

FDI Potential and FDI Performance of the OIC Countries



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SESRIC

Kudüs Caddesi No: 9, 06450 ORAN, Ankara, Turkey

Tel: +90-12-468 6172 Fax: +90-312-467 3458

E-mail: oicankara@sesric.org Web: www.sesric.org

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1. Introduction

With the decline of the Soviet Union and open market policies promoted by the World Bank and the IMF, many countries including the OIC member have become more integrated to the global economy via FDI, international trade, and capital flows channels. The analysis of the OIC countries in terms of FDI potential and performance is crucial for drawing effective and right-policy measures on FDI.

This short report investigates the FDI potential and FDI performance of the OIC countries in a comparative perspective by using the net FDI inflows data, FDI potential and FDI performance indices developed by the UNCTAD. More specifically, the report seeks answers to the following questions: how the FDI potential and FDI performance of the OIC countries evolved over time? Did the OIC countries attract FDI inflows over their FDI potential or under their potential? What would be the policy implications to increase FDI potential and performance of the OIC countries?

The analysis covers the period starting from the 1990s in which FDI flows increased dramatically and became an important component of the national development policies in many developing countries, including OIC members. The report examines the OIC countries as a group in terms of their FDI potential and performance. To bring a comparative perspective, the report also compares and contrasts the OIC average with the average of 59 non-OIC developing countries (i.e. other developing countries). Thus, the analysis reflects the relative position of the OIC countries in terms FDI potential and performance in a comparative way.

2. Background on FDI

2.1 What is FDI?

“Foreign direct investment is the category of international investment in which an enterprise resident in one country (the direct investor) acquires an interest of at least 10 % in an enterprise resident in

another country (the direct investment enterprise)” (UNCTAD, 2007). What makes FDI different from financial capital flows is the usage of transferred capital in the host country. When foreign investors invest on financial instruments, it is called financial flows. Nonetheless, FDI implies that foreign investors either invest into an existing company or found a new company (factory) in the host country. Since FDI is a form of physical investment, it is expected to have direct and indirect impacts on macroeconomic variables such as growth, current account, gross capital formation, productivity, employment, and so on. According to the OECD, “FDI triggers technology spill overs, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment, and enhances enterprise development” (OECD, 2002, p. 5).

Basically, the effects of FDI on growth can be classified under two categories: capital widening and capital deepening (Aghion and Howitt, 2009). The positive effect of FDI on capital stocks is labelled as the capital widening effect. The capital deepening effect of FDI implies the transfer of knowledge and technology together with FDI into a host economy. Therefore, it covers technology and productivity spill overs and other externalities brought by FDI. According to the Solow growth model, the capital deepening effect of FDI will have a permanent positive effect on growth over the long-run, whereas the capital widening effect will diminish over time.

2.2 What is FDI Potential?

The FDI potential index is constructed by the UNCTAD to measure the FDI potential of countries (UNCTAD, 2012). The determinants of FDI literature claims that investors take both economic and institutional factors into account before finalizing their decisions on FDI. Therefore, one should take these two dimensions into account. However, in the empirical literature, many researchers could cover only limited aspects of the determinants of FDI due to the lack of comparable data, poor quality of data or limitations on the econometric methodology that they follow (Blonigen, 2005; Lim, 2001).

Nevertheless, the FDI potential index of the UNCTAD covers 12 sub-items that encompass different aspects of a host country. These quantifiable sub-items are the following, which are mostly confirmed as the robust determinant factors of FDI in host countries in different empirical studies (e.g. Vijayakumar, 2010; Ali et al., 2010): GDP per capita, the rate of GDP growth over the previous 10 years, the share of exports in GDP, average number of telephone lines per 1,000 inhabitants, commercial energy use per capita, the share of R&D spending in GDP, the share of tertiary students in the population, country risk, the world market share in exports of natural resources, the world market share of imports of parts and components for automobiles and electronic products, the world market share of exports of services, and the share of world FDI inward stock.

The FDI potential index data are obtained from the UNCTAD-FDI Annex database over 5-year intervals. An increase in the index value is treated as a development in the FDI potential.

2.3 What is FDI Performance?

The FDI performance index is developed by the UNCTAD to measure a country's relative position in the world in terms of FDI performance. Formally, it is the ratio of a country's share in global FDI flows to its share in global GDP and can be calculated as follows:

$$FDI\ Performance\ Index_i = \frac{FDI_i / FDI_{world}}{GDP_i / GDP_{world}}$$

In the empirical literature, FDI is sometimes used in a scaled way instead of raw value (i.e. nominal value). It is either scaled down by the GDP size of the host country (i.e. FDI as % GDP) or by the population size of the host country (i.e. FDI per capita). By doing this, it is aimed to bring a clearer picture on the relative FDI performance of countries. However, scaling down FDI with the country GDP level can also provide a skewed picture. Therefore the FDI performance index can be a better indicator than the classic indicator of FDI such as FDI as % GDP. Because FDI performance index takes the countries' GDP share in the world economy into account and therefore puts a more realistic picture in terms of the comparative FDI performance of countries. To this end, one may infer from the index whether a country outperforms or underperforms in terms of its FDI flows performance relative to its share in the world GDP.

For instance, in 2005 FDI flows (as % GDP) in Turkey was 2.07 per cent and the ratio was 4.21 per cent in Uganda. According to the classic FDI indicator (i.e. FDI as % GDP), Uganda is a country more open to FDI that the share of FDI flows in its GDP is higher than in Turkey. However, if we use the FDI performance index that takes the Turkey's and Uganda's share in the world GDP into account, the picture changes. In 2005, the FDI performance score of Turkey is measured as 89 and in Uganda it is calculated as 58. According to the FDI performance index, Turkey showed a better FDI performance than Uganda. It is crucial to provide a reliable and true picture of the FDI performance to draw and implement the right policy measures. To this end, the FDI performance index seems to provide a more realistic picture since it takes into account countries' shares in the world GDP.

The FDI performance index data are gathered from the UNCTAD-FDI Annex database over 5-year intervals. An increase in the index value is treated as a positive development in the FDI performance.

3. Statistical Analysis

3.1 FDI Inflows in the OIC Countries

This sub-section provides some selected figures on net FDI inflows in the OIC countries as well as in other developing countries, developed countries and the world. Figure 1 presents the evolution of net FDI inflows in the OIC countries for the period 1990-2013. The top figure focuses on the average of two periods (1990-2000 and 2001-2011) in order to reflect a long-term view whereas the bottom figure displays the most recent data for the years 2012 and 2013. According to Figure 1 (top), all country groups experienced a significant increase in their net FDI inflows figures thanks to the globalization wave and the collapse of the Soviet Union that allowed many countries to integrate more with the world economy. As a result, the worldwide net FDI inflows increased from USD 2380 million to USD 5874 million between 1990-2000 and 2001-2011 periods. Both other developing countries and developed countries witnessed a remarkable increase in net FDI inflows during the period under consideration.

