

Understanding Foreign Direct Investment Projects and Promotion

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UNCTAD

Foreign Direct Investment (FDI)

foreign direct investor

enterprise or individual



FDI involves

- a long-term relationship
- a lasting interest and significant degree of influence on the management of the enterprise

enterprise in another country

foreign affiliate

Multinational Enterprises (MNEs)

A company that owns and controls activities
in more than one country

An MNE consists of:

parent enterprise

based in home country

foreign affiliate(s)

based in host country(ies)

Note that while MNEs can be large, many are in fact small and medium-sized enterprises (SMEs)

FDI components

1. Equity capital: the foreign direct investor's purchase of shares of an enterprise in a foreign country

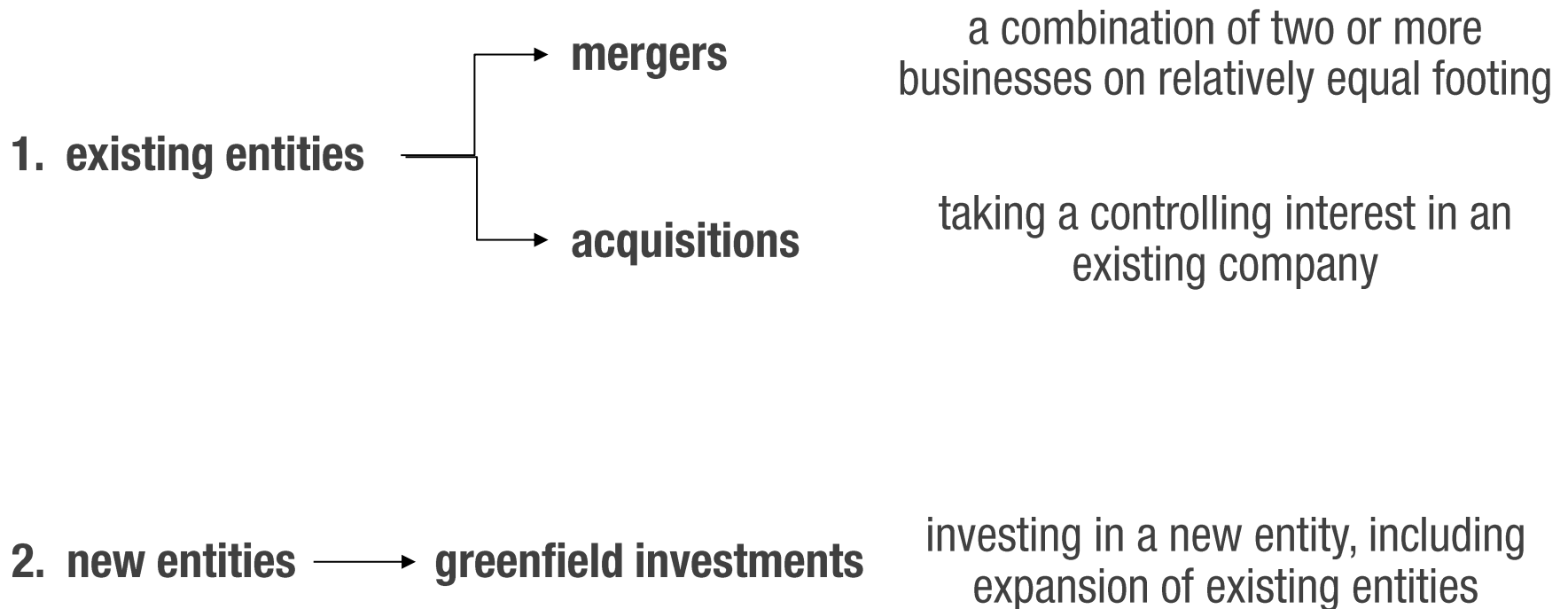
10% of ordinary shares is the common threshold for FDI

2. Reinvested earnings: the foreign direct investor's share of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor but reinvested in the company
3. Intra-company loans: short- or long-term borrowing and lending between direct investors and affiliates

