Government Publications Registration Number

11-1051000-000940-01

Knowledge Sharing Program

2017/18

Knowledge Sharing Program (Industry & Trade) with India

Policy Recommendation for the Development of Invest India

Ministry of Economy and Finance

kotra
Korea Trade-Investment Promotion Agency

Knowledge Sharing Program

2017/18

Knowledge Sharing Program (Industry & Trade) with

India

2017/18 Knowledge Sharing Program (Industry & Trade) with India

Project Title	Policy Recommendations for the Development of Invest India
Supported by	Ministry of Economy and Finance (MOEF), Republic of Korea
Prepared by	Korea Trade-Investment Promotion Agency (KOTRA)
Prepared for	The Government of India
In Cooperation with	Invest India Korea Plus KOTRA New Delhi Office Federation of Indian Chambers of Commerce and Industry (FICCI) Department of Industrial Policy and Promotion (DIPP)
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Government Publications Registration Number 11-1051000-000940-01
ISBN 979-11-6097-273-3 (93320)
979-11-6097-305-1 (95320)(PDF)

India

2017/18 Knowledge Sharing Program (Industry & Trade) with India

Policy Recommendations for the Development of Invest India

- 2017-2018 India Knowledge Sharing Program (KSP)
- Overview
- Chapter 1. Strategic Direction for Promoting FDI in India
- Chapter 2. Benchmarking Major IPAs Worldwide
- Chapter 3. Capacity Upgrading of Invest India: Lessons from Invest KOREA

Preface

The Knowledge Sharing Program (KSP) sponsored by the Ministry of Economy and Finance is Korea's representative knowledge-based development cooperation program that supports the economic and social development of our partners and lays the foundation for friendly economic cooperation with Korea as well. In response to both local and foreign requests to create a new growth engine in overseas markets by utilizing the KSP strategically not only for policy consulting but also for economic cooperation, the Korea Trade-Investment Promotion Agency (KOTRA) has participated in the KSP since 2014 as its joint general agency. The KOTRA has provided consultation mainly for the promising areas of Korean companies, such as industries, trades, and investments, and helped the KSP to become the foundation of economic cooperation between our partner nations and Korea.

As a general agency of "KSP's policy consultation program for the industry, trade, and investment of 2017/2018," the KOTRA has worked on five KSP tasks, including the India program, focusing on the following two aspects: first, in accordance with its original purpose, the KSP has shared with our partners the knowledge Korea has earned during the economic development process and provided meaningful policy consultation. Rather than unilaterally delivering the knowledge to our partners, we have tried to find out lessons together with them through mutual knowledge sharing and conversation with various participants including high-ranking officials. Second, we enhanced the effectiveness of policy consultation by upgrading the KSP to economic cooperation level from mere knowledge sharing, and incorporating companies into the program. Specifically, for the India program, investment seminars and business conferences were held for Korean companies, which show great interest in investment in India, in accordance with the "Invest India Development Strategy Plan." The economic cooperation that the KSP aims to pursue has been achieved as business participants from both countries meet and talk directly, thereby expanding the opportunities for future exchanges.

Sponsored by the Ministry of Economy and Finance and directed by KOTRA, this report is about the research and policy advisory results for Invest India. India has recently implemented the "Make in India" campaign, an economic development policy through the revival of the manufacturing industry. As part of such efforts, India actively attracts foreign investment to achieve the goal of economic development through open market policy, especially through the promotion of the manufacturing industry.

Foreign investment attraction is a core policy of the Indian government among overall national development strategies. With its recent expansion and reorganization, Invest India is a relatively newly established agency compared to Invest Korea. And with the realization of the necessity to establish the organizational process, Invest India is actively coping with the benchmarking of other overseas agencies. To meet such needs, the following tasks have been conducted under the "development strategy plan of Invest India." Chapter 1 <Strategic direction to attract investment in India> analyzes India's FDI attraction policy and presents the strategic direction from the perspective of the global value chain and change in the global investment environment. Chapter 2 <Benchmarking major overseas investment promotion agencies> presents the benchmarking of major overseas IPA and examples of Indian central government's investment environment and suggests implications for Indian IPA, given the global environment where competition to promote overseas investment is getting intense among countries. In the analysis of Invest Korea's investment promotion experiences and policies and sharing our knowledge for each topic, Chapter 3 <To boost the capacity of Invest India: lessons from Invest Korea> presents its implications for and how to boost the capacity of Invest India.

We would like to acknowledge and thank all those who devoted themselves to the knowledge sharing of Korean economic development, especially professor Jeong Jin-Seop of Chungbuk University (principal researcher), professor Moon Hwi-Chang of Seoul National University, professor Lee Byeong-Hwi of Hanyang University, professor Yun Moon-Yeon of Seoul School of Integrated Sciences & Technologies, expert adviser Oh Dong-hwa, advisor Heo Kyeong-Uk of Bae, Kim & Lee LLC (senior advisor of the Khabarovsk KSP), Invest India, who actively cooperated directly from India, KOTRA New Delhi trade officials, and Korea Plus. We would also like to thank all those, including the professional advisory panel, who gave their invaluable advice for this report.

Lastly, this report represents the opinion of the professionals who participated in the program. It does not constitute KOTRA's official opinion.

November 2018

Executive Vice President for Economic Cooperation & Trade Affairs, KOTRA Headquarters

JONGCHOON KIM

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2017–2018 India Knowledge Sharing Program (KSP)

Wenyan Yin (Seoul School of Integrated Sciences & Technology)

1. The Background of the 2017–2018 India KSP

In recent years, India has been promoting the "Make in India" Campaign, through which the Indian government opens up its economy further and attracts more foreign direct investment (FDI), thereby improving its manufacturing industry and developing the entire economy. "Make in India" is not only the core strategy of attracting FDI, but also at the core for India's economic development. Compared to Invest KOREA, Invest India is a new institution, and it has been expanding and restructuring its organization recently; it has also been active in benchmarking foreign successful investment promotion agencies (IPAs). Although Invest India was established in 2009 under the Ministry of Commerce and Industry of India, it was only in 2015 when it was actively supported and promoted by the Indian government. Invest India is currently employed as an important tool by the Indian government for attracting FDI.

Meanwhile, Invest KOREA was established in 1998 under the Korea Trade-Investment Promotion Agency (KOTRA) to overcome the IMF crisis through attracting FDI. In the next 20 years, KOTRA has accumulated knowledge on attracting and promoting FDI through a series of activities, such as national IR, the operation of Investment Consulting Center, office rental services, Foreign Investment Ombudsman, project manager (PM) system, and others. In particular, the World Bank has highly appreciated the competitiveness of Korea's Foreign Investment Ombudsman system in terms of its effectiveness in attracting and expanding FDI, and has also strongly recommended other countries to benchmark Korea's Foreign Investment Ombudsman system (KOTRA, 2017).

This research project aims to transfer the success experiences and knowledge of Invest KOREA to Invest India, and also provide useful policy directions for Invest India's future development. The economic cooperation between Korea and India has recently expanded, and Korean firms' interests in India's market have also increased. Hence, the research project is expected to further enhance the cooperation of both parties at the national government and firm levels.

The 2017-2018 India KSP project was initiated with the goal of enhancing the capability of Invest India. The research project is composed of three subtitles, including (1) strategic directions for promoting FDI in India; (2) benchmarking major IPAs worldwide; and (3) upgrading the capacity of Invest India: Lessons from Invest Korea. The research team prepared the reports through consultation with the relevant experts and pilot study.

2. The Progress Status of India KSP

2.1. Survey on demand and selection of research-specific topics

In 2017, a demand survey was implemented and the topics for the implementation of KSP in India were selected (Table 1). KOTRA coordinated and cooperated with the demands of the relevant institutes and finalized the research themes through the procedure as shown in Table 2.

[Table 1] 2017-2018 Demand survey and selection of the topics for KSP in India

Project Name	Strategy for the Development of Invest India		
Project Managers	Dr. Jin Sup Jung	Project Officer	Mr. Dong Guil Yoo
I. Topic Candidates	Receipt of demand survey and details	☐ In 2016, the Korean embassy in India submitted the demand survey on 2017 KSP II to Invest India, which belongs to the Department of Industrial Policy & Promotion (DIPP) under the Ministry of Commerce & Industry of India.	

[Table 2] Topics proposed by India (demand survey)

Proposing Ministry	Proposed Topics
Invest India	Title: Promoting India as an Attractive Investment Destination a. Innovative initiatives of Investment Promotion Agencies for promoting FDI b. Investment revitalization c. Consultation services

[Table Continued]

Topics proposed by the Korean research team

☐ Based on the above survey, we narrowed down the research topic on establishing the strategic direction and building the capacity for Invest India, to actively respond to the national objective of promoting "Make in India" campaign through attracting FDI. Specifically, the research team proposed the following three subjects on August 24, 2017.

[Table 3] Topics proposed by the research team

Proposing Parties	Proposed Topics
Korean Research Team	Improving the Investment Promotion Policy
	The global trend of attracting FDI
	Sharing the success experiences of Invest KOREA and Developing Mid- and Long-term Development Plan for Invest India

II. Selection process for final themes

☐ Both sides agreed on the three revised themes, and the revisedthemes were approved by Invest India in September 2017.

[Table 4] Comparison of topics before and after revisions

	Before Revision (Proposed by India)	After Revision (Proposed by Korea)
Subject	Developing India as an attractive investment destination	Strategy for the development of Invest India
Specific Topics	1) Innovative initiatives of Investment Promotion Agencies for promoting FDI	1) Strategic directions for promoting FDI in India
	2) Investment revitalization	2) Benchmarking major IPAs worldwide
	3) Consultation services	3) Upgrading the capacity of Invest India: Lessons from Invest KOREA

2.2. Selection of the Research Team

Researchers were selected from University professors and KOTRA experts considering their expertise and practical experiences, as shown in Table 5.

[Table 5] The Korean research team for the India KSP and their responsibilities

Assigned Research Topics	Name	Position
Project Manager	Jin Sup Jung	Professor, Chungbuk National University
Strategic Directions for Promoting FDI in India	Hwy-Chang Moon	Professor, Seoul National University
	Wenyan Yin	Visiting Professor, Seoul School of Integrated Sciences & Technology
Benchmarking Major IPAs Worldwide	Byung Hee Lee	Professor, Hanyang University
Capacity Upgrading of Invest India: Lessons from Invest Korea	Jin Sup Jung	Professor, Chungbuk National University
	Hyeong Kon Kang	D.G., Office of the Foreign Investment Ombudsman
	Tong Wha Oh	E.C., Office of the Foreign Investment Ombudsman
Research Assistant	Wenyan Yin	Visiting Professor, Seoul School of Integrated Sciences & Technology

2.3. Kickoff Meeting and 1st Pilot Study

Seven Korean delegations led by Jin Sup Jung, the project manager, visited New Delhi, India, during August 20-26, 2017, to implement the demand survey and pilot study along with the kickoff meeting of the 2017-2018 India KSP. Before the kickoff meeting, the preliminary meeting was held on August 21, 2017, where, in addition to the Korean research team, three vice presidents and other practitioners of Invest India participated and discussed the specific topics and details of the research project. On the next day, the president, four vice presidents, and 10 practitioners of Invest India attended the kickoff meeting, and the Korean research team presented the research objective and the specifics to Invest India. Through the discussions and demand survey, the research subjects and subtitles were further specified and finalized. For the first pilot study, the Korean research team visited the Korean embassy in India and KOTRA Business Center in New Delhi, and also interviewed CEOs and senior managers of major Korean firms in India, such as Doosan, Hyosung, POSCO, Hyundai Motor, Samsung Electronics.

[Table 6] 1st Demand survey and pilot study

	Details
Date	August 20-26, 2017 (7 days and 5 nights)
Venue	New Delhi, India
Meetings	• Kickoff meeting: presented the objective of India KSP and research direction to the senior officers of Invest India; specified and finalized the research topics • Pilot study: visited relevant Indian governments and related organizations, and investigated local status • Interview of local experts: interviewed local experts about the three topics of the KSP
Results	• Exchanged the project concept paper (PCP) on the three topics that were finalized in the kickoff meeting • Signed the Memorandum of Understanding (MOU) to clarify the role of both India and Korea • Decided to revisit India in February for the 2nd pilot study • Decided to hold an Interim Reporting Seminar in November 2017

2.4. Inspection Meeting

The inspection meeting was held on November 1, 2017 before the interim reporting seminar and site visits of Invest India. The external experts of the research projects were invited and provided with many important comments and suggestions on the further improvement of the research based on the intensive discussion with the KSP research team.

2.5. Interim Reporting Seminar and India's Site Visits in Korea

Indian government officers and other related practitioners were invited to Korea and they attended the interim reporting seminar held in Seoul on November 16, 2017. In the seminar, Korean research team members presented the research results and particularly highlighted the progress since the kickoff meeting. The Indian officers shared the research results with the Korean research team and also provided the useful comments on the project and research. Both sides discussed the future schedule on the research project, key issues on attracting FDI, and Korea's success experiences. Indian officers also visited the related Korean government departments and Korean private companies. The site visits provided the Indian people with a good opportunity to acquire basic knowledge necessary to develop investment promotion agency and establish appropriate policies.

2.6. 2nd Pilot Study

The research team first complemented the report based on the comments given in the previous sessions of inspection meeting and interim reporting seminar. To further improve the report, the research team visited India for the second pilot study, through which the research team interviewed local practitioners and experts and collected relevant materials. In this respect, the research team visited three areas in India (New Delhi, Andhra Pradesh, and West Bengal) during February 20–27, 2018. The research team also held local seminars, which provided a good opportunity to share the progress of the research and gather opinions and comments from various parties.

Specifically, the research team presented each topic of the India KSP, visited and interviewed the related practitioners to collect data and useful information, and improved the policy directions and suggestions of the research. For the visit to New Delhi, senior officers, such as the vice presidents of Invest India, attended the meeting, and the research team presented to Invest India by highlighting the progress and updated research compared to that presented in the kickoff meeting. During this meeting, the Korean side received very positive feedback from Invest India. In addition, in the seminar held in the Chamber of Commerce in the state of Andhra Pradesh, more than 20 local businessmen and entrepreneurs of small and medium-sized firms attended the seminar, and they showed high interest in this research and gave very positive feedback.

[Table 7] The implementation of the 2nd pilot study

	Details
Date	February 20-27, 2018
Venue	New Delhi, Andhra Pradesh, and West Bengal
Meetings	• High-level meeting with Invest India (New Delhi): presented the research progress and key results • Seminar in Andhra Pradesh: visited the R&D center of Daewoong Pharm. Co. (Korean firm) in India and the Chamber of Commerce • West Bengal: visited the investment promotion agency of the state and interviewed related officers and practitioners

2.7. Senior Policy Dialogue and Final Reporting Workshop (May 9–12, 2018)

In the final report workshop, the researchers presented the research results on the three selected themes to the high-level governors of Invest India, and provided useful policy suggestions for Indian policymakers. More than 20 people, including vice presidents and practitioners of Invest India attended the final reporting workshop. Meanwhile, the Indian side gave very positive feedback, showing their strong dedication to adopt the suggestions of the research in their future plans for enhancing their organizational capacity. Moreover, Invest India expected to develop more cooperative programs and build better partnerships between Korea and India following the 2017–2018 India KSP.

2.8. Submission of the Final Report (May–June 2018)

The final reports (in Korean and English versions), which consist the research results and all other processes for the 2017–2018 India KSP, will be submitted to KOTRA and distributed to other relevant institutions and agencies.

Overview

Jin Sup Jung (Chungbuk National University)

1. Executive Summary

India is a federal republic with a parliamentary system of government. Nevertheless, the influence of the central government is strong. Moreover, the conflict between Hinduism (82%) and Islam (12%) is severe, and the caste system is very complicated. It is also said that the 29 states were unified as the British ruled. Therefore, it was a country that has been attracting attention for a long time with its large territory and population, but it only had potential. It was difficult for India to develop economically.

However, with the election of Prime Minister Modi, new openings and reforms have taken place. On top of the changes, the opposition party, Bharatiya Janata Party (BJP), won against the Indian National Congress (INC), a former ruling party, with 66.38% of the 814 million voters. In particular, many young people and women participated in this election and raised the banner of reform.

In the presidential election of 2017, Ram Nath Kovind, the lowest-ranking member of the caste system and a member of the BJP like Modi, was elected the 14^{th} president of India. Therefore, Modi's position has become stronger. Modi was elected the prime minister of India after his successful economic policies as chief minister of Gujarat. In 2017, Modi is shaping a brighter future for the Indian economy by succeeding in tax reforms that are considered difficult. In particular, he promoted the "paradigm shift" from a service-oriented to a manufacturing-oriented economy with "Make in India." He also wants to use inward FDI as an important tool. Furthermore, he is striving to revolutionize the overall investment environment. In this situation, the role of Invest India, an IPA, becomes very important.

Invest India seems to have progressed to the present situation, but this study did not spare any sharp criticism through in-depth analysis of investment inducement and related policy. In other words, although the actual manufacturing industry is promoted strongly, the service industry is attracting more foreign investment, and the reason why this phenomenon occurs is analyzed in more detail in Chapter 1. For example, it is important to improve on the investment environment of India better than the past. However, it is necessary to attract more investment attraction than the investment environment of current competitors. This is because Indian competitors, such as China and Vietnam, are also doing their best. That is, it will be difficult to attract foreign investment without being superior to the competitors of India.

In addition, although the current situation emphasizes investment attraction of the manufacturing industry, in reality, it is not understood which one is a key factor in attracting real manufacturing investment. The project team uses the strategic model to emphasize "labor productivity" rather than "cheap labor" and "regional or cluster competitiveness" rather than "nationwide competitiveness," and "highly goal-oriented workers" rather than "highly educated workers."

At each meeting, Invest India's CEO, vice presidents. and other employees were deeply impressed and engaged in in-depth discussions. Of course, in Hyderabad and Kolkata, which were visited by our project team, many attendees were also impressed by our research. In particular, the need for the right strategy under the global value chain (GVC) environment presented in policy implications of Chapter 1 is an important issue. For example, India's tightening of import tariffs (to check China) would be ineffective to the other sectors of the GVC, which would have negative impacts on India's manufacturing revival. In addition, it should not only emphasize the cheap labor force of India, but also strive to create business conditions that can reduce overall manufacturing cost and increase productivity through the reduction of logistics cost by infrastructure construction. Furthermore, it should not be overlooked that attracting foreign investment through an efficient global cluster building is critical.

In the ongoing cooperation with the Indian side, the evaluation of the relationship between the central government and the provincial government (or national IPA and local IPA) and the IPA evaluation requested by the Indian side were not included in the initial PCP, but was actively carried out by our KSP team. The relationship between national IPA and local IPA is discussed in Chapter 2, and the IPA evaluation is included in Chapter 3. In Chapter 2, analyses of major countries' IPA under India's peculiar situation were discussed. Specifically, IPAs, which are similar to India, were selected and investigated in depth. That is, the first analysis is on the US IPA, Select USA, which is a federal state like India with 29 states. In addition, the UK Trade & Investment (UKTI), which provides standards for India's political, economic, and institutional systems and has several states, has also been scrutinized. Some of our team members have previously visited UKTI, and they were conducting an efficient foreign investment attraction process in a mutually beneficial mechanism between the national IPA and the local IPA. Our KSP team who visited the two states feels that states of India still have considerable political considerations and that they need more effective improvement to upgrade the efficiency of foreign investment attraction in India as a whole. In addition, Chapter 2 further investigated and analyzed other IPAs, which would be helpful for Invest India. Chapter 3 introduced in detail the excellent systems of Invest KOREA, such as the PM system, Foreign Investment Ombudsman system, and overseas network, to achieve the detailed purpose of this project. This will help Invest India to strengthen its capabilities. Moreover, we invited Invest India employees to Invest KOREA (Korea) to help benchmark Korean programs and institutions.

At the final presentation, Invest India's executives were deeply impressed. They also said that they would deliver this report to a higher authority, and support the improvement and active use of this report in Invest India. Furthermore, they also hoped for continued cooperation with Korea. This project was the first KSP with India, and now the second Korea-India KSP will be newly launched. I hope that this project will be the foundation for a sustained win-win economic cooperation between Korea and India. Furthermore, it will contribute to a mutual cooperation and sustainable growth in the future economic development of both Korea and India. In the following section, we will describe the core contents of Chapters 1, 2, and 3 briefly to enhance understanding of this research.

Chapter 1. Strategic Directions for Promoting FDI in India

The main purpose of Chapter 1 is to provide the strategic directions and policy implications for attracting FDI in India. Understanding the trends in the global investment environment is particularly important to respond more effectively under ever-changing and uncertain business environments and to provide appropriate investment policies and strategic directions. For this purpose, Chapter 1 investigated the changing global investment environment from two perspectives of government policy and multinational corporations' (MNCs) global strategy. Specifically, for the government policy perspective, the study particularly examined the major countries' trade protectionist policy led by the United States. But with regard to the firms' perspective, this study investigated the changes of MNCs' investment strategy from the GVC approach. The study further articulated the challenges to India for attracting FDI.

Based on the understanding of these environmental factors, Chapter 1 further reviews India's major historical inward FDI (or FDI inflows) policies and analyzes the strengths and weaknesses of India's investment attractiveness by comparing it with its major rivals in Asia. The chapter concludes with policy implications and strategic directions for policy makers.

Specifically, regarding the global investment environment, experts showed positive outlook, as a higher economic growth rate is anticipated in 2018 compared to 2017, but the negative impacts from the geographical risks and political uncertainties should also not be neglected. In particular, the trade protectionist policy of developed countries, led by the United States, will provide great impacts on the FDI inflows into developing countries, including India, and the competition among developing countries to attract FDI will become more severe. Therefore, to sustain the FDI inflows to India, the government needs to respond more effectively to such external environmental changes.

We then investigated the changing trend of MNCs' global investment strategy from the perspective of GVC. Under the GVC environment, the competitiveness of a firm is not determined by a single firm but the overall competitiveness of all related parties included in the firms' GVC. To maximize the GVC competitiveness, MNCs select the regions where they can perform the value chain activities most effectively. Therefore, under the GVC context, the countries with the highest investment attractiveness do not only have high competitiveness within their region or country, but should also have high connectivity with other countries or regions. In this respect, international- or global-linking clusters are often the preferred locations of MNCs' foreign investment (please refer to section 4 of Chapter 1 for the related discussions). In addition, when an MNC enters a foreign country, it maximizes value by combining various entry modes such as trade, FDI, and non-equity mode (NEM). Accordingly, the host country governments need to establish policies that adapt to the changing environment.

The current Indian Prime Minister, Narendra Modi, considers FDI as an important international tool to achieve economic goal. In particular, the government introduced the "Make in India" campaign to effectively attract FDI to manufacturing. However, MNCs' investment decision is not completely determined by the government policy, but by the investment attractiveness of host countries. Hence, to attract FDI, it is important to increase its investment attractiveness. Moreover, to effectively attract FDI to the manufacturing industry, this study suggests four determinant factors.

First, it is not the "cheap labor" but the "labor productivity" that is crucially important. Apple and Samsung Electronics deployed their smartphone manufacturing plants in China and Vietnam, respectively. Although the labor costs are higher than other developing countries, the labor productivity in the two countries is much higher. Second, it is important to improve "the investment environment compared to competitors" rather than to improve "the investment environment compared to the past." Although it is necessary to improve the business environment steadily compared to the past, as MNCs often compare the relative competitiveness of the investment attractiveness among investment candidate countries at a certain time, it is important to always compare and contrast strengths and weaknesses against competitors; and a country should continuously learn the strengths of its rivals and fix the problems. Third, “regional or cluster competitiveness” is more important than “the entire national competitiveness.” In fact, MNCs prefer internationally or globally linked clusters that have high international linkages. Fourth, it is more important to have workers with “high goal-orientation” (i.e., sincerity and good work attitude) rather than with a “high level of education.” In the case of developing countries, MNC investment is often driven by the demand for low-skilled labor force. Therefore, the attitude of the workers who can satisfy the MNCs’ demands for basic and highly standardized operations is more important.

In addition, this study quantifies the framework of investment evaluation and compares India’s relative attractiveness with its major Asian competitors. India is ranked ninth in the overall ranking and is subordinate in all respects. Compared to China, India is weaker in all four factors, but it shows lower competitiveness in some respects while higher competitiveness in other areas compared to Malaysia, Thailand, Indonesia and the Philippines.

Based on the previous analysis and discussions, Chapter 1 presents the specific strategic direction in four aspects as follows. First, it is necessary to nurture more competitive labor force by eliminating unnecessary regulations along with increasing labor productivity. Second, it is necessary to establish systematic strategy with which countries could select an appropriate benchmarking target in accordance with their stages of economic development. India should also develop a solid basis for attracting FDI by securing a competitive advantage in more industries. Third, for developing an intentional-linking cluster, it is necessary to upgrade the living environment (e.g., software: education, medical, culture, amusement facilities) as well as the industrial infrastructure (hardware: roads, physical infrastructure, and related industries). Fourth, clear goals are needed. By minimizing political conflicts and pursuing common economic goals, it is necessary to establish an environmental basis for building regional linkage clusters, thereby lowering transaction costs and increasing efficiency among regions.

Chapter 1 analyzes the investment environment by applying the GVC approach, and suggests policy implications and strategic directions as follows. First, it is necessary not only to promote the “Make in India” policy, but also to improve the productivity and competitiveness of Indian companies by linking India with the value activities of multinational corporations’ GVC. Second, as MNCs perform value activities using various international tools (e.g., trade, FDI, and NEM) instead of a single method, host countries should incorporate more comprehensive methods and policies that could help MNCs maximize the value creation in India. Finally, because regions that carry out value activities of enterprise GVC require high connectivity, the scope of competition and cooperation of Indian clusters should be extended to the global scope, thereby creating more international and global linking clusters to attract FDI.

Chapter 2. Benchmarking Major IPAs Worldwide

Chapter 2 purports to benchmark major global IPAs, analyze the investment environment in India, and draw strategic implications for both national and local IPAs in India to successfully establish Invest India as a new IPA in the global environment where competition is getting intense in attracting foreign investment.

Firstly, for the benchmarking of major IPAs, four Western countries were selected: (1) Select USA, the IPA of United States, a federal nation like India which is composed of 29 states; (2) UKTI, the IPA of the United Kingdom, of which the political, economic, and institutional systems became the fundamental standard of India; (3) Industrial Development Authority (IDA), the IPA of Ireland, which has achieved a remarkable economic growth, based on the IT and financial industries, and thus gained the nickname "Celtic Tiger"; and (4) Czech Invest, the IPA of the Czech Republic, which has positioned itself as a manufacturing hub within the EU with the help of relatively low labor costs and traditionally competitive manufacturing technologies.

In Asia, the following IPAs were selected and benchmarked: (1) Economic Development Board (EDB), the IPA of Singapore (established as the second home country for foreign invested companies in recent years, from a simple investment-inducing country, by achieving its economic development through foreign investment and maintaining its open economic system); (2) Invest Hong Kong, the IPA of Hong Kong, which has played roles not only as a global financial center but also as a bridgehead to advance into China by ensuring free economic activities; and (3) Malaysia Investment Development Authority (MIDA), the IPA of Malaysia, which has grown as a financial center in Southeast Asia, with a capital from oil-producing countries.

After conducting comparisons and analyses of the seven major IPAs, we present the following five characteristics common among them. First, in terms of governance structure, they are operated as an affiliated organization under the control of ministries of industry and trade or IPAs. In some countries like UK, the Ministry of Foreign Affairs is in charge. Second, the organization structure is mainly formed by function or industry sector. Some special organizations are created by strategic region and industry.

Third, employees at the IPAs are mostly independent public servants or semi-public servants. Fourth, the benchmarked IPAs promote information sharing and cooperation of regional offices and councils to attract balanced investments between central and local regions. Fifth, for the purpose of performance management, they adopt the amount and number of attracted investment, the number of related project support, the number of job creation, etc., as KPIs. In addition, there is a tendency to manage additional evaluation indicators such as target regions, advanced technologies, and R&D expenditures.

Based on the comparative analyses of the major IPAs, the following strategic directions are developed for potentially new IPAs. First, new IPAs should set specific goals of strategic regions, industries, and technical knowledge. Second, foreign investment promotion should be aligned with industrial and diplomatic policies. Third, close collaboration between public institutions and private sectors should be established. Fourth, diverse performance measures should be developed, including job creation, attracting talented foreign talents and high technology, and supporting investor settlement.

In the case of India, which is a federal nation with 29 states, it is necessary to take into account both the national IPA (national-level IPA, or Invest India) and local IPAs (or state-level IPAs) because substantial foreign investment promotion activities are carried out in individual states. Hence, our project team visited two states, Andhra Pradesh and West Bengal, and interviewed their IPAs and economic development organizations to examine and understand the state-level foreign investment attraction activities.

The state of Andhra Pradesh has aggressively attracted foreign investment and implemented economic development activities with the goal of becoming the top three states in India by 2022 and the most developed state by 2029. Its IPA, EDB, is responsible for strategic investment planning and public relations by contacting investors, providing necessary support, and performing cross-functional collaboration and policy research. In particular, it plans to provide the best residential and business environment to overseas investors by constructing a new state capital, Amaravati, as a smart city. In addition, it offers rapid approval services by establishing the "Single Desk Policy" as well as flexible labor policies and young manpower development policies.

The state of West Bengal is the sixth largest agricultural producer in India, and its capital, Kolkata, has been an IT industry hub. The state IPA, West Bengal Industrial Development Corporation (WBIDC), is a subsidiary of the State Department of Commerce. It serves as an investment promotion window to West Bengal, provides financial support and incentives for companies through various lending systems, and builds several industrial parks. To develop various businesses, the Foreign Investment Promotion Board (FIPB) abolished pre-approval procedure for foreign direct investment, except for some specially specified cases. Similar to the Single Desk Policy of Andhra Pradesh, the West Bengal State Investment Facilitation Centre (SIFC) provides investment policy information, approves licenses, processes land and other infrastructure-related businesses, and offers investment forecast services for state projects.

Finally, we derive strategic implications for IPAs in India from benchmarking major global IPAs and reviewing the investment environments of the two states. The first implication in the aspect of organizational management is that Indian IPAs should link their investment promotion activities with national industry development policies. In addition, it is necessary to redesign the organizational operating system, considering the changes in the industrial environment, policy, and internal capabilities, to secure investment personnel, and to establish cooperation with related organizations and overseas bases. Furthermore, performance management systems of measuring the goals and performance of IPAs and evaluating individual achievements should be improved. The second implication is that IPAs in India should strengthen the linkage among Invest India, local IPAs (or state IPAs), and private industry associations and develop collaborative models and services. Moreover, it is necessary to consider establishing branch offices or councils in major states and to develop various investment incentives, contingent on the characteristics of linkage of strategic regions, industries, and companies. The third implication is they should improve online and mobile information service systems to support investment attraction, provide grievance handling and settlement services on a proactive basis, nourish networks among foreign-invested companies, and develop programs to attract foreign talents.

From a policy development viewpoint, the first implication is that IPAs in India should lower the likelihood that state governments with different political ideologies will not cooperate with the incumbent central government and broaden a stable support base for the central government in revising major policies for the promotion of foreign investment and in implementing those policies. The second implication is to prevent a possibility of weakening the specificity and the momentum of investment attraction policies because of the concurrent execution of diverse policies. In addition to quantitative expansion of policies, it is necessary to refine the core policies of manufacturing-centered development promoted by the Modi government and to focus on developing relevant strategies and incentives. The third implication is that they are to resolve side effects and reverse discrimination caused by the reform policies aiming for rapid economic development growth and should seek more proactive solutions for social integration.

Chapter 3. Capacity Upgrading of Invest India: Lessons from Invest KOREA

Section 1 of Chapter 3 examined the following nine items that IPAs should have to enhance the basic capabilities of Invest India.

(1) Support: This support mainly refers to appropriate funding, staffing, and authority. IPA is not a profit-generating organization, but it is the main role of the national return through its activities, and it requires political support as well as various general support as above.

(2) Budget: The IPA budget is mostly supported by the government. According to UNESCAP (2017), it is most efficient if the budget is normally USD 64,000 to USD 2 million. For USD 2 million to USD 11 million, the estimated elasticity reaches the maximum value. On average, if the IPA budget is increased by 10%, the FDI inflow (inward FDI) increases by 7.5%. If the budget is more than USD 11 million,

investment expenditure is ineffective.

(3) Investment Climate: Infrastructure, which is a hardware aspect, is important for the investment environment, but it should not be overlooked that the software side, investment attraction policies, and programs are also important. The quality of investment and the level of development have a significant impact on IPA performance.

(4) Prioritization of Functions or Activities: According to the results of the study, the "aftercare and policy advocacy" sector has the greatest impact on investment inflows, followed by image building, investor servicing, and lead generation and targeting.

(5) IPA Structure: Organizational independence levels and influences often have a trade–off relationship. If the IPA is attached to a higher government department (e.g., Prime Minister's Office), it has strong influence so coordination with other governments is easy but the independence is low. Meanwhile, if you are a part of a government department organization, you can maintain some degree of independence from the central government but there is a limit to the exercise of authority.

(6) IPA Mandate and Legal Authority: Based on "affiliation" and "independence," IPA can be classified into four types (internal units of government ministries, governmental organizations of presidents or prime ministers, independent organizations controlled by relevant ministries, and separate independent organizations). Although each system has advantages and disadvantages, it has been found that autonomous entities (the fourth type) are the most successful organizations of the IPA for over 20 years, both in developed and developing countries.

(7) Clear Vision, Mission, and Goals: Clear vision, mission, and goals should be established within the IPA organization for efficient performance. In addition, leaders and subordinate organizations must share their knowledge and value. Above all, it is important to materialize the abstract vision or goal through a specific key performance indicator (KPI) and convert it into a feasible system.

(8) Client Charter and Service Level Agreement: The client charter provides potential investors with information about the delivery of products and services and their standards. Therefore, you should set up what you will do, how to propose to do it, and what timescale to set. In the end, when customers meet you, you get a clear picture of what they expect. Therefore, the customer charter is also considered a "letter of engagement."

(9) Network: In the case of national IPA, a network with stakeholders is required, including chambers of commerce, ministries, government agencies, statistical offices, embassies, foreign diplomatic missions, and chambers of commerce in each country.

Meanwhile, a local IPA requires a close network with the national IPA and local government offices, the export processing zone (EPZ) administration, other state and municipal governments, existing investors, and state / local chambers of commerce.

In Section 2, we analyzed the organization of Invest India. Invest India is also working hard to build and strengthen its organization. In 2016, Invest India was awarded the "World's Best Practice Investment Promotion Agency" by United Nations Conference on Trade and Development. As of 2018, it is comprised of 51% of Federation of Indian Chambers of Commerce and Industry (FICCI) and 49% of the Indian Industrial Policy Support Committee (Department of Industrial Policy & Promotion [DIPP]). Business Planning and Advisory, Strategy and Implementation, and Long-term Partnership are the main services of Invest India.

Section 3 focused on the organization and process of Invest KOREA. The purpose of the establishment, the organizational structure, and major projects were examined, and this section tried to help Invest India to benchmark the required areas. In particular, Invest India employees were also trained in Korea during this project period.

Section 4 reviews the following IK programs that Invest India would like to benchmark:

(1) PM (Project Manager) System: This system is to provide customized services by assigning PMs to major investment projects to efficiently support the investment-related business of foreign investors. Ideal PM capabilities should not only support the basic step-by-step process of attracting investment, but also be experts in specific regions or specific industries. However, in reality, it is not easy for one PM to have all of these abilities. Therefore, it is realistic for PMs to cultivate basic investment attraction capability and cooperate with many professional PMs at each stage.

(2) Foreign Investment Ombudsman System: The Foreign Investment Ombudsman and the Grievance Handling Agency shall perform all necessary tasks for resolution as follows: collecting and analyzing the difficulties of the foreign-invested companies, requesting cooperation with the relevant administrative agencies, recommending ways to improve the foreign investment system, etc. In fact, this system is generating excellent results and is being benchmarked by foreign institutions.

(3) Overseas Network: Invest KOREA has placed 64 investment experts within 36 foreign trade centers among 126 KOTRA trade centers around the world to promote overseas investment promotion business. The overseas investment-based trade center, as a point of contact with prospective investors overseas, provides information on Korea's investment to prospective investors and is actively engaging in investment attraction activities such as carrying out a national IR.

(4) Evaluation Index: The activities of IPAs are divided into image–building activities, investment–generating activities, research and information analysis, and after–service (or after–investment management) activities. In this study, the basic IPA role was used as a questionnaire item and survey was conducted on Invest India employees who visited Korea in relation to this KSP project. In this study, we also present a comprehensive evaluating model to assess IPAs in four areas: strategic goals, investment attraction, direct effects, and service. Based on this comprehensive evaluating model, Invest India can to adapt to the situation.

(5) IK's New Investment Attraction Process (Customized to Company's Needs): Since the establishment of IK in 1998, it has been searching for foreign investment projects in Korea through a network of foreign investment centers. In 2016, IK launched a new paradigm. This is a "domestic and overseas investment attraction process," which discovers new investment attraction demand from the domestic market. It is also worth examining the introduction of this process in Invest India.

