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# Promoting transnational investment: organizing to service approved investors

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**Governments throughout the developing world are expressing ever more interest in attracting foreign direct investment. This article reports on a study that examines the approaches Governments have developed to provide services to approved investors as part of their broader programmes designed to attract investment. The study links a Government's eagerness to attract investment with the structures it uses both to approve and service investment from abroad. The data show that several Governments appear to be eager to attract investment but are unwilling or unable to centralize approval processes. The efforts of these Governments to provide services after investment approval are hampered accordingly. The study shows that the most effective post-approval services are provided by powerful investment authorities in countries that have centralized case-by-case investment screening, but that have not set up separate organizations to provide these services to investors.**

## Introduction

Competition among countries, especially developing countries, to attract foreign direct investment (FDI) has clearly intensified in recent years. During the 1970s, Governments in only a few developing countries, such as Singapore and Malaysia, actively sought investment. During the 1980s, many more developing countries began to solicit transnational corporations (TNCs), especially as these countries moved away from import-substitution development strategies and towards export-promotion strategies that would integrate their economies more closely with the global economy. Today, all developing countries, including countries such as India and Viet Nam that long have shunned FDI, are proclaiming their interest in attracting TNCs.

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In their efforts to attract FDI, most Governments recognize that they need to focus upon improving the locational advantages of their economies (Dunning, 1981). Governments have several tools available to improve their investment climate. The critical variable is, of course, the nature of a country's economy, including its market size and growth rate, the productivity of its labour, the quality of its infrastructure, the stability and efficiency of its political and economic institutions and its general business climate and culture (Agarwal, 1980; Aharoni, 1966; Basi, 1963; Dunning, 1981, 1993; Levis, 1979; Root and Ahmed, 1979; Schneider and Frey, 1985; UNCTC, 1992).

The attractiveness of a host economy can also be enhanced by various government marketing programmes. They include policies that improve the "product" (that is, the country), including policies that affect the price of operating within a country through the manipulation of government incentives or price controls. And they include policies that promote a country to TNCs. Under certain circumstances, these programmes have proved effective in influencing firms to invest in particular countries (Guisinger and Associates, 1985, 1986; Watzke and Mindak, 1987; Wells and Wint, 1991). A Government's success in pursuing such a programme is likely to be greater the more it is part of a comprehensive and strategic effort aimed at improving the country's overall locational advantages (Dunning, 1993).

Of the various marketing techniques used by Governments, the one that has received least attention from researchers is a government's service function. This function is an attempt to reduce what one scholar has recently described as the "hassle costs of doing business" (Dunning, 1993, p. 27). Although it is widely held that Governments seeking to attract investors also provide a range of services for these investors, there is little systematic information about the methods and forms through which Governments provide these services. This is especially true of services that Governments provide to investors *after* an investment project has been approved. Indeed, although many authors on the subject of government promotion of FDI have demonstrated the applicability of marketing theories and concepts (Aharoni, 1966; Watzke and Mindak, 1987), little has been said about a Government's provision of services to investors that have already invested or are committed to invest—a category of services that might be viewed as analogous to the marketing concept of "after-sales service". Yet, anecdotal information suggests that investors in many countries desire and need these services from Governments, and that many Governments are grappling with the problem of how best to provide them. This article addresses the service

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component of the investment-attraction function of host Governments. It specifically focuses on how Governments have organized to provide “after-sales” or “post-approval” services to TNCs, and the effectiveness of the various types of organizations through which delivery of these services has been attempted.

## **Hypotheses, information sources, methods**

This study begins with the hypothesis that the countries most eager to attract FDI would make the most effort to provide post-approval services to TNCs. They would be the ones concerned that every effort be made to ensure that investors would face few problems in converting an approved investment into an implemented investment. And, further, one might hypothesize that these would be countries that have established service departments designed to achieve this objective.

The focus of the study is on developing countries, since these countries are especially concerned with increasing FDI inflows.<sup>1</sup> A test of the hypothesis that countries most interested in attracting FDI are also the most active in providing post-approval services to investors requires a sample of countries with different approaches to the screening of investments. In this regard, the study relies upon the hypothesis that the more interested a country is in attracting FDI, the more centralized a structure it would use to screen such investment. Centralized structures would, among other things, allow Governments to make speedy decisions on investment applications (Encarnation and Wells, 1985).<sup>2</sup>

<sup>1</sup> National and regional Governments in many developed countries are also involved in efforts to attract FDI. Although developed countries were not included in the sample of countries covered in this particular research study, several studies, including one conducted by this author, have examined the investment-promotion efforts of various developed countries; see, for example, Watzke, 1981; Watzke and Mindak, 1987; and Wells and Wint, 1991.

