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Institutional Models of Foreign Direct Investment Attracting. Comparative Aspects

Abstract

The paper examines the effectiveness of different institutional models of foreign direct investment (FDI) attracting and the relationship between the institutional framework and the scale of FDI flows into countries being in the process of catching up with developed economies. The experience of such countries as Ireland, the Czech Republic, Hungary and Poland is used for studying this problem. The results indicate that the most effective institutional framework supporting the inflow of FDI to a host country is to set up a quasi-governmental agency promoting FDI. This agency should be of a one-stop-shop character and endowed with appropriate authorization. The adopted institutional framework must be harmonized with the basic assumptions of the policy towards foreign investors. The scale of FDI inflows into host countries depends only to a limited degree on institutional solutions. The character of policy towards foreign investors and traditional location advantages seem to play a more important role.

Introduction

The second half of the 1990s brings a rapid increase in flows of foreign direct investment (FDI) in the world economy. They amounted to over USD 800 billion in 1999. The reasons for growth in these flows are mergers and acquisitions taking place mainly between highly developed countries. These countries invariably remain the most attractive place for locating FDI. They account, depending on the period, for two-thirds to three-fourth of the flows of FDI on the world scale. As a result of this situation, the particular developing countries and the countries of Central and Eastern Europe face a strong competition on the part of other countries for attracting FDI to their economies. The expressions of this competition are the liberalization moves of many of the countries hosting FDI taken on their own or in the wake of bilateral agreements or regional initiatives. They lead to the creation of more and more liberal conditions of operation for direct foreign investors.

In the conditions of globalization and liberalization of capital flows, the policies of the particular countries towards foreign investors become similar. Their common characteristic is concentration on facilitation in running business. Although policy towards foreign investors has common features in most of the countries hosting FDI, it can be pursued in different institutional frameworks.

The goals of this paper are:

- to analyze and evaluate the institutional solutions applied by the host countries that are interested in attracting foreign capital to their economies;
- to examine relations between policy towards foreign investors, the institutional models of attracting FDI and the scale of FDI inflow to countries being in the process of catching up with highly developed countries.

The experiences of such countries as Ireland, Poland, the Czech Republic and Hungary will serve to verify the theses formulated on the basis of analysis of the institutional models. The common feature of this group of countries is the fact that foreign capital plays an important developmental role in their economies; these countries take special efforts aimed at attracting foreign capital and compete for its inflow.

1. Characteristics of Policy Towards Foreign Investors In Different Groups of Countries

Policy towards foreign investors conducted by a host country may have an interventionist or a liberal character. Generally, the higher the level of economic development of the country hosting investments, the smaller the extent of intervention on the part of the state. This paper analyzes institutional solutions used by countries catching up with the highly developed countries. A characteristic feature of the policies of this group of countries is to ensure a steady inflow of foreign direct investment and encourage foreign investors to get involved in these areas of the economy which strengthen its competitiveness. The justification of a policy constructed in this way is the conviction of the countries hosting FDI that an inflow of FDI can yield significant economic benefits and an appropriate policy can augment these benefits.

Countries hosting FDI, the less developed ones in particular, have to take into account phenomena which affect the efficacy of their policy towards foreign investors (World Investment Report 1999, p. xxvii). The principal issues to be addressed by governments fall into the following four groups:

- Information and co-ordination failures in the international investment process.
- Infant industry considerations in the development of local enterprises, which can be jeopardized when inward FDI crowds out those enterprises.
- The static nature of advantages transferred by TNCs where domestic capabilities are low and do not improve over time, or where TNCs fail to invest sufficiently in raising the relevant capabilities.
- Weak bargaining and regulatory capabilities on the part of host country governments, which can result in an unequal distribution of benefits or abuse of market power by TNCs.

In this context, the commonly expected positive effects following from the inflow of FDI such as increases in financial resources and investments, augmentation of the technological potential, growth in the competitiveness of exports, creation of new and qualitatively better workplaces, demonopolization and promotion of competitive behavior, protection of the natural environment may not be revealed on the desired scale.

