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Foreign Direct Investment in Developing Countries

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The purpose of this paper is to document the trends in private capital flows to developing countries since 1982 by focusing on the flows and geographical distribution of foreign direct investment (FDI), and to provide a comprehensive explanation of the underlying factors. Private capital flows, as defined in this paper, have two major components: FDI and private borrowing.[1] Prior to 1973, the share of FDI was greater than that of private borrowing in private capital flows. After 1973, however, the share of private borrowing surpassed that of FDI. In the 1980s, especially after 1982, the trend was again reversed in favor of FDI. During this period total private capital flows to developing countries have been declining largely owing to an absolute decline in the volume of private borrowing, while FDI flows in general have been sustained. But these FDI flows were unevenly distributed among developing countries.

There is a consensus in the scholarly literature on the sustained FDI flows to developing countries.[2] Many believe that a growing recognition of the need for FDI has been at the root of this trend.[3] Several considerations lie behind this recognition: the adverse impact of private borrowing; advantage of FDI in providing both capital and technology; and changes in the international economic situation, technology, and company-government relations. Others point to the changing perceived role of FDI and the marked liberalization of policies toward it in developing countries.[4] Many developing countries find it advantageous to rely more on FDI owing to its possible long-term beneficial impact on a country's development. The new attitude toward FDI has been even more noticeable in developing countries with a socialist orientation such as China. It is perhaps accurate to say that the aforementioned developments with respect to FDI are themselves the product of complex social, economic, and

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political changes that are taking place at both the national and the international levels. The impacts of these changes on FDI flows, however, remain scarcely analyzed in an integrative manner.

Most also agree that FDI flows were unevenly distributed among developing countries in the 1980s.[5] Regarding the underlying causes, the literature mainly emphasizes economic aspects, and many analyses focus on demand-side factors, i.e., conditions in developing countries such as natural resources endowment, domestic market size, rate of economic growth, foreign investment policies and incentives, and industrial capabilities.[6] Another demand-side factor, the emergence of new markets for FDI, largely in the former socialist bloc, is yet to receive serious attention. Only a few mention the supply-side determinants, such as technological innovations in developed countries and the rise of service FDI.[7] Comprehensive research incorporating economic and political factors as well as supply and demand sides is generally rare.

Building upon this literature, we will offer a more integrative and comprehensive analysis. The conceptual framework of the paper is presented in figure 1. In particular, we argue that the sustained FDI flows can be accounted for by four major causes: the paradigmatic shift in development thinking, the domestic urgency for economic growth in developing countries, the globalization of production and services, and the changing international environment. These four factors not only cover some of the most important causes of FDI flows identified in the literature, they also reformulate the issue by placing it within the framework of the ongoing global restructuring. We also maintain that the major underlying causes of the uneven geographical distribution of FDI flows have to be sought in the changing nature of FDI supply, varying economic conditions, and different investment environments in developing countries. This new formulation thus incorporates both supply- and demand-side analyses and offers a more comprehensive explanation.

We shall show that the combined effect of an overall decline in private capital flows to developing countries, the uneven distribution of FDI flows, and chronic trade imbalances has been a shortage of foreign exchange in many developing countries. This shortage, along with other contributing factors, has in turn led to domestic economic decline. There are, however, some policy measures available to developing countries that wish to attract more FDI. These include adopting a positive attitude toward FDI, liberalizing economic policies, seeking different forms of foreign investment, and developing human capital as well as industrial capabilities. Developing countries can also enhance the positive contributions of FDI through carefully screening technologies brought in by FDI, skillfully designing fiscal incentives, using zone policy at an appropriate stage of development, and establishing better support and diffusion systems for technology transfer.

In the following pages, the first section will document the changing trends in private capital flows to developing countries by focusing on the flows and geographical distribution of FDI. Section 2 will concentrate on the causes of the sustained FDI flows, while section 3 will provide an explanation for the uneven geographical distribution of FDI flows. In the final section, we will discuss the consequences of these trends for developing countries and speculate on policy options for their governments, focusing on measures that can enhance the positive contributions of FDI. Our theoretical arguments are complemented by a longitudinal series of data on external financing for developing countries between 1973 and 1992. The data are drawn primarily from documents published by the International Monetary Fund

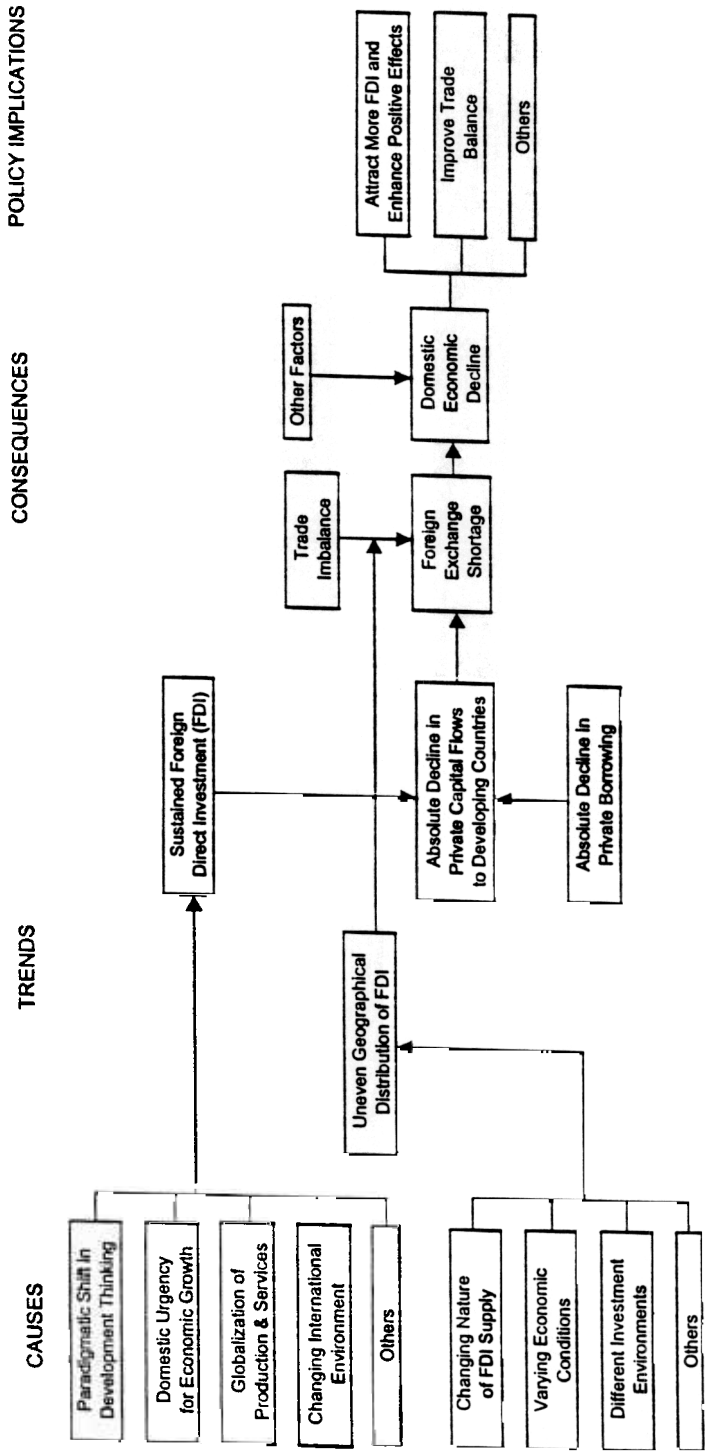

Fig. 1. A Conceptual Framework for FDI in Developing Countries.

(IMF) and the United Nations Center on Transnational Corporations (UNCTC). Additional support is drawn from the scholarly literature and government reports.

Changing Trends in FDI Flows and Their Uneven Geographical Distribution

As a worldwide phenomenon, FDI began in the late nineteenth and early twentieth centuries. But for decades it made up only a small portion of foreign investment. In 1914, for example, 90 percent of all foreign investment flows took the portfolio form.[8] Meanwhile the composition of foreign investment was gradually shifting. Already in the 1920s, about a quarter of such flows took the form of FDI. World War I and the Great Depression caused the collapse of the world monetary system in 1930, leading to the collapse of portfolio investment.[9] The interwar years also experienced a sharp decline in the magnitude of foreign investment. FDI proved more resilient, however, and recovered slightly in the late 1930s. The post-World War II years witnessed a renewed expansion of FDI. The increase in FDI flows to developing countries was more prominent after the 1960s. They rose from an average of under US $2 billion per annum in the early 1960s to an average of around $8 billion per annum between 1974 and 1982.[10] In 1973, FDI flows to developing countries were $4.4 billion per annum, and by 1982 they reached $19.8 billion per annum (table 1). This level remained more or less stable at an average of $17 billion per annum until 1992, when FDI flows reached a peak of $30.1 billion per annum. The qualitative leap in the 1980s lies in the change from a one-digit figure to a double-digit magnitude in FDI flows to developing countries. Yet this trend of FDI flows to developing countries seems less significant when viewed in the context of the global FDI flows. Both developed and developing countries experienced increased FDI flows in the 1980s, but the share of developing countries in the world total of FDI flows has in fact declined.

