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Outward foreign direct investment from New-Wave Emerging Countries:

A shift of newly emerging multinational companies

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Introduction

Underlying assumption: sampling emerging economies entirely depends on economic issues which are to be dealt with.

Thus, various existing samples of (newly) emerging economies.

1/ My own sample of ‘New-Wave Emerging Countries’ (NWECs) is built up to be relevant from the standpoint of outward foreign direct investment (OFDI) and multinational companies (MNCs) based in these countries, namely compared to BRICS’ OFDI and MNCs.

2/ A sample of 14 NWECs is then studied as regards the emergence and strategies of their MNCs and the determinants (push factors) of their OFDI.

1. Sampling New-Wave Emerging Countries from the standpoint of OFDI

Screening criterion: first select all those countries with significant OFDI, i.e. over $ 1bn an OFDI stock in 2014 (in UNCTAD data base) = 91 countries.

Then cleaning the sample from (subtracting) developed market economies (DMEs) with GNI per capita > $20,000 in 2014 = minus 30 countries
=> 61 countries.

5 BRICS studied elsewhere (Andreff, 2014, 2016) are left aside => 56 c.

15 post-communist transition economies (PTEs) are quite specific and skipped out, which leads to 41 potential candidates for the NWEC sample.

Some remaining countries are very much (or exclusively) dependent on rent-extracting activities (oil, raw materials, etc.) for their economic development; 17 rent-depending countries (RDCs) are dropped from our sample

Among the 24 remaining countries, 10 have absolutely nothing in common with the BRICS taken as benchmark emerging economies; they are ‘tax friendly small economies’ (TFSEs); skipping them out, we are left with a sample of 14 NWECs (Appendix 7).

Statistical testing of the NWEC sample, by comparing it to other (DME, BRIC, PTE, RDC, TFSE) samples (Appendix 2) which comes out with:

a/ each country sample is rather homogenous (low standard deviation) compared to our whole data base;

b/ the most resembling sample (as to the difference between mean values) to the BRICS’ one is the NWEC’s sample in terms of geographical size, population, GDP rate of growth and GNI per capita.

c/ moreover the NWEC sample is more homogenous than the BRICS’ one.

Appendix 7: Outward foreign direct investment stock and other variables: sampling 14 newly emerging economies

Rank	Country	OFDI stock in 2014	Population million	GDP $bn 2014	g 2006-10	g 2011-14	GNI/ capita	Geographic. size thkm2	Inw. FDI stock 2014
1	Malaysia	135.7	29,9	338	4.5	5.4	11120	329	133.8
2	Mexico	131.2	125,4	1295	2.0	2.9	9870	1944	338.0
3	Chile	89.7	17,76	258	3.5	4.4	14910	744	207.7
4	Thailand	65.8	67,73	405	3.8	3.0	5780	511	199.3
5	Colombia	43.1	47,79	378	4.6	5.0	7970	1110	141.7
6	Turkey	40.1	75,93	798	3.3	4.5	10830	770	168.6
7	Argentina	35.9	42,98	538	5.8	3.2	13480	2737	114.1
8	Philippines	35.6	99,14	285	4.9	5.9	3500	298	57.1
9	Indonesia	24.1	254,5	889	5.7	5.7	3630	1812	253.1
10	Nigeria	10.3	177,5	569	7.2	5.2	2970	911	86.7
11	Vietnam	7.5	90,73	186	6.3	5.7	1890	310	91.0
12	Egypt	6.8	89,58	287	6.2	2.1	3050	995	87.9
13	Iran	4.1	78,14	425	4.9	-0.1	7120	1629	43.0
14	Pakistan	1.7	185.0	244	3.4	3.8	1400	771	30.9

Appendix 2: Comparison between country samples and the data base of major investors abroad

Country samples	OFDI stock in 2014 $ billion	Population million inhabitants	GDP 2014 $ bn	GDP growth rate: g		GNI/capita in $	Geographical size *	In FDI st. 2014 $ bn
				g 2006-10 in %	g 2011-14 in %			
DMEs (m)	**722,8**	34,5	1587,7	1,9	1,9	**47348**	1045,2	585,6
s/m	1,59	1,79	2,03	0,79	0,53	*0.40*	2,48	1,68
BRICs (m)	401,9	**752,2**	**4151,5**	**7.0**	**4,8**	8430	**9274**	**617,7**
s/m	*0,54*	0,77	0,86	0,44	0,54	0,53	*0,51*	*0,53*
NWECs (m)	***45,1***	***98,7***	***492,5***	***4,7***	***4,2***	***6646***	***1118,6***	***139,9***
s/m	0,96	*0,65*	*0,61*	*0.30*	*0,29*	0,65	0,62	0.60
PTEs (m)	25,5	14,8	161.0	4.0	2,8	9969	863	57,9
s/m	3,31	1,92	2,26	0,83	0,57	0,59	3,72	1,47
DRCs (m)	16,3	20,8	179,2	5,5	4,7	17232	845,8	42,6
s/m	1,16	0.90	1.02	0,71	0,38	1,35	0,97	1,24
TFSEs (m)	5,5	2.0	26,5	5,5	4,1	20539	22,1	20.0
s/m	0,62	0,83	0,72	0,65	0,83	1,01	1,55	0,82
SAMPLE (m)	246.0	61,3	776,3	4,1	3,4	22703	1159,9	243,3
s/m	2,88	3,18	2,75	0,78	0,62	1,01	2,23	2,48

