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GLOBAL VALUE CHAINS: INVESTMENT AND TRADE FOR DEVELOPMENT

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PREFACE

The 2013 *World Investment Report* comes at an important moment. The international community is making a final push to achieve the Millennium Development Goals by the target date of 2015. At the same time, the United Nations is working to forge a vision for the post-2015 development agenda. Credible and objective information on foreign direct investment (FDI) can contribute to success in these twin endeavours.

Global FDI declined in 2012, mainly due to continued macroeconomic fragility and policy uncertainty for investors, and it is forecast to rise only moderately over the next two years.

Yet as this report reveals, the global picture masks a number of major dynamic developments. In 2012 – for the first time ever – developing economies absorbed more FDI than developed countries, with four developing economies ranked among the five largest recipients in the world. Developing countries also generated almost one third of global FDI outflows, continuing an upward trend that looks set to continue.

This year's *World Investment Report* provides an in-depth analysis, strategic development options and practical advice for policymakers and others on how to maximize the benefits and minimize the risks associated with global value chains. This is essential to ensure more inclusive growth and sustainable development.

I commend the *World Investment Report 2013* to the international investment and development community as a source of reflection and inspiration for meeting today's development challenges.

BAN Ki-moon
Secretary-General of the United Nations

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ABBREVIATIONS

ADR	alternative dispute resolution
AGOA	African Growth and Opportunity Act
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BIT	bilateral investment treaty
CETA	Comprehensive Economic and Trade Agreement
CIS	Commonwealth of Independent States
COMESA	Common Market for Eastern and Southern Africa
CSR	corporate social responsibility
DCFTA	Deep and Comprehensive Free Trade Agreement
DPP	dispute prevention policy
EPZ	export processing zone
FDI	foreign direct investment
FTA	free trade agreement
GAP	good agricultural practices
GATS	General Agreement on Trade in Services
GCC	Gulf Cooperation Council
GSP	Generalized System of Preferences
GVC	global value chain
IIA	international investment agreement
IP	intellectual property
IPA	investment promotion agency
IPFSD	Investment Policy Framework for Sustainable Development
IRS	United States Internal Revenue Service
ISDS	investor–State dispute settlement
ISO	International Organization for Standardization
LBO	leveraged buy-out
LDC	least developed countries
LLDC	landlocked developing countries
MFN	most favoured nation
MRIO	multi-region input-output
NAFTA	North American Free Trade Agreement
NAICS	North American Industry Classification System
NEM	non-equity mode
OFC	offshore financial centre
PPP	public-private partnership
PRAI	Principles for Responsible Agricultural Investment
PTA	preferential trade agreement
SEZ	special economic zone
SIC	standard industrial classification
SIDS	small island developing States
SME	small and medium-sized enterprise
SOE	State-owned enterprise
SPE	special purpose entity
SWF	sovereign wealth fund
TNC	transnational corporation
TPO	trade promotion organization
TPP	Trans-Pacific Partnership Agreement
TRIMS	Trade-Related Investment Measures
TTIP	Transatlantic Trade and Investment Partnership
UNCITRAL	United Nations Commission on International Trade Law
WIPS	World Investment Prospects Survey
WTO	World Trade Organization

KEY MESSAGES

Global and regional investment trends

The road to foreign direct investment (FDI) recovery is bumpy. Global FDI fell by 18 per cent to $1.35 trillion in 2012. The recovery will take longer than expected, mostly because of global economic fragility and policy uncertainty. UNCTAD forecasts FDI in 2013 to remain close to the 2012 level, with an upper range of $1.45 trillion. As investors regain confidence in the medium term, flows are expected to reach levels of $1.6 trillion in 2014 and $1.8 trillion in 2015. However, significant risks to this growth scenario remain.

Developing countries take the lead. In 2012 – for the first time ever – developing economies absorbed more FDI than developed countries, accounting for 52 per cent of global FDI flows. This is partly because the biggest fall in FDI inflows occurred in developed countries, which now account for only 42 per cent of global flows. Developing economies also generated almost one third of global FDI outflows, continuing a steady upward trend.

FDI outflows from developed countries dropped to a level close to the trough of 2009. The uncertain economic outlook led transnational corporations (TNCs) in developed countries to maintain their wait-and-see approach towards new investments or to divest foreign assets, rather than undertake major international expansion. In 2012, 22 of the 38 developed countries experienced a decline in outward FDI, leading to a 23 per cent overall decline.

Investments through offshore financial centres (OFCs) and special purpose entities (SPEs) remain a concern. Financial flows to OFCs are still close to their peak level of 2007. Although most international efforts to combat tax evasion have focused on OFCs, financial flows through SPEs were almost seven times more important in 2011. The number of countries offering favourable tax conditions for SPEs is also increasing.

Reinvested earnings can be an important source of finance for long-term investment. FDI income amounted to $1.5 trillion in 2011 on a stock of $21 trillion. The rates of return on FDI are 7 per cent globally, and higher in both developing (8 per cent) and transition economies (13 per cent) than in developed ones (5 per cent). Nearly one third of global FDI income was retained in host economies, and two thirds were repatriated (representing on average 3.4 per cent of the current account payments). The share of retained earnings is highest in developing countries; at about 40 per cent of FDI income it represents an important source of financing.

FDI flows to developing regions witnessed a small overall decline in 2012, but there were some bright spots. *Africa* bucked the trend with a 5 per cent increase in FDI inflows to $50 billion. This growth was driven partly by FDI in extractive industries, but investment in consumer-oriented manufacturing and service industries is also expanding. FDI flows to *developing Asia* fell 7 per cent, to $407 billion, but remained at a high level. Driven by continued intraregional restructuring, lower-income countries such as Cambodia, Myanmar and Viet Nam are bright spots for labour-intensive FDI. In *Latin America and the Caribbean*, FDI inflows decreased 2 per cent to $244 billion due to a decline in Central America and the Caribbean. This decline was masked by an increase of 12 per cent in South America, where FDI inflows were a mix of natural-resource-seeking and market-seeking activity.

FDI is on the rise in structurally weak economies. FDI inflows to *least developed countries* (LDCs) hit a record high, an increase led by developing-country TNCs, especially from India. A modest increase in FDI flows to *landlocked developing countries* (LLDCs) occurred, thanks to rising flows to African and Latin American LLDCs and several economies in Central Asia. FDI flows into *small island developing States* (SIDS) continued to recover for the second consecutive year, driven by investments in natural-resource-rich countries.

FDI flows to developed economies plummeted. In developed countries, FDI inflows fell drastically, by 32 per cent, to $561 billion – a level last seen almost 10 years ago. The majority of developed countries saw significant drops of FDI inflows, in particular the European Union, which alone accounted for two thirds of the global FDI decline.

Transition economies saw a relatively small decline. A slump in cross-border mergers and acquisitions (M&As) sales caused inward FDI flows to *transition economies* to fall by 9 per cent to $87 billion; $51 billion of this went to the Russian Federation, but a large part of it was "round-tripping".

Investment policy trends

National investment policymaking is increasingly geared towards new development strategies. Most governments are keen to attract and facilitate foreign investment as a means for productive capacity-building and sustainable development. At the same time, numerous countries are reinforcing the regulatory environment for foreign investment, making more use of industrial policies in strategic sectors, tightening screening and monitoring procedures, and closely scrutinizing cross-border M&As. There is an ongoing risk that some of these measures are undertaken for protectionist purposes.

