



**UNIVERSITI PUTRA MALAYSIA**

***DETERMINANTS OF FOREIGN DIRECT INVESTMENT MODES AND  
THEIR IMPACT ON EXPORT PERFORMANCE AND ECONOMIC  
GROWTH IN ASEAN COUNTRIES***

**ALIREZA TAVAKOL MOGHADAM**

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GROWTH IN ASEAN COUNTRIES**

By

**ALIREZA TAVAKOL MOGHADAM**

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,  
in Fulfilment of the Requirements for the Degree of Doctor of Philosophy**

**January 2020**

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Doctor of Philosophy

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**January 2020**

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**Faculty : School of Business and Economics**

Foreign Direct Investment is seen as an essential source of physical capital and intangible assets, such as technical knowledge and managerial skills for economic development in developing countries. Meanwhile, the ASEAN region has become one of the most significant places for attracting FDI into developing countries. However, the trends of FDI and its modes in the region vary across countries and fluctuate over time. Nevertheless, most scholars have focused on aggregate FDI, and there are limited studies conducted on FDI and its entry modes, and their implications on export performance and economic growth in the ASEAN region. Regarding different nature of modes, this study aims to fill the information gap by decomposing FDI into two modes: a) Merger and Acquisition (M&A), and b) *Greenfield* investment, investigating their determinants and impacts of modes on selected ASEAN countries' export performance and economic growth. The main six countries in the region include Indonesia; Malaysia; Philippines; Singapore; Thailand and Vietnam (ASEAN-6) were selected for this study mainly due to the lack of information about other ASEAN members.

To achieve all the objectives of this thesis, panel Pooled Mean Group (PMG) of dynamic estimations and the same sample period from 1990 to 2016 were used. The sample period of this thesis began in 1990, the year that the statistics of FDI started. The first objective of this thesis is to examine the determinants of FDI entry modes, namely, merger and acquisition (M&A) and *Greenfield*. The main findings of the first objective demonstrate that market size, trade openness as a proxy of trade liberalization and human capital are positively related to *Greenfield* inflows. However, the exchange rate as a representative of financial stability and infrastructure have adverse effects on *Greenfield*. Moreover, market size inversely affects cross-border merger and acquisition (M&A) sales, although trade openness and exchange rate are

positively related to this entry mode. Therefore, the larger market size, more trade liberalization, larger the human capital and additional financial stability would encourage *Greenfield* inflows. In contrast, smaller market size, weaker financial stability, and more trade liberalization promote M&A sales in the case of ASEAN-6 countries. Indeed, with an increase in market size for the ASEAN-6 countries, the local firm owners are less likely to sell their companies to foreign parties and vice versa. Moreover, the depreciation of local currencies in the group makes the host firms cheaper and leads to more M&A sales while this causes less *Greenfield* investment due to a decrease in the benefits of MNEs in the host countries. Furthermore, more trade openness as a proxy of trade liberalization facilitates import raw materials and machinery as inputs and export of final goods in easing ways that positively affects both entry modes.

The second objective of this thesis is to investigate the effects of FDI entry modes on export, and the results show that both FDI entry modes have significant effects on export performance. Besides, the Gross Domestic Product per capita growth has a profoundly positive relationship to export. Thus, more FDI inflows and rapid economic growth increase export in the region. *Greenfield*, as a source of physical capital, new technology, and knowledge, creates additional capacity that enhances competitiveness and productivity, leading to more export. Moreover, M&A links the local market to the global distribution network that enhances competitiveness and productivity in the host countries and leads to a rise in export.

In the third objective, we examine the effects of FDI entry modes on economic growth. The findings reveal that the relationship between FDI entry modes and economic growth is positive and statistically significant. More precisely, the findings demonstrate that the M&A appears to hold a more impact on economic growth than *Greenfield*. Besides, gross fixed capital formation as a representative of domestic investment positively associated with growth. Therefore, more *Greenfield* inflow and M&A sales and additional domestic investment lead to economic growth in the case of ASEAN-6 countries. Gross fixed capital formation, as a proxy of domestic investment and as a complementary to foreign investment, improves economic development. Moreover, this component had the most significant impact on growth for this particular group of countries.

Overall, the findings of this thesis provide a thorough understanding of the determinants of FDI modes and their impacts on the macroeconomic performance of ASEAN-6 countries. Thus, efforts geared towards improving one may adversely affect the other. Hence, we recommend for governments of the ASEAN-6 countries to identify which inflows of FDI should be the focus of their countries, and formulate their policies accordingly.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**PENENTU MOD PELABURAN LANGSUNG ASING DAN KESAN  
TERHADAP PRESTASI EKSPORT DAN PERTUMBUHAN EKONOMI DI  
NEGARA-NEGARA ASEAN**

Oleh

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Pelaburan Langsung Asing (FDI) dilihat sebagai sumber penting modal fizikal dan aset tidak ketara, seperti pengetahuan teknikal dan kemahiran pengurusan untuk pembangunan ekonomi di negara-negara membangun. Sementara itu, rantau ASEAN telah menjadi salah satu tempat paling penting untuk menarik FDI ke negara-negara membangun. Walau bagaimanapun, arah aliran FDI dan modnya di rantau ini berbeza-beza di setiap negara dan berubah-ubah dari masa ke semasa. Walaupun begitu, kebanyakan cendekiawan telah menumpukan perhatian kepada FDI agregat, dan terdapat kajian terhad yang dijalankan ke atas FDI dan mod kemasukannya, dan implikasinya terhadap prestasi eksport dan pertumbuhan ekonomi di rantau ASEAN. Berkenaan sifat yang berlainan bagi setiap mod, kajian ini bertujuan untuk mengisi jurang dengan membahagikan FDI kepada dua mod, iaitu: a) Penggabungan dan Pengambilalihan (M&A), dan b) Pelaburan *Greenfield*, menyiasat penentu dan impak setiap mod kepada eksport dan pertumbuhan ekonomi bagi negara-negara ASEAN terpilih. Enam negara utama di rantau ini, termasuk Indonesia; Malaysia; Filipina; Singapura; Thailand dan Vietnam (ASEAN-6) dipilih untuk kajian ini kerana kekurangan maklumat mengenai ahli negara ASEAN yang lain.

Untuk mencapai semua objektif tesis ini, anggaran dinamik panel Pooled Mean Group (PMG) dan tempoh sampel yang sama dari tahun 1990 hingga 2016 digunakan. Tempoh sampel tesis ini bermula pada tahun 1990, tahun di mana statistik FDI bermula. Objektif pertama tesis ini adalah untuk mengkaji penentu bagi setiap mod kemasukan FDI, iaitu penggabungan dan pengambilalihan (M&A) dan *Greenfield*. Tambahan pula, penemuan utama objektif pertama menunjukkan bahawa saiz pasaran (MR), keterbukaan perdagangan (OPEN) sebagai proksi liberalisasi perdagangan dan modal insan (HUMAN) adalah berkait positif dengan aliran masuk *Greenfield*. Walau

bagaimanapun, kadar pertukaran (R) sebagai mewakili kestabilan kewangan dan infrastruktur (INFS) mempunyai kesan buruk terhadap mod ini.

Lebih-lebih lagi, saiz pasaran mempengaruhi penjualan M&A rentas sempadan secara songsang walaupun keterbukaan perdagangan dan kadar pertukaran berkait positif dengan mod kemasukan ini. Oleh itu, saiz pasaran yang lebih besar, pertambahan liberalisasi perdagangan, modal insan yang lebih besar dan pertambahan kestabilan kewangan akan menggalakkan aliran masuk *Greenfield*. Sebaliknya, saiz pasaran yang lebih kecil, pengurangan kestabilan kewangan dan pertambahan liberalisasi perdagangan menggalakkan M&A di negara-negara ASEAN-6. Sememangnya, dengan peningkatan ukuran pasaran untuk negara-negara ASEAN-6, pemilik firma tempatan cenderung menjual syarikat mereka kepada pihak asing dan sebaliknya. Tambahan pula, penyusutan mata wang tempatan dalam kumpulan menjadikan syarikat tuan rumah lebih murah dan membawa kepada penjualan M&A yang lebih banyak tetapi ini menyebabkan pelaburan *Greenfield* kurang kerana penurunan faedah MNE untuk negara-negara tuan rumah. Lebih jauh lagi, keterbukaan perdagangan sebagai proksi liberalisasi perdagangan memudahkan import bahan mentah dan mesin sebagai input dan eksport barang akhir dengan cara yang baik, yang memberi kesan positif kepada kedua-dua mod kemasukan.

Objektif kedua tesis ini adalah untuk mengkaji kesan mod kemasukan FDI terhadap eksport dan hasilnya menunjukkan bahawa kedua-dua mod kemasukan FDI mempunyai kesan yang signifikan terhadap prestasi eksport. Selain itu, pertumbuhan Keluaran Dalam Negara Kasar (GDP) per kapita mempunyai hubungan positif dengan eksport. Oleh itu, peningkatan aliran masuk FDI dan pertumbuhan ekonomi yang pesat meningkatkan eksport di rantau ini. *Greenfield*, sebagai sumber modal fizikal, teknologi baru, dan pengetahuan, menghasilkan kapasiti tambahan yang meningkatkan daya saing dan produktiviti, menjurus kepada lebih banyak eksport. Selain itu, M&A menghubungkan pasaran tempatan dengan rangkaian pengedaran global yang meningkatkan daya saing dan produktiviti di negara-negara tuan rumah dan menyebabkan peningkatan eksport.

