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THE STRATEGIC AND COMPETITIVE MARKETING OF AN ECONOMY: HOW TO PROMOTE AND SELL AN ECONOMY FOR FOREIGN DIRECT INVESTMENT, CREATE NATIONAL WEALTH, AND POLICY IMPLICATIONS FOR SUB-SAHARAN AFRICAN GOVERNMENTS

Ashford C. Chea, PhD
School of Business, Kentucky Wesleyan College
4721 Covert Avenue, Evansville, IN 47714 USA
E-mail: achea@ix.netcom.com

ABSTRACT

The author begins the article with an analysis of the role of productivity in national economic competitiveness. This is followed by a discussion of a national policy framework and strategy to create competitiveness. Next, the appropriate foreign direct investment promotion strategies are presented. The author then outlines the role of appropriate trade and export promotion policies and an enabling macroeconomic environment to generate sustainable growth. He concludes the article with policy implications and recommendations needed by Sub-Saharan African governments to attract investments, create wealth and foster national sustainable development.

Keywords: *Economic Development, Marketing, Promotion, Foreign Direct Investment, Sub-Saharan Africa, National Competitiveness.*

OBJECTIVES

The objectives of the article are as follows: To analyze and discuss (a) national development policy framework; (b) foreign direct investment strategies; (c) Investment promotion strategies; (d) trade and export promotion strategies; (e) macroeconomic strategies; (f) policy implications; and (g) policy recommendations.

INTRODUCTION

Why is one country prospering and another country stagnating or declining? Some people answer, natural resources. Yet Argentina, Brazil, Nigeria (Sub-Saharan Africa (SSA) for that matter), and Russia have abundant natural resources but low standards of living. Japan, Switzerland, South Korea, and Singapore have very limited natural resources and little land but have achieved a high standard of living (Kotler et al., 1997). The answer to this question lies in national competitiveness.

National Competitiveness

National competitiveness has become one of the central preoccupations of government and industry in every nation. Yet for all the discussion, debate, and writing on the topic, there is still no persuasive theory to explain national competitiveness. What is more, there is not even an accepted definition of the term "competitiveness" as applied to a nation. While the notion of a competitive company is clear, the notion of a competitive nation is not. Some see national competitiveness as a macroeconomic phenomenon, driven by variables such as exchange rates, interest rates, government deficits. Others argue that competitiveness is a function of cheap and abundant labor. Another view connects competitiveness with bountiful natural resources. More recently, the argument has gain favor that competitiveness is driven by government policy: targeting, protection, import promotion, and subsidies. A final popular explanation for national competitiveness is differences in management practices, including management-labor relations. Clearly, none of these explanations is fully satisfactory; none is sufficient by itself to rationalize the competitive position of industries within a national border. Each contains some truth, but a broader, more complex set of forces seems to be at work. The only meaningful concept of competitiveness at the national level is productivity. The principal goal of a nation is to produce a high and rising standard of living for its citizens. The ability to do so depends on the productivity with which a nation's labor and capital are employed. Productivity is the value of the output produced by a unit of labor or capital. Productivity depends on both quality and features of product and the efficiency with which they are produced. Productivity is the prime determinant of a nation's long-term standard of living; it is the root cause of national per capita income. The productivity of human resources determines employee wages; the productivity with which capital is employed determined the return it earns for the holders. A nation's standard of living depends on the capacity of its companies to achieve high levels of productivity—and to increase productivity over time. Sustained productivity growth requires that an economy continually upgrade itself. A nation's companies must relentlessly improve productivity in existing industries by raising product quality, adding desirable features, improving product technology, or boosting production efficiency. They must develop the necessary capabilities to compete in more and more sophisticated industry segments, where productivity is generally high. They must finally develop the capability to compete in entirely new, sophisticated industries (Porter, 1996).

In his publications, Porter (1990) argued that some nations achieve competitive advantages through productivity, but did not explain why some achieve this and others do not. Differences in economic performance may result, in part, from differences in national culture. Cultural influence has become more important since many empirical studies of socio-economic factors (e.g. education, population growth, nutrition, capital investment, and technological innovation) fail to explain these performance differences. The study by Franke, Hofstede, and Bond has revealed that potential of cultural influences in explaining economic phenomena. They found that cultural factors explain more than 50 percent of the d differences in economic growth rates from the periods 1965-80 and 1980-87 (Franke et al., 1991).

Moreover, changes in global forces and trends provide specific opportunities and threats to nations. The degree to which each nation captures the opportunities or copes with the threats depends on its inherent capabilities. All the elements of a nation's capabilities are:

1. Social (e.g., cultural, attitude, and values; social cohesion); and the economic (e.g. factor endowments, industrial organization); and the political (e.g., leadership.
2. The quality of these elements can either be inherited, such as certain factor endowments (like natural resources) or created, such as a nation's industrial organization.
3. It can also be either static (a nation's culture, attitudes, and values) or dynamic (government leadership, industrial organization).
4. Some of these elements are more structural (factor endowments), some are more behavioral (government leadership), some are the combination of these two (a nation's industrial organization).

Therefore, policymakers should be concerned with their nation's capabilities not just in terms of scope and intensity, but also the substitution and synergistic effects among these elements over time (Kotler et al., 1997).

Strategic National Vision of Government Leadership

Life is a process of competition and selection, and leaders understand this. Leaders compete for the minds and hearts of those who would join or follow them. A leader's vision implies an understanding of the past and present. More importantly, it offers a road map to the future and suggests guidelines to those in a given enterprise—how they are to act and interact to attain what they regard as desirable. A leader's vision may be intuitive or highly structured. But it is the bedrock for success in meeting the twin tests of competition and selection (Quigley, 1994).

The vision of a nation's political leader can vitally affect that nation's economic performance. This is typically overlooked by economists, who accord no role to leadership in their "production function" modeling of economic development, or prefer to treat leadership as an exogenous function. According to Vaclav Klaus, former prime minister of Czech Republic, "the potential leaders must formulate and sell to citizens of the country a positive vision of a future society." Ronald Regan's supply-side revolution," Gorbachev's perestroika, Rajiv Ghanhi's push toward the twenty-first century," and Deng Xiaoping's New China all create roles for "managerial visionaries" to emerge—those who can convincingly paint a vision of the future for their nations (Dholakia, 1988).

In East Asia, according to Anis Chowdhury and Iyanatul Islam, while the governments may not have played the role of an "engine of growth," they have certainly played the role of a "handmaiden of growth" by carrying out necessary policy reforms that create and maintain an environment conducive to rapid economic growth (Chowdhury and Islam, 1993). More interestingly, countries in East Asia are characterized by (a) an elite bureaucracy staffed by the best managerial talent; (b) a political system in which the bureaucracy has sufficient scope to take policy initiatives; and (c) close government—business cooperation in the policymaking process.

According to Nikhlilesh Dholakia, these countries government and business seem suffused with managerial visionaries who have portrayed visions of future development in their respective fields, then gone ahead and achieved these visions (Dholakia, 1988).

For other regions, a lack of vision and strategic foresight retarded industrial development. In Latin America and Africa, governments, administrations and political parties made little attempt to prepare society for the process of industrialization. They attached little importance to institutional development; these regions remained undermanaged. The public service sector was expanded, but the quality of the health and education systems usually left a great deal to be desired. Research and development was neglected: most enterprises took an interest in it only when it came to adapting imported technologies to domestic markets. Government made no attempt to initiate a systematic technological learning process (Esser, 1993).