International investment policymaking is in transition. By the end of 2012, the regime of international investment agreements (IIAs) consisted of 3,196 treaties. Today, countries increasingly favour a regional over a bilateral approach to IIA rule making and take into account sustainable development elements. More than 1,300 of today's 2,857 bilateral investment treaties (BITs) will have reached their "anytime termination phase" by the end of 2013, opening a window of opportunity to address inconsistencies and overlaps in the multi-faceted and multi-layered IIA regime, and to strengthen its development dimension.

UNCTAD proposes five broad paths for reforming international investment arbitration. This responds to the debate about the pros and cons of the investment arbitration regime, spurred by an increasing number of cases and persistent concerns about the regime's systemic deficiencies. The five options for reform are: promoting alternative dispute resolution, modifying the existing ISDS system through individual IIAs, limiting investors' access to ISDS, introducing an appeals facility and creating a standing international investment court. Collective efforts at the multilateral level can help develop a consensus on the preferred course of action.

Global value chains: investment and trade for development

Today's global economy is characterized by global value chains (GVCs), in which intermediate goods and services are traded in fragmented and internationally dispersed production processes. GVCs are typically coordinated by TNCs, with cross-border trade of inputs and outputs taking place within their networks of affiliates, contractual partners and arm's-length suppliers. TNC-coordinated GVCs account for some 80 per cent of global trade.

GVCs lead to a significant amount of double counting in trade – about 28 per cent or $5 trillion of the $19 trillion in global gross exports in 2010 – because intermediates are counted several times in world exports, but should be counted only once as "value added in trade". Patterns of value added trade in GVCs determine the distribution of actual economic gains from trade between individual economies and are shaped to a significant extent by the investment decisions of TNCs. Countries with a greater presence of FDI relative to the size of their economies tend to have a higher level of participation in GVCs and to generate relatively more domestic value added from trade.

The development contribution of GVCs can be significant. In developing countries, value added trade contributes nearly 30 per cent to countries' GDP on average, as compared with 18 per cent in developed countries. And 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. They can also be an important avenue for developing countries to build productive capacity, including through technology dissemination and skill building, thus opening up opportunities for longer-term industrial upgrading.

However, participation in GVCs also involves risks. The GDP contribution of GVCs can be limited if countries capture only a small share of the value added created in the chain. Also, technology dissemination, skill building and upgrading are not automatic. Developing countries face the risk of remaining locked into relatively low value added activities. In addition, 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 to promote or not to promote participation in GVCs. They 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 it; others may not have a choice. In reality, most are already involved in GVCs to a degree. Promoting GVC participation implies 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.

Policy matters to make GVCs work for development. If countries decide to actively promote GVC participation, policymakers should first determine where their countries' trade profiles and industrial capabilities stand and then evaluate realistic GVC development paths for strategic positioning. Gaining access to GVCs and realizing upgrading opportunities requires a structured approach that includes embedding GVCs in industrial development policies (e.g. targeting GVC tasks and activities); enabling GVC growth by creating a conducive environment for trade and investment and by putting in place infrastructural prerequisites; and building productive capacities in local firms and skills in the local workforce. To mitigate the risks involved in GVC participation, these efforts should take place within a strong environmental, social and governance framework, with strengthened regulation and enforcement and capacity-building support to local firms for compliance.

UNCTAD further proposes three specific initiatives:

- *Synergistic trade and investment policies and institutions.* Trade and investment policies often work in silos. In the context of GVCs they can have unintended and counterproductive reciprocal effects. To avoid this, policymakers – where necessary, with the help of international organizations – should carefully review those policy instruments that simultaneously affect investment and trade in GVCs; i.e. trade measures affecting investment and investment measures affecting trade. Furthermore, at the institutional level, the trade and investment links in GVCs call for closer coordination and collaboration between trade and investment promotion agencies.
- *"Regional industrial development compacts".* The relevance of regional value chains underscores the importance of regional cooperation. Regional industrial development compacts could encompass integrated regional trade and investment agreements focusing on liberalization and facilitation, and establishing joint trade and investment promotion mechanisms and institutions. They could also aim to create cross-border industrial clusters through joint financing for GVC-enabling infrastructure and joint productive capacity-building. Establishing such compacts requires working in partnership between governments in the region, between governments and international organizations, and between the public and private sectors.
- *Sustainable export processing zones (EPZs).* Sustainability is becoming an important factor for attracting GVC activities. EPZs have become significant GVC hubs by offering benefits to TNCs and suppliers in GVCs. They could also offer – in addition to or in lieu of some existing benefits – expanded support services for corporate social responsibility (CSR) efforts to become catalysts for CSR implementation. Policymakers could consider setting up relevant services, including technical assistance for certification and reporting, support on occupational safety and health issues, and recycling or alternative energy facilities, transforming EPZs into centres of excellence for sustainable business. International organizations can help through the establishment of benchmarks, exchanges of best practices and capacity-building programmes.

OVERVIEW

GLOBAL INVESTMENT TRENDS

FDI recovery unravels in 2012

Global foreign direct investment (FDI) fell by 18 per cent to $1.35 trillion in 2012. This sharp decline was in stark contrast to other key economic indicators such as GDP, international trade and employment, which all registered positive growth at the global level. Economic fragility and policy uncertainty in a number of major economies gave rise to caution among investors. Furthermore, many transnational corporations (TNCs) reprofiled their investments overseas, including through restructuring of assets, divestment and relocation. The road to FDI recovery is thus proving bumpy and may take longer than expected.

UNCTAD forecasts FDI in 2013 to remain close to the 2012 level, with an upper range of $1.45 trillion – a level comparable to the pre-crisis average of 2005–2007 (figure 1). As macroeconomic conditions improve and investors regain confidence in the medium term, TNCs may convert their record levels of cash holdings into new investments. FDI flows may then reach the level of $1.6 trillion in 2014 and $1.8 trillion in 2015. However, significant risks to this growth scenario remain. Factors such as structural weaknesses in the global financial system, the possible deterioration of the macroeconomic environment, and significant policy uncertainty in areas crucial for investor confidence might lead to a further decline in FDI flows.

Developing economies surpass developed economies as recipients of FDI

FDI flows to developing economies proved to be much more resilient than flows to developed countries, recording their second highest level – even though they declined slightly (by 4 per cent) to $703 billion in 2012 (table 1). They accounted for a record 52 per cent of global FDI inflows, exceeding flows to developed economies for the first time ever, by $142 billion. The global rankings of the largest recipients of FDI also reflect changing patterns of investment flows: 9 of the 20 largest recipients were developing countries (figure 2). Among regions, flows to developing Asia and Latin America remained at historically high levels, but their growth momentum weakened. Africa saw a year-on-year increase in FDI inflows in 2012 (table 1).