The particular countries' policies towards foreign investors become similar to each other and they concentrate on facilitation in business running. The main components of policy towards foreign investors are:

1) investment promotion (promotion of a given country as a place for locating FDI; promotion of selected regions of the country or sectors of the economy);
2) incentives – fiscal, financial and other stimuli and on the other hand, requirements made by the host country;
3) servicing the investors after effecting the investments;
4) improvement in the conditions of running business, lessening the related onerousness and stress (reduction of the co-called „hassle costs" related to running business).

In the era of globalization manifested among others in liberalization of capital flows, countries hosting FDI have fewer and fewer instruments at their disposal with which they can influence the conduct of foreign and domestic firms. The constraints on constructing this policy result from belonging to the WTO and pertain both to highly developed and developing economies and to economies in transition. They are related primarily to the Agreement on

Subsidies and Excise and the Agreement on Trade Aspects of Investment Policy. OECD member countries are additionally obliged to observe the Code of Liberalization of Capital Flows. And the Countries of Central and Eastern Europe applying for accession to the EU have to allow for the requirements following from the functioning of the single internal market.

The most serious constraints on a free shaping of policy towards foreign investors seem to be the stipulations of the TRIMs/WTO on the one hand and on the other hand – the limited efficacy of incentives for foreign investors and limited financial resources of host countries. The stipulations of the above Agreement prohibit applying towards foreign investors any measures that distort or disorganize international trade. They include the following requirements: local content rules, trade balancing, maximum import limitation, exchange restrictions and domestic sales requirements. From the viewpoint of the economic interests of less developed countries, the application of some of these requirements could be still justified. On the other hand, the application of incentives although widespread (UNCTAD 1996) can also lead to the occurrence of distorting effects in trade, similarly to the application of traditional trade barriers. The use of incentives of this kind is disciplined (restricted) by means of the stipulations of the Agreement of Subsidies and Excise WTO. Furthermore, the application of incentives involving public finances does not always yield the expected results under conditions of competition for an inflow of investment. There emerges a real threat that countries will outbid each other in offering the incentives. Countries incur costs (expenditure from the budget or loss of revenue to the budget) but in effect they may fail to attain a durable involvement of foreign capital in their economies.

2. Institutional Framework of Policy Towards Foreign Investors

Policy towards foreign investors as a part of the particular countries' general economic policy is always conducted within a certain institutional framework. The goals, tasks and instruments of this policy may be convergent in countries at a similar level of economic development. This policy is pursued with the use of different institutional solutions. Countries interested in attracting foreign investors set up **foreign investment agencies** which may have a governmental, quasi-governmental or private character (UNCTAD 1997, p. 42). The establishment of an investment promotion agency can be treated as a response to market failure.

Activities that are possibly performed by a foreign investment agency (FIA) may be classified according to their importance (Co-operation at the European Level, 1997):

1) **promotion activities**, i.e. activities directly aimed at promoting foreign investment within a given country and encouraging any investors to invest;
2) **servicing foreign investors;** i.e. providing certain services to prospective and existing foreign investors;
3) **protection activities;** some activities performed by a FIA may be aimed at protecting a country against „bad" foreign investment or promoting only „good" investment rather than promoting any kind of foreign investment; these activities are typical for countries having not yet fully encountered economic liberalisation and embrace:
   - screening of FDI ;
   - monitoring of FDI ;
   - other possible activities; i.e. activities that are somehow linked with promotion of foreign direct investment; there are for example regional development and aid issues, servicing local investors, arbitration and alternative dispute resolutions, research activities.

The best practices in investment promotion recommended by UNCTAD (UNCTAD 1997) include:

- building a positive image of the host country, on the basis of a rule that the spread information on economic, legal and social determinant in a given country conform with reality;
- being proactive in attracting investment projects; implementation of the targeted promotion approach is recommended here;
- facilitating the entry of new investment and the operations of established investors;
- promotion of outward investment.

The techniques used by a FIA in the field of promotion (Co-operation at the European Level, 1997) cover: advertising in general financial media, creating databases of specific investment opportunities or investment inquiries in a given country, participating in investment 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, conducting general information seminars on investment opportunities.

