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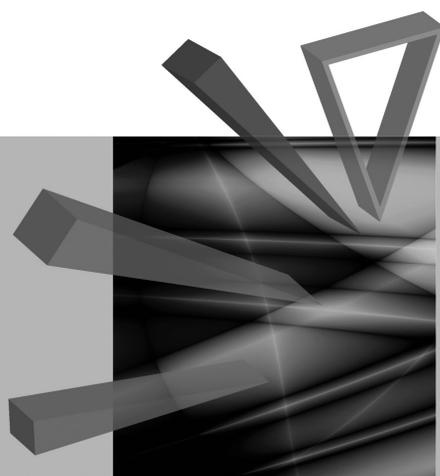
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PROMOTION OF FOREIGN DIRECT INVESTMENT. EXAMPLES FROM THE ASIA-PACIFIC REGION

Summary: The importance of foreign direct investment (FDI) for economic development focuses attention on the attraction of FDI and establishment of investment promotion programmes. Such programmes are usually conducted by investment promotion agencies (IPAs). The Asia-Pacific region is a very attractive place to locate foreign direct investment. The leader in the region is China, which absorbs the lion's share of world's FDI. Other countries absorb less than the leader, but still they are very popular among investors. All of the countries use investment promotion programmes that are conducted by investment promotion agencies. The purpose of this article is to identify and characterise the solutions used by IPAs from the region. Many of them are considered one of the best in the world, responding to customer needs – their organisation and the tasks carried out serve as an example for other countries, including Poland.

Keywords: foreign direct investments, promotion of foreign direct investments, institutionalisation of investment promotion, investment promotion agencies, investment promotion measures.

1. Introduction

The Asia-Pacific region for many years has been a destination for foreign direct investments (FDIs). The undisputed leader in the region is China, which absorbs the lion's share of the capital invested in the region. This country notes a relatively stable trend in this area, attracting in the record year 2008 investments worth 108,312 million USD. After a little slow down in 2009, in 2010 China managed to lure 105,735 million USD. Approximately half of this value was lured in the same period by Hong Kong, and approximately three times less by Singapore. Other countries are lagging behind although it is impossible not to notice the rising position of the developing countries of the region, namely India, Indonesia, Taiwan and Malaysia.

Widespread liberalisation of FDI policy, as well as universality and similarity of the incentives used by countries make governments distinguish from their competition and highlight the uniqueness of their locations.

An important tool of achieving these goals can be an effective promotion of foreign investment. Its importance was recognised also in the countries from the Asia-Pacific region. It should be noted that most countries in the region have developed professional systems of promotion and investment promotion agencies. Many of them worked out such good practices that they can serve as examples for other agencies in the world. Among the best entities there are, for example, Korean Trade-Investment Promotion Agency KOTRA, Japan External Trade Organisation – JETRO, Invest Hong Kong, Malaysian Industrial Development Authority – MIDA, Thailand Board of Investment – BOI and Economic Development Board of Singapore – EDB.

2. Definition issues

The first scientists that pointed to the importance of foreign direct investment promotion were L.T. Wells and A.G. Wint. In their publication, *Marketing a Country. Promotion as a Tool for Attracting Foreign Investment*, they found that increased competition for foreign investors led to the necessity of thinking about location in terms of marketing. In their opinion, the similarities in the competition between enterprises and the competition between countries for investors make countries adapt to marketing strategies for their needs. Countries might to some extent use marketing-mix instruments:

- the product is a country or a specific location with all its pros and cons for the potential consumer-investor,
- the price is the cost of investment and business activities in a country,
- the promotion includes activities aimed at attracting investors.

Promotional activities include building the image of a location in the eyes of potential investors, “selling” a country as a destination for investment and convincing companies to invest as well as supporting investors – providing them with information, guiding through the investment process, helping when they are already located in a country, monitoring the experience of investors and using their comments for lobbying for improving the investment climate.¹

Promotion of FDI can be also defined in a much broader way. Some authors associate it with any investment promotion efforts to attract FDI: granting investment incentives and agreements on the mutual promotion of investment, creating the right climate for business, creating a positive image of a country at the international level, support for investors.

