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Outlook and Priorities for Foreign Investors in Developing Countries: Findings from the 2019 Global Investment Competitiveness Survey in 10 Middle Income-Countries

Peter Kusek, Abhishek Saurav, and Ryan Kuo

Note: Since the Global Investment Competitiveness survey was conducted between June and November 2019, the results do not capture the effects of the COVID-19 pandemic on foreign investors.

Key Findings

- An extensive survey of more than 2,400 foreign investors in 10 large middle-income countries, conducted between June and November 2019, shows that foreign-owned firms face significant trade and investment policy uncertainty that can negatively affect future investment decisions. Since the survey was conducted before the COVID-19 outbreak, the results do not capture the effects of the pandemic on foreign-owned firms. The 10 countries covered by the survey are Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. The surveyed companies cumulatively represent around US\$400 billion in total investment (about 10 percent of FDI stock in the surveyed countries) and employ nearly 1 million workers, based on conservative estimates.
- Two-thirds of investors report that policy uncertainty due to protectionism and economic nationalism in trade and investment is either “important” or “critically important” in their investment decisions—and among the latter group, more than half have already experienced a decrease in employment, firm productivity, or investments in the last year. Investor confidence decreases when the direction of policy making is unclear or unpredictable. Large firms and importers have been particularly sensitive to the effects of policy uncertainty in trade and investment.
- Even before the COVID-19 outbreak, many investors were holding off expansion plans—based on the survey, less than half of foreign businesses planned to expand investment over the next three years. However, results vary by country. Foreign businesses in China (17 percent of investors planning to expand investments) and Turkey (35 percent) report being much less likely to expand in the future than those in other surveyed countries. In contrast, about four-fifths of foreign affiliates in Nigeria and two-thirds in India plan to expand their investment stocks over the next three years. The effect of policy uncertainty in trade and investment—combined with domestic factors, such as macroeconomic fundamentals, political developments, and the legal and regulatory environment—are likely to shape foreign investors’ investment plans in the surveyed countries.
- The top three factors influencing investment decisions are political stability, macroeconomic stability, and a country’s legal and regulatory environment; nearly 9 in 10 businesses consider them to be “important” or “critically important.” These factors rank ahead of considerations such as low tax rates, low labor and input costs, and access to resource endowments. Furthermore, large firms (those with more than 250 employees) rank an enabling regulatory environment as their top investment consideration. Investors that encounter major legal and regulatory obstacles are more likely to reduce or withdraw investment.
- The COVID-19 pandemic represents an unprecedented shock to the global economy and MNEs, underscoring the need for policies to bolster investor confidence. Against the backdrop of heightened policy uncertainty in trade and investment, the pandemic is set to further escalate uncertainty, magnify investment risks, and depress foreign investor confidence. These extraordinary challenges warrant a crisis management approach to governments’ responses. In addition to short-term crisis response, governments should address international and domestic sources of policy uncertainty by reaffirming commitments to global and regional trade and investment systems, promoting political stability, enhancing macroeconomic stability, and improving legal and regulatory frameworks for FDI. Creating a predictable, business-friendly regulatory environment goes beyond the rules on the books and includes their full and consistent implementation in practice.

Introduction

This chapter presents the results of the 2019 Global Investment Competitiveness Survey (GIC Survey), a survey of executives of the affiliates of multinational enterprises (MNEs) in 10 developing countries.¹ The phone-based survey data cover more than 2,400 foreign investors with operations in 10 middle-income countries (MICs): Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. Using self-reported data from surveyed executives, the chapter serves two analytical objectives: First, it assesses the effect of rising trade and investment policy uncertainty on investors' confidence and future investment prospects. Second, it examines the role of a country's legal and regulatory environment in shaping investment decisions and identifies specific market entry and operational constraints faced by foreign investors.

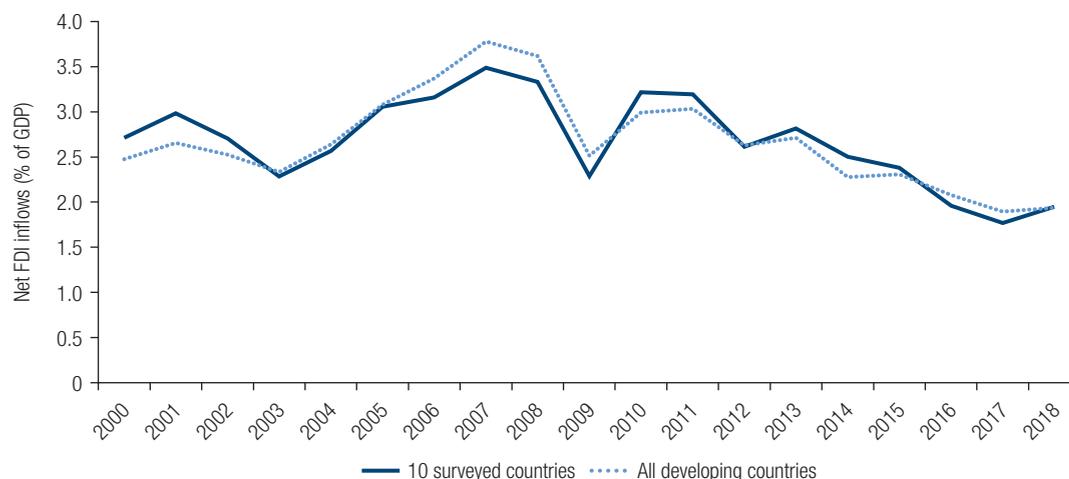
The countries covered by the survey account for more than half of the global

population, one-quarter of global gross domestic product (GDP), and one-fifth of global trade. From a foreign direct investment (FDI) perspective, they accounted for 37 percent of global inflows and 75 percent of inflows to developing countries in 2018. As with developing countries in general, FDI as a share of GDP has declined in the selected countries since the global financial crisis in 2008–09 (figure 1.1). From a precrisis average of 3 percent of GDP per year, FDI inflows have contracted to less than 2 percent in recent years.²

Most of the surveyed countries have high statutory restrictions on FDI relative to the global average (figure 1.2). Furthermore, countries more exposed to global megatrends such as rising protectionism, economic nationalism, and trade policy tensions are in turn more vulnerable to investment risks and declines in investor confidence.

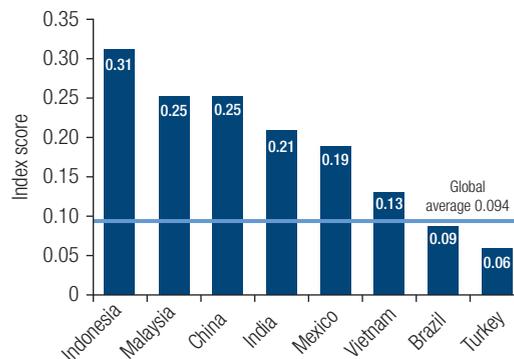
In most of the selected countries, FDI growth rates have stalled or declined from

FIGURE 1.1 FDI Inflows to Middle-Income Countries Have Been Declining Since the 2008–09 Global Financial Crisis



Source: World Development Indicators database.

Note: FDI = foreign direct investment. Surveyed countries are Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. "Developing" countries refers to low- and middle-income countries as defined by the World Bank.

FIGURE 1.2 Surveed Countries Have High FDI Restrictiveness

Source: Organisation for Economic Co-operation and Development (OECD) 2018 FDI Regulatory Restrictiveness Index, <https://www.oecd.org/investment/fdiindex.htm>.

Note: FDI = foreign direct investment. FDI Regulatory Restrictiveness Index scores range from 0 (open) to 1 (closed). The index scores are not available for Nigeria and Thailand.

their levels a decade ago, and growth has even been negative in some countries (such as Brazil and Nigeria) in recent years. An acute slowdown in FDI can sap growth momentum, lower participation in global value chains, and limit positive spillovers to domestic firms. Sluggish growth exacerbates the countries' risk of being trapped in middle-income status, limiting their ability to undertake "second generation" structural reforms.

FDI has been the largest source of external finance for many developing countries—greater than remittances, private debt and portfolio equity, or official development assistance.³ Higher FDI inflows can ease capital constraints, contribute to output and employment growth, and increase aggregate productivity through positive productivity spillovers and technology transfers.

This chapter offers practical evidence to strengthen investment competitiveness by identifying policy levers that can relax FDI barriers, de-risk countries' investment climates, and facilitate additional FDI inflows. Through its systematic, data-driven identification of investment climate policy barriers, the chapter reflects the collective voice of foreign investors on the design and prioritization of investment policy reforms.

Survey Methodology and Respondent Profile

The data used in this study are from the 2019 GIC Survey, conducted June–November 2019 through 30-minute phone interviews in the primary business language(s) of the host economies. The survey was administered to senior executives of foreign-owned firms. Information was collected on the companies' general characteristics, the importance and effect of global megatrends on business operations, contribution to the host economy, and the importance of investment policy factors and operational obstacles they face.

The 2019 GIC Survey was designed to generate results that are representative at the country level and comparable across countries. It targeted a statistically representative sample of foreign-owned firms across the 10 surveyed MICs.⁴ The target was to reach 125 interviews per sector (manufacturing and services). Each country sample comprises roughly 250 MNE affiliates with at least five employees. The only exception is Nigeria, where because of sampling frame limitations, the sample comprises 164 respondents (55 manufacturing and 109 services). Thus, across the 10 target countries, more than 2,400 responses were collected.

To assess changes in investor experience and perceptions, a second round of the survey is planned in 2020–21. To the extent possible, the second round will target respondents from the first round. For more details on the survey methodology, including sample representation and survey administration, see annex 1A.

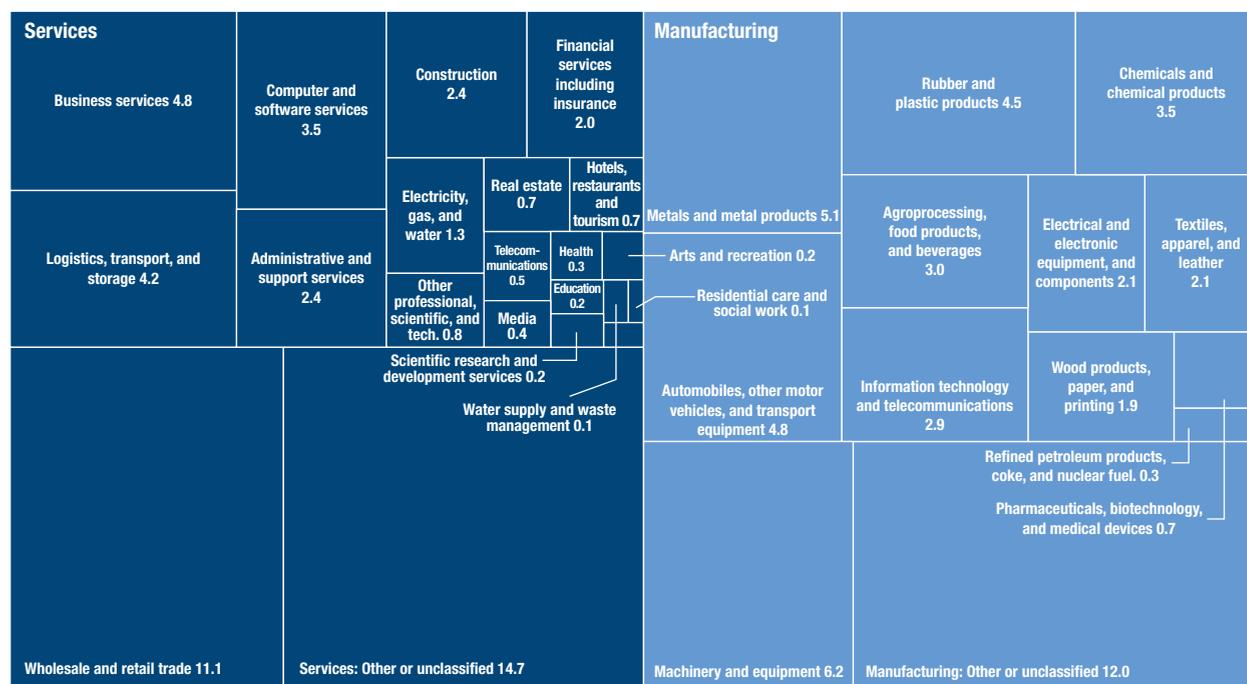
The remainder of this section outlines the survey respondent profiles and additional methodological features, as follows:

- *Sector and subsector:* Survey respondents represent a range of sectors and source countries. By design, about half of the MNE affiliates were in the manufacturing sector, and about half were in services. Within each sector, the sample covers many subsectors (figure 1.3 and annex 1A, table 1A.2).

