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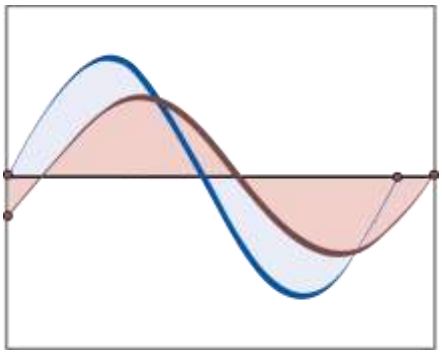

Examining Foreign Direct Investment in Oil Producing Economies

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This paper investigates the factors that attract foreign direct investment (FDI) into oil-producing economies such as Trinidad and Tobago. Utilizing data from 47 developing countries (including both oil producing/exporting and non-oil producing countries) over the period 1996-2010, the results suggest that there is a foreign investor bias towards oil producing/exporting countries. Furthermore, market size, trade openness and business facilitation were found to be significant factors attracting FDI to the oil producing countries.

JEL Classification Numbers: C23, F21

Keywords: foreign direct investment, Trinidad and Tobago, oil producing developing countries.

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1. Introduction

The Trinidad and Tobago economy over the last 50 years or so has been primarily driven by the energy sector; however, while there is some level of domestic participation in this sector, much of it is driven by investment by foreign nationals in the domestic economy. The first reported well drilled in Trinidad and Tobago in 1857 was drilled by the Merrimac Company of the United States (USA). Since then there has been continued investment in Trinidad and Tobago by foreign nationals. Indeed over the past three decades, foreign direct investment (FDI) to Trinidad and Tobago has been directed mainly towards the energy sector[2]. During the period 1999 to 2010 the energy sector received an average of 85 per cent of annual FDI inflows to Trinidad and Tobago. However while the energy sector has received the bulk of FDI, the non-energy sector has not been so lucky, with only minute amounts entering the country. In general oil producing developing countries have done very well in attracting foreign investment flows relative to other developing countries. Outside of being blessed with oil resources, the question remains what are the other factors if any that attract FDI to these particular developing countries? This study will analyse the determinants of FDI in oil producing developing countries. A comparative perspective will be taken to ascertain whether there exist any differences in determinants between the groups of oil and non-oil producing developing countries. The paper will take the following format: in the first instance a review of the theoretical and empirical literature will be presented. Next the data and the results of an econometric model looking at the factors that attract foreign direct investment flows in an oil producing developing country will be presented. The paper will conclude with some recommendations for the policy makers.

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[2] The energy sector comprises the petroleum industry along with the chemicals and non-metallic minerals industry.

2. Literature Review

Early theoretical literature on the determinants of FDI flows were based on the Hecksher-Ohlin framework in which differences in factor endowments and mobility accounted for the decision as to whether or not to invest in a country. Later theorists began looking more closely to the factors that attract multinational corporations to a particular location. These authors looked at factors such as fixed costs, relative country size and endowments, and taxes. While there has been a rush of theories seeking to explain FDI, Dunning's (1993) eclectic paradigm has become a popular base for many empirical studies. The eclectic paradigm articulates that the choice of location for cross-border investment by Multi National Corporations (MNCs) is guided by one or a combination of three different motives. These motives are termed as i) resource seeking, ii) market seeking and iii) efficiency seeking.

While the empirical literature on the determinants of FDI flows is quite voluminous, much of the work is either country specific, (looking at for example Japan and China) or region specific (for example looking at MENA region, Latin America or Eastern European bloc [Campos and Kinoshita (2008)]. Apart from than these two types of groupings authors sometimes simply look at the factors affecting developing countries as a whole [Demirhan and Masca (2008) and Antonakakis and Tondl (2011)] . To our knowledge, no comparison has been conducted looking at the oil producing developing countries versus non-oil producing developing countries.