* in thousand square kilometers

2. Analysing OFDI from New-Wave Emerging Countries

First OFDI dates back to the 1970s from Latin American front runners, to the 1980s for most of NWECs, to the 1990s for Iran, to 2007 for Vietnam.

Fast OFDI growth started up in the 1990s from Thailand, Chile, Indonesia, Malaysia, Mexico, Egypt and Turkey (Table 1).

Some MNCs were already big and famous such as Petronas, Darby (Malaysia), Bunge y Born, YPF (Argentina), Cemex (Mexico), San Miguel (Phillipines), Koc (Turkey), Orascom (Egypt), COPEC (Chile), Pertamina (Indonesia), etc.

In its early stage, OFDI from the NWECs did not evolve on a smooth path at a regular pace and was puntuated by various crises in 1982 (Latin America, Nigeria),1997 (Thailand and Asian neighbours), then Turkey (1991, 1998), Pakistan (civil war).

Table 1: Outward foreign direct investment stock from new wave emerging countries, 1985-1999

($ million)

NWECs	1985	1990	1992	1993	1994	1995	1996	1997	1998	1999	N*
Argentina	6079	6105	n.a.	n.a.	n.a.	10696	n.a.	7616	18184	19277	3.2
Chile	102	178	713	1144	2027	2815	3848	5928	8860	13515	132.5
Colombia	301	402	476	476	868	1028	1220	1866	2381	2397	8
Egypt	59	131	229	223	254	365	370	499	584	630	10.6
Indonesia	49	25	n.a.	83	96	701	1295	2073	2117	2189	44.7
Iran	0	0	0	0	0	77	80	138	154	184	2.4**
Malaysia	749	2283	n.a.	4516	6328	8903	10809	12725	15240	16880	22.5
Mexico	533	575	n.a.	1039	2084	4132	n.a.	5278	5825	6625	12.4
Nigeria	5334	9652	n.a.	n.a.	11197	11186	11893	11516	11164	11256	2.1
Pakistan	127	282	n.a.	264	258	266	274	239	244	468	3.7
Philippines	171	154	154	128	155	1209	1091	1527	1698	1858	10.9
Thailand	14	398	701	933	1426	2173	n.a.	1951	1978	2346	167.6
Turkey	161	154	246	260	344	268	371	622	996	1641	10.2
Vietnam	0	0	0	0	0	0	0	0	0	0	0

Source: UNCTAD, World Investment Reports.

* 1985 multiplied by N = 1999

**1999/1995

Table 2: Outward foreign direct investment stock from new wave emerging countries, 2000-2014

($ billion)

NWECs	2000	2002	2005	2007	2008	2009	2010	2011	2012	2013	2014	N1*	N2**
Argentina	20.2	19.4	22.6	26.9	28.7	29.4	29.8	31.3	32.9	34.1	35.9	1.33	1.33
Chile	18,3	13,4	21,3	32,5	31,7	41,2	49,8	69	97,1	101,9	89,7	1.78	2.76
Colombia	3,8	3,8	8,9	10,4	13,1	16,2	22,8	31,1	31,6	39	43,1	2.74	4.14
Egypt	0,6	0,7	1	1,8	3,7	4,3	5,4	6,1	6,3	6,6	6,8	3.00	3.78
Indonesia	2,3	2,6	13,7	21,4	27,2	30,2	1,7	9,5	11,6	16,1	24,1	9.30	1.13
Iran	0,4	5,3	0,2	1,5	1,9	2,2	2,6	2,9	3,3	3,7	4,1	3.75	2.73
Malaysia	15,9	20,2	44,5	58,2	67,6	75,6	96,8	106,2	120,4	134	135,7	3.66	2.33
Mexico	8,6	12,4	28	44,7	45,4	53,5	66,2	112,1	137,7	143,9	131,2	5.20	2.94
Nigeria	4,1	4,6	5	5,5	6	6,4	5	5,9	7,4	8,6	10,3	1.34	1.87
Pakistan	0,5	0,6	0,8	1	1,3	2,2	1,7	1,4	1,5	1,7	1,7	2.00	1.70
Philippines	1,9	1,4	2	5,6	5,8	6,1	6,6	6,6	9	13,2	35,6	0.92	6.36
Thailand	2,4	2,7	3,9	7	10,9	16,3	25,5	33,2	52,6	58,6	65,8	2.92	9.40
Turkey	2,5	4	8,1	12,2	13,9	14,8	23,8	24	30,5	32,8	40,1	4.88	3.29
Viet Nam+	0	0	0.07	0.18	0.30	0.70	0.90	0.95	1.2	2.0	1.2	n.a.	17.14

N* = 2007/2000 N** = 2014/2007 (+) FDI outflows

Source: UNCTAD World Investment Reports.

