Declaration

I declare that this thesis has not been submitted as an exercise for a degree at this or any other university and it is entirely my own work.

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Signed: Kadek Ade Sawitri (print name)
ID No. 17318023

Date: 16/01/2023
Abstract

Foreign Direct Investment (FDI) has been the focus of research in the field of International Business (IB). Despite the significant development of previous studies on FDI and its role in a country, particularly in emerging economies and developing countries, this topic remains debatable. This is because pertinent FDI studies have produced inconsistent results. Another reason is that the conclusions from each analysis are distinct from one another, depending on the selection of the unit of analysis, the time frame, and the methods used to research FDI.

Indonesia presents a prodigious example of how a country can transform its peak adversity to attain success. Indonesia was classified as among the poorest and most underdeveloped countries during the post-independence period. The country also experienced significant stalling in its development because of the Asian Financial Crisis (AFC) and the Global Financial Crisis (GFC). Although the country has developed and risen from its adversity, it still has the potential to grow further and compete with other emerging economies and developing countries. Therefore, conducting a comprehensive analysis of FDI in Indonesia is merited. This thesis provides insight into the progression of Indonesia’s FDI relative to its economic development and the investigation of potential growth factors favouring Indonesia’s sustainable economic development.

The Investment Development Path (IDP) is an IB theory that can be applied to investigate the relationship between FDI and a country’s economic development. By employing country-specific analysis using aggregate-level data on Indonesia, this thesis aims to investigate the role of FDI in Indonesia’s economy, the determinants of Indonesia’s FDI, and the government’s role in promoting FDI. This thesis comprises three studies that were synthesised to address the research aims. As one of the main theories supported in this thesis, the first study aims to review the evolution of IDP theory and the pertinent literature on IDP to investigate the potential area for further research on IDP. The second study aims to investigate the progression of Indonesia’s FDI and economic development using the IDP concept. The findings of this study are then used to derive the third study proposed in this thesis. Since Indonesia’s position on the IDP has been restricted in the second stage of the IDP due to the significant difference between Inward FDI (IFDI) and Outward FDI (OFDI), the inadequacy of domestic companies’ capabilities to engage in OFDI, and no support from Indonesia’s government to stimulate and boost OFDI from Indonesia. Accordingly, the third study aims to address the emerging issues regarding Indonesia’s OFDI by investigating the role of OFDI in Indonesia’s economy, the determinant factors of OFDI from Indonesia, and the role of the
The government in promoting OFDI from Indonesia. This thesis yields support to other developing countries and emerging economies that experience a similar progression to Indonesia in investigating their FDI performance following their economic growth to promote their FDI.

This thesis found that Indonesia has significant competitive advantages in attracting IFDI. Accordingly, the country has been a favourable destination for IFDI. However, the country’s comparative advantages in the global market still lag behind those of other emerging economies. The government only embraces IFDI as a means of developing its economy. Nevertheless, the development of domestic companies’ capabilities has not significantly upgraded with the presence of IFDI. Therefore, this thesis investigates potential areas for nurturing and promoting the development of domestic companies, thus boosting, and advancing Indonesia’s comparative advantages in the global market and stimulating its sustainable economic development in the future.

This thesis will benefit practices related to policymakers, researchers, and companies. The findings of this thesis can be treated as inputs for policymakers in Indonesia, other emerging economies, and developing countries in framing policies and regulations to promote their FDI, thus contributing to sustainable economic development by using the proposed frameworks for generating policies. This thesis engages in a comprehensive investigation of FDI and economic development in Indonesia, which leads to the establishment of several frameworks that can be applied to further research on emerging economies and developing countries. It also benefits companies (both MNCs and Indonesian domestic companies) that are interested in investing in Indonesia (for MNCs) or other countries (for Indonesian domestic companies), as this study can be treated as a reference for their decision-making processes.

Given that this thesis pursued a macro-level analysis of FDI in Indonesia, there is a potential area for further research to investigate the micro-level analysis of FDI if domestic or international sources establish the necessary level of data, or if future research can collect primary micro-level data. This thesis also applies an underdeveloped method, such as thematic analysis for a systematic literature review, Toda-Yamamoto-Dolado-Lutkephol (TYDL) augmented Vector Autoregression (VAR) for OFDI research, and institutional analysis for IDP and OFDI research. There is a potential area for further research to apply these methods in other countries or to engage in other underdeveloped methods to conduct a similar analysis and compare the findings.
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I have presented this degree to my beloved mother. I know that you are always here and support me. I have made our dreams come true. Thank you, mom!
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List of abbreviations
ADB: Asian Development Bank
ADF: Augmented Dickey Fuller
ADO: Antecedent-Decision-Outcome
AFC: Asian Financial Crisis
AIC: Akaike Information Criterion
ANIC: Asian Newly Industrialised Countries
APEC: Asia-Pacific Economic Corporation
ASEAN: Association of Southeast Asian Nations
BAPPENAS: Ministry of National Development Planning
BIT: Bilateral Investment Treaty
BKPM: The Indonesian Investment Coordinating Board/Ministry of Investment
BPS: Indonesia Central Agency on Statistic
BRI: Belt Road Initiatives
CABS: Chartered Association of Business Schools
CBU: Completely Built Unit
CEEC: Central and Eastern European Countries
CKD: Completely Knocked Down
CPI: Corruption Perceptions Index
EM-MNC: Emerging Market-Multinational Companies
EODB: Ease of Doing Business
EU: European Union
FDI: Foreign Direct Investment
FPE: Final Prediction Error
FTSE: Financial Times Stock Exchange
GCR: Global Competitiveness Report
GDP: Gross Domestic Product
GFC: Global Financial Crisis
GMM: Generalised Method of Moments
GNI: Gross National Income
GVC: Global Value Chain
HCM: Home-Country Measures
HQ: Hannan-Quinn
IB: International Business
ICT: Information and Communication Technology
IDP: Investment Development Path
IDR: The Indonesian Rupiah
IFDI: Inward Foreign Direct Investment
IIA: International Investment Agreements
IMF: International Monetary Fund
ILO: International Labour Organisation
IPA: Investment Promotion Agency
JB: Jarque-Bera
KPSS: Kwiatkowski-Phillips-Schmidt-Shin
LDC: Listed Domestic Companies
LLL: Linkage-Leverage-Learning
LR: Likelihood Ratio
MNC: Multinational Company
MSCI: Morgan Stanley Capital International
MWALD: Modified Wald Test
NAFTA: North American Free Trade Agreement
NOIP: Net Outward Investment Position
OECD: The Organisation for Economic Co-operation and Development
OFDI: Outward Foreign Direct Investment
OLI: Ownership-Location-Internalisation
OLS: Ordinary Least Squares
OPEC: Organisation of Petroleum Exporting Countries
OSS: Online Single Submission
PGDP: GDP per capita
PLC: Product Life Cycle
PP: Phillips-Perron
PPP: Public Private Partnership
PPP: Purchasing Power Parity
PTSP: The One Stop Integrated Service
R&D: Research and Development
SC: Schwarz Information Criterion
SLR: Systematic Literature Review
SME: Small Medium Enterprise
SMV: Special Mission Vehicles
SOE: State-Owned Enterprise
TCCM: Theory, Construct, Characteristics, and Methodology
TFP: Total Factor Productivity
TNC: Transnational Companies
TWMNC: Third World Multinational Company
TYDL: Toda-Yamamoto-Dolado-Lutkephol
UNCTAD: United Nations Conference on Trade and Development
UNESCAP: United Nations Economic and Social Commission for Asia and the Pacific
USD: The United States Dollar
VAR: Vector Autoregression
CHAPTER 1

INTRODUCTION

This chapter introduces the overall research context for analysing foreign direct investment in Indonesia. It explains the rationale behind the choice of Indonesia as the unit of analysis. It also represents the overarching research gaps, questions, and objectives. This chapter elaborates on this thesis’s contributions in conceptual, empirical, and practical aspects. In addition, it provides a summary of the three studies conducted, as well as an explanation of how the findings were related and synthesised. In conclusion, it offers a thesis structure and outline of the contents in each following chapter.

1.1 Research context

This section provides the research contexts that are relevant to this thesis. The first context relates to Foreign Direct Investment (FDI) and the thought process that went into selecting FDI as the centre of the investigation. The second context is about the relationship between FDI and economic development. The third context focuses on the evolution of FDI and economic development. The fourth context addresses the rationale behind the choice of FDI in a particular unit of analysis. The fifth context presents the trend in Indonesia’s FDI and its locational advantages for attracting and generating FDI.

1.1.1 Foreign Direct Investment

Based on Caves (1974) and Hymer (1976), FDI is defined as the process undertaken by a Multinational Company (MNC) through creating and developing the firm-specific ownership advantages embodied in its intangible assets (Du Pont, 2000). FDI is the process of the residents in one country (home country) acquiring ownership assets in business activities, e.g., distribution, production, and other activities in another country (host country) (Moosa, 2002). There are two types of FDI flows which are inward FDI (IFDI) and outward FDI (OFDI). IFDI is an investment made by a non-resident investor that has located its business activities in the host country’s economy (Hintošová, 2021). In comparison, OFDI is an investment made by a resident investor that has located its business activities overseas (Hintošová, 2021). The reporting for both investments is made by the country where IFDI activities occurred and OFDI originated.

FDI theories are diverse (Agarwal, 1980) and no single theory predominates (Calderon-Rossell, 1985). The applicability of FDI theories varies depending on the types of FDI and country origins (Nayak & Choudhury, 2014). Vernon (1966) and Kojima (1973) characterised FDI into two types: defensive and aggressive FDI. Defensive FDI is where the FDI happens in a low-wage country to gain benefit from low
production costs to attain international competitiveness (Du Pont, 2000). Meanwhile, aggressive FDI is where the FDI occurs in countries with large markets to gain market share (Du Pont, 2000).

According to Dunning (1993), MNCs have four motives for engaging in FDI: the market seeking, the efficiency-seeking, the natural resource seeking, and the strategic asset seeking. Market seeking is what drives MNCs to engage in FDI to expand their market to other country(s) by taking into consideration the large population and size of economy of the country(s). Considering a country's competitive advantages, such as its provision of high-skilled labour, advanced technology, and infrastructure, efficiency-seeking is a motivation for MNCs to engage in FDI. Natural resource seeking is a motive of MNCs to search for and acquire natural resources in the host country that do not exist in the home country. Lastly, strategic asset seeking motivates MNCs to engage in FDI to improve their business process(s) to be more efficient and effective.

Concerning the determinants of FDI, Lall & Streeten (1977) defined the underlying aspects of FDI determinants: macroeconomic condition (i.e., competitiveness of a country regarding economic growth, market size, and resource endowments), government policies and regulations (i.e., macro policies, sectoral policies, investment-related policies, and trade-related policies), and MNCs’ strategies (i.e., motives of FDI, cost-analysis strategy, perception of risk-taking strategy, types of expansion of business, partnerships, and transfer knowledge strategy). These criteria are distinctive and specific to the characteristics of MNCs and the countries in which they are located (Dunning & Dilyard, 1999). The determinants of FDI are influenced by two different types of factors: push factors and pull factors (Lindblad, 2015). The push factor is the factor that encourages MNCs to engage in FDI, such as the home country’s institutional void or disadvantages and competition with other MNC competitors (Chowdhury & Islam, 2005; Dunning, 1994; Lindblad, 1998, 2015). On the other hand, the pull factor is the factor that attracts MNCs to engage in FDI, such as the host country’s competitive advantages and the country’s comparative advantages among other host countries, i.e., including the availability of natural resources, the size of the market, the potential growth in the economy, and the cost of labour and the host country’s conducive investment climate (i.e., the ease of doing business and international trade agreements) (Chowdhury & Islam, 2005; Dunning, 1994; Lindblad, 1998, 2015).

There are two main advantages of FDI for a country’s development viz. direct and indirect (Sari, 2019). Examples of direct advantages are increased labour absorption and production capacity (Sari, 2019). Meanwhile, the indirect advantages are spillovers or externalities generated by several channels, i.e.,
technology, knowledge, and management efficiency (Sari, 2019). According to Asheghian (2004), FDI has several different effects on economic development in both the host country and the home country. First, FDI brings the capital needed and modern technology (Blomstrom et al., 1996; Borensztein et al., 1998; Dunning, 1993). Second, FDI encourages the training of local workers and managers, which helps to increase the amount of knowledge transferred inside the host nation, ultimately contributing to long-term economic expansion (de Mello Jr, 1996, 1997, 1999). Thirdly, FDI encourages technological advancement in production, marketing, and new business start-ups (de Mello Jr & Sinclair, 1995; Markusen & Venables, 1999). Even though FDI is beneficial for both the home and the host countries, the extent of those benefits will depend on the ability of the host country to capitalise on them (Asheghian, 2004). Impact variables of a country's absorptive ability are determined by the types and quantities of FDI that flows into the host country, and the policies and regulations of the government that enable the maximisation of benefits (Asheghian, 2004). In the case of OFDI, the home country’s government also plays an important role in generating policies and regulations to nurture and stimulate the development of domestic companies’ capabilities to engage in OFDI and promote OFDI (Sawitri & Brennan, 2022a). The benefit of having such policies and regulations in place can ensure that OFDI from this country serves the country’s economic development and stimulate OFDI (Sawitri & Brennan, 2022a).

The following arguments justify the selection of FDI as a topic of research (Moosa, 2002). First, FDI trends and patterns have changed and increased rapidly. Second, FDI is considered a means for a country’s development. Third, FDI creates a mutual relationship between the host and the home country, particularly in developing countries. Furthermore, the phenomenon of FDI is supported by the fact that more industrialised countries tend to invest in less industrialised countries, developed countries tend to invest in developing countries, and capital-rich countries tend to invest in capital-scarce countries (Bano & Tabbada, 2015). The reversed phenomenon of FDI that has also been established recently is that developing countries tend to invest in developed countries (Bano & Tabbada, 2015). Therefore, this thesis focuses on FDI as a focal point for research to investigate the evolution of FDI in a developing country and emerging economy, the channels through which FDI serves the country’s economic development, and the role of the country’s government in promoting FDI and ensuring that FDI contributes to the country’s development.

1.1.2 The relationship between foreign direct investment and economic development

Based on the institutional economy, FDI is one of the developmental institutions that contribute to economic development as FDI can prevent instability in a country’s economy (Van Staveren, 2015). Another
perspective on FDI in economic development was raised by post-Keynesian economic theory (Van Staveren, 2015). Based on this economic theory, FDI can increase the investment variable in the aggregate demand function by creating more job opportunities and capital (Van Staveren, 2015). Moreover, according to the neoclassical theory of economic growth, FDI promotes the accumulation of physical capital by boosting the production of new inputs and the advancement of technology in the production process (Li & Liu, 2005). In terms of creating new inputs, FDI promotes an increase in output through utilising a diverse array of intermediate goods during the manufacturing process (Feenstra & Markusen, 1994). In relation to advanced technology, FDI is a possible source for technological spillovers to occur to domestic companies (X. Li & Liu, 2005). According to Iamsiraroj (2016), the neoclassical approach centred its attention on the direct influence of FDI on reward variables, capital flow, and employment in the short run. However, the approach of an industrial organisation also justifies that FDI can stimulate economic development by increasing domestic capital formation and accelerating domestic human capital through knowledge spillovers and know-how (Buckley & Castro, 1998; Hymer, 1976; Kindleberger, 1969; Vernon, 1966). Since the Neoclassical growth theory assumes that FDI impacts growth only in the short-run and the impact remains the same in the long-run (Iamsiraroj, 2016). Accordingly, endogenous growth theory emerged to accommodate and emphasise the role of technological change caused by FDI (Iamsiraroj, 2016). Based on this theory, the determinant factors of economic development are the increasing human capital via learning-by-doing and the development of technology (Aghion & Howitt, 1990; Grossman & Helpman, 1991; Lucas, 1989; Romer, 1986, 1990; Stokey, 1995). FDI stimulates economic development if FDI generates productivity and has positive spillover effects (Iamsiraroj, 2016). FDI is also considered the source of technological diffusion, know-how, and human capital, thus promoting economic growth (Iamsiraroj, 2016).

Furthermore, other development theories, such as dependency and interdependency theories, also emphasise the significance of the relationship between FDI and economic development (Amirahmadi & Wu, 1994). The dependency theory served as an explanation for the progression of a country during the 1960s and 1970s (Amirahmadi & Wu, 1994). It was explained there that less developed countries’ economic and social growth are impacted and dependent on the external influences that come from developed countries (Amirahmadi & Wu, 1994). In addition, the presence of MNCs in the strategic sectors in developing countries might lead to the deterioration of a country's development (Amirahmadi & Wu, 1994). Accordingly, in this era, some governments of developing countries tried to be autarky and stricter
in selecting and accepting foreign investment or even nationalised foreign companies (Amirahmadi & Wu, 1994). The underdeveloped or developing countries have also acknowledged that external factors from developed countries could promote their competitive advantages hence contributing to the development of underdeveloped or developing countries (Amirahmadi & Wu, 1994). Accordingly, during the late 1970s and 1980s, the interdependence theory was introduced to elaborate on the substantial contributions of underdeveloped or developing countries to the development of advanced industrialised countries due to their roles in providing the raw materials or intermediate products and as the potential markets to distribute the outputs produced by these industrialised countries (Amirahmadi & Wu, 1994). At the same time, the contributions of foreign investment to the development of underdeveloped or developing countries are to increase the foreign exchange earnings, share the risks of large projects, and be a channel for transfer of technology (Amirahmadi & Wu, 1994).

Despite the fundamental theories supporting the relationship between FDI and economic development, the findings of such a relationship vary and are peculiar depending on a country’s characteristics and government supports to maximise this relationship. Accordingly, this thesis provides support for the relationship between FDI and the economic development in a country by analysing the trend of a country’s FDI, identifying the determinants of FDI, investigating its impacts on a country’s economy, and assessing the role of a country’s government in stimulating and promoting FDI hence serving the country’s development.

1.1.3 The evolution of FDI and economic development

FDI activities began at the beginning of the nineteenth century, and most investment activities are in the form of a portfolio (Amirahmadi & Wu, 1994). During the late 1970s and 1980s, many developing countries have acknowledged the necessity of FDI due to its contribution to promoting their economic development. Figure 1.1 presents the trend in inward FDI flows to developed and developing countries from 1970 to 2019. It shows that IFDI flows to developed countries fluctuated more with a significant increase and decrease compared to developing countries. IFDI flows to developing countries were more stable and have increased since 1970.
Figure 1.1. Inward FDI flows in developed and developing countries

Source: World Bank, 2022

Figure 1.2. Outward FDI flows in developed and developing countries

Source: World Bank, 2022
Figure 1.2 compares outward FDI flows in developed and developing countries from 1970 to 2019. According to this figure, the share of developed countries’ OFDI was higher than the share of developing countries’ OFDI. Furthermore, the trend in OFDI from developing countries has changed significantly. Since 1995, there has been a general upward trend in the amount of OFDI from developing countries. Moreover, it has been demonstrated that in 2018, despite a decline in OFDI flows from developed and developing countries, the disparity between them was less than it had been during the previous time frame. This phenomenon exemplifies how developing countries have shifted their focus from attracting FDI to generating FDI. Even though, there was a significant increase in FDI flows (both IFDI and OFDI) in developing countries, the distribution of these flows were not evenly distributed (Amirahmadi & Wu, 1994). The causes of this phenomenon were the changes in FDI motivations by MNCs and the macroeconomic and investment conditions of the home and potential host countries (Amirahmadi & Wu, 1994).

The motivations of MNCs to expand their business activities in developing countries are due to the provision of natural resources endowment, the growing market size and economic growth, industrial capabilities, policies and regulations towards FDI, and FDI incentives (Amirahmadi & Wu, 1994). The decision of MNCs to engage in FDI in a particular country relied on the idiosyncrasy of locational advantages and firm-specific advantages (Cantwell & Narula, 2003a, 2003b; Dunning, 1988). On the other hand, the motivations of developing countries to attract FDI are reflected by the shift in paradigm towards economic development from the dependent theory to the interdependent theory, the urgency to develop their economy with support from foreign investors, the changes in the global business environment, and the globalisation of products and services (Amirahmadi & Wu, 1994). Considering the important role of the peculiarity of each individual country’s characteristics in attracting FDI and the motivations of MNCs to engage in FDI, this thesis employs a single-country analysis. This is a suitable approach to providing a comprehensive analysis of the relationship between FDI and economic development particularly in the case of developing countries and emerging economies.

1.1.4 The selection process of a unit of analysis

The trends in FDI among developed and developing countries show that FDI in developing countries has more potential to grow due to their competitive advantages and comparative advantages compared to those in developed countries. Moreover, in selecting the unit of analysis, this thesis considers the trends in FDI across the world to justify why this thesis focuses on developing countries. Figure 1.3 represents the process.
involved based on several considerations that are the trends in FDI across continents, the trends in FDI across regions in the selected continent, and the trends in FDI among countries in the selected region.

Figure 1.3. The selection process of a country as a unit of analysis
a. The analysis of FDI trends among continents

**Figure 1.4. The average annual distribution of IFDI flows by continents from 1970 to 2019**

Source: World Bank, 2022

Figure 1.4 presents average annual IFDI distribution by continents from 1970 – 2019. It shows that Europe, America, and Asia were the most favourable destination for IFDI, with 38%, 30%, and 26%, respectively. The difference between the share of Europe, America, and Asia for IFDI was insignificant. Metaxas & Kechagia (2016) reviewed 100 empirical studies of IFDI from 1950 to 2015. They found that in the first period (1950-1973) and second period (1974-1989) of empirical studies, most previous studies focused on European countries and Latin American countries. In addition, they found that the majority of previous empirical studies focused on Asian and Latin American countries during the third period (1990-2004), whereas during the fourth time (2005-2015), the majority of previous empirical studies concentrated on Asian and African countries. Therefore, it concludes that in terms of IFDI, Asia has potential area for research, since the previous empirical studies just emerged in the 1990s. Furthermore, Asia was the most favourable destination for IFDI (Amirahmadi & Wu, 1994). Within the Asian countries, in 1983 – 1990,
the top recipient countries for IFDI, which accounted for 84% of total FDI, were China, Hongkong, Indonesia, Malaysia, Singapore, South Korea, Taiwan, and Thailand (Amirahmadi & Wu, 1994).

Figure 1.5. The average annual distribution of OFDI flows by continent from 1970 to 2019

Source: World Bank, 2022

In comparison, Figure 1.5 presents the average annual distribution of OFDI from 1970 to 2019 across continents. It shows that Europe dominated at 49% for OFDI compared to Asia at 25% and America at 24%. Figure 1.5 presents the emergence of OFDI from Asia. It is reasonable to assume that the trend in OFDI has shifted from developed countries tending to invest in developing countries to developing countries tending to invest in other developing countries or even developed countries. This is due to the fact that the majority of the countries in Asia are still in the process of developing their economies. It is also reasonable to think that Asia possesses a significant number of competitive and comparative advantages to compete in the global economy with developed countries such as the United States of America and Europe.
Considering the trend in IFDI and OFDI among continents, Asia has a significant share in terms of IFDI and OFDI in the global market. In addition, most Asian countries are developing countries and emerging economies. Therefore, I selected the Asia continent for the following analysis.

b. The analysis of FDI trends across regions in Asia

![The average annual distribution of inward FDI flows in Asia from 1970 to 2019](image)

Figure 1.6. The average annual distribution of IFDI flows in Asia from 1970 to 2019

Source: World Bank, 2022

Figure 1.6 compares the average annual distribution of IFDI flows among five regions in Asia. It shows that the major destination countries for IFDI are the Eastern Asia region (i.e., China, Hongkong, Macao, Taiwan, Japan, North Korea, South Korea, and Mongolia) and the South-eastern Asia region (i.e., Brunei Darussalam, Cambodia, Indonesia, Lao, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, and Viet Nam). In comparison, Figure 1.7 presents the average annual distribution of OFDI flows in Asia from 1970 to 2019. It shows Eastern Asia regions still dominated for OFDI flows, followed by South-eastern Asia.
According to Figures 1.6 and 1.7, Eastern Asia regions have been higher level and more matured in terms of FDI than South-Eastern Asia. Moreover, most previous studies have focused on IFDI and OFDI from Eastern Asian countries such as China, Japan, Taiwan, and South Korea (Bieliński et al., 2019; Chen et al., 2020; Hayakawa et al., 2013; Lee, 2010; Lee et al., 2015; Leong & Lee, 2019; Marton & McCarthy, 2007; Morck et al., 2008; Park & Lee, 2003; Paul & Benito, 2018; Paul & Jadhav, 2019; Si, 2014; Uemura & Wang, 2005; Yang et al., 2013; You, 2017; Yu et al., 2019). However, previous studies focused on South-Eastern Asian countries are rare (Anwar & Nguyen, 2010; Leong & Lee, 2019; Masron & Shahbudin, 2010; Wong & Goh, 2013; Pananond, 2011; Passakonjaras, 2012; Quang, 2016; Vu, 2008; Wee, 2007; Yean et al., 2017; Yeung, 1998). Taking into account the comparison that has been made between the flows of IFDI and OFDI among the Asian countries and the countries that have been covered in the earlier research, the South-Eastern Asia countries have competitive advantages favouring their future growth of FDI like the
prominent Eastern Asia countries. Accordingly, this analysis process selects South-Eastern Asian countries as a finding for the subsequent analysis process.

c. The analysis of FDI trends among countries within the South-Eastern Asia region

Two steps were involved in selecting one particular country within the South-Eastern Asia region as a unit analysis: analysis of FDI trends to identify the top-4 countries and analysis of the top-4 countries’ locational advantages. In a list of South-Eastern Asia countries, Timor-Leste was excluded because this country was part of Indonesia until 2002. Accordingly, this analysis focuses on the ASEAN countries represented as South-Eastern Asia after the exclusion of Timor-Leste. The steps are as follows:

1) The analysis of FDI trends

![The average annual distribution of inward FDI flows in ASEAN countries from 1970 to 2019](image)

**Figure 1.8. The average annual distribution of IFDI flows in ASEAN countries from 1970 to 2019**

Source: World Bank, 2022
Figure 1.8 presents the average annual distribution of IFDI flows within ASEAN. The top five destination countries for IFDI are Singapore (52%), Indonesia (12%), Malaysia (10%), Thailand (9%), and Viet Nam (8%). In comparison, Figure 1.9 presents the average annual distribution of OFDI in ASEAN countries. The top source countries are Singapore (60%), Malaysia (18%), Thailand (11%), Indonesia (6%), and the Philippines (4%).

![The average annual distribution of outward FDI flows in ASEAN countries from 1970 to 2019](image)

*Figure 1.9. The average annual distribution of OFDI flows in ASEAN countries from 1970 to 2019*

Source: World Bank, 2022
From this analysis, Indonesia, Malaysia, Singapore, and Thailand emerge as the top four countries for IFDI and OFDI in the South-Eastern Asia region. The following analysis focuses on the investigation of the locational advantages of these countries.

2) The analysis of the top-4 countries’ locational advantages

The analysis of locational advantages is conducted for the top 4 countries, i.e., Indonesia, Malaysia, Singapore, and Thailand. The locational advantages analysis consists of the analysis of the size of the market (Papanastassiou, 1990; Pistoresi, 2000), the provision of labour (Zhao & Du, 2007) and the cost of labour (Pistoresi, 2000; Shamsuddin, 1994; Wheeler & Mody, 1992), and international trade (Dhanani & Hasnain, 2001; Guru-Gharana, 2012; Iqbal et al., 2010; Kottaridi & Filippaios, 2015; Xiaming Liu et al., 2001; Miroudot & Ragoussis, 2009).

a) Market size

Market size is presented by GDP, GDP per capita, the size of the population, and purchasing power parity variables. The comparison between GDP and GDP per capita and total population and purchasing power parity among Indonesia, Malaysia, Singapore, and Thailand in 1990 and 2019 is presented in Tables 1.1 and 1.2, respectively.

**Table 1.1. The comparison of GDP and GDP per capita between Indonesia, Malaysia, Singapore, and Thailand**

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (in US dollar)</th>
<th>GDP Per Capita (in US dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
<td>2019</td>
</tr>
<tr>
<td>Indonesia</td>
<td>106,140,727,357</td>
<td>1,119,099,868,265</td>
</tr>
<tr>
<td>Malaysia</td>
<td>44,024,178,343</td>
<td>365,276,379,481</td>
</tr>
<tr>
<td>Singapore</td>
<td>36,144,336,769</td>
<td>375,472,731,271</td>
</tr>
<tr>
<td>Thailand</td>
<td>85,343,063,966</td>
<td>544,081,056,185</td>
</tr>
</tbody>
</table>

Source: World Bank, 2022

**Table 1.2. The comparison of total population and purchasing power parity between Indonesia, Malaysia, Singapore, and Thailand**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Population</th>
<th>Purchasing Power Parity (in US dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
<td>2019</td>
</tr>
<tr>
<td>Indonesia</td>
<td>181,413,398</td>
<td>270,625,567</td>
</tr>
<tr>
<td>Malaysia</td>
<td>18,029,824</td>
<td>31,949,789</td>
</tr>
<tr>
<td>Singapore</td>
<td>3,047,132</td>
<td>5,703,569</td>
</tr>
<tr>
<td>Thailand</td>
<td>56,558,196</td>
<td>69,625,581</td>
</tr>
</tbody>
</table>

Source: World Bank, 2022

Tables 1.1 and 1.2 show that Indonesia has a competitive advantage in terms of market size.
b) The provision of labour and cost of labour

The provision of labour is represented by the size of the labour force. Moreover, the cost of labour is represented by the minimum wage. The comparison between these variables in the allotted time frame among Indonesia, Malaysia, Singapore, and Thailand is presented in Table 1.3.

Table 1.3. The comparison of the labour force and minimum wage between Indonesia, Malaysia, Singapore, and Thailand

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Labour Force</th>
<th>Minimum Wage (in US dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
<td>2019</td>
</tr>
<tr>
<td>Indonesia</td>
<td>76,515,392</td>
<td>136,202,238</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7,089,928</td>
<td>15,885,303</td>
</tr>
<tr>
<td>Singapore</td>
<td>1,534,820</td>
<td>3,539,016</td>
</tr>
<tr>
<td>Thailand</td>
<td>29,610,595</td>
<td>38,777,939</td>
</tr>
</tbody>
</table>

Source: World Bank, 2022

Table 1.3 shows that Indonesia has a competitive advantage in terms of the provision of labour and competitive cost for labour.

c) Trade openness

The trade openness is presented by the exports and imports variables. The comparison between exports and imports between Singapore, Malaysia, Indonesia, and Thailand in the allotted time frame is shown in Tables 1.4 and 1.5, respectively.

Table 1.4. The comparison of exports between Indonesia, Malaysia, Singapore, and Thailand

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports (in US dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
</tr>
<tr>
<td>Indonesia</td>
<td>29,295,000,000.00</td>
</tr>
<tr>
<td>Malaysia</td>
<td>32,664,725,726.70</td>
</tr>
<tr>
<td>Singapore</td>
<td>67,489,351,919.96</td>
</tr>
<tr>
<td>Thailand</td>
<td>29,229,483,219.42</td>
</tr>
</tbody>
</table>

Source: World Bank, 2022

Table 1.5. The comparison of imports between Indonesia, Malaysia, Singapore, and Thailand

<table>
<thead>
<tr>
<th>Country</th>
<th>Imports (in US dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
</tr>
<tr>
<td>Indonesia</td>
<td>27,157,275,252.78</td>
</tr>
<tr>
<td>Malaysia</td>
<td>31,883,248,918.63</td>
</tr>
<tr>
<td>Singapore</td>
<td>60,411,526,431.83</td>
</tr>
<tr>
<td>Thailand</td>
<td>35,545,758,339.68</td>
</tr>
</tbody>
</table>

Source: World Bank, 2022
Tables 1.4 and 1.5 show that even though the proportion of exports and imports in Indonesia is lower than in other countries, Indonesia provides a competitive advantage in terms of openness to international trade. This is one of the reasons why Indonesia has been a favourable destination for IFDI. This competitive advantage is considered sufficient to attract and generate more FDI and favouring the future growth of FDI to compete with other ASEAN, developing, and developed countries.

The findings of the FDI trends and locational advantages analyses of Indonesia, Malaysia, Singapore, and Thailand are that even though Singapore is a leader in the FDI trends, Indonesia has more competitive advantages in terms of locational advantages. These competitive advantages are considered to be sufficient to attract and generate more FDI and favour the future growth of Indonesia’s FDI to compete with other ASEAN, developing, and developed countries. The analysis leads to the merited choice of Indonesia as an example for investigating the phenomena of FDI and economic development.

1.1.5 Indonesia’s outlook

The unit of analysis selection process leads to the choice of Indonesia. This section elaborates Indonesia’s outlook in terms of the characteristics of the geographical location, population, economy, and FDI.

In terms of geographical location, Indonesia is located between Asian and Oceanian countries, and between the Indian and Pacific oceans. It is also situated on both the equator and the Pacific “fire ring”. Because of its strategic location, Indonesia benefits from international trade. Indonesia is an archipelagic country consisting of seventeen thousand islands, of which seven are main islands (i.e., Sumatra, Java, Lesser Sunda Islands, Kalimantan, Sulawesi, Maluku Island, and Western New Guinea) providing the country’s natural resource endowments and species variation. The natural resources that contribute to Indonesia’s competitive advantages are mining, agriculture, fisheries, timber, and energy (BPS, 2019). In addition to this, Indonesia is a major commodities supplier to the international market for items such as cocoa, coffee, timber, palm oil, and rubber (Ministry of Trade, 2019).

In relation to Indonesia’s demographic, the country is the fourth most populous country in the world, with a population of around 270 million people in 2019 (World Bank, 2020). The population consists of multi-ethnic (approximately 1,300 ethics groups), religious (six recognised religions by the government), and multi-languages (around 700 languages with one national language). As a populous country, Indonesia has benefited from the demographic dividend, with the workforce amounting to 122 million in 2018 (HSBC, 2018). It is estimated that Indonesia will have 180 million people of productive age in 2030 (World Bank, 2018).
Concerning Indonesia’s economic outlook, Indonesia presents a prodigious example of how a country rises from the stalling of its development in the post-independent period and from the severe downturns of the Asian Financial Crisis (AFC) in 1998 and the Global Financial Crisis (GFC) in 2009. In the post-independent period from 1946 to 1997, Indonesia was classified as one of the poorest and underdeveloped countries in the world. The leading causes for this condition were political schism (i.e., injustice, corruption, inefficiency, and chaotic administration) and economic hardship (i.e., unexploited resources endowment, hyperinflation, and significant financial hardship) (Basri & Hill, 2020). In the period of the second presidency and the longest-served presidency of Indonesia from 1966 to 1998, economic development improved due to the benefits of its export expansion, the development of agriculture and export-oriented manufacturing sectors. Figure 1.10 presents the development of Indonesia’s GDP from 1967 to 2018. It shows that Indonesia’s current GDP has developed fivefold since 1967.

![Indonesia’s GDP from 1967 to 2019](image)

**Figure 1.10. Indonesia’s GDP from 1967 to 2019**

Source: World Bank, 2022
Figure 1.11 shows the development of Indonesia’s GDP per capita from 1967 to 2019. Indonesia’s GDP per capita has grown ninefold since 1967. Indonesia’s GDP per capita was $79.71 in 1970, $1,063.1 in 1997, and $4,135.23 in 2019 (World Bank, 2022).

By the end of the dictatorship of the period of the second presidency in 1998, Indonesia experienced a severe downturn in its economy, political, and social conditions due to the AFC and social disruption. The economic growth was at the lowest level of minus 13 per cent in 1998. Therefore, the government significantly transformed its financial management, political approaches, and social environment. Accordingly, in the following year’s, Indonesia’s economic growth slowly grew from 0.79% in 1999 to 4.92% in 2000. The effect of the GFC on Indonesia’s economy was not as bad as the AFC. Economic growth was 6.01% in 2008, 4.63% in 2009 and 6.22% in 2010. Indonesia has learned to manage its economy since the AFC by restructuring its balance of payment and bureaucracy (Basri & Hill, 2020).
Concerning the Purchasing Power Parity (PPP), in 2019, Indonesia is classified in the top ten countries with a high PPP level (after China, the United States, India, Japan, Germany, Russian Federation, Indonesia, France, the United Kingdom, Brazil) and became a member of the G-20 countries. The membership of the G-20 contributes around 67% of the world population, around 75-80% of international trade, and around 80-85% of Gross World Product (BKPM, 2022).

![Trend in FDI in Indonesia from 1970 to 2019](image)

**Figure 1.12. Trend in FDI in Indonesia from 1970 to 2019**

Source: World Bank, 2022

Regarding Indonesia’s FDI outlook, Figure 1.12 presents the trends in IFDI and OFDI in Indonesia from 1970 to 2019. According to Figure 1.12, there are four periods of time in which IFDI shrinks, while there are five periods of time in which OFDI shrinks. Accordingly, the analysis of FDI trends is divided into two main parts based on FDI flow: IFDI and OFDI.

The first analysis is about IFDI. Given its competitive advantages, Indonesia is attractive for IFDI. Even though the performance of IFDI in Indonesia experienced several downturns, the trend has improved significantly. Indonesia has gained more trust in the international market, which has remained stable in recent years (BKPM, 2018). Indonesia has been a favourable destination for IFDI (Amirahmadi & Wu,
Indonesia was among the top 20 host countries in the World in 2018 (UNCTAD, 2019). Among the Asia countries, Indonesia is in the top 5 host countries and is the 2nd largest in Southeast Asia in 2018 (UNCTAD, 2019). Indonesia’s IFDI flows were 180 million US dollars in 1980, $1,092 million in 1990, $13,771 million in 2010, and $20,563 million in 2018 (UNCTAD, 2019).

The lowest value for IFDI was in the period 1998 to 2001. The year 1998 was marked by these declines because of three primary causes that had an influence on the major transition that took place in the management of the country over the long term (Basri & Hill, 2020). First, the long-running dictatorship that had been in place throughout Suharto's second administration came to an end, and there was a significant shift in the political structure of Indonesia. Second, there was social instability caused by differences in the ethics practised by Chinese people and Indigenous Indonesian people. Third, the government formed independent institutions in the financial system in order to provide a stronger management structure for the nation.

Regarding OFDI, Indonesia was among the top 15 developing countries in 2005 (UNCTAD 2006). Even though OFDI increased significantly from $18 million in 1984 to $3,408 in 2004 and $8,053 million in 2018 (UNCTAD, 2019), Indonesia’s OFDI is still lagging behind its inward FDI. In comparison, in 2019, the level of outward FDI reached 4,462.48 million US dollars compared to the inward FDI, which reached 24,993.55 million US dollars (World Bank, 2019).

The exploration of Indonesia’s characteristics shows that Indonesia has competitive advantages in attracting and generating FDI. However, the country’s comparative advantages in the global markets still lags behind those of some other emerging economies and developing countries due to the country’s economy reliance on exporting commodities and domestic consumption (BKPM, 2021). Accordingly, it is necessary to investigate Indonesia’s FDI performance in accordance with its economic development, the role of FDI in the country’s economy, the determinant factors of FDI, and the role of government in promoting FDI in Indonesia.

### 1.2 Research gaps, objectives, and questions

#### 1.2.1 Research gaps

Two main rationales need to be considered before researching the FDI phenomena. First, it is about the selection of the topic. A review of UNCTAD’s World Investment Reports from 1991 to 2003 by Fredriksson (2003) summarised the areas of research for FDI, such as *FDI determinants; the impact of FDI on the country’s growth and development;* the geography of FDI, strategies, and structures in the...
international organisation of Transnational Companies (TNC) activities; modes of FDI entry; FDI and trade; linkages and clusters involving FDI; as well as economic development and outwards FDI (Fredriksson, 2003, p.15). Second, it is about the selection of the unit of analysis. It is challenging to choose the level of unit analysis for FDI studies and to control its impact in a dynamic condition if the assumption for other units of analysis is ceteris paribus (Buckley, 2011). The types of units of analysis of FDI research are the firm-level (including the management-level, network-level) and the country-level (including the single- and cross-country) (Buckley, 2011). It is also important to note that each country or company is very peculiar and idiosyncratic in its characteristics and development progression (Moran et al., 2005). Therefore, choosing one unit of analysis is more suitable for generating an overarching finding in the context of FDI.

The rationales behind the choice of country-level analysis are that the trends in FDI have changed between developed and developing countries, the impacts of FDI vary between developing countries and emerging economies, and the challenges and opportunities for promoting FDI for each country are different. In the country-level analysis, there are two classifications of the country: developed and developing countries. Developed countries are more mature in terms of their structure of the economy, the infrastructures (both physical and technology infrastructures), and human capital. Meanwhile, developing countries still have potential areas to grow in terms of their economy and other aspects. Therefore, analysis of FDI in a developing country or emerging economy can provide a better understanding of how a country develops and maximises the presence of FDI in the country. Another reason to focus on the country-level is the important role of the government in encouraging, stimulating, and promoting the development of companies (both domestic companies and MNCs) by generating a conducive business climate through supportive policies and regulations (Faeth, 2009). Moreover, there is a substantial body of knowledge regarding the phenomena of FDI in a country. The findings from several earlier studies on FDI have produced inconsistent results. The conclusions for each form of analysis are distinct from one another depending on the selection of the unit of analysis, the time range, and the methods used to research FDI all play an important role.

Based on the selection process for a unit of analysis, this analysis leads to the selection of Indonesia as a unit of analysis. In relation to Indonesia, the progression of its economic development has been impressive, from the stalling of its development in the post-independent period and from the severe economic contractions caused by the AFC and the GFC to attain its present success (Basri & Hill, 2020; Coxhead &
Indonesia’s economic development has increased significantly thus contributing to the significant development of its competitive advantages in attracting IFDI. Accordingly, the IFDI level has been mostly increasing year by year. Despite a significant increase in IFDI in Indonesia, the country still needs to promote its competitive advantages and advance its comparative advantages in global markets. As an example, the role of Indonesia in Global Value Chains (GVCs) is limited to supplying raw materials and intermediate output and assembling foreign-sourced inputs in-house (ADB, 2019). In addition, to the rapid economic development and locational competitiveness of other emerging economies (i.e., China and India) in attracting and generating FDI, Indonesia also experienced high competition in attracting IFDI and a stagnation in its comparative advantages compared to some other emerging economies. Given the country’s reliance on exporting commodities and domestic consumption, most domestic companies are micro and small companies, and the inequality of regional development in terms of infrastructure and education adds comparative disadvantages to the country in the global market (BKPM, 2021). Therefore, it is necessary to do a country-level investigation of the role of FDI in serving Indonesia’s economic development and the role of Indonesia’s government in promoting FDI. Accordingly, by conducting a comprehensive analysis of Indonesia’s FDI, this thesis yields insight and support for other underdeveloped and developing countries and emerging economies to promote their FDI, thus contributing to their economic development.

1.2.2 Research objectives

This thesis aims to analyse FDI in Indonesia from 1980 – 2019. To address this purpose, this thesis involves three studies. Each of the studies has its objectives, addresses the gap in the literature, and generates findings to support the analysis of Indonesia’s FDI. The three studies are as follows.

