

Trends in Trade and Investment Promotion

Trade Promotion Organizations and Investment Promotion Agencies: are they merging?



PURPOSE

This white paper addresses a burning question related to investment promotion and trade promotion synergies: Are Trade Promotion Organizations and Investment Promotion Agencies merging?

In order to better understand Investment Promotion Agencies (IPAs) and if their services and goals present similarities with Trade Promotion Organizations (TPOs), this whitepaper identifies the four major roles of IPAs. These are: advocacy within the government, image building, investor servicing or facilitation and investment generation.

After understanding the functions and mission of IPAs, this paper recognizes joint investment and trade promotion as a way to rationalize TPOs and IPAs financial resources and maximize foreign direct investment (FDI) and export promotion efforts. Due to these advantages a considerable number of high income level countries are merging TPOs and IPAs. However, it seems that combined investment and trade presents challenges. Some management challenges can be: joining different goals which could lead to bureaucratization and dealing with diverse mentalities coming from TPOs and IPAs.

According to research conducted on the services provided by seven combined agencies, ITC detected that most of the researched combined agencies have an umbrella structure that gathers administration and overseas office structure in addition to market intelligence and image building, whereas technical teams for each promotion stream function separately. Additionally, there are strong differences between performance measurement indicators from both types of agencies.

Finally, with a data collection based on indicators such as: income level, foreign direct investment and size of the country, ITC identified the “category” of countries that are merging their TPO with IPA.

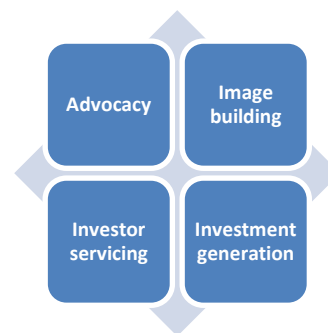
WHAT IS AN IPA?

ITC defines an IPA as an institution whose purpose is to attract investment to a country, region or city. The attraction of investment is done by introducing investors to local real estate developers and other commercial service companies, providing useful statistical information such as average wages, and by managing any investment incentives that the country may offer to investing companies.

According to the World Bank, the direct relation between IPA and TPO is that “investment promotion plays a key role in attracting foreign direct investment (FDI) and thus in improving the export competitiveness of developing countries by providing capital, technology, industry expertise as well as access to international markets and MNC supply chains”.¹

WHAT ARE IPA’S MAIN SERVICES?

Generally there are four main roles for an Investment Promotion Agency:



Advocacy: aims to influence the government in order to facilitate the entrance of investments, including the removal of possible investment barriers.

Image building: improves the public image of the country as an investment destination. However, according to the OECD “image building – including advertising, producing promotional materials and attending trade fairs – can be very expensive, as can efforts to target particular investors owing to the high cost of research and incentives to induce the business to invest”.²

Investor servicing: is the support given to the investor while the project is being established. It aims to facilitate the process by providing information, advice, and guidance.

Investment generation: targets investors based on the country's economic plans and strategies and promotes investment campaigns.

In order to verify if the IPA has contributed to the increase of overall FDI inflows Measuring the performance of the functions is important. Besides the overall evaluation/assessment, each role of the IPA is evaluated separately using specific indicators.

Currently, the main goal of IPAs is to attract inward investment rather than outward investment. However, WAIPA (World Association of Investment Promotion Agencies) provides a list with the IPAs that also promote outward investment. Matching this list with ITC’s database of merged TPOs, ITC recognized some successful combined agencies promoting both types of FDI, such as: JETRO (Japan), AUSTRADE (Australia), Promexico (Mexico) and NZTE (New Zealand).

¹ The World Bank, Export Competitiveness: Export and Investment Promotion. Available on: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/EXTEXP/COMNET/0,,contentMDK:21761694~menuPK:4228431~pagePK:64168445~piPK:64168309~theSitePK:2463594,00.html>

² OECD (2011), Policy framework for investment user’s toolkit. Chapter 2. Investment Promotion and Facilitation

The services provided for SME internationalization are mainly:

- Market research, global business trends, growth industries and in-market support for market development.
- Organizing foreign business missions and seminars, and consulting services.
- Mentoring: Mentors can help identifying strengths, weaknesses, opportunities and threats that may have been overlooked by SMEs.

SMEs wanting to invest abroad normally face big challenges due to limited resources. Combined agencies with outward FDI services could provide assistance (e.g. in strategic planning or market research) from expertise in both investment and trade matters.

Are IPAs and TPOs merging?

The combination of investment and trade promotion may have adverse consequences in terms of results. However, joint organizations may be able to benefit from some partially integrated functions in administration and technical areas, such as research, image building and overseas representation. The emergence of global value chains linking trade and investment may present new opportunities to modernize their promotion.

