Digital Radically Changes Global Investment Patterns

The integral interview

with Richard Bolwijn, Division on Investment and Enterprise, UNCTAD

Q. Can you very briefly tell us how global patterns of investment are affected by the rise of the digital economy?

A. The first impact is through the rise of tech companies and digital companies among the top multinationals in the world. In the last five years the number of tech companies in the top 100 multinationals – a list that UNCTAD produces every year – has more than doubled. The assets of these multinationals increased by 65%, compared to flat trends for other top 100 multinationals. The international operations of digital multinationals are also very different: they can reach markets overseas with a much lighter asset footprint. They make almost three quarters of their sales abroad with only about 40% of their assets based outside their home countries, compared to a balanced footprint for other multinationals. That means that the rapid growth of tech and digital multinationals on the international production scene is accompanied with much slower growth of investment in tangible productive assets overseas. These companies also generate
less employment in host countries directly, although they can have important indirect productivity effects and contribute to digital development.

The broader effect of the digital economy on investment patterns comes from the adoption of digital technologies across multinationals in traditional industries. We’re seeing different and contrasting scenarios playing out in parallel. Depending on the industry, digital technologies can lead to fewer, concentrated large investments in big-data enabled production sites; at the same time they can lead to larger numbers of smaller investments in 3D-printing enabled distributed production schemes. Similarly, digitalization can lead to re-shoring but also to more opportunities for services outsourcing.

Q. What are the main challenges developing countries will have to address to attract foreign investment into the digital economy?

A. Well, I can interpret this question in two ways. First, how can countries attract foreign investment in a digital economy. Second how to attract investment for digital development. Let’s look at them one by one.

Given the changes in the patterns of investment that we talked about, attracting foreign investment is different in a digital economy. That’s because investment determinants are changing. For example, promoting international investment in a digital economy that relies less on low-cost labour and more on digital infrastructure, skills and low-cost energy will require different competitive advantages. Also at the level of investment rules and regulations policymakers need to consider the implications of new modes of investment and changing investment impacts. Some regulations from the analogue era might become obsolete (such as retail restrictions that are bypassed by e-commerce) or could inadvertently slow down digital adoption and digital development (such as sector regulations that effectively block new digital entrants to the market).

The second way of looking at your question is how to attract investment in digital development itself. The World Investment Report emphasizes that foreign investment can be helpful to develop digital infrastructure (broadband coverage), which is the prerequisite for digital development. But investment policy should go beyond that. It should also promote investment in digital industries and stimulate investment by all companies in digital adoption. That is where the real development benefit ultimately occurs.

Q. As you know, eTrade for all was created to facilitate access for developing countries to information and resources that can help unlock the potential of e-commerce for inclusive development. How can developing countries benefit in this context from the analysis in the WIR?
A. The World Investment Report contains a survey of more than 100 national digital development strategies. Almost all countries now have such a strategy or are developing one. What we found is that the investment dimension in digital development strategies is often weak or lacking. Only about half of digital development strategies make any mention of financing needs, and less than a quarter of digital development strategies contain estimates of investment requirements and plans to close the investment gap.

A separate survey we did on investment promotion agencies (IPAs) shows that very often there is a lack of coordination between ministries and institutions responsible for digital development, on the one hand, and investment authorities or IPAs on the other. Clearly investment is a prerequisite for effective digital development, so this needs to change. The information and resources on the eTrade for All platform might point towards approaches and technical assistance programs available to help countries develop a proper investment strategy for digital development.

Q. eTrade for all is also a consortium of 23 public sector members and 33 private sector partners. Is there something you would like to share with this network?

A. The mix of partners is very good. It is important to have close dialogue between public and private sector partners in finding solutions to develop the digital economy. One of the findings in the World Investment Report is that it is important to build local digital enterprises and local content to generate demand for digital services, which will in turn yield new investments in digital infrastructure. An important element of digital development strategies is therefore to facilitate the creation of new businesses and investments. Our suggestion to policymakers is: if you want to improve the world, start with yourself. eGovernment services can facilitate investment and the creation of new businesses, and at the same time generate demand for digital services and digital infrastructure. A good starting point for policymakers and the private sector is to look at the level of eGovernment services for businesses and investors in their own country. They can do that on our Global Enterprise Registration website – GER.CO – which shows the quality of online services for businesses and investors across almost all countries. Our recommendation is to start there: stimulate the digital economy starting with public services, in partnership with the private sector.

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