CHAPTER 29 : Assessment of a country as a production location

1. Costs of production

: Lower labour cost is often an important factor in attracting the business. The rising cost of energy and land is having an increasing impact on the location plans of some business.

2. Skills and availability of labour force

: It also must consider the quality of human capital. A business has to also consider whether the labour force in a country has the skills required to maintain standard or not.

3. Infrastructure

- **Roads** : might be poorly constructed and inadequately maintained
  : Some area might be at risk of natural disaster, such as flooding
- **Good broadband network** : great importance to business when considering location of production. This is because businesses need rapid and reliable internet connection to communicate with stakeholder.
- **Airport and Port** : This might make it difficult for business personnel to travel to and from production facilities and to ship goods out of the country.
- **Railway Network** : This might be a problem if large or heavy goods need to be transport.
- **Lack of investment in education** : This can affect quality go human capital and may discourage managers and other senior staff from locating near the site.
- **Quality of healthcare** : Impact on the quality and health of human capital.
- **A lack of commercial services and suppliers** : eg. IT support, Bankers, insurance and etc.

4. Location in a trading bloc

: Some business locate production facilities in certain countries to avoid trade barriers, such as tariffs and quotas. This can be achieved by building a plant inside a trading bloc.

5. Government Incentives

: Government may be able to influence the location of business. They are usually keen to attract foreign direct investment because of benefits it brings, such as income and employment. Some examples include

- **Tax exemptions** : New business investments are exempt from tax for between five and seven years
- **Duty** : All import duties are removed for export-oriented business ventures.
- **Income Tax**
- **Remittances** : Capital, profits and dividends can be returned to the investor's own country without penalty
- **Easy exit** : Business investors can withdraw their investment either through the decision of an annual or extraordinary general meeting and the money raised can be returned to the investor's own country with authorisation
- **Ownership** : Foreign investors can set up operations independently or in joint ventures
- **Other incentives**
- **Financial Incentive** : Government might be able to use other methods to attract businesses. Eg. Investment in education and training / Reduce red tape

6. Ease of doing business

: The commercial environment is a very important consideration. The ease of doing business may depend on factors like the following :

- The ease with which business can be started and closed down
- The efficiency with which contracts are enforced
- The amount of bureaucracy eg. The ease with which permits can be obtained for construction projects
- The available of trade credit
- The ease of resolving insolvency

7. Political Stability 8. Natural Resources

: Some types of business activity, like mining, require larges quantity of resources. Mines can only be sunk in locations where there are proven mineral deposits.

9. Likely return on investment

: Businesses looking for locations are likely to consider a number of different options before making their final decision. During the decision-making process, SWOT analysis and PESTLE analysis can help to assess the suitability of different locations.

9.1 Payback method : The business will calculate how long it will take to get the initial investment with the payback method.

9.2 Average rate of return (ARR) : The average rate of return method, the net return per annum is divided by the initial investment and expressed as a percentage.

9.3 Discounted Cash flow: The value of future cash flows must be reduced to show their present value. The important point about discounted cash flow is that, just as money invested today will grow in value because of compound interest, so the opposite is true. The value of cash available in the future is worth less today.