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Hiroshima Office for Asia and the Pacific (HOAP)

***UNITAR/SHU Series on International Economics
and Finance***

***Foreign Direct Investment
for Development Financing***

Organized jointly by UNITAR and

W. Paul
Stillman School of Business
SETON HALL UNIVERSITY



***15 - 19 May 2006
Hiroshima, Japan***



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Executive Summary

May 2006

UNITAR expresses its thanks to the Hiroshima Prefectural Government and the Stillman School of Business at Seton Hall University (SHU), for their support and partnership. Our appreciation is also extended to Hiroshima Municipality and the Peace Memorial Museum, Hiroshima University, Japan Bank for International Cooperation (JBIC), Seoul National University (Korea), Mazda Motor and Molten Corporations and the many friends and allies of UNITAR in Japan and around the world for their generous assistance.

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This workshop concluded the first three-year cycle of the Series on International Economics and Finance. Based on the extraordinary lessons learned from our resource persons and participants in the past three years, UNITAR is redesigning the Series for 2006-2009, taking it further by applying its lessons in particular to post-conflict or in transition countries seeking economic development.



*The Hiroshima Office for Asia and the Pacific (HOAP) of the United Nations Institute for Training and Research (UNITAR) was established in 2003. Its main objective is to design and deliver training programmes for government officials, scholars, and representatives of civil society from developing countries of the region, in the areas of economic and social development, and peace and security. Each year HOAP organizes training workshops and symposia around seven thematic areas of which International Economics and Finance is one. For a full report of the 2006 workshop, please go to the following website: <http://www.unitar.org/hiroshima/programmes/ief06/>

UNITAR and the Stillman School of Business at Seton Hall University held a Training Workshop on ***Foreign Direct Investment for Development Financing*** in Hiroshima, Japan, from 15-19 May 2006. Some 41 participants, resource persons and observers from 26 countries of the Asia-Pacific region attended the five-day event.

Participants were mostly mid-career and high-level officials from Government organizations such as ministries of finance, commerce or foreign affairs, investment promotion boards, economic sections of Embassies of Asia-Pacific countries in Japan and planning agencies. The team of resource persons was composed of experts in economics, finance, investment, marketing, legal and international economic cooperation.

The objectives of the workshop were to enhance the participants' understanding of the forces at play in the current global economic and financial environment. The primary emphasis was on the requirements for successfully attracting foreign direct investment (FDI) to developing countries of the Asia-Pacific region. The programme also provided an in-depth analysis of global economic trends, with particular reference to investment and cross-border financial flows and strategies for sustainable economic development.

The topics of the workshop included, *inter alia*:

- attracting FDI to developing countries in the Asia-Pacific region;
- FDI as a tool to finance development;
- globalization and global standards of operations;
- marketing a country to attract FDI and other.

The training workshop employed three main training methodologies, namely:

1. Plenary lectures followed by questions and answers and discussions;

2. Working team exercises.

Working team exercises were organized to simulate policy considerations/negotiations and to elaborate a single paper/presentation related to issues surrounding foreign direct investment in a country/region. In each case study a number of FDI-related issues were addressed, understanding FDI's overall conditions and implications, its terms and the required negotiation skills for example. During the case studies preparation, resource persons were available to each team for advice. The final document of each team was a power point presentation of about 20 minutes.

Five interactive cases were provided:

- Expansion of ITC's *eChoupal* Initiative in ASEAN Countries via FDI
- Investing in Vietnam: Case A, KT Corporation
- Investing in the Democratic Republic of Congo- a Risk Worth Taking?
- Market Related Aspects of FDI through Cases: Puerto Politza
- Market Related Aspects of FDI through Cases: Setonia

Teams: there were five teams. Participants were asked to indicate case study preference and teams were assigned taking into account participants' preferences as far as possible.

As regards the format of the presentations it was suggested that each team cover the following:

- Methodology, approach and process (obstacles, difficulties, preferences, timing etc);
- Presentation of the case proper and findings of the team;
- Q&A session.

3. Study-visits.

The workshop agenda also included study-visits to Hiroshima's historical and cultural landmarks such as the Peace Memorial Park and Museum and the Itsukushima Shrine. Mazda Motor Corp. and Molten Corp. were visited so as to present actual examples of Japanese industries and to enhance the participants' understanding of the business life in Hiroshima.



Presentations and lectures by experts selected by UNITAR and representatives of its partner organizations. All the presentations, designed to be interactive, were followed by Q and A sessions and addressed the following:

Plenary Lectures



Yeomin Yoon, Professor of Finance and International Business at SHU and Senior Special Fellow of UNITAR, started the plenary lectures with **The Roads to Globalization, Over Lands, Seas and Times and its Impacts for Asia and the Pacific**. His lecture gave an overview of economic evolution over two millennia, cycles of globalization and provided a historical context for understanding complex global issues, settings the stage for in-depth discussions and negotiations for the four-day workshop. Prof. Yoon pointed that the 21st century may become “the Asian Century” only if Asia adopts “global standards” that include the components of adoption and nurturing of free market system, transparency, and diversity as well as respect for human rights.