TABLE 1
DEVELOPING COUNTRIES: EXTERNAL FINANCING, 1973–1992
(Billions of U.S. Dollars)

	1973	1974	1975	1976	1977	1978	1978	1980	1981	1982
Total external financing, net	31.7	40.5	49.2	55.7	59.5	79.3	88.1	100.5	142.4	124.4
Non-debt-creating flows, net	9.7	−1.3	9.4	6.0	10.7	11.1	17.6	11.4	21.4	26.0
Foreign direct investment	4.4	−1.5	6.1	1.9	4.5	7.0	8.3	3.7	17.6	19.8
External borrowing, net	22.0	41.8	39.9	49.7	48.8	68.2	70.5	89.1	121.0	98.4
Private borrowing	16.3	31.6	24.1	31.2	33.3	50.3	38.3	60.2	83.5	53.1
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Total external financing, net	80.0	58.4	57.1	74.1	66.8	57.0	75.6	113.6	108.3	129.5
Non-debt-creating flows, net	15.5	19.0	29.5	25.8	35.7	31.6	32.6	42.4	15.9	50.4
Foreign direct investment	13.5	13.5	10.5	10.2	14.4	16.7	16.7	19.3	25.2	30.1
External borrowing, net	64.5	39.4	27.6	48.3	31.1	25.4	43.0	71.2	92.4	79.1
Private borrowing	12.1	−4.6	−1.6	17.3	5.4	3.8	14.4	29.7	58.4	36.2

SOURCES: Compiled from International Monetary Fund (IMF), *Determinants and Systemic Consequences of International Capital Flows*, Occasional Paper no. 77 (Washington, DC: IMF, 1991); IMF, *World Economic Outlook* (Washington, DC: IMF, October 1991).
NOTE: Data are not adjusted against inflation.

The share of FDI in private capital flows to developing countries did increase significantly after 1982 in contrast to the period from 1973 to 1982, when private borrowing made up a larger share (figure 2). The expansion of private borrowing accelerated after the oil shock of 1973–74. In 1973, private borrowing was only US $16.3 billion, and it reached a peak of $83.5 billion in 1981 (table 1). The situation changed dramatically after 1982, however, when Mexico announced a *de facto* default on its debts. Thereafter the volume of private borrowing by developing countries declined sharply at a faster rate than its expansion in the 1970s. As a result, the share of FDI in total private capital flows increased after 1982, although its absolute volume has remained more or less constant. In 1983, for the first time since 1973, FDI accounted for over half of private capital flows to developing countries. This level was sustained throughout the 1980s.

FDI inflows were unevenly distributed among developing countries and regions in the 1980s. Asia proved to be the biggest destination for FDI. Between 1983 and 1990, a total of US $89.61 billion FDI flowed to Asia, and this represented over half of FDI inflows to all developing countries (table 2). The Western Hemisphere, or Latin America, followed Asia with a share of 23.7 percent. In previous periods, Latin

TABLE 2
DEVELOPING COUNTRIES: FDI INFLOWS BY REGION, 1983-1990
(Billions of U.S.Dollars)

Region	1983	1984	1985	1986	1987	1988	1989	1990	1983-1990 Total	% of Developing Countries' Total	% of Regional Subtotal
All developing countries	16.29	16.13	12.25	13.24	18.33	25.33	31.13	28.65	161.34	100.0	
Africa	1.19	1.11	0.75	0.55	1.39	1.20	2.68	1.20	10.07	6.2	100.0
Nigeria	0.34	0.20	0.48	0.17	0.60	0.38	1.88	0.59	4.64	2.9	46.1
Asia	5.84	5.47	5.06	7.06	12.67	16.15	18.80	18.55	89.61	55.5	100.0
China	0.64	1.26	1.66	1.88	2.31	3.19	3.39	3.49	17.82	11.0	19.9
Hong Kong[a]	0.56	0.68	–0.14	0.99	3.36	2.44	1.40	—	9.28	5.8	10.4
Indonesia	0.29	0.22	0.31	0.26	0.39	0.58	0.68	0.96	3.69	2.3	4.1
Malaysia	1.26	0.80	0.70	0.49	0.42	0.72	1.67	2.90	8.95	5.5	10.0
Singapore	1.13	1.30	1.05	1.71	2.84	3.65	4.21	4.81	20.70	12.8	23.1
South Korea	0.07	0.11	0.23	0.44	0.60	0.87	0.76	0.72	3.79	2.4	4.2
Taiwan[a]	0.15	0.20	0.34	0.35	0.80	0.97	1.62	—	4.43	2.7	4.9
Thailand	0.35	0.40	0.16	0.26	0.35	1.11	1.78	2.38	6.79	4.2	7.6
Europe	0.16	0.22	0.19	0.21	0.20	0.47	1.05	1.18	3.68	2.3	
Middle East	5.59	6.10	2.23	2.29	–0.14	1.45	1.87	0.39	19.78	12.3	100.0
Egypt	0.49	0.73	1.18	1.22	0.95	1.19	1.62	0.95	8.31	5.2	42.0
Saudi Arabia	4.94	4.85	0.49	0.97	–1.18	–0.33	–0.31	—	9.44	5.8	47.7
Western Hemisphere	3.51	3.23	4.02	3.12	4.22	6.06	6.73	7.32	38.21	23.7	100.0
Argentina	0.19	0.27	0.92	0.57	–0.02	1.15	1.03	2.04	6.14	3.8	16.1
Brazil	1.56	1.60	1.35	0.32	1.23	2.97	1.27	—	10.29	6.4	26.9
Colombia	0.62	0.58	1.02	0.67	0.32	0.20	0.58	0.50	4.50	2.8	11.8
Mexico	0.46	0.39	0.49	1.16	1.80	0.64	2.65	2.55	10.13	6.3	26.5

SOURCES: Compiled from IMF, *Balance of Payment Statistics Yearbook* (Washington, DC: IMF,1990 and 1991); United Nations Center on Transnational Corporations (UNCTC), *World Investment Directory 1992: Asia and the Pacific* (New York: United Nations, 1992); and Council for Economic Planning and Development, "Taiwan Statistical Data Book" (Taipei, Republic of Taiwan, 1993).

NOTES: Only countries receiving significant amount of FDI are listed. Data are not adjusted against inflation.
[a]Figures for Hong Kong and Taiwan are converted from domestic currencies by using end-of-year exchange rates.

