

Foreign Direct Investment and Ease of Doing Business: Before, During and After the Global Crisis

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Introduction

- * FDI has been seen as an important source of technology spillover, improvement in efficiency and growth.
 - * Thus, it is important to study determinants of FDI and its effects on an economy.
- * Blonigen and Piger (2011) [OECD countries]
 - * Cultural distance factors, parent-country per capita GDP, relative labor endowments, and regional trade agreements play an important role in determining FDI.
 - * Multilateral trade openness, host country business costs, host-country infrastructure, and host-country institutions are less important in determining FDI.

Introduction

- * **Aim:** investigate the factors determining changing direction of FDI from developed countries towards developing ones.
- * Focus is on “doing business” indicators of the World Bank.
- * Period: 2004-2011 (estimates used for 2011).
 - * Before, during and after the global financial and economic crisis
 - * But the historical trend in FDI inflows is also included.

Plan

- * Trends in FDI in the world
- * Trends in FDI country specific examples
- * FDI and basic macroeconomic variables in recent years
- * Link between “doing business” indicators and FDI in years

- * Summary of initial results

Trends in FDI in the world

- * United Nations Conference on Trade and Development (2009) reported that FDI in 2008 dropped almost by 15 percent from its historically high level of \$1.9 trillion in 2007.
- * Two reasons:
 - * 1) the capacity of firms to invest reduced by declining availability of credits;
 - * 2) the tendency to invest declined negatively by changing economic conditions especially in developed countries.
- * Interesting observation: even in the middle of the crisis in 2008, flows into developing countries were increasing, while it was declining into developed countries.

Trends in FDI in the world

UN Conference on Trade and Development (UNCTAD, 2011)

*Global inflows of foreign direct investment in 2010 was equal to \$1.12 trillion, slightly higher than the level in 2009 (\$1.11 trillion).

*In 2010, for the first time, developed countries received less than half of global FDI.

*Flows of FDI to developed countries as a group fell by nearly 7%, whereas those to the rest of the world increased by almost 10%

Trends in FDI in the world

UN Conference on Trade and Development (UNCTAD, 2011)

*The USA remained the world's biggest receiver for FDI (\$186 billion in 2010), which is 43% more than a year earlier.

*More than \$100 billion of FDI flew to China. This figure makes China the world's second-largest recipient of FDI.

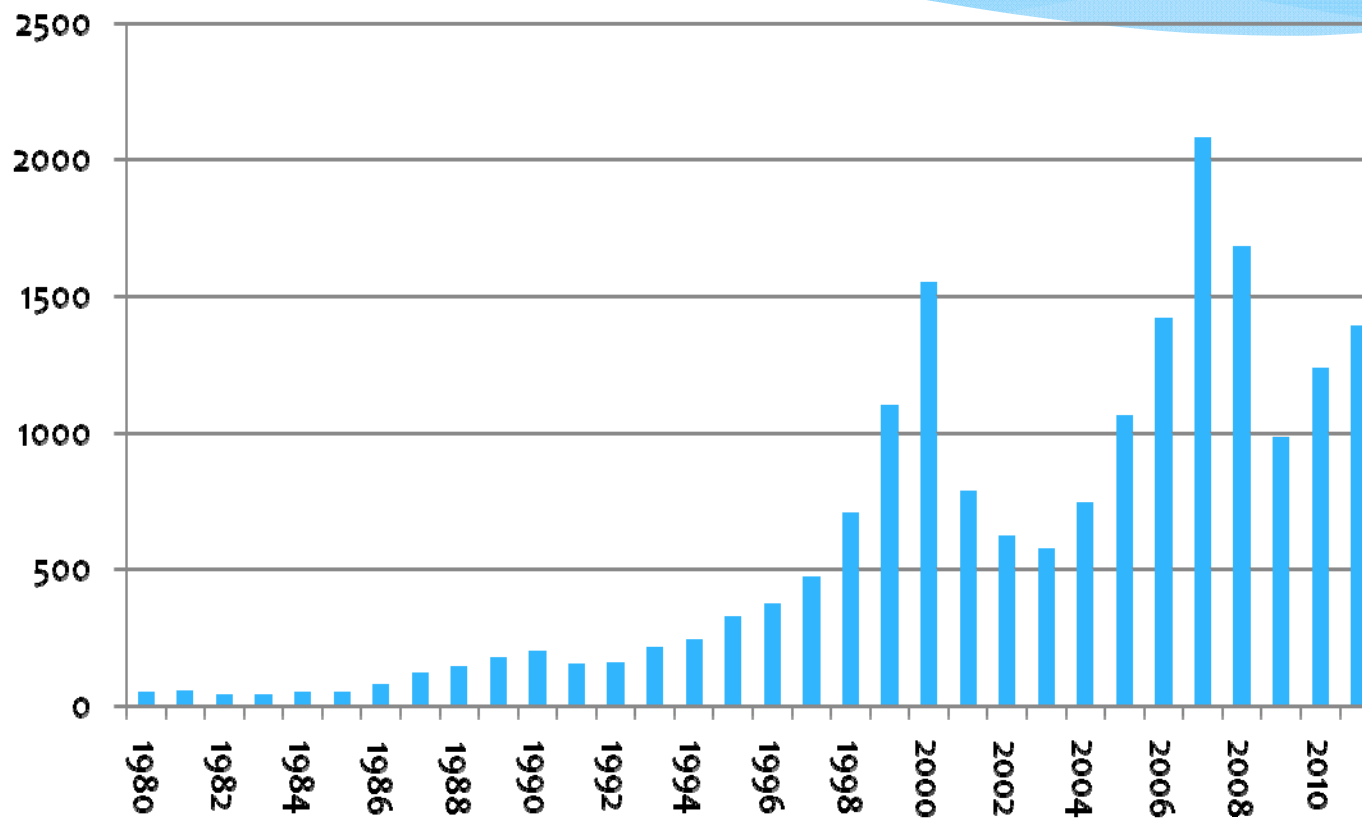
FDI Inflows (net)

FDI Data

- * **FDI net inflows:** Foreign direct investment (FDI) or foreign investment refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the **sum** of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. The net inflows are new investment inflows less disinvestment.
- * Data source: International Monetary Fund Balance of Payments and World Economic Outlook Databases.

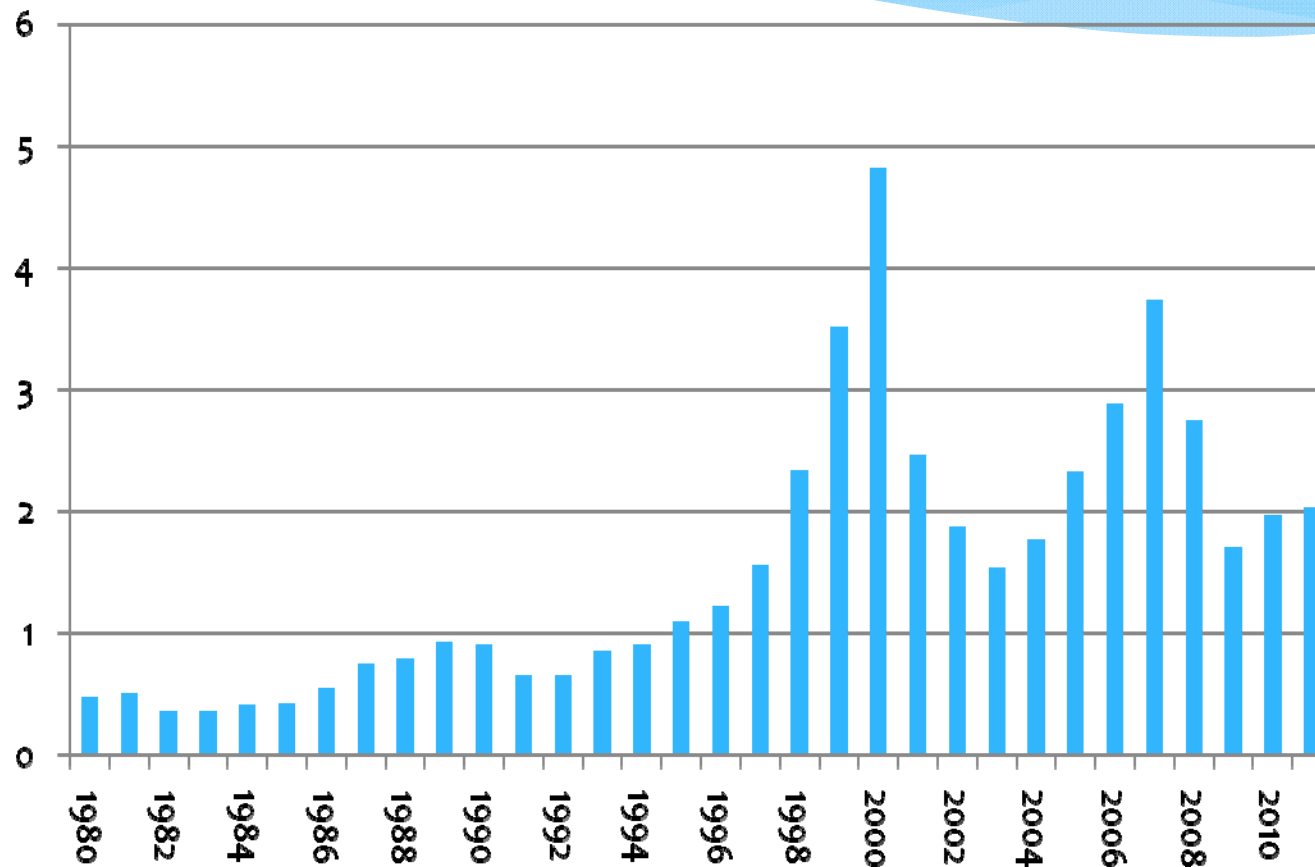
Trends in FDI Inflows (in the world)

FDI inflow (in billions current US Dollars)



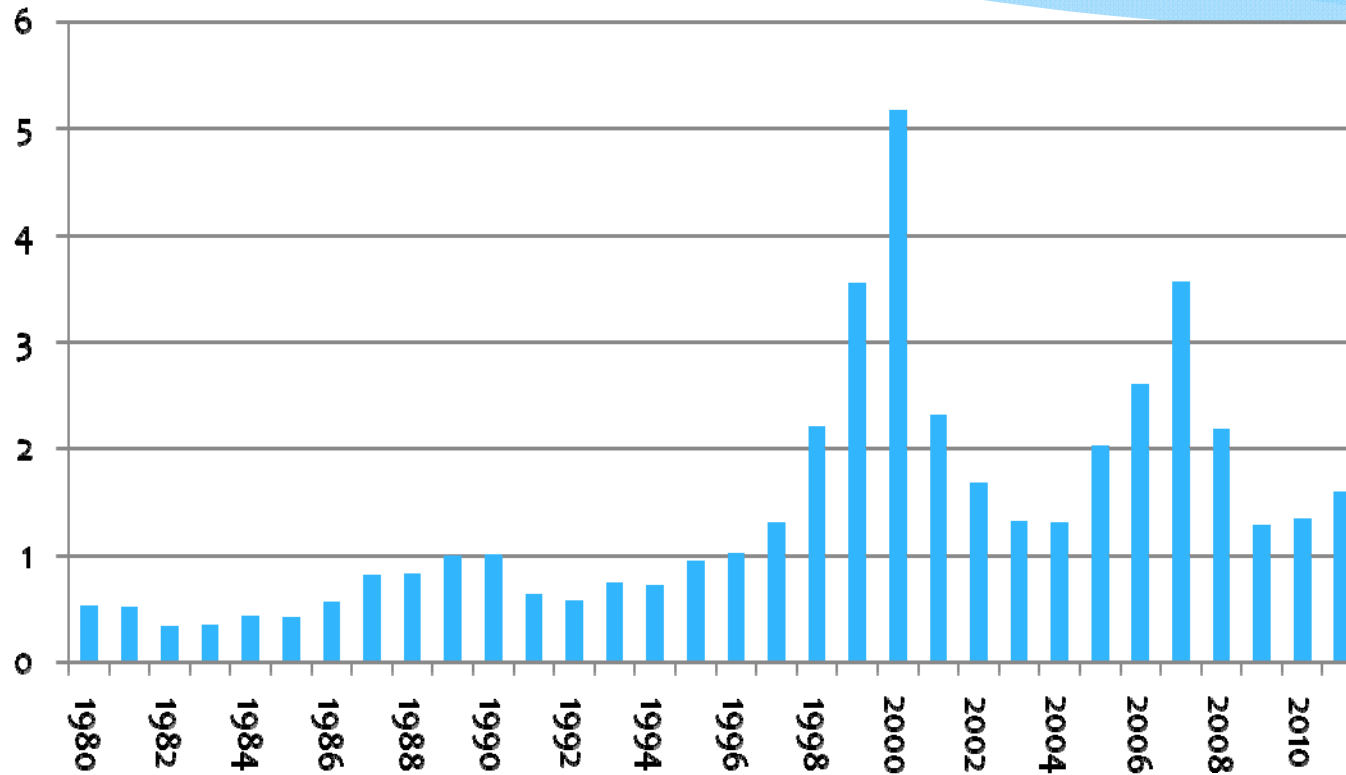
Trends in FDI Inflows (in the world)

