Strategies in Attracting
Foreign Direct Investments
Into Emerging Economies

1 Introduction

Foreign Direct Investments (FDI) have made a major positive contribution to the economic development of any region / country. In many instances foreign investments have also been significant contributors to the well being of the people in these locations. Many countries have benefited from FDI. These include countries in Southeast Asia (particularly Malaysia, Singapore, Thailand), Ireland in Europe and Costa Rica in Central America.

It is thus not surprising that many countries and regions are aggressively promoting foreign investments. Yet the attitude towards foreign investment was diagrammatically opposite not too long ago. As recent as 40 years ago most countries did not welcome foreign companies. Laws, policies and practices were set in place to screen off and discourage foreign companies from setting up bases in the country. Also in many cases where foreign companies are already present, these enterprises were nationalized.

The state of affairs today is very different. There is intense competition amongst countries / regions to attract foreign investments. This is evident from the number of countries that have liberalized their investment environment; set up Investment Promotion Agencies; and organizing overseas Investment Seminars.

To reap the benefits of foreign investments there is first a need to pro-actively attract foreign investors. Not to do so would automatically disqualify the country from the race for foreign investments. It is important to remember that investors do have lots of choices in terms of where to locate their investments.
2 Broad Level Strategies to Attract Foreign Direct Investments

To effectively attract foreign investments into the home country three broad steps need to take place. These are:

- Understanding the home country
- Understanding the industry sectors which the investors are in
- Aggressive marketing of the companies in the target industry

The first two steps are crucial to plan for the investment marketing activities that will take place in the third step.

3 Understanding the Home Country

The first step in understanding the home country is to define or to clarify the economic objectives of the country at that particular stage of its development. Some examples are:

- Employment creation to reduce unemployment
- Diversifying the economy away from agriculture, oil or mining
- Re-structuring the economy from labour intensive manufacturing to more capital intensive manufacturing
- Recovery or Re-construction after a war
- Spatial development to ensure that the urban-rural divide is minimum

The objectives defined will guide the country in terms of the types of investments that it should be attracting. Foreign investors promoted to set up operations in the country should aid the country in achieving its economic objectives.
The second issue to understand about the home country is to know what is the country good at; i.e. its competitive advantage. The best approach for doing so is to speak to existing businesses in the country – particularly multinationals who are already present in the country. Find out what had driven the companies to invest in the country in the first place, and which aspects of the country are attractive to other foreign investors.

Some possible competitive advantage are: lower costs of operations, attractive tax regime, availability of skilled labour, abundant supply of labour and a large domestic market.

These factors would form part of the marketing message to investors when promoting the country to them.

4 Understanding the Industry

The next important step is to understand the industries that the country intends to promote. This exercise will help the country determine which industry to focus on and the marketing message to be used to promote the industry.

To understand the industry there is first a need to determine the key success factors of the industry / industry sub-sectors. These are factors which critically affect the operations of the industry / companies. These are also reasons why companies locate in particular locations; and account for the physical clustering of industries in particular regions.

Key Success Factors are typically related to the factors of production (such as land, infrastructure, capital, labour) and has got to do with issues regarding availability, costs and quality of the factor of production.
Different industries (and in fact different industry sub-sectors) have very different Key Success Factors (KSF). As an example, the KSF of the aluminium smelting industry would be the costs of energy, as it is an energy intensive business. It is thus not surprising to have aluminium smelters in the oil producing countries and in locations where there is cheap hydro-power.

In the garments manufacturing industry, the KSFs would be the availability and costs of labour as well as the textile quotas that the country is allotted. This industry would typically require a large number of workers and hence would be attracted to locations that can provide abundant low costs labour. The textiles export is also currently regulated by the Multi-Fibre Agreement which allocates textile quotas to different countries; hence manufacturers are drawn to countries which has available quotas for them.

In the logistics sector companies are attracted to hubs with very good airports and sea-ports. Companies intending to set up call centres are attracted to locations with very good telecommunications linkages and where there are low-cost workers with strong linguistic abilities.

When understanding the success factors of industry, there is a need to note that different companies in a particular industry and different parts of the business value chain would have different KSFs. For example the design of fashion & apparels would be drawn to fashion hubs such as Paris, Milan and Hong Kong; but the manufacture of such garments would be drawn to India, China and Pakistan. This is because the KSF for the design of apparels has to do with the creative flair of the people as well as a location with international fashion shows.

When a country / location is able meet the KSF of an industry / company, it is said to have a strong Pull Factor. Conversely if the KSF of the industry cannot be met by the Home Country it is said to be a Push Factor.
Understanding the Pull and Push Factors are important for the development of the marketing message. In promoting a foreign investor there is a need to present the pull factors of the country and highlight the push factors of the home country of the investor.

