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Revisiting Marketing a Country: Promotion as a Tool for Attracting Foreign Investment

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It has been ten years since Alvin Wint and I finished the research for Marketing a Country.[1] The intervening decade has seen the formation of new investment promotion agencies, more money spent on trying to attract foreign investment, and numerous experiments in how to go about the task. Despite the widespread efforts by developing countries to attract investors, foreign investment remains strikingly concentrated in only a small number of countries. Thus, data support what we all know: that not every promotion effort has succeeded. This paper reports some of what I and others have learned from the accomplishments and failures of various promotion agencies over the past ten years.

Basic Activities of Promotion Agencies

Policy Reform as a Basic Function of Promotion

Marketing a Country described three basic investment promotion techniques: image building, investment generating, and investor services. It went on to argue that the mix of these techniques provides a good indicator of the strategy of a promotion agency. It also argued that the weight assigned to these techniques, or the strategy of an agency, should reflect the task that the particular country faces in marketing itself to investors. For example, a country that has recently changed its policies toward foreign direct investment could benefit from emphasis on image building, since it might need to convey new information to potential investors who would otherwise be unaware of the changes. In contrast, a country with a long-favorable investment climate ought to consider emphasizing the more difficult investment-generating techniques.

The classification of techniques proposed in Marketing a Country has become the standard terminology for describing what investment promotion agencies do. If I were writing the paper today, however, I would add a fourth category, policy advocacy, to the three that the monograph describes. Championing improvements in the investment climate has become an extremely important activity of several promotion agencies. And

[1] Louis T. Wells and Alvin Wint, Marketing a Country: Promotion as a Tool for Attracting Foreign Investment (Washington: FIAS, 1990).

the failure of a number of agencies to improve climate has almost certainly been one of the reasons that explain the failure of many countries to attract the volume of foreign investment that they anticipated.

Consider two examples of agencies that have emphasized this function:

In Mozambique, CPI, the national investment promotion agency, has become deeply involved in trying to reduce the bureaucratic red tape that investors face. The socialist past of Mozambique has led to a particularly sharp disconnect between new investment policies announced at the top of government and their implementation deep in the bureaucracy. Thus, as policies have changed, reform of the bureaucracy has become critical, since it has remained a barrier to investment. CPI's major role in improving the investment climate began after it participated in a series of private sector conferences where discussion of bureaucratic barriers was high on the agenda.

For different reasons, COINVERTIR, Colombia's investment promotion agency, has begun to devote a major part of its activities to policy and bureaucratic reform.

In both Colombia and Mozambique, reform efforts are linked to the provision of services to investors. Providing service to investors – during negotiation and implementation in Mozambique, or in the operating stage in Colombia – gives promotion agencies detailed knowledge about the problems investors face. It is this kind of detail that enables the agencies to be effective champions of reform. Usually, top officials in ministries do not really know exactly what hurdles confront investors; as a result, they find it difficult to take the steps that are needed to ensure that new policies are implemented effectively. For example, when foreign investors in Colombia complained about the documentation required of them before they could remit dividends abroad, high-level officials answered that the elimination of exchange controls should have eliminated the problems. On the other hand, COINVERTIR collected specific information on the required documentation that remained even after foreign exchange policies had been liberalized. Top managers at the central bank were unaware that cumbersome procedures survived after the need for them had disappeared. With this kind of detailed information in hand, COINVERTIR was in a position to generate change. In Mozambique CPI undertook a serious effort to assist an investor that was building a large aluminum smelter.[2] The project had the commitment of high-level officials, who were willing to support a rather formal structure that developed during the negotiation stage but which was retained, in a modified form, to help the investor overcome the bureaucratic problems it faced as it attempted to implement the project. Assistance in the negotiating and implementation stages enabled CPI officials to learn about problems with company registration, customs clearance, temporary registration of automobiles, obtaining tax rulings, and a host of other details. In reform-minded Mozambique, this kind of information made it possible for the agency to play a special and useful role with individual ministries and agencies, and with an inter-ministerial committee dedicated to

[2] For a write-up of this effort, see Timothy Buehrer and Louis T. Wells, Cutting Red Tape: A Case-based Approach to Reducing Bureaucratic Barriers to Foreign Investment in Mozambique (tentative title, forthcoming).

reducing bureaucratic barriers. CPI became involved in negotiating with bureaucrats for solutions to problems for the particular investor; those solutions, however, could be used in the future by other investors. Moreover, through working closely with the one investor, CPI's staff developed the contacts in other agencies that would enable it to guide future investors through the labyrinth of controls that remained. And, CPI began to build support for eliminating some of the tedious procedures required of investors.

In other cases, barriers to foreign investment are not so much bureaucratic procedures, but broader policies. When many investors identified weak infrastructure in Costa Rica as a major disadvantage of the country in attracting the kinds of investment the country wanted, CINDE, Costa Rica's investment promotion agency, became a supporter of policies that would reform the state-owned telecommunications and power companies. CINDE organized conferences in the country and abroad to seek support for solutions to the problem.

In the Mozambican and Colombian cases there were reasons why championing reform could play an especially important role in the promotion process. In the Colombian case, domestic unrest meant that an emphasis on image-building or investment-generating activities abroad would not be effective, and it might even be counter productive. As long as the country was in turmoil, the promotion agency found it useful to focus on serving investors already in the country, with the hope of retaining them and encouraging them to expand their projects. The knowledge gleaned from service to existing investors led CINDE officials to the identification of areas where reform had been frustrated by the bureaucracy. In taking on the task of championing reform¸ CINDE hoped that it could support the emphasis on reinvestment; and, with eventual peace, the better climate that resulted would encourage new investors in the future. In Mozambique, the red tape left over from old attitudes in the bureaucracy meant that the country was probably not ready for a major image-building effort abroad. In addition, the Mozambican promotion agency simply could not command the resources for an image-building effort. In both countries, assisting incoming investors in the implementation stage or existing investors during their operations led to a very productive role for promotion agencies in improving the investment climate and encouraging future investment inflows.

