Assessment of the determinant factors of Foreign Direct Investment's flows-Concentration on the role of Investment Promotion Agencies

By

Hamid Eftekhari Kondelaji

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

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ABSTRACT

The main questions of this thesis are:

1. What are determinant factors of Foreign Direct Investment (FDI) inflows?
2. Does a country need develop promotional activities to attract FDI?

Regarding the first question the hypothesis stating that main determinant of FDI inflow are foreign trade of goods and services and fixed capital formation has been tested by way of econometrics approach with a statistical sample combining 113 countries. The empirical findings show there is cause and effect relation between FDI inflow as dependant variable and foreign trade in goods and services as well as fixed capital formation as independent variables. Moreover it is statistically proved that high political & economic relation with investor countries specially USA positively impact the FDI inflow. Same result has been derived for being geographically close to investor countries, but not for high level of country risk.

Regarding the second question, it is discussed that strengthening of FDI determinants is considered as a required condition for being successful in attraction of FDI, but not as a sufficient condition. To complete the required condition, a country needs to be involved in promotional activities. Although the statistical results were not in favor of such a hypothesis, but because of some weakness in methodology used in relevant analysis the mentioned hypothesis has not been rejected and is based on the finding of previous studies involving in promotional activities specially in field of policy advocacy was recommended .

Dedicated to
Adibeh and Tarlan

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My wife has patiently allowed me to study at the expense of many difficulties she endured over the time I was far from home. Indeed she did a great job which only love could endure.

Also I should express my gratitude to my Organization[1] and its head Mrr. Mohammad Khazaee who strongly recommended me to the KDI School and the Colombo Plan for admission in the MPP course.

Finally, my special thanks go to who made such a great opportunity to me. It became possible because of Colombo Plan initiation and generosity of Korea. Particularly, Colombo Plan Secretary-General Mr. Kittipan Kanjanapipatkul and Director, Private Sector Development Programme Mr. Taehyung Kim had a specific role on granting this master degree scholarship.Thanks Colombo Plan. Thanks Korea!!!

[1] Organization for Investment, Economic and Technical Assistance of Iran

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INTRODUCTION

Foreign direct investment (FDI) can play an important role in raising a country’s technological level, creating new employment, and promoting economic growth. Many countries are therefore actively trying to attract foreign investors in order to promote their economic development, particularly at times when the country’s domestic growth prospects appear weak.

Annually, hundreds of articles and empirical studies are conducted to analyze different positive and negative aspects of FDI so that it is said the growth rate of the number of articles on FDI related issues is much more than growth rate of FDI itself! Moreover, so many professional institutes worldwide provide technical assistance and services to governments and investors for the purpose of FDI development. Nevertheless, there are tens of fundamental questions, especially from policy makers' point of view, which still need to be more scrutinized.

These questions may be categorized in four groups, from following point of views:

1- The nature and characteristics of FDI,

2- The impact of FDI on different economic and social factors,

3-The impact of different economic and social factors on FDI (i.e. determinant factors of FDI) , and

4- The ways by which FDI can be efficiently promoted.

I am not speaking of the question 1 and 2 above but rather the issues expressed in items 3 and 4 which take a high importance as far as the aims and missions of my Organization[1] are concerned. Nevertheless, it might be useful to have a look at FDI definition and the issues regarding the impacts of FDI on different social and economic factors. Then the main problems referred to in categories 3 and 4 above, can be discussed in details.

Definition of FDI:

Regarding the methodological notes such as definitions and characteristics of FDI, I refer to the methodology of UNCTAD Division on Investment, Technology and Enterprise Development (DITE) [2]. According to their definition:

[1] I am in charge of Organization for Investment, Economic and technical Assistance of Iran since 12 years ago. Our main field of activity is attraction and protection of FDI as well as other FDI related issues.

[2] As the focal point in the United Nations system for investment and technology, and building on 30 years of experience in these areas, UNCTAD, through DITE, promotes understanding of key issues, particularly matters related to foreign direct investment and transfer of technology. DITE also assists developing countries in attracting and benefiting from FDI and in building their productive capacities and international competitiveness. The emphasis is on an integrated policy approach to investment, technological capacity building and enterprise development.

Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities.

Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor. FDI has three components: equity capital, reinvested earnings and intra-company loans.

Equity capital is the foreign direct investor's purchase of shares of an enterprise in a country other than its own.

Reinvested earnings comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates,

or earnings not remitted to the direct investor. Such retained profits by affiliates are intra-company loans or intra-company debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

The impact of FDI on different economic and social factors:

Although like any other phenomenon FDI have certain positive and negative aspects, but history of many countries in the last three decades shows that its positive impacts on economy is much more than possible negative impacts. Many empirical studies, conducted over the recent years, indicate that there is a significant positive increase in income , income per capita, employment, transfer of technology, management skills, export, competitive position and , in general, the welfare level of FDI host countries. In other words, attraction of FDI, nowadays, is considered as one of basic development policies generally accepted around almost all developed and developing countries as well as transition economies. Hence, the problem is not evaluation of FDI impacts but to understand how it can and must be promoted.

Main Questions:

What are the determinants of FDI? And how it can or must be promoted?

Intuitively, we may find so many factors as FDI determinants, such as resource endowments, human resources, production costs, productivity,

market size, current account, government incentives, tariffs, risk, stability, exchange rates, interest rate, foreign trade volume and pattern, capital formation, political relation with investor countries, geographic location, geo-political conditions and so on. In other words we may suppose such factors as independent variable where FDI is supposed a dependent variable. Obviously there should be a significant positive or negative inter-correlation among data sets corresponding to these factors in any economy. Hence, for the purpose of building an econometrics model by which certain variables may significantly explain the flows of FDI we should select a few compatible factors as independent variable. Then we will need appropriate policies to target efficiently those factors.

Assuming that the determinants of FDI have been clearly recognized, the second problems appear. Is focusing on strengthening of the determinants a sufficient policy? Or we need to implement some complementary policies. Are promotional activities effective? What about organizations who are involved in promotional activities and/or other related issues. Do we need them? How big they must be? What tools should they be equipped?

These questions are the main problems under investigation of this thesis. In the following three parts I will try, first, to build an efficient model of FDI

determinants, then the role of Investment Promotion Agencies (IPAs) will be investigated and finally implications of findings must be appeared in policy recommendations.

Chapter 1:
Assessment of the determinant factors of Foreign Direct Investment's flows:

Assessment of the determinant factors of Foreign Direct Investment's flows:

Acknowledging the importance of FDI in economic development**,** policy makers want to know what its determinant factors are, based on which required policies should be designed to optimize attraction of FDI both quantitatively and qualitatively. Obviously, there is no unique formula applicable for all economies. Nevertheless, there must be some common variables which can explain, to some significant extend, flows of FDI regardless which economy is concerned. Here, I want to build an econometrics model in which I assume that FDI is a function of some independent variables. Then I want to add some qualitative variables, in the form of dummy variables to the model to measure the effect of such qualitative elements on FDI. Specifically I want to measure the impact of Investment Promotion Agencies (IPAs) on FDI inflows which has to be conducted in a separated part of thesis. First of all it would be useful to have a short look on the pervious studies, their weaknesses, strengths and applications.

Literature survey:

Hundreds of articles on the effect of FDI on economic and social parameters are available, which I am not going to involve in this part of the issue, whereas almost all countries, nowadays, virtually are actively seeking to attract FDI,

due to the expected favorable effect on income generation from capital inflows, advanced technology, management skills and market know-how.

Moreover, many of them have been focused on measuring impact of a single factor , such as income, tax incomes or tax rates, exchange rates, fiscal incentives, interest rates, tariff rates, existing of corruption and … on FDI which also are not discussed through this thesis.

In contrast, few of them have been focused on what I am interested in, i.e. the study of the influence of a set of different factors on FDI by way of making a unique equation, among which I found the following papers most relevant to the questions expressed here:

1. Investment Climate and FDI in the MENA Countries[1]:

This paper is to present a model based on nominal GDP, trade and exchange indicator of the host country that can be used to derive estimations for the inflows of FDI to the relevant country. The model is:

Log (FDI)= α_0 + α_1 log(GDP) + α_2 log(GDPpp) + α_3 RGDP +α_4 Lib +μ

Where:

FDI is nominal FDI

[1] By **Khalid Sekkat**, ULB, Brussels, Belgium, August 2004

GDP is nominal GDP of the host country

GDP pp is real per capita GDP

RGDP is real growth rate o host country

Lib is trade and foreign exchange indicator

μ is error term

The paper assess the relative importance of trade and foreign exchange liberalization, infrastructure availability and economic and political stability in increasing Middle East and North African (MENA) countries attractiveness with respect to FDI. The results show that trade and foreign exchange liberalization, infrastructure availability and sound economic and political conditions increase FDI inflows. Their effects are much higher for FDI in the manufacturing sector than for total FDI. This result is robust to alternative indicators of trade and foreign exchange liberalization, and to change in the specification. The paper shows, for a panel of 26 to 72 countries studied during the 1990s, that trade and foreign exchange liberalization has constituted a key factor for the attractiveness of a country in terms of FDI. This result is robust regardless the type of FDI (total or in manufacturing), the indicator of trade and foreign exchange liberalization, and the specification used.

2. Foreign Direct Investment: Determinants, Trends, Inflows and Promotion policies:[1]

This paper reviews the host country determinants of FDI by way of an intuitive / descriptive approach. It categorizes key determinants and factors associated with the extent and pattern of FDI in developing host countries in the three following groups:

- attractiveness of the economic conditions in host countries;
- the policy framework towards the private sector trade, industry, and FDI and its implementation by host governments; and
- the investment strategies of MNEs.

A detailed list of the factors under the mentioned groups is shown in the following table:

Economic conditions	• Markets.	Size; income levels; urbanization; stability and growth prospects; access to regional markets; distribution and demand patterns
	• Resources.	Natural resources; location
	• Competitiveness	Labor availability, cost, skills, trainability; managerial technical skills; access to inputs; physical infrastructure; supplier base; technology support.

[1] By **Joong-Wan Cho**, Economic Affairs Officer, Investment and Enterprise Development Section, Trade and Investment Division, Economic and Social Commission for Asia and the Pacific. (ESCAP)

Host country policies	• Macro policies	Management of crucial macro variables; ease of remittance; access to foreign exchange.
	• Private sector	Promotion of private ownership; clear and stable policies; easy entry/exit policies; efficient financial markets; other support.
	• Trade and industry	Trade strategy; regional integration and access to markets; ownership controls; competition policies; support for multinational enterprises (MNEs).
	• FDI policies	Ease of entry; ownership, incentives; access to inputs; transparent and stable policies.
MNE strategies	• Risk perception	Perceptions of country risk, based on political factors, macro management, labor markets, policy stability.
	• Location, sourcing,	Company strategies on location, sourcing of products/inputs, integration of affiliates, strategic alliances, training, and technology transfer.

While the paper gives a large conceptual framework of the determinant factors of FDI, it fails to measure their certain quantitative impact on FDI. Hence the findings of the paper are not much applicable as far as policy making purposes are concerned.

3. The Determinants of Foreign Direct Investment in a Comparative Perspective: Is there a Bias against Sub-Saharan Africa[1]:

This paper explores the determinants of foreign direct investment in a

[1] - By **Vinaye Dey Ancharaz,** Department of Economics and Statistics, Faculty of Social Studies and Humanities, University of Mauritius, Réduit, Mauritius

comparative perspective and looks for evidence of a bias on the part of foreign investors against sub-Saharan Africa (SSA). The paper examines whether Africa's tiny share of world FDI flows is a consequence of inappropriate policies or a general investor bias against the region. The empirical results suggest that Africa's marginalization in the global competition for FDI is of its own making – the result of a generally inferior investment environment. The findings also reveal important differences in the determinants of FDI between SSA countries and the rest of the world.

