Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.4, No.16, 2013

The Global Pattern of Foreign Direct Investment in Recent Years

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Abstracts
Foreign direct investment (FDI) has a high impact on income and revenue generation to various countries in developing and developed countries. Some countries via their companies used FDI and Foreign Portfolio Investment (FPI) to advanced and control flow of investment to their mother countries. Similarly, global pattern of foreign direct investment has shifted from developed countries to developing countries with more inflow to countries of Brazil, Russia, India, China and South Africa (BRICS). Despite domination of FDI by triangle of trade (TRIAD) countries of America, European Union, Japan and United Kingdom as countries with higher inflow of foreign direct investments. Consequently, most of the countries among BRICS and TRIADS uses Tax haven for tax evasion and manipulations. Capital flight is another advantage used by United States of America to have more FDI due to power of its currency. Within last decade a significant shift FDI to developing countries has indicates change in global pattern in FDI. African countries suffer more from capital flight due to lax custom and border regulation and laws.

1.0 INTRODUCTION

The theory that introduces foreign direct investment starts with Adam Smith's (1776) theory of international Trade in relation to absolute cost advantage. The theory stipulates that countries should produce what they have an absolute advantage and trade with countries on what they have absolute advantage on. Similarly, David Ricardo (1817) adds to the theory of Smith to formulate Theory of comparative Advantage. He outlines that countries should look at the efficient utilization of scarce resource. Also, Dunning (2009) explain the eclectic theories with the emergence of Multinational Corporations and the nature of their existence in OLI paradigm. Similarly, Porter adds to the theory of comparative advantage to include "Advanced factors" (Faulkner and Segal-horn 2004).

Sanyal (2001) outlines three theories in connection to FDI which are Overlapping Product Theory by Steffen Linder: that cost is not the key element but similarities of taste by consumers in different countries in a similar position or class .His theory explains the similarities of consumption of Developed Countries. Secondly, Factor Proportion Theory OF Eli Heckscher and Bertil Ohlin who emphasized on efficient combination of some factors of production such as labour and capital with technology. He outlines that cost of labour is in relation to its availability, the countries with lower availability of capital and higher availability labour, the labour cost would be low and vice- versa. Finally, Raymond Vernon suggest a theory that when products reaches a maturity stage. Therefore, it profit will diminished at its peak which led the company to change location in other to have lower cost of production. This is due to emergence of competitions. However, there was no much discussion on FDI. In addition, Porter's diamond theory comes with four assumptions which are: (a) factor conditions (b) Demand incentives (c) Related supporting companies (d) firm strategy, structure and rivalry. That explains some part of FDI (Porter 1990). Dunning (2009) recommend that porter's theory and OLI theories need augmentation and "reconfiguration of eclectic paradigm".

2.0 LITERATURE REVIEW

Since, FDI is mostly concerned with the Multinational Corporations (MNC) as define by Dunning and Lundan (2008) as a corporation that engage in foreign direct investment with more than one territorial district. Dunning (1998) explain the existence of MNC in OLI paradigm. Sanyal (2001) define FDI as investment by a multinational corporations which gives them a controlling interest of 10% of any organisation from any location in the globe. Han *et al* (2003) highlights that there is widely disagreement on what constitute FDI. He sees FDI as an investment by MNC in another country for management control. He contends that what constitutes controlling interest defend on countries. United States of America set 10% of total ownership whiles some countries outline 25% control interest . Hill (2005) explains that FDI happens when firm invest directly in foreign companies or create a market outside it territory with 10% or more. He proceed that FDI can be vertical or horizontal. Vertical are a means which subsidiaries supplied raw materials or input for the parent company. While horizontal is the expansion of parent company in the same line of business abroad.