Kinds of Services to Investors

Marketing a Country described two types of investor services. Although the monograph did not explicitly use the terms, today such services tend to be labeled as pre-investment-decision and post-investment-decision services. If I were writing the paper today, I would break the services into three categories: *pre-investment-decision, implementation*, and *post-investment* services. The distinctions are useful, I believe, since the three kinds of services play quite different roles in investment promotion. The mix of these services that an agency delivers ought to be considered carefully and the choices should be tied to the overall strategy of the agency.

Services in the *pre-investment-decision* stage are provided very well by a number of agencies; hardly at all, by others. This category of services includes giving potential investors information about the country and about procedures required of investors. Some investment promotion agencies provide only very general information – often only macroeconomic data. In contrast, other agencies provide detailed data, sometimes customized to the needs of particular kinds of investors. Thus, CINDE, in Costa Rica, gives prospective investors not only wage rates, but rates that are paid by specific kinds of firms. It can provide a detailed power cost schedule, by volume and by location. In this pre-investment category, a number of agencies also provide services that facilitate prospective investors' visits to the countries. CINDE will meet potential investors at the airport, accompany them through immigration and customs, provide a car and driver, and set up appointments for visitors with other investors. The appointments typically include Costa Rican government officials, scientific institutions, suppliers of infrastructure and services, embassies and industry chambers, and universities, as well. Although this kind of service is not especially expensive to provide, it does require a great deal of organization. As a result, some agencies that try to provide it are not very effective in doing so.

Services in the *implementation* stage help investors through the process of building their projects. In some countries, this kind of service is provided perfectly well by private sector groups. Often, a few law firms or accounting firms specialize in assisting the investor. But, where these services are not well organized or are expensive, investment promotion agencies have on occasion stepped into the gap. But, there are other reasons for the involvement of investment promotion agencies in these services. Being deeply engaged with investors in this stage has helped agencies to understand the problems that investors face. The resulting knowledge has been of great benefit to agencies in their role as champions of reforming policies and procedures. The experience of CPI in Mozambique described earlier illustrates.

Services in the *post-investment* stage have been provided based on the belief that happy investors expand their operations and help attract other investors to a country. Post-investment services comprise efforts to assist companies to overcome problems they encounter while they are operating. These kinds of services are also helpful to the promotion agency in its efforts to identify where barriers to further investment lie, as the Colombian experience suggests. In fact, in countries that are unable to attract many new investors, perhaps because of domestic unrest, this activity and associated efforts to improve the investment climate are on occasion the principal activities of the investment promotion agencies.

Management Issues

The original monograph of Marketing a Country included a chapter on how investment promotion agencies are structured in various countries. The focus in that chapter was on the relationship of the agency to the government. The relationships described included those in which agencies were a part of the traditional civil service, those in which the agencies were completely divorced from government and private instead, and those where the agencies could be labeled as "quasi-government." That is, they belonged to and were financed by the government, but they were not subject to the usual constraints imposed by civil service and other bureaucratic rules. The monograph then listed advantages and disadvantages of each approach.

The arguments for and against each approach have, I believe, stood the test of time. On the other hand, some of the management problems of promotion agencies did not receive the same kind of attention in the monograph they would if I were writing the paper today.

Fundamental Problems

The core management problems facing promotion agencies derive from three characteristics of investment promotion: it is a public good, it requires skills that bridge the public and private sectors, and performance is difficult to measure.

The original monograph pointed out that investment promotion is a public good. The benefits of bringing foreign investors to a country are captured broadly, not by a specific organization that can collect part of the benefits as fees to pay for its services.[3]

Marketing a Country also suggested the difficulties of staffing a promotion agency with appropriate people. The agency must successfully interact with government, if it is to be of service to investors when they are implementing their projects and if it is to influence policy and the bureaucracy. On the other hand, it must have people who are oriented toward sales. These kinds of marketing people are rare in the public sector and they earn high salaries in the private sector. Especially important, the director of an agency must be able to bridge the public and private sector. Assembling these skills can prove to be a daunting management task.

Measuring the performance of an agency, or its employees, is difficult for three reasons: it is not easy to attribute investment to a particular cause, the results from investment promotion may come long after the activities that originally led to the investment, and many of the barriers to foreign investment lie outside the control of the agency.

Financing Promotion Activities

The public-goods aspect of investment promotion suggests that promotion should be a government-funded activity. Government funding, however, does not necessarily imply that the organization performing the activity has to be government owned. It is snot unusual for government to contract with private parties to provide services for which government pays. In many countries, roads, for example, may be constructed by private

[3] An important exception occurs when a firm controls land for industrial estates or export processing zones. This will be covered later in this paper.

contractors, although the costs of construction are paid by the government. On the other hand, when a public good is being provided and the performance of the organization that provides the service is especially difficult to measure precisely, government ownership usually follows. Investment promotion is not only a public good, but the contribution of the agency is also hard to evaluate, especially on a short-term basis. Thus, public finance and public ownership almost inevitably result.

Nevertheless, the original monograph claimed that one investment promotion agency that we examined was private. Finding a private agency was something of a surprise, given the arguments for government ownership. I now believe that it would be more helpful to describe CINDE as non-government, or at least non-Costa Rican-government, rather than calling it private. As Marketing a Country pointed out, CINDE was created with USAID funding – hardly private. Moreover, as USAID phased down its contributions in Costa Rica with the decline of the Sandanista regime in Nicaragua, CINDE continued to depend for most of its financing on a foundation created from assets recovered from other USAID programs and from income from CINDE's own assets that it had "saved" during the days of USAID financing. This "private" investment promotion agency was not a profit-making institution. It did not charge for its services, and it had no funds from the private sector. It was, more accurately, a non-profit organization that was the creature of a government that was not Costa Rican. As such, it is not an example easily copied elsewhere.

