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Competition Among Developing Countries for Foreign Investment in the Eighties – Whom Did OECD Investors Prefer?

By

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I. Introduction

Economic performance in developing economies followed much more uneven tracks in the eighties than in the seventies. While a number of East and Southeast Asian countries achieved high increments in real per capita income based on investment-conducive domestic economic policies, Latin American economies in general and especially low-income African economies experienced major setbacks and crises. The purpose of this paper is to show first that uneven tracks of economic performance were accompanied by significant shifts in foreign direct investment between industrial market economies and developing economies on the one hand and among developing economies on the other hand (Section II). Tendencies towards concentrating total foreign equity capital (including investment in mining and services) on few developing economies have already been confirmed in recent studies [e.g. OECD, 1989; UNIDO, 1990]. Yet, the extent to which such trends held for all major capital-exporting economies as well as for investment in manufacturing and non-manufacturing activities in the same way, remained open in these studies. In particular, the equality or inequality of investors' preferences towards specific developing economies and the similarity of changes in such patterns of preference were not dealt with.

Thus, the second part of the paper (Section III) is devoted to a test of similarity of the regional distribution of foreign investment originating from four major OECD economies (the US, the UK, Japan,

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and West Germany). Throughout the paper, investment in manufacturing and non-manufacturing is analysed separately in order not to confuse entirely different preconditions and determinants of investment in commodities, manufacturing and services. To take account for such differences, tests of similarity of regional patterns are run for investment in the manufacturing sector, which is the most compatible one in inter-OECD country comparisons.

As far as data sources are concerned, the difference made between non-manufacturing and manufacturing requires to rely on stock data collected from regular surveys and census and not on flow data gained from the balance of payments. Shortcomings inherent in using stock data (coverage, valuation, aggregation level and the discrepancy between approved and realised investment) are acknowledged, but regarded as minor compared to the use of aggregated flow data. Section IV concludes on the results.

II. Regional Shifts in OECD Foreign Investment in the Eighties

Tables 1 to 4 summarise the changes in the regional patterns of investment during the period 1978–88. The results are rather discouraging for the developing economies:

(*i*) As a group, all developing economies lost their attractiveness as hosts relative to developed economies. This holds for investment in manufacturing and non-manufacturing as well (Table 1). Losses were particularly severe in the case of Japan which traditionally has had a much broader investment base in developing countries than any of the other sample countries. By 1987/88, developing countries including the so-called Newly Industrialising Economies (NIEs) accounted for 12–19 per cent of total foreign investment in manufacturing of all sample countries except for Japan, while a decade ago the share was in the range of 20 per cent.

Investment shares in non-manufacturing seem to have been much more volatile and thus more difficult to interpret than investment in manufacturing, but in general the attractiveness of developing countries declined in non-manufacturing, too. A slightly different result emerged for US investment which by 1988 reached the level (in terms of shares) which the US had already achieved in developing countries ten years ago.

Changes in shares in investment in non-manufacturing activities reflect two diverging trends, that is, a decline of investment in com-

Table 1 – *Share of Developing Countries in Major OECD Countries' Foreign Direct Investment in Manufacturing, Non-Manufacturing and All Industries (Stock data)*

The Netherlands[a]	*1978*	*1982*	*1984*	*1988*
Manufacturing (excl. mining, oil, petrochemicals)	20.0	24.7	16.2	19.3
Non-manufacturing	19.9	17.1	14.1	10.4
All industries	19.9	19.0	14.5	12.6
Japan[b]	*1978*	*1982*	*1985*	*1988*
Manufacturing (excl. mining, fishing, agriculture)	71.9	61.6	55.1	38.3
Non-manufacturing	45.6	47.8	46.3	38.2
All industries	56.4	53.3	49.4	38.5
United Kingdom[c]	*1978*	*1981*	*1984*	*1987*
Manufacturing	17.0	16.3	14.3	12.4
Non-manufacturing	27.1	31.1	20.3	18.0
All industries	20.4	21.8	18.4	16.0
United States[d]	*1978*	*1982*	*1985*	*1988*
Manufacturing (excl. petroleum)	19.2	23.2	20.2	18.7
Non-manufacturing	27.9	23.1	24.8	27.1
All industries	24.1	23.1	22.9	23.5
West Germany[e]	*1978*	*1981*	*1985*	*1988*
Manufacturing	n.a.	23.2	19.3	17.9
Non-manufacturing	n.a.	13.8	10.8	7.9
All industries	17.0	18.2	14.5	12.4

