Davids Versus the Goliath: Locational Tournament for FDI Among Developing Countries

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As the link between FDI and economic growth became evidently clear, the tournament among developing countries to attract greater amounts of FDI intensified. China has emerged as the front-runner, attracting between one fifth and one quarter of all FDI flowing into the developing world. In this paper we attempt to identify the determinants that makes China the lead country. We find that the market size and market growth are the only two determinants that catapult China into the lead. Other countries need to differentiate themselves in other areas, for instance by emphasizing policy initiatives and specializing in other types of investment like resource seeking, efficiency and strategic FDI.

Keywords: Determinants of FDI, China, Asia

1. Introduction

Since the 1970s, FDI has been an engine for growth among most developing countries. The clear evidence provided by countries in the East Asian region bears testimony to this fact [1, 3, 46]. As the contributions that FDI made to these countries became manifest, the amount of FDI flows to the developing countries in general, also increased. From an average annual inward flow of USD 50.1 billion between 1985 and 1995, it reached a height of USD 207.6 billion in 1999 [47]. At the same time, the tournament among individual countries to attract greater amounts of FDI also intensified. In the 1970s and early 1980s the number of countries that were able to provide conditions conducive to foreign investors were relatively few. As such, Malaysia, Thailand, Singapore, Taiwan, Hong Kong and South Korea were able to attract a significant share of FDI that headed towards the developing countries in general and Asia in particular. However, since the mid 1980s and more so in the 1990s, other developing economies became active participants in this race. As shown in Table 1, the first gainers in the FDI tournament saw

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a decrease in the share of FDI in the late 1990s while newcomers were able to increase theirs. Among the Asian newcomers were China, Vietnam, Indonesia and the Philippines.

Table 1. FDI Inflows into Selected Developing Asian Economies, %

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<tr>
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<tbody>
<tr>
<td>Hong Kong</td>
<td>7.98</td>
<td>7.24</td>
<td>6.38</td>
<td>8.25</td>
<td>11.13</td>
</tr>
<tr>
<td>S.Korea</td>
<td>1.80</td>
<td>1.59</td>
<td>1.73</td>
<td>2.90</td>
<td>4.96</td>
</tr>
<tr>
<td>Singapore</td>
<td>8.18</td>
<td>6.21</td>
<td>4.53</td>
<td>3.06</td>
<td>3.37</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2.00</td>
<td>1.31</td>
<td>1.23</td>
<td>0.11</td>
<td>1.40</td>
</tr>
<tr>
<td>Thailand</td>
<td>2.79</td>
<td>1.66</td>
<td>2.07</td>
<td>4.12</td>
<td>2.94</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.79</td>
<td>5.03</td>
<td>3.64</td>
<td>1.50</td>
<td>1.69</td>
</tr>
<tr>
<td>China</td>
<td>23.35</td>
<td>27.72</td>
<td>24.72</td>
<td>24.40</td>
<td>19.46</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2.73</td>
<td>4.27</td>
<td>2.62</td>
<td>-0.20</td>
<td>-1.58</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.40</td>
<td>1.03</td>
<td>0.67</td>
<td>1.00</td>
<td>0.34</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1.13</td>
<td>1.69</td>
<td>1.54</td>
<td>1.10</td>
<td>0.78</td>
</tr>
<tr>
<td>Developing</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: UNCTAD, 2000

China’s courtship with FDI was the result of its open door policy and economic reforms beginning 1979. Although the initial years of reform did not emphasise FDI, the early glimmerings became obvious in 1982 and the take-off occurring only in 1992, as shown in Figure 1. The pinnacle of inflow was achieved in 1997 but the Asian economic crisis, though did not affect China dramatically, brought a marginal reduction in the FDI inflow in 1998 and 1999. By 1997 however, about 200 of the 500 leading multinationals (MNCs) had established their operations in China. It has been argued that the motives for foreign investment into China falls under two broad categories. First, to utilize the country’s cheap labour to establish an export platform and second, to cater for the large domestic market [20].