UNCTAD presents the main operational differences between TPOs and IPAs.³ These differences should be well-known by both agencies before merging:

Trade and FDI promotion operational differences		
Domaine	Trade promotion	Investment promotion
Funding	Public/Private	Mostly public
Resources (if joint)	Often largest share of the budget	Smaller share of the budget
Support	Full support of local industry	Partial support of local industries fearing foreign competition
Business intelligence	Country production & suppliers	Investment climate, operational conditions & suppliers
Client targets	In-country exporters (often SMEs)	Global/regional TNC HQs

³ UNCTAD (2013), Optimizing government services: A Case for Joint Investment and Trade Promotion?

Business cycle	Purchase decisions (short term)	Strategic decisions (longer term)
Mode of engagement	Trade shows/exporter missions	One-to-one company meetings
Staff skills	Sales and marketing officers	Location and industry advisers
Performance indicators	Export volume/access to new markets/number of clients	FDI volume/jobs/project numbers, type & sector

Source: UNCTAD.

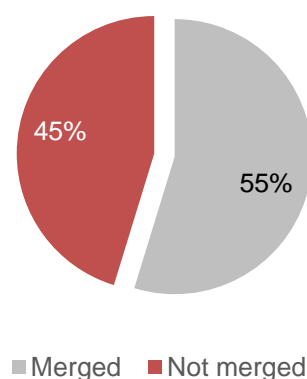
Even though FDI inflows decreased by 18%, from \$1.65 trillion in 2011 to \$1.35 trillion in 2012, during the past decades the promotion of FDI has substantially grown and so has the number of IPAs.

According to UNCTAD “81 per cent of countries have a national IPA (almost all developed countries have a national IPA)”.⁴

This whitepaper attempts to highlight the categories of countries that are merging IPAs and TPOs. Therefore, a data collection was carried out based on the World Trade Promotion Organization (WTPO) database maintained by the ITC and through selected indicators such as: income level, foreign direct investment and size of the country.

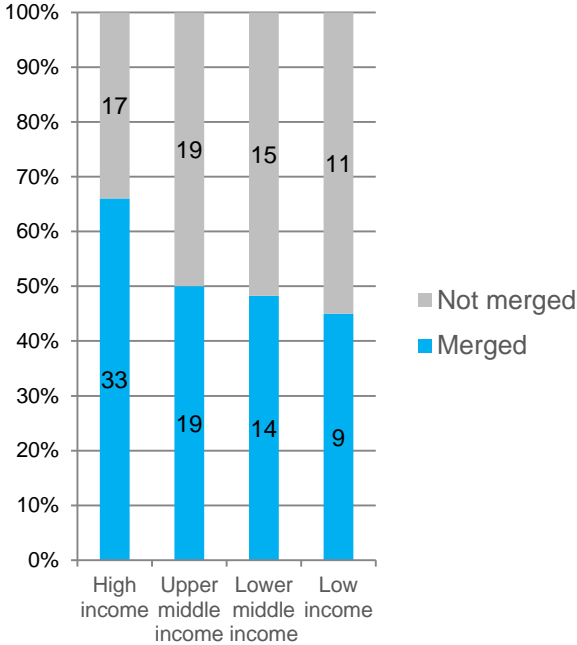
WTPO database provides the names of 178 TPOs, of which 41 are ministries. As the purpose of this study is to analyze the type of countries merging their TPOs and IPAs, the ministries were not considered in this analysis. Thus, the findings of this whitepaper are based on 137 TPOs:

Out of 137 TPOs, 75 are merged

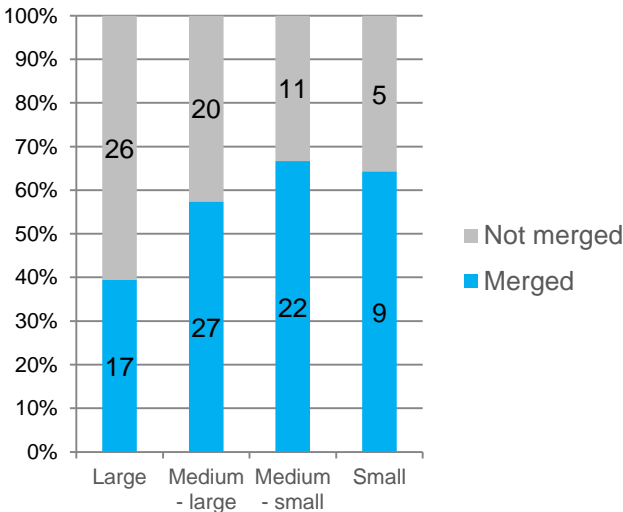


⁴ UNCTAD (2013), Optimizing government services: A Case for Joint Investment and Trade Promotion?