<sup>2</sup> Virtually all developing countries currently use a case-by-case process for screening TNCs either for entry or incentives. The fact that investment is screened does not of itself suggest that a Government does not desire investment. Under certain conditions, investments that are profitable to an investor can be harmful to the host country; see Encarnation and Wells, Jr., 1986. Many of these conditions relate to the existence of distortions (for example, import protection) within an economy. Thus, as developing countries liberalize and reduce distortions, there is likely to be less need for case-by-case screening for entry. In general, however, in distorted economies, in situations where investments might create negative externalities such as pollution, or in situations where Governments grant incentives to investors, eagerness to attract investment does not translate into the removal of a case-by-case screening process.

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Having adopted the premise that the degree of centralization of screening structures provides a useful indicator of a Government's true eagerness to attract investment, secondary sources were used to place thirty randomly-selected developing countries into categories based upon the institutional approach they used to screen investment.<sup>3</sup> These categories included countries that centralized the screening function in a single institution that did not formally include representatives from other units of Government (**centralized**); countries that coordinated the screening function through an inter-ministerial board or committee (**coordinated**); and countries that adopted a diffuse approach to screening FDI which allowed each concerned government unit to make an independent determination on an investor's application for entry to the country or incentives from the Government (**diffuse**). In choosing the final sample of ten countries, an attempt was made to include at least two countries from each institutional approach. The final sample of countries comprised Brazil, the Dominican Republic, Ghana, Kenya, the Republic of Korea, Mexico, the Philippines, Singapore, Thailand and Turkey.

A field-based research methodology was used in order to examine closely the links between screening and service structures and activities. Each of the ten countries was visited during the course of the study and, cumulatively, more than one-hundred structured interviews were conducted with Government officials from these countries and with executives of firms that had recently invested in these countries. In these interviews, information was gathered about the screening structures actually used by these countries and about the post-approval services and institutions that had been put in place. In the interviews with executives from the private sector, information was obtained about the types of post-approval obstacles they encountered and their assessment of the effectiveness of the post-approval services provided by the various Governments. In addition to these interviews, information was also obtained from an examination of policy pronouncements on FDI and investment legislation in each of the ten countries.

### **Nature of post-approval problems and services**

Post-approval services consist of efforts to assist investors after they have decided to invest in a country and after their applications for entry or incentives have been approved. This type of service activity continues

<sup>3</sup> Upon closer examination, several countries used different approaches to screening investment than the perusal of secondary data had suggested. Nevertheless, the sample did comprise a rather wide range of institutional approaches to screening investment.

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beyond the screening process to include assisting investors to implement their projects by helping to ensure that they obtain all necessary permits and approvals they require to begin operations. These permits and approvals are in addition to those that are a part of the screening process. Transnational investors, for instance, may have to obtain permits from an import/export agency to import equipment and raw materials, register with the central bank to ensure that eventually they will be able to repatriate their capital and profits, obtain work permits for expatriate staff, seek permission from a local authority to buy or lease land or induce the local telephone company to install a phone or other communication equipment.

These permits are not generally designed to distinguish between desirable and undesirable investments. Indeed, domestic investors may need to obtain some of the permits in question. Further, in deciding whether investors should receive these permits, the relevant department does not typically conduct a complete evaluation of an investment project. Thus, the process through which these permits are granted is not part of the FDI screening process. Permits or licences are usually supposed to be granted automatically once permission to invest has been received, and if the activity conforms to certain reasonably well-defined criteria. Indeed, the issue is sometimes not whether these approvals will be granted, but rather how quickly and at what cost to the investor. But the ability of an investor to obtain them quickly and at minimum cost plays a role in determining investors' views of the investment climate.

In practice, fine distinctions between permission to invest and a variety of other ancillary approvals are of little interest to an investor who is eager only for speedy project implementation. Since quick approval of these other permits and licences remains so important to investors, many investment agencies either seek permission from Governments to grant these permits and approvals themselves, or seek to assist investors to acquire them. In aiding the investor to obtain these approvals the agency is providing post-approval services.

