Twenty-Sixth Meeting of the
IMF Committee on Balance of Payments Statistics
Muscat, Oman
October 28–30, 2013

World Investment Report 2013

Prepared by the
UNCTAD

WORLD INVESTMENT REPORT 2013

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Global Value Chains: Investment and Trade for Development

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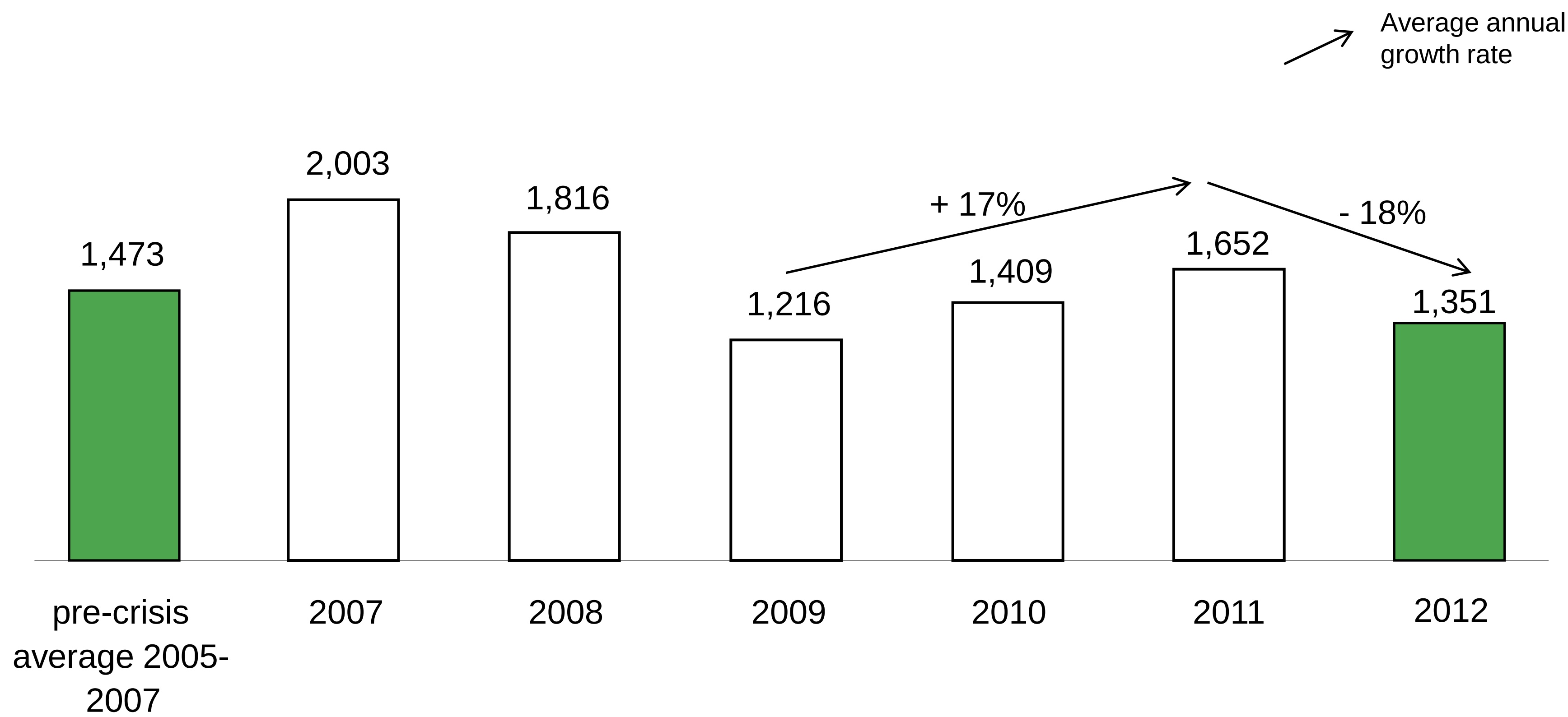
FDI recovery road proves bumpy, with 18% decline in 2012

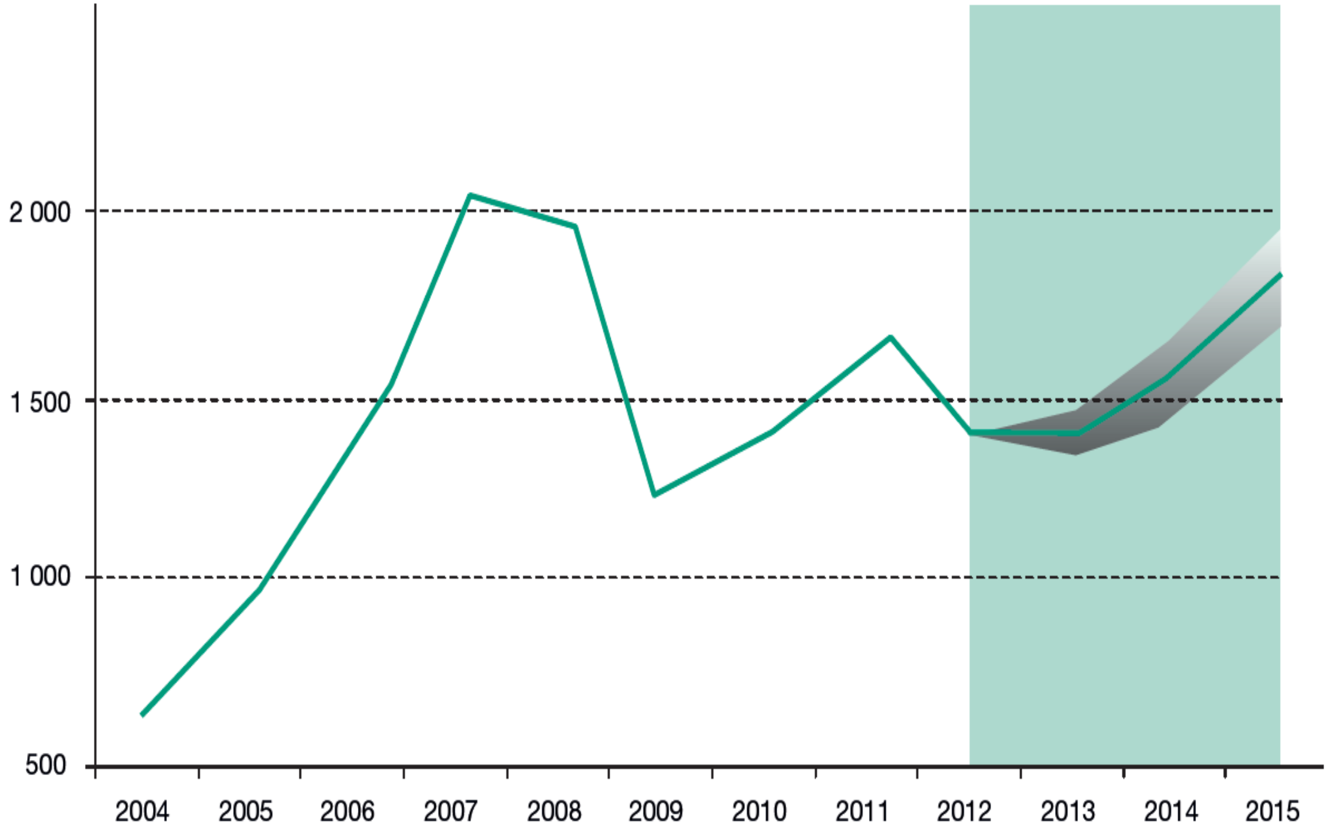
Global FDI inflows

(Billions of dollars)



Flows in 2013 are expected to remain close to 2012 level, and could rise in 2014 – 2015