Figure 1. Global FDI flows, 2004–2012, and projections, 2013–2015
(Billions of dollars)

Table 1. FDI flows by region, 2010–2012
(Billions of dollars and per cent)

Region	FDI inflows			FDI outflows		
	2010	2011	2012	2010	2011	2012
World	**1 409**	**1 652**	**1 351**	**1 505**	**1 678**	**1 391**
Developed economies	696	820	561	1 030	1 183	909
Developing economies	637	735	703	413	422	426
Africa	44	48	50	9	5	14
Asia	401	436	407	284	311	308
East and South-East Asia	313	343	326	254	271	275
South Asia	29	44	34	16	13	9
West Asia	59	49	47	13	26	24
Latin America and the Caribbean	190	249	244	119	105	103
Oceania	3	2	2	1	1	1
Transition economies	75	96	87	62	73	55
Structurally weak, vulnerable and small economies	**45**	**56**	**60**	**12**	**10**	**10**
Least developed countries	19	21	26	3.0	3.0	5.0
Landlocked developing countries	27	34	35	9.3	5.5	3.1
Small island developing States	4.7	5.6	6.2	0.3	1.8	1.8
Memorandum: percentage share in world FDI flows						
Developed economies	49.4	49.7	41.5	68.4	70.5	65.4
Developing economies	45.2	44.5	52.0	27.5	25.2	30.6
Africa	3.1	2.9	3.7	0.6	0.3	1.0
Asia	28.4	26.4	30.1	18.9	18.5	22.2
East and South-East Asia	22.2	20.8	24.1	16.9	16.2	19.8
South Asia	2.0	2.7	2.5	1.1	0.8	0.7
West Asia	4.2	3.0	3.5	0.9	1.6	1.7
Latin America and the Caribbean	13.5	15.1	18.1	7.9	6.3	7.4
Oceania	0.2	0.1	0.2	0.0	0.1	0.0
Transition economies	5.3	5.8	6.5	4.1	4.3	4.0
Structurally weak, vulnerable and small economies	**3.2**	**3.4**	**4.4**	**0.8**	**0.6**	**0.7**
Least developed countries	1.3	1.3	1.9	0.2	0.2	0.4
Landlocked developing countries	1.9	2.1	2.6	0.6	0.3	0.2
Small island developing States	0.3	0.3	0.5	0.0	0.1	0.1

Developing economies' outflows reached $426 billion, a record 31 per cent of the world total. Despite the global downturn, TNCs from developing countries continued their expansion abroad. Asian countries remained the largest source of FDI, accounting for three quarters of the developing-country total. FDI outflows from Africa tripled while flows from developing Asia and from Latin America and the Caribbean remained at the 2011 level.

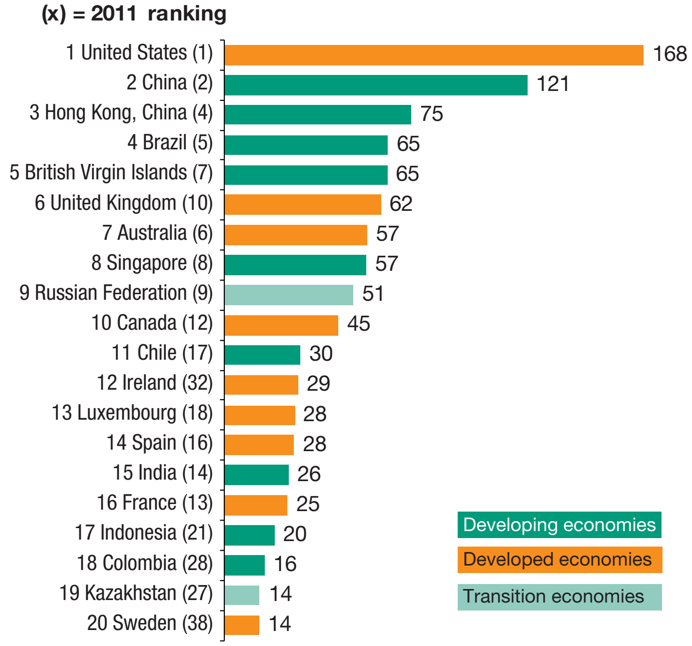
The BRICS countries (Brazil, the Russian Federation, India, China and South Africa) continued to be the leading sources of FDI among emerging investor countries. Flows from these five economies rose from $7 billion in 2000 to $145 billion in 2012, accounting for 10 per cent of the world total. Their TNCs are becoming increasingly active, including in Africa. In the ranks of top investors, China moved up from the sixth to the third largest investor in 2012, after the United States and Japan (figure 3).

FDI flows to and from developed countries plummet

FDI inflows to developed economies declined by 32 per cent to $561 billion – a level last seen almost 10 years ago. Both Europe and North America, as groups, saw their inflows fall, as did Australia and New Zealand. The European Union alone accounted for almost two thirds of the global FDI decline. However, inflows to Japan turned positive after two successive years of net divestments.

Outflows from developed economies, which had led the recovery of FDI over 2010–2011, fell by 23 per cent to $909 billion – close to the trough of 2009. Both Europe and North America saw large declines in their outflows, although Japan bucked the trend, keeping its position as the second largest investor country in the world.

Figure 2. Top 20 host economies, 2012
(Billions of dollars)



Internationalization of SOEs and SWFs maintains pace

The number of State-owned TNCs increased from 650 in 2010 to 845 in 2012. Their FDI flows amounted to $145 billion, reaching almost 11 per cent of global FDI. The majority of the State-owned enterprises (SOEs) that acquired foreign assets in 2012 were from developing countries; many of those acquisitions were motivated by the pursuit of strategic assets (e.g. technology, intellectual property, brand names) and natural resources.

FDI by sovereign wealth funds (SWFs) in 2012 was only $20 billion, though it doubled from the year before. Cumulative FDI by SWFs is estimated at $127 billion, most of it in finance, real estate, construction and utilities. In terms of geographical distribution, more than 70 per cent of SWFs' FDI in 2012 was targeted at developed economies. The combined assets of the 73 recognized SWFs around the world were valued at an estimated $5.3 trillion in 2012 – a huge reservoir to tap for development financing.

Growing offshore finance FDI raises concerns about tax evasion

Offshore finance mechanisms in FDI include mainly (i) offshore financial centres (OFCs) or tax havens and (ii) special purpose entities (SPEs). SPEs are foreign affiliates that are established for a specific purpose or that have a specific legal structure; they tend to be established in countries that provide specific tax benefits for SPEs. Both OFCs and SPEs are used to channel funds to and from third countries.

Investment in OFCs remains at historically high levels. Flows to OFCs amounted to almost $80 billion in 2012, down $10 billion from 2011, but well above the $15 billion average of the pre-2007 period. OFCs account for an increasing share of global FDI flows, at about 6 per cent.

SPEs play an even larger role relative to FDI flows and stocks in a number of important investor countries, acting as a channel for more than $600 billion of investment flows. Over the past decade, in most economies

Figure 3. Top 20 investor economies, 2012
(Billions of dollars)

that host SPEs, these entities have gained importance in investment flows. In addition, the number of countries offering favourable tax treatment to SPEs is on the increase.

Tax avoidance and transparency in international financial transactions are issues of global concern that require a multilateral approach. To date, international efforts on these issues have focused mostly on OFCs, but SPEs are a far larger phenomenon. Moreover, FDI flows to OFCs remain at high levels. Addressing the growing concerns about tax evasion requires refocusing international efforts. A first step could be establishing a closed list of "benign" uses of SPEs and OFCs. This would help focus any future measures on combating the malign aspects of tax avoidance and lack of transparency.

International production growing at a steady pace

In 2012, the international production of TNCs continued to expand at a steady rate because FDI flows, even at lower levels, add to the existing FDI stock. FDI stocks rose by 9 per cent in 2012, to $23 trillion. Foreign affiliates of TNCs generated sales worth $26 trillion (of which $7.5 trillion were for exports), increasing by 7.4 per cent from 2011 (table 2). They contributed value added worth $6.6 trillion, up 5.5 per cent, which compares well with global GDP growth of 2.3 per cent. Their employment numbered 72 million, up 5.7 per cent from 2011.

The growth of international production by the top 100 TNCs, which are mostly from developed economies, stagnated in 2012. However, the 100 largest TNCs domiciled in developing and transition economies increased their foreign assets by 20 per cent, continuing the expansion of their international production networks.

