WAIPA

NEWSLETTER

Quarter 2, 2007

Letter of the WAIPA President

Dear Colleagues,

The WAIPA World Investment Conference 2007, which took place in March in Geneva, is now history. However, the theme of the conference – "The New Sources of FDI: Emerging Economies on the Rise" – evoked quite a few topics to be followed up. Among these topics are development financing, the slumbering threat of protectionism, and FDI as a driving force in the natural resources sector.

The subject of natural resources is, as we all know, highly topical. For example, when UNCTAD publishes its World Investment Report in October, the special theme of the report will be FDI and natural resources.

Bearing in mind that WAIPA is a demand-driven association, the Secretariat has prepared a very ambitious plan of activities for 2007. The themes of the training workshops, studies and study tours are mainly based on suggestions from you, our members.

It would be going too far to comment on the various activities, so allow me just to mention two of the studies carried out in cooperation with UNCTAD: "Promotion, trade and investment: Separate worlds or potential synergies?", and "IPA evaluation systems". These two studies are really at the heart of IPAs, in other words, what are the advantages and disadvantages of different types of organisation, and how to measure the results of our activities?

As regards up-coming conferences, WAIPA is taking part in the China International Fair for Investment & Trade (CIFIT) in Xiamen, September 8-11, and in the International Economic Development Council´s (IEDC) Annual Conference in Phoenix in the US, September 16-19. IEDC comprises more than 1,500 development agencies in the US. IEDC is now a member of the WAIPA Consultative Committee.

Talking of conferences, we are now planning the next WAIPA Regional Conference and the next WAIPA World Investment Conference 2008. On this latter occasion a new steering committee will be elected for the period 2008-2010.

A question always present in the Steering Committee and the Secretariat is: How can we strengthen WAIPA? Today WAIPA has 218 members coming from 153 countries, the three thirds representing national agencies and the third representing regional/sub-national agencies. What do you think about creating two chapters in WAIPA, one for national and one for regional/sub-national agencies? The main reason would be that the demands, preoccupations and operations differ quite a lot between these two types of agencies.

If you have any ideas, please don't hesitate to contact me at the following address: kai.hammerich@isa.se

Best regards,

Kai Hammerich
President of WAIPA

New WAIPA Consultative Committee

The International Economic Development Council (IEDC) based in the U.S and PROINVEST, based in Brussels, Belgium, newly joined the WAIPA Consultative Committee.

IEDC is a non-profit membership organization dedicated to helping economic developers do their job more effectively and raising the profile of the profession, allowing in this manner its members to create more high-quality jobs, develop more vibrant communities, and generally improve the quality of life in their regions.
PROINVEST is a program of the group of ACP (Africa, Caribbean and Pacific) States and the European Commission for the promotion of investment and technology transfer in the ACP countries, and operates through the strengthening of ACP intermediary and professional organizations.

The fruitful and long-standing relationship between PROINVEST and WAIPA as well as the strong cooperation between IEDC and WAIPA are of tremendous value to our Association and we are eager to further strengthen these relationships.
The WAIPA Consultative Committee currently comprises six members, namely: the Foreign Investment Advisory Service of the World Bank Group (FIAS), IEDC, the Organization for Economic Cooperation and Development (OECD), PROINVEST, the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Industrial Development Organization (UNIDO).

WAIPA currently gathers 153 countries worldwide with 218 members.

The secret sauce of success: What IPAs have in common with soccer

Does an IPA have anything in common with a soccer club?
Well, let's be honest - not much. But, frankly, aren't there some similarities?

They both share similarities such as a having a marketable brand, a vision, a team, a goal, as well as trying to further the interests of the local, regional or national community.

So far there are some similarities. But more than anything, it's about finding the right team, putting the right players together with complimentary qualities, working in appropriate conditions and about having a manager who knows how to get the most out of his players and build team spirit. And what happens in football if a manager or player underperforms…..

It is also about being ambitious, competitive, trying to take the team to the top, and making the most of your strengths and competing with rivals with seemingly superior resources**.** It is also about taking time to measure yourself against your competitors, and constantly finding solutions to improve.

But to become a frontrunner there are some necessary ingredients. What I would call the secret sauce …In my humble opinion, with empowerment, a strong mandate, appropriate financing, a well devised strategy and tactics with focus, branding and marketing, training and targets, monitoring and evaluation - when suitably combined leads to success, both in the businesses of football and investment promotion. And of course, an appropriate "climate" to play in also helps.

