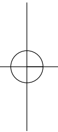
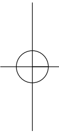
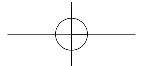
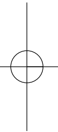
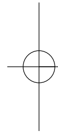
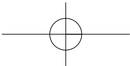



Section I

Introduction and Overview



b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 2
1st Reading

Chapter 1

Overview: Explaining the New Surge of Outward Foreign Direct Investment from Asia

Nicola Virgill, Rajiv Kumar and Ramkishen S. Rajan

1. Introduction

There has been a dramatic expansion of foreign direct investment (FDI) across the globe over the last 30 years. Indeed, between 1970 and 2005, total world outward foreign direct investment (OFDI) flows have increased from US$ 14 billion to almost US$ 780 billion (UNCTAD, 2006). The data reveal that much of this OFDI has occurred through cross-border merger and acquisition (M&A) activity rather than entirely new (greenfield) investments, and that the majority of this OFDI has been directed into the services sector (UNCTAD, 2006, p. 106). While the lion's share of OFDI flows and stocks still originate from developed economies, since the late 1980s, developing economies have also emerged as important sources of OFDI. Developing economies have seen their share of OFDI increasing from 3 percent of global OFDI over the period 1978–1980 to 12.3 percent of total OFDI during the period 2003–2005 (UNCTAD, 2006, p. 7).

The increasing, but somewhat volatile volumes of Asian OFDI flows (see Table 1) have given rise to some important questions for policymakers: Why has this trend emerged and what are the implications for the region and individual countries of this trend? What is the magnitude of these flows, and can they be expected to persist or even accelerate over time? In which countries are these investments most

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 4
1st Reading

Table 1: Direct investment abroad (FDI Outward Flows) for Asia and selected Asian countries. (US Dollars at current prices in millions).

Economy/Region	1980	1990	1995	2000	2002	2004	2005	2006
Japan	2,385	48,024	22,630	31,558	32,281	30,951	45,781	50,266
Developing Asia	**1,146**	**10,948**	**44,678**	**82,230**	**35,427**	**87,461**	**77,747**	**117,067**
East Asia	**150**	**9,574**	**33,558**	**71,973**	**27,555**	**62,924**	**49,836**	**74,099**
China	—	830	2,000	916	2,518	5,498	12,261	16,130
Hong Kong, China	82	2,448	25,000	59,352	17,463	45,716	27,201	43,459
Republic of Korea	26	1,052	3,552	4,999	2,617	4,658	4,298	7,129
Taiwan Province of China	42	5,243	2,983	6,701	4,886	7,145	6,028	7,399
South Asia	**4**	**9**	**126**	**524**	**1,723**	**2,247**	**2,579**	**9,820**
India	4	6	119	509	1,679	2,179	2,495	9,676
South-East Asia	**394**	**2,328**	**11,627**	**8,225**	**4,681**	**14,212**	**11,918**	**19,095**
Indonesia	6	(11)	1,319	150	182	3,408	3,065	3,418
Malaysia	201	129	2,488	2,026	1,905	2,061	2,972	6,041
Singapore	98	2,034	6,787	5,915	2,329	8,074	5,034	8,626
Thailand	3	154	887	(22)	171	76	552	790

Source: UNCTAD (2007).

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 5
1st Reading

concentrated in and what are the policy actions required, if any, to ensure that positive impacts of intra-Asian ODFI flows can be maximized for the region? How do these rising intra-Asian FDI flows compare with investments by Asian multinationals to the rest of the world? Should governments in developing countries like China and India, with large domestic investment needs, promote the outward expansion of multinationals from their countries? What is the distinction between FDI flows in the North and the South? And what are the challenges faced by emerging market multinationals and future prospects of intra-Asian FDI flows.

This volume attempts to provide answers to some of these questions using a combination of statistics, survey analysis, and firm-specific evidence. This chapter provides a broad overview of the key issues involved in understanding the rationale underlying the rise in Asian OFDI and its magnitudes. This is achieved not by attempting to summarize the main findings of each chapter, but instead by trying to weave together the country case studies provided in the subsequent chapters to understand the rationale for the emergence Asian OFDI.