Within the Caribbean context there is limited published work empirically examining the factors that influence firms to invest in the region. ECLAC (2003) identified the main motives that influenced investment in the various Caribbean countries and noted that the oil and gas investments in Trinidad and Tobago can be primarily thought of as resource seeking, while investment in the telecommunications sector tend to be market seeking. Gill and Campbell (2005) investigated factors which influenced FDI in Barbados over the period 1970 to 2003. They found that in the long run, FDI is influenced by wages, prices and the investment climate, while in the short run; FDI is influenced only by wages. Singh, McDavid and Birch (2006) in a sample of small developing states, which included 11 CARICOM Member States, found that infrastructure, economic growth and openness to trade foster the flow of FDI. In addition, their study included a toursim variable, the number of tourist arrivals, which was also found to be positively related to the FDI flows. Mohan and Watson (2009) examined the factors which influenced FDI between the OECD and CARICOM countries over the period 2000 to 2007. They found that FDI is positively influenced by the presence of a vibrant stock exchange and credit market in the investor country, as well as the existence of trade and service agreements between the investor and target countries. Notably, FDI flows were negatively influenced by high price levels and oppressive tax regimes in the target country, as well as the distance between the countries. Other studies focusing on the Caribbean have looked at the relationship between FDI and factors such as employment and growth. Craigwell (2006) examined the link between investment and employment in the Caribbean region and found an approximate one-to-one association. Campbell (2012) investigated the impact of FDI on Barbados' economic growth,

reporting that in the long run, a 1 per cent increase in FDI inflows results in the economy growing by 0.10 per cent, while in the short run the relationship is flat.

3. Theoretical Framework

Following the existing literature this paper models foreign direct investments as a function of several variables representing the three motivations for foreign investment by multinational enterprises outlined by Dunning (1993). Resource seeking investment is expected to look at factors such as the quality of infrastructure and the availability of natural resources. The quality of a country's infrastructure is generally a good indicator of its level of development. The economic literature posits that infrastructure impacts the abilities of businesses to operate efficiently. Infrastructure quality is also cited as being important for MNCs in establishing export platforms for regional and global markets. There are several variables employed in the literature to measure physical infrastructure, the most popular being telephone mainlines [Asiedu (2002) and Skuflic and Botric (2006)]. Other measures of physical infrastructure include the number of internet subscribers and roads paved.

The existence of extractive natural resources in a country is likely to attract FDI inflows. The eclectic paradigm outlines that the availability of such resources is one of the main motivations for cross border investments. The export volume of minerals and oil (as a per cent of total exports) is generally used to measure resource availability [Asiedu and Esfahani (2001); Asiedu (2002) and Asiedu and Lien (2011)], while Blanco (2012) used exports of natural resource intensive commodities as a share of GDP.

The market seeking factors are market size, trade openness and growth prospects. The availability of a large market is posited as being one of the main determinants of FDI. It is expected that the availability of a large consumer base provides the potential for increased consumption and the possibility of increased trade for MNCs. Market size is modelled in the literature using various measures such as GDP [Ranjan and Agrawal (2011), and Wadhwa and Reddy (2011)], GDP per capita [Amal, Tomio and Raboch (2010)] and population size [Mahmood and Ehsanullah (2011)]. The favourable growth prospects of a country will tend to attract FDI flows as MNCs seek potential profit opportunities. In cases where bilateral migration and FDI data are available, the stock of migrants is also used to assess their potential for attracting FDI to their home country. Javorcik et al. (2010) find that a one per cent increase in the migrant stock in the US resulted in an increase in the volume of US FDI in their home country of 0.3 per cent, with the effect being stronger for migrants with tertiary education. Economic growth prospects are measured by the growth rate of GDP [Amal, Thiago and Raboch (2010), and Ranjan and Agrawal (2011)]. It is important to note that the relationship between FDI and economic growth is controversial as regards the direction of causality. There is evidence for both the FDI-Growth nexus [De Mello (1999)] as well as the Growth-FDI causal relationship [Chowdhury and Mavrotas (2005)]. The literature suggests that trade is a complement to FDI flows given that FDIs are generally export oriented and also may require an import component (Ranjan and Agrawal, 2011). Therefore, countries with a

higher proclivity for trade will attract more FDI. Trade is widely measured in the literature by trade openness (the sum of exports and imports as a percentage of GDP) [Lankes and Venables (1996)].