The experience of the OIC group was not different from the global FDI trends that the average value of net FDI inflows jumped from USD 75 million to USD 478 million (a 6.3 fold increase). Compared with the performance of other developing countries and developed countries, the OIC group increased the average FDI inflows the most. This is the result of a set of factors that shaped the economic integration of the OIC countries with the world economy. Since the 1990s many OIC countries have reduced trade barriers, improved physical infrastructure and transport networks, built up human capital through health and education reforms. This has led to a more integration the world economy both in terms of trade, tourism and financial flows. In summary, from a long-term perspective, the OIC countries showed a good performance in terms of attracting FDI inflows and hosting significant amount of foreign investors in different sectors. The next sections provide a more detailed picture on this observation whether this volume of FDI inflow is fulfilling the potential of the OIC countries.

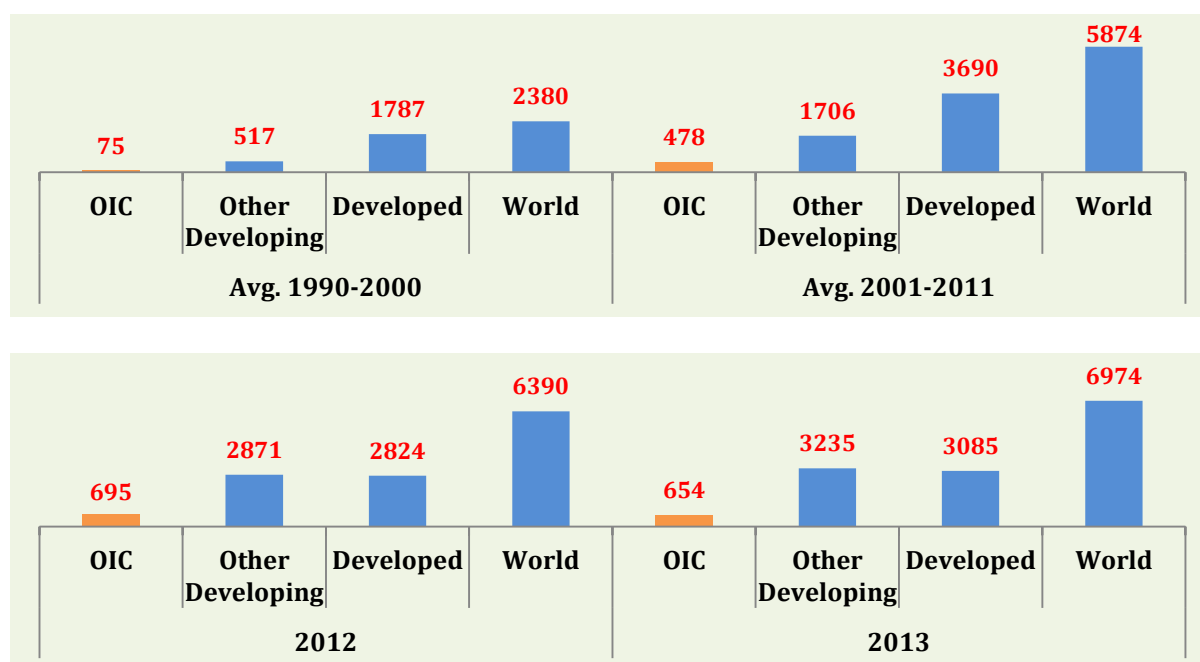
Figure 1 (bottom) provides the most recent developments in the OIC countries and in the world in terms of net FDI inflows. The average net FDI inflows between 2012 and 2013 increased both for other developing countries and developed countries. The world average also registered to an increase from USD 6390 million to USD 6974 million during the period under consideration. Nevertheless, the average of the OIC group decreased from USD 695 million in 2012 to 654 million in 2013. Important developments (the Arab Spring, changes in the regimes, on-going street protests etc.) that took place in some OIC countries especially in the Middle East and North Africa (MENA) region

increased the level of uncertainty for foreign investors who are willing to invest in the region. This was reflected as a reduction in the net FDI inflows figure of the OIC group.

In terms of individual country performance of the OIC countries in 2013, it was seen that Indonesia and Turkey were the best performer countries in terms of attracting FDI inflows. These two countries achieved to secure net FDI inflows amounted USD 18.4 billion and USD 12.8 billion, respectively (Figure 2, left). Malaysia, United Arab Emirates, Kazakhstan and Saudi Arabia followed Indonesia and Turkey by attracting FDI inflows USD 12.3 billion, 10.4 billion, 9.7 billion and 9.2 billion, respectively. The OIC average net FDI inflows was recorded at USD 654 million in 2013 that 32 OIC countries attracted more FDI inflows than this amount. The worst performer OIC countries in 2013 were Yemen and Qatar in terms of net FDI inflows (Figure 2, right). It was also observed that FDI inflows to OIC countries are concentrated in only a few of them. In 2013, top-performer six OIC countries shown in Figure 2 (left) attracted 54 per cent of all net FDI inflows recorded in the OIC group.

