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Note

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Preface

The *Investment Advisory Series* provides practical advice and case studies of best policy practice for attracting and benefiting from foreign direct investment (FDI), in line with national development strategies. The series draws on the experiences gained in, and lessons learned through, UNCTAD's capacity-building and institution-building work in developing countries and countries with economies in transition.

Series A deals with issues related to investment promotion and facilitation and to the work of investment promotion agencies (IPAs) and other institutions that promote FDI and provide information and services to investors. The publications are intended to be pragmatic, with a how-to focus, and they include toolkits and handbooks. The prime target audience for series A is practitioners in the field of investment promotion and facilitation, mainly in IPAs.

Series B focuses on case studies of best practices in policy and strategic matters related to FDI and development arising from existing and emerging challenges. The primary target audience for series B is policymakers in the field of investment. Other target audiences include civil society, the private sector and international organizations.

The *Investment Advisory Series* is prepared by a group of UNCTAD staff and consultants in the Policy and Capacity-Building Branch, under the guidance of James Zhan.

This study was prepared by a team of UNCTAD staff and international experts led by Paul Wessendorp, comprising Douglas van den Berghe, Andreas Wigren, Stephen Young, and Gianluca Mele, who assisted in the IPA survey. The study benefited from inputs and comments by Rory Allan, Alexandre de Crombrugghe, Quentin Dupriez and Sehoon Kwak of UNCTAD, and by Eric Buchot from the International Trade Centre. It was desktop published by Teresita Ventura.

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Abbreviations

CEI-RD	Centre for Export and Investment of the Dominican Republic
CIS	Commonwealth of Independent States
DIAE	Division on Investment and Enterprise
DTI	Department of Trade and Industry (United Kingdom)
EAS	Enterprise Estonia
EIA	Estonia Investment Agency
FDI	foreign direct investment
GDP	gross domestic product
HKTDC	Hong Kong Trade Development Council
ICT	information and communication technology
ISA	Invest in Sweden Agency
IT	information technology
ITC	International Trade Centre
IPA	investment promotion agency
JTI	Jamaica Trade and Invest
LDC	least developed country
NZTE	New Zealand Trade and Enterprise
RTA	regional trade agreement
SAR	Special Administrative Region
SDI	Scottish Development International
SIEPA	Serbia Investment and Export Promotion Agency
SMEs	small and medium-sized enterprises
TNC	transnational corporation
TPO	trade promotion organization
UNCTAD	United Nations Conference on Trade and Development
WAIPA	World Association of Investment Promotion Agencies

Executive summary

This report focuses on a very topical issue: institutional arrangements for investment and trade promotion. The main rationale for creating institutions that promote investment as well as trade is that both functions have certain activities in common, most importantly the marketing of a country and its key industries. However, it may be argued that investment promotion differs so much from trade promotion that it is necessary to have separate institutions for the two functions.

Through a website review, this report shows that a majority (58 per cent) of the institutions promoting foreign investment at the national level do so exclusively, while 42 per cent also promote trade. The proportions of separate investment promotion agencies (IPAs) and combined agencies were quite similar for developed and developing countries. The website review further indicated that combined agencies were more common in smaller economies (measured in terms of gross domestic product). Integrating investment and trade promotion in a single agency could be a rational approach for smaller countries, where financial and human resources are often scarce and the need for international marketing is likely to be greater.

A follow-up survey was sent out to a sample of agencies to find answers to the question of why some countries have merged investment and trade promotion while others have not. Cost efficiency and potential synergies – especially avoiding duplication of work and enhancing marketing – tend to prevail as drivers for integration. For some of the agencies surveyed, it was too early to tell how successful the integration process had been, but the overall results were mixed. Examples of success factors in the creation of combined agencies are: identifying where synergies can be found and taking this as a point of departure for integration, adopting a gradual integration approach, and focusing promotion strategies on industries that are associated with export-related foreign direct investment (FDI).

There are also a number of arguments in favour of separate investment and trade promotion institutions. Many countries have consciously chosen to focus their IPA’s work exclusively on investment promotion, and in some of these cases, this had also been recommended by independent evaluators. Investment and trade promotion require different skills, and staff work with different clients that are often located in different countries. Furthermore, trade promoters usually work within shorter time frames than practitioners in investment promotion, where client decisions are generally more strategy-based and aftercare is of growing importance. These and a number of other factors limit synergies and the extent to which efficiency and greater impact can be achieved through an integrated approach.

Finally, evidence from some countries suggests that cost savings and synergies can be obtained to a certain extent even with separate agencies, through collaboration arrangements in key areas. Whatever the circumstances, investment and trade promotion practitioners should not work in “separate worlds”. Some common ground is likely to exist between them, and they may find partnerships to be fruitful.

Introduction

Background

Thirty years ago, numerous countries still protected many industries from foreign ownership, and investment promotion was consequently not high on government agendas. Coinciding with the growth in foreign direct investment (FDI) flows and the liberalization of the world economy over the last three decades, investment promotion has emerged as a new policy instrument in economic development. Many investment promotion agencies (IPAs) are relatively new,[1] especially in developing countries and countries with economies in transition, but the field has professionalized considerably and rapidly. Today, the number and types of IPA activities are very diverse and often differ by groups of countries.[2]

Trade is a much older activity than FDI. The globalization of the world economy in the early twentieth century was for the large part driven by trade,[3] and it was only after the Second World War that FDI emerged as a major phenomenon. Not surprisingly then, trade promotion is a much older activity than investment promotion. Because of its longer history, trade promotion is usually the better known of the two functions – both among policymakers and the general public. In many countries, the diplomatic corps also has a history of promoting exports, and diplomats may therefore have a better understanding of trade promotion than of investment promotion.

Although both investment and trade promotion are institutionalized today, they differ remarkably in respect of overseas representation: while trade promotion organizations (TPOs) often have representatives abroad, many IPAs still have no staff overseas (notable exceptions are agencies in developed countries).

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1 Most IPAs were set up after the mid-1990s. See: UNCTAD (2002a). *The World of Investment Promotion at a Glance: A Survey of Investment Promotion Practices*.

2 ibid.

3 Krugman P (1996). *Pop Internationalism*.

Definitions

The term "investment promotion" as used in this publication refers to the promotion and facilitation of inward FDI, while "trade promotion" refers to the promotion and facilitation of exports, unless otherwise indicated.

The aim of this study

This study discusses important issues related to the integration of investment and trade promotion, and will focus on advantages and disadvantages from the IPA's perspective. Through web-based research, a follow-up survey and several case studies, it aims to provide an overview of current practices worldwide. The study discusses why some countries have chosen to merge their investment and trade promotion agencies while others have decided to keep them separate.

Most publications on investment and trade promotion have focused on topics such as promotion techniques or the effectiveness of IPAs and TPOs. This report thus deals with an issue that is not only topical but also largely unexplored.

Structure of the study

Chapter 1 of this study discusses the rationale for IPAs, TPOs and combined investment and trade promotion agencies. Chapter 2 analyses the results of a web-based review of 173 national agencies and a follow-up survey of selected agencies – both separate IPAs and combined agencies. Chapter 3 presents a case for agencies that exclusively promote investment, while chapter 4 discusses the advantages of combined agencies. The conclusions of the study are presented in chapter 5.

1. The rationale for promoting investment and trade

This chapter discusses the rationale for investment and trade promotion. First, the reasons for countries to promote FDI and trade are described, followed by a brief discussion on the existence of different market failures that justify IPAs and TPOs. At the end of this chapter, the motives for combined agencies are outlined, including potential synergies, the relationship between trade and FDI, and political and fiscal considerations.

1.1 The rationale for IPAs and TPOs

Benefits from FDI and trade

Countries promote foreign investment and trade because there are potential benefits from these activities. Perhaps most important (together with capital, in the case of FDI) is the creation of new jobs in transnational corporation (TNC) affiliates and exporting companies. FDI and international trade may also lead to higher productivity of domestic firms through access to new ideas, technologies and organizational skills – either through direct exposure to overseas markets or inward investors, or indirectly, through knowledge spillovers. Furthermore, FDI may stimulate competition as foreign firms compete with domestic ones, both for resources (e.g. labour, land, equipment and raw materials) and in the markets for products and services. Competition is also stimulated by the opportunity for local firms to export, since this reduces their dependence on a limited range of domestic customers and enables them to achieve greater scale in production. This, in turn, may allow them to compete more effectively at home.[4] Finally, both trade and investment (in the case of export-oriented FDI) may lead to increased export earnings for the country.

The potential benefits of FDI make it an important instrument for economic development, and IPAs can be key players

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4 Department of Trade and Industry (2006). *International Trade and Investment – the Economic Rationale for Government Support*: 26.

in the efforts to strengthen a country's competitiveness. Similarly, TPOs can play an important role in furthering economic development through trade. IPAs may, for example, target foreign investors that could fill competence gaps and develop local business clusters. Attracting such investors may not only create direct benefits (e.g. new jobs or tax revenues) but also improve the quality of the location by upgrading its business environment.

Market failures

The existence of publicly funded IPAs and TPOs is motivated by market failures: circumstances under which the private sector is unable or unlikely to produce significant economic benefits to society.[5] Many factors may prevent access to foreign markets, both for investors and exporters. The most important market failures that can underpin the rationale for IPAs and TPOs are related to information provision.