Does the capability of China in attracting between one fifth and one quarter of all FDI flowing into developing countries rests on these two motivations? Are there other determinants of FDI in which China fairs relatively better compared to other developing economies? What locational advantages do other developing countries have that allows them to compete with China? These are some research questions that this paper attempts to answer. Rather than using the conventional regression techniques to identify significant determinants of FDI, this paper utilizes a more innovative data mining process which employs data visualization tools that transform data into geometric representation using principle component analysis (PCA), to identify the competitive advantage that countries possess. We identify the
determinants of FDI through a review of past literature. Data visualization techniques utilize these determinants to create perception maps that allow an analysis of relative strengths and weaknesses among countries.

Figure 1. Net Inflow of FDI into China, 1982 – 1999, USD

The following section reviews previous FDI literature to identify country or locational determinants that attract FDI. Section 3 explains the methodology used in this paper. In section 4 we discuss our findings. The paper is concluded in section 5.

2. Theories of FDI Determinants and Variables Selection

Since the upsurge of world FDI after the Second World War there have been several lines of thought that has attempted to explain the motives for international production. These include Macdougal [31] who used the concept of capital arbitrage in a perfectly competitive environment. Hymer [22] then suggested that MNCs are oligopolistic firms which need to produce in various countries to compete against rivals. Later, Vernon [49, 50] introduced the product life cycle concept that tend to explain the movement of production operations from one country to another in search of markets and lower cost production bases. Akamatsu’s “flying geese” model seems to be the Asian model of Vernon’s product life cycle theory [26]. In the late 1970’s and 1980s, Buckley and Casson [5] and Rugman [39] interjected the importance of tangible assets that an MNC possesses and explained that
international production is a means through which they internalize the ownership of these assets.

Dunning’s [11, 12, 15] eclectic paradigm is probably, by far, among the most comprehensive framework that explains the reasons for FDI, especially when seen from a developing recipient country perspective. Dunning [15:pp.76] himself has admitted that the eclectic paradigm is not a theory of FDI but “a general framework for determining the extent and pattern of both foreign owned production undertaken by a country’s own enterprises and also that of domestic production owned by foreign enterprises”. Nevertheless, the advantage of a paradigm is that it is able to include newer findings as and when they come into being. The eclectic paradigm envelops together different theories of FDI and is dynamic in nature [16]. The OLI framework has been explained in detail in most FDI literature.¹ Briefly, the Ownership advantage (O) explains who will undertake FDI; the Location advantage (L) explains where will FDI flow to; and the Internalisation advantage (I) explains the how of FDI or the mode in which international production will take place. When put together, it explains the why of FDI as well.

We shall limit our determining factors here to the locational aspects because unlike other studies (e.g. Kimura and Lee [25] for Korea) this study focuses on FDI from a recipient country perspective. FDI into developed economies especially the US and European countries have dominated previous studies on determinants of FDI. However, there has been an emergence of studies focusing on developing countries in recent years. These include Zhao and Zhu [59] on China, Thomas and Grosse [43] and Love and Lage-Hidalgo [29] on Mexico, Chandprapalert [7] on Thailand, Tatoglu and Glaister [41] on Turkey and Manaenkov [33] on Russia.

There have been arguments that in the process of globalisation developing countries are converging in terms of competitiveness. However, Narula and Wakelin [35] found that country specific variables are the most important factors explaining competitiveness among developing countries, especially technological factors. O’Donnel and Blumentritt [37] also find that a more holistic improvements in the investment climate of a host country can improve its competitiveness rather than strategies directed at particular industries. Hence, it is worthwhile to consider the interactions of various determinants that make a country a choice location of FDI.

