



APEC-UNCTAD REGIONAL TRAINING COURSE ON THE CORE ELEMENTS OF INTERNATIONAL INVESTMENT AGREEMENTS IN THE APEC REGION

Presentations

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The Three Generations of Investment Promotion

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Investment promotion

Three generations:

1. Liberalization of FDI regimes
2. Marketing of countries
3. Investor targeting

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1. Liberalization of FDI regimes

- ✓ **Reduction of barriers to FDI**
Opening up more sectors to foreign investment, lifting of ownership restrictions and employment of non-nationals, etc.
- ✓ **Strengthening of standards of treatment for foreign investors**
National treatment, legal protection to foreign investors, etc.
- ✓ **Enhancing the functioning of the market**
Competition rules, supervision of banking and financial services, protection of IPRs, consumer and environmental standards, effective systems of accounting and reporting, BITs, DTTs.

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Liberalization of FDI regimes

National regulatory changes, 1992-2007

Year	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07
No. of countries that introduced investment regime changes	43	57	49	64	65	76	80	83	89	71	70	82	102	93	93	98
No. of regulatory changes	77	100	110	112	114	150	145	139	150	207	246	242	270	205	184	98
% More favourable to FDI	100	99	98	95	86	89	94	94	98	93	95	90	87	80	80	76
% Less favourable to FDI	-	1	2	5	14	11	6	6	2	7	5	10	13	20	20	24

Source: UNCTAD

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2. Marketing of countries

- ✓ **Investment promotion perceived by governments as a necessary public function**
- ✓ **Fast growing numbers of national, sub-national and local IPAs**
196 national IPAs and around 300 sub-national IPAs (UNCTAD database)
- ✓ **Establishment of the World Association of Investment Promotion Agencies (WAIPA) in 1995**
Presently 228 member IPAs from 156 countries

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Marketing of countries through IPAs

Role of IPAs:

- ✓ Image-building
- ✓ Investment generation (incl. targeting)
- ✓ Investor facilitation
- ✓ Investor aftercare
- ✓ Policy advocacy

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Marketing of a location

Image-building example from the web site of THINK LONDON, the official FDI agency of London (www.thinklondon.com)

**WELCOME TO LONDON
THE ULTIMATE CITY FOR BUSINESS**

"London is the ultimate place to do business. Voted Europe's best city for business for 16 consecutive years, it offers you unrivalled opportunities – plus the skilled people, huge choice of locations and the expert support you need to make the most of them."

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3. Investor-targeting

DEFINITION

Targeting is a way of maximising investor interest through the development and confidential promotion of investment projects tailored to the highest commercial priorities of those investors.

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Investor-targeting

- ✓ Governments follow national strategies to attract FDI in specific sectors to help them in furthering country development objectives
- ✓ Development of clusters and locational brand names
- ✓ Use by IPAs of investor-targeting strategies and techniques

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9 Phases of Investor-Targeting

1. Identification of national and regional priorities
2. Sector and project prioritisation
3. Candidate company screening
4. Confirmation of targeting priorities
5. Development of specific projects
6. Matching TNCs to project proposals
7. Corporate appraisals
8. Identification of key executives
9. Initiation of contact and promotion

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Why investor targeting?

- Growing competition for foreign investment
- Helps to achieve strategic development goals
- Provides the opportunity to target companies with good corporate governance records
- Offers best prospects for success
- Improves efficient use of limited resources
- Enhances the understanding of corporate requirements by IPAs and governments

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**AFTERCARE:
A core function
in investment promotion**

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DEFINITION

Aftercare can be any type of service provided by public sector organizations after the foreign investor has established a legal entity in the host country.

Its purpose is to improve the implementation rate of investment projects and encourage reinvestments.

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Examples of aftercare

- ✓ "Support was provided to a local subsidiary of a major international company to win a contract for the supply of components for a substantial capital goods product. The IPA assisted the local subsidiary in demonstrating that the region had the capability (infrastructure, supplier base, skilled labour...) to service the contract, and, in addition, provided a financial support package."
- ✓ "The IPA established a linkages programme after recognising that investors were not benefiting from a structured system of sourcing materials from local producers."
- ✓ "Continues facilitation of immigration formalities and the establishment of a technical committee to resolve implementation problems for major projects."

