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WORLD INVESTMENT REPORT 2010

INVESTING IN A LOW-CARBON ECONOMY



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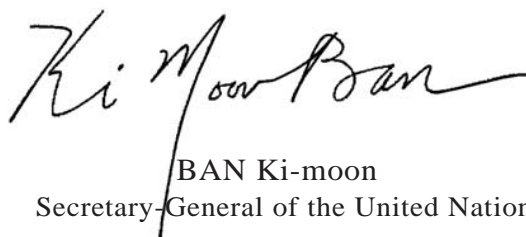
PREFACE

The global financial and economic recovery remains fragile, threatened by emerging risks, constraints in public investment and other factors. For the recovery to remain on track, private investment is crucial for stimulating growth and employment. Foreign direct investment (FDI) has a major role to play.

The *World Investment Report 2010* highlights a promising outlook: after a significant global FDI downturn in 2009, flows worldwide are expected to recover slightly this year, with a stronger recovery in 2011 and 2012. Overall, countries continue to liberalize and promote foreign investment, although there has also been an increase in new policy measures regulating foreign investment. Countries remain receptive towards FDI, seeing it as an important external source of development finance.

This year's *Report* focuses on climate change, and in particular the role of transnational corporations. As enterprises with formidable knowledge, cutting-edge technology, and global reach, TNCs are necessarily among the primary actors in the global effort to reduce greenhouse gas emissions and shift towards a low-carbon economy. The Report stresses that with the right policy initiatives, incentives and regulatory framework, TNCs can and must contribute significantly to both mitigation and adaptation. It also proposes a global partnership to galvanize low-carbon investment and advocates concrete initiatives such as a new technical assistance centre to support policy formulation and implementation in developing countries.

This twentieth anniversary edition of the *World Investment Report* continues the series' tradition of serving as a leading reference for policymakers, investment promotion agencies, business, academia, civil society and others. The series has been contributing to investment policy-making at the national and international levels. I commend it to all involved in our common quest to build a better world for all.



BAN Ki-moon
Secretary-General of the United Nations

New York, June 2010

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ABBREVIATIONS

AAU	assigned amount unit
BAU	business-as-usual
BIT	bilateral investment treaty
BOT	build-operate-transfer
CCS	carbon capture and storage
CDM	Clean Development Mechanism
CER	carbon-dioxide-equivalent emissions reduction
CIS	Commonwealth of Independent States
CSO	civil society organization
CSR	corporate social responsibility
DTT	double taxation treaty
ESCO	energy services company
ESG	environmental, social and governance
ETS	emission trading scheme
FDI	foreign direct investment
FTA	free trade agreement
GFCF	gross fixed capital formation
GHG	greenhouse gas
ICSID	International Centre for Settlement of Investment Disputes
IEA	International Energy Agency
IIA	international investment agreement
IP	intellectual property
IPA	investment promotion agency
IPCC	Intergovernmental Panel on Climate Change
ISAR	International Standards of Accounting and Reporting
ISDS	investor-state dispute settlement
JI	Joint Implementation
LDC	least developed countries
LLDC	land-locked developing countries
MFN	most favoured nation
MST	minimum standard of treatment
NAMA	nationally appropriate mitigation action
NAPA	national adaptation programmes of action
NCRE	non-conventional renewable energy
NIE	newly industrializing economies
L-TAC	Low-Carbon Technical Assistance Centre
ODA	overseas development assistance
OPIC	Overseas Private Investment Corporation
PPP	public private partnership
SEZ	special economic zone
SIDS	small island developing states
SME	small and medium-sized enterprise
SOE	state-owned enterprise
SWF	sovereign wealth fund
TNC	transnational corporation
TRIPS	trade-related aspects of intellectual property rights
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
WIPS	World Investment Prospects Survey

KEY MESSAGES

FDI Trends and Prospects

Global foreign direct investment (FDI) witnessed a modest, but uneven recovery in the first half of 2010. This sparks some cautious optimism for FDI prospects in the short run and for a full recovery further on. UNCTAD expects global inflows to reach more than \$1.2 trillion in 2010, rise further to \$1.3–1.5 trillion in 2011, and head towards \$1.6–2 trillion in 2012. However, these FDI prospects are fraught with risks and uncertainties, including the fragility of the global economic recovery.

Developing and transition economies attracted half of global FDI inflows, and invested one quarter of global FDI outflows. They are leading the FDI recovery and will remain favourable destinations for FDI.

Most regions are expected to see a rebound in FDI flows in 2010. The evolving nature and role of FDI varies among regions. Africa is witnessing the rise of new sources of FDI. Industrial upgrading through FDI in Asia is spreading to more industries and more countries. Latin American transnational corporations (TNCs) are going global. Foreign banks play a stabilizing role in South-East Europe, but their large scale presence also raises potential concerns. High levels of unemployment in developed countries triggered concerns about the impact of outward investment on employment at home.

