The Role of Investment Promotion Agencies and Environmental Attractiveness of Host Country to Absorb Foreign Investment

Safieh, Salehisadr

Department of Business Management, Neyshabur Branch, Islamic Azad University, Neyshabur, Iran

Abstract: This study was designed to investigate the role of investment promotion agencies and environmental attractiveness of host country to absorb foreign investment, the model which is used was proposed by Lim (2008). According to this model, the effect of investment promotion and attractiveness of foreign direct investment is measured on the host country environmental and structural equations based on the structural equation modeling and software Lisrel. In this study, data on indicators of IPA, was collected by using questionnaire. Macroeconomic variables using data from different sources (World Investment Report, International Financial Statistics Yearbook, International Monetary Fund, The Economist Intelligence Unit, and World Development Indicators) were collected. Questionnaires collected from the person responsible for investment policy in each of the 32 OECD countries. Based on our results, investment promotion agencies have had significant effect on absorb foreign direct investment in the country. The environmental attractiveness has no significant effect on foreign direct investment. However, the attractiveness of the environment through investment promotion agencies of foreign direct investment is significant. Environmental attractiveness effect of country by investment promotion agencies is significant in foreign direct investment. This means that investment promotion agencies involved in the introduction of reasonably attractiveness country for foreign investors.

Introduction:

Discussion of foreign direct investment, due to previous relationships, and several instances of late and the economy can be studied from different aspects of the theoretical approach. For example, on issues such as foreign direct investment, foreign portfolio investment compared with the role of FDI in economic growth, legal aspects of foreign direct investment and its associated obligations,have significant.theoretical issues (Taghavi and Rezai, 2010).

Foreign investors, by taking advantage of the overall spatial factors that shape each country, attempt to involve capital investment in their country. Some of the advantages of spatial factors in different regions, are political stability, socio - economic infrastructure - the social cost of production factors, production factors cheap mass consumer market, broad consumer market and laws favorable to foreign investors. In addition, different policies and regulations play an important role in the absorption of investment, while the policies of liberalization, privatization and the private sector can create new opportunities for investment (Ghamat, 2012).

Dunning (1996) has introduced four sources of motivation, market efficiency and ability as factors affecting foreign direct investment activity.

Anctid (1998) defines motivation as economic factors, Both the host country and facilitate business policy has been introduced as determinants of foreign direct investment. Policy framework refers to social and political stability, regulations relating to operation and competition between foreign and domestic firms and FDI agreements. Facilitation the business refers to facilitate services to foreign investors, including investment incentives, promotional activities, and administrative support for the government's FDI investors. Among the factors determining the spread of activity IPA, such as visualization activities, productive activities, investment activities, investment and services is more important.

1- A review of the research literature:

Yang et al (1994) by studying the role of investment promotion agencies of foreign direct investment announced IPA, as a major player in FDI policy works. Wells (1999) by adding support for the policies of the previous three factors,and by reducing bureaucratic red tape faced by investors, has improved investment sphere. He also has divided investment services into three categories; Grants before deciding to invest in (providing information on methods for investors), Contribute to the implementation (the law or accounting services required in support of projects FDI) and investment services. Loewendahl (2001) insists on the fact that despite the ever increasing foreign direct investment is dependent upon advertising, but research in the field of investment promotion agencies is limit Johnson (2003)

emphasizes that the neoclassical perspective based on previous assumptions on the function of government is to promote investment. Then investors will automatically search for the best investment opportunities. Sung Hun Lim (2007) in a study entitled as promotional activities through government investment promotion agency, showed; three factors: Age, agents, employees and agents of foreign investment are positively associated with indicators. Most studies in this area are summarized in the following table:

1- Research Methodology:

This view of the nature and purpose is applied research, and the collected data to test hypotheses which is a descriptive survey.

- Research Model and its variables

Lim's research (2008) indicates that an IPA might be a mediator between a host country's FDI environment and FDI inflows.