It's essential to differentiate between FDI and Foreign Portfolio Investment (FPI). According to Dunning and Lundan (2008) FDI is an investment in other countries that gives the investor a controlling interest in the company's activities. While Foreign Portfolio Investment (FPI) is the portfolio acquisition in foreign company that did not give the investor a controlling interest. It's mostly short time. Therefore, the controlling interest could be through merger and acquisition, setting foreign subsidiaries called (Greenfield) and opening of branches. The objective of FDI is to give a company managerial right and controlling interest while FPI is to give a company rate of growth in the holding company. Eitman *et al* (2009) argues that FDI start with the self-examination of a firm performance and its sustainability in the competitive advantages in its home market. Dunning and Lundan (2008) proceeds to explain that FDI is not taking over overall control of the foreign firm but to have a valid and significant level of management influence.

2.1 TYPES OF FDI

Hill (2007) emphasized that the choice between Greenfield and Merger or Acquisition defends on the circumstances of the investment. Green field ventures in foreign country are concern with starting a subsidiary from scratch that is building it. It would be a platform for transferring organizational working culture, technology, competencies, knowledge and efficient way of building staff strength. He argues that M&A is better because, it's an acquisition of existing and established firm with experience staff that can reduce the possibility of cultural mismatch. He proceed to explain the fall of acquisition of Daimler and Chrysler motor company in US by German due to management philosophical mismatch , optimistic and over payment of acquired asset. This indicates that they all have disadvantages. Also, among the factors that encourage inflow of FDI: Mayer, Coupet and Que're' (2005) study the role of institutions of host countries in determining FDI. They concludes that good institutions, low corruption, high income in relation to GDP, political stability, property right, standard judicial system are among the determinant of FDI. Dunning(2009),Dunning, Lundan and Hodgetts (2008),Liu and Daly(2011), Steagal- Horn(2004) outlines that determinant of FDI are natural resources, large size of domestic market, good climate conditions, educated labour force that can adopt to the advancement in technology faster, lower cost of labour, favourable tax system, size of the population. Similarly, FDI by industries, In recent years Manufacturing and Service industries increase with more than $100 billion. While the primary sector decline with $100 billion. This shows the attractiveness of service and manufacturing sector to FDI (UNCTAD, 2011c).

2.2 POLITICAL RISK, GOVERNMENT REGULATION AND COST

Pustay and Griffin (2010) argue that political risk is any distortion in the normal political environment that has a negative impact on MNC. The distraction could be in the form of: property risk: which means confiscation property, kidnapping, extortion, terrorism, high tax, high environmental regulation. Secondly, with financial regulations government regulate the repatriation of profit to parent company and movement of fund in and out of the host country. Tayeb (2000) observes that there are two type of government regulations: Economic and Political. Economic deals with protecting infant industries; importation and improved standard of living by subsidies.

While political regulation deals with the political motives of government; protect national security and foreign aid. However, FDI increase in Mexico despite the **increase rate of drug violence and Killings**. There is growth in FDI from 2006-2007 to $31Billion dollars. In recent period FDI accounts for 28.5% than the first period of 20.5%. There is high increase in the deadly zone across the border from $9.2Billion to $14.7 Billion. Mexico has a good judicial system framework, lower cost of labour, location specific-advantage close for export to US and NAFTA (Thomson, 2011). Similarly,