The econometrics model has been developed in this paper to measure the FDI's determinant factor is:

$$[FDI/GDP]_{it} = g\,(GDP_{it},\ GDPPC_{it},\ GR3_{it-1},\ INV_{it},\ GSIZE_{it},\ \Delta\mathbf{RER}_{it},\ \mathbf{DSX}_{it},\ \mathbf{INST}_{it},\ \mathbf{POL}_{it},\ \mathbf{SKILL}_{it},\ \mathbf{INFRA}_{it},\ \mathbf{OPEN}_{it}$$

,where i indexes country and t year. Following table describes the variables and explains how they are measured.

Variable	Definition
$(FDI/GDP)_t$	Share of foreign direct investment (as per balance of payments) in GDP.
GDP_t	Real GDP
$GDPPC_t$	Real GDP per capita
$GR(3)_{t-1}$	Average of real GDP growth rates over past 3 years.
INV_t	Share of gross domestic investment in GDP.
$GSIZE_t$	Share of government consumption in GDP (proxy for government size).
$\Delta(RER)_t$	Change in real exchange rate between year t and year t-1. The real exchange rate for country i is defined as $RER_t=E_{i/\$}.(P_{us}/P_i)$, where E is the exchange rate (local currency per US$), P_{US} is the US wholesale price index, and P_i is country i's consumer price index. Increase in RER means real depreciation.
DSX_t	Debt-service ratio (a proxy for transfer risk)
$INST_t$	Index of institutional quality, defined as the product of ICRG's "rule of law" and "corruption in government" indices.
POL_t	Index of policy instability, defined as the standard deviation of GSIZE over the past 4 years, including the current year.
$SKILL_t$	Secondary school gross enrollment ratio (a proxy for national skill level).
$INFRA_t$	Number of telephone mainlines per thousand populations (a proxy for telecommunications infrastructure).
$OPEN_t$	Trade openness, defined as value of exports plus imports divided by GDP.

The paper uses a sample of an unbalanced panel of 84 countries pooled over 1982-1995, by which the FDI equation has been estimated for the entire sample, and separately for two groups of SSA countries and non-SSA countries.

Though the econometrics results of the model are, where FDI flow into SSA countries are compared with non-SSA countries, statistically significant but it fails to explain to make a unique tool of measuring of FDI inflow applicable for all economies. Moreover, because of introducing of so many independent variables which definitely will be resulted in a high inter-correlation, it is impossible to make a set of convergent policies to affect dependant variable (FDI) effectively.

4: The Inward FDI Potential & Performance Indices:

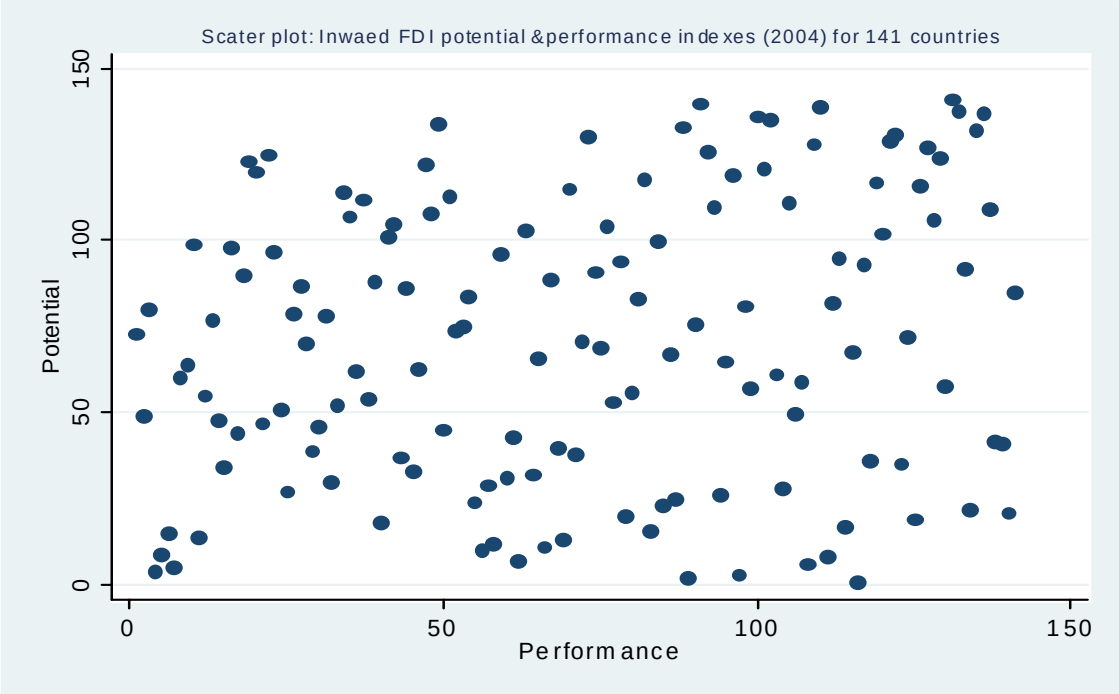
Every year United Nations Conference on Trade and Development (UNCTAD) issues a table of inward FDI potential & performance indices for a long list of economies.[1] **The Inward FDI Performance Index** ranks countries by the FDI they receive relative to their economic size. It is the ratio of a country's share in global FDI inflows to its share in global GDP. **The Inward FDI Potential Index** captures several factors (apart from market size) expected to affect an economy's attractiveness to foreign investors. It is an average of the values (normalized to yield a score between zero, for the lowest scoring country, to one, for the highest) of 12 variables:

[1] http://www.unctad.org/Templates/Page.asp?intItemID=2468&lang=1

- GDP per capita, an indicator of the sophistication and breadth of local demand (and of several other factors), with the expectation that higher income economies attract relatively more FDI geared to innovative and differentiated products and services.
- The rate of GDP growth over the previous 10 years, a proxy for expected economic growth.
- The share of exports in GDP, to capture openness and competitiveness.
- As an indicator of modern information and communication infrastructure, the average number of telephone lines per 1,000 inhabitants and mobile telephones per 1,000 inhabitants.
- Commercial energy use per capita, for the availability of traditional infrastructure.
- The share of R&D spending in GDP, to capture local technological capabilities.
- The share of tertiary students in the population, indicating the availability of high-level skills.
- Country risk, a composite indicator capturing some macroeconomic and other factors that affect the risk perception of investors. The variable is measured in such a way that high values indicate less risk.
- The world market share in exports of natural resources, to proxy for the availability of resources for extractive FDI.
- The world market share of imports of parts and components for automobiles and electronic products, to capture participation in the leading TNC integrated production systems (WIR02).
- The world market share of exports of services, to seize the importance of FDI in the services sector that accounts for some two thirds of world FDI.
- The share of world FDI inward stock, a broad indicator of the attractiveness and absorptive capacity for FDI, and the investment climate.

Appendix B shows inward FDI potential index (2002-2004), inward FDI performance index (2003-2005) for 141 economies and a consolidated table of both indices.

The Inward FDI Potential Index, in one hand, captures several factors expected to affect an economy's attractiveness to foreign investors and on the other hand the Inward FDI Performance Index ranks countries by the FDI they receive relative to their economic size. So, it must be a logical assumption to consider factors used in FDI potential as FDI determinant (dependant variable in FDI function), and FDI performance index as independent variable. Hence, there must be a high correlation between these two indices. But, data sets referred to in appendix A, clearly shows that there is no strong relation between the attractiveness of countries to foreign investors and the relevant level of performance. As it is demonstrated in nearby scatter plot and table there is a very weak positive coefficient of correlation between two indices (0.0469).



Correlate performance potential
(obs=141)

	Performance	Potential
Performance		1.0000
Potential	**0.0469**	1.0000

To highlight such differences in FDI performance and potential indices of countries, UNCTAD categorize countries in four groups:

- **Front-runners:** Countries with high FDI potential and performance.
- **Above potential:** Countries with low FDI potential but strong FDI performance.

- **Below potential:** Countries with high FDI potential but low FDI performance.
- **Under-performers:** Countries with both low FDI potential and performance.

Why do such differences exist? Or, do such differences make sense? My short answer to such questions is "Yes". The reason is though foreign investors make decision based on potentiality of countries, but they need to be informed of such potentialities. In other words, a high potentiality has not to be associated with a high performance. In my opinion, the potentiality is a necessary condition but not sufficient. So, In addition to the strengthening of FDI inflows determinants, countries should think about sufficient conditions such as promotional activities. From this point of view, it seems UNCTAD's methodology is not enough strong to explain the reasons of these differences. Hence, those inward FDI indices are useless in terms of enabling policy makers to make appropriate policies to improve the performance of country in attraction more amount of FDI.

I will come back to this part of work when I will try to make a better inward FDI index in which promotional activities is considered as an important variable in the last part.

My hypotheses:

The experiences I have got over the last decade in my professional career, as an IPA employee, as well as a long literature survey part of which has been overviewed above, I express my ideas in the form of following hypotheses which will be evaluated by the econometrics approaches.

1. Instead of having so many independent variables as determinant factors of FDI inflow which make it too difficult to adopt a set of convergent FDI friendly policies, it had better to summarize all factors expected to affect an economy's attractiveness to foreign investors into a few variables. **It seems, a country's merchandise trade, trade in services and the annual internal capital formation are the main determinant of inward FDI.**
2. In addition to above quantitative variables, **a country's political relation with main FDI sources, to be geographically at easy access for main foreign investors as well as a country's rank of political risks are three qualitative variables expected to affect a country's inward FDI.**
3. Moreover, strengthening of all factors expected to affect inward FDI provide, just, necessary condition to the attraction of foreign investors.

To be successful, we need a more factor as sufficient condition. **That is promotional activities which are considered as a vital determinant factor of inward FDI.**

Data, Sample and Statistical Method:

I have used the followings data sets of 113 countries (all raw data sets are attached as appendices) in my econometrics model for measuring inward FDI flows:

-Foreign direct investment % of GDP Net inflows 2004,

- Merchandise Trade % of GDP 2004,

- Trade in services % of GDP 2004,

- Gross Capital Formation 2004,

-Country risk classification issued by OECD,

- Name of the countries involving in Bilateral Investment Treaty with USA

As part of data for some countries were not available, so I used data of 113 countries.[1]

[1] Source of data:
-World development indicators-2006
http://devdata.worldbank.org/wdi2006/contents/cover.htm
-World investment report-2006
http://www.unctad.org/en/docs/wir2006_en.pdf

In addition to above variables, I tested the effect of a lot of other variables such as real interest rate and gross domestic product on FDI inflows result of which have not been statistically significant. Hence, I keep only the significant variables in the model.

Moreover two things should be clarified. First, a model which tries to test relative inflows of FDI may explain the case more precisely. In other words, we should measure the influence of factors other than market size, assuming that, other things being equal, size is the "base line" for attracting investment. This is why I compare the relative performance of countries. Second, though variables such as trade and capital formation themselves are dependent variables, but they can represent all other independent variables. Therefore I designed my basic model as follow:

(FDI/GDP)=α +β1 (Merchandise trade)/GDP +β2 (Trade in services)/GDP+ β3 (Gross capital formation)/GDP +u

Definition of variables:

Foreign direct investment/GDP is the net inflows of investment to acquire a

lasting management interest in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, and other short- and long-term capital, as shown in the balance of payments.

Merchandise trade/GDP is the sum of merchandise exports and imports divided by the value of GDP, all in current U.S. dollars.

Trade in services/GDP is the sum of services exports and imports divided by the value of GDP, all in current U.S. dollars

Gross capital formation consists of outlays on additions to the fixed assets of the economy, net changes in the level of inventories, and net acquisitions of valuables. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and “work in progress.”

Moreover, there are three groups of dummy variables to test whether there is any significant difference between the performance of countries, in terms of

geographical location political risk and having good relationship with USA as the largest source of FDI inflow. Hence, dummy variables are:

D1 is 1 if the country belongs to EU or North America and 0 otherwise.

D2 is 1 if the country belongs to East Europe and CIS countries and 0 otherwise.