The approach to the promotion of foreign investment has evolved over years. Initially there was so-called promotion of the first generation, which mainly consisted of opening up economies to foreign investments. With time the first generation promotion transformed to the promotion of the second generation, which was

¹ *FIAS: The Investment Climate Advisory Service. FY2006 Annual Report*, International Finance Corporation World Bank Group, World Bank, 2007, p. 20.

associated with the active promotion of a site, particularly through the establishment of foreign investment promotion agencies. Nowadays, there is promotion of the third generation, which is designed to attract specific investments in certain sectors of the economy that are most desirable from the standpoint of the economic development and increasing competitiveness of a country.²

There are lots of institutions involved in investment promotion, both at central and regional levels, as well as abroad. In most countries, however, the most important and fundamental entities responsible for the promotion of FDI are investment promotion agencies (IPAs).

Such agencies are specialised bodies set up to carry out activities related to the promotion of foreign direct investment. Their tasks are focused on four main areas: building the image of a country, directly reaching out to investors (investor targeting), servicing investors before a decision is made and aftercare services, measures to improve the investment climate (policy advocacy).

IPAs usually carry out promotional activities based on promotion strategies, which are a kind of map that leads agencies to reach their goals. A strategy, developed on the basis of taking into account the national development strategy, determines what kind of investments, in which sectors or geographical areas are the most desirable in an economy as well as methods of reaching investors, the definition of budget and financing methods.

3. Promotional institutions in Asia-Pacific

There is no single model of an agency. Their organisation, mandate and powers depend on a country: its system of government, economic development, investment climate, investment approach and importance given to the promotion of foreign direct investment. A model that is effective in one country does not necessarily have to work elsewhere; however, agencies often use good experiences of their competitors and implement them as far as possible to their conditions.

Investment promotion agencies are mostly government agencies, acting as departments under relevant ministries (e.g., the Directorate of Investment and Company Administration – DICA – operating under the Ministry of National Planning and Economic Development in Myanmar) or reporting to appropriate ministries or to the Cabinet Prime Minister (Thai BOI, or Laotian – Department of Domestic and Foreign Investment – DDFI) or the President (this approach has been applied in Indonesia in the Investment Coordinating Board – ICB), sometimes they operate as quasi-government agencies (Singapore EDB) or completely independently.³

² *World Investment Report 2002. Transnational Corporations end Export Competitiveness*, UNCTAD, New York/Geneva 2002, p. 221.

³ *Survey of Best Practices in Investment Promotion*, United Nations Conference on Trade and Development, New York/Geneva 1997, p. 43.

Many promotion agencies have developed a network of regional and foreign offices. Japanese JETRO has a highly developed network of regional representations – 36 regional offices throughout the country, whose tasks are to provide information on investment opportunities about the market and available investment incentives in the region.

Foreign offices are located in the countries from which investments are the most desirable. IPAs from Asia-Pacific mostly set foreign offices in European Union countries (mainly in Germany, Great Britain and France), in the United States and other countries in Asia (mainly in Japan, China, South Korea and Australia). Running foreign offices is very costly, therefore many agencies choose to use their consulates and embassies to promote FDI (such a solution is used by Indonesian ICB); however, many of them create independent foreign offices. An example might be Malaysian MIDA, which has five offices in the US, one in Germany, Great Britain, France, Sweden and Italy, two offices in Japan and China, one office in South Korea and Australia. Another example is Thai BOI, which has one office in Germany (the office is also responsible for promotional activities in Austria), one in Denmark, Finland, Norway, Sweden, Russia, Slovenia, Poland, France (also responsible for the UK), Ireland, Belgium, Holland, Luxembourg, Switzerland, Italy and Spain, in Shanghai and two offices in the US (they are also responsible for Canada and Mexico), and Japan (also responsible for South Korea).

One of the most developed networks of foreign offices has been established by Korean KOTRA. The organisation has over 100 offices on each continent, the greatest number in Europe and in Asia, including 17 in China.

The way in which an IPA and its organisation form are established has a direct impact on the legal mandate and powers of an agency, and thus also on the possibility of attracting investment. Experience shows that entities established rather by law than by decree with a clear legal structure and clearly exposed competences are much more effective. Competencies affect daily functioning of an agency. Defined too narrowly or too broadly, they can contribute to a poor performance of such an entity.

