Occasional Paper No. 6

ISLAMIC DEVELOPMENT BANK

PROMOTING INVESTMENT FLOWS IN IDB MEMBER COUNTRIES

Rajab 1422H (October 2001)

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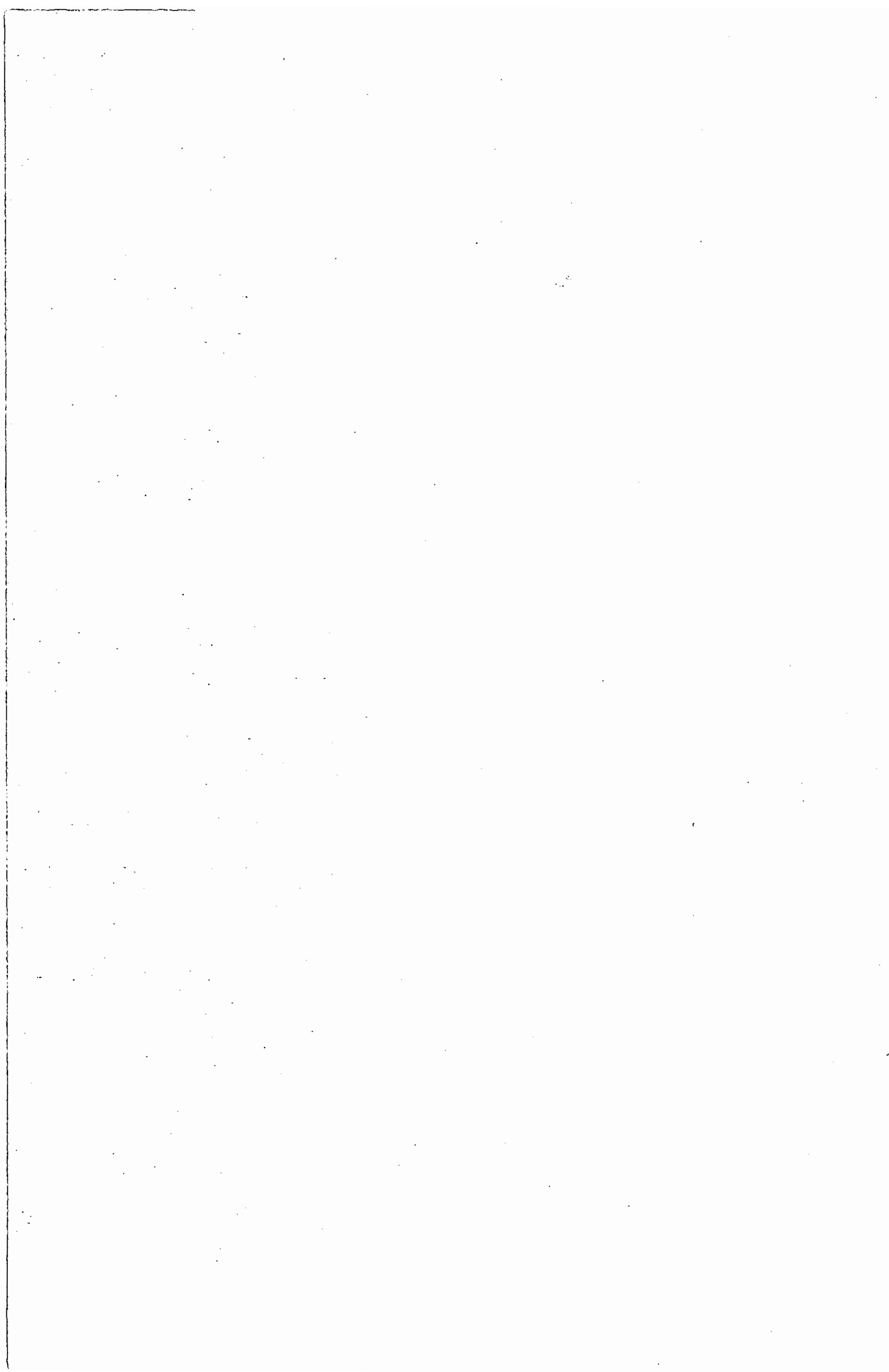
SIDDIG ABDELMAGEED SALIH AND ALI DIABI

ECONOMIC POLICY AND STRATEGIC PLANNING DEPARTMENT

Rajab 1422H (October 2001)

The views expressed in this paper are entirely those of the authors and do not necessarily represent the views of the islamic development Bank Group or its member countries.



PREFACE

This paper derives from the 1993 IDB symposium on *obstacles and opportunities for investment in the least developed African IDB member countries*, held in Banjul, in conjunction with the 18th Annual Meeting of the Board of Governors. The symposium identified some of the main obstacles in member countries such as the need for appropriate policies to improve infomation in investment flows, transport and communication systems and private sector development.

Since little is known about the magnitude, nature, constraints and opportunities of investment flows in member countries, the IDB's Board of Executive Directors suggested that the Bank consider preparing an occasional paper on promoting investment flows in member countries. In this context, the paper attempts to review and document investment data, policies and programmes, including legal, institutional, sociopolitical, economic and other important factors that affect decision-making processes of investors and governments, for the first time, and draw lessons learned from country experiences and operations of major regional and international institutions for the IDB Group and its member countries to emulate or improve upon.

A paper of this scope could not have been prepared without the help and support of several experts and institutions involved in investment promotion strategies and techniques. We are grateful to the distinguished experts and colleagues from the Arab Planning Institute (API) and the Inter-Arab Investment Guarantee Corporation (IAIGC) in Kuwait; the Islamic Center for Development of Trade (ICDT) in Casablanca; the International Monetary Fund (IMF) and the World Bank Group; especially the Foreign Investment Advisory Service (FIAS), the Middle East and North Africa (MENA), the Multilateral Investment Guarantee Agency (MIGA), the Research Department, Operations Evaluation Department (OED) and the World Development Institute (WDI) in Washington, DC; the Organization of Economic Cooperation and Development (OECD) in Paris; the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO) in Geneva for their encouragement and support throughout the preparation of this paper, despite their busy schedule.

In Kuwait, Ali A.G. Ali of the API and Mamoon I. Hassan, Elfadil N. Hassan and Khojali Abubakr of IAIGC provided valuable insights and useful infomation utilized in the first two chapters as well as the last two chapters of the paper. In Washington DC, Neil Patterson and Margaret Fitzgibbon of the IMF also provided current infomation and statistical ideas used in the first two chapters as well as chapter four of the paper. Frank Sader at FIAS provided much needed guidance and encouragement throughout the preparation of the paper, and in addition Frank and his colleagues in the Programme helped in gaining access to investment data on private sector, foreign investment, recent investment indicators and other related policy issues, utilized in the second to the concluding chapters of the paper. Similarly, David Bridgman, John Wille, Stephan Dreyhaupt and the rest of

the staff in Information Products and Service Group in MIGA have provided useful information utilized in chapters two and four of the paper.

At the Research Department and the Development Prospects Group of the World Bank, helpful discussions were held with Ataman Aksoy, Paul Collier, David Dollar, Ibrahim Elbadawi, William Easterly, Jan Gunning and William Shaw. These friends and colleagues also shared with us recent articles and other research materials, which proved useful in almost all the chapters of the paper. Nadir A. Mohamed of MENA, Salman M.A. Salman of the Legal Department and Fareed M. Hassan of the OED also provided useful research material for chapters three and four. Tourya Tourougui and her colleagues in the Research Department provided excellent research support. The joint Bank-Fund Library and the Development Bookstore and Information Center were also useful in providing ready access to specialized materials, articles and books that enabled us to update, compare and contrast investment datasets for IDB member countries and our findings with other research results.

In Casablanca, Allal Rachdi, Elhassane Hzaine and Sall M. Bocar shared with us country and conceptual issues and provided useful information for chapter three. In Geneva and Paris, Yilmaz Akyuz, AnhNga Trans-Nguyen, Fujita Mesataka, C.S. Sam Chan Tung, Gabriele Kohler, Paul Wessendrop, Riad Meddeb and Cecilia Ortega of UNCTAD; Antonia Cazaniga of WTO and Marie France Houde and Mehmet Ogutcu of OECD were helpful in discussing some country and conceptual issues, as well as providing useful data and insightful remarks on current policy issues utilized in chapters two to four of the paper. Zul kifl Salami and Abdullateef Bello of the IDB also provided time-series data on IDB operations, utilized in chapter four of the paper.

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LIST OF ABBREVIATION AND ACRONYMS

AMF	Arab Monetary Fund
APEC	The Asia Pacific Economic Cooperation
API	Arab Planning Institute
ASIT	Advisory Services on Investment and Training
B2B	Business to Business
B2C	Business to Commerce
BITs	Bilateral Investment Treaties
BOI	Bangladesh Board of Investment
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
CRTS	Constant return-to-scale
CV	Coefficient of Variation
DITE	Division on Investment, Technology and Enterprise Development
DTTs	Double Taxation Treaties
EDB	Economic Development Board
EPSP	Economic Policy and Strategic Planning Department (IDB)
EPZs	Export Processing Zones
EU	European Union
FF	French Francs
FIAS	Foreign Investment Advisory Services
GATT	General Agreement on Trade and Tariffs
GCF	Gross Fixed Capital Formation
GDP	Gross Domestic Product
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
IAIGC	Inter-Arab Investment Guarantee Corporation
IDA	Industrial Development Authority
IDB	Islamic Development Bank
IBP	Islamic Bank Portfolio
ICD	Islamic Corporation for the Development of the Private Sector
ICDT	Islamic Center for Development of Trade
ICIEC	Islamic Corporation for Insurance and Export Credit
IFC	International Financial Corporation
IMF	International Monetary Fund
IPAs	Investment Promotion Agencies
LDCs	Least Developed Countries
LDMCs	Least Developed Member Countries
M&A	Mergers and Acquisitions
MAI	Multilateral Agreement on Investment
Max	Maximum
MENA	Middle East and North Africa
MIDA	Malaysian Industrial Development Authority
MIGA	Multilateral Investment Guarantee Agency
MK	Market Capitalization
Min	Minimum

mn	Million
No.	Number
OECD	Organization of Economic Cooperation and Development
OED	Operations Evaluation Department of the World Bank
OIC	Organization of Islamic Conference
OSS	One-Stop Shop
PPP	Purchasing Power Parity
R	Coefficient of Correlation
R&D	Research and Development
SAGIA	Saudi Arabia General Investment Authority
SD	Standard Deviation
SESRTCIC	Statistical, Economic and Social Research and Training Center For Islamic Countries
SIMSDI	Survey of Implementation of Methodological Standard for Direct Investment
TNCs	Transnational Corporations
TRIMs	Trade-related Investment Measures
TRIPs	Trade-related Intellectual Property Rights
UIF	Unit Investment Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
US$	United States Dollar
VAT	Value Added Tax
WAIPA	World Association of Investment Promotion Agencies
WBES	The World Business Environment Survey
WDI	World Development Indicators

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EXECUTIVE SUMMARY

The primary objective of this study is to examine strategies, policies, and efforts to promote investment flows in member countries of the Islamic Development Bank (IDB), with a view to drawing lessons from experiences of countries and development institutions involved in this area for the IDB Group and its member countries to emulate or improve upon. In order to accomplish this objective, it will be necessary to review the existing investment data, programmes and policies, including the legal, institutional, economic and other important factors that affect decision-making processes of investors and governments. On the basis of this review, recommendations will be made for enhancing the investment climate in member countries, taking into account the experiences of other countries and the relevant practices, strategies and techniques in other development institutions involved in investment promotion.

To this end, the first part of this paper (chapters one and two) provides the statistical and analytical backdrop to the investment promotion efforts of member countries. It reviews and documents consistent country data that are available from credible sources, in comparison with other developing regions of the world, while acknowledging the importance of adhering to standard international definitions of the various components of investments. Comprehensive investment data, particularly private investment data following standard international definitions, are not available in several of the IDB member countries. For example, three-fourths of the IDB members are not consistently reporting intra-investment flows, private and foreign portfolio investment, the lowest among the developing regions of the world. In addition, more than two-fifths of the member countries are not reporting foreign direct investment (FDI) on a regular basis. Lack of comprehensive investment data limits our analysis to use of simple correlations and descriptive statistics.

Despite these limitations, the analysis of the available data for 1970-99 suggests that foreign investment crowds in domestic investment, in the sense that a one-unit increase in foreign capital inflow tends to be associated with more than a one-unit rise in domestic investment in IDB member countries, in which data are available. This association between foreign and domestic investment was particularly felt in the least developed member countries (LDMCs). Indeed our empirical findings are consistent with the recent evidence in many developing countries and other developing regions of the world (such as Sub-Saharan Africa). Such findings indicate that incentives rank as the strongest explanatory variable for attracting investment flows, in line with a similar trend towards a growing complementarity between domestic and foreign direct investment. For this reason, given the growing pace of globalization and liberalization of investment regimes, member countries would need to attract more foreign investment.

Liberalization and deregulation in developing countries have produced an explosion in FDI flows: the FDI inflows to all developing countries have increased eight-fold in the 1990s, amounting to 22% of global FDI, or approaching US$ 200 billion. The increasing volume of the FDI flows does not mean that they are easy to attract. They remain concentrated in a few emerging markets. By contrast, the FDI flows to IDB member countries were modest, commanding an average annual share of less than 1.7% of the gross domestic product (GDP) in the 1990s, and have followed a downward trend relative to all developing countries, particularly after the Asian crisis. The main sources of the FDI to IDB member countries are the United States, the United Kingdom, France, Germany and Japan. Reported intra-investment flows are negligible, and are concentrated among a few capital surplus countries. Moreover, FDI inflows to IDB member countries have been largely concentrated in less than one-fifth of the IDB member countries. This means that for many IDB member countries, FDI flows still play a minor role in their economic growth.

There are many reasons for the current low level of FDI flows into four-fifths of IDB member countries. The majority of these countries are resource-based economies, endowed with subsoil hydrocarbon assets and other valuable mineral resources. Some of these countries are receiving substantial FDI and are expected to continue to receive increasing foreign flows, even without having to undertake major reforms. If, however, these countries wish to diversify their economies away from natural-resource-primary-commodity base and to attract FDI into other sectors, they will need to undertake the necessary reforms to improve the overall investment climate in their economies. The good news is that the basic trend in policy changes is positive in many IDB countries, including in policies specifically targeted to FDI. But in general the investment framework in many IDB member countries remains incongruous.

During the past decade, many IDB member countries have begun to change their attitudes and policies towards FDI. The change in attitude towards foreign investments has been accompanied by changes in the way governments are handling their relations with foreign investors. Country experiences suggest that improvements in the investment climate hold the key to attracting foreign investment and improving productivity of the existing investments. An appropriate investment climate would require political stability, effective and efficient legal and institutional framework and, stable macroeconomic policies. In terms of political stability, recent evidence suggests that the situation in the majority of IDB member countries is comparable to the general trend witnessed in the developing countries as a whole.

On the other rule-based incentives, many member countries have attempted to adapt their legal systems, rules and investment laws to bring them in line with the prevailing international principles regarding the treatment of foreign investment. The majority of these countries were parties to bilateral and regional

private investors (domestic and foreign). However, a few of the IDB member countries modernized and harmonized their investment laws and legal framework to bring them in line with the global system of cooperation, with a view to sending a signal to investors that improvements in the investment climate would be implemented and sustained.

Although there are only two regional agreements for the IDB member countries, within APEC and Inter-Arab, the IDB countries signed more than one hundred bilateral agreements (BITs) during the last two decades. Actually, the BITs have emerged to fill the void created by the demise of the old customary laws and to provide the investor with protection that is far superior to those contained in the customary laws. Similarly, regional agreements are deemed necessary to improve the investment climate and have contributed to solving the problem of market size. The market size was ranked by regional investors among the most important factors in their investment decisions, as shown in the 1985-88 survey of Arab investors.

Macroeconomic factors, including market size are becoming more important for host countries, because they represent the most significant determinants of the investment climate in the IDB member countries. However, these determinants have changed over time in response to the trends of liberalization, globalization and investors demand. Market size, openness, repatriation of capital and profits, tax exemptions and reduced custom fees ranked among the highest incentives in the decision-making processes of both investors and policy makers in the IDB member countries. There are other important factors, perceived by investors to improve the investment climate in IDB member countries, such as enforcement of rules and contracts, clarity of investment rules, simplified licensing, registration and investment procedures in the recipient countries.

These functions are frequently assigned to investment promotion agencies (IPAs), in particular to one-stop-shops (OSS). The basic idea of establishing an OSS is to enable an investor to be in direct contact with only one single government entity, in order to obtain all the necessary licenses, to secure registration and to complete other investment procedures, rather than having to go through various government entities and follow through different procedures. In many IDB member countries, the IPAs consist of the OSS and staff from various government ministries and agencies involved in investment policies and programmes. In addition to their image-building, strategy development for investment promotion and investment generation activities; the IPAs also coordinate with the staff from various ministries (located at the same building) to complete the necessary procedures in order to facilitate approvals and clearance of all paperwork needed to grant licenses and permits for investors within the shortest possible time.

Although there are notably good practices in an OSS in some IDB member countries, more than one-half of the IPAs in IDB member countries cannot be accessed directly from the website (IPAnet), the lowest presence among all regions of the world. IPAnet is one of the first internet-based services, operated by the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group, aiming to disseminate investment information and to promote FDI in the developing countries. Limited information in direct investment in many IDB countries is perhaps one of the main factors explaining the low participation of member countries in the IPAnet. This is another reason for member countries to improve investment statistics, including those on the FDI flows, as they constitute important inputs into the decision-making process of the foreign investor and for improving the investment climate in general.

It is clearly the prerogative of the governments in the member countries to develop the framework for improving the collection, compilation, and dissemination of disaggregated information on investment flows, including the composition of FDI, according to international standards, perhaps in collaboration with international agencies involved in international standards and definitions of investment flows such as the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the Foreign Investment Advisory Services (FIAS) of the World Bank Group, MIGA and the United Nations Conference on Trade and Development (UNCTAD).

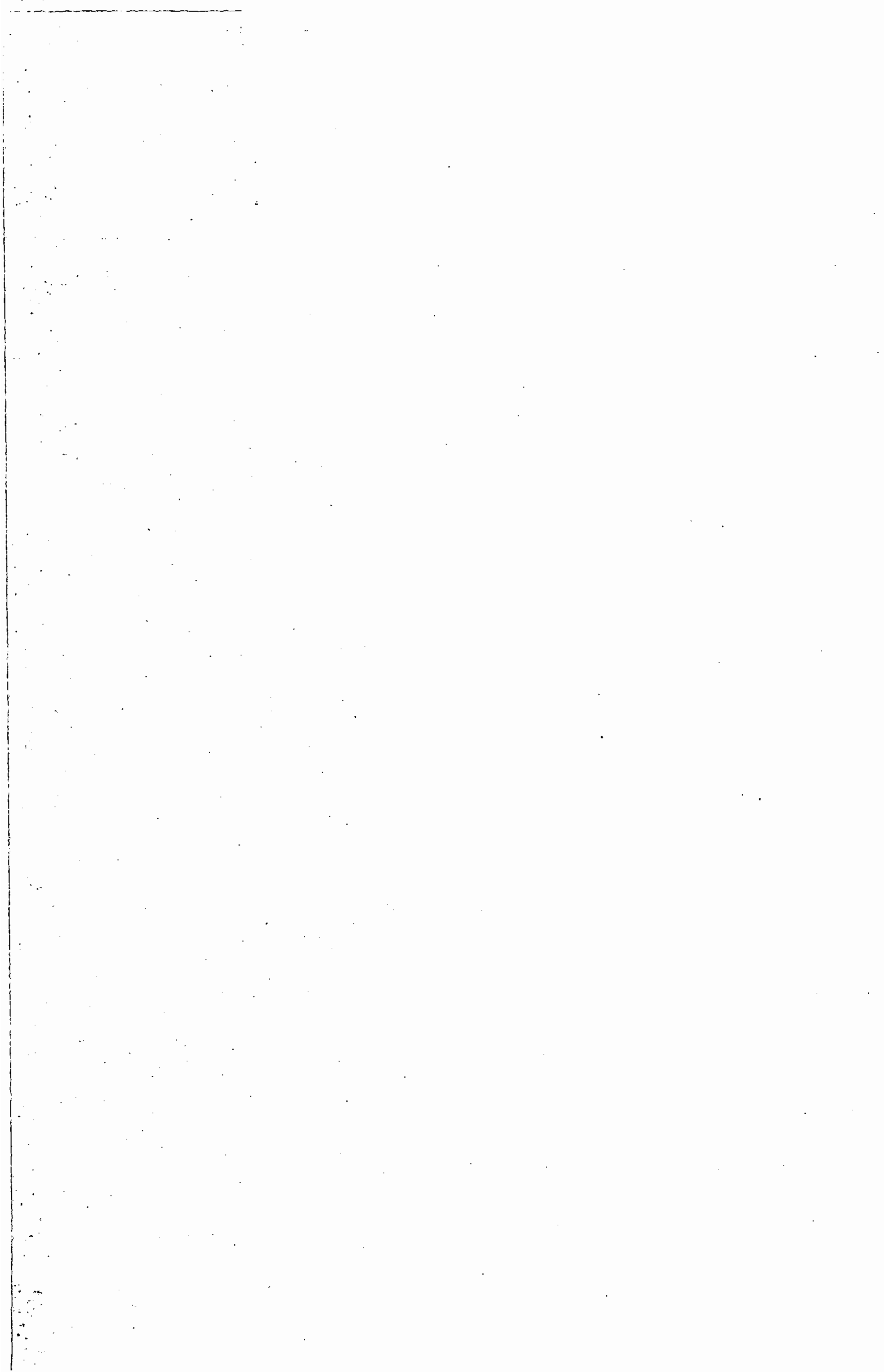
Given the weaknesses and gaps in investment statistics, relative to other developing regions, the IDB Group can complement the efforts of its member countries in some important areas, such as awareness campaigns on utilizing the existing technical assistance facilities in improving the investment database, cyberspace and other preparatory and analytical work on investment-related issues. For example, the IDB Group can assist in establishing a glossary of investment concepts and terms in the official language of the Bank (Arabic), since it is not available elsewhere; assist in translating the 1997 FDI questionnaire into Arabic, since the response from IDB member countries was the lowest among all regions of the world; replicate and widen the coverage of the survey of investors in IDB member countries, since the only comprehensive survey conducted so far was in 1985-88 and it was limited to one geographic region of the IDB membership.

Indeed, the results of such a survey would provide an important input, from the demand side, in investment promotion strategies and policies in the IDB member countries, information on the main obstacles to investment in member countries, from an investor perspective, and help in updating the weights in ranking the main determinants of investment in IDB member countries. Such weights constitute a necessary input in developing a composite index for the investment climate in IDB member countries. The composite index usually includes the main components of the investment climate: rule-based incentives (including political stability and legal framework), macroeconomic stability, institutional framework, economic incentives (including tax structure), financial markets, productivity, factor markets and business climate.

Organization of the paper

The rest of the paper is organized as follows. Chapter one briefly introduces issues relating to concepts, methods and data used in investment analysis, with a succinct literature review on the importance of investment in economic growth and the association of foreign and domestic investment in IDB member countries. The correlation between domestic and foreign direct investment is particularly important for the least developed member countries, in terms of improving the productivity of the existing investment and in helping to boost sectoral diversification of the FDI flows. Chapter two presents the available evidence on volume, composition and trends of net investment flows to IDB member countries, in comparison with other developing regions of the world. Data gaps and their implications on limiting investment flows in the member countries are briefly summarized at the concluding sections of the chapter.

Chapter three reviews and identifies the set of policies that have enabled successful member countries in attracting investment flows and concludes by asking whether new strategies, programmes and ensuing institutional arrangements, given resource endowments, warrant any policy change or necessitate the development of new modalities to improve the investment climate in order to attract foreign investment in these countries or to bring about structural change in their economies. Chapter four reviews the experiences and the operations plan of major regional and other multilateral development institutions, including the IDB Group (particularly, the ICIEC and the Bank), in their focused efforts to support member countries in their investment promotion strategies. The chapter also draws important lessons for the IDB Group to strengthen its investment-focused operations on promoting investment in the IDB member countries.. Chapter five concludes by summarizing the main findings of the study and identifying areas for consideration by the IDB Group.



I. INTRODUCTION

1.1. Objectives of the Study

This paper examines the strategies, policies and efforts to promote investment flows in the member countries of the Islamic Development Bank (IDB). Despite efforts by member countries and their development partners to attract such flows, progress has been slow in many countries, with signs of success in only a few instances. Lessons learned from such experience seem to serve well the three interrelated objectives of this paper. First, to describe and to document the magnitude of investment flows in IDB member countries using the most recent available information, since little is known about the nature and size of such flows in these countries. Second, and subject to the information base identified in the first objective, to take stock of the policies and programmes implemented in promoting investment flows in member countries. Third, to draw lessons from experiences of countries and institutions relating to promotion strategies and techniques; with a view to focusing the discussion on whether desirable promotional policies or policy interventions seen in practice are sufficient to reap the expected benefits.

1.2. Approach, Data and Methodological Issues

1.2.1. Approach

Empirical studies of the determinants of investment are based on three approaches: micro-oriented economic approach, aggregate econometric analysis and data analysis approach (Calvo *et al.* 1996, Casson 1990, Chen 1996, Elbadawi 1995, Jun 1996, Lucas 1995, Servin & Solimano 1990, Sing & Jun 1995 and Sun 1996). Since extensive literature exists on the first two approaches and because the main emphasis of this study is primarily to document and to take stock of investment flows and policies in IDB member countries, the paper adopts an empirical approach, based on selective review of the theoretical and data analysis literature on investment flows and their determinants.

Moreover, the adopted approach will help draw together insightful remarks on the determinants of investment flows from the results of the remaining two approaches, which discern the main determinants of investment flows at both the individual country level and for groups of countries. In this context, the empirical content of the paper is critical in achieving the ultimate objective of understanding the nature and components of the investment flows in IDB member countries and in drawing practical recommendations for the IDB group and its member countries to attract investment. It is, therefore, essential to generate and compile detailed information on gross investment, encompassing both national and foreign direct investment, together with their private and public components, whenever available.

1.2.2. Data and Methodological Issues

To this end and owing to the lack of comprehensive investment data, particularly due to the fact that private and public investment data are not available in three-fourths of the IDB member countries and leading to gaps in important components of the investment flows for about one-fourth to half of these countries, attempts have been made to revise and complete the information content of the paper, based on consistent country data that are readily available from key international organizations and regional agencies. These include the Inter-Arab Investment Guarantee Corporation (IAIGC), the Islamic Center for Development of Trade (ICDT), the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the World Bank, the International Finance Corporation (IFC), Foreign Investment Advisory Services (FIAS) of IFC and the World Bank, the Multilateral Investment Guarantee Agency (MIGA), the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD).

In addition to published and readily available data, the paper has benefited from reports of the missions mounted to gather unpublished inside information and to hold discussions with knowledgeable experts on the subject in these institutions in order to improve the consistency of the investment data sets and their suitability for meaningful comparisons across country and regions. Despite country-level progress in recent years to improve direct investment statistics based on international standards, many IDB member countries still do not disseminate information on investment flows on a regular basis. Moreover, to date more than half of the investment promotion agencies (IPAs) of the IDB member countries, perhaps the highest among all regions of the world, still have not furnished the required information for the IPA Web Sites, which is facilitated and managed by MIGA. The low participation of the IDB member countries in the IPA Web Sites and the integrated World Business Environment Survey (WBES) of the World Bank Group Initiative is partly explained by the unavailability of comprehensive investment data in nearly three-fourths of these countries.

Finally, the IAIGC made available to the authors the published account of results of a major survey of selected private investors in IDB member countries from the Arab countries, to be discussed in the chapters to follow. These results and other inside information provided by experts from sister international institutions improved significantly the quality of data utilized in this paper.

Table 1.1: Gross fixed capital formation (% of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	70-89 Mean	90-99 Mean	70-99 Mean
Albania	..	5.46	13.20	18.24	17.60	15.50	16.00	16.00	16.80	32.92	14.85	24.89
Algeria	25.07	26.14	27.11	28.90	29.50	24.91	24.66	26.60	25.89	34.74	26.46	31.98
Azerbaijan	..	..	..	26.31	22.51	29.33	42.79	46.18	41.98	..	34.85	34.85
Bahrain	21.15	21.87	24.76	21.53	18.48	13.01	13.80	..	..	32.89	19.97	27.15
Bangladesh	16.90	17.31	17.95	18.40	19.12	19.99	20.72	21.63	22.19	18.03	19.13	18.58
Benin	13.55	13.23	14.98	15.53	17.21	16.62	18.49	17.09	17.65	14.83	15.78	15.36
Brunei	..	..	..	..	..	..	..	..	..	7.68	..	7.68
Burkina Faso	20.55	23.27	19.48	21.91	23.25	25.60	27.68	29.59	27.85	18.87	23.89	21.26
Cameroon	16.65	14.31	16.52	15.34	14.51	15.36	16.18	18.39	19.45	24.67	16.40	21.36
Chad	4.62	5.28	6.89	11.76	11.56	9.43	12.59	12.94	13.37	4.45	9.97	7.52
Comoros	18.86	20.11	16.96	19.83	16.10	13.50	15.50	16.60	14.60	24.27	16.40	20.33
Djibouti	14.36	19.05	17.26	11.72	8.55	9.24	9.47	..	..	..	12.81	12.81
Egypt	22.25	19.05	16.22	16.57	16.23	16.02	17.64	19.48	19.99	23.27	19.04	21.86
Gabon	26.12	22.06	22.88	21.07	22.68	23.27	29.59	37.28	28.04	37.99	25.44	33.81
Gambia	21.89	22.17	21.00	18.12	20.18	21.57	17.20	18.40	17.80	18.95	20.07	19.54
Guinea	16.93	16.46	16.81	16.98	16.57	17.33	17.65	17.99	17.49	16.11	17.17	16.87
Guinea-Bissau	30.99	48.40	30.86	21.77	22.30	23.04	21.69	11.34	16.30	31.11	25.66	28.51
Indonesia	27.00	25.77	26.28	27.57	28.43	29.60	28.31	24.56	21.20	23.96	26.71	25.27
Iran	21.64	22.03	22.07	23.26	24.39	25.73	25.09	22.11	22.29	20.89	22.41	21.47
Iraq	..	..	..	..	..	..	..	..	..	..	..	..
Jordan	23.75	28.76	33.21	31.61	29.22	29.01	25.52	21.07	20.16	29.66	26.83	28.48
Kazakhistan	..	30.43	27.91	26.13	23.05	17.23	16.25	17.21	16.76	..	21.87	21.87
Kuwait	39.30	19.87	15.13	13.31	13.88	14.17	13.62	16.23	12.28	15.11	17.58	15.93
Kyrgyz Rep.	17.47	14.58	13.34	12.42	20.67	22.63	12.62	13.16	15.99	31.63	16.60	20.07
Lebanon	19.29	25.00	29.10	32.40	33.00	30.10	26.70	27.60	..	..	26.77	26.77
Libya	..	..	..	..	..	..	..	..	..	24.42	..	24.42
Malaysia	36.36	36.63	38.87	40.25	43.59	42.50	43.11	26.71	22.14	26.34	36.32	29.67
Maldives	..	..	..	..	..	..	..	..	..	39.60	54.17	40.92
Mali	22.77	21.85	21.81	27.33	22.90	22.90	20.60	20.90	21.20	15.73	22.52	18.00
Mauritania	17.90	19.30	20.65	20.74	19.28	18.59	17.57	18.97	17.79	26.57	19.07	21.57
Morocco	22.22	22.38	22.76	20.73	21.44	19.40	20.67	22.38	24.33	21.85	22.03	21.91
Mozambique	16.04	15.60	12.74	19.81	22.84	20.92	18.31	23.45	32.58	8.05	19.79	13.92
Niger	7.83	7.30	6.77	8.90	7.00	9.36	10.58	11.02	9.98	14.18	9.01	11.59
Oman	..	..	..	..	..	..	..	..	..	27.72	..	27.72
Pakistan	17.41	18.60	19.13	17.86	16.91	17.41	16.38	15.08	13.31	15.95	16.94	16.28
Qatar	..	..	..	..	..	..	..	..	..	..	..	..
Saudi Arabia	19.57	20.37	22.18	18.71	19.55	17.14	18.67	16.02	18.31	21.56	18.93	20.69
Senegal	13.84	14.41	13.89	16.08	14.66	16.26	18.01	18.15	18.99	11.90	15.72	13.17
Sierra Leone	8.43	7.57	7.89	8.38	5.37	10.33	..	5.28	0.74	11.17	6.96	9.18
Somalia	..	..	..	..	..	..	..	..	..	21.40	14.90	21.09
Sudan	..	..	..	..	..	..	16.50	17.60	16.70	13.03	16.93	13.81
Suriname	17.98	18.14	18.43	15.27	13.44	18.11	21.31	12.73	11.86	23.09	16.62	20.27
Syria	17.97	23.17	25.97	26.35	24.98	25.34	26.95	27.27	28.00	22.18	24.14	22.83
Tajikistan	..	..	..	..	21.30	13.29	10.10	7.00	7.10	..	11.76	11.76
Togo	18.04	15.99	10.92	12.00	13.59	14.97	13.45	13.84	13.20	19.03	15.13	17.08
Tunisia	30.10	32.31	28.11	27.00	24.22	23.19	24.66	24.74	25.18	26.18	27.02	26.46
Turkey	23.83	23.63	26.52	24.62	23.84	25.09	26.42	24.58	21.79	16.63	24.32	19.19
Turkmenistan	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	15.17	15.92	15.22	14.63	15.66	16.68	16.30	15.10	16.40	9.77	15.38	12.01
U.A.E	20.42	22.63	22.79	24.06	..	..	..	..	..	29.50	21.82	27.58
Yemen	14.19	20.38	17.91	19.42	20.27	20.40	23.28	21.14	18.59	..	18.79	18.79

Source: World Bank 2001a. Calculation of summary statistics is based on Table A1.1 of the Annex.

