Article

The *WIR*@30: Paradigm Shift and a New Research Agenda for the 2020s

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This article reviews the evolution of the *World Investment Report* (*WIR*) over the past 30 years, with special focus on the period 2010–2020. During this decade, successive *WIR*s addressed key challenges related to the global shift in the investment-development paradigm. This helped redefine the mainstream policy prescriptions for cross border investment, trade, corporate governance and development. With the global trade and investment landscape expected to be drastically reshaped in the 2020s, this article highlights five mega-forces driving the transformation of global value chains and outlines a fresh multi-disciplinary research agenda for the decade ahead.

The 30th anniversary of the *World Investment Report* (*WIR*) coincides with the beginning of a new phase for the global economy. The perfect storm of economic, social and political shocks provides further impetus for taking stock of the insights and lessons learnt from the *WIR*. It presents an opportunity to chart a way forward for a research and policy analysis agenda, and to find solutions to address tomorrow's investment-development challenges.

While no one expects foreign direct investment (FDI) and multinational enterprises (MNEs) to be a panacea for development, nor unproblematic, there is no doubt that they can make a significant contribution to development. The overarching challenge for policymakers and scholars alike is how to maximize their benefits and minimize potential negative effects for development – the underlying preoccupation of three decades of the *WIR*.

The *WIR* is UNCTAD's flagship report on FDI, the activities of MNEs, and their impact on development. It is not the organization's only report in this field: the flagship leads a fleet of publications addressing other demand-driven topics (UNCTAD, 2019). The report benefits from, and contributes to other activities of the organization, notably policy advice to developing country governments and international consensus building on investment policy (UNCTAD, 2020).

In their respective articles, Peter Buckley reviews the *WIR* from an academic angle, Karl Sauvant and Anne Miroux examine its policy impact, and Lorraine Eden identifies possible future research topics (Buckley, 2020; Eden, 2020; Sauvant, 2020). I will try to cover all three dimensions from an insider's perspective, with a particular focus on the past decade, which began with the fallout from the 2008–2009 global financial crisis, marking a new phase for the investment-development paradigm. With the global trade and investment landscape entering a potentially more disruptive environment at the beginning of the 2020s, the second part of this article outlines a fresh multi-disciplinary research and policy analysis agenda for the decade ahead.

I would like to take this opportunity to express my great appreciation to Peter Buckley, Lorraine Eden, and Karl Sauvant for accepting my invitation to share their valuable perspectives during the AIB 2020 Conference, and subsequently offering to present their in-depth evaluation in the current issue of *AIB Insights*. I would also like to acknowledge the work of Karl Sauvant, who created the *WIR* in 1991 and was in charge of its first 15 editions, as well as Anne Miroux who was the succeeding team leader of the *WIR* for the next five years. I assumed the lead role of the Investment and Enterprise Division in 2008 and the *WIR* in 2009. I would also like to thank many eminent IB scholars, including Peter Buckley, John Dunning, Lorraine Eden, Garry Gereffi, Sanjaya Lall, Sarianna Lundan, Rajneesh Narula, as well as other leading experts in international economics, international economic law and development studies, for their valuable advice and feedback on the *WIR* over the years (see acknowledgements in each edition of the *WIR*). My gratitude also goes to AIB for the prestigious Presidential Recognition Award 2020 "in recognition of the 30th year of the *World Investment Report*, noting the significance of the report and its contribution to the field of international business."

WIR@30 – THREE DECADES OF RESEARCH AND POLICY ANALYSIS ON INTERNATIONAL PRODUCTION

The past 30 years of the *WIR* has tracked two decades of rapid growth in international production, followed by one of stagnation (Figure 1; see also Web Appendix for a full list of *WIR* titles).

The first reports, in the early 1990s, analysed how the global presence of MNEs had evolved from relatively simple cross-border structures predominantly motivated by the search for natural resources and international markets only a few decades earlier, to more complex international production networks built to exploit differences in labour costs and productivity. This process accelerated in the 1990s and into the 2000s, enabled by advances in technology that allowed the fine-slicing of production processes and better communication in complex cross-border supply chains. This was supported by the liberalization of trade and investment policies, the spread of export-oriented industrial policies, and spurred on by competition between firms to survive in globalized markets, as well as between economies to attract investment for development.