Information is not used up when consumed, and it can often be reused without losing its value. This makes it a public good. The cost of acquiring information is a fixed cost, and companies that are able to spread these costs over large sales volumes will have an advantage over firms with lower sales volumes. Companies aiming to do business in a foreign market – through FDI or export – have a great need for information. Investors need to know about suitable business partners, costs, sites, the skills available, taxes, legislation etc. Exporters need knowledge about potential importers in foreign markets, tariffs, quotas, product regulations and environmental standards. Collecting such information is often costly, and while larger firms may be able to afford it (e.g. by hiring more staff), small companies often lack the necessary resources. This market failure can be corrected if a publicly funded agency – an IPA or a

[5] ibid.: 37.

TPO – acquires the information and provides it at a low price (or free of charge). With a sufficient number of users, the benefits of providing the information will exceed the costs of acquiring it.

An important difference exists between IPAs and TPOs in respect of their clients: while the former provide information mainly to foreign-based TNCs, the latter focus on firms operating within the country.

Foreign investors need information about the investment location, and successful exporting requires that potential customers have information about the exporter's products. In this area there exist market failures that can provide a rationale for public intervention. Knowledge of a country and its companies' products may positively affect the expectations of other firms in the country and their products: there are positive externalities.

When individual companies decide to spend money on marketing, they look exclusively at the returns in terms of their own profit. Externalities are not taken into account. From the national perspective, however, these individual marketing efforts may be too small and more marketing could therefore be beneficial – not only to the individual firms, but also for the country as a whole – since it would "open doors" for other companies in the country. Having a publicly funded IPA or TPO carry out the international marketing of a country, its industries and firms could be a way to remedy this market failure.

1.2 Possible motives for creating combined agencies

Overseas promotion

The number and types of IPA and TPO activities are very diverse, but based on the rationale discussed above, it can be expected that they will have at least some activities in common.

Promoting the country and its key business sectors abroad would be the most obvious. Overseas marketing can be conducted through, for example, advertising or promotional events, and may be carried out on several different levels:

Promotional efforts at the *country* level are aimed at making the country known among foreign investors and importers. This activity has significant externalities, since many can benefit from a country being known and perceived well abroad. At the *sector* level, promotion efforts aim to provide knowledge of key sectors of the economy. The target group for this type of promotion is narrower, and its purpose is to convey an image of certain industries and companies as attractive business partners. The externalities at this level could be significant, since a positive image of a certain sector may influence the foreign perception of all the individual firms operating within that sector.

Company-level promotion includes the matchmaking of foreign companies with local business partners and the marketing of individual companies' products in overseas markets. These efforts are directed towards a narrow group of potential counterparts. The primary beneficiaries of such promotional efforts are the companies directly involved, and therefore there are fewer synergies between investment and trade promotion at this level than at the country and sector levels. However, there are situations where synergies could exist. Some larger and internationally more experienced importers may also want to invest abroad. While marketing the products of an exporting company, a trade promoter from a combined agency can also find out if the importer has an interest in foreign investment. The importer/investor could consequently be put in touch with the agency's investment promotion staff.

The integration of FDI and trade

Another motive for creating combined agencies lies in the relationship between FDI and trade. While trade can be a substitute for investment and vice versa, the two can also move together. International production, financed through FDI, and international trade cannot be seen as independent of each other, and it would then be useful to draw together staff with investment and export skills in one organization – or so the argument goes.[6]

The most relevant relationship between investment and trade promotion strategies is that new investment projects may give rise to exports from the host location. But the causation may also run from trade to investment, when exports require the establishment of new facilities abroad.

Although a large share of investment decisions are not specifically driven by the desire to export from the new location, some TNC affiliates may over time move into exporting. The degree to which FDI is integrated with trade largely relates to:

- The level of economic development. For instance, least developed countries (LDCs) are often not part of the global supply chains of TNCs;
- Industry characteristics: For example in automotive and electronics – but increasingly also certain service sectors, such as information and communication technology (ICT), where FDI is more closely linked to trade;
- The size of the host country market and increasingly also of the regional market that can be served from the host country through regional trade agreements (RTAs);

[6] UNCTAD (2002b). *World Investment Report 2002: Transnational Corporations and Export Competitiveness*: 231–233.

- Specific location factors, such as labour costs and productivity levels.

The last two points relate to an important determinant of integration between FDI and exports: the motives underlying the investment decision. With regard to such motives, FDI is commonly categorized as either resource-seeking, market-seeking or efficiency-seeking:[7]

- *Resource-seeking FDI:* Some resources, such as oil or minerals, are only available in certain countries or regions, and TNCs must therefore invest abroad in order to extract them.

- *Market-seeking FDI:* Access to markets – national, regional, or free trade areas – is often the reason for investment. The decision by a TNC to establish in a foreign market could be motivated by market size and growth, trade barriers, demand for locally adapted goods, transport costs, or a combination of these factors.

- *Efficiency-seeking FDI:* TNCs, especially in labour-intensive sectors, may want to locate in countries where labour costs are low in relation to the productivity of the work force.

The degree of FDI-trade integration is most apparent in the increased growth of export-oriented FDI driven by a combination of market potential and efficiency motives. The size of a consumer market can be enlarged by the RTAs that a country has with neighbouring countries, and the growth of such agreements has

[7] UNCTAD (1998). *World Investment Report 1998: Trends and Determinants*: 106–108.

been a major driving force behind export-oriented FDI in smaller economies.

Political and fiscal considerations

In most cases, the choice of how to organize investment and trade promotion activities lies in the hands of the government. The policy decision will likely depend on several country-specific factors, such as the political priorities of the current government and the history and structure of public administration. Budgets will often constrain policymakers, and effective use of public funds will thus have a high priority when a choice is made. Many governments are therefore likely to be compelled by cost-efficiency arguments for setting up combined agencies. For example, the creation of New Zealand Trade and Enterprise (NZTE) was, in part, a result of the national commitment to efficient government. Through a merger of investment, trade and enterprise-related government activities in New Zealand, the country’s Government hoped to minimize unnecessary expenditures.

In practice, the reasons for creating combined agencies are often a mix of the different motives mentioned above. The organization of investment and trade promotion differs across countries, depending on a number of economic, geographical and political factors. Which factors are given most weight will depend on country-specific circumstances. In the next chapter, international practices in trade and investment promotion are described and analysed.

2. International practices in investment and trade promotion

This chapter discusses international practices in investment and trade promotion. It includes the results of a web-based review of 173[8] institutions that promote and facilitate FDI, and it aimed to determine the extent to which these institutions were tasked with the promotion of external trade. In addition, a follow-up survey was sent out to a sample of both combined agencies and separate IPAs. The purpose of the survey was to determine and capture the motives behind the agencies' organizational structure, and to identify advantages and disadvantages to combined investment and trade promotion agencies.

2.1 An overview of IPAs worldwide

The web-based review of institutions was conducted using an UNCTAD database of national IPAs.[9] Subnational and supranational institutions (such as those of the CFA franc zone in Central Africa) were excluded. The search strategy aimed to identify those institutions that promoted investment and those that were responsible for both investment and trade promotion. A total of 173 institutions were reviewed in 2008. In table 1, the results are presented by geographical region.[10]

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[8] Institutions without a functioning website and agencies whose website did not contain information about the exact nature of the promotional activities were excluded from the survey.

[9] Since the sample of institutions is taken from an IPA database, the results could possibly be biased towards a higher percentage of separate IPAs.

[10] Geographical regions, based on UNCTAD (2009). *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development*.

Table 1. Results of the IPAs website survey, by region

Region	Promoting FDI only		Promoting both FDI and trade		Total
	No.	%	No.	%	No.
Developed Europe	18	56%	14	44%	32
North America	1	50%	1	50%	2
Other developed economies	2	50%	2	50%	4
Developed economies[11]	***21***	***55%***	***17***	***45%***	***38***
Africa	31	76%	10	24%	41
Latin America and the Caribbean	15	45%	18	55%	33
Asia and Oceania	26	57%	20	43%	46
Developing economies	***72***	***60%***	***48***	***40%***	***120***
South-East Europe and the CIS	7	47%	8	53%	15
Transition economies	***7***	***47%***	***8***	***53%***	***15***
World	**100**	**58%**	**73**	**42%**	**173**

Source: UNCTAD, based on survey data.

Of the 173 institutions reviewed through their respective websites, a majority – 58 per cent (100 institutions) – promoted FDI only, while 42 per cent (73 institutions) indicated that they promoted both investment and trade (or exports). The proportions of agencies devoted exclusively to investment promotion differed little between developed and developing economies (55 and 60 per cent respectively). There is a slightly larger share of combined agencies in developed countries (45 per cent versus 40 per cent).

[11] Based on ibid. "Developed economies" are defined as developed Europe, North America, and other developed economies, while "developing economies" are defined as the countries of Africa, Asia and Oceania, and Latin America and the Caribbean. "Transition economies" are defined as the countries of South-East Europe and the Commonwealth of Independent States (CIS).

The transition economies had the lowest percentage of institutions exclusively promoting investment.