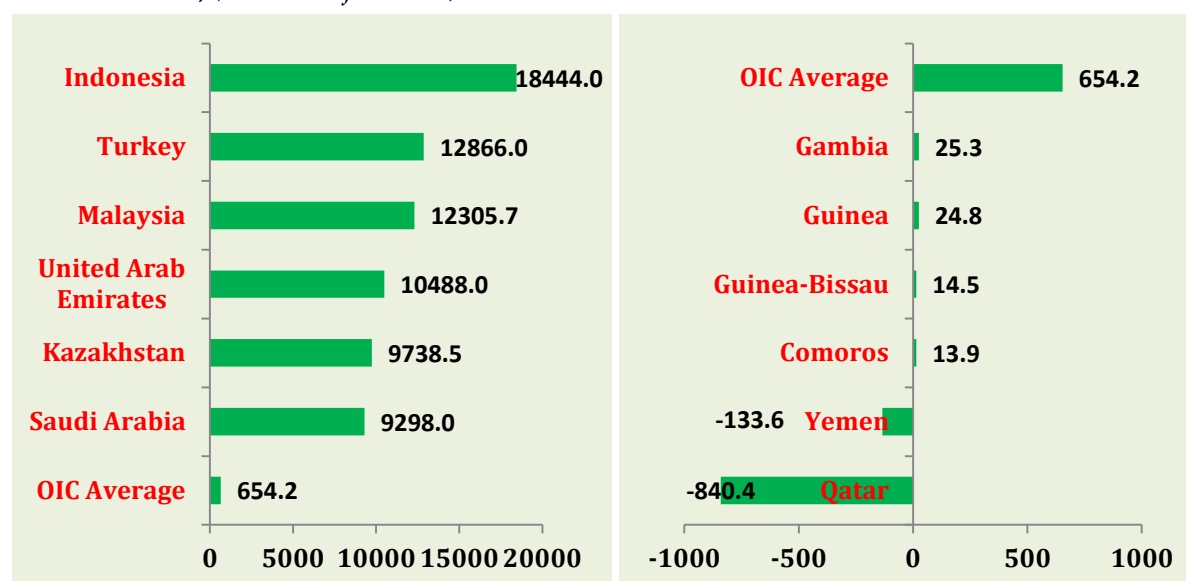
This analysis shows that the OIC countries have improved their FDI performance in the last two decades. It also becomes evident that the OIC countries hosted remarkably lower amount of FDI inflows compared with other developing countries. Furthermore, the figures portray that FDI inflows to the OIC countries are not distributed evenly. Many OIC countries attract only negligible amount of FDI inflows, whereas countries like Indonesia, Malaysia, Saudi Arabia and Turkey perform better.

Figure 1: FDI Net Inflows in the OIC Countries: 1990-2011 (Top) and FDI Inflows in OIC Countries: 2012-2013 (Bottom), (Millions of Dollars)



Source: Author's calculations from the UNCTAD FDI Statistics Database, 2014.

Figure 2: Best Performer (Left) and Worst Performer (Right) OIC Countries in terms of FDI Net Inflows in 2013, (Millions of Dollars)



Source: Author’s calculations from the UNCTAD FDI Statistics Database, 2014.

3.2 Intra-OIC FDI Inflows

Intra-OIC FDI inflows reflect the directed investment from one source OIC country to another host OIC member country. Although the data are limited on the intra-OIC FDI inflows, Figure 3 and 4 present the data for top-ten largest intra-OIC investor and recipient countries. Table B in appendix provides the raw dataset on this.

According to Figure 3, United Arab Emirates, Bahrain and Qatar were top-three source countries in terms of the cumulative volume of intra-OIC FDI inflows during the period 2008-2012. Investors from Bahrain 100 per cent invested in other OIC countries in this period that is amounted about USD 38 billion and 68 per cent of the investment originated from United Arab Emirates went to other OIC countries with a nominal value of USD 140 billion. Investors from Qatar were also too active that they directed their 53 per cent investment into the OIC countries with a nominal value of USD 36.5 billion.

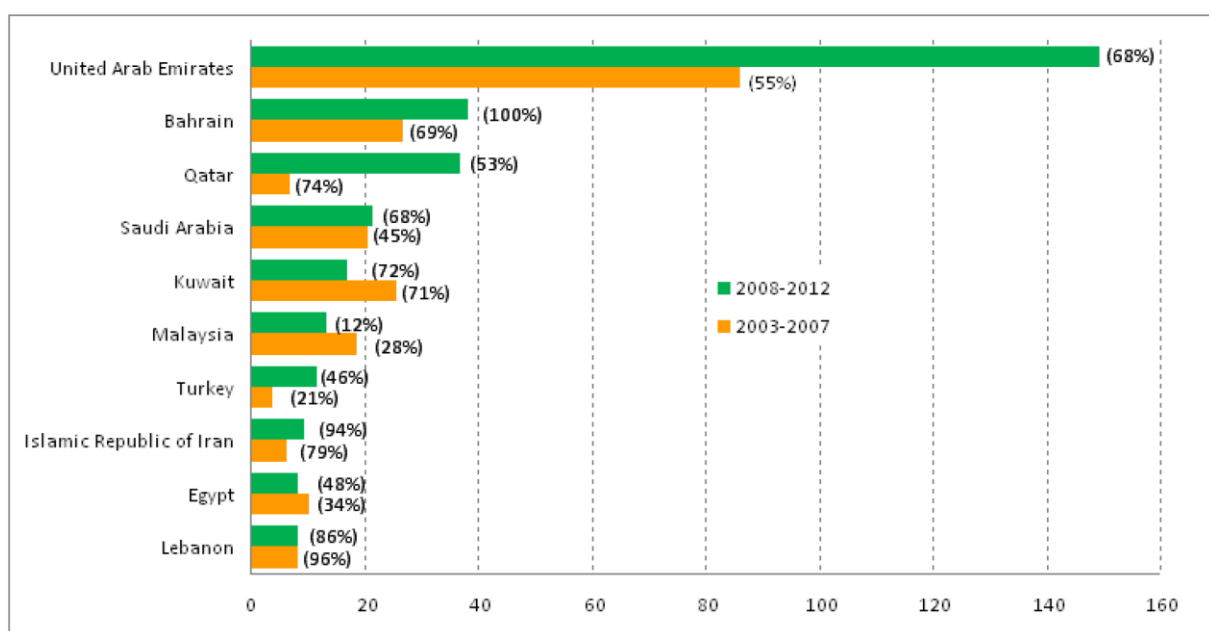
Egypt and Iraq took the lead in the period 2008-2012 in terms of the cumulative volume of intra-OIC FDI inflows received. Egypt achieved to attract USD 44.5 billion from other OIC countries that represents 51 per cent of all FDI directed to Egypt in this period. Iraq hosted foreign investment with a nominal value of USD 26 billion from other OIC countries corresponding to 49 per cent of all foreign investment realized in Iraq during the period under consideration (Figure 4).

According to the figures, it is very difficult claim that the OIC countries fully reached its potential in terms intra-OIC FDI flows. For instance, during the period 2008-2012 intra-OIC FDI inflows only represented 18 per cent of the total FDI inflows in Turkey, although it is one of the top-three FDI attracting countries in the OIC region in terms of the volume of total FDI inflows. This statement also holds true from the OIC investor country perspective. For instance, only 12 per cent of FDI flows originating from Malaysia went to other OIC countries, although Malaysia is one of the leading countries in the OIC region in terms of the total volume of FDI outflows. Overall, it is clear that intra-OIC investment needs a boost that is far below its potential.