Reinvested earnings: a source of financing for long-term investment

Global FDI income increased sharply in 2011, for the second consecutive year, to $1.5 trillion, on a stock of $21 trillion, after declining in both 2008 and 2009 during the depths of the global financial crisis. FDI

Table 2. Selected indicators of FDI and international production, 1990–2012

	Value at current prices (Billions of dollars)				
Item	**1990**	**2005–2007 pre-crisis average**	**2010**	**2011**	**2012**
FDI inflows	207	1 491	1 409	1 652	1 351
FDI outflows	241	1 534	1 505	1 678	1 391
FDI inward stock	2 078	14 706	20 380	20 873	22 813
FDI outward stock	2 091	15 895	21 130	21 442	23 593
Income on inward FDI	75	1 076	1 377	1 500	1 507
Rate of return on inward FDI (per cent)	4	7	6.8	7.2	6.6
Income on outward FDI	122	1 148	1 387	1 548	1 461
Rate of return on outward FDI (per cent)	6	7	6.6	7.2	6.2
Cross-border M&As	99	703	344	555	308
Sales of foreign affiliates	5 102	19 579	22 574	24 198	25 980
Value added (product) of foreign affiliates	1 018	4 124	5 735	6 260	6 607
Total assets of foreign affiliates	4 599	43 836	78 631	83 043	86 574
Exports of foreign affiliates	1 498	5 003	6 320	7 436	7 479
Employment by foreign affiliates (thousands)	21 458	51 795	63 043	67 852	71 695
Memorandum:					
GDP	22 206	50 319	63 468	70 221	71 707
Gross fixed capital formation	5 109	11 208	13 940	15 770	16 278
Royalties and licence fee receipts	27	161	215	240	235
Exports of goods and services	4 382	15 008	18 956	22 303	22 432

income increased for each of the three major groups of economies – developed, developing and transition – with the largest increases taking place in developing and transition economies. The rates of return on FDI are 7 per cent globally, and higher in both developing (8 per cent) and transition economies (13 per cent) than in developed countries (5 per cent). Of total FDI income, about $500 billion was retained in host countries, while $1 trillion was repatriated to home or other countries (representing on average 3.4 per cent of the current account payments). The share of FDI income retained is highest in developing countries; at about 40 per cent it represents an important source of FDI financing. However, not all of this is turned into capital expenditure; the challenge for host governments is how to channel retained earnings into productive investment.

REGIONAL TRENDS IN FDI

Africa: a bright spot for FDI

FDI inflows to Africa rose for the second year running, up 5 per cent to $50 billion, making it one of the few regions that registered year-on-year growth in 2012. FDI outflows from Africa almost tripled in 2012, to $14 billion. TNCs from the South are increasingly active in Africa, building on a trend in recent years of a higher share of FDI flows to the region coming from emerging markets. In terms of FDI stock, Malaysia, South Africa, China and India (in that order) are the largest developing-country investors in Africa.

FDI inflows in 2012 were driven partly by investments in the extractive sector in countries such as the Democratic Republic of the Congo, Mauritania, Mozambique and Uganda. At the same time, there was an increase in FDI in consumer-oriented manufacturing and services, reflecting demographic changes.

Between 2008 and 2012, the share of such industries in the value of greenfield investment projects grew from 7 per cent to 23 per cent of the total.

FDI in and from developing Asia loses growth momentum

FDI flows to developing Asia decreased by 7 per cent to $407 billion in 2012. This decline was reflected across all subregions but was most severe in South Asia, where FDI inflows fell by 24 per cent. China and Hong Kong (China) were the second and third largest FDI recipients worldwide, and Singapore, India and Indonesia were also among the top 20. Driven by continued intraregional restructuring, lower-income countries such as Cambodia, Myanmar, the Philippines and Viet Nam were attractive FDI locations for labour-intensive manufacturing. In West Asia, FDI suffered from a fourth consecutive year of decline. State-owned firms in the Gulf region are taking over delayed projects that were originally planned as joint ventures with foreign firms.

Total outward FDI from the region remained stable at $308 billion, accounting for 22 per cent of global flows (a share similar to that of the European Union). The moderate increase in East and South-East Asia was offset by a 29 per cent decrease in outflows from South Asia. Outflows from China continued to grow, reaching $84 billion in 2012 (a record level), while those from Malaysia and Thailand also increased. In West Asia, Turkey has emerged as a significant investor, with its outward investment growing by 73 per cent in 2012 to a record $4 billion.

FDI growth in South America offset by a decline in Central America and the Caribbean

FDI to Latin America and the Caribbean in 2012 was $244 billion, maintaining the high level reached in 2011. Significant growth in FDI to South America ($144 billion) was offset by a decline in Central America and the Caribbean ($99 billion). The main factors that preserved South America's attractiveness to FDI are its wealth in oil, gas and metal minerals and its rapidly expanding middle class. Flows of FDI into natural resources are significant in some South American countries. FDI in manufacturing (e.g. automotive) is increasing in Brazil, driven by new industrial policy measures. Nearshoring to Mexico is on the rise.

Outward FDI from Latin America and the Caribbean decreased moderately in 2012 to $103 billion. Over half of these outflows originate from OFCs. Cross-border acquisitions by Latin American TNCs jumped 74 per cent to $33 billion, half of which was invested in other developing countries.

FDI flows to and from transition economies fall

Inward FDI flows in transition economies fell by 9 per cent in 2012 to $87 billion. In South-East Europe, FDI flows almost halved, mainly due to a decline in investments from traditional European Union investors suffering economic woes at home. In the Commonwealth of Independent States, including the Russian Federation, FDI flows fell by 7 per cent, but foreign investors continue to be attracted by the region's growing consumer markets and vast natural resources. A large part of FDI in the Russian Federation is due to "round tripping".

Outward FDI flows from transition economies declined by 24 per cent in 2012 to $55 billion. The Russian Federation continued to dominate outward FDI from the region, accounting for 92 per cent of the total. Although TNCs based in natural-resource economies continued their expansion abroad, the largest acquisitions in 2012 were in the financial industry.

A steep fall in FDI in 2012 reverses the recent recovery in developed economies

The sharp decline in inflows reversed the FDI recovery during 2010–2011. Inflows fell in 23 of 38 developed economies in 2012. The 32 per cent nosedive was due to a 41 per cent decline in the European Union and a 26 per cent decline in the United States. Inflows to Australia and New Zealand fell by 13 per cent and 33 per cent, respectively. In contrast, inflows to Japan turned positive after two successive years of net divestment. Also, the United Kingdom saw inflows increase. The overall decline was due to weaker growth prospects and policy uncertainty, especially in Europe, and the cooling off of investment in extractive industries. In addition, intracompany transactions – e.g. intracompany loans, which by their nature tend to fluctuate more – had the effect of reducing flows in 2012. While FDI flows are volatile, the level of capital expenditures is relatively stable.

Outflows from developed countries declined by 23 per cent, with the European Union down 40 per cent and the United States down 17 per cent. This was largely due to divestments and the continued "wait and see" attitude of developed-country TNCs. FDI flows from Japan, however, grew by 14 per cent.

FDI flows to the structurally weak and vulnerable economies rise further in 2012

FDI flows to structurally weak, vulnerable and small economies rose further by 8 per cent to $60 billion in 2012, with particularly rapid growth in FDI to LDCs and small island developing States (SIDS). The share of the group as a whole rose to 4.4 per cent of global FDI.

FDI inflows to *least developed countries* (*LDCs*) grew robustly by 20 per cent and hit a record high of $26 billion, led by strong gains in Cambodia, the Democratic Republic of the Congo, Liberia, Mauritania, Mozambique and Uganda. The concentration of inflows to a few resource-rich LDCs remained high. Financial services continued to attract the largest number of greenfield projects. With greenfield investments from developed countries shrinking almost by half, nearly 60 per cent of greenfield investment in LDCs was from developing economies, led by India.

