

Factors Affecting Foreign Direct Investment in Savannakhet Province,
Lao People's Democratic Republic (Lao PDR)

Ms. Boupavanh Keomixay

A Thesis Submitted in Partial Fulfillment of the Requirements
for the Degree of Master of Business Administration
Graduate School of Business
Assumption University
Academic Year 2011

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By

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Submitted in Partial Fulfillment of the Requirements for the Degree of
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ABSTRACT

The world's economy has expanded rapidly. Many countries such as United States, United Kingdom, and China have experienced their sustainable economic growth since the last decade, especially the faster growth rate of international transactions shown in the form of foreign direct investment (FDI). Foreign Direct Investment inflows have been increasing to ASEAN in 2002. As Gunawardana and Sisombat (2008) have indicated during 1994-2004, the increasing of foreign direct investment (FDI) inflow to Laos, increased from US\$ 6 million in 1994 to US\$ 35 million in 2004 and it reached US\$ 359 million in 2008 (The Ministry of Planning and Investment report, Lao PDR, 2008).

Savannakhet Province is the second largest FDI inflow after Vientiane. In spite of the experienced growth for many years in Savannakhet and attraction of 10.8% of total FDI in Laos, it still has a relatively low-level social-economic development compared to the potential and comparative advantage of the province. Since, the recent FDI inflows made greater impact on Savannakhet's economic development, if more foreign direct investments were made it would make more improvement in the province economic development directly and indirectly. To seek foreign direct investment attraction factors to acquire the capital flows and economic development to Savannakhet province, Lao PDR, it must be known some of the main factors and resolve some existing problems related to the investment in a country that could attract more FDI.

This study aims to examine the relationship between factors influencing FDI in Savannakhet province, Lao PDR, to find out the problems and prospects of investment environment and to examine the foreign investment situation and look for opportunities to attract more FDI in Savannakhet province, Lao PDR. The researcher used questionnaires form to distribute to all 137 registered foreign companies in Savannakhet Province and used the Statistic Analysis System (SAS) program to analyze the data. Based on the result found that political and government legal factor; Economic and market factors; Location factors; Financial factors; Social and cultural factors are important toward foreign direct investment in Savannakhet province. And for the hypothesis testing result, political and government legal factors; Economic and market factors and Location factors are significant relationship with FDI capital inflows in

Savannakhet province. Since Laos has known many years of political stability and one party rule remain of paramount to the government, therefore it's the one thing that make foreign investor trust in the Lao's political and regulation. For the rest, Financial factors and Social and cultural factors are no significant relationship with FDI capital inflows in Savannakhet Province.

The result of this study at least could provide some useful information from foreign investor such as: problem, barrier that the investors had experienced with their business in Savannakhet especially labor supply in the province and some unclear about regulations of the government. Then the government would know and consider how to attract FDI to the Savannakhet Province.



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First of all I would like to express my appreciation to my great thesis advisor Dr. Chittipa Ngamkroeckjoti, for her patience and supporting, her valuable suggestions of doing this research, and encouragement during my study and my research at the school of business, Assumption University, Bangkok, Thailand. And my gratitude also goes to committees, Dr. Thongdee; Dr Charnchai; Dr Voicu, and Assoc.Prof. Dr. Panarat from the Ministry of Education (Thailand), whose actively discussed and commented on my thesis.

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Chapter 1

Introduction of the Study

1.1 Background of the Study

1.1.1 Global Foreign Direct Investment

The world's economy has expanded rapidly. Many countries such as United States, United Kingdom, and China have experienced their sustainable economic growth since the last decade, especially the faster growth rate of international transactions shown in the form of Foreign Direct Investment (FDI) (World Investment Report, 2011). It suggests that FDI is the most dynamic international source flow to both developing and the least developed countries (LDCs). According to the World Investment ¹Reports (2011), the estimated amount of foreign direct investment inflow worldwide in current price terms was US\$ 1,604 billion in 2011. The United States (US) still remain the highest recipient of FDI in the world with US\$ 250.9 billion, the United Kingdom (UK) US\$112.9 billion and China US\$ 86.8 billion, respectively. In addition, FDI inflow has also been increasing to the developing and the LCDs in the last few years. For example, the amount of foreign direct investment inflows in Asia and Australasia reached US\$ 315.6 billion in 2011 from 287.9 in 2009; and sub-Sahara Africa reached 18.1 billion in 2011 from 1.6 billion in 2010. Therefore, it is obvious that FDI offers important advantages for the recipient economy to have more capital inflow from foreign investment.

FDI has played an important role in the growth of world economies, especially in the developing of internal economy. Many economists agree that FDI contributed to increase the rate of economic growth. Wijeweera *et.al.*, (2010) has mentioned in the analysis of economic growth and FDI inflows paper that a positive impact on economic growth is exerted by FDI inflows, and the result of FDI is the benefit to the local economy of the host country via the creation of employment opportunities, know-how of

¹ World investment prospects to 2011 “*World investment prospects to 2011, Foreign direct investment and the challenge of political risk*” accessed on 9th August, 2011
<http://www.escwa.un.org/information/publications/edit/upload/edgd-08-tech1-e.pdf>

technology transfer for the local people as well as increasing of productivities in a country's economy. Veugelers and Cassiman (2004) have also mentioned that the more benefit that the LDCs gain from technology transfer, the more opportunities to access to sophisticated technology for them. The foreign firms bring in technology know-how; marketing practice; managerial expertise and organizational know-how when they are setting up new enterprises overseas. Therefore, to the LDCs, good opportunities are created for local people to be able to make use of new sophisticated technology. Additionally, in the process of emulating market practice and management by those foreign firms, local people improve their knowledge and gain more experience and thus the overall economy of the host country grows and develops.

1.1.2 Foreign Direct Investment in the ASEAN

Foreign Direct Investment inflows have been increased to ASEAN since 2002 (World Investment Report, 2011). This increment attracts an interest and confidence of foreign investors in investing and doing business in the region. Each ASEAN member country is trying to promote and use of their principle in accordance with regionally and multilaterally accepted through the new investment measures legislated independently and the improvement of the policy framework, granting of incentive, opening up of sectors for foreign investment, lower taxation in order to reduce business cost of investors and other investment facilities. FDI flows to ASEAN countries increased by 18% in 2007, to US\$ 61 billion. Singapore, Thailand, Malaysia, Indonesia and Vietnam were the largest FDI recipients, together accounting for more than 90% of the inflows to the sub region. And the new ASEAN members such as Myanmar, Vietnam, Cambodia and Lao People's Democratic Republic recorded the strongest FDI growth (World Investment Report, 2008).

An improved investment environment, higher intraregional investments, and strengthened regional integration were key contributory factors of desirable regional economic growth. Reinvested earnings were particularly strong, highlighting the importance of existing investors as a source of FDI. For instance, increased inflows in Viet Nam was the result of that country's accession to the World Trade Organization (WTO) in 2007, as well as greater liberalization and FDI promotion efforts, particularly

with respect to infrastructure FDI. Additionally, there were higher FDI inflows in extractive industries in Myanmar, in telecommunications and textiles and garments manufacture in Cambodia, and in agriculture, financial and manufacturing in the Lao People's Democratic Republic (UNCTAD report, 2007).

Among the ten member countries of the ASEAN², Cambodia; Myanmar and Lao People's Democratic Republic (Lao PDR) are considered the least developed countries (LDCs) (United Nations, 2011). Laos is a landlocked country and among considered as one the poorest Nations in the list of 50 Least Developed Countries in the world, and its Gross Domestic Product (GDP) per capital is US\$ 897(Asian Development Bank Proceeding, 2010). As Gunawardana and Sisombat (2008) have indicated during 1994-2004, the foreign direct investment (FDI) inflow to Laos has increased from US\$ 6 million in 1994 to US\$ 35 million in 2004 and it reached US\$ 359 million in 2008 (The Ministry of Planning and Investment Report, Lao PDR, 2008). Lao economy has benefited from high investment in hydro power, mining and construction. It is an indication that FDI will grow stronger in the LDCs in Asia than in the past decades (United Nations Conference on Trade and Development report, 2010).

1.1.3 Foreign Direct Investment in Laos

Lao People's Democratic Republic (abbreviated Lao PDR) is considered as one of the countries in the list of the LDCs (Identified by United Nations, 2010). Therefore the economic development of the country is essentially important to climb higher in the list of the least developed countries by 2020 (National Growth and Poverty Eradication Strategy, MPI³, 1996). The government has launched a dynamic reform called the New Economic Mechanism (NEM) in 1986 and the FDI has been inflowing ever since (Lao Chamber of commerce & Industry report, 2004). Under the reformed policy, the government transformed the economy from the centrally planned or the command economy to the market system (market-oriented). The reform policy allows all economic

² ASEAN: The Association of Southeast Asian Nations (ASEAN) was formed in 1967 with the signing of the Bangkok Declaration by the five original member countries - Indonesia, Malaysia, The Philippines, Singapore, and Thailand Brunei joined in 1984; Vietnam in 1995; Laos and Myanmar/Burma in 1997; Cambodia in 1999.

³ MPI: Ministry of Planning and Investment in Lao.

sectors, promoting the market competition and encouraging both local and foreign direct investment (FDI), together with joint ventures between domestic and foreign investors. In general, Laos is trying to expand its economic horizon worldwide and to its neighboring countries. And beyond that reason, the Lao government has to restructure the main infrastructure in order to promote the country's economic growth and influence both domestic and foreign investors to invest in the country. Therefore, the government has to accelerate the growth rate of Gross Domestic Product (GDP) of 7 percent each year (The World Bank - Lao Economic Monitor, 2008, p. 4) to have sustainable economic growth in terms of commerce, investments, and industrials. As a land-locked country, there is no seaport in Lao PDR, so it's difficult to access international market. However, the government of Laos has adjusted the constraint by restructuring the infrastructure mainly for the road and transportation in the borderline with the neighbor countries so as to turn the Lao PDR from a landlocked country to a land bridge country or connecting Nations in the South East Asian countries (or called "Land Link Country").

The Lao PDR's GDP in 2006-2009 grew at the average rate of 7.6% and the World Bank estimated it would reach 7.8% in 2010-2011 (The World Bank - Lao Economic Monitor, 2010). In order to achieve this goal, the government needs to speed up its growth of economy at least 8% per year on average. Recently, the Lao PDR as a "land-locked" country is promoted to a Land-Link country" and the benefit for the existing country's abundant land and natural resources is the key to the country's economic growth to attract more foreign investment. Most of the FDI flow in Laos in 2008 was in the natural resource sector especially mining and hydropower, amounting 80% of all FDI (The World Bank - Lao Economic Monitor, 2008). The Laos' government promoted the investment by the creation of the Land Concession policy, facilitation of the import and export and tax incentive for certain investors especially investing in the remote areas of the country. Agriculture and agroforestry, energy, mining and tourism had been identified as the priority sectors for investment and industrialization. And in order to reach an incremental Capital-output ratio (ICOR), it's essential for the Lao PDR to attract a total investment of over US\$ 10 billion until 2015 (National Social Economic Development Plan, MPI, 2010). According to the report of the Ministry of Planning and Investment, around half of the investment is from domestic (public and private) and

official development assistance and another half is from FDI. Therefore, FDI still plays the important strategic role of the economic growth and development of the Lao PDR.

Foreign Direct Investment (FDI) continued to rise sharply. Up to the year 2009-10 the number of new projects could attract a total value of USD 1.9 billion. The result exceeded the set country's GDP by 92% (Department of Domestic and Foreign Investment, report, 2010). This reflects an increase of 109.2 percent compared to the fiscal year 2008-2009. The most attractive sectors seem to be the service sector (US\$ 474 million), followed by mining sector (US\$ 68.4 million), trade (US\$ 40.3 million) and consultancy service (US\$ 9.9 million). In addition, the investment climate in this quarter has been improved. According to National Economic Research Institute (NERI)'s Business Sentiment index⁴ had mentioned that during this year the agriculture, service and export sector show an upturn compared to the previous year. Those sectors are garment industry, hotels, restaurants, as well as wood processing. Therefore, foreign direct investment (FDI) is the main factor that contributes the economic growth in the LCDs country. This is especially true in the case of Lao PDR as the proof can be seen in the capital city and the provinces.

1.1.4 Foreign Direct Investment in Savannakhet Province

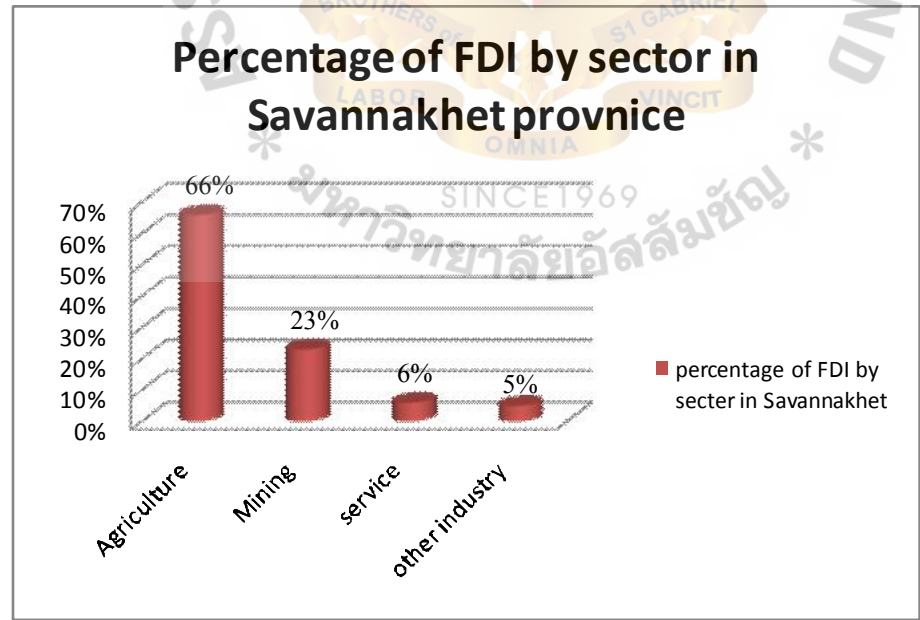
This research examines the impact of success factors towards FDI inflow by using the context of Savannakhet Province as an example. Savannakhet Province is the second largest recipient of FDI after Vientiane Capital and with an exceptional dynamism and ability to attract both domestic and foreign investments (United Nations Development Program Research Project, 2009). Savannakhet province is located in the central part of Laos, about 500 kilometers south of Vientiane Capital. The province is abundant in natural resources, especially in agriculture land, forest, resources for mining, rivers, and in biodiversity. The province shares borders with Vietnam and Thailand and has relatively good infrastructure linkages with these countries. In addition, the National road number 13 south passes through the province and links the province with many economic

NERI's Business Sentiment index: It surveys for all 130 companies in Vientiane Capital, Luangprabang and Champasack. The survey tries to capture companies' perception on the economy and the business performance in each quarter (Import-export department, MOIC)⁴

centers of Lao PDR such as Vientiane Capital, Khammuan Province and Champasak Province. Therefore Savannakhet is a strategic location for trade and investment in Lao PDR. Due to its good strategic location, the Government and Provincial Authority see the significant foreign direct investment (FDI) flow to Savannakhet. In the period over 2004-2008, the total FDI in the province accounted for US\$ 2.123 billion, representing about 21.8% of total FDI in Laos in the same period (Provincial Department of Planning and Investment in Savannakhet Province Annual Report,2010).

The biggest share of investment is agriculture sector covering 66% of the total FDI in this province. Second is mining and energy covering about 23% and the third is service sector including investment in trading, tourism, transportation, telecommunication, and others covering 6% of FDI. The last is industry sector covering 5% of total FDI in province. The largest investment comes from India, China, Australia, Vietnam and Thailand respectively (Provincial Department of Planning and Investment Annual Report, 2010).

Figure 1.1: The Percentage of Foreign Direct Investment by Sector in Savannakhet, 2004-2010 (%)



Source: Provincial Department of planning and Investment, Savannakhet's five Year Plan (2011-2015), p.8

Figure 1.1, (page. 6) shows that agriculture is the highest percentage (66%) of FDI by sector in Savannakhet, subsequently with mining (23%), service (6%) and other industries (5%) during the year 2004 - 2010.

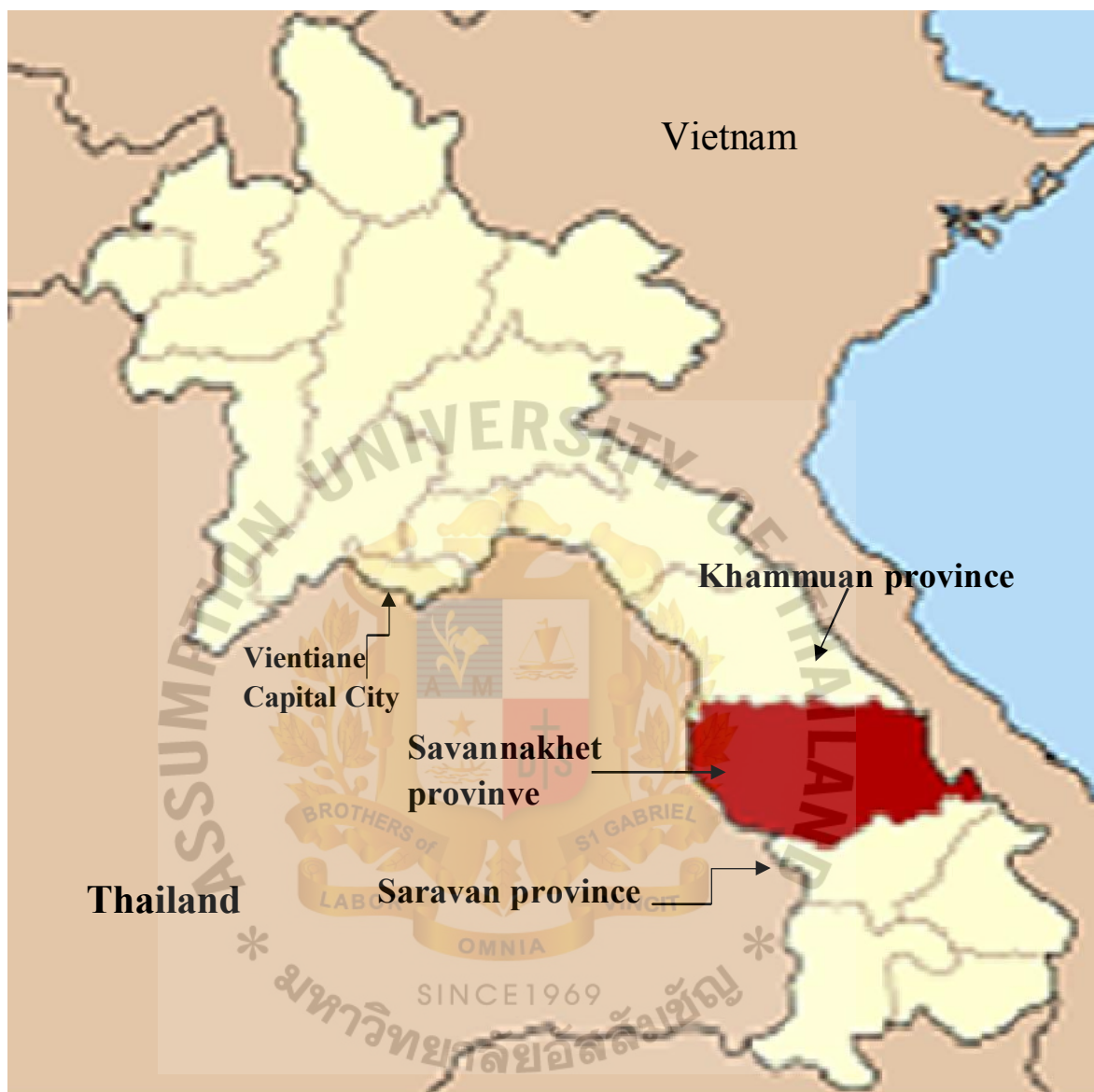
FDI contributed positively to the socio-economic development in Savannakhet Province, especially in increment of employment and income generation for the local people. The economic development in the province has experienced a rapid and continuous growth during the previous year. The income per capital of the province increased from US\$ 525 in fiscal year 2005-2006 to US\$ 653 in the fiscal year 2007-2008 and further to US\$ 897 in the year 2009-2010. It represents an average nominal growth rate of 14.2 % or real growth rate of 10.5 % per year (Provincial Department of Planning and Investment Annual Report, 2010).

1.2 Review of the Savannakhet Profile

1.2.1 Geographical Location

Savannakhet is one of the provinces in Lao PDR. The name Savannakhet originated from **SavanhNakhone**, which means “City of Paradise.” Savannakhet is located in the central part of Laos (Figure 1.2 shows the Savannakhet provincial area in Laos). Savannakhet comprises of 15 districts, 1,543 villages and 133,565 households in the province. To the East is the border with Vietnam (135.8 kilometer); to the west with Thailand, (153 kilometer) where the second Lao-Thai friendship bridge between Savannakhet (Laos) and Moukdahan (Thailand); is located to the North with Khammuane Province (314 kilometer) and to the south with Saravan Province (259 kilometer).

Figure 1.2: Geographical Location of Savannakhet Province



Source: Report on Economic, Social and Environmental Costs and Benefits of Investments in Savannakhet Province, Lao PDR, final report 2011, p.15

Figure 1.2 (page. 8) shows the location of Savannakhet Province in the map of Laos. It's in the central part of Laos, it bordered with Khammuan Province to the north and Saravan Province to the south, Thailand (Moukdahan) to the West and Vietnam to the East. It can be seen in the map that Savannakhet's area is larger than Vientiane Capital city and other Provinces.

1.2.1.1 Population and Labor Force

Savannakhet is the most populous province, it estimated to reach 902,604 people by 2010, representing about 13.9% of the population of the whole country. The average population growth rate is estimated at 2.1% per year, with a density of 41 people per km² which is the highest in Laos. The population of the province is divided into 49 ethnic groups, with diverse culture and livelihood. The majority of the population is Lao Lum which covers about 62.1% of the population in the province. Phu Tai, Ma Kong, and Katang cover about 15.2 %, 9% and 8.7 % respectively. The rest of 4.9% belongs to other ethnic groups (Savannakhet Statistic book, 2009).

Working age in Savannakhet is from about 16 to 60 years which is about 63% of the population in the province (Savannakhet statistic book, 2008). Majority of the population is able workers but it has high percentage of illiteracy and many have never experienced vocational training because their main subsistence base is agriculture production and they have no experience with commercial agriculture job, factory, or large construction project jobs. Thus, lack of experiences in technology related job restricts or limit foreign investment in domestic industry in the province.