These services have become especially important as investors in various countries around the world have been finding that, at the same time as it is becoming easier to obtain approval to invest, it is becoming more difficult to implement an approved investment. The following examples illustrate the types of difficulties foreign companies often encounter:

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- A United States service firm was interested in setting up operations in the Republic of Korea. Like many other countries around the world, the Republic of Korea has simplified the system by which FDI projects are approved. This particular company received approval for its investment application within four months of filing the application with the Foreign Investment Department of the Ministry of Finance. (This Department collected project applications and then sent them to the various concerned departments of Government for their independent approval.) Shortly after the formal approval to invest was granted, the company's managers went to another government department to obtain an operating licence. Since the company had already obtained approval to invest, and indeed it had already begun the process of shipping equipment to the country, it expected that the granting of the operating licence would be automatic, virtually a formality. Instead, the Department called into question the approval that had been obtained from the Foreign Investment Department. It was only after many months, and the costly engagement of a local law firm, that the company was able to acquire the operating licence and implement the investment project.
  - A United States manufacturing firm faced similar problems in implementing an investment project in Thailand. The firm applied to the Thai Board of Investment for permission to invest and to receive incentives. The firm, to its delight, received permission to invest quite quickly—within two months of the submission of its application. To its consternation, however, it found that this was only the beginning of the process. It experienced difficulty gaining work permits for expatriate staff, getting permission from the central bank to import machinery and, once the equipment was imported, clearing this equipment through customs. One year after the receipt of investment approval from the Board of Investment, the project was still not yet fully operational. The president of the company indicated in an interview that “the company's problems began when its investment application was approved by the Board of Investment”.
  - A Japanese agricultural-processing firm seeking to establish operations in the Philippines received permission to invest from the Philippine Board of Investment. The firm was informed by the Board of Investment that the Department of Agriculture had been represented during the investment-approval process and that its investment project had the Department of Agriculture's approval. Shortly after

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the company began implementation of the project, however, its operations were halted by the Department of Agriculture. The Department stated that it had not been able to examine the project adequately during the Board of Investment evaluation process and that it now believed that the project would injure Philippine agricultural firms.

In all three cases, general approval to invest from the screening unit did not seem to influence other units of Government involved in granting licences or permits investors needed to implement their investment operations. This conclusion seemed to hold even when these departments of Government were directly involved in granting the general investment approval. Patterns did emerge, however, with respect to how, and how effectively, countries with particular types of screening structures provided post-approval services.

### *Post-approval services and screening structures*

Governments interested in attracting FDI flows are likely to champion a centralized screening structure because screening decisions are made more rapidly in these structures than in others.<sup>4</sup> The structure used to screen investment in each country and the extent to which the screening decision was centralized in one organization is identified in table 1. There is, however, a political cost associated (for the investor) with expediting the screening process by screening through centralized structures. Governments are not easily able to place authority for the critical decision on which investor gains entry to the country or incentives from the Government in one institution. Various units of Government are interested in continuing to have an independent role in making these important decisions. These units of Government argue that decisions about which investments should enter the country are relevant to their areas of responsibility, and, consequently, they should have a say in such decisions.

<sup>4</sup> Turkey provides a dramatic example of the reduction in time it takes to make screening decisions as a result of centralization. Prior to 1980, investors routinely spent more than a year in their efforts to gain permission to invest from the various units of Government that had responsibility for granting such permission. In 1980, all authority for granting investment approval for investments less than \$50 million was placed in Turkey's Foreign Investment Department. Foreign investors can now obtain investment approval in 10 working days. See Encarnation and Wells, 1985, for a discussion of the advantages of centralization, including speed in decision-making, and the disadvantages of centralization.

