STUDIES IN TRADE, INVESTMENT AND INNOVATION NO. 93

Outward Foreign Direct Investment and Home Country Sustainable Development

UNITED NATIONS
ESCAP
Economic and Social Commission for Asia and the Pacific

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United Nations publication

Sales no.: E.20.II.F.14
ISBN: 978-92-1-120811-5
eISBN: 978-92-1-004976-4
Print ISSN: 1020-3516
eISSN: 2414-0953
ST/ESCAP/2899

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This publication has been issued without formal editing.

Acknowledgements

This publication on "Outward Foreign Direct Investment and Home Country Sustainable Development" was prepared under the overall guidance of Mia Mikic, Director, Trade, Investment and Innovation Division (TIID) of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), and benefited from the substantive supervision of Marc Proksch, Chief, Investment and Enterprise Development Section (IEDS), TIID, ESCAP and Heather Taylor-Strauss, Economic Affairs Officer, IEDS, TIID, ESCAP.

The volume was written by Jan Knoerich, Senior Lecturer at the Department of International Development and Lau China Institute, School of Global Affairs, King's College London, with the introduction written by Heather Taylor-Strauss. The quantitative analysis in Chapter two was provided by Yundan Gong, Senior Lecturer at the Department of International Development, School of Global Affairs, King's College London.

Matthew Stephenson, Policy and Community Lead, International Trade & Investment, World Economic Forum, contributed to the conceptualization and development of the study. Information and insights on the case studies were provided by Prof. Emeritus Tham Siew Yean, Visiting Senior Fellow, ISEAS-Yusof Ishak Institute, Singapore, and Professor Emeritus, Universiti Kebangsaan Malaysia; Sufian Jusoh, Institute of Malaysian and International Studies, Universiti Kebangsaan Malaysia; Guanie Lim, Nanyang Technological University; and several anonymous questionnaire respondents and interviewees. The questionnaire used for this study was based on a template gratefully received from the World Bank.

UN ESCAP and the authors of the publication sincerely thank the Governments of Malaysia, the Philippines and Thailand for their active assistance and support in developing the country case studies for Chapter three.

Natthika Charoenphon, IEDS, TIID, ESCAP performed final checks and supervised the formatting of the publication. The graphic concept, design and layout were carried out by Erawan Printing.

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Abbreviations and acronyms

ASEAN	Association of Southeast Asian Nations
BIT	bilateral investment treaty
BOI	Board of Investment
CSR	corporate social responsibility
DTI	Department of Trade and Industry
DTT	double taxation treaty
EDB	Economic Development Board
ESCAP	Economic and Social Commission for Asia and the Pacific
EXIAR	Agency for Export and Credit Insurance
EXIM	Export-Import
FTA	free trade agreement
FTSC	Foreign Trade Service Corps
GDP	gross domestic product
GLC	government-linked company
GLS	generalized least squares
GOCC	government-owned and -controlled corporation
HCM	home country measure
IMP3	third industrial master plan
IPA	investment promotion agency
M&A	merger and acquisition
MASSCORP	Malaysian South-South Corporation Berhad
MASSA	Malaysia South-South Association
MATRADE	Malaysia External Trade Development Corporation
MIDA	Malaysian Investment Development Authority
MIDF	Malaysian Industrial Development Finance Berhad
MNE	multinational enterprise
NDRC	National Development and Reform Commission
NEDA	Neighbouring Countries Economic Development Cooperation Agency
OECD	Organisation for Economic Co-operation and Development
OFDI	outward foreign direct investment
OLS	ordinary least squares
RBC	responsible business conduct
RCEP	Regional Comprehensive Economic Partnership

R&D	research and development
SDG	sustainable development goal
SEZ	special economic zone
SME	small- and medium-sized enterprise
SOE	state-owned enterprise
SWF	sovereign wealth fund
TIP	treaties with investment provisions
TOI	Thai overseas investment
TOISC	Thai Overseas Investment Service Center
UNCTAD	United Nations Conference on Trade and Development

Introduction

The year 2018 was a historically significant year for Asia and the Pacific region: for the first time, it became both the largest destination for *and* source of foreign direct investment (FDI) globally. The region attracted 45% of global FDI inflows and was the source of 52% of global outflows. Perhaps even more significantly, developing countries of the region attracted 40% of global inflows and were the source of 37% of global outflows (ESCAP, 2019a). The sheer scale of both inward and outward investment in the region raises important questions about the impact these investment flows can have on helping countries achieve the 2030 Agenda for Sustainable Development and its associated Sustainable Development Goals (SDGs).

A recent United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) study highlighted that on its current trajectory, Asia and the Pacific will not achieve any of the 17 SDGs by 2030. It further noted that while progress has been made on some SDGs, for more than half of them it has remained stagnant or gone in the wrong direction. (ESCAP, 2019b). The slow progress made on achieving the SDGs in the region, as well as in other regions of the world, has prompted the United Nation's Secretary-General Antonio Guterres to issue a global call for a decade of action to reinvigorate efforts to deliver on the SDGs by 2030. Re-aligning investments, both domestic and foreign, as well as developing and implementing the appropriate investment policies and frameworks that harness both inward and outward FDI are critical to accelerating progress on achieving the SDGs. Doing this, however, requires strengthening policymakers' ability to develop evidence-based policies which leverage FDI and maximize the sustainable development benefits it can bring. While there is a rich history of research and evidence to support the importance and developmental effects of inward FDI on host countries, the extent to which outward FDI (OFDI) can and does yield positive developmental outcomes in home countries has remained a nascent area of study, especially in relation to developing countries. Sill there are even fewer studies on the types and combinations of institutions, policies and tools available to policymakers to support and facilitate OFDI for sustainable development.

The lack of evidence-based research on OFDI and home country development is concerning because, among other things, OFDI can be a strategic tool that enables firms to access global markets and integrate into global production systems and value chains, which, in turn, helps firms and industries in home economies to strengthen competitiveness and consequently facilitate better inclusive and sustainable growth opportunities for those economies. As an increasing number of firms from Asia and the Pacific are becoming active outward investors, several of their home countries have recognized the potential for OFDI to generate development benefits and taken the commensurate policy action to support, facilitate, and even promote OFDI.

The purpose of this study is to provide a more concrete understanding of and evidence for the effects of outward FDI on sustainable development in home countries and analyse the policies and instruments that three leading OFDI economies in the

region have put in place to harness OFDI for sustainable development. Some of the key questions answered in this study are the following: 1) What are the types of activities and associated variables, inter alia size, type, direction, and sector of investment that yield the most significant sustainable development outcomes for home countries? 2) What bottlenecks do the Asia-Pacific countries face in stimulating and benefiting from OFDI? 3) What mechanisms and policies are in place and/or needed for OFDI to provide developmental benefits to the home economy?

The study is structured as follows: Chapter 1 sets the scene by providing an OFDI trend analysis for Asia and the Pacific region and identifying which countries are among the leading OFDI economies in the region. Chapter 2 provides a conceptual framework for understanding the home country effects of OFDI, identifies the extent to which 11 home country effects are linked to specific SDG goals and targets, and provides an empirical estimate of select home country effects to confirm their existence in the Asia-Pacific region. Chapter 3 identifies the institutions, policies, and tools that countries can put in place to support positive developmental outcomes of OFDI. Chapter 4 provides case studies of the mechanisms in place in three leading OFDI economies, namely Malaysia, the Philippines and Thailand. Finally, in Chapter 5, the study concludes by proposing a menu of policy options that governments in the region can consider in the process of developing outward investment policies that support sustainable development outcomes in their home countries.

The analysis provided in this study is expected to help policymakers maximize the potential of OFDI to contribute to the 2030 Agenda for Sustainable Development and formulate and implement sustainable OFDI promotion strategies. It is the first among a series of studies prepared by ESCAP in this area. The next study, due to be released in early 2021 jointly with the World Economic Forum, will specifically focus on further developing the menu of options presented in the current study's conclusion as a policy toolkit for OFDI. The research in both the current and forthcoming studies will directly feed into the policy advisory and technical capacity building work that ESCAP provides to its member States on investment facilitation and promotion.

Chapter 1

Outward Foreign Direct Investment from Asia and the Pacific and its Relevance for Home Countries

1.1 Introduction

In recent years, companies from the developing world have increasingly invested abroad, seeking business opportunities outside their own home countries. This is a recent trend, as until the turn of the century multinational enterprises (MNEs) from developed economies dominated global cross-border direct investment. Leading the way have been companies from Asia and the Pacific, accounting for more than 52% of all global OFDI flows in 2018 (ESCAP, 2019). OFDI from developing countries in Asia and the Pacific in particular has steadily expanded and is expected to grow further in the coming years. Illustrating this, developing countries (excluding China) in the region were responsible for 31% of global OFDI flows in 2018. Including outflows from China brings the total global share of OFDI from developing countries in Asia and the Pacific in 2018 up to 37%. (ESCAP, 2019a)

Because developing economies are the source of these investments, understanding the impact such OFDI has on the development of the home economies where these MNEs are headquartered is of great importance. OFDI has the potential to generate positive developmental outcomes, by promoting trade, employment, upgrading, growth and other aspects of economic development in home economies. Yet, despite a recent increase in relevant empirical studies, the precise nature and characteristics of such home country effects of OFDI still remain little understood. Recent research and policy analysis are only gradually generating relevant knowledge and evidence for developing home countries.

For governments of developing countries, and especially those home to a growing number of MNEs, it is prudent to consider what the development implications of OFDI are and what they mean for policy development. Some governments, including several in Asia and the Pacific such as those of China and Singapore, are already aiming to leverage OFDI for development of their economies and have introduced corresponding policies, regulations and institutional arrangements. But given current limitations in knowledge and evidence on home country effects, even less is known about the specific role investment policy can play to enhance these effects and assure that they have positive developmental outcomes.

This study provides new insights on this increasingly important yet largely unexplored area of economic policy. Focusing on low- and middle-income countries in Asia and the Pacific, it examines how policies, regulations and institutional arrangements

dealing with OFDI – so called home country measures (HCMs) – can stimulate OFDI that has positive developmental outcomes in home countries.

As is shown in this volume, there is an urgent need to dedicate more attention to understanding and facilitating the sustainable development effects of OFDI in developing countries of Asia and the Pacific (home country development effects, or simply home country effects). The emerging literature increasingly suggests that home country effects exist and will become more important. This is confirmed by the empirical investigation provided for this study. However, some home country effects, even if existent, may not be identified by quantitative studies. This can happen especially when the magnitudes of OFDI are still comparatively modest, as is often the case in developing countries where OFDI has increased only rather recently. Quantitative results at the macro-economic level, or economy wide level, – e.g. measuring the effect on innovation, productivity or employment – may be inconclusive even if such effects exist in individual industries, at the firm level or in a few specific investment cases. It may also be challenging to isolate the specific effect of OFDI when several factors affect the associated economic outcome, while for the measurement of some home country effects, the appropriate economic indicators are even non-existent. Yet, even if home country effects are not measurable or non-existent today in some developing countries, they might occur to a greater degree in the future as their OFDI increases. Considering this, it may be wise to contemplate the introduction of appropriate policies, institutions, regulations and measures in anticipation of the emergence of such effects in the future. This study discusses numerous ways in which such institutions, policies, regulations and measures (home country measures) can be used to leverage OFDI for development and introduces a menu of options for governments in the region for that purpose.

1.2 Outward foreign direct investment trends in Asia and the Pacific

This section presents an overview of OFDI trends and patterns in developing countries of the Asia-Pacific region. The analysis included all ESCAP member States[1] if they were not both high-income countries and members of the Organisation for Economic Co-operation and Development (OECD). Specifically, this excluded Australia, France, Japan, the Netherlands, New Zealand, the Republic of Korea, the United Kingdom and the United States from the analysis (see annex). References to developing countries in Asia and the Pacific in this study specifically refer to the group of ESCAP member States excluding these afore listed countries.

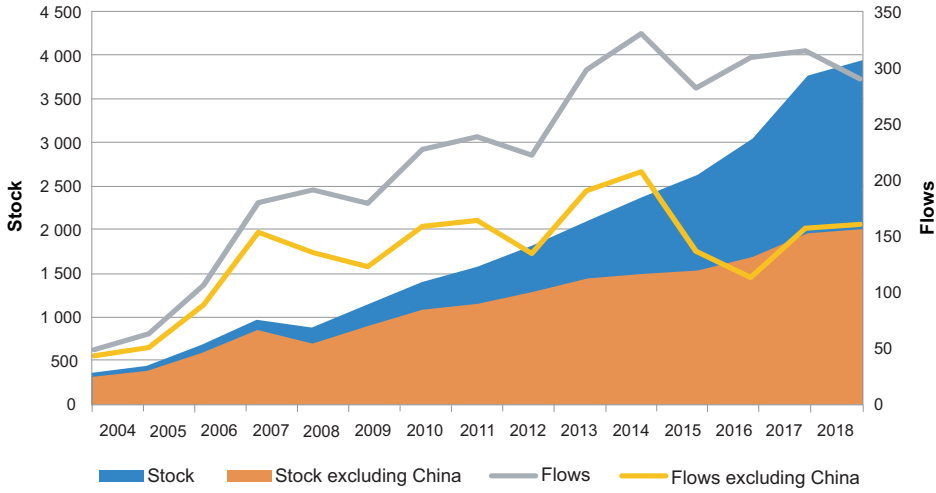
[1] For full list of ESCAP member States please refer to the annex at the end of this study.

OFDI stock and flow data were used from the United Nations Conference on Trade and Development (UNCTAD). Countries for which no data was reported were excluded from the calculations – these were often countries falling under the countries with special needs[2] category. The analysis examines first the OFDI stock and flows from developing countries in Asia and the Pacific. It then considers the extent to which those countries are internationalized through outward investment, by examining their OFDI as a percentage of gross domestic product (GDP). Additional insights are offered on destination countries and investment by industry thereafter.

"Outward FDI flows from developing countries of Asia and the Pacific grew more than 10-fold in the decade to 2018"

Figure 1 depicts the remarkable emergence and growth of OFDI from developing economies in Asia and the Pacific over the past 15 years. In 2004, their OFDI stock (i.e. the historically accumulated value of all OFDI made by the date of the statistic) was a mere $360 billion. This figure rose more than 10-fold up until the present day, reaching a little less than $4 trillion in 2018. Chinese MNEs alone accounted for slightly less than half of these investments ($1.9 trillion OFDI stock in 2018), which makes China by far the largest source of OFDI in the region. In fact, China has in

Figure 1. ODFI from developing economies in Asia and the Pacific, 2004-2018 ($ billions)



Source: Author's calculations based on UNCTADStat.

[2] Countries with special needs or CSN countries include those countries in the region which fall into the following three groupings: Least Developed Countries, Landlocked Developing Countries and Small Island Developing States. Specifically, the countries excluded from this analysis were: Bhutan, Brunei Darussalam, the Democratic People's Republic of Korea, Maldives, the Marshall Islands, Myanmar, Nauru, Nepal, Turkmenistan, Tuvalu and Uzbekistan. The Federated States of Micronesia were included in stock but not flow data. Palau and Tajikistan were included in flow but not stock data.

recent years become one of the largest sources of OFDI in the world (Knoerich & Miedtank, 2018). Yet even when China is excluded, the growth of OFDI stock from developing and emerging economies in Asia and the Pacific has been impressive, increasing more than 6-fold from $316 billion in 2004 to just above $2 trillion 15 years later. These significant trends illuminate the need for greater consideration of the impact on home economies in Asia and the Pacific and the role of governments and economic policy in leveraging such OFDI for economic development.

Annual OFDI flows from developing economies in Asia and the Pacific have also grown considerably over the years in line with the stock data. In the mid-2000s, such growth was strong for all economies. However, since 2008 further growth has been primarily due to China's expansion of OFDI flows. Yet, even when China is excluded, developing economies in Asia and the Pacific have on average undertaken more than $150 billion worth of OFDI each year. This is a considerable amount that further highlights the increasing importance of this economic trend and the need to develop specific policies to ensure positive developmental outcomes from OFDI.

Table 1 ranks the developing economies in Asia and the Pacific by their OFDI stock and flows, respectively. The average of the three years from 2016 to 2018 is used to reduce the effects of any volatility in the data. China ranks first for both OFDI stock and flows, followed by Singapore and the Russian Federation. Singapore has for many years been open for inward investment and OFDI and, as a global financial centre, it is a special case compared to other small economies with large investment turnovers, such as Hong Kong, China; Luxembourg or the British Virgin Islands. Singapore is a platform though which many major international investors re-route their investments to other countries in Asia and the Pacific, especially member States of the Association of South-East Asian Nations (ASEAN). India ranks fourth for OFDI stock and fifth for flows, solidifying a general picture that large emerging economies in Asia and the Pacific – China, the Russian Federation and India – are at the forefront of the OFDI trend in the region. They are followed by some medium-sized South-East Asian economies, most notably Malaysia, Thailand and the Philippines. Some Central and West Asian economies, such as Azerbaijan, Georgia and Turkey, are also important sources of OFDI. The table suggests it would be valuable to look beyond the large, widely known sources of OFDI, and focus in greater detail on medium-sized economies in Asia and the Pacific region. Member States of ASEAN in particular have become major outward investors, with half of these countries ranking in the top 10 for both OFDI stock and flows.

To complement the examination of absolute stock and flows above, table 2 ranks OFDI stock from developing and emerging economies in Asia and the Pacific as a percentage of the home economy's GDP. As this measure considers the stock of a country's OFDI relative to the size of its economy, it can be considered to reflect the extent to which a country is internationalized through OFDI (Perea & Stephenson, 2018). The resulting picture is much more heterogenous, with different kinds of countries finding OFDI to be important for their economies. Some smaller economies rank quite highly by this measure because even when their absolute levels of OFDI

Table 1. Developing countries in Asia and the Pacific by OFDI stock and flows

OFDI stock, 2016-2018 average			OFDI flows, 2016-2018 average		
Rank	**Country**	**$ million**	**Rank**	**Country**	**$ million**
1	China	1 701 766	1	China	161 423
2	Singapore	925 888	2	Singapore	40 207
3	Russian Federation	352 804	3	Russian Federation	32 516
4	India	155 151	4	Thailand	15 715
5	Malaysia	124 838	5	India	9 083
6	Thailand	104 905	6	Malaysia	6 310
7	Indonesia	65 780	7	Turkey	3 044
8	The Philippines	48 327	8	Azerbaijan	2 300
9	Turkey	44 962	9	The Philippines	1 129
10	Azerbaijan	21 680	10	Viet Nam	693
11	Kazakhstan	20 205	11	Georgia	339
12	Viet Nam	10 109	12	Sri Lanka	125
13	Islamic Republic of Iran	3 819	13	Cambodia	106
14	Georgia	2 370	14	Islamic Republic of Iran	85
15	Pakistan	1 962	15	Tajikistan	84
16	Sri Lanka	1 342	16	Bangladesh	69
17	Cambodia	828	17	Pakistan	37
18	Armenia	588	18	Mongolia	33
19	Mongolia	494	19	Armenia	26
20	Papua New Guinea	473	20	Timor-Leste	13
21	Bangladesh	285	21	Afghanistan	11
22	Lao People's Democratic Republic	156	22	Lao People's Democratic Republic	8.3
23	Timor-Leste	112	23	Solomon Islands	5.8
24	Tonga	108	24	Samoa	5.1
25	Fiji	95	25	Palau	1.2
26	Solomon Islands	59	26	Vanuatu	1.0
27	Vanuatu	24	27	Tonga	1.0
28	Samoa	23	28	Kiribati	0.1
29	Afghanistan	15	29	Fiji	-7.2
30	Federated States of Micronesia	4.8	30	Kyrgyzstan	-9.3
31	Kyrgyzstan	4.5	31	Papua New Guinea	-114
32	Kiribati	1.4	32	Indonesia	-666
			33	Kazakhstan	-1 808

Source: UNCTADStat.

stock cannot match those of the region's largest countries, their OFDI may still be considerable when viewed relative to the size of their economies.

"To understand the full importance of OFDI for developing countries, one should examine the extent to which individual countries are internationalized through OFDI relative to the size of their economy"

Table 2. Developing countries in Asia and the Pacific by OFDI percentage of GDP

OFDI stock, 2016-2018 average					
Rank	**Country**	**% of GDP**	**Rank**	**Country**	**% of GDP**
1	Singapore	282	18	Timor-Leste	3.8
2	Azerbaijan	52	19	Cambodia	3.7
3	Malaysia	39	20	Vanuatu	2.9
4	Tonga	26	21	Samoa	2.7
5	Russian Federation	24	22	Papua New Guinea	2.1
6	Thailand	23	23	Fiji	1.9
7	Georgia	15	24	Sri Lanka	1.6
8	The Philippines	15	25	Federated States	1.4
9	China	14		of Micronesia	
10	Kazakhstan	13	26	Lao People's	0.9
11	Indonesia	6.6		Democratic Republic	
12	India	6.1	27	Islamic Republic of Iran	0.8
13	Turkey	5.5	28	Kiribati	0.7
14	Armenia	5.1	29	Pakistan	0.7
15	Solomon Islands	4.8	30	Bangladesh	0.1
16	Viet Nam	4.5	31	Afghanistan	0.07
17	Mongolia	4.2	32	Kyrgyzstan	0.06

Source: Author's calculations based on UNCTADStat.