- *Size:* About one-quarter of surveyed MNE affiliates are large, with more than 250 employees. The remainder are small and medium enterprises (SMEs) with 250 or fewer employees, roughly half of which have 100 or fewer employees (figure 1.4, panel a).
- *Investment stock:* Roughly one-quarter of the MNE affiliates have invested more than US\$10 million in host countries. More than one-tenth have invested more than US\$50 million (figure 1.4, panel b).
- *Age:* On average, the surveyed MNE affiliates are fairly established in their respective markets. Nearly two-thirds of them have been in the host country for more than a decade, and one-third for more than 20 years (figure 1.4, panel c).
- *Ownership:* Roughly two-thirds of respondents are fully owned by foreign investors (that is, foreign MNEs hold a

FIGURE 1.3 Respondents Are Evenly Split between Manufacturing and Services Firms and Represent Firms across Various Specific Sectors

Share of 2019 GIC Survey respondents, by subsector (percent)

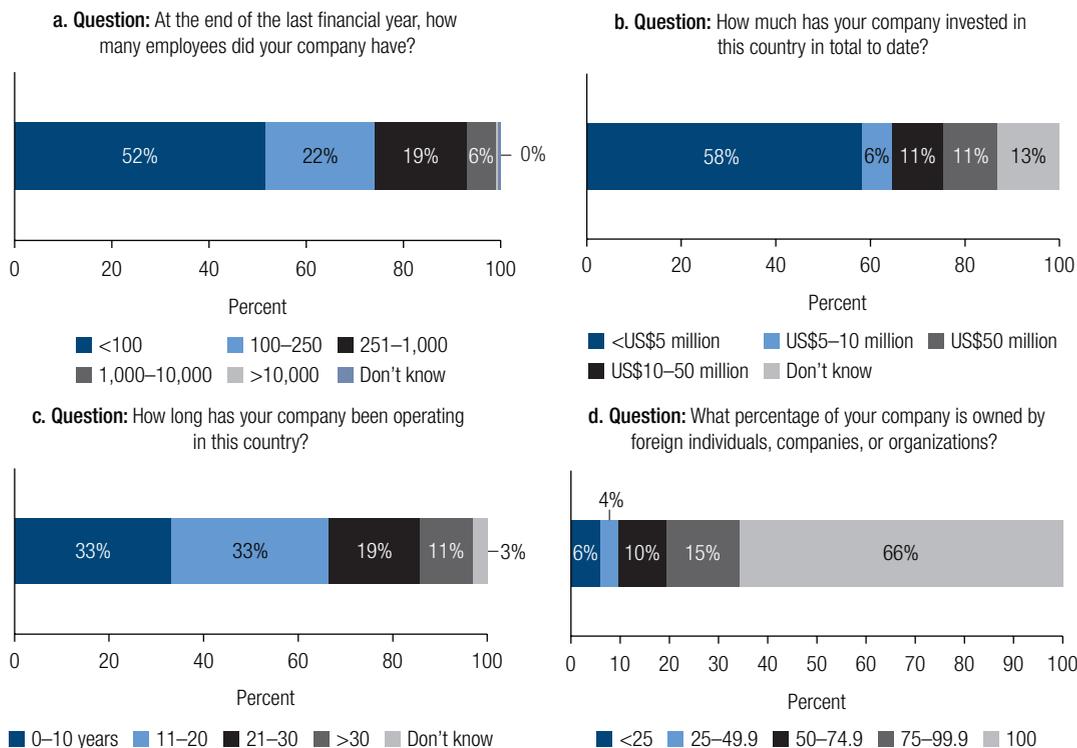


Source: Computation based on the 2019 GIC Survey.

Note: The relative size of the rectangles represents the relative share of respondents in each overall sector ("services" or "manufacturing"). Services subsectors comprising less than 1 percent include scientific research and development (R&D), arts and recreation, and others. For the number and shares of respondents by subsector, see annex 1A, table 1A.2.

FIGURE 1.4 The Median MNE Affiliate Is Relatively Small, Well-Established, and Majority Foreign Owned

Share of 2019 GIC Survey respondents (percent)



Source: Computation based on the 2019 GIC Survey.
 Note: MNE = multinational enterprise. Percentages may not total 100 because of rounding.

TABLE 1.1 Most Investors Come from High-Income Countries in Asia or Europe

Share of 2019 GIC Survey respondents (percent)

Question: In which country is your parent company or your company's largest foreign owner located?

Region	Developed	Developing	Total
East Asia and Pacific	37	7	44
Europe and Central Asia	33	1	34
North America	13	0	13
Sub-Saharan Africa	0	3	3
Middle East and North Africa	1	1	2
Latin America and the Caribbean	1	1	2
South Asia	0	2	2
Total	85	15	100

Source: Computation based on the 2019 GIC Survey.
 Note: "Developing" countries are low- and middle-income countries, and "developed" countries are high-income countries, as defined by the World Bank. "North America" is defined here as Canada and the United States.

100 percent stake), and about 10 percent are minority owned by foreign investors (that is, MNEs hold less than a 50 percent stake) (figure 1.4, panel d).

- *Origin:* Eighty-five percent of the foreign investors come from high-income countries, while the vast majority of the remainder come from middle-income countries (table 1.1). Low-income countries account for less than 1 percent of the foreign investors surveyed.

The Development Contributions of FDI in Host Economies

A large body of literature explores FDI's contribution to host economies through capital infusion and productivity spillovers. Researchers theorize that MNE affiliates may benefit local economies by introducing more advanced technology and management practices (especially to their suppliers), increasing demand for local products, providing improved inputs, driving exports, and introducing competition (Arnold and Javorcik 2009; Djankov and Hoekman 2000; Javorcik 2004; Lin and Saggi 2005; UNCTAD 2013; World Bank 2020).

At the same time, FDI may be harmful if local firms lose market share to foreign-backed competitors (Aitken and Harrison 1999). From an empirical standpoint, the literature has generally found positive upstream spillovers (that is, benefits of FDI for firms that are suppliers to MNE affiliates) and insignificant and sometimes negative spillovers for competitors of MNEs (Havráněk and Iršová 2011; Iršová and Havráněk 2013).

To assess the development contributions of MNE affiliates in host economies, the 2019 GIC Survey asked respondents about their investments and reinvestment behavior, input sourcing, export and import activity, and competition dynamics in host countries.

The survey data suggest that MNE affiliates make strong contributions to local economies through capital infusions. Roughly one-third of respondents have

invested more than US\$5 million in host economies, and more than 10 percent have invested more than US\$50 million (figure 1.4, panel b). Not all of this capital comes from abroad: MNE affiliates reinvest about 60 percent of their profits back into host economies. This result is in line with earlier survey evidence and literature showing that reinvested earnings are an important source of FDI (Kusek and Silva 2018; UNCTAD 2016).

Parent-affiliate relationships observed in survey data reveal both North-South and South-South FDI flows. As noted earlier, 85 percent of parent MNEs are headquartered in high-income countries, the remainder coming mostly from middle-income countries.

A breakdown of country-level investments, by source region, shows that the respondents in surveyed countries in two regions—East Asia and Pacific, and Europe and Central Asia—exhibit strong intraregional links (table 1.2). Roughly three-quarters of respondents from these regions have parent MNEs based within the same region, confirming high regional economic integration. In contrast, MNE affiliates in countries such as Brazil, India, Mexico, and Nigeria are more likely to have parent companies from other regions.

Many surveyed MNE affiliates are active in sourcing from local suppliers. On average, the GIC Survey respondents source 55 percent of their inputs locally. However, there is significant cross-country variation, likely driven by the availability and quality of local suppliers. In China and India, which have well-developed domestic product markets, MNE affiliates source a higher share of their inputs locally (67 percent and 60 percent, respectively), while respondents in Turkey and Vietnam source less than half of their inputs locally. In addition, services sector MNE affiliates, minority foreign-owned affiliates, large employers (more than 250 employees), and domestic market-oriented affiliates (those with less than half of revenues from exports) source a greater share of their inputs locally.

TABLE 1.2 Intra-regional Investment Links Are Strong in East Asia and Pacific, and in Europe and Central Asia, while Inter-regional Investment Is Greater in Other Regions*Share of respondents (percent)*

Host country	Source region						
	East Asia and Pacific	Europe and Central Asia	Latin America and the Caribbean	South Asia	Sub-Saharan Africa	North America	Middle East and North Africa
China	58	25	1	1	0	15	0
Indonesia	77	17	0	1	0	4	1
Malaysia	64	22	1	2	0	11	1
Vietnam	86	13	0	0	0	1	0
Thailand	80	11	0	1	1	7	1
Turkey	10	77	1	0	1	8	4
Brazil	15	60	6	1	0	17	1
Mexico	15	38	9	1	0	37	0
India	21	51	1	1	2	23	2
Nigeria	9	33	0	8	26	12	11

Source: Computation based on the 2019 GIC Survey.

Note: The figure excludes respondents who reported they did not know where their foreign parent multinational enterprises (MNEs) were based (less than 1 percent of the sample). Shaded cells denote investments originating from the same region as the host country (i.e., intra-regional investment).

From a trade perspective, many surveyed MNE affiliates are active in driving exports. Survey respondents derive about one-third of their revenues from exports on average, and nearly one-quarter are majority exporters (at least 50 percent of revenues derived from exports). In general, MNE affiliates in the services sector derive a smaller share of their revenues from exports than do affiliates in the manufacturing sector (figure 1.5, panel a). Lower tradability of certain services and higher barriers to trade in services potentially explain these results. This pattern holds across most surveyed countries: in Vietnam, MNE affiliates in the manufacturing sector derive 74 percent of their revenues from exports on average, compared with a modest 29 percent for services affiliates. Similar trends are observed in China, Indonesia, Malaysia, and Mexico.

