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OPTIMIZING GOVERNMENT SERVICES:
A Case for Joint Investment and Trade Promotion?

Promoting and facilitating foreign direct investment (FDI) can create jobs and provide other positive spillovers for local economies. Thus, most governments set up investment promotion agencies (IPAs) specifically mandated to attract FDI. Often IPAs face political pressure driven by cost-saving considerations to add other economic development functions, including the promotion of trade. The combination of investment and trade promotion may have adverse consequences in terms of results, and apparent synergies may not crystallize automatically. However, experience shows that successful joint organizations may be able to benefit from some partially integrated functions, for example administration and technical areas, such as research, image building and overseas representation. Today's emergence of global value chains (GVCs) linking inextricably investment and trade may challenge the traditional thinking and present governments with new opportunities to streamline economic promotion.

The IPA Observer series is prepared by the Investment Promotion Section of UNCTAD's Division on Investment and Enterprise (DIAE). Its objective is to show examples of strategic and operational best practice in investment promotion from agencies worldwide to practitioners and governments in developing countries, with a view to share lessons that are practical and replicable for their investment promotion agencies (IPAs).

IPAs' INVESTMENT AND TRADE PROMOTION PRACTICES

In the last three decades, the world of FDI promotion has exploded. Today, 81 per cent of countries around the globe have a national IPA. This holds even more for developed countries where practically all have a national body that promotes FDI.[1] For developing countries the number is only slightly below the global average with 78 per cent of countries with a national IPA. There is a strong business case for government support for FDI promotion, such as improving the country's image or correcting market failures (for instance, if there is not enough information available or about the country's opportunities, or if there is no facilitation services in the country), which could prevent the host economy from fully realizing its FDI attraction potential. There is also an economic development case for having an IPA, since the benefits from FDI flows are not automatic and may require targeted public interventions to maximize potential benefits and spillovers, such as the introduction and transfer of new technologies and skills, international business linkages and connectivity of transnational corporations (TNCs) with local supply chains. Evidence shows that advice and help to inward investors during the site selection process is an effective means of influencing company location decisions,[2] and that sector-targeted promotion attracts more FDI.[3]

[1] The only exceptions at the time of writing are Norway and Belgium. However, Norway is in the process of setting up an IPA. In Belgium there is no national body because FDI promotion is organized at the subnational level for three regions, Brussels, Flanders and Wallonia.

[2] United Kingdom Department for Business and Innovation Skills (2011), International Trade and Investment – The Economic Rationale for Government Support, BIS Economic Paper No.13.

[3] Harding T, Javorcik BS (2010). *Roll out the Red Carpet and They Will Come: Investment Promotion and FDI Inflows*. University of Oxford.

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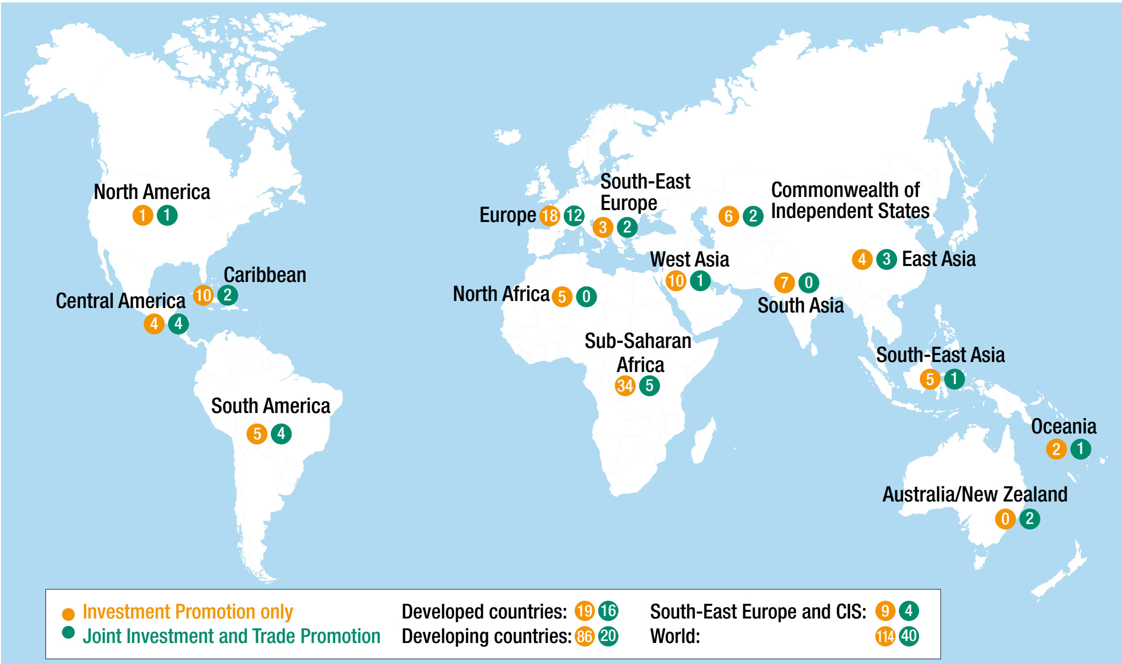
Governments across the board seeking to engage in economic development try to maximize FDI and export promotion efforts and rationalize their budgets, which has often led to pooling both mandates in one agency.