In spite of CINDE's strong performance, some of the most important lessons to be learned from its experience are negative ones. CINDE has continued to have the problems that Marketing a Country described or predicted for non-government entities: weak relations with the government. Up until 1999, tensions over the role of the agency in representing the country and in advocating policy change had still not been adequately resolved. Government officials remained suspicious and jealous, suspecting that CINDE was spending more than it said it was, and that its professionals were strikingly well paid, in comparison to them. Further, CINDE had, on occasion, been accused of building private domestic and foreign support for particular policy changes. CINDE had not taken substantial steps to improve the relationship with the government. It had, for example, no government representatives on its board, and it operated in a rather opaque way, encouraging speculation about its doings.

In 1999, CINDE's future was in question. Funding from the foundation created from USAID-generated assets could soon disappear. But it was not clear that government was willing to pick up the funding for an organization that it found controversial. The uncertainty was already causing job turnover among CINDE's professionals. The loss of good people seemed posed to cause a deterioration in performance of the organization. The career risk was real; the behavior of employees, thus, understandable. In fact, elsewhere (in the Dominican Republic, for example) agencies had declined in size and quality, or had disappeared entirely as foreign aid funding was phased out.

If aid agencies or multilaterals are to finance the activities of investment promotion agencies, they must plan at the outset for the day when their funding is no longer forthcoming. (Providing a substantial endowment is, of course, another possibility.) Good planning is likely to lead to a long transition period, where government and the external providers of finance share the cost burden. The potential problems may also mean that the agency has to be more integrated into government, from the outset, than was CINDE; otherwise, government is less likely to pick up funding as foreign sources dry up. In 1999, the World Bank and bilateral aid were financing investment promotion in several countries. In some of those cases, the investment promotion agencies appeared to be better integrated into government than CINDE, even though the agencies still managed to avoid some of the restrictions of civil service rules (in Mozambique, for example, where World Bank funding accounted for a part of CPI's budget). The better integration may increase the odds that the government will eventually provide funding.

Although Marketing a Country did not report on any such agencies, a few investment promotion organizations have tried to be partially or even completely self funding. One approach has been to charge for services. The results have not been encouraging.

A promotion agency must fund some mix of image building, investment generating activities, and investor services. In most cases, only the last of these activities generates private benefits. Not surprisingly, this last function is also the one where the private sector has, in many countries, stepped in to provide services itself. Thus, the spread of law, accounting, and other consulting firms that promise to help the investor examine the country, to prepare feasibility studies, and to help in navigating the bureaucracy. When investment agencies have tried to provide these services and charge fees for them, they have found themselves in head-to-head competition with the private sector and thus unable to collect sufficient fees to pay for the service and for the other activities which are more public good in nature. At the same time, by charging and by competing with the private sector, these agencies have risked undermining their credibility as representatives of government. Some of the stories of these efforts, and their failures, are described in a FIAS paper, "Strengthening Investment Promotion Agencies: The Role of the Private Sector."[4]

Some agencies have tried an alternative way of raising funds themselves: they have asked corporations for donations, usually in the form of "membership" fees. To a varying extent, they have claimed that incoming foreign investment generates externalities that benefit local firms and other foreign firms already in the country. Thus, new foreign investors provide customers for the goods and services of local firms. And more foreign investors provide more influence for other foreign investors. In both Venezuela and Colombia, the corporate sector was asked to contribute substantial sums to the promotion agencies. Unfortunately, the results have also not been encouraging. Despite some enthusiasm in the first year or two, most contributing firms soon lost interest. Correspondingly, donations dropped off.[5]

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[4] Unpublished FIAS, "Strengthening Investment Promotion Agencies: The Role of the Private Sector," March 1999.
[5] Ibid

Foreigners as Promoters: Investment promotion agencies are subject to budgets, of course; but the problems mentioned above tend to place especially tight constraints on their expenditures. Not surprisingly, they constantly seek ways to leverage the resources that they have. Some efforts have proved successful; some have worked only in very special conditions. And some, it seems, have regularly failed.

In Marketing a Country we reported the efforts of the Thai BOI to enlist foreign investors already in the country as "mini ambassadors." As such, they were to assist the BOI in its investment promotion efforts. The monograph did not, however, uncover another phenomenon that has, sometimes unwittingly, enlisted other foreigners as effective promoters. Foreign management of export processing zones and industrial estates have proved, on occasion, to be excellent at this task. There is a reason for success: they provide an important exception to the rule that promotion benefits cannot be captured by a private organization.

In a number of cases, even where official national promotion efforts have been minimal, managers of industrial estates and export processing zones have undertaken effective campaigns to attract investors. Two industrial estates outside Jakarta, Indonesia, for example, are managed by major Japanese firms. These managers have very successfully recruited Japanese manufacturers to produce in the zones. Similarly, it seems that the first export processing zone in Vietnam to be up and running, with investors, was a Taiwan-operated zone near Ho Chi Minh City. The early investors were, of course, from Taiwan.

Managers of estates and export processing zones have a strong incentive to find investors, if their returns are based on rents and fees from the firms that manufacture in the zone. And zone managers from home countries of investors often have contacts with those firms and can easily reach them to present the advantages they offer. In some cases, investors feel more comfortable with zones run by their own nationals. This seemed to be especially the case with the Japanese managers I interviewed in the two Japanese-run industrial estates near Jakarta.

