

How effective are investment promotion agencies in attracting more foreign direct investment?

A case study of the 27 European Union countries

Master Thesis

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Abstract

This master thesis investigates the impact of a host country's investment promotion agency (IPA) on foreign direct investment (FDI) inflows. The theory suggests that investment promotion is one of the pull factors that influences a potential investor's decision process, but still the most important FDI determinant is the host country's investment climate. Empirical findings of this theory are, however, mixed. In this thesis, we employ the approach pioneered by Sung Hoon Lim (2008) to shed more light on this issue. The empirical analysis carried out in this thesis to test the theory, employed aggregate and country-sector disaggregate level data for the 27 European Union countries over the 1997-2012 period, confirms the theoretical predictions made. In particular, it is shown that partial mediation between IPAs and FDI inflows exists. A host country's IPA has an indirect, but positive and significant affect in acquiring more FDI greenfield projects in the EU27. While a host country's business environment has a direct effect on FDI inflows in the EU27, which is enhanced by the existence of an IPA. In this regard, it might be said that still the fundamental determinant for the potential investor is a host country's business environment and it cannot be replaced by the existence of an IPA. Since it was proven that a host country's IPA still has an indirect effect on FDI inflows, it could be said that positive improvements in the quality of IPAs, defined as website quality, inquiry handling quality and total quality, are expected to lead to attracting a greater number of FDI projects.

Keywords: Investment promotion agencies (IPAs), foreign direct investment (FDI), investor facilitation, mediation analysis, direct effect, indirect effect, greenfield projects.

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1. Introduction

Foreign direct investment (FDI) contributes to host countries economic development and growth by bringing external capital, generating direct employment, as well as transferring new technologies and know-how¹. According to recent literature, FDI also leads to productivity spill-overs to domestic firms². Hence, it helps host countries to enhance their competitive position in the global economy and support them in accessing foreign markets. Anticipating FDI benefits, countries compete fiercely over foreign capital. Especially in the current global financial and economic crisis environment, when FDI inflows fell sharply in 2008-2009, international investment promotion policymaking became much more active³.

UNCTAD (2001) had identified three generations of investment promotion policies development⁴. The first generation policy marks the liberalisations of a country's regulatory framework to allow FDI inflows. The establishment of most investment promotion agencies (IPAs) identifies the second-generation policies, while the third generation policies focused on sector targeting investment promotion by IPAs. Recent developments in investment promotions are leading towards 'fourth generation policies' that emphasise that targeting should be directed towards sustainable FDI.⁵ According to VCC and WAIPA (2010) at the moment most IPAs are still in the 'third generation' investment promotion policy development stage. With an increase in agency's activities to attract needed investment, it becomes all the more important to understand the effectiveness of their activities.

¹ Harding and Javorcik (2010)

² See studies by Tondl and Fornero (2008); Abraham, Konings and Sloomakers (2010);

³ United Nations (2012)

⁴ UNCTAD (2001)

⁵ VCC and WAIPA (2010)

Figure 1.1 Investment promotion policy development



Well and Wint (2000) define investment promotion as ‘activities that disseminate information about, or attempt to create an image of, the investment location and provide investment services for the prospective investors’⁶. Hence, it could be said that conventional activities of IPAs comprise of image building, investment generation, expanding linkages between foreign investors and domestic suppliers, information dissemination and investment facilitation. In addition, some IPAs participate in policy advocacy, but it is not a common practice among European IPAs to be able to implement regulations that are relevant to FDI inflows e.g. investor incentives strategies. In other words, investment promotion is more like ‘*a national marketing strategy*’ as IPAs promote the country’s products and services by strategic targeting. While it could be said that multinationals (MNCs) are like hard-to-please and ready-to-invest consumers that are hunting for the perfect and well suited product ‘*a country*’ matching their investment needs.

However, marketing is not always successful as John Wanamaker points out in his famous quote: ‘Half the money I spend on advertising is wasted; the trouble is, I don't know which half.’⁷ With regard to IPAs most of them are publicly financed, which makes national governments doubting whether these activities have the expected effects (i.e. in line with marketing money spent). That leads to the main topic of this research. The master thesis focuses on the impact of the investment promotion agencies (IPA) in attracting foreign direct

⁶ Well and Wint (2000) p. 8

⁷ <http://www.marketingmagazine.co.uk/article/1227865/five-ways-technology-makes-digital-advertising-accountable>

investment (FDI) inflows. The main research question: *How effective are investment promotion agencies in attracting more FDI into the host EU country?*

The thesis will primarily investigate to what extent a country's IPA affects investment flows in general and what IPA activities, mainly sector targeting, the inquiry handling and the agency's website quality, affect FDI inflows the most. To this end, this paper presents a theoretical and an empirical analysis of the aforementioned relationship. The theoretical setting in this thesis builds on the Sung-Hoon Lim (2008) analysis in order to investigate the impact of investment promotion through IPAs on foreign capital inflows. The empirical analysis is based on FDI inflows and its determinants (the host country's business environment and IPA's activities) and is built over 1997-2012 period at the European Union 27 country and 50 sectors levels. The contribution of this research paper to the existing literature is that it employs more accurate measures to proxy IPAs activities rather than measuring the institutional setting of IPAs. Furthermore, the empirical analysis is based on a more conventional methodology that regards the role of IPA as a mediator between a country's business environment and FDI inflows.

The remainder of this research is structured as follows. An overview of recent trends in FDI flows and the competitiveness of the EU industries are presented in Chapter 2. Chapter 3 follows by reviewing the existing literature on the effectiveness of investment promotion. In Chapter 4, we set out the theoretical model, combining the theoretical insights gained in Chapter 3 with the trends observed in Chapter 2. Chapter 5 presents the empirical analysis and results. Section 6 provides conclusions and areas for further research.

2. Recent trends in EU FDI flows and the competitiveness of EU industry

2.1 Global FDI trends

Due to the integration of international capital markets, global foreign direct investment flows have seen an incredible increase over the last two decades. In 1990 global FDI inflows accounted for around US\$ 200 billion and were steadily increasing at an average rate of 23% despite a sharp dip in 2000 (see Figure 1). In 2007, global FDI inflows reached a record level of US\$ 2,000 billion. However, due to the global economic and financial crisis this record level of FDI inflows was followed by a deep recession and sluggish recovery, especially for the industrial countries. Furthermore, a sharp decline to US\$ 1.2 trillion was recorded in 2009 (see Figure 1). After a sharp fall in 2008-2009, a moderate rebound in FDI inflows appeared in 2010 (US\$ 1.4 trillion) and a more sophisticated increase was experienced in 2011 (US\$ 1.6 trillion). However, this promising recovery was followed by an 18% decline in 2012. The fact FDI did not recover to pre-2008 levels could be attributed to investors' uncertainty relating to lower GDP growth rates. In addition, a weaker trade, capital formation and employment environment that are related to the Eurozone crisis and the US fiscal cliff⁸ may also be contributing factors. In general, FDI inflows to developing countries were resilient to falling FDI flows and they even managed to outperform developed countries in attracting FDI⁹. In contrast, developing countries attracted the largest share of the world's FDI inflows accounting for 52% in comparison to developed countries share of 41.5%, the EU countries 19% and transition countries 6.5% in 2012¹⁰. Different driving forces behind FDI inflows could explain the different performances in developing and developed countries. FDI flows to developing countries were mainly sourced through a continuing increase in greenfield projects, while FDI flows to developed countries were coming from cross border M&A by foreign MNC¹¹. Hence, due to uncertainty surrounding the global investment climate, TNCs are holding back their cash holdings from investment rather than fuelling sustainable growth in investment. With regard to high income emerging countries, their higher growth performance makes them also more resilient to falling FDI flows.

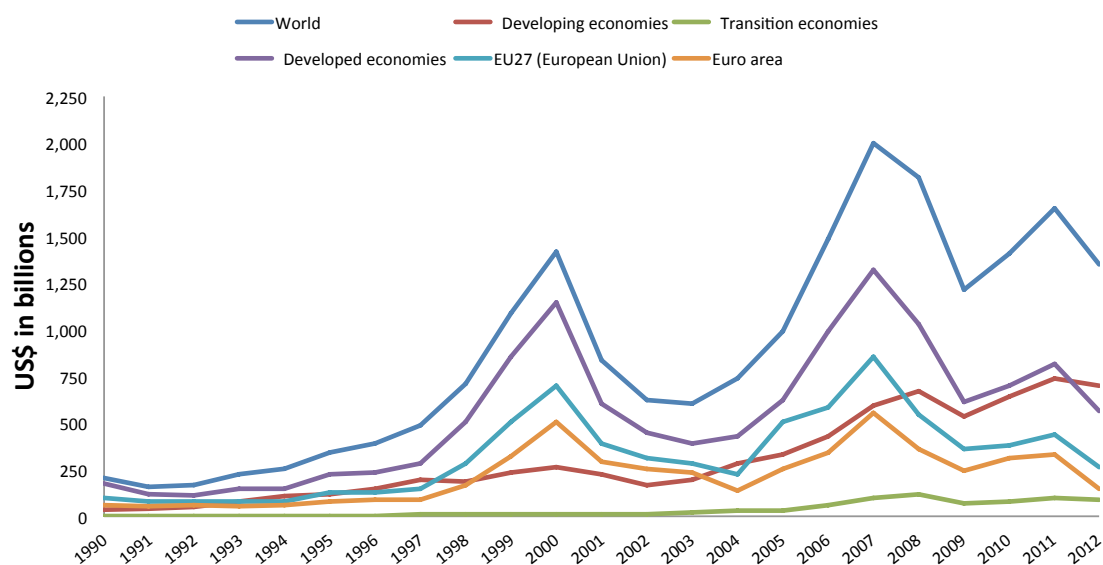
⁸ UNCTAD (2013)

⁹ UNCTAD (2013)

¹⁰ These shares are the authors own estimations based on the UNCTAD dataset.

¹¹ United Nations (2012)

Figure 2.1 Global Inward FDI flows, 1990-2012



Source: UNCTADSTAT

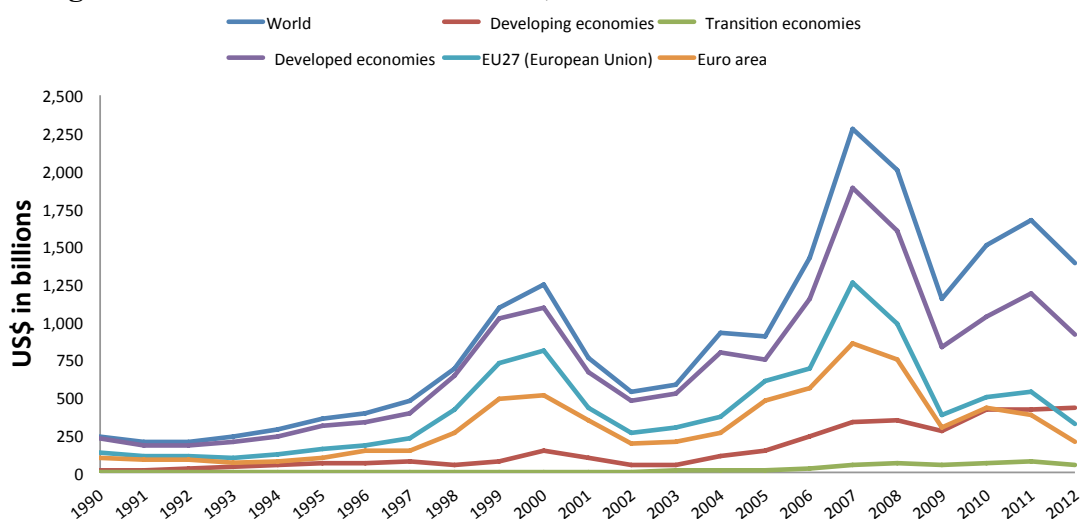
The same trend can be seen in FDI outflows as developed countries, the main source and recipients of FDI, are significantly more affected by the current crisis. Hence, developed countries experienced lower FDI outflows compared to the pre-crisis level, especially the EU, due to a more severe Eurozone crisis (see Figure 2). In general, while developed countries experienced a sharp decline in FDI outflows, developing countries experienced an increase in FDI outflows amounting to a share of 34% in 2012¹². As it is seen in Figure 2, in terms of FDI outflows, developing countries outperformed the EU 27 countries in 2012. This significant FDI outflow performance in developing countries was driven by a relatively better participation of Latin America, Caribbean and Africa¹³. But still Asian countries kept the largest share of FDI outflows, namely three quarters, in this group¹⁴.

¹² For more information see: http://unctad.org/Sections/dite_dir/docs/diae_stat_2013-04-29_d2_en.pdf

¹³ For more information see: http://unctad.org/Sections/dite_dir/docs/diae_stat_2013-04-29_d2_en.pdf

¹⁴ For more information see: http://unctad.org/Sections/dite_dir/docs/diae_stat_2013-04-29_d2_en.pdf

Figure 2.2 Global outflows FDI flows, 1990-2012



Source: UNCTADSTAT

According to fDi Market, 11,789 global FDI projects were recorded in 2012. However, the number of FDI projects declined by 16.3%, while the decline in total capital investment accounted to 33.5% (US\$ 565bn) in 2012 compared to 2011¹⁵. It is not surprising that the same pattern was seen in employment generation from FDI that declined by 28.8% in 2012 from 2011 level. Global FDI market was effected by numerous negative impacts namely high market volatility, sluggish economic recovery, especially in Europe, Japan, Brazil and China, in addition to policy uncertainty and sovereign debt crisis’ in the EU and the US as well as political instability in the Middle East¹⁶. Hence, recent trends in FDI flows point out that current investments are not targeted towards an improvement in productivity, which is needed to fuel the sluggish economic recovery.

2.2 Inward FDI flows to the European Union countries

Drawing attention to the EU 27 countries, which play a significant role in global FDI flows demonstrating both the potential of the single market as well as the robust competitive position of EU multinationals in foreign markets. In terms of an investment perspective, Western Europe ranked as the second most attractive FDI destination region while CEECs took third place¹⁷. In 2012 the EU still managed to attract a reasonable share of the global

¹⁵ fDi Intelligence (2013)

¹⁶ fDi Intelligence (2013)

¹⁷ Ernst & Young (2012)

FDI inflows accounting for 19%, but the share of global FDI inflows has shrunk significantly from 43% in 2007 resulting from the recent global economic and financial crisis (see Figure 2.2). Both intra-EU and extra-EU FDI inflows declined significantly during 2008-2012 period. As a general trend intra-EU FDI inflows dominated those coming from non-EU countries (see figure 2.3). In 2012 non-EU FDI inflows amounted to 70% indicating that contrary to the intra-EU, extra-EU FDI inflows seems to be picking up at a faster rate (see Figure 2.3). This could be linked to a sluggish recovery due to the European economic crisis in comparison to the relatively better performance of emerging countries. Furthermore, the significant decline in intra-EU FDI inflows might also be related to the natural adjustment towards long-run equilibrium conditions after a notable increase in intra-EU flows, especially those directed towards the EU 12 countries, and flourishing economic growth during that period.¹⁸ Concentrating on extra-EU FDI inflows, in 2012, the US remained the main source of FDI inflows accounting for over 60% of investment from the rest of the world followed by Canada (12%), Japan (4.9%), Russia (4.6%) and Hong Kong (4.4%)¹⁹. In 2011, FDI inflows from Switzerland accounted for EUR 34 billion while in 2012 it lost its dominance reaching disinvestment of EUR 6 billion²⁰. The most important emerging sources of inward FDI flowing to the EU are China, Hong Kong and Japan²¹. In 2011, Brazil (EUR 4.7 billion) and India (EUR 1.9 billion) showed a promising signs of becoming emerging sources of FDI inflows to EU, unfortunately, both countries recorded disinvestment in 2012²².

