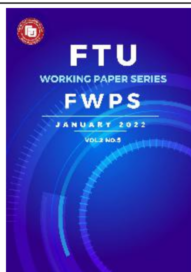

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PHÂN TÍCH VỀ MÔ HÌNH DUNNING VÀ CÁC HỌC THUYẾT LIÊN QUAN

Trần Thanh Như Hà[1], Đinh Nguyễn Nhật Hân,
Nguyễn Thị Cúc Hương, Nguyễn Văn Hoàng Nhân
Sinh viên K57CLC3 – Kinh tế đối ngoại
Cơ sở II Trường Đại học Ngoại thương tại TP. Hồ Chí Minh, Việt Nam

Nguyễn Thúy Phương
Giảng viên Bộ môn Kinh tế - Luật
Cơ sở II Trường Đại học Ngoại thương tại TP. Hồ Chí Minh, Việt Nam

Tóm tắt

Bài viết này điều tra các yếu tố quyết định đến dòng vốn FDI ở các nước sở tại. Khung lý thuyết được xây dựng trên cơ sở một số khái niệm liên quan đến FDI bao gồm Lý thuyết lợi thế sở hữu, Lý thuyết lợi thế nội bộ hóa, Lý thuyết chiết trung của Dunning, lý thuyết FDI của Ozawa, Lý thuyết thể chế và Lý thuyết về sự phù hợp của thể chế FDI. Các tác giả đã kết luận rằng, dựa trên một số nghiên cứu trước đây, các biến số được coi là quan trọng trong việc thu hút FDI được cho là khác nhau đáng kể giữa các lý thuyết này. Thông qua những lý thuyết đã được đề cập và những nghiên cứu liên quan, nhóm tác giả đi đến kết luận bao quát rằng các yếu tố: thể chế, địa điểm (bao gồm quy mô thị trường, chi phí lao động, nguyên vật liệu, v.v.) luôn có tác động đáng kể và đóng vai trò quan trọng trong một quyết định đầu tư hay thu hút FDI đối với một quốc gia.

Từ khóa: Nguồn FDI, FDI nhận, Dòng vốn FDI, Lý thuyết chiết trung của Dunning.

A REVIEW OF OLI PARADIGM AND RELATED THEORIES

Abstract

This study investigates the determinants of FDI inflows in host countries. The theoretical framework is based on several concepts related to FDI including Ownership advantage theory, Internalization advantage theory, Dunning’s eclectic theory, FDI theory by Ozawa, Institutional theory, and Institutional FDI fitness theory. The authors conclude that, based on a number of prior research, the variables that are deemed crucial in attracting FDI vary significantly amongst theories. Based on aforementioned theories and a wide range of related research, the group of authors reach the broad conclusion that institutions, locations (including market size, labor costs, raw materials, etc.) and always have a significant impact and play an important role in a country's FDI decision.

Keywords: FDI inflows, FDI flow, Dunning’s eclectic theory, FDI.

[1] Tác giả liên hệ, Email: tranthanhnhuha1801015259@ftu.edu.vn

1. Introduction

In such a context that the world is experiencing the globalization and trade liberalization area with unprecedented nature and impact, foreign direct investment has been an integral part of an open and effective international economic system and a major catalyst to development. In fact, a substantial stream of research has investigated the role of FDI not only to the home countries but also the host countries.

To be more precise, FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development which contributes to a higher economic growth (OECD, 2002). Besides, FDI improves the competitiveness of goods produced in the world market and the technical capabilities of importing countries, which, in turn, leads to an increase in the employment rate in the country (Toshmurza et al, 2020). Moreover, FDI presents an important source of new financial sources that will support local economies, especially those in developing countries (Halil and Faruk, 2016).

Although there are many studies on the importance of attracting FDI, research on the factors affecting FDI and circumstances in which FDI enters a country is quite scarce. Therefore, two research-related questions are raised: What are the determinants of FDI flowing into a country? And how are these factors related to the inner resources of the firms?

The Dunning eclectic paradigm (1979) provides a partial answer to these questions; however, there is no consideration for the specific industry factors. Most previous papers only focus separately on the host countries' factors that home country investors need to take into consideration, or only on the home country advantages that affect FDI undertaking decisions, without combining analysis of these factors. FDI by Ozawa is quite similar to the Dunning model in terms of FDI attraction factors but different in the stages of investment strategy transformation. The harmony between the internal and external needs of a country is highly valued in attracting FDI when it comes to FDI fitness theory. Meanwhile, the management policies and the role of the government are considered significantly when talking about institutional theory. In order to stimulate this kind of research, this paper presents a review of the literature on determinants that draw much attraction to undertake FDI regarding both developing and developed countries and develops recommendations for further future research.