National Strategic Thrust

Each nation must read the emerging opportunities and threats arising from global forces and trends, and tease out their implications. Matching these opportunities and threats with the nation's capabilities is the foundation for policymaker formulating a nation's strategic thrust. Every nation must tailor a strategy for achieving its objectives and goals. However, each nation copes with different internal and external environments which, in turn, provide different sets of competitive/cooperative conditions, strengths/weaknesses, and opportunities/threats, respectively. These environments inevitably affect not only the nation's goals but also its strategic thrust. A nation's goals indicate what a nation wants to achieve; a nation's strategic thrust answers how to get there (Kotler et al., 1997).

Environmental Analysis and Goal Formulation

A nation must examine its competitive environment (global competitive structure and strategic groups of nations), as well as its internal environment (nation's capabilities) and external environment (global forces and trends) before it can formulate objectives. Assessing the competitive environment helps policymaker to identify the competitive and cooperative patterns it has with other nations. Assessing the internal environment aids policymakers in identifying national strengths and weaknesses, while assessing the external environment enables them to identify both the nation's opportunities and its threats. Likewise, the people of all nations ultimately aspire to a good economy, a good society, and a good political process. A nation's objectives are set to meet these aspirations: raising the level of GDP per capita; improving international competitiveness; a high level of employment; stable prices; good health; good education; a good environment; security and peace; human freedom; and so forth. Assessing the nation's environments enables policymakers to formulate objectives and goals. These face the challenge of being hierarchical, prioritized, quantitative, realistic, and consistent. The nation's objectives and goals also need to be prioritized. For less-developed countries, the economic objectives and goals may come first while the social and participatory objectives may follow, although it is difficult to rank these except in the specific context of each nation. Policymakers should state the objectives quantitatively. The objective "increase GDP growth" is not as satisfactory as "increase the GDP by 5 percent." Policymaker use the term "goal" to describe objectives that are specific with respect to magnitude and time. Turning a nation's objectives into measurable goals facilitates policymakers' planning, implementation, evaluation, and control. A nation should set realistic goals. The levels should arise from an analysis of its environments—competitive, internal, and external—not from wishful thinking. Finally, the nation's objectives need to be consistent (Well and Wint, 1990).

Strategic Implementation of National Vision

Three elements are critical for implementing the nation's wealth-building strategies. They are:

1. Assessing the state's strengths and weakness. Since the states can often make things worse, market failure does not always justify government intervention. On the other hand, unproductive rent-seeking activities can be found not only in inefficient state operations but also in poorly functioning business enterprises. The relative performance of public versus private economic activities should, therefore, be judged in the context of individual countries and specific situation (Todaro, 1994). Political institutions, like many economic institutions, are not all created equal. Countries differ in the configuration of their interest groups, the voting system, the bureaucratic structure, the role of the court, and public opinion. The role of the state in shaping and reshaping the conditions within which the market does operation should not be ignore (Janicke, 1990).
2. Recognizing dilemmas and trade-offs. If a nation desires to improve its competitiveness, it is vital that programs be developed systematically to eliminate public policy disadvantages, as well as managerial inadequacies. For policymakers, one would think they could follow a simple logic to arrive at a set of feasible public policies. Starting from recognizing constraints and opportunities, they would proceed to define a broad set of wealth-building strategies. Unfortunately, along the way they would confront

major dilemmas and trade-offs at every juncture. The major issues facing policymakers include: growth orientation versus income distribution orientation; sectorial balance versus sectorial imbalance; shock therapy versus gradualism; high unemployment versus high inflation; state ownership versus private ownership; large private companies versus small entrepreneurs; interventionism versus free markets; and inward investment facilitation versus bootstrapping. The choice of policies and administrative actions are partly influenced by the nation's culture, attitudes, and values. It also depends partly on the stage of the nation's economic development (e.g. less developed countries usually focus on growth-oriented wealth creation, while developed countries usually focus on equality-oriented wealth creation). And is partly determined by the nation's factor endowment. Thus, when choosing policies and administrative actions, policymakers should consider not only the pros and cons of the policy choices but the specific factors in each nation's makeup that would determine success.

3. Building a healthy business-government relationship. A nation's wealth can be viewed as the sum of wealth created by the nation's businesses. In a market economy, corporations generate wealth by increasing global value added, which will then be distributed in higher wages for employees, higher dividends for shareholders, higher reinvestment for the firm, and higher tax revenue for the state, and will also create work for the businesses along related and supporting industries. This wealth creation process is inherent in any market economy, and the role of business enterprises is to exploit these mechanisms. Economic development requires cooperation between business and government. The type and quality of leadership within the business and government sectors can also affect the character of business-government relations. Finally, business and government relations are influenced, too, by the relative power of the two sectors (Bell and Wanna, 1992).

In Sum, in implementing its policies the state performs the following functions: (a) the state as a wealth initiator: This is related to state activities that promote economic development by providing infrastructure, using various policy instruments to enhance private investment, creating the platform for building the industry clusters, acting as a joint venture, and providing other forms of hybrid public-private development; (b) the state as regulator. This involves the state establishing standards and regulations over a range of social and economic activities. Example, include product standards, competitive behavior, pollution controls, and measures regarding industrial and labor market regulation; (c) the state as arbitrator and distributor. This involves state action designed to adjudicate or settle disputes, to guarantee income, or to provide minimum wages for workers; and (d) state as upholder. This involves the maintenance of the legal and institutional framework (Bell and Wanna, 1992).

2. THEORETICAL UNDERPINNINGS

Economy theory suggests that capital will move from countries where it is abundant to countries where it is scarce because the returns on new investment opportunities are higher where capital is limited. Such a reallocation of capital will boost investment in the recipient country and, as Summer (2000) suggests, bring enormous social benefits. Underlying this theory is the premise that returns to capital decrease as more machinery is installed and new structures are built, although, in practice, this is not always, or even generally, true. New investment is more productive in countries with a skilled workforce and well-developed physical infrastructure, as Lucas (1990) recognized in explaining why capital does not flow from rich to poor countries. Thus, a consistent finding is that new capital flows tend to go to countries that have received large flows in the past and that investors also seek favorable business environments (Mody and Srinivasan, 1998).

Although economy theory and empirical investigations have much to say about where international capital may flow, both theory and the evidence are less definitive about the impact of such flows. Once in a country, private capital may increase either domestic consumption or investment, or it may principally increase the county's foreign exchange reserves. If flows are driven merely by incentives to evade taxes or jump other legal barriers, money may flow out of a country as quickly as it flows in (Mishra, Mody, and Murshid, 2001). Despite these ambiguities, private capital flows are generally found to have significant impact on domestic investment, with the relationship being strongest for FDI and international bank lending (syndicated lending) and weaker for portfolio flows (Bosworth and Collins, 1999).

Therefore, it is natural to expect that as financial globalization—cross-border flows of various forms of financial capital—picks up steam, these flows from industrial to developing countries will increase, making all countries better off (Prasad, Rajan, and Subramanian, 2007).

3. METHODOLOGY

This paper relied on the literature review of current relevant articles focusing on sources of global private capital and foreign direct investment for financing development in developing countries. Except where a source was needed specifically for its perspective on broad issues relating to capital flows to developing countries, the author screened papers by "global private capital flows" "economic development marketing" and by numerous variants of keywords, focusing specifically on developing economies. Source papers included refereed research studies, empirical reports, and articles from professional journals. Since the literature relating to global private capital flows and economic development is voluminous, the author used several decision rules in choosing articles. First, because capital flows is changing fast in today's environment, the author used mostly sources published from 2000-2011, except where articles were needed specifically for their historical perspectives. Second, given the author's aim to provide a practical understanding of the main issues in global private capital flows to developing economies, he included, in order of priority: refereed empirical research papers, reports, and other relevant literatures on current trends in global capital flows and economic development marketing with focus on Sub-Saharan African economies.