2. Data Limitations and Issues

Before proceeding it should be emphasized — as highlighted by various chapters in this volume — that there are a host of problems when analyzing FDI data, especially in the case of developing economies. In **Chapter 3, Rabin Hattari and Ramkishen S. Rajan** highlight that FDI outflow and inflow data between country pairs in many cases do not match and indeed, some types of information have only begun to be recorded by some countries. UNCTAD (2006) notes "the divergence in trends in FDI inflows and outflows reflects differences in the way countries compile FDI data" (p. 5). In **Chapter 2, Dilek Aykut** find that the recording of OFDI flows in some countries is a recent occurrence and that some countries' do not include all the relevant components of OFDI. In other countries, FDI statistics are limited to the transactions of larger companies. In **Chapter 5, Cheng and Stough** note in those cases where the data on OFDI is collected by the approving authority, the data will under-represent the volumes of

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 6
1st Reading

OFDI as it would necessarily exclude those projects which may not require approval. Conversely, however, not all approvals are always translated into actual inflows.

Another important issue in examining OFDI data is determining the true country of origin. Low, Ramstetter and Yeung (1996) point out that there are two possible ways to account for OFDI. The first is by the "country of capital source" and the second is "by country of ownership" (pp. 2–3). The latter takes into consideration investments which are funneled through offshore centers as "it makes little sense to attribute such investments to the tax havens themselves" (Low *et al.*, op cit, p. 3). Such distinctions are particularly relevant in the case of accounting for OFDI between China, Hong Kong and Macau.[1]

3. The Intra-Asian OFDI Phenomenon

There has been a rise in the importance of South-South FDI flows as well as realignment in terms of the sources of OFDI. Asian economies have generally replaced Latin America and the Caribbean as OFDI developing-country leaders (UNCTAD, 2006, p. 112). For example, Singapore, Hong Kong and Malaysia have been among the developing economies with the largest M&A deals between 1987 and 2005. In **Chapter 2, Aykut** finds that while global M&A transactions have been driven by actual and expected stock price increases, the response in Asia has generally been more subdued because of lower levels of privatization deals. However, this is changing.

Data on FDI outflows, from developing countries, for which UNCTAD is the most comprehensive source (UNCTAD, 2006), point to the increasing dynamism of this group of countries as sources of FDI…As the UNCTAD Report says:

> The increasing importance of FDI from developing countries reflects stronger ownership advantages of developing-country firms,

---

[1] In **Chapter 3, Hattari and Rajan** also highlight the importance of offshore financial centres as sources and hosts of Asian FDI.

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 7
1st Reading

related somewhat to the growing importance of their home countries in the world economy (UNCTAD, 2006, p. 6).

Traditionally, investments have flowed into developing Asia from Western economies and Japan. In **Chapter 4, Daisuke Hiratsuka** discusses the extent of and rationale for Japan's FDI to the rest of Asia. Increasingly, emerging Asian economies are also becoming important sources of FDI. In fact, after 1995, ODFI flows from developing Asian economies to all regions generally surpassed outflows from Japan (see Table 1). Certainly, Hong Kong and China have emerged as leading sources of foreign investment in terms of OFDI volumes. Other Asian economies, specifically, Taiwan, Singapore and Malaysia have also gained in importance particularly in the aftermath of the Asian crisis. OFDI flows from each of these three countries were over US$1 billion in 2005.

In **Chapter 3, Hattari and Rajan** explain that the largest sources of FDI throughout the region have expectedly come from the precrisis Asian Tigers (Hong Kong, Singapore, Taiwan and Korea) and in recent years, emerging economies such as India and China have increasing become more important. Having described the OFDI boom in East Asia since 1997, the authors examine the determinants of intra-Asian FDI flows using an augmented gravity model which they apply to a panel data set. They find that proximity, both cultural and geographical, in addition to the usual economic determinants (i.e. market size, economic growth) and institutional variables played an important role in determining the where countries invested. This is broadly consistent with other studies of the determinants of OFDI in both developed and developing economies (see UNCTAD, 2006; Sethi *et al.*, 2003).

It is clear from the evidence presented in papers that the Asian OFDI experience has been extremely varied. The various country-specific chapters in this volume have identified four major factors that explain recent trends in Asian OFDI. First, there have been "Push factors" related to conditions in local economies and markets which have become saturated, or have become too unstable due to policy changes or economic shocks. As a result, investments are pushed out from these countries into other economies. Second, a significant portion of OFDI flows have been driven by governments through their "national champion" strategies.

