu	78	-19	-18	29	22	25	1	0.5	1	2	1	1
Transition economies	64 948	83 684	56 541	36 022	64 129	46 767	33 193	75 787	72 343	32 085	25 157	39 989
South-East Europe	3 606	4 749	4 626	4 923	4 598	5 538	438	501	482	525	237	267
Albania	855	1 266	1 110	945	1 100	1 119	23	40	33	38	64	26
Bosnia and Herzegovina	395	276	550	349	303	425	62	44	18	73	37	42
Serbia	1 299	2 053	1 996	2 347	2 350	2 867	331	329	356	346	250	146
Montenegro	620	447	497	699	226	546[d]	27	17	27	12	-185	11[d]
The former Yugoslav Republic of Macedonia	143	335	272	240	374	256	-26	30	10	15	24	-2
CIS	60 319	77 915	50 097	29 447	57 929	39 367	32 458	75 167	71 455	31 251	24 513	39 454
Armenia	497	346	404	178	338	246	16	27	16	17	66	22
Azerbaijan	2 005	2 632	4 430	4 048	4 500	2 867	1 192	1 490	3 230	3 260	2 574	2 564
Belarus	1 429	2 230	1 828	1 668	1 238	1 276	121	246	39	122	114	34
Kazakhstan	13 337	10 321	8 406	3 860	8 097	4 634	1 481	2 287	3 815	797	-5 218	787
Kyrgyzstan	293	626	248	1 142	616	94	-1	-	-	-1	-	-1
Moldova, Republic of	244	224	343	227	84	214	20	13	42	17	9	8
Russian Federation	30 188	53 397	29 152	11 858	37 176	25 284	28 423	70 685	64 203	27 090	26 951	36 032
Tajikistan	234	144	289	397	219	141	-	-	-	-	-	-
Turkmenistan	3 130[b]	2 861[b]	3 830[b]	3 043[b]	2 243[b]	2 314[b]	-	-	-	-	-	-
Ukraine	8 401	4 499	410	2 961	3 284	2 202	1 206	420	111	-51	16	8
Uzbekistan	563[b]	635[b]	757[b]	66[b]	133[b]	96[b]	-	-	-	-	-	-
Georgia	1 023	1 021	1 818	1 653	1 603	1 862	297	120	407	309	407	268
Memorandum												
Least developed countries (LDCs)[e]	21 808	21 267	25 756	36 802	30 817	25 549	4 548	7 986	3 706	2 420	4 286	2 860
Landlocked developing countries (LLDCs)[f]	33 993	30 238	28 659	23 688	22 164	22 738	2 213	4 502	5 746	4 297	-2 338	3 227
Small island developing States (SIDS)[g]	2 489	2 614	7 246	3 422	3 991	4 133	705	492	2 701	683	375	318

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

[a] Excluding the financial centres 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] Directional basis calculated from asset/liability basis.