FDI to *landlocked developing countries* (LLDCs) reached $35 billion, a new high. The "Silk Road" economies of Central Asia attracted about 54 per cent of LLDC FDI inflows. Developing economies became the largest investors in LLDCs, with particular interest by TNCs from West Asia and the Republic of Korea; the latter was the largest single investor in LLDCs last year.

FDI flows into *small island developing States* (SIDS) continued to recover for the second consecutive year, increasing by 10 per cent to $6.2 billion, with two natural-resources-rich countries – Papua New Guinea, and Trinidad and Tobago – explaining much of the rise.

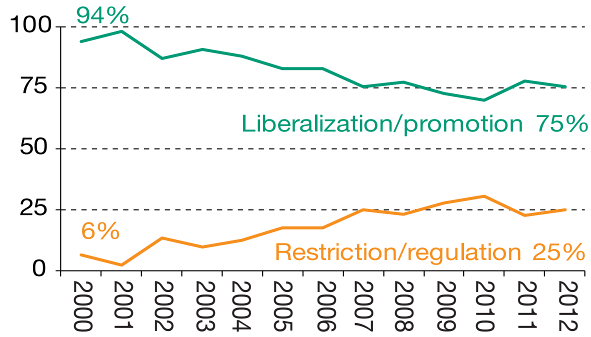
INVESTMENT POLICY TRENDS

Many new investment policies have an industry-specific angle

At least 53 countries and economies around the globe adopted 86 policy measures affecting foreign investment in 2012. The bulk of these measures (75 per cent) related to investment liberalization, facilitation and promotion, targeted to numerous industries, especially in the service sector. Privatization policies were an important component of this move. Other policy measures include the establishment of special economic zones (SEZs).

At the same time, the share of FDI-related regulations and restrictions increased to 25 per cent, confirming a longer-term trend after a temporary reverse development in 2011 (figure 4). Governments made more use of industrial policies, adjusted previous investment liberalization efforts, tightened screening and monitoring procedures, and closely scrutinized cross-border M&As. Restrictive investment policies were applied particularly to strategic industries, such as extractive industries. In general, governments became more selective about the degree of FDI involvement in different industries of their economies.

Figure 4. Changes in national investment policies, 2000–2012
(Per cent)



Screening mechanisms significantly affect cross-border M&As

One important example of how governments have recently become more selective in their admission procedures concerns cross-border M&As. This report analysed 211 of the largest cross-border M&As withdrawn between 2008 and 2012, those with a transaction value of $500 million or more. In most cases M&A plans were aborted for business reasons, but a significant number were also withdrawn because of regulatory concerns, such as competition issues, economic benefit tests and national security screening, or political opposition. These deals had an approximate total gross value of $265 billion. Their share among all withdrawn cross-border M&As stood at about 22 per cent in 2012, with a peak of over 30 per cent in 2010. The main target industry from which M&As were withdrawn for regulatory concerns or political opposition was the extractive industry.

Risk of investment protectionism persists

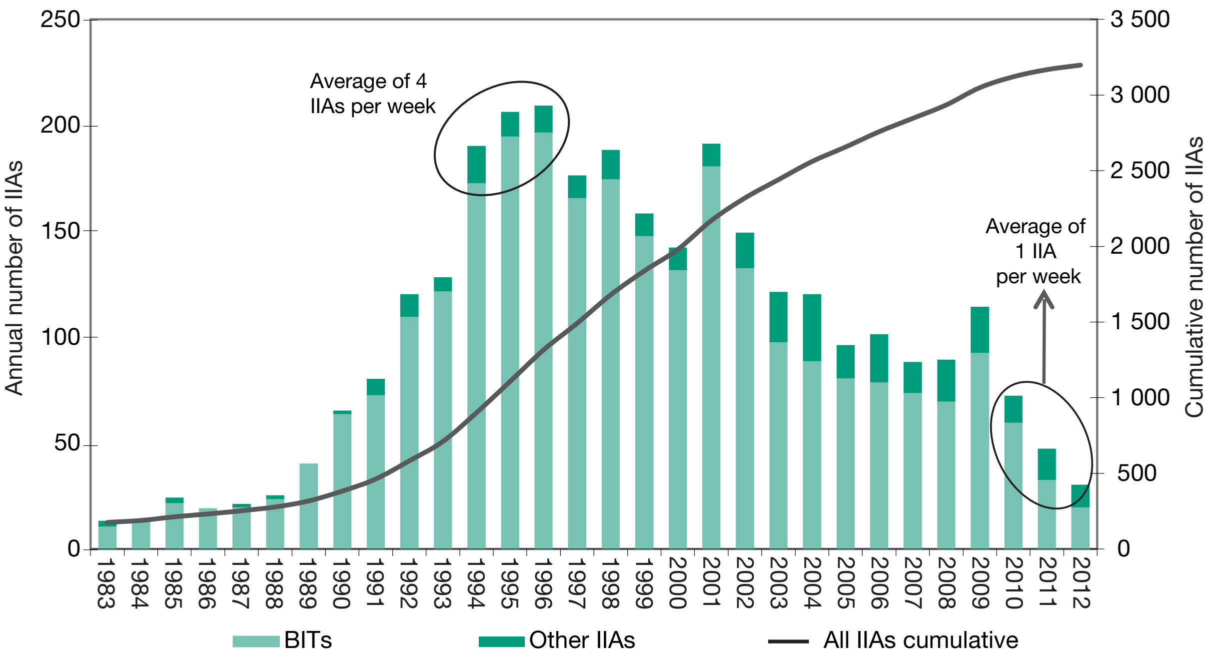
As countries make more use of industrial policies, tighten screening and monitoring procedures, closely scrutinize cross-border M&As and become more restrictive with regard to the degree of FDI involvement in strategic industries, the risk grows that some of these measures are taken for protectionist purposes. With the emergence and rapid expansion of global and regional value chains, protectionist policies can backfire on all actors, domestic and foreign.

In the absence of a commonly recognized definition of "investment protectionism", it is difficult to clearly identify among investment regulations or restrictions those measures that are of a protectionist nature. Efforts should be undertaken at the international level to clarify this term, with a view to establishing a set of criteria for identifying protectionist measures against foreign investment. At the national level, technical assistance by international organizations can help promote quality regulation rather than overregulation. It would also be helpful to consider extending the G-20's commitment to refrain from protectionism – and perhaps also expanding the coverage of monitoring to the world.

The number of newly signed BITs continues to decline

By the end of 2012, the IIA regime consisted of 3,196 agreements, which included 2,857 BITs and 339 "other IIAs", such as integration or cooperation agreements with an investment dimension (figure 5). The year saw the conclusion of 30 IIAs (20 BITs and 10 "other IIAs"). The 20 BITs signed in 2012 represent the lowest annual number of concluded treaties in a quarter century.

Figure 5. Trends in IIAs, 1983–2012



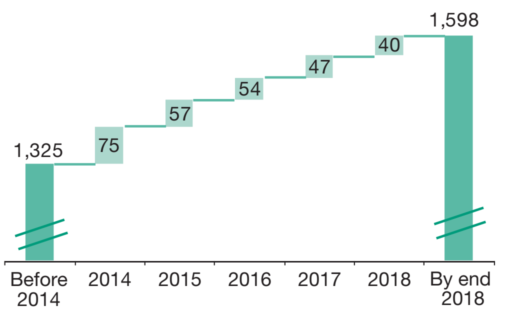
Rise of regionalism brings challenges and opportunities

Investment regionalism is gaining ground: 8 of the 10 "other IIAs" concluded in 2012 were regional ones. Furthermore, this year, at least 110 countries are involved in 22 regional negotiations. Regionalism can provide an opportunity for rationalization. If parties to nine such negotiations (i.e. those where BITs-type provisions are on the agenda) opted to replace their respective BITs with an investment chapter in the regional agreement, this would consolidate today's global BIT network by more than 270 BITs, or close to 10 per cent.