FDI inflow (in % of world GDP)



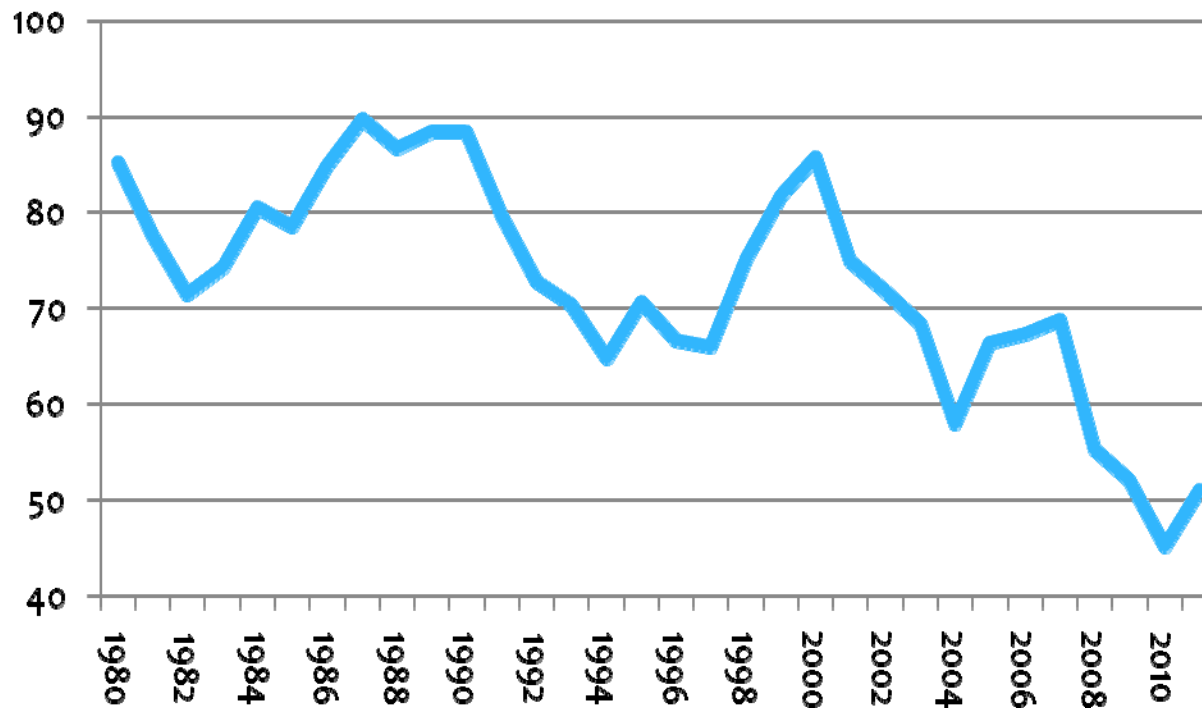
FDI Inflows in developed countries

Developed countries: FDI inflow
(in % of their GDP)



FDI Inflows in developed countries (% of world flows)

**FDI inflows to developed countries
(% of world FDI inflows)**



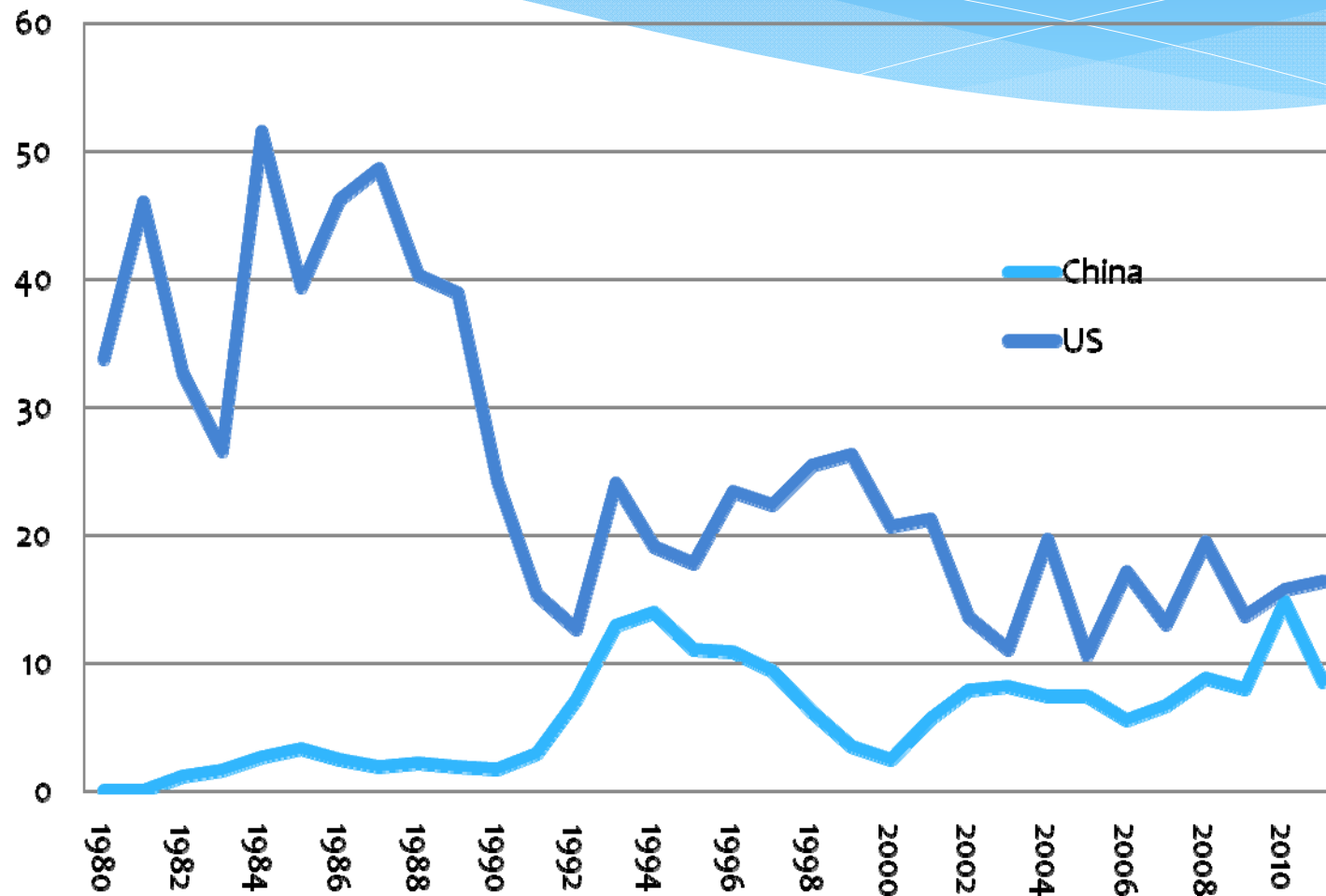
Top 15 FDI Recipients

	2007		2010		
	FDI inflows (in billions of US \$)	FDI inflows (% of world flows)	FDI inflows (in billions of US \$)	FDI inflows (% of world flows)	
United States	271.21	13.04	United States	194.46	15.73
United Kingdom	200.86	9.65	China (Mainland)	183.54	14.85
China (Mainland)	138.41	6.65	United Kingdom	73.78	5.97
Netherlands	119.56	5.75	China (Hong Kong)	68.90	5.57
Canada	114.65	5.51	Brazil	48.46	3.92
France	96.36	4.63	Russia	42.00	3.40
Belgium	93.57	4.50	Netherlands	40.64	3.29
Germany	76.65	3.68	Saudi Arabia	39.98	3.24
Spain	64.36	3.09	Germany	39.63	3.21
Austria	62.51	3.00	Singapore	38.64	3.13
Russia	55.07	2.65	France	38.26	3.10
China (Hong Kong)	54.34	2.61	India	38.17	3.09
Italy	40.26	1.94	Ireland	27.10	2.19
Australia	38.15	1.83	Canada	21.82	1.77
Singapore	37.03	1.78	Spain	20.81	1.68

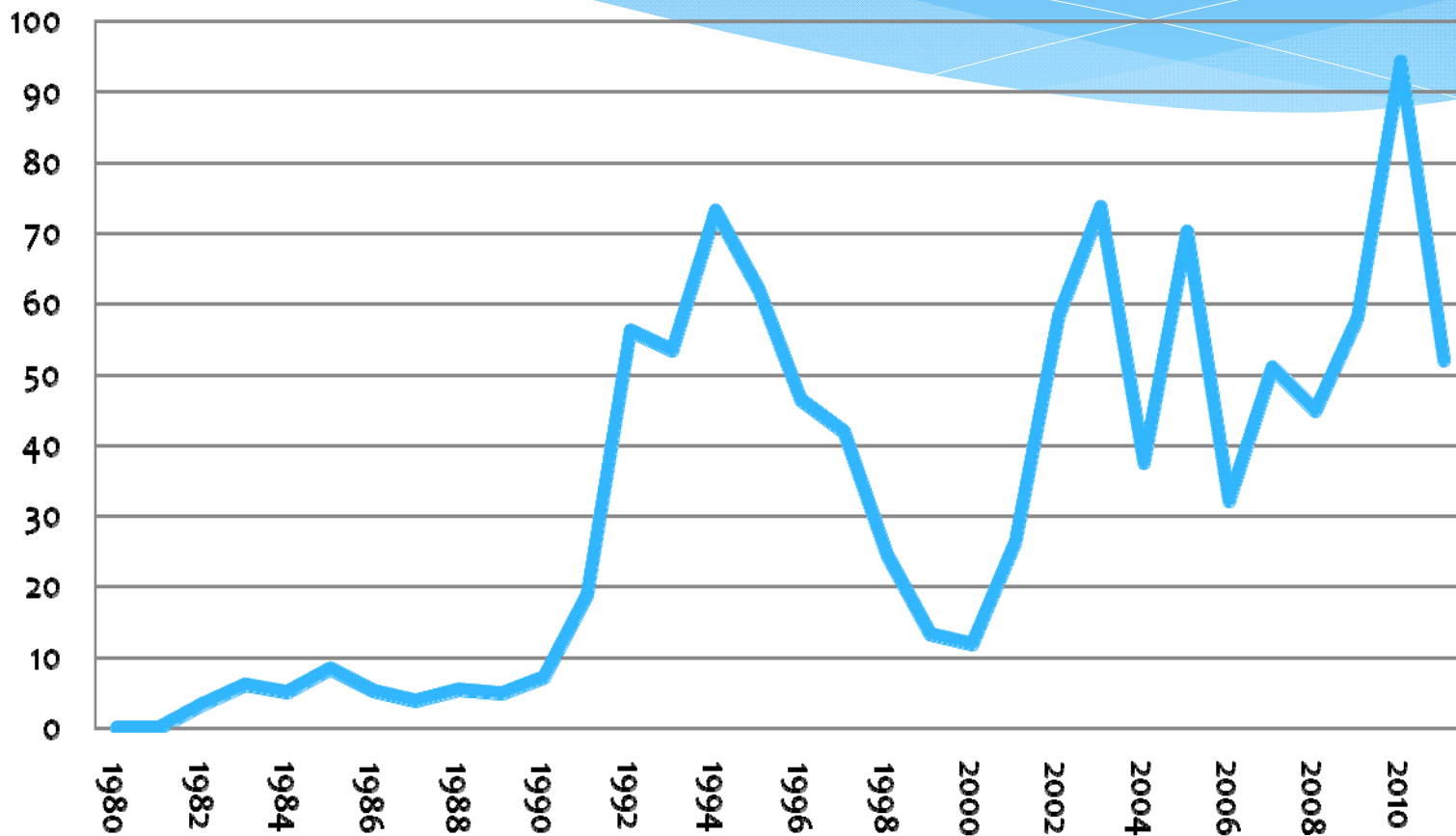
Top 15 FDI Recipients

	FDI	
	Share in % of	Share of
	world flows	developing
		countries in top
		15
2006	70.09	15.37
2007	70.32	16.94
2008	73.08	32.78
2009	68.48	33.83
2010	74.13	45.96
2011	70.10	39.76