Increasing the attractiveness of investing in a given country is tied with servicing the prospective and existing foreign investors. Servicing the investors consists in providing them with information on possible locations of investments, advising them, organization of visits, providing them with lists of prospective local contractors, assisting them in solving administrative and legal problems related to investing. It is a typical function of an FIA but it is provided by different agencies to a different degree. Investor servicing can be limited to the phase before the investment decision is taken. But it can also cover the phase after the investment decision. In the latter case, a FIA assists investors in obtaining the indispensable permits and approvals.

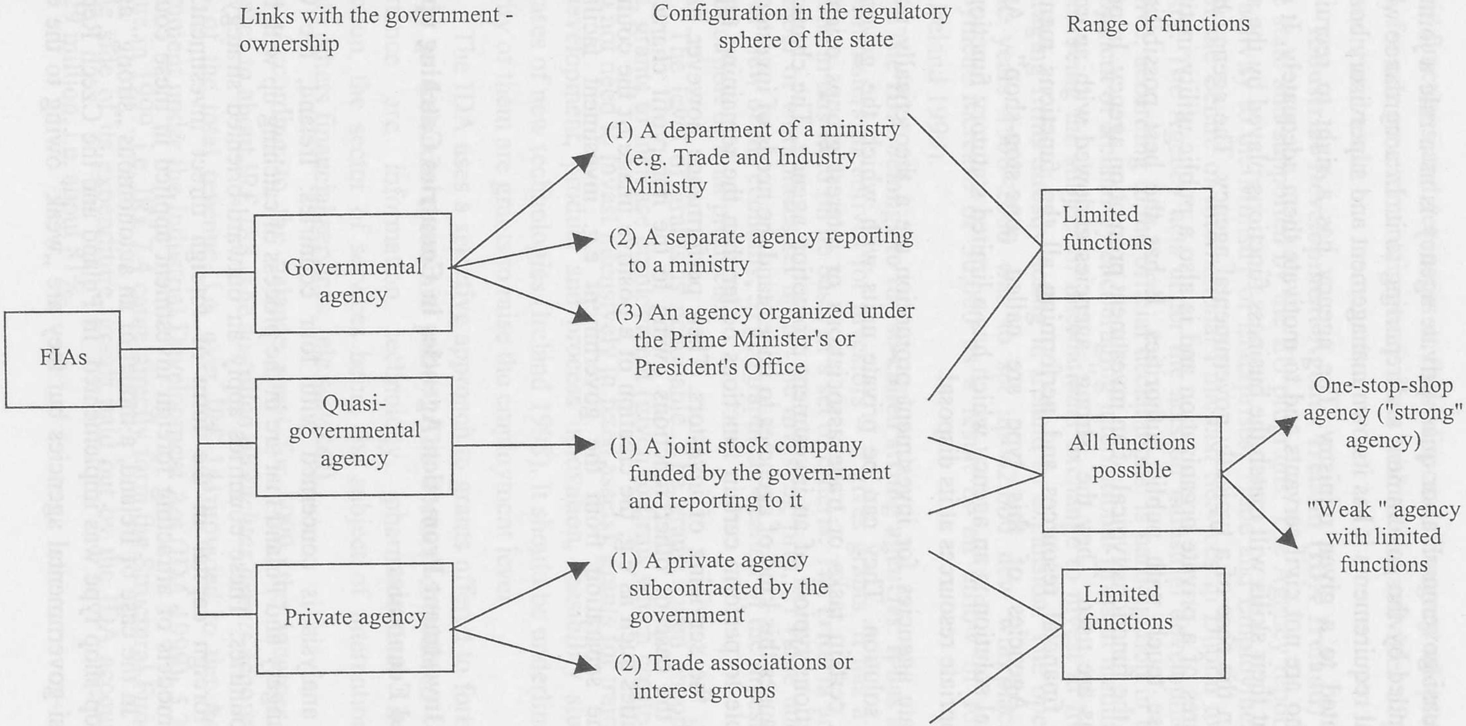
Protection activities undertaken by investment promotion agencies and covering the screening and monitoring of FDI seem to lose in importance in the conditions of liberalization of capital flows in the world economy. However, they are not eliminated altogether. Screening is aimed to limit the inflow of this kind of direct investment which the host country deems to be undesirable or detrimental. Theoretically, it can also serve to maximize the benefits from inflows of FDI contributing to development of the economy. Screening is applied when the country uses permits as a tool of control over the inflow of FDI. The task of monitoring is to analyze and evaluate investment projects from the point of view of their conformity with national regulations e.g. in the field of competition, protection of the environment and conformity with the conditions under which investment incentives were awarded. In the last case, monitoring should answer the question of whether the country attains the assumed goals which determined the adoption of investment incentives. Monitoring replaces screening in countries which do not apply a system of permits but try to affect investors' decisions by means of different incentives.