Overcoming barriers for attracting FDI remains a key challenge for small, vulnerable and weak economies. Overseas development assistance (ODA) can act as a catalyst for boosting the role of FDI in least developed countries (LDCs). For landlocked developing countries (LLDCs) to succeed in attracting FDI they need to shift their strategy to focus on distance to markets rather than distance to ports. Focusing on key niche sectors is crucial if small islands developing States (SIDS) are to succeed in attracting FDI.

Investment Policy Developments

A dichotomy in investment policy trends is emerging. It is characterized by simultaneous moves to further investment liberalization and promotion on the one hand, and to increase investment regulation in pursuit of public policy objectives on the other.

Economic stimulus packages and State aid have impacted on foreign investment, with no significant investment protectionism observed so far.

The IIA universe is expanding rapidly, with over 5,900 treaties at present (on average four treaties signed per week in 2009). The IIA system is rapidly evolving as well, with countries actively reviewing and updating their IIA regimes, driven by the underlying need to ensure coherence and interaction with other policy domains (e.g. economic, social and environmental).

Global initiatives, such as investment in agriculture, global financial systems reform, and climate change mitigation are increasingly having a direct impact on investment policies.

Investing in a Low-Carbon Economy

TNCs are both major carbon emitters and low-carbon investors. They are therefore part of both the problem and the solution to climate change.

TNCs can contribute to global efforts for combating climate change by improving production processes in their operations at home and abroad, by supplying cleaner goods and services and by providing much-needed capital and cutting-edge technology.

UNCTAD estimates that in 2009 low-carbon FDI flows into three key low-carbon business areas (renewables, recycling and low-carbon technology manufacturing) alone amounted to \$90 billion. In its totality such investment is much larger, taking into account embedded low-carbon investments in other industries and TNC participation through non-equity forms. Already large, the potential for cross-border low-carbon investment is enormous as the world transitions to a low-carbon economy.

For developing countries, low-carbon foreign investment by TNCs can facilitate the expansion and upgrading of their productive capacities and export competitiveness, while helping their transition to a low-carbon economy. However, this investment also carries economic and social risks.

“Carbon leakage” has implications for both global emission reduction efforts and economic development. However, the extent of this phenomenon and its implications are hard to assess. Instead of addressing the issue at the border (as discussed in the current debate), it could be addressed at its source, working through corporate governance mechanisms, such as improved environmental reporting and monitoring.

Policy needs to maximize benefits and minimize risks related to low-carbon investment, based on individual countries’ social, economic and regulatory conditions. To support global efforts to combat climate change, UNCTAD suggests a global partnership to synergize investment promotion and climate change mitigation and to galvanize low-carbon investment for sustainable growth and development. Elements of this partnership would be:

- ***Establishing clean-investment promotion strategies.*** This encompasses developing conducive host-country policy frameworks (including market-creation mechanisms) and implementing effective promotion programmes (with key functions being investor targeting, fostering linkages and investment aftercare). International financial institutions and home countries need to support low-carbon investment promotion strategies, in particular through outward investment promotion, investment guarantees and credit risk guarantees.
- ***Enabling the dissemination of clean technology.*** This involves putting in place an enabling framework to facilitate cross-border technology flows, fostering linkages between TNCs and local firms to maximize spillover effects, enhancing local firms’ capacities to be part of global value chains, strengthening developing countries’ absorptive capacity for clean technology, and encouraging partnership programmes for technology generation and dissemination between countries.

- ***Securing IIAs' contribution to climate change mitigation.*** This includes introducing climate-friendly provisions (e.g. low-carbon investment promotion elements, environmental exceptions) into future IIAs, and a multilateral understanding to ensure the coherence of existing IIAs with global and national policy developments related to climate change.
- ***Harmonizing corporate GHG emissions disclosure.*** This involves creating a single global standard for corporate greenhouse gas (GHG) emissions disclosure, improving the disclosure of foreign operations and activities within value chains, and mainstreaming best practices in emissions disclosure via existing corporate governance regulatory mechanisms (such as stock-listing requirements).
- ***Setting up an international low-carbon technical assistance centre (L-TAC).*** L-TAC could support developing countries, especially LDCs, in formulating and implementing national climate change mitigation strategies and action plans, as well as engage in capacity and institution building. The centre would help beneficiaries meet their development challenges and aspirations, including by benefiting from low-carbon foreign investment and associated technologies. Among others, L-TAC would leverage expertise via existing and novel channels, including multilateral agencies.

Investment for Development: Challenges Ahead

The evolving TNC universe, along with the emerging investment policy setting, poses three sets of key challenges for investment *for* development:

- to strike the right policy balance (liberalization vs. regulation; rights and obligations of the State and investors);
- to enhance the critical interfaces between investment and development, such as those between foreign investment and poverty, and national development objectives;
- to ensure coherence between national and international investment policies, and between investment policies and other public policies.

All this calls for a new investment-development paradigm and a sound international investment regime that effectively promotes sustainable development for all.