There were two geographical regions where a majority of countries had combined investment and trade promotion agencies: Latin America and the Caribbean (55 per cent) and South-East Europe and the CIS (53 per cent). In Asia and Oceania, Europe, and North America, 43 to 50 per cent of the agencies were integrated. By far the lowest percentage of combined agencies (24 per cent) was found in Africa. Furthermore, there were remarkable differences at the subregional level in Africa: most surveyed agencies in southern Africa had dual functions, while the majority of agencies in West Africa focused exclusively on investment promotion.

Although one has to be cautious when drawing conclusions from a website survey, some general patterns can be observed. Combined agencies seem to be more common in smaller economies (measured in terms of gross domestic product (GDP). This is particularly the case for European microstates and the small island states in Oceania and the Caribbean (these countries contribute to the high percentage of combined agencies in their respective regions). Examples include Barbados, Fiji, Malta, Monaco, Saint Lucia and Samoa. Combining investment and trade promotion in a single agency could be a rational approach for smaller economies where financial and human resources are often scarce and the need for international marketing is likely to be greater. The tendency of combined agencies to dominate in some subregions (most notably in parts of Africa) may be attributable to the use of neighbouring countries as benchmarks. Those survey respondents indicating a "model agency" for their reorganization usually named an agency in their geographical vicinity.

For bigger economies (in terms of GDP), it is difficult to see any relationship with dual or single promotion functions. Some large economies, such as China, France and India have separate agencies. In China, the Ministry of Commerce supervises the inflows and outflows of both FDI and trade, but there is a separate agency within the ministry dedicated to investment promotion. Other large economies, such as Brazil, Japan and the United Kingdom, have combined agencies.

In many larger economies, investment promotion is also conducted by a number of subnational agencies which sometimes operate as autonomous private organizations. In Mexico, for example, subnational agencies such as the Industrial Development Commission of Mexicali or Southeast Coahuila Economic Development (FESEC) are exclusively devoted to investment promotion, while the federal institution, ProMexico, deals with both investment and trade promotion. In Mexico’s case, there is collaboration between the federal and the subnational levels, even though there is no management control.

2.2 Results from a survey of selected IPAs

As part of the preparation of this study, a survey was sent out to 32 national agencies, of which half promoted both FDI and trade, and half dealt exclusively with FDI promotion. The survey was sent to agencies in all regions of the world, and a response rate of 68 per cent (22 IPAs) was achieved. The 22 responses were almost equally distributed across geographical regions, with the largest number of agencies (5) being from Africa. The survey responses were more unevenly distributed in regard to promotional functions: of the 22 respondents, 14 focused exclusively on investment promotion while 8 promoted both FDI and trade. A list of participating agencies can be found in annex II. Below, a summary is given of the profiles of the two groups.

Agencies promoting both investment and trade

In the survey sample, most of the agencies that promote both FDI and trade were set up in the last two decades. Notable among these are the agencies in Central and Eastern Europe, such as the Hungarian Investment and Trade Development Agency (ITD Hungary), founded in 1993. The majority of the combined agencies are semi-autonomous bodies reporting to a minister. Most of the agencies that had been formed by an IPA–TPO merger chose a new name that would reflect their dual promotion functions. Examples include the Dominican Republic Office for the Promotion of Investment (DR-OPIN), which changed its name to the Export and Investment Centre of the Dominican Republic (CEI-RD), and Enterprise Estonia, which was established in 2003 through the merger of five separate agencies (see box 1).

For those agencies that had been restructured to carry out both investment and trade promotion, the integration process took approximately 12 months on average. Only a few agencies reported that they had sought external assistance to facilitate the reorganization. Many agencies based their restructuring on the example of a "best practice agency" that had already been formed.

Agencies that are given a new mandate need to inform their clients of this change. Not many survey respondents had used a broad communication strategy to announce the formation of a new agency. Most agencies informed the public via the local and national media, while only a few chose to communicate their reorganization through the international media (leading business newspapers and TV channels). Some agencies kept communication limited to their respective websites and public newsletters.

In some countries, the new agency name had not caught on with the public and most people kept referring to it by its old name. There is, therefore, a need for persistent marketing of the new agency – especially marketing that is directed towards its clients. It is also important that the agency name should communicate business opportunities. In the Dominican Republic, the export and investment promotion departments of CEI-RD have recently been divided into two branches. The investment promotion department will now operate as “Invest in the DR”, while export promotion will be carried out under the brand name “Dominicana Exporta”. These two departments will work as separate brands, supported by CEI-RD.

In determining the reasons given by agencies for combining investment and trade promotion in one agency, one can distinguish reasons related to the organizational aspects of promoting FDI and trade from those that are related to the wider economic goals of the agency. Reasons related to organizational aspects were:

(a) Cost efficiency;
(b) Creation of synergies;
(c) Efficient leadership.

Reasons related to economic goals were:

(d) A small domestic market requires FDI to be export-oriented;
(e) Branding the country as an attractive investment location and trade partner.

Regarding reason (a), it was expected that merging the IPA with the TPO would save costs, for example by cutting down on double staff functions and by the sharing of office space. Reason (b) relates to increased opportunities for knowledge-sharing or combining investment and trade promotion in overseas offices, among other things. Several combined agencies had improved their ability to reach investors abroad as a network of overseas trade representatives became part of the new organization. One former

IPA in the survey even acquired a complete overseas network, having had no international offices prior to the merger. However, it was still unclear how successful these mergers had been in actually improving investment promotion capacities overseas.

In some cases, it seems that the cost efficiency and synergy reasons behind the restructuring had failed to materialize. After the merger, some combined agencies had taken measures to reorganize their activities towards clearer separation of investment and trade promotion, although no country in the survey has taken the full step back to separate agencies.

Reason (c) reflects a belief that policy coherence and coordination would be more easily achieved with a single agency instead of two (or, in one case, as many as five) separate agencies. This idea seems plausible, although in some cases the achievements were partly offset by problems in coordinating the different activities in a new organization and working with staff that have different mindsets and interests.

Another reason given by the agencies – reason (d) – relates to the size and structure of the economy. As mentioned in the previous chapter, the size of a consumer market can be significantly enlarged by membership in RTAs. This may help to attract market-seeking FDI that would otherwise have avoided the country because of the small domestic market. In countries where the main promotion strategy is to attract export-oriented FDI, the idea of combining investment and trade expertise in one agency had a strong appeal. Some countries in the survey are highly reliant on a few economic sectors (e.g. agriculture, or extraction of minerals) and aim to diversify their economies through FDI in new industries. Given the small domestic market size of these countries, their investment promotion strategies focused on TNCs that manufacture goods for export. The topic of export-oriented FDI will be further discussed in chapter 4.

The country-branding argument (e) is especially relevant to small countries with limited human and financial resources. In these countries, it might be necessary to combine all resources available in order to achieve impact in promotion overseas.

In the survey, participants were asked: If your agency were to receive an increase in budget, what would be the first three priorities to spend it on? The answers can be divided into three categories:

- *Marketing*: More participation in international exhibitions and trade missions, sector-specific identification and promotion, strengthening regional offices.
- *Enhanced service delivery*: Improving investor services, conducting market studies, more training courses on FDI and trade issues for staff, and strengthening policy advocacy.
- *Service diversification*: SME development, assisting domestic firms in internationalization.

Remarkably, only one answer was specifically related to the merger process: "More training courses on FDI and trade issues for staff". In fact, the answers given by the combined agencies in respect of investment promotion differed very little from those given by the separate IPAs. The answers in the "service diversification" category may relate to the fact that competitive companies are important both to increase exports and to attract FDI. There also seems to be awareness in some agencies that export promotion and outward FDI promotion can be complementary services to firms expanding their business abroad. Two of the agencies surveyed mentioned that they, in fact, already assist or promote outward FDI in addition to inward FDI. This topic will be further discussed in section 4.3.

Agencies that promote investment only

Of the 22 agencies participating, 14 indicated that they were exclusively promoting FDI. Most of these were set up many years ago (some of them as early as the 1960s and 1970s), and hence they appear to be older than the combined investment and trade promotion agencies. Exceptions include IPAs that have very recently been set up in larger economies. None of the agencies anticipated a merger with a TPO in the near future, and only two indicated that they would seek external advice if such a merger were to take place. The reasons given by these IPAs for maintaining their separate status included:

(a) Different clients in investment and trade promotion;
(b) Different marketing tools;
(c) Organizational issues;
(d) Lack of human resources.

Reasons (a) and (b) largely relate to the different nature of FDI and trade promotion, while (c) reflects the history, structure, and delegation of tasks within the public sector. Lack of human resources (d) relates to shortages in capable staff, which is an issue that could be solved in the medium term.

Again, many of the agencies surveyed provided answers to the question: “If your agency were to receive an increase in budget, what would be the first three priorities to spend it on?” Most of the answers related to strengthening the IPAs’ overseas presence, participating in international events, and providing additional training to their staff.

2.3 Drivers and challenges of integration

Based on the survey responses, the desire to achieve increased cost efficiency and greater synergies seems to be the main motive behind the creation of combined investment and trade promotion agencies. Estonia provides an example of the drivers and also some of the challenges of agency mergers (box 1). Enterprise Estonia (EAS) – the national agency responsible for entrepreneurship, investment and trade development – was created in 2003 out of five small, separate organizations: the Estonia Investment Agency (EIA), the Export Promotion Agency of Estonia, the Estonia Tourist Board, the Estonian Technology and Innovation Centre and the Estonian Regional Development Agency. The volume of FDI to Estonia is limited, and therefore an integrated approach seemed rational. The name "Enterprise Estonia" was chosen to reflect the broader mandate of the new agency.