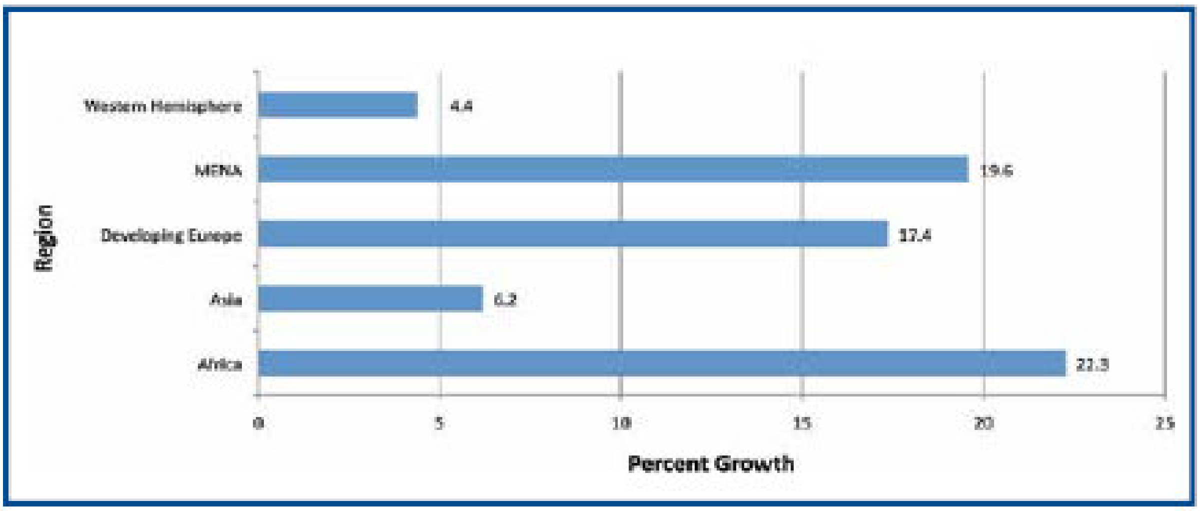
Cost is an important determinant factor that affects FDI. Elsey, Dalkiran and Harrison (2008) indicates that MNE transfer wholly or partly of their activities to location with low labour cost in other to reduce cost and enhanced competitiveness in the global market. Internalization is an efficient way of reducing cost of production, service and operation of MNE. Recently, according to Mushin (2011) India government set to expand it consumer market to $450 Billion on 25 Nov, 2011.but controversies engulfed with high protest and criticism with presence of **TESCO, WALMART and CARREFOUR**. The protest leads to the adjournment of parliament session.it also, challenges the efficiency of Indian government and give chance to opposition to campaign with it. It was suspended by government after it 12 DAY BIRTHDAY in India.

2.3 CAPITAL FLIGHT

United States due to its political stability is regarded as a safe haven. It has a massive inflow of fund from other countries. Investment is high in US due to level of certainty in US dollar. Firms and people chose to keep their treasury in dollars (Pustay and Griffin, 2010).Therefore, the little available to some countries their elite move those resources to developed countries to the detriment of their people (Yalta 2010). Capital flight is the transfer of the financial resource illegally. Financial times (2011b) says that Africa is blessed with natural resources. Consequently most of the banks were owned by foreigners like Backleys bank. It's argued that $358 billion were taken illegally from Africa from 2008 to 2009. This confirmed by Nigerian president in his speech in common-wealth business forum in Australia that the illegal capital flight from Africa reaches $845 billion in 38 years

(Oghu, 2011). Bond (2008) outline that exploitated debt, looting and capital flight cause lower FDI in Africa. He made his point that transfer pricing, hedging system of TNC, corrupt leaders increased the flow of FDI to developed countries. He emphasized that $24 billion is lost due to Multifibre Agreement and $35 billion to protection tariffs.
According to Global Financial Integrity (2011) US government emphasized that criminals; kleptocrats take an opportunity of the loophole in US law to hide their illegal money. Also, that led to have a Transparency and enforcement Assistance Act and reforms of money laundering Act. This clearly shows the composition of US economy. In another report from 2000 to 2009 developing countries lost $8.44 Trillion to illicit outflow. In 2006 alone they lost $1.06 trillion, while 2009 lost from $775 billion to $993 billion. The illicit flow increased by 14% annually. African continent have 22.3% increased in a decade. Middle East and North Africa 19.6%, developing economy has 17.4% Asia 6.2% and Northern Hemisphere has 4.4%. Illicit financial flow is seen as the undocumented acquisition of foreign asset due to illegal means that contradict the laws and regulatory framework (Global financial integrity, 2011). The most illicit capital flow exporters are oil rich countries. However, china remains the highest illicit due to inflow from other countries in relation to financial crisis in developed countries. Refer appendix 13. The Mis-pricing is the major way of transferring illicit capital from oil countries. Mis- pricing is due to lax customs enforcement and regulation. That is why china penetrates the oil countries.