¹⁸ European Commission (2012)

¹⁹ For more information see: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-13062013-AP/EN/2-13062013-AP-EN.PDF

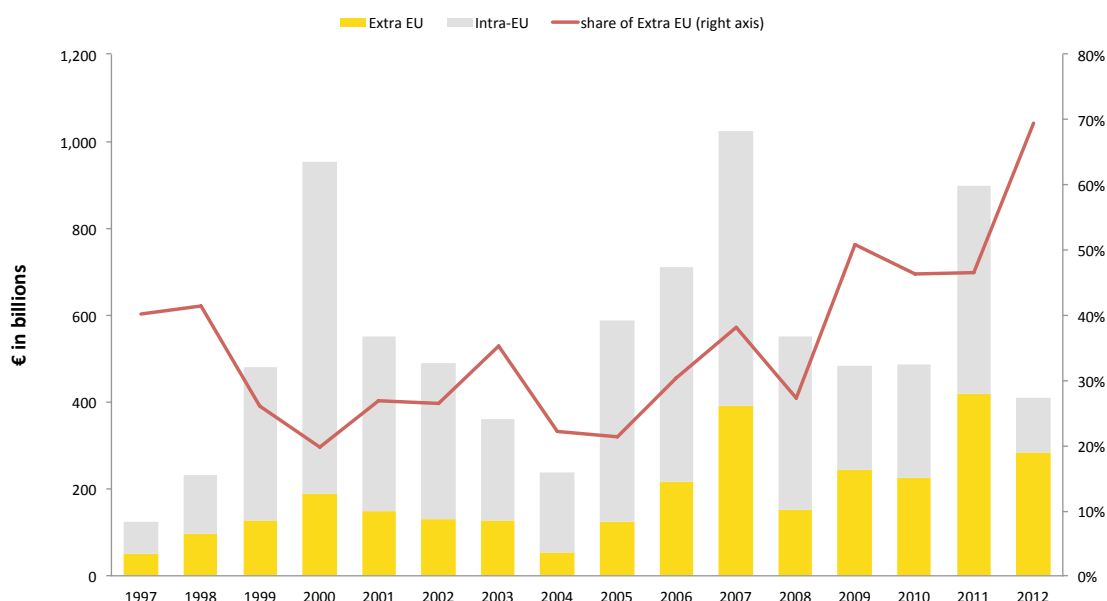
²⁰ Eurostat

²¹ European Commission (2012)

²² For more information see

http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Foreign_direct_investment_statistics

Figure 2.3 EU-27 FDI inflows, 2001-2012



Note: EU is EU-15 for 1997-2000, EU-25 for 2001-2003 and EU-27 for 2004-2010. EU flows calculated as the sum

of EU Member States.

Source: Eurostat

Focusing on greenfield investments, the primary target of investment promotion, the number of FDI projects attracted to Europe declined by 2.8% in 2012 compared to 2011²³. Figure 2.3 presents the top 15 European countries that accounted for 85% of total number of FDI projects coming into Europe and 88.7% jobs created by FDI projects. Still the region's three largest economies, namely the UK and Germany and France accounted for 47.2% of FDI projects and 31.3% of jobs created. The UK performed relatively better than other countries in the region in attracting FDI projects accounting for 18.4% of market share and 17.8% of jobs created²⁴. A significant recovery was shown by Ireland. With the return of stability and regaining confidence in the Irish economy, Ireland managed to increase its market share of FDI in Europe up to 16% in 2012 compared to 2011²⁵. Furthermore, from the top recipients of FDI, Spain and Poland were the only countries that actually experienced an increase in 2012(see the map below). Furthermore, Poland increased its share of direct employment creation by FDI in Europe to 12.7%²⁶. Regarding the structure of FDI inflows into the EU, services and manufacturing sectors still dominate. ICT represented the largest

²³ Ernst & Young (2013)

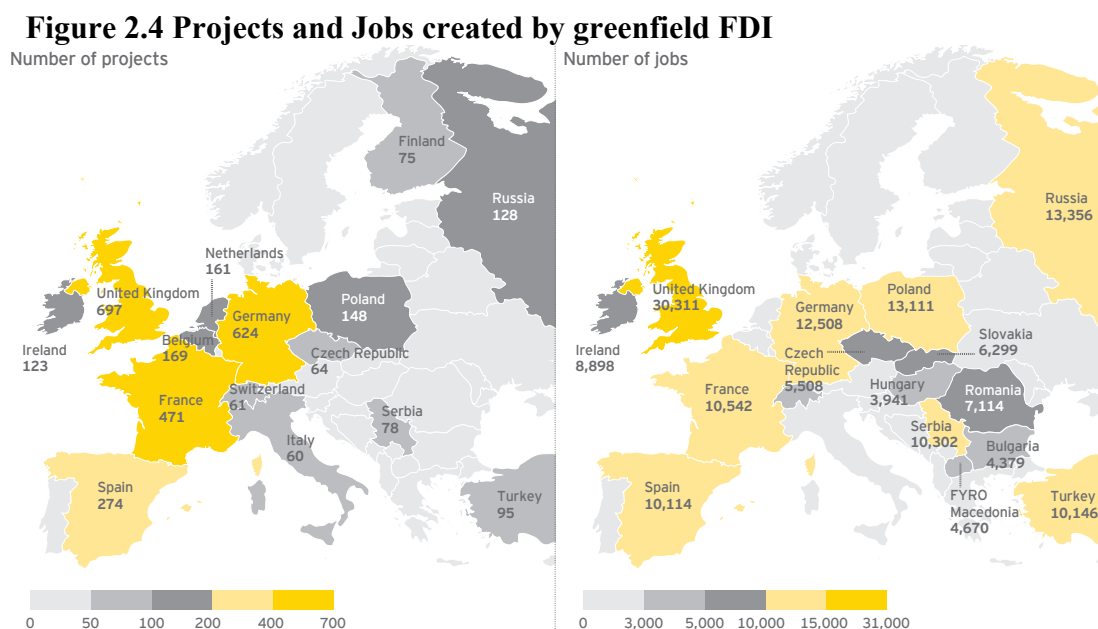
²⁴ Ernst & Young (2013)

²⁵ Ernst & Young (2013)

²⁶ fDi Intelligence (2013)

share of FDI projects into Europe accounting for 23.28%, which was followed by business and financial services sector that stood at 20.69%²⁷.

Despite the fact that EU 27 inward FDI significantly declined, the EU 27 is still considered to remain a favourable destination of FDI due to the size of the market, openness to FDI and deep economic integration between EU Member States²⁸. With regard to the EU 15 countries, the predominant FDI driving forces are a significant market size and relatively stable investment environment. Whereas for EU 12, growth of the market plays the main role in attracting FDI followed by relatively cheaper labour as well as the availability of skilled labour²⁹. Furthermore, the single currency in the euro-zone should also contribute towards FDI as it reduces transaction costs as well as eliminates the exchange rate uncertainty.



Source: Ernst & Young's attractiveness survey, Europe 2013

²⁷ fDi Intelligence (2013)

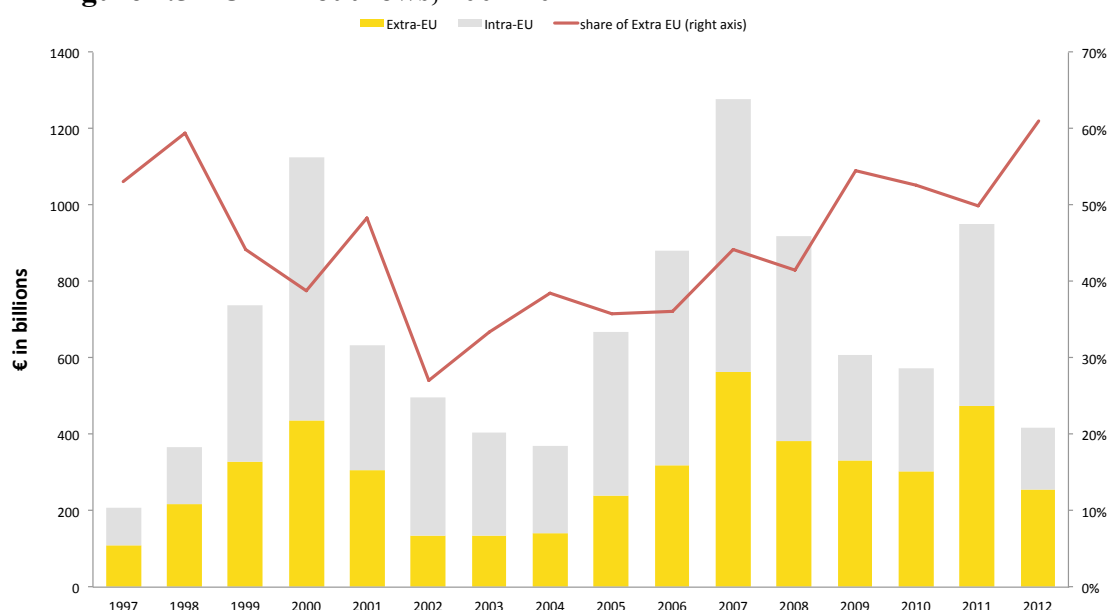
²⁸ European Commission (2012)

²⁹ European Commission (2012)

2.3 Outward FDI flows to the EU

At the global level, the EU is by far the largest direct investor, accounting for more than half of global FDI outflows (intra-EU flows included)³⁰. During the 2008-2010 period both extra-EU and intra-EU outflows contracted, though intra-EU outflows felt a larger contraction compared to the extra-EU (see Figure 2.5). Furthermore, EU MNEs also shifted their focus from EU 10 countries towards fast-growing emerging markets outside the EU³¹.

Figure 2.5 EU FDI outflows, 2001-2012



Note: EU is EU-15 for 1997-2000, EU-25 for 2001-2003 and EU-27 for 2004-2010. EU flows calculated as the sum of EU Member States.

Source: Eurostat

Following a similar trend North America and Other Europe (non-EU countries) are the main regions attributing to EU outward FDI accounting for more than half of total extra-EU outflows. In 2011, the predominant countries of the EU FDI outward stocks were the US and Switzerland accounting for 29% and 12% respectively³². While the region's three largest economies the United Kingdom (18%), France and Germany (both 13%) being the main EU FDI stocks holders in the US³³. This trend in the EU FDI outflows show that a significant

³⁰ European Commission (2012)

³¹ European Commission (2012)

³² For more information see:

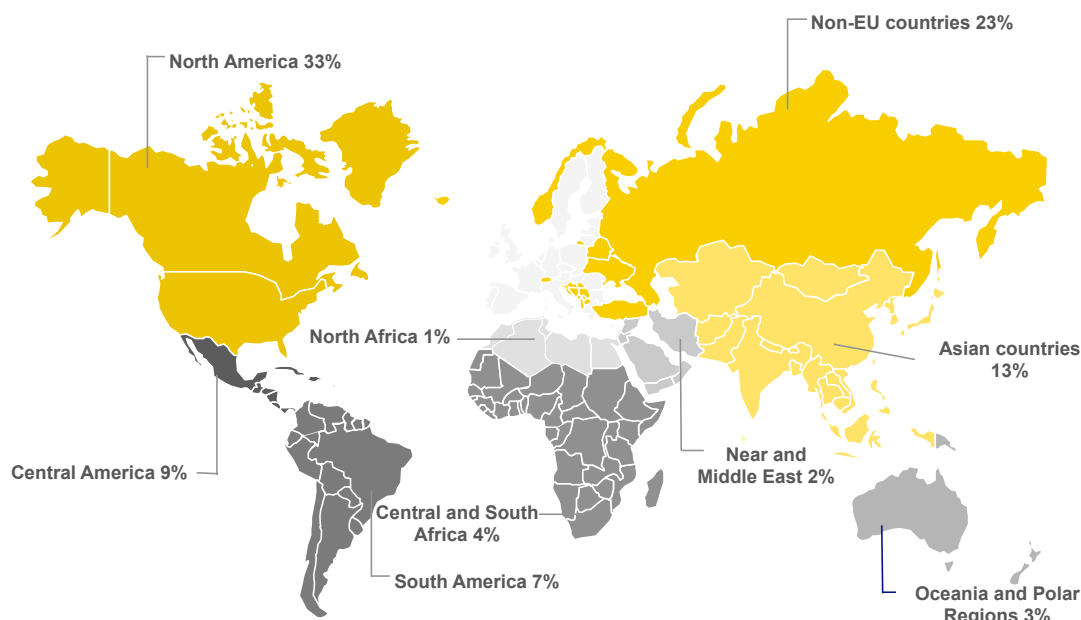
http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Foreign_direct_investment_statistics

³³ For more information see:

http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Foreign_direct_investment_statistics

share is still addressed to market-seeking FDI in high-income countries³⁴. However, the share of EU 27 outward FDI experienced a shift from developed countries towards emerging economies. In 2012, Asia and Latin America accounted for 29% (see the map) of total extra-EU outflows, while Brazil, Hong Kong, Singapore and China were the main recipients³⁵. In general, the EU 15 countries dominate total EU outward FDI stock to non-EU countries, taking the share of 97% compared to the EU 12 countries amounting to approximately 3% in 2011³⁶.

Figure 2.6 The EU 27 FDI outflows in 2011



Source: Eurostat

Looking at the breakdown of the EU 27 FDI outflows in 2010, despite the turmoil around the financial services due to the current global economic and financial crisis, the service sector still remains the main recipient accounting for 58% of total outward FDI in the EU 27 in 2011³⁷. Whereas manufacturing is the second biggest sector accounting for 23% of

³⁴ European Commission (2012)

³⁵ For more information see:

http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Foreign_direct_investment_statistics

³⁶ Based on own calculations on Eurostat data.

³⁷ Eurostat

the total EU 27 outward FDI concentrating in chemicals, metals and food sub-sectors in 2011³⁸.

Global and the EU 27 trends in FDI flows are relatively similar, both experiencing a sluggish recovery from the global financial and economic crisis. Global as well as the EU 27 FDI flows experienced a shift from developed countries towards the high-growth developing market. In contrast to the relative poor performance of the global and the EU 27 FDI flows, TNCs are estimated to be holding US\$ 6 trillion in addition to sovereign wealth and pension funds holding an additional US\$ 10 trillion³⁹. Instead this amount of money could be used for foreign direct investments that would contribute to further economic growth. UNCTAD projected that the estimated US\$ 5 trillion in total TNC cash holdings could result in more than US\$ 500 billion in investable funds, which is approximately one third of global FDI funds⁴⁰. Current MNEs' cash holdings could be considered a possible source for future FDI surges. Hence, investment promotion – especially in these difficult times to attract FDI – play a crucial role in a country's development and position in the global foreign direct investment market. Therefore the next section will look at the existing literature on the effectiveness of investment promotion.

³⁸ Eurostat

³⁹ For more information see: http://unctad.org/Sections/dite_dir/docs/diae_stat_2013-04-29_d2_en.pdf

⁴⁰ UNCTAD (2012)

3. Theoretical research into investment promotion agencies

There has been a fast growth in the number of IPAs around the world, especially during 1990-2006 period. Even though investment promotion has also gained a more active role in policy area, the effect of investment promotion has not been broadly analysed by economists. The findings from the existing literature present a mixed picture regarding the effectiveness of investment promotion in attracting FDI. The most important studies on the effectiveness of IPAs are presented in Table 3.1.