Mostly agency's duties are related to attracting foreign investment to various sectors of an economy and their continuing care. Some agencies in addition to those tasks take over duties related to the promotion of exports. This solution seems quite logical – one entity is involved in the economic promotion and focuses resources and expertise. However, in such a situation there might arise a danger of “blurring” the functions of an agency. Although the promotion of investment and exports requires similar knowledge in some areas, there are actually quite different activities, requiring the use of various tools, targeted at different entities (promotion of exports is aimed at helping domestic enterprises to find foreign markets, and promotion of investment is aimed at attracting foreign companies to invest on a domestic market).⁴

⁴ A. Kuźmińska, Zmiany w polskiej agencji promującej inwestycje w kontekście utworzenia Polskiej Agencji Handlu i Inwestycji, [in:] B. Fiedor, J. Rymarczyk (Eds.), *Ekonomia i Międzynarodowe*

It should be noted that in some countries, such solutions are very effective and a flagship example is the Japanese Japan External Trade Organisation and Korean Korea Trade-Investment Promotion Agency.

Another duty of some agencies is to help national entrepreneurs to develop within a country (for example, the Vietnamese Foreign Investment Agency – FIA, which is a part of the Ministry of Planning and Investment) and to invest abroad. A good example of such an organisation might be KOTRA, which was established in 1962 as a national trade promotion organisation under the name Korea Trade Promotion Corporation. Since then, it has successfully facilitated Korea's rapid export-led economic development through various trade promotion activities. In 1995 it was renamed the Korea Trade-Investment Promotion Agency, while its mandate was extended to cross-border investment promotion and support for technological and industrial cooperation projects. KOTRA currently operates Invest KOREA to support foreign investors by offering more powerful incentives and an expanded range of services.⁵ In 2007 Global Korea was established within KOTRA. It is responsible for overseas investment support for Korean companies.

KOTRA managed to develop a very effective overseas investments support service for small and medium enterprises, which offers a variety of measures like providing information, consultancy and exchange of experiences, communities and blogs. Information about foreign markets might be mainly obtained from Overseas Investment Information System working as a website (www.ois.go.kr).

Another solution offered for potential investors is consulting services provided by call centres. Consultation is provided with respect to primary knowledge of investment environment and procedures in different regions, on specific business sectors like finance, taxation, investment environment, laws and regulations. KOTRA offers also tailor-made consultation based on clients' requests – in-depth consultation, project market research. KOTRA provides also paid services: overseas market research for investment and establishing a subsidiary or factory.⁶

Among other measures offered by KOTRA, there are match-making services with potential business partners and a mission preparing programme, including assistance with on-the-spot scheduling and accommodations, arrangements of meetings with personnel and provision of local investment information.

4. Promotional activities

As already mentioned, the tasks of investment promotion agencies are focused on four areas: image building, investor targeting, investor facilitation as well as aftercare and policy advocacy.

Stosunki Gospodarcze, PN AE we Wrocławiu, nr 16, Wrocław 2008, pp. 176–177.

⁵ KOTRA Korea Trade-Investment Agency, <http://english.kotra.or.kr> (accessed: 01.05.2012).

⁶ *Ibidem*.

One of the basic tasks performed by IPAs is to create the image of a country as an attractive investment location. There are approximately two hundred countries in the world, so governments should not assume that a potential investor will have sufficient and up-to-date knowledge about a location. The tasks of creating a positive image is particularly important for countries whose image for various reasons (e.g., previous negative attitude towards investors, unstable political system, barriers to movement of capital) is not the best among investors. The purpose of IPAs is to change an often unflattering image, to improve awareness of the advantages of a country, pointing to the possibility of doing business.

Today, such activities are conducted by the agency in Laos (DDFI), Cambodia (CIB) and the Philippines – Board of Investments (BOI). Sometimes the act of image-building is also undertaken in order to remind about the advantages of a location. Such actions were taken quite intensively in the 1980s by the Singapore EDB – advertising campaigns were supposed to communicate to investors that despite the recent recession, Singapore remains an attractive place for investments. The Malaysian MIDA also conducted a minimum advertising campaign aimed at specific sectors in order to consolidate its image in the eyes of investors.⁷

Another important function of IPAs is investor targeting. Generally speaking, it is the focus of promotional efforts to attract specific investments rather than attracting investment at all. It boils down to reaching investors, namely the managers deciding to take action outside a home country, with a specific offer, tailored to individual company's needs. The advantages of such activities include:

- increasing investors' awareness of a location,
- focusing efforts on the best prospects,
- better response of investors to location offers developed specifically for them,
- relatively small cost – more time- than cash-consuming,
- a possibility of outsourcing activities.⁸

The key issue concerning investor targeting is to identify companies that are going to be targeted. The multitude of companies investing in the world raises the question on which companies investment promotion agencies should focus their promotional efforts. Investment promotion strategies of individual agencies determine the most desirable investment types, industries or countries from which investors will be tracked. Countries are trying to attract investments that will best meet the objectives of national development strategies.