There are four main reasons for MNCs to undertake international production activities – market seeking, resource seeking, efficiency seeking

¹ See Dunning (2000) for a brief and precise explanation of the OLI framework and how it is related to other existing FDI theories.
and strategic asset seeking [16, 32]. MNCs which are market seeking emphasize the size of the market, the buying power of the domestic market as well as the growth potential of the market. Most studies have used one variable or another to depict the role of the market [29, 30, 40, 53]. It is logical to assume that a larger market size, a higher purchasing power and a greater growth potential will attract increasing amounts of FDI. The rational for the positive relationship is that a reduction in the cost of entry and the exploitation of economies of scale can be exploited in larger markets. At the same time an increase in purchasing power allows greater product differentiation to take place that may result in the localization of the product/service. As FDI is a long-term commitment, naturally a promising future for the host country attracts MNCs to invest. In analyzing the motives for FDI into Turkey, for example, Tatoglu and Glaister [41] found “gaining into new markets” as the most important reason. It must be noted that the relationships mentioned above are for market seeking FDI. We have used the GDP, GDP per capita and GDP growth as proxies for market size, purchasing power, and market potential, respectively.

MNCs which are resource seeking tend to locate their investment in countries which are able to provide them with relatively cheap and abundance of these scarce resources. The concept of resources here does not only imply unskilled labour, important as they maybe, but also other resources like raw materials. Some survey studies have tested the unit cost of labour to depict the cheap labour hypothesis but with limited success [14, 18]. The labour cost difference between the host and the home country has been a particular determinant that had been tested in various studies [29, 43, 53]. These studies have all found a significant relationship between the wage differential and inward FDI. In this study we utilize average wage rates of different countries that has been extrapolated from GDP per capita by the International Trade Administration of the US Department of Commerce.

UNCTC (1992) find only limited importance to the “availability of raw materials” determinant. However, in the context of developing countries, abundance of natural resources is an important attracting feature for FDI. We use the exports of agricultural raw materials and petroleum as a proxy to show the availability of raw materials in a country.

Efficiency seeking FDI tends to locate itself in countries that tend to give it cost advantages. Based on Hymer’s [22] hypothesis that MNCs operate in an oligopolistic market structure where competition is intense, locating production and service operations at lower cost locations may provide the firm with the advantage it needs. This type of FDI may not only cater for the domestic market but increasingly for the region as well. While
cheap labour may have been an attracting feature among developing countries in the past, the quality of labour has now been emphasized. Dunning [13], Kumar [28], and Cheng and Kwan [8] have found positive relationship between different measures of levels of education and FDI inflow. Following Narula and Wakelin [35] we utilize the number of students at the tertiary level as a proportion of population in the 20-24 age category as a measure of skilled labour.

The inclusion of labour productivity is seen as a broader measure of cost of production [6]. For instance, Australia and Singapore are still able to attract large amounts of FDI although their wage levels are higher than many other East Asian neighbours. This may imply that cost factors alone do not attract FDI. Hence, our measure of labour productivity could also reflect the real returns of investing in a low wage country. In this study we measure labour productivity using GDP per worker.

Apart from labour productivity, a sound infrastructural network also needs to be in place to allow the movement of resources from source to plant to port [38]. Several studies have found significant positive relationship between the level of infrastructure and inward FDI. These include Zhao and Zhu [59], Cheng and Kwan [8], and Coughlin, Terza and Arromdee [9]. The complexity of infrastructure in this study is proxied by the density of paved roads.

FDI may flow into a country not merely for its own market and to capture the locational advantage of the country, but also to use the host country as a springboard into other countries in the region. Investment could also flow purely to follow competitors or to follow clients. These are considered to be the strategic reasons for investing in a host economy. In the US, for example, it has been found that MNCs tend to base their location decisions on the action of previous foreign investment actions of other firms [27, 52] In this sense, the level of participation of a country in international trade indicates the extent to which other markets can be targeted from the host country. We use the degree of openness to international trade, measured as trade per GDP, to define this capability. Other factors which need to be considered in the strategy category is the degree of openness of countries to new technology. The acceptance of new technology by the labour force, the government and business is crucial in a technology-savvy world. We take the number of mobile phones per 1000 population to compare the degree of new technology acceptance.