Wells and Wint (1990) study is one of the first attempts to investigate investment promotion. Despite the fact that IPAs might undertake different activities, the authors clustered investment promotion activities into four main investment promotion techniques: national image building, investment generation, investor facilitation services and policy advocacy⁴¹. National image building activity is seen as a national marketing campaign through which an IPA is aiming to bring awareness of a country as an attractive location of MNCs investments. Investment generation concentrates on a specific industry, firm and market in order to create leads for investment. Investor facilitation service involves assisting already committed investors in identifying potential location, arranging regulatory criteria for establishing a business. Policy advocacy activities are aimed at improving the quality of the investment climate in the host country by providing the feedback from foreign investors to policy-maker and might also lobby for pro-investment policies. Evidence from their study suggests that IPAs tend to focus more on image building and investment generation activities. Furthermore, their empirical analysis indicated that investment promotion has a statistically significant positive effect on FDI inflows⁴². Morrisset and Andrews-Johnson (2004) took a similar approach as Wells and Wint (2000) in investigating the effectiveness of IPAs, but enriched their analysis with a better data. The empirical analysis confirms that investment promotion activities partly explain cross-country variations in FDI inflow. In addition, authors concluded that policy advocacy activities tend to be the most effective, which are followed by image building and investor facilitation services. With regard to investment generation, authors failed to find any effect, even though it takes a significant share of most IPA's budget.⁴³

⁴¹ Wells & Wint (1990, revised 2000)

⁴² Wells & Wint (1990, revised 2000)

⁴³ Morrisset and Andrews-Johnson (2004)

Some investment promotion professionals such as Harding and Javorcik (2011), Loewendahl (2001), Proksch (2004) consider the third generation investment promotion policy, sector targeting, to be the most appropriate approach in tackling investment. The reasoning behind sector targeting is that the provision of more focused and investor tailored information is more effective than general investment promotion activities that attempt to target all potential investors. First, these theoretical implications are confirmed by Charlton and Davis (2007) empirical study, which concludes that FDI increased in the targeted industry by a 41%. In addition, the result of the Harding and Javorcik (2011) also shows that sectors targeted by IPAs on average received more than twice as much FDI inflows than non-targeted sectors. This empirical finding proves that investment promotion activities should be targeted not only to amalgamate inward investment flows with priority sectors, but also to utilise scarce investment promotion resources in the most efficient way.

A more recent study conducted by Harding and Javorcik (2013) points to the shortcoming of the measures that have been used to proxy IPAs activities in previous studies. They emphasised that IPAs differ widely in terms of the quality of services they provide. Hence, they employed GIPB data on inquire handling and website quality in their empirical investigate. The results of their study confirm that IPA quality is related with higher FDI inflows. Hence, successful investment promotion requires professionalism and high quality services as well as maintaining up to date and user-friendly website that includes relevant information, which an investor requires during the site selection process⁴⁴.

In addition some literature found evidence that investment promotion can influence inward investment only in the context of information asymmetries, especially in emerging markets. Head et al (1999) focused on a different approach in investigating the effectiveness of IPA. They tried to establish the effect of the presence of the investment promotion office in Japan of different states of the US. The authors concluded that investment promotion might work when investors are lacking some relevant information in their investment decision process. Furthermore, Djokoto (2012) study on Ghana point to a conclusion that investment promotion appears to be most useful in a country with an attractive business environment. The results show that business environment is more important in influencing FDI inflows compared to investment promotion, however, IPAs might still play a

⁴⁴ Harding and Javorcik, (2013)

complementary role by providing the needed supporting services to the investors. Furthermore, Harding and Javorcik (2011) suggest that investment promotion mainly reduces information asymmetries and it is only effective in developing countries, where the bureaucratic procedures create more burdens for potential investors. They failed to confirm that IPAs can influence FDI inflows in industrialised countries.

A more conventional approach is taken by Sung-Hoon Lim's (2008) research in assessing how the establishment of an investment promotion agency can influence FDI inflows. An interesting and innovative feature of the Sung-Hoon Lim (2008) approach in investigating the effectiveness of investment promotion is that he regards the role of IPA as a mediator between a country's business environment and FDI inflows. The rationale to take IPAs as mediators is based on the fact that an IPA influences MNCs investment decisions by compensating for market failures as a result of information asymmetries about a country's investment climates. Furthermore, Morisset and Andrews-Johnson (2004) emphasised that still the most significant determinant for the potential investor is the host country's investment climate and these fundamentals cannot be replaced by an investment promotion agency no matter how eminent it is. IPAs act only as facilitators and it is not likely that they define and implement regulations/policies that are relevant to MNC. Hence it is more relevant to assume that an IPA acts as a bridge between the business environment and FDI inflows, which supports the idea that an IPA is a mediator.

The existing literature presents ambiguous evidence on the effectiveness of IPAs. Some studies find a positive relationship between investment promotion and FDI inflows⁴⁵, implying that investment promotion is a cost-effective way to attract FDI. While some studies do not find any significant effect of investment promotion efforts, especially in developed countries⁴⁶. Two main shortcomings could be identified in the above reviewed literature. First, some of the existing literature based their empirical test on crude proxies for IPAs that measure the institutional setting rather than IPAs performance⁴⁷. Second, most of the relevant studies focused on the direct effect of a host country's investment promotion on FDI inflows rather than investigating a possible indirect effect⁴⁸. The contribution of this

⁴⁵ Wells and Wint (2000), Loewendahl (2001), Morisset and Andrews-Johnson (2004), Šimelytė (2012), Harding and Javorcik, (2013)

⁴⁶ Head et al. (1999), Harding and Javorcik (2011), Djokoto (2012)

⁴⁷ Harding and Javorcik (2013)

⁴⁸ Lim (2008)

research paper to the existing literature is that it improves on both of the above-mentioned shortcoming. The Global Investment Promotion Benchmarking (GIPB) data is used to measure IPAs activities, which takes into account the fact that IPAs significantly differ in terms of their services quality. Furthermore, a mediation analysis is conducted to account for a possible indirect effect of a host country's investment promotion agency and FDI inflows.

Table 3.1 Summary of previous studies

Author	Empirical methodologies	Sample	Main research question	Findings
Wells & Wint (1990, revised 2000)	They conducted two approaches: statistical analysis regarding Business Facilities' listing countries actively promoting in the United States as a dummy and field-based interviews.	The research is based on 50 case studies from both developed and developing countries that starts from 1985.	How to identify the combination of the available investment promotion techniques that could be most effectively used to attract investors to their economies? How to determine the most appropriate form of organization for the investment promotion function? How to evaluate the effectiveness of their investment promotion function, both in general terms, and with respect to specific investment promotion techniques?	Found a positive relationship between investment promotion and FDI per capita.
Head, Ries and Swenson (1999)	Regression analysis using a dummy for the investment promotion office in Japan.	760 Japanese manufacturing establishments in the US during 1980 -1992 period.	The primary goal of this study was to assess the statistical significance of states' investment promotion efforts.	Did not find any significant effect of investment promotion offices in Japan, though the effect is positive.
Loewendahl (2001)	No empirical test, the research is based on case-studies.	N/A	Investigates four main areas of investment promotion: strategy and organization, lead generation, facilitation, investment services.	Findings suggest that an integrated promotion strategy, meaning that combining national image marketing and company targeting with after-care and product development, works best.
Morrisset and Andrews-Johnson (2004)	The analysis is based on a simple approach based on the assumption that governments strive to maximize the level of FDI inflows and at the same time minimize resources allocated to the promotion effort. Proxies for investment promotion: IPA budget, IPA staff, public agency dummy, number of private representatives in the IPA board, prime minister/president dummy.	58 cases in 2001.	To what extent does investment promotion help explain cross-country variations in FDI flows? To what extent does the business environment or the country's characteristics affect the effectiveness of investment promotion? Does the effectiveness of investment promotion vary according to the functions or activities on which it focuses?	Their results suggest that IPAs are effective in influencing possible investors decision and it partly explains cross-country variations in FDI flows. The authors found that policy advocacy appears to be the most effective function, followed by image building and investor service, while investment generation does not lead to an increase in FDI flows. With regard to different agencies' characteristics they conclude that agency's mandate, staff qualification and the number of overseas

Author	Empirical methodologies	Sample	Main research question	Findings
Charlton and Davis (2007)	A panel data difference-in-difference matching score estimator.	19 of OECD countries during 1999–2001 period.	Is the effectiveness of investment promotion influenced by different agencies' characteristics such as their structure, mandate, sources of funding, and institutional relationships?	agencies had no significant effect on FDI inflows. Though agencies that have reporting mechanisms to the highest political level and receive some support from private sector have been associated with more FDI.
Bobonis and Shatz (2007)	The Arellano-Bond (AB) dynamic panel data generalized-method-of-moments (GMM) estimator, OLS and FE regressions.	The level of FDI across the United States during 1977–1996 period.	Whether national investment promotion activities succeed in increasing the volume of inward investment or whether this expenditure merely subsidises investments, which would have occurred in its absence.	The findings confirm that investment promotion increases the volume of FDI. The authors found that sector targeting by IPIs increased the growth rate of FDI inflows into the industry by 41%.
Lim (2007)	Structural equation analysis with maximum-likelihood estimations regarding IPA as a mediator between the host country's FDI environment and FDI inflows. Proxies for investment promotion: IPA age, overseas staff intensity (ratio of overseas staff to total staff), number of IPA staff.	Cross-sectional analysis for 68 countries where the Korea Trade-Investment Promotion Agency (KOTRA) maintains an overseas office (22 in Europe, 15 in Middle East and Africa, 2 North America, 12 Central and South America) in 1999.	Whether forces leading to agglomeration—the geographic clustering of economic activity—affect the level of FDI across the United States. Also investigating the effect of fiscal policy and investment incentives on the level of FDI.	Found that investment promotion is associated with higher FDI inflows into developed countries. In particular, they found that a one-percent increase in the number of years with an investment promotion office increased the FDI stock by between 0.14 and 0.27 percent.
Lederman et al.	OLS and the Heckman regression analysis.	103 developing and developed countries in 1999.	How investment promotion agencies can influence FDI inflows?	The empirical results imply that the effectiveness of investment promotion positively affects the attraction of FDI. They concluded that there is a partial mediation of the amount of 0.23.
			Whether EPAs are having an impact on exports? Which	The empirical results suggest that on average export promotion agencies have a statistical

Author	Empirical methodologies	Sample	Main research question	Findings
(2010)		2005.	activities and institutional structures of agencies work the best?	significant effect on export. Their results imply that EPAs services are important in case of asymmetric information associated with export of heterogeneous goods as well as complying with foreign trade barriers. In terms of EPAs structure, the authors found that having the large share of private sector representatives in the executive board and having a publicly funded budget works the most efficient.
Harding and Javorcik (2011)	Regression analysis with difference-in-difference approach as well as country-year fixed effect, country-sector fixed effect, sector-year fixed effect.	124 countries over the period 1990-2004 of US FDI.	Whether sectors explicitly targeted by IPAs received more FDI than non-priority sectors during the same period?	The results showed that sectors targeted by IPAs received on average more than twice as much FDI than non-targeted sectors. Furthermore, investment promotion works better: in non-English countries which are culturally distant from the USA; in countries with less effective or corrupt governments; in countries where it takes longer to start a business or obtain a construction permit. The authors conclude that investment promotion works in developing countries but not in industrialised countries.
Šimelytė (2012)	Used three multiple criteria methods: Simple Additive Whitening (SAW) Method, the Algorithm of TOPSIS, CDM-23 Method. Investigated a set of 25 criteria that describes FDI flows.	Lithuania, Latvia and Estonia.	Investment promotion effect on FDI flows in three Baltic States.	According to all three different methods, investment promotion efforts proved to influence FDI flows. In particular, the investment promotion programme implemented by Estonia is most successful compared to Latvia and Lithuania. This is because Estonia managed to implement investment promotion in full meaning undertaking all three main activities: image-building, investment-generating, investment services, while Lithuania and Latvia are still at the national image-building stage.
Filippov (2012)	Case-study analysis, specifically focusing on investigating if IPAs have	27 EU member states (with 3 federal regions)	Examined, compared and analysed current promotion efforts of the	The analysis concluded the 39 European IPAs made a right decision in facilitating

Author	Empirical methodologies	Sample	Main research question	Findings
	websites in BIRC languages and a representation office in BRIC countries.	of Belgium) and 9 European non-EU countries (Albania, Bosnia- Herzegovina, Croatia, Iceland, the Former Yugoslav Republic of Macedonia, Montenegro, Norway, Serbia and Switzerland) in mid-June 2012.	national IPAs of 27 EU member-states and several other European non-EU countries, in particularly targeting BRIC FDI.	FDI from BRIC countries.
Djokoto (2012)	Cointegration among investment promotion (IP) and foreign direct investment flow (FDI) into Ghana was established using auto regressive distributed lag (ARDL) models in the presence of a mix of I (0) and I (1) variables. Took IPA (GIPC) as a dummy variable.	FDI inflows to Ghana from 1970 until 2008.	What is the effect of investment promotion on FDI inflow into Ghana?	The study found insignificant but positive relation between Ghana's investment promotion agency (GIPC) and FDI inflows. This means the transformation of the investment institution into GIPC has no significant singular contribution to FDI inflow into Ghana.
Harding and Javorcik (2013)	Analysis based on aggregated data: regression analysis controlling for a set of host country characteristic. Robustness checks by controlling for business climate and government effectiveness. Analysis based on sectoral level: regression analysis with difference-in-difference approach and the normalised IPI quality score, country and industry fixed effects.	156 countries during 2000 -2010 period	Whether better quality of IPI services translate into higher FDI inflows?	The results of this study suggest that there exists a positive and statistically significant relationship between IPI quality and FDI inflows. Greater volume of FDI is attracted by countries with IPIs that has higher quality of handling investors' inquiries and has a higher quality of Website. A one-unit increase in the GIPB score was associated with a 1.5% increase in FDI inflows.

4. Methodological approach and Data

4.1 Hypotheses

According to the theoretical literature, a host country's business environment matters as an FDI determinant, but also investment promotion activities such as national image building, investment generation, investor facilitation services and policy advocacy, if performed adequately, can influence site selection decisions as they reduce transaction costs associated with acquiring relevant information. In particular, an interesting and innovative feature of the Sung-Hoon Lim (2008) methodological approach in investigating the effectiveness of investment promotion is that he regards the role of IPA as a mediator between a country's business environment and FDI inflows. The rationale to take IPA as a mediator is based on the fact that IPA influences MNCs investment decisions by compensating for market failure as a result of information asymmetries about countries' investment climates. Furthermore, Morisset and Andrews-Johnson (2004) emphasised that still the most significant determinant for the potential investor is the host country's investment climate and these fundamentals cannot be replaced by an investment promotion agency no matter how eminent it is. IPAs act only as facilitators and it is not likely that they define and implement regulations/policies that are relevant to MNC. In particular, it is shown that an IPA cannot influence FDI inflows directly, but it can only act as a bridge between the business environment and FDI inflows, which supports the idea that an IPA is a mediator.