1.2.1.2 Infrastructure and Regional Integration

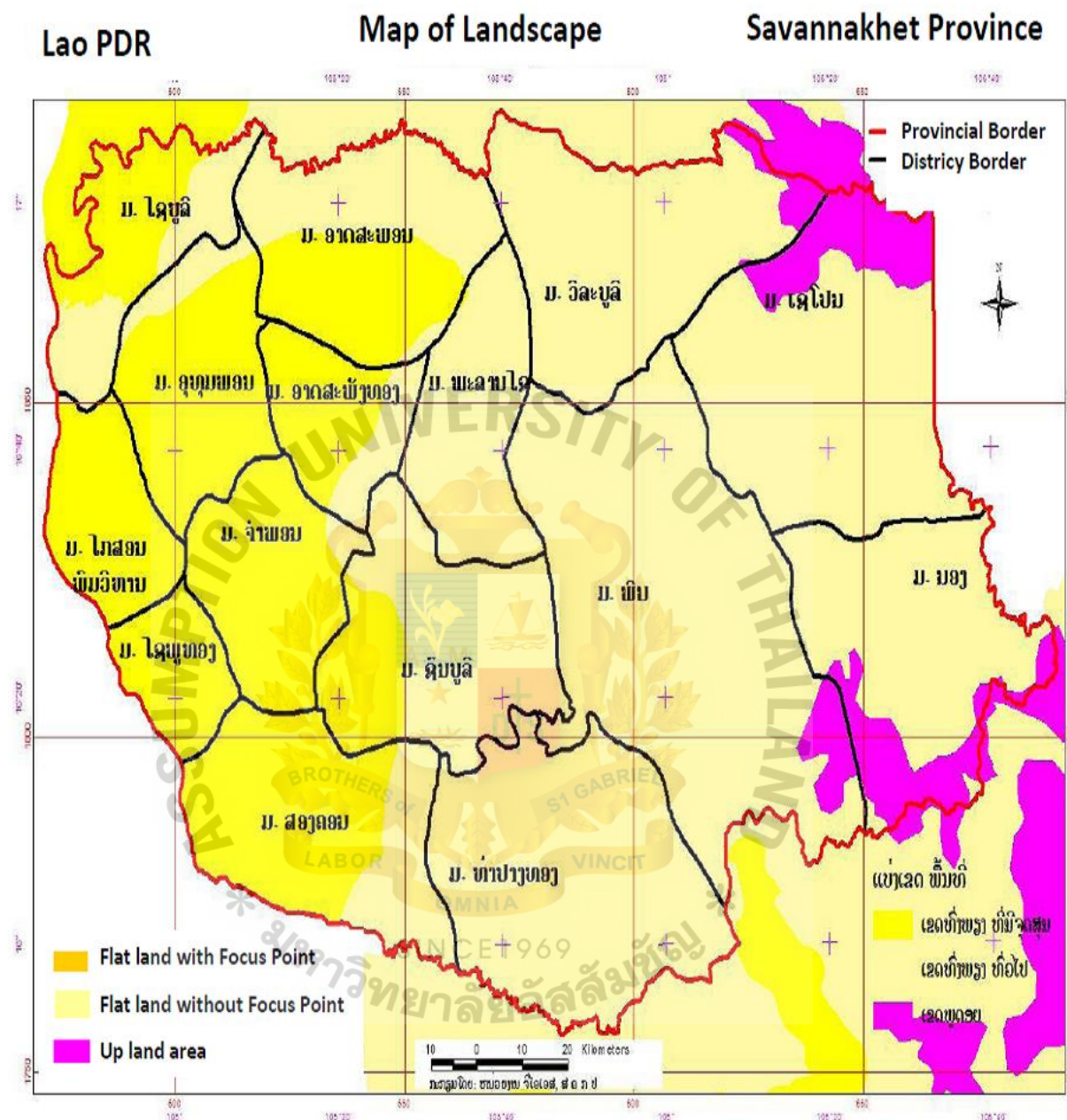
Savannakhet province has a significant road infrastructure integrating with the economic centers in Laos and countries nearby, which can help to facilitate goods transportation and movement of people within the country and with neighboring countries. Thus, Savannakhet Province is conducive for the purpose of visiting and investing. Moreover, the roads in rural areas are good enough for farmers and the rural entrepreneurs to access markets. Savannakhet Province has total road length of 28,012.92 kilometer, concrete 40.7 kilometer; of concrete tarred road about 2,553 kilometer; gravel road is about 6,720 kilometer, earth road is 18,237.2 kilometer and asphalt road is 461.5 kilometer. The province that shares border with Thailand (by the second Friendship Bridge) and Vietnam are especially important for trade and investment partners for Lao PDR particularly Savannakhet Province. Moreover, the National road No.13 that crosses the province from north to south has integrated with many main trade centers in Lao PDR, namely Vientiane Capital to the north and Pakse, Champasak Province to the south.

The geographic location and infrastructure development in Savannakhet make it strategic location for trade and investment in Lao PDR and it also has relatively comprehensive and developed communication and information exchange infrastructure. Mobile networks cover over 60% of the total provincial area (Department of Planning and Investment report, Savannakhet, 2010), cable television from Thailand, China and Vietnam, radio network and signal are provided to about 90 % of the whole province. Telecommunication and information infrastructure in Savannakhet help to integrate with other parts within the country and its neighbors as well.

1.2.1.3 Landscape

Savannakhet has total areas of 21,774 square kilometers (Km²), approximately 90% of the area is flat and 10% is mountainous. It's abundant in natural resources and consists of arable lands, forests, rivers, mineral deposits and biodiversity. Savannakhet has total agriculture land of 1.5 million hectares (ha), and about 68 % total provincial area (Savannakhet's statistical year, 2008). Even though it covers a large agriculture area it's still considered to have low fertility. Now it is only about 209,259 hectares, approximately 14% of all the agriculture areas or 9.6 % of total provincial areas are used for agricultures production, and the rest is still untapped land. It's a very active place for communication and commerce with Vietnam, and Thailand. High Way No.9 lies east-west from the provincial capital to the Vietnamese border town of Lao Bao. The border is open for both locals and foreigners with visa. Most parts of Savannakhet province is low land with some agriculture plots in the north to east of Savannakhet city. Many goods flow from countries nearby, such as Vietnam, and Thailand by High Way number No.9. People and vehicles can easily cross the Mekong River across a second friendship bridge between Savannakhet Province (Laos) and Moukdahan Province (Thailand).

Figure 1.3 Landscape of Savannakhet Province



Source: Report on Economic, Social and Environmental Costs and Benefits of Investments in Savannakhet Province, Lao PDR, final report 2011, p.15

(Note: The yellow area represents flat land areas and the pink area represents the mountainous areas)

Figure 1.3 (page. 11) shows the Landscape of Savannakhet province which has the wealth of natural resources. The map shows a flat land with focus point in yellow, flat land without focus point is in light yellow and highland or mountain area in pink.

1.2.1.4 Climate

The driest and hottest province in Lao PDR is Savannakhet province. The average temperature is about 26.2 degrees centigrade, and the average rain fall is about 1,598.3 millimeters per year, which is less than the average rainfall in the country which is about 173.5 millimeters per year (Savannakhet's statistical year, 2008). Even though this province is very hot and dry, it does not restraint agriculture production, specially the production of industrial production such as sugar canes, cassava and, rubbers. Savannakhet became one of the most suitable locations for agriculture investment, because of its landscape and infrastructure development, but there is possible climate change to reduce the production of agriculture in the future as well. The Mekong River Commission (MRC) reported that the change of climate is result in change in temperatures, rain fall, and wind in the Lower Mekong Basin, and affect natural ecosystems as well as agriculture and food production. Moreover there will be loss of agriculture and infrastructure in Lao PDR because of increased storm intensity and frequency, soil erosion from increased precipitation, soil degradation and higher prevalence of infectious disease are expected (Mekong River Commission, MRC, Annual Report, 2009).

1.2.2 Natural Resources

1.2.2.1 Forest

Savannakhet has a lot of forest land areas totaling 1.1 million hectares, about 52 % of the whole province area. About 42% is the conservation forest, 40 % is protection forest and 14 % is production forest. Most of the forests are dry areas, lower and upper mixed deciduous, upper dry evergreen, bamboo and poorly stocked forests in Savannakhet province (Chanthavong and Somphong, 2003). There are three National Biodiversity Conservation Areas (Phou Xang Hae; Dong Phou Vieng; and Xe Bang Noun). According to the five year plan, 2011-2015, the forest cover in Savannakhet province had reduced 60 % of the land in 2005 to 53% current level. According to the Province Report in 2003, the percentage of forest area decreased by 11 % between the year 1982- 2000 because of the expanding of agriculture land and urban areas in the same

period while the Provincial Department of Planning and Investment (PDPI) contribute to reduce 8% of the province to the growth of cultivation industry, slash and burn cultivation, increased wood exports and multiple construction projects (Five Year Environmental Development Plan, 2011 - 2015). The plantation industry has been more broadly expanded in recent years in Lao PDR and it has been associated with encroachment on to forested lands, loss of farmlands for rural people and also other problems.

1.2.2.2 Biodiversity

Forests and other natural areas of Savannakhet province has played an important role in hosting diverse biological resources, which are very important to support the livelihood of the local people in the province. Wildlife and non-timber products are consumed by local people and sold for income of family of rural people. Those of non-timber products include bamboo, dipterocarp resins, medicinal plants, mushroom, cardamom, and rattan. Moreover, more than 500 plant species recovered and have been recorded in Savannakhet Province including a number of threatened dipterocarp (tree) species (Province's statistic, and IUCN⁵ Lao PDR, 2008)

1.2.2.3 Water Resources

A number of rivers flow through Savannakhet province. The Mekong River, Xe Banghiang, Xe Bangfai, Xe Ny, Xe Champhone, Xe Sansiy, Xelanong, Xe Pone and Xe Thamouak are some of the most important rivers. In addition Xe Champhone in Savannakhet is where one of the Lao PDR's first Ramsar-listed Wetlands⁶ is situated. Those rivers and wetlands give an important habitation to aquatics species and also, it's basic for irrigation system development and electricity production. Recently, the Government of Laos has begun an existing irrigation schemes project for providing agriculture productions, exploring and constructing hydro-electricity project as well.

⁵ IUCN: International Union for Conservation of Nature

⁶ Ramsar-listed Wetlands : List of wetlands of international importance, www.ramsar.org

1.2.2.4 Mining

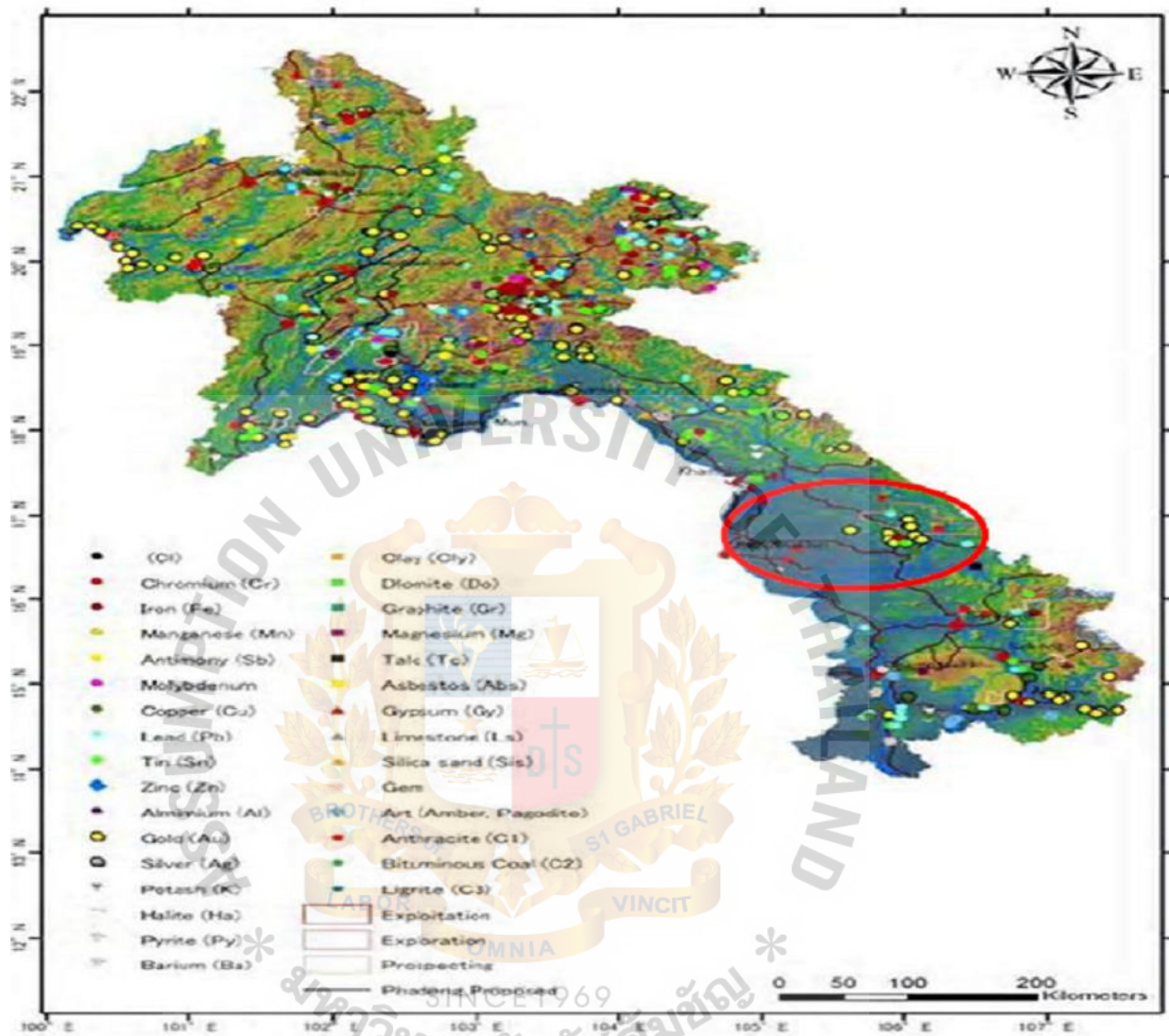
Savannakhet is rich in mineral resources such as coppers, gold, ceramics, potassium, sodium, and iron. More than 10 minerals have been found in Savannakhet province namely: three copper deposits, three potassium deposits, two gold deposits, one gypsum deposits, one sodium deposits, one limestone deposit, and bauxite deposit (Department of Electricity and Mining in SVK⁷). But only two mines had been established in the provinces of the Sepon Gold and Copper Mine, an Australia and Chinese investment, a ceramics mine, a Vietnamese investment. The Sepon mine is the biggest gold and copper mine in Lao PDR and now is part of MMG group of business owned by China Minerals Non-ferrous Co,Ltd, a division of China Minerals Corporation, one of the largest state-owned enterprises in China. They produce and export about 100,000 ounce gold and about 60,000 tons coppers annually to the world market (Department of Domestic and Foreign direct Investment Annual Report, MPI⁸, 2010). This project is one of the biggest contributors of the Lao government revenue, as in the year 2009 the total of various taxes and dividends submitted to the Lao Government by the MMG⁹ company amounted to USD\$ 80.5 million (MMG annual report, 2010). Mining and electricity valued for 23% of FDI in Savannakhet during 2004-2010. Now, the Government of Lao and the Provincial Authorities have permitted both domestic and foreign companies explore further 16 mining deposit in Savannakhet province. For instance gold deposit in Hua Hork Village, Sepon district; iron deposit in Lat Hor village, Sepon District; a barite deposit in Hua Hong village, Villaburi District; a sodium deposit in Kok Lieng village, Champhone District, and three potassium deposits in Champhone, Xonburi, Songkhone and Xayburi districts.

⁷ SVK: Savannakhet Province in Lao PDR

⁸ MPI: Ministry of Planning and Investment of Lao PDR

⁹ Minerals and Metals Group “MMG Receives Foreign Investment License for Laos” on 19 July, 2010
<http://www.mmg.com/shared/1591.aspx> (accessed August, 2011)

Figure: 1.4 Mining In Savannakhet Province



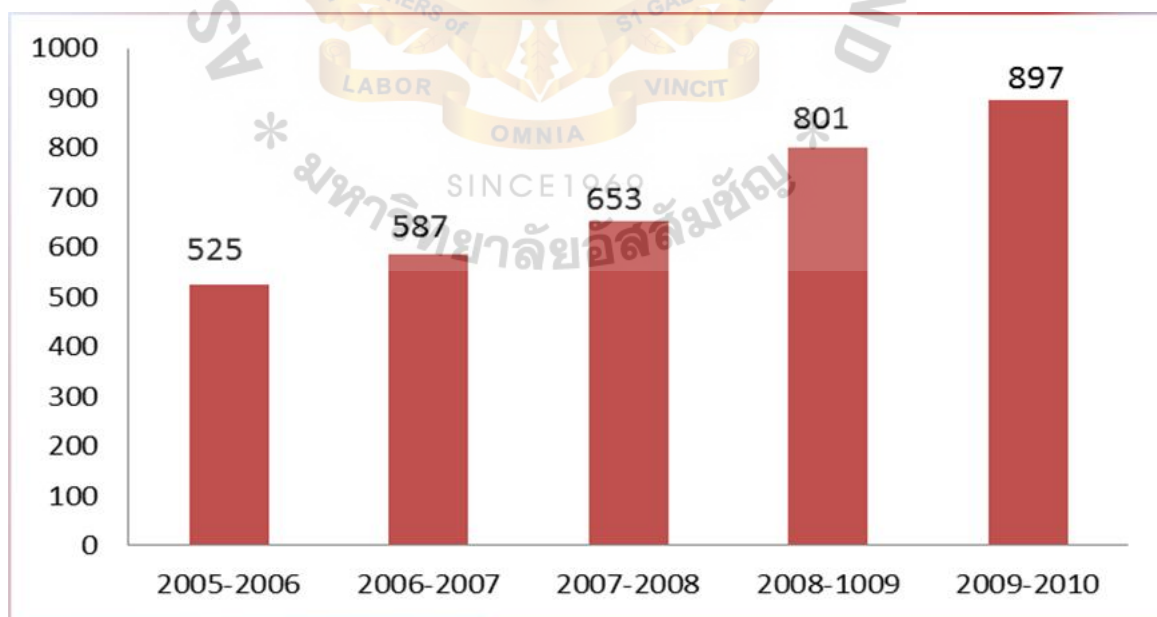
Source: UNDP, Savannakhet Province Socio-Economic and Environment measurement final report, January, 2011

Figure 1.4 (page. 15) shows the mining areas in Savannkahet province. The mining project is plays an important role in the economic growth of the Lao PDR and it's the biggest contributor to National revenue in the country. Both mining and quarrying sectors contribute about 2.5% point to the overall growth rate, and FDI in the mining sector accounted for about 18 percentage of total FDI in 2009 (Lao Economic Monitor, world Bank, May 2010). Moreover the mining project contributed to provide job for people, develop rural area in the province.

1.2.3 Social - Economic Development

Savannakhet's economic has grown enormously and steadily for many years. During the last five year 2005-2010, the average growth rate of 10-12 percent per year is higher than the National growth rate (6.8% per year) (National Economic Development Plan, MPI¹⁰, 2010). Also the Gross Domestic Product (GDP) per capital had increased during the same period, GDP growth in the fiscal year 2005-06 was US\$ 525 dollars, and further more in the fiscal year later 2007-08 with US\$ 653 dollars and further to the year 2009-10 was US\$ 897 dollars (Provincial Social Economic Development, Five Year Plan , 2011-2015). These figures indicated that the growth amount was higher than the national level (US\$ 880 dollars per person in 2009) (The World Bank Report, 2010a). There was also increment by percentage in the economic structure. For example, the agriculture sector had increased 7.3 %, industrial sector 15.7 % and services sector 13.1 %, due to the developing of sectors in the province (Provincial Department of Planning and Investment report, 2010).

Figure 1.5 Increasing GDP per capital in Savannakhet Province, 2005/06-2009/10, (US\$)



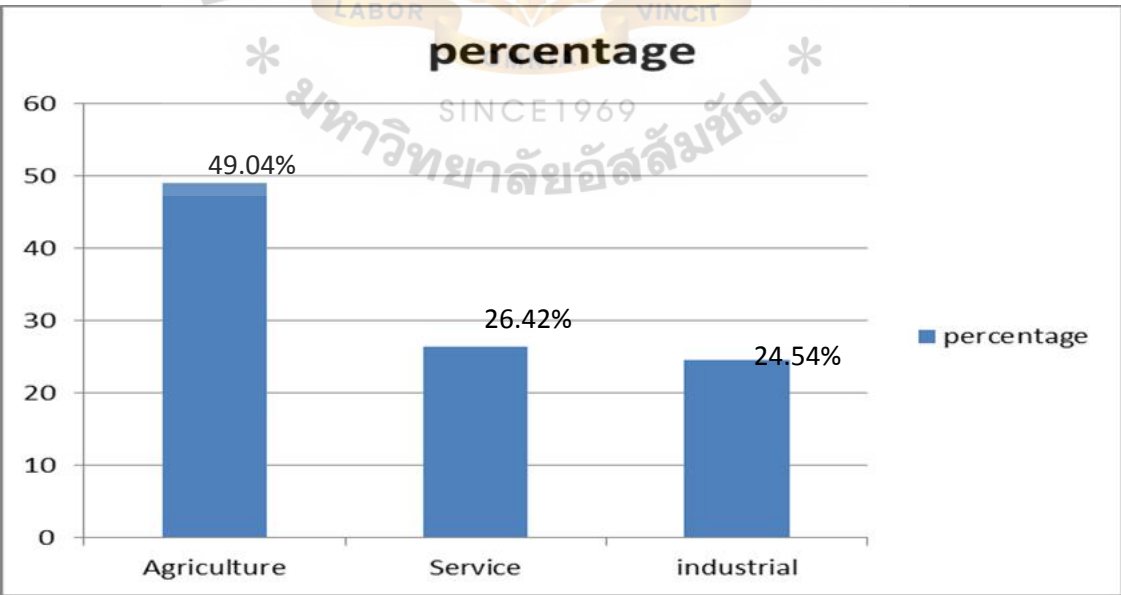
Source: Provincial Department of Planning and Investment, Savannakhet's five year Plan (2011-2015), p.8

¹⁰ MPI: Ministry of Planning and Investment of Lao PDR

Figure 1.5 (page. 16) shows the levels of gross domestic product (GDP) growth in Savannakhet during 2005-2010. It shows that the GDP is gradually growing in every year from US\$ 525 in 2005 to US\$ 897 in 2010. The economy in Savannakhet has fairly grown due to the economic restructuring by the Provincial Government by shifting to industrialization and modernization

Topography of Savannakhet is a large flat area, so agriculture remains the largest sector of the economy, followed by the service sector and industry sector, together they contributed about 49.04% of the total province's production in the fiscal year 2009-2010. Subsidiary was service sector with 26.42% and industry sector 24.54% respectively in the same fiscal year (Provincial Department of Planning and Investment, annual report, 2010). Savannakhet Province has undergone economic restructuring as a shift to the industrialization and market-oriented, agriculture sector tends to decrease while the number of services and industrial tend to gradually increase. However, it's worth to note that while traditional subsistence agriculture has been declining, the agriculture as an industry has been growing over the past five years. The figure below shows the tendency to grow in each sector.

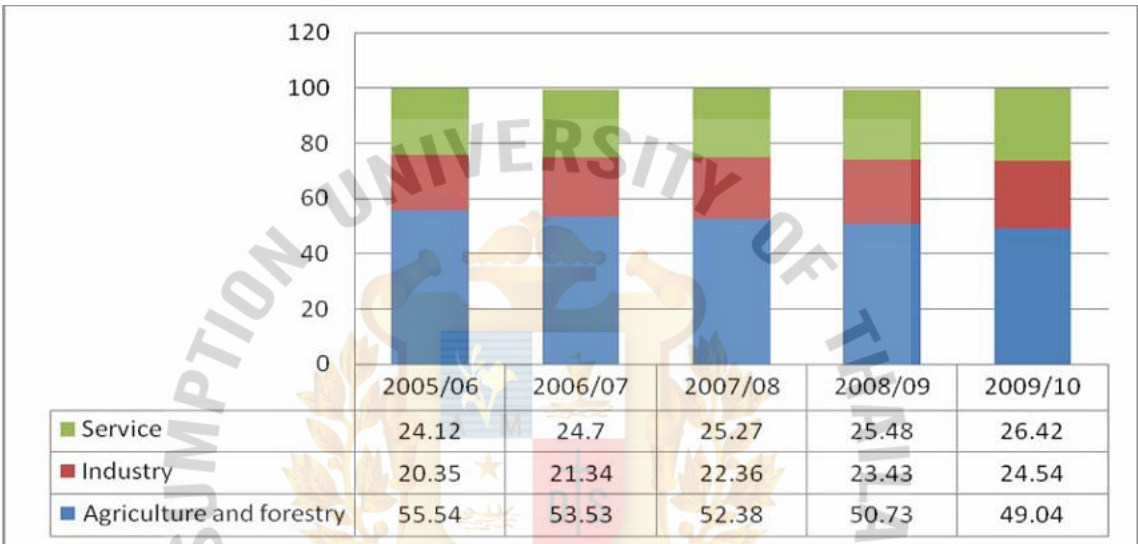
Figure 1.6: The Share of Savannakhet's Economic Structure in 2009-2010, (%)



Source: Provincial Department of Planning and Investment, Savannakhet, Five year Plan (2011-2015), p.8

Figure 1.6 (page. 17) shows the percentage share of Savannakhet economic structure in 2009-2010. The figure shows the highest percentage of economic structure in savannkahet is the agriculture sector (49.04%), service sector (26.42%) and industry (24.54%) respectively.

Figure 1.7: The Tendency Growth of Savannakhet Economic Structure in 2005-2010, (%)



Source: Provincial Department of Planning and Investment, Savannakhet's Five year Plan (2011-2015), p.8

Figure 1.7(page. 18) shows the percentage change of economic structure in Savannakhet. These percentages show the Agriculture sector has relatively decreased percentage but at the same time the Industry and Service sectors have relatively increased since the year 2005 – 2010.