OBJECTIVES OF THE PAPER

The objectives of the paper are as follows:

National Policy Framework and Competitive Strategies for Sustainable Growth and Development

National Industrial Policy

A nation's industrial portfolio consists of industrial clusters from many industrial sectors. One or more focus industries in the industrial cluster are surrounded by related and supporting industries. However, stiff global competition forces governments from time to time to revise their nation's industrial portfolio. They seek to attract new industries that promise higher value added and higher productivity. At the same time, they aim to revitalize existing strong but highly competitive industries and to restructure or to phase out declining or vulnerable industries (Kotler et al., 1997).

Strengthening the nation's industrial portfolio requires examining the two major determinants, namely, industrial attractiveness and a nation's ability to compete. The attractiveness of a nation's actual or potential industries is signaled by a number of factors, among them: (1) High value added per worker. Countries can create wealth by shifting their economic structure into high value-added activities; (2) Linkage industries: There is an economic payoff to investment in linkage industries, such as steel , whose outputs are used as inputs to many downstream industries; (3) Future competitiveness: Government must select industries in which a country is not currently competitive in the world market but in which it will or can be made competitive in the future; (4) Industrial specialization: An industry is more attractive if specializing in it is less likely to lead to a head-on collision with many other competitors; (5) Export potentials: The industry's products must have a track record of export success. The world demand for the industry's products should be large and growing; and (6) Prospects for domestic demand: The industry makes a significant contribution to increasing economic growth through domestic consumption. The demand characteristics of this industry's products should be highly income-elastic so that the more the country develops, the more demand there is for those products (Krugman, 1987)

The next question is how well equipped is the nation to exploit the identified opportunities and avoid the threats related to that industry. Policymakers must assess a nation's ability to compete in each specific industry. This involves assessing the nation's industrial capabilities. A nation's exiting or potential competitive advantage, as suggested by Doz and Prahalad (1987), depends on: (1) its factors' competitiveness—relative strengths of its productive factors, which include its physical resources, human resources, and technology; and (2) its firms' competitiveness—relative strengths of the nation's domestic business enterprises. When a nation's factor competitiveness is high and its domestic firms are competitive, an industry will emerge. There will be production for both domestic consumption and eventually for exports. On the other hand, when the above-mentioned factors are weak, an industry will not emerge. Instead, the nation will import the products for local consumption. If the firms' competitiveness is high, but the factor competitiveness is low, there will be a pressure for outward investment, i.e., investing in foreign countries with high factor competitiveness. Finally, if firms' competitiveness is low but factor competitiveness is high, there will be inward investment in these industries (Doz and Prahalad, 1987).

After assessing the nation's industrial capabilities, policymakers have to develop a plan to improve those capabilities for both the short and long term. Cooperation between the government and the private sector is critical to strengthen the nation's industries. Generally, the government takes the major role in building factor competitiveness via the development of infrastructure and establishment of different pro-competitive public policies to encourage investment in the nation. By contrast, business enterprises play the major role in building firm competitiveness through entrepreneurial development, technological capabilities and capital accumulation. Effective business enterprises include not only those in the private sector but also the vast and growing number of less formally organized small and energetic enterprises. In the short run, the success of building firm competitiveness in each industry does not come only from internal development. It can also come from what the nation can acquire from abroad in the form of technology transfer and cooperative arrangements such as technical and financial cooperation at the governmental level, or direct investment and strategic alliance between domestic firms and foreign counterparts in the forms of joint ventures, technological licensing, and upstream and downstream subcontracting. In sum, policymakers should try to identify the necessary basic factors that can promote internal development for each industry, and what factors need to be acquired to strengthen company competitiveness further. Both industrial attractiveness and the nation's ability to compete must be taken into account to assess the competitive positions of current and potential industries. In this way, it is possible to rationalize the nation's industrial portfolio (Chiang, 1989).

Entrepreneur Development

Almost all the members of an industry cluster, particularly the supporting industries, are medium to small-scale business enterprises. These medium to small businesses: (1) create employment opportunities; (2) lead to specialized technological capabilities; (3) foster systematic and balanced industrial development; and (4) expedite technological transfer and the diffusion of technology. For the above reasons governments have recognized the value of creating and promoting an entrepreneurial environment that fosters the emergence and growth of small businesses. These small businesses implant related and supporting industries into a nation's industrial cluster. Government policy can play a vital part for two reasons: first, other aspects of entrepreneurship such as managerial skills can be learned or improved; and second, the effectiveness of entrepreneurial talent depends partly on the availability of other complementary resources in an economy (Tyson et al., 1994). The development of new businesses requires two ingredients: a favorable economic context and individuals skilled in operating a business. Therefore, to enhance the nation's entrepreneurial and small business development, at least three elements are needed: (1) provision of credit; (2) provision of training; and (3) provision of services (Schmitz and Musyck, 1993).

National Investment and Development Strategies

There is general agreement that a rapid pace of capital accumulation, and shifts in the structure of economic activity towards industry and technological upgrading are among the basic forces behind any sustained acceleration of growth in successful cases of catching up. In all such cases, strong complementarities and mutually reinforcing linkages among capital accumulation, technological progress and structural change have constituted the basis for rapid and sustained productivity growth, rising living standards and successful integration into the international economy. In the interplay of linkages that make up a virtuous growth regime, capital accumulation holds a central place. Investment simultaneously generates income and expands productive capacity, and it also carries strong complementarities with other elements in the growth process, such as technological progress, skills acquisition and institutional deepening. Moreover, due to the sensitivity of the investment decision to the level and stability of economic activity, investment plays an important bridging role between the cyclical and longer-term features of economic development. But just as importantly, because investment performance is susceptible to policy influence, it offers a clearly identifiable objective on which to base the design of development strategies, as well as tangible criteria for judging the success of such strategies.

A given pace of capital accumulation can certainly generate different growth rates, depending on its nature and composition as well as the efficiency with which production capacity is utilized. This is one of the main reasons why econometric studies on the determinants of growth have failed to establish a one-to-one relation between the rate of investment and economic growth. However, among the many variables fed into growth equations, investment still emerges as one of the few with robust and independent impact on economic growth, particularly for rapidly growing developing countries. The close link between investment and productivity growth implies that capital accumulation could still be a key causal determinant of growth when it does not account for much of the observed cross-country differences in growth rates. Given the key role played by investment in the expansion of productive capacity and productivity growth, identification of the factors that govern investment decisions holds the key to the formulation of an effective development strategy. Therefore getting the investment climate right through a marriage of macroeconomic stability with better business organization, improved governance and measures to boost competition, not only as a way of generating an adequate level of investment, but also for ensuring its quality. In particular, a strong emphasis has been placed on the role of competition in promoting investment and economic growth, to be attained not only through deregulation of domestic markets, but also through closer integration into the global economy and greater openness to global trade and investment (Trade and Development Report, 2003).