Furthermore, by investigating the activities that most European IPAs undertake and interpreting the definition of investment promotion presented by Wells and Wint (1990)⁴⁹, it seems that the main activities undertaken by IPAs are the dissemination of the right information about the host country to the potential investor and facilitating already committed investors. Policy advocacy is not a common practice among the European IPAs. Hence, IPAs' role in attracting FDI inflows is through making an

⁴⁹ 'activities that disseminate information about, or attempt to create an image of, the investment location and provide investment services for the prospective investors'

influence on the potential investor by compensating for asymmetric information on the investment opportunities in the host countries. This implies an IPA cannot influence FDI inflows directly, but it can only act as a bridge between the business environment and FDI inflows, which supports the idea that an IPA is a mediator. In addition, one should take into account that it is not enough to set up an investment promotion agency and expect an increase in FDI inflows. The key in this mediation effect is the high quality of the investment promotion activities. Only by providing the necessary data in a professional way an IPA can influence the decision making process. Therefore, from this analysis and Lim (2007) study the following hypotheses are formalised:

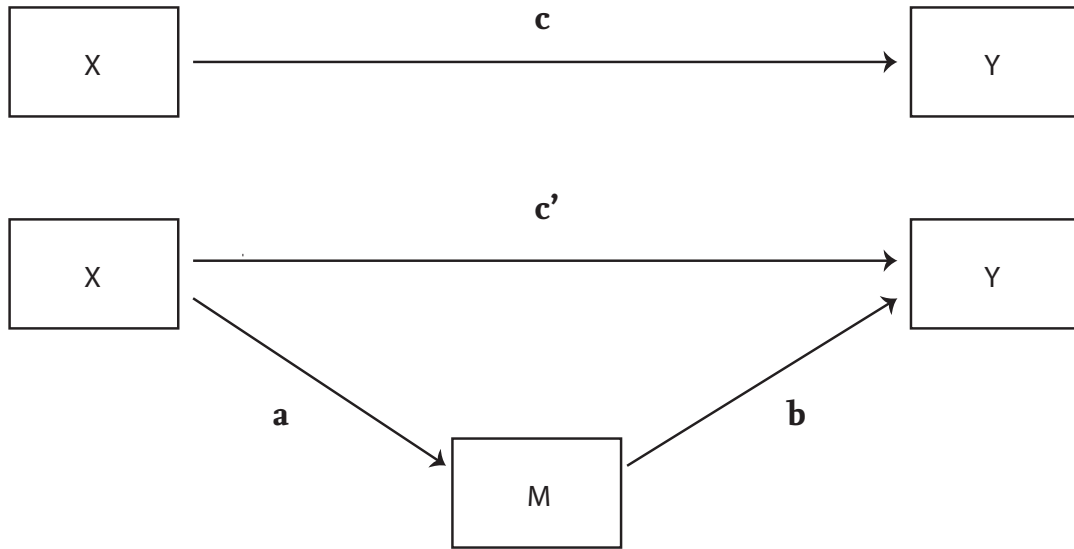
- 1. The host country's business environment has a direct effect on FDI inflows.*
- 2. The host country's business environment has an indirect effect on FDI inflow through an investment promotion agency's activities.*
- 3. The quality of investment promotion activities will further affect the level of FDI inflows.*

4.2 Methodological approach

The theoretical implications of this paper suggest that investment promotion is one of the pull factors that influence the decision process of a potential investor, but this influence is still dependent on the host country's investment climate. Building on the theoretical approach of Sung-Hoon Lim (2008), we propose to treat an IPA as a mediator between a country's business environment and FDI inflows. A single – mediation model is applied in order to assess the impact of IPAs in attracting FDI inflows and to test the hypotheses formalized in section 4.1. In general, a variable can be identified as a mediator if it accounts for the relation between the dependent and independent variables⁵⁰. Hence, in this analysis a country's business environment determines FDI inflows, though this relationship might be magnified by the presence of an investment promotion agency. The simple – mediation model that is used in this research is shown in Figure 4.1 below.

⁵⁰ Baron & Kenny (1986)

Figure 4.1 Simple - mediation



Where X, M, Y represents a host country's business environment, a host country's IPAs activities and a host country's FDI inflows, respectively. Path *c* is the total effect, not adjusting for mediation, of a country's business environment on FDI inflows is represented. Path *c'* is the mediated effect by which a country's business environment indirectly affects FDI inflows through a country's IPA activities. Path *a* is the relationship between a country's business environment and a country's IPA activities. Path *b* is the relationship between a country's IPA activities and FDI inflows adjusting for a country's business environment.

The statistical mediation analysis in this research will be conducted by applying the structural equation model, which is specified as follows⁵¹:

$$Y = \alpha_1 + cX + \varepsilon_1 \quad (1)$$

$$M = \alpha_2 + aX + \varepsilon_2 \quad (2)$$

$$Y = \alpha_3 + c'X + bM + \varepsilon_3 \quad (3)$$

where α_1 , α_2 and α_3 are intercept coefficients, Y is the dependent variable representing FDI inflow, $Y = (GDP\ growth, GDP\ per\ capita, GFCF, Trade\ to\ GDP\ ratio, Inflation)$ is the independent variable representing a host country's business environment and $M = (The\ website\ quality, The\ inquiry\ handling\ quality, The\ total$

⁵¹ MacKinnon et al. (2007)

quality) is the mediator that is considered to be represented by a host country's investment promotion agency. Furthermore, c stands for the coefficients relating a host countries business environment and FDI inflows, c' represents the coefficients relating a host country's business environment to FDI inflows adjusted for a host country's investment promotion agency, b is the coefficient relating a host country's investment promotion agency and FDI inflows adjusted for a host country's business environment, a is the coefficient relating a host country's business environment to the it's investment promotion agency, and $\varepsilon_1, \varepsilon_2, \varepsilon_3$ are residuals. All equations are depicted in Figure 4.1.

The causal step analysis is conducted following the classical approach provided by Baron and Kenny (1986). In order to test for mediation all three equations will be estimated simultaneously with the use of the structural equation model. The following four criteria will be considered to test for mediation. Firstly, there should be a significant relation between the independent variable and the dependent variable. Hence, the direct effect must be significant (i.e. $c \neq 0$), which is estimated by *Equation 1*. Secondly, a significant relationship between the independent variable and the hypothesized mediating variable should be established (i.e. $a \neq 0$). Generally speaking, the *Path a* should be significant (*Equation 2*). Third, the mediating variable should be significantly related to the dependent variable when both the independent and the mediating variables are the predictors of the dependent variable (i.e. $b \neq 0$), estimated by *Equation 3*. Fourth, the coefficient in *Path c* in *Equation 1* must be larger (in absolute value) than the coefficient in *Path c'* in *Equation 3*. In case, the independent variable no longer has an effect on the dependent variable when adjusting for the mediating variable, *perfect mediation* would occur. When the effect of the independent variable on the dependent variable is reduced in absolute size, but not reduced to zero, *partial mediation* would occur.⁵²

Rather than using multiple regressions approach, structural equation modeling (SEM) is employed to test the aforementioned hypothesis in mediation analysis. SEM was chosen because it is a powerful multivariate technique that allows measuring the direct and indirect effects by the use of multiple regressions simultaneously⁵³.

⁵² MacKinnon et al. (2007)

⁵³ Alavifar, Karimimalayer and Anuar (2012)

Furthermore, some researchers concluded that structural equation model simply performs better than multiple regressions approach in the mediation analysis, as it is easier to apply and it enhances the models reliability, especially if the sample size is small⁵⁴. Hence, SEM was employed to test if the role of IPAs could be regarded as mediators between a country's business environment and FDI inflows. In order to assess all three hypothesis (discussed in section 4.1) and to test for mediation effect, two level, aggregated and sector-disaggregated analyses were conducted with SEM maximum likelihood estimation in Stata12. All variables that are included in the model are summarized in Table A.1 in the Appendix.

4.3 Data

For the purpose of empirical investigation of the aforementioned hypotheses the dataset focusing on FDI inflows and its determinants (the host country's business environment and IPA's activities) is built over 1997-2012 period at the European Union 27 country and 50 sectors levels.

The data for FDI inflows was collected from Ernst & Young's European Investment Monitor (EIM), produced by Oxford Intelligence. This data tracks greenfield projects and expansions realised in Europe and excludes capital inflows where investment promotion activities typically do not play a role⁵⁵. EIM tracks inward investments into countries, regions, and cities based on project level data. For this research the FDI inflows data for 27 European Countries disaggregated to 50 sectors over 1997-2011 period was used. The FDI inflows are expressed in terms of number of projects a host country attracted and the number of jobs created by those

⁵⁴ Iacobucci, Saldanha, and Deng (2007)

⁵⁵ EIM excludes the following categories of investment projects:

- Mergers and acquisitions or joint ventures (unless these result in new facilities, new jobs created);
- Licence agreements;
- Retail and leisure facilities, hotels and real estate investments;
- Utility facilities including telecommunications networks, airports, ports or other fixed infrastructure investments;
- Extraction activities (ores, minerals or fuels);
- Portfolio investments (i.e. pensions, insurance and financial funds);
- Factory / production replacement investments (e.g. a new machine replacing an old one, but not creating any new employment); and Not-for-profit organisations (e.g. charitable foundations, trade associations, governmental bodies)

projects. This data enriches the research as it show the real value added to the host country's economy.

The relevant literature was followed in selecting a set of control variables for the host country's characteristics such as GDP growth, GDP per capita, Gross Fixed Capital Formation, Inflation and Economic Openness were collected from Eurostat and The World Bank databases. The first three macro-level variables GDP per capita, GDP growth and GFCF are used to proxy for market size and growth potentials. Empirical studies show that indeed market size and its growth potentials tend to have a significant influence on FDI inflows⁵⁶. Inflation is also considered to be an important macro-variable that influences FDI inflows as it is an important identification of the host country's macroeconomic policy stability and a country's competitiveness. Niazi et al. (2010) found a negative relationship between inflation and FDI. In addition, the trade to GDP ratio, which is used to proxy economic openness of the host country, is considered to be an important pull factor for the potential investor's location decision. Macroeconomic determinants have long been flagged to be crucial for FDI inflows. It is quite obvious that countries that exhibit political stability, higher rate of return, high infrastructure quality are more attractive for foreign investors.

In order to test if business facilitation has an impact on FDI inflows, it is necessary to have relevant proxies for IPAs activities. Hence, this research uses the data for the IPAs performance in providing information for prospective investors, gathered by the World Bank Foreign Investment Advisory Services through Global Investment Promotion Benchmarking (GIPB) series 2006-2012. GIPB assesses the quality of IPAs facilitation performance. It does so by evaluating two aspects of how well IPAs provide the necessary information for the potential investors. Firstly, the agency's websites were judged for their technical strength, design quality, promotional effectiveness, and supply of information needed by investors when they are first compiling a long list of possible investment locations⁵⁷. Secondly, the agency's inquiry-handling rating was assessed by judging the competence and responsiveness of the agency's staff, including timeliness, quality, and credibility of informational

⁵⁶ Dunning (1973); Benacek et al (2000); Durham (2004)

⁵⁷ The World Bank Group (2012)

content⁵⁸. Since the GIPB data is discrete implying that thesis data is systematically unbalanced, which would lead to inconsistent estimators. In order to account for systematically unbalanced data, the trend analysis was performed to increase the observations in GIPB data. Furthermore, the data on sector targeting was collected individually for this research by personally contacting IPAs from all 27 countries. The combination of these two datasets is particularly suitable for the purpose of testing the validity of the third hypothesis.

4.3.1 Descriptive statistics

An elaborate overview of the aggregated analysis descriptive statistics for the overall sample is presented in Table 4.1.

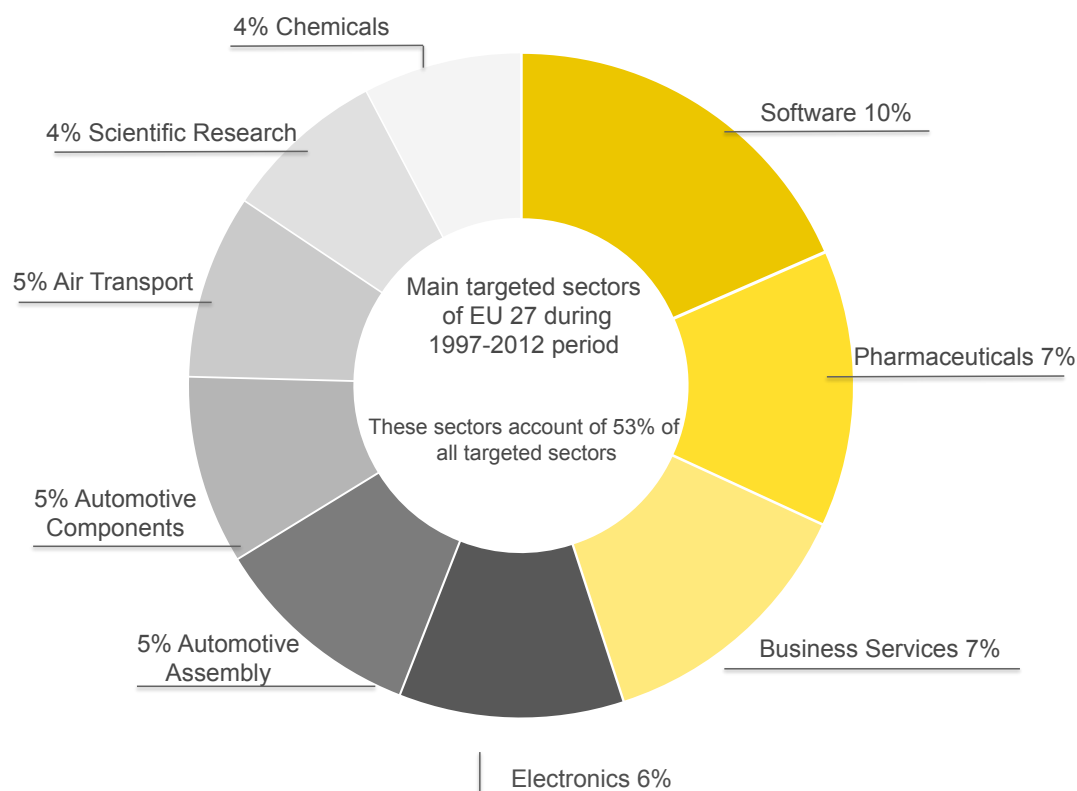
Table 4.1 Descriptive statistics for the aggregated analysis

	Mean	Std. Dev.	Min	Max	No. of observ.
<i>FDI inflows specific variables</i>					
Number of FDI	97.18	146.74	0	818	432
<i>The host countries business environment specific variables</i>					
GDP growth	2.57	3.65	-17.95	12.23	428
GDP per capita	19 920.83	13 667.87	1900	70 400	432
Gross Fixed Capital Formation	3.24	10.54	-40.04	61.41	418
Openness	106.20	50.85	46.49	333.53	425
Inflation	6.57	51.50	-4.48	1058.37	432
<i>Investment promotion agencies' specific variables</i>					
Web quality	80.25	16.72	0	97	432
Inquiry handling quality	50.81	18.52	4	84	432
Total quality	65.66	13.61	16	89	432

The average number of greenfield FDI projects for all countries considered during 1997-2012 period is approximately equal to 97 projects, with a minimum of 0 project in Cyprus from 1997 to 2005. While the maximum of 818 greenfield FDI projects managed to attract the United Kingdom in 1997. Figure 4.1 shows the breakdown of FDI projects in the EU 27 countries during 1997-2012 period. As it could be expected the three largest economies of the region, the United Kingdom, France and Germany accounted for approximately 51% of all FDI projects.

⁵⁸ The World Bank Group (2012)

Figure 4.2 Breakdown of FDI projects by Location



Note: *other countries: Sweden, Romania, Italy, Austria, Denmark, Slovakia, Bulgaria, Portugal, Finland, Lithuania, Estonia, Latvia, Croatia, Slovenia, Luxembourg, Greece, Cyprus.