The integration of the five agencies was completed within 12 months and was not particularly modelled on a best practice agency abroad. Estonia did not communicate the reorganization to an international audience, and the creation of the new agency was consequently reported only through local media and to the staff working in the various units. The main reasons given for the creation of EAS were:

- Achieving cost efficiency (there has been too many separate agencies);
- Making use of synergies between the various agencies;
- Increasing leadership efficiency;
- Undertaking common activities, such as general country branding and partner searching in investment and trade promotion.

A challenge that combined agencies face is that of synchronizing the workflows in investment and trade promotion activities. Integration of the two activities may be seen as a continuum, ranging from totally separated to fully integrated. A low degree of integration would mean that investment and trade promotion remain separated, e.g. as different units of the same agency, and with little cooperation between the two. A high degree of integration would mean that operations and strategies for investment and trade promotion form a mutually supportive whole. A few agencies have adopted sector-based approaches, where the specific characteristics of each industry sector determine the extent to which the activities will be investment- or trade-related (see box 10 for an example). In nearly all of the agencies surveyed, separate

Box 1. Estonia: Creating a combined agency

EAS's Investment and Trade Development Division, also known as the Estonian Investment and Trade Agency, employs 24 people, of which ten are working in the nine offices abroad. Before the merger EIA employed eight people, only two of whom were located outside Estonia.

In 2009, the Investment and Trade Development Division had an annual budget of about $3.3 million. Before the merger, the budget of EIA was approximately $0.7 million. Budget allocations before and after creation of the new agency are presented below:

Activitiy	**Before**	**After**
Image-building and branding	40%	20%
Investment generation	50%	15%
Investment facilitation	5%	10%
Aftercare services	5%	10%
Other:	0%	45%

The activities of the new agency also include trade facilitation (part of the category "Other"), which accounted for 10 per cent of the Division's budget in 2009.

Today, EAS and its Investment and Trade Development Division still face some challenges, including the realization of synergies between various entrepreneurship, investment and trade development activities.

Source: UNCTAD, based on information provided by EAS.

sub-organizations for investment and trade promotion remained in place after the merger. While they were integrated at the policy level and in terms of sharing office accommodation, investment promotion and trade promotion remained functionally distinct and separated within these agencies.

Jamaica Trade and Invest (JTI) has a mandate to stimulate and facilitate the development of trade, industry and investment in Jamaica. In order to improve coordination between JTI's investment and export promotion divisions, a balanced scorecard approach has been adopted by the agency (box 2).

Box 2. Jamaica: A balanced scorecard to enhance coordination

As part of an ongoing process to review and rationalize its operations, JTI has adopted the balanced scorecard methodology in order to measure its effectiveness in target attainment. The comprehensive review resulted in the development of corporate performance indicators that required joint efforts by both the investment and export arms of the agency. This approach was adopted in an effort to minimize the creation of separate workflows in the investment and trade promotion divisions. JTI is continuing its work to strengthen the operational cohesion through review of the balanced scorecard, and other management tools designed for this purpose.

Source: UNCTAD, based on information provided by JTI.

Although certain challenges to combined agencies can be overcome, other problems relate to fundamental differences between investment and trade promotion and may therefore be difficult to solve. A number of issues that may prevent collaboration will be discussed in the following chapter, which presents a case for separate IPAs.

3. A case for agencies exclusively promoting investment

In this chapter, the most important differences in trade and investment promotion are discussed. According to the UNCTAD website review presented in the previous chapter, 58 per cent of agencies promoting FDI did so exclusively (see table 1). The natures of investment and trade promotion are largely different, and the two functions have many disparities with regard to, for example, objectives and activities, clients, time frames, and skills requirements for staff. Because of such major differences, an agency focusing exclusively on investment promotion may be the best option for a country.

The different natures of investment and trade promotion

To illustrate the different natures of the two types of promotion, Wells (1999) offers an analogy:

"The differences between investment promotion and export promotion can perhaps be best understood by looking at an analogy: the differences between marketing a 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. … Such decisions are generally delegated to a lower level of management, and they are often made quite quickly."[12]

There are substantive differences in the respective focus, functions and operations of investment and trade promotion.

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[12] Wells L (1999). *Revisiting Marketing a Country: Promotion as a Tool for Attracting Foreign Investment*: 10.

Factors that will limit the scope and effectiveness of combined promotion efforts relate to: (a) objectives and activities, (b) clients, (c) time frames, (d) skills, and (e) coordination and organization. These will now be discussed one by one.

Objectives and activities

Although the ultimate goal of both investment and trade promotion is to enhance economic development and growth, their objectives differ. The objective of an IPA is to attract FDI that will bring not only capital to the host economy but other important assets too, such as management and organizational expertise, technology and innovation (see chapter 1). IPAs provide (sometimes customized) information to foreign-based TNCs on macroeconomic conditions, key industries, investment opportunities etc. They may also provide information and practical advice on how to set up a business in the location, help by introducing foreign investors to relevant contacts in government, and assist them in finding local service providers. Some IPAs will also help foreign investors to find local partners for joint ventures, strategic alliances, or other forms of collaboration.

The objective of trade promotion is to support locally based (sometimes foreign-owned) companies in expanding their business overseas. TPOs will assist firms in market research and development, for example by analysing market trends for export products, by the dissemination of target market intelligence, and by providing help in designing market-entry strategies and testing markets to determine the viability of new products prior to wide-scale launches. TPOs will also provide trade information to local firms (e.g. on tariffs, importers, prices, import procedures, standards, quality and documentation requirements in target markets). They typically also assist firms in export skills development (e.g. technical advice for production and product development, and training of export personnel). In addition, they will promote local exporters by organizing buyer–seller events, and trade missions, and will provide support for local firms wishing to participate in trade fairs and exhibitions.

Investment and trade promotion have a common role in image-building, and thus some duplication may exist in international promotional activities. However, important differences exist even in this area: export mostly involves physical goods, which by themselves provide some information about the quality of local products, but do not contain information about the quality of the local investment climate. Physically showing local products to potential foreign buyers is therefore an important part of trade promotion, but it plays little or no role in investment promotion. So, while trade promotion also entails image-building, it probably has greater importance in investment promotion.

Clients

IPAs and TPOs have different clients, and this fact was mentioned as a significant obstacle to closer collaboration by some agencies in the survey. IPAs work mainly with foreign-based TNCs, and TPOs work mainly with locally based firms. Decisions to locate and expand activities or establish partnerships abroad are usually taken at the top management level of a TNC. Thus, investment promotion includes efforts to reach and convince senior management to establish activities in the country. IPAs usually devote a great amount of time to providing a wide range of information, hosting visits of potential foreign investors, and coordinating sales pitches with high-level government officials, perhaps even including the Head of State.[13]

The typical clients of TPOs are domestic small and medium-sized enterprises (SMEs) with little or no experience in

[13] Wells L (1999): 10.

doing business abroad. TNCs investing abroad are often well resourced and have the capacity to carry out market research and product distribution so they have less need for TPO services. Trade promoters also work with counterparts abroad, but they usually focus on purchasing agents or retailers overseas – not the top management of TNCs.

Since investment decisions are usually taken at a very high level of management, the IPA's clients will typically work at the company or regional headquarters, which in most cases will be located abroad. By contrast, export-related decisions are generally delegated to lower levels of management, and the TPO's counterparts typically work in marketing, sales and distribution – functions that are usually located in the host country. It should be noted that in some cases – most importantly in connection to attracting export-oriented investors – the IPA and TPO may work with the same client company.

Time frames

IPAs and TPOs usually work with different time frames. Investment promotion involves a long chain of activities, and achieving results generally takes longer than in trade promotion. Long-term courting of corporate executives is often necessary, and involvement by other parts of the government is frequently required in order to attract FDI. Investment decisions are strategy-based and often take several years from initiation to completion. Therefore, it is crucial for IPAs to provide ongoing support to their clients over long periods of time, often many years. Export decisions, on the other hand, are more closely linked to product lifecycles and have shorter time frames. For this reason, TPOs are usually required to provide client support over shorter periods of time – months, rather than years.

Follow-up of investments is crucial to investment promotion, especially in countries where reinvested earnings are an important component of FDI.[14] IPAs are increasingly aware that targeting firms and attracting FDI is only a "job half done". With a growing number of established foreign affiliates, new investments can often be realized more cost-efficiently through investor aftercare. Supported by aftercare services, foreign investors may not only stay in a location, but may also expand their operations or move them further up the value-added ladder. Aftercare may also help to better realize the potential benefits from inward FDI, such as technology transfer, local supply chain development and job creation. Furthermore, established investors can be seen as "ambassadors" of the location, encouraging other TNCs to invest there. For these reasons, many IPAs are devoting more resources to investor aftercare and requiring their staff to have good skills in after-sales services. Export is more short-term and "transactional" in nature than FDI, and the need for aftercare in trade promotion is therefore limited.

The fact that it generally takes longer to achieve results in investment promotion than in trade promotion is to some extent also reflected in the performance indicators used by the agencies surveyed. Examples of frequently mentioned indicators are given in table 2.

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14 See UNCTAD (2007). *Aftercare: A Core Function in Investment Promotion*.