The first study focuses on the IDP as one of the theories applied to assess the performance of FDI and the economic development of a country. The IDP concept is applied to assess the systematic relationship between the nature, pattern, and degree of FDI activities associated with a country’s economic structure and development (Sawitri & Brennan, 2022b, p.2). This concept has been extensively applied to elaborate on the phenomena of FDI in a country (Zhu et al., 2011; Lall, 1998). However, there is an issue regarding this concept in terms of applying the economic development variables, which are GDP and GDP per capita. Previous studies have emphasised that GDP and GDP per capita are insufficient to depict a country’s economic development and characteristics (Durán & Ubeda, 2001; Lall, 1996a; Narula & Dunning, 2010; Nguyen & Le, 2016; Scott-Kennel & Enderwick, 2005). Therefore, it is necessary to investigate the
evolution of the IDP concept since its inception, the application of IDP classification approaches in previous studies, and the influential factors that determine a country’s position on IDP stages besides GDP and GDP per capita. Accordingly, the first study that is conducted in this thesis is a systematic literature review of the IDP using the thematic analysis approach (Sawitri & Brennan, 2022b). This is the first study that applies thematic analysis approach in the context of IDP. The findings are the identified themes in the IDP literature, the framework that represents the relationship between FDI performance and the economic development of a country relative to its position on the IDP stages, and the five approaches to the classification of IDP stages based on economic development (Sawitri & Brennan, 2022b).

The second study focuses on assessing the applicability of IDP theory in the case of Indonesia. Even though, seven studies have assessed the applicability of IDP in the case of Indonesia, there was only one study that applied a single-country analysis (Lecraw, 1996), while the rest of the studies applied a cross-country analysis (Dunning, 1981b, 1986; Ramírez-Alesón & Fleta-Asín, 2016; Satoglu, 2017; Stoian & Mohr, 2016). Indonesia’s economy and its FDI regime has transformed significantly. Nevertheless, based on these previous studies, the position of Indonesia on IDP remained stable in the second stage of development.

Since the IDP concept is idiosyncratic and very peculiar to a country’s characteristics and progression of its development path, the most suitable approach in the IDP for assessing a country’s development is a single-country analysis. In addition, there is a gap in the literature regarding to the evaluation of IDP’s established models with only a few studies focused on comparing the established models by using one of the main determinants of economic development (GDP or GDP per capita) (Satoglu, 2017; Buckley & Castro, 1998; Fonseca et al., 2007; Vavilov, 2006), while this study compares all established models by using both variables. There is also a gap in the literature in terms of the assessment of the IDP concept in a country incorporating additional policy analysis. This study addresses this gap. Therefore, the second study in this thesis provides a comprehensive assessment of the applicability of IDP in the case of Indonesia by considering the theoretical, empirical, and institutional aspects of the IDP. The potential findings of this study are the suitable model(s) of IDP in the context of Indonesia, the position of Indonesia on the IDP stages, the potential areas for shifting the position of Indonesia on the IDP stages.

The third study focuses on Indonesia’s OFDI. Based on previous studies, no study investigates OFDI’s role in Indonesia’s economy and its determinant factors (Aminullah et al., 2013; Carney & Dieleman, 2011; Gondo et al., 2021; Lecraw, 1993; Sambodo, 2017). Most previous studies on OFDI in developing countries focused on China and India as a unit of analysis (Paul & Benito, 2018). Therefore, the third study in this
thesis establishes a causality relationship between OFDI and economic development variables in Indonesia using TYDL augmented VAR method. This study differs from previous studies since it applies both empirical and institutional analyses. From the empirical analysis, this study investigates and establishes the relationship between OFDI and economic development variables without any predetermination of the variables as to whether they are endogenous or exogenous. Accordingly, this study identifies whether OFDI is a determinant of economic development or economic development is a determinant of OFDI. From the institutional analysis, this study identifies the potential areas for promoting OFDI from Indonesia by assessing the role of Indonesia’s government in stimulating OFDI, identifying the constraints on OFDI’s development, and generating recommendations for the Indonesian government to promote OFDI.

1.2.3 Research questions

The objectives of three studies undertaken in this thesis are to investigate the evolution of the IDP literature as the main concept applied in this thesis, assess the performance of FDI and economic development of Indonesia by using the IDP concept, and investigate the causality relationship between OFDI and economic development in Indonesia. To address these objectives, this thesis develops three main research question.

The first research question that is addressed in the first study is How has IDP literature evolved from its inception?. To address this research question, several derivatives research questions are as follows:

a. What is the theme(s) in the IDP literature?

b. What is the relationship between FDI performance and the economic development of a country according to IDP?

c. How to classify a country’s position on the IDP concept?

The second research question that is addressed in the second study is How has FDI developed in Indonesia?. To address this research question, several derivative research questions are as follows:

a. What is the position of Indonesia on the IDP stages?

b. What are the impacts of IFDI and OFDI on Indonesia’s economic development?

c. Which IDP model(s) is suitable for Indonesia’s case?

d. How to shift Indonesia’s position on the IDP stages?

The third research question that is addressed in the third study is What is the relationship between OFDI and economic development in Indonesia?. To address this research question, several derivative research questions are as follows:

a. What is the role(s) of OFDI from Indonesia in its economic development?
b. What is the determinant factor(s) of OFDI from Indonesia?

c. How can Indonesia’s government promote OFDI from Indonesia?

1.3 Overview of the three studies

This thesis is organised into three studies. Figure 1.13 presents an overview of the three studies involved in this thesis. As mentioned earlier, each study has its own set of research aims and objectives interconnected to generate an overarching analysis of FDI and economic development in the case of Indonesia. Accordingly, Table 1.6 presents a detailed overview of the three studies involved in this thesis and the progression of their publication status.
Table 1.6. Details overview of the three studies involved in this thesis

<table>
<thead>
<tr>
<th></th>
<th>Study 1</th>
<th>Study 2</th>
<th>Study 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title</strong></td>
<td>The Investment Development Path Literature: A Review and Research Agenda</td>
<td>The Investment Development Path Theory: Evidence from Indonesia</td>
<td>Outward Foreign Direct Investment and Home Country Economic Development – The Case of Indonesia</td>
</tr>
<tr>
<td><strong>Purpose of study</strong></td>
<td>Investigate the evolution of the IDP literature</td>
<td>Assess the performance of FDI and economic development of Indonesia by using the IDP</td>
<td>Investigate the causality relationship between OFDI and economic development in Indonesia</td>
</tr>
<tr>
<td><strong>Variables</strong></td>
<td>51 journals articles published in CABS-ranked journals</td>
<td>NOIP (OFDI – IFDI), GDP, and GDP per capita</td>
<td>IFDI, OFDI, GDP, GNI, exports, imports, the number of listed domestic companies, exchange rate</td>
</tr>
<tr>
<td><strong>Data Sources</strong></td>
<td>ABI Inform, EBSCO, JSTOR, Science Direct, Scopus, Web of Science</td>
<td>World Bank</td>
<td>World Bank, IMF</td>
</tr>
<tr>
<td><strong>Data Analysis</strong></td>
<td>A Systematic Literature Review by employing thematic analysis approach (both manual and coding)</td>
<td>Five approaches to the classification of IDP stages (Kadek Ade Sawitri &amp; Brennan, 2022b), ADF, PP, and KPSS unit root tests, OLS and the classical regression model estimation, policy analysis</td>
<td>ADF, PP, and KPSS unit root tests, TYDL augmented VAR model, institutional analysis</td>
</tr>
<tr>
<td><strong>The potential findings</strong></td>
<td>• The themes in the IDP literature</td>
<td>• The position of Indonesia on the IDP stages</td>
<td>• The role(s) of OFDI in Indonesia’s economy</td>
</tr>
<tr>
<td></td>
<td>• A framework that presents the relationship between FDI performance and economic development of a country</td>
<td>• The impacts of IFDI and OFDI on Indonesia’s economic development</td>
<td>• The determinant factor(s) of OFDI from Indonesia</td>
</tr>
<tr>
<td></td>
<td>• Five classification approaches for assessing a country’s position on the IDP</td>
<td>• The suitable model(s) of IDP for Indonesia</td>
<td>• The policies and regulations for promoting OFDI from Indonesia</td>
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<td></td>
<td>• The policies and regulations for shifting Indonesia’s position on IDP</td>
<td>• The policies and regulations for shifting Indonesia’s position on IDP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Presented at the 48th Academy of International Business UK &amp; Ireland Chapter Conference in 2021.</td>
<td>• Presented at the Annual Meeting of the Academy of International Business (AIB) in 2022.</td>
<td>• Submitted to Journal of Policy Modeling (CABS 2).</td>
</tr>
</tbody>
</table>
The summaries of each study undertaken in this thesis are represent as follows.

**1.3.1 Study 1: The Investment Development Path Literature: A Review and Research Agenda**

This study is the first systematic literature review of the IDP that applies a thematic analysis approach, encompassing 51 journal articles published in CABS-ranked journals from 1981 to 2021. This study differs from previous studies on IDP in terms of the methodology deployed and the research focus. The deployment of IDP literature is quite extensive, covering many aspects of the IDP concept. The analysis reveals that four themes arise from the IDP literature: the assessment of a country’s development in relation to the IDP concept, FDI phenomena in the IDP concept, the internal and external factors that influence a country’s position in the IDP stages, and further development of the IDP concept. These findings lead to the construction of a novel framework that shows the interaction between the performance of FDI and the economic development of a country in respect to its position on the IDP stages. They also lead to the identification of five approaches to the classification of IDP stages based on economic development, FDI performance, locational advantages, the strategies of MNCs, and the role of government. These approaches can assist researchers, policymakers, and firms in classifying a country on the IDP stages.

**1.3.2 Study 2: The Investment Development Path Theory: Evidence from Indonesia**

This study assesses Indonesia’s FDI and economic performance from 1990 to 2019 using theoretical, empirical, and institutional perspectives of IDP. From a theoretical perspective, this study deploys IDP classification approaches to investigate Indonesia’s position. From an empirical perspective, this study applies OLS and a classical regression model to investigate Indonesia’s most suitable IDP model. From an institutional perspective, this study applies a policy analysis of FDI policies and regulations and derive recommendations to shift Indonesia’s position on IDP. From a theoretical perspective, Indonesia reveals a deviation from the established theory. The country’s positioning on the IDP did not follow the established linear stages progression. However, from an empirical perspective, the study found the best fit IDP model for Indonesia. From an institutional analysis, it can be concluded that Indonesia’s government embraces IFDI as a means of economic development. Accordingly, IFDI’s level has been mostly increasing year by year. Even so, the country’s comparative advantages in the global market still lag behind some other emerging economies. Therefore, Indonesia’s government needs to attract value-added investments to upgrade the country’s comparative advantages and promote the development of OFDI. Apart from China
and India, there is limited literature on IDP applied to emerging economies. This study focuses on the case of Indonesia, an emerging economy that is growing in significance. The findings can be treated as inputs for policymakers to frame supportive policies and regulations to boost FDI performance and stimulate Indonesia’s economic performance, thus advancing Indonesia’s position on the IDP stages.

1.3.3 Study 3: Outward Foreign Direct Investment and Home Country Economic Development – The Case of Indonesia

This study investigates the role of OFDI in Indonesia’s economy using empirical and institutional analyses. The analyses revealed that OFDI is a means of developing the economy and Indonesia has competitive advantages in generating OFDI. Domestic companies and Indonesia’s government can play important roles in OFDI. However, Indonesia’s government neglects OFDI and focuses only on IFDI. Most domestic companies are micro and small, with limited capabilities for OFDI. Therefore, the analyses derived recommendations for Indonesia’s government to focus on nurturing and boosting the development of domestic companies’ capabilities to enable them to engage in OFDI and also focus on generating OFDI policies and regulations due to their absence to promote OFDI and ensure that it serves the economy. The analyses led to the establishment of a framework to promote the development of domestic companies’ capabilities which governments can consider applying.

1.4 The original contributions of three studies

This thesis extends the concept of IDP by articulating a comprehensive determination of a country’s position on IDP. IDP is the most applicable concept for assessing the progression of a country based on its FDI and economic performance (Dunning & Narula, 1994, 1996, 2002; Narula, 1994; Narula & Dunning, 2010; Sawitri & Brennan, 2022). By applying this concept, a country can assess its FDI and economic performance in developing the country, thereby identifying the potential areas for developing such a country by promoting its FDI and economic development (Sawitri & Brennan, 2022). Narula and Dunning (2010, p. 265) stated that studies focusing on IDP using cross-country analysis are insufficient to present the idiosyncratic characteristics of a country and its development, since there are distinct features of a country’s economic structure, specialisation in the industrial frontier and technological development, population size, locational advantages (i.e., geographical location and natural endowments), and government policies and regulations in supporting FDI. The first study undertaken in this thesis focuses on a systematic literature review of IDP and addresses the understanding of the IDP concept to assess the progression of a country based on its FDI performance. It also investigates the gap in the literature and
identifies potential areas for further research. The findings of this study lead to the generation of a novel framework that represents the interrelationship between FDI performance and the economic development of a country relative to its position on the IDP stages. They also lead to the identification of five approaches to the classification of IDP stages based on economic development, FDI performance, locational advantages, the strategies of MNCs, and the role of government. Accordingly, future research on other countries can apply these approaches to assess a country’s progression to develop and promote its FDI and economic development.

Moreover, this thesis extends the applicability of the IDP in assessing a country’s position based on its FDI and economic performance. The second study undertaken in this thesis assesses the development of FDI in Indonesia in accordance with its economic development using the theoretical, empirical, and institutional perspectives of the IDP concept. From a theoretical perspective, this study applies the findings of the first study, which involves five approaches to the classification of IDP stages. From an empirical perspective, this study investigates the suitable IDP model(s) for Indonesia. From an institutional perspective, this study also conducts a policy analysis of FDI regimes and supportive policies and regulations of FDI in Indonesia.

The IDP is applicable to assess a country’s FDI and economic performance in the business-as-usual condition. In the case of economic shrinkage due to financial crises or pandemics, the progression of a country on the IDP might deviate (Lagos & Wang, 2022). According to the theoretical perspective of the IDP, the study finds a deviation in Indonesia’s case from the established theory. The progression of Indonesia on the IDP does not follow the established linear path. Therefore, this thesis found a consistent finding from a previous study by Lagos and Wang (2022), that there is a deviation in the progression of Indonesia on the IDP from the established theory. Having shifted from the second to the fourth stage in 1998–2004 due to a major decline in IFDI as a result of the political and social instability of that era, it regressed to the second stage in subsequent years. Accordingly, Indonesia’s case provides an example of how economic shrinkage due to the AFC can generate a deviation in the progression of the country on the IDP. Therefore, this study extends the IDP concept by assessing its applicability to Indonesia. There is a potential area for further research to assess a country’s position in times of economic shrinkage or high economic uncertainty (i.e., covid 19 pandemic condition) in Indonesia and other countries. Furthermore, from an empirical perspective of the IDP, this study finds the best-fit IDP model for Indonesia. As identified in the study, Indonesia is a net of inward FDI due to the significant difference between IFDI and OFDI. Accordingly, the government needs to promote OFDI from Indonesia by generating policies and regulations.
toward OFDI due to the absence of these policies and regulations in Indonesia. This study finds that Indonesia’s government does not embrace OFDI as a means of developing the country’s economic development. This study provides support to other developing countries to assess their progression on the IDP concept to investigate the potential growth of their FDI development, thereby contributing to their economic development. The findings of this study then become the basis for conducting the third study.

This thesis also extends the understanding of the compatibility relationship between IFDI and OFDI. Previous studies have confirmed that IFDI is one of the crucial factors that can promote OFDI by augmenting the capabilities of domestic companies, thereby encouraging them to expand their business overseas via OFDI (Chiappini & Viaud, 2021; Luo & Tung, 2017; Morck et al., 2008; Rui & Yip, 2008; Song et al., 2022). The third study undertaken in this thesis investigates such a relationship by focusing on the causality relationship between OFDI, IFDI, and economic development from the home country’s perspective in Indonesia’s context using empirical and institutional analysis. This study found that IFDI is one of the drivers of OFDI. In fact, with a significant number of IFDI in Indonesia, as in 2018, the country is in the top 20 favourable host countries for FDI (UNCTAD, 2018), and the country’s role in the Global Value Chain remains as a supplier of raw materials and intermediate products (BKPM, 2022). In 2016, 99% of domestic companies were micro and small companies (Indonesia Central Agency of Statistics, 2019). The investment laws (No.25/2007) clearly stated that foreign investment by foreign companies should benefit domestic companies to escalate their ownership advantages and, hence, compete in the global market. In fact, the development of spinoff impacts between MNCs and domestic companies still requires intensive supervision. Therefore, it can be concluded that, in the case of Indonesia, IFDI is less significant in contributing to the country’s competitive and comparative advantages, particularly in augmenting the capabilities of domestic companies to enable them to compete with MNCs in the domestic market or even engage in OFDI. This thesis provides several preconditions and recommendations for Indonesia’s government to maximise the benefits of IFDI to promote the country’s competitive and comparative advantages, thus augmenting domestic companies’ capabilities to compete with MNCs in the domestic market and even motivating them to engage in OFDI. Therefore, this thesis benefits Indonesian policymakers to assess the current policies and regulations and consider the recommendations generated in this thesis to frame the policies and regulations that are supportive for maximising the benefits of IFDI hence stimulating the augmentation of the country’s competitive and comparative advantages as well as promoting the capabilities of domestic companies to compete with MNCs in the domestic market and
motivate them to engage in OFDI. There is a potential area for future research that focuses on the relationship between IFDI and OFDI in other developing countries and emerging economies to consider the findings of this thesis to investigate such a relationship. Moreover, this thesis also benefits companies who are interested in engaging in FDI in Indonesia, as they can treat this thesis as their reference for the location decision-making process.

1.5 Thesis structure and outline

Chapter 1 is the introduction of this thesis. This chapter consists of five subchapters: research context; research gaps, objectives, and questions; overview of three studies; the original contributions of three studies; and thesis structure and outline.

Chapter 2 presents a broad overview of the relevant theories and previous studies featured in this thesis’s aims and objectives. In reviewing the literature, this thesis applies a framework-based analysis of Antecedent (A) – Decision (D) – Outcome (O) to investigate and identify the theoretical underpinning of FDI and economic development. This chapter comprises five subchapters: the introduction, antecedent, decision, outcome, and summary.

Chapter 3 consists of the methodologies applied in this thesis to address the research questions. This chapter consists of five subchapters: the introduction, the methodology, data collection, and data analysis for three studies undertaken for this thesis, and summary.

Chapter 4 presents the first study of this thesis, entitled The Investment Development Path Literature: A Review and Research Agenda. This chapter consists of seven subchapters: the introduction; methodology, including the literature search and selection protocols, and the thematic analysis for both manual and coding analysis; analysis, including the findings from manual thematic analysis and findings from the thematic coding analysis; discussion, including proposed IDP framework and approaches to the IDP stages classification; areas for further research on the IDP; conclusion; and reference list.

Chapter 5 comprises the second study of this thesis, entitled The Investment Development Path Theory: Evidence from Indonesia. This chapter consists of eight subchapters which are introduction; IDP, including theoretical and empirical considerations; methodology, including the theoretical perspective of IDP and empirical perspective of IDP; analysis and discussion of the theoretical perspective, including findings from the five approaches to the classification of IDP stages and Indonesian position on IDP; analysis and discussion of the empirical perspective, including findings on the IDP models and IDP models for Indonesia; analysis and discussion of the institutional perspective, including an analysis of FDI regime in
Indonesia and policy analysis of Indonesia’s FDI policies and regulations after the AFC; conclusion; and reference list.

Chapter 6 comprises the third study of this thesis, entitled *Outward Foreign Direct Investment and Home Country Economic Development – The Case of Indonesia*. This chapter consists of eight subchapters: the introduction; OFDI and the home country’s economic development including OFDI from developing countries, OFDI and the home country economic development, previous studies on OFDI and economic development, and hypothesis development; methodology, including data collection, data processing, and data analysis; the findings and discussions of empirical analysis, including a summary of data analysis, the findings and discussions of no causality between OFDI and exports, the findings and discussions of one way causality between OFDI, exchange rate, GDP, and GNI, the findings and discussions of one way causality between OFDI and IFDI, and the findings and discussions of two-ways causality between OFDI, imports, and the number of listed domestic companies; the findings and discussions of institutional analysis; further discussion and policy implication; conclusion; and reference list.

Chapter 7 encompasses the general discussion of the three studies. This chapter comprises six subchapters: the introduction, the summary of the findings from three studies, further discussion of the findings, implication for theory, implication for practice and policy implications, and summary.

Chapter 8 highlights the overall conclusion of the three studies undertaken for this thesis. It offers the learning points of this thesis and contributions of this thesis. It also identifies research limitations and areas for future research.
Chapter 1 presented the purpose of this thesis and brief information about the three studies undertaken in this thesis. Moreover, this chapter reviews the theories, concepts, and pertinent studies featured in this thesis to address the aims, objectives, and questions of this thesis. In reviewing the literature, this thesis applies a framework-based analysis of Antecedents (A) – Decisions (D) – Outcomes (O), to identify a gap in the literature and the areas of Foreign Direct Investment (FDI) and economic development for further research. This chapter is divided into five subsections. Subsection one introduces the ADO framework, which is applied in this thesis. Subsection two focuses on the antecedents (A) aspects in the theories and concepts of FDI and economic development. Subsection three presents the decisions (D) aspects in the theories and concepts of FDI and economic development. Subsection four consists of the outcomes (O) aspects in the theories and concepts FDI and economic development. Lastly, subsection five offers a summary of this chapter.

2.1 Introduction

According to Buckley (2011), in social science research, it is necessary to establish the connection between theories and empirical studies. A theory is crucial to define the topics of interest, cluster and divide similar phenomena, and provide an audit trail of changes in significant social and economic phenomena (Buckley, 2011). A concept is an interaction between theory and definition that is progressively, recurrently, and continuously redefined (Buckley, 2011). Furthermore, the interconnection between theory and concept is assessed in an empirical study (Buckley, 2011).

This thesis applies a deductive approach. A deductive approach is a method of searching the literature to identify theories and concepts that can be applied in the research so that this research can assess the applicability of these theories and concepts in the selected unit of analysis and in the chosen data set (Thornhill et al., 2009). This literature includes academic theories, current information related to the research topics, and pertinent studies (Thornhill et al., 2009). These sources are considered supportive for building this thesis’s hypotheses, assumptions, and arguments. As a result, before researching FDI and economic development, it is important to understand the theories, definitions, and concepts that support this topic. Accordingly, this section starts with the theory, the definition, and the concept of FDI and
economic development. It then identifies the previous studies on the topic of FDI and economic development.

In reviewing the literature on FDI and economic development, this thesis applies a framework-based analysis to identify and investigate the theories, concepts, and pertinent studies related to this selected topic. The framework-based analysis that employs in this thesis is a thematic review. This method provides a robust structure to the literature review (Paul & Benito, 2018; Paul & Criado, 2020). Several approaches for engaging a framework-based analysis are the Antecedents, Decisions, and Outcome (ADO) framework (Paul & Benito, 2018; Paul & Criado, 2020); the Who, When, Where, hoW, What, and Why (Six W’s) framework (Callahan, 2014; Paul & Criado, 2020); Theory, Construct, Characteristics and Methodology (TCCM) (Paul & Rosado-Serrano, 2019); and Potential, Path, Process, Pace, Pattern, Problems, and Performance (7-P) framework (Paul & Mas, 2019). This thesis applies a particular framework-based analysis, namely the ADO framework. The reason is that it enables a comprehensive and systematic investigation of the definition of the topic, the underlying reasons for the emergence of the topic, the evolution and the application of the topic, and the outcomes of the topic in the pertinent literature. Figure 2.1 presents the structure of the ADO framework applied in this thesis.

![Literature Review’s Framework on Foreign Direct Investment and Economic Development](image)

**Figure 2.1. The literature review’s framework of FDI and economic development**

The first aspect of the ADO framework is antecedents. This aspect reviews the theories, concepts, and previous studies that explain the definition of FDI and economic development. It also addresses the theories, concepts, and previous studies of why a company engages in FDI and why a country attracts and generates FDI. The second aspect of the ADO framework is the decisions. This aspect consists of the theories, concepts, and previous studies that explain the decision made by a company and a country to engage in FDI, including how a company and a country both engage in and generate FDI. The last aspect of the ADO
framework is the outcomes. This aspect assesses and investigates the development of the theories and concepts about FDI and economic development in the pertinent literature, particularly those focused on Indonesia, to identify the gap in the pertinent literature and identify the areas for further research on Indonesia’s FDI.

2.2 Antecedent

In order to establish an understanding of FDI and economic development, it is necessary to define their meaning. Moreover, two main actors deal with FDI and economic development: company and country. Accordingly, it is also necessary to understand the theories, concepts, and previous studies on why a company engages in FDI and why a country attracts and generates FDI.

2.2.1 Definition of FDI

FDI activities began in the early nineteenth century. At this time, most investment activities were in the form of a portfolio without any control or involvement in management (Amirahmadi & Wu, 1994; Svedberg, 1978). Dunning (1970) found that the majority of international capital movement (90%) in this era was from portfolio investment (cited in Svedberg, 1978). There is a lack of distinction between the portfolio and direct investments in this era due to the following reasons: first, there is a lack of studies on direct investment (Ady, 1971; Callis, 1942; Lewis, 1945; Meier, 1972; Radetzki, 1972; Remer, 1933; Rosenstein-Rodan, 1967; Streeten, 1969; Svedberg, 1978); second, there lacks a concrete definition between portfolio and direct investment (Conan, 1960; Svedberg, 1978); third, the coverage of direct investment research focuses on a few countries (Conan, 1960; Kindersley, 1932; Svedberg, 1978); last, there is an unstandardised method for the valuation of direct investment (Rippy, 1948; Stone, 1968; Svedberg, 1978).

By contrast, Wilkins identified the period of the emergence of foreign investment on a large scale in the private sector as 1875-1914 which was dominated by FDI (cited in Lipsey, 2001). She distinguishes FDI into two types: the first type is an investment that involves an increase in the capital invested, but the potential control acquired is insufficient due to the lack of experience and capabilities of the origin company for a foreign operation, and the second type is an investment that involves the whole package of capital and skills as defined by the current concept of Multinational Companies (MNCs) (i.e., provision of skills, management system, technology, and experience in operation and marketing) (cited in Lipsey, 2001). Moreover, Lewis (1948) defined the types of direct investment in a given country by the following: the forms of subsidiaries, branches, or foreign-owned properties that its citizen companies control; of
companies that are controlled by its domestic companies but organised and operated in overseas (either registered or incorporated at home or host countries); of foreign corporations that have holdings from groups of individuals and individuals in the crucial equity; and, last, of concrete properties (such as plantations, lands of mines and timber) that is owned by citizens. Vernon (1966) and Kojima (1973) characterised FDI into two-classes: first is defensive FDI, where the FDI happens in a low-wage country to gain benefit from low production costs to attain international competitiveness, and second is aggressive FDI, where the FDI occurs in countries with large markets to gain market share (Du Pont, 2000).

The following definitions of FDI derive from previous studies. The first study that defined FDI was Southard in 1931, he defined direct investment as lending capital, buying stock directly, or establishing a factory. A study by Remer (1933) defined direct investment as the methods that allowed foreign capital to be invested in the host country, and then the government of a given host country gained benefits from this investment. Another study by Stanley (1939) distinguished direct investment as a dependent activity that migrated over the national boundaries in terms of capital and management transferred. A study by Lewis (1948) explained that foreign investment occurs when the home country has not only the competitive advantages of the domestic companies but also the capacity for engaging in overseas investment and provision of exports excess over imports. Based on Caves (1974) and Hymer (1960), FDI is a process undertaken by the investing company possessing tangible and intangible assets in order to establish and develop its firm-specific ownership advantages that can be embodied with those assets (cited in Du Pont, 2000). According to Zhang (2001), FDI is the process of the home country’s company having ownership advantages to establish a business activities in the host country with locational advantages to gain internalisation advantages from its investment. Rugman & Brewer (2001) defined FDI as one of the activities done by MNCs, regardless of its size, the value of its investments, and the progression of the MNCs’ development process. According to Moosa (2002), FDI is a process taken by the investing company from a home country to control the business processes and acquire the ownership assets of a company in a host country. Moreover, Contessi & Weinberger (2009) and Kerner (2014) defined FDI as a process by a company in a country to acquire a long-term control and assets in the management including production, distribution, and other business activities of a company in another country.

The concrete definition of FDI emerged from the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD). According to the IMF, FDI is a process of gaining control of the management by establishing a lasting interest in other company(s) in other countries outside
the investing company’s resident country (IMF, 1993). The lasting interest refers to the long-term agreement or relationship between the direct investment (host country’s company) and direct investor (home country’s company) that is represented by the significant level of influence (at least 10% of the voting power) in the host country’s management company (IMF, 1993). Moreover, according to the OECD, FDI activity is the capital transaction (both at the initial and subsequent levels) occurring between the direct investments and direct investors of the enterprises’ affiliations that are both unincorporated and incorporated (OECD, 1999).

FDI can be measured in two forms: first are FDI flows which is a transaction of FDI value in a particular period, and second are FDI stocks which are the accumulation of FDI flows (Buckley, Enderwick, et al., 2018). Moreover, FDI consists of the macro and micro perspectives (Lipsey, 2001). The macro perspective investigates FDI by assessing the capital flows across national borders (from the home countries to the host countries) using the Balance of Payments. This perspective assesses FDI flows by increasing the home country’s investment value or increasing the voting rights of the home country’s firms. The variables applied in representing FDI are the financial capital flow, the accumulation value of the capital stock by investing firms, and the income flows from the investments. Meanwhile, the micro perspective investigates FDI by identifying the determinants factors for a company to engage in FDI and its impacts on a company and a country (both in the perspective of home and host countries) rather than only focusing on the size or the value of the investment flows (Lipsey, 2001).

The explanations above present the history of FDI, the types and forms of OFDI, the definition of FDI, the measurement of FDI, and the perspectives of FDI. Accordingly, this thesis embraces and defines FDI as a process of controlling and acquiring assets that is undertaken by foreign companies through the investment of their valuable resources to establish a new venture or a joint partnership with domestic company(s) in the host country.

2.2.2 Definition of economic development

Economic growth is an indicator to measure a country’s wealth and its economic development progression (Parkin et al., 2009; Pelsa & Balina, 2022; Sharipov, 2015). Economic growth aims to contribute to the progression of the country’s economic development by increasing living standards relative to population growth, reducing poverty and unemployment, and solving other social issues (Sharipov, 2015; Van Staveren, 2015). Accordingly, any country in the world generates its economic policy to stimulate and promote economic growth (Sharipov, 2015). Several theories and concepts regarding economic growth
were Mercantilism in the fifteenth century, Physiocracy in the eighteenth century, Classical theories in 1776, Innovative Growth theory of Schumpeter in 1911, Keynesian theories in the 1930s, Post-Keynesian or Neo-Keynesian theories in the 1950s, Neoclassical theories and Exogenous theory of Robert Solow in 1950s to 1960s, and Endogenous Growth theories in 1980s to 1990s (Sharipov, 2015).

The first perspective of economic growth emerged before Classical theories, i.e., a Mercantilism growth theory and a Physiocracy. A Mercantilism growth theory assumption derived from the trade capital in the fifteenth century (McDermott, 1999; Osipian, 2007; Sharipov, 2015). According to this theory, the determinant factors of economic growth were the wealth accumulation that came from the circulation of coins and metals, the total production of goods, and the surplus in trade (McDermott, 1999; Osipian, 2007; Sharipov, 2015). A Physiocracy growth theory derived an assumption based on the agriculture sector’s development of land and products (Marx, 2000; Osipian, 2007; Sharipov, 2015). Based on this theory, the determinant of economic growth is highly productive work and labour as the main engine of growth (Marx, 2000; Osipian, 2007; Sharipov, 2015).

The second perspective of economic growth theories came from classical economics. These theories emerged and were established by several economists, i.e., Smith (1776), Say (1836), Mill (1880), Ricardo (1891), Ramsey (1928), Young (1928), Knight (1944), Marx (1954), Malthus (1960), and Schumpeter (1982) (Barro & Sala-i-Martin, 2003; Sharipov, 2015). They described economic growth based on the concept of dynamic equilibrium and competitive behaviour, the role of diminishing returns and its impacts on the accumulation of human capital and physical capital, the relationship between the growth rate of population and income per capita, the impacts of the progression of technology involvement to stimulate labour specialisation and innovation of producing goods and services, and the impact of monopoly power to promote the development of advanced technology (Barro & Sala-i-Martin, 2003).

According to Smith (1954) and Ricardo (1957), the determinant factor of economic growth has come from the supply side or the production side (cited in Piętak, 2014). Smith illustrated the relationship between the increase in people’s wealth and the increase in the output of production factors (i.e., capital, land, and labour). This relationship can depict the growth of productivity labour and an increase in the size of capital utilisation (Barro & Sala-i-Martin, 2003; Piętak, 2014; Sharipov, 2015). He emphasised the division of labour, the innovation of technology, and investment as endogenous, which can contribute to extensive growth (Barro & Sala-i-Martin, 2003; Piętak, 2014; Sharipov, 2015). According to Malthus (1960), the determinant of economic growth is the control of population growth (Sharipov, 2015). Ricardo (1957)
elaborated that the determinant factors of economic growth were derived from a country’s competitive advantage in stimulating the development of new technology to decrease labour utilisation (Sharipov, 2015).

Moreover, the innovative growth theory of Schumpeter considers entrepreneurial innovation as a determinant of economic growth (Sharipov, 2015). The factors that can stimulate entrepreneurial innovation are the changes in economic conditions, the characteristics of the entrepreneur or businessman, and the changes in the markets that the entrepreneur or businessman serves (Sharipov, 2015). He elaborated on the combination of entrepreneurial innovation with other forms of economic changes that can be considered as determinant factors of economic growth, such as novel organisation of industry, the introduction of new production methods and goods, entrance and establishment in the new market, and acquired and secured new supply for the provision of raw materials (Maddison, 1980; Sharipov, 2015).

The third perspective of economic growth are the theories of Keynesian and Post-Keynesian (Neo-Keynesian) economics. These growth theories are from several perspectives, including Keynes (1946), Harrod (1948), Robinson (1951), Domar (1952), Kaldor (1961), Pasinetti (1962), and Meade (1966). According to Keynes, the determinant factor of economic growth has come from the demand side (Barro & Sala-i-Martin, 2003; Piętak, 2014; Van Staveren, 2015). He stated that investment is one of the main determinant factors of economic growth due to its impact on generating a multiplier effect (Sharipov, 2015; Van Staveren, 2015). Domar (1952) supplemented Keynes’s theory by adding other determinant factors of economic growth, i.e., factors that can generate and increase production capacities and factors that can increase the development of production and supplier of goods (cited in Sharipov, 2015). He also emphasised the investment’s tempo that contributes to the revenue growth (Domar, 1952). Moreover, Harrod (1948) justified that the determinant factors of economic growth are labour and capital productivity due to the utilisation of production capacities (cited in Sharipov, 2015).

Furthermore, the theories of Neoclassical growth and exogenous growth by Solow (1978), derived from dynamic equilibrium and the issues in achieving potential growth, i.e., the emergence of new technology, the productivity improvement, and the improvement in the organisation of production (cited in Sharipov, 2015). Neoclassical growth theories have three main foci, i.e., that the growth factor is capital accumulation through investment by considering labour, capital, and the competitive market system generating balance in economic growth (Sharipov, 2015; Solow, 1978). He introduced the concept of a country’s economic intervention by allowing large companies to achieve their potential growth in the competitive market
through resource utilisation and maximisation (Sharipov, 2015; Solow, 1978). Solow’s theory depicts the link among three determinant factors of economic growth, i.e., workforce, investments, and technological progress (Sharipov, 2015; Solow, 1978).

The last theory of economic growth is the theory of endogenous economic growth. The basic assumption of this theory is that there is imperfect competition along with other possible changes to the profit rate (Sharipov, 2015). According to this theory, the determinant factors of economic growth have come within the model, such as innovation in technology through the investment of human capital and development of technology (Sharipov, 2015). This theory elaborated on the other determinant factors of economic growth, such as the quality of human capital investment (i.e., health and education), intellectual property rights, the government supports in terms of technology and research and development, the role of government in generating conducive investment climate and advanced technology (Sharipov, 2015). Moreover, according to Lucas Jr (1988) and Romer (1986), the determinant factors of economic growth are information and knowledge to create innovation. Meanwhile, according to Grossman and Helpman (1990), the determinant factor of economic growth is research and development. In addition, according to Aghion and Howitt (1990), the determinant factor of economic growth is the progression of technology.

Based on the explanations above, it can be concluded that FDI can be considered a channel to promote economic growth hence contributing to a country’s economic development. Attracting FDI can represent a signal of maturity for the host country and its maintenance of sound macroeconomic, social, and political conditions (Mourao, 2018). I argued that generating FDI can also represent a signal of maturity for the home country to nurture the development of its domestic companies and maintain the business environment hence encouraging them to engage in FDI and benefiting the country’s comparative advantages in the global market. Accordingly, FDI can be important for both the home country and host country in generating sustainable economic development.

### 2.2.3 Why a company engages in FDI

Internationalisation is an expansion process of the business activities by a company overseas (Calof & Beamish, 1995; Ribau et al., 2015; Welch & Luostarinen, 1988). It is also a form of adaptation for a company to respond to the changes in the international environment (Johanson & Mattsson, 2015; Lehtinen & Penttinen, 1999; Ribau et al., 2015). To engage in internationalisation, a company needs to achieve a certain level of growth. This growth can also motivate a company to engage in internationalisation. Accordingly, the relationship between a company’s growth and internationalisation is inseparable (Buckley
This section presents theories and concepts of a company's internationalisation, particularly to depict a company's motivations to engage in FDI.

### 2.2.3.1 Hymer’s theory

Stephen Hymer (1960) focused on generating a distinct definition between FDI and foreign portfolio investment and how domestic companies engaged in international operations. He proposed that FDI was not only the exportation of capital but also a full package of technology, management, and expertise (Hymer, 1960). He also was the first to investigate FDI from the perspective of a theory of industrial organisation (Hymer, 1976). According to Hymer’s theory, a company engages in FDI for two main reasons: to secure its investment and, as the company has competitive advantages, it tends to gain benefits from entering the imperfect foreign markets (Hymer, 1976).

### 2.2.3.2 Kindleberger’s theory

Kindleberger (1969) continued Hymer’s theory by explaining that the motivation for a company to engage in FDI was the company’s competitive advantages, so that these can prevail against the competition between both MNCs and domestic companies in the host country. His argument was based on the assumption that FDI cannot exist if there is perfect competition in the market. He elaborated on the possible reasons for a company to engage in FDI as follows:

- **a.** In the goods market, the motives are product differentiation, market specialisation, price stability, and price control.
- **b.** In the case of factor markets, the motives are patents, access to the provision of technology, access to capital, and access to talent.
- **c.** The motives are the provision of external and internal economies of scale by engaging in vertical integration.
- **d.** The motives are institutional limitations or disadvantages.

Buckley & Casson (1976) identified the following shortcomings of Hymer’s and Kindleberger’s theories. First, the proposed theories focused on a company’s competitive advantages as the main motivation for engaging in FDI (Buckley & Casson, 1976). Second, the theories ignored the processes of gaining such advantages, viz. management, investment, planning, and experience (Buckley & Casson, 1976).

### 2.2.3.3 Caves’ theory

Caves (1971) argued that FDI occurred in selecting the many potential institutional forms in a small number of industries in developed countries. He also argued that the company that engages in FDI should gain
benefits to offset the cost of doing such expansion, and FDI was a preferable means to gain such a benefit (Caves, 1971). According to Caves (1971), the steps involved by a company to engage in FDI were exporting, and then subsidising its production to experience the local production, reduce the production cost, or get a better understanding of the host country’s market. He argued that the types of companies engaged in FDI were MNCs and State-Owned Enterprises (SOEs) due to their abilities to prevail against potential entry barriers (Caves, 1974).

2.2.3.4 Dunning’s theory

Dunning (1971) identified that the motivations for a company to engage in FDI derive from market imperfections, exploiting the market potentials, securing raw materials for the production process, and exploiting the competitive and comparative advantages that the company has. He argued that the company’s growth exceeded its geographical and national boundaries (Dunning, 1977).

Moreover, Dunning (1979) introduced the Eclectic framework that combined several predominant theories such as imperfect market, international trade, internalisation theory, and location theory (Cantwell & Narula, 2001; Dunning, 2001). He established three main drivers for a company to engage in FDI. First, a company should possess ownership advantages to prevail against competitors in a foreign market (Dunning, 1977, 1979, 1981b). Second, it should be more beneficial for the company to retain control over these ownership advantages by internalising rather than licensing or leasing these advantages to the domestic companies (Dunning, 1977, 1979, 1981b). Third, it should be more beneficial for a company to conjugate these ownership advantages with other potential advantages in foreign countries to maximise profits (Dunning, 1977, 1979, 1981b).

Moreover, he divided the three main drivers into Ownership-advantages, Locational-advantages, and Internalisation-advantages (Dunning, 1979, 1980, 1981b; Makoni, 2015). The first driver is Ownership (O)-advantages that represent why a company engages in FDI (Sawitri & Brennan, 2022a). In order to engage in FDI, at first and most crucial, the company should possess the company specific advantages in terms of the brand-awareness, production capabilities, the innovation of technology, patents and trademarks, and economies of scale (Dunning, 1980; Makoni, 2015). These O-advantages should be particular and idiosyncratic for the company to prevail against the competitors (other MNCs) or domestic companies in a foreign market. If the company does not have specific O-advantages, it would be better for the company to establish its O-advantages by taking advantage of the imperfect market and monopolistic advantages in the domestic market (Dunning, 1980; Makoni, 2015).
The second driver is Locational (L)-advantages represent selecting the location for FDI (Sawitri & Brennan, 2022a). The fundamental assumption for L-advantages is that every location has different competitive advantages that can attract a particular company to invest. L-advantages consist of access to strategic resources, technology, labour, infrastructure, and market size that are either unavailable in the home country, cheaper, or more advanced relative to the home country (Dunning, 1979, 1980, 1981b; Makoni, 2015). If the company does not have any access to the L-advantages in the foreign country, it would be better for the company to engage in international trade (Dunning, 1980; Makoni, 2015).

The third driver is Internalisation (I)-advantages represent how the company engages in FDI (Sawitri & Brennan, 2022a). The fundamental assumption for I-advantages derives from the internalisation theory. According to this theory, a company should gain benefits and retain controls over its O-advantages to mitigate the risk of the knowledge-assets and liabilities dissipations by engaging in FDI rather than pursuing a licensing or leasing with domestic companies (Buckley, 2018; Buckley & Casson, 1976; Rayome & Baker, 1995).

2.2.3.5 Vernon’s theory

Vernon established the Product Life Cycle (PLC) framework to depict a company’s progression according to its level of maturity of production output (Kurtishi-Kastrati, 2013; Ribau et al., 2015; Rink & Swan, 1979; Vernon, 1966, 1974, 1979). Vernon established this framework based on several assumptions, which were the changes of products that can be predicted through the production process and marketing, the information about the technology involved in the production processes were restricted, the production processes and economies of scale change over time, and the product preferences and standardisation of products changed over time (Vernon, 1966, 1974, 1979). The PLC has four continuous stages: innovation, growth, maturity, and decline (Makoni, 2015; Nayak & Choudhury, 2014; Paul & Feliciano-Cestro, 2021; Vernon, 1966). According to this theory, the company at first focuses on serving and establishing its production outputs in the domestic market and reaching a particular stage in PLC of these outputs, hence stimulating the company to expand its business activities in other developed and developing countries (Contractor et al., 2020; Kurtishi-Kastrati, 2013; Paul & Feliciano-Cestro, 2021; Ribau et al., 2015; Vernon, 1966). There are two main principles of this theory which are the innovation of technology and the expansion of the market (Makoni, 2015; Nayak & Choudhury, 2014). The motivations of a company to engage in FDI according to PLC stages are as follows:
a. A company enters a developed country’s market when the demand growth for a particular product that the company has competitive advantages increases in this country and the country promotes local production (Contractor et al., 2020; Kurtishi-Kastrati, 2013; Paul & Feliciano-Cestero, 2021; Ribau et al., 2015).

b. A company enters a developing country’s market when there are competitive prices and cost pressures as a result of standardised products and a saturated market. The company is also attracted to reduce costs by investing in a country that provides a low labour cost (Contractor et al., 2020; Kurtishi-Kastrati, 2013; Paul & Feliciano-Cestero, 2021; Ribau et al., 2015).

