

Table 2: Factors Affecting South – South FDI in the 1990s

Rationale	Structural factors	Cyclical factors	Institutional factors
Push factors	Rising wealth in some emerging market economies increased supply of capital. Rising costs of labour and non – tradables encouraged relocation of production units to cheaper locations. Domestic deregulation to improve competition by breaking up monopolies prompted some large companies to branch into other countries. New technology and telecommunications improved information sharing and reduced transaction costs.	Low interest rates and low growth in industrial countries encouraged diversion of outflows from developing countries to other fast growing developing countries.	Capital account liberalisation allowed resident companies to invest abroad. Growth of South – South trade through regional trading arrangements was often associated with investment agreements. Tariff and non – tariff barriers to trade encouraged the relocation of production units to other developing countries. Government policies encouraging the outflow of investment.
Pull factors	Large and growing domestic markets. Geographic proximity and ethnic and cultural ties. Supply of cheap labour. Abundance in raw materials.		Permitting foreign ownership of domestic companies encouraged FDI through mergers and acquisitions. Special tax and other incentives to attract FDI attracted more foreign investment. Preferential treatment of FDI over resident investment encouraged round tripping of resident capital. Export markets through preferential treatment.
Strategic reasons	Desire to procure critical inputs such as oil		Geopolitical considerations

Source: Reproduced from Aykut and Ratha [2004]