New IIAs tend to include sustainable–development–friendly provisions

IIAs concluded in 2012 show an increased inclination to include sustainable-development-oriented features, including references to the protection of health and safety, labour rights and the environment. These sustainable development features are supplemented by treaty elements that more broadly aim to preserve regulatory space for public policies in general or to minimize exposure to investment litigation in particular. Many of these provisions correspond to policy options featured in UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD).

Figure 6. Cumulative number of BITs that can be terminated or renegotiated



Opportunities for improving the IIA regime

Countries have several avenues for improving the IIA regime, depending on the depth of change they wish to achieve. These include the contracting States' right to clarify the meaning of treaty provisions (e.g. through authoritative interpretations), the revision of IIAs (e.g.

through amendments), the replacement of older IIAs (e.g. through renegotiation), or the termination of IIAs (either unilaterally or by mutual consent). Treaty expiration can support several of the above options. By the end of 2013, more than 1,300 BITs will be at the stage where they could be terminated or renegotiated at any time, creating a window of opportunity to address inconsistencies and overlaps in the multi-faceted and multi-layered IIA regime, and to strengthen its development dimension (figure 6). In taking such actions, countries need to weigh the pros and cons in the context of their investment climate and their overall development strategies.

Investor–State arbitration: highest number of new cases ever

In 2012, 58 new known investor–State dispute settlement (ISDS) cases were initiated. This brings the total number of known cases to 514 and the total number of countries that have responded to one or more ISDS cases to 95. The 58 cases constitute the highest number of known ISDS claims ever filed in one year and confirm foreign investors' increased inclination to resort to investor–State arbitration. In light of the increasing number of ISDS cases and persistent concerns about the ISDS system's deficiencies, the debate about the pros and cons of the ISDS mechanism has gained momentum, especially in those countries and regions where ISDS is on the agenda of IIA negotiations.

Investor–State arbitration: sketching paths towards reform

The functioning of ISDS has revealed systemic deficiencies. Concerns relate to legitimacy, transparency, lack of consistency and erroneous decisions, the system for arbitrator appointment and financial stakes. As a response, UNCTAD has identified five broad paths for reform: promoting alternative dispute resolution, modifying the existing ISDS system through individual IIAs, limiting investors' access to ISDS, introducing an appeals facility and creating a standing international investment court. IIA stakeholders are prompted to assess the current system, weigh the available options and embark on concrete steps for reform. Collective efforts at the multilateral level can help develop a consensus about the preferred course of reform and ways to put it into action.

GLOBAL VALUE CHAINS AND DEVELOPMENT

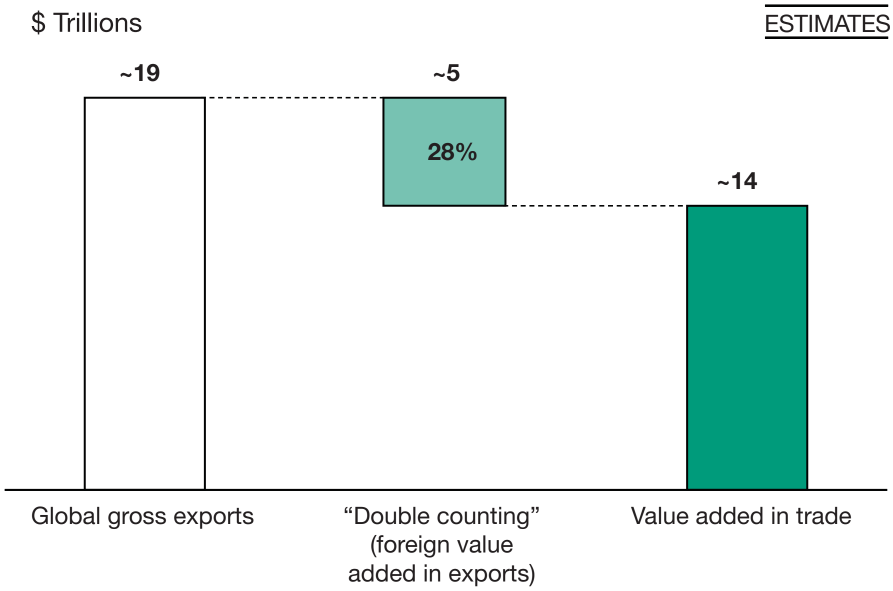
Trade is increasingly driven by global value chains

About 60 per cent of global trade, which today amounts to more than $20 trillion, consists of trade in intermediate goods and services that are incorporated at various stages in the production process of goods and services for final consumption. The fragmentation of production processes and the international dispersion of tasks and activities within them have led to the emergence of borderless production systems. These can be sequential chains or complex networks, their scope can be global or regional, and they are commonly referred to as global value chains (GVCs).

GVCs lead to a significant amount of double counting in trade, as intermediates are counted several times in world exports but should be counted only once as "value added in trade". Today, some 28 per cent of gross exports consist of value added that is first imported by countries only to be incorporated in products or services that are then exported again. Some $5 trillion of the $19 trillion in global gross exports (in 2010 figures) is double counted (figure 7). Patterns of value added trade in GVCs determine the distribution of actual economic gains from trade to individual economies.

The spread of GVCs is greater in some industries where activities can be more easily separated, such as electronics, automotive or garments, but GVCs increasingly involve activities across all sectors, including services. While the share of services in gross exports worldwide is only about 20 per cent, almost half (46

Figure 7. Value added in global exports, 2010



per cent) of value added in exports is contributed by services-sector activities, as most manufacturing exports require services for their production.

The majority of developing countries are increasingly participating in GVCs. The developing-country share in global value added trade increased from 20 per cent in 1990 to 30 per cent in 2000 to over 40 per cent today. However, many poorer developing countries are still struggling to gain access to GVCs beyond natural resource exports.

Regional value chain links are often more important than global ones, especially in North America, Europe, and East and South-East Asia. In the transition economies, Latin America and Africa, regional value chains are relatively less developed.

GVCs are typically coordinated by TNCs

GVCs are typically coordinated by TNCs, with cross-border trade of inputs and outputs taking place within their networks of affiliates, contractual partners and arm's-length suppliers. TNC-coordinated GVCs account for some 80 per cent of global trade. Patterns of value added trade in GVCs are shaped to a significant extent by the investment decisions of TNCs. Countries with a higher presence of FDI relative to the size of their economies tend to have a higher level of participation in GVCs and to generate relatively more domestic value added from trade (figure 8).

TNCs coordinate GVCs through complex webs of supplier relationships and various governance modes, from direct ownership of foreign affiliates to contractual relationships (in non-equity modes of international production, or NEMs), to arm's-length dealings. These governance modes and the resulting power structures in GVCs have a significant bearing on the distribution of economic gains from trade in GVCs and on their long-term development implications.

TNC decisions on where to invest and with whom to partner are driven by GVC locational determinants that depend on the GVC segment, task or activity. Locational determinants for GVC segments are often different, and fewer, than those for vertically integrated industries – i.e. the determinants for electronics assembly activities are fewer than those for investment in the electronics industry as a whole. For many GVC segments, there are relatively few "make or break" locational determinants that act as preconditions for countries' access to GVCs.