Table 1.2: Gross fixed capital formation (% of GDP) by regional groupings

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
East Asia & Pacific	25.45	25.89	24.08	26.52	28.29	28.31	26.66	27.60	33.16	33.51	31.86	30.65	30.70	31.82	31.21	31.98
Europe & Central Asia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Middle East & North Africa	..	..	..	..	21.11	27.59	29.77	33.36	30.46	25.62	27.13	25.76	26.77	27.45	29.71	24.45
South Asia	16.55	17.25	15.74	16.72	17.85	18.99	19.62	19.12	20.99	21.64	20.84	22.94	22.10	20.76	20.56	22.83
Sub-Saharan Africa	20.25	20.24	18.03	20.75	24.09	24.05	22.94	19.91	20.25	19.06	21.84	24.68	21.32	17.43	17.27	15.24
World	25.54	25.06	24.90	26.45	26.92	24.47	24.87	24.89	25.48	25.97	25.41	24.86	23.34	22.49	23.25	23.00
IDB	10.38	10.37	11.88	11.34	12.38	17.42	20.62	22.14	21.40	20.17	19.84	21.54	22.61	23.01	20.61	18.88

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
East Asia & Pacific	31.34	31.14	32.40	33.73	34.62	35.54	35.06	37.86	37.56	37.86	37.36	35.13	29.06	29.84
Europe & Central Asia	..	..	..	31.09	27.58	27.97	27.41	25.51	24.09	24.84	24.58	24.08	21.46	20.87
Middle East & North Africa	23.38	23.07	23.00	24.33	24.48	25.13	25.99	24.92	22.95	24.48	20.55	21.43	22.10	21.80
South Asia	22.10	21.65	22.86	22.83	23.65	21.78	23.02	21.12	22.75	24.88	21.51	22.50	21.38	21.90
Sub-Saharan Africa	15.33	15.17	17.30	16.82	14.71	15.14	14.82	16.17	17.69	18.28	17.49	17.22	18.56	17.57
World	22.65	23.09	23.90	24.49	23.95	23.27	22.76	22.36	22.69	22.84	22.76	22.91	22.39	22.92
IDB	18.96	18.02	17.58	17.49	19.01	21.25	22.65	23.54	23.27	22.85	22.77	23.02	20.38	21.00

	70-99			70-89			90-99		
	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV
East Asia & Pacific	31.54	3.87	0.12	29.81	2.95	0.10	34.99	3.18	0.09
Europe & Central Asia	25.41	2.97	0.12	..	..	..	24.84	2.42	0.10
Middle East & North Africa	25.26	3.15	0.12	26.43	3.26	0.12	23.38	1.85	0.08
South Asia	20.95	2.27	0.11	20.20	2.34	0.12	22.45	1.17	0.05
Sub-Saharan Africa	18.65	2.89	0.16	19.60	2.99	0.15	16.76	1.44	0.09
World	24.00	1.32	0.06	24.55	1.27	0.05	22.89	0.46	0.02
IDB	19.20	4.04	0.21	17.83	4.30	0.24	21.94	1.51	0.07

Source: World Bank 2001a and Table A1.2.

1.3. The Importance of Investment in Economic Growth and Development

It is widely recognized in the voluminous growth literature and countless development experiences that investment is a key factor in explaining and sustaining economic growth. Although efforts to explain the sources of economic growth, particularly the role of capital accumulation, dated back to the days of Adam Smith, formal understanding of the investment-growth relationship began with the series of work of Harrod (1939, 1948) and Domar (1947) in the discipline. Indeed, the work of Harrod-Domar summarized the essence of almost 200 years of economic growth (Easterly 1999). At the heart of this view is the intuitive notion that the steady accumulation of physical capital through saving and investment translate directly into higher production, thus giving investment the central role in economic growth. Empirical studies of inter-country differences in growth records attest to the claim that high growth is associated with high investment rates (Barro & Sala-i-Martin 1995 and UNCTAD 1999a).

With this capital 'fundamentalism' in mind, economic practitioners focused on the policy question of how to raise the level of investment in developing countries to bring them closer to the stage of development achieved by industrial countries (Bouton & Sumlinski 2000 and King & Levine 1994). Since these countries started from unfavorable initial conditions, especially low domestic savings to finance the level of investment required for high growth rates, these countries resorted to foreign borrowing and/or foreign aid to finance the gap. Hence, the two-gap model of Hollis Chenery (1996) has been the principal model to determine the financing needs of developing countries in order for them to achieve a target growth rate.[1]

As larger and more diverse data sets became available, the simple linear relationship between investment and growth was challenged empirically and theoretically (King & Levine 1994, Easterly & Levine 2000). Indeed, a famous article by Solow (1956) led growth theoreticians to abandon the Harrod-Domar framework in favor of the neoclassical growth model. This model introduced a different perspective on the role of investment in growth. Unlike Harrod-Domar, Solow assumed that capital-output ratio was determined endogenously, and more interestingly the model's internal adjustment mechanism keeps the stock of capital (measured always relative to labor) at its long-run equilibrium, or at least moving towards it.

The second article of Solow (1957) introduced a simple growth accounting notion to explain output growth in terms of capital, labor and technological progress. The latter factor captured what cannot be explained by growth in factor inputs (capital and labor), commonly referred to as total factor productivity growth.

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[1] A target rate is a desired growth rate, which is multiplied by the capital-output ratio to determine the investment requirements. Measuring the capital-output ratio became a most important exercise because its value dictated the size of the effect of the rate of investment on economic growth (Taylor 1991, Bouton & Sumlinski 2000). In parlance of the convergence hypothesis in the new growth tradition, the ensuing economic growth, driven by large investment efforts would allow these countries to converge with that of the industrialized world.

The technology factor is calculated as a residual, that is why it is referred to sometimes in the literature as a "measure of our ignorance". In early studies for the United States and other industrial countries, total factor productivity accounted for more than half of growth while capital accumulation accounted for only one-eighth to one-fourth of growth (Bouton and Sumlinski 2000).

With increased availability of comparable data, growth accounting has been extended to a range of developing countries. For example, early empirical findings suggested that rapid growth of the East Asian economies stemmed primarily from rapid factor accumulation (Young 1995). However, recent findings suggested that the performance of East Asian economies is consistent with technological accumulation, or a "catch-up" by those countries that began with a lower stock of technology and not with factor accumulation (Klenow & Rodriquez-Claire 1997).

By the late 1980s, a body of literature considered both growth and technological progress to be endogenous. The "new" endogenous growth model, with the main assumption that some type of capital accumulation is subject to diminishing returns, has utilized several modeling approaches. That is, the definition of capital is broadened to include either human capital accumulation (Lucas 1988, Rebelo 1991 and Stokey 1991), or to incorporate the accumulation of knowledge through learning by doing (Romer 1986) or through R & D (Romer 1990, Grassman and Helpman 1991, and Aghion and Howitt 1992). In this context, endogenous growth recognized that ideas, knowledge or innovations are different from the standard constant-returns-to-scale (CRTS) inputs of capital and labor in the production functions. They basically differ in their spillover effects, in the sense that new ideas and the institutions put in place to encourage them are exhibiting increasing returns to scale (i.e., doubling all inputs more than doubled the output) and imperfect competition.[2]

Recent work in the endogenous growth literature demonstrated that simple changes brought in to the production function or the definition of capital (e.g., to include human capital or knowledge) can significantly alter the prediction about the relationship between investment and economic growth. By assuming that the accumulation of knowledge has spillover effects on results in learning by doing, then investment in capital (broadly defined) can itself result in new technology and knowledge (Bouton and Sunlinski 2000). As surveyed above, the relative importance of investment in growth and development emphasizes, *inter alia*, a broad definition of the concept of investment and its flows, to be adopted in this study too.

[2] Brunetti and Weder (1997) argued that the irreversibility of investment magnifies the effect of uncertainty on investment decision. In an analysis of 24 uncertainty variables on investment in a set of 60 countries, various measures of uncertainty were found to be significant in explaining cross-country differences in aggregate investment rates.

1.4. Data and Concepts

Investment refers to gross fixed investment, encompassing both national and foreign direct investment. Information on total gross domestic investment is readily available from the standard national account statistics for each country, including about 50 IDB member countries (Tables 1.1, 1.2 & A1.1). However, its disaggregated components into private and public sector are not reported in national accounts.

Secondary data sources as well as empirical literature in this area estimate private investment as the difference between total gross domestic investment (from national accounts) and consolidated public investment (Elbadawi & Ndulu 1994, Hadjimichael *et al.*1995, IMF 2000, Khan & Kumar 1997, UNCTAD 1999a and World Bank 2000c)[3]. In general, investment is defined as the addition to existing capital stock, net of its past depreciation rates.

Although distinction is made between private and public capital in both theoretical and empirical literature, the growth models made no distinction between the private and public components of investment, particularly in empirical studies for developing countries, partly because of unavailability of reliable data in many developing countries. There is, however, an emerging appreciation in the literature that private investment is relatively more efficient and productive than public investment, largely driven by the recent work on privatization (Coutinho and Gallo 1991, Khan & Kumar 1997 and Serven and Solimano 1990). As a result, there is now an increased recognition that private and public investment might have different roles in economic growth and development. However, the volume on empirical studies on this topic is still limited, compared with gross investment studies.[4]

These sources normally express total investment, as well as private and public investment, as a share of gross domestic product (GDP). Recent attempts were made by the World Bank Group to define public investment in a consistent manner across countries, especially by consolidating investment of public enterprises with those of general government (Bouton & Sumlinski 2000). As a result, a more consistent investment data for fifty developing countries, including fourteen IDB member countries, is available with private and public components of investment expressed as a share of GDP (Tables 1.3 and A1.2).

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[3] It was confirmed at several meetings with colleagues at FIAS, the Research Department and other country departments at the World Bank that consolidated public investment data for each country were available at the World Bank's Public Expenditure Reviews, Public Investment Reviews, Country Economic Memoranda and other country reports.

[4] With the availability of suitable data sets and publication of private and public investment data on a consistent basis, due largely to the work of Summers and Heston (1989, 91), researchers have begun to explore the respective roles of private and public investment in the growth process of developing countries using relatively narrower time periods and small sample sizes in cross-country growth regressions. Although a more recent study by Khan and Kumar (1997) substantially broadened the range of sample countries examined and looked across relatively longer time periods, it is still difficult to obtain private and public data that maintain a consistent definition across countries.

Based on the latest data on investment and its average annual growth rates over the period 1970-99 for several regions of the world and three-fourths of the IDB member countries, for which most recent data exist, countries that have grown faster, on average, over the period have higher average shares of total investment to GDP (Tables 1.1, 1.2 and A1.1). The average ratio of gross investment in GDP for IDB member countries as a whole, measured by the gross fixed capital formation (GFCF), increased from about 18% of GDP over the period 1970-89 to a stable average of 22% during the 1990s, with the stability measured by the coefficient of variation (CV).

Clearly, more than half (or 23 out of the 40 countries for which comparable data exist) of IDB member countries have managed to increase the share of gross investment in GDP over the 1990s, as compared with the earlier periods, including all member countries from Asia and more than two-thirds of IDB member countries from Africa. By contrast, all member countries from the CIS and Albania and around two-thirds of the member countries from the Arab region, for which comparable data sets exist, have lower average ratio of gross investment in GDP over the 1990s, as compared with earlier periods. The latter findings confirmed other results that investment has declined and has been low in the Arab region relative to other regions (Elbadawi 1999 and World Bank 1995). Differences in investment ratios across regions are even more pronounced during the 1990s, because all the regions of the world, including IDB member countries as a whole, have moved from unstable investment regimes before1990 to a relatively more stable period in the 1990s. The latter fact is demonstrated by the estimated stable CV over the latter period (Tables 1.1 & 1.2). The increase in the total investment to GDP ratio was mostly due to the increased private investment in a stable manner.

Table 1.3: Descriptive Statistics for the components of Investments as shares of GDP

Country		70-98				70-89				90-98			
		Mean	SD	CV	r	Mean	SD	CV	r	Mean	SD	CV	r
Bangladesh	I/GDP	16.64	5.44	0.33		14.93	6.03	0.40		19.88	1.34	0.07	
	Private I/GDP	10.07	3.73	0.37	0.69	8.51	3.65	0.43	0.82	13.03	1.32	0.10	-0.03
	Public I/GDP	6.58	2.15	0.33		6.44	2.67	0.42	..	6.84	0.30	0.04	
Benin	I/GDP	15.47	1.84	0.12		..	..	..	..	15.47	1.84	0.12	
	Private I/GDP	7.84	1.97	0.25	-0.45	..	..	..	..	7.84	1.97	0.25	-0.45
	Public I/GDP	7.62	1.45	0.19		..	..	..	..	7.62	1.45	0.19	
Chad	I/GDP	12.82	1.45	0.11		..	..	..	..	12.82	1.45	0.11	
	Private I/GDP	6.42	1.91	0.30	-0.75	..	..	..	..	6.42	1.91	0.30	-0.75
	Public I/GDP	6.40	0.72	0.11		..	..	..	..	6.40	0.72	0.11	
Egypt	I/GDP	25.05	7.33	0.29		31.93	2.49	0.08		18.94	3.60	0.19	
	Private I/GDP	12.24	2.18	0.18	0.21	12.68	2.17	0.17	-0.38	11.84	2.24	0.19	0.61
	Public I/GDP	12.84	6.55	0.51		19.26	2.32	0.12		7.12	1.76	0.25	
Gambia	I/GDP	19.73	2.17	0.11		17.97	2.14	0.12		20.32	1.95	0.10	
	Private I/GDP	11.08	4.05	0.37	-0.19	8.23	7.10	0.86	-0.66	12.02	2.43	0.20	-0.55
	Public I/GDP	14.11	22.10	1.57		6.37	0.45	0.07		16.69	25.32	1.52	
Guinea-Bissau	I/GDP	29.93	10.70	0.36		39.63	4.78	0.12		26.69	10.23	0.38	
	Private I/GDP	8.39	4.66	0.56	0.44	10.03	3.59	0.36	0.73	7.84	5.03	0.64	0.40
	Public I/GDP	21.91	7.52	0.34		29.60	1.48	0.05		19.34	6.90	0.36	
Indonesia	I/GDP	26.46	2.32	0.09		25.38	2.37	0.09		27.54	1.80	0.07	
	Private I/GDP	17.69	3.18	0.18	-0.68	15.67	2.43	0.16	-0.37	19.72	2.50	0.13	-0.69
	Public I/GDP	8.76	1.99	0.23		9.69	1.70	0.18		7.83	1.89	0.24	
Iran	I/GDP	19.58	4.10	0.21		17.35	3.41	0.20		22.36	3.14	0.14	
	Private I/GDP	10.88	2.38	0.22	0.70	9.56	1.88	0.20	0.49	12.53	1.90	0.15	0.73
	Public I/GDP	8.69	2.08	0.24		7.77	2.08	0.27		9.84	1.50	0.15	
Malaysia	I/GDP	30.60	6.90	0.23		28.24	4.95	0.18		38.06	4.24	0.11	
	Private I/GDP	19.25	5.24	0.27	0.31	16.69	2.05	0.12	0.46	25.68	4.32	0.17	-0.19
	Public I/GDP	11.36	3.19	0.28		11.55	3.67	0.32		12.40	1.37	0.11	
Mauritania	I/GDP	20.38	3.67	0.18		23.62	3.87	0.16		18.58	2.03	0.11	
	Private I/GDP	10.95	5.55	0.51	-0.78	16.92	3.20	0.19	0.35	7.63	3.20	0.42	-0.78
	Public I/GDP	9.44	3.19	0.34		6.72	1.27	0.19		10.94	2.93	0.27	
Morocco	I/GDP	23.43	3.06	0.13		24.34	3.40	0.14		21.90	1.60	0.07	
	Private I/GDP	12.47	1.56	0.13	-0.14	12.04	1.15	0.10	0.29	13.19	1.94	0.15	-0.27
	Public I/GDP	10.89	3.01	0.28		12.16	2.93	0.24		8.78	1.72	0.20	
Pakistan	I/GDP	16.38	1.94	0.12		16.38	2.05	0.13		17.29	1.36	0.08	
	Private I/GDP	7.58	1.53	0.20	-0.32	6.76	1.12	0.17	-0.09	9.32	0.46	0.05	-0.07
	Public I/GDP	8.79	1.76	0.20		9.62	1.83	0.19		7.91	1.29	0.16	
Tunisia	I/GDP	25.88	4.23	0.16		27.24	4.99	0.18		25.29	1.70	0.07	
	Private I/GDP	12.47	2.19	0.18	0.05	12.72	2.34	0.18	0.09	13.39	1.54	0.12	-0.22
	Public I/GDP	12.40	3.70	0.30		12.73	4.46	0.35		12.01	0.56	0.05	
Turkey	I/GDP	22.94	2.29	0.10		22.14	2.02	0.09		24.93	1.45	0.06	
	Private I/GDP	14.48	3.37	0.23	-0.75	12.61	1.64	0.13	-0.05	18.71	2.08	0.11	-0.72
	Public I/GDP	8.47	1.95	0.23		9.54	1.25	0.13		6.26	1.24	0.20	
East Asia	I/GDP	26.57	2.80	0.11		25.94	2.22	0.09		29.32	1.83	0.06	
	Private I/GDP	18.53	2.36	0.13	0.01	17.79	1.65	0.09	-0.15	20.98	1.82	0.09	-0.12
	Public I/GDP	8.04	1.49	0.18		8.13	1.74	0.21		8.36	0.64	0.08	
South Asia	I/GDP	17.36	2.89	0.17		16.61	2.86	0.17		19.78	0.49	0.02	
	Private I/GDP	9.55	2.30	0.24	0.20	8.38	1.56	0.19	0.68	12.24	0.94	0.08	-0.86
	Public I/GDP	7.83	1.35	0.17		8.24	1.57	0.19		7.54	0.68	0.09	
Sub-Saharan Africa	I/GDP	21.25	2.85	0.13		21.58	3.20	0.15		19.80	0.86	0.04	
	Private I/GDP	10.89	1.82	0.17	0.38	10.86	2.03	0.19	0.43	9.92	0.54	0.05	-0.72
	Public I/GDP	10.35	1.62	0.16		10.71	1.77	0.17		9.88	1.18	0.12	

Source Bouton & Sumlinski (2000), Table 1, pp. 47 - 49.

Notes : * SD, CV and r stand for standard deviation, coefficient of variation and correlation coefficient, respectively.
.. Denotes data unavailable.

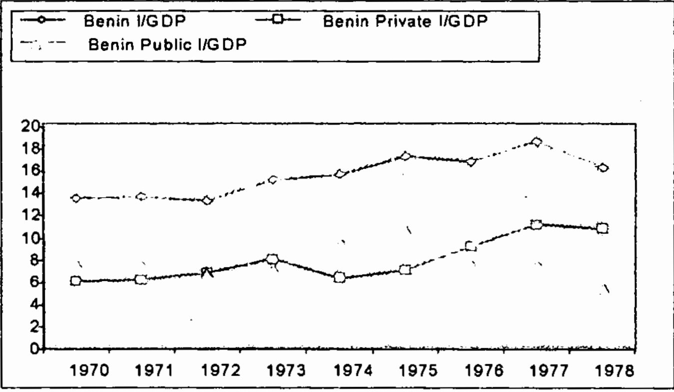
1.5. Trends in Private and Public Investment

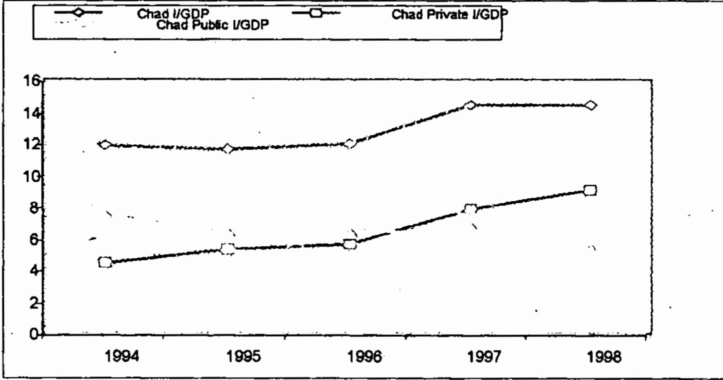
It is apparent that differences from 1970-89 to 1990-98 in the overall investment ratios are driven largely by the differences in private investment ratios in almost all the 14 IDB countries included in the consistent data set of the World Bank Group (Tables 1.3 & A1.2). These latter differences are statistically significant and relatively more stable compared with the corresponding public investment ratios, with stability measured by the coefficient of variation[5]. More importantly, differences in investment ratios are even more pronounced during the 1990s as shown in various country charts (Figures 1.1 – 1.4). Private investment was accelerating in many countries around the world as a result of liberalization and reform efforts. On the other hand, public investment was declining as a result of tight fiscal austerity and privatization efforts.

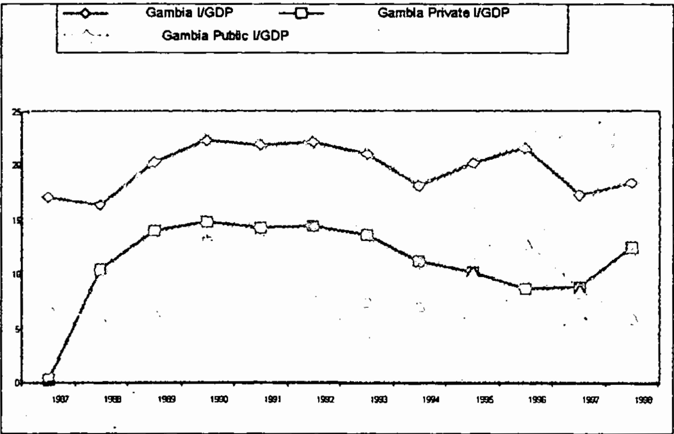
Indeed, private investment for the 14 IDB member countries, for which national accounts data exist, continued to rise on average from a low single-digit before 1990 in some least developed member countries (LDMCs) to a uniformly more stable double-digit in all but a few IDB member countries during the 1990s, as a percentage of GDP (Table 1.3). In almost all these countries private investment exceeded public investment, as a ratio of GDP.

On the other hand, public investment fell more sharply as a share of GDP in the 1990s for almost all except two member countries, as confirmed by the estimated sign of the correlation coefficients between private and public investment ratios for the 1990s. Indeed, the estimated correlation coefficients in these countries are negative in the 1990s, indicating statistically significant crowding out effect of private and public investment in the 1990s, as a result of liberalization, increased globalization, changing nature of the regulatory environment in developing countries, privatization and market reform efforts. Regional trends mirrored the overall trend, as shown in Figure 1.4 as well as by the statistics in Table 1.2.

[5] The hypothesis that there is no significant difference in the sample means over time and across countries and groups of countries are tested using a t-test at 5% level of significance. The co-efficient of variation (CV) is defined as the standard deviation of the variables adjusted by its arithmetic mean, as a measure of stability.







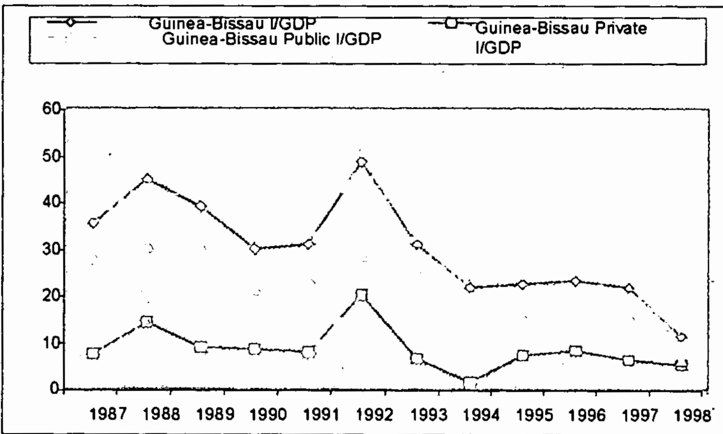
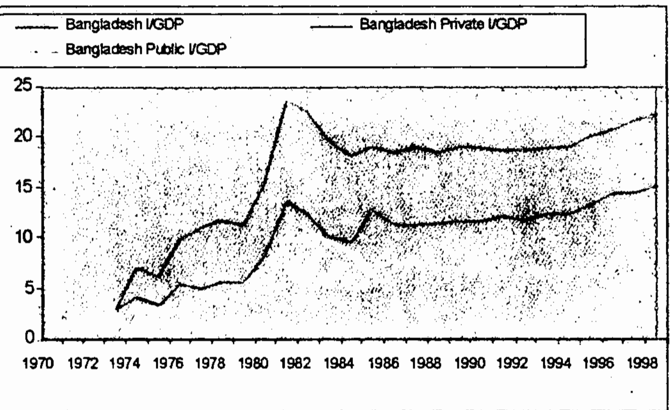


Fig. 1.1: Components of investments as % of GDP in selected IDB countries in Africa



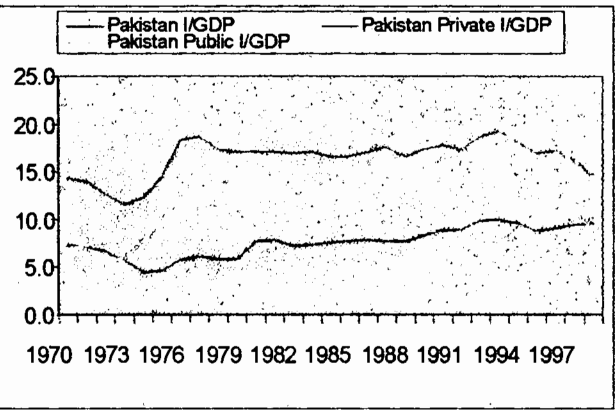
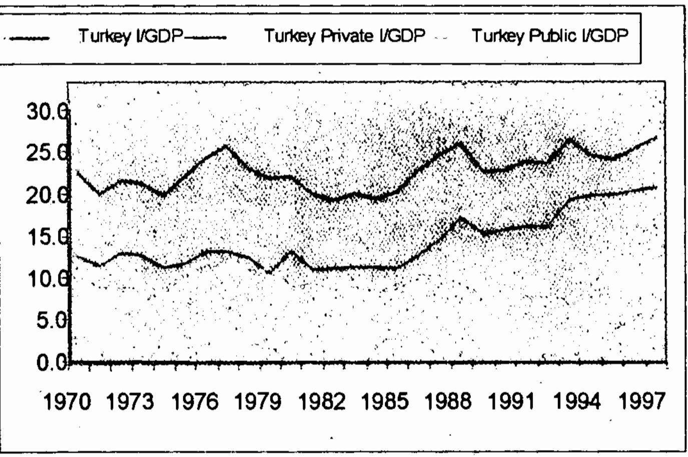


Fig. 1.2: Components of investments as % of GDP in selected IDB countries in South Asia



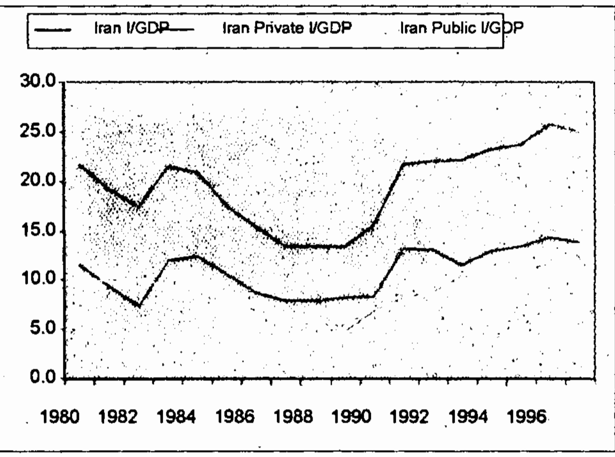
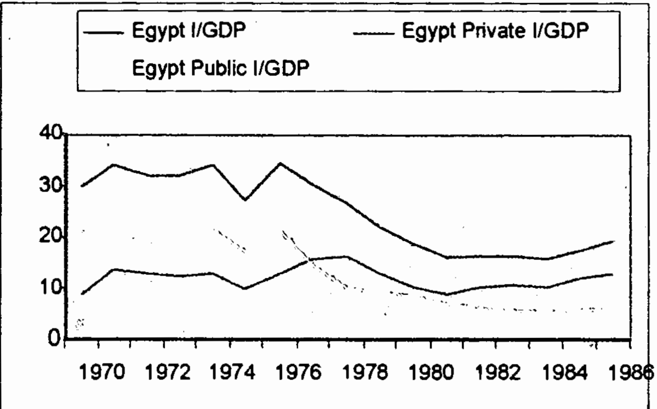
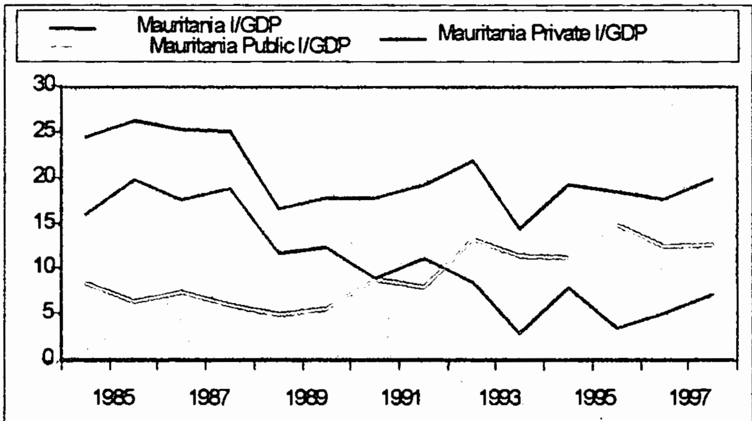
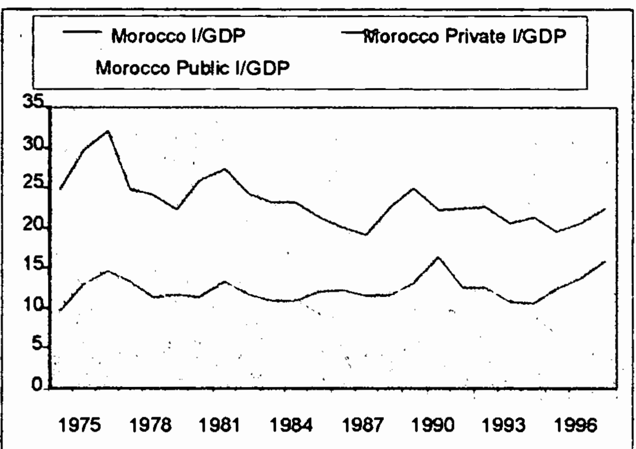


Fig. 1.3: Components of investments as % of GDP in selected IDB countries in the Middle East







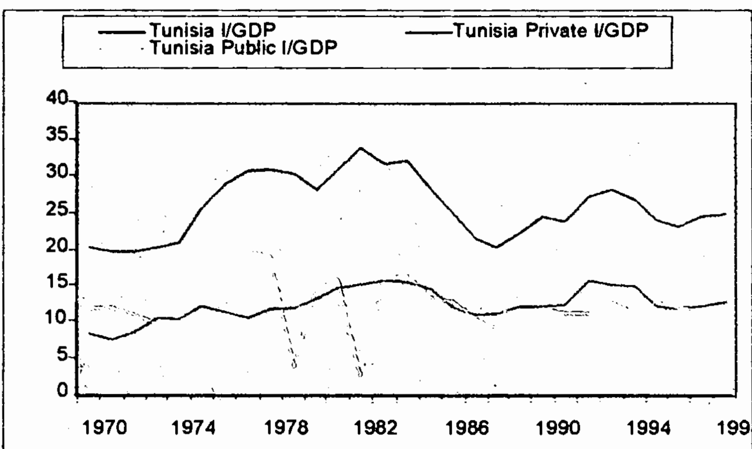


Fig. 1.4 Components of investments as % of GDP in selected IDB countries in Arab countries

By contrast, the crowding-in effect between public and private investment in almost all the regions of the world as well as the majority of the IDB member countries were more pronounced and statistically significant during the period 1970-89, as shown by the estimated correlation coefficients over the comparable period (Table 1.2). These findings confirmed the earlier results for developing countries, particularly among some least developed countries or countries at early stages of development (Elbadawi & Ndulu 1994, Salih 1994 and Taylor 1998)[6]. While such anecdotal evidence on the relationship between private and public investment and their impacts on growth are indicative, more work is needed in linking the components of private investments at a micro-level with that of growth, particularly for differentiating between the effects of increased accumulation and replacement of inferior technologies with more efficient technologies – not just more capital but a newer 'vintage' capital.

However, at a macro-level when investment is taken in a broad sense to include not only capital accumulation but also technology enhancement and human capital formation, there may well not exist diminishing returns to investment (UNCTAD 1999). Therefore, countries that devote a high output to investment may sustain more rapid growth than countries that invest less. This implies, among other things, that countries with superior investment performances (as witnessed in few IDB member countries) tend to attract foreign savings.

1.6. Domestic and Foreign Investment

In this paper, reference was made earlier to domestic direct investment and will also be made to foreign direct investment (FDI). FDI is a type of investment that involves a long-term relationship and reflects a lasting interest and control on the part of a resident entity in one economy (foreign direct investor or parent enterprise) over an enterprise resident in another economy. FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy (UNCTAD 1999). Under this definition, the FDI is composed of three elements: the foreign investor's initial equity capital, subsequent reinvested earnings, and intra-company debt transaction between parent and affiliate enterprises. The equity stake for determining control by a parent enterprise of an affiliate company is 10 per cent or more, frequently known as the 10 per cent rule (IMF 2000 and UNCTAD 2000).

[6] The significantly large value of the estimated positive correlation coefficient for Bangladesh and Guinea-Bissau over the early period 1970-1989 confirmed the crowding-in effect between private and public investment for countries at early stages of development (Table 1.2).

1.6.1. Standard International Definition of FDI

Following the above definition, FDI occurs when a foreign investor develops a long-term relationship with a domestic enterprise and owns enough of the equity of the enterprise to exercise a significant degree of influence on the management of the enterprise. For statistical purposes, the10 percent will enable the foreign investor a voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise) a sufficient share and a significant influence on the management of the enterprise (IMF 1993). The proposed three elements of FDI enable countries to organize and produce statistics on foreign investment for at least one of the following purposes:

(i) To classify international investment transactions according to the nature of ownership of the investments as part of the country's balance of payments accounting;

(ii) to classify assets abroad and liabilities to foreigners according to the nature of ownership; and

(iii) to identify foreign control of domestic corporations for policy purposes.

FDI statistics have become a matter of universal concern for investors, receiving countries and international agencies involved in investment promotion. From the investment promotion policy and strategy perspective, statistics on the economic characteristics of and trends in FDI are particularly important for:

(i) national economic policy, mainly to assess the costs and benefits of FDI and its economic impact in areas such as employment and capital formation;

(ii) infrastructure and resource planning and development;

(iii) cross-country comparisons, particularly in assessing the level of FDI attracted in relation to competing countries; and

(iv) investment promotion, basically to analyze FDI data on approvals and realizations by source country and sector in order to devise effective investment promotion strategies.

1.6.2. Relationship between Domestic and Foreign Investment

Gross capital formation over the 1990-99 period grew faster than the FDI inflows in almost all IDB member countries, except five countries, for which data were available (Table 1.4). Only four member countries, three of which are LDMCs, recorded negative growth rates in domestic investment or foreign investment during the 1990s. Foreign investment crowds out domestic investment in a few IDB

member countries. However, in the remaining counties, for which data are available, foreign investment crowds in domestic investment, particularly among LDMCs. This result is confirmed by the computed cross-country correlation coefficients for all IDB member countries. The estimated coefficient (about 0.15) indicates a positive and a slightly significant relationship between the growth of gross capital formation and that of FDI.

However, when IDB member countries are considered as a group, the computed correlation coefficient across time is still positive but significantly larger (at 0.80). This result may suggest the presence of a common trend driving the movement of both domestic and foreign investment for IDB member countries as a group during the 1990s, and thus reinforcing the crowding in effect of foreign investment. Perhaps, the IDB member countries would be encouraged to embark actively on improving the investment climate and implementing investment incentive policies that attract foreign investment using, for example, tax incentives and other promotional schemes. Our results are consistent with the recent findings that capital inflows or outflows tend to be associated with domestic inflows (Borensztein *et al.* 1998, Bosworth & Collins 1999 and World Bank 2002). In these studies capital flows have strong impact on domestic investment, especially so for FDI and lending.