Source: Ernst & Young's European Investment Monitor (EIM)

Looking at the data that represents a host county's business environment in the EU 27 countries during 1997-2012 period, a number of differences could be observed in the overall sample. The average GDP growth is 2.57% for the overall sample. Latvia is characterised with the lowest GDP growth reaching a negative growth of 17.95% in 2009. While the highest GDP growth of 12.23% is achieved as well by Latvia in 2006. This descriptive statistics finding represents an interesting economic development in Latvia. It indicates that at the beginning of the 21st century Latvia managed to implement necessary economic reforms and undergo important market liberalisations in order to achieve one of the highest growth rates in Europe. Unfortunately, this incredible growth was significantly affected by the global economic crisis. With regard to the GDP per capita, which represents quite significant differences in the EU 27 living standards, the average is approximately €19,921. As it could have been expected the poorest countries in the sample are the CEECs, while the more prosperous

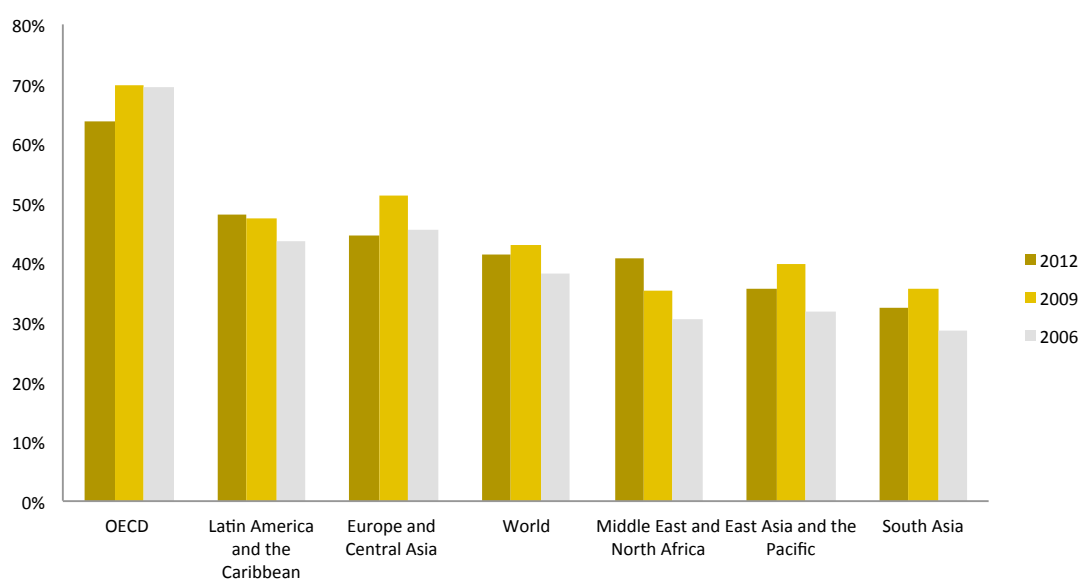
countries are the EU 15 countries with Luxembourg being the richest country during the overall 1997-2012 period. For the overall sample Gross Fixed Capital Formation on average is 3.24%. A sharp dip in 2009 is observed for all the countries in the sample with Lithuania experiencing the largest decrease (40%). Latvia managed to achieve the highest rate of GFCF (61.41% in 1998). Estonia is representing an interesting case with regard to GFCF, as all the countries in the sample it experienced a major decline (39%), but already in 2011 it managed to return to a significant growth of 37.6%. Regarding Trade to GDP ratio, the overall sample represents a parallel positive movement with the average of 106.20%. Luxembourg performs significantly better than the rest of the countries in the sample, reaching 333.53% in 2008. While Italy's Trade to GDP ratio is the worst in the sample. With regard to inflation, the sample is characterized with an average inflation rate of 6.57%, which is slightly above the normal inflation rate range of 2-5%. A hyperinflation rate is experienced by Bulgaria of 1058.375% in 1997. A graphical overview of all the macroeconomic descriptive statistics can be found in the Appendix, Figures A.1 to A.5.

Focusing on the mediating variables that capture the quality of the activities provided by the IPAs, the overall sample is characterized by an average of 80.33%, 50.82 and 65.57% of website, inquiry handling and total quality, respectively. In general, the overall sample falls into good (scores in the range of 61-80 percent) or average (scores in the range of 61-60 percent) IPAs practice categories⁵⁹. However, in 2009 some country's i.e. Austria, France, German and the UK IPAs managed to stand out as being the best practice IPAs meaning that they managed to achieve the overall score of the quality in-between the 81-100% range⁶⁰. It should be pointed out that in the overall sample 21 countries are from the OECD region and only 6 are from the Europe and Central Asia region. Figure 4.2 represents the overview of the total GIPB scores by region.

⁵⁹ The World Bank Group (2012)

⁶⁰ The World Bank Group (2009)

Figure 4.3 Total GIPB score by region



Source: Global Investment Promotion Benchmarking

A detailed description of the sector-disaggregated analysis data is reported in Table 4.2 below.

Table 4.2 Descriptive statistics for the disaggregated analysis

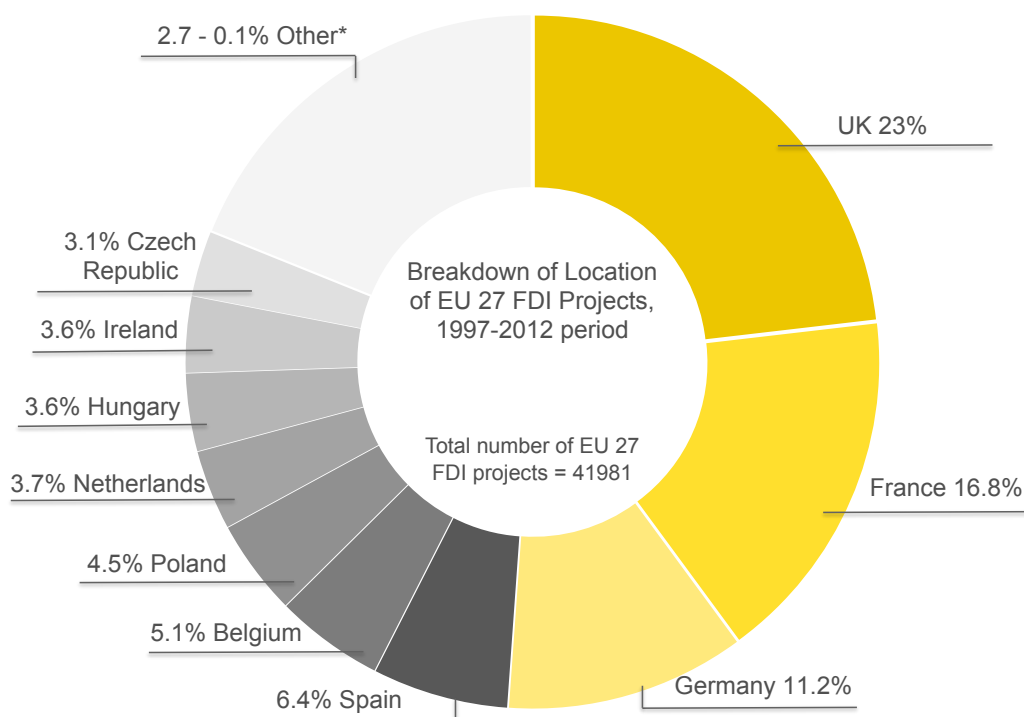
	Mean	Std. Dev.	Min	Max	No. of observ.
<i>FDI inflows specific variables</i>					
Number of FDI	2.61	18.95	0	183	21600
<i>The host countries business environment specific variables</i>					
GDP growth	2.54	3.64	-17.95	12.23	21600
GDP per capita	19920.83	13652.35	1900	70400	21600
Gross Fixed Capital Formation	3.14	10.38	-40.04	61.41	21600
Openness	106.20	50.79	46.49	333.53	21250
Inflation	6.56	51.44	-4.48	1058.37	21600
<i>Investment promotion agencies' specific variables</i>					
Web quality	80.33	16.64	0	97	21600
Inquiry handling quality	50.82	18.55	4	84	21600
Total quality	65.57	13.60	16	89	21600
Sector targeting	0.08	0.28	0	1	21600

The only difference between the aggregated analysis data and disaggregated analysis data is that FDI projects are disaggregated into 50 sectors⁶¹ for all the

⁶¹ Sectors: Agriculture, Air Transport, Automotive Assembly, Automotive Components, Basic Metals, Business Services, Chemicals, Clothing, Computers, Construction, Cultural Activities, Education, Electrical, Electronics, Fabricated Metals, Financial Intermediation, Fishing, Food, Forestry, Fuel, Furniture & Sports Equipment, Health &

countries in the sample during 1997-2012 period. Furthermore, an additional exogenous variable for IPAs is added: sector targeting. Sector targeting identifies sector targeting strategies. Figure 4.3 reports the main sectors that were targeted by the EU 27 IPAs during the sample period.

Figure 4.4 Main targeted sectors



Note: Self-collected data for sector targeting

Social Work, Hotels & Restaurants, Insurance & Pension, Land Transport, Leather, Machinery & Equipment, Non-metallic mineral products, Oil & Gas, Other Transport Equipment, Other Transport Services, Paper, Pharmaceuticals, Plastic & Rubber, Publishing, Real Estate, Renting, Retail, Sale & Repair of Motor Vehicles, Scientific Instruments, Scientific Research, Security Broking, Software, Telecommunications & Post, Textiles, Tobacco, Utility supply, Water Transport, Wholesale, Wood.

5. Results and Analysis

5.1 Results of aggregated analysis

Structural equation modeling as outlined in section 4.2 yields some interesting results regarding the effect of the host country's business environment and IPA's activities on FDI inflows. Three different models are estimated where the mediator is represented by the IPA's website quality, the inquiry handling quality and the total quality which is the average of both the website and the inquiry handling quality (see results in Table 4.1). The first model investigates if the IPA's website quality can play a role of a mediator between a host country's business environment, measured by GDP growth, GDP per capita, GFCF, Trade to GDP ratio and Inflation, and FDI inflows. The second model, examines if the IPA's inquiry handling quality could be considered as a mediator between a host country's business environment (GDP growth, GDP per capita, GFCF, Trade to GDP ratio and Inflation) and FDI inflows. While the last – the third model - takes into account the total IPA's quality in assessing the mediation effect. After running the full model with all the variables explaining the host country's business environment (i.e. GDP growth, GDP per capita, GFCF, Trade to GDP and Inflation), we found that only GDP per capita and Trade to GDP ratios have significant effects on FDI inflows in all three models. Hence, taking into account that the mediation analysis requires all path coefficients to be significant, it makes sense only to discuss the significant coefficients. By studying the reposted results of Goodness-of-fit statistics such as χ^2 , CFI & TLI as well as RMSEA, it can be concluded that all three models are correctly specified⁶². Aggregated analysis results, reported in Table 4.1, indicate that the mediation is achieved only in *Model 2* and *Model 3*.

Looking at the results of *Model 1*, it is clear that the IPA's website quality has a positive, but not a statistically significant effect on FDI inflows. Since the mediation analysis requires *Path b* to be significant, it can be concluded that the host country's IPAs website alone is not a good mediator of its business environment.

⁶² test the join significance of the model, the specified H_0 : the model under consideration fits the data. However this test statistics is considered to be highly biased towards the sample size. Hence, additional model specification indicators should be considered. Incremental fit indices: TLI & CFI ≥ 0.95 are considered as an indication of good fit. Absolute fit indices: RMSEA ≤ 0.05 is required for a good model fit. (Lei and Wu (2007))

By studying the reported results of *Model 2*, we find that the IPA's inquiry handling quality has a significant and positive effect on FDI inflows and it also obeys the mediation analysis requirements outlined in section 4.2. Hence, the results of the mediation analysis are as follows: the total effect of GDP per capita, the effect that would be found if there would be no mediation in our model, is $53.616 + (7.577 \times 1.130) = 62.178$. While the direct effect of GDP per capita, when adjusting for the host country's IPA, is 53.616 and mediating effect is $(7.577 \times 1.130) = 8.562$. In case where the model does not adjust for the existence of IPAs (i.e. the total effect), the results show that, ceteris paribus, a €1 increase in GDP per capita would enhance FDI inflows by 62%. When IPAs (measured by the inquiry handling quality) are taken into consideration, it can be noticed that the direct effect of GDP per capita is reduced to 53.6%. In addition, GDP per capita influences FDI projects through IPAs, which amount to additional increase in FDI inflows by 8.56%. Regarding, trade to GDP ratio, the total effect is $(-0.937) + (-0.045 \times 1.130) = -0.988$, while the direct and mediating effects are -0.937 and $(-0.045 \times 1.130) = -0.051$, respectively. Hence, when the existence of IPAs is not taken into account a 1% increase in trade to GDP ratio, ceteris paribus, would lead to a decline in FDI inflows by 0.937%. Once the existence of IPAs is taken into consideration, trade to GDP ratio reduces FDI projects by 0.988%, but an additional reduction is encountered via the mediation effect, which is 0.051%. Overall, it could be said that a one unit increase in a host country's IPA's inquiry handling score is associated with an increase in FDI projects by 1.130%.

Model 3 is based on the total IPA's quality that takes into account both IPA's quality measures as an average of website and inquiry handling qualities. A significant and positive relationship of the total IPA's quality on FDI inflows is observed. Furthermore, this model also respects all of the necessary requirements for the mediation analysis. Hence, the total effect of GDP per capita is $45.232 + (9.271 \times 1.828) = 62.179$, while the direct effect is 45.232 and the mediation effect is $(9.271 \times 1.828) = 16.947$. By excluding the existence of IPAs, an increase of €1 in GDP per capita alone would allure 62% more FDI inflows. In the case when the role of IPA as a mediator is regarded, an additional €1 in GDP per capita, ceteris paribus, increases FDI inflows by 45% and the addition increase of 16% comes via the indirect effect (i.e. IPAs). Furthermore, this model shows that Trade to GDP ratio variable

performs as follows the total effect is $(-0.925) + ((-0.034) \times 1.828) = -0.987$, while the direct effect is -0.925 and the mediation effect $(-0.034 \times 1.828) = -0.062$. Meaning, when the model does not adjust for IPAs, a one-unit increase in Trade to GDP ratio, ceteris paribus, reduces FDI projects by around 0.987%. When the model adjusts for the mediating effect through IPAs, a one-unit increase in Trade to GDP ratio reduces FDI projects by 0.925% directly and 0.062% indirectly through the existence of IPAs. In general, an increase in the total IPA's quality translated to an increase into 1.828% increase in FDI projects.

Table 5.1 Results of aggregated analysis

	1	2	3
Number of FDI projects	←		
Website quality	0.744 (0.464)		
Inquiry handling quality		1.130 (0.377)***	
Total IPA quality			1.828 (0.574)***
GDP growth	-0.502 (3.132)	-1.709 (3.131)	-1.404 (3.115)
Ln (GDP per capita)	54.086 (9.879)***	53.616 (8.900)***	45.232 (9.961)***
GFCF	0.863 (1.088)	0.980 (1.080)	1.069 (1.080)
Trade to GDP ratio	-0.970 (0.134)***	-0.937 (0.134)***	-0.925 (0.134)***
Inflation	0.058 (0.129)	0.072 (0.128)	0.065 (0.128)
Constant	-381.174 (0.129)***	-375.359 (81.388)***	-359.260 (81.827)***
Website quality	←		
GDP growth	-0.099 (0.332)		
Ln (GDP per capita)	10.876 (0.900)***		
GFCF	-0.142 (0.115)		
Trade to GDP ratio	-0.023 (0.014)		
Inflation	0.005 (0.014)		
Constant	-21.601 (8.657)***		
Inquiry handling quality	←		
GDP growth		1.004 (0.405)***	
Ln (GDP per capita)		7.577 (1.100)***	
GFCF		-0.197 (0.141)	
Trade to GDP ratio		-0.045 (0.017)***	
Inflation		-0.008 (0.017)*	
Constant		-19.372 (10.573)	
Total IPA quality	←		
GDP growth			0.454 (0.266)*
Ln (GDP per capita)			9.271 (0.720)***
GFCF			-0.170 (0.092)*
Trade to GDP ratio			-0.034 (0.011)***
Inflation			-0.002 (0.011)
Constant			-20.783 (6.927)***
Goodness-of-fit statistics	Observations	414	414
	RMSEA	0	0
	CFI	1	1
	TLI	1	1
	χ^2 (df)	237.484 (11) $p = 0.00$	148.13(11) $p = 0.00$
			251.033 (11) $p = 0.00$

Note: Standard errors are reported in parenthesis. ***, ** and * donate statistical significance at the 1%, 5% and 10% level, respectively. The dependent variable is number of FDI projects are received by the EU 27 countries during 1997-2012 period. (1) Mediating effect measured by the IPA's website quality; (2) Mediating effect measured by the IPA's inquiry handling quality; (3) Mediating effect measured by the IPA's total quality (the average of the website and the enquiry handling qualities).

