

Transport and Foreign Direct Investment Attractiveness

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Abstract-This article provides a theoretical study on the role of transport to improve the regional attractiveness of foreign direct investment in the host country. In addition, it presents the contribution of transport infrastructure in promoting regional competitiveness and focuses on the role of each mode of transport and to demonstrate the advantages of each of them.

Keywords: territorial attractiveness Foreign direct investment, transport infrastructure, mode of transport.

I. INTRODUCTION

In developing countries (DCs), the awareness of the positive effects of foreign direct investment (FDI) is established from the 70s. These countries become more open to international trade and commercial flows by giving more importance to FDI [1]. Reference [2] shows that the literature treats this type of investment in three principal points; the FDI determinants, their effects and impacts on host economies and entry modes of multinational corporations (MNCs) and implementation strategies in their host countries.

Recently, host countries believe that they must develop a strong attractiveness based mainly on a set of traditional determinants (economic and political stability, natural resources, cost and qualification of manpower and tax measures proposed to motivating foreign investors and the degree of openness to the regional and international environment ...). In latest years, MNCs consider transport as a new FDI determinant with a growing importance. For this reason, the host countries become increasingly interested to improve transport quality. The latter one was watched, for a long time, as the first source of negative externalities becomes, today, a major determinant of territorial attractiveness especially in developing countries.

This change, due to the augmented internationalization of firms, increases their need for a transport system with high added value, high-performance, based on a modern and developed infrastructure capable to respond effectively to their needs. Actually, in a context of intense international competition, firms give more importance to the time factor. Indeed, a delivery just in time, stocks at zero level, goods more

sensitive to climatic conditions are all factors which make transportation a production element as well as capital and labor.

II. TRANSPORTATION: FACTOR OF FOREIGN DIRECT INVESTMENT ATTRACTING

[3] explains the transport service as an intermediate consumption, rarely asked in and of itself. It is an auxiliary of professional, leisure or production activity. Transport demand can be understood only in relation to lifestyle and production activity, including its technical structure and space. But transportation is not a just passive translation of travel needs. It has its own dynamic that will make it an essential instrument for space structuring.

Thus, transport performs other functions in the global economic. It is a key factor of globalization allowing companies and individuals to take better advantages of this phenomenon, "Companies and individuals can all the more benefit from globalization that transportation systems are efficient and effective" [4]. More specifically, into the economic activities relocation and the firms' internationalization, the quality and capacity of the physical infrastructure (airports, roads, public transport, etc...) in a host country are inherent factors to the location decision-making process of multinational corporations. [5] finds that the transportation costs, the customs duties and the economies of scale in the firm help the American companies to increase their investments abroad.

Also in a host country, the appropriate management of transport systems is a necessary condition to improve the firms' competitiveness. In a localization project of activities abroad, the company demands the best possible transportation service providing the least expensive connectivity between the various subsidiaries. Because in the MNCs, the good management of the transport is essential in a world where the time constraints and flexibility must be managed effectively.

However, the impact of the transport costs on the location choices of subsidiaries vary from one activity to another. In the industrial field, the factories location depends directly on these

costs if their part increases significantly the production cost. But minimizing transportation costs is always a major objective; it is one of the location determinants which is necessary to analyze. In addition, most firms believe that the transport logistics helps to minimize expenses. Where from, their increasing requirements concerning infrastructure and conditions in which they will organize the movement of goods and staff. Each firm wishes a good satisfaction of its transportation needs to maintain its proper functioning, which postulates frequently the choice between several modes of transport.

In the new economy where MNCs production networks are integrated on a global scale and consumers become more and more pressed and demanding, time becomes a real source of competitive advantage. Rapid access to a logistics platform or in other words the quality of land transport infrastructure that connect the various intra-regional poles of growth appears as an important location factor. In this context, the most important contribution of transports is that they are an essential element of connectivity and a major asset of FDI attraction strategy.

Actually, developing countries know the importance of transportation to attract the FDI. They have a big interest to improve quality and capacity of their transport infrastructure to enhance their competitiveness and increase their attractive effect exerted on the MNCs.