Non-equity participation is not FDI

(for example: sub-contracting, management contracts, franchising, and licensing)

Modes of entry



The role of MNEs is increasing

- over 100,000 MNEs
- nearly 900,000 foreign affiliates
- MNEs account for 80% of global trade
- a third of global trade is intra-firm
- MNEs dominate world industrial R&D
- FDI largest source of external finance for developing countries
- MNEs can play a role in financing the Sustainable Development Goals



Potential benefits of FDI

capital

FDI brings in investible financial resources

market access

FDI can provide access to export markets for domestic producers

skills and management techniques

FDI can transfer skills by bringing in experts and setting up training facilities

government revenue

for example, through payment of corporate tax, or duties of imported goods



technology

FDI can bring new technologies and raise the efficiency of existing ones

employment

FDI creates jobs directly and indirectly

environment

FDI creates spillovers of clean technologies and modern environmental management systems

competitiveness

FDI may stimulate local firms to invest in order to compete with the newcomer

Potential drawbacks of FDI

crowding out domestic investment

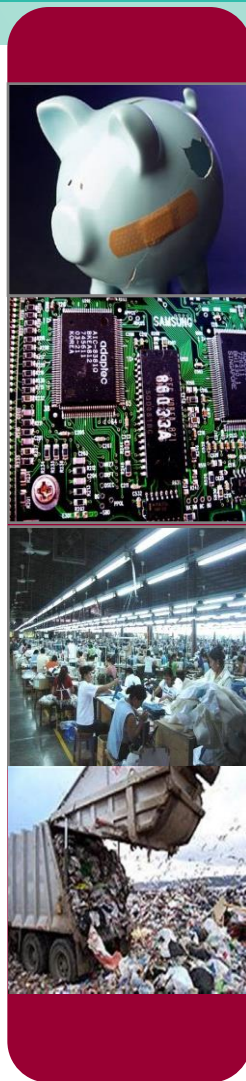
adverse effects on learning and growth of local firms

low-skilled jobs

jobs created may be at the lower end of the skill and wage spectrum

unsustainable business practices

negative environmental, economic, and social effects



downgrading of local innovatory capacities

scaling down of knowledge-intensive activities

negative effects on net exports

limiting exports, promoting imports—
out-competing domestic firms that
export more and import less

Why do firms want to invest abroad?

- To create jobs? 
- To help countries develop? 
- To transfer technology? 
- To do something challenging? 
- To see the world? 
- Main reason: to make money, by:
 - Increasing revenues (short-term/long-term) 
 - Cutting costs 

Why governments get involved in promoting FDI

- Maximize benefits of FDI to the economy (e.g. creating jobs)
- Benefit from increased revenue (e.g. increasing tax base)
- Provide a service to foreign investors which is not or insufficiently offered by the private sector (e.g. bridge the information gap for countries where information is difficult to find)
- Attract finance for Sustainable Development Goal projects



Governments can be crucial to persuade firms to invest—especially smaller and less experienced ones, as well as big MNEs

Governments help promote inward FDI to boost benefits and reduce risk

Studies show that advice and help to potential investors can influence company location decisions

Types of investment governments usually assist



- **company greenfield operations and privatizations**
primarily companies which conduct specific business activities of interest to the country, whether new investments or expansions



- **mergers and acquisitions**
few governments assist mergers and acquisitions directly (with the exception of privatizations)



- **portfolio investments**
portfolio investments are usually left to the market

Location—generic factors

policy framework for FDI

stable government, rule of law, protection of investments, low political risk

economic determinants

local and regional market characteristics; cost of labour, land, energy, and other inputs; availability and quality of raw materials; physical infrastructure, access to finance

business facilitation

practical assistance and incentives provided by the host government and its agencies