The variables discussed above and data sources are shown in Table 2 below. Data was collected for the period 1997, unless otherwise stated. This
year was selected to avoid skewness of data which may have resulted due to the Asian Financial Crisis. The unavailability of more recent data among Asian economies also limits the extent of our analysis. In order to consider a wide spectrum of countries, 29 developing countries from Asia, the Pacific, Eastern Europe and Latin America were considered.

Table 2. Determinants of FDI

<table>
<thead>
<tr>
<th>Type of FDI Determinant</th>
<th>FDI Determinant</th>
<th>Variable</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Seeking</td>
<td>Market Size</td>
<td>GDP [GDP]</td>
<td>World Development Indicator, Asean Secretariat</td>
</tr>
<tr>
<td></td>
<td>Market Purchasing Power</td>
<td>GDP per Capita [GDPCAP]</td>
<td>World Development Indicator, Asean Secretariat</td>
</tr>
<tr>
<td></td>
<td>Market Potential</td>
<td>GDP Growth [GDPG]</td>
<td>World Development Indicator</td>
</tr>
<tr>
<td></td>
<td>Wages</td>
<td>Expected Wages [WAGES]</td>
<td>International Trade Administration, US</td>
</tr>
<tr>
<td></td>
<td>Availability of Skilled Labour</td>
<td>Proportion of Tertiary Students per Population in the officially corresponds to the level of education [SKILL]</td>
<td>World Development Indicator, United Nations Children's Fund, United Nations Educational, Scientific, and Cultural Organization, The World Bank Competitiveness Indicators</td>
</tr>
<tr>
<td>Efficiency Seeking</td>
<td>Productivity</td>
<td>GDP per Labour [PROD]</td>
<td>World Development Indicator</td>
</tr>
<tr>
<td>Strategic Reasons</td>
<td>Openness to International Trade</td>
<td>Trade per GDP [OPEN]</td>
<td>World Development Indicator, Datastream</td>
</tr>
<tr>
<td></td>
<td>Technology Penetration</td>
<td>No. Mobiles Phones per 1,000 Population [MO]</td>
<td>World Development Indicator</td>
</tr>
</tbody>
</table>

* The average GDP growth from 1987 to 1997; * Usually between 20-24; * Expected wages rate were calculated for all countries included in the analysis using the estimation method suggested by International Trade Administration, Department of Commerce, US. The scale was reversed

2 Countries included in the analysis are: Argentina (AG), Australia (AUS), Bangladesh (BGL), Brazil (BZ), Brunei (BN), Cambodia (CB), Chile (CL), China (CN), Czech Republic (CZ), Hong Kong (HK), Hungary (HG), India (INA), Indonesia (INDO), Korea,Rep (KOR), Lao PDR (LAO), Malaysia (MY), Mexico (MX), Myanmar (MYM), New Zealand (NZ), Pakistan (PK), Papua New Guinea (PNG), Philippines (PP), Poland (PL), Singapore (SG), Slovak Republic (SVR), Sri Lanka (SRI), Thailand (TL), Turkey (TK), Vietnam (VN).
which means that the lower the wages rate, the higher the competitive advantage the country has. 

Kilometers of paved roads per million population; Imports and Exports of Service were excluded.