Foreign management of zones and estates does, on occasion, come from the investment promotion agencies of neighboring countries (see later in this paper). This kind of management usually has set up industrial or export zones abroad for some kind of self interest. That interest can be met only by attracting firms into the zone. Thus, the EDB affiliate that ran a zone on Batam Island, Indonesia, actively sought to bring investors in Singapore to the Indonesian zone. In a similar African twist, in 1999, recognizing the promotional possibilities, Mozambique was very interested in working with Mauritius for a zone in Mozambique.

Subcontracting: Actual subcontracting of promotional activities is sometimes considered as another way of leveraging resources. In Marketing a Country we took a rather strong position against subcontracting. Indeed, when the study was carried out, subcontracting had proved almost universally unproductive. The difficulty of measuring the performance of a subcontractor was almost certainly a major factor in explaining the failures of efforts to have consulting firms, for example, perform part of the promotional activities.

On the other hand, it now appears that there are certain cases where subcontracting can be effective. These occur when the kind of investor being sought can be extremely narrowly defined, there are few candidate enterprises, and the nature of the project is very clear. When these conditions are met, the skills required are specific and performance can usually be measured. In fact, the criteria are usually satisfied when foreign investors are wanted for the privatization of state-owned enterprises. For example, when a foreign investor is needed to acquire a telephone company, there are only a few potential buyers in the world. Needed is an entity that is trusted by the potential investors and which will bring the acquisition to investors' attention. In several countries, this task has been performed well by investment banking firms. If properly chosen, they know the industry well, are trusted, and have access to investors.

In fact, I suspect that in this special case – privatization – it is better that the investment agency <u>not</u> become the principal promoter. Privatizations are usually "one-shot" deals. It makes little sense for an agency with scarce resources to try to develop the contacts and expertise for one or two transactions. It is better to hire the skills from outside, usually from investment bankers, even though they charge high prices for their services. But, given the non-repetitive nature of the transactions, paying for outside services is likely to be cheaper than developing in-house skills that will not be used regularly in the future.

<u>Merging Investment Promotion with Other Activities</u>: In another kind of effort to leverage resources, many countries have been tempted to charge their embassies abroad with carrying out investment promotion. On the surface, the option appears attractive, since embassies already have a presence in the home countries of investors. The marginal costs of having officers in those embassies perform investment promotion appear to be low. But, <u>Marketing a Country</u> explains the reasons why folding investment promotion into a country's embassies abroad has, in almost all cases, failed. Officials in embassies are trained in skills that are different from those required for promotion. They do not have the business background that is required to be effective in investment promotion. Moreover, their careers are advanced by successfully accomplishing tasks that are very different from investment promotion.

That is not to say that there is no role for embassies in investment promotion. Indeed, they should be provided with literature on investment in the country, since potential investors will on occasion contact them. And, they should be encouraged to forward information about any requests they receive to the investment promotion office, for follow up. But they almost never provide good investment promotion activities themselves.

Although <u>Marketing a Country</u> did cover the temptations of using embassies for promotion, it did not consider another commonly proposed method of conserving resources: combining investment promotion with export promotion. Proposals for this combination also have an easy appeal: if offices related to promotion have to be established abroad, why not combine investment and export promotion in order to save money? Again, the efforts have usually failed, because these two promotion activities are in fact far more different than they first seem.

The differences between investment promotion and export promotion can perhaps be best understood by looking at an analogy: the differences between marketing major industrial plant to companies and selling supplies or finished goods to firms or retail customers. For a company, the purchase of a major plant is an expensive and infrequent decision. It usually has strategic implications. Thus, the decision is usually taken at a very high level in the enterprise. Many data are considered, and discussion occurs over a long period of time. In contrast, purchases of finished goods or supplies are usually frequent and often quite routine. Supplies must meet specified standards, but as long as the standards are met and the source can deliver to schedules, the sourcing decision usually does not have strategic implications for the purchasing enterprise. Such decisions are generally delegated to a lower level of management, and they are often made quite quickly.

Reaching and convincing top management to locate in a particular country or to buy a particular industrial plant is a quite different task from dealing with repeat decisions by lower level management on routine transactions. The first involves difficult-to-make contact with top management, and usually a great deal of time in providing a wide range of information, hosting visits to the country, and coordinating sales pitches with high-level government officials, perhaps even the president of the country. Export promotion usually focuses on purchasing agents or retailers. Long-term courting is unlikely. And deep involvement by other parts of the government is usually not required.

Export promotion often requires efforts on the part of export promotion agencies to work closely with local firms, to find out what they can deliver and to assist them in learning how to meet foreigners' standards and schedule demands. Officials involved in promoting exports must have a thorough understanding of the local business community's capabilities. In contrast, capabilities of the local businesses play only a relatively minor role in the job of investment promotion.

Similarly, a showroom abroad is important for export promotion, so that local producers show their wares to potential buyers. Physically showing products plays little or no role in investment promotion; usually a very small office is adequate. In fact, in CINDE's early efforts in the United States, a room in the home of the promoter stationed near New York served as an adequate base for activity.

Personnel

Importance of the Director: Although Marketing a Country reported on some of the staffing problems of investment promotion agencies, it said little about the choice of the director of an agency; a revised version would reflect the importance of this decision to the success of the promotion effort.

The job of directing an investment promotion agency requires a combination of skills that is rare. To run a successful organization, the director must be able to communicate regularly and effectively with government officials, maintain an image of political neutrality, and suppress any tendency to show the results of his higher income or his expense account privileges associated with entertaining business people. He must be able to lobby for money – with home and perhaps donor governments -- without being able to present indisputable measures of his organization's performance. On the other hand, he must be able to get along with domestic and foreign business people, fit into their social activities, and perhaps even play golf and tennis. He must be able to manage a professional organization, where hierarchy is not easily tolerated and where performance of individuals, departments, and the entire organization is not easily measured and results may be years in coming. He must be able to market the success of his own organization, if funding is to be forthcoming; yet, he must give credit to others, especially the government in power. At the same time, he must be able to take care of running distant offices abroad and supervise routine management tasks at home and abroad– accounting, budgeting, and so on.