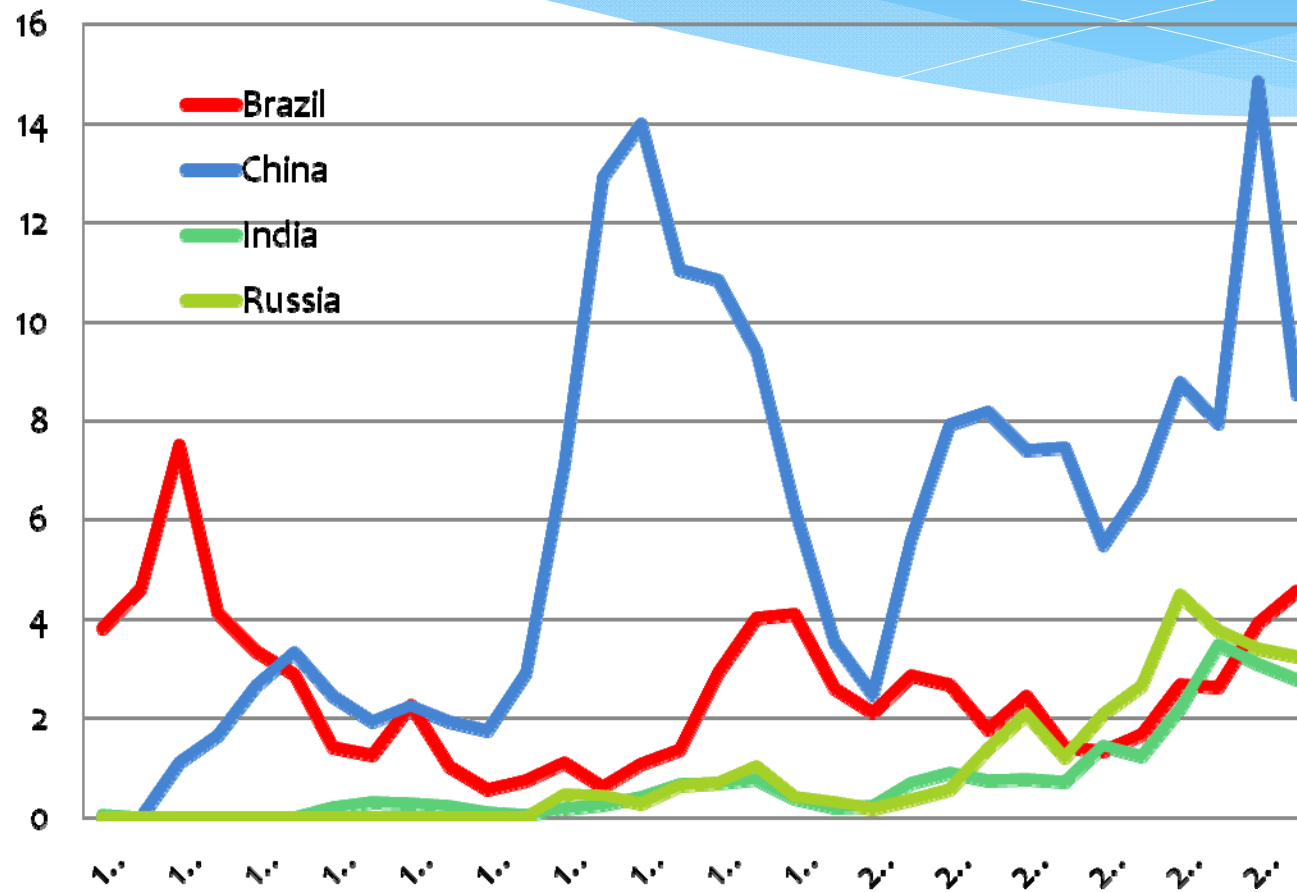
Top two recipients in 2010: FDI inflows in USA and China (in % of world inflows)



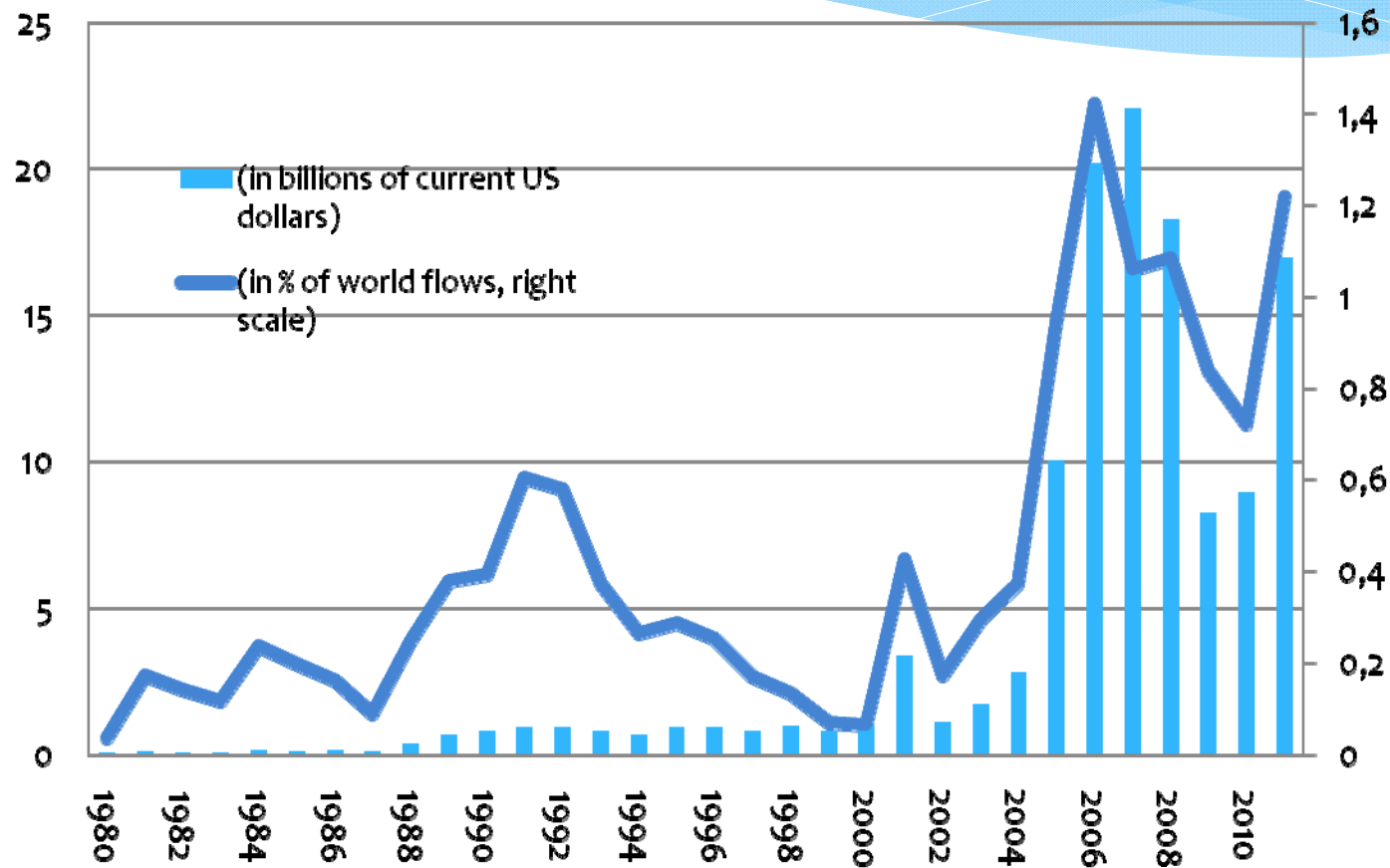
Top two recipients in 2010: FDI inflows to China (in % of inflows to USA)



BRIC Countries: FDI inflows (% of world flows)



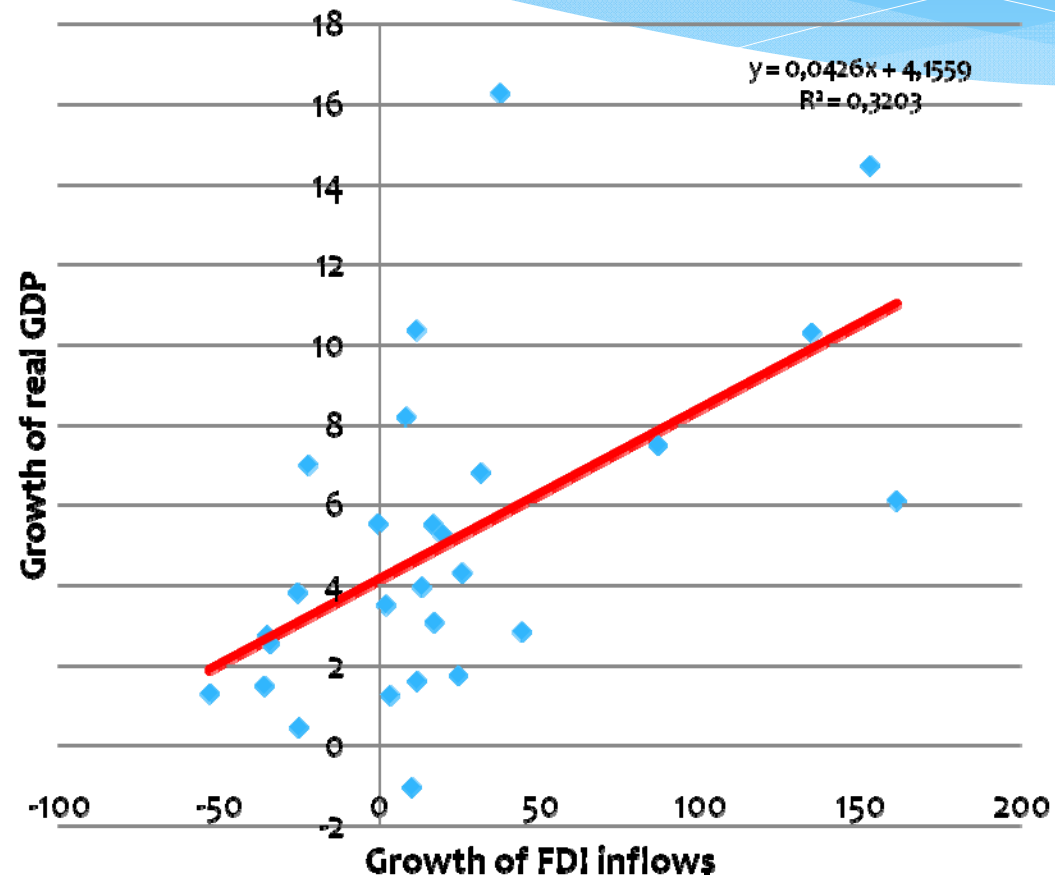
Turkey: FDI Inflows



Possible determinants of FDI

Top 30 FDI Recipients in 2010 (receiving 90% of FDI): Growth of GDP and FDI

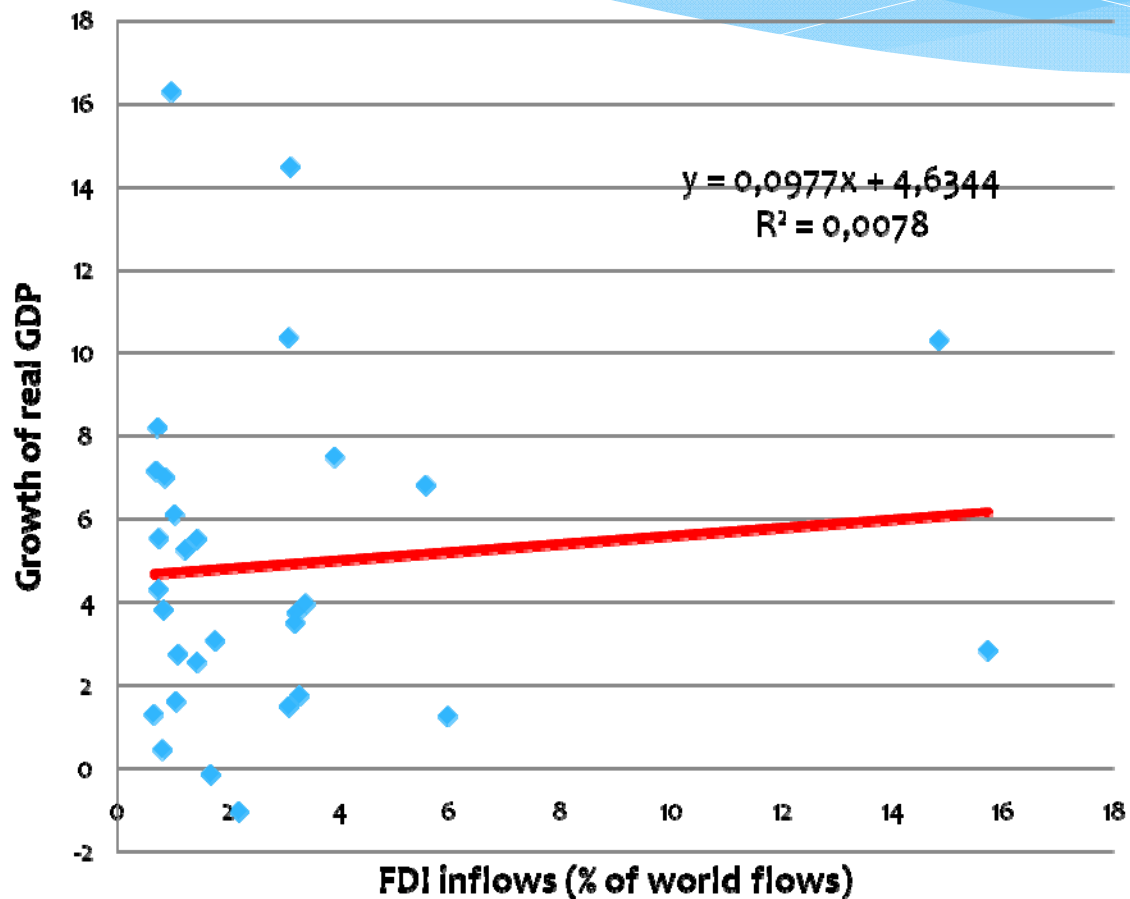
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Top 30 FDI Recipients in 2010 (receiving 90% of FDI)