The paradigm being that if an IPA was given the same significance and respect by its key stakeholders as a soccer club is given, then the business would not necessarily be led by politicians or managed and run by civil servants alone.

It would also be manned by headhunted or selected players who would know how and where to play the game and score in the FDI business. Alas, too many agencies lack key ingredients to be able to climb the league and compete to achieve success.

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IPA consulting, training or benchmarking, www.gdpglobal.com
Spanish programmes available.

2006 UNCTAD-WAIPA Studies : Summary

Aftercare: A Core Function in Investment Promotion

In the course of the past decade, the relevance of aftercare or post establishment services to inward investors has grown due to increased stocks of foreign owned firms in host nations. Experts estimate that there are periods in which reinvestment is up to 70% of total foreign direct investment (FDI) inflows in some regions, particularly in developed countries. In developing economies reinvestment is often less dominant, but it is on the rise in countries with growing inward FDI stocks. In addition, transnational corporations (TNCs) decision-making has been gradually more decentralised. There is thus a growing need for aftercare and it has therefore become a core function in investment promotion.

The aim of the UNCTAD study is to consider how IPAs should approach TNCs that have established in their territory to ensure their continued presence, growth and development in a way that is beneficial to the international firm and the host region. The focus is on practical guidelines for aftercare that can be implemented in IPAs. Subjects covered by the study are the nature and scope of what is understood by aftercare, implications of FDI trends, the rationale and impact of aftercare programmes, key elements in setting up and operating an aftercare unit and challenges that IPAs face in providing post establishment services. The study also includes results of a 2006 UNCTAD-WAIPA survey on aftercare among 69 IPAs.

Shaping the Investment Climate: The IPA as Policy Advocate

Policy advocacy by IPAs seeks to effect changes in regulations, laws and government policies. The changes may pertain to policy fields as diverse as investment, trade, labour, immigration, real estate, taxes, infrastructure, technology and education. In the world of investment promotion, where IPAs market their countries' existing strengths, policy advocacy actually creates new strengths. For this reason, it appears to be the IPA function with the highest return per dollar spent, in terms of FDI attraction. However, for many IPAs policy advocacy remains the least developed of their functions.

The study collects knowledge acquired through UNCTAD technical assistance on three continents, the development of its policy advocacy training manual, its 2006 intergovernmental Expert Meeting on policy advocacy, and a survey of 55 IPAs. The study puts forward a 7-step approach to policy advocacy for more systematic and proactive efforts on a wider range of issues. It also looks at the typical advocacy practices of IPAs around the world today, analyses them and concludes with several recommendations for more effective policy advocacy.

WAIPA members will be informed as soon as these studies will be available on the WAIPA website.

Business Retention & Expansion: Key to Competitive Advantage

In today's global economy, marketing and promotion alone are not sufficient in terms of attracting and retaining quality FDI projects and investment. In order to counter the threat of losing firms to overseas relocations, Investment Promotion Agencies must expand their business retention and expansion (BRE) efforts, keeping those firms currently in the region from leaving. The International Economic Development Council (IEDC) in the US considers BRE to be one of the primary missions of any economic development program. Advancing innovation, investing in education (particularly for advanced vocational training), and value-added services such as cluster development, for example, are key to retaining businesses as well as remaining competitive in attracting FDI.

In addition, the value of legally protected R&D is a major source of knowledge creation today and in a period of rapid globalization the importance of intellectual property and other intangibles cannot be understated. North American countries will have to work diligently to sustain their place against China, India, and East Europe as they race to strengthen their policies in this area. And while a recent survey by the Ewing Marion Kauffman Foundation states that only 22% of R&D projects in developing countries is for new science, it is crucial that North American countries strive to maintain this competitive advantage.

Clusters and alliances

Developing and promoting existing clusters is another key to retaining businesses, as well as attracting FDI. In 2004, the state of Michigan launched an initiative to promote the state as an automotive Silicon Valley to counter big job losses at the major manufacturing companies there. Since then, Asian automakers from Toyota to Hyundai to Nissan Motor Co., have rushed to Michigan to take advantage of the R&D centers of the main automotive suppliers, and the state has won investments from nine automotive companies from South Korea, Japan and Germany, that have created some 3,000 engineering jobs. Today, automotive R&D employs more than 65,000 professionals in the state, and Michigan's success in this area is exemplary as to the effectiveness of an organized BRE effort.

