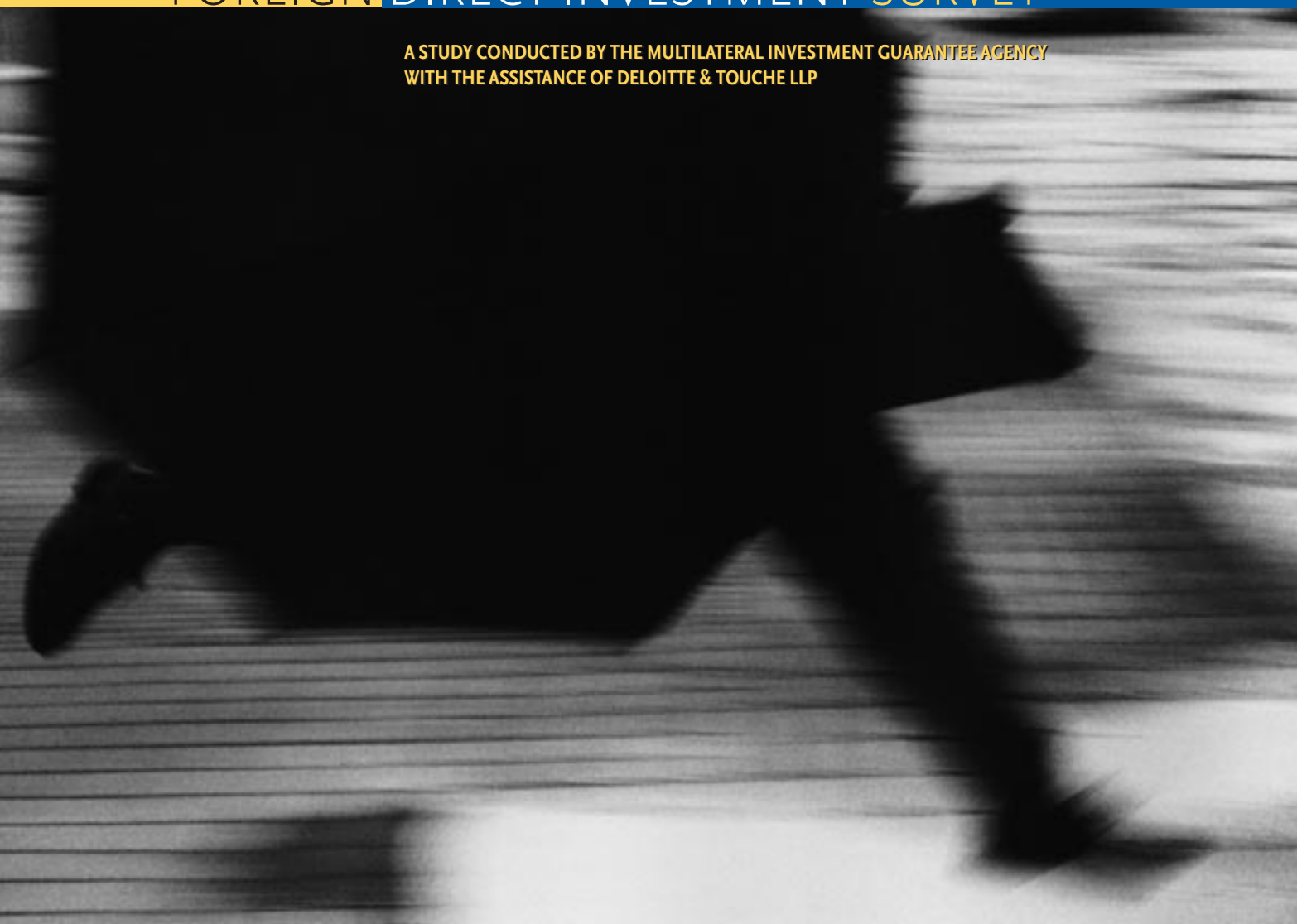
2002
JANUARY

FOREIGN DIRECT INVESTMENT SURVEY

A STUDY CONDUCTED BY THE MULTILATERAL INVESTMENT GUARANTEE AGENCY
WITH THE ASSISTANCE OF DELOITTE & TOUCHE LLP



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PREFACE

The Foreign Direct Investment Survey was completed in July-August 2001. As part of the survey, transnational companies were asked to reflect upon their plans for future expansion in light of the uncertainty that characterized the global business environment at that time. As the body of this report indicates, reactions varied, with postponement of expansion plans being the most frequent response, and with significant segments planning to downsize or shift their investment locations. Some 20 percent of respondents indicated that the downturn would not affect their expansion plans at all.

With the events of September 11th, the prospects for the global economy dimmed in light of the terrorist actions. Like all citizens of the world community, we are shocked and saddened by these events. But we continued with our work, in the hope that the information we provide will help to dispel uncertainty and thereby facilitate new investment and accompanying economic growth.

Specifically, MIGA and Deloitte & Touche decided to revisit the responding companies for further investigation. In late October, we contacted all 191 respondents to the original survey by telephone and asked whether they were willing to discuss the impact of the terrorist attacks – and the accompanying downturn in the global economy – on the investment plans they had articulated over the summer. Some 130 companies participated in the follow-up, 101 of whom had originally indicated overseas expansion plans.

The majority – 64 percent – of these 101 respondents to the follow-up survey indicate that there has been "no effect" on their expansion plans. A significant portion (29 percent) intends to postpone their expansion, but virtually no respondents indicate that they intend to cancel their projects. Only one in ten respondents plans to downsize their expansion.

The October findings indicate that the majority of companies had already taken the global economic situation into consideration prior to September 11th, and that they do not intend to contract further due to the terrorist attacks. These findings do not vary significantly based on the region of headquarters; at least half of the respondents in North America, Western Europe and Asia/Pacific Rim indicate "no effect," ranging from Asia (50 percent), to North America (60 percent) and Western Europe at 70 percent.

In their open-ended responses, the "no effect" respondents fall along four major lines:

- **No effect,** although will closely monitor the economic climate and assess long-term impact, if any;
- **Too soon to tell,** but no immediate effect on expansion plans;
- **No effect on major projects,** however some/potential impact on individual expansion projects in some regions;
- **Potential shift in long-term strategy** due to a broader shift in the marketplace and/or industry.

Overall, the results of the October survey among responding companies planning to implement international expansion projects in the next three years show that for a large majority, the events of September 11th have not directly affected expansion plans. With their attention focused on long-term opportunities, the international companies surveyed appear to be ready to use their contingency plans but are not abandoning their expansion goals.

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EXECUTIVE SUMMARY

Foreign Direct Investment (FDI) is a telling indicator of global economic health and stability. In 2000, global FDI inflows increased by 18 percent over 1999 levels to $1.3 trillion. The current economic downturn, however, is reversing this trend. For the first time in over a decade, FDI flows are contracting. The World Investment Report 2001 predicts that FDI outflows will fall 40 percent in 2001, below the 1999 level to around $760 billion.

In order to better understand the factors influencing FDI flows, a study was conducted in the summer of 2001. A survey questionnaire was distributed by mail to a sectoral cross-section of the world's largest transnational businesses. At that time, 191 companies of these divulged their near-term investment plans. It is on the responses of this group of companies that this report is based.

COMPOSITION OF THE SURVEY GROUP

In aggregate, the 2000 annual sales of the companies that make up the survey group total some US$1.97 trillion, and they employ nearly 4 million people. Thirteen of the world's largest 100 transnational businesses are included among the respondents. Over 80 percent of the responding companies have annual sales of more than $1 billion; three quarters employ more than 5,000 people, and one in six has over 50,000 employees.

Manufacturing/processing companies (including energy and primary metals) comprise 55 percent of the respondents and service companies 45 percent. The largest portion of the companies is based in North America (43 percent), followed by Western Europe (29 percent) and Asia/Pacific Rim (21 percent). Companies that are headquartered in Central/South America, Africa, Central/Eastern Europe and the Middle East make up the balance of the responding group.

NEAR-TERM INVESTMENT PLANS

Nearly 80 percent of the respondents plan to expand overseas to both developing and developed country locations. In spite of an already slowing global economy in the second half of 2001, 79 percent of the survey respondents indicate plans for overseas investments. Nearly all of the Western European companies surveyed indicate near-term overseas expansion plans. All of the companies located in developing countries and emerging markets indicate that they have foreign expansion plans. More than 90 percent of the companies with over 100,000 employees intend to expand abroad rather than exclusively at home.

Manufacturing companies are more than twice as likely as service companies to have plans for solely foreign expansion. Most respondents (49 percent) planning to expand in the next three years indicate that their overall expansion strategy includes both foreign and domestic expansion. Thirty-one percent said their expansion plans were exclusively foreign; 20 percent had exclusively domestic plans.

Most respondents estimate that it takes 12 to 24 months to select an international site from conception to the time real estate is secured. The survey shows little difference in estimated time to complete these projects between the responses of manufacturing and service companies. However, timetables for project completion do vary by region. Nearly 50 percent of Asian/Pacific Rim companies expect to complete the entire process in 12 months or less.

MODE AND METHOD OF EXPANSION

Build/lease proves equally attractive to mergers and acquisitions (M&A) as an overseas expansion strategy. Some 43 percent of the respondents plan to build or lease new facilities for their overseas projects, and 42 percent favor M&A. In contrast, most companies (46 percent) plan on expanding existing

facilities for their domestic expansion projects, followed by build or lease (30 percent) and lastly M&A (24 percent). Service companies favor build/lease regardless of whether the project location is foreign or domestic.

The majority of companies plan to invest in manufacturing/processing facilities. Regardless of sector, most of the companies indicate plans to establish manufacturing/processing facilities, followed by warehousing and distribution centers, and call centers/shared service centers. The interest of service companies may reflect the growing number of data entry and other back-office processing centers that are being located around the world, as they rank call centers/shared service facilities next in line.

INVESTMENT OBJECTIVES

Market access is the chief objective in establishing foreign operations. Overwhelmingly, respondents cite improving market access as the most important objective in their foreign expansion strategies (55 percent). The next most often cited primary objective is to reduce operating costs (a distant 17 percent). All other objectives are cited by relatively few respondents, though 16 percent view consolidating operations as a key secondary objective.

Manufacturers aim to lower costs and service companies highlight innovation. Whereas improved market access is the leading objective for the majority of companies in both the manufacturing and service sectors, manufacturers are much more likely to rank reducing operating costs as number two in importance, and cite sourcing raw materials third. Service companies rank developing new products as an important objective in their overseas investments. Regionally, most North American companies rank improved market access as their primary objective for expansion, yet they are less likely to do so than their counterparts outside the region, and relatively more likely to seek to reduce operating costs and improve productivity. Among secondary objectives, Western European companies are most likely to select reducing costs, followed by consolidating operations.

PLANNED INVESTMENT DESTINATIONS

Investor interest is high in developing countries and emerging economies, but the United States leads as the top location for planned investment. The United States leads the world as the country most often chosen by respondents as a site for planned investment, followed by China, Brazil and the United Kingdom (tied), and Germany and Mexico (tied). Emerging markets and developing countries are well represented in the top 20 locations, accounting for over half of the countries on the list. Other top destinations among developing countries and emerging economies include Poland, Czech Republic, Russia, Thailand, India, Argentina and Chile.

Destination choices are directly related to the location of corporate headquarters. The survey suggests that companies tend to have an interest in investing in their own region. Only the United States, China, and the United Kingdom appear on all of the top destination lists, by region. The interest of North American companies appears to be the most regionally dispersed, relative to their Asian/Pacific Rim and Western European counterparts.

Asian/Pacific Rim companies show far greater interest in FDI locations within their own region than in more remote destinations. Ten of the fourteen countries on the list of top FDI destinations for companies headquartered in Asia/Pacific Rim are within the region, and eight of these countries appear only on that region's list. In contrast, eight of the countries on both the Western European and North American lists appear on other regional lists. Western European companies center their investment interest on the European continent, with seven of eleven locations within Europe and a level of interest in Czech Republic, Poland, and Italy that is not shared by their extra-regional counterparts.

FACTORS INFLUENCING SITE SELECTION

Market access is the leading concern in site selection, followed by social and political stability. When asked to rank the top five location factors influencing new site selection, the factor cited most often is again market access (ranked in the top five by 77 percent of respondents) followed by stable social and political environment (64 percent), ease of doing business (54 percent), reliability and quality of infrastructure and utilities (50 percent), and ability to hire technical professionals (39 percent). There is little difference in priorities based upon the location of headquarters or the sector of operation, with the exception of the relative importance manufacturing companies place on access to raw materials and service companies place on national taxes.

Larger companies are less likely to identify labor relations and unionization as critical location factors, and more likely to focus on labor cost. They are also more likely than smaller companies to view national taxes as a key factor. Smaller companies more often cite the ability to hire skilled laborers, technical professionals, and management staff as very important issues. They are also more likely than larger companies to be concerned with the availability of fully serviced land as well as the reliability and quality of utilities.

Companies with plans for overseas expansion are generally less concerned with labor market issues than those planning on expanding domestically. This group shows much greater interest in access to raw materials, permitting/zoning and regulatory issues, access to customers, and the ease of doing business. Companies that indicate a preference for domestic expansion are more likely to view labor issues (the ability to hire skilled labor, labor relations, labor regulations, the availability of university graduates, and the availability of technical labor) as very important location factors. This group is also more likely to consider real estate costs and availability a key factor in the domestic investment decision.

Companies that prefer a merger/acquisition expansion strategy are generally less likely to cite reducing costs as a primary site selection factor. They are less interested in factors related to real estate and the labor market, and are more focused on market access issues and national taxes. Companies with a preference for expanding existing facilities are more likely to cite reducing operating costs, as well as infrastructure factors such as roads and utilities. Not surprisingly, companies that prefer to build/lease a new facility are the most interested in real estate issues.

Security is a key concern for all. When evaluating foreign investment risks, physical security of staff and war and civil disturbance were ranked as the issues of most concern even before the events of September 11th. Other potential risks, such as currency inconvertibility, breach of contract and government inability or refusal to enforce laws are of secondary concern, regardless of sector of operation. When considered by headquarters region, some differences emerges. Asian/Pacific Rim companies rank currency inconvertibility as the leading risk, whereas North American companies rank physical security of staff as their number one concern, and Western Europeans cite war and civil disturbance. Two thirds of the respondents do not utilize political risk insurance when making foreign investments, though North American companies are nearly twice as likely to use political risk insurance as companies headquartered in Asia/Pacific Rim. Manufacturing companies are slightly more likely than their service sector counterparts to use political risk insurance. Among those companies who do use such insurance, more than 70 percent use public sector insurance.

Respondents most frequently use investment or merchant banks, or "Big Five" accounting firms when conducting a location analysis overseas. Other sources include national investment promotion and economic development agencies, specialized site selection firms and management consulting firms. Manufacturers rely more on government institutions, such as investment promotion and economic development agencies (state, local, regional) than do companies in the services sector (30 percent versus 8 percent). Services companies also show a marked preference for investment banks and the "Big Five." Smaller companies are more likely than larger companies to engage site selection specialists.

INVESTMENT PROSPECTS IN THE GLOBAL ECONOMY

Few companies say that they would cancel projects outright in response to a global economic downturn, but they are likely to postpone new expansion. Across the board, regardless of sector or region of origin, the largest portion of respondents (47 percent) indicate that their most likely strategy in a global economic downturn would be to postpone expansion projects; "downsizing" is the second most frequent response (30 percent). Only a small percentage plan to either cancel altogether or accelerate their projects. Nearly 20 percent plan to shift the project's geographic focus. Those who indicate "no effect," are largely manufacturing companies. Service companies are more likely to shift geographic focus, followed by downsize or cancel projects.

POST SEPTEMBER 11TH FOLLOW-UP

The majority – 64 percent – of the respondents to the October follow-up survey indicate that the terrorist attacks have had "no effect" on their expansion plans. In late October 2001, all respondents to the original survey were contacted by telephone and asked whether they were willing to discuss the impact of the terrorist attacks – and the accompanying downturn in the global economy – on the investment plans they had articulated over the summer. Some 130 respondents participated in the follow-up, 101 of whom had originally indicated expansion plans. Of the companies with expansion plans, a significant portion (29 percent) intends to postpone their expansion, but virtually no respondents indicate that they intend to cancel their projects. Only one in ten respondents plans to downsize expansion.

IMPLICATIONS

The Foreign Direct Investment Survey provides insight into the decision-making processes of the responding companies and into the basis on which such decisions are taken. The data and analysis presented in this report reflect the views of the companies that responded, however, the themes that emerge also echo within the broader population of transnational corporations.