Growth of GDP and FDI (% of world flows)

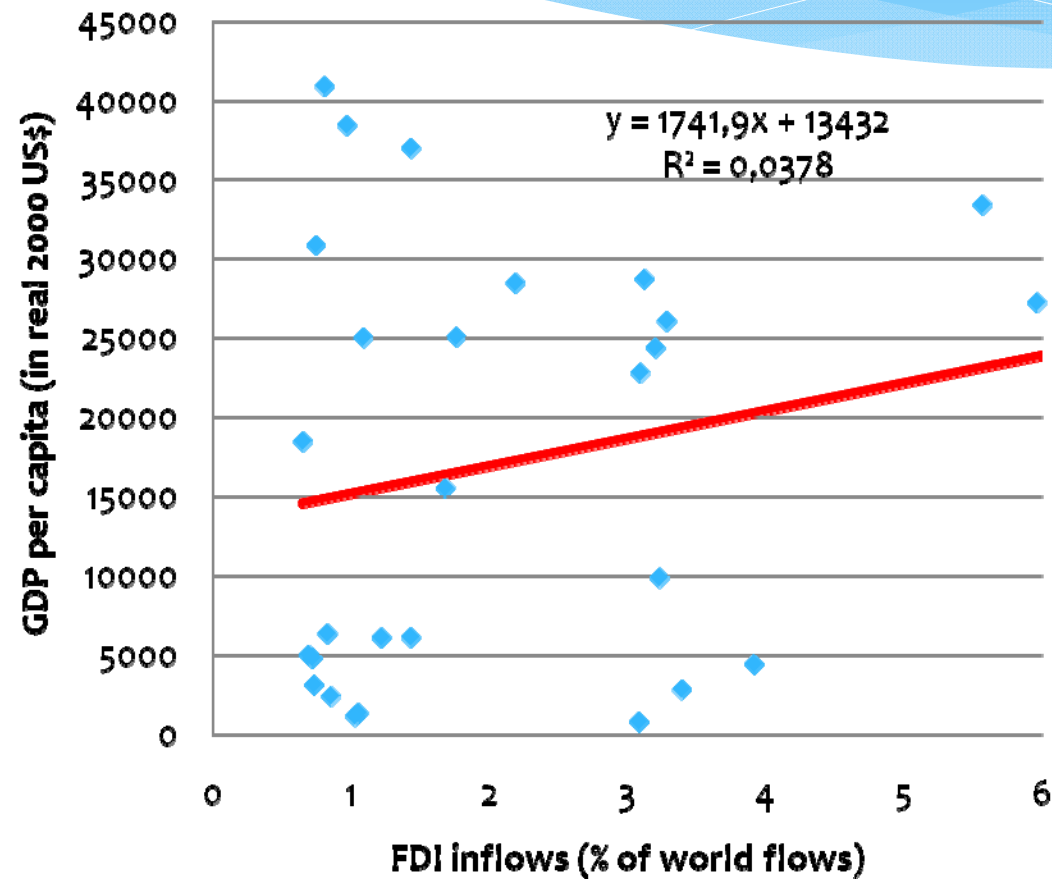
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Top 30 FDI Recipients in 2010 (receiving 90% of FDI)

Income and FDI (% of world flows)

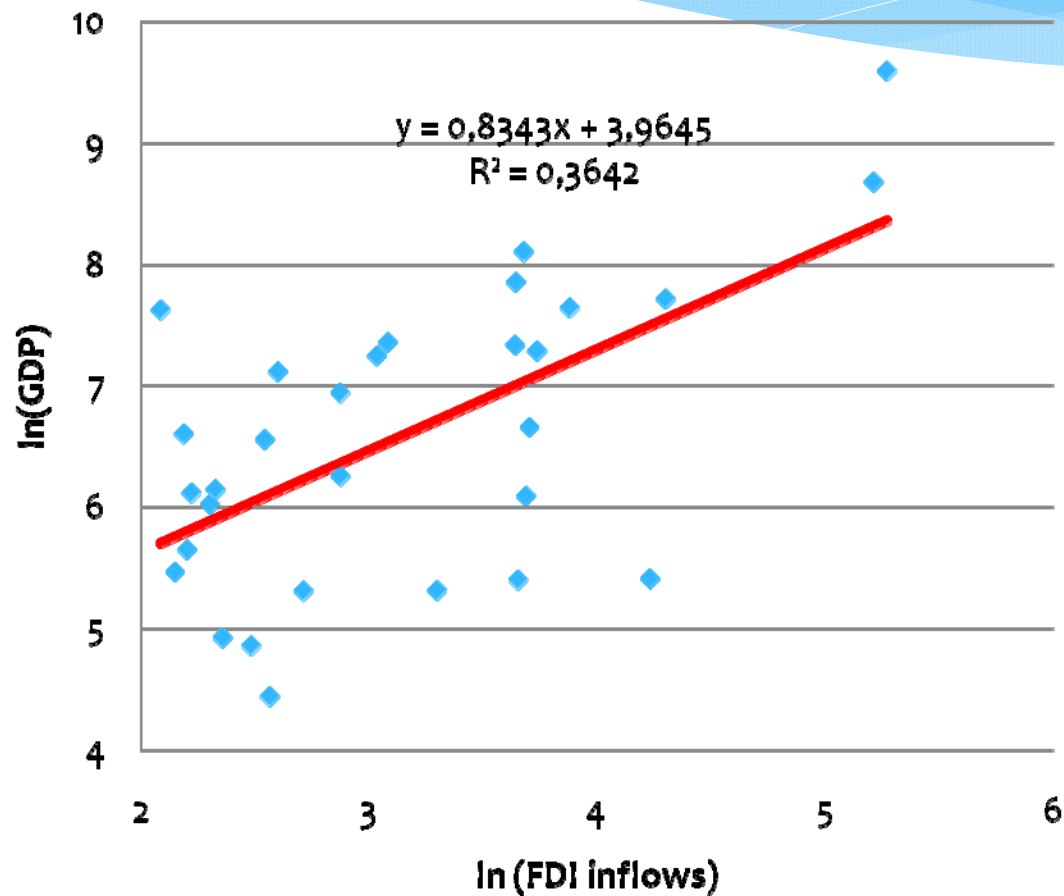
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Top 30 FDI Recipients in 2010 (receiving 90% of FDI)

Income and FDI (in ln terms)

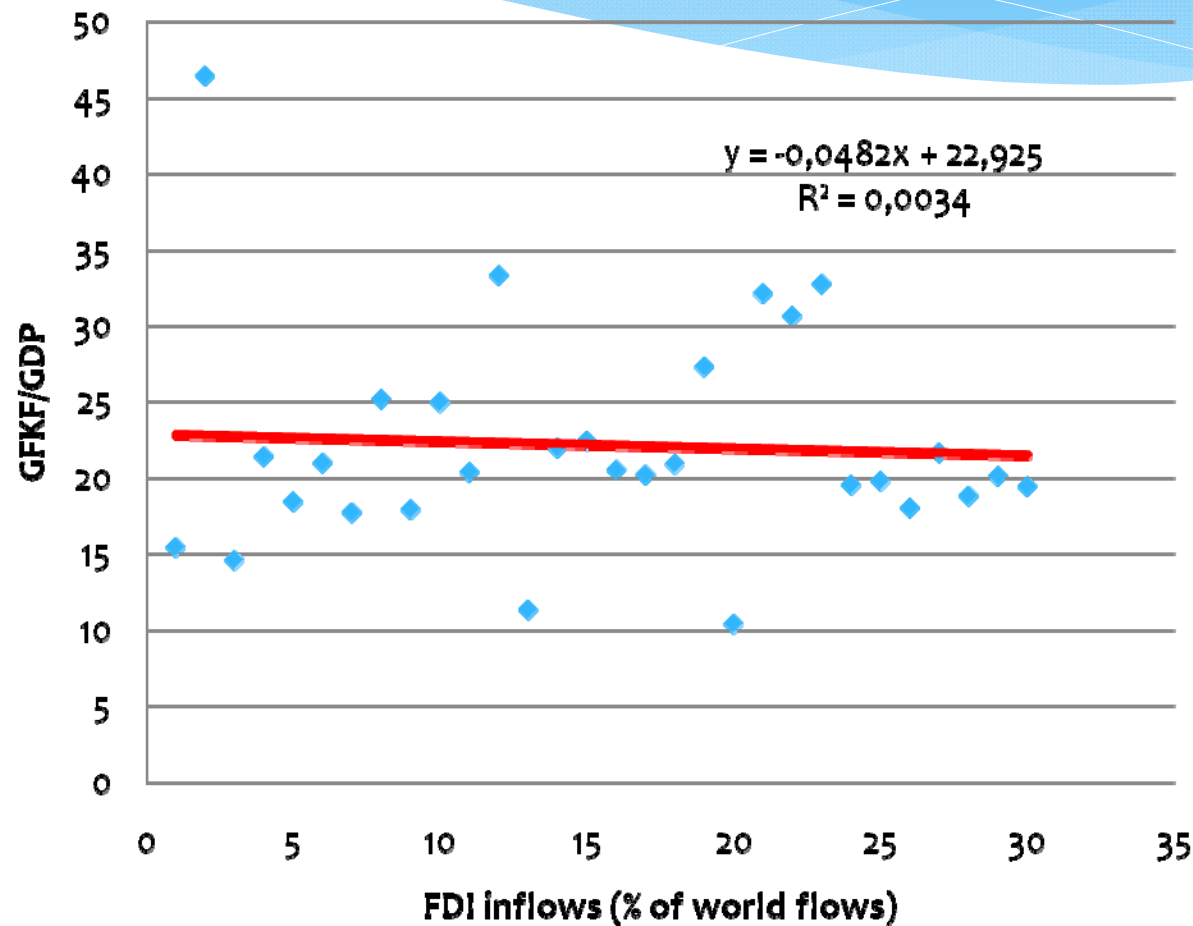
Correlation =
0.60



Top 30 FDI Recipients in 2010 (90% of FDI)

Gross fixed K formation/GDP and FDI (% of world flows)

Correlation =
0.24



Doing Business Database

“Doing Business” Database

- * Definition of FDI is given in the Balance of Payments Manual of the International Monetary Fund (1993):
 - * FDI refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor.
 - * Further, in cases of FDI, the investor’s purpose is to gain an effective voice in the management of the enterprise.
- * Based on this definition, ease of doing business must be one of the important factors motivating the inflows of foreign direct investment.

“Doing Business” Database

- * The main data source is the World Bank’s Doing Business Database, covering the years from 2004 to 2011.

Methodology of the database:

- * The World Bank collaborates with academic professionals to design a business case survey.
 - * This method includes a business scenario and asks questions about how that firm would react to this scenario. Annually, the survey is distributed to nearly 8,000 local experts per economy, such as lawyers, consultants, accountants, supply chain professionals, government officials, and other businesspeople routinely administering or consulting foreign firms.
- * The methodology also includes direct contacts the professionals.

“Doing Business” Database

- * The main groups of variables in the Doing Business Database are:
 - * “Starting a business” indicators
 - * “Getting credit” indicators
 - * “Protecting investors” indicators
 - * “Closing a business” indicators

“Doing Business” Database

- * **“Starting a business”** indicators:
 - * Procedures (number),
 - * Time (days),
 - * Cost (% of income per capita),
 - * Minimum capital (% of income per capita).

- * **“Closing a business”** indicators:
 - * Recovery rate (cents on the dollar);
 - * Time (years);
 - * Cost (% of estate).

