

RESET INVESTMENT PROMOTION IN A NEW ERA OF INTERNATIONAL PRODUCTION

-- Strategizing Beyond the Covid-19 Global Crisis

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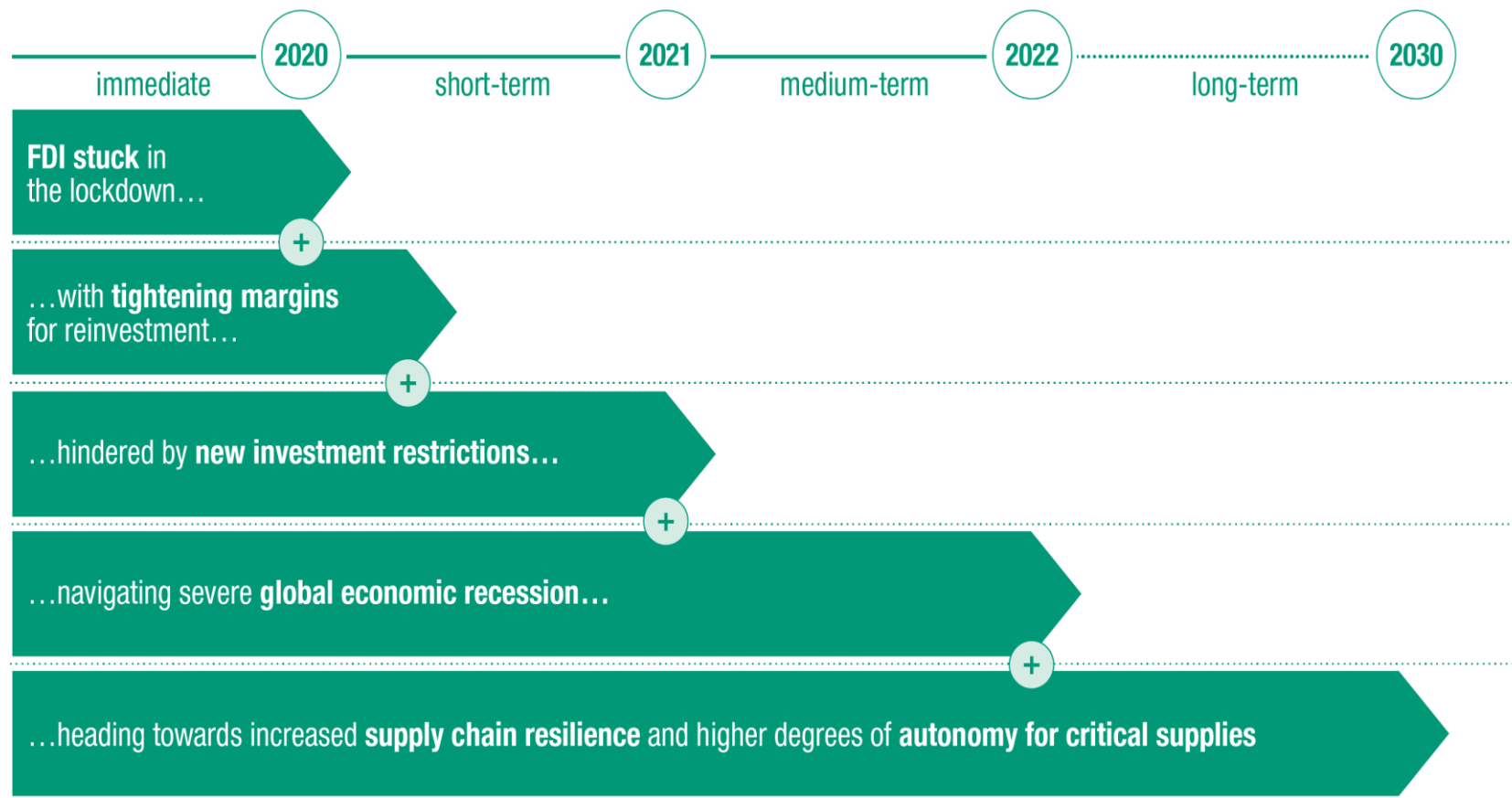
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Brainstorming**

