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WORLD INVESTMENT REPORT **2019**

SPECIAL ECONOMIC ZONES



PREFACE

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

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

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

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



António Guterres
Secretary-General of the United Nations

FOREWORD

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

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

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

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

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

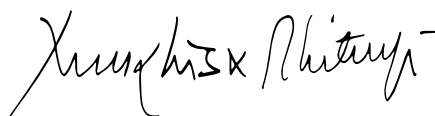
In countries with an SEZ portfolio or with ambitious SEZ development programmes, policymakers and practitioners – in ministries responsible for industry, trade and investment; in SEZ authorities; and in export and investment promotion agencies, to mention a few – are looking to turn around underperforming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

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

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

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

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



Mukhisa Kituyi
Secretary-General of UNCTAD

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TABLE OF CONTENTS

PREFACE.....	iii
FOREWORD	iv
ACKNOWLEDGEMENTS.....	v
ABBREVIATIONS	ix
KEY MESSAGES	X
CHAPTER I. GLOBAL INVESTMENT TRENDS AND PROSPECTS	1
A. CURRENT FDI TRENDS	2
1. Global trends	2
2. Trends by geography	3
3. Trends in cross-border M&As and greenfield projects by sector.....	7
4. FDI and other cross-border capital flows	11
B. FDI PROSPECTS	13
1. Short-term prospects	13
2. Long-term trends.....	14
3. IPAs' expectations	16
C. INTERNATIONAL PRODUCTION	18
1. Key indicators of international production.....	18
2. Internationalization trends of the largest MNEs.....	19
3. State-owned multinational enterprises.....	24
D. THE GLOBAL FDI NETWORK	28
CHAPTER II. REGIONAL TRENDS.....	33
A. DEVELOPING ECONOMIES	34
1. Africa	34
2. Developing Asia.....	40

3. Latin America and the Caribbean	48
B. TRANSITION ECONOMIES	54
C. DEVELOPED ECONOMIES	60
D. STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES.	66
1. Least developed countries	66
2. Landlocked developing countries	71
3. Small island developing States	76
CHAPTER III. RECENT POLICY DEVELOPMENTS AND KEY ISSUES	83
A. NATIONAL INVESTMENT POLICIES.	84
1. Overall trends	84
2. Merger controls affecting foreign investors	89
3. Entry regulations for inward investment: recent developments in FDI screening	92
B. INTERNATIONAL INVESTMENT POLICIES	99
1. Trends in IIAs: new treaties and other policy developments	99
2. Trends in ISDS: new cases and outcomes	102
3. Taking stock of IIA reform	104
4. Conclusions: lessons learned and way forward.	113
C. CAPITAL MARKETS AND SUSTAINABILITY	116
1. Stock exchanges' sustainability trends.	116
2. Securities regulators and sustainability	118
3. Sustainability-themed indexes, segments and products	120
4. Conclusions.	124

CHAPTER IV. SPECIAL ECONOMIC ZONES	127
INTRODUCTION	128
A. THE UNIVERSE OF SEZs	133
1. Mapping SEZs: scope, definitions and taxonomy	133
2. Overview of SEZs worldwide	137
3. International cooperation and regional development zones	154
B. THE REGULATORY AND INSTITUTIONAL FRAMEWORK FOR SEZs	161
1. The national regulatory framework	161
2. Institutional set-up of SEZs	167
3. International regulations and SEZs	172
C. THE PERFORMANCE AND IMPACT OF SEZs	177
1. A sustainable development impact assessment of SEZs	177
2. Direct and indirect economic contributions of SEZs	179
3. Zone costs and revenues	185
4. Dynamic zone contributions: industrial development and upgrading	186
5. Social and environmental impacts	187
6. Critical success factors of SEZs	189
D. TOWARDS A NEW GENERATION OF SEZs	195
1. Lessons learned from past experience	196
2. A forward-looking perspective	200
3. SDG model zones	202
REFERENCES	207
ANNEX TABLES	211
Annex table 1. FDI flows, by region and economy, 2013–2018	212
Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2018	216