UNIVERSITY OF QUEBEC AT MONTREAL

THE DETERMINANTS AND THE FORMS OF FOREIGN DIRECT INVESTMENT. THE CASE OF LEBANESE BANKING SECTOR.

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CHARBEL MANSOUR

UNIVERSITÉ DU QUÉBEC À MONTRÉAL

LES DÉTERMINANTS ET LES FORMES DE L'INVESTISSEMENT DIRECT À L'ÉTRANGER : CAS DU SECTEUR BANCAIRE AU LIBAN.

MÉMOIRE
PRESENTÉ
COMME EXIGENCE PARTIELLE
DE LA MAÎTRISE EN ADMINISTRATION DES AFFAIRES
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CHARBEL MANSOUR

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Résumé

Dans mon étude, j'ai visé la question concernant les déterminants de l'investissement Direct à l'étranger, dans le secteur bancaire libanais couvrant la période d'après-guerre.

Pourquoi le secteur bancaire libanais ?
Il faut savoir que l'activité bancaire au Liban a vu son essor depuis l'indépendance (les années 40 du siècle dernier) quand tous les mouvements des capitaux et les opérations d'échanges furent légalisés.

La promulgation de la loi du secret bancaire en 1956 avait souligné un évènement de la plus haute importance, ce qui se répercuta positivement sur l'évolution du secteur bancaire libanais. Le Liban est alors devenu un asile sûr pour les capitaux qui affluèrent du monde arabe, en l'an 1965 une centaine de banques libanaises et étrangères étaient en activité dans le pays des cèdres.

Dans l'étude des documents, j'ai identifié un groupe de variables qui ont leur effet sur l'(IDE). Ces variables sont classifiées en trois groupes ; la motivation du pays hôte, les risques du pays hôte, et les déterminants des firmes de l'(IDE).

En se basant sur l'étude des documents, j'ai développé un cadre conceptuel qui consiste à étudier les effets de certaines variables sur l'acte de percevoir le risque, selon les investisseurs étrangers, durant la procédure de la décision prise pour l'investissement en la comparant avec la perception du risque que les investisseurs possèdent au temps présent.

Ces variables furent classifiées selon quatre groupes : les spécifités de la firme-mère, le contexte social et économique du pays, les risques politiques, les sources financières locales. Puis j'ai développé onze hypothèses pour l'utilisation d'un questionnaire-test.
Tandis que pour l'enquête, j'ai sélectionné trente et une banques actuelles, choisies de la liste des banques commerciales actives, donnée par la banque centrale.

Parmi ces banques il existe des banques commerciales étrangères (arabes et non arabes), et les banques commerciales libanaises sous un contrôle étranger (arabe, et non arabe).

Le questionnaire fut dirigé vers des individus ayant des postes de cadre supérieur dans les banques, et jouent le rôle majeur dans les décisions radicales de prise de position dans l'investissement.

Dans l'analyse, j'ai utilisé des procédures d'univariante et de bivariante pour tester l'hypothèse, ceci me laissa conclure les résultats suivants :

- Les banques arabes sont toujours en tête de liste des banques étrangères, car le secteur bancaire dériva vers Beyrouth la majorité des capitaux arabes provenant du Crelfe.

- Le Liban possède heureusement une culture vivace d'entrepreneur, innée et naturelle.

- La loi du secret bancaire, consiste un facteur essentiel dans les décisions d'investissement dans le secteur bancaire libanais, cette loi est devenue la pierre angulaire dans l'attraction d'un grand nombre de capitaux étrangers.

- La plupart des banques étrangères a clairement souligné son mécontentement de la lenteur de la procédure administrative libanaise, pour obtenir des permis des autorités étatiques.

- La force ouvrière libanaise hautement éduqués constitue un facteur important dans l'attraction des (IDE), elle continue son training continuel, et son éducation de mise à jour.

- Le secteur bancaire utilise le Hi-tec intensivement et s'améliore progressivement.

- La majorité des banques étrangères adoptent le système de « la subsidiaire possédante en majorité » comme mode de travail en tant que : implication première.

Ceci réduit en premier lieu le risque de perdre le contrôle, et en second lieu ce système donne à la banque une gérance serrée des opérations qui se font dans des pays différents.

- Le pays d'origine et la densité de la firme-mère n'ont aucun effet signifiant sur l'(IDE) dans le secteur bancaire libanais.

- L'expérience internationale de la firme-mère a un effet positif sur l'(IDE).

- La taille du marché et la croissance sont positivement en relation avec le niveau du (IDE).

- Les conditions économiques ne possèdent aucun effet sur (IDE) dans le secteur bancaire libanais.

- Les risques politiques ont un effet négatif sur (IDE).

- Les qualités et le niveau d'éducation chez les employés de ce secteur, influent le volume des revenus de (IDE).

Summary

In this study, I have addressed the question of the determinants of foreign direct investment (FDI) into the Lebanese banking sector in the post war period.

Why the Lebanese banking sector? Banking activity in Lebanon goes back to the time when Lebanon gained its independence and all capital movements and exchange transactions were legalized. The passing of the banking secrecy law in 1956 marked an important factor behind the evolution of the Lebanese banking sector. Lebanon became a safe haven for capital from Arab world towards the 1965 around 100 local and foreign banks were operating in the country.

In the literature review, I identified a group of variables that affect the FDI. These variables were classified into 3 groups: the host country incentives, the host country risk, and firms' determinants of FDI.

Based on the literature review, I developed a conceptual framework to study the effect of certain variables on the perception of the risk by foreign investors during the investment decision process in comparison with the perception of the risk that the investors have at the present time. These variables were classified into 4 groups: mother firm specificities, local socio economic context, political risk, local resources. Then I developed 11 hypotheses for testing using a questionnaire.

For the survey, I chosen 31 banks from the list of operating commercial banks established by the central bank. These banks were foreign commercial banks (Arab and non Arab banks) and Lebanese commercial banks under foreign (Arab, non Arab) control. The questionnaire was directed to respondents holding senior management posts in banks and that are involved in investment decisions.

In the analysis I used univariate and bivariate analysis to test the hypothesis, this led to the following results:

- Arab Banks still represent the majority of foreign banks established because The Banking sector power attracted in Beirut most of Arab capital from the Gulf.
- Lebanon enjoys the existence of an entrepreneurial culture.
- The bank secrecy law is a basic factor in the investment decision in the Lebanese banking sector; it becomes a key factor in attracting large amounts of capital.
- Most foreign Banks expressed discontent with the lengthy administrative process, obtaining permits from state authorities, delays in administrative procedures.
- The educated workforce in Lebanon constitutes one of the major factors in attracting FDI, though enhancing training and re-education.
- The banking sector is intensive in high technology.
- The majority of foreign banks adopt a "wholly owned subsidiary" as a mode of first implication. First it reduces the risk of losing control second it gives the bank a tight control over operations in different countries.
- The country of origin and the size of the mother firm have no significant effect on the FDI in the Lebanese banking sector.
- The international experience of the mother firm has a positive effect on FDI.
- The market size and growth are positively related to the level of FDI.
- The economic conditions have no effect on FDI in the Lebanese banking sector .
- Political risk has a negative effect on FDI
- The skill and education level of labor influence the volume of FDI inflows.

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CHAPTER I :

Introduction:

Globalization is generally defined as the growing economic interdependencies of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows and also through the rapid and widespread diffusion of technology . Being a complex and contested concept having varying connotations, it is useful to differentiate globalization along three dimensions - cultural-ideational, politico-institutional, and economic globalization (Ramcharran, Harry, 1999).

The first-mentioned dimension raises the issue of whether certain 'universal' values and norms will sublimate 'old life ways'. Politico-institutional globalization refers to the moves towards common political, policy and legal practices across countries through: the creation of supranational, regional or global institutions that replace national institutions; policy convergence across countries; and conscious policy harmonization through recognition of principles such as national treatments and nondiscrimination. Economic globalization can be achieved through global infrastructure, institutional harmonization, and borderlessness.

Foreign Direct Investment FDI (defined as international corporate operations in which the parent firm exercises control or supervision over the activities of affiliates in multiple countries (Moran, 1998)) is "patient capital". It generally cannot be withdrawn quickly and is tied to longer-term strategies.

(FDI) has been one of the central driver and indicator of globalization in the modern era. Increased inward and outward FDI activity basically translates into increased globalization. In fact, FDI is often used as one of measurement of the degree of globalization in the world economy. Hence, the factors that affect FDI also implicitly affect globalization.

The importance of FDI as a source of capital in the developing world has increased significantly over the last couple of decades. By the dawn of the millennium more than half of all capital flows to developing countries took the form of FDI. The tremendous increase in FDI is undoubtedly related to the globalization of the world economy. The scope for multinational production has expanded as GATT's Uruguay Round and various regional integration agreements have reduced the barriers to international trade and investment, at the same time as important technical innovations in telecommunications and information technology have facilitated the coordination of international production networks. Many developing countries, with an increasing skepticism about import-substituting trade strategies, have been participating in what has been termed a "location tournament" --- policy adjustments, promotional campaigns, and incentive programs designed to attract investment by multinational firms.

An empirical assessment of the role of FDI in the economic growth of the host countries is obviously important. There is a widely shared view that FDI accelerates host countries' growth by (1) augmenting domestic savings and investment, (2) helping transfer of technology from the "leaders," (3) increasing competition in the host country's domestic market, (4) increasing exports and earning foreign exchange, and (5) imparting several other types of positive externalities (spillovers) to the economy at large(Ram 2002). However, it is sometimes suggested that FDI may (1) repatriate funds almost to the same extent as it brings in funds; (2) transfer technologies that are inappropriate for the host country's factor proportions; (3) "kill" indigenous enterprise through an intense competition, especially due to the strong economic power of multinational companies that bring FDI; (4) primarily target the host country's domestic market and thus not increase exports; (5) cause distortions in the host country's policies so as to benefit the foreign investors; and (6) create distortions in the host country's social and economic structures by infusing inappropriate social and cultural norms and behavior patterns. (Ram, 2002)

The findings of previous empirical studies show that multinational corporations (MNCs) consider the country risk (in particularly political risk) of the host country as one of the most important determinants in investment decision-making. Such concern is due to the belief that unpredictability and volatility in the economic and political environment of the host market increases the perceived risk and uncertainty experienced by the firm. In turn, this discouraged firms from entering with heavy resource commitments (e.g. wholly owned subsidiary, majority equity participation in joint venture).

Perceptions of political instability are likely to continue to affect investors' inclinations about undertaking FDI projects in particular countries or regions. The findings of survey-based studies indicate that MNCs consider the sociopolitical stability of the host country as one of the most important considerations in allocating funds to foreign projects. Thus, political risk is the restraining force in the foreign investment decision-making process while return on investment is the driving force.

The past decade has witnessed a dramatic increase in FDI to developing countries, with FDI increasing from $24 billion (24% of total foreign investment) in 1990 to $178 billion (61% of total foreign investment) in 2000 (World Bank, 2001). This is welcome news, especially for poor countries that do not have access to international capital markets.

Although there is an extensive literature on the determinants of FDI to developing countries, most of the analyses are based on a relatively small number of countries.

Analyzing FDI flows to Lebanese banking sector is important for several reasons: First, the importance of the Lebanese banking sector: Banking activity in Lebanon goes back to the time when Lebanon gained its independence and all capital movements and exchange transactions were legalized. The passing of the banking secrecy law in 1956 marked an important factor behind the evolution of the Lebanese banking sector. Lebanon became a safe haven for capital from Arab

world towards the 1965 around 100 local and foreign banks were operating in the country. During the civil war the prospects of banks operating in Lebanon were negatively affected. Since the end of the war a renewed outside interest in Lebanon's banking sector was witnessed with the return of foreign banks. Post war banking activity actually witnessed sustained growth, driven by high economic growth renewed confidence and rising capital flows.

Second on the subject of FDI, Lebanon remains under researched. To the best of my knowledge, there is no published empirical study on FDI that focuses exclusively on Lebanon. This is surprising since FDI is crucial to the region.
Third, since FDI contributes to growth, it is important to know the factors that affect FDI.

The aim of the thesis is to examine Banking investment decision and to establish a comprehensive view on the perception of the risk by foreign investors during the investment decision process in comparison with the perception of the risk that the foreign investors have at a present time.

The first part of this thesis is based on a thorough review of the literature concerning the determinants of FDI including, the host country incentives, economic determinants such as market size, market growth and the perception of the risk (economic, political risk) .

The second part of the thesis presents a conceptual framework that was used to construct a questionnaire addressed to foreign banks in Lebanon. By filling this questionnaire, the foreign banks will provide information about their perception of the risk during their investment decision in comparison with their perception of the risk today. Then I will use cross tabulation of different variables to test hypothesis on the determinants of FDI in the Lebanese banking sector.

In a concluding part, I will identify the determinants of FDI inflow into the Lebanese banking sector in the post war period.

Chapter II :

Literature review:

The decision to make a foreign direct investment (FDI) is a very important one which requires a large capital commitment and can have a significant effect on the firm and the host country. There are many benefits to the host country, primarily because the establishment of such investment can aid in the country's economic development or expansion. For example, it increases the level of employment and encourages the transfer of new technologies. In order to attract foreign direct investment, many developing countries have offered various investment incentives. The competition among countries seeking investment has led to a proliferation of the types of incentives provided to foreign investors. Potential investors are now faced with a dizzying array of host government incentives. In fact, one study identified fifty-one different types of incentives given by developing countries to foreign investors (Fry, 1983). These include such divergent items as tax holidays, subsidization of local wages, and cash grants for part of the investment cost.

There are several core theories which have been used to analyze and explain the FDI decisions: market imperfections theory, international approach, global strategy, and Dunning's eclectic approach.

Rolfe, et al, (1993) identified 7 factors that represent investment incentive preferences: market orientation, type of investment (start-up or expansion), country, product, investment size, labor force size, and investment year.

In the competition for foreign investment, a country (and local areas within said country) wants to provide the most attractive package feasible, making it competitive with other countries (and localities) and insuring that the package is fiscally responsible. From the firm's perspective, the investment location decision also is very important and requires a careful analysis of all the factors. New-site

decisions are part of the strategic decisions and are made by management for longer periods of time (Rees and Stafford, 1986). The firm wants to locate the plant in the most advantageous area, and in addition to what the government may be proposing in its package. A considerable number of researchers has studied location preferences of multinational firms across national borders, investigation of location preference of foreign investors within the boarder of a given host country is lacking (Swamidas, 1990).

The choice of location for firms within a foreign country has to be made within the strategic framework. However, foreign investors do not focus their investments in the same area "because they appear to accord different weights to various locational characteristics" (Little, 1978). Profit-seeking companies will explore the location-endowed assets from a variety of locations (Dunning 1998). They view location-bound assets as complements to their own core competencies, since location-specific factors present themselves with varying degrees of attractiveness to foreign investors. Following Dunning's work, subsequent studies indeed identified the important roles of location factors in FDI. Svedberg (1981) identified a list of location factors that influence the FDI decision: psychic proximity, host government policy and investment incentives, infrastructure adequacy and price of resources.

