FOREIGN DIRECT INVESTMENTS IN ASIAN DEVELOPING COUNTRIES

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Key words: Asian development countries, multinational enterprise (MNE), foreign direct investment, globalization

Introduction Foreign Direct Investment (FDI) is an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor. Individuals as well as business entities may undertake FDI. Such investments involve both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates.

FDI outflows have largely originated in the traditionally capital surplus industrialized countries. Hence, the emergence of FDI outflows from some developing countries, first noticed in the early 1970s (Lecraw, 1977), has aroused considerable academic and policy interest. After a decade of moderate but steady growth, annual magnitudes of outflows of FDI from developing countries have grown at a dramatic pace since the mid-1980s and have become a significant proportion of global FDI outflows. We argue that this sudden spurt in the magnitudes of annual flows of FDI from developing countries coincided with a change in the motivation for these flows. In the earlier round, developing country FDIs were of essentially market defensive type and were generally made in the neighbouring countries at a lower step in terms of levels of economic and technological development. In the current round, enterprises from developing countries, especially newly industrializing economies (NIEs) have increasingly used outward FDI as a strategic tool to strengthen their competitiveness in major markets. The evidence offered in Support of this assertion consists of trends and patterns in the FDI outflows from developing countries indicating their motive for supporting price and non-price competitiveness of their manufactured exports, and case studies of government policy changes favouring outward flows in selected important sources of FDI among Asian developing countries. The chapter also comments on the implications of these trends for developing countries which are striving to attract greater magnitudes of FDI inflows as a bundle of much needed technology capital and entrepreneurship in their effort to industrialize.

The structure of the chapter is as follows. The next section summarizes the trends and patterns in outflows of FDI from developing countries. The third section discusses the ways in which developing country enterprises have used outward FDI as means of improving their non-price competitiveness; and the next section similarly deals with trends with respect to overseas investment for strengthening price competitiveness. The fifth section reviews the trends in government policy towards outward investment in a few important sources of FDI outflows in the developing world to assess the motivations for official promotion. The sixth section analyses the implications of the recent trends for FDI prospects for poorer developing countries, and finally, the chapter is concluded with a few policy remarks for developing countries.

Impact of FDI from developing countries Table 1 summarizes the data on global outflows of FDI. It would appear from it that developing countries, which contributed just 2 per cent of global FDI outflows in the early 1980s, currently provide 15 per cent of global flows. The bulk of these flows originate in developing countries in the East, Southeast and South Asian countries which contributed $41.5 billion of $47 billion (or 88 per cent) of all FDI outflows originating in developing countries. To some extent the dramatic rise in the annual magnitudes of FDI outflows from developing countries in recent years is on account of a huge jump in annual outflows of FDI from Hong Kong since 1992. The annual outflows from Hong Kong increased by nearly nine times within a span of five years 1991 to 1995. As a result, Hong Kong alone now accounts for 53 per cent of all FDI outflows from developing countries. To the extent that outflows originating in Hong Kong represent ethnic investments, partly round-tripping of Chinese capital, and partly FDI outflows from other sources rerouted through Hong Kong (see, for instance, Zhang and Van Den Bulcke, 1996) the recent rise in FDI outflows from developing countries may be overblown. Yet, Table 1 shows the emergence of countries like South Korea, Taiwan, Singapore, China and even Malaysia each providing about $3 billion in annual outflows, not an insubstantial amount considering the fact that inflows of FDI to all developing countries till the beginning of 1990s averaged around $30 billion a year.

The stock of outward FDI made by select Asian countries presented in Table 2 also underscores the observation made from Table 1 - that the growing importance of developing countries as sources of FDI is a relatively recent phenomenon, having accelerated over the past six or seven years. The outward stock of the select Asian countries has grown by 273 per cent over the five year period 1990-5 compared to 209 per cent for all outward FDI stocks originating from developing countries.

Over the same period, the global outward stocks of FDI grew by only 62 per cent. The substantially higher rate of growth of developing country outflows has seen their share in total outward FDI stocks more than doubling from 4 per cent in 1990 to 9 per cent in 1995. The pre-eminent position of Hong Kong as a source of outward FDI among developing countries is underlined again. Taiwan also appears to have accounted for a considerable slice of outward FDI stock among developing countries. A few countries account for the bulk of FDI stocks originating in the developing world in value terms, as indeed is the case with OECD countries' outflows. However, the emergence on the scene of other source countries such as Singapore, Malaysia, Thailand, India and Indonesia is quite apparent considering the substantial growth in the outward stocks over the 1990-5 period.