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 8
1st Reading

Indeed, many governments in Asia have explicitly pursued OFDI as a development strategy. Third, a large part of the intra-Asian FDI flows is affected by the "Greater China" effect — that is FDI flows between mainland China, Hong Kong, Taiwan and the Chinese diaspora throughout Asia. Finally, in more recent times, OFDI has been spurred by more traditional FDI motives and facilitated by FDI liberalization policies promoted throughout Asia and many other developing countries. It should be noted, however, that these four drivers are not mutually exclusive and OFDI from many Asian economies is actually a result of a combination of more than one factor.

3.1. *Push Factors (Exhausted Markets)*

One of the key motivators for the increase in Asian OFDI emanated from Asian economies where local investment opportunities were exhausted or became less attractive due to poor domestic investment policies and crisis events. As a result, OFDI flowed to relatively more attractive destinations. For instance, in **Chapter 4, Hiratsuka** finds that Japan's low population growth rates and maturing markets have resulted in the increased importance to Japanese corporations of profits from their overseas operations.

In **Chapter 7**, **Nathalie Aminian, K.C. Fung and Chelsea Lin** find that overseas investment decisions by Taiwanese firms have been motivated by both a desire to achieve lower costs of production by locating production in China and also by push factors such as the declining political stability in Taiwan that is perceived to adversely affect prospects in domestic markets. Sutter (2002) also points to growing political and economic pressures within Taiwan which facilitated the flow of OFDI to China (pp. 527 and 532).

Even in the case of Singapore, discussed in **Chapter 8** by **Goldstein and Pananond,** the authors note that the country's small markets and low levels of investment opportunities (features of an exhausted market) have facilitated the push for investment abroad.

In **Chapter 9, Mohamed Ariff and Gregore Lopez** find that the key drivers for the increasing levels of Malaysian OFDI have been the structural and institutional changes in the economy. The increasingly

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 9
1st Reading

liberalized capital and investment policy regimes have permitted the overseas expansion of efficiency, market and resource-seeking Malaysian firms. In addition, the cyclical economic factors that have seen a relative slow down of economic activity and resulted in the exhaustion of the local market have also pushed investment abroad. While OFDI collapsed to its 1980s levels in the immediate aftermath of the Asian financial crisis; since 2001, Malaysian OFDI has generally been on an upward trend. Malaysian OFDI was largely channeled to Labuan, an Asian offshore financial center to disguise the actual identity of firms taking this route. However, substantial investments were also made in Singapore, Indonesia, Hong Kong and China. Interestingly, the services sector made up the largest share of OFDI while Malaysian government-linked companies and majority-owned Malaysian private companies were the key factors for OFDI in Malaysia.

In **Chapter 10, Reza Siregar and Anton Gunawan** emphasize that the domestic investment environment matters and can create an incentive for local businesses to invest overseas. While Indonesia's OFDI is considerably smaller than some of the more prominent Asian economies, the surge of OFDI in recent years provides an important opportunity for analysis. Using economic and financial risk rating and an investment profile indicators from the International Country Risk Guide (ICRG) database, the authors find that deterioration in the investment climate and, in particular, the increase in investment risk, has contributed to the rise of OFDI in Indonesia. The authors also point to high start-up costs and changes in labor laws which have raised costs and worsened the investment environment. This has induced domestic Indonesian enterprises to invest abroad. In fact the authors find that as Indonesian firms strengthened their financial positions, they opted to invest overseas rather than expanding operations locally.

3.2. *National Champion Strategy*

For another group of Asian countries, governments consciously pursued a "national champion" strategy to allow their firms to gain market share, achieve lower production costs and improve access to resources and raw materials. Countries like China and India, for

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 10
1st Reading

example, have promoted "national champions" with aggressive investment agendas. These strategies were facilitated by the adoption of liberal policy developments and as UNCTAD (2006) points out "Asia and Africa were the leading regions in terms of introducing further sectoral liberalization." (pp. 23–24).