The market imperfections approach considers FDI to be a response to market imperfections in foreign countries. These imperfections affect supply and demand equilibrium and firms make an FDI to take advantage of this (Brewer, 1992). The internalization approach considers FDI as part of an internalization of transactions within the firm because it is less costly than other arrangements such as licensing and trade agreements (Agarwal and Ramaswami, 1992). Models within this framework basically postulate that, because of various imperfections which exist in markets for technology, finance, labor and raw materials, etc., an MNC in possession of proprietary assets or skills, such as management, technology, R&D, etc., is able to increase the return on its investment by carrying out transactions for such assets internally through intrafirm transfer. Alternatively, FDI is considered

to be an integral part of the firm's overall global strategy (Kim and Hwang, 1992). Finally, Dunning's (1980) eclectic approach is a general theory of international production whereby FDI is affected by location specific advantages, ownership-specific advantages and internalization advantages.

2.1-The eclectic theory:

Studying the internationalization process involves answering 3 basic questions:

(1) Why does a firm decide to initiate this process?

(2) How (through which form) are the international activities realized?

(3) Where does the firm locate its foreign activities?

Rooted in the eclectic paradigm of Dunning (1979, 1980), this work tries to identify the determinant factors of each one of these three basic decisions, why, how and where, for the particular case of FDI as the form of internationalization.

The eclectic paradigm, also known as the 101 paradigm, proposed that the undertaking of FDI is determined by the realization of three groups of advantages:

(1) Ownership advantages are specific to the company and are related to the accumulation of intangible assets, technological capacities or product innovations.

(2) Internalization advantages stem from the capacity of the firm to manage and coordinate activities internally in the value added chain. They are related to the integration of transactions into multinational hierarchies through FDI.

(3) Location advantages refer to the institutional and productive factors which are present in a particular geographic area. They arise when it is better to combine products manufactured in the home country with unremovable factors and intermediate products of another location.

FDI will take place when the three kinds of advantages come together. In this sense, and according to the reasoning of Hennart and Park (1994) and Buckley and Casson (1998), all the advantages are interconnected and affect indistinctly the likewise interconnected decisions of "why", "how" and "where" to internationalize.

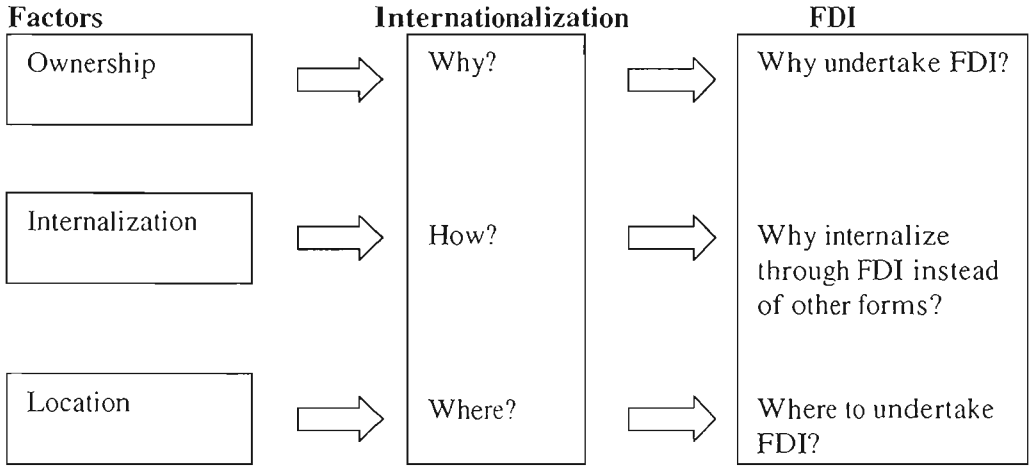
According to the scheme proposed by the eclectic paradigm, there are three groups of factors affecting foreign direct investment (ownership, internalization and location). It is argued that these groups affect the "why", "how" and "where" decisions, respectively.

P1: The ownership factors influence the "why" decision in the internationalization process.

P2: The internalization factors influence the "how" decision in the internationalization process.

P3: The location factors influence the "where" decision in the internationalization process. (Dunning, 1998).

Figure1 Model of determinant factors in the key decisions in the internationalization process



source: Chong Ju Choi, Global competitiveness and national attractiveness, (1999)

2.2- The host country incentives as determinant of Foreign Direct Investment

Given the potential role, FDI can play a role in accelerating growth and economic transformation; developing countries are strongly interested in attracting it. They are taking steps to improve the principal determinants influencing the locational choices of foreign direct investors.

Table 1 Host country determinants of foreign direct investment (FDI)

Host country determinants	Type of FDI classified by motives of firms	Principal economic determinants in host countries
A-Policy framework for FDI □ Economic, political, and social stability □ Rules regarding entry and operations □ Standards of treatment of foreign affiliates □ Exchange rate policy □ Trade policy (tariffs and nontariff barriers) and coherence of FDI and trade policies □ Tax policy	Market-seeking	□ Market size and per capita income □ Market growth □ Access to regional and global markets
B- Economic determinants (see table on the right)	Resource/asset-seeking	□ Low-cost skilled labor □ Technological, innovative, and other created assets (for example, brand names), including as embodied in individuals, firms, and clusters Physical infrastructure (ports, roads, power, telecommunications)
C-Business facilitation □ Investment promotion (including image-building and investment-generating activities and investment- facilitation services) □ Investment incentives □ Hassle costs (related to corruption and administrative efficiency) Social amenities (for example, bilingual schools, quality of life) After-investment services	Efficiency seeking	Cost of resources and assets listed above, adjusted for labor productivity Other input costs, such as transport and communication costs to/from and within host economy and other intermediate products

Source: UNCTAD, *World Investment Report 1998: Trends and Determinants*, Table IV.1, p. 91.

2.2.1 Policy framework for FDI:

Economic Stability :

A strong economy generally makes a developed nation a more desirable location. (KPMG Peat Marwick 1991, Stevens 1991 and Price Waterhouse 1990) The year in which the investment was made may influence the incentives that are considered important by managers. Economic conditions vary from year to year; so factors that affect foreign investments may change yearly. Also inflation rates have been used to capture the stability of macroeconomic policy by Schneider and Frey (1985) and Bajo-Rubia and Sosvilla-Rivero (1994). Both found that inflation and FDI flows are negatively related.

political Stability

It appears that political instability, especially as evidenced by conflicts, can have a negative influence on firms' FDI decisions. (See Nigh (1985), Korbin (1981) and Green and Cunningham (1975).) . Political factors in the host country are often of crucial importance. Some variables will have an important political dimension, such as the level of tariffs and the severity of non-tariff barriers to trade. Other papers such as Wang and Swain (1995) use dummy variables to capture specific political events, which might have an important impact on FDI flows.

Rules regarding entry and operations:

Avoidance of trade restrictions in host country if significant demand exists for a firm's product and the host country has imposed barriers via trade restrictions, then the firm needs to make an FDI to avoid such restrictions. (Ingrassia and Chandler 1992, KPMG Peat Marwick,1991 and Green and Cunningham, 1975).

Environmental laws and constraints in the host country--more restrictive and greater regulatory requirements can have a negative impact on FDI. (Schmenner 1982 and Solis 1992).

- Standards of treatment of foreign affiliates: Government legislation.

Institutional differences also seem to play a very important role in either attracting or discouraging FDI flows to developing countries. (Nigh, 1985, Korbin, 1981 and Green and Cunningham, 1975) For example, countries that have a greater degree of political and macroeconomic stability, well-defined and enforceable property rights with regard to the transfer of technology, liberal legislation governing the remittance of profits and dividends, and limited or nonexistent local content or export requirements tend, on average, to attract greater flows of FDI.

In addition, FDI flows are likely to be encouraged by government legislations that lead to the establishment of a legal-institutional framework that is conducive to business activity-namely, one that significantly reduces the transactions costs associated with negotiating contracts, improves information about the quality of goods and services, and ensures that the parties to a formal agreement honor their commitments (North, 1990).

FDI flows are likely to be attracted to developing economies that pursue a credible outward-oriented, "market-friendly" strategy of economic development. Government policy and legislations can also enhance the attractiveness of FDI flows by ensuring the adequate provision of economic and social infrastructure in the form of paved roads, ports, airfields, relatively cheap energy supplies, and a well-educated and disciplined work force.

Exchange rate policy

Changes in a country's exchange rate policy play a key role in altering its relative attractiveness to net FDI inflows. Not surprisingly, economists are not entirely of one mind when it comes to the optimal exchange rate strategy to pursue. For example, some investigators argue that a policy that keeps the real exchange rate undervalued relative to that of its key investment partners is, ceteris paribus, likely to enhance FDI flows because it artificially reduces the unit costs of the country's

factors of production and thus enables investors to make a significantly larger investment in terms of the domestic currency. Therefore, after a reasonable lag, the amount of FDI should increase with a devaluation of the domestic currency of the country of origin. (ECLAC, 1998).

Other researchers contend that a policy that leads to a real appreciation of the domestic currency is likely to encourage FDI inflows because it enhances the foreign currency (dollar) value of the remittances of profits and dividends back to the parent company (De Mello, 1997). FDI increases (decreases) when the host country's currency is relatively weaker (stronger) than those of the locating firm. (KPMG Peat Marwick ,1991, Slemrod, 1990 and Froot and Stein, 1989) After all, it is the real rate of return on their initial (dollar) investment that matters to the parent company. In light of the conflicting views in the literature on the impact of the exchange rate on FDI flows, it is best, from a policy standpoint, to pursue a credible strategy that maintains the country's real exchange rate in line with that of its key trading and investment partners.

Trade policy (tariffs and nontariff barriers) and coherence of FDI and trade policies:

Several studies have suggested that the market location of firms' goods or services influences the effectiveness of incentives (Guisinger ,1985; OECD ,1983 Contractor 1990). For example, Guisinger (1985) concluded that commodity-based incentives, such as tariff and quota protection, were the dominant incentive for twenty-four out of thirty-six local market-oriented investors surveyed in his study. In contrast, only one export-oriented investor out of a total of twelve was influenced by commodity incentives. Similarly, Reuber (1973) concluded that protection of local markets in a developing country was of major importance for market-development and government-initiated projects. These conclusions stand in contrast to those for export-oriented subjects, where financial incentives such as income tax holidays were more important (Guisinger, 1985). Academic studies of market penetration generally have concluded that tax holidays are not a significant

factor in the investment decision process (Cable and Persaud, 1987; Root and Ahmed, 1978; Lim, 1983)

Trade and investment regime and the 'openness' of the host country, are some of the most important host country-specific determinants of FDI. Host countries pursuing FDI and external economic ties are expected to fit more easily into global production and trade patterns, and thus would be more attractive to foreign investors (Vernon, 1966; Root and Ahmed, 1978). In an open economy, it is easier to import raw materials or some capital goods, which are necessary for the investment and also to export the finished goods. Thus the openness of the host country economy is expected to positively influence the FDI levels.

- Tax policy:

Preferences for incentives may also differ depending upon the country in which the firm has located. Many factors, such as distance from markets, market size, economic growth, infrastructure quality, inflation rate, political risk, and currency stability vary significantly among countries. Tax rates can also make a difference in preferences. When a corporate tax rate is low, tax holidays may not be important. The desirability of tax holidays naturally increases with the rate of corporate taxation. There is much research regarding the effects of tax laws on the investment location decision and the results are mixed. Some studies find them to be important whereas others find them to be insignificant. Tax laws probably have an effect on marginal decisions, which are not likely to be numerous. (Slemrod ,1990, Rees and Stafford ,1986 and Schmenner ,1982) There are seven tax factors: tax rates, tax deductions and credits, tax holidays (all at the national and the local levels), and the dividend withholding policy.

Tax holidays may be more important to export-oriented investors than to local market-oriented investors. Wells (1986) and Helleiner,(1973) observed that export-oriented investors compare several manufacturing locations and are

accordingly more likely to be influenced by tax holidays than are market-oriented investors.

2.2.2 Economic determinants:

a-Market seeking

- Market size.

The market size is a key consideration in the FDI decision. As the demand in the host country grows to a size that permits local production to be more cost-effective, foreign firms prefer to serve the market by FDI to exports (Vernon, 1966). Moreover, a large market size also provides a better opportunity for foreign investors to reduce entry costs and to attain economies of scale that make it conducive to sales not only in the internal market, but also for re-export to other markets. Guisinger, 1985, Schoenberg, 1985 and Ajami and Ricks, 1981) The greater the demand,size and access to the market, the greater the incentive to locate in the foreign country, especially if the objective of the locating firm is market penetration.

A number of empirical studies of FDI in Europe confirmed that market potential of host countries has a significant and positive effect on attracting FDI (Scaperlanda and Balough, 1983, Root and Ahmel, 1979; Lunn, 1980;).

Market growth

Various market characteristics have been found to influence the inflows of FDI, including market size and growth in market size. The market size in conjunction with the growth prospects of the host country market are important 'pull' factors and theoretically positively related to the level of FDI flows (Chandprapalert, 2000. Dunning, 1993). Because a large market size is conducive to increase in demand for the products and services provided by foreign investors. Moreover, a huge market size allows the attainment of economies of scale, and transaction costs are thought to be lower in countries with higher levels of economic development (Zhao and Zhu, 2000, Caves, 1971).

- Access to regional and global markets

FDI also serves as an export platform to sell to adjacent markets. Lucas (1992) confirmed such behavior in his study on determinants of FDI in seven East and Southeast Asia countries. He found that FDI is more sensitive to aggregate demand in export markets than domestic demand. One possible reason for such phenomenon is the strategic behavior of foreign firms that want to defend their established overseas market position. Hence, by moving a production base to locations with lower costs, they can serve the third market more efficiently and competitively.

b-Resource and asset seeking:

- Low-cost skilled labor

The size of the labor force could also have an impact on incentive preferences. Employers of large numbers of personnel may be more interested in wage- related incentives, such as wage or training subsidies. (Rofle, 1993)

Quality and cost (wage rates) and having an abundance of skilled laborers in place has a very positive influence on the plant-site location decision, and while its cost is important, its availability is more important. (KPMG Peat Marwick, 1991, Rees and Stafford ,1986 and Joint Economic Committee, 1982).

Technological, innovative, and other created assets (for example, brand names), including as embodied in individuals, firms, and clusters.

Industry and technological capabilities affect the ability and attractiveness of an FDI (Dunning, 1980). The productivity and technological level in a region may be important criteria in the location choice decision. It has recently been suggested that exploring local productivity advantage and making use of the indigenous technology are more important than seeking raw materials and labor supplies. Mariotti and Piscitelo (1995) hypothesize that "a location with scientific and

technological assets provides access to human resources, know-how, and local technological traditions." This view was supported by Pearce and Satwinder (1992) who argued that joint ventures were motivated by these variables in foreign location selection.

