

INVESTMENT AND DIGITAL ECONOMY: TRANSFORMATION AND POLICY IMPLICATIONS

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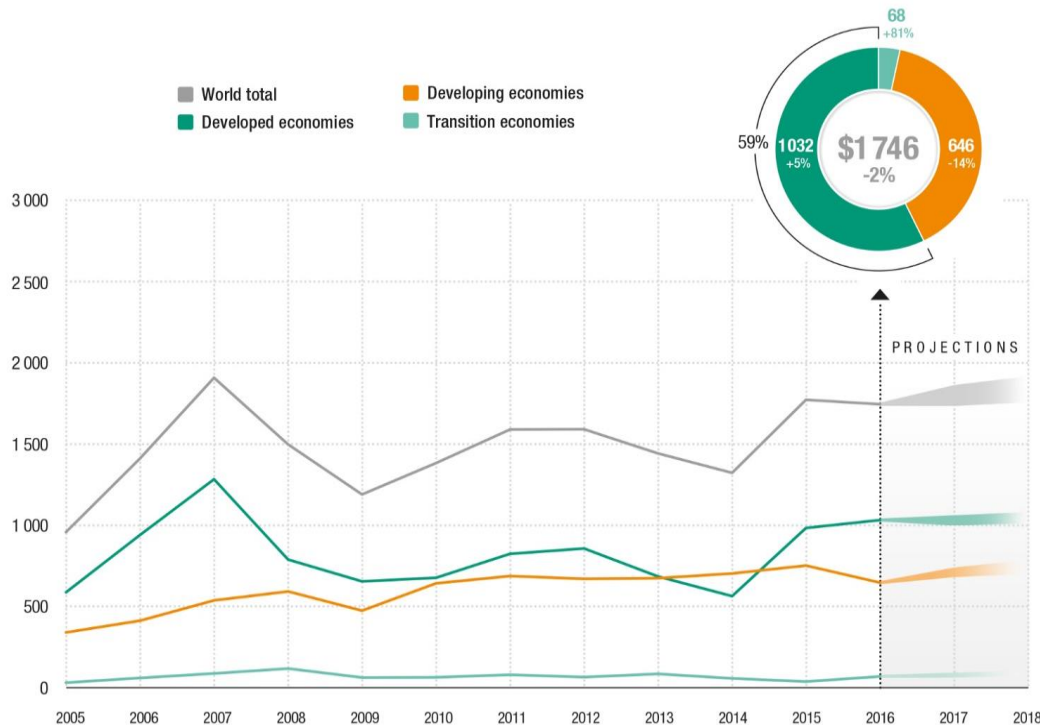
Geneva, 24 July 2017

Contents

- **Global investment trends and prospects**
 - International investment policy developments
 - Investing in the digital economy: challenges and policies

Global investment trends and prospects

FDI inflows, global and by groups of economies, 2005–2016, and projections, 2017–2018
(Billions of dollars and per cent)



HIGHLIGHTS:

- **Trends:** low-level and bumpy recovery
- **Geo-patterns:** varied and volatile
- **Prospects:** modest recovery with big uncertainty
- **Impact:** lackluster for GVCs and productivity

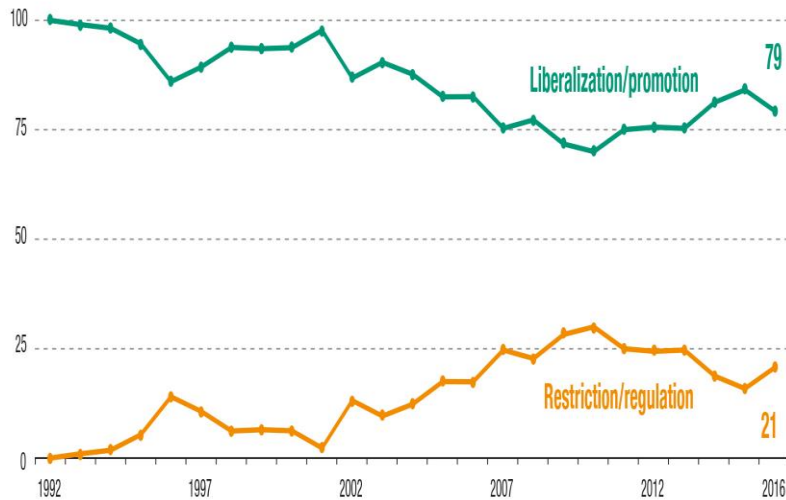
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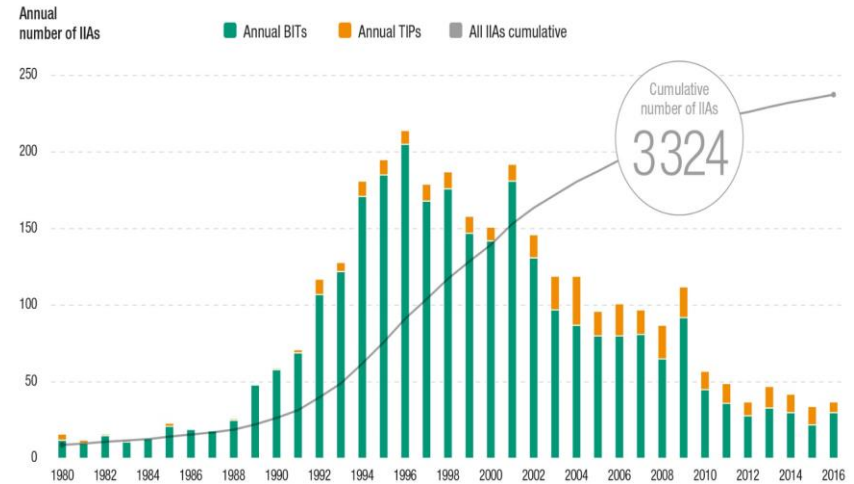
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Global FDI Policy Trends: salient features