Investment promotion agencies can also fulfil other, additional functions mentioned above. There is no a clear rule and different solutions are met in practice.

The above mentioned types of foreign investment agencies distinguished according to their connections with the government are differently laid out in the particular countries. The character of ownership of the agency determines its configuration in the structure of governmental and non-governmental organizations and indirectly determines the scope of functions played by them. Fig. 1 shows these relationships.

The role of a governmental agency can be played by a department of one of the significant ministries (e.g. ministry of industry and trade or of the economy). It can also be a separate agency or an agency subordinated to the prime minister or president. The functions which it plays are as a rule limited and are confined to screening, monitoring and negotiations with investors. As regards the functions of investment promotion and investor servicing, organizational structures of this kind do not acquit themselves well (UNCTAD 1997, p. 42). This results from the character of governmental institutions, lack of preparation of civil servants for fulfilling the functions required in the sphere of business.

Fig. 1. Types of FIAs - their relations with government and scope of functions



Source: Prepared on the basis of Co-operation at the European Level. Comparison of Status and Activity of Investment Promotion Agencies in Other Countries, Gide Loyrette Nouel Poland, Warsaw; Survey of Best Practices in Investment Promotion, UN, New York and Geneva, 1997.

A quasi-governmental or quasi-private agency is as a rule a joint stock company funded by the government and reporting to it. In accordance with the binding legal requirements it has its own management and supervisory board but is subordinated to a given ministry. The agency has a right to recruit staff members who are not civil servants and to motivate them adequately. It can be expected that their skills will match the business functions played by the agency better than in the case of a typically governmental agency. The agency has the formal features of a private organization and is also a public utility institution. It is in close touch with public authorities. It has the best possibilities of fulfilling all the functions typical of an investment promotion agency. In practice two solutions are used. They the „strong" agencies endowed with appropriate powers and financial resources and performing all the functions mentioned earlier on. Agencies of this type are called „one-stop-shop". Another organizational solution is an agency which has a limited statutory functions and has no appropriate resources at its disposal.

Private agencies for investment promotion are a theoretically possible institutional solution. They can be private units with which the government subcontracts certain tasks or trade associations or interest groups oriented at playing functions typical of an investment promotion agency. The character of ownership causes this kind of agencies to understand the needs of investors well and to be able to perform certain functions better than the remaining types of agencies e.g. the servicing of investors. Their performance however may be hindered in the case of other functions owing to the non-profit character of certain activities such as e.g. the creation of a positive image of the country or owing to the separation from the government e.g. investment facilitation functions.

3. Status of Investment Promotion Agencies in Countries Catching up with Developed Economies

The analysis is concerned with four countries: Ireland, the Czech Republic, Hungary and Poland that are in the process of catching up with highly developed countries. These countries apply an outward-oriented strategy with the use of foreign capital in the form of foreign direct investment. The institutional models of attracting foreign investment applied in these countries are different. In the case of Ireland, a model of an autonomous „strong" agency of the one-stop-shop type was implemented. In Poland and the Czech Republic they are quasi-governmental agencies but they are „weak" owing to the extent of their functions and resources at their disposal. Hungary adopted a different model, for one governmental agency deals with all the activities of promotion of investment and trade.

Industrial Development Agency Ireland (IDA Ireland) is sponsored by the state and supported by the EU programs. The Agency reports the results of its activity to the Ministry of Enterprises, Trade and Employment and in the case of the Centre of International Financial Services in Dublin to the Finance Ministry. The Agency acts under the acts on industrial development. Its main objective, according to the official declarations, is participation in the economic development of Ireland by encouraging international firms in manufacturing and services being the subject of international exchange to invest in Ireland and by encouraging firms already acting in Ireland to expansion. The operational goal for the years 1998–2000 was to set up 42,000 new workplace and a net employment increase of 30,000 as a result of an inflow of foreign capital (IDA Ireland 1999).