Table 2. Performance indicators

Investment promotion indicators	Trade promotion indicators	Joint indicators
Number of jobs created	Improved trade balance	Number of visitors to homepage
Amount of capital invested	Promotion of non-traditional and traditional products	Number of publications produced
Number of investments facilitated	Access to new markets	Number of inquiries answered
Impact on economic development	Supporting programme for national exporters and SMEs	Number of events organized
Transfer of technologies	Volume of exports	Client satisfaction
National competitiveness	Sales of export products	
Number of investment projects managed	Number of client companies	
Number of investors contacted	Improvement of clients' business performance	
Number of implementation and aftercare issues solved	Sales revenue from services provided	
Number of new factories and new firms	Number of companies participating in events	
Visits of potential investors	SME development	

Source: UNCTAD, based on survey data.

Skills

The field of investment promotion has professionalized considerably over the last decades. Whereas in the past, IPAs often used marketing techniques in a non-specific and broad manner, today they increasingly target a defined group of sectors, firms and individuals. Today, it is essential for IPAs to present concrete investment opportunities to their clients. Although the focus of

IPAs varies across countries, the evolvement of investment promotion into a profession in its own right means that many IPAs today are increasingly less concerned with the kind of general country promotion where there is duplication with TPO activities.

In the increasingly professionalized world of investment promotion, IPA staff need to understand the international strategy decisions, investment priorities and decision-making processes of TNCs. They must possess facilitation and problem-solving skills, and be able to manage client relationships and projects. Trade promotion staff should be able to assist with trade capacity building and matchmaking, often through shows or events, and must be able to provide information on one-off enquiries covering a wide range of topics. Trade promotion often requires the TPO to work closely with local firms to find out what they can deliver, and to assist them in learning how to meet the standards and demands in foreign markets. Trade promoters must therefore have a good knowledge of the local business community's capabilities. In contrast, the capabilities of local firms play only a relatively minor role in the work of investment promoters.[15]

A recent evaluation in Sweden pointed out that the different skills and clients of investment and trade promoters would, in practice, limit the scope of collaboration between the Swedish IPA and TPO (box 3).

[15] Wells L (1999): 10.

Box 3. Sweden: Different skills, and clients limit collaboration

The Swedish Government commissioned an independent consultancy firm (Arthur D. Little AB) to evaluate current investment and trade promotion practices at the national level in Sweden. The evaluation, published in 2007, concluded that the current separation of investment and trade promotion should continue, although it pointed out that there are opportunities for increased collaboration between the Invest in Sweden Agency (ISA) and the Swedish Trade Council.

According to the evaluation, there are potential gains from collaboration between the two agencies, especially in cases where they could exchange personnel to perform specialist tasks. The evaluators emphasized that a precondition for such exchanges of personnel is that people with the right profiles, experiences and networks can be identified in each single case. The evaluation concluded, however, that the different target groups and skill sets of the ISA and the Swedish Trade Council would, in practice, limit the opportunities for such collaboration.

Source: UNCTAD, based on an evaluation by Arthur D. Little AB.

Coordination and organization

Coordination of operations and staff may be easier in a separate IPA, as it was pointed out in the survey that lack of coordination created problems for several combined agencies. In practice, a separate IPA need not be less beneficial in terms of synergies either. Evidence from the survey suggests that separate sub-organizations for investment and trade promotion often remained in place after agency mergers. The problems associated with the integration of staff from two different organizational cultures, with often different mindsets and interests, can also be avoided. With a separate IPA, it may, furthermore, be easier to avoid the risk of the increased bureaucracy that is sometimes associated with combined agencies (which are often larger and more complex). This is not to say that there are no internal coordination issues within separate IPAs, but to point out that many of the organizational drawbacks related to agency mergers can be avoided if one opts to keep the IPA and TPO apart.

Having a separate IPA could serve to increase the visibility of investment promotion among policymakers. Because trade promotion has a longer history as a public function, TPOs are usually larger organizations than IPAs, and are often better known among policymakers. This sometimes leads to investment promotion being “pushed down the agenda” when an IPA is merged with a TPO. There are, however, also some cases of investment promotion gaining gradually larger shares of the agency budget after a merger.

Some IPAs surveyed indicated that there were no plans for a merger with a TPO, and referred to the historical roots of both organizations. An example is Jordan, where the Jordan Investment Board promotes FDI, and trade promotion is carried out by the Jordan Enterprise Development Corporation. The reason for not merging investment and trade promotion in Jordan is not due to lack of potential efficiency gains, but rather because of political commitments to have separate agencies. IPAs and TPOs may also differ in regard to their ownership. In some countries, one agency is a private or semi-private entity, while the other is a government agency. In Sweden, for example, ISA is a public agency funded by the government, whereas the Swedish Trade Council is owned in part by the business community and is largely funded through consultancy fees.

In Hong Kong Special Administrative Region (SAR), a study commissioned by the Commerce and Economic Development Bureau concluded that the objectives, functions and activities of the investment and trade promotion agencies were too different to be carried out in a single organization (box 4).

Box 4. Hong Kong SAR: A case for a separate IPA

In Hong Kong SAR, the IPA and TPO operate separately. The main reasons for this are the following:

(1) Different objectives: The aim of InvestHK is to sell a “location offer”, attract foreign-based TNCs to establish a base of activity in Hong Kong SAR, and help reduce entry barriers for investors that want to locate in Hong Kong SAR. The aim of the Hong Kong Trade Development Council (HKTDC), on the other hand, is to support companies already established in Hong Kong SAR in identifying and taking advantage of trading or partnership opportunities.

(2) Different client contact points within a company: InvestHK clients have responsibility for corporate strategy, investment, resource allocation and market entry. They are usually located at the parent company’s headquarters or at regional headquarters overseas. By contrast, HKTDC clients have responsibility for marketing, sales and distribution. These clients are usually located within Hong Kong SAR.

(3) Different skills among staff: InvestHK requires staff that understand the international strategies of TNCs, investment priorities and the location decision-making process of foreign firms. HKTDC staff members tend to be more general marketers. They need to be able to provide information on numerous one-off enquiries, covering market conditions and technical export/import requirements, and to assist in trade capacity building and matchmaking.

(4) Different timescales: the investment decisions of TNCs are strategy-based and take 18 to 36 months (or longer) from initiation to completion. InvestHK thus needs to be able to provide ongoing support for individual clients, often over many years. Companies’ trade decisions, on the other hand, are more closely linked to product lifecycles and have shorter timescales. For this reason, HKTDC provides support to its clients over a shorter period of time, usually several months.

Source: UNCTAD, based on information provided by InvestHK.

Even if investment and trade promotion agencies remain separate, IPAs and TPOs should not work in “separate worlds” or compete with each other. Some common ground is likely to exist, and the agencies may find it fruitful to collaborate in certain areas in order to improve impact. The advantages of combined investment and trade promotion agencies are discussed in the following chapter.

4. A case for agencies promoting both investment and trade

This chapter deals with the advantages of combining investment and trade promotion. Because of the small survey sample and the short experience that most of the surveyed agencies had with integration, one must be cautious when drawing general conclusions based on the case studies presented. Nevertheless, a number of success factors can be identified. Countries that have merged FDI and trade promotion agencies have focused on efficiency gains in their activities and adopted a gradual integration strategy. The survey and the case studies show that some merged agencies have adopted a sector-based approach or focus on export-oriented FDI.

Because of the many differences at the operational level of investment and trade promotion, it is crucial to explore where activities overlap once the decision is taken to merge the two functions. Before creating a combined agency, it will be useful to draw out "process maps" for each function in order to identify where real overlaps do or could occur.

The reasons for creating combined agencies can be divided into those that are related to (a) policy and strategy and to (b) operations. These will now be discussed one by one.

4.1 Policy and strategy

Policy coherence

In the agency survey, one of the main reasons mentioned for merging investment and trade promotion was the desire to create a sense of coherent governance and the assumption that through a single agency, policy coherence would be more easily achieved. Some TNCs may simultaneously invest abroad and export; and seek strategic alliances or joint ventures with foreign partners. For such firms, it might be useful to have a single contact point for the delivery of government support related to internationalization. Having associated activities such as export, investment, and immigration issues dealt with by separate government agencies may be perceived by clients as overly bureaucratic and inefficient. Such concerns were a major factor behind New Zealand's decision to create a single organization to deal with enterprise development, investment and trade promotion. The new agency, New Zealand Trade and Enterprise (NZTE), was created as a response to feedback from companies proposing a simple, integrated approach and a single organization to coordinate delivery of flexible and responsive services to businesses throughout their life cycle, from start-ups to internationally competitive firms. Through the integration of a number of related government services, it was anticipated that the new agency would be capable of greater scope and impact in service delivery.

Knowledge-sharing

Having access to the knowledge and perspectives of trade promotion staff could be beneficial to investment promotion officials. For example, in areas such as cluster development or market intelligence, trade promoters could provide useful inputs to investment promotion strategies. The data and information that each agency possesses could be used to develop shared databases, for example on business sectors and companies in different countries.

An example from the International Trade Centre (ITC) can serve to illustrate how trade data – traditionally the domain of TPOs – can be a useful tool in investment promotion. ITC has created a range of market analysis tools that make use of trade indicators (box 5). These tools have been helpful to IPAs when identifying potential industries and markets for investment promotion, in particular promising sectors in terms of export-platform FDI (see below). Today, the tools created by ITC are used by several IPAs and combined agencies around the world.

