

Chapter 3

Key Factors Affecting the Investment Attractiveness of an Oil Producing Country

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ABSTRACT

Foreign direct investment (FDI) is the engine of growth of all countries, contributing to the inflow of financial capital, technology, skills, employment, to the establishment of production of modern goods and services, which enables a national economy to become more competitive in the global market. However, the developing or transition countries often lack the capital to finance their own development. Analysis of 21 developed and developing oil-producing countries from 2008 to 2014 show that the most important factors for attracting investment in the oil and gas sector are the discovery of attractive fields, the creation of a developed and modern infrastructure, increases proven reserves of hydrocarbons, and of corruption. Less important but still factors are a stable currency, an open trade regime, favorable business conditions, as well as lower taxes on oil-producing business.

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INTRODUCTION

Foreign direct investment (FDI) is the engine of growth in all countries, contributing to the inflow of financial capital, technology, management skills, employment opportunities, modern products and services, which makes a national economy more competitive in the global market. This is particularly true for developing and transition countries, which often lack funding to support their economic growth that is often reflected in the imbalances between internal savings and investments, as well as exports and imports. Developing countries have an insufficient amount of savings to finance their investment needs. To overcome this gap, they need an inflow of foreign capital. FDI is now an important source of capital in developing countries, which allows them to attract long-term capital flows, as well as international companies, which help to promote the growth of production and productivity. However, FDI has not always being regarded so favorably.

In the 1960s and 1970s, many countries maintained a cautious and sometimes negative attitude towards FDI, because they did not want their economies to be overly defendant on foreign capital. Therefore, the developing countries preferred to attract bank loans and the poorest ones - aid from the rich countries instead of FDI.

The situation changed dramatically in the 1980s, when FDI emerged as an important vehicle in the financing of the economies of developing countries. This was mainly due to a sharp rise in interest rates and, as a consequence the emergence of the debt crisis, which negatively affected many developing countries. Because of the crisis, access to bank lending for these countries was closed, as interest rates rose to prohibitive levels. Moreover, the sharply worsened investments ratings of many developing countries, due to the debt problems led to their de facto withdrawal from the credit market. Thus, developing countries were forced to reconsider their previous attitude to FDI.

As a result, FDI grew rapidly afterwards, while the importance of other forms of capital dropped significantly. For example, the share of subsidized foreign capital has been steadily declining since 1960, and commercial loans, which accounted for the main capital flows in the 1970s, completely ceased after the debt crisis of the 1980s. It is now generally accepted that FDI contributes to the economic growth and modernization of developing countries.

The Asian Development Bank in its Asian Development Outlook (ADB, 2004) noted that FDI inflows greatly accelerated in recent years as a result of many factors, such as the rapid development of technical progress, the emergence of globally integrated production and marketing networks, bilateral preferential investment agreements, the recommendations of major international organizations, and the positive experiences of developing countries that opened their doors to FDI.

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