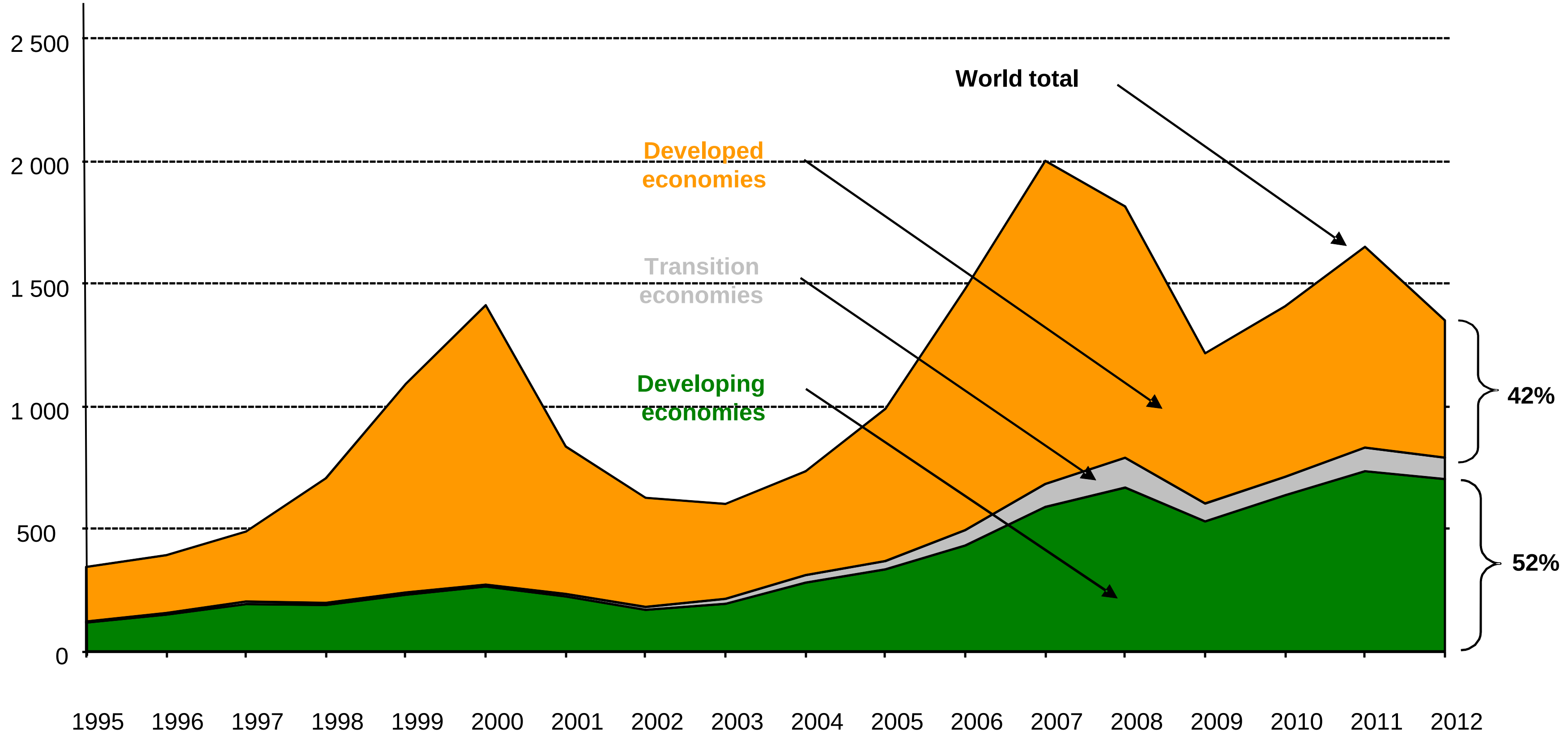
Global FDI flows 2004 – 2012, and projections 2013 – 2015
(Billions of dollars)



- Forecasts for **2013 close to 2012 level**; upper range at $1.45 trillion aligned with the pre-crisis average
- FDI **may slowly increase** to $1.6 trillion **in 2014 and** $1.8 trillion **in 2015**
- However **significant risks to this growth scenario** remain

Developing economies surpass developed economies as FDI recipients for the first time

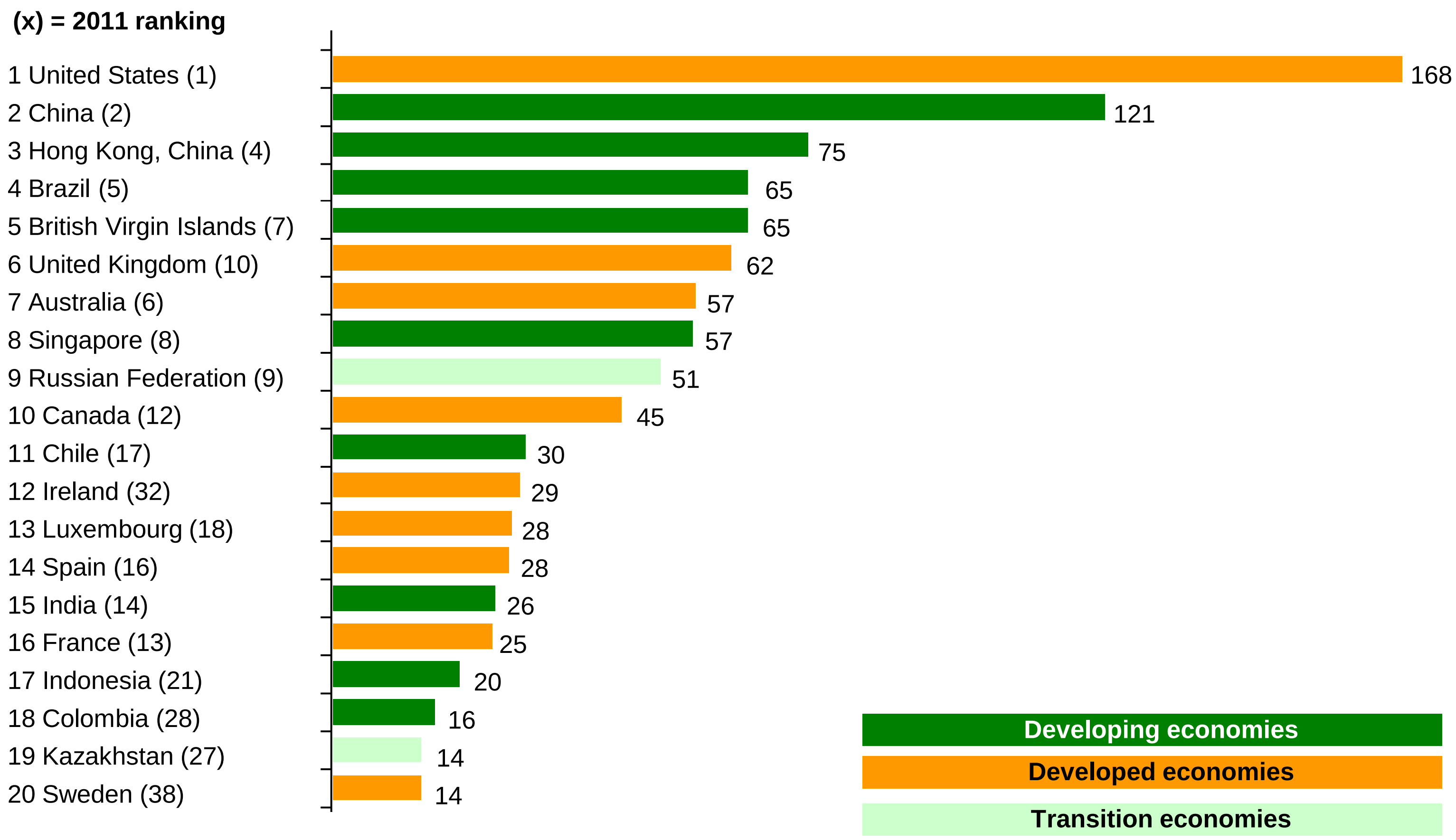
FDI inflows by group of economies, 1995 – 2012
(Billions of dollars)