[a] Position of the Netherlands FDI based on annual surveys conducted by the Nederlandsche Bank. Figures include investment in the Netherlands Antilles. – [b] Approved accumulated investment at the end of fiscal year. – [c] Book values of United Kingdom outward direct investment attributable to UK companies. Figures for 1978 and 1981 exclude oil companies, banks and insurance companies. – [d] Book value of US direct investor's equity in, and net outstanding loans to, their foreign affiliates. – [e] Position at year-end including investment of holdings.

Source:

The Netherlands: De Nederlandsche Bank, Quarterly Bulletin, current issues.
Japan: Ministry of Finance.
United Kingdom: Business Monitor, Census of Overseas Assets, MA4, 1981 Supplement, London 1986; MO4, 1984, London 1988, MO4, 1987, London 1990.
United States: Department of Commerce, Survey of Current Business, current issues.
West Germany: Deutsche Bundesbank, Statistische Beihefte zu den Monatsberichten, Reihe 3, Zahlungsbilanzstatistik, current issues.

modities during the period of declining commodity prices and the emergence of investment in service sectors which proved to be most rapidly growing (albeit from a low base). The net effect of both trends turned out to be negative for developing countries, however.

(*ii*) How individual developing regions performed in their competition for risk capital is demonstrated in Table 2. The overall finding for the manufacturing sector confirms a priori assumptions based on differentials in overall macroeconomic performance between many Asian countries and Latin America: Foreign investment shifted from Latin America to Asia. Such shifts started from different levels and at different speeds, of course, but they held for investment from each of the five OECD countries.

In spite of the shifts, South America kept its dominant role as a host region among non-OECD countries for West Germany and the US in absolute figures, while Japanese investors tightened their position in the preferred Asian region. So did UK investors during 1984–87. In the manufacturing sector, both Africa and the Middle East experienced a rapid erosion of their locational competitiveness which in the latter region was solely built upon oil derivatives. Africa continued to rely on old stocks of ex-colonial investment of the UK in Commonwealth countries (e.g. Nigeria, Kenya, Ghana, Zimbabwe, and Zambia to mention the most important hosts).

Investment in non-manufacturing again shows much more volatility in regional shares than investment in manufacturing. Two regional shifts deserve attention: Caribbean offshore centres have accounted for a growing share of investment in services while at the same time commodity-based investment declined in the Middle East and East Asia. Which region absorbed a rising share on balance depends on the weight of services and commodity investment in the individual home countries' portfolio. For Japan, for instance, commodity-based investment in Asia has traditionally dominated. Probably as a result of declining commodity prices in the eighties, Japanese investment in the non-manufacturing sector in Asia declined in relative terms. In the case of UK investment on the other hand, the Caribbean area which is basically the residual of the four regions listed in Table 2, absorbed more than one third of the non-manufacturing investment in developing countries in 1987, mostly in service industries (1981: about 18 per cent). Major host countries were Bermuda, Netherlands Antilles, Cayman Islands, and Antigua.

(*iii*) Of particular interest for assessing changes in the locational competitiveness of developing countries is the distribution of incre-

Table 2 – *Share of Developing Regions in Major OECD Countries' Foreign Direct Investment in Developing Countries (Stocks), 1978–88*