**Table 1. Degree of centralization of screening decision**

<b>Country</b>	<b>Institutional approach</b>	<b>Ranking (Most centralized = 1, least centralized = 10)</b>
<b>Singapore</b>	<b>All decisions centralized in the Economic Development Board (centralized)</b>	<b>1</b>
<b>Turkey</b>	<b>Most decisions centralized in the Foreign Investment Department (centralized)</b>	<b>2</b>
<b>Mexico</b>	<b>Many decisions centralized in the Directorate General of Investment (centralized)</b>	<b>3</b>
<b>Dominican Republic</b>	<b>All decisions on free-zone companies centralized in the National Council of Free Zones (centralized for free-zone companies)</b>	<b>4</b>
<b>Ghana</b>	<b>Most decisions coordinated by the Board of Ghana Investment Centre; some decisions centralized in Ghana Investment Centre (coordinated)</b>	<b>5</b>
<b>Thailand</b>	<b>Most decisions coordinated by the Board of Investment; some decisions centralized in the Office of Board of Investment (coordinated)</b>	<b>5</b>
<b>Philippines</b>	<b>All decisions coordinated by the Board of Investment (coordinated)</b>	<b>6</b>
<b>Kenya</b>	<b>Most decisions coordinated by the Investment Promotion Center and the Investment Facilitating Committee (coordinated)</b>	<b>7</b>
<b>Brazil</b>	<b>Most decisions made by several units of Government (diffuse)</b>	<b>8</b>
<b>Republic of Korea</b>	<b>All decisions made independently by concerned ministries (diffuse)</b>	<b>8</b>



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Only certain types of central administrations are likely to incur the political costs of disenfranchising important sub-units of Government by placing authority for investment decisions in one government department. In order to accomplish real—versus cosmetic—centralization of screening decisions,<sup>5</sup> central administrations have to be strong enough to wield power throughout the Government and they have to be sufficiently interested in attracting FDI that they are willing to use their scarce political capital in pursuit of centralization.<sup>6</sup>

Post-approval service activities were related to a country's eagerness to attract FDI, as proxied by the nature of its screening structure. Countries with diffuse screening structures (that is, those structures in which various government units independently made decisions on investment applications), for example, provided very few, if any, post-approval services. These countries allowed many units of Government to participate in the screening function, but they did not assign any of these units responsibility for providing services to investors. In Brazil, for example, there was no structure that provided post-approval services to investors. In the Republic of Korea, a structure had been established: the Office of Representatives of Concerned Ministries for Foreign Investment. This structure, however, provided very few services, and its creation seemed to be a result of pressure from outside, rather than the Republic of Korea's eagerness to attract FDI.<sup>7</sup>

In general, post-approval service activities were offered most often, and with most enthusiasm, in the countries that were interested in attracting FDI. The interest in FDI was demonstrated in these countries by their movement

<sup>5</sup> This distinction is important because several Governments have centralized *administrative* elements of the screening process. This administrative centralization may be achieved, for example, by having investors submit their applications to a central location. In many such cases, however, actual screening **decisions** continue to be made by various government departments, sometimes in a coordinated manner, and sometimes independently. In extreme cases, these administrators of the screening process function as little more than "post-offices" that route applications to the responsible departments. Most such units, however, conduct some preliminary analysis of investment applications prior to submitting them to the appropriate decision-making authorities.

<sup>6</sup> For more detail on this point, see Encarnation and Wells, 1985; Wint, 1992.

<sup>7</sup> Many recent changes in the FDI environment in the Republic of Korea can be directly linked to pressure from outside; see United States Embassy (1989). For additional information on the lobbying activities of the Government of the United States in the Republic of Korea, see, Kim (1988).

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towards screening approaches, such as coordinated and centralized structures, that placed responsibility for screening FDI in one organization.<sup>8</sup>

But countries with these two types of screening structure did not handle post-approval services in the same way. Indeed, a conclusion that might seem at odds with the hypothesis that guided this study was that countries that used coordinated screening structures seemed to place more attention on post-approval services than did countries with centralized screening structures. This conclusion is unexpected because the a priori presumption was that countries with centralized screening structures were the countries more interested in attracting FDI. Countries with coordinated screening structures created separate structures whose principal aim was to provide post-approval services for investors.

On the other hand, in none of the three countries in the sample that had centralized most screening decisions was there a separate structure for conducting post-approval service activities. The Governments of Mexico, Singapore and Turkey had centralized most screening decisions. None of the responsible organizations formally included representatives from other units of Government. All three institutions had received a mandate to be the single representative of their Governments in its interaction with TNCs. Yet, none of these organizations focused on post-approval services, that is, they did not separate post-approval service activities from their portfolio of service activities, or from their other activities, nor did they place any special emphasis on this type of service over other kinds of services (table 2).