9 of the 20 largest FDI recipients are developing economies

Top 20 host economies, 2012

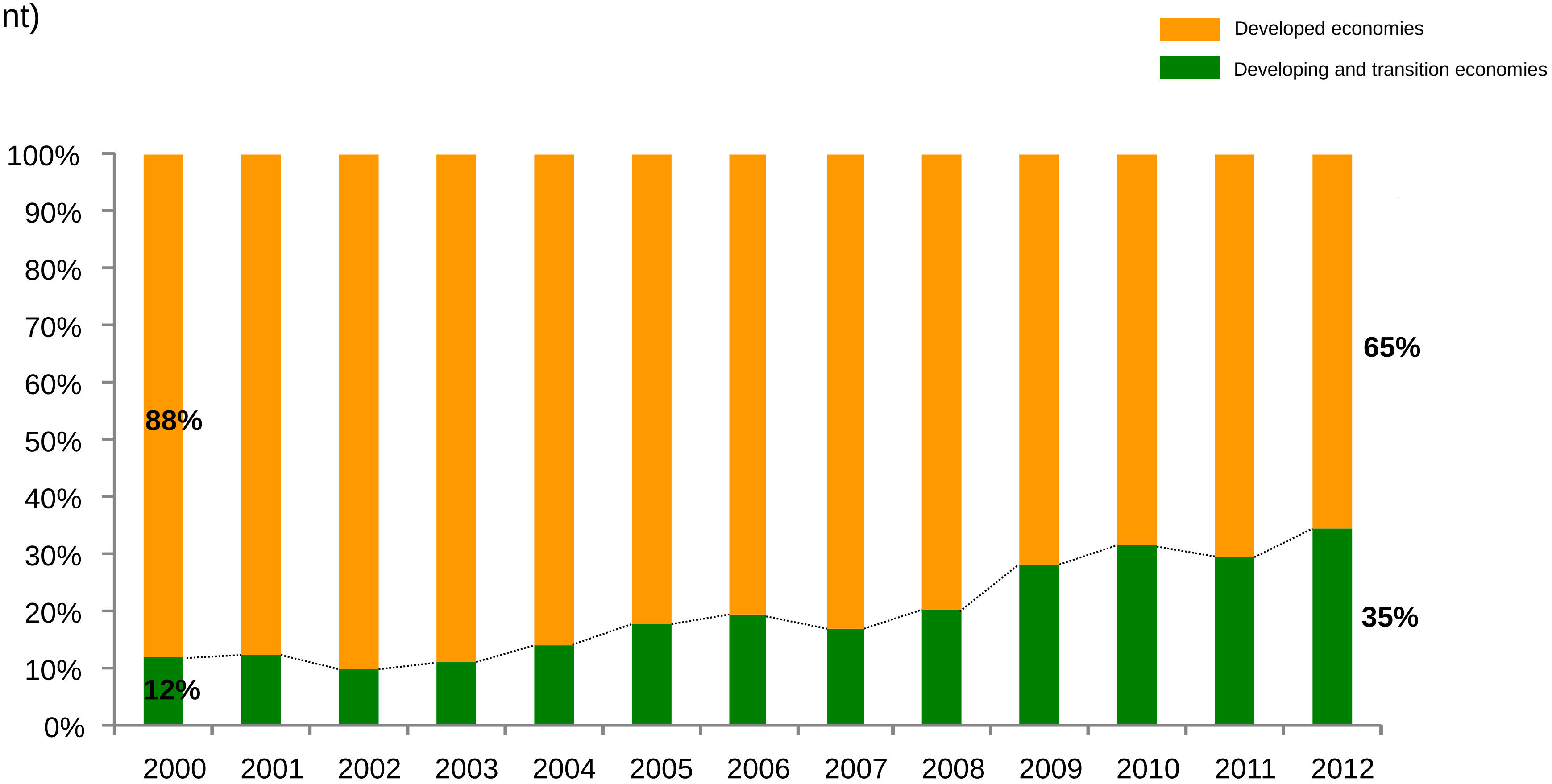
(Billions of dollars)



Outward FDI from developing economies accounts for 1/3 of global total

Shares in global FDI outflows, by group of economies, 2000–2012

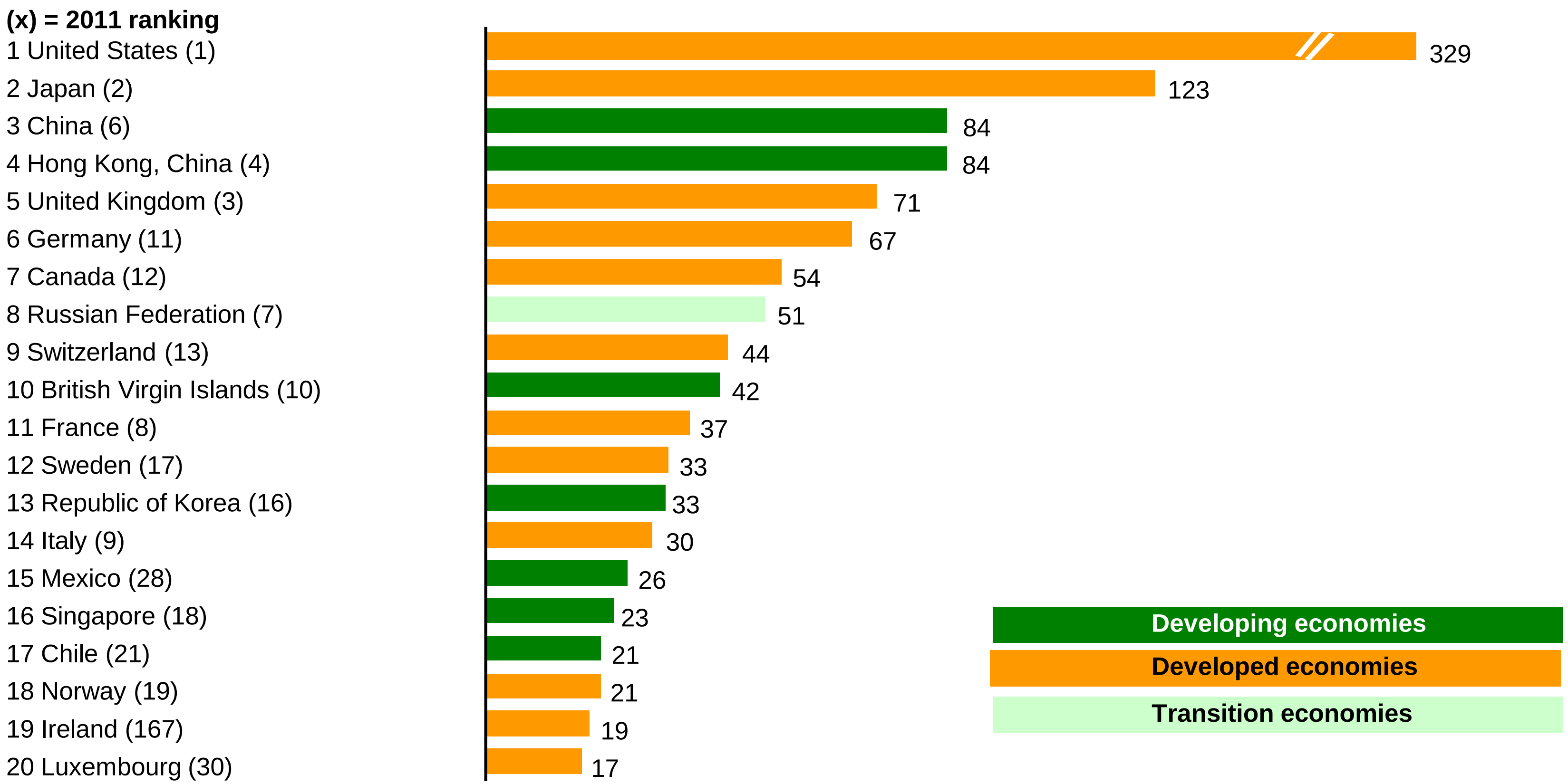
(Per cent)



China moves up from the sixth to the third largest investor, after the United States and Japan

Top 20 investor economies, 2012

(Billions of dollars)



Global FDI drop is due to developed economies, flows into developing regions remain at their high level

FDI inflows by region, 2010–2012

(Billions of dollars)

