Chapter 35
Home Country-Specific Determinants of Outward Foreign Direct Investment in Developing Economies

Rıfat Karakuş
Çankırı Karatekin University, Turkey

ABSTRACT

The outward foreign direct investments of developing economies have showed significant increase in recent years. Rising outward foreign direct investment stock of developing economies makes its determinants and consequences crucial. The aim of this study is to determine the home country specific determinants of outward FDI. For this purpose, a panel data analysis is performed with the data of BRICS and Next Eleven countries for the period from 1994 to 2014. The analysis results reveal that inward foreign direct investment, interest rates and technological capability of home country have positive influence and total labor force of home country has negative effect on outward FDI of developing economies.

INTRODUCTION

Foreign direct investment (FDI) is defined as "a category of cross-border investment made by a resident entity in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor" (OECD, 2008). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10% of the voting power is generally accepted that the investor has enough influence on management of the enterprise although in some examples less than 10% of the voting power can provide active management ability or more than this voting power cannot be enough for creating a direct management authorization.

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FDI can be classified in two forms from point of a reporting economy. Inward FDI indicates the all direct investments by the non-residents in the reporting economy and outward FDI refers to investments which made to another economy by reporting economy residents. When FDI of whole world economy is handled, superiority of developed countries attracts the attention as expected. Naturally FDI flows from more industrialized to less-industrialized countries, or from capital-rich to capital-scarce developing countries. However, in recent years reverse flow of FDI from developing economies to other economies have showed increase with the effect of globalization process. (Bano & Tabbada, 2015) As shown in the Figure 1, total outward FDI stock of world economy has had a tendency to increase from 1980 to 2014 except the years 2001 and 2008. Also percentage of developing and transition economies outward FDI has been ever-growing from 2003 to 2014 although the percentage of developed economies has revealed a downward spiral. Besides when outward FDI stock growth rate of economies is observed, developing and transition economies have given an outstanding performance from 2004 to 2014 except the year 2009.

Developed economies have nearly 80 percent of world outward FDI stocks. Their existing operations support this weight on total of FDI thanks to reinvested earnings. Developed-economy multinational enterprises (MNEs) have operated in other countries for long time and they have advantage of these operations profits. They can invest with the profit of existing operations as outward FDI, so their dominance on outward FDI of world proceeds. When the top 20 home economy of outward FDI is observed, the density of the developed economies is perceived. Respectively, United States, Hong Kong, China, Japan, Germany, Russian Federation, Canada, France, Netherlands, Singapore, Ireland, Spain, Republic of Korea, Italy, Norway, Switzerland, Malaysia, Kuwait, Chile, Taiwan Province of China are the top 20 economy which have outward FDI around the world. 11 economies in top 20 and 10 economies in top 15 are the developed economies. (UNCTAD, 2015) Although the dominance of developed economies is shown in total, capacity of the developing economies is non-negligible. Developed-economy MNEs make their invested in other economies with reinvested earnings ever-increasingly, however the developing-economy MNEs mostly use equity for outward FDI and with these equity investments they

Figure 1. Outward FDI of whole world economy: 1980-2014
UNCTAD, 2015.