WORLD ECONOMIC FORUM

Agenda: *Discussing the role of Foreign Direct Investments (FDI) and Cyber Security in delivering the 2030 Agenda for Sustainable Development.*

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Letter from the Executive Board

Right, hello.

Welcome to the simulation of the World Economic Forum at AUMUN 2022. As you guys know, this committee is a bit different to other committees simulated at Model United Nations conferences. You will see representation from both: governments of countries and private entities. Hence, the way you research changes quite a bit.

What we expect from every one of you is a good understanding of both parts of the agenda: Cyber Security and Foreign Direct Investments, and think of innovative solutions as to how we can achieve the Sustainable Development Goals using the same, We need not try to solve each and every problem you discover, try to pick a few, as a committee and try to solve them. Socio-economic and legal arguments are appreciated, but make sure you analyze it well.

We will be following UNA-USA Rules of Procedure (Do not worry if you're new to this, we'll explain this in detail). Make sure you check the bibliography here and the references we used to make this background guide, you'll get a better idea of what we were thinking of when we set the agenda.

Also, just a small note: For the delegates who are "experienced", make sure you don't try to dominate first timers, it's not cool and it will earn you no favors. Diplomacy is appreciated. We hope all of you have fun and enjoy this experience. Make sure you research well and make sure you do not violate your foreign policy / company policy.

Have fun!

- Raunak, Kathiyayini and Mrudhula

About the Committee & Mandate

The World Economic Forum is the International Organization for Public-Private Cooperation. The Forum engages the foremost political, business, cultural and other leaders of society to shape global, regional and industry agendas.
It was established in 1971 as a not-for-profit foundation and is headquartered in Geneva, Switzerland. It is independent, impartial and not tied to any special interests. The Forum strives in all its efforts to demonstrate entrepreneurship in the global public interest while upholding the highest standards of governance. Moral and intellectual integrity is at the heart of everything it does.
The activities are shaped by a unique institutional culture founded on the stakeholder theory, which asserts that an organization is accountable to all parts of society. The institution carefully blends and balances the best of many kinds of organizations, from both the public and private sectors, international organizations and academic institutions.

The Forum does not organize conferences. They believe in more fluid, longer-term interaction. Hence, they hold meetings – to give each participant as much context and opportunity for engagement as possible over the long term. They also aim to ensure the impact of our efforts, with each meeting delivering clear outcomes and action points.
The Forum holds four major annual meetings:
1. The World Economic Forum Annual Meeting, held in Davos-Klosters, Switzerland, shapes global, regional and industry agendas at the beginning of the calendar year.
2. The Annual Meeting of the New Champions, the Forum's annual meeting on innovation, science and technology, is held in the People's Republic of China.
3. The Annual Meeting of the Global Future Councils, held in the United Arab Emirates, brings together the world's leading knowledge community to share insights on the major challenges facing the world today.
4. The Industry Strategy Meeting brings together Industry Strategy Officers to shape industry agendas and explore how industries can shift from managing change to pioneering change.
In addition, regional meetings and national strategy days provide focused engagement on the issues dominating regional and local agendas.

Sustainable Development Goals (2030)

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

The 17 SDGs are integrated—they recognize that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability.

Countries have committed to prioritize progress for those who're furthest behind. The SDGs are designed to end poverty, hunger, AIDS, and discrimination against women and girls.

They are as follows:

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure
10. Reduced Inequality
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace and Justice Strong Institutions
17. Partnerships to achieve the Goal

Foreign Direct Investments (FDI)

- **What are FDIs?**

A **foreign direct investment** (FDI) is **an investment in the form of a controlling ownership in a business in one country by an entity based in another country**. It is thus distinguished from a foreign portfolio investment by a notion of direct control. Broadly, foreign direct investment includes **"mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations, and intra company loans"**. In a narrow sense, foreign direct investment refers just to building new facilities, and a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

Foreign direct investment **offers advantages to both the investor and the foreign host country.** These incentives encourage both parties to engage in and allow FDI. Some of the benefits for businesses include market diversification, tax incentives, lower labour costs, preferential tariffs and subsidies. Some of the benefits for the host country are economic stimulation, development of human capital, increase in employment and access to management expertise, skills, and technology. From this we understand that **for businesses, most of these benefits are based on cost-cutting and lowering risk**. **For host countries, the benefits are mainly economic**.