The first two decades of the report thus mapped the rapid growth in international production, a ten-fold increase in the global stock of FDI and a five-fold increase in global trade – much of it intra-firm trade between affiliates of the same MNE and trade within supply chains coordinated by MNEs. During this period, the reports therefore focused on the implications of the growth of international production,

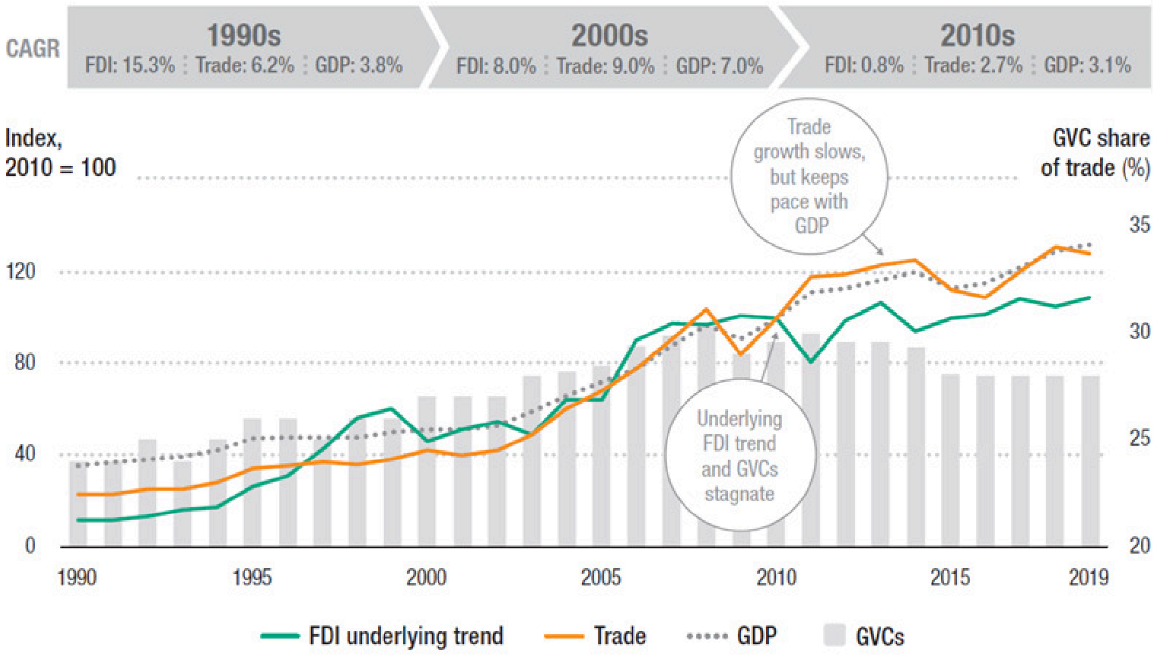

Figure 1. The Long-Term Evolution of International Production, 1990–2020 (FDI, trade and GDP indexed, 2010 = 100; GVCs percent)

Source: *WIR* 2020
Note: CAGR is the compound annual growth rate over each 10-year period

for example for employment and competition policies. They also focused on the development impact and potential opportunities for export-led growth, linkages with local business and domestic enterprise development.

In the 2000s, the *WIR* also documented a series of fundamental shifts in international production. *Patterns* of FDI changed, with emerging markets becoming not only increasingly important recipients of FDI, but significant outward investors themselves. The *composition* changed, with services playing an ever more important role, both through the internationalization of services industries and through servicification of manufacturing activities. And the *modalities* through which MNEs expanded abroad changed, with mergers and acquisitions (M&As) playing a major role, and corporate structures becoming increasingly complex. This period also saw the growing *financialization* of FDI, with balance-of-payments-based FDI statistics less accurately representing real cross-border investment in productive assets.

The 2010s witnessed two parallel trends in the global investment landscape. The first was a marked stagnation in global FDI growth and in the growth of global value chains (GVCs). The second was a shift in the investment policy paradigm from a market-driven approach (liberalization, privatization) to a market-harnessing approach (making investment work for sustainable development) (Zhan, 2010) (Figure 2).

