

STABILITY, SKILLED LABOUR AND INFRASTRUCTURE TOP LOCATIONAL FACTORS FOR FOREIGN AFFILIATES

Macroeconomic and political stability are the most important locational factors according to the Worldwide Survey of Foreign Affiliates conducted by UNCTAD and the World Association of Investment Promotion Agencies (WAIPA). While generally optimistic about the future prospects for more investment in their respective host countries, executives of foreign affiliates also stressed the importance of access to skills, low corporate income taxes and high-quality telecommunications. Most affiliates called for policy improvements in the regulatory and institutional environment. They also called for lower taxes.

Executives of foreign affiliates of transnational corporations (TNCs) often play an important role when investment decisions are made. Their views on the local investment environment are transmitted to headquarters and taken into account when different locations are considered for new and expansion investments or for the downsizing of existing operations.

Against this background, UNCTAD and WAIPA jointly conducted the Worldwide Survey of Foreign Affiliates from February to April 2007. This first study of its kind aimed to examine the views of foreign affiliates with regard to investment prospects and local business environments in host economies. The questionnaire was sent to chief executive officers (CEOs) of 850 foreign affiliates. A total of 96 CEOs completed the questionnaire, a response rate of 11 per cent. The distribution of responses corresponded relatively well to that of the full sample, although Latin America was somewhat underrepresented.

Bright investment prospects

Most respondents were optimistic regarding the prospects of new investments in their host economies. About 76 per cent expected their investments to increase, while only 7 per cent expressed the opposite view. Almost a third of the foreign affiliates predicted a large increase in their investments in the host country during the period 2008–2010.

UNCTAD obtained similar findings in its *World Investment Prospects Survey 2007–2009* of parent companies of TNCs. More than two thirds of the responding companies in that survey expected their foreign direct investment expenditures to increase each year until 2009. A third of the respondents

expected an increase of more than 30 per cent (www.unctad.org/en/docs/wips2007_en.pdf).

Investors yearn for stability

CEOs of foreign affiliates were asked to rank various locational factors according to their importance in investment decision-making. Macroeconomic and political stability were given the highest average score of 4.3 (see figure 1). This applied to foreign affiliates across regions and industries. Other factors deemed very important include the quality of telecommunications, the supply and costs of skilled labour, corporate taxes, and banking and other financial services.

At the other end of the spectrum, one finds rail and sea transportation, availability of natural resources and the supply and costs of low-skilled labour. However, the results depend on the industry. For example, rail and sea transportation and access to natural resources were considered important by foreign affiliates in resource-based industries.

How well do countries perform?

Executives were also asked to assess how well their host countries performed on the various factors. The highest scores were given to countries' attitudes towards foreign investors, corporate income taxes and double taxation treaties. In contrast, the five factors for which host countries received the lowest scores on average were rail, road and sea infrastructure, natural resources and real estate.

Developed countries generally scored better than developing and transition economies. They did particularly well with regard to double taxation treaties, telecommunications and financial services, as well as stability

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factors. Not surprisingly, developing and transition economies received higher scores in the supply of low-skilled labour.