Changes in national investment policies, 1992–2016 (per cent)



International Investment Agreements signed, 1980–2016 (number)



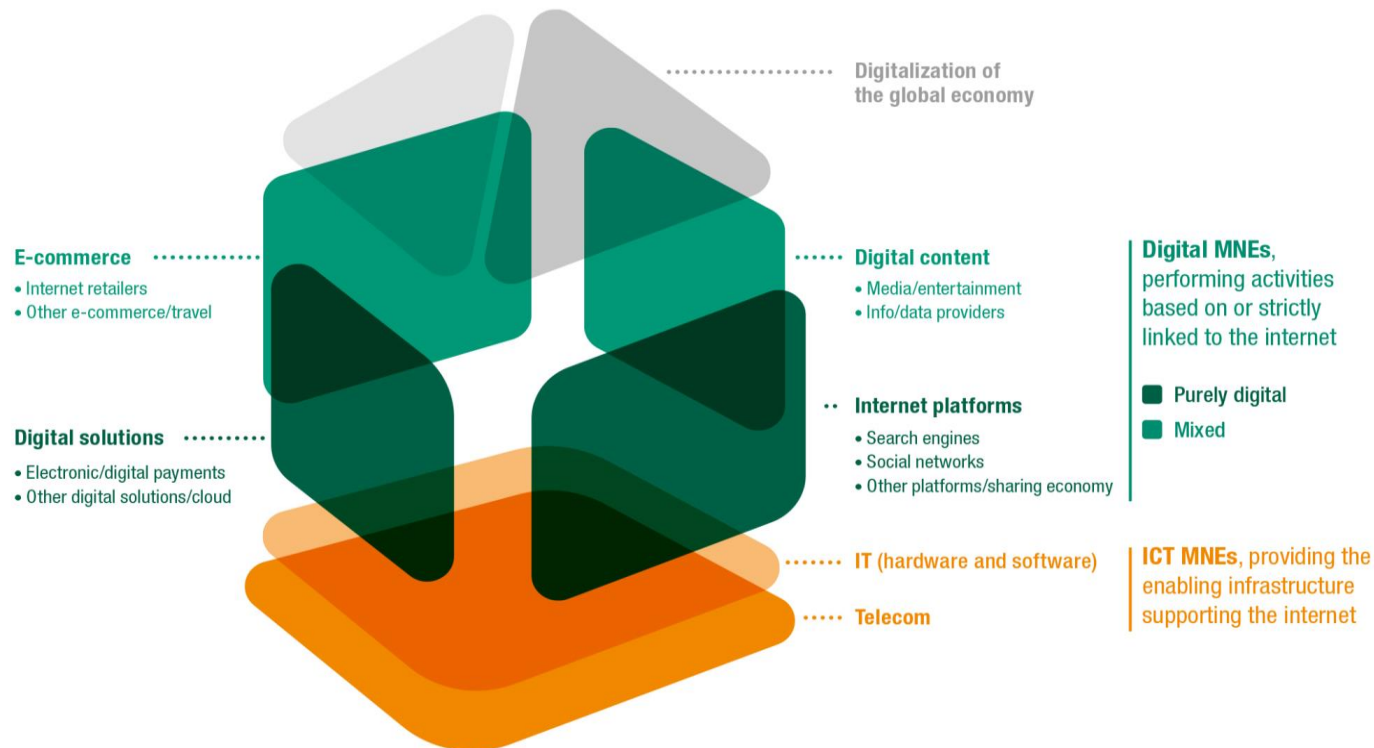
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- **Dynamics** in policymaking
- **Dichotomy** in regulatory directions
- **Divergence** in IIA approach
- **Dilemma** in pursuing Sustainable Development Goals