Dalam objektif ketiga, kami mengkaji kesan mod kemasukan FDI terhadap pertumbuhan ekonomi. Hasil kajian menunjukkan bahawa hubungan antara mod kemasukan FDI dan pertumbuhan ekonomi adalah positif dan signifikan secara statistik. Lebih tepat lagi, hasil kajian menunjukkan bahawa M&A nampaknya lebih mempengaruhi pertumbuhan ekonomi daripada *Greenfield*. Selain itu, pembentukan modal tetap kasar (GFCF) sebagai mewakili pelaburan domestik berkait positif dengan pertumbuhan ekonomi. Oleh itu, lebih banyak aliran masuk *Greenfield* dan M&A serta pertambahan pelaburan domestik akan membawa kepada pertumbuhan ekonomi bagi negara-negara ASEAN-6. Pembentukan modal tetap kasar, sebagai proksi pelaburan domestik dan sebagai pelengkap pelaburan asing, meningkatkan pembangunan ekonomi. Tambahan pula, komponen ini mempunyai kesan paling signifikan terhadap pertumbuhan bagi kumpulan negara tertentu ini.

Secara keseluruhan, penemuan tesis ini memberikan pemahaman menyeluruh mengenai penentu mod kemasukan FDI dan kesannya terhadap prestasi makroekonomi negara-negara ASEAN-6. Oleh itu, usaha yang diarahkan untuk memperbaiki satu mod kemasukan boleh memberi kesan buruk kepada yang lain. Oleh itu, kami mengesyorkan agar pemerintah negara-negara ASEAN-6 mengenal pasti aliran masuk FDI mana yang harus menjadi tumpuan negara mereka, dan membentuk dasar dengan sewajarnya.





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This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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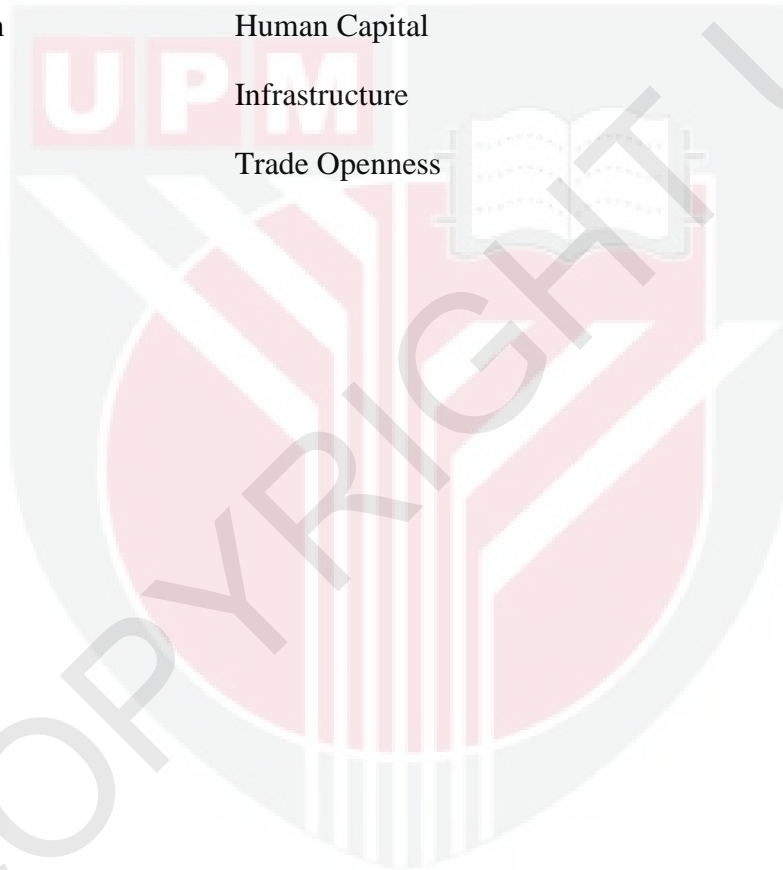
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## LIST OF ABBREVIATIONS

FDI	Foreign Direct Investment
M&A	Merger and Acquisition
Green	Greenfield
R	Exchange Rate
MR	Market Size
OPEN	Trade Openness
GFCF	Gross Fixed Capital Formation
GCF	Gross Capital Formation
POPG	Population Growth
IQ	Institution Quality
INF	Inflation
LAB	Labour Force
GDP	Gross Domestic Product
GDPPG	Gross Domestic Product Per Capita Growth
GDPC	Gross Domestic Product Per Capita
PMG	Pooled Mean Group
MG	Mean Group
DFE	Dynamic Fixed Effect
OLS	Ordinary Least Square
FG	Flying Guess
OLI	Ownership, Location, Internalization
ASEAN	Association of Southeast Asia Nations
MNEs	Multinational National Enterprises
UNCTAD	United Nation Conference on Trade and Development
OECD	Organization of Economic Co-operation and Development

IMF	International Monetary Found
WDI	World Development Indicator
EAS	East Asia and Pacific
TFP	Total Factor Productivity
TNC	Transnational Corporation
ADB	Asian Development Outlook
EXP	Export
Human	Human Capital
INFS	Infrastructure
OPEN	Trade Openness



# CHAPTER 1

## INTRODUCTION

### 1.1 An Overview

One of the significant barriers in developing countries to promote economic development and achieve their potential growth is the lack of capital. In their effort to tackle this problem, they have tried to import capital from developed countries, and they have made fiscal and monetary reforms to enhance capital inflows, especially over the last two decades. Capital inflows can be in the forms of Foreign Direct Investment (FDI), portfolio investment, and economic grants and loans (Chayawisan, 2015). Depending on the conditions of capital recipients and transmitter countries, this process can occur in different forms. The most crucial process is through FDI, which has increasingly replaced other types of capital flows to developing countries (Bergsman & Shen, 1996).

Notably, the other forms of capital flow only transfer the physical capital while FDI is a channel for transferring both tangible and intangible assets, such as new technologies, technical knowledge and managerial skills to the host country. While, portfolio flows consist of liquid assets such as bond and equity investment (Gozgor & Erzurumlu, 2010). It is believed that FDI is different from other forms in that the features of investments and participation in gains and losses for the investors vary considerably. Besides, FDI has advantages of a long-term relationship and lasting interests agreed upon between the investors and investees. Nevertheless, some investigations have shown that the most significant effect of FDI is the transfer of the latest technologies and advanced knowledge. This is because technology transfer enhances a host firm's productivity (Glass and Saggi (2002). In addition, the spillover of technology leads to an increase in productivity and competition in the local market and causes economic improvement and welfare enhancement. Also, FDI is seen as an essential source of capital that complements domestic counterpart for development through factors, such as market expansion, employment creation and innovation among others (Seetanah & Rojid, 2011; Oladipo, 2013). Besides, through the transfer of technologies and using the low-cost endowments of the low-income countries, FDI can enhance productivity, competitiveness and export performance in the host countries.

Nevertheless, the limitation of the human capital in the host country could restrict the effects of technology transfer on the economic features. Thus the larger the human capital, the higher to learn and accept the new technology ((Nelson & Phelps, 1966). Nonetheless, some believe that the transfer of new technology by FDI may drive out the local firms of the market and causes unemployment (Mencinger, 2003).

In this context, the ASEAN region has become one of the most significant places for attracting FDI. The FDI flows to the region rose from \$40 billion in 2005 to \$136 billion in 2014, making ASEAN the largest FDI recipient in the developing world (ASEAN Secretariat 2016). The levels of FDI determinants depend on different MNEs motives, such as market-seeking, resource-seeking and asset-seeking (Dunning, 1980). Maskus (1998), Seetanah and Rojid (2011), Blonigen (2005), Masron and Nor (2013), and Villaverde and Maza (2012) have examined the aggregate FDI determinants at macro-level of the host countries, such as market size, taxes, infrastructure, government policies, education expenditure, trade openness, wage rates, and inflation.

The results vary depending on the studies setting, which does not consider different FDI modes, instead, they relied only on aggregate FDI. It is known that each FDI determinant may have different effects on each FDI mode (e.g. Yip, 1982; Chen et al., 2006; Wang & Wong, 2009). This occurs because FDI modes are different, and each has its specific advantages. Nevertheless, there are few studies conducted on the different modes of FDI, especially in the ASEAN countries (e.g. Chen et al., 2006). Therefore, the present thesis aims to decompose the overall FDI net inflows into M&A and Greenfield, examine their determinants, and investigate the effects of these modes on economic growth and export performance. Specifically, this study was conducted on the six leading Association of Southeast Asian Nations (ASEAN): Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam (ASEAN-6), during the years of 1990 to 2016.

