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## **INVESTMENT AND THE DIGITAL ECONOMY**

The digital economy is a key driver of growth and development. It can provide a boost to competitiveness across all sectors, new opportunities for business and entrepreneurial activity, and new avenues for accessing overseas markets and participating in global e-value chains. It also provides new tools for tackling persistent development problems. Yet, it comes with a host of policy challenges, including the needs to bridge the digital divide, minimize potential negative social and development impacts, and deal with complex internet-specific regulatory issues. The opportunities and challenges associated with the digital economy are particularly important for developing countries. The digital economy has important implications for investment, and investment is crucial for digital development

The weight of information and communication technology in international production has increased dramatically in the last five years. Between 2010 and 2015, the number of tech companies in UNCTAD's ranking of the top 100 multinational enterprises more than doubled. The importance of digital MNEs – including internet platforms, e-commerce and digital content firms – is also growing rapidly. Digital multinational enterprises make about 70 % of their sales abroad, with only 40 % of their assets based outside their home countries. The impact of digital MNEs on host countries is less directly visible in physical investment and job creation, but their investments can have important indirect and productivity effects, and contribute to digital development.

Investment rules and regulations, and policies and institutions for the promotion and facilitation of investment, should consider the evolving cross-border operating models of multinational enterprises. Most countries are actively pursuing the digital opportunity because of its potential development benefits. Many digital development strategies either fail to address investment or discuss investment needs only at a very general level. Less than 25 % contain details on investment requirements for infrastructure, and less than 5 % on investment needs beyond infrastructure, including for the development of digital industries. Investment promotion agencies are rarely involved in the formulation of digital development strategies.

A comprehensive digital development strategy should cover investment in digital infrastructure, in digital firms, and in digital adoption by firms across all industries. Regional cooperation for investment in internet infrastructure can make infrastructure projects more attractive for international investors.

Promoting investment in local digital content and services is crucial to speed up digital development. This means creating and maintaining a conducive regulatory framework for digital firms, as well as active support measures, which may include technology or innovation hubs and incubators; building or improving e-government services; and supporting venture capital funding and other innovative financing approaches. Linkages with global firms can help, but developing the digital sector mostly means supporting local enterprise development, rather than promoting investment by digital multinational enterprises.

Promoting investment in ICTs across all firms, as well as business linkages and participation in global value chains, should be an important part of digital development policies. Tariffs and taxes on devices, and taxes on internet usage, also influence the effective costs of ICT adoption for firms. Facilitating access to cloud services can lower such costs. Skills development – potentially in partnership with global digital multinational enterprises – is also important to allow local firms to interact digitally with multinational enterprises and access e-value chains.

While promoting investment in digital development, policymakers need to address public concerns. This requires up-to-date regulations in such areas as data security, privacy, intellectual property protection, consumer protection and the safeguarding of cultural values. Where digital transformation causes disruption in other sectors or generates negative social or economic impacts, they need to put in place policies to mitigate these effects. Governments need to find a balanced approach that accommodates both public concerns and the interests of private investors.

Investment policymakers should take a more proactive approach in the formulation of digital development strategies. Not only should they prepare for critical changes in their own policy arena, but they can also make an important contribution to the design and implementation of digital industrial policies. Digital development should be embedded in investment policies, and investment policy should be embedded in digital development strategies.

## **References**

1. World Investment Report 2017. UNCTAD.