Table 1. FDI outflows originating in developing countries, 1982-95 ($ million)

	1982-7 Annual average	1984-9 Annual average	1990	1991	1992	1993	1994	1995[a]
Global outflows	67,876	121,630	240,253	210,821	203,115	225,544	230,014	317,849
Developing countries	1,321	7,621	17,765	8,853	21,629	32,981	38,612	47,001
(percentage share)	(2)	(6)	(7)	(4)	(11)	(15)	(12)	(15)
Selected Asian countries (total)	812	5,147	12,276	8,651	17,379	29,263	33,003	41,527
China	333	581	830	913	4,000	4,400	2,000	3,467
Hong Kong		1,833	2,448	2,825	8,254	17,713	21,437	25,000
Korea, Republic of	106	137	1,056	1,500	1,208	1,361	2,524	3,000
Malaysia		233	532	389	514	1,325	1,817	2,575
Singapore	178	286	2,034	1,024	1,317	1,784	2,177	2,799
Taiwan	162	1,999	5,243	1,854	1,869	2,451	2,460	3,822
Thailand	29	41	140	167	147	221	493	904

Note: a Provisional. Source: Compiled from UNCTAD World Investment Reports 1994 and 1996.

Table 2. Stock of outward foreign direct investments made by select Asian countries, 1980 - 95 ($ million)

Country	1980	1985	1990	1995	Percentage change between 1990 and 1995
South Korea	142	487	2,172	1,1079	410
Taiwan	101	215	12,888	65,000[2]	404
Hong Kong	1,800[1]	9,441	18,930	85,156	350
Singapore	652	1,320	4,277	13,842	224
China	39	131	2,488	17,268	594
Malaysia	414	749	2,283	8,903	290
Thailand	13	14	398	2,333	486
India	149	180	290	850[3]	193
Indonesia	-1	49	25	110	340
Total for the above countries	1,510	12,586	43,751	203,453	365
Total all developing countries	6,167	21,222	69,369	252,691	264
percentage share of all countries	(1)	(3)	(4)	(9)	
All countries	513,740	685,549	1,684,136	2,730,146	62

Sources: Compiled on the basis of UNCTAD, World Investment Report 1996: 1 Lall (1984); 2 Taiwan's Ministry of Economic Affairs as reproduced in Financial Tirnes, 10 October 1996; and 3 own estimates. Note: The totals for developing countries take into account the additional sources used for Taiwan and India and hence may be at variance with UNCTAD figures for 1995.

Trade supporting investments In contrast to political economy work that studies the effects of electoral rules on trade (Nielson, 2003; Rogowski, 1987), bureaucratic appointments and committee membership (Geddes, 1994; Jones, Saiegh, Spiller, & Tommasi, 2002), economic reforms (Eaton, 2002), mobilization of supporter strategies (Busch & Reinhardt, 2005), and pork-barreling and geographic concentration issues (Ames, 2001; Samuels, 2002), the FDI literature tends to ignore the impact of electoral systems on FDI inflows. The lack of work on electoral systems and FDI inflows is surprising not only because of the previous institutional analyses but also because electoral rules have potential effects on legislative behavior in host countries. National and state legislators can use tax, land, or other incentives to prod FDI. Complementing previous institutional work (Haggard & Kaufman, 1995; Mainwaring & Shugart, 1997; Przeworski, 1991; Tsebelis, 2002), our work shows how formal democratic rules and varying institutional designs both directly and indirectly shape investment decisions by multinational enterprises (MNEs).

Even though Chinese enterprises have begun investing abroad relatively recently, it is already evident that outward FDI is increasingly seen by them as a means of promoting international competitiveness by increased foreign presence. A survey of Chinese enterprises with overseas investment in nontrade sectors in Shanghai, Beijing and Fujian provinces, conducted by the Institute of World Economy, Fudan University in 1989, indicated that opening up new markets, and acquisition of first hand information on markets were considered as motives for investing abroad by 94 per cent of enterprises. Furthermore, 83 per cent of enterprises felt that outward investment helped them in improving their customer relations and credibility in overseas markets (Gang, 1992).