Finally, Section 5 presents the following policy implications. First, strengthening the basic functions and structure of IPA is important. The key elements that IPA should have are support, budget, investment and business climate or the country's characteristics, prioritization of functions or activities, IPA structure, IPA mandate and legal authority, ⑦ clear vision, client charter, and network. We should compare the desirable future situation (TO–BE) of these factors with the present situation of Invest India (AS–IS), and consider how to narrow the gap between the two. Above all, IPA's basic activities, such as image building, investment generating, after service, and research and analysis activities, should be mutually organized and have a strengthened status and capacity.

Second, we must benchmark the core competencies of Invest KOREA. Invest KOREA has accumulated various knowledge, such as PM system, Foreign Investment Ombudsman system, overseas network, cash grant system, and new investment attraction process, which reflect the demand of local government. It is necessary to benchmark these core capabilities of IK at Invest India. This has been continuously improved through various trials and errors and benchmarking for many years. As a result, the system has been established successfully. As a result, benchmarking of these systems can reduce trial and error and speed up capacity building.

Third, differentiated application is required for Invest India. There is no guarantee that successful institutions in any country will succeed in India as well, as history and culture are different in each country. In other words, a successful investment promotion function or system in Korea or other countries is not always useful in Invest India. Therefore, there is a need to strengthen differentiated capabilities to suit the situation in India. For example, in Korea, we have strengthened the linkage between the national IPA and the local IPA and established a new investment attraction process to reflect the investment attraction demand of local governments. It is necessary to study how this system can be applied in India. In addition, the "evaluation" system is very important, and it is also important to think about how to structure the performance evaluation of Invest India and how to improve its performance and competitiveness by carrying out feedback. It is also necessary to refer to the results of the questionnaire evaluation and the overall evaluation model that were carried out for the duration of this project.

Fourth, a future strategy that meets the Fourth Industrial Revolution era is needed. Each country is preparing for this era. The paradigm of investment attraction must be changed as the industries and clusters of each country change. Cyberconnected clusters should now be taken into account from simple regional cluster-based investment attraction, and thus the convergence of virtual space between companies and the convergence of different heterogeneous industries should be coped with flexibly. In addition to using various online-offline methods, it is also necessary to use technologies such as AV, VR, and AI to promote investment attraction. It is also important not only to attract "greenfield style [or building factories]," but also to pay attention to more diverse investment methods such as M&A and NEM style. In addition, because the core body of the Fourth Industrial Revolution is a Smart City, it is also necessary to pay attention to the construction of ecological clusters related to Smart City and to attract investment through it.

Reflecting the above implications and continuously upgrading the capacity of Invest India based on the future vision that responds to the Fourth Industrial Revolution, like the ecosystem can contribute not only to the development of national IPA but also to the economic development of India as a whole. I hope that the achievements of this project will contribute to the growth of Invest India and will be a cornerstone of mutual economic cooperation between Korea and India.

2. Conclusion

Recently, the Modi government in India carried out many reforms as follows: the transparency of governance, the deregulation of inward FDI (IFDI), the improvement of company environment, the Sagarmala program, the start-up support system, the stability and predictability of tax decisions, building of the National Investment and Infrastructure Fund, Jan Dhan Yojana (or all citizens having bank account), the approval of settlement banks and small financial institutions, the introduction of Jan Dhan-Aadhaar-Mobile (JAM), etc. In 2017, it succeeded in reforming the tax system, which was predicted to be a difficult task. Among such reforms, it is at the core of the government policy of Modi to attract foreign companies through the promotion of "Make in India," to foster manufacturing, to create jobs, and to pursue sustainable economic growth.

Therefore, the capacity building of Invest India, a key national institution for promoting investment, is more important than ever. This India 2017/18 KSP was created as a result of such situations in India and the desperate demand of Invest India, and the project was carried out with the actual Invest KOREA members as well as relevant experts.

The main trend of this study is as follows. In Chapter 1, we examine the global strategy of multinational corporations under the global conservatism trend and the GVC environment, including the US Trump government. Then, we examine the competitiveness of the Indian manufacturing industry compared with 10 major countries (China, Singapore, Hong Kong, Taiwan, Malaysia, Korea, Thailand, Indonesia, India, and the Philippines). Since then, we suggested a strategic direction for attracting FDI. In Chapter 2, we explore the strategic implications of Invest India's benchmarking through detailed reviews of major overseas IPAs (seven IPAs in the US, UK, Ireland, Czech Republic, Singapore, Hong Kong, and Malaysia).

In Chapter 3, we first look at various measures related to the efficiency enhancement of IPA and examined the basic structure and processes of India's current IPA, Invest India. We then examined the structure, functions, and core systems of Korea's national IPA, Invest KOREA. This process looked at the key elements of the IPA and investigates factors to find out the key elements necessary for Invest India to upgrade to a better organization. Above all, while Chapter 2 aims at benchmarking the basic advantages of IPA in various countries, Chapter 3 suggests the successful programs of Korea's IPA (Invest KOREA), which has an accumulated expertise of 20 years. These efforts will help Invest India's capacity building to maintain its structure and continue its growth. In particular, the final section of each chapter provided the policy implications needed to achieve the efficient goals of Indian government or Invest India.

2017/18 Knowledge Sharing Program
(Industry & Trade) with India

Chapter 1

Strategic Directions for Promoting FDI in India

<Abstracts>

1. Global Trend of FDI Inflows and New Challenges for India
2. MNCs' Global Investment Strategies
3. The Status of India's FDI Inflows and Its FDI Promotion Policy
4. Policy Suggestions for Attracting FDI in India

Strategic Directions for Promoting FDI in India

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<Abstracts>

The protectionist and reshoring policies of the US Trump government are expected to have a significant impact on the global FDI as well as the global trade. Indeed, UNCTAD's latest report shows that global FDI inflows declined in 2017, while geopolitical risks and political uncertainties in 2018 increase economic uncertainty, which can have a negative impact on FDI inflows into developing countries. The competition among developing countries for attracting FDI is also expected to be more intense. Therefore, India needs to establish more active and effective FDI policies.

To this end, this chapter first examined the new challenges of the global investment environment from the GVC perspective. In this study, we applied comprehensive and rigorous approaches to derive more convincing implications for the practices. By analyzing the external environment and internal attractiveness of India, we conducted a systematic analysis. In particular, this study presented four fundamental determinants that affect the FDI attractiveness in the manufacturing sector. Furthermore, we conducted a comparative analysis of the 10 major Asian countries, focusing on the key determinants of FDI in manufacturing. Based on such analysis, we can better understand the relative strengths and weaknesses of India.

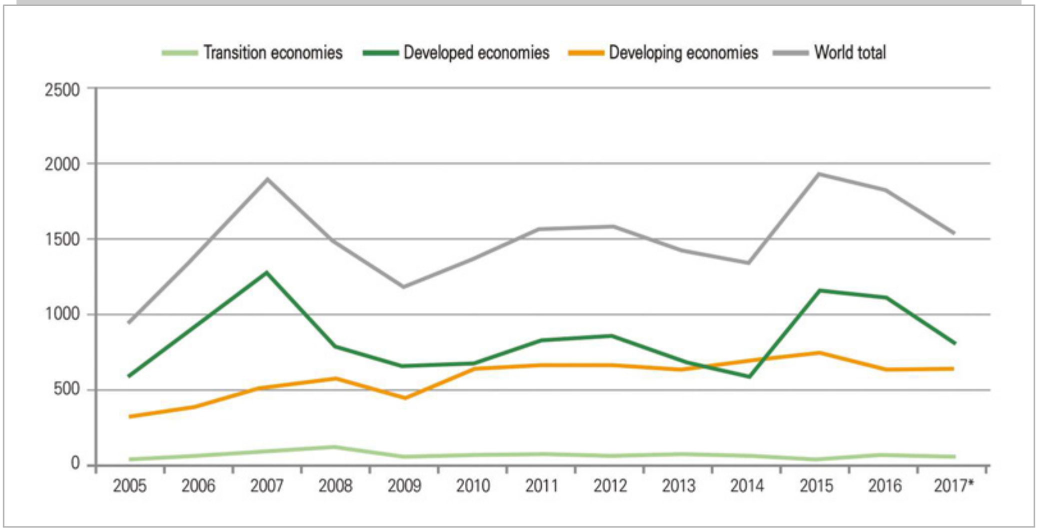
Finally, based on the above investigation and analysis, this study presented a series of policy implications and strategic directions for Indian policymakers by applying the GVC approach, which encompasses not only trade but also various international means, including investment and NEM.

1. Global Trend of FDI and New Challenges for India

1.1. Changes in Global Investment Environment

According to the UNCTAD (2018), the total global FDI inflow in 2015 surged 38% from the previous year, while the total FDI inflow in 2016 recorded USD 1.75 trillion, showing a 2% decrease. In particular, unlike the growing trend in FDI inflows into developed countries, FDI inflows into developing countries in 2016 fell by 14% (Figure 1-1). The global economic downturn, weakening investment demand, and slowing growth momentum in advanced economies were the main reasons.

[Figure 1-1] Global trend of FDI inflows (USD billion, %)



Source: UNCTAD (2018)

Global FDI inflows in 2017 continued to decline. Forecasts for higher economic growth in 2018 are expected to have a positive impact on global FDI inflows. However, geopolitical and political uncertainties can lead to economic uncertainty, which may have a negative impact on FDI inflows. For example, political events in developed countries, such as the withdrawal of the United Kingdom from the European Union, the US withdrawal from the Trans-Pacific Partnership (TPP), and the election of major European countries, may have a negative impact on FDI inflows into developing countries. Therefore, it is necessary to respond effectively to the external environment to continuously attract FDI.

1.2. New Challenges for India

The protectionism of developed countries led by the United States will have a great influence on the FDI inflows into developing countries including India. In particular, the "America First" principle of the US government strengthened the intensity of protectionism and reshoring policies more seriously than the previous government. A case in point is the Apple Corp. In 2011, President Obama asked Apple CEO Steve Jobs whether he could move the iPhone factories overseas to the United States, but Jobs declined firmly (*New York Times*, 2012/1/21). However, the situation has changed recently. The US Trump government demanded that Apple not just build a factory in the US, but the new plant should be larger than the Chinese factory in China. Tim Cook, Apple CEO, said he would build three Apple factories in the United States (*Wall Street Journal*, 2017/7/25). Other MNCs, such as Toyota, Hyundai, Daimler, and Samsung Electronics, have announced investment in the United States in addition to major US corporations, including Apple (Moon and Yin, 2017).

The United States is the world's most attractive investment destination (A.T. Kearney, 2016; IMD, 2017; WEF, 2016; World Bank, 2017), and also attracted the most FDI inflows in the world. In particular, the US Trump government recently announced a series of policies to improve the investment environment, including tax cuts (e.g., a decrease of corporate tax from 35% to 21%). The US corporate tax rate is lower compared to most developed and developing countries, except for a few countries such as Ireland. India, meanwhile, imposes a corporate tax rate of 40% for foreign companies (Korea Eximbank, 2017).

Meanwhile, Trump has repeatedly stressed that the US government will relax regulations and improve the efficiency of government administration, both in Trump's State of the Union Address (January 30, 2018) and the Davos forum address (January 26, 2018). In addition, in early 2018, Trump announced that the United States will collect high import duties on countries, such as China and Korea, that recorded surplus in trade with the United States. Such policy seems to be a representative policy of reverse globalization, but in reality, the fundamental purpose is to propel MNCs to turn their export strategy to the FDI in the United States. As a result, not only more US companies overseas but also foreign MNCs will invest in the United States. Therefore, competition among other countries will become more intense for attracting FDI. According to a survey by Ernst & Young (2015), China, Vietnam, Indonesia, and Brazil have been selected as major competitors of India. Although their competition areas are different, more than 60% of investors responded that China was India's biggest competitor.

The Modi government planned to foster India as a global manufacturing center through the "Make in India" campaign launched in 2014. The goal is to increase the share of Indian manufacturing in its total GDP from the current 15% to 25% by 2022. India's service sector has grown from 52% in 2000 to 56% in 2014, while the share of manufacturing has remained at 15% in the last 30 years. This is much lower than other Asian competitors, such as China (30%), Korea (30%), and Indonesia (24%) (KOTRA, 2015).

A key means to achieve the "Make in India" goal is to attract FDI. To this end, the Indian government introduced a series of policies: (1) creating a favorable environment for businesses such as simplification of complex regulations; (2) building new social infrastructures such as industrial clusters and smart cities; and (3) nurturing 25 key industries including IT, aviation, and renewable energy. In this respect, it will inevitably compete with China and Vietnam in Asia, which have high competitiveness as a global manufacturing base.

India's FDI Confidence Index is high, but the actual FDI inflow is only one-third of China's level. In 2016, China's FDI inflows amounted to USD 134 billion, while India's inflows were only USD 44.4 billion. In particular, as China's economic growth has slowed in recent years and domestic private investment is declining, the Chinese government is actively promoting FDI to achieve sustainable economic growth. For example, in September 2016, China introduced a series of measures to improve the environment for attracting FDI; and in March 2017, Chinese Premier Li Keqiang announced that China would pursue a higher level of openness to foreign investment. China already has a competitive edge to attract FDI, and it is much more competitive than India in terms of infrastructure, energy supply, manufacturing supply chain, etc., and has been exerting continuous efforts to attract FDI. Hence, China will be a key competitor of India in the future FDI inflows.

Meanwhile, Vietnam's FDI inflow in 2016 was only 50% of India's, but the rate of literacy in Vietnam is more than 90%, which meets the demands of global companies in various fields such as IT, pharmaceuticals, financial services, as well as labor-intensive manufacturing industries. In addition, it has a great advantage in accessing markets such as ASEAN, the United States, and Europe, and is emerging as a global manufacturing base for world-renowned MNCs such as Samsung Electronics. Therefore, Vietnam will also be an important competitor of India in promoting FDI for enhancing manufacturing competitiveness.[1)]

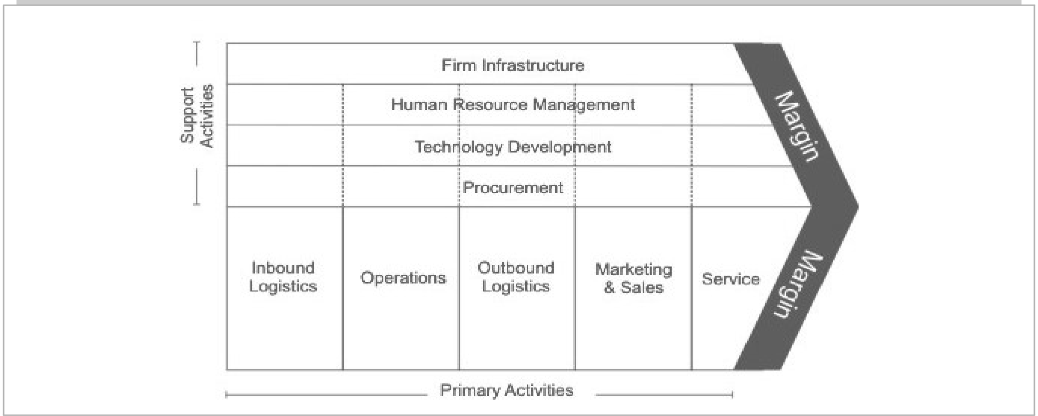
1) According to UNCTAD (2017), the top five FDI recipients in Asia were China, Hong Kong, Singapore, India, and Vietnam. Among them, China and Vietnam are considered to be particularly competitive in attracting FDI to manufacturing, so the two countries are mainly referred to in the main text.

2. MNCs' Global Investment Strategies

Since the late 1980s, the production process of MNCs has become increasingly dispersed throughout the world. In other words, rather than concentrating the value chain activities of a company in one place, they choose a location that can perform the activity most efficiently regardless of nationality. To illustrate this concept, this section introduces the GVC concept, which has recently emerged as an important MNC global strategy, and examines the investment strategies of global companies.

Scholars have studied GVC from various academic fields such as economics, sociology, and management for a long time. However, the rate of speed, scale, and extent of GVC expansion has increased substantially, particularly over the last 20 years. Therefore, international business scholars have paid a lot of attention in recent years, and studies examining international investment activities of MNCs from the perspective of GVC are increasing (Marchi, Maria, and Ponte, 2014). In the field of international business, GVC is defined as the extension of Michael Porter's (1985) value chain analysis model[2] (Yin, 2017) (Figure 1-2). The value chain of Porter emphasizes the vertical structure within the enterprise because it relies on the intra-firm coordination of value activities within the firm itself, and all activities are preferred to be located domestically. The concept of GVC extended the scope of activities from domestic to international, and extended its corporate governance from vertical structure to horizontal structure by incorporating all firms and institutions involved in the value chain (Moon, 2016a; Yin, 2017).

[Figure 1-2] Porter's (1985) value chain

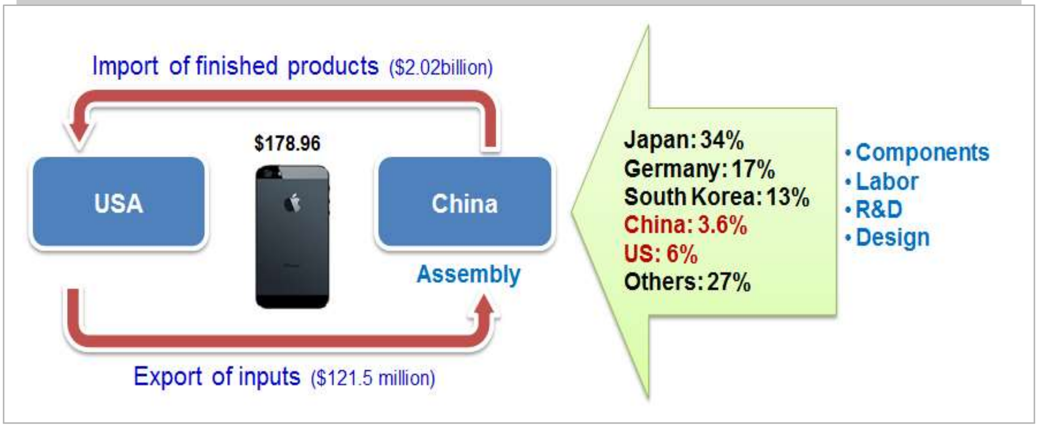


Source: Porter (1985)

2) Porter's value chain activities are divided into primary activities and support activities. The primary activities consist of five activities: inbound logistics, operations, outbound logistics, marketing and sales, and services. Support activities consist of four activities: firm infrastructure, human resource management, technology development, and procurement.

The following explains the GVC strategy of MNCs using Apple and Samsung Electronics as examples. Apple's iPhones are assembled in China and exported to the United States, but most of the key parts and components of the iPhone are imported from Japan, Germany, Korea, and the United States. That is, most of these core parts and components are made in countries other than China, and the value created in China is only 3.6% of the factory gate price (iPhone 3: about USD 180). Meanwhile, most of the remaining value added was generated by Japan (34%), Germany (17%), Korea (13%), and the United States (6%) (Xing and Detert, 2010). In addition, high value-added activities, such as R&D and design, take place in the United States. In the early days of the launch of the iPhone, Apple put the phrase "Designed by Apple in California, Made in China" on the back of the product, but soon changed it to "Designed by Apple in California, Assembled in China." This is because the parts and materials necessary for production are not all made in China, but only the final stage of the assembly is completed in China. Therefore, the activities required to make the iPhone are widely dispersed in Asian countries such as China, Japan, and Korea, Europe, and the United States (Figure 1-3).

[Figure 1-3] The GVC of Apple



Source: Moon and Yin (2017)

Meanwhile, to explain the governance of GVC extending from vertical structure to horizontal structure, we selected Samsung's investment in Vietnam as an example. Unlike Apple, Samsung is a multinational company with a vertical diversification. In particular, most of the value chain activities are conducted by Samsung Electronics or its affiliates. For example, inbound and outbound logistics are performed by Samsung Electronics Logitech, productions by domestic and overseas production corporations, marketing and sales by domestic and overseas sales corporations, and R&D is conducted through domestic and overseas research institutes or design centers. When we look at Samsung Electronics' investment activities in Vietnam, most parts and components are solved through local production of Samsung affiliates or imported from Korea, while the other medium-level value-added parts and components are imported from China, and low value-added ones are produced by local Vietnamese suppliers (Figure 1-4). In addition to low value-added parts, some high value-added parts have also been outsourced to external vendors recently. For example, some high value-added parts have been supplied from Japanese companies to produce Samsung Galaxy Phone 8.

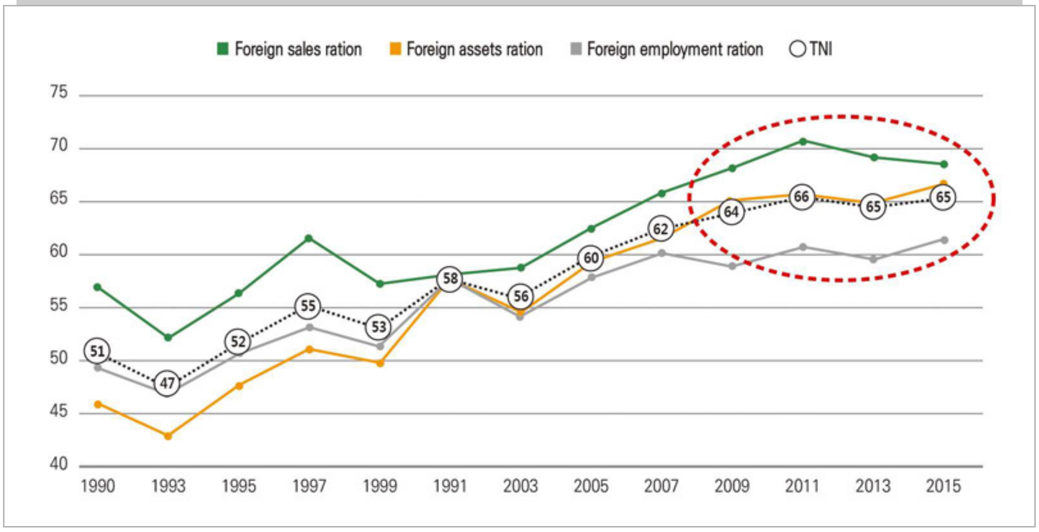
[Figure 1-4] The GVC of Samsung Electronics

Source: Moon and Yin (2017)

To understand the impact of MNCs' GVC strategy on global investment, we present the Transnationality Index (TNI), an index measuring the degree of MNCs 'internationalization. TNI was first introduced in the World Investment Report 1995 as an indicator developed by UNCTAD in 1995. This indicator consists of three components: (1) the percentage of overseas sales in total sales, (2) the percentage of foreign assets in total assets, and (3) the share of overseas employment in total employment (UNCTAD, 1995).

Figure 1-5 shows the globalization trends of the top 100 global companies selected by the size of MNCs' foreign assets from 1990 to 2015. During this period, the globalization level or the TNI has increased from 51% in 1991 to 65% in 2015, although there has been a slight decline of firms' globalization degree because of the global economic crisis. Especially, the activities of global companies' internationalization proliferation were the most active during the periods of 1993-1997 and 2003-2010. Although the globalization of global companies in these two periods are mainly driven by M&A and greenfield investments, MNCs' investment motivations are gradually shifting from resource-seeking and efficiency-seeking FDI to market-seeking and strategic asset-seeking FDI.

[Figure 1-5] The trend of globalization of the Top 100 transnational companies (1990-2015) (%)



Source: UNCTAD (2017)

However, since 2009, the TNI has remained between 60% and 65% without any significant growth. UNCTAD (2017) analyzed several reasons why this happened and these are as follows. First, MNCs' resource-seeking and efficiency-seeking investments gradually declined because of factors such as automation of production processes, rising labor costs in developing countries, and changes in government's globalization policy. Second, factors, such as the popularity of the NEM and the digital economy, have a significant impact on the status of the TNI. Specifically, low control and ownership modes, such as outsourcing reduce the proportion of overseas assets and overseas employment of the TNI. It thus negatively affects FDI inflows to host countries. Therefore, it is necessary for countries to establish appropriate investment promotion policies in accordance with the changing investment strategy of the global firms. The more specific policy implications are explained in Section 4.

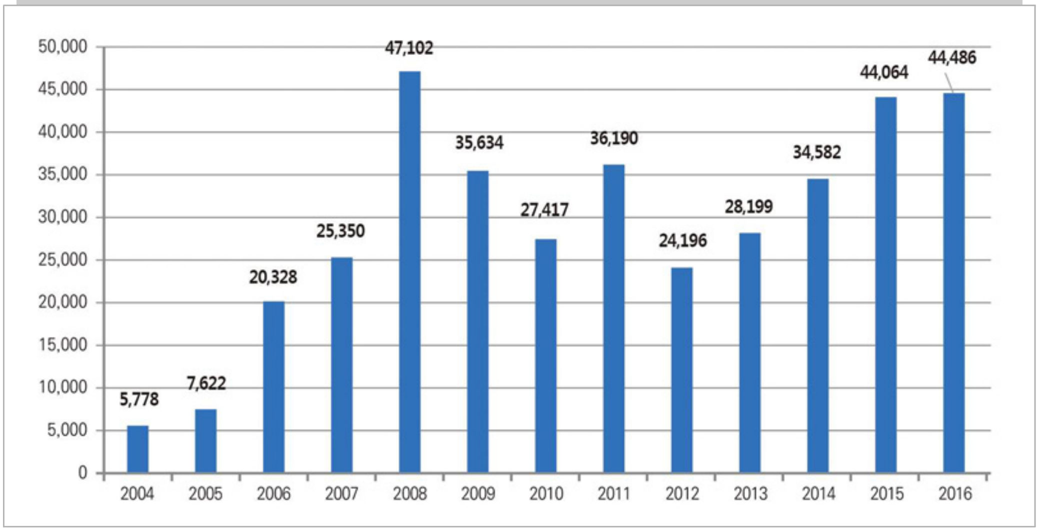
3. The Status of India's FDI Inflows and Its FDI Promotion Policy

3.1. Investment Trends in India and their Implications

1) Current Status of India's FDI Inflows

According to UNCTAD, India is the 10th largest country in terms of FDI inflows in the world, after the United States, China, and Canada as of 2015; and India was ranked 8th in 2017 in A.T. Kearney's FDI Confidence Index. It was recently included in the top 10 for two consecutive years because of the rapid economic growth of India, the government's relaxation of FDI regulation, and aggressive FDI incentive policy. Indian FDI inflows increased by 7.7 times in the last 12 years, from USD 5.78 billion in 2004 to USD 44.4 billion in 2016. In addition, FDI inflows declined amid the global economic downturn since 2008, but have been steadily rising since 2012. Nevertheless, FDI inflows in 2015 have not yet reached the pre-global financial crisis level in 2008 (Figure 1-6).

[Figure 1-6] The trend of India's FDI inflows (2004-2015) (USD million)



Source: UNCTAD FDI Statistics

Compared to first-tier newly industrialized economies (NIEs), the ratio of FDI inflows to GDP in major Asian countries is higher than that of Korea and Taiwan, but is significantly lower than that of Hong Kong and Singapore. Meanwhile, compared to the second-tier NIEs, India is much higher than Indonesia and Thailand, but is only 50% and 75% of Malaysia and Philippines, respectively. Moreover, it is only about 30% level of Vietnam, a major global manufacturing base (Table 1-1).

[Table 1-1] FDI Openness of major Asian countries (FDI inflows as a percentage of GDP, %)

Country	2014	2015	2016
Korea	0.66	0.30	0.78
Taiwan	0.54	0.46	1.58
Hong Kong	38.81	56.38	33.72
Singapore	24.15	24.11	20.88
Indonesia	2.45	1.93	0.28
Malaysia	3.22	3.75	3.34
Philippines	2.02	1.69	2.61
Thailand	1.19	1.44	0.39
Vietnam	4.94	6.11	5.55
India	1.69	2.08	1.96

Source: UNCTAD FDI Statistics

Singapore, Mauritius, the United States, the Netherlands, and Japan accounted for about 80% of India's FDI inflows as the top five investors in India in FY2015-2016 (Table 1-2). Therefore, India is highly dependent on the investment of some countries. Most of the investments received from Singapore, which is the largest investor, are characterized by the investment of MNCs headquartered in Singapore (Singapore-based MNCs). Meanwhile, Mauritius, second in the list, is a tax haven for MNCs from developed countries.

[Table 1-2] Top 10 investors for India's FDI inflows (April 2015 - March 2016) (million USD, %)

Country	FDI inflows	Country	FDI Inflows
Singapore	13,692 (34.2)	Germany	986 (2.5)
Mauritius	8,355 (20.9)	UAE	985 (2.5)
US	4,192 (10.5)	UK	898 (2.2)
Netherlands	2,643 (6.6)	France	598 (1.5)
Japan	2,614 (6.5)	Cyprus	508 (1.3)

Source: Development of Industry Policy & Promotion of India,
http://dipp.nic.in/English/Publications/FDI_Statistics/FDI_Statistics.aspx

As of fiscal year 2015/2016, service industry received the highest FDI inflows, accounting for 17.2% of India's total FDI inflows, followed by computers (14.8%) and trade (9.6%). FDI inflows in India are still concentrated in the service sector, and FDI inflows to other manufacturing industries (e.g., automobiles, chemicals, pharmaceuticals, etc.) are still relatively low (Table 1-3).

[Table 1-3] India's FDI inflows by industry (April 2015 - March 2016) (USD million, %)

Industry	FDI inflows	Industry	FDI Inflows
Service	6,889 (17.2)	Telecommunications	1,324 (3.3)
Computer software and hardware	5,904 (14.8)	Power	869 (2.2)
Trade	13,845 (9.6)	Drugs and pharmaceuticals	754 (1.9)
Automobile industry	2,527 (6.3)	Metallurgical industries	456 (1.1)
Chemicals (other than fertilizers	1,470 (3.7)	Construction development	113 (0.3)

Source: Development of Industry Policy & Promotion of India, http://dipp.nic.in/English/Publications/FDI_Statistics/FDI_Statistics.aspx

Note: Services sector includes Financial, Banking, Insurance, Non-Financial/Business, Outsourcing, R&D, Courier, and Technology.

2) Implications for India

Despite India's high potential FDI attractiveness, the investment environment is not good relative to its competitors. According to the World Bank's Doing Business Index 2018, the investment environment is still poor, ranking 100th out of 190 countries. Therefore, to attract FDI, it is necessary for the government to take measures such as deregulation and simplification of procedures. Moreover, as mentioned above, India's FDI inflows are concentrated in some investors, so it is necessary to further increase the scale of the total FDI inflow while reducing the dependence on a few countries. In the cumulative period of 2000-2016, the share of investment in the top five countries is 72%, and recent concentration trend is intensifying.

FDI inflows in India have been centered on the competitive industries such as services and IT are competitive, but it is necessary to expand the scale of FDI inflows to other sectors in the future. Investment in the service and computer sectors accounted for 18% and 7% of the cumulative total of 2000-2016, respectively, and the portion of investment in the computer sector is surging compared to fiscal year 2015-2016. The FDI inflows in the trade and automobile sectors are increasing, but the concentration of FDI inflows in a few industries is still high. FDI inflows in India are led by the large MNCs rich in capital, and FDI inflows by small businesses are still at a low level because of poor infrastructure. This contrasts with Vietnam, where FDI inflows have surged recently. For example, it is worth noting South Korea's investment activities in Vietnam. An increasing number of SMEs as well as large companies from Korea have invested in Vietnam, and SMEs and large companies are located in the same cluster or SMEs are located near the cluster where large companies are located (ASEAN Secretariat and UNCTAD, 2017).

3.2. India's FDI Promotion Policy

1) Overview of the Key FDI Polies[3)]

India has pursued economic reform and opening through the New Economic Policy in 1991. In his inaugural speech in 2014, Modi emphasized "minimum government, maximum governance" by implementing a series of reforms, and also stressed the importance of revitalizing the business through improving the business environment. He also stated repeatedly that he would increase the scale of FDI inflows during his tenure, and showed a strong will to accelerate economic growth through attracting FDI. Such policy intends to supplement the lack of capital and technology in India through attracting FDI.

To achieve the goal of raising the proportion of manufacturing to GDP by 25% by 2022, the Modi government has been actively attracting FDI for the past three years since its inauguration. The Indian government has relaxed 87 FDI rules in 21 industries in the past three years. In particular, in 2014, the Indian government fully opened the railway sector to foreign investors, and on June 20, 2016 announced measures to ease FDI deregulation in nine major industrial sectors such as defense, aerospace, single-brand retailing, pharmaceuticals.

On June 6, 2017, the Ministry of Economic Affairs abolished the FIPB and launched a Foreign Investment Facilitation Portal (FIFP) instead, an administrative body to facilitate FDI applicants. FIPB is an agency established to review and approve foreign investments when the Indian government introduced the opening policy in 1991. However, as FIPB played a role of supervising and regulating FDI unlike its name suggested, the abolition of such organization is expected to make it easier to attract FDI as well as symbolic measures in the history of opening up the Indian economy.

Meanwhile, FIFP serves as a one-stop online window for foreign investors, and is operated by the DIPP under the Ministry of Commerce and Industry of India. Therefore, foreign investors submit the application through the FIFP website and the related documents to the relevant regulatory agency and the central bank of India. In August 2017, DIPP released the Consolidated FDI Policy, which defined and listed sector-specific administrative ministry/department (Table 1-4).

3) This part is further developed by referring to KOTRA's (2017) summary of India's FDI policy.

[Table 1-4] Competent authorities for the granting of FDI approval for activities/sectors

NO.	Activity/Sector	Administrative Ministry/Department
1	Mining industry	Ministry of Mines
2	Defence 1	Department of Defence Production, Ministry of Defence
3	Defence 2	Ministry of Home Affairs
4	Broadcasting	Ministry of Information & Broadcasting
5	Print Media	
6	Civil Aviation	Ministry of Civil Aviation
7	Satellites	Department of Space
8	Telecommunication	Department of Telecommunications
9	Private security agencies	Ministry of Home Affairs
10	Trading (single brand, multi-brand, and food product retail trading)	Department of Industrial Policy & Promotion
11	FDI proposals by non-resident Indians; export-oriented units requiring approval of the government	
12	Applications relating to issue of equity shares under the FDI policy under the Government route for import of capital goods/machinery/equipment (excluding second-hand machinery)	
13	Applications relating to issue of equity shares for preoperative/pre-incorporation expenses (including payments of rent, etc.)	
14	Financial services activity which are not regulated by any Financial Sector Regulator or where only part of the financial services activity is regulated or where there is doubt regarding the regulatory oversight	Department of Economic Affairs
15	Applications for foreign investment into a Core Affairs Investment Company or an Indian company engaged only in the activity of investing in the capital of other India Companies	
16	Banking (public and private)	Department of Financial Services
17	Pharmaceuticals	Department of Pharmaceuticals

Source: DIPP (2017), Consolidated FDI Policy Circular of 2017, http://dipp.nic.in/sites/default/files/CFPC_2017_FINAL_RELEASED_28.8.17.pdf

Note: Defence 1: Items requiring Industrial Licence under the Industries (Development & Regulation) Act, 1951, and/or Arms Act, 1959 for which the powers have been delegated by the Ministry of Home Affairs to DIPP; Defence 2: Manufacturing of Small Arms and Ammunitions covered under Arms Act 1959.

The main content of the amendment in the new FDI policy is to simplify the complex administrative system for stimulating FDI and further expand the scope and limit of industrial sectors for foreign investors. For example, the Indian government improved the institution that promotes start-up investment and allowed firms that operate in sectors where FDI is permitted with 100% automatic approval to convert from Limited Liability Partnership (LLP) firms to a company. Other typical areas that are systematically relaxed compared to the preceding FDI policies are summarized in Table 1-5.

[Table 1-5] Areas of deregulation (some representative examples)

Areas	Preceding FDI Policy	New FDI Policy
E-commerce	Mandated 25% maximum sales from a single vendor	Restriction of 25% on sales is to be computed on financial year basis
Single-brand distribution	Conduct single-brand distribution transactions in the form of Cash & Carry Wholesale Trading	By eliminating the reference to a single brand, wholesale, cash and carry traders can do retail transactions on the same entity through multi-brand as well as single-brand retail transactions
Establishment of office in India	Require approval from the central bank	Abolish these requirements; in the case of national defense, telecommunications, personal security or information, and broadcasting, approval from the government or approval of the ministries and supervisory agencies is required.

Source: Referred and modified from KOTRA (2017/10/11), DIPP (2017), and Bloomberg (2017/8/29).