Enhancing intra-OIC FDI inflows is one of the effective ways to increase FDI into the OIC region. Moreover, a higher volume of intra-OIC FDI inflows among OIC countries also means a higher degree of integration and deeper connection among Muslims living in different countries. Therefore, it is crucial for policy-makers in the OIC countries to take the necessary actions in order to give a boost to intra-OIC FDI inflows such as through building-up an online and up-to-date OIC investment database, organising regular OIC investment forums and exhibitions, relaxing trade barriers, easing visa rules for investors, reducing transport costs and taxes levied on it. Also part of the responsibility belongs to businessmen and companies located in the OIC countries that they should better evaluate the potential investment projects that emerge in the OIC countries. However, first policy-makers in the OIC countries need to level the field for investors who are willing to invest in other OIC countries by taking some of the recommendations mentioned above into consideration.

Figure 3: Ten Largest Intra-OIC Investor Countries, Cumulative 2003-2007 and 2008-2012

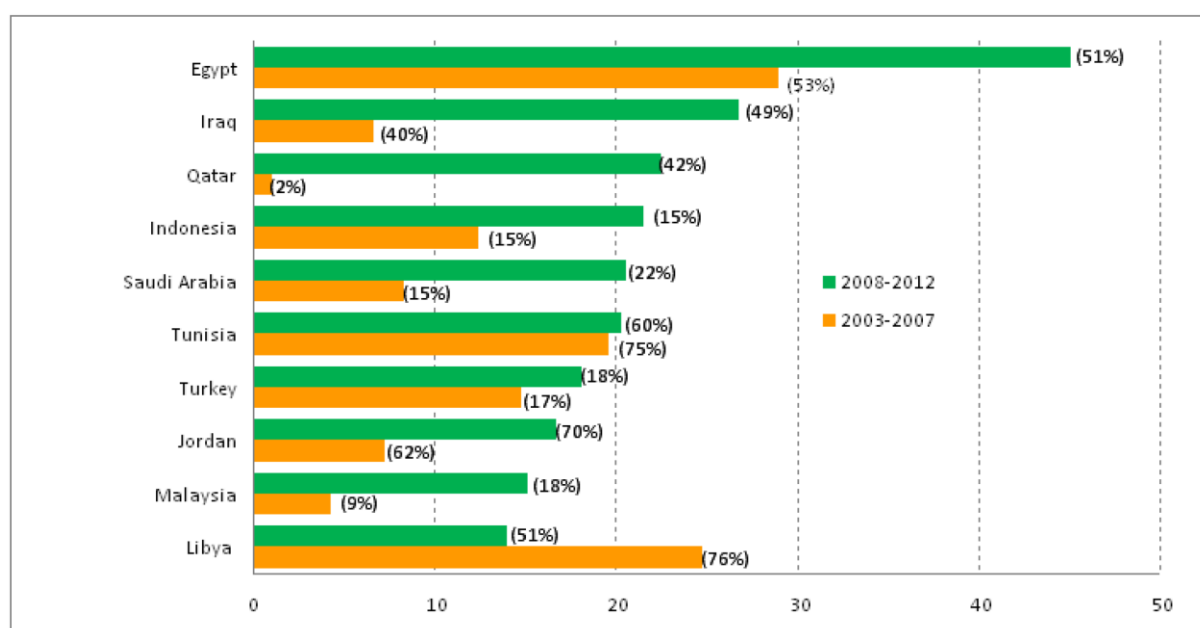
(Billions of Dollars and Per cent)



Source: UNCTAD, Global Investment Trends Monitor No: 14 (published on 18 November 2013).

Figure 4: Ten Largest Intra-OIC Recipient Countries, Cumulative 2003-2007 and 2008-2012

(Billions of Dollars and Per cent)



Source: UNCTAD, Global Investment Trends Monitor No: 14 (published on 18 November 2013).

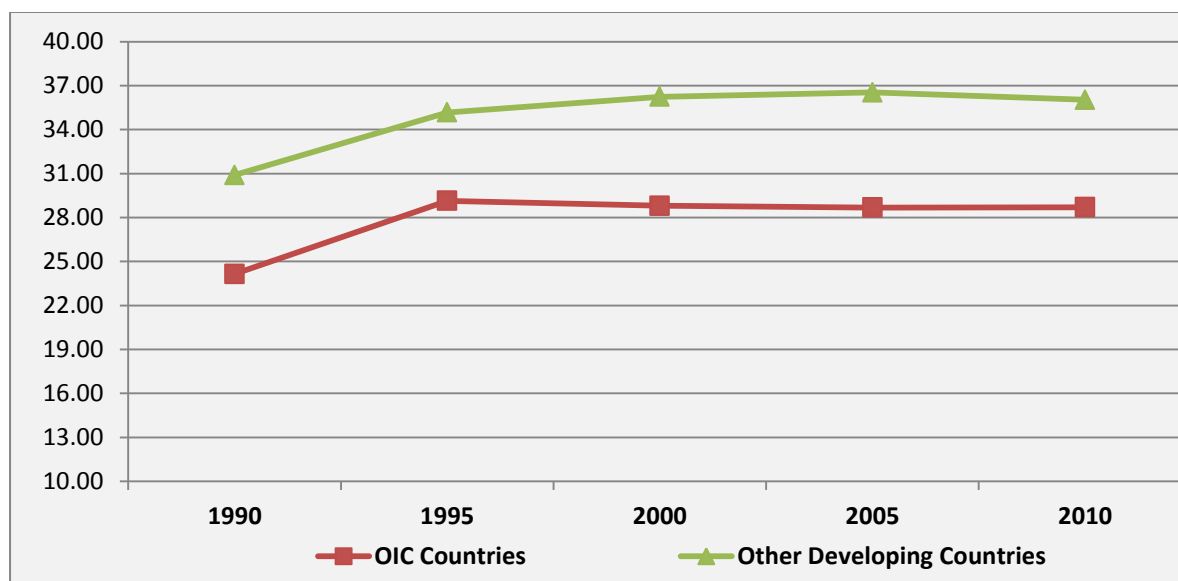
3.3 FDI Potential of the OIC Countries

By using the UNCTAD's FDI Potential Index dataset, the average FDI potential index for 47 OIC countries and 59 other developing countries were calculated. Figure 5 presents the trend in the average values between 1990 and 2010. In 1990, the OIC average was 24.1, whereas the average of other developing countries was 30.9. Between 1990 and 1995, both country groups increased their FDI potential remarkably. The OIC average reached 29.1 and the average of other developing countries climbed to 35.1. After 1995, the FDI potential index of OIC and other developing countries followed a relatively stable pattern. By the end of 2010, the average of other developing countries was measured as 36.4 and the OIC average was calculated as 28.7.