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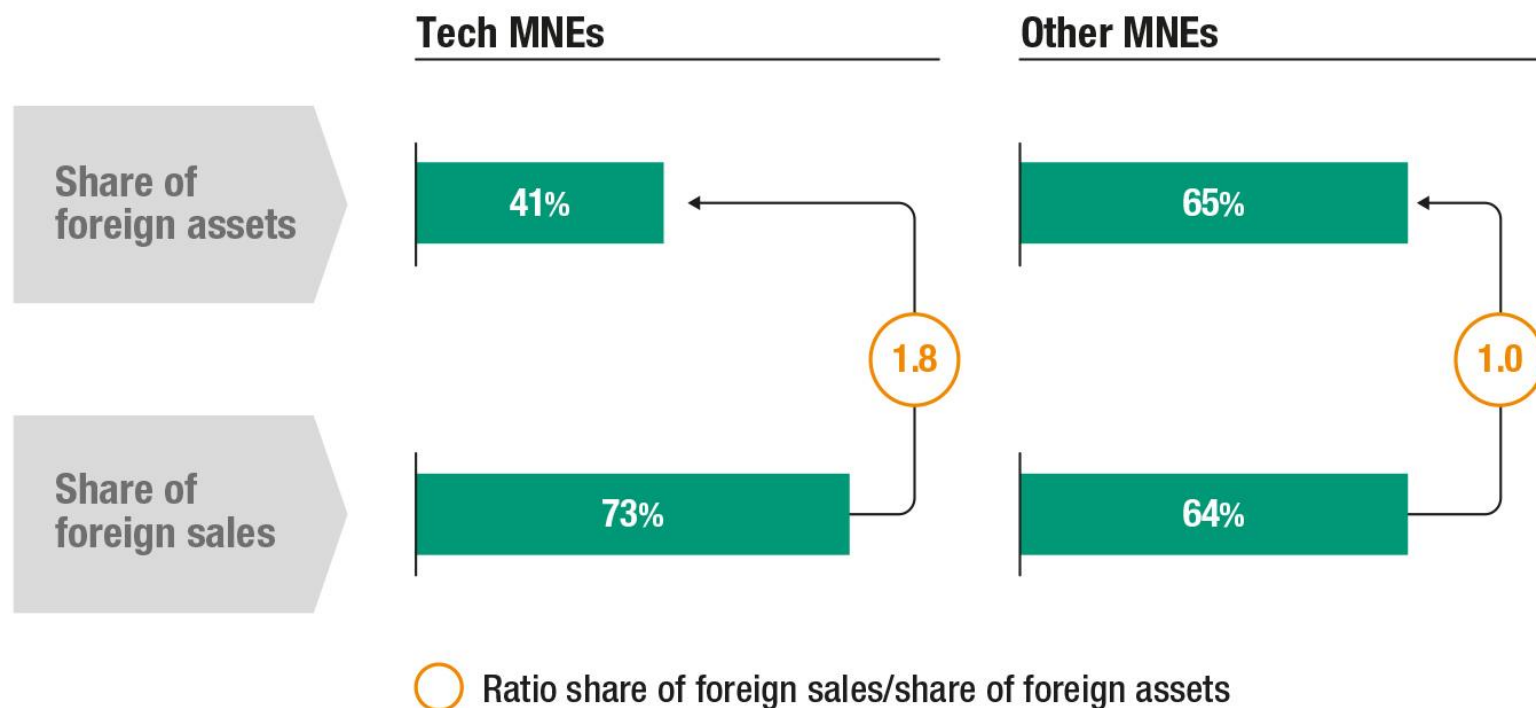
Structure of digitalized global value chains



- The digitalization of international production involves all the actors of the digital eco-system: **ICT MNEs, digital MNEs and “traditional” MNEs.**
- **The rise of new players:** ICT and digital MNEs are growing fast and are increasingly becoming prominent players in the international production landscape.