Typically, there are two types of FDI:

1. **Horizontal:** a business expands its domestic operations to a foreign country. In this case, the business conducts the same activities but in a foreign country. *For example*, McDonald's opening restaurants in Japan would be considered horizontal FDI.

2. **Vertical:** a business expands into a foreign country by moving to a different level of the supply chain. In other words, a firm conducts different activities abroad but these activities are still related to the main business. *Using the same example*, McDonald's could purchase a large-scale farm in Canada to produce meat for their restaurants.

- **How do governments and public entities approach FDIs?**

Foreign direct investment is critical for developing and emerging market countries. Their companies need multinational funding and expertise to expand their international sales. Their countries need private investment in infrastructure, energy, and water to increase jobs and wages.

Government policies that may influence the inflow of FDI can be broadly categorized into three types.

- **overall economic policy** that increases locational advantages for FDI by improving the economic fundamentals of the host country;
- **national FDI policy** that reduces the transaction costs of foreign firms entering the economy
- **international FDI policy** that deals with agreements (whether bilateral, regional or multilateral) on foreign investments.

The overall economic policy works at the macro level and aims at improving the fundamentals of the economy like the market size, availability of skilled labour, infrastructure etc and thereby influence the attractiveness of the country to FDI inflows. The national FDI policy works at the domestic level and regulates entry and exit of FDI along with creation of incentives and restrictions on operations of foreign firms in different sectors of the economy. The international FDI policy works at the international level and deals with agreements on the issue of treatment of FDI from a particular partner or region. These investment agreements may ensure FDI from a particular partner or from a particular region treatment under “most-favoured nation standard” and “national treatment standard”.

Based on their susceptibility to change, the three categories of **policies may impact FDI over different time periods**. While overall economic policies may take a long time to change the economic conditions of the country e.g., market size, national FDI policy like fiscal incentives offered may have a more immediate effect. Signing of investment agreements to encourage FDI flows from a particular country or from within a region may have an impact both in the short-run as well as in the medium run.

- **How do companies, businesses and private entities approach FDIs?**

Direct investment in a country occurs when a company chooses to set up facilities to produce or market their products; or seeks to partner with, invest in, or purchase a local company for control and access to the local market, production, or resources. Many considerations influence its decisions:

- **Cost.** Is it cheaper to produce in the local market than elsewhere?
- **Logistics.** Is it cheaper to produce locally if the transportation costs are significant?
- **Market.** Has the company identified a significant local market?
- **Natural resources.** Is the company interested in obtaining access to local resources or commodities?
- **Know-how.** Does the company want access to local technology or business process knowledge?
- **Customers and competitors.** Does the company's clients or competitors operate in the country?
- **Policy.** Are there local incentives (cash and noncash) for investing in one country versus another?
- **Ease.** Is it relatively straightforward to invest and/or set up operations in the country, or is there another country in which setup might be easier?
- **Culture.** Is the workforce or labor pool already skilled for the company's needs or will extensive training be required?
- **Impact.** How will this investment impact the company's revenue and profitability?
- **Expatriation of funds.** Can the company easily take profits out of the country, or are there local restrictions?
- **Exit.** Can the company easily and orderly exit from a local investment, or are local laws and regulations cumbersome and expensive?

Many firms engage in backward vertical FDI. The auto, oil, and infrastructure (which includes industries related to enhancing the infrastructure of a country—that is, energy, communications, and transportation) industries are good examples of this. Firms from these industries invest in production or plant facilities in a country in order to supply raw materials, parts, or finished products to their home country. In recent years, these same industries have also started to provide forward FDI by supplying raw materials, parts, or finished products to newly emerging local or regional markets.

There are different kinds of FDI, two of which—greenfield and brownfield—are increasingly applicable to global firms. **Greenfield FDIs** occur when multinational corporations enter into developing countries to build new factories or stores. These new facilities are built from scratch—usually in an area where no previous facilities existed. The name originates from the idea of building a facility on a green field, such as farmland or a forested area. In addition to building new facilities that best meet their needs, the firms also create new long-term jobs in the foreign country by hiring new employees. Countries often offer prospective companies tax breaks, subsidies, and other incentives to set up greenfield investments.

