

# Assessment of Foreign Direct Investment Attractiveness: an AHP Approach

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Foreign Direct Investment (FDI) has become an increasingly important element in global development and integration during 1990s. Many firms find it strategically necessary to engage in foreign direct investment in one or more countries. Because it may offer them; a competitive advantage over local firms, a lower cost for labor, secure access to physical resources, closeness to major markets and increasing their market share.

Foreign direct investment has spread rapidly through the world economy in the past two decades. More countries and more sectors have become part of the FDI network. The high level and various forms of FDI represent an important force generating greater global economic integration.

In order to attract foreign private capital to their countries, most governments have taken several measures. Because, FDI is supposed to help to achieve high technology, managerial skills and increase the level of employment in order to achieve their development goals. On the other hand, governments' incentives for FDI should also be effective for their general economic objectives. Otherwise, the negative impacts of these incentives may not be limited with the inefficiency of the FDI policy, it will also create distortions in the economic structure of the host country. Thus, in order to maximize the impact of incentives, governments should establish a coherent incentive system related to general economic objectives.

Determinants of FDI are analyzed by many authors, but in all these studies, different determinants and weights of these determinants are pointed out. There isn't consensus over the determinants of FDI location decisions. One of these set of variables is 12 variables which are used by The United Nations Conference on Trade and Development (UNCTAD) to calculate "UNCTAD Inward FDI Potential Index" since 2002. These variables are not only measurable aspects of the key determinants of FDI but also they are easy to measure.

Since so many factors affect on FDI decision, *quantitative multi-criteria decision making techniques* can be used for choosing best alternatives among countries. The Analytic Hierarchy Process (AHP) which is founded by Saaty, has been widely used to solve problems having multiple criteria. The AHP is designed to handle the decision atmosphere in which subjective judgments are inherent to this decision making process. Furthermore, AHP provides a systematic method for evaluating the importance of each criterion in relation to the other criteria in a hierarchical manner.

In this paper, variables which are used to calculate the "UNCTAD Inward FDI Potential Index" will be used as independent variables, in order to make a regression between the dependent variable called "Inward FDI Performance Index". Then, the parameters of this regression will be used in our AHP approach as the weights of criteria in order to measure the FDI attractiveness of countries.

The object of this paper is to specify the FDI attractiveness of mediterranean countries and show that AHP is a suitable technique to determine the FDI attractiveness of countries.