Investing in development: ensuring a continued flow

Developing and transition economies are enjoying a record share of global foreign direct investment. But risks lie ahead, and policymakers need to stimulate the investment flow to encourage growth, recovery and sustainable development

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Today's foreign investment landscape is characterised by developments that are at the same time both promising and challenging. First the bad news: global flows of foreign direct investment (FDI) remain stagnant, despite growth in gross domestic product (GDP) and earned income on foreign investments close to 2007 highs. However, the good news is that developing and transition economies attracted more than half of global FDI, for the first time ever.

Specifically, developing Asia and Latin America saw a strong rebound in FDI flows, substantially offsetting a decline in inflows to developed countries. Nevertheless, the picture is very unbalanced. The United Nations Conference on Trade and Development (UNCTAD) estimates that a majority of this can be accounted for by five developing economies alone – China, Singapore, Brazil, India and Chile – that received roughly 52 per cent of all FDI inflows to developing countries in 2010. Several other developing countries, particularly on the African continent, have seen their shares of FDI decline by up to 14 per cent. In Nigeria and South Africa, the second and third largest African recipients of FDI, inflows declined by 60 per cent and 78 per cent respectively.

Despite this uneven position, UNCTAD projects that global FDI flows will increase in 2011 to between \$1.3 trillion and \$1.5 trillion. A more favourable economic environment, created by improvements in macroeconomic conditions, has strengthened the profits of transnational corporations (TNCs) and boosted their stock-market valuations. These conditions, along with rising business confidence in 2011 and a generally favourable policy climate, may transform record levels of TNC cash holdings into new investment.

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That is the hope, but it is important to add a caveat. After the 'recovery boost' of 2010, worldwide GDP growth is estimated to slow down, and risks related to currency volatility, sovereign debt and investment protectionism all have the potential to derail the expected FDI recovery. Given the important contribution of foreign investment to growth, recovery and sustainable development, policymakers must remain vigilant.

The contribution of foreign investment

For developing countries, FDI as a share of total capital flows rose from less than 50 per cent in the 1990s to over 70 per cent today. Its importance as a potential source of finance in the development process is unquestioned. Taking infrastructure as an example, foreign investment can contribute to improving and modernising transportation capabilities, efficient and clean energy production, and enhanced communication capability. Each of these is critical for building productive capacities and setting the stage for long-term sustainable growth.

Moreover, foreign investment – if managed properly – can also improve access to essential services such as water, education and healthcare, which can improve welfare and contribute to achieving the Millennium Development Goals. Similarly, investment can also lead to entrepreneurship, job creation and spillover effects, such as the transfer of knowledge and technology.

However, such benefits are not automatic. Instead, efforts are needed not only to attract foreign investment but also to ensure that foreign investors act responsibly and effectively contribute to sustainable development. It is crucial to strengthen global cooperation in fostering the sustainable development aspect of foreign investment.

Promotion by UNCTAD

UNCTAD has put 'investment for sustainable development' at the forefront of its activities. The overarching theme of UNCTAD's 2010 World Investment Forum was 'Investing in Sustainable Development'. One of the world's leading international investment events, the forum engaged more than 1,800 decision makers from government, the private sector and civil society in 120 countries in a constructive dialogue on how best to harness international investment to drive sustainable growth and development.

UNCTAD's 2010 *World Investment Report*, the 20th anniversary edition, was devoted to 'Investing in a Low-Carbon Economy'. It broke new ground in estimating the first ever figure for global low-carbon FDI flows – \$90 billion for 2009. It also analysed the relationship between investment and climate change policies, and made specific policy suggestions, such as creating a global partnership for furthering low-carbon investment for sustainable development.

UNCTAD works closely with developing country partners on a range of other issues to maximise the development benefits of foreign investment. The organisation provides policy advice, addressing cutting-edge issues such as how to improve investment policy frameworks, nationally and internationally, and how to design corporate self-regulation to ensure responsible investment. It also provides technical assistance and capacity building, covering issues such as how to foster entrepreneurship and how to help domestic enterprises create mutually beneficial business relationships with TNCs.

Stimulating foreign investment

UNCTAD is working with the G20 to draw on the potential of foreign investment for promoting sustainable growth and development. Since the G20's London Summit in April 2009, UNCTAD has issued four joint reports with the Organisation for Economic Co-operation and Development (OECD) on G20 investment measures. G20 members reiterated their commitment to resist protectionism at the Seoul Summit in November 2010, and requested UNCTAD and the OECD to continue monitoring and reporting publicly on their investment policy changes.

UNCTAD is also contributing to the implementation of the G20's Multi-Year Action Plan on Development, with a particular focus on the initiative's investment angle. UNCTAD, together with the International Labour Organization, the UN Development Programme, the OECD and the World Bank, is working to "identify, enhance as needed, and promote the best existing standards (developmental, social and environmental) for responsible investment in value chains and voluntary investor compliance with these standards".

UNCTAD is also following up on G20 concerns with respect to food security. This endeavour aims to enhance global policy coherence and mitigate the risk to agricultural productivity. For example, at the Seoul Summit, the G20 encouraged all countries and companies to uphold the principles of Responsible Agricultural Investment, which have been devised jointly by UNCTAD, the World Bank, the Food and Agriculture Organization and the International Fund for Agriculture and Development, in consultation with stakeholders.