	SA	SSA	ME	OAP	SA	SSA	ME	OAP	SA	SSA	ME	OAP	SA	SSA	ME	OAP
The Netherlands[a]		*1978*				*1982*				*1984*				*1988*		
Manufacturing (excl. mining, oil, petrochemicals)	34.5	7.4		16.3	32.5	3.8		21.7	42.8	4.4		33.5	30.6	3.8		27.6
Non-manufacturing	18.7	7.5		20.5	17.1	8.5		28.1	13.7	14.1		24.0	18.7	7.6		33.0
All industries	25.2	7.5		18.8	22.1	7.0		26.1	20.9	11.7		26.3	23.2	6.2		31.0
Japan		*1978*				*1982*				*1985*				*1988*		
Manufacturing	25.1	0.6	13.5	53.4	24.0	1.0	10.8	56.7	25.3	1.0	9.4	56.9	20.8	0.7	6.6	65.3
Non-manufacturing	19.0	12.5	2.1	57.9	13.2	13.0	1.3	53.5	9.2	11.2	1.7	45.5	5.9	8.2	1.3	38.9
All industries	20.4	6.5	13.1	52.5	16.6	8.0	8.8	52.7	14.1	7.4	7.2	48.0	9.7	6.0	4.6	45.6
United Kingdom		*1978*				*1981*				*1984*				*1987*		
Manufacturing	37.9	22.1	0.7	33.5	18.6	31.6	1.2	32.4	24.1	28.1	1.4	38.5	17.6	18.0	2.0	52.2
Non-manufacturing	2.9	50.6	13.4	31.8	2.9	30.1	5.7	42.6	6.2	13.1	6.1	35.6	7.6	10.3	3.0	29.8
All industries	23.4	34.9	6.4	32.7	13.9	30.7	3.8	38.2	10.7	16.8	4.9	36.3	12.4	12.4	2.5	35.8
United States		*1978*				*1982*				*1985*				*1988*		
Manufacturing	77.1	2.0	1.3	14.3	56.1	1.9	2.4	14.0	51.4	1.8	1.9	19.3	49.6	1.3	2.1	25.2
Non-manufacturing	40.1	–	–	18.0	31.3	5.3	10.8	32.8	23.2	5.3	12.6	34.8	17.9	4.4	6.9	24.2
All industries	53.1	7.9	–	16.7	41.3	8.8	7.4	25.3	33.4	8.5	8.7	29.2	28.2	6.0	5.3	24.5
West Germany		*1978*				*1981*				*1985*				*1988*		
Manufacturing	n.a.	n.a.	n.a.	n.a.	87.2[b]	4.0	n.a.	8.1	83.8[b]	3.2	n.a.	10.6	86.2[b]	2.0	n.a.	11.0
Non-manufacturing	n.a.	n.a.	n.a.	n.a.	37.1[b]	17.9	n.a.	17.0	44.9[b]	12.7	n.a.	22.3	44.2[b]	4.0	n.a.	31.8
All industries	66.9[b]	10.7	6.9	10.2	67.0[b]	9.6	3.9	11.7	67.3[b]	7.2	2.3	15.6	70.8[b]	2.7	1.1	18.6

[a] The Netherlands subsume some European economies under developing countries. – [b] All Latin American countries including the Caribbean and Central American countries. – SA = South America incl. Mexico; SSA = Sub-Saharan Africa; ME = Middle East; OAP = Other Asia and Pacific. Developing countries not included in these regions mostly comprise Caribbean and Central American economies with large amounts of offshore investment as well as resource-based investment in Northern African countries. – n.a. = not available.

Source: See Table 1.

mental investment, that is their part in the changes of stocks in investment during the eighties. Table 3 highlights that for total investment between two thirds at the minimum (Japan) and almost 93 per cent of incremental investment (West Germany) at the maximum was absorbed by OECD countries. In the manufacturing sector, the minimum share of OECD countries exceeded even 70 per cent. Thus, while some developing countries definitely succeeded in penetrating into world markets of manufactures, their role as hosts of foreign investment from OECD countries remained very limited: at best they absorbed one third of investment growth (in the case of Japan). In the manufacturing sector, the performance was even less favourable than in non-manufacturing where the UK, Japan and the US discovered some Asian economies as hosts for service industries. The West German pattern differs markedly from the other three OECD countries. Developing countries widely failed to attract additional West German investment in the eighties. In the manufacturing sector, for instance, incremental investment was larger in Spain and Portugal than in all developing countries. Unlike Japanese investors, West German companies continued to expand their capital exports to Latin America more than to Asia. This happened in spite of the fact that Asian hosts rose in importance in terms of shares (Table 2). Absolute increments of investment were still larger in Latin America.

On balance, Table 3 underlines that the lion's share of foreign investment in the eighties went to OECD countries (excluding Japan as a major host), while developing countries in general and the large Latin American economies in particular experienced a declining attractiveness to foreign investors.