However, experience has repeatedly shown that combining different, but apparently related functions of investment and trade in a single organization is far from simple. Joint investment and trade promotion does not result in automatic synergies or savings. In fact, over the years there seem to have been as many agency mandate splits (e.g., Chile, Costa Rica and Ireland) as mergers (e.g., Germany, New Zealand and the United Kingdom), and the number of joint agencies has tended to remain stable over time: 34 per cent in 2002 stabilizing around 25 per cent between 2008 and 2012. The number of joint bodies has decreased everywhere except in Organisation for Economic Cooperation and Development (OECD) countries (43 per cent).

Global overview of trade and investment promotion



Source: UNCTAD.

In Latin America there is a trend toward splitting institutions. Today only 35 per cent are joint agencies, down from about 50 per cent in 2008.

A number of studies cited in this note point out that if investment and trade promotion are put together one of the functions tends to fall behind. That is invariably investment unless institutional and staff objectives, internal processes and monitoring and evaluation (M&E) are reviewed to reflect the differences between both type of functions. Back in 2002, a study showed that the lower the gross domestic product (GDP) per capita of a country, the higher the number of mandates of the national IPA,[4] indicating that the question of multiple mandates seemed to be driven by resource concerns, with low GDP per capita leading to smaller administrations and therefore more combined functions. Today, with the current economic downturn and austerity measures, we see an increasing number of European countries considering the need and potential benefits of institutional rationalization and downsizing, including the streamlining of overseas representations. Finally, it is important to note that IPAs tend to have a high rate of organizational change, often undergoing a merge, split or restructuring in a new political cycle. In the period 2008–2012, over 35 per cent of IPAs experienced some kind of transformation (from creation to closure, restructuring, including mergers and separations of investment and trade). Often these restructuring decisions have been driven by political or budget considerations of changing governments.

A closer look at investment and trade promotion fundamentals reveals that some of the operational commonalities identified at first sight may actually be outweighed by strong differences (see table 1 below). In “Marketing a Country”, L.T. Wells[5] used an analogy: the difference between marketing a major industrial plant to TNCs and selling supplies or finished goods to firms or retail customers. For a TNC, the purchase of a major plant is an expensive and infrequent investment decision with important strategic implications. In contrast, purchases of finished goods or supplies are

[4] Sader F (2002). *Promoting Investment and Trade: How Different Are These Functions*? FIAS.

Table 1. Trade and FDI promotion operational differences, an illustration*

	TRADE PROMOTION	INVESTMENT PROMOTION
Funding	Public/ private	Mostly public
Resources (if joint)	Often largest share of the budget	Smaller share of the budget
Support	Full support of local industry	Partial support of local industries fearing foreign competition
Business intelligence	Country production & suppliers	Investment climate, operational conditions & suppliers
Client targets	In-country exporters (often SMEs)	Global/regional TNC HQs
Business cycle	Purchase decisions (short term)	Strategic decisions (longer term)
Mode of engagement	Trade shows/ exporter missions	One-to-one company meetings
Staff skills	Sales and marketing officers	Location and industry advisers
Performance indicators	Export volume/ access to new markets/ number of clients	FDI volume/ jobs/ project numbers, type & sector

* Illustrative example. In fact each institutional set-up varies greatly depending on a country's government structure. For more detail, see: UNCTAD (2009), Promoting Investment and Trade: Practices and Issues. Investment Advisory Series A, Nr. 4: 22–23, 52.

usually routine decisions, often made quickly, and generally delegated to a lower level of management. Reaching and convincing a TNC's top management to locate operations in a particular location or to buy a particular industrial plant is quite a different task from dealing with repeat decisions by lower level management on routine transactions. The former involves the difficulty of accessing top management and frequently entails a great deal of time spent in providing a wide range of information, hosting visits to the country and coordinating sales pitches with top host country government officials (perhaps even the president of the country). In contrast, export promotion usually focuses on purchasing managers at TNCs or retailers, making sustained presentations unlikely, and deep involvement by other parts of the government is usually not required.