The policy of encouraging universities to become more effective agents of regional development can be an effective strategy to attracting investment, particularly in the case of cutting-edge technology. Biotech clusters in North America continue to flourish precisely due to the value of IP protection, the availability of venture capital, and the strong links between universities and research parks. In the US alone, the biotech industry generates sales of over $50 billion per year, representing thousands of jobs and vigorous economic growth.

Joint ventures and strategic alliances are also frequently used by pharmaceutical companies in order to grow and expand. This allows them to minimize the costs of keeping up with the more speculative areas of science by working with smaller, more nimble companies that often lack the capital to see research through to the marketing stage. In this case, it is issues of IP protection and the quality of science that drives the partnership process more than location, and the US remains an attractive choice.

The BRE Advantage

The 2005 World Invest Report (UNCTAD) identified barriers to off shoring as protectionism, exchange rate variations, global terrorism threat, slow growth in industrialized countries, political instability/financial stability. By providing an alternative to these obstacles, the US and other OECD countries can leverage their competitive advantages in making retention and recruitment strategies more successful in the future.

IEDC places significant importance on educating their membership on the value of BRE and assists local governments, Chambers of Commerce, and public-private partnership organizations in assessing the needs of their community and creating sophisticated programs. Beyond the IP protection factor as a clear advantage for R&D, communities must continue to improve upon the factors in which they currently excel in order to prevent businesses from relocating. To do so, they should:

- ✓ Maintain and promote close links to universities, research labs, incubators, and research parks;
- ✓ Sustain an innovative business environment;
- ✓ Promote the ease of commercialization of inventions;
- ✓ Provide support in areas of regulatory, tax issues, and business assistance.

Adhering to retention and expansion efforts with foreign investors is key to fully exploiting potential FDI benefits. IEDC recognizes that each community's approach to BRE will differ based on its needs and resources, but integrating foreign investors with the local communities and addressing the needs of local businesses will ultimately enhance the competitive advantage and attractiveness in the wider marketplace and foster vibrant business alliances.

For further information on BRE, contact the IEDC at: www.iedconline.org

Untapped resources of FDI begin at home

Over the last couple of years I have been given the pleasure to run a number of workshops for WAIPA on investment aftercare around the world.

FDI by existing investors is often neglected as an important source of FDI in any location. In many cases it can, however, be seen as an important and growing 'reservoir' of FDI. In some countries more than 50 percent of FDI is conducted by existing investors through re-investments, diversification or expansion projects. In fact organic growth in existing locations by multinational corporations is one of the most common strategies in international business today.

Aftercare programs – or more broadly our concept of Investor Development Strategies (IDS) - should therefore be a top priority with many Investment Promotion Agencies (IPAs), Investment Development Agencies (EDAs) and Free Trade Zones (FTZs). Nevertheless, not many agencies acknowledge the importance of aftercare.

If set up correctly aftercare strategies – the equivalent of Customer Relation Management (CRM) practices in marketing - can play an important role in generating more FDI in a specific country or region. In addition, it is not only more cost effective to increase the existing level of FDI, existing investors are often used as 'testimonials' or 'ambassadors' in the last phase of site selection projects by potential new investors. Hence they are important 'multipliers'. The participants within most workshops ranged from those IPAs that have already set up an entire aftercare department with associated strategy to those who have just made an inventory of their existing investors.

The overall objective of most aftercare workshops was to (further) develop and enhance aftercare strategies and CRM practices for IPAs and IPIs. One of the key pre conditions for a successful aftercare strategy, apart from a good database of existing investors within your locality, is that aftercare managers understand the dynamics of international business and the changing global context and nature in which FDI takes place. This greatly facilitates the communication between the foreign investor and aftercare manager.

Hence in most workshops we have always paid attention to this topic. In addition, most workshops provided conceptual frameworks as well as some illustrations of existing Investor Development Strategies and case studies that can be used to inform the design and management of new aftercare programs. Often the following issues were addressed: How to approach existing investors and develop a network of good 'testimonials' and 'multipliers'? How to keep investors within your country happy? What are the key components of a successful Investor Development Strategy (IDS) program? What are tactical and strategic issues in aftercare? Examples of aftercare activities by IPAs. At the end of the workshop, participants were better capable to tap into the market of existing investors and successfully (further) develop their Investor Development Strategies (IDS).

For more information please contact Dr. Douglas van den Berghe (formerly Ernst & Young), founding partner of *Investment Consulting Associates*: douglas@ic-associates.com or at +31 6 4628 6660. www.ic-associates.com (under construction).

Wanted: A "Renewable" Europe!