D3 is 1 if the country belongs to East and South East of Asia and 0 otherwise.

D4 is 1 if the country belongs to South Asia and 0 otherwise.

D5 is 1 if the country belongs to Middle East and North Africa and 0 otherwise.

D6 is 1 if the country belongs to Africa (other than north) and 0 otherwise.

D7 is 1 if the country belongs to America (other than north) and 0 otherwise.

D8 is 1 for the Countries which have Bilateral Investment Treaty (BIT) with USA and 0 otherwise.

D8 is 1 for the Countries which have Bilateral Investment Treaty (BIT) with USA and 0 otherwise.

D9 1 if the country risk class is equal or greater than 3, and 0 otherwise.[1]

This is a multivariable linear regression model. By using above mentioned data sets and STATA 8.0 software, I am going to estimate and analyze the

[1] Organization for Economic Co-operation and Development (OECD) classify countries into eight country risk categories (0-7) in terms of their political risks.

coefficients of variables.

Empirical Results:

a) Base model:

Table-1: OLS regression for the base model (dependent variable: **(**FDI/GDP), independent variables: (Merchandise trade)/GDP, (Trade in services)/GDP and (Gross capital formation)/GDP

```
. reg foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004
tradeinservicesofgdp2004 grosscapitalformationofgdp2004

      Source |       SS       df       MS              Number of obs   =       113
-------------+------------------------------           F(  3,109)      =     16.72
       Model |  1108.275       3  369.425001            Prob > F        =    0.0000
    Residual |  2408.0222    109  22.0919468            R-squared       =    0.3152
-------------+------------------------------           Adj R-squared   =    0.2963
       Total |  3516.29721   112  31.3955108            Root MSE        =    4.7002

------------------------------------------------------------------------------
foreigndir~i |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
merchan~2004 |   .0270681   .0122618     2.21   0.029     .0027657    .0513705
tradein~2004 |   .1161362   .0512723     2.27   0.025     .0145162    .2177562
```

grossca~2004	.2666451	.0705495	3.78	0.000	.1268181 .406472
_cons	-6.209924	1.664795	-3.73	0.000	-9.509494 -2.910354

Table-1 shows that 39 percent of the total variation in the dependent variable is explained by the variations in the independent variables. Moreover, all coefficients of independent variables are significant and the signs are positive, as it is expected.

b) Geographic location:

Impact of geographic location on relative inflows of FDI to the host countries are measured by dummy variables D1, D2, D3 ,D4 ,D5 ,D6 and D7. The statistical results are shown in tables2 to 8:

Table-2: reg foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004 tradeinservicesofgdp2004 grosscapitalformationofgdp2004 d1westeuropeandnorthamerica

Source	SS	df	MS	Number of obs	= 113
				F(4, 108)	= 12.69
Model	1124.42641	4	281.106601	Prob > F	= 0.0000
Residual	2391.8708	108	22.1469519	R-squared	= 0.3198
				Adj R-squared	= 0.2946
Total	3516.29721	112	31.3955108	Root MSE	= 4.7061

foreigndir~I	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]
merchan~2004	.0251547	.0124798	2.02	0.046	.0004176 .0498918
tradein~2004	.124464	.0522541	2.38	0.019	.0208873 .2280407
grossca~2004	.262262	.0708235	3.70	0.000	.1218774 .4026465

```
d1westeuro~a | -1.057502   1.23832   -0.85   0.395    -3.512068   1.397064
       _cons | -5.959651   1.692434  -3.52   0.001    -9.314348  -2.604955
------------------------------------------------------------------------------
```

Table-3: reg foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004 tradeinservicesofgdp2004 grosscapitalformationofgdp2004 d2easteuropeandcis

```
      Source |       SS           df       MS                 Number of obs =     113
-------------+----------------------------------               F(  4,   108) =   14.42
       Model |  1224.02125     4     306.005312               Prob > F      =  0.0000
    Residual |  2292.27596   108  21.2247774                  R-squared     =  0.3481
-------------+----------------------------------               Adj R-squared =  0.3240
       Total |  3516.29721   112  31.3955108                  Root MSE      =   4.607

------------------------------------------------------------------------------
foreigndir~i |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
merchan~2004 |   .0233161   .0121256     1.92   0.057    -.0007189    .0473512
tradein~2004 |   .1190395   .0502713     2.37   0.020     .0193931     .218686
grossca~2004 |   .2400497   .0700826     3.43   0.001     .1011338    .3789655
d2easteuro~s |   2.547559   1.090919     2.34   0.021     .3851691     4.70995
       _cons |   -5.95185   1.635532    -3.64   0.000    -9.193758   -2.709941
------------------------------------------------------------------------------
```

Table-4: . reg foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004 tradeinservicesofgdp2004 gr
> osscapitalformationofgdp2004 d3eastandsoutheastofasia

```
      Source |       SS           df       MS                 Number of obs =     113
-------------+----------------------------------               F(  4,   108)      =   13.58
       Model |  1176.62995     4     294.157487               Prob > F          =  0.0000
    Residual |  2339.66726   108    21.6635857                R-squared         =  0.3346
-------------+----------------------------------               Adj R-squared     =  0.3100
       Total |  3516.29721   112    31.3955108                Root MSE          =  4.6544

------------------------------------------------------------------------------
foreigndir~i |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
merchan~2004 |   .0348531    .012909     2.70   0.008     .0092652    .0604411
```

tradein~2004	.1045838	.0511876	2.04	0.043	.003121	.2060465
grossca~2004	.2917054	.0712725	4.09	0.000	.150431	.4329798
d3eastands~a	-2.684663	1.511367	-1.78	0.078	-5.680454	.3111288
_cons	-6.805166	1.682289	-4.05	0.000	-10.13975	-3.470578

Table-5: reg foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004 tradeinservicesofgdp2004 gr
> osscapitalformationofgdp2004 d4southasia

Source	SS	df	MS	Number of obs = 113
Model	1112.74485	4	278.186212	F(4, 108) = 12.50
Residual	2403.55236	108	22.2551144	Prob > F = 0.0000
Total	3516.29721	112	31.3955108	R-squared = 0.3165
				Adj R-squared = 0.2911
				Root MSE = 4.7175

foreigndir~I	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]
merchan~2004	.0267698	.0123249	2.17	0.032	.0023396 .0512
tradein~2004	.1142347	.0516359	2.21	0.029	.0118834 .216586
grossca~2004	.2682928	.070905	3.78	0.000	.1277468 .4088388
d4southasia	-1.091103	2.434639	-0.45	0.655	-5.916981 3.734774
_cons	-6.149489	1.676365	-3.67	0.000	-9.472334 -2.826643

Table-6: reg foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004 tradeinservicesofgdp2004 grosscapi
> talformationofgdp2004 d5middleeastandnorthafrica

Source	SS	df	MS	Number of obs = 113
Model	1118.953	4	279.73825	F(4, 108) = 12.60
Residual	2397.34421	108	22.1976315	Prob > F = 0.0000
Total	3516.29721	112	31.3955108	R-squared = 0.3182
				Adj R-squared = 0.2930
				Root MSE = 4.7114

foreigndir~i	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
merchan~2004	.026214	.0123526	2.12	0.036	.001729	.050699
tradein~2004	.119279	.0515942	2.31	0.023	.0170104	.2215476
grossca~2004	.2615149	.0711039	3.68	0.000	.1205747	.4024551
d5middleea~a	-1.048865	1.512266	-0.69	0.489	-4.046439	1.948708
_cons	-5.991998	1.698096	-3.53	0.001	-9.357918	-2.626077

Table-7: reg foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004 tradeinservicesofgdp2004 grosscapitalformationofgdp2004 d6africaotherthannorth

Source	SS	df	MS		
				Number of obs =	113
				F(4, 108)	= 12.79
Model	1130.17827	4	282.544566	Prob > F	= 0.0000
Residual	2386.11894	108	22.0936939	R-squared	= 0.3214
				Adj R-squared	= 0.2963
Total	3516.29721	112	31.3955108	Root MSE	= 4.7004

foreigndir~i	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
merchan~2004	.0261854	.0122942	2.13	0.035	.0018161	.0505548
tradein~2004	.1174919	.0512924	2.29	0.024	.0158215	.2191624
grossca~2004	.2616608	.0707297	3.70	0.000	.1214622	.4018593
d6africaot~h	-1.083163	1.087861	-1.00	0.322	-3.239493	1.073167
_cons	-5.831878	1.707608	-3.42	0.001	-9.216652	-2.447104

Table-8: reg foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004 tradeinservicesofgdp2004 grosscapitalformationofgdp2004 d7americaotherthannorth

Source	SS	df	MS		
				Number of obs =	113
				F(4, 108)	= 13.44

Model	1168.81639	4	292.204097	Prob > F = 0.0000
Residual	2347.48082	108	21.7359335	R-squared = 0.3324
				Adj R-squared = 0.3077
Total	3516.29721	112	31.3955108	Root MSE = 4.6622

foreigndir~I	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
merchan~2004	.02841	.0121891	2.33	0.022	.0042491	.0525709
tradein~2004	.1261676	.0512115	2.46	0.015	.0246576	.2276776
grossca~2004	.2821807	.0705952	4.00	0.000	.1422488	.4221127
d7americao~h	2.031658	1.217345	1.67	0.098	-.3813305	4.444647
_cons	-7.173287	1.749309	-4.10	0.000	-10.64072	-3.705854

The sign of coefficients of D2 and D7 are positive and others are negative. It means D7 as a near location to American investor and D2 as a near location to the European investors are more attractive (200% and 250% respectively) than other host countries. Except coefficient of D2, and to some extend coefficients of D3 and D7, other coefficients are not statistically significant. Nevertheless, because of the affirmative sign of coefficients they should be considered when policy recommendations are made.

c) Relationship with USA:

Now, for the purpose of measuring of the impact of having good political relationship of the host country with USA, as the main investor country,[1] the

[1]USA's portion in the world FDI outflows in the years of 2002, 2003 and 2004 has

dummy variable D8 is added to the model. The result is shown by table-9.

Table-9:. reg foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004 tradeinservicesofgdp2004 g
> rosscapitalformationofgdp2004 d8bilateralinvestmenttreatybitwi

Source	SS	df	MS	Number of obs = 113
				F(4, 108) = 13.63
Model	1179.40232	4	294.850581	Prob > F = 0.0000
Residual	2336.89488	108	21.6379156	R-squared = 0.3354
				Adj R-squared = 0.3108
Total	3516.29721	112	31.3955108	Root MSE = 4.6517

foreigndir~I	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
merchan~2004	.0290451	.012184	2.38	0.019	.0048943	.0531959
tradein~2004	.1169468	.0507447	2.30	0.023	.0163621	.2175315
grossca~2004	.2477817	.0705917	3.51	0.001	.1078567	.3877068
d8bilatera~i	1.79002	.987296	1.81	0.073	-.1669719	3.747012
_cons	-6.470512	1.653856	-3.91	0.000	-9.748742	-3.192282

Coefficient of D8 is 1.79002. It means relative inward inflows of FDI to those countries which have been entered into BIT with USA, assuming that other factors being equal, is almost 179% more than to the other countries.[1]

d) Political risk:

Is there any significant difference in FDI inflow to the host countries in terms of

been 20%, 19% and 31% respectively.

[1] I have also conducted similar estimation for Europe (second largest investor), but the result is not statistically significant.

their political risk category? In this regard dummy variable D9 is added to the base model. The result is shown in table-10.