After the global financial crisis, and especially after 2010, the growth momentum of international production stalled. This was first observed in trade flows: worldwide exports of goods and services, which had grown at more than double the rate of GDP growth for decades, decelerated significantly relative to economic growth. A similar trend was taking place with investment, but it remained obscured for some time by the expanding financial component of FDI (so-called transit FDI, 'round-tripping', etc.). Nevertheless, the *WIR* observed early on that stagnation in cross-border investment in productive capacity was a key factor behind the trade slowdown. Subsequent reports, exploiting new data on value added in trade, documenting investment flows net of conduit jurisdictions and offshore financial centres, and developing an underlying investment trend net of the effects of volatile financial flows and distortionary M&As (so-called 'megadeals'), clearly showed the relationship between the lack of growth in global FDI, GVCs and trade. To do this, the report made a subtle shift in its interdisciplinary research recipe that included international business, international law and development studies, and increased the weight of international economics in the mix.

Several *WIR*s explored in-depth the causes of investment stagnation and modes of MNE operations. Non-equity modes (NEMs), between arm's-length trade and FDI as a governance mechanism, gained growing significance in international production. NEMs allowed MNEs to access overseas markets through contracts, rather than FDI, while still exercising a significant degree of control over operations (*WIR* 2011, *WIR* 2013). Another driver of the investment slowdown was the increasing importance of tech-MNEs, many of which can penetrate markets worldwide without the need for a significant physical presence (*WIR* 2017). The number of asset-light tech-MNEs in the *WIR*'s annual ranking of the top 100 largest MNEs increased significantly by the end of the decade. In contrast, manufacturing investment declined. The value of greenfield cross-border investment projects in manufacturing industries was structurally lower (by 20–25 percent) compared to the previous decade (*WIR* 2020). This was true even in Asia, the only region that still showed significant growth in overall FDI inflows.

As the global economy started its recovery from the global financial and economic crisis at the end of the 2000s,

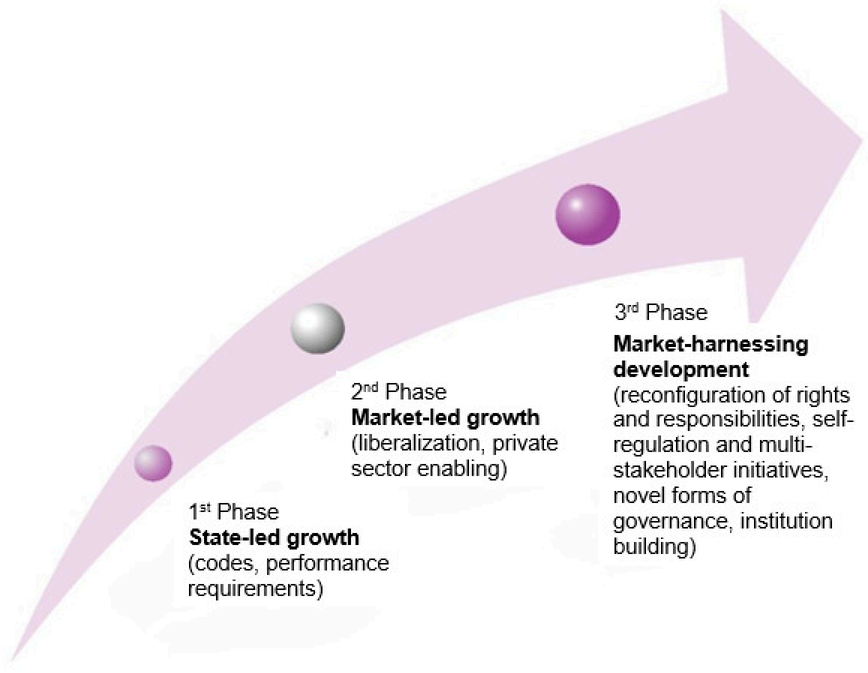

Figure 2. Decades of Evolution of State–TNC interaction [to be revised]

Source: Zhan (2010)

the investment policy pendulum – between market-driven and interventionist approaches – swung from a market-driven approach towards a more balanced position. There were simultaneous moves to liberalize investment regimes and promote FDI on the one hand, and to regulate FDI in pursuit of public policy objectives on the other. This resulted in a dichotomy in policy directions, contrasting with the clearer trends of the 1950s–1970s (which focused on state-led growth) and the 1980s–2000s (which focused on market-led growth). Throughout the 2010s, the *WIR's* monitoring of national investment policy measures showed a gradually increasing share of restrictive and regulatory measures, next to measures aimed at liberalizing or promoting FDI.