(*iv*) Table 4 specifies the results gained above by disaggregating the changes in investment shares for individual host countries. A distinction is made between the group of so-called first generation NIEs comprising Brazil, Mexico, Hong Kong, South Korea, Singapore, and Taiwan on the one hand and another group of three resource-rich ASEAN member countries (Indonesia, Malaysia, Thailand) plus Argentina on the other hand as so-called second generation NIEs. In general, Brazil, the major host for all four OECD countries' manufacturing investment in developing countries, declined in importance in three cases (except for the US). Mexico, the second largest Latin American host, regained much of its attractiveness which was lost at the beginning of the eighties when the country passed through a deep crisis. The clear winners in locational competition were the four Asian NIEs of the first generation with Hong Kong and Singapore

Table 3 – *Regional Distribution of Changes in Stocks of Foreign Direct Investment of Japan, the US, the UK and West Germany, 1980–88*[a] *(Per cent)*

Home countries	Host countries							
	OECD countries					Developing countries		
	Total	United States	Japan	EC-12	Spain + Portugal	Total	South America	Asia + Pacific
Japan								
Manufacturing	71.3	55.2	–	10.1	1.8	28.7	5.1	20.9
Non-manufact.	63.1	38.3	–	17.3	0.1	36.9	1.2	13.0
All industries	65.2	42.2	–	16.0	0.6	34.8	2.2	15.1
United States								
Manufacturing	83.7	–	10.9	55.7	2.2	16.3	7.8	8.4
Non-manufact.	74.2	–	8.3	38.9	1.3	24.5	3.5	9.7
All industries	77.9	–	9.3	45.5	1.5	21.3	5.2	9.2
United Kingdom								
Manufacturing	94.0	44.7	3.8	34.0	5.2	7.7	0.5[b]	7.4
Non-manufact.	84.5	37.2	0.5	30.6	1.3	14.9	1.5	3.4
All industries	86.7	38.9	1.3	31.4	2.2	13.2	1.5	4.5
West Germany								
Manufacturing	89.7	30.1	4.2	41.6	11.2	10.1	8.4[b]	2.0
Non-manufact.	94.8	28.6	2.8	48.7	5.7	1.6	1.7	2.7
All industries	92.8	29.2	3.4	45.9	7.0	5.3	4.4[b]	2.4

[a] Differences between stock values at year-end 1988 and 1980 (incremental investment); for Japan fiscal year; for West Germany 1981–88; for UK 1981–87. Figures for the UK may exceed 100 because of absolutely declining investment in the Middle East, Sub-Saharan Africa and South Africa the latter of which is neither in the OECD nor in the LDC group. – [b] Including Caribbean and Central American countries.

Source: See Table 1.

clearly in the lead in both manufacturing and non-manufacturing. Among the second generation NIEs, Indonesia, the primary host of Japanese investment in mining, sizably declined in the ranking whereas Thailand climbed upwards. The clear loser in this second group was Argentina which gained only West German investors but remained unimportant for Japanese firms and lost ground in US and UK investment.

It is interesting to note that except for Argentina all host countries are classified as the only non-OPEC developing countries among the

Table 4 – *Share of Major Hosts in Individual OECD Countries' Foreign Direct Investment in All Developing Economies by Sectors, 1976–88 (Per cent)*