The **IDA belongs to the so-called strong agencies**. It has at its disposal and administers incentives for investors – it gives grants. It has a right to take decisions in this field on he basis of a set of criteria. The **criteria** are as follows: 1) number of workplaces set up by the investing firm, 2) value added from the point of view of the economy, 3) geographical location of the investment, and 4) level of export of final products.

The level of grants is negotiable. The grants given encompass capital grants, grants to increase employment (given to firms which create employment but do not need to invest intensively in fixed assets), grants for training, research and development, product and process innovation, feasibility studies and for purchases of new technologies (Ireland 1998). It should be underlined that a vast majority of them are grants to raise the employment level.

The IDA uses a **selective** approach to grants offered to foreign investors suitably to Ireland's economic policy. The sectors considered to be of key importance are information technology, pharmaceutical industry/health protection, the sector of services being the subject of international exchange (among others financial services, tele services).

According to the balance sheet for 1999, the incomes of the IDA amounted to about IR£ 188. The so-called *oireachtas grants* accounted for about 75 % of the total revenue, i.e. over IR£ 141provided to the Agency by the government under the Industrial Development Act (IDA 1999). 5.2% of its total revenue in 1999, i.e. IR£ 7.4 came directly form the Structural Funds of the EU. On the side of its expenditure, grants paid out by the IDA accounted for over IR£129 million, i.e. about 81%.

The **measures of efficacy of its activities** are the number of newly set workplaces in firms supported by the IDA and the net increment in workplaces, the cost of a durable workplace measured with an average sum of funds expended by the IDA per workplace and the regional structure of the newly created jobs. Employment in 1279 firms supported by the IDA amounted to 124,700 persons in 1999. The average cost of one workplace amounted to IR£ 10260. As it can be evaluated, the activities of the IDA and its sister agency, Enterprise Ireland contributed to a decline in the unemployment rate in Ireland from 16.7% in 1998 to 5.1% in 1999. It is also worth underling that GDP per capital rose almost 2.5 times in the same period of time.

In the case of the Czech Republic, its **Agency for Foreign Investment, CzechInvest,** is a governmental agency acting on a budgetary basis. It was established in 1992 in order to promote foreign investment in the Czech Republic and to assist foreign investors in carrying out investment projects. It is subordinated to the Ministry of Industry and Trade. In the 1990s, the Agency's activity consisted mainly in offering foreign investors information on possibilities of running economic activity in the Czech Republic and on the particular industries and in providing certain business services, e.g. seeking out appropriate production sites and premises or partners for setting up a joint venture, assistance in organizing meetings with local partners and in talks with representatives of state administration at the national and local levels. CzechInvest also rendered assistance in obtaining reliefs following from the governmental system of investment stimulation. The Czech Republic introduced a package of incentives for investors in April 1998. It was a reaction to a drop in the inflow of FDI to the Czech Republic in two consecutive years, i.e. 1996–1997 (World Investment Report 1998).

The Act on investment preferences was modified in 2000 (Act 2000). The package of incentives covers (1) reductions in income tax, (2) subsidies to county authorities for development of infrastructure and for offering grounds for investment purposes, (3) financial assistance in setting up new workplaces, (4) financial assistance in sustaining the employment level. Investors can take advantage of these incentives after meeting certain requirements. The conditions to be fulfilled by investors show that the essential goal of the incentives is not only to increase the inflow of foreign capital but also to attract it to high-tech industries and create workplaces. Similarities to the strategy towards foreign investors pursued in Ireland are visible here.

The Act provides for a fairly complex procedure of awarding investment incentives. Investors have to apply for incentives via the designated organization which evaluates the application and presents this appraisal to the Trade and Industry Ministry. The decision on awarding the incentives depends not only on this Ministry but also on the Ministry of Labor and Social Matters. The designated organization, which is CzechInvest, is the intermediary between firms applying for incentives and the decision-takers who are appropriate ministries. In connection with the changes in policy, the mission of CzechInvest and the main areas of services rendered by it were redefined (CzechInvest 2000). The changes go in the direction of transforming this agency from a marketing one into a development agency. The extent of functions fulfilled by it increased and is evolving towards the model applied in Ireland. The Agency is advertised as a one-stop-shop for incentive applications. Still it is not a „strong" agency in the sense described earlier on in the text.