2.2.3.6 Buckley and Casson’s theory

Buckley & Casson (1976) introduced the internalisation theory based on three following postulates. First, the company maximises its profit by doing business in imperfect global markets. Second, when the company does business in imperfect intermediate markets, it has the privilege of surpassing these markets by establishing internal markets with ownership advantages and control over them. Third, the internalisation process of markets across national and geographical boundaries is called MNCs. Several factors influence the internalisation decision, which are industry-specific factors (i.e., the structure of the external and internal markets and the nature of the products in the specific industries), region-specific factors (i.e., the social and geographical characteristics of the market in the specific regions), country-specific factors (i.e., the focuses of fiscal and political relationships among countries), and company-specific factors (i.e., the management capabilities to organise the internal markets) (Buckley & Casson, 1976). The advantages of doing internalisation for a company are increasing the planning and control capabilities, particularly in flows coordination of important inputs, discriminatory pricing to exploit the market power, refraining the bilateral market power, refraining the uncertain knowledge transfers between parties, and refraining the intervention from the government (Buckley & Casson, 1976).

2.2.3.7 FDI motives

The fundamental motive for a company to engage in FDI is to acquire things that are unavailable in the home country or relatively cheaper than the home country, e.g., goods and services, technology, labour, inputs, and skills (Buckley & Ghauri, 2014). Two types of FDI are aggressive and defensive FDI (Dunning & Lundan, 2008). Aggressive FDI is a type of FDI that is proactive in order to advance and secure its strategic purposes (Dunning & Lundan, 2008). Defensive FDI is a type of FDI driven by the action undertaken by foreign companies or competitors to engage in FDI in specific countries and to protect and
maintain the markets, FDI is necessary. Moreover, four established motives for a company to engage in FDI, according to Behrman (1972), Buckley & Ghauri (2014), Cui et al. (2014), and Dunning & Lundan (2008a), are as follows:

a. **Natural resource seeking**

Natural resource seeking motivates a company to engage in FDI in a particular host country to acquire and exploit specific resources with higher quality and lower prices than the home country. Moreover, the aims of this type of investment are to secure the supply of resources that are low-cost, stable, and high-quality. There are three types of resource-seeking investment. The first type of resource seeking is access to physical resources such as minerals, fuels, metals, and agricultural products. The second type of resource seeking is access to abundant supplies of cheaper real cost and well-motivated skilled (unskilled or semi-skilled) labours. The third type of resource seeking is access to expertise in management or marketing, organisational skills, and technology capabilities.

b. **Market seeking**

Market seeking motivates a company to engage in FDI in a particular host country to serve and supply services and goods in the domestic and adjacent host country’s markets. Most companies that engage in this type of investment first experience the foreign markets through exports. Along the process, with changes in the tariff, other cost barriers, and opportunities in the foreign markets, the company then expands its business via FDI. This type of investment is necessary to maintain or protect the existing markets and to promote or exploit the new markets. There are four reasons why a company pursues a market-seeking investment. The first reason is to follow the customers, competitors, and suppliers that have established their production facilities abroad so the company can retain its business. The second reason is to adapt the products and services to local preferences. The third reason is to gain benefits from the adjacent markets to reduce the transaction cost of productions or suppliers. The fourth reason is to be present in the leading markets served by the company’s competitors as part of the marketing and production strategy.

c. **Efficiency seeking**

Efficiency seeking is a motivation for a company to engage in FDI in a particular host country to encourage and promote the established market-seeking or resource-seeking investments and gain benefits (i.e., the economies of scale and scope and risks diversification) across geographical and national boundaries activities. The efficiency-seeking investment aims to gain benefits from different institutional arrangements, cultures, factor endowments, demand patterns, market structures, and economic policies by
specialising products in different locations to supply and serve different markets. It also aims to augment the economies of scale and scope, to diversify the business risks, and to escalate the logistical infrastructure. Two types of efficiency-seeking investment are the one that wants to gain benefits of the relative cost and provision of factor endowments in foreign countries (i.e., labour cost and value-added activities in the capital, technology, and information) and the one that wants to expand the business activities in the similar income levels and economic structure in order to gain benefits from the economies of scale and scope, demand patterns, and customer preferences.

d. Strategic asset or capability seeking

Strategic asset seeking motivates a company to engage in FDI in a particular host country to acquire foreign corporations’ assets and stimulate and promote the strategic objectives in the long term by maintaining and advancing the company’s global competitiveness. The purposes of strategic asset-seeking investment are to improve the global portfolio by acquiring human talents and physical assets, to gain benefits from marketing or specific cost over the competitors, and to capitalise on the benefits of diversification capabilities and activities or diversification economic and environment of similar capabilities and activities. In addition, the FDI’s motive by Aliber (1970, 2013) addressed that FDI occurred due to the capital market advantages (i.e., the stronger currency exchange rate from the home country relative to the host countries’ exchange rate) that the company has in the home country. Kojima (1978) argued that a company engages in FDI to secure and exploit the supply of raw materials and intermediate products in a foreign country (Kojima, 2010). According to Shatz & Venables (1999), the motivations for a company to engage in FDI are to serve the domestic market better and to get access to lower-input costs. According to Dunning & Lundan (2008), there are three reasons a company engages in FDI. First is the escape investment. This type of investment is derived from the home country’s disadvantageous and restrictive policies and regulations. The second is support investment. This investment is derived to support the other activities of a company located in different countries. The last is a passive investment. This type of investment is derived to protect and maximise the company’s profits or competitiveness by acquiring new assets.

Moreover, there are two types of FDI according to a company’s motives: horizontal and vertical FDI (Lim, 2001; Shatz & Venables, 1999). The horizontal FDI establishes the duplicate of the whole business processes in the foreign country to serve the domestic market (Lim, 2001; Shatz & Venables, 1999). The motivations are reducing the cost (i.e., transportation or tariff costs) and pursuing more competitive business processes (i.e., the closer proximity to the market and more responsive to the changes in the
market) in serving the domestic market (Lim, 2001; Shatz & Venables, 1999). Moreover, vertical FDI is slicing and reallocating part(s) of production processes in the relatively lower cost country(s) (Lim, 2001; Shatz & Venables, 1999). The motivations are to gain access to lower cost raw materials and inputs (i.e., intermediate goods, labour, or technology) (Lim, 2001; Shatz & Venables, 1999).

2.2.3.8 The determinants of FDI

Agarwal (1980) undertook an investigation of the determinant factors of FDI based on several hypotheses. The first hypothesis is that the determinant factors of FDI derive from the assumption of a perfect market. These factors include profit maximisation, the diversification of the types of investment to mitigate the potential risks, the attractive host countries’ market size (Agarwal, 1980). The second hypothesis is that the determinant factors of FDI derive from the assumption of market imperfections. These factors include the internal and external forces to secure the current market and explore the potential market, to avoid a high competition in the home country, to gain benefit from the host country’s government incentives, to serve the high demand of products and services in the host country, and to find an alternative for an increase in cost in the home country (Agarwal, 1980). The last hypothesis is that the determinant factors of FDI derive from the propensity to invest. These factors are maximising a surplus in the earning profits of a company, seeking to find an alternative to other financial sources, and benefiting from the appreciation of the home country’s exchange rates (Agarwal, 1980).

Jiang et al. (2020) identified the determinant factors for FDI, such as external factors (i.e., industries, domestic and foreign markets, and geographical locations) and internal factors (company’s strategies, characteristics, competencies, and founders’ characteristics, values, and perceptions). Moreover, the United Nations Conference on Trade and Development (UNCTAD) (1998) elaborates on the determinants of FDI in terms of economic determinants (e.g., market size, income per capita, input costs, and infrastructure), policy frameworks for FDI (e.g., political, social, and economic stability, international agreements, tariff policy, policy regarding the structure and functioning of the market, and privatisation policy), and business facilitation (e.g., FDI incentives, investment promotion, and after-service for FDI) (Sawitri & Brennan, 2021). Several previous studies focus on investigating the determinant factors of FDI.

a. The macroeconomic conditions

The first determinant factors of FDI relate to the macroeconomic conditions, i.e., economic instability; exchange rates; international trade; internal and external capital market; Gross Domestic Product (GDP),
GDP per capita, and growth rate; interest rate, tariff and nontariff, and tax; natural resources; trade openness and trade barriers.

Several previous studies such as Apergis & Katrakilidis (1998), Asiedu (2002), Brambila-macias et al. (2011), Cheng & Ma (2010), Cuong (2013), Hines Jr & Rice (1994), Kiat (2010), Kleinert & Toubal (2010), Kolstad & Villanger (2008), Medvedev (2012), Mercereau (2005), Pistoressi (2000), Schneider & Frey (1985), Tsai (1994), and Yol & Teng (2009) found that economic instability is a determinant factor of FDI. According to these studies, economic instability indicates the quality of macroeconomic policies and regulations and government institutions to mitigate and overcome the potential economic instability conditions. The assumption is that foreign investors tend to be more confident in investing in a host country that can recover from its economic instability, such as an economic crisis, a deficit in trade, a high deficit in the balance of payment, and inflation.

Several previous studies such as Artige & Nicolini (2006), Blonigen (1997), Cuong (2013), Erdal & Tatoglu (2002), Feenstra (2008), Froot & Stein (1991), Molina-Martínez & Alcaraz-Vargas (2012), O’Sullivan, (1993), Russ (2007), Wang & Swain (1995) found that exchange rates are a determinant factor of FDI. According to these studies, exchange rates indicate foreign investors’ financial capabilities to invest in a potential host country. If the potential host countries’ exchange rates depreciate, inward FDI (IFDI) tends to increase. While if the home country’s exchange rate is stronger relative to the potential host countries’ exchange rate, outward FDI (OFDI) tends to increase.

Several previous studies such as Artige & Nicolini (2006), Dhanani & Hasmain (2002), Guru-Gharana (2012), Liu et al. (2001), Mohan et al. (2014), Neary (2009), and Singh & Jun (1995) found that exports are a determinant factor of FDI. Moreover, Billington (1999), Du et al. (2012), Feenstra & Hanson (1997), Kottiarditi & Filippaios (2015), Liu et al. (2001), and Shahbaz & Rahman (2012) found that imports are a determinant factor of FDI. In addition, Bende-Nabende et al. (2001), Chakrabarti (2001), Edwards (1990), Ekholm et al. (2007), Erdal & Tatoglu (2002), Gastanaga et al. (1998), Hausmann & Fernandez-Arias (2000), Lee & Mansfield (1996), Mina (2007), Pistoressi (2000), and Resmini (2000) found that trade openness is a determinant factor of FDI. According to these studies, the volume of exports and imports, and trade openness imply the investment opportunities in sectors related to international trade. They also indicate the host country’s competitive cost for international trade and the provision of the host country’s infrastructure that is supportive of international trade. Foreign investors tend to engage in FDI in the host countries with a significant volume of exports and imports and trade openness. They engage in FDI to gain
access to the natural resources, serve the domestic and adjunct markets and contribute to the global market. Therefore, the international trade influences the MNCs’ decision to engage in FDI.

Several previous studies, such as Bilir et al. (2019), Desai et al. (2004), Desbordes & Wei (2017), and Lane (2015) found that the provision of internal and external capital markets are determinant factors of FDI. According to these studies, the provision of internal and external capital markets presents an alternative source for financing the investment from the home country and in the potential host countries due to the cost for foreign investors to engage in FDI.


According to these studies, tax, and tariffs and nontariff barriers indicate supportive fiscal policies for foreign investors in the potential host country.

b. Political conditions

The second determinant factors of FDI relate to political conditions, such as institutional quality and corruption; institutional distance; property rights and rule of laws; government and political stability; and the country’s membership. Several previous studies such as Barassi & Zhou (2012), Bénassy-Quéré et al. (2007), Blonigen (2005), Brouthers et al. (2008), Darby et al. (2010), Fredriksson (2003), Globerman & Shapiro (2002), Lee et al. (2020), Resmini (2000), Schneider & Frey (1985), Wei (2000), and Wheeler & Mody (1992) found that institutional quality is a determinant factor of FDI. Moreover, Acemoglu et al. (2004), Acemoglu & Robinson (2006), Ades & Di Tella (1999), Egger & Winner (2005), Robinson et al. (2006), Shleifer & Vishny (1993), Wei (2000) found that corruption is a determinant factor of FDI. These studies show that institutional quality indicates good governance, stimulating higher economic growth. The bad institutional quality indicates potential fraud and bad performance in the government institutions, i.e., corruption and the delay in the development of infrastructure that can generate extra investment cost.

A previous study by Aleksynska & Havrylchyk (2013) found that institutional distance is a determinant factor of FDI. The preference for foreign investors to select potential host countries can vary in the country with similar, better, or worse institutions. Foreign investors can be discouraged from choosing the potential host country with a large institutional distance. Nevertheless, the deterring effect of institutional distance can be diminished by foreign investors engaging in FDI by exploiting the provision of substantial resources. Several previous studies such as Acemoglu et al. (2005), Awokuse & Yin (2010), Kaufmann et al. (2002), Lee & Mansfield (1996), Levchenko (2007), Rodrik et al. (2004), Tanaka & Iwaisako (2014), Van der Ploeg (2011), and You & Katayama (2005) found that the property rights and the rule of law are determinant factors of FDI. According to these studies, property rights and the rule of laws indicate that by providing the appropriate policies and regulations in place, they guarantee foreign investors to conduct their business without fearing being maltreated. Several previous studies such as Bajo-Rubio & Sosvilla-Rivero (1994), Blonigen & Piger (2014), Busse & Hefeker (2007), Edwards (1990), Hausmann & Fernandez-Arias (2000), Jaspersen et al. (2000), Lecraw (1991), Loree & Guisinger (1995), Naudé & Krugell (2007), Nigh (1986), Nigh & Schollhammer (1987), Root & Ahmed (1979), Schneider & Frey (1985), Wheeler & Mody (1992), and Wisniewski & Pathan
(2014) found that government and political stability are determinant factors of FDI. According to these studies, government and political stability indicate the maturity of the potential host countries to have established presidential systems and political parties and mitigate the potential political risks that can generate political instability and social disorder.

Several previous studies such as Brambila-macias et al. (2011), Brenton et al. (1999), Gao (2005a), Markusen & Maskus (2002), Portes & Rey (2005), and Raudonen & Freytag (2012) found that economic integration and bilateral and multilateral trading agreements are determinant factors of FDI. According to these studies, membership of groups such as European Union (EU), North American Free Trade Agreement (NAFTA), and Association of Southeast Asian Nations (ASEAN) can bring potential opportunities and benefits for foreign investors by extending their potential markets and reducing the cost for international trade within the member countries.

c. The provision of infrastructure

The third determinant factor of FDI is based on the provision of infrastructure such as technology, telecommunication; other physical infrastructure; and special zones. Several previous studies such as Bellak et al. (2009), Braunerhjelm & Svensson (1996), Cassidy & Andreosso-O’Callaghan (2006), Gholami et al. (2006), Kang & Lee (2007), Kumar (1994), Loree & Guisinger (1995), Mina (2007) and Wheeler & Mody (1992) found that technological and other physical infrastructure are determinant factors of FDI. According to these studies, a supportive infrastructure for production and other business processes is crucial in the selection by foreign investors of locations in which to base their operations in foreign countries.

Several studies, such as Fung et al. (2000), Ranis & Schive (1985), and Woodward & Rolfe (1993), found that specific economic zones and free trade zones are determinant factors of FDI. According to these studies, the specific zones generally incorporate fiscal and other incentives (i.e., simpler regulations for starting a business, tax, and tariff incentives) that can attract foreign investors.

d. The provision of labour

The fourth determinant factors of FDI relate to the provision of labour such as employment rate, labour force, and population size; labour cost and wages; and human capital and tertiary education. Several previous studies, such as Zhao & Du (2007) found that the employment rate is a determinant factor of FDI. Moreover, Faeth (2009) and Paul & Jadhav (2019) found that labour force is a determinant factor of FDI. In addition, Bevan & Estrin (2000) and Resmini (2000) found that population size is a
**determinant factor of FDI.** According to these studies, these factors indicate the provision of labour and labour mobility in the potential host countries.

Several previous studies such as Belderbos & Sleuwaegen (1998), Dees (1998), Feenstra & Hanson (1997), Fukao & Amano (1998), Fung et al. (2000), Hatzius (2000), Kimino et al. (2007), Kumar (1998), Lin & Kwan (2011), Lipsy (1999), Loree & Guisinger (1995), Milner et al. (2006), Mody et al. (1999), Schneider & Frey (1985), Shamsuddin (1994), Tsai (1994), and Wheeler & Mody (1992) found that labour cost is a determinant factor of FDI. Moreover, Bajo-Rubio & Sosvilla-Rivero (1994), O’Sullivan (1993), and Wang & Swain (1995) found that wages are a determinant factor of FDI. According to these studies, these factors indicate the opportunity cost those foreign investors gain by allocating some or all business processes in the potential host countries. The labour cost and wages also reflect the characteristics of the sectors in terms of their level of technology and productivity.

Several previous studies, such as Gilbert et al. (2006) found that human capital is a determinant factor of FDI. Moreover, Cassidy & Andreossos-O’Callaghan (2006), Egger (2004), Gao (2005), Hejazi (2009), Martínez et al. (2012), and Thangamani et al. (2011) found that the proportion of the population that participates in the tertiary education level is a determinant factor of FDI. According to these studies, these factors indicate the provision of qualified labour in the potential host countries.

e. **The social conditions**

The fifth determinant factors of FDI are based on social conditions such as cultural distance, physical distance, and language. Previous studies such as Du et al. (2012) and Gao (2005b) found that cultural distance between home and host countries is a determinant factor of FDI. Moreover, Braunerhjelm & Svensson (1996) and Gao (2005b) found that the physical distance between home and host countries is a determinant factor of FDI. In addition, Mitze & Bjorn (2008), Paniagua (2011), Petri (2012), Raudonen & Freytag (2012), and Zwinkels & Beugelsdijk (2010) found that language is a determinant factor of FDI. According to these studies, these factors indicate the opportunity cost (transportation cost, information and communication cost, the preference of the domestic market, and the marketing cost) that foreign investors need to cover to engage in FDI.

f. **The company’s strategies**

The last determinant factors of FDI are based on the company’s strategies, such as the clustering effect; international experience and knowledge; and other strategies. Several previous studies, such as Barrell & Pain (1999), Braunerhjelm & Svensson (1996), Kinoshita & Campos (2003), and Wheeler & Mody (1992),
found that the clustering effect was a determinant factor of FDI. According to these studies, foreign companies tend to gather with other companies. This is because the provision of projects and the number of foreign investors in particular countries indicate a conducive investment climate. Foreign investors also want to benefit from existing economies of scale in a particular sector in a given country. They also tend to imitate their competitors to engage in FDI in the same market.

Several previous studies such as Bloodgood et al. (1996), Hagen & Zucchella (2014), Johanson & Mattsson (2015), McDougall et al. (2003), Mudambi & Zahra (2018), Musteen et al. (2014), Paul & Rosado-Serrano (2019), Prashantham & Dhanaraj (2010), Reuber & Fischer (1997), and Westhead et al. (2001) found that the international experience of the company is a determinant factor of FDI. Moreover, Baum et al. (2015), Casillas & Moreno-Menéndez (2014), Chidlow et al. (2009), Coviello & Munro (1997), De Clercq et al. (2012), Kim & Aguilera (2015), Sapienza et al. (2006), and Zahra et al. (2000) found that knowledge is a determinant factor of FDI. According to these studies, the company’s international experience and knowledge indicate the possession of knowledge and networks by foreign investors that intend to engage in FDI. By identifying the opportunities for FDI in the host country, such as the provision of technology, customer preferences, and the market potential, they can measure the potential cost and mitigate the potential risk in the host country, choose the appropriate mode of entry, and make a better decision for internationalisation and develop their business in the foreign countries.

Several previous studies, such as Bloodgood et al. (1996), Knight & Cavusgil (2004), McDougall et al. (2003), and Rennie (1993), found that other strategies by foreign investors are determinants of FDI. According to these studies, these strategies include differentiation of products, specialisation in leading-edge technology and product design, selecting niche markets, and avoiding competitive competition with incumbents to develop market share and gain benefits from foreign investment.

2.2.3.9 Summary

The theories and concepts of why a company engages in FDI establish the reasons, drivers, motives, and determinant factors that enable a company to engage in FDI. Figure 2.2 presents the summary of the theories and concepts of why a company engages in FDI.
A company’s goals, visions, and strategies

WHY A COMPANY ENGAGES IN FDI

Increasing the company’s development to compete in domestic and international markets by augmenting the company’s competitive and comparative advantages among competitors

Reasons of why a company engages in FDI
- Product differentiation
- Market specialisation
- Price stability and control
- Access to the provision of technology, capital, and talent
- Institutional limitations or disadvantages

Drivers of why a company engages in FDI
- Industry-specific factors
- Region-specific factors
- Country-specific factors
- Company-specific factors

Motives of why a company engages in FDI
- Natural resource seeking
- Market seeking
- Efficiency seeking
- Strategic asset or capability seeking

Determinant Factors of a company to engage in FDI
- Macroeconomic conditions
- Political conditions
- The provision of infrastructure
- The provision of labour
- The social conditions
- The company’s strategies

Figure 2.2. The summary of why a company engages in FDI

From the presented theories and concepts, it can be concluded that a company has specific reasons, drivers, motives, and determinant factors for engaging in FDI. I argue that the basis for engaging in FDI is based on the company’s goals, visions, and strategies to develop the company. In addition, I also argue that the country’s role in driving a company’s decision to engage in FDI is important. Since the company considers a country’s comparative and competitive advantages in selecting the destination for FDI, it is necessary to explore why a country attracts and generates FDI.
Why a country attracts and generates FDI

The main reason for a country to attract and generate FDI is due to its role in contributing to the country’s economic development. To measure the country’s economic development, the general method for measurement is via economic growth. Two main supporting theories that elaborate on the relationship between FDI and economic development are the Neoclassical theory by Solow-Swan (1956) and the endogenous growth theory (Alguacil et al., 2011; Asamoah et al., 2019; Chirwa & Odhiambo, 2016; Mensah & Mensah, 2021). Based on the Neoclassical theory, the parameters are the accumulation of human capital development, technological development, and physical capital as the drivers of economic growth (Chirwa & Odhiambo, 2016). Based on the endogenous growth theory, the parameters are the interaction between infrastructure, human capital, and technology spillovers (Chirwa & Odhiambo, 2016). The determinants of economic growth are domestic variables (i.e., natural resources, student enrolment, purchasing power parity, labour force) and international variables (i.e., FDI) (Blomstrom et al., 1994). As a measure of international variables, FDI can contribute to international technology diffusion and an increase in productivity (Blomstrom et al., 1994).

In the Neoclassical growth theory, FDI encourages the increased accumulation of physical capital by stimulating the creation of new inputs and technological development in the production process (Li & Liu, 2005). In terms of creating new inputs, FDI encourages increasing output by applying a wide range of intermediate goods in the production process (Feenstra & Markusen, 1994). Regarding technology, FDI is the potential source for domestic companies’ spillovers (Li & Liu, 2005). A supporting argument by Iamsiraroj (2016) stated that the Neoclassical theory focused on the direct impact of FDI on reward factors, capital flow, and employment in the short run. In fact, FDI can also stimulate economic growth by increasing capital formation and augmenting human capital via the advancement of know-how and knowledge spillovers (Buckley & Casson, 1976; Hymer, 1976; Kindleberger, 1969; Vernon, 1966). The Neoclassical growth theory assumes that FDI only impacts growth in the short run and remains the same in the long run (Iamsiraroj, 2016). Accordingly, endogenous growth theory emerged to accommodate and emphasises the role of FDI as a channel for technological change in the short and long runs (Iamsiraroj, 2016).

In the endogenous growth theory, the model illustrates growth as a capital form of an accumulation of human capital and research & development as the technological development and learning-by-doing as the knowledge spillover (Aghion & Howitt, 1990; Grossman & Helpman, 1991; Lucas, 1989; Romer, 1986,
According to this model, FDI stimulates economic growth if FDI generates productivity and has positive spillover effects (Iamsiraroj, 2016). In this model, FDI is considered the source of technological diffusion, know-how, and human capital, thus, these sources can be considered a stimulation to the promotion of economic growth (Iamsiraroj, 2016).

The theories of economic growth confirm a relationship between FDI and economic growth. The remaining question is how FDI impacts a country’s economic growth hence contributing to a country’s economic development and how the macroeconomic conditions of a country impact FDI. The macroeconomic conditions' impact on a company’s decision to engage in FDI has been addressed in the previous section about the determinants of FDI. This section provides two main perspectives (i.e., IDP and spillover impacts of FDI) in exploring the relationship between FDI and economic development and addressing how FDI impacts a country’s economic growth.

2.2.4.1 Investment Development Path (IDP)

The IDP is not a novel topic in the International Business (IB) research domain. The IDP concept is the most frequently employed empirical assessment reflecting a country’s investment activities and its economic development (Zhu et al., 2011; Lall, 1998; Sawitri & Brennan, 2022). This concept focuses on assessing a country’s progression based on the performance of FDI and economic development and the interaction between a country’s FDI and its economic development (Dunning & Narula, 1996; Dunning & Narula, 1994, 2002; Narula, 1994; Narula & Dunning, 2010; Sawitri & Brennan, 2022). FDI performance is determined by the Net Outward Investment Position (NOIP), defined as the difference between OFDI and IFDI stocks (Sawitri & Brennan, 2022; Tolentino, 2003). Economic development is determined by GDP per capita (Sawitri & Brennan, 2022; Tolentino, 2003). The IDP concept distinguishes and classifies a country based on its propensity and characteristics into a net inward direct investment or net outward direct investment (Dunning & Narula, 1996; Sawitri & Brennan, 2022). This concept also postulates that each country proceeds through five stages of IDP (Dunning & Narula, 1996; Sawitri & Brennan, 2022). The essential tenets of the IDP concept are as follows:

a. The IDP concept represents and assesses the systematic relationship between the nature, pattern, and degree of FDI activities associated with a country’s economic structure and development. Accordingly, this relationship reflects the level of development of the IDP stages (Narula & Dunning, 2010; Sawitri & Brennan, 2022).
b. The IDP concept explains the reason behind the motives of MNCs expanding their value-added activities in foreign countries (Dunning & Narula, 1996; Rugman & Brewer, 2001; Sawitri & Brennan, 2022).

c. The IDP concept recognises a reciprocal impact between the O-advantages and L-advantages of the actors in FDI activities (i.e., the O-advantages of domestic companies, the O-advantages of MNCs, and the L-advantages of countries). These three-way relationships and interactions are the foundation for the establishment and development of MNCs from a given country to engage in FDI, leading to its development (Narula & Dunning, 2010; Sawitri & Brennan, 2022).

d. The IDP concept can be applied to all countries, but each has an individual path that is particular to its development and IDP stage classification. The transformation and evolution of a country in the IDP stages are also idiosyncratic owing to country characteristics and development conditions (Sawitri & Brennan, 2022).

IDP is considered a compelling research topic because it classifies countries into the net of OFDI or the net of IFDI countries, in other words, whether the country is attracting more or generating more FDI (Dunning, 1981a, 1986; Sawitri & Brennan, 2022b). This concept defines the development of a country as its economic and FDI position shift. The ideal concept of IDP is that, as a country’s economy develops, it will impact IFDI and OFDI, and as the IFDI and OFDI position of a country shifts, the economy of a country develops (Nayak & Choudhury, 2014; Sawitri & Brennan, 2022b). Therefore, the IDP illustrates how changes in locational factors can impact corporate behaviour, international capital flows, and government policies (Lall, 1996a). Although the IDP can be applied to all countries to assess their economic and investment performance, each has its characteristics that determine its individual path in the IDP stages. Therefore, this concept emphasises the important role of government in generating sound FDI policies that can create a favourable investment climate to attract IFDI (in particular, the one that has added value to the development of domestic enterprises), stimulating the economy and competition in the domestic market, and improving the performance of FDI from net importers of FDI to net exporters of FDI by boosting domestic enterprises’ capacity to increase their O-advantages to engage in OFDI from the presence of MNCs (Nayak & Choudhury, 2014).
Furthermore, Figure 2.3 presents the line graph of NOIP that represents the pattern of IDP stages. Table 2.1 elaborates on the characteristics of IFDI, OFDI, and NOIP in each stage of development. Stage one of development arises when IFDI is unavailable or exists at an insignificant level, and there is no OFDI. Therefore, the NOIP varies from approximately negative to zero. The second stage encompasses IFDI growth at a significant level. Therefore, a local company might have the opportunity to increase its ownership advantages and commence engaging with OFDI. However, the level of OFDI is less significant
compared to IFDI. Moreover, NOIP is increasing at this stage but is still negative because IFDI is still higher than OFDI. In the third stage, the growth of IFDI remains the same or even starts to decline, whereas the growth of OFDI starts to increase significantly. As a result, the NOIP is still negative but increasing or less negative than in the first and second stages. In the fourth stage, IFDI remains the same or continues to slow. The level of OFDI increases to an equal level with or even surpassing IFDI. Therefore, NOIP becomes positive. In the fifth and final stages, IFDI equals OFDI. Therefore, the position of the NOIP first decreases and then fluctuates at approximately zero.

2.2.4.2 Spillover impacts of FDI to a country’s development

This section consists of the channels for enabling FDI spillover impacts on a country’s development and the potential areas for maximising spillover impacts on a country’s development.

Several studies investigate the channels of spillover impacts from the presence of FDI in a country. The first channel is by increasing capital formation. The previous studies that focused on investigating this channel for FDI spillovers are by de Mello Jr (1999), Hansen & Rand (2006), Harris & Todaro (1970), Johnson (2006), Kemp (1962), MacDougall (1975), and Mehic et al. (2013). According to these studies, an increase in capital formation can promote an increase in man hours in the production process hence increasing the production output. Capital formation can increase by differentiation and specialisation of capital goods for domestic companies so that they can increase the allocation efficiency in the domestic capital markets. FDI can increase capital formation and contribute to growth in a host country if the country has the capabilities to identify and absorb the potential benefits from the presence of FDI.

The second channel is by increasing employment. The previous studies that focused on investigating this channel for FDI spillovers are by Alfaro & Charlton (2013), Blomström & Persson (1983), Dimelis & Louri (2001), Globerman (1979), Gonzalez (1988), Srinivasan (1983). According to these studies, FDI can increase employment in a host country by hiring talent in the domestic labour market. The number of workers hired by the MNCs is influenced by the type of investment, i.e., labour-intensive investment.

The third channel is by increasing the acquired skill and knowledge. The previous studies that focused on investigating this channel for FDI spillovers are by Aitken & Harrison (1999), Alfaro & Charlton (2013), Blomström & Sjöholm (1999), Borensztein et al. (1998), Buckley et al. (2006), Ethier (1986), Fosfuri et al. (2001), Girma & Gong (2008), Griffith et al. (2004), Jyun-Yi & Chih-Chiang (2008), Kugler (2006), Javorcik (2004), and Zhou et al. (2002). Even though one of the motivations for FDI to the host country is driven by the efficiency in labour cost, MNCs tend to demand skilled labour. As a result of a particular
demand for skilled labour, domestic labour tends to increase their skills to meet the MNCs’ requirements. The MNCs provide learning and training for their domestic employees to augment their skills. Moreover, the hired labour from the MNCs has specific knowledge and skills regarding innovative products or technology. They might move to other MNCs, domestic companies or even start their own business. This condition is defined as labour mobility that enables labour to become direct agents for transferring technology or innovation to increase aggregate productivity and hence contribute to the growth of a country.

The fourth channel is a wage spillover. The previous studies that focused on investigating this channel for FDI spillover are Barry et al. (2001), Driffield & Girma (2003), Figlio & Blonigen (2000), Girma et al. (2001), Görg & Greenaway (2004), Lipsey (2004), and Lipsey & Sjöholm (2004, 2005). The presence of MNCs in the host country increases the demand for labour and the competition in the labour market. Therefore, these forces can lead to an increase in labour wages. Hiring domestic labour can imply a high salary offered by foreign MNCs due to the skill required. Therefore, to hire qualified labour, domestic companies also need to increase the salary offered.

The fifth channel is through the transfer of technology and stimulus for the development of advanced technology. The previous studies that focused on investigating this channel for FDI spillovers are by Aitken & Harrison (1999), Blomström (1986), Blomström et al. (2001), Borensztein et al. (1998), Bosco (2001), Chuang & Lin (1999), Damijan et al. (2001), de Mello Jr (1999), Findlay (1978), Johnson (2006), Kathuria (2000), Kinoshita (2001), Kugler (2000), Xiaming Liu et al. (2000), Xiaohui Liu et al. (2002), Liu (2002), Müller & Schnitzer (2006), and Olofsdotter (1998). Technological transfer can occur depending on the managerial controls of MNCs in their subsidiaries to sort the types of technology that can be distributed or delivered to their subsidiaries. This spillover effect can be maximised if the host country’s government encourages the MNCs to join a partnership with domestic companies, and if the host country has sufficient human capital to absorb and learn about the new technology. This spillover effect can leverage the capabilities of domestic companies by learning by doing and stimulate them to accelerate their technological development to promote their production process hence enabling them to compete with the MNCs.

The sixth channel is a productivity spillover. The previous studies that focused on investigating this channel for FDI spillovers are by Barry et al. (2001), Blalock & Gertler (2003, 2004), Blomström et al. (2000), Blomström & Sjöholm (1999), Djankov & Hoekman (2000), Driffield (2001), Harris & Robinson (2001), Hirschman (1977), Kokko et al. (1996), Liu et al. (2016), Rodriguez-Clare (1996), Sjöholm (1999b
and 1999a), Javorcik (2004), Takii (2005), and Todo & Miyamoto (2006). According to these studies, FDI can increase productivity via the required high standard for the quality of the products produced by domestic suppliers and MNCs. In order to attain a particular standard of the products produced, particularly domestic suppliers need to involve more advanced technology and better management. Accordingly, at the aggregate level, the production outputs by domestic companies and MNCs in the host country will increase.

The seventh channel is by increasing and stimulating international trade. The previous studies that focused on investigating this variable as a channel for FDI spillovers are by Aitken et al. (1997), Balasubramanyam et al. (1996), and Barrios Cobos et al. (2001). According to these studies, the presence of FDI can increase international trade in the host country. One of motivations by MNCs for engaging in FDI in the host country relates to trade openness and international trade. These variables reflect the competitive advantages that the host country has related to its distribution cost, network, infrastructure, policies and regulations, the preference of customers, and the knowledge about market (both domestic and international markets) opportunities.

The eighth channel is through increasing competition in the domestic and international markets. The previous studies that focused on investigating this channel for FDI spillovers are by Blomström et al. (1994), Caves (1974), Griffith et al. (2004), Kokko (1996), Javorcik (2004), and Suyanto & Salim (2010). According to these studies, FDI can increase competition in the domestic market so triggering the development of domestic companies’ capabilities to improve their productivity to enable them to compete with MNCs in the domestic market. To improve their capabilities, domestic companies engage in the catch-up process. They tend to improve their production by engaging in more advanced technology and shifting their behaviour toward innovation to compete with MNCs in the domestic market. An increase in the domestic companies’ capabilities in the domestic market then motivates them to penetrate the global market and compete with other MNCs in the global market.

The last channel is by augmenting the capabilities of domestic companies. The previous studies that focused on investigating this channel for FDI spillovers are by Alfaro & Charlton (2013), Blomström & Kokko (1998), Görg & Greenaway (2001), and Konings (2001). The channel for increasing domestic companies’ capabilities is learning by doing, imitating, and increasing the quality of their products and services to enable them to compete with the products and services produced by MNCs. The capabilities for learning by doing and imitating depend on the complexity of the products or processes that MNCs have and the capabilities of domestic companies to adapt to the products’ or processes’ innovation. The imitation
channel can also be applied to adopting organisational or managerial innovation. Therefore, any advancement in technology and processes involved in imitating can generate productivity spillovers to improve the domestic companies’ capabilities from the presence of FDI.

### 2.2.4.3 Summary

As mentioned in 2.2.3.9, from a company’s perspective, a country has an important role in driving the company’s decision towards FDI. This subsection explores the theories and concepts of why a country attracts and generates FDI, such as the relationship between FDI and economic development, the country’s reasons for attracting and generating FDI, and the spillover impacts of FDI on a country’s economic development. Figure 2.4 presents the summary of these theories and concepts of why a country attracts and generates FDI.

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**Figure 2.4. A summary of why a country attracts and generates FDI**
According to theories and concepts about the relationship between FDI and economic development, it can be concluded that FDI has a role in promoting the country’s economic development. I argue that the country first needs to generate visible and concrete development planning hence attracting and generating FDI. Moreover, in order to attract and generate FDI, the country also needs to have competitive and comparative advantages that differentiate the country from other countries. Therefore, the role of the country’s government in promoting the country’s competitive and comparative advantages is important in stimulating FDI, thus contributing to the country’s economic development.

2.2.5 Summary of the antecedent aspect of the ADO framework

In summary, subsection 2.2 presents the antecedent aspect of the ADO framework. This aspect presents the theories, concepts, and previous studies explaining the definitions of FDI and economic development and exploring the reasons, motives, drivers, and determinant factors why a company and a country engage in FDI. It can be concluded that FDI has an important role in stimulating the development of a company and country through an increase in the competitive and comparative advantages of a company and country to compete with their competitors. Due to its important role in the development of a company and a country, the following subsection will explore the decision aspect of the ADO framework about the theories, concepts, and previous studies in explaining the possible channels for a country and a company to engage in FDI.

2.3 Decision

This section focuses on the theories, concepts, and previous studies about how a company engages in FDI and how a country attracts or generates FDI.

2.3.1 How a company engages in FDI

There are several considerations that drive the company’s motivations and strategies to engage in FDI. The following theories and concepts present the process of how a company engages in FDI. The first theory relates to the decision process of FDI. The second theory is about the Uppsala international process model. The third theory relates to the springboard theory. The fourth concept is the Linkage, Leverage, Learning (LLL) model. The last concept relates to selecting entry modes for a company to engage in FDI.

2.3.1.1 Aharoni’s theory

Aharoni (1966) established a concept of the decision process for foreign investment. He stated that foreign investment decisions are affected by a holistic social process incorporating the external and internal factors of the company (Aharoni, 1966). The behaviour of individuals also influences this decision over time and
the risk and uncertainty incorporated with this process (Aharoni, 1966). Two sequential drivers motivate the foreign investment decision. The first driver is the internal initiatives from the management (i.e., the needs, the strategy, the acceptance, and the prediction of the return of such investment) (Aharoni, 1966). The second driver is the comprehensive investigation that leads to the generation of the appropriate strategy to ensure the acceptability of the investment project (Aharoni, 1966).

2.3.1.2 Uppsala model

The Uppsala model is a theory to elaborate on the characteristics of a company in the internationalisation process (Johanson & Vahlne, 1977, 2009). The previous literature on the entry modes for a company to penetrate the foreign market focused on the cost and risk analysis regarding its resources and market characteristics (Hood & Young, 1979; Johanson & Vahlne, 2009). In contrast, Johanson & Vahlne (1977) focused on investigating the internationalisation of Swedish companies to establish their Swedish-owned subsidiaries in foreign countries. They identified the establishment chain as the initiation process by the Swedish companies in the host countries. It was motivated by the closer physical distance between the home and host countries and the company-specific advantages to offset the liabilities of foreignness (Johanson & Vahlne, 1977, 2009). The Swedish companies began to penetrate the foreign market by exporting and formalising their activities using intermediaries (i.e., foreign agents) (Johanson & Vahlne, 1977, 2009). As the companies established their foreign sales and the sales continued to grow, they established the ventures in the host countries (Johanson & Vahlne, 1977, 2009). Subsequently, by establishing new ventures in the host countries, the companies need to adjust to changes in the new companies’ environment and conditions (i.e., emerging opportunities and problems) (Johanson & Vahlne, 1977, 2009). Accordingly, it is necessary to understand the mechanisms that underlie the internationalisation process. Two mechanisms drive the internationalisation process, which is a company changes as a result of the company’s learning-by-doing experience in terms of its current activities in foreign markets and a company changes based on commitment decisions to strengthen its position in the foreign market (Johanson & Vahlne, 1977, 2009). These mechanisms also consider the uncertainty level and limitation of the internationalisation process at that time. Accordingly, they established the inception Uppsala model (as presented in Figure 2.5).
Figura 2.5. The inception Uppsala model

Source: Johanson & Vahlne (1977, p.26)

The inception Uppsala model is dynamic because it is a looping process for the company to acquire market knowledge based on the company’s experience in the market; hence this knowledge leads to the intensity of activities and commitment to strengthening the position of the company in the foreign market, then subsequently deriving the establishment of the new level of commitment and leading to the new learning process for the company (Johanson & Vahlne, 2009). The drawbacks of this inception model are that it is difficult to measure the commitments needed by the company to promote its position in the foreign market, the company’s commitment can increase or decrease, it is difficult to measure the required time for generating and strengthening commitments, and lastly, this model is more applicable to smaller companies (Johanson & Vahlne, 2009, 1990). Moreover, Johanson & Vahlne (2009) identified these drawbacks in their inception model and then extended their model as presented in Figure 2.6.
They considered several perspectives that led to the development of the extended model. The first consideration is the firm in the market environment from the perspective of a business network view (Johanson & Vahlne, 2009, p.1413). The business network plays an important role in influencing the company’s decision to select the potential host countries or the preference of entry modes for the internationalisation process (Coviello, 2006; Coviello & Munro, 1995, 1997; Forsgren et al., 1995; Johanson & Mattsson, 2015; Johanson & Vahlne, 2009, 1990; Kogut, 2000; Martin et al., 1998). The second consideration is knowledge and learning (Johanson & Vahlne, 2009, p.1415). The knowledge and learning in the previous model focused on the acquired knowledge from the existing activities that contributed to the learning process (Johanson & Vahlne, 1977, 2009). Moreover, the previous model was then extended by adding internationalisation experiences about the market (Barkema & Drogendijk, 2007; Eriksson et al., 1997; Erramilli, 1991; Forsgren, 2002; Luo & Peng, 1999; Petersen et al., 2003), the required company’s capabilities and resources (Chang, 1995; Eriksson et al., 1997; Welch & Luostarinen, 1988), selection of modes of entry (Hoang & Rothaermel, 2005; Nadolska & Barkema, 2007; Padmanabhan & Rae Cho, 1999; Sapienza et al., 2006) and others internationalisation experiences (Johanson & Vahlne, 2009). The third consideration is trust and commitment building (Johanson & Vahlne, 2009, p.1417). The previous relationship between trust and commitment building was not based on the emotional or affective dimension (Johanson & Vahlne, 2009). In comparison, the trust and commitment in the extended model consider the
cognitive and affective elements to generate a better understanding of such a relationship and the importance of trust to the development of such a relationship and business network to the internationalisation process (Arenius, 2005; Boersma et al., 2003; Johanson & Mattsson, 2015; Johanson & Vahlne, 2006; Madhok, 2006b, 2006a; Morgan & Hunt, 1994; Nahapiet & Ghoshal, 1998). The fourth consideration is opportunity development (Johanson & Vahlne, 2009, p.1418). Opportunity identification and opportunity creation from the current business activities and the market play an important role in the internationalisation process (Andersson et al., 2005; Ardichvili et al., 2003; Gelsduda et al., 2003; Ghauri et al., 2005; Kirzner, 1973, 1997; Schumpeter & Backhaus, 2003; Shane, 2000; Weick, 1995). The fifth consideration is the declining validity of the establishment chain (Johanson & Vahlne, 2009, p.1420). The behaviour of a company to engage in the internationalisation process has changed over time (Johanson & Vahlne, 2009). Accordingly, there is the urgency to accelerate the process as the physical distance is not a concern anymore, and there is changes in the selection of entry modes (Contractor & Lorange, 2002; Hedlund & Kverneland, 1985; Madsen & Servais, 1997; Moen & Servais, 2002; Oviatt & McDougall, 2005; Zahra et al., 2000).