3. Data Visualisation and Principal Component Analysis

The method of analysis used in this study is based on a data visualization approach. Visualization simply means presenting information in pictorial form and using human recognition capabilities to detect patterns [17]. Data Visualization is the visual interpretation of complex relationships of multidimensional data. It is defined as the process of applying automation technology and a discovery process to data sets in an effort to discover underlying information from the data [36]. It is a process that heavily relies on graphical tools, computer generated visuals, and animations to determine and illustrate data relationships. This data mining process is used in the present study for extracting facts that was not previously known from data by using two-dimensional and three-dimensional graphics. Data visualization is part of an exploratory data analysis (EDA). It is generally acknowledged that EDA does not require a pre-determined hypothesis to be tested. Rather, the role of the researcher in EDA is to explore the data in as many ways as possible until a plausible explanation of the data emerges [58]. Tukey [44, 45] compares EDA to detective work. A detective does not collect bulk information but collects evidence and clues related to the central question of the case. EDA is more concerned about patterns in the data rather than statistical inference.

Recently, data visualization techniques have been attracting considerable attention and gaining widespread acceptance due to the availability of software and hardware technology that has the capability to facilitate the practical use of applications with interactive three-dimensional graphics. The importance and advantages of data visualization were comprehensively discussed by Brown et. al., [4], Youngsworth [57] and Nicholas and Meinke [36].

There are a number of statistical methods for transforming data into geometric representation. These include the PCA, corresponding analysis (CA) and multidimensional scaling (MDS). The choice depends on the scale of measurement. CA evaluates the underlying patterns of categorical scaled data while MDS explores similar/dissimilar scaled data (see [34]). When faced with interval scaled data, PCA can be used for visualization purposes without transforming the data. It creates a projection of data onto a space of lower dimensionality, whilst attempting to preserve as much of the structural nature of the data as possible [23]. Given their multivariate nature, employing
these methods enable a treatment of multiple attribute data simultaneously. The multivariate nature can reveal relationships that would not be detected in a series of pair-wise comparison of variables. This kind of graphic representation is usually interpreted as perceptual maps in marketing science. In our case, the attributes are the determinants of FDI suggested in previous literature.

The conventional principle component analysis (PCA) is adopted to create a geometric representation of a country’s strengths in attracting FDI. There are a few important methodological issues worth addressing regarding the PCA data visualization. Commonly, PCA is known as a classic method of factor extraction in factor analysis. It examines the possibility of data reduction and help researchers to investigate the underlying patterns in their data. Under such circumstances, the use of multivariate analysis usually needs to have a large sample so that the resulting factors can be used to represent the population. However, PCA can also be utilized as a projection tool based on the method for multidimensional data structure exploration used in computational statistics [2, 42]. It is used to project and display data onto a low-dimensional subspace [54]. The resulting graphical representation reveals the relationships between clusters of data to the naked eye [51]. Such effective graphical representation – the so called bi-plot - is generated by discarding the less important information from the data. This study follows the method employed by Young et al. [55] whose PCA graphical solution liberates the analysis from a purely mathematical optimality criteria and introduces some subjective interest (see also [42]) that are consistent with an interpretive paradigm in the area of research philosophy (see [21] and [24]).

As described previously, in the context of EDA, the objective of presenting data using PCA visualization technique was not to draw statistical inferences. Neither was it an attempt to examine a hypothesis nor extracting factors from the data. Our objective was to interpret high dimensional information with lower dimensional presentation. This approach is similar to Bertin (see [19]) whose work on data visualization of multivariate data with small sample attempts at interrogating the data by relaxing the sample size issues rather than fitting a model. Additionally, the countries and variables used in this study is not a sample from a population, but rather carefully selected based on their economic development status as well availability of all necessary data. Given all these, we believe that the effectiveness of our analysis is not affected by allowing for a mediate size data in this PCA data visualization.

The computational procedures were handled by Xlstat 4.0 and Sigma Plot 6.1. Five maps were generated and they are presented in Figures 2 to 7.
These maps transform countries into a position in space according to a set of coordinates which represent the extent to which the country possess each benefit or cost attribute. They enable us to investigate intra-relationships among attributes and the relative positioning of competitors to the attributes. Such graphical representations admit a more succinct interpretation than the original data matrix [56]. The substitutability among countries based on a single determinant or multiple determinants can be clearly identified from inspecting these maps. The tournament for FDI are represented in two or more dimensions where relative “distances” between country alternatives may be loosely interpreted as measures of substitutability of each alternative for any other (see [10]).

