

# Chapter 4: Environment for Int'l Investment

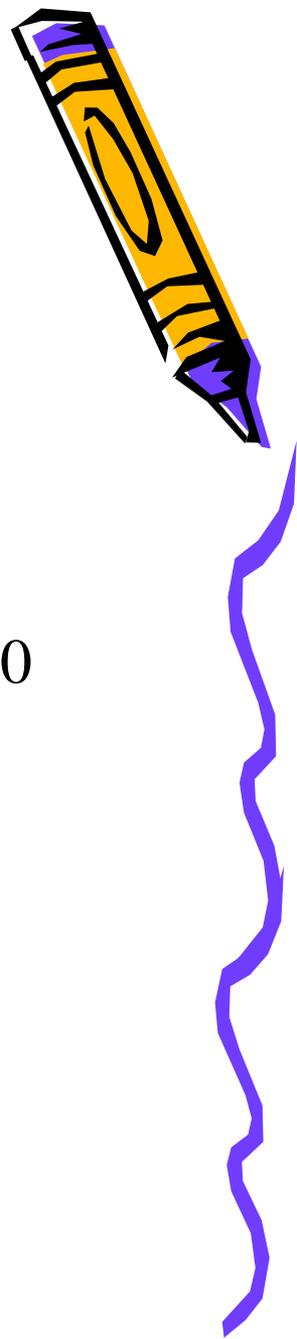
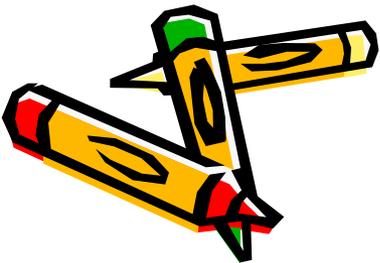
- Goal: To identify factors determining FDI
- Objectives: to be able to
  - grasp the factors influencing Int'l investment movement
  - analyze advantages and disadvantages of host/home countries in attracting/encouraging FDI inflow/outflow.
  - define the attractions and limitations of Vietnam's FDI environment
- Contents:
  - Home-country Environment (Push factors)
  - Host-country Environment (Pull factors)
  - International Environment



