ARTICLE IN PRESS

Research in International Business and Finance xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Research in International Business and Finance

journal homepage: www.elsevier.com/locate/ribaf

# Effect of multilateral trade liberalization on foreign direct investment outflows amid structural economic vulnerability in developing countries

Sèna Kimm Gnangnon

*World Trade Organization, Rue de Lausanne 154, CH-1211, Geneva 21, Switzerland*

A R T I C L E I N F O

*JEL classification:*
F13
F14
F21
O1

*Keywords:*
Multilateral trade policy liberalization
Structural economic vulnerability
Outward foreign direct investment outflows

A B S T R A C T

This paper examines whether both multilateral trade policy liberalization and structural economic vulnerability (EVI) matter for outward foreign direct investment (FDI), which like FDI inflows, could substantially contribute to economic development in developing countries. The empirical analysis is carried out on a panel data of 112 countries over the period 1998–2013. It leads to two major conclusions: first, multilateral trade policy liberalization encourages outward FDI, while higher structural economic vulnerability discourages it. The lower the countries' development level, the higher the positive impact of multilateral trade liberalization on FDI outflows. Likewise, the lower the countries' development level, the greater the negative effect of EVI on outward FDI. Second, the positive effect of multilateral trade policy liberalization on FDI outflows could be undermined by the rise in structural economic vulnerability. From a policy perspective, these findings suggest that reviving multilateral talks in the World Trade Organization (WTO) and reaching concrete outcomes that could be benefit all WTO Members, and promote FDI outflows, particularly for developing countries. Moreover, the support of the international community to governments in developing countries (in particular poorest ones) is critical to mitigate structural economic vulnerability faced by these countries and helps these countries take advantage of the multilateral trade policy liberalization, notably in terms here of FDI outflows.

## 1. Introduction

The literature that has examined the macroeconomic determinants of foreign direct investment (FDI) inflows is more voluminous than the one that has focused on the macroeconomic factors that govern FDI outflows, although recent years have witnessed a growing interest on the macroeconomic determinants of FDI outflows (see e.g., Kyrkilis and Pantelidis, 2003; Williams, 2009; Tolentino, 2010; Goh and Wong, 2011; Verma and Brennan, 2011; Kolstad and Wiig, 2012; Goh et al., 2013; Bano and Tabbada, 2015; Yao et al., 2016).

The internationalization of firms through FDI outflows is as important as FDI inflows for home countries' development prospects, including for the achievement of many of the sustainable development goals contained in the Agenda 2030.[1] It is worth underlying here that FDI is one of the observable possible outcomes of the decision-process of firms that aim to carry out international strategies, as other means to do so could include exports and patent licences.

*E-mail addresses:* SenaKimm.Gnangnon@wto.org, kgnangnon@yahoo.fr.

[1] The Agenda 2030, also known as the Agenda for Sustainable Development Goals (SDGs) was adopted by the Members of the United Nations (UN) at their gathering of September 2015. This Agenda laid out the SDGs that all UN Members should achieve by 2030.

http://dx.doi.org/10.1016/j.ribaf.2017.07.128
Received 30 May 2017; Accepted 5 July 2017
0275-5319/ © 2017 Elsevier B.V. All rights reserved.

Please cite this article as: GNANGNON, S.K., Research in International Business and Finance (2017), http://dx.doi.org/10.1016/j.ribaf.2017.07.128

According to the 2016 World Investment Report of the United Nations Conference on Trade and Development (UNCTAD, 2016), while global FDI inflows rose by 38% overall in 2015 to $1762 billion, up from $1277 billion in 2014, global FDI outflows increased in 2015 by 11.8% from $1318 billion in 2014 to $1474 billion in 2015. The positive performance of global FDI outflows was driven by the substantial rise in developed economies' FDI outflows, by 33% to $1065 billion, as FDI outflows from developing economies[2] declined severely, that is, by 15% to $378 billion. The FDI outflows performance of developing economies compared to the global FDI outflows has not been stable over time: according to UNCTAD database, the share of FDI outflows from developing economies to the global FDI outflows increased from 14.6% in 1995–33.8% in 2014 and declined to 25.6% in 2015.

The decline in FDI outflows from developing countries is taking place in a context of two (amongst other) important debates on the international development agenda: the first one is relating to how to revive trade multilateralism and the second one concerns how to address (or mitigate) macroeconomic vulnerability, including structural economic vulnerability[3] confronted with by developing countries.

