



## The Role of Institutional Development Indexes in Attracting Foreign Investment in Selected OPEC Member Countries

Morteza Raei Dehaghi<sup>1\*</sup>, Seyed Mohammad Mirhashemi<sup>2</sup>

<sup>1</sup>Department of Industrial Management, College of Management and Accounting, Mobarakeh Branch, Islamic Azad University, Mobarakeh, Isfahan, Iran  
(dr\_mraeidehaghi@yahoo.com.ph)

<sup>2</sup> PhD Student of Economic Science, University of Shiraz, Fars, Shiraz, Iran ([mohadamirhashemi.88@gmail.com](mailto:mohadamirhashemi.88@gmail.com))

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### ABSTRACT

The present survey explores the effects of institutional quality on foreign direct investment in selected OPEC member countries. To this end, the annual data of foreign direct investment, institutional quality index, gross domestic product, and freedom of the trade index in Angola, Algeria, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela were employed for the time period 1999-2010. The results of Im, Pesaran and Shin unit root test (2003) and Levin, Lin and Chu test (2002) revealed that all variables are stationary. As Pesaran test (2004) and Frees test (2004) show cross-sectional dependence correlation among the sections, the seemingly unrelated regressions (SUR) model was used. Estimation results disclosed that besides gross domestic product and freedom of the trade that have a positive and significant effect on attracting foreign direct investment, the effect of institutional quality on foreign direct investment is positive and significant too in the countries under study. Also, the results showed that among institutional development indexes, political stability and absence of violence, government effectiveness and control of corruption have a positive and significant effect on foreign direct investment in the countries under study.

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### 1. Introduction

High unemployment rate is one of the serious economic problems in the country. Elimination of this problem requires reinforcing the supply side of the economy. Despite the attempts of macroeconomic

\*Corresponding author name: Morteza Raei Dehaghi

E-mail address: dr\_mraeidehaghi@yahoo.com.ph

administrators in supporting the economic firms in various ways such as increased bank facilities and reduction of interest rates, the aids in this regard have been led to demand growth and increasing of general level of prices by influencing the nonproductive channels instead of production enhancement. This is due to the bureaucratic and complicated space of the rules and regulations and executive stages of obtaining a license to begin an economic activity in the country. Economic growth and reduction of unemployment rate needs investment of the private sector, i.e. development of the private sector. The trained personnel in the education sector are hired more by development of the private sector and thus increasing its competition (Diaconu & Pandelica, 2012). Development of the private sector in market economy is based on a complicated set of rules, extensive physical and institutional substructures, the stable macroeconomics environment, development of financial markets, attraction of foreign investments by small and medium industries, labor market regulations, enhancement of technological systems, and training and learning in order to be able to move consistently with the changes in the permanent changing environment of development dimensions. This collection is not provided in an economy automatically to implement the development model. Therefore, establishment of institutional and fundamental substructures for development and elimination of business obstacles are the primary necessities of implementing this policy and it is one of the essential tasks of the government and civil institutions (Banciova & Raisova, 2012).

If investment is not done sufficiently in a society, the economic growth will be retarded or stopped and hence, unemployment will be increased. Consequently, public welfare level of the society is decreased. But investment will be realized when a suitable environment and the essential security are provided for it. Business and investment in any country require providing a suitable institutional environment and security of this sector in that country. Capital owners will invest their capitals in a country where the signs of economic security are well observable. Policy makers and planners in each society have to "evaluate" and control the status of economic security and investment permanently and then adopt the essential schemes to "attract foreign capitals" and "avoid flight of domestic capitals" based on the obtained results of these evaluations. One of the events that have developed the globalization phenomenon in different countries in recent years is the increased importance of foreign direct investment. According to the statistics, foreign direct investment has been multiplied in the world in recent years. Therefore, recognition of factors that can affect foreign direct investment and attract it will become important more than ever.

The Organization for Economic Co-operation and Development believes that economic performance of a country across time is determined via its political, institutional and legal environment. Political stability level, corruption of the administrative system, quality of bureaucracy, and regulatory quality can be introduced as economic security that show total status of institutional indexes in each country. This organization defines economic security as follows: an institutional framework that inspires the sense of trust to the savers and investors and guarantees physical and legal security of transactions (UNCTAD, 1998).