Cai (1999) acknowledges the important role of the Chinese government in facilitating Chinese OFDI and states:

> It was after the Chinese government initiated its open-door policy at the end of the 1970s that Chinese outward FDI began to develop…[Those] early outward FDI activities were mainly conducted by centrally controlled state-owned enterprises, that is, various long-established specialized foreign trade corporates (FTCs) and newly created foreign oriented corporations (FBOCs) (p. 859).[2]

Cai (1999) further finds that this large OFDI push was necessary to support China's development strategy. As recently as 2000, Deng (2007) finds that China had pursued a "Go Global" policy which encouraged its state-owned enterprises to undertake strategic overseas investments (p. 72). Similarly, Wu and Chen (2001) also noted that the initial Chinese OFDI surge was led by "state-owned enterprises, with an emphasis on labour collaboration and contracting" (p. 1237).

In the case of Singapore, Low, Ramstetter and Yeung (1996) note:

> government-linked companies dominate[d] outward FDI by locally controlled firms in Singapore. Another difference [between Singapore and Hong Kong] is the relatively conspicuous role the government play[ed] in Singapore's economy, in particular, the government's active promotion of the development of corporate regionalization strategies and outward FDI in recent years (p. 10).

Indeed, in **Chapter 8, Goldstein and Pananond** also point to the significance of Singapore's state-owned company in explaining the

---

[2] Buckley *et al.* (2005) also acknowledge that China's "Open Door" policy and the introduction of Special Economic Zones also facilitated the inflow of FDI into China (pp. 4 and 7).

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 11
1st Reading

increase in Singaporean OFDI. However, while these government-linked companies were prominent, OFDI was driven by market factors such as the need to secure lower costs of production and improve competitiveness, avoid trade quotas and to reduce vulnerability. Therefore, we see that in some Asian economies, governments played an important role in promoting OFDI through their state-owed or linked enterprises.

3.3. *The "Greater China" Effect*

A third rationale for the large increase in intra-Asian OFDI relates specifically to investment within and between *Greater China* (i.e. mainland China, Hong Kong and Taiwan and the Chinese diaspora throughout Asia). China is Asia's largest recipient of inward FDI (Kim and Mah, 2006, p. 896; UNCTAD, 2006). In their discussion of the development strategies of India and China, Huang and Khanna (2003) note that one core difference between the two emerging economies is that inward FDI for China was the engine of economic growth, "serv[ing] as a substitute for domestic entrepreneurship" (p. 75). For China, in particular, the business environment was so complicated for and disadvantageous to local firms that entrepreneurs decided to "roundtrip" through Greater China to take advantage of FDI incentives within mainland China offered to foreign firms (Huang and Khanna, 2003, p. 76).[3] Low, Ramstetter and Yeung (1996) further observe:

> The observation of significant Chinese FDI in Hong Kong is consistent with the often heard assertion that much of what the Chinese

[3] Kim and Mah (2006) find that "Beijing still has many problems in its FDI regime, including frequent changes in economic policies, arbitrary official interpretations of FDI regulations, disputes with investment partners in joint ventures, difficulties in securing raw materials for production, and low productivity because of insufficient social overhead capital." (p. 894). Wu and Chen (2001) also state that "since equity markets remain relatively small in size, and are subject to discretionary administrative intervention in China, offshore investments can offer protection against domestic inflation and exchange rate depreciation. China's enterprises have the incentive to set up subsidiaries overseas to achieve a more balanced portfolio, and to evade foreign exchange and other restrictions with which they are saddled at home…In other world, for Chinese enterprises, overseas development is a further possible destination for capital flight" (p. 1251).

> record as FDI from Hong Kong is in fact investment originating in local Chinese firms, but circulated through Hong Kong in order to benefit from the incentives offered to foreign investors (p. 7).

In **Chapter 7, Aminian, Fung and Lin** explore the outward FDI experiences of Hong Kong and Taiwan. In particular, they examine the increasing flows to China from these two countries after the Asian financial crisis. Indeed, based on UNCTAD's Outward FDI Performance Index, Hong Kong is an "exceptional exporter" of FDI compared to its size in the world economy with a large share of its FDI channeled into services. Hong Kong, with its more flexible business environment is providing an important entryway into China. These investments appear to be funneled through special purpose offshore vehicles in the British Virgin Islands and the Cayman Islands.