2. Methodology

Databases such as ResearchGate, Journal, SpringerOpen, Journal of Economics and Development Studies and The Journal of International Business Research and Practice were searched for the terms “foreign direct investment”, “determinants of FDI”, “FDI flow” and “factors affecting FDI intentions”, focusing especially on research from the past 25 years for this literature meta-analysis. In addition, we consulted the reference lists of relevant articles and searched for more recent publications citing key publications on Google Scholar. As the purpose of this literature review was to compile a great deal of findings from research sources, the current review should be considered a narrative review (Booth et al, 2016).

3. Fundamental theory of factors affecting the foreign direct investment decisions

3.1 Ownership advantage

This theory was created by Hymer (1960), which was the first efforts of publishing a theory of humans to explain the trend of FDI. Hymer based on industrial economies background and supposed that a company has to have a unique advantage, a.k.a monopoly advantage, in case it has a desire to overcome oversea barriers and join in the producing process (Mahoney et al., 2001).

According to Hymer (1960), there are two important elements that need to be considered when investing in overseas. Firstly, a company should own competitive advantages to overcome obstacles, difficulties, risks, etc. For example, some significant advantages are product differentiation, the advantage of modern technologies, finance, or marketing. However, licensing is complied with quality control risks and produce less profits compared to direct production.

The second reason that encourages businesses to invest in another country is the ability to overcome barriers in that country and on global markets. If a competitor has already developed or entered a foreign market, the multinational business can cooperate and share the market with the competitor, or control production operations directly in those foreign countries. Hymer's theory attempted to demonstrate that in order for foreign direct investment to occur, the market must be imperfectly competitive, resulting in benefits and drawbacks for businesses. Overseas direct investment helps businesses remove barriers and use their advantages in foreign markets, reducing competition pressure in the native market (Letto - Gillies, 2005).

Despite the fact that Hymer's hypothesis has identified several elements that influence FDI, it still has some flaws:

1. It makes no discussion of the political and social effects of FDI on developing countries.

2. Hymer's theory does not mention any impactful policies on FDI influx.

3. This theory primarily considers the advantages that multinational corporations may gain from investing abroad; it makes no mention of the advantages that investment recipients may gain.

3.2 Internalization advantage theory

FDI happens when an internal transaction is better than a market transaction, according to this view (Mahoney et al., 2001). Trading within the company is preferable to trading outside the organization in an imperfect market. Market imperfections can be caused by a variety of factors, including "natural imperfections" (distance between countries increases transportation costs), "structural imperfections" (trade barriers between countries, such as product standards, environmental regulations, and intellectual property rights requirements), and "technological imperfections" (Kehal, 2004).

When the market isn't quite right, the corporation must create its own market by establishing a trading environment within the organization, utilizing assets from the parent and subsidiary companies or subsidiaries and subsidiaries. For example, if a company is having difficulty purchasing petroleum goods on the market, it may seek to own a refinery.

Internalization helps to avoid time lags, purchase negotiating, and buyer shortages. When buying iron ore, for example, a steel company may encounter raw material supply shortages and high transaction expenses, especially if the ore is purchased from outside the country.

However, if this firm purchases a foreign mining company, it can remove the scarcity of raw materials by implementing internalization, which includes the acquisition of iron ore and transportation costs.

In many circumstances, the benefits of internalization should outweigh the costs of forming a parent subsidiary firm. However, this theory fails to explain the benefits of internalization, provides no tangible proof, and is difficult to validate through empirical investigation.

3.3 Dunning's eclectic theory

Developed by British economist J.H Dunning in 1979, the eclectic theory, also called the OLI model, was an economic framework for assessment of the determinants behind the decision of making foreign direct investment (FDI) and the foreign activities of multinational enterprises (MNEs). From the theory, there are three accommodating a wide range of operational advantages behind the rationale of engaging in FDI activities: (1) Ownership advantages (O), (2) Location advantages (L), (3) Internalization advantages (I).

More specifically, a business's ownership advantage can also be considered as a competitive advantage involving the advantages of technology, notable economies of scale, comparative advantage from the proprietorship of some intangible assets such as patents and brands as well as management skills over potential competitors. Ownership advantage is the premise for FDI activities. In other words, the greater the ownership advantage that the investing firms possess over other competitors in the foreign country, the greater is the chance of them joining, or expanding their foreign investments.

Meanwhile, location advantage is achieved when a company investing in one location has advantages that enable the company's growth both at home and in a host country. Location advantages focus more on the geographic advantages and other advantages including availability of raw materials, large market size, low cost of production process factors, and a favorable policy. Location advantage explains the reason why some countries are more preferable than others.

The last one is the internalization advantage which may be seen as the interaction between the two above advantages. This is the case when a firm chooses between carrying out development internally and licensing the jurisdictions to means of enlargement to other firms. In fact, if the net benefits of internalizing cross-border intermediate product markets surpass that of exchanging through licensing or exporting the right to a foreign firm, there will be a higher chance of firms preferring to engage in foreign production itself.