After running three different models with different mediators and studying the reported results it is clear that *Model 2* and *Model 3* acquired almost identical results. Since *Model 3* takes into account both ways in which IPAs interact with the prospective investors, we conclude that the third model fits the analysis best. But it should be noted that the significance of the total IPA's quality is weighty driven by the inquiry handling quality. One would expect that the direct interaction with a prospective investor through the personal investor's inquiry handling should have a more powerful effect on their decisions than the general information on the IPA's website. The estimated results of the aggregate analysis should be interpreted as follows: the results point to the implication that investors' facilitation activities have a positive and significant effect on FDI inflows. As it was expected, IPAs with higher quality of activities perform better compared to IPAs with poorer quality of activities. In addition, the analysis manages to establish the existence of the mediation effect between investment promotion activities and FDI inflows. This relationship implies that IPAs as such do not have a direct effect on FDI inflows, whereas the host country's environment does and this direct effect is intensified by the existence and quality of the IPAs. With regard to the host country's business environment a positive and significant result is found between GDP per capita and FDI inflows, which is the economically anticipated result. Since GDP per capita is one of the measures for the economic, technological strength as well as the market size in the country, one could expect that better performing countries would be more favourable for prospective investors. Trade to GDP ratio indicates a marginal and negative though highly significant effect on FDI inflows. The theory suggests that trade and FDI can act as substitutes or complements to each other depending on the type of FDI, vertical or horizontal, is considered. With regard to vertical MNEs integration, the theory suggests that FDI and trade act as complements to one another. Since the vertical integration is related to a higher geographical dispersion of in an MNE's supply chain, by nature this integration would lead toward an increase in trade. While the theory suggests that if MNEs are horizontally integrated, FDI and trade would act as substitutes which implies that some MNEs would be better off by trading rather than by investing in a production plant.⁶³ Hence, it might be concluded from this analysis

⁶³ Markusen and Venables (1995)

that for the EU 27 countries trade acts as a substitute to FDI. Since FDI inflows in this study are captured by the greenfield investment projects, also taking into account that MNEs are exposed to relatively high production cost in Europe compared to the developing countries, this trade and FDI subsidiary effect is economically significant.

5.2 Results of disaggregated analysis

The investment promotion practitioners consider sector targeting to be one of the best strategies in attracting FDI, hence, we also carry out an alternative analysis that will focus on FDI inflows disaggregated into 50 sectors. In general, when an IPA concentrates its investment promotion efforts on the prioritized sectors, usually those sectors where the country has the comparative advantage, it is expected that this strategy would lead to higher FDI inflows. An alternative empirical strategy was performed to investigate whether targeted sectors receive greater FDI inflows in the post-targeted period compared to the pre-targeted period and non-targeted sectors. In this case we ran four different models in order to assess different IPAs mediation ways: the sector targeting strategy as well as the interacted sector targeting dummy with three measures of IPAs quality (i.e. website, inquiry handling and total quality). The first model, investigated the mediation effect between a host country's business environment (GDP growth, GDP per capita, GFCF, Trade to GDP ratio and Inflation) and FDI inflows through IPA's sector targeting activities. The second model, examines the same relationship by interacting the dummy for sector targeting with the IPA's website quality. The third model analysis the mediation effect between a host country's business environment and FDI inflows by interacting the sector targeting dummy with an IPA's inquiry handling quality While the last – the fourth model-takes into account the total IPA's quality as well by interacting it with sector targeting strategy in assessing the mediation effect. The results of this analysis, presented in Table 4.3, indicate that sector targeting as well IPA's quality have a significant and positive mediating effect on FDI inflows. Furthermore, it seems that the disaggregated structural equation model is performing slightly better than the aggregate analysis. The higher level of significance that is found could be related to the increased sample size. Next to significance of GDP per capita and Trade to GDP, GFCF also has a significant effect on FDI inflows in all four models. If we take the same approach as

in the aggregate analysis, the mediation analysis requires all paths to be significant, and thus we will discuss only the significant coefficients. Looking at the reported Goodness-of-fit statistics such as χ^2 , CFI & TLI as well as RMSEA, it can be concluded that all three models are correctly specified⁶⁴.

⁶⁴ test the joint significance of the model, the specified H_0 : the model under consideration fits the data. However this test statistics is considered to be highly biased towards the sample size. Hence, additional model specification indicators should be considered. Incremental fit indices: TLI & CFI ≥ 0.95 are considered as an indication of good fit. Absolute fit indices: RMSEA ≤ 0.05 is required for a good model fit. (Lei and Wu (2007))

Table 5.2 Results of disaggregated analysis

	1	2	3	4
Number of FDI projects				
←				
Sector targeted	3.685 (0.166)***			
Website quality ! Sector targeted		0.0439 (0.002)***		
Inquiry handling quality ! Sector targeted			0.0623 (0.003)***	
Total quality !				0.0524 (0.003)***
Sector targeted				
GDP growth	-0.0099 (0.021)***	-0.0079 (0.021)	-0.0136 (0.021)	-0.0099 (0.021)
Ln (GDP per capita)	1.172 (0.059)***	1.163 (0.059)***	1.147 (0.059)***	1.153 (0.059)***
GFCF	0.028 (0.007)***	0.027 (0.007)***	0.027 (0.007)***	0.028 (0.007)***
Trade to GDP ratio	-0.021 (0.0009)***	-0.021(0.0009)***	-0.0205 (0.0009)***	-0.021(0.0009)***
Inflation	0.002 (0.0009)	0.002 (0.0009)	0.002 (0.0009)	0.002 (0.0009)
Constant	-7.432 (0.561)***	-7.365 (0.560)***	-7.233 (0.561)***	-7.290 (0.561)***
Sector targeted				
←				
GDP growth	-0.005 (0.0009)***			
Ln (GDP per capita)	0.026 (0.002)***			
GFCF	0.002 (0.0003)***			
Trade to GDP ratio	-0.0003 (0.00004)***			
Inflation	-0.0001 (0.00004)***			
Constant	-0.183 (0.023)***			
Website quality ! Sector targeted				
←				
GDP growth		-0.422 (0.073)***		
Ln (GDP per capita)		2.415 (0.207)***		
GFCF		0.174 (0.025)***		
Trade to GDP ratio		-0.023 (0.003)***		

	1	2	3	4
Inflation		-0.009 (0.003)***		
Constant		-16.938 (1.980)***		
←				
GDP growth			-0.207 (0.050)***	
Ln (GDP per capita)			1.963 (0.141)***	
GFCF			0.108 (0.017)***	
Trade to GDP ratio			-0.006 (0.002)***	
Inflation			-0.005 (0.002)***	
Constant			-14.060 (1.353)***	
←				
GDP growth				-0.315 (0.061)***
Ln (GDP per capita)				2.188 (0.172)***
GFCF				0.141 (0.021)***
Trade to GDP ratio				-0.014 (0.003)***
Inflation				-0.007 (0.003)***
Constant				-15.489 (1.645)***
Observations	21250	21250	21250	21250
RMSEA	0	0	0	0
CFI	1	1	1	1
TLI	1	1	1	1
! (df)	1975.911 (11)	2022.702 (11)	1885.287 (11)	1989.934 (11)
Goodness-of-fit statistics				

Note: Standard errors are reported in parenthesis. ***, ** and * denote statistical significance at the 1%, 5% and 10% level, respectively. The dependent variable is the number of FDI projects disaggregated into 50 sectors, received by the EU 27 countries during 1997-2012 period. (1) Mediating effect measured by the IPA's sector targeting strategy; (2) Mediating effect measured by the interaction of the sector targeted dummy and the IPA's website quality (3) Mediating effect measured by the interaction of the sector targeted dummy and the IPA's inquiry handling quality; (4) Mediating effect measured by the interaction of the sector targeted dummy and the IPA's total quality (the average of the website and the enquiry handling qualities).

In the disaggregated analysis the partial mediation is achieved in five models, meaning that IPAs have a positive and significant (though indirect) effect on FDI inflows. Looking at the results, we find that the total effects, not adjusting for IPAs, for GDP per capita, GFCF and Trade to GDP ratio are equal to approximately 1.3, 0.03 and -0.02, respectively in all four models. This means that GDP per capita and GFCF has a positive and significant total effect on FDI inflows (i.e a one unit increase in GDP per capita or GFCF, ceteris paribus, would lead to a 1.3% or 0.03% increase in FDI projects if a sector is targeted, respectively. Whereas Trade to GDP ratio has a negative and significant total effect on FDI projects, implying that a 1% increase in Trade to GDP ratio would reduce FDI projects, if a sector is targeted, by 0.02%, ceteris paribus. Moreover, the direct effects are not significantly different through all four models for GDP per capita (1.172, 1.163, 1.148, 1.153), GFCF (0.028, 0.028, 0.027, 0.0276) and Trade to GDP ratios (-0.021, -0.021, -0.021, -0.021). These results imply that a one unit increase in GDP per capita and GFCF would lead to a direct effect of approximately 1% or 0.028% increase in FDI projects, if a sector is targeted, in all four models. While the negative direct effect is indicated for Trade to GDP ratio, meaning that a 1% increase results in a reduction of FDI projects if a sector is targeted by 0.021% in all four models. However, different proxies of mediation bring about different indirect effects. The sector targeting indirect effect amounts to 0.097, 0.008 and -0.001 for GDP per capita, GFCF, and Trade to GDP ratios, respectively. This implies that a one-unit increase in GDP per capita or GFCF, ceteris paribus, leads to an additional increase in FDI projects if a sector is targeted through an IPA's by 0.097% or 0.008%. With regard to Trade to GDP ratio, supplementary a 1% increase would result in a decrease of FDI projects if a sector is targeted by 0.001% due to the mediation effect. Looking at the reported results for the interacted variable website quality, the mediation effect amounts to 0.106, 0.008, -0.001 for GDP per capita, GFCF, Trade to GDP ratios respectively. Which implies that the mediation effect translates an additional 0.106% or 0.008% increase in FDI projects if a sector is targeted with a one unit increase in GDP per capita or GFCF, ceteris paribus, via the IPA's website quality. While a 1% increase in Trade to GDP ratio, ceteris paribus, would lead to an additional 0.001% decrease in FDI projects if a sector is targeted via the mediation effect. Inquiry handling quality mediates the amount of 0.122 GDP per capita, 0.006 GFCF and -0.0003 Trade to GDP ratios. This means that an addition increase of 0.122% or 0.006% in FDI projects if a sector is targeted is translated via IPAs by a one-unit increase in either the GDP per capita or GFCF, ceteris paribus, respectively. Whereas an increase of 1% in Trade to GDP ratio, ceteris paribus, would lead to an addition 0.0003% decrease in FDI projects if a

sector is targeted through IPAs. With regard to the total quality of investment promotion activities, the mediation effect account to 0.116 for GDP per capita, 0.007 for GFCF and - 0.0008 for Trade to GDP ratios. Hence, an additional increase in FDI projects if a sector is targeted by 0.116% and 0.007% would be generated by an increase of one unit, respectively, in GDP per capita and GFCF, *ceteris paribus*. Though a one unit increase in Trade to GDP ratio, *ceteris paribus*, would lead to an additional 0.0008% decrease in FDI projects if a sector is targeted via the mediation effect.

A significant, positive and indirect effect was established between the host country's IPA and FDI inflows. This result supports the second hypothesis that the host country's business environment effect is magnified by the existence of the mediator, IPA. Furthermore, better performing IPAs will have a stronger influence on FDI inflows, which supports the third hypothesis. The results suggest that sector-targeting efforts by IPAs lead to higher FDI inflows in targeted sectors compared to non-targeted sectors. As expected, a significant, positive and direct effect of the host country's business environment (GDP per capita, GFCF) on FDI inflows was established. Hence, supporting the first hypothesis that the host country's business environment has a direct effect on FDI inflows. These results suggest that economically stronger countries in the EU27 are associated with higher FDI inflows. Which in turn could be linked to the major sectors receiving FDI projects such as Software, Pharmaceuticals, and Business Services in the EU 27 (see Figure 4.3) that require high quality services to be provided to the investors. Furthermore, a significant, marginal and direct though negative effect of Trade to GDP ratio on FDI inflows was identified, which also supports the first hypothesis. Following the theory of trade and FDI, discussed in more details in section 5.1, it would be concluded that disaggregated analysis as well point towards the possible substitution effect between FDI inflows and trade.

6. Conclusions

The establishment of the investment promotion agencies became the key part of the investment facilitation policies. However, the existing literature on investment promotion activities is relatively small. A mixed picture of the effectiveness of investment promotion in alluring more FDI inflows is presented by the existing research. Some of the previous studies established that there exists a positive and significant⁶⁵ relation between FDI inflows and IPAs, others indicated that investment promotion works in developing countries, but not in developed⁶⁶ and some even failed to find any effects⁶⁷.

A more innovative approach in investigating the effectiveness of IPAs in attracting FDI inflows is taken in this research by regarding IPAs as a mediator between a country's business environment and FDI inflows and relying on more sophisticated proxies to measure IPAs activities (the website quality, the inquiry handling quality, the total quality and sectors targeting strategy). The empirical test employs aggregate and sectors disaggregate level data for the EU 27 countries over 1997-2012 period.

The results of the analysis indicate that indeed investment promotion has a significant indirect effect on FDI inflows. This finding should be taken with caution, because it is not enough to set up an IPA and expect an increase in FDI inflows. As it is shown by the results; IPAs' quality plays a curtail part in attracting more FDI projects. The results show that targeted sectors strategy proved to be working as priority sectors attracted more FDI projects than non-targeted sectors. As expected, GDP per capita and GFCF have a positive effect on FDI inflows. Hence, it could be said that economically stronger countries in the EU 27 would be more likely to attract higher FDI inflows. Trade to GDP ratio has a marginal and negative though highly significant impact on FDI inflows. Following the theory of trade and FDI, it is possible to conclude that this research results point towards the possible substitution effect between FDI inflows and trade.

Despite the fact that this research was conducted in the best possible way, some limitations and further research improvements should be acknowledged. This paper only

⁶⁵ Wells & Wint (1990), Morrisset and Andrews-Johnson (2004), Charlton and Davis (2007), Bobonis and Shatz (2007), Lim (2008), Šimelytė (2012), Filippov (2012), Harding and Javorcik (2013)

⁶⁶ Harding and Javorcik (2011)

⁶⁷ Head, Ries and Swenson (1999)

focused to the EU 27 countries. Thought it would be interested to build this model on more countries, hence, further research should attempt to include different regions as well as developed and developing countries. Furthermore, the research was not able to take of all investment promotion activities such as lead generation, investor servicing and aftercare, as some of them are very hard to quantify. Further research is needed in developing measures to quantify different IPAs activities. In addition, the data used in this research is not fully specified, as there are some missing values. In order to be able to apply the necessary data in this research some adjustments needed to be made. The data limitations are more related with the completeness of the original dataset, which in this case was not really influenced by the researcher.

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Appendixes

Appendix A Descriptive statistics

Table A.0.1 Summary of variables

Variables	Description	Data source	Data coverage	Hypothesized sign
<i>FDI inflows</i>				
Number of FDI projects	Number of projects per sector that attracted FDI	EIM	1997-2012 for all EU 27 countries	
<i>The host country's business environment</i>				
GDP growth	Percentage change on previous period of GDP	The WB	1997-2012 for all EU 27 countries	Positive
Ln (GDP per capita)	Real GDP per capita in terms of € per inhabitant	Eurostat	1997-2012 for all EU 27 countries	Positive
GFCF	Percentage change on previous period of GFCF	The WB	1997-2012 for all EU 27 countries*	Positive
Trade to GDP ratio	Trade to GDP ratio	The WB	1997-2012 for all EU 27 countries**	Negative
Inflation	Annual percentage change in GDP deflator	The WB	1997-2012 for all EU 27 countries	Negative
<i>IPA's activities</i>				
Total IPA quality	A percentage rating of the IPA's Web site	GIPB	Survey data for all EU 27 countries for 2006, 2009, 2012	Positive
Website quality	A percentage rating of the IPA's Web site	GIPB	Survey data for all EU 27 countries for 2006, 2009, 2012	Positive
Inquiry handling quality	A percentage rating of the IPA's inquiry handling quality	GIPB	Survey data for all EU 27 countries for 2006, 2009, 2012	Positive
Sector targeted	A dummy for sectors targeted by and IPA ranging from 0 (not targeted) to 1 (targeted)	Individual collection	Survey data for all 27 EU countries and 50 sectors	Positive

* 2011 and 2012 data missing for Cyprus, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia. **2011 and 2012 data missing for Cyprus; 2012 for Hungary, Latvia, Lithuania, Slovakia, Slovenia. *** data only for the following countries Austria, Belgium (Brussels), Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, UK.