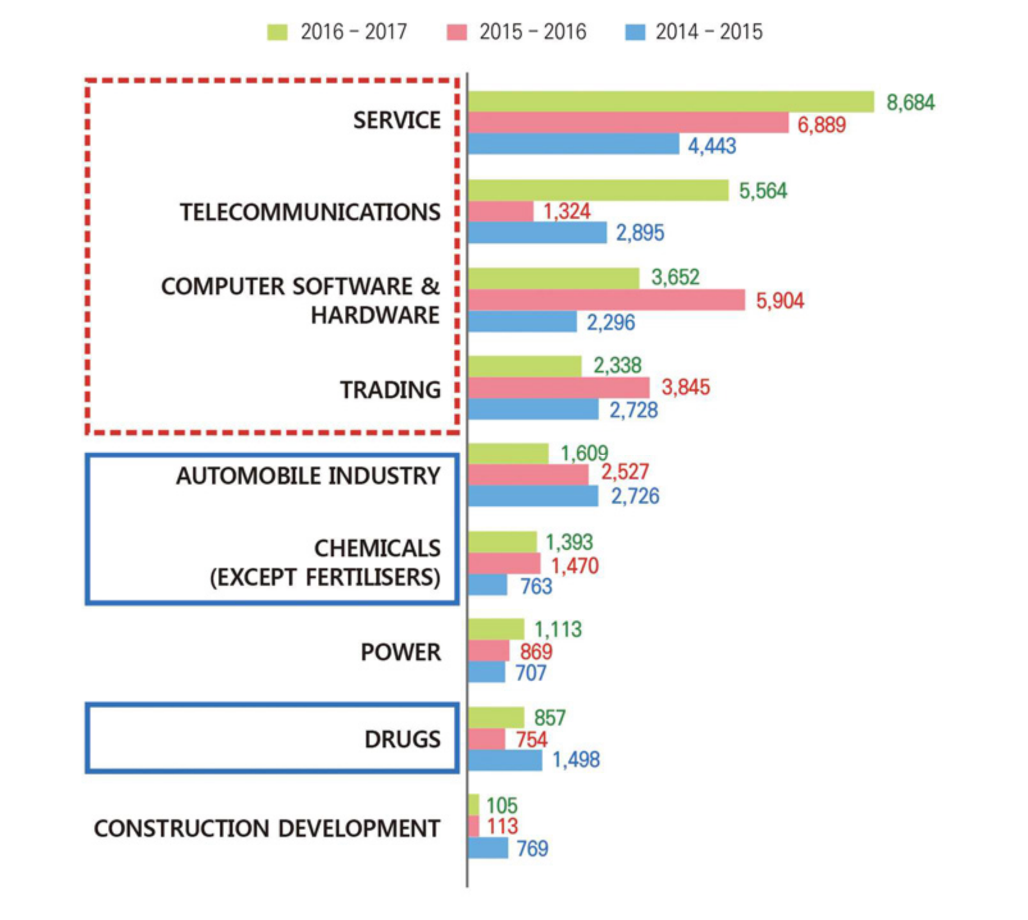
2) Assessment of the effectiveness of India's FDI policy

The Indian government has achieved remarkable achievements for economic reform and openness in the last 25 years, but some policies have recently emerged to prioritize protected trade to counter China's threat to India's industrial development (*Financial Times*, 2018/2/20). According to this FT article, the Indian government announced that it would increase import duties by 20% on labor-intensive items and items related to electronic and communication equipment from China. Although the policy could gain voter support in the short term, it would have a negative impact on the Indian economy because it would lower the competitiveness of export goods in the long run.

On one hand, the Indian government is pushing open policy on FDI inflow; on the other hand, it pursues limiting imports of some items. This suggests that there is a lack of real understanding of globalization. The Indian government's import restraint policy does not fully understand the GVC strategy of MNCs. As described above, MNCs only place some activities in India, not the whole of their GVCs, so to carry out activities in India smoothly, MNCs must consider the linkage with the value chain activities in other countries, such as China (e.g., some imported parts and component from China). Import restrictions will ultimately have a negative impact on the export competitiveness of MNCs located in India, and will diminish its attractiveness in attracting FDI over the long term. Under the GVC cont ext, trade policies will eventually have a significant impact on the investment policy of the country. Therefore, careful policy implementation is needed for establishing a virtuous cycle between trade and investment policies.

This contradictory globalization policy of India shows that the "Make in India" policy of aiming to improve the competitiveness of the manufacturing industry has not achieved the desired results. As shown in Figure 1-7 and Table 1-6, since 2014 the government has promoted the "Make in India" policy, but more FDI flows went to the service industry, not the manufacturing industry. As of fiscal year 2016-2017, FDI inflows to four major service sectors (services, telecommunications, computer software and hardware, and trade) accounted for 46.5% of the total FDI inflows in India, but the portion of the three major manufacturing sectors (automotive, chemical, and pharmaceutical) was less than 10%. In addition, as shown in Table 1-6, the ratio of FDI inflows to major service sectors has increased significantly from 40% to 46.5% in the past three years, but the ratio of FDI inflows to manufacturing has increased from 16.1% to 8.9%.

[Figure 1-7] Sectors attracting the highest FDI inflows (USD million)



Source: DIPP FDI Statistics, http://dipp.nic.in/publications/fdi-statistics

[Table 1-6] Percentage of FDI in core services and manufacturing sectors

	2014-2015	2015-2016	2016-2017
4 non-manufacturing sectors	40.0%	44.9%	46.5%
3 core manufacturing sectors	16.1%	11.9%	8.9%

Source: DIPP FDI Statistics, http://dipp.nic.in/publications/fdi-statistics

4. Policy Suggestions for Attracting FDI in India

To cope with the Trump government's trade protectionism policy, many developed and developing countries tend to solve trade issues by means of trade. Some countries, for example, appealed to the World Trade Organization (WTO) for US import restrictions and trade pressures, and some responded in a more extreme way with trade retaliation, such as China and some European countries. However, this approach will further deepen trade conflicts and competition between countries, resulting in a zero-sum relationship rather than a win-win, which in turn hinders the nation's sustainable economic development.

It is more effective to solve trade disputes with investment rather than trade. The main objective of the US measures for high import duties on MNCs is to induce MNCs' "FDI strategy in the United States" from "export strategy to the United States." Investment, rather than trade, contributes more to US employment creation and the economy. However, MNCs do not correspond to the government policy without any condition, but would decide to invest when a host country has sufficient investment attractiveness. It seems that many MNCs' recent investment decisions were pressured by the Trump government, but if we carefully analyze their true motivations, it can be easily concluded that their decisions for investment are much more based on the high investment attractiveness and business opportunities in the United States (Moon and Yin, 2017). Therefore, to attract FDI, the most important solution is to enhance India's investment attractiveness.

4.1. Determinants of Attracting FDI in the Manufacturing Sector[4)]

Dunning (2001) classified MNCs' motivations into four categories: resource-seeking, market-seeking, efficiency-seeking, and strategic asset-seeking FDI. However, Dunning considered these motivations to be separated from each other, and the unit analysis for the motivations is for the entire value chain of a firm. However, under the GVC context, these investment motives are closely related to each other. MNCs prefer regions that can pursue a variety of investment motives at the same time rather than a single investment motive. In this respect, the existing index of evaluating the investment attractiveness that often focuses on a single investment motive is limited to explain today's complex business environment.

Previous studies have found that cheap labor is often an important factor influencing the FDI inflows in the manufacturing sector in India. India's per capita income is only about 25% of China's, which is thus beneficial for the reduction of production costs. However, MNCs' rate of automation for the production process is increasing, and the proportion of

4) The four factors are the four elements that explain Moon's (2016b) Korea's economic development strategy including agility, benchmarking, convergence, and dedication.

labor costs in total production costs is decreasing. For example, the Taiwanese company, Foxconn, which is in charge of Apple's production operations, announced in 2015 that it would increase the automation rate of production assembly to 70% in the next three years (Business Insider, 2015/9/22). Therefore, low labor costs are no longer an important factor in attracting FDI to the manufacturing sector. Other aspects should also be considered to assess the overall investment attractiveness.

On the home page[5] of Invest India, several comparative advantages of India are highlighted to attract FDIs and these are as follows. First, India's investment environment is steadily improving compared to the past. For example, India's Ease of Doing Business index rose significantly from 142 to 100 from 2014 to 2017. Second, India is the fastest-growing and the second most populous country in the world, with huge market potential. That is, the size of the whole country was emphasized. Third, there are many people with a high level of education. For example, India has the third largest number of scientists and engineers in the world.

However, these factors are not keys to attract FDI inflows to the manufacturing sector. In this study, we present four more fundamental determinants (Table 1-7) and explain the importance of these FDI determinant factors. In addition, we conduct comparative analysis on the 10 major Asian countries, focusing on the key determinants of attracting FDI in the manufacturing sector, identifying the relative competitiveness of India, and providing policy implications for India.

[Table 1-7] Key factors affecting the attractiveness of FDI in the manufacturing industry

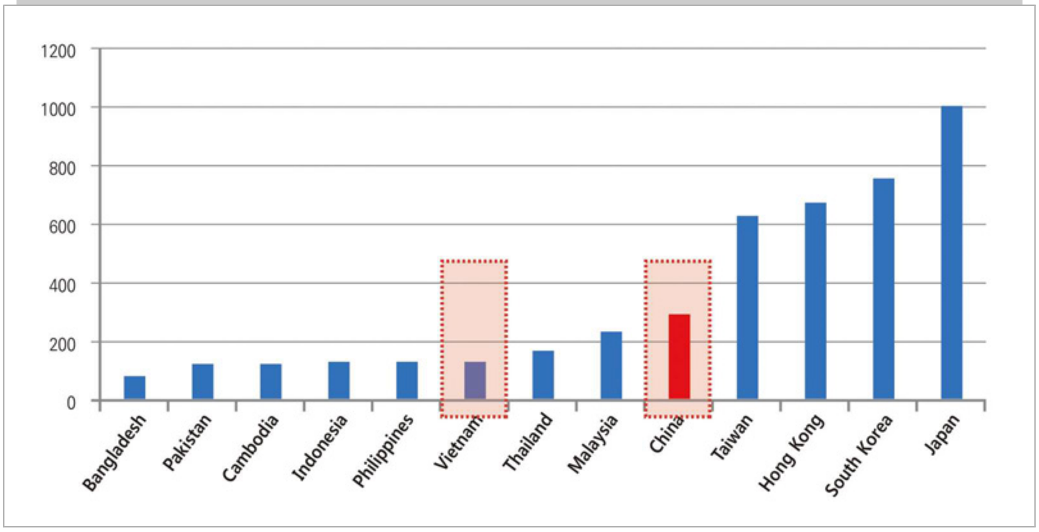
General Understanding	Fundamental Factors
Cheap labor	Productive labor (Agility: speed and precision)
Better environment than before	Better than competitors (Benchmarking: learning and plus alpha)
Entire nation	Industry cluster (Convergence: related industries and living environment)
Education	Desire for a better life (Dedication: diligence and motivation)

5) https://www.investindia.gov.in/why-india

1) Cheap Labor vs. Productive Labor

Theoretically, securing low–cost labor is often seen as an important motive for MNCs to invest in developing countries (efficiency–seeking FDI; Dunning, 2001). However, although developing countries have a comparative advantage over low–cost labor compared to advanced countries, there is no significant difference in labor costs among developing countries. Therefore, given the cheap labor, labor productivity is a particularly important determinant for attracting FDI. In fact, the labor costs of China and Vietnam are lower than some emerging economies such as the "Four Asian Tigers," but are higher than other developing countries such as Cambodia, Indonesia, and the Philippines (Figure 1–8). Samsung's smartphone factory is located near Hanoi, the capital of Vietnam, and Apple's smartphone factory is located in China's Guangdong province, which is the most expensive regions in both Vietnam and China (Yin, 2017). Therefore, low labor costs alone do not adequately explain why Vietnam and China are the world's manufacturing base.

[Figure 1–8] Monthly minimum wage levels of major Asian countries (2015) (USD)



Source: China Labor Bulletin, http://www.clb.org.hk/content/wages–and–employment

Apple and Samsung Electronics placed their smartphone manufacturing plants in China and Vietnam, respectively, because the productivity of Chinese and Vietnamese workers is much higher than that of the neighboring countries. In Vietnam, the labor cost of unskilled workers is only one–sixth of that of Korea, but there is no significant difference in labor productivity between Korea and Vietnam (Moon and Parc, 2014). Meanwhile, Chinese production plants are much bigger in size and more efficient than US production plants, and thus have a high degree of agility to respond quickly to the changes in external environment requirements.

2) Better Environment than Before vs. Better than Competitors

The Modi government, which was inaugurated in 2014, has set its goal of placing the ease of doing business in the top 50 in the world and has been working to create a good environment for businesses. To promote the attractiveness of foreign investment, India improves the business environment by dealing with corruption and improving infrastructure, and has already achieved great improvement. In 2017, India was ranked 100th in 190 countries in terms of the ease of doing business index. This is a significant improvement compared to 142nd in 2014. Thus, the macro environment has improved since the Modi government took power. Out of the 12 macroeconomic indicators selected by the *Wall Street Journal*, eight indicators outperformed the previous government during the first year of the Modi government (*Wall Street Journal*, 2016/5/25) (Figure 1-9).

[Figure 1-9] Major economic benefits in the first year of the Modi government

For the year ended March 31, 2014		For the year ended March 31, 2016
6.60%	GDP growth	7.60%*
9.46%	Average consumer inflation	4.91%
-9.40%	Rupee's move against dollar	-5.70%
18.70%	Sensex index performance	-9.40%
-6.00%	Car sales growth	7.20%
-0.10%	Industrial production growth	2.40%
4.00%	Exports growth	-15.91%
4.20%	Foreign-exchange reserves growth	5.40%
10.25%	Home loan rate**	9.55%
4.40%	Fiscal deficit as percentage of GDP	3.90%
$24.3 billion	Foreign direct investment	$40.0 billion
$4.4 billion	Government company stake sales	$3.8 billion

Source: *Wall Street Journal* (2016/5/25)

However, there is still a gap with other competitors (e.g., China 78th, Indonesia 91st, and Vietnam 82nd in terms of ease of doing business index). It is necessary to constantly improve the business environment compared with the past, but what is more important is to currently have a higher FDI attractiveness because MNCs usually choose the more attractive country to host its value activities among potential candidates at a certain time. Therefore, it is important to constantly compare one's strengths and weaknesses against one's rivals, and secure higher investment competitiveness.

3) Entire Nation vs. Industry Cluster

When an MNC invests in a particular country, it invests in a specific area rather than the entire country, so regional competitiveness has more influence than the competitiveness of the entire country. In particular, it is important to develop competitiveness in a specific region because the larger the country, the more difficult it is to achieve balanced regional development. Especially in the case of India, the federal government only presents the overall direction, but there are obvious regional differences in the implementation of specific policies.

In China and Vietnam, regional clusters play an important role in attracting FDI. For example, China's Guangdong province was the first area to open to the outside world, attracting about one-fourth of China's FDI inflows in 2006, and about 40% of China's FDI inflows in the early 1990s. Meanwhile, Vietnam has a total of 324 industrial clusters and 16 special economic zones by June 2016, which play a very important role in attracting FDI to Vietnam. To date, about 50% of the cumulative FDI to Vietnam has reached USD 150 billion (HKTDC, 2017/3/27). In particular, more than 75% of these were clustered in the Focal Economic Zone, which consists of cities with many clusters (Table 1-8).

[Table 1-8] Clusters and FDI inflows in Vietnam Focal Economic Zone

	Number of Clusters	Cumulative FDI Inflows of FDI (by June 20, 2017) (million US$)
Northern area (7)	Ha Noi (13)	26,336.53
	Hung Yen (8)	3,737.75
	Hai Phong (4)	14,691.73
	Quang Ninh (7)	5,873.12
	Hai Duong (13)	14,691.73
	Bac Ninh (20)	15,591.91
	Vinh Phuc (7)	3,954.77
	Total	84,877.54
Southern area (146)	Ho Chi Minh City (22)	41,679.65
	Binh Duong (35)	28,665.11
	Vung Tau (15)	26,727.08
	Nong Nai (30)	26,265.46
	Tay Ninh (3)	4,913.97
	Binh Phuoc (16)	1,803.64
	Long An (25)	6,692.77
	Total	136,747.68

[Table 1-8] Continued

	Number of Clusters	Cumulative FDI Inflows of FDI (by June 20, 2017) (million US$)
Central area (27)	Thua Thien Hue (4)	2,377.71
	Da Nang (6)	4,487.04
	Quang Nam (8)	5,841.63
	Quang Ngai (4)	1,296.00
	Binh Dinh (5)	643.62
	Total	14,646.00
Total FDI inflows		306,302.81

Source: The list of regions of Focal Economic Zones: THKTDC (2017/3/27); The list of industrial zones: http://industrialzone.vn/lng/2/industrial-zone-search/131/0/0/0/search.aspx;TheFDIstatistics:MinistryofPlanningandInvestment,Vietnam.

The importance of clusters can be seen by examining the geographical distribution of Korea's investment, which is the no. 1 investor in Vietnam. Korean companies invested heavily in clusters in northern Vietnam, near Hanoi, and in clusters in southern Vietnam, near Ho Chi Minh. Among the northern regions, Bac Ninh Province attracts the most FDI from Korea, which is the result of the investment of Samsung Electronics and its suppliers in Yen Phong and Que Vo industrial clusters. The second largest area that received Korean FDI is Hanoi, followed by Dong Nai, Thai Nguyen, Ho Chi Minh City, Haiphong, and Vung Tau. Six out of the seven top regions for Korean FDI are categorized as the Focal Economic Zones.

4) Education vs. Desire for a Better Life

The labor force is usually divided into two categories: unskilled and skilled workers. In developed countries, relatively high-skilled labors are needed to attract investment, and those high-skilled labor forces are supported by a high level of education. However, in the case of developing countries, MNCs often have a high demand for low-skilled labor when attracting investment in the manufacturing sector. This is because mostly highly skilled workers can be resolved within the home country. For the low-skilled workers in the developing countries, a high level of education will help improve their productivity, but labor with high education level will be less likely to engage in long-term simple tasks such as assembly, and will often claim human rights and social welfare. In fact, many companies are paying a huge amount of money because of repeated union strikes every year.

Therefore, when MNCs invest in developing countries, they will prefer hardworking, highly motivated workers who can meet the production standards required by the firms, even if their level of education is low. Workers in the Apple's Chinese assembly plant can work six days a week, 12 hours a day. In addition, China has the flexibility to mobilize a large number of workers within a short time (Moon, 2013). For example, once the parts and components arrived at the Foxconn assembly plant at midnight, 8,000 workers in the dorms of the company were quickly assembled and came back to work after 30 minutes for drink and food (*New York Times*, 2012/1/21). In other words, Chinese workers have a high sense of motivation; they can always be put to work without serious complaints.

Vietnam also has a high degree of flexibility in terms of working conditions and long working hours. In terms of the number of working days per year, Vietnam has 302 days while Korea has 249 days; thus, Vietnam has longer working days than Korea (Vietnam: 2,416 hours, Korea: 1,992 hours) (Moon and Parc, 2014). Of course, in developed countries, such conditions could be criticized for exploiting human rights or poor working conditions, but in developing countries, such diligence and high motivation consciousness can be regarded as a great competitive factor for catching up with developed countries. This advantage influences MNCs' decision-making for overseas investment among developing countries with similar labor costs.

4.2. Comparative Analysis

This session quantifies the major factors influencing FDI attractiveness in the manufacturing sector as described above, and compare India's competitiveness with other major competitors in Asia. This will be helpful to understand India's current position in terms of FDI attractiveness in a more rigorous and systematic manner. Criteria for measuring the four factors were selected from the National Competitiveness Report, such as IMD(International Institute for Management Development), WEF(World Economic Forum), and IPS(Institute for Industrial Policies Studies). In addition to India, the countries for evaluation include China; four first-tier Asian NIEs, which are Korea, Taiwan, Hong Kong, and Singapore; and four second-tier NIEs, which are Indonesia, Malaysia, the Philippines, and Thailand. So there are 10 countries for this comparative analysis.[6]

6) Because of the lack of data, Vietnam is excluded from the analysis.

[Table 1-9] Criteria for measurement

Factors	Criteria	Source	Data Type
Productive labor	1.1 Workforce productivity	IMD	Survey
	1.2 Ease of doing business	World Bank	Survey
Best practice adaptability	2.1 Adaptability of government policy	IMD	Survey
	2.2 Firm-level technology absorption	WEF	Survey
Cluster competitiveness	3.1 State of cluster development	WEF	Survey
	3.2 Value chain breadth	WEF	Survey
Goal orientation	4.1 Working hours	IMD	Hard
	4.2 Worker motivation	IPS	Survey

Among the eight criteria, the reasons for selecting the two indicators related to best practice adaptability are as follows. Criterion 2.1 is an indicator that measures the level of adaptation of government policy to changes in the external environment. The higher level of the government's adaptation to the external environment changes implies that the government has high intention of comparing with the rivals. Meanwhile, regarding criterion 2.2, it was selected because it measures the level of the firms' acceptance of the latest technology. It helps to analyze the level of the firms' intention of comparing with the rivals.

Since the individual data have different units, we first standardize them. The indices of the four factors are obtained by calculating the average of the two criteria that belong to them. We then calculate the overall FDI attractiveness by calculating the average of the four factors. Therefore, the higher the composite competitiveness index is, the higher FDI attractiveness is.[7)]

By applying the methodology of measurement and quantification, the results for the investment attractiveness of the 10 countries are summarized in Table 1-10. Ten countries are pursuing different strategies or positioning in attracting FDI in the manufacturing sector. Singapore and Hong Kong, which are ranked first and second, respectively, play the role as the global or regional hubs, by attracting many regional or global headquarters of MNCs engaging in the manufacturing sector. Meanwhile, in Taiwan, there are a large number of internationally competitive SMEs, and most of them supply high value-added parts and components to global companies. Therefore, Taiwan attracts investments through its connection with MNCs' GVC. China and four second-tier NIEs are mainly attracting FDI on Intermediate or low value-added activities such as production and assembly.

7) In fact, the overall investment attractiveness index of this study shows a correlation of 0.76 with the FDI inflows of 2016 (the proportion of FDI inflow to GDP). In addition, when the FDI inflow was measured using the methodology of the three-year average of 2014-2016, the correlation coefficient is 0.73. Therefore, it can be concluded that the investment attractiveness index of this study is closely related to the actual FDI inflows.

[Table 1-10] Results: competitiveness ranking

Country	Overall Ranking	Productive Labor	Best Practice Adaptability	Cluster Competitiveness	Goal Orientation
Singapore	1	2	1	3	2
Hong Kong	2	1	3	1	4
Taiwan	3	3	5	2	1
Malaysia	4	4	2	4	10
China	5	7	6	7	3
Korea	6	5	7	5	8
Thailand	7	6	4	9	5
Indonesia	8	10	8	6	9
India	9	9	10	8	7
Philippines	10	8	9	10	6

Korea owns internationally competitive global companies. They usually transfer low value-added production activities to developing countries to utilize cheap labor, while concentrating on high value-added activities in Korea. Therefore, in the case of Korea, for the strategy of attracting FDI it, would be more effective to target high value-added (e.g., R&D centers) rather than low value-added activities. Therefore, all countries attract FDI with the focus on some activities of the GVC.

Meanwhile, these countries create domestic and international-linking clusters[8] with neighboring countries, by utilizing the comparative advantage of relevant countries. For example, Singapore, Johor in Malaysia, and Riau in Indonesia cooperate to build a growth triangle (or SIJORI) and successfully promote regional economic cooperation by attracting FDI.

By effectively transferring Singapore's existing labor-intensive industries to neighboring countries, it not only contributes to the advancement of Singapore's industrial structure, but Malaysia and Indonesia could also achieve economic growth by attracting capital and learning technology from Singapore. Hong Kong, Taiwan, and South Korea are also trying to promote economic development through regional linkages facilitated by FDI with a neighboring country - China.

India ranked 9th in the overall ranking, and thus inferior to other Asian countries. As Figure 1-10 shows, India has lower competitiveness than China in all of the four factors, but compared to Malaysia, Thailand, Indonesia, and the Philippines, it shows a competitive advantage in some of the four factors.

8) The concept of an international connection cluster is described in more detail in Section 4 of Chapter 1.

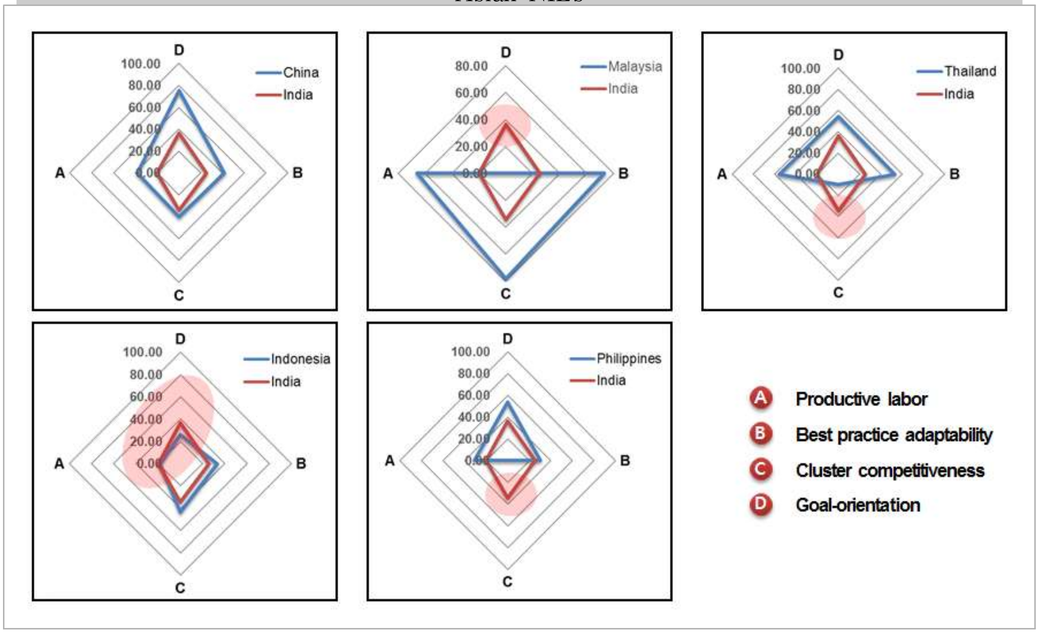
Specifically, India has a competitive edge in “goal orientation” compared to Malaysia, “cluster competitiveness” compared to Thailand, “goal orientation” compared to Indonesia, and has a competitive advantage in “cluster competitiveness” compared to the Philippines. Therefore, India has relative superiority in “cluster competitiveness” and “goal orientation” compared to the second-tier NIEs, but it is inferior in “labor productivity” and “best practice adaptability.”

A rigid labor market consequently hinders the improvement of labor productivity. In addition, lack of employment for skilled labor because of high turnover rate, frequent demand for increases in wage, and lack of sense of responsibility are problems that hinder the improvement of labor productivity in India. There has been no significant change in the labor market system since the economic reform in 1991, because it is often difficult or even delayed to amend the law to improve labor market flexibility because of political reasons (Lee et al., 2013).

Under the GVC context, comprehensive competitiveness consisting of all parties involved in the GVC becomes more important than a single firm’s competitiveness. India has cheaper labor costs compared to China and some developing countries, but logistics costs are particularly high. In general, India is responsible for MNCs’ assembly in the GVC, or producing low value-added intermediate goods and exporting them to other countries. Therefore, logistics costs arising from linkage with other countries are important because India accounts for only a part of MNCs’ entire value chain activities. However, India’s logistics costs are four to five times higher than international standards (*Economist*, 2017/6/24). Moreover, the traffic control and management system in India is lagging and many traffic accidents occur. This high logistics cost will result in the increasing cost of doing business in India.

To address environmental and energy issues as well as the infrastructure, the Indian government announced in 2014 that it planned to create 100 smart cities across India by 2022. Infrastructures are crucial for attracting FDI, but the more fundamental solution to address them is to reduce or mitigate unnecessary regulations. According to Moon and Yin (2017), leading MNCs are more sensitive to excessive regulations than government incentives. This is because not only does regulation increase the cost of doing business, but it also has a significant negative impact on its current competitive advantage in the host country. Therefore, if local governments sufficiently ensure business activities by reducing regulations, MNCs can make the most use of their ownership advantages through investment. Furthermore, they will also work with local governments and participate in building infrastructure and dealing with various economic and social issues.

[Figure 1-10] Comparison of the structure of FDI attractiveness with China and second-tier Asian NIEs



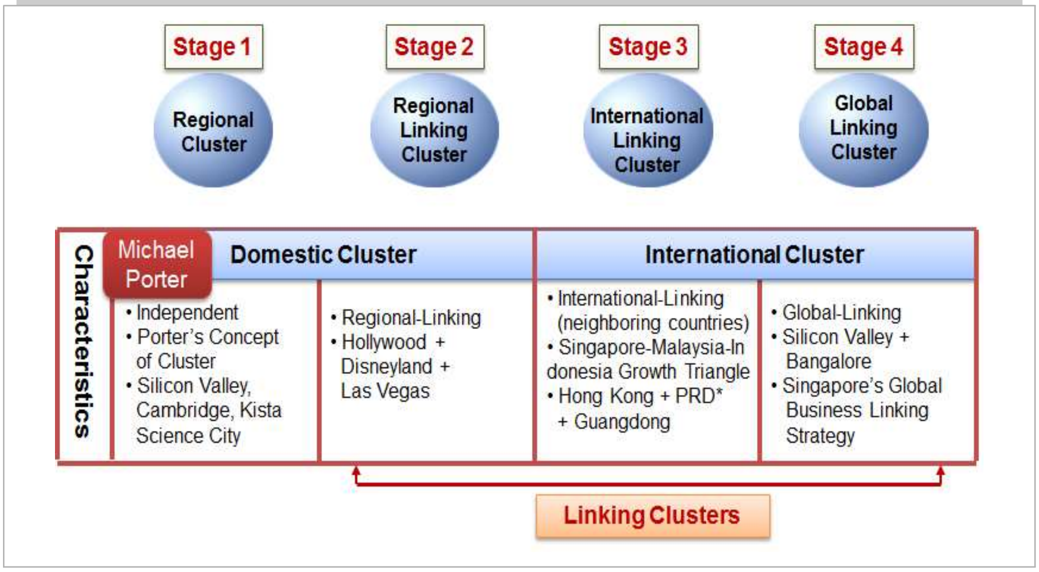
4.3. Implications for FDI Policies

MNCs' global investment strategy has suffered a bigger challenge because of the protectionist policies led by the United States. Competition among developing countries will be further intensified in attracting FDI. Overall, India has a high potential to attract foreign investment, but in reality it has low investment attractiveness, especially in FDI flows to the manufacturing sector where the competitiveness is very low compared to other major Asian countries. Therefore, it is necessary to establish a more aggressive and effective policy for attracting FDI to promote the sustainable development of the manufacturing industry. In this regard, strategic directions are summarized as follows.

1) General Direction: Creating International-Linking Clusters

According to Moon and Jung (2010), clusters can be classified into four stages (regional clusters, regional-linking clusters, international-linking clusters, and global-linking clusters) (Figure 1-11). Stages 1 and 2 are domestic clusters, and stages 3 and 4 are international clusters.

[Figure 1-11] Four stages of clusters



Regional cluster (Stage 1): As a traditional concept of cluster, companies and institutions related to a specific sector are geographically concentrated in a specific region of a country, thereby creating a synergy effect. Silicon Valley is a typical example. Major IT companies in the world gathered in Silicon Valley, where venture capital, consulting, finance, law-related businesses as well as high-tech companies are integrated to create synergies.

Regional-linking cluster (Stage 2): It emphasizes the cooperation among relevant clusters within a country. For example, in the southern California state, Hollywood and Disneyland in Los Angeles maintain a complementary relationship with San Diego's zoos and other tourism resources in the neighboring city of San Diego. These tourism resources are also linked to the neighboring state of Nevada by linking with Las Vegas, Death Valley, and other larger tourist clusters. Although there is competition among these regions, greater synergy effects can be created by cooperating with each other to take advantage of each other's strengths.[9]

International-linking cluster (Stage 3): The linkage between clusters in neighboring countries facilitates the creation of synergy in terms of technology, capital, and labor force. The SIJORI growth triangle composed of the three countries (Singapore-Malaysia-Indonesia) is a representative example. Singapore provides advanced infrastructure, abundant capital,

9) Regional-linking clusters in manufacturing can be exemplified by the linking of several clusters within Korea by Samsung Electronics. Specifically, Samsung Electronics created a synergy effect by linking three regional clusters including Gumi's electronics industry cluster, headquarters and partner companies in Suwon, and Seoul. As a result, Samsung Electronics can continuously expand its businesses and create higher added value. See Moon (2016a) for more details.

and excellent talents; Malaysia provides land, natural resources, intermediate skills, and labor; and Indonesia provides undeveloped land, cheap unskilled labor, and abundant natural resources. As the comparative advantages of the three countries were highly complementary, they can achieve sustainable economic growth by utilizing the competitive advantage of each other and overcoming competition disadvantages.

Global-linking cluster (Stage 4): Clusters on a global scale are integrated to create synergy, regardless of the physical distance between them. Silicon Valley is a regional cluster, but it has evolved into a globally interconnected cluster through a synergistic linkage with the IT cluster in Bangalore, India. Silicon Valley has a competitive advantage in terms of universities, cutting-edge technologies, venture development policy, and superior management environment, and hosts a number of globally competitive MNCs and talented people. In addition, Bangalore offers low-cost and high-quality IT personnel, financial support, IT industry, and R&D cluster. Therefore, it is possible to create higher synergies through the utilization of different advantages.

Existing cluster research, including those from Porter (1990, 1998, 2008), emphasizes the creation of synergies through geographical integration of companies belonging to a specific industry or related industries in a specific region of the country. Meanwhile, the international- and global-linking clusters emphasize the linkage between domestic clusters and foreign country clusters that are located in neighboring countries or across distant physical distance (Moon and Jung, 2010).

Clusters can compensate for the adverse effects of rising labor costs because of economic development in the developing countries. MNCs often place more emphasis on the overall costs, including component procurement, infrastructure, and access to international markets than labor costs only. That is, even if labor cost increases, it is more important that the total cost does not increase significantly by improving the overall operational efficiency. For example, despite the rapid rise in labor costs accompanied with economic development in China, many MNCs in China continue to do their businesses iby taking advantage of the synergy effects from local clusters, instead of moving their manufacturing plants from China to other countries that have lower labor costs.

In addition, by strengthening the linkage between MNCs and local SMEs, it is possible to improve the competitiveness of local enterprises. For example, in the early stage of Samsung Electronics' investment, it procured many parts from its Korean suppliers, but the company gradually increased the production capacity by transferring technology and knowledge to local companies and increased the proportion of procurement from local Vietnamese suppliers.

As the GVC emerges as a universal global trend, linkages and integration between countries are increasing rapidly. Global manufacturing bases of internationally competitive

MNCs such as Samsung Electronics and Apple are all located within the international-linking clusters. This is because the international-linking cluster plays important roles in enhancing MNCs' overall operational efficiency, as well as reducing costs by effectively linking value chain activities across the globe.

2) Specific Strategic Directions

The following presents the concrete strategic directions from four aspects. The first is agility. The Modi government has been deregulating various industries in the past three years, but there are still many regulations that hinder the investment of MNCs. In particular, labor-related regulations have a negative impact on labor market flexibility and labor productivity. Therefore, it is necessary not only to improve labor productivity, but also to create a more competitive Indian labor force by eliminating unnecessary regulations.

The second is the competitor comparison. Since 1990, India has been steadily pursuing a series of reforms and opening-up polices to attract FDI. Especially, the Modi government has implemented faster and broader opening policies. However, India's FDI attractiveness is still lagging behind those of its major Asian competitors, especially China. Therefore, systematic developmental strategies are needed by benchmarking specific national and industrial policies in accordance to its development stage. In addition, India has a competitive edge in industries such as software, automobiles, and space, but it needs to establish a good foundation for attracting FDI by securing competitiveness in many other fields.

The third is the upgrade of related industry and living environment. The development of living environment (software: education, medical, cultural, and entertainment facilities) as well as industrial infrastructure (hardware: development of physical infrastructure and related industries) are important in developing international-linking clusters. To attract the high value-added activities of MNCs, it is important to attract high-tech personnel with world-class skills. To continue with their business activities and life, it is also necessary to provide high-level living and cultural facilities.

Fourth is a clear goal-setting. As many of India's policies still have high political interest, it needs to establish consistent policies that focus on economic development. Especially in India, which is a federal state, coordination and cooperation for achieving the economic goal and implementing policies and institutions are very important. The federal government should provide common economic goals to enhance regional cooperation, while lowering regional transaction costs and increasing overall efficiency through the establishment of regional-linking clusters.

4.4. Conclusion

Chapter 1 examined the impact of protectionist policies on the global investment environment and the changing trend of MNCs' global investment strategy from the viewpoint of GVCs to provide policy suggestions to India so it can respond more effectively to the rapidly changing and uncertain global investment environment. In this study, we employed some rigorous academic approaches to deriving useful and convincing implications for the practices. Specifically, by analyzing the external global investment environment and the internal FDI attractiveness of India, we conducted a systematic analysis. In addition, this study proposed policy implications and strategic directions by the applying GVC approach. These are as follows.

1) Policy Implications

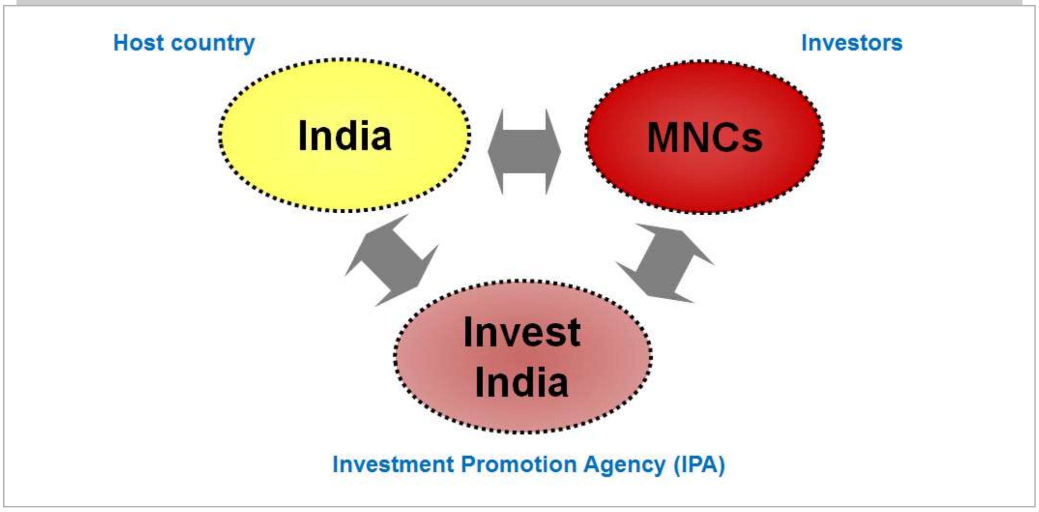
The challenge for MNCs' FDI is more serious than ever because of the US protectionist policies. To respond effectively to the changing global investment environment, many MNCs are expected to turn their export strategies to the FDI in the United States and other developed countries. Because of this, the competition to attract FDIs is heightened among developing countries. India's current status of investment attractiveness is relatively weak compared to China, in particular. However, there is a great potential for further improvement.