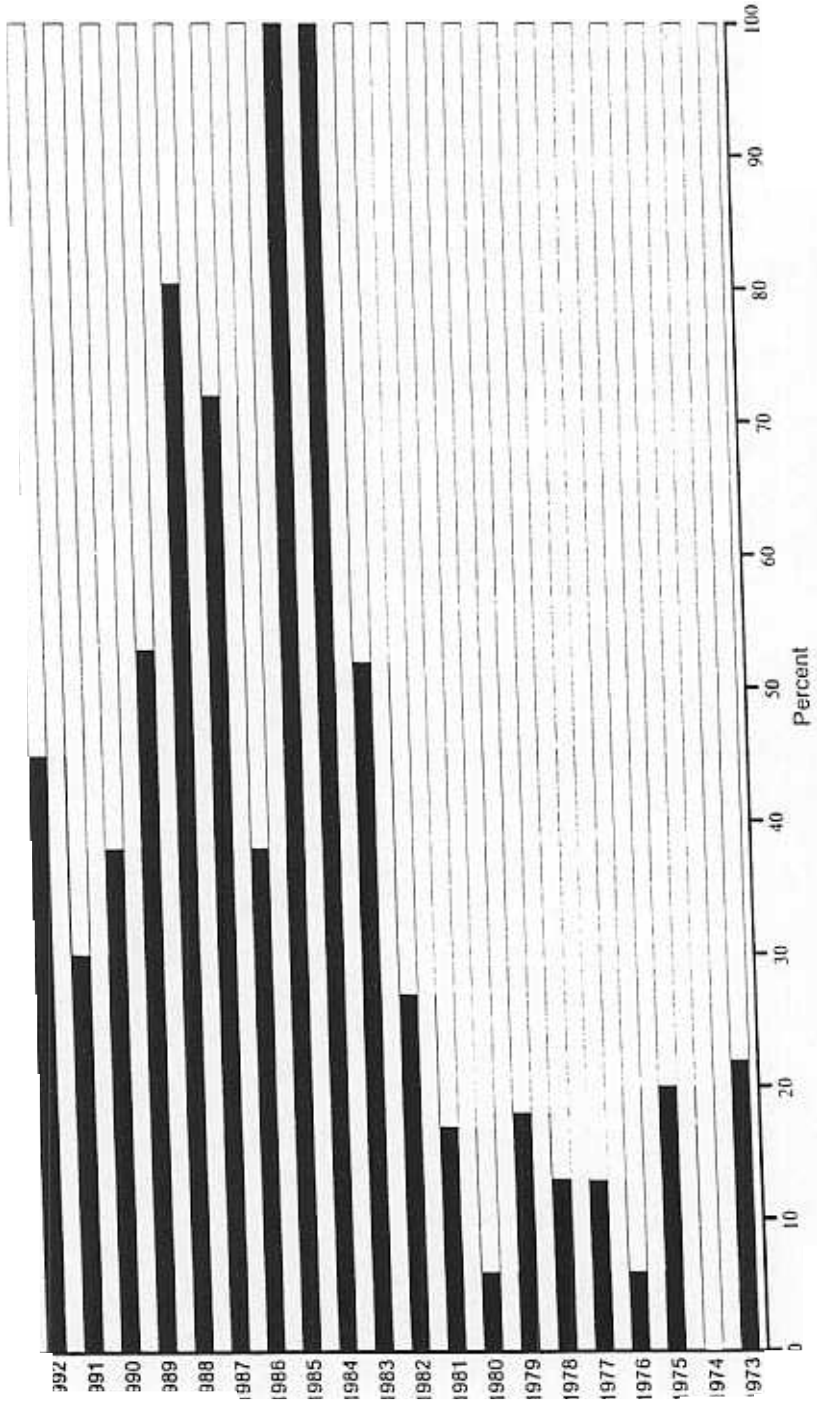

Fig. 2. Developing Countries: Shares of FDI and Borrowing in Private Capital Flows, 1973–1992
SOURCE: Based on table 1.

America absorbed half of all FDI inflows to developing countries.[11] The decade of the 1980s was in fact a period of drastic decline in FDI inflows to this region. The Middle East received a share of only 12.3 percent and Africa a minimal 6.2 percent (fig. 3). FDI inflows were also concentrated in a small number of developing countries. The largest recipients were Singapore, China, Brazil, Mexico, Saudi Arabia, Hong Kong, Malaysia, and Egypt, each having over a 5 percent share of total FDI inflows to developing countries and together having over 58.8 percent (fig. 4). A total of 15 countries received 80 percent of all FDI inflows to the developing world. Within each region, FDI inflows in the same period were also highly uneven. Nigeria alone accounted for 46.1 percent in Africa; Egypt and Saudi Arabia together had close to 90 percent in the Middle East; and Argentina, Brazil, Colombia, and Mexico brought in 81.3 percent in Latin America. Eight countries or territories in Asia—China, Hong Kong, Indonesia, Malaysia, Singapore, South Korea, Taiwan, and Thailand—together accounted for over 84 percent of total FDI inflows to Asia. For the entire decade of the 1980s, they in fact took in over 90 percent of such flows.[12] Singapore and China each took in about 20 percent. Between 1983 and 1990, the four newly industrializing countries (NICs), including Hong Kong, Singapore, South Korea, and Taiwan, received 42.6 percent of FDI inflows to Asia and 23.7 percent to all developing countries.

Underlying Causes of the Sustained FDI Flows

While many factors may be identified as underlying the trend toward the sustained FDI flows since 1982, including those listed as contributing to their uneven geographical distribution, we believe four sets of factors are the most critical and directly relevant.

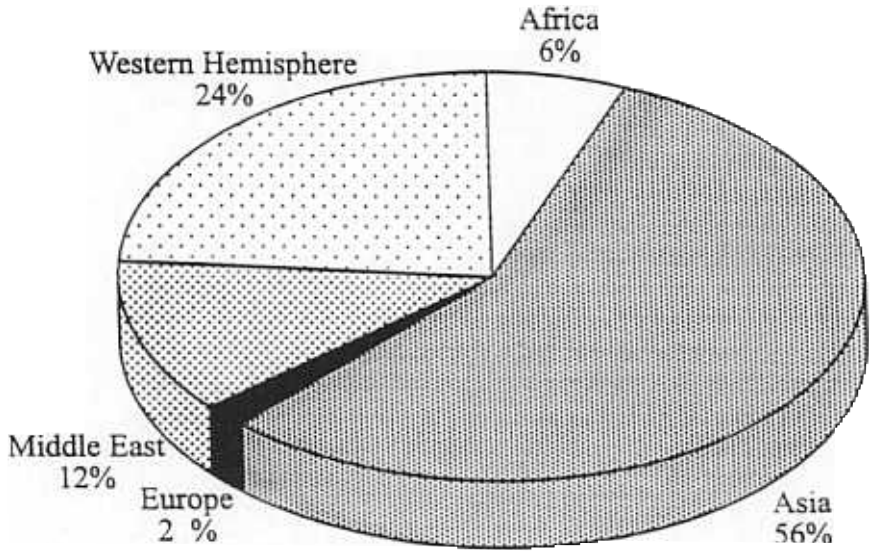

Fig. 3. Developing Countries: Geographical Distribution of FDI Inflows, 1983–1990.
SOURCE: Based on table 2.

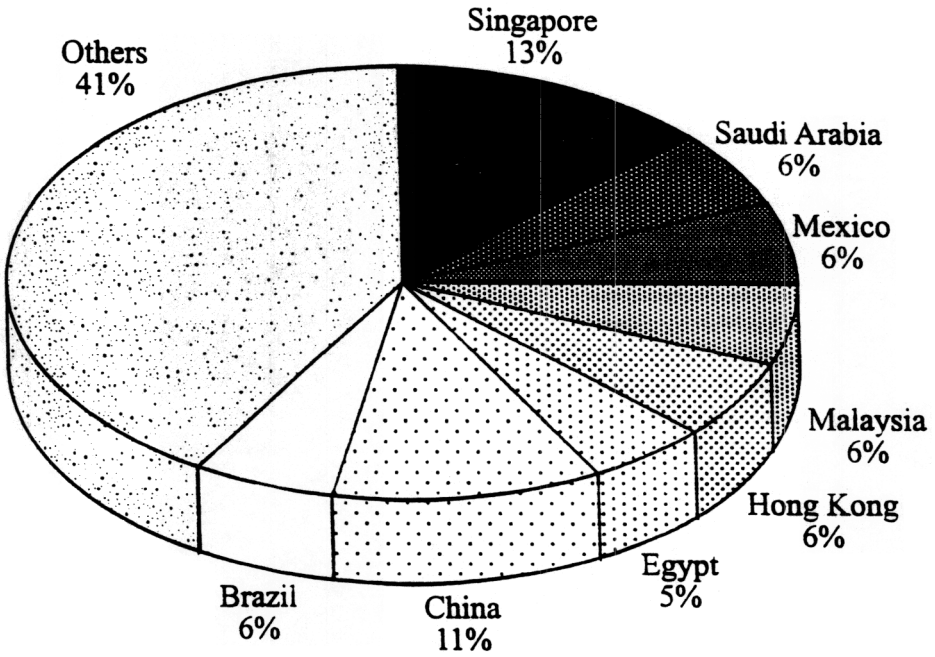

Fig. 4. Developing Countries: Major Destinations for FDI Inflows, 1983–1990.
SOURCE: Based on table 2.

They are the paradigmatic shift in development thinking in recent years, domestic urgency for economic growth in developing countries, globalization of production and services, and changing international environment. In the following pages, we will discuss these factors and indicate their impacts on FDI flows.