The ASEAN nations were selected because they have been the key players, within the developing countries, in attracting FDI over the past two decades. Also, these particular countries (ASEAN-6) were selected because essential data for other ASEAN countries were lacking<sup>1</sup>. Besides, this group of countries attracts the largest share of FDI inflows and has the highest percentage of GDP growth in the region. The ratio of FDI inflows to this group of ASEAN countries versus total inflows to the region has risen from 83% in 2003 to 86% in 2016 and nearly 70% of GDP growth in 2016 has been contributed by ASEAN-6 countries (ASEAN Secretariat, 2017).

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<sup>1</sup> The ten ASEAN members are Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

## 1.2 Background of Study

### 1.2.1 Definitions of Foreign Direct Investment, Merger and Acquisition and Greenfield

Several sources have defined the term “Foreign Direct Investment”, one of which the United Nations Conference on Trade and Development (UNCTAD). It is the exact definition of FDI as follows:

*“Foreign direct investment is defined as an investment that involves a long-term relationship and reflects a lasting interest and control by a resident entity in the economy.”*

The FDI entry modes can be in the forms of Merger and Acquisitions (M&As) or Greenfield investment. The former mode of entry contributes to the transfer of the local firm’s ownership to foreign investors, and the latter mode involves the creation of the new operations in the host country. Based on the International Monetary Fund (IMF) the Cross-border merger is where a company resident in one country becomes a subsidiary of another company resident in another country (Garibaldi et al., 2001). Besides, the Organization for Economic Co-Operation and Development (OECD Financial, 2000) defines acquisition as follows;

*“An acquisition is a business transaction between unrelated parties based on terms established by the market where each enterprise in its interest.”*

One the other hand, Greenfield is defined as a form of FDI where a parent company builds its operations in a foreign country from the ground up. In addition, most investments in developed and developing countries are in the form of M&A (Group World Bank, 2016). However, most studies define M&A as the transfer of ownership only between local and foreign firms. They may not include the transfer of the new technologies and skills originating from the developed countries. Nevertheless, some M&A investments may transfer limited technologies for reconstructing and improving the acquired local firms, but the volume is less than that of Greenfield. Unlike Greenfield, M&A cannot create job and production capabilities in the host countries. Some even claim that M&A is not beneficial for the host countries. For example, the World Investment Report (2000) argues that FDI entry through the takeover of domestic firms is less profitable, if not harmful, for economic development than the entry by setting up new facilities (Greenfield FDI).

Alternatively, others argue that M&A by using some capabilities that are imperfectly mobile across countries, such as marketing distribution power and country-specific institutional competency, can be beneficial to the host countries. For example, Delios and Beamish (2001) indicate that firms which have chosen cross-border M&A entry mode, are willing to obtain non-mobile capabilities by taking over local firms. Studies

are demonstrating that the effects of M&A and Greenfield FDI on the growth depend on the host countries' conditions and FDI performance. For example, Alfaro et al. 2004 show that the level of human capital and the ability of each FDI mode to knowledge diffusion by spillover are essential for growth through FDI inflows.

Therefore, the main difference between M&A sales and Greenfield FDI is that the later entry mode by the establishment of new operations that accompanied by transferring new technologies in the host country creates additional capacities and jobs that are directly leading to economic growth<sup>2</sup>. While, M&A sales by acquisition the existing firms in the host country do not create new capabilities in the target country, and may affect economic growth through other channels.

### **Definitions of Joint Venture and Other FDI Modes**

Other FDI modes in the economic literature have relatively less importance compared to M&A and Greenfield. According to OECD, (Co-operation and Development (2010)Co-operation and Development, 2010) agreement between two or more parties for executing a business undertaking, in which the parties agree to share in the profits and losses of the enterprise, as well as the capital formation and contribution of operating inputs and costs. The significant difference between a merger and a joint venture is that the host firm by accepting a merger proposal from a foreign firm, loses its independence and the foreign firm determines cost-reduction investments for both divisions. On the other hand, a joint venture is only cooperation between host and foreign firms, and two parties decide on their cost-reducing investments simultaneously and independently (Raff, Ryan, & Stähler, 2009). Other FDI entry modes include plant expansion, increase in equity stake, and acquisition of real estate (Wang, Alba, & Park, 2013).

### **1.2.2 Determinants of FDI, M&A, and Greenfield**

The determinants of M&A and Greenfield are not entirely different, but each determinant of aggregate FDI may have more significant, smaller or opposite effects on different FDI modes. This is because the two FDI modes are not homogenous and are different. Most studies have ignored the heterogeneity of FDI modes and have concentrated on aggregate FDI only (e.g. Chen, Rau and Lin, 2006; Masron and Nor, 2013). Given a set of aggregate FDI determinants at the host- country level, such as market size, human capital, trade openness, infrastructure, labour force, labour costs, institutional quality, inflation rate and exchange rate, each determinant may have a different impact on FDI modes. For example, Abugri and Soydemir (2002) show that the US\$ appreciation or Japanese Yen depreciation has increased FDI owned by the US in Japan. However, the problem is the lack of clarifications about the effects on different FDI modes. A limited number of studies have investigated the determinants

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<sup>2</sup> In this thesis we consider cross-border merger and acquisition as cross-border M&A sales that considering sales of companies in a host country to foreign MNEs (UNCTAD).

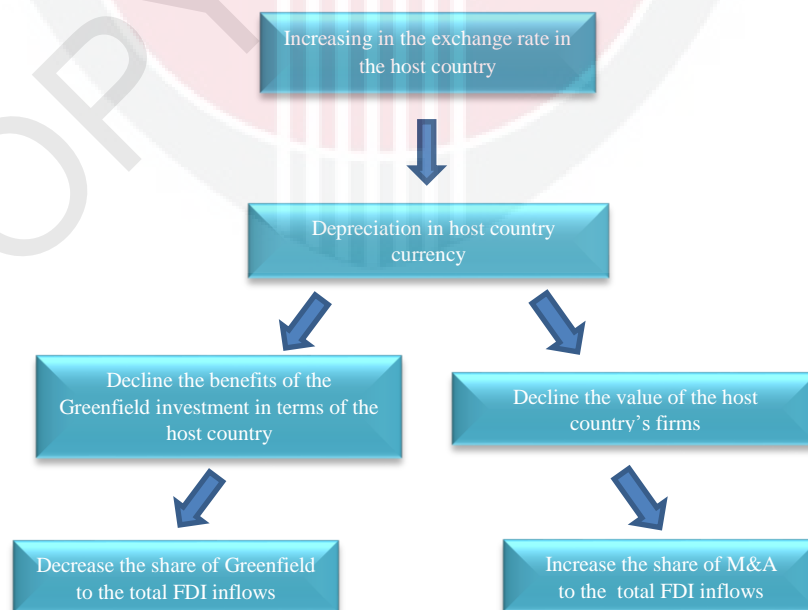


of FDI modes. For instance, Wang and Wong (2009) state that a certain level of human capital in the host country has a more significant impact on attracting M&A than others. Yip (1982) stated that industrial competition in the host country has adverse effects on Greenfield investment because it creates new capacity in the host country. Further, Dikova and Van Witteloostuijn (2007) indicate that institutional improvement has a positive impact on both FDI modes.

### The Effects of Exchange Rate on M&A and Greenfield flows

As mentioned earlier, the M&A and Greenfield FDI are different, and they are not homogenous. Therefore, an aggregate FDI determinant may have a bigger or smaller impact on the probability of attracting one mode to that of another. Notably, the exchange rate in the home and host countries is an essential determinant of FDI flows. It is shown that an appreciation in the home currency increases outward FDI from home to the host country, (Abugri & Soydemir, 2002). Nevertheless, the explanation of the effect of the exchange rate on the FDI modes is not clear.

Some other studies investigated the impact of exchange rates on each FDI mode. For instance, Vorachen (2016) and Wang (2008) demonstrated that home currency appreciation makes acquiring foreign assets cheaper and leads to more M&A investment in the host country. In contrast, an appreciation in the host country's currency encourages international firms to undertake Greenfield investment because of their benefits in terms of the home country rise (Chen et al., 2006). Therefore, this thesis considered the exchange rates in the host countries as one of the determinants of FDI besides other factors. Figure 1.1 demonstrates the flowchart of the effects of exchange rates on the share of FDI modes in the host country.



**Figure 1.1 : Effects of Exchange Rate on the Shares of FDI Modes in the Host Country**

### **1.2.3 The Different Roles of M&A and Greenfield on Economic Growth**

FDI modes may stimulate the economic growth of the host country through different channels. Greenfield investment helps the establishment of new operations in the host country, creates new capacities, jobs creation and higher income, leading to economic growth (Wang & Wong, 2009). In contrast, the effects of M&A sales on economic growth are not straightforward. It does not create additional capacity and its impacts on economic growth is indirect, mainly depending on the conditions of foreign firms and the host countries. More precisely, M&A can positively affect economic growth in the presence of a certain level of human capital in the host country (Alfaro, Chanda, Kalemli-Ozcan, & Sayek, 2004). The interaction between M&A investment and human capital in the host country leads to knowledge diffusion and productivity that boosts economic growth. Besides, the transfer of technology and reconstruction of the acquired firm by foreign hands can enhance the competitiveness in the host country and promote economic growth. Moreover, linking the local market to a global distribution network through M&A sales can also increase the competitiveness in the host country and faster further economic growth.