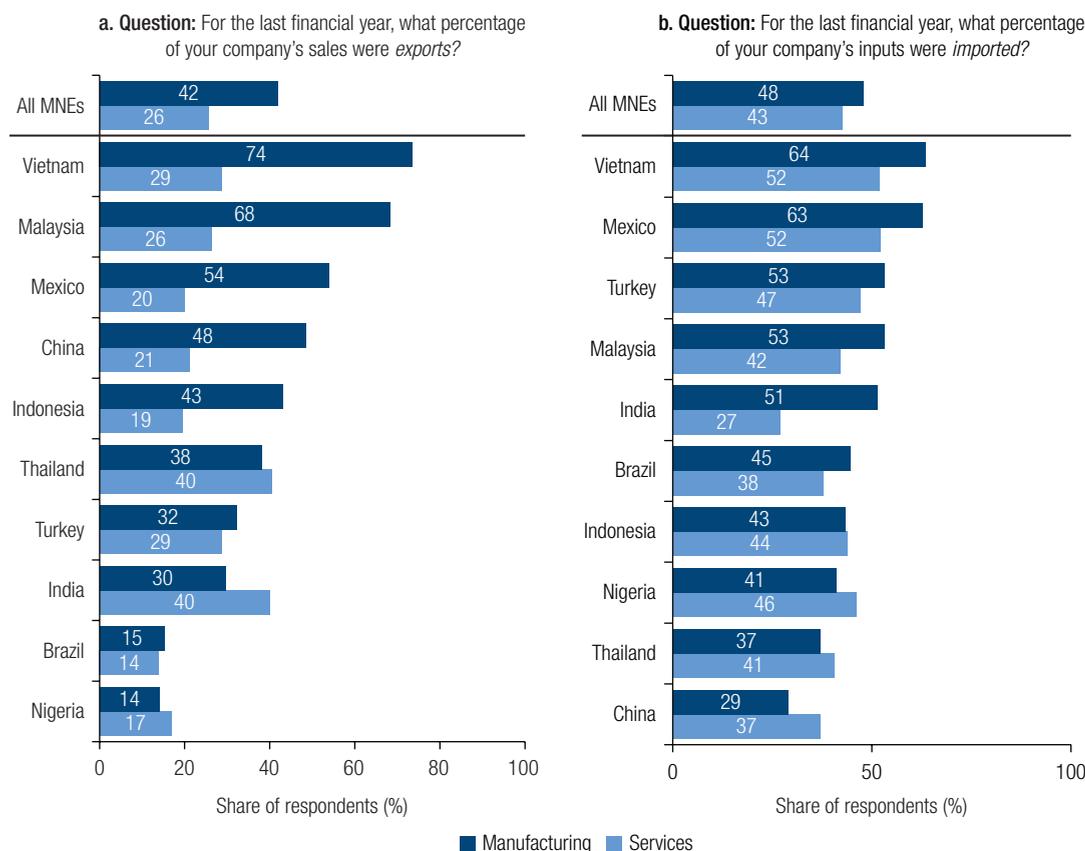
Finally, survey data show that MNE affiliates promote competition in host countries. Owing to technological, financial, and management advantages, foreign affiliates perform well on average in the surveyed countries: about half report having gained market share in the past three years,

compared with just 16 percent that lost market share (figure 1.6, panel a). In addition, roughly two-thirds report primarily competing with firms operating in the host economy: 29 percent compete primarily with other MNE affiliates, and 35 percent compete with local firms (figure 1.6, panel b). These results suggest that MNEs apply competitive pressure on domestic competitors, although the net effect on domestic competitors' productivity is unclear.

Policy Uncertainty and Foreign Investors' Outlook

The slowdown in FDI flows has come amid rising policy uncertainty in trade and investment. Policy uncertainty increases when the direction of policy decision making is unclear or erratic, limiting businesses' ability to forecast the likelihood of future events and outcomes (Bloom 2014; Knight 1921). The increase in policy uncertainty is reflected in the high values registered in 2019 by various indicators such as the Global Economic Policy Uncertainty (EPU)

FIGURE 1.5 MNE Affiliates’ Trading Behavior Differs Widely across Host Countries



Source: Computation based on the 2019 GIC Survey.

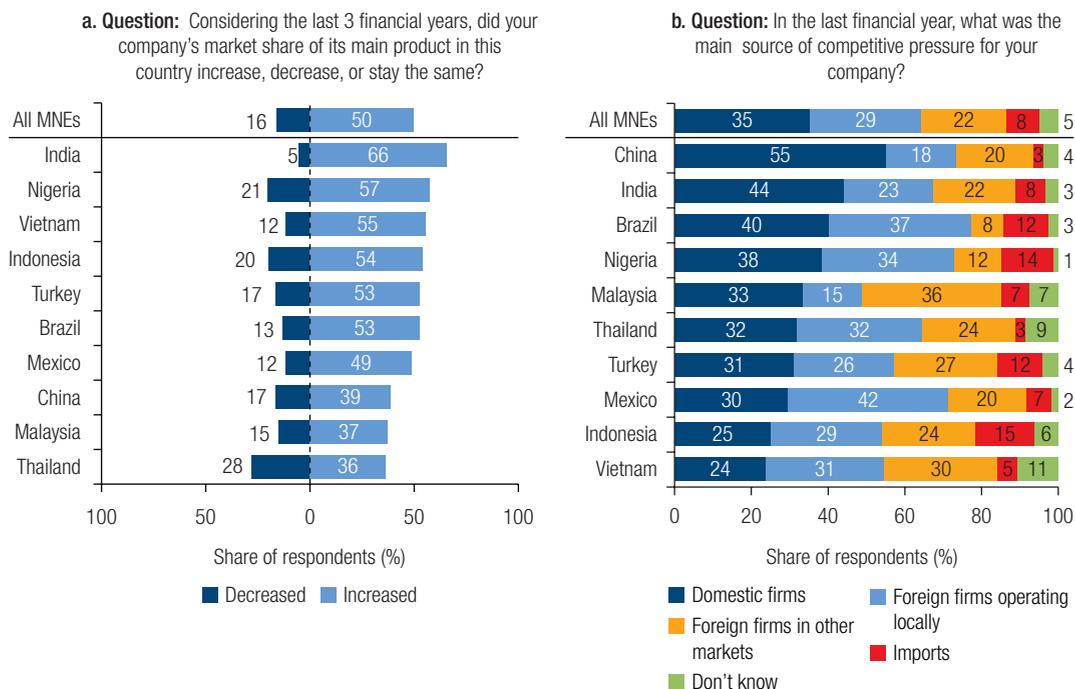
Index, World Uncertainty Index, World Trade Uncertainty Index, and Trade Policy Uncertainty Index (Baker, Bloom, and Davis 2019; Caldara et al. 2019).⁵

For MNE affiliates, both international and domestic sources of policy uncertainty could escalate risk sentiment.⁶ Recent and ongoing global events such as withdrawals from global trade agreements; new trade barriers (such as bilateral tariff escalations); geopolitical developments (such as Brexit); and other trade tensions have contributed to an unprecedented rise in trade and investment policy uncertainty (Baker, Bloom, and Davis 2019). In host economies, MNE affiliates can further be subject to uncertainties related to domestic political and electoral outcomes; unpredictable

FDI rules (such as restrictive screenings and approval requirements); and economic nationalism. The pattern of economic nationalism extends to investment policy as well as trade: more than a third of national investment policies introduced in 2018 were measures related to new FDI restrictions or regulations (UNCTAD 2019).

Business survey data enhance our understanding of investor behavior amid trade and investment policy uncertainty. A growing body of literature has investigated the behavior of foreign investors in times of policy uncertainty more generally (Bonaime, Gulen, and Ion 2018; Cao, Li, and Liu 2017; Chen and Funke 2003; Chen, Nie, and Ge 2019; Julio and Yook 2016;

FIGURE 1.6 The Competitive Dynamics of FDI Firms in Host Markets Are Complex



Source: Computation based on the 2019 GIC Survey.
 Note: In panel b, percentages may not total 100 because of rounding. FDI = foreign direct investment; MNEs = multinational enterprises.

Rodrik 1991), but little research directly examines the business effects of trade and investment policy uncertainty on foreign-owned firms.⁷

The 2019 GIC Survey data provide direct evidence of the effects of trade and investment policy uncertainty on business operations of foreign-owned firms in the 10 MICs. By capturing current perceptions and expectations of foreign investors with investments in the surveyed MICs, the survey addresses the following questions related to policy uncertainty and investments:

- How important is the increasing policy uncertainty due to protectionism and economic nationalism in trade and investment in shaping foreign companies' investment decisions?
- How has policy uncertainty affected foreign-owned businesses in terms of jobs, productivity, investments, and changes in production locations?

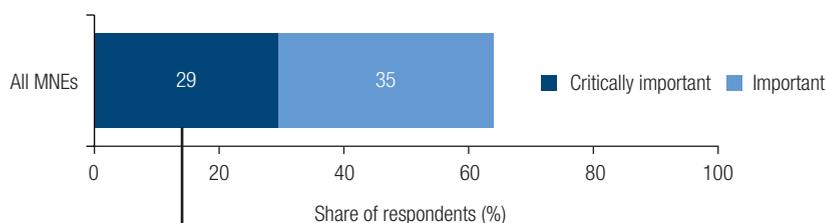
- What are foreign investors' predominant investment plans in relation to expanding, maintaining, and reducing investments in host countries over the next three years?

Effects of Policy Uncertainty on Foreign-Owned Businesses

Survey results show that foreign-owned firms are sensitive to recent increases in policy uncertainty due to protectionism and economic nationalism in trade and investment. Nearly two-thirds of respondents report that such policy uncertainty was "important" or "critically important" to their investment decisions in the last year (figure 1.7, panel a).⁸ The survey data indicate that, on average, MNE affiliates that import a greater share of their inputs and those that employ more than 250 workers (large firms) are more sensitive to policy

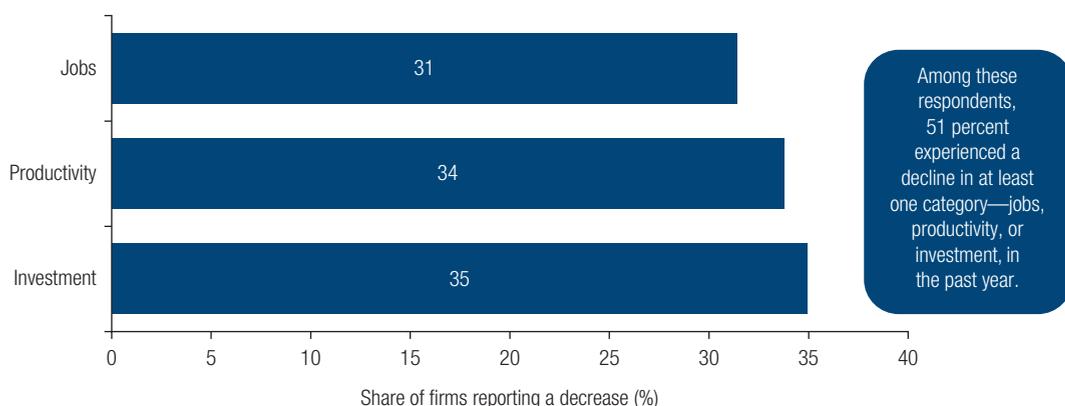
FIGURE 1.7 Investors Are Sensitive to Policy Uncertainty in Trade and Investment and Have Been Adversely Affected in the Last Year

a. Question: In the past financial year, how important was rising policy uncertainty due to protectionism and economic nationalism in trade and investment for your company’s investment decisions in this country?



The 29 percent of MNE affiliates that considered policy uncertainty in trade and investment to be “critically important” were asked the following question:

b. Question: In the last financial year, what impact has rising policy uncertainty due to protectionism and economic nationalism in trade and investment had on your company’s operations in this country?^a



Source: Computation based on the 2019 GIC Survey.