The identification of the Key Success Factors is a substantial part of understanding the industry. This provides a vital input to the investment marketing process and much effort should be expanded in this endeavour.

An Investment Promotion Agency may go about finding out the Key Success Factors by speaking with existing and potential investors – to understand what would attract / repel them from particular locations.

The staff of the Investment Promotion Agency may also read industry reports and journals to understand the needs of the industry. They would then need to be able to draw conclusions in terms of what is necessary for the industry to thrive in particular locations.

Investment Promotion Officers may also infer the Key Success Factors from their observation of the natural clustering of industries in different parts of the world, and understanding what the location is offering to the companies in the industry.

5 Aggressive Marketing

The third broad step of the Strategies to Promote Foreign Investments is to aggressively market the country. To do this well there is first a need to check the basic fundamentals of the country to see if it has a pro-investment environment. The second is to set up an effective Investment Promotion Agency. Following the marketing efforts, there is a need to ensure that investment aftercare is provided for.
5.1 Pro-Investment Environment

No amount of investment marketing will bring in foreign investors if the climate in the country is not pro-investments. This is a fundamental requirement for the attraction of foreign investments.

There is a need to examine the policies of the country to see if they are aid investments or hinder foreign investors from doing business in the country. Such policies would include economic policies and non-economic policies such as immigration, tourism, education and labour policies.

Some examples of economic / foreign investment policies which are unfriendly towards foreign investors are laws which disallow 100% foreign ownership of enterprises or laws which require mandatory joint ventures with local enterprises. Foreign investors do not like such requirements as many prefer to operate independently and are concerned about losing their proprietary knowledge.

If profits may not be easily repatriated, foreign investors would be reluctant to set up operations in the country as all companies have responsibilities to their shareholders to increase their wealth.

Other examples of economic / foreign investment policies would be: whether the local currencies can be converted to ‘hard’ currencies; the levels of corporate taxation in the host country; and whether there are tax holidays.

Other related policies would be whether industrial land may be purchased / leased on a long term basis; whether there are import duties on capital goods; whether there are export duties on manufactured goods.
Seemingly non-economic policies also matter to investors. For example, immigration policies will determine how easy or difficult it is for the investor to bring in expatriates to manage the local operations. In some countries, the immigration policies are so restrictive that the investor would not be able to obtain even an employment pass for the CEO of the local operations.

Other important policies include the education policies – whether industrial / trade education is provided for the local population. This will determine the availability of skilled manpower for the investments.

Where there are policies that hinder the promotion of foreign investments, there is a need to look into ways to change these policies so that investors would not be discouraged from investing in the country. This requires a champion for foreign investors who is able to represent their interest to the host government.

Only when the investment environment is pro-investor will the investments start to flow into the country.

### 5.2 Effective Investment Promotion Agency

An effective Investment Promotion Agency is one that is professional and influential. Apart from the ‘core’ responsibility of promoting the country as an investment location it should also take on the role as an advocate and champion for foreign investors. In this role, it represents the interests of the foreign investors to the host country’s government and seeks to improve / change policies so that there will be an investor-friendly environment in the country. This function is akin to ‘product development’ in traditional consumer marketing where the product is developed and improved based on customer feedback.
Preferably, the agency should be staffed by professionals with private sector experience. These individuals are more likely to understand the needs of foreign investors and be able to represent their interests.

The agency should also have high-level board members who are from the different government ministries and departments. This is so that issues pertaining to these departments / ministries can be quickly dealt with and resolved.

In many countries the Chairman of the Board of the Investment Promotion Agency is the President or Prime Minister himself. The other members of the Board are often Ministers from the relevant economic ministries or departments. In other cases the Chairman of the Board is of a minister in rank or a senior civil servant with direct access to the President / Prime Minister. The other members of the Board could also be from employers groups and the trade unions so that there is a diversity of views which is important for policy setting.

This high-level board is useful and important because many issues affecting the foreign investors cut across the many different ministries and departments; thus needing a joint approach to resolve them.

The professional staff of the Investment Agency should be adapt at promoting the country. This would mean that staff has to have competencies in marketing and presentation; are out-going / extroverted in personality; and confident in their dealings with senior company executives.
5.3 **Investment Marketing**

Investment marketing is core activity for the promotion of foreign investments into a country. There are many methods of investment marketing – including placing advertisements in international newspapers and journals, organizing investment marketing conferences and seminars, as well as personal selling and persuasion.

5.3.1 **Advertising**

Media advertisement is one of the common ways in which many Investment Promotion Agency promote their country. A well thought out media strategy will bring about increase in awareness of the country as an investment location.