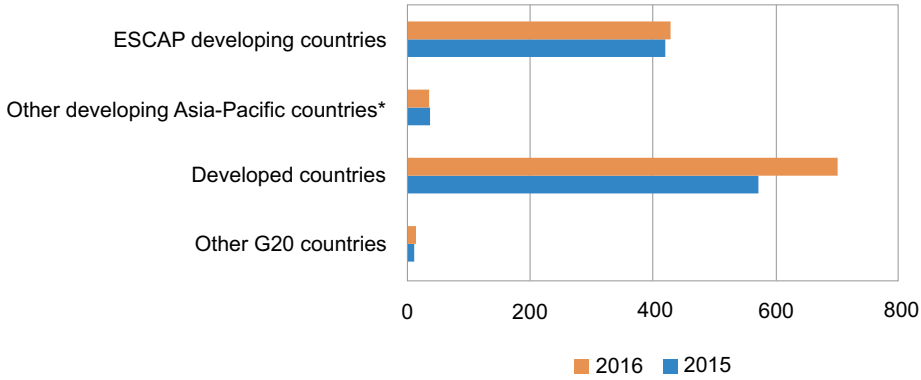
Singapore, as a small financial centre with large absolute amounts of OFDI, tops the ranking. It is followed by Azerbaijan at a distant second place and Malaysia in third. Large countries with considerable OFDI, such as China, India and the Russian Federation, blend in with other small and medium-sized economies at varying levels of development, including Georgia, Kazakhstan, the Philippines, Tonga and Thailand. These findings demonstrate the importance of moving beyond country size and development level for an analysis of OFDI and its implications for sustainable development and investment policymaking.

"M&As and establishment of R&D centres offer greater and more direct access of MNEs to technology, know-how and talent in the host country"

MNEs from developing countries globally have primarily invested in developed economies (Perea & Stephenson, 2018) and this has been no different for MNEs from Asia and the Pacific. As shown in figure 2, most OFDI from developing countries in Asia and the Pacific has targeted developed economies. These economies are not only attractive investment locations due to the large size of their markets; they are also attractive because they possess leading technologies and know-how. The possibility of acquiring technological, managerial and other firm-specific capabilities in developed economies has provided these firms with opportunities to catch up and reach the knowledge frontier faster than would be possible solely through in-house innovation. Such ambitions explain why MNEs from developing countries have exhibited a slight preference for mergers and acquisitions (M&As) or the establishment or research and development (R&D) centres, rather than choosing greenfield investments as their mode of entry into developed host economies (Perea & Stephenson, 2018). M&As allow for direct access to know-how in acquired firms while R&D centres provide firms with opportunities to benefit from a knowledge-intensive environment and local talent in developed economies.

When they do invest in developing countries, MNEs from developing countries in Asia and the Pacific tend to invest in nearby countries in the same region, highlighting the importance of proximity in investment decisions. Intraregional OFDI has been growing in recent years among countries in Asia and the Pacific, with intraregional greenfield investment accounting for 53% of total greenfield investment in the region in 2018 (ESCAP, 2019a). ASEAN member States have been leading this trend and were the largest destination for and the second largest source of intraregional greenfield investment in 2018. Singapore, the Philippines and Thailand were the leading sources of such investment in 2018 (ESCAP, 2019a).

Figure 2. Destination regions for OFDI from developing countries in Asia and the Pacific



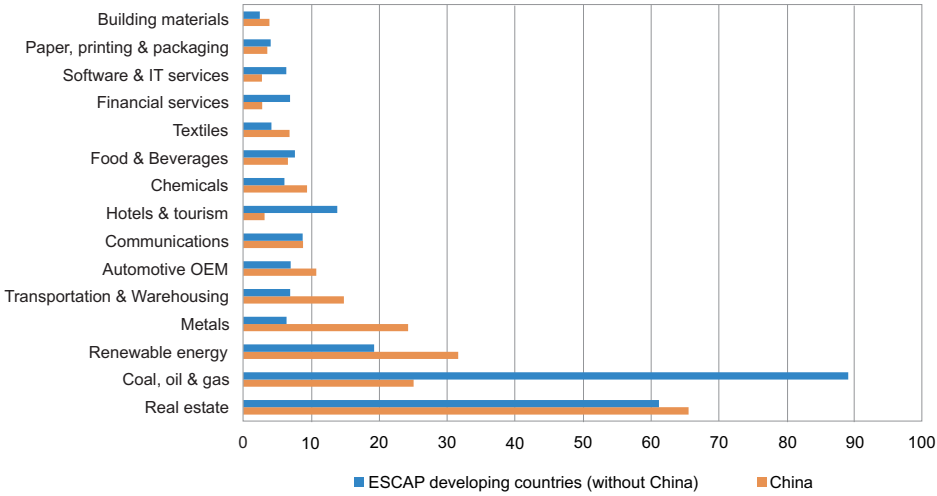
Source: ESCAP calculations based on UNCTAD data for 2015 and 2016.

* Excludes Hong Kong, China.

"Growing intraregional investments signal that proximity matters in investment decisions of firms"

The distribution of OFDI from Asia and the Pacific by industry, as shown in figure 3 for greenfield OFDI, suggests that beyond real estate investments, resources-seeking is an important motivation for firms from the region, with China and the Russian Federation dominating in this area. This is followed by sectors in which both market- and strategic asset-seeking could be a motivation. Efficiency-seeking might occasionally be a motivation in sectors such as textiles or activities related to manufacturing.

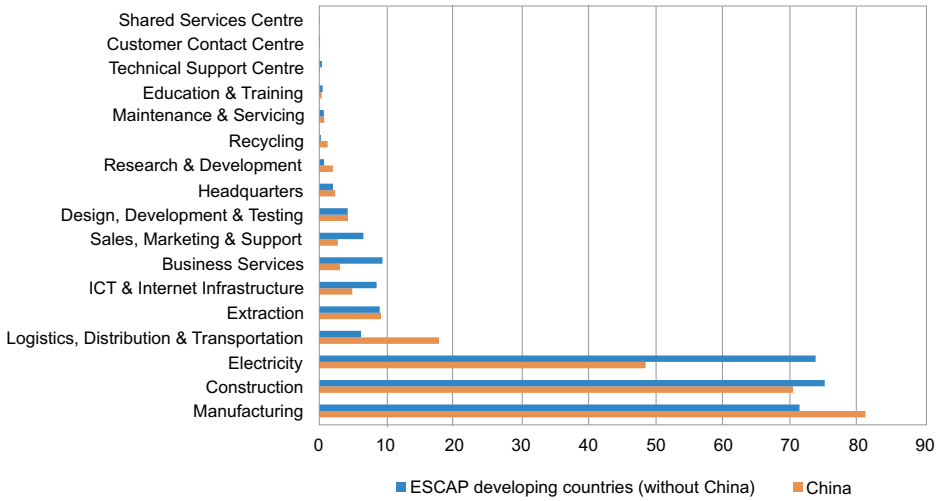
Figure 3. Leading sectors for greenfield OFDI from developing countries in Asia and the Pacific, 2016-2018 ($ billions)



Source: Author's calculations based on fDi Markets.

That market-, strategic asset- and efficiency-seeking are important motivations for OFDI from developing countries in Asia and the Pacific is further indicated in figure 4, which reports greenfield OFDI from these countries by industrial activity. Manufacturing could indicate market- and efficiency-seeking FDI, whilst logistics, business services, sales and marketing and similar activities suggest market-seeking motivations. Extraction is comparatively small, whilst electricity ranks third, after construction. Investments in design, development and testing and R&D indicate strategic asset-seeking motivations. In sum, the sectoral distribution of OFDI from developing countries in Asia and the Pacific is diverse, meaning that a variety of home country effects could result from such investments.

Figure 4. Greenfield OFDI from developing countries in Asia and the Pacific by activity, 2016-2018 ($ billions)



Source: Author's calculations based on fDi Markets.

In conclusion, the sheer scale of OFDI from the region, it's increasingly intraregional character, along with its sector distribution clearly demonstrate the need to for a further exploration into how these flows can be harnessed to support the achievement of the SDGs, particularly in the home countries of these flows. The next chapter therefore turns to addressing how OFDI can enhance home country effects for sustainable development and empirically assesses which home country effects have been most evident to date in the region.

Chapter 2

OFDI Home Country Effects and Sustainable Development

2.1 Introduction

Research and analysis on FDI policies and the activities of MNEs have focused almost entirely on the impact and development implications of both on the economies of host countries. Home country effects have only been well-documented for developed economies in a limited number of studies (ESCAP, 2017; Knoerich, 2016). Yet, with the growth of OFDI from developing economies over the past 15-20 years, there has been an increasing interest in how the home economy of developing countries is affected. Growing OFDI from China, in particular, has yielded insights on how its MNEs and the Chinese home economy could benefit from OFDI (Knoerich, 2016).

Inspired by such observations, new theoretical perspectives have emerged to explain the particularities of MNEs from emerging economies. The springboard perspective suggested that MNEs from emerging economies could use OFDI as a "springboard" towards achieving greater competitiveness (Luo & Tung, 2007), while the Linkage, Leverage and Learning, or LLL-approach, argued that they could upgrade their capabilities by engaging in linking, leveraging and learning activities overseas (Mathews, 2006). New theorization and empirical work have thus increasingly focused on the fact that MNEs pursue assets and advantages when they invest abroad (Knoerich, 2019). It has also been argued that the returns yielded from obtaining such assets and advantages can benefit the home economy and its economic development in various ways (Knoerich, 2017). However, both conceptual and empirical work on home country effects is still at an early stage, with a particular shortage of studies considering the implications of OFDI for sustainable development.

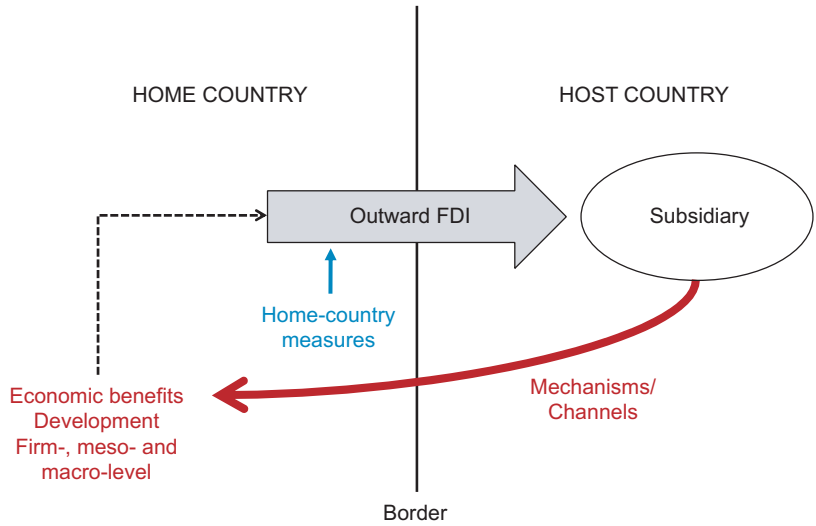
This chapter provides an overview of the mechanisms and channels through which OFDI can have positive effects on home economies. It will bring the development implications from OFDI into particular focus by linking known home country effects with the SDGs. This will be followed by an overview of existing empirical evidence from countries in Asia and the Pacific.

2.2 Identifying home country effects and their links to the SDGs

2.2.1 Different types of home country effects: a conceptual framework

There are several ways to conceptualize how OFDI has effects on economic development in home countries. Figure 5 provides a simple illustration – as companies establish subsidiaries abroad through OFDI and pursue assets and advantages in the process, their activities are yielding returns that are transferred to the home economy through a variety of channels or mechanisms. The result can be a beneficial effect on the development of the home economy, yet unfavourable effects may also exist (Knoerich, 2016, 2017).

Figure 5. Home country effects of OFDI: A simple illustration[3]



Source: Knoerich, 2016

Home country effects go beyond the effects on the MNEs from the home country themselves, such as when they achieve greater competitiveness or technological upgrading from OFDI. Other firms in the home economy – even those without any overseas investments of their own – may also be affected by the international operations of their peers. This may, for example, occur when OFDI by one or a few

[3] Of course, certain host country measures may also affect the extent to which home country effects can occur. For instance, any regulations limiting transfer of technology would consequently affect the extent to which effects can be transferred back to the home economy from OFDI.

MNEs results in a general expansion of business and export opportunities for firms in the home economy supplying these MNEs. Finally, the effect may spread to the entire economy and be visible for example in greater employment, productivity or economic growth (Knoerich, 2017; Perea & Stephenson, 2018). In other words, there are firm-, meso- and macro-level home country effects.

The economic and sustainable development areas affected by OFDI (such as exports, know-how transfer, industrial upgrading, employment and skills, financing, competition, etc.) are similar to those affected by the operations of MNEs in host economies – yet the direction of the effect is reversed (Stephenson, 2017a). What may differ considerably is the strength of the effect, with home country effects being stronger than host country effects in some areas of the economy, but weaker in others. A useful way to categorize home country effects is to differentiate between financial, intangible and tangible returns. Financial returns are monetary gains for investing firms and their business partners in home economies. Intangible returns result from the acquisition and transfer of know-how and capabilities from host to home countries. Finally, tangible returns are generated from the acquisition overseas and transfer back to the home economy of natural resources, capital goods or other tangible assets (Knoerich, 2017). A further distinction can be made between primary effects with an immediate impact and secondary effects that happen as a result of the primary effects. Economic growth could be seen as a tertiary effect, the ultimate outcome of all other effects.

"Home country effects of OFDI can occur at different levels and can be differentiated according to the type of return they deliver"

Given this association between OFDI and economic development and existing findings that FDI and the international operations of MNEs have been conducive to achieving the SDGs (UNCTAD, 2014), it is possible to link the SDGs to various home country effects (Stephenson, 2017b). However, in line with the overall literature on investment and development, the SDGs in their original conceptualization have focused primarily on the development implications of investments made in an economy (thus including inward FDI), rather than OFDI specifically.

Investment is a key part of financing for development which is a means of implementation of the 2030 Agenda for Sustainable Development and is recognized as a vital complement to national development efforts in the Addis Ababa Action Agenda. It has been considered important for the implementation of all SDGs (see figure 6), and critical for the achievement of SDG 17. In particular, SDG target 17.5 proposes that countries "adopt and implement investment promotion regimes for least developed countries". These regimes presumably refer to inward investment, though they could include OFDI in their portfolio of activities to maximize the potential benefits from investment promotion. Thus, it is conceivable that OFDI plays an important role next to inward FDI, though the link between the SDGs and OFDI still requires further specification.

Figure 6. The 17 Sustainable Development Goals

Source: United Nations

Table 3 offers an overview of home country effects from OFDI that have been found to exist, explaining the characteristics of each impact and the mechanisms through which they occur. In total, it lists 10 home country effects plus economic growth as a general consequence of all other effects. The SDGs and their targets applicable to each home country effect are listed in the final column of the table which enables a case for the relationship between OFDI and the SDGs to be established. Each of these effects are discussed in further detail below.

First, successful MNEs enjoy **financial earnings** from profits and revenue generated in their overseas operations, such as market-, efficiency- and resources-seeking investments. While many of these earnings are re-invested in the overseas subsidiaries, substantial proportion tends to be repatriated to home economy headquarters (Knoerich, 2017, 2018). Once in the home economy, these funds become an additional financial resource that is available for domestic investment or other economic purposes. SDG 17.3 encourages the mobilization of "additional financial resources for developing countries from multiple sources". The financial returns from OFDI generated by MNEs abroad could be considered as a complementary source of finance next to the remittances generated by people living abroad.

Second, MNEs can enhance exports from the home economy when their overseas operations are trade-creating in nature (Ahmad, Draz, & Yang, 2016). This is especially the case when they successfully enter foreign markets, including large ones in developed economies, but also when they continue to supply intermediate products to their factories abroad, including those forming part of global value chains located in

Table 3. Potential positive home country effects of OFDI and the applicable SDGs and targets

Home country effect	Foreign pursuit	Channels	Type	Level	Sequence	Applicable SDGs and targets
Increased financial earnings	Profits overseas	Repatriated earnings	Financial	Firm	Primary	17.3 (mobilize additional financial resources)
Higher export earnings and more domestic output	Foreign market access	Export opportunities for home country firms	Financial	Meso	Secondary	17.11 (increase the exports of developing countries), 9.2 (promote inclusive and sustainable industrialization)
Larger domestic investment	Consequence of financial earnings and improved economic conditions		Financial	Macro	Secondary	9.2 (promote inclusive and sustainable industrialization)
Increased know-how, innovation, no. of patents	R&D, direct know-how acquisition and reverse spillovers	Know-how transfer and subsequent domestic spillovers	Intangible	Firm	Primary	9.5/9.B (upgrade the technological capabilities, support domestic technology development), 8.2 (achieve higher levels of economic productivity), 7.A (facilitate access to clean energy research and technology), 12.A (strengthen scientific and technological capacity), 17.16 (mobilize and share knowledge, expertise, technology and financial resources)
Improved standards and practices	Adoption from abroad	Implemented at home	Intangible	Firm	Primary	12.6 (encourage companies to adopt sustainable practices)
Industrial upgrading	Greater competitiveness, efficient use of labour force Consequence of increased know-how, innovation, patents and capital goods	Skills upgrade, international competition	Intangible	Meso	Secondary	9.5/9.B (upgrade the technological capabilities, support domestic technology development), 8.2 (achieve higher levels of economic productivity), 7.B (upgrade technology for supplying modern and sustainable energy services), 12.A (strengthen scientific and technological capacity)

Table 3. *(continued)*

Home country effect	Foreign pursuit	Channels	Type	Level	Sequence	Applicable SDGs and targets
Productivity growth	Consequence of all intangible returns		Intangible	Macro	Secondary	8.2 (achieve higher levels of economic productivity)
Higher resource availability	Acquisition of natural resources	Greater availability or direct transportation to home country	Tangible	Macro	Primary	7 (access to affordable, reliable, sustainable and modern energy), 9.2 (promote inclusive and sustainable industrialization)
Improved tangible assets and products	Acquisition of capital goods, machinery etc.	Installation and use in home country factories or businesses	Tangible	Firm	Primary	9.5/9.B (upgrade the technological capabilities, support domestic technology development)
Higher employment and wages	Consequence of other home country effects		Tangible	Meso	Secondary	8.5 (achieve full and productive employment and decent work)
Economic growth	Consequence of all other home country effects			Macro	Tertiary	8.1 (sustain per capita economic growth in accordance with national circumstances), 1 (end poverty)

other developing countries. Beyond the MNE headquarters experiencing enhanced exports, their suppliers and other firms in the home economy may similarly enjoy associated business opportunities, increasingly exporting to developed economies and supplying global value chains. Accordingly, OFDI has been associated with boosting domestic industrial output and sales (Cozza, Rabellotti, & Sanfilippo, 2015; Herzer, 2008, 2011a). While the initial economic gain is in the form of **export earnings and more domestic output**, in the medium- to long-term large-scale exports and production increases have the potential to facilitate broader industrialization (SDG 9.2). For this reason, finding ways to increase exports is important for developing countries (SDG 17.11).

"OFDI has the potential to generate inward FDI"

Third, these various forms of financial earnings, and the improved economic conditions resulting from these and other home country effects, increase the availability of financial resources for **domestic investment** (Ali et. al., 2019; Herzer & Schrooten, 2008). MNEs with successful overseas businesses are also more able to bear the risks of further investments in their home economy operations. It is also plausible that OFDI might result in more inward FDI, e.g. due to cross-border specialization within value chains and greater regional cooperation. Such investments within the home economy over time promote domestic economic activity and industrialization (SDG 9.2).

"OFDI enables firms to improve their firm-specific capabilities by offering them an opportunity to gain direct access to markets, technology, know-how, and skills overseas"

Fourth, OFDI facilitates access to foreign technological, managerial, marketing and other **know-how** and enables MNEs to engage in innovation and technology development overseas, especially in developed economies. This improves the firm-specific capabilities of MNEs. Through the establishment of R&D centres abroad, MNEs tap into local research clusters and available talent with the aim of generating new knowledge and patents. Another option is to acquire or merge with a foreign company in order to gain direct access to its proprietary knowledge. Although greenfield investments may not aim as much for the acquisition or generation of knowledge, they too can benefit from exposure to foreign know-how and reverse spillover effects in overseas locations, especially in developed economies. Acquired know-how can be used in an MNE's overseas operations and it can be transferred back to the home country, thereby improving the performance of the parent company (Chen, Li, & Shapiro, 2012; Driffield, Love, & Yang, 2014, 2016). The result is an enhancement of scientific and technological capabilities, technology development, upgrading and innovation in developing country firms (SDGs 9.5, 9.B, 8.2, 12.A, 17.16), assisting them in their catch-up processes by complementing other types of know-how transfer that can occur through for instance trade. This can occur in a number of different sectors, including those particularly relevant to sustainability (SDG 7.A).

Fifth, MNEs investing abroad may adopt better managerial, labour, quality, environmental and other **standards and practices** from their overseas investment locations and acquired firms (Knoerich, 2017). Host countries at higher development level in particular typically require investing MNEs to adopt specified environmental, labour, accounting and other standards, possibly inducing some companies to adopt these standards globally. Once these practices and standards are integrated into the MNEs' international and home country operations, various improvements in company operations should follow, from better products and processes to enhanced corporate social conduct and sustainable practices (SDG 12.6).