WIR2020
World Investment Report

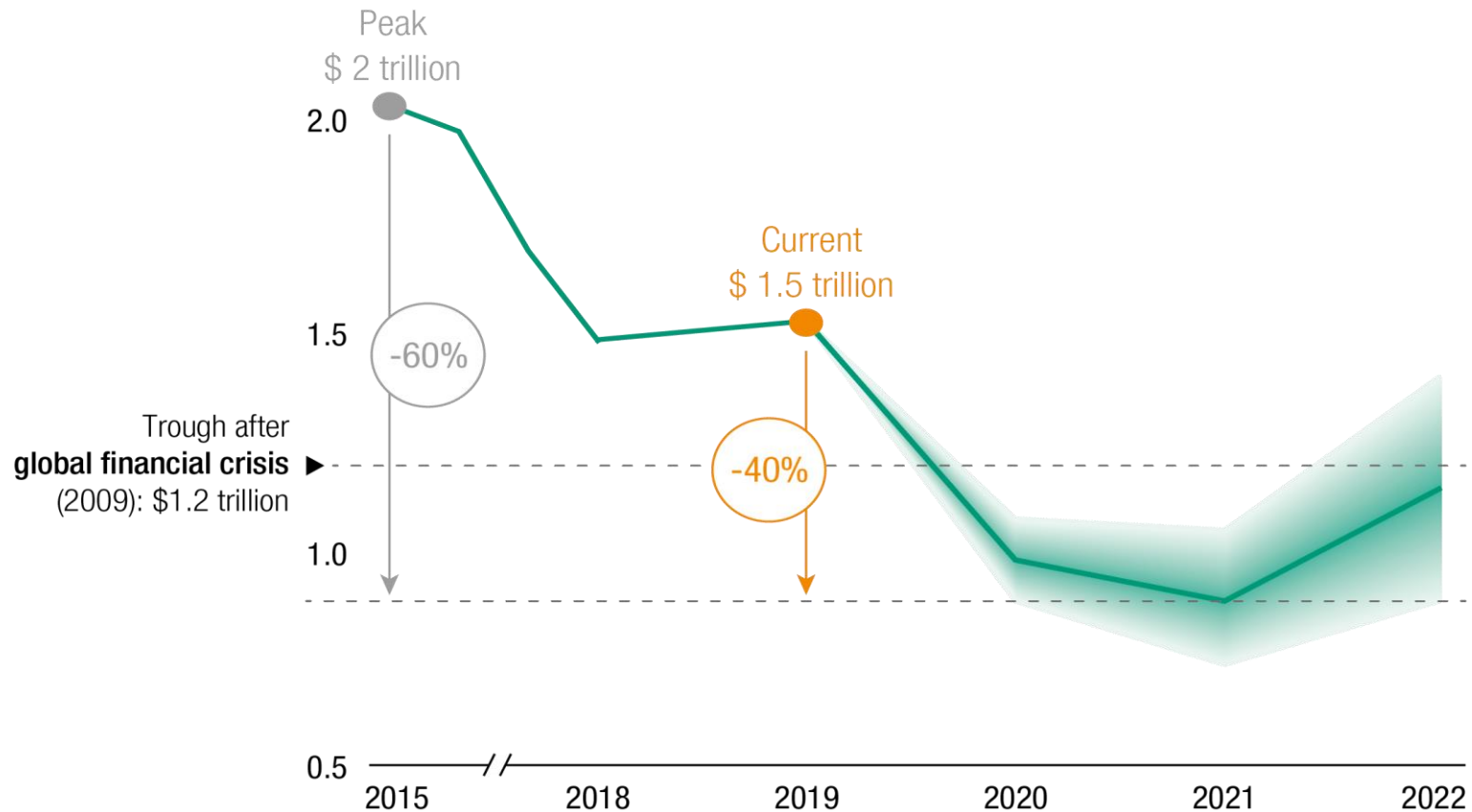
The COVID-19 pandemic is a triple shock of supply, demand and policy

Impact of the pandemic on FDI: transmission mechanisms



COVID-19 crisis will have a severe impact on FDI prospect with potentially lasting consequences

Global FDI inflows, 2015–2019 and 2020–2022 forecast



All regions will see decrease in FDI flows in 2020 with more severe impact expected in developing economies

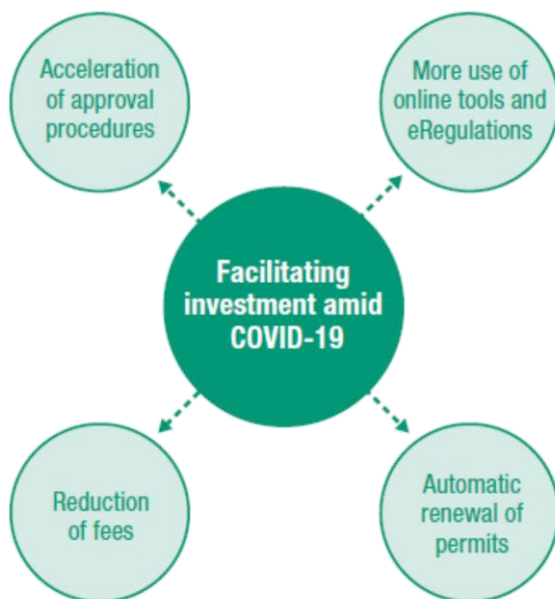
FDI inflows and projections, by group of economies and region, 2017-2019, and forecast 2020
(Billions of dollars and per cent)

Group of economies/region	2017	2018	2019	Projections
				2020
World	-14	-12	3	(-40 to -30)
Developed economies	-25	-20	5	(-40 to -25)
Europe	-16	-36	18	(-45 to -30)
North America	-40	-2	0	(-35 to -20)
Developing economies	7	0	-2	(-45 to -30)
Africa	-10	22	-10	(-40 to -25)
Asia	7	-1	-5	(-45 to -30)
Latin America and the Caribbean	14	-5	10	(-55 to -40)
Transition economies	-25	-31	59	(-45 to -30)