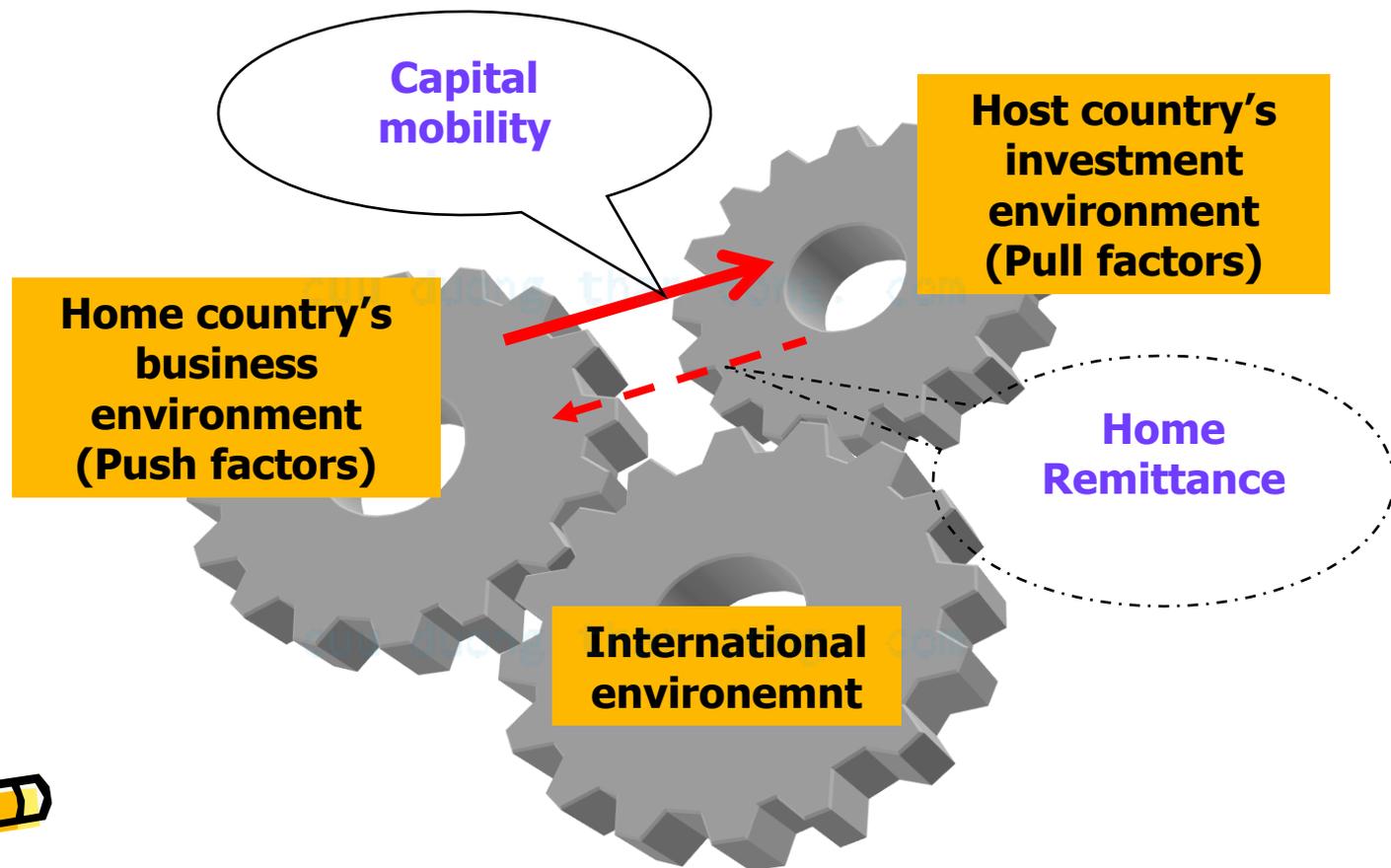
# Reference

- Phung Xuan Nha, 2001, International Investment (in Vietnamese), chapt.4.
- UNCTAD, World Investment Report, 1998, pp.89-130

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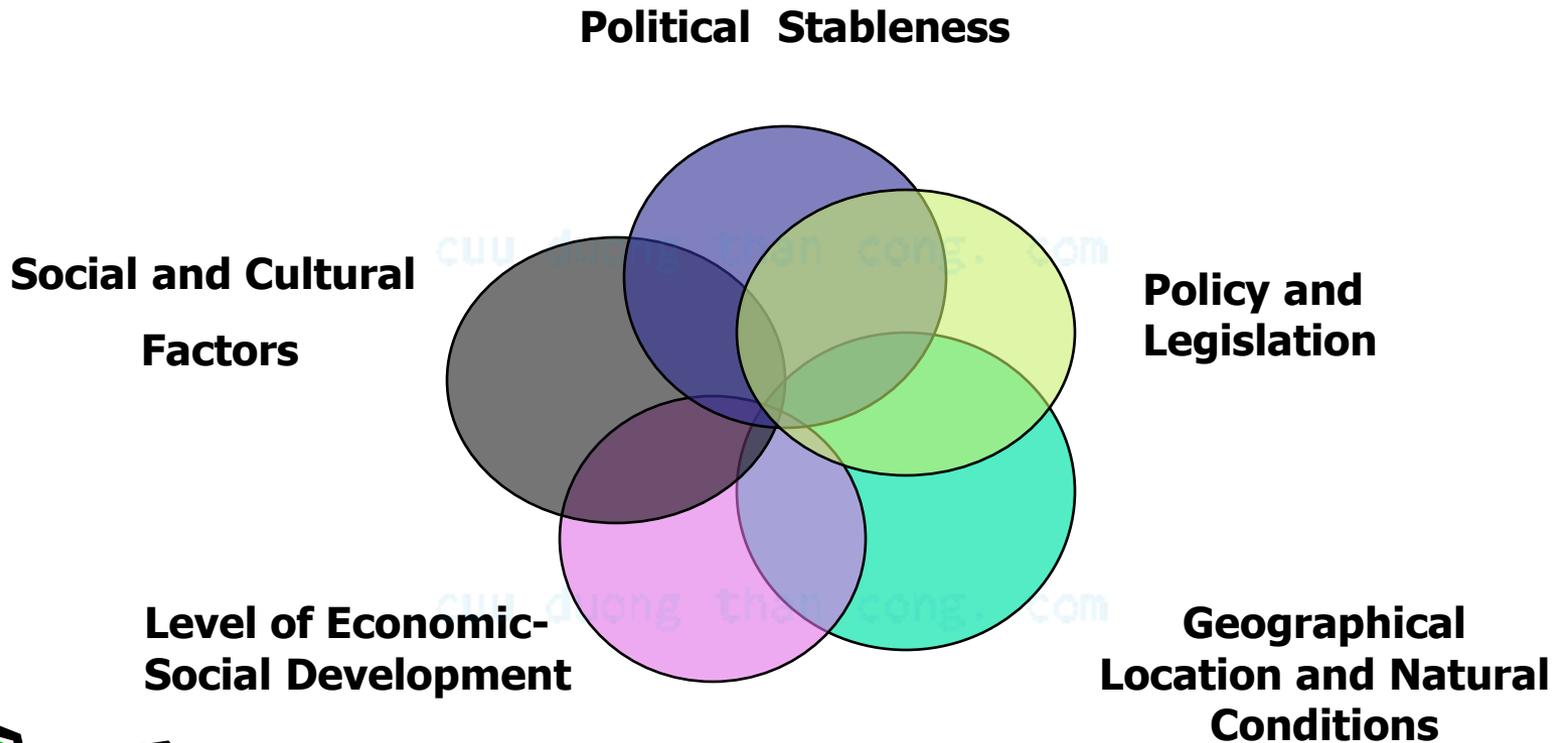


