

Determinants of South-South FDI in Asia

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Over the past decades, outward foreign direct investment (FDI) from developing countries (or the South) has increased significantly from 7.0 percent of global FDI outflow at the beginning of the 1990s to 32.2 percent in 2013 (UNCTAD, 1995; UNCTAD, 2014). From this, the South has become the important investors in the global market and offset the flows of investment from the North (Aykut and Goldstein, 2006). This results in a changing landscape of global FDI from the FDI Triad dominated by the European Union, the United States and Japan, to the multiple FDI poles which also include emerging markets, ASEAN and China (Economou and Sauvart, 2011).

For the intra-regional FDI in Asia, the North-South FDI is no longer a phenomenon and the expansion of South-South FDI has been more explicit (Rajan, 2008). China, Hong Kong, Korea and Singapore are example of major investors in this region. The home developing countries tend to start investing in the neighboring countries and the economies with same level of development. This changing landscape in FDI has received attention from many policymakers and researchers. However, the literatures were still small because of the limitation of data from developing economies. Thus, more empirical studies on the characteristics and determinants of these FDI flows are needed to be addressed.

The purpose of this paper is to examine the determinants of South-South FDI flows in Asia. This paper uses the bilateral FDI flows data to investigate the driver of intra-regional FDI of the selected Asian developing economies over the period 2001 to 2012. The gravity model augmented with the factors from Investment Development Path (IDP) is developed and used as a framework for this analysis. Political risk and government policy are also the important determinants for the FDI within developing countries in Asia and added to the model. The contribution of this paper is to provide the empirical evidence with the updated and bilateral FDI data for the South-South FDI in Asia.

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