

CREATING AND MARKETING AN IDEAL INVESTMENT ENVIRONMENT

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INTRODUCTION

The focus of this paper is on attracting the "export-oriented investor". An investor has the free choice of various locations in any region, or even the world, for the establishment of his project. Many developing countries and in fact most developed countries are "bending backwards" to either attract or retain the manufacturer who has an export-oriented project.

A local investor has little choice in respect of location and will be prepared to put up with all types of hardships, red-tapes, corruption etc., so as to make a living. Some foreign investors, seeking to set up import-substituting or resource-based projects, may also be prepared to tolerate difficulties and red-tape as long they have the assurance of a protected domestic market or easy access to raw materials. However, given the new opportunities springing up around the world and the limited amount of investment capital, even these types of foreign investors have a choice of several locations for import substituting industries. They will choose the location where the investment environment gives the least problems of a "non-business" nature.

If an investment environment is attractive for export-oriented foreign investors, then one can assume that this would constitute the ideal environment for domestic and import substitution manufacturers or for that matter any other type of investor. In creating an ideal investment environment it is prudent to look at it, not so much from the government official's point of view (who may tend to think he is giving away much), but from the viewpoint of someone seeking to invest his funds in a safe environment and with an expectation of suitable returns on investment. Government officials should empathise with the position of the local or foreign investor. The question should be asked, "If I was going to invest my money, my time and effort in another country, what conditions would I reasonably expect in that country?"

Given such a question, 10 factors spring to the forefront. These factors may be termed as the 10 checkpoints or 10 commandments for an ideal investment environment. They are:

- (i) Political stability
- (ii) Economic strength
- (iii) Attitude of welcome
- (iv) Government policies

- (a) Equity guidelines
- (b) Employment of expatriates
- (c) Exchange control
- (v) Infrastructure
- (vi) Labour
- (vii) Banking and Finance
- (viii) Government bureaucracy
- (ix) Local business environment
- (x) Quality of life

The bonus factor, factor (xi) would be the tax incentives offered. This is icing on the fruit cake. But, however attractive the icing, there must first and foremost be a solid mixed fruit cake underneath! This mixture makes up the investment environment. Let us now look at each of these in perspective, and why it should concern investors and governments trying to attract foreign investors.

POLITICAL STABILITY

This is the prime factor. If there is possibility of political turmoil, coup-de-tats, violence, danger from hostile neighbouring countries, terrorist activities etc. - these would wipe out overnight even the most lucrative investments and endanger the lives of their personnel. Many countries in the world and many companies have paid a heavy price because they overlooked or ignored this factor.

Political stability is critical. The independence of the judicial system, the lack of violent internal confrontations, including absence of fear of external aggression by hostile neighbours are part of this package. Oddly enough - the question of the "Western model" democracy does not seem to be a critical issue. As long as there is stability, no violence and no threat of violent overthrow of the existing governments and consequently change of policies, this would constitute acceptable political stability.

Two or three very successful nations in the Far East have hardly what one might call, a multi-party democratic system in the classic Westminster tradition, yet they are considered politically stable and have attracted vast amounts of investment capital. For the investor, political stability also means continuity of announced policies and an evolution of rules and regulations and not revolutionary changes due to changes in governments, so that he can plan ahead with confidence.

ECONOMIC STRENGTH

No investor would want to invest in a country where the economic fundamentals are so weak that he is totally unaware or is unsure of what the government will do to shore up a sagging economy. A country that has sound economic fundamentals is not

likely to make drastic or negative changes. Also the investor is assured that as the economy grows then there will be increasing opportunities for business as more government development projects and private sector investments put purchasing power in the hands of the people. Increased purchasing power means increased positive multiplier effects on the economy, more houses, cars, etc., and this again will be a source for stability.

A country with rampant unemployment and especially where people do not see any prospects of future prosperity/happiness is a "time bomb" waiting for a particular flash point to explode. As long as citizens do not have a physical stake in the country/city (for examples secured jobs, houses) or prospects thereof, they have the potential to be incited into violence, rioting etc., for "they have nothing to lose". The saying "poverty anywhere is a threat to prosperity everywhere" is too much of a truism to be taken lightly.