Digital MNEs: small international footprint, big impact

Average shares of foreign assets and foreign sales in the top 100 MNEs, 2015



Implications of digitalization for MNEs and GVCs

1. Any segment in entire value chains (e.g. procurement, production, coordination, logistics, customer relationship)
2. Transition toward asset-light form of international operation, i.e. from FDI to NEMs

Scenario	Descriptive elements	Possible international production implications
Distributed production	<ul style="list-style-type: none"> • Localized manufacturing closer to the point of consumption • Factory replication (digital twins) under centralized control 	<p><i>Patterns of investment and modes of governance:</i></p> <ul style="list-style-type: none"> • More, smaller production locations, rather than few, large locations • Sophisticated centralized coordination and quality control
Accelerated servicification	<ul style="list-style-type: none"> • Product servitization (power-by-the-hour models) • Increased use of contract manufacturing and outsourcing of ancillary operations across more industries 	<p><i>Types of investment:</i></p> <ul style="list-style-type: none"> • More investment in services • More non-equity modes of production
Extended disintermediation	<ul style="list-style-type: none"> • Direct delivery of products and services to end users • Branded manufacturers reaching out to end users; "Intel inside" model 	<p><i>Investment impact:</i></p> <ul style="list-style-type: none"> • Increased value capture by MNEs • Fewer local distribution partnerships, new service partnership opportunities
Flexible production	<ul style="list-style-type: none"> • Automation to support <ul style="list-style-type: none"> ▸ Customization (increased product variety) ▸ Production to order (volume flexibility) 	<p><i>Investor behaviour:</i></p> <ul style="list-style-type: none"> • More fluctuations in output and use of labour • More footloose production

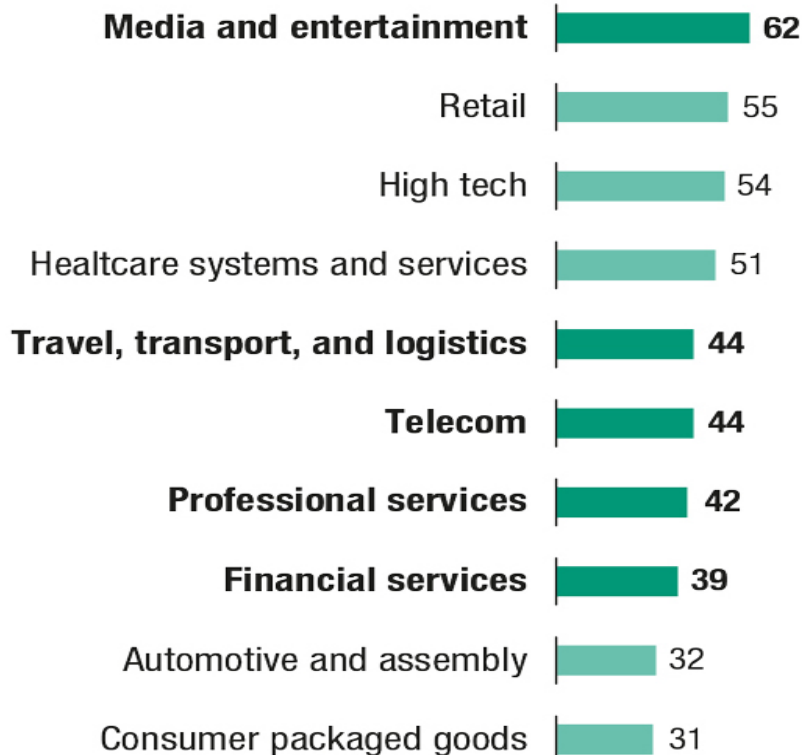
Policy implications:

Industries impacted by digital are often highly regulated

Top 10 industries affected by digitalization and by FDI restrictions (Per cent)