According to the eclectic theory, FDI only occurs if all three conditions mentioned above are satisfied. Besides, O and I's advantages are seen as the "push" factors, while the advantage L is the one who could "pull" the FDI. In other words, if O and I's advantages give firms chances to move to other areas, the L advantage is the property of a specific country. However, these advantages vary over time, space, and development which also result in the change of FDI inflows in each country, region, and period.

Furthermore, before making any decision, MNEs normally consider several places with distinct factor endowments and the settlement of particular site alternative is built from the

motives for FDI. On the report of the motives of MNEs undertaking FDI, their activities can be divided into four categories:

● Market seeking: Supplying and serving the local market by taking advantage of the host country;

● Efficiency seeking: Enhancing the efficiency of firm operations by combining the domestic assets and foreign advantages;

● Resource seeking: Looking for a more stable and low-cost access to the resources;

● Strategic asset seeking: Reinforcing their own existing O specific advantages and/or to weaken those of their competitors.

Nevertheless, not every scholar in the universal gave the full acceptance towards Dunning's eclectic theory. They were the advocates of internalization theory (e.g., Buckley 1981, 1983; Rugman 1981, Buckley and Casson 1985; Casson 1987) who showed the strongest criticisms. To be more precise, they argued that the requisite and adequate factor to give an explanation for the existence of MNEs could be the market imperfections in international intermediate product markets. If Dunning's O advantages were neither requisite nor adequate to describe the presence of MNEs, then internalization theory would be considered as the theory of the MNEs.

With regards to the condemnations of internalization theorists, Dunning made a number of adjustments to his deprecators. To begin with, Dunning restructured O advantages into two categories: "Oa (asset) advantages," and "Ot (transactional) advantages". Later, Dunning made clear about the connections between internalization and the Ot advantages that O-specific advantage could be appropriate to be referred as an advantage which is noticed thanks to internalization as the modality despite the fact that some O-specific advantages resulted in a straight line from firms internalizing the market for their intermediate products across national borders since this put a between the internalizing firms and non-internalizing firms.

Moreover, Dunning differentiated between O and I advantage by using the notions of ability and motivation of MNEs to internalize markets: while the company is given the competence to internalize markets by O advantages, whereas the company is provided with the motivation or willingness to internalize markets by I advantages. Both proficiency and stimulus were in need of creating international production.

Throughout the decades, it could be said that Dunning (2003), "The eclectic (OLI) paradigm of international production: Past, present and beyond," laid out perhaps the most absolute expression of his viewpoints on the OLI paradigm at the turn of the century. He declared that the justifications bringing about the O, L, and I were still intact, and again asserted that the objective of the paradigm was to explicate the level and pattern of international production.

3.4 The Foreign Direct Investment theory by Ozawa (1992)

Foreign direct investment and economic development theory, also known as dynamic FDI theory, was developed by Japanese economist T Ozawa in 1992. The theory was based on the conceptual framework "stages theory of competitive development" by Michael Porter (1990). Ozawa developed a comprehensive theory that describes the links between economic

development and the emergence of a competitive advantage in international trade. Compared to previous theories, Ozawa's theory was one of the first who proposed a dynamic approach to the interactions of these two phenomena.

In the framework, Porter stated that, "despite the diversity of most economies, we can identify a predominant or emergent pattern in the nature of competitive advantage in a nation's firms at a particular time" (p. 545) by way of four distinct stages: (i) factor-driven, (ii) investment-driven, (iii) innovation-driven, and (iv) wealth-driven. The first 3 stages have a relationship with the development of comparative advantage. These stages possess their own distinct and specific characteristics (e.g., physical capital, human capital, technologies). In the fourth stage, the proportion of capital-intensive commodities increases since the economy focuses on producing goods with a high contribution of creation and innovation. This stage is considered as a period of slowing down and will eventually lead to an economic recession. The entire process of change can be simply expressed as shifts in the comparative-advantage pattern from labor-intensive and raw material-intensive goods to capital-intensive goods.

Following Porter's framework, T. Ozawa believed that changes in the model of comparative advantage were linked to economic growth and transformation. In addition to that, Ozawa introduced a new variable, which was foreign direct investment (FDI), into Porter's theory.

In Ozawa's view, the pattern and direction of foreign capital inflows and outflows change as the economy progresses through the stages of structural transformation. Thus, the FDI inflows which seek for resource and/or labour force is a characteristic feature of the first stage, where labor-intensive and raw material-intensive goods prevail. In the transition from the labour-driven to the investment-driven stage of a country, outward FDI of that country will go to countries with lower wage levels in labor-intensive industries or in raw material-intensive sectors and attract investments in industries that produce capital and intermediate goods. The conversion to the next stage of development, which is innovation-driven stage, marked by the central role of creations and innovations. This results in outward investments to capital-intensive industries, while inward FDI is drawn to sectors of the economy that require a highly skilled labor force and technologies.