Table-10:

```
reg foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004
tradeinservicesofgdp2004 grosscapit
> alformationofgdp2004 d9countryriskclassisequalorgreat

      Source |       SS           df       MS                   Number of obs =     113
-------------+----------------------------------                 F(  4,   108)     =   13.80
       Model |  1189.10666     4      297.276664                 Prob > F          =  0.0000
    Residual |  2327.19055   108      21.5480607                 R-squared         =  0.3382
-------------+----------------------------------                 Adj R-squared     =  0.3137
       Total |  3516.29721   112  31.3955108                     Root MSE          =   4.642

------------------------------------------------------------------------------
foreigndir~I |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
merchan~2004 |   .0291706   .0121584     2.40   0.018     .0050705    .0532707
tradein~2004 |   .1185004   .0506519     2.34   0.021     .0180995    .2189013
grossca~2004 |   .2721539   .0697337     3.90   0.000     .1339295    .4103782
d9countryr~t |   1.899349   .9806592     1.94   0.055    -.0444877    3.843186
       _cons |  -7.890248    1.85903    -4.24   0.000    -11.57517   -4.205327
------------------------------------------------------------------------------
```

The estimated coefficient of D9 is, almost, significant but it has a positive sign. It contradicts the theoretical expectation that a high level of political risk should be resulted in a less FDI. It may be as a result of political risk guaranties issued by host countries government and/or international agencies such as MIGA, by which political risks (non-commercial risks) of foreign investments are covered. Moreover, it may imply the fact that foreign investors are seeking

an extraordinary rate of return which may attainable in a risky country rather than a stable one. [1]

Conclusion to chapter 1:

1-The relative(to GDP) value of merchandise trade and trade in services, capital formation and high level political relationship of host countries with investor countries (especially USA) may explain ,to some extent, the relative value of FDI inflows.

2-FDI is a new aspect and inseparable part of international trade. Hence, for the purpose of attraction of more FDI, we need develop value of foreign trade and local investment. More trade and local investment as well as development of relationship with investor countries will be associated with amount of FDI.

[1] Data of D9 is from OECD. I conducted same estimation with many other data sets especially data sets of UNCTAD used in calculation of inward FDI potential index. Surprisingly, all estimations have same results. Even I added a new independent variable as country risk to the base model by which such interesting result (i.e. positive correlation of high country risk and FDI) has been repeated.

Chapter 2:
The role of Investment Promotion Agencies:

The role of Investment Promotion Agencies:

The findings of last chapter showed there is a statistically significant positive correlation between FDI and foreign trade, fixed capital formation and a high level of economic & political relationship with investor countries(especially USA).Then, in light of existence of some affirmative theoretical supports, such positive correlation interpreted in a cause and effect relation between FDI (as dependent variable and foreign trade and fixed capital formation as independent variable) , with positive impact of dummy variables of high level relation with USA and being geographically closed to investor countries on FDI. Based on the mentioned cause and effect relation, one may assume that trade and internal investment friendly policies are automatically resulted in more FDI flows. But, existence of many empirical evidences and the statistical analysis conduced on UNCTAD's FDI potential and performance indexes[1] disproved such policy recommendation.

In other words, absolute rely on strengthening of potential factors ,expected

[1] In the forth item of literature survey of last chapter.

have a positive impact on FDI such as dependent variables of econometrics model designed in the last chapter and/or the factors included in UNCTAD's methodology to assess FDI potential index, may not necessarily resulted in more FDI flow. So, in order to reach a strong positive correlation between FDI's determinant factors (or potential to attract FDI) and real inflow of FDI through which policy makers can adopt appropriate policies, some more factors must be added to the econometrics model and to the methodology of UNCTAD,

I suppose the missed factor in the UNCTAD's methodology is promotional activities of countries. Moreover, I assume capabilities of IPAs[1] as a proxy to promotional activities of countries. Hence, the rest of thesis allocates to assess IPAs' capabilities by which we may differentiate our sample countries (113 countries) in terms of their capabilities in investment promotion activities. **It is expected countries equipped with an effective IPA have better performance in attraction of FDI.**

Measuring of the effectiveness of IPAs:

For the purpose of making an ideal index by which different countries may be r

[1] Investment Promotion Agencies.

anked in terms of the capabilities of their relevant IPA, we need get detail infor mation on IPAs' characteristics such as their organization and functions, missi on and strategies, operational and promotional budget, size of professional sta ff, technological facilities and computer databases and so on.

Unable to get required detailed information on all the sample countries' IPAs[1], I rely on the information used in and findings of the previous studies listed in the following table:

Studies measuring the overall efficiency of IPAs			
Author	**Title**	**Year**	**Methodology used**
Morisset/ Andrews-Johnson	The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment	2003	Regressions

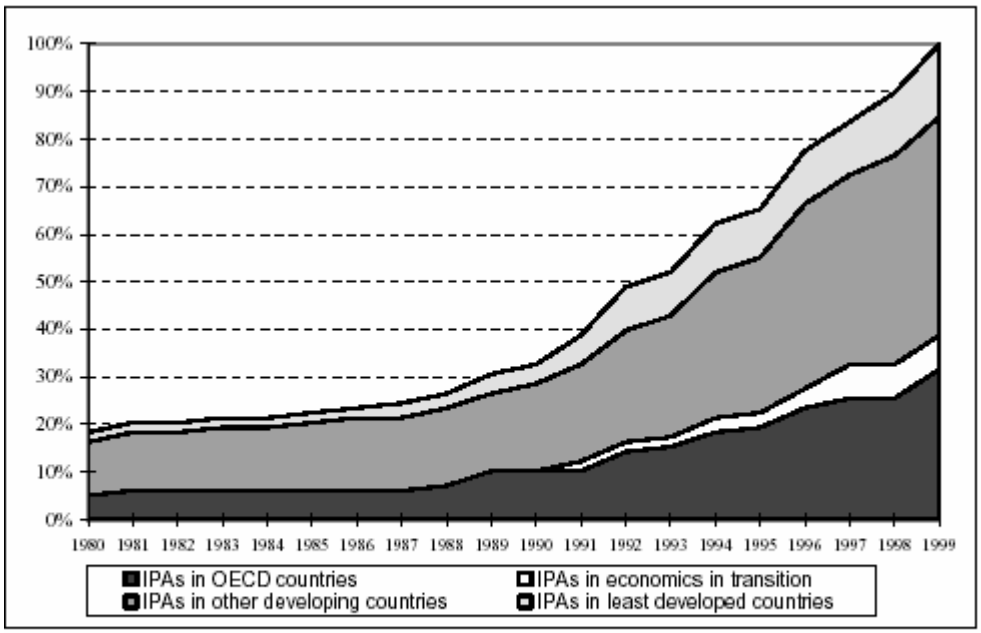
[1] My three months effort to collect required data sets including direct communication with all WAIPA member organizations, dissemination of a questionnaire at WAIPA annual meeting was resulted, unfortunately, in gathering the information of a few countries by which conducting an econometrics analysis would be meaningless.

Wells/ Wint	Marketing a Country. Promotion as a Tool for Attracting Foreign Investment	2000	Multiple regression & field-based interviews
Iryna Piontkivska, Edilberto L. Segura	Survey of International Foreign Investment Promotion Practices	2003	Descriptive
Jacques Morisset	Does a Country Need a Promotion Agency to Attract Foreign Direct Investment?	2003	A Small Analytical Model Applied to 58 Countries
Marie Therese Gabriel	Measuring the Efficiency of IPAs	2006	An Input View Using DEA
UNCTAD	An Input View Using DEA	2000	Multiple regression
Foreign Investment Advisory Service (FIAS)	Strengthening Investment Promotion Agencies: The Role of the Private Sector	1999	Descriptive
Multilateral Investment Guarantee Agency (MIGA)	Investment Promotion Agency Performance Review 2006	2006	Descriptive

Based on a.m. studies IPAs have, overall, following characteristics:

- Majority of IPAs have been established over the last two decade as it clear in the following figure:

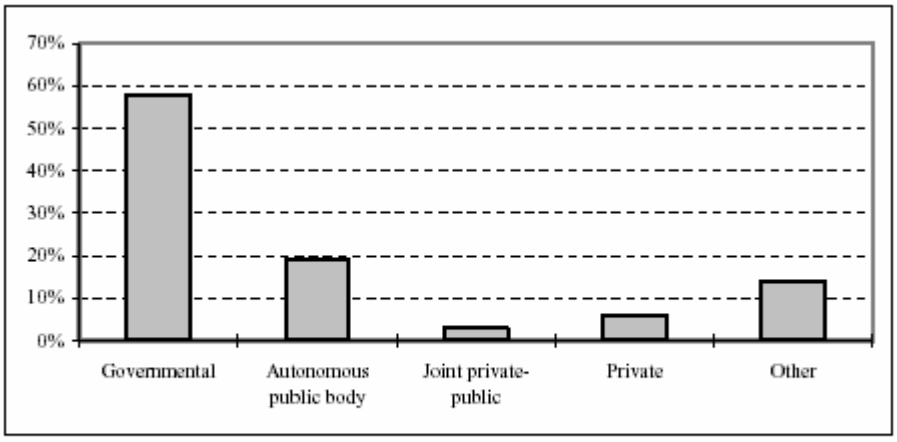
Year of establishment of IPAs by country group



Source: UNCTAD survey of investment promotion agencies, 2000.

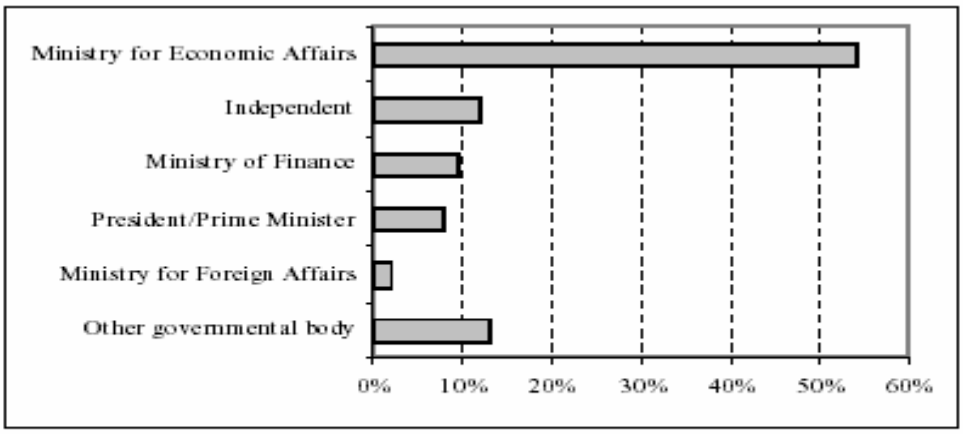
- Most of IPAs are governmental organizations reporting to ministry of economic affairs, as following figures:

Organizational status of IPAs



Source: UNCTAD survey of investment promotion agencies, 2000.

IPAs and their responsible ministries



Source: UNCTAD survey of investment promotion agencies, 2000.

- They are involved in :

Image Building

_ Advertising in general financial media.

_ Participating in investment exhibitions.

_ Advertising in industry- or sector-specific media.

_ Conducting general investment missions from source country to host country or from host country to source country.

_ Conducting general information seminars on investment opportunities.

Investment Generation

_ Engaging in direct mail or telemarketing campaigns.

_ Conducting industry- or sector-specific investment missions from source country to host country or vice versa.

_ Conducting industry- or sector-specific information seminars.

_ Engaging in firm-specific research followed by sales presentations.

Investor Services

_ Providing investment counseling services.

_ Expediting the processing of applications and permits.

_ Providing post investment services.

Policy Advocacy

_ Participating in policy task forces.

_ Developing lobbying activities.

_ Drafting laws or policy recommendations.

_ Reporting investors' perceptions.