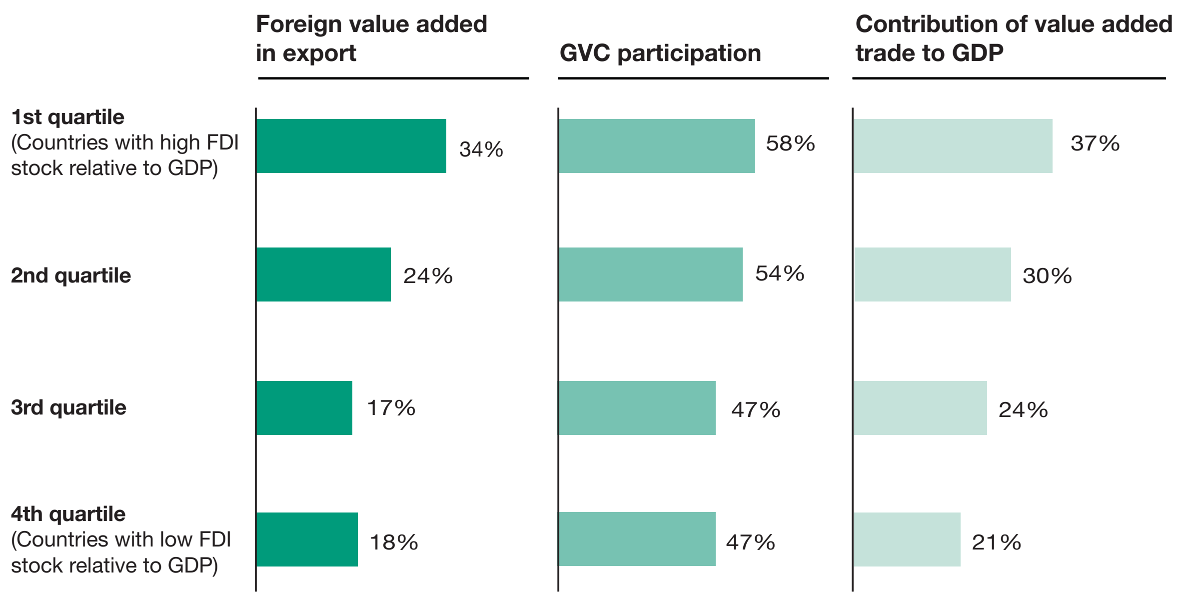
GVCs can make an important contribution to development, but GVC participation is not without risks

GVCs spread value added and employment to more locations, rather than hoarding them only in those locations that are capable of carrying out the most complex tasks. As such, they can accelerate the "catch-up" of developing countries' GDP and income levels and lead to greater convergence between economies. At the global level, that is the essential development contribution of GVCs.

At the country level, domestic value added created from GVC trade can be very significant relative to the size of local economies. In developing countries, value added trade contributes nearly 30 per cent to countries' GDP on average, as compared with 18 per cent for developed countries. There is a positive correlation between participation in GVCs and GDP per capita growth rates. Economies with the fastest growing GVC participation have GDP per capita growth rates some 2 percentage points above the average. Furthermore, GVC participation tends to lead to job creation in developing countries and to higher employment growth, even if GVC participation depends on imported contents in exports.

But the experience of individual economies is more heterogeneous. The value added contribution of GVCs can be relatively small where imported contents of exports are high and where GVC participation is limited to lower-value parts of the chain. Also, a large part of GVC value added in developing economies is generated by affiliates of TNCs, which can lead to relatively low "value capture", e.g. as a result of transfer pricing or income repatriation. However, even where exports are driven by TNCs, the value added contribution of local firms in GVCs is often very significant. And reinvestment of earnings by foreign affiliates is, on average, almost as significant as repatriation.

Figure 8. Key value added trade indicators, by quartile of inward FDI stock relative to GDP, 2010



As to employment gains, pressures on costs from global buyers often mean that GVC-related employment can be insecure and involve poor working conditions, with occupational safety and health a particular concern. Also, stability of employment in GVCs can be low as oscillations in demand are reinforced along value chains and GVC operations of TNCs can be footloose. However, GVCs can serve as a mechanism to transfer international best practices in social and environmental issues, e.g. through the use of CSR standards, although implementation of standards below the first tier of the supply chain remains a challenge.

Longer-term, GVCs can be an important avenue for developing countries to build productive capacity, including through technology dissemination and skill building, opening up opportunities for industrial upgrading. However, the potential long-term development benefits of GVCs are not automatic. GVC participation can cause a degree of dependency on a narrow technology base and on access to TNC-coordinated value chains for limited value added activities.

At the firm level, the opportunities for local firms to increase productivity and upgrade to higher value added activities in GVCs depend on the nature of the GVCs in which they operate, the governance and power relationships in the chain, their absorptive capacities, and the business and institutional environment in the economy. At the country level, successful GVC upgrading paths involve not only growing participation in GVCs but also higher domestic value added creation. At the same time, it involves gradual expansion of participation in GVCs of increasing technological sophistication, moving from resource-based exports to exports of manufactures and services of gradually increasing degrees of complexity.

Countries need to make a strategic choice whether to promote or not to promote GVC participation

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 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 one aspect of a country's overall development strategy.

Policies matter to make GVCs work for development

If countries decide to actively promote GVC participation, policymakers should first determine where their countries' trade profiles and industrial capabilities stand and evaluate realistic GVC development paths for strategic positioning.

Gaining access to GVCs, benefiting from GVC participation and realizing upgrading opportunities in GVCs requires a structured approach that includes (i) embedding GVCs in overall development strategies and industrial development policies, (ii) enabling GVC growth by creating and maintaining a conducive investment and trade environment, and by providing supportive infrastructure and (iii) building productive capacities in local firms. Mitigating the risks involved in GVC participation calls for (iv) a strong environmental, social and governance framework. And aligning trade and investment policies implies the identification of (v) synergies between the two policy areas and in relevant institutions (table 3).

Embedding GVCs in development strategy. Industrial development policies focused on final goods and services are less effective in a global economy characterized by GVCs:

Table 3. Building a policy framework for GVCs and development

Key elements	Principal policy actions
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 the 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 risks associated with GVC participation through regulation, and public and private standards • Supporting local enterprise 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"

- GVC-related development strategies require more targeted policies focusing on fine-sliced activities in GVCs. They also increase the need for policies dealing with the risk of the middle-income trap, as the fragmentation of industries increases the risk that a country will enter an industry only at its low-value and low-skill level.
- GVCs require a new approach to trade policies in industrial development strategies, because protective trade policies can backfire if imports are crucial for export competitiveness. Trade policies should also be seen in light of the increased importance of regional production networks as GVC-based industrialization relies on stronger ties with the supply base in neighbouring developing economies.
- The need to upgrade in GVCs and move into higher value added activities strengthens the rationale for building partnerships with lead firms for industrial development. At the same time, GVCs call for a regulatory framework to ensure joint economic and social and environmental upgrading to achieve sustainable development gains.
- Finally, GVCs require a more dynamic view of industrial development. Development strategy and industrial development policies should focus on determinants that can be acquired or improved in the short term and selectively invest in creating others for medium- and long-term investment attractiveness, building competitive advantages along GVCs, including through partnerships with business.

For policymakers, a starting point for the incorporation of GVCs in development strategy is an understanding of where their countries and their industrial structures stand in relation to GVCs. That should underpin an evaluation of realistic GVC development paths, exploiting both GVC participation and upgrading opportunities. UNCTAD's GVC Policy Development Tool can help policymakers do this.