"OFDI can facilitate both industrial upgrading and productivity gains in home countries"

Sixth, the knowledge-generating efforts connected to OFDI will over time result in broader **industrial upgrading**. Direct acquisition of knowledge by firms from abroad is one avenue that will induce industrial upgrading, with developing country MNEs becoming more innovative and spending more on R&D as a result of their OFDI (Chen & Yang, 2013; Li, Strange, Ning, & Sutherland, 2016). But beyond such direct channels, other types of OFDI may induce domestic economic upgrading for other reasons. Exposure to foreign competition can, for example, induce an increase of the investing firm's international competitiveness vis-à-vis other firms with positive effects on its home country production and business activities. OFDI can shift the labour force composition in the home country towards greater engagement in skill-intensive and higher-end productive activities (Knoerich, 2017). This can occur when efficiency-seeking OFDI moves low-skilled production activities to economies that are less advanced than the home country to save on labour costs and integrate in global value chains. In such circumstances, the home economy may respond by engaging its own labour force in higher-end activities. The result would be more capital- and skill-intensive production, greater "white collar" employment, wage increases and higher worker productivity in the home country (Moran, 2006). Such industrial upgrading from OFDI enhances scientific research, innovation and technological capabilities of industrial sectors in developing countries, including technology development in sectors with particular relevance to sustainability (SDGs 9.5, 9.B, 8.2, 7.B and 12.A).

Seventh, as all the different knowledge-generating efforts and intangible returns from OFDI generate improved technological processes, greater capital intensity in production and other benefits, overall **productivity** of the investing MNEs increases (Cozza et al., 2015; Herzer, 2011b; Huang & Zhang, 2017; Li, Liu, Yuan, & Yu, 2017). Such productivity gains could spread over time, yielding higher levels of economic productivity in a greater number of industrial sectors of the home country (SDG 8.2).

Eighth, MNEs use OFDI to acquire or gain better access to **natural resources** and raw materials in other countries, including oil and gas, metals and agricultural resources. As industrializing and rapidly developing economies generate more energy, construct more buildings, produce more output and consume higher quality food, the price and ease of access to the natural resources and raw materials required for such development processes assume greater importance. The international price of raw

materials is reduced if more MNEs are involved in extracting them globally. Direct involvement in natural resources extraction abroad provides MNEs with more stable and secure access to such resources and the option of transferring them directly back to the home country (Cai, 1999; Deng, 2004; Knoerich, 2016, 2017; Moran, 2010). The overall result is better access to affordable energy resources in the process of development and industrialization (SDGs 7 and 9.2).

Ninth, some MNEs investing abroad acquire and import **tangible assets and products**, such as capital goods, machinery and equipment, intermediary products and brands. When capital goods and machinery are installed in production processes or employed in other economic activities in the home economy, they can enhance domestic production capacities, technological development, productivity and value addition (SDGs 9.5 and 9.B). The use of some foreign intermediary goods in production processes, including those produced by the MNE's own overseas factories, might similarly improve production and lower costs, and better marketing through the use of brands adopted from overseas can enhance firm performance (Knoerich, 2017).

"OFDI can create, preserve and help upgrade employment in home countries"

Tenth, through their various positive contributions to the home economy, all these different types of home country effects have the potential of creating, preserving and upgrading **employment** in the home country (Cozza et al., 2015; Liu, Tsai, & Tsay, 2015). The exact nature of the effect of OFDI on employment differs by type of investment, investment destination (e.g. in a more or less advanced economy than the home country), investment motivation, industrial sector and other factors. What is certain is that various kinds of OFDI contribute to the availability of full, productive and decent work in the home country (SDG 8.5).

Finally, as all the above home country effects contribute to all four components that make up GDP – investment, consumption, export trade and likely also greater government expenditure due to higher tax revenues at home – it can be demonstrated that OFDI can have a positive effect on **economic growth** (Herzer, 2010). This is categorized as a tertiary impact in table 3, given that it is the outcome of OFDI for the home country in the longer term. The generation and maintenance of strong economic growth is important for the growth of per capita income in developing countries and the reduction and elimination of poverty (SDGs 8.1 and SDG 1).

"OFDI can boost economic growth in the home country as it can facilitate investment, consumption, exports and greater government expenditures by generating higher tax revenue"

Table 4 reports findings of studies that have empirically examined home country effects in developing countries of Asia and the Pacific. As can be seen from the table, China by far dominates this literature, with only few studies examining home country effects in India, Malaysia, Singapore and Thailand. Overall evidence for the region therefore remains limited, highlighting the necessity to study other developing

countries beyond China. All studies except one find a positive relationship between OFDI and the examined home country effect. Most studies focus on intangible effects (5 on know-how and 5 on productivity), with others examining domestic investment (2 studies with positive and 1 with negative findings), and exports, employment and economic growth (2 studies each). Not covered are financial earnings, practices and standards, overall industrial upgrading, natural resources, and tangible assets and products. Further research on these areas would be vital to better understand the full spectrum of home country effects.

Table 4. Existing evidence of home country effects in Asia and the Pacific

Country	Home country effect	Description	Source
China	Domestic investment (+)	OFDI complements domestic investment.	Ali et al., 2019
China	Know-how (+)	Chinese acquisitions in developed economies increase the patents of Chinese MNEs at home, regardless of ownership type.	Anderson, Sutherland, & Severe, 2015
China	Economic growth (+)	OFDI from provincial firms and state-owned enterprises has a positive impact on provincial economic growth.	Chen, 2018
China	Productivity (+), employment (+)	China's OFDI into Europe (especially greenfield) has a positive impact on productivity and scales of operation, measured by sales and employment.	Cozza et al., 2015
China	Know-how (+)	OFDI increases innovation performance, contingent on firm characteristics (in-house R&D, strategic orientation, international experience) and contextual factors (investment destinations, industry context).	Fu, Hou, & Liu, 2018
China	Domestic investment (-)	OFDI crowds out domestic investment.	Gondim, Ogasavara, & Masiero, 2018
China	Productivity (+)	OFDI promotes productivity of the parent firm, especially with high absorptive capacity related to product innovation, technology seeking motivation and OFDI in developed economies.	Huang & Zhang, 2017

Table 4. *(continued)*

Country	Home country effect	Description	Source
China	Productivity (+)	The positive productivity effect varies depending on the parent firm and investment strategy – gains are higher for firms that are privately owned, have higher absorptive capacity and invest in OECD countries.	Li et al., 2017
China	Know-how (+)	OFDI has an impact on domestic innovation, contingent on absorptive capacity, foreign presence and the competition intensity of the local market.	Li et al., 2016
China	Employment (+)	OFDI has a positive impact on employment growth, especially in the tertiary industry.	Liu & Lu, 2011
China	Productivity (+), exports (+)	Production-oriented OFDI improves productivity, scale of production and exports.	Yang, 2017
China	Domestic investment (+)	Domestic investment responds positively to OFDI, especially in state-dominated industries.	You & Solomon, 2015
China	Productivity (+)	OFDI improves total factor productivity growth.	Zhao, Liu, & Zhao, 2010
India	Know-how (+)	OFDI by three leading automotive firms has resulted in reverse knowledge transfers.	Mani, 2013
India	Know-how (+)	Positive impact on R&D intensity is stronger for developed host nations and joint ventures.	Pradhan & Singh, 2008
Malaysia	Economic Growth (+)	A positive long-run relationship between OFDI and economic growth.	Chen & Zulkifli, 2012
Malaysia, Philippines, Singapore, Thailand	Exports (+)	Complementary effects of OFDI on exports outweigh any substitution effects.	Ahmad et al., 2016

Source: Author's elaboration.

"+": Positive home country impact; "-": Negative home country impact; "+/-": Impact uncertain

2.2.2 Factors affecting the nature of home country effects

OFDI can therefore have a positive effect on the development of home countries and contribute to achieving the SDGs in a variety of different ways. Yet, the strength of these effects is highly dependent on the context in which OFDI occurs and the characteristics of the investments. One important factor is the characteristics of the host economy in comparison to the home country – for example, investments in more developed economies than the home country have greater potential to yield knowledge and productivity gains (Anderson et al., 2015; Cozza et al., 2015; Fu, Hou, & Liu, 2018; Huang & Zhang, 2017; Li et al., 2017; Pradhan & Singh, 2008), and the larger size of the developed market may result in greater financial returns and exports. OFDI in less developed economies, on the other hand, offers opportunities for financial earnings from low-cost production (Knoerich, 2017). The characteristics of the investing MNE are another factor – more competitive, experienced and larger MNEs may for instance generate greater home country effects, while small- and medium-sized enterprises (SMEs) may face greater challenges when investing abroad due to their smaller size. State-owned enterprises (SOEs) can generate different home country effects than private MNEs, as they tend to be larger and better endowed with financial and other resources (Chen, 2018; Li et al., 2017; You & Solomon, 2015), cluster in key industrial sectors and engage in economic activities that are often of a strategic nature. The industrial sector matters (Fu, Hou, & Liu, 2018; Liu & Lu, 2011) – for example, investments in a knowledge-intensive sector will have an impact on innovation and productivity, while OFDI in natural resources will affect a country's resources security and OFDI in low-cost consumer goods may yield financial returns. Differences between the primary, secondary and tertiary sector are likely.

The nature of the home country effects will also differ by type and motivation of investment. For example, an investment in an R&D centre can give a firm a first mover advantage as well as yield innovation, a sales office will enhance market access that can boost home country exports or an overseas mining concession can secure stable the home country's access to resources. The construction of a factory abroad may result in greater exports and productivity of home-based capacity (Yang, 2017), and cost savings from low-cost production or the circumvention of tariffs. Another aspect is the entry mode of the investment. M&As, for example, are promising for the acquisition of know-how, whereas greenfield OFDI may be a better at generating financial earnings, exports and other benefits (Cozza et al., 2015) on the basis of an already existing strong business. The degree of equity ownership over the foreign subsidiary is another important dimension, with larger equity shares likely to maximize the gains from OFDI. Wholly-owned subsidiaries and joint ventures could facilitate knowledge acquisition (Pradhan & Singh, 2008). Moreover, the time since the investment was made plays a role, with stronger home country effects to be expected with the passing of time. A further important factor is the policy context in home and host economies, especially the ways in which governments regulate, facilitate and promote these investments. This will be examined in greater detail in the next two sections.

"The extent of home country effect of OFDI depends on several variables such as OFDI type, motivation, and mode of entry as well as the absorptive capacity and government policy of the home country"

The empirical results in the literature summarized in table 4 confirm that several of these factors have influenced the strength of home country effects in Asia and the Pacific. Innovation and know-how generation has been found to benefit from greater absorptive capacity and is more likely achieved with OFDI in more developed economies and in acquisitions or joint ventures (Anderson et al., 2015; Fu et al., 2018; Li et al., 2016; Pradhan & Singh, 2008). Productivity likewise is enhanced if investing firms are privately owned, have greater absorptive capacity, seek technologies abroad and invest in developed economies (Huang & Zhang, 2017; Li et al., 2017). One study found that greenfield investments in particular enhance productivity (Cozza et al., 2015), and two studies found the investment strategy to influence the achievement of greater productivity and innovation (Fu et al., 2018; Li et al., 2017). Another study found the effect on employment to be particularly strong in the tertiary industry (Liu & Lu, 2011). Finally, state involvement appeared to strengthen the effect of OFDI on domestic investment and economic growth (Chen, 2018; You & Solomon, 2015).

The studies in table 4 provide some indication on the type of home country effects and influencing factors that matter most to economies in Asia and the Pacific and could be supported through government policies and HCMs. Evidence strongly suggests that know-how enhancement can be achieved through policies aimed at improving absorptive capacities and promoting OFDI directed towards developed economies. Overall, however, the available evidence remains too limited and too focused on China as the home country. MNEs from developing countries smaller than China might experience OFDI differently, for example, the extent to which export generation and know-how acquisition can be achieved without the backing of a huge home market. In sum, more research is needed to ensure that OFDI policies and measures accord with variations in the generation of home country effects that may exist among different types of home countries.

2.2.3 Non-realized and unfavourable effects

Sometimes, home country effects may not be realized at all. This is likely the case when capital outflows are limited or when certain requirements for the realization of specific home country effects are not met. For example, the gains in technology, know-how and industrial upgrading depend on whether developing home countries and their firms have sufficient absorptive and learning capacity. MNEs need to have the actual ability to absorb and utilize foreign know-how (Cohen & Levinthal, 1990), including the ability to transfer know-how from abroad and utilize it in the home country, and the home economy needs to have the appropriate institutional, policy, legal and skills environment (Mowery & Oxley, 1995; World Bank, 2008). The degree of a firm's international experience may also matter. The existence of appropriate transmission channels, such as international financial instruments for the transfer of funds, within-firm arrangements for the transfer of know-how, or pipelines and ships

for the transfer of natural resources and capital goods, will affect the generation of home country effects. Companies abroad need to be available for acquisitions and willing to collaborate in areas such as transferring know-how, which is not always the case (Knoerich, 2017).

Some OFDI might have an outright harmful effect on the home country. As OFDI involves an outflow of capital, it may crowd out domestic investment, especially in the initial stages before investment begins to yield financial earnings. Capital outflows may harm the balance-of-payments and lead to currency depreciation. While these impacts are likely to be limited as the sums involved in OFDI activities tend to be much smaller than other cross-border financial transactions such as international portfolio investments, they could be a problem for some low- and middle-income countries with few financial reserves. OFDI may also facilitate capital flight (Knoerich, 2018). Beyond these financial consequences, some OFDI may shift production and employment overseas (Debaere et al., 2010), reducing exports and other economic activity in the home country and harming tax revenues. Such harmful effects have for instance been empirically identified for exports (Bhasin & Paul, 2016), and domestic investment (Al-Sadiq, 2013; Gondim et al., 2018). Moreover, OFDI may expand manufacturing and production in the home country that degrades the environment and exploits domestic labour. This can happen when MNEs that use overseas subsidiaries to enhance exports into foreign markets seek international competitiveness by producing in the home country with lower environmental and labour standards.

It is possible that OFDI has favourable and unfavourable effects simultaneously, for example benefiting high-skilled labour to the detriment of low-skilled workers or having a limited effect in the short term but a stronger positive effect in the long run. As with trade, OFDI does at times produce winners and losers, but with the support of appropriate policies the positive effects should be greater and should be nurtured. Empirical findings to date appear to confirm this overall picture by producing mostly positive findings on many of the home country effect variables. Yet, some studies have obtained inconclusive or negative results, especially those examining some of the secondary and tertiary effects – domestic investment, productivity, employment and economic growth – where the relationship with OFDI appears particularly challenging to be determined through statistical methods (Perea & Stephenson, 2018). In other areas, such as standards and practices, natural resources and capital goods, empirical work remains limited or is unavailable. Thus, more fine-grained analyses of the various effects are still required, and empirical examinations should be expanded to a wider range of countries with different levels of economic development and varying institutional settings.

Given that the strength of OFDI home country effects can vary as a result of many different factors, governments can play an important role in monitoring and influencing the consequences of OFDI. Policy and regulations can promote the positive effects of OFDI whilst aiming to mitigate any unfavourable effects. For example, governments play a major role in maximizing the absorptive capacity of countries and their firms through appropriate policies on science, education, legal environment and other

dimensions. There is thus an important role for governments to create an environment that is favourable to the realization of positive home country effects.

2.3. The importance of home country effects in developing countries: an empirical estimate

2.3.1 Introduction

Empirical research examining the existence and extent of home country effects of OFDI is still in its infancy, and most of the relevant literature is focused on developed economies or China. As developing countries, including those in Asia and the Pacific, are becoming the source of rising amounts of OFDI, the question arises whether they experience similar impacts as those experienced in developed countries. Especially for governments and policymakers in developing countries, knowing the extent to which their economies are experiencing home country effects would provide important information on the need to nurture them through appropriate HCMs. To evaluate the prevalence of such effects in developing countries, this section quantitatively examines the relationship between OFDI and four measures of home country effects – GDP, exports, inward investment and R&D expenditure. A meaningful addition to previous empirical work offered in this section is the comparison of three different samples – one including both developed and developing countries, and two consisting of only developing countries. This approach enables an assessment of the extent to which developing countries in the second and third samples experience similar home country effects to the full sample that includes developed economies. Three measures were employed to examine OFDI – balance of payments data, data for greenfield investments only and for M&As.

2.3.2 Data and methods

The analysis is based on panel data of all 53 ESCAP member States from 1960 to 2018 (see annex at the end of this study for full list). Table provides the description of the variables used together with their data sources. Balance of payments data for OFDI and inward FDI were obtained from UNCTAD, data on greenfield outward investments were taken from The Financial Times fDi markets database, and outward M&A data was obtained from Refinitiv (Thomson Reuters). All other data were obtained from the World Bank.

The analysis provides estimates for the impact of OFDI on GDP, exports, inward investment and R&D intensity. These four variables were chosen as they represent different kinds of home country effects. The impact on GDP can be conceptualized as the final outcome of the other economic impacts resulting from OFDI. Change in exports is a particularly important home country impact for developing countries, resulting especially from market- and efficiency-seeking OFDI. Inward FDI is one type of investment in the home economy that might be expanded as a result of OFDI, especially when OFDI integrates countries into global value chains and enhances regional cooperation, which is a growing trend especially in ASEAN. Finally, R&D

Table 5. Description of variables

Variable name	Measurement	Source
OFDI	OFDI flows, $ at current prices*	UNCTAD
Greenfield	Sum of all greenfield OFDI by country, $	fDi markets
M&A	Sum of M&A deal size by country, for deals >$ 1 million	Refinitiv
GDP	GDP, current US$	World Bank
Exports	Exports of goods, services and primary income, current $	World Bank
Foreign investment	Foreign direct investment inflows, current $	UNCTAD
Labour force	Total population at working age, 15-64	World Bank
R&D	Research and development expenditure, % of GDP	World Bank
Labour productivity	Labour productivity, GDP/labour force	World Bank
Manufacturing	Manufacturing value added, current $	World Bank
Investment	Net investment in nonfinancial assets, local currency	World Bank

* OFDI was measured with flow data as the analysis sought to determine the impact of current changes in OFDI on the economy. Flow data is also more comparable with the greenfield and M&A data. The results based on OFDI stock are in fact very similar and available upon request.

expenditure is used as an indicator for R&D intensity and innovation that could be expanded as a result of technology- and strategic asset-seeking OFDI.

The effects of OFDI on economic outcomes was examined by employing the following model:

$$Y_{it+1} = \beta_0 + \beta_1 OFDI_{it} + \gamma' X_{it} + \varepsilon_{it} \quad (1)$$

where, i and t index countries and time periods, respectively. The dependent variable Y denotes the examined home country effect (GDP, exports, inward investment or R&D intensity). OFDI is the variable of interest, and X is a vector of covariates hypothesized to have an effect on countries' economic outcomes including GDP, exports, inward investment and R&D expenditure (when these are not the dependent variable), plus manufacturing value added and domestic investment. Some of these covariates were adopted from previous empirical literature on home country effects (Ahmad et al., 2016; Herzer, 2010). All regressions examine the effect of OFDI in the following year. This one-year time lag controlled for endogeneity issues and took into consideration the time it takes for an effect of OFDI to be realized in the home country.[4]

[4] Additional tests on the impact of OFDI after a two-year time lag resulted in a slightly increasing impact on GDP and R&D expenditure, and a minor diminishing impact on exports and inward investment from year 1 to year 2.

Issues that could potentially arise in cross-country panel data, such as multicollinearity or endogeneity, were addressed by examining different models as a robustness check based on the same year data information. These included pooled ordinary least squares (OLS), random effects, fixed effects and generalized least squares (GLS) models for each regression. The results were consistent across all four models.[5] Following further checks for multicollinearity and underlying endogeneity, F-, Breusch-Pagan and Hausman tests to find a preferable model in order to get robust estimations, and modified Wald and Wooldridge tests to test for heteroskedasticity and serial correlation, the GLS model was chosen as the preferred approach to obtain the most reliable estimations. The GLS method is preferred because it addresses the efficiency problems that result from the failure of the classical assumptions, which is a common issue in cross country studies. All results are therefore presented as GLS regressions. Running separate regressions for sub-samples of developing countries and ASEAN member States was another way to control for heterogeneity issues between countries.

2.3.3 Results and findings

The analysis distinguishes by entry mode, employing as dependent variables total OFDI using balance of payments data, total greenfield OFDI from the fDi markets database and the sum of the size of all outward M&A deals above $1 million from the Refinitiv database. Three samples were examined separately to allow for an assessment of the extent to which OFDI provides home country effects in developing countries. The first sample consists of all ESCAP member States, including developed economies; the second sample includes only member States that are developing countries; and a third sample has just the ASEAN member States.

Table 6 presents the findings on the effect of OFDI on GDP. Overall, OFDI is found to have a positive effect on GDP across most regressions, confirming previous literature findings identifying such an impact (Chen, 2018; Chen & Zulkifli, 2012; Herzer, 2008, 2010). The effect is strongest and unequivocal for total OFDI. For the sample of all countries, including both developed and developing countries, every dollar spent on OFDI could increase GDP by $3.365, keeping all other variables the same, and the effect increases to $8.638 in developing countries. The increase is however only $1.29 in ASEAN member States. For greenfield OFDI, the effect on GDP is positive for developing countries and especially ASEAN member States, and slightly negative for the full sample. It appears that greenfield investments in other countries benefit ASEAN member States the most, with every dollar invested in establishing a business in a foreign country bringing back $2.977 return in GDP, ceteris paribus. Greenfield investments seem to be less beneficial for developed economies, possibly because the negative effects of offshoring are more prominent there. On the contrary, M&As have a positive effect on GDP for the full sample, and a negative effect in developing countries. This may be the case because developed economies acquire and integrate

[5] See table 10 at the end of this chapter for further information.

