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PERSPECTIVES OF FOREIGN DIRECT INVESTMENT IN THE NEW MILLENIUM

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FDI continues to play a crucial role around the world and its importance to the global economy cannot be understated. Researchers from different disciplines are pursuing their work in FDI to better understand, explain and report the most recent findings. Hence, with that in mind, we, the guest editors, put a Call for Papers in the early part of Fall 2002 for a special issue of the Journal of Business Strategies on Foreign Direct Investments with a submission deadline of November 15, 2002. We present in this issue four articles that were accepted from that Call. These papers reflect the diverse work done in area of foreign direct investment.

The Role of FDI

Businesses invest all over the globe to access markets, technology, and talent. Foreign direct investment (FDI) has been on the rise around the world since the 1970s. In the 1980s and 1990s, foreign direct investment continues to expand rapidly, enlarging the role of international production in the world economy. FDI grew by 18 percent in 2000 alone, faster than other economic aggregates like world production, capital formation and trade, reaching a record $1.3 trillion (UNCTAD, 2001).

The contribution of FDI to economic growth has been debated quite extensively in the literature. FDI is accompanied by costs and risks as well as benefits and opportunities. Despite this, FDI has been recognized as playing an important role in economic growth. It provides not just needed capital for the host country, but also essential technology transfers and managerial and marketing know-how.

The global expansion of investment flows is now driven by more than 63,000 transnational corporations with over 800,000 affiliates abroad. Developed countries remain the prime destination of FDI, accounting for more than three-quarters of global inflows. Cross-border mergers and acquisitions remain the main stimuli behind FDI, and these are still concentrated in the developed countries (UNCTAD, 2001). As a result, inflows to developed countries increased by 21 percent and amounted to a little over $1 trillion. While FDI

inflows to developing countries also rose, reaching $240 billion in 2000, their share in world FDI flows declined for the second year in a row, to 19 percent, compared to the peak of 41 percent in 1994.

Within the developed world, the United States remained the world's largest FDI recipient country as inflows reached $281 billion as well as the largest contributor to FDI outflows around the world. The United Kingdom is still the largest recipient of FDI in Europe. For instance, about 40 percent of all U.S. FDI into Europe goes to U.K., partly because the U.K. has a long history of stability and good relations with the U.S. In general, FDI flows to developed countries dropped over 50 percent in 2001 from the previous record high - from over $1 trillion to $0.5 trillion. Virtually all of the major developed countries experienced a downturn in 2001.

In Asia, FDI inflows reached a record level of $143 billion in 2000. The greatest increase took place in East Asia. China, in particular, experienced an unprecedented FDI boom, with inflows amounting to $64 billion, making it the top FDI recipient in Asia as well as in developing countries. This upsurge in inflows can be explained in a couple of ways. First, the upsurge reflects a recovery from the economic turmoil of the recent past. Second, TNCs planned investment into China finally materialized (after "parking" funds in Hong Kong in anticipation of China's entry into the World Trade Organization (Wu, 2000). FDI flows to China, at $41 billion, remained fairly stable.

Inflows to other Southeast Asia (e.g. ASEAN-10) remained below the pre-crisis level. The sub-region's share in total FDI flows to developing Asia continued to shrink, and stood in 2000 at 10 percent, as compared with over 30 percent in the mid-1990s. This was largely due to rising inflows into other countries in the region and significant divestments in Indonesia since the onset of the financial crisis. South Asia witnessed a drop in FDI inflows by one percent over the previous year. India, the largest recipient in the subcontinent, received $2 billion. The opportunity for FDI in Asia/Pacific in general has never looked more appealing than it does for the next decade.

In contrast to the experience in most other parts of the world, inflows to the African continent declined in 2000 (for the first time since the mid-1990s), from $10.5 billion to $9.1 billion. As a result, the share of the African continent in total FDI flows fell below one percent. The decline was mainly related to two countries: South Africa and Angola. In the former country, fewer privatization and mergers and acquisitions (M&A) deals caused the slowdown, while in the latter, inflows in the petroleum sector declined.