A well-coordinated approach between investment and trade policy and promotion is essential in order to exploit a country's economic development potential. When a country seeks to attract export-oriented FDI, the case for coordination between investment and trade promotion bodies is even stronger. Trade analysis can be useful for designing export-oriented investment targeting campaigns. Helping an affiliate expand exports may cut both ways in terms of promoting re-investment and boosting exports.[6] Moreover, today, trade and investment are inextricably intertwined. In 2010, TNCs accounted for around 80 per cent of global trade in goods and services. Fifty per cent of global trade was generated through global value chains (GVCs). However, for a joint organizational set-up of investment and trade promotion, it is necessary to balance the pros and cons at the institutional and operational levels (see table 2).

Table 2. Pros and cons of joint promotion

PROS	CONS
Better policy coherence and coordination with trade issues	Often different objectives and core investment activities/risk of focus loss
Shared support services and office space/ business intelligence to feed strategy development	Coordination challenges/managing staff with different mindsets/risk of increased bureaucratization
Potentially one stop centre for clients (export-oriented investors)	Quick export rewards tend to prevail over medium/ long-term FDI promotion efforts
Potential synergies in some areas: overseas promotion and country branding	Different clients, staff skills, rewards, business intelligence and marketing needs
Common grounds for policy advocacy	Risk of less attention for investment policies/promotion

Source: Promoting Investment and Trade: Practices and Issues Investment. Advisory Services, Series A, No. 4, UNCTAD 2009.

[5] Wells L.T., Wint A.G. (2000). *Marketing a Country. FIAS Occasional Paper.* Volume 13: 170–171.

[6] UNCTAD (2002). *World Investment Report: Transational Corporations and Export Competitiveness*: 225–226, 239–240.

CASE STUDIES OF JOINT INSTITUTIONAL SET-UP

So far, differences in mandate and type of operations indicate that it may not be a good idea to task the same agency with investment and trade promotion. However, experience also shows that those IPAs mandated with joint promotion that maintain a solid record in FDI attraction tend to have some commonalities: an umbrella structure, pooling together administration and overseas office infrastructure, as well as market intelligence and image building, e.g., Austrade (Australia), Invest in Canada (Canada), Enterprise Estonia (Estonia) and Jampro (Jamaica), while operating separate technical teams for each promotion stream. The lessons learned by some best-practice agencies may throw some more light on how to effectively exploit operational synergies and increase the cost-effectiveness of the promotional effort.

1. Merging investment and trade: the Swedish rationale

On 1 January 2013, the Swedish Trade Council (STC) and Invest Sweden Agency (ISA) merged. The new entity, called Business Sweden, the Swedish Trade and Invest Council (STIC), seeks to reduce overheads while exploring strategic and operational synergies, and testing a new funding model for economic development.

The merge also responds to the demands of both the Swedish Government and the business community. The Minister for Trade, Ms. Ewa Björling, describes the merger as an important step in the Government plan to double Sweden's exports in the next 2 to 3 years. The Swedish Government aims to achieve synergies that will further enhance the internationalization of companies in a country that is already one of the most integrated into the global trade and investment system. The business community sees the merger as an opportunity for domestic companies to benefit from new forms of FDI through international partnerships, strategic alliances and other forms of cross-border business cooperation.

STIC will take the form of a private non-profit organization run by a public–private board. Historically, export and investment promotion activities in Sweden have remained under government control and hence also most of its funding. Now, Sweden is seeking to diversify its budget with a mixed model, and has sought best practice from the Danish funding model that operates trade and investment promotion as a private consultancy with 25 per cent of their budget being self-generated from fees charged to local exporters. The new Swedish organization will seek funding from both the Government and the private sector. It intends to expand revenue from the private sector to two thirds of the total budget, while keeping government support stable, at one third. Charging fees to foreign investors is not being considered.

The Swedes are well informed by their own experience – the consultancy firm Arthur D Little audited ISA and STC in 2007 and concluded that a different client base, staff skills and marketing mix needs limited the opportunities for uniting trade and investment functions. The new agency knows that synergies between trade and investment are far from automatic. Before the merger, Mr. Magnus Runnbeck, Vice President, Strategy and Research at ISA, said: "We will evolve into an umbrella organization where overheads are shared (i.e. administration, information technology (IT), finance and human resources) for trade and investment. The most obvious areas of joint work are business intelligence and overseas presence, where offices can be shared. Both organizations will work in parallel under the same CEO, and synergies will be explored over time on a sector by sector and project by project basis".