According to the viewpoint of the United Nations Conference on Trade and Development (UNCTAD) in 2002, foreign direct investment is an investment that requires a long-term relationship and reflects stable interests and controlling the economic unit of a country (foreign direct investor or the parent company) in a company not in the investor's home country (Heidari & Afshar, 2013). The United Nations Conference on Trade and Development in 1998 classified the determinants of foreign direct investment in the host country into three classes: 1) political framework for foreign direct investment including political and social stability, rules of entry and performing manufacturing operations, standards of behaving with

foreign branches, policies related to the tasks and structure of markets, international agreement about foreign direct investment, privatization policies, commercial policies and tax policies, 2) economic determinants that are divided given to the motivation of multi-national companies: A) looking for the market (market size and income per capita, market growth, access to regional and global markets, preferences of the consumer in any country, structure of markets); B) looking for resources and properties (raw material, cheap unskilled labor force, skilled labor force, technology, invention of physical substructures, etc.) and C) looking for efficiency (cost of resources, transportation costs, etc.) and 3) business facilities including encouragement to investment, investment motivations, bureaucracy costs (related to corruption and administrative efficiency), social facilities and services after investment (Heidari & Afshari, 2013).

Among these factors, political factors such as social stability, political stability, political structure of the society, government type, power of the government and manner of political decision-makings are highly important. A country that is involved in political or social disturbances which threatens the investors' property will not be successful in attracting the foreign resources whatever it is attractive economically. Indeed foreign investment is done in an environment where the required space exists. This environment contains variables such as political stability, stability of law-making institutions, stability of rules, social stability, quality of bureaucracy, corruption of administrative bodies, confiscation of foreign properties, spiritual ownership, etc. All of the studies found the important evidence that specific institutional reforms, such as the liberalization of trade and foreign exchange, privatization, competitive reform and overall institutional reform, will affect OFDI in emerging markets significantly (Wang et al., 2014).

Several studies have emphasized the contribution of “institutions” in determining the level of a country’s economic development. Institutional failures which include bureaucracy and corruption explain why Africa remains to be poor. “Institutions” can be viewed as the cumulative outcome of past policy actions (Barry & Tacneng, 2013).

Numerous studies have been carried out about the effective factors on foreign investment but OPEC member countries that are very similar in terms of earning income have been considered less by the researchers. On the other hand, researchers have not paid much attention to governance indexes that can have an important role in business space improvement. Thus, it has been tried to explore the relationship between good governance and foreign direct investment in OPEC member countries using panel data in the current survey.

This survey is consisted of five sections. The first section is introduction. The existing theoretical principles and some of the related works will be mentioned in the second section. Research methodology and data description are presented in section three and then, the results are presented and interpreted. Finally, in the last section, a summary of the survey is represented and some suggestions are pointed out given to the obtained results.

## **2. Theoretical Principles and Background**

Good governance decreases uncertainty in economy by creating a suitable motivational structure which will lead to more investments and thus creating higher economic growth by increasing efficiency. Without creating, supporting and implementing the ownership rights, the range of market transactions is decreased; inappropriate structure of rules and regulations decreases investment opportunities; corruption deviates the government from its real purposes and reduces the legality of governmental institutions that support the market. Although in economic growth theories, components such as degree of representation of the statesmen on behalf of people, political stability (stability of the regime and governing leaders and

possibility of durability of current policies if the leaders and statesmen die or change), rule of law, danger of the government's inattention to contracts, corruption in the administrative body, danger of confiscation of properties and private investments, voice and supervision of rulers' actions, government effectiveness, etc. that are recognized as governance components have been considered less but these components can increase the explanatory power of growth theories in mentioning why economic performance of countries is different.

A government facing a strong institutional framework faces greater constraints to inappropriate use of aid. Such a government would attempt to smooth foreign aid fluctuations (through savings, investing, etc.) to keep the public content. A government facing poor quality institution, on the other hand, would have no incentive to act in the interest of its citizenry, and instead would inappropriately use money for its own corrupt consumption without attempting to smooth aid fluctuations. These two outcomes would have antithetic effects on a country's growth. Therefore, government behavior in an institutional environment plays an important role in determining the potential impact of aid volatility on growth. The treatment of these interactive effects between incoming foreign aid volatility and a government's behavior has, in the context of aid volatility studies, been absent (Kathavate & Mallik, 2012).