- Physical infrastructure (ports, roads, power, telecommunications)

Porter (1990) explicitly discussed the important role of infrastructure in attracting foreign investments. The availability of adequate infrastructure represents the cost of operations in a location for foreign investors and allows foreign investors to move their production materials and products more easily to designated areas. Coughlin et al (1991) also found transportation infrastructure has a positive and significant impact on the location decision of FDI in the US. Thus, it is likely that foreign investors also are inclined to choose locations with better and more adequate infrastructure. So a poor infrastructure reduces the attractiveness of a location because it increases costs and creates additional burden to the firm. (Lim, 1985, KPMG Peat Marwick, 1991 and Schmenner, ,1982), this is a combination of several variables such as transportation, location to expressways, rail service, etc.

c-Efficiency seeking

- Cost of resources and assets listed above, adjusted for labor productivity

Similar to their domestic investment decision-making, firms seek FDI with an attempt to maximize profits subject to economic and political constraints. Once a decision to enter a foreign country has been made, the next task facing foreign investors is to assess and choose a location that is favorable for the maximization of expected profits. The average profit condition and the level of productivity of a local industry in a region may reflect the prospect of the local economy. Thus, the level of economic efficiency of a location may be one of the most important criteria for foreign investors in considering the location choice. (Zhao ,2000)

□ Other input costs, such as transport and communication costs to/from and within host economy and other intermediate products

According to the classical international division of labor theory, FDI is a vehicle for firms to maximize profits by locating their functions in different geographical areas. With this profit-maximizing objective, a firm would deploy its value-chain activities in a location that allows it minimize costs. Previous studies also found labor and rental costs often account for a large proportion of the total costs in foreign operations (Summary and Summary, 1995; BaJo-Rubio and Sosvilla-Rivero, 1994). However, the cost concept is sometimes controversial, as it may be closely related to the quality of the factor concerned.

d-Business facilitation:

With FDI policy frameworks becoming more similar, countries interested in encouraging investment inflows are focusing on measures that facilitate business. These include investment promotion, investment incentives, after-investment services, and measures that reduce the costs of doing business. While by no means new, these measures have proliferated and are becoming more sophisticated, targeting individual investors and investments in particular industries. After-investment services are noteworthy because they can encourage reinvestment by existing investors, who, if satisfied, provide publicity for the host country, sparking further investment. Financial or fiscal incentives are also used to attract investors, even though they typically figure into investors location decisions only when the economic determinants are in place.

2.3 Host country Risk

2.3.1 Definition

All business transactions involve some degree of risk. When business transactions occur across international borders, they carry additional risks not present in domestic transactions. These additional risks, called country risks, typically

include risks arising from a variety of national differences in economic structures, policies, socio-political institutions, geography, and currencies. Country risk analysis (CRA) attempts to identify the potential for these risks to decrease the expected return of a cross-border investment.

Evaluating country risks is a crucial exercise when choosing sites for international business, particularly if investment is to be undertaken. Certain risks can be managed through insurance, hedging and other types of financial planning, but other risks cannot be controlled through such financial mechanisms. Some of these latter risks may be measured in a risk return analysis, with some countries' risks requiring higher returns to compensate for higher risks. The study of country risks is also necessary in order to develop alternative scenarios: Uncertainty may remain, but it can be transformed into planned uncertainty, with no surprises and with contingency plans in place.

The theories of FDI are well documented in the literature; some of the major studies include Dunning (1981, 1984), Vernon (1979), Hymer (1976), Caves (1971). Additionally, the motives for FDI are fully discussed in Czinkota, Ronkainen, and Moffet (1996) and Madura (1995). The multinational enterprise (MNE) is the dominant vehicle for the transfer of FDI. They operate in multi jurisdictional areas and are subjected to risks that are not associated with domestic firms; among these risks are exchange rate, political and economic. Foreign exchange risk is the change in the home currency value of assets and liabilities denominated in foreign currencies under a system of flexible exchange rate. Economic risk emanates from the fluctuation in economic growth and other market conditions. It indicates a country's profit potential and its ability to service foreign financial obligations. Political risk emanates from the uncertainty about political events, particularly the potential for the host government to intervene in the operations of the economy and affect the value of MNEs, especially the cash flows to the parent company. Root (1993) noted that although political risk results from the actions of the government, they may be influenced or even caused by economic condition. The better a country's economic performance, the lower the

probabilities that the government would take actions that adversely affect the profitability of foreign firms. Shapiro (1996) contended that political risk consisted of governmental acts such as expropriation, currency, and trade control, regulatory restrictions, and changes in tax and labor laws. The risks of expropriation and government regulation of capital flows were central to the earlier empirical studies on FDI and political risk. Some of these included Basi (1963), Aharoni (1966), Bennett and Green (1972), Green and Cunningham (1975), Kobrin (1976, 1978), Levis (1979), and Root and Ahmad (1987).

Analysts identified 6 main components of country risk. Many of these categories overlap each other, given the interrelationship of the domestic economy with the political system and with the international community. Even though many risk analysts may not agree completely with this list, these six concepts tend to show up in risk ratings from most services. (Meldrum,(2000): Economic Risk , Transfer Risk ,Exchange Rate Risk ,Location or Neighborhood Risk, Sovereign Risk, Political Risk.

Economic Risk

Economic Risk is the significant change in the economic structure or growth rate that produces a major change in the expected return of an investment. Risk arises from the potential for detrimental changes in fundamental economic policy goals (fiscal, monetary, international, or wealth distribution or creation) or a significant change in a country's comparative advantage (e.g., resource depletion, industry decline, demographic shift, etc.). Economic risk often overlaps with political risk in some measurement systems since both deal with policy.

Economic risks may be particularly important in regard to economic volatility, industry structure and international competitiveness. (Conklin,2002).

Industry risks

Managers must analyze the domestic situation for industry risks such as the strength of competitors, the potential for substitutes, the capabilities of suppliers and customers, and the risk of new entrants. It may be helpful to determine the risk level by developing a matrix in which each industry risk is evaluated as minor, serious or "show-stopping," and in which the various ways of mitigating each risk are analyzed. For many foreign corporations, one example of industry risk may be the difficulty in finding suppliers who can offer the required level of quality and service. Public utility disruptions may also be risky, especially for firms dealing in perishable commodities.

Intra-country economic risks

Managers would do well to consider risk differences within each country. Many countries contain a high-growth region with strong competitive attributes.

Economic risk measures include traditional measures of fiscal and monetary policy, such as the size and composition of government expenditures, tax policy, the government's debt situation, and monetary policy and financial maturity. For longer-term investments, measures focus on long-run growth factors, the degree of openness of the economy, and institutional factors that might affect wealth creation.

Transfer Risk

Transfer Risk is the risk arising from a decision by a foreign government to restrict capital movements. Restrictions could make it difficult to repatriate profits, dividends, or capital. Because a government can change capital-movement rules at any time, transfer risk applies to all types of investments. It usually is analyzed as a function of a country's ability to earn foreign currency, with the implication that difficulty earning foreign currency increases the probability that some form of capital controls can emerge. Quantifying the risk remains difficult

because the decision to restrict capital may be a purely political response to another problem.

Transfer risk measures typically include the ratio of debt service payments to exports or to exports plus net foreign direct investment, the amount and structure of foreign debt relative to income, foreign currency reserves divided by various import categories, and measures related to the current account status. Trends in these quantitative measures reveal potential imbalances that could lead a country to restrict certain types of capital flows.

□Exchange Rate Risk

Exchange Risk is an unexpected adverse movement in the exchange rate or the instability of a country's currency. Both political and economic events can result in realized business risk through fluctuations in currency values. While not the only source of risk, currency is argued to be the most important financial risk (Allaynnis and Weston, 2000, Geczy et al.,1997). In a 1998 survey of derivative use of firms , researchers at the weiss Center for international Financial research at the Wharton school of business found that derivative use has increased and that currency exposure is the most important source of financial risk for the respondents(much more important than interest rate risk) (Bodnar, Marston, and Hayt, 1998). Major changes in a country's economic policies, political regime, terms of trade, attitude toward foreign direct investment, and social stability are almost always reflected in a country's currency value countries with fixed exchange rate values are not immune to these risks either. Serious environmental discontinuities can force governments into difficult and often politically destabilizing currency devaluations.

Exchange risk also includes an unexpected change in currency regime such as a change from a fixed to a floating exchange rate. Economic theory guides exchange rate risk analysis over longer periods of time (more than one to two years). Short-term pressures, while influenced by economic fundamentals, tend to

be driven by currency trading momentum best assessed by currency traders. In the short run, risk for many currencies can be eliminated at an acceptable cost through various hedging mechanisms and futures arrangements. Currency hedging becomes impractical over the life of the plant or similar direct investment, so exchange risk rises unless natural hedges (alignment of revenues and costs in the same currency) can be developed.

In recent years, the risk of foreign exchange rate movements has become a paramount consideration, as has the risk that a government may simply lack the economic capacity to repay its loans. Many countries have been experiencing ongoing fiscal deficits and rapid money-supply growth. Consequently, inflation rates remain high in these countries, and devaluation crises appear from time to time. A devaluation of one country's exchange rate automatically creates pressure for devaluation in other countries' exchange rates. Competitive domino devaluation pressures are intensified because of the reliance of many countries on primary product exports and their price volatility. But how can foreign investors protect themselves from these exchange rate risks? Hedging mechanisms offer some hope for reducing foreign exchange risks, though generally not without some cost. Here are some other ways managers can cope with these country risks:

1. Consider the timing of your investments. Investors should restrict capital transfers to a country to those times when the foreign exchange rate is in equilibrium. The theory of "Purchasing Power Parity" provides a guide to likely exchange rate changes. Compare a country's cumulative inflation over a number of years with the cumulative inflation rate of its major trade partners. If the difference in cumulative inflation rates exceeds the percentage change in the foreign exchange rate, then devaluation is a real possibility.
2. Borrow domestically to do business domestically and avoid foreign exchange rate exposure. Keep in mind that this approach does expose the business to the possibility of interest rate increases as a result of a central bank's response to foreign exchange rate devaluation.

3. Focus on the devaluation risk when choosing among countries as investment sites.
4. Consider the amount of capital required by those activities that are being developed in a country subject to devaluation risk.
5. Spread the purchase price over as long a time period as possible. This allows domestic currency to be purchased at a lower cost if devaluation occurs. Alternatively, gear the purchase price to a weighted average of the exchange rate over future years, with projected future payments adjusted in accordance with the exchange rate.(Conklin 2002).

Many of the quantitative measures used to identify transfer risk also identify exchange rate risk since a sharp depreciation of the currency can reduce some of the imbalances that lead to increased transfer risk. A country's exchange rate policy may help isolate exchange risk. Managed floats, where the government attempts to control the currency in a narrow trading range, tend to possess higher risk than fixed or currency board systems. Floating exchange rate systems generally sustain the lowest risk of producing an unexpected adverse exchange movement. The degree of over- or under-valuation of a currency also can help isolate exchange rate risk.

Location or Neighborhood Risk

Location or Neighborhood Risk includes spillover effects caused by problems in a region, in a country's trading partner, or in countries with similar perceived characteristics. While similar country characteristics may suggest susceptibility to contagion (Latin countries in the 1980s, the Asian contagion in 1997-1998), this category provides analysts with one of the more difficult risk assessment problems.

Geographic position provides the simplest measure of location risk. Trading partners, international trading alliances (such as Mercosur, NAFFA, and EU),

size, borders, and distance from economically or politically important countries or regions can also help define location risk.

□Sovereign Risk

Sovereign Risk concerns whether a government will be unwilling or unable to meet its loan obligations, or is likely to renege on loans it guarantees. Sovereign risk can relate to transfer risk in that a government may run out of foreign exchange due to unfavorable developments in its balance of payments. It also relates to political risk in that a government may decide not to honor its commitments for political reasons.

Sovereign-risk measures of a government's ability to pay are similar to transfer-risk measures. Measures of willingness to pay require an assessment of the history of a government's repayment performance, an analysis of the potential costs to the borrowing government of debt repudiation, and a study of the potential for debt rescheduling by consortiums of private lenders or international institutions.

□Political Risk

Several Authors (Formica, 1996; Fatehi - Sedeh and Safizadeh, 1989; Kobrin, 1979; Robock, 1971; Sethi and Luther, 1986) claimed there is no single universally accepted definition of political risk. It is most commonly conceived in terms of (usually host) government interference with business operation (Carbon, 1979). Very simply, 'political risk' refers to the possibility that political decisions or events in a country will affect the business climate in such a way that investors will lose money or not make as much money as they expected when the investment was made.

The existing definitions of political risk focus on the concept of political risk from two different perspectives (Carbon, 1979). One group views political risk in terms of governmental or sovereign interference actions. This concept, which is related to all undesired outcomes of political activities of the host government with private businesses, is represented by confiscation, currency repatriation, limits to business transactions and so on. The second group identifies political risk as occurrences of any political events imposed upon the firm. The examples are violence, terrorism, and guerrilla groups.

In the process of defining political risk it is useful to distinguish it from political instability. Carbon (1979, 1980) argued that instability is a feature of the general environment, whereas risk is something narrower in focus which directly affects the MEN. In other words, political instability, for example, by an unexpected change in government leadership, may not involve political risk for international business. Furthermore, Lewis (1979) claimed that political stability in itself is not a sufficient guarantee to tourism or any other kind of industry, especially in the absence of favorable economic conditions.

Political risk is also defined more precisely. Schmidt (1986) defines political risk as "the application of host government policies that constrain the business operations of a given foreign investment". He subdivides risk into three main

categories: "transfer risk", concerning risk to capital payments; "operational risk", with threats over local source or content; and "ownership control risk", highlighting possibilities of expropriation or confiscation. Moreover, according to Kennedy (1988) political risk can be defined as the risk of a strategic, financial, or personnel loss for a firm because of such non-market factors as macroeconomics and social policies (fiscal, monetary, trade, investment, industrial, income, labour, and development), or events related to political instability (terrorism, riots, coups, civil war, and insurrection).

The difficulty in finding a proper and commonly accepted definition of political risk has presumably prevented many researchers from contributing to this issue and it is also troublesome for building a solid model easily applicable. Furthermore, the scope of political risk may be another deterrent for the development of research in this field.

Although business managers and researchers have long recognized the role of political risk in international business, country risk analysis is still a relatively new area of research. In fact, the field did not take off until Robock (1971) linked independent and dependent variables of political risk (Simon, 1982).
Political risk analysis is the analysis of political events and conditions that could cause loss to international business (Coplin and O'Leary, 1983). Political risk factors can be divided into macro-and micro risks. Macro-risk refers to unanticipated and politically motivated environmental changes directed at all foreign enterprise. Micro-risk, on the other hand, is concerned with environmental changes that only affect selected industries or firms (Robock, 1971) in a country.

The findings of previous empirical studies show that MNCs consider the political risk of the host country as one of the most important determinants in investment decision-making. Such concern is due to the belief that unpredictability and volatility in the political environment of the host market increases the perceived risk and uncertainty experienced by the firm. In turn, this disinclines

firms from entering with heavy resource commitments (e.g. wholly owned subsidiary, majority equity participation in joint venture).