2) Strategic Directions

For India to effectively attract FDI in the manufacturing sector, it should improve the competitiveness of the four fundamental determinants. In addition to promoting the "Make in India" policy, India should be linked to the GVC activities of MNCs to improve the productivity and competitiveness of Indian firms. Furthermore, India must maximize its value by broadening the tool of globalization from trade and FDI to value creation via GVC. Therefore, the scope of competition and cooperation of Indian clusters should be extended to internationally and globally linked ones.

In addition to enhancing the competitiveness of the investment environment, the role of IPAs is particularly important in carrying out a series of services for each stage of the investment process (e.g., investor inquiries, on-site visit, investment decision, and post-investment service). Figure 1-12 suggests the importance of Invest India, which is a crucial linkage between the two parties - India and MNCs. In this respect, Chapter 2 discusses the functions and roles of IPAs in major countries worldwide, and Chapter 3 examines the structure, functions, and major systems of Korea's IPA, Invest KOREA, to provide meaningful lessons for Invest India to build its capacity.

[Figure 1-12] The relationship between MNCs, host countries, and IPAs



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Chapter 2

Benchmarking Major IPAs Worldwide

<Abstract>
1. Introduction
2. Overview of Major IPAs and Comparative Analyses
3. Assessing the FDI Environments of Two States in India
4. Implications for IPAs in India

Benchmarking Major IPAs Worldwide

Byunghee Lee (Hanyang University)

<Abstract>

In the global environment where the competition for attracting foreign investment gets intense, seven major IPAs worldwide, including the Select USA, UKTI, IDA in Ireland, Czech Invest in Czech Republic, EDB in Singapore, Invest HK, and MIDA in Malaysia were benchmarked to successfully establish Invest India. Based on the comparative analyses of the major IPAs, we suggest that new IPAs should set specific goals of strategic regions, industries, and technical knowledge; organically link foreign investment promotion with industrial and diplomatic policies; establish close collaboration between public institutions and private sectors; and develop diverse performance indicators.

In the case of India, which is a federal nation with 29 states, it is necessary to take into account both Invest India and state IPAs because substantial foreign investment promotion activities are carried out in individual states. Therefore, the project team visited the states of Andhra Pradesh and West Bengal, and conducted field interviews with investment promotion organizations and economic development organizations.

Finally, we offer strategic implications for IPAs in India. In terms of organizational management, IPAs need to develop linkages between FDI and national industrial development policies, create cooperation among related organizations, secure overseas bases, and improve performance management systems. In addition, it is necessary to improve online and mobile information service systems to support investment attraction and provide grievance handling and settlement services. From a policy development viewpoint, it is necessary to enhance cooperation between the central government and state governments, and focus on the development of manufacturing and infrastructure rather

than on the quantitative expansion of policies. Moreover, IPAs in India are to resolve side effects and reverse discrimination caused by rapid economic growth and should seek more proactive solutions for social integration.

1. Introduction

As India has espoused foreign investment for its economic development with the “Make in India” policy, the roles of IPAs cannot be overemphasized and the successful establishment of Invest India, a new IPA at the central government, came to be imperative. Hence, seven major IPAs worldwide were benchmarked and common characteristics and strategic directions for IPAs were derived from the comparative analyses.

With a purpose of understanding the inextricable relationship between the central government and state governments of a federal nation like India, field trips to two states of India, Andhra Pradesh and West Bengal, were made and interviews with state IPAs and economic development organizations were conducted. Based on the results of the benchmarking of major IPAs and of the field trips, strategic implications for IPAs in India were elicited in terms of organization management and policy development.

2. Overview of Major IPAs and Comparative Analyses

2.1. United States

1) Organization Overview

Select USA, the US governmental IPA, is an affiliate of the International Trade Administration under the Department of Commerce. It was established in June 2011. It has performed investment attraction activities at the federal government level by facilitating foreign investment and enhancing the efficiency of investment promotion carried by individual states. In 2014, 25 federal employees are accountable for domestic tasks, while overseas offices of the Department of Commerce support foreign tasks.

[Table 2-1] Overview of Select USA

Full Name	Select USA			
Location	Washington, DC	Home page	http://selectusa.commerce.gov	
Date of Establishment	June, 2011			
Status/Tasks	Part of Department of Commerce / FDI facilitating activities			
Employee Status	Federal employee			
Controlling Organization	International Trade Administration of the US Department of Commerce			
Structure /# of Employees	Domestic	■ 35		
	Abroad	■ Cooperating with overseas offices of the Department of Commerce		
Budget (USD, thousand)	Year	2012	2013	2014
	Government Subsidy	–	13,000	20,000
	Self-Financing	–	–	–
Governance	With a purpose of improving the efficiency of investment promotion and the allocation of resources of the federal government for FDI activities that used to be separately performed across the states, President Obama's Executive Order 13577 established Select USA under the control of the International Trade Administration of the Department of Commerce in June 2011.			

2) Strategic Directions

The first strategic direction of Select USA is to support the growth and job creation of the US economy through FDI attraction. In 2013, the assets of foreign companies in the United States amounted to USD 4.6 trillion, and the total foreign direct investment in 2013 was about USD 200 billion. In particular, since 2004, the number of jobs has risen to 5-6 million in 10 years and more than 2 million jobs have been created in the manufacturing sector. The second strategic direction is to establish comprehensive foreign investment attraction programs and strengthen investment attraction activities. The federal government has created a comprehensive FDI attraction program and formed a case management team to manage and support more than 300 investment projects annually. The third strategic direction is the selection of major target countries and the development of intensive investment attraction activities. It is important to strengthen the investment attraction activities by selecting 10 major target countries[10] that make up 30% of the FDI inflow to the US, as well as the investment attraction activities of overseas diplomatic organizations by establishing a cooperation system with the Department of State.

3) Main Tasks

The main tasks of Select USA are as follows. First, it serves as an information clearinghouse for foreign investors and provides one-stop services. It provides comprehensive information on investment in the United States, including the investment environment and the legal system, trends in investment attraction, procedures for establishing corporations, and investment incentives. Second, it provides Ombudsman service for grievances to investing companies. Companies that are considering an investment or in the process of investing in a company or a project get help to resolve the difficulties caused by the laws and regulations of the US government. Third, it carries out investment promotion activities. Public relations activities for foreign investors will be conducted at the request of state governments and foreign investment-related institutions such as provincial and municipal authorities. Fourth, it supports customized investment attraction activities. Through the cooperation with the overseas network of the US Commercial Service, it provides investment relations and counseling services for state governments and related organizations. Fifth, it dispatches investment attraction delegations abroad, which are made up of state governments and related organizations, and hosts investment information sessions and investment promotion meetings. Sixth, it provides counseling services for economic development. These counseling services for FDI attraction and investment marketing strategies are necessary for US economic development organizations.

In terms of organizational structure, Select USA is composed of the following. At the top, there are three managers: Director of Investment Services, Director of Events, and Director of Investment Analysis. Under them are two teams composed of global managers and domestic managers. Global managers are divided into large continents such as Western Europe, Northern Europe, Southeast Asia, etc., or heavily invested countries such as China and Great Britain. Domestic managers are divided into states and a manager is assigned to two or more states. In addition, the Federal Interagency Investment Working Group (IIWG)

10) South Korea, Brazil, Canada, China (with Hong Kong), France, Germany, India, Mexico, Russia, and Spain.

has a cooperative relationship with more than 20 federal departments to promote foreign investment. It provides investors with the legal and environmental conditions of the federal government rather than direct links with states. There exists a domestic manager team in the organizational structure and a manager is assigned to each state to provide investment information on certain states. In addition, it builds a close cooperative system in which it works together with the US Commercial Service.

More detailed activities of Select USA are as follows:

(1) Select USA Investment Summit

Each year, the Select USA Investment Summit is held in Washington, DC. The main purpose is to promote FDI in the United States. Summit participants are foreign investors and economic development organizations (EDOs). Participating investors and economic development organizations learn about and share the US investment environment, industry trends, and new business opportunities. Select USA connects the investors with the state officials and economic development experts through the Online Matchmaking Program prior to meetings. Through this matching program, investors receive local government information and incentives directly from local officials. EDOs also meet with other economic developers and government officials to share investment skills and information. This connection is called All Under One Roof. As such, the Summit serves as a platform for networking between investors and EDOs. Therefore, Select USA acts as a platform to connect investors and EDOs (including the state level) through the Investment Summit. It also links multinational corporations, EDOs, government agencies, and service providers through the Online Matchmaking Program. Through this matching system, investors form a matching profile through a preliminary questionnaire, and the investors who have been approved are allowed to enter more detailed information and desired matching conditions. The program connects the investors with investment attraction organizations based on multiple criteria and arranges meetings.

Through the Summit, investors can form a network, learn investment information, and have direct access to state-level support and incentives. Meanwhile, EDOs can establish networks through the Summit, host appropriate investors and conferences, learn about industry trends and potential foreign investors, and promote local communities.

The 2017 investment summit attracted more than USD 71 billion in new investment projects, created thousands of jobs, and increased exports and R&D. More than 3,000 people, including all 51 state officials, 1,200 global investors from more than 64 markets, and more than 600 economic development organization employees participated.

(2) Investment Missions and Road Shows

Road shows are held to promote state economic development organizations and one-on-one meetings with companies.

(3) Trade Shows and Industry Events

These are held both in the United States and overseas to attract investment. In cooperation with the Investment Pavilion or Investment Center, meetings and seminars with companies are arranged to attract investment.

(4) Customized Promotion Events (Fee-based)

A single location promotion (SLP) for a fee is offered to directly promote investment in specific areas. It is carried out by Select USA and U.S. Commercial Service in cooperative manners. It is a more specialized marketing service for local areas.

4) Key Performance Indicators

The performance indicators of Select USA include the number of US and foreign companies and economic development organizations that received investment support from the US Department of Commerce, not the amount of investment or the number of jobs created.

[Table 2-2] Key performance indicators of Select USA

KPI	Definition of KPI
The number of firms that received investment promotion services	The number of US and non-US firms and non-US economic development organizations that received investment-related services from the Department of Commerce

2.2. United Kingdom

1) Organization Overview

UKTI, the UK's trade and investment promotion organization, was established in 2003 as a government organization affiliated with the Department of Business Innovation & Skills and the Foreign & Commonwealth Office. Domestic employees are civil servants and overseas personnel are diplomats. As of 2014, there are 559 people working in two domestic divisions, and 1,352 people are deployed at 169 overseas diplomatic offices in 107 countries. UKTI operates on a budget approved by the Parliament.

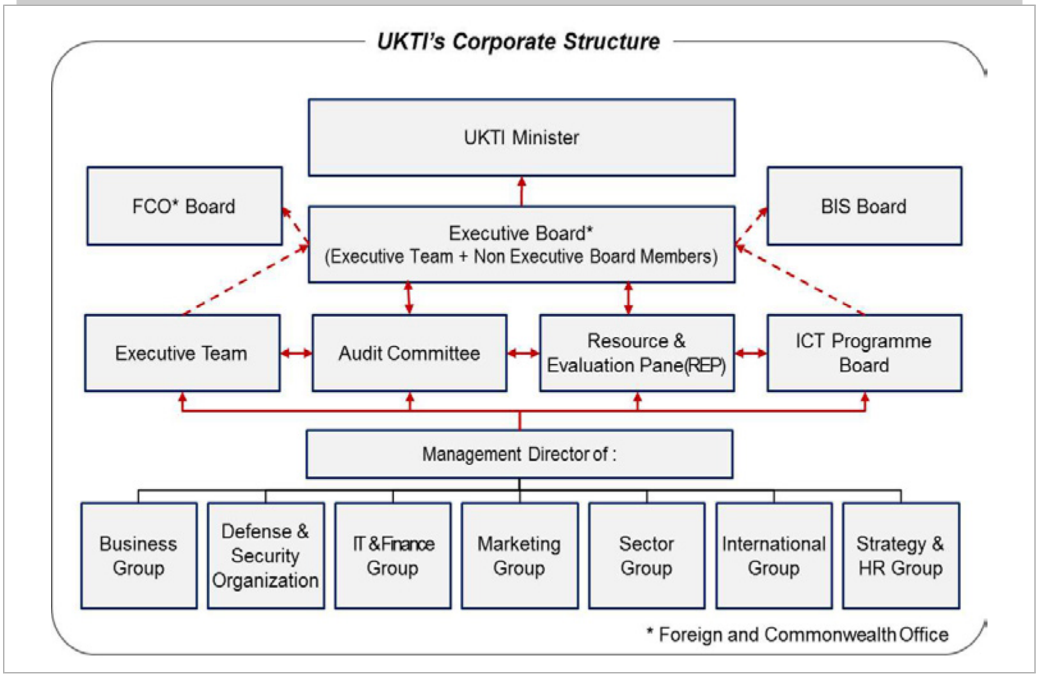
[Table 2-3] Overview of UKTI

Full Name	UK Trade & Investment			
Location	London	Home page	www.gov.uk/government/organisations/uk-trade-investment	
Date of Establishment	2003			
Status/Tasks	Non-Ministerial Government Department			
Employee Status	Civil Servant, Diplomat for foreign assignment			
Controlling Organization	Department of Business Innovation and Skills, Foreign and Commonwealth Office			
Structure/# of Employees	Domestic	▪ 2 HQs (London, Glasgow), 12 regional offices ▪ Personnel: 559		
	Abroad	▪ Offices inside 169 diplomatic buildings in 107 countries ▪ Personnel: 1,352		
Budget(GBP, thousand)	Year	'11/'12	'12/'13	'13/'14
	Subsidy	84,392	94,105	168,000
	Attracted Investment	As of 2013/2014, a total budget of GBP 168,000, of the total attracted investment is GBP 5,140.		
Governance	Government-affiliated organization (operating budget requires approval from the Parliament)			

2) Organizational Structure and Roles

UKTI promotes central–local investment, performs public relations of local governments, and responds to inquiries related to the Regional Growth Fund for promoting local investment attraction and supporting the application works.

[Figure 2–1] Organizational chart of UKTI



3) Strategic Directions

The strategic directions of UKTI are largely divided into business attraction and capital attraction. The strategy of attracting companies is to draw more than 750 FDIs every year, which can enhance the productivity of the UK economy with innovative ideas, knowledge, and technology. To achieve this goal, it promotes the investment environment in the UK through overseas embassies, online presence (Internet and SNS), and exhibitions. The key to attracting capital is to attract institutional investors, such as foreign national wealth funds, to bring massive infrastructure and innovations to the UK.

4) Main Tasks

The main tasks of UKTI include public relations, investment attraction, professional consultation, information support for licensing, investment–related information services, consultation for daily life, and follow–up management for investor's settlement. Therefore, it directly or indirectly carries out all activities in investment attraction process. However, it does not possess any authority to determine incentives for investment, which are determined by the Regional Development Authority and BIS.

5) Key Performance Indicators

The performance indicators of UKTI consist of three elements: first, support for more than 40,000 companies receiving UKTI services; second, services for more than 12,000 innovative companies; and third, performance improvement by more than 50%.

[Table 2-4] Key performance indicators of UKTI

KPI	Definition of KPI	Unit	Over the Last 3 Years		
			'13/'14	'14/'15	'15/'16
Support for more than 40,000 firms	# of firms receiving UKTI services	Count	34,820	54,190	53,793
Support for 12,000 innovative firms	# of customer firms that are categorized as innovative firms	Count	29,770	45,360	-
Improving performance by more than 50%	# of firms showing performance improvement	%	50	51	-

2.3. Ireland

1) Organization Overview

IDA, the investment promotion organization in Ireland, was established in 1949 under the Department of Industry & Commerce. The authority is currently under the Department of Jobs, Enterprise and Innovation, but as an independent organization, the employees are independent civil servants. It has the authority to attract foreign investment, resolve grievances of existing investment companies, and determine incentives. About 200 staff members are working in Ireland, and they operate with sector managers and regional organizations such as the United States, Europe, and Asia (especially new growth markets such as China). Overseas, there are about 50 staff members in 19 countries including Europe (France, Germany, UK, and Russia), North America (USA, Canada), South America (Brazil), and Asia-Pacific region (China, Australia, Korea, India, Singapore, and Japan).

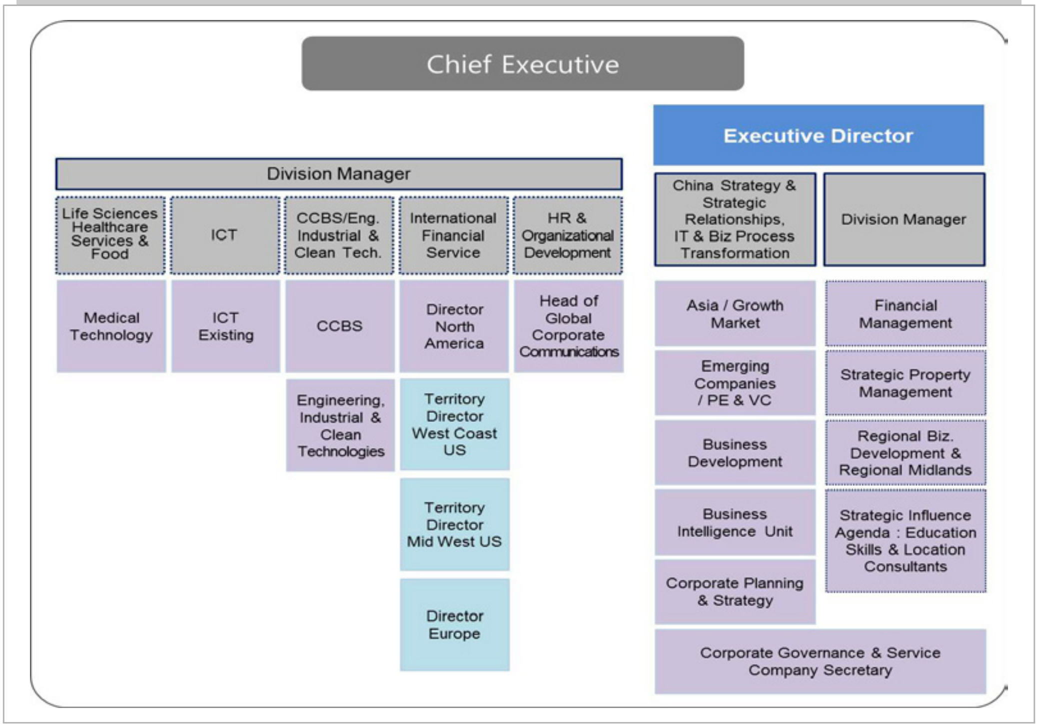
[Table 2-5] Overview of IDA

Full Name	IDA Ireland		
Location	Dublin	Home page	www.gov.uk/government/organisations/uk-trade-investment
Date of Establishment	1949		
Status/Tasks	The Department of Jobs, Enterprise and Innovation		
Employee Status	Independent civil servant Decision authority on FDI attraction, grievance handling services, incentives, etc.		
Controlling Organization	BIS, FCO		
Structure/# of Employees	Domestic	Appointing a division manager by sector and adopting an area structure for US, Europe, Asia, emerging markets, etc. Personnel: 200	
	Abroad	19 overseas offices in Ireland (9), Europe (France, Germany, UK, Russia), N. America (USA, Canada), S. America (Brazil), and Asia-Pacific (China, Australia, S. Korea, India, Singapore, Japan) Personnel: 50	
Budget(EUR, thousand)	As of 2013, EUR, 86,000 Sources are central government and local governments, and EU subsidy Mostly governmental budget		
Governance	Autonomous organization under DJEI		

2) Organizational Structure and Roles

IDA operates offices in a number of provincial cities to stimulate the central – provincial investment attraction, share information and cooperate with each other to attract balanced investments for Dublin and provinces.

[Figure 2-2] Organizational chart of IDA



3) Strategic Directions

The strategic directions of IDA are to perform aggressive investment promotion and provide attractive incentives. Ireland has achieved the fastest economic growth in Europe during the 1980-2000 period, and the attraction of foreign investment has played a major role in this growth. To attract foreign investment, it has promoted a low corporate tax rate (12.5%) and a business-friendly environment and directly managed investment incentives that do not discriminate between domestic and foreign companies. The advantages of an English-speaking country and the friendly policies and environment for foreign companies have appealed to North American and Asian countries as a gateway to Europe. In addition to the lower corporate tax rate among European countries, it provides incentives such as the return of 25% of R&D expenditures and a 0% income tax on foreign dividends.

4) Main Tasks

The main activity of IDA is to attract large FDI and perform public relations. For this purpose, it carries out R&D projects for foreign companies, projects to attract regional headquarters, attraction of investment into high-tech manufacturing, and projects to manage value chain.

5) Key Performance Indicators

The performance indicators of IDA are the number of new jobs created, the number of investment projects, attracting investment in target areas, and annual R&D expenditures. The goals for 2014 include 105,000 new job creation, more than 640 investment projects, 20% of the investments from high-tech companies in emerging markets, and R&D investment of over EUR 1.7 billion.

2.4. Czech Republic

1) Organization Overview

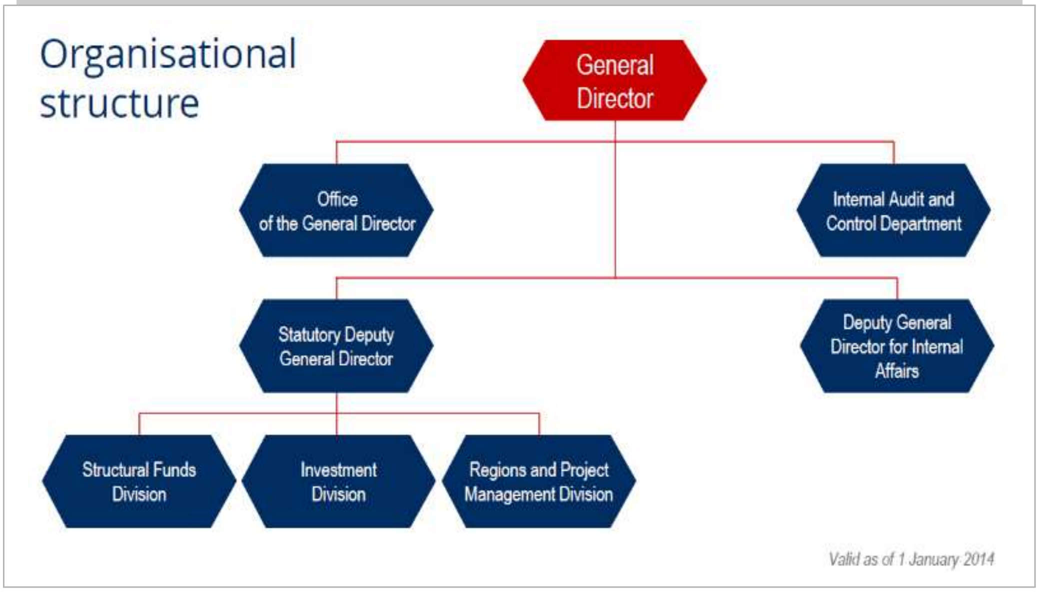
Czech Invest was established in 1992 as an official investment and business development institution of the Czech Republic and is a subsidiary of the Ministry of Industry & Trade. There are offices in 12 locations nationwide, including the capital, Prague, and as of 2014 it has 229 staff. Overseas, 14 people work in 7 offices in 7 countries. In addition to the Czech government, it is supported by the EU. It supports foreign investment and overall SME management activities in Korea.

[Table 2-6] Overview of Czech Invest

Full name	Czech Invest		
Location	Prague	Home page	www.czechinvest.org
Date of Establishment	1992		
Status	Government organization		
Employee Status	Semi-civil servant		
Controlling Organization	Ministry of Industry and Trade		
Structure/# of Employees	Domestic	▪ 13 offices nationwide (HQ in Prague, 12 regional offices) ▪ Personnel: 229	
	Abroad	▪ 7 offices in 7 countries since 2015 ▪ Personnel: 14	
Budget	Subsidies from the Czech government and EU As of 2014, the amount is about CZK 200 million (about USD 9 million)		
Governance	Czech Invest is a public agency under the control of MIT to support foreign investment promotion and SME businesses in Czech Republic.		

B. Organizational Structure and Roles

[Figure 2-3] Organizational chart of Czech Invest



2) Strategic Directions

Since the introduction of the Investment Incentive Law in 1998, Czech Invest has been focusing on promoting the Czech Republic as an optimal investment destination for potential foreign investors to continuously attract investment.

3) Main Tasks

The main tasks of Czech Invest are as follows: first, it holds overseas IR seminars, targeting major overseas investors to promote the strengths of the Czech Republic. It held 22 overseas seminars in 2014. Second, to provide investment support and incentives. Czech Invest deals with all applications of investment incentives by providing consultation, documentation, and other necessary information to help investors get maximum investment incentives from the EU and the Czech government. Third, it offers location consultation. Czech Invest has been involved in the development of the Czech industrial zones since 1998 and provided location selection consultation services for pre-selection of major sites and investment projects. Fourth, it performs management of post-investment. It assists in the extension of existing investment, support for reinvestment and development of research capability, and search for jobs and suitable companies in specific regions.

2.5. Singapore

1) Organization Overview

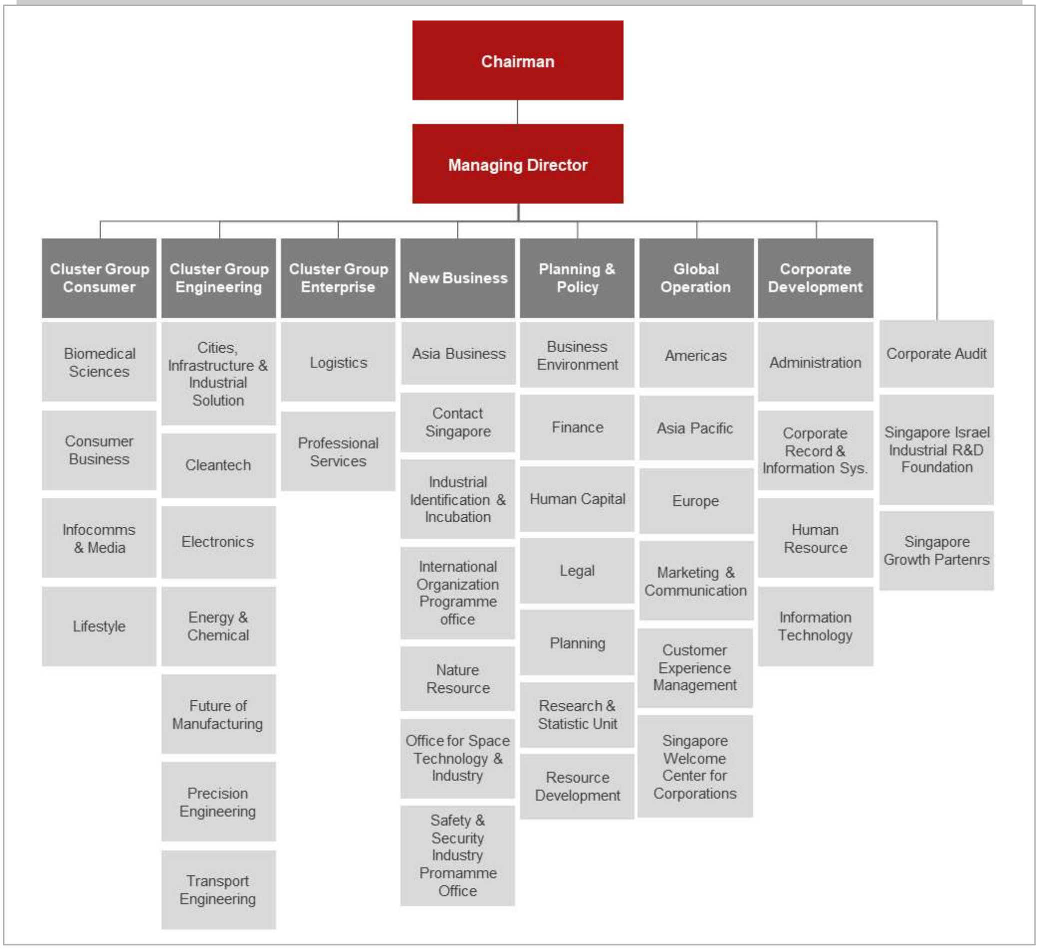
The EDB in Singapore was established in 1961 as a quasi–government agency under the Ministry of Trade & Industry. It is composed of 9 domestic headquarters and 22 offices in 13 countries. The total number of employees in Singapore and abroad reached 612 in 2014.

[Table 2–7] Overview of EDB

Full Name	Economic Development Board (EDB)			
Location	Singapore	Home page	http://www.edb.gov.sg	
Date of Establishment	1961			
Status/Tasks	Semi–public organization under the Ministry of Trade and Industry			
Employee Status	Semi–civil servant			
Controlling Organization	MTI			
Structure/# of Employees	Domestic	▪ 9 divisions ▪ Personnel: 612		
	Abroad	▪ 22 offices in 13 countries ▪ Personnel: not disclosed		
Budget (SGD, thousand)	Yr.	2012	2013	2014
	Subsidy	–	–	392,506
	*Exchange rate: SGD 1= KRW 833.21 (2017.8.)			
Governance	Semi–government organization under MTI			

2) Organizational Structure and Roles

[Figure 2-4] Organizational chart of EDB



3) Strategic Directions

The strategic directions of EDB are as follows: first, it espouses a new strategy of 'From Host to Home,' which is further developed from the strategy of being the host country. Second, it implements the strategy of "Home for Business," which emphasizes the role of the home base to advance into the Asian market. Third, it emphasizes the role of hub for innovation and R&D, with the strategy of "Home for Innovation." Fourth, it intends to invite global talents to Singapore and educate them by implementing the strategy of "Home for Talent."

4) Main Tasks

EDB provides one-stop services to foreign investors and develops government policies and performs advisory roles to improve the investment environment. It also implements vertical integration of existing industries. It intends to support the development of new technologies required in global markets, such as renewable energy, medical technology, and water treatment facilities, and to develop global human resources through leadership training and network creation by attracting prestigious foreign business schools, which will lead to attracting foreign investment and manpower to Singapore.

5) Key Performance Indicators

The key performance indicators of EDB include investment in total fixed assets, total business spending, total value added, and higher job creation.

[Table 2-8] Key performance indicators of EDB

KPI	Definition of KPI	Unit	Over the Last 3 Years		
			2013	2014	2015
Fixed asset investment	Investment in fixed assets	SGD billion	12.1	11.8	11.6
Total business expenditure	Business expenditures	SGD billion	7.8	7	5.6
Expected value-added	Value-added expected amount	SGD billion	16.7	12.5	12.3
No. of skilled jobs	High-quality job creation	Count	25,300	18,600	16,800

2.6. Hong Kong

1) Organization Overview

Invest HK, the IPA in Hong Kong, was established in 2000 as an affiliate of the Commerce & Economic Development Bureau. Its employees maintain the status of state agencies. The domestic organization consists of 4 headquarters, and 13 teams and 30 offices have been opened in 22 countries. As a gateway to China, many investors have established a base in Hong Kong, so a separate team for China is formed to conduct research on China and develop IR strategies.

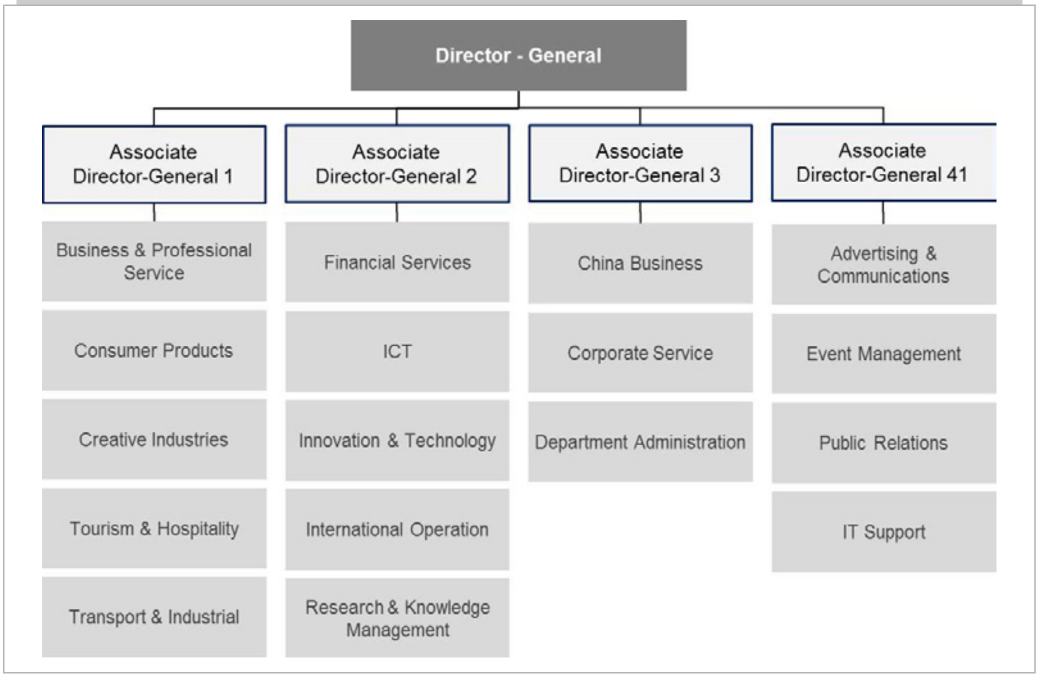
[Table 2-9] Overview of Invest HK

Full name	Invest Hong Kong		
Location	HK	Home page	http://www.investhk.gov.hk/
Year of Establishment	2000		
Status	IPA		
Employee Status	Public employees		
Controlling Organization	Commerce and Economic Development Bureau		
Structure	Domestic	▪ 4 divisions with 13 teams	
	Abroad	▪ 25 offices in 19 countries	
Governance	Composed of Director General, three Deputy Director General, and one Deputy Director General in marketing		

2) Organizational Structure and Roles

Invest HK has overseas offices in 28 locations mainly in target countries. Fifteen regions, including New York, Tokyo, Brussels, and London, have direct Investment Promotion Units inside the Hong Kong Economic Trade Office; and 13 other strategic regions, such as Seoul, Osaka, and Milan, designate local agencies and Beijing has its own office.

[Figure 2-5] Organizational chart of Invest HK



3) Strategic Directions and Main Tasks

The strategic directions and key functions of Invest HK consist of four areas. First, its planning function provides up-to-date information on the Hong Kong business environment. It provides timely and relevant information on specific advice, business opportunities, company establishment procedures, tax and business rules, costs of each business model, recruitment and internship enactment, immigration regulations, trademark registration, and trade regulations. Second, it performs the set-up function. It helps foreign investors find suitable business service providers, such as accountants, law firms, real estate agents, and personnel recruitment companies, necessary to establish a business in Hong Kong. Moreover, it contacts the Hong Kong Special Administrative Region (SAR) authorities for advice on appropriate business locations and obtaining necessary certificates. It also offers consultation on labor visa applications and settlement in Hong Kong such as housing, medical, education, network, etc. Third, as a launch function, it supports the smooth start of businesses by analyzing customer profiles and case studies, publishing on the Invest HK quarterly newsletter and joint press releases, and supporting press conferences and corporate events. Fourth, its expansion function helps promote the business expansion in Hong Kong, provides business network services, offers business matching services through trade associations and consulates, and provides services for government projects and subsidies.

4) Key Performance Indicators

The key performance indicators of Invest HK include: 1 the number of businesses that have established substantial sites in Hong Kong through the support of Invest HK or the increase of substantial investments in existing business sites; and 2 the creation of employment by attracting foreign companies.

[Table 2-10] Key performance indicators of Invest HK

KPI	Definition of KPI	Unit	Over the Last 3 Years		
			2014	2015	2016
# of completed projects	Establishment of a real business site in HK through the help of Invest HK or the completion of substantial investments into existing business operations	Count	355	375	391
# of job creation	# of employment after investment	Count	2,681	3,641	3,986

2.7. Malaysia

1) Organization Overview

MIDA, an investment promotion organization in Malaysia, was founded in 1967 by the Malaysian Industrial Development Authority Act. The controlling department is the Ministry of International Trade & Industry and its employees are public officials. In 2010, it embarked on the privatization while maintaining the status of civil servants, and thus incorporated the system of private sectors. There are 12 local organizations in Malaysia, 22 overseas offices, and a total of 650 people working at home and abroad.