“Doing Business” Database

- * **“Getting credit”** indicators:
 - * Strength of legal rights index (index between 0-10);
 - * Depth of credit information index (index between 0-6);
 - * Public registry coverage (% of adults);
 - * Private bureau coverage (% of adults).

“Doing Business” Database

- * **“Protecting investors”** indicators:
 - * Extent of disclosure index (index between 0-10),
 - * Extent of director liability index (index between 0-10);
 - * Ease of shareholder suits index (index between 0-10);
 - * Strength of investor protection index (index between 0-10).

Top FDI Recipients in 2010: FDI and Ease of doing business ranking

The higher the ease of doing business rank, the worse is the position of the country.

	FDI (% of world flows)	Ease of doing business (ranking)
United States	15.73	5
China (Mainland)	14.85	78
United Kingdom	5.97	4
China (Hong Kong)	5.57	2
Brazil	3.92	124
Russia	3.40	116
Netherlands	3.29	29
Saudi Arabia	3.24	12
Germany	3.21	21
Singapore	3.13	1
France	3.10	28
India	3.09	135
Ireland	2.19	8
Canada	1.77	9
Spain	1.68	48
Switzerland	1.44	24
Mexico	1.43	41
Chile	1.22	53

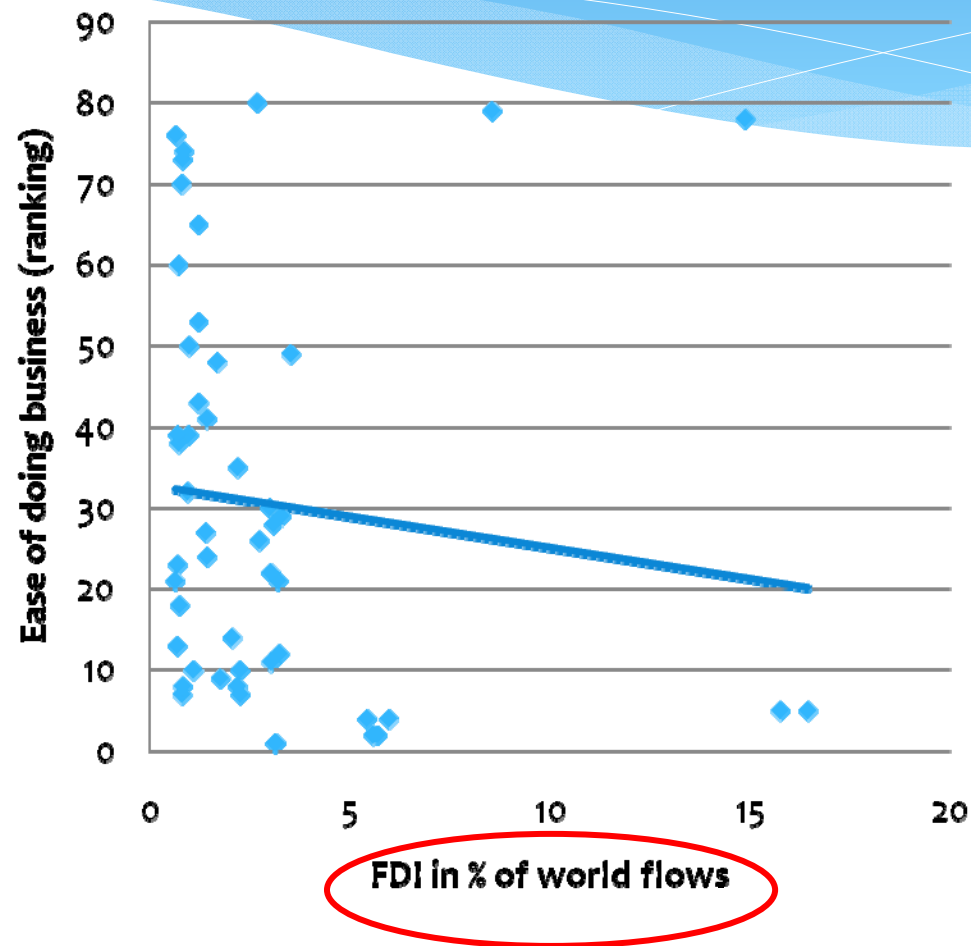
Top FDI Recipients in 2010: FDI and Ease of doing business ranking

BRIC countries are big exceptions. Despite very high ease of doing business ranking, their shares in FDI inflows are very high.

	FDI (% of world flows)	Ease of doing business (ranking)
United States	15.73	5
China (Mainland)	14.85	78
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China (Hong Kong)	5.57	2
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Saudi Arabia	3.24	12
Germany	3.21	21
Singapore	3.13	1
France	3.10	28
India	3.09	135
Ireland	2.19	8
Canada	1.77	9
Spain	1.68	48
Switzerland	1.44	24
Mexico	1.43	41
Chile	1.22	53

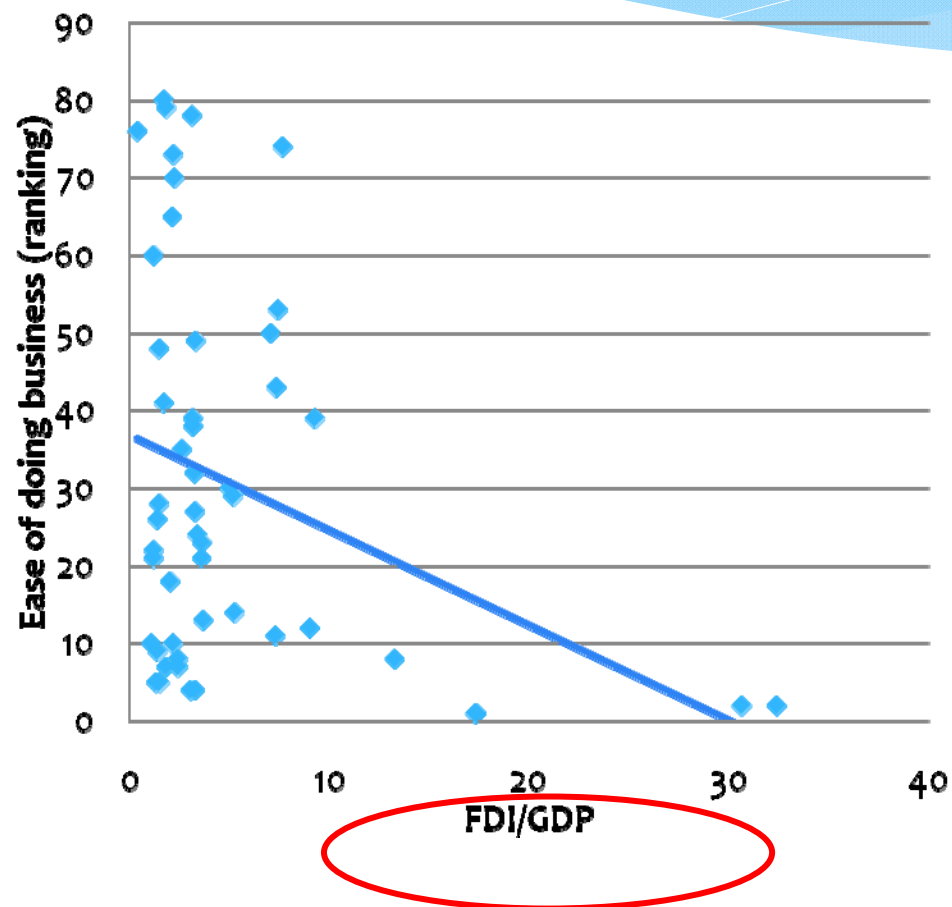
Top 30 FDI recipients: Ease of doing business and FDI (2010 and 2011 combined)

Expected correlation is (-)

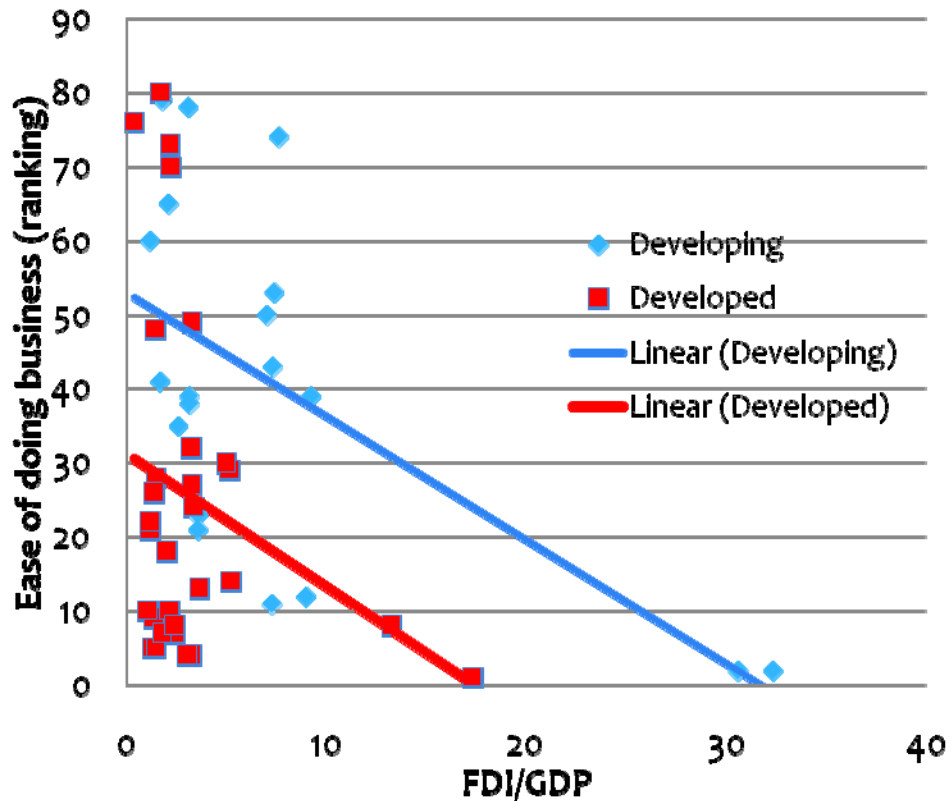


Top 30 FDI recipients: Ease of doing business and FDI (2010 and 2011 combined)

Expected correlation is (-)



Top 30 FDI recipients: Ease of doing business and FDI (2010 and 2011 combined) (developed versus developing countries)



Correlation between FDI/GDP and ease of doing business

- Developing countries = -0.61
- Developed countries = -0.33

Changes in Doing business indicators between 2004 and 2010

- * In terms of improvements in the values of doing business indicators, differences between developed and developing groups are significant.
- * **Developed:** There is almost no change in the values of the indicators.
 - * That's the reason, we cannot explain the dropping FDI inflows to developed countries by changes in doing business indicators in these countries.
- * **Developing:** Improvements in indicators in developing countries, especially in BRIC countries, are clear and these improvements support the increasing FDI inflows to this group of countries.