There is a relative similarity in the study of Dunning and Ozawa. The factors identified as FDI attraction factors in Dunning's theories (1988, 1993, 1998) are quite similar to those identified in Ozawa's theory. However, the difference comes from the order of FDI types in the transition stages. In Dunning's model (1999), the incentives of FDI in developing countries changed from market-seeking and resource-seeking to efficiency-seeking. Meanwhile, this order in Ozawa's model is from resource seeking and efficiency-seeking to market-seeking.

Compared to previous models (e.g. David Ricardo's static model), Ozawa's model has a significant improvement in representing the possibility of international transfers of intangible assets and capital investments flows from industries lacking competitive advantages in the investor country to the recipient country. Porter and Ozawa's theory is one of the most comprehensive theories in international economic literature due to the value theory and practical utility derived from its comprehensive and dynamic approach to the subject matter.

3.5 The theory of institutional FDI fitness

FDI fitness theory, developed in 1998 by Saskia Wilhelms, is less debated when talking about FDI location factors. The role and importance of the government manifests itself in implementing economic measures and adjusting public policies to attract foreign investors. Therefore, a country's ability to attract FDI depends on its ability to adapt and harmonize between internal and external actors of the economy. The four institutions that contribute to FDI fitness are government, market, educational system and socio-cultural framework. Government fitness is viewed as the economic openness, low corruption, low degree of intervention on trade and exchange rates, and high transparency, while market fitness is assumed to generate a high volume of trade, doubled by low fees and quick access to financial resources. The fitness of a country regards its capacity of not only attracting but also absorbing and retaining FDI. Therefore, the most attractive countries for FDI will be those that are more capable to quickly adjust their environment: seizing the opportunities, responding to threats, enhancing their creativity, identifying niches for surviving in the face of competition (Popovici O. C and Calin A. C 2014). This theory is, therefore, applicable to macro and microeconomic levels that determine FDI.

Quoting Muthoga (2003), who investigated the FDI determinants in Kenya during 1967-1999 based on the institutional fitness theory, Popovici O. C and Calin A. C (2014), said the author points to the impact of policymakers in making their country more attractive for FDI. They find that economic openness, the GDP growth rate, the domestic investment, the internal rate of return, and the monetary authority's credit availability are the main variables influencing foreign investors.

3.6 Institutional theory

Institutional theory has been studied and developed since 1970. By taking into consideration aspects of social structure, the theory has been applied to explain many phenomena of business behaviour, and business decision making of managers in economics. The most commonly cited definition of institution is that of Douglas North, an institutional economist who pioneered the development of an analytical framework that integrates institutional issues into economic analysis. Institutions, according to North (1990), are human-created constraints, which include structural, economic, political and social factors. Indeed, institutions are the formal and informal game rules by which different players and economic actors interact and conduct activities in order to maximize their profits and returns.

According to North (1990), good institutions have a positive impact on economic activity by lowering transaction, manufacturing, and production costs. Furthermore, high-quality institutions assist in lowering the cost of conducting business, resulting in increased profitability. Markets with weak institutions, on the other hand, require more time and resources to monitor. According to Assuncao (2011), FDI comes from the game or rivalry between governments. Institutions, in this perspective, set the game rules and have tight control over them. The central premise is that politicians, funders, and other governments perceive and create organizational structures created in industrialized countries as indicators of progress toward modern institutional development, and therefore deserving of financial and political assistance. The theory said that, when the institutional quality and other characteristics linked to policy formation are taken into consideration, neither market size nor low labor costs are important determinants of FDI.

3.7 . Summary

It can be seen that the factors considered important in attracting FDI are relatively different between theories. However, there are similar characteristics between each group of theories. Of which Dunning's eclectic theory plays a central role and shares the most common features among the theories.

Firstly, both Institutional theory and FDI fitness theory emphasize the role of institutions in attracting foreign investment. In particular, the institution plays an important role in regulating and giving policies to encourage the development of the economy, thereby building the basis to attract foreign investment capital. Even Dunning (2006) supports the argument that institutional factors are important when analyzing the FDI decision. This factor is also partly mentioned in location advantage of the OLI model. The main difference between these theories is that compared with Institutional theory, FDI fitness theory has progressed when not denying that other factors constituting the economy also play an intimate role in attracting foreign investment.

Secondly, the internalization theory focuses on internalization advantages which is one of the factors proposed by eclectic theory. The argument made by internalization theory is that trading inside the company is better than trading outside the company. This argument, however, is not a highlight in eclectic theory. Internalization theory was used by Dunning as one of the components of his OLI model. In the OLI model, it acts as an interaction between a company's ownership advantage and location advantage.