The study claims have been presented by Lim for 32 OECD member countries. According to this model, the effect of environmental investment promotion and attraction of foreign direct investment on the host country is measured by basis of structural equation,Model proposed by Lim in the form given below:

Based on the model, the relationship between the study variables can be found in the following structural equations:

$$FDISUM = \alpha + \beta_1 IPA + \beta_2 FDIEVN$$
$$IPA = \gamma + \mu_1 FDIEVN$$
$$FDISUM = \delta + \mu_2 IPA$$

In this study, three indices to measure IPA Latent Variable, IPA age, number of employees and Overseas staff intensity, ratio of overseas staff to total staff board is used.

FDISUM latent variable is measured by two indicators NETFDI and TOTFDI;

NETFDI measures FDI inflows on a net basis in balance of payments, while TOTFDI is the volume of FDI inflows into a host country.

Also, five observable variables, GRGDP, PERGDP, LBCOST, OPEN, and INCENT, were employed to gauged the environmental attractiveness in respect of its impact on FDI inducement.

GGDP shows annual percentage changes in GDP, PERGDP shows per capita GDP in dollars America, LACOSTE shows average hourly wage of $ America's manufacturing sector,INCENT illustrates level of FDI absorption support, Finally, the variable OPEN shows ratio of exports and imports to GDP.

To confirm the identity of the model, with 10 experts and relevant experts were interviewed. At this stage, new variables weren't added to the variables identified.

In order to solve the structural equations of the study LISREL software is used.

The data

In this study, data on indicators of IPA, was collected by using questionnaire.

Macroeconomic variables using data collected from various sources such as). World Investment Report, International Financial Statistics Yearbook, International Monetary Fund, The Economist Intelligence Unit, and World Development Indicators) were collected.

Questionnaires collected from the person responsible for investment policy in each of the 32 OECD countries.

1- Estimate model

To test the research model, hypotheses, and existing routes that end, LISERL software is used.

Output based on the software , LISERL, the model form in Figure 3, where the coefficients between variables and each of them is shown.

The basic question raised is whether this model is appropriate? To answer these questions, and other standards fit chi-square statistic model must be examined. Chi-square statistic was calculated according to the output end, the amount equal to 27/57 there will be a good fit to the model chi-square is low. However, because the chi-square value is less than the proposed model is a more appropriate model. The following results are obtained from the output LISERL software.

χ^2/df=32   p-value= 0.08655

P-value is much higher than the standard significance level (α = 0.05). Thus the model is a good model.

Model goodness of fit index

After being given model, there are several methods for estimating the overall model goodness of fit with the observed data.

Thus, the model index include GFI, AGFI, RMSEA, CFI and NFI that the optimal conditions for these tests are described below.

A range have been considered for RMSEA index is as below;

a (Good fit   05
RMSEA b (Acceptable fit < 0/08
RMSEA0/05 <c (Not Acceptable fit > 0/10
RMSEA

RMSEA is the root mean square of approximation. For models that have a good fitness, is less than 0.05. Higher values up to 0.08 represent reasonable errors of approximation in the community. The RMSEA is 0.1 or more models that are poorly fitted. In this study the value of this index is 0.045, indicating a good fit of the model. GFI and AGFI indices are much closer to the goodness of fit of the

model is further researched data. GFI and AGFI values of the index is above 0.9.

Indexes CFI و NFI

NFI index Bntlr index - also called Bounty. Note that the values of the index is greater than 0.9, so that the sign is a model of propriety .

-Significance of the relationship between model variables based on T-test

To demonstrate the significance of t-statistics for each of the parameters of the model used. The statistics of the coefficients for each parameter error standard deviations of the parameters obtained. That should be the case, the absolute value is greater than 1.96 to be statistically significant estimates. The outlet LISERL, the estimated absolute difference in all of the estimates presented are based on the results, Relationship between the variables FDIEVN TSTAFF, LBCOST, GRGDP, PERGDP, INCENT, is at 95 percent approval. The reason is that the statistic t statistic t estimate of the critical value at 95% significance level (1.96) is greater than it. However, no significant relation between AGE and FDISUM IPA with the NETFDI not be confirmed. Additionally,

the structural relationship between FDISUM, FDIENV not be confirmed, according to the value of the t statistic is less than 1.96.

The correlation coefficient between the latent variable model

Confirmation of the relationship between the variables of the model in 95% confidence level, The effect of these variables on the variability can be explained.