Table 3. Korean overseas FDI stock by destination and industry, 1994 (number and US$ thousand)

Sectors		Destination			
		North America	Europe	Southeast Asia	Total
All Industries	Number	662	245	2,845	4,161
	Value	2,703,845	981,300	3,201,820	7,648,792
Manufacturing	Number	184	82	2,201	2,652
	Value	1,153,762	504,798	2,284,283	4,191,101
Trading	Number	315 (47.58)	130 (53.06)	312 (10.97)	807 (19.39)
	Value	1,062,321 (39.29)	408,306 (41.61)	235,782 (7.36)	1,750,562 (22.89)

Source: Extracted from sank of Korea (1995). Note: Figures in parentheses are percentages with respect m total for all industries.

Improving price competitiveness through FDI ASEAN economies such as Malaysia, Thailand and the Philippines are moving towards achieving the status of newly industrialised countries following the path of the first tier countries of Singapore, Hong Kong, Republic of Korea, and Taiwan. In pursuit of achieving this status, these countries must gain a competitive edge in terms of producing high quality products, generating technical progress and improving market efficiency and networking, especially at the international level. As developing countries, the level of local technology and skills in Malaysia, Thailand and the Philippines (which will be referred to hereafter as ASEAN-3) are relatively low. As an alternative, these countries have to rely on foreign direct investment (FDI) as an important source of finance for boosting technological capability.

Enterprises in the East Asian newly industrializing economies are also using outward FDI to improve the price competitiveness of their goods, which has suffered-adversely from rising wages and currency appreciations over the past ten years, by moving their production to cheap labour locations. Sometimes these investments are also driven by the availability of preferential access to major markets, e.g. the Mediterranean, East or Central European, or to Lome Convention (or ACP) countries that enjoy preferential access to the European Union market, by the loss of GSP preferences and exhaustion of MFA quotas in garments and textiles industry. This is illustrated below with examples from South Korea, Taiwan and Hong Kong.

South Korea The Korean won has tended to appreciate owing to rising current account surpluses in the late 1980s and early 1990s (Chaponniere, 1992). Korean international competitiveness was further affected by rising real wages. Between 1978 and 1987 alone, the South Korean production workers' hourly wages doubled (World Bank, 1989) and have risen by 16 per cent a year on average in nominal terms since then (Economist, 14 September 1996). Finally, Korean export competitiveness was also eroded by the loss of GSP preferences in the US market as South Korea was considered developed enough to no longer need trade preferences. The further expansion of South Korean exports of footwear and apparel etc. has been limited by the exhaustion of MFA quotas. Korean enterprises attempted to make up for these developments by relocating labour intensive production in Southeast and South Asian countries to take advantage of low cost labour and also of GSP preferences and MFA quotas. Table 4 shows that a substantial proportion of Korean manufacturing FDI in the Southeast Asian countries, and some South Asian countries such as Bangladesh and Sri Lanka, has been in export-oriented labour intensive industries such as textiles and garments and footwear and leather goods. That suggests that Korean enterprises have used these countries as export platforms for relocating these industries owing to the availability of cheap labour, GSP benefits and often also unfilled MFA quotas. Korean companies are also setting up plants in Eastern European and Mediterranean countries which combine the benefit of relatively cheaper wages with a preferential access to the EU markets. For instance, Samsung has invested in Hungary; Daewoo has invested in a $759 million car factory in Craiora, Romania and a TV and microwave oven plant in Poland (Financial Times, 10 February 1995, and international Herald Triune, 20 July 1995) and has plans to enter other East European countries; Goldstar has invested in Turkey.

Table 4 Sectoral distribution of overseas FDI stock of South Korea in selected Asian countries, end 1994 (US$ thousand)

Host countries	Sectors			
	All industries	Manufacturing	Textiles and clothing	Leather and footwear
Philippines	159,889	153,549	29,426 (19)	9,843 (6)
China	1,104,924	996,079	143,386 (14)	102,090 (10)
Indonesia	824,588	445,894	69,354 (16)	37,936 (9)
Vietnam	133,918	116,391	23,598 (20)	10,233 (9)
Sri Lanka	82,446	82,111	43,831 (53)	1,815 (2)
Bangladesh	34,523	34,498	19,101 (55)	1,075 (3)
All countries	7,648,792	4,191,101	545,517 (13)	210,107 (5)

Sources: On the basis of data provided in sank of Korea (1995). Note: Figures in parentheses are percentage shares in manufacturing totals.