It is clear that the OIC countries' FDI potential is far below the average of other developing countries. This implies that policy makers in the OIC countries should work on policies to increase the FDI potential of their countries. In particular, between 1995 and 2010 the OIC average of FDI potential did not change remarkably that point out the existence of some problems in pro-FDI policies of the OIC countries.¹

¹ Figure A in the appendix depicts the FDI potential in the world in 2010 through a coloured world map.

Figure 5: FDI Potential of the OIC Countries



Source: Author's calculations based on the UNCTAD data. See appendix for the dataset for the figure.

Note: The figure reflects the average of 47 OIC countries and the average of 59 other developing countries.

3.4 FDI Performance of the OIC Countries

In a similar fashion to the FDI potential index, by using the UNCTAD's FDI Performance Index dataset, we calculated the average FDI performance index for 47 OIC countries and 59 other developing countries.

Figure 6 portrays the trend in the average values between 1990 and 2010. In 1990, on average, the FDI performance of the OIC countries was measured as 24.3 and the other developing countries was calculated as 23.6. This implies that the OIC countries' FDI performance was slightly better in 1990. Until 2000, both country groups increased their FDI performance by following a similar trend line and the average values of the FDI performance index climbed to 29. After 2000, both country groups experienced significant decreases in their index scores, and therefore their average values declined dramatically. However, the magnitude of decrease in the OIC average was far more remarkable than the magnitude of decrease in the average of other developing countries. The average of other developing countries was measured as 26.1 and the OIC average was calculated as 23.2 in 2010.

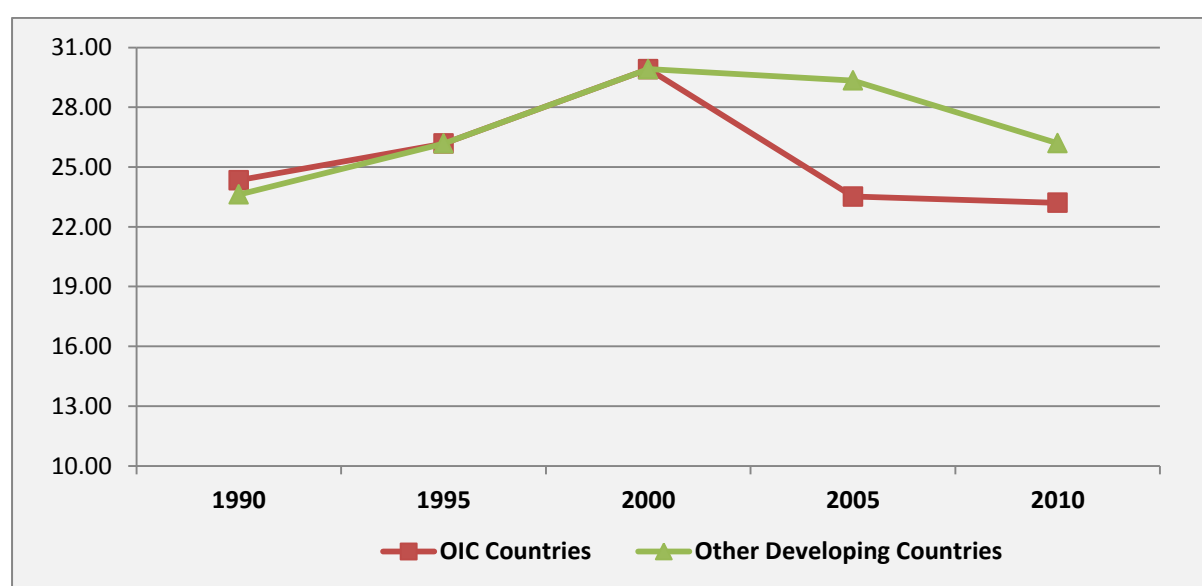
The examination of the FDI performance index of the UNCTAD reveals that:

a) The FDI performances of the OIC countries and other developing countries were quite similar in the 1990s.

b) Between 2000 and 2010, the FDI performance of both OIC and other developing countries started to decline dramatically possibly stemming from loose pro-FDI policies, restrictive policies to investors, economic instability, poor infrastructure, and low quality institutions.

c) In the 2000s, the OIC countries performed relatively worse compared to other developing countries that the average FDI performance index in the OIC countries dropped from 29.9 in 2000 to 23.2 in 2010.

Figure 6: FDI Performance of the OIC countries



Source: Author's calculations based on the UNCTAD data. See appendix for the dataset for the figure.

Note: The figure reflects the average of 47 OIC countries and the average of 59 other developing countries.

These figures imply that something went wrong in terms of FDI policies in the OIC countries. In particular, poor institutional reforms related with trade and FDI, limited investment into infrastructure, insufficient provision of public services such as health and education raised concerns of foreign investors. Some of the global developments such as the September 11 attacks, the Iraq War, significant growth recorded in some emerging markets (Brazil, China and India) also worked against the OIC countries that diverted investors into other non-OIC developing countries. Even though there are some good performers, the average FDI performance of the OIC countries decreased on average. The policy makers in the OIC countries should address this issue and try to find ways to increase their FDI performance. Given high competition among developing countries, only right, effective and timely FDI policies would help the OIC countries to increase their FDI performance.²

² Figure B in the appendix depicts the FDI performance in the world in 2010 through a coloured world map.

Our findings in this sub-section show a different aspect of the FDI performance of the OIC countries and put forward that the FDI performance of the OIC countries decreased in the 2000s. However, the standard FDI measures (e.g. net FDI inflows) shows that the total net FDI inflows in the OIC countries increased dramatically both in the 1990s and 2000s (see Figure 1). Therefore, the examination of these two indicators shows that it matters how you measure FDI flows.