Box 5. ITC: Trade data for investment promotion

The **Trade Map** is an interactive online database on international trade indicators for 220 countries and territories. It allows users to assess a country's trade performance and its competitive advantage in specific sectors or products. The tool provides a chart with the export value of the product group under review, and compares the country's export growth with the growth of international demand. The chart is divided into four quadrants, offering different interpretations in terms of FDI attractiveness. Of particular interest is the "champion industries" quadrant, displaying high-growth sectors in which the country has a proven track record of success. While trade data can only serve as a point of departure for deeper analysis, sectors that are growing faster than world trade and in which a country has increased its share of the world market are likely to be high in priority for a country's investment potential analysis and promotion efforts. Industries located in the "underachievers" quadrant are interesting too; while international demand has been growing at above-average rates, the country has been falling behind. For these sectors, the work of an IPA could aim at identifying and removing the specific bottlenecks that impede an expansion of exports.

The **Market Access Map** contains information on customs tariffs and other market access measures applied by 187 importing countries. The tool enables the aggregation of products and countries, as well as simulation of tariff-reduction scenarios. It is particularly useful in highlighting industries and markets where a given country benefits from a preferential and/or competitive tariff over potential competitors. With the help of the Market Access Map, an IPA can more effectively use the country's preferential agreements to market investment opportunities for export-oriented FDI.

The **Investment Map** is produced by ITC and UNCTAD in partnership with the World Association of Investment Promotion Agencies (WAIPA) and the Multilateral Investment Guarantee Agency (MIGA). The tool includes statistics on FDI flows and stocks by

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Box 5. ITC: Trade data for investment promotion (concluded)

country and industry for around 90 countries. It also includes information on the location, sales, employment, and parent company for over 80,000 foreign affiliates located in developing countries and countries with economies in transition. The Investment Map can help IPAs in defining priority sectors for investment promotion, point out competitor countries for inward investment, and identify potential investors for a given sector.

Users in developing countries have free access to the tools, which are available at http://www.intracen.org/mat.

Source: International Trade Centre (ITC).

Information can also be disseminated through less formalized channels. Just sharing office space could lead to the informal exchange of valuable knowledge and new perspectives between investment and trade promotion staff.

Some agencies in the IPA survey (chapter 2) emphasized the benefits of bringing together the perspectives of investment and trade promotion practitioners into one agency. At the Serbia Investment and Export Promotion Agency (SIEPA), for example, the export promotion department has strong industry expertise and is industry-oriented in its approach. In investment promotion, on the other hand, SIEPA's operations are more country-focused, and increasingly target specific foreign markets. The aim of SIEPA is to combine the industry knowledge of the export promoters with the deeper country knowledge of the investment promoters.

Policy advocacy

Policy advocacy is an area where IPAs and TPOs may find common ground and where concerted efforts could yield better results with policymakers. Policy advocacy can be defined as efforts to effect changes in regulations, laws, and government policies as a way of improving the business climate.[16] Providing services to investors and exporters gives IPAs and TPOs detailed knowledge about the problems that their clients face. This knowledge enables the agencies to be effective advocates of policy reforms. Often, government officials at higher levels do not really know exactly what obstacles confront investors or exporters; and as a result, it might be difficult for them to take the steps needed to ensure effective implementation of new policies.

Whether the aim is to increase exports or to attract FDI, a good business climate is crucial for international competitiveness. Foreign investors are more likely to establish in locations where there are high-standard suppliers and firms capable of developing, manufacturing, or marketing the investors' products. As discussed in the first chapter, foreign investors may bring know-how that strengthens the competitiveness of domestic firms and the national economy, which could result in a "virtuous cycle" of FDI and export growth. There are a number of policy areas where cross-cutting issues exist for trade and investment promotion officials. They may find a common interest in advocating policies to improve, for example:

- *Infrastructure*, such as roads, railways, seaports, airports and telecommunications that are necessary to strengthen the competitiveness of the domestic economy and integrate it into the global economy;
- *Skills and education*, to meet the standards required by foreign investors and to enable higher value-added production. Apart from the positive contributions to workers' productivity, education may also help to strengthen entrepreneurship;

[16] UNCTAD (2008b). *Investment Promotion Agencies as Policy Advocates* : 1.

- *The financial system* (banks and other financial institutions, stock and bond markets etc.), which plays a crucial role in facilitating business by supplying credit, offering payment systems and risk-management solutions;
- *Public administration,* for example through increased efficiency, transparency and predictable regulations to strengthen competition;
- *Taxes,* which provide incentives to start and run internationally competitive enterprises.

Trade policies can be of great importance to the attractiveness of an investment location, and trade policy advocacy can therefore be a means to improve the investment climate. Regional trade agreements (RTAs) give investors access to larger consumer markets, which may offset the disadvantage of a small domestic market in the host location. In many parts of the world, RTAs have become a beneficial location factor for countries seeking to attract export-oriented FDI.

Of course, not all policy areas are of equal importance to trade and investment promotion, and it is even possible that IPAs and TPOs could have diverging interests sometimes (for example, regarding the issue of tax incentives to foreign investors). It is also possible that two separate agencies – if they manage to jointly develop and advocate policies – would have more leverage than one (combined) agency. There may, however, be great variations in mandates and resources dedicated to policy advocacy between different agencies, and this could, in practice, limit the possibilities of joint policy advocacy efforts.

Investment promotion strategies

As discussed in chapter 1, FDI tends to be more integrated with trade in certain industries. The relationship is particularly strong for investment driven by the objective to set up local export platforms. Many countries have only a small domestic market, and if they are to encourage manufacturing industry, they need access to export markets in order to provide the scale necessary for efficient production in most industries. But local entrepreneurs are rarely willing to build plants primarily for export because of the greater risks associated with foreign markets. In order to start manufacture for export, some kind of tie with foreigners is needed, and FDI is usually the most promising.[17] Therefore, some countries with small domestic markets focus their investment promotion strategies on attracting export-driven FDI. The Dominican Republic may serve as an example. Due to its small domestic market, most of the foreign investment coming to the country is export-oriented. For many years, the Dominican Republic marketed itself as a low-cost location and a gateway for the United States market, taking advantage of the preferential tariff treatment it enjoyed due to the Caribbean Basin Initiative. This served to attract major textile manufacturers to the country, but growing international competition prompted the Dominican Republic to adopt a new strategy to diversify its economy. In order to implement this strategy, the country's IPA and TPO were merged into a single agency (box 6).

The clients of IPAs and TPOs are quite different, and not all trade promotion services are relevant to export-oriented TNCs (see chapter 3). However, there are several ways in which trade promotion expertise can be of use in investment promotion strategies aimed at attracting export-oriented FDI. Services relevant to foreign TNCs include external business-to-business services (e.g. matching exporters with buyers) and in-market support (e.g. setting up joint exhibitions in target markets where the TNCs maintain permanent visibility). Once a TNC has invested based on market access to a regional free trade area, it will typically work with trade promotion experts to ensure that its goods qualify and gain access

[17] Wells L (1999): 16.

to regional markets. Investment and trade promotion activities will often also converge where the implementation of export processing zones and industrial parks is concerned.

Box 6. Dominican Republic: Attracting export-oriented FDI

The Export and Investment Centre of the Dominican Republic (CEI-RD) was created in 2003 by the merger of CEDOPEX, which had been created in 1971 to promote exports, and DR-OPIN, which had been established in 1996 to promote FDI.

The decision to create a combined agency was motivated by the desire to attain policy coherence in trade and investment matters that would spur further development through diversification of the economy. Once the merger was completed and necessary adjustments had been made, CEI-RD was able to divide its promotion activities into services (software development and business process outsourcing services) and manufacturing (textiles, medical devices and automotive parts). The efforts to promote export-oriented FDI were aided by the merger, as investors, once they were established in the Dominican Republic, could benefit from the export knowledge that CEI-RD now possessed.

The Dominican Republic has evolved from a goods-only exporting country into a more service-oriented economy.

Source: UNCTAD, based on information provided by CEI-RD.

The size of TNCs often confines the extent to which TPOs will assist in trade development of foreign firms. A growing number of SMEs are now investing abroad, especially in neighbouring markets. While SMEs are an insignificant source of FDI on a global scale, they often play an important role in vitalizing the economies of developing countries.

Linkages

Export platforms sometimes create linkages with local suppliers, and in some cases TNCs will even act as export intermediaries for SMEs. In Scotland, for example, Scottish Enterprise has successfully adopted linkage programmes to create export platforms for local suppliers driven by inward FDI.[18]

The strategy of JTI in Jamaica is to attract export-led investments to the country. Working in conjunction with each other, the investment and export promotion divisions of JTI identify and target those investment projects that will create direct linkages to key export sectors in order to further facilitate their development. The two divisions carry out joint missions to targeted markets and jointly host the annual "Opportunities Expo" that fosters business deals between local suppliers and foreign investors. In Serbia, SIEPA also assists foreign investors in building partnerships with local companies (box 7).