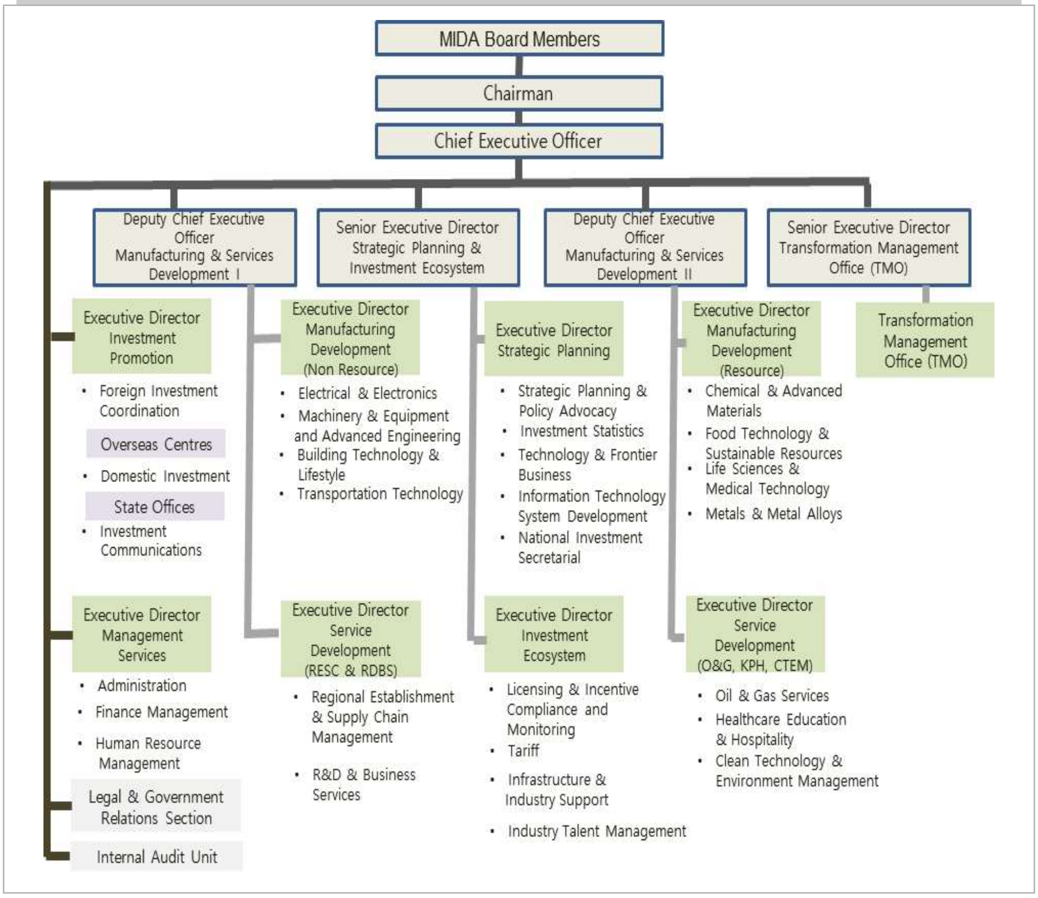
[Table 2-11] Overview of MIDA

<table>
<tr><td>Full name</td><td colspan="4">MIDA (Malaysian Investment Development Authority)</td></tr>
<tr><td>Location</td><td colspan="2">Kuala Lumpur</td><td>Home page</td><td>www.mida.gov.my/</td></tr>
<tr><td>Year of Establishment</td><td colspan="4">1967, pursuant to the Malaysian Industrial Development Authority (MIDA) Act</td></tr>
<tr><td>Status</td><td colspan="4">Malaysia's IPA
Government agency under the Ministry of International Trade & Industry
Public enterprise/privatization in 2010
: Its civil servant status is maintained, but the system of private sector is adopted</td></tr>
<tr><td>Employee Status</td><td colspan="4">Civil servant</td></tr>
<tr><td>Controlling Organization</td><td colspan="4">Ministry of International Trade & Industry</td></tr>
<tr><td rowspan="2">Structure</td><td>Domestic</td><td>■ HQ
■ 12 regional offices</td><td colspan="2" rowspan="2">■ Personnel: about 650</td></tr>
<tr><td>Abroad</td><td>■ 22 offices</td></tr>
<tr><td>Governance</td><td colspan="4">Semi-government organization controlled by MITI</td></tr>
</table>

2) Organizational Structure and Roles

To stimulate central-local investment attraction, the regional offices of MIDA closely work with municipal investment promotion agencies to provide land-related incentives owned by the state and supply investors with incentive information at the federal level. It also performs the tasks of introduction of, and connection with, local IPAs.

[Figure 2-6] Organizational chart of MIDA



3) Strategic Directions and Major Tasks

MIDA aims to promote FDI and domestic investment in the manufacturing and service industries and support outward foreign investment by Malaysian companies. It also engages in industrial development plans in Malaysia and proposes policies and strategies of industry development to the Ministry of Trade and Industry. It reviews applications for the approval of manufacturing, tourism, R&D, tax reduction of industrial training and software development centers, and tariff reduction on raw materials, parts, and machinery. It assists companies in project implementation and provides consultation at the request of the federal and state governments as needed. It also facilitates communication and information exchange among various departments and companies involved in industry development. One representative of senior civil servants from major government agencies is appointed to the headquarters of MIDA to support foreign investors.

4) Key Performance Indicators

The key performance indicators of MIDA are the same as the government target of the amount of investment attraction. An additional goal include the promotion of the proportion of attracting high-value-added businesses, the image of MIDA, and the proportion of actual investment (arrival portion) to the approval level of manufacturing projects.

[Table 2-12] Key performance indicators of MIDA

KPI	Definition of KPI	Unit	Over the Past 3 Years		
			2008	2009	2010
Country record (A)	National investment attraction amount	USD, million	13,844	6,475	9,434
IPA record (B)	IPA's investment attraction amount		"	"	"
Contribution ration (B/A)		%	100	100	100

2.8. Summary of Comparative Analyses of Major Global IPAs

1) Key Characteristics

With the completion of the comparative analyses of the seven major IPAs, the following five common characteristics were found. First, in terms of governance structure, they are operated as an affiliated organization under the control of ministries of industry and trade or IPAs. In some countries like UK, the Ministry of Foreign Affairs is in charge. Second, the organization structure is mainly formed by function or industry sector. Some special organizations are created by strategic region and industry. Third, employees at the IPAs are mostly independent public servants or semi-public servants. Fourth, the benchmarked IPAs promote information sharing and cooperation of regional offices and councils to attract balanced investments between central and local regions. Fifth, for performance management, they adopt the amount and number of attracted investment, the number of related project support, the number of job creation, etc., as KPIs. In addition, there is a tendency to manage additional evaluation indicators such as target regions, advanced technologies, and R&D expenditures.

2) Main Strategies and Tasks

The following major strategies, policies, and tasks are drawn from the benchmarking of the IPAs in seven countries. First, strategic region and industry: they concentrate on strategic investment attraction areas and target industries. In recent years, more emerging countries and leading technology companies have strived to attract foreign investment. For example, Singapore is targeting differentiated niche markets such as renewable energy, water treatment, medical care, and Asian precious metals. Second, incentives: they try to strengthen their negotiation power through the direct management and decision-making of various incentives such as low corporate tax rates, tax exemption, partial refund of R&D expenditures, close linkages with major global financial institutions and investment funds. They also provide differentiated services based on local and linguistic advantages. Third, attraction of talented individuals: in the case of Singapore, it operates a global talent-inducing organization and human resource development programs for foreign-invested companies and creates networks by attracting leading global business schools. Fourth, supply of systematic investment information: they operate foreign market information channels and newsletters online and on mobile, and provide investment information customized for a specific region/industry/investment stage. Fifth, services of grievances and settling: they provide professional consultation services such as Ombudsman service and specialized centers, contingent on investment stage and company characteristics. In addition, they continue to strengthen consultations for daily life and follow-up services. For instance, some IPAs try to ease up the criteria for getting permanent residency and provide one-stop services for residence visa and living conditions to help overseas investors settle in their new location successfully.

Based on the comparative analyses of the major IPAs, the following strategies and tasks are developed for potentially new IPAs. First, new IPAs should set specific goals for strategic regions, industries, and technical knowledge. Second, foreign investment promotion should be aligned with industrial and diplomatic policies. Third, close collaboration between public institutions and private sectors should be established. Fourth, diverse performance measures should be developed, including job creation, attracting foreign talent, attracting high technology, and supporting investor settlement.

3. Assessing FDI Environments of Two States in India

3.1. Overview of India

India has long been regarded as the most promising market after China, especially for the Korean economy. It is an attractive emerging market with a population of 1.3 billion people and an annual GDP growth of 7% to 10%. Just as China does, India also takes advantage of its vast domestic market as a basis for its growth engines, financed by foreign investment. In recent years, India has been very interested in foreign investment and developed investment-friendly policies. However, India has diverse kinds of languages and cultures across the country and there are huge gaps among infrastructures of different regions. Therefore, to invest in India, it is necessary to closely examine the overall market characteristics.

India, with the second-largest population of 1.3 billion people, has the world's highest population growth rate of 1.18% in 2013. By 2030, the population of India is expected to reach 1.53 billion people, exceeding the Chinese population. Along with the population growth, the proportion of the middle class, which captures an important segment in the consumer market, has increased significantly. According to an analysis by McKinsey & Company, the percentage of the middle-class population of about 250 million people in 2014 is expected to grow from 5% to 41%. In addition, the rights of women have strengthened and there is a prevailing advancement of women into the society. It is confirmed that about 31.2% of the individuals engaged in economic activities in India are women. As such, the explosive growth in domestic consumption is expected because of the rise in the middle-class population and the increase in female economic participants.

Like other emerging economies, India has tried to attract foreign investment funds (FDI, FII, PE funds, etc.) into its industries and infrastructure and used the vast domestic market as a growth engine. Its annual GDP growth is as high as 7-10%. However, the manufacturing base is weak and the supply of raw materials, intermediate goods, and crude oil for industrial production heavily depends on foreign countries. As a result, it has chronic trade deficits. To solve this problem, the Modi government, which was inaugurated in 2014, has adopted, as a core policy, the revitalization of manufacturing by attracting foreign investment. It aims to offset the current trade deficit through foreign capital inflows and economic growth. In a similar vein, the government has provided a huge support to Invest India, the IPA at the central government. In addition, in January, the FDI ceiling for major industries was loosened to stimulate foreign investment. In the economy as a whole, the monetary reform at the end of 2016 and the integrated indirect tax system in July 2017 were enforced. As a result, the World Bank has placed India in the top 100 in the evaluation of ease of doing business. FDI inflow into India in the first quarter of 2017-2018 was at USD 10.48 billion, a 37% increase compared to the same period last year. As such, India has shown a strong will to attract foreign investment, along with sustained economic growth, and is in the process of developing FDI-friendly policies.

3.2. Purpose of Interviews

In the case of India, which is a federal nation with 29 states, it is necessary to take into account both the national IPA (i.e., Invest India) and local IPAs because substantial foreign investment promotion activities are carried out in individual states. Hence, the project team visited two states, Andhra Pradesh and West Bengal, and interviewed their investment promotion organizations and economic development organizations to examine and understand the state-level foreign investment attraction activities.

The project team surveyed the FDI environment of the state of Andhra Pradesh, which was recently divided into two states and known as the most active state for foreign investment attraction; and the FDI environment in West Bengal, which has one of the largest consumer markets in India. In principle, we interviewed state IPAs under the Department of Commerce in the two states. Each has its own investment promotion organization: the Economic Development Board of Andhra Pradesh and the West Bengal Industrial Development Corporation for West Bengal.

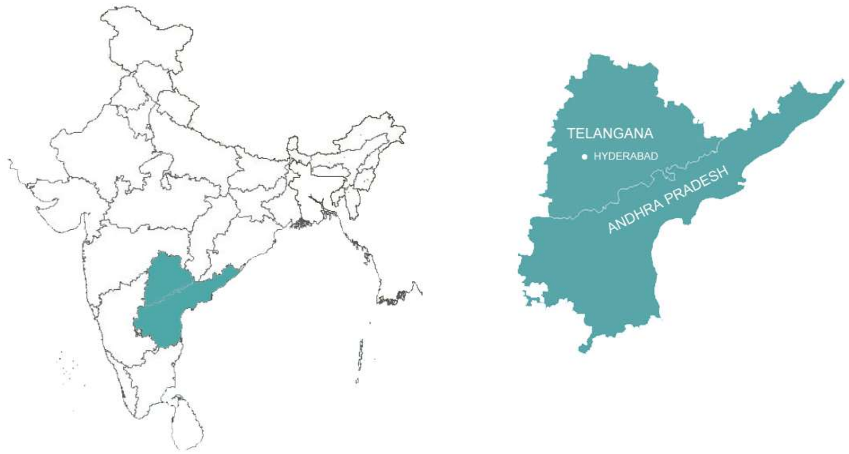
3.3. Exemplary FDI Environments in India

1) Overview of Andhra Pradesh

Andhra Pradesh is the eighth largest state in India and has abundant natural and mineral resources. It also has favorable agricultural climate conditions and fertile land. It has the second longest coastline in India. The coastline is 972 km long, located on the southeastern coast of India and serves as a strategic route to Southeast Asia.

Andhra Pradesh has recently been separated into two states. The Telangana region that used to be a part of Andhra Pradesh was separated as a new state called Telangana on June 2, 2014. Currently, Andhra Pradesh and Telangana jointly use Hyderabad as their state capital, but Andhra Pradesh plans to move its capital in 2024 to Amaravati, a planned smart city.

[Figure 2-7] Map of Andhra Pradesh



Nara Chandrababu Naidu, the Chief Minister of Andhra Pradesh, is committed to developing industries and infrastructures and making Andhra Pradesh a preferred investment destination for foreign investors by providing a business-friendly environment and excellent living atmosphere. Andhra Pradesh has a clear mission and vision: that it will enter the top 3 developed states in India by 2022 and become one of the most advanced states by 2029. In particular, it aims to create Amaravati as the world's best smart city and a green capital.

(1) Market Environment

The population of Andhra Pradesh is about 49.4 million in 2011. It is the 10th largest population in India and accounts for 4.1% of the total population. In addition, 67% of Andhra Pradesh's population are between the ages of 15 and 59, with a higher percentage than those of other Indian states. The high percentage of the workable population indicates that there are also a correspondingly large number of consumers. The population density per unit area is 308 per square km. In addition, as Hyderabad, the largest city before 2014, was separated from Andhra Pradesh, there are no large representative cities yet. However, the state plans to build a new capital city, Amaravati, by 2024, and create a smart metropolis with 25 million residents. With the creation of such a large metropolitan city, the state is expected to develop a promising consumer market as well as a labor market by gathering the scattered people in one place.

[Table 2-13] Overview of Andhra Pradesh

Name	Andhra Pradesh		
Capital	Hyderabad, expecting to move to Amaravati in 2024		
District	13	Language	Telegu
Location	Southeast coast of India		
Area	162,970 km^2 (8^{th} in India)		
Population	About 49.4 million (as of 2011)		
Population Density	308 persons/km^2		
Literacy Rate	65.41% (as of 2011)		

Andhra Pradesh is building a new capital, Amaravati, as a smart city, and it is expected to become a major hub for Andhra Pradesh's economic growth and prosperity. The city will provide residents with the best residential environment with advanced infrastructure and an efficient resource management system. It also aims to attract investors from around the world by providing the best market for both consumers and suppliers. First, it will establish the transportation infrastructure for economic activities. A 135 km of public transport corridor is planned and a 1,000 km of road network will be built by 2050. It will also have 18 million jobs by 2050 with a population of 25 million within the city. In addition, nine more smart sub-cities are planned in Amaravati. This new capital will form a large and smart consumer market and become an attractive investment destination for many investors.

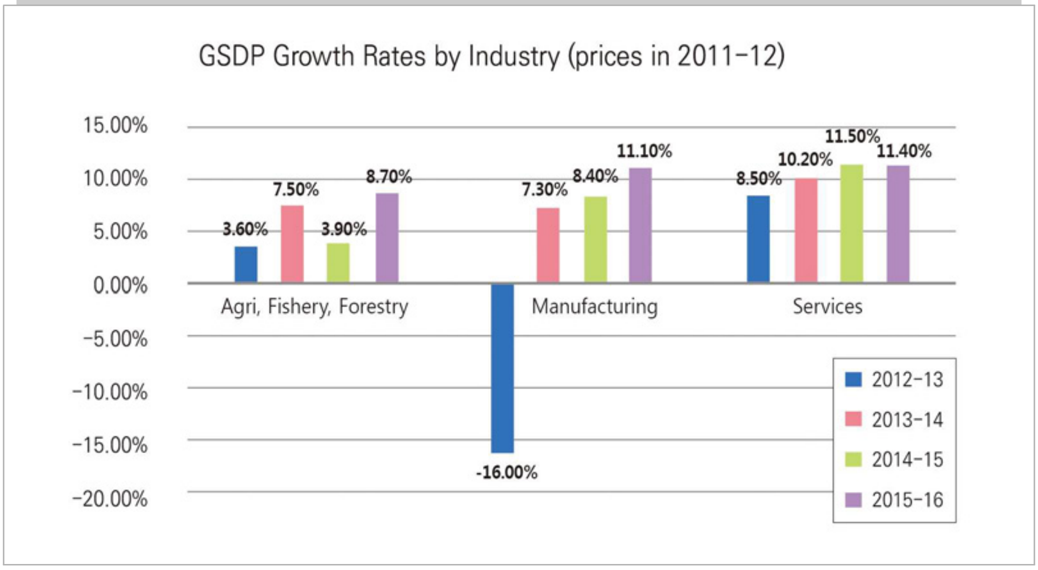
[Table 2-14] Economic indicators of Andhra Pradesh

Nominal GDP	About USD 110 billion in 2016-17
GDP Growth	10.99% growth rate in 2017
Industry Structure	- An average growth rate of 6.8% from 2011-12 to 2015-16 - Services account for 47% of GSDP in 2015-16 (manufacturing, 23%; agriculture, fishery, forestry, 30%)

[Figure 2-8] Nine smart sub-cities in Amaravati

During the period of 2016-17, Andhra Pradesh's gross state domestic product (GSDP) amounts to about USD 110 billion (USD 2016-17). Notably, the growth rate of GSDP is 15%. Considering that India's overall GDP growth is 7.1% during the same period, it is remarkably high. During the 2015-16 period, the state achieved an 11% growth in GSDP, the highest in India. In addition, the average growth rate of GSDP from 2011 to 2016 is 6.8%, which implies how fast the current Andhra Pradesh is growing.

[Figure 2-9] GSDP growth rates by industry in Andhra Pradesh



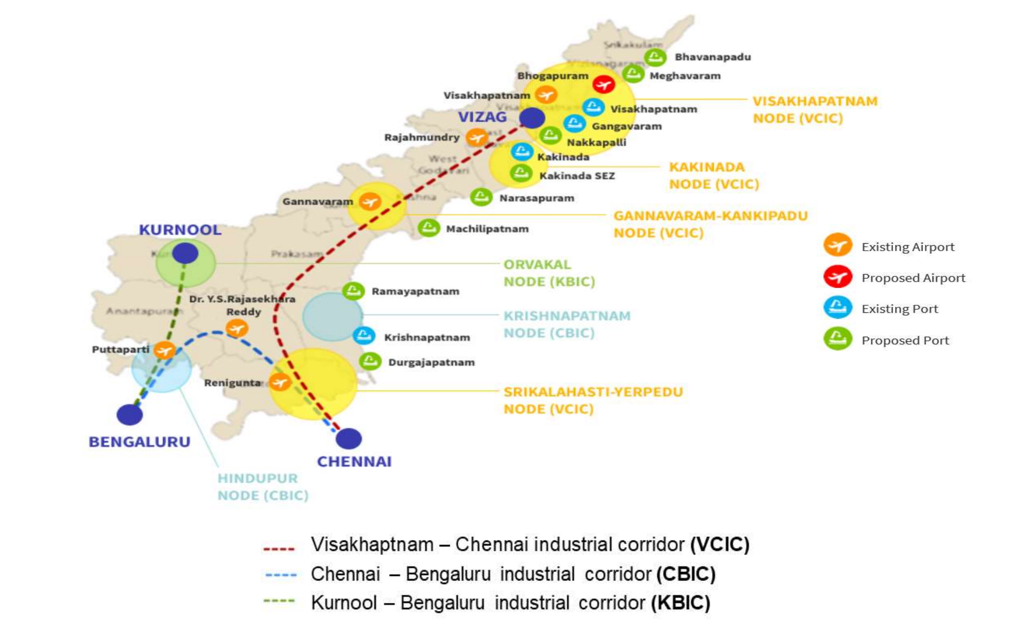
(2) Business Environment

Andhra Pradesh ranked first in India in attracting investments in private sectors during the period of 2015–16. This reflects abundant resources and effectively developed physical infrastructures in Andhra Pradesh. Andhra Pradesh has rich natural and mineral resources, fertile land, water resources, and about 37,000 square kilometers of forest and favorable agricultural climate conditions. Moreover, industrial corridors that link the surrounding cities organically have also accelerated investment attraction.

It is also necessary to consider the energy supply essential for business operations. In the case of power, Andhra Pradesh first provided 24/7 power in southern India. Currently, it is supplying 10,300 MW of power, but plans to increase this to 29,000 MW in 2019. It plans to secure 18,000 MW of renewable energy by 2021–23, focusing not only on increasing the volume of electricity but also on green energy.

The government of Andhra Pradesh has designated three industrial corridors based on the management resources and infrastructure facilities. In general, the industrial corridor refers to a specific industrial area designated by potential industrial area location, transportation network, and infrastructure support status. The state government expects an increase in GDP of USD 161.5 billion by 2035 and a production output of USD 115 billion through three industrial corridors. It also expects to create 14 million new jobs by 2045.

[Figure 2–10] Three industrial corridors in Andhra Pradesh



(3) Investment Policy

[Table 2-15] Overview of the IPA of Andhra Pradesh

Official Name	Economic Development Board		
Location	Hyderabad	Home page	http://www.wbidc.com/
Controlling Authority	State Prime Minister Nara Chandrababu Naidu		
Goal	FDI attraction for the economic development of Andhra Pradesh		

Andhra Pradesh has set the direction of investment policy and carried out detailed investment procedures efficiently with the help of the EDB. First, the state government has a clear mission and vision to attract foreign investment. It plans to be on the top 3 autonomous states in India by 2022 and the most advanced state in 2029. Then, it aims to be the most preferred global investment destination by 2050 and serve as a logistic hub to become a gateway between India and Southeast Asia. To achieve these long-term goals, the state government is pursuing double-digit industrial growths by attracting foreign investors.

The EDB has developed policies that are consistent, systematic, and friendly to foreign investors. The following are some of the seven implications of the investment policy. First, it has established a data-based public policy. Second, it has a rapid approval process of within 21 days. Third, flexible labor policies are implemented. Fourth, it has established an independent policy for the youth. Fifth, it has implemented a policy of Internet of Things. Sixth, a new housing policy will be implemented. Seventh, Goods and Services Tax (integrated indirect tax) is introduced.

It is necessary to understand the single-desk policy provided by the EDB in investment policy. This is the second policy that allows rapid approval procedures. The single-desk policy or single-point-of-contact policy literally means the integration of various departments related to foreign investment by providing a comprehensive service in one place. Along with the State Licensing Authority (SLA), it provides a transparent and integrated one-stop solution for any issue. The solution includes information such as state investment information, investment approval procedures, and investment incentives. All of these services are provided to investors in quick and direct ways. It offers unified contact and approval procedures because of the integration of diverse departments. This allows foreign investors to prepare documents more concisely. It can also be used to track approval procedures online, which makes it easier for investors who are unable to visit India to embark on investment procedures remotely.

(4) Major Industries

The state of Andhra Pradesh has given a high priority to industry growth. The "Industrial Development Policy 2015-20" aims to revitalize manufacturing, strengthen innovation capacity, and create employment opportunities in all fields. The industries that Andhra Pradesh intends to develop in the near future are as follows: (1) agriculture and food processing industries, (2) green (renewable) energy industry, (3) electronics and IT; and (4) automobile and auto parts industry. The state has provided aggressive incentives to compete in the global FDI attraction. Because most of the key industrial sectors are related to manufacturing, Korea's main industries of manufacturing such as electronics and automobiles can have very prospective opportunities to invest in India.

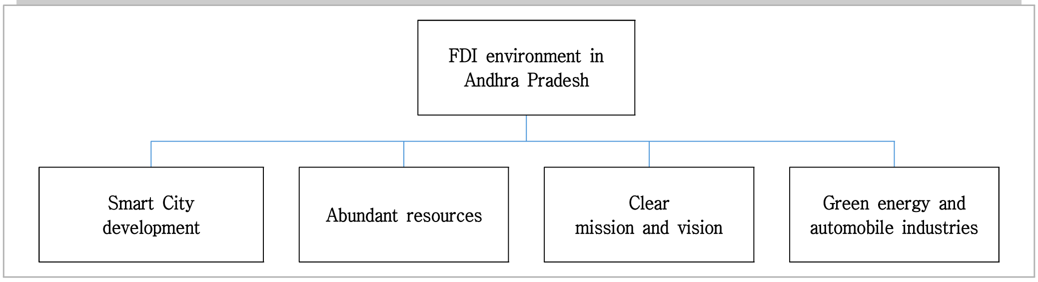
(5) Investment Prospect

Andhra Pradesh has developed nine smart cities, including the new capital, Amaravati, to create a modern urban environment. These cities are being developed as a great investment destination by establishing a physical and industrial infrastructure for businesses of foreign investors as well as for the local residential environment.

Because Andhra Pradesh owns abundant natural and mineral resources, a wide range of industries from agriculture and food processing with natural resources to electronic and composite manufacturing industries with mineral resources can benefit by investing in the state. It also has mild climatic conditions, which can be optimal for renewable energy industries. At present, as the state is developing renewable energy industries as a top priority, it would be beneficial for energy companies to make investments and advance related technologies.

The state government has set clear mission and vision in engaging in active investment promotion activities. EDB has played a pivotal role of providing relevant information and developing business-friendly policies. In particular, the approval process of a new foreign investment can be carried out through the single desk policy and completed within 21 days.

[Figure 2-11] FDI environment of Andhra Pradesh

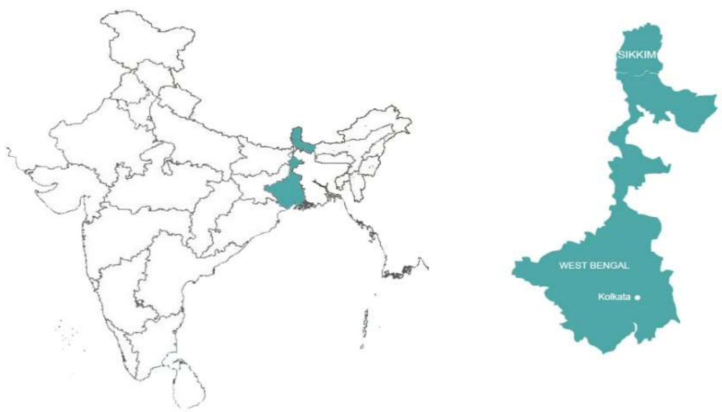


2) Overview of West Bengal

West Bengal is located in northeastern India, neighbors to Bangladesh in the east, and Nepal and Bhutan in the north. Because of this geographical location, West Bengal serves as a gateway to ASEAN countries and becomes the starting point for the BCIM corridor (connecting Bangladesh, China, India, and Myanmar).

West Bengal is a major agricultural producer (ranks sixth in India). In addition, West Bengal has specialized in the IT industry and thus actively attracted FDI in software and electronics.

[Figure 2-12] Map of West Bengal



(1) Market Environment

West Bengal has the fourth largest population in India with 91.3 million people and the second highest population density in India with 1,000 people per square kilometer. Moreover, 66% of the population are between the ages of 15 and 59. Given the large population, it implies that the state has quite an abundant labor supply. In addition, Kolkata, its capital city, is one of the four major metropolitan areas in India.

[Table 2-16] Overview of West Bengal

Name	West Bengal		
Capital	Kolkata		
Districts	20	Language	Bengali
Location	Northeast of India, east to Bangladesh, north to Nepal and Bhutan		
Area	88,752 km² (less than 3% of India)		
Population	About 91.3 million (as of 2011)		
Population Density	1030 persons/km² (4th in India)		
Literacy Rate	76.28%		

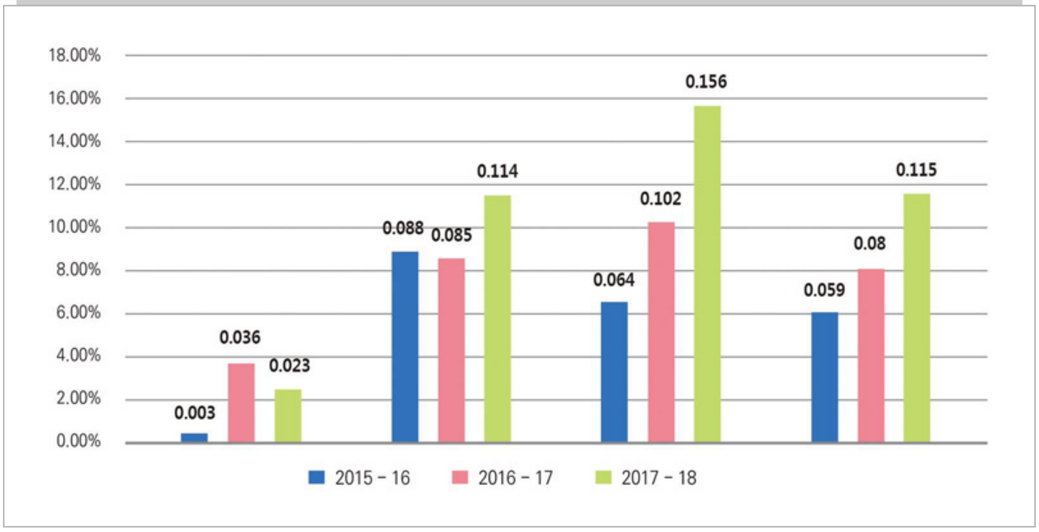
West Bengal is a high-growth state in which industrial production and economic growth outpace the average of India. The nominal GSDP in 2017 amounts to approximately USD 157 billion, while the GSDP growth rate was 15.64%, which is higher than the 7.1% of India's overall GDP growth rate. In terms of FDI inflows, West Bengal attracted USD 4 billion from 2000 to 2017. FDI inflows during the period of 2014-15 have increased by 13%.

[Table 2-17] Economic indicators of West Bengal

Nominal GDP	About USD 164 million (exp. 2018)
GDP Growth	15% growth rate in 2017
Industry Structure	- Services account for 56% of GSDP (manufacturing, 25%; agriculture, fishery, forestry, 19%) - Highest growth rate in services (15.6%)

The industrial structure of West Bengal is concentrated in the tertiary industry. In the entire GSDP, the tertiary industry accounts for 56%, while the secondary industry is at 25% and the primary industry is 19%. The growth rate of the tertiary industry is also the highest at 15.6%. The total GSDP growth rates from 2015 to 2018 classified by industry are presented below.

[Figure 2-13] GSDP growth rates by industry in West Bengal



(2) Business Environment

West Bengal has abundant mineral resources. It accounts for one-fifth of India's total mineral production and is the third largest producer in India. The state government has attempted to develop the electronics and IT industries by utilizing abundant mineral resources. Moreover, West Bengal has abundant agricultural resources, of which the output is sixth in terms of the net domestic production in India. Its tea production is the second largest in India.

West Bengal has invested heavily in education to improve human resources. The state government has reorganized its large-scale educational infrastructure by allocating USD 1.5 billion to the Department of Education. As such, the state government is keen to raise the level of human resources to develop its IT industry. In addition, West Bengal has created various industrial infrastructures such as industrial park, growth center, intelligent park, and special economic zone.

(3) Investment Policy

The official name of the state IPA is "West Bengal Industrial Development Corporation (WBIDC)," which is under the Department of Commerce of West Bengal. It was founded in 1967 and serves as a point of contact for the state Department of Commerce. WBIDC has promoted industry development and foreign investment in West Bengal and to expand infrastructures. WBIDC has been a catalyst for foreign investment through marketing and public relations to position West Bengal as an attractive investment destination for many years. WBIDC performs the following four detailed activities. First, it serves as a window to foreign investment promotion in West Bengal. Second, it provides financial support for medium and large companies through various lending schemes. Third, it offers financial incentives to investors. Fourth, it establishes industrial parks to develop diverse businesses.

[Table 2-18] Overview of IPA of West Bengal

Official Name	West Bengal Industrial Development Corporation		
Location	Kolkata	Home page	http://www.wbidc.com/
Established	1967		
Controlling Organization	West Bengal's Department of Commerce and Industries		
Goal	FDI attraction into West Bengal		

The state government has tried to set the direction and the purpose of investment policies and establish industrial infrastructures and incentive systems. In addition, foreign investment policies and regulations have been laid out to promote transparent and efficient investment. Approval procedures and rules for foreign investors are separated from direct incentives. To provide a more systematic and transparent approval procedures to foreign investors, the following investment policies are specified: foreign investment policy, FDI policy, industrial license policy, foreign institutional investment policy, and environment policy.

(4) Major Industries

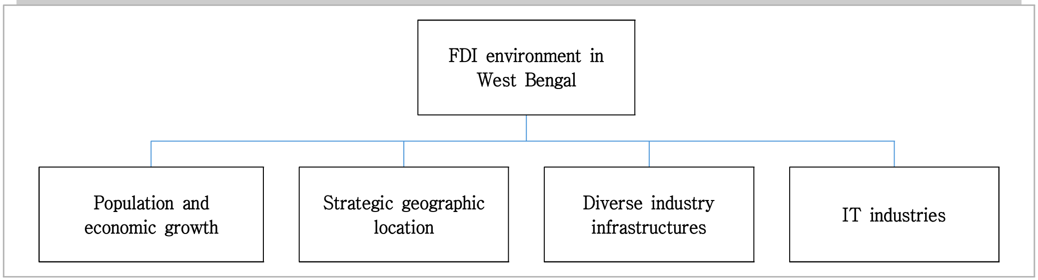
West Bengal has improved its industrial production and economic growth rates based on diverse industries. Twelve industrial sectors entice foreign investments. But there are four industries with a higher priority. First, the tea and the textile industries have been promoted by using the existing infrastructures in the primary industry. In addition, the state concentrates on the IT industry and the steel industry, which can take advantage of its abundant mineral resources. In the case of the IT industry, the state government has developed IT complexes and proposed many improvements for foreign investment.

(5) Investment Prospect

Given the very high population density and rapid economic growth of West Bengal, it is highly likely that the state has abundant labor forces and large consumer market simultaneously. West Bengal is bordering Bangladesh, Nepal, and Bhutan, and is facing the Southeast Asian market.

West Bengal has tried to offer various industrial infrastructures and establish special industrial districts for each industry sector. As a way of developing the IT industry, the state has established intelligent parks specialized in IT industry and continue to expand them by providing state-of-the-art research facilities and a reliable power supply system.

[Figure 2-14] FDI environment of West Bengal



4. Implications for IPAs in India

4.1. Organizational Aspects

1) Organizational Limitations

Based on the analyses of the political, economic, and sociocultural environment in India, it is highly likely that new IPAs will have the following organizational limitations. First, there may be insufficient organizational dynamics for deregulation necessary to attract foreign investment and implement aggressive foreign investment promotion policies. Second, there may be weak business linkages between central-state IPAs or public-private organizations. Third, there may be underdeveloped physical infrastructure to support foreign-invested companies.

2) Directions for Improvement

As a way of overcoming the first limitation, it is imperative to identify the processes by which foreign investors determine strategic investment sectors and target countries and link them with national industry development policies. In addition, it is necessary to redesign the organizational operating system considering the changes in the industrial environment, policy, and internal capabilities, to secure investment personnel, and to establish cooperation with related organizations and overseas bases. Furthermore, performance management systems that measure the goals and performance of IPAs and evaluate individual achievements should be improved. To overcome the second limitation, IPAs in

India should strengthen the linkage among Invest India, state IPAs, and private industry associations, and develop collaborative models and services. In addition, it is necessary to consider establishing branch offices or councils in major states and to develop various investment incentives, contingent on the characteristics of linkage of strategic regions, industries, and companies. The third limitation can be resolved by supporting office leasing and facilities for foreign- invested companies, improving online and mobile information service systems to attract foreign investment, providing grievance handling and settlement services on a proactive basis, nourishing networks among foreign-invested companies, and developing programs to attract foreign talents.

4.2. Policy Aspects

1) Policy Limitations

From the analyses of the political, economic, and sociocultural environment in India, we derived the following policy limitations for new IPAs in India. The first limitation can be attributable to insufficient cooperation between the central and state governments to secure political stability. Second, policies should be specified in detail and effective strategies should be developed. The third limitation is that social integration through comprehensive growth policies should be pursued.

2) Directions for Improvement

To overcome the first limitation, IPAs in India should lower the likelihood that state governments with different political ideologies will not cooperate with the incumbent central government and broaden a stable support base for the central government in revising major policies for the promotion of foreign investment such as amendment of land law and implementation of an integrated GST and in implementing those policies. As a way of overcome the second limitation, IPAs in India should prevent a possibility of weakening the specificity and the momentum of investment attraction policies due to the concurrent execution of diverse policies. In addition to quantitative expansion of policies, it is necessary to refine the core policies of manufacturing-centered economic development promoted by the Modi government and to focus on developing relevant strategies and incentives. The third limitation can be resolved by eliminating side effects and reverse discrimination caused by the reform policies aiming for rapid economic growth and should seek more proactive solutions for social integration.