This close and strong association between foreign inflows and domestic investment has been analyzed in the literature (Borensztein *et al. 1998,* Bosworth & Collins 1999 and Feldstein 1994). Although their findings, together with the accompanying efforts to improve the investment climate, are summarized in chapter 3, the magnitude and the main features of foreign investment flows in IDB member countries are discussed first in chapter 2.

Table 1. 4: Gross Fixed Capital Formation Versus Foreign Direct Investment (%)

	GCF 90-99 Growth	FDI 90-99 Growth	r (0.15)
Albania	45.4	5.7	
Algeria	-4.2	-0.40	
Azerbaijan	18.1	248	
Bangladesh	7.9	0.30	
Benin	11.2	-0.75	
Burkina Faso	6.8	0.00	
Cameroon	0.37	0.23	
Chad	10.7	0.21	
Comoros	6.3	0.16	
Egypt	4.3	28	
Gabon	3.4	-48	
Gambia, The	8.2	1.2	
Guinea	2.5	0.01	
Guinea-Bissau	-10	0.00	
Indonesia	3.7	104	
Iran	8	-3	
Jordan	6.6	99.4	
Kazakhistan	-11.4	0.10	
Lebanon	21.8	0.20	
Malaysia	8.6	0.06	
Maldives	31.8	0.02	
Mali	1.92	-0.16	
Mauritania	6.02	0.00	
Morocco	4.86	40.36	
Mozambique	12.84	1.16	
Niger	-2.18	-1.71	
Pakistan	1.64	1.22	
Senegal	4.76	-0.12	
Sierra Leone	-0.84	0.10	
Sudan	-8.79	0.47	
Surinam	14.18	-1.19	
Syrian	6.50	6.08	
Togo	-1.90	0.00	
Tunisia	5.65	0.74	
Turkey	4.40	6.13	
Uganda	7.44	0.15	
Yemen	9.74	-3.70	

Source: World Bank 2001c.
Note: r Refers to the Coefficient of correlation.

II. FOREIGN DIRECT INVESTMENT (FDI) FLOWS

2.1. Financial Globalization

Global financial flows, as a main indicator of financial globalization, have phenomenally increased in the world economy, particularly directed to the developing countries in the 1990s. Financial globalization, from a historical perspective, is not a new phenomenon, but its current depth and breath are unprecedented.[7] Indeed, the extent of capital mobility and capital flows a hundred years ago is comparable to today's flows (Bordo *et al.* 1999, Schmukler & Zoido-Lobaton 2001). However, a century ago, only a few developed countries and a few sectors were involved in financial globalization.

At that time, capital flows tended to follow migration and were generally directed towards supporting trade flows (Baldwin & Martin 1999). Moreover, capital flows took the form of bonds and they were of long-term nature. International investment was dominated by a small number of companies and the financial intermediation was concentrated in a few family groups (Schumkler & Zoido-Lobaton 2001). Furthermore, the international system was dominated by the gold standard, according to which gold backed national currency. After the advent of First World War, the ensuing Great Depression and the Second World War, governments reversed financial globalization and imposed capital controls to regain their autonomy in monetary policy. As a result, capital flows dropped down to their lowest level during the 1950s and the 1960s. The international system was dominated by the Bretton Woods system of fixed but adjustable exchange rates, limited capital mobility and autonomous monetary policies.

The 1970s witnessed the beginning of a new era in the international financial system (Mundell 1999). As a result of the oil shock and the break up of the Bretton Woods system, a new wave of globalization began. The oil shock provided the international banks with fresh funds to invest in developing countries.[8] With the breakup of the Bretton Woods system of fixed exchange rates, countries were able to open up their economies to greater capital mobility while keeping the autonomy of their monetary policies. Yet, the capital inflows of the 1970s and early 1980s to developing countries led to the debt crises, which started in 1982.[9]

Deregulation, privatization and advances in technology made FDI and equity investment in emerging markets more attractive to firms and households in the developed countries (Schmukler & Zoido-Lobotan 2001 and World Bank

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[7] Financial globalization is defined as the integration of a country's local financial system with international financial markets and institutions (Tobin 2000, and the World Bank 2000). This integration requires that governments liberalize the domestic financial sector and the capital account (Stiglitz 2000, Taylor 1998).

[8] These funds were used mainly to finance public debt in the form of syndicated loans (IMF 2000, Mundell 1999).

[9] The debt crisis started in Mexico in 1982. To solve the debt crisis of the 1980s, Brady Bonds were introduced with the subsequent development of bond markets for emerging economies.

2000b). The 1990s witnessed an investment boom in FDI and portfolio flows to emerging markets, with portfolio flows being severely interrupted by the 1997-98 Asian crisis. Following the crises of the 1990s, it is argued that FDI flows will resume their upward trend, as witnessed in the most recent data. More importantly, the potential benefits of financial globalization will be more likely to lead to a more financially interconnected world with a greater degree of financial integration (Table 2.1, Frankel 2000, Mussa 2000, Obstfeld & Rogoff 2000, UNCTAD 2000d and World Bank 2001b & 2002).

2.2. External Resource Flows

In concomitance with the trend in worldwide external finance, external resources to developing countries nearly tripled in the 1990s. As can be seen in recently published data, external resources to developing countries increased from US$ 100 billion in 1990 to an estimated US$ 300 billion in 2000 (Table 2.1, UNCTAD 2000a & World Bank 2001b). By contrast, aggregate net resource flows to IDB member countries as a whole remain modest and have not kept in pace with the upward global trend, unlike the share of net resource flows to the developing countries.

In fact, the share of IDB member countries as a whole, out of the aggregate net flows to developing countries, fell by more than three-fold from 28 percent in 1990 to only 8 percent in 1998, according to the most recently available data (Table 2.1). The composition of capital flows to developing countries, including IDB member countries, changed significantly, with official flows having stagnated or declined over the years, whereas private capital flows became the major component of the aggregate flows, particularly for the emerging economies.

2.3. Private Net Resource Flows

Private capital flows to developing countries increased in recent years, representing nearly 80 percent of the aggregate net flows in the 1990s (Tables 2.1 & 2.2). Similarly, private net flows became the major source of aggregate net resource flows to IDB member countries as a whole, standing at an average of nearly 60 percent. Even though net private resource flows to IDB member countries as a whole increased in recent years, private capital did not flow to all countries equally. Similar the pattern in the other developing countries, some IDB member countries tended to receive relatively larger amounts, ranging between US$1 billion to US$ 8 billion during the 1990s (Table 2.3). Yet, the top five IDB member countries with the highest private flows were receiving 90 percent of the private net resource flows of IDB member countries as a whole. Also, the top 5 countries were the ones that experienced the most rapid growth in private capital flows during the 1990s (Table 2.3).

Table 2.1: Aggregate net resource flows (US$ Millions)

Region											90-95			95-99			90-99		
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV
All developing countries	98529	123213	153322	219169	220356	257172	313143	343726	318325	290699	178627	62739	0.35	304613	32538	0.11	233765	86092	0.36
East Asia & Pacific	27026	35308	53705	82353	90398	108095	126254	127685	82838	89216	66148	32393	0.49	106818	20614	0.19	82288	34724	0.42
Europe & Central Asia	12591	17171	27997	32281	22710	36914	48454	59849	59562	45063	24944	9213	0.37	49968	9829	0.19	36259	16728	0.46
Middle East & North Africa	9910	12244	9028	9173	9778	3171	7401	8385	11472	19884	8884	3029	0.34	10063	6241.8	0.62	10045	4250	0.42
South Asia	9221	10705	10389	12235	15253	9798	13878	13229	12586	11817	11267	2202	0.19	12262	1574.9	0.13	11911	1909	0.16
Sub-Saharan Africa	18082	17293	17227	17437	20528	23777	17696	21216	14895	17509	19057	2626	0.14	19019	3482.2	0.18	18566	2545	0.14
IDB	27681	31942	37281	38682	38360	39005	51359	50178	27190	- -	35492	4638	0.13	41933	11295	0.27	37964	8580	0.23

Source: World Bank 2001a.

Notes: CV denotes coefficient of variations, SD denotes standard deviations and - - means not available.

Table 2.2: Private net resource flows (US$ Millions)

Region											90-95			95-99			90-99		
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV
All developing countries	42606	60870	99311	165806	174444	203268	282140	303894	267700	238738	124384	66022	0.53	259148	39189	0.15	183878	92572	0.50
East Asia & Pacific	18720	26819	44778	72267	82627	96313	120676	109444	67249	73947	56921	31499	0.55	93526	22760	0.24	71284	33529	0.47
Europe & Central Asia	7649	4122	17143	20587	10897	26208	37210	50633	53342	38124	14434	8351	0.58	41103	11028	0.27	26592	17559	0.66
Middle East & North Africa	369	3149	1952	3652	6420	1640	5127	8841	9223	16644	2863.7	2093	0.73	8295	5594	0.67	5701.7	4859.7	0.85
South Asia	2174	1934	3289	6425	9176	6793	9033	9629	7580	4879	4965.2	2932	0.59	7582.8	1885	0.25	6091.2	2895.5	0.47
Sub-Saharan Africa	1283	2001	990	2752	4909	9501	5548	9609	3452	7245	3572.7	3224	0.90	7071	2636	0.37	4729	3205.1	0.68
IDB	6328	8905	19442	24079	24618	29838	40473	37431	17225	7927	18868	9353	0.49	26579	13755	0.52	21627	11996	0.55

Source: The World Bank 2001a.

Table 2.3 Private capital flows in IBD Member Countries (US$ Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Albania	31.2	28.4	23.2	69.1	44.9	69.6	94.6	46.9	43.2	37.3
Algeria	-424.1	-1136.6	246.6	-437.8	593	520.9	20.3	-522	-1321	-1486
Azerbaijan	..	..	..	0	22	330	627	1123	1090	596
Bahrain	..	..	..	..	..	..	..	..	..	..
Bangladesh	69.8	36.8	16.5	6.5	30.6	-60.6	12.5	125	170	198
Benin	0.9	13	7.7	1.4	13.5	13.2	36	27	38	31
Brunei	..	..	..	..	..	..	..	..	..	..
Burkina Faso	-0.5	12.4	13	13	18	10	17	13	10	10
Cameroon	-124.6	-4.6	102.4	11	-68.4	-57.8	12	16	1.1	-12.5
Chad	-0.6	3.5	1.6	14	26.8	13	18	15	16	13.8
Comoros	-1	3	-1.4	0.2	0.2	0.9	2	2	2	1
Djibouti	-0.6	0	2.3	1.4	1.4	3.2	5	5	6	5
Egypt	682	40	-88	82	982	288	1448	2590	1385.9	1558
Gabon	103	-86.6	110.2	-115.4	-130.5	-187.9	261.1	138.3	204.2	208.6
Gambia, The	-7.5	4.5	1.5	6.4	5.4	7.3	10.5	12	13	14
Guinea	-0.7	28.6	11.9	6.1	-9.1	-14.1	40.6	-2.8	7.4	63.2
Guinea-Bissau	1.9	-0.1	0	0	0.9	0.8	0.9	10	0	3
Indonesia	3235.3	3449.5	4550.7	1058.5	7745.1	11527.1	16166.7	10863.4	-3392.9	-8415.7
Iran	-392	343.6	1170	1253.9	1053.7	-97.7	-444.3	-294.7	1867.6	-1385.3
Iraq	..	..	..	..	..	..	..	..	..	..
Jordan	253.6	-107.7	-91.2	-141.2	-176.6	-127.7	-118.4	399.6	207.1	112.3
Kazakhistan	..	..	116.5	320.8	331.3	1204.6	1398.9	2157.5	2010.4	1476.6
Kuwait	..	..	..	..	..	..	..	..	..	..
Kyrgyz Republic	..	..	0	10	38.2	96.1	54.2	107	83.2	-16
Lebanon	12.3	6.2	-0.7	0.9	406.6	752.6	740	1066.7	1740	1771.3
Libya	..	..	..	..	..	..	..	..	..	..
Malaysia	769.8	4158.6	6070	11260.8	8457.6	10148.7	12804.8	9342.6	5451.3	3247.4
Maldives	7.1	5.8	10	8.8	8.5	8.5	11.7	17.4	22.2	14.4
Mali	-8.2	0.5	-23.6	3.3	16.2	111	84	39	17	19
Mauritania	5.7	-0.1	5.4	15.9	2	6.9	29.5	1.5	-1.9	-0.1
Morocco	340.6	160.5	442.7	491.9	751.7	346.2	108.9	256.1	466.6	-117.8
Mozambique	34.5	7.3	22.5	29.8	33.4	68.9	66.9	65.5	208.9	373.6
Niger	8.7	-39.5	36.4	-58.4	-34.8	-16.6	-3.8	11.2	-14.8	-7.9
Oman	-258.7	149	-114.9	23.9	341.2	22.7	76.7	81.4	-213.7	-413.1
Pakistan	180.8	278.6	1100.2	1243.9	1765.2	1769.5	2174.2	2178.9	875.9	52.5
Qatar	..	..	..	..	..	..	..	..	..	..
Saudi Arabia	..	..	..	..	..	..	..	..	..	..
Senegal	42	-41.7	-9.3	-3.6	57.6	6.8	-2.3	190.5	55.2	54.2
Sierra Leone	36	8	-6	-7	-3	-30.4	5	4	5	1
Somalia	6	0	0	2	1	1	0	0	0	0
Sudan	0	0	0	0	0	0	0.4	98	371	370.8
Suriname	..	..	..	..	..	..	..	..	..	..
Syria	17.7	-54.4	-46.9	83.2	225.9	78	77.1	68.7	75.9	87.1
Tajikistan	..	..	0	68	10	15	16	3.6	9.1	9.9
Togo	-0.1	6.5	0	-11.9	15.4	26.2	17.3	14.9	30.2	30
Tunisia	-121.3	-41.4	599.8	464.2	311.6	756.3	617.6	922.2	671.9	739.1
Turkey	1782.3	1067.4	4448.4	7274.1	1637.2	2315.9	3658.9	5333.4	4543.2	8667.199
Turkmenistan	..	..	..	82	14.2	20	273.5	870.3	472.8	-54
Uganda	16.3	-24	-5.4	40.8	72.8	111.5	113.9	173.6	208.2	220.6
United Arab	..	..	..	..	..	..	..	..	..	..
Yemen	30	630.2	719.9	906.8	5.4	-219.5	-60.1	-139	-210	-150
IDB	6327.6	8905.2	19442.2	24078.9	24617.8	29838.4	40472.7	37431.1	17224.6	7926.9

Source: World Bank 2001a.
Notes: .. indicates unavailable data and 0 reflects low values.

As a consequence, the share of flows dedicated to LDMCs and some other member countries (outside the top 5) has stagnated or decreased in the 1990s. This meant that only a few IDB member countries were benefiting from the foreign capital the most. The unequal distribution of capital flows is consistent with the fact that income levels among IDB member countries are divergent, although the causality between income and capital flow remains to be empirically tested for IDB member countries.

The trend of aggregate net resource flows is mirrored by the figures on the net private flows to IDB member countries as a whole, mainly due to the effects of the Asian crisis (Table 2.2). This trend is also shared by the major economies among the IDB member countries from East Asia. Thus, net private resource flows decreased both in Indonesia by 33 and 135 percent, and in Malaysia by 27 and 11 percent, in 1997 and 1998, respectively (Table 2.3). Similarly, other major IDB member countries, such as Turkey, Egypt and Pakistan also experienced substantial drops in net private resource flows in 1998 of about 87, 61, and 47 percent, respectively, due to the contagion effect of the crisis. Unlike developing countries, IDB member countries experienced relatively higher volatility in net private flows in the late 1990s, with volatility measured by the coefficient of variation (Table 2.2). After a prolonged surge in private flows, followed by the recent decline in private flows to IDB member countries, changes in private Flows contributed significantly to the high volatility observed in these countries and groups of countries, as measured by high coefficients of variation (Tables 2.2 & 2.3).

2.4. Official Net Resource Flows

The average share of official flows in aggregate net resource flows for IDB member countries as a whole was 36 per cent in the 1990s, accounting for 27% of the official flows for all of the developing countries (Tables 2.1 & 2.4). Although official flows to developing countries fluctuated during the 1990s, net official resource flows to IDB member countries exhibited a steady declining trend from 1991 throughout 1997 (Table 2.4). Unlike the least developed countries in Sub-Saharan Africa, LDMCs from IDB also experienced a declining trend in the official flows in the 1990s. As a result, the share of the IDB member countries in official flows to developing countries declined steadily from 38 per cent in 1990 to 12 per cent in 1997. However, the large increase of official flows in 1998 reflects the increased financial package extended to the crisis countries, particularly Indonesia.

Fluctuations in official net resource flows to IDB member countries are reflected by the estimated high coefficient of variation for IDB member countries as a whole in the 1990s, particularly in the IDB member countries from the Arab region (Table 2.4). Large volatility is also shown by the estimated high coefficient of variation for FDI flows in the IDB member countries from the Arab region.

Table 2.4: Official net resource flows (US$ Millions)

											90-95			95-99			90-99		
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV
All developing countries	55922	62343	54011	53363	45912	53904	31003	39833	50624	51961	54243	5268.4	0.10	45465	9758	0.21	49888	8914	0.18
East Asia & Pacific	8306	8490	8927	10086	7771	11782	5578	18241	15589	15269	9227	1474.3	0.16	13292	4885	0.37	11004	4094	0.37
Europe & Central Asia	4942	13049	10854	11693	11813	10706	11244	9216	6220	6939	10510	2853.2	0.27	8865	2229	0.25	9667.6	2728	0.28
Middle East & North Africa	9542	9095	7076	5521	3358	1531	2273	-456	2249	3240	6020.5	3176.8	0.53	1767.4	1383	0.78	4342.9	3338	0.77
Other developing countries	14691	16750	18332	20530	15184	29305	5301	10238	15544	5741	19132	5423.4	0.28	13226	9895	0.75	15162	7087	0.47
South Asia	7046	8772	7100	5810	6078	3005	4845	3600	5005	6938	6301.8	1921.1	0.30	4678.6	1517	0.32	5819.9	1752	0.30
Sub-Saharan Africa	16798	15291	16238	14684	15619	14276	12149	11607	11444	10264	15484	943.38	0.06	11948	1472	0.12	13837	2286	0.16
IDB	21339	23046	17794	14368	13689	9151	6328	4879	10778	..	16565	5184	0.31	7784	2670	0.34	13486	6363	0.47

Source: World Bank 2001a.

Notes: Mean, SD and CV indicate arithmetic mean, standard deviations and coefficient of variation, respectively.

.. indicates unavailable data and 0 reflects low values.

2.5. Trends in Foreign Direct Investment (FDI)

During the early 1980s, the average global FDI was US$ 40 billion per year, which has more than tripled in the second half of the decade reaching an annual average amount of US$ 140 billion (UNCTAD 2000a). FDI flows to all developing countries have increased eight-fold in the 1990s, amounting now to almost 22 percent of the global FDI, or US$192 billion (Table 2. 5). However, FDI flows were quite uneven from one region to another.

Table 2.5: Foreign Direct Investment (US$ Million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
All developing countries	24130	35315	47455	65992	88841	104989	130845	170258	170942	191991
East Asia & Pacific	11135	14309	22042	39124	45149	52003	59878	64137	64162	61532
Europe & Central Asia	1051	3378	4565	6335	7014	16885	15825	22838	24350	24020
Middle East & North Africa	2458	2770	3573	3783	3351	-199	3581	5917	5054	8070
South Asia	464	389	750	1118	1595	2953	3526	4908	3659	3420
Sub-Saharan Africa	834	1631	1547	1885	3340	3521	4627	7734	4394	5574
IDB	5267	7994	10863	11344	10564	12978	16831	17867	12450	3605

Sources: World Bank 2001a.

For example, several Asian countries have succeeded in attracting substantial amounts of both FDI. Asia's share of world FDI ranged from around 32% in 1985 to 55% in 1992 (Table 2.5 and World Bank 2001a). However, this upward trend was slightly reversed in 1997. More seriously, flows to East Asia and the Pacific fell to 6 percent of world's FDI inflows in 1999, with their nearly 29 percent share in 1995 and with the inflows to South Asia which were even lower.

Similarly Arab countries and Sub-Saharan Africa have not sufficiently benefited from the surge in global FDI flows that occurred during 1990s. They apparently, seem to have been left out of the recent FDI-led globalization phenomenon. For instance, Africa's share fell from around 2 percent in 1997 to less than 1 percent in 1999. Arab countries' share was even worse. It fell from around 1 percent in 1997 to a negligible 0.2 percent in 1999. In sum, the importance of FDI for the IDB member countries from Africa and the Arab regions remains rather modest. The 1998 reversal in the previous upward trend of FDI flows to IDB member countries as a whole was largely due to the Asian crisis. FDI inflows to IDB member countries fell by nearly three-folds from US$ 12.5 billion in 1998 to US$ 3.6 billion in 1999, translated as a share of all developing countries, its followed by a downward trend to reach 2.6 percent in 1999 (Table 2.5). Similarly, FDI as a percentage of GDP fell from about 3 per cent in 1998 to 2.5 per cent in 1999, thus making the average annual FDI for the 1990s less than 1.7 per cent of GDP (Table 2.6).

Table 2.6: Net Foreign Direct Investment Inflows (% of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
East Asia & Pacific	1.21	1.38	1.96	3.27	3.23	3.01	3.09	3.32	3.81	3.00
Europe & Central Asia	0.09	0.30	0.44	0.65	0.82	1.80	1.49	2.12	2.53	2.46
Middle East & North Africa	..	..	..	1.14	1.08	0.39	0.45	0.51	0.62	0.48
South Asia	0.12	0.11	0.21	0.30	0.37	0.63	0.69	0.92	0.65	0.53
Sub-Saharan Africa	0.28	0.66	0.50	0.65	1.21	1.43	1.56	2.44	1.96	2.51
IDB	0.64	0.75	0.90	0.69	0.94	1.59	2.46	3.17	3.01	2.40
World	0.98	0.66	0.67	0.87	0.91	1.10	1.22	1.54	2.25	2.87

Sources: World Bank 2001a.

2.6. Outward versus Inward FDI

World FDI outflows increased from about US$ 242 billion in 1990 to US$ 647 billion in 1998, giving about a 14 per cent average annual growth rate (Table 2.7). Outward FDI from developing countries represented, on average, 11 percent of world's outward FDI, while inward FDI accounted for 32 percent of world's inward FDI. In general, inward FDI for the world was slightly higher than outflows. Similarly, outward flows for IDB member countries were more volatile than inward flows, as measured by the coefficient of variations for the 1990s.

Table 2. 7: Inward and Outward FDI by Major Groups (US$ Million)

	World		Developed countries		Developing countries		IDB	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
1990	209536	242369	173805	226430	35162	15902	7122	243
1991	160474	198486	115415	188198	42608	10249	8349	225
1992	169265	200998	110084	178847	54742	22077	10782	2237
1993	218259	242142	133810	207378	77691	34473	13876	2703
1994	252528	283236	146380	242029	100217	40921	11715	1979
1995	327901	355678	208371	306025	105264	49194	11550	2956
1996	357948	377832	211119	319820	134423	56907	17322	6975
1997	461840	469880	273275	406668	170033	59786	21572	5500
1998	640178	646849	460430	594699	162236	50247	14759	4018
Total	**2797929**	**3017470**	**1832689**	**2670094**	**882376**	**339756**	**117047**	**26836**
Mean	**310881**	**335274**	**203632**	**296677**	**98042**	**37751**	**13005**	**2982**
Median	**252528**	**283236**	**173805**	**242029**	**100217**	**40921**	**11715**	**2703**
SD	**157584**	**147555**	**109801**	**133737**	**49999**	**18165**	**4484**	**2239**
Min	**160474**	**198486**	**110084**	**178847**	**35162**	**10249**	**7122**	**225**
Max	**640178**	**646849**	**460430**	**594699**	**170033**	**59786**	**21572**	**6975**

Source: UNCTAD 2000a.

Table 2.8: Distribution of Inward and Outward FDI (in percentage of the World)

	Developed countries		Developing countries		IDB	
	Inward	Outward	Inward	Outward	Inward	Outward
1990	83	93	17	7	3	0
1991	72	95	27	5	5	0
1992	65	89	32	11	6	1
1993	61	86	36	14	6	1
1994	58	85	40	14	5	1
1995	64	86	32	14	4	1
1996	59	85	38	15	5	2
1997	59	87	37	13	5	1
1998	72	92	25	8	2	1

Source: Calculations based on data from UNCTAD 2000a.

Shares of IDB member countries in both world's outward and inward FDI were rather small, particularly for outward FDI, which was less than 1 percent (Table 2.8). Outward flows in IDB member countries grew at a faster rate, about 39 percent annually, than inward FDI. The latter grew at an average annual rate of 10 percent in the 1990s. Unlike the developing countries, persistent outflows from IDB member countries as a whole is similar to that of poor countries where capital outflows in these countries have been a familiar feature for many years, and continued to increase in the 1990s (World Bank 2002). By contrast, outflows for developing countries grew at nearly equal annual rates (approximately 20 percent).

2.7. FDI in IDB Member Countries

Nearly one fifth of the IDB member countries are active recipients of FDI inflows, with annual average amounts ranging between US$ 4.5 billion and US$ 0.36 billion, in the 1990s (Table 2.9). The remaining four-fifths received FDI inflows ranging between an annual average of US$161 million and US$1 million, for the same comparable period, indicating that FDI inflows to IDB member countries have been largely concentrated in few member countries. Thus, confirming empirical findings reported elsewhere, namely that high FDI concentrated in a few large and relatively advanced emerging markets (Collins 1998, Nummenkamp 2001 and UNCTAD 1995a).

Table 2.9: FDI inflows to IDB Member Countries (US$ Million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	90-95	95-99	90-99	90-99	90-99	90-99	90-99
											Mean	Mean	Mean	SD	Min	Max	Growth
Albania	0	0	20	58	53	70	90	48	45	41	42.5	58.8	42.5	28.9	0.0	90.0	5.7
Algeria	0	12	12	15	18	5	4	7	5	6	8.4	5.4	8.4	5.6	0.0	18.0	-0.4
Azerbaijan	..	..	..	0	22	330	627	1115	1023	..	519.5	773.8	519.5	484	0.0	1115	248
Bangladesh	3	1	4	14	11	2	14	141	308	..	55.3	116.3	55.3	105	1.0	308.0	0.3
Benin	1	13	7	10	5	1	36	27	34	31	16.5	25.8	16.5	14	1.0	36.0	-0.8
Burkina Faso	0	13	0	0	18	10	17	13	10	10	9.1	12.0	9.1	6.9	0.0	18.0	0.0
Cameroon	-113	-15	29	5	-9	7	35	45	50	40	7.4	35.4	7.4	48	-113	50.0	0.2
Chad	0	4	2	15	27	13	18	15	16	15	12.5	15.4	12.5	8.2	0.0	27.0	0.2
Comoros	-1	3	-1	2	3	1	2	2	2	2	1.5	1.8	1.5	1.4	-1.0	3.0	0.2
Djibouti	0	0	2	1	1	3	5	5	6	5	2.8	4.8	2.8	2.3	0.0	6.0	0.0
Egypt	734	253	459	493	1256	598	636	891	1076	1500	789.6	940.2	789.6	389	253	1500	27.6
Gabon	74	-55	127	-114	-103	-113	-65	-100	-50	..	-44.3	-82.0	-44.3	86.6	-114	127	-48
Gambia	0	10	6	11	10	8	11	12	13	15	9.6	11.8	9.6	4.2	0.0	15.0	1.2
Guinea	18	..	..	3	0	1	24	17	18	20	12.6	16.0	12.6	9.6	0.0	24.0	0.0
Guinea-Bissau	2	0	0	0	1	1	1	2	1	3	1.1	1.6	1.1	1.0	0.0	3.0	0.0
Indonesia	1093	1482	1777	2004	2109	4348	6194	4677	-356	..	2592	3715	2592	2056	-356	6194	104
Iran	-362	0	0	0	2	17	26	53	24	..	-26.7	30.0	-26.7	127.0	-362	53.0	-3.0
Jordan	38	-12	41	-34	3	13	16	361	310	..	81.8	175.0	81.8	146.2	-34	361	99.4
Kazakhistan	..	..	100	150	185	964	1137	1321	1158	..	716.4	1145	716.4	545.0	100	1321	0.1
Lebanon	6	0	4	6	7	35	80	150	200	..	54.2	116.3	54.2	74.0	0.0	200	0.2
Libya	159				-79	-107	-135	-82	-152	-100	-70.9	-115.2	-70.9	104.8	-152	159	-0.2
Malaysia	2333	3998	5183	5006	4342	4132	5078	5106	5000	..	4464	4629	4464	920.0	2333	5183	0.1
Maldives	6	7	7	7	9	7	8	8	11	..	7.8	8.5	7.8	1.5	6	11.0	0.0
Mali	-7	4	-8	-20	45	12	84	39	17	40	20.6	38.4	20.6	31.5	-20	84.0	-0.2
Mauritania	7	2	8	16	2	7	5	3	5	2	5.7	4.4	5.7	4.3	2	16.0	0.0
Morocco	165	317	422	491	551	92	357	1079	322	847	464	539	464	301	92	1079	40
Mozambique	9	23	25	32	35	45	73	64	213	384	90.3	155.8	90.3	118.4	9	384	1.2
Niger	-1	15	56	-34	-11	0	0	2	1	..	3.1	0.8	3.1	23.9	-34	56	-1.7
Oman	141	135	104	142	76	46	75	53	106	..	97.6	70.0	97.6	37.1	46	142	0.0
Pakistan	244	257	335	346	429	736	939	729	500	..	501.7	726	502	245	244	939	1.2
Senegal	57	-8	21	-1	67	32	8	176	40	..	43.6	64.0	43.6	55.7	-8	176	-0.1
Sierra Leone	32	8	-6	-7	-4	1	5	4	5	..	4.2	3.8	4.2	11.7	-7.0	32.0	0.1
Somalia	6	0	0	2	1	1	0	0	0	..	1.1	0.3	1.1	2.0	0.0	6.0	0.0
Sudan	0	0	0	0	0	0	0	98	371	371	84	168	84.0	154.3	0.0	371.0	0.5
Suriname	-77	..		-47	-30	-21	7	12	10	5	-17.6	2.6	-17.6	32.3	-77	12.0	-1.2
Syria	71	0	0	176	251	100	89	80	80	..	94.1	87.3	94.1	79.1	0.0	251	6.1
Tajikistan	..	..	0	0	10	15	16	20	18	..	11.3	17.3	11.3	8.3	0.0	20.0	0.0
Togo	0	7	0	0	0	0	0	0	0	..	0.8	0.0	0.8	2.3	0.0	7.0	0.0
Tunisia	76	126	526	562	432	264	238	339	650	368	358.1	371.8	358.1	187.9	76	650	0.7
Turkey	684	810	844	636	608	885	722	805	940	..	770.4	838.0	770.4	114.2	608.0	940	6.1
Turkmenistan	..	..	..	0	0	0	108	108	130	..	57.7	86.5	57.7	63.7	0.0	130	30.9
Uganda	0	1	3	55	88	121	121	175	200	..	84.9	154.3	84.9	75.7	0.	200	0.2
UAE				401	62	399	130	100	100			182.3	198.7	157	62.0	401.0	0.0
Yemen	-131	583	714	897	11	-218	-60	-138	-210	..	160.9	-157	160.9	440.6	-218	897.0	-3.7
Total	5267	7994	10863	11344	10564	12978	16831	17867	12450	3605	9835	12746	10976	4523	3605	17867	425

Source: World Bank 2001a.

Notes: Means, SD, Min, Max and Growth indicate arithmetic mean, standard deviation, minimum value, maximum value and growth rates during the specified period, respectively.

Notes: .. indicates unavailable data, while 0 represents low values.

2.8. Sectoral Distribution of FDI

The lack of data on detailed sectoral composition of FDI flows to IDB member countries has limited the analysis. However, in a recent study, UNCTAD reported sectoral distribution of FDI inflows to Africa (UNCTAD 2000a). About twelve sectors, ranging from agriculture to mining and quarrying, petroleum, food, pharmaceuticals, electrical equipment, telecommunication, transport, and tourism, have attracted FDI to Africa (Table 2.10). Only twelve IDB member countries, mainly LDMCs from Africa, have received 10 percent or more of FDI inflows in these sectors. FDI inflows in seven sectors, are recorded in only four countries: Egypt, Gambia, Mozambique and Tunisia.

In fact, substantial FDI inflows are attracted in resource-based primary-commodities, basically in mining and quarrying, gas, petroleum and related manufacturing activities, fishing and agriculture, forestry and primary agricultural products such as tobacco, sugar, gum arabic, tea, coffee and other beverages and food products. In addition, few IDB member countries are attracting FDI into textile, leather, clothing, non-metallic products and few services such as telecommunications, tourism, finance and insurance.

Data on intra-investment flows in IDB member countries was scarce and the existing limited flows have not been adequately documented, due to lack of reporting at the country level, or rather the lack of it altogether (IAIGC 1999 and UNCTAD 2000a). Available data from secondary sources suggest that not only are intra investment flows negligible in relation to overall reported flows, but potential recipient countries are not reporting the actual investment flows consistently.

In addition, recent reports, including UNCTAD data, have produced some intra-FDI flow data for six LDMCs: Bangladesh, Guinea, Maldives, Senegal, Sudan, and Togo (Table 2.11). [10] Significant inflows, ranging between US$ 76 million and US$ 831 million were reported for two investing countries in three recipient countries in 1997-98. In general, only 10 IDB member countries are the main sources of FDI flows to these LDMCs: Lebanon, Malaysia, Kazakhistan, Turkey, Jordan, Saudi Arabia, Tunisia, Oman, Egypt, and Iran (Table 2.11).

Similarly, IAIGC collected and published intra-investment flows for 1985-1999 for 21 Arab member countries (Table 2.11). The total accumulated investment flows throughout the 1985-1999 period reached US$ 132 billion. From the recipient side, intra-investment flows ranged from US$ 3.84 billion in Egypt to a US$ 3.3 million in Djibouti. From the investor perspective, the largest cumulative amount invested was US$ 4.64 billion, originating from Saudi Arabia.[11]

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[10] See UNCTAD (2001), FDI in Least Developed Countries at a Glance, 2001.

[11] Data for Iraq is not available.