4.2 Operations

Efficiency gains and synergies

As mentioned in chapter 2, efficiency considerations were stated as a main reason for merging by a number of combined agencies. Cost reductions can be realized when, through reorganization, agencies are able to cut expenses on double staff functions. Activities where overlaps may exist in IPAs and TPOs include a number of back-office and other support functions:

[18] Brown, Raines and Turok (2000). *Supplier–Investor Linkages and the Internationalization of the Electronics and Oil-Gas Sectors in Scotland*.

- Administrative services: Human resources, accounting, legal services etc.;
- Office services: Mail delivery, maintenance etc.;
- Information technology (IT) support, e.g. computer and telephone networks;
- Media relations and information: websites, information material, public relations etc.;
- Research and analysis, e.g. analyses of foreign markets, industrial sectors and business clusters.

Box 7. Serbia: Linkages between foreign investors and local SMEs

Part of the investment promotion strategy of SIEPA is to assist foreign firms in building partnerships with local firms and suppliers – creating linkages. Apart from the positive spillover effects anticipated in areas such as management, training and employment, the partnerships can potentially create export platforms in Serbia. The FDI and SME linkages programme adopted by SIEPA, and the related "Meet the Buyer" event have become successes. For example, the German engineering conglomerate, Siemens AG, established a partnership with a Serbian firm through this programme and this event. The partnership enabled Siemens to establish a foothold in Serbia and provided an opportunity for the local SME to further enhance its capacities and develop its export strategy.

Source: UNCTAD, based on information provided by SIEPA.

Even in core activities such as investor targeting or aftercare, there could be synergies between investment and trade promotion. For instance, when an investment promotion official visits a potential investor abroad, he/she can also acquire information about the TNC's potential as an importer. Similarly, when a trade promoter identifies a foreign buyer interested in investing or forming a partnership abroad, he/she can put the investor in touch with investment promotion officials. When established investors look for suppliers in a host location, the trade promoter's knowledge of the local business community's capacities can also be of use in identifying suitable business partners.

To make use of potential synergies, staff at NZTE in New Zealand work in multiple skills–based teams which are based on industry sectors, rather than on an investment or trade basis (box 8).

Box 8. New Zealand: Multiple skills–based work teams

NZTE operates within a matrix structure based on three sectors (food and beverage/biotech, ICT/creative/services, and specialized manufacturing/wood) and five regions (the Americas, Australia–Pacific, Europe–Middle East–Africa, North Asia, and South and South-East Asia). The specific matrix structure serves to link investment and non-investment work. In most cases, a sector-based approach has been adopted, focusing on activities that are characteristic for specific industries. In order to serve clients more effectively, the organization has melded staff into teams that make use of the staff's different skills. Integrating staff with different skill sets, mindsets and interests was one of the major challenges in the early days of the new agency. So far, the multiple skills–based teams have been able to work effectively on major projects. Over the past years, NZTE has seen client satisfaction increase due to a more coherent approach to company concerns.

Source: UNCTAD, based on information provided by NZTE.

In the area of image-building, there might be significant gains from collaboration between investment and trade promotion. This will be especially true for countries where the main focus is on country branding, for example in order to raise awareness of a little-known location. Small countries (and subnational entities) may require greater promotion efforts than big countries. Foreign investors are already well aware of populous countries such as

China or India, and the potential of large markets is often enough to bring foreign investors to such countries. In the survey, Enterprise Estonia mentioned that the small size of the country required mobilizing all efforts in country branding. Another reason for an agency to emphasize image-building is to correct a negative image or stereotype of a location. Apart from desired cost reductions and efficiency, the merger of investment and trade promotion in Serbia was driven by the need to use all means available to alter the international perception of Serbia after the "lost decade of the 1990s".

Because of trade promotion's longer history, TPOs usually have a wider network of overseas offices than IPAs. In low-resourced overseas offices, trade representatives can possibly double as investment promoters. However, as the skill sets of investment and trade promoters are different, and the people they need to develop relationships with differ too, it can be difficult in practice to achieve synergies (see chapter 3). But it is possible that the overseas network of a TPO can be used as a catalyst in the expansion of an IPA's international coverage. However, an outright merger of two agencies is not a precondition for taking advantage of international networks. ISA and the Swedish Trade Council are separate organizations, each with their own foreign offices. Nevertheless, the two have overseas collaboration, and it has sometimes been rational for the Swedish Trade Council to represent ISA in overseas markets because of the former's greater geographical coverage. Experiences in the past from the Swedish trade offices in Taiwan Province of China and in the Republic of Korea have been positive.

The creation of Proexport Colombia (box 9) was motivated by the Government's belief that a merger would strengthen investment promotion by providing it with access to the overseas offices of Proexport – Colombia's former TPO.

Box 9. Colombia: Gaining access to overseas offices

Proexport Colombia is the government agency tasked with promoting FDI, non-traditional exports and international tourism. Coinvertir, the country's former IPA, was merged with the TPO Proexport in 2005. The main motive behind the merger was to enhance investment promotion by using the overseas trade offices to help track potential investors abroad. The investment promotion division of Proexport Colombia had 30 per cent of the agency's total staff in 2007.

Currently, Proexport has three divisions: export promotion, tourism promotion and investment promotion. In the agency's Colombian offices, staff members have responsibilities exclusively within their division's area of work, while in the overseas offices some staff members have cross-divisional responsibilities.

The merger of investment and trade promotion has created synergies in three main ways:
(a) The staff of the trade promotion division have a good knowledge of Colombia's industrial sectors – knowledge that can be used for targeting investors in specific niche markets;
(b) When members of the trade promotion division identify a buyer interested in foreign investment, they refer him/her to the investment promotion division;
(c) In aftercare: When investors need suppliers, the trade promotion division helps the investment promotion staff to identify suitable companies in Colombia.

Source: UNCTAD, based on information provided by Proexport Colombia.

4.3 Outward FDI promotion and the "internationalization approach"

A number of combined agencies have explored the opportunities of promoting outward FDI; NZTE in New Zealand is a good example in this respect. Other IPAs have not formalized outward FDI promotion but may occasionally assist domestic firms seeking to invest or set up activities abroad. Several combined agencies indicated in the survey that they were considering setting up an outward FDI service line. Two agencies mentioned that they were already assisting or promoting outward investment, in addition to inward FDI. Promoting outward FDI requires knowledge of foreign markets and provides opportunities to acquire knowledge not only of other countries' investment climates, but also of export opportunities in those countries.

A growing number of SMEs are investing abroad. Trade is often the first step towards a future investment project, and many small-scale investors are already exporters with some previous international experience. Although the investment motives of such firms may not differ much from those of larger TNCs, SMEs often invest in export-supporting activities and in their own geographical vicinities. Many smaller suppliers also establish abroad as a response to the international expansion of an important TNC customer.[19] It is likely that SMEs investing abroad will face greater challenges than larger investors, as a consequence of limited human and financial resources. These small-scale investors could particularly benefit from assistance (e.g. in market research or project planning), provided by a combined agency that can draw from expertise in both investment and trade matters.

[19] The term "associated FDI" refers to this type of foreign investment by suppliers.

A few countries have adopted a fully integrated approach to promotion of inward and outward internationalization, meaning all forms of international business activity. NZTE has gradually shifted its mission from mere investment and trade assistance to a more general mission, asking: “What makes firms grow and what do they want from a government organization?” This has led to the launching of a pilot project addressing the issue of how New Zealand firms compete overseas and how they establish a presence abroad. Portugal and Scotland provide other examples of integrated strategies to promote internationalization.

Scottish Development International (SDI) was formed in 2001 by the merger of the inward investment agency Locate in Scotland and the external trade promotion body Scottish Trade International. SDI is a joint venture between the Scottish Government and the two economic development agencies Scottish Enterprise, and Highlands and Islands Enterprise.

Box 10. Scotland: Inward and outward internationalization

Although the merger of investment and trade promotion enabled cost savings on back-office functions, the main reason for the creation of SDI was strategic. The overall objective of the agency is to help develop domestic value chains and to maximize spillovers into the Scottish economy. The agency’s main focus is on key sectors rather than on investment or trade, and most SDI staff have both investment and trade-related work in their portfolios. This approach means that in some sectors, SDI’s activities focus mainly on the internationalization of Scottish firms, while in others, the main activity is to attract foreign investors to “fill in the gaps” of domestic value chains. Similarly, the focus of SDI’s overseas activities will vary according to local market characteristics.

Source: UNCTAD, based on information provided by SDI.

A fully integrated approach, such as that in Scotland, allows for strong continuity in service delivery and in the building of personal relationships with client companies. The same agency official may, for example, work with foreign investors in the initial attraction phase, help to embed them in the local economy, and provide support for their long-term objectives (e.g. setting up a base in the host country for further international expansion).

5. Conclusions

Investment and trade promotion have some activities in common. Some countries with small domestic markets seek to attract foreign investors by providing access to export markets, which enables larger-scale manufacturing. If the main promotion strategy is to attract such export-oriented FDI, it could be useful to combine investment and trade promotion activities in one agency. Foreign investors aiming to export from the host country would then have a single contact point in the government for obtaining the services they require.

A few combined agencies reported that their main focus was on industrial sectors rather than on investment or trade, with staff performing both investment and trade-related tasks. In most of the agencies surveyed, however, separate sub-organizations for investment and trade promotion persisted. Although they were integrated at the policy level, investment promotion and trade promotion remained functionally distinct and separate. With such a functional separation, synergies will be difficult to obtain. Instead, the main benefits are likely to be in terms of better policy coherence and cost savings, for example by sharing back-office functions (such as IT, human resources, accounting, and legal services) and office space.