Finally, Dunning's eclectic theory and dynamic FDI theory are a group of theories that promote comparative advantage of countries. More specifically, the contexts included in the theories show that foreign companies tend to invest in countries with big market size, abundant resources and low cost of production process factors (e.g. labors, materials, transport fee...). This is also considered to be one of the most important factors as it spans and influences other phases/factors in both theories.

Ownership advantage theory is somewhat different from other theories in that it deals with the approach of a business rather than a country. Although Hymer did make some arguments about how companies might make decisions to invest in countries, he did not specify the characteristics of the recipient country. This makes this theory somewhat limited in its application to the analysis of FDI attraction factors of countries.

The findings above can be explained by the fact that FDI theories are somewhat influenced by one another and have inherited the outcomes of previous ones. The later theories tend to supplement earlier theories. At the same time, it introduces new arguments and factors that are more suitable for the times, such as the way Ozawa considers the technological element in his theory. These studies presented not only focus on the factors mentioned, but also extend to many other factors to consider the practicality of the theory, thereby laying the foundation for many theories and studies that were formed later.

4. Related research

Turning to the next section, the group of authors would like to refer to a wide range of research which related to the above theory. From that, several determinants will be determined as a foundation for further quantitative research.

The first research which is worth-to-mention is “Factors Affecting FDI Intentions of Investors: Empirical Evidence from Provincial-Level Data in Vietnam”, conducted by a group of Vietnamese authors in 2021, aimed to explore the factors affecting the foreign direct investment (FDI) intentions of investors into Quang Ninh province, located in the north-eastern of Viet Nam. In an attempt to investigate factors that significantly affect the FDI inflows toward Vietnam at the provincial level, the theory of Dunning (1979, 1980), the OIL paradigm, is selected as the theoretical framework, however, those are adjusted to fit the scope of the study. The empirical analysis used data from the survey of 206 domestic and foreign investors into Quang Ninh province, including representatives of the Board of Directors, members, and management representatives at the department level, with reliable tools (SPSS 26 and SmartPLS 3.0 software). The research results identified the following factors affecting investment into Quang Ninh: FDI attraction policies have the strongest impact on the investors’ FDI intentions; it is followed by infrastructure, public services and human capital with strong effects on intentions of investors’ FDI; and finally the standards of living that affects the investors’ FDI intentions. There is also a positive relationship between all the factors and the investors’ FDI intentions. Several recommendations are further suggested to enhance the attraction of foreign direct investment into Quang Ninh province.

Besides, in 2012, Khachoo, Ab Quyoom and Khan, Mohd Imran identified determinants of FDI inflows to developing countries, by estimating a panel econometric model, the factors determining FDI inflows to developing countries over a long period. The study is based on a sample of 32 developing countries. In our analysis, FDI inflows are modeled as a function of the market size, total reserves, infrastructure, labour cost and degree of openness-for the host countries. Using data from 1982 to 2008, a panel data estimator suggests that the market size, total reserves, infrastructure and labour costs are the main determinants of FDI inflows to developing countries.

Moreover, Carmen Guadalupe Juárez Rivera y Gerardo Ángeles Castro (2012), researched “Foreign direct investment in Mexico & Determinants and its effect on income inequality”. By conducting panel data analysis across 32 federal entities in Mexico over the period 1994-2006, this paper studies the determinants of foreign direct investment (FDI) and its effect on income inequality within and between regions. They observe that the level of development and the size of the market have a direct relationship with FDI and therefore, they tend to increase the inequality gap between regions, but there is no evidence suggesting that it creates inequality within them. The study shows that FDI in Mexico does not tend to flow to less developed regions or to federal entities where unskilled and cheap labour is more abundant. In this respect, there is no support for orthodox theory. On the other hand, FDI tends to flow to big markets, in terms of population, and to more developed regions with more infrastructure and higher average income. Hence, the determinants of foreign direct investment in México are consistent with the economic and geographical features or location advantages considered in the eclectic theory or OLI paradigm.

Also, MA. Pham Van Rang, Faculty of Finance and Accounting, Central Transport College No 6, researched the determinants of foreign direct investment in ASEAN in 2020. This study aims to investigate the significant factor determining FDI in ASEAN10. The factors we are interested in are labor forces, inflation, gross domestic product (GDP), GDP per capita, import and export. These variables are drawn from “location-specific advantages” in the Bayes

Theorem (BT), proposed by Thomas Bayes (1763) and being observable effects (or factors). Overall, we found that GDP per capita, GDP and inflation significantly determine FDI inflows.