While global economic uncertainty is leading some companies to become more conservative, they are nevertheless still committed to foreign investment as an appropriate strategy for market development. This is particularly true of companies based in developing countries that are seeking to develop new operations and markets abroad. More generally, companies doing business around the world have signaled that they will look to balance the need for access to new markets with a desire to minimize risk. As companies try to assess and react to the implications of the events of September 11th, achieving an acceptable balance is undoubtedly the biggest strategic challenge they face.

I. THE CHALLENGE OF FOREIGN DIRECT INVESTMENT

The rising levels of foreign direct investment (FDI) over the past decade are well documented. The same is true of the growing role that transnational corporations play in the economic lives of the population worldwide, and the perceived consequences of this "globalization," both positive and negative. Global FDI inflows surpassed the one-trillion-dollar mark in 1999, reaching $1.1 trillion, an increase of 55 percent over 1998. In 2000, global FDI inflows increased by 18 percent over 1999 levels to $1.3 trillion.[1]

These numbers are very substantial and would seem to reflect the robust nature of FDI, as flows continued to grow even during the Mexican peso crisis and the Asian financial crisis. However, the current economic downturn is reversing this trend. For the first time in over a decade, FDI flows are contracting. The *UNCTAD World Investment Report 2001* predicts that FDI flows will fall 40 percent in 2001, below the 1999 level to around $760 billion. The cause of this distinct drop-off is a decline in cross-border mergers and acquisitions (M&A). As the world economy has slowed, the resources and motivation behind these deals have also weakened, and business strategies are being re-tooled to reflect the new environment.

This recent trend might be viewed as a temporary setback, were it not for several prevailing trends associated with global FDI.

- **Cross-border mergers and acquisitions account for the vast majority of FDI investment numbers and most of the FDI growth over the last decade.** Greenfield investment (direct investment in new facilities or the expansion of existing facilities) has remained rather constant on a global basis during this period, typically between $200 billion and $300 billion annually. Greenfield investments are the primary target of a nation's promotion efforts as these investments create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. Although they help fuel the process of "globalization" and its attending controversy, such investments are in fact not widespread in the global economy, although they are the principal mode of investing in developing countries.
- **Outside of the industrialized world, only a very few countries are recipients of the bulk of FDI.** Although the pursuit of FDI has become very sophisticated and highly competitive on a global level, more than US$1 trillion of the $1.3 trillion of FDI flows in 2000 went to developed countries. The implications are daunting given that over the next 50 years, 98 percent of all new births worldwide will occur in developing countries. Despite increases in the levels of FDI received by developing countries overall, the majority of FDI has gone to developed countries. Among developing countries, FDI tends to be concentrated in a select few.

As global demand for FDI grows and the supply of FDI contracts, the need to better understand the complexities of the foreign direct investment decision process (including which companies are investing, their key criteria, likely mode of investment, and the likely destinations) is critical to the international development community and business community alike. It is in this context of challenge and opportunity that the survey was conducted.

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1 The data presented in this discussion is drawn from the *UNCTAD World Investment Report 2001: Promoting Linkages*.

II. SURVEY BACKGROUND

A. OBJECTIVE

The Multilateral Investment Guarantee Agency (MIGA) with the assistance of Deloitte & Touche LLP recently conducted a study of the foreign direct investment trends and location strategy issues of the world's top companies. The study was designed to reveal:

- Key business objectives behind FDI decisions;
- Countries and regions of the world that are most attractive to investors; and
- Key factors and considerations that influence companies' location strategies.

The survey findings will contribute to a better understanding of trends and prospects for FDI over the next three years. This is an area of key concern to both MIGA and Deloitte & Touche, who share an interest in understanding corporate location strategy and decision-making, monitoring FDI flows, and assessing the implications of these trends for their respective clients.

MIGA is a member of the World Bank Group, established in 1988 to promote foreign direct investment into developing countries by providing guarantees against non-commercial risk to investors and lenders, and technical assistance and advisory services to client country governments. Deloitte & Touche is one of the largest professional services firms, with offices worldwide. Deloitte & Touche's Fantus Corporate Real Estate consultants have a long track record of providing strategic guidance to companies in corporate location strategy, site selection, and global corporate real estate decision-making.

B. METHODOLOGY

This report presents the findings of a survey administered to a sectoral cross-section of transnational companies in July and August 2001, and updated in October 2001. Key elements of this process are as follows:

- **Survey Questionnaire.** Special care was taken to develop a 16-question survey instrument that captured each of the elements of interest, particularly the factors driving investment decisions and the impact those factors have on site selection and overall investment flows.
- **Mode of Delivery.** In order to reach the broadest possible audience, the survey was mailed to each potential respondent and posted on the Web in multiple languages. The companies were informed that the survey was part of a World Bank Group effort.
- **Analysis**. A custom database was developed to capture and tabulate the aggregated results of the study. All individual company data remain confidential.
- **Results**. Final reports will be sent to each participating company and will be made available to the public.

C. RESPONDENT PROFILE

A total of 643 companies responded to the mailing, of which 191 indicated their investment plans.[2] The remaining 452 businesses declined to participate in the survey. Most stated that, as a matter of company policy, they did not take part in any studies of this type. A profile of the responding companies is presented below. Unless otherwise noted, the analysis in this report includes all 191 respondents.

The survey respondents are a powerful and varied group, and include among them thirteen of the world's 100 largest transnational companies. In aggregate, their 2000 annual sales total some US$1.97 trillion, and together they employ nearly 4 million people. The survey reached companies from all over the world.

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2 The survey questionnaire was initially mailed to 3,000 companies, approximately 1,500 from the United States and 1,500 from all other countries. The mailing included the top 100 transnational businesses based on foreign assets, and the largest companies in each of the industry sectors based on sales, and from proprietary company databases. The response rate was 6 percent.

1. Location of Headquarters

Companies headquartered in North America (84 companies) represent the largest proportion of the survey respondents, followed by Western Europe (56 companies) and Asia/Pacific Rim (40 companies).[3] Companies headquartered in Central/South America (6 companies), Africa(3 companies), Central/Eastern Europe (1 company), and the Middle East (1 company) make up the balance .

figure 1 **SURVEY RESPONDENTS,** by region of headquarters, in percent

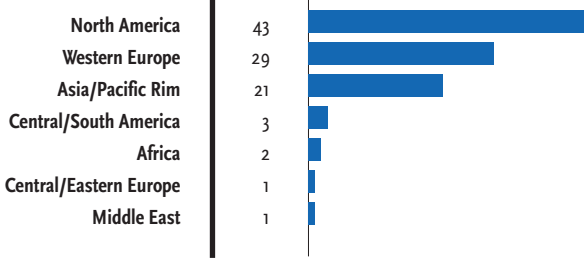


table 1 **NUMBER OF SURVEY RESPONDENTS**, by region of headquarters

Country	Region	#	Country	Region	#
Argentina	CSA	1	Japan	APR	23
Australia	APR	4	Malaysia	APR	3
Austria	WE	3	Mexico	NA	5
Belgium	WE	2	Norway	WE	1
Brazil	CSA	4	Papua N G	APR	1
Canada	NA	12	Philippines	APR	1
Chile	CSA	1	Portugal	WE	1
Denmark	WE	1	Singapore	APR	1
Finland	WE	1	South Africa	AME	2
France	WE	5	South Korea	APR	2
Germany	WE	11	Spain	WE	2
Ghana	AME	1	Switzerland	WE	1
Greece	WE	1	Taiwan	APR	1
Hong Kong	APR	2	Thailand	APR	1
Indonesia	APR	1	The Netherlands	WE	2
Ireland	WE	3	Turkey	CEE	1
Israel	AME	1	UK	WE	15
Italy	WE	7	USA	NA	67

Note: CSA-Central and South America; APR-Asia/Pacific Rim; WE-Western Europe; NA-North America; AME-Africa and the Middle East; CEE- Central and Eastern Europe.

3 For the purposes of this report, the region of North America includes the United States, Mexico, and Canada.

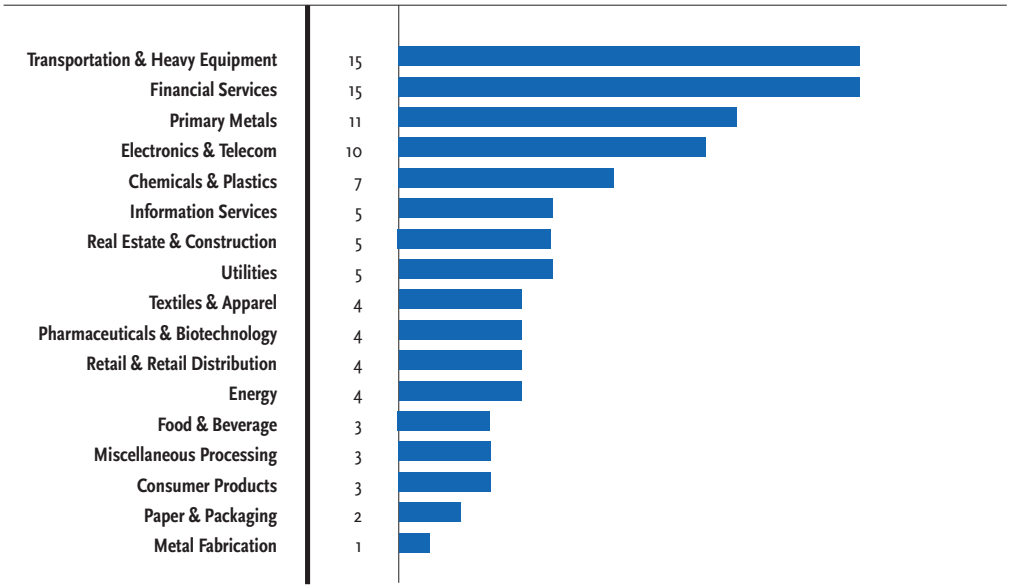
2. Industry and Sector

Among the respondents, financial services (15 percent of total respondents), transportation and heavy equipment (15 percent), and primary metals (11 percent) are particularly well represented. In analyzing the data, the 17 industries were categorized under the broad sectoral groupings of services (45%) and manufacturing/processing (55%, including energy and primary metals)

3. Size of Companies

The majority of survey respondents are large companies. Specifically, over 80 percent of the companies have annual sales of more than $1 billion. One quarter of the responding companies have annual sales of more than $10 billion. Likewise, the majority of responding companies also have a large number of employees. Three quarters of the companies employ more than 5,000 people. One in six respondents has over 50,000 employees.

figure 2 **SURVEY RESPONDENTS,** by industry, in percent



Note: Numbers do not add due to rounding.

figure 3 **SURVEY RESPONDENTS,** by company size (annual sales), in percent

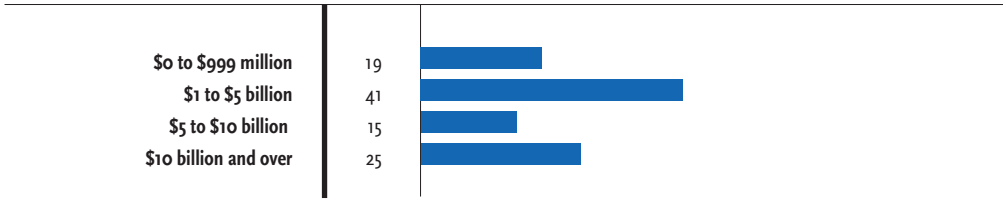
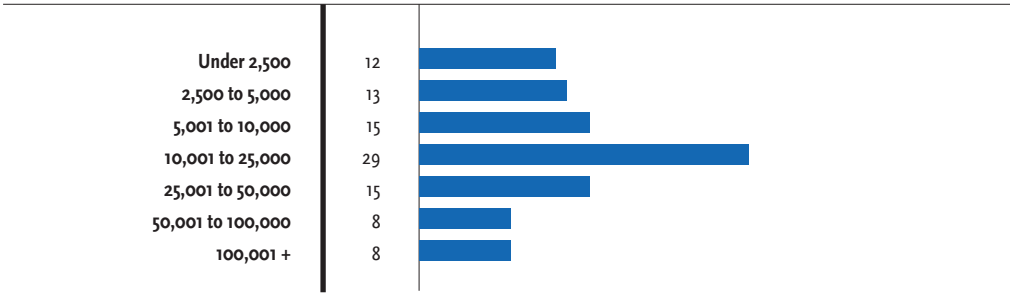


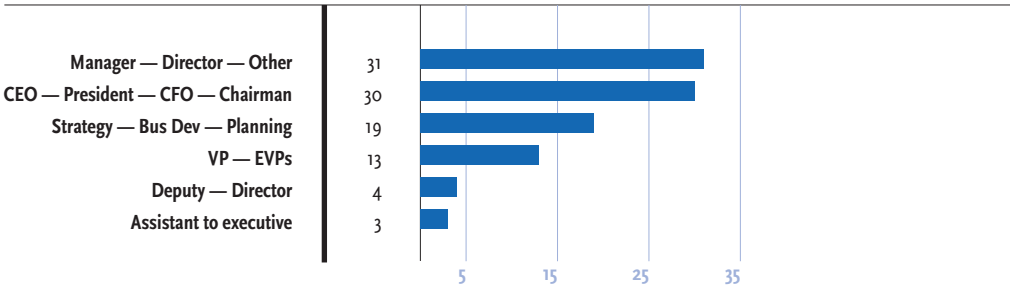
figure 4 **SURVEY RESPONDENTS,** by company size (employees), in percent



4. Positions Held by Individual Respondents

In administering the survey, particular attention was directed toward ensuring that individual survey respondents were equipped to represent the position of the company as a whole, and to make accurate statements regarding plans. The individuals responding were based in the corporate headquarters and, with few exceptions, hold executive positions in their respective organizations. About one third hold the top positions of Chief Executive Officer, President, Chief Financial Officer, or Chairman, and nearly all other respondents hold senior management posts, and/or are involved directly in strategic planning.

figure 5 **POSITIONS HELD BY INDIVIDUAL RESPONDENTS**, in percent



III. PRINCIPAL FINDINGS[4]

A. EXPANSION STRATEGIES

1. Near-Term Investment Plans

Nearly 80 percent of the survey respondents are planning to locate a new operation or facility outside of their home country within the next three years ("near-term expansion"). Interest varies based upon the country of origin, from 91 percent of Western European companies indicating near-term expansion plans, to 77 percent of North American companies, and 63 percent of companies headquartered in Asian/Pacific Rim.

A substantial majority of both manufacturing/processing and service companies plan overseas expansion within the next three years, with manufacturing companies more likely to expand by a small margin. Likewise, larger companies are more likely to expand than smaller ones. Companies with 10,000 or more employees, and virtually all companies with more than 100,000 employees (93 percent) indicate interest in expanding abroad.

figure 6 **LOCATING NEW FACILITIES OUTSIDE HOME COUNTRY,** in next 3 years, in percent

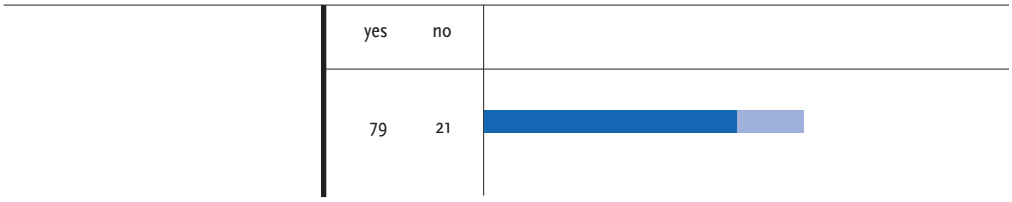


figure 7 **COMPANIES WITH EXPANSION PLANS,** by sector, in percent

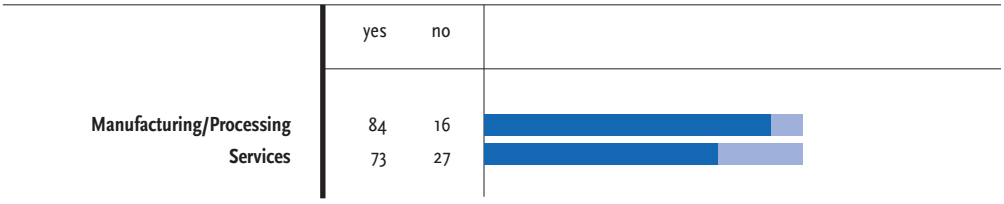
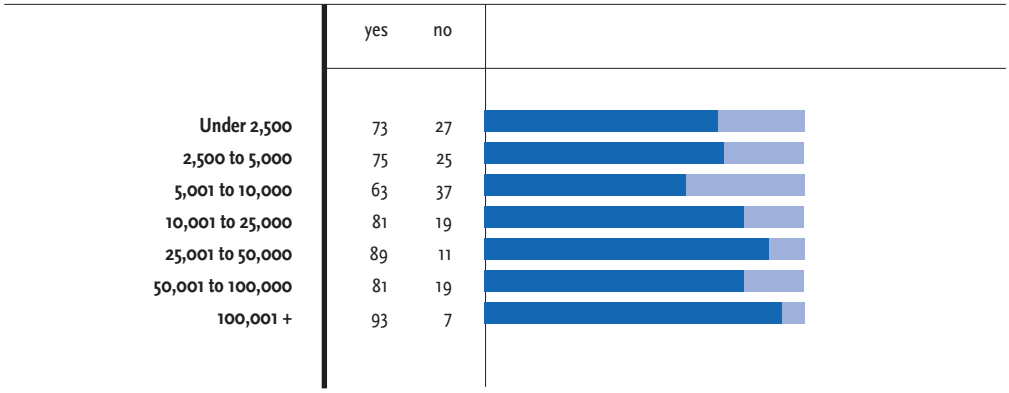


figure 8 **COMPANIES WITH EXPANSION PLANS,** by company size (employees), in percent



4 The discussion on the following pages refers to the valid responses from the responding companies. The analysis regarding region of headquarters draws only from data of North American, Western European, and Asian/Pacific Rim companies due to the small number of responding companies from the other regions.