The Paradigmatic Shift in Development Thinking. For quite a while in the 1960s and 1970s, development studies were dominated by the *dependencia* theory.[13] This school of thought treats the social and economic development of underdeveloped countries as being conditioned and dominated by external forces, namely, developed imperialistic countries. It also argues that the penetration of multinational corporations (MNCs) into economies of developing countries, especially into their potentially most dynamic sectors, leads these countries toward further "maldevelopment."[14] The dependency school greatly affected policy discussions in the 1960s and 1970s, and its influence resulted in governments of developing countries increasingly tightening their control over FDI; in some cases, policy options led to complete autarky and nationalization of foreign capital. The dependency theory began losing its grip over development thinking in the late 1970s and the 1980s, when the rival interdependence theory emerged.[15] The interdependence theory asserts that developing countries are becoming increasingly important to the advanced industrialized countries owing to the latter's growing dependence upon products of developing countries. This interdependence has also created a collective decision-making environment in the global economy. As a result, the whole context of policy debate has gradually shifted

away from the confrontational approach to FDI and MNCs. There is now a growing recognition that foreign investors can contribute to the development of developing countries by enhancing the latter's foreign exchange earnings, sharing in large project risks, and becoming a vehicle for technology transfer.[16]

A second paradigmatic shift is reflected in a growing tendency for privatization in many developing countries.[17] This covers a range of policies from those of governmental disengagement and deregulation to the sale of publicly owned assets. Just as the 1960s and 1970s were characterized by the rapid expansion of public sectors, the 1980s witnessed widespread attempts to curtail the economic role of the state. This tendency renders a return to market mechanisms in many developing countries, where public-private partnership is seen as a necessary condition for development. Private enterprises are also becoming the major moving forces of these economies and governments have given them more freedom and assistance in seeking economic cooperation with MNCs. This cooperation becomes appealing to developing countries, because FDI is a means of obtaining not only capital but also technology, management skills, marketing know-how, and export outlets.[18]

The paradigmatic shift has also been influenced by the demonstration effects of certain successful strategies followed by a few developing countries, the so-called NICs in particular.[19] During the past two decades, Taiwan, South Korea, Singapore, and Hong Kong have witnessed the most rapid economic growth of all developing countries. Their export-oriented development strategy, particularly the emphasis on foreign investment and trade, is considered the main cause of their success. Singapore, among the four, has relied most on FDI. One-third of all firms in Singapore are either wholly or majority foreign owned. South Korea, instead, is more receptive to other forms of foreign capital, including foreign aid, loans, and contractual arrangements. Taiwan and Hong Kong lie somewhere in the middle of the spectrum. It must be noted, however, that these countries took a "command capitalism" approach and were fortunate to have largely unrestricted access to Western markets.[20]

The Domestic Urgency for Economic Growth in Developing Countries. The late 1970s and 1980s witnessed a declining level of economic activity in most developing countries. Many countries in Africa, the Middle East, the Western Hemisphere, and Europe experienced stagnant growth of per capita GDP, and in some years even negative growth (table 3). Asia as a whole was the only exception. On average, countries of sub-Saharan Africa and Latin America suffered an absolute decline in the standard of living during the 1980s. Given the deteriorating economic situation, many developing countries feel the need for revitalizing their economies. This urgency has also been the product of massive grass-roots pressure and the changing political environment. The extreme poverty and high unemployment rates in many developing countries, especially the low-income ones, have continually caused political upheavals. Indeed, economic downturn began to threaten political regimes in Panama, the Philippines, Turkey, Kenya, Tunisia, Nigeria, and the Eastern European countries. In other developing countries, the political manifestation of declining economic situations has been less severe, mainly because they are ruled by dictatorships. This changing political economy, together with the debt crisis and the austerity measures required by the International Monetary Fund (IMF) and the World Bank, is prodding these

states to normalize their economies and put them on a growth path in order to maintain political stability.

TABLE 3
DEVELOPING COUNTRIES: REAL PER CAPITA GDP, 1973–1992
(Percentage Annual Change)

Region	Average 1973–82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
All developing countries	1.7	–0.3	1.8	1.6	1.8	2.1	2.1	1.4	–0.7	–2.0	1.2
Africa	—	–3.8	–1.8	1.0	–1.3	–1.8	1.2	0.7	–0.8	0.3	0.3
Asia	3.2	6.1	6.6	5.2	5.0	6.3	7.2	3.4	3.6	3.4	3.6
Europe	2.8	1.4	1.7	0.6	3.0	2.3	3.7	1.3	–3.3	–9.7	–3.9
Middle East	0.5	–3.0	–3.3	–2.1	–3.8	–2.7	–4.0	1.9	–1.9	–5.9	8.4
Western Hemisphere	1.6	–4.8	1.4	1.1	1.6	1.2	–1.9	–0.6	–2.8	–0.8	–0.2

SOURCES: Compiled from IMF, *World Economic Outlook* (Washington, DC: IMF, May 1991 and October 1991).

This need for economic revitalization, however, is hampered by several obstacles.[21] Among these is the dependence of domestic production on foreign markets for such production inputs as raw materials, intermediate goods, and capital goods including machinery, equipment, technology, and managerial skills. This dependence is critical, because most developing countries have chosen industrialization as the route to development. The situation was exacerbated by the import-substitution strategy implemented by many developing countries in the 1960s and 1970s. The reliance of these countries on imported oil is also significant, as indicated by the poor performance of these economies in the early 1970s and 1980s, when oil prices skyrocketed. The demand for imported production inputs triggers a large demand for foreign currencies, which can be raised through export earnings, external borrowing, and FDI, to name the three main channels.

The export earning situation for many developing countries was not favorable in the 1980s owing to undesirable demand and supply conditions.[22] These countries could not compete in international markets, and where they did enjoy a comparative advantage, they did not have access to markets in industrial countries. External borrowing has also proved to be unpredictable and inflexible in terms of obligations, and unobtainable for many developing countries. These unfavorable situations in export earnings and external borrowing have made it necessary for a major shift in the composition of private capital flows to developing countries toward an increasing use of FDI. Many Third World leaders now often see FDI as a panacea when they are confronted with economies that are plagued by severe difficulties.[23] In particular, they turn to developed countries for FDI, which they hope will lead to growth and prosperity.

The Globalization of Production and Services. The globalization of production is another major factor responsible for the sustained FDI flows. Beginning in the late 1970s, many industries in Western developed countries, particularly manufacturing industries, started to experience declining profit rates. This was the result of a complex set of social, political, and economic factors emerging in these countries, including the stagnation in productivity growth, breakdown of the capital-labor

accord, and intensification of intercapitalist competition, both domestically and internationally. Many firms were forced to rationalize their production process by relocating to places where production costs were lower or access to potential markets was greater.[24] In addition, development of modern communication and transportation technologies made it possible for production to expand geographically. Thus, many developing countries became hosts to branch plants of MNCs as well as to small- and medium-sized firms from developed countries. This process of globalization of production first happened in labor-intensive manufacturing industries. In the 1980s, owing to technological innovations in developed countries, the capital intensity of these manufacturing activities increased; at the same time, some high-technology industries also became globalized.

With the globalization of production came the internationalization of services and business activities.[25] The need to support MNCs in manufacturing by providing services in trading, design, marketing, transportation, communication, banking, and insurance led to foreign investment in the service sector of developing countries. The globalization of services was in fact lagging behind that of production until the early 1970s, but it expanded rapidly in the last two decades. It would be misleading, however, to conclude that service FDI has been replacing industrial FDI, although the share of service FDI has grown very quickly. It is more reasonable to say that service FDI has been following industrial FDI to developing countries. Most of service FDI is in intermediate and producer services, serving the same customers as in industrialized countries. With the rapidly growing economies and increasing consumer purchasing power in some developing countries, such as the NICs, consumer service activities began to flow to these countries as well.

The Changing International Environment. The surplus problem, or money shortage, in the international banking system has forced developing countries to cut back on private borrowing. In the 1970s and early 1980s, most private lending to developing countries came from the OPEC countries' petrodollars recycled through the Euromarkets. Following the oil price hike in 1973–74, about US $80 billion was recycled this way.[26] This fund enabled developing countries to borrow heavily from private banks in developed countries to finance their growing capital needs and to pay for skyrocketing oil bills. Since 1980, however, a number of situations have reduced the funds available through the Euromarkets to developing countries. These include (1) a huge increase in domestic expenditures in all the OPEC countries that has greatly reduced their current account surplus; and (2) the drastic downturn in crude oil prices in 1986 that has also had a devastating impact on the OPEC countries' current account surplus. Meanwhile, demands for oil in the West were not growing rapidly, putting even more pressure on the OPEC countries. This surplus problem in the international banking system has significantly reduced the availability of funds to developing countries through lending agencies and banks. To make up for this deficiency, developing countries tended to acquire more foreign capital by attracting more FDI.

As the international banking community moved to limit its exposure, the volume of private lending became even more scarce so that developing countries were forced again to look elsewhere for capital, and FDI became one convenient choice. This situation is a result of the overexposure of the banking sector in developed countries

in previous decades. In the immediate postwar years, private commercial banks were very cautious in involving themselves with developing countries owing to the lessons drawn from the two world wars, when a number of debt defaults occurred. But the three postwar decades witnessed a robust and stable international financial system; home governments in industrialized countries also injected more confidence by backing up the system with bailouts in crises. In addition, attractive borrowers were scarce at the time in the usual commercial bank markets, because many corporate clients began to bypass banks and raise funds by issuing their own bonds. All of these factors contributed to a sharp increase in private lending to developing countries in the late 1960s and 1970s. The oil price hike in 1973–74 and the large OPEC surplus funds thereafter, made available through Euromarkets, gave commercial banks another boost. The essential feature of the rising Euromarkets was their relative lack of regulation.[27] In many developed countries, by requiring that commercial banks hold a certain percentage of all deposits in reserve, a government both places a limit on the expansion of loan activities and protects the banking system from putting itself in a position where it cannot meet demands of depositors. In the Euromarkets, however, such regulations were virtually absent. Competition among private commercial banks pushed banks into making riskier loans while holding an increasingly smaller percentage of their deposits as reserves. This overexposure problem resulted in an increased instability and fragility of the international banking system, which in turn led to the commercial banks encountering difficulty in issuing long-term loans. The problem became exacerbated when Western industrialized countries began to experience economic recession beginning in the early 1980s.