### **Post-approval services in countries with coordinated screening**

Separate service structures existed in Kenya, the Philippines and Thailand, all of which were countries that used coordinated structures to make screening decisions. These separate structures, however, seemed to have been established in response to the complaints of investors and their allies about the time that it took to obtain a variety of permits and approvals after they had received approval from the principal screening unit(s) of Government. In Kenya, the structure set up to provide post-approval services for investors was closely tied to the process and structure used to screen investment. The Investment Promotion Center (IPC), an interministerial body consisting of representatives of several units of Government, coor-

<sup>8</sup> It should be recalled that, in a coordinated approach, one organization is responsible for coordinating the screening function by providing a forum in which representatives from various government units can deliberate on investment applications.

**Table 2. Institutional arrangements for providing post-approval services**

<b>Country</b>	<b>Screening structure</b>	<b>Service department</b>
Singapore	Centralized	No separate department
Turkey	Centralized	No separate department
Mexico	Centralized	No separate department
Dominican Republic	Centralized	No separate department
Ghana	Coordinated	No separate department
Thailand	Coordinated	Investor Service Center
Philippines	Coordinated	One Stop Action Center
Kenya	Coordinated	Interministerial Facilitating Committee
Republic of Korea	Diffuse	Representative Office of Concerned Ministries for Foreign Investment
Brazil	Diffuse	No separate department

minated the screening decision process. As in other countries, however, the approval to invest had not been closely tied to the process of obtaining all other approvals an investor might require. In 1987, recognizing that a slow and incomplete approval process hindered investors in their attempts to obtain permits and compliance in a timely fashion, the Government of Kenya set up an Investment Facilitating Committee (IFC). That Committee comprised representatives from different departments of Government.

One of the responsibilities of the IFC was to implement a new "one-stop approval process". Under this new process, all investors interested in investing in Kenya would fill out a comprehensive investment-proposal form. On this form, IPC personnel would list all required licences, registrations and compliances, and the names of all relevant departments of Government charged with issuing these licences. That information was then to be forwarded to the IFC, which had the mandate to expedite the process of approving investments and simplifying and speeding up the process of issuing licences and permits to investors after their investments had been approved.

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A separate structure for providing post-approval service activities existed in the Philippines as well. The origin of this separate structure mirrors the origin of the service structure in Kenya. It was created in response to the criticisms by TNCs that investors whose projects had been approved by the screening agency, the Board of Investment, still had to wait a long time to obtain the other approvals and permits they required. At least partly in response to complaints by TNCs about the investment approval process, President Corazon Aquino signed into the law the Omnibus Investments Code in 1987. One of the features of the Code was the creation of the One-Stop Action Center (OSAC).

The Government of the Philippines expected this new service centre to make it easier for TNCs to implement their approved projects. It was described in the agency's promotional publications as "the only place the investor needs to know". The OSAC housed within the Board of Investment, was expected to provide assistance to TNCs. The Investment Code that formed this new service structure indicated that the various departments that granted permits or approvals to particular categories of TNCs were expected to send representatives of "appropriate rank" to OSAC. The intent of the Code was that representatives from those departments were to be given the authority to expedite the issuance of various permits and approvals that an investor needed.

Another country in the sample with a formal and separate structure for conducting post-approval service activities was Thailand. In Thailand, the service department was the Investor Services Center (ISC). The ISC, created in 1981, was similar to the structures in Kenya and the Philippines in that it was designed exclusively to assist investors obtain all permits and approvals they needed to implement an approved investment. Unlike the structures in Kenya and the Philippines, however, which incorporated representatives from various government departments, the ISC was staffed entirely with personnel from the Thailand Office of the Board of Investment. The ISC was divided into several departments: the One-Stop Service Center, the Immigration Unit, the Land Unit and the Facilities Unit. Some of these departments could issue approvals independently; others attempted to work with the agencies responsible for issuing the various permits.

All three countries seemed to place an unusual degree of emphasis on the creation of structures that would provide post-approval services to foreign investors.

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## **Discussion of results**

The hypothesis that the countries most eager to attract FDI, as proxied by the degree of centralization of their screening structures, would pay most attention to providing services for TNCs did not clearly emerge from an analysis of the data on the post-approval service activities of the countries in the study. It is certainly true that the countries considered to be the least interested in attracting investment, those with diffuse screening structures, provided minimal post-approval services. The data also suggest, however, that some countries with less centralized structures for screening investment pay more attention to post-approval services than do countries with more centralized screening structures. Those countries that coordinated the screening process created separate departments to provide services for approved investors.