Table 6. Effect of OFDI on GDP

Variables	Total OFDI			Greenfield investment			M&A		
	All countries	Developing countries	ASEAN member States	All countries	Developing countries	ASEAN member States	All countries	Developing countries	ASEAN member States
OFDI	3.365***	8.638***	1.290*	-0.000960**	0.000396***	2.977***	1.908**	-12.27***	-0.255
	(3.105)	(4.145)	(1.841)	(2.163)	(7.528)	(2.865)	(2.043)	(4.328)	(0.472)
Exports	0.502***	0.882***	0.1	0.889***	1.561***	0.0143	0.570***	1.804***	0.133**
	(3.986)	(6.405)	(1.459)	(7.248)	(8.727)	(0.229)	(4.554)	(7.953)	(2.083)
Foreign investment	8.500***	0.308	-0.23	10.21***	0.567	0.517	9.968***	1.774	0.315
	(7.211)	(0.514)	(0.407)	(6.957)	(0.432)	(1.136)	(7.508)	(0.831)	(0.609)
Manufacturing	4.239***	1.831***	3.054***	4.048***	1.674***	3.127***	4.348***	1.739***	3.110***
	(25.28)	(15.17)	(11.46)	(18.73)	(8.425)	(12.46)	(25.9)	(7.195)	(11.37)
Investment	-0.000643	0.00148***	0.00143***	-0.000297	0.00106***	0.00166***	-0.0009	0.000722***	0.00149***
	(1.127)	(2.621)	(6.286)	(0.492)	(4.83)	(6.72)	(1.354)	(3.232)	(6.736)
Labour productivity	-467.7**	453.9***	213.2	-	-	-67.76	-545.9*	407.9***	8.994
	(2.181)	(11.9)	(0.693)			(0.228)	(1.867)	(8.378)	(0.0314)
Observations	318	160	65	209	103	46	263	105	63

Note: z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

foreign firms into their operations, whereas developing countries tend to integrate them with greater caution or not at all (Knoerich, 2010). Developed economies have greater international experience and absorptive capacity, which will be important in making M&As and associated exchanges of know-how a success.

The effect of OFDI on exports is shown in table 7. The effect is positive across all the regressions, except for greenfield investments from developing countries, which shows a small negative effect. Both total OFDI and greenfield investments have large positive coefficients and are statistically significant for ASEAN member States only. Every dollar invested in OFDI by ASEAN member States could increase export value by $8.306, and if the investment is greenfield, the export value could even increase by $9.263. This suggests that OFDI from ASEAN promotes home country exports. This makes sense considering that OFDI from ASEAN often seeks to integrate into regional value chains and forms part of wider subregional efforts to enhance regional cooperation within ASEAN. M&As promote exports in all three samples, including in developing and in ASEAN member States. A one dollar increase in outward M&As increases exports by $4.743 for the full sample, $5.133 for developing countries only and $5.529 for ASEAN member States. The positive effect of OFDI on exports confirms the findings of previous studies (Ahmad et al., 2016; Chédor, Mucchielli, & Soubaya, 2002; Lipsey & Ramstetter, 2003).

Table 8 presents the effect of OFDI on attracting inward FDI to the home country. The results tend to be more mixed. Total OFDI, greenfield investments and M&As only have a positive and statistically significant association with OFDI for ASEAN member States. This might suggest that OFDI can result in greater inward investments when economies become regionally integrated and assume complementary stages in global value chains, as is the case in ASEAN. The coefficients in all other regressions are insignificant, except for greenfield investment from developing countries, which is negative and strongly statistically significant. It appears that developing countries cannot expect their greenfield investments overseas to result in greater inflows of productive capital, unless they are strongly internationally or regionally integrated.

"Greenfield OFDI of ASEAN member States will almost triple their return to home GDP and increase their export value nine-fold"

Finally, the effect of OFDI on R&D expenditure, a proxy for R&D intensity and innovation, is examined in table 9. Most coefficients are positive and a majority statistically significant, indicating that OFDI leads to higher R&D expenditure and, by extension, greater levels of innovation in the home economy. This corresponds to previous literature findings identifying positive effects of OFDI on various measures of innovation and knowledge development in the home country (Anderson, Sutherland, & Severe, 2015; Fu, Hou, & Liu, 2018; Li et al., 2016; Mani, 2013; Pradhan & Singh, 2008). Total OFDI has an overall positive effect on R&D expenditure, which is particularly strong for the developing country sample. Every $1 billion of investment from developing countries overseas could increase R&D expenditure as a percentage of GDP by 0.00725%, which is small but statistically significant. In ASEAN, the increase is even 0.019% percent. This corresponds to the technology- and strategic-

Table 7. Effect of OFDI on exports

Variables	Total OFDI			Greenfield investment			M&A		
	All countries	Developing countries	ASEAN member States	All countries	Developing countries	ASEAN member States	All countries	Developing countries	ASEAN member States
OFDI	5.259***	3.916***	8.306***	0.000112	-0.000166***	9.263***	4.743***	5.133***	5.529***
	(13.82)	(7.783)	(12.61)	(1.403)	(7.818)	(4.366)	(13.7)	(10.13)	(5.79)
Manufacturing	0.921***	0.0746	-0.409	1.000***	-0.0856	-3.010***	1.055***	-0.0037	-3.137***
	(9.119)	(1.343)	(0.629)	(8.72)	(1.418)	(3.162)	(10.2)	(0.0577)	(3.310)
Investment	0.000627	0.000205**	-0.00179***	-0.0000567	-0.000188	-0.00220***	0.000246	0.0000441	-0.00285***
	(1.519)	(2.478)	(5.812)	(0.109)	(1.420)	(3.695)	(0.769)	(0.37)	(5.162)
Labour productivity	120.0**	-79.55***	-694.8***	-	-	-1,838***	47.79	-122.9***	-1,684***
	(2.442)	(5.310)	(2.619)			(3.653)	(1.001)	(7.445)	(4.642)
GDP	-0.027	0.181***	0.776***	0.0699***	0.285***	1.617***	-0.0147	0.231***	1.725***
	(1.547)	(8.896)	(4.502)	(4.149)	(14.67)	(5.554)	(0.833)	(10.81)	(6.556)
Observations	330	167	65	215	103	46	268	105	63

Note: z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.

Table 8. Effect of OFDI on inward FDI

Variables	Total OFDI			Greenfield investment			M&As		
	All countries	Developing countries	ASEAN member States	All countries	Developing countries	ASEAN member States	All countries	Developing countries	ASEAN member States
OFDI	0.0564	0.0757	0.790***	-0.00000708	-1.96e-05***	0.719**	0.0375	-0.00897	0.465***
	(1.397)	(0.93)	(4.703)	(0.686)	(5.713)	(2.26)	(0.965)	(0.160)	(2.974)
Manufacturing	-0.0305***	0.00865	0.149	-0.0228**	0.00506	-0.306**	-0.0307***	0.00772	-0.131
	(-3.156)	(0.927)	(1.241)	(2.012)	(0.479)	(2.113)	(2.650)	(0.784)	(0.968)
Investment	0.00000511	0.0000136	0.0000479	-0.00000551	0.0000123	-0.000119	-0.000029	-0.00000616	-0.0000544
	(0.377)	(1.436)	(0.768)	(0.347)	(1.15)	(1.404)	(0.622)	(0.117)	(0.723)
Labour productivity	-9.208	-16.58***	68.27	-	-	-94.4	-12.01**	-18.31***	-13.41
	(1.634)	(6.665)	(1.491)			(1.289)	(2.133)	(6.900)	(0.253)
R&D	-3.063e+09***	5.575e+09***	5.387e+09***	-3.862e+09***	5.849e+09***	0	-3.697e+09***	6.929e+09***	6.944e+09***
	(5.837)	(5.375)	(2.581)	(5.591)	(5.593)		(5.234)	(8.518)	(3.417)
GDP	0.0159***	0.00906***	-0.0463	0.0156***	0.0113***	0.113***	0.0163***	0.0102***	0.0462
	(7.941)	(2.925)	(1.302)	(8.852)	(3.319)	(2.583)	(7.372)	(3.314)	(1.188)
Constant	3.983e+09***	-23630000	0	5.742e+09***	-198200000	0	5.456e+09***	-246500000	0
	(7.58)	(0.0913)		(7.405)	(0.664)		(6.884)	(0.973)	
Observations	326	167	65	216	109	46	263	104	63

Note: z-statistics in parentheses; *** p<0.01, ** p<0.05, * p.

Table 9. Effect of OFDI on R&D expenditure

Variables	Total OFDI			Greenfield investment			M&A		
	All countries	Developing countries	ASEAN member States	All countries	Developing countries	ASEAN member States	All countries	Developing countries	ASEAN member States
OFDI	1.52e-12*	7.25e-12***	1.90e-11***	-5.96e-16***	8.63e-16***	6.32E-12	1.57e-12 **	3.16E-12	-2.41E-12
	(1.825)	(2.594)	(2.674)	(2.585)	(14.49)	(0.734)	(2.389)	(1.041)	(0.403)
Exports	1.65e-12***	8.68e-13***	2.52e-12***	0***	9.44e-13**	1.84e-12**	8.90e-13***	6.98e-13*	2.83e-12***
	(10.88)	(2.657)	(2.838)	(15.21)	(2.507)	(2.089)	(7.566)	(1.784)	(3.331)
Foreign investment	-6.51e-12***	9.64e-12***	-1E-11	-6.65e-12***	1.48e-11***	1.17E-12	-6.34e-12***	1.40e-11***	-1.31E-12
	(5.781)	(4.455)	(1.607)	(5.738)	(8.842)	(0.221)	(6.410)	(4.721)	(0.226)
Investment	3.16e-14***	-2.19e-15***	1.83e-14***	1.96e-14**	-2.53e-15***	2.02e-14***	1.99e-14**	-3.43e-15**	2.07e-14***
	(3.274)	(9.152)	(4.818)	(2.191)	(15.42)	(4.483)	(2.488)	(2.475)	(5.172)
Labour productivity	-3.30e-10**	8.72e-10***	-1.62e-08***	-	-	-2.03e-08***	-9.38e-10***	7.15e-10***	-1.82e-08***
	(2.078)	(16.22)	(4.420)			(4.335)	(7.863)	(7.197)	(5.316)
GDP	-2.5E-14	-3.38e-13***	-1.23e-12*	-7.06e-14**	-3.21e-13***	-8E-13	7.02e-14***	-2.58e-13**	-1.18e-12*
	(0.776)	(3.813)	(1.693)	(2.214)	(3.259)	(1.089)	(2.604)	(2.294)	(1.703)
Constant	0.654***	0.230***	0.944***	0.633***	0.247***	1.172***	1.139***	0.322***	1.049***
	(16.16)	(26.24)	(6.839)	(15.19)	(20.09)	(5.841)	(70.63)	(8.233)	(7.553)
Observations	318	165	61	215	108	45	258	105	60

Note: z-statistics in parentheses; *** p<0.01, ** p<0.05, * p.

asset seeking motivation of OFDI as well as the possibility that increased offshoring induces upgrading of domestic economies through greater investment in R&D. The effect of M&As is positive in the full sample, suggesting that such deals might induce R&D intensity at home, in line with the objective of strategic asset-seeking. Greenfield investment from developing countries also has a strong positive and statistically significant relationship with R&D expenditure, suggesting that offshoring of productive activities might indeed induce countries to invest in industrial upgrading, and competition in developed markets might also motivate greater investment in innovative activities. Yet, the full sample shows a negative effect for greenfield investments. Greenfield OFDI from developed economies may not raise R&D expenditure as much, possibly as their MNEs might be more likely to offshore R&D activities to other countries together with their investments.

2.3.4 Conclusions

The findings of this quantitative analysis confirm that home country effects do occur, but that their prevalence and strength are dependent on the specific type of home country effect and the context and circumstances of the investment. OFDI has a positive effect on GDP and exports, in most circumstances a positive effect on R&D expenditure and occasionally results in greater inward FDI. Particularly interesting is the extent to which deeper regional integration within developing countries may influence the positive effects of OFDI on home economies, as suggested by the results for ASEAN member States. This suggests that as efforts continue to increase the breadth and scope of regional economic cooperation and integration across Asia and the Pacific, and as intraregional investment flows continue to make up a large portion of total FDI flows within Asia and the Pacific region, more positive OFDI home country effects may occur. Many covariates in the regressions turned out to be effective predictors of the dependent variables, which indicates that the choice of model was appropriate. Similar findings are likely to be found for other variables representing home country effects that were not measured here, due to data limitations.

It is possible to be confident about the findings as three sets of very different data were employed in the regressions (balance of payments, greenfield investments and M&As). Overall, the effects of total OFDI and M&As on the home country variables was stronger than that of greenfield investments. One might interpret this finding as an indication that M&As have a more direct, immediate effect on the home economy. There might be a need to examine the effect of greenfield investments over a longer period than a one-year time lag.

Another interesting discovery was that the home country effects were not necessarily more pronounced for the full sample which included ESCAP member States with developed economies. The full sample turned out strong results for the effect of total OFDI and M&As on GDP and exports, but for some other home country effects the results for developing countries and sometimes even ASEAN on its own were equally positive. This suggests that home country effects are emerging in developing

countries in parallel with the expansion of their OFDI. For governments and policymakers in developing countries in Asia and the Pacific and beyond, there is therefore a need to consider what kind of policies and HCMs can nurture such effects, so that developing countries maximize the benefits from OFDI for their economic development.

Table 10. Regression results of OFDI on GDP, exports and IFDI

VARIABLES	GDP				Exports				Inward FDI			
	OLS	Random	Fixed	GLS	OLS	Random	Fixed	GLS	OLS	Random	Fixed	GLS
OFDI	6.172***	0.538	-0.535	2.678***	2.227***	1.202***	0.818***	5.474***	0.200***	0.156***	0.134***	0.0932**
	(4.705)	(0.751)	(1.190)	(2.799)	(7.875)	(5.514)	(5.036)	(5.010)	(4.121)	(3.574)	(3.05)	(2.153)
Exports	1.226***	2.133***	1.651***	0.631***								
	(5.047)	(13.88)	(13.52)	(5.6)								
Foreign investment	10.18***	2.934***	0.491	9.751***								
	(7.325)	(3.326)	(0.858)	(8.77)								
Manufacturing	3.747***	3.402***	6.520***	4.111***	0.11	0.00983	-0.154	0.968***	-0.0501***	-0.0265*	0.0901	-0.0377***
	(18.35)	(14.13)	(15.96)	(33.15)	(1.609)	(0.122)	(0.688)	(10.06)	(4.600)	(1.838)	(1.578)	(3.511)
Investment	-0.000332	-0.000537	-0.00363	-0.000841	-0.000642	0.0000635	-0.00047	0.000657	-2.48E-05	-5.24E-06	-4.05E-06	0.0000143
	(0.0974)	(0.188)	(1.045)	(1.428)	(0.777)	(0.0801)	(0.336)	(1.564)	(0.340)	(0.0624)	(0.0306)	(1.155)
Labour productivity	-1,073***	-2,944***	-1474	-377.8**	110.7	242.1*	-97.79	173.0***	4.086	-1.283	-159.2	-10.52*
	(3.295)	(5.656)	(1.372)	(2.064)	(1.385)	(1.89)	(0.227)	(3.394)	(0.319)	(0.0575)	(1.445)	(1.899)
R&D					1.033e+11***	1.025e+11***	1.916e+11***	0	-6.354e+09***	-5.47E+09	-6.62E+09	-3.358e+09***
					(7.411)	(5.31)	(6.639)		(2.834)	(1.588)	(0.914)	(5.595)
GDP					0.0914***	0.152***	0.246***	-0.0317*	0.0190***	0.0171***	0.0105**	0.0181***
					(8.163)	(12.5)	(13.32)	(1.935)	(10.38)	(7.653)	(2.231)	(8.533)
Constant	-1.31E+10	2.344e+11**	1.276E+11	0	3.781e+10*	-1.41E+10	-2.180e+11***	0	7.408e+09**	5.122E+09	-1.61E+08	3.776e+09***
	(0.148)	(2.137)	(1.032)		(1.824)	(0.508)	(4.665)		(2.197)	(1.046)	(0.0135)	(6.833)
Observations	318	318	318	318	330	330	330	330	326	326	326	326

Note: t and z-statistics in parentheses; *** p<0.01, ** p<0.05, * p.

Chapter 3

Home Country Measures to Support Outward Foreign Direct Investment

3.1 Introduction

As rising OFDI flows can generate the home country effects outlined in the previous chapter and contribute to economic development in home countries, governments are increasingly recognizing that they must appropriately manage growing levels of OFDI flows and the resulting home country effects, in particular with a view towards achieving the SDGs. With appropriate policies and institutions to regulate, promote, facilitate and support OFDI, governments can leverage OFDI for economic development and seek to maximize the positive developmental outcomes for the home country. Unfortunately, while the role of governments in managing inward investment has been widely covered and documented in the literature, the corresponding research and analysis for OFDI is very limited. A notable exception is Sauvant et al.'s overview of OFDI institutions, policies and HCMs in the top 10 developed and emerging economies by OFDI flows. Their study documented a wide variety of institutions, services, financial and fiscal measures, insurances and treaties relevant to OFDI that have been found in the examined countries (Sauvant et al., 2014).

Sauvant et al. find that the use of HCMs has a long tradition in developed economies, in parallel with decades of growing capital outflows and the internationalization of developed economy firms. But in developing economies, OFDI has faced many restrictions, and the use of HCMs to support and facilitate OFDI has been rare. Only recently have some governments in these economies adopted more wide-ranging HCMs in response to growing OFDI flows and after recognizing their potential to support the home economy. Beyond a few leading developing economies, however, the active use of HCMs to promote OFDI remains limited in developing countries (Sauvant et al., 2014).

An equivalent picture presents itself in Asia and the Pacific. Apart from Japan, which has adopted a considerable number of HCMs, available evidence from developing countries in the region suggests their use beyond OFDI restrictions has been rather sporadic. China is an exception, being the first developing country in which HCMs have been widely adopted. In the 2000s, the Government introduced a broad range of HCMs with the aim of supporting OFDI that would yield home country effects (Knoerich, 2016). In addition, the existence of HCMs has been documented in India, Malaysia, the Russian Federation and Singapore. Singapore was the first smaller country in Asia to introduce a wide range of HCMs, quite similar to those used in China. But beyond these larger and relatively developed economies in the region,

there is hardly any evidence in the literature that HCMs beyond restrictions exist in other countries.

For governments in developing countries, the particular challenge is how to make OFDI form part of their broader development strategy, complementing other development policies in areas such as inward FDI, trade and migration (Knoerich, 2016, 2017; Sauvant et al., 2014; Stephenson & Perea, 2018). While some HCMs will have wide applicability in many economies, country-specific strategies to maximize developmental outcomes may at times be necessary to address particular characteristics of home economies, national companies and domestic institutions (Kuźmińska-Haberla, 2012). As with inward FDI, the potential contributions of OFDI to sustainable development of home countries in Asia and the Pacific can be better realized if the right conditions and policies are in place. This includes having the right quantity and quality of OFDI, with investment projects in the sectors relevant to home country development. The development and operationalization of OFDI policies and regulatory frameworks can help realize the full sustainable development potential of OFDI in economies of Asia and the Pacific.

This chapter provides a systematic overview of existing HCMs, considering their impact on a country's OFDI and the generation of home country effects, and provides a brief discussion of HCMs in Asia and the Pacific.

3.2 Different types of home country measures

The definition of home country measures has varied from study to study. For the purpose of the present analysis, a broad definition will be applied to incorporate a wide variety of policies, measures and regulations within the scope of the term. Based on a definition that emerged from an UNCTAD expert meeting on HCMs in November 2000 (UNCTAD, 2001), the following definition shall be applied: "HCMs are all policies, regulations, measures and institutional adjustments implemented by the home countries of firms that choose to invest abroad in order to manage and encourage OFDI flows to other countries." Contrary to previous definitions, this includes assigning responsibilities to deal with OFDI to relevant institutions. Table 11 provides an overview of HCMs. Its aim is not to be comprehensive, but rather to offer a snapshot of all common options that have been identified to date. The measures and categories may evolve over time, especially as new ones are identified, or policy innovations occur. The following paragraphs discuss each category in further detail.

"There is a variety of home country measures that can be taken to promote and guide OFDI and reap the benefits for home country sustainable development"

The first consideration is the assignment of responsibilities for OFDI and the management of all the HCMs listed in table 11 to relevant institutions. Government departments and ministries, such as Ministries of Economic Affairs, Ministries of Commerce, Ministries of Economy, Trade and Industry and others, often deal with matters of broader economic policy, law, finance and international treaty negotiations

relevant to OFDI. In China, for example, the Ministry of Commerce, the People's Bank of China, the State Council, the National Development and Reform Commission (NDRC) and others have responsibilities related to dealing with aspects relevant to OFDI (Luo, Xue, & Han, 2010). Specific investment promotion tends to be managed by investment promotion agencies (IPAs), though many of these have focused on inward investment, needing adjustments to additionally assume responsibility for OFDI.

Trade promotion agencies fulfil similar functions. In Singapore, for example, the main agencies involved in promoting OFDI are the Economic Development Board (EDB) and Enterprise Singapore. Originally Singapore's IPA for inward investment, the EDB has since 1993 assumed some functions related to the promotion of OFDI (UNCTAD, 2006, p. 214). Enterprise Singapore, which has been involved in many aspects of OFDI promotion (Sauvant et al., 2014), is a government agency under the Ministry of Trade and Industry that merged in 2017 from two separate entities – International Enterprise Singapore and the Standards, Productivity and Innovation Board. Moreover, export credit agencies and development finance institutions can support OFDI through the provision of tailored financial services such as loans and insurance. While created for reasons other than OFDI, special purpose institutions can be involved in activities beneficial to OFDI, such as when they establish modalities for international cooperation. Sometimes, private organizations can get involved if the government outsources some of its responsibilities to them. Finally, an institution or committee could be put in place to coordinate all activities relevant to OFDI undertaken by these various institutions. In an extreme case, this could be a "one-stop shop" for OFDI services. Overall, the institutional setup varies from country to country.