The policy dichotomy and the investment-development paradigm shift, combined with the enormous investment needs for sustainable development, created a huge demand on the part of policymakers for a new generation of investment policies (Zhan, 2010, 2016). The *WIR* responded to this demand, with an increasing emphasis on new policy frameworks, reform processes and a push for international transformative action. This resulted in, among others, the Investment Policy Framework for Sustainable Development (*WIR* 2012), an action plan for investment in the Sustainable Development Goals (*WIR* 2014), a roadmap for reforming the international investment treaty regime (*WIR* 2015), and an action menu for investment facilitation (*WIR* 2016).

SHAPING A NEW GENERATION OF INVESTMENT POLICIES

At the beginning of the 2010s, as the global economy recovered from a series of crises (food, fuel and finance), the pressure on FDI and MNEs to contribute to sustainable development was growing more than ever. This was even more so in light of increasingly urgent global challenges, such as combating climate change and meeting the Millennium Development Goals. However, at that time, investment stakeholders and policymakers worldwide lacked a coherent policy framework and policy instruments for addressing sustainable investment challenges. This was aggravated by a lack of understanding about, and reliable data on, the sustainable development impact of FDI and MNEs (Zhan, 2010). In light of that, I presented a fresh policy research agenda on the investment-development paradigm shift for the decade of 2010s in my article in the *Transnational Corporation* journal. I called for "further research with a view to fostering the theoretical, analytical and empirical bases needed for developing a coherent policy framework that effectively promotes responsible investment" (Zhan, 2010). The year 2010 marked the beginning of the decade-long journey for UNCTAD to help shape the new generation of global investment policies (UNCTAD, 2014).

UNCTAD's investment policy agenda has since focused on addressing three sets of issues related to investment and development:

1. Strike the right policy balance, between liberalization and regulation, and between the rights and obligations of States and those of investors (e.g., *WIR* 2015; *WIR* 2016)
2. Enhance the critical interface between investment and sustainable development, such as SDGs, climate change (e.g., *WIR* 2010, *WIR* 2012, *WIR* 2014, *WIR* 2020)
3. Ensure coherence between national and international investment policies and between investment policies and other public policies, e.g., trade (*WIR* 2013), tax (*WIR* 2015), technology and digital development (*WIR* 2017), and industrial policies (*WIR* 2018 and 2019).

The *WIR* has been central to this agenda, but it has permeated our other research, advisory and consensus building work as well (UNCTAD, 2020).

In 2008, I spearheaded the creation of the World Investment Forum (WIF), based on the need to fill a systemic gap in global economic governance around investment issues. At the international level economic governance is organised around several institutional pillars, including the IMF that oversees the multilateral monetary system, and the WTO that coordinates the multilateral trade system. But there is no equivalent for the international governance of investment. The current de facto regime is governed by thousands of bilateral and regional agreements, and other ad-hoc treaties and rules. In the absence of a multilateral system for cross-border investment, the creation of the WIF was intended to provide a global platform to gather policymakers, the private sector, and other key stakeholders for high-level discussion and action to shape international investment policy in a more coordinated manner (Zhan, 2019).

The idea was to supersede the conventional approach to global investment policymaking – intergovernmental negotiations – by providing a platform for inclusive and comprehensive dialogue among the whole community of investment-development stakeholders that would gradually lead to consensus on investment policies and norms. We at UNCTAD envisaged a virtuous cycle of policymaking, from proposals and policy options by the UNCTAD Investment Division and our global investment network, through multi-stakeholder deliberations and consensus building at the WIF, to policy implementation in the field supported by technical assistance, to feeding back lessons learnt into further policy research and formulation. This has proved a viable and pragmatic approach to shaping a new generation of international investment policies – a "soft approach to global investment policymaking" as I call it, as opposed to the hard negotiations-based approach. Ultimately, multilateral rules and principles are meant to be translated into national laws, regulations and policy practices of individual countries. The "soft approach" can achieve the same objective without hard bargaining, and our experience suggests this is the case, as the examples below attest. After all, the investment relationship is a long-term partnership, rather than a give-and-take deal. Furthermore, our soft approach represents "best endeavour", while a negotiation-based approach may end with "the lowest common denominator" in standards (Zhan, 2019).