The existing theoretical studies neglect the role that the institutional quality plays in determining the skilled–unskilled wage inequality. Most of the above-mentioned studies potentially assume that the discussed economy is characterized with a high institutional quality. That is to say, there exists no unproductive activities in the economy and all the economic resources are fully employed by productive activities. But in reality, the institutional quality cannot be perfect and unproductive activities exist in both developing and developed countries (Pi & Zhou, 2013).

Legal freedom and free dissemination of information, that are evidences of voice and accountability, reinforce public awareness and economic and social transparency. On the other hand, institutions of the civil society such as trade associations, unions, parties and free elections empower people to choose, control and remove the governments.

Naturally, the power of citizens and independence of the media under such conditions play an important role in controlling the holders of power and thus holding them accountable for their acts. The errors of policy makers are, therefore, controlled socially and will be decreased. Business owners enjoy the essential insight and power to criticize improper economic policies of the government and confront improper changes in rules under these conditions. This is while if there are no supervisory mechanisms, transparency of rules, regulations and policies of the government will be decreased. This increases the business expenses and prevents development of business and investment (Baradaran Shoraka & Malek Sadati, 2008).

An efficient administrative body should have the essential power and skill to control the country and be able to prevent significant changes in policies, not being affected by political pressures, and have transparent mechanisms to attract new personnel. Competent bureaucracies can help single entrepreneurs cope with consistency problems which may be vital especially in motivating new activities (Rauch, 1999).

Efficient and desirable rules and regulations are one of the most important institutions that can be effective on economic performance of communities. Disruptive rules and regulations in the way of initiating a business in different forms such as awkward governmental licenses and agreements, rules governing the activity of private firms like labor act, trade restrictions, high tax burden increase primary cost of investment projects. If these expenses are large enough, intellectual entrepreneurs may quit investment. There is rule of law in a society where three conditions are provided. The first condition is supporting the people against robbery, violence and so on; the second condition is supporting against

perverse governmental acts which disrupt economic activities; and the third condition is existence of a predictable and fair judicial system.

Ensuring ownership rights and execution of contracts are key factors for proper direction of resources towards productive investments and preventing from its wastage in renting activities. Inability of a society to provide mechanisms to guarantee the contracts in an efficient and cheap manner is one of the most important reasons of historical recessions and underdevelopment of the third world countries. Also, under some conditions, where corruption becomes prevalent in the society, the people especially talented man try to gain a legal rent or a governmental license by bribing and collusion with governmental officials instead of using their own innovation and creativity. This is while these people can potentially enhance the society's capacity in terms of technical advancements. Moreover, corruption decreases economic attractions for domestic and foreign investors and propels the governmental firms towards unofficial activities that are mainly accompanied by less payment of tax to the government (Baradaran Shoraka & Malek Sadati, 2008).

Many studies have been carried out about the effects of foreign direct investment. Some studies have also explored the effective factors on attracting foreign direct investment and a few studies have explored the effects of governance on foreign investment. Some of these are presented below.

Schneider and Frey (1985) explored the effects of political risks on foreign direct investment. The results of their study revealed that improvement of political relations among the countries increases foreign direct investment.

Wei (2000) believed that countries can attract more investment by control of corruption instead of creating tax motivations for multi-national countries. By means of cross-sectional data, he showed that corruption and tax rates have a negative effect on foreign investment flow of OPEC member countries.

Martin (2002) acknowledged that given to high figures of investment in Arabian countries, three factors of consecutive political, social and military challenges; irregular interferences of the government, supports and additional rules of business environment; and inadequate human capital have been effective on their low economic growth.

In their study, Daude and Ernesto (2007) concluded that higher institutional quality increases foreign direct investment and among the governance variables, unpredictability of rules, regulations and policies, instability of governments and lack of commitment play a major role in foreign direct investment.

Davoudi and Shahmoradi (2005) concluded in their survey that paying attention to legal substructures, investment efficiency, considering skill level of the labor force and increased political stability, may lead to attraction of foreign direct investment.

Dargahi (2007) argued that though human capital variable about developing countries is not significant alone in explanation of the inflow of foreign direct investment but its mutual effects with physical capital accumulation variable are significant. In other words, favorable conditions for investment along with human capital can attract foreign direct investment.

Rezaei (2009) compared Iran with successful countries by believing in the importance of governance quality in attraction of foreign direct investment and showed that failure in attracting foreign direct investment roots in high political risk in Iran. Thus, transaction costs arising from uncertainty in Iran weakens spatial advantage of this country.

