

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD



WORLD INVESTMENT REPORT 2018

INVESTMENT AND NEW INDUSTRIAL POLICIES



UNITED NATIONS

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.

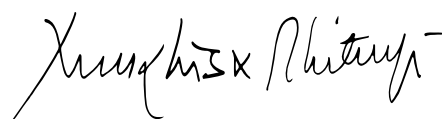
As they pursue multifaceted objectives, new industrial policies have become more complex and intertwined, wielding multiple instruments, from trade to education. Central to these industrial policies is foreign investment. Investment builds and upgrades industries. It connects to international markets. 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

ACKNOWLEDGEMENTS

The *World Investment Report 2018* was prepared by a team led by James X. Zhan. The team members included Richard Bolwijn, Bruno Casella, Hamed El Kady, Kumi Endo, Thomas van Giffen, Kálmán Kalotay, Joachim Karl, Hee Jae Kim, Isya Kresnadi, Guoyong Liang, Anthony Miller, Shin Ohinata, Diana Rosert, William Speller, Astrit Sulstarova, Claudia Trentini, Elisabeth Tuerk, Joerg Weber and Kee Hwee Wee.

Research support and inputs were provided by Jorun Baumgartner, Juan Carlos Castillo, Tiffany Grabski, Josse Jakobsen, Kim Kampel, Melinda Kuritzky, Sergey Ripinsky, Stella Sakellaridou, Stefanie Schacherer, Sylvie Somerville, Ilan Strauss, Paul Wessendorp and Linli Yu. Contributions were also made by Marta Kolasinska, Ventzislav Kotetzov, Oktawian Kuc, Mathabo Le Roux, Eduardo Lins, Abraham Negash and Michelle Ngo.

Statistical assistance was provided by Bradley Boicourt, Mohamed Chiraz Baly and Lizanne Martinez.

The manuscript was edited with the assistance of Caroline Lambert and copy-edited by Lise Lingo. Pablo Cortizo designed the charts, maps and infographics; he and Laurence Duchemin typeset the report. Production of the Report was supported by Elisabeth Anodeau-Mareschal, Nathalie Eulaerts, Rosalina Goyena, Jovan Licina, Sivanla Sikounnavong and Katia Vieu.

The report benefited from extensive advice from Harsha Singh on chapter IV. At various stages of preparation, in particular during the expert meetings organized to discuss drafts, the team received comments and inputs from these experts: Willy Alfaro, Azar Aliyev, Antonio Andreoni, Nathalie Bernasconi, Sjoerd Beugelsdijk, Jonathan Bonnitcha, Damien Charlotin, Manjiao Chi, Xiaolan Fu, Angel Gonzalez-Sanz, Nicolas Jansen Calamita, John Kline, Markus Krajewski, Sarianna Lundan, Gian Maria Milesi-Ferretti, Ted Moran, Rajneesh Narula, Anthea Roberts, Mavluda Sattorova, Esme Shirlow, Jagjit Singh Srail, Heinz Tüselmann, Gus Van Harten, Markus Wagner and Philip Wooldridge.

Also acknowledged are comments received from other UNCTAD divisions as part of the internal peer review process, as well as comments from the Office of the Secretary-General. The United Nations Cartographic Section provided advice for the regional maps.

Numerous officials of central banks, government agencies, international organizations and non-governmental organizations also contributed to the report.

TABLE OF CONTENTS

PREFACE	iii
FOREWORD	iv
ACKNOWLEDGEMENTS	vi
ABBREVIATIONS	x
KEY MESSAGES	xi
CHAPTER I. GLOBAL INVESTMENT TRENDS AND PROSPECTS	1
A. CURRENT FDI TRENDS	2
1. Global trends.	2
2. Trends by geography	3
3. Trends by sector and mode of entry	7
4. FDI and other cross-border capital flows	9
5. FDI as a component of financing for development	10
B. FDI PROSPECTS	14
1. Overall prospects assessment	14
2. Key factors influencing future FDI flows.	15
C. INTERNATIONAL PRODUCTION	20
1. Key indicators of international production	20
2. Trends in global value chains	22
3. Internationalization trends of the largest MNEs	26
CHAPTER II. REGIONAL TRENDS	37
A. DEVELOPING ECONOMIES	38
1. Africa	38
2. Developing Asia.	44
3. Latin America and the Caribbean	50
B. TRANSITION ECONOMIES	56
C. DEVELOPED ECONOMIES	61

D. STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES	66
1. Least developed countries	66
2. Landlocked developing countries	70
3. Small island developing States	74
CHAPTER III. RECENT POLICY DEVELOPMENTS AND KEY ISSUES	79
A. NATIONAL INVESTMENT POLICIES	80
1. Overall trends	80
2. Merger controls affecting foreign investors	85
B. INTERNATIONAL INVESTMENT POLICIES	88
1. Recent developments in the international investment regime	88
2. Taking stock of IIA reform.	95
C. PHASE 3 OF IIA REFORM	104
1. Improving investment policy coherence and synergies	104
2. Maximizing synergies between the IIA regime and the national legal framework for investment	105
3. Managing the interaction between IIAs and other bodies of international law affecting investment	111
4. Dynamics of policymaking: flexibility and policy space	114
D. CAPITAL MARKETS AND SUSTAINABILITY	116
1. Stock exchanges' ESG activities	116
2. Green finance and ESG indices.	118
3. Gender equality	120
CHAPTER IV. INVESTMENT AND NEW INDUSTRIAL POLICIES	125
INTRODUCTION	126
A. INDUSTRIAL POLICY: A MODERN PHENOMENON	128
1. The recent proliferation of industrial policies	128
2. New themes in industrial policies	129
3. The central role of investment policies in industrial policies	131

B. INDUSTRIAL POLICY MODELS	134
1. The complexity of modern industrial policy packages	134
2. Recent industrial policy designs	139
3. Basic models and stages of development	144
C. INVESTMENT POLICY PACKAGES	146
1. Industrial policy as the key driver of investment policy practice	146
2. Investment policy as an instrument for industrial development – the evidence	148
3. The role of IIAs	163
D. INVESTMENT AND NEW INDUSTRIAL POLICIES: THE WAY FORWARD	165
1. Design criteria for modern industrial-investment policies	165
2. Updating investment policy instruments for industrial policies.	168
3. Investment policy toolkits for industrial policy models.	172
E. CONCLUDING REMARKS	177
REFERENCES	179
ANNEX TABLES	183
Annex table 1. FDI flows, by region and economy, 2012–2017	184
Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2017.	188