Research show that in economies that were able to generate sizeable resources for investment and successfully harness capital accumulation to achieve a sustained process of economic development, market forces alone were not left to dictate either the pace or direction. Rather, the defining features of successful development strategies were the design of effective control mechanism to both encourage and discipline private investors by raising profits above those generated by competitive market forces, and achieve policies to ensure those profits found outlets that would add to productive capacity, create jobs and help technological progress. Both fiscal and monetary instruments were used, particularly a low-interest-rate policy—which is important to firms as they build internal funds—and controls on luxury consumption. But trade, financial and industrial policies were also used to create and augment rents and to coordinate investment decisions to prevent investment races among large firms. These were supported by long-term ties between banks and large corporations that provided shelter from shocks, helped coordinate investment decisions, improved predictability and reduced the cost of finance (Trade and Development Report, 2003).

Foreign Direct Investment Strategy

According to Robin Gaster, if a nation accepts foreign direct investment (FDI) as beneficial in principle, its FDI policies should meet at least two fundamental objectives. First, in the short run, a sound FDI strategy should seek to attract foreign investment, thus adding capital inflow into the nation. Second, it should direct those investment flows in such a way as to maximize the long-term benefit of the host nation's economy (Gaster, 1992). Governments seeking to develop competitive strategies for FDI marketing activities can, to some extent, manipulate three elements in their overall marketing programs: (a) product: the intrinsic advantages and disadvantages of investing in the country, ranging from the country's general attractiveness to a specific investment site's attractiveness; (b) price: this usually means tax incentives, grants, tariff protection, and similar price mechanisms; and (c) promotion: activities that disseminate information about, or attempt to create a favorable image of, the investment site (Wells and Wint, 1990).

The Country's Investment Attractiveness: Foreign investors pay attention to at least four attributes of a country's investment attractiveness: its comparative and competitive advantages; its domestic economic and political stability; property rights protection; and foreign trade zones. For example, according to Porter (1990), a nation's attractiveness for investment in a particular industry lies in four broad attributes: (1) Factor conditions: A nation's investment attractiveness is greater, the better its natural resources, location, skilled and unskilled labor, and basic infrastructure; (2) Demand conditions: A nation's investment attractiveness is greater, the greater the sophistication of its home demand for the industry's product and services; (3) Related and supporting industries: A nation's investment attractiveness is greater, the greater the presence within the nation of related and supporting industries that are internationally competitive; and (4) Firm strategy, structure, and rivalry: A nation's investment attractiveness is greater, the greater the intensity of domestic rivalry (Magaziner and Patinkin, 1989).

Pricing Investment

The provision of tax holidays, R&D incentives, capital grants, training grants, and so on has been common feature of many countries' foreign direct investment policies. As a general rule, however, incentives per se are usually not sufficient to attract and retain most MNCs. In fact, public policies that create a good climate for investment in general are likely to be superior to special incentives to attract foreign direct investment, such as tax holidays. The latter may attract footloose companies that exit when the tax holiday is over. However, special incentives work better if they are supported by good infrastructure, such as investment in education, roads, ports, airports, utilities, and so on (Magaziner and Patinkin, 1989).

National Investment Promotion

Investment promotion is generally designed to accomplish three objectives: (1) to promote a country's image within the investment community as a favorable location for investment. Image building is the appropriate strategy aimed to attract investors who are in the early stages of investment decision making. The promotion techniques include advertising in general financial media; participating in investment and trade exhibitions; advertising in industry-or-sector-specific media; conducting general investment missions from source country to host country or from host country to source country; and conducting general information seminars on investment opportunities (2) to generate specific investments. The emphasis shifts to specific investment opportunities when prospective investors are in the later stages of investment decision making. Here promotion technique include engaging in direct-mail or telemarketing campaign; conducting industry-or-sector specific investment missions from source country to host country or vice versa; conducting industry-or-sector-specific information seminars; and engaging in firm-specific research followed by "sales" presentations. In shifting from image building to direct investment generation, government agencies increase their reliance on personal contact with companies. (3) To provide services to prospective and current investors. Here promotion techniques include providing investment counseling services; expediting the processing of applications and permits; and providing post-investment services (Well and Wint, 1990).

Attracting FDI

Countries can attract FDI in many ways. They can simply liberalize the conditions for the admission and establishment of foreign investors without doing much more. They can promote FDI inflows in general, without trying to attract particular kinds of investment—say, according to their technology content, or they can promote FDI more selectively, focusing on activities, technologies or investors. Measures are often used together—by leaving most activities open to foreign investors, creating a better investment climate generally and putting special effort into bringing in particularly desirable investment.

The economic attractiveness of a country for FDI depends primarily on its advantages as a location for investors of various types. Market-seeking investors look for large and growing markets. Resource-seeking ones look for ample natural resources. And efficiency-seeking ones look for a competitive and efficient base for export production (World Investment Report, 2003). More general factors affect all prospective host economies: political stability, a sound macroeconomic framework, welcoming attitudes to foreign investment, adequate skills, low business transaction costs, good infrastructure and institutional framework.

Given these factors it is still useful to use promotional policies to attract investors, particularly as competition for FDI mounts and investors become choosier. The information for basing investment decisions is not perfect and subjective perceptions matter. Good marketing can make a difference (of course only if the conditions are in place). And it is possible for host countries to create conditions that make investments more viable (rather than simply involve removing constraints to foreign affiliate operations. But it may also involve creating new skills, infrastructure or support institutions. How much promotion is needed depends on the kind of FDI and the basic attractions of a host economy. A large and dynamic economy needs to promote itself less than a small and less dynamic one. The bulk of the massive inflows into China, for example, are not the result of active FDI promotion. And promotion can only go so far. If the economic base is weak or unstable, no amount of persuasion will attract large and sustained FDI inflows.

The main ways countries have sought to attract FDI and the key sensitive issues that arise are as follows:

1. Reducing obstacles to FDI by removing restrictions on admission and establishment, as well as on the operations of foreign affiliates. The key issues here are how investment is to be defined for liberalizing entry or offering protection (direct and portfolio capital flows may be treated differently) and what kind of control should be exercised over FDI admission and establishment.
2. Improving standards of treatment of foreign investors by granting them non-discriminatory treatment vis-à-vis domestic or other foreign investors. They key issue here is what degree of national treatment should be granted to foreign affiliates once they are established in a host country.
3. Protecting foreign investors through provision on compensation in the event of nationalization or expropriation, on dispute settlement and on guarantee on the transfer of funds. A key issue here is how far the right to expropriate or nationalize extends (especially to what extent certain regulatory actions of governments constitute taking of foreign property). Another is the acceptability of the kind of dispute settlement mechanisms available to foreign investors and countries. Third is what restriction, if any, are acceptable on the ability of governments to introduce capital controls to protect the national economy.
4. Promoting FDI inflows through measures that enhance a country's image, provide information on investment opportunities, offer location incentives, facilitate FDI by institutional and administrative improvements and render post-investment services. Host countries do most of this, but home countries may also play a role. The key issues here relate to the use of financial, fiscal or other incentives (including regulatory concessions) and the actions that home countries can take to encourage FDI flows to developing countries.
5. Foreign Trade Zones/Export Processing Zones. One way to attract FDI is to build a foreign trade Zones in which exporting-only enterprises (foreign and local) can be set up free on most local legislation. Companies are allowed to operate, import, manufacture, and even wholly own a business inside these zones. As long as these firms do not sell their imported goods inside the host country, it has no effect on the local market. The host country benefits from job creation, improved skills in its labor force, technology transfer, export revenues, and rising income for its citizens.