In addition, Erdal Demirhan and Mahmut Masca published "Determinants of FDI flows to developing countries: A cross-sectional analysis" to discover the determining factors of FDI inflows in developing countries over the period of 2000-2004. At first, based on the Dunning theory (1993) and some early empirical studies (Pärletun 2008, Artige and Nicolini 2005, Jordaan 2004, Ancharaz 2003, Asiedu 2002, Chakrabarti 2001), the authors pointed out some of the determinants and their relations to FDI including market size, openness, labour costs and productivity, political risks, infrastructure, growth and tax, then conducting an empirical analysis based on a sample of cross-sectional data on 38 developing countries. The results show that market size, infrastructure and level openness of a country have a considerable effect on the motives of undertaking FDI. The authors noted that when using absolute GDP or per capita GDP for market size, there was no effect on FDI, which means that investors prefer growing economies to large economies. Besides, low inflation rate which implies the economy stability and low tax rate are the two significant factors in attracting FDI. Surprisingly, even labor cost also affects the motive of making FDI, this was not much. In fact, when wage rates vary little from country to country, the skills of the labour force are expected to have an impact on decisions about FDI location. Lastly, despite having a negative impact, risk has not been an important factor in attracting FDI in the mentioned period. In other words, firms tend to ignore political risk if they have the capability to operate profitably without excessive risk to its capital and personnel.

Additionally, Rick T. Wilson and Daniel W. Baack conducted a research named "Attracting Foreign Direct Investment: Applying Dunning's Location Advantages Framework to FDI Advertising". By conducting Dunning's FDI advantages framework, the research aimed to analyse the effects of advertising and provide guidance for international advertisers designing FDI advertising. The authors identified the five factors represented in FDI advertising: knowledge resources, market attractiveness, economic governance, infrastructure, and natural resources. Through a content analysis of FDI advertisements placed in major U.S. business publications, the research showed evidence that Dunning's location items are reflected in the content of FDI advertising. Besides, the study implied that income classification was one of the determining factors in FDI promotion. In fact, high income countries tend to focus on knowledge resources, while lower middle income countries focus on economic governance. Upper-middle-income countries tap into both knowledge resources and economic governance while also promoting the attractiveness of their market.

Furthermore, in 2013, Ping Zheng published "The Variation in Indian Inward of FDI patterns" to explore the variety in Indian inward FDI patterns, taking into account the impact of economic growth and geographic location on the variation. In this research, Zheng used investment development path (IDP) theory (Dunning and Narula 1996) and FDI dynamic theory (Ozawa 1992) as the theoretical foundation. Based on the literature on FDI from many Indian and Chinese authors (e.g. Dhingra and Sidhu 2011; Palit and Nawani 2007; Singhania and Gupta 2011; Wei and Liu 2001; Wei 2005; Zheng 2009), he determined that market size, labour cost, language proximity, export, import, exchange rate, government preferential policy are key factors in explaining the FDI inflows to large developing countries like India and China. The research was conducted on the sample of 29 home countries which are major

sources of Indian inward FDI from 1991-2008 using panel data analysis. The results pointed out that market size, labor cost, and language proximity (which were previously selected variables to represent market-seeking, efficiency-seeking, and resource-seeking, respectively) had a significant effect on the motives of foreign direct investment as predicted. However, according to the results in this study, the order of FDI types did not follow Ozawa's theory but followed Dunning's theory, which, according to the author, is evidence that Dunning's theory is more accurate since Ozawa's theory was introduced for nearly a decade and the investment environment had changed ever since.

To be added, Etienne Musonera, Bideri Nyamulinda, Egide Karuranga explored the patterns and determinants of foreign direct investment (FDI) for the East African Community (EAC) countries between 1995 and 2007 in particular, and to test the fitness models. The study follows the theoretical framework of Institutional FDI fitness concept model, developed by Saskia Wilhelms (1998). Whilhelms states that FDI fitness is determined by four institutions: the government, markets, education, and the socio-culture. To better understand FDI drivers in Kenya, Tanzania, and Uganda, the authors use a comprehensive theoretical model that takes into account the total influence of government, market, and societal variables. For the model's estimate, they used data gathered from several sources. The best source of global development indicators, the World Bank, provides information on marketing and social variables. The Political Risk Services (PRS) group database provided quantitative information on political, economic, and financial risks. The authors divided the elements that influence FDI into three groups: market and social features, as well as national risk considerations. They develop hypotheses based on market features, societal characteristics, and national risk factors of the host country. They assume that the dependent variable (FDI inflows as a percentage of GDP) and the independent variables that make up FDI determinants have a direct connection (market and social factors, and country risk characteristics).