Not surprisingly, many managers have not proved to be up to the task. In some cases, where the failure has been on the internal management side, help can be provided in the form of an executive director who takes care of some of the routine management tasks. Still, a number of directors have fallen short. Too often, they are political appointees, whose tenure is brief, and whose ambitions lie in something other than professional investment promotion.

<u>Board Make-up:</u> The monograph of ten years ago paid relatively little attention to the structure of boards for investment promotion agencies, although it did mention them, particularly in connection with the quasi-government structure. I believe that boards need more attention.

Boards can play a role in offsetting the disadvantages associated with particular structures. Thus, agencies that are, by structure, not closely connected with government can alleviate some of the associated problems by including government representatives in their board membership. The presence of government officials can increase the odds that government is informed of what the agency is doing and improve understanding of why the agency's needs differ from those of the usual government agency, in its pay scales, for example. Moreover, government board members provide access to the bureaucracy, which can be extremely valuable when the agency is trying to help investors solve problems with government. Conversely, for the agency that is deeply imbedded in government, a board with members from the private sector offers compensating balance. The private sector members are likely to push for performance, improve the agency's understanding of how decisions are made in the private sector, and provide information on barriers to investment in the country. The board of the Irish IDA illustrates the effective use of private-sector board members.

Problems of Converting from Regulation to Promotion: A very special personnel problem is the one that arises when governments attempt to convert a regulatory investment agency into one that focuses on promotion. In fact, it has become conventional wisdom to say that it is very difficult to build effective promotion agencies out of investment agencies whose task in the past was screening investment – saying "yes" or "no" to proposed projects. But, the point is underemphasized in Marketing a Country. Presumably, it was less obvious ten years ago, when the effort to transform old agencies had only a short history. Indeed, the problem has proved greater than most observers realized.

Large, unwieldy organizations that had as their major function screening investors have had a tendency to remain large and unwieldy, and to remain as barriers to investment, in the eyes of multinational firms. Thus, in June 1999 BKPM in Indonesia still had more than four hundred employees, required considerable paperwork of investors (although much reduced from its heyday as a control organization), and presented potential investors with an unattractive reception area and poorly prepared information documents. It provided none of the services given by a number of agencies elsewhere: arranging local appointments, providing car and driver, meeting and assisting arriving investors at the airport, and so on.[6] Many of its staff members were left over from the old days, and they retained the old attitudes of suspicion of the potential investor.

In 1999, BKPM still had to approve all incoming investment (except for the financial sector and petroleum, which were subject to a different regime).[7] Although the approval process was to be completed within ten days, investors told of delays as forms were returned to be re-done and re-submitted. Although some officials said that approval was virtually automatic, both the questions asked of the investors and internal guidelines in BKPM indicated that negotiations were still being held with investors over technical matters, including proposed production processes, amounts of land required, and locations. Nevertheless, after a decade or more of claiming to be converting, BKPM had shown signs of de-emphasizing its control function.

While BKPM called itself a promotion agency, it had only begun to build up its promotion. In August 1999, less than ten percent of its professionals were in the foreign investment promotion section, which was a part of the International Relations Division, not even a division in its own right.

In contrast, the CPI in Mozambique had accomplished conversion rather completely. Perhaps part of its unusual success came from the fact that it was relatively small to start with. And, normal turnover of personnel meant that by 1999 less than half of its professionals had been with the old-style organization, even though the conversion

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[6] It claimed to provide some such services, calling on the Department of Tourism, which was under the same minister. But, there was little evidence of implementation of the "welcoming" program.

[7] In July 1999 the Jakarta Post announced a change that would allow local BKPMs to approve investment. The implementing decrees had, however, not yet been issued. See "Investment Licensing Powers to be Delegated to Provinces," Jakarta Post, July 21, 1999.

efforts had begun much more recently than that of BKPM. It is also possible that its dependence on World Bank support had been important in the transition. A resident foreign advisor (from the old Dominican Republic agency) had a strong influence on the activities of the CPI. Perhaps also essential to the transition had been the attitude of high-level officials in important ministries. Their desire to dismantle barriers to foreign investment had been manifested in a number of ways; this no doubt influenced the orientation of CPI, although it is doubtful that the attitudes alone would have resulted in the conversion. After all, at least the technocrat ministers in Indonesia had long been quite unambiguous in their support of a liberal and open economy and of welcoming policies for foreign investors.

Agencies that have not easily made the transition from license-granting institutions to investment promotion organizations sometimes seek new ways of holding onto the power they had as screening agencies. On occasion one must be suspicious that power is not all that is sought; agencies that were known as being corrupt lose a source of income when their licenses are no longer needed. The Indonesian BKPM long sought to reinstitute tax holidays, even though figures on investment after they were abolished provide rather persuasive evidence that the holidays had little impact on attracting investors to the country. BKPM also fought hard to retain control over the Master List, which exempted approved firms from duties on capital equipment and two years of raw materials.[8] Even though it had a stronger reputation as a promoter of investment, even the Thai BOI jealously guarded its somewhat unusual right to grant duty exemptions to investors, even as the economy was liberalized. One wonders whether the EDB in Singapore would be such a staunch supporter of tax incentives if it were not charged with distributing them. It seems that bureaucrats want something of value to give out, even, as seems to be the case with the EDB, the reasons are not corruption.

Since conversion from licensing has proved so difficult, some countries have simply begun anew by creating a completely separate organization to carry out investment promotion. This seems to have been the case in, for example, Venezuela and Mexico. Given the problems of conversion, this may be the best solution for a number of countries.