Very fast growth of NWECs' OFDI in 2000-2007 (Table 2) though slower than BRICS' OFDI on average, primarily OFDI from Indonesia, Mexico, Turkey, Iran, Malaysia, Egypt and Thailand.

More striking: during the crisis (2007-2014) OFDI has swiftly accelerated from Vietnam, Thailand and the Phillipines, resilient to the crisis like OFDI from China (Andreff, 2016).

On average, NWECs' OFDI muddled through the crisis with a higher momentum than BRICs' OFDI (except from China).

Table 3 shows – in reference to Dunning's IDP model and Andreff (2003) – OFDI stock/GDP and Outward/Inward FDI stock ratios. A country is assumed to be in the third step of the model if these ratios respectively are > 5% and > 25%: Argentina, Chile and Malaysia in 2000 + Colombia, Mexico, Phillipines and Thailand in 2014.

Table 3: Comparative features of OFDI from the NWECs

(in %)

NWECs	Outward FDI stock / GDP			Outward / inward FDI stock		
	2000	2007	2014	2000	2007	2014
Argentina	7.3	10.2	6.7	29.9	40.8	31.5
Chile	15.7	19.8	34.8	40.0	30.8	43.2
Colombia	3.8	6.0	11.4	33.9	18.5	30.4
Egypt	0.7	1.4	2.3	3.0	3.0	7.7
Indonesia	1.6	5.0	2.7	9.2	36.3	9.5
Iran	1.3	0.5	1.0	15.4	2.8	9.5
Malaysia	20.8	31.2	40.1	30.2	75.9	101.4
Mexico	1.9	5.0	10.1	7.1	16.8	38.8
Nigeria	8.5	3.3	1.8	17.2	8.8	11.9
Pakistan	0.9	0.7	0.7	7.2	5.0	5.5
Philippines	2.1	3.9	12.5	13.8	29.5	62.3
Thailand	2.0	2.9	16.3	7.8	8.2	33.0
Turkey	1.8	1.9	5.0	13.3	8.4	23.8
Vietnam	0	0	0.6	0	0	1.3

Calculated from UNCTAD and World Bank data.

Geographical distribution

MNCs based in the NWECs primarily invest in neighbouring countries and in some tax heavens, then in developed market economies.

Preferably in host countries where they have some familiarity through trade, ethnic and cultural ties.

So far, difficult to detect whether there is significant «round-tripping» OFDI, namely in tax heavens.

Industrial structure (paucity of data)

From NWECs with fast growing OFDI, the share of the manufacturing industry (beverages, steel, cement, textile, chemicals, telecom) in overall OFDI is rather important.

The share of services is noticeable in some NWECs' OFDI (Malaysia, Thailand, Turkey, Egypt) while the primary sector (energy, mining, etc.) is also an area for OFDI in all NWECs.

Cross border mergers & acquisitions (M&As)

Most MNCs have grown through both greenfield investment and M&As. Some have been involved in big deals (over $1bn). Examples: Orascom taking over Wind (Italy), in 2005, Sigdo Koopers (Chile) over Magoteaux (Belgium) in 2011, Concha y Toro (Chile) over Fetzer Vineyards (US).

Among the most active MNCs in M&As: Cemex, Bimbo, Modelo (Mexico), Petronas, San Miguel, Orascom (before being merged by Vimpelcom, Russia), Thai Beverage, Tenaris (Argentina), etc.

Strategies (research in progress)

The *multilatinas*' privileged strategy is market-seeking, then risk diversification, some resource- and asset-seeking OFDI, few efficiency-seeking (ex: some Argentine MNCs).

MNCs from Asian NWECs are less focused on market-seeking than the *multilatinas*; resource- and efficiency-seeking are more significant; also asset-seeking (MNCs from Thailand, Indonesia, Pakistan).

A focus in banking and other Sub-Saharan countries as regards OFDI from Nigeria.

Home country's policies promoting NWECs' OFDI

A number of NWEC-based MNCs are state-owned enterprises (SOEs), namely in Iran, Egypt, Pakistan, Indonesia, Malaysia, Philippines, Nigeria, Vietnam and some *multilatinas*.