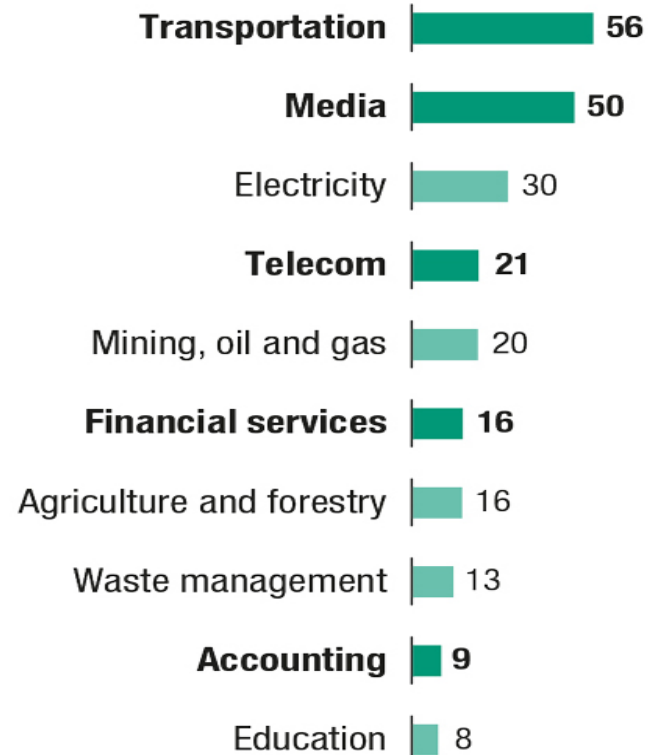
Industries ranked by digital impact

Share of executives (survey respondents)