CAPITAL FLIGHT BY REGION



SOURCE: GLOBAL FINANCIAL INTERGRITY, 2011

2.4 TAX HAVEN

Global financial integrity (2011) and The Economist (2011) defines tax haven as a destination that imposed NO tax to foreigners or at a lower rate. It's a place that MNC, corrupt individuals, criminals hide their undisclosed financial affairs. Stephen and McClatchey (2011) see it as there is no general accepted definition. However, is a territory that there is asymmetric of financial information backed by government law, no nominal taxes, lack of transparency, financial secrecy and manipulation of tax figures in order to attract investment. Therefore, tax haven enables dictators, corrupters, looters, MNC to hide their billions of money. Consequently, it made the "Criminogenic environment" that is criminals held the poor and tax payers in extreme difficult position. Tax justice network (2011) understand that $1.6 Billion dollars flows every year from developing countries and transition countries .Also, developing economics lost $800 Billion to $1.26 trillion in 2008 all due offshore accounts. It's also found that money in tax haven offshore account is getting to $9 trillion more them all the money deposited in American banks.
Action Aid (2011) unveiled that 98 of 100 United Kingdom biggest companies listed in London stock Exchange are using the tax haven places. The UK banking sector is the Highers user. In Jersey alone about 8554 companies in FTSE 100 index companies "more than the whole China" located in offshore. The economics (2011) argues that London city and Wall Street automatically allows flexible tax haven as part of their business model.

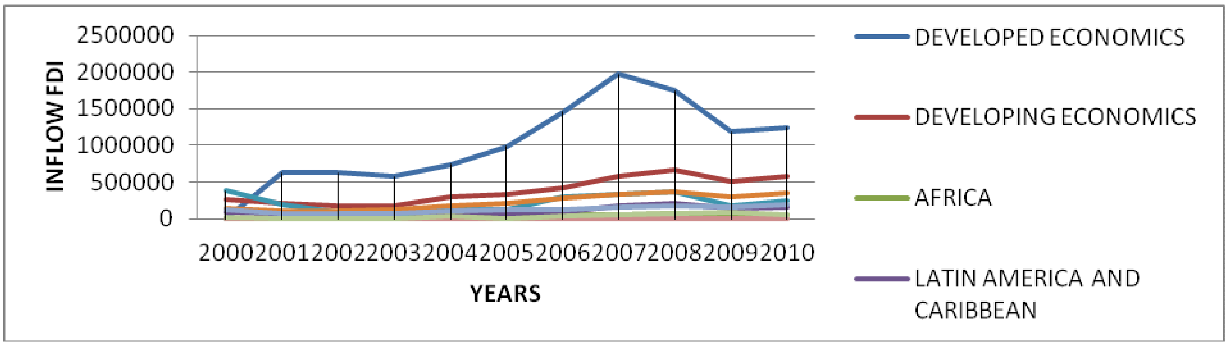
3.0 METHODOLOGY

This study utilized secondary data for the analysis and discussions. The secondary data was provided from already established and published data which is related to the scope of the study. Windows excel 2010 version was used to draw graphs of the study. The empirical analysis is derived from data base of World-bank, UNCTAD, Action aid and others.