Investment motives

motive

resource seeking

- FDI in natural resources (minerals, raw materials, and agricultural products)
- FDI seeking low-cost or specialized labor

market seeking

- FDI into markets previously served by exports, or into closed markets protected by high import or other barriers
- FDI by supplier companies following their customers overseas
- FDI that aims to adapt products to local tastes and needs, and to use local resources

efficiency seeking

- rationalized or integrated operations (regionally/globally) leading to cross-border product or process specialization

strategic asset seeking

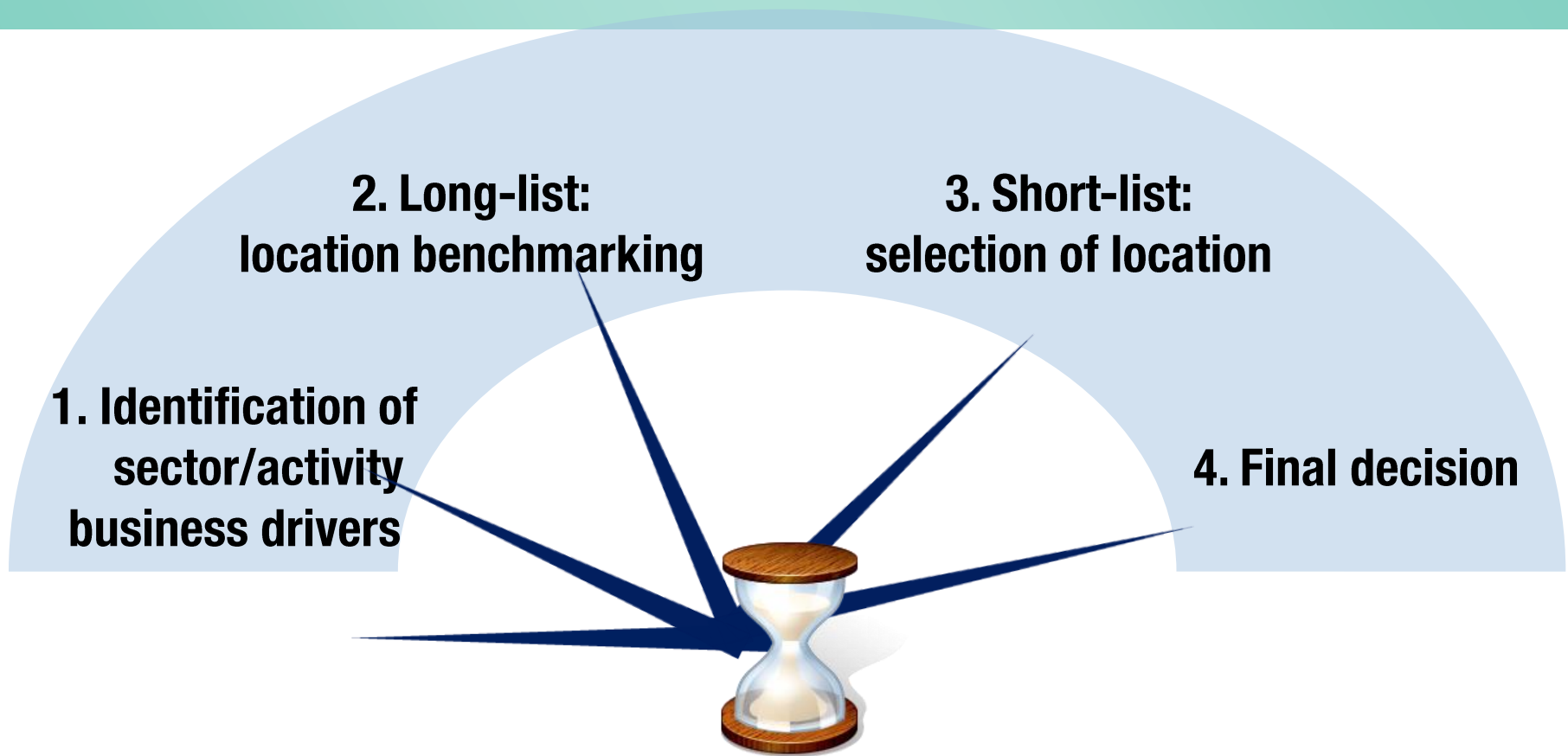
- acquisitions and alliances to promote long-term corporate objectives
- greenfield investment to seek participation in specialized clusters (clean tech)