Figure A.1 GDP growth



Figure A.2 GDP per capita

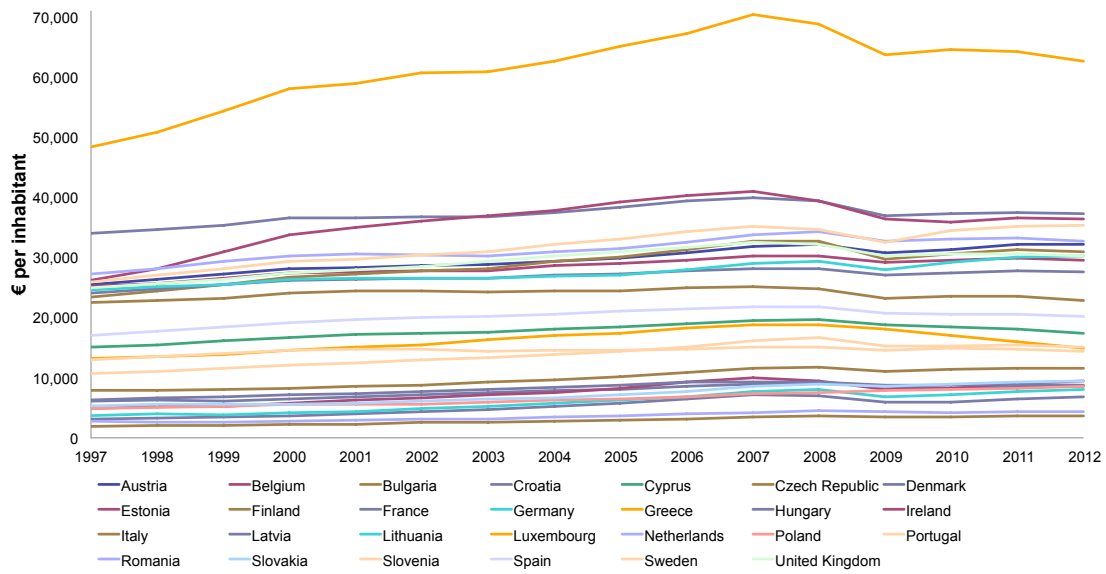


Figure A.3 GFCF

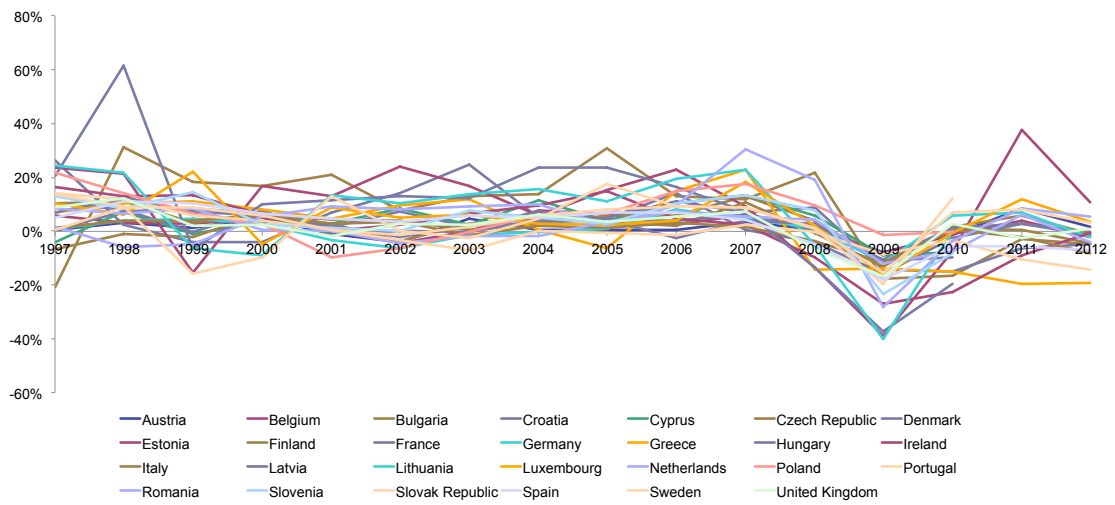


Figure A.4 Trade to GDP ratio

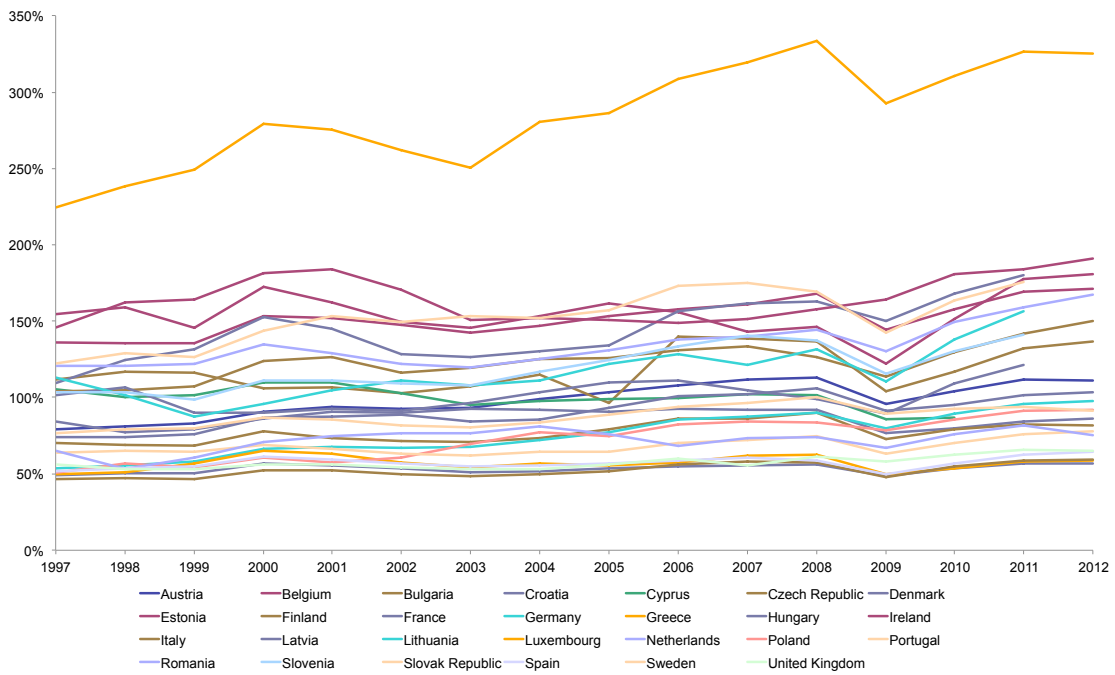
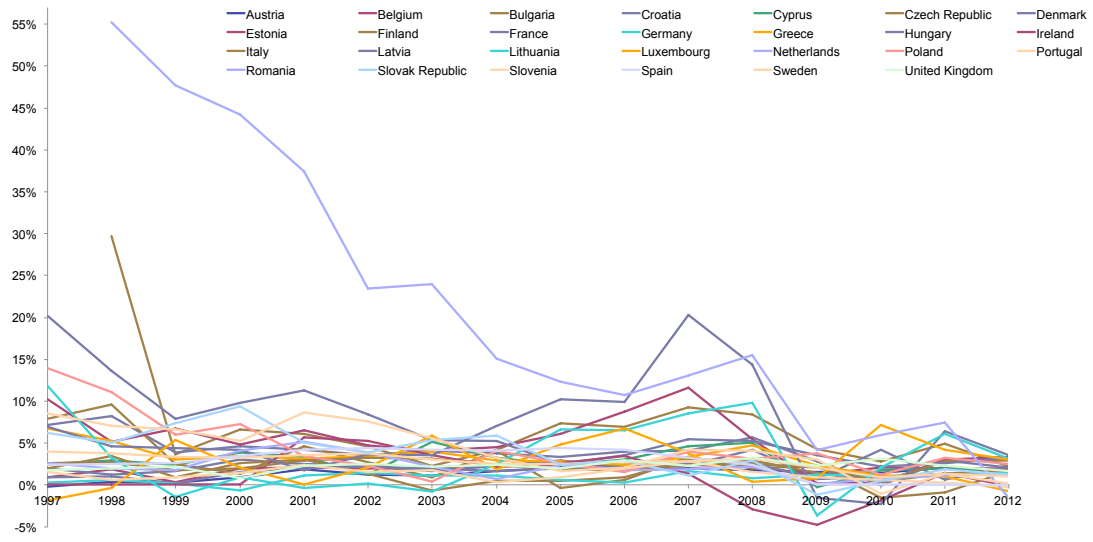


Figure A.5 Inflation



Appendix B Stata outputs

Aggregated Analysis

Table B.1 Model 1

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
<i>Direct effects</i>					
Website quality					
←					
GDP growth	-0.098581	0.3319254	-0.30	0.766	-0.749143 0.5519809
Ln (GDP per capita)	10.87559	0.9003025	12.08	0.000	9.111034 12.64015
GFCF	-0.1417548	0.1150607	-1.23	0.218	-0.3672697 0.0837601
Trade to GDP ratio	-0.0231509	0.0141746	-1.63	0.102	-0.0509326 0.0046308
Inflation	0.0054206	0.0136522	0.40	0.691	-0.0213373 0.0321785
←					
Number of FDI projects					
Website quality	0.7439947	0.4637057	1.60	0.109	-0.1648517 1.652841
GDP growth	-0.5015555	3.132055	-0.16	0.873	-6.640271 5.63716
Ln (GDP per capita)	54.08594	9.878607	5.48	0.000	34.72423 73.44716
GFCF	0.8631319	1.087588	0.79	0.427	-1.268501 2.994765
Trade to GDP ratio	-0.9697842	0.1341677	-7.23	0.000	-1.232748 -0.7068203
Inflation	0.0579417	0.1288337	0.45	0.653	-0.1945677 0.310451
←					
<i>Indirect effects</i>					
Website quality					
←					
GDP growth	0	(no path)			
Ln (GDP per capita)	0	(no path)			
GFCF	0	(no path)			
Trade to GDP ratio	0	(no path)			
Inflation	0	(no path)			
←					
Number of FDI projects					
Website quality	0	(no path)			

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
GDP growth	-0.0733438	0.251146	-0.29	0.770	-0.5655809 0.4188934
Ln (GDP per capita)	8.091385	5.087363	1.59	0.112	-1.879664 18.06243
GFCF	-0.1054649	0.1079301	-0.98	0.328	-0.317004 0.1060743
Trade to GDP ratio	-0.0172242	0.0150486	-1.14	0.252	-0.0467188 0.0122705
Inflation	0.0040329	0.0104636	0.39	0.700	-0.0164753 0.0245412
Total effects					
Website quality					
←					
GDP growth	-0.098581	0.3319254	-0.30	0.766	-0.749143 0.5519809
Ln (GDP per capita)	10.87559	0.9003025	12.08	0.000	9.111034 12.64015
GFCF	-0.1417548	0.1150607	-1.23	0.218	-0.3672697 0.0837601
Trade to GDP ratio	-0.0231509	0.0141746	-1.63	0.102	-0.0509326 0.0046308
Inflation	0.0054206	0.0136522	0.40	0.691	-0.0213373 0.0321785
←					
Number of FDI projects					
Website quality	0.743997	0.4637057	1.60	0.109	-0.1648517 1.652841
GDP growth	-0.5748992	3.141443	-0.18	0.855	-6.732014 5.582216
Ln (GDP per capita)	62.17733	8.520736	7.30	0.000	45.47699 78.87766
GFCF	0.7576671	1.08897	0.70	0.487	-1.376674 2.892008
Trade to GDP ratio	-0.9870084	0.1341527	-7.36	0.000	-1.249943 -0.7240739
Inflation	0.0619746	0.129209	0.48	0.631	-0.1912704 0.3152196

Table B.2 Model 2

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
<i>Direct effects</i>					
Inquiry handling quality					
←					
GDP growth	1.003618	0.4053918	2.48	0.013	0.2090648 1.798172
Ln (GDP per capita)	7.577482	1.09957	6.89	0.000	5.422364 9.732599
GFCF	-0.1967467	0.1405276	-1.40	0.161	-0.4721757 0.0786823
Trade to GDP ratio	-0.0446672	0.0173119	-2.58	0.010	-0.078598 -0.0107365
Inflation	-0.0084978	0.016674	-0.51	0.610	-0.0411781 0.0241826
Number of FDI projects					
←					
Inquiry handling quality	1.129776	0.3767807	3.00	0.003	0.3912996 1.868253
GDP growth	-1.708763	3.130797	-0.55	0.585	-7.845013 4.427487
Ln (GDP per capita)	53.61647	8.900057	6.02	0.000	36.17268 71.06026
GFCF	0.9799468	1.079881	0.91	0.364	-1.136582 3.096476
Trade to GDP ratio	-0.9365444	0.1337821	-7.00	0.000	-1.198753 0.6743363
Inflation	0.0715751	0.01278685	0.56	0.576	-0.1790425 0.3221928
<i>Indirect effects</i>					
Inquiry handling quality					
←					
GDP growth	0	(no path)			
Ln (GDP per capita)	0	(no path)			
GFCF	0	(no path)			
Trade to GDP ratio	0	(no path)			
Inflation	0	(no path)			
Number of FDI projects					
←					
Inquiry handling quality	0	(no path)			
GDP growth	1.133864	.5939349	1.91	0.056	-0.0302272 2.297955
Ln (GDP per capita)	1.133864	3.113605	2.75	0.006	2.458306 14.66341
GFCF	-0.2222797	0.1752186	-1.27	0.205	-0.5657018 0.1211423
Trade to GDP ratio	-0.050464	0.0258027	-1.96	0.050	-0.1010364 0.0001084
Inflation	-0.0096006	0.019108	-0.50	0.615	-0.0470515 0.0278504

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
<i>Total effects</i>					
Inquiry handling quality					
←					
GDP growth	1.003618	.4053918	2.48	0.013	.2090648 1.798172
Ln (GDP per capita)	7.577482	1.09957	6.89	0.000	5.422364 9.732599
GFCF	-.1967467	.1405276	-1.40	0.161	-.4721757 .0786823
Trade to GDP ratio	-.0446672	.0173119	-2.58	0.010	-.078598 -.0107365
Inflation	-.0084978	.016674	-0.51	0.610	-.0411781 .0241826
Number of FDI projects					
←					
Inquiry handling quality	1.129776	.3767807	3.00	0.003	.3912996 1.868253
GDP growth	-.5748992	3.141443	-0.18	0.855	-6.732014 5.582216
Ln (GDP per capita)	62.17733	8.520736	7.30	0.000	45.47699 78.87766
GFCF	.7576671	1.08897	0.70	0.487	-1.376674 2.892008
Trade to GDP ratio	-.9870084	.1341527	-7.36	0.000	-1.249943 -.7240739
Inflation	.0619746	.129209	0.48	0.631	-.1912704 .3152196