Measuring Performance

Marketing a Country devoted a chapter to "Evaluating the Investment Promotion Function." Yet, many promotion agencies make no attempt to evaluate their performance. Indeed, as pointed out, one of the reasons that investment promotion remains a government activity, in most countries, is the fact that the performance of an agency is so difficult to measure. If performance were easily measured, the function could probably be contracted out to private enterprise, even though funding would probably remain government.

[8] As of August 1999 BKPM had retained control of the Master List for new investment, but lost it to Customs for expansions.

Still, even for government agencies, attempts to measure performance improve management and help management justify funding requests. As imperfect as the measures must be, they are still better than no measurements.

In other government activities, when results are difficult to measure, performance is often reported in terms of inputs, rather than outputs. In the case of promotion, measurements of efforts include number of prospective investors visited, expenditures on advertising, number of investment missions undertaken, and similar. Some results measures fare possible. They include estimates of the amounts of foreign investment attracted and numbers of jobs created by firms with which the agency had some contact, even if not all the investments and jobs can be directly attributed to the activities of the agency. Measures of performance can also include results of surveys commissioned by the agency. Surveys cover opinions of the agency held by investors abroad and investors' evaluations of the role played by the agency in investment decisions (for example as commissioned by FIAS for CINDE), surveys of recent investors in the country to determine how they evaluate services provided by the agency, and measures of attitude changes from image-building efforts (see reports of evaluations by Investment Canada and the Irish IDA in Marketing a Country). Widely accepted techniques are available for these kinds of measurement, from efforts of the private sector to examine effects of promotional campaigns.

Whatever the techniques that are used, the results will not collapse into a single "bottom line" measure of performance. This was not sufficiently emphasized in Marketing a Country. As a result of the uncertainty surrounding any feasible measures, evaluations must be presented with some caution. But, again, they are better than no attempts at evaluation.

Domestic Marketing

Successful promotion agencies have devoted considerable attention not only to marketing their countries abroad, but also to marketing themselves at home. The special attention they pay to foreigners, the higher salaries they pay, in many cases, to their employees, and the difficulties of attributing investment to their efforts make most agencies easy targets for animosity and budget cuts. As a result, agencies have developed programs to reach out for local support. One common approach is a "linkage program" designed to help domestic firms become suppliers to foreign investors. By showing that foreign firms can be customers, and not just competitors, to local business, such programs can generate enthusiasm among domestic business people for foreign investment. Further, successful agencies have produced brochures and other documents that tout their successes. They usually list investors, by name or at least by numbers of jobs, that they claim to have brought to the country.

Some agencies also carefully point out that their efforts to improve the investment climate for foreign investors benefit local firms as well. They may publicize concrete examples. Moreover, wise promotion agencies probably do not seek incentives for foreign firms that are not available to local firms, since preferences easily create resentment against foreign investors and against an agency that promotes them.

Some New Policy Issues

Importance of Being Known

Marketing a Country underlines the very successful efforts of certain promotion agencies in attracting foreign investment. Today, observers around the world usually point to the same success stories: in particular, the Irish Industrial Development Agency and the Singapore Economic Development Board are widely cited as models for other countries. Costa Rica's CINDE is also cited, although it is perhaps seen as not being in quite the same league as the two leading agencies. On the other hand, it operates with a budget the fraction the size of the others, and seems a more realistic model to many countries.

It is almost certainly not an accident that these three promotion agencies are all from small countries; and that observers seem to look less often to the promotion agencies of large developing countries as models. This is the case in spite of the fact that some large developing countries, such as China and Indonesia, have attracted very large sums of foreign investment.

It seems that large countries simply need less marketing effort than do small countries. Investors are well aware of China, as the world's most populous country. The potential of a market of a billion or more people has been enough to bring foreign investors to China without model marketing efforts on the part of the country. Investors came for export projects even when the domestic market was largely shut off, in the hopes of being able someday to gain access to that market. China might benefit from better investment promotion; but promotion is clearly not necessary in order to bring the country to the attention of many investors.

Indonesia, the world's fourth largest country, has been less well known to non-minerals investors, especially those from the United States. On the other hand, as multinational firms more systematically scan the world for sites that are of interest, Indonesia has emerged on the list of potentials simply because of its size. Moreover, nearby Korean, Japanese, and Taiwan investors – who account for a large part of non-mineral investment in the country -- are well aware of the country's domestic market and of the low wage costs that make it a place to manufacture for export. Thus, the usual function of an agency in trying to get the country on the "list" of places that investors consider is much less important for Indonesia than for smaller countries.

In contrast, Costa Rica, with a population about the size of Greater Boston, was not even well known in the United States as a tourist destination a few years ago. At the outset, when Intel was seeking a new production site, Costa Rica did not even appear on the list of countries to investigate. In cases like this, promotion is essential. It was the efforts of CINDE that induced Intel to consider (and eventually invest in) Costa Rica.[9]

Although it is more difficult to remember, in the 1960s Singapore was in the Costa Rica category. It was primarily the country's promotion activities that attracted early foreign investors. The successes of those investors helped build the reputation of the country among other investors.

Of course, small countries could, like some large countries, simply ignore foreign investment. On the other hand, the costs of ignoring foreign investment are likely to be higher for small countries than for large ones. Countries like Costa Rica have only a tiny domestic market. If they are to encourage manufacturing industry, they need access to export markets in order to provide the scale that is essential for efficiency in most industries. But domestic entrepreneurs are rarely willing to build plants primarily for export markets. The risks seem too high, when markets are foreign. In order to start manufacture for export, some kind of tie with foreigners is needed; direct foreign investment is usually the most promising.

In sum, for less well-known nations and especially for small countries, foreign investment is likely to play an important role in efforts to industrialize. On the other hand, foreign investment is not likely to go to the small countries unless they undertake promotion efforts. In contrast, large, well-known countries will at least appear on the list of possible investment sites for many potential investors, even if they do little or no promotion. This fact has implications both for the strategy (mix of policies) and the budget of promotion agencies.