According to the extended Uppsala model, Johanson & Vahlne (2009) replaced market knowledge with knowledge opportunity in the aspect of state. The knowledge opportunity plays a significant role in driving the internationalisation decision (Johanson & Vahlne, 2009). This includes the experience of the company’s current activities, the potential opportunities, the company’s capabilities and resources, the company’s modes of entry strategies for internationalisation, and the established company’s networks (Johanson & Vahlne, 2009). Johanson & Vahlne (2009) also emphasised the network position as a driver for the internationalisation process. The network characteristics were determined by the level of trust, knowledge, and commitment among parties in promoting internationalisation (Johanson & Vahlne, 2009). Meanwhile, in the aspect of change, Johanson & Vahlne (2009) changed the commitment decisions into the relationship commitment decisions, since the company focused on deciding the level of commitment of one or more relationships within its network as a result of changes (i.e., the changes in the modes of entry, the organisation, the size of the investment, and the dependency level). Johanson & Vahlne (2009) also focused on learning, creating, and trust building are important elements for any network. These elements depend on the current knowledge, commitment, and trust that effectively stimulate the partners’ interest (Johanson & Vahlne, 2009). The implication of the extended Uppsala model for the internationalisation process is that the internationalisation process relies on the company’s networks and relationships with the focal partners.
(either at home or host countries) that are committed to developing, expanding, or establishing the venture via internationalisation in a potential foreign country with possible, solid opportunities at any starting point determination (Johanson & Vahlne, 2009). Accordingly, this extended model can be applied to small or large companies (Johanson & Vahlne, 2009).

2.3.1.3 Springboard theory

Luo & Tung (2007) introduced the springboard theory to elaborate on the phenomenon of OFDI by Emerging Market firms (EM)-MNCs. According to this theory, EM-MNCs engage in OFDI to pursue the strategic assets that the EM-MNCs need to escape from their home country’s market and institutional constraints and to compete with their global competitors more effectively (Luo & Tung, 2007). This theory also acknowledges that the EM-MNCs penetrate foreign markets as the latecomer, therefore, they need to overcome the challenges by taking risk-taking and aggressive measures to offset their competitive shortages and pressures (i.e., rapid changes in product and technological development, the institutional constraints in the domestic market, and the powerful global competitors) (Luo & Tung, 2007). According to this theory, the home country’s institutional and market disadvantages have encouraged the EM-MNCs to engage in OFDI and prompted the interests of the global players in developed countries to share or sell their strategic resources, hence promoting the integration of global production and world economy (Luo & Tung, 2007). The aims of spring boarding behaviour are to counteract the EM-MNCs’ competitive weaknesses, to offset the disadvantages of the EM-MNCs as the latecomer, to compete with global competitors, to overcome the home country’s market constraints and the home country’s institutional voids or constraints, to secure and gain benefits from the home country’s reverse investments treatment, and to secure and exploit the competitive advantages of other developing or emerging countries (Luo & Tung, 2007). The purpose of the EM-MNCs to engage in OFDI is to complement their competitive advantages by penetrating the niche market opportunities in developed countries, to gain financial and non-financial benefits proposed by the home or host countries’ government, to accelerate the reputation and size of the EM-MNCs, to escape from the home country’ market or institutional constraints, to capture the potential opportunities in other developing or emerging countries, to absorb the potential cost-effective capabilities in the production process, and to gain potential benefits in the developed countries (Luo & Tung, 2007).

The benefits of springboard MNCs are amalgamation, ambidexterity, and adaptability (Luo & Tung, 2017, p.140). Amalgamation is the ability of MNCs to be creative in improvising and combining internal and external resources to meet the customers’ needs (Kogut & Zander, 1992; Luo & Child, 2015).
Ambidexterity is the ability of MNCs to exploit and acquire the required resources from the global market and then augment and promote their global competitive advantages (Gibson & Birkinshaw, 2004; Kogut & Kulatilaka, 1994; Li, 2010; Luo & Rui, 2009; Wang et al., 2014). Adaptability is the ability of MNCs to be responsive towards dynamic competitive circumstances to render the potential threats and reap the potential opportunities (Deng, 2009; Gaur et al., 2014; Grewal & Tansuhaj, 2001; Guillén & García-Canal, 2009; Holburn & Zelner, 2010; Luo & Rui, 2009; Madhok & Keyhani, 2012; Peng, 2012; Rui & Yip, 2008; Yiu et al., 2007). Figure 2.7 presents the springboard perspective of internationalisation by EM-MNCs.

Figure 2.7. The springboard perspective of internationalisation by EM-MNCs

Source: Luo & Tung (2007, p.428)

In addition, to generate a better understanding of the springboard process, Luo & Tung (2017) introduced the upward spiral concept to delineate the process of MNCs to grow and accommodate pre- and post-
springboard processes (Luo & Tung, 2017). The MNCs can grow through their intention to improve and augment their competitive advantages and capabilities to compete in the global market (Luo & Tung, 2017).

Figure 2.8. The upward spiral model

Source: Luo & Tung (2017, p.144)

Luo & Tung (2017) classified five stages of the internationalisation process over time (as presented in Figure 2.8). The first stage is the EM-MNCs developing basic capabilities and skills via inward internationalisation. The second stage is the EM-MNCs establishing the base of knowledge and experience to allow them to shift into radical OFDI to explore the crucial technologies, talents, and brands. The third stage is that while the EM-MNCs establish and develop their foothold in the selected host countries, they tend to transfer the acquired resources, knowledge, and experience to their home country’s business to enrich and compensate for their competitive disadvantages to compete in the domestic and global markets. The fourth stage is compiling the acquired resources, knowledge, and experience that the EM-MNCs gain through OFDI to their home base and then augmenting and upgrading their capabilities to become more competent in the global market. The last stage is becoming the global player in the global market.
2.3.1.4 The LLL model

The LLL was introduced by Mathews (2002) to investigate OFDI from developing countries. He considered the OFDI from developing countries as the latecomers in the global market (Mathews, 2002, 2006a). The indications of latecomers companies consist of the LLL. The first L, linkage, is that the latecomer companies have fundamental ownership advantages (i.e., experience as the domestic supplier for MNCs or low costs production) that are necessary and crucial to the promotion of the companies’ development. They can overcome their competitive weaknesses by generating a linkage with the incumbents (e.g., outsourcing/contracting, domestic suppliers, licensing, or participating in the global value chains) to capture the potential opportunities for leveraging knowledge. The second L, leverage, is that the latecomer companies gain benefits from such a linkage to leverage the necessary resources and capabilities (i.e., products or processes technologies that are most transferable and imitable) in becoming a global player by capturing the leapfrogging benefits (e.g., surpassing the institutional disadvantages that are concerned by incumbents). The last L, learning, is that the latecomer companies can repeatedly employ the linkage and leverage strategies, then learn from each process and establish their dynamic capabilities (Mathews, 2002, 2006a). The LLL model represents the acceleration of the development process of a company to establish, expand, and develop its business by engaging in internationalisation with the main motivation to gain access to resources unavailable or limited in the home countries. This concept acknowledges that the institutional circumstances in the home and host countries influence the development of a company, the process of acquiring assets to compensate for competitive weaknesses, the important role of the development process of a company, and the logic behind the internationalisation process by the company (Mathews, 2002, 2006a).

2.3.1.5 Modes of entry

The selection of entry modes is important for successful foreign investment operations (Hill et al., 1990; Kim & Hwang, 1992). Each selection of entry modes implies the degree of control of its foreign investment activities, the resources needed, and the potential risk that arise (Hill et al., 1990; Kim & Hwang, 1992). Hill et al. (1990) established the decision framework for selecting the entry modes. According to this framework, three variables influence the decision of modes of entry which are strategic variables (i.e., the extent of the economies of scale, the global concentration, and the national difference), environmental variables (i.e., the similarity with the potential location, the preference and demand in the domestic market, the competition, and the country risk), and transaction variables (i.e., the value of the company’s
competitive advantage, the tacit knowledge of the company, the potential cost of the foreign investment). Each mode of entry has different characteristics in terms of control, resource commitment, and risk dissemination (Hill et al., 1990). Three entry modes selection for a company to penetrate the foreign market are licensing (i.e., low control, low resources commitment, and high dissemination risks), a joint venture (i.e., medium control, medium resources commitment, and medium dissemination risks), and wholly owned subsidiary (i.e., high control, high resources commitment, and low dissemination risks) (Hill et al., 1990). Moreover, Brouthers et al. (1996) summarised the entry mode literature into three distinct groups, which are independent, cooperative, and integrated (Anderson & Gatignon, 1986; Contractor, 1990; Hill et al., 1990; Kim & Hwang, 1992; Root, 1994). The first entry mode is the independent modes of entry (i.e., franchising, licensing, contracting, and agency/distribution). The company that selects this mode of entry to penetrate foreign market do not acquire the equity stake of its foreign venture (Brouthers et al., 1996). The benefit of selecting this mode of entry is low cost and risk due to the limited resource commitment, including the training, cost of products, and co-sharing cost of the marketing approach (Brouthers et al., 1996; Hill et al., 2014). The disadvantages of this entry mode are that the domestic parties might not have enough control over the production, marketing, and distribution of the products and services, the difficulties in measuring and evaluating the extent of activities by the other independent parties in running the business, and the potential conflicts and fraud among parties (Agarwal & Ramaswami, 1992; Boddewyn, 1983; Brouthers et al., 1996; Kim & Hwang, 1992).

The second entry mode is the cooperative modes of entry (i.e., strategic alliance and joint venture). The company that selects this mode of entry to penetrate the foreign market by establishing a joint corporation with other foreign or domestic companies (Brouthers et al., 1996). The benefit of this entry mode is in terms of the degree of control by the partnership company, the extent of full potential ownership in the future, the shared cost implies efficiency, and the potential shared risk (Brouthers et al., 1996; Contractor & Lorange, 1988; Hill et al., 2014). Another benefit of this entry mode is that it can promote the locational and ownership advantages to the company and the reduction of internalisation costs for the company (Brouthers et al., 1996; Dunning, 2015). The shortcoming of this entry mode is the challenge of establishing and potential cost for the cooperated partnership that generates more risk than the independent mode of entry (Brouthers et al., 1996). Another shortcoming is the share income among companies due to co-sharing cost and control (Agarwal & Ramaswami, 1992; Brouthers et al., 1996; Contractor & Lorange, 1988; Kim & Hwang, 1992).
The last mode of entry is the integrated modes of entry (i.e., merger and acquisition and greenfield investment). The company that selects this entry mode establishes its business activities in the host country (Brouthers et al., 1996). The benefit of this entry mode is that the domestic companies (if the company chooses the merger and acquisition) or the foreign companies gain full control and income of their venture in the host country (if the company chooses the greenfield investment) (Brouthers et al., 1996; Hill et al., 2014). The shortcoming of this entry mode is the high cost required (resource commitment) that can be beyond the domestic companies’ financial capabilities (in the case of merger and acquisition) and the insufficient management support to run the new venture in the foreign country (in the case of greenfield) (Brouthers et al., 1996; Hill et al., 2014). Another shortcoming is the time required and the pressure of setting up the new venture (Brouthers et al., 1996).

2.3.1.6 Summary

Subsection 2.2.3 explores why a company engages in FDI. It establishes the main reason is that the company’s goals, visions, and strategies to promote the company’s development to compete in domestic and international markets by augmenting the company’s competitive and comparative advantages. The remaining question is how a company engages in FDI. Figure 2.9 presents the summary of the theories and concepts in explaining how a company engages in FDI.

Figure 2.2 in subsection 2.2.3.9 and Figure 2.9 present a retrospective relationship between engaging in FDI and developing a company’s competitive and comparative advantages. Figure 2.2 shows that the company has goals, visions, and strategies to promote its development to be able to compete in domestic and international markets by engaging in FDI to augment the company’s competitive and comparative advantages. Figure 2.9 shows that the company should have significant competitive and comparative advantages before engaging in FDI.
Accordingly, I argue that it is important to assess the company’s competitive and comparative advantages before generating strategy to engage in FDI. By considering the important factors, channels, and challenges for a company to engage in FDI, the home country’s government can play an important role in nurturing, stimulating, and promoting the company’s competitive and comparative advantages. Accordingly, the following subsection will explore how a country attracts and generates FDI.

2.3.2 How a country attracts and generates FDI

The previous subsections imply that a country’s government plays an important role not only in attracting FDI to the country but also in generating FDI from the country. Accordingly, this subsection focuses on
investigating the theories and concepts that explain the channels enabling a country to attract and generate FDI, such as the institutional theory that elaborates on the important role of government in stimulating and promoting the development of a company, thus encouraging and shifting the company’s strategy to engage in FDI, and a method that a country can apply to generate and refine its policies and regulations to facilitate and promote its FDI attraction and generation.

2.3.2.1 Institutional theory

Institutional theory is a prominent approach to investigating the actions taken by both organisations and individuals in a particular term or condition (Deng, 2012; Paul & Benito, 2018; Scott, 1987, 2013; Dacin et al., 2002). The institutions’ contexts and levels have changed, challenged, and transformed over time (Kostova et al., 2008; Dacin et al., 2002). Previous studies have assessed and investigated the role of institutions in the development of MNCs and how the institutional context leads MNCs to decide to engage in FDI (Donnelly & Manolova, 2020; Kostova et al., 2008).

In the context of the development of MNCs, institutional theory has been covered in several topics (Kostova et al., 2008). The first topic is about the institutional profile, distance, and arrangements (Kostova et al., 2008, p.995). The previous studies focused on this topic are Busenitz et al. (2000), Eden & Miller (2004), Kostova (1999, 1997), Kostova et al. (2008), Kostova & Roth (2002), Kostova & Zaheer (1999), and Xu & Shenkar (2002). According to these previous studies, the institutional profile is formed by the three constructive dimensions such as regulatory (i.e., the provision of government policies, regulations, and laws), cognitive (i.e., the sense making a definition of the nature of reality), and normative (i.e., norms, standard, culture, beliefs, and value). Moreover, the institutional distance is a similarity or difference between two institutional countries’ profiles. In addition, the institutional arrangement is peculiar to a country and evolves in the social interaction between organisations and the form of organisational actions.

The second topic is institutional change (Kostova et al., 2008, p.995). The previous studies focused on this topic are Hoskisson et al. (2000), Newman (2000), Peng (2000, 2002, 2003), Roth & Kostova (2003), Whitley & Czaban (1998), and Wright et al. (2005). According to these studies, institutional change is a process of transformation in the institutional system based on the institutional arrangement’s degree of stability and maturity. Moreover, the transition in the institutional environment (i.e., corruption, institutional imperfection, institutional upheaval, institutional baggage, and different stages in the process of transition) leads to changes in the company’s behaviour to generate specific types of strategy (Kostova et al., 2008, p.995).
The third topic is the national institutional system (Kostova et al., 2008, p.995). The previous studies focused on this topic are Casper & Whitley (2004), Morgan (2003), Orru et al. (1991), Quack et al. (1995, 2000), and Whitley (1999, 2000, 2003). According to these studies, the national institutional system features the types of business systems and the comparative characteristics of an organisation.

The fourth topic is institutional constraints (Kostova et al., 2008, p.995). The previous studies focused on this topic are Child & Tsai (2005), Dacin et al. (2007), Davis et al. (2000), Flier et al. (2003), Henisz & Delios (2001), Hitt et al. (2004), Kogut et al. (2002), Lu (2002), and Yiu & Makino (2002). According to these studies, the institutional constraints are the institutional environment that determines the MNCs’ structure and strategies, such as the selection of partners for international alliances, the decision for a mode of entry for international expansion, the propensity of a country for the entrepreneurial activities, and the company’s strategic selection (e.g., specification, diversification).

The fifth topic is the adoption, diffusion, and institutionalisation of the organisational practices and structures across the MNCs’ units and national borders (Kostova et al., 2008, p.995). Relevant studies about this topic include Eden et al. (2001), Gooderham et al. (1999), Guler et al. (2002), Kogut (1991), Kostova (1999), and Kostova & Roth (2002). According to these studies, organisations need to shape their structure and practice to match changes in its institutional environment (both internal and external). This environment can be less supportive of organisational practices. Therefore, the ability to adapt, diffuse, and institutionalise changes in an institutional environment as an organisational response is crucial.

In addition, regarding the institutional context in selecting an FDI’s location, the following discussions topics arise (Donnelly & Manolova, 2020, p.5). The first discussion topic is about the determinant factors in the selection of a location for FDI that are based on the formal institutions. The factors include regulation and rule of laws; and property right and intellectual property regime (Alimov, 2015; Arregle et al., 2016; Arregle et al., 2013; Buckley et al., 2016; Castellani et al., 2013; Choi et al., 2016; Crotty et al., 2016; Feils & Rahman, 2011; Flores & Aguilera, 2007; Globerman & Shapiro, 2003; Guler & Guillén, 2010; Holmes Jr et al., 2013; Huang & Sternquist, 2007; Kang & Jiang, 2012; Khoury & Peng, 2011; Kolstad & Wiig, 2012; Li et al., 2019; Lu et al., 2014; Pajunen, 2008; Papageorgiadis et al., 2019; Stoian & Filippaios, 2008; Uddin et al., 2019; Weitzel & Berns, 2006; Xie et al., 2017; Yoo & Reimann, 2017); corruption and corruption distance; political instability, uncertainty, conflict, risk, hazard, and tension; government effectiveness, governance, and democracy or the level or trust (Arregle et al., 2016; Arregle et al., 2013; Bailey, 2018; Bartels et al., 2014; Berry et al., 2010; Buckley et al., 2007, 2016; Buckley, Chen,
et al., 2018; Cordero & Miller, 2019; Cuervo-Cazurra, 2008; Delios & Henisz, 2003; Deng & Yang, 2015; Feils & Rahman, 2011; Filippaios et al., 2019; Flores & Aguilera, 2007; García-Canal & Guillén, 2008; Globerman & Shapiro, 2003; Godínez & Liu, 2015; Guler & Guillén, 2010; Henisz & Delios, 2001; Henisz & Macher, 2004; Holburn & Zelner, 2010; Holmes Jr et al., 2013; Jiang et al., 2014; Li et al., 2019; Liu et al., 2011; Maitland & Sammartino, 2015a, 2015b; Meouloud et al., 2019; Mohanty & Sethi, 2019; Oh & Oetzel, 2011; Pajunen, 2008; Ramamurti & Doh, 2004; Ramos & Ashby, 2013; Rasciute & Downward, 2017; Rothaermel et al., 2006; Stoian & Filippaios, 2008; Uddin et al., 2019; Weitzel & Berns, 2006; Witte et al., 2017; Wu et al., 2012; Xie et al., 2017; Yang, 2018; Yuan & Pangarkar, 2010; Zhou & Guillen, 2016, 2015); administrative distance (Berry et al., 2010; Ma et al., 2013; Zhou & Guillen, 2016, 2015); demographic distance (Berry et al., 2010; Zhou & Guillen, 2016, 2015); economic and financial distance (Berry et al., 2010; Bunyaratavej et al., 2007; Zhou & Guillen, 2016); environment regulation distance (Madsen, 2009); economic freedom, competitive tax system and stability (Berry et al., 2010; Kang & Jiang, 2012; Mohanty & Sethi, 2019; Pajunen, 2008; Romero-Martínez et al., 2019; Trevino et al., 2008); openness, trade policy, pro-FDI agencies, and trade reform (Anderson & Sutherland, 2015; Bartels et al., 2014; Holmes Jr et al., 2013; Kang & Jiang, 2012; Meyer & Nguyen, 2005; Monaghan et al., 2014; Trevino et al., 2008; Uddin et al., 2019; Yuan & Pangarkar, 2010); privatisation, market control, financial institution, and capital availability (Arregle et al., 2013; Guler & Guillén, 2010; Holmes Jr et al., 2013; Trevino et al., 2008; Treviño & Mixon, 2004); education system and differences (Bunyaratavej et al., 2007; Trevino et al., 2008); institutional voids (Rana & Elo, 2017; Tan & Meyer, 2011); and level of trust (Flores & Aguilera, 2007).

The second discussion topic is about the determinant factors in the selection of a location for FDI that are based on the informal institutions. The factors are cultural distance, cultural clusters, past ties, religious, language distance and ethnic ties (Arregle et al., 2016; Arregle et al., 2013; Bailey, 2018; Berry et al., 2010; Buckley et al., 2012; Bunyaratavej et al., 2007; Castellani et al., 2013; Delios & Henisz, 2003; Drogendijk & Martín, 2015; Francis et al., 2009; Jiang et al., 2014; Kang & Jiang, 2012; Li et al., 2019; Mohanty & Sethi, 2019; Schotter & Abdelzaher, 2013; Shukla & Cantwell, 2018; Siegel et al., 2013; Stallkamp et al., 2018; Xie et al., 2017; Zhou & Guillen, 2016, 2015); knowledge/ICT distance (Berry et al., 2010; Bunyaratavej et al., 2007); socio-economic distance (Drogendijk & Martín, 2015); social environment/crime (Majocchi & Presutti, 2009; Ramos & Ashby, 2013); broad measure of institutional
distance (Li et al., 2017); bilateral treaty and trade linkage (Albino-Pimentel et al., 2018; Buckley et al., 2012; Castellani et al., 2013); and historic linkages (Buckley et al., 2012; Makino & Tsang, 2011).

2.3.2.2 The Home Country’s Measures

Figure 2.10. Triangular framework of FDI, home, and host countries’ governments

Source: UNESCAP (2020), UNCTAD (2001), Sawitri & Brennan (2022b)

Figure 2.10 presents a triangular framework between the home country’s government, FDI by MNCs, and the host country’s government that can be explained, formulated, and implemented by the Home Country’s Measures (HCMs) (Kline, 2003; UNCTAD, 2001). The purposes of HCMs are to collect and assess the institutional context of the country’s conditions (e.g., legal, macroeconomic, and social) that can influence OFDI. This method helps the country’s government particularly in developing countries to assess the current policies and regulations towards FDI and refine the current policies and regulations to facilitate the potential investors. Thus the government can promote FDI flows, and contribute to the development of a country (Kline, 2003). Figure 2.11 presents the HCMs framework and Table 2.2 presents the measure for HCMs categories.

Figure 2.11. Home Country Measures (HCMs) framework

According to Kline (2003), the important aspects that can enhance and stimulate the development of the HCMs are as follows:

a. Identifying the efficiency and accuracy of the inputs for the data collection in assessing the measurement elements, thus generating better planning and implementation of HCMs programs.
b. Generating a better presentation of the country's FDI opportunities increases potential investors’ interest.

c. Establishing the expansion of the mutual business network between the home and host countries promotes the FDI flows in the developing country.

Moreover, UNCTAD (2001) classified six categories that can address the HCMs such as:

a. The policies and regulations positioning that are supportive of the attraction and generation of FDI flows.
b. The provision of information and assistance in the country to promote and stimulate FDI flows.
c. The facilitation of the transferred technology and the enhancement of the infrastructure to support the technology related FDI.
d. The provision of financial and fiscal incentives to attract and generate FDI.
e. The provision of investment insurance to mitigate the potential risks.
f. The provision of market access policies and regulations such as product certification, international trade regimes, and other trade-related measurements.

2.3.2.3 Summary

Subsection 2.2.4 explores why a country attracts and generates FDI. It establishes as the main reason that FDI can be a channel to promote the country’s economic development. Moreover, the remaining question is how a country attracts and generates FDI hence contributing to its economic development. Figure 2.12 presents the summary of the theories and concepts in explaining how a country attracts and generates FDI. Figure 2.12 shows that attracting and generating FDI can be considered as a means to promote the country’s economic development. In addition, Figure 2.4 in subsection 2.2.4.3 and Figure 2.12 also represent an interconnected relationship between advancing the country’s competitive and comparative advantages in the case of IFDI and nurturing and stimulating the development of domestic companies’ capabilities in the case of OFDI. The country’s competitive advantages in attracting IFDI can be advanced by maintaining conducive macroeconomic, social, and political conditions, facilitating investors with the provision of infrastructure and labour, providing the competitive cost for international trade, and providing assistance and information for the current and potential investors.
Moreover, the country’s comparative advantages in generating OFDI can be advanced by nurturing, stimulating, and advancing the domestic companies’ capabilities to compete with MNCs in the domestic and international markets and encouraging them to engage in OFDI. Accordingly, it can be concluded that the country’s government and institutions are the crucial aspects in promoting FDI. It is important for the country’s government, particularly the implementing institutions for FDI, to assess the role of FDI in the country’s development, investigate the constraints in stimulating and promoting FDI, and refine the government policies and regulations for stimulating and promoting FDI in the country.

2.3.3 Summary of the decision aspect of the ADO framework

In summary, subsection 2.3 explores the decision aspect of the ADO framework. This aspect presents the theories, concepts, and previous studies explaining how a company and a country engage in FDI. From the perspective of a company, subsection 2.2 and subsection 2.3 found a retrospective relationship between the progression of a company’s development path and the possible channels for a company to promote its
development path. Before engaging in FDI, the company should have significant competitive and comparative advantages. However, in order to advance the company’s competitive and comparative advantages, the company should have goals, visions, and strategies to promote its development by engaging in the Internationalisation process so the company can augment its competitive and comparative advantages in the domestic and international markets. To accelerate the development process of a company’s competitive and comparative advantages, the government plays an important role in attracting and generating FDI that can add value to the country’s and company’s development. Accordingly, I argue that there are several approaches by which the government can promote FDI attraction and generation. In the case of attracting IFDI, first, the government needs to ensure that the provision of the country’s competitive advantages is supportive of FDI attraction. Second, the government needs to ensure that the incoming IFDI can promote the country’s economic development and contribute to the development of domestic companies’ capabilities. In the case of generating OFDI, first, the government needs to nurture, stimulate, and promote the development of its domestic companies to augment their capabilities hence enabling them to engage in FDI. Second, the government needs to encourage domestic companies to engage in FDI to promote their business and advance their competitive and comparative advantages to compete with MNCs in domestic and international markets. By encouraging domestic companies to engage in FDI can also advance the country’s comparative advantages in the international market. Third, the government also needs to provide the right stimulus for domestic companies to engage in FDI. Given the important role of the country in FDI and the important role of FDI in a country, accordingly, this thesis focuses on a country-level analysis in investigating the role of FDI in a country’s economy, the factors that can promote FDI, the role of the government in promoting the development of a country’s domestic companies thus boosting FDI and contributing to the country’s economic development. Chapter 1 already explored the rationale behind the choice of this thesis to focus on the country-level analysis. In relation to the choice of the country, the analysis conducted in Chapter 1 also leads to the choice of Indonesia as the focus of research. Accordingly, before conducting an analysis of FDI in Indonesia, the following subsection will explore the outcome of the ADO framework that focuses on assessing the pertinent studies related to Indonesia as a unit of analysis to identify the gap and the areas for further research on Indonesia’s FDI.

2.4 Outcome

Subsections 2.2 and 2.3 explored the theories and concepts explaining why a country and a company engage in FDI. From these explanations, it can be concluded that both a company and a country have their own
reasons and channels to engage in FDI. It can also be concluded that the country’s government plays a crucial role in influencing the company’s behaviour towards FDI. Accordingly, it is appropriate to investigate the role of FDI in a country, the determinant factors influencing the promotion of FDI, and the role of a country’s government in stimulating and promoting FDI.

Indonesia presents a remarkable example of how a country rises from the stalling of its development in the post-independent period from 1946 to 1997 and from the severe economic contractions due to the Asian Financial Crisis (AFC) in 1998 and Global Financial Crisis (GFC) in 2009 to achieve its present growth. Despite a significant development in Indonesia’s economy, the country still needs to promote its competitive advantages and the country’s comparative advantages in the global market. The country also has the potential to grow further and compete with those of developing countries and emerging economies in attracting and generating FDI. Therefore, it is appropriate to investigate the potential growth factors particularly in the context of FDI in favouring Indonesia's sustainable economic development.

Before conducting an investigation of Indonesia’s FDI, it is necessary to investigate the pertinent studies focusing on Indonesia’s FDI. Accordingly, this subsection focuses on assessing and investigating the role of FDI in Indonesia’s economic development presented in the theories and concepts of the pertinent studies focusing on Indonesia. The search protocol applied in the literature search of Indonesia’s FDI and economic development is journal articles published in English. The databases used in searching the literature are ABI-Inform, EBSCO, Science Direct, Scopus, and Web of Science. Each database consists of a comprehensive range of articles and provides access to leading IB journals (Franceschet, 2009; Harzing & Alakangas, 2016; Levine-Clark & Gil, 2008). The keyword applied in the literature search was (“FOREIGN DIRECT INVESTMENT” OR "FDI") AND (“ECONOMIC DEVELOPMENT") AND (“INDONESIA”), and the search was performed on 18 October 2022. Table 2.3 presents the results of the number of pertinent studies for each database.

<table>
<thead>
<tr>
<th>Databases</th>
<th>The number of articles found related to FDI and economic development in Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABI-Inform</td>
<td>6,528</td>
</tr>
<tr>
<td>EBSCO</td>
<td>262</td>
</tr>
<tr>
<td>Science Direct</td>
<td>1,450</td>
</tr>
<tr>
<td>Scopus</td>
<td>115</td>
</tr>
<tr>
<td>Web of Science</td>
<td>106</td>
</tr>
<tr>
<td>Total</td>
<td>8,461</td>
</tr>
</tbody>
</table>

Table 2.3. The number of previous studies from the searched databases for the literature review
From the literature search process, I identify articles for the initial review. I then apply the inclusion and exclusion criteria Kuckertz & Block (2021) recommended. I first upload the identified articles to the individual spreadsheet based on each database using the Microsoft Excel program. I then classify each article into six categories: the year published, the name of the author(s), the unit of analysis, the title of the articles, the abstract, the publisher, and CABS-ranked. Lastly, I combine all spreadsheets and apply the manual selection process based on several categories as exclusion criteria as follows:

a. The first exclusion criterion is that the study is a journal article published in English. The selection process involves the content analysis of the title, abstract, and content analysis to identify whether these articles present the context of FDI, economic development, and Indonesia. As a result, 8,011 articles are excluded from the initial 8,461 articles leaving 450 articles for the following step.

b. The second exclusion criterion is removing duplicate articles. As a result of this exclusion criterion, 52 articles are excluded leaving 398 articles for the following step.

c. The third exclusion criterion is that the peer-reviewed article should be published in CABS-ranked journals. As a result of this step, 310 articles remained for review.

Table 2.4. Journal distribution on the CABS-ranked journal

<table>
<thead>
<tr>
<th>Publications</th>
<th>CABS-Ranked Journals</th>
<th>Number of articles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Journal of International Business Studies</td>
<td>CABS 4*</td>
<td>5</td>
</tr>
<tr>
<td>Economic Geography</td>
<td>CABS 4</td>
<td>1</td>
</tr>
<tr>
<td>Journal of International Economics</td>
<td>CABS 4</td>
<td>4</td>
</tr>
<tr>
<td>Journal of Open Innovation</td>
<td>CABS 4</td>
<td>1</td>
</tr>
<tr>
<td>Journal of World Business</td>
<td>CABS 4</td>
<td>3</td>
</tr>
<tr>
<td>Asia Pacific Journal of Management</td>
<td>CABS 3</td>
<td>4</td>
</tr>
<tr>
<td>Economic Development and Cultural Change</td>
<td>CABS 3</td>
<td>2</td>
</tr>
<tr>
<td>Energy</td>
<td>CABS 3</td>
<td>1</td>
</tr>
<tr>
<td>Energy Economics</td>
<td>CABS 3</td>
<td>3</td>
</tr>
<tr>
<td>Environment and Planning A</td>
<td>CABS 3</td>
<td>1</td>
</tr>
<tr>
<td>Environmental and Resource Economics</td>
<td>CABS 3</td>
<td>1</td>
</tr>
<tr>
<td>European Economic Review</td>
<td>CABS 3</td>
<td>2</td>
</tr>
<tr>
<td>Industrial Marketing Management</td>
<td>CABS 3</td>
<td>1</td>
</tr>
<tr>
<td>International Business Review</td>
<td>CABS 3</td>
<td>19</td>
</tr>
<tr>
<td>International Journal of Finance and Economics</td>
<td>CABS 3</td>
<td>2</td>
</tr>
<tr>
<td>International Marketing Review</td>
<td>CABS 3</td>
<td>1</td>
</tr>
<tr>
<td>Journal of Banking and Finance</td>
<td>CABS 3</td>
<td>4</td>
</tr>
<tr>
<td>Journal of Business Ethics</td>
<td>CABS 3</td>
<td>1</td>
</tr>
<tr>
<td>Journal of Business Research</td>
<td>CABS 3</td>
<td>1</td>
</tr>
<tr>
<td>Journal of Development Economics</td>
<td>CABS 3</td>
<td>3</td>
</tr>
<tr>
<td>Journal of Development Studies</td>
<td>CABS 3</td>
<td>7</td>
</tr>
<tr>
<td>Journal of Environmental Management</td>
<td>CABS 3</td>
<td>2</td>
</tr>
<tr>
<td>Journal of International Money and Finance</td>
<td>CABS 3</td>
<td>2</td>
</tr>
<tr>
<td>Management International Review</td>
<td>CABS 3</td>
<td>2</td>
</tr>
<tr>
<td>Papers in Regional Science</td>
<td>CABS 3</td>
<td>2</td>
</tr>
<tr>
<td>Review of International Political Economy</td>
<td>CABS 3</td>
<td>3</td>
</tr>
<tr>
<td>Small Business Economics</td>
<td>CABS 3</td>
<td>1</td>
</tr>
<tr>
<td>Technological Forecasting and Social Change</td>
<td>CABS 3</td>
<td>3</td>
</tr>
<tr>
<td>World Development</td>
<td>CABS 3</td>
<td>26</td>
</tr>
<tr>
<td>Applied Economics</td>
<td>CABS 2</td>
<td>2</td>
</tr>
<tr>
<td>Asia Pacific Business Review</td>
<td>CABS 2</td>
<td>1</td>
</tr>
<tr>
<td>Asian Business and Management</td>
<td>CABS 2</td>
<td>1</td>
</tr>
<tr>
<td>China Economic Review</td>
<td>CABS 2</td>
<td>4</td>
</tr>
<tr>
<td>Cities</td>
<td>CABS 2</td>
<td>2</td>
</tr>
<tr>
<td>Current Sociology</td>
<td>CABS 2</td>
<td>1</td>
</tr>
<tr>
<td>Economic Modelling</td>
<td>CABS 2</td>
<td>12</td>
</tr>
<tr>
<td>Emerging Markets Review</td>
<td>CABS 2</td>
<td>3</td>
</tr>
<tr>
<td>Empirical Economics</td>
<td>CABS 2</td>
<td>8</td>
</tr>
<tr>
<td>Energy Policy</td>
<td>CABS 2</td>
<td>8</td>
</tr>
<tr>
<td>International Journal of Development Issues</td>
<td>CABS 2</td>
<td>2</td>
</tr>
<tr>
<td>International Journal of Technology Management</td>
<td>CABS 2</td>
<td>1</td>
</tr>
<tr>
<td>International Review of Economics and Finance</td>
<td>CABS 2</td>
<td>6</td>
</tr>
<tr>
<td>Journal of Cleaner Production</td>
<td>CABS 2</td>
<td>8</td>
</tr>
<tr>
<td>Journal of Economic Issues</td>
<td>CABS 2</td>
<td>2</td>
</tr>
<tr>
<td>Journal of Economic Studies</td>
<td>CABS 2</td>
<td>11</td>
</tr>
<tr>
<td>Journal of Policy Modelling</td>
<td>CABS 2</td>
<td>5</td>
</tr>
<tr>
<td>Management Decision</td>
<td>CABS 2</td>
<td>1</td>
</tr>
<tr>
<td>Multinational Business Review</td>
<td>CABS 2</td>
<td>4</td>
</tr>
<tr>
<td>Open Economies Review</td>
<td>CABS 2</td>
<td>2</td>
</tr>
<tr>
<td>Renewable Sustainable Energy Review</td>
<td>CABS 2</td>
<td>1</td>
</tr>
<tr>
<td>Research in International Business and Finance</td>
<td>CABS 2</td>
<td>5</td>
</tr>
<tr>
<td>Resources Policy</td>
<td>CABS 2</td>
<td>5</td>
</tr>
<tr>
<td>Review of Development Economics</td>
<td>CABS 2</td>
<td>2</td>
</tr>
<tr>
<td>Review of Political Economy</td>
<td>CABS 2</td>
<td>1</td>
</tr>
<tr>
<td>Review of World Economics</td>
<td>CABS 2</td>
<td>4</td>
</tr>
<tr>
<td>Structural Change and Economic Dynamics</td>
<td>CABS 2</td>
<td>4</td>
</tr>
<tr>
<td>Tourism Management Perspectives</td>
<td>CABS 2</td>
<td>1</td>
</tr>
<tr>
<td>Asian Economic Papers</td>
<td>CABS 1</td>
<td>2</td>
</tr>
<tr>
<td>Atlantic Economic Journal</td>
<td>CABS 1</td>
<td>1</td>
</tr>
<tr>
<td>Bulletin of Indonesian Economic Studies</td>
<td>CABS 1</td>
<td>11</td>
</tr>
<tr>
<td>China and World Economy</td>
<td>CABS 1</td>
<td>1</td>
</tr>
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<td>Cogent Business and Management</td>
<td>CABS 1</td>
<td>1</td>
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<tr>
<td>Cogent Economics and Finance</td>
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<td>Comparative Economic Studies</td>
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<td>Competitiveness Review</td>
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<td>Economic Analysis and Policy</td>
<td>CABS 1</td>
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<td>Economic Change and Restructuring</td>
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</tr>
<tr>
<td>Economics and Sociology</td>
<td>CABS 1</td>
<td>1</td>
</tr>
<tr>
<td>Economies</td>
<td>CABS 1</td>
<td>16</td>
</tr>
</tbody>
</table>
Table 2.4 presents the journal distributions of CABS-ranked journals. This table shows that most previous studies involving Indonesia as a unit of analysis have been published in the CABS 2 journal with 107 articles. Moreover, a few studies were published in CABS 4* and CABS 4 journals with five and nine articles, respectively. These findings establish that Indonesia, as a unit of analysis, represents a significant example for conducting research about FDI and economic development.

### 2.4.1 The number of FDI studies in the context of Indonesia

![The Number of Identified Articles of FDI and Economic Development in the Context of Indonesia that Published in CABS-Ranked Journals by Year](image)

Figure 2.13. The number of identified articles published in CABS-ranked journal by year

Figure 2.13 presents the number of identified articles published in the CABS-ranked journal by year. It shows that the studies of FDI and economic development in the context of Indonesia started to emerge with a study by Kim & Terpstra in 1984 that investigated FDI patterns in the four Asian Newly Industrialised Countries (ANICs) and in the four developing countries of the Asian Pacific region (i.e., Indonesia, Malaysia, the Philippines, and Thailand) using cross-section analysis. The production of studies has been quite prevalent since then. Regarding the analysis approaches, Figure 2.14 presents the comparison between
single- and cross-country analysis studies by year. It shows that the studies reach a peak in 2022 with 33 studies consisting of five studies applying single-country analysis and 28 studies applying cross-country analysis.

**Figure 2.14. The comparison between single- and cross-country analysis studies by year**

In addition, Figure 2.15 presents the comparison between single- and cross-country analysis involving Indonesia as a unit of research from 1984 to 2022. It shows that 79% of studies apply cross-country analysis, and only 21% apply single-country analysis. The analysis shows that there is an opportunity for further research applying single-country analysis in the context of Indonesia’s FDI and economic development. The main reason is that every country is peculiar in its characteristics to attract or generate FDI and approaches implemented in attracting or generating FDI.

**Figure 2.15. The comparison between single- and cross-country analysis**
A single-country analysis can provide a comprehensive analysis in investigating the role of FDI in a country’s economy, the factors that can promote FDI, the role of the government in stimulating and promoting FDI, thus contributing to the country’s economic development. In addition, the findings of a single-country analysis can also lead to the generation of suitable recommendations for the government in promoting its FDI. They can also provide insights and support for other developing countries or emerging economies to assess and investigate their characteristics towards FDI, assess their FDI performance as a means of developing their economy, thus promoting their FDI to generate their sustainable economic development.

2.4.2 The topics covered in the FDI studies in the context of Indonesia

I identified the topics covered in relation to Indonesia in the identified articles by using the word cloud analysis in NVivo 12 and the network map in VOS viewer. Figure 2.16 presents the word cloud analysis, and Figure 2.17 presents the network map.

Figure 2.16 The word cloud of the identified articles

Source: analysed by author using NVivo 12
Based on these analyses, I classify the topics covered into three classifications. The first classification presents the unit of analysis in the identified articles: Indonesia, ASEAN countries, China, India, and Japan. The second classification presents the variables applied in the identified articles such as IFDI, OFDI, and GDP. The last classification presents the levels of analysis and the focus of analysis. The levels of analysis are the firm-level analysis and sectoral-level analysis. The focus of analysis is the investigation of spillover effects (i.e., technology transfer and productivity). These findings establish that the pertinent literature on FDI and economic development involving Indonesia varies in terms of unit of analysis, variables applied, levels of analysis, the focus of analysis, and the findings.

In addition, by doing a content analysis of the identified articles, I also identify that in the case of cross-country analysis, Indonesia is represented as a member of ASEAN countries, G-20 countries, Non-OECD countries, Emerging-7 (E-7) countries, MINT countries (i.e., Mexico, Indonesia, Nigeria, and Turkey), CIVETS countries (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa), Belt Road Initiatives (BRI) countries, Asian region countries, Asia Pacific Region countries, Pacific Rim countries, low- and middle-income countries, developing countries, and emerging economies. This finding justifies that research focusing on Indonesia is merited to present a comprehensive analysis of Indonesia’s characteristics regarding its competitive and comparative advantages as an example of a developing country and an emerging economy. By focusing on a particular country, the thesis intensively and comprehensively explores how the country promotes FDI and identifies the potential recommendations for the country to boost FDI hence contributing to the development of its economy. Finally, by conducting a comprehensive
analysis, the findings of this thesis can yield insights and support for other developing countries and emerging economies to promote their FDI as a means of developing their economies.

Furthermore, I classify the topic of FDI into two main areas: IFDI and OFDI. In the case of IFDI, most previous studies have been focused on the trends, determinant factors, and spillover effects of IFDI from the perspective of the host countries using cross-country analysis among countries, including Indonesia, and single country analysis in Indonesia. In the case of OFDI, most previous studies have been focused on the home country’s perspective of other countries using cross-country analysis and the home country’s perspective of other countries investing in Indonesia using single-country analysis. Meanwhile, the single-country analysis of OFDI from the perspective of the home country in Indonesia has been covered in only three studies which are Carney & Dieleman (2011), Lecraw (1993), and Tomohara & Takii (2011). Therefore, I can conclude that a study using a single-country analysis and focusing on Indonesia’s OFDI is merited.