[d] 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, Ethiopia, Kazakhstan, Kyrgyzstan, the Lao People's Democratic Republic, Lesotho, the former Yugoslav Republic of Macedonia, Malawi, Mali, the Republic of Moldova, Mongolia, Nepal, the Niger, Paraguay, Rwanda, South Sudan, Swaziland, 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, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2017 (Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	2000	2010	2017	2000	2010	2017
World[a]	7 380 453	20 279 391	31 524 356	7 409 630	20 981 762	30 837 927
Developed economies	5 782 408	13 480 300	20 331 171	6 699 287	17 554 729	23 498 002
Europe	2 457 352	8 208 848	10 362 403	3 174 007	10 380 324	12 108 503
European Union	2 322 122	7 357 407	9 123 982	2 907 116	9 136 663	10 631 707
Austria	31 165	160 615	185 938	24 821	181 638	241 158
Belgium	-	873 315	566 913	-	950 885	690 820
Belgium and Luxembourg	195 219	-	-	179 773	-	-
Bulgaria	2 704	44 970	47 838	67	2 583	2 817
Croatia	2 664	31 517	33 436	760	4 443	6 053
Cyprus	2 846	198 097	225 779	557	197 454	216 219
Czech Republic	21 644	128 504	153 468	738	14 923	23 655
Denmark	73 574	96 136	107 836[b]	73 100	163 133	205 650[b]
Estonia	2 645	15 551	23 148	259	5 545	7 700
Finland	24 273	86 698	85 980[b]	52 109	137 663	136 392[b]
France	184 215	630 710	874 521	365 871	1 172 994	1 451 663
Germany	470 938	955 881	931 285[b]	483 946	1 364 565	1 607 380[b]
Greece	14 113	35 026	32 371	6 094	42 623	22 563
Hungary	22 870	90 845	93 332	1 280	22 314	28 611
Ireland	127 089	285 575	880 157	27 925	340 114	899 479
Italy	122 533	328 058	413 246	169 957	491 208	532 910
Latvia	1 691	10 935	17 234	19	895	1 792
Lithuania	2 334	13 403	17 576	29	2 107	3 413
Luxembourg	-	172 257	178 048	-	187 027	241 421
Malta	2 263	129 770	203 571	193	60 596	74 024
Netherlands	243 733	588 077	974 706	305 461	968 105	1 604 884
Poland	33 477	187 602	234 441	268	16 407	30 982
Portugal	34 224	114 994	143 637	19 417	62 286	60 976
Romania	6 953	68 699	88 199	136	1 511	883
Slovakia	6 970	50 328	52 032	555	3 457	3 406
Slovenia	2 389	10 667	16 033	772	8 147	6 913
Spain	156 348	628 341	644 415	129 194	653 236	597 250
Sweden	93 791	352 646	334 974	123 618	394 547	401 013
United Kingdom	439 458	1 068 187	1 563 867	940 197	1 686 260	1 531 683
Other developed Europe	135 231	851 440	1 238 421	266 891	1 243 661	1 476 796
Gibraltar	2 834[b]	14 247[b]	19 222[b]	-	-	-
Iceland	497	11 784	10 092	663	11 466	5 519
Norway	30 265	177 318	149 330[b]	34 026	188 996	199 515[b]
Switzerland	101 635	648 092	1 059 777	232 202	1 043 199	1 271 762
North America	3 108 255	4 406 182	8 891 441	3 136 637	5 808 053	9 286 175
Canada	325 020	983 889	1 084 409	442 623	998 466	1 487 130
United States	2 783 235	3 422 293	7 807 032	2 694 014	4 809 587	7 799 045
Other developed economies	216 801	865 270	1 077 327	388 643	1 366 352	2 103 323
Australia	121 686	527 728	662 296	92 508	449 740	460 641
Bermuda	265[b]	2 837	2 316[d]	108[b]	925	886[d]
Israel	20 426	60 086	128 818	9 091	67 893	103 769
Japan	50 323	214 880	207 488[b]	278 445	831 076	1 519 983[b]
New Zealand	24 101	59 738	76 408	8 491	16 717	18 043
Developing economies[a]	1 546 082	6 123 095	10 353 481	690 731	3 059 932	6 898 384
Africa	152 801	598 291	866 817	39 884	134 348	365 619
North Africa	45 328	201 105	275 097	3 199	25 777	35 991
Algeria	3 379[b]	19 540[b]	29 053	205[b]	1 513[b]	1 893
Egypt	19 955	73 095	109 660	655	5 448	7 426
Libya	471[b]	16 334	18 462[b]	1 903[b]	16 615	20 283[b]
Morocco	8 842[b]	45 082	62 664	402[b]	1 914	5 892
Sudan	1 136[b]	15 690	26 533	-	-	-
Tunisia	11 545	31 364	28 725[b]	33	287	498[b]
Other Africa	107 472	397 186	591 720	36 685	108 571	329 628
West Africa	33 010	100 005	186 276	6 381	10 553	24 190
Benin	213	604	2 137	11	21	255
Burkina Faso	28	354	2 863	0.4	8	388
Cabo Verde	192[b]	1 252	1 946	-	1	-56
Côte d'Ivoire	2 483	6 978	9 475	9	94	194
Gambia	216	323	412[b]	-	-	-

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Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2017 (continued)