Note: Affiliates of multinational enterprises were surveyed in 10 middle-income countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. MNEs = multinational enterprises.

a. Questions about the impact of rising policy uncertainty on business operations were only asked of respondents who reported rising policy uncertainty as “critically important” in the past financial year (a 12-month period between January 1, 2018, and September 30, 2019, depending on the country).

uncertainty (both differences being significant at $p < 0.01$).⁹

To assess the direct impact of policy uncertainty on foreign-owned firms, MNE affiliates that consider policy uncertainty to be “critically important” were also asked whether policy uncertainty has caused increases, decreases, or no impact in terms of the number of jobs, productivity, investments, and changes in production locations (such as global supply chain adjustments). A substantial share of these

MNE affiliates reported being adversely affected by policy uncertainty (figure 1.7, panel b). About a third of respondents to this question reported declines in the number of jobs (31 percent), productivity (34 percent), and investment (35 percent) in the last year. Taken together, over half (51 percent) the respondents have experienced a decline in jobs, productivity, or investments owing to rising policy uncertainty in the past financial year. About a third (32 percent) reported positive

impacts along at least one outcome (and no negative impact on any outcome). The remaining 17 percent reported no effect or did not know.

The increase in trade and investment policy uncertainty could disrupt existing global value chains, reflecting MNEs' gradual shift toward reshoring or other changes to the locations of production (World Bank 2020). Thus, the survey asked the MNE affiliates that considered policy uncertainty to be "critically important" whether their decision making about production locations had changed as a result of policy uncertainty in the last financial year. Over 40 percent of respondents in China, Indonesia, Mexico, Nigeria, and Thailand have adjusted how they organize their supply chains as a result of policy uncertainty. In other countries, the results are less pronounced: less than one-third of respondents in Brazil, India, and Malaysia reported adjusting their supply chains because of policy uncertainty.

Policy uncertainty is most likely to have affected the configuration of supply chains and adjustments of production locations among the smaller MNE affiliates. Among those that are SMEs (with fewer than 250 employees), 40 percent report having adjusted how they organize their production locations, compared with 30 percent of large firms.¹⁰ This pattern may reflect the larger firms' greater capacity to weather policy-related challenges as well as the smaller affiliates' greater organizational agility in adjusting production locations.

Predominant Investment Plans

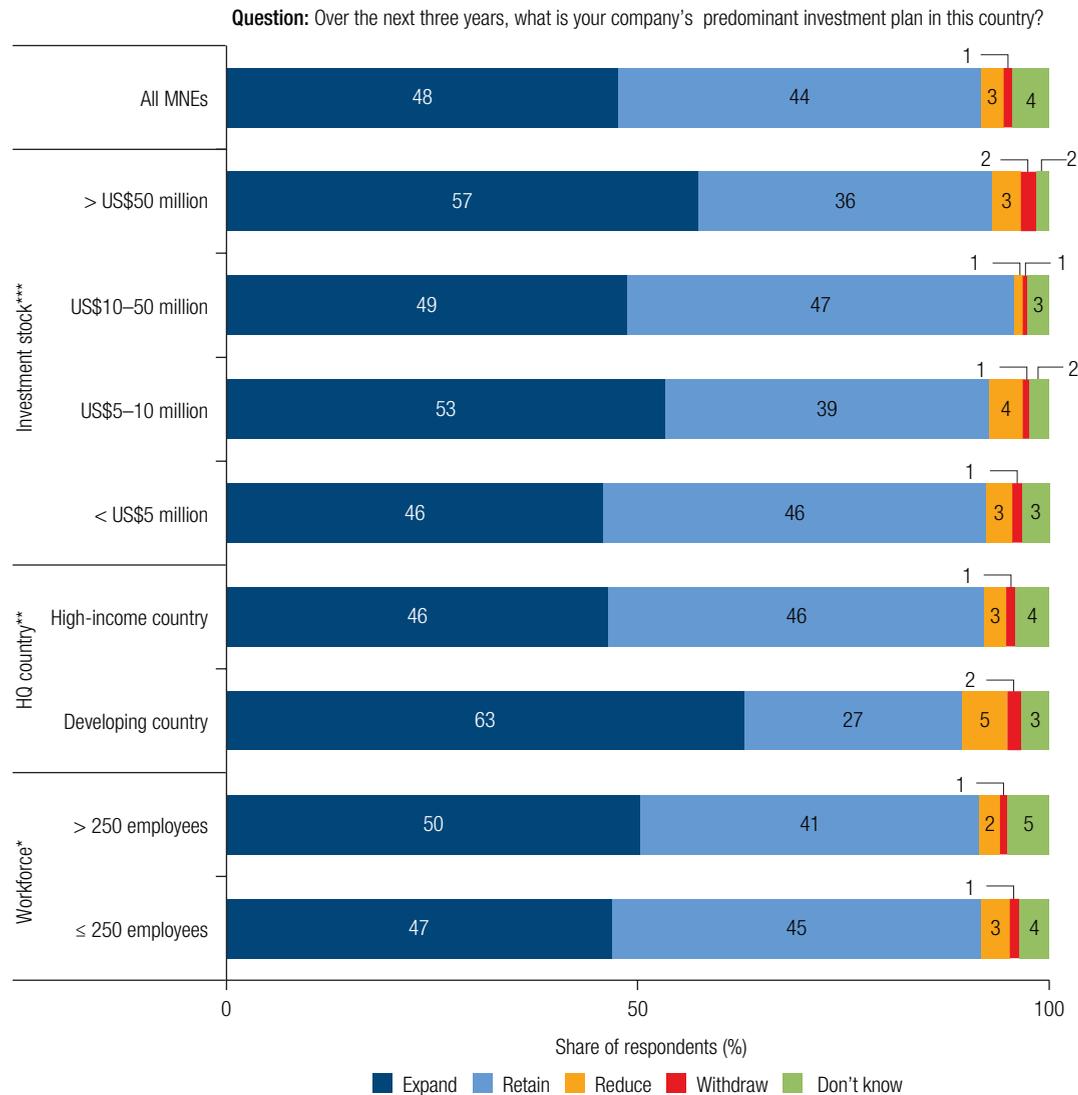
The nature of FDI (being partially sunk after the investment is made) renders it particularly vulnerable to trade and investment policy uncertainty. Adopting a "wait and see" approach, cautious firms delay or cancel planned investments and technological upgrades.

Theoretical explanations posit that an increase in uncertainty increases the option value of delaying investments when faced with adjustment costs, resulting in declines in both investments and new hiring (Abel, Dixit, and Eberly 1996; Abel and Eberly 1996; Bernanke 1983). These theoretical predictions consistently find support in the empirical literature (Anand and Tulin 2014; Baker, Bloom, and Davis 2013; Bloom et al. 2012; Cebrenos, Heffner, and Salcedo 2019; Gulen and Ion 2016). In turn, stalled investment activity impedes productivity growth because of limited reallocation across companies (Bloom 2009). In the face of trade and investment policy uncertainty, MNEs have incentives to revisit global production and sourcing decisions to avert vulnerabilities from possible supply chain dislocations (Blanchard 2019; IMF 2019). Firms' cautious investment behavior can thus curtail global economic activity and slow growth (Caldara et al. 2019).

To assess the investment outlook of MNEs operating in the surveyed economies, their affiliates were asked about their predominant investment plans in relation to expanding, maintaining, and reducing investments in host countries over the next three years.¹¹ Figure 1.8 presents aggregate results for the 10-country pooled sample. Fewer than half (48 percent) are planning to expand their investments over the next three years. A similar share of respondents (44 percent) across both manufacturing and services sectors are planning not to invest further, keeping their investment stock at current levels in respective host economies. A small share of existing respondents (4 percent) are planning to withdraw or reduce their investments.

MNE affiliates that are more exposed to policy uncertainty exhibit more cautious investment outlooks. In line with the literature, survey data suggest that policy uncertainty in trade and investment is poised to shift investment patterns. Firms that cite policy uncertainty in trade and investment as a "critically important" investment

FIGURE 1.8 Larger Firms and Those from Developing Countries Are More Likely to Expand Investment, on Average



Source: Computation based on the 2019 GIC Survey.

Note: Affiliates of multinational enterprises (MNEs) were surveyed in 10 middle-income countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. “Developing countries” refers to low- and middle-income countries as defined by the World Bank. Differences for investment stock were tested by comparing the “> US\$10 million” group with the rest of the sample. Percentages may not total 100 because of rounding. The interviews were conducted June–November 2019, so the implied three-year time horizon for this question is 2019–22. HQ = headquarters.

* $p < .10$ ** $p < .05$ *** $p < .01$

consideration are more than twice as likely as other affiliates (7 percent versus 3 percent) to reduce or withdraw their investments. Even after controlling for host country and various firm characteristics, MNE affiliates that cite policy uncertainty as a “critically important”

investment consideration expect to be less expansionary on average.¹² Relatedly, those respondents that experienced reductions in either workforce, productivity, or investments as a result of policy uncertainty are nearly four times more likely to expect to reduce or

withdraw investments in the next three years (9.2 percent versus 2.4 percent).¹³

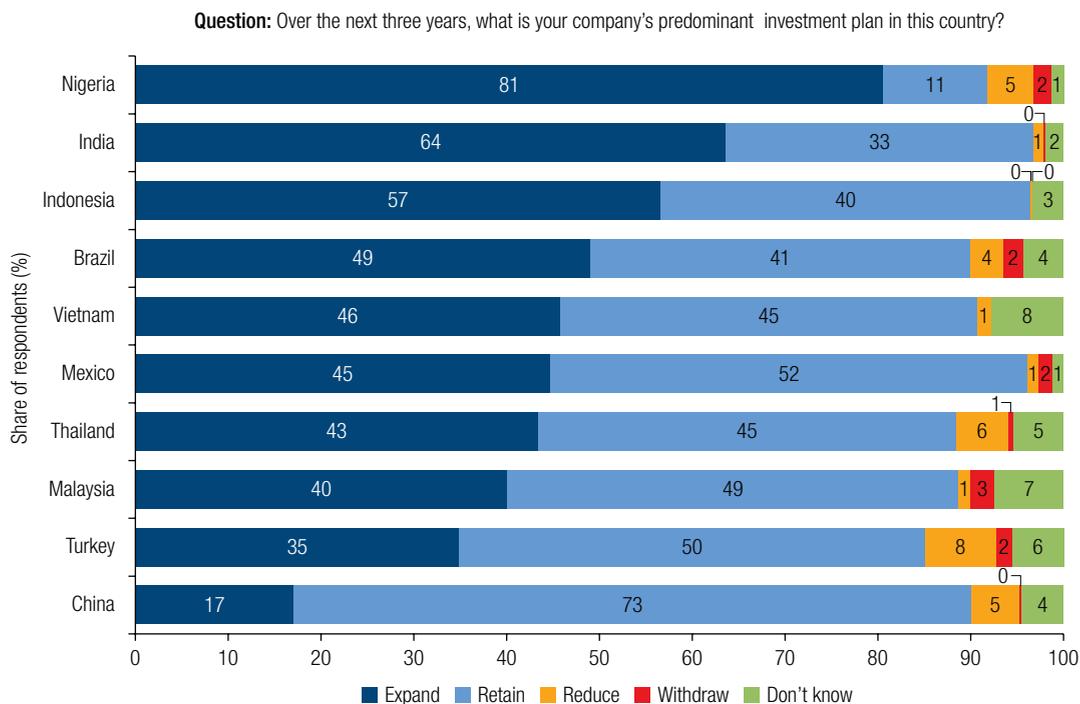
Larger MNE affiliates (by size of workforce or investment) are more positive in their investment outlook. Foreign-owned firms with more than US\$10 million in investment stock are nearly 10 percentage points more likely to expand investments in the next three years.¹⁴ Similarly, foreign-owned firms with more than 250 employees are also more likely to expand and less likely to reduce investment over the next three years.¹⁵ Results are consistent with literature that suggests that firms with greater financial resources are better equipped to weather uncertainty if they continue to believe that the long-term fundamentals of their investments are attractive (Ghosal and Loungani 2000).