Table 2.10: FDI Inflows by Industrial Sectors in Selected IDB Member Countries

Sector/Industry	10% or more of total FDI Inflows	Less than 10% of total FDI Inflows	Countries with investment opportunities in 2000-2003
Agriculture	Gambia, Mali, Mozambique, Sudan Uganda	Algeria, Burkina Faso Cameroon, Morocco Togo	**Algeria, Cameroon, Egypt, Gambia, Mali, Morocco, Mozambique, Niger Togo, Uganda**
Fishing & aquaculture	Egypt, Gambia Mozambique Uganda	Algeria, Cameroon Morocco Sudan Togo Tunisia	**Egypt Gambia Mozambique Togo**
Forestry	Cameroon Egypt Sudan	Mozambique Togo Tunisia Uganda	**Algeria Mozambique Togo**
Mining & quarrying	Burkina Faso Mali Niger Sudan Togo	Gambia Morocco Tunisia Uganda	**Algeria Egypt Gambia Mozambique Niger**
Petroleum, gas & related products	Algeria Burkina Faso Cameroon Egypt	Gambia Morocco Niger Sudan Tunisia	**Algeria Gambia Mozambique Niger**
Food & beverages	Egypt Gambia Mozambique Togo Tunisia Uganda	Algeria Burkina Faso Cameroon Mali Morocco Sudan	**Cameroon Gambia Mali Morocco Niger Togo Uganda**
Tobacco	Burkina Faso Egypt Mozambique Tunisia	Cameroon Sudan	**Mozambique**
Textiles, leather &clothing	Egypt Gambia Mali Niger Tunisia	Mali Morocco Mozambique Niger Sudan Togo Uganda	**Algeria Mozambique Senegal Uganda**
Pharmaceuticals and chemicals products	Algeria, Egypt Tunisia	Mali Morocco Mozambique Niger Sudan Togo Uganda	**Algeria Gambia Mozambique Senegal Uganda**
Metals and metal products	Burkina Faso Egypt	Gambia Morocco Mozambique Sudan Tunisia	**Mozambique**
Mechanical & electrical equipment	Egypt Gambia Tunisia	Cameroon Morocco Mozambique	**Algeria Gambia Senegal**
Motor vehicles	Egypt Gambia Tunisia	Morocco	**Algeria**
Non-metallic products mineral	Burkina Faso Egypt	Gambia Morocco Niger Togo Tunisia	**Gambia Niger**
Telecommunications	Egypt Gambia Mali Sudan	Morocco Mozambique Togo Tunisia Uganda	**Cameroon Gambia Mali Morocco Mozambique Niger Senegal Togo Uganda**
Finance &Insurance	Cameroon Egypt Gambia Mozambique	Algeria Burkina Faso Mali Morocco Togo Uganda	**Algeria Gambia Uganda**
Transport & storage	Cameroon Egypt Gambia Sudan Tunisia	Burkina Faso Mali Morocco Mozambique Togo Uganda	**Egypt Gambia Morocco Uganda**
Tourism	Burkina Faso Egypt Gambia Mozambique Tunisia	Mali Morocco Sudan Togo Uganda	**Cameroon Egypt Gambia Mali Morocco Mozambique Niger Uganda**

Source: UNCTAD 2000a.

Table 2.11: Intra-Investment Flows(1985-1999) US$ Million

From / To	Algeria	Bahrain	Egypt	Guinea	Iran	Iraq	Jordan	Kazakhistan	Kuwait	Lebanon	Libya	Malaysia	Mauritania	Morocco	Oman	Pakistan	Qatar	Saudi Arabia	Somalia	Sudan	Syria	Tunisia	Turkey	UAE	Yemen	Total
Algeria			5.62								13.5			7.5				4		2.8	0.3	77		0.026	0.033	110.8
Bangladesh			1		20		134	33		765		1081			2.4	78.2		466					10	17.5		2608.1
Bahrain			54.3				1.3		1.04	21.5				64.6	12.2		2.8	150			20.7	2.8		43.8	0.223	375.3
Egypt		2.1					32.7		5.5					3	0.43		0.28	8.9	0.05	7.9	3.64	3.9		10.7	1.6	80.7
Guinea												2.1														2.1
Iran																										0.0
Iraq			25.1				71.6		2.87	0.34				12.7				0.33		29.5	0.606	1.7		1.97	12.9	156.7
Jordan	8	3.8	119			17			27.8	1.17				2.3	12.1		0.7	89		77.7	52.7	30.2		29.3	17.5	488.3
Kazakhistan																										0.0
Kuwait	26.3	68	1097			0.2	11.9			411				37.3	3.4		22.4	124		38.7	281.3	261		156	1.07	2539.6
Lebanon		12	78				16		11.1		1.8			7.7	4.34		0.84	96.3		5.7	235	7.4		44.14	8.6	528.9
Libya	96.1	6.9	170				24							40						2.2	3.67	230.2		0.468	4.02	577.6
Malaysia				0.5																						0.5
Maldives												0.3														0.3
Mauritania	1.8																							0.01		1.8
Morocco			45.6				0.76		5.5									0.14		4.44	0.05	99		1.09	0.42	157.0
Mozambique												1.3														1.3
Niger																						1.8				1.8
Oman		0.6	65.5				0.17		1.9	0.89							0.01	3.12			5.76			66.9	0.145	145.0
Qatar		1.9	216.3				3.4			68				0.122	7.6			50.1		108.5	12.7	20.7		133.3	64.4	687.0
Saudi Arabia	28	177	1502				20.8		5.5	627			1.5	148	35		21			765.5	366	379.2		323	62.33	4461.8
Senegal																						0.6				0.6
Somalia																				0.05				0.524		0.6
Sudan		1.7	47.2				0.02					61		2.1			4.8	1.23			0.21	1.7		1.07	0.309	121.3
Syria			88				35.9		17.5	113				26.8	1.2		2.3	96.8		61.5		3.02		18	4.64	468.7
Togo												76.1														76.1
Tunisia		0.63	13.5				0.14		0.75	0.66			2.8	13.6				0.78		0.64	5.46			0.085	1.4	40.4
Turkey																										0.0
UAE	14.3	13	203.7			0.9	7.1		0.95	492			5	74.6	39.2		19	126.2		97.3	375	144.2			12.2	1624.7
Yemen			25.1			1.2	0.42		0.72					1.73	36.2			11.7		4.4		0.192		1.55		83.2
Total	175	287.6	3756.9	1	20	19	360.	33	78.3	2500.6	15	1222	9	442.05	154.1	78	74.1	1229	0.1	1206.8	1363.1	1264.61	10	873	222	15393.9

Source: UNCTAD 2001a and IAIGC, 2000.

2.10. Main Sources of FDI

FDI primarily comes from, and goes to, developed countries. 85 percent of FDI outflows and 60 percent of FDI inflows more between developed countries with similar standards. Approximately two-thirds of the FDI outflow come from the five largest developed countries (United States, Japan, Germany, France, and the United Kingdom). 174 of the world's top 200 firms are located in these five countries.

At present, private sources account for more than four-fifths of all capital flowing into developing countries (Tables 2.1 & 2.2). FDI is also replacing official aid as the most important source of capital for many developing countries. Traditionally, developing countries depended on flows of development aid from foreign donors or commercial banks in the developed world. The United States is the largest recipient and provider of FDI. Of the 100 largest transnational corporations (TNCs), 44 are based in the United States. FDI originating from the United States totaled US$ 122 billion in 1998, or about 27 percent of world's investment. The United States also hosts more FDI than any other country. For example, US$115 billion flew into the United States in 1998 (UNCTAD 1999a). Similarly, the lion's share of US FDI goes to developed countries. For example, the top developed countries received $88 billion, or 72 percent in 1998, reconfirming flight back to quality. 14 percent or $17 billion went to the top developing recipients. The remaining 5 billion went to a group of 100 developing countries. Among the top ten recipients developing countries of US FDI, only two of them are IDB member countries, receiving 1.75% in 1998 (UNCTAD 1999a).The main sources of FDI into IDB member countries are the United States, the United Kingdom, France, Germany and Japan, respectively.

2.11. Trends in Portfolio Investment Flows (FPI)

A better understanding of the specific attributes of different types of flows could contribute to assessing the impact of these flows on recipient economies and develop approaches and policies to attracting or controlling them. FPI has different characteristics than FDI and might have different implications for the development strategies of recipient countries (UNCTAD 1999a).

In countries where FPI is liberalized, a portfolio investor might buy more than 10 percent of the shares of companies without having a ' lasting interest' or a desire to control the companies. Yet, this investment can be classified as FDI. In other cases, foreign subsidiaries can issue bonds, which are for the most part purchased by parent companies. These transactions, which are in fact FDI, can be recorded as FPI. Based on the control interest criterion, there are situations where FDI can turn into FPI through dilution of ownership or loss of control. Conversely, FPI can be converted into FDI, if the investor decides to have a management interest in the company given the shares he bought (UNCTAD 1999d).

Besides FDI, developing countries have increasingly gained access to international capital markets in the 1990s. Actually, most of the decline in private external financing in developing countries reflected a reduction in portfolio investment, including equity and bonds in 1998 and commercial bank lending in 1999.

Portfolio investment flows to developing countries increased from about US$ 19 billion in 1990, or 43 percent of private flows, to slightly more than US$ 151 billion in 1996, or 54 percent of private capital flows.[12] Subsequent to the East Asian crisis, these flows fell back to $47 billion (or 20 percent of private capital flows) in 1999. The debt portion of portfolio investment has continued to decrease since 1997, while portfolio equity increased in 1999, following the declining trend of1997 and 1998.

Table 2. 12: Portfolio equity flows (US$ Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
All developing countries	2757	6799	13717	51016	35161	36057	49170	30191	15567	27587
East Asia & Pacific	1571	1049	5080	20648	12613	18273	18089	9193	9007	18966
Europe & Central Asia	185	0	65	984	2200	2728	8345	4808	2904	2841
Middle East & North Africa	0	0	0	0	106	203	1632	2259	878	608
South Asia	105	23	380	2025	6223	2340	5198	2477	351	1091
Sub-Saharan Africa	0	0	144	174	860	4868	2012	1507	679	492
IDB	640	23	643	6871	7538	8767	10613	2960	2603	3267

Sources: World Bank 2001a.

Asia attracted the greatest amount of portfolio investment flows from the United States. Two major IDB member countries from East Asia were among the largest recipient countries. By contrast, a single large recipient, namely South Africa, dominated flows of FPI to Africa.

By international standards, portfolio investment flows into IDB member countries have not been significant. The 1990-99 annual average was only US$1.8 billion (Table 2.13). As a share of developing countries, FPI to IDB member countries rose from 2.6% in 1991 to 3% in 1995. However, this trend was reversed in 1997, whereby the share fell to a negative 4.6%, before rising again to a peak of 25% in 1999. As a share of private net resource flows, FPI to IDB ember countries represented about 8 percent in 1991, or 10 percent in 1995, and 145 percent in 1999.

[12] See the World Bank (2000d), Global Development Finance in 2000, especially p.36.

Table 2.13: Portfolio investment US$ (Million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	90-99	
											Mean	SD
Albania	0.0	0.0	0.0	0.0	0.0	..	0.0	0.0	0.0	0.0	0.0	0.0
Algeria	0.0	0.0	..	..	..	..	..	..	..	..	0.0	0.0
Azerbaijan	..	0.0	0.0	0.0	0.0	-0.2	0.0	0.1	0.0	0.0	0.0	0.1
Bahrain	69.8	..	-139.8	..	..	..	..	..	-84.9	-206.0	-90.2	117.6
Bangladesh	-19.4	5.2	0.6	0.9	5.3	6.1	-2.1	-13.2	0.3	-0.6	-1.7	8.3
Benin	-0.5	0.4	-0.6	-0.9	-2.6	-6.4	-1.2	-1.7	2.6	..	-1.2	2.4
Brunei	..	..	..	..	..	..	..	..	..	..	..	..
Burkina Faso	0.0	0.0	0.0	0.0	..	..	..	..	..	..	0.0	0.0
Cameroon	8.7	3.3	8.0	8.1	14.4	12.6	0.0	0.0	0.0	0.0	5.5	5.6
Chad	0.0	0.0	0.0	0.0	0.0	..	..	..	..	..	0.0	0.0
Comoros	0.0	0.0	0.0	0.0	0.0	0.0	..	..	..	..	0.0	0.0
Djibouti	..	..	0.0	0.0	0.0	0.0	..	..	..	..	0.0	0.0
Egypt	0.0	0.4	0.9	0.5	0.3	0.4	25.8	146.3	-19.2	-13.1	14.2	47.8
Gabon	0.0	0.0	0.0	0.0	..	..	..	..	..	..	0.0	0.0
Gambia, The	0.0	0.0	0.0	0.0	0.0	0.0	..	..	..	..	0.0	0.0
Guinea	..	..	..	..	..	..	..	..	..	..	..	..
Guinea-Bissau	0.0	0.0	0.0	0.0	..	..	..	..	..	..	0.0	0.0
Indonesia	-9.3	-1.2	-8.8	180.5	387.7	..	500.5	-	-	-179.2	46.6	262.4
Iran	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..	0.0	0.0
Iraq	..	..	..	..	..	..	..	..	..	..	..	..
Jordan	6.9	-2.6	4.5	2.0	2.6	4.0	0.0	18.1	7.1	5.4	4.8	5.6
Kazakhistan	..	..	0.0	0.0	0.0	0.7	22.4	40.4	6.2	-4.6	8.1	15.4
Kuwait	-38.1	-60.2	27.3	..	..	-	-76.2	..	..	-262.1	-103.5	110.3
Kyrgyz Republic	..	..	0.0	0.0	0.0	0.2	-0.2	2.5	2.6	2.6	1.0	1.3
Lebanon	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..	0.0	0.0
Malaysia	-25.5	17.0	-112.2	-70.9	-	-43.6	-26.8	-24.8	28.3	80.4	-34.3	70.3
Maldives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mali	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..	..	0.0	0.0
Mauritania	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..	0.0	0.0
Morocco	0.0	0.2	0.1	2.4	23.8	2.0	14.2	3.8	2.4	0.6	5.0	7.8
Mozambique	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..	0.0	0.0
Niger	..	..	..	..	..	..	..	..	..	..	..	..
Oman	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pakistan	8.7	-0.9	21.9	13.7	28.9	109.0	20.5	26.8	22.1	2.8	25.3	31.0
Qatar	..	..	..	..	..	..	..	..	..	..	..	..
Saudi Arabia	-334.2	47.1	-650.0	821.3	-	405.7	-	-	694.1	1171.2	90.2	651.8
Senegal	0.1	0.6	0.1	0.6	-0.1	0.4	-3.1	-2.7	..	..	-0.5	1.5
Sierra Leone	0.0	0.0	0.0	0.0	0.0	0.0	..	..	..	..	0.0	0.0
Somalia	..	..	..	..	..	..	..	..	..	..	..	..
Sudan	..	..	..	..	..	..	..	..	..	..	..	..
Suriname	0.1	-0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	..	0.0	0.2
Syria	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tajikistan	..	..	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Togo	0.3	0.4	0.0	-0.1	0.1	..	0.4	1.6	0.6	..	0.4	0.5
Tunisia	0.2	3.4	4.6	1.8	1.5	2.5	6.2	10.9	3.3	1.0	3.5	3.1
Turkey	54.7	62.3	241.1	391.7	115.8	23.7	57.0	163.4	-	342.9	78.1	292.4
Turkmenistan	..	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	0.2	0.0	0.0	0.2
Uganda	..	..	..	..	..	..	..	..	..	..	..	..
UAE	..	..	..	..	..	..	..	..	..	..	..	..
Yemen	..	..	..	..	..	..	..	..	..	..	..	..

Source: World Bank 2001a.

The pattern of the components of FPI flows has also changed during the 1990s (Table A2.1 & A2.2). Equity flows were dominant in the early 1990s, while bonds become dominant in the late 1990s. It is, however, important to observe that during the years of high foreign equity inflows (1993-1996), stock price indices of the major emerging markets increased tremendously, thus making access to equity financing cheaper.[13] However, in 1997 and 1998, these flows turned into negative flows for most of the largest IDB countries. Actually equity flows into IDB member countries fell by more than 72 percent in 1997.

On the other hand, owing to the sharp fall in the average spread on new international bond issues by developing countries, bonds declined by nearly 22 percent in 1994. [14] But in 1995, bond portfolio flows start rising again until 1997; and in 1998, because of the Asian crisis, they suffered a big collapse, by more than 92 percent. In contrast, both equity and bond inflows recorded increases in 1999, but it was more significant for bond flows. Turkey had a large impact on this noticeable growth with a contribution of more than US$3 billion of FPI. Meanwhile, Indonesia's impact was felt on the equity side, with a record amount of US$1.3 billion.

Overall, in late 1990s, portfolio investment flows in the form of bonds grew, on average, faster than equity, though their 1990-1999 annual average was relatively smaller compared to equity. In terms of volatility, both bond and equity flows were very volatile. But in general, despite the Asian crisis, the late 1990s were less volatile than the early 1990s for portfolio investment flows to IDB member countries.

However, the distribution of the portfolio investment flows is skewed towards a limited number of IDB member countries, namely three Gulf countries (Kuwait, Bahrain and Saudi Arabia) and five other member countries (Indonesia, Malaysia, Turkey, Pakistan and Egypt). Saudi Arabia and Turkey account significantly for the exceptional increase recorded in FPI into IDB member countries in 1999. The 1990-99 average size of portfolio investment flows to these countries does not exceed 1$ billion (Table 2.13). The remaining large majority of the IDB member countries received either nothing, or at best, very negligible amounts of portfolio investment flows.

Portfolio investment flows to some Gulf countries, Egypt and to a lesser extent Pakistan, were largely in the form of equity investment. For the two large IDB economies from East Asia, equity flows dominate, while for Turkey portfolio bonds flows dominate.

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[13] See IFC (1999), Emerging Stock Markets Factbook 1999.

[14] See World Bank, Global Development Finance, 1998, in particular p.13.

2.12. FDI and Employment

Recent evidence suggests that direct employment in foreign affiliates in developing countries accounted for 22 percent of total employment (or 19 million) in the late 1990s, compared with 7 million in 1985 and 15 million in 1995 (UNCTAD 1999a). By contrast, direct employment generated by foreign affiliates in the IDB member countries was only one-fifth of that in developing countries. Much of this employment is concentrated in the manufacturing and services sectors of the economy. For example, employment in foreign affiliates was nearly 4 percent of total employment in Malaysia in 1994, about 5 percent in Indonesia in 1996, and 3.2 percent in Turkey in 1995. However, employment generated by the largest foreign affiliates in sixteen LDMCs was approximately 30,000 workers, ranging from a low of 81 workers in Guinea-Bissau to a peak of more than 16000 workers in Uganda (Table 2.14).

Table 2.14: Employment Generated by the Largest Foreign Affiliates in Selected LDMCs

Country	Sectors	Number of Employees
Afghanistan	Equipment	219
Benin	--	139
Burkina Faso	Tobacco/Cars/Freight	1050
Chad	Tobacco/Equipment	163
Djibouti	Banks/Petroleum products	350
Gambia	Hotels	304
Guinea	Minerals/Telecommunication	4830
Guinea-Bissau	Petroleum	81
Maldives	Hotels/Banks	174
Mali	Equipment	109
Mauritania	Petroleum	189
Niger	Mining/Petroleum/Cars	1350
Senegal	Tobacco/Banks/Fluid Milk	2587
Sudan	Petroleum/Groceries/Equipment	416
Uganda	Agriculture/Tobacco/Construction	16102
Yemen	Oil and Gas	2515
Total		30578

Source: UNCTAD 2001a.

FDI activities in IDB member countries were concentrated in mining, resource-based-primary-commodity, manufacturing and to a lesser extent in services such as hotels and banking. Some IDB member countries offered incentives for specific activities, with the aim to creating employment and diffusing technology in export processing Zones (EPZs). EPZs are a strategy which is designed to foster exports and to promote employment by attracting foreign and domestic investors into export industries. So far, the experience of EPZs in attracting employment-generating FDI is not conclusive. In some cases, the tend to attract low-skill, low-wage activities and little investment in R&D and training (UNCTAD 2000d). In some IDB member countries, employment in EPZs

varied from a high of 2.2 million workers in Bangladesh to a low of 10000 workers in Togo (Table A2.3).

During the last decade or so, some IDB member countries continue their policy to support FDI, with the aim to benefiting from technological spillover, including the transfer of technology, the development of managerial and marketing skills and the training of labor. However, recent evidence suggests that positive spillover effects are more likely to occur in high income developing economies (UNCTAD) 1999a). In these countries, TNCs tend to upgrade employees' skills in host countries by investing in training and at times, provide support to local suppliers to train workers to meet international quality standards. Indeed, growing globalization exerted pressure on TNCs to comply with quality standards (such as ISO standards and special codes in some industries) and this would require, among other things, continuous training of their labor force.

In this context, the competition challenge facing IDB member countries hinges on their efforts to support the labor market and to improve skills rquired to meet the technological content of foreign investment, in terms of qualified managers, scientists, engineers and civil servants. At present, the proportion of science and engineering students in total tertiary education in IDB member countries ranges from an average of nearly 7 percent to 55 percent (World Bank 2001a). Similarly, expenditure per student in tertiary education varies between an average of 13 percent and 55 percent of gross national income in IDB member countries.

2.13. FDI Data Issues

At present, 68 per cent of developing countries are reporting and disseminating information on at least one component of FDI statistics on a regular basis. This means that less than one third of developing countries are not reporting FDI data, on a regular basis (UNCTAD 1999a and 2000a). By contrast, 56 per cent of IDB member countries are reporting FDI statistics on regular basis. Among the remaining 44 percent of member countries that don't do so, half of them (or 11 countries) are not reporting FDI statistics and the other half are reporting data with long lags, at times going beyond 5 years. Less than one third (or 17 countries) of IDB member countries are reporting data on foreign portfolio investment (FPI).

In May 1997, the IMF and OECD launched a survey on FDI reporting in 114 countries, including 29 OECD member countries. Nearly 20 percent of the non-OECD countries included in the 1997 FDI Survey did not report statistics on direct investment abroad, including particularly IDB member countries. For example, the response rates of all IDB member countries, except those from CIS, to the questionnaire of implementing methodological standards for FDI were the lowest within their respective regions: less than 20% for member countries from Africa compared with 45% for African countries in the sample, less than 20% for member countries from CIS & Albania compared with more than 70% of non-OECD European countries in the sample, and less than 60% of member countries from Asia compared with more than 60% for Asian countries in the

sample (IMF & OECD 2000). In addition, 18 countries, more than one half of them being IDB member countries, either provided letters or replied to only the third part of the questionnaire in which the respondent country were to identify itself and describe specific plans for FDI compilation.[15]

If these countries were excluded from the analysis of the survey results, the response rates for IDB member countries will be lower than discussed before: less than 10%, 20% and 30% in member countries from Africa, Arab and Asia regions, respectively. These results would indicate a need to determine the extent to which member countries have adopted the international standards for FDI statistics. One possible reason for this low response rate is that the survey questions might not be well understood by some countries. For example, the form was not made available in the Arabic language and only one member country from the Arab region out of 19 countries completed and returned the form.[16]

If the content of the survey database were to be updated on a regular basis, as perceived by the surveyors, translating the form into Arabic would ensure a higher response rate and facilitate the implementation of methodological standards, given the experience of the IMF in making available the 1993 BOP Manual in Arabic too. In this context, IDB and its affiliate ICIEC could play an active role in coordinating and facilitating such an activity, in partnership with the IMF and other international agencies involved in promoting international methodological standards for the treatment of FDI statistics.

Despite the progress made in the measurement of international capital flows over the years, reported global outflows on FDI exceeded reported global inflows. The two main factors explaining the discrepancy between outflows and inflows are the failure of many countries to adhere to the recommended international standards for measuring FDI and to follow standardized sources of data, as confirmed by the results of a recently conducted worldwide survey (Box 2.1). In addition, the most significant sources of the discrepancy observed in other data sources were the failure of many countries to compile data on invested earnings, the failure to follow international standards in relation to short-term financing arrangements between affiliated enterprises, the failure to record and properly classify the activities of special purpose entities of multinational enterprises, the failure to record cross-border real estate transactions, and the failure of many countries to properly classify the investments of affiliates in their parent companies (IMF & OECD 2000 and UNCTAD 1999a).

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[15] In a few instances, countries had difficulty completing the detailed questions; nonetheless the surveyors (IMF & OECD 2000) considered the commentary information provided by countries as useful. Other countries that were still developing system for compiling FDI statistics preferred not to complete the form but provided letters indicating their plans.

[16] The form was made available in English, French, Spanish and Russian languages, with the view to insure a higher response rate and to improve the quality of response (IMF & OECD 2000).

Box 2.1: Survey of Implementation of Methodological Standards for Direct Investment

The International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) launched in May 1997 the survey on implementation of methodological standards for direct investment (SIMSDI). The survey encompassed a comprehensive study of data sources, collection methods, and dissemination and methodological practices for foreign direct investment (FDI) statistics. The main objectives of the survey were: to know the extent to which member countries have adopted the recommendations on FDI statistics made in the fifth edition of the Balance of Payments Manual (1993) and the OECD's Benchmark Definition of FDI, to obtain standardized information on data sources from these countries and to facilitate the exchange of information between reporting countries. Consequently, the survey included questions on all the major methodological issues related to the measurement of FDI.

The survey was sent to 171 IMF member countries (of which 29 were also OECD member countries). Two-thirds of the countries (114 countries, including all the OECD member countries and nearly 60% of non-OECD IMF member countries) responded to the questionnaire. The surveyors considered the response rate very satisfactory and indicative of the importance that national compilers attach to FDI data. Similarly, the overall quality of the survey responses was considered satisfactory. Although the common database of the survey is maintained on the Internet, it is both user-restricted and password-protected to insure data confidentiality.

The results of the survey indicate, *inter alia*, that many of the non-OECD countries relied on investment approval authorities as the source of data for FDI. Many non-OECD countries did not disseminate FDI on a regular basis, despite the progress made in recent years. For example, more than 30% of non-OECD countries did not report information on direct investment to the IMF Statistics Department, and more than one half of these countries did not report statistics on direct investment abroad. By contrast, all OECD countries report FDI statistics to international organizations. The periodicity with which FDI transaction data were compiled varied substantially among non-OECD countries. Although half of the respondents (basically Asian and European non-OECD countries) disseminated their most timely data on a quarterly basis, African and Western Hemisphere countries (Latin America and the Caribbean) often compiled and disseminated data on an annual basis. A large number of African and Asian countries required approximately one year for compiling and disseminating FDI statistics. On average, non-OECD countries undertook a less extensive revision process than OECD countries and are expected to provide final data more rapidly. Most Asian countries required two years for providing final FDI data. Finally, less than half of non-OECD countries compiled FDI financial flows data by country, and slightly over one-quarter were able to provide FDI position (inward and outward) data by countries. A significantly lower proportion of non-OECD countries was able to provide data on geographic and industrial disaggregation of FDI or position data.

Sources: IMF & OECD (2000) and personal discussions with experts in the Balance of Payments and External Debt Division and Statistics Department of the IMF; Development Prospects Group of the World Bank, Information Products and Services Program of MIGA, and FIAS of the World Bank Group.

2.14. Information Gap and the Digital Divide

Limited information on direct investment data in many IDB member countries is among the main factors explaining the low participation of member countries in the Internet-based Investment Promotion Network (IPAnet). IPAnet is one of the first Internet-based services, operated by MIGA, to feature and disseminate investment information and to promote FDI in developing countries (MIGA 2000). At present, over 125 national investment promotion agencies (IPAs) worldwide operate a Web site, along with at least 140 regional and provincial IPAs (Wille 2001).

These agencies are reporting a growing body of information on key economic data, investment statistics and FDI trends, basic facts, business operating conditions, investment climate, investment-related laws and regulations as well as specific project and privatization opportunities (Box 2.2). These online investment information and marketing opportunities can be accessed directly from the Web site http://www.ipanet.net. While almost all the national and regional agencies in North America and Western Europe have a Web presence, only 45% (24 out of 53) IDB member countries can be found in cyberspace, the lowest presence among all regions of the world, followed by Sub-Saharan Africa where only 50% of IPAs can be found in the IPAnet (Table 2.15 and Wille 2001).

Box 2.2: Typical Internet Investor's Information Resources

Corporate investors typically consult an IPA Web site during the initial phases of a location search in order to collect the necessary information to support the development of an initial shortlist of target countries or regions. The World Business Environment Survey (WBES), FIAS and MIGA of the World Bank Group as well as other recent studies on investment promotion suggest that a minimum core of investment information resources normally sought by investors include:

- ***Basic facts*** on government, population demographics, languages, infrastructure, communications.
- ***General economic overview*** including key economic data and trends, principal growth sectors, foreign exchange regime, directions of trade, market demographics (B2B, B2C).
- ***Investment Climate***, particularly government policies, FDI legislation, taxation regime, investment incentives and exemptions, market access.
- ***FDI trends***: who has invested there, historical flows and sectoral distribution of investment.
- ***Competitive advantages*** such as unique resources and capabilities the country has to offer, and priority economic sectors.
- ***Resources for the Prospective Investor*** including contact information and services offered by the IPA, related government ministries, as well as local business and trade transactions.

Sources: *IAIGC (2001a), WBES (2001) and Wille (2001).*

Table 2.15: Investment Promotion Network In IDB Member Countries (IPA Web sites)

	Country	IPA Web Sites
1	Afghanistan	No
2	Albania	Yes
3	Algeria	Yes
4	Azerbaijan	Yes
5	Bahrain	Yes
6	Bangladesh	Yes
7	Benin	No
8	Brunei	Yes
9	Burkina Faso	No
10	Cameroon	No
11	Chad	No
12	Comoros	No
13	Djibouti	No
14	Egypt	No
15	Gabon	No
16	Gambia	No
17	Guinea	No
18	Guinea-Bissau	No
19	Indonesia	Yes
20	Iran	No
21	Iraq	No
22	Jordan	Yes
23	Kazakhistan	Yes
24	Kuwait	Yes
25	Kyrgyz Rep.	Yes
26	Lebanon	Yes
27	Libya	No
28	Malaysia	Yes
29	Maldives	Yes
30	Mali	No
31	Mauritania	No
32	Morocco	Yes
33	Mozambique	Yes
34	Niger	No
35	Oman	Yes
36	Pakistan	Yes
37	Palestine	No
38	Qatar	Yes
39	Saudi Arabia	Yes
40	Senegal	No
41	Sierra Leone	No
42	Somalia	No
43	Sudan	No
44	Suriname	No
45	Syria	No
46	Tajikistan	No
47	Togo	No
48	Tunisia	Yes
49	Turkey	Yes
50	Turkmenistan	No
51	Uganda	Yes
52	U.A. Emirates	No
53	Yemen	Yes

Sources: IPAnet (2001), MIGA (2000), Wille (2001) and personal contacts with experts from the Information Product Services Program of MIGA, the World Bank Group.

There are several reasons for the current levels of FDI and FPI flows in IDB member countries as well as for the declining share of these countries in developing countries' flows. IDB member countries as a group face, in addition to the deficiencies and shortcomings of legal and institutional framework seen in other groups of developing countries, particular challenges in attracting foreign investment, such as market size. Identifying and analyzing all the reasons for the prevailing situation, however, go beyond the scope of this paper.

Nevertheless, it should be understood clearly that, the factors determining the investment climate are interrelated and that any improvement on a particular issue will positively affect others (Culem 1998, Edwards 1990, Jun and Singh 1996, Kravis & Lipsey 1982, Pistoresi 2000, Schmidts & Bieri 1972, UNCTAD 2000c, Wheeler & Mody 1992, among others). For instance, empirical literature and recent surveys focus on fiscal, financial, market and other incentives offered often by governments as the main determinants of FDI. Several variables and proxies for the main factors effective in attracting FDI include market size, degree of openness, fiscal discipline, sustainability of growth, macroeconomic stability, quality of labor force, physical infrastructure, financial market development, transparency, ownership restrictions, the settlement system, and ease of income and capital repatriation.

Judging from the experience of other countries and the emerging consensus in the literature, an eclectic mix of these variables has made immediate contribution to the improvement of investment climate in many countries throughout the world. Investment climate refers to policy, the institutional and behavioral environment, both present and expected, that affects the returns and risks associated with investment (Stern 2001). From this broad perspective, the following chapter examines the most important factors affecting investment in IDB member countries, grouped under broad headings.

III. INVESTMENT POLICIES AND PROGRAMMES

Governments in developing countries, including IDB member countries, are becoming increasingly aware of the benefits that FDI can bring to an economy in terms of capital, technology, access to established distribution networks, managerial skills and improved balance of payments position. Thus, a marked trend in sociopolitical stability coupled with the international openness in trade and investment policies has ensued. A growing evidence suggests that in many cases this has been a result of the credible reform programmes being undertaken in a number of developing countries, particularly those emphasizing the creation of an enabling environment for private agents to operate effectively (Bhattachrya & Sharma 1999, Bosworth & Collins 1999, Calvo & Rheinhart 1996, Devarajan, Dollar & Holmgren 2001, Elbadawi 1999, IAIGC 2001a, IDB 1993, Jun & Singh 1996, UNCTAD 2001b and World Bank 2001b).

Recent evidence suggests that sound macroeconomic and financial fundamentals are key in lowering the probability of crises and contagion. This is more important in a world of free capital mobility, because both foreign and domestic investors exercise market discipline and because foreign crises might have contagion effects at home (Blomstrom Kokko 1997, Schumkler & Zoido-Lobaton 2001). Weak fundamentals tend to scare investors more easily and make crisis management more difficult. For example, countries with large fiscal deficits and public debt, will have fewer instruments to use in the midst of a crisis. In these circumstances, countries would be advised to focus on key policies that help them prevent and manage crises, such as avoiding large current account deficits financed through short-term private capital flows.

In the past decade or so, a large number of developing countries, including some IDB member countries, have begun to change their attitudes and policies toward foreign direct investment (IAIGC 2001a, UNCTAD 2000b, Wells & Wint 1997, 2000). The change in attitude toward foreign investment has been accompanied by changes in the way governments are managing their relations with foreign investors, including legal institutional arrangements and policy coordination.

3.1. Rule-Based Incentives

3.1.1. Legal Framework

The last two decades have witnessed concerted efforts by IDB member countries to review investment laws, with the aim of making them consistent with the prevailing international principles regarding the treatment of foreign investment (Elbadawi 1999 and UNCTAD 2000a). One notable commonality of the national investment legislature is the emphasis on a unified legislative structure for organizing investment in all regions within the country and across various sectors of the economy (IAIGC 1996). In addition, these legislations were designed to be simple, transparent and directly linking the degree of incentives and facilities offered to investors to specific objective criteria; such as the size of investment,

employment opportunities and balanced regional growth. Most importantly, these legislations have accorded special attention to ensuring equal treatment of foreign and national investors as well as to the stability of the legislation.

In their efforts to attract more FDI inflows and create a favorable climate for investors, many IDB member countries have embarked upon an investment-liberalization path, albeit at varying degrees. For example, many member countries have introduced reforms in their legal and judicial systems. These reforms, which basically attempt to adapt the legal systems to the new challenges, include the rule of law, efficient administration, satisfactory public-private sector partnership, the relaxation or elimination of government measures that adversely affect or restrict FDI, the application of positive standards of treatment which may apply to different phases of an investment, such as its entry and establishment, its ownership, or its operation after entry, and the establishment of a general legal and institutional framework that seeks to ensure the proper functioning of the market (UNCTAD 2000a). The new regulations intend to provide protection and fair treatment to private individuals or companies to encourage them to invest in these countries.