### **1.2.4 The Different Roles of M&A and Greenfield on Export Performance**

Likewise, FDI modes may affect export performance in the host country through various channels. Greenfield investment transfers knowledge and technology and creates new capital assets and additional production capacity (Ashraf, Herzer, & Nunnenkamp, 2016). The enhanced production capacity, in turn, increases competitiveness in terms of price and quality in the host country with further positively affects export performance.

Regarding the effects of M&A investment on export performance, if this mode of FDI involves transfer technology for the reconstruction of acquired host firms, this would positively affect the export performance through enhanced competitiveness. To be more exact, importing technologies in the form of capital equipment, as well as raw materials, help the existing firms take advantage of both price and quality competition and may positively impact the export performance in the host country (Vyas, Narayanan, and Ramanathan (2013). Otherwise, the impact of M&A on export performance would be through productivity, created through the interaction between M&A and human capital, leading to knowledge diffusion in the host country or by linking local market to international distribution networks.

Moreover, FDI inflows into the host country by transferring new technologies and knowledge may make domestic firms productive. The average productive firms are more likely to export, while most productive firms are most likely to engage in outward FDI (Raff et al., 2012; Stepanok, 2015). Melitz (2003), and Helpman, Melitz, and Yeaple (2004) found firms with higher total productivity are more willing to select FDI rather than export for engaging in the foreign market. Thus, there is a substitution relationship between export and outward FDI for domestic firms, and it depends on the levels of productivity derives from technology transferred by inward FDI.

Moreover, export and FDI would complement when resource-seeking firms locate their productions in a foreign country, then re-export the goods to their economies (Ismail, Smith, & Kugler, 2009).

### **1.3 Global and Regional Economic Environment**

#### **1.3.1 Economic Development**

The annual GDP growth rates in developing economies and particularly in developing Asian economies are higher than in the developed economies (Table 1.1). This might be due to an increase in the global share of FDI flows to these economies in recent years. The FDI flows to developing economies reached a new high of \$765 billion in 2015, that is 9% higher than in 2014. Also, at the same time, the FDI flows to developing Asian countries increased by 16 % (\$541 billion) and reached a new record. This significant growth was driven by the strong performance of East and South Asian countries (UNCTAD, 2016).

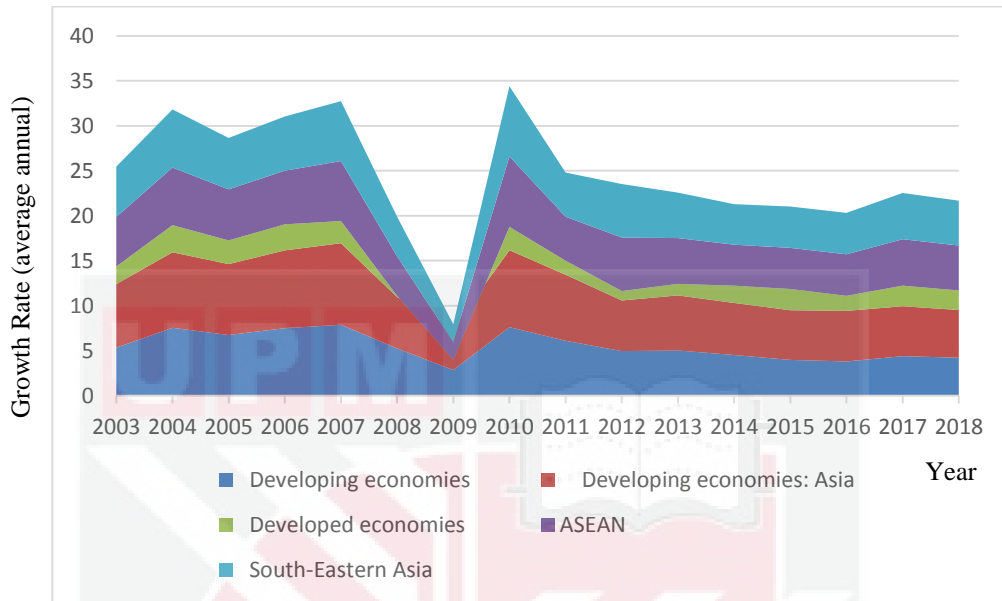
The positive relationship between FDI inflows and GDP growth, especially in the ASEAN region, has been shown by previous studies, such as one conducted by Iamsiraroj and Ulubaşođlu (2015). Strong economic growth, rapid industrialization and the commitment of the host country government to infrastructure development are the essential factors in attracting FDI to the region (ASEAN Secretariat, 2017). The economic growth in ASEAN developing countries was very permissive between 2003 and 2007. However, from 2008 to 2009, the growth rates in ASEAN and other developing countries decreased sharply due to a slowdown of global economic performance and the Asian financial crisis. Likewise, the developed countries also experienced a negative 3.6% growth rate in 2009.

**Table 1.1 : Asia and Developed Economies Growth Rate of GDP (%) 2003-2016**

<b>Year Region/ economy</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
ASEAN	5.5	6.4	5.7	6	6.7	4.4	2	7.8	4.9	5.9	5.1	4.5	4.5	4.7
Developing economies	5.3	7.5	6.8	7.6	8	5.3	2.9	7.7	6.1	5	5.1	4.6	4	4
Developed economies	1.9	3	2.6	2.8	2.4	0.1	-3.6	2.6	1.5	1	1.2	1.9	2.3	1.6
Developing economies Asia	7	8.4	8	8.8	9.3	5.8	4.7	8.8	7.4	5.7	6.2	5.8	5.5	5.9
Developed economies east Asia	7.8	8.8	9.4	10.6	11.9	7.7	7	9.9	8.3	6.7	6.8	6.5	5.9	6.3
Developing economies south Asia	7.8	6.8	7.4	7.9	8.8	3.1	6.2	8.4	5.6	3	5	6.7	6.1	7
Developing economies south east Asia	5.6	6.5	5.7	6.1	6.6	4.4	2	7.8	4.9	5.9	5	4.5	4.5	4.7

(Source: UNCTAD statistic database 2017)

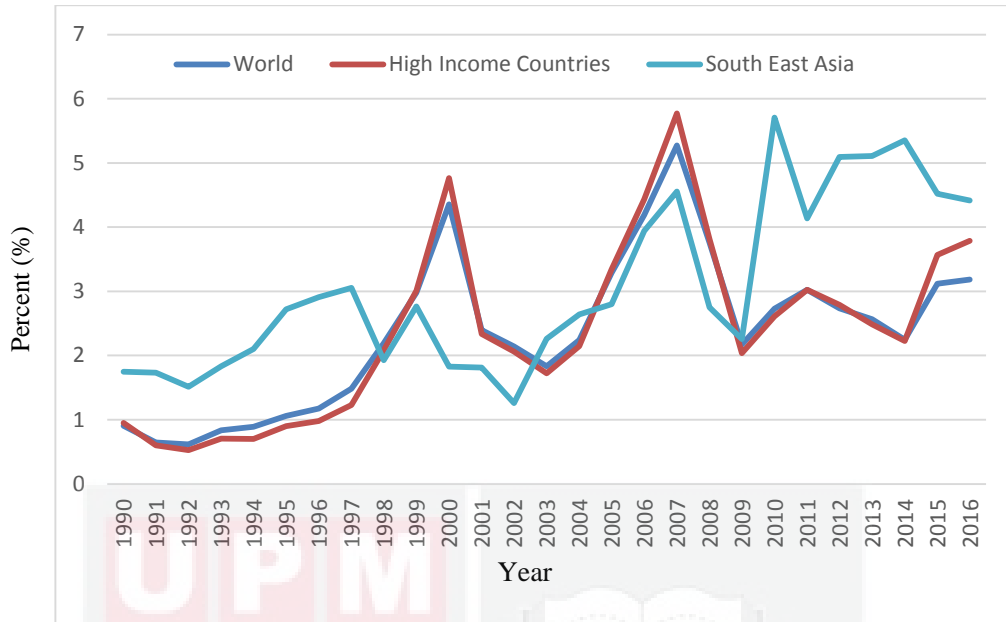
However, the economic growth in the ASEAN and other developing and developed economies rose gradually but with fluctuations from 2009 to 2016. Indeed, the overall performance of this indicator in the developing economies was better than for developed countries (refer to Figure 1.2).



**Figure 1.2 : GDP Growth Rates in Developing and Developed Countries**  
(Source: UNCTAD)

### 1.3.2 Global and Regional Trends of FDI

The trends of FDI net inflows (% of GDP) from 1990 to 2016 for the world, developed and South-East Asian countries are shown in Figure 1.3. The trends of FDI net inflows (% of GDP) for all groups of economies increased since 1990. However, this trend for South-East Asia decreased between 1997 and 1999, due to the Asian financial crisis. Notably, FDI net inflows (% of GDP) to developed economies rose sharply from 1997 to 2000 and 2003 to 2007, reaching its peaks but declined dramatically afterwards in 2009. This trend also took place for the world's FDI net inflows total but with slight differences. The FDI net inflows for the developing and transition economies started to rise at different rates in early 2003. They reached their peak in 2007, where the FDI inflows for developed economies were at its lowest bottom in 2009. Besides, from 2008 to 2009, the net FDI inflows were similar for all groups, after which the trend of FDI net inflows (% of GDP) for both developing and developed countries converged (2009-2016). After 2009, the directions for all groups began to rise with fluctuations; however, this rise for South East Asia was considerable. The global FDI flows jumped by 38 % and reached \$1.76 trillion in 2015, the highest level since the global economic and financial crisis of 2008-2009 (UNCTAD, 2016). A surge in cross-border M&A to \$721 billion, up from \$432 billion in 2014, was the principal factor behind the global rebound (UNCTAD, 2016).