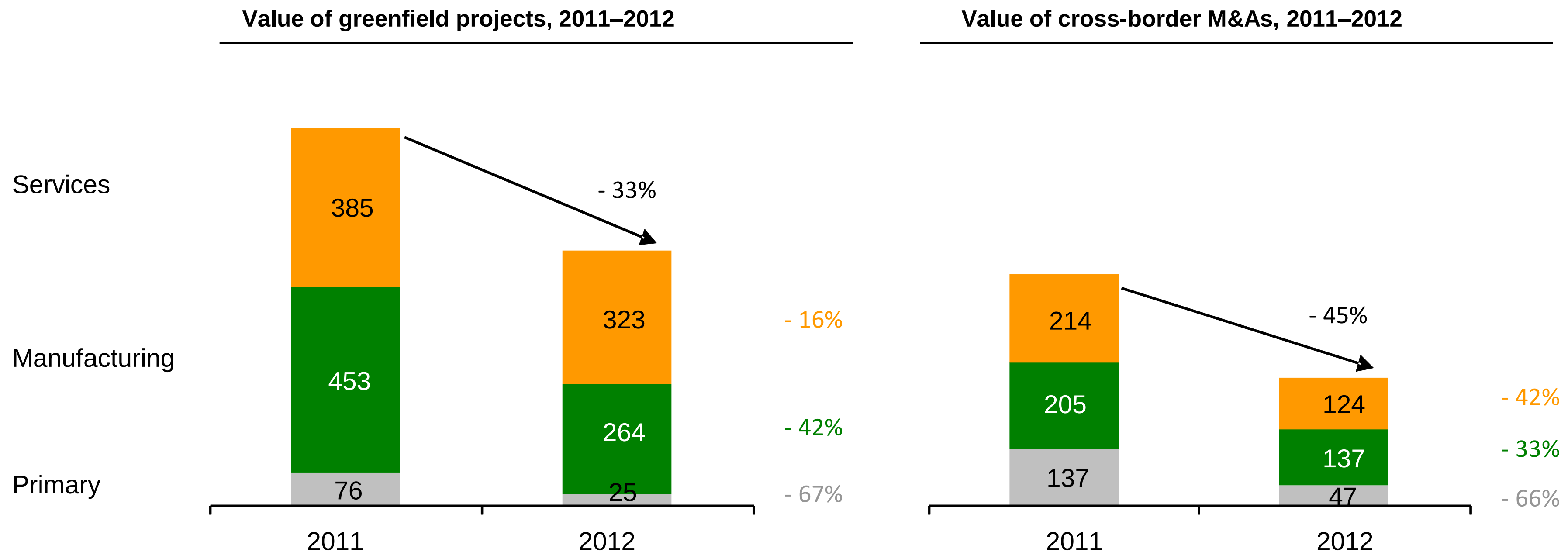
Region	FDI inflows		
	2010	2011	2012
World	**1 409**	**1 652**	**1 351**
Developed economies	696	820	561
Developing economies	637	735	703
Africa	44	48	50
Asia	401	436	407
East and South-East Asia	313	343	326
South Asia	28	44	34
West Asia	59	49	47
Latin America and the Caribbean	190	249	244
Oceania	3	2	2
Transition economies	75	96	87
Structurally weak, vulnerable and small economies	**45**	**56**	**60**
LDCs	19	21	26
LLDCs	27	34	35
SIDS	5	6	6

- FDI flows to **developed countries plummet**
- FDI flows to **developing economies** see a **small overall decline, with some bright spots:**
  - Africa bucks the trend
  - Developing Asia loses growth momentum, but remains at historically high levels
  - Latin America and the Caribbean register a small decline
- FDI is on the **rise in structurally weak economies**
- **Transition** economies see a relatively **small decline**

All the three sectors see a decline, but the services sector remains resilient

FDI projects inflows by sector

(Billions of dollars)



International production continues to grow at a steady pace

Selected key performance indicators, foreign affiliates of TNCs, 2012

	Change vs. 2011
72 million of **employees**	+6%
$26 trillion of **sales**	+7%
$7 trillion of **value added** (~9% of global GDP)	+6%
$87 trillion of managed **assets**	+4%

International production of TNCs continues to expand at a steady rate because FDI flows, even at lower levels, add to the existing FDI stock

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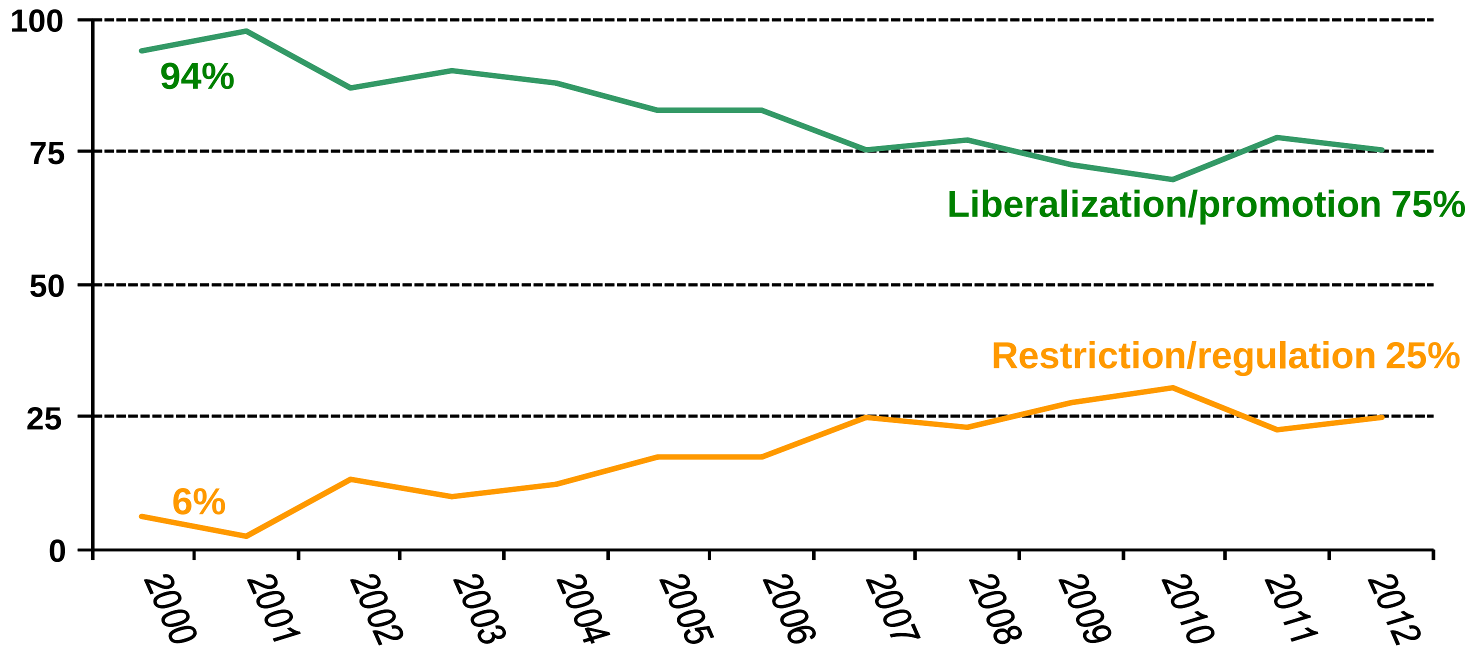
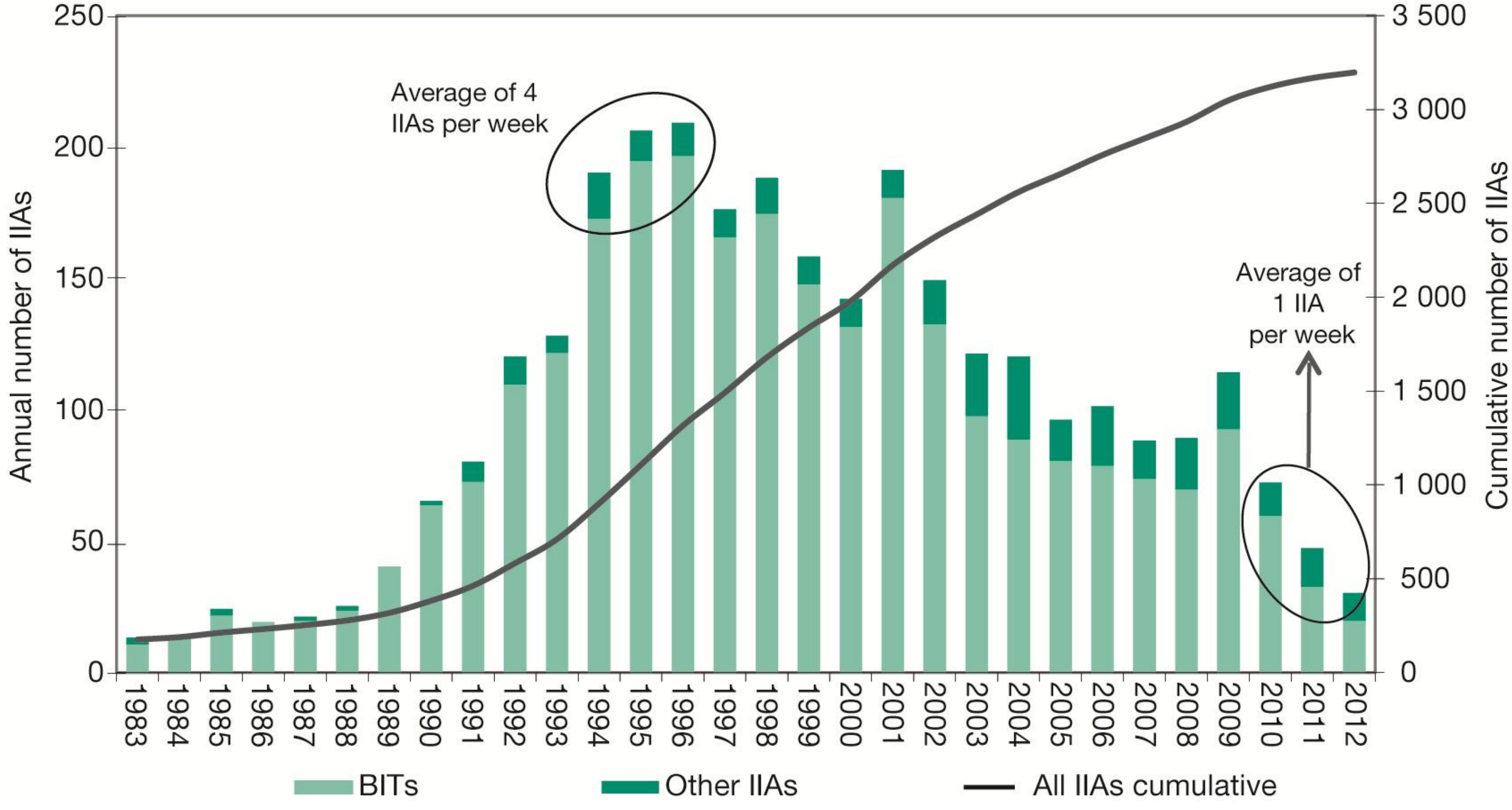
Most countries remain keen to attract FDI while becoming more selective and reinforcing regulatory frameworks