ATTITUDE OF WELCOME

How does a foreign investor feel when he is in the country? It is normal that the ministers and top civil servants proceed on investment missions abroad and welcome foreigners to visit their country - both as tourists and investors. However, is this attitude of welcome a pervasive one? Do all government officers, labour leaders, opposition party politicians feel the same way?

What about the people of the country in general? Have the past anti-foreign rhetoric of leaders created a sense of xenophobia, fear and hatred for foreigners, and is there a possibility that these can be brought to surface over minor incidents, especially by unscrupulous politicians or even labour leaders?

Have the immigration and customs officers at airports and other entry points been fully briefed to be made aware of the critical role they play in the entire investment promotion effort? Or do officers at the entry points see every foreigner as an exploiter, a nuisance in their country, someone who should be "properly harassed" before he is allowed to enter, or at the least, is seen as a source of "corrupt pocket money"?

Could situations arise, as in the case of one African country whose government had launched massive campaigns to attract foreign investors, where a German investor who arrived at the immigration desk was subject to the following:

Immigration officer : "What is the purpose of your visit to my country"?

German investor : "I am looking at the possibility of investing and doing business in your country!"

Immigration officer : "Why? What is wrong with your country?"

Naturally that project died at the desk of the immigration officer.

Thus, it is critical that all government officials, who will come at one point or another in contact with the foreign investor, be fully briefed that "these foreigners are bringing great benefits to the nation. Of course, they seek profits, but the fact that they choose your country as opposed to other countries is a factor in your favour for they create

employment, increased foreign exchange reserves, create multiplier effects etc. that will all lead to increased prosperity to the nation".

Political leaders in government and oppositions, including labour union leaders should all be in consonance with the overall National Economic Policy. All it needs is for one of the above to give a speech that has an anti-foreign investment flavour, and if this is carried by national and international media, it could do incalculable harm to government investment promotion efforts and would be difficult to rectify.

Thus, the key factor of mutuality of benefits should be made known to all and this must be reflected in all dealings with foreign investors.

GOVERNMENT POLICIES

Foreign investors (in fact all investors) are very concerned about all government policies that could in one way or another affect business - trade and investment. However, critical amongst them, especially for the investor who is to be attracted to invest money, time, personnel, resources, etc. into any country would be a triumvirate of 3 factors - the 3 'E's:

(a) Equity Guidelines:

Put in a simple terms - "how much of my business can I own?" This is a critical factor and often the investor's attitude towards ownership will differ depending upon the type of project. Here are some examples:

- (i) If the project is export-oriented and does not depend critically upon the raw materials of the country (especially depleting raw materials) then the foreign investor would insist on majority or often 100% foreign ownership.

This attitude of 100% foreign ownership for 80% - 100 % export projects is virtually a "sacrosanct policy" of multi-national companies whose world-wide corporate policies leave little negotiating leverage in the hands of those investigating or negotiating the proposed investments.

However, if the foreign investor is not a multi-national and if his project is perhaps his first or second foreign investment, then the investor would be more amenable to allowing minority local participation in the export oriented projects. Sometimes if he has sufficient returns through royalty and technical know-how payments, he would be prepared to even allow for local majority ownership and be satisfied with minority equity.

- (ii) If the project is export-oriented, but critically depends upon raw materials of the country, his attitude will depend upon the availability of neighbouring countries that may offer equally or

even slightly less favourable investment environments. If a neighbouring country has a "tolerable" investment environment but is prepared to offer him 100% foreign ownership and if the "base country" where the raw material exists insists on equity participation, the investor is left with an option to either surrender equity or go to the neighbouring country, put up with difficulties but have 100% foreign ownership.

Even if it is more profitable cost-wise for the investor to locate in the "base country" - (let us say he is able to make a RM 10 million profit in the "base country" and is allowed only 50% equity, but is allowed 100% equity in the neighbouring country where he could only hope to make RM 7 million profit); the economics of personal benefit may well dictate that he locate the project in the neighbouring country and import the raw materials from the base country, even paying possibly export duties.