3.5 FDI Gaps and Surpluses in the OIC Countries

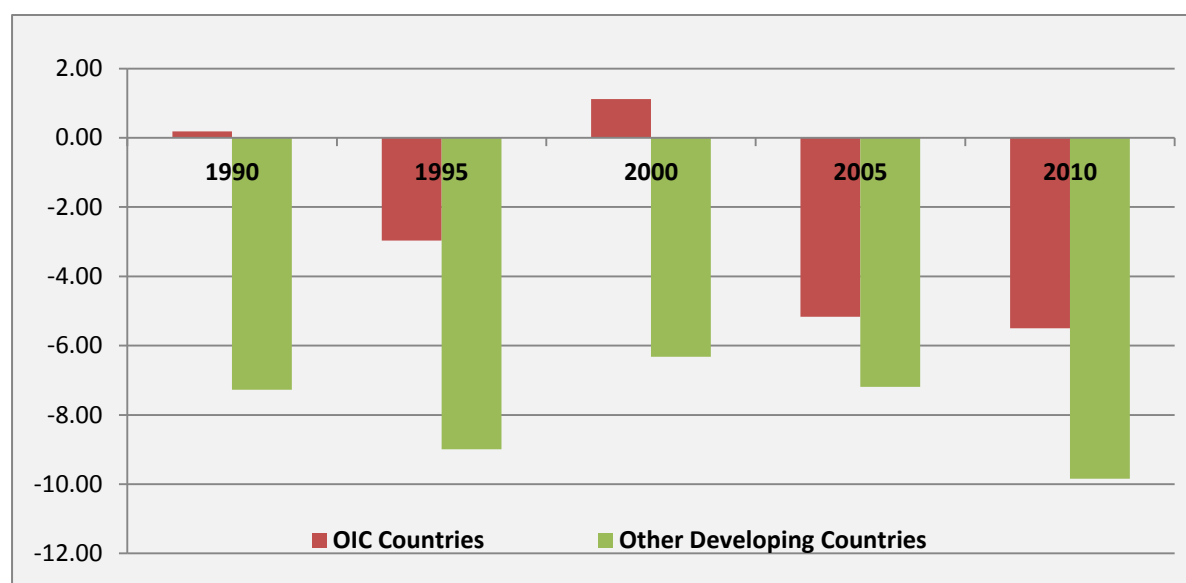
By using the FDI performance and FDI potential indices that are explained in the previous section, we calculated the FDI gaps and surpluses in the OIC countries and other developing countries. If the difference between the FDI performance and FDI potential indices is positive, we label as the “FDI surplus”. Having FDI surpluses usually associate with higher economic growth rates that enhance development. Surpluses mainly stem from the existence of good governance and sound macroeconomic policies as well as stability. If there is a negative difference between the FDI performance and FDI potential index scores, we name this the “FDI gap” that the volume of FDI inflows that the country attracts is below than the level that it can attract. The existence of a FDI gap implies that a country is underperforming than its FDI potential that is the natural result of problems related to business environment as cited by the World Bank Doing Business Reports from complex rules and regulations for initiating a business to limited access to electricity.

Figure 7 presents the FDI gaps and surpluses calculated for the OIC countries and other developing countries between 1990 and 2010. According to Figure 7, the OIC countries generated FDI surpluses in 1990 and 2000, whereas other developing countries experienced FDI gaps over the whole period. FDI surplus of the OIC countries in 2000 turned to a gap in 2005. The magnitude of the FDI gap increased from 5.1 in 2005 to 5.5 in 2010 in the OIC countries. Between 2000 and 2010, the average FDI gap score of other developing countries increased as well that shows the widened difference between FDI performance and potential. All these figures imply that:

a) The volume of FDI inflows that the OIC countries attract is less than the amount that their FDI potential suggests. This is reflected as a FDI gap in Figure 7. In particular, the situation had worsened between 2000 and 2010.

b) Other developing countries experience similar problems with the OIC countries that they are underperforming in terms of attracting FDI inflows.

c) The existence of FDI gaps can be seen as a window of opportunity that policy makers can turn them into FDI surpluses with the right policy measures.

Figure 7: FDI Gaps and Surpluses in the OIC Countries


Source: Author's calculations based on the UNCTAD data. See appendix for the dataset for the figure.

Note: The figure reflects the average of 47 OIC countries and the average of 59 other developing countries.

4. Concluding Remarks

The economic growth models suggest that FDI is expected to have positive effects on economic growth by generating externalities and spill overs (Johnson, 2006). In particular, the sustainability of FDI inflows has a particular importance for ensuring high economic growth rates (UNCTAD, 2010). FDI is also a way to enrich capital stocks of host countries both in terms of the size and the quality. Several empirical studies support that the positive effects of FDI outweigh its negative effects and leaves a precisely positive effect on development (Brenton et al., 1999).

Given the globalization wave started in the 1990s, many countries including the OIC members became more open to FDI flows. A higher exposure to FDI also brings additional issues into the agenda of policy-makers such as measurement and evaluation of FDI related statistics. Policy-makers in all countries including the OIC members need to read these statistics in a comparative perspective. The unique indices such as the FDI performance and FDI potential can help them to better evaluate their challenges and prospects related with foreign investment, which would allow policy-makers for drawing better policy implications. As the comparison between the usual FDI indicator (i.e. net FDI inflows) and the FDI performance index confirmed, different indicators of FDI might convey different messages, and therefore might lead to different implications. In this regard,

this report analysed the FDI performance and potential of the OIC countries by using the UNCTAD's FDI performance and potential indices over the period 1990-2010. The report's main findings reveal that:

- The OIC countries experienced a significant increase in the volume of net FDI inflows in the last two decades that they became more open to foreign investors. This reflects a higher degree of integration with the world economy.
- Despite the positive developments in terms of net FDI inflows directed to OIC countries, intra-OIC FDI flows are not at the desired level.
- The average FDI potential index value of the OIC countries increased from 24.1 in 1990 to 28.7 in 2010. However, the size of the increase is limited and the average performance is relatively poor compared with other developing countries. This implies that the policies to increase the FDI potential of the OIC countries were not so successful.
- The average FDI performance index value of the OIC countries followed a volatile trend. Between 1990 and 2000, it had a positive trend, whereas it turned to negative after 2000. Moreover, in 2010 the FDI performance index of the OIC countries is lower (24.3) than its level in 1990 (23.2) that points out problems in FDI policies followed by some OIC countries.
- The analysis of FDI gaps and surpluses showed that the OIC countries mostly generated FDI gaps in the period under consideration. This implies that the volume of FDI inflows that OIC countries attract is less than the amount that their FDI potential suggests.