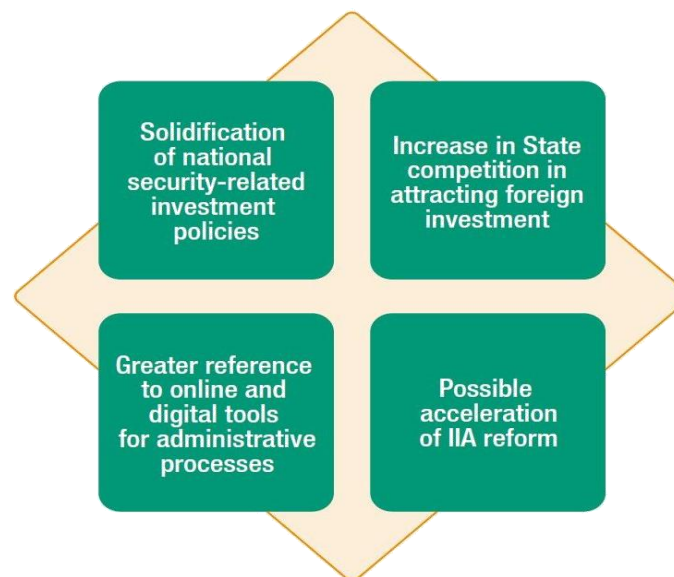
Source: UNCTAD, World Investment Report 2020.

Investment policy responses to the COVID-19 crisis

Observed investment facilitation responses

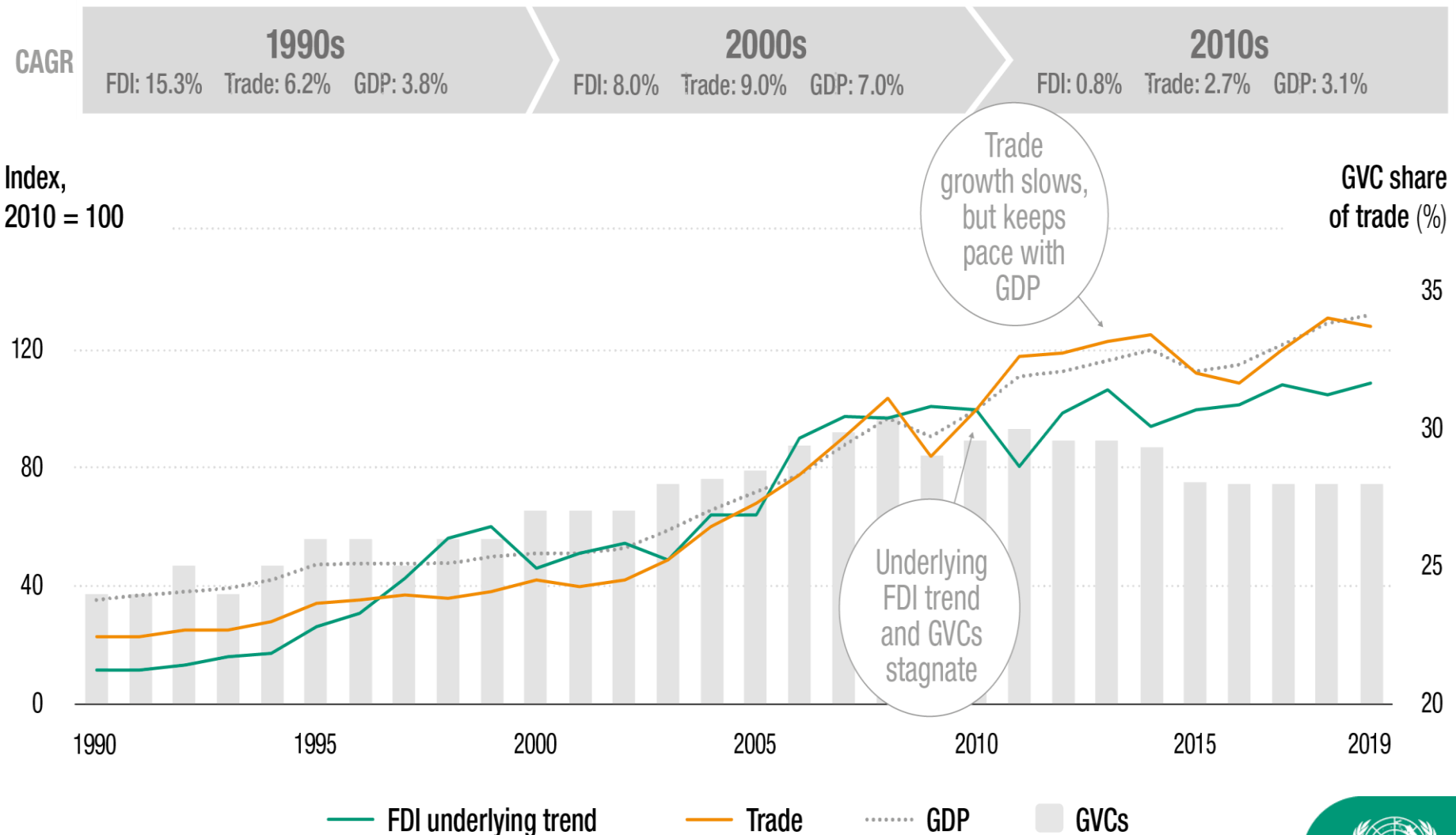


Potential long-term consequences



International production/GVCs:

