FOREIGN DIRECT INVESTMENT OF U.S. AND NON-U.S. LISTED MULTINATIONAL ENTERPRISES: POLICY EFFECTS

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ABSTRACT

This research reports survey responses from 76 U.S. multinational enterprises (MNEs) and 53 non-U.S. listed MNEs. The survey elicited general (i.e., demographic) and international tax-policy information from the two MNE populations. Specifically, the survey inquired about the relevance of eight international tax-policy issues in the MNEs' foreign direct investment (FDI) decisions. The U.S. and the non-U.S. MNE's responded that nontax factors dominate their FDI decision. With regard to the significance of international tax-policy issues in FDI decisions, the two populations' responses do not differ statistically with regard to five of the tax policy issues and do differ statistically with regard to three of the international tax provisions.

INTRODUCTION

Researchers in general and tax policy researchers in particular are increasingly focusing their inquiries on the behavior of multinational enterprises (MNEs), defined as enterprises that engage in foreign direct investment (FDI) and that own or control value-adding activities in more than one country [3, p. 3]. During the 1960s, the profile of the typical MNE was a large U.S. corporation. By the beginning of the 21st century, both aspects of that profile have changed.

First, MNEs now also span a range of sizes. As Hill [6] notes, medium-sized and small business are becoming increasingly involved in international trade and investment, e.g., Swan Optical, Bridgewater Pottery, and Cardiac Science, assisted by the Internet's having lowered the barriers previously encountered by relatively smaller businesses. Secondly, non-U.S. firms are entering the global marketplace in greater numbers. In l973, 48.5 percent of the world's largest MNEs were U.S. firms; however, by 2000, U.S. firms accounted for only 24 percent of the world's 100 largest multinational firms [6, p. 20]. Even firms in developing economies have penetrated the UN's list of the 100 largest multinationals, e.g., Hutchison Whampoa of Hong Kong; Petroleos de Venezuela of Venezuela, and Cemex of Mexico [6, p. 20].

Numerous researchers have studied the link between tax policy and MNEs' FDI decisions. Much of the existing research on MNEs builds on the foundation established by others, e.g., [1] and [10], recent examples of which are [5], [11], [9], [4], [5], [8], and [2].

CURRENT RESEARCH

The purpose of this research is to determine if international tax policy provisions affect the FDI decisions of U.S. and non-U.S. MNEs similarly. A questionnaire was sent to a population of U.S. MNEs and a population of non-U.S. listed MNEs that consisted of a (i) series of demographic questions (e.g., identify home country, identify dominant industry classification) and (ii) list of eight tax-policy provisions.

Using a five-point Likert scale (1 = unimportant to 5 = Of primary importance), firms were asked to rate each of the following eight tax-policy provisions in terms of its importance in FDI decisions: (1) country-specific tax policy relative to nontax factors; (2) country-specific corporate income tax rates; (3) presence/absence of a capital gains tax; (4) country-specific value-added tax rates; (5) country-specific tax holidays; (6) country-specific transfer pricing rules; (7) foreign tax credit (FTC) provisions; and (8) the firm's FTC position (i.e., excess credit or excess limitation).

RESULTS

A t-test was applied to each of the eight null hypotheses that were developed pertaining to the eight international tax policy provisions. Each null hypothesis states that the U.S. and the non-U.S. MNEs do not differ as to the importance of the tax provision addressed. At a .05 significance level, the null hypothesis of no statistical difference between the responses of the U.S. and the non-U.S. MNEs was rejected for the following tax policy provisions: presence/absence of capital gains tax, country-specific transfer pricing rules, and the firm's FTC position. For the remaining five international tax policy provisions, the responses of the U.S. and non-U.S. listed firms do not differ statistically at a .05 significance level.

In other words, the responding U.S. and non-U.S. MNEs have statistically similar views of the importance of the following tax provisions in their FDI decisions: (1) nontax factors versus tax factors, (2) country-specific corporate income tax rates, (3) country-specific value-added tax rates, (4) country-specific tax holidays, and (5) foreign tax credit provisions. Information about the following will be presented in the full paper (to be distributed at the conference):

Table 1: Industry representation of U.S. and non-U.S. MNEs
Table 2: Locations of foreign subsidiaries and/or alliances of U.S. MNEs
Table 3: Locations of foreign subsidiaries and/or alliances of non-U.S. MNEs
Table 4: U.S. MNE individual responses to the eight tax-specific questions (with industry means and standard deviations)
Table 5: Non-U.S. MNE individual firm responses to tax-specific questions (with industry means and standard deviations)
Table 6: Results of t-tests

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