Sustainable Development Strategies: Lessons from Asia and the Pacific by Mohamed Ariff, President and Professor of Finance, Asian Finance Association, Monash University defined the process of wealth creation, historical background and reforms in Asia. Issues related to wealth creation strategies were covered with an analysis of historical background and perspectives. The driving forces for the development of Japan, Korea, Singapore, Taiwan, China and other Asian countries were discussed and the key elements for development for those countries analyzed. In conclusion he mentioned that income distribution, technical education, financial system development are all important factors for a successful and sustainable economic development.



An Introduction and Primer on Foreign Investment by Richard J. Hunter, Jr., Professor of Legal Studies at SHU discussed FDI, its positive and negative aspects as well as the role of specialized agencies in attracting FDI. These specialized agencies were required to generate foreign investment activities and to identify suitable domestic partners, provide professional management assistance and point out specific FDI opportunities. Professor Hunter pointed out that it was important to create and foster a favorable domestic climate for FDI, monitor and report on FDI activities, provide necessary “market entry” data, and information on taxation, administrative regulations, and other legal and financial matters. The main questions were on redirecting professional labor to vocations outside their areas of expertise, changing the public perception of FDI.



Hector Lozada, Associate Professor of Marketing and Director of the Institute of International Business at SHU, focused on the topic of **To Brand or Not to Brand: The Relevance of Branding in Marketing a Country for FDI**. This presentation reviews the role that marketing, generally, and branding, specifically, play in attracting FDI. What does it mean to market a country? What should we sell? What does it mean to brand a nation? Prof. Lozada explored the importance of these and other topics to a firm's selection of a mode of entry (MOE), in particular, whether or not to invest. He discussed how Investment Promotion Agencies (IPAs) fit in the process of country marketing and focused on the communication tactics used by several IPAs in their attempts to attract investment into their countries. He also highlighted that investment promotion by government agencies can be done through the Internet. Questions that followed this session were on the Web contents and the most important information to be put on the Web site as well as Web design issues. The main questions were on strategies for changing investor perceptions, what realistic impact can branding have on attracting FDI in cases such as Afghanistan and Iraq.



Tatsuo Kimbara, Dean & Professor, Graduate School for International Development and Cooperation (IDEC), Hiroshima University gave a lecture on **Upgrading Technological Capabilities through FDI**, discussing historical stages of FDI in Asia and the importance of attracting FDI for industrialization as it brings capital, technology and know-how. Professor Kimbara explained the role of multinational enterprises (MNE) for overseas market, employment and improvement of international balance. The questions following the presentation were on FDI policies, the degree of openness to MNC and protectionism and on value chain importance.



The lecture on **Indigenous Business Groups and Multinational Corporations: Two Modes of Leveraging Economic Development** was provided by Seung-Hoon Lee, Professor of Economics and Director of the Center for Corporate Competitiveness, Seoul National University. He identified two forms of economic development— through FDI and multinational corporations or through indigenous business group (such as in South Korea). The lecture elaborated on the need for promoting enterprises and enhancing corporate competitiveness. Using the example of Singapore, Professor Lee explained the complementary relationship that exists between indigenous firms and multinational corporations and stressed the importance of entrepreneurs to corporate competitiveness both as effective agents for shareholders and for ensuring that proper governance practices are followed. Questions raised dealt with strategies for identifying target sectors for FDI, strategies for tackling corruption, and the influence of Japanese occupation of Korea in terms of the latter's economic development.



Fumio Hoshi, Senior Executive Director, **Japan Bank for International** (JBIC) provided the lecture on **Private Sector Development in Asia and the Pacific, Japan's Role**. He overviewed the development of Asian economies in past decades, the importance of FDI and private initiative in infrastructure projects. Mr. Hoshi described Japan's FTA/EPA strategy as well as its financial and monetary integration in Asia and underlined the key role of FDI for development. Mr. Hoshi pointed out that investment climate, political stability and sustained economic, macroeconomic policy, legal system, taxation, accounting systems and tariff systems are all important aspects for attracting FDI. The questions raised were on the integration obstacles based on different levels of development, limitations on funds available from JBIC for host countries, the role of JBIC and JETRO for private sector and FDI attraction.



Takanori Satake, Senior Economist & Director, Direct Investment Research Division, Japan Bank for International Cooperation (JBIC) presented a session on **How to attract FDI from Japan**. He reviewed the JBIC Survey and discussed trends of Japanese FDI, general policies which should be taken into account by developing countries in order to attract FDI as well as the result of the annual research conducted by JBIC. The research focused on recent trends and prospects of overseas business operations by Japanese manufacturing companies, and illustrated the importance of improving the investment climates of host countries so that foreign companies, especially Japanese, are attracted to invest. The questions that followed were on the quality of JBIC survey and methodology used for JBIC survey preparation.