		First generation NIEs						Second generation NIEs			
		Brazil	Mexico	Hong Kong	S. Korea	Singapore	Taiwan	Indonesia	Malaysia	Thailand	Argentina
Japan											
Manufacturing	1976	27.4	3.5	2.3	11.4	5.1	5.0	16.2	4.8	4.0	0.3
	1980	22.8	3.4	2.2	9.4	8.3	4.1	18.4	5.5	3.5	0.2
	1984	23.2	5.2	1.9	7.3	10.9	4.6	18.3	6.1	4.1	0.4
	1988	19.1	5.2	2.6	8.4	10.5	7.8	15.6	7.1	7.7	0.5
Non-manufact.	1976	11.8	0.4	6.3	3.6	1.3	0.2	37.0	2.7	1.0	0.3
	1980	10.3	5.5	9.1	3.4	2.2	0.2	29.3	1.9	1.0	0.2
	1984	6.1	2.6	11.1	2.6	2.3	0.2	25.4	1.2	0.9	0.4
	1988	3.9	1.4	11.0	3.0	3.5	0.5	13.6	0.9	0.9	0.2
All industries	1976	17.1	1.6	4.2	6.5	2.8	2.1	25.6	3.3	2.1	0.3
	1980	15.1	4.5	5.7	5.9	4.9	2.2	22.9	3.4	2.1	0.2
	1984	11.7	3.4	7.7	4.2	5.3	1.8	21.9	2.9	1.9	0.4
	1988	7.9	2.3	8.7	6.7	5.4	2.5	13.8	2.6	2.8	0.3
United States											
Manufacturing	1976	32.2	19.5	n.a.	n.a.	n.a.	n.a.	0.9	n.a.	n.a.	7.9
	1980	29.1	25.5	1.9	1.1	2.2	1.9	0.8	0.9	0.5	8.8
	1984	35.9	19.3	1.9	1.0	4.8	2.6	0.5	2.1	0.9	8.3
	1988	36.1	18.4	2.4	2.0	8.0	4.6	0.4	2.1	1.3	4.9
Non-manufact.	1976	10.0	4.3	n.a.	n.a.	n.a.	n.a.	7.8	n.a.	n.a.	2.7
	1980	6.9	4.1	4.7	1.1	2.3	0.5	3.4	2.6	0.8	2.6
	1984	8.4	3.0	9.2	1.7	3.3	0.8	12.4	2.5	3.0	3.8
	1988	5.6	1.8	8.5	1.6	1.9	0.7	5.6	1.5	1.5	2.3
All industries	1976	18.8	10.3	n.a.	n.a.	n.a.	n.a.	5.1	n.a.	n.a.	4.7
	1980	14.3	11.3	3.7	1.1	2.3	1.0	2.5	2.1	0.7	4.6
	1984	18.7	9.1	6.5	1.5	3.7	1.5	8.0	2.3	2.2	5.5
	1988	15.4	7.2	6.5	1.7	3.9	2.0	3.9	1.8	1.5	3.1

(Table continued on next page)

(Table 4 continued)

		First generation NIEs						Second generation NIEs			
		Brazil	Mexico	Hong Kong	S. Korea	Singapore	Taiwan	Indonesia	Malaysia	Thailand	Argentina
United Kingdom											
Manufacturing	1978	27.6	4.4	1.9	n.a.	4.6	n.a.	0.7	11.6	0.2	4.9
	1981	12.5	n.a.	1.7	n.a.	8.9	n.a.	n.a.	6.1	0.3	3.4
	1984	11.5	6.9	3.1	n.a.	11.9	n.a.	1.2	7.8	0.1	4.5
	1987	12.0	n.a.	9.9	n.a.	20.0	n.a.	1.0	7.0	1.4	3.9
Non-manufact.	1978	2.0	0.4	15.4	n.a.	3.3	n.a.	0	4.4	1.3	0.2
	1981	2.5	n.a.	22.1	n.a.	5.1	n.a.	n.a.	11.1	0.7	0.2
	1984	5.8	0.2	13.7	n.a.	8.6	n.a.	2.8	6.9	0.7	0.1
	1987	7.4	n.a.	15.2	n.a.	5.2	n.a.	1.3	5.0	0.6	0.1
All industries	1978	16.1	2.6	8.0	n.a.	4.0	n.a.	0.4	8.3	0.7	2.8
	1981	6.8	4.5	13.4	n.a.	6.7	n.a.	1.2	9.0	0.5	1.5
	1984	7.2	1.8	11.1	n.a.	9.4	n.a.	2.4	7.2	0.5	1.2
	1987	8.7	2.0	13.8	n.a.	9.1	n.a.	1.2	5.5	0.8	1.1
West Germany											
Manufacturing	1981	60.6	13.7	0.3	0.4	1.4	0.4	1.0	1.5	0.2	7.9
	1985	60.8	7.1	0.3	1.0	1.8	0.4	1.3	1.4	0.2	10.5
	1988	55.8	15.4	0.4	1.1[a]	2.5	0.7[a]	0.7[a]	1.3[a]	0.2[a]	10.8
Non-manufact.	1981	3.3	1.8	4.6	0.2	7.9	0.2	0.6	1.0	0.6	1.8
	1985	7.9	1.3	6.1	0.4	8.2	0.3	n.a.	1.0	0.3	3.5
	1988	12.2	2.9	10.5	0.7[a]	9.5	0.5[a]	0.7[a]	1.4[a]	0.9[a]	3.9
All industries	1981	37.4	8.9	2.0	0.4	4.0	0.4	0.8	1.3	0.4	5.4
	1985	38.4	4.6	2.7	0.7	4.5	0.3	n.a.	1.2	0.2	7.5
	1988	39.8	10.8	4.1	1.5	5.1	0.7	0.7	1.1	0.5	8.3

[a] 1987.