Industries ranked by FDI restrictions

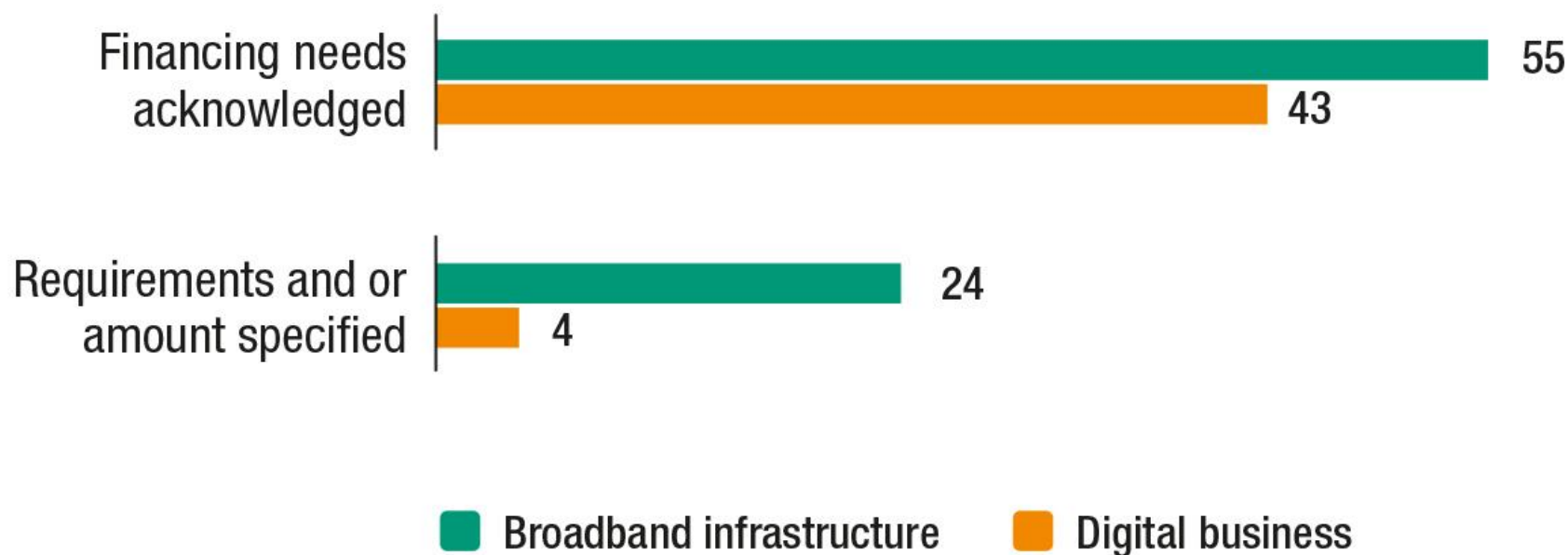
Share of countries with restrictions



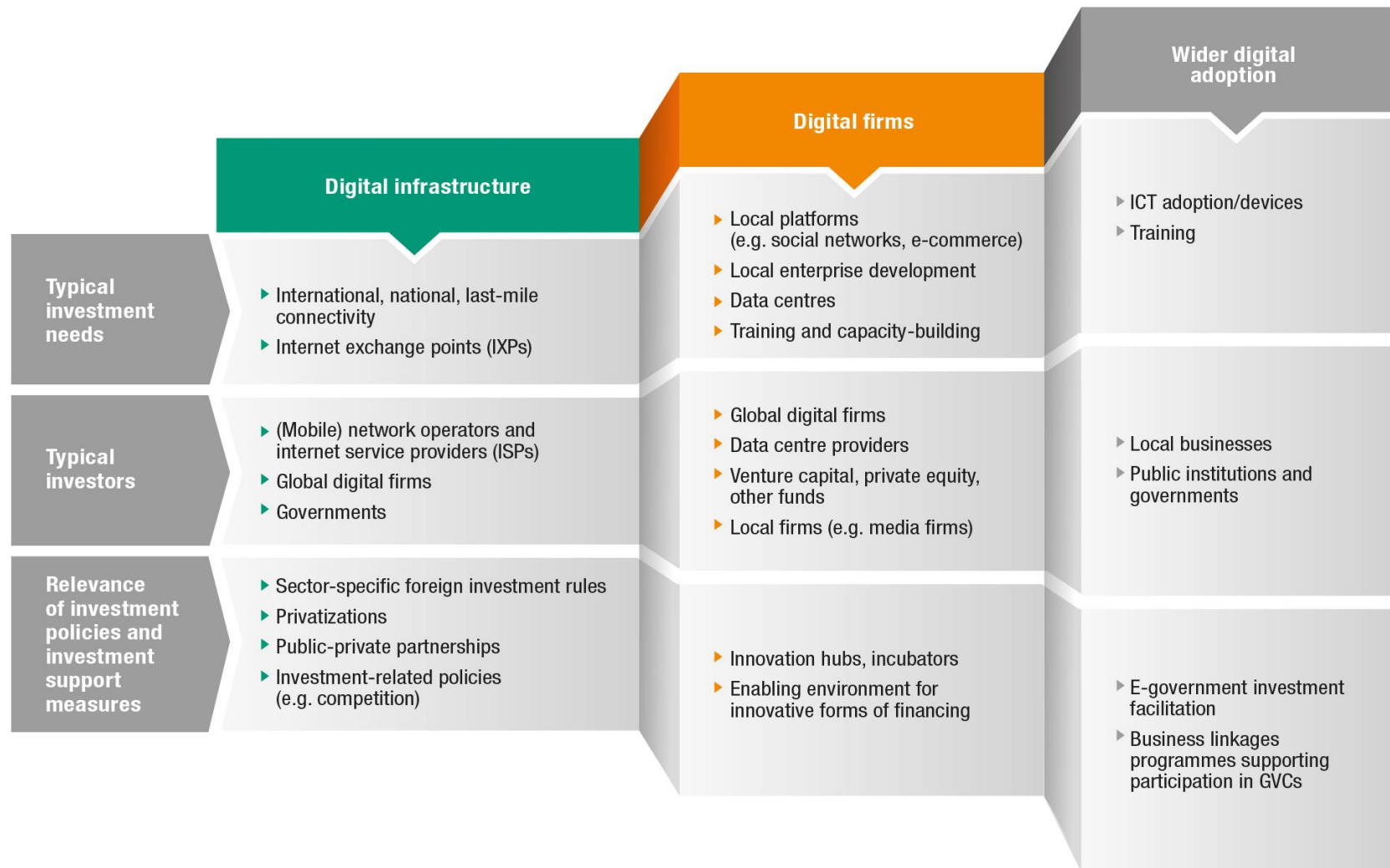
Digital development strategies lack investment dimension

The investment dimension in digital development strategies, by objective

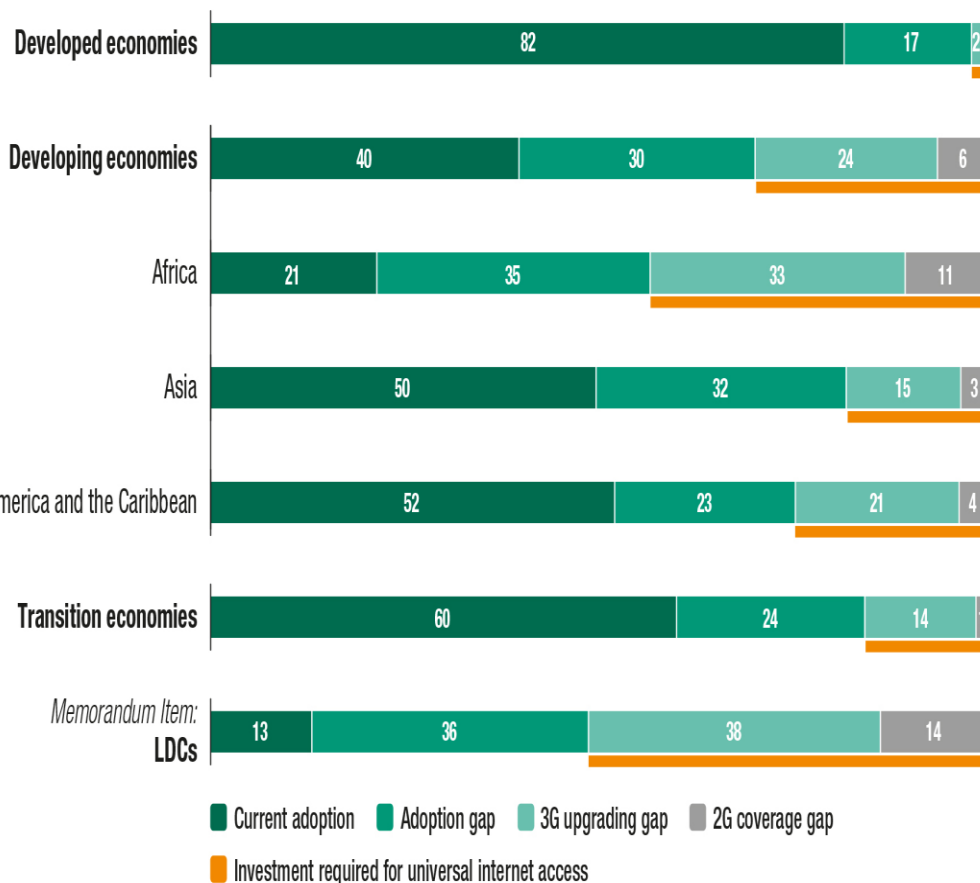
Results of a survey of 102 strategies (Per cent)



