

Report of the WAIPA Asia-Pacific Regional Investment Conference 2005

15 to 16 November 2005

Busan, Republic of Korea

The theme of the World Association of Investment Promotion Agencies (WAIPA) Asia-Pacific Regional Investment Conference 2005 (RIC 2005) was "The Rise of Reciprocal Investment in Asia and Its Implications for Emerging Economies". The conference took place at City Hall in Busan, Republic of Korea, from 15 to 16 November 2005. This first regional conference of WAIPA attracted 113 participants. The participants included 50 representatives from 22 IPAs and 59 representatives from the private sector. The meeting also attracted a significant number of representatives of international organizations, as well as people from the media and academic world. The RIC was held parallel to the events of the 2005 Asia-Pacific Economic Cooperation (APEC) Ministers' Meeting in Busan and was part of its investment event, APEC Investment Opportunities 2005.

Opening Session

RIC 2005 was officially opened by Mr. Kai Hammerich, President of WAIPA. A welcome address was delivered by Mr. Alan Timblich, Head of Invest Korea. In his statement, Mr. Timblich welcomed the participants and thanked WAIPA for selecting Busan as the location for WAIPA's first regional investment conference. Mr. Timblich then proceeded to introduce the keynote speaker of the opening, Mr. Ki-Hwa Hong, President of the Korea Trade-Investment Promotion Agency (KOTRA).

In his keynote address, Mr. Hong highlighted the important role played by foreign direct investment (FDI) in the globalized economy. He noted that transnational corporations were becoming more mobile, and that two dynamics were driving the current growth of the economies in East Asia: first, the drive by TNCs to outsource to developing countries, and second, increased cross-border investment in the region. Notwithstanding the growth in the dynamic East Asia region, he noted that the Asia-Pacific region was still lagging in the conclusion of free trade agreements (FTAs), and still had much work to do in the area of deregulation. Lastly, Mr. Hong proposed that WAIPA establish regional councils, to facilitate the work of disseminating and exchanging best practices of IPAs within a region. Mr. Hammerich indicated that he would raise this issue at the next Steering Committee meeting.

Session 1

This session on Asian FDI flows, policies and trends was moderated by Mr. Dan O'Brien of the Economist Intelligence Unit, and chaired by Mr. Hammerich. Mr. Torbjörn Fredriksson, Officer-in-Charge of the Policy Issues Section at UNCTAD, discussed current trends in FDI and the internationalization of research and development (R&D) by TNCs, both of which are discussed in UNCTAD's World Investment Report 2005. Specifically, he noted the diverging performance between developed and developing countries in FDI between 2003 and 2004, and the rapid expansion of R&D by TNCs in developing countries. With respect to the latter, he pointed out that TNCs are key players in global R&D, that developing countries are playing an increasing role in R&D networks, particularly in many Asian developing countries, that Asian TNCs are also expanding their R&D activities abroad, but that, overall, the US remained the leading global location for R&D. This expansion is driven by various push factors, namely competitive pressure to innovate, cost implications and various skills shortages in the home country; various pull factors, such as growing markets, a growing talent pool in some developing countries and cost advantages of locating R&D activities abroad; and various policy factors such as improved innovation systems in many developing countries, targeted incentives that encourage R&D activities, stronger intellectual property (IP) protection in some countries and economic liberalization.

Mr. Marinus W. Sikkel, Chief of the Investment and Enterprise Development Section at the Economic and Social Commission for Asia and the Pacific (ESCAP), explained that reciprocal (i.e., inward and outward) FDI had reached new highs in developing Asia and Oceania, with the top recipients being China, Hong Kong SAR, India, the Republic of Korea and Singapore. It was indicated that the increase in outward FDI from Asian countries to other Asian countries showed that the economies in the region were maturing. He predicted that prospects for the region would remain bright, with a continued impetus towards the conclusion of more bilateral investment treaties (BITs), double taxation treaties (DTTs) and regional agreements, combined with further liberalization of the Asian economies.