Understanding Targeting

Marketing a Country emphasizes the need for promotion agencies to target their activities. Many agencies have, nevertheless, found targeting to be a difficult concept.

In some cases, agencies fail to consider the motivation of investors when they decide on targets. While they come up with lists of kinds of investors that the country wishes to have, they do not carefully consider whether the investors are likely to have any serious interest in the country.[10] The list of desirable investors can include industries where investors rarely venture outside their home countries. Without an understanding of the investor community, targets can be quite unrealistic.

Several agencies have, for example, targeted agriculture, when there are relatively few firms that invest in agriculture abroad. And the firms that do make such investments

[9] The story is documented in Debora Spar, Attracting High Technology Investment: Intel's Costa Rican Plant (Washington: FIAS, 1998).

[10] In the manufacturing sectors, some of the especially unrealistic targeting occurs in former Communist countries, whose grasp of Western firms is shaky. A recent document from the Slovak Republic, for example, exemplified a focus based on desires, with little thought to the interests of investors. SNAKIR, "Slovak Government Strategy to Support Foreign Direct Investment," Bratislava, April 1999.

usually limit their projects to products for which there is a real strategic need for control on the part of the investor. Even plantation agriculture does not attract foreign investment like it once did. Many firms in the industrialized countries are now happy to buy their needs on world markets. Tire companies, for example, at one time owned rubber plantations abroad; they were driven to grow their own rubber as sources fell under the control of their competitors or were subject to marketing schemes that threatened them with high prices. Since the industry has changed, tire firms now prefer to buy their rubber and most have sold off their plantations. In other plantation activities, foreign firms were active because of the special access they had to capital markets. Thus, the early strength of British and Dutch plantation companies.[11] But this access is no longer so special, and the number of firms interested in such investment has correspondingly shrunk. There are exceptions to the rules, but they are relatively few. A handful of the old British and Dutch plantation firms survive;[12] and foreign firms do still grow bananas, for example; but for reasons special to the product.

On the other hand, foreign firms are more often interested in agricultural processing industries. Foreign firms will, for example, build canneries for tomatoes, although they are unlikely to invest in growing them. Nevertheless, they are willing to provide technical help to local growers; sometimes, even finance. Understanding industry structure and changes such as these can turn impractical targeting into useful targeting.

Targeting was described in Marketing a Country as defining focus in terms of industry, size of country, and firm characteristics (usually size). Yet, some other criteria have emerged in recent efforts at targeting. Most conspicuous have been targets based on ethnic identity. Thus, Croatia has identified as a target the Croat diaspora, especially in North America, Australia, and Chile. India has, reportedly, recently begun to target people of Indian descent abroad.[13] I am not aware of any significant successes in these efforts to reach particular ethnic groups, but it may be that the attempts are too recent to have produced notable results.[14]

On occasion countries overlook advantages that they hold and which can be important to foreign investors. Mauritius successfully attracted foreign investors more than a decade ago based on its preferential access to the European Union, as an ACP country. Yet, a number of other ACP countries have failed to promote the similar advantages they offer. Countries that benefit from other trade arrangements have also failed to exploit them. For example, it recently proved difficult for FIAS consultants to get a clear statement within CINDE about the status of Costa Rican products with regard

[11] See Mira Wilkins and Harm Schroeter, The Free Standing Company in the World Economy, 1830 – 1996 (Oxford: Oxford University Press, 1998).
[12] These firms have not always retained their original nationalities. Some British plantation firms, have, for example, been bought by Malaysians.
[13] See Celia W. Dugger, "India Offers Rights to Attract its Offspring's Cash," New York Times, April 4, 1999, page 4.
[14] On the other hand, the importance of ethnic ties in foreign investment decisions is emphasized in one of the earliest studies of how firms make locational decisions, Yair Aharoni, The Foreign Investment Decision Process (Boston: Division of Research, Harvard Business School, 1966).

to tariff preferences in the United States. The agency was clearly not using preferences as a way of looking for investors who might develop an interest in the country.

In fact, surprisingly little is done by most promotion agencies to monitor investment in their own and in other, similar countries. Investors who seek out a country on their own provide strong clues as to which other investors are prospects; if one investor in a particular activity comes, there are likely to be other firms with similar characteristics who are prospective investors. Other countries also provide hints for building target lists. Ireland watches investment flows elsewhere, but few agencies in developing countries seek lists of investors in other countries to help in identifying target industries or individual firms to go after. I believe that the failure to use information about investors in their own and other countries is a mistake committed by many promotion agencies.

On occasion, investment promotion agencies carry targeting too far. They prepare informational and promotional material only for the industries they have named as targets. If prospective investor appears from sectors outside the target list, they do not have appropriate material to offer. In fact, some agencies have shown a tendency to pass such prospects off to other government entities. CINDE, in Costa Rica, has been accused of this.

Targeting should govern activities where the agency has to initiate action. Thus, targeting is important for advertising, for designing promotional seminars, and for identifying firms on which representatives will call. It should not, however, limit the efforts of a promotion agency to help prospective investors who take the initiative, no matter whether they are in the target list or not.

Sub-national Investment Promotion Agencies

Marketing a Country did not explore the role of sub-national promotion agencies, although it did include some such agencies in its sample. Sub-national agencies can be quite independent of each other and of any national agency – in the United States, for example. In other cases, they are little more than branch offices of a national organization. Thus, the Thai BOI has offices in various regions in Thailand that are branches of the BOI itself. The BKPM similarly has offices in various parts of Indonesia. In still other cases, such as China and Vietnam, the relationships between local offices and national offices seem to an outsider to be quite ambiguous.

The performance of sub-national offices is worthy of additional study. Some appear to be quite effective, in a few cases even more effective than national offices. On the other hand, in other countries local agencies seem to be barriers to investment rather than promoters.

