Box 2 - Determinants of foreign direct investment

A company's decision to invest in another country is the result of a complex process. Such a decision may be reached when the needs of the foreign company match the advantages of the host country. There are two classes of determinants for the selection of a host country for FDI: factors on which the government has an impact and characteristic or inherent factors of the economy. The former case includes the government's policy towards foreign investment and the business environment created by it. Examples are economic, administrative and social stability, taxation policy, international agreements, privatization, trade policy, etc. Examples of factors linked to the economy itself can be seen in the table below. Essentially, companies make foreign direct investments in order to gain access to necessary factors of production and assets, to increase efficiency through access to inexpensive factors of production, and to gain access to markets. The table presents these factors in more detail.

Motives behind FDI	*Main economic determinants of FDI in host countries*
Resource/asset-seeking	• Raw materials, energy • Low-cost unskilled labour • Skilled labour • Technological, innovatory and other created assets (e.g. brand names) including those embodied in individuals, firms and clusters • Physical infrastructure (ports, roads, power, telecommunication)
Efficiency-seeking	• Cost of resources and assets, adjusted for productivity for labour resources • Cost of other inputs • International cooperation, e.g. EEA/NAFTA
Market-seeking	• Size of market and per capita income • Market growth • Access to regional and global markets • Country-specific consumer preferences • Structure of markets

Source: World Investment Report 1998.