The only efficiency seeking factor included is macroeconomic stability. Macroeconomic stability is proxied by the inflation rate, with high levels of inflation taken to indicate economic instability that will discourage investment [Skuflic and Botric (2006)]. Many studies such as Debab and Al Mansoor (2011) find a signifcant and negative relationship between inflation and FDI.

Institutional factors are also incorporated in keeping with recent developments in the literature along with exchange rate volatility. The quality of institutions in a country is posited to impact on the location of FDI inflows. Investors are cognizant of the level of crime and violence, the existence of property rights, contract enforcement along with the strength of regulations and laws when decision are made to engage in cross border investment. Those countries with stronger institutional factors are more likely to receive higher FDI inflows. Blanco (2012) looked at 17 countries in Latin America over the period 1985-2006 and found that the control of corruption was the most important institutional variable in attracting investment.

4. Data Description

The present study is based on an unbalanced panel of 47 developing countries and spans a 15 year time period from 1996 to 2010 which results in a total of 705 observations. The list of countries includes 18 oil producers, which are the focus of the study, and also 29 non-oil producing countries[3]. Table 1 shows the list of countries used in the study.

[3] The number of countries included was affected by data availability and as such the list only represents a subset of the group of developing countries.

Table 1
List of Developing Countries by Region

LAC	Africa	Asia and Middle East
Argentina*	Algeria*	Bangladesh
Brazil*	Botswana	Cambodia
Colombia*	Cameroon*	Iran*
Costa Rica	Ethiopia	Jordan
Chile	Gambia	Kuwait*
Dominican Republic	Ghana	Laos
Ecuador*	Guinea	Malaysia*
Guyana	Liberia	Nepal
Honduras	Mali	Oman*
Jamaica	Mauritania	Qatar*
Mexico*	Morocco	Saudi Arabia*
Paraguay	Mozambique	Sri Lanka
Trinidad and Tobago*	Namibia	Syria*
Venezuela*	Kenya	United Arab Emirates*
	Niger	
	Nigeria*	
	Senegal	
	Zambia	
	Zimbabwe	

* refers to countries that produce oil and are net exporters of the commodity.

Table 2 shows the variables and their data sources. The dependent variable is annual FDI inflows[4]. The independent variables are based on four groups of determinants; market seeking, resource seeking, efficiency seeking and institutional factors. The choice of variables is dictated by the existing literature along with data availability. For the market seeking factors, the population size of the country is used to proxy market size, economic growth rate proxies growth prospects and the sum of exports and imports (as per cent of GDP) proxies the degree of trade openness. For the resource seeking factors, infrastructure is measured by the number of internet subscribers per 1,000 persons and the number of telephone mainlines per 1,000 persons while the availability of natural resources is proxied by the sum of mineral fuel exports as a percentage of total goods exports. Macroeconomic stability is measured by the inflation rate calculated from the Consumer Price Index and represents the only efficiency seeking factor. For the quality of institutions, the business facilitation measures are represented by the Index of Economic Freedom. The Index captures a wide range of measures (such as investment freedom, trade freedom, labour freedom, freedom from corruption and property rights) which enhance the business environment and reduce the hassle costs for investors. It is acknowledged that there is no single measure to effectively proxy political instability (Ancharaz, 2002) and thus two separate measures are used. The Polity Scale is used as a proxy for the level of democracy and indicates how democratic the existing government regime is in a given year (ranging from -10 for full autocratic to 10

[4] Other measures of FDI as a dependent variable used in the literature include net FDI inflows [Ranjan and Agrawal (2011)], FDI Stock [Amal, Thiago and Raboch (2010)] and FDI stock per capita (Campos and Kinoshita, 2003)

for pure democracy) while the Rule of Law index is used to proxy the quality of regulations and laws (ranges from -2.5 for weak to 2.5 for strong).