After tripling during the second half of the 1990s, FDI flows into Latin America and the Caribbean also fell in 2000, by 22 percent, to $86 billion. This was mainly a correction from 1999 - when FDI inflows into the region were greatly affected by three major cross-border acquisitions of Latin American firms - rather than a shift in the underlying trend. Privatization slowed down in 2000, but continues to be important as a factor driving inward FDI. In terms of sectors, FDI into South America was mainly in services and natural resources,

while Mexico continued to receive the largest share of inflows in manufacturing as well as in banking (UNCTAD, 2001).

However, according to World Investment Report (UNCTAD, 2001), the world FDI inflows are estimated to have dropped by 40% in 2001, down to $760 billion from over $1.3 trillion in 2000. It attributed the decline mainly to a slowdown of world economic growth (1.3%, as compared with 4.0% in 2000) and to a decrease in cross-border M&As. The value of cross-border M&As in 2001 stood at barely $600 billion for less than 6,000 deals, versus $1.1 trillion for some 7,900 deals in 2000. The slump is aggravated by the tragic events of the 11 September terrorist attacks on the United States. All the estimates also provided a similar picture for the year 2002 (Maniam, 2003).

Four Aspects of FDI

The first paper, "**Wealth Effect for U.S. Acquirers from Foreign Direct Investments," by Halil Kiymaz** investigates U.S. firms during the period of 1989-2000 using the traditional Brown and Warner event study methodology with cross-border acquisitions data in four different regions and 24 countries. He found that the U.S. acquirers experienced statistically significant wealth gains of 0.57 percent around the announcement of acquisitions, although the wealth effects do vary with location of target firms and acquirers' industry affiliation.

The second paper **"Geography Matters: Kohonen Classification of Determinants of Foreign Direct Investment in Transition Economies," by Joel Deichmann, Abdolreza Eshghi, Dominique Haughton, Selin Sayek, Nicholas Teebagy, and Heikki Topi** examines the non-spatial determinants of foreign direct investment (FDI) using the Kohonen algorithm utilizing Central and Eastern European data. The result suggests a strong link between geography, FDI inflows, and economic and social conditions of the recipient country, without depicting specific causal relationships. The authors not only highlighted the importance of spatial proximity in determining the determinants of FDI in the region, but they also demonstrate the application of Kohonen map as a useful tool in visualizing a dataset that is otherwise too difficult to conceptualize.

The third paper, **"U.S. Executives' Perceptions of "BEMs" As FDI Options," by Troy A. Festervand** examines the collective and individual positions of the ten big emerging markets using the perceptual mapping technique. Using survey data, the author found that FDI executives indicated that some big emerging markets have positioned themselves strategically in terms of their availability of and access to markets and resources. The perceived position of the ideal market/nation also was captured by the study's findings. The stability of a market's/ nation's political and economic environments, as well as business environment, also contributes to a nation's perceived position. The study also finds that some big emerging markets are better positioned to take advantage of their strengths, whereas others face long-term FDI obstacles.

The final paper, **"Openness and Economic Growth: Empirical Evidence on the Relationship between Output, Inward FDI, and Trade," by E. M. Ekanayake, Richard Vogel, and Bala Veeramacheneni**, looks at the relationship between openness and economic growth in developed and developing countries. They employed a vector autoregressive (VAR) model and error correction technique to examine for the nature and existence of the causal relationship between inward FDI, output level, and exports between developed and developing countries. Using the data from 1960 to 2001 for five countries, they found a bi-directional causality between export growth and economic growth in two of the five countries tested, FDI and economic growth and exports growth and FDI for just one country each.

Conclusion

While these four papers tackle different issues of FDI, they as a whole provide a better understanding of the various aspects of FDI in today's interdependent global economy. These articles indicate positive wealth effects for U.S. FDI, an improved aspect for continuing FDI in emerging nations. Empirical evidence also supported the importance of special proximity, and political, economic and business environments. Finally, the research supports, in some instances, causality between imports and economic growth which is an important support for countries seeking FDI.

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