Taiwan Since the mid-1980s, Taiwan has also enjoyed current account surpluses and has accumulated enormous foreign exchange reserves. This has led to appreciation of the New Taiwan dollar by nearly 40 per cent against the US$ between 1986 and 1992 alone. The sizeable foreign exchange reserves also led to inflationary tendencies within the economy. Industrial wages increased substantially during this period because of serious labour shortage, and promulgation of labour laws. Between 1990 and 1992 alone, industrial wages had moved up by nearly 35 per cent (Chaponniere, 1992; van Hoesel, 1996). All these factors put together undermined the international competitiveness of Taiwan especially in labour intensive goods which were its traditional exports. To make up for their lost competitiveness, Taiwanese enterprises started moving production to Southeast Asia and China to take advantage of cheap labour reserves. The government enabled this by relaxing controls on capital outflows in 1987. The ASEAN countries account for over 35 per cent of Taiwan's total approved FDI stock in 1992. The bulk of Taiwan's FDI in ASEAN is concentrated in labour intensive industries, with assembling of electrical and electronic appliances and textiles accounting for nearly 53 per cent of FDI in 1992 in the region (Taiwan, MOEA, 1993). Taiwan has been actively involved in the development of a special economic zone in Subic Bay, the Philippines, and special industrial zones in Vietnam to house Taiwanese companies (van Hoesel, 1996). Taiwanese companies have also made substantial investments in labour intensive activities in mainland China which, however, are not recorded directly because of restrictions and are routed mainly through Hong Kong. According to the host country estimates Taiwanese investments made in mainland China between 1979 and 1992 alone could amount to US$5.5 billion (rehang and Van Den Bulcke, 1996).

Concluding The foregoing discussion has highlighted an aspect of growing internationalization of the world economy in the recent period - the increasing resort by developing country enterprises to direct investments abroad as a strategic tool for strengthening their competitiveness. The erosion of competitiveness caused by currency appreciations and rising wages has been addressed by relocation of production to countries with lower wages. The threat of losing markets in industrialized countries because of rising protectionism in the wake of formation of regional trading blocks has been responded to by making trade supporting and strategic asset seeking investments in major markets. The emerging MNEs have been assisted in their overseas expansion by the policy framework and infrastructural support of their home governments, given their positive role in strengthening their international competitiveness.

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Մոհսեն ՀԵՅԴԱՐԻ

Արտասահմանյան ուղղակի ներդրումներ ասիական զարգացող երկրներում

Բանալի բառեր. ասիական զարգացող երկրներ, բազմազգ ձեռնարկություն, օտարերկրյա ուղղակի ներդրում, գլոբալացում

Օտարերկրյա ուղղակի ներդրումների հոսքերը ներառում են ներդրումների սեփական կապիտալ եւ ոչ հավասարաչափ ձեւեր: Բաժնային կապիտալի հոսքերը ներառում են ուղղակի արտասահմանյան ուղղակի ներդրողի ձեռնարկությունների բաժնետոմսերի ձեռքբերումը եւ ներառում է նաեւ արտասահմանյան ուղղակի ներդրողի մասնաբաժինը՝ վերաապահովված շահույթում: Բացի այդ, օտարերկրյա ուղղակի ներդրումների ներգրավվածությունը ներառում է նաեւ կարճաժամկետ կամ երկարաժամկետ ներգրավված վարկեր եւ պարտատոմսեր, որոնք ուղղակիորեն ներգրավված են օտարերկրյա ուղղակի ներդրողների եւ նրանց հետ գործակցողների միջեւ:

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FDI flows comprise equity and non-equity forms of investment. The equity capital flows comprise the foreign direct investor's purchase of shares of an enterprise and also include the foreign direct investor's share in reinvested earnings. Besides, the equity form of FDI also includes short or long-term intracompany loans and debt transactions between foreign direct investor and the affiliates. The non-equity forms of FDI include investments through such activities as sub-contracting, management contracts, turnkey arrangements, franchising and licensing and products sharing.

Мосен ГЕЙДАРИ

Прямые иностранные инвестиции в развивающиеся страны Азии

Ключевые слова: страны азиатского развития, многонациональное предприятие (MNE), прямые иностранные инвестиции, глобализация

Потоки ПИИ включают формы инвестиций в акционерный капитал и неакционерные. Притоки капитала включают в себя покупку иностранными инвесторами акций предприятия, а также долю прямых иностранных инвесторов в реинвестированных доходах. Кроме того, форма прямых иностранных инвестиций включает краткосрочные или долгосрочные внутрифирменные займы и долговые операции между прямым иностранным инвестором и аффилированными лицами. Нефинансовые формы ПИИ включают инвестиции через такие виды деятельности, как субподряд, контракты на управление, соглашения «под ключ», франчайзинг и лицензирование и совместное использование продуктов.