In the next section, we will examine the key elements of IPAs and distinctive features of Invest Korea, the national IPA of Korea, to explore possible areas that can contribute to the strengthening of Invest India's capabilities.

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Chapter 3

Capacity Upgrading of Invest India: Lessons from Invest KOREA

<Abstracts>
1. Introduction
2. Key Elements of the Investment Promotion Agency (IPA)
3. Organizational Analysis of Invest India
4. Invest KOREA's Organization and Process
5. Key Benchmarking Programs
6. Summary and Strategic Implications

Capacity Upgrading of Invest India: Lessons from Invest KOREA

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<Abstracts>

Since Prime Minister Narendra Modi started his term in office, India has actively pursued national development through openness. In particular, based on the economic innovation campaign, "Make in India," India is striving to increase the rate of Indian manufacturing and strengthen competitiveness through investment attraction. To attract more active investors, enhancing Invest India's competitiveness and improving the business environment (e.g., improve the ranking of ease of doing business) are very urgent. Therefore, the Indian government has recently been working hard to strengthen the budget and personnel of Invest India and organize and improve the structure quickly.

This chapter examines ways to build the capacity of Invest India. Fundamentally, the nine key elements of the investment promotion mechanism are presented in detai: (1) support, (2) budget, (3) investment and business climate or the country's characteristics, (4) prioritization of functions or activities, (5) IPA structure, (6) IPA mandate and legal authority, (7) clear vision, (8) client charter, and (9) network. We then analyze the basic situation of Invest India and describe in detail the structure, functions, and institutions of Invest KOREA. In particular, Invest KOREA has many years of experience to operate excellent systems such as Project Manager (PM), Foreign Investment Ombudsman, and Overseas Network. Therefore, it is necessary to benchmark this system of Invest KOREA and use it to strengthen the capacity of Invest India. Finally, some strategic implications for India and Invest India are suggested.

1. Introduction

Since Prime Minister Narendra Modi started his term in office, India has actively pursued national development through openness. In particular, based on the economic innovation campaign, "Make in India," India is striving to increase the rate of Indian manufacturing and strengthen competitiveness through investment attraction. In other words, to revitalize the economy, 25 sectors, including chemical, port, aviation, tourism, machinery, and bio industry, are targeted and the goal is to raise the proportion of manufacturing in India's GDP from 15% to 22% by 2022. To do this, Indian government focuses on eliminating various obstacles. Above all, the reinforcement of Invest India, an IPA, is urgently needed to aggressively attract FDI. Therefore, Indian government officers have recently strengthened their budget and personnel, and are exerting efforts to improve organization and structure quickly. Under this circumstance, this chapter will examine ways to build the capacity of Invest India. In particular, Invest Korea operates a number of excellent systems, such as Project Manager (PM) and Foreign Investment Ombudsman. Therefore, understanding Invest KOREA's system will be very helpful for enhancing the competitiveness of Invest India, and we would like to examine the major systems of Invest KOREA and draw up implications and suggest policy ideas for upgrading the capacity of Invest India.

2. Key Elements of the Investment Promotion Agency (IPA)

2.1. Evaluation Items of the UNESCAP

First, we would like to examine various measures related to the efficiency enhancement of the IPA and presented by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) to evaluate PA comprehensively and objectively (UNESCAP, 2017).

The full name of the UNESCAP is the United Nations Economic and Social Commission for Asia and the Pacific, also known as ESCAP. The UNESCAP was established on March 28, 1947, in accordance with the resolution of the Fourth United Nations Economic and Social Council, and accordingly, on June 16, 1947, in Shanghai, China, the first general meeting of UNESCAP was held.

The UNESCAP is one of five regional commissions under the United Nations Economic and Social Council. In addition to UNESCAP, the United Nations regional committees include the Economic Commission for Europe (ECE), the Economic Commission for Latin America and the Caribbean (ECLAC), the Economic Commission for Africa (ECA), and the Economic and Social Committee for West Asia (ESCWA).

The UNESCAP and the ECE were established in 1947. At the time of the establishment of the

UNESCAP, it was named Asia-Far East Economic Committee (ECAFE). It was later renamed as it is today. For reference, the ECLAC was established in 1948, the ECA was established in 1958, and the ESCWA was established in 1973.

* As of 2012, UNESCAP is active in 53 countries. Of these, 49 are members in the region and four are offshore members. The nine non-autonomous regions are associate members (Naver Knowledge Encyclopedia).

1) Overall Support

It is important for IPA to make important decisions as well as political support, both in the public and private sectors. This support mainly refers to proper funding, staffing, and authority. IPA is not a monetization agency, but rather a national return through his activities. His background is to consult with relevant stakeholders and build consensus. Meanwhile, local IPA should be supported behind the national IPA.

2) Budget

Most IPA budgets are supported by the government. It is most efficient when the budget is normally between USD 64,000 and USD 200,000. In the case of USD 200,000 to 110,000, the estimated elasticity is expected to reach the maximum. On average, a 10% increase in IPA budgets will increase FDI inflow (or inward FDI) by 7.5%. Moreover, if the budget is over USD 110,000, expenditure for investment promotion is inefficient. Of course, in the case of a local IPA, the budget is small, typically USD 100,000 to 1,000,000. In general, a small level of investment is good for investing large amounts in the "investment promotion activity," one of the main functions of the IPA. Meanwhile, in a high level of investment, it is more effective to put a lot of money into the "after-service activity."

3) Investment and Business Climate or the Country's Characteristics

IPAs are faced with different challenges based on the history and investment environment of different countries. IPAs should actively respond to and prepare for current or future challenges by learning from experience through trial and error in the past. Especially, hardware infrastructure is important for the investment environment, but software is also important, such as the promotion of investment promotion policies and programs to attract investment.

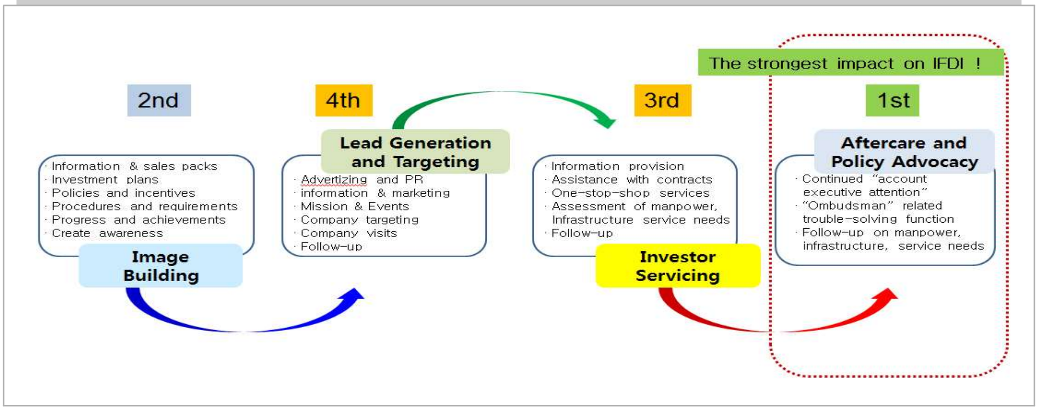
The quality of the investment and the level of development have a significant impact on the performance of the IPA. In general, the more effective the investment climate, the more effective the IPA is. However, a good IPA can show different performance in low investment and relatively poor government conditions. Nevertheless, investment promotion activities will not be sufficient to complement bad investment climate and policy.

4) Prioritization of Functions or Activities

It is not efficient for IPA to pursue all functions or activities simultaneously as an organization. Identifying specific activities or organizational priorities at the developmental stage will help improve the capacity of IPA efficiently and effectively. Invest KOREA, a national IPA in Korea, has been able to grow rapidly in a short time because it has grown steadily with its priorities in the organization's functions and activities. Therefore, benchmarking the evolution of Invest KOREA–prioritized processes can help establish the organization and function of Invest India.

According to the estimated results, the "aftercare and policy advocacy" sector has the greatest impact on investment inflows, followed by image building, investor servicing, and lead generation and targeting procedures. The following is a picture of a simple investment promotion cycle.

[Figure 3–1] Investment promotion cycle



Source: Presented by the Investment Consulting Association

5) IPA Structure

The level of organizational independence and the degree of influence often have a trade–off relationship. If the IPA belongs to a higher government department (e.g., the Prime Minister's Office), it is easy to have a strong influence and coordination with other government organizations. However, its independence will deteriorate. Meanwhile, if the IPA is a part of a government department organization, it can maintain some level of independence from the central government, but it has limitations in carrying out its authority. Invest KOREA is constantly evolving, taking into account the governance characteristics of its organizations.

• Composition of the Executive Committee: Preparation of the articles of association, Board of Directors, Advisory Committee

- Functional Organization: Planning and coordination team, investment promotion team, investment service team, investment development team, etc.
- Recruiting and Personnel Arrangement: Harmonization of private and government sector employees, recruitment policy, usage of overseas representative and agents

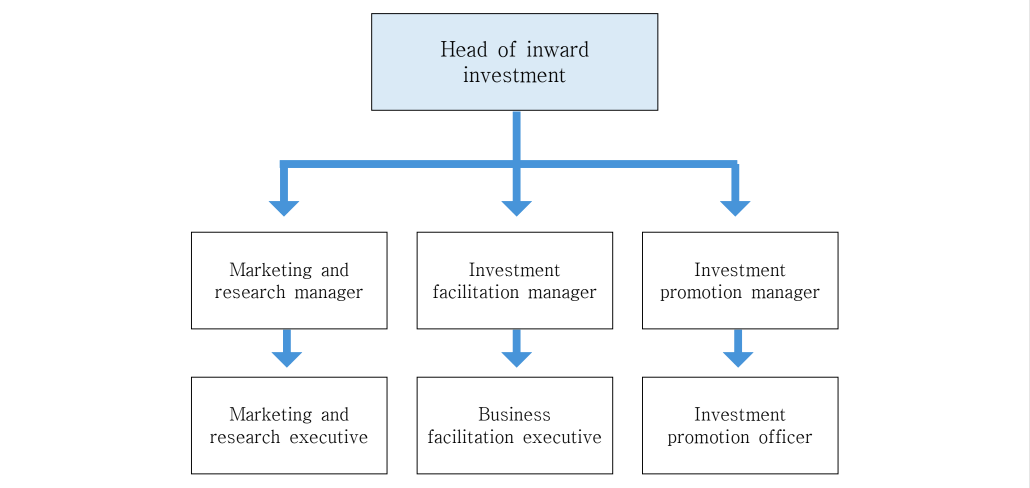
This is related to the integral unit of the main cabinet, and it is desirable that the organization should be distinguished from the cabinet as a unit within the ministerial or presidential organization. And as far as possible, IPA representatives will report to the cabinet ministers, but autonomous organizations will be more flexible and appropriate. Namely, the national IPA should be an autonomous organization with the following characteristics:

- Has a unique identity, budget, CEO, and board
- More flexible than government agencies and autonomous to spending
- More business-oriented through the recruitment of staff from the public and private sectors
- IPA's performance is publicly available and can be scrutinized by the parliament
- Has the necessary authority for coordination of government departments, approval of investment, provision of grants, etc.
- Reports directly to the head of government

The local IPA is a city or city level and the following characteristics are desirable:

- Major cities have their own IPA.
- Local IPA can be the economic policy department of the local administration or a large investment department.
- Ideally, in developed or developed regions, local IPAs have a high degree of autonomy, but they need to cooperate with the national IPA to ensure the consistency of investment policies.
- However, autonomy is more costly and may not be appropriate for some countries.
- For fully autonomous IPA, local IPA budgets can range from USD 100,000 (small business units) to more than USD 1 million

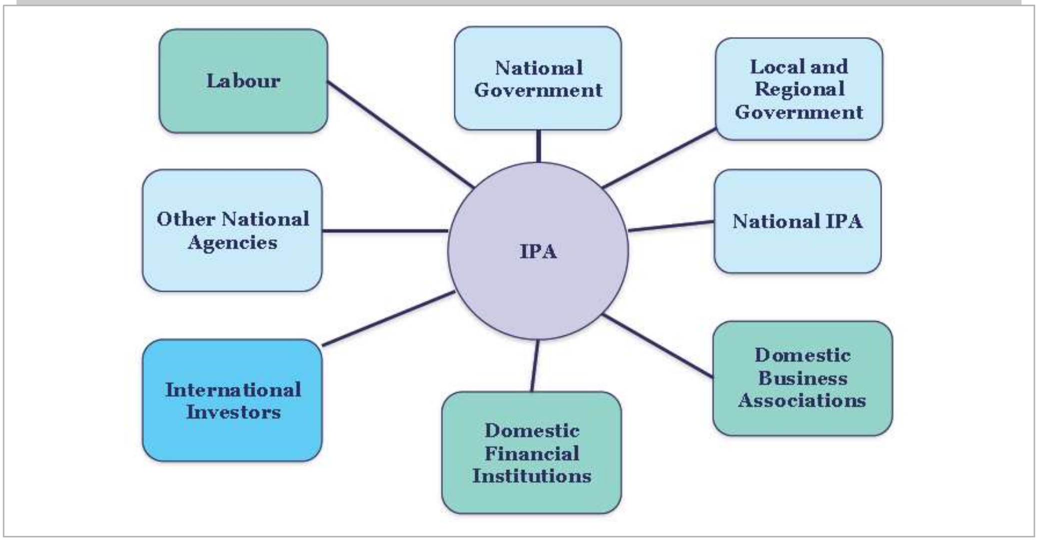
[Figure 3-2] Organization of local IPA (example)



Source: MCI and VCC

In general, a local IPA (subnational IPA) requires the support of various bases, including the national IPA, as shown in the following figure for his activities.

[Figure 3-3] Regional IPA and broad base support



Source: Investment Consulting Associates (2015)

6) IPA Mandate and Legal Authority

Furthermore, a clear definition of the IPA's authority and legal status is necessary to implement the policies of the IPA and coordinate with local governments and other relevant agencies effectively.

The establishment of IPA's legal authority is the basis for the IPA's work. This range is determined by the background and purpose of the establishment of the IPA. If there is no clear rule, it may be a dispute between the other agencies and the related organizations. Therefore, a clear definition of delegation rules and legal authority is required for the effective operation of the IPA. The IPA, known as a successful case in Switzerland, Denmark, Belgium, the Netherlands and Hong Kong, has been granted special powers from the beginning of its establishment, which has many implications. A closer look at the foundation principles is given in the following example:

- Investment attraction is composed of resource-intensive activities (e.g., labor, time, and capital). They are also very challenging, and require various skills and a high level of professionalism and dedication.
- To create a shared value and differentiate it from the other IPAs, it is important to define organizational principles (e.g., vision, mission, goals, etc.).
- A well-promoted investment can provide significant benefits to the local economy, and the staff at the investment promotion agency will not only feel satisfied and rewarded but will also have an excellent career.

The type of organizational structure can be classified based on "affiliation" and "independence." The decision on affiliation refers to whether the IPA should be located in a higher government body with higher authority and inclusiveness than the general department or as a specialized government agency. If the affiliated government agencies are at the upper level, it will be easier to resolve the conflicts among stakeholders in the investment-inducement process. The president or the prime minister is performing high-level and comprehensive tasks to coordinate the work of the ministries. Therefore, it is advantageous that foreign civil service belongs to a higher authority when the civil affairs of a foreign investment are related to one or more departments and the coordination between the ministries is necessary.

"Independence" is the independence of government departments in terms of strategy formulation, budget, and organization operation. Independence means how flexible an organization can perform its investment attraction activities. For IPA to provide excellent investment services, it is important to have a competent investment marketer who is inspired by the service mind, and to resiliently operate the resource for attracting investment. In the case of IPAs in developed countries, most of the organizations are composed of civilian CEOs and private experts. However, because the history and cultural background of each country are different, this should be taken into account. For example, in the case of Singapore's IPA (or EDB), public servants are members but they are the best talents, and their service minds are better than those of any private organization, and their pay is best treated.

As such, IPA can be classified into four types based on "affiliation" and "independence" as shown in the following figure (Lim, 2004).

[Figure 3-4] Organizational forms of IPAs

	Government	Independent Organization
Affiliated Department	① **Type 1:** Internal units of a major ministry	③ **Type 3:** Separate ministry
President or Prime Minister	② **Type 2:** Unit within the prime minister's or president's office	④ **Type 4:** Autonomous agency whose chairperson reports to a cabinet minister (preferred options)

By adding "Hybrid structure" to the above four types, we can describe the advantages and disadvantages of each type as follows.

[Type 1] Internal units of a major ministry

It is intended that the entire process of establishing investment-inducement policies, attracting investment activities, and drafting the system will be carried out at the level of one department or department of the ministry. This applies mainly to IPAs that have a closed economy or are established by some European municipalities. For example, in the United Kingdom, the central government's IPA has led inward FDI in the UK by working with the local IPA, the Welsh Development Agency, Scottish Development International, and Investment Northern Ireland.

The local government IPA conducts investment attraction marketing processes such as establishing inward FDI strategies, targeting, administrative process, investment incentives, and A/S management, and provides one-stop service by project manager (PM). Meanwhile, the national IPA (e.g., UKTI) provides services such as finding out potential investment through overseas networks (diplomatic offices and overseas branches) and providing investment information in the UK that potential investors want to know. It also establishes national investment (or IFDI) policies and promotes national image, incentives, and direct incentives for large national projects.

The advantage of this form is that it has a clear responsibility for attracting FDI to the government, so the ministries have a strong sense of ownership. Meanwhile, it is difficult to cooperate with ministries in projects that require cooperation from various ministries. Therefore, it may be difficult to operate a resilient organization, secure private experts, recruite personnel, and execute budget.

[Type 2] Unit within the prime minister's or president's office

It is not easy to find this type 2, which is mainly aimed at establishing the committee system as a direct organization. The committee shall be under the presidency or under the prime minister, and shall manage and coordinate the foreign investment-related affairs of the government departments. At this time, because of the limitations of the committee's personnel and organizational structure, the actual investment promotion activities will be pursued by the ministries, but the mid- to long-term strategy of attracting foreign investment and the policy for large-scale project support will be decided by the committee.

The advantage of this system is that the IPA can maintain neutrality, and it is possible to coordinate with each ministry as a higher authority. In addition, the perception that prospective investors are dealing with foreign investment in top government organizations has a positive impact on IPA's image formation. The disadvantage is that it is limited to autonomous investment service activities and flexible organization operation because it is a government organization. In particular, it is difficult to expect aggressive investment attraction activities as a committee organization without an executing organization. Moreover, it is not easy to believe that measures, such as investment incentives and deregulation have eliminated political considerations from public opinion and were carried out under the consideration of pure economic and commercial judgments.

Therefore, if the commission system does not grant legal authority and budget authority, it is easy to face difficulties in coordinating and managing related ministries, and the nature of transitional institutions becomes strong. In the long run, it often plays a temporary role until the establishment of a separate independent agency.

[Type 3] Separate ministry

It is intended to demonstrate professionalism and independence as a part of specific ministries. However, comprehensive powers and duties and comprehensive delegation are advantageous in ensuring the independence of the new IPA establishment, but delegation from the limited authority of certain ministries makes it difficult to guarantee complete independence. Therefore, it is better to strengthen the independence of the IPA by belonging to the president or the prime minister, who can compromise and comprehensively delegate as the fourth form [Type 4] rather than the third form [Type 3].

The advantage is that it exists as an independent department rather than a bureau of the government department like the first type [Type 1], so it is an organization strengthened in terms of investment manpower and budget expansion and investment organization rather than the first form [Type 1]. The disadvantage, however, is that if the subject ministry is not a large ministry, and if a comprehensive mandate is not made, the substantive effect on independence will be inferior. Although it is appropriate for countries that have limited foreign investment attraction and are adopted as narrow economic policy instruments, it is considered that the effectiveness of the application is low in countries that use foreign investment attraction as a multipurpose economic policy instrument such as regional development, industrial development, and employment creation.

[Type 4] Autonomous agency

Here, the focus is on the independent operation of the IPA. In the case where the government agency belongs to the upper and comprehensive delegation of the department, the independence and autonomy of the IPA will be exerted so that the flexibility or resilience of the investment service activity will be enhanced. It is because the work scope of the parent institution is wide and contradictory that it can exercise its actual adjustment ability in case of civil complication while ensuring independence.

Depending on the size of the country and the internal structure of the IPA, the role of the national IPA and the local IPA will be different. For example, if the territory is relatively broad and the municipality is developed like the UK, the local autonomous IPA becomes a substantial investment attraction rather than the central government IPA. In the case of smaller territories and populations, such as Singapore and Ireland, the central IPA will promote investment promotion activities that include the provinces.

Therefore, the merit is that it is easy to resolve conflicts between ministries and departments, because they belong to the parent institution of comprehensive investment complaints on the tasks of various departments, and are strong in independence in terms of budget, manpower, and investment attraction activities. It is more suitable for activities. Meanwhile, there is a disadvantage that inefficiency arises in that, if there is no delegation and coordination authority for duties, such as the issuance of licenses and approvals issued by the ministries, the other ministries have to go through the formalities once more.

The organizational form and manpower structure of IPA should choose the most suitable manpower structure for the IPA business, considering the expertise and the need for communication between the related organizations rather than the concept of civil servant as a government organization and a private individual as an independent organization.

[Type 5] Hybrid structure

This is a mixed structure. For example, in the case of Business Sweden, it is owned by the Swedish government and industry and is represented by the Ministry for Foreign Affairs and the Swedish Foreign Trade Association.

As we have seen, each scheme has its advantages and disadvantages, but it has been found that autonomous entities, the fourth [Type 4], are the most successful organs of the IPA for over 20 years, both in developed and developing countries (World Bank, 2012). That is, it has been judged that the fourth [Type 4] or fifth [Type 5] embodiment is optimal.

7) Clear Vision, Mission, and Goals

It is important to establish clear visions, missions, and goals within the IPA organization for efficient performance and to share knowledge and value from the leader to each of the sub-organizations. Furthermore, it is important to materialize the abstract vision or goal through a specific key performance indicator (KPI), etc., and convert it into a viable system. That is, the definition of organizational principles (e.g., vision, mission, goals) is very important to create a shared value and differentiate itself from competitors.

[Figure 3-5] Organizational principles of IPA

Source: UNESCAP (2017)

The vision of IPA is a future-oriented point; you need to describe in detail the results you want to achieve, and the mission should give an inspiration to why this organization should exist. In addition, the goals should be an important step to achieve the above vision and mission, which is the basis of the IPA activity. For the goals to be effective, the following SMART conditions must be met:

- Specific: Precise about what has to be achieved
- Measurable: Clear on how to quantify the realization of the objective
- Agreed or achievable: Realistic expectations
- Relevant: To the organization and to whom they are assigned
- Time-based: Clear indication of start or finish date

8) Client Charter and Service Level Agreement

Service level agreements (SLAs) generally apply to a typical service delivery organization or organization, including the enterprise. However, government organizations, including Invest KOREA, do not accept service fees for customers, so it is somewhat problematic to apply the customer charter or SLA items, and it should be applied through adjustments through appropriate modifications.

The SLA can be of some help when considering the implementation and application of government-related organizations, such as IPA, in improving service quality. For example, IPA helps ensure the efficiency and transparency of service execution, decision-making, and quality of service results by sharing clear expectations and timetables with customers in providing specific services.

A client charter provides potential investors with information about the delivery of products and services and their standards. Therefore, you should set up what you will do for potential investors, how to propose to do it, and how to set the time (in what timescale). In the end, when customers meet you, you get a clear picture of what they expect. Therefore, the customer charter is also considered a “letter of engagement.”

Meanwhile, it is very important to have a competitive pool of talent in strengthening the service level of the organization. IPA requires regional experts as well as various industry experts to implement service tasks that attract FDI in various industries effectively and efficiently. In addition, it is important to employ excellent manpower; but in the long term, it is necessary to nurture its own core staff with specialized knowledge suited to the circumstances.

Ultimately, the client charter is the “set targets” for service delivery by the IPA. An example of “the Client Charter” is shown as follows.

[Table 3-1] Example of a client charter

Service Investment Promotion	Time	Cost
(a) Response to investor inquiries		
E-mail inquiries	15 minutes	Free
Fax and letters	1 day	Free
Walk in	10 minutes	Free
Meetings	Instant	Free
Business appointment	One day	Free
(b) Provision of information		
Electronics	Immediate	Free
Printed	Immediate	Free
Website update	Monthly	Free
(c) Preparation and confirmation of itinerary for potential investors	Three days	Free

9) Network

IPA has various functions to perform. In particular, to effectively carry out the task of attracting investment, it is necessary to communicate closely with domestic and foreign clients or investors, and their opinions should be appropriately utilized in actual policies and systems. Tto fulfill this role, it is necessary to construct various comprehensive domestic and foreign networks.

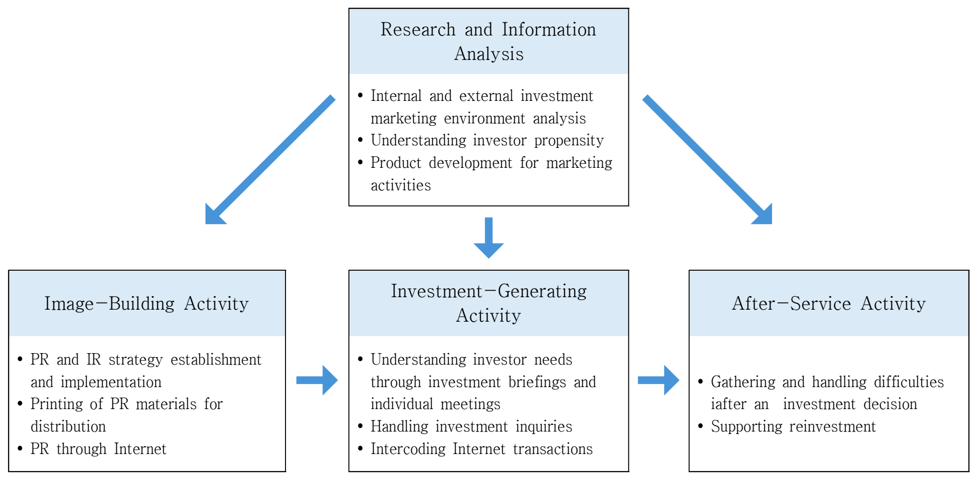
In the case of a national IPA, a network of stakeholders is required, including chambers of commerce, ministries, government agencies, statistical offices, embassies, and foreign diplomatic missions in each country. Meanwhile, in the case of local IPA, a close network with the national IPA and local government offices, the export processing zone (EPZ), the administration, other state and municipal governments, existing investors and national/local chambers of commerce are needed.

2.2. Fundamental Activities and Structures of the IPA

1) Fundamental Activities of IPA

Wells and Wint (1990), who studied IPAs in depth, classified the activities of investment promotion agencies as image–building activities, investment–generating activities, and investment–service activities. In this case, investment–service activities are separated into after–service activities and investment–related research and information analysis, as shown in Figure 3–6 (Lim, 2004).

[Figure 3–6] Major activities of IPA



Framework for FDI Marketing Activity

Source: Wells and Wint (1990); Lim (2004).

The roles of the IPA are summarized as follows:

① Research and information analysis activities are marketing activities that affect major activities such as those on image building, investment generating, and after service. Investigating the investment system, analyzing foreign investment trends, analyzing domestic industrial competitiveness, identifying investor trends, and developing investment marketing products are essential activities for effective investment attraction marketing activities.

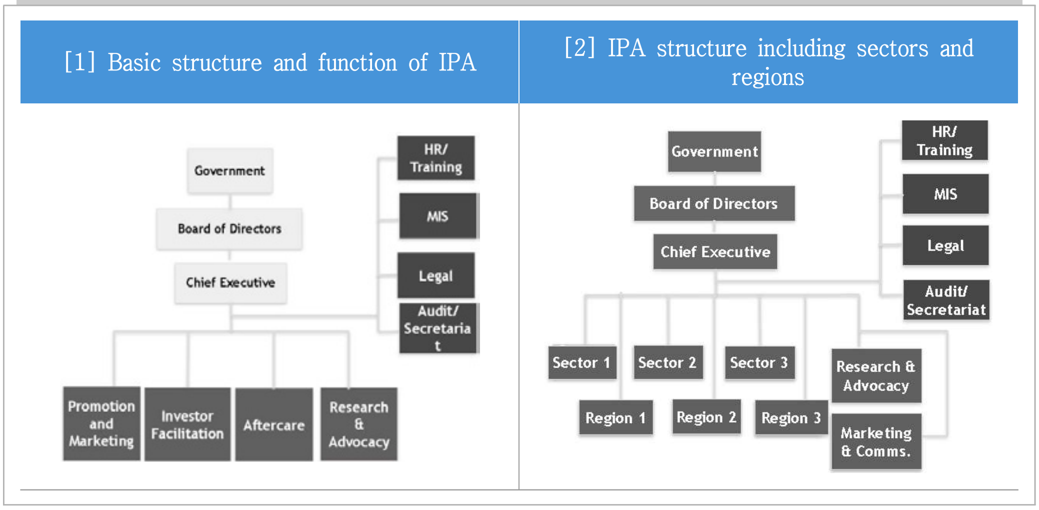
② Image–building activity affects potential investors who are considering the decision on the investment location. This includes establishing IR activity planning and investment promotion strategies, publishing and distributing investment promotion materials related to investment attraction areas, and collecting and providing basic information on investment. It can be carried out individually, or can be done in combination through investment fairs, briefings, and seminars.

③ Investment–generating activity refers to the activity to make the investment attraction, such as confirming the investment through contact with the investor and arranging the investment object transaction. Such activities include examining the direct investors' intentions to invest through mission delegations, doing inquiries on investors collected through overseas networks or branches, and visiting investors for consultation.

④ After–service activity refers to an activity that supports smooth investment after the investor has made a decision. This includes support services such as administrative support, real estate acquisition, visa for foreign dispatch workers, improvement of residential environment, etc., in the implementation of investment such as construction of factories and establishment of corporations. Since the establishment of a corporation, the management of linkage programs between domestic companies, such as those handling difficulties in business management activities and providing information on parts procurement, is also also an important after–service activity. In the more aggressive after service, it involves activities that lead to additional investment and link up to actual investment.

2) Basic Framework

[Figure 3–7] Function and structure of IPA (Example)



Source: Investment Consulting Associates (2015)

The basic IPA structure performs the basic functions (Promotion and Marketing, Investor Facilitation, Aftercare, Research & Advocacy) of four kinds of investment attraction as in [1], and experts are assisting them.

Meanwhile, many IPAs are organized into sectors or regions as in [2]. Staff members are often geographical specialists as well as industry/sector experts. These are widely used in organizations with fewer staff as well as in countries with developed industrial sectors that require specialists (Investment Consulting Associates, 2015).

3. Organizational Analysis of Invest India

3.1. Purpose and Structure of Establishment

Invest India received "the World Best Practice Investment Promotion Agency" award from UNCTAD in 2016. The purpose and the governance and organizational structures of Invest India are described as follows.

1) Purpose of Establishment

Invest India is an IPA of the Indian government established in 2009 to facilitate smooth investment in India. It is the first point of contact for potential investors. Since the start of the Modi government, Invest India has been exerting various efforts to upgrade its organization, such as strengthening its capabilities and expanding its members and budget.

2) Governance Structure

Invest India is a member of the DIPP under the Minister of Commerce & Industry. It was a nonprofit joint venture established in 2009 with 51% of the Federation of India Chambers of Commerce & Industry (FICCI), 35% of DIPP under the Ministry of Commerce and Industry and 14% of the 28 provinces (0.5% each). As of 2017, 51% of the Indian Chamber of Commerce (FICC) and 49% of the Indian Industrial Policy Support Committee (DIPP) have been restructured.

3) Organizational Structure

In the early days of its establishment, it consisted of 12 members including 11 committees and 1 full-time staff. Recently, the organization has expanded (e.g., a TF team according to major services and strategies, a function-specific expert team related to attracting investment, and dispatch of experts from each province).

In particular, as mentioned above, after the launch of the Modi government in 2014, India has been promoting the "Make in India" campaign, an economic development policy through manufacturing revival. Invest India is also expanding its human resources and organization to attract foreign investment and secure financial resources. In addition to Japan Plus in 2014, there is also a dedicated investment promotion department in 2016 that targets specific national companies such as Korea Plus.

In the case of the Commission, the Minister of Commerce and Industry (or DIPP) is chaired by 11 members: CEO of Invest India, Director of Commerce and Industry (DIPP), Director of Foreign Affairs, Director of Telecommunication Information Technology Department, FICCI, law firms, industry executives, etc. It serves as a nodal agency for a potential investor, central government, provincial government, embassies and consulates, etc.

[Figure 3-8] Structure and role of Invest India

Source: Invest India (2017)

3.2. Key Features and Services

Invest India currently manages overall programs related to attracting foreign investment, which is the core goal of the "Make in India" campaign, the major industrial policy of the Modi government.

However, it provides information on specific sectors and regions throughout the entire investment promotion cycle, from pre-investment decision-making to aftercare, including rapid regulatory approval support, and corrective actions for problems. For example, it includes: ① facilitating smooth meetings with relevant government and corporate stakeholders, and supporting investment roadshows; and ② the provision of aftercare services such as confirming location, eliminating unnecessary deregulation promptly, promoting related meetings with government and business stakeholders, and solving problems faced by other investors. Major services can be classified into three categories as follows.

① Business Planning and Advisory
- FDI Policy advisory
- Policy/regulatory advisory
- Location assessment
- Industry opportunity
- Assessment subsidy/incentive advisory

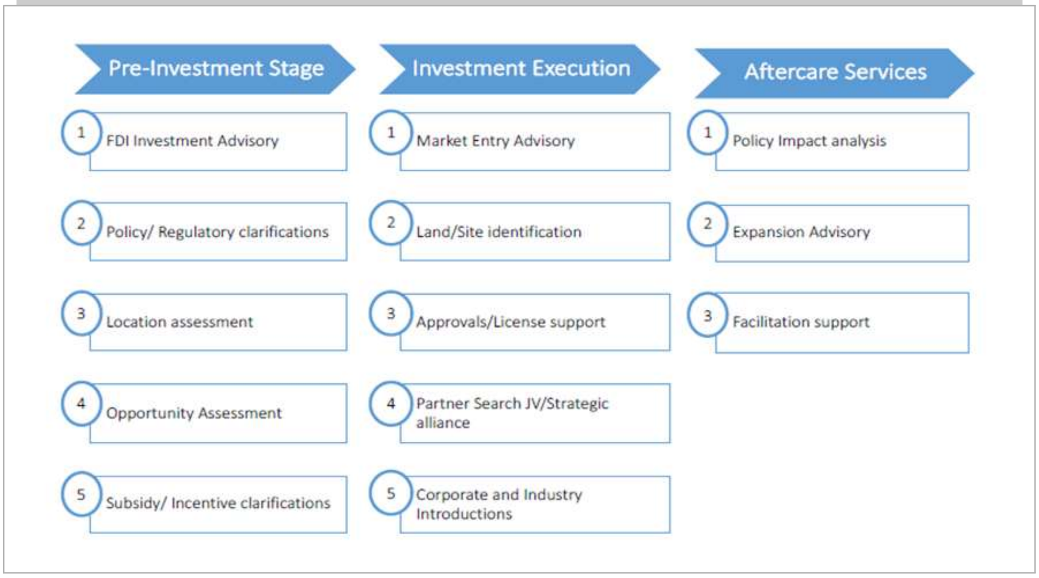
② Strategy and Implementation
- Site identification
- License and compliance advisory
- Corporate and industry introductions
- Entry route procedure advisory
- JV and strategic partner search

③ Long-term Partnership
- Policy impact analysis
- Grievance support
- Advisory support for expansion
- Facilitate support for delays in licenses, approvals, and company incorporation

In particular, the partnership is concluded with similar institutions (investment promotion agencies) around the world to promote investment and economic participation between the two countries. Currently, it has signed MOUs with IPAs such as Italy, France, USA, UK, Japan, Korea, and Mauritius. In June 2016, Invest India established Korea Plus, which is still in operation to this day.

It also plays an important role in linking the state with industries, which support the close interaction between the state and private industry organizations. Although it does not include all of the provincial Invest India branches (Investor Facilitation Cell), some provinces have established a one-stop support center to provide continuous support for investors. Therefore, through this process, investors can smoothly provide investment procedures and guidelines for cooperation with state and private industries. In summary, Invest India is a nonprofit entity that provides an end-to-end solution for attracting investments.