activities

Main company economic screening criteria across sectors

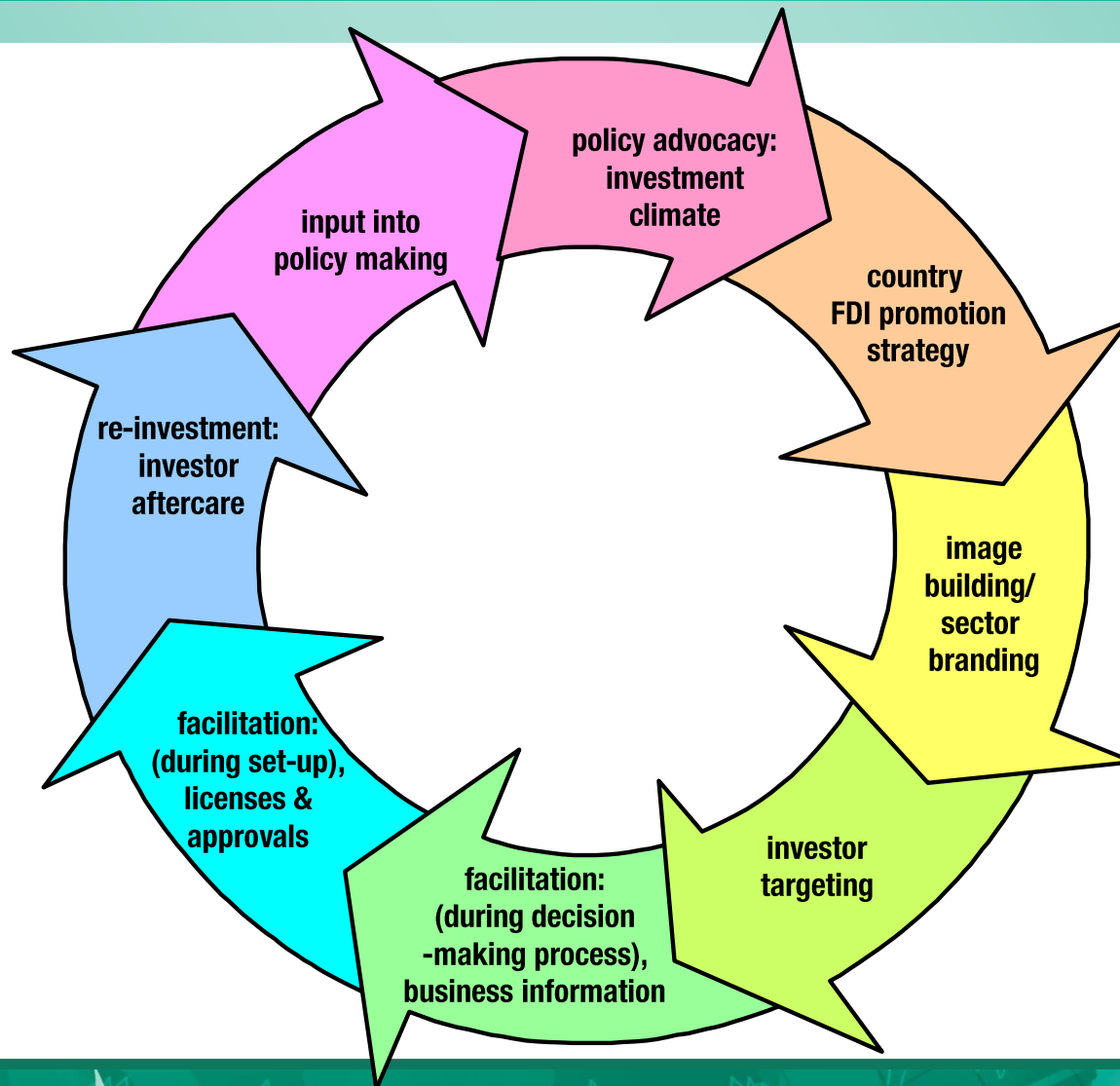


Decision process: whether to invest overseas



Process may take many months or even years!

