

## An Analysis of Promotional Efforts of Foreign Countries to Attract American Investments\*

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The main purpose of this thesis is to make a systematic analysis of the efforts made by different foreign countries to attract private investment from the United States.

**The Setting.** The world today is making a transition from the international to the world economy. With the recent trend of internationalization of production by the major industrialized countries, the role of the international or multinational corporation as its instrument, and foreign private investment as its means, has become very important. Foreign private investment bears special significance to the developing countries in that it speeds economic development of those countries in two ways:

1) It is one of the important sources of development finance providing those countries with capital goods which is so vital to the achievement of economic growth;

2) Even more important, foreign private investment can combine effectively management and capital as it involves control by investors providing those countries with the necessary management skills, technology, market capacity, and training to increase the productivity of existing factors of production.

Many countries today which have pressing needs for foreign private investment are endeavoring to attract such investment from the United States which is the largest capital-exporting country in the world. The investment climates of foreign countries, the investment incentives provided by foreign governments, and the inherent information gap are three major factors affecting American private investment promotion. Investment promotion has two aspects: setting up policies for attracting foreign private investment and administration of promotional programs. All the factors and aspects relating

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\* This is a summary of the original text.

to the promotion of American investment were considered in this thesis, but its main focus was on the promotional operations of foreign countries primarily concerned with reducing the information gap.

**Nature and Areas of Study.** The objectives, functions, activities, administration and problems connected with the institutional arrangements designed to promote American private investment are analyzed. The significance of this study lies in its endeavor to look at the efforts of the country in which the investment is to be made while most of the studies in this field have tried to get the picture from the viewpoint of the country of origin of capital. This approach is worth doing because investment constitutes a mutual relationship between the investors and host countries, and so comparing the perspectives from both sides is very meaningful. The analysis was supplemented by a survey of three countries (Belgium, Israel and Taiwan) in terms of basic policies, types of institutional arrangements, and their operations. The analysis was based on the review of secondary literature and personal interviews with those in responsible positions in each intermediary operating in the United States. The institutional arrangements that were considered were: Investment Centers, Trade Organizations and Missions, Associations and Chambers of Commerce, Banking Institutions, Bond Issues, Investment-Management Companies, and Consulting Firms. The salient findings in each of the categories are summarized as follows:

**Investment Centers.** These are the most important and typical of institutional arrangements. They are *quasi-governmental promotional and informational agencies* whose main *role* is to reduce the information gap. Their main *function* is to provide the prospective investors with the necessary information. The *operations* of the Investment Centers include two major categories: promotional activities and industrial services. Most of the operations are undertaken through direct contact with the potential investors with the exception that in the case of Israel, contacts with potential investors are arranged occasionally through "Economic Conference of Jerusalem", and in the case of Taiwan, through the American-Chinese Chamber of Commerce. The types of industries served by Investment Centers are mostly related with manufacturing industries and all the countries except Puerto Rico placed the highest priority on export industries. The *administration* of the Investment Centers is mostly based on the foreign governments' policies, and basic guidelines provided by the foreign governments or their respective head offices. Most of the Investment Centers are located in New York, and many

of them also maintain offices in such big cities as Chicago, San Francisco, Los Angeles, Boston, Philadelphia, Atlanta, and Houston. The major difficulties encountered in the operations of most Investment Centers are (1) limited budget and staff and (2) difficulty in finding and evaluating potential investing firms, and the proper persons within them.

**Trade Organizations and Missions.** Trade Organizations operating in the United States have two main *functions*: Trade Promotion and Investment Promotion. Although many trade centers put more emphasis on the former function while the latter function is limited to dissemination of information, their *role* as information centers is quite important for potential American investors. Most trade organizations are non-profit, semi-governmental agencies. *Trade and Investment Missions* are used as effective means for promoting trade and investment. Their effectiveness has been proved in many countries which organized such missions. The main advantage of the missions is increased efficiency of operations through direct contact and negotiations by foreign businessmen with American partners, which brings about concrete results obtained from their efforts. One of the problems encountered by this method is how to select the right persons capable of successful international business negotiations.

**Associations and Chambers of Commerce.** Associations and Chambers of Commerce operating in the U.S. are established in order to promote understanding, trade and investment between the U.S. and the respective foreign countries. They are *private, non-profit, non-political, binational and independent service* organizations composed of corporations, partnerships, financial institutions and individuals of both countries, which makes its nature of operations different from those of Investment Centers or Trade organizations in that the latter are quasi-governmental agencies. The general *functions* of the Associations and Chambers of Commerce are assistance, service, and dissemination of information. Meetings and luncheons and publications are the two most important activities of the Chambers and Associations. They obtain their support mostly from membership dues. The headquarters of most of the Associations and Chambers of Commerce are located in New York and they also maintain offices in the respective foreign countries.