Thus, developing countries wooing export-oriented manufacturers must be sensitive to strategic options available to foreign investors, especially in the key issue of ownership.

However, if a project is for the domestic market, even most multi-nationals generally accept the need to offer local ownership or even local control, or risk losing that market through high tariff barriers set up after competitors invest in that country.

Even in the case of the above scenario one cannot take things for granted, especially if the country wishes to attract a "well known" international name to set up the domestic market-oriented venture (with always a hope that this will blossom into exports at a later date). All companies have at any one point of time a limited amount of investment capital to invest in projects around the world. Thus, even for domestic market-oriented investments, companies do have strategic options as to where they should invest a given sum of money for that year. It is quite likely that once the investment is made, it will take two or more years before the company would be prepared to consider another investment; unless it is cash rich or has access to funding at reasonably low rates of interest, and has sufficient skilled personnel and managers to set up and develop a number of green-field projects simultaneously.

(b) Employment of Expatriates

"Once I know how much I can own, who will look after the project and especially my personal interest in that project?" This is the natural question that any investor, investing anywhere in the world will ask and thus the policy on expatriate employment becomes a critical issue.

The developing country that wishes to attract a project onto its shores may feel that they have enough skilled and capable managers and technicians, who, given sufficient training, can run a factory.

But that is not the issue. The key issue is, who will, in the long run, look after the interest of the foreign investor in the project - regardless of the availability of local personnel?

Thus, it is critical that governments must be prepared to allow for one or a number of permanent "foreign posts", in any project where the foreign investor has a degree of equity participation. One such permanent post is inevitable, however small the project may appear to be; for whatever the size, the foreign investor would wish to see his interest safeguarded. For larger projects, there could be a need for 2, 3 or even 4 such posts depending upon factors such as size of project, technological sophistication, export orientation, degree of decision making authority delegated to the project etc.

These permanent post will be in addition to the temporary posts for skilled personnel to train local staff. Such temporary posts can be for duration anywhere between 2 to 10 years.

It should be noted that in the context of the permanent posts, the "posts" are permanent foreign posts, but not necessarily the individuals, who may be subject to change. This is especially so for multi-national companies. However, in the case of smaller or family-owned operations, it is likely that the holder of the post may be one individual member of the family and not subject to change. Developing countries should be prepared to be flexible in the administration of this policy.

It is often assumed by governments in some developing countries that the foreign investor's prime desire is to "fill" the plant with expatriates. This is often far from the actual situation. An expatriate working in a foreign operation is an expensive commodity for any enterprise. Many companies would prefer to have their local company manned by local staff wherever possible.

American multi-nationals have perhaps the best track record of training and "localising" their overseas operations with local staff as long as the staff have proven capability. In fact, competent local staff from one developing country are often used by US corporations to become expatriates in other operations in the region or even in other world-wide operations.

European multi-nationals are less likely to "localise" their entire operation and in the long run will expect to have at least one post held by "their own" people.

Far Eastern Corporations, be they from Taiwan or Korea, and especially those from Japan will be the ones most likely to require a larger number of their own expatriates as compared to similar sized American and European corporations. The reasons for these are too complex for this

paper, but suffice to say this has to do with their business culture, their need to communicate with their headquarters in their own language, different accounting and tax systems of home country and host country, "comfort in company" for staff and family serving overseas, etc.

Thus, here again a blanket policy by developing countries on expatriate employment would not be advisable and a more flexible approach would bring long-term benefit. This does not suggest that there should be a "free for all" - but merely that any policy so drawn should take into consideration the different categories of investors/projects and clear and transparent guidelines be drawn and implemented in a humane manner. Issues such as length of stay for initial approval, need for yearly renewal of work permits, multiple entry visas for expatriate and family etc. are important details in forging this policy, and its concomitant rules and regulations.

(c) Exchange Control

This is another vital factor for the investor - often even before (a) and (b) above. Simply put "How easy is it to bring my money into the country and more important, how easy is it to repatriate my profits and also my capital from the country?"

The simple truth of the matter is that no one would want to dive into a pool from which he cannot emerge. In countries which have liberal exchange control regimes, it has been found that paradoxically the guaranteed right that an investor has to repatriate his profits and capital is the very factor that will encourage him not to repatriate, but reinvest his funds for expansion and diversification.