In this paper, the model proposed by Lim (2008) to estimate the impact on firms, the promotion of foreign investment in 32 OECD member countries was used. Based on our results, a significant effect is on investment promotion agencies to attract foreign direct investment in these countries. Environmental attractiveness of countries has no significant effect on foreign direct investment. However, the attractiveness of the environment is significant through investment promotion agencies of foreign direct investment. This means that of investment promotion agencies have accepted the role to introducing of the environmental attractiveness for foreign investors.

Table (1) research on the role IPA in foreign direct investment

| Empirical findings	Experimental methods and sample	Classified of IPA	researcher
There is a positive relationship between FDI and IPA	Regression analysis for the promotion of investment	establishment of Investment Services (before and after making a decision)	Wells and Vignette (1990(
There is a network of independent in promoting outside investment is more successful .	Analysis of interviews with 20 of the Investment Promotion Authority	As in previous research	Vignette (1992
Provide the most effective service after approval by the wealthy invest	Analysis of interviews with state officials in 10 countries	Emphasis on after-sales service	Vignette (1993
Policy advice as one of the most important roles IPA	Without empirical testing	Policy formulation, promote investment and attract investors, and providing oversight and Approvals	Yung(1994)
offices made in Japan is a positive sign for FDI	Regression analysis for the United States of America with an investment of 225 investment foreign investment promotion offices in Japan	Dissemination of information to potential investors	Rice and Esonz (1999)
	Without empirical testing	Prepared to manage views, the views of management and provide follow-up care and convalescent phase	Miga(2000)
To maximize long-term benefits of FDI, should have convalescent care in the bulk form of investment promotion activities.	Without empirical testing	The strategy for the production and investment services	Loewendahl (2001)
FDI flows have positive signs of promotional activities.	Regression analysis of the four-scale enterprise development using the Delphi survey		Wint & Williams(2002)
FDI has a positive relationship with IPA and advertising costs.	Regression analysis using funds IPA, IPA staff and two control variables, for example sphere for investment and GDP per capita	As Wells	Morisset, & Johnson (2003)
3identifiers agency age, agency employees and agents of foreign investment is positively correlated with the index.	Regression analysis with maximum likelihood estimation of the model	Promotional efforts of government agencies to promote investment through FDI	Sung-HoonLim (2007)
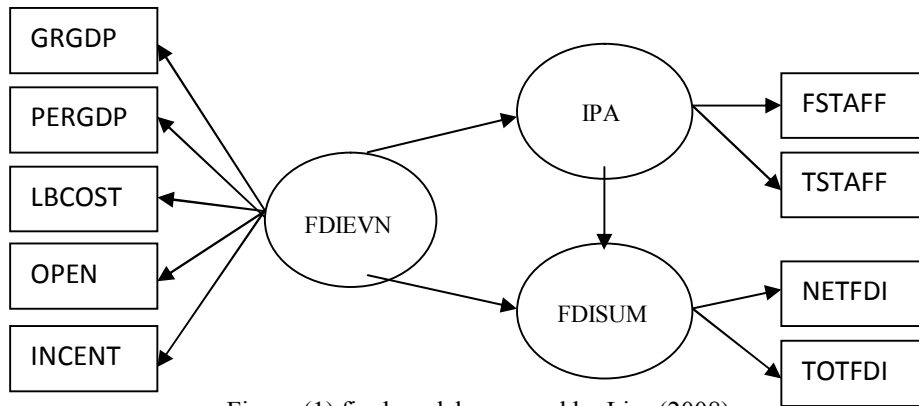
Figure (1) final model proposed by Lim (2008)

Chi-Square=48.34, df=32, P-value=0.08655,RMSEA=0.045
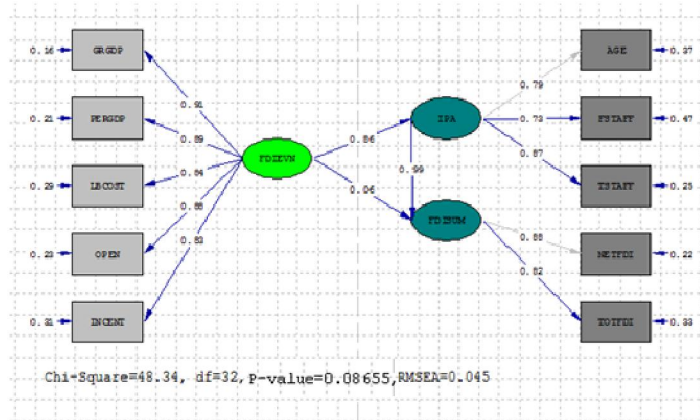
Figure (2) the results of the estimation of the standard model