USA: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Ease of Doing Business Rank	Starting a Business			
					Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in Min. Capital (% of income per capita)
	2004	1.2	19.7	..	6	6	0.7	0
	2005	0.9	10.6	..	6	6	0.7	0
	2006	1.8	17.1	..	6	6	0.8	0
	2007	1.9	13.0	..	6	6	0.8	0
	2008	2.3	19.5	..	6	6	0.7	0
	2009	1.0	13.7	..	6	6	0.7	0
	2010	1.3	15.7	5	6	6	0.7	0
	2011	1.5	16.4	5	6	6	1.4	0
Ratio of value in 2010 to 2004		1.2	0.8		1.0	1.0	2.0	---

USA: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Registering Property			Getting Credit			
				Procedures (number)	Time (days)	Cost (% of property value)	Strength of legal rights index (0- 10)	Depth of credit information index (0-6)	Public registry coverage (% of adults)	Private bureau coverage (% of adults)
	2004	1.2	19.7	..	..	..	..	..	..	..
	2005	0.9	10.6	4	12	0.5	8	6	0	100
	2006	1.8	17.1	4	12	0.5	8	6	0	100
	2007	1.9	13.0	4	12	0.5	8	6	0	100
	2008	2.3	19.5	4	12	0.5	8	6	0	100
	2009	1.0	13.7	4	12	0.5	8	6	0	100
	2010	1.3	15.7	4	12	0.5	8	6	0	100
	2011	1.5	16.4	4	12	0.5	8	6	0	100
Ratio of value in 2010 to 2004		1.2	0.8	1.0	1.0	1.0	1.0	1.0	---	1.0

USA: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Protecting Investors			
				Extent of disclosure index (0- 10)	Extent of director liability index (0- 10)	Ease of shareholder suits index (0-10)	Strength of investor protection index (0- 10)
	2004	1.2	19.7	..	..	..	..
	2005	0.9	10.6	..	..	..	..
	2006	1.8	17.1	7	9	9	8.3
	2007	1.9	13.0	7	9	9	8.3
	2008	2.3	19.5	7	9	9	8.3
	2009	1.0	13.7	7	9	9	8.3
	2010	1.3	15.7	7	9	9	8.3
	2011	1.5	16.4	7	9	9	8.3
Ratio of value in 2010 to 2004		1.2	0.8	1.0	1.0	1.0	1.0

Brazil: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Ease of Doing Business Rank	Starting a Business			
					Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in Min. Capital (% of income per capita)
	2004	2.7	2.4	..	17	152	13.1	0
	2005	1.7	1.4	..	17	152	11.7	0
	2006	1.7	1.3	..	17	152	10.1	0
	2007	2.5	1.7	..	17	152	9.9	0
	2008	2.7	2.7	..	18	152	10.4	0
	2009	1.6	2.6	..	18	152	8.2	0
	2010	2.3	3.9	124	16	120	6.9	0
	2011	2.6	4.6	127	15	120	7.3	0
Ratio of value in 2010 to 2004		1.0	1.9		0.9	0.8	0.5	---

Brazil: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Enforcing Contracts			Closing a Business		
				Procedures (number)	Time (days)	Cost (% of claim)	Recovery rate (cents on the dollar)	Time (years)	Cost (% of estate)
	2004	2.7	2.4	46	636	16.5	0.2	10	9
	2005	1.7	1.4	46	636	16.5	0.2	10	9
	2006	1.7	1.3	45	616	16.5	0.4	10	9
	2007	2.5	1.7	45	616	16.5	12.1	4	12
	2008	2.7	2.7	45	616	16.5	14.6	4	12
	2009	1.6	2.6	45	616	16.5	17.1	4	12
	2010	2.3	3.9	45	616	16.5	17.1	4	12
	2011	2.6	4.6	45	616	16.5	17.1	4	12
Ratio of value in 2010 to 2004		1.0	1.9	1.0	1.0	1.0	42.8	0.4	1.3

China: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Ease of Doing Business Rank	Starting a Business			
					Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in Min. Capital (% of income per capita)
	2004	2.8	7.4	..	13	48	17.8	1,236.50
	2005	3.5	7.5	..	13	48	15.9	1,104.20
	2006	2.9	5.5	..	13	48	13.6	946.7
	2007	4.0	6.7	..	13	35	9.3	213.1
	2008	3.3	8.8	..	13	35	8.4	190.2
	2009	1.6	7.9	..	14	41	8.4	158.1
	2010	3.1	14.9	78	14	38	4.9	130.9
	2011	1.8	8.5	79	14	38	4.5	118.3
Ratio of value in 2010 to 2004		0.6	1.2		1.1	0.8	0.3	0.1

China: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Protecting Investors			
				Extent of disclosure index (0- 10)	Extent of director liability index (0- 10)	Ease of shareholder suits index (0-10)	Strength of investor protection index (0- 10)
	2004	2.8	7.4	..	..	..	..
	2005	3.5	7.5	..	..	..	..
	2006	2.9	5.5	10	1	2	4.3
	2007	4.0	6.7	10	1	4	5
	2008	3.3	8.8	10	1	4	5
	2009	1.6	7.9	10	1	4	5
	2010	3.1	14.9	10	1	4	5
	2011	1.8	8.5	10	1	4	5
Ratio of value in 2010 to 2004		0.6	1.2	1.0	1.0	2.0	1.2

China: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Enforcing Contracts			Closing a Business		
				Procedures (number)	Time (days)	Cost (% of claim)	Recovery rate (cents on the dollar)	Time (years)	Cost (% of estate)
	2004	2.8	7.4	35	406	11.1	31.7	2.4	22
	2005	3.5	7.5	35	406	11.1	31.7	2.4	22
	2006	2.9	5.5	35	406	11.1	31.5	2.4	22
	2007	4.0	6.7	35	406	11.1	31.5	2.4	22
	2008	3.3	8.8	35	406	11.1	35.9	1.7	22
	2009	1.6	7.9	34	406	11.1	35.3	1.7	22
	2010	3.1	14.9	34	406	11.1	35.3	1.7	22
	2011	1.8	8.5	34	406	11.1	36.4	1.7	22
Ratio of value in 2010 to 2004		0.6	1.2	1.0	1.0	1.0	1.2	0.7	1.0

Hong Kong: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Ease of Doing Business Rank	Starting a Business			
					Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in Min. Capital (% of income per capita)
	2004	20.5	4.6	..	5	11	2.4	0
	2005	18.9	3.2	..	5	11	3.4	0
	2006	23.7	3.2	..	5	11	3.4	0
	2007	26.2	2.6	..	5	11	3.3	0
	2008	27.7	3.5	..	5	11	3.1	0
	2009	25.0	5.3	..	5	11	2	0
	2010	30.6	5.6	2	3	6	1.8	0
	2011	32.4	5.7	2	3	6	2	0
Ratio of value in 2010 to 2004		1.6	1.2		0.6	0.5	0.8	---

Hong Kong: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Enforcing Contracts		
				Procedures (number)	Time (days)	Cost (% of claim)
	2004	20.5	4.6	24	211	19.5
	2005	18.9	3.2	24	211	19.5
	2006	23.7	3.2	24	211	19.5
	2007	26.2	2.6	24	211	19.5
	2008	27.7	3.5	24	211	19.5
	2009	25.0	5.3	24	211	19.5
	2010	30.6	5.6	24	280	19.5
	2011	32.4	5.7	24	280	19.5
Ratio of value in 2010 to 2004		1.6	1.2	1.0	1.3	1.0

India: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Ease of Doing Business Rank	Starting a Business			
					Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in Min. Capital (% of income per capita)
	2004	0.8	0.8	..	11	89	53.4	428
	2005	0.9	0.7	..	11	89	49.5	390.1
	2006	2.2	1.4	..	11	71	62	352.1
	2007	2.2	1.2	..	11	35	78.4	314.4
	2008	2.9	2.2	..	13	33	74.6	269.5
	2009	2.7	3.5	..	13	30	70.1	239.4
	2010	2.5	3.1	135	13	30	66.1	210.9
	2011	2.3	2.8	134	12	29	56.5	188.8
Ratio of value in 2010 to 2004		2.7	3.6		1.2	0.3	1.2	0.5

India: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Registering Property			Getting Credit			
				Procedures (number)	Time (days)	Cost (% of property value)	Strength of legal rights index (0- 10)	Depth of credit information index (0-6)	Public registry coverage (% of adults)	Private bureau coverage (% of adults)
	2004	0.8	0.8	..	..	..	..	..	..	..
	2005	0.9	0.7	5	61	13.1	6	0	0	0
	2006	2.2	1.4	5	61	8	6	2	0	1.7
	2007	2.2	1.2	5	61	7.8	7	3	0	6.1
	2008	2.9	2.2	5	61	7.7	8	4	0	10.8
	2009	2.7	3.5	5	44	7.5	8	4	0	10.5
	2010	2.5	3.1	5	44	7.4	8	4	0	10.2
	2011	2.3	2.8	5	44	7.4	8	4	0	10
Ratio of value in 2010 to 2004		2.7	3.6	1.0	0.7	0.9	1.3	2.0	---	5.9

Russia: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Ease of Doing Business Rank	Starting a Business			
					Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in Min. Capital (% of income per capita)
	2004	2.6	2.1	..	14	44	14.4	6.8
	2005	1.7	1.2	..	11	39	11.6	5.6
	2006	3.0	2.1	..	10	35	8.8	4.4
	2007	4.2	2.6	..	9	30	5.1	3.4
	2008	4.5	4.5	..	9	30	4.8	3.2
	2009	3.0	3.8	..	9	30	3.3	2.2
	2010	2.9	3.4	116	9	30	2.7	1.8
	2011	2.4	3.2	123	9	30	3.6	1.9
Ratio of value in 2010 to 2004		0.9	1.6		0.6	0.7	0.2	0.3

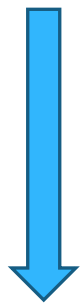
Turkey: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Ease of Doing Business Rank	Starting a Business			
					Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in Min. Capital (% of income per capita)
	2004	0.7	0.4	..	13	38	36.8	31.6
	2005	2.1	0.9	..	6	6	26	25
	2006	3.8	1.4	..	6	6	27.4	20.9
	2007	3.4	1.1	..	6	6	26.5	18.7
	2008	2.5	1.1	..	6	6	20.7	16.2
	2009	1.3	0.8	..	6	6	14.9	10.9
	2010	1.2	0.7	60	6	6	14.2	9.5
	2011	2.1	1.2	65	6	6	17.2	9.9
Ratio of value in 2010 to 2004		3.0	3.3		0.5	0.2	0.4	0.3

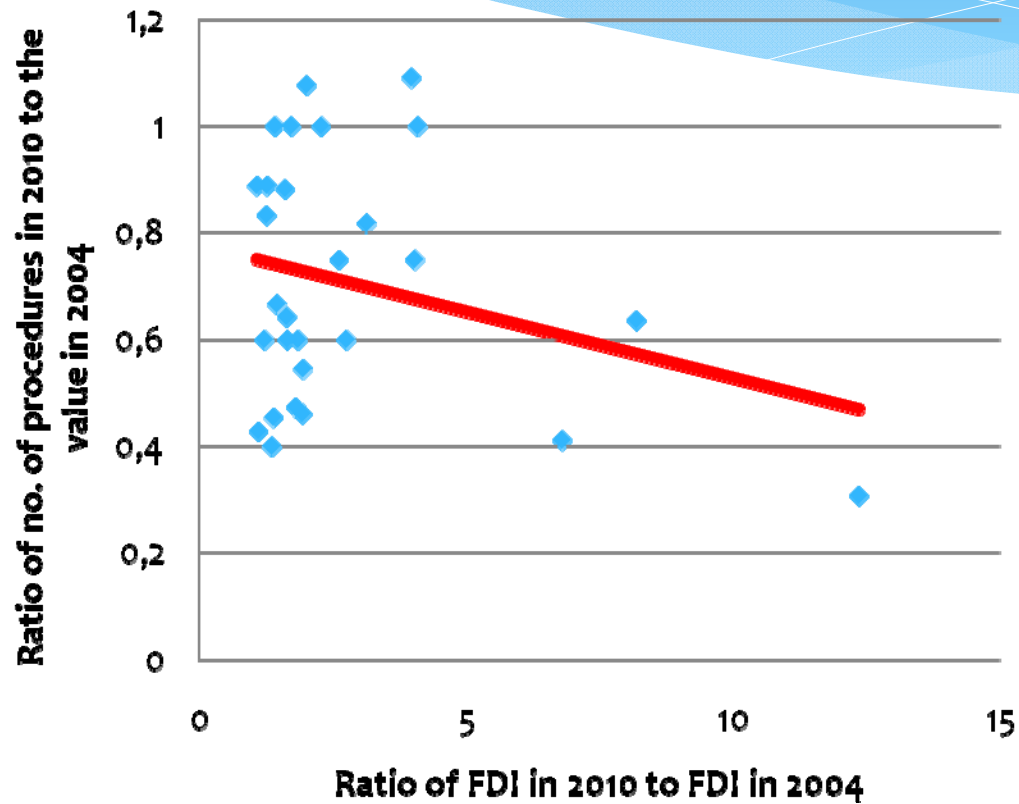
Turkey: FDI and doing business, 2004-11

		FDI inflow/GDP	FDI/world FDI	Enforcing Contracts			Closing a Business		
				Procedures (number)	Time (days)	Cost (% of claim)	Recovery rate (cents on the dollar)	Time (years)	Cost (% of estate)
	2004	0.7	0.4	37	420	18.8	11.3	3.3	15
	2005	2.1	0.9	36	420	18.8	1.9	3.3	15
	2006	3.8	1.4	36	420	18.8	11.3	3.3	15
	2007	3.4	1.1	36	420	18.8	18.5	3.3	15
	2008	2.5	1.1	36	420	18.8	20.3	3.3	15
	2009	1.3	0.8	35	420	18.8	20.2	3.3	15
	2010	1.2	0.7	35	420	18.8	20.2	3.3	15
	2011	2.1	1.2	35	420	18.8	21.1	3.3	15
Ratio of value in 2010 to 2004		3.0	3.3	1.0	1.0	1.0	1.9	1.0	1.0

Top FDI Receiving Developing Countries: Starting a business (no. of procedures) and FDI, 2004-10



As you
move
down,
lower is
the
number of
procedure.