2.4 Firm related determinants of foreign direct investment

In addition to the above host country factors, firm-related factors can affect FDI. Firm size affects the size of the FDI and propensity of a firm to invest abroad (Kimura, 1989 ; Yu and Ito, 1988). Industry and technological capabilities affect the ability and attractiveness of an FDI (Dunning, 1980). A firm's multinational experience also impacts FDI (Agarwal and Ramaswami, 1992).

2.4.1 Capital intensity:

Capital intensity (CI) varies significantly across service industries from somewhat low levels in consulting firms and advertising agencies to fairly high levels in hospitals, hotels and airlines. For service firms with low CI, foreign direct investment does not entail a significant commitment of resources to the host market because large-scale investments in plants, machinery, buildings, and other physical assets are not required. FDI is limited to establishing an office, often involving little fixed overhead. Low-CI firms tend to be much less sensitive to uncertainty and risk. . High-CI service firms such as hotels, hospitals, banks have to commit substantial resources to the host market. Therefore, they can be expected to perceive greater risks and to be more sensitive to uncertainty.

2.4.2 Firm size:

Firm size becomes a significant factor when a firm's ability to marshall resources to establish an entry mode becomes important (Erramilli and Rao, 1993; Gatignon and Anderson, 1988). However, is the possibility that larger firms have greater ability to absorb losses than smaller ones and, therefore, be less sensitive to uncertainty effects. Larger firms may be better equipped to absorb the risks and withstand the losses associated with foreign direct investment in high-risk countries.

2.4.3 Investment size

The amount of the investment required may also affect the types of incentives preferred by managers. Large investors probably will prefer incentives where the attractiveness increases with investment size, such as cash grants or accelerated depreciation allowances, while smaller investors may not perceive these same incentives as quite so important. Naturally, investment size is both an absolute and relative concept. (Rofle 1993)

2.4.4 Product

The type of product being manufactured could affect the incentives preferred by executives. Because light manufacturers, such as apparel or electronics manufacturers, generally rent their factory space, real estate tax concessions or land grants would probably not be of much interest to them. As their major expenditures are for wages and the acquisition of equipment, they would be more interested in incentives related to depreciable assets or wage subsidies.

Manufacturing differs substantially from service operations. Manufacturing investments generally require much larger investments in fixed assets, such as land and equipment, than do service companies. As a result, incentives related to the acquisition of assets or the calculation of depreciation should be of less interest to service firms. (Rofle 1993)

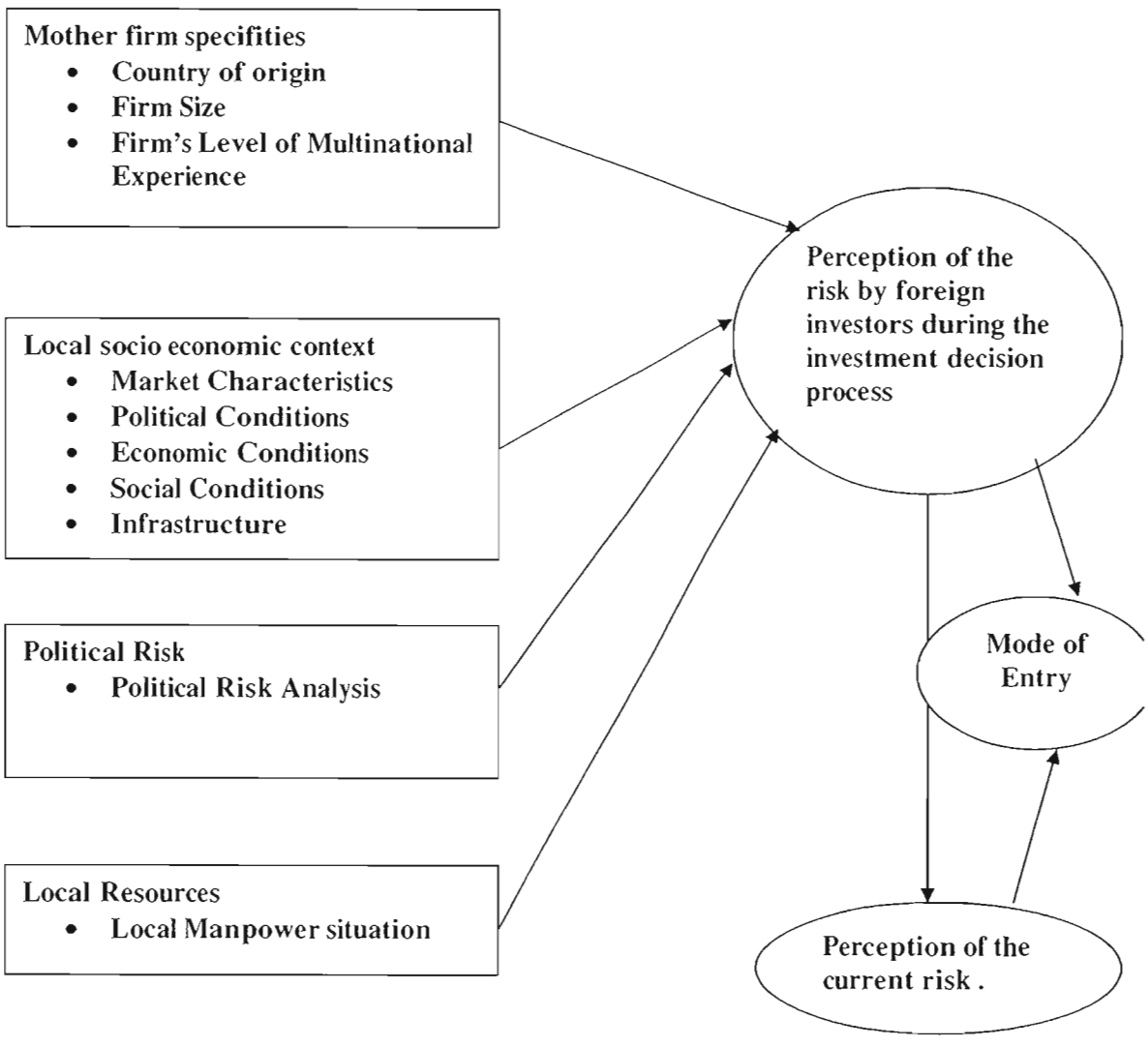
CHAPTER III: Conceptual Framework:

The theoretical framework is the basis on which the entire research rests. It is a network of concepts and theoretical relations that help in the construction of a model to a certain phenomenon.

My conceptual framework will study the effect of certain variables on the perception of the risk by foreign investors during the investment decision process in comparison with the perception of the risk that the foreign investors have at the present time.

Based on literature review, I have chosen 11 variables divided into 4 categories (see figure 2)

Figure 2 : The Conceptual Framework.



3.1 Mother Firm specifities

3.1.1 Country of origin:

The existing literature focus on the country of origin of FDI flows into the United States. Leftwich's (1973) studied the economic determinants of FDI in the USA (FDIUS). He attempted to explain this phenomenon by regressing variables measuring size of the US market, its annual rate of growth, and the level of host country tariffs.

Ajami and Barniv (1984) extended leftwich's work. They examined the following determinants of FDIUS: (1) relative size of the U.S market; (2) change in exports to the U.S; (3) growth of GNP in home and host countries; (4) decline in value of U.S dollar; (5) inflation rates in home and the host countries.

Culem (1988) studied all bilateral flows of FDI between six industrialized countries and found that host market size its rate of growth and tariff barriers were significant locational determinants of inward foreign investment.

Grosse and Trevino (1996) studied the factors that contribute to explanation of FDI in the United States by country of origin investment. The main significant positive influences are home country's exports to the United States and home country market size. Significant negative influences include the home country imports from the U.S. , the cultural and geographic distances of the home country from the U.S., and the exchange rate (fx/$)

The hypothesis is :.

H .1: Does the country of origin of FDI has a positive significant effect on FDI.

3.1.2 Firm Size:

Firm size affects the size of the FDI and propensity of a firm to invest abroad (Kimura, 1989 and Yu and Ito, 1988). Firm size becomes a significant factor when

a firm's ability to marshall resources to establish an entry mode becomes important (Erramilli and Rao, 1993; Gatignon and Anderson, 1988). More pertinent to the current study, however, is the possibility that larger firms have greater ability to absorb losses than smaller ones and, therefore, be less sensitive to risk effects. So Larger firms may be better equipped to absorb the risks and withstand the losses associated with foreign direct investment in high-risk countries.

Empirical evidence indicates that the impact of firm size on foreign direct investment is positive. (Buckley and Casson 1976, Cho 1985, Caves and Mehra 1986, Yu and Ito 1988, Terpstra and Yu 1988, Kimura 1989).

I can conclude the following hypothesis :

H. 2 : The impact of firm size on FDI is positive.

3.1.3 Firm's level of multinational experience:

A firm multinational experience impacts FDI. (Agarwal and Ramaswami, 1992). Firms without foreign market experience are likely to have greater problems in managing foreign operations. They have been observed to overstate the potential risks, while understanding the potential returns of operating in a foreign market. This makes the choice of non- investment modes more probable for these firms. (Caves and Mehra 1986, Gatignon and Anderson 1988, Terpstra and Yu 1988). Conversely, firms with higher multinational experience maybe expected to prefer investment modes of entry.

The hypothesis is :

H. 3: A firm multinational experience impacts FDI.

3.2 Local socio- economic context:

3.2.1 Market characteristics:

Market potential (size and growth) has been found to be an important determinant of overseas investment. The market size in conjunction with the growth prospects

of the host country market are important 'pull' factors and theoretically positively related to the level of FDI flows (Chandprapalert, 2000; Dunning, 1993). Because a large market size is conducive to increase in demand for the products and services provided by foreign investors. Moreover, a huge market size allows the attainment of economies of scale, and transaction costs are thought to be lower in countries with higher levels of economic development (Zhao and Zhu, 2000; Caves, 1971;).

The hypothesis is:

H. 4 : The market size and growth are positively related to the level of FDI.

3.2.2 Political Conditions

Industrialized and developing countries will differ in their overall orientation towards foreign business. Kobrin (1980) notes that various risks have different degrees of importance depending on whether the firm is operating in a developing or an industrialized country. In a survey of senior international managers of U.S. based multinational firms respondents were asked to rank the relative importance of various kinds of political risk. Civil disorder and expropriation were seen as most important in less developed countries, whereas in industrialized countries, price controls and labor disruptions were seen as most important.

As noted by Schmidt (1986), in the LDC's perhaps the single most important attribute of any foreign investment operation as it relates to political risk is sector of economic activity. The host government's policies aimed at controlling or influencing the activities of foreign investors are most frequently applied to primary and service sector operations.

There are several service sector investments that experience the application of restrictive public policies thus increasing political risks in those areas for foreign firms. The specific businesses involved are banking, insurance, communications, transportation, and utilities. The primary arguments that accompany the exercise of greater control over these service sector investments is that they are strategic

areas of the economy considered socially or politically sensitive. Banks and insurance companies provide funds for investments and also serve as potential bases of economic influence and control. To leave these operations in the hands of foreign firms may seriously affect certain sectors of the economy.

The hypothesis is

H. 5 : Political instability in a country's region could create political risk and therefore has a negative effect on FDI.

3.2.3 Economic Conditions

A strong economy generally makes a developed nation a more desirable location. (KPMG Peat Marwick, 1991, Stevens ,1991 and Price Waterhouse ,1990).

Trade and investment regime, the 'openness' of the host country are some of the most important host country-specific determinants of FDI. Host countries pursuing FDI and external economic ties are expected to fit more easily into global production and trade patterns, and thus would be more attractive to foreign investors (Root and Ahmed, 1978; Vernon, 1966;). In an open economy, it is easier to import raw materials or some capital goods, which are necessary for the investment and also to export the final products. Thus the openness of the host country economy is expected to positively influence the FDI levels.

Real interest rate on commercial sight deposits is used as an ancillary variable to measure overall economic instability, which is expected to increase the user cost of capital in the host country economy and to affect the profitability of FDI negatively, so acting as a FDI deterrent. In a similar vein, exchange rates are expected to affect FDI inflows in so far as they affect a firm's cash flow, expected profitability and the attractiveness of domestic assets to foreign investors.

The hypothesis is:

H. 6: A strong economy makes a nation a more desirable location for FDI.

3.2.4 Social Conditions:

Analyzing and dealing with the needs and demands of stakeholders seems to become the ultimate managerial panacea. There are numerous textbooks and articles promoting the idea that organization must manage their stakeholders or face dire consequences.

The stakeholder management literature can be traced back to the seminal work of Freeman (1984), who articulated a 'stakeholder model' to replace the managerial model of the firm. The latter, which served managers well for many years, focused on the role of employees, suppliers, shareholders and customers. Managers could achieve their objectives by understanding these groups and their changing needs and expectations. However, changes in the external environment of the firm have become so turbulent and relevant to the achievement of the firm's objectives that managers need to develop ways of understanding and addressing these issues as well. He proposed a new conceptual model of the firm that essentially incorporates the external environment. Successful managers must understand and respond to the needs and aspirations of those groups in this environment. He calls these 'stakeholders', which he defines as 'any group who can affect or is affected by the achievement of the firm's objectives' (Freeman, 1984, p. 25).

While the specific nature of this model has evolved over time, the basic assumptions upon which it rests remain the same. Acceptance of the 'systems' view of organizations acknowledges that they need to interact with their environment. Specific interest groups (stakeholders) exist in that environment and have an impact on (a stake in) the behavior and effectiveness of that organization.

The social conditions in a host country represent the stakeholders that affect foreign firms decision of investment in this host country, because the social conditions could affect the firm's objectives.

The underlying hypothesis is:

H. 7: A good social environment has a positive effect on FDI.

3.2.5 Infrastructure

The adequacy of the basic infrastructure is some of the most important host country-specific determinants of FDI. A foreign investor would prefer a host country with a good infrastructure, which will facilitate communication, transportation and distribution.

Previous empirical studies have generally found that host country infrastructure plays a significant role in influencing the distribution of FDI. A study by Loree and Guisinger (1995) on the policy and non-policy determinants of US FDI found that for the explanatory variables, the amount of telecommunication and transportation infrastructure was positively related to the intensity of FDI inflows. Thus, it is likely that foreign investors also are inclined to choose locations with better and more adequate infrastructure.

The underlying hypothesis is:

H. 8: The amounts of telecommunication and transportation infrastructure are positively related to the intensity of FDI.

3.3 Political Risk

Political risk is the threat that politics or political players will have a negative impact on a firm's asset values, costs, or revenues.

Political risk analysis is the analysis of political events and conditions that could cause loss to international business (Coplin and O'Leary, 1983). Political risk factors can be divided into macro-and micro risks. Macro-risk refers to unanticipated and politically motivated environmental changes directed at all foreign enterprise such as military coups, social unrest, and currency crises. Micro-risk, on the other hand, is concerned with environmental changes that only affect selected industries or firms (Robock, 1971) in a country such as expropriation, discriminatory regulation, and terrorism.

Almost all businesses are vulnerable to large-scale political crises. Portfolio investors have more to fear from, large-scale political events that have an impact on the value of the assets they hold whether stocks, bonds, or currencies. Traders, leaders, and direct investors may also suffer from direct government interference in them operations.