Governments may find it necessary to implement regulations on OFDI. One aim of such regulations is to assure that OFDI does not harm the home economy, thereby preventing the emergence of unfavourable home country effects. Common especially in developing countries are restrictions on OFDI, often in the form of requirements for governmental approval of investment projects and various types of foreign exchange control, such as limiting access to foreign exchange or requiring the repatriation of investment earnings (Kuźmińska-Haberla, 2012). This is an opportunity to prevent capital flight and to screen investments on the anticipated home country effects. Many developing countries have loosened such restrictions over time. For example, India has been liberalizing OFDI since the 1990s, reducing restrictions and broadening the range of supportive HCMs (Sauvant et al., 2014). The Russian Federation has generally allowed OFDI, with some restrictions in individual cases (Perea & Stephenson, 2018), while China has simplified its approval procedures and eased foreign exchange restrictions over time.

Governments can also regulate the activities of enterprises overseas after they have made their investments. Some stipulate requirements for corporate conduct overseas, including adherence to principles of responsible business conduct (RBC) or corporate social responsibility (CSR) on environmental sustainability, protection of labour rights, treatment of local communities affected by an investment, etc. Governments may

Table 11. Home country measures

Category	Measure	Sub-category	Applicability/ Eligibility	Desired impact
Institutions	Government departments and ministries Investment and trade promotion agencies (central and local, at home and abroad) Export credit agencies (e.g. export-import banks) Development finance institutions Special purpose institutions Business associations Private organizations (when fulfilling governmental mandates) Coordinating institution or mechanism		Responsibility for all OFDI or specific type of OFDI or company	Responsibility for all home country effects or specific effects
Regulations	Restrictions	Investment approval Foreign exchange controls	All OFDI, or preference for specific type of OFDI, e.g. in terms of investment motivation, strategy, entry mode, destination and size, or specific type of company, e.g. by size, ownership, nationality, and business experience,	Primarily to prevent negative effects
	Requirements	Requirements for corporate conduct overseas Reporting requirements Monitoring of OFDI projects		
Services	Information support	Provision of information on host countries Provision of information on OFDI Provision of information on HCMs		All home country effects, or particularly targeted at specific effects, e.g. financial earnings, export/output earnings,
	Investment missions Matchmaking services	Connecting with governments/business overseas Maintaining business matchmaking databases		

Table 11. *(continued)*

Category	Measure	Sub-category	Applicability/ Eligibility	Desired impact
	Education and training In-depth consultancy and advice		plus sector and other relevant criteria, including targeting OFDI that would otherwise not occur or where the realization of home country effects is evident	domestic investment, know-how, standards and practices, industrial upgrading, productivity, resources capacities, tangible assets and products, employment, economic growth
Financial support	Grants	Pre-investment feasibility studies and research Establishment of overseas offices Training and human capital development Consultancy fees Work placements (for training purposes)		
	Loans	Concessional loans Non-concessional loans Structured financing options Risk-sharing arrangement		
	Financial guarantees Equity participation			
Fiscal support	Tax exemptions	Exemption from corporate income tax Tax deductions		
	Corporate tax relief Tax deferral (for overseas income) Tax credits Allowances for qualifying activities			
Investment insurance	Political risk insurance			

Table 11. *(continued)*

Category	Measure	Sub-category	Applicability/ Eligibility	Desired impact
Treaties	Investment agreements	Bilateral and plurilateral treaty negotiation Membership in dispute resolution institutions Negotiating reduction in barriers to entry		
	Double taxation treaties			
Operational support	Policy-related support overseas	Support with establishment in host country Political and diplomatic backing Policy coordination with host governments		
	Mobilize domestic support	Inter-firm collaboration on OFDI Encourage OFDI financing by banks		
	Mobilize auxiliary services overseas	Mobilising OFDI-associated service providers Establish centres or parks in host country		
Maximizing benefits	Enhancing home country prerequisites	Measures to boost absorptive capacity Measures to promote competitiveness Promoting domestic inter-firm linkages		
	Improving transfer channels Encouraging generation of effects			
Monitoring & evaluation	Feedback mechanisms			

Source: Author's elaboration, based mostly on Sauvant et al., 2014, and on Stephenson & Perea, 2018 and Kuźmińska-Haberla, 2012 (for restrictions).

decide to monitor OFDI projects or require firms investing overseas to report back to them, to ascertain whether investments meet RBC/CSR and other requirements and are in the national interest. Such requirements are an opportunity for governments to gather information on the developmental outcomes of OFDI projects for host countries. China, for instance, has a system to monitor the overseas operation of Chinese firms and increasingly requires adherence to codes of conduct on RBC/CSR. India requires some companies to submit annual performance reports on their investments (Perea & Stephenson, 2018). Overall, such regulations tend to make undertaking overseas investments more bureaucratic for firms, with restrictions normally having the effect of reducing OFDI flows.

The first set of supportive measures a government can provide is the provision of various **services** related to OFDI. These include offering information on the investment environment in other countries, on approaches to undertake OFDI in these countries and on the government's HCMs affecting overseas investments. Beyond the mere provision of information, governments can organize investment missions to host countries aimed at exploring investment conditions there. Matchmaking services can help establish networks between home country firms and governments or businesses overseas. This can be done either direct and in person, or by maintaining a database of such contacts and making it accessible to investors. Cooperation between IPAs in home and host countries can facilitate such investment missions and matchmaking services. Finally, governments can provide various education and training services on issues relevant to investing abroad and managing a subsidiary in a different country. Some government institutions may even get more involved in the strategic planning of firms for their overseas investments by providing direct consultancy services and business advice to firms. The Governments of China, India, Russian Federation and Singapore have all offered a selection of these services to companies investing abroad, including information services and overseas missions (Sauvant et al., 2014). When providing this information and concrete investment advice, governments have an opportunity to raise development concerns with investors and encourage them to consider home country effects when developing their investment plans.

Many governments offer **financial support** for OFDI projects. A first type of funding are grants offered for comparatively smaller investment-related activities, such as feasibility studies and market research, the establishment of initial overseas offices before deciding on the full implementation of an investment project and the organization of staff and manager trainings. Grants also fund consultancy fees and work placements of staff for training purposes (e.g. in overseas subsidiaries). Loans offered to MNEs to fund their investment projects tend to be larger financial commitments. These can be concessional loans offered by the government at lower rates and better terms than available on financial markets (e.g. with longer grace periods). Non-concessional loans in turn offer no preferential terms but may be more accessible to some investors who experience limited access to capital from financial markets, such as SMEs. Loans can be provided in various forms of structured financing which could, for example, link repayment to investment success or allow loans to be convertible into shares. Governments have the option to share the risk of

providing loans for OFDI with private financial institutions or international organizations. A further category of financial measure is for governments to offer financial guarantees to private lenders on the repayment of loans they provide for specific OFDI projects. This reduces the risk to private lenders, enabling them to make more capital available to fund outward investments. A final type of financial support is direct equity participation by the government in the foreign subsidiary established by an investment. These arrangements tend to involve minority stakes in foreign affiliates and may include exit options such as allowing the re-purchase by the company of shares owned by the government (Sauvant et al., 2014). Loans and other forms of financial support have, for instance, been offered by the Singaporean EDB and Enterprise Singapore, and the Export-Import (EXIM) Banks of China, India, Malaysia and Thailand (Sauvant et al., 2014; UNCTAD, 2006). Financial HCMs offer governments an opportunity to financially support investment activities that yield positive home country effects.

Another option is to offer **fiscal support** for OFDI. This is a complex legal area as the support offered depends on the tax systems involved, in particular whether the home country taxes its companies and foreign affiliates worldwide or just in its own territory. Fiscal support can take the form of exemptions from certain components of corporate income tax or may be a deduction of tax. Governments may also relieve certain types of companies at specified stages of an investment from corporate tax or allow MNEs to defer tax payments on overseas income. It is possible to offer tax credit on certain types of investment-related expenditures or to make allowances for certain qualifying activities related to an investment. Tax exemptions and other forms of fiscal support have been offered by China (by the State Administration of Taxation), Malaysia, the Russian Federation (regulated by the Ministry of Finance) and Singapore (Sauvant et al., 2014). Fiscal HCMs offer governments an opportunity to support investment activities that yield positive home country effects, especially in investment phases that are critical to the success of an investment.

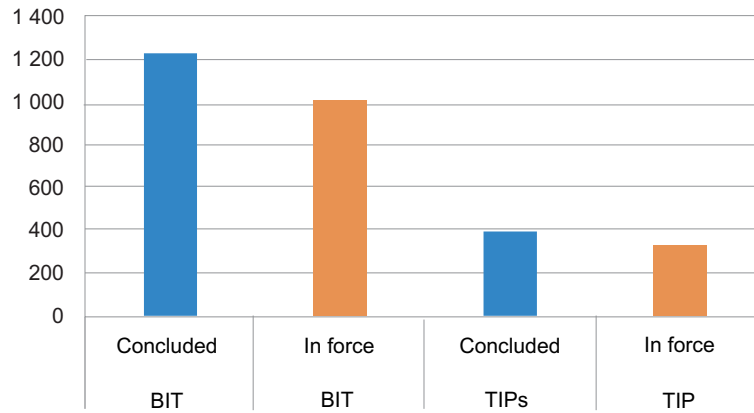
Given the political risk involved when making investments abroad, especially in sectors involving large-scale investments such as in natural resources, MNEs sometimes seek to reduce their exposure to such risks by purchasing **investment insurance**. Such political risk insurance can be provided by a public institution, often the home country's export credit agency such as Sinosure in China, the Export Credit Guarantee Corporation of India Ltd., the EXIM Bank of Malaysia and the Russian Agency for Export Credit and Investment Insurance (EXIAR). Enterprise Singapore has coordinated the provision of political risk insurance by brokers and insurances registered in the country (Sauvant et al., 2014). Investment insurance may be offered especially to investment projects that promise to have positive developmental effects for the home country.

Beyond these various forms of domestic assistance in monetary form, governments can negotiate international **treaties** containing provisions that are favourable to OFDI. Developing countries in Asia and the Pacific have signed a considerable number of bilateral investment treaties (BITs) and treaties with investment provisions (TIPs), as

shown in figure 7. Bilateral or plurilateral investment agreements and trade agreements with investment provisions have for decades been used by developed economy governments to negotiate investment protection and international market access on behalf of their firms. Although developing countries have tended to negotiate these treaties primarily to attract inward FDI, the protection and market access provisions offered in these treaties could facilitate their OFDI, and in the future governments of developing countries might need to pay closer attention to the objective of protecting their own overseas investments when negotiating these treaties. China, for example, has increasingly considered the interests of its firms investing abroad in treaty negotiations. ASEAN is also working its way towards this with the ASEAN Comprehensive Investment Agreement. In parallel to the negotiation of investment treaties, governments may need to consider what membership in dispute resolution institutions (e.g. the International Centre for the Settlement of Investment Disputes or other arbitration institutions) best supports their interests and that of their firms investing abroad. Beyond formal investment treaty negotiations, governments might seek to negotiate reductions in market access barriers through government-to-government commercial diplomacy and other international forums (Stephenson & Perea, 2018). Finally, avoidance of double taxation treaties (DTTs) can support the operations of MNEs with regards to taxation matters, especially by reducing the burden of double taxation or facilitating the provision of fiscal support as outlined above. Overall, governments have the opportunity to draft and negotiate treaty texts that promote positive development effects from OFDI for home countries.

Once investments have been made, HCMs can provide **operational support** while these investments are ongoing. First, this includes assistance with policy-related challenges investors encounter abroad, such as through support for achieving market access and overcoming entry barriers and other bureaucratic hurdles (Stephenson &

Figure 7. Number of international investment agreements signed by developing countries in Asia and the Pacific



Source: Author's calculation based on UNCTAD Investment Policy Hub.

Perea, 2018). Governments can provide political and diplomatic backing in investment-related dealings with the host country's authorities. China, for example, has provided diplomatic support for the realization of large-scale projects overseas especially by SOEs, and its flagship foreign policy project, the Belt and Road Initiative, supports OFDI. The Russian Federation has provided diplomatic backing for individual larger investment projects undertaken by its SOEs (Sauvant et al., 2014). Governments may also coordinate investment policies with host country authorities. Looking into the future and acknowledging the results of econometric analysis in the previous chapter which emphasized that greater regional integration can improve the home country effects of OFDI, ASEAN could for instance leverage their Coordinating Committee on Investment process to develop a platform to provide operational support to intraregional investors and further coordinate national investment policies to support both home and home country sustainable development in the region. Such coordination could be used to ascertain that a home country's HCMs align rather than conflict with the host country's policies on inward investment. Second, governments can also mobilize domestic support for OFDI, e.g. by encouraging the private sector to support OFDI projects. Firms could be encouraged to form collaborations for the purpose of investing abroad, and banks and financial institutions could be encouraged to consider funding OFDI projects. Third, governments can mobilize the creation of auxiliary services overseas. This includes mobilizing relevant service providers such as banks, legal firms, consultancies etc. to support the investing firms through the establishment of their own presence in the host country. The private sector or the government itself can establish centres or industrial parks in host countries in which investors can more comfortably locate their subsidiaries and launch their overseas operations. China, for example, has encouraged the establishment of special economic zones (SEZs) overseas to support Chinese investments into those zones, and Singapore has financially supported the establishment of offices in the Sino-Singapore Tianjin Ecocity as a way to promote strategic cooperation with China (Sauvant et al., 2014). Governments have the opportunity to focus their operational support in areas where positive development effects from OFDI are prevalent.

Maximizing benefits of OFDI for the home country through suitable economic policies is another important category of HCMs (Stephenson & Perea, 2018). A distinction can be made between three types. First, the prerequisites in the home country needed for the generation of home country effects can be enhanced. This includes measures to boost absorptive capacity, which are important to make sure know-how transferred home from overseas investment projects can be assimilated into domestic innovation systems and economic activities to promote broader industrial upgrading. The development of skilled human capital through education and training and investment in domestic innovation in corresponding sectors would be some of the measures to boost absorptive capacity. Domestic science and technology policies, public R&D investments, improvements in education and other initiatives have for instance considerably boosted the absorptive capacity of Chinese firms and the entire country. Similar measures can be put in place to boost the international competitiveness of firms more broadly (see Porter, 1990), enabling them to compete effectively when they undertake overseas investments. In addition, governments can

promote linkages between domestic firms to facilitate spillover effects (Stephenson & Perea, 2018), such as by facilitating the establishment of collaborations and networks among firms in the domestic economy. They can specifically support companies' abilities to link and integrate into global value chains. Second, governments could identify ways to improve the channels through which OFDI generates home country effects. This might involve facilitating financial transfers or enhancing transport routes and logistics between home and host country. Thirdly, governments can encourage firms to engage in the generation of home country effects. For example, subsidiaries can be encouraged to source components from the home economy or make domestic investments associated with their OFDI. This effectively implies that in addition to promoting the investment itself, governments should consider promoting the activity associated with the investment that will generate home country effects, such as additional exports, domestic investments, employment generation or the return flows of natural resources.

Finally, procedures for **monitoring and evaluation** of the effectiveness of HCMs could be put in place, by introducing appropriate feedback mechanisms. This could ensure and verify that HCMs yield the intended effects and are cost effective (Stephenson & Perea, 2018). Companies investing abroad could be surveyed about the extent to which they have taken advantage of available HCMs and benefited from them. A similar option is the organization of listening sessions with company representatives. Such surveys could also be used to ascertain whether HCMs have promoted the generation of home country effects, in parallel to quantitative and qualitative measurements of firm-level and economic effects in the home country. Overall, more work is needed to develop appropriate measurements for the effectiveness of HCMs in facilitating the generation of home country effects.

"Governments typically follow a certain policy path when developing and implementing home country measures starting with a reduction in OFDI restrictions through providing information services to providing political risk insurance and other financial services and operational support"

There are some indications that governments follow a specific policy path in the process of developing HCMs. It begins with the reduction of restrictions on OFDI, followed by the provision of information services and negotiations of associated international treaties. A further step is the provision of political risk insurance, followed by introduction of financial and fiscal services. Operational support and maximizing benefits would be among the last HCMs to be introduced. While this approach has been observed, countries may differ in the extent to which they follow this policy path (Sauvant et al., 2014). Individual countries might leapfrog stages if they see a potential of OFDI to help speed up development and technological catching up. Other governments may be more sceptical about the proposed virtues of OFDI and liberalize more slowly. A brief survey of outward investment restrictions in the Asia-Pacific region (around 2013) found a mixed picture: Azerbaijan, Cambodia, Kazakhstan, Malaysia, Mongolia, the Philippines, the Russian Federation, Tajikistan and Thailand had no restrictions, apart from a requirement to register or notify an

investment in some cases. The Solomon Islands and Sri Lanka allowed OFDI subject to conditions. As discussed above, China and India had approval requirements for some categories of investments. Approval for all OFDI was still required in Bangladesh, Fiji, Lao People's Democratic Republic, Nepal, Pakistan, Samoa, Tonga and Viet Nam, sometimes with further restrictions attached or allowing exemptions (Sauvant et al., 2014). This confirms that countries have different preferences in how they deal with OFDI, which is not necessarily connected with development status or country size.

3.3 Targeting home country measures

While governments can apply these HCMs to all companies of the home country and all kinds of OFDI projects, this is not always the case. Sometimes there is a preference to target specific types of OFDI projects and particular types of firms when adopting of HCMs. Such targeting can support the aim of maximizing development effects of OFDI for the home country, and the targeting strategy can be made to correspond with economic realities and the development strategies and priorities of the government. The nature of such targeting and underlying strategy might differ between categories of HCMs. Table 11 does not specify the applicability of individual HCMs to specific investments or firms, keeping this aspect vague due to limitation in available knowledge and evidence on such targeting. Future research and policy analysis should aim to identify and develop more specific targeting strategies.

"Governments should consider developing targeting strategies for the home country measures they implement in order to maximize the potential home country benefits of OFDI"

Regarding the targeting of specific OFDI projects, governments can consider various aspects. They could target projects with a preferred **investment motivation**, such as strategic asset-seeking when industrial upgrading is a priority, market- and efficiency-seeking when enhancing exports is a particular development goal, or resource-seeking FDI when the home economy is in need of greater resources security. The Government of China has targeted HCMs to investments that it considers to be in line with its development priorities, such as OFDI that increases access to know-how, natural resources or trade opportunities (UNCTAD, 2006).

Governments could differentiate their provision of HCMs by **investment strategy**, with a preference for OFDI projects with strategies that comply with development objectives, or projects that promise to yield positive home country effects. An OFDI strategy aimed at integrating a company into global value chains would be one example.

There may be preferences for certain types of **entry mode**, such as acquisitions or R&D centres for accessing know-how, or the establishment of greenfield factories for low-cost production or better market access. The EXIM Bank of India, for instance, has provided equity and debt financing of overseas acquisitions (Sauvant et al., 2014). Singapore has supported foreign acquisitions with tax relief provided that the

investment results in the company's expansion in Malaysia and Singapore has financially supported overseas acquisitions aimed at bringing technology back home and using it in domestic operations (Sauvant et al., 2014).

HCMs could specifically support OFDI in **investment destinations** where the generation of positive home country effects is likely, such as developed economies for the generation of know-how or resources-rich countries for access to raw materials. For example, China's NDRC has published three lists of preferred destination countries and sectors (Knoerich, 2016), and Enterprise Singapore has shown a preference for financing investments in some developing and emerging markets (Sauvant et al., 2014). The Sino-Singapore Tianjin Ecocity even aims at China as a specific country of investment. Moreover, India has maintained some restrictions on OFDI in neighbouring countries (Perea & Stephenson, 2018). Such targeting by investment destination can be coordinated with policies on inward investment in host countries.

Investment size can also be a criterion for the provision of HCMs, especially when it comes to issues of regulatory restrictions. It is common to reduce requirements for investment approval for smaller investments first. India, for example, introduced an automatic route for approval of smaller investment projects (Sauvant et al., 2014).

Different categories of HCMs could also be applied to different types of companies. **Company size** is an important dimension in this context. SMEs in particular are often in a disadvantaged position and have limited financial and other resources available for OFDI. Yet, in most economies they play a very important role. HCMs may therefore aim at supporting SMEs, as has for instance happened in India, Malaysia and Singapore (Sauvant et al., 2014; UNCTAD, 2006). Despite the focus in many countries on SMEs, in certain circumstances the support of large firms might be needed as well.

Another dimension is **company ownership**, referring to the consideration whether HCMs should support private sector enterprises or SOEs. HCMs can apply to both state-owned and private firms, although specific regulatory frameworks sometimes differ between the two. China and the Russian Federation, for instance, support their SOEs investing abroad with diplomatic backing. Overall, recent research has found that there is no preference for either form of ownership in most countries (Sauvant et al., 2014).

Company nationality may be another consideration, as a government may either apply HCMs only to domestic parent companies or broaden them to subsidiaries or affiliates of foreign firms in the home country. To be eligible for financial support from Enterprise Singapore, for instance, companies need to be registered and have three strategic business functions in the country (Sauvant et al., 2014). A project that specifies the nationality of two countries as criteria for eligibility is the Malaysia-Singapore Third Country Business Development Fund. It was established to financially support joint investments by companies from both countries into third countries, with a focus on South-East Asia (UNCTAD, 2006).