Implications for IPAs

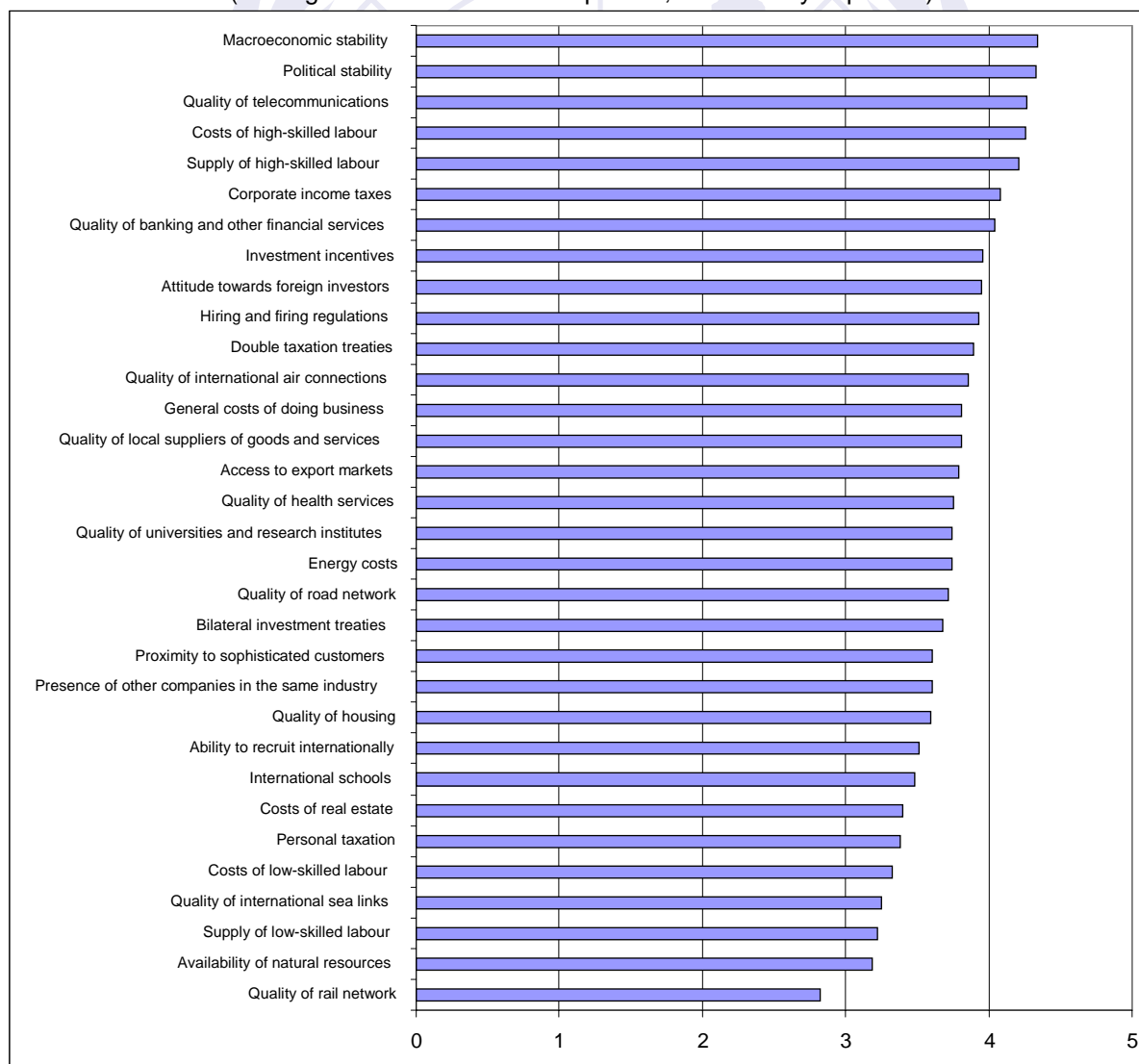
Locational factors vary in importance for different kinds of investments and for different countries. Investment Promotion Agencies (IPAs) therefore need to consider carefully what factors are of the greatest relevance for the kinds of investment they are targeting, and analyze how well they are performing in those areas. IPAs may subsequently highlight the areas in which they are performing particularly well in their marketing materials, and address weak areas in their work related to policy advocacy. As could be expected, the

survey suggests that developing and transition economies may need to pay attention to political stability and telecommunications infrastructure, whereas developed economies should be aware of their relative weakness in the areas of incentives and corporate income tax rates. Overall, policymakers may have reason to improve the supply of highly skilled labour.

While IPAs may have little power to change things on their own, they may provide useful inputs to government ministries when setting priorities for future policy developments.

Source: UNCTAD.

Figure 1. Perceived importance of location factors
(Average scores: 1-not at all important; 5-extremely important)



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