For example, Thai BOI in its strategy included reaching out to investors from Japan, the United States, countries within the EU, China, India and ASEAN countries along with Australia and New Zealand, in the following industries: automation,

⁷L.T. Wells, A.G. Wint, *Marketing a Country. Promotion as a Tool for Attracting Foreign Investment. Revised Edition*, World Bank, Washington 2000, p. 23.

⁸H. Loewendhal, *Competition for Investment: Best Practice in Investor Targeting*, APEC–OECD Seminar, 14–15 November 2005, Busan, Korea, OCO Consulting, p. 5.

electronics, alternative energy, services of high added value, fashion and agriculture. The research conducted in 2005 by UNCTAD indicated that many countries from the Asia-Pacific region are looking for investments in R&D. An example of a country that is searching for investors in this sector very actively is South Korea. The government, next to Invest Korea, established the Korea Foundation for International Cooperation of Science and Technology – KICOS, whose main goal is to bridge domestic and foreign R&D centres. Both agencies provide assistance to investors in R&D, implementing the governments' concept of South Korea becoming Asia's centre for the development of science and technology.⁹ Obviously, not all countries in the region can afford to attract investments in R&D – not all of them meet the requirements of investors in terms of a sufficiently developed research infrastructure or equivalent laws to protect intellectual property.

Further functions performed by IPAs are associated with the provision of various services to investors who choose to operate in a country. Investors, before an investment is actually made, often have to obtain several permits and approvals from many institutions struggling with excessive bureaucracy. Many agencies try to make it easier for entrepreneurs to go through this process by helping them to speed up all procedures and deals with institutions involved in the process. Agencies performing these functions act as one-stop-shops. The idea is to enable investors to work only with one agency rather than several, and sometimes even with over a dozen entities. Despite a good assumption, sometimes this solution does not work – agencies are too weak, do not have the capacity to coordinate activities of other institutions, not to mention the acceleration of procedures. However, one can find examples of a very efficient operation of one-stop-shops in the Asia-Pacific region. Common examples are given by Singapore Economic Development Board and the Malaysian Industrial Development Authority. The first agency was able to gain direct control over the majority of acceptance procedures, so that investors have to deal only with a small number of other institutions, and in this case, the EDB managed to ensure an effective co-operation between them. MIDA at the beginning of its operations suffered from the problems mentioned earlier, but with a strong support from The Prime Minister M. Matahira it has developed a system to ensure smooth handling of acceptance and permits necessary to begin investment.¹⁰ Comprehensive services for investors, with greater or lesser effect, are offered by Indonesian Investment Coordinating Board, Invest Korea, Invest Hong Kong and Invest Australia.

Many agencies in order to encourage foreign companies to invest in a country offer match-making services with domestic partners and suppliers. Such services are offered for example by Thai BOI agency (Matchmaker Investment Programme, which helps with finding companies willing to cooperate in various fields and different forms – joint ventures, licensing; BUILD programme aimed at promoting investment

⁹ UNCTAD *Investment Brief*, No. 3, 2005.

¹⁰ F. Sader, *Do One-stop Shops Work?*, Foreign Investment Advisory Service, Washington 2003.

cooperation with domestic subcontractors¹¹), Philippine Board of Investments (the Joint Venture Arrangement – actively seeking business partners in order to attract more investment through a joint-venture agreement).

Some agencies extend the range of their responsibilities also to aftercare services, including assistance to investors already located in a country. There are two main reasons for agencies to opt for such measures: satisfied investors can reinvest their profits in a host country, they are the best advertisement for a host country and may give evidence of a good investment climate and business opportunities. An example of an agency that uses satisfied investors as a way to advertise its location is Malaysian MIDA, which quotes the statements of investors on its website.

More and more agencies in the world, including agencies from the Asia-Pacific region, are heavily involved in lobbying for the improvement of pro-investment policies. Such actions mean to propose changes in legislation, regulations concerning foreign investors and are particularly important for countries that have less attractive environment to attract investment.¹² The research conducted by the Foreign Investment Advisory Service indicates that the experience of agencies from developed countries shows that policy advocacy influences investment flows into a country in the strongest way. Those functions of the promoters of pro-investment policies are played by the agencies from Indonesia and Malaysia.

5. Conclusions

In today's world, an intense competition for direct foreign investments is neither new nor surprising. The positive impact of FDI on the economies of host countries is pushing governments to create more and more facilities to investors, improving the climate for business and offer new investment incentives.