Responses by companies that do not have plans to expand abroad within the next three years do not appear to differ greatly from their "yes" counterparts. It is likely that a significant segment are simply at a different place in their overall development strategy, rather than holding a negative outlook overall. These respondents are profiled in more detail in Appendix 1.

2. Foreign Versus Domestic Expansion

Whereas about 80 percent of survey respondents consider overseas expansion a likely strategy, nearly half of the survey respondents indicate that their overall strategy includes both foreign and domestic expansion. Slightly over 30 percent plan to expand abroad only, while 20 percent plan domestic expansions only.

In terms of broad industry sectors, nearly half of the manufacturing/processing companies expect to invest both domestically and abroad. However, manufacturers surveyed are twice as likely as service companies to cite expansion abroad only, while services companies are three times as likely to expand at home only.

Expansion strategies also vary by headquarters locations. Western European companies are more likely to expand abroad than their counterparts in North America or Asia/Pacific Rim; only 7 percent indicate expansion plans that are exclusively domestic. Further, all of the responding companies located in developing countries and emerging markets indicate that they have foreign expansion plans in the next three years. This trend suggests that companies based in these countries have saturated domestic market opportunities within their small home markets, and in order to expand they are looking overseas.

Company size is a third important indicator of expansion strategy. Among the respondents, the largest companies are more inclined to have plans for investment overseas alone. Given their resources and likely experience with foreign direct investment, it is not surprising that larger companies are more likely to indicate foreign expansion only. It is interesting to note, however, that smaller companies are just as likely as the larger ones to show interest in both foreign and domestic expansion, and are no more likely to indicate domestic expansion plans exclusively.

3. Mode of Investment

Respondents were asked to indicate the most likely mode of expansion both at home and abroad – (i) expansion of an existing facility; (ii) build or lease; (iii) merger and acquisition. Across all industry sectors the largest percentage of respondents plan to expand domestic operations by investing in an existing facility. This is especially true among manufacturing/processing companies, whereas service companies are more likely to build or lease new facilities. Both types of companies view M&A as a secondary option.

figure 9 **LOCATION OF EXPANSION**, in percent

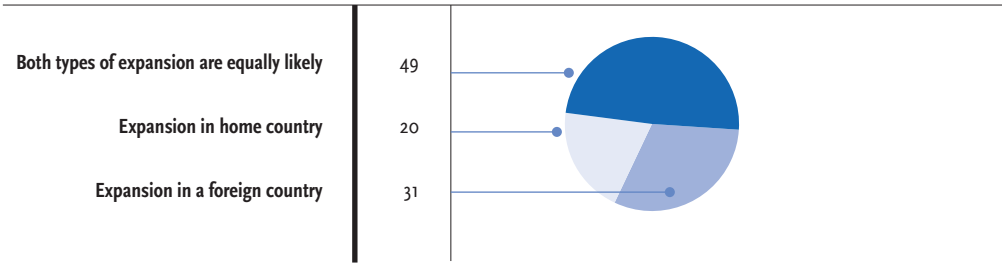


figure 10 **LOCATION OF EXPANSION,** by sector, in percent

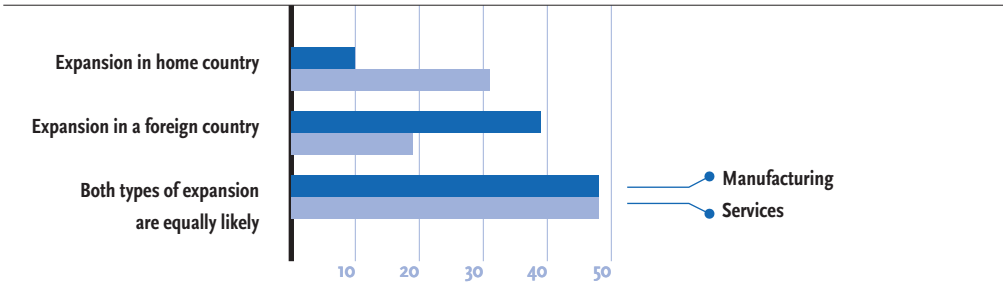


figure 11 **LOCATION OF EXPANSION,** by region of headquarters, in percent

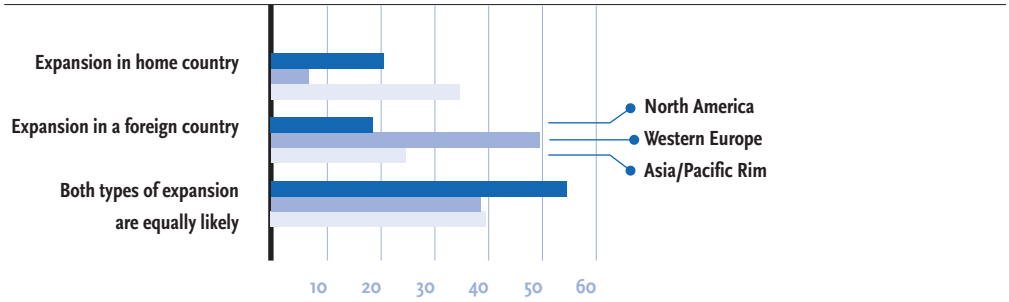
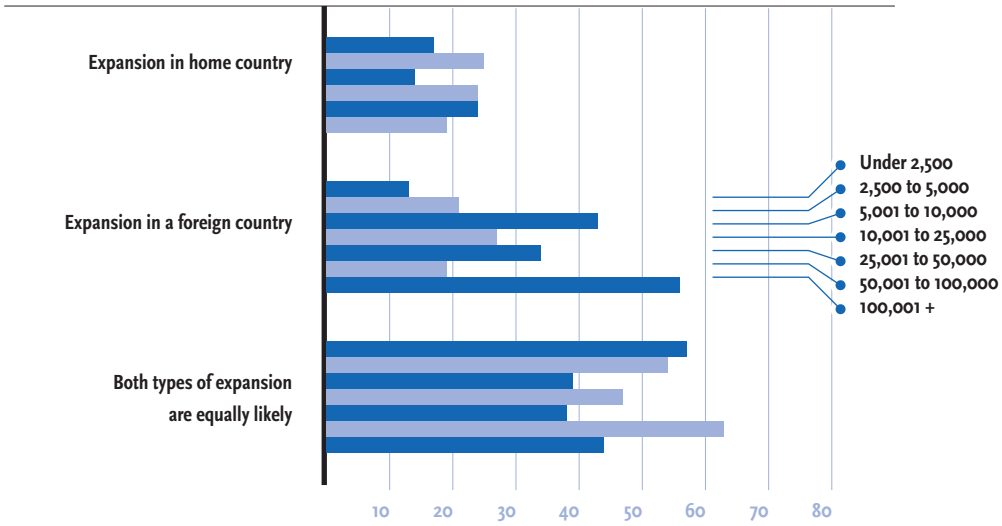


figure 12 **LOCATION OF EXPANSION,** by company size (employees), in percent



Domestic expansion strategies vary, however, depending on a company's size and location. The largest companies tend to expand an existing facility, while the smallest companies are more likely to pursue M&A to reach new markets. Regionally, Western European companies are the least likely to build or lease a new facility. Asian companies are the most likely to expand an existing operation, but the least likely to expand through M&A.

figure 13 **EXPANSION STRATEGY IN HOME COUNTRY,** in percent

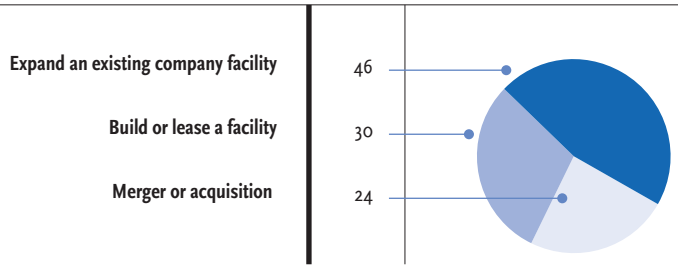


figure 14 **EXPANSION STRATEGY IN HOME COUNTRY,** by sector, in percent

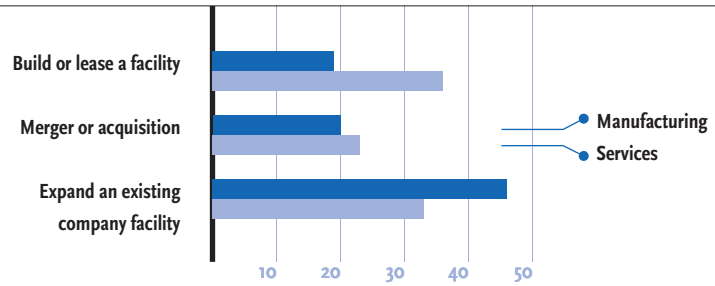
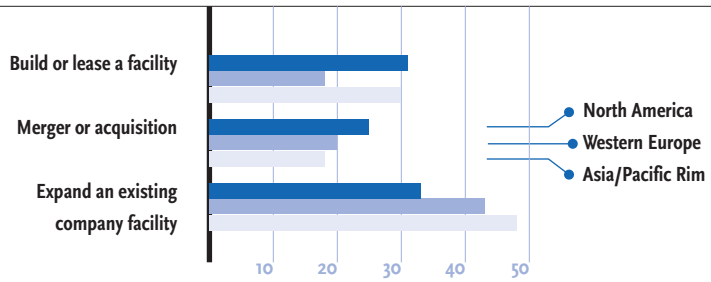


figure 15 **EXPANSION STRATEGY IN HOME COUNTRY,** by region of headquarters, in percent



In contrast, companies planning to invest overseas are much more inclined to expand through M&A. More than 40 percent of manufacturing companies and nearly 30 percent of service companies plan to engage in mergers or acquisitions in their foreign expansion. Similar to their domestic expansion strategies, more than one third of both manufacturing and service companies indicate plans to build or lease facilities, while only 15 percent plan to expand an existing overseas facility.

The survey revealed few significant trends with regard to the size of the responding companies, though larger companies are somewhat more likely to pursue M&A than their smaller counterparts.

On a regional basis, both North American and Asian companies rank build/lease, M&A, and expanding an existing facility – first, second and third. In contrast, more than half of the Western European companies point to M&A as their primary mode of expansion.

figure 16 **EXPANSION STRATEGY IN FOREIGN COUNTRY**, in percent

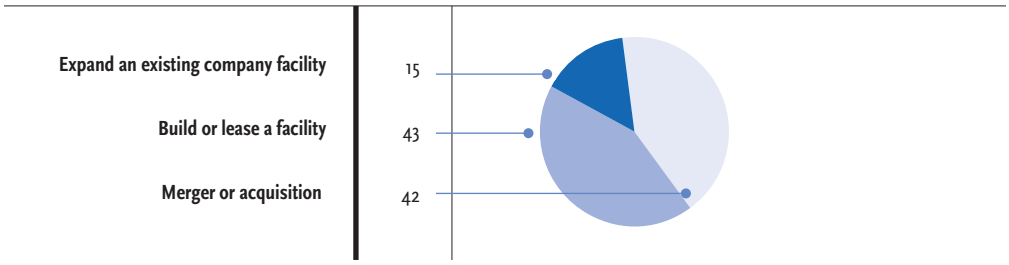


figure 17 **EXPANSION STRATEGY IN FOREIGN COUNTRY,** by sector, in percent

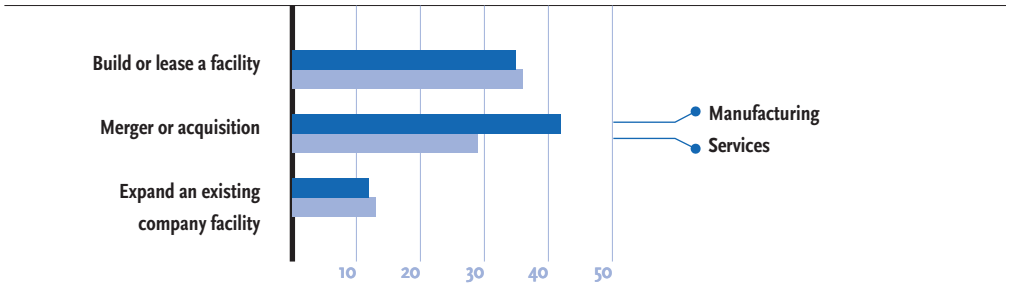
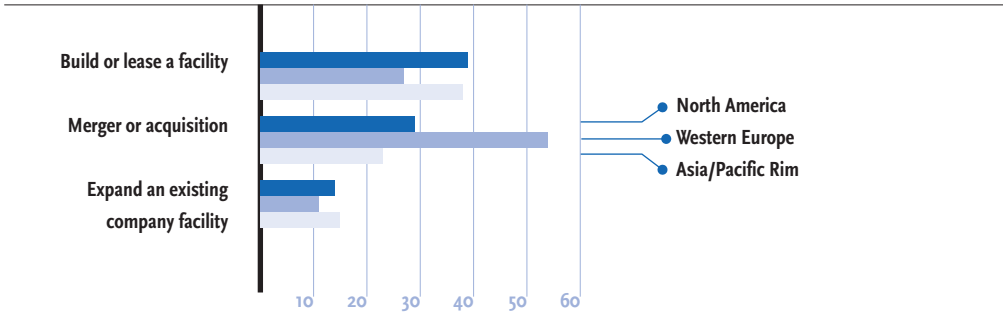


figure 18 **EXPANSION STRATEGY IN FOREIGN COUNTRY,** by region of headquarters, in percent



4. Type of Facility

The survey asked respondents what type of facility they plan to establish outside their home countries. Multiple responses were permitted. As might be expected given the large number of manufacturers among the survey respondents (105 of the 191 companies), manufacturing/processing facilities are the most commonly cited facility for expansion. For manufacturers, warehousing and distribution facilities rank second, followed by raw materials sourcing. However, even the service companies rank manufacturing/processing the number one type of operation for expansion. This trend may reflect the growing number of data entry and other back-office processing centers that service companies have located around the world. Service companies rank call centers, service centers and other facilities next in line.

figure 19 **TYPE OF FACILTY PLANNED OUTSIDE HOME COUNTRY**, in percent

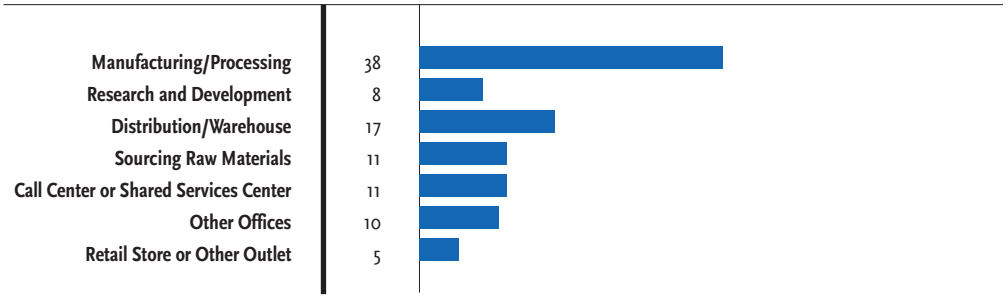
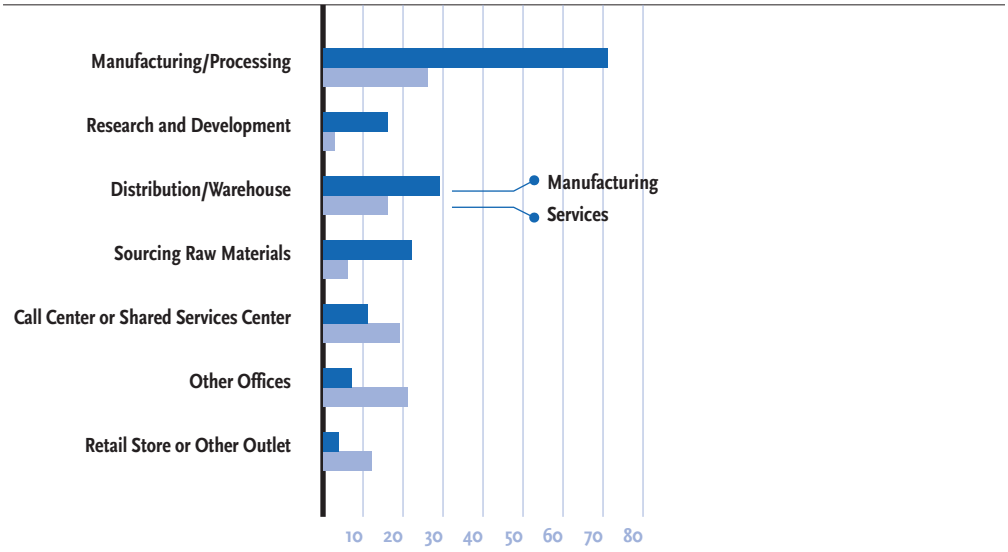


figure 20 **TYPE OF FACILITY PLANNED OUTSIDE HOME COUNTRY,** by sector, in percent



Geographically, all three regions display the expected primary interest in manufacturing/processing facilities. Western European companies, however, are more than twice as likely to have plans to establish distribution/warehousing facilities than their counterparts elsewhere. Asian/Pacific Rim companies are the least likely to establish call centers or shared service centers. Although relatively few respondents indicate plans to establish retail centers, Asian/Pacific Rim companies are most likely to do so.