Region/economy	FDI inward stock			FDI outward stock		
	2000	2010	2017	2000	2010	2017
Ghana	1 554[b]	10 080	33 137	-	83	382
Guinea	263[b]	486[b]	4 314[b]	12[b]	144[b]	71[b]
Guinea-Bissau	38	63	191	-	5	12
Liberia	3 247[b]	10 206	8 581[b]	2 188	4 714	4 562[b]
Mali	132	1 964	3 989	1	18	290
Mauritania	146[b]	2 372[b]	7 079[b]	4[b]	28[b]	84[b]
Niger	45	2 251	6 372	1	9	305
Nigeria	23 786	60 327	97 687	4 144	5 041	14 285
Senegal	295	1 699	4 858	22	263	703
Sierra Leone	284[b]	482[b]	1 403[b]	-	-	-
Togo	87	565	1 832	-[e]	126	2 716
Central Africa	5 053	39 228	87 819	1 720	2 363	3 674
Burundi	47[b]	13[b]	242[b]	2[b]	2[b]	3[b]
Cameroon	917[b]	3 099[b]	6 474[b]	1 252[b]	971[b]	687[b]
Central African Republic	104	511	651[b]	43	43	43[b]
Chad	576[b]	3 594[b]	5 439[b]	70[b]	70[b]	70[b]
Congo	1 893[b]	9 262[b]	27 040[b]	40[b]	64[b]	115[b]
Congo, Democratic Republic of the	617	9 368	22 527	34	229	2 557
Equatorial Guinea	1 060[b]	9 413[b]	13 715[b]	-[b,e]	3[b]	3[b]
Gabon	-[b,e]	3 287[b]	9 489[b]	280[b]	946[b]	175[b]
Rwanda	55	422	1 798	-	13	18
Sao Tome and Principe	11[b]	260[b]	444[b]	-	21[b]	4[b]
East Africa	7 202	37 855	82 598	387	1 457	2 052
Comoros	21[b]	60[b]	124[b]	-	-	-
Djibouti	40	878	1 954	-	-	-
Eritrea	337[b]	666[b]	994[b]	-	-	-
Ethiopia	941[b]	4 206[b]	18 512[b]	-	-	-
Kenya	932[b]	5 449[b]	11 904[b]	115[b]	267[b]	826[b]
Madagascar	141	4 383	6 528[b]	9[b]	14[b]	16[b]
Mauritius	683	4 658	5 122[b]	132	864	842[b]
Seychelles	515	1 701	2 900	130	247	288
Somalia	4[b]	566[b]	2 316[b]	-	-	-
Uganda	807	5 575	11 893	-	66	81
United Republic of Tanzania	2 781	9 712	20 351[b]	-	-	-
Southern Africa	62 208	220 098	235 027	28 198	94 198	299 711
Angola	7 977	16 063	12 075	-[e]	6 209	26 776
Botswana	1 827	3 351	5 577	517	1 007	1 019
Lesotho	330	929	535	-	-	-
Malawi	358	2 091	1 368	-[e]	90	18
Mozambique	1 249	4 331	38 019	1	3	135[b]
Namibia	1 276	3 595	5 122	45	722	479
South Africa	43 451[d]	179 565[d]	149 962[d]	27 328[d]	83 249[d]	270 287[d]
Swaziland	536	927	769[b]	87	91	154[b]
Zambia	3 966[b]	7 433	16 973[d]	-	2 531	262[d]
Zimbabwe	1 238	1 814	4 628	234	297	580
Asia	1 052 674	3 881 159	7 262 946	597 069	2 465 542	5 707 211
East and South-East Asia	952 646	3 020 276	5 990 482	579 755	2 200 338	5 169 968
East Asia	695 043	1 875 957	3 828 193	495 206	1 599 149	3 965 777
China	193 348	587 817[b]	1 490 933[b]	27 768	317 211[b]	1 482 020[b]
Hong Kong, China	435 417[c]	1 067 520[c]	1 968 645[c]	379 285[c]	943 938[c]	1 804 249[c]
Korea, Democratic People's Republic of	55[b]	96[b]	815[b]	-	-	-
Korea, Republic of	43 738[d]	135 500[d]	230 597[d]	21 497[d]	144 032[d]	355 758[d]
Macao, China	2 801[b]	13 603	32 365[b]	-	550	1 802[b]
Mongolia	182	8 445	18 019	-	2 616	494
Taiwan Province of China	19 502[d]	62 977[d]	86 820[b]	66 655[d]	190 803[d]	321 453[b]
South-East Asia	257 603	1 144 320	2 162 289	84 549	601 189	1 204 190
Brunei Darussalam	3 868[b]	4 140	6 162[b]	493[b]	609[b]	1 550[b]
Cambodia	1 580	6 329	20 794	193	340	911
Indonesia	25 060	160 735	248 510	6 940	6 672	65 871
Lao People's Democratic Republic	588[b]	1 888[b]	6 560[b]	26[b]	68[b]	188[b]
Malaysia	52 747	101 620	139 540	15 878	96 964	128 517
Myanmar	3 752[b]	14 507[b]	27 806[b]	-	-	-
Philippines	13 762[b]	25 896	78 788[d]	1 032[b]	6 710	47 824[d]

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Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2017 (continued)