2.4.3 The gap from the pertinent literature on FDI and economic development in the context of Indonesia

Based on the analysis of the topics of FDI and economic development involving Indonesia as a unit of analysis, I identify a gap in the literature regarding Indonesia’s OFDI. However, before exploring OFDI from Indonesia, it is necessary to assess and investigate the characteristics of Indonesia’s FDI and its role in the economy using the IDP concept. IDP concept is one of the empirical assessments and the most frequent assessment method applied to investigate the performance of FDI for both IFDI and OFDI in a country relative to its economic development, as mentioned in section 2.2.4.1 (Zhu et al., 2011; Lall, 1998; Sawitri & Brennan, 2022). FDI performance is determined by the NOIP, which is the difference between OFDI and IFDI stocks, while economic development is determined by GDP or GDP per capita (Sawitri & Brennan, 2022; Tolentino, 2003). This concept can distinguish and classify a country into a net inward direct investment (attracting FDI) or net outward direct investment (generating FDI) (Dunning & Narula, 1996; Sawitri & Brennan, 2022). Therefore, this concept can be merited to assess the progression of Indonesia’s FDI and economic development and determine the position of Indonesia, whether Indonesia is a net IFDI or OFDI. However, before assessing the applicability of IDP in the case of Indonesia, the first study undertaken in this thesis aims to investigate the evolution of the IDP literature to establish a comprehensive understanding of the concept and identify the gap in the literature and the areas for further research. The findings of the first study identify the themes in the IDP literature, generate a framework that
presents the relationship between FDI performance and the economic development of a country, and establish five classification approaches for assessing a country’s position on the IDP. Moreover, these findings then become a basis for the second study undertaken in this thesis.

The studies that focused on IDP in the context of Indonesia mostly apply cross-country analysis (Dunning, 1981b, 1986; Ramírez-Alesón & Fleta-Asín, 2016; Satoglu, 2017; Stoian & Mohr, 2016), and only one study applies single-country analysis (Lecraw, 1996). Based on these prior studies, Indonesia’s position from 1967 to 2013 remained stable during the IDP stages. Meanwhile, Indonesia’s income level has increased significantly from a low-middle-income country to a middle-income from 1990 to 2018 and an upper-middle-income country in 2019. Moreover, Indonesia’s government also embraces FDI as a means of developing the country’s economy by providing policies and regulations toward FDI. Therefore, the second study undertaken in this thesis aims to investigate this phenomenon since the macroeconomic condition and policies and regulations have changed dramatically since 2013. Moreover, the IDP concept is peculiar and idiosyncratic to a country’s characteristics and path, so a single-country analysis is the most suitable approach for identifying a country’s development on the IDP. Using the theoretical, empirical, and institutional perspectives of the IDP, the second study investigates the position of Indonesia on IDP, assesses the applicability of IDP models on Indonesia, and identifies the potential areas for shifting Indonesia’s position on IDP. The findings of the second study revealed that from a theoretical perspective, there is a deviation in the progression of Indonesia on the IDP from the established theory. However, from an empirical perspective, the analysis establishes the best fit IDP models for Indonesia. In addition, from an institutional perspective, the findings are that Indonesia’s government embraces IFDI as a means of economic development. As a result, IFDI’s level has been mostly increasing year by year. However, Indonesia’s government neglects OFDI as a means of economic development. In addition, most domestic companies are micro and small companies with the inadequacy of domestic companies’ capabilities to engage in OFDI. Accordingly, the country’s comparative advantages in the global market still lag behind some other emerging economies. The findings of the second study then highlight that the country should start focusing on OFDI to shift the country’s position on the IDP. These findings are the basis for the third study undertaken in this thesis.

Concerning OFDI in Indonesia as the home country for OFDI, most previous studies only focus on developed countries for OFDI, and most of them employ cross-section or panel data (Bano & Tabbada, 2015; Bhasin & Jain, 2013; Das, 2013; Herzer, 2008, 2010, 2011b; Ibrahim et al., 2019; Ibrahim & Raji,
2018; Kayam, 2009; Lee & Sermcheep, 2017; Rammal & Zurbruegg, 2006; Tsung-Li et al., 2017). A literature review study on OFDI from developing countries by Paul & Benito (2018) found that most studies focused on China and India as a unit of analysis. Indonesia’s characteristics differ from China and India, which are established sources of OFDI. Indonesia’s economy is mainly supported by exporting commodities and domestic consumption, most domestic companies are micro and small companies, and large domestic companies prefer to serve the large domestic market. Accordingly, these characteristics lead to further investigation of the role of Indonesia’s government in nurturing and stimulating the development of domestic companies’ capabilities to promote OFDI from Indonesia.

Moreover, besides the previous studies focusing on Indonesia’s OFDI in section 2.4.2, three more studies were identified that were not in CABS-ranked journals. These studies were then added to the context of Indonesia’s OFDI (Aminullah et al., 2013; Gondo et al., 2021; Sambodo, 2017). These previous studies focus on the trends, patterns, and one determinant of OFDI, which was a domestic investment. Accordingly, there is a potential area for further research on Indonesia’s OFDI to identify the important role of OFDI in Indonesia’s economy. The third study undertaken in this thesis aims to investigate the causality relationship between OFDI and economic development in the context of Indonesia as the home country. The findings of this study reveal that Indonesia has competitive advantages in generating OFDI, and OFDI is also a means of developing the economy. Since the government neglects OFDI and only focuses on IFDI, the current state of capabilities of domestic companies is a limitation in promoting OFDI from Indonesia. Accordingly, the government needs to focus on nurturing and boosting the development of domestic companies’ capabilities so enabling them to engage in OFDI and on generating OFDI policies and regulations due to their absence in order to promote and ensure OFDI can serve its economy.

2.5 Summary
This chapter offered a broad overview of the theories, concepts, and pertinent studies of the area of FDI and economic development. The first section introduces the literature review approach of the Antecedent-Decision-Outcome (ADO) framework. The second section explains the Antecedent aspect of the ADO framework by providing the definition of FDI and economic development and exploring the theories, concepts, and previous studies on why a company and a country engage in FDI. The third section elaborates on the Decision aspect of the ADO framework by exploring the theories, concepts, and previous studies on how a company engages in FDI and how a country attracts or generates FDI. The fourth section explains the Outcome aspect of the ADO framework by assessing and investigating the relationship between the
theories and concepts of FDI and economic development in the pertinent literature, particularly those that focused on Indonesia to identify the evolution of previous studies and the gap in the literature on Indonesia in the context of FDI and economic development. Based on the analysis above, it can be concluded that Indonesia as a unit of analysis is merited. Since the findings of this thesis can provide support and evidence to other developing countries and emerging economies to assess their FDI performance, identify the constraints to their development, and promote their FDI as a means of developing their economy hence contributing to sustainable economic development. Moreover, the three studies undertaken in this thesis also have their literature review section, identify the gap in the literature and generate comprehensive findings to the analysis of Indonesia’s FDI.
CHAPTER 3
RESEARCH METHODOLOGY

Chapter 1 presented the purpose of this thesis and provided brief information on the three studies undertaken in this thesis. Chapter 2 offered a broad overview of the theories, concepts, and pertinent studies on FDI and economic development. Furthermore, this chapter elaborates on the methodology applied in this thesis to address its purpose and to conduct an analysis of the three studies undertaken in this thesis. This chapter is divided into five subsections. Subsection one introduces the methodology applied in each study and the research design of the thesis. Subsections two, three, and four focus on the methodology applied in the first, second, and third studies undertaken in this thesis. Lastly, subsection fifth offers a summary of this chapter.

3.1 Introduction

This thesis applies the Investment Development Path as a fundamental concept to measure a country’s development based on FDI and economic performance (Dunning & Narula, 1994, 1996, 2002; Narula, 1994; Narula & Dunning, 2010; Sawitri & Brennan, 2022) for two main reasons. First, this concept can be applied to investigate and identify potential factors that can stimulate and boost a country’s FDI and economic performance, thereby shifting the position of the country along the IDP stages and promoting the development of the country’s economy (Dunning & Narula, 1994, 1996, 2002; Narula, 1994; Narula & Dunning, 2010; Sawitri & Brennan, 2022). The purpose of this concept is aligned with the purpose of this thesis.

Second, according to the established concept of IDP, a country’s progression on IDP is advised to proceed through the five stages of IDP (Dunning & Narula, 1996). The assumption is that as a country’s characteristics and the provision of government policies become more supportive of the development of a country’s economy, this implies a conducive investment climate for investors, which will then impact the development of FDI levels in a country; accordingly, as the FDI performance of a country grows, the economy of a country develops (Nayak & Choudhury, 2014). Even though Indonesia’s economy has grown significantly from its stalling in the post-independence period and financial crises (AFC and GFC) to its current achievement. However, compared with other Asian countries, Indonesia’s competitive and comparative advantages in terms of FDI still lags behind these countries. Therefore, it is necessary to conduct a comprehensive analysis of FDI in Indonesia involving the aspect of IFDI, OFDI, and economic development to investigate their role in the economy and identify potential areas for improvement in
Indonesia’s FDI, thus contributing to and serving the economy. To address these purposes, this thesis is divided into three studies, each of which applies a particular methodology. Table 3.1 presents an overview of the methodology applied in each study.

**Table 3.1. The overview of the methodology applied in the three studies involved in this thesis**

<table>
<thead>
<tr>
<th>Study 1</th>
<th>Study 2</th>
<th>Study 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title</strong></td>
<td>The Investment Development Path Literature: A Review and Research Agenda</td>
<td>The Investment Development Path Theory: Evidence from Indonesia</td>
</tr>
<tr>
<td><strong>Purpose of study</strong></td>
<td>Investigate the evolution of the IDP literature</td>
<td>Assess the performance of FDI and economic development of Indonesia by using the IDP</td>
</tr>
<tr>
<td><strong>Analysis approach</strong></td>
<td>Systematic literature review</td>
<td>Theoretical, empirical, and institutional perspectives</td>
</tr>
<tr>
<td><strong>Data collection</strong></td>
<td>51 journals articles published in CABS-ranked journals</td>
<td>NOIP (OFDI – IFDI), GDP, and GDP per capita</td>
</tr>
<tr>
<td><strong>Data Sources</strong></td>
<td>ABI Inform, EBSCO, JSTOR, Science Direct, Scopus, Web of Science</td>
<td>World Bank</td>
</tr>
</tbody>
</table>
| **Data Analysis** | The manual and coding thematic analyses | • The theoretical perspective by applying the five approaches to the classification of a country on the IDP  
• The empirical perspective is testing the stationary of data applied by using the unit root test and estimating the IDP models for Indonesia by using the OLS and classical regression model | • The empirical perspective is testing the stationary of data applied by using the unit root test and conducting a causality test between OFDI and economic development variable by using the TYDL augmented VAR model  
• The institutional perspective is by assessing the role of |
Moreover, to conduct the three studies undertaken in this thesis, this thesis engages the research design presented in Figure 3.1.

![Figure 3.1. The research design](image)

Source: Thornhill et al. (2009)
The first element in research design is the research philosophy. The philosophy underpinning this thesis is positivist in nature. As a positivist, the researcher is an external and independent observer of subject and social actors (Creswell & Creswell, 2017; Thornhill et al., 2009). The researcher has a limited role in observing phenomena based on collecting credible and available facts and data and interpreting them objectively (Creswell & Creswell, 2017; Thornhill et al., 2009). The research data and objects were independent of the researcher (Thornhill et al., 2009).

The second element of the research design is the research approach. This study applies a deductive approach. A deductive approach is a method of searching the literature to identify theories and concepts that can be applied in the research so that this research can assess the applicability of these theories and concepts in the selected unit of analysis and in the chosen dataset (Thornhill et al., 2009). The literature includes academic theories, current information related to research topics, and pertinent studies (Thornhill et al., 2009). These sources are considered supportive for building the hypotheses, assumptions, and arguments of this thesis. The fundamental theory and concept applied in this thesis are the investment development paths. The IDP aims to assess the country’s investment development path based on FDI and economic performance and investigates the potential areas for further development of a country’s FDI and economic development, thus shifting the country’s position on the IDP (Dunning & Narula, 1994, 1996, 2002; Narula, 1994; Narula & Dunning, 2010; Sawitri & Brennan, 2022). Aligned with the purpose of this thesis, IDP is applied as the main concept, incorporating other supporting theories and concepts to explain IFDI and OFDI in developing countries and emerging economies.

The third element is the research strategy. This thesis relies on archival research to build hypotheses, conduct institutional analyses, and build arguments. Archival research is based on historical data (i.e., statistical data, journal articles, ministerial reports, and recognized institutional reports) on Indonesian Foreign Direct Investment and economic development during the allotted period (Thornhill et al., 2009). During the selected period (1990–2019), the country experienced an Asian Financial Crisis in 1998 and a Global Financial Crisis in 2009. In addition, in 2014 to the present, there was significant growth in Indonesia’s economy and transformation in government policies, regulations, and development planning, as well as in the development of infrastructure (BKPM, 2021). Furthermore, the country is currently classified among the ten largest economies based on its high Purchasing Power Parity level (after China, the United States, India, Japan, Germany, the Russian Federation, Indonesia, France, the United Kingdom,
and Brazil) and is also a member of the G-20 countries (BKPM, 2021). Accordingly, considering the period selected for this thesis, it provides a comprehensive analysis of FDI in Indonesia.

The fourth element is the research choice. This thesis applies a monomethod using a quantitative method. Although the first study undertaken in this thesis applied a systematic literature review using manual and coding thematic analyses, the second and third studies undertaken in this thesis applied quantitative methods. I argue that the first study is the initial process of investigating the development of the IDP literature and identifying the gap in the literature. Moreover, this process was necessary to build the hypotheses, assumptions, and arguments for the second and third studies undertaken in this thesis. Accordingly, it can be concluded that this thesis applied quantitative methods.

The fifth element was the selection of the time horizon. This thesis deploys longitudinal time-series data based on the annual records of internationally and domestically recognised institutions from 1980 to 2019. In the selection process of the data sources, I consider the availability of the overall data in a particular data source for the allotted time. Data on GDP per capita, Net Outward Investment Position, macroeconomic conditions, demographics, infrastructure, education conditions, FDI motives, and inward FDI policies and regulations were retrieved from recognised domestic institutions (i.e., BKPM, the Ministry of Industries, the Ministry of Trade, the Ministry of National Development Planning, Indonesia Central Agency on Statistics, and other related ministries) and from recognised international institutions (i.e., the World Bank, IMF, ADB, UNCTAD, OECD, HSBC, and other related institutions). Moreover, data on policies and regulations on Indonesia’s FDI were retrieved from recognised domestic institutions such as BKPM, the Ministry of Industries, the Ministry of Trade, the Ministry of National Development Planning, Indonesia Central Agency on Statistics, and other related ministries.

The last element is the research techniques and procedures. The protocols for the data collection and analysis process are presented in the following sections of this chapter. This chapter consists of an introduction, methodology, data collection, and data analysis for each of the three studies undertaken in this thesis.

3.2 Study 1: The Investment Development Path Literature: A Review and Research Agenda

This subsection focuses on the methodology employed, data collection, and data analysis for study one.

3.2.1 Research methodology

As the main theory and concept applied in this thesis, the first study investigated the evolution of Investment Development Path (IDP) literature using a systematic literature review. This method focuses on the themes,
sub-themes, theoretical underpinnings, and methods employed in a particular research topic (Gehrisch & Süß, 2022; Keupp & Gassmann, 2009; Paul et al., 2017; Rosado-Serrano et al., 2018). This method aims to review pertinent literature on a particular research topic, identify the literature gap, and generate an agenda for further research (Lisboa et al., 2010). It also contributes to knowledge acceleration and mediates the theoretical development of a particular research topic (Fisch & Block, 2018).

Two steps are involved in conducting the systematic literature review. The first step involved literature search and selection protocol. This step involved establishing the search criteria and the steps involved in the article selection process. The findings of the review protocols were selected for analysis. The second step, after identifying the articles to be reviewed, was thematic analysis. This step involves manual and coding processes to ensure that the proposed themes and subthemes represent the pertinent literature on IDP and that there is no duplication of articles in each theme classification.

3.2.2 Data collection

In the literature search, articles published in English from 1980 to 2019 were collected. The protocol applied in the literature search is keyword-based: “INVESTMENT DEVELOPMENT PATH”. The selected databases were ABI Inform, EBSCO, JSTOR, Science Direct, Scopus, and Web of Science (Franceschet, 2009; Harzing & Alakangas, 2016; Levine-Clark & Gil, 2008). Each database provides a comprehensive range of articles and access to leading International Business journals (Franceschet, 2009; Harzing & Alakangas, 2016; Levine-Clark & Gil, 2008).

3.2.3 Data analysis

Thematic analysis was applied to analyse the data. Thematic analysis is a methodology deployed to comprehensively organize, identify, analyse, and report themes within a unit of analysis in a comprehensive manner (Braun & Clarke, 2006; Khandker, 2022). Thematic analysis builds an interpretation of a proposed research context or question (Braun & Clarke, 2006; Khandker, 2022). In line with the objective of this study, it applies both manual and coding processes of thematic analysis to ensure that the analysis captures all the crucial keywords in the IDP literature, generates themes/subthemes in the pertinent IDP literature, and identifies potential avenues for further research. In the manual thematic analysis process, we apply the characteristics of the unit of analysis, that is, country characteristics and analysis approaches. These were applied as additional keywords for coding thematic analysis.

3.3 Study 2: The Investment Development Path Theory: Evidence from Indonesia

This subsection focuses on the methodology employed, data collection, and data analysis for study two.
3.3.1 Research methodology

Narula and Dunning (2010, p.265) stated that studies focusing on IDP using cross-country analysis are insufficient to present the idiosyncratic characteristics of a country and its development, since there are distinct features of a country’s economic structure, specialisation in industrial frontier and technological development, population size, locational advantages (i.e., geographical location and natural endowments), and government policies and regulations in supporting FDI. Accordingly, it is important to acknowledge and consider the idiosyncratic nature of a country based on its characteristics and development progression using single-country analysis. The second study undertaken in this thesis conducted a single-country analysis focusing on the IDP in Indonesia to assess the performance of FDI and economic development in Indonesia. Three steps were involved in assessing the applicability of the IDP in Indonesia. The first step was to assess Indonesia’s position based on a theoretical perspective. The purpose of this step is to assess the application of the IDP concept to Indonesia, whether Indonesia follows the same path as the theory proposed, and whether Indonesia is a net inward direct investment or net outward direct investment; to assess the impact of IFDI and OFDI on the country’s economic development; to investigate the necessary actions that the country engages in to shift its position on the IDP stage; and to investigate the role of the government in advancing the position of the country in providing the necessary regulations and policies. The second step is an empirical perspective to investigate suitable IDP model(s) in the context of Indonesia. The objectives are to identify the type of IDP model that suits Indonesia’s characteristics and to investigate which economic development (either GDP or GDP per capita) variable suits Indonesia’s model. The last step is to apply policy analysis to the institutional perspective of the FDI regime in Indonesia. This step aims to investigate whether Indonesia’s FDI regime is reflected in its positioning on the IDP. The policy analysis identifies recommendations for the Indonesian government regarding policies and regulations that can support the development and enhancement of its FDI, thus boosting its economic performance and shifting its position on the IDP.

3.3.2 Data collection

The second study assesses Indonesia’s FDI and economic performance in the IDP from 1990 to 2019 using the theoretical, empirical, and institutional perspectives of the IDP. The data used to analyse the theoretical perspective of the IDP (i.e., GDP per capita, Net Outward Investment Position, macroeconomic conditions, demographics, infrastructure, education conditions, FDI motives, and inward FDI policies and regulations) were retrieved from recognised domestic institutions (i.e., BKPM, the Ministry of Industries, the Ministry
of Trade, the Ministry of National Development Planning, Indonesia Central Agency on Statistics, and other related ministries) and international institutions (i.e., the World Bank, IMF, ADB, UNCTAD, OECD, HSBC, and other related institutions) for the allotted time. Moreover, the data applied to analyse the empirical perspective of the IDP (i.e., GDP, GDP per capita, IFDI, and OFDI flows) were drawn from the World Bank annual time series data for the allotted time. Lastly, the data used to analyse the institutional perspective of the IDP (i.e., policies and regulations on Indonesia’s FDI) for the institutional analysis were retrieved from recognised domestic institutions such as BKPM, the Ministry of Industries, the Ministry of Trade, the Ministry of National Development Planning, Indonesia Central Agency on Statistics, and other related ministries for the allotted time.

3.3.3 Data analysis

To assess Indonesia’s position in the IDP model, the following approaches are applied.

3.3.3.1 IDP classification approaches

The first analysis involved in this study applied the IDP classification approach (Sawitri & Brennan, 2022b) to classify and identify Indonesia’s position on the IDP concept. These approaches were deployed by establishing Indonesia’s characteristics and economic development in relation to each determinant of the different classification approaches of IDP stages.

The five approaches for the classification of IDP stages are as follows:

a. The first classification approach is based on a country’s economic development with the indicator of GDP per capita (Dunning, 1981b; Dunning et al., 2001; Liu et al., 2005; Verma & Brennan, 2011). Based on this approach, there are four IDP stages.

b. The second classification approach is based on FDI performance with the indicator of Net Outward Investment Position (NOIP) (Dunning, 1981a; 1981b; 1986). Based on this approach, there are five IDP stages.

c. The third classification approach is based on a country’s locational advantages with the indicators of economic conditions, demographics, infrastructure, and education (Boudier-Bensebaa, 2008; Galan et al., 2007; Ly, 2021; Narula & Dunning, 2000, 2010; Narula & Guimon, 2010; B. Park & Lee, 2003; Scott-Kennel & Enderwick, 2005). Based on this approach, there are five IDP stages.

d. The fourth classification approach is based on Multinational Companies (MNCs)’ strategies with the indicators of MNCs motives to engage in FDI (Narula and Dunning, 2010). Based on this approach, there are five IDP stages.
e. The fifth classification approach is based on government policies and regulations with the indicators of macroeconomic policies and regulations (Dunning, 1981a; Zhu et al., 2011; Narula & Dunning, 2010). According to this approach, there are five IDP stages.

These five approaches to the classification of IDP stages can identify and assess Indonesia’s position on the IDP, investigate the implications of this position for its development, and investigate the influential factors that can advance its position on the IDP.

3.3.3.2 Testing the IDP models

Three steps are applied in testing the IDP models. The first step involved data processing by transforming the collected data into a natural logarithm. The second step was data analysis by applying a unit root test to investigate whether the data were stationary. The final step was model estimation by applying ordinary least-squares and classical regression models.

a. Data processing

The collected data on GDP, GDP per capita, and NOIP are in absolute values in the United States dollars. Accordingly, to ensure the quality of the data, they first need to be transformed into a natural logarithmic form, as most time-series data in economic studies have an exponential relationship with time (Lean & Tan, 2011). By transforming the data into natural logarithms, the vertical scale was changed to a linear (Lean & Tan, 2011). Natural logarithms generate a reliable calculation of the overall variables; hence, the estimated coefficients represent the approximate change in the percentage (Shahbaz & Rahman, 2012; Zhang, 1999). They also remove noise, thus generating reliable and consistent empirical results (Gujarati, 2004; Shahbaz et al., 2016).

b. Data analysis

Data analysis (i.e., the unit root test) aims to determine whether the data collected are stationary or not (Dickey & Fuller, 1981; Kwiatkowski et al., 1992; Phillips & Perron, 1988). This study employs the Augmented Dickey Fuller (ADF), Phillips-Perron (PP), and Kwiatkowski-Phillips-Schmidt-Shin (KPSS) tests to conduct a unit root test of the individual series. The unit root test finds the degree of integration of individual series with potential outcomes of I (0) for stationarity at level I (1) for stationarity at the first difference and I (2) for stationarity at the second difference. This degree is identified by the probability result of the individual series and unit root test. The critical probability applied in this study was greater than or equal to 0.05 (at a 95% confidence level).

c. Model estimation

Table 3.2. IDP models with the independent variables of GDP or GDP per capita

<table>
<thead>
<tr>
<th>No.</th>
<th>IDP Models with the Independent Variable of GDP</th>
<th>IDP Models with the Independent Variable of GDP per capita (PGDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>( NOIP = \beta_0 + \beta_1 gdp(t) + \beta_2 gdp^2(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp(t) + \beta_2 pgdp^2(t) + \epsilon )</td>
</tr>
<tr>
<td>2</td>
<td>( NOIP = \beta_0 + \beta_1 gdp(t) + \beta_2 gdp^2(t) + \beta_3 gdp^3(t) + \beta_4 gdp^4(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp(t) + \beta_2 pgdp^2(t) + \beta_3 pgdp^3(t) + \beta_4 pgdp^4(t) + \epsilon )</td>
</tr>
<tr>
<td>3</td>
<td>( NOIP = \beta_0 + \beta_1 gdp(t) + \beta_2 gdp^2(t) + \beta_3 gdp^3(t) + \beta_4 gdp^4(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp(t) + \beta_2 pgdp^2(t) + \beta_3 pgdp^3(t) + \beta_4 pgdp^4(t) + \epsilon )</td>
</tr>
<tr>
<td>4</td>
<td>( NOIP = \beta_0 + \beta_1 gdp(t) + \beta_2 gdp^2(t) + \beta_3 gdp^3(t) + \beta_4 gdp^4(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp(t) + \beta_2 pgdp^2(t) + \beta_3 pgdp^3(t) + \beta_4 pgdp^4(t) + \epsilon )</td>
</tr>
<tr>
<td>5</td>
<td>( NOIP = \beta_0 + \beta_1 gdp(t) + \beta_2 gdp^2(t) + \beta_3 gdp^3(t) + \beta_4 gdp^4(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp(t) + \beta_2 pgdp^2(t) + \beta_3 pgdp^3(t) + \beta_4 pgdp^4(t) + \epsilon )</td>
</tr>
<tr>
<td>6</td>
<td>( NOIP = \beta_0 + \beta_1 gdp^3(t) + \beta_2 gdp^4(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp^3(t) + \beta_2 pgdp^4(t) + \epsilon )</td>
</tr>
</tbody>
</table>

This study applies the Ordinary Least Squares (OLS) method to conduct an assessment of model estimation (Dunning & Narula, 1996; Dunning, 1981a, 1981b, 1986; Fonseca et al., 2007; Narula, 1994; Satoglu, 2017; Vavilov, 2006; Verma & Brennan, 2011), to investigate the best-fit model and significance level of the model’s linearity. It also applies the classical regression model (Andrejiová & Marasová, 2013; Zeng, 2019) to investigate the linearity of the relationship, the exogeneity of the X variable (explanatory variable), non-autocorrelation, and homoscedasticity. Two elements were considered in the ordinary least squares method to define the best fit:

1) The \( R^2 \) statistic generates descriptive information on whether the model is a fit or not (Hutcheson, 2011).

This value can be interpreted as the percentage ratio of the variability of the Y’ function in explaining
that variable X can be applied to predict the outcome of Y (Hutcheson, 2011). This value also implies a best-fit model (Hutcheson, 2011). The value of $R^2$ ranges between 0 (implying no linear relationship between X and Y) and 1 (implying a perfect linear relationship between X and Y) (Hutcheson, 2011).

2) The F-statistic measures the significance level (Hutcheson, 2011). While $R^2$ indicates the explanatory power of the model applied, the F-statistic tests the significance level of the linear relationship of the model (Hutcheson, 2011). This study applied a 95% significance level, with a probability of the F-statistic close to 0 (Hutcheson, 2011).

In addition, this study considers three elements to test the assumptions of the classical regression model by Zeng (2019), as follows:

1) Multicollinearity implies lagged values among variables, shared common components of time trends among variables, and tended to capture similar phenomena (Zeng, 2019). One of the ways to capture multicollinearity is by analysing pairwise correlation coefficients. If the correlation coefficient of each variable is approximately 0.8, it indicates multicollinearity issue (Zeng, 2019). The impacts of ignoring multicollinearity issues are the insignificance of variables, and hence the difficulty of observing the individual contribution of the variables; the model might be too sensitive to small changes and generate inappropriate conclusions (Zeng, 2019).

2) The heteroscedasticity test applied in this study was the Breusch-Pagan test. The consequences of the existence of heteroscedasticity are that the wrong standard of errors and misleading inferences are generated (Zeng, 2019). If the chi-square probability is greater than 0.05 (the confidence level is 95%), which implies homoscedasticity or no issue with heteroscedasticity. If the chi-square probability is smaller than 0.05 (confidence level of 95%), it implies heteroscedasticity.

3) The autocorrelation test assesses whether the model is specified correctly (Zeng, 2019). This study applied the Durbin Watson (DW) test to investigate autocorrelation. If the value of DW falls within the range of 1.5 to 2.5, this can be considered normal. However, if the value of DW falls outside the range of 1.5 to 2.5, there is an issue with autocorrelation (Savin & White, 1977).

Applying these methods provides an overarching analysis and a robust method for investigating Indonesia’s best-fit model(s) and variables (s).

3.3.3.3 Policy analysis

The policy analysis applies a deep analysis on the FDI regime in Indonesia and a home country measures (HCMs) framework to assess Indonesia’s policies and regulations regarding FDI and generate
recommendations for promoting Indonesia’s position on IDP. This framework has also been applied to support OFDI in other countries (UNESCAP, 2020; UNCTAD, 2001). This framework encompasses a country’s implemented measures, policies, regulations, and institutional arrangements to support, facilitate, regulate, promote, and encourage FDI flows in other countries (UNESCAP, 2020; UNCTAD, 2001). HCMs also generate recommendations for governments to leverage their FDI activities and maximise their economic development (Stephenson & Perea, 2018). This policy analysis also considers the aspects of HCMs, such as institutional arrangements, regulations, early support services, financial support, fiscal support, investment insurance, treaties, operational support, maximising benefits, and evaluation. This study is divided into an analysis of the IFDI and OFDI policies and regulations in Indonesia.

3.4 Study 3: Outward Foreign Direct Investment and Home Country Economic Development – The Case of Indonesia

This subsection focuses on the methodology deployed, data collection, and data analysis for study three.

3.4.1 Research methodology

In the case of Indonesia, the country has been a favourite destination for IFDI (Amirahmadi & Wu, 1994). Given its large market size, competitive labour cost, and vast natural resources, Indonesia was in the top 20 host economies for IFDI in 2017 (UNCTAD, 2018). However, in terms of OFDI, there is no evidence that the country embraces OFDI as a means of economic development. The second study of this thesis found that Indonesia is a net of IFDI with a significant difference between its IFDI and OFDI (Sawitri & Brennan, 2022c). As a result, the country’s position on the IDP has been restricted to stage two of the IDP stages (Sawitri & Brennan, 2022c). In order to shift its position on the IDP stages, Indonesia’s government needs to promote its OFDI and upgrade the country’s comparative advantages in the global market. Therefore, there is a potential area for Indonesia to stimulate its OFDI to advance its comparative advantages in the global market and compete with other developing countries. Accordingly, this study focuses on the home country perspective to investigate the role of OFDI in Indonesia’s economy by establishing the determinant factors of OFDI from Indonesia and its impacts on the country’s economy, investigating the government's role in nurturing and stimulating domestic companies to engage in OFDI, and deriving the recommendations for Indonesia’s government to promote OFDI. This study applies both empirical and institutional analyses to address these objectives.

The empirical perspective focuses on the causal relationship between OFDI and economic development variables. The purpose of this step is to investigate the relationship between OFDI and Indonesia’s
economic development and identify the significant factor(s) that influence OFDI from Indonesia, as well as the impact of OFDI on Indonesia’s economy. Moreover, the institutional perspective aims to evaluate government initiatives to nurture the development of domestic companies and identify the constraints on them to develop their competitive advantage and engage in OFDI by conducting an institutional analysis.

3.4.2 Data collection
The third study investigates the relationship between OFDI and economic development in Indonesia from 1980 to 2019, using empirical and institutional analyses. The parameters applied for the empirical analysis are FDI using the data of IFDI and OFDI and economic development using the data of GDP, GNI, exports, imports, the number of listed domestic companies, and exchange rate. The data for this analysis were drawn from the World Bank and International Monetary Fund annual time series data for the allotted time. Lastly, the data applied for the institutional analysis (i.e., policies and regulations on Indonesia’s FDI) were retrieved from recognised domestic institutions such as BKPM, the Ministry of Industries, the Ministry of Trade, the Ministry of National Development Planning, Indonesia Central Agency on Statistics, and other related ministries for the allotted time.

3.4.3 Data analysis
Three steps are involved in investigating the relationship between OFDI and the economic development variables. The first step was data processing by transforming the collected data into a natural logarithm. The second step was data analysis by applying the unit root test to investigate whether the data were stationary. The final step is a causality test using TYDL augmented VAR model.

a. Data processing
The nature of the collected data varies owing to their characteristics. Most of the data employed in this study represent an absolute value at a constant price of millions of US dollars. Meanwhile, the number of domestic companies listed is the absolute number of companies, and the exchange rate is the absolute value of IDR to 1 USD. Accordingly, to ensure the quality and equality of the data, all data need to be transformed into a natural logarithm form, as most time-series data in economic studies have an exponential relationship with time (Lean & Tan, 2011). By transforming the data into a natural logarithm, they changed the vertical scale to a linear (Lean & Tan, 2011). The natural logarithm generates a reliable calculation of the overall variables; hence, the estimated coefficients are the approximate changes in the percentage (Shahbaz & Rahman, 2012; Zhang, 1999). It also removes noise, thus generating reliable and consistent empirical results (Gujarati, 2004; Shahbaz et al., 2016).
The fourth process involved testing the validity of the data before conducting the data analysis:

1) Multicollinearity implies lagged values among variables, shares a common component of time trend among variables, and tends to capture similar phenomena (Zeng, 2019). One of the ways to capture multicollinearity is by analysing pairwise correlation coefficients. If the correlation coefficient of each variable is approximately 0.8, it indicates multicollinearity issue (Zeng, 2019). The impacts of ignoring multicollinearity issues are the insignificance of variables, and hence the difficulty of observing the individual contribution of the variables; the model might be too sensitive to small changes and generate inappropriate conclusions (Zeng, 2019).

2) The heteroscedasticity test applied in this study was the Breusch-Pagan test. The consequences of the existence of heteroscedasticity are that the wrong standard of errors and misleading inferences are generated (Zeng, 2019). If the chi-square probability is greater than 0.05 (the confidence level is 95%), which implies homoscedasticity or no issue with heteroscedasticity. If the chi-square probability is smaller than 0.05 (confidence level of 95%), it implies heteroscedasticity.

3) The autocorrelation test assesses whether the model is specified correctly (Zeng, 2019). This study applied the Durbin Watson (DW) test to investigate autocorrelation. If the value of DW falls within the range of 1.5 to 2.5, this can be considered normal. However, if the value of DW falls outside the range of 1.5 to 2.5, there is an issue with autocorrelation (Savin & White, 1977).

4) The normality distribution test ensures a normal distribution of the data (Alhodiry et al., 2021; Jarque & Bera, 1987). This study applied the Jarque–Bera (JB) test to investigate normality by estimating the skewness and kurtosis values of the residuals. If the skewness value is less than 0 and the kurtosis value is less than 3, the data are normally distributed (Dahmouni et al., 2018; Jarque & Bera, 1987; Mantalos, 2010; Rana & Elo, 2017). However, if the skewness is greater than zero and the kurtosis is greater than three, the data are not normally distributed (Dahmouni et al., 2018; Jarque & Bera, 1987; Mantalos, 2010; Rana & Elo, 2017).

b. Data analysis

Three steps were involved in the data analysis to investigate the causality between OFDI and economic development variables. The first step is the unit root test. This test is applied to determine whether the data collected are stationary or not (Dickey & Fuller, 1981; Kwiatkowski et al., 1992; Phillips & Perron, 1988) and to determine the level at which the data are stationary to identify the maximum degree of integration of the data series variables (Dolado & Lütkepohl, 1996; Toda & Yamamoto, 1995).
Figure 3.2. Steps in unit root tests

Figure 3.2 presents the steps involved in the unit root test. This study employs the Augmented Dickey Fuller (ADF), Phillips-Perron (PP), and Kwiatkowski-Phillips-Schmidt-Shin (KPSS) tests. The unit root test finds the stationary level of the individual series. The potential denotations for this result are I(0) for stationary at level, I(1) for stationary at the first difference, and I(2) for stationary at the second difference. The critical probability applied in this study was above or equal to 0.05 (at a 95% confidence level). The maximum stationary level of all the variables was then determined as $d$ in the augmented VAR models.

After conducting the unit root test and identifying the degree of integration of the individual series, the estimated VAR model is generated by determining the optimal lag length to perform the TYDL test. VAR is a suitable model for testing causality relationships without any predetermination of whether the variables are endogenous or exogenous (Gujarati, 2004; Sims, 1980). Therefore, the basic hypotheses for all variables are endogenous (Gujarati, 2004; Sims, 1980). This model also provides a suitable determination and
forecasting of the two-way relationships between variables (Frimpong & Oteng-Abayie, 2006; Guru-Gharana, 2012).

Figure 3.3. Steps in generating the estimated VAR models

The VAR model is then estimated by adding the variables of optimal lag length and stationary level. Figure 3.3 presents the steps for generating the estimated VAR models. The optimal lag length is determined by comparing the lag order selected by each criterion, such as the sequential modified Likelihood Ratio test statistic (LR), Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Information Criterion (SC), and Hannan-Quinn Information Criterion (HQ) at a 95% level of confidence to identify the true lag length for the VAR model (Dolado & Lütkepohl, 1996; Toda & Yamamoto, 1995). The true lag length for the VAR model is determined by comparing the lag order that satisfies most criteria (Dolado & Lütkepohl, 1996; Toda & Yamamoto, 1995). The resultant true lag length is represented by $k$ in the augmented VAR model.
To investigate the relationship of all variables, comparing the probability value with the critical probability value of:
- 0.10 or 10%
- 0.05 or 5%
- 0.01 or 1%

**Figure 3.4. Steps involved in TYDL analysis**

The last step is TYDL. Figure 3.4 presents the steps involved in TYDL and the possible findings of the analysis. The most prevalent method for investigating the causality relationship between variables is the Granger representation theorem proposed by Granger (1969). The theory states that if the degree of integration in the data series is in the first difference, the causality relationship is one-way relationship (Granger, 1969). It also states that, if the degree of integration in the data series is not in the first difference or even integrated into other differences, it is not necessary to conduct a test in the long run (Granger, 1969).

This theory implies that the unit root and cointegration tests have the least power amidst the alternative outcome (Granger, 1969). Meanwhile, the TYDL method allows the causality test irrespective of the integrated degree of all variables in any possible outcome and recognizes the possibility of cointegration among variables (Dolado & Lütkepohl, 1996; Guru-Gharana, 2012; Toda & Yamamoto, 1995).

Furthermore, the VAR is estimated not only with the lag order of $k$, but also considers the stationary level of all variables of $d$ (which is determined based on the findings of the unit root test) (Frimpong & Oteng-Abayie, 2006; Guru-Gharana, 2012).
The advantages of the TYDL method to test the causality relationship are that TYDL is applicable even in the presence of cointegration and different levels of stationarity of the variables. It employs a Modified Wald Test (MWALD) with respect to the chi-square test statistic to check the robustness of each model (Frimpong & Oteng-Abayie, 2006; Guru-Gharana, 2012). Table 3.3 presents the VAR model augmented by the true lag length (k) and the maximum level of stationarity (d).

<table>
<thead>
<tr>
<th>No</th>
<th>Models</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Economic development is a determinant of OFDI</strong></td>
</tr>
<tr>
<td>1</td>
<td>( ofdi_t = \beta_0 + \sum_{i=1}^{k+d} \beta_i \text{excrate}<em>{t-i} + \sum</em>{i=1}^{k+d} \beta_i \text{exports}<em>{t-i} + \sum</em>{i=1}^{k+d} \beta_i \text{gdp}<em>{t-i} + \sum</em>{i=1}^{k+d} \beta_i \text{gni}_{t-i} )</td>
</tr>
<tr>
<td></td>
<td>( + \sum_{i=1}^{k+d} \beta_i \text{ifdi}<em>{t-i} + \sum</em>{i=1}^{k+d} \beta_i \text{imports}<em>{t-i} + \sum</em>{i=1}^{k+d} \beta_i \text{lde}<em>{t-i} + \epsilon</em>{1t} )</td>
</tr>
</tbody>
</table>

| 2  | \( ofdi_t = \beta_0 + \sum_{i=1}^{k+d} \beta_i \text{ofdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{exports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{excrate}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{gni}_{t-i} \) |
|    | \( + \sum_{i=1}^{k+d} \beta_i \text{gdp}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{imports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{lde}_{t-i} + \epsilon_{1t} \) |

| 3  | \( gdp_t = \beta_0 + \sum_{i=1}^{k+d} \beta_i \text{ofdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{exports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{excrate}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{gni}_{t-i} \) |
|    | \( + \sum_{i=1}^{k+d} \beta_i \text{ifdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{imports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{lde}_{t-i} + \epsilon_{1t} \) |

| 4  | \( exports_t = \beta_0 + \sum_{i=1}^{k+d} \beta_i \text{ofdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{exports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{excrate}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{gni}_{t-i} \) |
|    | \( + \sum_{i=1}^{k+d} \beta_i \text{ifdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{imports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{lde}_{t-i} + \epsilon_{1t} \) |

| 5  | \( excrate_t = \beta_0 + \sum_{i=1}^{k+d} \beta_i \text{ofdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{exports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{gdp}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{gni}_{t-i} \) |
|    | \( + \sum_{i=1}^{k+d} \beta_i \text{ifdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{imports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{lde}_{t-i} + \epsilon_{1t} \) |

| 6  | \( gni_t = \beta_0 + \sum_{i=1}^{k+d} \beta_i \text{ofdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{exports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{excrate}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{gdp}_{t-i} \) |
|    | \( + \sum_{i=1}^{k+d} \beta_i \text{ifdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{imports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{lde}_{t-i} + \epsilon_{1t} \) |

| 7  | \( imports_t = \beta_0 + \sum_{i=1}^{k+d} \beta_i \text{ofdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{exports}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{excrate}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{gni} \) |
|    | \( + \sum_{i=1}^{k+d} \beta_i \text{ifdi}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{gdp}_{t-i} + \sum_{i=1}^{k+d} \beta_i \text{lde}_{t-i} + \epsilon_{1t} \) |
Whereas:

ofdi = outward FDI
excrate = exchange rate
exports = exports
gdp = Gross Domestic Product
gni = Gross National Income
ifdi = inward FDI
imports = imports
ldc = the number of listed domestic companies
t = time period of the data from 1980 to 2020

3.5 Summary

This chapter offered an overview of the methodology deployed in this thesis. The first section introduces the method deployed in each study and the research design for this thesis. The second, third, and fourth sections present the methodology employed, data collection, and data analysis for study one, two, and three undertaken in this thesis, respectively. Moreover, the three studies undertaken in this thesis also provide their methodology section. The following section of Chapters 4 to 6 will then present the three studies undertaken in this thesis.
CHAPTER 4
THE INVESTMENT DEVELOPMENT PATH LITERATURE:
A REVIEW AND RESEARCH AGENDA


Abstract:
This study is the first systematic literature review of the Investment Development Path (IDP) that applies a thematic analysis approach, encompassing 51 journal articles published in CABS-ranked journals from 1981 to 2021. This study differs from previous studies on IDP in terms of the methodology deployed and the research focus. The deployment of IDP literature is quite extensive, covering many aspects of the IDP concept. The analysis reveals that four themes arise from the IDP literature: the assessment of a country’s development in relation to the IDP concept, Foreign Direct Investment (FDI) phenomena in the IDP concept, the internal and external factors that influence a country’s position in the IDP stages, and further development of the IDP concept. These findings lead to the generation of a novel framework that represents the interrelationship between FDI performance and the economic development of a country relative to its position on the IDP stages. They also lead to the identification of five approaches to the classification of IDP stages based on economic development, FDI performance, locational advantages, the strategies of Multinational Companies (MNCs), and the role of government. These approaches can assist researchers, policymakers, and firms in classifying a country on the IDP stages.