Young and Valero [56]’s interpretation of PCA is used to interpret Figures 1 to 4.

“Vectors point away from the origin in some direction. Vectors pointing in the same direction correspond to variables that have similar response profiles and can be interpreted as having similar meaning in the context set out by the data. Vectors pointing in opposite directions correspond to variables with similar but reversed response profiles, such as when there are negative correlations. Long vectors are more strongly related to the components being displayed than are short vectors. Long vectors are more important in interpreting the meaning of the components; Points that are close together correspond to observations that have similar scores on the components displayed in the plot. When these components fit the data well, the points also correspond to observations that have similar values on the variables”.

In addition, the angles between vectors on the same panel\(^3\) represent the strength of the relationship between attributes. The wider the angle, the weaker the relationship between the variables. Interaction between variables is beyond the scope of this study, as our primary interest is to identify countries that have similar attributes, and hence are substitutable. Each vector represents one FDI determinant and the head of the vector is the one away from coordinate (0,0). If the vector is pointing to the right of the y-axis, then countries that are located to the right of the vertical axis can be interpreted as those countries that have the relative advantage in that attribute. The opposite is true if the vector is pointed to the left.

\(^3\) The plots are divided into four panel by the X-axis and the Y-axis.
In order to increase the variations of the data explained by the geometric representation, the overall situation of the FDI tournament is transformed into a three-dimensional pictorial form. By restricting the analysis to the interpretation of the resulting three-dimensional plot in Figures 6 and 7, 75 percent of the variation can be explained. A position away from the origin (0,0,0) indicates that it has at least one attribute that makes it a favourable destination for FDI. This map is best for describing substitutability between countries. Clearly, according to Figures 6 and 7, some countries do in fact isolate themselves from others but some can be aggregated into a cluster. The degree of isolation indicates the degree of uniqueness of the country. If a country is unique in terms of the combination of the ten attributes, other countries cannot easily substitute it. On the other hand, one might expect that there would not be a difference in terms of returns by placing investment into two countries that are situated close to each other.

4. Results of Analysis

The relative locational advantages that countries possess as analysed by the data visualization approach is shown in Figures 2 to 7. Figures 2 to 5 exhibit the relative position of countries based on the type of FDI. Figure 2 shows the relative strength of countries in attracting market-seeking FDI. The perception maps differentiates purchasing power (GDP per capita) from market size (GDP) and market potential (GDP growth). A market that has purchasing power may attract FDI that focuses more on non-standard goods and specialized services. A market that is larger in size and has potential for growth may attract standardized goods with low cost of production so that they can be priced attractively. In this sense, it is important that investors understand the capability of the market.

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4 As there are only two or three attributes included in Figures 1 to 4, the variations of the data explained by the plots are high. When all ten attributes are included in the overall plot (Figures 5 and 6), an extra dimension has to be included.
In general, China does not face any obvious competition for market seeking FDI. This is especially true for standard goods that are competitively priced. The closest competitor for China is Brazil and Korea, although the latter possess a marginal strength in terms of purchasing power. The clustering of countries indicates that the investor may easily substitute one country for the other. For instance in cluster 1, an investor can choose between Malaysia, Thailand, Indonesia and India for similar type of market seeking investment. Countries in and around cluster 2 do not possess the market size and growth advantage. Cluster 3 (comprising of the eastern European countries), possess a small purchasing power advantage but lack in size and growth.

Figure 3 visualises the relative position of countries in attracting resource-seeking FDI. The poorer countries in Southeast Asia like Myanmar, Laos and Cambodia are clearly in an advantageous position to attract this type of FDI. China clearly does not have any distinct advantage. There are several other countries which could displace China for this type of FDI, for instance, Indonesia, the Philippines, Sri Lanka and Turkey. The competition among countries for resource-seeking FDI is intense as the clustering of most countries at the bottom center of the map shows no clear advantage among these countries. The map further imply that investment in countries like Singapore, Hong Kong, Australia, New Zealand and Korea may require the importation of natural resources while the opposite is true for Myanmar, Laos and Cambodia. The complementary nature among these two types of economies also illustrates the mutual benefit that can be realized if FDI flows
from one group to another.