4.0 GLOBAL TRENDS OF FDI

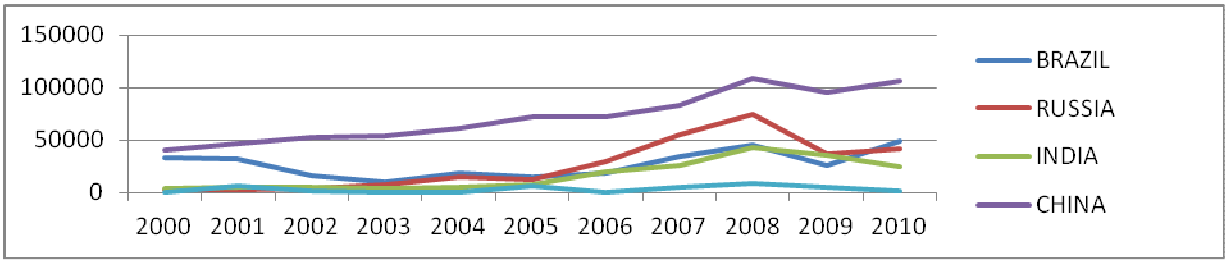
Below graph shows the inflow of FDI in the last decade. Developed countries maintain the lead followed by developing economics, Asia as a whole and Africa at the bottom.

GRAPH 1 INFLOW OF FDI BY REGION AND ECONOMY



SOURCE: UNCTAD, 2011

GRAPH TWO: FDI INFLOW BY REGION AND ECONOMY 2000-2010

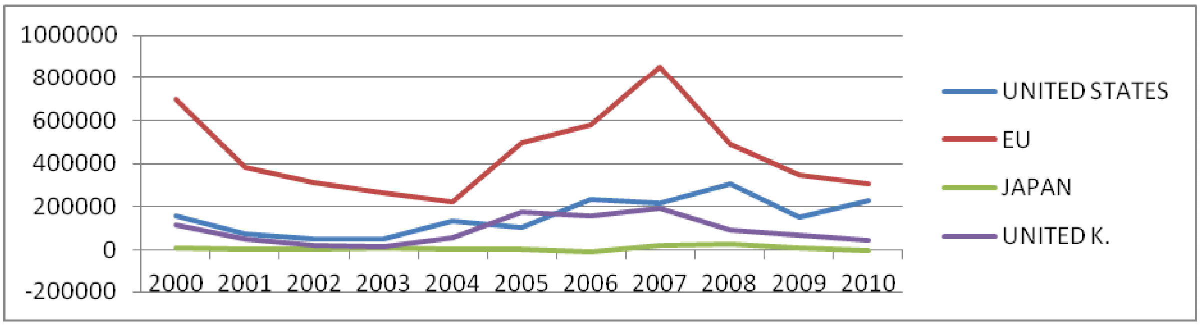


SOURCE: UNCTAD, 2011

Some countries are called BRICs. These BRICs countries have an objective of exploiting market opportunities and investments. These counties are Brazil, Russia, India, China and South Africa. Some regards them as emerging economics while some rank them among the ten developing economies. This countries produce products relative to the size of their markets, customized their brands with internalization to compete with foreign products. They exploit opportunities in in each other's market and other market of the world. .

The BRICs countries exploit input-seeking investment because their countries provide them with a different endowment as describe in Porters Diamond Model and internalization variable of ILO Theory. The above graph shows, the total inflow in BRICs countries amounting to $1,594,421 trillion in *ten years* trend. It accounts for 12% of the total world inflow between 2000 to 2010 respectively. This indicates the application Porters Diamond (Refer to appendix 7b). After porter Diamond Model BRICs exploit other drives like innovation, investment and wealth. The internalization plus merger and acquisition help the BRICs. The global pattern of FDI is moving towards emerging economics. Rugman, Collinson and Hodgetts (2006) outline that UK Government in 2002 transfers it back office operation to India from Reading. This shows the diversification of risk to non TRIAD region. Also serves as inflow of FDI. He emphasized that labour cost, input cost is high in TRIAD region.