Governments may also have a preference for supporting companies with greater **business experience**, especially with overseas investments, as the likelihood of a positive outcome from the investment may be heightened. A company's eligibility for HCMs could be made dependent on the extent to which its OFDI promises to generate positive and desired developmental outcomes.

The **sector** of the company and investment is another dimension by which to differentiate the provision of HCMs. The government may aim to support particular sectors, for example those it considers as priority sectors in its development strategy and those which promise to maximize the home country effects from OFDI, given the particular economic circumstances of the home country. Sectors with a lot of OFDI in areas relevant to home country development (e.g. generating know-how or exports) could be prioritized. This is a very complex area, given the large number of different sub-sectors for consideration within the primary, secondary and tertiary sectors. Every country has a different sectoral composition, making the choices on which sectors to support through HCMs quite an individual matter. The Malaysian EXIM Bank has for instance offered financial support for infrastructure, manufacturing and other developmental projects (UNCTAD, 2006). It has even specifically supported the overseas expansion of Malaysian restaurants, and acquisitions in the services and manufacturing sectors (Sauvant et al., 2014). India has prohibited OFDI in real estate and restricted OFDI in financial services, with investments in other sectors subject to approval by the Reserve Bank of India (Perea & Stephenson, 2018).

OFDI that would otherwise not occur could also be specifically targeted through HCMs. Various constraints may prevent companies from investing overseas, for instance a shortage of funding for such investments or a lack of awareness of existing opportunities. HCMs can help companies overcome these and other constraints. As mentioned, SMEs might be a particular target group to look for when seeking to identify such companies with potential but yet to be realized investments.

The final column in table 11 suggests that HCMs should target investments and companies in ways that support the **realization of home country effects**. All home country effects outlined in table 3 (Chapter 2) could potentially be the target of such efforts, and governments may either aim to select some of them as focus areas for the targeting of HCMs or prefer to support OFDI projects across the board. Enterprise Singapore has for instance required that supported OFDI projects complement operations in the home economy and have spin-offs for the Singaporean economy (UNCTAD, 2006). However, the direct connection between individual categories of HCMs and development outcomes from OFDI is often difficult to establish with certainty, given limitations in available knowledge and evidence in this area, and this is thus again kept vague in table 11. Future research and policy analysis should aim to develop greater clarity on which HCMs specifically yield which kinds of home country effects.

This section has shown that beyond a few studies on China's HCMs, and some accounts on the situation in other countries in the region with relatively large amounts of OFDI, there is limited evidence on how governments of developing countries in Asia and the Pacific regulate, facilitate, promote and provide institutional support for OFDI. Given generally growing OFDI flows from the region (see figure 1, Chapter 1), including rising OFDI from smaller economies, more research and analysis on HCMs is needed. Surveys have already suggested that Chinese companies found the supportive HCMs useful for their overseas investments (Sauvant et al., 2014), indicating a need to better understand the effectiveness of HCMs. Future research and analysis should examine the practices and strategies countries in the region should adopt to facilitate positive development effects from OFDI through the effective utilization of HCMs. Especially investigations beyond the larger, more developed countries in the region would be of great analytical value, as they would generate greater understanding of how less developed economies could nurture the benefits from OFDI and what precautions they need to take to prevent large capital outflows and other undesired effects. The case studies in the next chapter are an important step in this direction.

Chapter 4

Case Studies of Home Country Measures in Three Leading OFDI Economies in ASEAN

4.1 Introduction

Thailand, Malaysia and the Philippines were chosen as country cases to examine existing practices and strategies towards OFDI and HCMs in economies beyond the frequently examined cases of large countries. These three countries were selected as case studies because they are all ESCAP member States, have considerable amounts of OFDI in absolute stock/flow terms (see table 1, Chapter 1) and as a percentage of GDP (see table 2, Chapter 1), are not developed economies, global financial centres or ESCAP member States from outside the region, and are not particularly large countries by size and population (this excluded China, India and the Russian Federation). This methodology yielded three ASEAN member States, which reflects the fact that the South-East Asian subregion is a growing source of OFDI flows, both within Asia and the Pacific and globally. Table 12 shows that more than a third of OFDI stock and almost a quarter of OFDI flows from Asia and the Pacific originates in ASEAN member States, with only China being a greater source of OFDI. All other major economies or subregions in Asia and the Pacific reported much less OFDI stock and flows. Moreover, in the process of building the ASEAN Economic Community, economic links between ASEAN member States are intensifying, including cross-border investments. In line with these trends, many ASEAN member States have in recent years begun to adopt HCMs to support OFDI, which provides another good reason to focus on three of them. Focusing on countries within the ASEAN subregion also makes sense given the extent of intraregional FDI flows between ASEAN member States and the depth of subregional integration within ASEAN. The latter justification is important considering the results of the quantitative analysis in Chapter 2 suggest that greater regional and subregional integration may enhance positive OFDI home country effects.

Table 12. Share of OFDI stock and flow from developing countries in Asia and the Pacific, 2016-2018 average

	China	ASEAN	Russian Federation	India	All other
OFDI stock	47.4	35.7	9.8	4.3	2.7
OFDI flows	59.6	23.5	12.0	3.4	1.6

Source: Author's calculations based on UNCTADStat.

Data on HCMs was collected through a questionnaire that was sent out to public officials in institutions dealing with OFDI and other relevant stakeholders from the three countries. In all three cases, each country's main IPA was consulted, plus a few other relevant institutions such as the foreign affairs or trade departments. The questionnaire was based on a template gratefully received from the World Bank. Some questionnaires were jointly completed by several members of the relevant departments, with different staff members inserting the information relevant to their expertise. Specific answers given on the questionnaire were followed up with direct interviews or further email conversations with the individuals concerned. Sometimes only an interview was conducted, without prior completion of the questionnaire. In total, information was received from 10 officials and their departments, 3 academics and 1 company representative, through 5 completed questionnaires, 8 personal or phone interviews and 4 email responses. The data and information obtained from the questionnaire survey and interviews with officials was cross-checked with additional information acquired from desk research and interviews with academics. Moreover, the draft case study reports were sent back to the questionnaire respondents and interviewees, resulting in further feedback from six of them.

4.2 Thailand

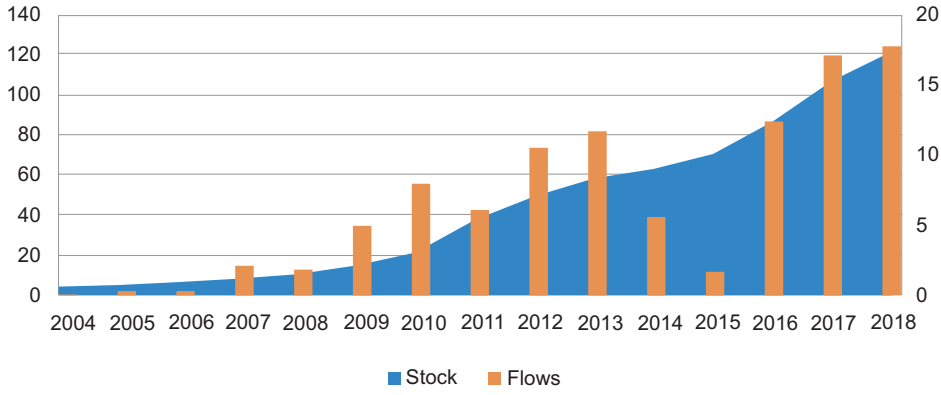
4.2.1 OFDI trends of Thailand

OFDI from Thailand existed as early as the 1980s, began to rise in the 1990s (Pananond & Cuervo-Cazurra, 2015), and took off in the mid-2000s, as shown in figure 8. Since then, OFDI flows from Thailand have been volatile[6] but have exhibited a considerable growth overall, reflecting the fact that not only large national champions have invested abroad, but a mixture of companies including private and family firms (Pananond & Cuervo-Cazurra, 2015). Thai OFDI stock reached $121 billion in 2018.

Thai companies primarily invested in other ASEAN member States, developed economies and some select emerging markets. According to figure 9, about a third of OFDI from Thailand went to Hong Kong, China and the offshore financial centres, though some of it might have been trans-shipped to different ultimate destinations. ASEAN member States and the developed economies (EU-28, the United States, Japan, Australia and Canada) both received just below 30% of Thai OFDI stock. Singapore is the leading destination country within ASEAN, followed by Viet Nam, Myanmar, Indonesia and Malaysia. China received 3% and India 1%. Thai OFDI therefore has a strong regional character, with a majority of its investments targeting other developing countries.

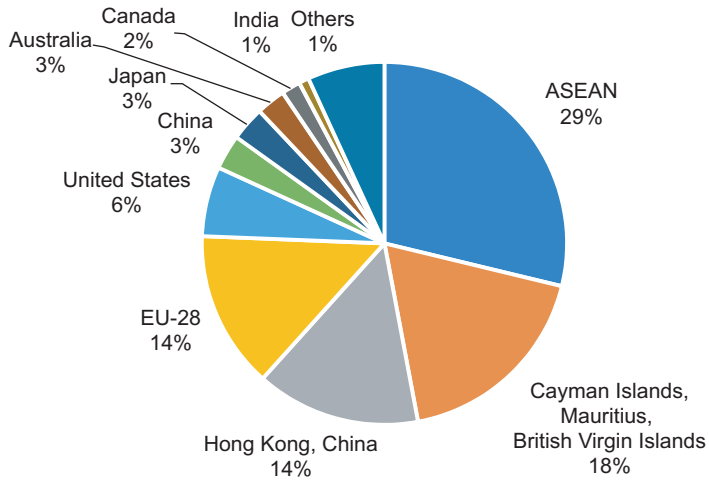
[6] The fluctuations in OFDI flows can be attributed to political uncertainties.

Figure 8. OFDI from Thailand, 2004-2018 ($ billions)



Source: Author's calculations based on UNCTADStat.

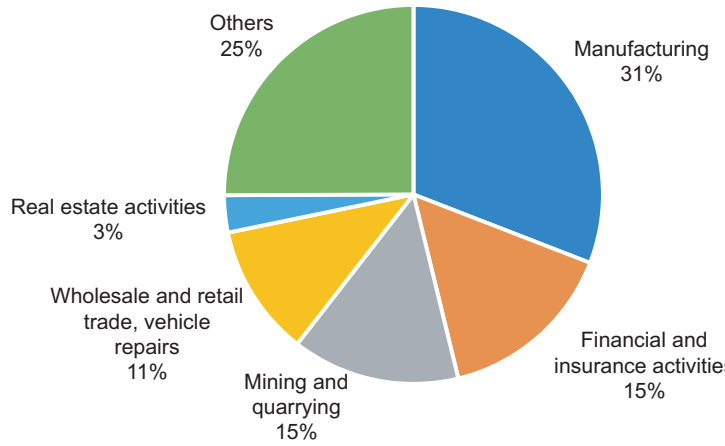
Figure 9. OFDI stock from Thailand by destination country, 2017



Source: Author's calculations based on Bank of Thailand.

In terms of industrial sector, figure 10 shows that a bit less than a third of Thai OFDI was in the manufacturing sector, suggesting that goods production played an important role in the international investment activities of Thai firms. This was followed by finance and mining with 15% each, and the wholesale and retail trade industry with 11%. There have been reports of a decline in manufacturing, which stood at 46% of overall stock in 2006, at the expense of a rising share of mining and services investments (Pananond & Cuervo-Cazurra, 2015).

Figure 10. OFDI stock from Thailand by industry, 2017



Source: Author's calculations based on Bank of Thailand.

Available evidence suggests that Thai firms have invested abroad for market-, resources-, efficiency- and strategic asset-seeking purposes (Pananond & Cuervo-Cazurra, 2015). In developed economies, the focus has been on accessing intellectual property and a skilled workforce. In high-growth markets, Thai firms seek to acquire natural resources and open up new distribution channels. Other specific objectives include expanding markets by finding new customers and entering market niches, accessing low-cost labour, acquiring an international brand and spreading risks across various markets (Ernst & Young, 2012).

Some nascent evidence on home country effects from Thai OFDI exists. A very recent analysis found that revenue generated by Thai listed firms from their overseas operations and revenue from exports grew substantially in 2018. The study suggested that Thai listed firms benefited from sharing technologies and knowledge with their partners abroad, while OFDI did not crowd out domestic investment (Nitichai & Kongpila, 2019). Another study revealed that Thai firms used their international expansion to upgrade their positions in global value chains (Pananond, 2013). A third study found that OFDI complements Thai exports (Ahmad et al., 2016).

4.2.2 Strategy and institutions for OFDI of Thailand

OFDI was identified as a national priority shortly after Prime Minister Prayut Chan-o-cha took office in August 2014. It followed the approval of a Thai Overseas Investment Plan by the country's Board of Investment (BOI) in August 2012 (Board of Investment of Thailand, 2015), and the incorporation of OFDI into the BOI's 5-year strategic plan for 2013-2017 (Pananond & Cuervo-Cazurra, 2015). The strategy was developed further in the Announcement of the Board of Investment No. 2/2557 (Policies and Criteria for Investment Promotion) and the country's Twelfth National Economic and Social Development Plan (2017-2021).

The Announcement of the Board of Investment No. 2/2557 specifies the aim "to promote valuable investment, both investment in Thailand and Thai overseas investment, in order to enhance the nation's competitiveness, to overcome the middle income trap and to achieve sustainable growth." For OFDI, this means promotion is tied to the specific objective of supporting the development of Thailand's economy. Specifically, OFDI should "promote Thai overseas investment to enhance the competitiveness of Thai businesses and Thailand's role in the global economy". The Twelfth National Economic and Social Development Plan (2017-2021) specifies that "Thailand will use strategic approaches that support Thai entrepreneurs to invest overseas, which will help to expand the value chain in ASEAN, boost competitiveness, and create more trade and investment opportunities." According to the plan, OFDI promotion is expected to yield greater capital returns and reverse knowledge and technology flows that benefit the production and services in which Thailand specializes. It should also support Thailand's objectives to become a trading nation. The strategy is relevant to both public and private investors.

The Government's strategy encourages Thai investments that expand access to foreign markets, acquire raw materials where Thailand experiences shortages (e.g. natural gas, electricity and crude oil), utilize cheap labour overseas, diversify risks and make technological advances.[7] It therefore applies to market-, resource-, efficiency and strategic asset-seeking motivations.

The focus of the strategy is on Thai investments in three priority groups of promising developing countries, most of them in the region. The first group consists of Cambodia, Lao People's Democratic Republic, Myanmar, Viet Nam and Indonesia, the second group includes the remaining ASEAN member States, China and India, and the third consists of emerging markets in South Asia, Africa and the Middle East. As the strategy concentrates primarily on OFDI linked to exports, services and production in markets that are close to Thailand, it does not specifically address Thai investments in developed economies. The focus on markets in proximity to Thailand was also spelled out in the Twelfth National Economic and Social Development Plan (2017-2021) through an "Initiative to support and encourage Thai entrepreneurs to

[7] Board of Investment of Thailand; Thai Overseas Investment Promotion Division website, http://www.toi.boi.go.th.

invest overseas", which focused on neighbouring countries, the subregion and ASEAN. From 2017 onwards, the aim of this initiative is to streamline regulations, support value chain linkages in production and services and expand business opportunities in border areas and the region's economic corridors.

The Twelfth National Economic and Social Development Plan (2017-2021) specified the need for a line agency to promote OFDI by providing information on trade and investment in the above countries. This agency is also expected to push for a reduction in barriers to cross-border flows and money transfers, and to encourage the expansion of Thailand's commercial banks into these countries to support such economic activities. The plan further specified that support, incentives, funding and political risk insurance should be offered for such OFDI.

After many years without a clear specification of responsibilities among government agencies, the BOI assumed this role as the main agency dealing with OFDI next to its responsibilities for inward FDI (Pananond & Cuervo-Cazurra, 2015). To separate these two functions, the Thai Overseas Investment (TOI) Promotion Division was established as a sub-unit within the BOI. The TOI Promotion Division is responsible for analysing investment trends, developing strategies and measures to promote Thai OFDI in the specified target countries, and providing training to Thai entrepreneurs who have the intention to invest abroad. It has a dedicated sub-website on the online domain of the BOI (https://toi.boi.go.th).

The BOI coordinates on OFDI across government institutions. Other relevant Ministries are the Ministry of Foreign Affairs, the Bank of Thailand, the Department of International Trade Promotion of the Ministry of Commerce, the Ministry of Industry and the EXIM Bank. Recently, the Ministry of Foreign Affairs assumed responsibility for a newly established inter-agency Committee on the Protection of International Investment. This Committee will assume responsibility for overseeing investment protection policies and assuring coherence between domestic investment laws and regulations and Thailand's obligations under its investment treaties, for both OFDI and inward FDI. It is chaired by the Deputy Prime Minister and is attended by representatives from the Ministry of Foreign Affairs, the Ministry of Commerce, the Ministry of Public Health, the Ministry of Industry, the BOI, the Council of State, the Bank of Thailand etc. The overseas operations of Thai firms are supported by the overseas offices of the BOI and the Ministry of Commerce, and by some Thai embassies.

4.2.3 Home country measures for OFDI of Thailand

Thailand removed most of its foreign exchange and capital controls during the early 1990s and the liberalization of trade and investment intensified considerably after 1997. Since then, initiatives that mostly involved the Bank of Thailand aimed at further streamlining overseas investment procedures, including by offering more flexibility in the management of foreign exchange and currency, by introducing an advantageous tax policy for OFDI and through relaxations to OFDI approval procedures. Restrictions on the amount of capital to be used for overseas investments were gradually reduced

and eventually completely abolished in 2012. In addition, economic integration with other ASEAN economies enhanced regional growth opportunities that stimulated OFDI (Pananond & Cuervo-Cazurra, 2015). Today, there are no meaningful currency or foreign exchange controls in place, and both state-owned and private firms are allowed to invest abroad without any sectoral restrictions. Thai firms do however experience investment barriers in some of the host economies where they invest, such as restrictions on market access and ownership or investment screening procedures.

The TOI Promotion Division offers a wide range of services to Thai companies investing abroad. First, it provides information and counsel for companies investing in the markets specified by Thailand's OFDI strategy. This includes investment databases, relevant news, articles and reports, and consultancy teams that deal with questions and inquiries by Thai investors. Information is provided on the investment climate in host countries, on how to invest abroad and on Thailand's HCMs. Second, the TOI Promotion Division organizes investment missions to target countries enabling Thai companies to explore investment opportunities. Third, the TOI Promotion Division offers investment matchmaking by connecting Thai and foreign companies seeking to collaborate on technology, management and marketing (Board of Investment of Thailand, 2015). Fourth, the Thai Overseas Investment Service Center (TOISC), a sub-unit of the TOI Promotion Division, offers seminars and training courses on the practicalities of business and investment in foreign countries, including legal environments and the identification of opportunities abroad (Board of Investment of Thailand, 2015). Thai companies take advantage of all these services provided by the TOI Promotion Division. SMEs are particularly important beneficiaries from its services, as big companies have greater capabilities to invest abroad without extra support.

In addition to the provision of services, the TOI Promotion Division conducts its own analysis of investment prospects. This is focused on other ASEAN member States, with contributions from BOI's local experts in the target countries (Board of Investment of Thailand, 2015). The TOI website provides information and news on the target countries, more detailed studies on foreign investment opportunities in these markets, an interactive portal to answer direct questions from companies, information on available consultancy support and schedules of available seminars and training courses (https://toi.boi.go.th). In addition, the Department of International Economic Affairs of the Ministry of Foreign Affairs operates an online portal that provides regular information on opportunities in overseas markets and detailed analyses on legal environments and targeted sectors abroad (https://globthailand.com). This portal is broader in scope, having global application and is applicable to both trade and investment.

Financial services are provided by the Thai EXIM Bank, a state-owned specialized financial institution supervised by the Ministry of Finance. Since 1999, the EXIM Bank has enhanced its support of OFDI from Thailand. Specific funding was made available to support Thai investments made in priority industries and activities in the favoured target countries, especially the other ASEAN member States (Pananond & Cuervo-

Cazurra, 2015). The EXIM Bank currently offers financial facilities in the form of long-term credit to Thai companies investing overseas.[8] It also provides political risk insurance that covers transfer restrictions, expropriation, war and civil disturbance and breaches of contract.[9] In addition, the Neighbouring Countries Economic Development Cooperation Agency (NEDA) and commercial banks also offer relevant financial support. The Bank of Thailand plays a role in supporting OFDI through financial and fiscal measures.

Thailand has concluded 39 BITs of which 36 are in force[10] and nine free trade agreements (FTAs) containing investment protection provisions that are in force. The Government's approach to signing BITs has evolved over time to increasingly address growing Thai OFDI abroad, rather than focusing solely on attracting inward investments. While there are no visible changes in Thailand's actual BIT practice to date, the agencies involved in the formulation of relevant policy and treaty negotiations are tasked to consider Thailand's interests as a capital exporter. Accordingly, a recent review of Thailand's model BIT, conducted by the Ministry of Foreign Affairs in consultation with other government departments, considered both the need to safeguard Thailand's right to regulate and ensure good protection of Thai investments abroad. Thai companies and their legal counsel occasionally seek information from the Department of Treaties and Legal Affairs and the Department of International Economic Affairs of the Ministry of Foreign Affairs on the types of investment protection offered in Thai BITs. Such queries tend to come from large firms, which usually have more sophisticated legal teams and operate more often in sensitive sectors where problems tend to arise, such as energy or mining. Thai investors have benefited from the existence of BITs as they provide leverage when conflicts arise with host states, though no arbitration case was filed to date by a Thai investor.[11]

The Department of International Economic Affairs, Ministry of Foreign Affairs, negotiates Thai BITs, while the Ministry of Commerce negotiates the country's TIPs to facilitate capital outflows. Thailand has concluded a comparatively limited number of DTTs, which has been suggested to be a barrier to Thai OFDI (Pananond & Cuervo-Cazurra, 2015). Finally, Thailand has various cooperation frameworks with neighbouring countries, such as the Greater Mekong Subregion, the Indonesia-Malaysia-Thailand Growth Triangle, ASEAN itself, and many others. According to the Twelfth National Economic and Social Development Plan (2017-2021), these cooperation frameworks play an important role in promoting Thai OFDI to its target countries in the region.

