ISSUE BRIEF

INSTITUTE OF STRATEGIC STUDIES ISLAMABAD
Web: www.issi.org.pk
Phone: +92-920-4423, 24
Fax: +92-920-4658

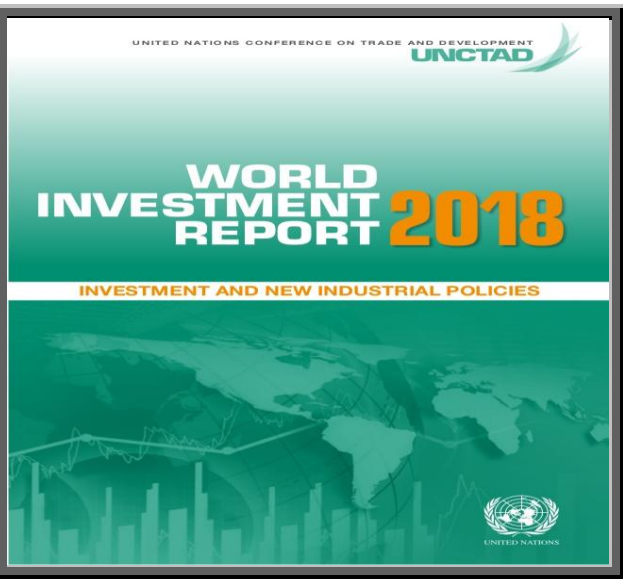
UNCTAD INVESTMENT REPORT 2018: INVESTMENT TRENDS

By
Eeman Malik *
Intern
China-Pakistan Study Centre, ISSI

Edited by
Najam Rafique

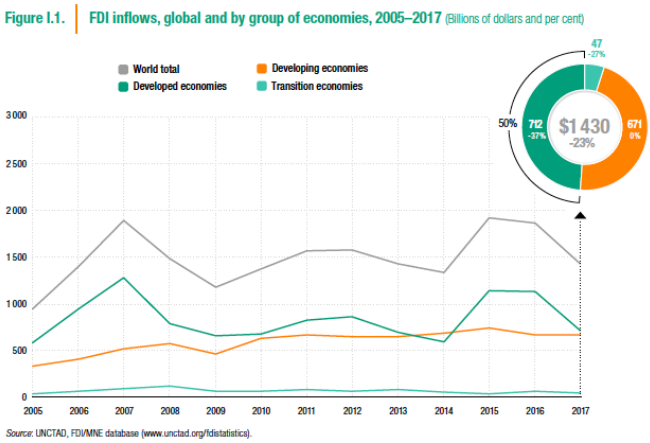
January 1, 2019

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



The United Nations Conference on Trade and Development (UNCTAD) publishes an annual World Investment Report alongside many other initiatives like the Investment Policy Framework for Sustainable Development and the World Investment Forum which is held each year and invites investors from all over the world to interact with one another.

The World Investment Report 2018 therefore is a valuable synthesis describing the investment trends of the past year, investment promotion policies that can be improved, and how investment impacts countries' economies. The report also has a chapter that focuses on each region of the world separately. The report begins by divulging the most important trend of 2017 which is that global flows of foreign direct investment fell by 23 per cent.



* Ms. Eeman Malik is working as intern under Young ISSI Professional Corner in China-Pakistan Study Centre at ISSI.

According to the report, the predictions for improvement in the future are bleak unless policies are changed to create a more transparent environment, especially for developing countries where investment is indispensable for development. In today's era of whirlwind technological innovation, the world has an unimaginable opportunity for development. But this also brings a potential to cause colossal inequality, the challenges being greatest for Africa. This report suggests how investment models can be improved to effectively result in sustainable development.

Global trends analyzed in further detail show that a decrease in cross-border mergers and acquisitions from $887 billion in 2016 to $694 billion, contributed to the decline in FDI flows. Unfortunately, an indicator of future trends, the value of announced greenfield investment, also fell by 14 percent. The report cites the primary reason for a lack of expectation of future growth to be tax reforms in the US, as well as trade tensions fostering a risky and uncertain environment.

Conversely, global GDP, as well as cross-border capital flows rose which primarily consisted of bank lending and portfolio investment mostly in the form of debt.

Compared to 2016, FDI flows remained the same in Asia, rose in Latin America and decreased in Africa. Thus, the overall FDI flows remained stable in the developing world and the global decline resulted from a decline among developed economies. The decline in developed countries can be partly explained by a decline from high inflows in the preceding year, whereas the slump in flows to Africa was largely due to weak oil prices.Conversely, geographical sources of FDI to Africa are becoming more diversified.

In Asia, China continued to be the largest FDI recipient and the second largest in the world just behind the US. Outflows from the developing world decreased, whereas those from developed countries stayed stable. In Asia, outward FDI dropped due to decrease in outflows from China. Inflows to South Asia and West Asia decreased, while East and South-East Asia fared better with China being at an all-time high.

As far as investment policy is concerned, UNCTAD's survey reveals that over the past 10 years, 101 countries have adopted new industrial strategiesand new investment agreements concluded in 2017 were the lowest since 1983. A new development in 2017 has been increased restrictions on investors,like screening requirements especially by developed countriescreated by national security concerns about foreign ownership of strategic assets and natural resources. Moreover,a key horizontal measure in many developing countries has been investment facilitation by simplifying bureaucratic and administrative procedures.

Other policy tools have been the creation of Special Economic Zones and incentives contingent upon fulfilling certain goals, financial incentives or fiscal incentives like tax breaks. In investment liberalization, emerging economies in Asia were the most active, notably China, Saudi Arabia and Myanmar. Although not a widespread trend, many countries also reformed their national investment dispute resolution system. Of the dispute resolutions that were carried out in the past year, more often they were in favor of the state than in favor of the investor. Since industrial policies are key drivers of investment trends as 80 percent of investment policy measures have been directed at the industrial system, industrial policies have been divided into three categories by the survey groups. They are:

1. Build-up, which contain vertical policies for the development of specific industries;
2. Catch-up, which enhance horizontal competitiveness;
3. And lastly, those that focus on a new industrial revolution.

These three categories correspond to stages of development to a very limited extent, so, they are not mutually exclusive.

It is imperative to mention that while the World Investment Report 2018 tries to cover all regions of the world as equally, holistically and thoroughly as possible, there are certain countries for example China, USA and Germany which are mentioned more often than others simply because they were engaging in investment activity more often. Therefore, the differences in frequency of mentions is understandable due to the nature of existing inequality of investment exchange. Contrastingly, there were a few areas where some bias favoring developed countries is discernible. For example, the report defends protectionist policies of many rich countries by failing to question whether 'national security' is an appropriate excuse. Another example is that the report praises Special Economic Zones (SEZ's) while also stating that these zones have failed in Africa simply because these countries joined late and were not competitive as a result. The report must either offer a solution to this failure or avoid praising SEZ's as the primary policy that improves investment.

Ultimately, the report suggests certain key ideas that need to be promoted to make the global environment more conducive to investment. Firstly, investment policy must be coherent and synergy between national policy and the international investment agreement must be ensured. Summarily, investment policies should be more flexible, interactive, inclusive and sustainable, diverse, open and effective. Finally, incentives should be targeted in order to be successful and digitalization must be promoted.