Ms. Nazha Benabbes Taarji, Chief of the Investment Promotion Section at UNCTAD, discussed global FDI prospects, with particular reference to the 2005 World Investment Report. She indicated that further growth was expected, especially in mergers and acquisitions (M&A). At present the most attractive location for FDI is China, followed by the USA, India, Russia and Brazil, and it is foreseen that Asia and Eastern Europe will, in general, remain competitive in attracting FDI. Prospects do not seem as bright in Western Europe, however, while the United States is likely to continue to be the most attractive location for FDI in the developed world. Growth sectors include information communications technology (ICT), utilities, transport/tourism, electrical/machinery and mining, metals and petroleum. Ms. Benabbes Taarji indicated that the leading sources of FDI in the near future would continue to be the United States of America, United Kingdom, Germany, China, South Africa, India, Brazil, Malaysia and the Republic of

Korea, though for the developing countries on this list, their key markets are likely to be regional. The healthy appetite of companies for relocating certain of their functions abroad, especially production and in the areas of logistics and support, would remain strong.

Session 2

This session on success stories of intra-regional investment was moderated by Mr. O'Brien, and chaired by Mr. Timblich. Mr. Soo-man Chang, Commissioner of the Busan-Jinhae Free Economic Zone (FEZ), provided a case study of his FEZ, which has attracted approximately USD 3.7 billion of FDI. As a strategy, the Busan-Jinhae area sought to position itself as a gateway to regional markets, ideally sandwiched between China and Japan. Significant efforts were placed on developing its seaport, which has grown to be the fifth largest in the world and has made Busan a global logistics powerhouse. Their targets include seaport-related companies, the Asian auto industry, serving as a base for the production of high technology goods and tourism/leisure. The FEZ is divided into six development zones, including a science and industrial park where free land/office space is provided for business incubation purposes.

Mr. Peter Brimble, President of the Asia Policy Research Company based in Bangkok, Thailand, noted several factors that IPAs in Asia need to pay attention to, if it is to remain a success story for intra-regional FDI. These include globalization, economic liberalization, increased competition for a smaller FDI pie, global supply chains (i.e., the tendency towards outsourcing and the need to integrate), shorter lifecycles and trends in intellectual property rights (IPR) regimes, governance, subregional groupings, China and its accession to the World Trade Organization (WTO), and emerging South Asia. He pointed out that among these, it would be critical for IPAs to focus on supply chain issues, as this would enable them to play a more active role in helping lead efforts to position the country. He further suggested that IPAs in the region should consider moving to systems that emphasize more performance-based incentives and engage in more targeting. He underlined the importance of enhancing the knowledge-base of IPAs of their target industries and use it to position the country in niches that permit their countries to complete the investment cycle. He stressed as well as the need for IPAs to improve their public-private interface. He provided the example of Thailand's electronics industry as an example of how this was successfully done, while noting, however, that much of Asia's intra-regional FDI takes place notwithstanding the efforts of IPAs.

Between sessions 2 and 3, Mr. Kiyoshi Adachi, Legal Officer of UNCTAD, outlined the work being done by UNCTAD on IPA policy advocacy and guided the participants of the RIC through the syllabus of the UNCTAD/WAIPA Asia Regional Workshop on IPA Policy Advocacy (18-19 November 2005). He noted that policy advocacy was now an important function for many IPAs.

Session 3

This session, focusing on the private sector's views on investing in Asia's emerging economies, was moderated by Mr. Brimble, and chaired by Ms. Benabbes Taarji. Mr. Timothy Collier, President of Westinghouse Korea, underlined the importance of having a long-term commitment when engaging in FDI projects in the energy market. He noted that electrical demand in Asia was the highest in the world and that energy projects tended to affect many people. He highlighted some of the regulatory and political complexities of, in particular, nuclear projects in East Asia.

Ms. Mari Kogiso, the Tokyo-based representative of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group, presented the findings of its recently completed (September 2005) study on outward investment of 150 Chinese firms. This study found, *inter alia*, that of the Chinese firms engaging in outward investment, 2/3 was in the secondary (tertiary) sector and 1/3 was in the tertiary sector. With respect to political risk guarantees, Ms. Kogiso noted that most firms no longer request much MIGA assistance given the more stable political climate prevailing in the Asia-Pacific region.

Mr. Henry Loewendahl, Director of OCO Consulting, pointed out the growth areas for the region based on his firms' database of investment deals, and explained how firms might assess various competing locations for an investment. Promising areas, according to OCO, include mining, logistics, high technology industries (including Internet and biotechnology) and petrochemicals. While the APEC region continued to attract a significant proportion of the world's FDI, increasing competition meant that it would inevitably lose some of the global market share it now enjoys. He concluded by explaining that private firms make their decisions to invest on a combination of cost, quality and risk, the former two of which can be visualized in a cost-quality potential matrix.