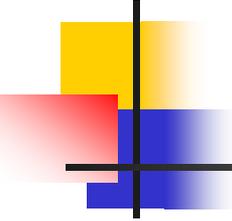
# Environment for International Investment



Source: Phùng Xuân Nhạ, 2001, *International Investment*, p.. 72

# Host-country's Investment Environment





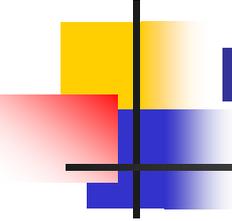
## In-class work

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- Each group find evidences of pull determinants

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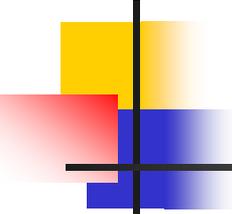
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# Political stability

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- A critical condition assuring
  - Investors' ownership of their assets
  - Government's investment orientation and FDI incentive maintaining.
- An indirect condition assuring:
  - Economic and social stability in the host country
  - Foreign affairs policy

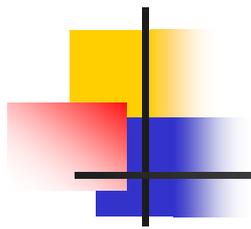


# Policy and legislation

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- Foreign investors are concerned with
  - Sufficient of laws, policies governing business and living in the host country
  - Transparency, systematic, consistency and efficiently implement of policy and laws
  - In accordance with international rules
  - Equality treatment between local and foreign investors
- Other concern:
  - Corruption
  - Administrative procedure

*(In 2008 Việt Nam ranked 121/180 in Corruption Perception Index  
Source: BMI Vietnam Business Forecast Report , Feb. 2009, p. 11)*

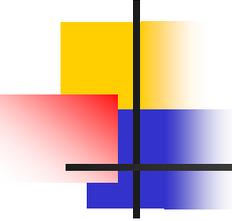


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# Which Countries Are Most Corrupt?

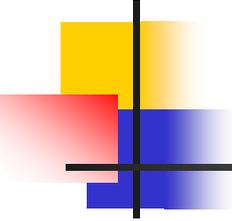




# Geographical location and natural conditions

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- Geographical location:
- Natural condition:
  - Climate
  - Natural resource
  - Population
  - Landscape

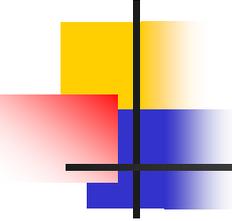


# Macroeconomic development

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- Level of macroeconomic management
  - Efficiency in manipulating the economy
  - Entry possibility of foreign investors
  - Administrative procedure
- Quality and quantity of services
- Competitiveness of local companies

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# Social and cultural factors

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- Ways of thinking
- Languages
- Religion, social ethic
- Custom, taste
- Education

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# Natural condition and geographical location



*Otsuchi town (Japan) after 11th March 2011 tsunami: a ship was drifted onto the top of a building.*

# Earthquake on 11<sup>th</sup> March 2011 in Tokai, Ibaraki prefecture, Japan



*Ready- for- shipment cars are burnt out . Source: CNN*

# Host-country's FDI Determinants

- Size and expected growth rate of the host economy.
- Indigenous market size/population
- Per capita income and spending habits of the local residents
- The educational level
- Availability of natural resources
- Reasonable labor cost
- Soft and hard Infrastructure conditions
- Marco-economic management.

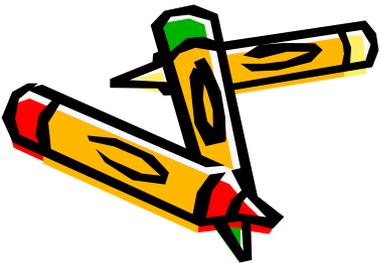
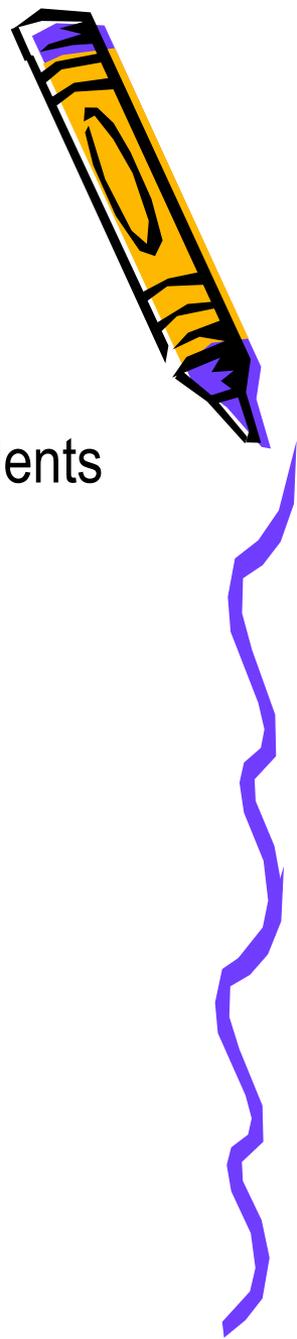