The largest companies are much more likely to have an interest in establishing overseas facilities for manufacturing, distribution, and call centers than smaller companies. Smaller companies are more likely than large companies to indicate plans to locate other types of offices. Again, manufacturing/processing is of the greatest interest as an offshore facility, regardless of company size.

figure 21 **TYPE OF FACILITY PLANNED OUTSIDE HOME COUNTRY,** by region of headquarters, in percent

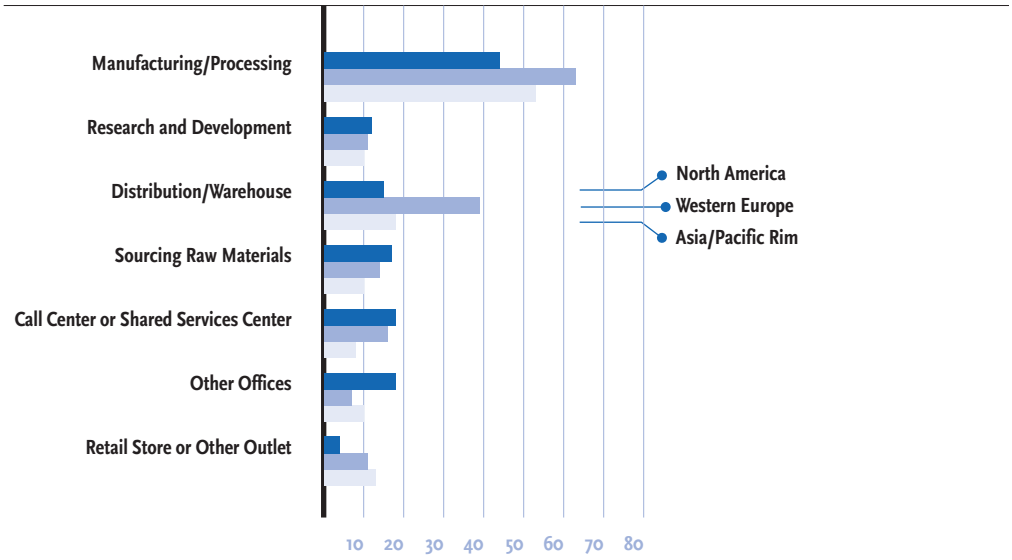
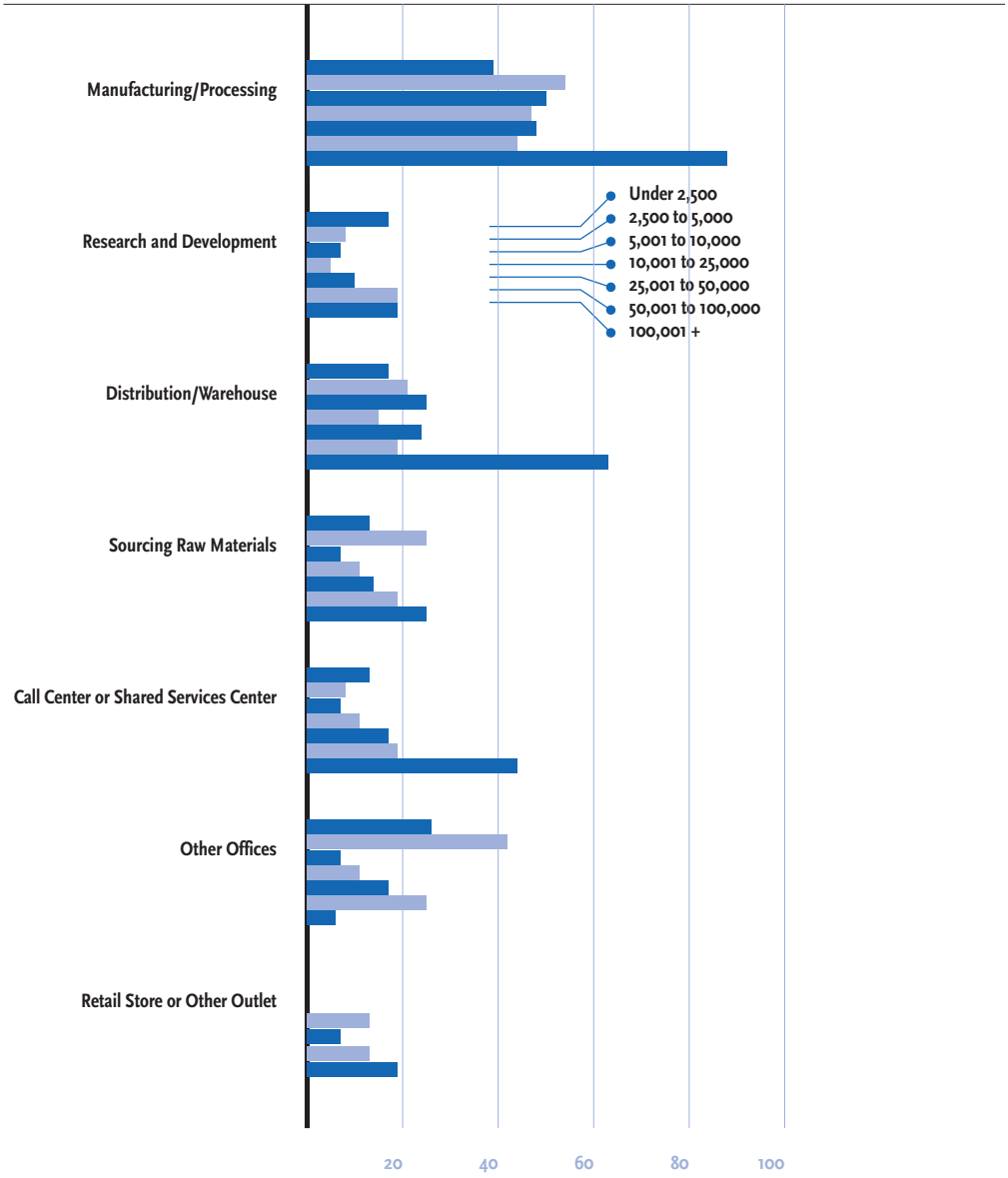


figure 22 **TYPE OF FACILITY PLANNED OUTSIDE HOME COUNTRY,** by company size (employees), in percent



5. Site Selection Project Timeline

Most respondents estimate that it takes 12 to 24 months to select an international site from conception to the time real estate is secured. The survey shows little difference in estimated time to complete these projects between the responses of manufacturing and service companies. However, timetables for project completion do vary by region. Nearly 50 percent of Asian/Pacific Rim companies expect to complete the entire process in 12 months or less.

figure 23 **INTERNATIONAL LOCATION TIMEFRAME**, in percent

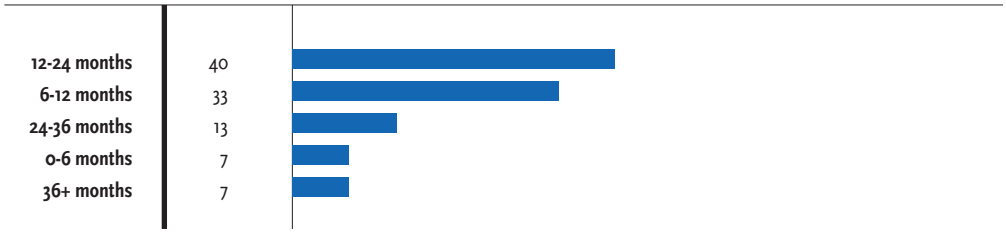
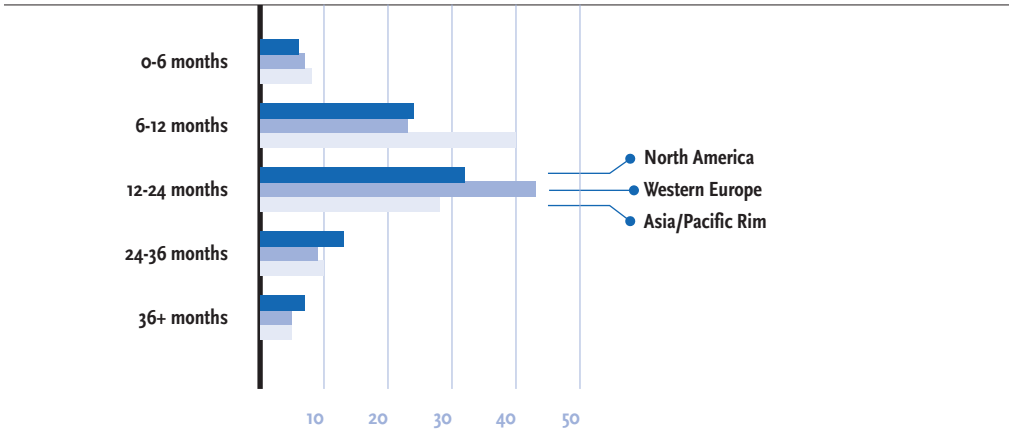


figure 24 **INTERNATIONAL LOCATION TIMEFRAME,** by region of headquarters, in percent



B. FACTORS INFLUENCING FOREIGN DIRECT INVESTMENT

1. Objectives in Investing Overseas

Overwhelmingly, respondents cite improved market access as the most important objective in their foreign expansion strategies (55 percent). The next most frequently cited primary objective is reducing operating costs (17 percent). All other objectives are cited by relatively few respondents, though 16 percent view consolidating operations as a key secondary objective.

Whereas improved market access is rated as the pivotal factor by the majority of companies in both the manufacturing and service sectors, the two sectors have different second- and third-level objectives. Manufacturing companies are much more likely to rank reducing operating costs as number two in importance, and cite sourcing raw materials third. Service companies rank developing new products as an important objective in their overseas investments.

Most North American companies rank improved market access as their primary objective for expansion, yet they are less likely to do so than their counterparts in Western Europe and Asia/Pacific Rim, and relatively more likely to seek to reduce operating costs. North American companies are also more likely than their counterparts to view improved productivity as a key objective.

Western European companies are the most concerned with improved market access, but least likely to choose reducing operating costs as their primary objective. Among secondary objectives, Western European companies were most likely to select reducing costs, followed by consolidating operations.

Companies that have domestic expansion plans are more likely to cite developing new product lines as a key objective, while companies with plans to expand abroad are more likely to cite reducing operating costs as a primary objective.

figure 25 **MOST IMPORTANT OBJECTIVE WHEN INVESTING OUTSIDE HOME COUNTRY**, in percent

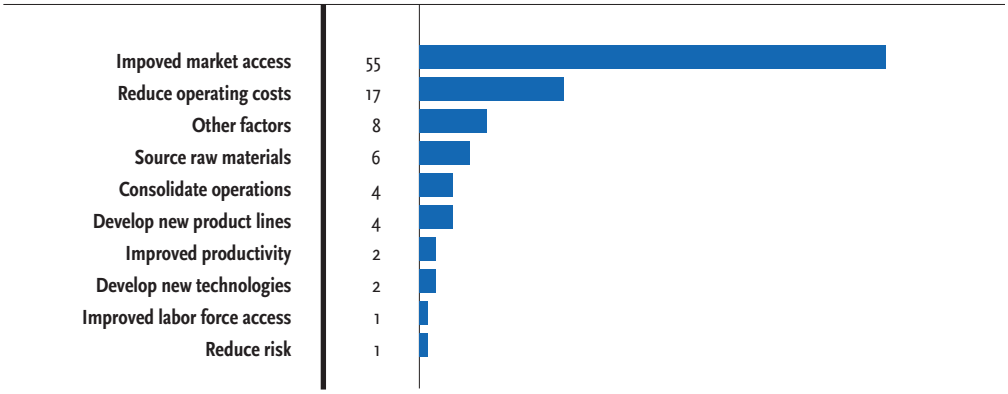


figure 26 **SECOND MOST IMPORTANT OBJECTIVE WHEN INVESTING OVERSEAS**, in percent

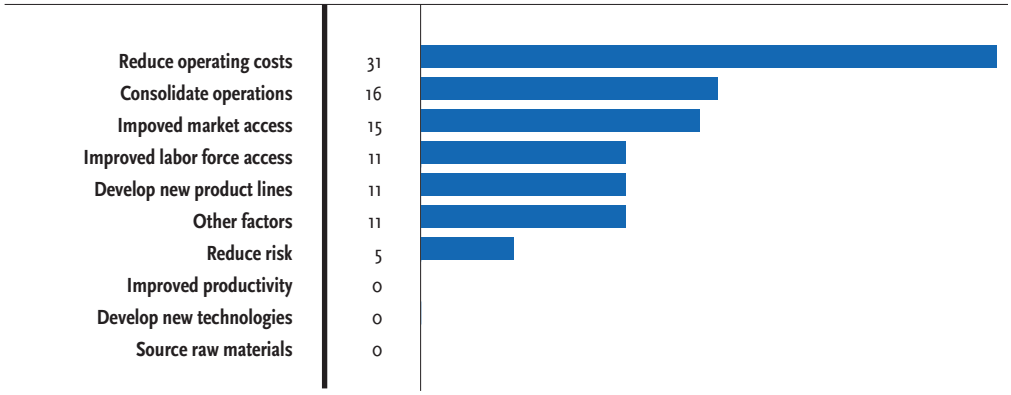


figure 27 **MOST IMPORTANT OBJECTIVE WHEN INVESTING OVERSEAS,** by sector, in percent

