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

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Main Highlights

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

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

- Home Country ‘Push’ Factors
- Host Country ‘Pull’ Factors
  - Market and trade conditions.
  - Costs of production.
  - Business conditions.
  - Government policies.

- Hong Kong – Both outward and inward FDI could be primarily explained by industrial restructuring and cost of production differential with China. Outward FDI is heavily dominated by services sector.

- Taiwan – Outward FDI from Taiwan has shifted away from the ASEAN countries towards China due to the latter’s advantage in production of labour intensive manufactured goods.

- Using absolute and relative importance of exports and FDI it is shown that China is a major recipient of both goods and FDI from Hong Kong and Taiwan.
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The **Outward FDI Performance Index** is calculated as the share of a country’s outward FDI in world FDI as a ratio of its share in world GDP.

- Seems to be inherently biased against economies with large GDP.
- Assumes that a country with a large GDP will also have more outward FDI.
- Given that majority of the FDI is ‘market-seeking’ firms of a large country will have less incentive to invest abroad.
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In both Hong Kong and Taiwan outward FDI is dominated by services.

Globally, sectoral mix of FDI has shifted towards services and especially to areas that were closed to FDI before.

Main determinants of FDI in services

1. Traditionally, a major part of FDI in services has been undertaken by firms that support existing trade and/or manufacturing.
2. Several countries have made themselves more attractive as host countries by liberalizing their inward FDI policies.
3. As more and more knowledge-intensive services are being traded across borders, service providers are increasingly choosing internalization.
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Trade and FDI: Substitutes or Complements?

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  - Substitutes: Horizontal FDI displaces trade i.e. FDI is "tariff-jumping" and is positively related with trade costs.
  - Complements: Vertical FDI splits the production process into segments that are relatively intensive in different factors of production, which are located in country that is abundant in the required factor.

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