MNE affiliates with parents from other developing countries are also significantly

more likely to plan on expanding their investments. Nearly two-thirds of affiliates with global headquarters in other developing countries plan to expand their investments over the next three years. The factors driving this result could include a higher appetite for risk and policy uncertainty among investors from developing countries as well as current trade tensions being concentrated between developed and developing countries (Beamish and Banks 1987; Gonzalez, Qiang, and Kusek 2018; Wei, Liu, and Wang 2008).

MNE affiliates report heterogeneous future investment plans across the surveyed countries. Figure 1.9 presents disaggregated results by country for the question on predominant investment plans in relation to expanding, maintaining, and reducing investments in host countries over the next three years. In terms of expansion, foreign affiliates in China

FIGURE 1.9 Investors in China and Turkey Have Less Ambitious Investment Plans than Those in Other Countries



Source: Computation based on the 2019 GIC Survey.

Note: For sample composition, see annex 1A. Percentages may not total 100 because of rounding. The interviews were conducted June–November 2019, so the implied three-year time horizon for this question is 2019–22.

(17 percent) and Turkey (35 percent) are much less likely to expand than those in other surveyed countries. In stark contrast, about four-fifths of foreign affiliates in Nigeria and two-thirds in India plan to expand their investment stocks over the next three years. The effect of policy uncertainty in trade and investment—combined with domestic factors such as macroeconomic fundamentals, political developments, and the legal and regulatory environment, among others—is likely to shape foreign companies’ investment plans in the surveyed countries.

In China, both efficiency-seeking and market-seeking investors report similar and relatively pessimistic investment outlooks for the next three years. However, the future investment plans for these two subgroups are likely shaped by different factors.

Efficiency-seeking investors (majority exporters) that primarily export to the United States are about 15 percentage points more likely than those with other primary export destinations to consider policy uncertainty to be “important” or “critically important” in their investment decisions.¹⁶ Plausibly, the investment sentiment of efficiency-seeking investors reflects the detrimental effect of ongoing trade tensions with the United States. Although investment flows to China have not slowed to date (UNCTAD 2019), the relative pessimism of affiliates in China suggests that changes in trade patterns may lead to investment diversion in the near future.

In contrast, the subdued future investment plans for domestic market-seeking investors are plausibly driven by domestic factors, including high levels of corporate indebtedness (a future growth risk) and an overall slowdown in China’s economic growth (World Bank 2019b).

In Turkey, MNE affiliates with different characteristics exhibit similar future investment plans: on average, only 35 percent plan to expand. There are no significant differences across major dimensions of interest (manufacturing and services, efficiency seeking and market seeking, large and small affiliates, older and newer affiliates) in terms of either

sensitivity to policy uncertainty in trade and investment or average investment outlook.

This relative homogeneity suggests that foreign-owned firms’ relative pessimism in Turkey is driven by domestic macroeconomic uncertainty. The Turkish economy has recently suffered from sharp financial outflows driven by concerns related to high current account deficits, high corporate indebtedness, and the direction of domestic economic policy (World Bank 2019b). Such issues are likely to affect all MNE affiliates in the country.

In contrast to China and Turkey, more than 80 percent of the surveyed MNE affiliates in Nigeria plan to expand their investment stocks in the next three years. This expansionary outlook holds regardless of the affiliates’ sector, export intensity, and primary export destination, suggesting that economy-wide factors are driving investors’ relative optimism.

Survey results suggest that Nigeria may experience a strengthening in investor confidence following a period of declining FDI inflows. The positive investment outlook observed in the survey is also supported by investment forecasts for the next three years. The projected investment growth rate is higher in Nigeria than in all other surveyed countries (see annex 1B). In recent years, FDI inflows to Nigeria have declined because of factors such as falling commodity prices, uncertainty regarding elections, new regulations establishing local content requirements, restrictions on visas for expatriate workers, and disputes between the government and foreign investors related to repatriation of profits and taxation (UNCTAD 2019; World Bank 2019b). Foreign affiliates’ positive outlook for investment over the next three years reflects developments including political stability after completion of the 2019 election cycle, a marked improvement in the ease of doing business as a result of business environment reforms, and a new policy to reduce public ownership in joint-venture oil assets (UNCTAD 2019; World Bank 2019a). However, the longer-term outlook may depend on further strengthening of the

country's economic governance framework (World Bank 2019b).

In India, most of the MNE affiliates—about two-thirds—also plan to expand their investment stocks in the next three years. They display no significant differences in either sensitivity to policy uncertainty in trade and investment or future investment plans across most major respondent characteristics.

The overarching trend observed across major respondent categories (manufacturing and services, efficiency seeking and market seeking, large and small affiliates, older and newer affiliates) suggests that foreign investors are likely responding to a base set of supportive economic fundamentals in India. A variety of positive factors can plausibly explain their robust investment outlook, including an accommodating monetary policy that has supported credit growth and policy stability as a result of political continuity. Investor confidence further stands to gain from the country's strong performance on business regulatory reforms and a streamlined nationwide goods and services tax (GST) regime, among other factors (IMF 2019; Kazmin 2019; World Bank 2019a, 2019b).

Importance of Predictability for Foreign Investment

Evidence presented in the preceding section suggests that policy uncertainty has adversely affected many investors. These impacts, combined with the looming threat of a synchronized global economic slowdown, mean that competition between countries for FDI is likely to further intensify.

This raises important questions for host-country policy makers. Crucially, what can developing countries do to inspire investor confidence, counter prevailing global headwinds and policy uncertainty, and leverage FDI for their development objectives? With nearly two-thirds of the 2019 GIC Survey respondents considering policy uncertainty to be “important” or “critically

important” for investments, a credible policy response should enhance predictability and investor confidence.

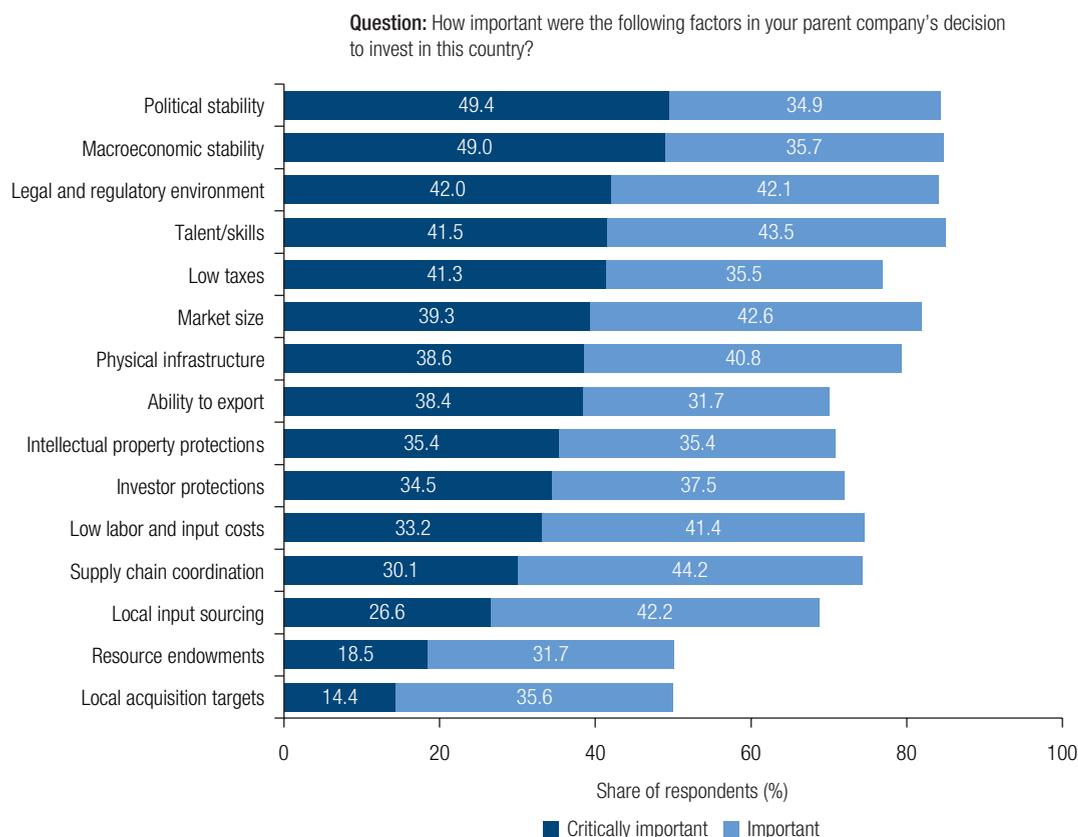
Key Role of Political, Macroeconomic, and Regulatory Environments

The survey results show that nearly 9 in 10 respondents consider political stability, macroeconomic stability, and a country's legal and regulatory environment to be “important” or “critically important” for investment decisions (figure 1.10). These factors rank ahead of considerations such as low tax rates, low labor and input costs, and access to resource endowments.

The findings are consistent with the 2017/2018 GIC Survey and extant empirical literature showing that higher instability related to the political and macroeconomic environment¹⁷ imposes additional transaction costs and risks for businesses. It thus plays a critical role in shaping long-term investment decisions. Empirical research shows that there is significant negative effect of the resulting risk and uncertainty on FDI inflows (Asiedu 2006; Busse and Hefeker 2007; Jun and Singh 1996; Krifa-Schneider and Matei 2010; Schneider and Frey 1985; Sekkat and Veganzones-Varoudakis 2007; Walch and Wörz 2012).

Relatedly, a transparent and predictable regulatory environment is crucial for attracting new investment as well as for retaining existing foreign investors. A large body of research suggests that the quality of a country's legal and regulatory environment is positively associated with FDI (Akame, Ekwelle, and Njei 2016; Buchanan, Le, and Rishi 2012; Daude and Stein 2007; Gani 2007; Globerman and Shapiro 2002; Vogiatzoglou 2016; Wei 2000; Wernick, Haar, and Singh 2009). Furthermore, evidence from previous investor surveys reinforces the claim that a supportive business climate is among the top priorities for foreign investors (A.T. Kearney 2019; Kusek and Silva 2018).

Countries' legal and regulatory environments are especially important for larger

FIGURE 1.10 Legal and Regulatory Environment Is among the Top Three Investment Decision Factors


Source: Computation based on the 2019 GIC Survey.

Note: Affiliates of multinational enterprises (MNEs) were surveyed in 10 middle-income countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam.

firms. On average, large firms (those with more than 250 employees) rank the legal and regulatory environment as their top investment consideration, while smaller affiliates consider it to be only the fourth most important consideration.¹⁸ These differences may be driven by investment restrictions that are applicable only to larger firms and by the greater regulatory scrutiny that large firms tend to experience.

Investment Policy and Regulatory Regimes that Enable FDI

The 2019 GIC Survey assessed which specific investment policy and regulatory obstacles hinder an enabling regime for FDI.

Cumbersome investment approval processes and operational restrictions are the most-cited regulatory barriers for FDI in the surveyed MICs.