In addition to the services outlined above, the TOI Promotion Division also offers operational support. It supports companies in dealing with the IPAs of host countries and going through the first steps of a company's establishment abroad, including

[8] Thai EXIM Bank website, http://www.exim.go.th.

[9] Thai EXIM Bank website, http://www.exim.go.th.

[10] UNCTAD Investment Policy Hub, http://www.investmentpolicy.unctad.org.

[11] A case by a Thai investor against Malaysia launched in 2017 was recently settled.

support to conclude M&As. It can connect with foreign government agencies, coordinate with other Thai departments to facilitate OFDI, and negotiate contracts with governments to improve business prospects in other countries (Board of Investment of Thailand, 2015). The national development plan also advocates promoting OFDI by reducing barriers to the mobility of labour.

The Twelfth National Economic and Social Development Plan (2017-2021) lays out avenues through which Thai outward investments could be enhanced. It advocates developing the country's human resources and skills, enhancing the business skills of Thai entrepreneurs, handing them financial capital and detailed information about foreign production, building Thai capacity to meet international standards, investing in human resources, technology and innovation, and improving the business environment through the various regional cooperation frameworks. Particular emphasis is placed on the promotion of SMEs, including enhancing the skills of their entrepreneurs, encouraging the formation of SME clusters, linking SMEs with large companies and designing measures to help integrate SMEs into international markets and global value chains. The plan further aims to provide neighbouring countries with technical assistance and development cooperation to improve the business environment there and increase regional stability. There are ambitions to enhance technology, innovation, R&D, management and branding in Thailand. These and other ambitions are all aimed at maximizing benefits from OFDI for the Thai economy, especially to enhance exports.

As a form of monitoring and evaluation, the TOI Promotion Division organizes listening sessions during its seminars and training activities to obtain feedback from companies on the services and support it provides and to identify what measures in support of OFDI investors would like to see. A questionnaire and a set of indicators are used to carry out the evaluations.

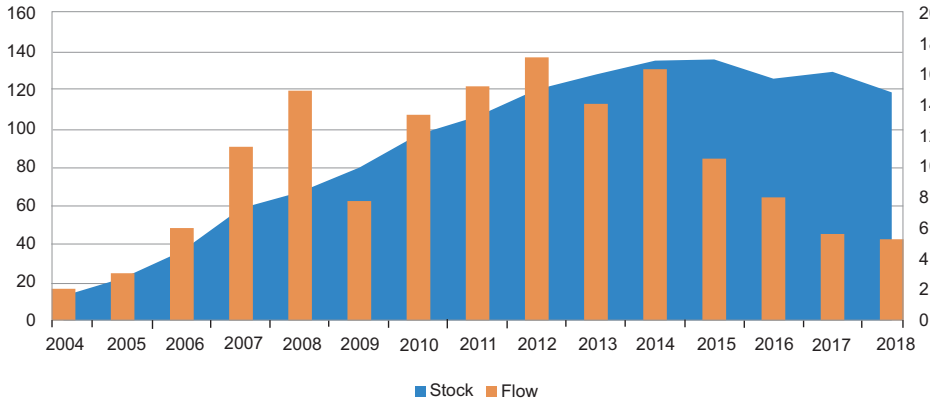
4.3 Malaysia

4.3.1 OFDI trends of Malaysia

OFDI from Malaysia emerged as early as the mid-1970s (Teo, Tham, & Kam, 2015), and Malaysia has stood out ever since as an important source of OFDI among the developing countries. The country's OFDI expanded steadily in the 1980s and 1990s, although overall levels remained modest. Malaysia has a comparatively large number of government-linked companies (GLCs), akin to SOEs, which made a considerable amount of investment outside of the country during the 1980s and 1990s, often in the natural resources sectors (Bank Negara Malaysia, 2018; Menon, 2014).

Since the mid-2000s, OFDI from Malaysia has grown much more decisively, as shown in figure 11. In addition to a continuing strong and growing presence of GLCs in oil, gas, mining and services OFDI (Tham, Teo, & Kam, 2015), many private companies, especially in the financial services, banking and telecommunications sectors, began their expansion overseas during this time. They were facilitated by improvements in their international competitiveness, a strengthened Malaysian currency, greater

Figure 11. OFDI from Malaysia, 2004-2018 ($ billions)



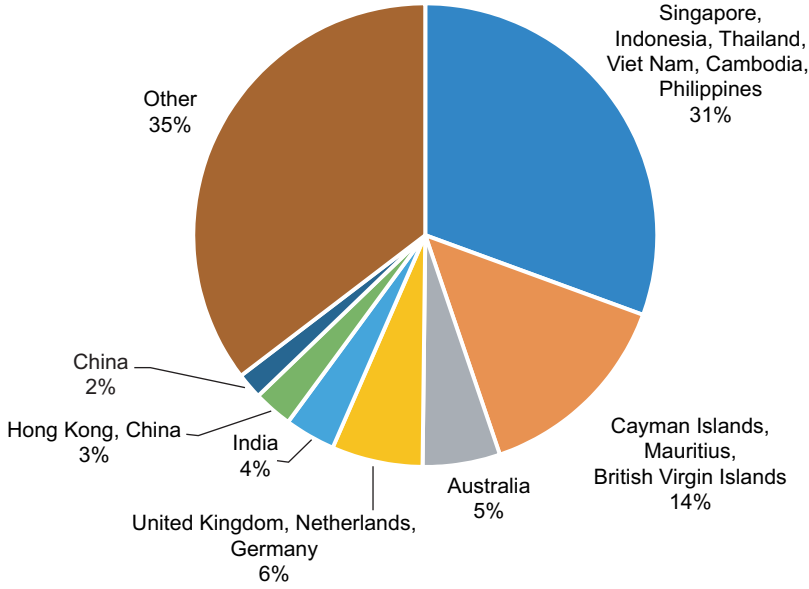
Source: Author's calculations based on UNCTADStat.

regional economic cooperation and gradual liberalization of foreign exchange restrictions on capital outflows and outward investments (Goh, Wong, & Tham, 2013; Bank Negara Malaysia, 2018). Economic conditions were favourable to OFDI, including rising labour costs in Malaysia and the emergence of new destinations for OFDI through growing foreign markets such as in China and other Asian economies, which at that time underwent processes of liberalization (Goh et al., 2013). More investments might also have gone into offshore financial centres (Tham et al., 2015). At the same time, OFDI became an option for Malaysia's many SMEs as well (Lim, 2016). In 2007, OFDI flows from Malaysia surpassed inward flows, turning Malaysia into a net capital exporter (Tham, Goh, Wong, & Fadhlid, 2017). OFDI stock reached $136 billion in 2015.

Since then, however, both flows and stock have been more subdued, and Malaysia returned to be a net capital importer in 2016. Several explanations have been given for this shift, including uncertainties over global growth trends, low international oil and commodity prices, depreciation of the Malaysian currency, the Ringgit (Bank Negara Malaysia, 2018), and a reduction of OFDI in the services sector (Department of Statistics Malaysia, 2019). These and other reasons might have induced GLCs to invest less overseas. Khazanah, Malaysia's main Sovereign Wealth Fund (SWF) which operates as a holding company for many GLCs, also reduced its overseas investments during this period, from 44% of its total holdings to 15% (Das, Latiff, & Cameron-Moore, 2019).

Malaysian OFDI is global in scope, though other ASEAN member States dominate as recipients of the country's investments, as shown in figure 12. Apart from substantial OFDI flowing to offshore financial centres, Singapore and Indonesia are by far the leading recipients of Malaysian OFDI, followed in order by Australia, the United Kingdom, India; Hong Kong, China; Thailand and China. The main destinations for

Figure 12. OFDI stock from Malaysia by destination country, 2016



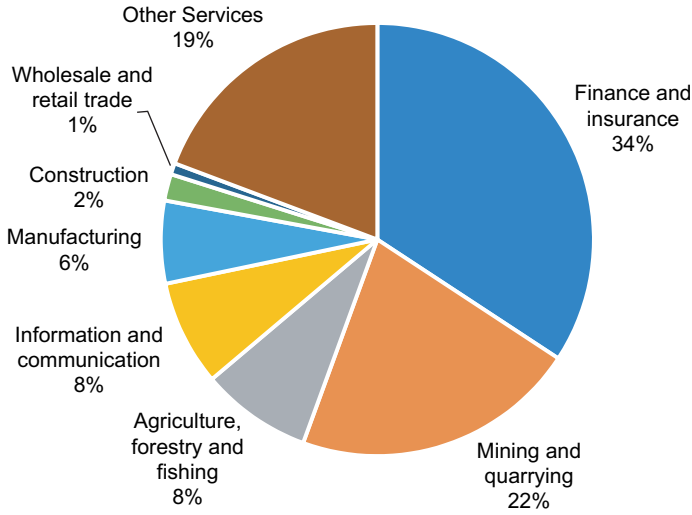
Source: Author's calculations based on Department of Statistics Malaysia.

Malaysian investments are thus located in Asia, though there are investments further afield and in developed economies, notably in Australia and Europe.

Services dominate Malaysian OFDI and are often undertaken by GLCs (Tham et al., 2017). Around a third of Malaysian OFDI stock has been in finance and insurance, according to figure 13. Malaysia's banks have expanded considerably into regional markets to take advantage of ongoing regional integration (Tham et al., 2017). Second is mining and quarrying, with Malaysia's national oil company, Petroliam Nasional Berhad (Petronas), as a key global investor in oil and gas (Tham et al., 2017). Manufacturing assumes a comparatively small share at 6% of Malaysian OFDI, ranking behind agriculture and the information and communications sectors.

Evidence suggests that Malaysian OFDI is driven primarily by market-seeking motivations, while resource- and efficiency-seeking investments are also common (Teo et al., 2015; Tham et al., 2015). The resource-seeking activities are driven by a requirement to grow and maintain Malaysia's reserves in oil and gas (Tham et al., 2015), given that the country has limited domestic natural resources (Bank Negara Malaysia, 2018). Efficiency-seeking OFDI may be driven by domestic labour shortages and rising labour costs in Malaysia (Tham et al., 2017). Strategic asset-seeking investments appear to play a much lesser role in Malaysia's OFDI, but exist for example in the banking and telecommunications sectors.

Figure 13. OFDI stock from Malaysia by industry, 2016



Source: Author's calculations based on Department of Statistics Malaysia.

There is emerging evidence that OFDI has been beneficial for Malaysian investors and some economic activities in Malaysia. Malaysian companies have generated comparatively high returns on their investments abroad compared to others in the region, which has helped ease Malaysia's primary income deficit. However, repatriation of overseas income has been limited with most of it being re-invested abroad and only a marginal amount converted into Ringgit for domestic utilization. Technology and know-how transfers in a few industries such as financial services, leisure and hospitality, utilities and tourism have been found to exist (Bank Negara Malaysia, 2018). There is emerging evidence of an effect of OFDI on exports (Ahmad et al., 2016), while a very recent quite granular study has found evidence that sectoral OFDI complements sectoral exports in manufacturing, services and mining industries (Tham et al., 2017). In sum, there are indications that OFDI can generate home country effects in Malaysia, but it has yet to yield wide-ranging benefits for the Malaysian economy (Bank Negara Malaysia, 2018).

4.3.2 Strategy and institutions for OFDI of Malaysia

Malaysia's Third Industrial Master Plan (IMP3) 2006-2020, which was issued in the year 2006, specified "promoting outward investments by Malaysian companies" as one of its eight "strategic thrusts" for investment. The document recognized the importance of OFDI for value chain integration, for addressing domestic shortages and for the enhancement of Malaysia's industrial competitiveness. It aimed to increase OFDI and diversify it beyond oil and gas and especially into manufacturing activities. The IMP3 recommended promoting and supporting OFDI to facilitate Malaysian companies of all kinds in accessing markets, raw materials and resources

overseas as well as assist them in enhancing their capacities and capabilities. The IMP3 further acknowledged the need to offshore labour-intensive activities that were too costly in Malaysia. OFDI was weaved into many aspects of the masterplan, including SME development, services sector growth, and specific strategies for the electrical and electronics, textiles and apparel, petrochemical, wood-based, rubber, palm oil, food processing and halal industries. In some of these areas, OFDI was also included as a "strategic thrust". The IMP3 encouraged banking and financial institutions to support Malaysian companies with their overseas investments, recommended overseas M&As and proposed the development of overseas industrial parks to facilitate OFDI. It argued for a strengthening of institutional support for OFDI, including through databases with information on OFDI, financial and fiscal incentives, enhancing the awareness of Malaysian companies about OFDI opportunities, and the establishment of offices in target countries to assist Malaysian investors. OFDI by SMEs was specifically encouraged, with concrete measures to facilitate such investments and suggestions for SMEs to improve their capabilities for outward investment outlined in the plan.

Whilst inspiring as a document illustrating how OFDI can be weaved into many aspects of developmental policy planning, the IMP3 is a dated document and subsequent uptake of OFDI in Malaysia's five-year plans has been limited. The 9th Malaysia Plan 2006-2010, which was issued in the same year as the IMP3, encouraged OFDI by both private companies and GLCs to increase access to new markets, participate in global production networks, generate demand for Malaysian products and intermediary goods overseas, source raw materials and components, and create Malaysian MNEs. To nurture the economic benefits of OFDI for Malaysia and promote economic growth, the Plan emphasized the need for institutional support for OFDI. However, neither the 10th Malaysia Plan 2011-2015, nor the 11th Malaysia Plan 2016-2020 offer further detail on OFDI, signalling a downgrading in OFDI as a priority issue in favour of a greater focus on attracting inward investment for development. This de-prioritization may be a response to the aforementioned challenges, including a deteriorating global growth environment after the financial crisis of 2008.

Today, government support is available for market-, resource-, efficiency- and strategic asset-seeking OFDI. Yet, there is a clear focus on OFDI that enhances market access abroad and promotes goods and services exports from Malaysia into foreign markets. This prioritization is evident from an institutional shift that occurred in 2013, when the Malaysia External Trade Development Corporation (MATRADE) took over responsibility for OFDI from the Malaysian Investment Development Authority (MIDA). Both organizations are under the purview of Malaysia's Ministry of International Trade and Industry (MITI), which provides overall policy guidance on OFDI. MIDA is responsible for inward and domestic investments while MATRADE's mission is export promotion. This move to situate responsibility for OFDI with the organization promoting exports, rather than the one promoting investment, is a clear indication that the home country effects to be nurtured are the financial and industrial gains from enhanced exports. Contrary to OFDI, exports have been given much policy

emphasis in the 11th Malaysia Plan (Tham et al., 2017). As Malaysia is due to issue its next industrial masterplan soon, it will be interesting to observe what place OFDI and home country effects have in the country's future development strategy.

Both MITI and MATRADE have overseas offices that offer local support for OFDI when needed. The EXIM Bank of Malaysia, which has recently been placed under the purview of MITI, and other Malaysian banks such as the SME Bank that provides business financing for SMEs or the Malaysian Industrial Development Finance Berhad (MIDF), are involved with OFDI. There is no specific coordination mechanism among government agencies for OFDI. In practice, private companies, especially SMEs, are more likely to draw on support offered by the Government, while the large GLCs usually have the capacities and capabilities to venture overseas without governmental assistance.

Khazanah, the Malaysian SWF tasked with investing to grow Malaysia's wealth in the long-term, has also invested abroad, though it focuses primarily on portfolio investments rather than holding majority stakes in companies. Its investment policy statement specifies two types of investments, one aimed purely at maximizing financial returns, while the other follows strategic objectives to generate economic benefits for Malaysia in the long term. Both types of investments are made domestically and overseas, and occasionally the strategic ones involve catalytic investments overseas in industries in which Malaysia would like to thrive, have greater market share or gain knowledge and expertise. Khazanah has overseas offices to support its investment activities, though it has recently reduced them in number together with a reduction in its exposure to overseas investments. Khazanah and other GLCs engage in exchanges with MITI and MIDA on relevant policy issues.

4.3.3 Home country measures for OFDI of Malaysia

In the 1990s and 2000s, Malaysia liberalized capital flows in and out of the country. In 1995, income from overseas investments in most sectors of the economy was made tax-exempt, tax deductions were available for expenditures associated with overseas business ventures, and tax incentives were offered for foreign acquisitions if they involved obtaining high technologies for production in Malaysia or generated new export markets for Malaysian products (Menon, 2014). The rules for foreign exchange administration of residents' investments overseas have been liberalized since 2005 (Bank Negara Malaysia, 2018; Tham et al., 2015).[12]

As a result, Malaysia is an open economy today without meaningful restrictions on outward investment by ownership or sector. The Government maintains liberal foreign exchange administration rules as prudential measures to assure monetary and fiscal stability. These include some restrictions for companies which have borrowed domestically in Ringgit.[13] GLCs would have to seek approval from their board before

[12] MIDA website, http://www.mida.gov.my.

[13] Bank Negara Malaysia website, http://bnm.gov.my.

investing abroad. Malaysian firms have been rather more challenged by difficulties in executing their investments in host countries, some of which result from regulatory uncertainties whilst others are a consequence of their need to gain more experience as international investors (Bank Negara Malaysia, 2018).

MATRADE and MITI, together with their overseas missions, offer support services to Malaysian companies of any kind that intend to invest abroad. Firms particularly appreciate the information they provide on rules and regulations in foreign countries, labour laws, promoted sectors for investment in foreign countries, political risk, market insights, costs of doing business abroad and potential business partners. Information is also provided on incentives, tax and visa regimes in host countries. MATRADE and MITI inform on overseas investment opportunities, organize factfinding missions, arrange meetings for Malaysian companies with representatives from investment agencies, ministries and authorities abroad, and provide matchmaking services. Seminars and workshops are held on how to conduct overseas business, involving banks, business associations and foreign embassies in Malaysia. MATRADE tends to be responsive to inquiries by firms seeking OFDI opportunities, rather than pro-actively promoting OFDI. Its main mission continues to be export promotion, with OFDI assuming a secondary role. Accordingly, MATRADE's website does not detail the services it provides for OFDI.

MATRADE manages two schemes to support the internationalization of the services sector. The Services Export Fund offers grants and soft loans to companies for activities that promote exports, which includes setting up offices abroad and bidding for overseas projects. The Large Corporations and SMEs Partnership Programme offers provision of grants and incentives for collaborative engagements between large and small firms, which includes projects abroad. There are publicly communicated eligibility criteria for receiving these awards, which are available for specified activities.[14] Both programmes have been offered for the 2015-2020 period. Firms often use these funds for feasibility studies, project bids and participation in tenders overseas. SMEs can especially find this kind of support beneficial.

Soft loans under the Services Export Fund are disbursed by MIDF.[15] In addition, the EXIM Bank, established in 1995, has for many years provided medium- and long-term credit to Malaysian companies investing abroad (Tham, 2007). It currently offers overseas investment financing for Malaysian companies and overseas project financing.[16] The EXIM Bank also offers political risk insurance for OFDI, covering transfer restrictions, expropriation, war and civil disturbance and breaches of contract.[17] The SME Bank provides financial support for overseas business expansion (Tham, 2007), though it has a much broader mandate. It is a development finance

[14] MITI website, http://www.miti.gov.my.

[15] MITI website, http://www.miti.gov.my.

[16] Malaysian EXIM Bank website, http://www.exim.gov.my

[17] Malaysian EXIM Bank website, http://www.exim.gov.my

institution founded in 2005 to support the activities of SMEs in Malaysia. The SME Bank is owned by the Ministry of Finance and regulated by Bank Negara Malaysia, the country's central bank.[18]

Malaysia has concluded 66 BITs (MITI refers to these as "investment guarantee agreements")[19] of which 54 are in force and 25 TIPs of which 22 are in force.[20] The Government also negotiates DTTs. Many of the investment treaties were originally concluded to promote inward FDI into Malaysia. MITI is responsible for negotiating investment treaties, including regional and multilateral agreements such as the Regional Comprehensive Economic Partnership (RCEP). The large companies and GLCs are more likely to take investment treaties into account as one of the factors when making choices about OFDI, whereas smaller companies may be less aware of Malaysia's international agreements.

MITI and MATRADE provide operational support to Malaysian firms abroad by connecting them with relevant ministries, agencies, business associations and councils, potential partner companies and prominent individuals. Firms particularly appreciate the meetings arranged with decision and policymakers at the highest levels of government and business, such as presidents, prime ministers, secretary generals and leaders of business groups. Another form of operational support is the collaboration between the Governments of Malaysia and China in founding the China-Malaysia Qinzhou Industrial Park in southern China in 2011 to deepen economic cooperation between both countries.[21]

Malaysia specifically advances the generation of home country effects in the area of export earnings. MATRADE takes advantage of its responsibility for OFDI to promote exports associated with Malaysian investments abroad. It encourages Malaysian investors to source parts and components from Malaysia, provides relevant information, identifies suitable suppliers and connects these suppliers with investing companies.

4.4 The Philippines

4.4.1 OFDI trends of the Philippines

The Philippines has experienced growth in OFDI over the past 15 years, as shown in figure 14, with a considerable surge in OFDI stock occurring after 2012. Flows have, however, remained volatile over the years. The overall stock of investment reached $52 billion in 2018. UNCTAD bilateral OFDI data for 2016 indicates China; Hong Kong, China; and Singapore as by far the largest recipients of Filipino OFDI. The

[18] SME Bank website, http://www.smebank.com.my.