### ***Coordinated screening leads to separate service***

Countries that adopt coordinated screening structures place an emphasis on providing post-approval services because those countries are interested in obtaining additional investment. This emphasis reflects an acknowledgment of the difficulties investors face in their interactions with units of Government other than the screening agency. This study suggests that these difficulties are partly a consequence of the fact that central administrations in these countries have not sought, or have not accomplished, a government-wide consensus on the need to streamline the process by which investments are approved and implemented. Such a consensus, on the other hand, is in evidence where central administrations have centralized investment decisions in powerful units of Government.

The disenfranchisement of other units of Government that is required if the screening decision is to be centralized is never undertaken lightly by any central administration. But where such centralization does take place, the message sent to other units of Government is unmistakably clear: they must follow the lead of the screening organization on all FDI issues. Struggles for turf have been fought and largely settled in the creation of the centralized organization. Penalties, in the form of chastisement or more from the central administration, would be quickly forthcoming for recalcitrant sub-units of Government that did not follow the lead of the investment organization. With this kind of influence, the organization could provide effective services to investors, by enlisting the cooperation of other parts of Government that

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controlled licences, permits etc. It did not need a separate organization dedicated to providing services.

This is the situation that prevailed in Singapore and Turkey, for example. The additional approvals investors needed once their investments had been approved for entry or incentives tended to be automatically triggered by the investment permission granted. Other sub-units of Government in these countries expedited applications from foreign investors, following the investment authority's approval. Speedy approval seems in neither case to have been a matter of law, but rather a result of the status and backing of the centralized agencies.

Singapore's Economic Development Board (EDB), for instance, helped prospective investors obtain immigration clearance and assisted them in their attempts to obtain industrial space. It introduced investors to officials of the Jurong Town Corporation, a statutory body responsible for building industrial estates on Government land. The EDB's introduction was itself an indication that cooperation should be forthcoming. Turkey's Foreign Direct Investment Department (FDID) granted some approvals itself and assisted investors to obtain others. One of FID's responsibilities was the review and approval of work permits for expatriates. Once FID had approved a work permit, a prospective investor could approach the immigration department, which gave automatic approval. The Foreign Direct Investment Department also assisted investors to gain customs approval for the importation of equipment. In both Singapore and Turkey, TNCs received most of the approvals and permits very quickly after applications were received.

In contrast, those countries with coordinated screening structures faced a different set of conditions. These countries held a middle ground. The investment authority was the result of a compromise between the eagerness to obtain FDI and the residual powers of ministries and agencies that hold on to their influence. The Government was not sufficiently determined to attract investment to take forcibly these powers from various ministries and departments. In some cases, even if the Government had the will, it might not have had the requisite power. The agency thus created does not have the influence to wield in favour of foreign investors that one finds in countries that have centralized decision-making. The creation of yet another organization is often viewed as a way of postponing the solving of lingering problems, short of disenfranchising specific agencies and ministries.

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### **The effectiveness of separate service structures**

The separate service structures that countries with coordinated structures have established, however, have generally not lived up to the hopes and promises of Governments and the heightened expectations of foreign investors. The promise of a central location, a one-stop shop, where investors could receive all approvals and permits speedily and effortlessly processed has rarely been fulfilled. Investors in many of the countries that created these structures continued to need to know other government agencies.

The reasons lie largely in the manner in which service structures are usually created. The unwillingness or inability of central administrations to grant a single institution significant authority over FDI issues limits the effectiveness of the services offered to investors. Although screening decisions may be quicker than in the past, post-approval licences and permits often remain as problems.

In their efforts to solve these problems, service organizations may attempt to get various units of Government that control permits or licences to send to the service department responsible officials who can sign off on behalf of the department. In some cases, this even appears to be provided for in law, for example, in the Philippines, where the Omnibus Investment Code specified that departments should send individuals of "appropriate rank" to OSAC. Almost invariably, however, the responsible unit of Government fails to send an individual who has authority to sign on behalf of the unit. Instead, the individual who is sent tends to serve in an advisory capacity. Applications for permits still have to be forwarded to the relevant unit of Government for approval.

Government offices in charge of the issuance of licences and permits are those that have given up some of their authority in the screening decision by agreeing to coordinate with other offices. Their tendency is to try to regain some of their influence when permits or approvals are requested of them. One might think that sub-units in countries with centralized structures might be even more obstructive because they have lost more authority over FDI matters. The major difference, however, is that central administrations in countries that have adopted these centralized structures have made an explicit decision to exclude other sub-units from the decision process. Central administrations that make such a decision are usually prepared to ensure that the outcome is not subverted by recalcitrant sub-units. In the cases examined in this study, the outcome had not been subverted, and the

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interviews conducted with investors and associations of investors clearly showed that the most effective services to investors were provided by the countries in the sample that had centralized the screening decision.