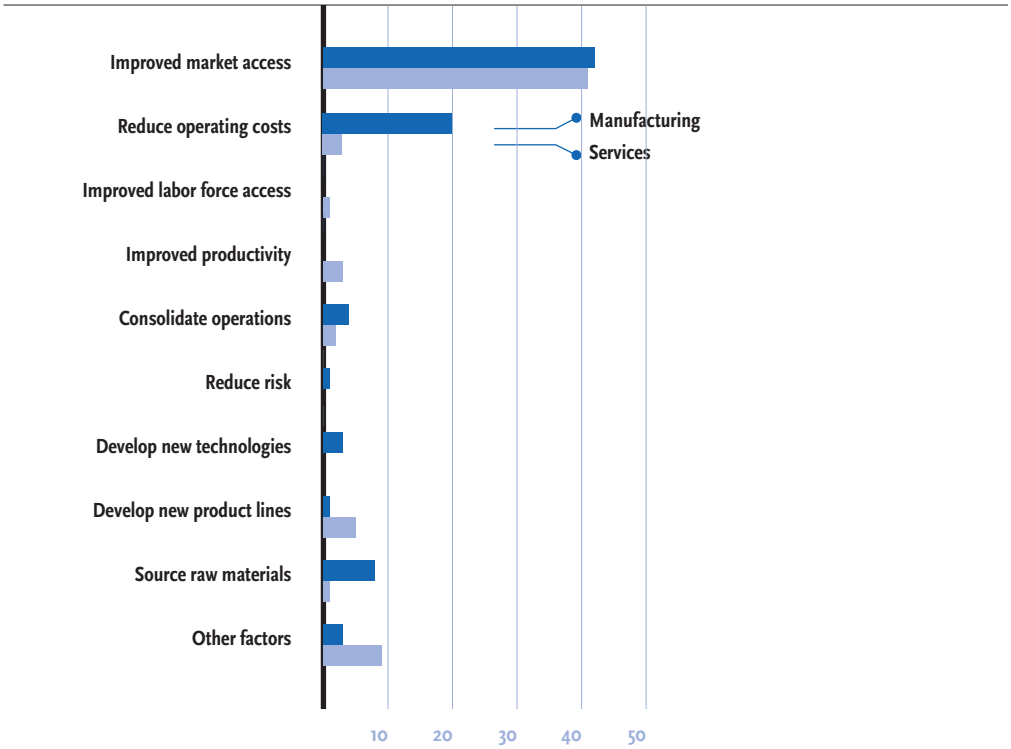


figure 28 **MOST IMPORTANT OBJECTIVE WHEN INVESTING OVERSEAS,** by region of headquarters, in percent

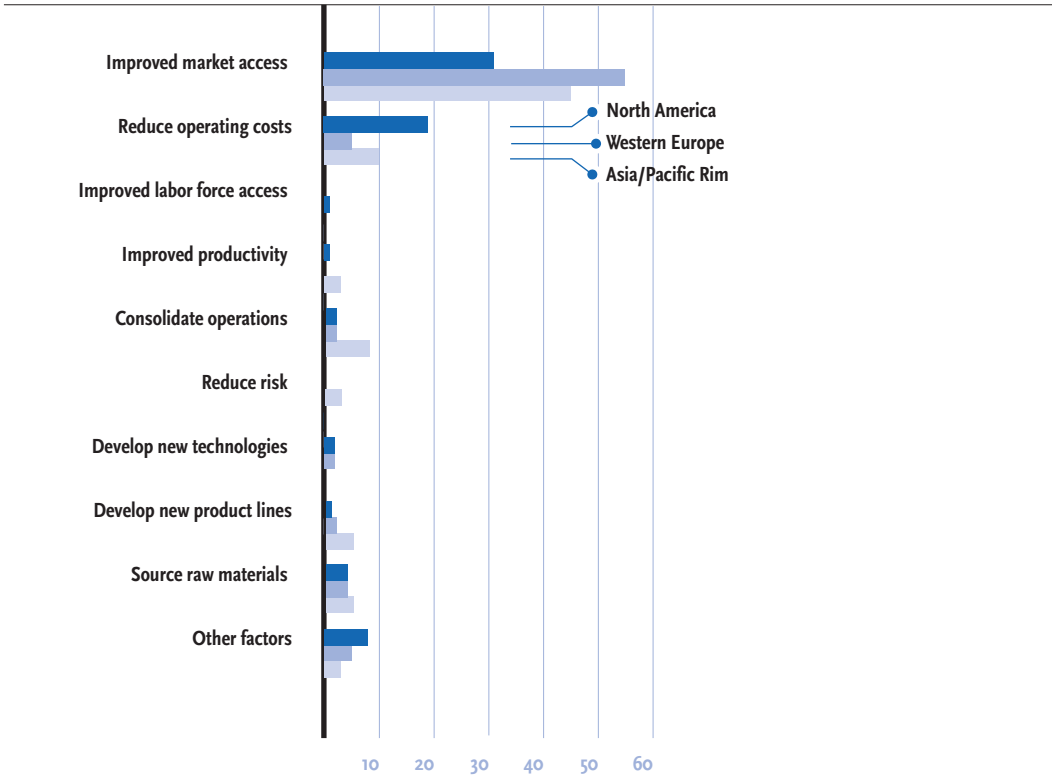
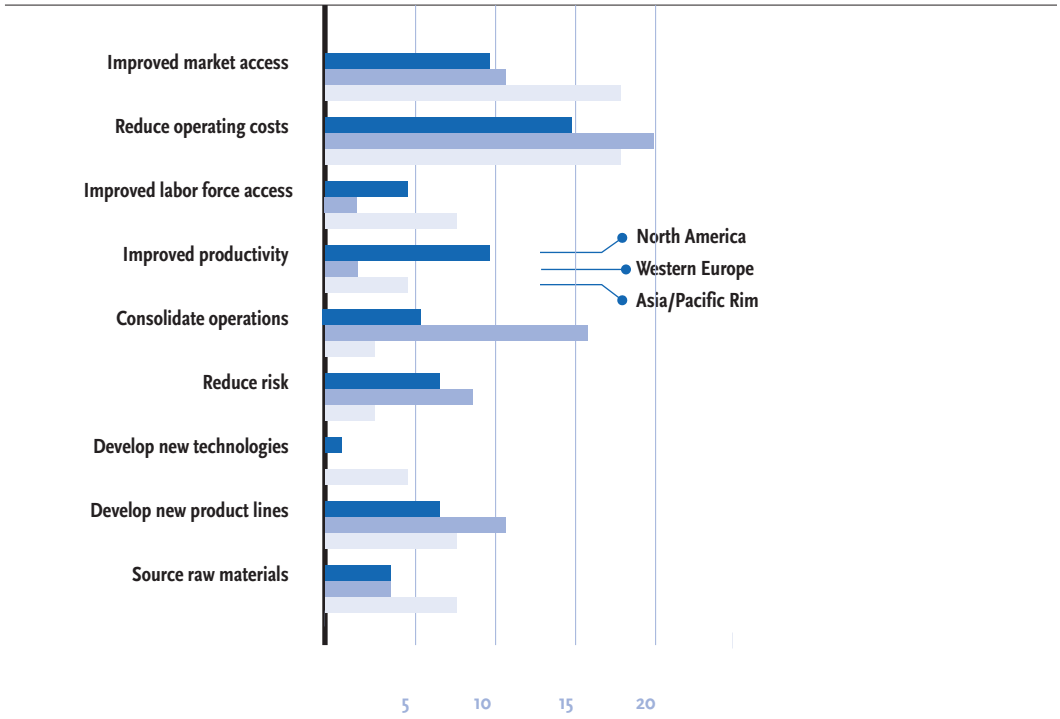


figure 29 **SECOND MOST IMPORTANT OBJECTIVE WHEN INVESTING OVERSEAS** by region of headquarters, in percent



2. Most Influential Site Selection Factors

The survey asked respondents to rank the "most critical location factors" when locating operations overseas. Access to customers leads the field, ranked as "very important" by 77 percent of the companies responding. The second most often cited factor is a stable social and political environment, followed by ease of doing business and reliability and quality of utilities (all cited by a majority of respondents).

Likewise, there is little difference evidenced among the location priorities of manufacturing and service companies, with the exception of the relative importance manufacturing companies place on access to raw materials and service companies place on national taxes.

When viewed by company size, larger companies are less likely to identify labor relations and unionization as critical location factors, and more likely to focus on labor cost. They are also more likely than smaller companies to select national taxes as a key factor. Smaller companies more often select the ability to hire skilled laborers, technical professionals, and management staff as very important issues. They are also more likely than larger companies to be concerned with the availability of fully serviced land as well as the reliability and quality of utilities.

table 2 **TOP 20 CRITICAL LOCATION FACTORS**, percent cited as "very influential"

Access to customers	77
Stable social and political environment	64
Ease of doing business	54
Reliability and quality of infrastructure and utilities	50
Ability to hire technical professionals	39
Ability to hire management staff	38
Level of corruption	36
Cost of labor	33
Crime and safety	33
Ability to hire skilled laborers	32
National taxes	29
Cost of utilities	28
Roads	26
Access to raw materials	24
Availability and quality of university and technical training	24
Available land with all services in place	24
Local taxes	24
Access to suppliers	23
Labor relations and unionization	23
Air service	23

When viewed in light of where expansions would occur, those companies with plans for overseas expansion within the next three years are generally less concerned with labor market issues. This group shows much greater interest in access to raw materials, permitting/zoning and regulatory issues, access to customers, and the ease of doing business. Companies that indicate a preference for domestic expansion are much more likely to view labor issues (the ability to hire skilled labor, labor relations, labor regulations, the availability of university graduates, and the availability of technical labor) as very important location factors. This group is also more likely to consider real estate costs and availability as very important to the domestic investment decision.

With respect to mode of expansion, companies that prefer a merger/acquisition expansion strategy are generally less likely to cite reducing costs as a primary factor, and less interested in factors related to real estate and the labor market. But they are more focused on market access issues and national taxes. Companies with a preference for expanding existing facilities are more likely to cite reducing operating costs, as well as infrastructure factors such as roads and utilities. Not surprisingly, companies that prefer to build/lease a new facility are the most interested in real estate issues. More detailed information on location factors is presented in Appendix 2.

C. PLANNED INVESTMENT DESTINATIONS[5]

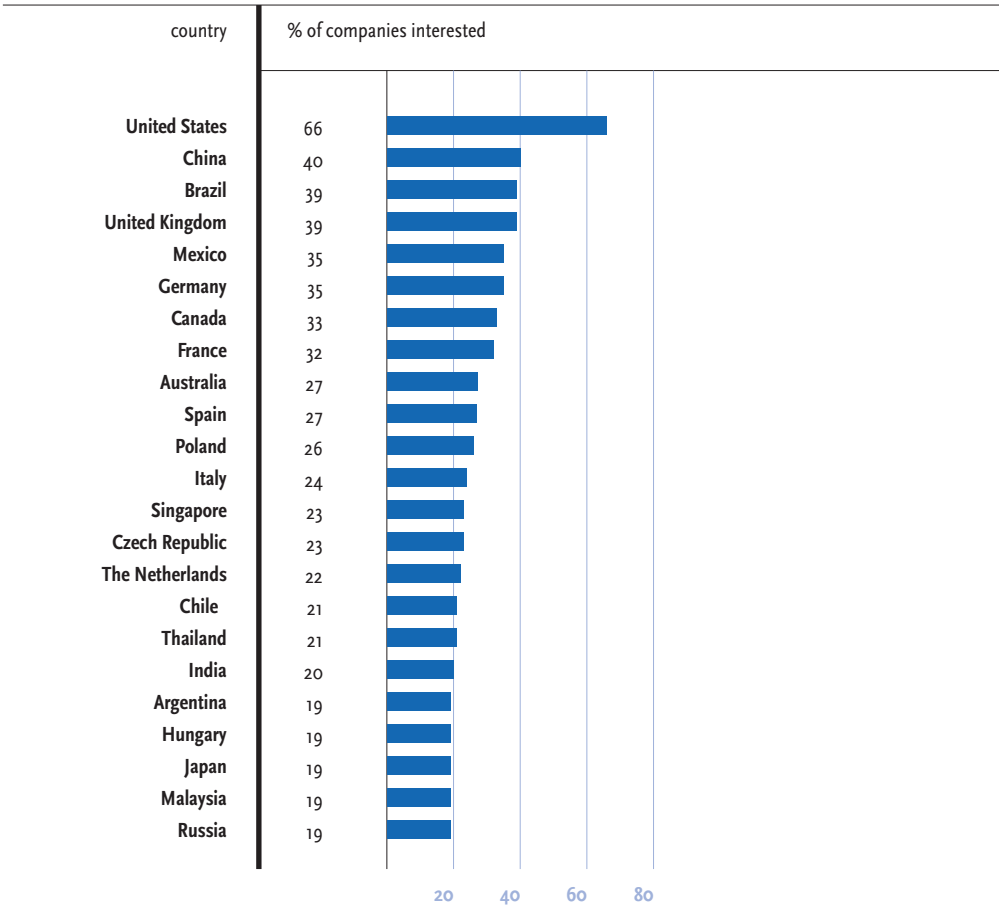
One of the central elements of the questionnaire asked respondents to identify the most likely destination or location for new facilities or plants. Companies were permitted to select multiple countries from a list of 87 countries worldwide, with the option of also writing in the names of countries that were not listed. Respondents identified an average of 10 locations. Responses were tabulated so as to eliminate planned domestic investment from the tally. Summary analyses are presented below. More detailed information is presented in Appendices 3 and 4.

The United States leads the world as the country most often chosen by survey respondents for a new investment, followed by China, Brazil and the United Kingdom (tied) , and Germany and Mexico (tied). Emerging markets and developing countries are well represented in the top 20 locations, accounting for over half of the countries on the list.

5 This discussion is based on an analysis of the valid responses of only those companies that indicated plans for overseas investment within the next three years.

figure 30 **LEADING INVESTMENT DESTINATIONS**

Among respondents with expansion plans outside their home country in the next three years



Locations for new investment are directly influenced by location of corporate headquarters. The survey suggests that companies tend to have an interest in investing in their own region. Only the United States, China, and the United Kingdom appear on all of the Top 10 lists, by region. Furthermore:

- North American and Western Europe companies tend to share interests and to be seeking sites that are also of interest to companies in other regions.
- Western European companies center their investment interest on the European continent, with seven of the eleven top locations within Europe and a level of interest in Poland, the Czech Republic and Italy that is not shared by their extra-regional counterparts.
- Asian/Pacific Rim companies also show far greater interest in locations within their own region than in more remote destinations. Ten of the fourteen countries on the Top Destination list are in Asia/Pacific Rim, and eight of these countries do not appear on the other regions' lists.
- The interest of North American companies appears to be the most regionally dispersed, ranging from within the region to Western Europe, and Asia/Pacific Rim, and evidencing interest in the Netherlands not shared by the Europeans, as well as, India, and within the Americas, Mexico and Chile.

table 3 **TOP INVESTMENT DESTINATIONS**, by region of headquarters

Rank	North American Companies	Western European Companies	Asian/Pacific Rim Companies
1.	**United States**	**United States**	**China**
2.	*Mexico*	France	*Thailand*
3.	Brazil	Germany	**United States**
4.	**United Kingdom**	**China**	*Singapore*
5.	Canada	**United Kingdom**	*Japan, Taiwan*
6.	Australia	*Italy*	*Malaysia*
7.	Germany, **China**	*Poland*, Brazil	*Indonesia*
8.	*Chile*	Spain	France, **United Kingdom,** *Vietnam*
9.	Spain	Canada	Australia
10.	*India, Netherlands*	*Czech Republic*	Germany, *Hong Kong*

Note: Countries that appear in bold are included on all three lists. Countries in italics are unique to that region's list.

Both manufacturing and service companies list the United States as the most likely investment destination. While ranked differently, many destinations are featured on the list of both manufacturing and service companies. Exceptions include China, Mexico and Thailand – that are listed only for manufacturers, while Spain, Italy, Chile, and Argentina appear only on the services list.

The survey respondents also display interesting differences based on company size.

- Companies of all sizes list the United States as the number one destination.
- Larger companies indicate more diversity in their investment destinations.
- Companies in most size categories list the Australia, Brazil, Canada, Germany, Mexico, and the United Kingdom among their top destinations.
- Africa and the Middle East do not feature in the top rankings.
- Hungary, Ireland, Philippines, and Switzerland only feature on the list of top destinations for companies with more than 25,000 employees.

table 4 **TOP DESTINATIONS,** by sector

Manufacturing	Services
1. **United States**	**United States**
2. China	**United Kingdom**
3. Mexico	**Brazil**
4. **Brazil**	**Germany**
5. **United Kingdom**	Spain
6. **Germany**	**Canada, France**
7. **Canada**	Italy
8. **France**	**Australia**
9. Thailand	Chile
10. **Australia**	Argentina

Note: Countries that appear in bold are on both lists.

table 5 **TOP DESTINATIONS**, by size of company (employees)

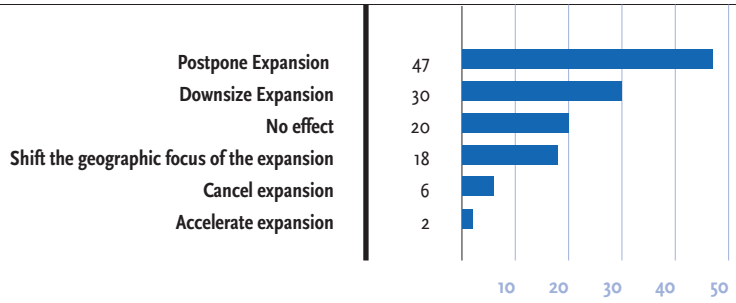
rank	1-2,500	2,501-5000	5,001-10,000	10,001-25,000	25,001-50,000	50,001-100,000	100,001 and greater
1	US	US	US	US	US	US	US
2	Germany	UK	Brazil Mexico	China	China	Brazil	Brazil
3	Australia Canada UK	Mexico	UK	Canada	UK	China Germany	China
4	Brazil	Australia India	Czech Republic	Mexico	France	UK	France
5	France Korea Mexico Singapore	Germany	Germany	Brazil	Italy	Mexico Argentina	Poland Thailand
6	Japan	Brazil Malaysia Portugal Spain Thailand Vietnam	China France Italy	Australia	Germany	Canada	Czech Republic Spain UK

D. INVESTOR PERCEPTIONS

1. Effect of a Global Economic Downturn

During July and August 2001 when the initial phase of this survey was conducted, a global economic downturn was already apparent, although the extent and duration of the setback was not known. In order to assess the potential impact of this economic situation, the survey asked companies to anticipate the effect of a continuation of the global downturn on their expansion plans, with the following possible responses: cancel, postpone, downsize, shift geographic focus, no effect, or accelerate. Multiple responses were allowed.

figure 31 **RESPONSE TO AN ECONOMIC DOWNTURN**, in percent



As shown in the figure, regardless of the sector, industry, or region of origin, most respondents plan to postpone the expansion (47 percent). The second most frequent response is to downsize (30 percent). It is interesting to note that more than one fifth of the respondents state either that the economic downturn will have no effect (20 percent), or that they will accelerate their plans (2 percent). Only six percent indicate that they would cancel their plans.