-- Two decades of growth followed by one of stagnation



At the start of the new decade due to the combined effect of the pandemic and existing trends reaching their boiling point



Trends arriving at “boiling point”

- New technologies, New Industrial Revolution → Changing economics of international production
- Rising protectionist tendencies → New hurdles for international production
- Sustainability imperative → Rethinking international operations of MNEs

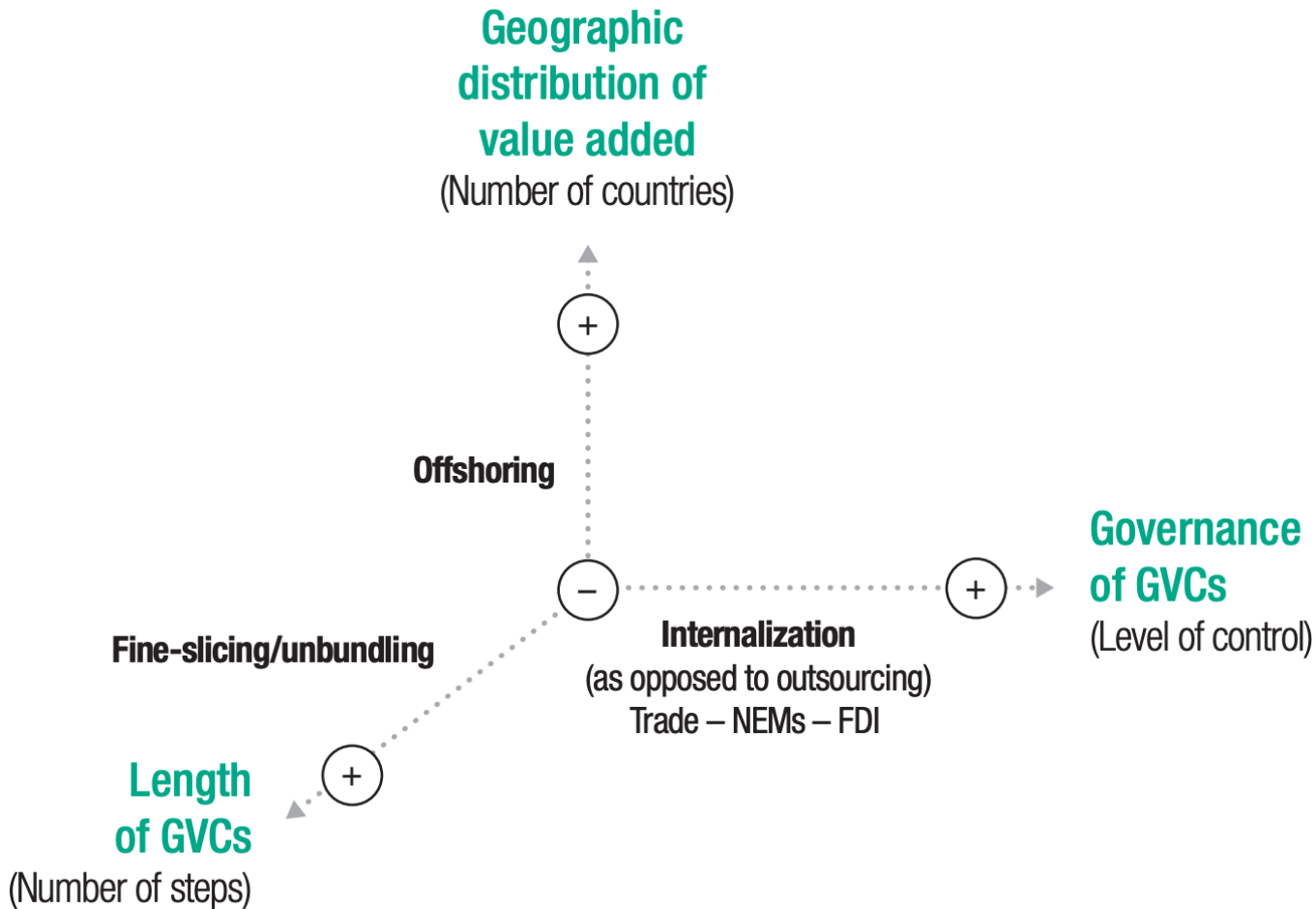


COVID-19

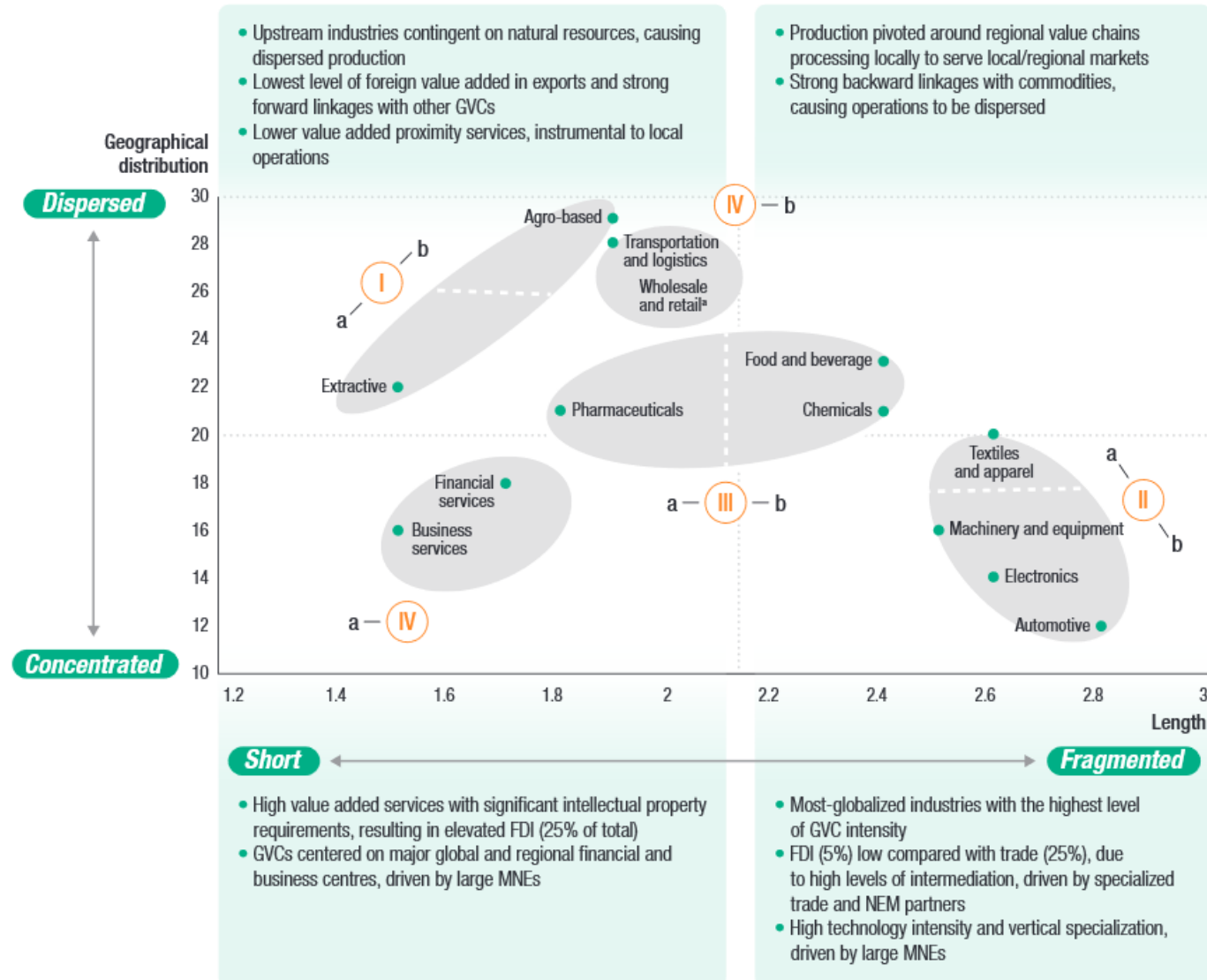
- Immediate impact**
 - Production and supply chain disruptions
 - Global recession
 - Supply and demand shock
- Longer-term impact**
 - Imperative to increase supply chain resilience
 - Pressure to increase national/regional autonomous productive capacity



International production configurations measured at three key dimensions



Length and geographical distribution of international production and key archetypes



COVID-19 arrived on top of 3 existing megatrends shaping international production

Trends

Technology/ New Industrial Revolution

- Advanced robotics and AI
- Digitalization in the supply chain
- Additive manufacturing (3D printing)