The general trend is to reduce obstacles, create investor-friendly settings and promote FDI. But the nature and balance of policies applied by countries varies. Why? Because locational advantages differ. Because the cost of some measures is much higher than others. And because governments differ in their perceptions of how best to attract FDI (World Investment Report, 2003)

Benefiting More from FDI

Attracting FDI may not be enough to ensure that a host country derives its full economic benefits. Free markets may not lead foreign investors to transfer enough new technology or to transfer it effectively and at the depth desired by a host country. But policies can induce investors to act in ways that enhance the development impact—by building local capabilities, using local suppliers and upgrading local skills, technological capabilities and infrastructure. The main policies and measures used for this include:

1. Increasing the contribution of foreign affiliates to a host country through mandatory measures. The objective is to prescribe what foreign affiliates should do to raise exports, train local workers or transfer technology. The key issue here relates to the use of performance requirements.
2. Increasing the contribution of foreign affiliate to a host country by encouraging them to act in a desired way. The key issue here, as in attracting FDI, is using incentives to influence the behavior of foreign affiliate. (Incentives may be tied to performance requirements. Particularly important here is enticing foreign affiliates to transfer to domestic firms and to create local R&D capacity.

Countries are learning that foreign affiliates' activity can be influenced to enhance host country benefits only if they strengthen their capabilities. New technologies can be diffused in a host economy only if the skill base is adequate or if domestic suppliers and competitors can meet TNC needs and learn from them. Export activity can grow only if the quality of infrastructure so permits. Governments need to mount policies to build domestic capabilities, drawing on foreign affiliates and their parent firms in this effort. And again home countries can help in various ways through measures of their own. Indeed, even TNC can try to increase the benefits to host countries.

Costs of Incentives

When considering incentives, governments need to take various cost aspects into account—of different kinds:

1. One risk is offering incentives to TNCs that would have invested anyway, so the incentive is a mere transfer from governments to companies (or, in some circumstances, to the treasuries of the home countries).
2. Where a fiscal incentive is offered, costs may include revenues forgone by the governments, while financial incentives imply a disbursement of public funds to the investor in question, closing the opportunity to use those funds for other purposes, such as improving the infrastructure or training the workforce (locational determinants that enhance the ability of countries to attract sustainable FDI).
3. Incentives give rise to administrative costs, which tend to increase as the discretion and complexity of schemes increase.
4. There are potential efficiency losses if firms are induced to locate where incentive-based subsidies are most generous and not where locational factors might otherwise be most favorable to an efficient allocation of resources.
5. Incentives may sometimes give rise to unintended distortions by discriminating between firms that are relatively capital-intensive and those that are relatively labor-intensive, between projects of different cash flows profile or between large and small firms.
6. The incentives may induce TNCs to use transfer pricing to shift profits to locations with the most generous tax conditions, eroding the tax base in several host countries (World Investment Report, 2003).

The Function of Targeting in an Investment Promotion Strategy

Promotional techniques consist of providing information to potential investors, creating an attractive image of the country as a place to invest, and providing services to prospective investors. Promotion is only one of several tools available to countries eager to attract foreign investment. Governments offer tax incentives and grants; provide industrial estates, export processing zones, and other infrastructure; and attempt to simplify the bureaucratic procedures facing, potential investors, for example. They negotiate bilateral tax, trade, and investment treaties with countries from wherever investments might come. They attempt to create a favorable environment by guaranteeing repatriation of profits, assuring access to imported components, and promising not to expropriate property without compensation. Further, governments recognize the importance of political stability, realistic exchange rates, and rapid growth in attracting foreign investment. Although attracting foreign investment requires efforts in many areas, promotion techniques provide an important mechanism for communicating all these efforts to potential investors.

Promotion efforts are the result of competition by governments in the effort to attract foreign direct investment. This competition is not entirely new; what is new is its aggressiveness and intensity. The new attitudes have, in many instances, led to large expenditures on promotion by governments attempting to attract foreign firms.

Given the phenomenon of a potentially declining supply of FDI and limited prospects for receiving development finance from the international banking sector, it is little wonder that competition for FDI has intensified. Competition of FDI has also increased because of the entry of new players. Developing countries that traditionally, because of their large domestic markets or significant reserves of natural resources, did not think it necessary to compete for foreign investment have begun to compete seriously for export-oriented investment. This phenomenon appears to be the result of, among other things, changes in the international economic environment that have characterized recent years. During this period, raw material prices seemed more unstable than usual. At the same time, import-substituting policies seemed to be running out of steam. As a result, an increasing number of developing countries eschewed resource-driven and import-oriented growth strategies in favor of growth strategies that emphasized the export of manufactured goods. Further, during this period, industrial countries became even more active as they began to court not only firms from other industrial countries that were beginning spawn their own multinational enterprises (Wells and Wint, 1990).

Research show that in all agencies that shifted from a focus on image-building activities to a focus on investment-generating activities, this shift corresponded with the use of more closely targeted promotional techniques. As promotion agencies move from an emphasis on image-building to an emphasis on investment generation, the audience of the investment promotion program becomes more sharply focused. The idea of targeting is used here in a broad sense. Promotion agencies can target either a particular type of investor or a particular type of project for investment. In targeting a particular type of investor, agencies can target by industry, by sector, by geographical region, or by attribute of a class of investors—for example, size, growth rate, export intensity of production, labor intensity of production, level of technology, value added od production, or any attribute that will identify a group of prospective investors that can be matched the competitive advantages a particular country has to offer.

Although all agencies, when their focus is on image-building, use less closely targeted techniques than those used when the focus is on direct generation of investment, developing countries tends to use more targeted techniques than do industrial countries. The reason, research suggests, is that the less developed the country, the fewer the industries or types of firm that are likely to be attracted. Accordingly, for the less developed country a program that attempts to build an image indiscriminately across industries is likely to be wasteful of resources. Thus, an efficient program, even during a focus on image-building activities, is likely to be targeted toward a small number of industries (Wells and Wint, 1997).

Trade and Economic Growth

Many economic studies have looked at the relationship between trade and economic growth. In general, these studies suggests that, as predicted by the standard theory of comparative advantage, countries that adopt a more open stance toward international trade enjoy higher growth rates that those that close their economies to trade. Jeffrey Sachs and Andrew Warner created a measure of how "open" to international trade an economy was and then looked at the relationship between "openness" and economic growth for a sample of more than 100 countries from 1970 to 1990. Among other findings, they reported: We find strong association between openness and growth, both within the group of developing and the group of developed countries. Within the group of developing countries, the open economies grew at 4.49 percent per year, and the closed economies grew at 0.69 percent per year. Within the group of developed economies, the open economies grew 2.29 percent per year and the closed economies grew at 0.74 percent per year. A study by Wacziarg and Welch updated the Sachs and Warner data into the late 1990s. They found that over the period 1950-1998, countries that liberalized their trade regimes experienced, on average, increases in their annual growth rates of 1.5 percent compared to pre-liberalization times (Hill, 2011).

The message of these studies seems clear: Adopt an open economy and embrace free trade, and your nation will be rewarded with higher economic growth rates. Higher growth will raise income levels and living standards. The last point has been confirmed by a study that looked at the relationship between trade and growth in incomes. The study, undertaken by Jeffrey Frankel and David Romer, found that on average, a one percentage point increase in the ratio of a country's trade to its gross domestic products increase income per person by at least one-half percent. For every 10 percent increase in the importance of international trade in an economy, average income levels will rise by at least 5 percent. Despite the short-term adjustment costs associated with adopting a free trade regime, trade would seem to produce greater economic growth and highest living standards in the long run, just as the theory of Ricardo would lead us to expect (Hill, 2011).