Digital development strategies should cover three dimensions



Infrastructure: internet adoption and connectivity gaps



Source: © UNCTAD WIR17

Connectivity gap to reach universal broadband coverage **relatively limited ...**

- **70% of population on developing countries is covered** by a broadband (at least 3G) network, with difference among regions (lowest in Africa, at 50%; higher in Asia and LAC, at around 80%)
- Broadband coverage in LDCs at 50%

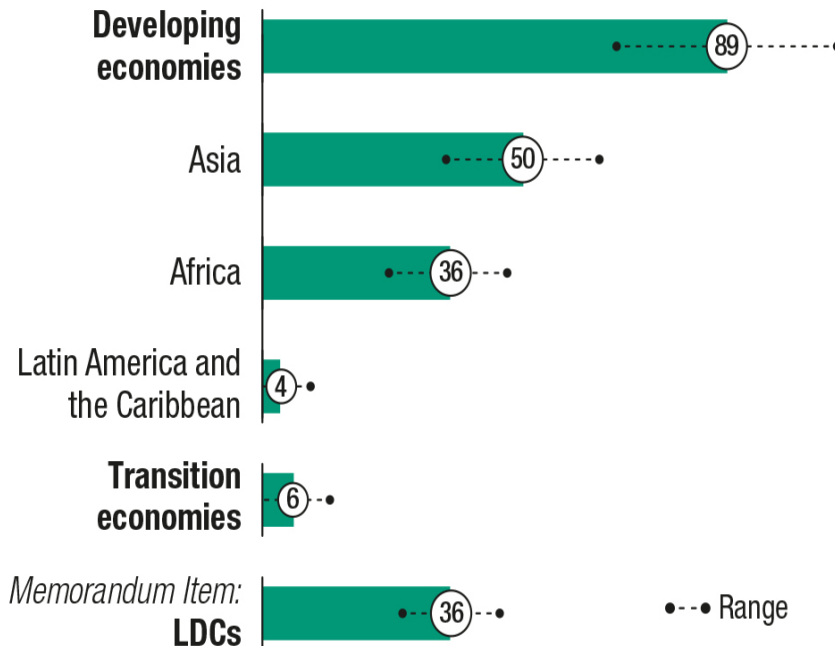
... however adoption gap still critical:

- Almost 50% of the population covered by 3G broadband do not use internet; up to 75% in LDCs

Internet for all is attainable!

Estimated investment costs of universal connectivity

Range estimates (\$ billion)



Total investment requirements for universal basic 3G coverage in developing and transition economies ≈ **\$95 billion**

Source: © UNCTAD WIR17

The SDG connectivity target is attainable with right policies:

- **UNCTAD estimates that the initial investment** required for universal 3G broadband coverage in developing countries is close to **\$100 billion**.
- However, internet connectivity investment should be supported by investment in **power supply infrastructure (a gap of \$370-\$690 billion)**.
- Furthermore **handset availability, skills development and content supply** are needed to narrow the significant adoption gap.

All this requires public-private partnership in investment.