[Figure 3-9] Invest India's end-to-end investment attraction process



Source: Invest India (2017)

3.3. Environmental Change and Performance of Investment Attraction in India

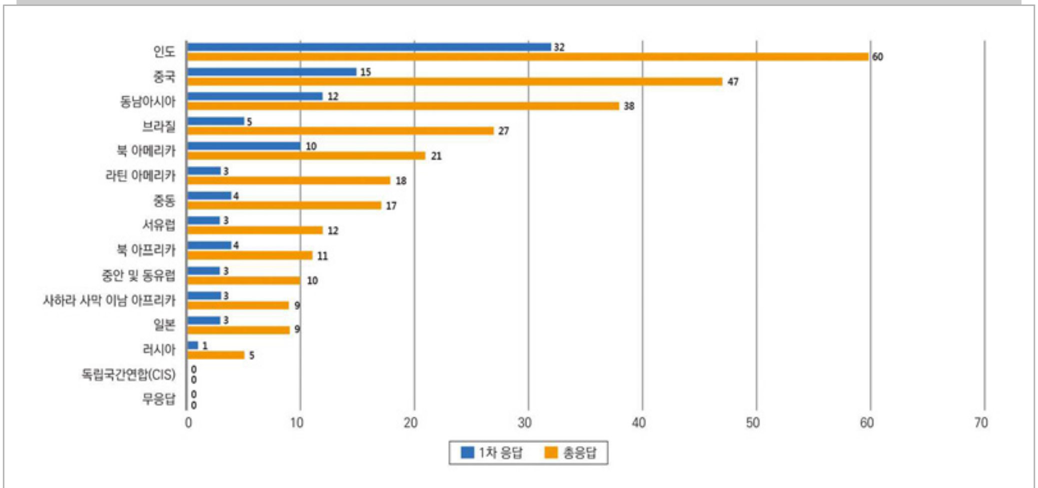
1) Environmental Change in Investment Attraction in India

In 2015-2016, the Indian government carried out many reforms. The most important of them are transparency of governance structure, standards of liberalization of inward foreign direct investment (IFDI), improvement of corporate environment, implementation of the Sagarmala program,[11] start-up support system, stability and predictability of tax decisions, the creation of the National Investment and Infrastructure Fund (NIIF), Jan Dhan Yojana (National Accounts Movement), approval of settlement banks and small financial institutions, introduction of Jan Dhan-Aadhaar-Mobile (JAM), and reform of strategic areas (India Business Guide, 2016). In 2017, tax reform was a success. The global economy grew by 3.1% in 2015, with advanced nations growing by 1.9%, emerging and developing nations (EMDES) by 4.0% (4.6% in 2014), and emerging and developing nations in Asia by 6.6%. Meanwhile, the Indian economy grew by 7.6% in 2015-2016 after its 7.2% in 2014-2015. The current government, which has a majority of Indian parliaments, has encouraged awareness of the importance of investment and has successfully promoted core

11) Sagar Mala project is a strategic and customer-oriented initiative of the Indian government to modernize India's ports so that port-led development can be augmented and coastlines can be developed to contribute to India's growth (from Wikipedia).

economic reforms, with economic growth expected to continue in the future. According to the EY Investment Promotion Survey, India has been selected as the most attractive investment market for investors over the next three years. Overall, 70% of companies with revenues of USD 2 billion or more reported that they would expand or relocate their manufacturing facilities to India within the next five years (India Business Guide, 2016) (Figure 3-10).

[Figure 3-10] Global investment outlook



Source: EY, India Investment Attractiveness Survey (2015)

2) Performance of Investment Attraction in India

As of 2015, India has grown to become the world's 10th largest investor in the world after the United States, China, and Canada. In particular, foreign investment inflows increased by 28% in 2015 as a result of strong investment attraction policies since the start of the Modi government in 2014.

[Table 3-2] Inward FDI (2011-2015)

(Unit: million USD)

Country	2011	2012	2013	2014	2015
World	1,566,839.0	1,510,918.3	1,427,180.9	1,276,999.3	1,762,155.0
United States	229,862.0	188,427.0	211,501.0	106,614.0	379,894.0
China	123,985.0	121,080.0	123,911.0	128,500.0	135,610.0
Canada	39,669.3	43,111.0	71,752.8	58,506.5	48,642.8
India	36,190.5	24,195.8	28,199.4	34,582.1	44,208.0
South Korea	9,773.0	9,495.9	12,766.6	9,273.6	5,042.0

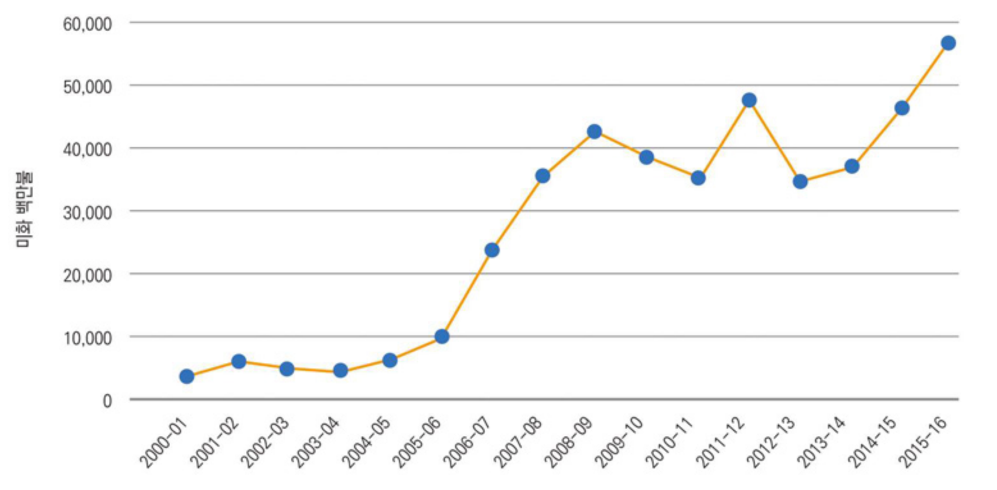
Source: UNCTAD

India is a fast-growing market and with a low cost of production and services. It is one of the best investment destinations. Services (which account for 50% of the economy) and industry are expected to become major growth drivers for the economy. Manufacturing will be a growth engine in the next 5-10 years if quality and competitiveness are maintained. India's manufacturing and secondary industries continue to attract global capital. The attractiveness of India as an investment destination is because of its competitive labor cost, profitability, and skilled workforce. In particular, this trend will further expand because of the recent relaxation of FDI restrictions.

In addition, FDI inflows were USD 45.15 billion in 2014-2015 and USD 55.46 billion in 2015-2016 because of the relaxation of investment limits and simplification of procedures for various important sectors such as broadcasting and defense. The cumulative FDI inflow from March 2000 to March 2016 is USD 424.17 billion (India Business Guide, 2016).

[Figure 3-11] FDI inflow of India

(Unit: million USD)



Source: India Business Guide (2016)

4. Invest KOREA's Organization and Process

4.1. Purpose, Organization, and One-Stop Service

Invest KOREA was established under the Korea Trade-Investment Promotion Agency (KOTRA) in 1998 to overcome the IMF troubles by attracting foreign investment. For 20 years since its establishment, Invest KOREA has been building knowledge related to investment promotion through the operation of the national IR, comprehensive consultation center for foreign investment, office leasing of foreign companies, PM (Project Manager) system, and the successful operation of an investment Ombudsman system. Therefore, this project is going to share this knowledge with Invest India, the IPA of India.

1) Purpose and History

The purpose of Invest KOREA is to serve as a national organization dedicated to one-stop service, and to carry out comprehensive investment support services such as counseling, guidance, public relations, investigation, and handling of complaints related to foreign investment. Invest KOREA's history is shown in the following figure.

[Figure 3-12] History of Invest KOREA

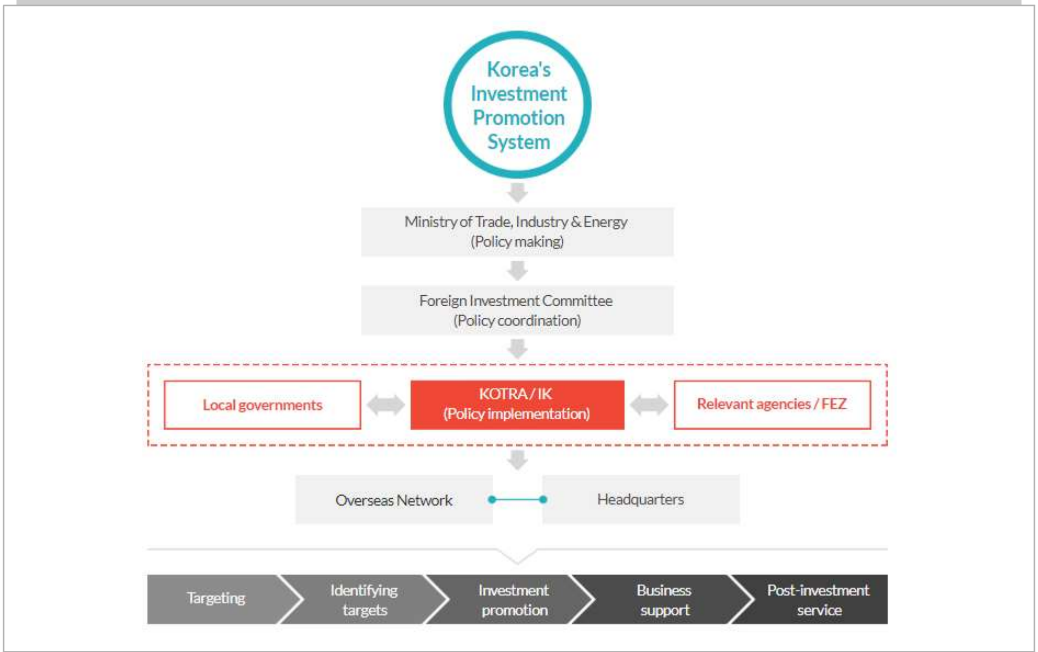
Source: Invest KOREA homepage

2) Organization and One-Stop Service

Invest KOREA is a national IPA that promotes Korea's investment environment overseas. It also provides comprehensive consultation services for foreign companies, including investment consultation, investment report, establishment of business, and support for business activities in Korea.

The system of attracting foreign investment in Korea consists of the following. The Ministry of Commerce, Industry and Energy establishes policies, coordinates the policies at the Foreign Investment Committee, and cooperates with local governments and FEZs, mainly KOTRA's Invest KOREA, to attract investment. In this process, the overseas trade center and the head office are closely connected to the overseas network, and the processes of targeting, investment project discovery, investment attraction, execution support, and post management (or after service) are carried out.

[Figure 3-13] Korea's FDI promotion regime



Source: Invest KOREA's home page

In addition, the implementation of actual investment inducement will be described in detail by the employees and expert group of KOTRA and Invest KOREA who have extensive knowledge and experience in the foreign investment field, and public officials dispatched from government-related ministries and agencies who have a close working relationship with 36 KOTRA Overseas Investment Centers (Korea Business Center). Of course, the organization was established under the "Foreign Investment Promotion Act" as follows.

Article 15 (Establishment of Foreign Investment Support Center)

① To comprehensively carry out consultation, guidance, publicity, investigation, research and civil affairs related to foreign investment, business incubation, support for foreign investors and foreign−invested enterprises, the Foreign Investment Support Center (hereinafter referred to as "Investment Support Center") shall be established at the Korea Trade−Investment Promotion Agency. <Amended on April 5, 2010>

② The head of the Korea Trade−Investment Promotion Agency shall, when necessary, provide investment support to employees and officials of relevant government agencies or related organizations and corporations or organizations related to foreign investment (hereinafter referred to as "relevant organizations"). You can ask the center to dispatch you. However, when requesting dispatch of a public official, he / she shall consult with the Minister of Justice in advance.

③ The head of the Korea Trade−Investment Promotion Agency shall install a branch office of the institution in the investment support center, with a head of the relevant administrative agency, if necessary, to handle the affairs related to the investment of a foreign investor. In this case, the head of the administrative agency that receives the request must approve the request if there is no specific reason not to do so.

④ The Investment Support Center is centered on executives and employees of Korea Trade−Investment Promotion Agency who have considerable knowledge and experience in foreign investment−related business. In addition, a civil servant or an employee of the relevant agency (hereinafter referred to as "dispatcher") sent to the Investment Support Center, based on ②, shall support its work.

⑤ In the event that there is no special reason, the head of the relevant administrative organs or agencies who is requested to dispatch civil servants or employees in accordance with ② shall select and dispatch a person suitable for his /her duties. To cancel the dispatch work during the dispatch period, the head of the Korea Trade−Investment Promotion Agency should be consulted in advance.

⑥ In accordance with ② above, the heads of relevant administrative agencies or related organizations who dispatched civil servants or employees may have preferential treatment on the dispatcher concerning promotion, telegraph, reward, and welfare.

⑦ The head of the Korea Trade−Investment Promotion Agency may request the cooperation of relevant administrative organs or related organizations, when necessary, in carrying out the work under ①, and the head of the requested institution shall follow the request if there is no special reason not to do so.

⑧ Deleted <April 5, 2010>

⑨ The matters necessary for the organization and operation of the Investment Support Center shall be determined by a Presidential Decree. <Amended on April 5, 2010>

[Special Revision January 30, 2009]
[Title Revision April 5, 2010]

Invest KOREA is a two−room, one−tier system of the KOTRA headquarters (Investment Planning Office, Investment Promotion Office, and Foreign Investment Support Center). For reference, since 2015, KOTRA has organized a global M&A support center under Invest KOREA. This is to strengthen foreign investment support for M&A investment to expand investment attraction. However, as of 2017, this function has shifted to other departments in KOTRA, that is, the Investment Promotion Office (August 1, 2017). This means that the focus shifted to our companies' M&A support for overseas companies. There is also a foreign investment ombudsman system, which plays an important role in the after service of investment companies.

[Figure 3−14] Organization of Invest Korea

[Table 3-3] Major departments and functions of Invest KOREA

Team		Duties
Department	Team	
Investment Planning Department	Investment Strategy Team	• Establishes investment promotion strategies and plans and governs general Invest KOREA affairs
	Investment Public Relations Team	• Promotes Korea's advantages as an investment destination to potential foreign investors and interested parties • Creates PR materials on Korea's business environment
	Investment Information Team	• Compiles, manages, and analyzes FDI statistics • Carries out surveys and examines investment trends of foreign-invested companies • Analyzes the effects of FDI policies and studies
	Foreign Firm Employment Support Team	• Establishes and implements foreign firm employment support strategies • Detects demand for new employees in foreign firms, and builds an employment opportunity database for each firm • Builds employment-related networks with foreign firms, universities, and headhunting companies
Investment Promotion Department	Investment Promotion Administration Team	• Sets, manages, and evaluates investment promotion goals for each foreign office • Finds new Korean projects in need of investment • Promotes overseas investment activities in each region (North America, Europe, Asia and the Middle East [including Japan), and China)
	Key Industry Investment Promotion Team	• Promotes investment activities in chemicals/materials, electric/electronics, automotive/machinery, aerospace/shipbuilding, consumer goods
	Investment Promotion Team in the Service Industry	• Promotes investment activities in real estate/tourism and leisure, logistics/distribution, business services, finance
	Investment Promotion Team for Growth Industry	• Promotes investment activities in biopharmaceutical/health care, new energy/environment, robotics, cultural content, ICT convergence (IoT, cloud computing, big data, 5G technology, etc.)

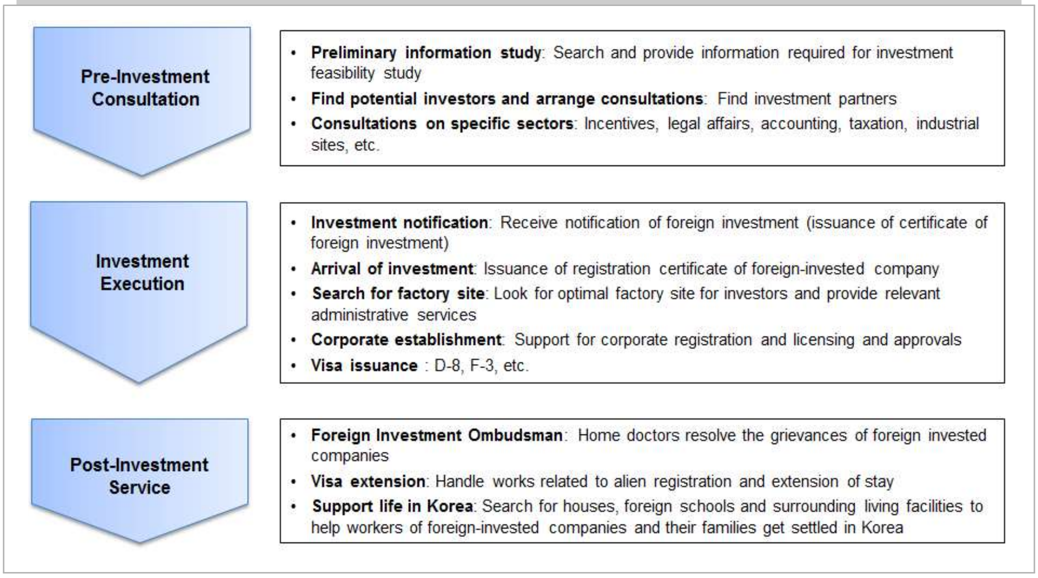
[Table 3-3] Continued

Team		Duties
Department	Team	
General Administration Support Center	Investment Consulting Center	• Handles investment licensing and procedures and manages investment notification and other civil affairs • Provides consulting services in areas such as accounting, tax, legal affairs, etc. • Helps foreign investors settle down in Korea including one-day secretarial and consulting services
Foreign Investment Ombudsman	Investment Aftercare Division	• Handles grievances of foreign-invested companies

Source: Invest KOREA's home page

Invest KOREA provides all services for attracting foreign investment, from investment counseling to investment execution and after-investment support as a one-stop process.

[Figure 3-15] Process of one-stop service



Source: http://www.investkorea.org/en/ik/onestop.do

4.2. Major Businesses

Invest KOREA focuses on projects, such as policy development and expert management, to promote investment attraction, grievance processing of foreign-invested companies, global M&A proliferation, foreign investment consultation, and administrative service reinforcement. Its major business details are summarized in the table below.

[Table 3-4] Invest Korea's main business

Unit business	Major Detailed Business	Purpose	Business Information
Investment base-building business	Operation of Invest KOREA	Efficiency of the Invest KOREA organization operation and the operation of infrastructure to attract national investment As a national IPA, to find proposals for policies to activate inward FDI to contribute to the national economy, etc.	Administrative support and management for the efficient operation of Invest KOREA (Invest KOREA representative, expert committee salary, general management, etc.)
Grievance-solving business for foreign-invested company	Foreign Investment Ombudsman role and support	Improving the investment environment in Korea by solving the grievance of foreign-invested companies	Handling of complaints through home doctor's visiting services and in-home counseling
Finding and supporting investment projects	Investment attraction business	Improvement of investment attraction performance through systematic investigation and multidimensional support for key projects to attract investment	Providing close service: Finding projects in key investment attraction areas, support for prospective investment projects held by local governments, support for external cooperation to boost investment promotion projects, etc.
Administration support business for inward FDI	Administration support business for inward FDI	Contributing to enhancing investment convenience and attracting investment through consultation on inward FDI-related fields and administrative service support	Operation of comprehensive administrative support center, publication of foreign investment support materials, education of foreign investment statistics system (INSC), etc.

Source: Invest KOREA Annual Report (2017)

By looking at the performance of the investment attraction, it can be seen that it has been a record–high achievement of USD 20.9 billion by 2015 and USD 21.3 billion by 2016, and Invest KOREA contributed about 80% of the total investment of USD 17.1 billion.

[Table 3–5] Performance of Invest KOREA in inward FDI

(Unit: million USD, %)

Division	2011	2012	2013	2014	2015	2016
National performance	13,673	16,286	14,548	19,008	20,909	21,299
Invest KOREA's performance	8,892	10,660	11,859	15,108	16,127	17,131
Contribution of Invest KOREA (%)	65	65.6	81.5	79.5	77.13	80.43

Source: INSC, Invest KOREA's Annual Report (2017)

5. Key Benchmarking Programs

5.1. PM (Project Manager) System[12)]

The PM system refers to the provision of customized services by assigning PMs to major investment projects to efficiently support the investment-related duties of foreign investors. In general, foreign companies that want to invest in lack knowledge and understanding of the laws, institutions, and management environment of host countries. Therefore, investment process support and business activity support according to the situation of the host country can have a great effect on reinvestment as well as successful investment to host country. PM management committees are held on a quarterly basis to manage and supervise the PM system, including the designation and change of PM projects to attract new investment projects. In addition, these matters are specified as a legal basis in the Foreign Investment Promotion Act.

The head of the Korea Trade-Investment Promotion Agency (KOTRA) could designate its employees or dispatchers for foreign investors or foreign-invested companies, or an employee as a project manager, to efficiently support the business of a foreign investor or a foreign-invested company. In this case, the head of KOTRA shall notify the designation of the project manager to the foreign investor and the foreign-invested enterprise.

The procedure for specifying a PM is as follows.

[Figure 3-16] PM designation process

1) Announce for PM designation	2) Application for PM designation or change	3) PM Management Committee meeting	4) Confirm and approve PM
Announcement to local governments or relevant bodies quarterly.	Through IPMS (Project Management System)	Management board (IK chiefs) and PM applicants attend.	After project review, PMs are designated.

Source: Invest KOREA Annual Report (2017)

Invest Korea conducts training to educate the PM staff in charge of staff and related organizations. The training aims to strengthen the capacity of investment promotion activities such as information accumulation and sharing of government policies and

12) Invest KOREA 2015/2016 Annual Report, Invest Korea home page, Invest Korea 2005 mid- to long-term strategy, Invest Korea 2007 mid- to long-term strategy.

investment trends related to the inducement of foreign investment as well as the persuasion of the person in charge of attracting investment.

In 2015, 107 PMs from 28 departments, including central ministries, Invest KOREA offices, municipalities, Free Economic Zone Authorities, and related organizations managed 391 projects worth USD 29.9 billion. Of these, 17 projects contributed to the investment covenant (report) performance amounting to USD 1.1 billion.

[Table 3-6] Operation and performance of the PM System

Year	No. of PM	Participating Organizations	No. and Size of Management Projects	Investment Covenant (Reported) Size
2013	115	28	395, USD 44.5 billion	66, USD 4.18 billion
2014	118	27	404, USD 429 billion	19, USD 0.73 billion
2015	107	28	391, USD 399 billion	17, USD 1.1 billion

The basic task of a PM is to provide investment services and related comprehensive services to potential investment companies (or existing investment companies). It can be summarized as follows.

First, it is related to initial investment consultation, tax and customs reduction procedures, consultation of professional fields such as establishment of a corporation, site support for plant site selection and purchase, as well as providing essential information at each investment stage.

Second, it provides comprehensive one-to-one contact services, such as approval of factory establishment, handling of licensing procedures, and consultation on living conditions where investors plans to settle in the host country.

Third, by taking charge of their own specialized area as well as the industry, more than two PMs in each industry and region will collaborate to raise expertise and efficiency when a project occurs.

The investment stage, is divided into three stages: consideration, planning, and execution. When we look at the role of a PM in each investment stage, the core role at each stage is as follows.

(Consideration stage) The foreign investment specialist plays a key role in finding investment opportunities.

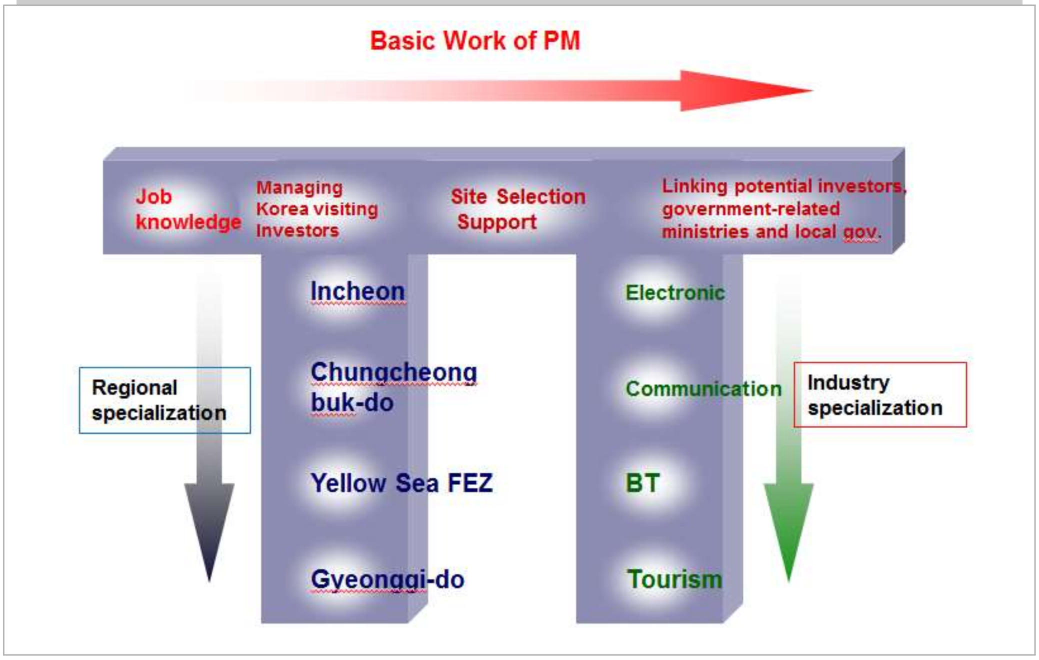
(Planning stage) Invest KOREA's PM and the investment specialist will work jointly with the Overseas Investment Officer.

(Execution stage) When a foreign investor enters the host country and invests in a specific local government (e.g., Incheon, Chungnam), the local PM, the Investment Secretariat, and the Invest KOREA PM will work together.

Therefore, an Invest KOREA's PM's difficulty in coordinating and carrying out roles may arise if there is duplication of work between an Invest KOREA PM and the local government PM at each stage; the more successful the organization, the better the division of coordination and the more efficient the roles will be.

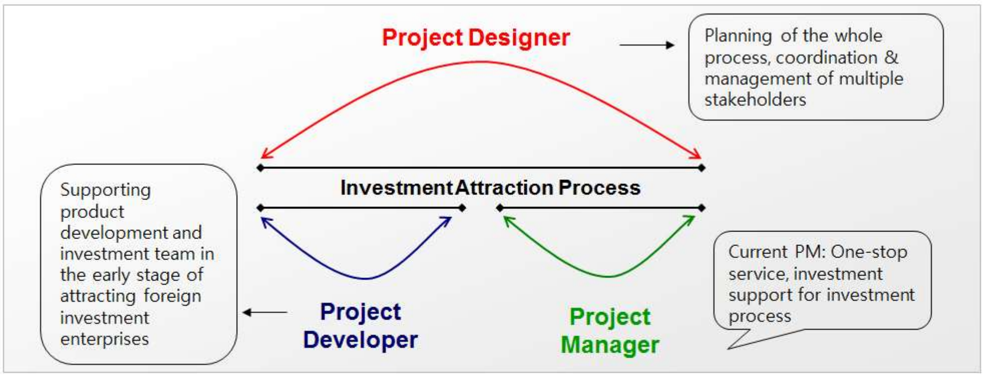
The ideal PM's competency is shown in the figure below. It means not only to support the step-by-step process of attracting investment but also to become a specialist for a specific region or industry. In reality, however, it is not easy for an individual PM to have all of these abilities. Therefore, the PM cultivates competencies based on this concept, and in practice, it is realistic that many PMs cooperate at each stage (Figure 3-17).

[Figure 3-17] Ideal PM capability



As a result, considering the above situation, it is important to establish the role of PM in each IPA. For example, it can be divided into core PM and secondary PM. In the consideration phase, it is possible to minimize the duplication of PM roles by giving it a duty in overseas investment; the Invest KOREA PM can help in the planning phase whereas the PM in the local government can aid in the implementation phase and other supporting organizations. It is also argued that the PMs roles need to be expanded to ensure the success and efficiency and effectiveness of a genuine investment attraction. For example, in Figure 3-18, it is necessary to expand from the lower right part of "PM concept of existing down-stream" to the "PD (Project Developer)" area of the lower left part. As a result, all PMs as a whole has the concept of "Project Designer."

[Figure 3-18] The scope of an ideal PM's role



- **Establishment of PM Role** : We need to move away from the existing down-stream-oriented PM (Project Manager) concept to PD (Project Developer) area.

5.2. Foreign Investment Ombudsman System[13)]

1) Key Points of the Ombudsman System

The Foreign Investment Ombudsman and the Grievance Resolving Agency shall collect and analyze the difficulties of the foreign-invested enterprises, request cooperation with the relevant administrative agencies, propose improvement measures for the foreign investment system, and recommend system improvement.

On the basis of the legal basis, the Foreign Investment Ombudsman system, a post-management system, was introduced on October 26, 1999 in accordance with the Foreign Investment Promotion Act to identify, resolve, and support the difficulties encountered during the management activities of foreign-invested companies in Korea. In addition, as the Foreign Investment Promotion Act was revised on December 11, 2012, the Ombudsman was given more power to resolve and solve the problems of foreign-invested companies and to improve the related regulations. The grounds for the establishment of Ombudsman are as follows: Article 15 (2) of the Foreign Investment Promotion Act.

13) Invest KOREA 2016 Annual Report, Invest Korea home page, Foreign Investment Ombudsman 2016 Annual Report

Article 15-2 (Foreign Investment Ombudsman, etc.)

1. To deal with the difficulties of foreign investors and foreign-invested companies, the Foreign Investment Ombudsman shall be appointed from among those who have extensive knowledge and experience in foreign investment business. <Amended on April 5, 2010>

2. The Foreign Investment Ombudsman, pursuant to Paragraph (1), shall be appointed by the President after the recommendation of the Minister of Commerce, Industry and Energy and deliberation by the Foreign Investment Committee. <Amended on March 23, 2013>

3. The Foreign Investment Ombudsman shall request the head of the relevant administrative organs and related organizations (hereinafter referred to as "the relevant administrative agencies, etc.") to provide necessary cooperation, such as the following items, if necessary, to deal with the difficulties of foreign investors and foreign-invested companies. In this case, the head of the relevant administrative agency, etc., who receives the request, should do so if there is no special reason not to. <Amended on April 5, 2010>

   (1) Explanation of related administrative agencies or submission of data in accordance with the standards prescribed by the Presidential Decree
   (2) Statements of opinions of relevant employees, stakeholders, etc.
   (3) Cooperation on site

4. The Foreign Investment Ombudsman may, if necessary, advise the head of the relevant administrative organs and public agencies to improve the relevant matters in accordance with the results of the difficulties of foreign investors and foreign-invested companies. <Newly established April 5, 2010>

5. The head of the relevant administrative organs and public institutions receiving the recommendation for improvement under paragraph 4 shall notify the Foreign Investment Ombudsman in writing of the results of the treatment within a period prescribed by the Presidential Decree. <New Construction December 11, 2012>

6. The Foreign Investment Ombudsman may request that the head of the relevant administrative organs and public agencies, when failing to implement the improvement recommendation pursuant to paragraph 4, propose matters for the improvement recommendation to the Foreign Investment Committee. <New Construction December 11, 2012>

7. The Foreign Investment Ombudsman is responsible for the improvement of regulations related to the current status of regulations and systems that hinder foreign investment as prescribed by the Presidential Decree to systematically promote the improvement of regulations related to the difficulties of foreign investors and foreign-invested companies. The annual report shall be prepared and reported to the Foreign Investment Committee. <New Construction December 11, 2012>

8. The Foreign Investment Ombudsman shall not use or leak any information received from the head of the relevant administrative organs, etc., pursuant to Paragraph 3, or for any purpose other than that provided for in this Act. <Revision Apr. 5, 2010, December 11, 2012>

9. The Foreign Investment Ombudsman shall be deemed to be a civil servant when applying the penalties pursuant to Articles 129 through 132 of the 「Criminal Act」. <Revision Apr. 5, 2010, December 11, 2012>

10. To support the work of the Foreign Investment Ombudsman, it shall have a complaint handling mechanism in the Korea Trade-Investment Promotion Agency. <Newly established Apr. 5, 2010, December 11, 2012>

11. The matters necessary for the organization and operation of the grievance mechanism shall be determined by a Presidential Decree. <Newly established Apr. 5, 2010, December 11, 2012>

[Special Revision January 30, 2009]
[Title Revision April 5, 2010]

In Korea, as a direct organization within KOTRA, a foreign-invested company grievance handling group is established and the head of the grievance mechanism is supposed to support the Foreign Investment Ombudsman. The grievance procedure of a foreign-invested company is done in the following three main steps:

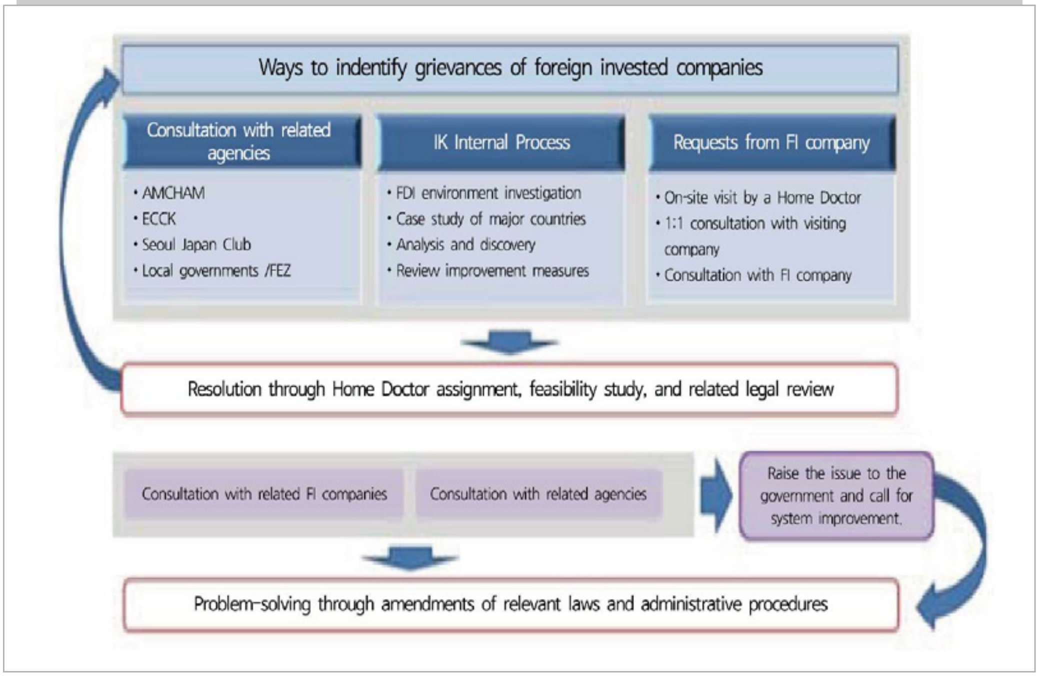
First, a professional committee member (or Home Doctor) visits the site or receives the complaint of foreign-invested companies via online or e-mail.

Second, after the receipt, the specialist (or Home Doctor) examines the contents of the complaint and tries to find a solution by contacting related organizations.

Third, the grievance-related matters are inputted and managed at the KOTRA Customer Management System (or SCRM), the company is notified of the processing result, and support is completed.

The Foreign Investment Ombudsman and the Grievance Handling Department of foreign-invested companies illustrate the main duties related to solving grievances (finding out the grievances of foreign-invested companies, preparing measures to improve the foreign investment system, and providing suggestions for government departments to improve the system) as shown in Figure 3-19.

[Figure 3-19] Main services of the Investment Aftercare Division and grievance resolving process for foreign-invested companies



Source: Invest KOREA Annual Report (2017)

In general, the following methods are used to identify the grievances of foreign-invested companies: (1) consultation with relevant agencies such as AMCHAM, ECCK, SEOUL JAPAN Club, local government/FEZ; (2) Invest KOREA's internal process such as FDI environment investigation, case studies, analysis and discovery, review improvement measures; and (3) request from foreign-invested companies such as on-sight visit by a Home Doctor, one-on-one consultation with companies, consultation with foreign-invested company. Invest KOREA will then perform its own processing: appropriately assigning home doctors, investigating feasibility, reviewing relevant laws, etc. In this process, the consultation with foreign-invested companies, and related organizations, issues of the government, and improvement of the system will follow.

Home Doctor Service

- Home Doctors are the executive consultants of the Investment Aftercare Service Division overseen by the Ombudsman.
- A total of 10 Home Doctors work as follows: legal affair (2), tax (1), finance (2), accounting (1), HR·labor management (1), IT and intellectual property right (1), industrial sites (1), bio (1).
- A Home Doctor will be responsible for each local government and foreign-invested company; a a hotline between a Home Doctor, local government, and foreign-invested company will be opened to resolve grievances.
- Upon request, on-site consultants will be available.

Source: Invest KOREA home page

Communication channels for grievances are very important to foreign-invested companies. Therefore, in Korea, Invest KOREA holds regular meetings on complaints to establish communication channels with foreign-invested companies and related organizations, and exert efforts to make the complaints process work efficiently.

- Foreign-invested company meetings: Listen to major difficulties raised by foreign-invested companies and their representatives in Korea. For items that are relatively complicated and difficult to deal with, we hold a "small-scale, sector-based foreign-invested company meeting" any time to find a quick and substantial solution.

- Regulatory information on foreign investment portal service: The regulatory information service is provided through the English regulation portal (http://e.better.go.kr) and the Ombudsman home page (http://ombudsman.kotra.or.kr) of the Office for Government Policy Coordination. During the period of 2015-2016, 269 government legislations and 883 legislative acts were translated and published in English.