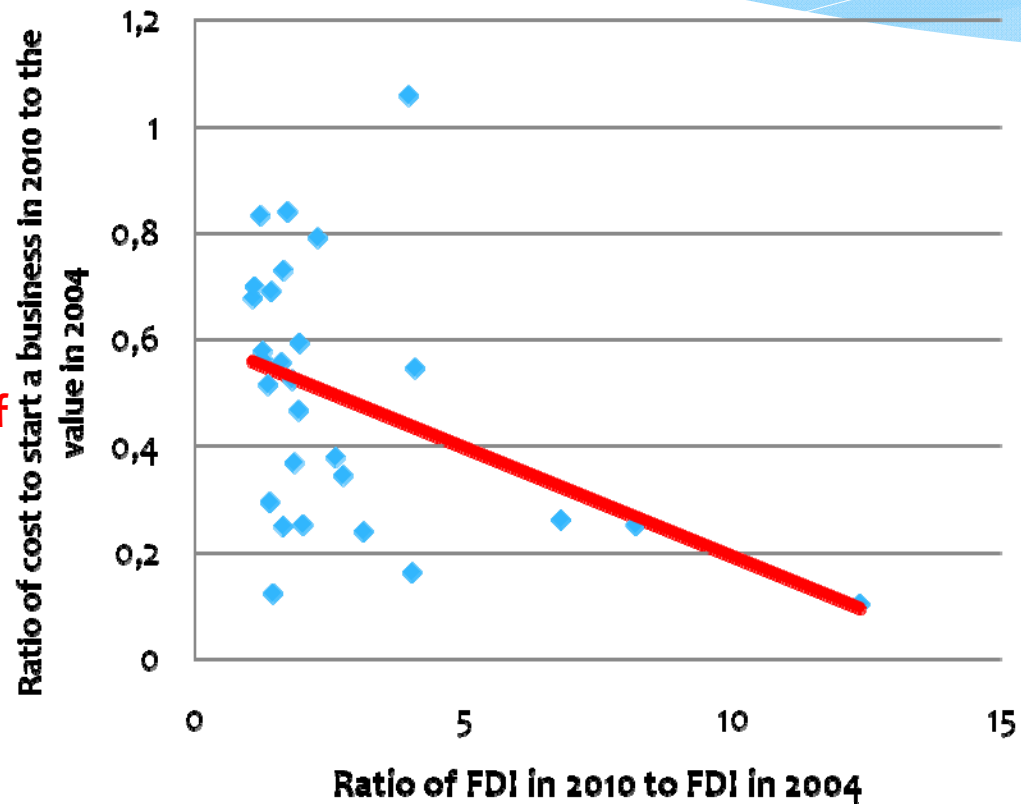


As you move right, more FDI received.



Top FDI receiving developing countries: Starting a business (cost) and FDI, 2004-10

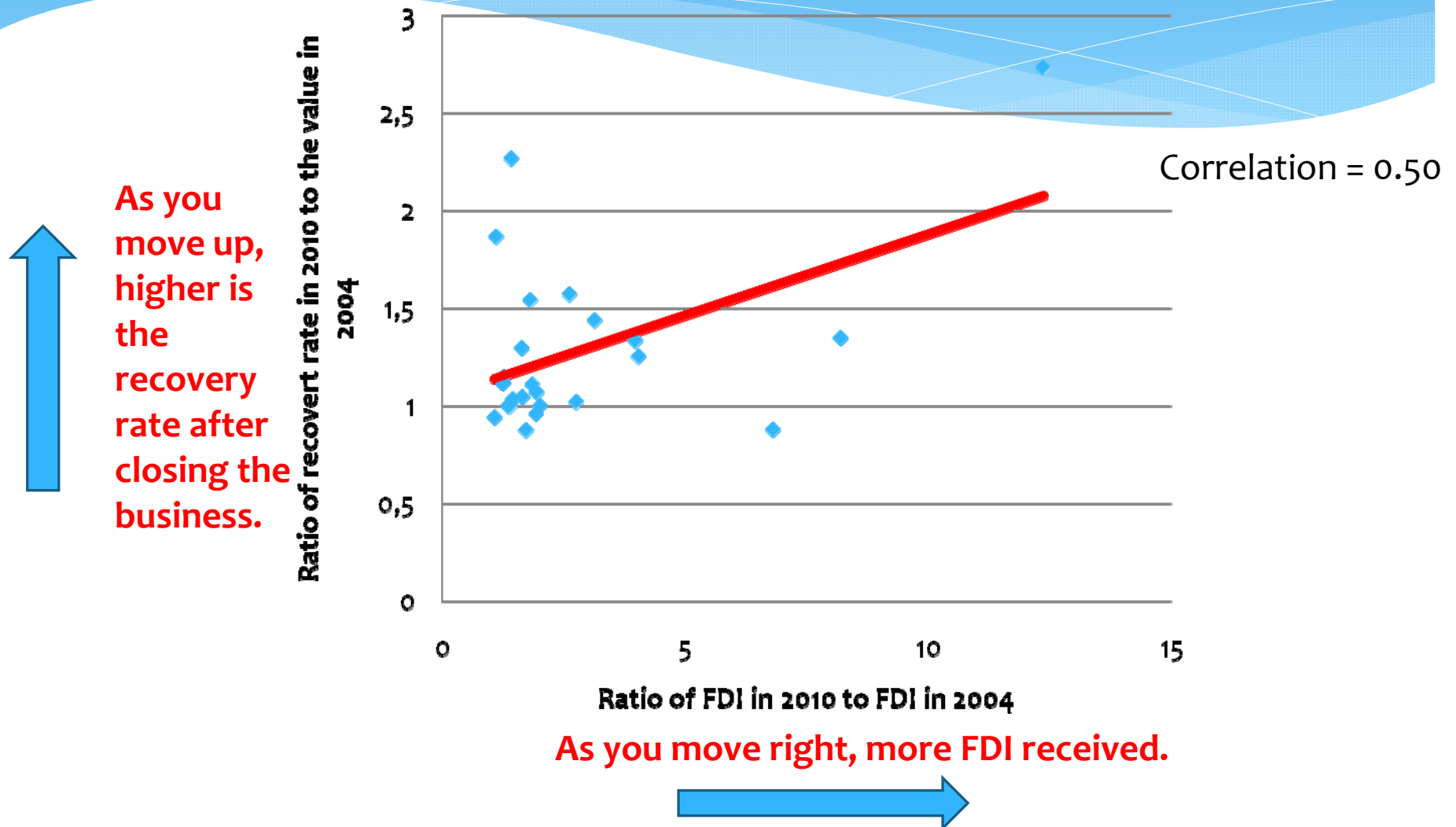
As you
move
down,
lower is
the cost of
starting a
business.



Correlation = -0.42

As you move right, more FDI received.

Top FDI receiving developing countries: Closing a business (recovery rate) and FDI, 2004-10



Developing countries: Correlation between FDI inflows and "doing business" indicators (country average, FDI % of world flows)

Expected sign			
		Starting a Business	
-		Procedures (number)	-0.54
-		Time (days)	-0.69
-		Cost (% of income per capita)	-0.63
-		Paid-in Min. Capital (% of income per capita)	
		Dealing with Construction Permits	
-		Procedures (number)	-0.51
-		Time (days)	-0.42
-		Cost (% of income per capita)	-0.69
		Registering Property	
-		Procedures (number)	-0.48
-		Time (days)	-0.58
-		Cost (% of property value)	-0.23

Developing countries: Correlation between FDI inflows and "doing business" indicators (country average, FDI % of world flows)

Expected sign			
	Getting Credit		
+		Strength of legal rights index (0-10)	0.75
+		Depth of credit information index (0-6)	0.60
+		Public registry coverage (% of adults)	0.40
+		Private bureau coverage (% of adults)	0.34
	Protecting Investors		
+		Extent of disclosure index (0-10)	0.52
+		Extent of director liability index (0-10)	0.46
+		Ease of shareholder suits index (0-10)	0.43
+		Strength of investor protection index (0-10)	0.41

Developing countries: Correlation between FDI inflows and "doing business" indicators (country average, FDI % of world flows)

Expected sign			
		Paying Taxes	
-		Payments (number per year)	-0.41
-		Time (hours per year)	-0.06
-		Total tax rate (% profit)	-0.24
		Trading Across Borders	
-		Documents to export (number)	-0.26
-		Time to export (days)	-0.44
-		Cost to export (US\$ per container)	0.46
-		Documents to import (number)	-0.51
-		Time to import (days)	-0.50
-		Cost to import (US\$ per container)	0.41
		Enforcing Contracts	
-		Procedures (number)	-0.55
-		Time (days)	-0.32
-		Cost (% of claim)	0.01
		Closing a Business	
+		Recovery rate (cents on the dollar)	0.28
-		Time (years)	-0.18

Initial Findings

- * Share of developing countries in FDI inflows is increasing consistently, while it is dropping for developed countries.
- * Differences in growth rates of developed and developing countries are one of the factor that can explain changing FDI inflows from developed to developing countries (developing countries are growing faster).
- * “Doing business” indicators haven’t changed much in developed countries.
- * But the values of the indicators are rapidly improving in developing countries, especially in BRIC countries.
- * Improvements are especially strong in “starting a business” and “closing a business” and “protecting investors” indicators.
- * Thus improvements in “doing business” can be one important factor attracting more FDI inflows to developing countries.

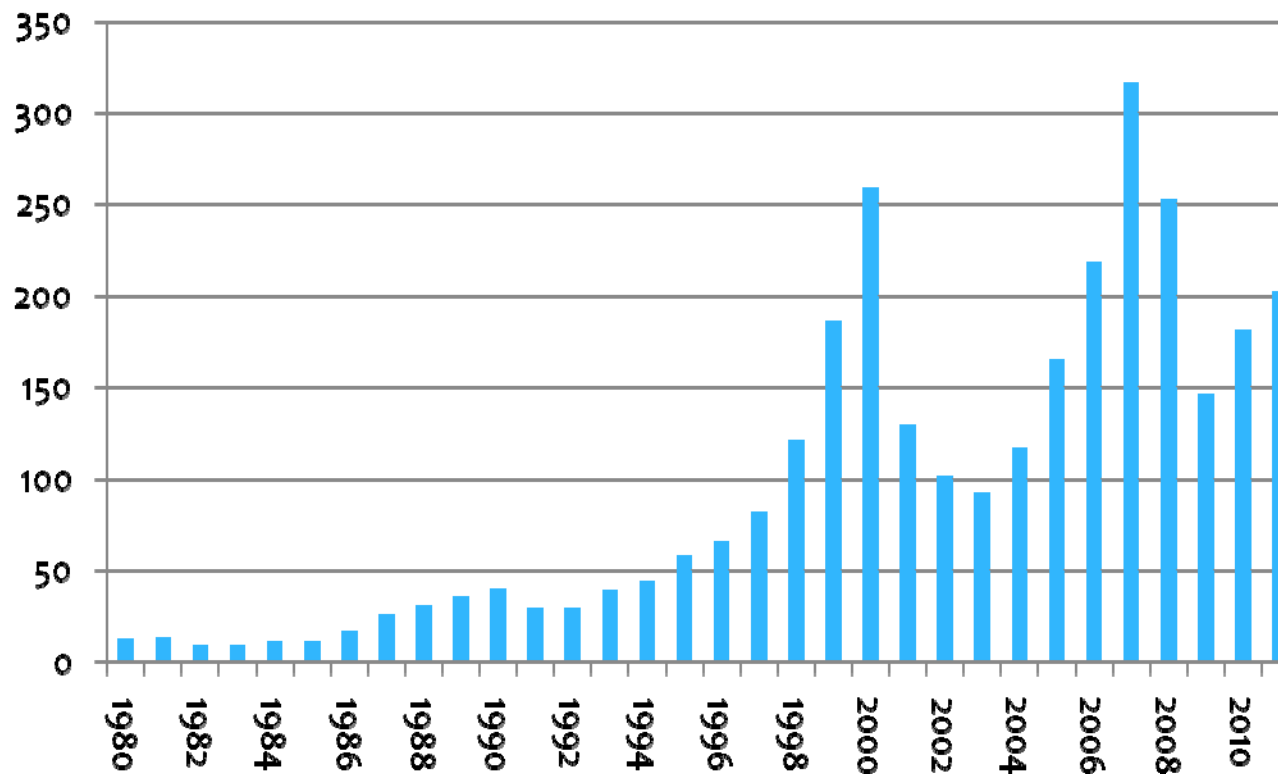
Future study

- * **Regression** studies of “doing business” indicators as determinants of FDI inflows, after controlling for other variables that can explain FDI inflows such as growth.
- * **Example empirical study**
 - * **Piwonski (2010):** The results of the regression show that by increasing their country’s Ease of Doing Business rank one level, a government can bring in over \$44 million USD.