Table IV.5. General and climate change-specific foreign investment drivers

Drivers category	General factors	Climate change-specific factors
Home market and trade conditions	<ul style="list-style-type: none"> <li>Limited home market in terms of scale and opportunities to expand</li> <li>Availability of new products/services from parent company or TNC network</li> <li>Opportunities in new customer segments</li> <li>Need to circumvent trade barriers</li> </ul>	<ul style="list-style-type: none"> <li>Green/low-carbon brand strategies</li> <li>Carbon market trading</li> </ul>
Home government policies	<ul style="list-style-type: none"> <li>Government tax policies or incentives</li> <li>Governments' general trade policies and trade promotion efforts (export credits)</li> <li>Government foreign investment guarantees / insurance; ODA</li> </ul>	<ul style="list-style-type: none"> <li>Specific trade policy changes such as border measures</li> <li>Specific environmental regulations</li> </ul>
Costs of production	<ul style="list-style-type: none"> <li>Scarcity of resources or factor inputs</li> <li>Rising labour costs</li> </ul>	<ul style="list-style-type: none"> <li>Cheaper low-carbon energy</li> <li>Operational and energy-efficiency improvements</li> <li>Optimization of carbon tax exposure</li> </ul>
Business conditions	<ul style="list-style-type: none"> <li>Global company reputation</li> <li>Conformity to industry best practice</li> <li>NGO / consumer demand patterns and conditions</li> <li>Investor requirements</li> </ul>	<ul style="list-style-type: none"> <li>Conformity to industry best practice in the area of environmental management systems (e.g. ISO 14000) and sustainability reporting (e.g. GRI "G3")</li> <li>Consumer pressure leveraged through environmental labelling schemes (e.g. FSC certified wood)</li> <li>Investor demands (e.g. PRI) and access to finance issues (e.g. UNEP FI)</li> </ul>

Sources: UNCTAD, based on WIR06; Ernst & Young, 2009.



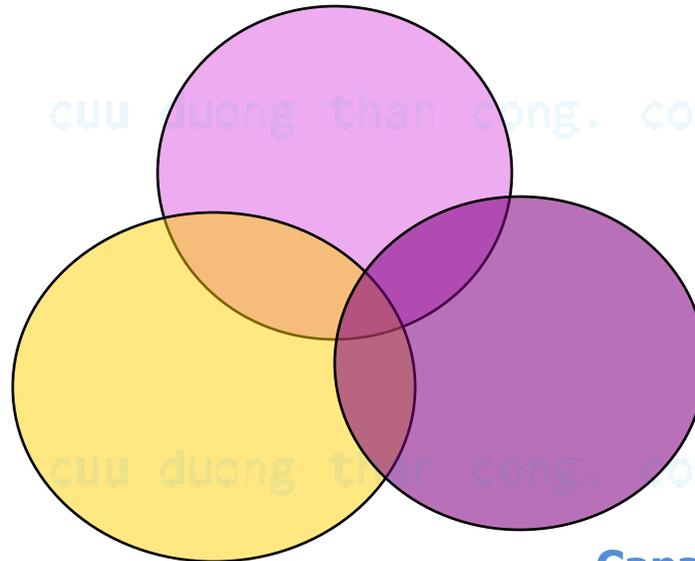
Table IV.6. Locational determinants of low-carbon foreign investment

General policy framework	
General policies	Climate change-specific policies
<ul style="list-style-type: none"> <li>• Economic, political and social stability</li> <li>• Good governance</li> <li>• Policies on functioning and structure of markets (esp. competition, M&amp;A and simple, transparent reporting standards in line with common international practice)</li> <li>• Protection of property rights (including intellectual property)</li> <li>• Industrial and regional policies; development of competitive clusters</li> <li>• Trade policy (tariffs and non-tariff barriers) and stable exchange rates</li> <li>• International investment agreements (IIAs)</li> </ul>	<ul style="list-style-type: none"> <li>• Nationally Appropriate Mitigation Actions (NAMA)</li> <li>• National Adaptation Programmes of Action (NAPA)</li> <li>• Environmental policy (environmental standards, carbon taxes, cap-and-trade schemes for greenhouse gas reductions)</li> <li>• Industrial policy (incl. energy efficiency standards)</li> <li>• Public procurement of energy efficient products</li> <li>• Energy policy (e.g. requirements of renewable/low-carbon energy shares in energy mix of utilities, feed-in tariffs, subsidies and incentives for low-carbon investments)</li> <li>• International/domestic financial mechanisms (carbon markets, public/private finance mechanisms)</li> <li>• National JI or CDM policy framework</li> <li>• Technology policy (related to generation, dissemination and diffusion of low-carbon know-how)</li> <li>• Trade policy adjustments for low-carbon activities (e.g. tariff reductions for capital goods/inputs for low-carbon activities, tariff policy of the home country with respect to potential host countries – for export activities of TNCs)</li> </ul>