Using panel data method, Heidari and Afshar (2013) showed that gross domestic product, governance index and environmental stability in the global model and OPEC countries model have had the highest effect on attracting foreign direct investment. This is while gross domestic product, return on investment

and economic freedom index in MENA countries have not had a significant effect on attracting foreign direct investment.

### **3. Methodology and Data description**

#### **3.1. Data analysis procedure**

There are a number of panel unit root tests that aim to solve problem of smallness and low power of time-series unit root tests. Important advances in panel unit root tests have been presented by Bai and Ng (2004), Breitung (2000), Choi (2001), Im et al (2003), Levin et al. (2002), Madala and Wu (1999) and Pesaran (2007). In this survey, Levin, Lin and Chu unit root test (2002) that is known as LLC test and Im, Pesaran and Shin test (2003) known as IPS test were used (Bai & Ng, 2004; Breitung, 2000; Choi, 2001; Im et al, 2003; Levin et al, 2002; Maddala & Shaowen, 1999; Pesaran, 2007).

Also, a standard assumption in panel models show that the residue terms among sections are independent. Cross-sectional dependency can be ended to bias in the results. Breusch and Pagan test (1980), Pesaran test (2004), Frees test (1995, 2004) and Friedman test (1937) were used to explore cross-sectional autocorrelation. Since Breusch and Pagan test (1980) is used for data with low section and high time period, Pesaran test (2004) and Frees test (1995, 2004) were used to explore cross-sectional autocorrelation (Breusch & Pagan, 1980; Pesaran, 2004; Frees, 1995, 2004; Friedman, 1937).

The time period under study was from 1999 to 2011. Eviews 6 software was employed to test unit root of variables and Stata 11 software was used to test cross-sectional autocorrelation and estimation via seemingly unrelated regressions.

#### **3.2. Data description**

Considering the existing theoretical principles and previous studies including David and Austin's study (2007) and limited access to the information, the following variables were used in the current survey (Daude & Stein, 2007):

- A) Foreign direct investment as the dependent variable
- B) Institutional quality index: In order to explore the role of good governance in attracting foreign direct investment, governance indexes proposed by Kaufmann, Kraay and Mastruzzi (KKM) that contain special key supervisory dimensions of each country was used. This index includes the following:
  - Voice (freedom of speech) and accountability that shows the degree of public participation in choosing the government members as well as degree of freedom of speech in a country.
  - Political stability and absence of violence that measures the degree of perception about likelihood of instability or overthrow of the government by non-government or criminal elements such as domestic terrorism.
  - Government effectiveness that is a tool to measure the quality of policies and public services that are independent of political pressures and degree of reliability of the government commitments to these policies.
  - Regulatory quality that is a measurement of the capability of the government in formularization and implementation of proper policies that accelerate development of the private sector.
  - Rule of law that is a measurement of the trust degree of firms and obeying the rules of the society including enforcement decree, police and courts such as likelihood of degree of crime.

- Control of corruption that is the measurement of the degree of limited corruption and renting of certain people and private benefits.

These variables were created in the standardized range -2.5 to +2.5 (the data have been ranked so that one unit change is equal to one standard deviation of distribution of the variable). Larger values show better performance. It is noteworthy that the secondary index "voice and accountability" show the degree of development of democratic institutions.

C) gross domestic product with a fixed price

D) Freedom of the trade index: Another factor that can be effective on foreign direct investment is freedom of the trade that is ratio of sum of imports and exports to gross domestic product.

The data related to the above variables was obtained from the statistics published by the World Bank during the time period 1999-2010. The countries under study included OPEC member countries, namely, Angola, Algeria, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

#### 4. Results

First, reliability of variables is examined. Results of unit root test of variables for the countries under study are displayed in Table 1. As it is shown in Table 1, all variables are stationary given to Im, Pesaran and Shin test (IPS) and Levin, Lin and Chu test (LLC).

The results are biased if there is cross-sectional dependence correlation, Pesaran (2004) and Frees (1994, 2004) tests were used. Results of these tests are shown in Table 2. According to this table, the results show that there is cross-sectional dependence correlation in the model under study in the intended countries; hence, the model was estimated by means of seemingly unrelated regressions method (SUR).

Results of model estimation after omitting non-significant variables are shown in Table 3. According to this table, one percent increase in gross domestic product in the countries under study increases foreign direct investment equal to 0.058 significantly. Similarly, openness degree of economy has a significant effect statistically on foreign investment in countries under study.