In addition, some recent world political events may influence future FDI flows to developing countries. The Gorbachev "revolution" in Eastern Europe and the former Soviet Union gradually eliminated East-West tension, replacing it with a "new world order" in which the North (the United States, in particular) has become the predominant actor in world politics. Meanwhile, the Persian Gulf war has increased developing countries' fears concerning possible intervention by the North. Any conceivable antagonistic action against the developed world can translate into a disaster for the respective developing country. As a result, firms in developed countries now feel more protected by their governments. Under these conditions, developing countries may have to choose to minimize risks by unifying with the developed world. Hosting FDI from the North is one important way of achieving this goal, and it therefore becomes a foreign policy instrument. But to what extent the new international politics will affect future FDI flows to developing countries is not certain at this point.

Underlying Causes of the Uneven Geographical Distribution of FDI Flows

The uneven distribution of FDI inflows among developing countries is the result of many interrelated factors. Any single-factor explanation, such as the argument for domestic market-size or the availability of low-cost labor, is of very limited use. We think three sets of causes are important in explaining this geographical distribution. They are the changing nature of FDI supply, varying economic conditions, and different investment environments in developing countries.

The Changing Nature of FDI Supply. Throughout the 1980s, developed countries have continued to be the major sources of FDI flows to the developing world, although FDI from developing countries is also assuming a growing importance. Economic changes in developed countries, therefore, have a major impact on such flows, and one major change has been technological innovations. Many of these innovations, such as robotics and artificial intelligence, are laborsaving. They are also changing the structure of production systems and patterns of sourcing for goods and labor as they lead to reductions in production costs, particularly those of the labor component.[28] The implications of these technological innovations are several. First, they reduce the attractiveness of low-cost labor countries as investment locations. This is not to say that labor-intensive manufacturing industries have entirely ceased to relocate to developing countries for cost reductions. Technologically advanced industrial activities, however, are becoming an increasingly important component of FDI from developed countries. Second, countries with a skilled labor force, supporting services, and infrastructure are becoming more attractive to foreign investors from technologically advanced industries. The NICs, including Hong Kong, Singapore, South Korea, and Taiwan, are such strong contenders. They have emerged from the early period of labor-intensive to high-technology manufacturing. In the 1980s, therefore, they kept receiving significant amounts of FDI from developed countries despite the overall economic slowdown in the world. On the other hand, NICs are gradually pushing away labor-intensive industries into other developing countries with a lower level of technological development and cheap labor.[29]

The shift in the sectoral composition of FDI has also rendered certain developing countries more attractive than others. The early postwar period witnessed large flows of FDI into the extractive sector of developing countries. Manufacturing industries, particularly labor-intensive ones, began relocating to the developing world in the 1960s and 1970s. The role of services grew rapidly in the 1980s, and the extractive sector also picked up some momentum, especially in the oil industry, while manufacturing FDI was concentrated in high-technology industries. A decade ago services represented only about a quarter of the total world stock of FDI; today this share is close to 50 percent, and services account for around 60 percent of annual FDI flows.[30] Japan and Germany became the two largest sources of service FDI in the 1980s. The share of the service sector in the outward stock of FDI to developing countries increased by close to 15 percent for Japan and 7 percent for Germany between 1975 and 1985.[31] This expansion of the service sector has occurred largely in producer services and is the result of the growing technological complexity of products and the increasing share of service inputs in final goods. These producer services are often new, high-tech in nature, and quite capital intensive, ranging from design and marketing to banking and insurance. These services, like high-tech manufacturing activities, demand a highly educated work force as well as support industries and infrastructures. Although the European Community was the largest recipient, developing countries equipped with proper conditions, such as the NICs, also attracted a large amount of service FDI in the 1980s. Other developing countries had a relatively small chance of getting service FDI. The resurgence of extractive FDI in the oil industry has made countries with abundant natural resources attractive to

FDI again. Indonesia, Egypt, Nigeria, Saudi Arabia, and the former Soviet states are examples.

FDI inflows to developing countries are also related to their country of origin. Traditionally, the United States has been the largest source of FDI in Latin America or the Western Hemisphere. Outflows of FDI from the United States have fallen off drastically since 1980, however, and the country is no longer the most important foreign investor in the world. In fact, the United States has become one of the largest recipients of FDI inflows, mainly from Japan, and its position has changed from a net creditor to a net debtor as a result of its "twin deficits."[32] The United States is now borrowing at a substantial level and absorbing capital that would otherwise be used to finance investment in other parts of the world, particularly in developing countries. This decline of U.S. prominence has certainly hurt the prospects of Latin American countries for receiving FDI. On the other hand, Japan has been the major source of FDI in Asia. The 1980s witnessed an expansion of Japanese FDI owing to the appreciation of yen and the country's need to remain cost competitive, and Japan has become the single largest source of FDI in the world. Although Japanese FDI is located throughout the world, Asia has been its focal point because of geographical proximity and historical affiliation. For instance, Japan is the largest source of FDI for Singapore, South Korea, Taiwan, and Indonesia. The rise of NICs as home countries for FDI also contributed to the large FDI inflows to Asia. As NICs develop and move up along the technological learning curve, they begin to push out labor-intensive industries to surrounding developing countries at a lower level of development. Hong Kong is China's major source of FDI, and South Korea is the largest investor in Malaysia.[33]

Varying Economic Conditions. Economic conditions in a host country represent one of the most important elements influencing FDI inflows.[34] The most relevant factors are the rate of economic growth and size of the economy in terms of per capita GDP. The depressed economic growth, sometimes even negative rates, in many developing countries in the 1980s can largely account for their low level of FDI inflows during the decade. Asia was the exceptional case, with sustained GDP growth. The average GDP growth in the region between 1981 and 1990 was 7 percent, compared to a world average of 2.9 percent and 3.2 percent for all developing countries.[35] The fastest growing economies in the region have been China, Hong Kong, South Korea, Singapore, Taiwan, Indonesia, Malaysia, and Thailand.[36] These are exactly the same eight countries or territories that took in over 90 percent of FDI inflows to Asia in the 1980s. The correlation between economic growth and FDI inflows becomes very strong here. The same happened in Latin America. Although the entire region was lagging behind during the 1980s, several countries including Brazil were among the world's top growth performers, and this fact helps explain why Brazil maintained its attractiveness to FDI. As export markets in industrialized countries became saturated and tightened, more foreign investors were attracted to developing countries with large domestic markets. These included countries with high consumer purchasing power resulting from a high level of per capita GDP (such as the NICs) and countries with a large population (such as China, Mexico, Brazil, and Indonesia). The case of Indonesia needs some attention. Its rich natural resources,

particularly its crude oil, and the large size of its domestic market have enabled the country to attract sustained inflows of FDI in spite of its rather restrictive foreign investment regime. On the other hand, India, also with a large market, failed to do so mainly because of its political instability and its tight control over FDI. We may conclude that the market factor alone has limited attractiveness for FDI.