The differences across countries do not seem to be explained simply by whether the local agencies are branches or independent, although on average independent agencies may perform better. Some of the differences, at least within the branch category, seem to result from the characteristics of government in the country in question. Thus, in highly centralized countries such as Indonesia, local agencies seem not to respond strongly to local interests. This may be the result of career patterns. Officials see their careers as being advanced within the national system, not by building a local constituency. Perhaps as a result, local interests in having investment do not drive many of the local BKPM offices. In fact, in this case local offices have a reputation of collecting rents from investors rather than for encouraging them. On the other hand, in more decentralized countries, local officials seem to respond more to local economic interests. Thus, in China local government officials see their promotion routes largely within the region. There, promotion agencies seem to respond to local needs and, as a result, compete with each other for investment. But, these are no more than untested hypotheses.

Understanding regional offices is important. It seems, for example, that they can, under certain circumstances, be very effective voices for policy reform. Moreover, they may turn out to be useful in reducing corruption and bureaucratic red tape. In other government functions, competition within the government has proved useful for accomplishing similar goals. In Indonesia, for example, competition among the different organizations that run the duty drawback and exemption system, the export processing zones, and bonded factories seems to have placed a cap on corruption and red tape facing exporters. If one of these organizations raises too many investment barriers for exporters, firms can go to another, leaving the problem organization with fewer clients. It may be that the current experiment in investment licensing in Indonesia will have similar results. In 1999, the national investment agency, BKPM began to allow regional investment offices (and some foreign embassies) to issue investment licenses, in the hopes that the process would be accelerated and become more investor friendly. Whether this experiment works in a competitive way will depend on the response of local investment authorities.

<u>Opportunities for Collaboration</u>

In our research for <u>Marketing a Country</u>, we did not encounter investment promotion agencies that had attempted to coordinate their activities with agencies of other countries[15] or which had tried to locate investors in their country elsewhere. Cooperation seemed to be limited to the efforts of some agencies to provide assistance to agencies in poorer countries. The Irish IDA, for example, had loaned an official to Costa Rica's CINDE to help it develop its programs. And, at the time of the study or at least soon thereafter, the Thai BOI began to assist the Lao PDR investment authority.

While this kind of assistance has increased and has proved very helpful to new agencies, other kinds of cooperative efforts have developed. The Investment Promotion Network (IPAnet) has provided a vehicle for exchange of information, for example.

[15] There were some examples of rent sharing, encouraged by UNIDO, through common space in high-rent areas such as New York City.

Also interesting have been the overseas activities of the Singapore EDB and its affiliates. As mentioned, the agency, though an affiliate, established an industrial estate on Batam Island, in Indonesia, and in Johore Baru, in Malaysia, and encouraged manufacturing firms that faced high wages in Singapore to locate their manufacturing in these nearby sites where wages were lower. The EDB hoped that relocation to Batam Island or to Johore Baru would lead firms to keep headquarters, financial operations, service, and distribution in Singapore. By operating industrial estates in neighboring countries, EDB provided a certain degree of security to firms that were accustomed to Singapore efficiency and freedom from corruption.[16] In Indonesia, for example, Singaporean management promised to handle all the government formalities for firms located in the zone it ran. If "unofficial" payments were required, the private foreign firm would not have to be involved. By 1995, Singapore was considering other "growth triangles" in nearby countries, including a zone north of Medan in Sumatra.[17]

Possibilities for similar efforts in other countries are likely to appear. Success in building foreign investment has meant rising wages. As a result, some of the early investors in very labor-intensive and cost-sensitive industries have to relocate after a time. Where neighboring countries provide possible sites, it may be in the interest of the country losing the plant to assist in the process and try to retain some of the high-wage jobs. Textile firms in Costa Rica, for example, began to relocate to Honduras and Nicaragua as Costa Rican labor became too expensive and when these neighboring countries opened for investment. There may be gains for Costa Rica, an attractive place for executives, in recognizing the inevitability of the transition and in thus trying to influence how it occurs. As mentioned, in 1999, it appeared that the investment agency of Mauritius recognized similar possibilities and was discussing the prospects of cooperating with the development of export processing zones in lower wage Mozambique (and perhaps elsewhere).

By 1999, other proposals for cooperation among investment promotion agencies had been floated. A grand study commissioned by the Inter-American Development Bank to examine prospects for Central American countries, led by Jeff Sachs and Michael Porter, had proposed joint promotion efforts for the region. By the summer of 1999, the details had not been explained in any publicly available document, however. Similarly, a proposal had been circulated for the sharing of image building efforts by some reform-minded African countries.[18] Although interests of neighboring investment promotion agencies are likely to be in conflict when investment-generating activities are involved, it is possible that there may be joint gains in cooperating in image-building activities, if the countries have undertaken similar reforms. Image building is especially expensive. For small countries, experiments in joint image building might turn out to be valuable.

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[16] The program of establishing overseas estates was not limited to these two countries, but the motivations for some of the others appear to be somewhat different.

[17] Singapore had also become involved in industrial estates in China and India, partly to respond to the ethnic mix of Singaporeans.

[18] Louis T. Wells, "Marketing a Region for Trade and Investment" in Africa and the American Private Sector: Corporate Perspective on a Growing Relationship (Washington: The Corporate Council on Africa, 1977), pp 77-88.

A Final Note

The basic premises of Marketing a Country have stood the test of a decade, but we missed a few issues in the original monograph. Investment promotion is a constantly evolving field. Investment promotion agencies continue to experiment; some experiments succeed, and many fail. But, all offer lessons to others. Moreover, promotion activities seem to be growing outside the bounds of the narrowly defined investment promotion agency. And, like business, a few of the agencies are becoming international, directly or through "alliances." Ten years from now, there will surely be a great deal more to write on investment promotion.