Policy and economic governance

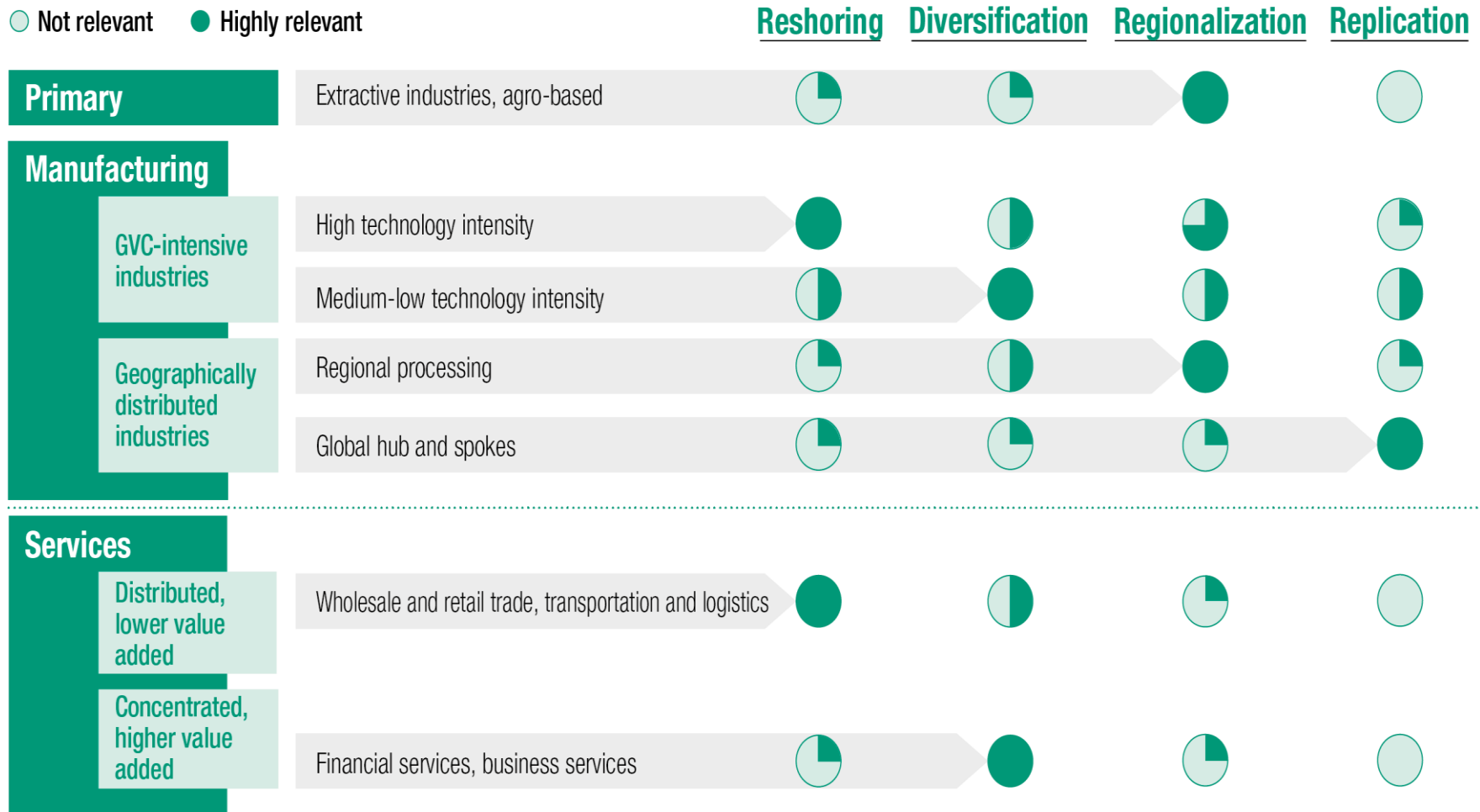
- More interventionism in national policies
- More protectionism in trade and investment
- More regional, bilateral and ad hoc economic cooperation

Sustainability

- Sustainability policies and regulations
- Market-driven changes in products and processes
- Physical supply chain impacts

Transformation of International Production: - Impact across industries via four trajectories

○ Not relevant ● Highly relevant



The four trajectories have different implications for investment-development policy

Reshoring



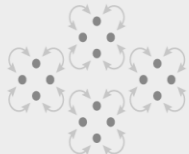
- Possible shock of restructuring, including divestment, relocation; investment diversion
- Shrinking pool of efficiency-seeking FDI
- Need to re-industrialize or cope with (premature) de-industrialization
- Access to and upgrading along the GVC development ladder becomes more difficult

Diversification



- Broader opportunity to participate in GVCs, but loosely governed, platform-based and asset-light
- Acceleration of the shift to intangibles and services-based GVCs
- Concentration of value, value capture in host countries becomes more difficult
- Quality of hard and soft digital infrastructure drives GVC participation

Regionalization



- Shift from global efficiency-seeking investment to regional market-seeking investment
- Shift from investment in dispersed vertical GVC segments to investment in broader industrial bases and clusters
- Nearshoring replicates restructuring effects of reshoring (but softens others)
- Regional economic cooperation, industrial policy and investment promotion indispensable to build regional value chains

Replication



- Shift from investment in large-scale industrial activity to small-scale distributed manufacturing
- Local manufacturing base and producer services a prerequisite to attract final stages of GVCs
- Increased outsourcing to local producers and service providers, value capture and technology dissemination not guaranteed
- Greater need for cost-effective physical supporting infrastructure and quality digital infrastructure (hard and soft)

Implications of the Transformation: Challenges and Opportunities

Challenges	Opportunities
Impact of restructuring of international production configurations: divestment, relocations, investment diversion	Attracting investors that are looking to diversify supply bases and building redundancy and resilience
Shrinking pool of efficiency-seeking investment: tougher competition for FDI	Increasing (local and regional) market-seeking FDI and distributed manufacturing
Value capture in GVCs and development based on vertical specialization increasingly difficult	Shorter value chains and more investment in final-goods production with broader industrial capability and clustering
Diminishing returns of infrastructure built for a world of GVCs	Digital infrastructure and platforms enabling new applications and services and new GVC entrants

Source: UNCTAD.