STIC is exploring the idea of concentrating business intelligence and lead generation work for both exports and investment at Stockholm headquarters, while rationalizing its sales efforts in the overseas offices. Internal client databases are a key tool to making the model work and facilitate coordination with both exporters and TNCs. One of the main challenges ahead, however, is how to manage staff performance incentives so that exports – with a shorter cycle – do not cannibalize on the FDI promotion effort. STIC will emphasize quality FDI results over volume, which will ease the work of investment officers. Cooperation is prevalent in the Swedish institutional culture, and is counted as an asset to build on.

2. UKTI, it's all about retaining flexibility

United Kingdom Trade and Investment (UKTI) is a joint government agency of the Departments for Business, Innovation and Skills (BIS) and the Foreign and Commonwealth Office (FCO). While UKTI has its own objectives, it also contributes to the objectives of both parent ministries. BIS and FCO have a history of jointly delivering trade and investment work and UKTI delivers its remit on their behalf through staff and assets mainly employed by either BIS or FCO.

In 1999, the aspects of the trade and investment operations in the United Kingdom and overseas were brought together and named British Trade International. This was later renamed as United Kingdom Trade and Investment (UKTI) in 2003. The model adopted allows for great flexibility in terms of how UKTI presents the business offer and targets clients. The common factor for all UKTI clients, both local exporters and potential investors, is the UKTI brand. The brand has global reach and impact. It is recognisable and the addition of the crest identifies it as a body of the United Kingdom Government, in other words trustworthy. It also clearly brands the United Kingdom and is positioned to be the obvious choice for companies interested in either trading with or investing in the country.

Of the 2,225 professionals utilized by UKTI, approximately 400 are private sector contractors. PA Consulting, which has the contract for the delivery of UKTI inward investment services in the United Kingdom, is also branded to clients as UKTI, as well as sector or market experts employed by a third party working on export promotion. To client companies there is no differentiation between the private sector and public sector employees. All services are delivered under the one organizational brand. UKTI's joint trade and investment approach also allows flexibility and scalability depending on target market and sector. For example, all UKTI staff in the United States have dual functions and work both on trade and investment promotion within a sectoral area of expertise. However, in all other markets the classic split of technical staff between trade and investment promotion functions is the rule.

UKTI is represented in 96 markets with FDI actively targeted in 33 of them. The budget was split in 2011–12 between £240.6 million for trade support and £79.8 million for FDI promotion, which seems to follow international practice with a higher allocation for trade support. This budget allocation resounds with the outcomes of 25,450 businesses assisted, additional sales by United Kingdom businesses of £31.8 billion, and FDI decisions on 1,172 projects in the same period.

3. New Zealand, a case of institutional customization

New Zealand is a small and geographically isolated country of just 4.4 million people, so in order for companies to grow exporting is crucial. Companies are forced to export early on in their development, often before they have the necessary scale. However, they often find it difficult to attract capital investment to support their international growth. New Zealand Trade and Enterprise (NZTE) was designed to meet the unique needs of New Zealand's small economy. In such a small local market, trade is imperative and therefore international trade is at the heart of NZTE's strategy for economic development.

NZTE's FDI promotion approach is simple: New Zealand needs more and bigger companies. However, the majority of FDI into New Zealand has gone into areas such as finance, retail or real estate where there are fewer spillovers for the economy or significant high-value job creation. Having an effective FDI policy provides the framework and mandate to develop a strategy for optimum targeting of companies' export and investment needs. Thus, NZTE has realigned its focus on (i) better-targeted investment into the Government's priority growth sectors; (ii) enhancing capital and capability for NZTE's customers under an integrated customer-engagement model; (iii) developing a global network of investors who are invested or seek to invest in New Zealand. NZTE's investment function has also been recast as the capital function - to attract growth capital for New Zealand's exporting companies and to attract and retain smart FDI in greenfield and brownfield projects in export-related sectors. Having an integrated export and investment function within NZTE enables a holistic approach to client companies in order to meet both their needs for international expansion and investment.

NZTE has fully coordinated its trade and investment promotion services. "Putting the local business or industry project as the point of customer focus was the circuit breaker for the integration of the investment and trade teams" says Mr. Richard Laverty, General Manager for Strategy, Capital and Partners at NZTE. He also added that: "Many trade and investment promotion bodies straddle between local companies and foreign clients and that creates a tension in customer service focus, delivery cycles, and budgets. At NZTE the local exporter remains at the heart of the economic development strategy both for trade and for FDI attraction. Foreign investors are critical and valued partners in our overall mission but our strategy is built around creating growth in export businesses. Key infrastructure is probably the one exception but generally if there is no line of sight to our goal of growing exports, we won't engage."