1.2.3.1 Agriculture Sector

Savannakhet is one of the provinces with spacious agricultural lands, forests and river basins such as Bangfai River, Banghieng River and Jamphone River. Those are useful in agriculture. The mountain areas are appropriate for plantation and livestock such as cows and buffalos. The agriculture sector has played an important role in improving production restructuring and adjusting of agriculture production to the efficient industrialization and services. There are about 48 companies of foreign investment in Savannakhet province and the value of agriculture sector increases

consistently. The growth average is 7.3% per year during 2006-2010 which exceeded the set of plans 0.25% and 0.3% respectively (Savannakhet's Social Economic Development Plan, 2011-2015).

Plantation: The outstanding feature of agriculture sectors in plantations, especially rice cultivations, and livestock, subsidiary plants such as soybean, tobacco, cotton, corn, water melon, melon, sugarcanes, and various vegetables. The average growth of rice cultivations is 4.52% per year, besides supplies to domestic market and export to other countries. In 2004, rice cultivations capacity in the whole province was 490,000 tones, compared to 2001 with 5.40%, and the average amounts of paddies were 603 kg a person per year. And during 2006-2010, rice plantation had increased 5.52% per year, from 586.535 tons in 2006 to 699.895 tons in 2009 which exceeded 13.6% compared to the set of plan (Provincial Department of Planning and Investment, annual report, 2010).

1.2.3.2 Industry Sector

After Vientiane Capital, Savannakhet is the most important industrial center in Lao PDR. The industrial sector has been steadily increasing since the year 2000; the growth average is 18.28% per year (Savannakhet Social Economic Development Plan, 2005-10). There are about 33 companies of foreign investment in Industry sector in Savannakhet. Some of the productions are consumer goods, clothing, handicrafts, construction materials, agriculture materials and agriculture machineries, and the most outstanding is a gold mining excavation for which the construction has started in the Vilabury District , with average production capacity of 8.8 tons per year. The gold production is the main part to increase the province's revenues. In addition, a processing industrial, hydro Power, road contraction, industrial zone, commercial zone, urban and rural area had also developed. There are 3,306 industrial facilities in 2005 which had increased 23.62% compared to there in 2001. These industrials consist of 11 large industrial facilities, 82 medium industrial facilities and 2.943 small industrial facilities, with the result of increasing of laborers and a number of technicians in the province, totaling there were total 9.019 people compared to those of 2001, which showed a double increase (Savannakhet Social Economic Development Plan, 2005-10). The industrial sector had been developed since then; the industrial production had reached 2,047.08

billion kips which exceeded the set of plan 5.63% between 2006-2010. Some outstanding industrial facilities in Savannakhet include a sugar factory, gold and copper mining factory, cement factory, car plant manufacturing, and construction materials factory, (tile, water pipe PVC), Savan beer factory, chemical fertilizers factory, plastic bags production factory, educational aid and stationeries. These industrial facilities greatly create more people jobs and reduce the import products to the province.

1.2.3.3 Access to Health Service

Savannakhet has developed health care service and facilities. There is one provincial hospital, 15 districts hospital and 115 community health stations which cover about 88.5% of the geographic area in the province. It facilitates people access to health services. Savannakhet authority aims for better health of people in the province. Therefore, these efforts have been made to develop every year (Savannakhet Social Economic Development Plan, 2006-2010).

1.2.3.4 Access to Education

Education in this province has improved gradually during the last decade. There are 240 kindergartens, 1,199 primary schools, 156 secondary schools, and one monk secondary completed school in the whole province. In addition there are seven vocational schools and one University (first opened in 2009) in the province. But literacy rate is still low. So the government and the provincial authority have decided to prioritise educating, training and providing work experience of the people in the province in order to contribute to the socio-economic development and investment in particular (Savannakhet annual report, 2010).

1.2.3.5 Investment in Savannakhet Province

In the past five years (2006-2010), Savannakhet province could attract 72 investment projects with the amount of US\$ 975.43 million, an increase of 1.3 times compared to the set of plan. The investment in the agriculture sector was US\$ 793.78 million, covering 81.38%; Service sector had US\$ 57.87 million, and covered 5.93 % and Industrial sector had US\$ 54.18 million, covering 5.55%; hydro power and mining had US\$ 69.6 million, covered 7.14% (Savannakhet Social Economic Development Plan,

2011-15). Currently, 16 countries have invested in Savannakhet Province, China, Thailand, and Vietnam being more prominently than others.

Table 1.1: The Amount of Domestic and Foreign Investment

Year	Domestic Investment (Kips)	Domestic Investment (US dollars)	Foreign Investment (US dollars)
2005/2006	49,240,724,630	5,807,415.152	419,208,258
2006/2007	133,792,952,084	15,779,443. 233	85,749,970
2007/2008	74,446,101,770	8,780,118.950	120,227,195
2008/2009	64,066,614,165	7,555,969.751	53,499,797
2009/2010 *	40,811,547,421	4,813,284.139	296,747,410
Total	36235794007070	42,736,231.188	975432630630

Source: Savannakhet Provincial Department of Planning and Investment. Five year Plan (2011-2015), pp 11-12, (*1) exchange rate LK8,478.94/US\$1 (2008), (*2) is amount up to July, 2010

Table 1.1 (page. 21) indicates the amount of domestic and foreign investment inflow to Savannakhet Province. The table indicates the amount of FDI inflows is higher than the amount of domestic investment during the year 2005-2010. This means that foreign investment inflows mainly contribute to the production of goods in Savannakhet, the economy has been developing, create people more jobs and the locals produce various products in the province. At the same time, domestic investment has also been developing, indicated by the approval of 50 investment projects with totalling 362.35 billion kips, and an industrial sector with 21 projects, covering 30.2% (hydro power and mining project) 4 projects covering 24.8%; agriculture and forestry 10 projects, and covers 5.8 %; service sector 15 projects covering 39.2 % (Savannakhet Social Economic Development Plan, 2011-15). Those were clear indication of increase in domestic investment trends

1.2.3.6 Export and Import

The domestic trade has been continually developing; especially since the second friendship bridge (Savannakhet-Moukdahan) had come into use. The roads integrated

between countries had increased more trade within the country and with foreign countries. The traffic trade between cities and rural areas had opened, more with the result of the increasing of consumer goods production and goods exportation. Consequently, the living standard of the local people has become higher, a tangible proof of gradual improvement in employment opportunities and income generation.

➤ **Exportation**

The total amount of export was US\$ 3,185.58 million, exceeding the target compared to the set of five years plan by 75.10%. The main products for export are mineral (gold, copper, gypsum and sodium) covering 94.52% of total export, agriculture production (rice, sugar and non-timber forest products), textile products and industry products (tire).

➤ **Importation**

The total amount of import was US\$1,848.21million, which had increased 20 % per year, it also exceeded the set of plan 24.73%, and the main import product is certain consumer goods, products for projects (such as gasoline, vehicles, machineries) and cross-country products to export for the third countries.

Table 1.2: Total Value of Export and Import in Five Year (2005-10), million dollars

Items	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	Total 5 years
Total export	629,48	610,76	755,12	570,85	619,37 *	3.185,58
Total import	247,01	259,38	389,11	441,64	511,07	1.848,21

Source: Provincial Industrial and Commerce Department Report, 2010, p.13

Table 1.2 (page. 22) indicates the total amount of export and import in five year period (2005-2010) in which the amount of export is higher than the amount of import. It proves economic openness in Savannakhet province.

1.2.3.7 Service Sector

The outstanding feature of service sector is transportation between Savannakhet province (Laos) and Moukdahan province (Thailand) through the Second Friendship Bridge. The domestic flights and international flight from Savannakhet (Laos) -Bangkok (Thailand), Savannakhet(Laos)- Siemleap(Cambodia) have much improved with more flights. The service of border trade and Special economic zone has been improved for trading in Savannakhet as well. Service, the second sector of foreign investment such as Hotel, Restaurant, Service Company, Banking, telecommunication, transportation, duty free shop, and warehouses has also improved. According to the five year social-economic development plan 2006-2010, the economic structure actually increased during 2005 to 2010 with the service sector increasing from 24.12 % in 2004 to 26.42% in 2010.

1.3 Statement of the Problems

Since the experienced growth of socio-economic development of Savannakhet Province, especially the contribution of foreign direct investment, which covered 59.7% of all investments in this province (Provincial Department of Planning and Investment annual report, 2010), FDI can help to increase the local people's income, create more people jobs. Most of all, it can help the province reach a higher economic development status than the National average. The foreign investment generates the government revenues by taxes, dividends, and concession fees. Additionally, the province can have indirect contributions of infrastructure and community development by some other investment projects as well. Therefore, in order to reach the National strategic plan and to liberate the country from the group of least developed countries (LDC) by the year 2020 through sustainable and equitable development (National Growth and Poverty Eradication Strategy, MPI, 1996), it is imperative for the government to concentrate more National action plan on attracting more FDI into both the capital city and provincial areas, especially in Savannakhet Province.

In spite of the experienced growth for many years in Savannakhet and attraction of 10.8% of total FDI in Laos, it is still has a relatively low-level social-economic development compared to the potential and comparative advantage of the province. For example, the amount of foreign investment still very small compared to that of Vientiane

Capital, and the agriculture production still inadequately supplied to markets and industrial sector. Introduction of new technologies for production, and unemployment of people in the province are some of the reasons why people are moving to find jobs in the capital city and /or some countries nearby, especially Thailand.

Since, the recent FDI inflows made greater impact on Savannakhet's economic development, if more foreign direct investments were made, it would make more improvement in the province economic development directly and indirectly. For instance, as direct advantage, the provincial revenues could be generated with more taxes and dividend, productivity of industrial sector and agriculture sector, increased product exporting, and more employment of people in the province. Indirect advantage could come in term of more contribution of infrastructure and community by some investment projects. Therefore, the study of factors affecting FDI is very important in order to provide necessary information from the result of this study to the provincial authority and the policy makers. Unfortunately, there are only a few studies made on foreign direct investment in Savannakhet, so the researcher is convinced about the significance of foreign investment and the situation of business running of foreign investors in Savannakhet Province.

1.4 Research Objectives

Research objective is an intention and extent of a study in term of what the research seeks to achieve. Accordingly, the importance of promoting FDI in Savannakhet Province, and the experienced growth of economy for many years reflect the change of the provincial development. For example, the GDP growth, the infrastructures development, people's standard of living and province economic openness. Thus, the more investments in the province are made, the more opportunities there are for development. But the most important is how to develop and promote more foreign investment to the province. In this study, the researcher would study about factors affecting FDI in Savannakhet Province. There are five possible factors to be chosen in this research comprising political and government legal factors; economic and market factors; geographical location factors; financial factors and social and culture factors. The general objective of this study is accessing the important factors of foreign direct

investment in Savannakhet. The result from this study will contribute to the area development and to find good opportunities to attract more FDI in Savannakhet Province. Therefore, in order to answer the research questions, the researcher has come up with three specific objectives shown below:

1. To examine the relationship between factors influencing FDI and FDI capital inflows in Savannakhet province, Lao PDR
2. To find out the problems and prospects of investment environment in the Savannakhet province, Lao PDR
3. To study the foreign investment situation and look for opportunities to attract more FDI in Savannakhet province, Lao PDR

1.5 Scope of the Research

This research aims to study the success factors affecting foreign direct investment inflow in Savannakhet province which is located in the central part of Laos. The core information is collected from Department of Planning, Department of Domestic and foreign Investment Promotion, and National Economic Research Institute, Ministry of Planning and Investment (MPI). In addition some other information is obtained from the provincial division of Planning and investment during 2004-2010. The research is assigned to study three objectives. The target respondents are employees whose position is between middle-to-top management levels. They are extensive hands-on knowledge about company performance as they are in the management levels of Proprietor or Director; Department Manager and Assistants in foreign firms in Savannakhet province. The researcher has assigned FDI as dependent variables and Political and Government regulation factor; Economic and Market factor; Geographical location factor; financial factors; and Social and Culture factors as independent variables. The questionnaire form is created to be used specifically in Savannakhet province, so it might not be suitable to be applied in other regions or countries. Since the total foreign investors in Savannakhet province comprises of 137 companies, each set of questionnaire has been distributed to management level personnel in each foreign firm in Savannakhet Province.

1.6 Limitations of the Research

There are a number of limitations in this study. They are:

- First, this research focuses only on one geographical foreign investment in Savannakhet Province. Hence, the result will not be applicable to any other provinces in Lao PDR or other countries.
- Second, the number of sampling in this survey was relatively small and may not represent the whole country due to differences in natural resources, economic factor and geographical location.
- Third, Limitation of time for further study to survey due to difficult access to FDI firms in remote areas.
- Finally, the researcher is not responsible for any missing data as a result of respondents' incomplete replies in the questionnaire.

1.7 Significance of the Study

This study is specifically about factors affecting foreign direct investment in Savannakhet Province, Lao PDR. It aims to identify the main factors influencing foreign investors to invest in Savannakhet Province, and to find out the investment situation and any business barrier for foreign investors in the Savannakhet Province. The results from this study will provide insight about foreign investment and business activities as shown below:

- To find out the important factors that relate to foreign direct investment in Savannakhet Province for authorities or decision makers.
- To help authority in Savannakhet Province and foreign investors get insight in the related problem and to reform business systems in Savannakhet Province.
- To adopt the policy and regulations according to the compliance to foreign investors requirement.
- To provide information to any researchers who are interested in the same or similar case study for further research.

1.8 Definition of Terms

Acquisition: It is an acquiring of the business transaction of the enterprise that is not related to the parities based on terms established by the market where each firm acts in its own interest, or the target firm becomes a subsidiary or is a part of a subsidiary of the acquiring enterprise (OECD¹¹, 2010).

Arm's Length Market: A financial market in which parties engaging in trisections are separate and have no contact with each other outside of security's buying and selling. <http://www.investopedia.com>,

Barrier: Elements or obstacles investors will encounter and handle to overcome all issues (Law on the promotion of foreign investment, 2004). In this study the barrier is something obstructing business operation such as avoiding foreign quotas, tariff and other barrier for foreign investors in Savnankhet Province.

Developing Countries (DCs): Those countries with low or middle levels of Gross National Product (GNP) per capita (World Bank, 2010) such as Thailand, Indonesia, the Philippines (AMS¹², 2011) in the ASEAN

Economic and Market factors (Independent variables): The growth of economy in Savannakhet Province, economic structure adjustment, the sectorial development such as agriculture, industry and service; the risk of diversifying from home countries and to access to the regional market of investors.

Economies of scale: The increase in efficiency of production as the number of goods being produced increases. There are two types of economies of scale: *External economies*: the cost per unit depends on the size of the industry, not the firm, and *Internal economies*: the cost per unit depends on size of the individual firm.

¹¹ Glossary of foreign direct investment terms and definitions, Organization for economic co-operation and development, 18oct, 2010

¹² American Mathematical Society "Developing Countries List" 2010-2011, access on 9th August 9, 2011 at <http://www.ams.org/membership/individual/types/mem-develop>

External Market (Euro market): It's the market for securities that are issued outside the power for each country and they are offered to investors in multiple countries simultaneously

Financial factors (Independent variables): This study is defined as the development of financial institute, exchange rate and inflation rate of the province.

Foreign Direct Investment, FDI (Dependent variable): FDI is a type of investment which reflects the aim of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of direct investor (OECD). In this research, FDI refers to the capital flow of foreign investors or foreign companies who had invested in Savannakhet Province, Laos during 1992 to 2011.

Foreign Investment Enterprise: Foreign investment enterprise means a one hundred percent foreign investment enterprise, a joint venture or business cooperation by contract established in the Lao People's Democratic Republic (Lao law, 2004). In this study, foreign investment enterprise is the approved company or enterprise setting up companies or enterprises in Savannakhet province.

Foreign Investment: Foreign investment means the importation of capital, which includes assets, technology and expertise, into the Lao People's Democratic Republic by foreign investors for business purposes (Lao Law, 2004). In this study, foreign investment is the amount of investment from foreign companies including joint venture, share holder and ownership in Savannakhet Province.

Foreign Investor: Foreign investor means a foreign individual or legal entity investing in the Lao People's Democratic Republic (Lao law, 2004). In this study, foreign investor is a person who is a legal entity and has capitals to invest in any investment activities in Savannakhet Province.

Geographical location factors (Independent variables): This study defines the geographical location factor as the special economic zone in Savannakhet Province, infrastructure assessing, natural resource availability in the province, low cost of raw material, availability of skill worker, low skill and unskilled labor cost, transportation cost, integrating with the existing company and expending of opportunity of foreign investors in the future.

Incremental Capital-Output Ratio (ICOR): A metric that assesses the marginal amount of investment capital necessary for an entity to generate the next unit of production. Overall, a higher ICOR value is not preferred because it indicates that the entity's production is inefficient. The measure is used predominantly in determining a country's level of production efficiency.

Least Developed Countries: Those countries with lowest indicators of socioeconomic development, and are characterized by low income and structural impediments to growth, such as Laos, Cambodia and Myanmar in the ASEAN

MultiNational Enterprises (MNEs): A corporation that has its facilities and capital or asset in more than one country or a company that has offices or/ and factories in other countries and has a head office where they co-ordinate worldwide management.

NERI's Business Sentiment Index: It surveys all 137 companies in Vientiane Capital, Luangprabang and Champasack. The survey tries to capture companies' perception on the economy and the business performance in each quarter (Import-export department, MOIC).

New Economic Mechanism (NEM): The New Economic Mechanism is the aim to transform the Lao economy from a centrally-planned to a market-oriented, a result from the Fourth Party Congress in November, 1986.

Political and government regulation factors (Independent variables): This study defines the said factor as political stability, government regime, rights, benefits and Obligations of foreign investors, investment incentive, the procedure of investment approval, and private sector encouragement in the province.

Social and culture factors (Independent variables): This study defines as social safety, education level, foreign relationship or interaction openness, attitude, culture and beliefs, human resources development, manner and custom, language and communication in the province.

Tax Incentive: Deducted tax rate that a government provides as an inducement to FDI.

1.9 Abbreviations

Table 1.3 Abbreviations

Terms	Description
DDFI	Department of Domestic and Foreign Investment
DOP	Department of Planning
EWEC	East-West Economic Corridor
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
Lao PDR	Lao People's Democratic Republic or Laos
LDCs	Least Developed Countries
MOIC	Ministry of Industrial and Commerce
MPI	Ministry of Planning and Investment
NEM	New Economic Mechanism
NERI	National Economic Research Institute
PDPI	Provincial Department of Planning and Investment
SSEDP	Savannakhet Social Economic Development Plan
SSSEZ	Savan-Seno Special Economic Zone
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
WB	World Bank

Chapter 2

Review of Related Literature Review and Studies

This chapter presents the relevant literatures review. The first part mentions the definition of each variable in this research. Next, the main theories related to this study will be mentioned in the second section. The third section discusses previous researches related to the independent variable. In the last section, the researcher will review some previous studies and give research hypotheses for this study.

2.1 Definition of Variables

2.1.1 Foreign Direct Investment

Foreign Direct Investment (FDI) is the process of the resident in the source country (home country) obtaining ownership of asset for the objective of controlling the products, distribution and other firms' activity in oversea (Moosa, 2002). The Monetary Fund's Balance of Payments Manual has defined FDI as an investment that is made to obtain the last thing of interest in an enterprise operating of investors in other economy and the investors aim to have an effective voice in the management of the enterprise. And the United Nations in 1999 "*World Investment Report*" defines FDI as a long term relationship of investment involving and reflecting a lasting interest of a resident entity in one economy of Foreign Direct Investors or parents companies (United Nations Conference of Trade and Development, UNCTAD, 1999).

2.1.2 Political and Government Regulation

Political stability is a real characteristic of a country that does not have political turmoil like a civil war, and has a constitution and laws that its citizens are following (Leitao and Faustino, 2008). But, what about a country which is politically unstable? For political instability is demonstrated as one of the predictors of a government to collapse, an inclination for fluctuation in an executive power both constitutional and unconstitutional means. The number of international business academics had indicated that political instability has a negative power on increasing of inward FDI and the most

constraining factors that performed as an impediment of FDI is political instability (Asiedu, 2006). Political and Regulation factor is the main factor to attract FDI and the driver of FDI growth in a host country. It's one of the important criteria to be considered by foreign investors whether the politics in a host country is stable or not. It's an internal factor of a host country to make foreign investors trust them in order to attract FDI inflow.

2.1.3 Economy and Market

Economy in terms of territory is defined as all the area together under the effective economic control of one government which has dimensions of legal jurisdiction (OECD¹³ 4th Edition of glossary of FDI term and definition). And Market is a forming part of the economy which features a variety of different system, institutions, procedure, social relationship and structure where the trade and exchanging goods and service are made by seller and buyer. Economic condition in a host country is the most important assessment criteria of foreign investment. According to the United Nations Conference on Trade and Development's (UNCTAD) table on foreign direct investment and international corporations, companies are divided into market seeking, resource seeking, and efficiency seeking. For companies seeking market, they highly focus on market size and incomes per capital, market growth as well as entering regional and global markets.

2.1.4 Geographical Location

Geographical Location is defined as territory of one country that consists of land, natural resources, forest, road, and infrastructure. In term of economy, the location consists of the interconnected companies, specialized suppliers service provider, firms in related industries and associated institutions such as university, standard agencies and trade associations (Spencer *et.al*, 2008). Before investors make decision to invest abroad, they have to consider many factors to ensure that there is not any restriction from host countries. Location is an important factor to be considered because if investors decided to invest in a good location with infrastructure, roads, utilities, transportations, it

¹³ OECD: Organization for Economic Co-operation and Development, Investment Division, Directorate for Financial and Enterprise Affairs "GLOSSARY OF FOREIGN DIRECT INVESTMENT TERMS AND DEFINITIONS" at 2 rue André-Pascal, Paris 75116, France

would lead the business on success path that open more facility to businesses. On the other hand if investors made a wrong decision, they would face obstacles impeding smooth successful business in that country. “Urban concentration, road network and proximity to surrounding market significantly attract foreign investors. The implication of the capital flow is geographically altering as the rural area and urban landscapes are modified to the new market systems” (Jovana, 2005).

2.1.5 Finance

Finance is not only money but it is also a branch of economics related to resource allocation, market and investment. Today financing is the integral part of business and the business leaders are those who can understand the pulse of this financial sector (Manderson, 2011). According to Alfaro et al. (2004), the lack of financial institutions in one region or one economic place can limit the economy’s ability to gain advantages of potential FDI spillover.

Laura (2006) suggested that financial market lets the backward linkages among foreign and domestic firms to run in to FDI spillover. The research indicated that to hold the extent of foreign existence stable, financially well-developed experiences growth rate are almost twice of those of economies with poor financial market. The increasing share of foreign direct investment or productivity of foreign companies leads to higher additional growth in financially developed economies compared to those observed in financially under-developed ones.

2.1.6 Social and Culture

Social and culture is defined as the beliefs, behaviors, object, and other characteristics common the number of a particular group in one society and culture includes many societal features such as: language, customs, values, norm, more rules tool technologies, products, organizations and institutions. In terms of institution, it refers to a group of rules and culture meanings related to particular social activities. Or common institute are the family, education, region, work and health care (CliffsNotes, 2011). According to Majie (2003) culture is defined as the material and spiritual wealth that has been created in the history of human society. In its narrow understanding, culture is the social ideology and its corresponding system and organization, including the points of

views and political ideas, law, ethics, arts, religions, science and compatible systems. Culture is a dynamic process that has no dimension should culture be perceived as static. In terms of “Culture Power and Culture Conflict”, Jiemin (2003) defines culture power or culture hegemony, culture imperialism and culture colonialism, as imposed culture value between states and between ethnic groups.

2.2 Theories Related to Foreign Direct Investment

2.2.1 The Eclectic Theory of FDI (the OLI paradigm)

John Dunning Eclectic Model or “OLI paradigm” was known in the year 1976 (Dunning, 2000). It has developed many times to study about foreign direct investment. This paradigm is combined to three different foreign direct investment theories = O+L+I, which each part will focus into different questions (Dunning, 2000). A general framework for explaining international production was offered by the eclectic paradigm (Dunning, 1981). There are three variables including Ownership-specific (O); Location-specific (L); and Internalization (I). These are identified in earlier theories about trade and FDI. OLI paradigm explains the determinant of foreign direct investment and foreign cooperation’s activities (Floyd and Summan, 2008). OLI stands in the intersection of macroeconomic theory of international trade (L) and micro economic of the firm (O and I) (Shenkar, 2007, p. 70). There are variables of Ownership advantage including tangible assets (natural main power, and capital endowment) and also intangible assets (technology and information, managerial, marketing and entrepreneurial skill and organizational systems). Next, the variables of location specific (country specific) refers to market structure; government legislation and policies; and the political; legal and culture environment which have been undertaken by foreign direct investment (FDI). Finally, the internalization variable refers to inherent flexibility of the company, product capacity and market by the way of its own internal subsidiaries (Shenkar, 2007, p. 71).