Economic determinants			
General		Climate change-specific	
TNC motive	Economic determinants	Specific economic determinants	Relevant TNCs
Market-seeking	<ul style="list-style-type: none"> <li>Per capita income</li> <li>Market size</li> <li>Market growth</li> <li>Access to regional/global markets</li> </ul>	<p>New or expanding, often policy-created (see above), markets for:</p> <ul style="list-style-type: none"> <li>Low-carbon products (in general)</li> <li>Low-carbon energy</li> <li>Energy efficiency/carbon market services</li> </ul>	<ul style="list-style-type: none"> <li>Power utilities</li> <li>Energy efficiency or process improvement technology services</li> <li>Producers of low-carbon goods (e.g. carmakers, appliance manufacturers)</li> </ul>
Natural resource-seeking	<ul style="list-style-type: none"> <li>Access to raw materials</li> </ul>	<ul style="list-style-type: none"> <li>Access to sun, wind, water, natural gas or nuclear fuel/precious metals</li> <li>Access to precious metals, e.g. for solar batteries</li> </ul>	<ul style="list-style-type: none"> <li>Utilities and independent power producers</li> <li>Energy services companies</li> </ul>
Efficiency-seeking	<ul style="list-style-type: none"> <li>Different comparative advantages of countries</li> <li>Better deployment of global resources</li> </ul>	<ul style="list-style-type: none"> <li>Technology upgrades of existing foreign affiliates to gain advantage/or remain in local market</li> </ul>	<ul style="list-style-type: none"> <li>Manufacturers</li> <li>Power utilities</li> </ul>
Strategic asset-seeking	<ul style="list-style-type: none"> <li>Access to new competitive advantages</li> <li>Availability of and access to skilled labour</li> <li>Strategic infrastructure (e.g. oil pipelines, power grids)</li> </ul>	<ul style="list-style-type: none"> <li>Access to low-carbon know-how/project pipelines</li> <li>Leveraging of existing industrial know-how for low-carbon goods</li> <li>Local R&amp;D into low-carbon technologies</li> <li>Participation in low-carbon "clusters" (agglomeration effects facilitating rapid learning and uptake of new technologies)</li> </ul>	<ul style="list-style-type: none"> <li>TNCs seeking to fill knowledge and skills gaps in their product/service lines specific to low-carbon technologies</li> <li>TNCs seeking to enter new markets beyond their traditional activities</li> <li>TNCs desiring to "follow" developments in a key market</li> <li>Manufacturers of low-carbon goods to gain access to local knowledge</li> </ul>

# Home-country's Business Environment

**Changes in Macroeconomic Policy**



**Policies promoting overseas investment**

**Capability of Economy, science & technology, and social welfare policy.**

**Box IV.12. Promotion of outward foreign investment and climate change**

Numerous home countries, e.g. Germany, Japan and the United States, take measures to support outward low-carbon investment. This assistance can take many different forms, including subsidies, guarantees, concessional financing and equity investments.

Germany supports FDI projects with negligible environmental impacts, those that create a sustainable improvement of the environment, or those with environmental impacts that can be balanced out with other positive effects. To this end, the government has systemized its procedure to consider investment guarantee applications under environmental aspects.<sup>a</sup>

In Japan, the Japan Bank for International Cooperation (JBIC) has established specific guidelines in order to judge the environmental and social impacts of supported projects. It provides favourable loan terms to environmental conservation and improvement projects. Additionally, the bank established the JBIC Facility for Asia Cooperation and Environment with three objectives: (a) mobilize private capital to the maximum extent possible, through the use of equity participation measures and guarantees in JBIC's International Financial Operations; (b) support projects that contribute to mitigating climate change, e.g. projects promoting energy conservation, new energy resources, and forest conservation; and (c) promote projects in Asian countries, e.g. infrastructural development and energy projects (JBIC, 2009).

In the United States, the Overseas Private Investment Corporation (OPIC) has committed to reducing the greenhouse gas (GHG) emissions in OPIC supported projects by 30 per cent over a ten-year period and to shift investment focus to renewable and energy efficient projects.<sup>b</sup> To this end, OPIC offers various forms of financial and insurance support to the private sector to encourage and support renewable energy projects and projects that incorporate energy efficiency technology.

Source: UNCTAD.

<sup>a</sup> "Leaflet Environment", June 2001, Investment Guarantees of the Federal Republic of Germany - Direct Investment Abroad. Federal Ministry of Economics and Technology, PriceWaterhouseCoopers and Euler Hermes.