A **brownfield FDI** is when a company or government entity purchases or leases existing production facilities to launch a new production activity. One application of this strategy is where a commercial site used for an “unclean” business purpose, such as a steel mill or oil refinery, is cleaned up and used for a less polluting purpose, such as commercial office space or a residential area. Brownfield investment is usually less expensive and can be implemented faster; however, a company may have to deal with many challenges, including existing employees, outdated equipment, entrenched processes, and cultural differences.

- ❖ **How does FDI factor into Sustainable Development Goals?**

International investment is crucial to realizing the intertwined goals of sustainable development and corporate growth. Foreign direct investment (FDI) can generate not only capital but help economies and companies boost digital capabilities, and in creating jobs, knowledge, technology, innovation, upgrading and especially inclusive, sustainable and responsible growth. All of which remains coherent to several of the 17 sustainable development goals.

To unlock these opportunities and bridge the information gaps and coordination barriers the **World Economic Forum has launched a digital FDI initiative**. It is a three phase- supply, demand, connecting the two initiatives aimed at catalyzing mutually beneficial investment flows for companies and policy makers. Investment projects currently underway work in four levels - Subanational, National, Regional, Multilateral. Shaping the future of FDI, impact investments and SDG-related investment portfolios have the potential to become an attractive alternative for investors to divert from the pure profit-oriented thinking to a more impact-oriented approach. Global investment banks and private wealth funds can play a major role in the closing of the existing funding gaps.

The United Nations Conference on Trade and Development (UNCTAD) has already identified in 2014, as part of their World Investment Report, that developing countries are facing an estimated USD 2.5 trillion funding gap annually in the efforts to achieve the SDGs.
Utilizing global investments effectively as well as creating tools to promote impact investments , can help in closing the funding gaps in the 2030 Agenda.

Cyber Security

- **What is Cyber Security?**

Cybersecurity is the **practice of protecting critical systems and sensitive information from digital attacks**. Also known as information technology (IT) security, cybersecurity measures are designed to combat threats against networked systems and applications, whether those threats originate from inside or outside of an organization.

A strong cybersecurity strategy has **layers of protection to defend against cyber crime**, including cyber attacks that attempt to access, change, or destroy data; extort money from users or the organization; or aim to disrupt normal business operations. Countermeasures should address:

- **Critical infrastructure security** - Practices for protecting the computer systems, networks, and other assets that society relies upon for national security, economic health, and/or public safety.

- **Network security** - Security measures for protecting a computer network from intruders, including both wired and wireless (Wi-Fi) connections.

- **Application security** - Processes that help protect applications operating on-premises and in the cloud. Security should be built into applications at the design stage, with considerations for how data is handled, user authentication, etc.

- **Cloud security** - Specifically, true confidential computing that encrypts cloud data at rest (in storage), in motion (as it travels to, from and within the cloud) and in use (during processing) to support customer privacy, business requirements and regulatory compliance standards.

- **Information security** - Data protection measures, such as the General Data Protection Regulation or GDPR, that secure your most sensitive data from unauthorized access, exposure, or theft.

- **End-user education** - Building security awareness across the organization to strengthen endpoint security. For example, users can be trained to delete suspicious email attachments, avoid using unknown USB devices, etc.

- **Disaster recovery/business continuity planning** - Tools and procedures for responding to unplanned events, such as natural disasters, power outages, or cybersecurity incidents, with minimal disruption to key operations.

- **Storage security**
- **Mobile security**

- **What is the importance of/need for cyber-security?**

Given the rapidly evolving technological landscape and the fact that adoption of software is ever increasing across various sectors including finance, government, military, retail, hospitals, education, energy to name a few, more and more information is becoming digital and accessible through wireless and wired digital communication networks and across the omnipresent internet. All this highly sensitive information is of great value to criminals and evil doers which is why it is important to protect it using strong cyber security measures and processes.

The importance of good cyber security strategies is evident in the recent high-profile security breaches of organizations such as Equifax, Yahoo, and the U.S. Securities and Exchange Commission (SEC), who lost extremely sensitive user information that caused irreparable damage to both their finances and reputation. And as the trend suggests, the rate of cyber-attacks show no sign of slowing down. Companies, both large and small, are targeted everyday by attackers to obtain sensitive information or cause disruption of services.