Outward-oriented trade policies foster an economy's allocative efficiency through its exposure to international competition. Outward-oriented economies benefit from several positive effects: (1) The country's economic and industrial structures are brought into line with its comparative advantage; (2) the country can achieve economies of scale through exports; (3) the country's export earnings are stabilized through diversification into manufactured goods; and (4) the country can easily obtain technological innovations and know-how from abroad. There is much evidence that progressive reductions in protection do not result in long-term unemployment. Outward-oriented economies have maintained a better employment record than inward-oriented ones. Of course, an outward-orientation does not necessarily mean the adoption of free trade and non-intervention. In some markets, economic policies need to be reformed so that the price mechanism can function more efficiently. In such circumstances, government interventions to overcome market failure are justified—provided that such market imperfection really exist and are not derived from excessive encroachment of public authorities on the market process (Donges and Hiemenz, 1991).

National Export Promotion Strategies

With the advent of global marketplace, exports have become major determinants of national economic success. Trade promotion and assistance by governments play an increasingly important role in today's growing international trade. Professors Seringhaus and Rosson have classified two approaches government use to promote exports—direct and indirect programs. Direct programs concentrate on the demand side while indirect programs focus on the supply side. These two approaches are not mutually exclusive. Indeed, at the company level, they are highly complementary and interactive. Direct export promotion measures aim to enhance the firm's export competitiveness. Examples include an array of programs and services that are designed to help local companies pass smoothly through several stages of internationalization (Seringhaus and Rosson, 1990).

Government-led export promotion programs raise some interesting questions: (1) What types of firms should be targeted for export stimulation and promotion: Seringhaus and Rosson propose four types of government initiatives: (a) Encouraging non-exporters with strong competitive products to consider first-time exporting; (b) Helping first-time exporters through the early, difficult phases of international marketing; (c) Promoting the idea of renewed exporting to failed exporters who might succeed in the next try; (d) Supporting continuing exporters as they attempt to improve their performance (Seringhaus and Rosson, 1990. (2) What types of programs would be most appropriate to reach and serve the particular needs of firms? Non-exporting firms may require motivational programs. These can be done by providing information on the benefits of exporting or case histories of successful exporters. First-time exporters need extensive information on "how" and "where" to export. Expanding exporters may need specific sales and representation leads for their products, as well as assistance in making successful bids for export contract. Finally, continuing exporters may need help to publicize, advertise, and exhibit their products abroad and for meeting directly with foreign buyers (Cavusgil, 1990).

Indirect Programs: Indirect programs aim to improve the exporter's competitiveness and performance through structural and process changes. They include productivity, research and development, technology and innovation, manpower planning, regional and sectorial development, and fiscal measures such as tax and investment incentive policies, at both industry and firm levels (Seringhaus and Rosson, 1990).

In sum, national competitive advantage will not be fully reflected in rising productivity unless a nation's firms have access to foreign markets. A pressing goal for government is to pursue open market access vigorously in every foreign nation. Trade policy should not just passively respond to complaints or to those industries that can muster the most political clout, but must seek to open markets wherever a nation has competitive advantage. Similarly, negotiations should not require a history of injury or be biased toward industries in distress but be equally concerned with emerging or incipient problems. The aim of trade policy should be to open markets and eliminate unfair practices, not protect domestic competitors. Standards for intervention should be based on demonstrated unfair practices or a distorted pattern of trade compared to other similar nations. Poor financial performance by domestic firms is an insufficient test, because it can reflect a lack of innovation and dynamism rather than unfair foreign competition. Remedies should be concentrated on the dismantling of barriers, not on directly regulating exports or imports. Orderly marketing or voluntary restraint agreements, by dividing up and often effectively cartelizing markets, are dangerous, ineffective, and often enormously costly to consumer. So are other specific quantitative targets for exports or import, which have the effect of guaranteeing a market for inefficient firms rather than promoting innovation in the nation's industry (Porter, 1998).

Human Capital Infrastructure

Economists such as Theodore W. Schulz and Gary Becker have developed the concept of human capital, treating education and training as a form of investment generating future benefits (higher income, less delinquency and crime, etc.). Maureen Woodhall discusses how the concept of human capital can be extended from education and training to an activity that increases the quality and productivity of the labor force (Woodhall, 1987). The main institutional mechanism for building up human capital is the formal educational system. Fundamentally, as George Psacharopoulos and Maureen Woodhall suggest, formal education fulfills a basic human need for knowledge and provides a means of helping to meet other basic needs. Its contributions to social and economic activities are pervasive. Education facilities the process of industrialization by improving the quality of the labor force. Research reveals that the lack of education is a greater obstacle to industrialization than the lack of physical assets. In addition, education also acts as a change agent in disseminating modern values and aspirations. Furthermore, education provides some indirect economic payoffs by improving health, fertility, and life expectancy, and by enhancing the return from other forms of social and physical investment (Psacharopoulos and Woodhall, 1985).

Apart from formal education systems, the government should formulate action programs aimed to make the education system more responsive to the need to recycle the nation's labor force. These action programs include the following options:

1. Establishing a committee for education and labor market forecasts. This committee would focus on labor market gaps, and forecast labor supply and demand.
2. Retraining for employed and unemployed people. Investment should be set aside for the retraining of both kinds of labor. Almost all retraining of employed people can be left to big business enterprises, but the government should focus its support on retraining for labor in small and medium-scale enterprises and on vocational training of unemployed people.
3. Professional upgrading in new technologies. A program should be organized for the training of vocational secondary school teachers in new science and technology areas.
4. Schemes to stimulate the transfer of knowledge. The objective is to foster the transfer of knowledge from research institutes to the private sector and to facilitate collaboration among universities (Middleton et al., 1993).

Physical Infrastructure

Investments in physical infrastructure can promote economic development in several ways:

1. Physical infrastructure improvements enable business to be conducted more efficiently and reliably. The resulting decrease in transaction costs will lead to an increase in productivity.
2. Physical infrastructure investments create more construction jobs. It is estimated that each $ 1billion spent on physical infrastructure translates into an estimated 40,000 to 50,000 additional public and private jobs (BusinessWeek, 1992). These construction jobs, however, provide only a temporary stimulus to the economy.
3. Physical infrastructure investments enhance social welfare through their indirect effects on health, safety, convenience, and the general ambiance of a community.
4. Many physical infrastructure investments may boost community morale and create a climate that encourages other investments (US Department of Agriculture, 1990).

The Transportation System

Ample transportation facilities are critical to economic development, enabling access to resources, goods, and markets. When the transportation infrastructure lags behind an expanding population and economy, the country will begin to fall behind in economic development. The general issue of transportation investment as an economic driver has many elements of complexity: various modes of transportation (such as highways and roads, public transportation, rail, water, and aviation) are involved; services may be provided by either public or private sectors, or a combination of the two; different levels of government with diverse objectives are involved; and both people and goods are transported (Wanderleest, 1986)

The Communications System

The communications infrastructure (i.e., telecommunications) means the facilities necessary for networks that switch and transport voice, data, text or video information among users. Communications investment will be required to build the electronic highways that are the critical infrastructure for a healthy information-driven economy. The communications network infrastructure of primary concern is the telephone network. Telecommunications investments will probably be effective in fostering economic development in two circumstances. First, where there is reasonable likelihood that the private sector will use the telecommunications to create economic benefits; and second, where the telecommunications is planned as a critical complement to other infrastructure or economic development programs.