Their core function vary by country group as shown in the following table:

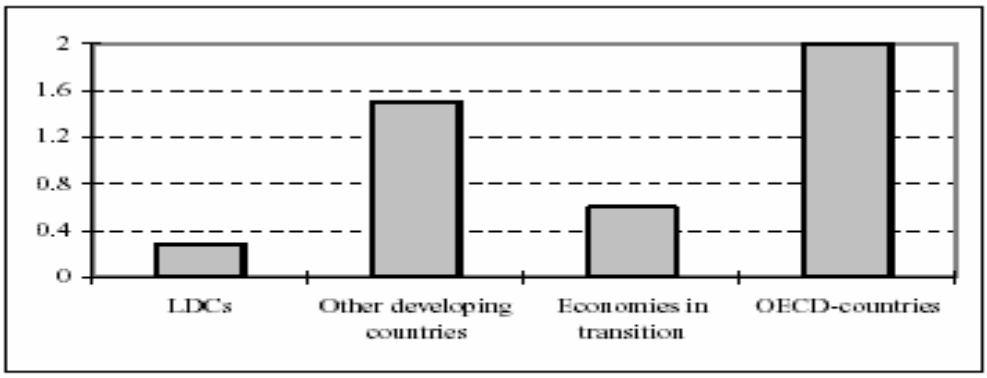
Core functions of IPAs			
OECD countries	**Economies in transition**	**Other developing countries**	**Least developed countries**
1. Investor targeting (83%) 2. After care programme (77%) 3. Consulting services (67%)	1. Investor targeting (100%) 2. After care programme (86%) 3. Consulting services (86%) 4. Investment policy formulation/advice (86%) 5. Promotion of privatization (71%)	1. Investment policy formulation/advice (86%) 2. Investor targeting (77%) 3. Promotion of domestic investment (73%)	1. Promotion of domestic investment (93%) 2. Investment policy formulation/advice (93%) 3. After care programme (86%) 4. Promotion of tourism (79%) 5. Granting incentives (79%) 6. Investor targeting (71%) 7. Foreign investment registration (71%) 8. Foreign investment licensing (71%)

- Average budget of IPAs vary by country group from $ 300,000 to

$2,000,000. The least budget is $ 28,000 and the most is $ 27,000,000.

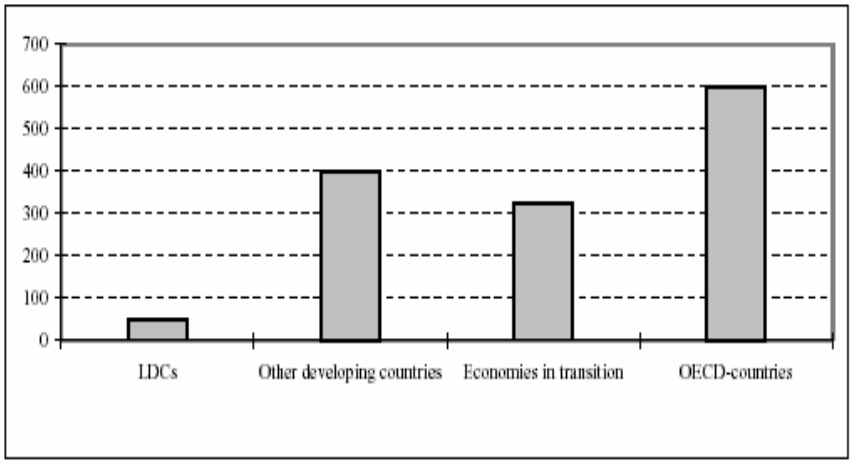
Following tables indicate IPAs' budget by country group:

Operational budgets of IPAs by country category (millions of dollars)



Source: UNCTAD survey of investment promotion agencies, 2000.

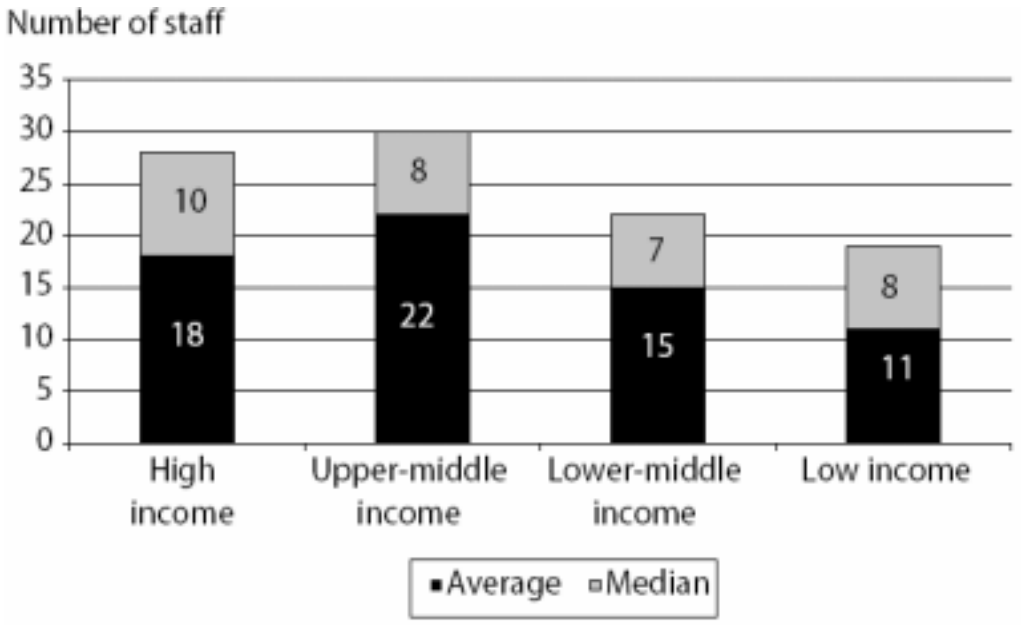
Promotional budgets of IPAs by country category (Thousands of dollars)



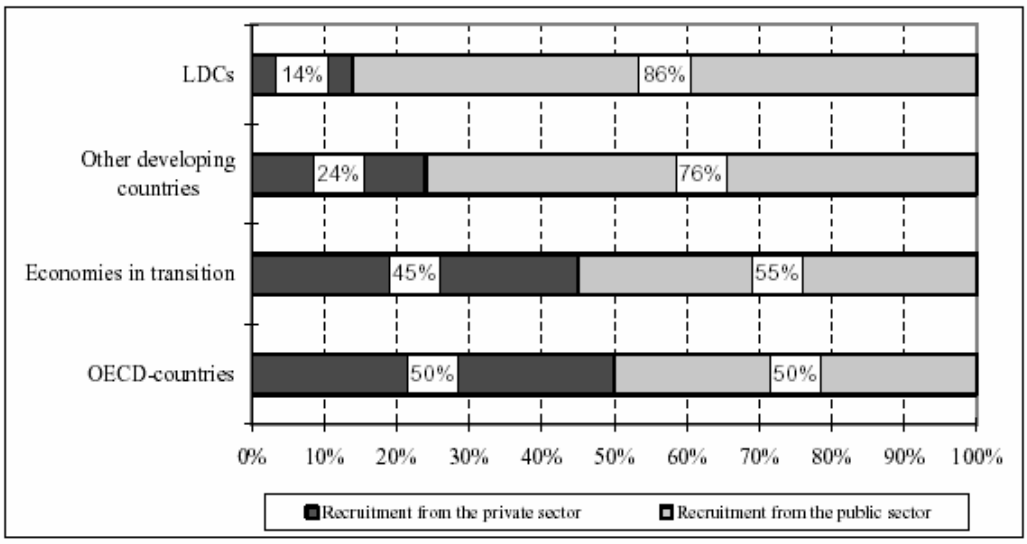
-Same as budget, number and qualification of staff of IPAs vary by country group as shown in the following figure:

-Like budget, number and qualification of staff of IPAs vary bu country group as following figures:

Number of Professionals Employed in FDI Promotion



IPAs Staff Qualification



Source: UNCTAD survey of investment promotion agencies, 2000.

Based on the above information , it seems there is a positive correlation

between an IPA capabilities and its relevant country's income. On the other hand, we know, from the UNCTAD's FDI performance index, there is not necessarily a positive correlation between a country's performance in FDI and its income, as it is clear at the following table, where UNCTAD's surveyed countries are categorized in four groups in terms of their position in FDI potential and performance ranking. A close look at the table indicate that there are many cases in both Above Potential and Below Potential countries which violate the hypothesis of existing of a positive correlation between FDI performance and countries GNP or GNP per capita. Most of Above Potential countries are not considered as a rich country but some of Below Potentials are from developed world.

Four country groups in terms of country position in FDI potential and performance ranking indexes	
Front-runners (high potential –high performance)	Australia, Bahamas, Bahrain, Belgium, Botswana, Brunei Darussalam, Bulgaria, Chile, China, Croatia, Cyprus, Czech Republic, Dominican Republic, Estonia, Finland, Hong Kong (China), Hungary, Iceland, Ireland, Jordan, Kazakhstan, Latvia, Lebanon, Lithuania, Luxembourg, Malaysia, Malta, Netherlands, New Zealand, Panama, Poland, Portugal, Qatar, Singapore, Slovakia, Slovenia, Spain, Sweden, Trinidad and Tobago and United Arab Emirates.
Above potential (low potential – high performance)	Albania, Angola, Armenia, Azerbaijan, Bolivia, Congo, Costa Rica, Ecuador, Ethiopia, Gabon, Gambia, Georgia, Guyana, Honduras, Jamaica, Kyrgyzstan, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Nigeria, Republic of Moldova , Romania, Sudan, Tajikistan, Uganda, United Republic of Tanzania, Viet Nam and Zambia.

Below potential (high potential - low performance)	Algeria, Argentina, Austria, Belarus, Brazil, Canada, Denmark, France, Germany, Greece, Islamic Republic of Iran, Israel, Italy, Japan, Kuwait, Libyan Arab Jamahiriya, Mexico, Norway, Oman, Philippines, Republic of Korea, Russian Federation, Saudi Arabia, Switzerland, Taiwan Province of China, Thailand, Tunisia, Turkey, Ukraine, United Kingdom and United States.
Under-performers (low potential – low performance)	Bangladesh, Benin, Burkina Faso, Cameroon, Colombia, Cote d'Ivoire, Democratic Republic of Congo, Egypt, El Salvador, Ghana, Guatemala, Guinea, Haiti, India, Indonesia, Kenya, Madagascar, Malawi, Myanmar, Nepal, Niger, Pakistan, Papua New Guinea, Paraguay, Peru, Rwanda, Senegal, Sierra Leone, South Africa, Sri Lanka, Suriname, Syrian Arab Republic, TFYR of Macedonia, Togo, Uruguay, Uzbekistan, Venezuela, Yemen and Zimbabwe.

Nevertheless, because of theoretical supports, conducting a regression analysis to measure the impact of IPAs' budget as a proxy for countries' capabilities in promotional activities on FDI performance would be useful.

I do this by way of adding a dummy variable(D10) to our basic model defined in the firs section.D10 takes value of zero if the relevant IPA's budget is less than $ 1.5 Million and value of one otherwise. Following table expresses such statistical analysis:

```
. reg  foreigndirectinvestmentofgdpneti merchandisetradeofgdp2004 tradeinservices
> ofgdp2004 gcfgdo1002004 d10

      Source |       SS       df       MS                  Number of obs =     113
-------------+------------------------------                F(  4,   108) =   14.15
       Model |  1209.36136     4   302.34034                Prob > F      =  0.0000
    Residual |  2306.93585   108  21.3605171                R-squared     =  0.3439
```

```
-------------+------------------------------                    Adj R-squared =  0.3196
       Total |  3516.29721   112  31.3955108                    Root MSE      =  4.6217

------------------------------------------------------------------------------
foreigndir~i |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
mercha~p2004 |   .0297326   .0121191     2.45   0.016     .0057104    .0537548
tradei~p2004 |   .1169487   .0504178     2.32   0.022     .0170119    .2168854
gcfg~1002004 |   .2799095   .0696393     4.02   0.000     .1418724    .4179466
         d10 |  -1.998046   .9184701    -2.18   0.032    -3.818613   -.1774787
       _cons |  -5.984323   1.640286    -3.65   0.000    -9.235653   -2.732992
------------------------------------------------------------------------------
```

Although the results are statistically significant but the sign of coefficient of D10 is negative. It means for the countries with high promotional budget the ratio of FDI over GDP is less the relevant ratio for other countries.