Enabling participation in GVCs. Enabling the participation of local firms in GVCs implies creating and maintaining a conducive environment for investment and trade, and putting in place the infrastructural prerequisites for GVC participation. A conducive environment for trade and investment refers to the overall policy environment for business, including trade and investment policies, but also tax, competition policy, labour market regulation, intellectual property, access to land and a range of other policy areas (see UNCTAD's Investment Policy Framework for Sustainable Development, IPFSD, which addresses relevant trade and other policy areas). Trade and investment facilitation is particularly important for GVCs in which goods now cross borders multiple times and where there is a need to build up productive capacity for exports.

Providing reliable physical and "soft" infrastructure (notably logistics and telecommunications) is crucial for attracting GVC activities. Developing good communication and transport links can also contribute to the "stickiness" of GVC operations. As value chains are often regional in nature, international partnerships for infrastructure development can be particularly beneficial.

Building domestic productive capacity. A number of policy areas are important for proactive enterprise development policies in support of GVC participation and upgrading: First, enterprise clustering may enhance overall productivity and performance. Second, linkages development between domestic and foreign firms and inter-institution linkages can provide local SMEs with the necessary externalities to cope with the dual challenges of knowledge creation and internationalization, needed for successful participation in GVCs. Third, domestic capacity-building calls for science and technology support and an effective intellectual property rights framework. Fourth, a range of business development and support services can facilitate capacity-building of SMEs so they can comply with technical standards and increase their understanding of investment and trade rules. Fifth, there is a case for entrepreneurship development policy, including managerial and entrepreneurial training and venture capital support. Sixth, access to finance for SMEs helps to direct development efforts at the upstream end of value chains where they most directly benefit local firms.

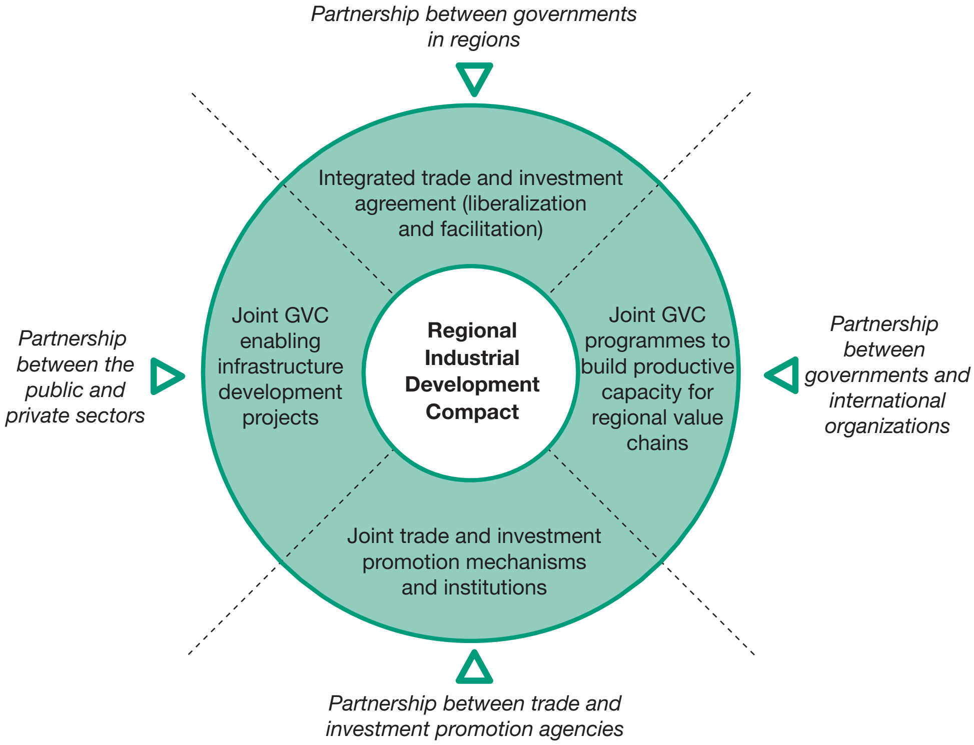
Furthermore, an effective skills development strategy is key to engagement and upgrading in GVCs, and to assist SMEs in meeting the demands of their clients with regard to compliance with certain CSR standards. It can also facilitate any adjustment processes and help displaced workers find new jobs.

Policymakers should also consider options to strengthen the bargaining power of domestic producers vis-à-vis their foreign GVC partners, to help them obtain a fair distribution of rents and risks and to facilitate gaining access to higher value added activities in GVCs (*WIR 11*).

Providing a strong environmental, social and governance framework. A strong environmental, social and governance framework and policies are essential to maximizing the sustainable development impact of GVC activities and minimizing risks. Host countries have to ensure that GVC partners observe international core labour standards. Equally important are the establishment and enforcement of occupational safety, health and environmental standards in GVC production sites, as well as capacity-building for compliance. Buyers of GVC products and their home countries can make an important contribution to safer production by working with suppliers to boost their capacity to comply with host country regulations and international standards, and avoiding suppliers that disrespect such rules.

Suppliers are increasingly under pressure to adapt to CSR policies in order to ensure their continuing role in GVCs. EPZs are an important hub in GVCs and present an opportunity for policymakers to address CSR issues on a manageable scale. Policymakers could consider adopting improved CSR policies, support services and infrastructure in EPZs (e.g. technical assistance for certification and reporting, support on occupational safety and health issues, recycling or alternative energy facilities), transforming them into centres of excellence for sustainable business and making them catalysts for the implementation of CSR. Governments or zone authorities could opt to offer such benefits in addition to or instead of some of the

Figure 9. Regional Industrial Development Compacts for regional value chains



existing benefits offered to firms in EPZs. Benefits for firms could include cost sharing, harmonization of practices, reduced site inspections and others. International organizations can help through the establishment of benchmarks, facilitation of exchanges of best practices, and capacity-building programmes.

A host of other concerns and corporate governance issues should be addressed to minimize risks associated with GVCs. These include transfer pricing, where GVCs have the duplicate effect of increasing the scope for transfer price manipulation and making it harder to combat, to the detriment of raising fiscal revenues for development. In addition, to safeguard industrial development processes, governments should seek to foster resilient supply chains that are prepared for and can withstand shocks, and recover quickly from disruption.

Synergizing trade and investment policies and institutions. As investment and trade are inextricably linked in GVCs, it is crucial to ensure coherence between investment and trade policies. Avoiding inconsistent or even self-defeating approaches requires paying close attention to those policy instruments that may simultaneously affect investment and trade in GVCs, i.e. (i) trade measures affecting investment and (ii) investment measures affecting trade.

At the institutional level, the intense trade and investment links in GVCs call for closer coordination between domestic trade and investment promotion agencies, as well as better targeting of specific segments of GVCs in line with host countries' dynamic locational advantages. A number of objective criteria, based on a country's GVC participation and positioning, can help determine the most appropriate institutional set-up for trade and investment promotion.

Synergies should be sought also through integrated treatment of international investment and trade agreements. Regional trade and investment agreements are particularly relevant from a value chain perspective, as regional liberalization efforts are shaping regional value chains and the distribution of value added.

In fact, the relevance of regional value chains shows the potential impact of evolving regional trade and investment agreements towards *"Regional Industrial Development Compacts"*. Such Compacts could focus on liberalization and facilitation of trade and investment and establish joint investment promotion mechanisms and institutions. They could extend to other policy areas important for enabling GVC development, such as the harmonization of regulatory standards and consolidation of private standards on environmental, social and governance issues. And they could aim to create cross-border industrial clusters through joint investments in GVC-enabling infrastructure and productive capacity building. Establishing such compacts implies working in partnership – between governments in the region to harmonize trade and investment regulations and jointly promotion trade and investment, between governments and international organizations for technical assistance and capacity-building, and between the public and private sectors for investment in regional value chain infrastructure and productive capacity (figure 9).

Geneva, June 2013

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