However, the pace of liberalization in IDB member countries has been slower than in other regions. For example, the legal system has not evolved at the same pace as the modernization process and no noticeable progress has been made in some IDB member countries. Furthermore, several IDB member countries have adopted consolidated investment legislation. For example, the new Investment Charter that was enacted in some countries such as Morocco in 1995, *Code Unique* in Tunisia, and the 1997 Law No. 8 in Egypt have replaced a number of earlier investment laws (UNCTAD 2000a). Similarly, adaptations have been made to eliminate the shortcomings, deficiencies and inconsistencies of the general regulatory systems in other IDB member countries such as Mali, Jordan, Uganda, Bangladesh (Box 3.1).

Notwithstanding the efforts to enact new investment laws, the need for bilateral or multilateral investment arrangements is paramount. Actually, the bilateral investment treaties (BITs) have emerged to fill the void created by the demise of the old customary rules (Shenkin 1994).[17] These binding treaties are typically signed between developed and developing nations. BITs also allow potential investors to negotiate for whatever protections and safeguards they feel needed, i.e., BITs provide the investor with protections that are far superior to those of the customary laws (UNCTAD 2000a).

[17] There have been some efforts to establish multilateral agreements, but these have met with considerably less success than BIT efforts. As of 1996, there were eight multilateral investment treaties in place. These include the Arab Maghreb Union Treaty on Promotion and Protection of Investments; the North American Free Trade Agreement; the Energy Charter Treaty; the Arab League's Treaty for the Investment of Arab Capital in Arab States; The Agreement for the Promotion, Protection, and Guarantee of Investments among Member States of the Organization of the Islamic Conference; the Agreement Among the Governments of Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand for the promotion and Protection of Investments. None of these multilateral agreements, however, approaches the importance of the existing network of BITs.

Box 3.1 BANGLADESH: AN INVESTOR'S CHOICE

Bangladesh policies have been initiated to make it the most attractive destination for an investor. Here is why Bangladesh should be the investor's choice.

Incentives at a glance:

- No ceiling on investment
- 100% foreign equity participation allowed
- Tax holiday up to 10 years
- Tax exemption and duty free importation of capital machinery and spare parts for 100% in export-oriented industries
- Residency permits for foreign nationals
- Capital, profit and dividend repatriation facilities
- Term loans and working capital loans from local banks
- Reinvestment of repatriable dividends treated as new investment
- Avoidance of double taxation
- Tax exemption on the interest payable to foreign loans and on royalties and technical know-how fees
- Open exchange control
- Multiple-entry visas for investors
- Convertibility of Taka for current account transactions
- Protection of foreign investment through laws and international agreements

Foreign Investment protection Act

The Foreign Private Investment (promotion and Protection) Act 1980 provides for fair and equable treatment to foreign private investment. It ensures legal protection to foreign in Bangladesh Against nationalization and expropriation. It also guarantees repatriation of capital and returns from it and equitable treatment with local investors with regard to indemnification, compensation etc, in the event of loss due to civil commotion etc. Similarly, adequate protection is available for intellectual property rights, such as patents, designs, trademarks and copyrights.

Guarantees through multilateral agencies

Bangladesh is signatory of Multilateral investment Guarantee Agency (MIGA), Overseas Private Investment Corporation (OPIC) of America and International Center for Settlement of Investment disputes (ICSID).

Source: Bangladesh Investment Promotion Agency (BIPA) Web Site 2001.

In addition, the OECD attempted to draft a multilateral agreement on investment (MAI) and similar proposals have been offered by the World Trade Organization, WTO (Builder *et al.* 1995). However, BITs are considered more important to North-South investment than the MAI.

Furthermore, regional treaties have long been an important instrument regulating investment issues in developing countries. For example, the investment-related treaties signed under the auspice of the Organization of Islamic Conference (OIC), in which IDB member countries are also members (UNCTAD 1996). The two most important agreements of this kind are the Agreement for the Promotion, Protection and Guarantee of Investment among member states of the OIC of 1981 and articles of Agreement of the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) of 1992.

These agreements provide insurance for the investments in the territories of the signatory parties at the regional level in a manner similar to MIGA. Additional regional treaties are the agreements signed under the auspice of the Arab Economic Unity, namely, the Agreement on Investment and Free Movement of Arab Capital among Arab Countries of 1970; the Convention establishing the Intra-Arab Investment Guarantee Corporation (IAIGC) of May 1971; and the Unified Agreement for the Investment of Arab Capital in the Arab States of 1980 (IAIGC 1999, UNCTAD 2000a). The Unified Agreement seeks to establish a coherent and integrated legal system that would facilitate the transfer of Arab capital for investors from member countries and for the protection of Arab capital. The IAIGC provides insurance against investment risks for investors from member countries.

As globalization proceeded, the number of international agreements on investments have also increased. At the bilateral level, the total number of BITs exceeded 1700 agreements, involving 174 countries by the end of 1998 (UNCTAD 1999a). Similarly, IDB member countries signed more that 120 bilateral agreements during the last two decades. For example, countries that signed more than 7 treaties include Tunisia, Egypt, Turkey, Indonesia, and Jordan (Table 3.1). However, a large number of member countries have not yet been involved in such arrangements. This may suggest that partnership and cooperation are not strongly established among member countries, as it is clearly reflected in the size and extent of intra-investment flows, which have remained very small, if not negligible, in comparison with other regional grouping (Table 2.11). In general, countries that have signed the highest number of BITs are receiving the largest FDI inflows.

It is widely known that for any legal and institutional framework to be effective and credible in attracting FDI, two basic conditions should be satisfied. The first one relates to the stability of the framework's provisions. In this case, regulatory provisions should be consistently enforced to gain credibility. In addition, promotional activities should reflect the real prevailing situation. The second condition relates to the transparency of the entire framework. Indeed, the development in legal and legislative framework is a critical step towards creating a friendly legal environment for investment the IDB member countries. However, it takes more than a legal framework to considerably enhance private investment. For these laws to be effective, credible and sustainable, existance of credible institutions and political stability are essential. Indeed, country experiences suggest that in order to transform the friendly environment to an overall attractive investment climate, much more should be done in the areas of political stability, macroeconomic stability, financial markets, physical and human infrastructure (Elbadawi 1999).

Table 3.1: Bilateral Treaties Between IDB Member Countries

	Albania	Algeria	Azerbaijan	Bangladesh	Burkina Faso	Egypt	Gabon	Guinea	Indonesia	Iran	Iraq	Jordan	Kazakistan	Kuwait	Kyrgyz Rep.
Albania						1993									
Algeria												1996			
Azerbaijan															
Bangladesh															
Burkina															
Egypt									1994			1996	1992	1966	
Gabon															
Guinea															
Indonesia															
Iran															
Iraq															
Jordan		1996				1996			1996						
Kazakhistan			1996			1992				1996					
Kuwait						1966					1964				
Kyrgyz Rep.									1995	1996					
Libya						1990									
Malaysia	1995			1994				1996	1994			1994	1996		1995
Mali		1996													
Mauritania															
Morocco						1976	1979				1990			1980	
Niger															
Oman						1985									
Pakistan									1995	1995				1983	1995
Qatar		1996													
Saudi Arabia						1990									
Senegal															
Sudan						1977									
Suriname									1995						
Tunisia					1993	1989			1992			1995		1973	
Turkey	1992		1994	1987						1996		1993	1992	1988	1992
Turkmenistan						1995			1994	1996					
Uganda						1995									
UAE						1988				1996		1995			
Yemen						1988				1996		1995			

Source: UNCTAD 1999a.

Table 3.1: Bilateral Treaties Between IDB Member Countries (Continued)

	Libya	Malaysia	Mali	Morocco	Oman	Pakistan	Qatar	Sudan	Tajikistan	Tunisia	Turkey	Turkmenistan	Uganda	UAE	YEMEN	Number of BITs
Albania		1995								1993	1992					4
Algeria			1996				1996									3
Azerbaijan											1994					1
Bangladesh		1994									1987					2
Burkina										1993						1
Egypt	1990			1976	1985			1977		1989		1995	1995	1988	1988	13
Gabon				1979												1
Guinea		1996								1990						2
Indonesia		1994				1995				1992		1994				4
Iran						1995			1995		1996	1996			1996	5
Iraq				1990												1
Jordan		1994								1995	1993				1995	7
Kazakhistan		1996									1992					5
Kuwait				1980		1983			1995	1973	1988			1966		8
Kyrgyz Rep.		1995									1992					4
Libya				1984						1973						3
Malaysia														1991		8
Mali										1986						2
Mauritania										1986						1
Morocco	1984									1994				1982		7
Niger										1992						1
Oman										1991						2
Pakistan									1994	1996	1995	1994				8
Qatar										1996						2
Saudi Arabia																1
Senegal										1984						1
Sudan																1
Suriname																1
Tunisia																5
Turkey																8
Turkmenistan																3
Uganda																1
UAE																3
Yemen																3

Source: UNCTAD 1999a.

3.1.2 Political Stability

Empirical studies in this area suggest that the relationship between country instability and FDI flows have yielded mixed results. However, overwhelming country evidence indicates that political instability, ranging from rapid government turnover to socio-political unrest, is harmful to investment and in some countries has interrupted FDI flows (Elbadawi 1999, Gunnarsson & Lundahl 1996 and Lucas 1993). Recent evidence from low-income countries also suggests that a stable political environment is systematically associated with investment and growth, particularly in the case of FDI flows since these flows can be interrupted by corruption, confiscation or damage to property, excessive and discriminatory regulations and heavy state intervention in the economy (Bhattacharya et al, 1997).

A subjective composite measure of country risk rating, including twenty components with several factors of political stability or lack of it, ranges from 0 to 100 per cent, a high value indicating a better rating (World Bank 2001a). According to the country risk indicator, the majority of IDB member countries (about 80 per cent) scored more than fifty percentage points, suggesting that IDB member countries as a group, with the exception of one-fifth which are mostly from LDMCs, are comparable with other regions in the developing countries (Table 3.2). This result is consistent with the recent findings that opacity is strongly associated with FDI flows (Pricewaterhouse Coopers 2001).[18]

[18] Opacity is defined as the level of perceived corruption, mainly due to lack of transparency and good governance. In this context, significant FDI inflows would have been attracted if the four IDB countries included in the sample would improve opacity relative to the benchmark (Pricewaterhouse Coopers 2001).

Table3.2: National Policy Framework

	Country Risk Rating[5]	Fiscal Discipline (<=3.5 of GDP)[1]	Macro Stability[2]	Tax Structure[3]	Government size[4]	FDI %GDP (Av. of 1990s)[6]
Albania	64.8	No	No	Yes	no	2.13
Algeria	52.5	Yes	No	No	no	0.02
Azerbaijan	54.3	Less	No	no	no	9.72
Bahrain	..	..	Yes	yes	yes	..
Bangladesh	63.3	..	Yes	no	no	0.13
Benin	29.7	..	Yes	no	yes	0.87
Burkina	66.8	No	Yes	no	yes	0.51
Cameroon	63.5	Yes	Yes	no	Yes	0.10
Chad	27.2	..	Yes	no	no	0.86
Djibouti	..	..	yes	yes	no	0.55
Egypt	68.3	Yes	Yes	no	yes	1.26
Gabon	69.0	..	Yes	no	yes	1.25
Gambia	69.3	..	Yes	no	yes	2.45
Guinea	61.8	..	Yes	no	no	0.61
Guinea-Bis	43.3	..	No	no	no	0.71
Indonesia	51.8	Yes	No	yes	yes	1.06
Iran	60.8	Yes	No	no	no	
Iraq	39.8		No	no	no	
Jordan	71.0	No	Yes	no	no	1.21
Kazakhstan	65.0	..	No	yes	yes	4.16
Kuwait	74.3	..	Yes	yes	no	0.25
Kyrgyz Rep.	32.8		No	yes	yes	3.01
Lebanon	54.8	No	No	yes	yes	0.39
Libya	65.5	..	No	no	no	
Malaysia	74.5	Yes	Yes	yes	yes	5.53
Mali	67.5	..	Yes	no	yes	1.08
Mauritania	27.7	..	Yes	no	yes	0.50
Morocco	72.0	No	Yes	no	yes	0.74
Mozambique	58.3	..	No	no	yes	2.69
Niger	59.3	..	Yes	no	no	0.41
Oman	73.0	Yes	Yes	yes	no	0.83
Pakistan	56.8	No	Yes	no	no	0.89
Qatar	..	..	Yes	no	no	
Saudi Arabia	68.8	..	Yes	no	no	
Senegal	62.5	..	Yes	no	yes	1.07
Sierra Leone	31.0	No	No	no	no	0.41
Somalia	..	..	No	no	no	0.65
Sudan	48.5	..	No	no	no	0.85
Suriname	..	..	Yes	..		
Syria	68.3	Yes	Yes	no	no	0.56
Tajikistan	27.2	..	No	no	no	1.02
Togo*	60.3	..	Yes	no	no	0.99
Tunisia*	72.5	Yes	Yes	no	yes	2.10
Turkey	52.8	No	No	no	yes	0.46
Turkmenistan	31.8	..	No	no	no	2.36
Uganda**	62.3	Yes	No	yes	yes	1.75
UAE***	78	Yes	Yes	yes	yes	
Yemen	60.3	Yes	No	no	no	2.74

Source: 1 based on data from WDI; 2 based on the rate of inflation (i.e., yes for single-digit inflation and no otherwise) as measured by the CPI data published by WDI 2001; 3 and 4 based on dated published by the Heritage Foundation, Economic Freedom Rating, 1999 (yes means that the corporate tax rate is not more than 35%); 5 based on data from WDI; 6 computation based on data from the World Bank 2001a.

3.2 Economic Incentives

3.2.1 Macroeconomic Environment

Macroeconomic factors (fiscal, monetary and trade) are becoming more important for host countries, because they represent the most significant determinants of investment climate in developing countries, including IBD member countries, as listed above. These determinants have changed over time in response to forces of liberalization and globalization. Most of the studies grouped the economic determinants according to the principle motivations of transnational corporations (TNCs). These include:

(a) Market-driven or market-seeking FDI: the driving force of this factor is to penetrate foreign markets. Its proxies are the size of the market (usually represented by per capita GDP).

(b) Resource-seeking or factor-driven FDI: Its proxies include the availability of natural resources (such as raw materials and minerals), the availability of low-cost labor, the availability of skilled labor and the quality of physical infrastructure.

(c) Efficiency-seeking FDI: Its proxies are the productivity of labor, the cost of resources, input costs and the participation of regional integration frameworks.

The following subsections discuss the main macroeconomic factors driving FDI in IDB member countries, such as degree of openness, market size, fiscal discipline, growth sustainability, macroeconomic stability.

3.2.2 Market Size

Per capita GDP has been widely used and generally accepted in both empirical and theoretical literature as a proxy for market size, and found to be a significant determinant of FDI (Agarwal 1980, Barro 1996, Casson 1990, Chakrabarti 2001, Elbadawi 1999, Jun & Singh 1996, Lucas 1988, Singh & Jun 1995, Warick 1991). The market size hypothesis claims that a large market is necessary for efficient utilization of resources and exploitation of economies of scale (Scaperlanda and Mauer 1969). This measure has appeared as an explanatory variable in most empirical studies on the determinants of FDI (Bandera & White 1968, Schmidtz and Bieri 1972, Lunn 1980, Root and Ahmed 1979, Kravis and Lipsey 1982, Nigh 1985, Culem 1988, Wheeler and Mody 1992, Tsai 1994, Shamsuddin 1994, Billington 1999, and Pistoresi 2000). In these studies, the market size hypothesis is valid across a variety of countries, periods, and model specifications.

Table 3.3: Market Size and FDI (Ranking based on FDI as % of GCF)

Rank	Country	FDI as % of GCF 90-99 Average	Per Capita GDP in US$ PPP 90-99 Average
1	Azerbaijan	42.58	3009
2	Kazakhistan	23.35	5104
3	Kyrgyz Republic	17.38	2659
4	Albania	17.14	2630
5	Malaysia	15.08	6896
6	Yemen	13.90	724
7	Gambia, The	12.61	1481
8	Turkmenistan	12.05	3997
9	Mozambique	11.91	664
10	Uganda	11.14	951
11	Sierra Leone	9.65	665
12	Tajikistan	8.69	NA
13	Tunisia	7.53	4925
14	Oman	6.83	NA
15	Chad	6.76	826
16	Egypt	6.59	2895
17	Senegal	6.07	1280
18	Togo	6.04	1358
19	Benin	5.16	824
20	Djibouti	5.15	NA
21	Jordan	5.07	3755
22	Pakistan	4.82	1661
23	Mali	4.77	664
24	Somalia	4.22	NA
25	Niger	4.18	732
26	Gabon	4.08	5912
27	Guinea	3.43	1719
28	Guinea-Bissau	3.37	777
29	Morocco	3.33	3216
30	Indonesia	3.23	2648
31	Comoros	2.81	1579
32	Mauritania	2.56	1463
33	Burkina Faso	2.21	838
34	Syria	2.14	3181
35	Turkey	1.90	5818
36	Kuwait	1.67	17239
37	Lebanon	1.44	3587
38	Cameroon	0.64	1503
39	Bangladesh	0.61	1241
40	Algeria	0.06	4691
41	Iran	-0.02	4940
	Country Average	7.37	2920

Source: World Bank 2001a.
Note: PPP refers to the purchasing power parity.

This hypothesis is also confirmed by the estimated correlation coefficient between per capita GDP and FDI in IDB member countries during the 1990s. The results of the cross-country data on FDI and per capita GDP suggests that IDB member countries with high FDI flows correspond to those with comparatively large per capita GDP, on average, for the period 1990-99. For instance, per capita GDP for the top ten countries ranges between a peak of US$ 5104 and a low of US$ 664 (Table 3.3). Although the sign of the estimated correlation coefficient is positive, confirming the expected theoretical relationship between FDI and market size, but not sufficiently significant with few country observations. The reason is obvious, that the series is limited and it is more important in cross-country studies that a model specification would require more than one variable to be tested. However, as stated in the methodological section of the paper, our objective is not to specify and test a model, but rather to use previous empirical econometric results in this study to complement our analysis. These indicate, *inter alia, that* market size can be an important factor driving FDI, but its impact would be reinforced by if supplemented with supporting policies, such as institutional capacity, macroeconomic stability, other incentives and policy reforms.

3.2.3 Openness and current account restrictions

It has been often argued that openness for international trade can be crucial for the development of the economy and for securing prosperity. Similar to developing countries, IDB member countries also faced a number of challenges. One major challenge is the increasing globalization of the world economy, and how a country can benefit from economic openness in order to participate in the global economy and prosper from globalization. Another challenge is its affenity towards ensuing rapid technological changes. The ability of a country to adapt to new challenges and to be in the technological forefront will probably be more decisive than ever before in benefiting from globalization.

A number of studies have attempted to examine the link between the degree of openness and the level of FDI inflows to the economy, with a view to empirically testing the openness hypothesis. The hypothesis asserts that most investments are directed towards the tradables sector, and accordingly, a country's degree of openness for trade should be a relevant factor in the investment decision. Empirical evidence suggests that openness is a significant determinant of FDI (Kravis & Lipsey 1982, Culem 1988, Edwards 1990 and Pistoresi 2000). Again, the estimated positive correlation coefficient, although its magnitude is relatively small, confirmed the openness hypothesis for some IDB member countries (Table 3.4).

Data on openness, measured by the annual average for 1990-99 of trade as a share of GDP, indicates that IDB member countries are not sufficiently open to foreign trade. Since IDB member countries are diverse in their economies, the degree of openness ranges from a peak average ratio of 96.5% and a low of 6.3% (Table 3.4). Most of the member countries fall below the 20 percent level, indicating that a large number of IDB member countries are not yet benefiting from liberalization or pursuing an active trade policy aimed at gaining access to

important foreign markets, and providing a system of equal and fair conditions for international trade and investment.

The computed correlation coefficient between porfolio investment and openness vary from 0.008 and -0.392. One interpretation for this seemingly contradictory result is due to the lack of openness, which is not sufficient to prompt adequate investment inflows, whether in the form of FDI or FPI. Similarly, the relationship between FDI, FPI and the current account restrictions is also examined, using the available data for 1990-99. The estimated correlation coefficient between the current account and FDI (at -0.133) is negative and small (Table 3.4). This result seems plausible, in the sense that more restrictions on foreign trade are likely to restrain openness, and thus, impede foreign investment flows.

The estimated correlation coefficient between current account and FPI is 0.0457, suggesting that in case of portfolio investment, capital account convertibility matters most, and current account liberalization is likely to be directly less conducive to portfolio investment flows. Moreover, more than half of IDB member countries are still maintaining controls over the current account, and a large majority of them has not yet embarked into currency convertibility (Table 3.4). Their exchange rate arrangements are not fully flexible, in the sense that many countries continue to manage, or peg their currencies. When looking at the exchange rate regimes in the different IDB member countries, it is clear that they are not flexible, and as a result, exchange rate distortions are widespread in some of these countries.

3.2.4. Fiscal discipline

Fiscal deficit is among the variables that are widely examined in the literature, as a determinant of FDI. Empirical evidence shows mixed results, with the level of fiscal discipline measured by fiscal deficit as a percentage of GDP. However, the role of fiscal discipline in attracting FDI is obvious: fiscal discipline is likely to signal favorable domestic macroeconomic environment, which can be conducive to more foreign investment flows. In this study, the benchmark for fiscal discipline is taken as a ratio of fiscal balance of less or equal to 3.5 percent of GDP.

Using this benchmark, nearly half of the member countries included in the sample show on average, either a fiscal surplus or a fiscal deficit within this benchmark (Table 3.5). However, one-fifth of the member countries with fiscal balance above the benchmark, included in the sample, are among countries with the highest FDI as a ratio of gross capital formation (GFC), suggesting mixed results. The estimated cross-country correlation coefficient between fiscal deficit and FDI also demonstrated mixed results, i.e., it is not clear whether fiscal performance has contributed to enhancing foreign investment in IDB member countries. This is consistent with recent findings which cast doubt on the significance of such a factor in attracting FDI flows (Chakrabarti 2001).

Table 3.4: External Positioning and FDI

	Openness[1]	Controls on Current Account[2]	Exchange Rate Regime[3]	FDI as % of GDP (1990s Average)[4]
Albania	42	0	Independent Float	2.13
Algeria	47	1	Managed Float	0.02
Azerbaijan	83	1	Managed float	9.72
Bangladesh	33	0	Fixed Peg	0.13
Benin	55	1	FF Pegged	0.87
Brunei	50.2	1	Currency Board	
Burkina Faso	44	1	FF Pegged	0.51
Cameroon	51	1	FF Pegged	0.10
Chad	51	1	FF Pegged	0.86
Comoros	28.6	1	FF Pegged	0.44
Djibouti	51.4	0	US$ Pegged	0.55
Egypt	40	1		1.26
Gabon	91	1	FF Pegged	1.25
Gambia	113	0	Independent Float	2.45
Guinea, The	45	1	Independent Float	0.61
Guinea-Bis	50	1	FF Pegged	0.71
Indonesia	98	0	Independent Float	1.06
Iran	28	1	Fixed Peg	
Jordan	120	0	Managed float	1.206
Kazakhistan	66	1	Managed Float	4.16
Kuwait	92	0	Composite	0.25
Kyrgyz Rep.	87	0	Managed Float	3.01
Lebanon	62	..	Independent Float	0.39
Malaysia	207	0	Peg	5.53
Maldives	117.0	0	US$ Pegged	3.41
Mali	58	1	FF Pegged	1.08
Mauritania	95	1	Managed Float	0.50
Morocco	44	0	Composite	0.74
Mozambique	42	0	Independent Float	2.69
Niger	40	1	FF Pegged	0.41
Oman	112	0	US$ Pegged	0.83
Pakistan	36	1	Managed Float	0.89
Saudi Arabia	67	0	US$ Pegged	
Senegal	71	1	FF Pegged	1.07
Sierra Leone	53	1	Independent Float	0.41
Somalia	34	1	Independent Float	0.65
Sudan	25	1	Independent Float	0.85
Suriname	83.7	1	US$ Pegged	
Syria	69	1	Peg	0.56
Tajikistan	160	1	Managed Float	1.02
Togo	74	1	FF Pegged	0.99
Tunisia	88	1	Crawl	2.10
Turkey	53	0	Crawl	0.46
Turkmenistan	201.2	1	Managed Float	2.36
Uganda	30		Independent Float	1.75
Yemen	88	1	Independent Float	2.74

Sources: World Bank 2001a and, IMF 2001 and country's investment guide when available.
Notes:[1]measured as trade over GDP,[2] 0 indicates no control and 1 control, [3] as per the exchange rate arrangements, [4] computation based on The World Bank data.

Table 3.5: Fiscal Discipline and FDI (Fiscal Deficit as % of GDP)
(1990-99 Average)

Rank	Country	Fiscal Deficit as % of GDP	FDI as % of GCF
1	Burkina Faso	1.16	2.21
2	Malaysia	1.15	15.08
3	Gabon	0.75	4.08
4	Indonesia	0.09	3.23
5	U A E	0.02	..
6	Syria	-0.36	2.14
7	Gambia, The	-0.77	12.61
8	Jordan	-1.02	5.07
9	Iran.	-1.13	-0.02
10	Algeria	-1.32	0.06
11	Egypt	-1.39	6.59
12	Cameroon	-2.05	0.64
13	Tajikistan	-2.51	8.69
14	Morocco	-2.65	3.33
15	Tunisia	-3.16	7.53
16	Guinea	-3.25	3.43
17	Kazakhistan	-3.96	23.35
18	Bahrain	-4.53	..
19	Sierra Leone	-4.66	9.65
20	Azerbaijan	-4.7	42.58
21	Chad	-4.87	6.76
22	Kyrgyz Republic	-6.15	17.38
23	Turkey	-6.56	1.9
24	Kuwait	-6.75	1.67
25	Pakistan	-6.96	4.82
26	Yemen	-6.97	13.9
27	Oman	-7.34	6.83
28	Maldives	-9.64	..
29	Albania	-10.4	17.14
30	Lebanon	-17.43	1.44
	Country Average	**-3.91**	**8.23**

Source: World Bank 2001a.
Note: .. indicates unvailable data

3.3. Fiscal Incentives

Recently, there has been a move away from fiscal incentives towards specific financial incentives, particularly in developed countries. The reason is that fiscal incentives are generally less flexible. They usually entail changes in legislation and are not easy to phase out. In contrast, developing countries are increasingly using fiscal incentives, because they are politically and financially easier to implement (UNCTAD 1998c). Moreover, the main practical difficulty with fiscal incentives is to regularly monitor their competitiveness in comparison with other countries.

Tax incentives are usually assigned specific objectives. Basically, countries use a mix of incentives to direct investment for the development of a specific region, or sector. They can also be targeted at export promotion, employment and training, domestic value added, and transfer of technology (Table 3.6). The fundamental reason for offering incentives to FDI is because FDI can create more value to the host country than for the foreign investor UNCTAD 2000a). The rationale for incentives may be argued on the basis of market failure, or of institutional failure.[19]

Table 3.6: Tax Incentives: Policy Objectives and Rationale

Objectives	Rationale	Incentives offered
Export promotion	Comparative advantage; economies of scale	Import duties exemption on selected capital goods or inputs
Technology transfer	Spillover effects	Accelerated depreciation; tax holidays; reduction in tax on royalties and dividends
Employment and Training	High minimum wage; spillover effects	Tax holidays, allowances for job training expenses,; reductions in social security payments
Domestic value added	Supply linkages and input content	Tax holidays; loss carry forward and carry back for income tax purpose;
Sectoral priority	Industrial policy; spillover effects	deductions in income tax; Import duties exemption on selected capital goods or inputs; Accelerated depreciation; tax holidays;
Regional priority	shared infrastructure	Same as above

Source: UNCTAD 2000c.

3.3.1. Types of Tax Incentives

Many IDB member countries have put in place an array of tax incentives to attract FDI and promote regional development (Table 3.7). They offer such incentives as income tax exemption or reduced tax rates, investment allowance and remission of customs duty for equipment and goods. Tax reductions can apply to taxes on profits, sales, imports, value added, and to social security obligations. Tax holidays allow taxes on investors to be waived for several years after setting up the project. This type tax incentive is useful when finance is limited.

[19] Institutional failure is wider than market failure. As institutions allocate resources, Governments can fail, jut as markets do. Tariffs, monopoly, price and wage regulation may be sources of inefficiencies.

Accelerated write-offs on capital equipment, investment allowances and specific deductions can induce foreign investors to relocate some of their activities in the host country.

For example, the IDB member countries from Africa offer reduced tax rates and exemption from duty and value added tax (VAT) to manufacturing, plantation, timber, horticulture and tourism. Similarly, resource-based member countries grant special tax regime for exploration and extraction of minerals. Furthermore, special incentives for export-oriented sectors were given to promote non-traditional exports in some member countries (UNCTAD 1998). At the other regions, particularly in Asia, including the IDB member countries, priority is given to hi-tech and consequently pioneer industries are given tax breaks. R & D expenses are given 100 percent deductions. Exports are promoted through tax and duty exemptions and through free economic zones (Table 3.7).

Table 3.7: Synopsis of Types of Incentives in Selected IDB Member Countries

Country	Tax Holiday/ Tax Exemption	Reduced Tax Rate	Investment Allowance/ Tax Credit	Duty/VAT Exemption/ Reduction	R & D Allowance	Expenses Deduction
Cameroon	X		X	X		
Egypt	X			X		
Indonesia	X					
Kazakhistan	X					
Lebanon	X			X		
Malaysia	X	X	X		X	X
Morocco	X	X	X	X		
Pakistan	X		X	X		
Saudi Arabia	X			X		
Turkey	X		X	X		
Uganda	X		X	X	X	X

Source: Extracted from UNCTAD (2000c), Tax Incentives and Foreign Direct Investment, A Global Survey.

3.3.2. Tax Treaties

Double tax treaties (DTTs) deal with tax treatment of income generated abroad in the context of avoiding international double taxation. The home country can , through tax sparing, allow tax credits as if the host country were fully taxing the income, thus enabling the investor to retain the benefits of tax incentives (UNCTAD 2000c). There are two main principles to assert jurisdiction of taxing income of firms (or individual). The first principle is based on the source of income or the site of economic activity (known as the territorial principle) and the second principle is based on the residence (or fiscal domicile) of the taxpayer. DTTs allow exemption of income generated in host country or credit for tax paid. About 2000 DTTs have been concluded worldwide, of which more than 1000 DTTs involved 49 developing countries (UNCTAD 1999c). Asia and the Pacific region accounted for the largest share, nearly 50 percent, followed by Europe and economies in transition, accounting for more than one-forth, and Africa, accounting for only one-sixth (UNCTAD 2000c). Many IDB member countries have signed double taxation treaties (DTTs).

The total number of DTTs signed by IDB member countries reached 392 treaties, or less than one-fourth of the total treaties (Table 3.8). However, the number of DTTs signed among the IDB member countries as a whole is very low (about 72 treaties). These treaties are concentrated in a limited number of member countries; for example, one IDB member country signed nearly one-fourth of intra-IDB DTTs. This suggests the need for further bilateral or multilateral partnership and cooperation among IDB member countries.

Table 3.8: Number of Double Taxation Treaties

Country	Developed Countries	Developing Countries	IDB
Albania	..	4	2
Algeria	..	3	1
Azerbaijan	..	1	1
Bangladesh	..	7	2
Benin	2	0	..
Brunei	..	..	..
Burkina Faso	1	0	..
Cameroon	3	1	1
Comoros	1	0	
Egypt	18	12	5
Gabon	1	0	..
Gambia	6	1	..
Indonesia	25	23	5
Iran	..	4	2
Jordan	..	4	2
Kazakhistan	11	10	5
Kuwait	..	5	1
Lebanon	4	7	5
Libya	0	4	..
Malaysia	22	29	7
Maldives	..		..
Mali	1	0	..
Mauritania	1	1	
Morocco	15	3	2
Mozambique	1	1	..
Niger	1	0	
Oman	..	3	1
Pakistan	25	27	13
Qatar	..	2	1
Saudi Arabia	4	4	2
Senegal	3	2	..
Sierra Leone	3	1	..
Sudan	1	2	..
Syria	..	..	..
Togo	1	1	..
Tunisia	15	9	..
Turkey	16	24	9
Turkmenistan	..	3	2
Uganda	3	2	0
UAE	..	8	3
Total	184	208	72

Source: Based on UNCTAD 2000c.
Note: .. indicates unavailable data.

3.4 Other Policy Issues

3.4.1 Privatization and FDI

The driving forces behind the 1998-99 FDI expansion are cross-border mergers and acquisitions (M & A) among firms, especially between Japan, North America and Western Europe, and to a rising degree embracing developing countries (UNCTAD 1999c). Majority owned cross-border M & A reached US$ 411 billion in value in 1998. The reasons for increased cross-border M & A include the opening of markets due to liberalization and deregulation, the pressure of competition brought about by globalization and intensified technological change.

Several IDB member countries concluded important merger and acquisition (M & A) deals during the 1990s, including Indonesia, Malaysia, Azebaijan, Kazakhistan, Oman and Yemen (Table 3.7). The best deals achieved so far were in 1996 and 1997, the boom years, where IDB member countries concluded deals reaching US$ 23 billion and almost US$ 19 billion, respectively. Consequently, IDB's share of world's M&A was at its highest level, reaching 8% and 6%, in 1996 and 1997 respectively (Table 3.8). As expected, 1998 was the worst year, whence the share of IDB in the world share of M&A bottomed at 1%. In addition to the immediate impact of the Asian crisis, perhaps the lack of adequate information and proper legal framework, such as the absence of bankruptcy laws, among other factors, explain the low performance.

Table 3.9: Cross Border M&A Sales (US$ Millions)

	1991	1992	1993	1994	1995	1996	1997	1998
Albania				70		27		
Algeria		66	23	1300	1750	254		
Azerbaijan		30	713	300		5330	245	
Bahrain	309							
Banglades					17		15	33
Brunei							667	
Egypt	56	133	211	124	162	1288	89	648
Gabon					139			
Guinee					39		3	
Indonesia	275	2287	1421	6507	4125	2654	4,312	1705
Iran		520	5			180	1	
Jordan		216				152		160
Kazakhistan	40		510	185	859	1551	5,033	
Kuwait	51			1100		42		
Lebanon		5						12
Malaysia	1004	1197	541	393	821	4497	2,361	1,693
Mali			160			53		
Morocco		2	5	502	25	84	1144	
Oman		3019	15		1	1875	92	
Pakistan		8	5	2146	15	2501	243	390
Qatar	1	300	281				368	
Saudi Arabia	100	24	8		34	1100	75	
Senegal		3				137	109	4
Sierra Leone			34	8				
Sudan		8				300		
Syria	11							
Tajikistan							150	
Tunisia		88					19	515
Turkey	47	402	961	13	265	542	1028	220
Turkmenistan			70			50		
Uganda		53					11	
U.A.E.						207	437	
Yemen					2100		2549	
Total (IDB)	1894	8361	4963	12648	10352	22824	18951	5380

Mean	Median	SD	Min	Max
10672	9357	7203	1894	22824

Source: UNCTAD 1999a.