Though, it contradicts the theoretical expectations but still it can not disprove the hypothesis of existing of cause and affect relation between promotional activities and FDI performance. Because, this analysis conducted only based on IPAs' budget. Moreover, because of lacks of detailed information, the dummy variable (D10) designed based on available data by country groups.

Conclusion to chapter 2:

In this chapter I tried to measure the impact of promotional activities on FDI performance. Because of lacks of required information on IPAs capabilities, I

used available data for IPAs' budget (by country groups) used in the previous studies. The statistical results showed there is no positive correlation between promotional activities and FDI performance. However, because of many weaknesses in the methodology used in econometrics analysis mostly resulted from limitations in availability of required data sets, it can not disprove the hypothesis of existing of cause and affect relation between promotional activities and FDI performance. Hence, the mentioned hypothesis is not rejected, and, based on the findings of previous studies, developing of promotional activities especially in area of policy advocacy through which an IPA should make or recommend FDI friendly policies is recommended.

Finally, it seems as a ideal method to measure the effectiveness of promotional activities, the performance of each IPA must be separately scrutinized, rather than putting all of them in a single econometrics model. So it is recommended to future researchers to gather massive information on target IPAs rather than gathering limited information of many IPAs.

Consolidated Conclusion

The main purpose of composing this thesis was making a clear road map for

the economical and political policy makers, who acknowledge the positive impact of foreign direct investment on economic development, to make appropriate policies for attraction of more FDI. They initially need to know what determinants of FDI are, so that they focus on strengthening of their respective countries potentialities from those points of view. Then, they need know who should implement the policies they make, and how.

Trying to find a consistent set of answer to mentioned questions, the thesis was organized in two basic chapters. First chapter has been allotted to discuss the determinant variables of FDI. The findings showed that there are three main independent variables which are statistically significant and enough able to explain FDI inflows. They were foreign trade, fixed capital formation and strong political relation with investor counties specially USA, as the main source of foreign investments.

Then, the last part of first chapter was allotted to clarify whether is strengthening of the determinant factors sufficient to attract more volume of FDI, or we need something more. Scrutinizing of the UNCTAD's FDI potential and performance indexes was resulted in finding of a strong evidence not to accept the hypothesis stating that strengthening of FDI determinants are sufficient to grab foreign investors. In other word, it discussed that focusing on strengthening of a country's potentials to attract FDI is a necessary condition but not sufficient condition. This is why we allotted the second chapter to find out what should be added to the existing or developed potentials of a country in order to transform them into actual FDI.

At the second chapter, a hypothesis stating that, in order to materialize FDI potentials, a country should involve in investment promotion activities through an official investment agency, was designed. In other word, it was supposed

that an Investment Promotion Agency (IPA) has a key role in attraction of foreign investors. To test such hypothesis, the role of 113 IPAs in their respective countries' performance in FDI has been evaluated in terms of the amount of their budget (in lack of enough information to measure different IPAs capabilities). Although the results, came from the econometrics model, were not statistically significant, but due to the discussed weakness in the applied methodology and findings of previous studies, the hypothesis has not been rejected. Instead, based on the findings of previous studies, developing of promotional activities especially in area of policy advocacy through which an IPA should make or recommend FDI friendly policies was recommended. Also, it was recommended to the future researchers, as an ideal method to measure the effectiveness of promotional activities, they evaluate the role IPAs in countries performance in FDI, by way of scrutinizing capabilities and the respective performance of a few IPAs but with a comprehensive set of information on each of IPAs, rather than so many IPAs but with a little information on each of them.

Policy recommendations

Based on the findings of this thesis the followings could be recommended, as a concise strategy, to the policy makers of those countries which are at the first steps of involving in attraction of FDI:

1. In order to make a set of FDI friendly policies, first of all the determinant variables expected to explain FDI flows must be defined. Although, many variables have, theoretically, positive impact on FDI flows, but all

of them may represented by four factors. Foreign trade, fixed capital formation, strong economic/political relation with investor countries especially USA and promotional activities. Hence, in order to converge of all FDI related policies on a same direction, FDI promotion strategy has to be made on these basic factors.

2. Now, the key question is that who should make, implement and monitor required policies. Because of existing of so many stakeholder sensitive to FDI related policies, due to its multilateral socioeconomic aspects, establishing of a unique and enough strong organization (Investment Promotion Agency- IPA) as a focal point to manage those critical issues is the fundamental key in FDI performance. Such organization has to have following characteristics:
   A. Any IPA has to be involved in making and implementation of foreign investment development policies directly, and foreign trade development, foreign relation development with investor countries and infrastructure development plans indirectly.
   B. The proposed IPA must report directly to the president or a cabinet minister preferably to one of trade or industry ministers. The IPA must be steered by a board comprised of some high level politicians and business managers from private sector.
   C. The IPA has to have a minimum amount of budget (at least 2 million US dollars annually) regardless how much income the respective country has. Because, most part of IPAs' budget has to be spent in foreign currency.

D. Also, in order to achieve designed objectives, an IPA must enjoy appropriate number of qualified personnel, part of them with enough experience in private sector.

E. Policy advocacy and after care services must form most field of activities and spend most part of an IPA's budget.

F. Finally, an IPA should establish at least few foreign branches in target investor countries.

If a county establish such IPA, the IPA itself can find the way to converge different FDI related policies. Otherwise, divergence policies of many governmental authorities will hinder smooth inflow of FDI.

APPENDICES

Appendix A : Data Set Used in the Econometrics Model

	Foreign direct investment % of GDP Net inflows 2004	Merchandise Trade % of GDP 2004	Trade in services % of GDP 2004	Gross capital formation % of GDP 2004	D1 West Europe and North America	D2 East Europe and CIS	D3 East and South East of Asia	D4 South Asia	D5 Middle East and North Africa	D6 Africa (other than north)	D7 America (other than north)	D8 Bilateral Investment Treaty (BIT) with USA	D9 country risk class is equal or greater than 3	D10 IPAs' budget
Albania	5.6	38	27	22.63	0	1	0	0	0	0	0	1	1	0
Argentina	2.7	37	7.8	19.18	0	0	0	0	0	0	1	1	1	0
Armenia	7.1	66	18	22.29	0	1	0	0	0	0	0	1	1	0
Australia	6.7	31	8.1	25.59	0	0	1	0	0	0	0	0	0	1
Austria	1.4	81	33	21.10	1	0	0	0	0	0	0	0	0	1
Azerbaijan	41.7	84	38	55.77	0	1	0	0	0	0	0	1	1	0
Bangladesh	0.8	36	5.3	22.07	0	0	0	1	0	0	0	1	1	0
Belarus	0.7	132	12	27.42	0	1	0	0	0	0	0	0	1	0
Belgium	30.9	168	41	19.12	1	0	0	0	0	0	0	0	1	1
Benin	1.5	38	12	19.25	0	0	0	0	0	1	0	0	1	0
Bolivia	1.3	45	11	13.15	0	0	0	0	0	0	1	1	1	0
Bosnia and Herzegovina	7.2	90	15	22.51	0	1	0	0	0	0	0	0	1	0
Botswana	0.5	76	17	24.12	0	0	0	0	0	1	0	0	0	0
Brazil	3	27	4.9	19.96	0	0	0	0	0	0	1	0	1	0
Bulgaria	8.3	101	31	20.73	0	1	0	0	0	0	0	0	1	0
Cambodia	2.7	122	25	26.51	0	0	1	0	0	0	0	0	1	0
Canada	0.6	61	11	20.07	1	0	0	0	0	0	0	0	0	1
Chile	8.1	61	13	20.61	0	0	0	0	0	0	1	0	0	0
China	2.8	60	7	45.67	0	0	1	0	0	0	0	0	0	1
Colombia	3.1	34	6.4	18.98	0	0	0	0	0	0	1	1	1	0
Congo, Rep.	0	129	18	26.91	0	0	0	0	0	1	0	1	1	0
Costa Rica	3.4	79	19	18.81	0	0	0	0	0	0	1	0	1	0
Côte d'Ivoire	1.1	66	18	11.21	0	0	0	0	0	1	0	0	1	0

Croatia	3.6	72	39	29.39	0	1	0	0	0	0	0	1	1	0
Czech Republic	4.2	129	18	27.04	0	1	0	0	0	0	0	1	0	1
Denmark	-3.6	60	29	19.54	1	0	0	0	0	0	0	0	0	1
Dominican Republic	3.5	73	25	18.65	0	0	0	0	0	0	1	0	1	0
Ecuador	3.8	51	9	21.89	0	0	0	0	0	0	1	1	1	0
Egypt, Arab Rep.	1.6	26	28	14.47	0	0	0	0	1	0	0	1	1	0
El Salvador	2.9	60	13	15.82	0	0	0	0	0	0	1	0	1	0
Estonia	9.3	131	41	29.04	0	1	0	0	0	0	0	0	1	0
Ethiopia	6.8	47	25	21.06	0	0	0	0	0	1	0	0	1	0
Finland	1.7	60	12	18.84	1	0	0	0	0	0	0	0	0	1
Gabon	4.5	66	17	28.61	0	0	0	0	0	1	0	0	1	0
Georgia	9.6	48	20	27.53	0	1	0	0	0	0	0	1	1	0
Germany	-1.3	59	12	17.68	1	0	0	0	0	0	0	0	0	1
Ghana	1.6	78	20	28.33	0	0	0	0	0	1	0	0	1	1
Greece	0.7	33	23	25.65	1	0	0	0	0	0	0	0	0	1
Guatemala	0.6	39	9	15.37	0	0	0	0	0	0	1	0	1	0
Guinea	2.6	36	9.3	10.49	0	0	0	0	0	1	0	0	1	0
Guinea-Bissau	1.8	60	18	12.84	0	0	0	0	0	1	0	0	1	0
Haiti	0.2	48	13	25.27	0	0	0	0	0	0	1	0	1	1
Honduras	4	74	19	26.69	0	0	0	0	0	0	1	1	1	1
Hong Kong, China	20.9	330	52	21.44	0	0	1	0	0	0	0	0	0	1
Hungary	4.6	113	21	22.70	0	1	0	0	0	0	0	0	0	1
India	0.8	25	8.2	26.16	0	0	0	1	0	0	0	0	1	1
Indonesia	0.4	49	18	24.51	0	0	1	0	0	0	0	0	1	0
Ireland	6.1	91	64	24.96	1	0	0	0	0	0	0	0	0	1
Israel	1.4	70	24	16.77	0	0	0	0	1	0	0	0	1	1
Italy	1	42	9.9	19.46	1	0	0	0	0	0	0	0	0	1
Japan	0.2	22	5	22.44	0	0	1	0	0	0	0	1	0	1
Jordan	5.4	105	37	25.50	0	0	0	0	1	0	0	0	1	0
Kazakhstan	10.1	81	17	22.68	0	1	0	0	0	0	0	1	1	0
Kenya	0.3	45	14	17.72	0	0	0	0	0	1	0	0	1	0
Korea, Rep.	1.2	70	14	29.54	0	0	1	0	0	0	0	0	0	1
Kuwait	0	73	20	15.27	0	0	0	0	1	0	0	0	0	0
Kyrgyz Republic	3.5	75	20	12.71	0	1	0	0	0	0	0	1	1	0
Latvia	5.1	81	22	27.74	0	1	0	0	0	0	0	1	1	0
Lesotho	9.4	162	12	38.99	0	0	0	0	0	1	0	0	1	0
Lithuania	3.5	97	18	22.20	0	1	0	0	0	0	0	1	1	0
Macedonia, FYR	2.9	85	16	18.72	0	1	0	0	0	0	0	0	1	0
Madagascar	1	51	15	27.07	0	0	0	0	0	1	0	0	1	0
Malawi	0.9	66	14	8.39	0	0	0	0	0	1	0	0	1	0
Malaysia	3.9	196	30	20.52	0	0	1	0	0	0	0	0	0	1
Mali	3.7	50	16	19.38	0	0	0	0	0	1	0	0	1	0
Mauritius	0.2	79	41	21.88	0	0	0	0	0	1	0	0	1	0
Mexico	2.6	59	5	19.85	1	0	0	0	0	0	0	1	1	1
Moldova	3.1	106	27	21.21	0	1	0	0	0	0	0	1	1	0
Morocco	1.5	55	20	24.69	0	0	0	0	1	0	0	1	1	1
Mozambique	4	57	13	19.15	0	0	0	0	0	1	0	1	1	0
Netherlands	0.1	117	25	20.30	1	0	0	0	0	0	0	0	0	1

