Nagesh Kumar. 1996. Multinational Enterprises, new technologies and export-oriented Industrialisation in developing countries: trends and prospects. The United Nations University – INTECH Discussion Paper no. 9602. UNU/INTECH: Maastrich.

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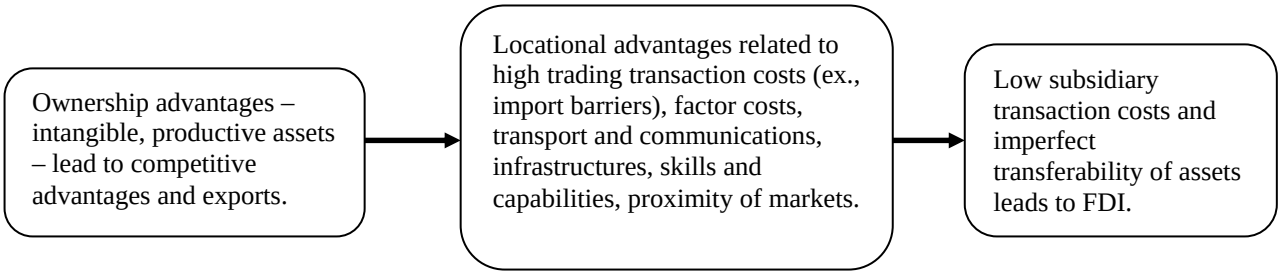
**Theories of Export-Oriented FDI [FDI (EO)]**

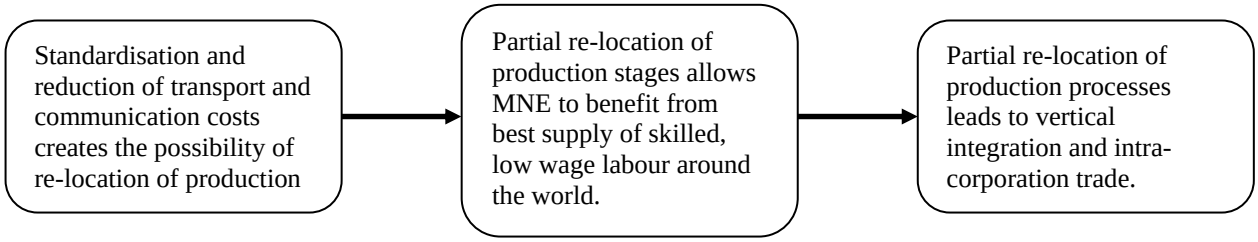
***Vernon's business cycle:***


***Kojima's international division of labour based on comparative costs:***


***Dunning's eclectic paradigm:***




***Frobel, Heinrichs and Kreye's "new" international division of labour:***



Subcontracting and FDI are alternative ways of relocating production; the choice between them depends on relative transaction costs.

***Trends and patterns of FDI (EO)***

- *General trends:*
  - MNE's from USA and Japan have similar levels of export share of the total sales (roughly one third);
  - USA MNEs total share (X/sales) for all countries fell by less than 10% over 15 years; but the share (X/sales) of USA MNE in developing countries fell by about 40%. USA share (X/sales) fell in every single indicator: exports to USA and third countries, total and developing countries;
  - Japan's MNEs total share (X/sales) fell by about 40%, but the share (X/sales) in MNEs in developing countries grew by about 60%. Japan's MNEs share (X/sales) fell in some indicators [total share exports to Japan and total share (X/sales), as well as share of exports to third countries from Japanese MNEs in developing countries]; buy grew in others [total share exports to third countries, exports from MNEs in developing countries to Japan and total share of MNEs in developing countries].
  - It seems that what happens to total share (X/sales) – for the whole and for developing countries alike – depends very much, in the case of MNEs from USA and Japan, on what happens to exports from the subsidiaries in the host countries to the home country or parent firms.
- *Industry pattern of FDI (EO):*
  - USA main export oriented subsidiaries are in the electronic components, computer and office equipment and non-electric machinery. The last two have significantly improved their share (X/sales) and their rank, and increased their exports to the USA; whereas the first maintained the rank ($1^{st}$) but reduced its share of (X/sales) and its share of exports to the USA also declined. Transport equipment improved its share total (X/sales) and its share of exports to the USA; whereas textiles reduced its share total (X/sales) despite having increased its share of exports to the USA.
  - Japanese MNEs subsidiaries more likely to export are those based on primary products and light, consumer goods industries (wood and pulp, textiles, and food). Their share of exports to Japan has been unstable. Total share of (X/sales) from subsidiaries in transport equipment and general manufacturing has declined significantly; whereas it has increased significantly in machinery (electric and non-electric) – in these two industries, export share to Japan increased.
  - The most important differences of the industry patterns of exports between USA and Japanese MNE subsidiaries seem to be: (i) USA MNE subsidiaries export more in knowledge and capital based industries, whereas Japanese export more in resource based industries, although knowledge and capital intensive ones are growing fast; (ii) the variation in Japanese MNE subsidiaries' behaviour is higher than in USA's.
- *Location of FDI (EO):*
  - For both, Japanese and USA MNE subsidiaries in Africa, exports are insignificant;
  - USA MNE subsidiaries with larger share (X/sales) are based in the Caribbean. Brazil has registered a very fast increase in the share (X/sales) by USA MNE subsidiaries. In Asia, the export orientation is also very high but has declined (or been very unstable) in most countries except Malaysia.

    - Japanese MNE subsidiaries with larger shares (X/sales) are based in the Middle East and South Asia. Brazil has registered a very large growth in the share of (X/sales) by Japanese MNE subsidiaries, and so has China. The bulk of FDI is located in East and South East Asia, where the share of (X/sales) has declined but is still very high (particularly in Hong Kong, Singapore, China and Malaysia).
- *FDI (EO) from developing countries:*
    - There is a very fast increase in the magnitude (Korea and Taiwan by 50 times; Singapore by 10 times, China by 20 times; India by 5 times, in little more than one decade);
    - FDI (EO) has diversified in both location and activity. In terms of location, it has reached deep into the industrialised world, despite still being concentrated into the developing world. Activities in the industrialised world also have diversified from trading and services to productive activities.
    - The main motivation of developing countries outward FDI has changed from merely seeking markets and foreign exchange to increasing competitiveness of their companies.

As a whole, it is argued that FDI (EO) is attracted by the availability of low efficiency wage, highly skilled labour; infrastructures and capabilities, natural resources, EPZ and trading agreements that allow specific countries free access to certain protected, large foreign markets (example, the EU). Japan seems to rely a lot more on natural resources and on competitive advantages of low wage, lower investment development path (IDP) stage economies to locate its FDI (EO) than the USA seems more keen in re-locating its own production advantages.

A very important characteristic of FDI that has to be analysed more deeply is its role as an export inducing mechanism. For example, Japanese MNE's have created subsidiaries in East and South Eats Asia to assemble transport equipment for the domestic market of the host country, and these subsidiaries do not have high export share of sales. India has built subsidiaries of leather companies in Eastern Europe to protect their exports to the region. Hence, although subsidiaries may not be very big exporters (on average), they may actually be a means of exporting goods and services to host countries.