The OIC countries need to implement policies to increase their FDI potential. As a comprehensive index that encompasses 12 sub-items, the FDI potential index gives some clues how to increase a country's FDI potential such as lowering country risks, investing in education and following pro-trade policies. The OIC countries need to implement a set of policy measures to improve their FDI performance ranging from investing into infrastructure and human capital to fighting against corruption and eliminating barriers on international trade (e.g. complex customs rules and regulations). As shown by the high levels of FDI gaps, the OIC countries mostly underperform that they have a large room to reach their FDI potential. However, only effective and timely FDI policies can help the OIC countries to reach their FDI potential. This is not a hypothetical implication that there are some OIC countries that their FDI performance exceeds their FDI potential such as Algeria, Turkey and United Arab Emirates. Thus, policy-makers in other OIC countries can take lessons from such successful countries. Also the OIC institutions can help the OIC countries by providing necessary platforms for experience sharing and learning from each other. Enhancing intra-OIC FDI is also an effective way to increase FDI inflows directed to the OIC countries. However, this

requires some steps to be followed by the policy-makers such as convening investment forums and exhibitions to promote investment opportunities in the OIC countries, building up an online investment database with a view of one-stop shop that provides all necessary information related with the investment opportunities available in the OIC countries, strengthening the trade and political ties among the OIC countries through organising bilateral or multilateral activities (e.g. forums, exhibitions, sports and cultural events, and joint public-private partnership projects).

5. Policy Implications

Given the results and discussion above, some specific policy implications both at the national level and the OIC cooperation level can be listed as follows:

At the National Level:

1. To form national FDI promotion agencies for the member countries without any agency with a view of one-stop-shop for foreign investors. The quality and effectiveness of the existing agencies need to be evaluated and reformed, if necessary, in order to improve their performance.
2. To upgrade the institutional quality in member countries that encompasses economic, legal and social aspects. Due to the existence of cross-country differences, each country needs to perform a SWOT analysis for the quality of their institutions and the priority areas need to be identified to implement an effective institutional reform agenda.
3. International trade enhancing reforms should be done. These reforms should include such as reducing tariff rates, easing and standardization of trade rules and regulations, and taking measures against non-tariff barriers. Another dimension of the trade reforms should target the bureaucrats and professionals who engage into international trade. Training programs would be designed in order to change the mind-sets of bureaucrats and professionals towards having a more pro-trade understanding.
4. Foreign investors not only bring capital or technology to host countries but also transfer some of their workers from their home countries. To this end, regulations for expatriates need to be revisited. Measures that aim to facilitate professional and social life of expatriate workers would enhance FDI flows to member states. Restrictive policies against expatriates such as difficulties on opening bank accounts and getting working permits need to be addressed.
5. To have a foreseeable and stable government fiscal policy is important both for macroeconomic stability and forecasting. Therefore, a stable and foreseeable fiscal policy would induce FDI flows.

6. To provide tax incentives to foreign investors. In order to increase the effectiveness of such tax incentives sector specific analyses should be undertaken since different sectors would require at different degrees of tax incentives.
7. To form special economic zones. Such special economic zones have a particular importance for the member countries where concerns on security, infrastructure and tax systems are high.
8. To design training programs for bureaucrats in order to train them on how to handle with inquiries of foreign investors and how to communicate with foreign investors.
9. Investors from developed countries attach a special importance to the working standards of labour. To this end, labour market reforms that aim to increase the standards of working and targeting to reach the ILO (International Labour Organization) standards would make a positive impact on FDI flows to member states.
10. To upgrade skills of workers would enhance FDI flows. To this end, vocational education needs to be promoted and training programmes should be designed that aim to upgrade their skills and knowledge. Policies towards promoting foreign language education would also increase the number of workers with a foreign language, and therefore would induce FDI flows, as in the case of Belgium.
11. To commit enacting and implementing free-market economy rules would give a positive sign to multinationals for their future projects. For instance, cancellation of projects of multinationals without any sound reason, and expropriation of some branches of multinationals or national companies can distort the image of the country, and therefore would likely lead to a sudden stop of FDI flows.
12. To increase integration and cooperation with regional trade blocks (e.g. EU, ASEAN) is a way to increase both international trade openness and FDI inflows.
13. To decrease country risk that covers both security risks and political risks.
14. To fight against corruption would enhance FDI inflows, which is one of the key obstacles that prevent some major investors to take some member countries even into their short-lists.

At the OIC Cooperation Level:

1. To form an OIC level institution/mechanism in order to establish coordination among the national investment promotion agencies of the member countries. This institution should seek and evaluate different cooperation opportunities among the national investment agencies. Another task that this institution needs to fulfil is to form a platform to exchange the best practices among the member states on FDI.

2. To organize training programs for the member states' institutions and professionals on FDI in collaboration with the relevant OIC institutions and national investment agencies of the member states. These training programs should cover different aspects of FDI policies such as registration of multinational companies to local authorities and taxation of multinationals in host countries.
3. To identify special corporate tax rates and to provide tax incentives to investors from the OIC countries. Such specific tax policies for investors from the member countries would enhance intra-OIC FDI flows.
4. To harmonize and standardize international trade rules and regulations including tariff rates and other trade-related taxes among the member states not only would help to trigger international trade volumes among member states but also would enhance intra-OIC FDI flows.
5. To adapt regulations in order to prevent double taxation (i.e. taxation in home and host countries) of foreign investors in the member states.
6. To form an OIC level convention/mechanism that aims to monitor the rights and working conditions of workers in the member states would help to enhance FDI flows among the member states. The existence of non-standard and inappropriate working conditions usually constitutes a barrier for investment.
7. To increase number, volume and coverage areas of infrastructure projects that are funded and coordinated by the OIC institutions including the IDB Group. This would not only help to improve infrastructure in the member countries but also lead to higher volume of FDI flows among the member states.
8. To promote and organize business trips among the OIC member countries. The OIC and IDB Group Funds can be used to partially or fully cover the costs of such business trips that would make these trips more attractive. In a similar vein, to convene business fairs and business workshops in cooperation with the relevant OIC institutions that target potential investors in the OIC countries would enhance intra-OIC FDI flows.
9. To promote the successful investment projects among the member states by using advertisement channels and other instruments such as social media would help to raise the awareness level, and therefore would trigger FDI flows.
10. To establish an OIC level rating agency similar to international ones such as the Standards & Poor's would enable member countries to get more objective and less-biased information about the business and investment environment in the member countries.

Appendix

Table A. Dataset for FDI Performance, Potential, Gaps and Surpluses

	Panel A.		Panel B.		Panel C.	
	FDI Performance Index		FDI Potential Index		FDI Gap and Surplus (FDI Performance - Potential)	
Years	OIC	Other Developing	OIC	Other Developing	OIC	Other Developing
1990	24.33	23.62	24.15	30.90	0.18	-7.27
1995	26.17	26.17	29.14	35.16	-2.97	-8.99
2000	29.91	29.91	28.80	36.24	1.11	-6.32
2005	23.51	29.34	28.68	36.53	-5.17	-7.19
2010	23.21	26.19	28.70	36.04	-5.50	-9.84

Source: Author's calculations from the UNCTAD database.