A BALANCED APPROACH

The three case studies generate some useful lessons for making joint investment and trade promotion organizations work:

- **Put policy and strategy first:** Think FDI policy before thinking institutional set-up. Experience shows that joint promotion has more chances to succeed in the case of countries pursuing a strategy for export-related FDI attraction.
- **Get buy-in from government and local business:** Educating parent ministries about the technical differences between investment and trade promotion is key. Understanding the differences in evaluation and results measurements should be at the forefront. Designing adequate reporting systems and monitoring and evaluation with interim performance milestones for each business area integrating specific result cycles helps sustain government and business support over time.
- **Realistically assess cost savings and efficiencies:** Immediate cost efficiencies in non-technical functions (administration, human resources, IT, communications) and office infrastructure may be visible immediately. Thus, an umbrella approach to pooling together non-technical functions may produce some savings to satisfy those governments seeking to reduce budgets in the short term. However, retain separate technical functions (e.g., marketing, investor facilitation, aftercare and M&E) and test joint promotion on a sector by sector, project by project, and country by country basis.

- **Avoid a quick fix, retain budget and internal flexibility:** Approach integration with a staged and scalable approach over the medium term (5–6 years) based on continuous internal evaluation. Trimming budget from day one may spoil the joint promotion effort, as the most expensive items of the budget, namely technical staff and marketing activities, will remain unchanged whether trade and investment promotion is done jointly or separately.
- **Explore synergies in technical areas:** Shared business intelligence (especially in the case of export-oriented FDI),[7] country and sector image building and policy advocacy could offer cross-cutting opportunities for both trade and investment. Overseas offices could have dual functions depending on the target country priority and sector focus.

Today, the world of investment and trade promotion is rapidly changing. TNCs are engaging more often in long-term relationships with overseas companies without holding equity (e.g., sourcing, franchising, licensing). These so-called non-equity modes of production amounted to $2 trillion in turnover in 2010.[8] Such business models blur the distinctions between investment and trade, leading to a possible overhaul of the government economic promotion strategy, in order to have local SMEs capture the benefits from integrated production networks and GVCs. Company location decisions are being made on specific value activities linking both investment and trade. This may bring a new way of structuring the public sector economic development instruments. From a strategic perspective, the growing importance of GVCs may be changing the equation. As a result, the potential areas of synergy between investment and trade promotion may multiply.

Based on TNCs sourcing and investment decision-making processes, some changes in strategy and the client focus of IPAs may take place. Looking forward, there is food for thought for promotion operations, which may eventually have implications for the institutional framework.

If a country depends significantly on the influx of foreign capital, skills and technologies for the build-up of export capacities, it is probably more effective to engage in joint promotion in order to focus on attracting export-oriented FDI and projects contributing to the growth of productive capacities.

If a country's existing exports are driven to a large extent by TNC foreign affiliates, it is likely that much of those exports will go to other parts of the parent firm's network. Thus, it may make more sense to target the TNCs headquarters to encourage reinvestment and expand exports from local affiliates.

If the import content of a country's exports is high, they are likely to be part of a GVC. It may be more effective to attract FDI from the buyer to increase capacity and the domestic value added.

If domestic exporters are mostly engaged in sourcing for foreign buyers, a large share of exports will most likely go to other parts of the buyer's GVC network, with "pre-defined" or captive markets, making separate export promotion less effective.

CONCLUSIONS

Both a review of the empirical literature and analysis using best practices of successful IPAs suggest that synergies between different areas of economic development need to be carefully crafted. A one-size-fits-all approach driven by the need to make budget savings is not recommended. Nevertheless, joint investment and trade promotion may bring a number of benefits, including policy and strategy coherence, especially at the sector and country level. It would seem that for investment and trade promotion agencies to keep pace with the extent and depth of GVCs and remain able to influence companies' investment and purchasing decisions, some fresh thinking on investment and trade promotion strategies and institutional set-up may be necessary.

For more information visit the Division on Investment and Enterprise (DIAE) at www.unctad.org/diae or email ips@unctad.org

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[7] UNCTAD (2002), *World Investment Report: Transational Corporations and Export Competitiveness:* 225–226.

[8] UNCTAD (2011), *World Investment Report: Non-Equity Modes of International Production and Development:*123.

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