The Energy System

Economic stability and security require certain and safe supplies of energy (electricity, gas, etc.). An effective energy policy should be based on market signals as well as government-initiated responses. Economic cost-benefit analysis should be conducted to evaluate and select energy-conserving and producing options. In addition, over the long run, the government should consider the development of renewable energy in order to sustain the economic growth (Kotler et al., 1997).

Water and Sanitation

Water and sanitation services are crucial to economic development and to the attraction of FDI. In most developing countries these services are provided by government and are not available and accessible to most citizens both in urban and rural areas. This predominance of the public sector is expected to continue for the foreseeable future. However, with the introduction of various forms of public-private partnership in project design, development, finance, production, and service provision, private participation in water and sanitation has grown. But there is still more room for private investment. Government should continue to invite private firms in the provision of these services (Global Development Finance, 2004).

Technology Infrastructure

A country's technology infrastructure consists of science, engineering, and technical knowledge available to the nation's industries. Such knowledge can be embodied in human, institutional, and facility forms. More specifically, technology infrastructure can be disseminated directly (in raw form through, say publications) or codified in standards, organized in program (quality assurance techniques), and so on. A unique feature of technology infrastructure is that it requires substantial effort and long lead time to acquire and maintain, but it depreciate slowly (Tassey, 1991). Government plays a vital part in fostering the proper conditions and supportive environment within which industries can successfully select and accommodate commercial technology. Examples include:

1. Building the science and technology community.
2. Developing an information base for diagnosing and monitoring the technological competitiveness of various industries.
3. Increasing the financial attractiveness of innovation efforts by individual firms, e.g., reducing certain risks to the realization of expected innovation benefits.
4. Increasing the array of promising innovation opportunities.
5. Attracting foreign scientists and permitting them to remain.
6. Encouraging the entry of more scientists and engineers into neglected industrial sectors.
7. Ensuring that export control law and regulations do not disrupt the interchange of scientific and technical information.
8. Strengthening government capabilities for evaluating technological improvement needs and progress.
9. Supporting universities in their efforts in general research and encouraging increases in basic research.
10. Supporting the training and retraining of employees.

The main issues related to technology infrastructure development are: (1) the university-industry relationship; (2) tax and subsidy schemes for industrial R&D support; and (3) Intellectual property rights protection (Noori, 1990).

Technology Transfer and Appropriateness of Technology

Foreign direct investment is a way of filling in five major gaps: (1) resource gap; (2) foreign exchange gap; (3) efficiency gap; (4) budgetary gap; and (5) technological and managerial know-how gap. The first four can enhance a nation's competitiveness in the short to medium run, whereas the last can sustain the nation's long-term competitiveness. Technological development in many developing countries basically depends on the nation's technology policies and on technology transfer from MNC to these countries. National technology policies vary considerably with the country's factor endowments and current level of technological development. The rate of technology transfer varies with the different modes, ranging from foreign direct investment by MNCs through subsidiaries or through joint ventures; non-affiliate technology licensing; contractual arrangements for the supply of technology know-how and services; franchises for use of foreign names; and provision of special expertise for certain products and services (Marton and Singh, 1991). Technology transfer, however, is not as simple as the purchase of capital goods. Substantial efforts are required to assimilate, modify, and improve upon the original technology before disseminating it to other firms or industries. The existence of complementary assets, particularly administrative and organizational capabilities, is also a necessary precondition for assimilating the foreign technology successfully (Reddy and Zhao, 1990).

As David Mowery has suggested, the rate of technology spillover is highly subject to the ability of indigenous managerial and technical talent to assimilate and disseminate the transferred technology. Outward orientation and strong competition among the domestic recipients is one critical factor (Mowery, 1994). According to Erdener Kaynak, appropriate technology raises four concerns: (1) Appropriateness for goals: Does the technology support the goals of the development policy? (2) Appropriateness of product: Is the product or service useful, acceptable, and affordable by the end users? (3) Appropriateness for process: Does the production process make productive use of resources? And (4) Cultural and environmental appropriateness: Are the technology and its institutional arrangements compatible with the local environmental and cultural setting? (Dicken, 1992).

Alternative Ways of Acquiring Technology

There are three major alternatives for acquiring technology. First, by acquiring or licensing the technology alone from the MNC. However, an MNC may be unwilling to license the technology or it may charge very high price. Second, by forming cross-border alliance. However, it is very difficult to seek the right partners if one has nothing valuable to exchange. And third, by developing the technology domestically. This may be feasible for some of the more advanced industrial nations but rarely for developing nations. It is worth noting that since technology is just one part of the whole package of attributes which the MNC brings to a host country, it is difficult to assess the cost incurred with each alternative way of acquiring the same technology (Chiang, 1989).

National Institutional Framework

The term institution has been defined in different ways. Douglas North describes institutions very broadly, as the formal and informal rules governing human interactions. There are also narrow definitions of institutions that focus on specific organizational entities, procedural devices, and regulatory frameworks. At a more intermediate level, institution are defined in terms of the degree of property rights protection, the degree to which laws and regulations are fairly applied, and the extent of corruption. It is narrower than North's definition, which includes all of the norms governing human interactions. Much of the recent research into determinants of economic development has adopted the intermediate definition.

Recent empirical analysis have typically considered three relatively broad measures of institutions—the quality of governance, including the degree of corruption, political rights, public sector efficiency, and regulatory burdens; the extent of legal protection of private property and how well such laws are enforced; and the limits placed on political leaders. The first of these measures—aggregate governance index—is the average of the six measures of institutions developed in a 1999 study by Daniel Kaufman, Art Kraay, and Pablo Zoido—Obation. These measures include (1) voice and accountability—the extent to which citizens can choose their government and have political right, civil liberties, and an independent press; (2) political stability and absence of violence—the likelihood that the government will not be overthrown by unconstitutional or violent means; (3) government effectiveness—the quality of public service delivery and competence and political independence of civil service (4) regulatory burden—the relative absence of government controls on goods and markets, banking systems, and international trade; (5) rule of law—the protection of persons and property against violence and theft, independent and effective judges, and contract enforcement; and (6) freedom from graft—public power is not abused for private gain or corruption (Edison, 2003).

Institutions and Economic Growth

Research indicates that institutions have strong and significant impact on per capita GDP growth. This impact may partly reflect the role of institutions in enhancing the sustainability of policies. The importance of institution for economic development and growth has long been understood—emphasized, for example, in the writings of Adam Smith and, David Landers, and recognized in the 1993 Noble Prize awarded to Douglas North. In the past few years, however, there has been a resurgence of interest in this subject, including research into the sources of institutional differences across countries, the channels through which institutions may affect economic performance, and the quantitative importance of these links.

What can Policy do to Spur Institutional Reforms

There is a role for policies in fostering institutional development—development that will in turn promote policy sustainability and economic growth. Several mechanisms—some general, other more specific—have been stressed in the literature as being useful in promoting institutional improvement:

1. Competition and trade openness: A number of studies have found that strengthening competition, including through trade openness, tends to be conducive to institutional improvement. In particular, opening up markets may help to weaken vested interests and reduce rents derived from prevailing economic and institutional arrangements, and may lead to demands for institutions more suited to an increasingly varied, complex, and possibly risky range of transactions.
2. Information and transparency: There is also some evidence that a free and widely read press, particularly if largely under private rather than public control, may help reduce corruption and increase government effectiveness.
3. External Anchors: In some more specific contexts, external incentives, constraints, and agreements also appear to have contributed to institutional change. More general use of mechanisms may provide

a way forward for at least some countries and regions, helping to break through domestic impediments to reforms.