The underlying hypothesis is:

H. 5 : Political instability in a country's region could create political risk and therefore has a negative effect on FDI

3.4 Local Ressources:

3.4.1 Local Manpower Situation:

The hypothesis that human capital in host countries is a determinant of foreign investment in developing countries has been embodied in the theoretical literature. For example, Lucas (1990) conjectures that lack of human capital discouraged foreign investment in less-developed countries. Zhang and Markusen (1999) present a model where the availability of skilled labor in the host country is a direct requirement of MNCs and affects the volume of FDI inflows. Dunning (1988) maintains that the skill and education level of labor can influence both the volume of FDI inflows and the activities that MNCs undertake in a country.

In a cross-section of 54 developing countries for the years 1976, 1979 and 1980, Schneider and Frey (1985) find that their human capital variable though significant in some cases, is never significant in their chosen model as an explanation of FDI inflows.

Another study which provides some empirical support for the hypothesis that the level of human capital in host countries may affect the geographical distribution of foreign investment is that by Hanson (1996). He shows, however, that, for a sample of 105 developing countries, political stability and the security of property

rights may have been more important determinants of FDI stock than human capital.

With respect to the cost of labor as a location-specific advantage of developing countries, Pfeffermann and Madarassy (1992) argue that, as a result of new technological advances and the concomitant shift of FDI toward more capital-, knowledge- and skill-intensive industries, the presence of a well-educated pool of labor has become increasingly attractive for MNCs relative to low labor costs by themselves. The 2 hypothesis are:

H. 10: The skill and education level of labor can influence the volume of FDI inflows.

H. 11: The technological level in a region is an important criteria in the location choice decision.

CHAPTER IV:

Methodology:

4.1.Abstract on the Banking Sector

Lebanon has a long tradition of domestic free trade and investment policies, with free market pricing for most goods and services, an unrestricted exchange and trade system and extensive links with the developed world in practically all economic activities. The Government has maintained a generally non-interventionist stance toward private investment, and public ownership has generally been limited to infrastructure and utilities. There are no restrictions on the movement of capital and goods by residents and non-residents of the Republic, including on entry or exit of firms or on access to foreign exchange, which makes Lebanon a supportive system for private sector development.

The Government continues to favor a strong role for the private sector in a liberal policy environment. It welcomes foreign investment in the economy. There are no legal restrictions on setting up and operating private businesses in Lebanon, subject to limited exceptions. Investment in infrastructure activities historically has been undertaken by the public sector. The absence of exchange controls in Lebanon allows foreign investors freely to import and export capital in any form they wish.

The Lebanese economy, characterized by freedom of exchange and transfers, is based on private initiative. The private sector is estimated by CAS to contribute over 80 per cent. to aggregate demand and includes industries such as agriculture, manufacturing, construction, trade and tourism, in addition to services such as banking and finance, hotels and restaurants, media and advertising, and consulting and engineering. The manufacturing and industrial sectors are estimated by the CAS to contribute approximately one-fifth of the national income. They are provided only with a limited level of protection from international competition.

Prior to 1975, foreign direct investment was substantial. It was concentrated in property, services, banking and tourism. Predictably, foreign direct investment was weak during the period of conflict.

The onset of peace marked a reversal of this trend. Since 1990, considerable amounts of private Arab capital have been invested in real estate. Two principal sources for foreign direct investment have been the substantial funds held by Lebanese abroad and the large pool of private Arab wealth.

The Government continues to favor a strong role for the private sector in a liberal policy environment and welcomes foreign direct investment in the economy. The legal framework is sound and conducive to foreign investment. There are no special financial provisions for, or constraints on, foreign investors in the Republic, ~~except that~~ certain restrictions exist on foreign ownership of banks and companies involved in media activity, land ownership (both directly and when holding shares in companies owning real property) and the employment of foreign labor. A government agency, the Investment Development Authority of Lebanon, which has been established in 1994, assists foreign investors in setting up their businesses in Lebanon.

Lebanon's membership in the Multilateral Investment Guarantee Agency was ratified by Parliament as a means of reinforcing the confidence of foreign investors wishing to invest in Lebanon. In addition, the National Institute for the Guarantee of Investment makes insurance coverage available to investors, in the form of compensation, for losses resulting from non-commercial risks.

The main activity of Lebanese banks is trade finance, which helps the banking sector maintain a broad network of international relations. The share of trade-related and services-related borrowing is close to 45% of total borrowing in the economy. In recent years Lebanese banks have been the most frequent issuers from the Middle East and North Africa region on international capital market, with a total of more than US$ one billion of international issues at the end of 2000.

The banking sector underwent two stages of international expansion. The first dates back to the 1960s when Lebanese banks created most of their branches and affiliate banks in the Middle East, Europe, and Africa. These ventures were short-lived due to the legal changes in the host countries and / or financial difficulties encountered by the parent institution in Lebanon. The second stage began in the late 70s as many Lebanese expatriates had been accumulating large amounts of capital from the oil boom in the Gulf. The Lebanese banks sought to capitalize on this opportunity by establishing branches throughout the Arab Gulf, Europe, and North America. At the end of the civil war, most banks restructured their affiliates, focusing once again on the Lebanese economy.

Among Western banks operating in Lebanon, French ones maintained their presence during the war whereas American banks withdraw almost completely. In recent years, several European banks and a few American and Canadian ones returned to Lebanon. The Arab presence in the banking sector was maintained in the war and increased after the end of the conflict. Lebanese banks do not have a significant presence in the Arab countries, as their relative size is insufficient to compete with Gulf and other financial institutions, in spite of several recent acquisitions made by larger Lebanese banks . (Five Lebanese banks are included in Banker's Magazine most recent annual survey of the world's top 1000 commercial banks).

Many of the increasing number of international banks operating in Lebanon today are expanding their operations, reflecting their confidence in Lebanese banking, particularly its laws, regulations, and human capital. Among the services offered are personalized financial planning, wealth management, and Internet banking services to attract the Lebanese Diaspora. International banks spend heavily on communication and marketing, aiming to capture new niches in addition to develop commercial retail banking.

Much attention is being focused on the banking sector's strategy for the next five years, during which Lebanon will join the Euro-Med partnership and accede to WTO. Regional competition for financial prominence will require that Lebanese banks branch out into Arab countries through Mergers and acquisitions and building of alliances or other cooperative arrangements.

There are two priorities in central bank policy to promote Lebanese banks. The first is to ensure the sustainability in the face of globalization and the second, equally significant, is to ensure the competitiveness within the sector. Taking advantage of the period leading up to WTO accession, the central bank has adopted a dual approach : Foreign banks are limited to opening only one branch in the local market (an exception was made for the three international banks that continued operations during the war), and Lebanese ones are discouraged from merging with international banks to ensure fair competition among local financial institutions.

4.2 Population: the banking sector:

The banking sector was defined by the list of operating commercial banks established by the central bank.

The banking sector is composed of three categories: commercial, specialized, and investment banks. Commercial banking, governed by the *Code de la Monnaie et du Crédit* of 1963, constitutes the bulk of the sector. At the end of 2000, there were 62 commercial banks operating in Lebanon (compared to 70 at end of 1998): 47 incorporated as Lebanese companies, of which two are under Arab control and five are foreign- controlled; and fifteen branches of foreign banks, of which six belong to Arab institutions and nine to foreign ones. There are 753 bank branches in Lebanon, of which 50 are foreign- controlled.

Specialized banks were created through specific laws in order to promote different sectors of the economy. However, these banks collapsed during the 80s due

surging inflation, which diminished the real value of their Lebanese pound-denominated equity and balance sheets. The Housing Bank is the only one that survived, and was restructured and recapitalized in 1995.
A 1977 law encouraging long- term investment governs investment banks. There were seven investment banks with ten branches at the end of 2000.

4.3 Sample: I gathered data from commercial banks . The observations included in the population were the foreign commercial banks (Arab and Non Arab banks) , the Lebanese commercial Banks under foreign (Arab ,Non Arab) control.

4.4 Data collection instrument: Special care was taken to develop a questionnaire addressed to banks that captured every elements of interest, particularly the factors driving investment decisions and the impact those factors have on overall investment flows towards the Lebanese banking sector.

The questionnaire is divided into 4 parts

Part 1: the mother firm specifities: to define the country of origin, the turnover, the international experience of the mother firm and the effect of the bank secrecy law and the central bank regulation over the decision of investment.

Part 2: Local socioeconomic Context: the description of political, economic, social conditions and the infrastructure.

Part 3: Political risk : includes the country risk rating, the risk of profits repatriation to the mother firm, the terrorist attempts and the governmental policies in terms of fiscal, environmental, promotional sides .

Part 4: Local resources: compare the local manpower market in terms of cost and skill with the country of origin of the mother firm and other countries.

4.5 Mode of Delivery.

I used a questionnaire pre tested with pairs of bank managers. These questionnaires addressed to 31 banks to identify the determinants of the FDI in the Lebanese banking sector. Questionnaires was administrated personally or mailed to the respondents.

I used the personally administrated questionnaires for the banks situated in my local area (mount Lebanon). It is the best way to collect data: the main advantage is that I can collect all the completed responses within a short period of time and any doubts that the respondents might have regarding any question could be clarified on the spot and I have the opportunity to introduce the research topic and motivate the respondents to give their honest answers. However, banks often are not able or willing to allow data collection, because people such banks executives are difficult to reach and they refuse an interview. They fail to see any value in participation. In such case I tried to reach them through personal contact. I explained to those people the purpose of my study and I asked them to provide me with information about banks executives so I can contact each one of these executives. I set for a meeting. I met each one of them. And I completed the questionnaire. I used this method to collect information from 10 banks.

I used the mail questionnaire to cover a wider geographical area. But before the questionnaires were mailed I contacted the banks to ask about the appropriate respondent. Then I contacted the bank executives two times ,in a first time to explain the purpose of my study. The second after 10 days to ask about the questionnaires and if they have any questions about any item that could be clarified and to motivate them to respond. Then I collected the questionnaires personally. I reached 21 banks only 16 banks respondent.

4.6 Respondent Profile:

A total of 16 Banks responded to the mailing, the remaining 15 Banks declined to participate . Most stated that, as a matter of Bank policy, they did not take part in any study of this type.

In managing the survey, particular attention was directed toward ensuring that individual survey respondents were equipped to represent the position of the company as a whole, and to make accurate statements regarding investment decisions. The individuals responding were based in the bank headquarters in Lebanon and, with few exceptions, hold executive positions in their respective organizations. All respondents hold senior management posts and are involved directly in strategic planning and Business Development.

CHAPTER V :
ANALYSIS.

5.1. Univariate Analysis:

Endowed with a distinctive entrepreneurial spirit as well as qualified human resources and a freewheeling economy, Lebanon continues to remain a favorable location for foreign investment despite hurdles like lengthy administrative procedures.

Lebanon has been able to sustain its competitive edge due to several factors, namely its liberal economic system, accessibility to regional markets, competency of local partners, and non-discriminatory attitude towards foreign investors. The government has also systematically begun to tackle the obstacles that hinder a greater flow of FDI. To overcome these impediments, the government has recently taken a series of measures to lure investors: Amending laws on foreign ownership, drafting an investment law saving time and reducing red tape, and pushing ahead with privatization of state assets.

Why Lebanese banking sector?

5.1.1. Objectives in Investing Overseas

Strategic factor

	Frequency	Percent	Cumulative Percent
the profitability of the local market	11	52.4	52.4
The geographic expansion	8	38.1	90.5
To face the competitors	2	9.5	100.0
Total	21	100.0	

Overwhelmingly, respondents cite "The profitability of the local market" as one of the major reasons for setting up a bank in Lebanon. (52.4 percent). The next most

frequently cited primary objective is "the geographic expansion or access to regional market" (38.1 percent). All other objectives are cited by relatively few respondents, though 9.5 percent view " To Face Competition" as a key secondary objective.

The Lebanese banking sector power attract most of Arab capital from the gulf and then prove it's ability to manage funds from any origin. Lebanon is a heaven for oil money and one of the Arab world's financial centers. It becomes a real tradition and the corner stone of the image of Lebanese wealth.

5.1.2. Existence of an entrepreneurial culture and of competent local partner

Lebanon enjoys the existence of an entrepreneurial culture. 80% of interviewed Bank Executives considered this factor among the most important reasons attracting foreign investment to the Lebanese banking sector . Also 60% of interviewed Bank Executives considered the existence of competent local partners, who have better communication skills than in other surrounding countries, is another important factor. Some respondents explained also that their banks have successful experiences with their local partners.

5.1.3. The bank secrecy law

The condition of supply in comparison with demand decision

	Frequency	Percent	Cumulative Percent
Supply much higher than Demand	1	6.3	6.3
Supply higher than Demand	3	18.8	25.0
Supply much lower than Demand	3	18.8	43.8
Supply lower than Demand	9	56.3	100.0
Total	16	100.0	

The bank secrecy law is a basic factor in the investment decision in the Lebanese banking sector (100% of interviewed Bank Executives agreed). This law submits to the "Absolute" specific bank secrecy, all the banks duly authorized to undertake

a banking activity in Lebanon. The banking secrecy law is absolute in favor of the client. It becomes a key factor in attracting large amounts of capital and it also explains that supply is lower than the demand (56.3% agreed) and the demand is growing tremendously. (43.8% agreed).

5.1.4. The socio economic environment

Political conditions

	Frequency	Percent	Cumulative Percent
Improving	2	12.5	12.5
Turbulent	10	62.5	75.0
Stable	4	25.0	100.0
Total	16	100.0	

Economic conditions

	Frequency	Percent	Cumulative Percent
Growing	2	12.5	12.5
Stable	6	37.5	50.0
Declining	8	50.0	100.0
Total	16	100.0	

The socio economic environment includes the political , economic, social conditions and infrastructures .

Political as well as economic stability are necessary conditions to attract foreign direct investment from abroad. 62.5% considered that the political conditions are turbulent and 50 % that the economic situation is declining.

Most foreign investors (75% of respondents) expressed discontent with the lengthy administrative process and complicated customs procedures, obtaining permits from state authorities, delays in administrative procedures and difficulties in identifying the correct authority all damped the investor's spirits.

5.1.5. Governmental policies

Fiscal policy

	Frequency	Percent	Cumulative Percent
Profitable	6	37.5	37.5
Moderate	6	37.5	75.0
Disadvantageous	4	25.0	100.0
Total	16	100.0	

Only 37.5% of the respondents find the fiscal policy is profitable at the time of investment. For the governmental policies, the appealing features pertinent to Lebanon are: Foreign exchange laws, banking secrecy, an absence of control on capital movement At present the same percentage of respondents find this fiscal policy profitable even thought, since the beginning of the 1990's the Lebanese government has initiated an incentive program, which embraced a fiscal policy adjustments which recently led to a clear reduction of tariff rates.