Another important factor affecting FDI inflows to many developing countries, especially those in the Western Hemisphere, has been the debt crisis. The heavy reliance on external borrowing in the 1970s has confronted many developing countries with overwhelming debt burdens. During the 1980s, developing countries accumulated a total of US $1.3 trillion in international debts. Frequent rescheduling, numerous arrears, and a rising number of nonperforming loans have also demonstrated the inability of many developing countries to service their debts.[37] Major debtor countries include Latin American, African, and a few Asian countries. In general, Asia as a whole was again the exception, with relatively low debt to exports and debt to GDP ratios (table 4). The Western Hemisphere, or Latin America, and Africa had the worst performance. With this debt crisis in the background, governments in these countries have encountered great difficulty in securing short- and long-term credits and also FDI. A major limitation on FDI for debtor countries is the fact that foreign investors are potential victims of the countries' fiscal problems.[38] The unfavorable balance-of-payments positions resulting from the debt crisis reduces the rate of return on investment in these countries. A low rate of return in turn decreases the incentive for both future FDI and the funds available through reinvestment of profits. In addition, the balance-of-payments situation has a depreciating affect on the exchange rate of the host country, and the uncertainties that arise as a result also decrease the attractiveness of the country to foreign investors. The role of FDI inflows in improving balance-of-payments positions, however, is rather limited.[39] FDI inflows to the 15 heavily indebted countries amounted to less than $5 billion per annum in the

TABLE 4
DEVELOPING COUNTRIES: TOTAL EXTERNAL DEBT RELATIVE TO EXPORTS AND TO GDP, 1983–1992
(Percentages)

Region	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
	Ratio of External Debt to Exports									
All developing countries	118.4	118.6	134.9	151.9	144.1	130.7	123.1	121.3	127.4	121.4
Africa	168.7	170.5	190.3	260.3	265.0	262.3	250.9	240.6	234.1	225.5
Asia	95.7	90.5	104.2	106.0	90.9	77.8	70.7	68.6	66.3	63.5
Europe	64.8	63.6	76.3	77.5	82.7	79.4	85.8	99.8	133.7	134.5
Middle East	67.7	78.0	96.9	137.8	130.7	135.7	124.2	111.0	132.2	137.5
Western Hemisphere	290.7	274.2	293.7	349.0	340.7	297.7	269.3	257.1	257.8	230.1
	Ratio of External Debt to GDP									
All developing countries	25.2	26.2	28.0	28.6	28.5	26.5	25.4	26.6	26.8	25.6
Africa	37.1	41.4	46.1	52.2	52.7	51.6	55.6	56.8	50.4	47.6
Asia	23.1	24.0	26.7	29.7	28.2	26.1	22.5	21.8	20.0	19.0
Europe	9.7	9.9	11.4	10.7	11.0	10.2	10.6	13.6	16.5	17.1
Middle East	26.6	28.7	31.4	37.4	37.7	38.3	37.4	34.7	36.6	36.8
Western Hemisphere	46.8	46.4	45.2	43.9	44.3	39.6	37.9	37.1	34.4	30.2

SOURCE: Compiled from IMF, *World Economic Outlook* (Washington, DC: IMF, October 1991).

1980s, while their debt service exceeded $50 billion per annum.[40] Therefore, the debt crisis has become more or less a vicious cycle for these countries.

The industrial capabilities of a host developing country are also becoming an increasingly important factor for attracting foreign investors at a time when FDI in both manufacturing and services is growing more technologically complex. The industrial capabilities most relevant to FDI are those that determine the skills and productivity of labor available to foreign investors, and those that affect the efficiency of local suppliers and services. Technological infrastructure is a major component here, which includes support systems, educational facilities, and research and development (R&D) capacity. The major reason that Singapore has been able to sustain a strong FDI inflow lies in its well-established technological infrastructure, in addition to the availability of a highly educated and disciplined work force. South Korea is in the same situation, but it relied less on FDI and more on other forms of foreign investment, such as contractual arrangements, turnkey plants, and technology licensing. Hong Kong and Taiwan have also recognized the importance of technological infrastructures in long-term sustainability and are catching up. Other developing countries are still at a low level of industrial capabilities and technological development. Their ability to attract high-tech manufacturing and services is therefore very limited. Those that did receive a significant amount of FDI in the 1980s, such as China, Malaysia, Thailand, Mexico, and Colombia, were still relying on the availability of a cheap work force to appeal to labor-intensive manufacturing activities.

Different Investment Environments. The most important component of an investment environment is the regulatory framework, or foreign investment regime. The degree of openness toward foreign investors varies among developing countries.[41] For instance, policies in NICs and Southeast Asian countries are generally more liberal than in other Asian countries. In certain developing countries, a number of major restrictions continues to impede FDI inflows. Some countries with large domestic markets and infant industries, such as India and Indonesia, have protective mechanisms to prevent foreign competition in order to encourage the development of these industries. India also still requires a majority local holding in joint ventures. Together with political instability, this restrictive foreign investment regime has kept India from receiving large inflows of FDI, despite its large domestic market. In Brazil, there are restrictions on foreign investment in sectors using high technology. Mexico continues to set compulsory local content requirements. There seems to be some trade-off, however, between economic conditions and the regulatory framework for FDI. Countries such as Brazil, Indonesia, and Mexico have been able to maintain a significant level of FDI inflows as a result of large domestic markets, rich natural resources, and relatively growing economies even with rather restrictive foreign investment regimes. Mexico recently made some major changes in its foreign investment policies toward a more liberal regime, and this may signify brighter prospects for future FDI inflows. But other countries, including Pakistan, Sri Lanka, and many Central and East European countries that are lacking in such large economic attractions or are wedded to protective domestic investment, may not be so fortunate. Colombia, Argentina, and Thailand, however, are examples of countries that benefited greatly from liberal investment regimes although they could claim only relatively small economic attractions.

Fiscal incentives can also promote a country's chance to attract FDI, and developing countries differ in the extent of the incentives they offer. Such incentives include tax breaks and tax holidays, favorable utility usage fees, reduced custom duties and foreign exchange restrictions, relaxed ownership controls, and streamlined administrative procedures. These are provided to foreign investors by host governments in an attempt to improve profitability and ease the repatriation of profits. The NICs are typical of those countries whose host governments have utilized liberal and attractive incentives to sustain high levels of FDI inflows. Many countries also set up policy enclaves such as Export Processing Zones and Special Economic Zones to promote foreign investment and export industries. These zones enjoy preferential treatment that is not available to the rest of the country, and their products are targeted for export markets. Taiwan and China are the two examples of countries where these zones have become major attractions of FDI. Between 1966 and 1983, the three zones in Taiwan took in about 10 percent of the territory's total FDI. In 1988, China's zones utilized close to 12 percent of total FDI at the national level.[42] According to a United Nations source, by 1989 there were over 200 such zones established in the developing world, and over 50 more were planned.[43] Even countries in Central and Eastern Europe that are lagging behind in the liberalization of trade and foreign investment are considering setting up such zones to broaden investment opportunities. The effectiveness of enclave zones as well as fiscal incentives in attracting FDI, however, is limited. MNCs invest only according to their global strategy. If the investment climate in a developing country is unfavorable overall, the inducement offered by these zones is most unlikely to encourage an MNC to change its worldwide development strategy. For instance, Iran offered attractive fiscal incentives to foreign investors and developed special zones, but it did not receive much FDI owing to unfavorable government conditions.[44] Without such incentives, however, a developing country would be less attractive to foreign investors when other choices of location exist.[45]

Political stability is another important component of a favorable investment environment. Research has shown that political instability significantly discourages FDI inflows.[46] The risks for foreign investors related to political instability include potential loss of funds resulting from a political breakup; possible government confiscation; uncertain rate of return; and disruptions in the supply of goods, services, and work force. Countries that have suffered the most from such instability include the Philippines, India, South Africa, most Middle East countries, and many African countries. To a certain extent, some Latin American countries such as Mexico, Chile, and Panama also witnessed a reduced level of FDI inflows at times of political upheaval. The case of Panama is illustrative. In spite of its fame as a tax haven and major off-shore banking location, the country has not been able to attract a significant amount of FDI for the last decade or so. It is reasonable to say that FDI inflows to developing countries are simultaneously determined by economic and political factors. A nonmarket ideology, however, does not seem to be a major factor when economic conditions are ripe, as in the case of China. When, however, the West imposes sanctions against nations with a socialist orientation—for instance North Korea, Vietnam, and Cuba—these countries would have very little chance of getting

FDI from either developed or other developing countries. The latter may also be reluctant to invest for fear of antagonizing the West.

The emergence of new destinations for FDI is noticeable, particularly for countries in the former socialist bloc. In spite of their largely still planned economic systems, restrictive investment regimes, and political instability, these new destinations have been attracting an increasing amount of FDI. China alone, in the 1980s, took in about 12 percent of all FDI inflows to developing countries; it was one of the two largest recipients, the other being Singapore. FDI stocks in the 14 Eastern and Central European economies were estimated at over US $11 billion at the beginning of 1993.[47] Although this is not a significant volume, all indications are that these economies will become increasingly attractive host countries for FDI.[48] To a certain extent, countries in the former socialist bloc represent the last niche in the global investment competition. Many MNCs would forgo short-term profits to secure their share in these new markets. For instance, China, with an enormous population and an average GNP growth rate of 9 percent in the 1980s (close to 13 percent in 1993), will potentially be a very large market for consumer products and services in the foreseeable future. The former Soviet states hold a similar attraction, and their technological capabilities are already higher than many other developing countries. Investing in these countries involves many potential risks, however, in addition to the low rate of return in the short-run. These risks include possible nationalization of foreign enterprises by governments, loss of funds resulting from political upheaval and breakup, persistently restrictive investment regimes, and limited access to domestic markets. Given all of these factors, the countries that are left aside are those low-income and slow-growth countries without important natural resources, large potential domestic markets, a low-cost skilled work force, and a stable political regime. There is, however, still some hope for governments of these countries to attract more FDI, a subject that will be discussed in the next section.

