Statement by Rebeca Grynspan, Secretary-General of UNCTAD

World Investment Forum 2023: Investment ministerial round table

Abu Dhabi, United Arab Emirates
18 October 2023

[As prepared for delivery]

Excellencies,

Distinguished guests,

Ladies and gentlemen,

I am pleased to welcome you to this ministerial round table on investment policymaking.

The World Investment Forum has drawn an exceptionally large crowd this year, with close to 7,000 registered participants from all over the world, representing a wide range of stakeholders, from investment promotion agencies to managers of multinationals; from institutional investors to financial market regulators; from venture capitalists to NGOs; from investment treaty negotiators to – and this is a first – climate change negotiators.

The reason why so many people have come together for this forum is clear: We are at a pivotal moment in the history of global finance and development. There is much at stake. And there is no time to lose.

I want to keep my remarks short and give you some brief points to put the discussion into context, focusing especially on recent trends for Foreign Direct Investment.

Excellencies,

Adverse trends in the global FDI landscape are changing the way policymakers and industry think about international investment.

Over the past decade, our World Investment Report has documented some important shifts in cross-border flows of capital, goods, services and technology in Global Value Chains. Allow me to summarize this information very quickly.

Until about 2010 FDI and international trade grew in tandem. After 2010, both experienced a slowdown, but while trade kept pace with GDP growth, FDI lost track. And in this new decade FDI is – so far – on a downward trajectory.

To illustrate this with some numbers, in the 1990s FDI grew by 15% per year, in the 2000s by 8%, in the 2010s by 1%, and in the first few years of this decade it is in decline by a few percentage points.

If we look at different types of flows, investment in physical assets has slowed down the most, trade in goods is growing slightly more, trade in services much more, and cross-border payments for intellectual property by much, much more. But all of this is dwarfed by data flows, which have grown multiple times faster than all the rest.

From physical assets to goods, from goods to services, from services to IP, from IP to data – this story tells a very clear trend. Globalization has become much less tangible.

Globalization is no longer something that happens only on ships doing circles around the globe, but on the millions of digital interactions that increasingly mark all of our lives.

Adding to that, we now have important risks of global political and economic fragmentation, and trends of nearshoring and friendshoring which are starting to slowly appear in the data. According to a recent UNCTAD report, last year shipments of food and fuel commodities travelled the longest average distances ever recorded, as a result of shifting supply chains and geopolitical disruption.

As a consequence, it is clear that the paradigm for developing countries of growing through participating in global value chains and attracting FDI for industrial development is much less self-evident than in the past. A lot of the infrastructure developed for large-scale export-oriented industrial investment needs rethinking. Regional rather than Global value chains are becoming more important. Promoting FDI through SMEs rather than big multinationals is receiving concrete policy attention. And connecting local firms and SMEs is increasingly seen as a must.

And yet, despite all of this, the big elephant in the room remains. To meet the SDGs, we need to close the $4 trillion investment gap in developing countries. And for this we need FDI, especially for the Least Developed Countries. There is simply no other option.

This week, I have emphasized what needs to be done across four key areas to achieve this: risk, capacity, policy and architecture.

Allow me to say a few things about each.

Risk, as it drives interest rates and therefore capital costs. Risk perception is what made African interest rates be eight times those of Germany last year, and three to four times now as the hiking cycle continues.

To deal with risk we need to mitigate it – and there are many ways we can do this, be it through onshore or offshore foreign exchanges guarantees, or other types of guarantees or be it at the project level where several de/risking instruments have been developed including by bringing government and MDBs in or by including climate change contingency clause in sovereign bonds. But to deal with risk we also need to change our perception. Research by the UN has shown that African debts in the last three decades have been overpriced relative to their real level of risk as inferred through actual default rates. To change our perception, we need to be more evidence based, have more understanding of the local context and ask from the credit rating agencies to look at their methodologies.

The second factor is capacity. The absorption capacity and the capacity to prepare concrete investment projects. The fact of the matter is that part of the problem is that there is a scarcity of so-called 'shovel-ready' projects at the supply side. This relates to institutional capacity, to investment promotion, and to the ease of doing business.

There is much we can do here to help, and we at UNCTAD work very hard with many governments around the world to address this issue, which is particularly important in the most vulnerable economies. But it is important to note, that as climate and ESG-related standards and regulations keep growing, we must also consider what this means for the countries that need investments the most. A spaghetti bowl of regulation specially on trade will only benefit those who can afford the most expensive lawyers.

The third factor is policy – an enabling policy and legal framework, a clear investment facilitation strategy, together with a long-term vision and a capable public sector are still important ingredients for success

And lastly, we have the architectural issue with respect to the International Financial Architecture. The truth is that development finance system is currently too small to deal with the challenges at hand we need a bigger international financial system and to scale up private investment. I just came back from Marrakech, where we had the IMF and World Bank Annual meetings. The World Bank is a fifth of the size it was in the 60s relative to world GDP. The IMF can provide in crisis liquidity in a year what Central Banks can make available through QE in a day. The quota-based system is outdated and too often blames the victim in a world of global systemic shocks. And there is a broken pipe when it relates to debt, as we simply lack a multilateral mechanism to deal with it. And yet, we desperately need one – as interest rates rise and COVID-era debts mount, 3.3 billion people now live in countries that spend more on debt servicing than on either health or education.

All of these issues are connected. As MDBs underinvest, there is no private capital to crowd in into the big infrastructure projects the energy transition requires, and not enough project preparation at the supply side. As emergency liquidity is too often lacking, countries are forced into ever more expensive debts. As debts mount, they crowd out development spending and investment. And so the gap gets wider, and the money that is indeed available does not flow where it needs to flow.

I am very keen to hear your insights on this, and to hear what your countries are doing to facilitate and promote investment in the context of modern industrial development strategies, the SDGs, and the energy transition. This discussion will feed into discussions at the intergovernmental level, including at our own Trade and Development Board, the General Assembly resolution on Investment in Sustainable Development, and of course the COP28 which is just around the corner.

In closing, I want to emphasize the collective responsibility we hold. The challenges we face are unprecedented, and the solutions to these challenges are not solely in the hands of any one country or institution. So let us come together, learn from one another, and chart a path forward that benefits all.

Thank you. I wish you a successful meeting.

UNCTAD - Palais des Nations, 8-14, Av. de la Paix, 1211 Geneva 10, Switzerland