Respondents most commonly identify investment approval processes as a key issue, with 56 percent listing them as “moderate” or “major” obstacles to operations. On average, MNE affiliates need more than two months (64 days) to obtain such approvals, but times vary widely across countries and types of investment—and 10 percent of affiliates report wait times of five months or more. Restrictions on prices, technology, or products are another key barrier, with 44 percent of respondents citing them as “moderate” or “major” obstacles. The

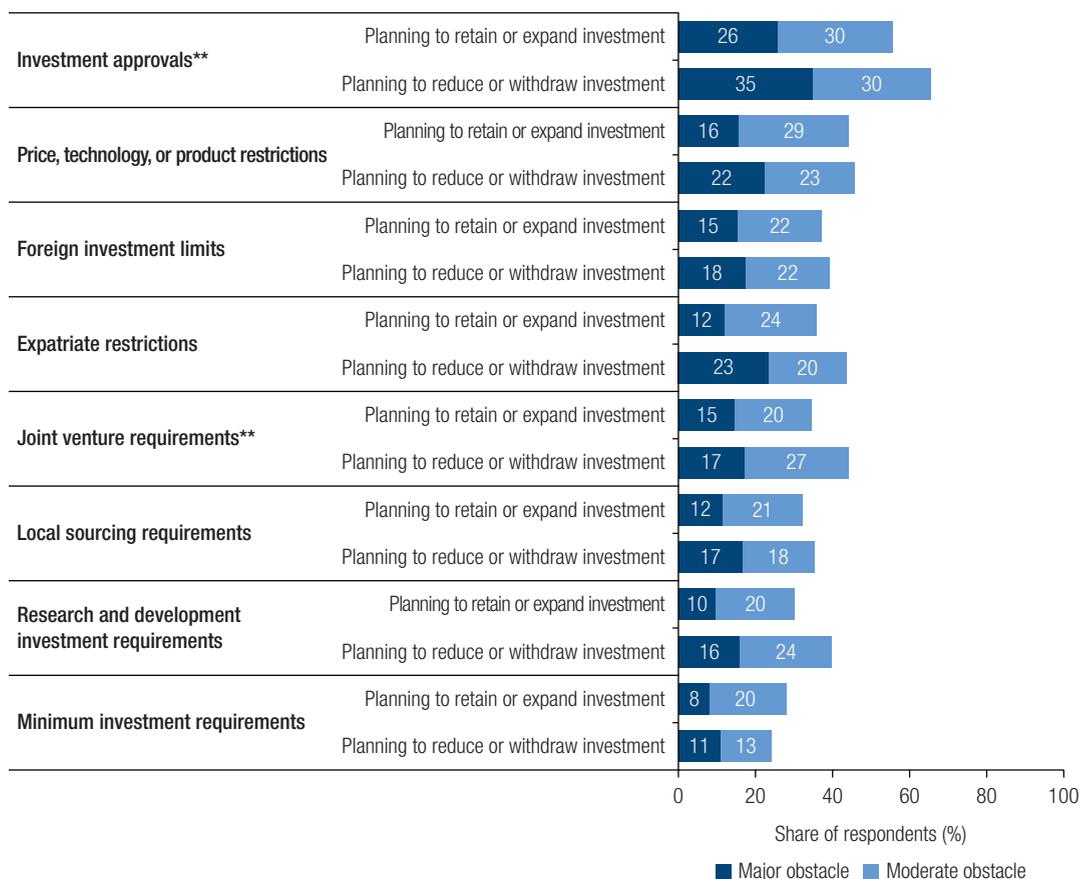
salience of these top two concerns holds across most countries and sectors. In addition, these findings are consistent with prior work that also finds that investment approval processes and restrictions on prices, technology, or products can be significant obstacles for foreign affiliates (Mistura and Roulet 2019; UNCTAD 2019).

The survey data also show that firms planning to *reduce or withdraw* investments in the next three years are more likely than those planning to *retain or expand*

investments to have experienced higher legal and regulatory obstacles in investment approvals, local sourcing requirements, research and development (R&D) investment requirements, minimum investment requirements, and expatriate staff restrictions. For example, 35 percent of respondents planning to reduce or withdraw investments cite investment approvals as a “major” obstacle, compared with just 26 percent of other respondents (figure 1.11). These stark differences suggest that legal and

FIGURE 1.11 MNE Affiliates that Experience Legal and Regulatory Obstacles are More Likely to Reduce or Withdraw Investments in the Future

Question: To what degree are the following factors an obstacle for your company to operate in this country?



Source: Computation based on the 2019 GIC Survey.

Note: Affiliates of multinational enterprises (MNEs) were surveyed in 10 middle-income countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. The interviews were conducted June–November 2019, and the implied future time horizon for this question is a three-year period: 2019–22.

**p < .05

regulatory barriers play a key role in MNE affiliates' investment decisions.

Notably, some factors that are only rarely considered major obstacles by most MNE affiliates (such as restrictions on expatriate staff) rank among the top obstacles for affiliates looking to reduce or withdraw their investments. Some of these issues may matter a great deal to a subset of affiliates, while others may be relatively rare but important when they do arise.

Table 1.3 disaggregates the top three legal and regulatory obstacles, by country. Cumbersome investment approvals to start and operate a business are the top-cited obstacle in most countries and rank in the top two in all surveyed MICs. Restrictions on setting prices, production technology, or the format of products also rank in the top three in all surveyed MICs except Vietnam.

Other top-three obstacles vary by country: for example, affiliates in Brazil and Mexico cite those countries' relatively stringent joint venture requirements as hindering

MNE affiliates' operations. In contrast, limits on the amount of foreign investment are relatively bigger concerns for affiliates in China, India, Indonesia, Thailand, and Turkey. In Vietnam, local sourcing requirements and restrictions on hiring expatriate staff routinely hold back affiliates' operations.

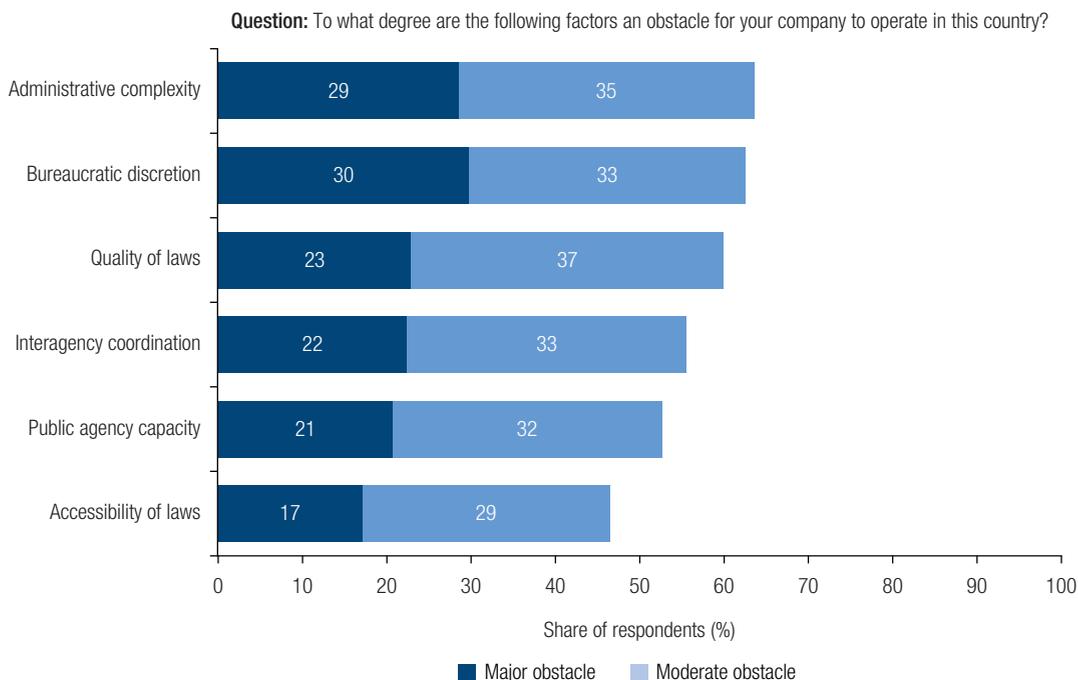
Recent literature has shed light on how businesses navigate the regulatory environment in developing countries and the divergence between regulatory provisions and their implementation (Freund, Hallward-Driemeier, and Rijkers 2014; Hallward-Driemeier and Pritchett 2015). To assess factors that contribute to obstacles for foreign-owned firms in the surveyed countries, the survey asked respondents about specific aspects of government conduct related to the quality and implementation of investment rules. MNE affiliates cite both the quality of laws (rules and regulations) and challenges in their implementation as contributing to their obstacles in the surveyed countries (figure 1.12).

TABLE 1.3 Investment Approval Processes Are the Top Most-Cited Obstacle across Surveyed Countries, Followed by Price, Technology, or Product Restrictions

Country	Most-cited obstacle	Second most-cited obstacle	Third most-cited obstacle
Brazil	Investment approvals	Price, technology, or product restrictions	JV requirements
China	Investment approvals	Price, technology, or product restrictions	Foreign investment limits
India	Investment approvals	Foreign investment limits	Price, technology, or product restrictions
Indonesia	Investment approvals	Price, technology, or product restrictions	Foreign investment limits
Malaysia	Expatriate restrictions	Investment approvals	Price, technology, or product restrictions
Mexico	Investment approvals	Price, technology, or product restrictions	JV requirements
Nigeria	Investment approvals	Expatriate restrictions	Price, technology, or product restrictions
Thailand	Investment approvals	Price, technology, or product restrictions	Foreign investment limits
Turkey	Investment approvals	Price, technology, or product restrictions	Foreign investment limits
Vietnam	Investment approvals	Local sourcing requirements	Expatriate restrictions

Source: Computation based on the 2019 GIC Survey.

Note: Rankings are based on frequency counts. JV = joint venture.

FIGURE 1.12 Foreign-Owned Firms Perceive the Quality of Rules and Their Implementation as Obstacles in Government Conduct

Source: Computation based on the 2019 GIC Survey.

Note: Affiliates of multinational enterprises were surveyed in 10 middle-income countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam.

Major drivers of legal and regulatory challenges include the complexity of administrative procedures, discretion exercised by the bureaucracy, and the quality of laws and regulations. In other words, both the substantive content of laws and the way in which they are implemented contribute to legal and regulatory obstacles in the surveyed countries.

Outside of the main findings of this report, the 2019 GIC survey also revealed important differences between various categories of MNE affiliates (box 1.1).

Conclusions and Policy Implications

High levels of international and domestic policy uncertainty in trade and investment have emerged as an investment risk. If not

curtailed, such uncertainty can present a significant threat for the global economy. Survey data suggest that policy uncertainty has already adversely affected many investors and could drive future investment slowdowns. Over the next three years, most investors in the surveyed MICs are not planning to expand their investment stock. Given the demonstrated contributions of FDI to host economies in terms of capital infusion, technology transfer, and linkages to global and local value chains, policy uncertainty poses a serious threat to both short-term growth and long-term structural transformation.

In this environment of uncertainty, governments of developing countries can nevertheless take steps to bolster FDI by strengthening their investment competitiveness. Current insights from the 2019 GIC Survey highlight several policy priorities:

BOX 1.1

Key Findings of the 2019 GIC Survey Results, by Foreign Investor Type

The 2019 GIC survey revealed some important differences between various categories of multinational enterprise (MNE) affiliates.^a Some of the results listed below concern topics addressed in the survey but not covered in detail in this chapter (such as incentives and investment promotion agencies). These topics are addressed in detail in subsequent chapters of this report.

Differences by Sector (Manufacturing versus Services)

- Manufacturers are more sensitive than services affiliates to the availability and costs of local inputs.
- Services affiliates consider joint venture requirements and limits on foreign investment to be larger obstacles, on average, than do manufacturers.
- Manufacturers tend to use and value investment incentives more than services affiliates do.

Differences by Degree of Export Activity

Several findings showed differences between “majority exporters” (MNE affiliates whose revenues come mostly from exports) and affiliates with less than half of revenues from exports:

- Majority exporters are less sensitive to local market size and stability but are more sensitive to input cost, availability, and quality.
- Majority exporters consider local sourcing requirements and restrictions on hiring expatriate staff to be bigger obstacles, on average.

- Majority exporters use and value investment incentives more, on average.