Progress is feasible, and effective, as long as the three dimensions (policy research, norm setting, and technical assistance) are well integrated and properly strategized, with the overarching objective of promoting sustainable investment and prosperity for all.

Over the past decade, the *WIR* and our related study series have made significant contributions to the modernization of national investment policies worldwide, and to the reform of the international investment treaty regime. For example, *WIR*s are often presented at government cabinet meetings and parliamentary debates, in both developing and developed countries. They also serve as issues papers at global and regional investment policy making processes, such as UNGA, G20, ACP, AU, ASEAN, BRICS, etc. The policy frameworks and instruments developed in the *WIR* have been translated into national investment regulations and global investment principles often with the technical support of UNCTAD (UNCTAD, 2020; Zhan, 2016).

The "soft law" approach has proven successful and can be more effective than a traditional approach to negotiations. Concrete examples abound: between 2012 and 2016, 148 countries reviewed their national and/or international investment policies, with 133 of them using UNCTAD's policy guidance in the Investment Policy Framework for Sustainable Development (*WIR 2012*) for that purpose.[1]

At the regional level, the African, Caribbean and Pacific Group of States (ACP) and UNCTAD, in 2017, jointly developed the *Guiding Principles for Investment Policymaking for ACP Member States* (78 member countries). More recently, countries of the D8 Organisation for Economic Co-operation "reiterated the central role of UNCTAD's Investment Policy Framework for Sustainable Development in assisting [them] formulating more balanced and sustainable-oriented investment policies."[2]

As well as developing countries, developed economies also benefitted from the *WIR's* policy agenda. In 2016, the European Parliament adopted a resolution that "Urges the Commission to advance the UNCTAD comprehensive Investment Policy Framework for Sustainable Development", and "Calls on the EU and its Member States to follow UNCTAD's comprehensive Investment Policy Framework for Sustainable Development recommendations with a view to stimulating more responsible, transparent and accountable investments."[3]

And at the global level, the G20 Guiding Principles for Global Investment Policymaking drew on UNCTAD's Investment Policy Framework for Sustainable Development (Zhan, 2016). The G20 Guiding Principles are the first multilateral consensus on investment matters reached among a group of developed, developing and transition economies, accounting for over two-thirds of global outward FDI.

A FRESH RESEARCH AGENDA FOR THE DECADE AHEAD

The decade that has just begun is expected to be a decade of transformation for international production (*WIR 2020*). *Five mega-forces* will drive the transformation and redefine the global trade and investment landscape.

1. *Economic governance realignment.* The international economic policymaking and especially in trade and investment policy are shifting away from multilateral cooperation towards regional and bilateral solutions and increased protectionism. It is compounded by a general shift in national economic policymaking in many countries towards more regulation and intervention, including through the rise of new industrial policies. (The aggravated systemic competition (trade, investment, technology, etc.) between economic powers may lead to a wide-spread global economic governance divide.
2. *Technology and the new industrial revolution.* The

1 See UNCTAD (2019) (and earlier editions) for documentation of the results and impact of UNCTAD's soft nominative work and advisory services for over 130 countries and regional groupings.

2 See also K. Sauvant's (2020) article in this issue.

3 www.europarl.europa.eu/doceo/document/TA-8-2016-0299_EN.html?redirect.

application of new technologies in the supply chains of global MNEs will have far-reaching consequences for the configuration of international production networks. The key technology trends include robotics-enabled automation, enhanced supply chain digitalization and additive manufacturing. This is already raising important concerns for policymakers, with the realization that economic success, as well as social and political stability, will depend on promoting investment in new business models for growth and prosperity (*WIR* 2017, Brun et al., 2019).
3. *Sustainability imperative.* Markets and governments are pushing for changes in products and processes in the direction of sustainability (*WIR* 2014). The global endeavor to mobilize and channel investment to the Sustainable Development Goals (SDGs) will also change the future pattern of FDI, including the sources of financing, sectoral distribution and geographical location.
4. *Corporate accountability.* International cooperation to fight corruption, illicit payments, tax evasion and anti-competitive practices will have important implications for the modes of operation and governance of MNEs. The environmental, social and governance (ESG) standards and disclosure requirements will add to trade and investment policy pressures from both host and home states.
5. *Resilience-oriented restructuring.* The ongoing pandemic, as well as growing geopolitical conflicts, will drive MNEs to make their global value chains more shock-resistant, and governments to reduce reliance on foreign sources for critical supplies. This will exert significant impact on the future pattern of global investment flows and stock.