❖ Ownership Advantages (or Firm Specific Advantage) = O

It’s about decisions or considerations of a company by questioning themselves as to why they intend to invest abroad, and what are the specific advantage that they will gain

from the country they invest (Galan *et. al*, 2001). The first advantage of the firm is to generate higher income and low investment cost that can offset the operating cost when they set up a new business in another country (Dunning, 2000). For example, if a multinational enterprise (MNEs) is operating a factory in another country, they have additional cost for operating on foreign soil which the local competitors don't have.

$$\text{Profit} = \text{Total Revenue} - \text{Total Cost} - \text{Cost of Operating at a distance}$$

Those additional costs arise from: (I) cultural, legal, institutional and language differences; (II) a lack of knowledge about local market's condition and (III) increasing expense of communicating and operating at a distance. Therefore, if a firm wants to be successful in doing business in another country, it must be given some advantages such as low of operating cost in a foreign market. Also the company must be able to gain higher income for the same cost or have lower cost, for the same income if compared to a domestic firm (Dunning, 2000).

❖ **Location Advantages (Country Specific Advantages).**

It is associated with the answer to the question “**WHERE**” (Where is the investment to be made) (Galan *et. al.*, 2001). The motivation moving offshore is using the firm specific advantage (FSA) in conjunction with factors in a country (Labor factor and Land factor). By way of these factors, the MNE creates some profits (earns rents) on its FSAs. Choosing of investment location depends on a multipart calculation including economic, social and political factors.

Dunning (2000) suggested that a firm must use some of the foreign factors to understand and connecting them with domestic firm specific advantages in order to earn full rents on these firm specific advantages. Therefore, the location advantages of different countries are important to determine when they become host countries for multinational enterprise. Obviously the relative attractiveness of various locations can changes overtime, so that a host country can somewhat contrive its competitive advantage as a location for foreign direct investment.

The country specific advantages (CSAs) have influenced where an MNE will invest, and it can be separated in to three types E- Economic, S-Social, P-Political.

- **Economic advantages** consist of the quantities and qualities of the production's factors, market size and scope of the market, transport and telecommunications costs.
- **Social and cultural advantages** consist of psychic distance between home and host country, language and cultural difference, general attitude towards foreigners, and the overall attitude toward free enterprise.

- **Political country specific advantages (CSAs)** consist of general and specific government policies impact toward foreign direct investment flows, intra-firm trade and international production. An attractive CSA put together for MNE would comprise of large growing, high income market, low production costs, large endowments of factors limited in home country, presence of the economy and political stability, welcome FDI and culturally and geographically close to the home country (Dunning, 2000).

❖ **Internalization Advantages:** it answers the question “**HOW**” (How to go abroad?). The multinational enterprise (MNEs) has different choices of entering mode which is a ranging from the market (arm's length business) to the hierarchy (Wholly owned subsidiary). The MNE chooses internalization (the internal route) where the market does not survive or doing poorly, so the business costs of the external route are high. The special know-how and core skill had existed is assets that be able to generate economic rents for a company. The rent is ability to be earned by licensing the firm specific advantages (FSA) to another company by using of firm specific advantages (FSA) to exports products as an input, or setting up subsidiaries abroad (Galan *et al.*, 2001). Thus, the ownership advantages of multinational enterprise explain why they go overseas while the location advantages of countries clarify where MNEs set up foreign plants. Another issue is how they go abroad. The OLI model (Dunning, 1977) argues that external and arm's length market are both imperfection otherwise in some cases nonexistent. As a result, the multinational enterprise can replace with its own internal market and gather some efficiency saving. For example, a company can go abroad by simply exporting its products to foreign markets; though, uncertainty, to seek out cost and tariff barrier are additional cost that will prevent such trade. Similarly, the company could license a foreigner to distribute products but a company should worry about opportunistic behavior by the licensee too.

2.2.2 Product Life Cycle Theory

International product life cycle theory explains both trade and foreign direct investment (FDI). The theory was developed by Raymond Vernon that explained why the manufacturers move from exporting to foreign direct investment (FDI) (Vernon, 1966). Vernon theory is more pertinent to the initial entries of manufacturer in to foreign markets than to the multinational enterprises (MNEs) that have foreign direct investment (FDI) already in place. There are many multinational enterprises (MNEs) that can produce their new products abroad to later sale in another country. Vernon (1966) emphasizes the dynamic model of foreign direct investment and explains that the innovations are likely to be made in an advanced country like the United States. Vernon theory has divided the development of product in to three stages (Figure 2.1) as: the new product stage, the maturing product stage and the standardized product stage. These stage will be more explained as follow:

The first stage is the new products stage or innovation when the product is first introduced in the market. During this stage the production facilities and sale are both an innovation based-oligopolistic in the domestic market. When the demand of the product increases more the income increase more. In this case, the products are produced in the home country due to uncertainties as to the sustainability over time of the product's demand in distant markets (Chen, 1983). According to Vernon (1966), the new products would be located in developed countries as USA, since the more income of the country is the more demand of the products.

The second stage is the maturing product stage. During this time the products are being well known or matured and the demand of the products become more price elastic. Since the peak demand the production in domestic markets, the companies faced the problem of market expansions at home country (there are more competitors). The demand growth of the products within the country market occurs the products became more well-known, while at the same times the product's price fall due to the improvement of efficiency and standardization of production processes. Overseas demand and sales of production develop during this stage as the products of the firm are

face up to the tough competition in domestic market. Therefore, the firm is necessary to invest and gain profits abroad.

The third stage is the standardized product stage. During this time, the products become completely standardized and commonly known in other developed countries. The foreign firm will meet tough competitions from firms in the host country. When the products and sell price are competitive in the host country, firms who began to produce substitute products or even more export some products to the home country of the foreign oligopolistic, the firms must reduce the product cost and keep profiting by investing in production facilities in developing countries, or shift to invest in less developed country where the wages and production costs are lower than the developing country. The production in LCDs countries may not be sold in the country but exported to other developed or developing countries instead.

Figure 2.1 Summary of the Stages of Product Life Cycle

New Product Stage	Maturing product stage	Standardized product stage
<ul style="list-style-type: none"> - Product was introduced - Products need - Products innovation - Export (Some) 	<ul style="list-style-type: none"> - Product is being well-known or mature - More competitors - Demand growth - Standardization of production processes - The firm is necessary to invest and gain profits abroad 	<ul style="list-style-type: none"> - Products become completely standardized - The foreign firms meet tough competitions from firm in host country. - Shift to invest in less developed country where the wages and production costs are lower than the developing country

2.3 Empirical Discussion of Studies Related to Variables

2.3.1 Foreign Direct Investment and Economic Growth

Economic growth means the positive change of the production of goods and services in a country in a period of time. The economic growth of many countries in the world has many essential complements which are different from each other. In order to help the growth of economic in the country, one of the questions that many people consider is “What and how to make economic growth?” to this question, much evidence from various theories, research and empirical studies had pointed that foreign direct investment is one of the main factors that lead to an economic growth.

Athukorala (2003) mentioned that many FDI advantages bring and give new experiences to the host country as the world FDI has increased importance itself by moving technologies, obtaining network for production efficiency and setting up marketing and sales internationally. Also Jorge and Paulo (2010) concluded in their research that exporting and foreign direct investment accelerate the economic growth in the long run and FDI was identified as the main determinant of economic growth both direct and indirect by way of short and long run cases. Besides that, many economists agree that the increasing rates of economic growth are conducive from FDI inflow (Wijeweera *et al.*, 2010), the result from FDI is demonstrated from the local economy of the recipient host country benefit via the transfer of new technology know-how and increase the opportunities of employment for the local population. Moreover, many of Least Developed countries have sought to improved their infrastructure and eradicate unnecessary bureaucratic (red-tape) obstacles, such as severe regulations and government interferences in order to attract FDI, and one of the LDC’s advantages to be gained from FDI is the opportunity for the host country to access to technology sophisticated. Also, Foreign Direct Investment will take technology know-how, managerial and marketing practices and organizational when an operation overseas is to be set up (Veugelers and Cassiman, 2004).

Foreign Multinational Enterprise (MNEs) gives more jobs for domestic workforce of the host country and help to reduce the number of unemployment and also help to improve the people’s living standard locally (Huggin *et al.*, 2007). From studies by

Karlsson *et al.* (2009) it was found that FDI had positive effect in China. They argued that in the past 20 years since the country has promoted FDI, the employment rate has greatly increased especially in the manufacturing sector. Moreover, there are several reasons why FDI may increase to beneficial externalities that encouraged economic growth. FDI may allow the host country take in technologies and knowledge that are not available domestically. Investors and FDI may bring in know-how that doesn't exist in the host country. Besides that, foreign investors may better access to the global markets.



Table 2.1 Summary of the FDI and Economic Growth Studies from 2003 to 2010

Author/year	Article	Objective	Methodology	Findings
Athukorala, 2003	“The Impact of Foreign Direct Investment for Economic Growth: A Case Study in Sri Lanka”	Focus on FDI-led growth hypothesis in the case of Sri Lanka	Based on time series data from 1959 to 2002 and the response of civil society and foreign firms. The econometric framework of cointegration and error correction mechanism were used to capture two way linkages between variables interest	FDI give positive opportunities for domestic investment and business activities. FDI bring and give new experiences by moving new technologies, network for production efficiency and setting up marketing and sales internationally.
Veugelers and Cassiman, 2004	“Foreign Subsidiaries as a channel of international technology diffusion: Some direct firm level evidence from Belgium”	To identify which firms transfer technology to the local economy, comparing foreign subsidiaries with domestic firms	Using direct firm level evidence from Belgian CIS-survey data on the occurrence of technology transfers	Foreign direct investment will take technology know-how, managerial, marketing practices and organizational know how when an operation overseas to be set up. The firms can rather access to the international technology market that is important to generate external knowledge transfer to the local economy

Table 2.2 Summary of the FDI and Economic Growth Studies from 1992 to 2007 (continued 1)

Author/year	Article	Objective	Methodology	Findings
Huggin, Demirbag and Ratcheva, 2007	"Global Knowledge and R&D Foreign Direct Investment Flows: Recent Patterns in Asia Pacic, Europe, and North America,"	To analyses recent flows of R&D FDI across the globe	Use empirical study	MNE give more jobs for domestic work force and reduce unemployment rate, improve people's living standard locally
Karlsson,et al , 2009	"Foreign Firms and Chinese Employments"	To examines the effect of foreign direct investment (FDI) on employment in the Chinese manufactur-ing sector	Using a large sample of manufacturing firms for the period 1998-2004	FDI may allow the host country take in technologies and knowledge that are not available from domestic investor
Jorge and Paulo, 2010	"What causes economic growth in Portugal: exports or inward FDI?"	To analyze possible causal relationships between exports, inward foreign investment and economic growth in Portugal and identify their direction	It uses a three-stage procedure based on unit root, cointegration and causality tests applied to annual data from 1977 to 2004	Exporting and foreign direct investment accelerate the economic growth in the long run and it's the main determinant of economic growth both direct and indirect
Wijeweera, Villano and Dollery, 2010	"Economic Growth and FDI Inflows: A stochastic frontier analysis"	Estimates the relationship between FDI and the rate of growth of GDP using a stochastic frontier model and employing panel data covering 45 countries over the period 1997 to 2004	A stochastic frontier production function is applied to panel data to examine whether FDI inflows enhances economic growth	The increasing rates of economic growth are conducive from FDI inflow.

Table 2.1 (page. 41) and Table 2.2 (page. 42) are summaries of the previous researches on FDI and economic growth during year 1992 to 2010 which explain that foreign direct investment is more important to the economic growth in one country than domestic investment and the FDI contributes to the domestic firms improvement their productivities more by giving them some new technology and setting up a new market. Moreover, FDI can create more people jobs and good opportunities to the recipient country such as taxes, dividend, improve infrastructure through some foreign project.

2.3.2 Political and Government Regulation Factors Related to FDI

When a firm wants to operate business overseas, it's necessary to consider many reasons and factors or advantages that the host country offer or available to foreign investors. Government policies and regulations can be intellectual right law, economic policies, property right law or public regulation policies which legislations can perform as an impulsion or preventing to enlarge FDI inflow (Busse and Groizard, 2008). By indication from Taylor (2000), any country with more open policies especially in term of trade and investment would attract a large number of foreign investment inflows. In addition, Rodriguez and Pallas (2008) suggested that, if any country has a bureaucratic and regulatory environment, it's likely that foreign investment would decrease. Bureaucratic and regulatory environment demonstrate to the inconsistency between written law and performance as they are reformed in compliance to a government decision.

According to the studies by Asiedu (2006) it was found that FDI inflow in some LDCs countries of the Africa sub-Sahara had experienced to bring down as their regulations and bureaucracy was unclear. This indicated that the bureaucracy and regulations are definitely one of the FDI unattractive factors and can affect the MNCs decision to locate their business abroad. For many years the government attempts to create more member FDI environment and more favor by giving the investment incentive namely tax incentive to motivate FDI. These incentives might be offered to compensate for the risks and costs of a firm business in less-favorable investment environment which consists of undeveloped infrastructure, unskilled labor, and political stability (Hoi and Tze, 2007). For example, a LDCs country like Napal which has poor investment

environment in the country, provided tax incentives to attract more FDI with reduction in explicit tax rate for foreign investors (Athukorala and Sharma, 2006). Nevertheless, Tahir and Larimo (2004) argued that the main factors that can attract FDI in the country are not taxes but the belief that the main determinant of FDI are good infrastructure, economic growth and political system and other factors that he found in early studies are market size and labor cost (wage rates).



Table 2.3 Summary of the Theories Development of Political and Regulation Factors Related to FDI from 2000 to 2008

Author/year	Title	Objective	Methodology	Findings
Asiedu and Brempong, 2000	“The Effect of the Liberalization of Investment Policies on Employment and Investment of Multinational Corporations in Africa”	This paper focuses on one aspect of globalization and analyze its impact on employment and investment by MNE in Africa	The data from 33 countries over the period 1984-2003 and dynamic panel estimator used to analyze.	Any countries with more open policies especially in term of trade and investment would attract a large number of foreign investment inflows
Tahir and Larimo, 2004	“Understanding the Location Strategies of the European Firms in Asian Countries”	To empirically investigate how the location-specific variables and strategic motives have influenced the location strategies of the Finnish firms in ten South and Southeast Asian countries from 1980 to 2000	The use of empirical analysis	The main factors that can attract FDI in the country is not taxes but it's a good infrastructure, economic growth and political system, market size and labor cost.
Asiedu, 2006	“Foreign Direct Investment in Africa”	Analysing the impact of natural resources, market size, physical infrastructure, human capital, the host country's investment policies, the reliability of the host country's legal system, corruption and political instability on FDI flows.	The analysis utilises panel data for 22 countries in Sub-Saharan Africa (SSA) over the period 1984–2000	The number of international businesses academic had indicated that political instability has a negative influence on increasing of inward FDI

Table 2.4 Summary of the Theories Development of Political and Regulation Factors Related to FDI from 2000 to 2008
(continued 1)

Author/year	Title	Objective	Methodology	Findings
Asiedu, 2006	“Foreign Direct Investment in Africa Instability”	To analyze the impact of natural, resources, market size, physical, infrastructure, human capital, the host country’s investment policies, the reliability of the host country’s legal system, corruption and political	The analysis utilizes panel data for 22 countries in n Sub-Saharan Africa(SSA) over the period 1984–2000	FDI inflow in some LDCs countries of the African sub-Saharan had experienced to bring down due to their regulations and bureaucracy was unclear
Athukorala and Sharma, 2006	“Foreign Investment in a Least Developed Country: the Nepalese experience”	To contribute to the literature on the developmental role of foreign direct investment (FDI) through an examinations of the Nepalese experience	To redress this imbalance in the literature by using a systematic analysis examining the patterns of FDI in Nepal, following the market-oriented policy reforms initiated in the mid-1980s	Give an example of LDCs as Nepal provide more tax incentive to attract more FDI by reduction in explicit tax rate for foreign investors
Hoi and Tze, 2007	“Perspectives on Foreign Direct Investment Location Decisions: What Do We Know and Where Do we go from here?”	To determine the current state of knowledge identifies key tax and nontax factors, to explain the inconsistent results on the impact of tax factors obtained in prior studies.	Stepwise approach under, various rounds of negotiations and estimations are made. Maximization approach under which mathematical optimization method is adopted. Use conceptual framework that identifies various restrictions and frictions for foreign investment	Investment incentive might be offered to compensate for the risks and cost of a firm business in less-favorable investment environment which consists of undeveloped of infrastructure, unskilled labor, and political stability

Table 2.5 Summary of the Theories Development of Political and Regulation Factors Related to FDI from 2000 to 2008
(continue 2)

Author/year	Title	Objective	Methodology	Findings
Rodriguez and Pallas 2008	“Determinants of Foreign Direct Investment in Spain”	To analyse the determinants of FDI location (inward) in Spain for the period 1995-2007	This study uses country-specific characteristics (per capita income, market size, and openness to trade, labour costs, and the level of economic stability)	Political stability is real characteristic of the country that does not have political turmoil like a civil war, and they have a constitution and laws that its citizens are following.
Busse and Groizard, 2008	“Foreign Direct Investment, Regulations and Growth”	To explores the linkage between income growth rates and foreign direct investment (FDI) inflows.	Comprehensive data set for regulations and Hypotheses testing	Government policies and regulations can be intellectual right law, economic policies, property right law or public regulation policies which these legislations can perform as an impulsion or preventing to enlarge FDI inflow.
Leitão and Faustino, 2008	“Determinants of Foreign Direct Investment in Portugal”	To understand the main determinants of FDI is important to take macroeconomic policy decision.	The paper applies a static and dynamic panel data approach	If any country has a bureaucratic and regulatory environment, it’s possible to have a foreign investment decrease, and the market size and open trade are significant factors to explain FDI flows into Portugal

Tables 2.3 (page. 45) to Table 2.5 (page. 47) are the summaries of previous researches about political and regulation related to foreign direct investment for year 2000-2008. The research concluded that political and regulation is considered by foreign investors before they decide to invest in one country. FDI will flow to a country with political stability and have big market size and open trade more than a country with political instability and a bureaucratic and regulatory environment.

2.3.3 Economy and Market Factors Related to FDI

The economic strength in the country is the main indicator of a wealthy country which is demonstrated as the number of GDP growth, people's living and purchasing power, new technology, and economic stability. Foreign companies have the right to choose when they will invest in one country by transferring their assets, techniques, managerial and entrepreneurship capabilities. They intend entering a country in order to find suitable places to invest to gain profits and specific advantages in the host country.

Economic factors that motivate FDI are the minimization of production and material cost and the extension of foreign market share. These factors always go with saturated domestic market and surplus of saving and dollar (in case trade surplus is US dollar). Trade barriers such as tariffs, restrictive import quotas, and domestic content legislation can be replaced under both the Economic and Political rubric that include economic factors, as they had played an important role in the price comparativeness and market share of foreign goods.

The Heckscher-Ohlin's traditional international economic theory (Baldwin, 1971) which focus on comparative cost advantages and factors endowments, and Vernon's product cycle theory which emphasizes the role of phases of production, innovation, scale economies, and imperfect knowledge (Vernon, 1996) are used in the US. The Heckscher-Ohlin theory is similar basic concept of comparative cost differences between Nations stated that country's comparative advantage in production vis-à-vis other countries is a purpose of its endowment of factors of production. The theory predicted in term of FDI inflows that if there were three factors such as labor, capital and natural resources, investors would consider a country whose factors endowment allow the source country to minimize its labor, capital, and natural resources cost while maximize it return on capital.

However, this theory does not completely explain FDI flow because it makes hypothesis such as perfect markets, free trade and knowledge (technology) as free universal goods that are impractical in a context of FDI. And it should add more considerations about these factors in order to better explain the momentum behind FDI in the US.

Another factor that should be explicated consists of trade barriers, exchange rates, and market expansion opportunities in both source country and recipient country. Vernon theory gave explanation why trade barriers are key factors in a foreign firm's decision to produce in the US as obstruction to export. Trade barrier is a clear example of a risk to a foreign company's share of the US market (Caves, 1984).



Table 2.6 Summary of the Theory Development of Economy and Market Factors Related to FDI from 1996 to 2009.

Author/year	Title	Objective	Methodology	Findings
Vernon, 1996	“International Investment and international Trade in the product Cycle”	To formulate the new concept to explore issue of import substitution in the development process in a common market.	Using empirical studies to analyze	Vernon’s product cycle theory which emphasize the role of phases of production, innovation, scale economies, and imperfect knowledge
Dunning, J.H. 2000	“The eclectic paradigm as an envelope for economic and business theories of MNE activity”	To updates some of the author’s thinking on the eclectic paradigm of international production, and to relates it to a number of mainstream, but context-specific economic and business theories	Base on OLI eclectic paradigm theories	A large domestic market and chances to exploit economies of scale is important for the timing of the decision of FDI
Tahir & Larimo, 2004	“Understanding the Location Strategies of the European Firms in Asian Countries”	To empirically investigate how the location-specific variables and strategic motives have influenced the location strategies of the Finnish firms in ten South and Southeast Asian countries from 1980 to 2000	The use of empirically analyze	The market size and domestic competitiveness are the main determinant of foreign direct investment

Table 2.7 Summary of the Theory Development of Economy and Market Factors Related to FDI from 1996 to 2009
(continued 1)

Author/year	Title	Objective	Methodology	Findings
Kaplinsky & Morris, 2009	“The Macro Polo effect : Chinese FDI in Italy”	To investigate the motivations driving Chinese outward direct investment in Italy	Using the empirical study to analyze	MNEs seem to like to locate their foreign company in a large market to access to local competitive advantage in Sectors.
Verma and Brennan, 2009	“The investment development path theory: evidence from India”	To focus, at the country-specific level, on India’s recent outward foreign direct investment surge, and more broadly test the investment development path (IDP) hypothesis for India.	A combination of descriptive and empirical analysis has been used to ascertain the relevance of the investment Development Path (IDP) theory for India	India’s sharp rise in investment had followed the GDP driven development.

Tables from 2.6 (page. 50) to Table 2.7 (page. 51) are the summaries of the previous research findings from year 1996 to 2009, in which the economy and market related to FDI inflows in a country are studied. They indicated that economic stability and the market size of host country are the main factors considered by foreign investment.

2.3.4 Location Factors Related to FDI

Geographical location is very important to the making of decision by foreign investors According to Hollenstein (2009) the improvement of infrastructure and the low level of government impediments to be found in a host country have played an important role in increasing FDI inflows and make a foothold to investors in the country. On the other hand, the country's infrastructure can be sorted as hard and soft infrastructure, (Kinda, 2010). Hard infrastructure consists of road, power, water supply, and telecommunication which facilitate the production of goods but soft infrastructure includes an efficient bureaucracy and customs administration which perform as a means to attract FDI. Moreover, improving physical and infrastructure information will increase the probability of receiving FDI. And the quality of infrastructures is an important problem in Least Developed Countries and it's considered to be the main factor to determine FDI in LDCs, (Bellack, *et al* 2009). Nevertheless, infrastructure is important to determine FDI just only in Developing Countries and Least Developed Countries (LDCs), but it may not apply to Developed Country as noted by Yeoh (2011).

According to Dunning (2002), demographics are specifically vital to the market of determinants of FDI. The demographic of the home country's population are important to the foreign firm if the goods the firm is producing are targeted to a specific age group. The demand patterns stemming from younger population trend to differ significantly from those of the elderly. Moreover, younger age groups tend to spend higher proportion of their disposal income on goods and services while older age groups tend to be savers. Demographics can also provide us with the information on future availability of the labor force in the area of study.