Transformation of International Production Calls for a Paradigm Shift

From	To
<ul style="list-style-type: none">• Export-oriented	<ul style="list-style-type: none">• Export “plus plus”<ul style="list-style-type: none">– Plus production for local markets– Plus infrastructure development
<ul style="list-style-type: none">• Efficiency-seeking investment	<ul style="list-style-type: none">• (Regional) Market-seeking investment
<ul style="list-style-type: none">• Targeting GVC segments/tasks	<ul style="list-style-type: none">• Building diversified industrial clusters
<ul style="list-style-type: none">• Prioritizing large-scale industrial investors	<ul style="list-style-type: none">• Competition for diversified investments based on flexibility and resilience
<ul style="list-style-type: none">• Cost-based competition for single-location investors	<ul style="list-style-type: none">• Room for small-scale manufacturing facilities and services
<ul style="list-style-type: none">• “Big infrastructure”	<ul style="list-style-type: none">• “Lean infrastructure” – digital and sustainable

Source: UNCTAD.

A New Framework for Investment Attraction

- **Embarking on a new investment-development path**
- **Developing a new ecosystem**
- **Building dynamic productive capacity**
- **Formulating a new investment promotion strategy**

Strategizing Investment Promotion in the New Era

- Assess likely trajectories of industries and GVC segments in the existing FDI profile.
- Assess retention options for economic activities at risk of reshoring or relocation.
- Assess opportunities to promote locations as nearshore or regional supply chain flexibility and resilience bases.
- Review the investor targeting approach, its dependence on vertical specialization and the potential need to shift towards more diversified industrial clustering and regional investment.
- Consider opportunities to engage in or enhance cooperation with investment promotion agencies in the region to promote multi-country industrial clusters and regional cross-border SEZs.
- Diversifying SEZ offerings: not just large-scale, export-oriented, industrial investment, but a range of types extending down to facilities for small-scale manufacturing (e.g. maker spaces) and collaborative services environments
- Enhance capabilities to promote investment in infrastructure and domestic services; enhance cooperation with PPP units to promote project-finance FDI in synergy with public investment (including in SDG-relevant sectors, renewables, agriculture, and health).

High Untapped Potential for Sustainability-dedicated Investment

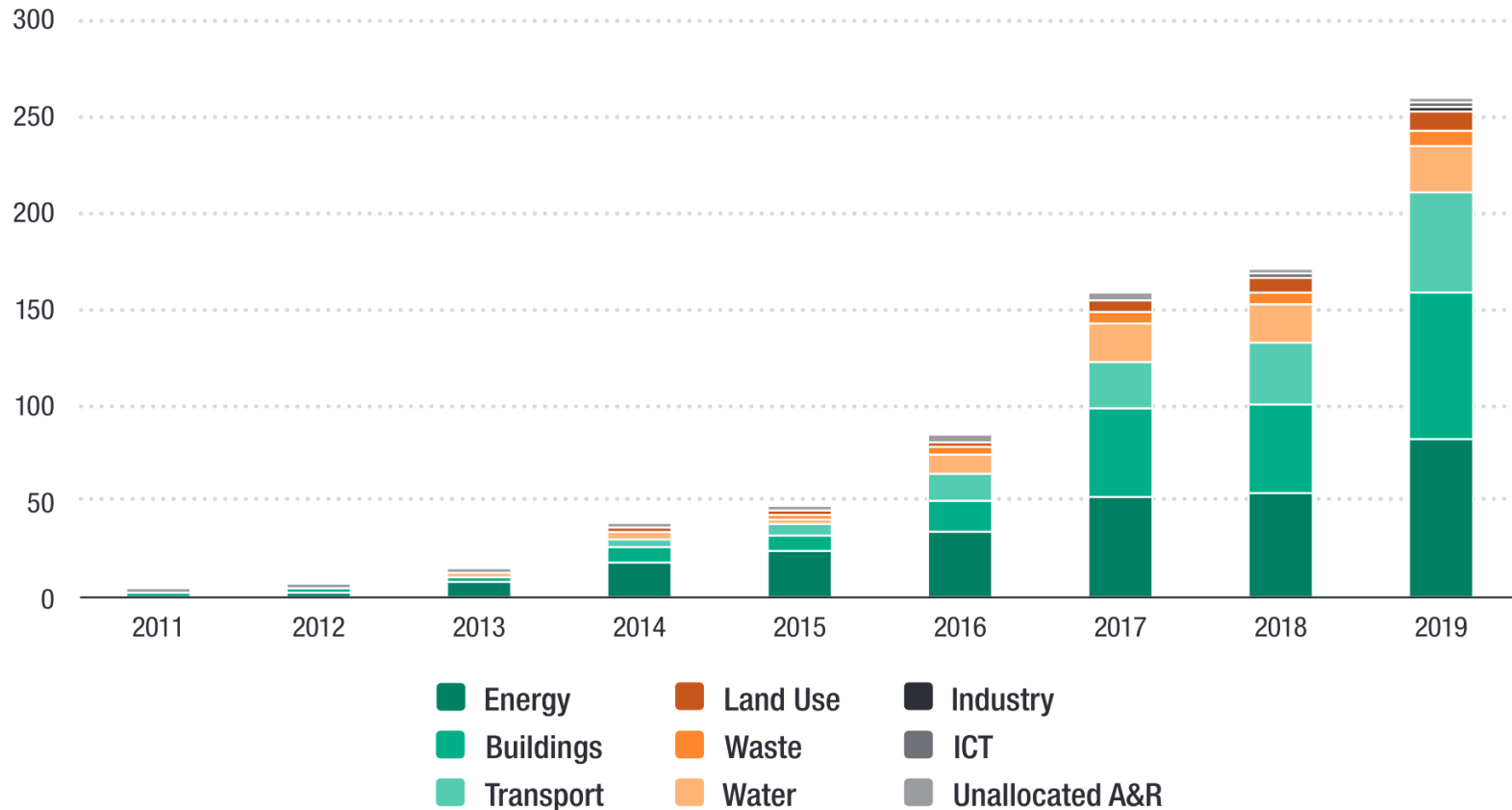
	Sustainability-dedicated investment		Responsible investment			
	Impact investing	Sustainability themed	Positive or best-in-class screening	Norms-based screening	ESG integration & engagement	Negative screening
Key features	Investment with an intention to generate positive, measurable social and environmental impact alongside a financial return	Investment in themes or assets constructed around the SDGs (e.g. green bonds, sustainability-themed funds)	Selecting best performing companies across industries in terms of sustainability performance	Screening against minimum standards of business practice based on international norms (e.g. UN, ILO)	Integrating ESG factors in investment decisions to better manage risk and enhance financial returns	Excluding activities or industries with clearly defined negative impacts from an investment portfolio
Return expectations	Social return & submarket/market financial return	Financial market rate & social, environmental impact	Financial market rate focused			
Market size	\$1.2 - \$1.3 trillion		\$29 trillion			