Changes in national investment policies, 2000 – 2012
(Per cent)



The number of newly signed IIAs continues to decline but the total number has reached 3,196

Trends in IIAs, 1983–2012



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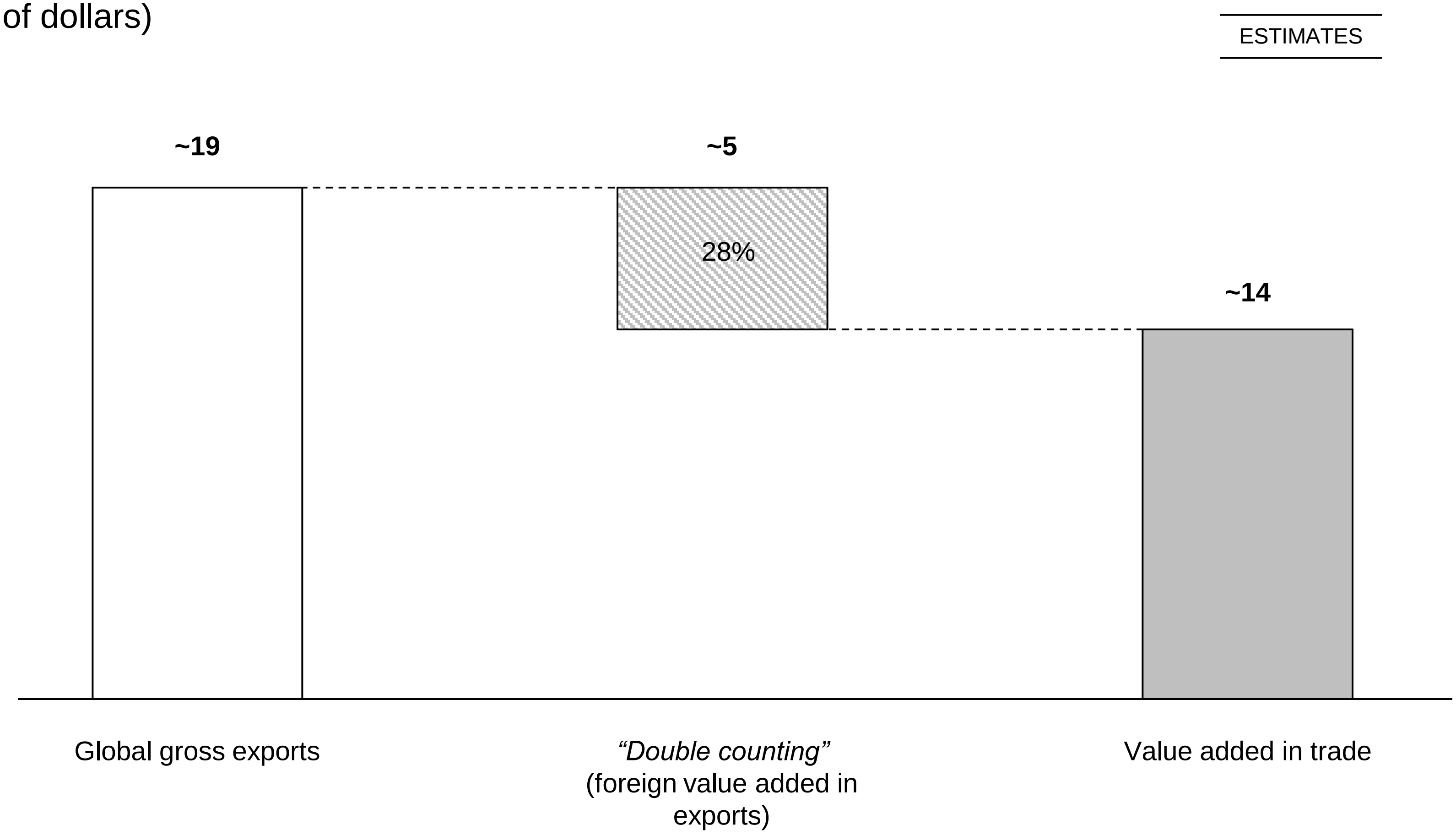
- Global and regional investment trends
- Recent policy developments
- **Global value chains and development**

Trade is increasingly driven by global value chains (GVCs), leading to a significant amount of double counting

Value added in global trade, 2010

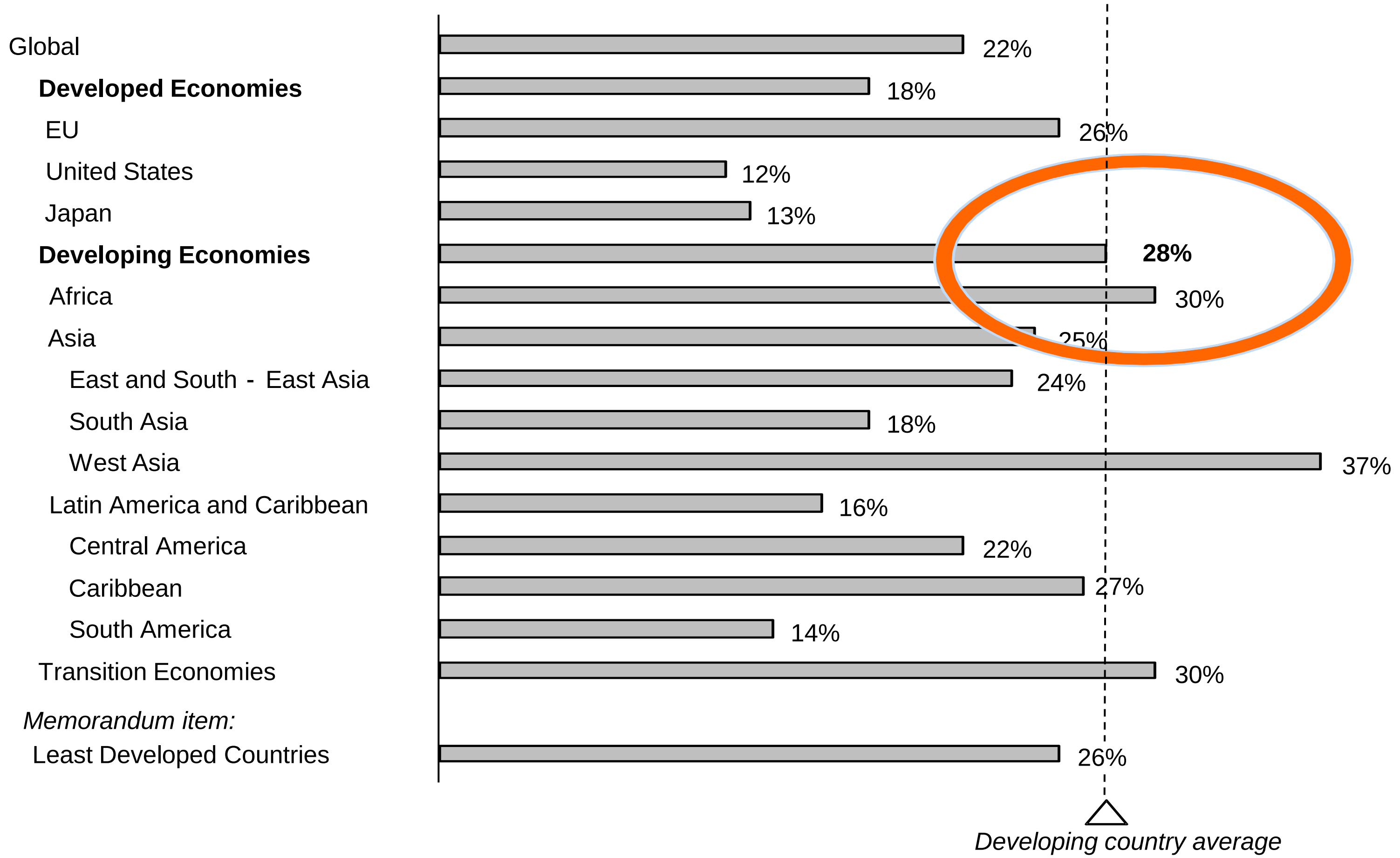
(Trillions of dollars)