Differences by Origin Country (Developed versus Developing)

- Investors from developing countries are more likely to plan on expanding investments over the next three years.
- Investors from developing countries value investment incentives and investment promotion agency (IPA) services more than investors from developed countries do, on average.

Differences by Size (Firm Employment Level)

- Large employers (those with more than 250 employees), on average, place greater importance on the legal and regulatory environments of their host countries.
- Smaller employers, on average, encounter more legal and regulatory obstacles, particularly concerning investment approvals, joint venture requirements, research and development (R&D) investment requirements, and minimum investment requirements.
- Large employers receive more fiscal or financial incentives, on average, but do not necessarily value them more than smaller firms do.

a. Unlike other analyses in this chapter, differences presented in this box are from logistic and ordered logistic regressions without controls, because they are meant primarily for descriptive purposes. They should not be interpreted as indicative of causal impacts.

1. *Counter international policy uncertainty by reaffirming commitments to global and regional trade systems.* Survey data consistently demonstrate how rising policy uncertainty due to protectionism and economic nationalism in trade and investment weighs on investor sentiment. To counter such uncertainty, policy makers should signal and follow through on their commitments to multilateral and regional trade and investment arrangements in several ways:
 - a. *Uphold the multilateral trading system.* Honoring existing global and regional trade and investment agreements would improve the government’s credibility and commitment regarding the course of future policy. In the absence of such commitments, foreign-owned firms may be hesitant to invest if they think existing rules may not be honored in the future.
 - b. *Continue trade and economic liberalization.* The continuation of

- ongoing trade and investment liberalization efforts through multilateral and regional mechanisms would increase investor confidence by setting expectations of further reductions in trade and investment restrictions in the future. In parallel, governments should continue to reduce economic distortions (for example, from subsidies) through domestic reforms, which would both facilitate domestic growth and contribute to the resolution of ongoing trade disputes.
- c. *Clearly communicate policy directions.* Clearly communicating changes in trade and investment policy in advance would reduce investors' uncertainty on the direction of future policy.
2. *Promote political stability, strong institutions, and good governance.* On average, MNE affiliates cited political stability as their top investment decision-making factor. Indeed, research highlights how potential reescalation of conflicts, electoral violence, and political turbulence pose risks to many countries' economic outlooks. Hence, policy makers should focus on these overarching goals:
 - a. *Strengthen institutions.* Political and economic institutions establish "rules of the game" by promoting, among other things, openness, transparency, and stability. Strengthening institutions to ensure peaceful transitions of power and some degree of continuity in structures of governance and policy making thus contributes to greater predictability and investor confidence.
 - b. *Ensure fair governance.* Establishing rules and building institutional capacity to ensure a level playing field for investors and to eliminate political favoritism toward specific businesses is also crucial for attracting investments. A level playing field ensures that the most efficient MNEs have adequate incentives to invest, helping to maximize benefits from FDI.
 3. *Optimize macroeconomic policy.* Macroeconomic stability is the second most-cited investment decision-making factor among MNE affiliates. Underlying inflationary pressures are still present in many low- and middle-income countries, as are risks of short-term capital outflows. To counter those pressures, governments should pursue the following measures:
 - a. *Implement macroprudential policies.* Policies such as countercyclical capital buffers and limits on foreign currency borrowing can help limit exposure to future currency, interest rate, or debt rollover shocks.
 - b. *Ensure central bank independence.* Insulating central banks from political interference would help establish currency and interest rate credibility.
 - c. *Optimize fiscal policy.* From a fiscal perspective, individual country situations vary widely. In general, however, countries would do well to preserve growth-enhancing spending and tax reforms while ensuring fiscal space through fiscal consolidation, broadening of the tax base, and strengthening of tax administration. Such measures would help keep debt-to-GDP ratios manageable while limiting adverse effects on economic growth.
 4. *Improve the legal and regulatory framework for FDI.* Foreign investors consistently identify the legal and regulatory environments for FDI in host countries as being critical considerations for their investment decisions. Indeed, these issues are even more important to the large firms that disproportionately contribute to employment growth in host countries. Policy makers should thus remain committed to fair market access for foreign firms while removing critical administrative barriers to investment, as follows:
 - a. *Remain committed to fair access.* Policy makers should resist the temptation to engage in protectionism and economic nationalism in their own markets. This entails minimizing foreign investment limits, excessive and discretionary foreign investment screening, and discrimination against foreign firms.

- b. *Remove critical administrative barriers.* Across all countries, survey respondents consistently cite cumbersome investment approval processes as well as restrictions on pricing, technology, or products as key obstacles to their operations. Governments of developing countries should thus invest in making approval processes more efficient and optimize operational regulations to minimize adverse impacts on business operations without sacrificing the regulations' original policy objectives.
- c. *Focus on improving both the implementation and quality of laws.* Survey data suggest that both suboptimal design of regulations and the ways in which they are enforced contribute to operational obstacles. Thus, although improving the regulations should remain a priority, governments should also work to streamline procedures and clarify roles to limit administrative complexity and bureaucratic discretion.

The COVID-19 pandemic reinforces the importance of these policy priorities, especially measures to build investor confidence. Against the backdrop of heightened policy uncertainty in trade and investment, the pandemic will further escalate uncertainty, magnify investment risks, and depress foreign investor confidence. With higher dependence on imports of intermediate goods and broader exposure to export markets, MNEs are particularly vulnerable to supply and demand shocks induced by the pandemic. Although large-scale impacts are already observable, the full extent and duration of the effects of the pandemic remain uncertain.

Beyond such medium- to long-term measures, the extraordinary challenges associated with the pandemic also warrant crisis management measures by governments. The pandemic represents an unprecedented shock to the global economy, and the economic fallout for MNEs is expected to be very high (IMF 2020; UNCTAD 2020). Support to MNEs should be deployed rapidly, benefit a broad cross-section, and respond to pressing

vulnerabilities. The prospects for recovery rest on the breadth and depth of policy support extended to MNEs in the face of the extraordinary global shock.

Finally, the severity of the pandemic underscores the need for timely policy insights. A responsive policy research agenda should seek to fill knowledge gaps (for example, estimate the effects on markets, businesses, and workers) and enable the design of policy measures that increase the resilience of MNEs to shocks and preserve their viability.

Annex 1A. Survey and Data Analysis Methodology

The data used in this study are from the 2019 Global Investment Competitiveness (GIC) Survey, which captures the experiences and perceptions of multinational enterprise (MNE) affiliates on global megatrends and investment climate factors in 10 middle-income countries (MICs). The survey involved interviewing senior executives of foreign-owned firms who possess a broad understanding of their companies' business strategies, policy barriers, operational obstacles, and investments in the host economy.

The survey complements other investor surveys by focusing on investment climate variables, such as administrative and legal barriers, rather than on broader economywide factors. These specific investment climate variables are actionable areas for policy makers.

The survey comprised four sections:

1. *General information on the company*, including sector, number of employees, the total investment stock to date, and predominant investment plan over the next three years in the host country.
2. *Importance and effect of global megatrends on the company's business operations*—including on jobs, productivity, investments, and changes in location of production—in the last year.
3. *Foreign-owned firms' contribution to the host economy* through reinvestments, local sourcing, and pro-competition effects, as well as *foreign-owned firms' integration in*

global value chains through estimates of imports and exports.

4. *Importance of investment policy factors and operational obstacles faced by the foreign-owned firms' affiliates*, including investment restrictions, services offered by investment promotion agencies (IPAs), tax and financial incentives, and investment protection guarantees.

The survey was designed to generate results that are representative at the country level and comparable across countries. An assessment of changes in affiliate experience and perceptions over time will be possible with a second wave of data collection in 2020–21. To the extent possible, the second round will target foreign-owned businesses from the first round.

Sample Representation

The survey represents experiences and perceptions of a representative sample of foreign-owned firms in each of 10 MICs: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. Each country sample comprises roughly 250 foreign-owned firms with at least five employees.¹⁹ In each country, roughly 125 respondent firms operate in the manufacturing sector, and roughly 125 respondent firms operate in the services sector (tables 1A.1 and 1A.2).²⁰ The only exception is Nigeria, where because of sampling frame limitations, the sample comprises 164 respondents (55 manufacturing and 109 services). Thus, across the 10 target countries, more than 2,400 responses were collected.

Sampling frames comprising partially or fully foreign-owned businesses in the 10 MICs were constructed using commercially available and proprietary sources (Dunn & Bradstreet, Orbis/Bureau van Dijk, Sample Solutions, and others). The sampling frame sizes by country are presented in table 1A.3. The frames were de-duplicated and cleaned, and data quality was enhanced using standard sample framing and data manipulation techniques. In some sampling frames, all affiliates were contacted to reach the target sample size. In others, only

TABLE 1A.1 2019 GIC Survey Sample, by Country and Sector

Country	Manufacturing MNE affiliates	Services MNE affiliates	Total
Brazil	125	125	250
China	125	125	250
India	125	125	250
Indonesia	133	125	258
Malaysia	125	125	250
Mexico	124	125	249
Nigeria	55	109	164
Thailand	125	125	250
Turkey	125	125	250
Vietnam	128	125	253
Total	1,190	1,234	2,424

Source: Computation based on the 2019 GIC Survey.

Note: MNE = multinational enterprise.

select affiliates were contacted before the target was reached.

Nonresponse bias can occur when those who respond to the survey are systematically different from nonrespondents in terms of basic characteristics. The likelihood of nonresponse bias in this survey is minimal because no systematic differences were found when respondents and nonrespondents were compared based on observed characteristics (such as sectoral affiliation and country of origin). To address any possibility of nonresponse bias due to target respondents' varying willingness or ability to respond to the survey, data were weighted for nonresponse. This did not change the results and findings derived from the survey and presented in the chapter.

To ensure representativeness, analyses contained in the chapter incorporate weights to account for different sample sizes across countries, different probabilities of sampling, and bias due to nonresponse. Design weights have been included to ensure that the different strata (country-sector intersections) are given equal weight. Sampling weights were included to account for different probabilities of being sampled, weighting each observation by the inverse probability of selection. Finally, nonresponse weights are applied to maintain consistency between the distribution of MNE affiliates in the sampling frame and results from the sample along observable characteristics. To check the robustness of results in this

TABLE 1A.2 Share of 2019 GIC Survey Respondents, by Subsector

<i>Sector and subsector</i>	<i>N</i>	<i>Share of total sample (%)</i>
Manufacturing	1,190	49.1
Machinery and equipment	151	6.2
Metals and metal products	124	5.1
Automobiles, other motor vehicles, and transport equipment	116	4.8
Rubber and plastic products	108	4.5
Chemicals and chemical products	84	3.5
Agroprocessing, food products, and beverages	72	3.0
Information technology and telecommunications	71	2.9
Electrical and electronic equipment and components	52	2.1
Textiles, apparel, and leather	51	2.1
Wood products, paper, and printing	45	1.9
Pharmaceuticals, biotechnology, and medical devices	18	0.7
Refined petroleum products, coke, and nuclear fuel	8	0.3
Manufacturing: Other or unclassified	290	12.0
Services	1,234	50.9
Wholesale and retail trade	270	11.1
Business services	116	4.8
Logistics, transport, and storage	101	4.2
Computer and software services	85	3.5
Administrative and support services	59	2.4
Construction	58	2.4
Financial services, including insurance	49	2.0
Electricity, gas, and water	32	1.3
Other professional, scientific, and technical services	20	0.8
Real estate	18	0.7
Hotels, restaurants, and tourism	16	0.7
Telecommunications	13	0.5
Media	9	0.4
Health	7	0.3
Arts and recreation	6	0.2
Education	5	0.2
Scientific research and development services	5	0.2
Water supply and waste management	3	0.1
Residential care and social work	2	0.1
Public administration and defense services	1	0.0
Services: Other or unclassified	359	14.8

Source: Computation based on the 2019 GIC Survey.