Keywords
Investment Development Path, Systematic Literature Review Analysis, Thematic Analysis Approach

4.1 Introduction
The Investment Development Path (IDP) is not a novel topic in the International Business (IB) research domain. The IDP concept is the most frequently employed empirical assessment reflecting a country’s investment activities (Zhu et al., 2011; Lall, 1996). This concept focuses on the assessment of a country’s development through the performance of Foreign Direct Investment (FDI) and economic development and the interaction of FDI with the development of a country (Dunning & Narula, 1996; Dunning & Narula, 1994, 2002; Narula, 1994; Narula & Dunning, 2010). FDI performance is determined by the Net Outward
Investment Position (NOIP), defined as the difference between Outward FDI (OFDI) and Inward FDI (IFDI) stocks (Tolentino, 2003). Economic development is determined by Gross Domestic Product (GDP) per capita (Tolentino, 2003). The IDP concept distinguishes and classifies a country based on its propensity and characteristics into a net inward direct investment or net outward direct investment (Dunning & Narula, 1996). Additionally, this concept also postulates that each country proceeds through five stages of IDP (Dunning & Narula, 1996). The essential tenets of the IDP concept are as follows:

a. The IDP concept represents and assesses the systematic relationship between the nature, pattern, and degree of FDI activities associated with a country’s economic structure and development. Accordingly, this relationship reflects the level of development of the IDP stages (Narula & Dunning, 2010).

b. The IDP concept explains the reason behind the motives of Multinational Companies (MNCs) expanding their value-added activities in foreign countries (Dunning & Narula, 1996; Rugman & Brewer, 2001).

c. The IDP concept recognises a reciprocal impact between the Ownership (O)- and Location (L)-advantages of the actors in FDI activities (i.e., the O-advantages of domestic companies, the O-advantages of MNCs, and the L-advantages of countries). These three-way relationships and interactions are the foundation for the establishment and development of MNCs from a given country to engage in FDI, leading to its development (Narula & Dunning, 2010).

d. The IDP concept can be applied to all countries, but each country has an individual path that is particular to its development and its IDP stage classification. The transformation and evolution of a country in the IDP stages are also idiosyncratic owing to country characteristics and development conditions.

The initial concept of IDP was presented at the 1979 conference on “Multinational Enterprises from Developing Countries” by Dunning (Dunning & Narula, 1996). Subsequently, this concept was published in a review of world economies by Dunning in 1981 (Dunning, 1981). Since then, IDP studies have addressed aspects such as theory, method, model formulation, research context, and unit of analysis (i.e., the selection of countries or groups of countries and analysis approaches).

This study differs from previous studies on IDP in terms of the methodology employed and the research focus. The objectives of this study are to review and summarise the pertinent literature on the IDP from its inception in 1981 and to identify further research on the implementation of the IDP concept in the IB research domain. This study applies a systematic literature review analysis using a thematic analysis approach of peer-reviewed articles focused on IDP from 1981 to 2021 published in CABS-ranked journals.
This study differs from the previous works of Zhu et al. (2011), Narula (1993), and Scott-Kennel and Enderwick (2005) in terms of the research focus. The authors focused on one or two factors (i.e., technology development, innovation, and human-environment factors) that influence the IDP position of a country (Zhu et al., 2011; Narula, 1993) and the role of inter-firm (micro-level) linkages in supporting the development of domestic companies’ O-advantages to engage in OFDI (Scott-Kennel & Enderwick, 2005). This study focuses on the macro-level analysis of FDI performance, L-advantages (macroeconomic conditions), FDI motives, and policy implementation at each stage of IDP development.

Our findings reveal four themes within the selected articles that represent the extant literature on IDP: the assessment of a country’s development in relation to the IDP concept, FDI phenomena in the IDP concept, the internal and external factors that influence a country’s position on the IDP stages, and further development of the IDP concept. The findings of this study lead to the establishment of a novel framework that represents the interrelation between FDI performance and the economic development of a country to its position on the stages of IDP. They also lead to the identification and generation of five approaches to the classification of IDP stages (i.e., economic development, FDI performance, L-advantages, MNCs strategies, and the role of government).

This study benefits practice related to researchers, policymakers, and firms. The findings of this study reveal potential areas for further research by researchers. This study benefits policymakers in providing a reference for assessing a country’s position in the IDP. They can also apply the identified IDP classification approaches while framing their policies and regulations that boost FDI performance, stimulate economic performance, and thus advance a country’s position on the IDP stages. It also benefits firms with an interest in investing in the host country by applying the IDP classification approaches to assess the development of a potential host country as a reference for the location decision-making process for their internationalisation strategies.

The structure of this study is as follows: the introduction in section one presents the research focus and context and the contributions and benefits of the study. Section two presents the methodology for evaluating the pertinent literature on IDP. Section three encompasses the analysis process and presentation of the findings. Section four contains a discussion of the findings that led to the establishment of our proposed framework that represents the inter-relationship between FDI (IFDI and OFDI) and the economic development of a country to its position on the IDP stages and the generation of the IDP stage classification.
approaches. Section five encompasses the areas for further research on IDP. Finally, section six offers some conclusions.

4.2 Methodology

This study follows a Systematic Literature Review (SLR) method that focuses on the themes, sub-themes, theoretical underpinnings, and methods employed in one particular research topic (Gehrisch & Süß, 2022; Keupp & Gassmann, 2009; Paul et al., 2017; Rosado-Serrano et al., 2018). A SLR aims to review the pertinent literature on a particular research topic to identify the gap in the literature and generate an agenda for further research (Lisboa et al., 2010). Furthermore, a SLR also contributes to knowledge acceleration and mediates the theory development of a particular research topic (Fisch & Block, 2018).

The SLR steps entail the literature search and selection protocols, and thematic analysis process. In the literature search and selection protocols, we developed the search criterion and steps involved in the article selection process. The findings of the review protocols are the selected articles for the analysis process. In the thematic analysis process, we involve manual and coding processes to ensure that the proposed themes and subthemes represent the pertinent literature on IDP and to ensure that there is no duplication of articles in each theme classification.

4.2.1 The literature search and selection protocols

The literature search and selection protocols generate an audit trial of the overall review process (Jones et al., 2011; Khandker, 2022). The selected publications were journal articles because they were validated via a peer-review process and distinct sources of publications (Jones et al., 2011; Nadkarni & Prügl, 2021; Podsakoff et al., 2005). Therefore, we excluded books, book chapters, reports, and conference papers from the sample selection process.

The protocol for searching literature is keyword-based. The keyword applied in the search was “Investment Development Path” and the search was performed on 10 August 2021. The databases used in this study followed previous SLR studies in the IB research domain and consisted of ABI Inform, EBSCO, JSTOR, Science Direct, Scopus, and Web of Science (Franceschet, 2009; Harzing & Alakangas, 2016; Levine-Clark & Gil, 2008). Each database provides a comprehensive range of articles and access to leading IB journals (Franceschet, 2009; Harzing & Alakangas, 2016; Levine-Clark & Gil, 2008). The search process led to the identification of 500 publications related to IDP from the six databases. Table 4.1 presents the results of the search for each database.
Table 4.1. Results from the searched databases for the IDP literature

<table>
<thead>
<tr>
<th>Databases</th>
<th>The number of articles found related to IDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABI/Inform</td>
<td>89</td>
</tr>
<tr>
<td>EBSCO</td>
<td>59</td>
</tr>
<tr>
<td>JSTOR</td>
<td>184</td>
</tr>
<tr>
<td>Science Direct</td>
<td>78</td>
</tr>
<tr>
<td>Scopus</td>
<td>59</td>
</tr>
<tr>
<td>Web of Science</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
</tr>
</tbody>
</table>

From the literature search process, we identify articles for the initial review. In the literature selection protocol, we apply the inclusion and exclusion criteria as recommended by Kuckertz & Block (2021). We first upload the identified articles into an individual spreadsheet based on each database in Microsoft Excel program. We then classify each article into 11 categories: the year published, author(s), type of publications, unit of analysis, research topic(s), titles of the articles, journal sources, database sources, CABS-ranked, abstract, and full-text availability. Lastly, we combine all spreadsheets and apply the manual selection process based on several categories as exclusion criteria.

Figure 4.1. The selection process applied to literature
Figure 4.1 presents the process of article selection by applying several exclusion criteria:

a. We apply the first exclusion criterion to journal articles published in English from 1981 to 2021. In the selection process, if IDP is in the title, the paper is included in the reviewed articles. If IDP is not in the title, we follow the next step of the content analysis. If the content analysis results are relevant to the IDP concept, this paper is included in the reviewed articles. As a result of this process, 329 articles are excluded from the initial 500 articles leaving 171 articles for the following step.

b. We then apply the second exclusion criteria involving the removal of duplicate articles and the assurance of full-text availability from all the eligible articles. As a result of this step, 66 articles are excluded leaving 105 articles for the following step.

c. Lastly, we apply the third exclusion criterion related to the CABS-ranked journal articles. As a result of this step, 51 articles remain for review.

4.2.2 The thematic analysis

Thematic analysis is a methodology deployed to organise, identify, analyse, and report themes within a unit of analysis in a comprehensive manner (Braun & Clarke, 2006; Khandker, 2022). Thematic analysis builds an interpretation of the proposed research context or question (Braun & Clarke, 2006; Khandker, 2022). In line with our objective, this study applies both manual and coding processes of thematic analysis to ensure that we capture all the crucial keywords in the IDP literature, generate themes/subthemes in the pertinent IDP literature, and identify potential avenues for further research.

4.2.2.1 Manual thematic analysis

In the manual thematic analysis process, we apply characteristics of the unit of analysis i.e., country characteristics and analysis approaches. These are applied as additional keywords for coding thematic analysis. The reasons for the chosen keywords are as follows:

a. The phenomena captured in a study might be distinct due to the different levels of development (i.e., developed or developing countries). Developed country studies tend to focus on OFDI, whereas studies in developing countries tend to focus on IFDI development and emerging activities in relation to OFDI.

b. Each country has peculiar characteristics due to its internal (i.e., economic development, policies and regulations, patterns of foreign investment, and geographical conditions) and external aspects (i.e., economic or financial crises, political and social conflicts, and global economic conditions). Therefore, the internal and external aspects and the development level of a country (i.e., developed or developing)
can influence L-advantages, government policies and regulations, and the strategies of firms (both MNCs and domestic companies) to compete in the market.

c. According to the IDP concept, developing countries are classified in the early stages of development (i.e., stages 1, 2, and 3), whereas developed countries are classified in the later stages of development (i.e., stages 4 and 5) (Dunning, 1981; Dunning et al., 2001; Duran & Ubeda, 2005; Gorynia et al., 2020). Therefore, the development of countries differs according to the stage classification and characteristics.

d. It is necessary to distinguish IDP studies based on single-country or cross-country analyses because of the peculiarity of a country’s characteristics and its development process. Therefore, the analysis method is critical for conducting research on IDP.

4.2.2.2 Coding thematic analysis

We employ NVivo 12 for coding thematic analysis. This program provides tools for data/documents management while allowing the user coding capabilities via browsing and interpreting data/documents (Azeem et al., 2012; Johnston, 2006; Khandker, 2022). Additionally, it generates a synthesis of identified ideas and develops a better understanding of identified categories and themes (Azeem et al., 2012; Johnston, 2006; Khandker, 2022). The steps involved in the coding thematic analysis are as follows:

a. In step one, we apply a word cloud analysis of the more frequent words from all selected articles. These words then need to be analysed to generate relevant keywords that represent the IDP context.

b. In step two, we generate codes based on the identified keywords. We analyse the relevance of the identified keywords from the previous step and consider the findings from the manual thematic analysis to generate suitable codes that capture the pertinent literature on IDP.

c. In step three we generate nodes (categories) based on the selected codes. The codes generated from step two are analysed to determine the potential nodes for the following step.

d. The last step is to generate themes based on the identified nodes. The nodes from step three are analysed and developed into clusters (themes). The purpose of generating themes in the literature review paper is to investigate what topics are covered in the IDP literature and to identify the potential areas for further research within each topic.

4.3 Analysis

Based on our literature search and selection protocols, we identify 51 articles for the analysis process. These articles represent significant research involving the IDP concept since its inception by Dunning in 1981.
From Figure 4.2, it is apparent that IDP is quite prevalent in CABS-ranked journals, with the number of articles peaking in 2010.

**Table 4.2. Journal distribution on the CABS-ranked journal**

<table>
<thead>
<tr>
<th>Publications</th>
<th>Number of articles</th>
<th>CABS-ranked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Journal of International Business Studies</td>
<td>1</td>
<td>4*</td>
</tr>
<tr>
<td>Regional Studies</td>
<td>1</td>
<td>4*</td>
</tr>
<tr>
<td>Management International Review</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>International Business Review</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Journal of International Management</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>International Marketing Review</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>International Journal of Contemporary Hospitality Management</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Review of the World Economics</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Transnational Corporations</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Oxford Development Studies</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Asia Pacific Business Review</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Asian Business and Management</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Thunderbird International Business Review</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Eurasian Geography and Economics</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Journal of the Asia Pacific Economy</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Economics of Planning</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
Figure 4.3 presents the steps involved in the analysis process of the SLR, including the steps involved in the manual and coding thematic process.

![Diagram of the steps involved in a systematic literature review using thematic analysis](image)

**Figure 4.3. Steps involved in a systematic literature review using thematic analysis**
4.3.1 Findings from manual thematic analysis

As mentioned in section 4.2.2.1, we consider additional keywords of developed and developing countries, as well as cross-country and single-country analyses for our analysis process. The percentages of the studies focused on developing and developed countries are 56.35% and 33.33%, respectively. Studies on developing countries have focused on attracting IFDI, generating a conducive investment climate, and encouraging domestic companies to engage in OFDI. Meanwhile, studies in developed countries have focused on the factors influencing investment activities and improving their competitive advantages globally. Most studies (62.5%) focused on Central and Eastern Europe (CEE) countries as a unit of analysis in the case of developed countries, while China as a unit of analysis accounted for 33.3% of studies in the case of developing countries. Moreover, the percentages of studies focused on single-country and cross-country analyses are 54.2% and 45.8%, respectively. The underlying reason why most IDP studies focus on single-country analysis is related to the IDP concept of acknowledging the peculiarity of a country’s characteristics and its development stages. Therefore, studies that focus on single-country analysis can provide overarching findings.

4.3.2 Findings from the coding thematic analysis

The coding thematic analysis process begins with uploading 51 selected articles to the NVivo 12 program. We run each step of the analysis as follows:

a. In step one, we apply word cloud analysis. The more frequent words that emerge are IDP, stages, FDI, country development, markets, firms (both domestic and foreign companies), emerging and developed economies, location, ownership, government, and factors.

b. In step two, we generate the codes. The codes are country development (developed and developing countries), single- and cross-country analyses, FDI (IFDI and OFDI), markets (home and host countries), firms (both domestic and MNCs), and factors (government, L-advantages, O-advantages, country development, and economic aspects).

c. In step three, we generate nodes. We identify and generate the nodes that represent the pertinent literature on the IDP as the assessment of IDP (representing the concept and stages of IDP), phenomena of FDI (representing IFDI and OFDI), factors on IDP (representing the government, L-advantages, O-advantages, and country development), and further development of the IDP (representing other factors excluding the one that already mentioned before) in the context of developed and developing countries, and single- and cross-country analyses.
For the last step, we generate themes. The themes and subthemes generated are as follows.

1) The first theme relates to the assessment a country’s development in relation to the IDP concept. This theme is derived from studies that focus on assessing the applicability of the IDP concept to the investigation of a country’s development based on FDI performance.

2) The second theme relates to FDI phenomena in the IDP concept. This theme is derived from studies that focus on applying IDP to explain the FDI phenomena (IFDI and OFDI) in the IB research domain. We then generate subthemes within this theme, viz. the importance of IFDI in supporting the development of a country, the trend and pattern of OFDI in developed and developing countries, and the company strategy in terms of choice of location for engaging in OFDI.

3) The third theme encompasses the internal and external factors influencing a country’s position in the IDP stages. This theme is derived from studies that focus on the influential factors necessary to shift the position of a country in the IDP stages.

4) The fourth theme is further development of the IDP concept. This theme is derived from studies that focus on the development of the IDP concept in terms of the variables employed and the selection of the unit of analysis and methodology. This leads to suggestions for further research on the IDP literature.

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**Figure 4.4. The distribution of studies based on selected themes**
The percentage of studies based on each theme classification is shown in Figure 4.4. Most studies (59%) focus on the investigation of FDI phenomena in the IDP concept. The remaining studies focus on the assessment of a country’s development in relation to the IDP concept (19%), on further development of the IDP concept (14%), and on the internal and external factors that influence a country’s position in the IDP stages (8%). The following subsections present the studies for each theme classification.

4.3.2.1 The assessment of a country’s development in relation to the IDP concept

Table 4.3. Previous studies on the assessment of a country’s development in relation to the IDP concept

<table>
<thead>
<tr>
<th>No</th>
<th>Year</th>
<th>Author(s)</th>
<th>Unit of Analysis</th>
<th>Level of country</th>
<th>Method</th>
<th>Title</th>
<th>Publications</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1981</td>
<td>Dunning</td>
<td>67 Countries</td>
<td>Developed and developing countries</td>
<td>Cross-country analysis</td>
<td>Explaining the International Direct-Investment Position of Countries Towards a Dynamic or Developmental Approach</td>
<td>Review of World Economies</td>
</tr>
<tr>
<td>2</td>
<td>1998</td>
<td>Buckley &amp; Castro</td>
<td>Portugal</td>
<td>Developed country</td>
<td>Single-country analysis</td>
<td>The Investment Development Path: The Case of Portugal</td>
<td>Transnational Corporations</td>
</tr>
<tr>
<td>3</td>
<td>2003</td>
<td>Park &amp; Lee</td>
<td>China</td>
<td>Developing country</td>
<td>Cross-country analysis</td>
<td>Comparative Analysis of Foreign Direct Investment in China: Firms from South Korea, Hongkong, and the United States in Shandong Province</td>
<td>Journal of the Asia Pacific Economy</td>
</tr>
<tr>
<td>No.</td>
<td>Year</td>
<td>Author(s)</td>
<td>Country</td>
<td>Type of Analysis</td>
<td>Title</td>
<td>Journal/Book</td>
<td></td>
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</tr>
<tr>
<td>4</td>
<td>2003</td>
<td>Erdilek</td>
<td>Turkey</td>
<td>Single-country analysis</td>
<td>A comparative analysis of inward and outward FDI in Turkey</td>
<td>Transnational Corporations</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>2007</td>
<td>Gorynia, Nowak, Wolniak</td>
<td>Poland</td>
<td>Single-country analysis</td>
<td>Poland and its Investment Development Path</td>
<td>Eastern European Economics</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>2008a</td>
<td>Gorynia, Nowak, Wolniak</td>
<td>Poland</td>
<td>Single-country analysis</td>
<td>Poland Investment Development Path and Industry Structure of FDI Inflows and Outflows</td>
<td>Journal of East-West Business</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>2011</td>
<td>Ragoussis</td>
<td>196 Countries</td>
<td>Cross-country analysis</td>
<td>The Investment Development Path in Space</td>
<td>Review of World Economics</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>2017</td>
<td>Kuzel</td>
<td>Poland &amp; Visegrad Countries</td>
<td>Cross-country analysis</td>
<td>The Investment Development Path: Evidence from Poland and Other Countries of the Visegrad Group</td>
<td>Journal of East-West Business</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.3 presents ten studies that focus on assessing a country’s development path by applying the IDP concept. Four studies employ a cross-country analysis method (Dunning, 1981; Kuzel, 2017; Park & Lee,
2003; Ragoussis, 2011), whereas six studies employ a single-country analysis method (Buckley & Castro, 1998; Erdilek, 2003; Gorynia et al., 2007, 2008b; Marton & McCarthy, 2007; Verma & Brennan, 2011). The challenges for cross-country studies are related to the idiosyncratic characteristics of countries and the individual paths of their development process. Therefore, to cope with these challenges, it is necessary to apply an additional analysis for cross-country analysis, such as cluster analysis (Dunning, 1981), factor analysis (Durán & Ubeda, 2001), or spatial analysis (Ragoussis, 2011). Moreover, given the challenges of the cross-country analysis approach, we consider that the most suitable analysis method to assess the applicability of IDP in a country is by applying a single-country analysis because it considers the idiosyncrasies of a country’s characteristics and provides a comprehensive analysis of a country’s development.

Furthermore, several methods are applied in the selected articles to assess a country’s position on the IDP. Five studies apply statistical modelling, such as quadratic and polynomial models, in a single- and cross-country analysis (Buckley & Castro, 1998; Dunning, 1981; Gorynia et al., 2008; Marton & McCarthy, 2007; Verma & Brennan, 2011), two studies apply a survey analysis in a cross-country analysis (Kuzel, 2017; B. Park & Lee, 2003), one study applies a comparative analysis in a single-country analysis (Erdilek, 2003), one study applies a spatial analysis in a cross-country analysis (Ragoussis, 2011), and another study applies a classification analysis in a single-country analysis (Gorynia et al., 2007). Each method has its own benefits and characteristics according to the availability of data and purpose of the study.

4.3.2.2 FDI phenomena in the IDP concept

The IDP framework is widely used to investigate the relationship between IFDI, domestic companies’ OFDI, and the host country’s economic development (Dunning, 1981; Scott-Kennel & Enderwick, 2005). Therefore, we generate three sub-themes within the FDI phenomena in the IDP concept. These sub-themes are addressed in the following subsections.

4.3.2.2.1 The importance of IFDI in supporting the development of a country

Table 4.4. Previous studies on the importance of IFDI in supporting the development of a country

<table>
<thead>
<tr>
<th>No</th>
<th>Year</th>
<th>Author(s)</th>
<th>Unit of Analysis</th>
<th>Level of country</th>
<th>Method</th>
<th>Title</th>
<th>Publications</th>
<th>CABS Ranked</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. The importance of inward FDI in supporting the development of a country</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2008</td>
<td>Boudier-Bansebaa</td>
<td>CEE</td>
<td>Develop ed country</td>
<td>Cross-country analysis</td>
<td>FDI-Assisted Development in the Light of the Investment</td>
<td>Transnational Corporations</td>
<td>2</td>
</tr>
<tr>
<td>No.</td>
<td>Year</td>
<td>Authors</td>
<td>Country</td>
<td>Analysis Type</td>
<td>Title</td>
<td>Journal Title</td>
<td>Volume</td>
<td></td>
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<tr>
<td>3</td>
<td>2010</td>
<td>Pires, Stanton, Salavrakos</td>
<td>Less Developed Countries</td>
<td>Cross-country</td>
<td>The Interaction of Foreign Direct Investment with Electronic Commerce in Less Developed Countries</td>
<td>Forum for Social Economics</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>2021</td>
<td>Ly</td>
<td>Cambodia</td>
<td>Single-country</td>
<td>The Implication of FDI in the Construction Industry in Cambodia under BRI</td>
<td>Cogent Business and Management</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.4 presents six studies that focus on the importance of IFDI in the IDP concept (Anwar & Nguyen, 2010; Boudier-Bensebaa, 2008; Chen et al., 2020; Filippaios & Kottaridi, 2013; Ly, 2021; Pires et al., 2010). The IDP depicts the process by which IFDI propels the augmented performance of domestic companies to escalate their O-specific advantages to engage in OFDI (Scott-Kennel & Enderwick, 2005). However, a country’s pace may differ due to resource endowments, market characteristics, and government support in generating a conducive environment and ensuring the transfer of spillover effects to domestic companies as a result of the presence of MNCs.

The development of a country reflects a significant change in its economic structure, and accordingly, this change induces a pattern of FDI (Lall, 1996b; Scott-Kennel & Enderwick, 2005). Subsequently, a change in the L-advantages of a host country also indicates a change in the O- and Internalisation (I)-advantages of domestic companies (Boudier-Bensebaa, 2008) and how a country’s investment position might evolve from an FDI recipient to an FDI supplier to other countries (Lall, 1996b; Scott-Kennel & Enderwick, 2005).

Other factors that influence the pace of the transformation process from a net FDI recipient to a net FDI supplier are the presence of value-added and sustainable IFDI. Accordingly, this type of FDI might not only improve the economic conditions of the host country but also generate knowledge augmentation through training and skills development, improvement in high technology infrastructure and business processes, improvement of the management systems, and generation of a competitive environment in the host country markets. Such exposures might escalate the O- and I-advantages of domestic companies to engage in OFDI and hence transform the position of the host country in the IDP stages (Lall, 1996b; Scott-Kennel & Enderwick, 2005).

Anwar and Nguyen (2010) applied Vietnamese panel data on 22 manufacturing industries to investigate the impact of FDI spillovers by domestic and foreign companies. The study found that human capital stock is a critical contributor to FDI spillovers in Vietnam’s manufacturing industry (Anwar & Nguyen, 2010). It was found that more human capital stock in the industry drives technology advancement and thus boosts economic growth (Anwar & Nguyen, 2010). Another study by Filippaios & Kottaridi (2013) investigated the relationship between IFDI and trade in CEE countries. The study found that IFDI and imports complimented each other (Filippaios & Kottaridi, 2013). The positive role of IFDI depends on the characteristics of the locations (i.e., market size, improvement of macroeconomic conditions, and labour force quality) (Filippaios & Kottaridi, 2013). Pires et al. (2010) investigated the interaction between FDI in electronic commerce (e-commerce) and less developed countries. The study found that the factors that
influence the attractiveness of IFDI in the e-commerce industry are the gap in technology infrastructure and conditions of legal, socio-economic, and technical support (Pires et al., 2010). Therefore, the government should generate supportive infrastructure for FDI attraction and curb constraints on investors to realise investment in the e-commerce industry. Another study by Chen et al. (2020) applied Chinese panel data at the provincial level to investigate the impact of IFDI on OFDI. The study found positive impacts of IFDI on OFDI in high economic development, but the corruption level reduced the impact of IFDI on OFDI (Chen et al., 2020). Ly (2021) investigated the implications of Chinese IFDI on Cambodia’s economic development. The study found positive impacts of Chinese FDI on Cambodia via the generation of income and employment (Ly 2021). The challenge of such investments was the wage gap between Chinese and Cambodian workers. Therefore, the government should ensure wage parity and knowledge transfer to upgrade skilled labour in the country because of the presence of IFDI (Ly, 2021).

Based on the explanations above, IFDI can increase a country’s income, capital, employment, trade, and technological advancement and improve its economic conditions. IFDI can also contribute to creating a competitive environment in the domestic market. Accordingly, domestic companies can learn, develop, and escalate their competitive advantages and consider engaging in OFDI.

4.3.2.2.2 The trend and pattern of OFDI in developed and developing countries

Besides IFDI, OFDI is an indicator of FDI performance. As a country’s OFDI level increases, its position in the development stages shifts. This section explores studies pertaining to OFDI in developed and developing countries. The classifications of countries in the IDP stages based on the level of development are as follows: developing countries are classified in stages 1 to 3 of the IDP stages, and developed countries are classified in stages 4 and 5 of the IDP stages (Dunning, 1981; Dunning et al., 2001; Liu et al., 2005; Verma & Brennan, 2011). Therefore, due to the diverse levels of development, we consider that the pattern and trend of OFDI in developing and developed countries may differ. Table 4.5 presents the studies pertaining to OFDI in developed and developing countries.

Table 4.5. Previous studies on the trend and pattern of OFDI in developed and developing countries

<table>
<thead>
<tr>
<th>No</th>
<th>Year</th>
<th>Author(s)</th>
<th>Unit of Analysis</th>
<th>Level of country</th>
<th>Method</th>
<th>Title</th>
<th>Publications</th>
<th>CABS Ranked</th>
</tr>
</thead>
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<tr>
<td></td>
<td></td>
<td>FDI phenomena in the IDP concept</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>b. The trend and pattern of outward FDI in developed and developing countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Year</td>
<td>Authors</td>
<td>Country 1</td>
<td>Country 2</td>
<td>Type of Study</td>
<td>Analysis Type</td>
<td>Title of Study</td>
<td>Journal Name</td>
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<td>7</td>
<td>2003</td>
<td>Barry, Gorg &amp; McDowell</td>
<td>Ireland</td>
<td>US</td>
<td>Developed country</td>
<td>Cross-country analysis</td>
<td>Outward FDI and the investment development path of a late-industrializing economy: Evidence from Ireland</td>
<td>Regional Studies</td>
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<tr>
<td>8</td>
<td>2001</td>
<td>Bellak</td>
<td>Austria</td>
<td></td>
<td>Developed country</td>
<td>Single-country analysis</td>
<td>The Austrian Investment Development Path</td>
<td>Transnational Corporations</td>
</tr>
<tr>
<td>9</td>
<td>2004</td>
<td>Kalotay</td>
<td>CEE</td>
<td></td>
<td>Developed country</td>
<td>Cross-country analysis</td>
<td>Outward FDI from Central and Eastern European Countries</td>
<td>Economics of Planning</td>
</tr>
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<td>11</td>
<td>1986</td>
<td>Dunning</td>
<td>25 Countries</td>
<td></td>
<td>Developed country</td>
<td>Cross-country analysis</td>
<td>The Investment Development Cycle Revisited</td>
<td>Review of World Economics</td>
</tr>
<tr>
<td>12</td>
<td>1997</td>
<td>Dunning, Hoesel, Narula</td>
<td>Korea, Taiwan</td>
<td></td>
<td>Developed country</td>
<td>Cross-country analysis</td>
<td>Explaining the 'New' Wave of Outward FDI from Developing Countries: the Case of Taiwan and Korea</td>
<td>International business review</td>
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<td>14</td>
<td>2006</td>
<td>Bonaglia &amp; Goldstein</td>
<td>Egypt</td>
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<td>Developed country</td>
<td>Single-country analysis</td>
<td>Egypt and the Investment Development Path: Insights from Two Case Studies</td>
<td>International Journal of Emerging Markets</td>
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<td></td>
<td>Year</td>
<td>Authors</td>
<td>Country/Region</td>
<td>Analysis Type</td>
<td>Focus</td>
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<td>15</td>
<td>2007</td>
<td>Daniels, Krug, Trevino</td>
<td>Latin America &amp; Caribbean</td>
<td>Cross-country analysis</td>
<td>Foreign Direct Investment from Latin America and the Caribbean</td>
<td>Transnational Corporations</td>
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<tr>
<td>16</td>
<td>2007</td>
<td>Lee and Slater</td>
<td>Korea</td>
<td>Single-country analysis</td>
<td>Dynamic capabilities, entrepreneurially rent-seeking and the investment development path: The case of Samsung</td>
<td>Journal of International Management</td>
<td>3</td>
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<td>17</td>
<td>2010</td>
<td>Goldstein &amp; Pusterla</td>
<td>Brazil and China</td>
<td>Cross-country analysis</td>
<td>Emerging Economies Multinationals: General Features and Specificities of the Brazilian and Chinese Cases</td>
<td>International Journal of Emerging Markets</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>2016</td>
<td>Stoian &amp; Mohr</td>
<td>Emerging Economies</td>
<td>Cross-country analysis</td>
<td>Outward foreign direct investment from emerging economies: escaping home country regulative voids</td>
<td>International Business Review</td>
<td>3</td>
<td></td>
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</tbody>
</table>
Four studies focus on the OFDI of a developed country in the context of the IDP (Barry et al., 2003; Bellak, 2001; Kalotay, 2004; Stoian, 2013). Barry et al. (2003) applied a bilateral analysis between Ireland and the United States to investigate the performance of OFDI in the context of the IDP. They found that Ireland’s OFDI focused on non-internationally tradeable sectors (i.e. packaging and paper, and materials for construction) and lower technology sectors that potentially have fewer spillover effects other than firm-specific assets in the home country (Barry et al., 2003). Therefore, the government should encourage MNCs to improve their home country’s Research and Development (R&D) facilities to create high-skilled employment (Barry et al., 2003). Other studies by Kalotay (2004) and Stoian (2013) applied the IDP context to investigate OFDI in CEE countries. They found that the expansion of the European Union to CEE countries has encouraged MNCs to engage in OFDI. Most FDI destinations were to neighbouring CEE countries or even more developed countries (Kalotay, 2004; Stoian, 2013). OFDI in these countries also impacted home country performance in stimulating the development of privatisation on both a small and large scale, companies’ restructuring, price liberalisation, foreign exchange and trading, changes in policies related to market competition, reform in the banking sector, liberalisation in interest rate, guarantee in market securities, and development of non-banking institutions that support financing (Stoian, 2013). The government has played an important role in generating policies and instruments to support domestic companies engaging in OFDI. These entail liberating account capital and generating promotional strategies (both active and passive) (Kalotay, 2004). The active promotion strategy entails the engagement in proactive promotion in the home country to domestic companies and in potential host countries (i.e., establishment of promotional agency specific to OFDI, introducing a scheme for investment guarantee, and encouragement of financial institutions to support OFDI) (Kalotay, 2004). In addition, the passive promotion strategy includes engaging in international treaties such as double taxation and bilateral investment treaties (Kalotay, 2004).

Furthermore, 12 studies focus on OFDI in developing countries in the context of IDP (Bonaglia & Goldstein, 2006; Daniels et al., 2007; Dunning, 1986; Dunning et al., 1997; Goldstein & Pusterla, 2010; Gross et al., 2017; Lee & Slater, 2007; Liu et al., 2005; Narula & Dunning, 2010; Stoian & Mohr, 2016; Wei & Alon, 2010; You, 2017). Dunning (1986) investigated the emergence of Third World Multinational
Companies (TWMNC) in the context of IDP. He defined the OFDI phenomenon of TWMNCs by their main motivations, such as the size of their domestic market, their market-oriented system, their technological and industrial trading strategies, their economic structure that is oriented to service and manufacturing activities, their population shifts in urban areas, their labour mobilisation in international job markets, their level of education in secondary or tertiary education, their supportive policies in relation to export-led growth, and their positive perspective towards IFDI and OFDI (Dunning, 1986). These motivations led to the identification of the home country determinants that influenced MNCs’ decisions to engage in OFDI. Another study by Dunning et al. (1997) stated that the phenomena of TWMNCs might be generated as a result of external factors, such as the changes in world economic structure towards regionalisation and globalisation activities, significant development of advanced technology within sectors, market liberalisation, and the establishment of trading blocs (Dunning et al., 1997).

Moreover, several studies have asserted the important role of government in OFDI (Bonaglia & Goldstein, 2006a; Daniels et al., 2007; Goldstein & Pusterla, 2010; Lee & Slater, 2007; Liu et al., 2005; Narula & Dunning, 2010; You, 2017b). The recommendations from previous studies for the government in generating policies and regulations that are supportive of OFDI, are as follows:

a. The policies and regulations should encourage the development of the home country’s L-advantages that are supportive to the establishment and development of O-advantages of its domestic companies. The government should generate such L-advantages to shift the motives of IFDI that are primarily market- or resource-seeking investment to strategic asset-seeking investment (Liu et al., 2005);

b. The implementation of policies and regulations should be more assertive at a regional level. The policies and regulations should stimulate the establishment and expansion of alliances and networks to leverage domestic knowledge and expertise, the development of market share in the host country, and an increase in efficiency-seeking investment to boost the development of advanced technology (Bonaglia & Goldstein, 2006);

c. The policies and regulations should be supportive for risk-taking business. The government should pursue an active promotion strategy in relation to the domestic companies that have an interest in engaging in OFDI (Bonaglia & Goldstein, 2006);

d. The policies and regulations at the country level should encourage the reform of the economy to drive the establishment and development of TWMNCs in the global economy (You, 2017);
e. The government should ensure that the implementation of policies and regulations at the country level are evenly applied at the regional level (You, 2017).

In addition to government policies and regulations, firm policies and strategies play an important role in the success of TWMNCs’ OFDI. Lee and Slater (2007) investigated the success of Samsung Electronics as an example of TWMNCs by applying the IDP concept. They found that the motivation behind Samsung Electronics’ significant achievement in OFDI is its aggressive risk-taker behaviour and effective policies in relation to the management of its technology development (Lee & Slater, 2007). They confirm that a company’s dynamic capabilities in relation to the transformation, reconfiguration, and learning process can improve its O-advantages and contribute to the home country’s development (Lee & Slater, 2007). Another factor that influences OFDI by domestic companies is the competitive disadvantage of the home country, that is, voids in the home country’s regulation (Stoian & Mohr, 2016). Therefore, the companies’ strategy is to pursue investments that allow them to possess specific competitive advantages to overcome their foreign liabilities when they expand their business overseas (Stoian & Mohr, 2016).

Based on the explanation above, we conclude that, in the case of developed and developing countries, three elements influence the performance of OFDI: the home and host country’s economic conditions, government policies and regulations in the home country, and MNCs’ policies and strategies.

4.3.2.2.3 The company strategy in terms of choice of location for engaging in OFDI

As mentioned in the previous section, company strategy is one of the key factors that influences IFDI investment in the host country as well as OFDI from the home country. Table 4.6 presents eight studies that focus on the company location decision strategy to engage in foreign investment (Barnard, 2008; Erdilek, 2008; Filippov, 2010; Galan et al., 2007; Ramírez-Alesón & Fleta-Asín, 2016; Sim, 2006; Sim & Pandian, 2007; Yeoh, 2011).

Table 4.6. Previous studies on the company strategy in terms of choice of location for engaging in OFDI

<table>
<thead>
<tr>
<th>No</th>
<th>Year</th>
<th>Author(s)</th>
<th>Unit of Analysis</th>
<th>Level of country</th>
<th>Method</th>
<th>Title</th>
<th>Publications</th>
<th>CABS Ranked</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>2006</td>
<td>Sim</td>
<td>Singapore &amp; Malaysia</td>
<td>Developing country</td>
<td>Cross-country analysis</td>
<td>Internationalization Strategies of Emerging Asian MNEs - Case Study</td>
<td>Asia Pacific Business Review</td>
<td>2</td>
</tr>
<tr>
<td>Page</td>
<td>Year</td>
<td>Authors (Country)</td>
<td>Country (Country)</td>
<td>Method</td>
<td>Title</td>
<td>Journal</td>
<td>Volume</td>
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<tr>
<td>24</td>
<td>2007</td>
<td>Sim &amp; Rajendran Pandian (Singapore &amp; Malaysia &amp; Taiwan)</td>
<td>Malaysian &amp; Taiwanese</td>
<td>Cross-country analysis</td>
<td>An Exploratory Study of Internationalization Strategies of Malaysian and Taiwanese Firms</td>
<td>International Journal of Emerging Markets</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>2007</td>
<td>Galan, Gonzalez, Zuniga-Vicente (Spain)</td>
<td>Spain</td>
<td>Single-country analysis</td>
<td>Factors Determining the Location Decisions of Spanish MNEs: an Analysis based on the IDP</td>
<td>Journal of International Business Studies</td>
<td>4*</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>2008</td>
<td>Erdilek (Turkey)</td>
<td>Turkey</td>
<td>Single-country analysis</td>
<td>Internationalization of Turkish MNEs</td>
<td>Journal of Management Development</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>2008</td>
<td>Barnard</td>
<td>Developing Countries</td>
<td>Developing country</td>
<td>Cross-country analysis</td>
<td>Capability Development and the Geographic Destination of Outbound FDI by Developing Country Firms</td>
<td>International Journal of Technology and Globalisation</td>
<td>1</td>
</tr>
<tr>
<td>28</td>
<td>2011</td>
<td>Yeoh</td>
<td>India's MNC</td>
<td>Single-country analysis</td>
<td>Location choice and the internationalization sequence</td>
<td>International Marketing Review</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>2010</td>
<td>Filippov</td>
<td>Russia</td>
<td>Single-country analysis</td>
<td>Russian companies: the rise of new multinationals</td>
<td>International Journal of Emerging Markets</td>
<td>1</td>
<td></td>
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<tr>
<td>30</td>
<td>2016</td>
<td>Ramirez-Aleson &amp; Fleta-Asin (117 Countries)</td>
<td>117 Countries</td>
<td>Cross-country analysis</td>
<td>Is the Importance of Location Factors Different Depending on the Degree of Development</td>
<td>Journal of International Management</td>
<td>3</td>
<td></td>
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</table>
These studies identify influential factors that companies consider in the location decision process of foreign investment by MNCs from developed and developing countries. In the case of developed countries, managers consider strategic asset-investment factors as their motivation to engage in OFDI in European Union countries (Galan et al., 2007). They also consider cultural distance, historical respect, and social factors as the main determinants of investment in Latin American countries (Galan et al., 2007). Meanwhile, in the case of developing countries, the characteristics of the location choices for OFDI are: the size of MNCs and their focus on globalisation, provision of markets and competitive cost, and the advantages and disadvantages of their proposed strategies (i.e., adaptation to markets and relative cost of investment, entry mode strategy e.g., joint venture, and cultural and historical distance) (Sim, 2006). The internationalisation strategies considered by firms in the case of TWMNCs are as follows:

a. In the case of Malaysian and Taiwanese companies, the drivers and motivations for OFDI are competitive cost and other L-advantages that are supported by the aspects of ethnic distance (Sim & Pandian, 2007);

b. In the case of Turkish MNCs, the drivers and motivations for OFDI are liberalisation in both the home country’s regulations in relation to its investment climate to push OFDI, and the host country’s regulations to pull OFDI in terms of fiscal benefits, and access to natural resources, markets, technologies, and brands (Erdilek, 2008);

c. MNCs with established O-advantages in the home country tend to seek investment in low-to-medium research industries (Barnard, 2008);

d. In the case of Russian MNCs, the motives and drivers for OFDI are resource-seeking investments to acquire the host country’s resources, market-seeking investments for entering new markets or developing existing markets, and efficiency-seeking investments to increase MNCs’ efficiency by taking advantage of the host country’s economies of scale (Filippov, 2010);

e. In the case of Indian pharmaceutical companies, the motives and drivers for OFDI are to absorb and to acquire knowledge from the potential host country locations for OFDI, i.e., economic conditions, institutional factors related to knowledge association, and social networks (Yeoh, 2011)
Based on the explanation above, it appears that each company has its own policies and strategies for entering a foreign country. Therefore, we confirm the important role of host country governments in reforming their policies and regulations to attract IFDI to the country and to ensure that the spillover effects of foreign investment occur. Domestic companies can gain benefits from the spillover effect and contribute to the country’s development. We also confirm the important role of the home country’s government in stimulating the establishment and development of domestic companies to compete with MNCs in the domestic market and to boost domestic companies’ ownership advantages to engage in OFDI in the global market.

4.3.2.3 The internal and external factors that influence a country’s position in the IDP stages

In the previous section, we mentioned the factors that can influence IFDI and OFDI and hence influence the position of a country in the IDP stages. In this section, we focus on studies pertaining to influential factors (i.e., internal and external factors) that can shift a country’s position in the IDP stages. Table 4.7 presents four studies that focus on these factors (Dunning et al., 2001; Gorynia et al., 2020; Narula, 1993; Yin et al., 2021).