Figure 3. Resource Seeking FDI

Figure 4. Efficiency Seeking FDI
In attracting efficiency-seeking FDI or for strategic asset seeking reasons, China does not possess any clear advantage. In Figures 4 and 5, China is cluttered with other developing countries. For the investor, investing in China or Vietnam or Turkey for these two reasons would provide the same kind of returns. Singapore and Hong Kong stand apart from the rest for these types of FDI. It is probably due to this reason that these two countries continue to attract sizeable proportion of FDI. Southeast Asian countries like Malaysia and Thailand seem to possess some advantage in these categories compared to China. In order to win in this tournament against China, these categories need to be emphasized by policy makers.

Figures 6 and 7 consider all ten vectors to show the distinctiveness or similarities among countries as a whole. The lonely position of China (CN) in both maps indicate that it is able to isolate itself from other developing countries. While China may have similar attributes with other economies in three of the four FDI categories, the strong market size and growth potential has been able to give China a unique position in the FDI tournament. The principal component analysis identifies Brazil (BZ) and South Korea (KOR) as the countries most likely to threaten China’s position in this tournament.

In order to avoid the cluttering of countries in the map, Figure 6 shows China’s position vis-à-vis other Asian economies while Figure 7 shows China with respect to Latin American and Eastern European economies. Other countries are only represented by dots in the plots. Note that the Figures 6 and 7 are identical but they are viewed from different position for higher interpretability.
Singapore (SG) and Hong Kong (HK) are two other countries that seem to have distinguished themselves from others. However, the attributes under which this distinction is made is quite different from that of China. Singapore and Hong Kong have been able to utilize their strength in efficiency and strategy to attract FDI. Among other East Asian economies, Malaysia (MY) tends to follow the Singapore-Hong Kong path closely, although Thailand (TL) is close on its trail. Other Asian giants like Indonesia (INDO) and India (IND), seem to be substitute locations to one another but still unable to challenge the might of China.

Conclusion

The objective of this paper is to identify the locational factors that make China a leading FDI host economy among developing countries. By employing data visualization techniques, we find that market size and growth are probably the only advantage that China has vis-à-vis other developing countries. Although data visualization provides only a snapshot of the situation at a particular point in time (in our case, 1997), certain implications can be derived.

Investors and countries need to be more specific as to the kind of FDI that they are engaged in. For market seeking FDI, countries differ in terms of the types of market they offer. Some countries offer markets for standardized goods and services with competitive prices. Other more developed economies, like Singapore and Hong Kong, offer markets for more specialized goods and services. In attracting FDI, policy makers need to emphasize the kind of market that can be offered. However, the position of China makes it a clear winner for standardized goods and services. In other categories of FDI – resource seeking, efficiency seeking and strategic reasons – there is no clear advantage that China possesses. This indicates that the tournament is open for competition. While market size may not be a factor that might be changed in the medium term, other determinants are within a government’s policy framework. Conducive policies that promote foreign exploitation of resources, enhancement in infrastructure and human resources as well as openness to trade and technology is the formula for success in this tournament. Our data visualization does show that Singapore, Hong Kong and to certain extent Malaysia have been able to distinguish themselves from other Asian economies in the FDI tournament.

Further research utilizing this technique may be undertaken to compare the movement of countries over time. This may provide policy makers with an indication if certain policies are producing the desired results.
Figure 6. China vs some Asian Countries

Figure 7. China vs some Other Countries
References


[http://faculty.ed.umuc.edu/~meinke/inss690/690Summer99.htm]


Nations.