An overriding requirement, however, is the need for domestic ownership of and commitment to reforms, including those directed at strengthening institutions. In a context where institutional improvement is clearly important, but where the details of institutional design and reform may be largely specific to the country itself, the issue of ownership becomes central to the sustainability of reforms and their impact on economic performance (World Development Report 2003).

The institutional framework environment consists of: (1) basic law and regulations related to the operations of business, governing such matters as property rights protection, contract enforcement, and laws concerning business transactions; (2) industrial laws governing such matters as antitrust, privatization, prices, wages, and employment; and (3) the protection of consumer and human welfare. The more predictable the institutional framework, the greater the possibilities for trade, investment, and growth (Gwynne, 1990).
Macroeconomic Policies

Any nation's competitiveness is really a composite way of referring to the productivity of its business enterprises and work environment. Their performance, in turn, depends to a great extent on the nature of the macroeconomic policies that surround them. The main objectives of a nation's macroeconomic policies are to enhance its economic stability, growth, and welfare. A nation develops macroeconomic policies to deal with the following six challenges: Coping with inflation, stimulating capital investment, managing fiscal policy, dealing with unemployment, and coping with external shocks. If a nation desires to improve its international competitiveness, it is vital that programs be developed to systematically eliminate macroeconomic policy disadvantages. Since different countries have different sets of opportunities, constraints, and competitive conditions, they therefore have different goals and options in choosing macroeconomic policies (Kotler et al., 1997).

First and foremost, political stability is a necessary precondition for macroeconomic stability and sustained improved performance. Countries in sub-Saharan Africa (SSA) also need to upgrade weak energy and transport infrastructure, and improve health and education standards. A more competitive and efficient private sector will require the assurance of good governance, including market-friendly regulations, effective financial sector supervision, and enforcement of laws. Second, SSA will also need to make room for higher pro-growth government expenditure. This will require increasing revenues so critical investments can be made, building the capacity to safely attract and manage private finance, and improving the quality of spending. An important first step in this direction, already taken by some countries in the region, is to improve budget institutions, focusing particularly on improving financial management, prioritizing expenditures, and ensuring their high quality (Plant, 2010).

Policy Implications for the Role of SSA Governments
Government inevitably plays a variety of roles in an economy. Identifying the broad types of these roles helps put government's proper policies toward cluster in context. Government's most basic role in an economy is to achieve macroeconomic and political stability. It does this by establishing stable government institutions, a consistent basic economic framework, and sound macroeconomic policies, including prudent government finances and low inflation. Government's second role is to improve general microeconomic capacity of the economy by improving the efficiency and quality of the general purpose inputs to business identified such as educated workforce, appropriate physical infrastructure, and accurate and timely economic information and the institutions that provide them. Such inputs are required across the entire economy and are a foundation upon which everything else is build. Government's third role is to establish the overall microeconomic rules and incentives governing competition that will encourage productivity growth. Such rules and incentives include a competition policy enhancing rivalry, a tax system and intellectual property laws encouraging investment, a fair and efficient legal system, laws providing consumer recourse, corporate governance rules holding managers accountable for performance, and an efficient regulatory process promoting innovation rather than freezing the status quo.

While these roles of government are necessary for economic progress, however, they may not be sufficient. Especially as government begins to make headway in its more basic role, a fourth role—that of facilitating cluster development and upgrading—takes on prominence. Government should aim to reinforce the development and upgrading of all cluster, not choose among them. While the general business environment is central to competitiveness, cluster circumstances are increasingly important in allowing an economy to move beyond factor-cost competition. Government policies inevitably affect the opportunities for upgrading clusters.

At the same time, many of the productivity and innovation advantages of clusters rest on spillovers and externalities that involve government entities. In addition to modifying its own policies and practices, government can also motivate, facilitate, and provide incentives for collective action by the private sector. Government's final role in an economy is the developing and implementing of positive, distinctive, long-term economic action program or change process which mobilizes government, business, institutions, and citizens to upgrade both the general business environment and the array of local clusters. Economic progress is thwarted as much by inaction as by lack of knowing what steps are necessary. Strong forces oppose economic upgrading, ranging from obsolete views about competitiveness to entrenched interests that proper from the status quo. Only a long-term process, with accompanying institutions, can counteract these forces. The process must involve all key constituencies and rise above the politics of any particular government. The process must encompass the general conditions affecting all industries as well as the upgrading of clusters. Ideally, such a process will occur not only at the national level but at the local levels (Porter, 1996).

Policy Recommendations for SSA Governments

Macroeconomic stability and steady progress toward medium-term development goals are both vital for sustaining growth in SSA. Thus, countries should strive to maintain stability and consolidate their hard-won gains while being mindful of general development goals. Countries should seize the opportunity to advance their structural reform agenda in order to boost prospects for growth (IMF African Department, 2009).

The investment environment should be improved. Greater efforts and increased funding would strengthen the safety of the investment environment to ensure contract viability, ease of profit repatriation and minimization of payment delays, and reliability of enforcement of law and order. These improvements will raise the level of economic development and ultimately international competitiveness.

Competition should be encouraged. SSA countries can also accelerate the development of their bond market by encouraging competition in financial intermediation and a reduction in their bureaucratic practice (Adele an and Radzewicz-Bak, 2009).

Greater macroeconomic stability. Prudent monetary and fiscal policies will help SSA make substantial strides toward macroeconomic stability. Inflation is the region decline from an average of almost 15 percent in 1985 to an average of 8 percent in 2005.

Structural reforms to enhance the supply response. Many SSA economies have been making progress in implementing market-oriented structural reforms, such as privatization and the adoption of a regulatory framework more conducive to investment. Notably, restrictions on external current transaction have largely been eliminated, and many countries have shifted to market-based exchange rates. Moreover, customs and tariffs have been reduced and simplified.

Increased protection of investors' rights. Most SSA countries have concluded bilateral and multilateral treaties that address issues of particular importance to foreign investors, such as liberalization of restrictions to entry, elimination of discriminatory conditions, and a streamlining and harmonization of investment incentives (McDonald, Treichel, and Weisfeld, 2006).

CONCLUDING REMARKS

First and foremost, political stability is a necessary precondition for macroeconomic stability and sustained improved performance. Countries in SSA also need to upgrade weak energy and transport infrastructure, and improve health and education standards. A more competitive and efficient private sector will require the assurance of good governance, including market-friendly regulations, effective financial sector supervision, and enforcement of laws. Second, SSA will also need to make room for higher pro-growth government expenditure. This will require increasing revenues so critical investments can be made, building the capacity to safely attract and manage private finance, and improving the quality of spending. An important first step in this direction, already taken by some countries in the region, is to improve budget institutions, focusing particularly on improving financial management, prioritizing expenditures, and ensuring their high quality (Plant, 2010).

Policymakers have at their disposal countercyclical measures (monetary policy, nominal exchange rate flexibility, and fiscal policy), structural policies (Trade policy, banking supervision, and regulation), and capital controls (including the encouragement of gross outflow. However, no policy recipes can ensure the best and most sustained growth. Successful policy responses have varied across countries and have not relied on a single instrument. Several factors determine the appropriate policy response in a particular country, including its record in fighting inflation, the openness of its economy to foreign trade, the state of public finances, the size and liquidity of the domestic financial market, the flexibility of fiscal policy, and the quality of the regulatory and supervisory framework designed to oversee the financial sector (Lopez-Mejia, 1999).

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