Poland has its **State Agency for Foreign Investment (PAIZ),** similar in character and configuration to CzechInvest. The PAIZ is a treasury-owned company reporting the results of its activities to the Ministry of the Economy. Its long-range goal was defined as participation in the economic development of Poland by promoting Poland as a location for foreign investment and provision of comprehensive services to foreign investors (Statues of the PAIZ). Thus a special importance for the economy is ascribed to this agency. However, it is not a „strong" agency. It does not fulfil all the functions typical of such an agency. A package of incentives for investors which would be offered on a national treatment rule is being discussed in Poland at present. It is envisaged that the PAIZ would be responsible for awarding certain incentives, which would strengthened its position. However, the organizational questions have not been resolved yet. The proposed division of duties connected with administering the grants (one body would take the decision – the PAIZ and another would exact the investors' fulfillment of the assumed obligations – tax offices) shows that some important functions might be separated (screening, monitoring), which does not seem advantageous from the economic point of view.

Hungary, as it was already mentioned, adopted a solution different from the above. Its agency, **Investment and Trade Development Hungary (ITD Hungary)** established in 1993 is a governmental agency in which the whole of national investment and trade promotion activities are concentrated. The Agency is subordinated to the Ministry of the Economy and the Ministry of Foreign Affairs. The activity of the ITD covers the following areas (ITD Hungary 2001):

- **Promotion of foreign investment in Hungary**; the ITD acts as an information and consulting center for foreign investors; its investment consultants provide general information on investment conditions in Hungary, seek out business partners and participate as consultants in the legal and financial preparation of joint ventures; the activity of ITD concentrates at present on greenfield investment especially in such sectors as electronics and software, auto parts and tourism;

- **Promotion of exports and trade consultations**; the ITD supports Hungarian exporters especially MSP; the Agency concentrates on the following priority sectors: food, pharmaceuticals, herbal products, wine production, machinery and equipment, textiles and clothing and development of software;
- **Assistance in entering into business contacts between Hungarian and foreign firms**; the ITD acts as a go-between in establishing such contacts, taking advantage of the network of Hungarian trade councilor's offices subordinated to it;
- **Business services**; the ITD organizes business programs for individual visitors and delegations and holds conferences, exhibitions, product shows and business events;
- **Publications** covering the sphere of trade and investment.

The ITD operates also the EURO INFO CENTER whose task is to provide Hungarian business world with information on the EU markets.

From the characteristics of agencies for foreign investment in the selected countries it follows that Ireland adopted solutions which allow the IDA to acquit itself effectively of its basic functions which are ascribed to a typical foreign investment agency, i.e. promotion of the host country (selected sectors/regions), generation of investment and servicing the investors. The quantitatively specified goals and the awarded financial support impose also a necessity of screening and monitoring the inflowing foreign investment and allow the work of the agency to be evaluated in a broader context which is development of the Irish economy.

The Czech Agency fulfils promotional and information functions and conducts a partial servicing of investors and after the recent changes evolves towards the Irish model. However, there is no clear-cut criterion for evaluating the efficacy of its activities, for the goal whose execution might be measured has not been specified. A similar situation occurs in the case of the PAIZ. Hungary adopted an entirely different solution, a solution which Poland has considered applying twice. The promotion of investment and trade (more specifically – export by Hungarian firms) was joined with investor servicing and business mediation in a single agency (ITD Hungary) to which the trade councilor's offices were simultaneously subordinated. This yielded an extended organization, different from a typical foreign investment agency. The surveyed countries compete with each other for inflows of FDI. The solutions used by Ireland and deemed to be very efficacious became a stimulus to changes in policy towards investors and to institutional changes in the sphere of promotion and investor servicing in the countries of Central and Eastern Europe.

4. Inflow of FDI to Ireland, Czech Republic, Poland and Hungary. Role of Institutional Framework

All the analyzed countries have recorded significant inflows of FDI in the last decade, which is shown by Tables 1 and 2. The data on both annual FDI flows and FDI inward stock show that the first position is occupied by the Irish Republic. The growth rate of annual FDI stream flowing into this countries has been extremely high in the recent period (313 % and 215% in 1998 and 1999 respectively). In the past a deceleration in the dynamics of inflow could be observed (years 1994, 1996) but this does not alter the general picture of Ireland as a country attracting foreign investment successfully. Its FDI inwards stock in 1999 was estimated at almost USD 44 billion.