Table 2
List of variables and data sources

Variable	Proxy	Source
FDI Inflows	Annual FDI inflows	UNCTAD
Market size	Population size	Penn World Table 7.1
Growth prospects	Economic growth rate	World Bank Indicators
Trade Openness	Exports + Imports (% of GDP)	Penn World Table 7.1
Infrastructure	Number of internet subscribers/ 1000 persons Number of telephone mainlines/1000persons	World Bank Indicators
Natural resource availability	Exports of ores, minerals and fuels (as a % of total exports)	World Bank Indicators
Level of Democracy	Polity Scale	Polity IV series
Regulation quality	Rule of Law Index	World Bank Government Indicators
Business freedom	Index of Economic Freedom	Heritage Foundation
Macroeconomic Stability	Inflation rate	World Bank Indicators

Table 3 reports the descriptive statistics of the data. It shows that for the sample of oil producing developing countries the mean foreign direct investment inflow was approximately US$5.1 billion for the period 1996-2010 which significantly surpasses the mean of the non-oil producing countries for the same period (US$651 million). This shows that on average oil producing/exporting countries received higher levels of FDI relative to non-oil producers which may be viewed as an early indicator of possible FDI bias towards oil producing/exporting countries. Further cursory analysis of the data reveals some key differences between oil producing and non-oil producing countries which may serve to explain the observed disparity of FDI inflows to both groups. The statistics highlight that oil producing countries possess higher levels of physical infrastructure, more stable economic environments resulting from a lower average inflation rate and a significantly higher availability of natural resources on average. Both groups of countries rank fairly equal in terms of business facilitation measures and trade openness. Interestingly, the statistics show that oil producing/exporting countries have slightly lower growth rates on average while they possess slightly weaker legislative frameworks and have political regimes that are significantly less democratic relative to non-oil producers.

Table 3
Summary Statistics

Variable	Mean – Oil Producing Countries	Number of Observations –Oil Producing Countries	Mean – Non-Oil Producing Countries	Number of Observations – Non - Oil Producing Countries
FDI	5063.76	270	651.09	435
GROWTH	4.29	264	5.03	435
POP	40500.59	270	17384.60	435
NET	142.00	270	49.20	435
TEL	158.98	270	52.45	435
TRADE	72.91	270	76.59	435
DEM	0.01	270	3.14	435
FREE	58.83	267	57.09	418
LAW	-0.29	270	-0.46	435
IRATE	8.70	270	14.57	425
NRES	60.54	245	18.12	416

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The correlation matrix in Table 4 reports the linear associations for the FDI inflows of oil producers in sample of developing countries and their potential determinants. The results confirm several of the a priori assertions. However there were some unexpected results. Foreign direct investments were seen to be positively related to the size of the market, the availability of natural resources, democracy, political stability (through the level of democracy and the rule of law), business facilitation and the quality of physical infrastructure (both telephone mainlines and internet subscribers). Additionally, FDI is negatively related to macroeconomic instability. Contrary to the a priori hypotheses, FDI was shown to be negatively related to economic growth and trade openness.