<sup>b</sup> "Update – Greenhouse Gas / Clean Energy Initiative", Fact sheet, 1 March 2009, Overseas Private Investment Corporation. Available at: [http://www.opic.gov/sites/default/files/docs/ghg\\_fact-sheet\\_070109.pdf](http://www.opic.gov/sites/default/files/docs/ghg_fact-sheet_070109.pdf) (accessed 17 June 2010).

*Source: WIR 2010, p.144*

**Box IV.13. EU-China Low Carbon Technology and Investment Demonstration Zones:  
an example of international low-carbon technology cooperation**

Under the overall China-EU climate change partnership, the creation of EU-China Low Carbon Technology and Investment Demonstration Zones (LCTIDZs) aims to help China meet the region-specific needs for its low-carbon economic transition. LCTIDZs are building on existing high-tech zones with a strong focus on low-carbon technology cooperation. The objectives of cooperation in LCTIDZs are:

To facilitate technology upgrading and accelerate joint development of new technologies by China and the EU, thereby helping to achieve short- and long-term CO<sub>2</sub> emissions reduction targets.

To allow the EU and China to work with the business community to build a new "protect and share" IP regime that can facilitate rapid and large-scale diffusion of low-carbon technology and help to prevent protectionist measures.

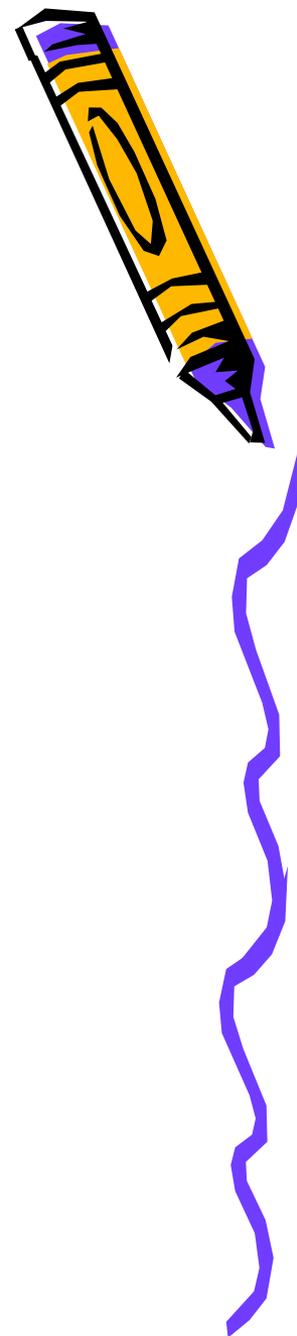
To identify and establish innovative mechanisms/financial instruments to help both Chinese and European enterprises, in particular small and medium sized enterprises, to overcome barriers to innovation and market entry through joint EU-China public and private partnerships.

*Source:* UNCTAD, based on E3G.

*Source: WIR 2010, p.145*

# Changes in Macro-economic policy

- Fiscal and Monetary policy:
  - Interest rate, Foreign exchange
  - Tax, Government expenditure
  
- Ex-Im policies:
  - Export/import quota
  - Tariff Adjustment
  
- Foreign Currency Management:
  - Loosen/tighten capital market
  - Required reserve ratio



# Policies for Oversea Investment



## ▪ Investment Agreements, Double Tax Agreements:

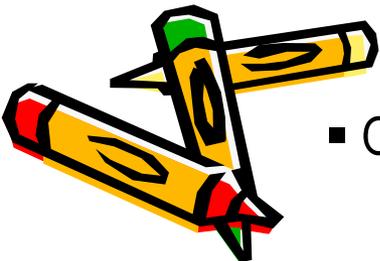
➤ A **bilateral investment treaty (BIT)** is an agreement establishing the terms and conditions for private investment by nationals and companies of one state in another state. This type of investment is called FDI. BITs are established through trade pacts. (A **trade pact** is a wide ranging tax, tariff and trade pact that often includes investment guarantees. Trade pacts are frequently politically contentious since they may change economic customs and deepen interdependence with trade partners).

➤ **Multilateral Agreement on Investment (MAI)** was a draft agreement negotiated between members of the Organisation for Economic Co-operation and Development (OECD) in 1995–1998. Its ostensible purpose was to develop multilateral rules that would ensure international investment was governed in a more systematic and uniform way between states. When its draft became public in 1997, it drew widespread criticism from civil society groups and developing countries, particularly over the possibility that the agreement would make it difficult to regulate foreign investors.