The contribution of GVCs to economic growth can be significant

Domestic value added in trade as a share of GDP, by region, 2010

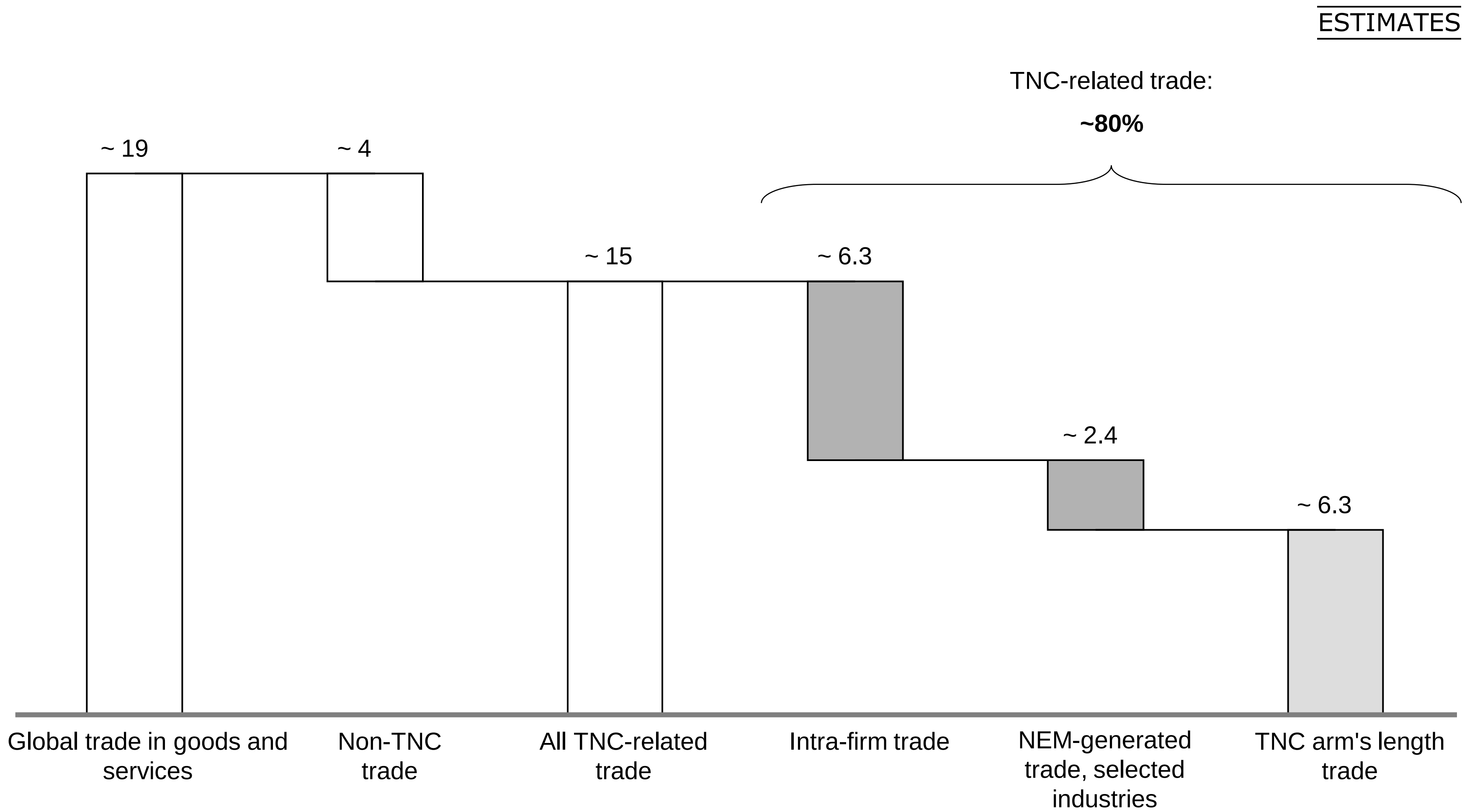
(Per cent)



GVCs are typically coordinated by TNCs

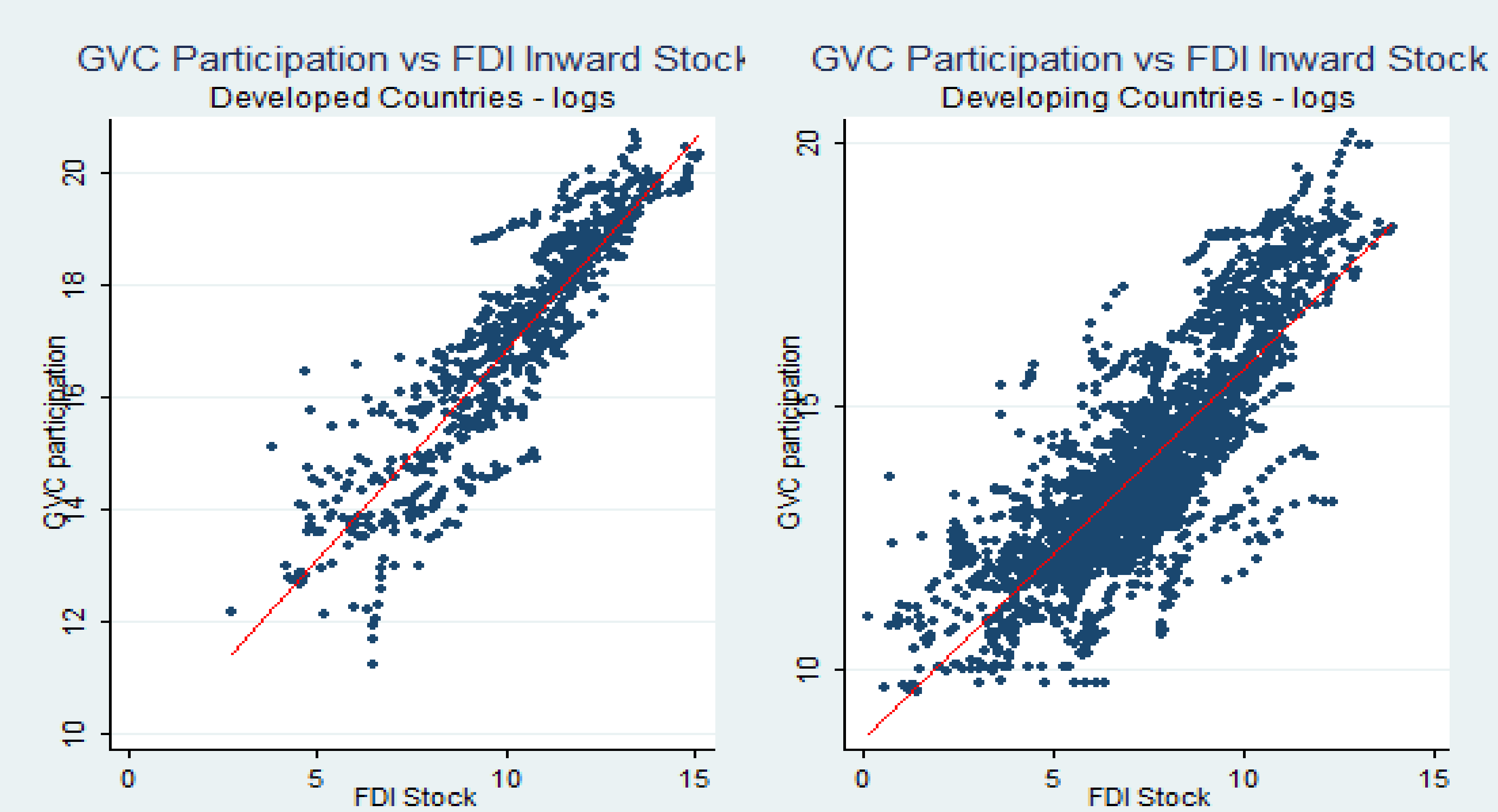
Global gross trade (export of goods and services), by type of TNC involvement, 2010