Table 4
Correlation Matrix

	FDI	GROWTH	POP	NET	TEL	TRADE	DEM	FREE	LAW	IRATE	NRES
FDI	1.0000										
GROWTH	-0.0421	1.0000									
POP	0.5610	-0.0013	1.0000								
NET	0.3820	0.0381	0.0322	1.0000							
TEL	0.3460	-0.0411	0.0002	0.5891	1.0000						
TRADE	-0.1312	0.0798	-0.4072	0.3344	0.2300	1.0000					
DEM	0.1342	-0.0592	0.1671	0.0378	0.1114	-0.0359	1.0000				
FREE	0.1968	0.0045	-0.1780	0.3142	0.4514	0.2869	0.2607	1.0000			
LAW	0.1396	0.0910	-0.2336	0.3570	0.5092	0.3274	-0.0514	0.6564	1.0000		
IRATE	-0.0447	-0.2006	-0.0312	-0.0223	-0.0704	-0.0021	-0.0536	-0.2425	-0.1884	1.0000	
NRES	0.0178	0.0025	-0.0423	0.1602	0.2178	-0.0740	-0.3673	0.0285	0.0522	-0.0042	1.0000

5. Estimation Method

In order to estimate the determinants of FDI, panel data estimation techniques were utilised. The panel estimation model is as follows:

$$FDI_{it} = \alpha_0 + \beta_1 POP_{it} + \beta_2 GROWTH_{it} + \beta_3 TRADE_{it} + \beta_4 IRATE_{it} + \beta_5 DEM_{it} + \beta_6 NET_{it} \beta_7 TEL_{it} \quad (1)$$

$$\beta_8 NATR_{it} + \beta_9 FREE_{it} + \beta_{10} LAW_{it}$$

Where,

FDI = foreign direct investment inflows ($US million)

POP = the size of the population (thousands)

GROWTH = the economic growth rate (%)

TRADE = the openness of the economy to trade (%)

IRATE = the inflation rate (%)

DEM = level of democracy

NET = the number of internet subscribers per 1000 persons

TEL = the number of telephone mainlines per 1000 persons

NATR= natural resource availability (%)

FREE= business freedom

LAW = rule of law

The above model is represented in a Log-Linear form where foreign direct investments[5], population size, telephone and internet subscribers are in natural logarithm form and all other variables are presented in their linear forms. The model was estimated for the entire sample as well as for the groups of oil producing/exporting countries and non-oil producing countries.

As a preliminary step, Equation 1 is estimated for the full sample of developing countries using fixed and time effects (Eq. 1.1). This particular equation allows for the assessment of the determinants of FDI for developing countries generally and provides the ability to make comparisons with existing studies. To assess the potential bias of FDI towards oil producing/exporting countries we include a dummy variable for oil producing/exporting countries in Equation 1- which equals 1 for oil producing/exporting economies and 0 for on-oil producing economies (Eq. 1.2). Given that the fixed-effects model does not allow the use of a dummy variable that is invariant in time, the equation

[5] This represents the logged form of the transformed FDI series as the original FDI series was transformed based on Hu (1972) (Hu 1972) guidelines to remove the presence of negative numbers to enable logarithms to be used.

was estimated using a Generalised Least Squares estimation method[6]. Two further models were estimated from Equation 1 to assess the determinants of oil producing/exporting and non-producing economies respectively (Eq. 1.3 and 1.4). Table 5 reports the results.

Table 5: Regression Results
Dependent Variable: Logged Foreign Direct Investment Inflows