The investment promotion cycle



Elements of a promotion strategy



Image building

- government-wide strategic approach in which the IPA plays a critical role
- not something the IPA does on its own
- promotional campaigns fill knowledge gaps and build the country's image as an investment destination

Messaging aspects

- Understandable: simple, specific to target market, and in local language
- Unique: original and differentiate host market from competition
- Valid: credible, authoritative, accurate, current, and verifiable
- Clarifying: address negative stereotypes
- Attractive: capture the imagination of target and linger in mind

Marketing of locations

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- HKSI Institute Business Ethics Forum 2016, Hong Kong
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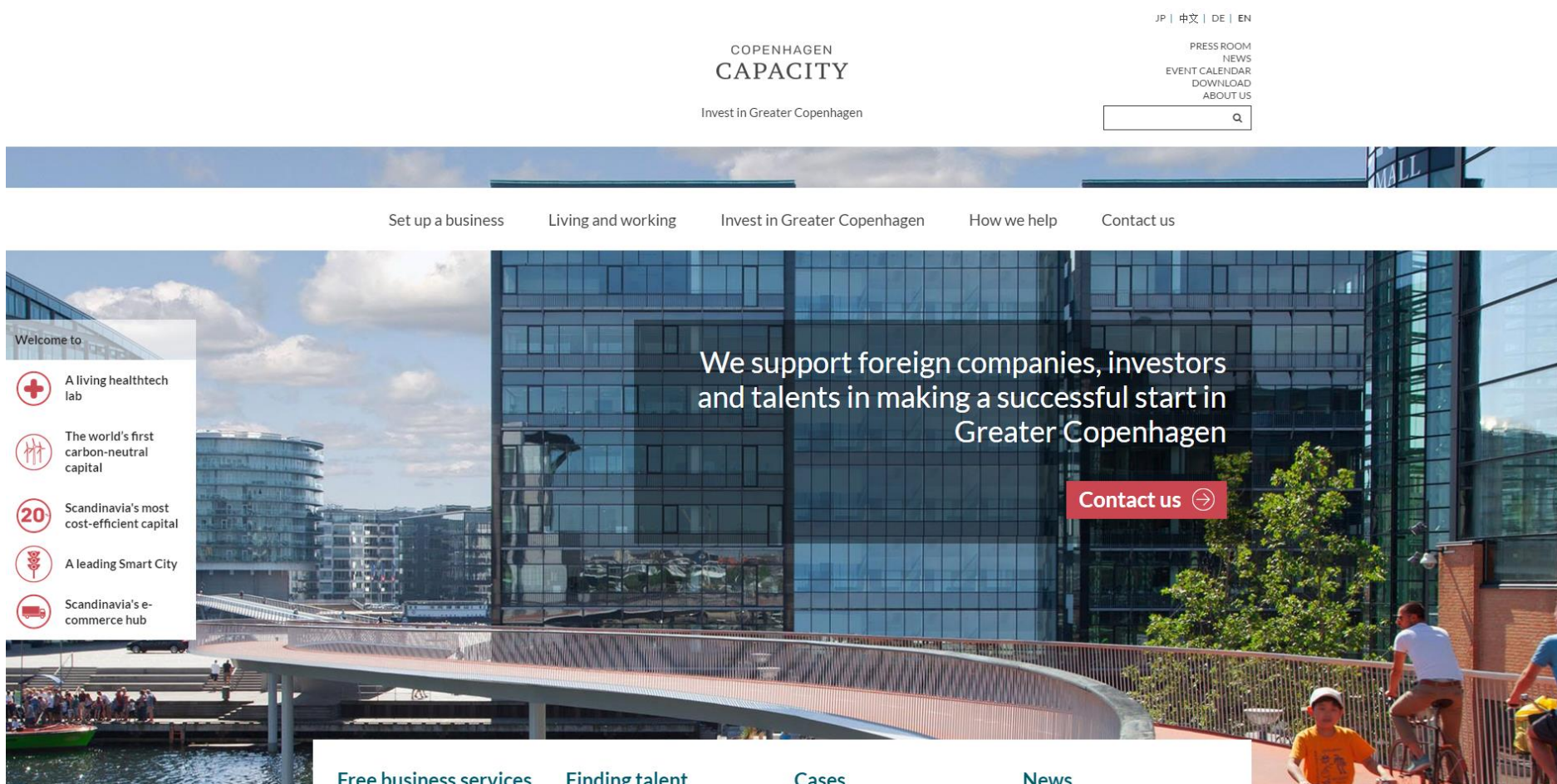
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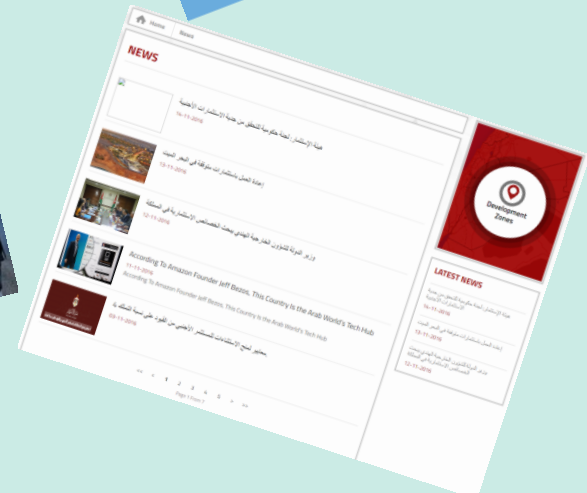
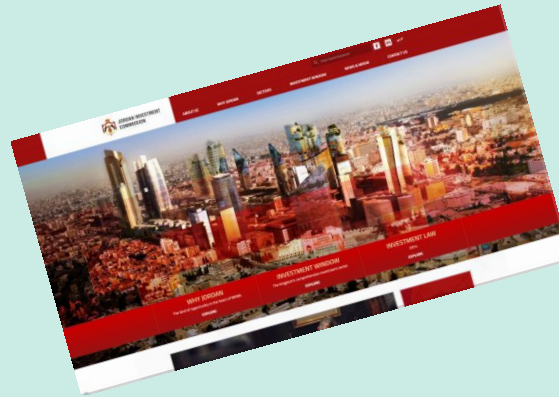
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Marketing channels