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The Reinvestment Potential of Aftercare

- ✓ 770,000 foreign affiliates worldwide.
- ✓ In certain regions, especially in developed countries, up to 70% of investment is linked to the existing investment base.
- ✓ UNCTAD-WAIPA survey respondents estimated on average that 32% of inward FDI is coming from reinvestments.
- ✓ In a 2004 UNCTAD-RBSC survey on the offshoring of services among the largest 500 European TNCs, as many as 40% of respondents stated that factors beyond pure benchmarking affect their off-shoring decisions, including internal lobbying by their foreign affiliates.

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Rationale for aftercare

The business case for aftercare

- Established TNCs are a "captive audience"
- Aftercare is less costly than attracting new investors
- An IPA's role of "trusted adviser" is most effective
- Satisfied TNCs become ambassadors for a location
- Aftercare contributes to an IPA's policy advocacy work

The economic development case

- Potential benefits of FDI can be increased through effective aftercare programmes, introducing new technologies, international linkages, university links in new R&D, etc.
- Strategically chosen interventions can support economic development objectives

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Aftercare services

- ✓ **Administrative services** – enable TNC operations
- ✓ **Operational services** – support the effective and efficient operation of the TNC
- ✓ **Strategic services** – have impact on the future direction of the firm

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The aftercare service space

The aftercare service space				
Type of Service	Strategic	Establish firm so that it operates successfully and performs its mandate	Competition legislation, product development, R&D capabilities	Where does the firm want to be in 5 years time - strategic leader, centre of excellence?
	Operational	Find office space, factory, recruit staff, purchase and install ICT equipment, power, etc	Staff training, new premises, improve connectivity, local supply chains	Local R&D, University collaboration, deep relationships with unions
	Administrative	Visas, import permits, operate in free trade zone, work permits for spouse	International school, obtain food and drugs administration approvals	Agreement with tax authorities, collaborate with public sector on planning and transport
		Short term	Medium term	Long term
Time				

Elements in operating an aftercare unit

- ✓ Understand the investor community
- ✓ Develop objectives and identify partners
- ✓ Assess the resources situation and develop organizational options – the company friend; the project approach; the aftercare team approach; the integrated approach
- ✓ Segment, target, position and design the aftercare programme
- ✓ Deliver services, monitor and evaluate the results

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Challenges and best practices

- ✓ The role of the Internet
- ✓ Institutional credibility
- ✓ Capability of employees
- ✓ Influencing TNCs
- ✓ Continuity
- ✓ Customer responsiveness
- ✓ Proactive versus reactive approaches
- ✓ Client Management
- ✓ Organisational involvement
- ✓ Evaluation of IPA aftercare impacts
- ✓ The human factor

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A Practical Approach To Policy Advocacy

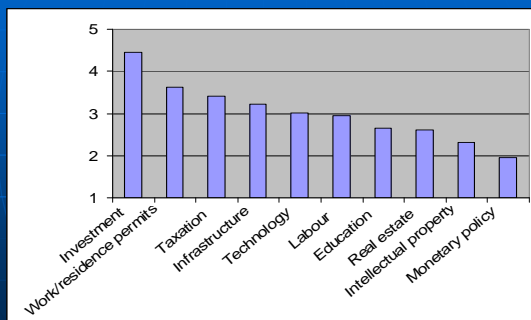
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Definition: Policy Advocacy by IPAs

- IPA efforts to effect changes in **regulations, laws and government policies** pertaining to:
 - Investment
 - Trade
 - Immigration
 - Taxes
 - Labour
 - Real estate
 - Intellectual property rights
 - or any area which affects investment promotion and facilitation or other IPA goals, such as sustainable development.