**Banking Institutions.** Promotion of American private investment is also conducted by banking institutions in the U.S., both commercial and government-owned and controlled. There are two types of *Commercial Banks* operating in the U.S.: branches of foreign banks which have commercial operations

and representative offices which act as *links* between their foreign clients or correspondent banks and their head offices. These types of commercial banks are all playing a vital role in the promotion of American private investment because they offer important services for American potential investors, which are not available elsewhere. The operations of *Government-owned and controlled Banks* differ according to the policies of respective foreign governments. *The Hellenic Industrial Development Bank* which is a Greek information and investment promotion agency maintains an office in New York in order to attract U.S. private investment and to obtain loans from international financial institutions. On the other hand, the *Government Development Bank for Puerto Rico* is acting as borrowing agent for the Commonwealth Government and all the public bodies in Puerto Rico. One of the most important means of performing this role is bond issues. It carried to a successful conclusion a heavy schedule of long-term bond sales, both for the public corporations as well as for the Commonwealth Government.

**Bond Issues and Investment-Management Companies.** *Bond Issues* as a form of portfolio investment was once the main channel for foreign private investment, but now they are less important than foreign direct investment, and recent trend shows that they are not effective means of inducing American private investment because of the prevailing negative factors, namely, legal restrictions imposed by the U.S. Government and the recent monetary developments in the U.S., and the growth of Eurobond market. Israel is one of a quite few countries which have been successful in raising a greater volume of funds through bond issues. This was possible through the "Israel Bond Drive" which has distinctive characteristics that made the operations successful. *Investment-Management Companies* are good examples of providing another source of direct investment through sale of stocks. There are four Israeli Investment-Management Companies which have made a great contribution to fostering Israel's economic growth through the infusion of capital and knowhow.

**Consulting Firms.** Although most of the consulting firms are American firms which are revenue-oriented, their role in promoting American private investment is significant because they offer very valuable professional and specialized services which are so important for decision-making for overseas operations. More than 200 international operations consultants are operating in the U.S., and more than half of them are located in the Metropolitan

New York area. One of the main advantages of the consultants' services is that they provide objective and practical solutions to the specific problems of their clients.

*The Three Countries*—Belgium, Israel and Taiwan—covered in the survey set forth specific type of industries given priority and various kinds of favorable investment incentives as basic policies. All of the three countries have more than one institutional arrangement for promoting American private investment, and their operations are strongly supported by the respective government authorities.

It can be easily concluded from the previous analysis that among the many intermediaries involved in investment promotional activities, Investment Centers as *central agencies*, established for the sole purpose of promoting American private investment, play the most important role in fulfilling this vital objective. Therefore, the significance of their role in international development should be once again emphasized, and intensifying their activities is needed. However, despite their importance in the international economy today, the following points have to be considered for the increased efficiency of their operations:

First, objectivity and credibility of information is an essential element affecting the decision of American potential investors. According to the study of Indian Investment Center made by Robert N. Tadross, a large proportion of the respondents (American investors in India) consider the Indian Investment Center a biased source of information.<sup>1)</sup> This is attributable, to some extent, to their emphasis on only the favorable aspects of Investment in India. Although most Investment Centers are independent bodies, they do have a quasi-governmental standing and operate closely with official policy. This arrangement gives the agencies official backing, but at the same time bathes them in the light of poor objectivity and credibility in the eyes of the potential foreign investors. Therefore, Investment Centers should minimize government influence on them. Also the Centers should have more *Freedom of action* while maintaining close contact with related organizations of the government. As described in the previous chapters, the Centers' representatives have almost no authority in the decision-making process. If everything has to be referred to the head offices, it delays the activities of the overseas offices.

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1) Robert N. Tadross, *The Indian Investment Center: An Evaluation*, p. New York University, New York, 1967, p69.

Second, whenever possible, the agencies should be represented in conferences held in the host or capital exporting country between the government and the potential investor. Otherwise, the agency should be kept informed on all problems of negotiations. In either case, the agency's representative may be able to settle the differences through "unofficial" discussions with both parties, motivated by the desire to bring about a meeting of the minds<sup>2)</sup>.

In the rest of the institutions, the stated objectives for investment promotion are limited in scope, which puts them in a weak position to take active measures in the promotion of American private investment. That is to say, their involvement in investment promotion is passive. Therefore, the institutions should at least implicitly have the related areas that are conducive to investment promotion as their objectives.

Fulfilling the objectives satisfactorily requires an efficient system. No system is perfect but should be improved. With specific regard to the investment promotional operations, the following points should be considered:

First, coordination between the different institutions and between institutions and relevant head offices or government organizations is necessary to increase the efficiency of operations of each institution. It is surprising that institutions of the same country do not know exactly what others are doing in the same area. Second, different institutions have different methods of operation. For example, some institutions are using the "personal visit" method in contacting potential American investors without any assurance that it is the most favorable approach for them. One or more approaches which are most favorable to any specific institution in a given situation have to be developed by each institution.

Third, an assessment system has to be developed explaining how effective their operations are. This is a very difficult task because of the different objectives pursued by each institution. However, a scientific approach is badly needed to achieve the best results from the operation.