Privatisation has often triggered OFDI, examples: YPF (Arg.), Telmex, Codensa (Colombia), most Chilean MNCs, Bank of Alexandria.

Some kind of economic liberalisation, increased trade openness, financial and services deregulation , tax exemption on income earned overseas and new business legislation have created a more liberal OFDI policy environment and facilitated crossborder M&As in most NWECs.

In some NWECs, some public authorities are in charge of promoting OFDI (ex: MITI in Malaysia, BOI, Ministry of Finance & Bank of Thailand).

3. The determinants of NWECs' outward foreign direct investment

Litterature :

Pull factors attract and drive FDI into a given host country, push factors are home country specific and explain why FDI flows outward from various domestic industries.

Few (econometric) studies on OFDI from the NWECs, concentrated on Turkey, Malaysia, Thailand most of which focus on push factors, namely:

. Home economy's level of economic development (GDP per capita) and science and technology investments.

. Increased foreign competition on the domestic market (inward FDI).

. Home economy's openness (& exchange rate) and stability.

. Suitable economic governance and policy reforms (liberalisation, openness..)

. OFDI promotion policy (tested for Thailand).

Econometric testing of push factors in13 NWECs (except Vietnam):

$$OFDI_{i,t} = a.GDP_{i,t} + b.\ GDP/capita_{i,t} + c.g_{i,t} + d_2.C_2\ (Xhightec_{\,i,t}) + d_3.C_3\ (Xhightec_{\,i,t}) + e.Patent_{i,t} + f.INFDI_{i,t\text{-}k} + u_i$$

$OFDI_{i,t}$ stands for the outward foreign direct investment stock from country *i* in year *t*;

$GDP_{i,t}$ gross domestic product of the home country *i* in year *t*;

$GDP/capita_{i,t}$ gross domestic product per inhabitant in the home country *i* in year *t*;

$g_{i,t}$ the annual index of GDP growth in the home country *i* in year *t*;

$Xhightec_{i,t}$ the share of high-technology exported products in overall export of the home country *i* in year *t*;

$Patent_{i,t}$ the number of technological patents registered in the home country *i* in year *t*;

$INFDI_{i,t\text{-}k}$ the inward foreign direct investment stock hosted in country *i* in year *t-k*.

Table 8: The determinants of outward foreign direct investment from the New-Wave Emerging Countries

Dependent variables	OLS			Panel data					
				Fixed effects			Random effects		
	H1: LLL t-1	H2: LLL t-2	H3: LLL t-3	H1: LLL t-1	H2: LLL t-2	H3: LLL t-3	H1: LLL t-1	H2: LLL t-2	H3: LLL t-3
GDP	-0.195**	-0.182***	-0.202***	-0.522***	-0.431***	-0.436***	-0.291***	-0.237**	-0.250***
GDP per capita	3.013***	3.092***	3.199***	5.321***	5.332***	5.452***	3.829***	3.955***	4.108***
GDP growth rate	76.258*	101.058**	52.9998	74.692*	97.075**	45.256	72.215*	96.278**	44.230
C2 X high tec	4.023	3.568	3.469	-3.271	-2.997	-3.589	1.444	1.212	0.831
C3 X high tec	9.478***	9.213***	8.829***	-4.755	-3.457	-4.709	2.719	3.208	2.585
Patent	-0.286***	-0.315***	-0.293***	-0.242**	-0.295***	-0.293***	-0.265**	-0.311***	-0.303***
INFDI t-1	0.255***			0.262***			0.269***		
INFDI t-2		0.282***			0.272***			0.283***	
INFDI t-3			0.310***			0.306***			0.315***
Constant	-102.357**	-128.864***	-78.925**	-108.755**	-133.905***	-80.506**	-101.918**	-128.757***	-75.349*
σ u				15.165	13.969	13.732	8.814	8.663	8.240
σ e				14.052	13.719	13.236	14.052	13.719	13.236
ρ				0.538	0.509	0.518	0.282	0.285	0.279

*** significant at a 1% threshold; ** at 5%; * at 10%.

Level of economic development (GDP/capita) and annual rate of growth (slightly less) are significant determinants of OFDI from NWECs.

Economic size (GDP) is significant with a negative sign: the smaller a NWEC market size, the more its firms substitute OFDI to domestic investment.

The number of patents is significant with a negative sign: NWECs' firms have no technological advantage, OFDI is technological assets seeking.

Export of high-tech products is significant only above a 25% share in total exports.

OFDI from the NWECs is significantly explained by inward FDI into the NWECs in the past years, a relationship that increases with time, giving some grounds to Matthews LLL (linkage, leverage, learning) assumption. It takes some time for LLL relationships to materialise.