Of course, in developing countries that have for years imposed a strict regime of Exchange Control, and where foreign investor profits languish in "blocked funds", "surplus funds" and other such accounts, the immediate and unconditional removal of all Exchange Control regulations could have traumatic effects on the economy.

It is a classic "pressure cooker" situation. A pressure cooker has a safety valve that allows excess steam to be released in a controlled manner. If, however, the valve is tightly shut for a period, allowing no steam to escape and causing build-up of pressure, then any attempt to suddenly remove the valve will not only end up with escape of steam, but also much of the meat and vegetables in the cooker.

This "pressure cooker" syndrome is equally applicable where foreign exchange controls have been very stringent. If all restrictions are removed suddenly, then those who are uncertain of future steps to be taken by the government will take whatever funds they have out of the country and then sit back and see how serious the government is in maintaining this free system, before they make their next move.

Thus, for those countries that have long had restricted exchange control regimes - there would be a need to create virtually a "dual economy" within their economic system, allowing for free flow, but yet ensuring that "the vegetable and meat" do not fly out!! (This, however, is an entirely separate topic).

The freedom of movement of capital and profit is not nearly enough. The ability of companies to hold foreign exchange external accounts in domestic or foreign banks (i.e. of the earnings they make in foreign exchange) would be another positive factor, for this would save considerable losses to companies in the exchange risks they have to face.

Another factor that is of concern, especially to multi-national organisations with parent companies supplying components to projects in developing countries and buying back sub-assemblies or finished products - or even where companies, export direct to buyers on orders received through the parent company, would be the issue of "inter-company accounts". In a world where physical movement of funds are being offset by contra-entries, this inter-company accounting system would be a useful incentive to offer, where companies have to deal with only "net flows" of funds.

INFRASTRUCTURE

Once the investor is satisfied with all factors from 1 to 4, his next concern would be infrastructure - the availability, reliability and cost which will affect directly his manufacturing costs. This word "infrastructure" covers a host of items:

- (a) Industrial land - fully prepared and "visible" that it is prepared. What type of land? "Is it filled land or cut land?" His construction costs could be seriously affected by the nature of the land. Has the land been sub-divided and can one have title deeds to the land in a reasonable period of time not just as a factor of comfort, but to be able to charge these to banks as collateral for loans.
What are the lease periods? (No investor really expects freehold industrial land - but that would be a great bonus). If it is 33 years - would this be acceptable? Normal practice and reasonably accepted would be a 66 years lease period with possibility of extension for another 33 years. Anyhow, whatever the system of leasehold its minimum duration is a critical factor.
- (b) Availability of roads and rail from the ports (air and sea) to the industrial area and to main markets. These facilities must be free from floods, land slides, and other natural or man-made catastrophes, for example terrorist attacks.
- (c) Electricity, besides availability other issues such as voltage fluctuations, brown outs, black outs etc., must also be ironed out.

- (d) Water supply, availability, reliability and also in some cases treated or untreated water.
- (e) Telecommunications - telephone, telex, fax, etc. for internal and international communications. Also, for advanced operations, availability of computer linkages from factory direct to parent company in USA/Europe etc. through satellites.

Critical to all of the above (a) to (e) and other factors needed for operations would be the cost of these facilities. How competitive are these when compared to neighbouring environments.

LABOUR

Often, it is assumed that companies from developed countries are merely investing in developing countries because of cheap labour. This is true only to an extent that the labour in developing countries are cheaper than those in developed nations. If cheapness per se was the criteria, many of the relatively lower population/higher labour cost developing countries of the Far East would have lost out to the high population, low wage countries of India, Indonesia, Africa, etc.

So obviously, experience on the ground shows that cheapness per se is not the absolute factor and that many other factors influence the question of labour itself, let alone all other non-labour criteria.

The education standards of the population, the trainability of workers, the work ethics of the population, the harmony of the labour environment relatively free of labour-management conflict, the influence of politics and political parties on the labour movement or labour unions, the availability of professional and technical personnel among locals, the productivity levels that can be achieved due to work culture etc. All these are critical factors over and above the issues of sheer availability of workers and costs.