Combined, these forces will push towards reshoring, regionalization, replication and diversification in international production networks. These driving forces will fundamentally alter the way firms across industries design and operate their global value chains – affecting where they choose to locate which type of activity, how they distribute value added, tangible and intangible assets over their networks, and how they transmit practices, including environmental, social, and governance practices, to actors along their value chains. Consequently, global patterns of trade and investment will change, as will their potential impact on economic growth, employment creation and sustainable development.

As at the start of the last decade, at a time of fundamental change, it is again time to chart the way forward for research and policy analysis for investment-development solutions to address tomorrow's challenges and opportunities.

In light of the *WIR* 2020's analysis, I can foresee *ten salient features* of the overall future direction of international production transformation leading to 2030:

1. A shift from global to regional and sub-regional value chains
2. Shorter and less fragmented value chains, and more concentrated value added
3. More platform-driven and asset-light value chain governance
4. Downward pressure on global efficiency-seeking FDI in favour of regional market-seeking FDI
5. Downward pressure on global trade in intermediate goods; less on trade in final products
6. A shift from mass-production to mass-customization
7. Continued growth and fragmentation in services value chains
8. Resilience and national security concerns as key drivers of GVC diversification
9. Growing FDI in infrastructure and public services
10. A boost for FDI in the green and blue economies

Each of the above "forecasts" can serve to develop future research hypotheses. At a minimum they require close monitoring throughout the process of transformation of the international production system. Empirical studies can help validate, update, enrich and fine-tune established theoretical frameworks for international production systems and global value chains. And they can provide rich research opportunities for evidence-based policy analysis on investment-development strategies in the next decade.

In addition to the issues listed above, we also need to address broader critical challenges for sustainable development. For example:

- What type of policy measures are needed to pull global FDI out of a decade of stagnation and re-start the engine of international production for global economic recovery and reconstruction?
- What are the implications of the GVCs transformation for the international trading system and investment treaty regime, and how to address the emerging challenges of global economic governance?
- How to mobilize and channel investment into the 17 SDG sectors? What should be done to improve the capacity of developing host countries in preparing bankable project pipelines?
- How to maximize FDI and MNE contributions to inclusive growth and development, addressing the challenges of poverty and inequality, including gender and race? (see also Buckley, 2020; Eden, 2020)

The list above implies a shift in investment policy thinking from the international production networks that have been the core focus of IB research for decades towards the need to attract international investment in infrastructure and public services, as well as green and blue economies, aligning largely with the SDG-relevant investment sectors in *WIR*. This will further demand the need for IB scholars to engage in inter-disciplinary research, combining perspectives from international finance and economics, international investment law and development studies. It is also important for IB scholars to monitor closely the rapid and massive policy developments and analyze their implications for MNEs' outwards investment and operations in host countries. That is the main reason that I initiated the establishment of the two awards for the best young academic research work on investment and development, i.e., UNCTAD-AIB Award (thanks to the collaboration of the AIB Board[4]), and UNCTAD-SIEL Award (in partnership with the Society of International Economic Law[5]).

UNCTAD will continue to conduct and support the research and policy analysis on the transformation of the in-

4 https://www.aib.world/about/awards/unctad-aib-award-for-research-on-investment-and-development/

ternational production system and its development implications in the post-pandemic era.

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5 https://www.sielnet.org/prizes/siel-unctad/#:~:text=UNCTAD and SIEL invite contributions,social%2C environmental or institutional aspects

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SUPPLEMENTARY MATERIALS

Web Appendix

Download: https://insights.aib.world/article/18045-the-_wir_-30-paradigm-shift-and-a-new-research-agenda-for-the-2020s/attachment/47111.docx?auth_token=jrKN1CCRh21IsSWLt2Kh