Chi-Square=48.34, df=32 P-value=0.08655, RMSEA=0.045
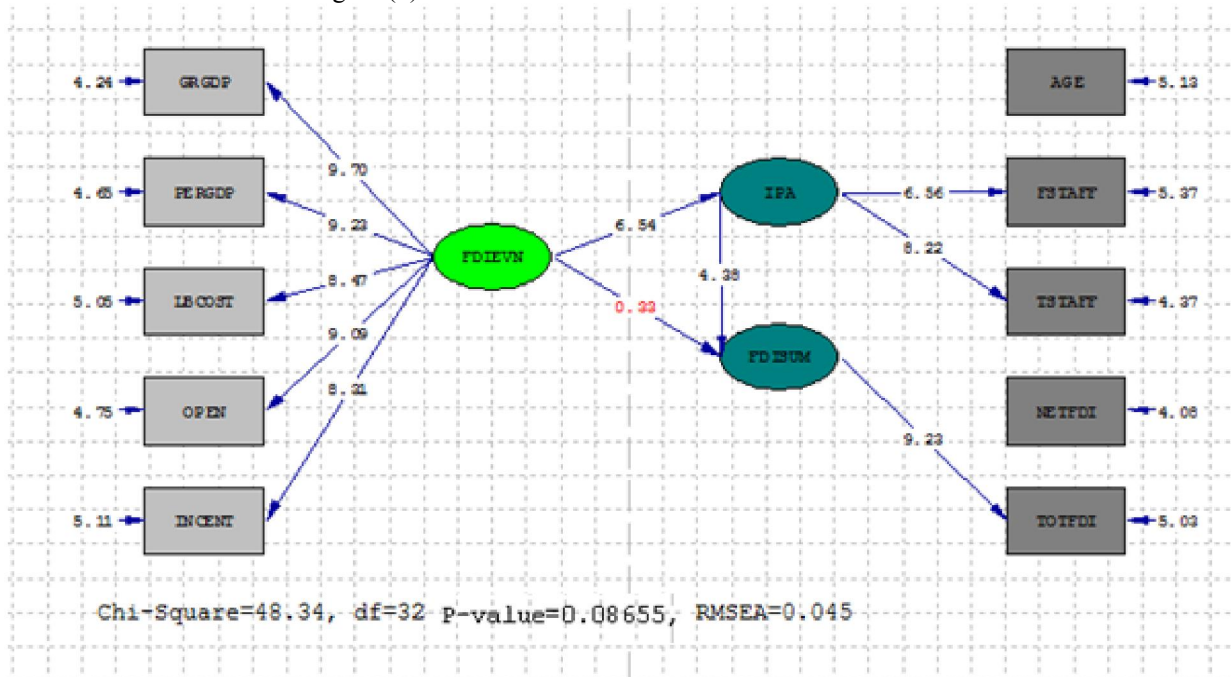
Figure (3) The results of the t-statistics

Table (1) The results of the model

results	statistic CR*	correlation coefficients	variables
rejected	0.22	0.62	FDISUM ← FDIENV
accepted	6.54	0.77	IPA ← FDIENV
accepted	4.26	0.16	FDISUM ← IPA
accepted	5.92	0.91	GRGDP ← FDIENV
accepted	4.46	0.89	PERGDP ← FDIENV
accepted	5.34	0.83	LBCOST ← FDIENV
accepted	5.88	0.84	OPEN ← FDIENV
accepted	8.31	0.88	INCENT ← FDIENV
accepted	3.35	0.79	AGE ← IPA
accepted	2.96	0.73	FSTAFF ← IPA
accepted	2.95	0.87	TSTAFF ← IPA
accepted	2.9	0.88	NETFDI ← FDISUM
accepted	2.84	0.88	TOTFDI ← FDISUM

*Critical Ratio

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