Abstract

During 2006-07, FDI inflows into India were more than double than those in 2005-06. Indeed, during April-January 2006-07, inward FDI into India at US$16.4 billion, was far higher than the annual average inflow of US$2-3 billion during the late 1990s. In recent years, India has also emerged as one of the leading FDI destinations in Asia. On the whole, the pattern of FDI inflows to developing Asia itself has changed significantly over the years. Some leading Southeast Asian economies (for example, Malaysia, Indonesia, Thailand and Philippines) no longer attract as much FDI as they used to in the past. This is in sharp contrast to some East and Southeast Asian economies that continue to draw large FDI (for example, China, Hong Kong and Singapore).

In the above context, this paper attempts to explain the country-wise variations in the pattern of FDI flows to developing Asian economies by empirically identifying location-specific features influencing such flows. The paper argues that some countries in the region, which have developed long term sources of comparative advantages in the form of superior technological capabilities and supporting infrastructure have consistently attracted greater volumes of export-oriented FDI. These attributes are also crucial for explaining the steady improvement in FDI flows to India. The paper finds that with production processes becoming increasingly complex and technology-intensive, developing countries like India, must devote greater attention to the development of R&D and frontier technologies, failing which, they might lose out in the race for FDI.

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