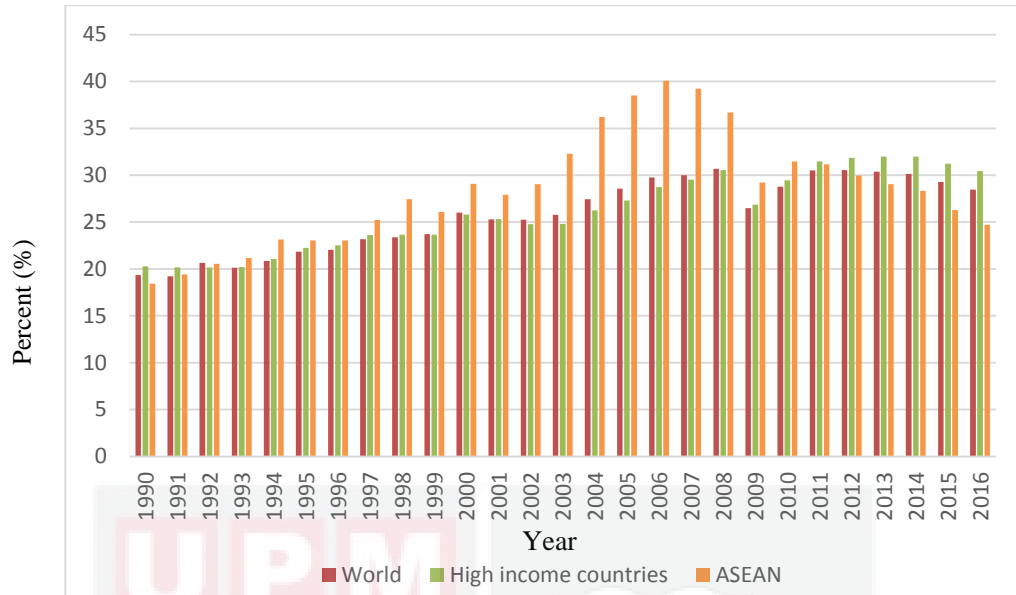


**Figure 1.3 : Foreign Direct Investment Net Inflows 1990-2016 (% of GDP)**  
 (Source: world development indicators 2017)

According to the World Development Indicator Report (World Bank Corporation, 2017), the developing Asian countries with the FDI inflows of more than half a trillion dollars remain as the largest FDI recipient region in the world. However, a significant part of FDI inflows is for the relatively high-income and large economies in the region, including Hong Kong, China, Singapore and India. The FDI inflows to South East Asia include ASEAN, increased slightly by 1% to \$126 billion in 2015. Notably, the leading recipient of FDI in the ASEAN region was Singapore; however, low-income countries, such as Vietnam, also continued to perform well as a member of this region.

### 1.3.3 Global and Regional Trends of Export

Figure 1.4 shows the shares of the export (% of GDP) for the average world, high-income countries and ASEAN region. Between 1994 and 2008, the ASEAN had the largest share of exporting as a ratio of GDP, compared to the high-income countries and the average of the world. From 2004 to 2008, the export form ASEAN reached from 36% to 40% of GDP; however, this ratio for the high-income countries is about 30% of GDP in 2008. This indicates the high potential of the ASEAN region for exporting goods and services more than that for both the world average and high-income countries.

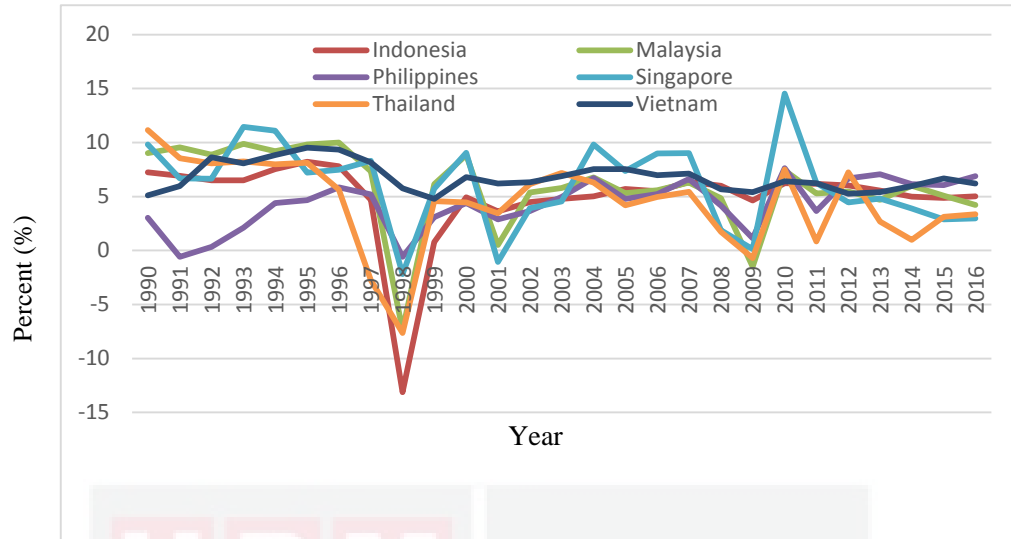


**Figure 1.4 : Export of Goods and Services, 1990-2016 (% of GDP)**  
 (Source: World Development Indicators 2017)

#### 1.4 The Association of Southeast Asian Nations

**Background:** The Association of Southeast Asian Nations (ASEAN) was established in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Later in 1984, 1997 and 1999, Brunei, Cambodia, Laos, Myanmar and Vietnam joined the organization, and its membership included ten nations. The main aims of ASEAN are faster economic growth, social progress and socio-cultural evaluation. Notably, the ASEAN countries recorded a nominal GDP of over \$2.8 trillion in 2015, standing behind the United States, China, Japan, France and Germany as the six largest economies in the world.

Among the ASEAN members, the six major countries are Indonesia, Thailand, Malaysia, Philippines, Singapore and Vietnam, which contributed to 70% of GDP growth in the organization (ASEAN Secretariat, 2017). Figure 1.5 shows the trends in the annual GDP growth for ASEAN-6. According to the Figure, Singapore has been leading in terms of its annual economic growth performance in ASEAN; however, from 2007 to 2009 (Asian financial crisis), there was a decline in economic growth for principal ASEAN members, especially for Malaysia, Thailand and Singapore. Meanwhile, Vietnam and Indonesia enjoyed a relatively better financial stability during this crisis. Again, from 2009 to 2011, Singapore became the leading member in terms of economic growth performance, which accounted for 14.5% annual growth in 2010 (World Bank Corporation, 2017). Then, Singapore experienced a sharp decline in its annual economic growth rate, reaching about 2% in 2016. At the same time, the Philippines with about 7% and Vietnam with about 6.2% annual economic growth rate led the economic growth performance, rising above Singapore, Malaysia, Thailand and Indonesia.



**Figure 1.5 : Trends of GDP Growth of ASEAN-6 Countries, 2003-2016**  
 (Source: World Development Indicators 2017)

#### 1.4.1 FDI Inflows and GDP Growth in ASEAN-6

FDI, as an essential source of capital, technology and creative management that flows from developed countries to developing ones can enhance productivity, innovation, job vacancies, competitiveness power and finally economic growth. Numerous empirical studies have shown the positive relationship between FDI inflows and economic growth, in both developed and developing countries. For instance, Pradhan (2009) shows a long-run relationship between FDI and economic growth in some developed and developing countries, such as Canada, the United States, the United Kingdom and Hong Kong. Also, Nguyena and Tob (2017) investigated the optimal level of FDI inflow that benefited the economic growth in ASEAN countries. According to Table 1.2, ASEAN-6 has received the largest FDI share in the ASEAN region during 2003-2016, which accounts for about 96% on average.

