PROFIT
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for investment and trade

Foreign direct investment

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1. Introduction

Foreign direct investment (FDI) is an activity where an investor sets up or invests in an enterprise in a foreign country with the intention of acquiring a lasting interest and at least a degree of management control. Economists have a range of definitions but they are more concerned with analysing balance of payment accounts and capital flows. We are focused on the practical aspects. If you are not already engaged in foreign direct investment, there are thus two possible routes, both of which need ultimately to support the investing company. There is third route, but that is simply investing further in a company in which you already have a stake.

2. Approaches to FDI

The first option is to start a new business in the target country, which could be wholly owned or could be undertaken in partnership with another, perhaps local, firm. If you partner with another business in this way, the resultant enterprise is usually called a joint venture. The second option is to invest in an existing business possibly to the extent that you buy the business outright and it becomes a wholly owned subsidiary.

Many countries are very keen to encourage inward investment and thus offer a range of incentives including relief from certain regulations and lower or even nil rates of tax for a defined period. FDI can thus be a cost-effective way of entering a new market though the incentives do not negate any of the risks.

Most countries have agencies that will advise and support potential investors, even to the extent of introducing them to local businesses who could become partners or who could be suppliers or customers in a supply chain. Some countries restrict imports of certain goods, so FDI can potentially offer a route around the restrictions. Some businesses struggle to source raw materials or components and find that investing in the supply country can guarantee them access to the materials that they need. When one thinks of FDI, one often assumes that large sums of money may be required. But that does not have to be the case. Something as simple as setting up a sales office, or a representative office, in a target country, employing perhaps a couple of staff, and then importing goods to fulfil orders counts as FDI. Moreover, for many businesses, that is only the first step. If sales go well, the investor may decide to start local assembly or even local production.

If you already supply a large business that itself invests elsewhere, you may find that you can grow your sales by setting up in business or in a joint venture close to them.

3. Finding your partner

The first step is to decide whether you want to invest directly in another country and consider if that is the best route to increasing sales. The second step is to decide whether you want to go it alone or whether you would prefer to do it with a local partner, especially if the local partner can bring complementary knowledge and expertise. The third step, assuming that you want to work with a partner, is to find the partner. That sounds easy but in practice is likely to be hard. There is more about seeking partners in the PROFIT factsheet on *Partners & Partnerships*. You may already have a trading relationship with one or more businesses. You can start on your search by reviewing sector trade publications and by talking to the relevant trade associations (though remember that most businesses are not members of trade associations, so you will want to broaden your search). The target country's investment promotion agency may be able to help. If you have particular customers in mind, there may be scope to talk to them about who they rate in the sector. Business support organisations in the target country may have businesses that would be keen to find a partner. Some countries now have matchmaking services, though they tend to be rather hit and miss. If you are not sure where to start, then talk to your PROFIT mentor and write down a short specification of the type of business that you seek. We may the be able to help to identify potential partners.

Once you have a shortlist, you will need to talk to all of them, to ascertain whether they are even interested in partnership and then, if they are, to decide whether the fit with you is good enough. If you feel that there is a good potential, then you will need to assess the business (see PROFIT factsheets on *Partners & Partnership* and *Investment Appraisal*).

You will also need to explore the regulations setting out what is permissible in the target country. Some countries restrict the level of investment; some restrict the sectors. If you will need staff travelling regularly or expect to place your own staff in the business, then you will also need to check visa and work permit arrangements. These are also often restricted. The investment promotion agency should be able to give full details of any restrictions. However, you may also find it beneficial to talk to other businesses who have already invested to explore how easy or how difficult they found the process.

4. Legal requirements

The legal requirements differ from country to country and sector to sector, so you will need to contact the target country's investment promotion agency to enquire about the legal requirements and to ensure that you do not miss any step. You may, for example, need a business address in the target country; you may need a resident director.

5. Further information

If you want to start a company in Vietnam, there is a good guide available at emerhub.com/vietnam/company-registration-in-vietnam/

For Cambodia, see http://www.cambodiainvestment.gov.kh/

A summary of the requirements for Thailand is available at www.tilleke.com/wp-content/uploads/2017/02/2017_Feb_Foreign_Direct_Investment_Thailand.pdf

For investment in India, there is a good guide available at emerhub.com/india/fdi-india-foreign-ownership-regulations/. However, some restrictions have been imposed as a result of the covid pandemic. See www.gibsondunn.com/new-foreign-investment-restrictions-imposed-by-india/

website

contact@profit-accelerator.com

email

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