Consequences and Policy Implications

Although FDI flows in general have been sustained since 1982, the sharply decreasing private borrowing resulted in a decline in total private capital flows to developing countries. The combined effects of this decline, the uneven distribution of FDI flows, and chronic trade imbalances have been a shortage of foreign exchange in many developing countries. This shortage, along with other contributing factors, has in turn led to domestic economic decline owing to the dependence of domestic production on imported raw materials and intermediate as well as capital goods, including equipment and technology. Coupled with massive grass-roots pressure and the austerity requirements of the IMF and World Bank, domestic urgency for economic growth in these countries will persist. According to an IMF projection in 1990, assuming that debtor developing countries will gradually fulfill their debt service and regain creditworthiness, private borrowing would still remain substantially below the levels of the late 1970s and early 1980s.[49] The relative importance of FDI may increase in the foreseeable future under these circumstances.

There are certain policy options available to developing countries that wish to attract more FDI. The most important step is to develop a positive view of FDI. The

states can accommodate the paradigmatic shift in development thinking by liberalizing their national economic policies. Countries with large potential domestic markets will in particular benefit from liberalized policies owing to the attraction of their markets for MNCs. The states can also relax tight control of domestic enterprises, freeing them to negotiate with foreign investors on their own behalf. The states need to accept different forms of FDI including wholly foreign owned subsidiaries, majority as well as minority foreign ownership, contractual joint ventures, and buy-back arrangements. Developing countries with depressed economies, relatively small domestic markets, or scarce natural resources may be able to attract FDI by providing favorable investment environments through liberalizing macroeconomic policies and stabilizing the political situation. In addition, they can attract foreign investors by progressively developing human capital, infrastructure, and industrial capabilities. Through efforts to improve education, a country can gradually develop a work force that can easily acquire the skills necessary for employment in the new technologically sophisticated industries. A process of learning by doing, as in the case of South Korea, will be another channel to upgrade the work force. Governments of developing countries also need to take initiatives to encourage the development of local entrepreneurship through financial assistance and other privileges similar to those given to foreign investors. This type of local initiative will in the long-run promote the industrial capabilities of developing countries.

In our opinion, FDI can have some positive impact on the development process in developing countries. It presents an opportunity for these countries to finance their economic growth, particularly if FDI were to generate some foreign exchange on the side. A developing country may also access the technological and managerial assets of foreign investors through FDI, the diffusion of which can have a substantial impact on productivity growth. FDI tends to bind foreign investors to the operation of the investment projects and should enhance their willingness to transfer technology and job training. Moreover, the introduction of efficient and internationally competitive foreign enterprises into an economy can stimulate local entrepreneurship by providing increased competition, a demonstration effect, and opportunities for subcontracting. FDI may also furnish a part of the initial capital and create profits needed for future industrial investment. There are more dynamic gains from the industrial development induced by FDI, including more employment, a better-trained labor force, a higher national income, more innovations, and enhanced competitiveness in addition to foreign market outlets for a developing country's exports. FDI from the West may also be used as a foreign policy instrument to provide a host country with a gateway to the international community and to deter possible external political interventions.

These positive aspects of FDI, however, should be viewed against a number of negative impacts. First, with no significant linkages to other economic sectors, FDI tends to operate in an enclave, and thus it is unlikely to have the same multiplier effect as in developed and articulated economies. This negative impact is aggravated by the tendency of MNCs to internalize production and distribution in order to minimize transaction costs. Thus, growth under FDI could lead to sectoral disarticulation in some developing countries. Second, although foreign investors often tend to reinvest their earnings locally during periods of economic growth in a host country, during economic downturns they may actually increase repatriation of funds, further

depressing the economy. In addition, they often compete with local firms for domestic as well as external sources of funding and displace the possible development of local firms. Third, some developing countries may have to confront the increasing control exercised by large MNCs over certain sectors of their economies as a result of many firm-specific advantages. These include brand names, patented superior technology, marketing and management skills, control of a large section of world markets, and economies of scale. MNCs also tend to take control of domestic economic policies and at times may take actions that are contrary to a developing country's national interests or independence.

There are several measures that can be adopted by developing countries to enhance the positive contributions of FDI. First, by carefully screening the technologies brought in by FDI, developing countries can ensure that their large supply of semiskilled and unskilled labor will be absorbed into the production of matured and standardized manufactures, which in turn may be exported to world markets. In this way, the large supply of labor may be turned into a real asset for these countries. Even though there is no established method to determine the appropriateness of various technologies, developing countries can adopt more labor-intensive ones in the early stages of their development. Through learning by doing, they can gradually become better prepared for more sophisticated technologies. These countries could also choose to cooperate with MNCs from other developing countries, because they may offer not only more appropriate technology but also smaller and more efficient operations.

Second, host governments should skillfully design fiscal incentives to reduce the costs involved in attracting FDI and use zone policy at an appropriate stage of development. Certain fiscal incentives, such as tax holidays and favorable fees, are not essential to attract foreign investors and can in fact reduce the country's financial benefits from FDI. Such incentives, therefore, should be offered at a minimal level and can even be waived in some cases. Host governments should also plan the development of enclave zones under an overall national strategy. These zones can first be employed to bring in labor-intensive manufacturing activities to absorb surplus labor, to experiment with a policy instrument that has not been used before, and to facilitate the transition from a closed economy to an open one. As a country develops and moves along on the technological learning curve, however, the zones should also shift to more technology-intensive industries. To do so, there needs to be a defined government involvement in the training of the work force and establishment of better technological infrastructures. Specific policies and incentives can also be designed to attract scientists, researchers, and technical staff to the zones to develop the country's own R&D facilities. These manufacturing-oriented zones can also be directed toward other industries as time goes by. For instance, as more and more FDI in the world is now flowing to services, these zones can become service-oriented zones. They can accommodate such activities as banking, insurance, data processing, and wholesale trade.

Finally, major recipients of FDI flows can accelerate their economic growth by establishing better support and diffusion systems for technologies transferred by FDI, as exemplified by the success stories of South Korea and Taiwan. Banks, government

offices, and business institutions are in many cases important sources of financing, counsel, and aid for a local subsidiary in technological development. Diffusion systems link different parts of the technological infrastructure. The turnover of trained and experienced managerial and technical personnel from foreign subsidiaries can facilitate starting new domestic enterprises or modernizing domestic organizations. This entire process of technology diffusion can bring significant long-term benefits to economies of developing countries. Before this can happen, however, governments need to have a well-defined and well-designed plan for attracting FDI.

NOTES

1. FDI flows are the net of inflows and outflows, and not gross flows unless otherwise specified. Other components of private capital flows, which only comprise a minor proportion, include portfolio investment and other forms of foreign investment such as contractual arrangement, compensation trade, and assembly/processing.

2. International Monetary Fund (IMF), *Foreign Private Investment in Developing Countries*, Occasional Paper no. 33 (Washington, DC: IMF, 1985); United Nations Industrial Development Organization (UNIDO), *Foreign Direct Investment Flows to Developing Countries: Recent Trends, Major Determinants, and Policy Implications* (Vienna: UNIDO, 1990); Paz Estrella E. Tolentino, "Overall Trends of Foreign Direct Investment," *CTC Reporter* 29 (Spring 1990): 28–29; United Nations Center on Transnational Corporations (UNCTC), *World Investment Directory 1992: Asia and the Pacific* (New York: United Nations, 1992); and Rolf Jungnickel, "Recent Trends in Foreign Direct Investment," *Intereconomics* 28 (May 1993): 118–25.

3. John M. Rothgeb, "The Effects of Foreign Investment on Overall and Sectoral Growth in Third World States," *Journal of Peace Research* 21, no. 1 (1984): 5–15; Sheila Page, "Developing Country Attitudes towards Foreign Investment," in *Developing with Foreign Investment*, ed. Vincent Cable and Bishnodat Persaud (London: Croom Helm, 1987); Vincent Cable and Bishnodat Persaud, "New Trends and Policy Problems in Foreign Investment: The Experience of Commonwealth Developing Countries," in *Developing with Foreign Investment*; and UNCTC, *Transnational Corporations in World Development: Trends and Prospects* (New York: United Nations, 1988).

4. IMF, *Foreign Private Investment in Developing Countries*; Shridath S. Ramphal, "Foreword by the Commonwealth Secretary-General," in *Developing with Foreign Investment*, ed. Cable and Persaud; and Frederick Nixson, "The Less Developed Countries and the Global Economy," *Journal of Development Studies* 26 (October 1989): 144–56.