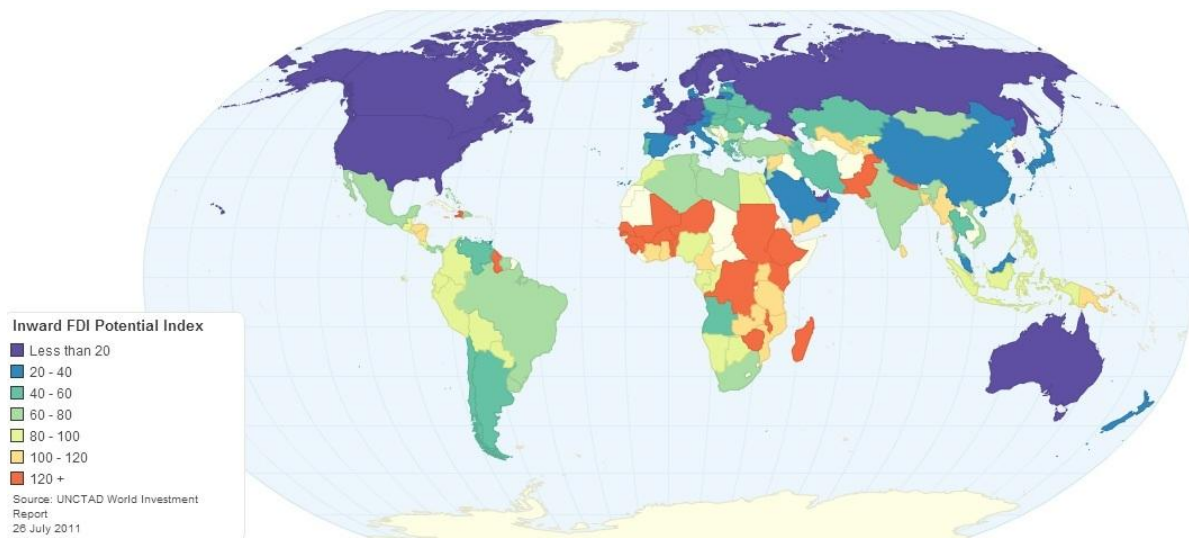
Note: The OIC group has 47 OIC countries. The OIC group excludes the following member states due to the lack of data: Afghanistan, Chad, Comoros, Djibouti, Guinea-Bissau, Iraq, Maldives, Mauritania, Palestine, Somalia, and Turkmenistan.

Table B. Intra-OIC Investment Matrix, Cumulative 2003-2012 (Millions of Dollars)

	UAE	Bahrain	Qatar	Kuwait	Saudi Arabia	Malaysia	Egypt	Lebanon	Iran	Turkey	Others	Total
Egypt	35781	99	15862	6748	3494	2524	-	6440	1559	333	1076	73916
Tunisia	32287	6000	-805	1466	48	-	19	9	-	653	113	39791
Libya	2855	25214	2527	139	32	2413	209	-	-	255	4973	38616
Indonesia	10063	42	2291	228	2823	11771	469	-	5600	51	507	33843
Iraq	22895	1239	-	939	115	-	-672	5853	507	513	586	33520
Turkey	3936	-	234	1551	12988	14	616	112	225	-	13080	32755
Saudi Arabia	12385	868	4308	473	-	3301	5129	89	-	222	1945	28716
Algeria	16637	-	2000	1000	926	-	5978	57	159	208	1275	28240
UAE	-	1033	2354	7637	5138	896	998	1339	55	749	3882	24080
Jordan	14764	2715	800	2126	3215	-	-364	178	-	101	210	23744
Others	83381	27252	13972	19874	12910	10611	4454	1906	7360	12201	10838	204759
Total	234982	64462	43542	42181	41689	31529	18179	15983	15464	15286	38485	561782

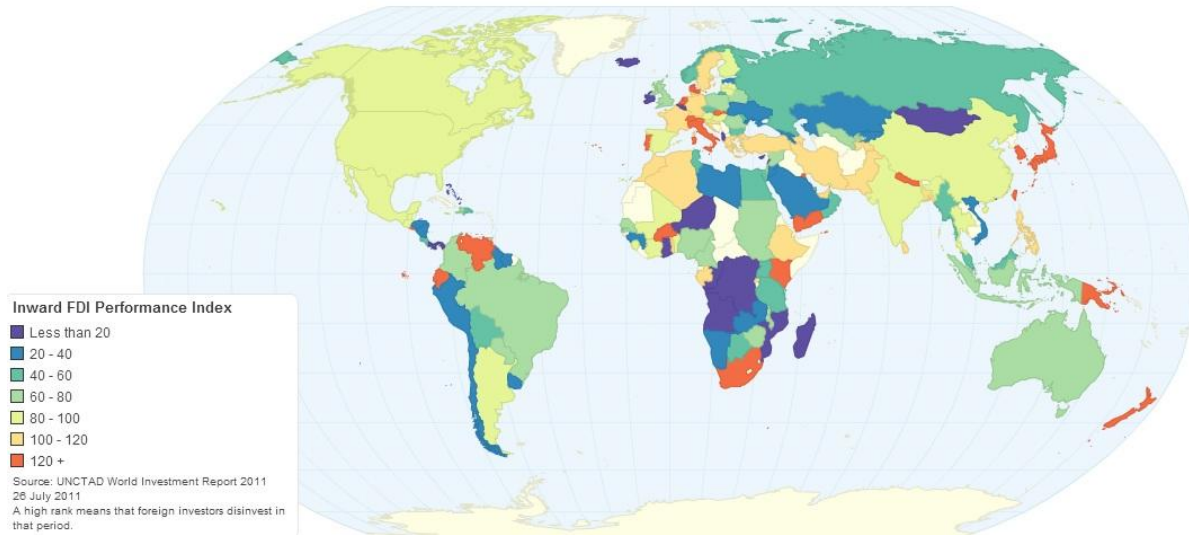
Source: UNCTAD, Global Investment Trends Monitor No: 14 (published on 18 November 2013), available at: http://unctad.org/en/PublicationsLibrary/webdiaeia2013d11_en.pdf.

Figure A. Inward FDI Potential Index in the World, 2010



Source: ChartsBin Statistics Collector Team.

Figure B. Inward FDI Performance Index in the World, 2010



Source: ChartsBin Statistics Collector Team.

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SESRIC

Kudüs Caddesi No: 9, 06450 ORAN, Ankara, Turkey

Tel: +90-312-468 6172 Fax: +90-312-467 3458

E-mail: oicankara@sesric.org Web: www.sesric.org
