

WHAT SERVICES DO IPAs TARGET?

UNCTAD research shows that investment promotion agencies (IPAs) increasingly target investment in services. FDI in computer services, tourism and call centres are the most actively promoted areas.

In a 2004 UNCTAD survey, 61 national IPAs responded to a questionnaire related to FDI in services. All respondents reported that they promote FDI in some service industry or function, but prime attention is given to services that can generate export revenues.

The service *industries* that are most often targeted for FDI are computer services, tourism, and hotels and restaurants. Conversely, retail and wholesale trade, water and insurance are industries that few IPAs pay attention to (table 1). The pattern varies by region and level of development, however. IPAs in developed countries and in Central and Eastern Europe generally target FDI in computer and business services, but a few of them target FDI in tourism. Meanwhile, almost 80% of all IPAs in Africa and Latin America seek tourism-related FDI. In Asia and the Pacific, relatively many IPAs promote FDI in transport and wholesale services.

IPAs are also quickly responding to new opportunities created by the "services tradability revolution", through which more and more service *functions* can be relocated. In all regions, IT and call centre services are the most sought-after functions (table 2). For example, more than half of the African IPAs already target FDI in these areas. In developed countries and in Central and Eastern Europe, FDI related to R&D activities, call centres, shared service centres and regional headquarters are also in focus by at least 50% of the IPAs. In contrast, R&D-related FDI is targeted by less than 20% of IPAs in developing countries.

No doubt, FDI in services can make important contributions to efficiency and growth in host countries by bringing, e.g. capital, access to technology, markets and increased competition. But gains do not materialize automatically. Moreover, countries may need

to weigh potential efficiency gains against broader development objectives. Even countries that have opened up most of their services to FDI typically retain entry restrictions in specific areas, such as media and air transportation.

The survey showed that various tools are used to promote FDI in services. General promotion (such as missions, seminars and websites) and tax incentives are widely applied throughout the range of services. For export-oriented service FDI, different forms of free zone incentives are used. There is always a risk of a race in the use of incentives, especially to attract export-oriented FDI that is sometimes footloose in nature.

The principles for promoting services FDI are similar to those in manufacturing. However, as some services are relatively new to FDI promotion, IPAs need to understand their particular features – global trends, locational determinants and corporate strategies – as well as to assess each location's strengths and weaknesses. While it may be relatively easy to identify the firms to target from service *industries*, targeting service *functions* that can be offshored by firms from *all* sectors is a real challenge. In this case, especially, a good starting point may be to focus on investors that are already present in the host country.

As always, the IPA's work needs to be complemented by other government policies. In services, competitiveness is critically linked to the quality of human resources. This makes skills upgrading a top priority. The provision of infrastructure – notably telecoms and electricity – is another priority field. Regulatory policies are similarly important to ensure that competition is promoted and social objectives are met.

Source: UNCTAD.

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Table 1. Service industries targeted by IPAs, 2004
(Percentage of responses)

Service industry	All countries	Developed countries	CEE	Developing countries	Africa	Latin America	Asia-Pacific
Computer and related services	72	100	80	65	58	62	82
Hotels and restaurants	57	13	50	67	63	77	64
Tourism	57	25	30	70	79	77	45
Transport	39	25	40	42	42	23	64
Energy	34	25	20	40	58	23	27
Health and social services	30	25	-	37	47	15	45
Other business services	28	38	60	19	11	15	36
Banking	26	25	20	28	42	8	27
Construction	26	-	10	35	42	31	27
Education	26	25	10	30	42	8	36
Real estate	20	13	30	19	26	15	9
Water	18	-	10	23	32	15	18
Wholesale trade	16	13	20	16	16	-	36
Insurance	15	13	-	19	26	8	18
Retail trade	13	-	10	16	16	8	27
Others	30	25	20	33	26	38	36
<i>No. of responses</i>	<i>61</i>	<i>8</i>	<i>10</i>	<i>43</i>	<i>19</i>	<i>13</i>	<i>11</i>

Source: UNCTAD survey of IPAs, conducted January-April 2004.

Table 2. Services functions targeted by IPAs, 2004
(Percentage of responses)

Service function	All countries	Developed countries	CEE	Developing countries	Africa	Latin America	Asia-Pacific
IT services	75	100	80	70	63	77	73
Call centers	61	75	70	56	53	62	55
Shared services centers	43	63	60	35	26	38	45
Regional headquarters	38	63	50	30	21	38	36
R&D	33	75	60	19	26	8	18
Offshore banking	15	-	-	21	26	23	9
Others	21	25	30	19	26	8	18
<i>No. of responses</i>	<i>61</i>	<i>8</i>	<i>8</i>	<i>43</i>	<i>19</i>	<i>13</i>	<i>11</i>

Source: UNCTAD survey of IPAs conducted January-April 2004.

For more on this topic, see *World Investment Report 2004: The Shift Towards Services*. Chapter V deals with National Policies related to FDI in Services. It is available on-line at www.unctad.org/wir.