The agency should target key international newspapers such as the International Herald Tribune, Wall Street Journal as well as the Financial Times. The advertisements should also be placed in regular intervals to ensure that the top of mind awareness remains in the minds of the foreign investors. Some countries have also targeted the broadcast media by placing advertisements in the Cable News Network (CNN) programmes.

Media advertisement has its advantages as well as its disadvantages. On the positive side, such advertisements are a quick way to generate awareness of the country as an investment location. The downside is that such advertisements are quite costly and have a relatively short shelf-life. Also, media advertisement alone is unlikely to be able to generate investments in the country – as very few investors would make an investment decision involving large sums of money based on advertisements alone.

Hence Investment Promotion Agency would have to use media advertisements in conjunction with other methods of investment marketing to draw in the foreign investor.
5.3.2 **Investment Conferences and Seminars**

Another widely used method of investment marketing is Investment Conferences and Seminars. Investment Promotion Agencies often organize such conferences either in the host country (i.e. country promoting the investments) or in the home country of the investors.

While organizing the Conference in the host country has its advantages (e.g. easier logistics and lower costs), the disadvantage is that it will only reach out to investors that are already in the country. It is unlikely that a foreign investor with no interest as yet in the host country would be prepared to travel into the country for a one/two day conference. Hence many Investment Agencies organize Conferences and Seminars in the home country of the investors.

When organizing such Conferences it is useful to have a high-level government official to speak at the Conference – and to serve as a crowd puller. Many such seminars are led by the Prime Ministers / Industry Ministers of countries promoting investments.

In planning such a Conference it is also wise to have existing foreign investors in the country to give a testimony to the ease of doing business in the country and how they have benefited from investing in the country.

A targeted approach focusing on particular industry sectors might also be more useful than one that lacks focus.

Investment Seminars and Conferences are a good method for generating leads which can be followed-up by the Investment Promotion Agency for further discussion and persuasion to set up operations in the host country.
5.3.3 Personal Selling

Personal selling is a method of investment promotion whereby representatives of the Investment Promotion Agency / Host Country approaches the foreign investors on a one-to-one basis to persuade the investor to make an investment decision.

Research has shown that personal selling is the best way to generate investments into the country. However, it is also acknowledged that this is probably the most difficult investment marketing method to be perfected.

Personal selling should take place both in the host country as well as the home country of the foreign investor. In the country promoting the investment, representatives should meet Multi-Nationals already present. This is to encourage them to further invest in the country; to expand their operations. This is one of the most effective methods of promoting investments as these investors are already familiar with the investment climate and opportunities of the country.

It may also be useful for officials of the Investment Promotion Agency to meet with local enterprises in the country who may be interested to form Joint Ventures with Multi-Nationals who are considering investing in the country.

To reach out to foreign investors who have yet to establish a presence in the country it is often necessary to meet them in their home country. Also, often there is value to meet up with headquarters officials of foreign investors who are present in the host country – as these are the decision makers of investments.

To meet foreign investors in their home country, an Agency can consider setting up Overseas Offices to promote investments. While research has also shown this to be most effective in reaching out to foreign investors, it is also the most costly method to do so. An alternative is for an Investment Promotion representative to be based out of the Embassy already present in the home country of the investor.
A more cost efficient – albeit less effective method – is to organize investment missions / trips to meet with the foreign investors.

5.4 Investment Aftercare

The quality of investment aftercare that a company receives from a country promoting investment is one of the prime considerations for the investor to decide whether or not to expand their operations in the country.

Investment aftercare is to do with understanding the issues that hinders the investors in its operations. Bad investment aftercare is one reason why for many countries the investment realized is much lower than the investments approved.

For these countries the investors have already received approval for its investments but is unable to carry out the actual investments due to other road-blocks in its investment efforts.

Examples of these road-blocks are: the unavailability of the right type of land and industrial facilities; the unavailability of skilled workforce; the inability to obtain employment passes for the key expatriates and dependents; the high costs of exports or the difficulty to export because of bureaucracy etc.

The role of the Investment Promotion Agency is to understand the issues faced by the investor and being an advocate of the investor by representing their interest to the relevant government ministries, departments or agencies.

By assisting the investor to resolve its operational problems, the Investment Promotion Agency is directly assisting the foreign investors to realize their investment in the country. With a positive experience, the investor is likely to consider expanding its investments if the market for the products being produced is also expanding.
6 Conclusion

Many countries / economies are promoting foreign investments. The competition for investments has also become very intense. To be successful countries / economies will need to have a good understanding of their development objectives, and a good understanding of their strengths & weaknesses in relation to the needs & demands of industry sectors. There is also a need to have aggressive marketing of these companies in the targeted industry.