Table 1. FDI inflows into Ireland, the Czech Republic, Hungary and Poland, 1988-1999

Year	Ireland		Czech Republic		Hungary		Poland	
	Millions of USD	Previous year =100	Millions of USD	Previous year =100	Millions of USD	Previous year =100	Millions of USD	Previous year =100
1988–1993[a)]	787	-	502[b)]	-	1033	-	478	-
1994	838	106.5	869	167.1	1146	110.9	1875	392.3
1995	1447	172.7	2562	294.8	4453	388.6	3659	195.1
1996	2618	180.9	1428	55.7	2275	51.1	4498	122.9
1997	2743	104.8	1300	91.0	2173	95.5	4908	109.1
1998	8579	312.8	2720	209.2	2036	93.7	6365	129.7
1999	18322	213.6	5108	187.8	1944	95.5	7500[c)]	17.8

[a)] Annual average
[b)] Annual average from 1989 to 1993
[c)] Estimates

Source: UNCTAD and own calculations.

Table 2. FDI inward stock in Ireland, Czech Republic, Hungary, Poland (millions of USD)

Year	Ireland	Czech Republic	Hungary	Poland
1980	3 749	..	..	..
1985	4 649	..	..	..
1990	5 502[a)]	1360[b)]	5 69	109
1995	11 706[a)]	7 352	10 007	7 843
1998	25 647[a)]	14 375	15 862	22 479
1999	43 969[a)]	16 246	19 095	29 979

[a)] Estimated by adding flows to the stock of 1986.
[b)] Stock data prior to 1992 are estimated by subcontracting flows.

Source: UNCTAD and own calculations.

Of the remaining countries under survey, only Poland records a steady growth in FDI inflow, with a certain deceleration of the growth rate in 1997. The Czech Republic went a phase of a serious decline in the growth rate of FDI inflows in 1996–1997. In 1996, the annual FDI inflow accounted for a mere 55.7% of the annual flow in the previous year. The reactions to this state of things were, as it was mentioned in the earlier section, a change in its policy towards foreign investors and the introduction of serious incentives for investors. This resulted in re-gained and increased FDI flows in the years 1998–1999. The cumulative FDI in 1999 was estimated at over USD 16 billion. Hungary, on the other hand, has been in a situation of an incessant drop in the FDI inflow in absolute terms, starting from 1996. A year earlier, this country recorded the highest inflow of FDI in the entire analyzed period (USD 4.4 billion). In 1999 its cumulative FDI was estimated at over USD 19 billion. Hungary is the first of the economies in transition to use up the possibilities for FDI inflow connected with privatization. As in the Czech case, the Hungarian government responded to the decline in the dynamics of FDI inflows by adding new reliefs to the existing tax reductions and introducing new incentives (Szechenyi Plan) (ITD Hungary 2001).

The inflow of FDI to the particular host countries is dependent on the whole gamut of locational factors as understood in the eclectic OLI paradigm (J. Dunning 1979, 1988). Thus reducing Ireland's success in attracting investment to efficient institutional solutions would be a simplification.

The crucial factors were a change in the character of policy towards foreign investors (F. Ruane, H. Gorg 1999) and the government's long-term undertakings in the infrastructure education constituting the basis for investment as well as the process of economic growth and the deepening process of European integration. In the case of the remaining countries, the researches point to the importance of such factors as economic growth, sale market, relatively cheap and educated labor (PAIZ 2000, M. Du Pont 2000, J. Witkowska, Z. Wysokińska 1997).

Analyzing the role of institutional solutions in attracting FDI it is necessary to see them in a broader context which is a general investment climate in a given country. In the case of the same type of investments and similar investment conditions in the particular host countries, the quality of investor-servicing can be a factor resolving the ultimate choice of location. Under conditions of competition for inflows of FDI this may lead to uniformity of the institutional framework in host countries. At the same time competition for investment by applying similar incentives may lead to the phenomenon of erosion of the expected effects.

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