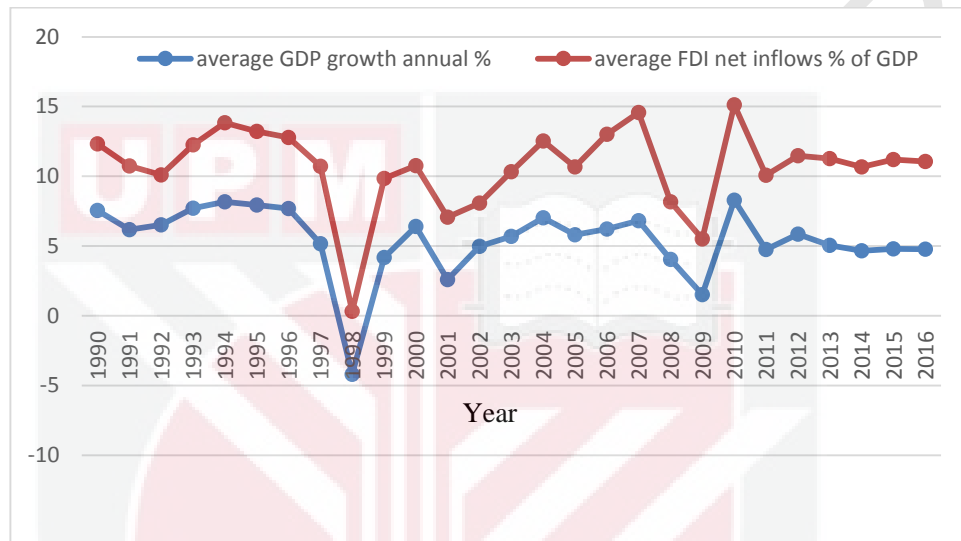
**Table 1.2 : FDI Net Inflows to ASEAN (BOP US\$ billion) 2003-2016**

Country Name	FDI net inflow ( BOP US\$ billion)	FDI net inflow (%)
Indonesia	165.4549628	13.7715
Malaysia	116.1127866	9.6646
Philippines	41.4673909	3.4515
Singapore	619.5047457	51.564
Thailand	114.8541793	9.5598
Vietnam	97.591	8.1229
<b>ASEAN- 6</b>	<b>1154.985</b>	<b>96.1342</b>
<b>Total FDI Net Inflows to ASEAN</b>	<b>1201.42953</b>	<b>1</b>

(Source: Author's calculation using data from World Development Indicators 2017)



Figure 1.6 shows the relationship between average FDI net inflows as a percentage of GDP and average GDP annual growth for ASEAN-6 countries. As for, in recent decades, developing countries have tried to make some reforms to attract more FDI inflows as an engine of economic growth and economic development, ASEAN has received the highest FDI share among the regional developing countries. Figure 1.6 shows the strong relationship between FDI inflows and economic growth in ASEAN-6 during the period of 1990 to 2016. For example, from 1997 to 1998 and from 2007 to 2009 in the periods of financial crises, the FDI inflow decreased remarkably and correspondingly, the GDP growth has declined dramatically.



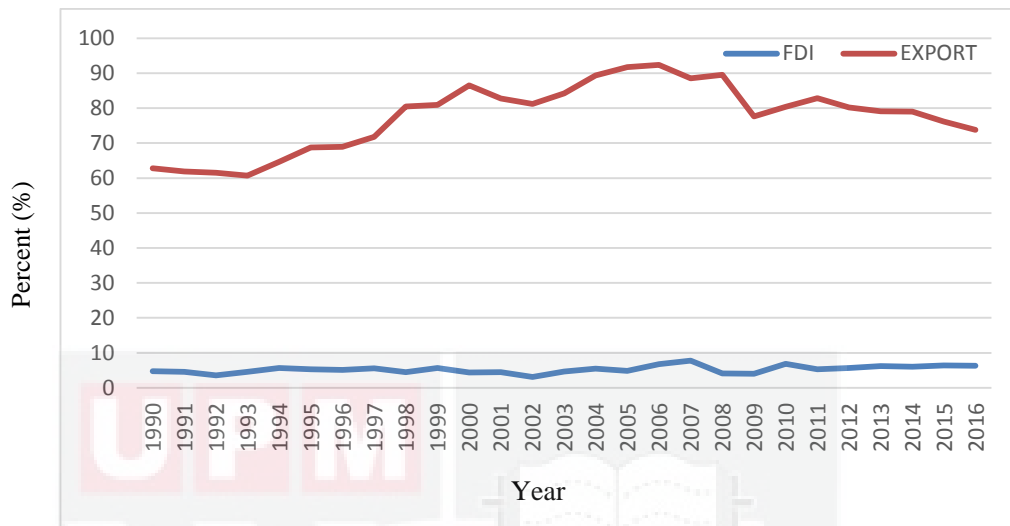
**Figure 1.6 : FDI Net Inflows (% of GDP) and GDP Growth for ASEAN-6 Countries**  
(Source: World Development Indicators 2017)

#### 1.4.2 FDI Inflows and Export Performance in ASEAN-6

The effects of FDI inflows on the host countries' features can be considered from several perspectives. FDI provides capital for economic activities and spillovers of the newly transferred technologies enhance productivity in the host country. Besides, productivity leads to a higher level of competitiveness and power in the host country in the forms of quality, variety and pricing, which further leads to enhancement in the export performance. Lee (2009) has suggested that FDI has a positive impact on export performance in two ways. First, by exploiting the host country's endowments for decreasing the production costs of foreign subsidiaries, and second, through the enhancement of the host country's competitiveness from the spillover effects of FDI.

Figure 1.7 demonstrates the relationship between FDI inflows and export for ASEAN-6 from 1990 to 2016. It shows the various patterns of export; however, the trend of FDI net inflows remaining almost flat during the period under investigation. As

revealed here, export does not follow the trend of FDI net inflows, i.e., the FDI net inflows are not related to the export performance of ASEAN-6 countries.



**Figure 1.7 : Export (% of GDP) and FDI Net Inflows (% of GDP) for ASEAN-6 Countries**

(Source: World Development Indicators 2017)

### 1.4.3 Trends of FDI, M&A and Greenfield Inflows in ASEAN

Foreign investors' decisions on the types of FDI entry modes are critical for the economic performance of the host countries. When a firm decides to undertake FDI, it can do so through either Greenfield or M&A. The choice of entry modes influences FDI performance and the host country's welfare, localization of supplies and human resources, and technology transfers (Byun et al., 2012). Therefore, investigating the FDI entry modes rather than its aggregate is crucial, hence this was chosen as the subject of the current thesis, particularly in the case of ASEAN-6 countries.

One of the limitations of this study is the lack of Greenfield FDI data. According to the United Nations (UN) report, FDI is in the form of either M&A or Greenfield is approximately the sum of M&A and Greenfield (UNCTAD, 2000). In this context, we considered the difference between total FDI net inflows and M&A sales as the Greenfield inflows. This assumption has been relied on by Calderón, Loayza, and Servén (2004), Wang and Wong (2009) and Harms and Méon (2011). In this study, we use this method for calculating the Greenfield (see Column 5, Table 1.3)<sup>3</sup>. My calculation of Greenfield is based on total FDI minus total M&A, and due to

<sup>3</sup> The UN suggests this measurement of Greenfield FDI. However, since data are reported on a balance of payment basis, where inward FDI is measure as the aggregation of Greenfield investment , M&A sales , reinvestments and disinvestment, the measure of Greenfield investment share would not perfectly reflects the actual value (Wang and Wong, 2009).

divestment, I got it above 100%. But, in reality, total FDI includes M&A, Greenfield and others. Based on the literature, others represent a small percentage (Wang et al. 2013). However, to calculate, I do not take others into account. The purpose is to show the weight of M&A and Greenfield. The calculation does not represent the true values of Greenfield; the reason for doing this is that Greenfield data is not available.

As shown in Table 1.3, Greenfield investment dominates the FDI entry modes in the ASEAN region and has registered for about 86% of FDI inflows on average. However, there are different trends of FDI entry modes, especially during the Asian financial crises ( 1997-1998, and 2007-2009). During the first crisis, the share of M&A inflows to total FDI increased sharply whereas that for Greenfield decreased dramatically<sup>4</sup>. More precisely, the percentage of M&A sales of total FDI, from 4.9% in 1996 reached 14.6% in 1997 and 30.7% in 1998. Conversely, the share for Greenfield, from 95% in 1996 reached to 85.3% in 1997 and 69.2% in 1998. This process has also occurred in the other Asian crisis of 2007 to 2009 but with having varying shares.

**Table 1.3 : The FDI, M&A and Greenfield Inflows to ASEAN, 1990-2016 (US\$ billion)**

Year/Average	Total FDI Inflows (\$ billion)	Total M&A Sales (\$billion)	M&A/FDI %	Total Greenfield inflows(\$billion)	Greenfield/FDI %
1990	12.820	0.288	2.252	12.532	97.747
1991	13.639	-0.824	-6.046	14.464	106.046
1992	12.739	0.999	7.842	11.739	92.157
1993	16.585	0.387	2.333	16.198	97.666
1994	20.495	1.559	7.608	18.936	92.391
1995	28.632	0.582	2.034	28.049	97.965
1996	32.915	6.437	4.943	31.288	95.056
1997	35.939	8.305	14.630	30.681	85.369
1998	20.925	4.406	30.763	14.488	69.236
1999	31.011	6.914	26.783	22.705	73.216
2000	21.51	2.690	20.260	17.344	79.739
2001	22.161	2.711	31.199	15.247	68.800
2002	16.187	2.216	16.624	13.496	83.375
2003	30.649	2.711	8.845	27.942	91.154
2004	38.085	2.216	5.819	35.869	94.180
2005	42.738	5.708	13.355	37.030	86.644
2006	63.794	8.428	13.210	55.374	86.789
2007	78.584	17.168	21.844	61.424	78.155
2008	49.508	24.619	49.688	24.928	50.311
2009	41.386	12.759	30.792	28.677	69.207
2010	112.977	9.273	8.205	103.732	91.794
2011	86.012	17.641	20.499	68.417	79.500
2012	111.823	10.375	9.275	101.486	90.724
2013	118.913	7.399	6.219	111.564	93.780
2014	129.544	5.604	4.324	123.989	95.675
2015	117.278	10.308	8.786	107.012	91.213
2016	120.607	7.476	6.198	113.136	93.801
AVERAGE	52.878	6.678	13.644	46.199	86.355

(Source: Author's calculation using data from world investment report, UNCTAD )

<sup>4</sup> The cross-border M&As are calculated considering sales of companies in a host economy to foreign MNEs. Divestment (sales of foreign affiliates to domestic firms) are subtracted from the value (UNCTAD).