However, no matter how good incentives are, countries will not be successful in luring investors without proper promotion of their locations – investors are not always aware of the economic situation of individual countries. The role of investment promotion agencies is to provide companies with information about the advantages of a location, business opportunities, assistance in starting and running a business, but also to influence the creation of appropriate conditions for the operation and development of TNCs in a host country. But on the other hand, it is important to remember that promotional efforts will not be successful if a country cannot offer proper infrastructure, institutional framework, regulations, etc.

An efficient, well-functioning agency can be a very important asset of any country trying to attract FDI. In Poland the institution responsible for luring FDI is

¹¹ V. Praisuwan, *Thailand Investment Promotion Experience*, APEC Workshop, Ho Chi Minh City, Vietnam, 19–20 May 2006.

¹² K. Adach, *Foreign Investment Promotion and Policy Reform*, APEC Seminar on Transnational Private Investment, Ho Chi Minh City, Vietnam, 19–20 May 2006.

Polish Information and Foreign Investment Agency (PAIiZ). Although the institution has been operating since 2003, it still struggles with many problems: financial and organisational. PAIiZ does not have any international representation, does not work as one-stop-shop, the involvement of the private sector in PAIiZ's operation is almost nonexistent.

Among the best ideas used in Asian countries that could be adopted to Polish conditions there are first of all organisational solutions, namely international and regional representation. Korean and Japanese foreign offices enable investors to contact host country representatives in their own country. KOTRA and JETRO can respond very quickly to investors' requests or arrange initial meetings on-the-spot. Polish IPA used to use embassies and consulates (this solution is used also by Indonesian ICB), but these institutions are responsible for many activities and cannot focus only on the promotion of FDI. Another solution that is worth copying in Poland is engagement of the private sector in agencies' actions. Business people's engagement can help in flexible response to market changes and a better understanding of the operations of TNCs and responding to their needs. Many Polish companies complain that the authorities make decisions concerning business activities without any consultation with business people, who have a practical experience in the field.

Match-making services offered by Thailand and Philippines seem also a very interesting and useful approach that could be adopted in Poland. Investors get access to databases of well-prepared (and sometimes even trained to cooperate with TNCs) subcontractors and suppliers. This solution can also influence the development of domestic companies and enhancement of employment. It is also important that the agency should operate as a one-stop-shop, but only when it is really one place, and not the next point on the way to start a business. Despite the efforts of the agency, it still has not managed to achieve the status of a one-stop place.

In conclusion, it is important to remember that even the best programme of promotion and its main component – the IPA – can only be supportive factors in decisions made by investors. Promotion will not be effective and will not bring desired results when it does not go hand in hand with clear and friendly investment policies, if a country cannot offer proper infrastructure, institutional framework, regulations, etc. However, without promoting, a country will not be visible; investors will not have any awareness of the existence of an attractive location for doing business. Moreover, when business conditions are similar in several countries, adequate support and information can influence business decisions on the selection of an investment location.

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PROMOCJA BEZPOŚREDNICH INWESTYCJI ZAGRANICZNYCH. ROZWIĄZANIA Z KRAJÓW REGIONU AZJI I PACYFIKU

Streszczenie: Znaczenie bezpośrednich inwestycji zagranicznych (BIZ) dla rozwoju ekonomicznego zwiększa zainteresowanie przyciąganiem BIZ do kraju oraz tworzenie programów promocji inwestycji. Programy te są przeważnie realizowane przez agencje promocji inwestycji. Region Azji-Pacyfiku jest bardzo atrakcyjny do lokowania inwestycji. Liderem w regionie są Chiny, które absorbują lwią część światowych inwestycji. Inne kraje przyciągają mniej kapitału zagranicznego, ale również są popularne wśród inwestorów. Wszystkie z krajów stworzyły programy promocji realizowane przez agencje promocji inwestycji. Celem artykułu jest identyfikacja oraz charakterystyka rozwiązań stosowanych przez agencje z regionu. Wiele z nich uważanych jest za jedne z najlepszych na świecie, a stosowane przez nie rozwiązania służą jako przykłady dla innych krajów, również Polski.

Słowa kluczowe: bezpośrednie inwestycje zagraniczne, promocja bezpośrednich inwestycji zagranicznych, instytucjonalizacja promocji inwestycji, agencje promocji inwestycji, instrumenty promocji inwestycji.