Professor Richard J. Hunter, Jr., gave his second lecture on the topic of **Legal Aspects of Foreign Direct Investment**. He provided an overview of the most prevalent “perceived obstacles to doing business”. These involve critical legal components such as corruption, street crime, theft or social disorder, and the presence of organized crime. He also mentioned the financing roadblocks (the golden share), anti-competitive practices, property seizure risks, problematic functioning of the judiciary, and misunderstanding of the legal system as serious impediments to attracting FDI. Professor Hunter highlighted the need to address the issues of intellectual property so as to stop illegal practices such as piracy and infringement of intellectual property rights. The questions were on state nationalization decisions, legal risk insurance coverage, social responsibility, stipulating conditions to FDI partners.



The brief concluding presentation provided by Professor Yeomin Yoon on **How Much Do Financial Incentives Matter in Attracting FDI and Opportunities and Risks of Globalization** emphasized the need for host countries to do a careful cost-benefit analysis before accepting FDI projects and pointed out that views on globalization are distinctly more positive in low-income, developing countries. His analysis on both the opportunities and the dark sides of globalization led to many questions.



Leadership in a Changing Organization by Yong-Kyung Lee, Professor, Senior Advisor, Graduate School of Management (KAIST), KR Corporation, discussed some fundamentals of the management of large organizations, the role of leadership in a changing organization/environment and the importance of a leader's character.



A Presentation by Christopher Kisco and Russell Dover, Seton Hall University on **Financing Mega Infrastructure Projects: Risks and Opportunities in Asia and the Pacific** covered the importance of project financing in Asia. Speakers pointed out that the high levels of economic growth in Asian countries and increased prosperity have created demand for roads, power plants, water, telecom and other infrastructure. They provided a brief overview of the current status of Asia's infrastructure and underlined the main risks associated with project financing. While it is mainly the private sector that is involved in such projects, they highlighted the need for enlightened government participation as well.





Working Team Presentations

Participants were divided into five teams and were given practical case studies to be analyzed and presented. Team negotiations focused on renegotiating terms and conditions of FDI.

Team 1: Investing in Vietnam? (Case A: KT Corporation)

Team 2: Expansion of ITC's *e-Choupal* Initiative in ASEAN Countries via FDI

Team 3: Investing in the Democratic Republic of Congo – A Risk Worth Taking?

Team 4: Market-Related Aspects of FDI Trough Case: Puerto Politza

Team 5: Market-Related Aspects of FDI Trough Case: Setonia Case

Team 1 - Investing in Vietnam?

Resource person: Yong Kyung LEE

Assisted by: Christopher KISCO

1. Ms. Tuong Van PHAM (Vietnam)
2. Mr. Sengyi CHEA (Cambodia)
3. Mr. Kakhramon JURABOEV (Uzbekistan)
4. Mr. Gordon KAPAK (Papua New Guinea)
5. Mr. Mungunbat SHARAV (Mongolia)



Team 2 - Expansion of ITC's *eChoupal* Initiatives in ASEAN Countries via FDI

Resource person: Mohamed ARIFF

1. Mr. Alfred Jr. ALFRED (Marshall Islands)
2. Ms. Ozlem SENGOZ (Turkey)
3. Ms. Kui YANG (China)
4. Mr. Sigit WITJAKSONO (Indonesia)
5. Ms. Xiaohui GAO (China)



Team 3 - Investing in the Democratic Republic of Congo –A Risk Worth Taking?

Resource person: Seung Hoon LEE

Assisted by: Russell DOVER

1. Mr. Mohammed MALIK (Iraq)
2. Mr. Mohammad Najeeb AZIZI (Afghanistan)
3. Mr. Sanghak KAN (Cambodia)
4. Mr. Md. Salim REZA (Bangladesh)
5. Mr. Shakib NOORI (Afghanistan)



Team 4 - Market-Related Aspects of FDI Trough Case: Puerto Politza

Resource person: Richard HUNTER

1. Mr. Arthur KHALDAROV (Kyrgyzstan)
2. Mr. Baktybek ASANOV (Kyrgyzstan)
3. Ms. Maria Rosario DOMINGUEZ (Philippines)
4. Ms. Ulato AVEI (Papua New Guinea)
5. Mr. Mouhiaddin Hussein ABDULLAH (Iraq)