On a sector basis, more than twice as many manufacturing companies as service companies indicate that an economic downturn will have "no effect." Services companies are more likely to shift the geographic focus of their operations. Otherwise, the differences are small.

Regionally, companies in the Asian/Pacific Rim region are comparatively more likely to retrench in some manner. North American companies are more likely to shift the geographic focus of the project but least likely to downsize.

figure 32 **RESPONSE TO AN ECONOMIC DOWNTURN,** by region of headquarters, in percent

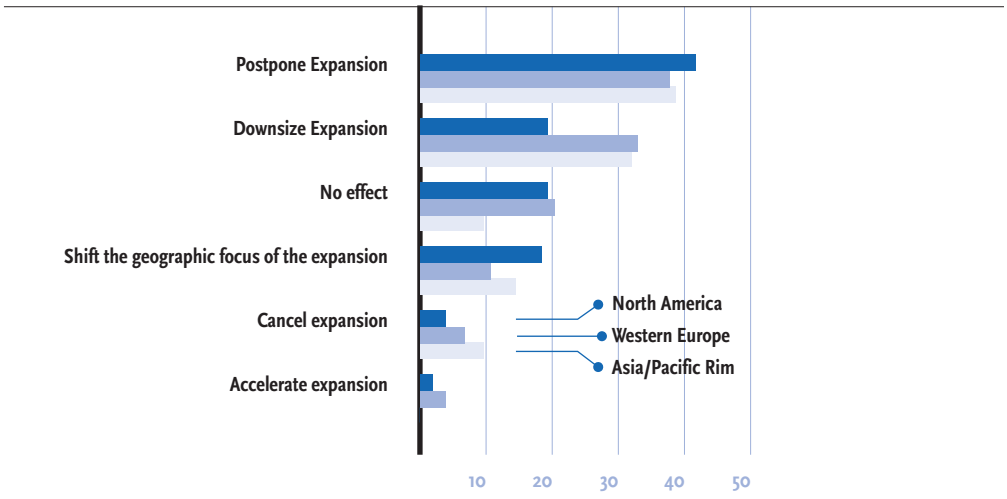
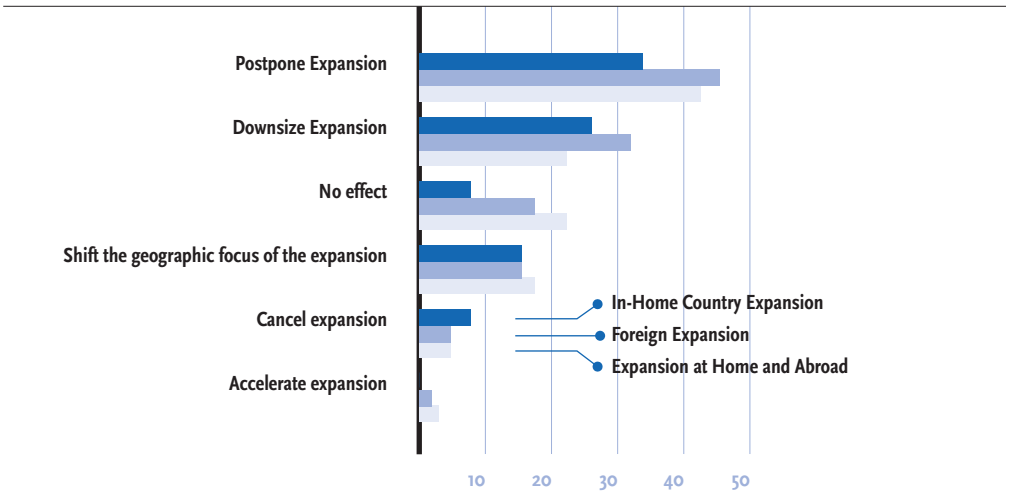
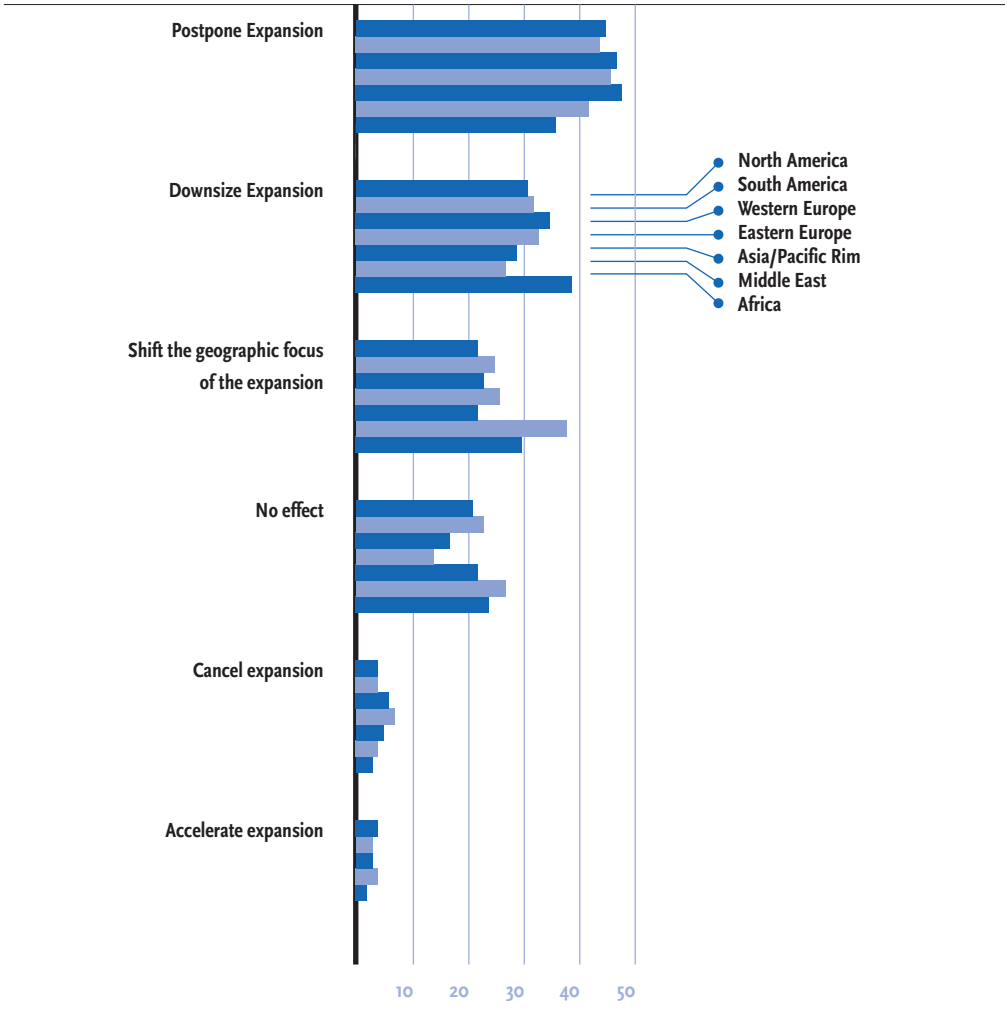


figure 33 **RESPONSE TO AN ECONOMIC DOWNTURN,** by expansion strategy, in percent



Companies that have plans for domestic expansion only appear slightly less likely to change their strategies – 70 percent plan to downsize, postpone, or cancel the projects outright, versus 85 percent of those with solely foreign expansion plans. Even so, companies with solely foreign expansion plans are more than twice as likely to say that a global downturn will have no effect on their plans. Perhaps least affected will be those companies with expansion plans both at home and abroad. Nearly one quarter of these respondents indicate that an economic downturn will have no effect on the operations, and 3 percent even plan to accelerate their projects.

figure 34 **EFFECT OF ECONOMIC DOWNTURN,** by planned investment locations, in percent



The impact of a global downturn was also considered on a regional basis, as participants' responses to this question were examined against their planned regional investment destinations. Across all regions except Africa, companies are most likely to postpone, and least likely to cancel or accelerate, with slight variation by region. By only a slight percentage, companies with an interest in Africa are more likely to downsize their expansion. Across the board, between 20-25 percent of the companies indicate that there is likely to be "no effect," except for Eastern and Western Europe where the percentages, are far lower, 14 and 17 percent, respectively.

2. Perceptions of Risk

When evaluating foreign investments, the respondents are generally "very concerned" with all the key potential risks cited. Physical security of staff and war and civil disturbance are ranked the issues of most concern. When companies expressing themselves as "somewhat concerned" are also included, physical security is cited by 85 percent of the companies, and war and civil disturbance by 78 percent, across all regions of origin, even before the events of September 11th.

Some differences emerge by sector and industry. In general, respondents in the services sector rank physical security of staff as the number one concern. When viewed at the industry level, respondents within the financial services industry consider currency inconvertibility the number one risk. Manufacturers, on the other hand, rank war and civil disturbance as number one. Within manufacturing, the primary metals companies are most concerned about breach of contract.

When considered by headquarters region, North American companies rank physical security of staff as the leading concern, Western European companies rank war and civil disturbance number one, and Asian/Pacific Rim companies rank currency inconvertibility as the leading risk. In light of the tendency of Asian companies surveyed to have greater interest in investing within their own region, their different orientation may reflect their greater familiarity with the political and social situation of the countries within their region. This perspective may lead Asian companies to focus on other issues such as currency inconvertibility, breach of contract, and expropriation.

In contrast, Western European companies, which show the broadest geographical span in their global expansion plans, are more concerned with government enforcement of laws and regulations and with the physical security of staff than their counterparts in other regions.

figure 35 **GREATEST PERCEIVED RISKS IN FOREIGN DIRECT INVESTMENT**
by sector, in percent

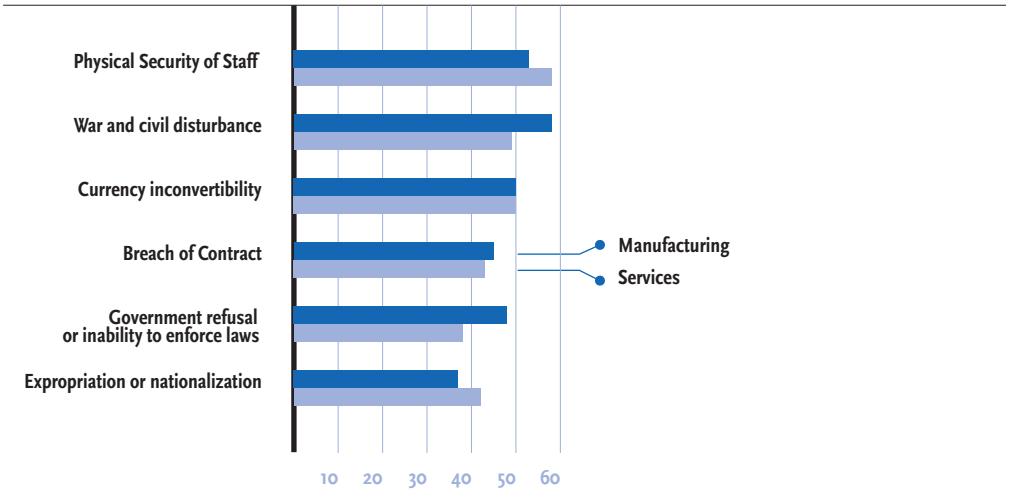


figure 36 **GREATEST PERCEIVED RISKS IN FOREIGN DIRECT INVESTMENT**
by region of headquarters, in percent

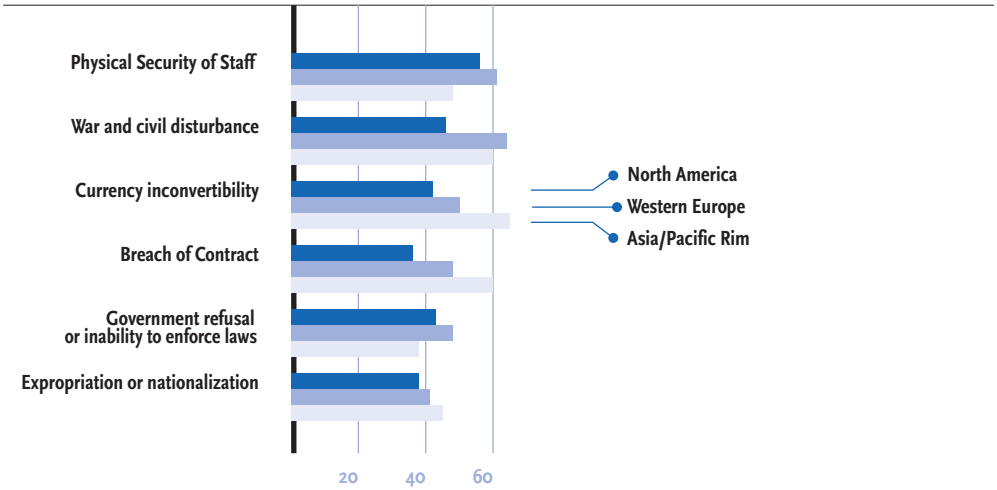
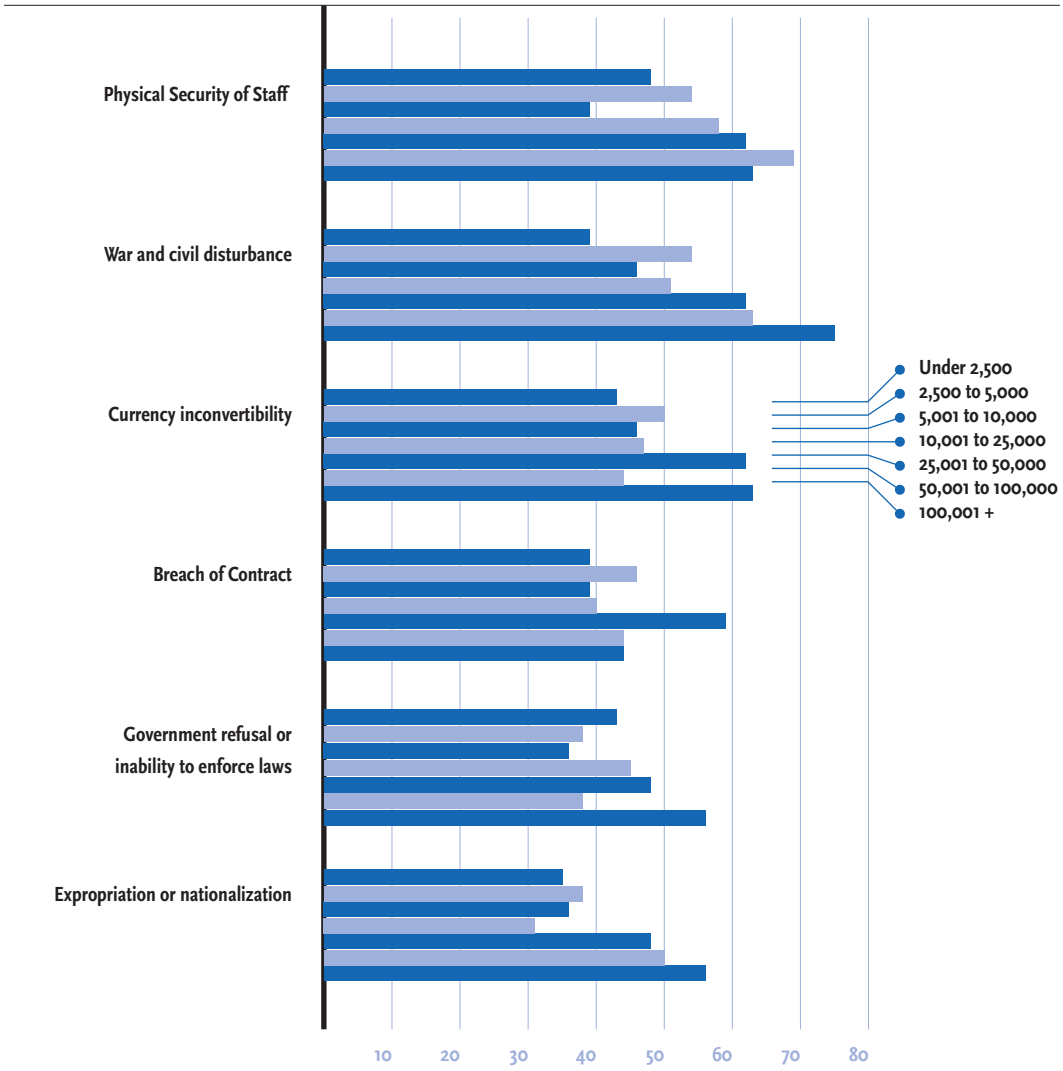


figure 37 **GREATEST PERCEIVED RISKS IN FOREIGN DIRECT INVESTMENT**
by company size (employees), in percent



When considering responses in terms of company size, in general, respondents from large companies are more concerned about risk than those from smaller companies.