- Operating external experts to handle foreign-invested companies' grievances: This system, which started operation in the third quarter of 2016, will invite external experts to smoothen the handling of complicated and difficult foreign investment grievances and to improve the solution of grievances efficiently. Invest KOREA operates advisory groups composed of outside experts in fields such as finance, taxation, law, labor, environment, chemical, industrial location, medical/health, food/medicine, new energy, M&A, international dispute, international relations, FTA, accounting, and intellectual property. In particular, he (or she) has been appointed as a counselor to those who have more than five years of professional experience in the academic field, doctoral level staff in the research field, and related fields.
- Forum for CEOs of foreign-invested companies: Invite CEOs and executives of foreign-invested companies to provide investment-related information, prepare a forum with government agencies, and present the achievements and major success stories of the Foreign Investment Ombudsman.
- Promotion in corporate social responsibility (CSR) of foreign-invested companies: By promoting excellent CSR practices of foreign-invested companies to major media (e.g., the Korea International Employment Fairs and Invest KOREA home page), it contributes to the recognition of foreigners in Korea.

In addition, we are actively participating in the "KOTRA-Local Government Investment Promotion Cooperation Project Visit Conference" and the "Local Foreign Investment Company Site Consultation Meeting" to listen to complaints from foreign-invested companies and seek solutions. From the passive position of waiting for complaints from foreign-invested companies in the past, it is now becoming an active mode to seek and resolve such grievances.

2) Advantages and Achievements of the Foreign Investment Ombudsman System

The advantages of Foreign Investment Ombudsman system are as follows. Above all, there are the advantages in cost and time. This system is a pathway for solving grievances within a short time at a relatively low cost of the foreign-invested company. Therefore, it can be used as an important tool for foreign-invested companies who are not familiar with local business environment or culture. Unlike lawsuits, which require enormous expense, if a foreign-invested company submits complaints or difficulties in the Foreign Investment Ombudsman, it is possible to solve the problem quickly and cheaply. In addition, the Foreign Investment Ombudsman can shorten the period of complaints because it has the legal authority to raise requests for cooperation from relevant local governments and government agencies. In terms of performance, the number of complaints filed by foreign-invested companies in 2015 was 462, which was the highest since the establishment of the Office of Foreign Investment Ombudsman. In 2016, this number was raised to 409. In particular, the system a significant portion of the total amount of increase in investment attraction (or inward FDI) through the regular communication between foreign-invested companies and Foreign Investment Ombudsman Offices and resolution of grievances.

[Table 3-7] Grievance status of foreign-invested companies by year and sector

Year	Received Status		Processing Type (Number of Cases)		
	No.	%	Institution Improvement	Administrative Processing	The Others
2013	383	10	5	98	280
2014	437	14	9	112	316
2015	462	5.7	14	112	336
2016	409	-11.5	16	106	287

[Table 3-8] FDI by investment type (2014-2016)

(Unit: USD million, %)

Category		2014		2015		2016	
		Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Amount Declared	New	6,532	34.4	10,633	50.9	8,013	37.6
	Reinvestment	9,419	49.6	8,763	41.8	11,673	54.8
	Total (*)	19,003	100	20,910	100	21,299	100
Amount Received	New	3,172	26.3	6,651	40.3	2,572	29.8
	Reinvestment	5,973	49.5	8,601	52.1	6,689	64.8
	Total (*)	12,056	100	16,501	100	10,317	100

Source: INSC, 2015, 2016 Invest KOREA Annual Report
* Total includes long-term loans.
Data source: INSC

In 2016, the Foreign Investment Ombudsman visited 11 foreign-invested companies and investment promotion institutions in Asia, the Middle East, and Europe to listen to their grievances and to discuss investment promotion projects. At the request of the IDB, the Ombudsman also held workshops on the transfer of programs from the Ombudsman Institution in Brasilia and Santiago. The World Bank "Investment Policy Forum 2016," UNCTAD Investor Conference, and APOR / ANZOA Conference have promoted Korea's Foreign Investment Ombudsman system to the international community.

Best practices for grievance handling

- Examples of grievance handling related to institution improvement

According to Korea's "Quality Management and Industrial Safety Management Act" and "Notification of the National Technology Standards Agency," sunglasses and umbrellas must be labeled on safety and quality. However, in the case of eyeglasses, the professional display of the product must be stamped, and excessive contents including consumers' unrecognizable items (symbols, etc.) must be demanded. Accordingly, the foreign-invested companies requested to reduce the labeling and packaging methods to the level of the United States and Europe.

Therefore, the grievance resolving group has suggested to the government to promote simplification in the scope, excluding the essential items, in consideration of foreign standards such as those in the United States and Europe. As a result, the National Technical Standards Agency has made the obligation indications in sunglasses, eyeglasses, umbrella, and mass production to conform to the international standards, and revised and notified that the excessive or partial contents are deleted.

- Examples of grievance handling related to administrative processing

Regarding the increase in investment, the applicant requested to notify the Gyeonggi Province of the change of designation of an individual type of foreign investment zone, but it was delayed and failed to report on foreign investment. In response, the foreign-invested companies requested the Gyeonggi Provincial Office to help solve related issues in the near future. Therefore, the grievance resolving group requested cooperation from the person in charge of the investment promotion department in Gyeonggi province. In particular, it was not a matter of reducing or changing the amount of foreign investment, but was an increase in investment so that it could be processed promptly, and as a result, it was processed as requested. Eventually, the notification of the increase in investment and the the change of designation of the individual type of foreign investment zone was completed promptly.

Source: 2016 Foreign Investment Ombudsman Annual Report

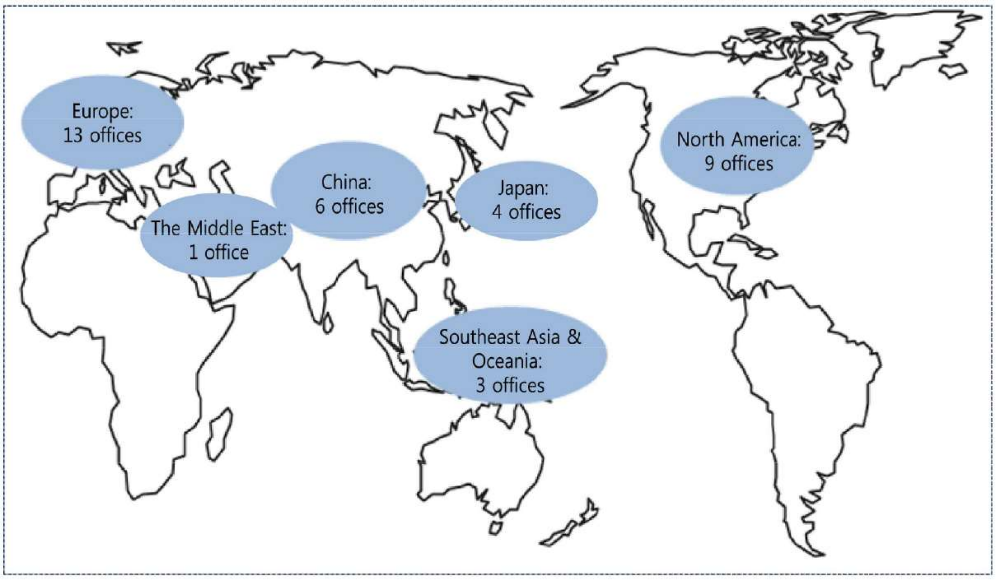
5.3. Overseas Network

Among the 126 KOTRA trade centers around the world, Invest KOREA has deployed 64 persons dedicated to attracting investment in 36 foreign trade centers to revitalize overseas investment attraction business. Overseas Investment Base Trade Center is a contact point with prospective investors overseas, providing information on Korea's investment to prospective investors and conducting investment attraction activities such as holding a national IR.

[Table 3-9] Investment promotion offices: country and name of office

Country	Name of Office	Country	Name of Office
USA	New York	Belgium	Brussels
	Silicon Valley	Italy	Milan
	Los Angeles	Switzerland	Zurich
	Chicago	Austria	Vienna
	Dallas	Singapore	Singapore
	Detroit	Australia	Sydney
	Washington, DC		Melbourne
Canada	Toronto	Japan	Tokyo
	Vancouver		Osaka
Germany	Munich		Fukuoka
	Frankfurt		Nagoya
	Hamburg	China	Hong Kong
UK	London		Shanghai
France	Paris		Beijing
Sweden	Stockholm		Qingdao
Denmark	Copenhagen		Guangzhou
Spain	Madrid	Taiwan	Taipei
Holland	Amsterdam	UAE	Dubai

[Figure 3-20] Overseas investment promotion offices



Source: Invest KOREA Annual Report (2017)

Invest KOREA has introduced the concept of "attracting strategic investment" to strive to discover and expand projects by diversifying investment areas into strategic areas, strengthening investment in high value-added services, and strengthening investments in future growth engines. Overseas networks play an important role in this concept. For example, it has been concentrating on investment promotion projects targeting strategic regions such as Japan and China. In the case of Japan, it conducts "consumer-oriented investment attraction activities" in the fields of parts materials and logistics. In the case of China, based on the domestic market, Invest KOREA focuses on "attracting strategic collaborative investment" ("Made with China") between China and South Korea.

Especially, Invest KOREA is concentrating on finding projects to attract investment in future industrial fields such as high-tech materials, renewable energy, IT, bio, etc., through analysis of GVC between domestic and foreign companies (958 cases in 2012, 1,178 cases in 2013, 1,122 cases in 2014).

In this kind of investment attraction activities, "establishing an organic cooperation system between the teams" is very important. Therefore, Invest KOREA conducts industry analysis under its leadership and develops its business centered on core companies. Invest KOREA strengthened the organic cooperation between Invest KOREA teams organized by function, industry, and region through the operation of six Task Force (TF), including headquarters, R&D, value chain, traditional real estate,[14] and beauty and cultural contents. In addition, Invest KOREA is expanding the staffs of investment promotion specialists.

“Strategic utilization of national infrastructure and location” is also important. To promote attracting foreign investment, Invest KOREA is strategically utilizing the national infrastructure and Korea’s strengths of location such as the Korea–China FTA, the appointment of a hub outside Yuan, and the proliferation of Korean Wave. To establish an investment attraction strategy using FTA, Invest KOREA conducted an analysis of industrial competitiveness of major countries and a survey of leading companies in cooperation with leading researchers such as the Institute of Industrial Research. As a result of these efforts, Invest KOREA has made the first achievement of attracting cold chain–related investment using Korea’s logistics strengths. In addition, with the strength of Korea’s geographical location in Northeast Asia and its ability to manage large–scale airports, harbors, and IT technologies, IK attracted inward FDI, processing logistics hub of a B company in Canada, with the help of the Ministry of Maritime Affairs and Fisheries, Harbor Fisheries Development Institute within Busan Port.

5.4. Evaluation Index

1) Development of Evaluation Index

The evaluation index based on only the economic value is limited in the general evaluation of the IPA of the investment attraction institution. Therefore, to develop a more integrated and comprehensive evaluation index, it should be based on a basic evaluation model. Moreover, the characteristics of the IPA to be evaluated should be considered. It is important to introduce these evaluation models step by step, rather than introducing them all at once, so that they can be introduced in stages according to the development of the investment organization and help utilize the overall competitiveness upgrade.

2) Invest India’s Survey Based on IPA’s Basic Role

According to Wells and Wint (1990) and Lim (2004), the activities of IPAs can be divided into image–building activities, investment–generating activities, research and information analysis, and after–service activities. In this study, the basic IPA role was taken as a questionnaire item, and a survey was conducted on Invest India employees who visited Korea in relation to this KSP business. The summary of the question items is shown in Figure 3–21.

14) This refers to buildings and their sites owned by public institutions in the metropolitan area, such as Sejong City and Innovation City, which are transferred to local governments in accordance with the Special Act on Balanced National Development.

[Figure 3-21] Questionnaire for evaluating the level of the basic role of IPA (summary)

Ⅰ. Questions about Image Building Activity

1. PR and IR[2] strategy establishment and implementation (PR: Public Relations / IR: Investor Relations)
2. Producing and providing '**General** PR[3] materials'
3. **Differentiated** PR[4] through internet and mobile[5]

Ⅱ. Questions about Investment Generating Activity

1. Understanding and analyzing investor needs by investment briefings and individual meetings
2. Dealing with investment inquiries[6]
3. Arranging transactions through internet[7]

Ⅲ. Questions about After Service Activity

1. After investment decision, finding and solving difficulties in the process of investment
2. Targeting already invested companies and finding and solving their difficulties in carrying out business
3. Targeting already invested companies, in order to attract re-investment

Ⅳ. Questions about Research & Information Analysis

1. Internal and external investment environment analysis based on marketing strategy (investment infra, industry analysis, and investment trend, etc.)
2. Understanding and analyzing investor prospensity[8] (current & potential investors list, etc.)
3. Activities related to investor-attracting project development[9] (Development of invest-attracting project)

Ⅴ. Questions about your IPA's overall general results

1. What do you think of the performance of your IPA's activities[10] **over the last five years?**
2. What is your anticipation for performance of your IPA **in the next five years?**

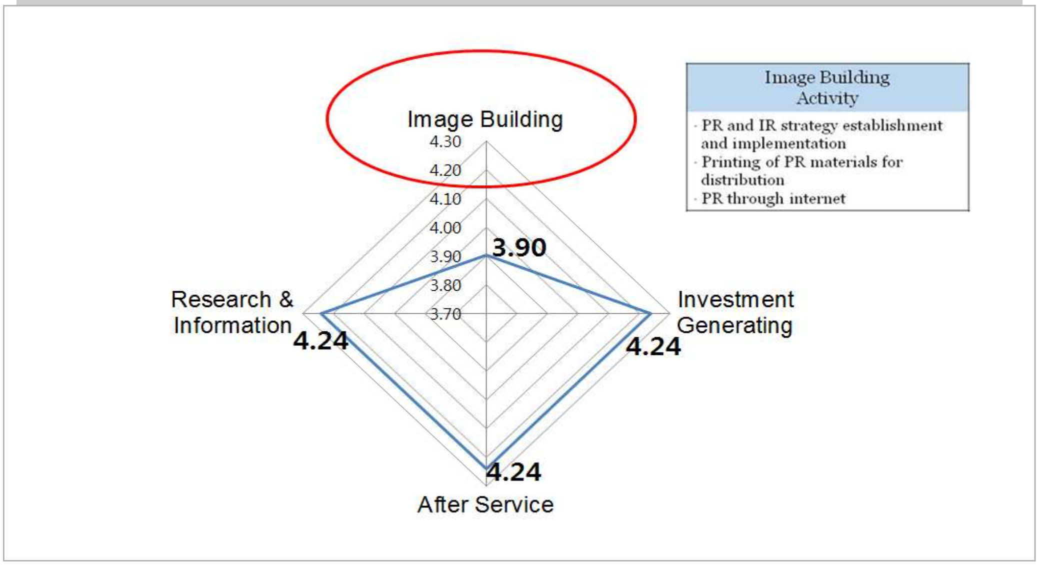
Not good		Normal		Very good
①	②	③	④	⑤

Very Weak		Normal		Very Strong
①	②	③	④	⑤

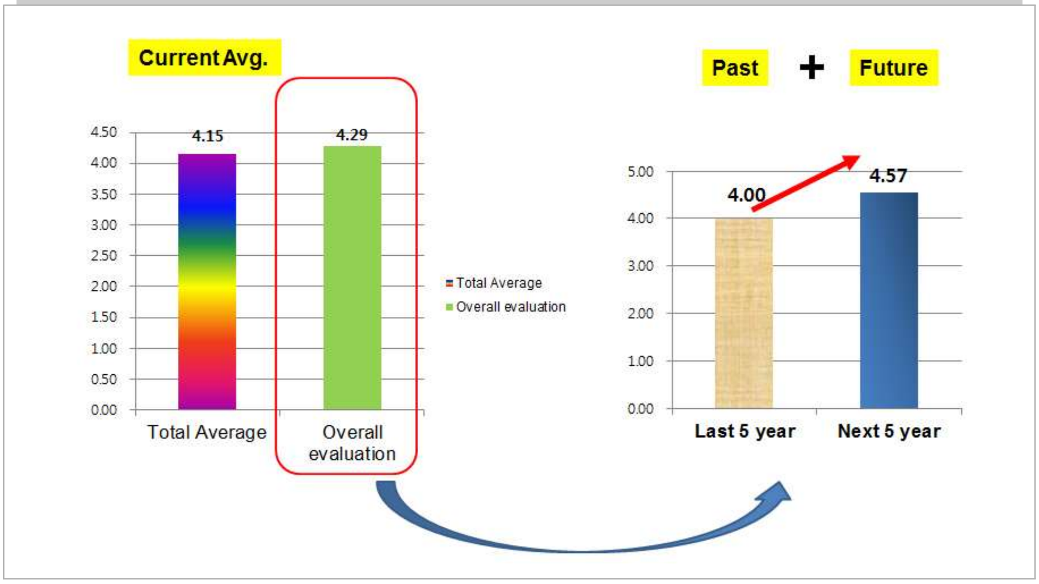
The response of Invest India's IPA basic role, measured on a 5-point scale, is shown in Figure 3-22. Overall, scores of about 4 points out of 5 were out of the picture, but the unusual point is that the "image building" category is relatively low. This is related to the establishment and execution of PR and IR strategies, and the production and distribution of online PR and PR materials using the Internet. Therefore, it is necessary to focus more on Invest India's establishment, expansion, and maintenance of this sector.

In addition, the average value of each item of Invest India was 4.15, and the actual performance was 4.29. Looking at the actual performance (4.29), it is revealed that the performance in the past 5 years was at 4.00 whereas the 5-year performance forecast will be 4.57, which will give a general optimistic forecast for the future development of Invest India. In fact, Invest India has continued to increase its manpower and budget and improve its organization, under the active support of the Indian government, recognizing the importance of attracting investment since Prime Minister Narendra Modi took his seat.

[Figure 3-22] The basic level of Invest India evaluated through surveys



[Figure 3-23] Invest India's current and future performance



3) Aggregate Indicators for Assessing the Performance of IPA

Figure 3-24 presents a valuation model to assess IIPAs in four areas: strategic goal, investment attraction, direct effects, and service (Moon & Jung, 2007).

[Figure 3-24] A model of overall evaluation indicators of IPAs

Here, we can see that various models are developed and used according to the situation of each country. For example, in the case of Korea, the investment attraction amount is mainly evaluated. In the case of the UK (or UKTI), in addition to the investment attraction amount, the number of investment attraction and the employment number is utilized. Moreover, UKTI has also been working to improve the competitiveness of the overall investment promotion organization by operating the "Global Partnership Program" and "Global Entrepreneurship Program" as strategic investment attractions. In the case of Ireland (or IDA), it is noted that the number of lucrative multinational corporations and multinational R&D centers is strategically important and focused on these sectors, along with the increased number of employment through investment attraction. Japan (or JATRO), which is interested in increasing consumption, is concerned not only in attracting investment but also in the creation of employment and promotion of consumption, the number of seminars for attracting investment, and IR. Therefore, Japan actively utilizes these factors in the evaluation of IPA. As such, the proposed integrated model is a holistic one, so it is necessary to develop appropriate models to suit the situation in specific countries and gradually use them. Of course, if you use it as a whole, it will be a more balanced evaluation system.

Here, an additional step provides a more sophisticated evaluation model by assigning appropriate weight to each element of the evaluation model (Moon & Jung, 2007). Invest India is now in full swing, so it will be possible to build an appropriate evaluation system for various simulations and organizational purposes based on this aggregate evaluation model. Therefore, it is necessary to develop and utilize this model considering India's situation and stage. In addition, each "provincial investment attraction agency" that is cooperating with Invest India, a central government-sponsored IPA, can build a similar evaluation system by using this model.

For reference, a few other methods of measuring IPA/TPO performance in other countries are given in Table 3-10.

[Table 3-10] Key performance indicators of IPA/trade organizations

Country	IPA/ TPO	Mandate	Evaluating Measures
Singapore	IE Singapore	Attracting FDI	1. FDI stock 2. % of FDI inflows to GDP
Japan	JETRO	Attracting FDI	The degree of improvement in service for attracting FDI
China	CCPIT	Policy building and supporting	The degree of cooperation with other/neighboring countries and local regions
Australia	Austrade	Policy building and supporting	1. Cases of FDI projects [Numbers] 2. FDI inflows [Amount] 3. Job creation [Numbers]

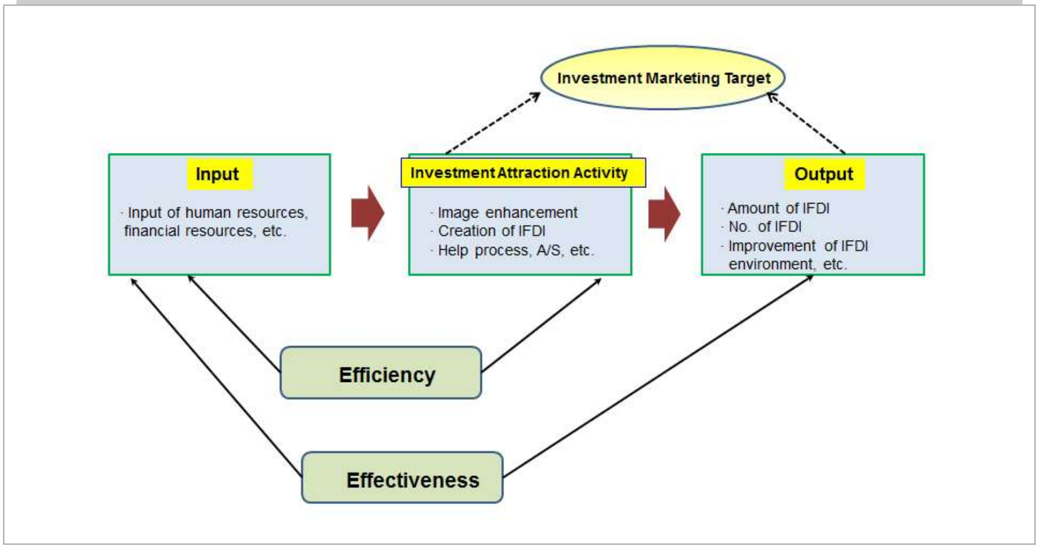
4) Overall Performance Evaluation of Attracting Foreign Investment Marketing Activities[15)]

The purpose of measuring and evaluating the performance is to provide feedback on the investment marketing objectives to be established in addition to understanding how much the objectives of the initial investment achievement has been accomplished.

Efficiency and effectiveness are two standard axes in the evaluation of performance. Efficiency refers to a large percentage of output relative to input, which is a cost approach. Meanwhile, effectiveness is a concept based on the purposefulness of how satisfying the initial goal is, and, therefore, it is also concept that includes efficiency.

If the concept is applied to the evaluation of investment attraction performance, it means that the efficiency of investment marketing performance has achieved the goal of investment performance with a small cost. The effectiveness of an investment marketing performance is determined when it is close to the initial target. The evaluation of investment marketing agencies and those who engage in investment attraction activities (or investment marketers) should not be focused on efficiency. Even if it is not efficient, it should be evaluated to know that the investment marketing strategy implemented was appropriate and if it aimed at the goal of investment marketing. The evaluation criteria for attracting inward FDI strategy are shown in Figure 3-25.

[Figure 3-25] Evaluation criteria for attracting inward FDI strategy



Source: International Trade Center UNCTAD/GATT (1987)

15) Lim (2004)

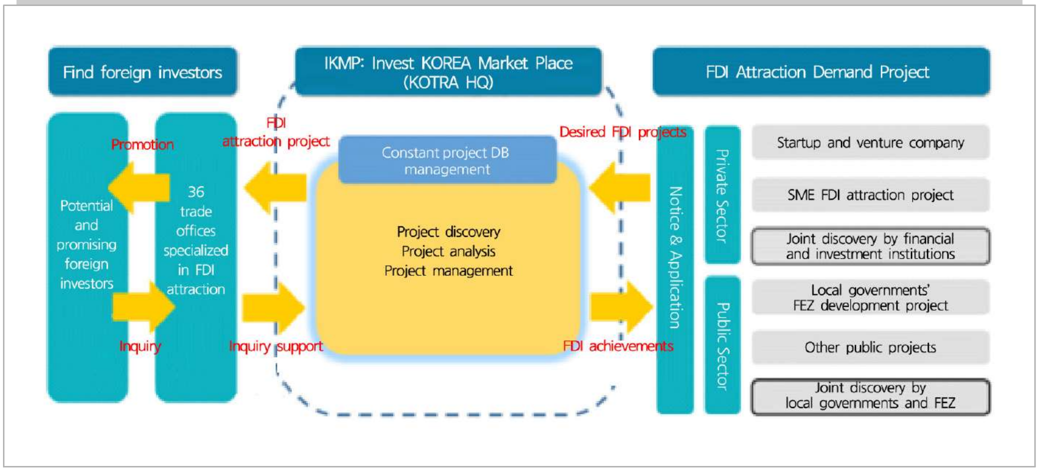
5.5. IK's New Investment Attraction Process

1) Establishment of Investment Attraction Process: Customized to Company's Needs

Since the establishment of Invest KOREA in 1998, it has been searching for foreign investment projects in Korea through a network of foreign investment centers. In 2016, it launched a new paradigm. This is a "domestic and overseas investment attraction process," which discovers new investment attraction demand from the domestic market.

As shown in Figure 3-26, the private sector is engaged in start-up and venture company, SME (small and medium enterprises) FDI attraction project, and joint discovery by financial and investment institutions. In the public sector, local government's FEZ development project, other public projects, joint discovery by local governments and FEZ are related to domestic demand. All relevant organizations strive to develop projects to attract FDI to meet these needs. The project will be identified, analyzed, and managed by reflecting the demand for investment attraction in the region through the reception of external announcements.

[Figure 3-26] Evaluation criteria for attracting inward FDI strategy



Source: Invest KOREA Annual Report (2016)

In particular, we have introduced a process to expand the collaboration system with investment attraction organizations and to select key support projects after screening based on the Invest KOREA advisory group composed of external experts to attract promising projects. As a result of these efforts, by 2016, a total of 200 companies and 51 development projects were identified and their 1:1 investment promotion consultation was supported.

[Table 3-11] Major activities and achievements through customized support

Major activities and achievements	• Major 1:1 FDI consultation: 6 sessions at various fora, including FIW, Shanghai national IR, and German start-up forum • 190 1:1 FDI consultation sessions provided to 48 companies in 2016
Successful case	A Korean health-care IT company attracted USD 270,000 from Chinese investors

Source: Invest KOREA Annual Report (2017)

2) Overall Cooperation with the Local Government (Local IPA)

Invest KOREA is sending overseas investor groups to meet the demands of potential investors who are looking for a suitable investment location and project and local self-governing entities who wish to promote the local economy. In particular, with more than 60% of FDI concentrated in the Seoul metropolitan area, we have been striving to attract foreign investment in the non-capital region, thereby helping to ease the development of imbalanced national land.

In recent years, Invest KOREA has exerted efforts to upgrade the investment attraction capacity of municipalities by utilizing not only simple dispatch of investment promotion team but also Invest KOREA's investment attraction knowledge. First, for projects owned by the municipalities, major investment opportunities for each industry are provided to prospective investors so that municipalities can compare their own advantages to potential investors effectively. Specifically, Invest KOREA provided advisory services related to investment promotion before dispatching the investment promotion team, thereby enhancing the interview data more specifically. In addition, Invest KOREA tried to increase the effectiveness of the delegation project by fully reflecting the demand of investors in advance.

In Invest KOREA's Foreign Investors Support Office, Invest KOREA assists with administrative tasks and consultation related to attracting investment in cooperation with government ministry officials, dispatched civil servants from local governments, industrial dispatchers such as industrial complexes, and KOTRA civilian experts. Therefore, it is a system where national IPA and local IPA cooperate naturally, and comprehensive services such as tax consultation, administrative support, and settlement counseling are provided to potential investors such as taxation, location, and visa (Figure 3-27).

[Figure 3-27] Organization of Foreign Investors Support Office

Source: Invest KOREA Annual Report (2017)

6. Summary and Strategic Implications

6.1. Strengthen the Basic Functions and Structure of IPA

The IPA has some key factors, and the Economic and the UNESCAP explains them in nine categories as follows: ① support, ② budget, ③ investment and business climate or the country's characteristics, ④ prioritization of functions or activities, ⑤ IPA structure, ⑥ IPA mandate and legal authority, ⑦ clear vision, ⑧ client charter, and ⑨ network. These basic factors need to be checked. In comparing the desirable future status of these factors (TO-BE) with the current situation of Invest India (AS-IS), you should consider how to narrow the gap between the two. In particular, IPA can be structured in various ways with a given budget and human resources. It needs to be adjusted to a structure suitable for Invest India, such as by sector, region, and overseas network. Above all, IPA's basic activities, such as image building, investment generating, after service, and research and analysis, should be mutually organized, and their status and capacity as an investment attraction organization should be strengthened.

6.2. Benchmarking the Core Competencies of Invest KOREA

In the case of Invest KOREA, it was recognized as Korea's national IPA in 1998, and has continuously developed functions and structures since then. Therefore, Invest KOREA has accumulated various expertise such as the PM system, Foreign Investment Ombudsman system, overseas network, cash grant system, and new investment inducement process reflecting the demand of local governments. It is necessary to benchmark these core capabilities of Invest KOREA at Invest India. This has been a product of many years of trial and error, benchmarking, and thers. As a result, benchmarking these systems will reduce trial and error. In particular, Korea's Foreign Investment Ombudsman system requires close benchmarking because many countries have benchmarked this system, and Invest KOREA has even won prestigious awards overseas. Invest India's in-depth look at the PM system, the process of after-investment service, and the management of reinvestment of foreign-invested companies are also necessary.

6.3. Differential Application of Invest India

There is no guarantee that successful institutions in any country will surely succeed in India, as history and culture are different in each country. In other words, a successful investment attraction or function in Korea or other countries does not mean that Invest India will be useful as well. Therefore, it is necessary to strengthen the differentiated capacity to meet the situation of India, which has a long history and vast territory.

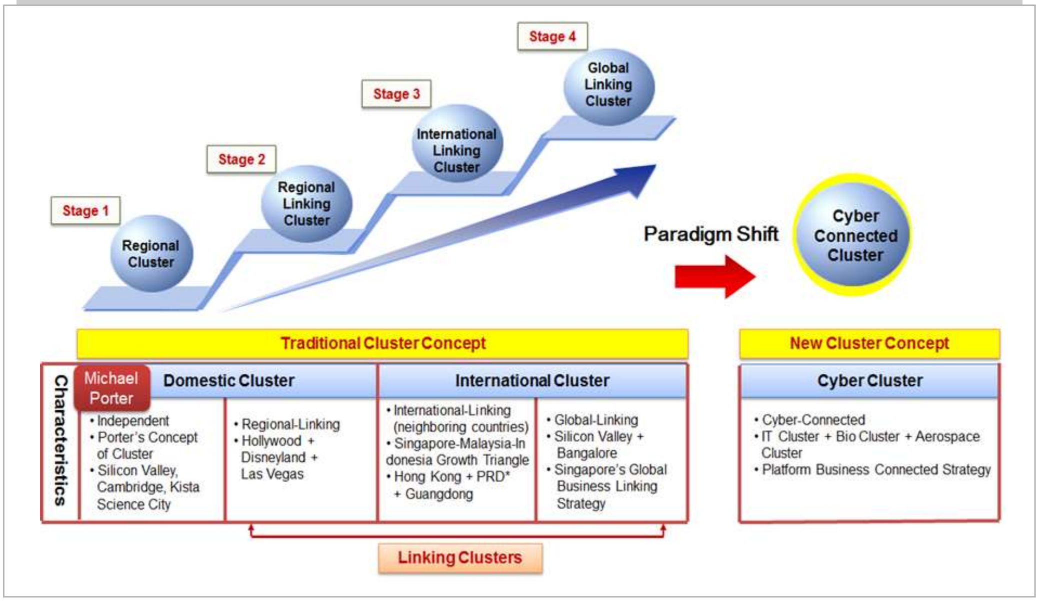
For example, in Korea, Invest KOREA has strengthened the linkage between the national IPA and the local IPA, and established a new investment attraction process to reflect the investment attraction demand of local governments. It will be necessary to study how this process can be applied to India, where the territory is wide and there are differences in language, culture, etc., in each state. Moreover, it is very important for Invest India to consider how to structure the evaluation of its performance and improve this performance as well as competitiveness by conducting a feedback. From this point of view, it would be helpful to refer to various national IPA schemes included in this report, including Invest KOREA.

6.4. Future Strategy to Meet the Fourth Industrial Revolution

Each country is busy setting up strategies to cope with the era of the forthcoming Fourth Industrial Revolution. For example, Japan is in the robot industry [New Industry Structural Vision]; Germany is in the Smart Factory [Industry 4.0]; the United States is focused on artificial intelligence, the industrial Internet, and Making in America; and China focuses on Internet Plus [China Manufacturing 2025]. Each country is pursuing innovation while fostering its distinctive features and simultaneously blending its industry with the technology of the Fourth Industrial Revolution.

As the industries and clusters of each country change, the existing paradigm should be changed in attracting investment. Now cyberconnected clusters should be taken into account (from simple regional cluster-based investment attraction), and thus the convergence of virtual space between companies and the convergence of different heterogeneous industries should be coped with flexibly (Figure 3-28).

[Figure 3-28] The concept of a new cluster, cyberconnected cluster



Source: Moon and Jung (2008, 2010)
PRD: Pearl River Delta

In addition to utilizing various online-offline methods, it is also necessary to use technologies such as AV, VR, and AI to promote investment attraction. It is also important not only to attract "greenfield style [or building factories]," but also to pay attention to more diverse investment methods such as M&A and or NEM style. Moreover, because the core body of the Fourth Industrial Revolution is a "Smart City," governments in many countries, including India and China, are focusing on the construction of Smart City. In this process, it is necessary to upgrade the industrial structure by attracting FDI and the technology of the Fourth Industrial Revolution.

The continuous upgrading of Invest India based on the future vision that meets the Fourth Industrial Revolution will contribute not only to the development of the national IPA but also to the economic development of India as a whole.

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Appendix

1. Examples of Investment Attraction

1. Examples of Investment Attraction

1.1. Incheon City, Successful Inward FDI of “G-CITY (GLOBAL SMART CITY) project” in Cheongna International Business Complex[16)]

Incheon city signed a memorandum of understanding (MOU) to promote the “G-City Project” to foreign-invested companies Vesco (USA), JK Future Co., Ltd., and LH for the development of Cheongna International Business Park on April 12, 2018. The “G-City Project” is a project to create GLOBAL SMART CITY (hereinafter referred to as “G-City”) based on advanced technology at 278,722 m^2 at the Cheongna International City International Business Complex site. The project will invest around KRW 4,070 billion and will be divided into two stages from the second half of 2018 to the year 2026, thus creating both a smart business complex and a smart support complex.

With the Cheongna “G-City Project,” the city will create an employment of about 29,000 people, a production inducement of KRW 3.7 trillion, and an additional economic effect of KRW 1.16 trillion. After the completion of the project, 44,600 jobs will be generated and an increase in tax revenue of KRW 78 billion will be expected, which will greatly contribute to the revitalization of the local economy.

[APPENDIX_Figure 1] Aerial View of G-CITY Project

16) http://www.ajunews.com/view/20180412091457709

1.2. CEO of ANZ Korea (Director, Australian Chamber of Commerce in Korea)[17)]

◆ Can you tell me what kind of company ANZ Korea is and what kind of work you are doing?

ANZ Korea has been providing services to large corporations and large multinational corporations and financial institutions in Korea for the past 40 years. Our business strategy is centered on capital and trade development between the Asia Pacific region and Korea, including our home country Australia and the New Zealand market. Since its establishment in 1978, our branch has been providing the best financial services for trade and capital transactions between our clients in Korea and Asia Pacific.

◆ Compared to other countries in the world, how is the Korean market different and which strategy is particularly effective for the Korean market?

Korean companies are closely tied to local and global economies, and so our bank has a strategy to help and increase its commitment by providing financial services and products that substantially support this link.

◆ How can Korea build a more ideal business environment for foreign companies like ANZ?

It is necessary to continuously improve relevant regulatory systems in accordance with the global standards as well as the regions of the Korean government.

[APPENDIX_Figure 2] Chris Raciti, CEO of ANZ Korea and the Chairman of the Board at the Australian Chamber of Commerce in Korea

17) Invest KOREA's home page

1.3. Paola Bellusci, the trade commissioner of the Italian Trade Agency[18)]

◆ What kind of organization is ITA and what is its role in Korea?

ITA was established in 1926 with the aim of helping Italian companies advance into overseas markets. Currently, the company operates 67 foreign trade centers. In 1979, the Korea Trade Center opened in Seoul to help Italian and Korean companies gain the opportunity to enter the market.

◆ What are the charms of the Korean market that attract Italian companies?

Korea is an attractive market for Italian companies. Because of Italy's industrial structure, there are many small and medium-sized companies. With Koreans' demanding approach in design, they know the true value of Italian products. And because Korea grows and develops at a fast speed, it is necessary to come to see the developments of the day differently and see them with our eyes. It's really exciting.

◆ Do Italian companies see great concern about North Korea?

I think that it is very unfortunate that some Italian companies canceled sightseeing or travel plans to Korea and missed a good opportunity to experience dealing with Korean companies. I have never felt unsafe or uneasy about living in Korea. This has always been a very safe place.

[APPENDIX_Figure 3] Paola Bellusci, the Trade Commissioner of the Italian Trade Agency

18) http://www.investkorea.org/kr/story/success.do?mode=view&articleNo=474129&article.offset=0&articleLimit=10