- websites
- social media
- advertisements
- sponsorship
- newsletters and magazines
- workshops and seminars
- ministerial visits
- press releases
- news features
- inward press visits



Investor targeting

Targeting is a way of gaining attention and interest of international investors through developing and confidentially promoting specific investment projects which may be of commercial interest to those investors

Why investor targeting

- growing competition for foreign investment
- helps achieve strategic development goals
- provides opportunity to target companies with good corporate governance records
- offers best prospects for success
- improves efficient use of limited resources
- enhances understanding of corporate requirements by IPAs and governments

Facilitation and aftercare

Facilitation:

- during decision-making process: providing business information
- during set-up: assistance in obtaining licenses and approvals

Aftercare comprises all potential services offered at company level to facilitate both the successful start-up and the continuing development of a foreign affiliate with a view towards maximizing its contribution to local economic development.

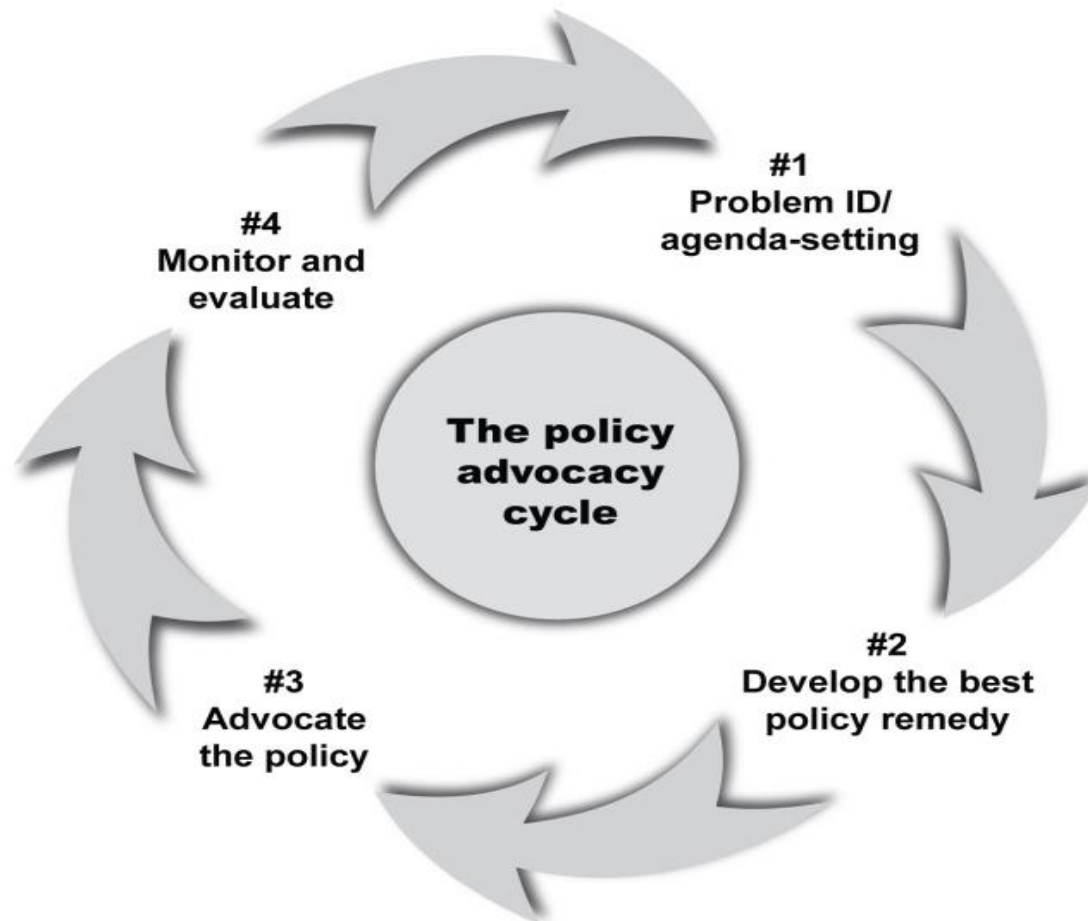
Aftercare includes:

- post-establishment facilitation services to improve the implementation rate of investment projects
- follow-on investment to enhance the development impact of the investment

Policy advocacy

- Policy advocacy by IPAs are efforts by these agencies to effect changes in regulations, law, government policies, and their administration, pertaining to fields such as investment, trade, labour, immigration, real estate, taxes, infrastructure, technology, and education.
- The immediate goal is to shape a climate conducive to attracting/retaining FDI and benefit from it.

Policy advocacy cycle



Role of aftercare in policy advocacy

- Policy advocacy efforts often originate with aftercare service provision—as a reaction to specific complaints by individual investors or groups of investors
- Providing aftercare services to investors gives IPAs detailed knowledge about the problems that investors face in their day-to-day operations
- This detailed knowledge enables IPAs to be effective policy advocates while top government officials often do not know what obstacles confront investors



Thank you!

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