The sources of the FDI inward to the ASEAN region from the ASEAN and the main countries are shown in Table 1.4. Based on Table 1.4, EU-28 was the largest source of FDI entering the region and accounted for 20.162% of total FDI inflows from 2007 to 2016. The maximum FDI outward from the EU-28 to the ASEAN among these years was in 2014 and accounted for the 37.861 US\$ billion. The shares of FDI outwards to the region from the US and Japan were 12.515% and 12.276% respectively. The highest levels of the US and Japan FDI outflows were 23.433 US\$ billion and 24.358 US\$ billion in the years of 2015 and 2013, respectively. The role of FDI outward from East Asian countries like China, the Republic of Korea to the region has increased during 2007-2016, while the role of India has decreased but with fluctuation during this period.



**Table 1.4 : FDI Inflows into ASEAN by Source Country, 2007-2016 (US\$ billion)**

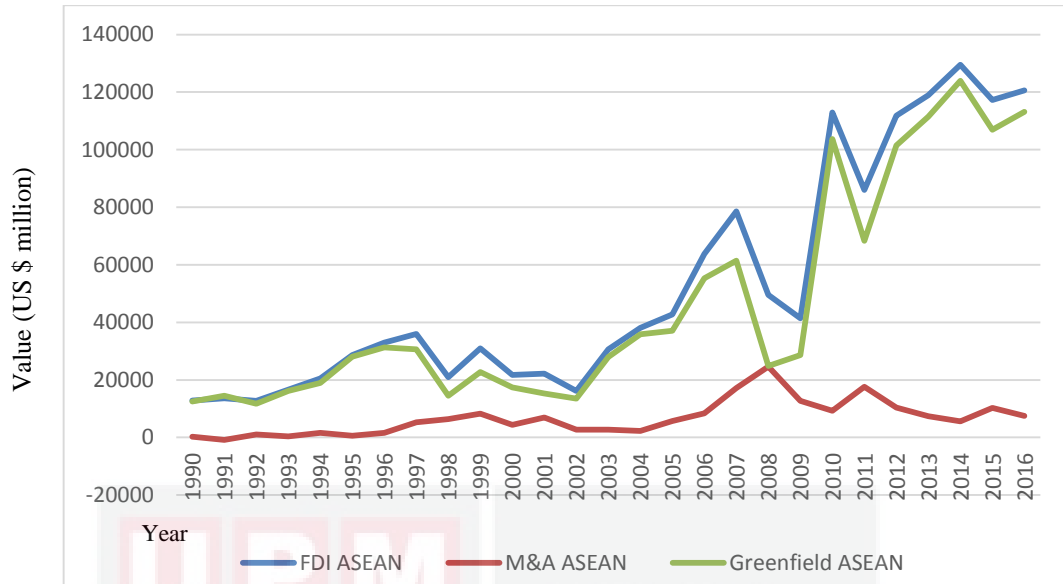
<b>Source country</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2007-2016</b>
ASEAN	8.434	8.987	8.807	16.306	16.426	23.538	18.209	21.555	21.552	24.662	168.480
Australia	2.046	1.016	0.124	3.958	5.019	0.658	2.194	4.495	1.891	3.397	24.802
Canada	0.561	0.538	0.344	1.303	0.927	3.894	0.750	1.411	1.153	0.198	10.737
China	1.997	0.732	2.068	3.488	3.488	8.168	6.353	6.184	6.460	9.799	48.742
EU-28	21.485	10.408	5.659	21.145	24.289	-1.770	19.656	37.861	20.827	32.239	191.802
India	2.738	1.441	0.283	3.801	-2.076	7.311	2.108	1.216	0.958	1.046	18.828
Japan	8.822	5.512	3.451	12.987	7.753	14.618	24.358	12.981	14.757	11.535	116.778
Republic of Korea	2.273	1.397	1.804	4.319	1.773	1.305	4.252	4.690	5.710	5.743	33.270
New Zealand	0.105	-0.045	-0.140	0.339	0.024	-0.939	0.275	0.439	0.020	-0.468	-0.389
Russian Federation	0.028	0.085	0.141	0.054	0.010	0.189	0.608	-0.113	-0.029	0.056	1.031
USA	8.917	3.685	5.180	13.682	8.068	19.115	11.179	13.577	23.433	12.214	119.055
Others	21.473	15.253	14.640	26.788	18.257	41.456	30.104	28.756	23.775	-2.382	218.123
<b>Total</b>	<b>78.888</b>	<b>49.012</b>	<b>43.365</b>	<b>108.174</b>	<b>87.664</b>	<b>117.544</b>	<b>120.050</b>	<b>133.056</b>	<b>120.511</b>	<b>98.042</b>	<b>951.263</b>

ASEAN Statistical Yearbook 2016/2017, the ASEAN Secretariat

Figure 1.8 shows the pattern of FDI, M&A and Greenfield inflows for ASEAN countries from 1990 to 2016, which are considered in our empirical study. It also is shown that the majority entry mode of FDI to the ASEAN region is Greenfield. In 2014, Greenfield recorded the US\$ 124 billion (Table 1.3), and this accounts for about 96% of total FDI values of US\$ 129 billion. The M&A operations are also relatively lesser in developing countries, compared to Greenfield investment (UNCTAD, 2016).

Figure 1.8 also shows that the M&A reached its peak during the economic crises of 2007-2009, and in 2008 but the Greenfield FDI declined to its lowest level, and both FDI modes performed similarly, each registering about US\$ 24 billion of investment in the ASEAN (Table 1.3). This might be because of the crisis periods, the value of local firms decreased, and MNEs preferred to acquire the host country's firms (M&A), instead of establishing new plants through Greenfield FDI. For the first time after economic crises of 2007- 2009, the FDI inflows and Greenfield reached their peaks (2010) and registered about the US\$ 113 billion and the US\$ 103 billion, respectively. At the same time, M&A fell to US\$ 9.3 billion, accounting for 8.2% of total FDI inflows. As a result, there were different patterns among Greenfield and M&A inflows during 1990-2016. As noted in Figure 1.8, except for 2006 to 2008, the trends of Greenfield and M&A are opposite to each other. This reflects the heterogeneity of these two modes. Hence, it is crucial to disaggregate the FDI to its modes and investigate the features of each type separately.

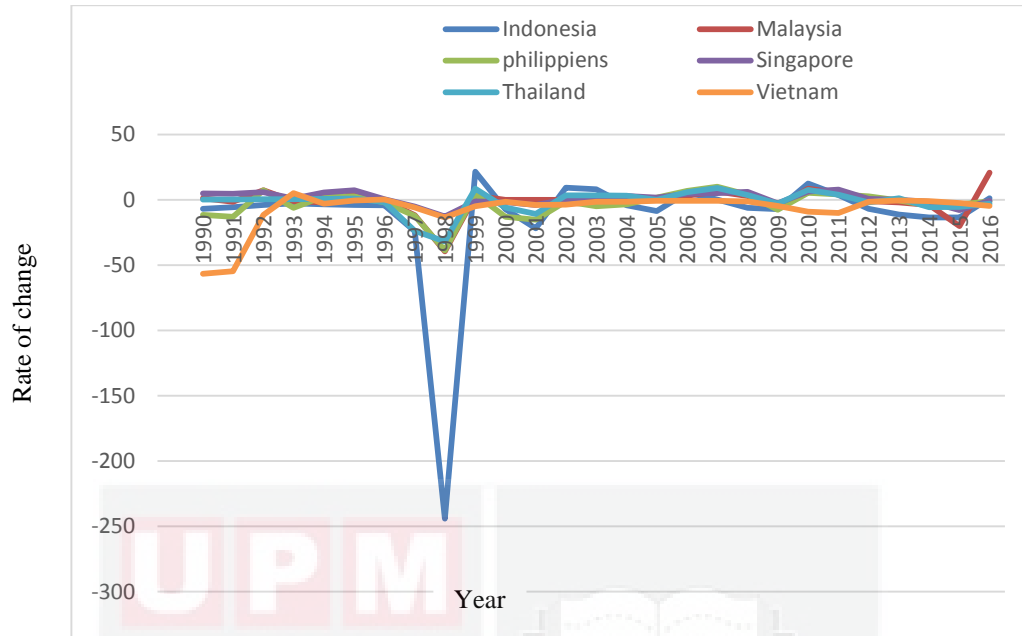
Moreover, we started our analysis beginning in 1990, because the data generation on FDI and M&A have begun in that year (UNCTAD database). Besides, this period includes two financial crises, (1997-1998 and 2007-2009) with important effects on the trends of FDI and its modes in the region. For example, the effects of the 1997 Asian crisis on economic growth and FDI flows lasted until 2003, after which the signs of improvement emerged in the ASEAN economies. The FDI flows to the ASEAN region started to rebound in 2003, five years after the 1997 Asian financial crisis (ASEAN Secretariat, 2017).