BANKING AND FINANCE

A foreign investor with the knowledge that a bank from his country or that a multi-national type bank is located in that country, will be more confident of his investments, rather than if he had to deal with strange local banks. These local banks may be excellent, but in the initial stages it is a matter of confidence. Foreign banks can play an invaluable role as confidence boosters and also to assist in investment promotion efforts in their home environments, spurred by their own selfish (here this is used positively) interest of business and profits. Issues related to banking and finance are many.

Are all the instrumentalities required for modern international trade and investments available? Are there sufficient numbers of banks with international connections to conduct competitive international business? What are the cost of funds and how difficult is it to get access to these funds? Are branch banks of the major trading and

investment nations located in that country or do government rules exclude foreign banking operations? What about availability of merchant banks and those that can help put up a package of funding for large-scale projects? What of the availability of development banks that can offer medium and long-term loans for manufacturing projects at reasonable costs? All these are often critical to medium scale foreign investor and even to multi-nationals.

GOVERNMENT BUREAUCRACY

This could be the biggest "bug-bear" in any investment environment! It does not matter as to how efficient the government thinks its investment machinery is - what is critical is the perception of businessmen - especially those already operating on the ground? Does the businessman feel that government officials are an ally and a friend in their efforts to set up and operate efficient business units or do they perceive the situation such that they have to "fight" the government machinery to get projects off the ground? Are investments being made in spite of government or because of government support.

What is the extent of bureaucracy - not only at the national or central levels, but also at district, local council, and municipal levels? An efficient national/central government machinery could find its efforts at expediting project approvals totally defeated by bureaucracy at the implementation stage of the project i.e. at district and municipal levels. Thus governments may be able to show impressive records of project approvals, but after a few years nothing much to show on the ground.

Unnecessary government bureaucracy are like to many chains holding back private sector initiative. Government efforts to remove some of these chains is not enough. Even one chain, for example, after everything has been approved and implemented smoothly, if the Fire Department, or the Inspector of Machinery delays inspection and approval or comes up with difficulties not made apparent at the beginning, this one Department can hold up the project and deny a country its much needed employment, exports, etc. and discourage new investors.

Under government bureaucracy would also come factors such "helpful" factors as Investment Guarantee, Double Taxation and other agreements which are dealt with on a government to government basis.

LOCAL BUSINESS ENVIRONMENT

This expression covers a multitude of factors, including the availability of local lawyers, secretarial service, accountants, architects and building contractors for sophisticated factory building, local consultants, etc., all required for a project's pre-start-up and start-up phase.

What is the availability of ancillary and supporting industries, the quality and cost of these? Must the investor import all his requirements or can he get these locally? In today's environment where industrialists are talking in terms of "just-in-time" production, "ZERO inventory controls," etc. the availability of suitable ancillary and supporting industries and facilities could provide the competitive edge.

Another question would be the availability of suitable joint-venture partners. Must the joint-venture partner come from a select group of people, related to or having connections with government authorities/leaders for projects to succeed, or is the potential investor free to choose his business partner from someone he can trust and who is prepared to work hard to ensure the success of the project? Are there lists of potential partners available which the investor can choose from or conversely choose to ignore if he had his own source of contacts for partners?

Finally, are local businessmen investing in their own country or are they holding back or moving funds abroad? Do they know a secret that the foreign investor does not know, about the pitfalls of investment?

A satisfied foreign investor, operating an efficient, growing enterprise and who is re-investing in that country is the best testimony of the country's environment.

QUALITY OF LIFE

Last and by no means the least is quality of life. This factor is taken for granted by many living in developing countries and quite used to whatever their environment has to offer. What the local people accept as normal and what long staying expatriates accept as part and parcel of their life in this foreign land can be quite a "culture shock" for the expatriate staff of the new investor proposing to set up a project in that country.