Table 4.7. Previous studies on internal and external factors that influence country’s position of a country in the IDP stages

<table>
<thead>
<tr>
<th>No</th>
<th>Year</th>
<th>Author(s)</th>
<th>Unit of Analysis</th>
<th>Level of country</th>
<th>Method</th>
<th>Title</th>
<th>Publications</th>
<th>CABS Ranked</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1993</td>
<td>Narula</td>
<td>Theory</td>
<td>Technology</td>
<td>Method</td>
<td>Theory, International Business and Porter's &quot;diamond&quot;: synthesizing a dynamic competitive development model</td>
<td>Management International Review</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>2001</td>
<td>Dunning et al.</td>
<td>Korea, Taiwan</td>
<td>Developing country</td>
<td>Cross-country analysis</td>
<td>Incorporating trade into the Investment Development Path: a Case Study of Korea and Taiwan</td>
<td>Oxford Development Studies</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>2020</td>
<td>Gorynia et al</td>
<td>CEEC</td>
<td>Developed country</td>
<td>Cross-country analysis</td>
<td>Integration and Investment Development Paths of CEE Countries.</td>
<td>Eurasian Geography and Economics</td>
<td>2</td>
</tr>
</tbody>
</table>
Based on the identified articles, the influential factors are as follows:

a. Internal factors are generated within the country, such as the government’s role. The government plays an important role in strengthening a country’s macroeconomic conditions, providing a competitive environment in the domestic market, and fostering national champions (Yin et al., 2021). It also supports the transformation of IFDI spillover effects to establishing and developing domestic companies’ O-advantages to engage in OFDI. These factors are as follows:

1) Development of international trade in relation to import- and export-oriented industries can influence the establishment of created-asset-intensive industries. Hence, this approach can influence the development of advanced technology and human resources in a host country, thus stimulating the development of domestic companies to transform into MNCs (Dunning et al., 2001).

2) Participation in regional economic integration, trade liberalisation, investment liberalisation, improvement of investment climate, and extended market size. These factors can improve the L-advantages of host country to attract more IFDI and escalate the O-advantages of domestic companies to compete with MNCs in the domestic market (Gorynia et al., 2020).

3) Refinement of policies and regulations to generate a favourable investment climate, provision of supervision in terms of investment realisation and investment licensing services, and the application of an active promotion strategies for attracting IFDI and encouraging domestic companies to engage in OFDI (Yin et al., 2021).

b. External factors are generated from external entities such as MNCs and global conditions. MNCs bring technological development and innovation to the host country (Narula, 1993), thus generating spillover effects to the host country’s economic conditions and improving domestic companies’ O-advantages to engage in OFDI.
Further development of the IDP concept

This section presents studies that focus on the development of the IDP framework by applying a different method, adding more variables, or applying IDP concept in a different research context. The issues that have been raised about the IDP concept are discrepancies between the dynamic determinant factors of a country’s economic development and direct investment (e.g., idiosyncrasies of country characteristics, company strategy, industries, and government policies and regulations) (Narula, 1993); the different patterns of IFDI and OFDI and different structures of economic development in developed and developing countries (Dunning, 1986; Lall, 1998); the benefits of IDP with respect to the government role or other factors in explaining the existence or failure of MNCs (Twomey, 2000); and the underlying determinants (both economic development and investment factors) that might create changes in the IDP stages (Dunning & Narula, 1994). Table 4.8 presents seven studies that explore the development of IDP concepts (Chen, 2015; Durán & Ubeda, 2001; Georgopoulos et al., 2018; Gorynia et al., 2019c, 2019a; Zhu et al., 2011; Scott-Kennel & Enderwick, 2005).

Table 4.8. Previous studies on further development of the IDP concept

<table>
<thead>
<tr>
<th>No</th>
<th>Year</th>
<th>Author(s)</th>
<th>Unit of Analysis</th>
<th>Level of country</th>
<th>Method</th>
<th>Title</th>
<th>Publications</th>
<th>CABS Ranked</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2001</td>
<td>Duran &amp; Ubeda</td>
<td>74 Countries</td>
<td>Developed and developing countries</td>
<td>Cross-country analysis</td>
<td>The Investment Development Path: A New Empirical Approach and Some Theoretical Issues</td>
<td>Transnational Corporations</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>2005</td>
<td>Scott-Kennel, Enderwick</td>
<td>Theory</td>
<td></td>
<td></td>
<td>FDI and Inter-Firm Linkages: Exploring the Black Box of the Investment Development Path</td>
<td>Transnational Corporations</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>2011</td>
<td>Zhu et al</td>
<td>Theory</td>
<td></td>
<td></td>
<td>Extending the Investment Development Path Model to Include the Human</td>
<td>Thunderbird International Business Review</td>
<td>2</td>
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</tbody>
</table>
To address the issues raised about the IDP concept, the development of the IDP concept that are proposed in the previous studies is as follows:

a. Selecting a different timeframe for IDP analysis and providing a comprehensive investigation on the evolution of FDI trends and patterns of a country within the selected timeframe (Durán & Ubeda, 2001).

b. Applying the Ownership-Location-Internalisation (OLI) paradigm in addition to the IDP concept to assess the development of a given country and generate a comprehensive trajectory of its development (i.e. expanding the characteristics of O-advantages for both indigenous and foreign affiliation).
companies, investigating the provision of L-advantages in a given country at the national or regional level, and investigating the extent to which the O-advantages of both indigenous and foreign affiliate companies associate with the L-advantages of home and host countries to generate I-advantages over cross-border investment) (Scott-Kennel & Enderwick, 2005).

c. Adding human assets development stages to the IDP concept since human assets and capabilities can influence the existence or failure of MNCs, and hence contribute to economic development (Zhu et al., 2011).

d. Applying the IDP concept to provincial-level data (Chen, 2015).

e. Applying FDI’s geographic analysis to the IDP concept (Gorynia et al., 2019b).

f. Investigating the effects of institutional reforms and the quality of institutional infrastructure on the attraction of IFDI and the fostering of OFDI (Gorynia et al., 2019a).

Based on these findings, it can be concluded that there is an opportunity for further development of the IDP concept by adding more variables, applying different IB theories, applying the IDP concept to different research contexts, and adding different perspectives.

4.4 Discussion

Based on the findings of our analysis, we represent the IDP concept according to the generated themes and subthemes into a novel framework. The proposed IDP framework provides a better understanding of the relationship between FDI and economic development in the IDP stages. In addition, the identified themes and subthemes explain the role of FDI (both IFDI and OFDI), and the economic development of a given country in representing a country’s position on the IDP stages. Therefore, we identify and generate the IDP stages classification approaches to assist in assessing a given country’s position on the IDP. The following subsections present the proposed framework of IDP concept and the generated approaches to the IDP stages classification.

4.4.1 Proposed IDP framework

Figure 4.5 presents the framework that represents the interrelationship between FDI (IFDI and OFDI) and the economic development of a country to the IDP stage classification. Based on the generated themes and subthemes, we identify the factors that influence FDI decisions (i.e., L-advantages, government policies and regulations, and MNC strategies). These factors influence the economic development of a country and hence determine the position of a country on the IDP stages. Each factor has a specific role in reflecting FDI and economic performance in influencing the shift in a country’s position on the IDP stages.
Further research can apply our proposed framework in determining a country’s position on the IDP by investigating the relationship between FDI activities and economic development and assessing the FDI decisions factors that can influence a country’s position along the IDP stages.

4.4.2 Approaches to the IDP stages classification

The objectives of the IDP concept are to depict the performance of FDI and the economic conditions of a country, to assess the current FDI and economic conditions, and then to frame the potential improvement for a country by its L- and O-advantages of domestic companies that can boost its economy. Therefore, the application of the IDP involves the determination of a country’s position on the IDP stages and identification of the factors that can shift a country’s position on the IDP. In this subsection, we present five classifications that determine the country’s position in the IDP stage. Each classification is based on a distinct set of determinant factors, and the number of stages for each classification varies. Table 4.9 summarises the distinguishing characteristics of each classification stage.
Table 4.9 Summary of the five approaches to the classification of IDP stages

<table>
<thead>
<tr>
<th>Approach to IDP stages classification</th>
<th>Classification determinants</th>
<th>The influential factors</th>
<th>Number of stages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Economic development</td>
<td>GDP per capita</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>FDI performance</td>
<td>Net Outward Investment Position (NOIP)</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Locational advantages</td>
<td>Macroeconomic conditions, demographic, infrastructure, and education</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>MNCs strategies</td>
<td>FDI motives</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>The role of government</td>
<td>Inward FDI policies and regulations</td>
<td>5</td>
</tr>
</tbody>
</table>

4.4.2.1 The first approach based on a country’s economic development

The first approach to classifying IDP stages is based on GDP per capita as an indication of economic development. The four categories of the IDP stage classification based on GDP per capita (Dunning, 1981; Dunning et al., 2001; Liu et al., 2005; Verma & Brennan, 2011) are as follows:

   a. Stage 1 is the position of a country with a GDP per capita of less than US$ 1,036. The World Bank (2020) categorises this classification as a low-income country.

   b. Stage 2 is the position of a country with GDP per capita between US$ 1,036 and US$ 4,045. The World Bank (2020) categorises this classification as a lower-middle-income country.

   c. Stage 3 is the position of a country with GDP per capita between US$ 4,046 and US$ 12,535. The World Bank (2020) categorises this classification as an upper-middle-income country.

   d. Stages 4 and 5 are a position for a country with a GDP per capita greater than US$ 12,535. The World Bank (2020) categorises this classification as a high-income country.

The advantage of this approach is that GDP per capita data are relatively accessible from domestic and international sources. The disadvantage of this approach is that each country is unique and idiosyncratic. Therefore, we recommend that further analysis is necessary to justify the position of a country in the IDP stages (i.e., the country’s L- advantages, FDI performance, MNCs strategies, and government policies and regulations).
4.4.2.2 The second approach based on FDI performance

The second approach to the classification of IDP stages was developed by Dunning (1981a, 1981b, 1986), based on the Net Outward Investment Position (NOIP) as an indication of FDI performance. The stage classifications are as follows:

a. Stage 1 represents an underdeveloped country in which IFDI is non-existent or exists at an insignificant value. OFDI is non-existent. Therefore, the NOIP varies from approximately negative to zero.

b. Stage 2 represents a developing country in which IFDI exists at a significant level. The level of OFDI emerges at an insignificant level compared to OFDI. Therefore, NOIP increases but remains in a negative position.

c. Stage 3 represents a developing country, where the level of IFDI remains the same or even starts to slow down. The level of OFDI has increased significantly. Therefore, the NOIP is still negative, but increasing or less negative than in the previous stages.

d. Stage 4 represents a developing country transitioning to a developed country, where the level of IFDI remains the same or even continuously slowing down. The level of OFDI increases to an equal level to or even surpasses the IFDI level. Therefore, NOIP becomes positive.

e. Stage 5 represents a developed country, where the level of IFDI equals OFDI. Therefore, NOIP first decreases and then fluctuates around zero.

The advantage of this approach is that, as long as IFDI and OFDI data are available, the NOIP (OFDI less IFDI) can be calculated. The disadvantage of this approach is that NOIP is determined by IFDI and OFDI levels, and, for some developing countries, OFDI data are unavailable or missing for some periods of time (Cardillo et al., 2004). Therefore, we recommend that it is also necessary to investigate the pattern, trend, and nature of IFDI and OFDI, the economic conditions of a country, the MNCs strategies, and the investment policies and regulations of a country in the IDP analysis.

4.4.2.3 The third approach based on locational advantages

The third approach to the classification of IDP stages is based on economic conditions and location characteristics, as an indication of L-advantages. All the pertinent literature on IDP aligns with this approach. The classification of IDP stages is explained as follows:

a. The stage 1 characteristics of the country are insufficient to attract IFDI other than natural resource endowment. The location characteristics of the country are: minimal market demand; unattractive economic conditions and government policies for foreign investors; inadequate infrastructure (i.e.,
transportation and communication facilities); and insufficient provision of labour (i.e. educated, trained, and motivated labour) (Boudier-Bensebaa, 2008; Galan et al., 2007; Ly, 2021; Narula & Dunning, 2000, 2010; Narula & Guimon, 2010; Park & Lee, 2003; Scott-Kennel & Enderwick, 2005). While IFDI can support a host country’s economic development as it can contribute to investment stocks, revenues, and human capital development. The host country must generate suitable L-advantages to attract IFDI.

b. The stage 2 characteristics of the country are sufficient to attract IFDI. The location characteristics of the country are: the size of the domestic market might have grown as well as the purchasing power parity, therefore making viable local production by MNCs to serve the domestic market; the economic conditions and government policies are designed to attract IFDI; the provision of infrastructure is sufficient or even significant to attract IFDI; and the host country has a competitive advantage in terms of the provision of cheap labour as well as trained and motivated labour (Boudier-Bensebaa, 2008; Galan et al., 2007; Ly, 2021; Narula & Dunning, 2000, 2010; Narula & Guimon, 2010; Park & Lee, 2003; Scott-Kennel & Enderwick, 2005). We suggest that the presence of IFDI can encourage domestic companies to observe, learn, and apply systems in which MNCs have to compete in serving the domestic market.

c. The stage 3 country characteristics offer more endowment factors to attract IFDI. The location characteristics of the country are: the emergence of demand for higher-quality products, hence creating a competitive environment for MNCs and domestic companies to serve the market; the economic conditions are more advanced compared to the previous stages; the government’s role focuses on encouraging specific industries or sectors that need further development to compete; the provision of infrastructure is more advanced in transportation, communication, and technology, but some regions might need reinforcement in the provision of infrastructure to create comparable facilities nationally; and a decrease in labour-intensive activities as a competitive advantage, since wages have increased (Boudier-Bensebaa, 2008; Galan et al., 2007; Ly, 2021; Narula & Dunning, 2000, 2010; Narula & Guimon, 2010; Park & Lee, 2003; Scott-Kennel & Enderwick, 2005). Given the presence of IFDI, domestic companies can improve their O-advantages in serving the domestic market and in exploring foreign markets. By pursuing OFDI in the later stages of the IDP, domestic MNCs can gain benefits from knowledge spillovers and apply this knowledge to their parent companies in the home country through training and learning.
d. The stage 4 country characteristics offer more advanced endowment factors to attract IFDI. The location characteristics of the country are as follows: because of higher wages, demand starts to become sophisticated; the government plays an important role in protecting and maintaining the competitive advantages of the country as well as competition in the market; the country offers created-assets value to foreign investors; and production processes and techniques are more crucial than labour (Boudier-Bensebaa, 2008; Galan et al., 2007; Ly, 2021; Narula & Dunning, 2000, 2010; Narula & Guimon, 2010; Park & Lee, 2003; Scott-Kennel & Enderwick, 2005). We suggest that, in the presence of IFDI, domestic companies can develop O-advantages and create assets. Domestic companies can also establish a competitive advantage in the global market.

e. The stage 5 country characteristics are truly internationalised. The location characteristics of the country are: the demand level is more sophisticated; the government plays little or no role; the country offers a more advanced infrastructure to support the gradual transformation from Heckscher-Ohlin (different countries produce different products and services) to producing similar products and services between countries; and the presence of asset creation investment in the capital-intensive and open-innovation industries helps the country develop knowledge-intensive sectors (Boudier-Bensebaa, 2008; Galan et al., 2007; Ly, 2021; Narula & Dunning, 2000, 2010; Narula & Guimon, 2010; Park & Lee, 2003; Scott-Kennel & Enderwick, 2005). It can be concluded that, at this stage, no single country has predominant capabilities.

The advantage of this approach is that it can be used as a reference for a country to shift its position by generating and improving its location advantages. The implications of IFDI in each IDP stage can also be treated as a reference for the home country’s government to frame appropriate policies and regulations to create a favourable investment climate. The disadvantage of this approach is that it focuses only on providing suitable L-advantages to attract IFDI. However, the home country should also consider attracting IFDI to encourage the development of OFDI.

4.4.2.4 The fourth approach based on MNCs strategy

In addition to the L-advantages, trends, and patterns of FDI in a country, we recommend exploring the motives of MNCs to engage in OFDI. This information can be used as a reference for a country to assess and frame its L-advantages and design its policies and regulations to attract IFDI (targeted-IFDI). Hence, the home country can gain benefit from the presence of IFDI to generate more OFDI. Accordingly, the
fourth approach is based on Narula and Dunning (2010), in which we capture the motives of MNCs to engage in OFDI and, hence, the motives of IFDI to the host country in terms of IDP stages, as follows:

a. In stage 1, the motive for IFDI is natural resource seeking-investment due to the lack of natural resource endowment in the home country.

b. In stage 2, the motive for IFDI is investment driven. Thus, MNCs’ motives to engage in IFDI might be natural resource seeking as well as market-seeking investment due to MNCs’ interest in exploring other markets and serving the domestic and adjacent regional markets.

c. In stage 3, the motive for IFDI is innovation driven. The natural resource-seeking motive is already decreasing for IFDI, and MNCs’ motives focus on market-seeking investment, efficiency-seeking, and strategic asset-seeking investment due to the availability of advanced infrastructure, markets, and labour.

d. In stage 4, the motives for IFDI are increasing in relation to service-and knowledge-intensive investments. The market-seeking investment motive is already decreasing for IFDI, and the MNCs motives focus on efficiency-seeking and strategic asset-seeking investments to produce and serve the market effectively and efficiently.

e. In stage 5, the motives of OFDI are increasing at a significant level in terms of efficiency-seeking and strategic asset-seeking, where there is no single country that has predominant capabilities to produce and serve the market.

The advantage of this approach is that the motives of IFDI and OFDI in IDP stages can be treated as a reference for the host and home country governments to develop a conducive investment environment by providing supportive policies and regulations to attract more IFDI and to generate more OFDI. The disadvantage of this approach is that it only focuses on MNCs strategies. The government also plays an important role in providing suitable policies and regulations related to MNCs strategies. Therefore, we suggest an additional approach for IDP stage classification by considering government roles.

4.4.2.5 The fifth approach based on the role of government

The government can play an important role in advancing and regressing the position of a country in the IDP stages. The home country’s government should be selective in framing policies and regulations, as well as promoting and accepting IFDI. Moreover, the home country’s government should also consider framing and generating policies and regulations that support not only IFDI attraction but also OFDI generation. Therefore, we suggest the fifth approach to the classification of the IDP stages based on the role of
In framing IFDI policies developed from previous studies that applied the IDP concept (Dunning, 1981a; Zhu et al., 2011; Narula & Dunning, 2010). The stages are as follows:

a. In stage 1, the government’s role in framing policies and regulations is insignificant due to inadequate government and economic systems to attract IFDI, and the non-existence of OFDI. In this stage, the main motive of IFDI is natural resource-seeking investment. Therefore, the role of government consists of designing policies and regulations to ensure access, fair price, and the quality of natural resources; ensuring the provision of infrastructure and transportation facilities for exploitation and shipping processes; generating and ensuring knowledge transfer or capital-intensive resource creation with domestic companies in order to exploit natural resources; and encouraging national and regional champions in relation to the natural resources endowment, the production processes of semi-finished/finished goods and services, and hence contributing to export goods and services.

b. In stage 2, the government’s role in framing policies and regulations is significant in providing adequate government and economic systems to attract IFDI, as well as the emergence of OFDI. In this stage, IFDI is motivated by natural resource-and market-seeking investments. The role of government consists of enlarging the markets through regional integration, bilateral or multilateral agreements; generating competitive transportation costs, tariffs, and non-tariff trade barriers; improving the education system to generate skilled labour and professional workers; improving and ensuring the equalisation of infrastructure at national and regional levels; engaging in persuasive promotion activities for investment both at national and regional levels; designing and generating policies and regulations that are attractive for IFDI; stimulating joint partnerships between domestic companies and MNCs to generate spillover effects that can boost the competitive advantages of domestic companies to engage in OFDI; and ensuring a fair competitiveness environment in the market for MNCs and domestic companies.

c. In stage 3, the government’s role in framing policies and regulations is less in attracting IFDI. The focus is on less competitive industries or regions. The level of OFDI in this stage increases to a significant level. Therefore, the home country government needs to ensure that the home country’s MNCs contribute to the economy via the transfer of capital assets, knowledge, and technology to the home country. In this stage, the motives of IFDI are decreasing in natural resource-seeking investment and increasing significantly in market-seeking investment, while efficiency-seeking and strategic asset-seeking investment emerge. The government plays an important role in creating economic agglomeration zones or industrial or specific zone clusters; generating a conducive investment climate.
to attract IFDI, that is, simplifying investment procedures, providing incentives for investment, providing land and infrastructure, and providing problem-solving assistance for investment issues; improving the human resources capacity through education and training; and ensuring that knowledge and technology spillovers occur from the presence of MNCs for domestic companies to escalate their O-advantages and engage in OFDI.

d. In stage 4, the government ensures the country’s competitive advantages and domestic companies in the global market. The government also works to ensure capital, knowledge, and technology transfers from MNCs to the home country’s economic development.

e. In stage 5, the government plays a lesser or insignificant role in attracting IFDI and stimulating OFDI. MNCs are fully internationalised and have their own policies and approaches to selecting the host country.

4.4.2.6 Summary of five approaches

The above five approaches for the classification of IDP stages are interconnected with one another. These approaches highlight the important role of the home country’s government in providing attractive L-advantages; generating and framing investment policies and regulations to attract more IFDI; creating a conducive investment climate to stimulate and boost FDI performance in the home country; identifying the motives and strategies of MNCs; and generating and framing a suitable promotion strategy directed towards the right investor (targeted-IFDI). The five approaches provide a comprehensive analysis of the determinants of a country’s position on the IDP. These approaches generate a better understanding of a country’s position on the IDP and determine the necessary development to shift its position on the IDP. The home country’s government can treat these classifications as a reference for framing policies and regulations to attract more IFDI, which can contribute to generating OFDI and thus shift the country’s position in the IDP stages. Further research can consider the application of these approaches in assessing a country’s progress on the IDP and investigating the development strategies that can shift its position along the IDP stages.

4.5 Areas for further research

Based on the generated themes and subthemes, the proposed framework, and the identified approaches to the IDP stages classification, we identify potential areas for further research. We present the areas for further research according to the generated themes and subthemes.
The first theme relates to assessing a country’s development in relation to the IDP concept. At first, we identify the potential area for further research based on the analysis approaches. We consider that each analysis approach has challenges related to the idiosyncratic characteristics of selected country(s) and the individual path of the development process. Therefore, we propose that the further research focusing on the cross-country analysis approach can apply additional analysis (i.e., cluster analysis, factor analysis, spatial analysis, or others) to assess country development in IDP stages. In addition, we also propose that the further research focusing on the single-country analysis approach can apply a comparative analysis of the established IDP models (i.e., quadratic or polynomial models) to investigate which IDP model provides a better fit for a country or apply a policy analysis to assess the current FDI policies and generate recommendations to assist a country in advancing its position on IDP.

Figure 4.6. The number of countries based on the GDP per capita classification that have not been subject to analyse using IDP

There is also a potential area for further research in relation to country selection. Figure 4.6 shows the number of countries based on the World Bank GDP per capita classification that have not been subject to analysis using IDP. It shows that 74% of the total number of high-income countries have been subject to analysis given the availability and accessibility of FDI data (Cardillo et al., 2004). There is a potential area for further research to assess the applicability of the IDP concept in the remaining high-income countries (26%). Further research can address the emerging challenges that the high-income countries face
concerning their IFDI and OFDI and the role of government in addressing these challenges. Furthermore, IDP studies focusing on lower-middle-income and upper-middle-income countries are quite prevalent. The figure shows that 70.3% of the total number of lower-middle-income countries and 68.5% of the total number of upper-middle-income countries have been subject to analysis in previous studies on the IDP. These studies provide examples of governments’ role in implementing policies to attract more IFDI, securing benefits from the presence of MNCs, and generating a favourable investment climate to not only attract IFDI but also to develop OFDI. Further research can assess the applicability of the IDP concept in the remaining lower-middle and upper-middle countries (29.7% and 31.5%, respectively). In relation to the lower-middle-income countries, future research can focus on how these countries attract targeted-IFDI that can generate OFDI from domestic companies and on the role of the government in ensuring that IFDI brings benefits to domestic companies so they can escalate their O-advantages to engage in OFDI. In relation to the upper-middle-income countries, further research can address the home country determinants for OFDI, the impacts of OFDI on the home country, the role of government in ensuring that OFDI by domestic companies benefits the home country’s economic development, and the strategy of domestic companies to engage in OFDI. Lastly, the smallest proportion of IDP studies focus on low-income countries. Figure 4.6 shows that 44% of the total number of low-income countries have been subject to analysis using IDP due to the unavailability of FDI data and insignificant level of FDI development (Cardillo et al., 2004). Further research can investigate the role of government in generating an attractive investment climate for IFDI. In addition, further research can apply our proposed framework and generated approaches to the IDP stages classification to assess a country’s position on the IDP stages. Future research can also apply the IDP concept not only at the aggregate level (national level) assessment but also at the disaggregate level (i.e., regional, provincial, sectoral, or industrial level) assessment.

The second theme relates to FDI phenomena in the IDP concept. We divide our analysis into three sub-themes: the importance of IFDI in supporting the development of a country, the trend and pattern of OFDI in developed and developing countries, and the MNCs strategy in terms of choice of location for engaging in OFDI. In the first sub-theme, the findings from the previous studies confirm that IFDI benefits home and host countries’ economies. Therefore, we identify three areas for further research regarding IFDI. The first area focuses on the type(s) of investment covering the assessment of the IDP concept to the potential sector(s) or industry(s) that preferably generate more value-added and sustainable IFDI as a key for the sustainable investment and economic performance of a country. The second area focuses on the investment...
location covering the application of the IDP concept to investigate the determinant(s) factors of IFDI in the home and host country perspectives in a specific sector or industry considering the motives of investment (i.e., market-seeking, natural resource-seeking, efficiency-seeking, or strategic-asset seeking investments).

The third focuses on the impacts of the investment activities covering the application of IDP to investigate the government’s role in framing and designing policies and regulations that support IFDI attraction and stimulate OFDI generation. In the second sub-theme, the previous studies confirm three influential factors for OFDI (i.e., economic conditions, government policies and regulations, and MNCs policies and strategies in the home and host countries). From the home country’s perspective, further research can apply the IDP concept to investigate the transformation process of IFDI in generating OFDI. In relation to the establishment and development of MNCs from the home country’s perspective, further research can investigate the determinant(s) factors of OFDI, impacts of IFDI that influence the generation of OFDI, government policies and regulations that can stimulate the OFDI performance and maximise the benefit of OFDI to economic development. In the third sub-theme, previous studies confirm that MNCs strategy is crucial for IFDI and OFDI. Therefore, further research can apply the IDP concept to assess and classify the motives of MNCs, investigate the failure and success factors of MNCs, and investigate the location decision process in a specific company or sector.

The third theme is the internal and external factors influencing the country’s position in the IDP stages. Previous studies confirmed the significant effects of these factors on a country’s position in the IDP stages. Therefore, further research can investigate other internal factors (i.e., the role of investment promotion agencies, the corruption levels, employment, the impact of economic integration, and the provision of infrastructure) and other external factors (i.e., the stages in global value chains, the stages in the internationalisation process, pandemic conditions, financial crises, and geopolitical conditions) for assessing the relationship between these factors to a country’s position on the IDP stages.

The last theme is the further development of the IDP concept. Previous studies confirm and justify the opportunities for further research in the IDP concept. Accordingly, further research on IDP can add more variables to the analysis (i.e., human development stages, technology development stages, institutional factors stages, research and development stages). Further research can also compare or combine the IDP concept to other IB theories as additional analysis (i.e., stages in a global value chain, resource-based view, Upsala models, internationalisation process, and product life cycles).
4.6 Conclusion

This study investigates the evolution of IDP literature over time using a SLR. This study is distinctive because it is the first SLR that applies a thematic analysis approach to IDP literature by drawing on six major data sources. Prior studies in the field of IB have drawn on only one or two data sources, focused on one or two factors of IDP (i.e., technology development, innovation, and human-environment factors), and applied different methods. This study reveals potential areas for further research on the IDP concept. It also proposes a novel framework that encompasses the pertinent literature on IDP and presents the interrelationship between FDI and economic development to the country’s position on the IDP. There are benefits for researchers, policymakers, and firms in treating this study as a reference for assessing a country’s position on IDP by applying the five approaches to the IDP stages classification. The overall conclusions from the SLR of IDP studies are as follows:

a. The IDP is a comprehensive concept that depicts the performance of FDI and economic development in a country. It also illustrates the relationship between determinant factors that contribute to economic development and FDI in a country.

b. In the thematic analysis, we generate four themes within the selected articles.

1) The first theme is the assessment of a country’s development in relation to the IDP concept. This theme covers studies that focus on assessing the applicability of the IDP concept in investigating country development. Ten articles are classified under this category.

2) The second theme is FDI phenomena in the IDP concept. This theme covers studies that focus on applying IDP to explain FDI phenomena in the IB research domain, viz. the importance of IFDI in the economic development of a country, the trend and pattern of OFDI from developed and developing countries, and the MNCs strategy to engage in OFDI (i.e., location decision strategy). Thirty articles are classified under this theme.

3) The third theme is the internal and external factors that influence a country’s position in the IDP stages. This theme covers studies that focus on influential factors that can shift the position of a country in the IDP stages. Four articles are classified under this category.

4) The fourth theme is further development of the IDP concept. This theme covers studies that focus on the investigation and development of the IDP concept by adding additional variables, the selection of the unit of analysis, and the choice of methodology. Seven articles are classified under this category.
c. We develop a framework based on the pertinent literature on the IDP, representing the interrelationship between FDI performance and the economic development of a country and its position in IDP stages. Further research can apply this framework to depict the relationship between FDI and economic development and to assess the FDI decisions factors that can influence a country’s position along the IDP stages.

d. We also elaborate on five approaches to the classification of IDP stages (i.e., economic development, FDI performance, L-advantages, MNCs strategies, and the role of government) that can assist further research, policymakers, and firms in assessing a country’s position on the IDP stages.

e. We identify potential areas for further research on IDP concerning the selection of research approaches and contexts (i.e., country selection and time frame). In relation to IFDI, we propose three areas of further research related to the types of investment, investment location, and impacts of investment. In relation to OFDI, our proposed topic for further research entails a focus on the transformation process of a country from net inward direct investment to net outward direct investment. In relation to the MNCs strategy, further research can apply the IDP concept to assess and classify the motives of MNCs, investigate the failure and success factors of MNCs, and investigate the location decision process in a specific company or sector. Lastly, in relation to influential factors (both internal and external) for a country’s position on the IDP stages, further research can investigate internal and external factors additional to those addressed in previous studies and assess their impact(s) on shifting a country’s position on the IDP stages.

There is an opportunity to apply a thematic analysis approach to SLR on other topics (e.g., global value chain, resource-based view, global factory, and Uppsala model) in the IB research domain. There is also an opportunity to extend the SLR of IDP by applying different methods of analysis (i.e., meta-analysis, bibliometric analysis, or framework-based analysis). Future research should focus on addressing such opportunities.

4.7 Reference list


CHAPTER 5

THE INVESTMENT DEVELOPMENT PATH THEORY:

EVIDENCE FROM INDONESIA

This study was presented at the Annual Meeting of the Academy of International Business (AIB) in 2022. The abstract is provided at Kadek Ade Sawitri and Louis Brennan, The Investment Development Path Theory: Evidence from Indonesia, *Academy of International Business Annual Meeting, Miami, July 2022*, edited by Andrew Delios, 2022, pp41.

**Abstract**

**Purpose:**
This study assesses Indonesia’s FDI and economic performance from 1990 to 2019 using theoretical, empirical, and institutional perspectives of IDP.

**Methodology:**
We deploy IDP classification approaches to investigate Indonesia’s position. We apply OLS and a classical regression model to investigate Indonesia’s most suitable IDP model. We apply a policy analysis of FDI policies and regulations and derive recommendations to shift Indonesia’s position on IDP.

**Findings:**
From a theoretical perspective, Indonesia reveals a deviation from the established theory. The country’s positioning on the IDP did not follow the established linear stages progression. However, from an empirical perspective, we found the best fit IDP model for Indonesia. From our institutional analysis, we concluded that Indonesia’s government embraces IFDI as a means of economic development. Accordingly, IFDI’s level has been mostly increasing year by year. Even so, the country’s comparative advantages in the global market still lag behind some other emerging economies. Therefore, we recommend that Indonesia’s government attract value-added investments to upgrade the country’s comparative advantages and promote the development of OFDI.

**Originality:**
Apart from China and India, there is limited literature on IDP applied to emerging economies. This study focuses on the case of Indonesia, an emerging economy that is growing in significance.

**Practical implications:**
The findings can be treated as inputs for policymakers to frame supportive policies and regulations to boost FDI performance and stimulate Indonesia’s economic performance, thus advancing Indonesia’s position on the IDP stages.

**Keywords**

Investment Development Path, IDP Classification Approaches, Ordinary Least Squares, Classical Regression Model, Indonesia, Policy Analysis

### 5.1 Introduction

Indonesia presents a remarkable example of how the country rises from the stalling of its development in the post-independent period from 1946 to 1997 and from the severe economic contractions due to the Asian Financial Crisis (AFC) in 1998 and Global Financial Crisis (GFC) in 2009 to achieve its present growth. In the post-independent period, Indonesia was classified as one of the poorest and underdeveloped countries in the world (Basri & Hill, 2020; Coxhead & Li, 2008). Moreover, the peak of its adversity was in 1998, when the country’s economy contracted by minus 13 percent alongside a deterioration in political and social conditions arising from the AFC and social disruption (Basri & Hill, 2020; Lindblad, 2015). As a result, important transformations took place in its financial management, political approaches, and social environment. The effect of the GFC on Indonesia’s economy was not as severe as the AFC because the country had learned from its previous experience (Basri & Hill, 2020; Lindblad, 2015). After the GFC, Indonesia's economic growth began to increase. The country is today classified among the largest ten economies based on high Purchasing Power Parity level (after China, the United States, India, Japan, Germany, Russian Federation, Indonesia, France, the United Kingdom, and Brazil) and is also a member of the G-20 countries. However, we argue that the country has the potential to grow further and compete with other emerging economies (i.e., China and India). Therefore, it is appropriate to investigate the potential growth factors favouring Indonesia’s sustainable economic growth.

Many researchers have confirmed the importance of FDI as a means of developing a country’s economic growth (Blomstrom et al., 1994; Chirwa & Odhiambo, 2016; Hermes & Lensink, 2003). However, in the case of emerging economies and developing countries, the role of FDI in the country’s economic growth has been the subject of debate (Álvaro-Moya et al., 2020; Paul & Singh, 2017; Reiter & Steensma, 2010). One of the empirical assessments to investigate the role of FDI in a country’s economic development involves the use of the Investment Development Path (IDP). IDP depicts a dynamic relationship between Foreign Direct Investment (FDI) performance and economic development, with a country tending to
undergo five stages of development (Dunning & Narula, 2002; Sawitri & Brennan, 2022). IDP can be applied to investigate and identify potential factors that can stimulate and boost a country’s economic condition, thereby shifting the position of a country along the IDP stages.

We identified seven studies that applied IDP theory in the case of Indonesia. Most studies applied cross-country analysis (Dunning, 1981b, 1986; Ramírez-Alesón & Fleta-Asín, 2016; Satoglu, 2017; Stoian & Mohr, 2016), and one study applied a single-country analysis (Lecraw, 1996). Our study differs from the previous studies since we apply the theoretical, empirical, and institutional perspectives of the IDP concept, while other studies only focused on one or two perspectives. Our study investigates how FDI has developed in Indonesia by assessing Indonesia’s position on IDP, the impacts of both Inward FDI (IFDI) and Outward FDI (OFDI) on Indonesia’s economy and derives recommendations for Indonesia’s government regarding its FDI policies and regulations to shift Indonesia’s position along IDP stages. Moreover, our study differs from previous studies on IDP in emerging economies since these previous studies have been extensively focused on China and India (Sawitri & Brennan, 2022). Indonesia provides a novel perspective in the context of IDP in emerging economies since the country’s characteristics differ from other emerging economies as Indonesia’s economy relies on exporting commodities and domestic consumption, the large Indonesian domestic companies prefer to serve the large domestic market, and most Indonesian domestic companies are micro and small companies (BKPM, 2022). Accordingly, the findings of this study derive evidence for other poor and underdeveloped or developing countries to assess their FDI performance in accordance with their economic development using the IDP concept. In addition, since this study applies a comprehensive analysis of theoretical, empirical, and institutional perspectives of the IDP concepts, it also yields insight for other poor and underdeveloped or developing countries to promote FDI to benefit their economic development.

From a theoretical perspective, we employed IDP classification approaches developed by Sawitri and Brennan (2022) to identify Indonesia’s position in the IDP stages, while other studies only applied one approach which was based on Net Outward Investment Position (NOIP) (Outward FDI (OFDI) less Inward FDI (IFDI)) and GDP or GDP per capita (Dunning, 1981b, 1986; Dunning et al., 2001; Liu et al., 2005; Verma & Brennan, 2011). From the empirical perspective, we employed two approaches for the model estimation test, Ordinary Least Squares (OLS) and classical regression models, to the independent variables of GDP and GDP per capita, while previous studies only focused on one approach (Satoglu, 2017; Buckley & Castro, 1998; Fonseca et al., 2007; Vavilov, 2006). Moreover, from the institutional perspective, we
apply a policy analysis that contributes to an understanding of the institutional context of the IDP studies to assesses the impact of policies and regulations on Indonesia’s positioning on the IDP.

Three findings arise from our analysis. From the theoretical perspective, we found a deviation in the case of Indonesia from the established theory. Indonesia’s positioning on the IDP was found not to follow the established linear stages progression. Having shifted from the second stage to the fourth stage in the period 1998 to 2004 due to a major decline in IFDI as a result of the political and social instability of that era, it regressed to the second stage in subsequent years. Moreover, from the empirical perspective, we found the suitable IDP models for Indonesia are polynomial models with third-, fourth- and fifth degrees using GDP and GDP per capita. In addition, from the institutional perspective of the FDI regime in Indonesia, we identified areas for improvement in respect of inward FDI policies and regulations and also recommendations for outward FDI policies and regulations. We concluded that Indonesia can be classified as a net inward direct investment. Even though the level of Indonesia’s IFDI has increased significantly, the level of OFDI has not caught up with its IFDI. Accordingly, the country’s comparative advantages in the global market still lag behind some other emerging economies. Most of Indonesia’s domestic companies are micro and small companies with low technology involvement with the country’s role in the global value chain limited to supplying raw materials and intermediate output (BKPM, 2021). Therefore, we suggest that the Indonesian government needs to attract value-added investments that can generate high spillover effects, hence supporting the development of the domestic companies’ capabilities to upgrade the country’s comparative advantages in the global market and promote the development of OFDI.

This study will benefit practices related to policymakers, researchers, and companies. Our findings can be treated as inputs for policymakers to frame the right policies and regulations to boost FDI performance and hence stimulate Indonesia’s economic performance. This study benefits researchers who want to pursue a similar approach in other countries. It also benefits companies with an interest in investing in Indonesia, as this study can be treated as a reference for the location decision-making process.

The structure of this study is as follows: the introduction in section one presents the research focus and context and the contributions and benefits of the study. Section two presents a literature review of the IDP encompassing theoretical and empirical considerations. Section three addresses the methodology applied. Section four contains the analysis and discussion from a theoretical perspective. Section five presents the analysis and discussion from an empirical perspective. Section six contains the analysis and discussion from an institutional perspective. Finally, section seven offers some conclusions.
5.2 Investment Development Path (IDP)

This section presents the IDP concept applied in this study and how we formulate our assumptions based on theoretical and empirical considerations.

5.2.1 Theoretical consideration

IDP is considered a compelling topic of research because it classifies countries according to whether the country is attracting more (net IFDI) or generating more FDI (net OFDI) (Dunning, 1981, 1986). The ideal concept of IDP is that, as a country’s economy develops, it will impact IFDI and OFDI, and as the IFDI and OFDI position of a country shifts, the economy of a country develops (Nayak & Choudhury, 2014).

The IDP concept also acknowledges the reciprocal relationship between the Ownership (O) advantages of domestic companies and Multinational Companies (MNCs), as well as the Location (L) advantages of home and host countries. These relationships are the foundation for country development, the transformation of domestic companies into MNCs, and the development of MNCs to engage in FDI (Narula & Dunning, 2010). Therefore, the IDP illustrates how changes in locational factors can impact corporate behaviour, international capital flows, and government policies (Lall, 1996a). Although the IDP can be applied to all countries to assess their economic and investment performance, each has its characteristics that determine its individual path in the IDP stages.

![Figure 5.1. The line graph of NOIP](image)

Source: Narula & Dunning, 2010
Table 5.1. The characteristics of IDP stages

<table>
<thead>
<tr>
<th>Variables</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
<th>Stage 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFDI</td>
<td>Non-existent to insignificant</td>
<td>Increasing to significant level</td>
<td>Remaining the same or starting to decrease</td>
<td>Remaining the same or continuing to decrease</td>
<td>Equal to OFDI</td>
</tr>
<tr>
<td>OFDI</td>
<td>Non existent</td>
<td>Insignificant</td>
<td>Increasing to significant level</td>
<td>Increasing to equal IFDI or even exceeding IFDI</td>
<td>Equal to IFDI</td>
</tr>
<tr>
<td>NOIP</td>
<td>Negative or around zero</td>
<td>Increasing negative</td>
<td>Negative but increasing</td>
<td>Positive</td>
<td>First falling then fluctuating around zero</td>
</tr>
</tbody>
</table>

Source: Dunning, 1981a; 1981b; 1986

Furthermore, Figure 5.1 presents the line graph of NOIP that represents the pattern of IDP stages. Table 5.1 elaborates on the characteristics of IFDI, OFDI, and NOIP in each stage of development (Dunning, 1981a; 1981b; 1986). Stage one of development arises when IFDI is unavailable or exists at an insignificant level, and there is no OFDI. Therefore, the NOIP varies from approximately negative to zero. The second stage encompasses IFDI growth at a significant level. Therefore, a local company might have the opportunity to increase its ownership advantages and commence engaging with OFDI. However, the level of OFDI is less significant compared to IFDI. Moreover, NOIP is increasing at this stage but is still negative because IFDI is still higher than OFDI. In the third stage, the growth of IFDI remains the same or even starts to decline, whereas the growth of OFDI starts to increase significantly. As a result, the NOIP is still negative but increasing or less negative than in the first and second stages. In the fourth stage, IFDI remains the same or continues to slow. The level of OFDI increases to an equal level with or even surpassing IFDI. Therefore, NOIP becomes positive. In the fifth and final stages, IFDI equals OFDI. Therefore, the position of the NOIP first decreases and then fluctuates at approximately zero.

According to the theoretical perspective of the IDP, the position of a country in the IDP stages is based on its levels of NOIP and GDP or GDP per capita. Moreover, we also consider the IDP classification approaches established by Sawitri and Brennan (2022) to assess Indonesia’s position on the IDP. We aim to investigate whether Indonesia follows the same path as the theory proposes and whether Indonesia is a net of IFDI or a net of OFDI; how IFDI and OFDI affect the country’s economic development; and what the country should do to shift its position along the IDP stages.