III. THE ROLE OF TRANSPORT INFRASTRUCTURE

Few researches which try to discuss the role of the transport infrastructures as being determiners of the FDI as in [6], [7], [8], [9], [10], [11]. They demonstrate the importance of such infrastructures as essential elements to strengthen the economic activity of countries. Indeed, in the early stages of a country's development, transport infrastructure is an important contributor to economic growth of nations. In effect, we find that the rail was at the heart of the industrial era, playing a central role in the economic development of Western Europe, North America and Japan. The rail was the first major innovation in ground transport technology and provided an impulse to a series of important changes in chartering and passenger movements.

For MNCs as well as domestic firms, their operations are largely dependent on the capacity and quality of transport infrastructure especially those providing international transport. In addition, [12] explains that the transport infrastructure is directly related to the nature of production, which requires the availability of roads, railways, ports and other facilities for operational efficiency. Also, with increased competition, companies are looking to distinguish themselves by some of their offers. They choose to locate near ports and in logistics areas well equipped to ship their products in the best conditions.

Currently, the modern economy is dependent on labor quality and flexible production strategies called "just in time". In the context of globalization and market integration, strengthening the competitiveness of regional clusters and networks requires efficient transport systems, competitive and

connected. Minimizing lead times and delivery increases the competitiveness of firms. For [13] "The location of a factory near the national network facilitates the production processes just in time and complete the appeal forms of accessibility."

Several recent empirical researches suggest that public infrastructure has a significant impact on productivity and cost structure of private firms [14], [15], [16], [17]. [18] speaks about the influence of transport infrastructure on the work of firms. He also believes that, if the state does not provide these types of infrastructure, the national private sector and multinational companies operate less efficiently and attempts by them to provide their own networks would result in duplication and wasted resources. For example, better roads can reduce costs associated with building a new plant or transport of heavy equipment. So when a private company using public roads to receive and ship its products, its productivity increases, as it combines its own capital with the public one, reducing the unit cost of production. Why [19] says "a location with good infrastructure is more attractive than the others".

For example, in the North Africa, European investment intended to develop subcontracting relationships are the most promising in terms of employment and technology transfer, but the development of these activities is intimately related to infrastructure and logistics platforms building [20]. In addition, large firms internationalize their added value chains and they locate operations abroad, consequently their needs of movement between different subsidiaries are greater. So a good transport logistics is essential to ensure the best connectivity between clients and suppliers and to improve their efficiency and productivity and thus the overall competitiveness of the firm.

In the Maghreb, maritime transport is the backbone of its commercial exchange with the European Union. Upgrading to international standards of North African port systems is a carrier of productivity gain for supply chains and competitiveness for local economies. However, even these projects increase the ports capacity and facilitate trade between the two Mediterranean shores, the problem of logistics infrastructure in the country MATE does not stop there, we also turn to the situation of land infrastructure. Indeed, in this region roads remain insufficient and rail freight are weak and unable to provide a good access to the port areas [21].

In Asia, land transportation has benefited from a big project to upgrade. According to [22], in order to help domestic enterprises to adapt well to the globalization phenomenon has approved in 1992 a project for the development of land transport infrastructure. This step aims facilitating import and export transactions and improving the regional integration providing to local firms more resources to penetrate global markets.

Also, the project examines the potential of intermodal installations such as dry ports and inland container parks. [22] says "dry ports, strategically located where different transport networks converge, allow an efficient transfer of goods from

one mode to another, including those transported in standard containers, which ensures optimum utilization of the networks as a whole. These dry ports have similar functions to those seaports. "

Several studies demonstrate that these installations represent important elements for building a successful intermodal transport system. They help to create a favorable environment for foreign direct investment and therefore for MNCs. Subsequently, these firms act as an accelerator of international trade which generates a wider development of industrial clusters around providing a significant level of economic activity.

Some companies find that, a particular mode of transport is more compatible and well adequate to these activities; they use it more than others. Road transport is the most commonly used to achieve transport door to door, but it remains non-competitive of view of mass and volume transported. While the sea transport always remains the first one in quantitative terms despite its slow speed. Each mode of transport has its own advantages which make it the most useful in certain conditions. Increasing globalization and the rapid enhance of FDI generate volumes of international trade in large quantities. Thereafter improvement projects in their territorial attractiveness, the developing host country grant more importance for their transport sectors. Therefore, the transport system must acquire the required capacity by MNCs. What makes consolidate the importance of transport in achieving these exchanges of goods and subsequently use more efficient in all modes.