Table 2.8 Summary of the Theory Development of Geographical Location Factors Related to FDI from 2005 to 2011

Author/ year	Title	Objective	Methodology	Findings
Jovana Trkulja, 2005	“Geographic Factors as Determinants of Foreign Direct Investment in Eastern Europe's Transitioning Economies”	To determine the region geography as determinant of FDI	Using Panel data to for 15 Nations year 1995 -2000 to measure	The implication of the capital flow is geographically altering as the rural area and urban landscapes are modified to the new market systems
Hollenstei, 2009	How Do Different Motives for R&D Investment in Foreign Locations Affect Domestic Firm Performance?	To investigate the differences related to different motives to the factors influencing the likelihood of foreign R&D investment	An Analysis based on Swiss Panel Micro Data	The improvement of infrastructure and the low level of government impediments have played an important role in increasing FDI inflows and make the foothold to investors in the country.
Bellack, <i>et al</i> , 2009	“Infrastructure Endowment and Corporate Income Taxes as Determinants of Foreign Direct Investment in Central and Eastern European Countries”	Study the location aspect of OLI framework according to which MNEs invest in a foreign country in order to get advantages based on location (lower factor cost, lower trade cost)	Using firm level data for 77 developing countries, this paper provides the first empirical analysis of the importance of investment	The quality of infrastructures is the important and the availability of skilled workers positively affects developing countries’ attractiveness to foreign capital and, the main factor to determine FDI in LDCs
Kinda, 2010	“Investment climate and FDI in Developing Countries: Firm-Level Evidence”	To study how investment climate constrains FDI attractiveness in developing countries.	Base on OLI electric paradigm	the country’s infrastructure can be sorted as hard and soft infrastructure
Yeoh, 2011	“Location choice and the internationalization sequence”	to contribute to the literature on emerging multinationals by studying the internationalization strategies of two established companies in the Indian pharmaceutical industry	Using recently published works, government documents, organizational reports was employed to give a clearer description of the two case companies	infrastructure is important to determine FDI just only in developing countries and Least Developed Countries (LDCs), but it may not apply to developed country

Table 2.8 (page. 53) is the summaries of the previous researches finding about geographical location factors related to foreign direct investment inflow in a country from year 2005 to 2011. It concludes that geographical location and low level of government impediment are important to FDI inflow and to make a foothold to investors in a country.

2.3.5 Financial Factors Related to FDI

Foreign direct investment is an international capital flow that provides to the parents firm and multinational organization get control and correlated with foreign affiliates. The new establishment of international banks into the emerging economies had resulted in to resume of the interest of financial foreign investment and it's the main decision to invest abroad. Another economic factor that associated with foreign trade that has the same effect as tariffs act on price competitiveness of foreign goods is the dollar exchange rate. There are two effects of a major reduction in the dollar against the currency of its trading partners, and it makes foreign direct investment (FDI) more attractive than exporting. First the price competitiveness of exports to the United States has affected negatively and second, the cost to foreigners of obtaining or companies setting up in the United States falls.

Three reasons have been explained why current fluctuations in exchange rates may not influence foreign direct investment (FDI) flow in this manner. Firstly, the company decision takes time to plan and implement to invest in the United States, especially if a new building is being built. Therefore, foreign investors cannot undertake easily as a short term effect to a dollar decrease, also the foreign company may have a foreign direct investment (FDI) plan already prepared and may wait for predicted decline in the dollar to implement it. And secondly, there is often a large hesitation nearby the duration of the fall in dollar exchange rate. The dollar might re-appreciate just as a foreign company begins producing in the United States which can make the firm's product get low price competitive than imports of substitute product. Thirdly, the profit of producing in the United States might be reduced if the dollar profit is repatriated when the value of the dollar is relatively low.

Behavior of exchange rate is one of many influences on foreign direct investment (FDI) activities in the world. Exchange rate was defined as domestic currency price to foreign

currency, in terms of their volatility and level. Exchange rate is able to influence both the allocation of the investment spending across a range of countries and total amount of foreign direct investment (FDI) that takes place. Whenever the currency is depreciated which is mean that the value of currency decreases relatively to the value of foreign currency, and the exchange rate movement has two possible implications for foreign direct investment (FDI). Exchange rate can reduce a country's wage and production cost but for the country experiencing real currency depreciation has more location advantage or it can attractive more investment capital to the country. "Firm specific asset" argument made by Blonigen (1997) to support the role of exchange movement in influencing FDI, for example, foreign and domestic companies may have equal opportunities to buy some firm specific asset in domestic market but to generate return on these asset would be different in foreign market.

Financial factor plays an importance role of all investment and business in one place which can help to increase formation and economic growth by introduction of new technologies, namely managerial skill, idea, new production techniques, and verities of capital goods (Levine, 1997). If there is economic instability in the host country, it can be the barrier of FDI flow. Regarding to inflation rate, if it is 'low inflation rate' it can lead to the stability to the host country; on the other hand, if it is high inflation rate, it indicated the instability of the government management about its budget and the failure of monetary policy of central bank (Uwilingiye, 2010). In other words, Ahn *et, al* (1998) said that different "high" and "Low" inflation rate, which is not distinct, can be used as an indicator of the economic and political condition in the host country. There are a few literature stated by researchers that the 'high inflation rate' does not happen in the absence of the other economic problem. The inflation's cost can have outstanding effect on the growth of economy. This barrier is more outstanding at an inflation rate of 40% or higher, but the researcher added that any county with higher inflation rate, particularly below 40% level, cause more loss of money than a country has a little lower inflation rate (Rogoff and Reinhart, 2002). The effect of high inflation had unemployment in Bulgaria said by Glaister and Atanasova (1998), also high inflation can cause many problems within the country in reducing the attractiveness from foreign investors. Coskun (2001, p. 225) mentioned that lower inflation rate and interest rate can attract more foreign

investors and can increase FDI inflow to the country. Also, a stable economy can attract more foreign investment so low inflation rate is needed in a country to promote FDI as a source of capital flow.



Table 2.9 Summary of the Theory Development of Financial Factors Related to FDI from 1997 to 2011

Author/year	Title	Objective	Methodology	Findings
Blonigen, 1997	"Firm specific assets and the link between exchange rates and foreign direct investment"	To generate mixed support for a linked between exchange and FDI.	Use empirical studies, Using data on Japanese acquisitions in the United States across three-digit SIC industries from 1975 to 1992	Foreign and domestic companies have equal opportunities to buy some firm specific asset in domestic market but to generate return on these asset would be different in foreign market
Ahn, <i>et all</i> , 1998	"The effect of inflation exchange rate policies on direct investment to developing countries"	To focus on the effects of inflation and exchange rate policy on direct investment flow to developing countries.	Empirical study by focusing one tendency for higher rate of inflation to have more variables	Different "high" and "Low" of inflation rate, which is not distinct, can be used as an indicator of the economic and political condition in the host country
Glaister and Atanasova, 1998	"Foreign direct investment in Bulgaria: patterns and prospects"	To examine the nature and role of FDI in Bulgaria		The effect of high inflation had unemployment in Bulgaria and high inflation can cause many problems within the country in reducing the attractiveness from foreign investors
Coskun, 2001	"Determinants of direct foreign investment in Turkey"	To determine the determinant FDI in Turkey	The studies rely on the result of the three pieces of research to apply in this survey	Lower inflation rate and interest rate can attract more foreign investors and can increase FDI inflow to the country and a stable of economy can attract more foreign investment so low inflation rate is needed in a country to promote FDI as a source of capital flow

Table 2.10 Summary of the Theory Development of Financial Factors Related to FDI from 1997 to 2011 (continued 1)

Author/year	Title	Objective	Methodology	Findings
Rogoff and Reinhart, 2003	"FDI to Africa: The role of price stability and currency instability"	To examine the role that money and exchange rate policy	Document using to incidence of inflationary episodes and currency crashes in order to compare countries within the region.	The inflation's cost can have outstanding effect on the growth of economy
Uwilingiye, 2010	"Some Benefits Of Reducing Inflation In South Africa Rangan Gupta, University of Pretoria, South Africa"	To evaluate the welfare gain from permanently reducing inflation from two percent to price stability and compares it the output cost associated with this transition.	The paper emphasizes the distortions caused by the interaction of inflation and capital income taxation in calculating the gain from moving to a zero rate of inflation.	If a 'low inflation rate' can be lead to the stability to the host country but on the contrary, a high inflation rate, indicated to the instability of the government management
Qazi Muhammad Adnan Hye, 2011	."Financial Development and Economic Growth: empirical review for India."	To construct a financial development index (FDI) for the Indian economy and also examine the relationship between FDI and economic growth	Augment Dickey Fuller, Phillips Perron and Ng Perron unit root tests are employed in order to determine the level of integration	Financial factor plays very important role of all investment and business in one place which it can help to increase formation and economic growth by introduction of new technologies namely managerial skill, idea, new production techniques, and verities of capital goods

Tables from 2.9 (page 57) to 2.10 (page 58) are the summaries of the previous researches about financial factor related to foreign direct investment from year 1997-2011. They conclude that financial factor plays a very important role of all investment and business in one place. Exchange rate and low or high inflation rate also effect FDI inflows in a country.

2.3.6 Social and Cultural Factors Related to FDI

Successful businesses in many countries need cross-culture literacy to understand the differences between cultures across and within the Nations that can have an effect on the way in which business is performed. De Mooij and Hofstede (2010) said that culture is the major cited words in international business and management studies. According to Gao (2005), likeness in culture plays an important role in forecasting FDI because foreign firms tend to go to the location where they have close culture proximity. It indicated that multinational companies are possible to launch their business in a country where they have similar culture. For example, a British company is possible to invest in the US since these two countries have similar culture (individualistic society).

Another similar study by Galan, *et all* (2007) about FDI in Spain also found that societal and cultural factors of Latin American countries helped clarify as FDI increase in Spain. And Davidson (1980) obtained similar result that FDI in Canada, Australia and the UK was determined by similar culture and proximity. Even through societal and culture are the main factors determining FDI inflow, other studies found that the most important factors that play an important role to forecast FDI in a country are Political stability, government regulation, and the cost of labor respectively, while society and culture are not quite as important (Brada, et al. 2006; LeQuoc and Pomfret, 2010). Another research in China mentioned by Profressor John (2003) mentioned that there are many reasons for success and failures. However to understand the social and culture background in China is very necessary for foreign investors to invest in China and it is necessary to analyse the effect of social and culture factors in Chinese society in order to comprehend Chinese social and culture background.

Table 2.11 Summary of the Theory Development of Social and Cultural Factors Related to FDI from 1980 to 2010

Author/year	Title	Objective	Methodology	Findings
Devidson,1980	“The Location of foreign direct investment activity: country characteristics and experiences effects”	To analyze the effects of corporate experience on the location decision	A data bank developed by the Harvard Multinational Enterprise project is used for this propose	FDI in Canada, Australia and the UK was determined by the similarity of culture and proximity
Gao, 2005	“Foreign Direct Investment in China: How Big are the roles of culture and geography?”	To access the important of geography and culture ties in FDI in China	Used estimated gravity model to construct predict FDI stocks in China for 1997 from major source countries.	Likeness in culture plays an important role in forecasting FDI because foreign firms tend to go to the location where they have close culture proximity
Brada, et al. 2006;	“The effects of transition and political instability on foreign direct investment inflows: Central Europe and the Balkans”	To examine the effect of transition and of political instability on FDI flow to the transition economies of EU	Used empirical study	Societal and culture is not the main factor determining FDI inflow but political stability, government regulation, and the cost of labor respectively are the main FDI attractions.

**Table 2.12 Summary of the Theory Development of Social and Culture Factors Related to FDI from 1980 to 2010
(Continued1)**

Author/year	Article	Objective	Methodology	Findings
Galan et al., 2007	“Determinant factor of foreign Direct Investment: Some empirical evidence”	To find out the main ownership, internalization and location factors which affect such internationalization processes	Used empirical study based on 103 Spanish companies which have conducted foreign direct investment (FDI)	Societal and cultural factors of Latin American countries helped clarify increases FDI in Spain
De Mooij & Hofstede, 2010	“The Hofstede Model” Applications to global branding and advertising strategy and research	To study culture understanding differences on the global advertising strategy.	Used Hofstede Model to understand the culture differences.	Culture is the majority cited words in international business and management studies
LeQuoc and Pomfret, 2010	“Foreign Direct Investment and Wage Spillovers in Vietnam”	To examine the impact of FDI on wage paid by domestic private firms in Vietnam	1. Investigate the importance of both horizontal and vertical wage spillovers 2. Examine the existence and strength of wage spoiler under different characteristic of firms and industries.	There is strong evidence of wage spillovers from foreign firms to domestic private firms in Vietnam and training activities facilitate wage spillovers

Tables 2.11(page 60) to table 2.12 (page 61) are the summaries of previous research about social and culture related to FDI in a country from 1980 to 2010. They mentioned that the likeness in culture plays an important role in forecasting FDI because foreign firms tend to go to the location where they have close culture proximity. To understand culture and language, communication is very important in doing business and dealing with people in a host country.

2.4 Previous Studies

Souksavanh (2002) “The Motive of foreign direct investment in Laos”. This study focuses on the characteristic of foreign direct investment and the motive of foreign investors who are interested to invest in manufacturing and service sector in Lao PDR. There were five main factors in this study Market seeking; Resources seeking; Efficiency seeking; Strategic asset seeking; and General. The research used 167 questionnaires to get data from manufacturer and 107 from service providers. The data was analyzed by SPSS program and the result indicated that two dependent variables were different perception of doing business in both manufacturers and service sectors. This different perception are to access to the host country domestic market, access to the country’s market region, to joy inducements offered by Laos, to access to raw materials, to access to low labor cost, to integrate with country’s existing investment, to change industry’s structure, to acquire of opportunities, political and social stability of the host country, to distribute the risk and availability of foreign exchanges between manufacturing and service sectors. But there were also some similarities, such as to avoid the existing tariff barriers, to avoid the existing non-tariff barrier and accessing to high technology. On the other hand both sectors had different expected outcome while manufacturing sectors produced to export but service sectors provided service within the host country. The government should pay more serious attention to investment law, reduced rate and tax exemption, tax holiday; profit tax in investment promotion zone and in remote area, and priority should be given to investors

Huang (2003) “Location Determinant of FDI in China”. This research aimed to investigate the location factors affecting FDI distribution in each province across and exploring the relationship between the magnitude of foreign direct investment inflows and

various location factors. The researcher assigned six variables to be tested namely, Market size (GDP), the amount of total import and export (OPENESS), Labor cost (WAGE), general level of education (ED), transportation infrastructure (RLWAY) policy position (COAST). The regression analysis showed that distribution of FDI in provincial can be explained by GDP, degree of openness general level of education, transportation, infrastructure and policy position due to their positive relation to FDI inflow. These result indicated the main factors that can increase FDI flows in China since they are positive and significant to determine FDI in China. In addition this research concluded that the labor cost variable is found to be an important determinant of FDI inflow.

Sonam (2006) “Determinants affecting foreign direct investment in Bhutan: perception of government officers in ‘BIMST-EC’ member countries” The objective here is to study (1) determinants affecting foreign direct investment (FDI) in Bhutan from the perception of government officers of BIMST-EC member country. (2) The potentials for increasing inflow of FDI in Bhutan. The researcher used OLI of Dunning to create a framework. There were five factors namely political and legal factors; social and culture factors; physical and location factors; financial factors; and economic and market factors. 74 questionnaires were distributed to all BIMST-EC member countries such as India, Bangladesh, Sri Lanka, Nepal, Thailand and Myanmar. This research used SPSS program to analyze and correlation and factor analysis to analyze the result. The findings showed that economic and market factors, and Geographical location factors are related as the most important factor, but further analysis by correlation coefficient found that financial factor and political legal factor have the most important relationship with FDI.

Lv Na and. Lightfoot (2006) “Determinants of foreign direct investment at the regional level in China”. The study proposed to analyze the determinant of foreign direct investment on the country and the regional level throughout the widespread of the research period with the development of multiple regression models to identify the main determinant factors of FDI in the region level of China. Five potential determinants of FDI were examined in 30 regions in China which include province, centrally controlled municipalities and semi-autonomous regions by using the regression model. From the

first study, the research could conclude that the government should consider encouraging capital-incentive foreign direct investment throughout more development of the skilled workforce. In other words, the government should create more funding to improve and aim for higher education, and infrastructure while they are also supporting more openness in state-owned enterprise. Moreover this study provides the evidence that GDP that substitute market size and potential is presented to be a big attraction FDI. Also labor quality and the progress of reform or the degree of openness are very important of determinants of the distribution of FDI. And there was some confirmation that high labor cost put off the flow of FDI and the rank of infrastructure had positive relation to FDI.

Don Anura (2007) “Determinant of the factors affecting foreign direct investment (FDI) flow to Sri Lanka and its impact on the Sri Lanka economy” This research aimed to study the factor, why FDI flow to Sri Lanka and its impact on the Sri Lanka Economy; and to identify further potential FDI opportunities if any, in Sri Lanka. In accordance with FDI theory used by John Dunning 1993 (“OLI” paradigm), this research assigned five factors to study: Political, Government and Legal factor; Social and culture factors; Economic and Market factors; Financial Factors; and Geographical/Location factors. The methodology of this research was conducted in two phases, the first one involved to the secondary research, reviewing of relevant literatures, some related books, journals and reports and the second one was collection of the primary data by using a questionnaire form to distribute, the population was nine hundred and thirty six, for a simple size they got 280 respondents by using the Yamane (1973) formula. The questionnaire was distributed personally or by emailing FDI entrepreneurs who had already established their business in Sri Lanka. The result of this research revealed that five major factors in this study were identified including Political and Government regulations factors; Social and culture factors; Geographical and Location factors; Financial factors and Economic and Market factors. Those factors were analyzed with SPSS and it found that the most important factors were Financial factors and Geographic/Location factors. Further analysis found that the Financial Factors correlated coefficient with Social and Culture factors, and the Economic and Market factors correlated coefficient with all factors in this study.

Oraboune (2010) “Investment Climate in Lao PDR” This research aimed to study Special Economic Zone (SEZ) development assessment situation of Lao PDR or the same as the overall investment climate of the country. This study was conducted by using the flowchart approach to assess the foreign direct investment environment of the country with the two special economic zones and industrial park development area as samples. Ten stakeholders in Vientiane (Industrial development site) and other ten in Savannakhet province were interviewed and the use of enterprise survey to support the assessment of the investment climate in Lao PDR. The survey was conducted in Vientiane capital and Savannakhet province where the special economic zone and industrial zone were located. The survey interviewed 30 enterprises in Vientiane and 30 enterprises in Savannakhet and all the 60 numbers of enterprise interviews in Vientiane capital and Savannakhet province were carried out as to assess the environment climate in Lao PDR. The result of both surveys showed that the current investment climate in Lao PDR, Vientiane and Savannakhet, is not very attractive to investors because there are many barriers in business transaction in business set up, business operation cost, logistic cost, and other service linked cost.

Table 2.13 Summaries of Previous Studies

Author/year	Title	Objective	Methodology	Findings
Souksavanh (2002)	The Motive of foreign direct investment in Laos	<p>1. To Study the characteristics of FDI such as ; ownership pattern, size of investment, investing country and industry.</p> <p>2.The motive of foreign investors who invested in manufacturing and service sector to Laos</p>	Primary data and secondary data were used in this study, questionnaire form was distributed to 167 manufacturers and 107 service providers. Independent sample was used to analyze the differences in motivational factors between manufacturing and service sectors	Two dependent variables have different perception of doing business in both manufacturers and service sectors. But there were some similarity as to avoid the existing tariff barriers, to avoids the existing non-tariff barrier and accessing to high technology. Both sectors had different expected outcome while manufacturing sectors produced to export but service sectors provided service within the host country.
Huang, 2003	Location Determinant of FDI in China	<p>1. To examine various location factors affecting FDI inflows in individual province across China.</p> <p>2.To understand that the dominant factors can enhance FDI inflow</p>	Secondary and primary data was used, questionnaire form to distribute in 30 province, SPSS, regression was used to analyse	Labor cost was found to be significant determinant with FDI inflow, moreover, openness, general edu, intensity of transport infrastructure and policy position were positive related to FDI flow
Sonam, (2006)	“Determinants affecting foreign direct investment in Bhutan: perception of government officers in ‘BIMST-EC’ member countries”	(1) Determinants affecting of foreign direct investment (FDI) in Bhutan from the perception of government officers of BIMST-EC member country. (2) Study the potentials for increasing inflow of FDI in Bhutan	Used OLI of Dunning to create a framework, 74 questionnaires were distributed to all BIMST-EC member countries, used SPSS program to analyze such as correlation and factor analysis to analyze the result	Economic and market factors; and Geographical/location factors is related as the most important factor but for further analysis by correlation coefficient found that financial factor and political legal factor have the most relationship with FDI.

Table 2.14 Summaries of Previous Studies (continued 1)

Authors/year	Titles	Objectives	Methodology	Findings
Lv Na &W.S, 2006	Determinants of foreign direct investment at the regional level in China	To analyze the determinants of foreign direct investment (FDI) on both the country and regional level through the extensive review of past research studies, as well as through the development of a multiple regression model for identifying key determinants of FDI at the regional level in China during the critical year of 2002.	Multiple regression model and regression model to identify statistically significant determinants of FDI by region in China	The relationship between a regions market demand and market size (GDP) was a significant and positive factor in attracting FDI in 2002 The higher the quality of labor the more attractive the region was to FDI
Don Anura e, 2007	“Determinant of the factors affecting foreign direct investment (FDI) flow to Sri Lanka and its impact on it impact on the Sri Lanka economy”	(1) To study the factors as to why, FDI flow to Sri Lanka and its impact on Sri Lanka economy. (2) To identify, further potential FDI opportunities, if any, in Sri Lanka using available resources	The research conducted bases on the conceptual frame work drawn from eclectic paradigm or the “OLF” paradigm developed by “Dunning”	The correlation with Political, Government and Legal factors and Financial factors are significant to FDI
Oraboune, (2010)	“Investment Climate in Lao PDR”	To study Special Economic Zone (SEZ) development assessment situation of Lao PDR or the same as the overall investment climate of the country	Using the flowchart approach to assess the foreign direct investment environment of the country with the two special economic zones and industrial park development area as samples	The current investment climate in Lao PDR, Vientiane and Savannakhet, is not very attractive to investors because there are many barriers in business transaction in business set up, business operation cost, logistic cost, and other service linked cost.

The table 2.13 (page 66) to table 2.14 (page 67) are the summaries of period study has been done by different authors such as the researcher, studied about the motive of foreign direct investment in Laos, Location Determinant of FDI in China, “Determinants affecting foreign direct investment in Bhutan: perception of government officers in ‘BIMST-EC’ member countries”, Determinants of foreign direct investment at the regional level in China, “Determinant of the factors affecting foreign direct investment (FDI) flow to Sri Lanka and its impact on the Sri Lanka economy” and “Investment Climate in Lao PDR”



Chapter 3

Research Framework

This chapter discusses the research framework in four sections. Theoretical framework related to the framework in first discussed. Conceptual framework will be presented in the second section; independent and dependent variables will be explained in the third section and hypothesis in the last section of the chapter.

3.1 Theoretical Framework

This research intends to study factors affecting foreign direct investment (FDI) in Savannakhet Province. This research examines the relationship between five factors (Political and Government Regulation Factors; Economic and Market Factors; Geographical location Factors; Financial Factors; and Social and Cultural Factors) and FDI capital inflow in Savannakhet Province. In addition, it investigates investment issues or business barriers faced by the enterprises in Savannakhet Province.

3.1.1 Political and Government Regulation Factors (Independent Variable)

According to the literature review in Chapter two (pages 43-44) political stability is defined as the longevity of regime in a country or the number of times ruling parties were changed during a selection period. It indicates the continuity of government policies no matter how many times the regimes change over time. The longer the time, the more stable the policy but, the shorter the time, the weaker the regimes (Muhammad, 2008). Political stability is the actual characteristic of the country that does not have political turmoil like a civil war. They have a constitution and laws that its citizens follow (Rodriguez and Pallas 2008). Any country with more open policies, especially in term of trade and investment would more attract more number of foreign investment inflows (Taylor, 2000). In this study, Political and Government regulation represent political stability, government regime, rights, benefits and obligations of foreign investors, investment incentive, the procedure of investment approval, and private sector

encouragement in the province. These are considered to influence FDI in Savannakhet Province.