Table 3.10: Percentage distribution of M & A Sales

	Developed	Developing	IDB
1991	84	12	2
1992	69	26	7
1993	60	30	3
1994	66	31	6
1995	71	22	4
1996	68	30	8
1997	68	28	6
1998	86	12	1

Source: UNCTD 1999a.

3.4.2. Financial Markets and Regulatory Issues

Portfolio investment flows in the form of equity or debt, generally refer to the flow of funds resulting from countries' access to international financial markets as well as to the flow resulting from activities of foreign investors in domestic financial markets. Accordingly, these flows have important bearings on both countries' banking system and financial markets in terms of financial risks and financial infrastructure, including regulatory, supervisory, and accounting arrangements (UNCTAD 2000a and World Bank 2000d). More than half of IDB member countries do not have a stock market; and most of the existing ones suffer several deficiencies- small number of listed companies, restrictions on trade, lack of transparency, lack of investment vehicles, settlement problems, operational inefficiencies, regulatory and supervisory problems etc.

When examining some of the salient operational and institutional features of IDB member countries' stock markets, they generally lack the required depth and breadth (Table 3.9). The number of listed companies is usually very small and negligible in some cases. Traded shares, in terms of volume and value, are very small, compared to well-developed financial markets. Based on available data for 1998, market capitalization as a share of GDP, is in the best case 1.36.[20] By international standards, such a level of market performance is negligible. The use of trading technology in the existing stock markets is limited. Some countries are still using manual or semi-automated trading methods.

There are also frequent operational problems. Clearing and settlement take long time. Transaction settlement time range from time of transaction plus one day (T+1) to T+5. Restrictions on share-ownership, access to trade, and income repatriation are largely maintained in stock markets of member countries (Table 3.9).

[20] The UAE stock market (Dubai and Abu Dhabi) became official, just recently, in 2000, after nearly twenty year of over the counter activity.

Table 3.11: IDB Member Countries Stock Markets: Selected Features and Portfolio Investment

	No Stock Market	Number of listed companies	MK/GDP	Open to Foreign Investment	Income Repatriation	Withholding Taxes	ICRG Risk Rating	Portfolio Investment1990s Average (US$mn)
Albania	X						64.8	0.00
Algeria		4		No			52.5	-0.05
Azerbaijan		2	0.0063				54.3	-0.03
Bahrain		38	0.886	Yes				-903
Bangladesh		211	0.024	Yes	Yes	15	63.3	-16.8
Benin	X						29.7&	-12.1
Burkina	X						66.8	0.00
Cameroon	X						63.5	55.1
Chad	X						27.2&	0.00
Comoros								0.00
Djibouti								0.00
Egypt		1033	0.295	Yes	Yes	0	68.3	142.3
Gabon	X						69.0	0.00
Gambia	X						69.3	0.00
Guinea	X						61.8	0.00
Guinea-Bis	X						43.3	0.00
Indonesia		287	0.235	100% (general) 49% banks 85% (securities co.)	Some restrictions	20	51.8	466
Iran		242	0.131	No			60.8	0.00
Iraq				No			39.8	0.00
Jordan		152	0.790	Yes	Yes	10	71.0	48
Kazakhstan		18	0.002				65.0	82
Kuwait		69	0.371*	No			74.3	-1035
Kyrgyz Rep.			0.003				32.8&	9.65
Lebanon		12	0.138	Yes			54.8	0.00
Libya	X						65.5	0.00
Malaysia		757	1.360	Yes	Capital after 1 year	0	74.5	-343
Maldives								0.00
Mali	X						67.5	0.00
Mauritania	X						27.7&	-0.18
Morocco		55	0.441	Yes	Yes	10	72.0	50
Mozambique	X						58.3	0.00
Niger	X						59.3	0.00
Oman		140	0.294	Yes			73.0	0.00
Pakistan		773	0.085	Yes	Yes	10	56.8	254
Qatar				No				0.00
Saudi Arabia		74	0.332	GCC Only	No	0	68.8	903
Senegal	X						62.5	-5.2
Sierra Leon	X						31.0	0.00
Somalia	X							0.00
Sudan							48.5	0.00
Suriname	X							-0.07
Syria	X						68.3	0.00
Tajikistan	X						27.2&	0.01
Togo	X						60.3	4.10
Tunisia		44	0.114	49.9	Yes	0	72.5	35.4
Turkey		285	0.169	Yes	Yes		52.8	782
Turkmenistan	X						31.8&	-0.38
Uganda	X						62.3	0.00
UAE		44	0.001	No			78	0.00
Yemen	X						60.3	0.00
Score								

Source: Extracted from International Financial Corporation (IFC), Emerging Stock Markets: Factbook, 1999 and World Bank 2001a.

3.5. Investment Promotion: Policies and Programmes

Although governments compete, at country level, to attract foreign investment, many governments have made efforts, at regional level, to stimulate investment within the region. These include voluntary investment policy coordination, as witnessed among countries of the Asia Pacific Economic Cooperation (APEC), including IDB member countries from Asia, or coordination via treaties, as heralded by the IDB member countries from the Arab region. Indeed, inter-Arab treaties have long been sought as an important instrument for regulating investment in the region, particularly the 1996 draft legislation for a unified code of investment in Arab countries (AMF 2000, IAIGC 1998 and UNCTAD 2000b). Policy harmonization at the regional level would contribute to alleviating the disadvantage of small market size and, in turn, would favor complementary and synergistic investment efforts.

Encouraged by notable successes, many countries have established investment promotion agencies (IPAs) as one-shot-shops (OSS) to advocate policy change as a strategy for investment promotion, image-building, and generating investment activities. The basic idea of establishing a one-stop-shop (OSS) IPA is to enable an investor to be in contact with only one single government entity to obtain all the necessary paperwork in one streamlined and coordinated process, rather than having to go through complex and various government entities (Sader 2001, Wells 2001, and Wells & Wint 2000). In theory, such an OSS would mean that one government agency has all the authorities to grant various licenses, permits, approvals and clearances.

However, in several occasions such an idealistic notion of OSS has proven unrealistic, mainly because OSS were typically resisted by various government agencies responsible for different administrative procedures and fear that such an OSS would curtail their authorities and mandate within the government bureaucracy. To avoid such conflicting interests, some governments moved away from establishing an OSS in a narrow sense to a new generation of some form of coordination mechanism where various authorities maintain their existing mandates and responsibilities. A typical structure of such a coordinating mechanism consists of the delegation of staff from the various line ministries and agencies to establish their offices in the same location (building), frequently an IPA (Box 3.2).

Box 3.2 Good Practices in an One-Stop-Shop (OSS)

Modeled at the new generation of coordination mechanism, few governments succeeded in providing fast and client-oriented services to private sector and would be investors. Notable and outstanding examples where such an OSS system works reasonably well are the Malaysian Industrial Development Authority (MIDA), Economic Development Board (EDB) of Singapore and the Industrial Development Authority (IDA) of Ireland. In all three cases, investors can rely on the agencies to provide practically all the approvals and clearances needed.

MIDA started as a pure coordination mechanism and experienced the typical starting problems of an OSS. However, with the strong support by the most senior level of government directly, the involvement of MIDA on behalf of an investor effectively guaranteed approvals and permits to be forthcoming without difficulties. As a result, FDI in Malaysian industry has contributed significantly to its investment rate and to its export and employment growth. For example, the country almost doubled its investment rate from 20% to 36% of GDP, and its export share from 42% to 83% of GDP between the early 1990s and the late 1990s. The manufacturing sector was the engine of this success, with its share of manufacturers in total exports leaping from 10% in 1970 to 82% by mid 1990s and at present, electrical, electronic and high tech. Industry became the leading manufacturing sector.

On the other hand, EDB and IDA managed to obtain direct control over a number of approval procedures such that investors only have to deal directly with a small number of separate authorities, and even in those cases both agencies tend to be highly effective in ensuring cooperation.

Common to these three successive cases, and few similar cases that just started in other IDB member countries, is that the agencies received the full support from the most senior levels of government, and that all governments made the attraction of FDI a central pillar of their economic development strategies. Thus establishing an effective OSS requires the full attention and political support at senior level of government, as the key priority to success. Only then can the IPA effectively design a streamlined process to implement investment strategies, programs and projects without being mired in intra-government bureaucracy.

Sources: MIDA (2001), Sader (2001) and UNCTAD (2000b).

Promotional activities include the provision of information on countries' investment climate and legal framework as well as other facilitating services, as summarized already in Box 2.2. Successful country experiences also suggest that promotional efforts should not replace, but rather follow efforts to directly improve the investment climate, and in particular the legal and institutional framework for investment (IAIGC 1999, Mkada 2001, UNCTAD 2000b, Wells 2001). Another important lesson from country experiences suggests that a number of areas would require policy harmonization and regional coordination among neighboring countries or countries belonging to specific regional grouping (Box 3.3). In fact, two regional meetings took place in Beirut and Rabat in September 1998 and June 1999,respectively, for IDB member countries from the Arab region to promote investment in the region.

Box 3.3 : The Beirut recommendations

The Regional Workshop on Policies for Attracting Investment in the Arab World took place in Beirut, Lebanon, from 28 to 30 September 1998 and made the following recommendations :

First: The priority tasks in harmonizing laws and regulations affecting FDI in the Arab region are:

- Drawing up a definition of direct and portfolio investments and ways to regulate the relationship between both forms of investment from an operational point of view;
- Ensuring the protection of minority interests at the levels of corporate law and financial markets regulation;
- Dealing with the issue of preferential treatment for Inter-Arab investment, notably at the levels of entry and establishment;
- Dealing with regimes of exceptions, such as export processing zones regimes, and the incentive issue, namely tax incentives;
- Enhancing and/or creating specific mechanisms for the settlement of investment-related disputes in the Arab world;
- Improving investment guarantee schemes in the Arab world;
- Dealing with competition and fair-market regulatory issues;
- Enforcement of laws and regulations and monitoring of current practices;
- Dealing with regulatory aspects of technology transfer;
- Introducing legal provisions regarding the stability and transparency of legislation affecting investment;
- Setting up a proper legal framework for investment promotion agencies and defining their attributions;
- Introducing international standards and practices into national legal frameworks, as well as into bilateral, regional and multilateral treaties;

Second: In order to facilitate the achievement of the above-mentioned tasks by the Governments of the region, the meeting suggested the following activities:

Developing a comprehensive database on investment regulatory and institutional frameworks, as well as on statistics regarding investment in the region;

Establishing a glossary of evolving concepts and terms of relating to investment, and defining the contents of each concept and each term (in three languages: Arabic, English and French);

Developing comprehensive and detailed comparative tables reflecting investment regimes in the Arab world;

Organizing annual meetings, each time in a different country, with a view to improving analytical methods and tools as well as evaluation techniques regarding investment regulatory and institutional frameworks in the Arab region. Meetings will bring together independent experts as well as the representatives of institutions involved in investment and private entities (individuals and professional associations).

Setting up an Arab chapter of the World Association of Investment Promotion Agencies (WAIPA).

Third: In undertaking the above-mentioned activities, it is advisable to utilize the resources and facilities in existing institutions dealing with investment in the Arab world, such as the Arab Monetary Fund (AMF), the Inter-Arab Investment Guarantee Corporation (IAIGC), ICIEC, and regional secretariats of the United Nations.

Source: UNCATAD (2000b).

3.6. Implications for Policy Design

Some lessons have emerged from countries that have tried to improve the climate for attracting FDI. These lessons are useful for other promotion agencies in the member countries. For example, Mozambique mounted a four-step programme that has been considered successful in attacking administrative barriers to FDI. First, the country organized a series of annual private sector conferences, which enhanced awareness among government officials involved in investment promotion, bringing business community with government official and entering dialogue on their concerns, thus exerting pressure for reforms and simultaneously provided forum for monitoring and measuring progress. Second, it produced a detailed study on bureaucratic barriers to investment.

The study identifies each barrier and, in turn, recommendes practical solution, including information on necessary step to be taken, offices responsible for implementing reforms and the cost to investors of each barrier, in terms of time and money. Third, a ministerial group has been formed to oversee reform and progress. The ministerial group could initiate reform, where policies had to be changed, especially on legislation. However, in case of procedures, the group would support government officials in instituting change and increasing pressure for improvement. Fourth, a prototype project has been selected and the group worked with management to solve bureaucratic problems as they arise. In some cases, the problems were permanently solved, while in others solutions were developed to help other investors. Moreover, the team gains experience and skills were built in the promotion agency to guide the country in future red tape and administrative barriers to investment.

Another widely cited case of successful reforms in attracting FDI was the Tunisian pragmatic and gradual reform programme, initiated in 1986.The reforms begin with the 1986 IMF Stand-by arrangement and the devaluation of the Tunisian Dinar. Domestic reforms, trade and investment liberalization were closely intertwined as shown in Box 3.4.

Box 3.4: Tunisia's Major Liberalization Reforms Since 1986

Date	External Liberalization	Domestic Liberalization
1976	Cooperation agreement with the EU.	--
1986	Stand-by arrangement (IMF). Depreciation of the dinar.	--
1987	Revision of agreement with the EU. begins. QRs on capital goods lifted.	Financial liberalization
1988	Tariff reform. Introduction of VAT	Introduction. Money market reform
1990	Tunisia joins the GATT.	Income tax reform.
1991	Imposition of temporary complementary duties.	Law on free prices and competition.
1993	Law on distribution.	Investment code. Creation of an inter-bank foreign exchange market. Law on redundancies.
1996	Association agreement between the EU And Tunisia to be implemented. Unilateral dismantling of tariffs On some capital goods (from all countries).	Abolition of rediscount.
1998	Agreement with the EU and free-trade area With the Arab League officially come into force Revised trade agreement with Morocco	

Others:

- Two free zones (Bizerte and Zarsis) in process of being launched:
- FDI in offshore enterprises in unrestricted, but foreign managerial staff is limited.
- Authorizations for foreign investments were eliminated for services directly related to industry (consulting and engineering), but remain in force in tourism, transport, telecommunications and financial services.

Source: Sebastian D., and Suma A. 2000.

At the legislative and legal framework, recently some IDB member countries have fundamentally changed their attitude towards foreign investment and consequently introduced new laws to attract investment. As a result, agreements were signed to open various sectors to foreign investors (UNCTAD 2000b). Indeed, political support at the senior level of government in all these successful country practices was a key factor in improving the investment climate in these countries. Coordination of IPAs in each geographic region of IDB member countries can facilitate transfer of knowledge and exchange of ideas on such country practices, possibly through workshops organized or coordinated by the IDB Group in collaboration with IAIGC, FIAS, UNCTAD and WAIPA.

Host countries' programmes are not always effective, as reported in some IDB member countries (UNCTAD 2000a). For this reason, other supplementary programmes such as investment protection, were deemed necessary to promote investment flows in host countries. Among the active available investment insurance against non-commercial risks at the regional level are Inter-Arab Investment Guarantee Corporation (IAIGC) and the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). At the international level as well, is the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group, which made possible the provision of insurance for investments that might not have been fully eligible under national regulations and programmes. These efforts are reviewed in the following chapter, with the view to developing areas of greater impacts on promoting investment flows.

IV. EXPERIENCE OF MAJOR REGIONAL AND MULTILATERAL INSTITUTIONS IN INVESTMENT PROMOTION

With the growing economic globalization, countries are increasingly concerned with the conduciveness of their business environment, the priorities of reform, and their relative standing in their region or globally. Their development partners also share concern about priorities of reform, their sustainability, and their impacts on business environment, however, at varying degrees. The following sections of the chapter will review these concern with respect to investment promotion strategies from selected regional and multilateral development institutions and draw some lessons of experience for the IDB Group and its member countries in their efforts to promote investment flows.

4.1. The World Bank

The World Bank is a multilateral development institution whose purpose is to assist its developing member countries further their economic and social progress so that their people may live better and fuller life (World Bank 2000a). As the most important global actor involved in the design and implementation of global development strategies, the World Bank is one of the tripartite manager of the global economy, along with the International Monetary Fund (IMF) and the World Trade Organization (WTO). Although the World Bank, perhaps in close coordination with major development actors, have influenced the development thinking and raised expectations for a sustained investment-led strategy during the last fifty years, developing countries are increasingly turning attention away from long-term development strategies.

The tripartite global regimes together with the recent wave of globalization were considered the main external driving forces behind these developments. The tripartite is limiting the scope of domestic fiscal and monetary policies to serve the stabilization and structural reforms in many IDB member countries. In addition to this policy shift, there are important recent developments that help in giving the idea of an integrated global economy prominence, especially through increased cross-border investment activities of the transnational corporations (TNCs) in IDB member countries. In turn, member countries are implementing appropriate investment policies to attract foreign investors, particularly TNCs.

Until the late 1970s, the main framework for analyzing investment, growth and development in the literature was through capital accumulation. In the 1950s and 1960s, major bilateral and multilateral development institutions, particularly the World Bank, placed 'capital fundamentalism' at the center of their development assistance strategies and country dialogue. The focus on investment projects, through the public sector, was seen as the transfer of capital, particularly to countries emerging from colonialism and aspiring to join the ranks of industrialized countries (Stern 2001). As a result, investment as a share of GDP has risen sharply in the developing regions of the world, especially in the successful Asian economies than in other developing regions.

However, by the late 1970s, motivated by the poor investment performance of a number of public investment projects in several developing countries and given the enhanced focus on the nature of the adjustment costs in the process of investment, there has been a paradigm shift and consequently a significant development in the theoretical and empirical strands of the investment literature. The new thinking as well as the overwhelming empirical findings emphasized the efficiency of private investment and private sector as the main engine of growth. Consequently, the major development players, including the World Bank, increased the proportion of their development assistance and lending activities to private sector-led growth.

Indeed, the development strategy shifted to promoting market economy and building an investment climate for private sector-led growth. Such a strategy would favor lending activities and development assistance to be directed to policy programming, basically designed to support structural change in the economy as a whole or in a major sector of the economy. The insight and the empirical findings of the new endogenous growth encouraged the new strategy, given that policy is found to be a significant determinant of investment decision and in turn sustaining growth. As a result, a generally supportive macroeconomic environment, good governance, strong institutions and quality public-sector infrastructure investment induced private investment. Again, the share of private investment in GDP rose steadily over the past quarter of a century, and more so in the successful economies than in other developing regions.

To complement the role played by the World Bank in promoting economic development of its member countries through investment in private sector, three specialized entities concerned with promoting investment flows to developing countries were created as affiliate of the World Bank: the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and a joint advisory facility of the IFC and the World Bank called the Foreign Investment Advisory Service (FIAS).

4.2. International Financial Corporation (IFC)

IFC, an affiliate of the World Bank, was founded in 1956 to promote private sector investment, both foreign and domestic, in developing countries (IFC 2000). It is the world's largest multilateral organization providing financial assistance directly in the form of loans and equity to private enterprises in developing countries. Much of the its activities have focused on supporting the growth of domestic private investment, through the direct support of local entrepreneurs and through development of domestic capital markets, but encouragement of FDI has been a key complementary objective. In the past four decades, IFC has invested in more than 500 companies that have foreign investors, providing it with insight into the structuring of such projects.

In fiscal year 2000, IFC signed investment commitments of US$ 3.9 billion for 198 projects. Investment disbursements amounted to US$ 3.3 billion in fiscal year 2000 (IFC 2000). A total of 259 projects were approved in 81 countries, 29 (or nearly 36 per cent) of them are IDB member countries in 2000.

In addition to mobilizing private capital for companies (by engaging in underwriting, private placements, and equity fund investments) which help clients gain access to international capital markets, IFC also provides advice and training to governments and private companies. However, to focus advisory and technical assistance in investment promotion activities, IFC and the World Bank established the Foreign Investment Advisory Service (FIAS) in 1985.

4.3. Foreign Investment Advisory Service (FIAS)

FIAS, a joint venture of IFC, the World Bank and MIGA, was established to help member governments review and adjust policies, institutions, and programmes that affect FDI. It advises on procedures for the promotion, regulation, and monitoring of FDI. I.e., the ultimate purpose of FIAS is to assist member governments in attracting beneficial foreign private capital, technology and managerial expertise.

FIAS has conducted more than 230 advisory assignments in 100 countries, one-fifth (or 20 countries) are IDB member countries, gaining in the process a detailed insight into the nature of policy and regulatory impediments to foreign investment in developing countries. These include diagnostic studies on macro-policy environment, investment strategies, investment codes and legislations, administrative barriers, sector-specific and industry-specific analyses, FDI and education, FDI and competition policy, advising countries on incentives relative to WTO requirements and assistance on building data collection and dissemination of FDI statistics.

4.4. The Multilateral Investment Guarantee Agency (MIGA)

MIGA was created to provide private investors guarantees against noncommercial, especially political risks in developing countries; advising member governments on foreign investments; and sponsoring a dialogue between the international business community and host governments on investment issues (MIGA 2000). Its insurance programme covers foreign investments against the major political risks of currency transfers, expropriation and war and civil disturbance. Its current membership reached 154 countries, 37 of them (or 24 per cent) are IDB member countries. An additional 12 countries are in the process of fulfilling membership requirements, including 5 (or more than 40 per cent) IDB member countries; bringing the total of IDB member countries to slightly more than one quarter of membership.

MIGA insures new investments and the expansion, modernization, privatization, or financial restructuring of existing investments. It also covers foreign investment to and between developing countries. MIGA covers different forms of investment; such as equity, shareholder loans, loan guarantees, technical assistance and management contracts. The agency's guarantee activities have expanded rapidly from its last major review in fiscal year 1990. By the end of fiscal year 2000, the amount of new guarantees increased by more than four-folds from US$ 372 million to US$ 1.6 billion. The number of countries benefiting from its guarantees nearly tripled from 26 to 89, including 28 IDA-eligible countries, the majority of which are IDB member countries.

In addition, existing technical assistance services in hands-on capacity building have been strengthened and new services, such as Internet-based information dissemination (IPAnet) have been successfully launched with tangible results. IPAnet was launched in 1995 as the first Internet-based services to feature information and international business operating conditions, laws and regulations, as well as specific project and privatization opportunities in member countries. So far less than half of IDB member countries can be found in IPAnet, the lowest presence among all regions of the world, perhaps due to the unavailability of detailed statistics on investment, required for investment promotion through cyberspace. This leaves much to be desired by member countries in according due importance to providing accurate and timely statistics on volume, sectoral composition and sources of FDI as essential inputs into the decision-making of national governments and business community.

4.5. International Monetary Fund (IMF)

IMF published FDI statistics that are provided by national compilers in member countries. Unlike other sources, IMF did not reestimate or change data provided by member countries. However, following international standards and definitions in the treatment of FDI, IMF Manual permits some flexibility in application of the three criteria of the FDI definition, already discussed before. Motivated by the importance those member countries attach to FDI data; the IMF Working Party on the Measurement of International Capital Flows surveyed 38 of the largest reporters of FDI statistics (IMF & OECD 2000). OECD conducted a similar survey to its member countries in 1983. At October 1995 meeting of the IMF Committee on Payments Statistics, the OECD Group of Financial Statistics decided to review the progress countries were making in implementing the FDI standards.[21] The Committee approached the OECD about the possibility of conducting a joint IMF/OECD survey. In its October 1996, the Committee supported a joint IMF/OECD inquiry to determine the extent to which countries have adopted international standards for FDI statistics.

The response and findings of the 1997 FDI survey was discussed in the second chapter of this paper. More than two-fifths of the IDB member countries are not reporting FDI statistics on regular basis and a large number of these countries are not implementing international standards for FDI statistics, the highest among the developing regions of the world. Although technical assistance for compiling and disseminating FDI data are available at the IMF and to a lesser extent at FIAS for member countries, IDB Group perhaps in partnership with IAIGC, ESCWA and other development partners involved in FDI statistics would consider assisting member countries, particularly at the region with the lowest response rate to the 1997 FDI survey in coordinating activities with these institutions and encouraging countries to benefit from the available technical assistance, including translation of the FDI's international standards into other languages, such as Arabic.

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[21] In 1998, the name of the Group was changed to the Working Party on Financial Statistics (IMF and OECD 2000).

4.6. Organization for Economic Cooperation and Development (OECD)

The OECD is also involved in the debate and actions related to international investment matters. Recently, and more specifically on the issue of FDI definition and statistical data recording problems, the OECD has been heavily involved. Its contribution culminated into the so-called "OECD Benchmark Definition of Foreign Investment". The purpose of such an endeavor was to set a standard for FDI statistics. Moreover, the OECD, in collaboration with the IMF, has carried a survey on this issue.

At the international level, the OECD was involved in negotiations on the Multilateral Agreement on Investment (MAI) which has received critical attention from developing countries and other external stakeholders. However, the collapse of MAI and the failure of the OECD countries to put investment on the WTO agenda have allowed UNCTAD a greater role in defining the terms for any discussion of investment rules

Although OECD is involved in an effort to promote and co-ordinate the OECD's policy dialogue and co-operation with approximately 70 non-OECD members, with the exception of Turkey which is already an OECD member, few IDB member countries benefited from the OEDC programme. However, both Egypt and Tunisia, as Mediterranean countries, have been part of an OECD study on regional integration.

Within the program of the Center for Co-operation with Non-Members, the OECD has expressed its desire to develop some form of cooperation with IDB member countries through the IDB Group.

4.7. United Nations Conference on Trade and Development (UNCTAD)

UNCTAD serves as the focal point within the United Nations Secretariat for all matters related to foreign direct investment. In the past, the program on transnational corporations was carried out by the United Nations Center on Transnational Corporations (1975-1992) and the United Nations Department of Economic and Social Development (1992-1993). In 1993, the program was transferred to UNCTAD and became the Division on Investment, Technology and Enterprise Development (DITE). Within this division, the Advisory Services on Investment and Training (ASIT) executes the technical assistance program on investment promotion strategies, policies and practices.

Since the 1980s, developing countries have been signing more BITs. For example, IDB member countries signed more than 120 treaties. Supporting the negotiation of BITs is part of UNCTAD's work on increasing South-South investment cooperation. UNCTAD Investment Advisory Services are provided, on a national and regional basis, focussing on the policy, legal, regulatory and institutional frameworks for foreign investment of client countries (Box 4.1).

Box 4.1:Advisory Services on Investment and Training (ASIT)

ASIT provides advisory services and training in:

Policies: Investment policies/ Investment legislation/ sectoral policies/ technology and innovation policies/ special schemes

Institutions: institution building//streamlining operations/ monitoring inflows and impact/ promoting and targeting investment/ supporting WAIPA

The WAIPA initiative, launched in 1995, aims to promote the exchange of experiences on best practices in investment promotion and worldwide networking among investment promotion agencies. Since its inception, investment promotion agencies from 98 countries have become WAIPA members.

Source: UNCTAD 1999b, 2001a.

In 1997, UNCTAD initiated a regional project with a view of harmonizing relevant business legislation in four Arab countries (Egypt, Lebanon, Morocco and Saudi Arabia). The studies served as major input to a regional seminar, which was held in Beirut, Lebanon, in 1998. The declaration adopted by the seminar participants from 14 Arab country calls for the continuation of the harmonization process and the establishment of annual meetings to discuss investment and its promotion in the Arab world.

During the past five years, UNCTAD's Advisory Services on Investment, and Training (ASIT) has conducted a series of training courses on investment promotion and investor targeting for a fast growing audience of investment promotion officials from developing countries and economies in transition. The training materials developed under the program, will be used for distance learning and be made available through the Internet (forthcoming in 2001). To date, UNCTAD has responded to such requirements by client governments on an ad-hoc basis, carrying out tailor-made training workshops.

Recently, seven IDB member countries have benefited from UNCTAD training activities. For example, training workshop on strategy for capacity building in investment promotion and investor targeting techniques was conducted for Egypt. Mali has also benefited from a project, which is actually, part of the UNCTAD/UNDP program on globalization, and sustainable human development. The program aims at informing and facilitating a broad-based dialogue on Mali's development agenda.

The World Association of Investment Promotion Agencies (WAIPA) in association with the Uganda Investment Authority organized a regional workshop on investor targeting for Uganda and representatives from African investment promotion agencies.

Upon the request of Bangladesh's Board of Investment (BOI), and following an advisory mission to Bangladesh, ASIT prepared a report and recommendations on BOI's recently established One-Stop Service (OSS) for investors. Similarly, at the request of the Government of Jordan, UNCTAD has assisted in developing an initiative to strengthen the competitiveness of the mining and minerals sector and thus to attract foreign investment into mining and mineral processing activities.

In the context of a visit by Saudi Arabia's General Investment Authority (SAGIA) to UNCTAD, ASIT organized a 1-day workshop on the legal framework for foreign investment in Saudi Arabia, on SAGIA's by-laws and on best practices in establishing and operating an investment promotion agency. Following this workshop, ASIT has been requested by SAGIA to implement a technical co-operation project focussing on the modernization of the legal and fiscal regime for foreign investment, and capacity building for SAGIA.

As part of its ongoing program of assistance to Albania in the promotion of foreign investment, UNCTAD advised the Government of Albania on actions to be taken to restore investors' confidence in the country in the aftermath of the Kosovo's crisis. UNCTAD has also produced series of investment guides for some IDB member countries.

4.8. World Trade Organization (WTO)

The World Trade Organization (WTO) replaced the General Agreement on Tariffs and Trade (GATT) in 1995. Compared to GATT, the WTO is much more powerful because of its institutional foundation and its dispute settlement system. Historically, GATT enforced phased-in tariff reductions worldwide and until the Uruguay Round, which ended in 1994, the trade negotiations focused on nonagricultural goods.

Today the WTO has 141 members with 39 non-members with the status of observer. Nearly one-fourth of WTO members are from IDB member countries, and more than one-fifth of those with the status of observer are also IDB members. About three-fifth of WTO members are developing countries, including 27 countries categorized as the least developed countries (LDCs).

A recent study prepared under the joint supervision of IDB and UNCTAD, addressed the issue of investment incentives in the context of the agreement on Trade-related Investment Measures, TRIMS (IDB 1999a). The study found that the issue of investment incentive has been addressed marginally in the WTO agreements, which focus more on restrictions imposed on investment. It also evoked the controversial draft MAI.

4.9. The Islamic Center for Development of Trade (ICDT)

The Islamic Center for Development of Trade (ICDT) which became operational in 1982, started its activities with a view to achieving the objectives assigned to it (Box 4.2). Although its activities are focused on trade, the Center has also developed more than 25 IDB member countries' investment guides. In 1998, in collaboration with SESRTCIC and the IDB, ICDT organized a conference on Intra-Trade and Investment and Economic Stabilization and Structural Reforms in OIC Member States. More than 10 papers on the theme were presented. The center also played also a role in disseminating information, whether in the form of statistics or business opportunities in OIC member countries.

Box 4.2: ICDT Functions

The Islamic Center for Development of Trade shall endeavor to achieve the objectives defined by the summit, the Conference and the joint General Assembly.
For achieving these objectives, the Islamic Center for Development of Trade observes the following principles :

- **a)** rationalization of its activities and programs;
- **b)** Creation of suitable conditions leading to the promotion of such activities.

The major functions of the Islamic Center for Development of Trade are to :

- **a)** Carry out research and studies concerning development of trade among Member States;
- **b)** Contribute to the dissemination of commercial information and data between the Member States;
- **c)** Hold trade fairs and exhibitions in order to contribute to the promotion of the products of Member States.
- **d)** Promote contacts between businessmen in the Member States who are involved in intra-community trade in its various aspects and organize meetings and seminars for them ;
- **e)** Organize seminars, symposiums and periodic training courses for participants from Member States ;
- **f)** Help Member States to set up Organizations and National Associations for trade promotion and/or strengthen them ;
- **g)** Encourage exchange of ideas and experience for the promotion of intra-community trade;
- **h)** Offer advice for consideration for Member States regarding commercial policies to be applied and the means to be adopted to promote expansion of intra-community trade ;
- **I)** Pursue all other activities which would permit the Center to attain its objective

Source: ICDT 2001.

4.10. Inter-Arab Investment Guarantee Corporation (IAIGC)

IAIGC was a pioneering institution in the business of investment guarantees in the world, established in 1974. IAIGC provides insurance against investment risks for investors from member countries and for protection of Arab capital (IAIGC 1999).[22] The Corporation has two objectives: to provide insurance coverage for inter-Arab investments and export credits against non-commercial risks for the former and non-commercial risks and commercial risks for the latter and to foster inter-Arab investment flows. To achieve these objectives, IAIGC has developed a guarantee scheme with a wide range of services offered to Arab businessmen, investors, contractors and financiers, provided through simple eligibility criteria and procedures, and supported by a viable regime of premiums and compensations.

The Corporation also promotes research related to the identification of investment opportunities and the conditions for investments in member countries. In addition, IAIGC undertakes various activities towards promotion of investment opportunities including convening of and participating in specialized events like the Arab Business and Investors Conferences.

IAIGC conducted a major region-wide survey of the private entrepreneurs (individual investors and firms), who have previous experience in Arab countries, during 1985-88 and included the results of the survey in their annual publication on the *Investment Climate in Arab Countries'*. The questionnaire was designed to capture the main determinants of the investment climate in Arab countries, from an investor perspective, the investment climate is broadly defined to encompass economic, social, political and legal conditions in these countries as seen and ranked by investors. Arab investors have consistently ranked their preferences to invest in countries enjoying political stability, no restrictions on repatriations of capital and profits, high returns on investment, stable macro-economy and exchange rates, during the survey period 1985-88 (Table 4.1 and IAIGC 1989).

Other important factors, perceived by investors to improve the investment climate in Arab countries include simplifying license, registration and investment procedures, tax exemptions, clarity of investment rule, enforcement of rules and contracts and market size (Table 4.1). Given the investors' perceptions of investment climate, Arab investors preferred to invest in agriculture, manufacturing industries, trade services, banking and real estate, followed by building contracts and tourism in selected IDB member countries, for which data is available in the early 1990s (Table A4.1). These results reinforces the findings in the preceding chapter for IDB member countries as a whole, suggesting the importance of political stability, macroeconomic stability, reducing administrative and legal barriers in attracting investment flows in member countries.

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[22] All IDB member countries from the Arab region, except the Comoros, constitute the membership of the IAIGC. At the end of the calendar year 1999, the Corporation's paid up capital was around US$ 81 million, and its total reserves stood at US$ 171 million (IAIGC 2001b).

4.11. Islamic Development Bank (IDB)

IDB considered investment in basic infrastructure and promotion of investment flows in member countries in all aspects of its operation since its inception in 1975. In addition, the Bank identified development of private sector as one of its main development themes in its medium-term Strategic Agenda. Moreover, since January 1996 IDB has organized international investment conference in IDB member countries; with the aim to creating awareness among investors in member countries and to facilitate in realizing investment opportunities in both member countries and Muslim communities in non-member countries. For example, more than 100 in businessmen participated in previous international investment conferences, held in Albania in January 1996, CIS (including Azerbaijan, Turkmenistan, Kyrgyz and Khazakhistan) in September 1996, Bosnia-Herzegovina during 20-23 June 1998 and Mindanao (South Philippines) during 1-3 December 1998. Encouraged by success in these conferences, IDB is planning to organize an international investment conference in Tajikistan in April 2002.