While Europe is still number one in attracting foreign direct investments (FDI), both Western and Central and Eastern European zones lost 13 points in their attractiveness score from the previous year, in favor of China and India which provide direct competition at a global level. Faced with these competitors and others from emerging markets, CEOs urgently request several strong reforms. Investors' priorities focus on greater flexibility (47%), simpler administrative procedures (44%) and more support for innovation (35%).

Foreign direct investments: +15%, a new record for Europe in 2007

Inward investment activity in Europe reached a record in 2006 with 3,531 project announcements, representing an annual increase of 15.2% (3,065 projects in 2005). 2006's increase was significantly above that of the previous year (5.3%). Among these investments, 71% were "Greenfield" projects, a further sign of investment intensity.

The UK and France remained the top two destinations for FDI, with the UK's lead becoming more pronounced. Almost a fifth (19.4%) of the total number of FDI projects in Europe in 2006 was directed towards the UK, while France attracted 16% of projects.

Investment in other European countries fell well behind these two market leaders, with the closest challenger, Germany, attracting 8% of projects. Romania experienced the highest growth in number of projects announced, from 86 in 2005 to 140 in 2006.

Investments by European players continued to dominate investment flows, representing 50.4% of investments announced for 2006. BRIC countries (Brazil, Russia, India, China) increased their investments significantly, from 112 in 2005 to 163 in 2006, whereas US investors' interest declined from 35% in 2002 to 30% at the end of 2006.

International investments resulted in the creation of a record 211,300 jobs (+8.3%). Poland was number one in terms of FDI job creation (15% of the total). UK and France remained second and third respectively (27,481 jobs created in the UK and 20,509 in France). Averages of 101 jobs were created per project across Europe. Investment projects in Central and Eastern Europe were particularly labor intensive. While Central and Eastern Europe attracted only 26% of investment projects, they benefited from 51% of the new jobs created by foreign investors. This represented an average of 217 jobs per project, compared with 64 jobs per project in Western Europe.

Investors perceptions: New emerging competitors gain ground on Europe (-13 points)

Western Europe's attractiveness for foreign investors declined significantly in 2007, along with Central and Eastern Europe. Both European areas lost 13 points in their attractiveness rating between 2006 and 2007. Although European mature economic markets retain their global lead for headquarters functions, investors prefer the Asian zone for many production operations and call center functions.

China and India reshuffle the cards: China ranked second on the attractiveness podium for 48% of CEOs surveyed, reducing the gap with Western Europe to seven points. India (26%) also gained ground to reach the fifth place in the CEOs' top 10 economic zones. Nonetheless, these two zones do not yet meet the demands of investors for high added-value activities.

Europe's economic focus continues to move Eastward. As a result France and Spain no longer enter into the top 10 preferred countries for investment, although Germany and the UK maintain their position. Poland and the Czech Republic strengthen their position in the ranking.

Central and Eastern Europe's favorable labor environmental image is more and more challenged (the number of respondents ranking it top for this strategic location factor in 2007 fell to 18%, from 27% in 2006) and the region appears to be having difficulty in convincing investors of its merits as an "all-round" business location. The 2007 survey reveals that Central and Eastern Europe has ceded its second position to China in the ranks of regional attractiveness, after maintaining a consistent second place in Ernst & Young's previous surveys.

Labor flexibility, simplified regulations, and strong support for R&D: urgent reforms needed

Despite the gain in popularity of more dynamic FDI destinations, business leaders express confidence in Europe's future, with 56% believing its attractiveness will improve over the next three years. Most of the improvement in perceptions is related to the prospects for Central and Eastern Europe, with almost three-quarters (71%) of our global panel believing its attractiveness will improve. Half of respondents plan to develop their activities in the enlarged Europe.

In order to improve Europe's attractiveness, investors cite, above all, the need for reforms providing greater flexibility (47%), simpler administrative procedures (44%) and more innovation support (35%).

Is Europe's eco-attractiveness the key to making a difference?

Over two-thirds (67%) of respondents take the environmental performance record of their target area into account in their choice of location, with 30% considering environmental issues play a strong part in their decision making process. Only 9% of those surveyed stated that environmental issues played no part whatsoever in their implantation preferences.

Over half (56%) of respondents believe that the adoption of new environmental regulations by European countries would provide a means of increasing its attractiveness and help to differentiate itself from other investment destinations.

Potential investors pay the strongest attention to the level of environmental infrastructure (84%), while the level of environmentally-related taxation and regulations are also given serious consideration (81%).