**Figure 1.8 : The Trends of FDI, M&A, and Greenfield inflows to ASEAN countries, 1990-2016**  
(Source: UNCTAD, World Investment Report 2017)

### The Relationship between Change of Exchange Rate and the Share of FDI Modes inflows in ASEAN-6

Figure 1.9 reports the change of the official exchange rate in ASEAN-6 countries from 1990 to 2016. As shown in Figure, during both Asian financial crises periods (1997-1998 and 2007-2008), the official exchange rates increased. The rises imply that these countries had lost their currency values in the crises period. The most significant decline in currency was for Indonesia in the crisis of 2007-2009, which computed for -244% while this value was -13% for Vietnam as the smallest decline. In the same periods, the share of M&A to total FDI inwards increased, whereas the share of Greenfield in total FDI decreased (Table 1.3 and Figure 1.9). The reason was that an increase in local currency per US\$, the value of local firms fell that leads to encouraging the MNES for buying the firms through M&A sales. Inversely, this decline causes a decrease in the benefits of Greenfield FDI for foreign MNES.



**Figure 1.9 : Change of Official Exchange Rate, ASEAN-6 Countries, 1990-2016 (Below zero is weakening, above zero is strengthening)**  
 (Source: Author's calculation based on the WDI database)

### 1.5 Problem Statement

Achieving higher economic growth and development has been a primary target for developing countries in recent decades. The pursuit of these goals has led several economic reforms such as, changing in governmental policies, liberalization of the economies for transactions to other countries, providing infrastructures and improving institutional quality in the developing countries. These reforms, however, affect domestic investment and growth, but they lasted for a short time only. The foreign capital, new technologies, managerial skills and access to global distribution networks are necessary for sustainable economic growth, which may be achieved through FDI.

These alterations also caused a rise of FDI inflows to developing countries from 2003 and reached its peak in 2007. The FDI inwards to ASEAN also reached its peak in 2010 and registered about US\$ 113 billion. Nevertheless, FDI inflows can be either in forms of Greenfield or M&A. From the observation of Greenfield and M&A, there were different trends between them in the ASEAN. For example, from 1997 to 1998, the share of M&A inflows to total FDI increased sharply and from 4.9% reached to 30.7%. At the same time, the share of Greenfield from 95% reached 69%. These reflect the heterogeneity of these modes, and it is believed that the determinants of aggregate FDI will have different effects on its types. Besides, there is a small amount of literature for determinants of FDI entry modes in general and for ASEAN in particular (Masron and Nor, 2013; Chunchachinda and Li, 2010; Chayawisan, 2015). Thus, as the first target, we investigate the determinants of M&A sales and Greenfield inflows separately, using the conventional host country-level indicators that include, market



size, trade openness, exchange rate, infrastructure and human capital in the ASEAN-6 countries.

As the impact of FDI on export, the previous findings found the positive relationship between FDI inflows and export performance (Muzurura, 2016; Jayakumar, Kannan, and Anbalagan, 2014; Prasanna, 2010; Lee, 2009). This process occurs through new technology, managerial skills, and access to new markets, provided by FDI, leading to a rise in productivity and export performance in the host countries. Nevertheless, the observations show that trend of export did not follow FDI inflows into ASEAN. Although FDI inflows into the region were quite high, compared to other developing countries. The FDI flows to the area registered US\$ 136 billion in 2014, making ASEAN the largest FDI recipient in the developing world. Besides, from 1994 to 2008, the ASEAN had the largest share of export (40% of GDP) compared to the high-income countries and the average world. As for the heterogeneity of FDI modes, this raises a question of whether there are different trends between FDI modes and export. Regarding a lack of such investigations in general and for ASEAN in particular, the present thesis tries to fill the information gap as a second objective.

In the context of the impact of FDI on economic growth, the findings in the literature are quite mixed. The main reason to be that some studies have ignored the modes of FDI and mostly have investigated the effects of overall FDI on economic growth. Economic development can be encouraged by foreign capital, new technologies and managerial skills, also connecting the host firms to the new markets that may be achieved by FDI. The inflows of FDI into ASEAN region were quite high compare to other areas in the developing world, which registered US\$ 136 billion in 2014, making the region the largest FDI recipient. Besides, the observations revealed the strong relationship between FDI inflows and economic growth in ASEAN. This raises the question of what are the long-run relationship between FDI modes and economic development in ASEAN. Although, only a few empirical studies have been conducted on the impact of FDI modes on economic growth and show different results. Some believe Greenfield investment may drive out local firms from the market; also, M&A does not affect the target economy (e.g., Yip, 1982; Dikova and Van Witteloottuiju, 2007).

In contrast, some other studies argue that Greenfield investment and M&A have a positive impact on the host country's growth (Wang and Wong, 2009). These inconclusive patterns of M&A and Greenfield-growth relationship and the lack of such particular investigations in ASEAN require a new work to be conducted due to assess the effects of FDI modes on economic features. Therefore, the present thesis was an attempt to fill this gap in the literature of M&A sales and Greenfield investment for economic growth in ASEAN-6 countries, which have not been examined earlier.

## **1.6 Research Questions**

- 1 What are the determinants of M&A and Greenfield inflows?
- 2 What are the effects of M&A and Greenfield inflows on export?
- 3 What are the impacts of M&A and Greenfield inflows on economic growth?

## **1.7 Research Objectives**

The primary purpose of this study is to examine the determinants of cross-border merger and acquisition (M&A) and Greenfield FDI inflows and estimating their impacts on economic growth and export performance in the ASEAN-6 countries. The Specific objectives of this thesis project are as follows:

1. To determine the determinants of M&A and Greenfield inflows.
2. To examine the effects of M&A and Greenfield inflows on export.
3. To investigate the impacts of M&A and Greenfield inflows on economic growth.

## **1.8 Scope of the Study**

Among the ASEAN countries, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam have received the most substantial FDI flow shares, accounting for about 96% of FDI net inflows for 1990 to 2016. In addition, the significant share of about 70% of the GDP growth belonged to this panel in 2016. Meanwhile, Singapore is a prominent country among the group in terms of FDI recipient and economic growth. This country attracted more than half of FDI inward to the group from 2003 to 2016. Besides, Singapore has had the highest economic growth rate relatively, which accounted for 14.5% growth rate in 2010, the highest growth rate that has been registered in the region. Therefore, considering the importance of this panel, this study examined the determinants of M&A and Greenfield FDI inflows and investigated the effects of these modes on the economic growth and the export of these recipient countries during the same period. The main reason for selecting this sampling period was the availability of data sets on FDI and its modes as of 1990.

## **1.9 Significance of the Study**

The results of this thesis are expected to accompany the related literature and knowledge and contribute to the policy maker's decisions through three channels. First, the information offers a deeper understanding of the determinants of M&A and Greenfield FDI in general and for the ASEAN-6 countries in particular. Makino and Beamish (1998), Wang, Alba, and Park (2013) have shown that host governments interference in the forms of restriction of shareholder rights or supporting domestic firms have adverse effects on M&A investment. By Using the industrial-level

components, Yip (1982) indicates that, under the condition of high industrial competitions, the foreign firms are more likely to choose M&A over Greenfield investment for entering into the host country. In addition, Wang et al. (2013) investigated the determinants of the various modes of outward FDI at the level of the home firm. Likewise, Dikova and Van Witteloostuijn (2007), used the mixed factors at firm-level and country-level data to investigating the determinants of M&A and Greenfield and demonstrated that institutional quality had positive effects on both FDI modes.

Similarly, Helpman et al. (2004) showed that the most productive firms engage in Greenfield activities. Considering the lack of such investigations at host country-level, especially for ASEAN countries, the present thesis investigated the effects of a set of aggregate FDI determinants at host country-level versus M&A sales and Greenfield investment. Likewise, this thesis explored the impact of each determinant on the probability of attracting one mode of FDI versus the likelihood of attracting another mode of FDI to the ASEAN-6 countries.

Second, the findings of this thesis bridge the gap, and provide new evidence about the effects of M&A and Greenfield FDI on the economic development and export performance in the ASEAN-6 countries. It is noteworthy that the previous studies have mostly relied only on overall FDI, and few studies were conducted on the relationship between FDI entry modes, growth and export performance, especially in the ASEAN region.

Third, the findings provided the facts for policymakers in ASEAN-6 countries to help formulate some reforms according to the condition on each FDI entry mode, i.e., M&A and Greenfield investment, and their influential determinants of attracting FDI in sustainable manners. Lastly, the present thesis provided valuable information about the effects of each FDI mode on economic development and export performance, thereby facilitating policy-making in ASEAN-6 countries for attracting M&A or Greenfield based on their impact on the growth and export performance.

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