Team 5 - Market-Related Aspects of FDI Trough Case: Setonia Case

Resource person: Hector LOZADA

1. Mr. Myo Myint AUNG (Myanmar)
2. Ms. Aida TURARBKOVA (Kazakhstan)
3. Mr. Ganbold BATAA (Mongolia)
4. Mr. Tormarbulang LUMBANTOBING (Indonesia)
5. Mr. Phenpay DUKPA (Bhutan)
6. Mr. Thomas TARABU (Papua New Guinea)



Study-visits

The participants were taken to a number of study-visits: the A-Bomb Dome and Hiroshima Peace Memorial Museum and Park; Mazda Motor and Molten Corporations; Miyajima Island and Itsukushima Shrine. The visits, organized by UNITAR with support from the Prefecture, the Municipality, Mazda Motor and Molten Corporations and volunteer groups from Hiroshima, allowed participants to gain a better understanding of Hiroshima, sensitizing participants to its history and how it became what it is today. Visits to Mazda Motor and Molten Corporations gave actual examples of Japanese industries and enhanced the participants' understanding of the business world in Hiroshima.



During study-visit to Molten Corporation Mr. Fumiya Tamiaki (President, CEO) provided a lecture on **Molten Corporation and Foreign Direct Investment in the Asia Pacific Region**. He pointed out that market analysis and recognition are key factors when entering foreign markets. Each market economy is based on a different culture, traditions and customs and each business territory has developed a system appropriate to it. Consumer reactions to products and services differ according to national and local characteristics. If globalization is forced in an unnatural way, friction and resistance will occur, possibly creating serious market instability. Mr. Tamiaki mentioned the most important of Molten's basic stances: though pushed or carried along by the wave of globalization, we must not lose sight of the motherland in which the company was born, manufacturing must focus on core technologies; refining this core technology is a way of caring for the umbilical cord, the link to the Mother Factory.



*Hiroshima Peace Memorial
Museum*



*Mazda Motor Corporation
Museum*



*Molten Corporation
Production Unit*



*Miyajima Island
Torii Gate*

Outcome, evaluation and next steps

At the end of the training workshop, participants were asked to share their thoughts and comments on the impact that the workshop had on their professional responsibilities by filling a detailed written questionnaire.

Participants reported that the workshop was valuable in deepening their understanding of various aspects of foreign direct investment. It provided exposure to theoretical and practical content, offered up-to-date information on recent trends from knowledgeable experts, and presented many new concepts that can be applicable for their countries. Many participants mentioned that the most valuable parts were the team negotiations and case studies, which had allowed them to learn from each other, provided the opportunity to exchange views and share experiences with other participants (see Table 1).

In addition to requests for holding national workshop, additional topics were suggested to by the participants:

- Domestic financial system in conjunction with FDI;
- Financial analysis or a project analysis;
- Human resource management and globalization;
- Trading policy;
- Economic development and poverty reduction;
- Regionalism and regional integration;
- Topics on marketing country.

While the overall evaluation of the workshop was extremely positive, suggestions for improvement were provided. The chart herewith provides a brief summary of the key points of the participants' evaluation.

There are three main outputs from the 2006 workshop that made available by UNITAR:

- Training modules consisting of all presentations and documents to be made available on the UNITAR Hiroshima and the SHU websites, <http://www.unitar.org/hiroshima/programmes/ief06/>, and on <http://www.business.shu.edu>. A CD-ROM will be distributed by UNITAR to all participants;
- Case studies prepared by the five working teams and comments made by the Panel of the Resource Persons;
- The next step is to start planning the new three-year Series, to be launched in 2007.



Table 1. Evaluation by participants

General evaluation of the contents <ul style="list-style-type: none"> • Obtained new knowledge from resource persons and participants on the FDI attraction (71%); • Exchanged information and knowledge (50%); • Related to current project and professional duties (45%); <p>Interest for future collaboration (52%).</p>	Most useful part <ul style="list-style-type: none"> • Team exercise and negotiations (77%); • Presentations of the resource persons (58%); • Exchange of information and experiences (50%).
Suggestions for improvement <ul style="list-style-type: none"> • Inviting Resource Persons from World Bank, Asia Development Bank; • Longer duration and not so intensive; • Invite executive persons (business sector) from Japan and other developed countries. 	Organization and sub-activities <ul style="list-style-type: none"> • Excellent organization of the workshop; • Positive comments on cultural briefing; useful introduction of Japanese real life; • Study-visit was good and interesting; • Very short period for the case studies' preparations.
Study-visits evaluation	
Mazda Motor Corporation Very interesting, useful, educative (98%).	Molten Corporation Useful, educative lecture and study-visit. Good chance to get knowledge about Japanese Business (100%).
Miyajima Island, Itsukushima Shrine Useful for cultural understanding, very beautiful place (100%).	General comments Would be good to try traditional Hiroshima food, tea ceremony, ikebana etc.



Participants of the Workshop, Hiroshima, May 2006

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Programme Focal Point
Hiroshima
May 2006