

Chapter 13

Investment promotion

'Diversification of the export base relies on investment promotion. There is no alternative to the national trade support network being actively engaged in promoting investment'. *Ngô Văn Thoan, Director General, Viet Nam Trade Promotion Agency, Hanoi, Viet Nam.*

Proactive investment promotion is an essential feature of a successful national export strategy. It follows that the organizations concerned with investment promotion, and those responsible for establishing and maintaining an *internationally competitive investment environment* for the country, should be *effectively integrated* into the national trade support network. The key word here is 'effectively'.

Best practice suggests that integration of the export and investment promotion disciplines should be at the levels of:

- ❑ Strategy reinforcement;
- ❑ In-country service delivery to foreign partners, both actual and prospective; and
- ❑ Foreign investor identification and *border-out* promotion.

To ensure *effective* integration of export and investment promotion activities, and to create synergies between the two, the agencies in charge of foreign direct investment policy, application approval and the granting of incentives must be included among the consortia of institutions which make up the strategy-support component of the national network (see page 33). Ideally, these agencies should participate as full members in the national export strategy coordination organization.

Best practice is a little less obvious when it comes to *effectively* integrating the support services offered to the foreign firm that demonstrates interest in investing in, or sourcing from, the country. There are several options open to the national strategy-maker. But it should be recognized that what works for some countries does not work for others.

'Cooperate, coordinate, but do not amalgamate.' *Andrew Proctor, Regional Programme Manager, Asia Pacific, Foreign Investment Advisory Service, International Finance Corporation (IFC), Sydney, Australia.*

Best practice principle 29:

Coordinate but do not necessarily merge trade and investment promotion

Trade and investment promotion activities must be effectively coordinated. Yet this does not necessarily mean that the two functions should be merged within a single institution.

One option is to assign responsibility for export promotion and export-related foreign direct investment promotion to a single institution. Through such a body, prospective investors wishing to advance an export-oriented business proposition can receive comprehensive support. They can meet prospective partners. They can obtain full information and first-hand explanations on legal issues, incentives and tax implications, repatriation of profits, and the procedures governing project approval. They will be advised on the type of export promotion and market development support that their investment may receive.

'There is a tendency for investment staff to have a "regulatory" mindset. This is bad. They should have a "promotional" mind set. This can be achieved by having both organizations report to the same ministry.' *Sok Siphana, Secretary of State, Ministry of Commerce, Cambodia.*

As important: at the advanced stage of project preparation, investors can seek and obtain clearances for the various approval organizations through 'one window' – or at least so the argument goes.

But, although there may be exceptions, the overall track record of such focal point organizations is poor when it comes to clearances. Why? It seems to be a matter of management and 'turf'. Few organizations are prepared to surrender their authority. If the export strategy-maker opts to combine the investment and trade promotion functions within a single organization on the grounds, for example, of economy, best practice suggests that such an organization should assume a facilitating and expediting role, rather than attempt to provide a one-stop approval window for foreign direct investment.

For many small countries, the single-organization model makes sense. For most, it does not.

How to strengthen the trade and investment linkage One view from the World Bank Group

Experience suggests that the trade and investment promotion functions should be institutionally separate. Their objectives only partially overlap. They have different target audiences: export promotion should focus on importers, distributors and merchandisers; investment promotion should focus on manufacture's and service providers. The skill set requirements differ between the two disciplines.

An investment promotion agency should, therefore, exist alongside a national trade promotion organization. They should collaborate.

The national trade promotion organization should:

- Contribute to policy advocacy on investment;*
- Provide direction to the investment promotion agency by preparing sector-specific export potential analyses;*
- Identify competitive or potentially competitive local firms which require or could effectively exploit foreign direct investment, and liaise and cooperate with the investment promotion agency to establish links with potential foreign investors.*

The national trade promotion organization should not:

- Encourage investment promotion organizations to prepare micro-level project profiles as this has proven to be a low-yield exercise;*
- Seek a foreign direct investment policy with mandatory local equity as this reduces the potential investor field and tends to decrease the rate of skill or technology transfer.*

Summary of a presentation made at Executive Forum 2001 by Andrew Proctor, Regional Programme Manager, Asia Pacific, Foreign Investment Advisory Service, International Finance Corporation (IFC), Sydney, Australia.

'Financial considerations dictate that commercial posts combine investment and export promotion.' *Waleska Sterkel, Director, PACIT Guatemala Trade Offices, Guatemala City.*

Border-out promotion is expensive. Trade and investment promotion missions and exhibitions consume a great deal of resources. But if well planned, and followed up, these can be *effective*. A cost-benefit analysis will confirm this, one way or the other. But real *border-out* promotion requires *continuous market presence*. And this is where a strong case can be made for combining the trade and investment promotion disciplines.

Why have two offices when one can do the job? Why have two specialists, when one promoter can assume both functions? Granted, combining trade and investment promotion may require broader knowledge, but the skills required do not differ significantly.

'Some sort of commercial representation service must be established to provide direct links with the market. Relying completely on the foreign service is a mistake, since we all know that governments placed in diplomatic missions abroad are less capable of performing market intelligence and related activities.' *Camilo Jaramillo, Trade Consultant, Bogotá, Colombia.*

'Export promotion must increasingly be matched with collective and personalized assistance to companies in a world in which growth of direct investment far exceeds growth in trade.' *Fabrizio Onida, Università Commerciale L. Bocconi, Milan, Italy, and former President of the Italian Trade Commission (ICE).*

However, this is not where the major battle line is drawn. The real issue here is whether a high-cost market presence should be occupied by trade commissioners who are concerned with 'economic diplomacy' – commercial policy issues and economic reporting – or with business development. As suggested in previous chapters, national export strategy founded on the objective of competitive enhancement and export growth argues for priority to be placed on the latter.

A related argument is that the traditional, narrow focus on green field ('virgin business territory') investment should be widened to include *competitiveness-enhancement investment in existing export-oriented enterprises*. After all, green field investment promotion is based on perceptions of a country's possible comparative advantage. Competitiveness-enhancement investment promotion, by contrast, has its core in a country's existing and potential level of innovation, motivation and flexibility.

Matchmaking – the promotion of joint ventures, technology transfer, out-sourcing arrangements and other types of competitiveness-enhancement investment – should become a major activity of the *border-out arm* of the national trade support network.

Border-in organizations in the network should allocate greater resources to developing such partnership profiles (as opposed to investment project profiles) of local firms where a modest amount of competitiveness-enhancement investment could lead to significant improvement in export performance. These should form the basis of the trade commissioners' investment promotion and matchmaking activities.

All this will require the network to place substantially greater emphasis on enterprise outreach and on establishing a close working relationship with the individual enterprise. Certainly it will require a closer relationship between the *border-in* and the *border-out* elements of the trade support network.

It is a major challenge for the national strategy-maker, requiring negotiation with other ministries (particularly foreign affairs), restructuring of the existing bureaucracy, tackling the problems of vested interests, retooling existing institutional structures and attitudes, and instilling responsiveness to the demands of the private sector as a standard operating procedure.