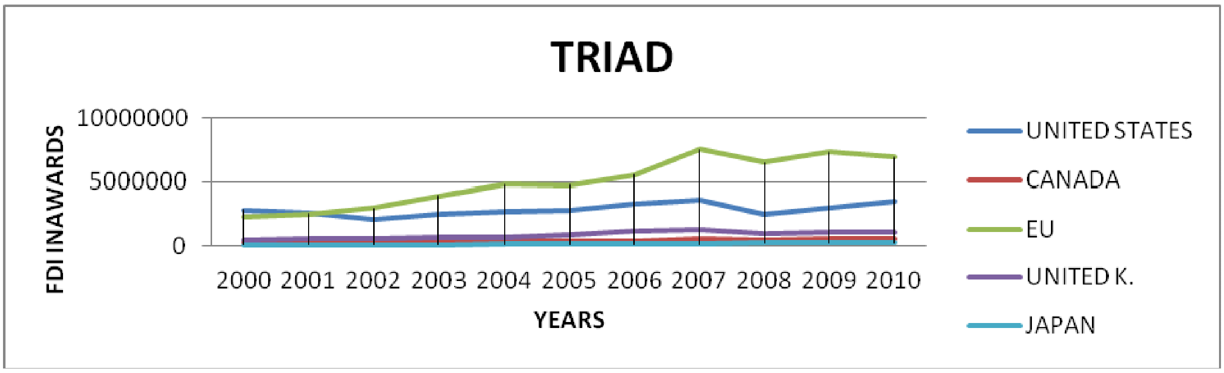
GRAPH THREE*: *FDI INFLOW OF TRIAD 2000-2011



SOURCE: UNCTAD 2011

The flow of FDI is largely in these countries called TRIAD which are US, EU, UK and Japan. Most effective are US, Japan, UK and Germany. The top 50 MNCs are almost concentrated in TRIAD region. The total inflow of TRIAD is 7,002,747 in a decade representing 55%.This show that the global trend of FDI is flowing to TRIAD countries. According to Rugman , Collinson and Hodgettes (2006)TRIAD dominated the inflow of FDI in the last decade up to the early 2000 to 2002 when it inflow has 58.7% of the world FDI. TRIAD is the core in international area. UNCTAD (2011a) the volatility of market with sovereign debt has caution the investment of TNC in developed economics. This shows that there would be more flow of FDI to emerging economics. Also due to location specific- advantage, ownership-advantage, and internalization augmented with market seeking and the cluster of industries within emerging economics. EU with it fifteen countries members experience a downturn from 2006-2010.

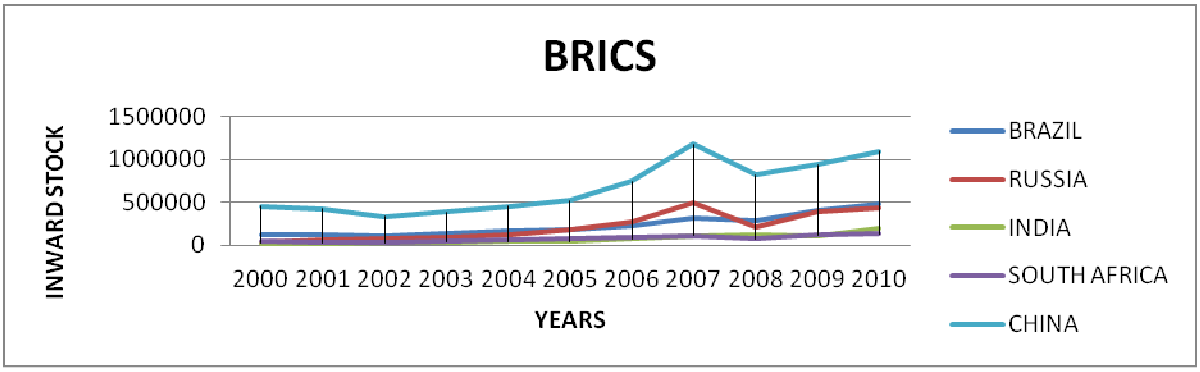
GRAPH FOUR:



SOURCE: UNCTAD 2011

According to Elsey,Dalkiran and Harrison (2008) the " trade triangle" or TRIAD dominate the international trade. They promote the ideology of trade liberalization. The EU is the leading recipient of inward FDI. US second and Japan at the bottom with $214 billion.

