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DEVELOPING COUNTRIES ARE BEGINNING TO PROMOTE OUTWARD FDI

A number of developing countries are now actively encouraging their firms to invest abroad. This is a growing practice especially in Asia, where several governments have established dedicated bodies that provide different forms of support to outward investors. For some economies, such activities can help boost the competitiveness of firms involved. However, a certain minimum level of capabilities in the domestic capabilities in the enterprise sector may be needed to secure economic gains from outward FDI promotion.

Growing recognition of outward FDI

As highlighted in the previous edition of UNCTAD Investment Brief (issue 3, 2006) and in the *World Investment Report 2006*, developing countries are emerging as significant sources of FDI. This trend is actively supported by some home countries. They recognize that outward FDI can strengthen the competitiveness of their firms, or bring other benefits to the home economy. But in most developing countries, proactive policies dealing with outward FDI are still uncommon, reflecting concerns that capital outflows may have adverse economic effects.

For those countries that view outward FDI as an avenue to access markets, capital, technology and knowledge, initial efforts may start small and proceed on an incremental basis. A common first step is to dismantle artificial barriers to such investment, including relaxing controls and restrictions on outward FDI. Subsequent promotional steps may involve improved provision of information, match-making and related services. Some countries have also introduced certain types of incentives and insurance coverage.

Government support is increasing

Recent official statements indicate that outward FDI promotion is emerging as a policy priority in some quarters. In *Singapore*, the Government has implemented a range of measures to facilitate the international expansion of its public as well as private companies; *China* has adopted a "going global" strategy to boost investment overseas; the Prime Minister of *India* has stated that his Government will encourage Indian companies to go global; and the Government of *Brazil* in 2003 set as a target for the country "to have 10 really transnational companies by the end of President Lula's term of office".

Institutional set-ups vary

Countries have adopted different promotional approaches. While few have designated agencies supporting outward FDI, some governments have established bodies that provide various services to firms wishing to invest abroad. Singapore stands out with the most sophisticated set of such policies that are integrated into broader efforts to promote competitiveness.

Active promotion of outward FDI involves a series of policy instruments and agencies – public as well as private one. The most important public bodies in this field include: trade promotion organizations (TPOs), investment promotion agencies (IPAs) and export credit and insurance agencies.

As exports and FDI represent alternative ways of serving a foreign market, some countries have added outward FDI promotion to the tasks of their trade promotion organizations. An UNCTAD survey of TPOs conducted in early 2006, in collaboration with the International Trade Centre, found that this is most common in developed countries (table 1). However, a number of developing and transition economies – including Brazil, Georgia, Jamaica, Kenya, Morocco, Oman and Singapore – are also adopting a similar approach, and several others have plans to do so. While the nature of support offered for outward FDI differs, market information and match-making services of some kind are the services most commonly provided by TPOs.

In some countries, IPAs responsible for inward FDI promotion have also been given a mandate to encourage outward FDI. Examples include the Economic Development Board in Singapore, the Foreign Investment Agency of Viet Nam, and the Malaysian Industrial Development Authority.

EXIM Banks play an important role

Other agencies that are often mandated to support outward FDI include specialized export credit agencies, such as the Export-Import (EXIM) banks. Such agencies typically offer short-term export credit insurance and credit facilities (e.g. letters of credit) as well as medium- and long-term insurance, credit and guarantee programmes that are similar to those provided by their private-sector counterparts in advanced countries. The EXIM Bank in Malaysia, for example, explicitly supports Malaysian companies, especially those in labour-intensive industries, to relocate to countries with lower labour costs. The Turkish EXIM Bank contributed to the initial wave of Turkish FDI into the Balkans, the Russian Federation and Central Asia.

Implications for home countries

Whether a country should move to "active promotion" of outward FDI depends on several factors, including the balance-of-payments situation and the capabilities of the enterprise sector. As promotional measures involve costs, countries should be convinced that active support will bring positive effects for the home economy before committing scarce resources to such activities. Many low-income countries may be better advised to focus on creating a competitive business environment and enhancing firm capabilities at home than on promoting outward FDI.

Thus, there is no "one-size-fit-all" approach to apply by developing and transition economies. Governments need to tailor the approach to the specific conditions prevailing in their countries. Policies should reflect a country's stage of development, its comparative advantages, geopolitical position, industrial structure and, of course, the overall development objectives.

Source: UNCTAD.

Table 1. TPOs and outward FDI promotion: results from an UNCTAD survey

Country group	**TPOs that promote exports and OFDI**	**TPOs that promote exports and that *are planning* to start promoting OFDI**	**TPOs that promote exports and that *do not plan* to promote OFDI**
Developed economies	Austria, Spain (Catalonia), France, Hungary, Italy, Japan, Norway, Slovenia	Czech Republic, Lithuania	Latvia, Malta, United Kingdom
Developing economies	Brazil, Jamaica, Kenya, Morocco, Oman, Singapore	Belize, Botswana, Fiji, Mongolia, United Republic of Tanzania	Argentina, Chile, Cook Islands, Cuba, Dominica, Hong Kong (China), Mozambique, Nepal, Turkey
South-East Europe and the CIS	Georgia	Bulgaria	Croatia, Serbia and Montenegro

Source: UNCTAD survey, January-March 2006.

For more on this topic see:

World Investment Report 2006
FDI from Developing Countries and Transition Economies: Implications for Development

which can be accessed free of charge at **www.unctad.org/wir**.

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