It must be appreciated that though the investor may put up the money for the project, quite often he is not the one who is going to uproot himself from his familiar home environment and run the project. Whether it is the case of the owner-investor-manager who is going to run the project, or a highly qualified professional, often the final decision will be left to the wife or to critical family considerations of education for expatriate children, (and this means international schools or even special "foreign national school" to cater for Japanese, Taiwanese or German children etc.), medical and health facilities, proper housing, safety of family members, etc.

If a foreign investor wishes to persuade his 'top' officials to run the new operation, the 'quality of life' aspects would be critical. Alternatively the investor may be either forced to look for alternative, more conducive investment environments, or settle for lower quality, mediocre staff who may be happy to go overseas, seeing this is an opportunity to earn more, or to get themselves the promotion they would be denied in their home environments. One could, of course, get lucky and end up with very good staff from the second choice candidates.

It must be kept in mind that with "economic" conditions being more or less equal in several developing countries, the quality of life aspect may well give the competitive edge to attract the foreign investor.

There is a quaint story, that a foreign investor investigating several locations in the Far East, and finding all of them more or less equally competitive, finally chose the country where he discovered that one could drink water direct from the tap, without any adverse consequences. He argued that a country that was conscious of public

health to that extent and had that kind of infrastructure, must be also good for this operations. He never regretted the decision.

Whereas the degree the "water story" had in persuading the investment decision may be argued, nevertheless it is illustrative of non-economic factors that impinge on investment decisions.

CONCLUSIONS

These, thus, are the 10 checkpoints that constitute an investment environment, and which encompass safety, cost, convenience and other factors. These are, of course, over and above the sheer critical factors of the economics of the project itself in terms of markets, other competitors, etc. Also, one should not forget the incentives - the "icing on the cake".

In the classic economic jargon, "ceteris paribus" i.e. "everything else being equal", among several investment environments, the incentives factor will come into play to determine how much of the profits the investor gets to keep. Whereas the 10 checkpoints and the other economic factors will determine whether the project will make profits (without which an assurance of a 100 years tax holiday would be futile), two issues, that of ownership and that of incentives will determine how much of the profit the investor retains and how much he has to share with the government and local partners.

In a situation today, when most Newly Industrialised Developing Countries and even Developed Nations are offering all types of tax holidays and other financial incentives to investors, the emerging developing countries have no choice but to do likewise. In fact, if it is found that whereas most developing countries offer "rear-end" incentives (i.e. incentive that spare or reduce taxes on profits), many developed nations offer "front end incentives" in the form of cash grants, highly subsidised land and factory buildings, etc.

Thus, it is critical that all Newly Emerging Developing Nations (NEDNs) seeking to attract foreign investors must be sensitive to the dynamics of the world investment environment. Today when investors are talking in terms of the world becoming a "Global Village" for manufacturing enterprises, where robotisation and automation are tending, in some cases, to vitiate the "cost of labour advantage" that NEDN may offer, - the competitor to the NEDN is not just the neighbouring country or even the country in the same continent ... the world is the market, the world is the competitive arena.

Unless this perspective is clearly grasped, understood and integrated into the planning and policy make-up of the NEDN, they will continue to flounder in a quicksand on inept policies and ineffectual efforts.

The four C's that dictate business decisions must be kept clearly in mind. These are:

- (i) Cost : What is the cost of doing business in this country? These include every factor that goes to make the cost of the product and those that increase costs

unnecessarily. These also include the social and other costs that companies and individuals must bear.

- (ii) Convenience : How easy is it to do business in this country? Convenience of Business, convenience of Living, convenience of Banking, Travel, Communications, etc.
- (iii) Capability : What is the capability of the infrastructure to sustain project needs, the capability of workers to meet productivity needs, the capability of the government machinery to respond to competitive needs, etc.?
- (iv) Concessions or Carrots : What concessions/carrots or incentives for establishment, exports, etc.? These include tax holidays, export incentives, concessional funding, and other cost reducing or profit enhancing incentives.

If all the above are in place and with a bit of luck, i.e. the world is not in deep recession and that when the NEDN does its investment promotion there are companies seeking new investment opportunities, then the likelihood of success can be assured. First, you must have a "good product" to market and then an equally effective marketing strategy. The strategy a country adopts in respect of its promotions and public relations efforts would be critical for success ... but that is another subject altogether.