Additionally, **Aminian, Fung and Lin** point out that a large portion of the investment flows were actually "round tipped" to China via Hong Kong. This is consistent with findings by Low, Ramstetter and Yeung (1996) that Hong Kong has been used both as a "springboard for investment by foreign-controlled companies in Southeast Asia as well as in China" (p. 8) and "also as a regional center of decision making and control in its own right" (p. 22). Such investments, eventually intended for China via Hong Kong, "may have been preferentially diverted…in the few years prior to WTO accession" (Buckley *et al.*, 2005, p. 14). Interestingly, these large OFDI flows into China from the Chinese diaspora, Aranachalam (2003) adds, may have allowed China to delay its business environment and privatization reforms (p. 80).

Chang (1995) also points out that a large share of China's foreign investment is actually "overseas Chinese…living outside of mainland china" (p. 957) and that "as Hong Kong's economy matured and China undertook economic reforms in the late 1970's, Hong Kong's labor-intensive manufacturing began transferring their production to the mainland to take advantage of its cheap land and labor" (p. 961). Huang and Khanna (2003) offer that "China has a large and wealthy diaspora that has long been eager to help the motherland, and its money has been warmly received" (p. 75). Indeed,

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 13
1st Reading

in some Chinese towns these investments were quite substantial. In **Chapter 10, Siregar and Gunawan** find that ethnic Chinese Indonesians were the major source of OFDI in Indonesia. Similar forces explain increasing Taiwanese investments in China (Chang 1995, p. 962). Indeed, "It is alleged that a significant part of FDI flows to China from Hong Kong, Japan, the United States, and Southeast Asia actually reflects "the activities of Taiwanese firms in disguise" with much of this investment attracted to the Guangdong region and the Shenzhen special economic zone (Chang, 1995, pp. 962–963). Buckley *et al.* (2005) point out that firms from Hong Kong and Taiwan, "enjoy transaction cost related ownership advantages in these places [Fujian and Guangdong provinces] relative to other investor nationalities because geographic proximity, cultural convergence and familial ties" (p.11).

In **Chapter 4, Hiratsuka** also shows that Japanese FDI began to flow into China as China's business and investment climate began to improve in the early 1990's. However, Japan eventually instituted a "China plus one" policy such that Japanese firms also chose one ASEAN country in addition to China when choosing hosts for their OFDI.

While there has been a great deal of attention paid to Chinese FDI inflows, it is important to realize that China is also an important investor throughout Greater China. Cai (1999) points out that the bulk of China's OFDI was channeled to neighboring, culturally-similar countries as investments in the services and natural resources sectors (pp. 864–865). Furthermore, Cai (1999) acknowledges the large flows from China to Hong Kong (p. 858). Wu and Chen (2001) also note that "the main reason for the heavy investment in Asia was the big push by Chinese capital into Hong Kong and Macao" (p. 1245).

In **Chapter 5, Cheng and Stough** define three distinct periods of Chinese ideology towards OFDI. They find that between 1978 and 1986 there was strong opposition towards outward investments by Chinese firms; however by 1987 with the introduction of the Chinese Special Economic Zones (SEZs) this bias against OFDI began to change beginning with state corporations. However, political acceptance of an OFDI development strategy came during the period 1992

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 14
1st Reading

to 2000 as demonstrated by important policy changes which relaxed investment requirements. By 2001, the Chinese government had launched its "go global" strategy aimed at encouraging those Chinese firms which were able to compete effectively to invest abroad. **Cheng and Stough** point out that not only has Chinese OFDI volumes and the list of recipient countries grown over the last few years, but also the average size of the projects have increased — suggesting growing confidence in their OFDI activities.

3.4. *Traditional FDI Motives Facilitated by Liberalization of Policy Regimes*

The final OFDI motivation explored in this volume reflects the more traditional economic rationale for OFDI. China, for example, has emerged as an important source of OFDI, notwithstanding its late liberalization measures. Deng (2007) finds that Chinese OFDI has been directed mainly to Hong Kong and Western, high income, industrialized countries for strategic reasons (p. 72). While earlier Chinese OFDI may have been driven by changes in government policies, economic and strategic motivations increasingly now drive the process.