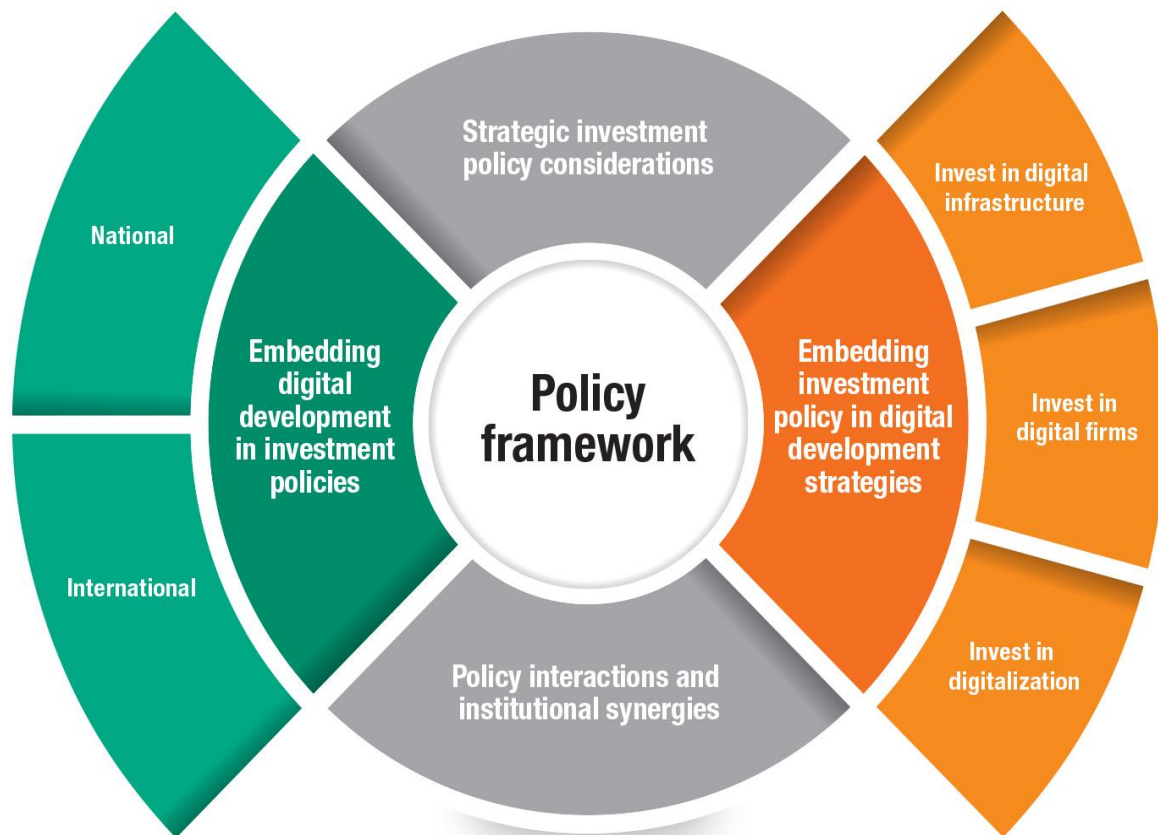
Investment plans in digital development strategies should look beyond infrastructure

Balancing public policy and investor concerns

Selected determinants	Public policy concerns	Investor concerns
Data protection, localization laws	<ul style="list-style-type: none"> • Privacy • National security • Industrial development 	<ul style="list-style-type: none"> • Scale economies • Free flow of data
Content restrictions	<ul style="list-style-type: none"> • Politically sensitive (dis-)information • National security • Cultural or religious values 	<ul style="list-style-type: none"> • Predictability of the business environment
Intermediary liability rules	<ul style="list-style-type: none"> • Illegal content distribution 	<ul style="list-style-type: none"> • Legal certainty • Operating costs
Telecommunication and media regulations (applied to online services)	<ul style="list-style-type: none"> • Public service responsibilities 	<ul style="list-style-type: none"> • Network access • Operating costs
Mandatory source code disclosure policies	<ul style="list-style-type: none"> • National security • Technology dissemination • Industrial development 	<ul style="list-style-type: none"> • Intellectual property protection
Sector regulations in other sectors of the economy	<ul style="list-style-type: none"> • Professional standards • Social protection 	<ul style="list-style-type: none"> • Market access

As countries promote investment in the digital economy to harness its benefits, they will have to mitigate its potential negative impact and protect public interests. This requires up-to-date regulations – and the ability to implement them – in such areas as **data security, privacy, intellectual property protection, consumer protection and the safeguarding of cultural values.**

Policy framework for investment in the digital economy



A comprehensive investment policy framework for the digital economy should ensure that digital development is embedded in investment policies, and that investment policy is embedded in digital development strategies.

THANK YOU!

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