➤ Double Tax Agreement: aims at anti-double taxation

## ▪ Financial Support for Investment Promotion Campaigns, Investment Insurance

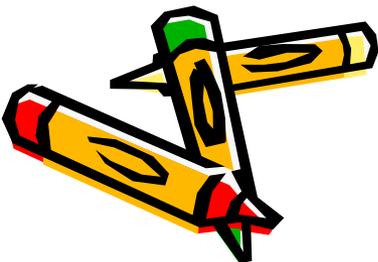
▪ Other: ODAs, Investment Services



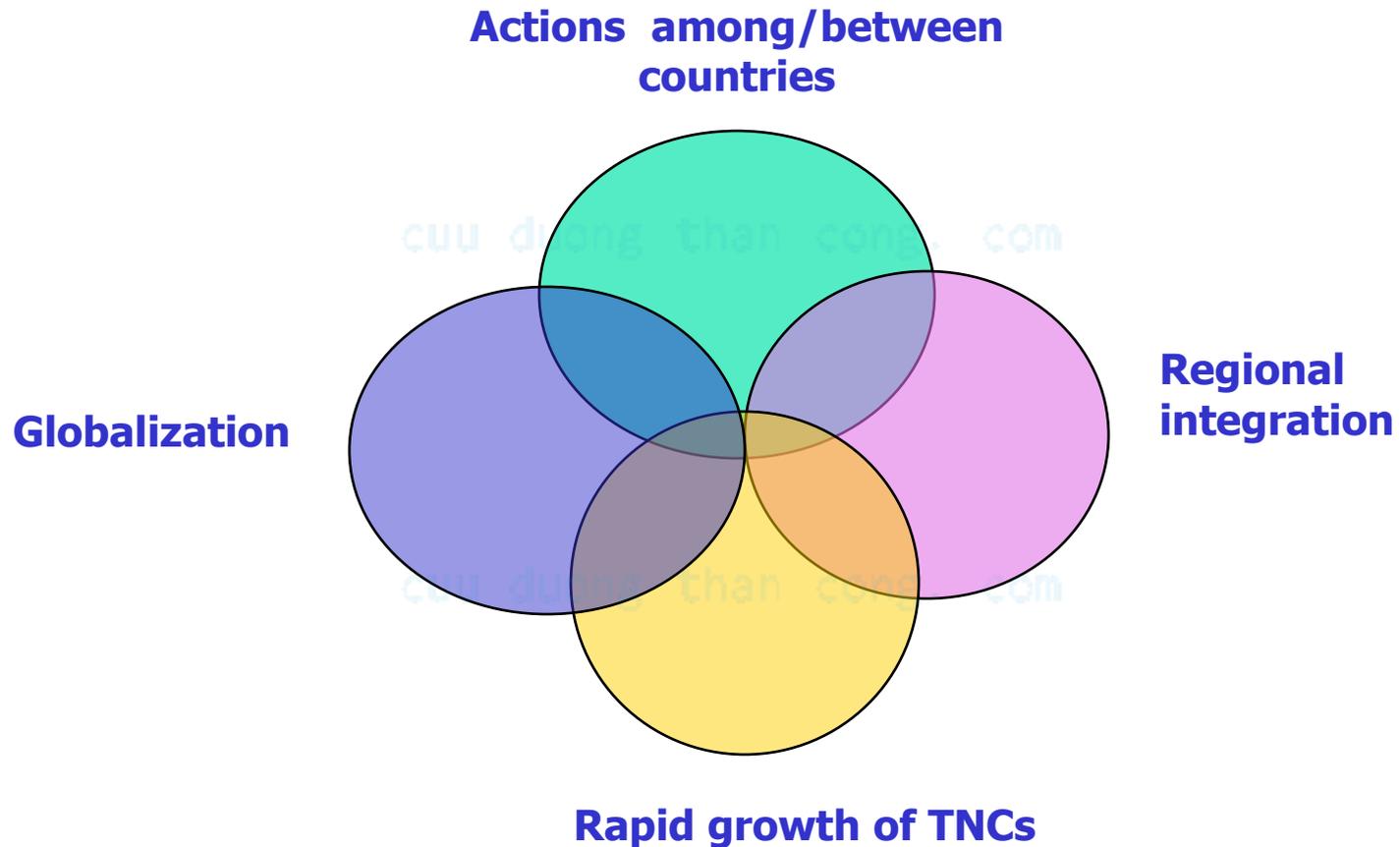
# Economic, Science and Technology Capability, and Social Welfare Policy.

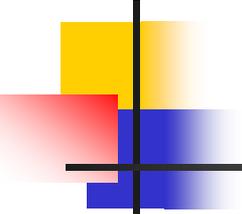
- High domestic savings → Capital surplus → overseas investment
- Technology and science development → overseas investment
- Welfare policy → high tax → overseas investment

Compensation for job-lost workers to be re-trained for new jobs.



