

Discussion of Outward Direct Investment from East Asia: Experiences of Hong Kong and Taiwan

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1 Main Highlights

2 Comments

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An excellent paper that provides several insightful results on the outward pattern of FDI from Hong Kong and Taiwan.

- Asian NIEs have significantly increased their share in FDI outflows in recent years.
 - Compared to historical levels, these countries witnessed a massive increase in volume of outward FDI.
 - Replaced other developing countries (mainly from Latin America) as top source of outward FDI.
- Hong Kong and Taiwan
 - Trend of FDI inflow and outflow during the last few years.
 - Major destinations of outward FDI from these countries.
 - Major sectors that received FDI from these countries.

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Main Highlights

- Determinants of Outward FDI.
 - Home Country 'Push' Factors
 - Host Country 'Pull' Factors
 - Market and trade conditions.
 - Costs of production.
 - Business conditions.
 - Government policies.
- Hong Kong – Both outward and inward FDI could be primarily explained by industrial restructuring and cost of production differential with China. Outward FDI is heavily dominated by services sector.
- Taiwan – Outward FDI from Taiwan has shifted away from the ASEAN countries towards China due to the latter's advantage in production of labour intensive manufactured goods.
- Using absolute and relative importance of exports and FDI it is shown that China is a major recipient of both goods and FDI from Hong Kong and Taiwan.

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Outward FDI Performance Index

Definition (Outward FDI Performance Index)

The **Outward FDI Performance Index** is calculated as the share of a country's outward FDI in world FDI as a ratio of its share in world GDP.

- Seems to be inherently biased against economies with large GDP.
- Assumes that a country with a large GDP will also have more outward FDI.
- Given that majority of the FDI is 'market-seeking' firms of a large country will have less incentive to invest abroad.

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- In both Hong Kong and Taiwan outward FDI is dominated by services.
- Globally, sectoral mix of FDI has shifted towards services and especially to areas that were closed to FDI before.
- Main determinants of FDI in services
 - Firms that support existing trade and/or manufacturing.
 - Several countries have made themselves more attractive as host countries by liberalizing their inward FDI policies.
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Trade and FDI: Substitutes or Complements?

- Trade and FDI
 - Substitutes :- Horizontal FDI displaces trade i.e. FDI is “tariff-jumping” and is positively related with trade costs.
 - Complements :- Vertical FDI splits the production process into segments that are relatively intensive in different factors of production, which are located in country that is abundant in the required factor.
- Which relationship explains FDI pattern from Hong Kong and Taiwan?

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