5. UNCTC, *Transnational Corporations in World Development*; Organization for Economic Cooperation and Development (OECD), *International Direct Investment and the New Economic Environment* (Paris: OECD, 1989); UNIDO, *Foreign Direct Investment Flows to Developing Countries*; UNCTC, *World Investment Report 1991: The Triad in Foreign Direct Investment* (New York: United Nations, 1991); UNCTC, *World Investment Directory 1992*; and Jungnickel, "Recent Trends in Foreign Direct Investment."

6. UNCTC, *Transnational Corporations in World Development*; Paul Krugman, "Private Capital Flows to Problem Debtors," in *Developing Country Debt and Economic Performance: The International Financial System*, ed. Jeffrey D. Sachs (Chicago, IL: University of Chicago Press, 1989); OECD, *International Direct Investment*; Institute of International Finance (IIF), *Fostering Foreign Direct investment in Latin America* (Washington, DC: IIF, 1990); UNCTC, *Government Policies and Foreign Direct Investment* (New York: United Nations, 1991); Jamuna P. Agarwal et al., *Foreign Direct Investment in Developing Countries: The Case of Germany* (Tubingen: Mohr, 1991); and Andreas Savvides, "Investment Slowdown in Developing Countries during the 1980s: Debt Overhanging or Foreign Capital Flows," *Kyklos* 45, no. 3 (1992): 363–77.

7. UNIDO, *Foreign Direct Investment Flows to Developing Countries*; and Agarwal et al., *Foreign Direct Investment in Developing Countries*.

8. John Dunning, *Studies in International Investment* (London: George Allen & Unwin, 1970).

9. For further discussion, see Dominick Salvatore, *International Economics*, 3d ed. (New York: Macmillan, 1990).

10. These two numbers reflect FDI flows to non-oil developing countries only; see IMF, *World Economic Outlook: Revised Projections by the Staff of the International Monetary Fund* (Washington, DC: IMF, 1984); and IMF, *Foreign Private Investment in Developing Countries*.

11. UNCTC, *Transnational Corporations in World Development*.

12. UNCTC, *World Investment Directory 1992*.

13. Paul Baran, *The Political Economy of Growth* (New York: Monthly Review Press, 1957); André Gunder Frank, *Capitalism and Underdevelopment in Latin America* (New York: Monthly Review Press, 1967); Arghiri Emmanuel, *Unequal Exchange: A Study of the Imperialism of Trade* (New York: Monthly Review Press, 1969); Fernando H. Cardoso, "Dependency and Development in Latin America," *New Left Review* 74 (1972): 83–95; and Immanuel Wallerstein, "Dependency in an Interdependent World: The Limited Possibilities of Transformation within the Capitalist World-Economy," *African Studies Review* 17, no. 1 (1974): 1–26.

14. Samir Amin, *Maldevelopment: Anatomy of a Global Failure*, translated from the French by Michael Wolfer (Atlantic Highlands, NJ: Humanities Press International, 1990).

15. Sayre Schatz, "Assertive Pragmatism and the Multinational Enterprise," in *Postimperialism: International Capitalism and Development in the Late Twentieth Century*, ed. David G. Becker et al. (Boulder, CO: Lynne Rienner, 1987); Stuart Corbridge, "The Asymmetry of Interdependence: The United States and the Geopolitics of International Financial Relations," *Studies in Comparative International Development* 23 (Spring 1988): 3–29; Theodore Geiger, *The Future of the International System: The United States and the World Political Economy* (Boston, MA: Unwin Hyman, 1988); Stephen Gill and David Law, *The Global Political Economy: Perspectives, Problems, and Policies* (Baltimore, MD: Johns Hopkins University Press, 1988); and Jagdish Bhagwati, "Dependence and Interdependence: Developing Countries in the World Economy," in *Political and International Economics*, Jagdish Bhagwati/edited by Douglas A. Irwin (Cambridge: MIT Press, 1991).

16. Ramphal, "Foreword by the Commonwealth Secretary-General."

17. Richard Hemming and Ali M. Mansoor, *Privatization and Public Enterprises*, Occasional Paper no. 56 (Washington, DC: IMF, 1988); Paul Starr, "The Meaning of Privatization," *Yale Law and Policy Reviews* 6 (1988) 1101–1136; Henry Bienen and John Waterbury, "The Political Economy of Privatization in Developing Countries," *World Development* 17, no. 5 (1989): 617–32; and Nicolas Walle, "Privatization in Developing Countries: A Review of the Issues," *World Development* 17, no. 5 (1989): 601–15.

18. Cable and Persaud, "New Trends and Policy Problems in Foreign Investment."

19. On the success of NICs, see Walter Galenson, *Foreign Trade and Investment: Economic Development in the Newly Industrialized Asian Countries* (Madison: University of Wisconsin Press, 1985); Pang Eng Fong, "Foreign Investment and the State in Singapore," in *Developing with Foreign Investment*, ed. Cable and Persaud; Alice H. Amsden, "Third World Industrialization: 'Global Fordism' or a New Model," *New Left Review* 182 (1990): 5–31; and World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993).

20. Walden Bello and Stephanie Rosenfeld, "Dragons in Distress: The Crisis of the NICs," *World Policy Journal* (Summer 1990): 431–68.

21. For further discussion, see Hooshang Amirahmadi, *Revolution and Economic Transition: The Iranian Experience* (Albany: State University of New York Press, 1990).

22. Salvatore, *International Economics*.

23. Rothgeb, "Effects of Foreign Investment."

24. For further discussion, see Folker Frobel, Jurgen Heinrichs, and Otto Kreye, *The New International Division of Labor* (Cambridge and London: Cambridge University Press, 1980).

25. UNCTC, *Foreign Direct Investment and Transnational Corporations in Services* (New York: United Nations, 1989).

26. Stuart Corbridge, "The Third World in Global Context," in *The Geography of the Third World*, ed. Michael Pacione (London: Routledge, 1988).

27. Arthur MacEwan, "Imperial Decline and International Disorder: An Illustration from the Debt Crisis," in *The Imperiled Economy*, ed. Robert Cherry et al. (New York: Union for Radical Political Economics, 1987).

28. For detailed discussion on these technological innovations, see OECD, *International Direct Investment*; and UNIDO, *Foreign Direct Investment Flows to Developing Countries*.

29. For instance, other developing countries in Southeast Asia, South Asia, and the Pacific received a declining amount of FDI from developed countries in the 1980s. With the exception of Malaysia, however, these countries have experienced a significant growth of FDI from developing countries and particularly the NICs (UNCTC, *World Investment Directory 1992*).

30. UNCTC, *World Investment Report 1991*.

31. Systemic data on flows and stocks of service FDI to developing countries are not available because only a few source countries record such data. See UNCTC, *Transnational Corporations in World Development*.

32. For further discussion, see Olivier J. Blanchard et al., *World Imbalance: WIDER World Economy Group 1989 Report* (Helsinki: World Institute for Development Economic Research, 1989).

33. UNCTC, *World Investment Directory 1992*.

34. Friedrich Schneider and Bruno S. Frey, "Economic and Political Determinants of Foreign Direct Investment," *World Development* 13, no. 2 (1985): 161–75; UNCTC, *Transnational Corporations in World Development*; UNIDO, *Foreign Direct Investment Flows to Developing Countries*; and Agarwal et al., *Foreign Direct Investment in Developing Countries*.

35. UNCTC, *World Investment Directory 1992*.

36. For further discussion on these economies, see World Bank, *East Asian Miracle*.

37. Gordon Smith and John T. Cuddington, eds., *International Debt and the Developing Countries: A World Bank Symposium* (Washington, DC: World Bank, 1985).

38. Krugman, "Private Capital Flows to Problem Debtors."

39. OECD, *International Direct Investment*.

40. The 15 heavily indebted countries include Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, and Yugoslavia.

41. UNCTC, *World Investment Directory 1992*; and Agarwal et al., *Foreign Direct Investment in Developing Countries*.

42. Based on authors' ongoing research on Export Processing Zones in Asia.

43. UNCTC, *The Challenge of Free Economic Zones in Central and Eastern Europe* (New York: United Nations, 1991).

44. Hooshang Amirahmadi, "Iranian Economic Reconstruction Plan and Prospects for Its Success," in *Reconstruction and Regional Diplomacy in the Persian Gulf*, ed. Hooshang Amirahmadi and Nader Entessar (London: Routledge, 1992).

45. For further discussion on fiscal incentives, see IMF, *Foreign Private Investment in Developing Countries*.

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47. Rolf Alter and Frederic Wehrle, "Foreign Direct Investment in Central and Eastern Europe," *Intereconomics* 28 (May 1993): 126–31.

48. Tolentino, "Overall Trends of Foreign Direct Investment."

49. IMF, *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington, DC: IMF, 1990).