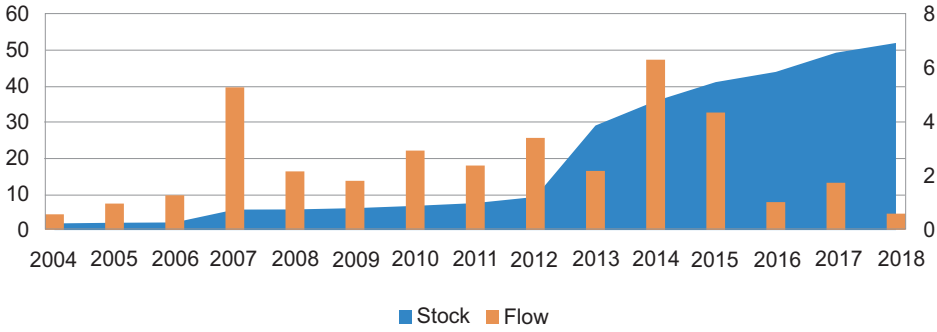
[19] MITI website, op.cit.

[20] UNCTAD Investment Policy Hub, http://www.investmentpolicy.unctad.org.

[21] Malaysia-China Business Council website, http://www.mcbc.com.my.

United States, and to a lesser extent the United Kingdom and India, are also among the larger recipients. There are some investments in Malaysia, Viet Nam and Indonesia, and more investments in other ASEAN member States might be channelled via Singapore for tax reasons.

Figure 14. OFDI from the Philippines, 2004-2018 ($ billions)



Source: Author's calculations based on UNCTADStat.

OFDI from the Philippines has tended to be export market-seeking with some cases of strategic asset-seeking investments in developed economies such as the United Kingdom or the United States. Many of the companies going abroad are large and privately owned. There is evidence from one study that OFDI complements exports from the Philippines (Ahmad et al., 2016).

4.4.2 Strategy and institutions for OFDI of the Philippines

The Philippine Development Plan 2017-2022 does not address OFDI and the country does not have an official OFDI strategy. There is no destined government department with responsibility for OFDI policy. Nevertheless, promotion of OFDI by private firms does take place, especially to support Filipino companies in developing new markets, increase exports and engage in efficiency-seeking activities.

The Philippine Board of Investments (BOI) is an agency attached to the Department of Trade and Industry (DTI). While its focus is on attracting inward investment, is does support OFDI, especially investments needing joint venture partnerships. The Foreign Trade Service Corps (FTSC) is the diplomatic arm of the DTI for overseas markets and is composed of trade representatives and commercial attachés deployed abroad. FTSC also focuses on trade and inward investment,[22] but has the mandate to support OFDI. Philippine investors use the FTSC offices overseas as contact points when they

[22] Philippines DTI website, http://www.dti.gov.ph.

need to engage with their home government. In addition, the Export Marketing Bureau under the DTI is responsible for export trade promotion.[23]

4.4.3 Home country measures for OFDI of the Philippines

The Government of the Philippines has only few foreign exchange administration rules, such as requirements for non-bank corporations to notify the Central Bank about outward investments beyond a specified threshold amount.[24] Thus, there are no meaningful restrictions on OFDI by private firms. Many government-owned and controlled corporations (GOCCs), i.e. SOEs, have their own charters of law within which specifications are made on the extent to which they are allowed to invest abroad. This can vary by sector. GOCCs are commonly found in the finance, trade, area development and tourism, education and culture, gaming, energy and materials, agriculture, fisheries and food, and utilities and communications sectors. In addition, there are barriers to OFDI experienced by Filipino companies in host economies. Filipino firms take into account the economic impact in host economies when making their OFDI decisions, and more recently consider compliance with international norms, corruption and cultural factors.

The FTSC provides investors with information on host countries, including investment climates, rules and regulations. This information, together with advice given on how to undertake OFDI, has generally been important to firms. Through its overseas offices, the FTSC supports Filipino investors locally in host countries worldwide. The BOI organizes investment missions and provides matchmaking services for potential Filipino investors, again with the support from the overseas offices of the FTSC. Some limited trainings are offered as part of the export promotion programme, which can touch on investment issues such as how to establish an overseas representative office. The DTI and BOI websites are focused on trade and inward investment, respectively, with no dedicated page for OFDI. This reflects a prioritization for attracting investment and promoting exports to achieve developmental outcomes.

The Government of the Philippines does not support its OFDI through financial or fiscal support. Political risk insurance has been outsourced to external providers.

The Philippines has concluded 36 BITs of which 32 are in force and 16 TIPs of which 14 are in force.[25] Negotiators take OFDI increasingly into consideration when negotiating investment treaties. The Government also negotiates DTTs, which are of particular interest to Filipino companies.

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[23] Philippines DTI website, http://www.dti.gov.ph.

[24] Bangko Sentral Ng Pilipinas website, http://www.bsp.gov.ph.

[25] UNCTAD Investment Policy Hub

4.5 Comparison of cases

Table 13 presents a comparative overview of the three cases. While the three countries had many similarities, such as being in the same geographic region, the characteristics of their economies differed on important aspects such as ownership of companies, industrial composition and level of economic development. This made them a useful set of cases for comparison of OFDI policies and HCMs.

"The institutional arrangements in countries for OFDI tend to improve and expand with the level of OFDI"

Malaysia was the first of the three countries to register considerable growth in OFDI, followed by Thailand and the Philippines. Accordingly, Malaysia was the first to incorporate OFDI into its policy planning in the mid-2000s, followed by Thailand after 2012 and the Philippines more recently. Today, OFDI stock from Thailand and Malaysia are at similar levels, and both have in the past incorporated OFDI into their medium-term economic planning and development policymaking, though Malaysia has shifted strategy over time. The Philippines has still less than half the amount of OFDI stock compared to Thailand and Malaysia. Its policy approach to OFDI has thus been less detailed and its HCMs have to date been less extensive.

The policies and HCMs in all three countries avoid discriminating by type of OFDI, though there is some preference for private firms and for nurturing the generation of exports and associated income as a priority home country effect. The latter is particularly visible in Malaysia, where MATRADE as the dedicated export promotion agency has taken over responsibility for OFDI and aims to maximize the export-generating potential of OFDI. This aims at contributing to achieving SDG 17.11 (increase the exports of developing countries) and SDG 9.2 (promote inclusive and sustainable industrialization). Thailand emphasizes exports but looks beyond them, hoping for greater financial earnings from OFDI and gains in technology, know-how and industrial upgrading. In addition to SDGs 17.11 and 9.2, Thailand's approach aims at achieving SDG 17.3 (mobilize additional financial resources), SDG 9.5/9.B (upgrade the technological capabilities, support domestic technology development), SDG 12.A (strengthen scientific and technological capacity) and SDG 17.16 (mobilize and share knowledge, expertise, technology and financial resources).

"Malaysia, Thailand and the Philippines have few if any OFDI regulatory constraints and all have developed institutional arrangements for OFDI promotion and support"

As Malaysia's approach is global but strongly focused on export promotion, it may miss opportunities to nurture other home country effects, such as those generated from know-how or natural resources acquisition. By contrast, Thailand has a regional focus, limiting its HCMs to ASEAN, broader Asia and key emerging markets. On the one hand, Thailand's focus on OFDI to other developing countries might be sub-optimal when it comes to supporting the acquisition of know-how and technologies (Pananond & Cuervo-Cazurra, 2015), but on the other hand, companies with the

Table 13. Comparison of cases

	Thailand	Malaysia	Philippines
OFDI stock in 2018	$121 billion	$119 billion	$52 billion
OFDI in development plan	12th National Economic and Social Development Plan (2017-2021)	Third Industrial Master Plan (IMP3) 2006-2020	No
Main supported motivations	Markets, efficiency, resources, strategic assets	Markets, efficiency, resources, strategic assets	Markets, efficiency
Home country effects in focus	Financial earnings, export earnings, know-how/innovation, upgrading, growth	Export earnings	
Priority areas for HCMs	OFDI in the region and key emerging markets	OFDI-associated exports	Joint ventures
Key institutions	BOI and TOI	MATRADE	DTI, BOI and FTSC
Restrictions	Only foreign exchange procedures	Only foreign exchange procedures	Restrictions on some SOEs
Services	Information, missions, matchmaking, training, consultancy	Information, missions, matchmaking, training	Information, missions, matchmaking
Financial support	EXIM Bank loans	MATRADE grants, MIDF and EXIM Bank loans	None
Investment insurance	EXIM Bank insurance	EXIM Bank insurance	From financial institutions
Treaties	Yes, OFDI considered	Yes	Yes, OFDI considered
Operational support	Policy-related support overseas	Policy-related support and auxiliary services overseas	Policy-related support overseas
Maximizing benefits	Enhancing prerequisites	Encouraging generation of effects	
Monitoring & evaluation	Listening sessions and questionnaire survey		

confidence to invest in developed economies may already possess sufficient capabilities and should not need to draw on the kinds of support offered by the Government.

All three countries have a specified main institution responsible for OFDI, but the detailed setup differs. Thailand has assigned responsibility for OFDI to a separate sub-division within the main IPA promoting inward investment, i.e. the BOI, creating a clear division of responsibilities while keeping both inward and outward investment in the same organization. Malaysia has deliberately placed responsibility for OFDI outside of its main IPA and in an organization with competence and expertise related to one key home country effect. The Philippines have kept responsibilities for inward and outward investment within the same organization.

These institutions provide a set of services to promote OFDI which typically includes information provision on host countries, OFDI and HCMs, investment missions, matchmaking services to connect investors with governments and businesses overseas, and the provision of training and seminars. In Thailand and Malaysia, the EXIM Banks provide loans and political risk insurance for OFDI, and other financial institutions tend to offer similar services. OFDI restrictions are limited to foreign exchange-related notification procedures, and there are some sector-specific restrictions for Philippine SOEs.

All three countries have concluded and ratified many BITs, TIPs and DTTs, which are especially important for larger companies and investments. OFDI is increasingly considered in investment agreement negotiations next to inward investment. The three countries differed in their approaches to assigning responsibility for negotiating treaties to specific government agencies.

The provision of operational support to companies invested overseas was for the most part limited to engagements with the host country governments should this prove necessary. Similarly, there were few efforts at maximizing benefits. Thailand has expressed its ambitions to boost the capabilities and absorptive capacity of domestic firms, which is important at an early stage of OFDI growth. Malaysia's encouragement that firms procure components and goods from Malaysia is a form of direct nurturing of a home country effect.

In sum, the institutional arrangements and HCMs in place in all three countries could be considered commensurate with their level of development and amount of OFDI stock. The extensiveness of HCMs tend to increase with the degree of OFDI a country experienced, with some consideration for the home country effects to be nurtured. Yet, there is still scope for more extensive and sophisticated arrangements, especially should OFDI from these countries increase further in the future. In particular, there is the possibility to direct HCMs more specifically towards the generation of the desired home country effects. The menu of options presented in the next chapter aims at supporting governments in thinking strategically about employing HCMs to nurture home country effects from OFDI.

Chapter 5

OFDI and Home Country Sustainable Development – A Menu of Options for Policy Makers

5.1 Summary of findings and conclusions

This study has highlighted several reasons why home country effects from OFDI should to a greater extent be built into the investment policies and measures of developing countries in Asia and the Pacific. First, OFDI from countries in the region has grown considerably in recent years. This applies not only to OFDI from larger economies, but increasingly also to smaller countries especially in South-East Asia. The degree to which countries are internationalized through OFDI (measured by OFDI as a percentage of GDP) is also quite high in some smaller developing countries. Governments in Asia and the Pacific therefore need to be aware of the implications resulting from the growth in OFDI for their economies and development.

Second, OFDI has the potential to facilitate positive development outcomes in home countries. This study took stock of the home country effects that have been found to exist and the factors influencing their effectiveness, identifying 11 home country effects which can contribute to rising economic growth. Their relevance for global development policy was then established by linking home country effects to specific SDGs, demonstrating how OFDI needs to form part of the agenda to achieve them. Available evidence, including the quantitative analysis provided in this study, suggests that home country effects do occur in many countries, contexts and circumstances. The quantitative literature is, however, biased towards larger countries with greater amounts of OFDI, such as China. This study made the first inroads into filling gaps related to the evidence of home country effects in other developing economies, particularly in Asia and the Pacific. In doing so, it showed that OFDI has positive impacts on GDP, exports, inward FDI and in most cases on R&D. Furthermore, the quantitative analysis also suggested that deeper regional integration may positively affect these impacts – something which lends further support to the need for countries in the region to move further towards enhancing regional economic integration and cooperation. While more quantitative work is still needed, especially on several other home country effects, the contributions this study has made in this area confirm not only the existence of home country effects in developing countries of the region, but also the importance of developing and implementing policies that can appropriately and effectively harness such effects. It is important to note however, that in some circumstances, unfavourable implications may also result from OFDI. The evidence of positive effects should nevertheless be sufficient to compel governments in developing countries that home country effects need to be considered in the process of investment policymaking.

Third, this study took stock of the HCMs that have been used to facilitate, promote and regulate OFDI. It then considered how governments can target HCMs towards specific investments, companies and sectors to increase the likelihood of achieving the desired economic outcomes. HCMs have been used for many years by governments in developed economies and some larger developing countries (especially China). Smaller developing countries, including those in Asia and the Pacific, appear to be behind in the utilization of HCMs, despite growing OFDI flows. The fact that other countries have already developed HCMs is another reason for governments of smaller countries to equally consider them in the development of their investment policies.

Fourth, to gain further insights into the situation in smaller economies in Asia and the Pacific, the HCMs of three countries in South-East Asia were examined in greater detail. Thailand, Malaysia and the Philippines were selected as they had considerable amounts of OFDI and relatively high levels of internationalization through OFDI. An examination and comparison of these three cases finds that they have all been developing HCMs over the past two decades in line with OFDI growth. For example, they had no meaningful regulatory constraints on most OFDI, and specific government agencies were designated as the institutions responsible for OFDI promotion and support. In a few areas, targeting of specific investments or companies existed. The main areas of OFDI support and facilitation were covered, but more comprehensive, strategic approaches that utilize HCMs to achieve positive developmental outcomes remained underdeveloped. There may be a need for a toolkit that can help policymakers better navigate the complexities in this area of economic policymaking.

5.2 A menu of options to develop OFDI policies

Pooling the findings of the chapters in this study yields a menu of options that governments can consider for developing OFDI policies. This menu of options is presented in table 14 and consists of four categories. The starting point for governments would be to identify the home country effects they would like to facilitate, based on existing development priorities, the characteristics of the home economy and its firms, and other considerations. Effectively, the home country effects would be the goals to be achieved by governments through appropriate HCMs. The factors that can influence the effectiveness of specific home country effects then need to be taken into account in the specification of appropriate approaches to leverage OFDI for home country development. The available HCMs are listed in the third column, with governments having to choose those measures that are most promising for achieving the aspired home country development effect, taking available capacities and resources, policy priorities and other issues into account. Finally, governments have to choose among different options for targeting HCMs at specific investments, companies or sectors. The menu of options reduces complexity by presenting the available options in one framework. It is not supposed to be fully comprehensive – new options can be added in the future when they are discovered, as indicated by the dots at the end of each column.

The menu makes it possible to work through the four categories to develop strategic approaches for OFDI policy. For example, if the desired home country effect is to enhance export earnings (first column of the menu of options), the next step would be to determine which factors might influence the generation of this effect (second column). Particularly promising for the generation of home country exports might be investments with market-seeking motivations and in sectors where the home economy has strong, internationally competitive products. In light of these objectives and considerations, a government might, as a third step, put corresponding HCMs in place (column 3), e.g. those that focus on providing services to help market-seeking investors enter overseas markets. Such services could involve designating an agency to provide information on overseas markets and organize investment missions to promising host countries. The government could also offer operational support by establishing links with relevant government agencies in the host country and encouraging banks and law firms to provide services that support market-seeking investors. As a final step, the government could target these HCMs not only towards market-seeking investors, but also towards promising sectors or firms. For example, the responsible agency could tailor its services to sectors that are known to be internationally competitive, or alternatively, its service delivery could be channelled especially to support promising OFDI projects by companies with known difficulties in internationalization and foreign market access, as is often the case with SMEs due to their size.

The combinations of viable options across the four categories will vary depending on the home country effect to be achieved and other factors, such as the characteristics of the home economy and its firms. When the objective is to enhance domestic know-how rather than seek markets, the focus might rest more on full acquisitions in developed economies in sectors where domestic know-how is needed and absorptive capacity is sufficient, with promotion efforts focusing on offering financial support and matchmaking services. If resource security is to be achieved from OFDI, the acquisition of foreign mining concessions will be important, and governments might support this through investment treaties, political risk insurance and diplomatic backing. HCMs would be targeted at large natural resources companies with many years of mining experience. These are just some general examples of how the options in the four categories can be combined to develop appropriate and suitable investment policies aimed at nurturing specific home country effects. There are likely many possible combinations, with some working better than others. A future effort could be made to identify those combinations that come close to resembling “best practice” in OFDI policymaking.

Several important issues must be taken into account when considering the possibilities offered in the menu of options. For any home country effect to be selected for policy support, a convincing economic case needs to be made that it can indeed be achieved in the country given the available economic circumstances, sectoral composition of the economy, characteristics of the MNEs and their investments, and so on. The available empirical evidence needs to be considered in this context, at least to the extent possible given limitations in the amount of available studies. The

Table 14. A menu of options for governments to leverage OFDI for home country development[26]

Home country effects	Influencing factors	Home country measures	Targeting
• Financial earnings • Export/output • Domestic investment • Know-how • Improved standards • Industrial upgrading • Productivity • Resources capacities • Tangible assets/ products • Employment • Economic growth • [...]	• Host economy • Investing MNE • Industrial sector • Investment motivation • Entry mode • Degree of ownership • Time since investment • Policy context • Absorptive capacity • Transmission channels • [...]	• Institutions • Regulations • Services • Financial support • Fiscal support • Investment insurance • Treaties • Operational support • Maximizing benefits • Monitoring & evaluation • [...]	• Investment motivation • Investment strategy • Entry mode • Investment destination • Investment size • Company size • Company ownership • Company nationality • Business experience • Industrial sector • OFDI that would otherwise not occur • Realization of home country effects • [...]

decision to nurture specific home country effects may follow the development priorities of the country, which are often laid out in masterplans or other key policy documents. Another consideration is the cost and resources of required HCMs, which can vary considerably by type of measure. Information services should for instance be cheaper and more easily implemented than the provision of loans. The potential unfavourable effects of any type of OFDI and the associated capital outflows need to be taken into account. A key consideration in developing countries will be the extent to which capital outflows may have a detrimental impact on the balance of payments. Finally, governments may need to anticipate the political implications at home or abroad resulting from the introduction of specific HCMs. For example, acquisitions that are supported by financial measures might be viewed with concern by the governments of host economies worried about competitive neutrality in the bidding process. All these considerations can have a considerable impact on which combination of options might actually work for a specific country and yield the desired home country effects.

It is hoped that this menu of options will be useful for governments of developing countries in Asia and the Pacific. As many smaller countries in the region are still in the process of introducing and enhancing their policy approaches towards OFDI, it might help navigate an increasingly important, yet complex area of economic policymaking. ESCAP, together with the World Economic Forum, is therefore in the

[26] Multiple combinations of options are possible and depend on the priorities and development characteristics of the home countries developing the OFDI policy. The purpose of this table is to introduce a simplified version of the menu of options. A detailed version of this menu of options, including possible combinations, will be presented in a joint ESCAP and World Economic Forum publication on OFDI policies which will be released in early 2021.

process of developing this menu of options further so that policymakers in the region and beyond may use it as a guide for developing their own OFDI strategies and policies. Together, both organizations will release an OFDI policy toolkit in 2021. Of course, it is important that such a policy toolkit is also refined as more relevant evidence emerges over time and governments in Asia, the Pacific and beyond gain further experience with the utilization of HCMs to leverage OFDI for development.

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Annex

List and categorization of ESCAP member States

[H]	High-income country
[OECD]	OECD member country
[H&OECD]	Countries to be excluded from the statistical analysis, as both high-income and OECD countries
**	Least developed country

Afghanistan**
Armenia
Australia [H&OECD]
Azerbaijan
Bangladesh**
Bhutan**
Brunei Darussalam
Cambodia**
China
Democratic People's Republic of Korea (the)
Fiji
France [H&OECD]
Georgia
India
Indonesia
Iran (Islamic Republic of)
Japan [H&OECD]
Kazakhstan
Kiribati**
Kyrgyzstan
Lao People's Democratic Republic (the)**
Malaysia
Maldives
Marshall Islands (the)
Micronesia (Federated States of)
Mongolia
Myanmar**
Nauru
Nepal**
Netherlands (the) [H&OECD]
New Zealand [H&OECD]
Pakistan
Palau [H]
Papua New Guinea
Philippines (the)
Republic of Korea (the) [H&OECD]
Russian Federation (the)***
Samoa
Singapore [H]
Solomon Islands**
Sri Lanka
Tajikistan
Thailand
Timor-Leste**
Tonga
Turkey
Turkmenistan
Tuvalu**
United Kingdom of Great Britain and Northern Ireland (the) [H&OECD]
United States of America (the) [H&OECD]
Uzbekistan
Vanuatu**
Viet Nam

Source: https://www.unescap.org/about/member-states

ISBN: 978-92-1-120811-5