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Policy Areas by Importance to IPAs



Source: UNCTAD Survey of 55 IPAs, 2006-2007

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The Goals

1. Shape the investment climate to attract greater inflows of FDI
2. Promote policies that will allow greater benefits to be extracted from that FDI
3. Build national competitiveness in a global economy

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IPA Limitations

- IPAs are policy advocates not policy-makers
- Some stakeholders may oppose change
- Understanding of the private sector and the investment climate may be poor
- May not have a full picture of national goals
- Resource limitations and pressure to show short-term results in terms of FDI inflows may push policy advocacy aside

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IPA Advantages

- Best position within government to understand overall investor decision-making
- Many influential natural allies: foreign business, domestic business and (potentially) domestic labour
- Much of the policy advocacy groundwork is already done in other IPA activities

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A 4-Step Approach



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I. Problem ID/Agenda-Setting

- a. Decide what counts as a problem, based on IPA goals and client consultations
- b. Study the context of the problem
- c. Prioritize problems based on impact and likelihood of change
- d. Articulate actionable agenda items

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II. Develop the Best Policy Remedy

- Formulate several alternative policy fixes
- Example Problem:
 - Underdeveloped agroprocessing sector
- Example Policy Remedies:
 - Tax incentives
 - Looser restrictions on foreign ownership, employment
 - Industrial parks w/ committed, reliable utilities and communications infrastructure
- Choose based on explicit evaluative criteria, e.g. *likelihood/amount of FDI, anticipated spillovers, implementation/advocacy costs, negative side effects, likelihood of change*

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III. Advocate the Policy

- Prepare
 - Research and specific policy proposals (Steps I and II)
 - Communications material (newsletters, reports, press releases)
 - Evidentiary support (case studies, market analysis, impact reports)
- Persuade decision-makers, opponents, the public
- Publicise
 - to frame the debate
 - to build consensus indirectly
 - to educate
- Mobilise
 - Beneficiaries,
 - "Champions"
 - Partners
 - Supporters
- Build consensus through...

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IV. Monitor and Evaluate

1. Is the policy change effected having the impact it was meant to have?
2. Have there been any unintended consequences of the policy which detract from its overall effectiveness?
3. Could the policy be improved further?
4. Were the costs - financial, political, etc. - expended on the change worth the resulting benefits?
5. What lessons were learned in effecting the change that could be used to improve the effectiveness of future policy advocacy efforts?

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Mauritius' Case: Overcoming Resistance from Domestic Business

- IPA recognised VA export potential of seafood industry
- Proposed framework for FDI attraction to Ministry
- Resistance raised from small local operators and fishermen
- Workshops for domestic stakeholders to learn differences between artisanal and industrial fishing industries
- Committee set up to review problems w/ the reforms and propose remedies on a monthly basis
- Final result: fewer constraints, less bureaucracy, and an industry growing—for foreign and domestic firms—with the stimulus of FDI

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7 Tips for More Effective Policy Advocacy

1. Have a PA master plan
2. Build capacity for research and communication—internally and through partners
3. Advocate proactively and assertively
4. Expand the IPA's policy horizon
5. Avoid "self-serving" policy proposals
6. Constantly educate stakeholders
7. Mobilise and institutionalise support

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Investment promotion and the crisis: Policy implications

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How can investment promotion institutions or agencies (IPAs) deal with the crisis?

Less FDI will mean tougher competition for investment projects. At the same time, many IPAs are facing difficulties in securing adequate public funding from governments that are stretched for money. IPAs should therefore reassess their current activities and provide their governing bodies with plans on how to face the new challenges.

Remedies that should be considered...



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...strengthen investor aftercare services

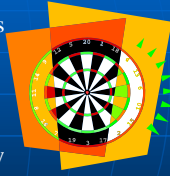
- ✓ To soften the blow of the economic slowdown on the established business community.
- ✓ To strengthen the ties between foreign affiliates and the local economy, e.g. by promoting and developing local supply chains.
- ✓ To develop a reputation that the host government cares for investors.



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...target investors in promising sectors

- ✓ IPAs should shift their promotion efforts towards those foreign markets and economic sectors that offer better FDI prospects.
- ✓ The crisis can provide an opportunity to target new types of investors, such as investors from the South.



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...advocate policies to improve the investment climate

- ✓ IPAs should address immediate problems that companies face due to the crisis...
- ✓ ...and work to strengthen competitiveness in the long run, through improved infrastructure, legal framework, education, and training.



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...and improve the effectiveness of IPA operations

- ✓ IPAs should review their roles and activities in order to strengthen effectiveness and efficiency.
- ✓ The roles and activities of IPAs should be adapted to changed circumstances



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