As it was expected, institutional development quality has had a positive and significant effect on foreign investment in countries under study so that foreign investment has been increased significantly by improvement of the government's governance.

In order to find out which variables of institutional development quality are effective on attracting foreign direct investment, six models were estimated. Results of estimation are illustrated in Table 4.

Results of cross-sectional dependence correlation tests of six models in Table 4 show that there is cross-sectional correlation in all models; hence, in order that the estimation results do not have bias, estimation should be carried out via seemingly unrelated regressions method. Table 4 shows models' estimation using seemingly unrelated regressions method. Coefficients of institutional variables in models 1, 2 and 3 show that voice and accountability, regulatory quality and rule of law do not have a significant effect on attracting foreign investment in countries under study. This is while the other three institutional variables, i.e. control of corruption, government effectiveness and political stability and absence of violence have a positive and significant effect on attracting foreign investment. As it is clear in Table 4, political stability and absence of violence has had a higher effect on attracting foreign investment in OPEC member countries than government effectiveness and control of corruption. What is important here is that the positive effect of all variables shows the effect of good governance on foreign direct investment. Therefore, given to the obtained results it can be stated that among the variables of good governance,

political stability and absence of violence, government effectiveness and control of corruption can be effective on attracting foreign investment.

**Table 1.** Unit root test of variables

Row	Variable	Unit root test	Test statistic (probability level)
1	Foreign direct investment	IPS	-1.918 (0.023)*
		LLC	-4.304 (0.000)
2	Gross domestic product logarithm	IPS	0.658 (0.744)
		LLC	-10.824 (0.000)
3	Life expectancy	IPS	-11.189 (0.000)
		LLC	-6.619 (0.000)
4	Inflation rate	IPS	-2.383 (0.008)
		LLC	-7.011 (0.000)
5	Institutional quality index	IPS	-1.719 (0.042)
		LLC	-6.619 (0.000)
6	Control of corruption	IPS	-1.994 (0.023)
		LLC	-5.597 (0.000)
7	Government effectiveness	IPS	0.748 (0.772)
		LLC	-2.890 (0.001)
8	Political stability	IPS	-0.332 (0.630)
		LLC	-2.629 (0.004)
9	Regulatory quality	IPS	-1.557 (0.088)
		LLC	-6.203 (0.000)
10	Rule of law	IPS	-2.902 (0.001)
		LLC	-12.372 (0.000)
11	Voice and accountability	IPS	-1.452 (0.073)



**Table 1.** Unit root test of variables

Row	Variable	Unit root test	Test statistic (probability level)
		LLC	-5.254 (0.000)
12	Freedom of the trade	IPS	-1.228 (0.040)
		LLC	-4.521 (0.000)

\* Source: research findings

**Table 2.** Results of cross-sectional dependence correlation test

	Test statistic	Probability level
<b>Pesaran's lack of correlation</b>	3.181	0.001
<b>Frees's lack of correlation</b>	3.091	0.000

\*Source: research findings

**Table 3.** Estimation results using seemingly unrelated regressions method

Dependent variable: foreign direct investment		
Explanatory variable	Coefficient	Probability level
Gross domestic product logarithm	0.020	0.048
Institutional development index	0.002	0.002
Openness degree of economy	0.001	0.000
Life expectancy logarithm	0.644	0.000
Inflation rate	-0.0003	0.042
Intercept	8.27	0.000

Chi-square statistic= 602.27 (0.000)\* R<sup>2</sup>= 0.807

\* The number in parentheses shows significance level of the statistic.

Source: research findings

The results of this survey reveal that good governance has a positive and significant effect on attracting foreign direct investment and this shows the role of government in this regard. The government is effective on economic activities from various directions, dimensions and paths, so that macroeconomic and political policies can lead to the formation of a healthy, prosperous, clear and empowered economic system or resulted in the development of underground economy and corruption resulting to a weak and inefficient economy. Governments play an important role in supporting the spiritual ownership, providing the substructures, performance of monetary and financial markets and manpower, supervision of economic activities and control of corruption. Firms' assistances to economies are affected by the free, competitive and clear space of investment that the government has a major role in its formation and improvement. Also, the government has a negative effect on business space from various aspects: it imposes unnecessary expenses, creates instability and risk, and differentiates the competition space. The

rules which are not executed in a society that does not have an efficient government and control of corruption is impossible. These factors propel economic activists towards the unofficial sector (Choi & Thum, 2005).