UNCTAD has high expectations for the G8's forthcoming summit in Deauville. It is pleased to collaborate with the French host in the preparation of the meeting. With the summit's key priorities of building infrastructure, ensuring food security, providing social protection and mobilising both public and private development resources, Deauville offers an opportunity to address the challenges facing the foreign investment landscape. The G8, together with the G20, can provide a further impetus to political cooperation on investment and development issues, and stimulate multilateral support in favour of investment for sustainable development. ◆

Engineers assemble a concentrated photovoltaic generator in San Diego, California. UNCTAD's 2010 report focuses on low-carbon investment

Morocco: powering ahead

In March 2011, King Mohammed VI gave a speech announcing an important reform of Morocco's constitution, thus strengthening and accelerating Morocco's reform-oriented policies that the country has implemented for more than a decade.

Morocco is indeed today the most advanced democracy in the region, with a young leadership, a fast-growing market economy, a tradition of tolerance, and a strong and modern civil society.

Being only 14km away and a one-hour ferry crossing from the southern Spanish coast, Morocco has proved its ability to be more than a simple neighbour predefined by its geographic position.

Over the last 10 years, Morocco has modernised to become a highly attractive platform for investors. With its solid macroeconomic fundamentals, unique set of free-trade agreements, competitive labour costs, world-class infrastructure, business-friendly environment and many other fundamental reforms, Morocco has succeeded in increasing foreign investments fivefold between 2000 and 2010.

In Morocco, with its population of 32 million, human resources have all the ingredients to become the pivots of a competitive investment and value creator. Education level, cultural openness, language skills, new technologies, commitment to entrepreneurship, a capacity to change, and competitive labour costs are all characteristics of the young (64 per cent of the population is under the age of 34) and active (12 million active people) Moroccan population. Although Morocco is one of the closest points to Europe, the country has preserved a very **competitive labour cost** in comparison with the "old continent", with an average monthly wage of $360.

Thanks to its geostrategic location, Morocco is at the crossroads of the main international exchange routes, linking the United States, Europe, Africa and the Middle East. For this purpose, and in order to make its unique position more advantageous, Morocco has signed diverse **free-trade agreements**, offering investors duty-free access to a market of 55 countries representing more than one billion consumers and 60 per cent of world GDP. After having signed the 1986 Association agreement with the European Union, in 2008 Morocco became the first country in the world to benefit from the advanced status in its relations with the EU.

Morocco also is the only African country to have a free-trade agreement with the United States. Combined with its other agreements with Mediterranean and African countries, **Morocco is truly a regional hub**.

Preserving **macroeconomic stability** is a major concern for the Moroccan government. Several actions and structural reforms have been undertaken to put the country on the path of strong and sustainable growth. In this regard, **a continuously growing economy has reached an average growth rate of 5.1 per cent over the period 2001-10**.

Substantially, and thanks to all the efforts put into the economic reforms, Morocco's economy has proved to be resilient to the international financial crisis with a five percent GDP growth in 2010. Furthermore, the inflation rate in Morocco was maintained at less than two per cent, despite increases in the prices of oil and raw materials.

Over the last 10 years, Morocco has modernised to become a highly attractive platform for investors, succeeding in increasing foreign investments fivefold

For more than a decade, Morocco has launched large-scale projects aimed at elevating its **infrastructure to international standards**. These include Tanger-Med Port, with a total capacity of over three million containers (rising to eight million in 2016), and the highway network, which will extend in total length from 1,500km in 2010 to 1,800km in 2015, connecting all major cities. Thanks to an Open Sky policy, the 15 international airports in Morocco (the largest airport hub in the region) are used by a multitude of international companies and are connected to major cities and economic platforms of world affairs.

Morocco launched numerous **strategic sectorial plans** that ensure strong and sustainable economic growth. This reform momentum is marked by an innovative contracting approach and public-private partnership, advocating greater and more coordinated participation of the private sector in the development of sectorial strategies and policies, along with the funding of projects that refocuses the state's role on its regulatory powers. These strategies are part of a process to speed the development of strategic sectors such as agriculture, fishery, mining, renewable energy and logistics, along with promising industrial sectors such as automotive, aerospace and services with high added value.

Invest in Morocco
Sharing Success*

Moroccan Investment Development Agency
Your Gate to Investing in Morocco

The Moroccan Investment Development Agency (AMDI) is the national body in charge of promoting and developing investment in Morocco.

Its main mission is to welcome and provide guidance to investors. The Agency is also in charge of organizing promotional activities both in Morocco and abroad.

With its international network and a range of institutional partnerships with all the public administrations, as well as private sector organizations, AMDI provides a professional and free public service for all investors.
AMDI offers, a wide range of services to investors in order to set up their business in Morocco through a professional team.

AMDI is here to:

- Inform you about the legal framework and investment opportunities in Morocco
- Assist you during the process of investment
- Facilitate your contacts with local and administrative institutions
- Make sure you benefit from the best environment for the development of your business

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