Session 4

This session on best practices to attract intra-Asian investment was moderated by Mr. Timblich, and chaired by Mr. Wan-soon Kim, the Investment Ombudsman of Korea. In introductory remarks, the Chairperson highlighted the situation of Korea, which has succeeded in attracting investment from neighbouring Asia, as well as other destinations, by a constant effort to address problem areas such as a complicated and arbitrary tax regime, anti-Japanese sentiment (in the case of Japanese investment to Korea), difficulties in labour-management relations and IPR enforcement. He noted that it was important to understand that competition for FDI was not a "zero-sum" game.

Mr. Hiroshi Tsukamoto, President of the Japan External Trade Organization (JETRO), cited as a successful example of intra-Asian investment the case of the sourcing of automotive parts by Korea to

Japanese automobile makers. He highlighted the critical role of Government in setting clear goals for attracting FDI, and cited as an example concrete targets set by Prime Minister Junichiro Koizumi for which the Japan Investment Council Expert Committee was formed to advise on policies and other means to realize these goals, as a best practice example. Mr. Tsukamoto also highlighted that within Japan, local authorities were using business incubators to encourage foreign investment to areas outside of the capital, Tokyo.

Mr. Suchart Phisitvanich, Senior Executive Advisor of Thailand's Office of the Board of Investment (BOI Thailand) highlighted BOI Thailand's programme of decentralization of the granting of available incentives as a means to attract investment. This has, for example, been instrumental in convincing investors from Japan to invest in provinces outside of Bangkok. Decentralization speeds up the decision-making process, and ensures that incentives granted are tailored in a manner that meets local development objectives.

Session 5

An interactive roundtable on the topic of development implications of FDI for Asia's emerging economies was held on the morning of 16 November 2005. The roundtable was chaired by Mr. Hammerich and moderated by Mr. O'Brien. The panellists included Mr. Pietro Doran, President of Doran Capital, Mr. Sung-do Gong, President of British Petroleum (BP) Korea and Mr. Rob Meijboom, President and CEO of Odfjell Terminals Korea.

Mr. Meijboom, as the CEO of an international port terminals developer, emphasized that besides geographic factors, the importance of the long-term commitment shown by the firm and the quality of the local labour as important factors in his firm's decision to invest in Korea. Mr. Gong noted the importance of good governance (in particular the transparency of the legal system) as an important prerequisite for attracting the kind of FDI that would contribute to a country's development objectives. Mr. Doran commented that while Korea probably experienced one of the most successful transitions into the modern world, China, with its huge population and size of economy, created a presence that no country in East/Southeast Asia could afford to ignore.

In an interactive dialogue with the audience, the panellists discussed the role that nationalism and patriotism play in driving the labour force, and cited examples in the region, such as in Korea and Thailand, where national pride had provided an impetus for growth in the economy, and played a large part in making the destination attractive for investment. The panellists agreed that the quality of human resources played a huge role in driving the economic development of Asia, and that this was a distinctive strength for the region. There were factors, however, that made investment more difficult in the region, one of which

was language. The lack of English language materials in some countries where English was not a national language was cited as a factor that made the market more difficult to penetrate by foreign firms.

All the panellists also agreed that one of the most important roles the IPA could play in the process was to act as an advisor to government, and as policy advocates for changes that made the investment environment more open and transparent.

Closing Session

In his closing address, Mr. Timblich thanked WAIPA, UNCTAD and all of the participants for helping make the first WAIPA Regional Conference a success. He noted that Korea was unique in that it chose him, a foreigner, to lead its IPA, but that this was a decision that had shown to the world that Korea was open to foreign investment. He emphasized, through the Korean experience, the importance of providing quality after-service to “embed” a firm into the economy. The President of JETRO, Mr. Tsukamoto, took the floor and thanked WAIPA for organizing the conference and that he fully backed this opportunity for exchanging best practices.

Lastly, Mr. Hammerich thanked UNCTAD and all of the participants, and KOTRA/Invest Korea for co-organizing the first WAIPA Regional Conference. He announced that the next WAIPA World Investment Conference would be at Geneva in March 2006, and invited all of the participants to attend. The first WAIPA Regional Conference was then officially closed.