Source: UNCTAD, adapted from *Financing for Sustainable Development Report 2020*.

Note: Market size data are UNCTAD's calculation based on Morningstar, the Climate Bonds Initiative and GSIA.

Green bond market size is growing but more prevalent in certain industries

Green bond market size and industries finances (2014-2018, billions of dollars)



Source: Climate Bonds Initiative.

COVID-19 pandemic response bonds: a new source of financing

Health care services

- Development or expansion of accessible medical services/infrastructure (hospitals, clinics, etc...) to increase capacity.
- Hiring and training of medical personnel.
- Procurement of medical equipment (tests & diagnostic equipment, masks, gloves) and pharmaceuticals.

Health care supplies & equipment

- Production of medical supplies and equipment.
- Conversion of manufacturing facilities or equipment to produce medical supplies.

Pharmaceuticals

- Financing the provision of pharmaceuticals for treating COVID-19.
- Relevant R&D for a potential vaccine.
- Building the infrastructure for the manufacture and distribution of vaccines and medicines for universal access.

Impacts on SMEs & employment

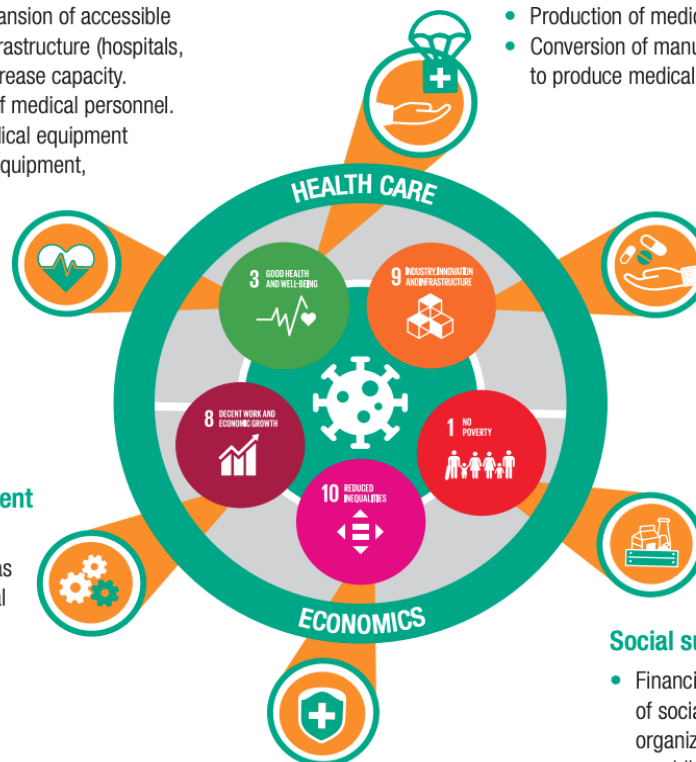
- Loans or other financial support for SMEs facing financial stress as a result of lockdowns and general economic downturn.
- Projects designed to prevent or alleviate unemployment.

Insurance

- Waiving patient cost-sharing on treatment related to coronavirus.
- Towards achieving universal health coverage.

Social support

- Financial support for the activities of social service and support organization (food banks, charities) providing support to vulnerable populations.



Source: UNCTAD, based on Sustainalytics and IFC.

Six sets of transformative actions

-- a “Big Push” for investing in the SDGs



GUIDING PRINCIPLES

Balancing liberalization and regulation

Balancing the need for attractive risk-return rates with the need for accessible and affordable services

Balancing the global scope of the SDGs with the need to make a special effort in LDCs

Balancing the push for private funds with the continued fundamental role of public investment

For further information:

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