Where coordination is the rule in screening, and sub-units re-exert their authority over FDI through delays in the granting of permits and other approvals, TNCs are particularly frustrated. Reality seems quite different from the expectation created by the rhetoric of change. The rhetoric almost always indicates that the screening decision triggers all other approvals. The facts prove to be otherwise. Thus, TNCs in countries with coordinated screening structures are vocal in their complaints: the well-intentioned investment agency that seeks to simplify the screening decision process is hindered by other departments that are slow in granting additional permits and licences. What is said is not what happens. The “one-stop” shops that are advertised rarely ever mean what their title suggests.

### **Implications for policy makers**

The decade of the 1980s saw the beginning of an era in which developing countries actively sought to attract FDI to assist in their development process and in which they moved towards market-friendly policies designed to integrate their economies more closely into the global economy. In such an environment, it is little wonder that there is intense competition among countries to attract FDI. But one needs to go beyond the verbal pronouncements of Governments about the desirability of FDI to ascertain a country's true eagerness to attract investment.

This article corroborates previous research that suggests that the countries that are most interested in attracting FDI are those that are able to centralize decisions about such investment. This article also indicates that these are the countries most likely to provide effective services to TNCs. Thus, for a Government that is truly eager to attract FDI by, among other things, ensuring that approved investments are easily implemented, the most effective route is to centralize the investment-approval decision in a powerful investment authority. Approval from this authority is then likely to trigger all other approvals and permits an investor to implement an investment project. This is not to suggest that there are no costs, political or otherwise, associated with centralization. For Governments especially eager to attract FDI, however, the benefits of a speedier process for making screening decisions and implementing the associated investment projects outweigh these costs.



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But many Governments are unable or unwilling to institute dramatic change in the manner by which screening decisions are made. They find the political costs of telling central banks or ministries of finance that they no longer have a direct say in screening decisions too great. Yet, those Governments would still like to improve their service function in the hope of attracting more FDI as they recognize that an unwieldy bureaucracy is a disincentive to investment.<sup>9</sup> One response several Governments have adopted under these circumstances is to set up a separate service structure and assign staff either from within the investment agency or from other Government units to this structure. It appears that many Governments have placed their faith in such a structural solution to the problem of lengthy delays in implementing investments, believing that if a structure is established that is called a "one-stop" service department, this will inevitably lead to an effective service operation.

The data collected for this article suggest otherwise. Those newly-created service operations often faced significant difficulty in providing post-approval services for investors. In situations where staff from various government departments were assigned to these operations, the government units invariably sent junior staff that could not speak for their units. In other circumstances where the service structures tried to use the staff of the agencies to expedite the clearance of permits, the responsible units of Government often subverted their efforts by slowing the approval process or by not responding to requests to expedite. When this happened, disenchanted investors simply label "one-stop" shops: "one-more stop shops".

Governments that cannot centralize screening decisions, but are nevertheless interested in improving the post-approval service function have to identify and pursue options that will transfer significant power to the organization that is to provide this service. Central administrations and investment organizations might work to have more ancillary approvals transferred to the principal investment organization that conducts the screening function and provides the post-approval service. This happened in the separate service departments in the Boards of Investment in the Philippines and in Thailand. Where these transfers are slow in taking place, there should at least be serious attempts by senior members of the central administration to gain commitments from other Government units that the basic screening

<sup>9</sup> See, for example, United States Embassy (Kingston) and the Jamaica National Investment Promotion Ltd., 1985. They report that, in a survey of foreign investors, carried out in Jamaica, "bureaucracy" in the investment approval process was found to be a significant disincentive to investment.

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approval will trigger other approvals. In the coordinated screening structures in which these problems often seem to surface, sub-units of government must be clearly advised that the only chance they have to voice objections to an investment is during the screening decision. There should be no further attempt, intentional or otherwise, to delay the process by conducting lengthy analyses subsequent to a screening approval. But only the central administration at its most senior level can exert the required discipline, either directly or indirectly, through its support of a powerful investment authority. This it will do if it is truly eager to attract FDI in a global market-place where competition for such investment is ferocious. ■

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