Source: See Table 1.

forty leading world exporters [GATT, 1989, p. 3]. Yet, they were by no means as dominant in attracting investment in manufacturing as they were in merchandise trade. Large inward-looking economies as well as countries with long-standing bilateral ties to OECD countries have kept strong positions in the preference scale of individual home countries. This has become very evident in the UK investment pattern, for instance. Commonwealth countries like Kenya (4.2 per cent of the UK manufacturing investment in developing countries in 1987), Nigeria (2.8 per cent), Zimbabwe (3.8 per cent), and in particular India (7.7 per cent) bear witness of special relations which neither correspond to their macroeconomic performance nor to their export position. The US have similar links to countries like Venezuela, the Philippines, Colombia, and India.

Apart from the striking contrast between the attractiveness of Asian versus Latin American hosts, Table 4 reveals remarkable differences between pairs of hosts which are frequently labelled as economies with a similar resource endowment, e.g. Singapore and Hong Kong on the one hand and South Korea and Taiwan on the other. With respect to the first pair, Hong Kong remained a marginal host of foreign investors in manufacturing (except for the UK) while Singapore enjoyed the largest increases in inflows from three of the four OECD countries (West Germany was the exception). Hong Kong's assets relative to Singapore's grew in non-manufacturing, that is they attracted investment in services, though Singapore did well too. South Korea and Taiwan display less clear-cut results. They remained "empty boxes" for investors from Europe and seemed to have been fairly selective in allowing investors to move in. This was the case in South Korea for joint ventures with Japanese car producers and in Taiwan for US producers of business machines and related equipment. Clear upward trends in hosting foreign investors can be observed for Taiwan only, while South Korea was a more important host for Japanese manufacturers in the late 1970s than ten years later.

III. The Similarity of Regional Patterns of OECD Countries' Foreign Direct Investment in Developing Economies for the Case of Manufactures

It has been shown above that traditional preferences of individual home countries remained largely unchanged in spite of two prevailing trends in all OECD countries' investment, that is the concentration on intra-OECD flows and – among developing economies – the shift from Latin America to Asia. The dominance of Brazil in West Germany's investment or of Indonesia in Japanese investment were cases in point. The extent of inertia in such regional patterns may be influenced by a number of firm-specific and non-price factors, which are known from the literature on the determinants of foreign investment [e.g. see Agarwal, 1980; Casson, 1987; Dunning, 1981; 1988]. Yet, such inertia can mainly be observed for investment in host countries with inward-looking policies and a large domestic market. This points to the relevance of protective policies in favour of import-substituting production established by foreign companies. Such policies may privilege the forerunners among the investors against the latecomers and thus help to sustain existing regional patterns of preferred hosts.

Whether such patterns can be identified at the beginning of the period under observation and, if so, whether they remained stable over a decade, can be answered by subjecting the regional distributions of manufacturing investment to a test on similarity. To be more concretely, tests are run against the null hypothesis that the average difference between shares of the same host countries in two home countries' manufacturing investment going to developing countries is not significantly different from zero. The test results (Table 5) strongly support the theses of dissimilarity and stability of regional patterns. Among the four OECD countries, it is the Japanese pattern which differs from all other countries. This is not surprising, given the concentration of Japanese manufacturing investment on those Asian countries which are not or only negligible targets of the European or US investors. What makes the UK pattern dissimilar from the US and Japanese ones is the overproportionately high weight of low-income Commonwealth countries such as Kenya, Sri Lanka, Pakistan, India, and Zimbabwe as well as the increasing concentration on Hong Kong and Singapore (Table 4). Confronting this pattern with that of West Germany produces the largest deviation of all single observations from the average difference of all pairs in the sample and this leads to accept the null hypothesis. Border cases are the US-West German tests. Except for 1984, they result in insignificant differences. Both countries have their strongholds in Latin America with a much more skewed distribution of West German investment on Brazil and Argentina than in the US case. But in spite of the fact that US investors have spread their activities more evenly over Latin American host countries than West German ones, overall differences in the two regional patterns are not as pronounced as to call them significant. This