Regression analysis found that FDI inflows are heavily influenced by political, economic, financial, market, and social factors. For Tanzania and Uganda, FDI inflows were predetermined by more than one country risk factor or environmental variable, such as population and economic sizes, development of financial services and infrastructures, trade openness, and degree of urbanization and human development, as well as by economic, financial, and political risk factors. Education or human development and urban population play an important role in attracting FDI. Therefore, SSA should invest in the education and training of highly skilled labor in order to increase their chances of attracting FDI and multinational companies. Trade shows a significant correlation with FDI, which means that economic openness is vital for attracting FDI. Country risks are the most significant determinants of FDI, and show that investors prefer to invest in a stable, secure environment that reduces economic, financial, political, and other business and investment risks. Government institutions play a key role in the making and implementing of policies that affect environmental factors. Therefore, the level of FDI inflows that a country receives is determined by the government's institutions, specifically, market, social, financial, economic, and political institutions. Therefore, a country must decide on what country risk factors to work on to attract more FDI.

Besides, James Ngondi Karau and Tom K. Mburu researched (2016) "Institutional, Governance and Economic Factors Influencing Foreign Direct Investment Inflows in East

Africa" and the extent to which the institutional, governance and economic factors influence FDI Inflows in Eastern African Countries. The methodology in this study is Non-experimental panel data analysis which was conducted for eight Eastern African Countries during the period 1996 -2010. A one-way fixed effects least squares dummy variable model was estimated. Wilhelms and Witter (1998) tested the Institutional FDI Fitness theory by conducting ordinary least squares (OLS) analysis for 67 developing countries between 1978 and 1995. The study showed that two institutional factors, government and market (rule of law, corruption-free environment and well developed infrastructure) play a central role in attracting FDI. More precisely, foreign direct investors tend to invest more in countries with fewer barriers. In addition, location, socio-culture and total population have no or weak links with FDI inflows. The study also found that, although countries share the same region, they still have significant differences that can have a big impact on FDI. Another surprise in this study is that political instability seems to be the driving force behind FDI inflows.

In the research Institutions and FDI: Evidence from developed and developing countries, Samina Sabir, Anum Rafique and Kamran Abbas (2019) investigated impacts of institutional quality on FDI by using panel data for low, lower-middle, upper-middle and high-income countries for the same period of 1996-2016 using system GMM (Generalized Method of Moments). This study explored the influence of institutional quality on FDI inflows in developed and developing countries by controlling the effects of inflation, GDP per capita, trade openness as a percentage of GDP, infrastructure, and agriculture value-added as a percentage of GDP. The authors divided developing nations into low- and lower-middle-income countries and developed countries into upper-middle- and high-income countries and examined their influence on FDI using six governance variables as a measure of institutional quality. They discovered a significant degree of correlation across institutional indicators and used PCA to create an institutional quality index, as well as the GMM method to solve the endogeneity problem in the institutional index and other variables. The theoretical framework is based on Dunning's eclectic paradigm theory and North's institutional theory. The research found that institutional quality has a favorable impact on FDI in all surveyed countries. In addition, developed countries were found to have coefficients on corruption control, government effectiveness, political stability, regulatory quality, rule of law, voice and accountability with FDI inflows are higher than that of developing countries.

The results show that Institutional quality has a positive effect on FDI in all groups of countries. Besides, coefficients of control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability for FDI inflows are greater in developed countries than in developing countries. On the other hand, in developed nations, GDP per capita, agriculture value-added as a percentage of GDP, and inflation all have a negative impact on FDI inflows. In developing nations, GDP per capita, trade openness, agriculture value-added as a percentage of GDP, and infrastructure all have positive and statistically significant effects on FDI inflows. In developed nations, trade openness as a percentage of GDP and infrastructure have a favorable impact on FDI. From their analysis, they conclude that institutional quality is a more important driver of FDI in affluent nations than in developing ones.

Last but not least, Institutional Determinants of Inward FDI: Evidence from Pakistan – conducted by Moshfique Uddin, Anup Chowdhury, Sheeba Zafar, Sujana Shafique, Jia Liu

examined how institutional variables in the host nation influence FDI inflows into Pakistan. They also use elasticity tests to assess the relative relevance of institutional determinants, which is a novel in the FDI determinant research. The authors research the relationship in a single nation context, and there is no scaling issue econometrically. For the empirical institutional environment models, they checked the stationarity of the selected variables by testing random walk using the ADF (augmented Dickey-Fuller - 1979) test. The FDI data for Pakistan is collected from Datastream and updated from various national and official sources, such as the Handbook of Statistics published by the State Bank of Pakistan (SBP) and the Board of Investment of Pakistan.

Through the model, the authors find that emerging economies like Pakistan attract more FDI because of a strong institutional environment. Factors such as government spending, tax rates, strengthened regulatory framework, and flexibility in international trade all favorably influence FDI and Pakistani flows. Similar to the study by James Ngondi Karau and Tom K. Mburu which was mentioned above, a more stable regulatory environment has an adverse effect on FDI inflows. This finding strengthens the hypothesis that a stable and tight environment reduces the ability of foreign investors to exploit the system which in turn can reduce the profitability of their businesses.

