Preface

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Biographical notes: Bengt-Åke Lundvall worked as Deputy Director at OECD-Directorate for Science, Technology and Industry 1992–1995. Since 1995, he is Professor in Economics at Aalborg. He coordinated the industrial dynamics-network DRUID 1996–2001 (www.druid.dk). Since the beginning of the new millenium he has moved his research focus toward innovation processes in developing countries and 2002 he initiated the worldwide network on innovation research, Globelics (www.globelics.org). His research is organised around a broad set of issues related to innovation systems and the role of knowledge in the economy.

1 Introduction

In the years to come, outward investment from emerging and developing economies is likely to exert growing influence on the dynamics of national innovation systems in OECD and developing countries alike. The most important immediate impacts are likely to be felt in developing host countries, where investments from other emerging and developing economies constitute more and more important complements to investment flows from OECD countries. Equally important will be the effects in the home countries of the outward investing firms, but also host OECD countries will increasingly need to engage with the array of challenges and opportunities presented by emerging-economy multinationals seeking access to their markets and assets. In most countries foreign investments contribute only a minor part of gross fixed capital formation so their impact should not be overestimated. At the same time, however, for emerging host economies foreign investments often play a central role in many of their most dynamic and export-oriented sectors.

To explain the drivers behind and the consequences of foreign direct investment and to link it to economic development is necessarily a complex and difficult task. The data sets are at best of limited validity and actual data will reflect that there are different drivers behind the process.

The motives behind FDI may be a combination of the following factors:

- access to markets abroad
- access to cheap labour
- access to scarce tangible assets (including energy and raw materials)
- financial or speculative purposes

- extending activities to include new stages in value chains
- getting access to intangible assets, including technology and brands.

The traditional view of globalisation has been that only the multinational firms in the Triad (USA, Europe and Japan) have had the resources to engage in large-scale FDI and it has been assumed that the major motives to invest in developing countries have been the first three from the above list, i.e., market access, and access to cheap labour or raw material.

Developing countries have been seen mainly as recipients of FDI and this has raised questions about the impact of FDI on economic development. Does FDI result in stimulating domestic activities or does it ‘crowd-out’ such activities? As is clear from the introductory paper by Peter Gammeltoft there is no general answer to this question. It depends both on the origin of and motive for the specific investment and on the national, regional and sectoral context on the recipient side.

This special issue explores the recent phenomenon of growth in Outward FDI (OFDI) from major emerging economies such as Brazil, Russia, India, China and South Africa. It raises several interesting new questions. What are the main motives behind OFDI? How does investment emanating from these countries into developing countries differ in terms of impact on the development of the host countries? How should we interpret the new phenomenon – is it a sign of growing economic strength in international competition? How does OFDI affect economic development in the countries from which it emerges?

Papers in the special issue reveal that the answers to these questions may differ substantially across the five BRICS-countries and also that the answers would be somewhat ambivalent for each of them. For Russia and Brazil, the two countries with the largest FDI stock abroad, a substantial part of the outward flow may be driven by speculative factors and reflect high uncertainty in domestic investment, high rates of interest and a lack of investment opportunities (motive 4). But especially in the case of Russia, other parts of OFDI aim at strengthening the market power of domestic extractive industries (motive 5). In this case high and growing rates of OFDI may reflect weakness rather than strength of national economic development.

China’s and India’s foreign direct investment may also be driven by different mechanisms. In the case of China the urge to get access to energy and raw materials (motive 3) may be an important driver but increasingly the national strategy also emphasises the importance of getting access to intangibles including technology and brands (motive 6). OFDI from India, which seems to be closely linked to its growth in software and pharmaceuticals, may also give strong emphasis to this driver and the Indian case calls for more sector specific analyses.

South Africa has a long experience with both inward and outward investment related to its production and processing of strategic raw materials. The democratisation and end of post-colonial rule that took place more than ten years ago changed the global position of the economy. On the one hand it meant the end of international boycott making the country a legitimate economic partner. On the other hand it might have resulted in periods of outpour of capital reflecting the skepticism of capital interests linked to the old regime.

We find that it is impossible to give common answers to all the questions listed above for the group of BRICS-countries. This reflects a more general problem when analysing FDI: it has been argued that to explain the aggregate flow of FDI we need an eclectic theory (Dunning, 1979). This refers to the above-mentioned fact that there are different factors both on the supply and the demand side that determine the decision to invest abroad. It is an interesting methodological question if there is any alternative to the eclectic approach.

When it comes to analysis of the impact on economic development in home and host country an alternative might be to break down flows into sub-aggregates according to the most important motive behind the investment. For each category we might select the theories that are the most adequate. Then we would ask questions such as:

- Does OFDI from BRICS motivated primarily by market access stimulate or crowd out domestic investment in the developing receptor countries?
- Is OFDI from BRICS motivated primarily by access to intangible assets such as knowledge and brands efficient in comparison with other potential sources such as licensing?

In the first case theories about static and dynamic competition may be adequate. In the second case theories about the economics and management of knowledge and innovation may be the most relevant. Such a breakdown might also be more helpful for inspiring and designing public policy than attempts to reach aggregate conclusions on the beneficial or negative impact of OFDI in general. A serious problem remains of course to get data that captures the intentions behind the decisions made.

The phenomenon of FDI reflects that industrial investors consider investment opportunities outside the domestic economy. In principle investors will engage in FDI if they expect to get a higher rate of return on their investment abroad than they would get investing domestically. There are elements of uncertainty in any investment decision but the further away (in terms of culture, institutions, and geography) the potential recipient regions, the more prohibitive would be the kind of uncertainty involved.

To engage in operations in the production of products and services takes very complex skills and organisational capabilities and these skills cannot be learnt solely at MBA-courses in the South or in the North. They need to be based on experience that can be obtained only in costly learning processes involving trial and error. As demonstrated in the introductory paper BRICS-countries' outward contribution to world flows of FDI is still quite modest. But it is growing and it may be seen as a sign that managers and organisations from these countries increasingly get engaged in learning processes that gradually reduce OFDI-barriers in terms of prohibitive uncertainty.

Especially in the case of China with its big trade surplus there is an enormous potential for a radical increase in OFDI. The high rates of saving and investment create strains in the sector producing capital goods and one non-inflationary way to channel the surplus would be to expand OFDI. This could be linked to the Chinese attempts to promote endogenous innovation and harmonious development (Gu and Lundvall, 2006). Such an increase in OFDI could thus be driven by the motive of getting access to intangibles such as technology and brands. And it could be directly aimed at building new competences in green technologies. An interesting question is if, when this takeoff occurs, the West will be as open to Chinese competence-seeking FDI as China has been to the market seeking FDI from the West?

References

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