Table 5 – *Tests of Similarity of the Regional Distribution of Major OECD Countries' Foreign Direct Investment in Manufacturing in Developing Countries*

Country *i*	Country *j*			
	UK	US	Japan	West Germany
			1976	
US	n.a.	–	SiG	NSiG
Japan	n.a.	–	–	–
West Germany	n.a.	–	SiG	–
			1978	
UK	–	SiG	SiG	NSiG
US	–	–	SiG	NSiG
Japan	–	–	–	–
West Germany	–	–	SiG	–
			1980	
US	n.a.	–	SiG	NSiG
Japan	n.a.	–	–	–
West Germany	n.a.	–	SiG	–
			1981	
UK	–	SiG	SiG	NSiG
US	–	–	SiG	NSiG
Japan	–	–	–	–
West Germany	–	–	SiG	–
			1984	
UK	–	SiG	SiG	NSiG
US	–	–	SiG	SiG
Japan	–	–	–	–
West Germany	–	–	SiG	–
			1987	
UK	–	SiG	SiG	NSiG
US	–	–	SiG	NSiG
Japan	–	–	–	–
West Germany	–	–	SiG	–
			1988	
US	n.a.	–	SiG	NSiG
Japan	n.a.	–	–	–
West Germany	n.a.	–	SiG	–

Note: The calculations were run according to: $\bar{r}_{ij} = (1/n)\Sigma_{s=1}^{n} |a_{is} - a_{js}|$, where a_{is}, a_{js} = Share of developing country *s* in country *i*'s and country *j*'s stock of foreign direct investment in the manufacturing sector of all developing countries. Tests were against the null hypothesis of deviations of $\bar{r}_{ij}$ from zero being due to chance (two tail *t*-test). – SiG = Deviation from zero is statistically significant at the 5 per cent level. – NSiG = Deviation from zero is not significantly different at the 5 per cent level.

Source: See Table 1.

is mainly due to the relatively low weight of Asian hosts in US and West German investment.

In total, foreign direct investment in the manufacturing sector of developing countries cannot be characterised by much inter-host country mobility. Shifts occurred but very gradually and they did not alter traditional regional strongholds of the individual home countries. It appears, however, that such mobility is larger in non-manufacturing and here especially in services. There is reason to assume that a strong position of a single home country in the manufacturing sector of a host country reduces the attractiveness for companies from other OECD countries to invest [Gross, 1986]. Such positions are likely to be defended against newcomers by alliances between host country governments and established foreign investors. This holds in particular for countries whose trade regimes are generally inward-oriented.

IV. Conclusions

Developing countries including the NIEs failed to maintain their shares in total foreign investment of all major OECD countries in the eighties. Shares were generally lower by 1988 than ten years ago. This negative trend can be observed for investment in manufacturing in particular, but also for non-manufacturing. Middle East and Sub-Saharan African countries came down to negligible shares, while shifts in shares mainly occurred between Latin America as a losing region and the Asian NIEs as winners. In absolute terms, however, Latin America remained a major host area. Within the regions, trends towards concentrating investment on few countries proliferated from Latin America where such concentration was traditionally high, to Asia with Singapore, Malaysia, Indonesia, and partly Hong Kong, in the lead. Against this background, home countries widely continued to maintain their traditionally preferred strongholds as did Japan in Southeast Asia, West Germany in Brazil and Argentina, the US in Latin America in general, and the UK in Commonwealth countries. Such patterns remained stable over time, but differed from each other.

The macroeconomic implications of losses in locational competitiveness are serious, though the Korean case may suggest success without foreign investment for a certain period. Yet, with deteriorating conditions for the access to credit financing, equity financing has become more urgent for many countries as the only way to tap private external savings. Should the trends of the eighties continue in the nineties when new competitors for risk capital emerge in Eastern Europe, the majority of developing countries would be cut off from an important conveyer of technological, commercial and managerial know-how. Neither public aid nor domestic investment could compensate for such losses. There are hopes that the few developing economies which successfully attract OECD investment can become regional centres of capital accumulation with positive effects for neighbouring economies. Such hopes seem to materialise at best in East and Southeast Asia but not yet in Latin America, not to speak of Africa and the Middle East.

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