In relation to the **income level** indicator (High income/Upper middle income/Lower middle income and Low income – World Bank classification), High income level countries are the ones which present more merged TPOs. Out of 50 TPOs from high income level countries, 33 are merged (66%).

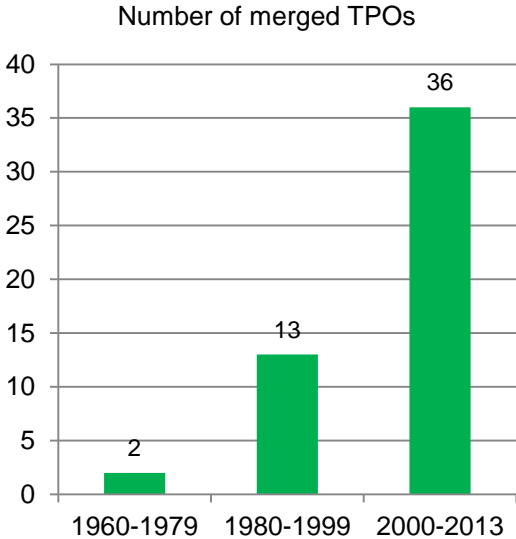


Regarding the indicator of **population size** (Large/Medium-large/Medium small/small), Medium-small and small countries are the ones with more merged TPOs. Out of 33 TPOs from medium-small countries, 22 are merged (67%) and out of 14 TPOs from small countries 9 are merged (64%).



Finally, with reference to the **foreign direct investment** indicator (High/Upper middle/Lower middle/Low): In 2010, TNCs accounted for around 80% of global trade in goods and services. 50% of global trade was generated through global value chains. However, through data collection, it was not possible to recognize the degree of FDI of a country as requisite for merging TPOs and IPAs.

In order to confirm if there is a recent trend of mergers, the database provides the date of merging of 51 TPOs of countries from the different categories presented above, such as Brazil, Kazakhstan, Sierra Leone, Portugal, Honduras, New Zealand, etc. **Out of these 51 merged TPOs, 36 have merged since 2000.**



Why are they merging?

This section analyses the reasons why some countries have chosen to merge their investment and trade promotion agencies.

According to the World Bank, Trade and Investment promotion have different functions and demand therefore staff with different qualifications⁵:

⁵ World Bank, https://www.wbginvestmentclimate.org/toolkits/investment-generation-toolkit/module2-step2_select-an-appropriate-agency-structure.cfm

SHOULD EXPORT AND INVESTMENT PROMOTION BE LOCATED IN ONE ORGANIZATION?

Investment promotion and trade promotion approach the same company differently. Different techniques must be used, and different units and individuals must be targeted, depending on whether a foreign company is approached as a potential investor or as a potential purchaser of a nation's exports. Combining these functions into a single agency can dilute the IPA's focus on its message and its market, and can mean that the agency performs both functions poorly. Investment promotion involves persuading a company's top management to commit resources to a foreign country for the medium to long term. This decision requires input from senior management and approval from the chief executive and board of directors, and a decision to go ahead can take many months or even years to obtain. By contrast, middle or junior managers typically make the decision to import goods from a new source. Export promotion activities generally target these individuals, who usually do not need top management approval except for very large purchases, and have a quick decision-making process. They also operate within much tighter time constraints. The efforts of the investment promotion and trade promotion personnel in a combined agency are often directed at the same market, but the techniques, businesses and individuals targeted are generally different.

Source: World Bank.

UNCTAD states the possible pros and cons for a joint organizational set-up of investment and trade promotion⁶:

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), shared office accommodation	Possible problems in coordinating investment and trade promotion activities and managing staff with different mind-sets. 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

⁶ UNCTAD (2013), Optimizing government services: A Case for Joint Investment and Trade Promotion?

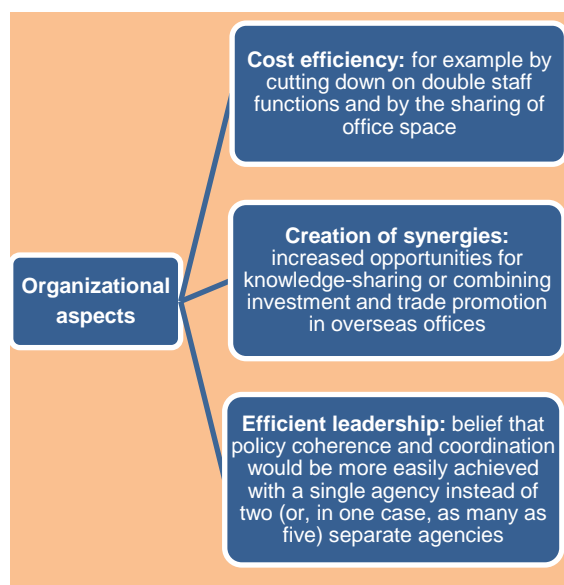
Common ground for policy advocacy in the area of national competitiveness	Risk of less attention being paid to investment promotion and FDI-related policy issues
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Source: UNCTAD.