Variable	Eq. 1.1	Eq. 1.2	Eq. 1.3	Eq. 1.4
Constant	-22.3330	-5.6903	-31.7141	-18.5041
	(11.6801)	(1.2165)	(13.8538)	(10.9018)
Market Size[a]	2.7285	0.7602	3.8622	2.5899
	(1.1355**)	(0.0737***)	(1.3287***)	(1.4483*)
Trade	0.0132	0.0060	0.0352	0.0073
	(0.0047***)	(0.0029**)	(0.0141**)	(0.0050)
Economic Growth	0.0194	0.0259	0.0285	0.0178
	(0.0107*)	(0.0109**)	(0.0194)	(0.0136)
Telephone mainlines[a]	-0.3103	0.2454	-0.5942	-0.1847
	(0.1691*)	(0.1099**)	(0.5710)	(0.1551)
Internet subscriptions[a]	0.1017	0.2454	0.1233	0.0640
	(0.0680)	(0.1099***)	(0.0981)	(0.0693)
Natural resource intensity	-0.0184	0.0007	-0.0428	-0.0050
	(0.0060***)	(0.0034)	(0.0143***)	(0.0056)
Macroeconomic Instability	0.0003	-0.0012	-0.0085	0.0002
	(0.0010)	(0.0008)	(0.0172)	(0.0007)
Democracy	-0.0001	0.0395	0.0578	-0.0127
	(0.0284)	(0.0202*)	(0.0806)	(0.0224)
Rule of Law	0.8503	0.2017	0.5393	0.9948
	(0.2516***)	(0.1893)	(0.4211)	(0.3700***)
Economic Freedom	0.0578	0.0387	0.0533	0.0514
	(0.0139***)	(0.0155**)	(0.0227**)	(0.0156***)
Oil producing country dummy		0.8022		
		(0.2978***)		
Fixed Effects	Mostly sig.		Mostly sig.	Mostly sig.
Time Effects	Sig.		Not Sig.	Sig.
N	621	621	235	386
Groups	46	46	18	28
R	0.7820	0.4242	0.6642	0.7808
Estimation Method	Fixed Effects	GLS	Fixed Effects	Fixed Effects

[a] Denotes variables in logged form. Level of significance represented by *** for 1% level, ** for 5% level and *for 10% level. Standard errors are in parentheses.

[6] It is important to highlight that the change in estimation technique does not alter the overall general significance of the variables from the original model (Eq. 1).

6. Empirical Results

6.1 General determinants for developing countries

The results for equation 1.1 show that economic determinants along with institutional factors are significant in determining FDI in developing countries. More specifically, the results provide support for market seeking variables as traditional determinants of FDI inflows. The market size, degree of trade openness and the economic growth rates prove significant in attracting FDI. With regards to the signs, all three variables are positively related to FDI inflows therefore confirming a priori expectations. For the resource seeking variables, it was found that the level of physical infrastructure[7] and the availability of natural resources were significant factors in determining FDI inflows to developing countries. In the case of natural resource availability, similar negative relationships have been found in previous FDI literature. In a recent panel study on Latin America, Romero Mascarell (2011) concludes that the availability of natural resources can in fact lead to negative impacts on FDI inflows. The assertion is that natural resource abundance increases inequality and inequality itself is shown to reduce investments. Therefore through this inequality channel natural resource abundance negatively impacts secondary and tertiary FDI. Furthermore, Poelhekke and Ploeg (2010) corroborate the negative effect of natural resource availability while utilising a different approach. However Blanco (2012) in looking at FDI in Latin America found that natural resources did not have a detrimental effect on capital flows. The negative relationship between FDI and natural resource intensity is an area that needs further attention. Possible reasons for the finding may be related to the suitability of proxy. For example, an increase in exports of other sectors over time without a corresponding increase in FDI would lead to a negative relationship. Additionally after the initial investment in a plant, there can be higher exports of minerals and fuels due price increases without any additional investment. In the case of the negative relationship between FDI and the number of telephone subscribers, while an unexpected result, the finding may reflect the influence of increasing numbers of mobile subscribers and stagnant numbers of fixed line telephone subscribers. However this too is an area for further work.

As for the efficiency seeking variable, macroeconomic instability measured by the inflation rate was found to have no effect in determining FDI inflows to developing countries. With regards to the institutional factors, both business facilitation measures (Index of Economic Freedom) and political stability (Rule of Law)[8] were found to be significant positive determinants of FDI inflows.

[7] This refers to the measure of telephone lines per 1000 persons for physical infrastructure since the measure for internet subscribers turned out insignificant.

[8] This refers to the rule of law index measure of political stability as the alternate measure (level of democracy) was found to be insignificant.