5.1.6. Labor Force

Local manpower skill in comparison with your country of origin

	Frequency	Percent	Cumulative Percent
Highly skilled	3	18.8	18.8
Skilled	8	50.0	68.8
Not much skilled	4	25.0	93.8
Unskilled	1	6.3	100.0
Total	16	100.0	

As for the skilled workforce, 68.8% agreed that the local manpower is skilled in comparison with their country of origin. The availability of local skills is a major reason for foreign banks to invest in Lebanon, though the skills are available in Lebanon. The educated workforce in Lebanon constitutes one of the major factors in attracting FDI, though enhancing training and re-education in promising sector (Such as information technology, vocational training and management) is needed if Lebanon is to improve its competitive advantage with respect to other countries in the region.

Although there has been a rapid increase in percentage of university degree holders and a progressive shift from French/ Arabic educated to English /Arabic educated recruits in the past decade. And the financial sector has attracted many Lebanese expatriates with experience in international financial markets. The banks are concerned with the ability to hire management as well as technical workers. (Bank of Lebanon report. 2003)

As for the cost 50% agreed that the local manpower is lower in comparison with other countries and the country of origin. So it is important to foreign banks to find a low cost labor to operate high tech equipments.

As for the manpower situation, 93.8% find the banking sector intensive in manpower. The banking sector employed 15200 staff at the end of year 2000, other financial institutions employed 430 and the central bank 1400.(bank of Lebanon report 2003)

Level of the technology

	Frequency	Percent	Cumulative Percent
Intensive in high technology	14	87.5	87.5
Poor in high technology	1	6.3	93.8
Moderate in high technology	1	6.3	100.0
Total	16	100.0	

The banking sector is intensive in high technology (87.5% agreed). Banks have begun to promote integration of information and communication technology (ICT) into their business. Notably in retail banking and through electronic banking. New products and services are being developed ranging from internet services packages to insurance policies.

5.1.7. The Entry Mode.

Mode of the first implication

	Frequency	Percent	Cumulative Percent
Joint-venture	1	6.3	6.3
New enterprise	10	62.5	68.8
Acquisition	3	18.8	87.5
Stock co	2	12.5	100.0
Total	16	100.0	...

For the entry mode, once a bank decides to enter a foreign market , the question arises as to the best mode of entry . Banks use basically different modes to enter a foreign country: Joint venture, new enterprise, acquisition, and stock company. Each entry mode has advantages and disadvantages. Managers need to consider carefully when deciding which to use.

62.5% of foreign banks adopt a new enterprise as a mode of first implication. First it reduces the risk of losing control second it gives the bank a tight control over operations in different countries. Third it is generally the most costly method of serving a foreign market. The risks associated with learning to do business in a new culture are with a bank acquires an established host country bank.

From this univariate analysis we can conclude the following:

- Arab Banks still represent the majority of foreign banks established because The Banking sector power attracted in Beirut most of Arab capital from the Gulf.
- Lebanon enjoys the existence of an entrepreneurial culture.
- The bank secrecy law is a basic factor in the investment decision in the Lebanese banking sector, It becomes a key factor in attracting large amounts of capital
- Most foreign Banks expressed discontent with the lengthy administrative process, obtaining permits from state authorities, delays in administrative procedures.

- The educated workforce in Lebanon constitutes one of the major factors in attracting FDI, though enhancing training and re-education
- The banking sector is intensive in high technology.
- The majority of foreign banks adopt a new enterprise as a mode of first implication. First it reduces the risk of losing control second it gives the bank a tight control over operations in different countries.

If Lebanon does not confront its political problems, it is obvious that Lebanon will be excluded in the list of the future investment plan of international banks. To determine and get rid of the major political barriers and risks to foreign investment is the first step, which Lebanon should exercise in order to attract more inward foreign investment. Whereby conditions are being created for a more favorable investment climate through relaxation of investment controls and provision of investment incentives including better protection of property rights and enforcement of contracts.

So a weak economic growth , falling stock markets, low corporate profits, financial restructuring, slow down in administrative , political reforms , a loss of confidence due to corporate scandals will cause a decline in the FDI flows.

5.2 Bevariate Analysis

According to the literature ,in this section we will test some hypothesis that measure the perception of risk by foreign banks during the investment decision process in the Lebanese banking sector in comparison with the current risk using the cross tabulation between different variables.

The hypothesis are the following :

Hypothesis 1: The country of origin of FDI has a positive significant effect on FDI.

Hypothesis 2 : The impact of firm size on FDI is positive.

Hypothesis 3: A firm multinational experience impacts FDI.

Hypothesis 4 : The market size and growth are positively related to the level of FDI.

Hypothesis 5 : Political instability in a country's region could create political risk and therefore has a negative effect on FDI.

Hypothesis 6: A strong economy makes a nation a more desirable location for FDI.

Hypothesis 7: A good social environment has a positive effect on FDI.

Hypothesis 8: The amounts of telecommunication and transportation infrastructure are positively related to the intensity of FDI.

Hypothesis 9: Fiscal policies can enhance the attractiveness of FDI flows.

Hypothesis 10: The skill and education level of labor can influence the volume of FDI inflows.

Hypothesis 11: The technological level in a region is an important criteria in the location choice decision.

5.2.1 Hypothesis 1: The country of origin of FDI has a positive significant effect on FDI.

Table 1.a: country of origin * The Return on investment Cross tabulation

Count

		The Return on investment				Total
		Very satisfied	Satisfied	Little satisfied	unsatisfied	
country of origin	Europe	2	2	0	0	4
	North America	0	3	0	0	3
	Arab countries	5	4	0	0	9
Total		7	9	0	0	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.907(a)	.234
N of Valid Cases	16	

Table 1.b: country of origin * The Global risk Cross tabulation

		The Global Risk		
		Very satisfied	Satisfied	Total
country of origin	Europe	2	2	4
	North America	0	3	3
	Arab countries	1	8	9
Total		3	13	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.601(a)	.165
N of Valid Cases	16	

I reject the null Hypothesis.(P= 0.234 & P= 0.165) The country of origin has no positive significant effect on FDI in Lebanon. The FDI from various countries-of-origin are substantially different in their motives and location preferences when conducting FDI in Lebanon. I can note that Arab Banks still represent the majority of foreign banks established because the Banking sector power attracted in Beirut most of Arab capital from the Gulf and then proved its ability to manage funds from any origin. Lebanon was a haven for oil money and one of the Arab world's financial centers.

5.3.2 Hypothesis 2 : The impact of firm size on FDI is positive.

Table 2.a: international operations turnover * The Return on investment Cross tabulation

Crosstab

Count

		The Return on investment		
		Very satisfied	Satisfied	Total
International operations Turnover	Less then 50%	5	4	9
	More than 50%	2	5	7
Total		7	9	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.165	.280
N of Valid Cases	16	.

Table 2.b: international operations turnover * The Global risk Cross tabulation

Crosstab

Count

		The Global Risk		
		Very satisfied	Satisfied	Total
International operations Turnover	Less then 50%	1	8	9
	More than 50%	2	5	7
Total		3	13	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	0.788	.375
N of Valid Cases	16	

The null hypothesis is rejected (P= 0.280 & P= 0.375). The size of foreign banks has no impact on FDI. Lebanese and all the foreign banks despite their size duly authorized to undertake a banking activity in Lebanon under close supervision and regulations by the central bank prove a profitable investment for both clients and investors. The central bank of Lebanon regulates the entire banking system based on the " code de la monnaie et du credit", enjoying much autonomy from the government and endowed with special judiciary powers to deal with infringements by banks. This is why the banking sector is one of the most transparent in the Lebanese economy. And even a small foreign bank does not have problems in managing his operations in Lebanon due to the close supervision of the central bank.

5.3.3 Hypothesis 3: A firm's multinational experience impacts FDI.

Table 3.a : Activities spread * The Return on investment Cross tabulation

		The Return on investment				Total
		Very satisfied	Satisfied	Little satisfied	unsatisfied	
Activities spread	More then 10 countries	2	6	0	0	8
	Less then 10 countries	5	3	0	0	8
Total		7	9	0	0	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.286	.101
N of Valid Cases	16	

Table 3.b : Activities spread * The global risk Cross tabulation

Activities spread * The Global Risk Crosstabulation

Count

		The Global Risk		
		Very satisfied	Satisfied	Total
Activities spread	More then 10 countries	2	6	8
	Less then 10 countries	1	7	8
Total		3	13	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	0.410	.097
N of Valid Cases	16	

I accept the null hypothesis (P= 0.1& 0.097) . Firm international experience appears to influence the size of the FDI and the probability a firm will make an FDI. However it is the possibility that most diversified banks have greater ability to absorb losses than less diversified ones in high risk country like Lebanon.

The majority of larger firms were satisfied with the return on investment. So more diversified banks are less responsive and sensitive to risk effects.

5.3.4 Hypothesis 4 :The market size and growth are positively related to the level of FDI.

Table 4.a : Growth of the demand at the time of investment * The Return on investment Crosstabulation.

		The Return on investment				Total
		Very satisfied	Satisfied	Little satisfied	unsatisfied	
Growth of the demand at the time of investment	High Growth	5	2	0	0	7
	Growth	1	3	0	0	4
	Stability of the demand	1	3	0	0	4
	Decline	0	1	0	0	1
Total		7	9	0	0	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.100	.0251
N of Valid Cases	16	

Table 4.b : Growth of the demand at present * The Return on investment Crosstabulation

		The Return on investment				Total
		Very satisfied	Satisfied	Little satisfied	unsatisfied	
Growth of the demand at present	High Growth	2	1	0	0	3
	Growth	4	2	0	0	+6
	Stability of the demand	1	5	0	0	6
	Decline	0	1	0	0	1
Total		7	9	0	0	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.154	101
N of Valid Cases	16	

I accept the null hypothesis (P= 0.0251& P = 0.101) The Lebanese Banking Industry was capable of sustaining a long destructive war and flourished in time of peace to become the banking center for the region. It is rebuilding itself today to regain a leading place on the regional and international markets. Currently, this industry is best described as financially sound, stable, and playing key roles in the economy where banks continue to dominate the financial system of the country in an open and liberal market economy which promotes competition. No doubt the Banking sector plays a major role in the recovery of Lebanon and the trust any Lebanese citizen and foreign investors can feel for a sound and prosperous future of the whole country. All this proof that the market size and the growth prospects of the host country market are important factors and positively related to the level of FDI flows.

5.3.5 Hypothesis 5 : Political instability in a country's region could create political risk and therefore has a negative effect on FDI.

Table 5. a : Political conditions at the time of investment * The Global Risk Crosstabulation

		The Global Risk		
		Very satisfied	Satisfied	Total
Political conditions	Improving	0	4	4
	Turbulent	0	6	6
	Stable	2	3	5
Total		3	12	15

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.615	.099
N of Valid Cases	15	

Table 5. b: Political conditions at present * The Global Risk Crosstabulation

		The Global Risk		
		Very satisfied	Satisfied	Total
Political conditions	Improving	1	3	4
	Turbulent	0	5	5
	Stable	2	5	7
Total		3	13	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	0.574	107
N of Valid Cases	15	

I accept the null hypothesis. As it is mention before political stability is a necessary condition to attract foreign investment form abroad. In Lebanon the effects of political instability on FDI are apparent in two ways. First in Lebanon whose history has been marked by chronic political instability (Civil Disorder, War). Many investors have been deterred from undertaking projects. Second even in brief period of governmental instability can cause interruptions in FDI flows as investors wait for a return to normalcy in the political system. Foreign banks consider the sociopolitical stability of the host country as one of the most important considerations in the foreign investment decision making process.

5.3.6 Hypothesis 6: A strong economy makes a nation a more desirable location for FDI.

Table 6.a : Economic conditions at the time of investment * The Return on investment Crosstabulation

		The Return on investment		
		Very satisfied	Satisfied	Total
Economic conditions	Growing	5	4	9
	Stable	2	3	5
	Declining	0	2	2
Total		7	9	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.094(a)	.351
N of Valid Cases	16	

Table 6.b : country of origin * economic conditions Crosstabulation

country of origin * Economic conditions Crosstabulation

Count

		Economic conditions			
		Growing	Stable	Declining	Total
country of origin	europe	3	1		4
	north america	2		1	3
	arab countries	4	4	1	9
Total		9	5	2	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.575	.467
N of Valid Cases	16	

I reject the null hypothesis. The Lebanese economy has been facing some signs of sluggishness over the past couple of years. Growth has contracted in real terms, due to a decline in aggregate demand in both its consumption and investment components. The banking sector is widely regarded as the economy's most successful sector and the size of the banking sector compared to the size of the economy is very important, with total bank assets reaching 300 percent of GDP. The growth rate of the banking sector has largely exceeded that of the national economy. So economic risk does not produce a significant change in the return of an investment in the banking sector. The banking sector performance is not related to the economic performance of the Lebanese economy but still attracting FDI.

5.2.7 Hypothesis 7: A good social environment has a positive effect on FDI.

Table 7.a : Social conditions at the time of investment * The Global Risk Crosstabulation

		The Global Risk		
		Very satisfied	Satisfied	Total
Social conditions	Good	3	2	5
	Moderate	1	7	8
	Bad	0	3	3
Total		4	12	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.123	.017
N of Valid Cases	16	

I accept the null hypothesis (P= 0.017). At the socio-economic level, the social protection and social development services do not simply address human needs for philanthropic considerations. Social spending is investment, not just consumption; developmental experiences reveal a strong linkage between sustainable growth, investment in social sectors, and development of human resources. So social spending improves the fundamentals of the macro-economy by enhancing investment, creating new jobs, and increasing economic growth. A comprehensive social policy will affect positively the FDI, and will lead to a sustainable social peace and political stability.

5.2.8: Hypothesis 8: The amounts of telecommunication and transportation infrastructure are positively related to the intensity of FDI.

Table 8: Infrastructures * The Return on investment Crosstabulation

		The Return on investment		Total
		Very satisfied	Satisfied	
Infrastructures	Good	3	1	4
	Moderate	4	3	7
	Bad	0	5	5
Total		7	9	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.986	.050
N of Valid Cases	16	

I accept the null hypothesis (P=0.050). The adequacy of the basic infrastructure is some of the most important host country determinants of FDI. The physical infrastructure rehabilitated in the 90's is in need of further development to meet the requirements of new technologies and industries, and to connect to emerging regional and global networks. The infrastructure conditions which were only deemed " adequate or moderate" while roads that vary from one area to another and the high costs of energy and telecommunications.

5.2.9 Hypothesis 9: Fiscal policies can enhance the attractiveness of FDI flows.

Table 9.a : Fiscal policy at the time of investment * The Return on investment Crosstabulation

		The Return on investment		
		Very satisfied	Satisfied	Total
Fiscal policy	Profitable	3	3	6
	Moderate	4	2	6
	Disadvantage ous	0	4	4
Total		7	9	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.487	.106
N of Valid Cases	16	

Table 9.b: Fiscal policy at present * The Return on investment Crosstabulation

		The Return on investment		
		Very satisfied	Satisfied	Total
Fiscal policy	Profitable	0	2	2
	Moderate	2	8	10
	Disadvantageous	1	3	4
Total		3	13	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.196	.027
N of Valid Cases	16	

I accept the null hypothesis (P=0.106 &P= 0.027). Tax incentives will have a positive effect on FDI inflows and returns. The majority of the respondent considers that the fiscal policy is profitable because in Lebanon, the capital gains tax and the corporate tax rates are not considered high but rather medium, especially if compared with in western countries.