# International Environment

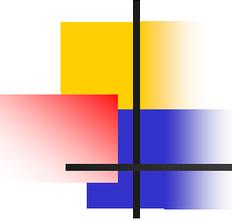




# Actions among/between countries

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- Political dialogue:
  - Avoid conflict and cold war
  - Reduce war threat
- Increase economic cooperation:
  - Increase Bilateral and multilateral agreements on trade and investment
  - Promote economic liberalization: reduce trade and investment barriers
- International integration
  - Forming free trade and investment areas
  - Mitigate investment risks



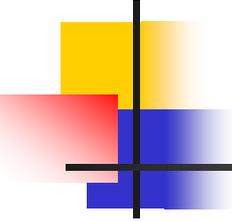
## In-class work

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- Find data in WIR 2007-2010 showing the increasing int'l cooperation

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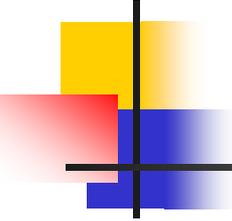
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# Regional integration

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- Make use of economies of scale:
  - Expand market size
  - Reduce investment cost
- Exploit production specialization and cooperation:
  - Raise specialization
  - TNCs implement transfer pricing



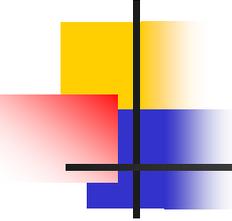
# Rapid growth of TNCs

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- TNCs and int'l investment
- TNCs and science and technology development

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# Globalization

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- Globalization and international production:
  - Raise specialization and cooperation in global scale.
  - Facilitate TNCs to exploit competitive advantage on global scale
  - Distribute int'l production factors to reduce cost
- Globalization and investment liberalization:
  - Cut barriers on cross-border trade and factor mobility
  - Forming free investment zones
- Technology development
  - Reduce cost
  - Expand investment area
  - Strengthen competitiveness,

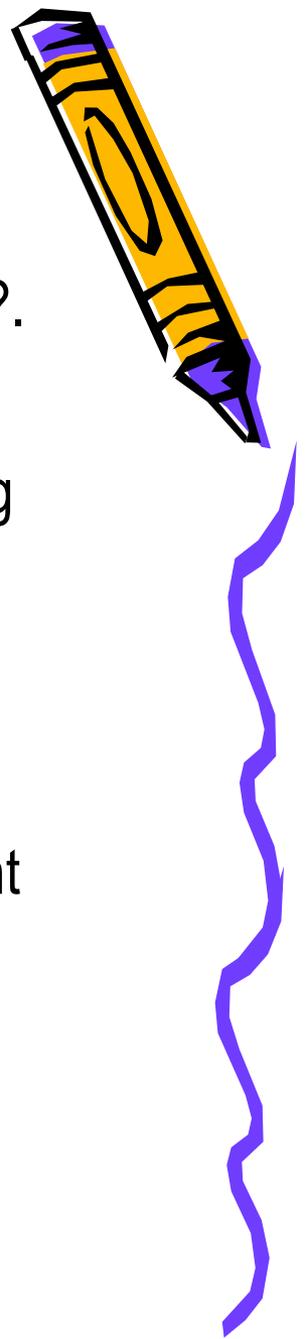
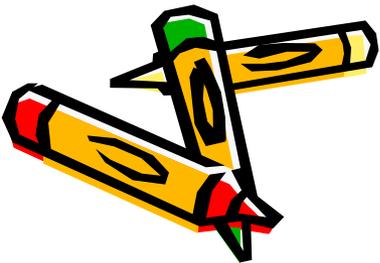
# Further Discussion

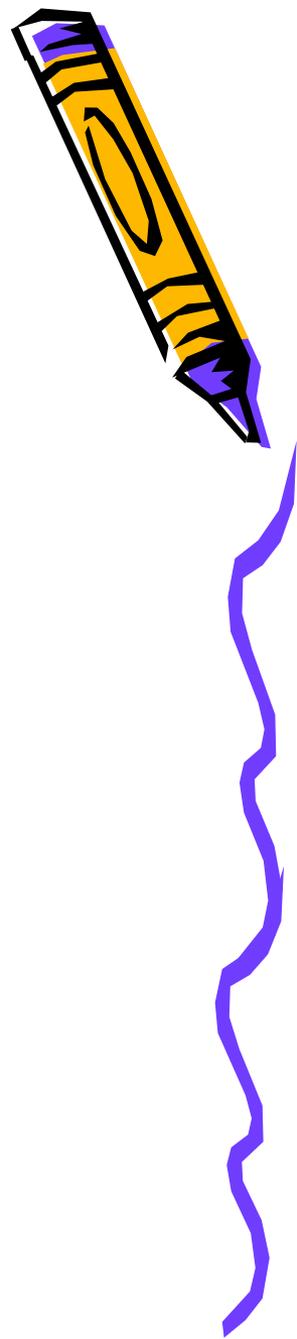
- Competitiveness in attracting FDI among developing countries?.
- Roles of “stable factors” and “changeable factors” at developing countries for attracting FDI?.

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- Impacts of Global Economic Crisis on Investors?.
- Impacts of Terrorism on the host country’s investment environment

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## End of chapter 4

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