Wu and Chen (2001) also highlight the change in motivation from political to economic ones in Chinese OFDI after 1986 when OFDI became to be driven by (a) Chinese firms' comparative advantage, (b) the desire for better returns and (c) the need to acquire resources (p. 1239). Specifically, more recent Chinese OFDI was motivated by new markets, the potential for greater trade, circumvention of existing export quotas, the search for resources and raw materials, and technology and skills transfer (Cai, 1999, pp. 867–871). Deng (2007) finds that Chinese OFDI has been led by the country's desire to acquire "strategic resources" that will enable its firms to gain access to technology and modern management techniques in addition to the traditional motivations of investments for new markets and natural resources (p. 74). Deng (2007) notes:

> It is evident that Chinese firms invest overseas because they wish to acquire knowledge and learn new skills and capabilities in order to

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 15

1st Reading

> enhance their competitive advantages and build global brands. The asset-seeking investments tend to be conducted [mainly in industrialized countries] by strong Chinese firms, which have special resource endowments but may need additional resources to be competitive in particular markets (p. 77).[4]

Similar conclusions were reached by **Goldstein and Pananond in Chapter 8.** They find that while the majority of Thai OFDI is resource or market-seeking, a small but significant number of Thai MNCs are seeking strategic investments overseas.

Conversely, China also remains an attractive FDI destination because of its low labor costs and "technological capability in several sectors, notably in electronics due in part to its economic isolation in recent decades and to the spillover effects of FDI" (Buckley *et al.*, 2005, p. 19). Policy changes in China also led to large FDI inflows (Buckley *et al.*, 2005, p. 9). Guar (2003) finds that the new liberalized OFDI environment within India should also offer "many attractive investment opportunities to Indian companies" within ASEAN (p. 287).

In their analysis of the effects of Korean OFDI on trade, Seo and Suh (2006) find that as Korea liberalized its FDI policies, "labor-intensive manufacturing industries mostly relocated to developing countries, particularly ASEAN countries and China, while most Korean FDI conducted in industrialized countries was capital-intensive manufacturing" (p. 160). Seo and Suh (2006) divide OFDI motivations into two categories: factor seeking and market or strategic asset seeking (p. 163). Kim and Mah (2006) show that in response to policy changes in South Korea which made overseas investments by South Korean firms easier, South Korean OFDI flows to both developed regions and to developing Asia increased dramatically after 1987 (pp. 884–885). While initially these investments were concentrated in petroleum and chemical industries (31 percent in 1980), by 2000 electronic and communications equipment (31 percent) and textiles

[4] This finding is consistent with Helpman, Melitz and Yeaple's (2004) study of the US market where it is offered that "only the most productive [firms] engage in FDI" (p. 300).

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 16
1st Reading

and apparel industries (12 percent) were the largest uses of Korean OFDI (Kim and Mah, 2006, p. 887). Kim and Mah (2006) also point out that Korea's OFDI strategies shifted from resource seeking to production-base seeking FDI, in later years, to augment Korea's export activities (p. 887). Again, Korea's OFDI activities within China and other developing Asian economies, although driven by cost efficiencies, were facilitated by liberalizing policy changes within the recipient countries (Kim and Mah, 2006, pp. 890 and 893).

India's OFDI surge has emerged from the strength of its *home-grown* enterprises responding to improvements in India's business environment and building on the country's "intellectual capital" (Arunachalam, 2003, p. 81). Huang and Khanna (2003) opine:

> India has managed to spawn a number of companies that now compete internationally with the best that Europe and the United States have to offer. Moreover, many of these firms are in the most cutting-edge, knowledge-based industries-software giants Infosys and Wipro and pharmaceutical and biotechnology powerhouses Ranbaxy and Dr. Reddy's Labs, to name a few (p. 75).

In **Chapter 6**, **Nagesh Kumar** shows that as India liberalized its capital flows beginning in the early 1990s, Indian firms responded by expanding abroad, first in manufacturing and then increasingly into the services sector. Indeed, many of these firms were seeking strategic acquisitions and access to important marketing networks. **Kumar** examines various factors which affect the likelihood of Indian firms undertaking OFDI and finds that R&D investments and exporting activity among other factors increases the probability of Indian firms undertaking investments abroad. The search for the latest technology and access to large developed economy markets is likely to result in increasing investment activity by Indian and Asian firms to finance acquisitions abroad.

