PINNING DOWN POLICIES FOR INTERNATIONAL INVESTMENT

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Despite turmoil in the global economy, global foreign direct investment (FDI) rose by 17% in 2011 to US$ 1.5 trillion. This sum surpassed average global FDI before the 2008 financial crisis. However, the fragility of the world economy will have an impact on FDI flows this year. Both cross-border merger and acquisition activity and greenfield investments slipped in the last quarter of 2011, indicating risks and uncertainties for further FDI growth in 2012.

Thus the World Investment Forum (WIF) 2012 comes at a time when the future of international investment is not clear: will it continue its recovery, heading towards previous record levels, or will it stall just when it is most needed for job creation, poverty reduction and development? With this in mind, how can this year's forum catalyze thinking on international investment and encourage more action on the part of governments, companies, investment promotion agencies and international organizations?

Now in its third cycle, the WIF began in 2008 in Accra, Ghana. The second forum, in Xiamen, China in 2010, established the international reputation of the WIF as the global forum for open and high-level international investment discourse and policymaking. Over 1,800 high-level participants from 120 countries attended the 2010 forum, including heads of state, ministers, heads of international organizations, senior business executives and global media representatives. The forum pushed several issues further up on the agendas of policymakers and companies, such as green investment, and it facilitated a number of investment deals, leaving a tangible legacy.

This year's forum, taking place in Doha, Qatar in April, will seek to address several policy challenges facing the international investment community. It will also provide a valuable networking opportunity for countries seeking to attract investment and businesses looking for ways to safely unlock cash reserves.

The forum is distinguished by its emphasis on investment that has concrete poverty reduction effects – pro-poor investment for sustainable development – and its concern with responsible investment practices. The forum will not only seek to identify investment opportunities, but also consider how governments can develop the right policy mix to ensure greater benefits from international investment and how investors can improve the development impact of their investment decisions in a responsible and sustainable way.

One session of the WIF that will address these issues directly covers not private companies, but sovereign wealth funds (SWFs) that have become increasingly influential in the international investment mix. With assets under management of US$ 4-5 trillion, much of which is owned by emerging countries in the South, SWFs could make a greater contribution to sustainable development. They offer huge potential for further international investment that remains untapped. Recognizing this opportunity, the WIF will focus on how to encourage SWF investment for sustainable development and will review some of the challenges faced by SWFs in international investment. The WIF brings together senior executives from SWFs, ministers and international experts to hammer out a vision for the role of SWF investment in productive sectors, infrastructure development and agriculture.

Another trend in international investment that was examined at WIF 2010 is the burgeoning market in green investment opportunities. The transition to a low-carbon economy is creating a growth sector, boosting employment and disseminating technologies. In many cases, growth results from international investment by transnational corporations. But in a competitive environment for international investment, how can governments attract investment to this specialized sector? The WIF provides a forum for sharing best practice and experience, and linking companies to potential investment sites in developing and transition economies.

International investment can transfer capital, technology and skills across sectors. It can generate employment and increase fiscal revenues, create trade links and strengthen export capacities, for example by linking domestic companies to global value chains. The growing importance of these chains, along with non-equity modes of investment, such as contract manufacturing, can have an important pro-poor dynamic, integrating marginalized communities and small suppliers into global or regional value chains as producers, suppliers or goods and services providers.

However, the development benefits of international investment are not automatic and depend on countries' regulatory and policy environments. For international investment to contribute effectively to sustainable and inclusive development, measures aimed at attracting foreign investment have to be balanced with regulatory measures ensuring that investors act responsibly with respect to environmental and labour standards. Government policy is also essential to keep transnational companies from crowding out domestic industries or locking local producers into lower value activities in the production process.

The increasing complexity of global value chains requires countries to be proactive in capturing higher value activities that could create higher skilled jobs and have a significant impact on development and poverty reduction. One of the headline events at the WIF, the ministerial roundtable, aims to address the nexus between investment policies and other policies that can support domestic industrial upgrading and the integration of domestic industry into global value chains. The roundtable is expected to devise a set of key elements for a new generation of policy frameworks on investment and enterprise for sustainable development.

As well as addressing specific international investment areas and how to maximize their contribution to sustainable development, the WIF provides a platform for discussion about global investment policymaking. According to the United Nations Conference on Trade and Development (UNCTAD), there are some 6,300 international investment agreements, including bilateral investment treaties and other regional investment agreements, creating a jumble of overlapping, inconsistent and complex regulation. UNCTAD has also highlighted the increasingly bipolar nature of national investment policy measures that have included increasing regulation and deregulation in investment policymaking. Investment policymaking is at a crossroads, leading the WIF to consider an investment policy framework for sustainable development that encompasses all these issues.

The need is to continue supporting international investment, particularly in the poorest economies, such as the least developed countries where its impact can be significant. International investment can provide much needed financial flows, jobs and added value in the productive sectors of the global economy. This will be a way to stimulate stable and sustainable growth after a period of persistent economic turbulence.

The challenges facing the international investment community are varied and quite profound. They range from problems attracting and facilitating investment in key development sectors, to new actors in the investment landscape, such as SWFs, and to policy questions about the governance of international investment flows. In today's global economic governance landscape, discussion and institutions dealing with investment are conspicuously absent. Unlike trade, which has the World Trade Organization, and finance with the International Monetary Fund, investment lacks a global forum. The WIF aims to fill the gap by establishing a global platform that is inclusive and universal at the highest policymaking level.

The forum has become a front-line stakeholder event in the search for solutions to the global jobs and growth crisis. But it is not about investment at any cost. The WIF maintains a distinct position: international investment must provide wide development benefits and accord with international social and environmental responsibility standards. Only by following these principles can international investors provide long-term, inclusive and sustainable results that lift the world's poorest out of poverty.