Region/economy	FDI inward stock			FDI outward stock		
	2000	2010	2017	2000	2010	2017
Singapore	110 570[d]	632 760[d]	1 284 929[d]	56 755[d]	466 129[d]	841 402[d]
Thailand	30 944	139 286	219 368	3 232	21 369	107 298
Timor-Leste	-	155	339	-	94	112
Viet Nam	14 730[b]	57 004[b]	129 491[b]	-	2 234[b]	10 518[b]
South Asia	30 743	268 959	506 932	2 761	100 441	162 674
Afghanistan	17[b]	930[b]	1 430[b]	-	16[b]	6[b]
Bangladesh	2 162	6 072	14 557	68	98	362
Bhutan	4[b]	52	190[b]	-	-	-
India	16 339	205 580[d]	377 683[d]	1 733	96 901[d]	155 341[d]
Iran, Islamic Republic of	2 597[b]	28 953	53 488[b]	411[b]	1 713[b]	3 744[b]
Maldives	128[b]	1 114[b]	3 732[b]	-	-	-
Nepal	72[b]	239[b]	1 608[b]	-	-	-
Pakistan	6 919	19 828	43 173	489	1 362	1 944
Sri Lanka	2 505	6 190	11 070	60	351	1 278
West Asia	69 286	591 923	765 532	14 553	164 763	374 570
Bahrain	5 906	15 154	26 574	1 752	7 883	19 233
Iraq	-48	7 965	10 128[b]	-	632	2 486
Jordan	3 135	21 899	33 886	44	473	619
Kuwait	608	11 884	15 167	1 428	28 189	30 624
Lebanon	14 233	44 285	63 693[b]	352	6 831	13 900[b]
Oman	2 577[b]	14 987[b]	22 256[b]	-	2 796[b]	8 281[b]
Qatar	1 912	30 564[b]	34 929[b]	74	12 545[b]	52 883[b]
Saudi Arabia	17 577	176 378	232 228	5 285[b]	26 528	79 598
State of Palestine	1 418[b]	2 175	2 703	-	241	422
Syrian Arab Republic	1 244	9 939[b]	10 743[b]	-	5[b]	5[b]
Turkey	18 812	187 968	180 697	3 668	22 509	41 403
United Arab Emirates	1 069[b]	63 869	129 934	1 938[b]	55 560	124 449[b]
Yemen	843	4 858	2 595[b]	13[b]	571[b]	665[b]
Latin America and the Caribbean[a]	338 774	1 629 249	2 194 395	53 530	457 190	812 974
South America	186 641	1 128 409	1 501 268	43 924	331 291	619 148
Argentina	67 601	85 591	76 576	21 141	30 328	40 942
Bolivia, Plurinational State of	5 188	6 890	12 305	29	8	730
Brazil	-	682 346	778 287	-	191 349	358 915
Chile	45 753	162 149	275 291	11 154	62 371	124 281
Colombia	11 157	82 977	180 235	2 989	23 717	55 507
Ecuador	6 337	11 857	17 253[b]	252[b]	557[b]	1 919[b]
Guyana	756	1 784	3 185	1	2	28
Paraguay	1 219	3 254	5 471	38[b]	124[b]	410[b]
Peru	11 062	42 976	98 243	505	3 319	5 447
Suriname	-	-	1 810[b]	-	-	-
Uruguay	2 088	12 479	30 438	138	345	5 573
Venezuela, Bolivarian Republic of	35 480	36 107	22 175	7 676	19 171	25 396
Central America	139 768	453 143	629 796	8 534	122 858	191 807
Belize	294[d]	1 461[d]	2 165[b]	42[d]	49[d]	69[b]
Costa Rica	2 809	15 936	37 345	22	1 135	3 024
El Salvador	1 973	7 284	9 603	104	1	2
Guatemala	3 420	6 518	15 520	93	382	992
Honduras	1 392	6 951	15 029	-	831	2 166
Mexico	121 691	389 571	489 130	8 273	116 906	180 058
Nicaragua	1 414	4 681	10 830	-	181	641
Panama	6 775	20 742	50 174	-	3 374	4 855
Caribbean[a]	12 365	47 697	63 332	1 072	3 041	2 019
Anguilla	-	-	590[b]	-	-	69[b]
Antigua and Barbuda	-	-	723[b]	-	-	40[b]
Aruba	1 161	4 567	4 159[b]	675	682	655[b]
Bahamas	3 278[b]	13 438	20 634	452[b]	2 538	4 517
Barbados	308	4 970	7 078	41	4 058	4 053
British Virgin Islands	30 313[b]	265 172[b]	661 718[b]	69 758[b]	376 720[b]	879 716[b]
Cayman Islands	25 585[b]	149 077[b]	374 171[b]	21 280[b]	90 805[b]	235 155[b]
Curaçao	-	527	1 219[b]	-	32	298[b]
Dominica	-	-	372[b]	-	-	-4[b]
Dominican Republic	1 673	18 793	36 502	68[b]	743	894[b]