New Zealand	2.3	44	15	23.68	0	0	1	0	0	0	0	0	0	1
Nicaragua	5.5	65	15	26.85	0	0	0	0	0	0	1	0	1	0
Nigeria	2.6	48	12	13.61	0	0	0	0	0	1	0	0	1	0
Norway	0.2	52	20	18.38	1	0	0	0	0	0	0	0	0	1
Oman	-0.1	91	15	18.97	0	0	0	0	1	0	0	0	1	0
Pakistan	1.2	33	8.4	15.84	0	0	0	1	0	0	0	0	1	0
Panama	7.4	33	30	18.02	0	0	0	0	0	0	1	1	1	0
Paraguay	1.3	58	13	21.42	0	0	0	0	0	0	1	0	1	0
Peru	2.6	33	6.8	16.66	0	0	0	0	0	0	1	0	1	0
Philippines	0.6	97	11	16.47	0	0	1	0	0	0	0	0	1	1
Poland	5.2	68	11	18.77	0	1	0	0	0	0	0	1	0	1
Portugal	0.5	54	15	24.26	1	0	0	0	0	0	0	0	0	1
Romania	7.4	77	10	22.32	0	1	0	0	0	0	0	1	1	0
Russian Federation	2.1	48	9.3	18.51	0	1	0	0	0	0	0	0	1	0
Rwanda	0.4	21	18	17.43	0	0	0	0	0	1	0	0	1	0
Senegal	0.9	55	16	23.46	0	0	0	0	0	1	0	1	1	0
Singapore	15	322	77	17.26	0	0	1	0	0	0	0	0	0	1
Slovak Republic	2.7	139	19	23.93	0	1	0	0	0	0	0	0	1	1
Slovenia	2.6	103	19	24.69	0	1	0	0	0	0	0	0	0	0
South Africa	0.3	49	8.3	24.33	0	0	0	0	0	1	0	0	1	1
Spain	1.6	41	14	27.90	1	0	0	0	0	0	0	0	0	1
Sri Lanka	1.2	69	17	26.04	0	0	0	1	0	0	0	1	1	0
Sudan	7.2	37	5.3	21.13	0	0	0	0	1	0	0	0	1	0
Swaziland	2.9	163	43	18.99	0	0	0	0	0	1	0	0	1	0
Sweden	-0.2	64	21	16.25	1	0	0	0	0	0	0	0	0	1
Switzerland	-0.2	64	19	21.02	1	0	0	0	0	0	0	0	0	1
Syrian Arab Republic	1.1	47	19	21.54	0	0	0	0	1	0	0	0	1	0
Tajikistan	13.1	111	16	9.40	0	1	0	0	0	0	0	0	1	0
Tanzania	2.3	35	18	21.75	0	0	0	0	0	1	0	0	1	0
Thailand	0.9	119	26	26.14	0	0	1	0	0	0	0	0	1	1
Togo	2.9	88	17	20.98	0	0	0	0	0	1	0	0	1	0
Trinidad and Tobago	8	90	10	21.65	0	0	0	0	0	0	1	1	0	0
Tunisia	2.1	80	20	22.58	0	0	0	0	1	0	0	1	1	1
Turkey	0.9	53	12	17.82	0	0	0	0	1	0	0	1	1	1
Uganda	3.3	31	17	19.40	0	0	0	0	0	1	0	0	1	0
Ukraine	2.6	95	18	22.53	0	1	0	0	0	0	0	1	1	0
United Kingdom	3.4	38	15	16.38	1	0	0	0	0	0	0	0	0	1
United States	0.9	20	5.4	19.17	1	0	0	0	0	0	0	0	0	1
Uruguay	2.4	46	13	11.28	0	0	0	0	0	0	1	0	1	0
Venezuela, RB	1.4	45	5.3	17.20	0	0	0	0	0	0	1	0	1	0
Vietnam	3.6	125	19	33.47	0	0	1	0	0	0	0	0	1	0
Yemen, Rep.	1.1	65	11	16.09	0	0	0	0	1	0	0	0	1	0

Source: UN, UNCTAD and OECD

APPENDIX B:

Inward FDI Potential Index 2002-2004

(141 economies)

Rank	Economy	Score (0-1)
1	United States	0.637
2	United Kingdom	0.449
3	Canada	0.446
4	Luxembourg	0.443
5	Singapore	0.439
6	Norway	0.436
7	Sweden	0.432
8	Germany	0.421
9	Ireland	0.414
10	Qatar	0.408
11	Netherlands	0.407
12	Iceland	0.403
13	Finland	0.401
14	Belgium	0.400
15	Hong Kong, China	0.398
16	France	0.390
17	Korea, Republic of	0.382
18	Australia	0.376
19	Taiwan Province of China	0.374
20	Switzerland	0.371
21	Denmark	0.371
22	Japan	0.360
23	Israel	0.348
24	Spain	0.348
25	Russian Federation	0.344

Rank	Economy	Score (0-1)
72	South Africa	0.184
73	Azerbaijan	0.183
74	Viet Nam	0.182
75	Costa Rica	0.181
76	Venezuela	0.179
77	Mongolia	0.178
78	Romania	0.175
79	Armenia	0.175
80	Angola	0.171
81	Egypt	0.166
82	India	0.166
83	Myanmar	0.163
84	Albania	0.162
85	Suriname	0.159
86	Bolivia	0.158
87	Moldova, Republic of	0.156
88	Namibia	0.155
89	Morocco	0.154
90	Jamaica	0.152
91	Peru	0.151
92	Indonesia	0.148
93	Yemen	0.147
94	Uruguay	0.147
95	Syrian Arab Republic	0.147
96	Nigeria	0.146

26	Austria	0.337
27	United Arab Emirates	0.330
28	Italy	0.321
29	Slovenia	0.309
30	Bahrain	0.309
31	New Zealand	0.299
32	Malaysia	0.289
33	China	0.289
34	Estonia	0.289
35	Saudi Arabia	0.282
36	Greece	0.281
37	Hungary	0.271
38	Portugal	0.265
39	Czech Republic	0.265
40	Lithuania	0.264
41	Libyan Arab Jamahiriya	0.257
42	Kuwait	0.256
43	Poland	0.255
44	Cyprus	0.253
45	Latvia	0.252
46	Malta	0.247
47	Slovakia	0.246
48	Trinidad and Tobago	0.242
49	Brunei Darussalam	0.241
50	Belarus	0.239
51	Chile	0.237
52	Croatia	0.234
53	Mexico	0.230
54	Bahamas	0.230
55	Kazakhstan	0.222
56	Ukraine	0.217
57	Oman	0.216
58	Iran, Islamic Rep.	0.212
59	Thailand	0.210
60	Lebanon	0.206
61	Philippines	0.205
62	Panama	0.205
63	Jordan	0.200
64	Bulgaria	0.200
65	Algeria	0.197
66	Dominican Republic	0.196
67	Argentina	0.193
68	Turkey	0.191
69	Tunisia	0.191
70	Botswana	0.187
71	Brazil	0.186

97	Mozambique	0.146
98	Georgia	0.145
99	Congo, Rep.	0.142
100	El Salvador	0.139
101	Guyana	0.139
102	Guatemala	0.138
103	Gabon	0.137
104	Colombia	0.135
105	Kyrgyzstan	0.134
106	Paraguay	0.134
107	Ecuador	0.133
108	Gambia	0.132
109	Cameroon	0.129
110	Ghana	0.129
111	Senegal	0.128
112	United Republic of Tanzania	0.127
113	Honduras	0.126
114	Nicaragua	0.123
115	Uganda	0.122
116	Uzbekistan	0.121
117	Bangladesh	0.119
118	TFYR Macedonia	0.115
119	Sri Lanka	0.115
120	Tajikistan	0.114
121	Papua New Guinea	0.111
122	Mali	0.110
123	Sudan	0.105
124	Rwanda	0.104
125	Ethiopia	0.103
126	Cote d´Ivoire	0.102
127	Kenya	0.100
128	Pakistan	0.100
129	Burkina Faso	0.098
130	Togo	0.098
131	Niger	0.092
132	Malawi	0.090
133	Guinea	0.089
134	Zambia	0.087
135	Madagascar	0.085
136	Benin	0.082
137	Nepal	0.076
138	Haiti	0.064
139	Sierra Leone	0.062
140	Congo, Dem. Rep.	0.049
141	Zimbabwe	0.040

Source: UNCTAD

Inward FDI Performance Index 2003-2005

(141 economies)

Rank	Economy	Score
1	Azerbaijan	17.687
2	Brunei Darussalam	13.664
3	Hong Kong, China	9.724
4	Estonia	8.439
5	Singapore	8.294
6	Luxembourg	7.229
7	Lebanon	7.045
8	Malta	6.664
9	Bulgaria	6.351
10	Congo	5.859
11	Belgium	5.596
12	Mongolia	5.442
13	Iceland	4.972
14	Georgia	4.829
15	United Arab Emirates	4.797
16	Sudan	4.636
17	Congo, Democratic Republic of	4.581
18	Angola	4.548
19	Jordan	4.524
20	Trinidad and Tobago	4.471
21	Jamaica	4.233
22	Bahrain	4.214
23	Cyprus	4.037
24	Romania	3.833
25	Chile	3.745
26	Kazakhstan	3.613
27	Moldova, Republic of	3.518
28	Panama	3.430
29	Tajikistan	3.419
30	Armenia	3.381
31	Guyana	3.351
32	Czech Republic	3.268
33	Ukraine	3.230

Rank	Economy	Score
72	Peru	1.551
73	Myanmar	1.547
74	Guinea	1.519
75	Mexico	1.419
76	Spain	1.404
77	Tunisia	1.398
78	Togo	1.391
79	Macedonia, TFYR	1.366
80	France	1.343
81	Austria	1.342
82	Brazil	1.331
83	Argentina	1.324
84	Switzerland	1.278
85	El Salvador	1.269
86	Venezuela	1.253
87	Russian Federation	1.241
88	Finland	1.225
89	Ireland	1.216
90	Gambia	1.175
91	Oman	1.066
92	Slovenia	1.024
93	Sierra Leone	0.991
94	Ghana	0.927
95	Turkey	0.917
96	Thailand	0.867
97	Canada	0.838
98	Paraguay	0.806
99	Madagascar	0.802
100	Côte d´Ivoire	0.796
101	Syrian Arab Republic	0.789
102	Pakistan	0.753
103	South Africa	0.744
104	Papua New Guinea	0.717
105	Norway	0.710

34	Bahamas	3.102
35	Ecuador	2.977
36	Nicaragua	2.967
37	Colombia	2.945
38	Croatia	2.937
39	Ethiopia	2.728
40	Hungary	2.684
41	Namibia	2.683
42	Botswana	2.682
43	Morocco	2.567
44	United Republic of Tanzania	2.563
45	Kyrgyzstan	2.388
46	Zambia	2.332
47	Gabon	2.299
48	Latvia	2.280
49	United Kingdom	2.253
50	Netherlands	2.226
51	Mozambique	2.217
52	Honduras	2.183
53	Viet Nam	2.173
54	Qatar	2.127
55	China	2.048
56	Albania	2.000
57	Poland	1.946
58	Uruguay	1.943
59	Costa Rica	1.926
60	Slovakia	1.892
61	Nigeria	1.886
62	Malaysia	1.824
63	Israel	1.812
64	Sweden	1.787
65	Dominican Republic	1.783
66	Egypt	1.750
67	Uganda	1.729
68	Lithuania	1.724
69	Portugal	1.640
70	New Zealand	1.598
71	Mali	1.578

