WORLD BANK GROUP

GLOBAL INVESTMENT COMPETITIVENESS REPORT 2017 | 2018

Foreign Investor Perspectives and Policy Implications

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EXECUTIVE SUMMARY

A country's investment competitiveness goes beyond attracting foreign direct investment. It is determined by the country's ability to bring in, retain, and leverage private investment for inclusive and sustainable economic growth.

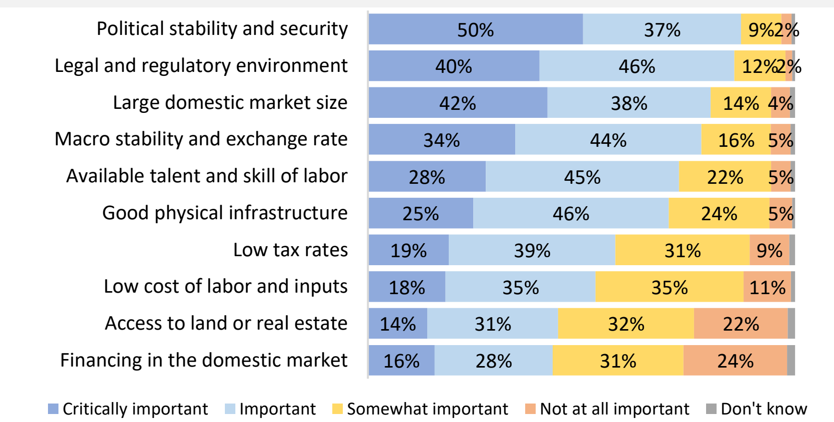
Foreword to the *Global Investment Competitiveness Report 2017/2018*

MAIN MESSAGES

- **Political stability and a business-friendly regulatory environment are the top two factors** influencing multinational corporations' investment decisions in developing countries, according to a survey of 754 business executives. These two factors top other country characteristics, including infrastructure, access to land, and low tax rates.

Factors Affecting Investment Decisions

Executives of multinational corporations were asked how important various country characteristics were in their decision to invest in developing countries (percentage of 754 respondents)



Source: Global Investment Competitiveness Survey, World Bank Group.

- **Domestic high-growth firms in developing countries benefit the most from increased foreign direct investment (FDI)** in their markets through business linkages and introduction of new technologies and know-how. These high-growth firms tend to be small and young, yet have the greatest job-creating potential compared to other firms.

- **Investment incentives may help attract FDI only in specific circumstances**, such as when investors are wavering between similar locations as a new base for their exports. When investment is motivated by a desire to access a domestic market or extract natural resources, incentives are generally ineffective.

- **Investor protections against political and regulatory risks are of far greater importance than investment incentives**. These risks include expropriation of property, currency transfer and convertibility restrictions, and lack of transparency in dealing with public agencies. If these risks at the country level are not reduced, addressing project-level risks will not lead to increased investment and growth in developing countries.

- **Developing countries account for a growing share of global FDI inflows and outflows** -- 40 percent and 20 percent respectively in 2016. Outward FDI benefits home economies through increased innovation and competitiveness.

- **Investors from developing countries are more willing to target smaller and often higher-risk regional economies** as part of a stepping-stone strategy. This is a key consideration for countries coping with conflict and fragility, and looking to attract more diversified investment.

KEY ANALYTICAL FINDINGS

Chapter 1: **Findings from the Global Investment Competitiveness Survey**	▪ Over 90% of investors rate various types of legal protections as important or critically important, the highest response among all factors asked in the survey. ▪ Three-quarters of investors have experienced disruptions in their operations due to political risk events that have caused about a quarter of investors to cancel or withdraw an investment. ▪ More than a third of investors reinvest all of their profits into the host country.
Chapter 2: **Effects of FDI on High-Growth Firms in Developing Countries**	▪ A 1 percentage point increase in the share of inputs purchased by a foreign firm from local companies is associated with a 58% increase in sales of a typical high-growth local company over 2 years. ▪ A 1 percentage point increase in the share of total economic output attributable to foreign firms is associated with a 12% increase in sales of a typical high-growth local company over 2 years. ▪ Foreign investors source more than 40% of their production inputs locally in developing countries.
Chapter 3: **Corporate Tax Incentives and FDI in Developing Countries**	▪ Incentives do not appear to have a stronger influence on new investors than on existing ones, calling into question the effectiveness of targeting incentives towards new investment. ▪ Based on survey results, incentives such as tax holidays are important for 64 percent of investors involved in efficiency-seeking FDI, compared to only 47 percent of investors involved in other types of FDI. ▪ The use of incentives is increasing: 46 percent of developing countries introduced new incentives or made existing incentives more generous for at least one sector between 2009 and 2015.
Chapter 4: **Outward FDI from Developing Countries**	▪ FDI from developing countries has increased 20-fold in the last 20 years, accounting for nearly 20% of global FDI flows in 2015. ▪ Nine out of 10 developing countries have companies that have established overseas affiliates. ▪ The largest developing markets – BRICS – account for 75% of FDI flows from developing countries.
Chapter 5: **FDI in Fragile and Conflict-Affected Situations**	▪ FDI into fragile and conflict-affected situations (FCS) represents just 1 percent of global flows, less than one-fifth of the per capita world average. ▪ Estimated FDI potential in most FCS markets far exceeds their performance in FDI attraction. ▪ Over 1 billion people are currently living in fragile and conflict-affected situations. By 2030, half of the world's poor will be living in FCS.

REPORT FEATURES

This inaugural issue of the G*lobal Investment Competitiveness Report* presents novel analytical insights and empirical evidence on the drivers of FDI and its contributions to economic transformation. **Three key features distinguish this report** from other leading FDI studies:

- **Insights come from a variety of sources**, including a new survey of investor perspectives, extensive analysis of available data and evidence, and a thorough review of international best practices in investment policy design and implementation.
- **Targeted, in-depth analysis of FDI is differentiated by motivation, sector, and geographic origin and destination** of investment.
- **Practical and actionable recommendations** are articulated for developing country governments.

For more information, please visit the report website – www.worldbank.org/gicreport -- or contact:

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