The survey also examined objectives in locating offshore relative to respondents' perceptions of risk. For those seeking improved market access as the number one objective (the majority of respondents), physical security of staff is the primary concern, followed by war and civil disturbance. For those citing reducing operating costs as their number one objective, their primary concern is government refusal/inability to enforce laws, followed by war and civil disturbance, and breach of contract.

figure 38 **MOST IMPORTANT SOURCES OF LOCATION ASSISTANCE,** by sector, in percent

	Manufacturing	Services
Investment or merchant banks	13	19
"Big 5" accounting firms	12	16
National investment promotion agencies	18	6
State/regional/local economic development agencies	12	3
Specialized site selection firms	7	8
General management consultancies	7	8
Real estate brokerage firms	5	8

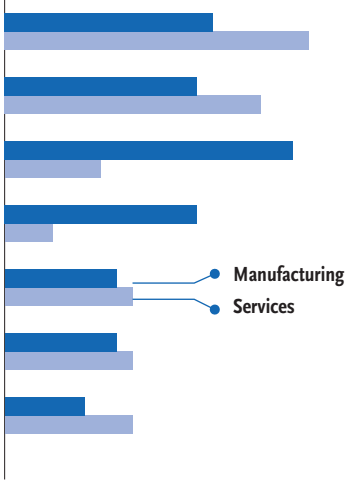
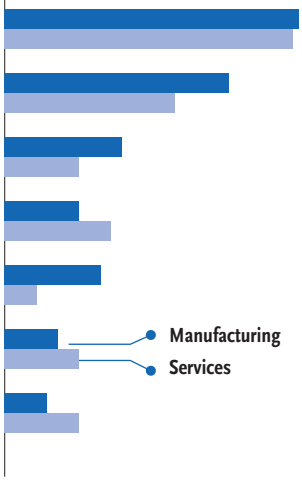


figure 39 **MOST IMPORTANT TYPES OF FDI INFORMATION,** by sector, in percent

	Manufacturing	Services
General country/region economic information	30	27
Foreign direct investment laws and regulations	21	16
Potential suppliers or joint venture partners	11	7
Specific investment or privatization project opportunities	7	10
Incentive information	9	3
Labor information	5	7
Tax information	4	7



Location factors also affect the risks investors perceive when evaluating foreign investments. War and civil disturbance is the most frequently cited concern among those respondents that rank market access, or ease of doing business in their top five location factors. Currency restrictions are the key concern of respondents seeking sites primarily on the basis of their access to raw materials. For companies seeking a stable social and political environment, physical security of staff is the key interest.

Two thirds of the respondents do not utilize political risk insurance when making foreign investments, though North American companies are nearly twice as likely to use political risk insurance than companies headquartered in Asia/Pacific Rim. Manufacturing companies are slightly more likely than their service sector counterparts to use political risk insurance. Among those companies who do use such insurance, more than 70 percent use public sector insurance.

3. Technical Assistance and Investment Information

The survey's final area of inquiry focuses on the sources and use of information and technical support, and how companies use them in their international site selection and business location efforts.

When conducting a location analysis outside their home country respondents most frequently use the following organizations:

1. Investment or merchant banks
2. "Big Five" accounting firms
3. National investment promotion agencies
4. Economic development agencies
5. Specialized site selection firms and general management consulting firms (tie)

figure 40 **MOST IMPORTANT TYPES OF FDI INFORMATION,** by region of headquarters, in percent

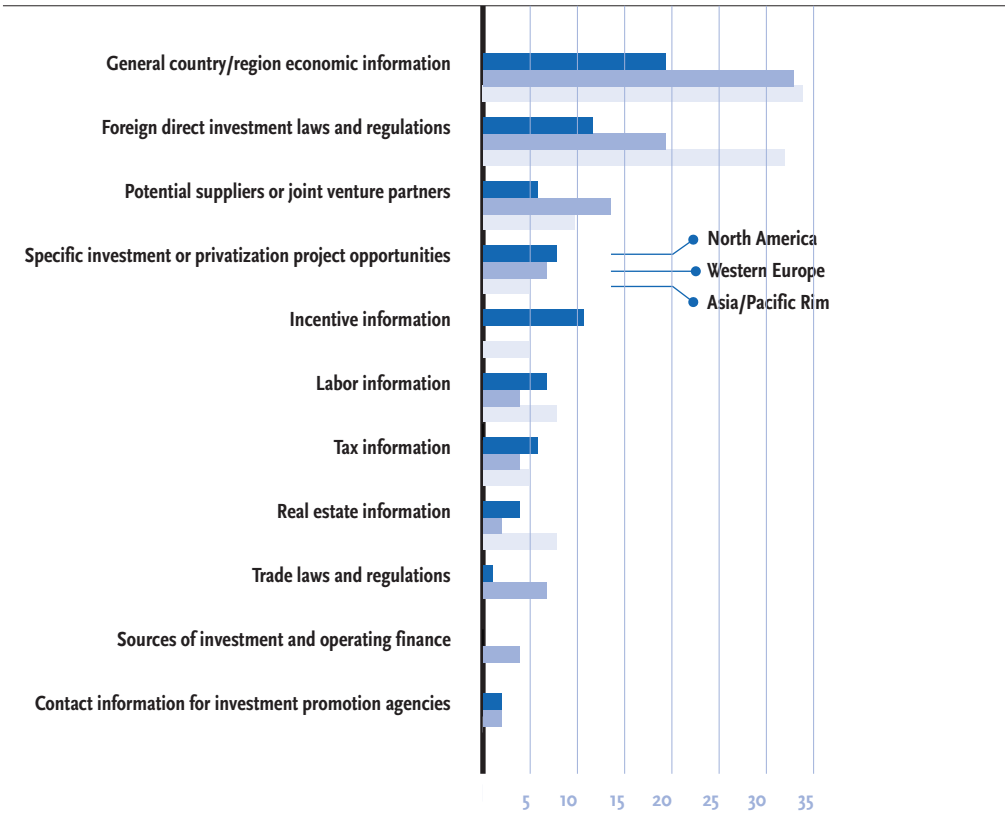


figure 41 **MOST IMPORTANT SOURCES OF LOCATION INFORMATION SERVICES,** percent of companies ranking as most important

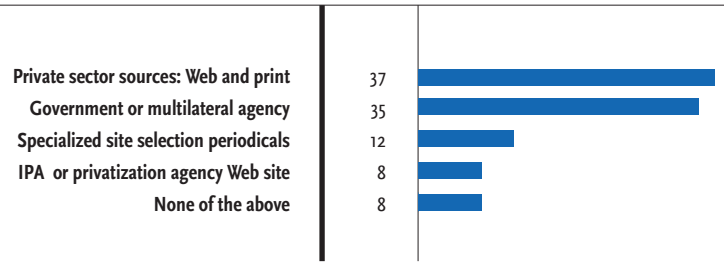
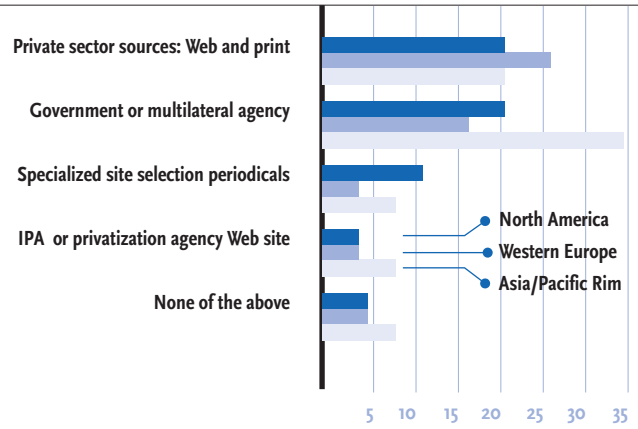


figure 42 **MOST IMPORTANT SOURCES OF LOCATION INFORMATION SERVICES,** by region of headquarters
percent of companies ranking as most important



Manufacturers tend to rely more on government institutions, such as investment promotion and economic development agencies (state, local, regional) than do companies in the services sector (30 percent versus 8 percent). Services companies also show a marked preference for investment banks and the "Big Five." Smaller companies are more likely than larger companies to engage site selection specialists.

Companies look for a wide range of information in making their location decisions. When asked to identify the "most important" types of information, respondents from both manufacturing and service companies place a premium on general country or regional economic and trade information. Of next importance to manufacturers are foreign direct investment laws and regulations, followed by information on potential suppliers. Manufacturers are more interested in information on incentives than their service company counterparts. Service companies also look for foreign direct investment laws but are more interested than manufacturers in specific investment project opportunities, as well as, labor and tax information.

The survey revealed very little difference among the companies, regardless of region of origin. All rank general country information number one, with information on FDI laws and regulations second. Compared to North American and Asian/Pacific Rim companies, Western European companies are more concerned with obtaining information on potential suppliers and on trade laws, and less concerned with information on incentives.

In terms of company size, smaller companies tend to seek out more detailed economic factor data and operational information than larger companies. They are also more likely to use such information sources as a means to establish supply relationships or business partnerships.

In order to obtain this investment-related information, respondents most frequently consult private sector information services – used by 37 percent of the respondents; and information services provided by a government or multilateral development agency (35 percent). Web sites of investment promotion agencies are also becoming an important tool, and are used by eight percent of the surveyed companies. Asian/Pacific Rim companies are more likely to use government information sources than companies in other regions, which tend to favor private sector information providers.

IV. CONCLUSION

The Global Business Location Survey provides insights into the decision-making processes of the responding companies and the basis on which such decisions are made. The findings with regard to the motivations of the investors, the form and mode of planned investment, locations of interest, and the factors influencing site selection should be useful both to countries seeking to attract foreign direct investment and to companies wishing to assess the current mood of their market and potential investment strategies in their sector of the economy.

While the data and analysis presented in this report reflect the views of the companies that responded, the themes that emerge also echo within the broader population of transnational corporations. There is clear evidence that companies worldwide continue to look beyond their national boundaries when considering near-term investment opportunities. They are increasingly comfortable doing business overseas and are seeking out those locations that provide the most favorable market access as a top priority. Locations that stand out will be those that combine market advantages and stable social and political settings.

While global economic uncertainty is leading some companies to become more conservative, they are nevertheless still committed to foreign investment as an appropriate strategy for market development. This is particularly true of companies based in developing countries that are seeking to develop new operations and markets abroad. More generally, companies doing business around the world have signaled that they will look to balance the need for access to new markets with a desire to minimize risk. As companies try to assess and react to the implications of the events of September 11th, achieving an acceptable balance is undoubtedly the biggest strategic challenge they face.

APPENDIX 1

PROFILE OF COMPANIES WITHOUT NEAR-TERM OVERSEAS EXPANSION PLANS

Although the majority of the companies responding are interested in investing in foreign countries within the next three years, others are not currently pursuing overseas expansion activities. Of the 191 companies studied who said they plan some form of expansion, 21 percent do not have plans to locate new operations or facilities outside their home country in the next three years. Of these companies, 49 percent are headquartered in North America; 38 percent in Asia/Pacific Rim; and 13 percent in Western Europe. None are headquartered in Latin America, Africa, or the Middle East. More than 50 percent have sales in the US$1 to $5 billion range; roughly 25 percent have 5 to 10,000 employees and another 25 percent have 10 to 25,000 employees. Nearly 60 percent are in the services sector, while 40 percent are in the manufacturing sector.

Although these companies are not expanding offshore, they are adding locations domestically. The preferred mode of domestic expansion is building or leasing a facility (41 percent) followed by expanding an existing facility (35 percent) and then mergers and acquisitions (24 percent).

In the future, if these companies locate offshore, they will most likely do so to improve market access (55 percent), or reduce operating costs (23 percent), the same reasons cited by the companies currently seeking international expansion. The site selection process is expected to take 6 to 12 months to complete for more than 40 percent of these companies.

When these companies evaluate overseas locations, access to customers is most frequently cited as the most important site selection factor (listed by 69 percent of the companies as one of the top five objectives), followed by social and political stability (52 percent); crime and safety (31 percent); quality and reliability of utilities, and ability to hire technical professionals (both at 28 percent). Companies not planning expansion, however, are more than twice as likely to consider health care issues as an influence in overseas expansion. Cost of real estate and air service is also more significant for this group.

More than half of the companies in this group are "very concerned" with each of the risks mentioned in the survey. War and civil disturbance is tied with physical security of staff as the number one concern (65 percent). In their plans for domestic expansion, this group is more likely to downsize (38 percent) or postpone (38 percent) their plans in the event of a global economic downturn.

Finally, with regard to information services, the companies rely heavily on the "Big Five" consulting firms for information, along with state and local economic development agencies. The companies are especially interested in obtaining information on labor, tax, and incentives.

APPENDIX 2

DETAILED FINDINGS REGARDING SITE SELECTION FACTORS

The survey responses regarding factors influencing overseas site location were examined in light of the demographic attributes of the 191 survey respondents, as detailed below.

Market Access Factors: Not surprisingly, both manufacturers and service companies most frequently cite access to customers as the key attribute when selecting an overseas site. In addition, manufacturers are influenced by access to suppliers, raw materials, and shipping costs.

A slightly higher percentage of North American companies cite access to raw materials and shipping costs than companies based in other countries, and a slightly higher percentage of Asian/Pacific Rim companies cite access to suppliers and preferential trade agreements than their counterparts.

table 2.1 **LOCATION FACTORS: MARKET ACCESS**
by sector, in percent

	Manufacturing	Services
Access to Customers	77	77
Access to Suppliers	28	16
Access to Raw Materials	34	10
Cost of Shipping	28	10
Preferential Trade Agreements	23	19

table 2.2 **LOCATION FACTORS: MARKET ACCESS**
by region of headquarters, in percent

	North America	Western Europe	Asia/ Pacific Rim
Access to Customers	70	86	80
Access to Suppliers	21	18	35
Access to Raw Materials	27	13	28
Cost of Shipping	27	5	28
Preferential Trade Agreements	23	13	30

table 2.3 **LOCATION FACTORS: LABOR MARKETS,** by sector, in percent

	Manufacturing	Services
Ability to Hire	17	14
Ability to Hire Skilled Laborers	34	30
Ability to Hire Technical Professionals	39	40
Ability to Hire Management	32	45
Cost of Labor	38	27
Labor Relations & Unionization	24	21
Labor Regulations	20	20
Availability and Quality of University & Technical Training	21	28

table 2.4 **LOCATION FACTORS: LABOR MARKETS,** by region of headquarters, in percent

	North America	Western Europe	Asia/ Pacific Rim
Ability to Hire	14	9	30
Ability to Hire Skilled Laborers	31	25	48
Ability to Hire Technical Professionals	42	39	40
Ability to Hire Management	42	38	35
Cost of Labor	32	21	53
Labor Relations and Unionization	33	13	20
Labor Regulations	30	11	15
Availability and Quality of University and Technical Training	26	25	25

Labor: Among the respondents, labor weighs heavily in both manufacturing and service companies' decisions to locate overseas. Manufacturing companies, however, are more likely to cite hiring technical and skilled workers and the cost of labor as key factors, whereas service companies are more concerned with the ability to hire management as well as technical workers. Manufacturers are also more concerned with the cost of labor as well as labor relations and regulations than service companies. Service companies, on the other hand, cite availability of quality education facilities more frequently than manufacturing companies

Responses also vary based on a company's headquarters location. For example, North American companies evidence more concern with labor relations and regulations. Western European companies focus on the ability to hire technical workers and management, as well as the availability of education, while Asian/Pacific Rim companies tend to cite labor costs and the ability to hire skilled labor more often than their counterparts.