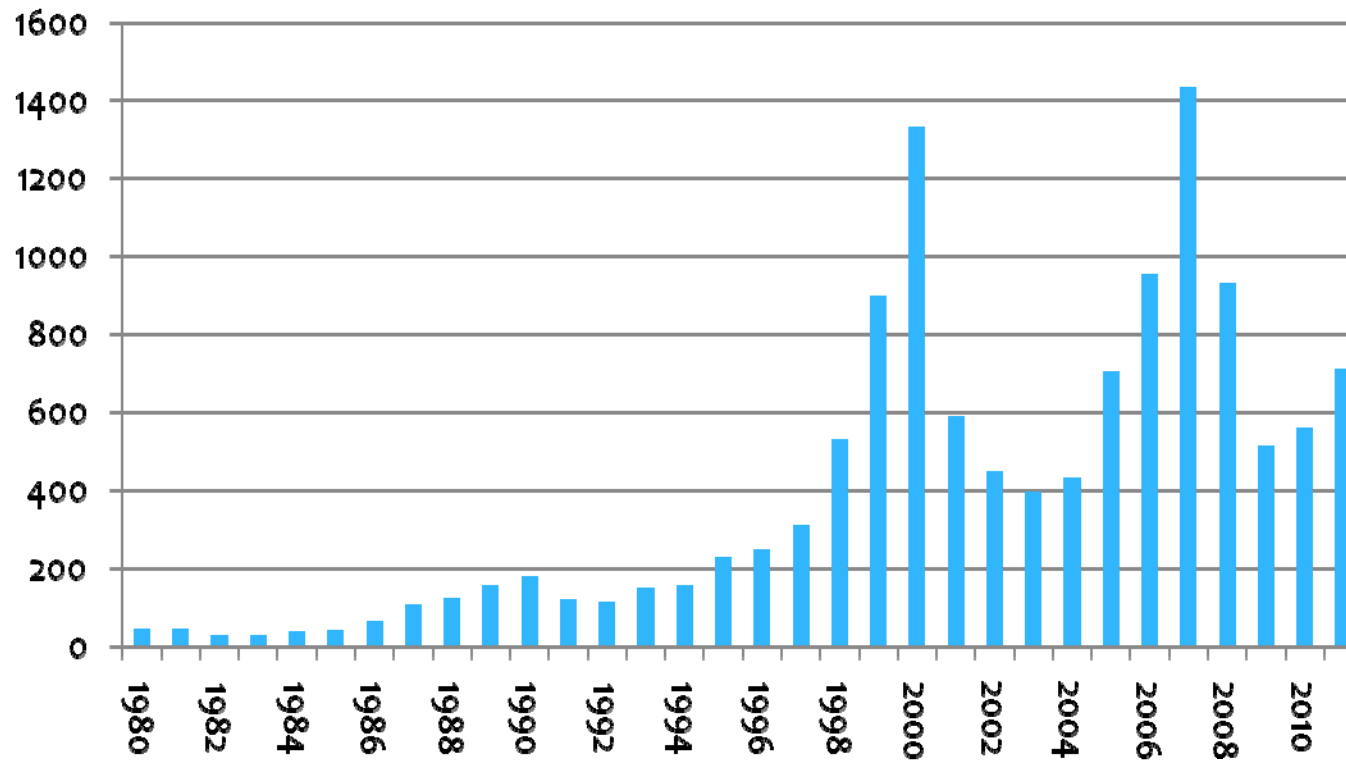
Trends in FDI Inflows (in the world)

**FDI inflow per capita in the world
(in current US dollars)**



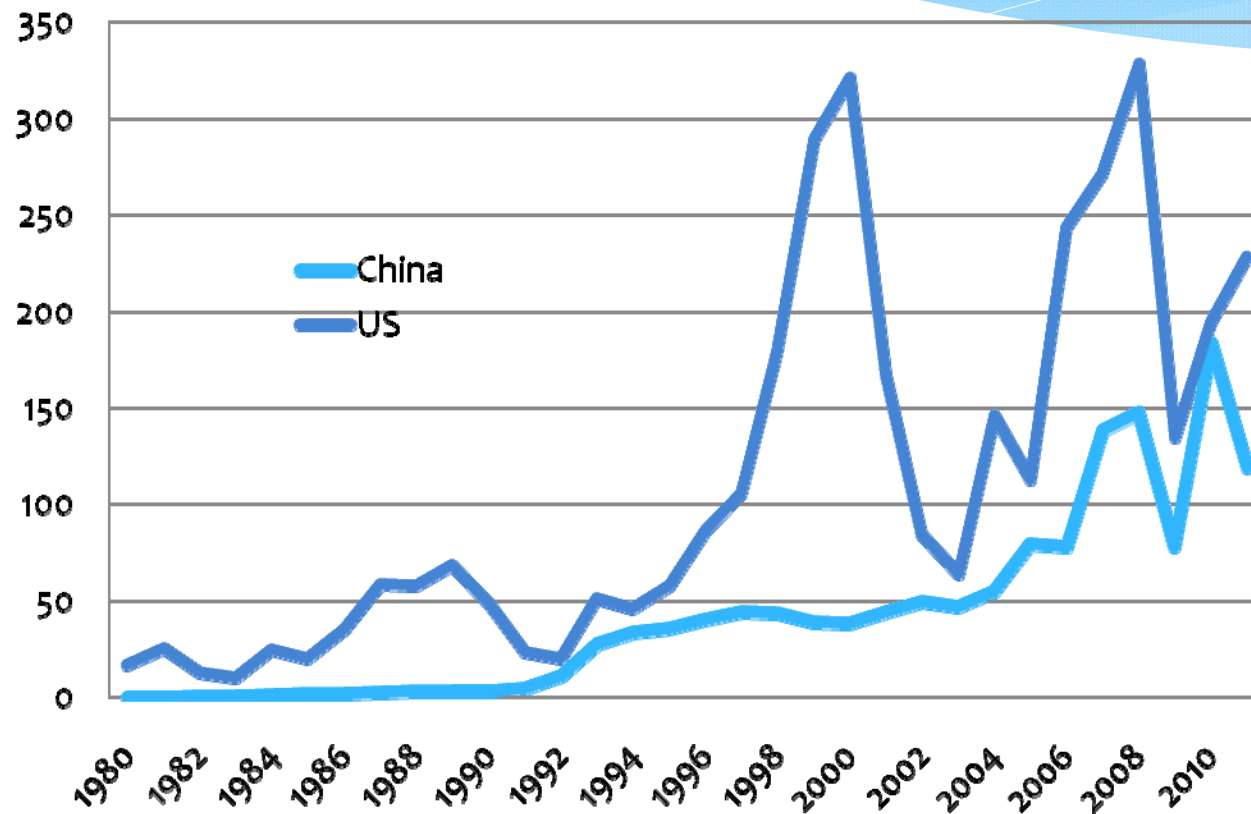
FDI Inflows in developed countries

**Developed countries: FDI inflow
(in billions current US Dollars)**



Two top recipients in 2010: FDI inflows in USA and China

(in billions of current US dollar)



Developing countries: Correlation between changing FDI in GDP and changing "doing business" indicators

Expected sign			
		Starting a Business	
-		Procedures (number)	-0.31
-		Time (days)	-0.53
-		Cost (% of income per capita)	-0.57
-		Paid-in Min. Capital (% of income per capita)	-0.58
		Dealing with Construction Permits	
-		Procedures (number)	-0.14
-		Time (days)	-0.15
-		Cost (% of income per capita)	-0.53
		Registering Property	
-		Procedures (number)	-0.32
-		Time (days)	-0.41
-		Cost (% of property value)	-0.29

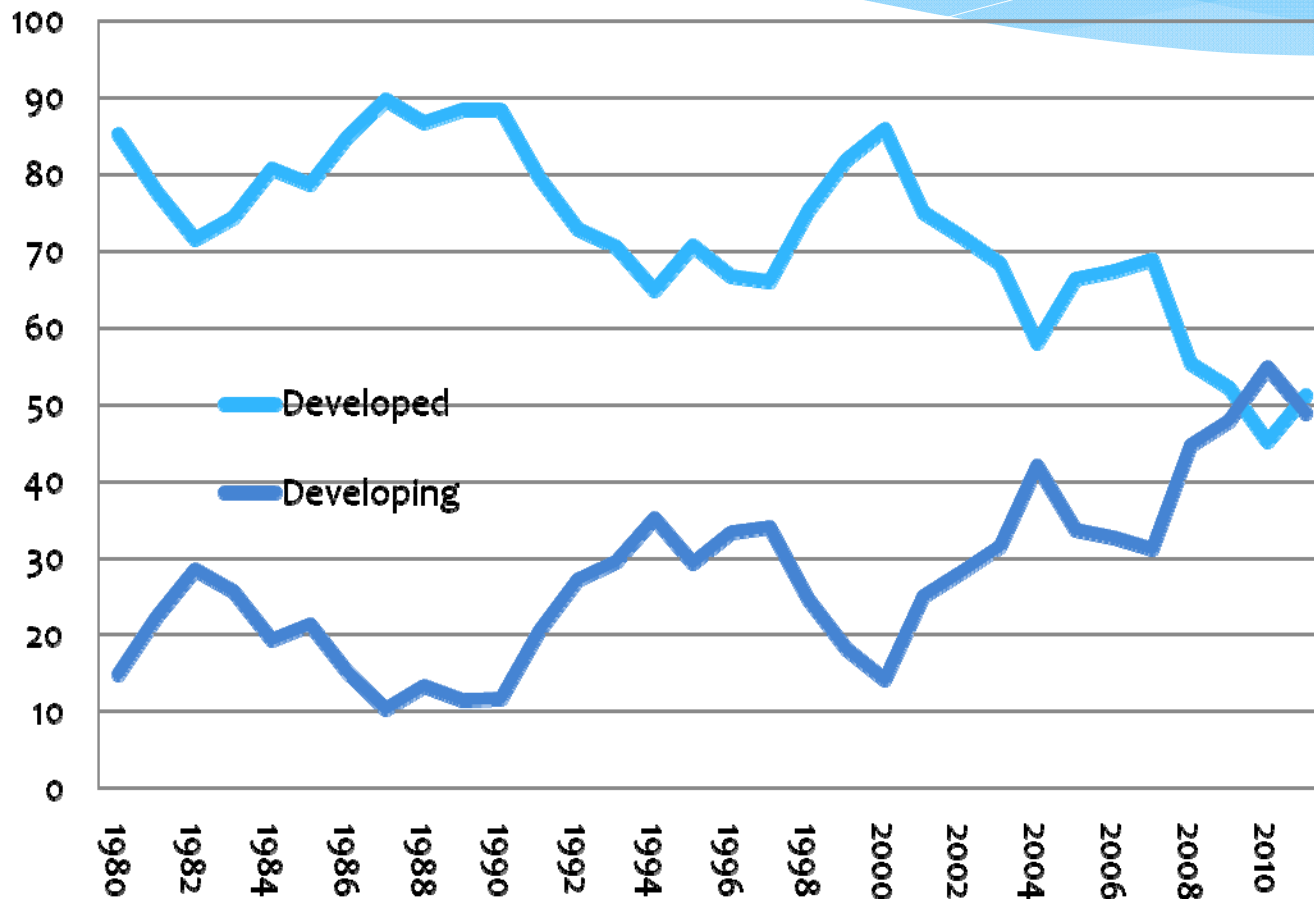
Developing countries: Correlation between changing FDI in GDP and changing "doing business" indicators

Expected sign			
		Getting Credit	
+		Strength of legal rights index (0-10)	0.65
+		Depth of credit information index (0-6)	0.66
+		Public registry coverage (% of adults)	0.47
+		Private bureau coverage (% of adults)	0.38
		Protecting Investors	
+		Extent of disclosure index (0-10)	0.35
+		Extent of director liability index (0-10)	0.24
+		Ease of shareholder suits index (0-10)	0.53
+		Strength of investor protection index (0-10)	0.34

Developing countries: Correlation between changing FDI in GDP and changing "doing business" indicators

Expected sign			
		Paying Taxes	
-		Payments (number per year)	-0.27
-		Time (hours per year)	0.02
-		Total tax rate (% profit)	-0.12
		Trading Across Borders	
-		Documents to export (number)	-0.23
-		Time to export (days)	-0.25
-		Cost to export (US\$ per container)	0.26
-		Documents to import (number)	-0.51
-		Time to import (days)	-0.34
-		Cost to import (US\$ per container)	0.24
		Enforcing Contracts	
-		Procedures (number)	-0.55
-		Time (days)	-0.35
-		Cost (% of claim)	0.02
		Closing a Business	
+		Recovery rate (cents on the dollar)	0.35
-		Time (years)	-0.22

FDI Inflows in developed versus developing countries (% of world flows)



Measures of FDI inflows in initial calculations

- * FDI in levels (in current US\$)
- * FDI (in % of GDP of the country)
- * FDI (in % of world flows)