The same evolving technological landscape also poses challenges in implementing effective cyber security strategies. Software constantly changes when its updated and modified which introduces new issues and vulnerabilities and opens it up for various cyber-attacks. Furthermore, IT infrastructure evolves as well with many of the companies already migrating their on-premise systems to the cloud which introduces a whole new set of design and implementation issues resulting in a new category of vulnerabilities. Companies are unaware of the various risks within their IT infrastructure and hence fail to have any cyber security countermeasures in place until it’s far too late.

Digital Currency

In several developing countries, the discrepancy between mobile phone usage and bank account ownership exists because formal financial institutions are unable to reach poor and rural populations, often due to the high cost of financial intermediation and distance. By capitalizing on the growth of mobile banking technology, virtual currencies represent the next stage in digitally advancing financial inclusion. Cryptocurrency can eliminate the need for a third-party intermediary to process transactions
One of virtual currency’s most promising uses for sustainable development is financial inclusion. Financial inclusion exists when “individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way” . Can virtual money , and cryptocurrencies bridge the funding gaps faced by policy makers? Can it help combat black money , or inflation or undervalued assets?but the existing gateways for international money transfers are flawed or archaic,

Limited connections among financial institutions and systems across countries can make transferring money an arduous and inefficient process.
Virtual currencies have the potential to offer a much simpler, faster, and cheaper process of money transfer. Virtual currency payments can be made easily using a mobile phone or computer, leading to instantaneous virtual delivery of funds across country borders.
Governments are using digital payment platforms to operationalize social safety nets and extend the reach and effectiveness of health systems. Businesses are depending on ecommerce for their continued existence. People are reaching for the digital world to communicate with their families and friends, to buy what they need, and where possible to continue their work and livelihoods. The move to conduct business, entertainment, education, health and other public services online is being accelerated. Digital financing will make social safety nets involving cash transfers easier and cheaper to manage. Public and philanthropic efforts to support those in need have also turned to the world of digital financing, leveraging crowdsourcing to raise funds and target transfer payments to support people in need. This surge in the digital world amplifies the opportunity and the need for it to be harnessed in the long term pursuit, and financing, of sustainable development.

Case Study:

Intel in South America:

During the process to select a location for investing, the company carefully looked at six countries in addition to Costa Rica: Indonesia, Thailand, Brazil, Argentina, Chile, and Mexico. Some basic data about these countries is contained in Table 6-1. In the final stage, the short list included Mexico (State of Jalisco) and Costa Rica. Mexico seemed to have a better location in terms of transport costs to the North American market and the Pacific Basin, and it is also a much larger country. The relatively small size of Costa Rica to receive an investment of the dimension of Intel's (US$300 million or equivalent to 2.1 percent of Costa Rican GDP), over two years with a total committed investment of about US$600 million, made Bob Perlman, one of Intel's vice presidents, declare that bringing his company to Costa Rica was like "putting a whale in a swimming pool" (Spar, 1998). As discussed below, Intel would later recognize some bottlenecks, especially in the realm of infrastructure, whose elimination required a good deal of political and financial effort. There has been a consensus, however, that Costa Rica's political institutions and educated labor force, combined with the free-zone regime benefits, more than offset the potential weaknesses that its small size imposes on investors. Executives of the company seem to have valued the fact that Intel's bargaining power would be greater in a smaller country, as opposed to a larger one like Mexico. They also felt that Mexico, with both Federal and state governments, represented a double risk of policy changes.

The process of making Intel executives aware of the advantages that Costa Rica representing the company was neither easy nor cheap in financial terms, though its cost effectiveness soon became evident. Intel's decision process took more than one year, and involved four phases: prequalification, site research, contingent announcement and delivery, and start-up. Seven institutions were directly involved in the process on the side of the Costa Rican government, all under the direction of the Presidency and the Ministry of ForeignTrade, and with the coordination and support of CINDE (Coalición Costarricense de Iniciativas para el Desarrollo), a USAID-funded institution whose main responsibility is investment promotion. The institutions involved included the Ministry of Education and the Costa Rican Technology Institute. This would later become an "Intel Associate," a status that allows its faculty and students to engage in educational exchange activities, share curricula with other Intel associates like the California Institute of Technology, and seek funding for technology development programs carried out by its own researchers.

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