The new law for the promotion of investments (august 2001) provides specific incentives for projects established in the industrial, agriculture, tourism, information technology and banking sectors. The incentives are mainly in forms of tax reductions and exemptions, the extent of which depends on the geographical area in which the project is established. The investment law also gives greater flexibility for the employment of foreign labor.

Tax laws have an effect on investment decisions. Tax rates can also make a difference in preferences. A new law on investment development in Lebanon offers incentives for any project that involves an investment outlay of more than 80 million $ and that provides more than 200 jobs. Incentives include:

- Full exemption of income taxes and taxes on project dividends for up to ten years.

- Reduction of work and residence permit fees.

- Reduction by up to 50 percent on fees for construction permits needed for the project.

Lately the government proposal to impose taxes on the annual turnover of the companies instead of taxes on the profits, led many foreign banks to declare their intentions to withdraw from Lebanon and to move to another area or country, such as Dubai in the United Arab Emirates, or Cyprus.

5.2.10: Hypothesis 10: The skill and education level of labor can influence the volume of FDI inflows.

Table 10.a : local manpower skill in comparison with your country of origin at the time of investment * The Investment returns Crosstabulation

		The return on investment		
		Very satisfied	Satisfied	Total
Local manpower skill in comparison with your country of origin.	skilled	0	11	11
	not much skilled	2	2	4
	unskilled	1	0	1
Total		3	13	16

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.436	3	.024
N of Valid Cases	16		

Table 10.b : local manpower skill in comparison with your country of origin at present * The investment returns Crosstabulation

		The return on investment		
		Very satisfied	Satisfied	Total
Local manpower skill in comparison with your country of origin.	Highly skilled	0	3	3
	skilled	2	9	11
	not much skilled	0	1	1
	unskilled	1	0	1
Total		3	13	16

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.436	3	.104
N of Valid Cases	16		

I accept the null hypothesis. Lebanese people have a high educational level and linguistic abilities, which make foreigners comfortable in their communication with locals. More over, the Lebanese have "World View" because of their education and wide experience outside the country. This constitutes an "intangible created asset" to attract FDI. The quality of services provided in Lebanon is highly valued and ranked regarding lawyers, auditors, architects, engineers and in the computer and software industry. So the skill and the education level of labor can influence the volume of FDI.

5.2.11 : Hypothesis 11: The technological level in a region is an important criteria in the location choice decision.

Table 11: level of the technology * The Global Risk Crosstabulation

		The Global Risk		Total
		Very satisfied	Satisfied	
level of the technology	intensive in high technology	1	12	13
	poor in high technology	0	1	1
	moderate in high technology	1	1	2
Total		3	13	16

Chi-Square Tests

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.747	.093
N of Valid Cases	16	

I accept the null hypothesis. The information and communication technology (ICT) have modified work and communication systems, leading to high productivity gains, decreasing costs, and growing networks that have reorganized

socio-economic interaction. The public sector plays three main roles in supporting the ICT development to attract FDI: as facilitator, it provides the infrastructure for development of the ICT sector; as a regulator, the public sector enables ICT to develop within a sound legal and regulatory environment; and as a major user, the public sector is in a privileged position to boost demand for ICT products.

Table 12: Summary results of the tested hypothesis

Mother firm specificities variables	
Hypothesis 1: The country of origin of FDI has a positive significant effect on FDI.	Rejected
Hypothesis 2: The impact of firm size on FDI is positive.	Rejected
Hypothesis 3: A firm multinational experience impacts FDI.	Accepted
Local socio economic context	
Hypothesis 4: The market size and growth are positively related to the level of FDI.	Accepted
Political risk: Hypothesis 5: Political instability in a country's region could create political risk and therefore has a negative effect on FDI.	Accepted
Hypothesis 6: A strong economy makes a nation a more desirable location for FDI.	Rejected
Hypothesis 7: A good social environment has a positive effect on FDI.	Accepted
Hypothesis 8: The amounts of telecommunication and transportation infrastructure are positively related to the intensity of FDI.	Accepted
Hypothesis 9: Fiscal policies can enhance the attractiveness of FDI flows.	Accepted
Local Resources	
Hypothesis 10: The skill and education level of labor can influence the volume of FDI inflows.	Accepted
Hypothesis 11: The technological level in a region is an important criteria in the location choice decision.	Accepted

Conclusion:

In this study, I have addressed the question of the determinants of foreign direct investment (FDI) into the Lebanese banking sector in the post war period.

In the literature review, I identified a group of variables that affect the FDI. These variables were classified into 3 groups: the host country incentives, the host country risk, and firms' determinants of FDI.

Based on the literature review, I developed a conceptual framework to study the effect of certain variables on the perception of the risk by foreign investors during the investment decision process in comparison with the perception of the risk that the investors have at the present time. These variables were classified into 4 groups: mother firm specificities, local socio economic context, political risk, local resources. Then I developed 11 hypotheses for testing using a questionnaire.

For the survey, I chosen 31 banks from the list of operating commercial banks established by the central bank. These banks were foreign commercial banks (Arab and non Arab banks) and Lebanese commercial banks under foreign (Arab, non Arab) control. The questionnaire was directed to respondents holding senior management posts in banks and that are involved in investment decisions.

In the analysis I used univariate and bivariate analysis to test the hypothesis, this led to the following results:

- Arab Banks still represent the majority of foreign banks established because The Banking sector power attracted in Beirut most of Arab capital from the Gulf.
- Lebanon enjoys the existence of an entrepreneurial culture.
- The bank secrecy law is a basic factor in the investment decision in the Lebanese banking sector, It becomes a key factor in attracting large amounts of capital.

- Most foreign Banks expressed discontent with the lengthy administrative process, obtaining permits from state authorities, delays in administrative procedures.
- The educated workforce in Lebanon constitutes one of the major factors in attracting FDI, though enhancing training and re-education.
- The banking sector is intensive in high technology.
- The majority of foreign banks adopt a new enterprise as a mode of first implication. First it reduces the risk of losing control second it gives the bank a tight control over operations in different countries.
- The country of origin and the size of the mother firm has no significant effect on the FDI in the Lebanese banking sector.
- The international experience of the mother firm has a positive effect on FDI.
- The market size and growth are positively related to the level of FDI.
- The economic conditions have no effect on FDI in the Lebanese banking sector .
- Political risk has a negative effect on FDI
- The skill and education level of labor influence the volume of FDI inflows.

Limits of the study and suggestions for future research:

- This study is a first step to identify the determinants of FDI in the Lebanese banking sector, but it does not include the obstacles of FDI. During the survey the majority of respondents mention these obstacles like: arbitrary licensing decisions, complex customs procedures, archaic legislation, an ineffective judicial system, high taxes and fees, flexible interpretation of laws and a lack of adequate protection of intellectual property. So future research most include the obstacles to FDI.

- The questionnaire used in the study is not totally adapted to the Lebanese banking sector. In future research the questionnaire must take into consideration some specific characteristics of the Lebanese central bank.
- The sample is limited to foreign banks or Lebanese banks with foreign control. In future research , we can expand the sample to include also Lebanese banks to identify the determinants of investment in the Lebanese banking sector.

Appendix 1: univariate analysis.

Strategic factor

	Frequency	Percent	Cumulative Percent	
the profitability of the local market	11	52.4	52.4	
The geographic expansion	8	38.1	90.5	
To face the competitors	2	9.5	100.0	
Total	21	100.0		

52.4% of interviewed managers find that the profitability of the local market is the strategic factor to attract FDI.

I- At the time of the investment decision

The condition of supply in comparison with demand decision

	Frequency	Percent	Cumulative Percent	
Supply much higher than Demand	1	6.3	6.3	
Supply higher than Demand	3	18.8	25.0	
Supply much lower than Demand	3	18.8	43.8	
Supply lower than Demand	9	56.3	100.0	
Total	16	100.0		

The table shows that 56.3% of interviewed managers think that at the time of the investment decision the supply was lower than the demand.

Political conditions

	Frequency	Percent	Cumulative Percent	
Improving	4	25.0	26.7	

Turbulent	6	37.5	66.7	
Stable	5	31.3	100.0	
Total	15	93.8		
0	1	6.3		
Total	16	100.0		

The table shows that 37.5% of interviewed managers think that the political conditions were turbulent.

Growth of the demand

	Frequency	Percent	Cumulative Percent	
High Growth	7	43.8	43.8	
Growth	4	25.0	68.8	
Stability of the demand	4	25.0	93.8	
Decline	1	6.3	100.0	
Total	16	100.0		

43.8% of interviewed managers find a high growth of the demand regarding their services and this reflect the high profitability of the local market.

Economic conditions

	Frequency	Percent	Cumulative Percent	
Growing	9	56.3	56.3	
Stable	5	31.3	87.5	
Declining	2	12.5	100.0	
Total	16	100.0		

56.3% of interviewed managers find the economic conditions were growing.

Social conditions

	Frequency	Percent	Cumulative Percent	
Good	5	31.3	31.3	
Moderate	8	50.0	81.3	
Bad	3	18.8	100.0	
Total	16	100.0		

50% of interviewed managers that the social conditions were moderate.

Infrastructures

	Frequency	Percent	Cumulative Percent	
Good	4	25.0	25.0	
Moderate	7	43.8	68.8	
Bad	5	31.3	100.0	
Total	16	100.0		

43.8% of interviewed managers find the infrastructure was moderate

II- At present

The supply in comparison with the demand

	Frequency	Percent	Cumulative Percent	
Supply much higher than demand	2	12.5	12.5	
Supply higher than demand	5	31.3	43.8	
Supply lower than demand	3	18.8	62.5	
Supply equal to the demand	6	37.5	100.0	
Total	16	100.0		

At present 43.8% of interviewed managers that the Supply higher than demand

The growth of the demand

	Frequency	Percent	Cumulative Percent	
High.growth	3	18.8	18.8	
Growth	6	37.5	56.3	
Stability	6	37.5	93.8	
Decline	1	6.3	100.0	
Total	16	100.0		

At present 37.5% of interviewed managers agreed that there is a stability in the growth of the demand regarding their services.

Political conditions

	Frequency	Percent	Cumulative Percent	
Improving	2	12.5	12.5	
Turbulent	10	62.5	75.0	
Stable	4	25.0	100.0	
Total	16	100.0		

There is a decline in the political conditions At present 62.5% of interviewed managers agreed that the political conditions are turbulent.

Economic conditions

	Frequency	Percent	Cumulative Percent	
Growing	2	12.5	12.5	

Stable	6	37.5	50.0	
Declining	8	50.0	100.0	
Total	16	100.0		

There is a decline in the economic conditions At present 50% of interviewed managers agreed that the economic conditions are declining.

Social conditions

	Frequency	Percent	Cumulative Percent	
Good	1	6.3	6.3	
Moderate	10	62.5	68.8	
Bad	5	31.3	100.0	
Total	16	100.0		

At present 50% of interviewed managers agreed that the social conditions are Moderate.

Infrastructures

	Frequency	Percent	Cumulative Percent	
Good	5	31.3	31.3	
Moderate	9	56.3	87.5	
Bad	2	12.5	100.0	
Total	16	100.0		

At present 56.3% of interviewed managers agreed that the infrastructure is Moderate.

1- At the time of the investment decision

Risk of Repatriation

	Frequency	Percent	Cumulative Percent	
Very High	1	6.3	9.1	
High	2	12.5	27.3	

Low	5	31.3	72.7	
Very low	3	18.8	100.0	
Total	11	68.8		
0	5	31.3		
Total	16	100.0		

At the time of the investment decision 50.1% of interviewed managers agreed that
Risk of Repatriation is low.

II- At present

The risk of repatriation

	Frequency	Percent	Cumulative Percent	
Very high	1	6.3	9.1	
High	3	18.8	36.4	
Low	4	25.0	72.7	
Very low	3	18.8	100.0	
Total	11	68.8		
0	5	31.3		
Total	16	100.0		

At present 50.1% of interviewed managers agreed that the Risk of Repatriation is low.

I- At the time of the investment decision

Fiscal policy

	Frequency	Percent	Cumulative Percent	
Profitable	6	37.5	37.5	
Moderate	6	37.5	75.0	
Disadvantageous	4	25.0	100.0	
Total	16	100.0		

At the time of the investment decision 37.5% of interviewed managers agreed that the fiscal policy is profitable.

II- At present

Fiscal policy

	Frequency	Percent	Cumulative Percent	
Profitable	6	37.5	37.5	
Moderate	6	37.5	75.0	
Disadvantageous	4	25.0	100.0	
Total	16	100.0		

At present 37.5% of interviewed managers agreed that the fiscal policy is profitable.

I- At the time of the investment decision

Environmental policy

	Frequency	Percent	Cumulative Percent	
Profitable	7	43.8	43.8	
Moderate	9	56.3	100.0	
Total	16	100.0		

At the time of the investment decision 43.8% of interviewed managers find that the environmental policy is profitable

II- At present

Environmental policy

	Frequency	Percent	Cumulative Percent	
Profitable	4	25.0	25.0	
Moderate	11	68.8	93.8	

Disadvantageous	1	6.3	100.0	
Total	16	100.0		

At present 25% of interviewed managers agreed that the environmental policy is profitable.

I- At the time of the investment decision

Promotional policy

	Frequency	Percent	Cumulative Percent	
Profitable	8	50.0	50.0	
Moderate	7	43.8	93.8	
Disadvantageous	1	6.3	100.0	
Total	16	100.0		

At the time of the investment decision 50% of interviewed managers find that the promotional policy is profitable.

II- At present

Promotional policy

	Frequency	Percent	Cumulative Percent	
Profitable	4	25.0	25.0	
Moderate	9	56.3	81.3	
Disadvantageous	3	18.8	100.0	
Total	16	100.0		

At present 56.3% of interviewed managers agreed that the promotional policy is moderate.

I- At the time of the investment decision

Local manpower cost in comparison with your country of origin

	Frequency	Percent	Cumulative Percent	
Higher	4	25.0	26.7	
Equal	3	18.8	46.7	
Lower	8	50.0	100.0	
Total	15	93.8		
0	1	6.3		
Total	16	100.0		

At the time of the investment decision 50% of interviewed managers find that the Local manpower cost is lower in comparison with their country of origin

Local manpower skill in comparison with your country of origin

	Frequency	Percent	Cumulative Percent	
Highly skilled	3	18.8	18.8	
Skilled	8	50.0	68.8	
Not much skilled	4	25.0	93.8	
Unskilled	1	6.3	100.0	
Total	16	100.0		

At the time of the investment decision 50% of interviewed managers find that the Local manpower is skilled in comparison with their country of origin

Local manpower cost in comparison with other countries

	Frequency	Percent	Cumulative Percent	
Higher	4	25.0	26.7	
Equal	4	25.0	53.3	
Lower	7	43.8	100.0	
Total	15	93.8		
0	1	6.3		

Total	16	100.0		

At the time of the investment decision 43.8% of interviewed managers find that the Local manpower cost is lower in comparison with other countries.