3.1.2 Economy and Market Factors (Independent Variable)

According to literature review in Chapter Two (pages.48-49), some researchers had mentioned that economic and market factor is one of the main factors of FDI flow to the country. Mostly it refers to the economic stability, the growth of gross domestic product (GDP) and market size. The market demand and market size has positive impact on the foreign direct investment for a country because it earns the expected profits of the investment directly. Actually one major expectation of FDI is to penetrate new markets (Shapiro, 1998). The study of Economy and Market factors is mentioned as the growth of economy in Savannakhet Province, economic structure adjustment, the sectorial development such as agriculture, industry and service; the risk diversifying from home countries and to access in the regional market of investors. These are expected to be influential to FDI in Savannakhet Province.

3.1.3 Geographical Location Factors (Independent Variable)

Geographical location is one of the main facts that are considered by foreign investors to invest in one country in order to gain higher advantages than the home country. The argument of researchers in literature reviews, Chapter Two (page. 52), has defined that the importance of geographical location to FDI improvement of infrastructure and the low level of government impediments in the host country play as an importance role in increasing FDI inflows and making foothold for investors in the country (Hollenstein, 2005). The implication of the capital flow geographically alters as the rural area and urban landscapes are modified to the new market systems” (Jovana, 2005). The study of geographical location represents the special economic zone in Savanakheth, which was arranged to be an investment zone especially to promote and attract more FDI in the province. In addition, Savannakhet is located in the East-West Economic Corridor that would facilitate more to integrate border trading with countries nearby. Moreover this factor covers to an infrastructure assessing, natural resource availability in the province, low cost of raw material, availability of skilled worker, low skilled and unskilled labor cost, transportation cost, integrating with the existing

company and potential power of expenditure of foreign investors in the future. All these facts are expected to influence FDI in Savannakhet Province.

3.1.4 Financial Factors (Independent Variable)

Financial factor is very important to foreign direct investment. It's not defined as only money but more widely as an integral part of an economic system. According to literature review in Chapter Two, (pages 54-55) Levine (1997) mentioned that financial factors play important role of all investment and business in one place which can help to increase formation and economic growth by introduction of new technologies namely managerial skill, idea, new production techniques, and varieties of capital goods. And Coskun, 2001 said that weaken inflation rate and interest rate can attract more foreign investors and can increase FDI inflow to the country and a stable economy can attract more foreign investment. Hence, low inflation rate is critical in a country to promote FDI as a source of capital flow. Financial factor in this study is defined as the development of financial institution, exchange rate and inflation rate of the province. These are expected to be influential to FDI in the province.

3.1.5 Social and Cultural Factors (Independent Variable)

According to literature reviews in Chapter Two (page. 59), De Mooij and Hofstede (2010) culture plays an important role in forecasting FDI because foreign firms tend to go to the location where they have close culture proximity. (Gao, 2005). It's very necessary to understand social and culture background in China for foreign investors to invest (John, 2003). Social and culture in this study is defined as social safety, education level, foreign relationship or interaction openness, attitude, culture and beliefs, human resources development, manner and custom, language and communication in the province. These are expected to be influential to FDI in the province.

3.1.6 Foreign Direct Investment (Dependent Variable)

Foreign Direct Investment (FDI) is defined as the capital movement from one country to invest in another country in order to gain more opportunities, profits, and some business advantages of firm. As an advantage FDI create and bring in new experiences to

the recipient country by moving new technology know-how, production efficiency and setting up a new market and promote sales internationally (Athukorala, 2003).

In this study, dependent variable, in other words FDI inflow is defined as the capital inflows from foreign investment into Savannakhet province starting from 1992 until 2011. According to Zikmund (2003), frequency distribution of data as “a set of data organized by summarizing the number of times a particular value of a variable occurs.” Therefore, this study has distributed frequency of FDI inflow into five segments in order to specifically value the number of each range. To determine the class interval or width, in general the class interval or width should be the same for all classes. And the classes all taken together must cover at least the distance from the lowest value in the raw data up to the highest value (Lind *et. al*, 2005) as the formula below shows:

Formula:

$$i = \frac{H-L}{K}$$

Where:

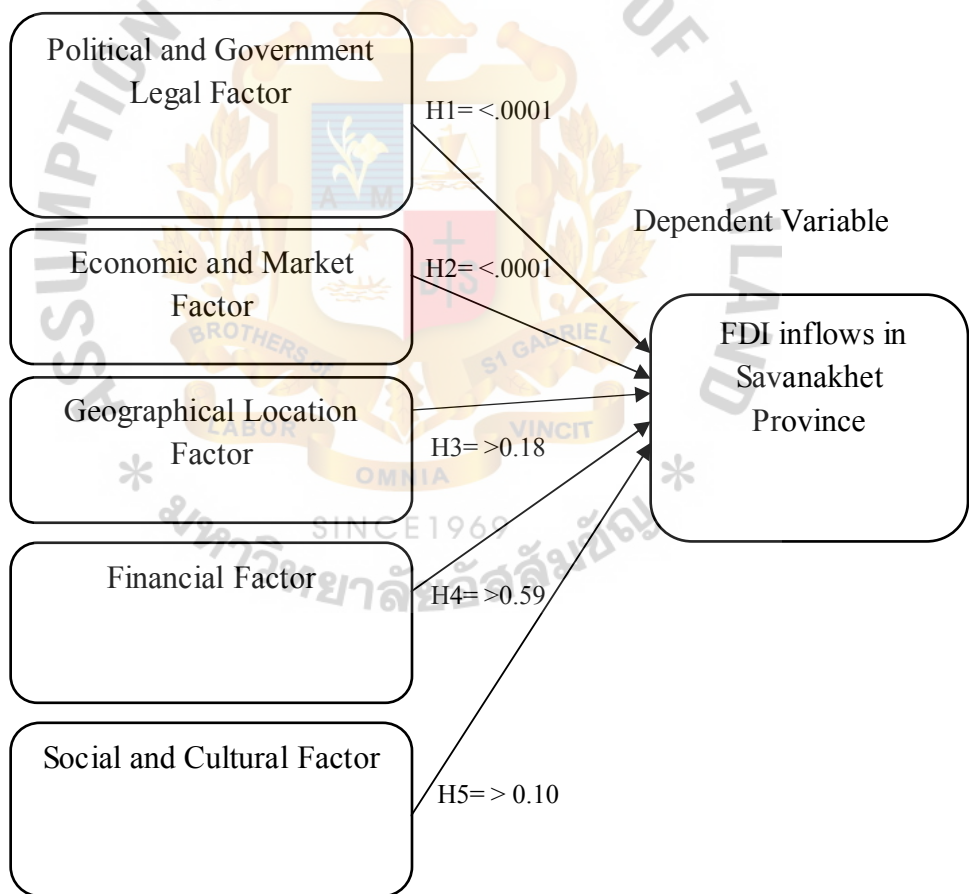
- i = the class interval
- H = the high observed value
- L = the lowest observed value
- K = the number of classes

3.2 Conceptual Framework

This conceptual framework is designed based on the literature review and related theories that had been mentioned in Chapter Two. Independent variables are variables related to dependent variable which is predictable and clarified in a regression model. In this study, dependent variable is supposed to be practically related to the independent variables.

Figure 3.1 Conceptual Framework

Independent Variables



3.3 Operationalization of Independent and Dependent Variables.

Table 3.1-3.3 (page. 74-76) shows the operationalization of both Independent and Dependent variables. Each table explains concept used in each variables, conceptual definition, operational component, and level of measurement.

Table 3.1 the Operationalization of Independent and Dependent Variables

Concept	Operational Components	Expectation	Level of Measurement
Political and Government legal factor	To contemplate political and government legal factor that influences the FDI by (1) Political stability; (2) Government regime (bureaucracy); (3) Rights, Benefits and Obligations of Foreign Investors offered by the Lao government (4) Incentives for Foreign Investment (tax exemption, promoted investment activities) offered by Lao government (5) the procedure of investment approval and (6) the rules of local authority in Savannakhet Province (Law of Lao PDR, 2004); (7) Private sector encouragement inside country.	There is a relationship with FDI in Savannakhet Province	Interval scale
Economic and Market factor	To contemplate economic and market factor that influence the FDI by: (1) Economic growth in Savannakhet Province;(2)Adjustment of Economic structure in Savannakhet Province (shifting to industrialization and modernization); (3) Development of sectors of the Savannakhet Province (agricultures, industrials, hydro power & mining, services and tourism); (4) To diversify risk from home countries; and (5) to access to the market in the region of Savannakhet province (SSEDP, 2006-10)	There is a relationship with FDI in Savannakhet Province	Interval scale

Table 3.2 the Operationalization of Independent and Dependent Variables
(Continued 1)

Concept	Operational Components	Expectation	Level of Measurement
Location factor	To contemplate location factor that influence the FDI by: (1) Savan-Seno Special economic zone; (2) East-West economic corridor; (3) Border trades; (4) Access to infrastructure; (5) Availability of natural resources; (6) Low of raw material cost; (7) Available of skill workers; (8)Low of skill and unskilled labor cost; (9)Low of transportation cost; (10) Integrate with the company's existing investment;(11) Expanding opportunities in future (SSEDP, 2006-10)	There is a relationship with FDI in Savannakhet Province	Interval scale
Financial factor	To contemplate financial factor that influence the FDI by:(1) Low inflation rate; (2)Banking system service in both local and foreign banks in Savannakhet Province; (3)Exchange rate fluctuation (SSEDP, 2006-10)	There is a relationship with FDI in Savannakhet Province	Interval scale
Social and cultural factor	To contemplate social and culture factor that influence the FDI by: (1) Education Level of local people; (2) Social safety and security in the Province; (3) Foreign relationship and interaction openness; (4) Attitudes, culture and beliefs; (5) Human resource development; (6) Manners and Custom; (7) Facilities for international investors in the location;(8) Other physical facilities; (9) Language and communication (SSDEP,2006-10)	There is a relationship with FDI in Savannakhet Province	Interval scale

**Table 3.3 the Operationalization of Independent and Dependent Variables
(Continued 2)**

Concept	Operational Components	Expectation	Level of Measurement
Foreign Direct Investment inflow	Foreign direct investment by sectors (Agriculture, Industrial, Service and Mining) in Savannakhet Province that influence by: political and government legal factors, Economic and market factors, Location factors, financial factors and social and culture factors.	There is a relationship between all independent variables	Ratio scale

3.4 Statistical Hypotheses

Sekaran (2003) defined “hypotheses as conjectural statement of the relationship between two or more variables that carry clear implications for testing the stated relations.” The hypothesis of this research generally reflects the impact factor upon FDI inflow in the Savannakhet Province, Laos. The hypotheses in this study are shown as follows:

Hypothesis 1

H₀ 1: There is no significant relationship between political and government legal factors and FDI capital inflows in Savannakhet Province, Lao PDR.

H_a 1: There is a significant relationship between political and government legal factors and FDI capital inflows in Savannakhet Province, Lao PDR.

Hypothesis 2

H₀ 2: There is no significant relationship between economic and market factors and FDI capital inflows in Savannakhet Province, Lao PDR.

H_a 2: There is a significant relationship between economic and market factors and FDI capital inflows in Savannakhet Province, Lao PDR..

Hypothesis 3

H₀ 3: There is no significant relationship between geographical location factors and FDI capital inflows in Savannakhet Province, Lao PDR.

H_a 3: There is a significant relationship between geographical location factors and FDI capital inflow in Savannakhet Province, Lao PDR.

Hypothesis 4

H₀ 4: There is no significant relationship between financial factors and FDI capital inflows in Savannakhet Province, Lao PDR.

H_a 4: There is a significant relationship between financial factors and FDI capital inflows in Savannakhet Province, Lao PDR.

Hypothesis 5

H₀ 5: There is no significant relationship between Social and culture factors and FDI capital inflows in Savannakhet Province, Lao PDR.

H_a 5: There is a significant relationship between Social and culture factors and FDI capital inflows in Savannakhet Province, Lao PDR.

Chapter 4

Research Methodology

This chapter explains the method applied in this research. Method of the research used will be presented in the first section. Then the researcher will present the respondent and sampling procedure in the second section. Research instrument and Questionnaire are presented in the third section, followed by research instrument and questionnaire. The data collecting procedure, data processing and analysis; and pilot study will be explained in the last section of this chapter.

4.1 Method of the Rresearch Used

This study uses a descriptive research in order to determine and describe the characteristic of the population or phenomenon (Zikmund, 2003). The research intends to find out the important factor affecting foreign direct investments (FDI) in Savannakhet province. The research assigned five factors to be tested and suppose to find out the most important factors affecting FDI in Savannakhet Province. This five factors are Political and Government regulation; Economic and Market; Location; Financial; and Social and Culture. These factors are defined as the main factors that would influence foreign investment in Savannakhet province.

Zikmund (2004) had defined survey as a research technique to gather some information or data from the sample population. A method of data collection is based on a communication with a representative sample of individuals. This study used a survey technique and interviews by questionnaire forms, which is created by the researcher. To gather primary data and information, the questionnaires will be distributed to the target respondents, who are foreign investors in Savannakhet Province. Multiple Linear Regression (MLR) will be used to examine the relationship between factors influence FDI (Political and government legal factors; Economic and market Factors; Location factors; Social and cultural factors) and FDI capital inflows in Savannakhet Province. After developing a questionnaire form, 40 questionnaires will be first distributed for pre-testing in order to test if the questionnaire is applicable and reliable. Then, Statistical

Package for Social Science (SPSS) version 19.0 and Statistical Analysis System (SAS) Enterprise guide version 4.3 (master license number 61027, supplement number one) will be applied in the study and to further analyze the statistics used such as frequency, correlation and factor analysis to analyze the findings.

4.2 Respondents and Sampling Procedures

4.2.1 Target Population

The population is a whole group of people, events or things of interest that the researcher needs or aims to investigate. And the target population is the particular complete group that is related to the research. Then sampling procedures are the process from which samples are collected from the respondents (Sekaran, 2003). This study focuses on foreign investors, who are investing or working, in the existing 137 foreign enterprises (Including 100% proprietors and shareholder) in Savannakhet province.

4.2.2 Sample Size

In this study, the number of population is 137 foreign companies in Savannakhet Province (Including 100% proprietors and shareholder). According to theories for different sample size of population in the table below, with the tolerable 5 % error the most suitable sample size is 79, however, the research will use 137 questionnaires for all foreign enterprises.

Table 4.1 Theoretical Sample Sizes for Different Sizes of Population and 95% of Certainty

Population and Sampling Frame	Required Sample for Tolerable Error			
	5%	4%	3%	2%
100	79	85	91	96
500	217	272	340	413
1,000	277	375	516	705
5,000	356	535	897	1,622
50,000	381	593	1,044	2,290
100,000	382	596	1,055	2,344
1,000,000	384	599	1,065	2,344
25,000,000	384	600	1,067	2,400

Sources: Anderson, G. (1996), Fundamentals of Educational Research, 1996 p.202

4.2.3 Sampling Method

The sampling procedure is one of the steps a researcher use in collecting some primary data from the number of sample size. The researcher has assigned the sample size by using the theory of different sample size of population. Non-probability sampling technique procedure will be applied in this study. For this purpose, 137 questionnaires were be distributed by email, or send directly to the respondents.

Step one 1: Judgment Sampling

Judgment sampling refers to the step that the subjects who have been chosen are in the best position to provide some information as required (Sekaran, 2003). In this study the researcher choose the respondent from the management levels personnel in foreign enterprises (Including 100% proprietors and shareholder) in Savannakhet Province.

Step2: Quota Sampling:

Quota-sampling is a non-probability sampling technique procedure to ensure certain characteristic of population sample will be represented to the exact extent that the researcher needs (Zikmund 2003). A total of 137 questionnaires will be distributed to personnel in foreign companies

Step3: Convenience sampling

Convenience sample is defined as the sample collecting technique in order to collect some information from available respondents (Sekaran, 2003). The researcher will distribute questionnaires to any respondents who are available in the foreign companies.

4.3 Research Instruments and Questionnaire

A self- administrative questionnaire is the designated research instrument for this study in order the respondents to design whatever the answer is and let them do by them self. This study, self-administrative questionnaire will be used in this survey. The researcher forms a questionnaire in order to ask the target respondents. Close-ended and open-ended questions will be used in this questionnaire Close-ended questions will be from part I to part III, and open-ended questions will be in part IV. The questionnaire consists of four sections with thirty-five items. Five ranges Likert-scale will be used in section three, the scale will range from the least important to the most important.

Section I: Respondent Profile

Gender, age, education and position are used to collect personal information of the target respondents in the foreign firms. Demographic data help to describe the sample characteristics of foreign investors in Savannakhet Province.

Section II: Company profile

Questions on percentages of the company's share, investment sector, business category, the year of the company establishment, company exporting products (country to country), and the percentage of employee (Lao and Foreign) will be asked in this section of the questionnaire. This section directly relates to company information.

Section III: Factors related to FDI

This section consist of five factors Political and Government Legal; Economy and Market; Geographical Location; Financial; Social and culture. Additionally, thirty-five sub-factors will be evaluated by the respondents from (1) the least important to (5) the most important respectively as follow:

Level 1= very high important

Level 2= highly important

Level 3= Important

Level 4= low important

Level 5= very low important

Section IV: The Investment Environment

Open-ended and close-ended questions will be used in this section. They consist of six questions to be asked in this section of the questionnaire. Most of the questions are related to business performance and barriers faced by the companies in Savannakhet Province. From this section, the researcher will find out if any problems exist and, if so, what are the barriers in operating their business in Savannakhet Province.

Table 4.2 Arrangement of the questionnaire

Aspect	Variables(9) or Sub-variables(1-8)	Questionnaire part	Question No.	Measurement scale
1	Respondent profile	I	1-4	Nominal Scale
2	Companies profile	II	5-11	Nominal Scale
3	Political and Government regulation factors	III	12.1.1-12.1.7	Interval Scale
4	Economic and market factors	III	12.2.1-12.2.5	Interval Scale
5	Location factors	III	12.3.1-12.3.11	Interval Scale
6	Financial Factor	III	12.4.1-12.4.3	Interval Scale
7	Social and cultural factors	III	12.5.1-12.5.9	Interval Scale
8	Investment environment	IV	13.1-13.5	Nominal scale

Table 4.2 shows (page 82) the arrangement of the questionnaire. There are four parts with 13 question scales. Nominal scale is part one, two and four, and interval scale in part 3.

4.3.1 Statistic indicating the Importance of Various Factors

Likert scale is applied to consider most appropriate and reliable measurement scale for such type of questions and as it is easy to construct and manage. In this chapter five point Likert scales was used to measure the importance of factors affecting foreign direct investment flow to Savannakhet province. The highest scale is “5” represent the most important factor and the smallest scale “1” represent the least important factor. The mean score could be calculated to determine the important of factor for FDI. Five point scales, the interval for breaking the range in measuring each variable are calculated as follow:

$$5-1/5 = 0.8$$

Which mean if the score falls between the following ranges can be consider as follows:

Table 4.3 the important level of scale

Mean Score	Level of importance
4.20-5.00	The most important
3.40-4.19	High important
2.60-3.39	Important
1.80-2.59	Less important
1.00-1.79	The least important

(Source: ISBN 974-677-577-4-University of the Thai Chamber of Commerce, UTCC, 2006)

4.4 Pre-test

The questionnaire was framed by the researcher for data collection from target respondents. It is the main tool of the research in this study. According to Zikmund (2003), data collection must be reliable and would detect some problems. Pre-testing is needed to ensure that the variables in the questionnaire are applicable. The questionnaire should be distributed to a group of at least 20-30 respondents to identify any problems by completing the questionnaire (Patricia, 2005). In this study, forty questionnaires were distributed to the respondents 20 questionnaires each (foreigners or Lao people) who are knowledgeable about investment in Vientiane Capital City, Lao PDR on the first of June, 2011 at the Ministry of Planning and Investment 20 questionnaires. This pre-testing is used in order to test whether this questionnaire in this study is applicable or not. After collecting all forty questionnaires, Cronbach's Coefficient Alpha test was used to measure the reliability of each construct measurement scale. If the result of Alpha test is less than 0.6, the questionnaire is not applicable and need to be revised or improved, but if the result of Alpha test is more than 0.6 the questionnaire is applicable and is ready to be processed the data collections in a field survey (Sekaran, 1992). The researcher used the Statistical Package for Social Science (SPSS program) and Statistical Analysis System

(SAS) Enterprise guide version 4.3 (master license number 61027, supplement number one) to test and the results are as follow.

Table 4.4 Reliability Test of variable

Item	Variable	Reliability
1	Political and government regulation	.924
2	Economic and market factors	.927
3	Location factors	.926
4	Financial Factor	.922
5	Social and cultural factors	.923

Table 4.3 (page 84) shows all reliable test for variables, the result is greater than 0.6 in all variables providing this questionnaire is consistent and reliable. Consequence, this questionnaire can be used to collect some primary data for this study.

4.5 Data Gathering Procedures

Both primary data and secondary data will be used in this research.

- Primary data

An interview is a purposeful discussion between two or more people (Khan and Cannell 1957). The interview method can help you to collect valid and reliable data that are related to your objectives of your study. Primary data in this study will use structured interviews by using questionnaire forms. 137 questionnaires will be distributed to the target respondents in Savannakhet Province in order to analyze and make competing for this study. The researcher is personally present at the foreign enterprises in Savannakhet Province and distributes the questionnaire; for those who were not present at the time, questionnaire will be sent by e-mail.

- Secondary data

Secondary data are data that have been collected or data already known. They are both raw data and published summaries (Saunders *et al.*, 2009). Secondary data will provide a useful source that can answer the research objective. As the secondary data of this study, relevant information will be collected from Department of Planning and Investment, Department Domestic and Foreign Investment Promotion, National Economic Research Institute at the Ministry of Planning Investment, Vientiane Capital

City. In addition, other important information about foreign direct investment in Savammakhet Province will be collected from Provincial Department of Planning and Investment as well as from websites, text books, journals, and previous studies.

4.6 Statistical Treatment of Data

After completing data collection, all data will be summarized and analyzed in a readable and easily interpretable by the Statistical Package for Social Science (SPSS) and Statistical Analysis System (SAS) Enterprise guide version 4.3 (master license number 61027, supplement number one) in this research. All the data from questionnaires will be coded into symbolic forms by SPSS software.

4.6.1 Descriptive Statistics

According to William (2006), descriptive statistics are used to describe the basic feature of the data in the study. It simply describes what the data shows. They provide some simple summaries and sample graphics analysis. They form the basis of practically every quantitative analysis of data. In this research, the frequency table, average weighted mean of five point scale and descriptive statistics will be applied to summarize information gained in this study.

4.6.2 Inferential Statistics

According to William (2006), inferential statistic is trying to get conclusion that goes beyond the immediate data alone. The inferential statistic use to imply the from the sample data and can be interpreted what the population might think. In this research, mean, standard deviation, frequency, percent, valid percent, and cumulative percent will be described by the Statistical Package for Social Science (SPSS) program and Statistical Analysis System (SAS) Enterprise guide version 4.3 (master license number 61027, supplement number one). It will be also used to interpret about demographic characteristics of the population in this study.

➤ **The Frequency Estimation (F):** in statistics, (answer.com) the frequency estimation is a tabulation of the value that a variable takes in a sample; it is usually a list, ordered by quantity, showing the number of times of each value appears. Also, it is to

reorganize as a set of data to put in order and so as to know how many in each value appears.

