

THINK Executive

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The  
Logistics  
Institute  
– Asia  
Pacific

**LOGISTICS CAPABILITY AS A FACTOR IN  
FOREIGN DIRECT INVESTMENT  
LOCATION CHOICE** – *A Discussion Paper*



A Collaboration Between



## INTRODUCTION

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This study was initiated by two members of THINK Executive, with the following objectives:

1. To determine the importance of logistics as a factor in influencing the location choice of companies for their investments and operations
2. To evaluate Singapore's performance in logistics

Thus the scope of this research covers two different but related aspects, a systematic study on the role of logistics in the foreign direct investment (FDI) location choice by multinational corporations (MNCs), and a review of logistics performance of Singapore as well as its neighboring logistics hubs.

Knowing that FDI is one important driver of economic growth, countries eager for economic growth and development have used various policy incentives ranging from tax breaks to generous handouts such as cheap land to attract FDI. On the logistics side, many developing countries are investing in costly transportation facilities such as new airports, highways, railways, and seaports as well as expanding the capacity of existing transport infrastructure. While the lack of logistics services in certain developing countries has become a major deterrent for companies wishing to establish a market presence<sup>[1]</sup>, good transport infrastructure alone is not sufficient to attract MNCs. We thus initiate this study to examine the impact of logistics on MNCs' FDI location choice. A comprehensive study on the impact of logistics environment on FDI decisions and performances could be valuable to both MNC managers and national policy makers. Managers could make more informed location decisions lest its FDI performance be hampered by poor logistics support. For policy makers, a good understanding of both the hard and soft factors of FDI location would facilitate them to establish proactive logistics policies and ensure that the regulatory conditions do not unduly restrain and burden the logistics sector, needed to ensure the smooth conduit of trade flows.

For a small country like Singapore, such study is of particular relevance as logistics is one of its key competitive advantages. Currently numbered second according to World Bank's global Logistics Performance Index (LPI)<sup>[2]</sup>, it is endeavoring to maintain its leadership as a global logistics hub facing various challengers in the region. To maintain its competitive advantage and attract the right type of FDI for its further growth, a good understanding of MNCs' FDI

location choice as well as a more updated evaluation of its logistics performance comparing with its competing neighbors is essential.

## **THINK Executive**

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Established by The Logistics Institute – Asia Pacific, THINK Executive is intended for companies interested in a common area of research to engage with economies of scale through a dedicated research team.

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