106	Sri Lanka	0.700
107	Italy	0.629
108	Benin	0.626
109	Algeria	0.608
110	Saudi Arabia	0.558
111	Australia	0.547
112	Indonesia	0.537
113	Belarus	0.529
114	Korea, Republic of	0.525
115	Philippines	0.510
116	Bangladesh	0.485
117	Zimbabwe	0.478
118	Senegal	0.475
119	India	0.472
120	United States	0.454
121	Greece	0.385
122	Guatemala	0.367
123	Germany	0.344
124	Niger	0.293
125	Burkina Faso	0.262
126	Taiwan Province of China	0.246
127	Rwanda	0.205
128	Uzbekistan	0.202
129	Kenya	0.179
130	Haiti	0.153
131	Japan	0.073
132	Kuwait	0.071
133	Iran, Islamic Republic of	0.071
134	Malawi	0.060
135	Nepal	0.056
136	Libyan Arab Jamahiriya	0.037
137	Cameroon	0.023
138	Bolivia	-0.031
139	Yemen	-0.171
140	Denmark	-0.230
141	Suriname	-1.211

Source: UNCTAD

Consolidated Table of Inward FDI Potential & Performance Indices					
	Rank			Rank	
Economy	Performance	Potential	Economy	Performance	Potential
Albania	56	84	Libyan Arab Jamahiriya	136	41
Algeria	109	65	Lithuania	68	40
Angola	18	80	Luxembourg	6	4
Argentina	83	67	Macedonia, TFYR	79	135
Armenia	30	79	Madagascar	99	132
Australia	111	18	Malawi	134	32
Austria	81	26	Malaysia	62	122
Azerbaijan	1	73	Mali	71	46
Bahamas	34	54	Malta	8	53
Bahrain	22	30	Mexico	75	87
Bangladesh	116	117	Moldova, Republic of	27	77
Belarus	113	50	Mongolia	12	89
Belgium	11	14	Morocco	43	97
Benin	108	136	Mozambique	51	83
Bolivia	138	86	Myanmar	73	88
Botswana	42	70	Namibia	41	137
Brazil	82	71	Nepal	135	11
Brunei Darussalam	2	49	Netherlands	50	31
Bulgaria	9	64	New Zealand	70	114
Burkina Faso	125	129	Nicaragua	36	131
Cameroon	137	109	Niger	124	96
Canada	97	3	Nigeria	61	6

Chile	25	51	Norway	105	57
China	55	33	Oman	91	128
Colombia	37	104	Pakistan	102	62
Congo	10	140	Panama	28	121
Congo, Democratic Republic of	17	99	Papua New Guinea	104	106
Costa Rica	59	75	Paraguay	98	91
Côte d´Ivoire	100	126	Peru	72	61
Croatia	38	52	Philippines	115	43
Cyprus	23	44	Poland	57	38
Czech Republic	32	39	Portugal	69	10
Denmark	140	21	Qatar	54	78
Dominican Republic	65	66	Romania	24	25
Ecuador	35	107	Russian Federation	87	124
Egypt	66	81	Rwanda	127	35
El Salvador	85	100	Saudi Arabia	110	111
Estonia	4	34	Senegal	118	139
Ethiopia	39	125	Sierra Leone	93	5
Finland	88	13	Singapore	5	47
France	80	16	Slovakia	60	29
Gabon	47	103	Slovenia	92	72
Gambia	90	108	South Africa	103	24
Georgia	14	98	Spain	76	119
Germany	123	8	Sri Lanka	106	123
Ghana	94	110	Sudan	16	85
Greece	121	36	Suriname	141	7
Guatemala	122	102	Sweden	64	20
Guinea	74	133	Switzerland	84	95
Guyana	31	101	Syrian Arab Republic	101	19
Haiti	130	138	Taiwan Province of China	126	120
Honduras	52	113	Tajikistan	29	118
Hong Kong, China	3	15	Thailand	96	59
Hungary	40	37	Togo	78	130
Iceland	13	12	Trinidad and Tobago	20	48
India	119	82	Tunisia	77	69
Indonesia	112	92	Turkey	95	68
Iran, Islamic Republic of	133	58	Uganda	67	115

Ireland	89	9	Ukraine	33	56
Israel	63	23	United Arab Emirates	15	27
Italy	107	28	United Kingdom	49	2
Jamaica	21	90	United Republic of Tanzania	44	112
Japan	131	22	United States	120	1
Jordan	19	63	Uruguay	58	94
Kazakhstan	26	55	Uzbekistan	128	116
Kenya	129	127	Venezuela	86	76
Korea, Republic of	114	17	Viet Nam	53	74
Kuwait	132	42	Yemen	139	93
Kyrgyzstan	45	105	Zambia	46	134
Latvia	48	45	Zimbabwe	117	141
Lebanon	7	60			

Appendix C: Number of BITs that had entered into force, by economy, December 2004									
Economy	**World**	**Europe**	**Canada**	**USA**	**Other developed**	**Africa**	**LAC**	**Asia and Oceania**	**Transition economies**
Albania	28	16	0	1	1	1	0	4	5
Argentina	54	17	1	1	2	4	13	9	6
Armenia	21	8	1	1	0	0	1	4	6
Australia	19	4	0	0	0	1	4	9	1
Austria	52	9	0	0	0	6	6	16	15
Azerbaijan	16	6	0	1	0	0	0	3	6
Bangladesh	22	9	1	1	1	0	0	8	2
Belarus	38	13	0	0	1	2	1	12	9
Belgium	52	10	0	0	0	8	8	15	11
Benin	3	3	0	0	0	0	0	0	0
Bolivia	18	10	0	1	0	0	4	2	1
Bosnia and Herzegovina	24	12	0	0	0	1	0	6	5
Botswana	1	1	0	0	0	0	0	0	0
Brazil	0	0	0	0	0	0	0	0	0
Bulgaria	53	22	0	0	1	5	2	11	12
Cambodia	6	2	0	0	0	0	0	3	1
Canada	23	5	0	0	0	1	8	4	5
Chile	36	14	0	0	1	0	14	4	3
China	87	20	0	0	3	9	11	26	18
Colombia	5	4	0	1	0	0	0	0	0
Congo, Rep.	4	3	0	1	0	0	0	0	0
Costa Rica	13	6	1	0	0	0	4	2	0
Côte d'Ivoire	5	5	0	0	0	0	0	0	0
Croatia	41	21	1	1	0	1	2	8	7
Czech Republic	65	25	1	1	2	2	8	14	12
Denmark	37	8	0	0	0	4	6	14	5
Dominican Republic	5	2	0	0	0	0	2	1	0
Ecuador	21	7	1	1	0	0	10	1	1
Egypt, Arab Rep.	52	19	1	1	2	4	1	14	10

El Salvador	20	9	0	0	1	1	7	2	0
Estonia	22	18	0	0	1	0	0	2	1
Ethiopia	6	2	0	0	1	1	0	1	1
Finland	47	8	0	0	0	4	7	15	13
Gabon	5	3	0	0	0	1	0	0	1
Georgia	21	8	0	1	1	0	0	2	9
Germany	110	10	0	0	0	37	22	26	15
Ghana	8	5	0	0	0	0	0	2	1
Greece	33	10	0	0	0	4	3	5	11
Guatemala	4	1	0	0	0	0	2	1	0
Guinea	6	3	0	0	0	1	0	1	1
Guinea-Bissau	1	1	0	0	0	0	0	0	0
Haiti	3	3	0	0	0	0	0	0	0
Honduras	7	4	0	1	0	0	1	1	0
Hong Kong, China	14	10	0	0	3	0	0	1	0
Hungary	50	22	1	0	2	1	3	11	10
India	44	15	0	0	2	3	1	13	10
Indonesia	37	13	0	0	1	4	2	13	4
Ireland	1	1	0	0	0	0	0	0	0
Israel	28	9	0	0	0	1	3	5	10
Italy	64	9	0	0	0	13	10	19	13
Japan	10	7	0	1	0	0	1	1	0
Jordan	13	0	0	0	0	1	0	11	1
Kazakhstan	27	11	0	1	0	5	0	7	3
Kenya	3	3	0	0	0	0	0	0	0
Korea, Rep.	68	19	0	0	2	6	13	20	8
Kuwait	29	13	0	0	0	1	0	7	8
Kyrgyz Republic	17	5	0	1	0	0	0	5	6
Latvia	38	22	1	1	1	1	0	6	6
Lesotho	2	2	0	0	0	0	0	0	0
Lithuania	41	22	0	1	2	0	2	7	7
Macedonia, FYR	23	11	0	0	0	0	0	4	8
Madagascar	4	4	0	0	0	0	0	0	0
Malawi	42	16	0	0	0	3	3	15	5
Malaysia	3	2	0	0	0	1	0	0	0
Mali	12	5	0	0	0	2	0	4	1
Mauritius	12	10	0	0	0	0	1	1	0
Mexico	31	14	0	1	1	0	0	3	12
Moldova	32	14	0	1	2	0	0	11	4
Morocco	21	9	0	1	0	2	1	6	2
Mozambique	14	6	0	1	0	4	1	2	0
Netherlands	62	9	0	0	0	14	10	17	12
New Zealand	2	0	0	0	0	0	0	2	0
Nicaragua	11	7	0	0	0	0	2	2	0
Nigeria	7	5	0	0	0	0	0	2	0
Norway	17	7	0	0	0	1	2	4	3
Oman	19	8	0	0	0	5	0	6	0
Pakistan	23	10	0	0	2	0	0	10	1
Panama	11	5	1	1	0	0	2	2	0
Paraguay	19	10	0	0	0	0	6	2	1
Peru	26	13	0	0	1	0	7	4	1
Philippines	25	10	1	0	1	0	2	10	1

Poland	59	22	1	1	2	3	3	15	12
Portugal	30	8	0	0	0	6	8	4	4
Romania	78	23	1	1	2	9	8	19	15
Russian Federation	34	18	1	0	1	1	2	6	5
Rwanda	3	3	0	0	0	0	0	0	0
Senegal	8	5	0	1	0	0	0	1	1
Singapore	22	10	0	0	1	2	0	8	1
Slovak Republic	39	21	1	0	1	1	1	5	9
Slovenia	31	19	0	0	1	1	0	2	8
South Africa	19	12	0	0	0	2	2	3	0
Spain	54	8	0	0	0	7	17	12	10
Sri Lanka	23	11	0	1	1	1	0	8	1
Sudan	7	3	0	0	0	1	0	3	0
Swaziland	2	2	0	0	0	0	0	0	0
Sweden	53	9	0	0	0	7	8	17	12
Switzerland	98	9	0	0	0	36	16	23	14
Syrian Arab Republic	11	5	0	0	0	0	0	4	2
Tajikistan	9	2	0	0	0	0	0	5	2
Tanzania	4	4	0	0	0	0	0	0	0
Thailand	31	11	1	0	1	1	2	13	2
Togo	2	2	0	0	0	0	0	0	0
Trinidad and Tobago	7	3	1	1	0	0	0	2	0
Tunisia	28	15	0	1	0	2	1	7	2
Turkey	52	21	0	1	2	2	2	7	17
Uganda	4	4	0	0	0	0	0	0	0
Ukraine	44	20	1	1	1	1	3	7	10
United Kingdom	88	9	0	0	0	17	22	24	16
United States	37	4	0	0	0	8	9	6	10
Uruguay	21	13	1	0	2	0	3	1	1
Venezuela, RB	21	12	1	0	0	0	7	1	0
Vietnam	39	16	0	0	3	0	2	11	7
Yemen, Rep.	12	5	0	0	0	1	0	5	1
Total	2966	1053	21	32	56	275	335	700	493

Source: UNCTAD database on BITs (www.unctad.org/iia).

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