**Table 4.** Estimation results regarding exploration of effective institutional factors on attracting foreign direct investment

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Gross domestic product logarithm	0.021 (0.001)	0.022 (0.001)	0.025 (0.000)	0.020 (0.002)	0.018 (0.005)	0.021 (0.001)
Openness degree of economy	0.001 (0.000)	0.001 (0.000)	0.001 (0.000)	0.001 (0.000)	0.001 (0.000)	0.001 (0.000)
Inflation rate	-0.0003 (0.024)	-0.0003 (0.029)	-0.0004 (0.008)	-0.0003 (0.021)	-0.0003 (0.024)	-0.0002 (0.009)
Life expectancy logarithm	0.654 (0.001)	0.662 (0.000)	0.680 (0.000)	0.652 (0.000)	0.646 (0.001)	0.636 (0.000)
Voice and accountability	-	-	0.011 (0.213)	-	-	-
Political stability and absence of violence	-	-	-	-	-	0.018 (0.010)
Government effectiveness	-	-	-	-	0.015 (0.047)	-
Regulatory quality	-	0.009 (0.166)	-	-	-	-
Rule of law	0.010 (0.200)	-	-	--	-	-
Control of corruption	-	-	-	0.011 (0.030)	-	-
Intercept	-2.731 (0.000)	-2.787 (0.000)	-2.946 (0.000)	-2.707 (0.000)	-2.634 (0.000)	-2.946 (0.000)
Pesaran's lack of cross-sectional dependence correlation test	3.298 (0.001)**	2.065 (0.038)	3.175 (0.001)	3.154 (0.001)	3.431 (0.000)	2.875 (0.004)
Frees's lack of cross-sectional dependence correlation test	3.044 (0.000)	1.968 (0.000)	2.930 (0.000)	3.184 (0.000)	2.937 (0.000)	2.902 (0.000)
R2	0.804	0.804	0.804	0.805	0.807	0.810

\*Source: research findings

## 5. Discussion and conclusion

In this study, the role of institutional development quality indexes in attracting foreign direct investment in OPEC member countries was explored. To this end, the annual data of foreign direct investment, institutional quality index, gross domestic product, and freedom of the trade index in Angola, Algeria, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela were employed for the time period 1999-2010. The results of Im, Pesaran and Shin unit root test (2003) and Levin, Lin and Chu test (2002) revealed that all variables are stationary. Since Pesaran test (2004) and Frees test (2004) show cross-sectional dependence correlation among sections, the seemingly unrelated regressions method (SUR) was used. As it was mentioned, the estimation results disclosed that

besides gross domestic product and freedom of the trade that have a positive and significant effect on attracting foreign direct investment, the effect of institutional quality on foreign direct investment is positive and significant too in countries under study. It means that good governance can play a major role in attracting foreign direct investment. Similarly, the results showed that among the variables of good governance, control of corruption, government effectiveness, and political stability and absence of violence have significant effects on attracting foreign direct investment. Therefore, paying attention to components such as degree of representation of statesmen on behalf of people, political stability (stability of the governing regime and leaders and probability of continuity of the current policies if the statesmen die or change), rule of law, danger of the government's inattention to agreements, corruption in administrative bodies, danger of confiscation of properties and private investments, people's enjoyment of voice and supervising the acts of rulers, government effectiveness, etc. that are recognized as governance components can be very important in attracting foreign investments.

Given to the obtained results, the following suggestions are presented:

Iran is in a suitable condition in terms of access to raw material, energy, agricultural products, construction and industrial material, and access to cheap and trained labor force. For this reason, it is possible to attract capital in the country but these capacities have not been used properly. This failure in attracting foreign investment can be due to factors other than economic factors. As it was mentioned in Theoretical Principles section, improvement of governance can help improve business environment as well as attracting foreign investment. Thus, given to the importance of government in improvement of governance and as a result improvement of business space, most suggestions of this survey address the government using previous studies. Understanding the problems of society due to misgovernance and constitution of political will in favor of governance reforms, is therefore essential as the most important pre-condition of governance reforms for the government. In this regard, general commitment and political will must be created to increase competition, making the government accountable and enhance transparency. Also, capacity building and consensus through participation at all levels of the society should be accomplished.

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