Company size was also examined with regard to the relative importance of various labor issues. Larger companies tend to highlight labor cost to a greater extent than their smaller counterparts.

Real Estate: Real estate issues are not cited as a top concern by most of the respondents. Service companies appear to be more influenced by the availability of buildings or fully-serviced space, as well as, the cost of real estate. Manufacturing companies are seeking serviced land along with the streamlining of zoning, permits and regulations.

The availability of land tops the real estate factors for North American companies. Western European companies are nearly equally influenced by the availability of land and the availability of buildings. Asian/Pacific Rim companies are predominantly concerned with real estate costs.

Infrastructure: Infrastructure concerns are also considered when choosing an overseas location. Companies across the board cite reliability and quality of utilities as very influential to their location decision. Understandably, manufacturers are more concerned with infrastructure issues than service companies.

Asian companies are more concerned with cost of utilities and the availability of roads and ports than North American or Western European companies, while more North American companies are concerned with availability of air service.

Living Conditions. Companies also take into consideration living conditions before making overseas site selections, especially as they affect the recruitment and placement of expatriate management and staff. The issue of crime and safety is mentioned most frequently by both manufacturers and service companies — regardless of their headquarters location — as the most influential dimension of their living conditions when making a location decision. Service companies are slightly more concerned with cost of living and health care issues.

North American companies are even more influenced than their counterparts by issues of crime and safety, as well as cost of living, expatriate housing, and health care. Western European companies are slightly more influenced by the availability of international schools than are their counterparts.

Other Business Conditions: In addition to market access, labor, real estate, infrastructure and living conditions, companies are also likely to factor in other business considerations as they make foreign direct investment decisions. Both manufacturers and service companies, regardless of their headquarters locations, indicate that a stable social and political environment along with the ease of doing business are the most influential location factors among these business conditions.

North American companies ascribe higher priority to the availability of incentives and the level of corruption, while Asian/Pacific Rim companies highlight taxes and access to finance to a greater extent than their extra-regional counterparts.

table 2.5 **LOCATION FACTORS: LABOR MARKETS,** by company size (employee), in percent

	1-2,500	2,501-5000	5,001-10,000	10,001-25,000	25,001-50,000	50,001-100,000	100,001 and greater
Ability to Hire General Laborers	22	17	14	13	14	19	19
Ability to Hire Skilled Laborers	30	25	36	35	34	31	31
Ability to Hire Technical Professionals	57	29	43	35	38	44	38
Ability to Hire Management Staff	57	38	36	36	34	50	19
Cost of Labor	17	29	32	35	41	31	44
Labor Relations and Unionization	26	38	7	25	24	13	19
Labor Regulations	22	29	7	22	24	13	19
Availability and Quality of University and Technical Training	17	21	21	22	48	13	19

table 2.6 **LOCATION FACTORS: REAL ESTATE,** by sector, in percent

	Available Land with all Services in Place	Available Land Building or Space with all Services in Place	Cost of Real Estate	Streamlined Zoning and Permitting Regulations
Manufacturing	26	18	17	17
Services	21	24	21	10

table 2.7 **LOCATION FACTORS: REAL ESTATE,** by region of headquarters, in percent

	Available Land with all Services in Place	Available Land Building or Space with all Services in Place	Cost of Real Estate	Streamlined Zoning and Permitting Regulations
Asia/Pacific Rim	23	25	35	15
North America	29	25	21	19
Western Europe	14	13	5	7

table 2.8 **LOCATION FACTORS: INFRASTRUCTURE,** by sector, in percent

	Reliability and Quality of Infrastructure	Cost of Utilities	Roads	Air Service	Ports
Manufacturing	60	37	34	27	30
Services	37	16	16	19	3

table 2.9 **LOCATION FACTORS: INFRASTRUCTURE,** by region of headquarters, in percent

	Reliability and Quality of Infrastructure	Cost of Utilities	Roads	Air Service	Ports
Asia/Pacific Rim	50	50	38	25	28
North America	55	25	26	29	18
Western Europe	43	14	20	16	9

table 2.10 **LOCATION FACTORS: LIVING CONDITIONS,** by sector, in percent

	Cost of Living	Crime and Safety	Expatriate Housing Availability	Healthcare	Availability of International Schools	Culture and Recreation
Manufacturing	12	37	13	15	12	7
Services	14	28	13	17	12	10

table 2.11 **LOCATION FACTORS: LIVING CONDITIONS,** by region of headquarters, in percent

	Cost of Living	Crime and Safety	Expatriate Housing Availability	Healthcare	Availability of International Schools	Culture and Recreation
Asia/Pacific Rim	13	30	13	13	10	10
North America	19	40	15	18	12	7
Western Europe	5	25	9	16	14	9

table 2.12 **LOCATION FACTORS: OTHER BUSINESS CONDITIONS,** by sector, in percent

	Manufacturing	Services
Stable Social & Political Environment	65	63
Ease of Doing Business	52	57
Availability of Grants & Incentives	18	9
National Taxes	30	28
Local Taxes	23	24
Access to Finance	16	20
Level of Corruption	34	38
Existence of a Bilateral Investment Treaty	10	16

table 2.13 **LOCATION FACTORS: OTHER BUSINESS CONDITIONS,** by region of headquarters, in percent

	Asia/Pacific Rim	North America	Western Europe
Stable Social & Political Environment	53	68	64
Ease of Doing Business	45	62	54
Availability of Grants & Incentives	10	23	7
National Taxes	30	30	23
Local Taxes	28	25	18
Access to Finance	23	18	11
Level of Corruption	18	44	38
Existence of a Bilateral Investment Treaty	10	10	20

APPENDIX 3

DETAILED FINDINGS REGARDING PLANNED INVESTMENT DESTINATIONS

All tables include only those companies with expansion plans within the next three years. Percentages represent those companies who are "very" or "somewhat" interested in each country.

A. Analysis by Sector – Manufacturing vs. Services

Globally, both manufacturers and service companies mention the United States most frequently as a destination for foreign direct investment, followed by Brazil, United Kingdom, China, Germany, Mexico, and Canada.

table 3.1 **NORTH/SOUTH AMERICA AS AN INVESTMENT LOCATION,** by sector, in percent

	Manufacturing	Services
United States	70	62
Mexico	40	27
Brazil	35	45
Canada	30	36
Chile	12	33
Argentina	10	32
Peru	7	7
Venezuela	7	8
Colombia	5	5
Bolivia	2	2
Guatemala	2	7
Costa Rica	1	10
Honduras	1	7
Panama	1	10
Uruguay	1	12
El Salvador	0	7
Nicaragua	0	3

table 3.2 **WESTERN EUROPE AS AN INVESTMENT LOCATION**
by sector, in percent

	Manufacturing	Services
United Kingdom	33	46
Germany	32	38
France	29	36
Spain	19	37
Italy	17	35
The Netherlands	17	28
Sweden	17	16
Austria	15	17
Belgium	12	20
Portugal	12	25
Switzerland	10	23
Republic of Ireland	7	26
Norway	6	20
Denmark	6	20
Luxembourg	6	16
Finland	5	15
Greece	4	23

table 3.3 **EASTERN EUROPE AS AN INVESTMENT LOCATION**
by sector, in percent

	Manufacturing	Services
Poland	21	31
Russia	20	16
Czech Republic	19	28
Hungary	17	23
Romania	11	15
Turkey	10	18
Slovak Republic	6	13
Croatia	5	10
Ukraine	5	8
Bulgaria	4	8
Estonia	4	10
Armenia	1	2
Bosnia	1	3
Latvia	1	7
Lithuania	1	7
Belarus	0	2

table 3.4 **ASIA/PACIFIC RIM AS AN INVESTMENT LOCATION**
by sector, in percent

	Manufacturing	Services
China	48	29
Thailand	24	16
Australia	23	34
Singapore	22	25
India	20	20
Malaysia	20	18
Indonesia	19	12
Japan	17	23
Republic of Korea	17	20
Taiwan	13	21
Philippines	13	16
Vietnam	12	13
New Zealand	11	15
Hong Kong	10	23
Pakistan	6	7
Cambodia	2	5

table 3.5 **AFRICA/MIDDLE EAST AS AN INVESTMENT LOCATION**
by sector, in percent

	Manufacturing	Services
South Africa	11	12
Saudi Arabia	8	10
Israel	6	8
Egypt	6	16
Mozambique	6	2
Iran	5	7
Cote d'Ivoire	5	3
Morocco	5	10
Nigeria	5	8
Kuwait	4	5
Syria	4	3
Mali	4	2
Mauritius	4	2
Senegal	4	5
Tanzania	2	0
Ghana	1	5
Kenya	1	10
Jordan	0	5
Lebanon	0	3
Ethiopia	0	2
Uganda	0	5

B. Analysis By Region of Headquarters

Site selection is also influenced by the location of a company's headquarters. The following section details how responses vary by headquarters location.

North/South America as an Investment Location

- North American companies identify other North American countries as well as Brazil and Chile as sites for expansion.
- Western European companies identify the United States followed by Brazil, Canada, Mexico, and Argentina.
- Asian/Pacific Rim companies consider the United States first, followed by Mexico, Canada, and Brazil.

table 3.6 **NORTH/SOUTH AMERICA AND CARIBBEAN AS AN INVESTMENT LOCATION**
by region of headquarters, in percent

	North America	Western Europe	Asia/ Pacific Rim
United States	87	72	52
Mexico	47	32	20
Brazil	45	47	16
Canada	35	40	16
Chile	26	21	8
Argentina	18	28	4
Peru	11	2	4
Panama	10	2	0
Venezuela	10	9	0
Costa Rica	8	4	0
Guatemala	8	2	0
Uruguay	7	4	0
El Salvador	5	2	0
Honduras	5	2	0
Colombia	3	6	0
Nicaragua	3	0	0
Bolivia	0	4	0

Western Europe as an Investment Location

- Top choices within Western Europe by Western European companies include France, Germany, United Kingdom, Italy, and Spain.
- North American companies are predominantly looking at the United Kingdom followed by Germany, Spain, and The Netherlands.
- Asian/Pacific Rim companies identify France, the United Kingdom, and Germany as primary destinations.

table 3.7 **WESTERN EUROPE AS AN INVESTMENT LOCATION**
by region of headquarters, in percent

	North America	Western Europe	Asia/ Pacific Rim
United Kingdom	40	50	28
Germany	29	58	24
Spain	22	44	12
The Netherlands	21	33	4
Republic of Ireland	18	18	8
Sweden	18	23	4
Italy	16	48	12
Portugal	16	28	8
Belgium	15	24	8
France	13	67	28
Norway	13	15	4
Switzerland	13	22	12
Luxembourg	11	17	0
Denmark	10	20	8
Austria	8	33	8
Finland	7	17	4
Greece	5	26	4

Eastern Europe as an Investment Location

- More Western European companies consider Eastern Europe for expansion than do companies based in North America or Asia/Pacific Rim. Top choices include Poland, Czech Republic, Russia, Hungary, Turkey, and Romania.
- Very few Asian companies identify countries in Eastern Europe as potential destinations for FDI, with the exception of Poland.
- North American companies look towards the Czech Republic first, followed by Poland and Hungary.

table 3.8 **EASTERN EUROPE AS AN INVESTMENT LOCATION**
by region of headquarters, in percent

	North America	Western Europe	Asia/ Pacific Rim
Czech Republic	19	38	4
Poland	16	47	12
Hungary	15	34	4
Russia	10	34	8
Turkey	8	28	0
Estonia	5	11	0
Slovak Republic	5	17	0
Romania	3	28	4
Bosnia	2	2	0
Croatia	2	17	0
Latvia	2	6	0
Lithuania	2	6	0
Ukraine	2	11	4
Armenia	0	2	0
Bulgaria	0	13	0

Asia/Pacific Rim as an Investment Location

- North American companies rank Australia slightly higher than China, followed by India and Singapore.
- Western European companies show the most interest in expanding in China, followed by India, Japan, Australia, Indonesia, and Korea.
- Asian/Pacific Rim companies are predominantly expanding within their own region. They identify China as the most significant destination for expansion, by a slim margin over Thailand, followed by Singapore, Japan and Taiwan.

table 3.9 **ASIA/PACIFIC RIM AS AN INVESTMENT LOCATION**
by region of headquarters, in percent

	North America	Western Europe	Asia/ Pacific Rim
Australia	31	23	27
China	29	51	61
India	21	28	12
Singapore	19	21	46
Malaysia	18	17	32
Republic of Korea	16	23	17
Hong Kong	15	15	24
Japan	15	28	33
New Zealand	13	11	20
Philippines	13	17	20
Taiwan	11	19	33
Thailand	10	19	56
Indonesia	8	23	29
Pakistan	7	9	4
Vietnam	5	15	28
Cambodia	2	9	0

Africa and the Middle East as an Investment Location

In general, interest in the region focuses on Egypt, South Africa, Israel, Saudi Arabia, and Iran. In particular:

- The companies of Western Europe show the broadest spectrum of interest in the region, with some expansion plans evidenced for each country listed, except Jordan. Primary interest is in Egypt and South Africa.
- Asian/Pacific Rim companies are most interested in Iran and Saudi Arabia, and show comparatively little interest in Sub-Saharan Africa.
- North American companies are most interested in Israel, Saudi Arabia, South Africa, and Egypt, and are also interested in Jordan and Lebanon.

table 3.10 **AFRICA /MIDDLE EAST AS AN INVESTMENT LOCATION**
by region of headquarters, in percent

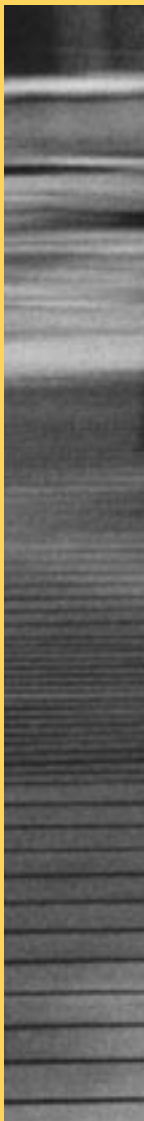
	North America	Western Europe	Asia/ Pacific Rim
Israel	10	6	4
Saudi Arabia	8	11	12
South Africa	8	17	4
Egypt	7	21	4
Jordan	5	0	0
Kuwait	3	9	0
Lebanon	3	0	0
Kenya	3	9	4
Mauritius	3	4	0
Morocco	3	13	4
Syria	2	6	4
Ghana	2	4	0
Nigeria	2	11	4
Uganda	2	4	0
Iran	0	11	12
Côte d'Ivoire	0	6	0
Ethiopia	0	2	0
Mali	0	6	0
Mozambique	0	11	4
Senegal	0	9	0
Tanzania	0	2	0

APPENDIX 4
INTEREST IN INVESTMENT LOCATIONS WORLDWIDE

INTEREST IN INVESTMENT LOCATIONS WORLDWIDE
by percent of companies interested

	Country	Percent
1	United States	66
2	China	40
3	Brazil	39
4	United Kingdom	39
5	Mexico	35
6	Germany	35
7	Canada	33
8	France	32
9	Australia	27
10	Spain	27
11	Poland	26
12	Italy	24
13	Singapore	23
14	Czech Republic	23
15	The Netherlands	22
16	Chile	21
17	Thailand	21
18	India	20
19	Japan	19
20	Hungary	19
21	Malaysia	19
22	Argentina	19
23	Russia	19
24	Republic of Korea	18
25	Portugal	17
26	Taiwan	17
27	Sweden	17
28	Indonesia	16
29	Republic of Ireland	15
30	Austria	15
31	Belgium	15
32	Switzerland	15
33	Hong Kong	15
34	Philippines	14
35	Turkey	13
36	Romania	12
37	New Zealand	12
38	Vietnam	12
39	Denmark	12
40	Greece	12
41	Norway	12
42	South Africa	11
43	Luxembourg	10
44	Egypt	10

Note: Listing includes only those countries in which at least 10 percent of the respondents with near-term expansion plans expressed interest as a potential foreign investment location.



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