➤ **The Percentage estimation (%)**

Formula (Babies and Earl R 1973)

$$\text{Percentage of calculation} = \frac{\text{interested of frequency} \times 100\%}{\text{Total number of data}}$$

➤ **The deviation estimation**

The Arithmetic means or average

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{n} = \sum_{i=1}^n x_i$$

Where:
 \bar{X} = the average of the total samples
 n = the total amount of samples
 X_i = each data value

Standard deviation (babies, Earl 1973)

$$SD = S = \sqrt{\frac{\sum_{i=1}^n (x_i - \bar{x})^2}{n-1}}$$

SD=S= standard deviation of the samples

4.7 Multiple Linear Regressions (MLR)

Multiple Linear Regression is a state of very high intercorrelations or inter-associations among the independent variables. It's a method used to model the linear relationship between dependent variable and one or more independent variables (Marlene A. Smith 2011). This study, dependent variable is a FDI capital inflow in Savannakhet Province, Lao PDR and independent variable is Political and government legal factors; Economic and market factors; Location factors; Financial factors; and Social and cultural factors

4.6.3 The Multiple Regression Equation

$$Y_i = a + b_1x_1 + b_2x_2 + e_i$$

Where:

Dependent variable: Y

Independent variable: X

The intercept: a

The regression Parameters: b_1 and b_2

Table 4.5 - Statistics Used for Each Hypothesis

Hypothesis	Statistical Used
H ₁₀ : There is a relationship between political and government legal factor with five segmentations of capital flows in Savannakhet province.	Linear Regression
H ₂₀ : There is a relationship between economic and market factors with five segmentations of capital flows in Savannakhet province	Linear Regression
H ₃₀ : There is a relationship between geographical location factors with five segmentations of capital flows in Savannakhet province.	Linear Regression
H ₄₀ : There is relationship between financial factors with five segmentations of capital flows in Savannakhet Province.	Linear Regression
H ₅₀ : There is a relationship between social and culture factors with five segmentations of capital flows in Savannakhet province.	Linear Regression

Chapter 5

Data analysis

This chapter shows the data analysis of primary data collected from 137 foreign companies in Savannakhet province. The Statistical Package for Social Science (SPSS) and Statistical Analysis System (SAS) Enterprise guide version 4.3 (master license number 61027, supplement number one) used in this analysis. The first part is descriptive analysis and the second part is the hypothesis testing

5.1 Descriptive Analysis

A descriptive analysis is the research method use to describe the characteristic of target respondent. It commonly conducted by calculating averages, frequency distributions and percentage distribution (Zikmund, 2003). In this study, part one is the demographic characteristics of respondents including: gender, age, education level, and position. Part two is about companies profile includes: form of investment, investment sector, business categories, year of the company establishment, and amount of a company has registered, firm exporting and number of company employees.

5.1.1 Demographic Characteristics of Respondents

Table 5.1 Gender of the Respondents

Gender					
		Frequency	Percent	Cumulative Frequency	Cumulative Percent
Valid	male	90	65.7	90	65.7
	female	47	34.3	137	100.0
	Total	137	100.0		

Table 5.1 (page. 88) shows the gender of respondents in this study. Here, it can be seen that out of total of 137 respondents, 90 are males or 65.7 percent and 47 are females or 34.3 percent, which signifies that there are more male personnel than female personnel in 137 FDI in Savannakhet Province.

Table 5.2 Age of the Respondents

Age category		Frequency	Percent	Cumulative Frequency	Cumulative Percent
Valid	less than 30 years old	30	21.9	30	21.9
	30-40 years old	51	37.2	81	59.1
	41-50 years old	32	23.4	113	82.5
	51-60 years old	22	16.1	135	98.5
	more than 60 years old	2	1.5	137	100.0
	Total	137	100.0		

Table 5.2 (page. 89) shows the age of the respondents in this study. According to the result in the age of the 137 respondents, 51 or 37.2 percent of the workforce is made up of 30-40 years old, standing in the 1st place, followed by 32 or 23.4 percent of respondents who are 41-50 years old. In the 3rd place is in the 30, less than 30 years old, making up 21.9 percent. The second older group of age between 51-60 years old is made up 22 or 16.1 percent of the total. Finally, there are only 2 or 1.5 percent of the respondents over 60 years old.

Table 5.3 Education of Respondents

Education level		Frequency	Percent	Cumulative Frequency	Cumulative Percent
Valid	Vocational	29	21.17	29	21.17
	Bachelor degree	62	45.26	91	66.42
	Master degree	40	29.20	131	95.62
	Doctoral degree	6	4.38	137	100.0
	Total	137	100.0		

Table 5.3 (page. 89) shows the education level of the respondents in this study. According to the result in the education level of 137 respondents, 62 respondents or 45.26 percent of total respondents are Bachelor degree, holder in the 1st place, followed by 40

respondents or 29.20 percent who have Master degree. In the third place, 29 respondents or 21.17 percent of total respondents is in a vocational level and for the last place, there are only 6 respondents or 4.38 percent is in the Doctoral degree.

Table 5.4 Position of Respondents

Position level					
		Frequency	Percent	Cumulative Frequency	Cumulative Percent
Valid	Owner/Director/president/CEO	61	44.5	61	44.53
	Department Manager	33	24.1	94	68.61
	Assistant	43	31.4	137	100.0
	Total	137	100.0		

Table 5.4 (page.90) shows the position of respondents in this study. As can be seen the highest number of respondent 61 or 44.5 percent represents Owner, Director, President or CEO level. Next 43 respondents or 31.4 percent representing Assistant and lastly there are 33 respondent or 24.1 percent represent department manager.

5.1.2 The company profile

Table 5.5 Table of Form of Investment

Form of investment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Joint venture between foreign and domestic investors	46	33.6	33.6	33.6
	100% foreign owned enterprise	91	66.4	66.4	100.0
	Total	137	100.0	100.0	

Table 5.5 (page. 90) shows the form of investment of the company of this study. The table indicates that most of the foreign investors 91 companies or 66.42 percent invest in 100 percent owned enterprise in this study and for the remaining is 46 companies or

33.58 percent of total companies in this study invest in joint venture between foreign and domestic investor.

Table 5.6 Investment Sector of Companies

Investment Sector					
		Frequency	Percent	Cumulative Frequency	Cumulative Percent
Valid	Agriculture	48	35.04	48	35.04
	Industry	33	24.09	81	59.12
	Service	42	30.66	123	89.78
	Mining-quarrying	14	10.22	137	100.0
	Total	137	100.0		

Table 5.6 (page. 91) shows different investment sectors of the companies in this study. It shows that the highest number is 48 or 35.04 percent investment formed the majority group that invest in agriculture sector in this study. The second highest group of 42 or 30.66 percent in this study invested in the service sector, and 33 investment companies or 24.09 percent of total investment in this study invested in industry sector, 14 investment companies or 10.22 percent of 137 companies is a majority investing in Mining-quarrying sector.

Table 5.7 Business Categories of Companies

Business Categories					
		Frequency	Percent	Cumulative Frequency	Cumulative Percent
Valid	Manufacturing	51	37.2	51	37.2
	Hotel	6	4.4	57	41.6
	Service Company	40	29.2	97	70.8
	Restaurant	2	1.5	99	72.3
	Project	38	27.7	137	100.0
	Total	137	100.0		

Table 5.7 (page. 91) shows the business categories of companies in this study. It shows that 51 or 37.2 percent of business categories is manufacturing. Followed by 40 or 29.2 percent doing as service companies and lastly, 2 or 4.4 percent and 2 or 1.5 percent are in Hotels and restaurants respectively.

Table 5.8 Year of Company's Establishment

Year of establishment	Frequency	Percent	Cumulative Frequency	Cumulative Percent
1992	1	0.73	1	0.73
1993	8	5.84	9	5.84
1995	1	0.73	10	6.57
1996	2	1.46	12	8.03
1997	3	2.19	15	10.22
2000	2	1.46	17	11.68
2002	1	0.73	18	12.41
2003	5	3.65	23	16.06
2004	4	2.92	27	18.98
2005	1	0.73	28	19.71
2006	9	6.57	37	26.22
2007	16	11.68	53	37.90
2008	24	17.52	77	55.42
2009	24	17.52	101	72.94
2010	25	18.25	126	94.89
2011	11	8.03	137	100.00

Table 5.8 (page. 92) shows the year of company's establishment in Savannakhet province. It shows that the highest number of company's establishment in Savannakhet is 25 in 2010 and 24 in 2008 and 2009.

Table 5.9 Number of Firm Export**Number of Firm Export**

Firm Export	Frequency	Percentage	Cumulative Frequency	Cumulative Percentage
Yes	64	46.72	64	46.72
No	73	53.28	137	100.0
Total	137	100.0		

Table 5.9 (page. 93) shows the number of foreign firm export in Savannakhet province. It can be seen that 64 companies or 46.72 percent of total foreign companies product export to another country and 73 companies or 53.28 did not export to another country.

5.1.3 The Important Factors Related to Foreign Direct Investment**Table 5.10 The Important Factors Related to Foreign Direct Investment**

Factors	Mean	Standard deviation	Important level
Political and Legal Factor			
Political Stability	4.60	0.57	The most important
Government regime	4.46	0.67	The most important
Rights and Obligations	4.29	0.76	The most important
Incentive for investment	4.51	0.68	The most important
Process of investment approval	4.18	0.67	Highly important
The rule of local authority	4.11	0.75	Highly important
Private sector encouragement	4.19	0.62	Highly important
Economic and Market Factor			
Economic Growth	4.13	0.85	Highly important
Adjustment of Economic Structure	3.89	0.92	Highly important
Development of sector	3.85	1.04	Highly important
To diversify risk from home country	3.21	1.25	Important
To access to the market in the region	3.31	1.24	Important

Table 5. 11 The Important Factors Related to Foreign Direct Investment (Continued one)

Factors	Mean	Standard deviation	Important level
Location Factor			
- Savan-Seno Special economic zone	4.08	0.94	Highly important
- East-West economic corridor	3.69	1.06	Highly important
- Border trades	3.66	1.03	Highly important
- Access to infrastructure	3.36	1.18	Important
- Availability of natural resources	3.97	0.91	Highly important
- Low cost of raw materials	3.71	1.09	Highly important
- Available of skilled workers	3.77	1.10	Highly important
- Low cost of skill labor	3.73	1.00	Highly important
- Low cost of unskilled labor	3.75	1.05	Highly important
- Low transportation cost	3.74	1.08	Highly important
- Integrate with the company's existing investment	3.77	1.10	Highly important
- Opportunities for future expansion	4.00	0.90	Highly important
Financial Factor			
- Low inflation rate	3.86	0.94	Highly important
- Banking system service in local banks	4.18	0.74	Highly important
- Banking system service in foreign banks	3.81	0.86	Highly important
- Foreign exchange rate fluctuation	4.07	0.98	Highly important

Table 5. 12 The Important Factor Related to Foreign Direct Investment (Continued two)

Factors	Mean	Standard deviation	Important level
Social and Cultural Factors			
- Education level of local employees	4.00	1.06	Highly important
- Social safety and security	3.87	1.10	Highly important
- Foreign relationships/ interaction openness	4.23	0.96	The most important
- Attitudes, culture, and beliefs	3.48	1.26	
- Human resource development	3.64	1.17	Highly important
- Manners and Custom	3.44	1.21	Highly important
- Facilities for international investors in the residential location	3.82	1.06	Important
- Other physical facilities	3.90	1.03	Highly important
- Language and communication	4.11	0.93	Highly important

Tables 5.10 (page.93) - Table 5.12 (page.95) shows the level of important factor related to foreign direct investment in Savannakhet province. Firstly, the table shows the most important factors influencing foreign direct investment are Political and government legal factor the mean of 4.60 and standard deviation of 0.56; Government regime with mean 4.46 and standard deviation 0.67; Right and obligation with mean 4.29 and standard deviation 0.76; Incentive for the investment with mean 4.57 and standard deviation 0.68 and Foreign relationships/ interaction openness which has the mean 4.23 and standard deviation 0.96. Secondly, high important factors are Process of investment approval; The rule of local authority; Private sector encouragement; Economic growth; Adjustment of economic structure; Development of sector; Savan-seno special-economic zone; East west economic corridor; Border trade; Availability of natural resources; Low cost of raw materials; Available of skilled workers; Low cost of skilled labor; low cost of unskilled

labor; Low transportation cost; Integrated with company's exiting investment; Opportunities for future expansion; Low inflation rate; Banking system service in local banks; Banking system service in foreign banks; Foreign exchange rate fluctuation; Education level of local employees; Social safety and security; Attitudes, culture, and beliefs; Human resource development; Human resource development; Facilities for international investors in the residential location; Other physical facilities; Language and communication. Thirdly, the important factors related Diversify risk form the home country; Access to the market in the region; Access to infrastructure; Manner and custom.

5.1.4 The Problem and Prospects of an Investment Environment in Savannakhet

Table 5.13 The advantage of foreign investor gain from operating in Savannakhet

Advantage	Frequency	Percentage	Total	Percentage
Ownership	37	27.01	137	100
Counter part	44	32.12	137	100
Profitability	111	81.02	137	100
Production monopoly	18	13.14	137	100
Other	6	4.38	137	100

Table 5.13 (page. 96) shows the frequency and percentage of advantage of foreign investor gain from operating in Savanakheth province. It indicated that the highest number of foreign company gain from operating in Savanakheth is profitability with 111 or 81.02 percent of 137 respondents in this study. The next, counterpart has 44 or 32.12 percent, Ownership 37 or 27.01 percent and Production monopoly has 18 or 13.4 percent of all respondents respectively.

Table 5.14 The Barriers and the Problems of Business Operation in Savannakhet

Barriers/Problems	Frequency	Percentage	Total	Percentage
No any barrier	11	8.03	137	100
Government and regulation policy	53	38.69	137	100
Transportation	24	17.52	137	100
Communication	35	25.55	137	100
Business competition	27	19.71	137	100
Labor supply	76	55.47	137	100
Financial transferring	24	17.52	137	100
Others	0	0	137	100

Table 5.14 (page. 97) shows the frequency and percentage of barrier and the problem of business operation in Savannakhet province. It can be indicated that the highest number of barrier and problem is labor supply by 76 or 55.47 percent of 137 respondents in this study. Second, 53 or 38.69 percent met with government and regulation policy problem. Third, 35 or 25.55 percent had problem in communication. Fourthly, 27 or 19.71 percent has business competition and 24 or 17.52 percent had transportation and financial transferring problem. 11 or 8.03 percent had no barrier.

5.2 Multi Linear Regression Analysis

5.2.1 Analysis of Variance

Table 5. 15 Analysis of Variance

Analysis of Variance					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	5	317.35	63.47	228.47	<.0001
Error	131	36.40	0.278		
Corrected Total	136	353.74			

Table 5.15 (page. 97) shows an analysis of variance. It tested relationship between five factors (political and government legal factors; Economic and market factors; Location

factors; Financial factors and Social and cultural factors) and FDI capital inflows in Savannakhet Province.

Source: looking at the breakdown of variance in the outcome variable, these are the categories we will examine: Model, Error, and Corrected Total. The Total variance is partitioned into the variance which can be explained by the independent variables (Model) and the variance which is not explained by the independent variables (Error).

The Sum of Squares is to determine how well the data series can be fitted to a faction which might helps to explain how the data series was generated.

Mean Squares are the sum of squares divided by the corresponding degree of freedom. And **F Value** is the mean square model (63.47) divided by the mean residual (0.278), yielding F value is 228.47.

Pr > F - This is the p-value associated with the above F-statistic. It is used in testing the null hypothesis that all of the model coefficients are 0. The table indicate that the significant at $<.0001$ is less than $(.0001<.005)$ that means the independent variables (Political and government regal factor; Economic and Market factor; Location factors; Financial factors and Social and cultural factors) reliably predict the dependent variable (FDI capital inflow in Savannakhet Province).

5.2.2 Overall Model Fit

Table 5.16 Overall Model Fit

Root MSE	0.52	R-Square	0.89
Dependent Mean	2.95	Adj R-Sq	0.89
Coeff Var	17.82		

Root MSE or Root mean square error is a frequently used measure of the differences between values predicted by a model or an estimator and the values actually observed from the thing being modeled or estimated. Root MSE in Table 5.16 (page. 98) is 0.52.

Dependent mean is the mean of dependent variable. This study the mean of dependent variable (FDI capital inflows) is 2.95.

Coeff Var is the coefficient of variation, which is a unit-less measure of variation in the data. It is the root MSE divided by the mean of the dependent variable, multiplied by 100. The coefficient variation is $(0.52/2.95)*100 = 17.82$.

5.2.3 Durbin-Watson D

Table 5.17 Durbin-Watson D

Durbin-Watson D	1.81
Number of Observations	137
1st Order Autocorrelation	0.09

¹⁴**Durbin–Watson statistic** is a test statistic used to detect the presence of a relationship between values separated from each other by a given time lag in the residuals (prediction errors) from a regression analysis (Durbin, 1951). The value of “*d*” always lies between 0 and 4. If the Durbin–Watson statistic is substantially less than 2, there is evidence of positive serial correlation. Positive serial correlation is serial correlation in which a positive error for one observation increases the chances of a positive error for another observation. Table 5.17 (page: 99) shows that the value of Durbin-Watson D is 1.8. This means that there is evidence of positive serial correlation.

¹⁴ Durbin, J., and Watson, G. S. (1951) "Testing for Serial Correlation in Least Squares Regression, II." *Biometrika* 38, 159–179.

5.2.3 Hypothesis Testing

Table 5.18 Testing Results of Parameter Estimates

Parameter Estimates					
Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	10.15	0.26	38.41	<.0001
PLF	1	0.76	0.08	8.87	<.0001
EMF	1	0.83	0.09	8.38	<.0001
LF	1	0.73	0.09	7.33	<.0001
FF	1	-0.03	0.06	-0.53	0.59
SCF	1	-0.13	0.07	-1.63	0.10

Variable - shows the predictor variables (**PLF, EMF, LF, FF, SCF**). The first refers the model intercept, the height of the regression line when it crosses the Y axis. In other words, this is the predicted value of **science** when all other variables are 0.

DF- the degrees of freedom associated with each independent variable. All continuous variables have one degree of freedom, as do binary variables

Parameter Estimates - These are the values for the regression equation for predicting the dependent variable from the independent variable. The regression equation is presented in many different ways.

$$Y \text{ predicted} = b_0 + b_1 \cdot x_1 + b_2 \cdot x_2 + b_3 \cdot x_3 + b_4 \cdot x_4 + b_5 \cdot x_5$$

Standard Error - These are the standard errors associated with the coefficients

t-value - These are the t-statistics used in testing whether a given coefficient is significantly different from zero.

Pr > |t|- This column shows the 2-tailed p-values used in testing the null hypothesis that the coefficient (parameter) is 0. Using an alpha is of 0.05.

Hypothesis 1

H₀ 1: There is no significant relationship between political and government legal factors and FDI capital inflows in Savannakhet Province, Lao PDR.

H_a 1: There is a significant relationship between political and government legal factors and FDI capital inflows in Savannakhet Province, Lao PDR.

Table 5.18 (page. 100) shows the 2-tailed p-values used in testing the relationship between political and government legal factors and FDI capital inflows in Savannakhet Province, Lao PDR. At 0.05 significant level indicates that the p-value between political and government legal factors and FDI capital inflows at 0.0001 which is smaller than 0.05 ($0.0001 < 0.05$), for the coefficient (coff.) for **Political and government** legal factors (coff. = 0.76) indicate that the higher of Political and government legal factors (Political stability; Government ; Rights, Benefits and Obligations of Foreign Investors offered by the Lao government ; Incentives for Foreign Investment; the procedure of investment approval and the rules of local authority in Savannakhet Province; Private sector encouragement inside country), the increase of FDI capital inflows to Savannakhet Province. And the null hypothesis is rejected so there is a significant relationship between political and government legal factors and FDI capital inflows with p-value is 0.0001, which is smaller than 0.05 significant levels.

Hypothesis 2

H₀ 2: There is no significant relationship between economic and market factors and FDI capital inflows in Savannakhet Province, Lao PDR.

H_a 2: There is a significant relationship between economic and market factors and FDI capital inflows in Savannakhet Province, Lao PDR.

Table 5.18 (page. 96) shows the 2-tailed p-values used in testing the relationship economic and market factors and FDI capital inflows in Savannakhet Province, Lao PDR. At 0.05 significant level indicates that the p-value between economic and market factors and FDI capital inflows at 0.0001 which is smaller than 0.05 ($0.0001 < 0.05$), for the coefficient (coff.) for economic and market factors (coff= 0.83) indicate that the higher of

economic and market factors (Economic growth; adjustment of Economic structure; development of sector; to diversify risk from home countries; and to access to the market in the region of), the increase of FDI capital inflows to Savannakhet Province. And the null hypothesis is rejected so there is a significantly relationship between economic and market factors and FDI capital inflows with p-value is 0.0001, which is smaller than 0.05 significant levels.

Hypothesis 3

H₀ 3: There is no significant relationship between location factors and FDI capital inflows in Savannakhet Province, Lao PDR.

H_a 3: There is a significant relationship between geographical location factors and FDI capital inflow in Savannakhet Province, Lao PDR.

Table 5.18 (page. 100) shows the 2-tailed p-values used in testing the relationship location factors and FDI capital inflows in Savannakhet Province, Lao PDR. At 0.05 significant level indicates that the p-value between location factors and FDI capital inflows at 0.18 which is higher than 0.05 ($0.0001 < 0.05$), for the coefficient (coff) for location factors (coff = 0.73) indicate that the higher of location factors, the increase of FDI capital inflows to Savannakhet Province. And the null hypothesis is rejected so there is a significantly relationship between location factors and FDI capital inflows with p-value is 0.18, which is higher than 0.05 significant levels.

Hypothesis 4

H₀ 4: There is no significant relationship between financial factors and FDI capital inflows in Savannakhet Province, Lao PDR.

H_a 4: There is a significant relationship between financial factors and FDI capital inflows in Savannakhet Province, Lao PDR.

Table 5.18 (page. 100) shows the 2-tailed p-values used in testing the relationship financial factors and FDI capital inflows in Savannakhet Province, Lao PDR. At 0.05 significant level indicates that the p-value between financial factors factors and FDI

capital inflows at 0.59 which is higher than 0.05 ($0.59 > 0.05$), for the coefficient (coff) for financial factors (coff = -0.03) indicate that the higher of financial, the lower for FDI capital inflows to Savannakhet Province. And the null hypothesis is not rejected so there is no significantly relationship between financial factors and FDI capital inflows with p-value is 0.59, which is higher than 0.05 significant levels.

Hypothesis 5

H₀ 5: There is no significant relationship between Social and culture factors and FDI capital inflows in Savannakhet Province, Lao PDR.

H_a 5: There is a significant relationship between Social and culture factors and FDI capital inflows in Savannakhet Province, Lao PDR.

Table 5.18 (page. 100) shows the 2-tailed p-values used in testing the relationship between Social and culture factors and FDI capital inflows in Savannakhet Province, Lao PDR. At 0.05 significant level indicates that the p-value between financial factors factors and FDI capital inflows at 0.10 which is higher than 0.05 ($0.10 > 0.05$), for the coefficient for (coff) financial factors (coff= -0.13) indicate that the higher of Social and culture, the lower for FDI capital inflows to Savannakhet Province. And the null hypothesis is not rejected so there is no significantly relationship between Social and culture factors and FDI capital inflows with p-value is 0.10, which is higher than 0.05 significant levels.

5.2.4 Multicollinearity

Table 5.19 Collinearity Statistics

Collinearity Statistics			
Variable	Variance Inflation	Tolerance	Eigenvalue
Intercept	0		
PLF	2.79	0.35	3.50
EMF	3.98	0.25	0.64
LF	2.81	0.35	0.38
FF	1.47	0.67	0.28
SCF	2.42	0.41	0.18

Table 5.19 (page. 104) shows the Collinearity Statistics of five independent variables. Multicollinearity describe more than two variables are near perfect linear combinations of one another or it is a statistical phenomenon in which two or more predictor variables in a multiple regression model are highly correlated, and refers to a situation in which two or more explanatory variables in a multiple regression model are highly linearly related. O'Brien (2007) stated that the researcher should focuses on one of these values which are variance inflation factor (VIF), tolerance and eigenvalue

VIF stands for *variance inflation factor*. As a rule of thumb, a variable whose VIF values are greater than 10 may merit further investigation. It provides an index that measures how much the variance of an estimated regression coefficient is increased because of collinearity, and it should not more than 5 or 10 or above because if it is more than 5 or 10 or above, it indicates a multicollinearity problem. This study, from the table 5.22 (page 100) Political and government legal factor; Economic and market factors; Location factors; Financial factor and Social and cultural factors indicated that the variance of inflation factor at lower than 5 which is 0.27; 3.98; 2.81; 1.47; 2.42 respectively, so there is very little multicollinearity among independent variables.

Tolerance defined as $1/VIF$, is used by many researchers to check on the degree of collinearity. A tolerance values lower than 0.1 is comparable to a VIF of 10 which means that the variable could be considered as a linear combination of other independent variables. And **Eigenvalue** is the factor by which the eigenvector changes when multiplied by the matrix. The eigenvalue of more than or equal to 10 indicates a multicollinearity problem. This study, table 5.22 indicated that the tolerances of Political and government legal factor; Economic and market factors; Location factors; Financial factor and Social and cultural factors are higher than 0.2 which are .035; 0.25; 0.35; 0.67; 0.41 and the heist eigenvalue is 3.50. The tolerances result confirms that these five independent variables have no multicollinearity problem.