In 1999 the Board of Executive Directors of IDB proposed the creation of an Islamic Corporation for the Development of the Private Sector (ICD) to deal directly with the private sector (IDB 2000). ICD commenced its operation in July 2000, complementing the role being played by IDB and its other affiliates, such as IBP, UIF, and ICIEC, in promoting investment through private sector in member countries.

IDB organized several symposia to generate ideas on strategies and modalities to promote investment flows in IDB member countries. For example, the Bank organized a symposium in November 1993 on *'obstacles and opportunities for investment in the least developed African IDB member countries'*, in conjunction with the 18th Annual Meeting of the Board of Governors in Banjul. The broad set of recommendations of the symposium identified, *inter alia*, appropriate economic policies to improve information on investment flows, investment climate, transport and communication systems and the private sector development as the main obstacles in member countries (IDB 1993).

Table 4.1: Analysis of the Survey of Arab Investors (Components of Investment Incentives)

Components of Investment Incentives	Relative Weights in 1988	Ranking in 1988	Ranking in 1987	Ranking in 1986	Ranking in 1985
Political stability in the host country.	826	1	1	1	1
Free transfer of fund and repatriation of profits.	646	2	2	2	2
Possibility of attaining high rates of return on Investment.	635	3	3	3	3
Stability of the macro-economy and exchange rate.	615	4	5	6	4
Simplifying investment procedures and practices.	603	5	8	7	9
Enforcement of law and contracts governing Investments treaties.	577	6	6	13	10
Clarity and predictability of investments rules and Regulations.	562	7	4	4	8
Availability of infrastructure facilities and inputs	555	8	12	8	11
Market size.	549	9	13	9	7
Simplifying license procedure for investment Registration.	548	10	11	10	5
Knowledge of investment rules and climate.	537	11	7	12	12
Exemption from taxes and customs duties.	520	12	8	5	6
Presence of effective financial institutions.	517	13	17	18	17
Control of major components of the project by investors.	503	14	16	14	16
Knowledge of investment opportunities.	468	15	10	16	13
Availability of a trustworthy local partner from the host country.	467	16	20	15	18
Effective of a central investment authority.	450	17	21	19	20
Benefits from country specific comparative Advantages.	417	18	19	17	22
Success of previous investments projects.	378	19	15	11	14
Availability of an organized stock market.	375	20	22	22	21
Flexibility in dealing with the social and cultural norms.	372	21	14	21	19
A positive public attitude towards foreign investors.	349	22	18	20	15

Source : IAIGC (1985 – 1988), Table 6.

The Bank emphasized, in particular, investments in public utilities and transport and communication, with a view to improving the investment climate and promoting investment flows in IDB member countries. Indeed, the share of financing allocation to both sectors relative to the overall Bank's financing activities have been increasing steadily over the past two and a half decades (Table 4.2). Public utilities increased steadily throughout the years from an annual average of nearly 14% during the second half of the 1970s, to 19% in the early 1980s, to 23% in the late 1980s to the early 1990s, surpassing 34% of total IDB ordinary operations in the second half of the 1990s and early 2000, indicating that the sector had the lion's share of the Bank's ordinary operations. Similarly the average rates of growth in financing allocation to public utilities has been phenomenal between the late 1980s and late 1990s.

IDB financing allocation to the transport and communication sector increased steadily between the mid 1980s throughout the late 1990s: from 12% in the late 1980s, to 22% in the early 1990s, to 23% in the late 1990s, making the sector the second highest recipient of Bank's total financing in the late 1990s and 2000 (Table 4.2). Similarly, the average rates of growth in financing allocation to transport and communication sector have been phenomenal over the same comparable period. In addition, IDB has established a special account for the Least Developed Member Countries (LDMCs) in November 1992 (IDB 1999).[23]

In general, operations of the IDB, within its strategic focus on priority sectors, have contributed directly or indirectly to improving the investment climate in member countries. However, several areas of weakness in promoting investment flows in IDB member countries need to be addressed at regional or sub-regional levels. These include information gaps in reporting investment flows, low utilization rates of Internet-based facilities and unavailability of micro-data on concerns of investors which are required as inputs in improving investment climate and revising promotional policies and programmes in the member countries. The IDB Group could help in coordinating and facilitating awareness campaigns, perhaps with other development partners involved in promoting investment in IDB member countries.

[23] The Special Account for LDMCs provided interest free loans to these countries, with a 25-30 years maturity and a 10-year grace period and a lower service fee charge of 0.75%. Following the full utilization of the initial amount, a second tranche of US$ 150 million is replenished in 1999 to be utilized over a period of five years (IDB 1999).

Table 4.2: SECTORAL DISTRIBUTION OF IDB ORDINARY OPERATIONS (1976-2000)

Sector		1976-79	1980-84	1985-89	1990-94	1995-99	2000
AGRIC./Agro-Industry	($ mn)	36.00	142.67	129.82	239.88	520.31	68.78
% of Total		11.40	19.01	17.14	20.83	16.44	7.30
Period % Change		..	296.26	-9.01	84.79	116.90	-86.78
INDUSTRY & Mining	($ mn)	104.90	160.51	134.14	133.09	204.14	0.00
% of Total		33.22	21.39	17.71	11.55	6.45	0.00
Period % Change		..	53.01	-16.43	-0.78	53.38	-100.00
TRANSP& COMM.	($ mn)	84.26	136.39	165.70	170.13	408.67	215.09
% of Total		26.68	18.17	21.88	14.77	12.91	22.81
Period % Change		..	61.86	21.49	2.68	140.21	-47.37
PUBLIC UTILITY	($ mn)	42.84	143.20	176.09	268.00	1085.68	316.22
% of Total		13.57	19.08	23.25	23.27	34.30	33.54
Period % Change		..	234.26	22.97	52.19	305.10	-70.87
SOCIAL SERVICES	($ mn)	16.60	114.76	91.96	249.06	725.86	272.90
% of Total		5.26	15.29	12.14	21.62	22.93	28.94
Period % Change		..	591.33	-19.87	170.84	191.45	-62.40
NDFIs	($ mn)	27.28	46.59	43.31	32.00	109.75	0.00
% of Total		8.64	6.21	5.72	2.78	3.47	0.00
Period % Change		..	70.77	-7.03	-26.12	242.97	
MISCELLANEOUS	($ mn)	3.90	6.38	16.31	59.70	110.49	69.85
% of Total		1.24	0.85	2.15	5.18	3.49	7.41
Period % Change		..	63.64	155.56	266.06	85.06	-36.78
Total		**315.79**	**750.50**	**757.33**	**1151.87**	**3164.90**	**942.83**

Source: IDB Database.

4.12. The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) was established in 1994, as a specialized international institution within the framework of the IDB Group. Its objective is to broaden the scope of trade and investment flows among member countries of the OIC by providing insurance and reinsurance of investment and export credit in compliance with the Shariah (ICIEC 2000). Its authorized capital is about $150 million, of which half is IDB participation.

The ICIEC covers investment against one or more non-commercial risks, such as transfer restrictions, expropriation and similar measures, war and civil disturbance risks, and breach of contract. The ICIEC covers the first three risks as a package, while the fourth might be covered if the ICIEC is convinced of its necessity. Restrictions on eligibility apply under specific conditions, and only equity investment, non-equity investment, and resources to be invested, or contributions to projects are eligible for cover. The ICIEC covers 90 percent of the investor's loss arising from transfer restrictions or expropriation or war. In contrast, cover against the breach of contract is subject to an endorsement policy. Insurance policies apply for a minimum of one year and a maximum of 15 years.

The ICIEC is currently endeavoring to strengthen its cooperation with other international institutions, such as UNIDO and MIGA, for institutional support and capacity-building of Investment Promotion Agencies in member countries. Recently, a memorandum of understanding has been signed with MIGA of the World Bank Group for sharing expertise and future cooperation in reinsurance and investment promotion. A quadrilateral cooperation is envisaged, involving the IDB as a financier, UNIDO & MIGA as technical assistance providers and ICIEC as a coordinator.

4.13 Areas of Focus for Greater Impact

Several important lessons emerged from the evolutionary process of the investment strategies and programmes implemented by multilateral and regional development institutions that supported governments' efforts to promote investment flows. The insights in how to maximize the impact of policies and programmes designed to promote investment flows in IDB member countries suggest that accurate and timely information is the key to success. Collaboration with outside partners is important and cost-effective in assisting the IDB member countries in implementing international standards in compiling and disseminating statistics on investment flows in these countries.

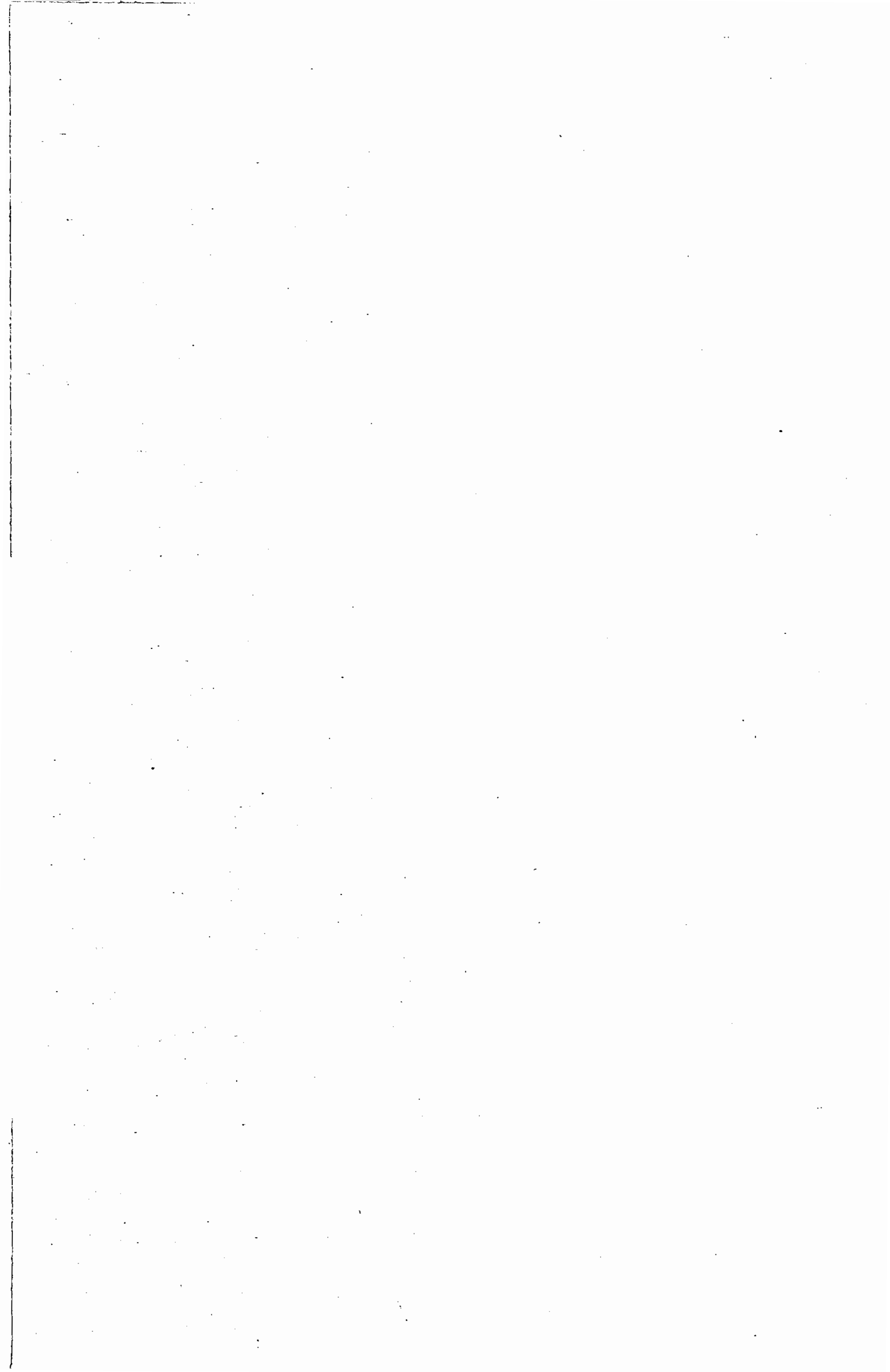
There are a number of agencies involved in the collection of investment statistics and have developed expertise in technical assistance such as IMF, FIAS and UNCTAD at the macro-level. However, all member countries might not be aware of such information. The IDB Group, in collaboration with regional institutions such as ESCWA and IAIGC, may assist in establishing a network, as part of the awareness campaign on the importance of FDI statistics in promoting investment, through existing investors' and private sector's conferences in member countries, with a view to learning from successful country experiences.

At the micro-level, information needed by of investors and private sector is rare in IDB member countries. Such information is available from survey data. The 1985-88 survey data on concerns of Arab investors is perhaps the only comprehensive survey carried in IDB member countries. Given the diverse membership and in keeping with the updated and more representative concerns of investors, such micro-data provide important inputs into the investment database, the decision-making process of investors, domestic and foreign, as well as

governments and investment guarantee agencies. The IDB Group, perhaps the ICIEC in collaboration with other sister agencies may conduct such a survey.

Both macro and micro-data will also provide important inputs for IPAs in member countries to enhance their participation in the IPAnet and increase the utilization of the cyberspace, which has proved to be as an efficient and effective means to reach investors. The involvement of the IDB Group in such activities will enable the Group to better meet clients' (member countries) needs and deliver greater development impact. For example, in pursuing operational synergy with the entire IDB Group, the ICIEC may participate in the country assistance strategy studies (CASS) of the Bank, in order to define and find niches that few other insurers, except the ICIEC, are able or willing to serve, or investment opportunities that would not be realized without the ICIEC's involvement.

One other area of operational synergy within the entire IDB Group relates to the significant number of LDMCs in transition from civil strive to peace, where greater preparedness for potential contraction in the political risk insurance market is expected. Since political stability ranked as the most important factor in investors' decision, such a development will greatly impact on the weights given to the design of a composite index for investment climate in IDB member countries (Table 4.1). Although the components of the composite index could easily be extracted from the first column of Table 4.1, their corresponding weights would depend on the results of the proposed survey of investors in the IDB member countries, the supply side. On the other hand, the major groupings of these components, from the demand side, are summarized in the concluding chapter of this study.



V. CONCLUSIONS

During the last decade, developing countries around the world have become more economically integrated, driven by liberalization of their investment regimes and the ensuing rapid increase of foreign direct investment (FDI). Clearly, greater access to external finance, including FDI as an important channel for transfer of long-term private capital, holds considerable potential for boosting growth through raising domestic investment and by facilitating access to technology, training, multinational supply chains and managerial know-how. Indeed, empirical evidence attests to this fact in the IDB member countries, particularly in the 1990s.

Increasing Flows But Not For All

External resources to developing countries tripled from US$100 billion in 1990 to an estimated US$ 300 billion in 2000. Private flows to developing countries represent four-fifths of the aggregate net flows in the 1990s, and more importantly FDI flows to developing countries have increased eight-fold, amounting to nearly one-fourth of global FDI, approaching US$200 billion. By contrast, private flows to the IDB member countries was less than two-thirds of the aggregate flows and have followed a downward trend relative to all developing countries, commanding an average annual share of less than one-fiftieth of GDP during the 1990s, suggesting that FDI flows to IDB member countries have not kept pace with upward trend of the rising share of net flows to developing countries.

Similar to the pattern in the developing countries, FDI inflows to IDB member countries have been largely concentrated in one-fifth of the member countries. Yet the top five IDB member countries with the highest private flows were receiving 90% of the private net resource flows of IDB member countries. Unlike the least developing countries and regions of the world, net official resource flows to IDB member countries experienced a steady declining trend during the 1990s.

Empirically, foreign investment reinforces domestic investment in member countries, especially in the least developed member countries (LDMCs). For this reason, and within the realm of globalization, member countries would need to attract more foreign investment than the current inflows. In this case, the marginal contribution of the higher capital flows may be more important for the LDMCs than in other countries with easier access to external finance and more advanced technology.

Actions by the IDB Member Countries

There are many reasons for the current low level of FDI to IDB member countries. One important reason is the shortcomings of the legal and institutional

framework in many countries; but these can be rectified. It is the prerogative of Governments to determine the nature and the extent of legal and institutional reforms, taking into account the prevailing local, social and political conditions. Country experiences suggest that modernization of national legal and institutional frameworks for investment is a necessary step for the harmonization of laws and regulations among countries and the emergence of integrated regional markets for investors, both domestic and foreign. Indeed, investors in many IDB member countries, following political and macroeconomic stability rank legal and institutional framework high.

Therefore, improvements in the investment climate, broadly defined to include political stability, stable macroeconomic policies, effective regulatory regimes, and more efficient and transparent public institutions, hold the key to attracting more investment, both domestic and foreign, and improving the productivity of the existing investments.

Structural Transformation

But some member countries with valuable natural resources, especially oil and other mineral resources, are likely to continue receiving substantial FDI, even without major reforms. In such a context, two possibilities, based on different economic concepts, are open to policy makers: comparative advantage versus competitive advantage. The former concept refers to advantages deriving from the national factor endowments, notably natural resources, which are available in some member countries. These advantages are generally given.

Other advantages can be acquired through implementation of ad hoc economic policy measures, which address the regulatory framework and aim to influence market conditions, the mobility of factors of production, enterprise efficiency and strategies. Here also there are notable cases, cited in the literature, for emerging economies among the IDB member countries. The concept of competitive advantage is becoming more relevant than that of comparative advantage, because skills and capital are highly mobile in an increasingly free and open economy. This is true for both government and entrepreneurs when formulating and implementing their respective policies and strategies. The need for establishing a clear, predictable legal framework for foreign investment in the latter set of countries is obvious.

Lessons For Member Countries

If, however, the former set of countries (natural-resource economies) want to diversify FDI into other sectors, they too will need to undertake the necessary basic reforms. Indeed, the emerging evidence suggests that improvements in investment climate in many natural-resource-based economies, including the

LDMCs, are helping to increase the sectoral diversification of FDI flows. This is particularly important for the LDMCs because the composition of both domestic investment and foreign flows differ substantially, with the LDMCs being much more dependent on domestic private investment and official aid.

In general, the overall trend in policy changes is positive, and many IDB member countries have improved economic policies, including those related to FDI in particular. But the investment framework still needs, in some cases, policy coherence with both foreign investors and the private sector. In order to attract investment, governments need to sustain good macroeconomic management with policy consistency, fair treatment of all investors and to refrain from arbitrary involvement in the private sector. Although, there are several ways in which such an enabling investment climate could be attained, two modalities produced positive results in a number of developing countries.

Legal Framework

The first one relates to modernizing and harmonizing the legal and institutional framework. This modality would send a signal to investors that improvements in the investment climate is forthcoming, implementable and sustainable, as demonstrated in some successful country experiences among IDB member countries. The other way would be to become parties to bilateral, international or regional agreements, which have a confidence-building effect on investment. Many IDB member countries are parties to bilateral agreements but, at present, there are only two regional agreements for IDB member countries: one voluntary (among APEC) and the other is mandatory (inter-Arab). Although such agreements are deemed necessary to improve the investment climate, it is too early to analyze their impacts.

In fact, the two developments previously described call for inter-IDB regional cooperation in the area of FDI regulation, which would be adapted to the current situation of the countries concerned, both progressive and pragmatic, while the attempt to implement a global system of cooperation (MAI) are still problematic. A realistic approach to inter-IDB regional cooperation would be to encourage the on-going regional and sub-regional cooperation, without emphasizing the emerging global trends. Each sub-region would thus be considered as one economic space, with a distinct development path and structure open to investment opportunities. Such an approach would contribute to solving the problem of the market size, favoring complementarity and synergy effects. The market size was ranked by investors in one geographic region of the IDB member countries among the most important factors in the investment decision.

Missing Links

Notwithstanding the extensive efforts at legislative and investment policy revisions to provide for attractive FDI regimes, a number of member countries remain unable to attract foreign investors. Indeed, the FDI flows in the IDB member countries as a whole remain modest and have actually declined relative to those in the developing countries, during the 1990s. In fact, FDI flows in IDB member countries tend to concentrate in less than one-fifth of these countries. The size and buoyancy of the market, the availability of cheap and disciplined labor and the adequacy of the infrastructure are usually the factors constituting the main reason why sufficient investment inflow may not be forthcoming.

Another reason, however, has been that a number of governments seemed to assume that the mere enactment of new liberalizing and incentive-granting foreign investment codes would be enough to lure investors. The fact is that the increasing competition for FDI gives rise to the question of whether a country which today already has in place what would have traditionally been considered an attractive investment regime should seek to further enhance its competitive position and, if so, by what means and how far should it go. This implies that knowledge of the experiences of similar countries should be a vital tool for the formulation of relevant policies. That, in turn, implies a need for regular dialogue between the IDB member countries and agencies responsible for promoting inward investment, with regard to their activities, purposes and results.

One Step Ahead

Although information on best practice is either limited or too early to gauge, at the prevailing state of art in the IDB member countries, it is noteworthy that policy strategies for investment attraction often seem to succeed in greatly varying degrees in countries with quite similar characteristics. In this connection, the IDB member countries may consider forming a chapter of regional WAIPA to exchange ideas and good practice in investment promotion strategies and policies.

The objective of forming such regional chapters was to provide comparative data on investment promotion practices in as large a number of countries as possible with differing economic strengths, developmental levels, resource endowments, geographical locations, policies and experiences. They include a broad array of member countries from Africa, Asia, Arab, CIS and Latin America. To move toward such a goal, it is necessary that the IDB Group, with the leading role of the ICIEC to examine the pre-feasibility of such a proposal, in consultations with member countries, with a view to determining what kinds of approaches work best in creating such a forum.

Information Gap

Another necessary step in promoting investment flows in the IDB member countries is the availability of accurate and timely statistics on the volume, sectoral composition and sources of FDI flows in these countries. Accurate information on FDI flows provides important inputs into the decision-making processes of investors and governments. Investors and policymakers require a range of information, including that on the magnitude, country of origin, location, employment generation, and sector of foreign investment.

From the investment promotion policy and strategy perspective, statistics on the economic characteristics of and trends in FDI are particularly important to assess the costs and benefits of FDI, its impact on capital formation, infrastructure and resource planning, cross-country comparison, and for devising effective investment promotion strategies. Many IPAs of developing countries make such a range of information available to the business community on the Internet, with a view to competing for foreign investment flows.

Less than half of the IDB member countries, the lowest presence in cyberspace among developing regions of the world, are utilizing such a facility. In order to reach potential investors and to close the information gap, IPAs in member countries would need to increase their presence in the IPAnet. In addition to the components of the investment flows and key economic indicators, a typical IPA's Web site would provide online access to key investment information on the country, on regulatory regimes, commercial laws and regulations, investor incentives, investment opportunities and business environment. Such programmes indicate to some extent a need for technical cooperation.

Second Step Ahead

There are a number of agencies involved in technical assistance in FDI statistics and IPAnet. Although the technical aspect of the treatment of FDI statistics and disseminating databases can be undertaken within the existing resources and facilities in the IMF, OECD, the FIAS and UNCTAD, the IDB Group can play an important role in enhancing awareness among member countries of utilizing such existing facilities in promoting investment flows, perhaps through joint regional workshops with other sister agencies in each region. These campaigns would contribute to creating an enabling environment and an economic space, which would be favorable to private investment (domestic or foreign) and to the establishment of joint regional projects in the IDB member countries.

Private Sectors Concerns

However, information on concerns of investors and private sector in the IDB member countries are either not available or the only available regional survey

was conducted in the mid 1980s, confirming the claim that private sector interests are not consulted in policy design in some of these countries. On this matter, the IDB Group can play an important role in widening the coverage of the survey and updating its information content, perhaps in collaboration with other regional and international agencies involved in promoting investments in the IDB member countries.

Another important factor, demanded by private investors in the IDB member countries, relates to simplifying licenses, registration, permits and investment procedures. Such administrative and decision-making procedures are facilitated by IPAs. However, in practice a wide range of different approaches handles decision-making, and it is here that the substantive differences among the countries emerge. There are exceptional cases in which all the decision-making can, indeed, be vested in the organization that handles the administrative aspects of screening investment. In these rare instances, the organization acts much as advisors and investors would wish when the advocated centralization of screening and other foreign investment matters.

Institutional Framework

However, in most countries the decision-making is vested outside the administrative unit. At the opposite extreme from centralized decision-making is the diffused approach, in which various ministries and agencies act independently. In between the extremes are the efforts at coordination without centralization, which usually is implemented through a board or a committee.

The expectations of those who seek one-stop-shop IPAs for foreign investment in the host countries are frustrated when a weak agency is created. Such an agency does not lead to quick, predictable decision-making, nor does it provide services to investors that can serve as a promotional tool. Further, it does not monitor existing investment for promotion, policy reform or control.

Those who seek a strong foreign investment agency must recognize that an effective one-stop shop with responsibility over most foreign investment matters must combine decision-making authority with the administration function. There are usually strong interests in the country, and within the government itself, that attempt to ensure that many government units have a role in decision making after reform, even if a single agency for foreign investment is created.

So far a few of the successful IPAs suggest that powerful investment organizations are important not only for providing quick approval of investments or incentives but also for providing significant post-approval services. The greater the power of the investment organization, the greater the likelihood that screening approval will ensure receipt of all other permits and licenses. In some cases, other

government departments are able to gain inclusion in the screening process through a coordinated screening structure.

Central administrations that are determined to further investment can neutralize any potential for obstruction by indicating that these departments must view their inclusion in the screening process as the opportunity to play a role in evaluation by examining the project from the perspective of their departments. The central administration must then make it clear, that approval of the project by this coordinated group will lead to automatic dispensation of other permits that each department is responsible for issuing.

Third Step Ahead

Again, regional chapters of the World Association of Investment Promotion Agencies (WAIPA) among IDB member countries may facilitate exchange of information on good practice in strategies and programmes that work in promoting investment flows, given limited country experiences in this area. Indeed, such experiences will provide information for the remaining fourth-fifths of member countries to assess the benefit-cost of strategies in promoting investment flows, given the increased competition from China and other emerging economies.

Further preparatory and analytical work on some investment-related issues is required before best practices in promoting investment flows in IDB member countries can be specified and proposed for replication, modification or implementation.

Potential Niches For the IDB Group

In order to complement the IDB's modalities to promote investment flows in member countries, there is a need to enhance and focus the technical assistance provided by the IDB Group in critical areas affecting the investment climate in member countries. In addition to the ongoing international investment conferences organized by the Bank in member countries, perhaps the ICIEC's proposal of a tripartite arrangement between ICIEC, IDB and selected specialized international organizations in investment promotion strategies and technique is a way forward to strengthening and focusing the technical assistance activities in this area. ICIEC is mandated to assist member countries in improving the investment climate and attract investment flows. Such co-ordinated activities would also contribute to improving ICIEC's services; mainly in complementing its investment insurance scheme, as one technique to promoting investment in member countries.

Other areas of operational synergy within the IDB Group include:

- Establishing a glossary of investment concepts and terms in Arabic, as an IDB official language, since such a glossary is not available elsewhere;
- Assisting in translating the 1997 FDI questionnaire in Arabic in collaboration with the IMF, since the survey would be updated and the response rate in the Arab region is the lowest among developing countries and regions of the world;
- Developing detailed comparative tables reflecting investment regimes in the IDB member countries, utilizing the results of the proposed investors' survey in IDB member countries, perhaps in collaboration with other sister regional institutions. Since, the only comprehensive survey on concerns of private investors was conducted in 1985-88 by the IAIGC in the Arab region. But much has changed during the 1990s. Therefore, there is a need to update the survey and to widen its geographic coverage, given its importance as an essential input in investment promotion strategies and policies in member countries.

- Utilizing the results of the proposed survey to develop a composite index for investment climate in IDB member countries. Composite indices constitute, among other things, essential information on the main obstacles to decision-making processes of investors, policymakers and insurers in the concerned countries. Indeed, the results of the survey provide practical information for policymakers to redesign and sequence investment policies. Moreover, survey results determine the magnitude of the weights assigned to the components of the composite index.

The Composite index usually includes the main components of the investment climate: rule-based incentives, macroeconomic stability, institution framework, economic incentives, financial markets, factor markets and business climate. Rule-based incentives include political stability and legal framework, particularly enforcement of laws and contracts governing investment treaties.

Macroeconomic stability and market size encompass expanding marketing opportunities locally and regionally, stable exchange rates, stable prices and predictable investment policies. Economic incentives include tax exemptions, reduced custom duties, simpler tax structure, repatriation of profits, and availability of infrastructure facilities.

Institutional framework requires effective central investment authority, simplifying licenses, permits, registration and other investment procedures and practices. Financial markets entail presence of effective financial institutions and availability of organized and functioning stock markets. Productivity embraces high

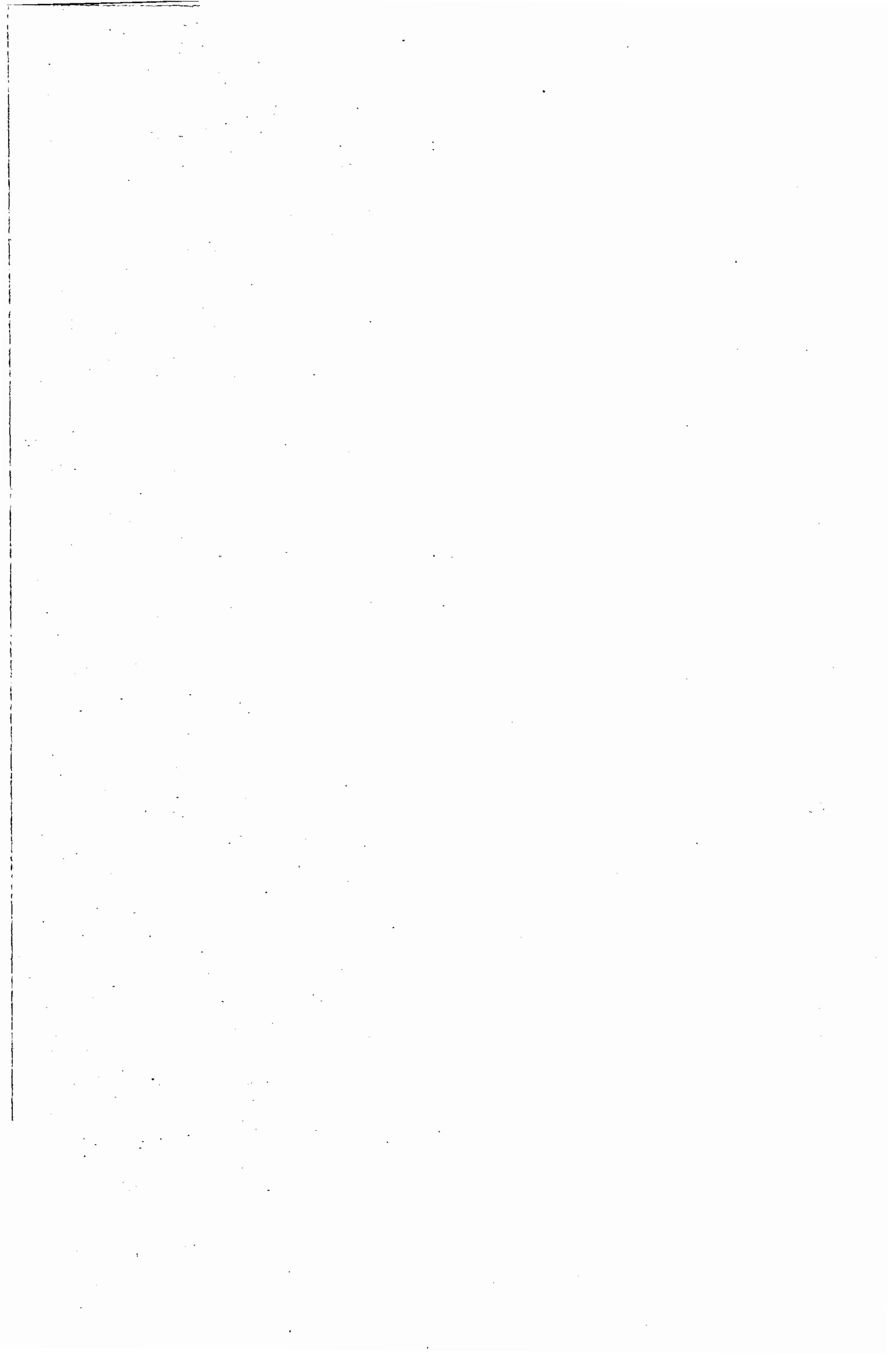
rates of return on investment, control of the major components of the project by investors and the success of previous investment projects.

Factor markets include low cost of labor, access to funds and benefits from country-specific comparative advantage. Business climate is encouraged by positive attitude towards private sector and particularly foreign investor, availability of trustworthy local partners, knowledge of investment opportunities and knowledge of investment climate.

Integrated Efforts

Learning from past country experiences in attracting investment flows is essential to boost efforts of the majority of IDB member countries, in collaboration with other development partners involved in promotional strategies and techniques, to improve the statistical database, to enhance capacity building at country level, to expand country's reach and access to serious investors by all means, including modern technology and cyberspace, even if at varying degrees. These objectives are critically important in sustaining investment promotion policies and programmes in IDB member countries. But achieving such objectives will take time and are beyond the existing capacity of many IDB member countries.

In this context, the IDB Group has an important role to play in improving the overall investment climate in member countries. To this end, the paper identified niches for consideration by the IDB Group, together with other necessary steps to be taken by countries to ease impediments to attracting investment flows in member countries, in a coordinated manner. It is hoped that concerted efforts by member countries, in partnership with concerned development institutions, including the IDB Group, would facilitate the promotion of intra-investment flows too.