TABLE 1A.3 Sampling Frame Sizes, by Country

<i>Country</i>	<i>Total number of affiliates</i>
Brazil	5,007
China	15,668
India	9,120
Indonesia	4,153
Malaysia	5,673
Mexico	7,992
Nigeria	7,089
Thailand	9,789
Turkey	4,248
Vietnam	2,739

Source: Computation based on the 2019 GIC Survey.

chapter to different weighting approaches, all analyses in this report were also run without weights and with sampling weights only. The results in this chapter were found to be robust to these changes in weighting approach.

Survey Administration

The World Bank Group commissioned an international survey firm, Kantar Public, to conduct 30-minute phone interviews with target respondents. The interviews were conducted by enumerators, and response data

were entered in a computer system, a setup commonly referred to as computer-assisted telephone interviews (CATIs). The interviews were conducted in nine languages: Bahasa Indonesia, Mandarin Chinese, Cantonese Chinese, English, Portuguese, Spanish, Thai, Turkish, and Vietnamese. In addition to the main survey questions, each interview included a screener phase to ensure the eligibility of respondents. The interviews were conducted between June and November 2019.

The survey was piloted in all 10 countries to test the survey instrument in various languages and to identify effective strategies to increase response rates. The lessons from the pilot phase were used to reduce administration time and enhance overall clarity of the survey instrument.

The overall response rate for the survey was 9.3 percent. This response rate is consistent with the current expected range for phone-based business surveys.²¹ The main fieldwork of the survey leveraged lessons from empirical research in survey design and administration to implement the strategies described below to ensure high response rates.²²

Potential respondents were notified by email before the survey. Building on research evidence (Dillman 2000; Lynn, Turner, and Smith 1997), a prenotification email with World Bank Group and International Finance Corporation (IFC) branding was sent to potential respondents to signal that the survey would contribute to important global policy research. The prenotification emails also directed potential respondents to an informational website (www.investorsurvey.net) to obtain additional information about the survey, including a (view-only) copy of the survey questionnaire. These measures aimed to lower information barriers and enhance trust between respondents and interviewers, thereby improving the likelihood of securing an interview with senior executives.

An easy-to-follow survey questionnaire was administered by well-trained professional CATI enumerators. The survey

questionnaire, in the country's primary business language, was used to ensure that it could be completed within a reasonable time frame. The online read-only version of the questionnaire was available to be consulted during the interview. The fieldwork managers and CATI enumerators were screened to ensure experience in conducting business and market research, and they underwent specific interviewer training to prepare for this survey. A questionnaire manual with detailed explanations of the questionnaire also served as a reference source while the survey was being administered.

Survey administration arrangements prioritized respondents and constraints on the time of senior executives. Sensitive to variability in typical business hours and local norms around time use,²³ CATI enumerators attempted to establish contact and schedule interviews during conducive time periods. Survey administration arrangements such as timing of calls, language options, repeat follow-up attempts, and scheduled callbacks were implemented to maximize the likelihood of obtaining responses from the contacted sample. In case of initial failure to reach the intended respondent, 5–10 follow-up call attempts were made.

As a token of appreciation, respondents were promised a set of nonmonetary incentives. A key constraint to survey participation is the opportunity cost of time. Business surveys impose a net cost on respondents, requiring executives to apportion productive time away from work. Research largely supports the use of incentives as an effective means to increase response rates (Singer and Ye 2013). To encourage potential respondents to “invest” time in the survey, interviewers (a) emphasized the important policy research that the survey will inform; (b) promised to send respondents a copy of the final research report; (c) promised to send respondents a certificate of appreciation; and (d) noted that a charitable donation would be made to the United Nations Children's Fund (UNICEF) when the target number of surveys was reached.²⁴

Data Analysis

Throughout the chapter, tests of the significance of differences are conducted using ordered logistic (for ordinal variables such as ratings for importance) or logistic (for binary variables) regressions. Unless otherwise noted, tests for statistical significance of differences control for sector, a dummy variable for exports constituting over 50

percent of revenues, sector-export interactions, import share of inputs as a continuous variable, sector-import interactions, source country income group, a dummy for employment over 250 employees, a dummy for investment stock over US\$10 million, number of years in host country, percentage of foreign ownership, and country fixed effects.

Annex 1B. Country-Level FDI Outlook Trends

TABLE 1B.1 FDI Outlook Trends in Surveyed Countries

Country	Survey data (share planning to expand investment over next three years) ^a	Forecast data (inward FDI value, CAGR 18–21F)	Historical data	
			(inward FDI value, CAGR 13–18)	(Greenfield FDI project announcements, CAGR 13–18)
China	17%	–7%	–7%	–6%
Turkey	35%	2%	–1%	8%
Malaysia	40%	8%	–5%	0%
Thailand	43%	–12%	–4%	2%
Mexico	45%	–3%	–5%	–1%
Nigeria	81%	29%	–19%	–4%
Vietnam	46%	6%	12%	11%
Brazil	49%	–5%	3%	–4%
Indonesia	57%	4%	–3%	–9%
India	64%	8%	8%	7%

Sources: 2019 GIC Survey; Economist Intelligence Unit forecast data; World Development Indicators database (historical inward FDI value); and historical greenfield FDI data from FDI Markets, a *Financial Times* dataset (<https://www.fdimarkets.com/>).

Note: Green shading indicates more growth, while red indicates low or negative growth. CAGR = compound annual growth rate; FDI = foreign direct investment.

a. The interviews were conducted June–November 2019, so the implied three-year time horizon for this question is 2019–22.

Notes

1. “Developing countries” in this report refers to low- and middle-income countries as defined by the World Bank. For the definitions of all income categories and the countries therein, see “World Bank Country and Lending Groups,” World Bank Knowledge Base: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.
2. Although FDI inflows as a share of GDP have declined in most of the surveyed MICs, experiences have varied. For example, from

2008 to 2018, FDI inflows to China fell sharply (from 3.7 percent to 1.5 percent) but increased in Brazil (from 3.0 percent to 4.7 percent). As discussed in the Overview, a mix of economic factors are plausibly shaping global FDI trends, including declining rates of return on FDI, changes in U.S. tax policy, increasingly asset-light forms of international production on the backs of digital technologies, and rising policy uncertainty.

3. Recent projections show remittances exceeding FDI for low- and middle-income countries in 2019, although they are not projected to do so for the 10 surveyed MICs given their

- relatively higher FDI compared to remittances (Global Knowledge Partnership on Migration and Development [KNOMAD] database: <https://www.knomad.org/data/remittances>). Foreign bank lending is also a significant source of private external finance and represents about half of all external liabilities of emerging-market countries (Bräuning and Ivashina 2019).
4. The 2019 GIC Survey covers foreign companies that have invested in the 10 surveyed countries. It does not represent the perceptions and experiences of companies that have never invested in foreign countries or that have invested only in countries other than those surveyed. The results of the survey are not generalizable to all developing countries but are highly relevant because the surveyed countries account for a substantial share of FDI inflows to developing countries (75 percent in 2018).
 5. For the various uncertainty indexes, see the Economic Policy Uncertainty index website: <https://www.policyuncertainty.com/>.
 6. For a discussion on the sources of policy uncertainty, see the Overview of this volume.
 7. Studying this relationship empirically is particularly challenging using modeling techniques because of the strong assumptions required to measure trade and investment policy uncertainty across heterogeneous firms and the lack of firm-level data on relevant economic outcomes. Several 2019 surveys have attempted to address these limitations by directly asking firms about their investment plans in response to trade tensions and uncertainty. They include the semiannual Survey of Business Uncertainty (SBU) in the United States conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business (July 2019); the annual US-China Business Council (USCBC) Member Survey of U.S. businesses in China (August 2019); the monthly Reuters Takan survey of Japanese manufacturers (September 2019); and the quarterly UBS Investor Sentiment survey (March 2019).
 8. The “last year” refers to the last financial year preceding the 2019 GIC Survey—that is, a year spanning a 12-month period between January 1, 2018, and September 30, 2019, depending on the country.
 9. Throughout the chapter, tests of the significance of differences are done through either ordered logistic (for ordered ordinal variables such as ratings for importance) or logistic (for binary variables) regression analysis. Unless otherwise noted, tests for statistical significance of differences are done via ordered logistic regression of the dependent variable, controlling for a wide variety of company characteristics and country fixed effects. For more details on the analytical methodologies such as modeling techniques and control variables, see annex 1A.
 10. The 10 percentage point difference between large and small firms is significant at the $p < 0.10$ level.
 11. The interviews were conducted between June and November 2019, so the implied time horizon for this question is 2019–22.
 12. The coefficient in the ordered logistic regression is negative and significant at the $p < .10$ level after controlling for firm characteristics and host country fixed effects.
 13. In the logistic regression with full controls and country fixed effects, the coefficient on having been adversely affected by policy uncertainty is negative and significant at the $p < .05$ level.
 14. Differences are significant at the $p < .01$ level in the ordered logistic regression with full controls.
 15. Differences are significant at the $p < .10$ level in the ordered logistic regression with full controls.
 16. These differences are statistically significant at the $p < .05$ level in the ordered logistic regression with full controls.
 17. Political instability includes high incidence of political turbulence and internal conflicts. Macroeconomic instability includes volatility in inflation and in real exchange rates.
 18. Ranking of importance is based on the percentage of investors that rate a factor as “important” or “critically important.” Differences in average importance are significant at the $p < .01$ level in the ordered logistic regression with full controls and country fixed effects.
 19. Because of sampling frame limitations, the Nigeria sample is 164 respondents (55 manufacturing and 109 services firms).
 20. The sample size of 125 respondents per sector per country is greater than the required sample strength for estimates with 7.5 percent precision in 90 percent confidence intervals.
 21. The response rate calculation follows the *Response Rate 3* (RR3) methodology outlined in the latest guidance on response rates from The American Association for Public Opinion Research (AAPOR 2016). This approach estimates the proportion of

cases of unknown eligibility that is actually eligible. The response rate was calculated as follows:

- Response rate = Interview / (Interview + Eligible Non-Interview + e (Unknown Eligibility Non-Interview))
- Response rate = (2424) / (2424 + 7309 + 0.38 (42783)) = 9.33 percent
- e = the estimated proportion of cases of unknown eligibility that are eligible.
- e = (Confirmed Eligible) / (Confirmed Eligible + Confirmed Not Eligible)
- e = (2424 + 7309) / (2424 + 7309 + 15818) = 0.38.

The Pew Research Center reported that response rates in 2017 and 2018 telephone surveys fell to 7 percent and 6 percent, respectively, a decline from the prior norm of 9 percent (Kennedy and Hartig 2019). Gallup reported attaining a similar 7 percent average response rate in the Gallup Poll Social Series in 2017 (Marken 2018). The AAPOR reported that response rates from leading survey research firms were about 9 percent for landlines and 7 percent for cell phones in 2015 (AAPOR 2017).

22. For global data collection from formal businesses in developing countries, the use of telephone-based surveys can be advantageous. Compared with face-to-face surveys, telephone surveys take less time and are less expensive, and the near-universal prevalence of telephones supports the generation of representative samples (von der Lippe, Schmich, and Lange 2011). However, this administration mode has unique challenges, including the growing aversion to divulging business information by phone (de Leeuw and Hox 2004) and the proliferation of answering machines and caller ID (Callegaro, McCutcheon, and Ludwig 2010).
23. Local norms include, in some countries, the prevalence of an afternoon break from work or breaks for prayers.
24. A small monetary incentive for respondents was also introduced in China.

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