Local manpower skill in comparison with other countries

	Frequency	Percent	Cumulative Percent	
Highly skilled	3	18.8	18.8	
Skilled	11	68.8	87.5	
Not much skilled	1	6.3	93.8	
Unskilled	1	6.3	100.0	
Total	16	100.0		

At the time of the investment decision 68.8% of interviewed managers find that the Local manpower is skilled in comparison with other countries

II- At the present

Local manpower cost in comparison with your country of origin

	Frequency	Percent	Cumulative Percent	
Higher	2	12.5	13.3	
Equal	4	25.0	40.0	
Lower	9	56.3	100.0	
Total	15	93.8		
0	1	6.3		
Total	16	100.0		

At the present 56.3% of interviewed managers find that the Local manpower cost is lower in comparison with their country of origin.

Local manpower skill in comparison with your country of origin

	Frequency	Percent	Cumulative Percent	

Highly skilled	4	25.0	25.0	
Skilled	11	68.8	93.8	
Not much skilled	1	6.3	100.0	
Total	16	100.0		

At the present 68.8% of interviewed managers find that the Local manpower is skilled in comparison with their country of origin

Local manpower cost in comparison with other countries

	Frequency	Percent	Cumulative Percent	
Higher	3	18.8	20.0	
Equal	4	25.0	46.7	
Lower	8	50.0	100.0	
Total	15	93.8		
0	1	6.3		
Total	16	100.0		

At the present 50% of interviewed managers find that the Local manpower cost is lower in comparison with other countries

Local manpower skill in comparison with other countries

	Frequency	Percent	Cumulative Percent	
Highly skilled	5	31.3	31.3	
Skilled	10	62.5	93.8	
Not much skilled	1	6.3	100.0	
Total	16	100.0		

At the present 62.5% of interviewed managers find that the Local manpower is skilled in comparison with other countries

Manpower situation

	Frequency	Percent	Cumulative Percent	
Intensive in manpower	15	93.8	93.8	
Poor in manpower	1	6.3	100.0	
Total	16	100.0		

93.8% of interviewed managers find that the banking sector is intensive in the manpower.

Level of the technology

	Frequency	Percent	Cumulative Percent	
Intensive in high technology	14	87.5	87.5	
Poor in high technology	1	6.3	93.8	
Moderate in high technology	1	6.3	100.0	
Total	16	100.0		

87.5% of interviewed managers find that the banking sector is intensive in the high technology.

Mode of the first implication

	Frequency	Percent	Cumulative Percent	
Joint-venture	1	6.3	6.3	
New enterprise	10	62.5	68.8	
Acquisition	3	18.8	87.5	
Stock co	2	12.5	100.0	
Total	16	100.0		

62.5% of interviewed managers used a new enterprise as a mode of entry.

Current mode of implication

	Frequency	Percent	Cumulative Percent	
Joint-venture	1	6.3	6.3	

New enterprise	9	56.3	62.5	
Acquisition	4	25.0	87.5	
Stock co	2	12.5	100.0	
Total	16	100.0		

56.3% of interviewed managers used a new enterprise as a current mode of implication.

Appendix 2: List of Operating Commercial Banks

Commercial Banks			
BDL Bank List No.	**Name**	**Number of Branches**	**Date of Establishment**
1	FRANSABANK - S.A.L.	45	1921
2	BANCA DI ROMA	5	1919
3	BANQUE MISR LIBAN - S.A.L.	14	1929
5	ARAB BANK PLC.	13	1943
6	BANQUE NATIONALE DE PARIS INTERCONTINENTALE.	6	1944
7	HSBC BANK MIDDLE EAST	6	1946
8	SOCIETE BANCAIRE DU LIBAN - S.A.L.	4	1899
9	RAFIDAIN BANK.	1	1948
10	BANQUE LIBANO FRANCAISE - S.A.L.	23	1967
11	B.L.C. - S.A.L.	39	1950
12	NEAR EAST COMMERCIAL BANK - S.A.L.	5	1979
13	CREDIT BANK S.A.L.	1	1951
14	BLOM BANK - S.A.L.	42	1951
16	FEDERAL BANK OF LEBANON - S.A.L.	7	1952
17	SAUDI NATIONAL COMMERCIAL BANK.	1	1952
19	SOCIETE GENERALE DE BANQUE AU	43	1953

	LIBAN- S.A.L.		
20	A.B.N. AMRO - N.V.	6	1954
22	BANQUE DE LA MEDITERRANNEE - S.A.L.	26	1970
27	BANQUE SARADAR - S.A.L.	9	1948
28	BBAC - S.A.L	31	1956
30	BANQUE LATI - S.A.L.	2	1924
32	BEIRUT RIYAD BANK - S.A.L.	11	1958
34	SYRIAN LEBANESE COMMERCIAL BANK - S.A.L.	2	1974
35	BANQUE PHARAON ET CHIHA - S.A.L.	5	1876
36	BANQUE DE CREDIT NATIONAL - S.A.L.	1	1920
39	BYBLOS BANK - S.A.L.	57	1959
44	LEBANESE CANADIAN BANK S.A.L.	16	1960
48	BANQUE DE L'INDUSTRIE ET DU TRAVAIL - S.A.L.	13	1960
52	INTERCONTINENTAL BANK OF LEBANON - S.A.L.	9	1961
53	CREDIT LIBANAIS - S.A.L.	52	1961
56	BANQUE AUDI - S.A.L.	60	1962
58	BANK OF KUWAIT & THE ARAB WORLD - S.A.L.	14	1959
62	NORTH AFRICA COMMERCIAL BANK - S.A.L.	2	1973
63	LEBANESE SWISS BANK - S.A.L.	7	1962
67	BANQUE SADERAT IRAN.	4	1962
68	SOCIETE NOUVELLE DE LA BANQUE DE	18	1963

	SYRIE ET DU LIBAN - S.A.L.		
71	ALLIED BANK - S.A.L.	15	1982
73	NATIONAL BANK OF KUWEIT (LEBANON) S.A.L.	10	1963
75	BANK OF BEIRUT - S.A.L	32	1963
80	JAMMAL TRUST BANK - S.A.L.	20	1963
84	AL-AHLI INTERNATIONAL BANK - S.A.L.	8	1964
85	HABIB BANK LIMITED.	1	1964
90	ARAB AFRICAN INTERNATIONAL BANK.	1	1966
92	BANQUE DE LA BEKAA - S.A.L.	5	1965
93	BEMO-BANQUE EUROPEENNE POUR LE MOYEN-ORIENT - S.A.L.	6	1983
94	LEBANON & GULF BANK - S.A.L.	9	1961
95	SAUDI LEBANESE BANK - S.A.L.	6	1979
98	STANDARD CHARTER BANK - S.A.L.	6	1979
101	AL MAWARID BANK - S.A.L.	13	1980
103	CREDIT BANCAIRE - S.A.L.	9	1981
104	UNITED CREDIT BANK S.A.L.	7	1982
105	BANK AL MADINA - S.A.L.	19	1982
108	FIRST NATIONAL BANK S.A.L.	8	1991
109	AL BARAKA BANK LEBANON S.A.L.	3	1991
110	MIDDLE EAST AND AFRICA BANK S.A.L.	4	1991
115	CITIBANK N.A.	1	1996
118	ARAB INVESTMENT BANK S.A.L.	1	1998
120	CAIRO-AMMAN BANK	1	1999

Appendix 3: the questionnaire

UOÀM ESG
Ecole des sciences de la gestion
Département stratégie des affaires
Université du Québec à Montréal

EQUIS

QUESTIONNAIRE

Information form to be filled out by the interviewer

Name and Surname of the interviewer	
Date of the Interview	
Name of the company where the interview is conducted	
Branch of industry	
Address	
Contact Persons	
Particularities:	
▪ Number of meetings	
▪ Other	
Remarks	

Motherfirm specifities

1. What is your company's country of origin? _____

Specify the distribution of your Subsidiary property rights:

- Local investors _____ %
- Foreign investors _____ %
- Your mother company _____ %

2. What is the gross turnover your mother firm made during the last financial year

_____

3. In how many countries are the firm activities spread? _____

4. On which continent(s) are these countries situated?

America	☐
Europe	☐
Asia	☐
Oceania	☐
Africa	☐

5. For how many years has your mother firm been working:

Abroad	_____
Locally	_____

6. What percentage of your turnover is generated by your international operations? _____ %

7. What strategic factors have encouraged your company to invest locally?

The profitability of the local market ☐

The supplying of raw materials ☐

The geographic expansion ☐

To face the competitors ☐

Other (specify): _____

8. Was your decision-making influenced by other factors:

Yes ☐ No

☐

9. If yes, please specify the nature of these factors:

_____

_____

Incentives and other (specify) : _____

10. Is the Bank secrecy Law a basic factor in the investment decision in the Lebanese banking sector?

_____

_____

11. Is the central bank regulations encourage the foreign banks to invest in Lebanon?

_____

_____

Local socioeconomic Context

At the time you have made the decision to invest locally

12. What was the condition of the supply in comparison with the demand regarding your service on this market?

- The supply was much higher than the demand ☐
- The supply was higher than the demand ☐
- The supply was much lower than the demand ☐
- The supply was lower than the demand ☐
- The supply was equal to the demand ☐

13. How do you find the growth of the demand regarding your service?

- High growth ☐
- Growth ☐
- Stability of the demand ☐
- Decline of the demand ☐

14. How would you describe the socioeconomic environment:

- Political conditions:
  - Improving ☐
  - Turbulent ☐
  - Stable ☐
- Economic conditions:
  - Growing ☐
  - Stable ☐
  - Declining ☐
- Social conditions:
  - Good ☐
  - Moderate ☐
  - Bad ☐
- Infrastructures:
  - Good ☐
  - Moderate ☐
  - Bad ☐

At present

15. What is the condition of the supply in comparison with the demand regarding your product on this market?

- ☐ The supply is much higher than the demand
- ☐ The supply is higher than the demand
- ☐ The supply is much lower than the demand
- ☐ The supply is lower than the demand
- ☐ The supply is equal to the demand

16. How do you find the growth of the demand regarding your product?

- ☐ High growth
- ☐ Growth
- ☐ Stability of the demand
- ☐ Decline of the demand

17. How would you describe the socioeconomic environment:

- Political conditions:
  - ☐ Improving
  - ☐ Turbulent
  - ☐ Stable
- Economic conditions:
  - ☐ Growing
  - ☐ Stable
  - ☐ Declining
- Social conditions:
  - ☐ Good
  - ☐ Moderate
  - ☐ Bad
- Infrastructures:
  - ☐ Good
  - ☐ Moderate
  - ☐ Bad

political risk

18. What was the risk rating of the country at the time of your first implication (please specify the quotation agency)

_____

_____

19. At present, what is the risk rating of the country (please specify the quotation agency)

_____

_____

20. What do you think about the risk of profits conversion and repatriation to the mother Firm from the country

- At the time you have taken the investment decision:
  - Very high ☐
  - High ☐
  - Low ☐
  - Very low ☐
- Now:
  - Very high ☐
  - High ☐
  - Low ☐
  - Very low ☐

21. What do you think about the risk of terrorist attempts that could affect your local activities?

_____

_____

22. How would you find the governmental policies on the:

Fiscal sides:

- At the time you have taken the investment decision:
  - Profitable ☐
  - Moderate ☐
  - Disadvantageous ☐

- Now:
  - Profitable ☐
  - Moderate ☐
  - Disadvantageous ☐

Environmental sides:

- At the time you have taken the investment decision:
  - Profitable ☐
  - Moderate ☐
  - Disadvantageous ☐

- Now :
  - Profitable ☐
  - Moderate ☐
  - Disadvantageous ☐

Promotional sides:

- At the time you have taken the investment decision:
  - Profitable ☐
  - Moderate ☐
  - Disadvantageous ☐

- Now:
  - Profitable ☐
  - Moderate ☐
  - Disadvantageous ☐

Local Resources.

At the time you have taken the investment decision:

23. What did you think about the local manpower market in comparison with that of your mother firm's country of origin regarding:

- The cost:

Higher	☐
Equal	☐
Lower	☐

- The skill:

Highly skilled	☐
Skilled	☐
Not much skilled	☐
Unskilled	☐

24. What did you think about the local manpower market in comparison with that of the other countries in where your mother firm is eventually involved, regarding:

- The cost:

Higher	☐
Equal	☐
Lower	☐

- The skill:

Highly skilled	☐
Skilled	☐
Not much skilled	☐
Unskilled	☐

At present:

25. What do you think about the local manpower market in comparison with that of your mother firm's county of origin, regarding:

- The cost:
  - Higher ☐
  - Equal ☐
  - Lower ☐
- The skill:
  - Highly skilled ☐
  - Skilled ☐
  - Not much skilled ☐
  - Unskilled ☐

26. What do you think about the manpower market in comparison with that of the other countries in where your mother firm is eventually involved, regarding:

- The cost:
  - Higher ☐
  - Equal ☐
  - Lower ☐
- The skill:
  - Highly skilled ☐
  - Skilled ☐
  - Not much skilled ☐
  - Unskilled ☐

Investment determinants

27. Regarding the decision of investing locally, what importance did your company attach to each of the following factors:

	Very important			Not important	Not applicable
	1	2	3	4	5
a) The size of your company					
b) The industrial sector you are working in					
c) The differentiation of your Service:					
1) Quality					
2) Competitive price					
3) Reputation					
d) The technology you have					
e) Bank Secrecy					
f) The regulations of the central bank					
g) The market's potential:					
1) Local					
2) Neighboring					
h) The proximity:					
1) Cultural					
2) Geographic					
i) Local infrastructure					
j) Political risk					
k) Contractual risk					
l) Governmental policies					

- Three elements per country (incentives, etc.)

	Very important			Not important	inapplicabl
k) The conditions of the manpower market:					
1) Skill					
2) Cost					
3) Availability					
4) Legislation					

28. Amongst the factors set out in the previous question, indicate the six factors that had most influenced:

- The choice of your local activity sector:

- The choice of your local investment mode:

29. As regards manpower your local investment is located in a sector:

Intensive in manpower ☐
Poor in manpower ☐

30. As regards high technology, your local investment is situated in a sector:

Intensive in high technology ☐
Poor in high technology ☐

31 What was the mode of your first local implication?

Exportation ☐
License ☐
Joint-venture ☐
New enterprise ☐
Acquisition ☐
Other (Specify) ☐

32. What is the current mode of your local investment?

Exportation ☐
License ☐
Joint-venture ☐
New enterprise ☐
Acquisition ☐
Other (Specify) ☐

33. In comparison with your expectations, are you satisfied with the results of your investment in this country

	Very satisfied	Satisfied	Little satisfied	Unsatisfied
Return				
Global risk				

Characteristics of the interviewed person

34. Post held in the company: _____

35. Number of years working in this company: _____

36. Origin: Local: _____ Other (specify): _____

37. Sex: Male ☐
Female ☐

38. Age: _____

39. Were you involved in the decision process regarding the decision of investment in this country?

Yes ☐
No ☐

Thank you for your collaboration

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