Indeed, on the one hand, in spite of the recent successes of two consecutive Ministerial conferences of the World Trade Organization (WTO) (Bali and Nairobi Conferences respectively in 2013 and 2015) in delivering outcomes for developing countries and least developed countries (LDCs[4]), recent years have witnessed a rising opposition to multilateral trade liberalization, reflecting inter alia the rise in domestic trade protectionist measures. Roberto Azevêdo, Director General of the WTO, noted that the slowdown in trade growth in 2016–which had been the highest since the financial crisis of 2009- took place in a context of growing anti-globalisation sentiment (WTO, 2016). The WTO has forecasted for 2017 that in the context of the uncertainty surrounding the near-term economic and policy developments, global trade will expand in 2017 by a rate within a range of 1.8–3.6% and in 2018 by 2.1–4% (WTO 2017).

On the other hand, the international community has started paying a special attention to the developing countries' macroeconomic vulnerability. This is evidenced by the importance accorded to this issue by many international institutions and regional development banks on their agenda. For example, the United Nations and its agencies are currently following closely the implementation of the Istanbul Programme of Action (IPoA[5]) for Least developed countries (LDCs); the WTO Members have been paying special attention to LDCs by providing them with special treatment measures (taken duly account for their structural weaknesses) in the multilateral trade agreements and the Ministerial Decisions taken in favour of them. The International Monetary Fund (IMF)[6] has been closely monitoring the developments in macroeconomic vulnerability in its developing country Members with a view to either addressing them or mitigating their economic and social consequences. While many factors, including macroeconomic ones could have contributed to the decline in FDI outflows, it could be worth examining whether this dismal FDI outflows performance in developing countries has been caused by the backlash against multilateral trade liberalization, including through rising domestic trade protectionist measures. It would also be interesting to explore whether structural economic vulnerability matters for FDI outflows, and if so, whether such vulnerability reduces the impact (if any at all) of multilateral trade liberalization on FDI outflows.

This paper addresses empirically three questions:

(i) Does the opposition to multilateral trade liberalization affect FDI outflows?
(ii) To what extent countries' structural economic vulnerability affect the ability of these countries' firms to engage in outward FDI?
(iii) Does the impact of multilateral trade liberalization (if any at all) on FDI outflows depend upon the level of structural economic vulnerability?

To the best of our knowledge, this is the first study that examines the impact of multilateral trade liberalization and structural economic vulnerability. As a matter of fact, very few studies have looked at the impact of multilateral trade liberalization on FDI inflows (for e.g., Collie, 2011; Gnangnon, 2017). Moreover, as far as we konw, only one study (Gnangnon and Iyer, 2017) has investigated the impact of structural economic vulnerability on FDI inflows, although many studies (see for e.g., Gordon, 2004; Guillaumont and Wagner, 2012; Dabla-Dabla-Norris and Gündüz, 2014; Dabla-Norris et al., 2015; Gnangnon, 2013, 2014a,b, 2016) have explored the macroeconomic implications of macroeconomic vulnerability (as well as structural economic vulnerability).

By relying on a sample of 112 countries over the period 1998–2013, the empirical analysis conveys two policy messages: first, measures that contribute to a backlash against multilateral trade liberalization are detrimental to developing economies' FDI outflows. Second, not only does structural economic vulnerability hurt directly FDI outflows, but it also reduces the positive impact that multilateral trade liberalization could exert on FDI outflows. As a result, while multilateralization of trade should be encouraged,

[2] Nonetheless, the fall in FDI outflows from developing countries hides different performances across developing countries as a limited number of developing economies, including China registered in 2015 an increase in their outward FDI.

[3] As we will see later, in this study we rely on the concept of "structural economic vulnerability" as our preferred measure of macroeconomic vulnerability. "Structural economic vulnerability" refers to the vulnerability caused by structural factors, i.e., the vulnerability that results from factors, which are independent of a country's recent policy choices.

[4] The Group of LDCs has been considered by the United Nations as the poorest and most vulnerable countries to natural and external shocks. The countries included in this Group are designated by the United Nations on the basis on three criteria: Income criterion, Human Assets Index (HAI), and Economic Vulnerability Index (EVI) (for more details, see online http://unohrlls.org/about-ldcs/criteria-for-ldcs/). As of May 2016, they were 48 countries in the category of LDCs (see the list on http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_list.pdf), of which 34 are located in Africa, 13 in Asia and the Pacific and 1, i.e., Haiti in the Caribbean.

[5] The IPoA is a Programme of Action for the Least Developed Countries for the Decade 2011–2020 adopted by the International community (United Nations' Members) in Istanbul, Turkey.

[6] See IMF (2013) for the IMF exercise concerning macroeconomic vulnerability in Low-Income countries and the web link (https://www.imf.org/external/np/exr/facts/vul.htm), which provides a snapshot of its vulnerability indicators for emerging economies.

Download English Version:

https://daneshyari.com/en/article/7413678

Download Persian Version:

https://daneshyari.com/article/7413678

Daneshyari.com