UNCTAD 2011 World Investment Report Encourages Non-Equity Modes of International Production, Development

Laredo, TX -- The use of non-equity modes (NEM) of international production and development, including contract manufacturing, services outsourcing, contract farming, franchising, licensing, management contracts and contractual relationships, could be pivotal to the future for the world’s developing and transitional economies.

That’s part of the research findings of the World Investment Report 2011, a United Nations Conference on Trade and Development (UNCTAD) initiative presented as a part of a simultaneous worldwide launch at Texas A&M International University (TAMIU).

Dr. Steve Sears, Dean of the hosting A.R. Sanchez, Jr. School of Business, said the launch of the U.S. report was an honor for the University.

“To be hosting the launch of such a prestigious publication, and to have one of our distinguished faculty members chosen for this task, is indeed an honor for us here at TAMIU,” Dr. Sears said.

The Report’s findings were presented by Dr. Tagi Sagafi-nejad, an UNCTAD researcher, TAMIU Radcliffe Killam Distinguished Professor of International Business and director of its Center for the Study of Western Hemispheric Trade.

Sagafi-nejad said cross-border NEM activity worldwide is especially significant and particularly important for developing countries.

“NEM is estimated to have generated over $2 trillion of sales in 2009. Contract manufacturing and services outsourcing accounted for $1.1-1.3 trillion; franchising $330-350 billion; licensing $340-360 billion and management contracts around $100 billion. In most cases, NEMs are growing more rapidly than the industries in which they operate,” Sagafi-nejad observed.

“While NEMs can yield significant development benefits because of their flexibility with local firms and at this time are estimated to employ 14-16 million workers in developing countries, they are not without their risks for those countries,” he cautioned.

“Employment is often highly cyclical and can be displaced. There are also concerns that NEMs have poor working conditions, circumvent social and environmental standards and because of this, may impact long-term industrial development. The answer to all is to embed NEM policies in overall national development strategies, aligned with trade, investment and technology polices and addressing dependency risks,” he continued.

The World Investment Report has been published annually since 1991 by the Geneva-based UNCTAD in collaboration with hundreds of scholars worldwide. Its annual global launch offers a wealth of information on foreign direct investment (FDI) and Transnational Corporations (TNCs).
The Report also traditionally examines recent trends in FDI flows and policies in an effort to help developing country policymakers and the international development community to navigate challenges and capitalize on opportunities for their developmental gains.

The World Investment Report 2011 indicates that Global FDI has not recovered fully to its pre-crisis level, but seems likely to do so this year. It indicates that this presents a huge opportunity and challenge for policymakers in all countries.

“Global FDI flows rose moderately to $1.24 trillion in 2010, but are still 15 percent below their pre-crisis average. This is in contrast to global industrial output and trade, which are back to pre-crisis levels. UNCTAD estimates that Global FDI will recover to its pre-crisis level in 2011, increasing to $1.4-1.6 trillion, and approach its 2007 peak in 2013. This positive scenario holds, barring any unexpected global economic shocks that may arise from a number of risk factors still in play,” Sagafi-nejad noted.

He said there are divergent trends among regions, modes and sectors of FDI.

“East and South East Asia and Latin America experienced strong growth in FDI inflows, but those in Africa, South Asia, West Asia and transition economies continued to decline. FDI in manufacturing bounced back, but services sector FDI is in decline. Cross-border mergers and acquisitions are picking up, but greenfield projects (investment in a manufacturing, office, or other physical company-related structure or group of structures in an area where no previous facilities exist), the majority of FDI, still fell,” he explained.

The 2011 Report noted that for the first time, developing and transition economies absorbed more than half of global FDI inflows, some $642 billion, or 52 percent of global FDI flows. Developing and transition economies also generated nearly 30 percent of global outflows – a record $388 billion – with much of the investment directed to other countries in the South.

The Report also revealed an important development on the policy front: increasing influence on the investment policy landscape by voluntary corporate social responsibility (CSR) standards.

“Our findings indicate that governments can maximize development benefits deriving from these standards through appropriate policies, such as harmonizing corporate reporting regulations, providing capacity-building programs and integrated CSR standards into international investment regimes,” Sagafi-nejad suggested.

Sagafi-nejad said the report concludes that FDI remains the key component of the world’s growth engine.

“That said, the post-crisis FDI recovery has been slow at best, unevenly spread and the poorest countries are still considered in ‘FDI Recession.’ Many uncertainties haunt global economy investors: national and international policy developments send mixed signals to investors; investment policymaking is increasingly complex with international production evolving and boundaries between FDI and NEM blurring. NEM poses new challenges, but also creates new
opportunities to integrate developing economies into the global economy,” Sagafi-nejad concluded.

To learn more about the UNCTAD World Investment Report 2011, contact Sagafi-nejad at tagi.sagafi@tamiu.edu

More information is also available on UNCTAD web sites: www.unctad/org/diae; www.unctad.org/wir and www.unctad.org/fdistatistics.

Texas A&M International University is a State-assisted university with 78 undergraduate, graduate or doctoral degrees, including a doctorate in international business offered at the A. R. Sanchez, Jr. School of Business.

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