5. Discussion and suggestions for further researches

The related researches give more realistic picture of the FDI affecting factors in many aspects. When bringing all the theories and prior research together, we found that institutions, locations (including market size, labor cost, raw materials, ...) and efficiency are the most general factors which are commonly addressed in studies. Although the weight of the factors varies depending on the country, territory, or economic condition. These factors always have a significant impact and play an important role in a country's FDI investment decision.

In these researches, we find that although labor cost was mentioned a lot in the studies, this factor was rarely considered as a key factor in the investment decision of FDI capital. In the study "Determinants of FDI flows to developing countries: A cross-sectional analysis", the author indicates that low wage has not been a determining factor in attracting FDI to developing countries. While the study in Mexico and the study "Determinants of FDI inflows to developing countries: a panel data analysis" shows that countries where people have relatively high salaries are factors attracting FDI. In "The Variation in Indian Inward of FDI patterns", the author highlighted the role of low labor cost in the investment decision of the OECD group, but it does not have much impact on the decision of the non-OECD group.

Meanwhile, market size has consistently appeared throughout our review. Market size is widely accepted as a significant determinant of FDI flows (Chakrabarti, 2001), the prevalent view is that a larger host country's market attracts a greater volume of foreign direct investment. The size of the market is the most important factor in the design of an international expansion strategy, particularly for market-seeking purposes (Przybylska and Malina 2000; Streak and Dinkelman 2000). The appearance of market size in previous studies shows the irreplaceable role of this factor throughout the history of research on factors affecting FDI.

An interesting finding is that we did not see elements of creation and innovation in the studies, although previously mentioned by Ozawa in the innovation-driven stage. In the

context that the world is increasingly developing and focusing on capital intensive products to serve people's needs, creation and innovation shows an important role in daily life. In the innovation-driven stage, which mostly imply developed countries, the researches focused more on showing the role of the government as well as the policies and laws that are put in place to help foreign businesses overcome trade barriers. We consider these factors worthy of attention and investigation in future researches.

Also, more research is needed to understand the relationship between GDP per capita and FDI flows. GDP per capita may be negatively related to FDI because a country with a higher GDP is more economically and financially developed, and thus more likely to generate more domestic savings and investment, while also increasingly attracting other types of investment (portfolio). However, GDP per capita in the EAC countries is very low, and the correlation between GDP per capita and FDI was found to be insignificant in Uganda and Kenya, but negatively significant in Tanzania. As a result, it would be useful to determine how FDI and GDP per capita relate to one another, particularly for low-income countries.

Furthermore, the researchers could use other measures of human development or educational attainment, such as the human development index, tertiary enrollment, the number of scientists and engineers, and the number of skilled laborers who have completed at least two or four years of college, to test absorptive capacity and spillover effects once they are available.

According to the literature, when multinational corporations invest in another country, they bring their best technologies, management skills, and competitive strategies, and this transfer of technology and managerial know-how is frequently associated with host country economic growth. Because FDI promotes economic growth, more research on the welfare effects for host-country residents is desirable.

6. Conclusions

This study aims to provide an overview of the literature on the subject of Foreign direct investment and related research. From the verified papers in this study, we draw conclusions about common factors that frequently appear in theories and research and make recommendations on factors that should be considered in future research. This study uses meta-analysis method to demonstrate the factors affecting the attraction of FDI. The findings reveal that three major criteria, namely institutions, locations, and efficiency, have a considerable impact on the FDI inflows.

Various studies on FDI have been spent throughout the previous few decades. Over time, later theories expanded into new aspects and increasingly built on older theories. This can be clearly seen through the fact that theories can be grouped based on the factors being studied. Among these theories, Dunning's eclectic theory plays an important role in providing initial ideas for later theories to develop based on Dunning's research. Ownership advantage theory is different from other theories when it comes to providing a perspective from the perspective of a business wanting to make an investment decision. This doctrine thus provides a fresher and more profound idea when it comes to business decisions which are entities that will actually invest in a country and bring in FDI. The diversity of theories helps us to have a stronger and more general background about the aspects to consider when studying FDI attraction factors of countries.

The world is having more and more factors that clearly and directly affect life as well as the economy. Issues such as the rise of technology or the urgent role of environmental protection are receiving more and more attention from the world. Therefore, to get the most accurate and close to reality results, the criteria that attract FDI shall be examined and re-evaluated on a regular basis to ensure accuracy in the real context.

The studies mentioned in the article have proven the reality of the theories put forth by the scholars. It can be seen that not all theories can be applied exactly in practice. This may be because there are still many other factors that the author has not taken into account in the context of theory construction. Therefore, these studies often use a combination of theories by different authors to build a foundation for experimentation. The authors recommend that future studies should continue to be built in this direction to ensure objectivity since each country and territory will have its own unique characteristics.

Due to time constraints, the number of related studies is limited and therefore does not represent all aspects covered in the mentioned theories.

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