6.2 Comparison of oil producing/exporting countries with non-oil producing countries

Equation 1.2 tests the hypothesis of an FDI bias towards oil producing/exporting countries. The results of the model show that the dummy variable for oil producing/exporting countries is statistically significant and has a positive sign. Therefore, the result supports the hypothesis that foreign direct investors are bias towards investing in oil producing/exporting countries. It can therefore be posited that given countries with similar investment climates, investors will choose to invest in those countries that produce/export oil.

Equations 1.3 and 1.4 provide the estimation results for the determinants of FDI inflows in oil producing/exporting countries and non-oil producing countries respectively. The results indicate that while there are common factors that attract FDI, namely the size of the market and economic freedom (business facilitation), there are significant variables that are unique to each group of developing countries. In the case of oil producing countries trade openness is one such variable. One can posit that this is related to the ability of foreign investors in the energy sector to export mineral/fuel commodity, as it is unlikely that the domestic economy can absorb total production. In the non-oil producing countries the Rule of Law variable was significant; this is perhaps reflective of barriers to investment that may exist in a country's regulation as well as the difficulties in negotiating in a country's maze of laws and regulations. Thus the easier it is to enter a market and set up shop; the more likely it is for someone to invest in a country. The Rule of Law variable is taken as a proxy for political stability in a country, and thus the more stable the country the more attractive it is to investors. Not surprisingly the natural resource availability variable was insignificant for non-oil developing countries, however once again it was negative and significant for the oil producing countries. While the sign of the variable seems to be counter intuitive, it perhaps suggests that over time exports of minerals and fuels become a smaller portion of a country's trade as the country seeks to diversify away from the energy sector.

7. Conclusion

This paper aims to identify the determinants of FDI inflows to oil producing developing countries while contrasting these factors with those of non-oil producing countries. The results of the paper suggest that for the group of developing countries those with larger domestic markets, greater trade openness, a stronger political framework and greater business facilitation measures will be major magnets for FDI inflows. Additionally, countries higher growth prospects will also attract FDI. A dummy variable used for oil producing/exporting developing countries to identify FDI bias is shown to be positive and statistically significant. This outcome serves to provide evidence that oil producing/exporting developing countries have received higher FDI inflows than other non-oil producing countries with the same characteristics. It can therefore be posited that there is in fact a bias on the part of foreign direct investors towards oil producing/exporting countries. While this seems to contradict the finding that natural resource abundance has a negative relationship with FDI, one could hypothesize that the results indicate that FDI into

resource rich countries, though larger than FDI into resource poor countries, is lower than what is expected given all other economic conditions. It has been suggested that resource seeking FDI can possibly crowd out non-resource seeking FDI. From the results of separate regressions on sub-samples for oil producing and non-oil producing countries, it was also found that there were differences in the factors that were significant in determining FDI inflows for the two groups of countries. Among oil producing/exporting countries, those with larger local markets, greater trade openness and business facilitation measures have attracted more FDI inflows. For non-oil producing countries, those with larger markets, greater business facilitation measures and political stability through legislative strength have received more FDI.

Trinidad and Tobago is currently in the process of developing an investment policy. While the investment policy focuses on encouraging both domestic and foreign investment, the policy places emphasis on providing an enabling environment to foster investment particularly in the non-energy sector. In addition the Ministry of Trade, Industry and Investment has embarked upon several complementary strategies for attracting investment, these include the signing of Bilateral Investment Treaties, the inclusion of an investment chapter in negotiated trade agreements, and the provision of numerous incentives, both general and sector specific for investors. This paper highlights that the continuation of the improvement of business facilitation measures, and trade openness will assist in attracting FDI to this country. In addition, extrapolating from the results from the non-oil producing countries, suggests that improvements in the political stability and regulations will attract investment into the non-energy sector. Thus the policy makers have a range of factors to consider as they strive to position the country as an investment destination.

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