Basic policies governing foreign investment set forth certain categories of industries which are welcomed by each country. Any promotional activities which are not in conformity with this policy will lose their meaning and justification because the ultimate goal of attracting foreign private capital is to serve the needs of the economy, i.e., to benefit the country in one way or another. Not all investments from abroad are beneficial to the host country,

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2) Harry J. Robinson, *Investment Promotion for Developing Countries*, United Nations Industrial Development Organization, Vienna, 1967, p. 9.

especially to the developing countries. But some people in responsible positions take a "The More, The Better" attitude toward American private investment. Therefore, it would be prudent to establish priority in the concentration of efforts on different types of industries. India, for example, through the Indian Investment Center, advertises for specific types of investment by issuing brochures showing opportunities in certain industries.

It is very important that, as Yair Aharoni asserts, "governments wishing to attract American investors should not rely on the American entrepreneur to initiate a project. They should make a continuous effort to discover projects suitable to the conditions of their countries (and balanced with their general development programs) and make such projects known to prospective investors in the United States."<sup>3</sup> In other words, they should take the "initiative approach" rather than the "passive approach." The former approach is designed to persuade American potential investors *to decide* to invest in their countries, while the latter approach is *to assist* them to invest in their countries. Although the Israel Investment Authority experienced that the passive approach had been very productive, as already mentioned before, this author, for one, strongly supports the former approach because it is really a "promotion".

The fuel for development is finance. Today the bulk of capital available for export in the most highly developed countries, especially in the U.S., is in the form of private investment. Therefore, the success in the efforts to attract American private investment will largely decide the success in the developmental efforts of foreign countries.

Based on the previous analysis, the following recommendations are made for the successful fulfillment of the objectives:

a. Foreign countries should improve their general investment climate and investment incentives, and should remove restrictions as much as possible. It is to be remembered that a favorable investment climate is a prerequisite for the success of investment promotional operations.

b. The source of financing of the investment promotional agencies should be that the agencies are not limited in their fields of operation. Enough funds must be allocated in order to attract American private investment efficiently. Therefore, a budget increase is necessitated.

c. Foreign governments should direct their efforts to obtaining more and

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3) Yair Aharoni, *The Foreign Investment Decision Process*, Harvard University Press, Boston, 1966, p. 224.

better-trained personnel. Carrying out the functions of information management and the promotion of investment requires better qualified personnel with considerable knowledge and experience in the field. This suggests that the staffs of the investment promotional agencies should be recruited from the ranks of management in their own countries, especially those with operating experience in the private sector of the economy. Although these staffs will have to become more aggressive in their search for potential investors, their background as managers in their home country should aid them in their contacts with American businessmen.

d. Investment promotional efforts should be made efficient so as to ensure maximum results. Many foreign countries spend a large amount of money in a variety of activities and arrangements. They should expend more of their budget in the areas where they can obtain most out of it. The developing countries that have been most successful in attracting foreign private investment, have actively sought it by persuading potential investors that they were welcome to engage in business within the framework of the national laws. Ecuador's national development institutions, CENDES, for example, has demonstrated what an aggressive campaign to attract foreign private investment can accomplish. Over the five year period 1962-67, approximately forty-four dollars of private investment in Ecuador had been obtained for each dollar expended in the investment promotion effort. CENDES officials stated that the percentage of investment for each dollar spent would have been considerably better if so much money had not been used unnecessarily on costly feasibility studies.<sup>4)</sup>

e. Developing countries should preserve the greatest possible stability in their laws and regulations affecting foreign investment. The poor image of developing countries in business circles which impedes promotion of foreign investment is the result of the cumbersome administrative procedures and inefficient decision-making processes which companies often encounter when planning an investment in such countries.

f. U.S. foreign economic policy and the other environments which will influence the promotional operations of foreign countries should be carefully reviewed by foreign governments in order to increase the efficiency of operations by adapting to a changing economic environment.

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4) Theodore G. Markow, *Foreign Private Industrial Investment in Developing Countries with Emphasis on Latin American Ones*, United Nations Industrial Development Organization, Vienna, 1967, p. 6.

This study raises additional questions on some related issues. Some of them are as follows:

a. What are the most important factors for American potential investors to make decisions to invest abroad?

b. What are the factors that decide the effectiveness of the operations of investment promotional agencies? How can the effectiveness of one agency be compared with that of another? What are the standards for such comparison?

c. What are the adequate systems that can evaluate the performance of promotional agencies? What is the way to measure gains achieved by the agencies?

d. What is the most effective method of contacting potential investors? What is the most effective method of identifying potential investors?

e. How can the relative weight (importance) of various kinds of operations be decided?

f. How can the objectivity and credibility of information be increased?

g. How can the optimum budget for efficient operation of the agencies be decided? How should it be allocated? What is the gap between the optimum and current budget?

h. When we regard promotion of investment as a "process of international business negotiations", what are the underlying principles that are applicable for the successful attainment of objectives?

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