5.3 Conclusion of Hypothesis Testing

Table 5.20 Conclusion of hypothesis testing

Hypothesis	Statistics	Result of Linear regression	Research Objective
Hypothesis 1: There is no significant relationship between political and government legal factors and FDI capital inflow in Savannakhet Province, Lao PDR	Linear Regression	Reject the null hypothesis	To examine the relationship between factors influencing FDI in Savannakhet province, Lao PDR
Hypothesis 2: There is no significant relationship between economic and market factor and FDI capital inflow in Savannakhet Province, Lao PDR	Linear Regression	Reject the null hypothesis	To examine the relationship between factors influencing FDI in Savannakhet province, Lao PDR
Hypothesis 3: There is no significant relationship between location factor and FDI capital inflow in Savannakhet Province, Lao PDR	Linear Regression	Reject the null hypothesis	To examine the relationship between factors influencing FDI in Savannakhet province, Lao PDR
Hypothesis 4: There is no significant relationship between financial factors and FDI capital inflow in Savannakhet Province, Lao PDR	Linear Regression	Not reject the null hypothesis	To examine the relationship between factors influencing FDI in Savannakhet province, Lao PDR
Hypothesis 5: There is no significant relationship between Social and culture factor and FDI capital inflow in Savannakhet Province, Lao PDR	Linear Regression	Not reject the null hypothesis	To examine the relationship between factors influencing FDI in Savannakhet province, Lao PDR.

Chapter 6

Summary of Findings, Conclusion, and Recommendations

6.1 Summary of the Findings

The main objective of this research is to find out the factors affecting foreign direct investment in Savannakhet province. There are five main factors to study in this research: Political and government legal factor; Market and economic factor, Location factor, Financial factor and Social and culture factor. These factors were formed as questions in a questionnaire to collect necessary data and information from the target respondents in Savannakhet Province. The process of analysis is the use of descriptive analyze in term of percentage and frequency for demographic analysis and multiple linear regression for hypothesis testing by using the Statistical Analysis System (SAS)

6.1.1 Summary of Demographic Characteristics

According to descriptive analysis, the study has 137 samples size and the entire target is the respondents who work at the management level of foreign companies in Savannakhet province. In this study, the majority of gender of respondents are male (Table 5.1, page. 88) which is more than half (65.7 percent) of the total respondents in this study. The average age of the respondents are within the range of 30 to 40 years old (Table 5.2, page. 89). The majority education levels of the respondents are the bachelor degree (Table 5.5, page. 90) it covered about 45.26 percent and the post graduate, it is about 29.20 percent. Over half of the respondents 61 or 44.5 percent are owner/director/president/CEO of the foreign companies in this study.

Table 6.1 Summary of Demographic of the Respondents

Variable	Frequency	Percentage
Gender		
Male	90	65.7
Female	47	34.3
Age		
Less than 30 years old	30	21.9
30-40 years old	51	37.2
41-50 years old	32	23.4
51-60 years old	22	16.1
More than 60 years old	2	1.5
Education		
Vocational	29	21.17
Bachelor degree	62	45.26
Master degree	40	29.20
Doctoral degree	6	4.38
Position level		
Owner/Director/ President/CEO	61	44.5
Department Manager	33	24.1
Assistant	43	31.4

6.1.2 Summary of the Company Profile

According to descriptive analysis, frequency and percentage shows the majority form of investment in Savannakhet province is a 100 percent foreign owned enterprise with 66.42 percent (Table 5.5, page. 90) and they invested mostly in an agriculture and service sectors (Table 5.6, page. 91). Manufacturing is the highest number of business categories with 32.2 percent of the total of business categories in Savannakhet province. The researcher also found that the majority of company establishment was during the period from 2007 to 2011 when the number of companies established 16,24,24,27 and 11

companies respectively. The number of companies exported some product was 64 and they exported to a country nearby such as Vietnam and Thailand.

Table 6.2 Summary of the Company Profile

Variable	Frequency	Percentage
Form of Investment		
Joint venture between foreign and domestic investors	46	33.58
100 percent foreign owned enterprise	91	66.42
Investment Sector		
Agriculture	48	35.04
Industry	33	24.09
Service	42	30.66
Mining-quarrying	14	10.22
Business Categories		
Manufacturing	51	37.2
Hotel	6	4.4
Service company	40	29.2
Restaurant	2	1.5
Project	38	27.7
Year of Company Establishment		
1992	1	0.73
1993	8	5.84
1995	1	0.73
1996	2	1.46
1997	3	2.19
2000	2	1.46
2002	1	0.73
2003	5	3.65
2004	4	2.92

Table 6.3 Summary of the Company Profile

Variable	Frequency	Percentage
2005	1	0.73
2006	9	6.57
2007	16	11.68
2008	24	17.52
2009	24	17.52
2010	25	18.25
2011	11	8.03
Number of firm export		
Yes	64	46.72
No	73	53.28

Tables 6.2 (page. 109) - 6.3 (page. 110) are summary of company profile. Most Foreign investment in Savannakhet province was made in the form of 100 percent investment, by 91 out of 137 company or 66.42 percent of total foreign investment in Savannakhet province. Highest number was made in agriculture sector in Savannakhet Province. The highest number of business categories is manufacturing. In the year 2010 the highest numbers of foreign registered companies 46/137 exported production in Savanakheth province

6.1.3 Summary of the Important Factors Related to Foreign Direct Investment

According to the analysis of the important level of foreign investment in Chapter 5, Table 5.10 (page. 93) - Table 5.13, (page. 95) each factors in this study is an important factor toward to FDI in Savannakhet province. The political and government legal factors, such as political stability; government regime; right and obligation; and incentive for investment are in the most important level of foreign investment in Savannakhet

province. Sub-factors of process of investment approval; the rule of local authority and private sector encouragement are in highly important level in Savannakhet Province.

The economic and market factor is also important for foreign investment in Savannakhet as well the economic growth; Adjustment of economic structure and development of sector are in high important level. And to diversify risk from home country and to access to the market in the region are in important level in Savannakhet province.

The location factor such as Savan-seno Special Economic Zone (SSEZ); East-west Economic Corridor (EWEC); availability of natural resources; low cost of material; available of skilled worker; low cost of skill labor; low cost of unskilled labor; low cost of transportation; integrate with the company's exiting investment; and opportunities for future expansion is an importantly factor toward to Savannakhet province, these are in high importance level. For the access to infrastructure is in important level for this study.

Financial factor such as: Low inflation rate; Banking system service in foreign bank; banking system service in local bank and low exchange rate fluctuation in Savannakhet are in high important level in this study.

Social and Cultural factor is concerned with the environment in the region where the foreign investors will present and get to know. The analysis showed that foreign relationship and integration openness is in the most important level in this study. For other sub-factors such as; Education levels; Social safety and security; Attitudes, culture, and beliefs; Human resource development; Manner and custom; Facilities for international investors in the residual location; other physical facilities; and Language and communication are in the high important level in this study.

Table 6.4 summary of the important level related to foreign in Savannakhet province.

Factors	Level of importance
Political and Legal Factor <ul style="list-style-type: none"> - Political Stability - Government regime - Rights and Obligations - Incentive for investment - Process of investment approval - The rule of local authority - Private sector encouragement 	<p>The most important</p> <p>The most important</p> <p>The most important</p> <p>The most important</p> <p>Highly important</p> <p>Highly important</p> <p>Highly important</p>
Economic and Market Factor <ul style="list-style-type: none"> - Economic Growth - Adjustment of Economic Structure - Development of sector - To diversify risk from home country - To access to the market in the region 	<p>Highly important</p> <p>Highly important</p> <p>Highly important</p> <p>Important</p> <p>Important</p>

Table 6.5 summary of the important level related to foreign in Savannakhet province (Continued one)

Factors	Level of important
Location Factor <ul style="list-style-type: none"> - Savan-Seno Special economic zone - East-West economic corridor - Border trades - Access to infrastructure - Availability of natural resources - Low cost raw materials - Available of skilled workers - Low cost of skill labor - Low cost of unskilled labor - Low transportation cost - Integrate with the company's existing investment - Opportunities for future expansion 	<p>Highly important</p> <p>Highly important</p> <p>Highly important</p> <p>Important</p> <p>Highly important</p> <p>Highly important</p> <p>Highly important</p> <p>Highly important</p> <p>Highly important</p> <p>Highly important</p> <p>Highly important</p> <p>Highly important</p>
Financial Factor <ul style="list-style-type: none"> - Low inflation rate - Banking system service in local banks - Banking system service in foreign banks - Foreign exchange rate fluctuation 	<p>Highly important</p> <p>Highly important</p> <p>Highly important</p> <p>Highly important</p>
Social and Cultural Factors <ul style="list-style-type: none"> - Education level of local employees - Social safety and security - Foreign relationships/ interaction openness - Attitudes, culture, and beliefs - Human resource development - Manners and Custom - Facilities for international investors in the residential location - Other physical facilities - Language and communication 	<p>Highly important</p> <p>Highly important</p> <p>The most important</p> <p>Highly important</p> <p>Highly important</p> <p>Important</p> <p>Highly important</p> <p>Highly important</p> <p>Highly important</p>

6.1.4 Summary of problems and prospects environment in Savannakhet province

This section summarizes the problem and prospect environment that foreign investors met in Savannakhet province. Descriptive analysis in term of frequency and percentage showed that the majority advantage of foreign companies can gain is profitability which it covered 81.02 percent (Table 5.14, page. 97) of total respondents in this study. The next, counterpart and ownership have 32.12 and 27.01 percent respectively. That means of the majority foreign investment is to gain profit.

The first three levels of barrier and the problem of business operation of foreign investment in Savannakhet province are lack of labor supply, with 55.47 (Table 5.14, page. 97) of total respondents in this study. Second is the government and regulation policy, with 53.69 percent (Table 5.14, page. 97). Third is about communication, with 25.55 percent and there are 8.03 percent with no barrier for their investment in Savannakhet province.

Table 6.6 Summary the barrier and problem of business operation in Savannakhet province

Barrier and problem	Frequency	Percentage
- No barrier	11	8.03
- Government and regulation policy	53	38.69
- Transportation	24	17.52
- Communication	35	25.55
- Business competition	27	19.71
- Labor supply	76	55.47
- Financial transferring	24	17.52
- Others	0	0

6.2 Summary of Hypothesis

This section summarizes of the hypothesis testing from the result of this study. Five hypotheses were tested by Multiple Linear Regression (MLR) whether each of the five hypotheses would be significantly relationship or not. From the result the researcher can summarized as follow:

Hypothesis 1: There is a significant relationship between political and government legal factors and FDI capital inflows in Savannakhet Province, Lao PDR by 0.005 significant levels ($.0001 < .005$). Which indicate that Political and government legal factors have influence to FDI capital inflows in Savannakhet Province.

Hypothesis 2: There is a significant relationship between economic and market factor and FDI capital flows in Savanakheth province by .005 significant levels ($.0001 < .005$). Which indicate that economic and market factors influence to FDI capital inflows in Savannakhet Province.

Hypothesis 3: There is a significant relationship between location factor and FDI capital flows in Savannakhet province by .005 significant levels ($.0001 < .005$). Which indicate that location factors are influence to FDI capital inflow in Savannakhet Province.

Hypothesis 4: There is no significant relationship between financial factor and FDI capital flows in Savannakhet province by .005 significant level ($0.5949 > 0.05$). Which indicate that financial factors are not influence to FDI capital inflow in Savannakhet Province.

Hypothesis 5: There is no significant relationship between social and culture factor and FDI capital flows in Savannakhet province by .005 significant levels ($0.5949 > 0.05$). Which indicate that social and culture factors are not influence to FDI capital inflow in Savannakhet province.

6.3 Conclusion and Implications

This section will make conclusions and point out implication for this study by referring to the result of testing from the period sections. According to the objective of this study, to examine the significant relationship between factors influencing FDI and the FDI capital inflows in Savannakhet Province, to know the problems and prospects of

an investment environment and to understand the foreign investment situation and the ways to attract more FDI in Savannakhet province, Lao PDR, the researcher concluded this study by using previous studies, review of literatures and statistic tool. In the analysis part, this study created a questionnaire form to collect data from target respondents in Savannakhet province in order to test and could answer the research questions. Descriptive analysis use to describe the result and five hypotheses were tested to find out the answer and could be conclude as follows:

Hypothesis one, Political and government legal factors, the result of descriptive analysis in term of frequency and percentage indicated that political and government legal factor is the most important toward foreign direct investment in Savannakhet province. Also, political and government legal factors have a significant relationship with FDI capital inflows in Savannakhet province. Since Laos has known many years of political stability and one party rule remain of paramount to the government, therefore it's the one thing that make foreign investor trust in the Lao's political and regulation. Refer to the literature review in chapter two (pages. 43-44) mentioned that political is a real characteristic of the country that does have political turmoil like a civil war which they have a constitution and laws (Leitao and Faustino, 2008), so what's going to happen if the country unstable political situation in a country. Al so the number of businesses academics had indicated that political instability has a negative power on increasing of inward FDI and the most constraining factors that performed as an important of FDI is political instability (Asiedu, 2006). Moreover, the bureaucracy and regulations unclear are definitely one of the FDI unattractive factor and can affect the MNCs decision to located there business abroad. Therefore, political and legal factor would be the main factor influence to attract FDI.

Hypothesis two, Economic and market factors, the result of descriptive analysis in term of frequency and percentage indicated that economic and market factor has high important to foreign direct investment in Savannakhet province. Also, Economic and market factors have a significant relationship with FDI capital inflows in Savannakhet province. This means that economic and market factors influence to attract foreign direct investment in Savannakhet province. Since Lao has stable of economic stability since

many years, the average Gross Domestic Products (GDP) growth rate is 7-8 % per year (MPI report, 2011). According to the literature review in chapter 2 (pages. 48-49), had mention that economic condition in a host country is the most important assessment criteria of foreign investment and economic factor that motivate FDI are minimization of production of production and material cost and the extension of foreign market share as well. Therefore, Economic and Market is one of an important factor to attract FDI in a host country.

Hypothesis three, Location factor, the result of descriptive analysis in term of frequency and percentage showed that location factor is high important level. Also in the hypothesis testing location factor has a significant relationship with FDI capital inflows in Savannakhet, which means that location factors influence to attract foreign direct investment in Savannakhet Province. According to the literature review in Chapter 2 (page 52), mentioned that the improvement of infrastructure and the low level of government impediments to be found in a host country have played an important role in increasing FDI inflows and make the foothold to investors in the country (Hollenstein, 2005).

Regarding hypothesis four, financial factor, the result of descriptive analysis in term of frequency and percentage showed that financial factor is in the high important level in this study. But for the hypothesis testing result, there is no significant relationship between financial factors and FDI capital flows in Savannakhet province. It opposite with the literature review in Chapter 2 (pages. 54-55) mentioned that one of foreign investor considered before they shift to invest or expand their business abroad, one thing that they would consider is interest rate, current fluctuations in exchange rate and inflation rate in the host country. Therefore finance played an important role of all investment and business in one place and low inflation rate can lead to the stability to the host country (Uwilingiye, 2010).

Regarding hypothesis five, Social and cultural factor, the result of descriptive analysis in term of frequency and percentage showed that social and culture factor is also in high important level in this study. And for the hypothesis testing result, there is no significant relationship between social and cultural factors and FDI capital inflows to

Savannakhet Province. It means that social and culture factors no influence to attract foreign direct investment in Savannakhet Province. In contrast to the literature review in Chapter 2 (page 59) cross-culture literacy leads to the successful business and to understand differences culture across and within the nations that can have an effect on the way in which business is performed. Therefore, it is my overall to understand a host country's culture society and culture for better business performance.

Even though, foreign direct investments and domestic development has been relatively increased since many years but they still have some problems about attracting foreign investment and the approving of investment project. Therefore, some barriers occurred for instant:

- Longer of document procedure about exportation and transportation in the province
- Unclear about regulation and procedure with the government.
- Lack of Labor supply in the Savannakhet Province
- Lack of skill and unskilled workers from local people in Savannakhet Province
- Some Undevelopment in the Savannakhet city such as: infrastructure, not enough for human resource development in the province and tourism development.

6.4 Recommendations

Savannakhet province is the second largest of FDI flows in the province, and FDI is the only mean that can help to increase the economic development in the province. From this study, it is clear that Political and government legal factor is the most important aspect that could attract more FDI. This study most foreign investors are highly important to political stability, government regime, right and obligation, investment incentive, therefore the first action that the government and the provincial authority should take in order to attract more FDI to Savannakhet province is to concentrate more on investment incentive, the policy and regulation should be clear in order to protect and the right of foreign investors, the more FDI inflows to the country.

Secondly, some of the problems that foreign investors experience in doing their business are labor supply in the manufacturing and agriculture investment project in

Savannakhet Province. Therefore, the government or provincial authority should think of possible solutions about labor supply problem by mean of mobilization of labor in the province and any provinces in the country to supply to the economic sector in Savannakhet province.

Thirdly, the infrastructure and communication network is also important to facilities foreign investors in Savannakhet province. Therefore the government or provincial authority should improve the capacity of potential investment site to attract investment such as roads, telecommunication and generation of electricity to the whole province basically.

Finally, the banking service should be improved better in order to facilitate to foreign investor to make transferring their capital and other service by facilitation faster service and facility in order to satisfy foreign investors in investing in a province.

6.5 Further Research

This research focused to study only in Savannakhet Province and all the data are collected from the target respondents in Savannakhet Province, so the result would not be suitable to use in other provinces in Laos. Therefore, the next research should study about FDI in other province and compare the trend of FDI between provinces in Laos PDR.

Because time is limited, this research could study only 5 factors such as political and government regulation factor; economic and market factor; location factor; financial factor and social and cultural factor. For further study, the research should study more such as the labor supply problem and how to solve this problem in the province because this study found that labor supply is one of the problems to foreign investment in a province. And in this research, the target population was only the respondents who work in foreign companies in Savannakhet province. For the next research it should study both foreign and domestic companies in order to compare ideas or prospective between two groups and the researcher can enlarge the sample size in order to get better, more reliable result.

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Survey Questionnaire

This survey questionnaire is used to collect information and data for the Master thesis which is conducting by Miss Boupphanh KEOMIXAY, a student of Business Administration (MBA) in the Assumption University (ABAC), Bangkok, Thailand. You are invited to participate in my study entitled **“Factors Affecting Foreign Direct Investment in Savannakhet Province, Lao PDR”**. Thank you for your time and if you have further questions about the survey please feel free to comment in the space provided below. The information collected in this survey will be kept confidential and only the researcher and supervisors can assess your responses in the questionnaire. Please answer the questions below and the information provided in this survey will be used on study purposes. I greatly appreciate your cooperation being a part in completing my thesis.

Part I: Respondents' Profile

1. Gender
 - 1.1 ☐ Male
 - 1.2 ☐ Female
2. Age:
 - 2.1 ☐ 21- 30 years old
 - 2.2 ☐ 31-40 years old
 - 2.2 ☐ 41-50 years old
 - 2.4 ☐ 51-60 years old
 - 2.5 ☐ more than 60 years old
3. Education:
 - 3.1 ☐ Vocational
 - 3.2 ☐ Bachelor degree
 - 3.3 ☐ Master degree
 - 3.4 ☐ Doctoral degree
 - 3.5 ☐ Others (please specify)._____
4. Position
 - 4.1 ☐ Owner/Director/President/CEO
 - 4.2 ☐ Department Manager
 - 4.3 ☐ Assistant
 - 4.4 ☐ Others (please specify)_____

Part II: Company Profile:

5. Form of investment in Savannakhet province
 - 5.1 ☐ Business cooperation by contract (contact with domestic firm)
 - 5.2 ☐ Joint ventures between foreign and domestic investors
 - 5.3 ☐ One hundred percent (100%) foreign-owned enterprises
6. Investment sector:
 - 6.1 ☐ Agriculture
 - 6.2 ☐ Industry
 - 6.3 ☐ Service
 - 6.4 ☐ Mining/quarrying
 - 6.5 ☐ Others (please specify)
7. Business category:
 - 7.1 ☐ Manufacturing
 - 7.2 ☐ Hotel
 - 7.3 ☐ Company
 - 7.4 ☐ Restaurant
 - 7.5 ☐ Project
 - 7.6 ☐ Other (please specify)
8. Year of establishment
9. Registered Capital.....US\$
 - 9.1 ☐ US\$ 5000-250,000
 - 9.2 ☐ US\$ 250,001-500,000
 - 9.3 ☐ US\$ 500,001-1500, 000
 - 9.4 ☐ US\$ 1500, 001-3000, 000
 - 9.5 ☐ US\$ >3000.000
10. Does your firm export (some) products?
 - 10.1 ☐ Yes
 - 10.2 ☐ No

If yes, what country and percentage do you export to?

Country (please specify).....percentage

Country (please specify).....percentage

Country (please specify).....percentage
11. Number of employees: (permanent).....persons
 - 11.1 Laotian%
 - 11.2 Foreigner%

Part II. Factors Related to Foreign Direct Investment

12. What the following factors are important or stimulate you to invest in Savannakhet province?

1= very low importance; 2 = low importance; 3 = neutral; 4 = high importance; 5= very high importance

Environmental Factors in the Savannakhet Province, Lao PDR	1 The least important	2	3	4	5 The most important
12.1 Political and Legal Factor					
12.1.1 Political stability of the host country(Lao PDR) is crucial					
12.1.2 Government regime (bureaucracy) of the Lao PDR					
12.1.3 Rights, benefits and obligations of foreign investors offered by the Lao government					
12.1.4 Incentives for foreign investment e.g. tax exemption and promoted investment activities offered by the Lao government					
12.1.5 The procedure of investment approval					
12.1.6 The rules of local authority in Savannakhet Province					
12.1.7 Private sector encouragement inside Savannakhet Province					
12.2 Economic and Market Factors					
11.2.1 Economic growth in Savanakheth Province					
11.2.2 Adjustment of economic structure (shifting to industrialization and modernization) in Savannakhet Province					
11.2.3 Development of economic sectors e.g. agriculture, industrials, hydro power & mining, services and tourism in Savannakhet Province					
11.2.4 Diversify of risk from home countries					
11.2.5 Access to the market in the region of Savannakhet Province					
12.3 Location Factors					
12.3.1 Savan-Seno Special economic zone					
12.3.2 East-West economic corridor					
12.3.3 Border trades in Savannakhet Province					
12.3.4 Access to infrastructure (e.g. road, transportation, utilities, water, and communication) in Savannakhet Province					
12.3.5 Availability of natural resources in Savannakhet Province					
12.3.6 Low cost raw materials in Savannakhet Province					
12.3.7 Available of skilled workers in Savannakhet Province					

Environmental Factors in the Savannakhet Province, Lao PDR	1 The least important	2	3	4	5 The most important
12.3.8 Low cost of skill labor in Savannakhet Province					
12.3.9 Low cost of unskilled labor in Savannakhet Province					
12.3.10 Low transportation cost in Savannakhet Province					
12.3.11 Integrate with the company's existing investment in Savannakhet Province					
12.3.12 Opportunities for future expansion in Savannakhet Province					
12.4 Financial Factor					
12.4.1 Low inflation rate					
12.4.2 Banking system service in local banks of Savannakhet Province					
12.4.3 Banking system service in foreign banks of Savannakhet Province					
12.4.4 Foreign exchange rate fluctuation					
12.4.5 Low interest rates					
12.5 Social and Cultural Factors					
12.5.1 Education level of local employees in Savannakhet Province					
12.5.2 Social safety and security in Savannakhet Province					
12.5.3 Foreign relationships/ interaction openness in Savannakhet Province					
12.5.4 Attitudes, culture, and beliefs in Savannakhet Province					
12.5.5 Human resource development in Savannakhet Province					
12.5.6 Manners and Customs in Savannakhet Province					
12.5.7 Facilities for international investors in the residential location e.g. school, sports, and entertainment in Savannakhet Province					
12.5.8 Other physical facilities e.g. hotel, airport, land transportation					
12.5.9 Language and communication in Savannakhet Province					

13.2 ☐ Government regulations/policy

13.3 ☐ Transportation

13.4 ☐ Communication

13.5 ☐ Business Competition

13.6 ☐ Labor supply

13.7 ☐ Financial transferring

13.8 ☐ Others (please specify), _____

14. How is the current situation of your business?

14.1 ☐ Good 14.2 ☐ Normal 14.3 ☐ Bad

15. What do you think about your business in the future?

15.1 ☐ will get better 15.2 ☐ The same as now 15.3 ☐ will get worse

16. What difficulties are you facing in doing business in the Savannakhet

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