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ANNEX

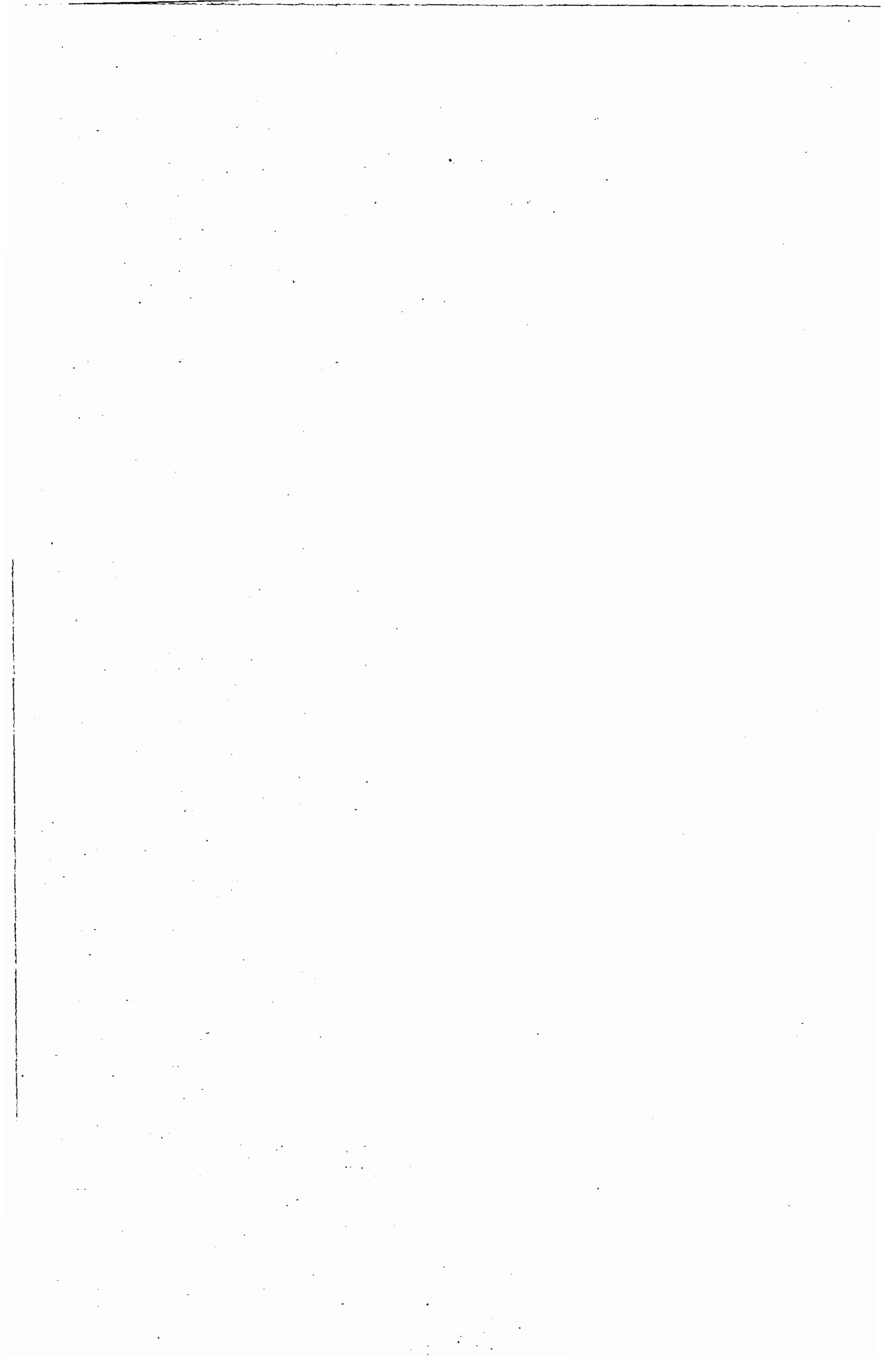

Table A1.1: Gross fixed capital formation (% of GDP)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Albania	..	..	..	..	..	..	..	..	..	..	33.91
Algeria	34.02	33.20	32.24	35.84	30.58	38.96	42.38	44.04	48.47	39.31	33.78
Azerbaijan	..	..	..	..	..	..	..	..	..	..	..
Bahrain	..	..	..	..	..	..	..	..	..	..	30.82
Bangladesh	..	..	..	..	..	..	..	..	..	..	19.81
Benin	..	..	..	..	..	..	..	..	..	..	..
Brunei	..	..	..	..	..	..	..	..	..	..	2.97
Burkina Faso	..	..	..	..	..	..	..	..	..	17.54	15.93
Cameroon	..	..	..	..	..	16.38	17.16	39.68	45.11	40.60	20.03
Chad	..	..	..	..	..	..	..	..	..	..	..
Comoros	..	..	..	..	..	..	..	..	..	..	28.53
Djibouti	..	..	..	..	..	..	..	..	..	..	..
Egypt	11.53	11.19	11.16	12.15	15.79	24.57	21.87	22.45	27.41	29.62	24.62
Gabon	30.39	30.64	47.47	32.46	42.05	55.84	60.56	48.97	41.54	31.51	26.68
Gambia, The	..	..	..	..	..	..	..	..	..	..	..
Guinea	..	..	..	..	..	..	..	..	..	..	..
Guinea-Bissau	..	..	..	..	..	..	..	..	..	21.84	28.18
Indonesia	..	..	..	..	..	..	..	..	..	22.33	21.57
Iran	..	..	..	..	17.90	28.07	32.73	33.26	29.68	19.09	21.74
Iraq	..	..	..	..	..	..	..	..	..	..	..
Jordan	..	..	..	..	..	..	32.75	40.05	33.92	32.83	35.41
Kazakhistan	..	..	..	..	..	..	..	..	..	..	..
Kuwait	12.33	9.16	8.70	9.09	5.81	11.98	14.67	20.12	18.62	11.54	12.56
Kyrgyz Rep.	..	..	..	..	..	..	..	..	..	..	..
Lebanon	..	..	..	..	..	..	..	..	..	..	..
Libya	16.26	17.70	24.30	28.31	25.01	27.91	24.98	23.74	26.93	23.64	21.19
Malaysia	18.18	21.25	23.01	22.96	25.85	25.56	22.52	23.52	23.82	25.38	29.94
Maldives	..	..	..	..	..	..	..	..	..	..	23.71
Mali	13.16	14.08	15.54	15.77	12.07	13.50	12.29	14.42	15.92	15.47	15.47
Mauritania	..	..	..	..	..	..	..	..	..	..	..
Morocco	14.92	14.86	13.61	13.54	14.70	24.82	28.75	31.95	24.90	23.98	22.24
Mozambique	..	..	..	..	..	..	..	..	..	..	5.94
Niger	..	..	..	..	..	..	..	..	..	..	25.47
Oman	13.76	28.46	29.83	26.21	30.62	35.63	36.32	32.83	29.69	24.66	22.47
Pakistan	14.31	13.95	12.60	11.44	12.22	14.45	17.24	18.60	17.29	16.98	17.63
Qatar	..	..	..	..	..	..	..	..	..	..	..
Saudi Arabia	12.79	12.04	14.04	8.46	12.68	20.39	24.96	29.68	30.72	25.16	20.43
Senegal	10.31	10.39	11.30	11.76	12.64	11.51	11.04	10.64	11.19	11.72	13.19
Sierra Leone	..	..	..	..	..	..	..	..	..	..	16.66
Somalia	9.08	9.24	11.17	11.33	23.44	15.29	16.10	16.26	22.54	24.26	43.08
Sudan	..	..	..	..	..	..	16.10	12.18	10.80	11.03	10.77
Suriname	..	..	..	..	..	..	..	37.36	32.43	22.86	26.42
Syria	13.19	14.35	17.35	17.94	19.36	25.03	31.38	35.53	27.44	26.16	27.53
Tajikistan	..	..	..	..	..	..	..	..	..	..	..
Togo	..	..	..	..	..	..	..	..	..	..	28.24
Tunisia	20.51	19.88	19.77	20.50	20.74	25.73	29.13	30.66	31.04	30.53	28.30
Turkey	12.65	11.97	14.82	14.89	14.09	15.41	17.27	18.51	16.50	15.18	15.90
Turkmenistan	..	..	..	..	..	..	..	..	..	..	..
Uganda	13.34	15.11	12.39	8.23	10.66	7.25	4.94	..	..	..	..
U.A.E	..	..	..	..	..	30.67	32.63	35.95	42.69	35.72	27.46
Yemen	..	..	..	..	..	..	..	..	..	..	..

Source: World Bank 2000a.

Table A1.1: Gross fixed capital formation (% of GDP) (contd.)

Country	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Albania	31.03	33.29	35.42	37.01	32.29	30.97	32.39	31.53	31.34	..
Algeria	32.90	34.44	34.35	33.16	31.82	34.15	29.71	25.49	25.96	25.85
Azerbaijan	..	..	..	..	..	..	..	..	..	..
Bahrain	29.18	32.97	41.02	44.06	33.76	32.62	30.14	26.60	27.73	25.13
Bangladesh	21.19	20.38	17.80	16.28	17.24	16.70	17.17	16.58	17.20	17.05
Benin	..	27.05	16.63	12.48	8.75	12.84	13.37	15.09	12.46	13.42
Brunei	6.68	12.36	9.89	6.50	..	..	..	..	..	..
Burkina Faso	15.58	19.43	19.48	16.76	20.26	20.57	21.74	19.44	20.82	19.68
Cameroon	24.57	20.59	21.11	19.38	17.19	24.80	24.54	20.78	18.17	17.33
Chad	..	2.23	1.93	3.41	5.16	5.75	6.45	4.97	5.67	11.26
Comoros	24.90	29.68	26.75	33.51	28.31	20.92	18.21	17.50	14.42	11.91
Djibouti	..	..	..	..	..	..	..	..	..	..
Egypt	27.15	29.59	29.56	26.78	25.17	22.40	27.34	34.43	30.60	26.94
Gabon	33.07	32.34	36.32	31.30	40.87	46.10	27.63	37.94	26.03	21.45
Gambia, The	25.33	22.46	18.88	18.31	15.09	16.60	17.13	16.36	20.37	22.34
Guinea	..	..	..	..	..	14.93	15.23	17.09	17.18	17.52
Guinea-Bissau	25.75	28.26	22.66	37.72	35.10	23.78	35.21	44.70	38.98	29.93
Indonesia	24.19	25.26	25.15	21.80	22.40	24.39	24.25	25.63	26.56	28.34
Iran	19.08	17.47	21.45	20.91	17.49	15.37	13.35	13.26	13.35	15.45
Iraq	..	..	..	..	..	..	..	..	..	..
Jordan	43.22	36.85	29.30	26.59	19.05	18.92	20.31	22.67	23.36	26.01
Kazakhistan	..	..	..	..	..	..	..	..	..	..
Kuwait	15.36	23.12	25.10	21.15	19.80	21.66	16.94	13.68	10.81	18.03
Kyrgyz Rep.	..	..	..	..	..	..	31.92	29.91	33.07	23.14
Lebanon	..	..	..	..	..	..	..	..	..	17.77
Libya	30.08	27.23	24.53	..	..	..	..	..	..	..
Malaysia	34.66	34.96	34.67	30.70	28.71	25.34	22.08	24.60	29.08	33.04
Maldives	29.13	30.70	28.26	31.28	38.91	36.54	60.47	57.35	59.63	54.17
Mali	15.97	16.28	12.15	12.31	15.77	20.72	20.74	21.32	21.70	22.97
Mauritania	..	..	..	..	28.17	29.78	28.32	27.99	18.59	19.97
Morocco	25.95	27.32	24.44	23.10	23.11	21.32	20.19	20.43	22.78	23.99
Mozambique	5.98	6.03	5.33	5.82	4.48	4.96	12.02	15.13	14.83	15.58
Niger	23.33	15.20	13.27	9.82	9.92	8.93	9.45	12.88	13.48	11.36
Oman	22.73	27.18	..	..	..	..	..	..	..	..
Pakistan	17.16	16.84	16.96	16.48	16.50	17.03	17.47	16.47	17.30	17.30
Qatar	..	..	..	..	..	..	..	..	..	..
Saudi Arabia	23.31	27.80	29.53	27.46	24.31	24.40	23.67	19.96	19.44	18.83
Senegal	12.63	12.18	13.04	12.35	11.56	12.03	12.45	12.72	13.27	12.91
Sierra Leone	15.23	12.65	12.31	10.75	8.90	10.11	7.69	7.87	9.53	8.68
Somalia	23.13	25.07	26.35	22.76	27.00	24.20	28.50	19.40	29.80	14.90
Sudan	14.82	17.25	16.05	13.28	10.62	11.37	12.09	..	..	..
Suriname	31.21	27.70	20.24	18.16	17.88	19.12	15.99	14.19	16.57	18.90
Syria	23.20	23.65	23.59	23.71	23.77	22.22	18.18	13.97	15.95	15.41
Tajikistan	..	..	..	..	..	..	..	..	..	..
Togo	20.61	19.44	17.89	15.04	16.63	18.23	18.57	17.80	17.82	25.26
Tunisia	30.99	34.03	31.85	32.13	28.14	24.99	21.62	20.55	22.49	30.67
Turkey	15.13	15.12	14.75	14.40	15.26	17.14	24.75	26.11	22.80	22.87
Turkmenistan	..	..	..	..	..	..	..	..	..	..
Uganda	..	9.74	7.86	8.24	8.73	8.45	9.72	10.79	11.14	12.70
U.A.E	25.36	28.88	30.97	28.65	24.66	29.37	23.24	24.00	22.20	19.21
Yemen	..	..	..	..	..	..	..	..	..	12.27

Source: World Bank 2000a.

Table A1.2: Components of Investments as Shares of GDP (in %)

Country/Year		197	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Bangladesh	I/GDP	..	..	..	3.0	7.1	6.3	9.9	11.1	11.8	11.3	15.3	23.5	22.6	19.7	18.1
	Private	..	..	..	2.9	4.2	3.4	5.4	4.9	5.6	5.7	8.2	13.6	12.4	10.0	9.6
	Public I/GDP	..	..	..	0.1	2.9	2.9	4.6	6.2	6.2	5.6	7.1	9.9	10.2	9.8	8.4
Benin	I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Private	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Public I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Chad	I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Private	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Public I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Egypt	I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	30.1	34.2	32.1
	Private	..	..	..	..	..	..	..	..	..	..	..	..	9.1	13.9	13.1
	Public I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	21.0	20.3	19.0
Gambia	I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Private	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Public I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guinea-	I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Private	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Public I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
ndonesia	I/GDP	..	..	..	..	..	..	..	..	..	..	..	24.2	30.5	25.1	22.5
	Private	..	..	..	..	..	..	..	..	..	..	..	13.7	18.2	13.2	12.5
	Public I/GDP	..	..	..	..	..	..	..	..	..	..	..	10.5	12.3	11.9	9.9
an	I/GDP	..	..	..	..	..	..	..	..	..	..	21.7	19.1	17.5	21.5	20.9
	Private	..	..	..	..	..	..	..	..	..	..	11.4	9.3	7.4	12.0	12.4
	Public I/GDP	..	..	..	..	..	..	..	..	..	..	10.4	9.8	10.0	9.4	8.5
Malaysia	I/GDP	18.	22.1	23.9	23.7	26.9	26.6	23.4	24.3	24.7	26.4	31.1	36.0	36.4	36.1	31.9
	Private	12.	15.5	15.2	16.5	19.3	16.6	14.0	14.2	15.7	17.5	19.5	19.9	18.2	17.7	16.8
	Public I/GDP	6.1	6.6	8.7	7.2	7.6	10.0	9.4	10.1	9.0	8.9	11.6	16.1	18.2	18.4	15.1
Mauritania	I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Private	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Public I/GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Morocco	I/GDP	..	..	..	..	..	24.8	29.7	32.0	24.9	24.0	22.2	26.0	27.3	24.4	23.1
	Private	..	..	..	..	..	9.8	12.9	14.5	13.5	11.4	11.8	11.4	13.4	11.8	11.2
	Public I/GDP	..	..	..	..	..	15.0	16.7	17.5	11.4	12.6	10.4	14.5	13.9	12.6	11.9
akistan	I/GDP	14.	14.0	12.6	11.5	12.2	14.4	18.2	18.6	17.3	17.0	17.1	17.1	16.8	17.0	16.5
	Private	7.3	7.0	6.6	5.6	4.4	4.6	5.9	6.2	5.8	5.8	7.7	7.8	7.2	7.4	7.5
	Public I/GDP	7.0	7.0	6.0	5.9	7.8	9.8	12.3	12.4	11.5	11.2	9.4	9.4	9.7	9.6	9.0
unisia	I/GDP	20.	19.8	19.8	20.5	20.8	25.7	29.0	30.7	30.9	30.5	28.3	31.0	34.0	31.8	32.1
	Private	8.5	7.7	8.8	10.7	10.5	12.3	11.6	10.9	11.7	12.0	13.3	14.8	15.4	15.9	15.7
	Public I/GDP	11.	12.1	11.0	9.8	10.3	13.4	17.4	19.8	19.2	3.8	15.0	16.2	2.7	16.0	16.4
urkey	I/GDP	22.	20.2	21.7	21.4	19.9	22.1	24.4	25.7	23.1	21.9	22.1	20.1	19.4	20.1	19.5
	Private	12.	11.6	13.0	12.9	11.3	11.7	13.2	13.2	12.4	10.7	13.3	11.0	11.1	11.4	11.4
	Public I/GDP	9.9	8.6	8.7	8.5	8.6	10.4	11.2	12.5	10.7	11.2	8.8	9.2	8.3	8.7	8.1
ast Asia	I/GDP	21.	22.3	22.2	23.1	25.1	24.8	24.1	25.5	26.5	28.0	27.7	27.2	29.4	28.9	26.5
	Private	14.	15.9	15.3	17.6	19.9	18.7	16.3	18.1	19.2	20.6	17.3	16.4	18.8	18.7	17.0
	Public I/GDP	6.6	6.4	6.9	5:5	5.2	6.1	7.8	7.4	7.2	7.4	10.4	10.8	10.6	10.2	9.5
outh Asia	I/GDP	14.	14.6	14.2	9.7	11.4	12.5	15.4	15.8	15.7	15.6	16.9	19.8	19.5	18.4	17.8
	Private	8.3	8.2	7.8	5.6	6.0	6.0	7.1	7.1	7.2	7.2	8.7	10.4	9.6	8.7	8.7
	Public I/GDP	6.2	6.4	6.4	4.1	5.4	6.5	8.3	8.8	8.5	8.4	8.3	9.4	10.0	9.6	9.1
ub-Saharan ica	I/GDP	22.	24.4	24.5	22.2	21.1	24.8	25.2	24.7	27.7	25.6	23.5	22.3	19.8	18.5	17.1
	Private	13.	14.2	13.8	10.9	10.4	11.4	13.8	13.5	14.8	12.7	10.6	10.6	9.6	9.6	8.8
	Public I/GDP	8.3	10.2	10.7	11.3	10.7	13.4	11.4	11.2	12.9	12.9	13.0	11.7	10.2	8.9	8.3

urce Bouton & Sumlinski (2000), Table 1, pp. 47 - 49.
enotes data unavailable.

Table A1.2: Components of Investments as Shares of GDP (in %) (Contd..)

Country/Ye		1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Banglades	I/GDP	19.1	18.5	19.0	18.4	19.1	18.9	18.7	18.8	18.9	19.0	20.0	20.8	21.6	22.2
	Private	12.7	11.4	11.4	11.5	11.7	11.6	12.0	11.8	12.4	12.3	13.2	14.4	14.5	15.1
	Public I/GDP	6.4	7.2	7.7	6.9	7.3	7.3	6.7	7.0	6.5	6.7	6.8	6.4	7.1	7.1
Benin	I/GDP	..	..	..	..	..	13.4	13.6	13.2	15.0	15.5	17.2	16.6	18.5	16.2
	Private	..	..	..	..	..	6.0	6.1	6.7	7.9	6.2	6.9	9.1	11.0	10.7
	Public I/GDP	..	..	..	..	..	7.4	7.4	6.6	7.1	9.3	10.4	7.5	7.5	5.4
Chad	I/GDP	..	..	..	..	..	..	..	..	..	11.8	11.6	11.9	14.4	14.4
	Private	..	..	..	..	..	..	..	..	..	4.4	5.3	5.6	7.8	9.0
	Public I/GDP	..	..	..	..	..	..	..	..	..	7.4	6.3	6.3	6.6	5.4
Egypt	I/GDP	32.1	34.4	27.4	34.5	30.6	26.9	22.2	19.1	16.2	16.6	16.5	16.0	17.6	19.4
	Private	12.7	13.2	10.1	13.3	16.0	16.7	13.1	10.5	9.2	10.5	10.9	10.5	12.1	13.1
	Public I/GDP	19.4	21.3	17.3	21.2	14.6	10.2	9.2	8.5	7.1	6.1	5.6	5.5	5.6	6.3
Gambia	I/GDP	..	..	17.1	16.4	20.4	22.3	21.9	22.2	21.0	18.1	20.2	21.6	17.2	18.4
	Private	..	..	0.3	10.4	14.0	14.9	14.2	14.4	13.5	11.1	10.2	8.6	8.8	12.5
	Public I/GDP	..	..	6.8	5.9	6.4	7.4	7.7	7.8	7.5	7.0	10.0	12.9	84.0	5.9
Guinea-	I/GDP	..	..	35.2	44.7	39.0	29.9	31.0	48.4	30.9	21.8	22.3	23.0	21.6	11.3
	Private	..	..	7.3	14.1	8.7	8.4	7.8	20.0	6.3	1.4	7.1	8.3	6.1	5.2
	Public I/GDP	..	..	27.9	30.6	30.3	21.5	23.2	28.4	24.6	24.6	15.2	14.8	15.6	6.2
Indonesia	I/GDP	23.6	24.2	24.9	26.1	27.3	28.4	28.1	27.3	26.3	27.6	28.6	29.8	28.3	23.5
	Private	13.5	16.2	17.3	17.7	18.7	19.2	18.5	17.7	17.3	18.0	22.7	24.1	21.9	18.1
	Public I/GDP	10.1	8.0	7.5	8.4	8.6	9.3	9.6	9.5	9.0	9.6	5.9	5.7	6.5	5.4
Iran	I/GDP	17.5	15.4	13.3	13.3	13.3	15.5	21.6	22.0	22.1	23.3	23.7	25.8	24.9	..
	Private	10.6	8.6	7.8	7.9	8.2	8.3	13.2	13.0	11.4	12.9	13.3	14.3	13.8	..
	Public I/GDP	6.9	6.7	5.5	5.4	5.1	7.1	8.5	9.0	10.7	10.4	10.4	11.5	11.1	..
Malaysia	I/GDP	29.8	26.4	23.0	24.1	29.3	32.4	34.9	36.0	38.3	40.1	43.0	42.3	42.8	32.7
	Private	15.8	14.3	13.8	15.4	18.5	20.9	23.7	21.5	23.8	27.2	30.4	30.9	31.3	21.4
	Public I/GDP	14.0	12.1	9.1	8.7	10.8	11.5	11.1	14.5	14.6	13.0	12.6	11.4	11.6	11.3
Mauritania	I/GDP	24.5	26.4	25.3	25.1	16.8	17.9	17.9	19.3	22.0	14.5	19.3	18.6	17.7	20.0
	Private	16.1	19.9	17.8	19.0	11.8	12.4	9.1	11.2	8.7	3.1	8.1	3.6	5.2	7.3
	Public I/GDP	8.4	6.5	7.5	6.1	5.1	5.6	8.8	8.1	13.3	11.4	11.2	15.0	12.4	12.7
Morocco	I/GDP	23.1	21.3	20.2	19.3	22.8	25.0	22.2	22.4	22.8	20.7	21.4	19.4	20.7	22.5
	Private	11.2	12.1	12.2	11.6	11.8	13.2	16.4	12.7	12.8	11.0	10.6	12.5	13.6	15.9
	Public I/GDP	11.0	9.1	8.6	7.6	9.6	8.6	9.6	9.5	11.8	10.1	8.9	6.8	7.1	6.6
Pakistan	I/GDP	16.5	17.0	17.5	16.5	17.3	17.8	17.4	18.6	19.1	17.9	16.9	17.2	16.2	14.5
	Private	7.6	7.8	7.7	7.7	8.3	8.9	8.9	9.8	10.0	9.6	8.7	9.0	9.4	9.6
	Public I/GDP	8.9	9.2	9.7	8.8	9.0	8.4	8.5	8.8	9.1	8.3	8.2	8.2	6.8	4.9
Tunisia	I/GDP	28.1	25.0	21.6	20.5	22.5	24.4	24.0	27.2	28.1	27.0	24.2	23.2	24.5	25.0
	Private	14.5	12.1	11.1	11.3	12.4	12.3	12.7	15.8	15.3	15.1	12.3	11.8	12.4	12.8
	Public I/GDP	13.7	12.8	10.5	9.3	10.1	12.0	11.4	11.4	12.8	11.4	12.8	11.9	12.1	12.3
Turkey	I/GDP	20.3	22.8	24.7	26.1	22.8	22.9	23.8	23.6	26.5	24.6	24.2	25.4	26.8	26.6
	Private	11.1	12.6	14.7	17.2	15.2	15.6	16.2	16.2	19.3	19.7	20.0	20.3	20.8	20.3
	Public I/GDP	9.2	10.2	10.0	8.9	7.6	7.3	7.6	7.4	7.3	5.0	4.2	5.2	6.0	6.3
East Asia	I/GDP	24.8	24.7	24.6	24.1	25.9	27.4	28.3	28.0	29.4	29.7	30.9	32.6	30.6	27.0
	Private	15.2	15.9	16.7	17.1	19.0	20.1	20.8	19.4	20.0	20.9	22.6	24.5	22.0	18.5
	Public I/GDP	9.5	8.8	7.9	7.0	6.9	7.3	7.5	8.6	9.4	8.8	8.3	8.2	8.6	8.5
South Asia	I/GDP	18.4	18.6	19.0	18.5	19.3	19.4	19.1	19.6	19.8	19.6	20.5	20.4	20.2	19.4
	Private	10.0	9.5	9.9	10.0	10.8	11.2	11.0	11.6	12.0	11.7	12.9	13.2	13.4	13.2
	Public I/GDP	8.5	9.1	9.1	8.5	8.5	8.2	8.1	8.0	7.9	7.9	7.6	7.2	6.8	6.2
Sub-Africa	I/GDP	16.6	16.5	19.8	21.1	20.4	19.8	19.1	21.3	20.6	20.4	19.8	19.6	19.1	18.5
	Private	8.8	9.1	9.0	10.6	10.5	10.7	10.1	10.2	9.6	9.0	9.7	9.4	10.1	10.5
	Public I/GDP	7.8	7.4	10.7	10.5	9.8	9.1	9.1	11.1	11.0	11.5	10.1	10.1	8.9	8.0

Source Bouton & Sumlinski (2000), Table 1, pp. 47 - 49.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Albania	0	0	0	0	0	0	0	0	0	0
Algeria	-15500000	-4100000	-1.29E+08	-663000000	-444500000	-278100000	0	0	0	0
Azerbaijan	..	..	..	0	0	0	0	0	0	0
Bahrain	..	..	..	..	..	..	..	..	..	..
Bangladesh	0	0	0	0	0	0	0	0	0	0
Benin	0	0	0	0	0	0	0	0	0	0
Brunei	..	..	..	..	..	..	..	..	..	..
Burkina Faso	0	0	0	0	0	0	0	0	0	0
Cameroon	0	0	0	0	0	0	0	0	0	0
Chad	0	0	0	0	0	0	0	0	0	0
Comoros	0	0	0	0	0	0	0	0	0	0
Djibouti	0	0	0	0	0	0	0	0	0	0
Egypt	-800000	0	0	0	0	0	0	0	0	100000000
Gabon	0	0	0	0	0	0	0	0	0	0
Gambia, The	0	0	0	0	0	0	0	0	0	0
Guinea	0	0	0	0	0	0	0	0	0	0
Guinea-Bissau	0	0	0	0	0	0	0	0	0	0
Indonesia	26400000	3.81E+08	155300000	8400000	495000000	2248100096	3743800064	3119500032	-1.41E+08	-1.458E+09
Iran	0	0	0	0	0	0	0	0	0	0
Iraq	..	..	..	..	..	..	..	..	..	..
Jordan	0	-5.6E+07	-3800000	15000000	0	0	-4900000	90100000	-10200000	-9200000
Kazakhstan	..	..	0	0	0	0	200000000	350000000	100000000	-200000000
Kuwait	..	..	..	..	..	..	..	..	..	..
Kyrgyz Republic	..	..	0	0	0	0	0	0	0	0
Lebanon	0	0	0	0	400000000	350000000	460000000	719400000	1.35E+09	-114000000
Malaysia	-1.24E+09	1.47E+08	-3.69E+08	44400000	1245400064	2440300032	2062400000	2503300096	-3.14E+08	746700032
Maldives	0	0	0	0	0	0	0	0	0	0
Mali	0	0	0	0	0	0	0	0	0	0
Mauritania	0	0	0	0	0	0	0	0	0	0
Morocco	0	0	0	0	0	0	293300000	0	0	-34700000
Mozambique	0	0	0	0	0	0	0	0	0	0
Niger	0	0	0	0	0	0	0	0	0	0
Oman	0	0	0	0	0	0	0	225000000	0	0
Pakistan	0	0	0	0	195000000	0	150000000	375000000	0	-75000000
Qatar	..	..	..	..	..	..	..	..	..	..
Saudi Arabia	..	..	..	..	..	..	..	..	..	..
Senegal	0	0	0	0	0	0	0	0	0	0
Sierra Leone	0	0	0	0	0	0	0	0	0	0
Somalia	0	0	0	0	0	0	0	0	0	0
Sudan	0	0	0	0	0	0	0	0	0	0
Suriname	..	..	..	..	..	..	..	..	..	..
Syria	0	0	0	0	0	0	0	0	0	0
Tajikistan	..	..	0	0	0	0	0	0	0	0
Togo	0	0	0	0	0	0	0	0	0	0
Tunisia	-60000000	0	0	0	0	588300032	138000000	586200000	0	240000000
Turkey	597200000	4.87E+08	2.704E+09	3589199872	459000000	626600000	1577900032	1975399936	-2.01E+08	3222700032
Turkmenistan	..	..	..	0	0	0	0	0	0	0
Uganda	0	0	0	0	0	0	0	0	0	0
UAE	..	..	..	..	..	..	..	..	..	..
Yemen	0	0	0	0	0	0	0	0	0	0

Source: The World Bank 2001a.

Table A.2.2: Portfolio investment, equity (current US$)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Afghanistan	..	..	..	..	..	..	..	..	..	..
Albania	0	0	0	0	0	0	0	0	0	0
Algeria	0	0	0	0	5300000	900000	5000000	7500000	2100000	2900000
Azerbaijan	..	..	..	0	0	0	0	0	0	0
Bahrain	..	..	..	..	..	..	..	..	..	..
Bangladesh	0	0	0	0	48000000	33000000	30000000	11000000	3000000	3700000
Benin	0	0	0	0	0	0	0	0	0	0
Brunei	..	..	..	..	..	..	..	..	..	..
Burkina Faso	0	0	0	0	0	0	0	0	0	0
Cameroon	0	0	0	0	0	0	0	0	0	0
Chad	0	0	0	0	0	0	0	0	0	0
Comoros	0	0	0	0	0	0	0	0	0	0
Djibouti	0	0	0	0	0	0	0	0	0	0
Egypt	0	0	0	0	9600000	1700000	1233100032	1812700032	494200000	549699968
Gabon	0	0	0	0	0	0	0	0	0	0
Gambia, The	0	0	0	0	0	0	0	0	0	0
Guinea	0	0	0	0	0	0	0	0	0	0
Guinea-Bissau	0	0	0	0	0	0	0	0	0	0
Indonesia	312000000	0	119000000	2452000000	3672000000	4872999936	3099000064	298000000	250000000	1272800000
Iran	0	0	0	0	0	0	0	0	0	0
Iraq	..	..	..	..	..	..	..	..	..	..
Jordan	0	0	0	0	0	11000000	25000000	70000000	11000000	11400000
Kazakhstan	..	..	0	0	0	0	0	50000000	0	0
Kuwait	..	..	..	..	..	..	..	..	..	..
Kyrgyz Republic	..	..	0	0	0	0	0	0	0	0
Lebanon	0	0	0	0	1400000	34300000	122200000	88500000	146900000	2900000
Malaysia	293000000	0	385000000	3700000000	1320000000	2299000064	4352999936	-489000000	592000000	521500000
Maldives	0	0	0	0	0	0	0	0	0	0
Mali	0	0	0	0	0	0	0	0	0	0
Mauritania	0	0	0	0	0	0	0	0	0	0
Morocco	0	0	0	0	63000000	150000000	222000000	243000000	174000000	91400000
Mozambique	0	0	0	0	0	0	0	0	0	0
Niger	0	0	0	0	0	0	0	0	0	0
Oman	0	0	0	0	26300000	4600000	25000000	37500000	10300000	10700000
Pakistan	0	23000000	139000000	185000000	1335000064	729000000	700000000	252000000	0	0
Qatar	..	..	..	..	..	..	..	..	..	..
Saudi Arabia	..	..	..	..	..	..	..	..	..	..
Senegal	0	0	0	0	0	0	0	0	0	0
Sierra Leone	0	0	0	0	0	0	0	0	0	0
Somalia	0	0	0	0	0	0	0	0	0	0
Sudan	0	0	0	0	0	0	0	0	0	0
Suriname	..	..	..	..	..	..	..	..	..	..
Syria	0	0	0	0	0	0	0	0	0	0
Tajikistan	..	..	0	0	0	0	0	0	0	0
Togo	0	0	0	0	0	0	0	0	0	0
Tunisia	0	0	0	0	0	0	0	0	40000000	0
Turkey	35000000	0	0	534000000	1059000000	630000000	799000000	577000000	880000000	800000000
Turkmenistan	..	..	..	0	0	0	0	0	0	0
Uganda	0	0	0	0	0	0	0	0	0	0
UAE	..	..	..	..	..	..	..	..	..	..

Table A2.3: Export Processing Zones in Selected IDB member Countries in the 1990s

Country	Number &Type of Zones	Incentives	Employment (persons)	Investor Countries
Bangladesh	2 EPZs and 4 other under construction	10-year tax holiday	2.2 million	Korea/Bangladesh Japan/Hong Kong
Egypt	11 EPZs	Tax & duty exemption	670000	
Indonesia	26 EPZs	12-year tax holiday		Japan/United Kingdom/Singapore
Iran	14 EPZs	15-year tax holiday		
Malaysia	15 EPZs			Japan/United States/Singapore
Pakistan	15 EPZs and 9 planned	5-year tax holiday		
Senegal	1 EPZs	Tax & duty exemption		
Togo	1 EPZs	10-year tax holiday	10000	
Tunisia		10-year tax free export and no customs duties	30000	
Turkey	14 EPZs	Tax & duty exemption		

Source: UNCTAD 1999a.

Table : (A4.1) Preference of Arab Investors (by Sectors and Country)

Country	Agricultural Sector	Industrial Sector	Real Esate Sector	Trade & Services Sector	Banking & Financial Sector	Tourism Sector	Contract, Buildings & Roads Sector
Jordan	+	-	-	+	+	-	-
U. A. E.	+	+	+	+	+	-	-
Bahrain	+	-	-	+	+	-	+
Tunisia	-	+	+	-	+	+	-
Saudi Arabia	+	+	-	+	+	-	+
Sudan	-	+	-	-	-	-	-
Syria	+	+	+	-	-	+	+
Iraq	+	-	-	-	-	-	-
Oman	+	+	+	+	-	-	-
Qatar	+	-	-	+	+	-	+
Kuwait	+	-	+	+	-	-	-
Lebanon	+	+	+	+	+	+	+
Egypt	+	+	+	+	-	+	+
Morocco	+	+	+	-	+	+	-
Yemen	+	+	-	-	-	-	-

Source : IAIGC (1993), Table (6), p.62.

Notes : + Indicates preference;
- Indicates no preference

ISLAMIC DEVELOPMENT BANK
Postal Address: P.O.Box 5925, Jeddah- 21432
Kingdom of Saudi Arabia
Cable Address: BANKISLAMI- Jeddah Telephone: 636 1400
Telex: 601137 ISDB SJ Facsimile: 6366871
E.Mail : idbarchives@isdb.org.sa Home Page: HTTP: //www.ISDB.ORG