4. Concluding Remarks

The surge of intra-Asian OFDI continues to remain strong but the question remains if these are sustainable long-term trends? This will

expectedly depend on future strength of the four structural drivers identified in this volume. Push factors related to mature markets, raising labor costs in some of the more developed Asian economics and to a lesser extent, bouts of political and economic instability are likely to continue to affect production costs. China, therefore is likely to remain an attractive destination for Asian OFDI because as Buckley *et al.* (2005) point out: "The unevenness of China's development means that the underdeveloped northern and western provinces will continue to offer many equivalent benefits to foreign investors, certainly in respect of labor, should manufacturing costs rise in the coast provinces after [WTO] accession" (p. 20). This will also hold for India, where the working population is set to increase for the next four decades. Many Asian economies appear to be continuing or expanding their "go global" strategies and are actively promoting outward investments for various reasons. As Asian economies continue to improve their business environments intra-Asian FDI flows are likely to continue to grow rapidly. The remaining chapters in this volume explore country-specific rationale underlying the rise in Asian OFDI.

References

Buckley, P, J Clegg, A, Cross and H Tan (2005). China's inward foreign direct investment success: Southeast Asia in the shadow of the dragon. *Multinational Business Review,* 13, 3–30.

Cai, KG (1999). Outward foreign direct investment: A novel dimension of China's integration into the regional and global Economy. *The China Quarterly*, 160, 856–880.

Chang, MH (1995). Greater China and the Chinese "Global Tribe". *Asian Survey,* 35, 955–967.

Deng, P (2006). Investing for strategic resources and its rationale: The case of outward FDI from Chinese companies. *Business Horizons,* 50, 71–81.

Feenstra, R (1998). *Facts and Fallacies about Foreign Direct Investment.* Davis, California: Institute of Governmental Affairs, University of California, Davis.

Gaur, S (2003). Framework agreement on comprehensive economic co-operation between India and ASEAN: First step towards economic integration. *ASEAN Economic Bulletin,* 20(3), 283–291.

Globerman, S and D Shapiro (2005). Assessing international mergers and acquisitions as a mode of foreign direct investment. In Eden, L and W Dobson (eds.) *Governance, Multinationals and Growth*, pp. 68–99 London: Edwin Elgar.

b596_Chapter-01.qxd 12/18/2007 5:41 PM Page 18
1st Reading

Helpman, E, MJ Melitz and SR Yeaple (2004). Export versus FDI with heterogeneous firms. *The American Economic Review,* 94, 300–316.

Huang, YT and T Khanna (2003). Can India Overtake China? *Foreign Policy*, 137, 74–81.

International Monetary Fund (IMF) (2003). *Foreign Direct Investment Trends and Statistics*. Washington DC: The International Monetary Fund.

Kim, EM and JS Mah (2006). Patterns of South Korea's foreign direct investment Flows into China. *Asian Survey,* 46, 881–897.

Kim, WC and V Terpstra (1984). Intraregional foreign direct investment in the Asian Pacific region. *Asia Pacific Journal of Management,* 2, 1–9.

Low, I, ED Ramstetter and HW-C Yeung (1996). Accounting for outward direct investment from Hong Kong and Singapore: Who controls what? Working Paper No. 5858, NBER.

Rajan, RS (2005). Financing development in the Asia-Pacific Region: Trends and linkages. *The Role of Trade and Investment Policies in the Implementation of the Monterrey Consensus: Regional Perspectives*, Studies in Trade and Investment No. 55, pp. 21–65.

Seo, JS, C-S Suh (2006). An analysis of home country trade effects of outward foreign direct investment: The Korean Experience with ASEAN, 1987–2002. *ASEAN Economic Bulletin,* 23, 160–170.

Sethi, D, SE Guisinger, SE Phelan and DM Berg (2003). Trends in foreign direct investment flows: A theoretical and empirical analysis. *Journal of International Business Studies,* 34, 315–326.

Sutter, K M (2002). Business dynamism across the Taiwan Strait. *Asian Survey,* 42, 522–540.

UNCTAD (2006). *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development*. New York: United Nations.

UNCTAD (2007). *Foreign Direct Investment Online* 2007 [accessed 16 November 2007]. Available from http://www.unctad.org/Templates/Page.asp?intItemID=1923&lang=1.

Wu, H-L and C-H Chen (2001). An assessment of outward foreign direct investment from China's transitional economy. *Europe-Asia Studies,* 53, 1235–1254.