"Aside from their obvious impact on the environment, decision makers estimate that the principal benefit to a country of eco-responsible industrial strategies is their stimulation of innovation and R&D (44%)," comments Marc Lhermitte, Partner Ernst & Young.

Methodology:

The Ernst & Young European Attractiveness Survey uses two main information sources: a database of actual investment projects and expansion activity in the region (the European Investment Investor Monitor (EIM) created in 1997 by Ernst & Young), and the analysis of the perceptions and expectations of international senior executives following telephone interviews with 809 international decision makers by the independent market research company CSA between February and March 2007. The sample of companies interrogated was established to reflect the profile of European investors identified by EIM since 1997.

For comments and submissions to WAIPA Newsletter please contact Mrs. Karine.campanelli at:
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What is WAIPA ?

The World Association of Investment Promotion Agencies (WAIPA) was established in 1995 and is registered as a non-governmental organization (NGO) in Geneva, Switzerland. The Association currently has more than 200 member agencies from all over the world. WAIPA acts as a forum for investment promotion agencies (IPAs) to provide networking opportunities and facilitate the exchange of best practices in capacity-building and investment promotion. Membership is open to all agencies whose prime function is to promote any country or territory for investment.

What are the goals of WAIPA?

WAIPA aims to improve co-operation amongst IPAs on a regional and global scale and facilitate the exchange of experiences in attracting FDI. The objectives of WAIPA, as reflected in its statutes, are to:

- Promote and develop understanding and co-operation amongst IPAs;
- Strengthen information gathering systems and information exchange amongst IPAs;
- Share country and regional experiences in attracting investment;
- Help IPAs gain access to technical assistance and training through referrals to relevant agencies;
- Assist IPAs in advising their respective governments on the formulation of appropriate investment promotion policies and strategies.

Who are the partners of WAIPA?

WAIPA's Consultative Committee comprises the following international and multilateral organizations:

- Foreign Investment Advisory Services (FIAS) of the World Bank Group,
- International Economic Development Council (IEDC),
- Organization for Economic Co-operation and Development (OECD),
- PROINVEST,
- United Nations Conference on Trade and Development (UNCTAD),
- United Nations Industrial Development Organization (UNIDO).

WAIPA's Consultative Advisory Group members are the following:

- Buck Consultants International,
- Ernst & Young,
- IBM-PLI Global Location Strategies,
- OCO Consulting

WAIPA shall establish working relations with organizations which have relevance to WAIPA's objectives.

Where do WAIPA members come from?

Afghanistan, Albania, Algeria, Angola, Anguilla, Antigua and Barbuda, Argentina, Armenia, Aruba, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Barbados, Belarus, Belgium, Belize, Benin, Bolivia, Bosnia-Herzegovina, Botswana, Brazil, Bulgaria, Cameroon, Canada, Cape Verde, Cayman Islands, Chile, China, Colombia, Congo (Democratic Republic or the), Costa Rica, Côte d'Ivoire, Croatia, Cuba, Curacao (Netherlands Antilles), Cyprus, Czech Republic, Denmark, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Ethiopia, Fiji, Finland, France, Gabon, Gambia, Georgia, Germany, Ghana, Greece, Grenada, Guatemala, Guinea, Guyana, Haiti, Honduras, Hungary, Iceland, India, Indonesia, Iraq, Iran (Islamic Republic of), Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Kiribati, Korea (Republic of), Kuwait, Kyrgyzstan, Latvia, Lebanon, Lesotho, Libya, Lithuania, Macedonia, Malawi, Malaysia, Maldives, Mali, Malta, Mauritania, Mauritius, Mexico, Moldova (Republic of), Mongolia, Montenegro, Morocco, Namibia, Nepal, Netherlands, New Zealand, Nicaragua, Niger, Nigeria, Oman, Pakistan, Palestinian National Authority, Papua New Guinea, Paraguay, Peru, Poland, Portugal, Qatar (State of), Romania, Russian Federation, Rwanda, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Saudi Arabia, Senegal, Serbia, Seychelles, Sierra Leone, Slovakia, Slovenia, Solomon Islands, South Africa, Spain, Sri Lanka, Sudan, Swaziland, Sweden, Switzerland, Tajikistan, Tanzania (United Republic of), Thailand, Tunisia, Turkey, Turks and Caicos Islands, Uganda, Ukraine, United Arab Emirates, United Kingdom, United States of America, Uzbekistan, Vanuatu, Venezuela, Yemen (Republic of), Zambia and Zimbabwe.