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Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2017 (concluded)

Region/economy	FDI inward stock			FDI outward stock		
	2000	2010	2017	2000	2010	2017
Grenada	-	-	2 222[b]	-	-	32[b]
Haiti	95	625	1 745	2[b]	2[b]	2[b]
Jamaica	3 317[d]	10 855[d]	15 987[d]	709[d]	176[d]	575[d]
Montserrat	-	-	37[b]	-	-	-
Netherlands Antilles[f]	277	-	-	6	-	-
Saint Kitts and Nevis	-	-	1 680[b]	-	-	24[b]
Saint Lucia	-	-	901[b]	-	-	254[b]
Saint Vincent and the Grenadines	-	-	1 189[b]	-	-	82[b]
Sint Maarten	-	256	431[b]	-	10	16[b]
Trinidad and Tobago	7 280[b]	17 424[b]	9 099[b]	293[b]	2 119[b]	547[b]
Oceania	1 833	14 396	29 322	248	2 853	12 580
Cook Islands	7[b]	17[b]	103[b]	-[b,e]	2 026[b]	10 716[b]
Fiji	356[b]	2 692[b]	4 478[b]	39[b]	47[b]	97[b]
French Polynesia	139[b]	392[b]	973[b]	-	144[b]	382[b]
Kiribati	-	5[d]	14[b]	-	2[d]	2[b]
Marshall Islands	-	120[b]	17[b]	-	-	-
Micronesia, Federated States of	-	7[b]	235[b]	-	-	5[b]
New Caledonia	-[b,e]	5 726[b]	16 967[b]	2[b]	304[b]	695[b]
Palau	173	238	428[b]	-	-	-
Papua New Guinea	935	3 748	4 422	194[b]	209[b]	473[b]
Samoa	77	220	75	-	13	18
Solomon Islands	106[b]	552	589	-	27	59
Tonga	19[b]	220[b]	437[b]	14[b]	58[b]	108[b]
Tuvalu	-	5	8[b]	-	-	-
Vanuatu	61[b]	454	575	-	23	26
Transition economies	51 964	675 996	839 704	19 611	367 101	441 541
South-East Europe	1 237	21 179	68 369	16	953	5 254
Albania	247	3 255	6 817	-	154	471
Bosnia and Herzegovina	450	6 709	8 286[b]	-	195	497[b]
Serbia	-	-	37 668	-	-	3 596
Montenegro	-	4 231	5 519[b]	-	375[b]	242[b]
The former Yugoslav Republic of Macedonia	540	4 351	5 857	16	100	89
CIS	49 965	646 340	753 946	19 477	365 300	433 891
Armenia	513	4 405	4 747	-	122	590
Azerbaijan	1 791	7 648	29 551	1	5 790	22 059
Belarus	1 306	9 904	19 776	24	205	835
Kazakhstan	10 078	82 648	147 064	16	16 212	20 458
Kyrgyzstan	432	1 698	5 536	33	2	0.3
Moldova, Republic of	449	2 964	3 647	23	68	198
Russian Federation	29 738	464 228	446 595	19 211	336 355	382 278
Tajikistan	136	1 165	2 554	-	-	-
Turkmenistan	949[b]	13 442[b]	34 254[b]	-	-	-
Ukraine	3 875	52 872	50 970	170	6 548	7 473
Uzbekistan	698[b]	5 366[b]	9 252[b]	-	-	-
Georgia	762	8 477	17 389	118	848	2 396
Memorandum						
Least developed countries (LDCs)[g]	35 773	144 791	312 115	2 676	15 866	41 700
Landlocked developing countries (LLDCs)[h]	33 846	180 819	369 652	1 133	29 368	48 454
Small island developing States (SIDS)[i]	17 461	64 148	85 770	2 005	10 496	12 098

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

[a] Excluding the financial centres 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] Directional basis calculated from asset/liability basis.

[d] Asset/liability basis.

[e] Negative stock value. However, this value is included in the regional and global total.

[f] This economy was dissolved on 10 October 2010.

[g] 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.

[h] Landlocked developing countries include Afghanistan, Armenia, Azerbaijan, Bhutan, the Plurinational State of Bolivia, Botswana, Burkina Faso, Burundi, the Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, the Lao People's Democratic Republic, Lesotho, the former Yugoslav Republic of Macedonia, Malawi, Mali, the Republic of Moldova, Mongolia, Nepal, the Niger, Paraguay, Rwanda, South Sudan, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[i] 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, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

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- 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).

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- A blank in a table indicates that the item is not applicable, unless otherwise indicated.
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