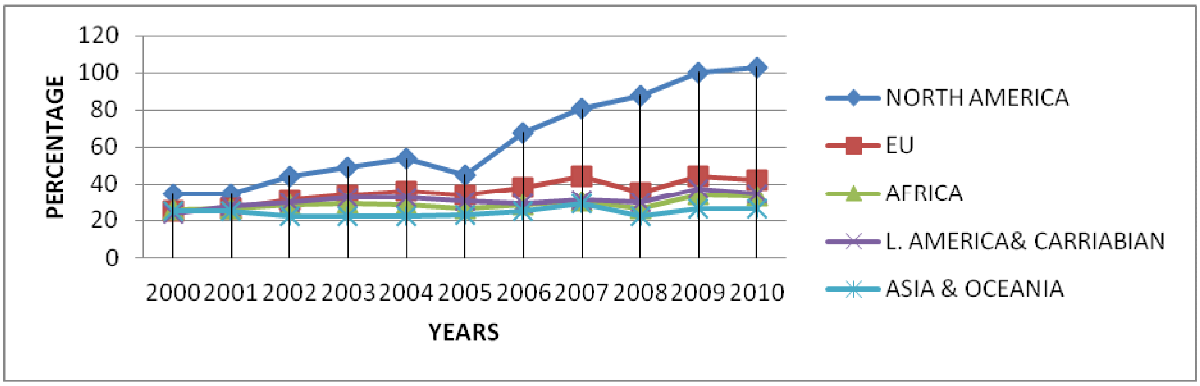
GRAPH FIVE: INWARD STOCK BY REGION AND ECONOMY 2000-2011



SOURCE: UNCTAD 2011

Inwards FDI by stock in BRICs indicates that china is the highest with $10 billion. In 2001-2010 china increased with $12 billion. In 2010 it has double the figure to 105,734 in BRICs have a total of $1.49 billion. Consequently, the inwards has been increasing in subsequent years. Also, the graph slopes in 2002 and raise in to its peak in 2007 with Russia gaining increase in 2007 and 2009.

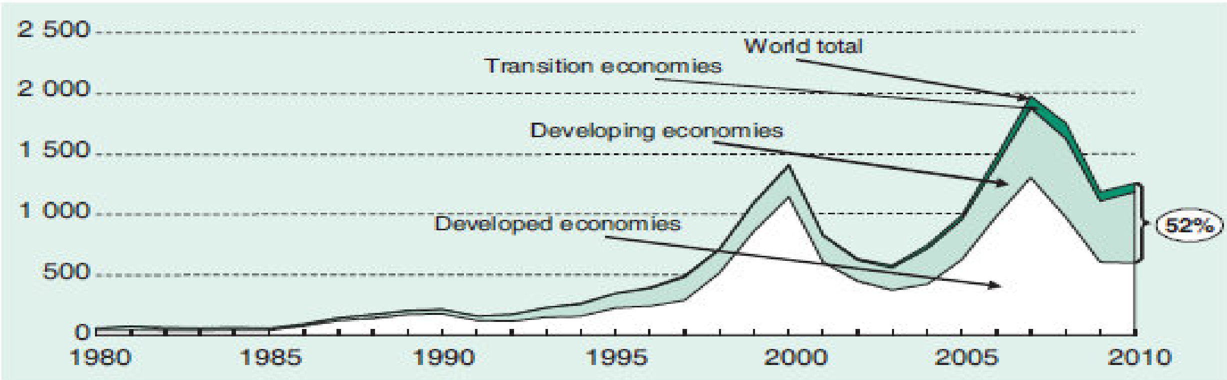
GRAPH SIX: GLOBAL INWARD FDI STOCK PERCENTAGE ON GDP



SOURCE: UNCTAD, 2011

From the above table it shows that North America increased in 2005 and continued to increase. EU slopes due to sovereign crisis that effect Italy, Greece, and others. Therefore, it has a slope in 2008 and maintain in 2009. Asia and Oceania remained at the bottom due the large population of China and other countries. China alone has approximately 1.3 billion people. This really effects the calculation of percentage of GDP. Refer to appendix 7. The ranking indicates the advantage of strategic cluster of double diamond. The TNC are mostly located in US and established relevance in other countries. The TRIAD countries have the most concentrated TNC in their countries. The percentage of China and US in relation to top twenty countries inflows of FDI is indicated in appendix 8b. China and United States has approximately 20% even without Hong Kong of the global inflow. The ranking by Unctad (2011a) shows with TRIAD and BRICs countries and Tax haven countries have more inflow of FDI.