IV. The role of different modes

Firstly, road transportation is the only way that allows for a transportation service from door to door. It provides a direct shipment of the goods from the enterprise of the exporter to the importer's one without the need for any other mode. These firms use frequently the road transport to realize the local and international exchanges. The exploitation of this mode has registered high rates thanks to its benefits offered to shippers in terms of speed, adaptability to cargo, autonomy and flexibility. The road transport infrastructures, especially highways, are assumed to directly determine location of new facilities [13]. For these reasons, developing countries give more importance to the construction of new road infrastructure providing new ways of MNCs to retain continuous production systems at low costs and making deliveries in the shortest possible time. Generally, when the influence of these infrastructures is relayed by the agglomeration effects of different companies doing business or competing businesses but maintaining implicit exchange know-how, the investment environment becomes more attractive and more conducive to creation of new subsidiaries and the MNC will be more motivated by the benefits offered.

Secondly, ground transportation includes rail transport also participating with a large portion in the transport of people and goods. Characterized by its large capacity, rail transport is more efficient than road in terms of quantities transported. Currently, using containers, rail transportation can ensure the

movement of all types of goods, which gives more reasons for MNCs to seek a new location site served by the rail mode. Rail transport is very flexible with respect to vehicles, there are a variety assigned to different uses. In addition there are a wide variety of wagons; today they are well adapted to different types of goods. MNCs can transport raw materials (grain, potash...) in the hutch wagons, manufactured goods and semi finished products and electronic components using the wagon platform. Also the transport of liquids is possible in tank wagons. For all these reasons, developing countries are realizing the value of land transport in the attraction of MNCs and they put in place strategies to develop their infrastructure.

Thirdly, shipping is another mode that plays a very important role in international trade and which has undergone the most profound change further to the invention of containers. The mode of transport is an indispensable factor in the establishment of international relations through trade operations it provides. Very far from other modes, shipping remains the first mode of international moving goods with almost 80% of trade. Globalization and the emergence of MNCs are easier by improving the delivery of goods. Quality shipping in terms of efficiency, speed and security is essential in international trade of goods. Indeed, the cost and quality of maritime services condition all foreign direct investment and determine the strategic choices of multinational firms in the relocation of their subsidiaries, expanding their markets and diversify their offerings.

From one day to another for an MNC, the impact of transport costs on the choice of a host country for the creation of a new subsidiary is more important. With low shipping costs, firms prefer the outsourcing of production factors near the lowest. Then they carry production to consumers in markets where demand is highest. Lowering costs of shipping, moving parts and finished products between assembly plants and storage depots is easier. While the rise in transportation costs may conversely lead to a relocation of plants near the customer. Industrial relocation cannot give positive results, so it cannot be adopted by MNCs if transportation costs remain high.

Finally, the air transport offers a very fast flow of goods between the company and various subsidiaries. Globalization of economic space is largely based on freight transport, but also on the movement of passengers. Growth of air traffic is also highly correlated with growth in international trade. More recent than the other modes in the market for freight air transport came to occupy an enviable position. The work of the Association for the International Air Transport Association (IATA) to simplify export by plane gives a rapid change in tonnage transported by air. It is further anticipated a greater need, air transport world, caused mainly by the Asian market.

Reference [23] affirmed that air traffic volume is very low compared to that of shipping, but its value is greater. It covers products with high added value such as computer equipment, medical, broadcast, telephone and luxury materials which represent 47% of the value of international trade and only 3% of the corresponding volume. MNCs see that air transport characterized by its speed, regularity and reliability is the best

mode suited to the development of strategies work just in time, which explains the sharp rise of its request. According to the [24], "air transport is the second largest consumer of fuel and is also the mode of transport which is growing fastest. If this trend continues, fuel used by air transport exceeds the one used by road transport in 2030."

V. CONCLUSION

For a long time, the attractiveness of the host country is mainly based on those calls that traditional determinants of FDI. Recently, outside the major factors that will be economic or institutional, the location decision of a territory or another depends on several new factors. Indeed, liberalization and the rapid development of international financial markets, rapid changes in freight volumes and also the large number of passengers between countries require transportation more efficient in loading capacity and quality service and innovation in the field of new information and communication technologies.

In this work, we found that we can not avoid the growing role of transport in strategies to attract FDI in the host country and subsequently in all economic activity. The realization of a transport infrastructure quality increases the volume of FDI inflows and good logistic function promotes the development of a multimodal transport system in these economies.

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