The organization of investment and trade promotion differs across countries, depending on a number of economic, geographical and political factors. Consequently, the reasons for merging or unmerging differ, as well as the possible advantages or disadvantages.

Despite the risk that the merger may present, the most popular reasons that tend to be motors for integration are: possible synergies, image building and cost efficiency. UNCTAD presents a range of reasons for merging the Organizations⁷:

Reasons related to organizational aspects



Reasons related to economic goals

The economic strategy of a country also influences the merge of TPOs with IPAs. For example, if a country aims to increase export-oriented FDI inflows, trade analysis can be useful for planning export-oriented investment targeting enterprises.

According to UNCTAD a small domestic market requires investment promotion

⁷ UNCTAD (2009), Promoting investment and trade: practices and issues.

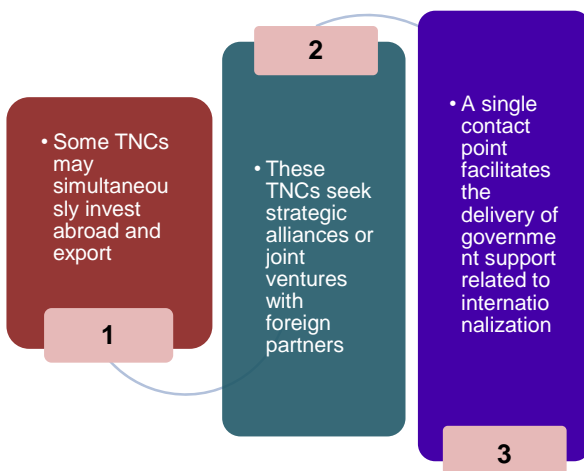
strategies on enterprises that manufacture goods for export⁸:

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.

Source: UNCTAD.

Generally, small countries have limited financial and human resources, the combination of both agencies might help the country to achieve a better impact in trade and investment promotion overseas.

Reasons related to policy, strategy and operations



Another important reason for combining both agencies is knowledge sharing. In this case, the database used by each Organization could be shared. Especially in areas such as market intelligence, trade promoters could offer convenient inputs to investment promotion strategies.

It is crucial to explore where activities overlap once the decision is taken to merge the two

functions. Before creating a combined agency, it is useful to draw out “process maps” for each function in order to identify where real overlaps do or could occur.

Case study of successful merger

Swedish Trade and Invest Council (STIC) also called Business Sweden:

Business Sweden is a merger of the Swedish Trade Council and Invest Sweden, founded on January 1st, 2013. STIC is jointly owned by the Swedish government and the industry, represented by the Ministry for Foreign Affairs and the Swedish Foreign Trade Association. The shared ownership offers access to contact information and networks at all levels. With offices in 57 countries and in every region in Sweden, STIC aims to strengthen Sweden as an attractive and competitive business partner and FDI destination. An important part of their mission is to provide Swedish SMEs in reaching export markets with their goods and services in order to grow in the international field.⁹ STIC's support consists of advisory services, events, targeted campaigns and skill development for companies. In addition, Business Sweden's aim is to facilitate the process of investment for foreign actors in Sweden.

The business community sees the merger as an opportunity for domestic companies to benefit from new forms of FDI through international partnerships, strategic alliances and other forms of cross-border business cooperation. STIC takes the form of a private non-profit organization run by a public-private board.

⁸ UNCTAD (2009), Promoting investment and trade: practices and issues.

⁹ <http://www.business-sweden.se/en/about-us/About-Business-Sweden/#sthash.OyLbTNQ2.dpuf>

Conclusion

In the last years an increasing number of Trade Promotion Organizations are placing investment promotion responsibilities under one entity. Through this research and database collection, the recent merger trend between IPAs and TPOs around the globe is undeniable. However, since the organization of investment and trade promotion differs across countries, depending on a number of economic, geographical and political factors, it was possible to identify that the actual trend of merging is more present in high income countries and in small (population) countries. Out of 50 TPOs coming from high income level countries 66% are merged and 67% of TPOs coming from medium-small countries are merged. Despite the difficulty of collecting data concerning the dates of mergers, from the 51 merged TPOs with this information available, 36 have merged since 2000.

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UNCTAD (2013), Optimizing government services: A Case for Joint Investment and Trade Promotion?

UNCTAD (2009), Promoting investment and trade: practices and issues.

Database of merged TPOs available on ITC's system.