(Trillions of dollars)



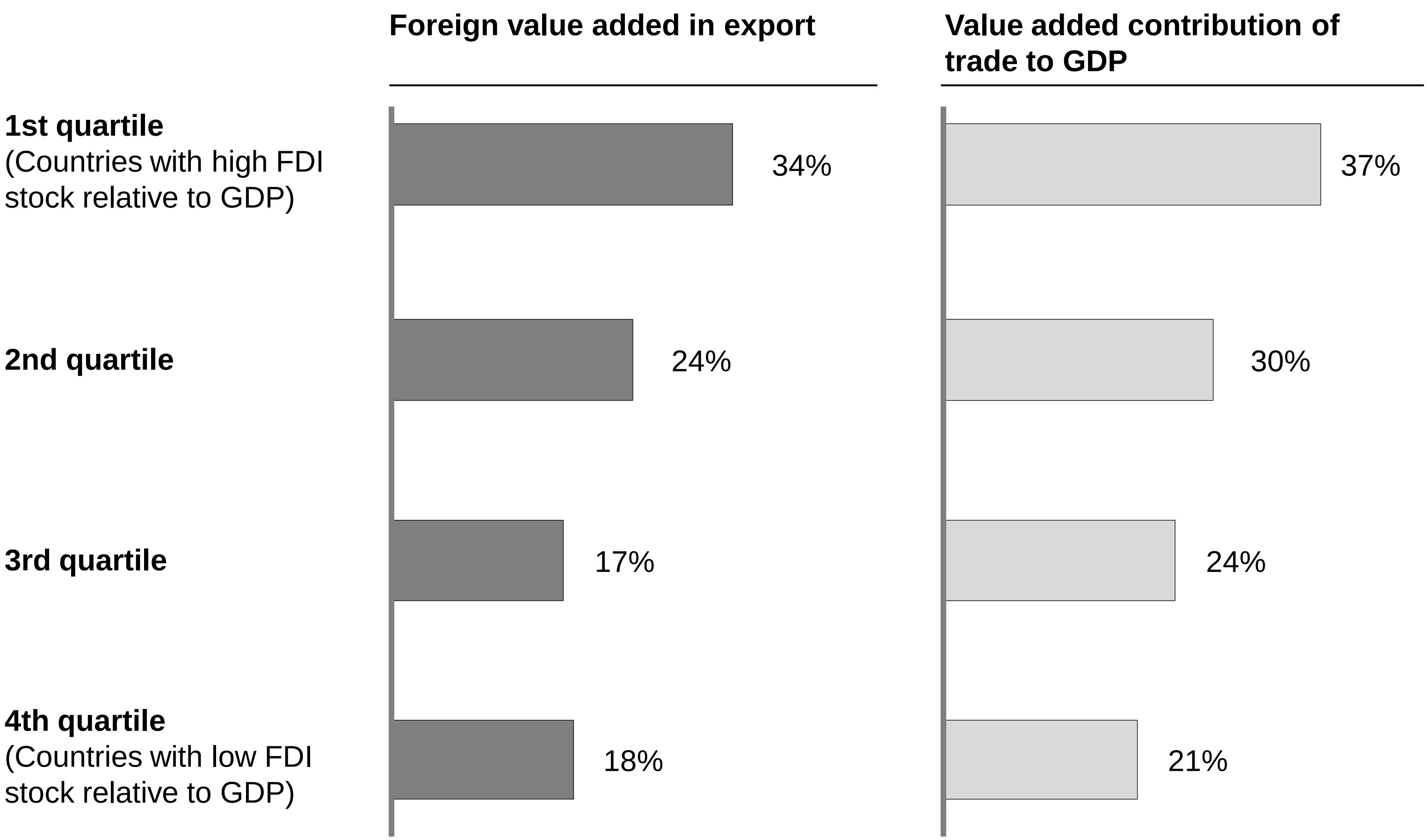
The presence of TNCs drives GVC participation

Correlation between inward FDI stock and GVC participation, 187 countries, 1990 – 2010



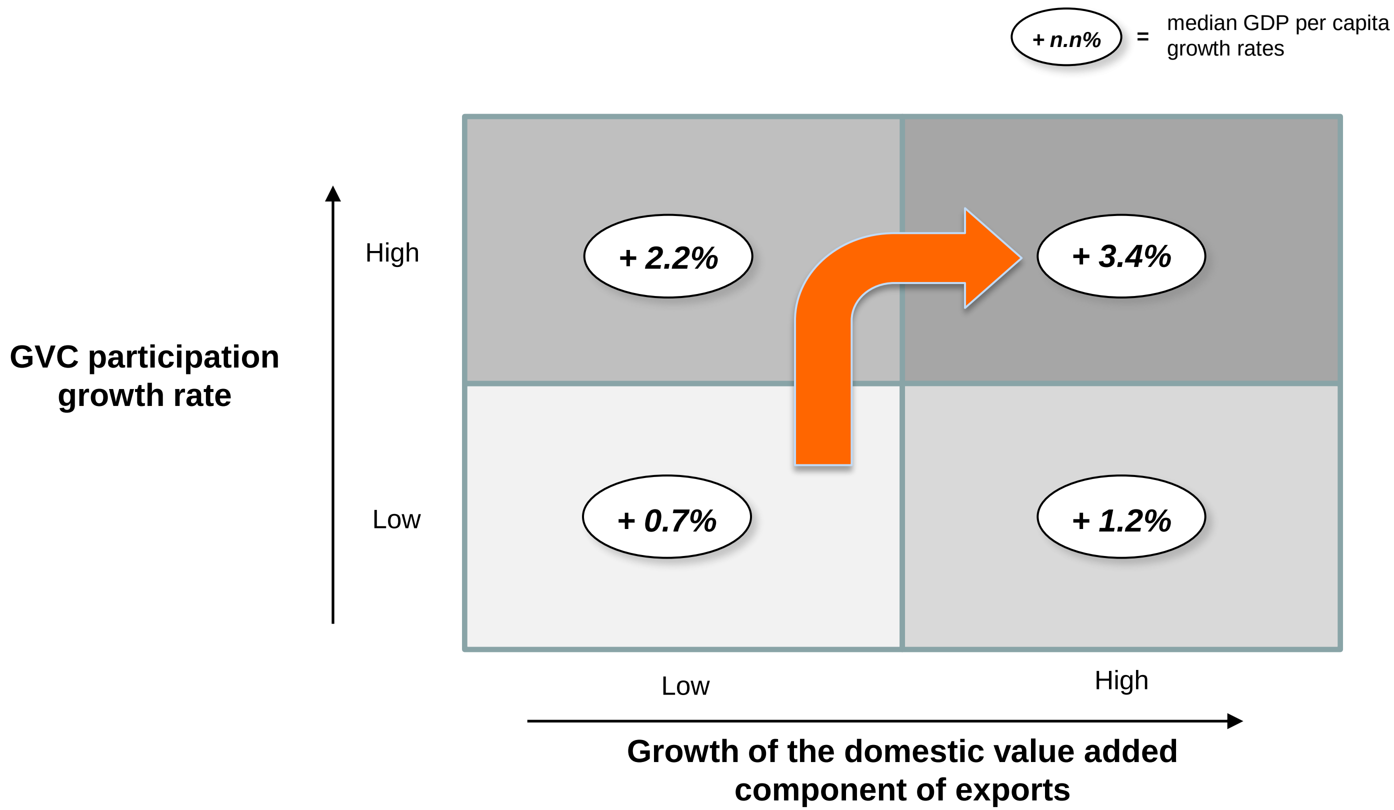
FDI shapes patterns of value added in trade