Table B.3 Model 3

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval
<i>Direct effects</i>					
Total quality					
←					
GDP growth	0.4535891	0.265581	1.71	0.088	-0.0669401 0.9741182
Ln (GDP per capita)	9.271106	0.7203522	12.87	0.000	7.859241 10.68297
GFCF	-0.1701157	0.0920627	-1.85	0.065	-0.3505553 0.0103238
Trade to GDP ratio	-0.0339321	0.0113414	-2.99	0.003	-0.0561608 -0.0117033
Inflation	-0.0015883	0.0109235	-0.15	0.884	-0.0229979 0.0198213
Number of FDI projects					
←					
Total quality	1.827746	0.5743603	3.18	0.001	0.7020209 2.953472
GDP growth	-1.403945	3.114628	-0.45	0.652	-7.508504 4.700614
Ln (GDP per capita)	45.2321	9.961154	4.54	0.000	25.70859 64.7556
GFCF	1.068596	1.080318	0.99	0.323	-1.04879 3.185981
Trade to GDP ratio	-0.9249892	0.1339667	-6.90	0.000	-1.187559 -0.6624193
Inflation	0.0648775	0.1276604	0.51	0.611	-0.1853323 0.3150873
<i>Indirect effects</i>					
Total quality					
←					
GDP growth	0	(no path)			
Ln (GDP per capita)	0	(no path)			
GFCF	0	(no path)			
Trade to GDP ratio	0	(no path)			
Inflation	0	(no path)			
Number of FDI projects					
←					
Total quality	0	(no path)			
GDP growth	0.8290458	0.5509083	1.50	0.132	-0.2507147 1.908806
Ln (GDP per capita)	16.94523	5.485311	3.09	0.002	6.194218 27.69624
GFCF	-0.3109284	0.1945782	-1.60	0.110	-0.6922946 0.0704377
Trade to GDP ratio	-0.0620192	0.0284523	-2.18	0.029	-0.1177846 -0.0062538
Inflation	-0.0029029	0.0199862	-0.15	0.885	-0.0420751 0.0362692

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
<u>Total effects</u>					
Total quality					
←					
GDP growth	0.4535891	.265581	1.71	0.088	-.0669401 .9741182
Ln (GDP per capita)	9.271106	.7203522	12.87	0.000	7.859241 10.68297
GFCF	-0.1701157	.0920627	-1.85	0.065	-.3505553 .0103238
Trade to GDP ratio	-0.0339321	.0113414	-2.99	0.003	-.0561608 -.0117033
Inflation	-0.0015883	.0109235	-0.15	0.884	-.0229979 .0198213
Number of FDI projects					
←					
Total quality	1.827746	0.5743603	3.18	0.001	0.7020209 2.953472
GDP growth	-0.5748992	3.141443	-0.18	0.855	-6.732014 5.582216
Ln (GDP per capita)	62.17733	8.520736	7.30	0.000	45.47699 78.87766
GFCF	0.7576671	1.08897	0.70	0.487	-1.376674 2.892008
Trade to GDP ratio	-0.9870084	0.1341527	-7.36	0.000	-1.249943 -0.7240739
Inflation	0.0619746	0.129209	0.48	0.631	-0.1912704 0.3152196

Disaggregate Analysis

Table B.4 Model 1

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
<i>Direct effects</i>					
Sectors targeted					
←					
GDP growth	-0.0045105	0.0008597	-5.25	0.000	-0.0061955 -0.0028256
Ln (GDP per capita)	0.0264037	0.0024176	10.92	0.000	0.0216652 0.0311421
GFCF	0.0021289	0.0002979	-7.15	0.000	-0.0027128 -0.0015449
Trade to GDP ratio	-0.0002925	0.0000378	7.74	0.000	0.0002185 0.0003666
Inflation	-0.0001146	0.0000368	-3.11	0.002	-0.0001867 -0.0000424
Number of FDI projects					
←					
Sectors targeted	3.684742	0.1656837	22.24	0.000	3.360008 4.009476
GDP growth	-0.0098512	0.020777	-0.47	0.635	-0.0505734 0.030871
Ln (GDP per capita)	1.171682	0.0585546	20.01	0.000	1.056917 1.286447
GFCF	0.0280426	0.0072042	3.89	0.000	0.0139226 0.0421626
Trade to GDP ratio	-0.0212093	0.0009138	-23.21	0.000	-0.0230003 -0.0194183
Inflation	0.0017343	0.0008894	1.95	0.051	-8.94e-06 0.0034775
<i>Indirect effects</i>					
Sectors targeted					
←					
GDP growth	0	(no path)			
Ln (GDP per capita)	0	(no path)			
GFCF	0	(no path)			
Trade to GDP ratio	0	(no path)			
Inflation	0	(no path)			
Number of FDI projects					
←					
Sectors targeted	0	(no path)			
GDP growth	-0.0166202	0.0032547	-5.11	0.000	-0.0229993 -0.0102411
Ln (GDP per capita)	0.0972907	0.0099245	9.80	0.000	0.0778391 0.1167423
GFCF	0.0078443	0.001153	-6.80	0.000	-0.0101042 -0.0055843

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
Trade to GDP ratio	-0.0010778	0.0001474	7.31	0.000	0.0007889 0.0013667
Inflation	-0.0004222	0.000137	-3.08	0.002	-0.0006907 -0.0001537
Total effects					
Sectors targeted					
←					
GDP growth	-0.0045105	0.0008597	-5.25	0.000	-0.0061955 -0.0028256
Ln (GDP per capita)	0.0264037	0.0024176	10.92	0.000	0.0216652 0.0311421
GFCF	0.0021289	0.0002979	-7.15	0.000	-0.0027128 -0.0015449
Trade to GDP ratio	-0.0002925	0.0000378	7.74	0.000	0.0002185 -0.0015449
Inflation	-0.0001146	0.0000368	-3.11	0.002	-0.0001867 -0.0000424
←					
Number of FDI projects					
Sectors targeted	3.684742	0.1656837	22.24	0.000	3.360008 4.009476
GDP growth	-0.0264714	0.0210038	-1.26	0.208	-0.0676381 0.0146953
Ln (GDP per capita)	1.268973	0.0590666	21.48	0.000	1.153204 1.384741
GFCF	0.0201983	0.0072788	2.77	0.006	0.0059321 0.0344646
Trade to GDP ratio	-0.0201315	0.0009231	-21.81	0.000	-0.0219407 -0.0183223
Inflation	0.001312	0.0008995	1.46	0.145	-0.0004509 0.003075

Table B.5 Model 2

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
<i>Direct effects</i>					
Website quality ! Sector targeted					
←					
GDP growth	-0.4220455	0.0734446	-5.75	0.000	-0.5659944 -0.2780967
Ln (GDP per capita)	2.414782	0.20654	11.69	0.000	2.009971 2.819593
GFCF	0.1741033	0.0254521	-6.84	0.000	-0.2239885 -0.124218
Trade to GDP ratio	-0.0228975	0.0032277	7.09	0.000	0.0165713 0.0292238
Inflation	-0.0094214	0.0031453	-3.00	0.003	-0.015586 -0.0032568
Number of FDI projects					
←					
Website quality ! Sector targeted	0.0438922	0.0019386	22.64	0.000	0.0400927 0.0476917
GDP growth	-0.0079469	0.0207711	-0.38	0.702	-0.0486574 0.0327637
Ln (GDP per capita)	1.162983	0.0585542	19.86	0.000	1.048218 1.277747
GFCF	0.0278401	0.0072005	3.87	0.000	0.0137274 0.0419528
Trade to GDP ratio	-0.0211365	0.0009132	-23.15	0.000	-0.0229264 -0.0193466
Inflation	0.0017256	0.000889	1.94	0.052	-0.0000169 0.003468
<i>Indirect effects</i>					
Website quality ! Sector targeted					
←					
GDP growth	0	(no path)			
Ln (GDP per capita)	0	(no path)			
GFCF	0	(no path)			
Trade to GDP ratio	0	(no path)			
Inflation	0	(no path)			
Number of FDI projects					
←					
Website quality ! Sector targeted	0	(no path)			
GDP growth	-0.0185245	0.0033259	-5.57	0.000	-0.025043 -0.012006
Ln (GDP per capita)	0.1059901	0.0102028	10.39	0.000	0.085993 0.1259872
GFCF	0.0076418	0.001167	-6.55	0.000	-0.0099291 -0.0053545
Trade to GDP ratio	-0.001005	0.0001485	6.77	0.000	0.000714 0.001296

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
<i>Total effects</i>					
Inflation	-0.0004135	0.0001393	-2.97	0.003	-0.0006865 -0.0001406
Website quality ! Sector targeted					
←					
GDP growth	-0.4220455	0.0734446	-5.75	0.000	-0.5659944 -0.2780967
Ln (GDP per capita)	2.414782	0.20654	11.69	0.000	2.009971 2.819593
GFCF	0.1741033	0.0254521	-6.84	0.000	-0.2239885 -0.124218
Trade to GDP ratio	-0.0228975	0.0032277	7.09	0.000	0.0165713 0.0292238
Inflation	-0.0094214	0.0031453	-3.00	0.003	-0.015586 -0.0032568
Number of FDI projects					
←					
Website quality ! Sector targeted	0.0438922	0.0019386	22.64	0.000	0.0400927 0.0476917
GDP growth	-0.0264714	0.0210038	-1.26	0.208	-0.0676381 0.0146953
Ln (GDP per capita)	1.268973	0.0590666	21.48	0.000	1.153204 1.384741
GFCF	0.0201983	0.0072788	2.77	0.006	0.0059321 0.0344646
Trade to GDP ratio	-0.0201315	0.0009231	-21.81	0.000	-0.0219407 -0.0183223
Inflation	0.001312	0.0008995	1.46	0.145	-0.0004509 0.003075

Table B.6 Model 3

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
<i>Direct effects</i>					
Inquiry handling quality ! Sector targeted					
←					
GDP growth	-0.2070518	0.0501981	-4.12	0.000	-0.3054383 -0.1086653
Ln (GDP per capita)	1.963157	0.1411665	13.91	0.000	1.686476 2.239839
GFCF	0.108355	0.0173961	-6.23	0.000	-0.1424507 -0.0742593
Trade to GDP ratio	-0.005935	0.0022061	2.69	0.007	0.0016112 0.0102589
Inflation	-0.0045985	0.0021497	-2.14	0.032	-0.0088119 -0.0003851
Number of FDI projects					
←					
Inquiry handling quality ! Sector targeted	0.0622646	0.0028384	21.94	0.000	0.0567015 0.0678277
GDP growth	-0.0135794	0.0207783	-0.65	0.513	-0.054304 0.0271453
Ln (GDP per capita)	1.146737	0.0586742	19.54	0.000	1.031738 1.261737
GFCF	0.026945	0.0072044	3.74	0.000	0.0128247 0.0410653
Trade to GDP ratio	-0.020501	0.0009129	-22.46	0.000	-0.0222904 -0.0187117
Inflation	0.0015984	0.0008896	1.80	0.072	-0.0001452 0.0033419
<i>Indirect effects</i>					
Inquiry handling quality ! Sector targeted					
←					
GDP growth	0	(no path)			
Ln (GDP per capita)	0	(no path)			
GFCF	0	(no path)			
Trade to GDP ratio	0	(no path)			
Inflation	0	(no path)			
Number of FDI projects					
←					
Inquiry handling quality ! Sector targeted	0	(no path)			
GDP growth	-0.012892	0.0031803	-4.05	0.000	-0.0191253 -0.0066587
Ln (GDP per capita)	0.1222353	0.0104071	11.75	0.000	0.1018377 0.1426328
GFCF	0.0067467	0.001126	-5.99	0.000	-0.0089536 -0.0045398

	Coef.	OIM Std. Err.	z	P> z 	[95% Conf. Interval]
<i>Total effects</i>					
Inquiry handling quality ! Sector targeted					
Trade to GDP ratio	-0.0003695	0.0001384	2.67	0.008	0.0000983 0.0006408
Inflation	-0.0002863	0.0001345	-2.13	0.033	-0.0005499 -0.0000227
←					
GDP growth	-0.2070518	.0501981	-4.12	0.000	-0.3054383 -0.1086653
Ln (GDP per capita)	1.963157	0.1411665	13.91	0.000	1.686476 2.239839
GFCF	0.108355	0.0173961	-6.23	0.000	-0.1424507 -0.0742593
Trade to GDP ratio	-0.005935	0.0022061	2.69	0.007	0.0016112 0.0102589
Inflation	-0.0045985	0.0021497	-2.14	0.032	-0.0088119 -0.0003851
←					
Number of FDI projects					
Inquiry handling quality ! Sector targeted	0.0622646	0.0028384	21.94	0.000	0.0567015 0.0678277
GDP growth	-0.0264714	0.0210038	-1.26	0.208	-0.0676381 0.0146953
Ln (GDP per capita)	1.268973	0.0590666	21.48	0.000	1.153204 1.384741
GFCF	0.0201983	0.0072788	2.77	0.006	0.0059321 0.0344646
Trade to GDP ratio	-0.0201315	0.0009231	-21.81	0.000	-0.0219407 -0.0183223
Inflation	0.001312	0.0008995	1.46	0.145	-0.0004509 0.003075

Table B.7 Model 4

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
<i>Direct effects</i>					
← Total quality ! Sector targeted					
GDP growth	-0.3145275	0.0610384	-5.15	0.000	-0.4341605 -0.1948945
Ln (GDP per capita)	2.187848	0.1716513	12.75	0.000	1.851418 2.524279
GFCF	0.1412651	0.0211528	-6.68	0.000	-0.1827238 -0.0998065
Trade to GDP ratio	-0.0144291	0.0026825	5.38	0.000	0.0091715 0.0196867
Inflation	-0.00070129	0.002614	-2.68	0.007	-0.0121362 -0.0018896
← Number of FDI projects					
Total quality ! Sector targeted					
GDP growth	0.0528345	0.0023326	22.65	0.000	0.0482628 0.0574063
Ln (GDP per capita)	-0.0098535	0.0207677	-0.47	0.635	-0.0505574 0.0308505
GFCF	1.153379	0.0585889	19.69	0.000	1.038547 1.268211
Trade to GDP ratio	0.027662	0.0072001	3.84	0.000	0.0135501 0.0417739
Inflation	-0.0208938	0.0009127	-22.89	0.000	-0.0226828 -0.0191049
	0.0016826	0.000889	1.89	0.058	-0.0000598 0.0034249
<i>Indirect effects</i>					
← Total quality ! Sector targeted					
GDP growth	0	(no path)			
Ln (GDP per capita)	0	(no path)			
GFCF	0	(no path)			
Trade to GDP ratio	0	(no path)			
Inflation	0	(no path)			
← Number of FDI projects					
Total quality ! Sector targeted					
GDP growth	-0.0166179	0.0033073	-5.02	0.000	-0.0231002 -0.0101357
Ln (GDP per capita)	0.1155939	0.0104064	11.11	0.000	0.0951978 0.1359901
GFCF	0.0074637	0.0011652	-6.41	0.000	-0.0097474 -0.00518

	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]
Trade to GDP ratio	-0.0007624	0.0001457	5.23	0.000	0.0004768 0.0010479
Inflation	-0.0003705	0.0001391	-2.66	0.008	-0.0006431 -0.0000979
←					
GDP growth	-0.3145275	0.0610384	-5.15	0.000	-0.4341605 -0.1948945
Ln (GDP per capita)	2.187848	0.1716513	12.75	0.000	1.851418 2.524279
GFCF	0.1412651	0.0211528	-6.68	0.000	-0.1827238 -0.0998065
Trade to GDP ratio	-0.0144291	0.0026825	5.38	0.000	0.0091715 0.0196867
Inflation	-0.0070129	0.002614	-2.68	0.007	-0.0121362 -0.0018896
←					
Total quality !	0.0528345	0.0023326	22.65	0.000	0.0482628 0.0574063
Sector targeted					
GDP growth	-0.0264714	0.0210038	-1.26	0.208	-0.0676381 0.0146953
Ln (GDP per capita)	1.268973	0.0590666	21.48	0.000	1.153204 1.384741
GFCF	0.0201983	0.0072788	2.77	0.006	0.0059321 0.0344646
Trade to GDP ratio	-0.0201315	0.0009231	-21.81	0.000	-0.0219407 -0.0183223
Inflation	0.001312	0.0008995	1.46	0.145	-0.0004509 0.003075

Total effects

Total quality !
Sector targeted

Number of FDI projects

THANK YOU FOR READING