The different natures of investment and trade promotion limit the scope for synergies, and countries may therefore find it advantageous to maintain separate IPAs and TPOs. The people that investment promoters target usually differ from the clients of trade promoters, and the skills required largely differ as well. For example, the growing importance of aftercare in investment promotion makes strong after-sales skills more and more necessary in IPAs. On the other hand, aftercare could also entail measures to develop clusters and facilitate exports by investors, which would strengthen the synergies between investment and trade promotion.

It can also be argued that a separate IPA will raise the profile of investment promotion and bring FDI-related issues to policymakers' attention. This may be vital, since government commitment is necessary for improving the investment climate and is often crucial in attracting major foreign investments.

Table 3 summarizes advantages and disadvantages of combined agencies.

Table 3. Advantages and disadvantages of combined agencies

Advantages	Disadvantages
Better policy coherence in investment and trade issues.	Often different objectives and core activities. Risk of fragmented responsibilities and loss of focus in the agency.
Shared support services (IT, human resources, accounting, legal services, public relations, research and analysis), and shared office accommodation.	Possible problems in coordinating investment and trade promotion activities and managing staff with different mindsets. Risk of increased bureaucracy.
Knowledge-sharing, to benefit strategy development.	Different time frames, with generally a longer time perspective in investment promotion.
Potentially more continuity in service delivery. A single point of contact in government, e.g. for export-oriented investors.	Often different clients and contact points in companies.
Potential synergies in overseas promotion, especially country branding.	Largely different skills requirements for staff.
Common ground for policy advocacy in the area of national competitiveness.	Risk of less attention being paid to investment promotion and FDI-related policy issues.

Once the decision has been taken to integrate investment and trade promotion, it is critical to identify where synergies and overlaps might exist and to take this as a point of departure. Apart from typical back-office functions, there are potential efficiency gains and synergies in areas such as research and analysis, public relations and policy advocacy. Gains might also be made in core promotion activities such as investor targeting, aftercare, and, most importantly, image-building. This is especially the case when an agency's main focus lies on country branding, for example in order to raise awareness of a little-known location or to correct a mistaken image or stereotype of a country. Small countries may require greater promotion efforts than big countries, despite typically having fewer resources at their disposal. Hence, combining investment and trade promotion might be a rational solution for smaller countries. The website review showed that combined agencies are indeed common in such locations, including small island developing States.

In most cases, the choice of how to organize investment and trade promotion ultimately lies in the hands of government, and the decision will likely be influenced by political priorities, the history and structure of public administration, and budget considerations. Whether it is advantageous or not to combine investment and trade promotion will to a great extent depend on how the agency is managed, that is to say, whether or not the two functions can be made to complement and reinforce each other. What actually happens is more important than the formal organization; it will also be necessary to look behind the "veil of structure".

Annex I. Survey questionnaire

UNCTAD	**IPA survey on FDI and trade promotion by UNCTAD's Investment Facilitation Section**

General Information Please write or check your answers below		
1.	Name of agency	
2.	Address	
3.	Website	
4.	Name of respondent	
5.	Position within agency	
6.	Telephone number	
7.	Fax	
8.	E-mail	

Agency/Institution		
9.	Type of agency	❑ National ❑ Subnational
10.	Number of employees working for your agency, including overseas	
11.	Year of establishment	
12.	Total budget in 2007 (including all cost items/ expenditures), in United States dollars, or in national currency	

13. What is your agency's status?	
Sub-unit of ministry	
Autonomous public body	
Semi-autonomous agency reporting to a ministry	
Joint public–private agency	
Private organization	
Other, please specify:	

14. To whom does your agency report?	
President	
Prime minister	
Minister	
Other, please specify:	

Integration of FDI and trade promotion		
15.	Has your agency integrated FDI and trade promotion?	❑ Yes ❑ No, **if no please go to question 35**
16.	In which year did your agency integrate FDI and trade promotion?	
17.	What was (were) the main reason(s) for this integration? [multiple answers are possible]	
18.	Was the agency renamed, and if so, what is the new name?	❑ Yes, the new name is … ❑ No
19.	Has the integration been communicated externally? Through which media?	❑ Yes, the media was… ❑ No
20.	Is the integration process completed, and if so, how long did it take (in months)?	❑ Yes, it took approximately….. months. ❑ No
21.	Has the status of your agency changed since the integration (see question 13), and if so, how?	❑ Yes, the new status unit is … ❑ No
22.	Has the reporting line of your agency changed since the integration (see question 14), and if so, to whom do you report now?	❑ Yes, the new reporting unit is… ❑ No
23.	What are the performance criteria for FDI and trade within your agency (e.g. number of jobs created)?	❑ For FDI… ❑ For trade…

Changes in agency budget and number of employees			
		Before integration	*After integration*
24.	Annual budget (in United States dollars and stating the year)		
25.	Number of employees		

26. How has the regional profile of your agency changed since integration in terms of the number of staff?		
Region (e.g. Western Europe)	*Before integration (Number of staff)*	*After integration (Number of staff)*
Home country		
Abroad		

27. Has the estimated allocation of resources and number of staff changed since integration?					
Before integration			*After integration*		
	Budget	*Staff*		*Budget*	*Staff*
Image building and branding	… %		Image building and branding	… %	
	… %			… %	
Investment generation	… %		Investment generation	… %	
Investment facilitation	… %		Investment facilitation	… %	
Aftercare services	… %		Aftercare services	… %	
Policy advocacy	… %		Policy advocacy	… %	
Other, please specify:			Other, please specify…		

Integration process		
28.	Did your organization follow a typical example model agency that has served as a best practice?	❑ Yes, the agency role model is… ❑ No
29.	Did your organization seek external advice (e.g. from consultants) during or after the integration process?	❑ Yes ❑ No
30.	Was the integration process followed by an intensive training course on FDI and trade issues for all staff?	❑ Yes ❑ No
31.	If yes, what type of training was provided?	
32.	Does your agency also focus on outward FDI promotion (i.e. assisting domestic firms in internationalization)?	❑ Yes, since … ❑ No

33. If your agency were to receive an increase in budget, what would be the first three priorities to spend it on?

34. Comments: If you have any additional comments regarding any of the questions, or the survey in general, please provide them below.

Questions only for agencies that have not integrated FDI and trade promotion

Integration of FDI and trade promotion		
35.	Does your agency anticipate integrating FDI and trade promotion, and if so, in which year?	❑ Yes, it is scheduled for … ❑ No
36.	What are some of the challenges your agency would face when integrating FDI and trade promotion?	
37.	Do you have a best practice example of an agency that has integrated FDI and trade promotion? If so, which is the agency?	❑ Yes, the agency role model is… ❑ No
38.	Would you seek external advice in the integration process?	❑ Yes ❑ No
39.	Does your agency also focus on promotion of outward FDI (i.e. assisting domestic firms in internationalization)?	❑ Yes, since… ❑ No

40. If your agency were to receive an increase in budget, what would be the first three priorities to spend it on?	
1	…
2	…
3	…

41. Comments: If you have any additional comments regarding any of the questions, or the survey in general, please provide them below.

Annex II. Survey participants

Agencies promoting investment only

Country	*Agency*
Argentina	National Investment Promotion Agency (ProsperAr)
Albania	Albanian Foreign Investment Promotion Agency (ANIH)
Bulgaria	InvestBulgaria Agency (BFIA)
Cameroon	Cellule de Gestion du Code des Investissements (CGCI)
Chile	Foreign Investment Committee (FIC)
Costa Rica	Costa Rican Investment Promotion Agency (CINDE)
Czech Republic	CzechInvest
Egypt	General Authority for Investment and Free Zones (GAFI)
Ethiopia	Ethiopian Investment Agency (EIA)
Jordan	Jordan Investment Board (JIB)
Madagascar	Economic Development Board of Madagascar (EDBM)
Malaysia	Malaysian Industrial Development Authority (MIDA)
Pakistan	Board of Investment
Viet Nam	Foreign Investment Agency (FIA)

Agencies promoting both investment and trade

Country	*Agency*
Botswana	Botswana Export Development and Investment Authority (BEDIA)
Colombia	Proexport Colombia
Dominican Republic	Centre for Export and Investment of the Dominican Republic (CEI-RD)
Estonia	Enterprise Estonia (EAS)

Georgia	Georgian National Investment Agency (GNIA)
Hungary	Hungarian Investment and Trade and Development Agency (ITD Hungary)
Mongolia	Foreign Investment and Foreign Trade Agency (FIFTA)
Oman	Omani Centre for Investment Promotion and Export Development (OCIPED)

Annex III. In-depth interviews

Country	*Agency*
Botswana	Botswana Export Development and Investment Authority (BEDIA)
Estonia	Enterprise Estonia (EAS)
Georgia	Georgian National Investment Agency (GNIA)
Jamaica	Jamaica Trade and Invest (JTI)
Jordan	Jordan Investment Board (JIB)
New Zealand	New Zealand Trade and Enterprise (NZTE)
Oman	Omani Centre for Investment Promotion and Export Development (OCIPED)
Slovakia	Slovak Investment and Trade Development Agency (SARIO)
United Kingdom	Scottish Development International (SDI)

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