Key value added trade indicators (median values), by quartile of FDI stock relative to GDP, 2010



Longer term, the ideal development path involves not just participation but also domestic value added creation

GDP per capita growth rates for countries with high/low growth in GVC participation, and high/low growth in domestic value added share, 1990-2010



A number of factors and conditions may facilitate ‘climbing’ the GVC development ladder

(ii) Share of exports by level of technological sophistication

Resource-based	Low-tech manufacturing, basic services	Mid-level manufacturing and services	Sophisticated manufacturing and services	Knowledge-based services

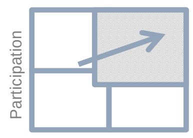
GVC development stages

(i) Participation/ value creation archetypal moves

Facilitating factors and conditions

Upgrading
(Focus on functional and chain upgrading)

- Move to (or expand to) higher value segments in GVCs
- Move to (or expand to) more technologically sophisticated and higher value GVCs

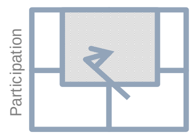


- Effective national innovation system, R&D policies, and intellectual property rules
- Presence of TNCs capable of GVC coordination and a domestic and international supplier base
- Pool of highly trained workers

- Presence of domestic supplier base fully integrated in multiple GVCs (reduced reliance on individual GVCs)
- Absorptive capacities at higher technology levels, capacity to engage in R&D activities
- Pool of relatively low-cost skilled workers

Upgrading
(Focus on product and process upgrading)

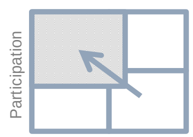
- Increase productivity and value added produced within existing GVC segments



- Availability and absorptive capacities of domestic supplier firms and partners
- Reliable basic infrastructure services (utilities and telecommunications)
- Pool of relatively low-cost semi-skilled workers

Integrating

- Enter (increase relative importance of) more fragmented GVCs
- Increase exports of intermediate goods and services



- Conducive investment and trading environment
- Basic infrastructure provision
- Pool of relatively low-cost workers

The contribution of GVCs to development can be significant, however participation in GVCs also involves risks

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- Value added trade contributes nearly 30 per cent to developing countries' GDP on average
- There is a positive correlation between participation in GVCs and growth rates of GDP per capita
- GVCs have a direct economic impact on value added, jobs and income
- Participation in GVCs can help countries' acquisition and dissemination of technologies and skills, and spread international best practices, including on social and environmental issues, e.g. through the use of CSR standards
- GVCs can also be an important avenue for developing countries to build productive capacity, opening up opportunities for longer-term industrial upgrading

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- GDP contribution of GVCs can be limited if countries capture only a small share of the value added created in the chain
- Also, a large part of GVC value added in developing economies is generated by foreign affiliates of TNCs, which can lead to relatively low "value capture", e.g. as a result of transfer pricing or income repatriation
- Technology dissemination, skill building and upgrading are not automatic. Developing countries face the risk of remaining locked into relatively low value added activities
- Environmental impacts and social effects, including on working conditions, occupational safety and health, and job security, can be negative
- The potential "footlooseness" of GVC activities and increased vulnerability to external shocks pose further risks

Countries need to make a strategic choice whether or not to promote GVCs

- Countries need to carefully weigh the pros and cons of GVC participation, and the costs and benefits of proactive policies to promote GVCs or GVC-led development strategies, in line with their specific situation and factor endowments

- Some countries may decide not to promote GVC participation. Others may not have a choice: for the majority of smaller developing economies with limited resource endowments there is often little alternative to development strategies that incorporate a degree of participation in GVCs . The question for those countries is not so much *whether* to participate in GVCs, but *how.* In reality, most countries are already involved in GVCs one way or another

- Promoting GVC participation requires targeting specific GVC segments, i.e. GVC promotion can be selective. Moreover, GVC participation is only one aspect of a country's overall development strategy

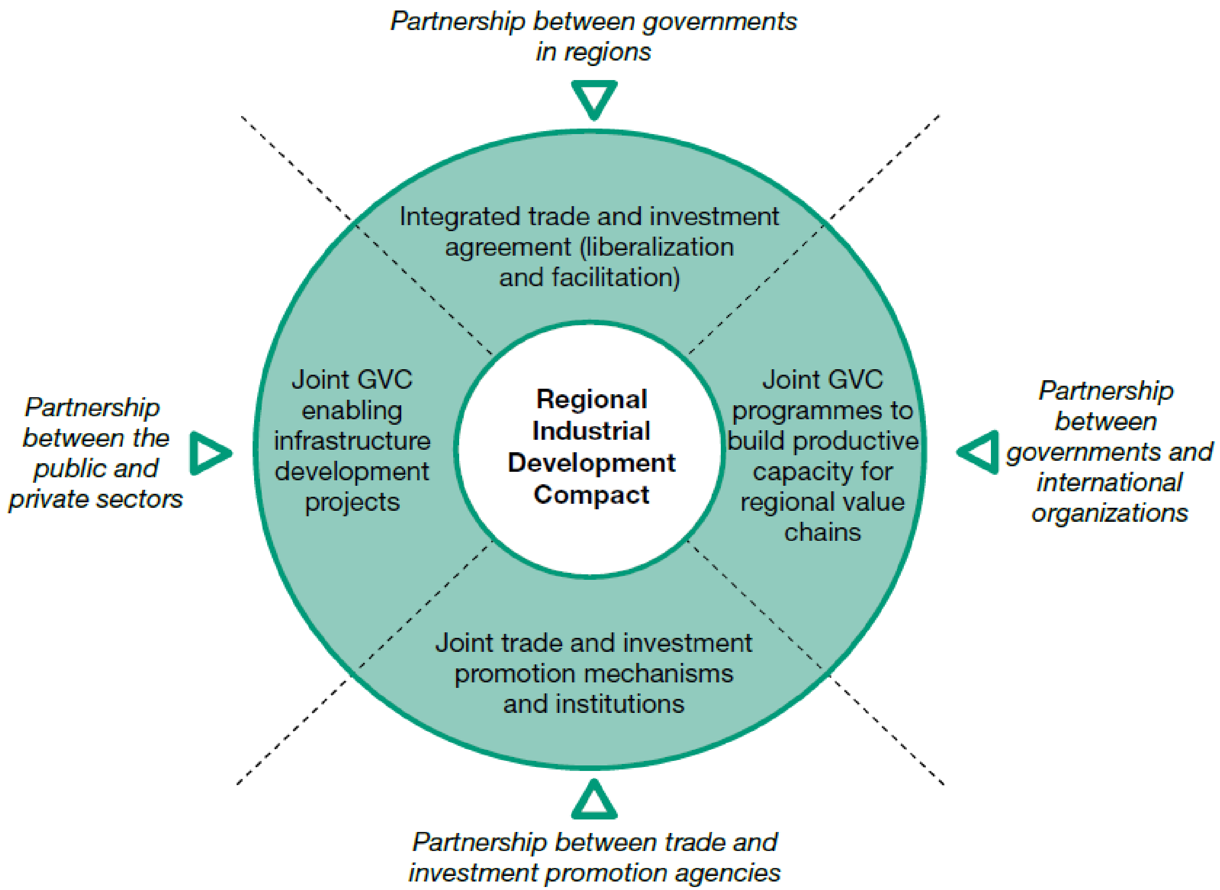
Policies matter to make GVCs work for development

A policy framework for GVCs and development

Embedding GVCs in development strategy	• Incorporating GVCs in industrial development policies • Setting policy objectives along GVC development paths
Enabling participation in GVCs	• Creating and maintaining a conducive environment for trade and investment • Putting in place infrastructural prerequisites for GVC participation
Building domestic productive capacity	• Supporting enterprise development and enhancing the bargaining power of local firms • Strengthening skills of the workforce
Providing a strong environmental, social and governance framework	• Minimizing negative effects and risks associated with GVC participation through regulation, public and private standards • Supporting local firms in complying with international standards
Synergizing trade and investment policies and institutions	• Ensuring coherence between trade and investment policies • Synergizing trade and investment promotion and facilitation • Creating ‘Regional Industrial Development Compacts’

Regional trade and investment agreements could evolve into *regional industrial development compacts*

Regional industrial development compacts **for regional value chains**



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