GRAPH SEVEN: INFLOW OF FDI



SOURCE: UNCTAD 2011

According to UNCTAD (2011a) the inflow in transitional and developing economics is increasing up to 52% in 2010. This shows that the low cost countries were benefitted from the downturn of developed economics that force companies to relocate to cheaper locations. This increased the flow of FDI to China and other emerging economics.

The developed countries have the Highers inflow of FDI in the last decade. However, in recent years the flow of FDI has decline due to merger and acquisition in developed economics, boast of domestic demand and activities of some Asia countries and the impact of BRICS and emerging economics. The East Asia experience growth that have (4) four countries in the ranking.

Africa have a growth in 2005 to 2010 with Egypt, Nigeria and Angola having above $5 million inflow with South Africa declining to its quarter of 2009 inflow. While Latin America and Caribbean decline to in the late 90st and increased to $206 million and fall to $159 million. Developed economics increased to about $1.1trillion in 2000 and decline to $620 billion due to global financial crisis and sluggish investment. Italy that has $40 billion in 2007, then gains a $10 billion negative inflow in 2008. Another TRIAD country UK suffered a serious decline in2008-2010. Japan FDI increased in 2007 from $8 to $22500.Africa as a continent increased from $ 10 billion in 2000 to $63 billion in 2008 due to oil boom and investment in infrastructural sector. Also has $55 in 2010(UNCTAD 2011a).

UNCTAD (2011a) says that "developing economics and transition economics- for the first time- surpassed the 50% per cent mark of global FDI flow". However, more TNC are investing in developing economy due it location-specific advantages and market growth. Dunning (2009) outline the growth in technology and the merger and acquisition plus the institutional determinant of Chinese and Indians MNE bring more FDI to these countries. Less developed countries increases from $5billion to 26 billion in 2010. While, landlocked countries and small Island developing states (SIDS) increased from $2 million to in 2000 to $7 million in 2007 and continued to decline. In 2001 due to September 11 attack the US inflow decline, it continued to decline in 2003 to $53 billion, in 2008-2009 the fall of Lehman brothers and financial panic it slid to $152 billion. Finally it increased to$228 billion. China receives more than $110 billion making it second recipient of FDI. While Hong Kong part of china received more than $68 billion making it third. The inflow of FDI has change to more developing and transition economics increase by 10% while developed countries decreased to 7% in 2010.

5.0 CONCLUSION

The global pattern of FDI is moving towards emerging economics. As emphasized by UNCTAD (2011a) that "developing economics and transition economics- for the first time- surpassed the 50% per cent mark of global FDI flow". More developing countries are ranked among the highest recipient of FDI in the last decade. Developed countries are diminishing in inflow of FDI in recent years. Although, must of Transnational

Corporations are owned by developed economics. Consequently, this shows that most of TRIAD and some BRICs countries are enjoying tax haven and illicit capital inflow to the detriment of other countries. This countries channel their financial resources and profits to reflect in island and places of tax haven. It's in fact that FDI flows from developing and least developing countries to developed and some emerging economics. MNC increased their FDI through hedging funds, transfer pricing and tax haven. Similarly, some developed countries benefits from tax haven. Also, Capital flight is the transfer of the financial resource illegally from one country to another. This capital flight has downgrade investment and creativity of some countries. Similarly, it beneficial to some countries and brings more inflow of FDI to these countries.

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