5.2.2 Empirical consideration

Since the inception of the IDP concept by Dunning in 1981, this concept has been further developed in terms of the unit of analysis, methodology applied, time frame, and purpose. Extant studies on IDP can be
classified into several categories, such as qualitative study (Ramasamy, 1997) and quantitative studies (Bonaglia & Goldstein, 2006b; Marton & McCarthy, 2007). Studies have focused on country-specific studies (Barry et al., 2003; Erdilek, 2003; Gorynia et al., 2007, 2008a; Lecraw, 1996; Verma & Brennan, 2011; Virmani & Amann, 2015) and studies involving groups of countries (cross countries) (Gorynia et al., 2019a; Iacovoiu & Panait, 2014; Kuzel, 2017; Park & Lee, 2003; Ragoussis, 2011; Tchorek, 2016). Studies have focused on developed countries (Bellak, 2001; Boudier-Bensebaa, 2008; Campa & Guillén, 1996; Filippaios & Kottaridi, 2013; Kalotay, 2004; Stoian, 2013) and developing countries (Anwar & Nguyen, 2010; Chen et al., 2020; Goldstein & Pusterla, 2010; Gross et al., 2017; Lee & Slater, 2007; Ly, 2021; Stal & Cuervo-Cazurra, 2011; Stoian & Mohr, 2016; You, 2017; Zhang & Van Den Bulcke, 1996). In the case of developed countries, most studies focused on Central and Eastern European countries as a unit of analysis (Sawitri & Brennan, 2022). In the case of emerging economies, most studies focused on China as a unit of analysis (Sawitri & Brennan, 2022).

Therefore, this study addresses the gap in the literature by applying a single-country analysis to Indonesia. Given its peculiarity in characteristics and development, this study presents an overarching analysis of Indonesia in the IDP applying theoretical, empirical, and institutional perspectives of IDP.

Table 5.2. Classification of IDP studies based on model applied

<table>
<thead>
<tr>
<th>QUADRATIC MODEL</th>
<th>POLYNOMIAL MODEL</th>
<th>BOTH MODELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dunning, 1981b</td>
<td>Barry et al., 2003</td>
<td>Vavilov, 2006</td>
</tr>
<tr>
<td>Dunning, 1986</td>
<td>Castro, 2004</td>
<td>Fonseca et al., 2007</td>
</tr>
<tr>
<td>Tolentino, 1987</td>
<td>Liu et al., 2005</td>
<td>Satoglu, 2017</td>
</tr>
<tr>
<td>Tolentino, 1993</td>
<td>Marton &amp; McCarthy, 2007</td>
<td></td>
</tr>
<tr>
<td>Dunning &amp; Narula, 1996</td>
<td>Masca &amp; Vaideen, 2010</td>
<td></td>
</tr>
<tr>
<td>Narula, 1996</td>
<td></td>
<td>Birsan et al., 2011</td>
</tr>
<tr>
<td>Zhang &amp; Van den Buckle, 1996</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dunning, 1997</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lall, 1998</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duran &amp; Ubeda, 2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barry et al., 2003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonaglia &amp; Goldstein, 2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sathye, 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boudier-Bensebaa, 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Verma &amp; Brennan, 2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fonseca et al., 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gorynia et al., 2019</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 5.2 presents previous studies based on the IDP models deployed. According to this table, only four studies compared both established models using cross-sectional analysis of developed and developing countries (Satoglu, 2017; Vavilov, 2006) and single-country analysis of developed country i.e. Portugal (Buckley & Castro, 1998; Fonseca et al., 2007). This study employs all established IDP models by using two approaches for the model estimation test, whereas previous studies have focused only on one approach (Satoglu, 2017; Buckley & Castro, 1998; Fonseca et al., 2007; Vavilov, 2006). It also focuses on the single-country analysis of an emerging economy, i.e., Indonesia, while previous studies applied cross-sectional or focused on developed country. It also applies two variables GDP and GDP per capita, whereas previous studies deployed only one variable. Therefore, from an empirical consideration of the IDP, this study provides robustness to the model estimation test to investigate which model(s) can provide a better fit for Indonesia’s development on IDP and which variable fits Indonesia’s IDP model.

5.3 Methodology

Figure 5.2 presents the steps involved in assessing Indonesia’s position on the IDP from both theoretical and empirical perspectives.
From the theoretical perspective, we classify and identify Indonesia’s position by applying IDP classification approaches based on several determinants established by Sawitri and Brennan (2022) in the first subsection. From the empirical perspective, we assess the established IDP models (Satoglu, 2017; Buckley & Castro, 1998; Fonseca et al., 2007; Vavilov, 2006) and investigate which model(s) and variable(s) have the best fit for Indonesia’s case in the second subsection. Following on from our theoretical and empirical findings, we then adopt an institutional perspective. We engage in policy analysis to assess Indonesia’s FDI regime, investigate Indonesia’s FDI policies and regulations, and generate recommendations for Indonesia’s government to shift its position on the IDP.

5.3.1 *The theoretical perspective: IDP classification approaches*

We apply IDP classification approaches by establishing Indonesia’s characteristics and economic development in relation to each determinant of the different classification approaches of IDP stages. The aims are to identify and assess Indonesia’s position on the IDP, investigate the implications of this position for its development, and investigate the influential factors that can advance its position on the IDP. Table 5.3 presents the five approaches for the classification of IDP stages as follows:

**Table 5.3. Five approaches to classifications of IDP stages**

<table>
<thead>
<tr>
<th>Approach to IDP stages classification</th>
<th>Classification determinants</th>
<th>The influential factors</th>
<th>Number of stages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Economic development</td>
<td>GDP per capita</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>FDI performance</td>
<td>Net Outward Investment Position (NOIP)</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Locational advantages</td>
<td>Macroeconomic conditions, demographic, infrastructure, and education</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>MNCs strategies</td>
<td>FDI motives</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>The role of government</td>
<td>Inward FDI policies and regulations</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Sawitri & Brennan (2022)

a. The first classification approach is based on a country’s economic development as represented by GDP per capita (Dunning, 1981; Dunning et al., 2001; Liu et al., 2005; Verma & Brennan, 2011). Based on this approach, there are four IDP stages.
b. The second classification approach is based on FDI performance as represented by Net Outward Investment Position (NOIP) (Dunning, 1981a; 1981b; 1986). Based on this approach, there are five IDP stages.

c. The third classification approach is based on a country’s locational advantages as represented by economic conditions, demographics, infrastructure, and education (Boudier-Bensebaa, 2008; Galan et al., 2007; Ly, 2021; Narula & Dunning, 2000, 2010; Narula & Guimon, 2010; Park & Lee, 2003; Scott-Kennel & Enderwick, 2005). Based on this approach, there are five IDP stages.

d. The fourth classification approach is based on MNCs’ strategies reflecting their motives to engage in FDI (Narula and Dunning, 2010). Based on this approach, there are five IDP stages.

e. The fifth classification approach is based on government policies and regulations and in particular macroeconomic policies and regulations (Dunning, 1981a; Zhu et al., 2011; Narula & Dunning, 2010). According to this approach, there are five IDP stages.

5.3.2 The empirical perspective: testing IDP models

Before conducting the model estimation for the IDP, we carried out a causality test and found a positive relationship between IFDI, OFDI, GDP, and GDP per capita in the case of Indonesia. Therefore, we cannot pre-determine the model and the influential variables (i.e., GDP or GDP per capita) on the NOIP function to investigate which model and variable better fit the case of Indonesia. The following steps are involved in testing IDP models in Indonesia.

5.3.2.1 Data collection

This study draws on annual time series data from 1990 to 2019 to assess the application of IDP in the case of Indonesia. This study employs secondary data from a recognised international institution, the World Bank. The data used in this study are GDP (Bellak, 2001; Dunning & Narula, 1996; Tolentino, 2003; Vavilov, 2006), GDP per capita, and NOIP (Satoglu, 2017; Buckley & Castro, 1998; Dunning, 1981b, 1981a, 1986; Narula, 1996; Tolentino, 1987, 1993) in Indonesia.

5.3.2.2 Data processing

Before conducting data analysis for the IDP concept in Indonesia, the first step involved data transformation. The collected data of GDP, GDP per capita, and NOIP are in absolute value in US dollars. Accordingly, the data need to be transformed into natural logarithm form to remove the noise, thus generating reliable and consistent empirical results (Gujarati, 2004; Shahbaz et al., 2016).
5.3.2.3 Data analysis

The second step is data analysis (i.e., unit root test) to determine whether the data collected are stationary or not (Dickey & Fuller, 1981; Kwiatkowski et al., 1992; P. C. B. Phillips & Perron, 1988). This study employs the Augmented Dickey Fuller (ADF), Phillips-Perron (PP), and Kwiatkowski-Phillips-Schmidt-Shin (KPSS) tests to the individual series.

5.3.2.4 Model estimation

We follow the established models from previous studies on IDP (as presented in Table 5.4) to investigate which model and variable provide a better fit in Indonesia by applying the independent variables of GDP and GDP per capita (PGDP).

<table>
<thead>
<tr>
<th>No</th>
<th>IDP Models with the Independent Variable of GDP</th>
<th>IDP Models with the Independent Variable of GDP per capita (PGDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>( NOIP = \beta_0 + \beta_1 gdp(t) + \beta_2 gdp^2(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp(t) + \beta_2 pgdp^2(t) + \epsilon )</td>
</tr>
<tr>
<td>2</td>
<td>( NOIP = \beta_0 + \beta_1 gdp(t) + \beta_2 gdp^2(t) + \beta_3 gdp^3(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp(t) + \beta_2 pgdp^2(t) + \beta_3 pgdp^3(t) + \epsilon )</td>
</tr>
<tr>
<td>3</td>
<td>( NOIP = \beta_0 + \beta_1 gdp(t) + \beta_2 gdp^2(t) + \beta_3 gdp^3(t) + \beta_4 gdp^4(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp(t) + \beta_2 pgdp^2(t) + \beta_3 pgdp^3(t) + \beta_4 pgdp^4(t) + \epsilon )</td>
</tr>
<tr>
<td>4</td>
<td>( NOIP = \beta_0 + \beta_1 gdp(t) + \beta_2 gdp^2(t) + \beta_3 gdp^3(t) + \beta_4 gdp^4(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp(t) + \beta_2 pgdp^2(t) + \beta_3 pgdp^3(t) + \beta_4 pgdp^4(t) + \epsilon )</td>
</tr>
<tr>
<td>5</td>
<td>( NOIP = \beta_0 + \beta_1 gdp(t) + \beta_2 gdp^3(t) + \beta_3 gdp^4(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp(t) + \beta_2 pgdp^3(t) + \beta_3 pgdp^4(t) + \epsilon )</td>
</tr>
<tr>
<td>6</td>
<td>( NOIP = \beta_0 + \beta_1 gdp^3(t) + \beta_2 gdp^4(t) + \epsilon )</td>
<td>( NOIP = \beta_0 + \beta_1 pgdp^3(t) + \beta_2 pgdp^4(t) + \epsilon )</td>
</tr>
</tbody>
</table>

We apply the OLS (Satoglu, 2017; Dunning & Narula, 1996; Dunning, 1981a, 1981b, 1986; Fonseca et al., 2007; Narula, 1994; Vavilov, 2006; Verma & Brennan, 2011) to investigate the best fit model and significance level of the linearity of the model. Two elements are considered in the ordinary least squares method to define the best fit: $R^2$ and F statistics (Hutcheson, 2011). We also apply the classical regression model (Andrejiová & Marasová, 2013; Zeng, 2019) to investigate the linearity of the relationship using three tests (multicollinearity, heteroscedasticity, and autocorrelation tests) (Zeng, 2019). Applying these methods provides an overarching analysis and a robust method to investigate the best-fit model and variable for Indonesia.

5.4 Analysis and discussions from a theoretical perspective

In this section, we present our analysis and discussion of Indonesia’s position on the IDP stages from a theoretical perspective.

5.4.1 Findings from the five approaches to the classification of IDP stages

The first approach to the classification of IDP stages is based on the GDP per capita, which has four stages. From 1990 to 2018, Indonesia was classified as a lower-middle income country because its GDP per capita was located between US$ 1,026 and US$ 4,035 (Dunning, 1981; Dunning et al., 2001; Liu et al., 2005; Verma & Brennan, 2011). Based on its GDP per capita in the period 1990 - 2019, Indonesia was in the second stage of the IDP. Moreover, in 2019, Indonesia progressed into an upper-middle income country with a GDP per capita of US$ 4,135.57, located between US$ 4,038 and US$ 12,475 (Dunning, 1981; Dunning et al., 2001; Liu et al., 2005; Verma & Brennan, 2011). Given its recent GDP per capita, Indonesia can be classified in the third stage of the IDP.

The second approach to the classification of IDP stages is based on NOIP, which has five stages. Figure 5.3 charts Indonesia’s NOIP, which fluctuated between 1990 and 2019 in the second, third, and fourth stages of the IDP. In the second and third stages of the IDP, the NOIP values were negative (Dunning, 1981b, 1981a, 1986). In the fourth stage of the IDP, the value of NOIP was positive (Dunning, 1981b, 1981a, 1986). The positive value of NOIP occurred from 1998 to 2004 due to the significant decrease in IFDI to Indonesia as a result of the disinvestment activities and a decrease in investor trust in Indonesia arising from the AFC, collapse of the Suharto presidency, and social disorder (Basri & Hill, 2020).
The third approach to the classification of IDP stages is based on locational advantages, which have five stages. The locational advantages of Indonesia in the period from 1980 to 2018 are: the large size of the domestic market as well as an increasing purchasing power parity; the improvement of economic conditions as well as investment climate with the provision of government policies and regulations to attract more IFDI; the provision of infrastructure to support business activities and attract more IFDI; and the high productivity age ratio for the provision of cheap labour as well as trained and motivated labour. Therefore, the characteristics of Indonesia are sufficient to attract IFDI, and they can be classified in the second stage of the IDP. Meanwhile, since the start of the second term of Jokowi’s presidency (the 7th and current president of Indonesia) in 2019, the development of Indonesia in terms of improving economic conditions, improving and advancing the provision of infrastructure, and improving the investment climate through favourable government policies and regulations to attract more IFDI has shifted Indonesia’s position on IDP to the third stage.

The fourth approach to the classification of IDP stages is based on MNC strategies represented by their FDI motives, which have five stages. The motives for IFDI in Indonesia have been dominated by natural resource-seeking and market-seeking investments due to the vast variety of natural resource endowments and large domestic markets in Indonesia as well as adjacent regional markets. Therefore, based on the MNCs’ strategies in Indonesia, Indonesia is classified as a stage two IDP.

Finally, the fifth approach to the classification of IDP stages is based on government policies and regulations, which have five stages. Indonesia’s government focuses more on assessing, reforming,
designing, and generating suitable policies and regulations to attract IFDI, with little or no focus on OFDI. Therefore, based on Indonesia’s government policies and regulations, its position in the IDP is in stage two. We conclude that Indonesia’s position on IDP stages varies and depends on which of the five approaches is applied. Based on the GDP per capita, Indonesia’s position was in the second stage in the period 1990 – 2018 and was transformed into stage three of the IDP in 2019. Based on the NOIP, Indonesia’s position on IDP stages varied between 1990 and 2019. From 1990 to 1997, Indonesia’s position fluctuated in stages two and three of the IDP, respectively. Moreover, from 1998 to 2004, it was in stage four of the IDP. In 2005 – 2019, its position fluctuated in stages two and three of the IDP, respectively. Based on its locational advantage, Indonesia’s position on the IDP varied from 1990 to 2019. From 1990 to 2018, Indonesia was in the second stage of the IDP and transitioned into stage three of the IDP in 2019. Moreover, based on the motives of IFDI and government policies and regulations, Indonesia’s position on the IDP in the period 1990 – 2019 was in the second stage. Therefore, given the mixed findings across the IDP classification approaches, with Indonesia found to be mainly located in the second stage of IDP, Indonesia has the potential to shift its position on IDP to later stages of IDP.

5.4.2 Indonesia’s position on IDP

Based on our findings from IDP classification approaches, we found that Indonesia’s position on the IDP varied. Indonesia was classified into the second, third, and fourth stages of the IDP. Based on the second approach to the classification of IDP stages that is based on NOIP, we found a deviation in the case of Indonesia from the established theory. Indonesia’s positioning on the IDP was found not to follow the established linear stages progression. Based on the established theory, a country tends to undergo five stages of development progressively (Dunning & Narula, 2002). In the case of Indonesia, its position on IDP based on the NOIP has fluctuated between 1990 and 2019. From 1990 to 1997 the position of Indonesia was in the second stage. Meanwhile from 1998 to 2004, the position of Indonesia was in the fourth stage due to the significant decrease in IFDI as a result of the disinvestment activities and a decrease in investor trust in Indonesia arising from the AFC, collapse of the Suharto presidency, and social disorder. During this period, the condition of Indonesia’s economy was at its lowest point from 1990 to 2019. Furthermore, as the economy recovered in the period 2005 - 2019, the position of Indonesia was at the second stage and just transformed to the third stage of IDP in 2019.

In addition, we elaborate on Indonesia’s IDP position based on the locational advantages and motives of IFDI and OFDI to depict the current development of Indonesia. We then investigate the potential areas to
advance Indonesia’s position on the IDP. First, based on the locational advantages, Indonesia’s characteristics are as follows:

a. The domestic market size and purchasing power parity.

Indonesia is the world’s fourth most populous nation with a large domestic market. Indonesia’s adjacent markets (e.g., ASEAN and other multilateral and bilateral relationships) also benefit the country by expanding its market size. Indonesia is the world’s 10th largest economy based on purchasing power parity (World Bank, 2018). Accordingly, the country has a competitive advantage based on its domestic and adjacent markets and purchasing power parity. Therefore, a promotion strategy should emphasise this competitive advantage to attract IFDI.

b. The economic conditions and government policies.

The development of Indonesia’s economy has been impressive since the era of independence. Indonesia is one of the members of the G-20 countries and is the only ASEAN country that is part of the G-20 countries (World Bank, 2018). Indonesia also participates in other international organisations such as the Asia-Pacific Economic Corporation (APEC) and Organization of Petroleum Exporting Countries (OPEC). Government policies and regulations are designed to attract IFDI due to its impact on boosting the economy. Therefore, FDI has been one of the main focuses of the Indonesian government in recent years.

c. The provision of infrastructure.

Indonesia is one of the largest archipelagic countries in the world, comprising seventeen thousand islands, and is the world’s 14th largest country by area (World Bank, 2018). Therefore, transportation linking islands is necessary in Indonesia. There are several improvements that the government has provided, such as providing a highway toll road to link the regions in the main islands; developing new transportation ports and improving existing ports; ensuring the equality of provision of infrastructure in all areas of Indonesia; and providing simpler, faster, and transparent procedures and processes for shipping. Therefore, a promotion strategy should emphasise this competitive advantage to attract IFDI.

d. The provision of labour.

Education has been a major focus in Indonesia’s strategy (World Bank, 2020). Labour productivity growth for Indonesia in 2018 is 3.8% (OECD, 2019), and the productivity age ratio to the total population is approximately 66% (World Bank, 2019). Therefore, the provision of educated labour in Indonesia is sufficient to attract IFDI. However, the government can improve the provision of labour
by ensuring the same education standards in all regions, improving vocational education, encouraging MNCs to hire domestic labour and transfer knowledge to them, and ensuring fair competition between domestic and foreign labour.

Second, based on MNCs’ motives to engage in IFDI and OFDI, Indonesia’s characteristics are as follows:

a. The motives of IFDI.

The top five sectors for IFDI in 2019 were electricity, gas, and water supply; transportation, warehousing, and telecommunication; metal, except machinery and equipment industry; housing, industrial estates, and office building; and mining (BKPM, 2020). Trends related to the top five sectors for IFDI in Indonesia indicate that the motives for IFDI are dominated by natural resource and market-seeking motives. The potential areas of FDI growth for Indonesia are attracting processing industries of semi-finished or finished materials and ensuring domestic employment in these particular industries; attracting R&D and technologies industries to advance the improvement of technology and infrastructure; ensuring technological and knowledge spillovers from MNCs to domestic companies in processing industries by joint partnership; and expanding or generating industrial-specific zones by the provision of infrastructure and labour to create regional or national champions in specific industries.

b. The motives for OFDI.

OFDI from Indonesia is predominately based on reinvested earnings and equity capital (Sambodo, 2017). OFDI from Indonesia is considered an unnationalistic action due to perceived benefits to foreign countries and is also associated with capital flight (Carney & Dieleman, 2011; Sambodo, 2017). The level of OFDI in Indonesia is not as significant as the level of IFDI since OFDI is not the main focus of government strategy. Therefore, there is a potential opportunity for the government to consider the development of OFDI because of its potential impact on the home country.

From the theoretical perspective, we found a deviation in relation to the progression of Indonesia from the established theory. Indonesia’s positioning on IDP stages was not aligned with the established linear progression. However, from the analysis of Indonesia’s locational advantages and MNCs’ motives to engage in FDI, we conclude that Indonesia has competitive advantages. Accordingly, we argue that the country needs to boost its FDI performance and improve its economic development to advance its position on the IDP. Therefore, it is necessary to investigate whether from the empirical perspective, the established IDP models fit Indonesia’s case. It is also necessary to investigate the government role using an institutional perspective of the IDP.
5.5 Analysis and discussions from an empirical perspective

In this section, we present our analysis and discussion of the IDP model estimation from an empirical perspective.

5.5.1 Findings on the IDP models

5.5.1.1 Summary of data analysis

Table 5.5 presents the summary of the unit root tests. We conclude that data for all variables applied are stationary.

Table 5.5. Summary of unit root tests

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>DATA</th>
<th>ADF TEST</th>
<th>PP TEST</th>
<th>KPSS TEST</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>I(0)</td>
<td>I(1)</td>
<td>I(0)</td>
</tr>
<tr>
<td>The Net of Outward Investment Position (outward FDI less inward FDI)</td>
<td>lnnoip</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Economic Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>lngdp</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>GDP Per Capita</td>
<td>lnpgdp</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors

5.5.1.2 Summary of model estimation

Tables 5.6 and 5.7 present the model estimation by applying OLS using the independent variables of GDP and GDP per capita.

Table 5.6. Summary of OLS model estimation of GDP

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>MODEL 1</th>
<th>MODEL 2</th>
<th>MODEL 3</th>
<th>MODEL 4</th>
<th>MODEL 5</th>
<th>MODEL 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>Probability</td>
<td>Coefficient</td>
<td>Probability</td>
<td>Coefficient</td>
<td>Probability</td>
</tr>
<tr>
<td>GDP</td>
<td>-6.95</td>
<td>0.38</td>
<td>-31.98336</td>
<td>0.4837</td>
<td>-34.11233</td>
<td>0.4765</td>
</tr>
<tr>
<td>GDP2</td>
<td>0.32</td>
<td>0.30</td>
<td>2.314205</td>
<td>0.5197</td>
<td>3.044896</td>
<td>0.5665</td>
</tr>
<tr>
<td>GDP3</td>
<td>-</td>
<td>-0.02826</td>
<td>-0.05722</td>
<td>0.5795</td>
<td>-0.11754</td>
<td>0.7393</td>
</tr>
<tr>
<td>GDP4</td>
<td>-</td>
<td>-</td>
<td>-0.001809</td>
<td>0.849</td>
<td>-0.007666</td>
<td>0.9341</td>
</tr>
<tr>
<td>GDP5</td>
<td>-</td>
<td>-</td>
<td>-0.0001046</td>
<td>0.0982</td>
<td>6.14E-05</td>
<td>0.8324</td>
</tr>
<tr>
<td>Constant</td>
<td>44.67</td>
<td>0.37</td>
<td>149.1662</td>
<td>0.4435</td>
<td>143.7097</td>
<td>0.4732</td>
</tr>
<tr>
<td>No. Observations</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.657009</td>
<td>0.661164</td>
<td>0.661665</td>
<td>0.698819</td>
<td>0.662177</td>
<td>0.66</td>
</tr>
<tr>
<td>F-statistic</td>
<td>0.000001</td>
<td>0.000003</td>
<td>0.000012</td>
<td>0.000012</td>
<td>0.000003</td>
<td>0.000001</td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors
In the case of the IDP model, where the independent variable is GDP, the highest values of $R^2$ were found for Model 4 (a fifth-degree or quintic function) (as presented in Table 5.6). In the case of the IDP model, where the independent variable is GDP per capita, the highest values of $R^2$ were found for Model 2 (a third-degree or cubic function), Model 3 (a fourth-degree or quartic function), and Models 4 and 5 (a fifth-degree or quintic function) (as presented in Table 5.7). Moreover, we found that these models were significant at the 99% confidence level. In addition, to test the assumptions of the classical regression model, we consider three elements:

a. In the multicollinearity test, we conclude that multicollinearity issues were found in the models (as presented in Tables 5.8 and 5.9).

### Table 5.7. Summary of OLS model estimation of GDP per capita

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>MODEL 1</th>
<th>MODEL 2</th>
<th>MODEL 3</th>
<th>MODEL 4</th>
<th>MODEL 5</th>
<th>MODEL 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>Probability</td>
<td>Coefficient</td>
<td>Probability</td>
<td>Coefficient</td>
<td>Probability</td>
</tr>
<tr>
<td>PGDP</td>
<td>-1.6465</td>
<td>0.7875</td>
<td>90.7729</td>
<td>0.0056</td>
<td>61.1240</td>
<td>0.0842</td>
</tr>
<tr>
<td>PGDP2</td>
<td>0.2090</td>
<td>0.5995</td>
<td>-92.6017</td>
<td>0.0343</td>
<td>-8.4861</td>
<td>0.4990</td>
</tr>
<tr>
<td>PGDP3</td>
<td>-</td>
<td>0.9424</td>
<td>0.0113</td>
<td>-0.0291</td>
<td>0.9861</td>
<td>0.0401</td>
</tr>
<tr>
<td>PGDP4</td>
<td>-</td>
<td>0.0596</td>
<td>0.7000</td>
<td>-2.6188</td>
<td>0.0477</td>
<td>-</td>
</tr>
<tr>
<td>PGDP5</td>
<td>-</td>
<td>0.0995</td>
<td>0.0461</td>
<td>0.0034</td>
<td>0.0446</td>
<td>0.0001</td>
</tr>
<tr>
<td>Constant</td>
<td>8.8961</td>
<td>0.6776</td>
<td>-211.1435</td>
<td>0.0419</td>
<td>-219.6014</td>
<td>0.0425</td>
</tr>
<tr>
<td>No. Observations</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>R-square</td>
<td>0.66411</td>
<td>0.710921</td>
<td>0.721542</td>
<td>0.764894</td>
<td>0.715202</td>
<td>0.66795</td>
</tr>
<tr>
<td>F statistic</td>
<td>0.00000</td>
<td>0.00000</td>
<td>0.00000</td>
<td>0.00000</td>
<td>0.00000</td>
<td>0.00000</td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors

In the case of the IDP model, where the independent variable is GDP, the highest values of $R^2$ were found for Model 4 (a fifth-degree or quintic function) (as presented in Table 5.6). In the case of the IDP model, where the independent variable is GDP per capita, the highest values of $R^2$ were found for Model 2 (a third-degree or cubic function), Model 3 (a fourth-degree or quartic function), and Models 4 and 5 (a fifth-degree or quintic function) (as presented in Table 5.7). Moreover, we found that these models were significant at the 99% confidence level. In addition, to test the assumptions of the classical regression model, we consider three elements:

a. In the multicollinearity test, we conclude that multicollinearity issues were found in the models (as presented in Tables 5.8 and 5.9).

### Table 5.8. Correlation table of NOIP and GDP

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>NOIP</th>
<th>GDP</th>
<th>GDP2</th>
<th>GDP3</th>
<th>GDP4</th>
<th>GDP5</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOIP</td>
<td>1.000000</td>
<td>0.801752</td>
<td>0.804199</td>
<td>0.805930</td>
<td>0.807223</td>
<td>0.808578</td>
</tr>
<tr>
<td>GDP</td>
<td>0.801752</td>
<td>1.000000</td>
<td>0.999754</td>
<td>0.999045</td>
<td>0.997943</td>
<td>0.996359</td>
</tr>
<tr>
<td>GDP2</td>
<td>0.804199</td>
<td>0.999754</td>
<td>1.000000</td>
<td>0.999765</td>
<td>0.999108</td>
<td>0.997888</td>
</tr>
<tr>
<td>GDP3</td>
<td>0.805930</td>
<td>0.999045</td>
<td>0.999765</td>
<td>1.000000</td>
<td>0.999787</td>
<td>0.999127</td>
</tr>
<tr>
<td>GDP4</td>
<td>0.807223</td>
<td>0.997943</td>
<td>0.999108</td>
<td>0.999787</td>
<td>1.000000</td>
<td>0.999771</td>
</tr>
<tr>
<td>GDP5</td>
<td>0.808578</td>
<td>0.996359</td>
<td>0.997988</td>
<td>0.999127</td>
<td>0.999771</td>
<td>1.000000</td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors

### Table 5.9. Correlation table of NOIP and GDP per capita

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>NOIP</th>
<th>PGDP</th>
<th>PGDP2</th>
<th>PGDP3</th>
<th>PGDP4</th>
<th>PGDP5</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOIP</td>
<td>1.000000</td>
<td>0.812772</td>
<td>0.814313</td>
<td>0.815914</td>
<td>0.816859</td>
<td>0.817308</td>
</tr>
<tr>
<td>PGDP</td>
<td>0.812772</td>
<td>1.000000</td>
<td>0.999426</td>
<td>0.997808</td>
<td>0.995289</td>
<td>0.992012</td>
</tr>
<tr>
<td>PGDP2</td>
<td>0.814313</td>
<td>0.999426</td>
<td>1.000000</td>
<td>0.999743</td>
<td>0.997987</td>
<td>0.995686</td>
</tr>
<tr>
<td>PGDP3</td>
<td>0.815914</td>
<td>0.997808</td>
<td>0.999743</td>
<td>1.000000</td>
<td>0.999519</td>
<td>0.998170</td>
</tr>
<tr>
<td>PGDP4</td>
<td>0.816859</td>
<td>0.995289</td>
<td>0.997987</td>
<td>0.999519</td>
<td>1.000000</td>
<td>0.999564</td>
</tr>
<tr>
<td>PGDP5</td>
<td>0.817308</td>
<td>0.992012</td>
<td>0.995686</td>
<td>0.998170</td>
<td>0.999564</td>
<td>1.000000</td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors
Based on Zeng (2019), the ad hoc methods for dealing with multicollinearity are to ignore it because it does not impact the properties of the OLS estimation and to drop one of the variables that has collinearity. Since, we applied multiple degrees of variables, accordingly, a high correlation exists. Therefore, we ignored the multicollinearity issue.

b. In the heteroscedasticity test, Table 5.10 shows that the probability of each model is above 0.05. We found homoscedasticity or no issues in terms of heteroscedasticity.

Table 5.10. Probability of Heteroscedasticity test

<table>
<thead>
<tr>
<th>Model/Value</th>
<th>With the independent variable of GDP</th>
<th>With the independent variable of GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 4</td>
<td>Model 2</td>
</tr>
<tr>
<td>Prob (F-Stat)</td>
<td>0.547141</td>
<td>0.340417</td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors

c. In the case of the autocorrelation test, Table 5.11 presents the DW value for each model is above 2. We found no autocorrelation issues.

Table 5.11. Durbin-Watson Stat for Autocorrelation test

<table>
<thead>
<tr>
<th>Model/Value</th>
<th>With the independent variable of GDP</th>
<th>With the independent variable of GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 4</td>
<td>Model 2</td>
</tr>
<tr>
<td>Durbin-Watson Stat</td>
<td>2.116058</td>
<td>2.199571</td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors

5.5.2 IDP models for Indonesia

Based on our empirical analysis, we conclude that Model 4 (a fifth-degree or cubic function) using GDP and Model 2 (a third-degree or cubic function), Model 3 (a fourth-degree or quartic function), and Models 4 and 5 (a fifth-degree or quintic function) using GDP per capita are the best fit in Indonesia’s case on the IDP concept. Our identified models differ from the findings of previous studies that found the best fit models to be Model 1 (Satoglu, 2017; Vavilov, 2006) and Model 6 (Satoglu, 2017; Buckley & Castro, 1998; Vavilov, 2006).

Moreover, even though from the theoretical perspective of IDP, we found a deviation in Indonesia’s progression from the established IDP theory. Nonetheless, the empirical analysis generates the best fit models of IDP for Indonesia. Therefore, for further investigation, it is necessary to deploy an institutional perspective of IDP to assess the current FDI regime in Indonesia and derive recommendations for the
Indonesian government to promote its FDI, hence serving the country’s economic development, shifting its position, and keeping a sustainable progression on the IDP stages.

5.6 Analysis and discussions from an institutional perspective

This section provides an analysis and discussion from an institutional perspective.

5.6.1 An analysis of the FDI regime in Indonesia

We divided our analysis on the FDI regime in Indonesia into two main eras: the post-colonialism or the old order from 1945 to 1965 and the new order from 1965 to 1998. In the first era, FDI development was insignificant (Lindblad, 2015; Sjahrir, 1986). The reasons were that the country had unattractive economic conditions, unfavourable government policies and regulations, and inadequate provision of infrastructure and labour (Lindblad, 2015; Sjahrir, 1986). Moreover, the government’s main focus was on increasing the role of domestic small and medium enterprises (SMEs) in the economy, restricting foreign investment, and nationalising foreign companies (Sjahrir, 1986).

In the second era, the investment climate changed radically with the restoration of Indonesia’s relationship with the outside world and the rebranding of its image for foreign investment (Lindblad, 2015). The government formulated an open door policy focusing on attracting foreign investors to boost the economy by providing incentives in the form of a tax-free term and guaranteeing non-nationalization (Sjahrir, 1986). As a result, Japanese and American IFDI emerged (Lindblad, 2015). The locational advantages of Indonesia were then sufficient to attract IFDI with a large diversity of natural resources, a large domestic market, and ample cheap labour (Sjahrir, 1986). However, foreign investors still faced obstacles in realising their investment: the bottleneck of bureaucracy in Indonesia; uncertainty and lack of legal clarity; inadequate provision of infrastructure and land; and inadequate provision of educated and well-trained labour (Clapham, 1970).

We can conclude that Indonesia’s FDI regime has impacted the country’s position on the IDP. In the first era, Indonesia’s FDI regime resulted in the insignificant development of FDI. Accordingly, the country’s position on the IDP was at the first stage. Furthermore, the development of the FDI regime in the second era influenced the country’s progression on the IDP into the second stage with a significant increase in IFDI. However, foreign investors still had constraints to realising their investment, and the development of Indonesia’s OFDI remained insignificant. In addition, the AFC significantly impacted Indonesia’s economy and resulted in Indonesia’s economic depression in 1998 (Basri & Hill, 2011). Since then, the country has had a significant and substantial transformation in its economic structure and development strategies.
Therefore, it is necessary to investigate Indonesia’s FDI policies and regulations after the AFC using a particular framework and identify the potential areas for refining such policies and regulations to shift Indonesia’s position on IDP.

5.6.2 Policy analysis of Indonesia’s FDI policies and regulations after the AFC

In investigating Indonesia’s FDI policies and regulations after the AFC and deriving recommendations for Indonesia’s government to shift its position on the IDP stages, we apply the HCMs framework (as presented in Figure 5.4) and the measures for HCMs (as seen in Table 5.12).

Figure 5.4. Home Country Measures (HCMs) framework

Source: UNESCAP 2020, UNCTAD 2001
## Table 5.12. Home Country Measures (HCMs)

<table>
<thead>
<tr>
<th>NO</th>
<th>CATEGORY</th>
<th>MEASURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Institutional Arrangements</td>
<td>Government departments and ministries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment and/or trade promotion agencies (central and local, domestic and abroad)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Export credit agencies (e.g., export-import banks)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Development finance institutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Special purpose institutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Coordinating institution or mechanism</td>
</tr>
<tr>
<td>2</td>
<td>Regulations</td>
<td>Restrictions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Requirements</td>
</tr>
<tr>
<td>3</td>
<td>Early support services</td>
<td>Information</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment missions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Matchmaking services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Education and training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In-depth consultancy and advice</td>
</tr>
<tr>
<td>4</td>
<td>Financial support</td>
<td>Grants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial guarantees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equity participation</td>
</tr>
<tr>
<td>4</td>
<td>Fiscal support</td>
<td>Tax reductions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Corporate tax rate relief</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax deferrals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax credits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Allowances</td>
</tr>
<tr>
<td>5</td>
<td>Investment insurance</td>
<td>Political risk insurance</td>
</tr>
<tr>
<td>6</td>
<td>Treaties</td>
<td>International Investment Agreements (IIAs)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Market entry negotiations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Double taxation treaties</td>
</tr>
<tr>
<td>7</td>
<td>Operational support</td>
<td>Dealing with policies overseas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mobilize domestic support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Auxiliary services overseas</td>
</tr>
<tr>
<td>8</td>
<td>Maximising benefits</td>
<td>Enhancing home country prerequisites</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Improving transmission channels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Encouraging generation of effects</td>
</tr>
<tr>
<td>9</td>
<td>Evaluation</td>
<td>Feedback mechanisms</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Data analysis</td>
</tr>
</tbody>
</table>

Source: UNESCAP 2020, UNCTAD 2001
HCMs are a framework that encompasses all of a country’s implemented measures, policies, regulations, and institutional arrangements in order to support, facilitate, regulate, promote, and encourage FDI flows (UNESCAP 2020, UNCTAD 2001). HCMs also generate recommendations for governments to leverage their FDI activities and maximise their benefits for economic development (Stephenson & Perea, 2018). Since Indonesia does not have policies and regulations towards OFDI, we only apply HCMs to our policy analysis focusing on IFDI. We also discuss the potential impacts of OFDI on the home country’s economy and the potential contribution of OFDI policies to the progression of Indonesia’s positioning on IDP.

5.6.2.1 IFDI policies and regulations

There has been ongoing development of policies and regulations in Indonesia regarding IFDI since the new order era and the AFC. The Indonesian government is committed to promoting and stimulating IFDI to boost the economy. This initiative has had a significant impact on increasing the level of IFDI in Indonesia. In this subsection, we assess Indonesia’s IFDI policies and regulations by applying the ten categories in the HCMs and derive recommendations for Indonesia’s government to promote its IFDI as follows:

a. Institutional arrangements

Indonesia’s government is committed to establishing and expanding the role of the government institution BKPM (The Indonesian Investment Coordinating Board) to promote Indonesia’s investment and facilitate and provide a better service for investors at the national, regional, and international levels. The opportunity for Indonesia in relation to institutional arrangements relates to the establishment of more international investment promotion agencies to attract more IFDI to Indonesia, in other potential home countries, as these are currently only available in eight countries.

b. Regulations

The Indonesian government is committed to assessing and redesigning its regulations to attract IFDI. The government focuses on as implementing and improving the standard procedure and service of online single submission (in simplifying licence service platforms), simplifying the procedure for starting a business, providing tax incentives (i.e. tax allowance and tax holiday) and priority service for specified investments, providing problem-solving solution services for the debottlenecking issue in investment realisation, implementing relaxations in the negative investment list for some industries, providing high-skilled and educated labour, and catering for capital repatriation for investments. Indonesia’s government needs to ensure the implementation of such policies and regulations at the national and regional levels to attract and
boost IFDI to Indonesia. It is also necessary to ensure fair competition between domestic companies and MNCs in the domestic market.

c. Early support services

Indonesia’s government, via BKPM at national, regional, and international levels, applies the early support services to existing and potential investors. Opportunities arise for early support services in representing the right promotion information to the targeted investors based on their motives for investment, providing education and training for the promotion agents, and providing assistance and guidance for potential investors regarding the potential sectors or geographical regions for investment.

d. Financial support

BKPM needs to enhance and strengthen cooperation with domestic and multinational banks and other financial institutions to facilitate and generate innovative financial products in terms of source of funds for investors who have an interest in investing in Indonesia.

e. Fiscal support

The Indonesian government committed to providing fiscal support to specific investments that can generate and improve capital-intensive, labour-intensive, export-oriented, or high technology development. The government also provides fiscal support for other investments in certain economic zones or regions. Further steps that can be undertaken in relation to fiscal support include ensuring the implementation of fiscal support is fair for all investors and emphasizing in its promotion activities the fiscal support that Indonesia has.

f. Investment insurance

The Indonesian government needs to identify and mitigate potential risks related to corruption, radical movements, and other risks that can threaten investment activities in the future.

g. Treaties

BKPM and other ministries actively participate in international discussions on bilateral investment agreements (BITs), trade agreements with investment provisions, and membership in dispute resolution institutions.

h. Operational Support

The Indonesian government should engage in policy coordination with the home country; provide and ensure inter-firm collaboration for IFDI; provide and encourage financial support from domestic and international banks; and expand investment promotion agencies in substantial home countries.
i. **Maximising benefits**

Indonesia’s government has already regulated and addressed these prerequisites, and the remaining roles for the government are to ensure the implementation of the regulations and boost the performance of SMEs to compete with MNCs, not only in the domestic market but also in the global market.

j. **Evaluation**

The Indonesian government should utilise more surveys, listening sessions, and research on the effectiveness of all measures to boost IFDI.

In conclusion, we found that Indonesia’s government embraces IFDI as one of the critical instruments for economic development. As a result, the level of IFDI has been mostly increasing year-by-year. Analysing IFDI policies and regulations by applying the HCM framework provides a better understanding of the existing policies and regulations. The policy makers have tended to redesign and reframe Indonesia’s policies and regulations to support IFDI. The analysis also identifies the potential improvement in IFDI policies and regulations to generate a better investment climate to attract more IFDI to Indonesia. We suggest that the Indonesian government frame, design, and generate policies and regulations that can attract value-added investments, especially those with high spillover effects in terms of technology and knowledge. Since most of Indonesia’s domestic companies are micro and small with low technology involvement, Indonesia’s role in global value chains remains as a supplier of raw materials and intermediate products (BKPM, 2022). Accordingly, the benefits of having value-added investments in place are to upgrade the country’s comparative advantages in the international markets by augmenting the domestic companies’ capabilities to compete with MNCs in the domestic market and encourage them to engage in OFDI (Dunning, 1994). Indonesia’s government also needs to ensure the implementation of IFDI policies and regulations at national and regional levels.

5.6.2.2 **OFDI policies and regulations**

Regarding the position of Indonesia on the IDP, the changes in IFDI policies and regulations have been followed by an increase in the IFDI. However, in the absence of policies to promote OFDI, the position of Indonesia, based on the fifth approach to the classification of IDP stages which is government policies and regulations (Sawitri & Brennan, 2022), has remained stable at the second stage of IDP. Moreover, in terms of OFDI reports, the government (e.g., BKPM) does not have any formal reports or publications regarding OFDI. Even though, it is clearly stated in the investment laws that the foreign investment made by foreign companies should benefit domestic companies to escalate their ownership advantages and, hence, compete
in the global market. In fact, the development of spinoff impacts between MNCs and domestic companies still require intensive supervision. In addition, BKPM has a mandate, as enacted in BKPM regulation No.90/2007, to coordinate OFDI, but its implementation has not been fully addressed. Therefore, the government should enhance the role of BKPM to not only focus on attracting more IFDI, but also on encouraging OFDI.

In some aspects of IFDI policies, the government tends to stimulate the enhancement of domestic companies’ performance to advance their ownership advantages and to compete with the MNCs in the domestic market by attracting and facilitating the downstream industries or sectors to serve the domestic market. Notwithstanding the evidence of positive impacts of OFDI on home country development from previous studies, there is no evidence that the Indonesian government tends to encourage domestic companies to engage in OFDI. The positive impacts of OFDI presented in a study by Wong (2010). He found that MNCs can remit their profit from their OFDI and reinvest in the home country, hence generating a stimulus for economic growth. Another study by Barry et al. (2003) also found that MNCs pursuing strategic asset-seeking investment can bring back the knowledge that they have gained from OFDI and improve the performance of parent companies in the home country through training and technology development. Given the impact of OFDI on the home country’s economy from the previous studies, there is a big opportunity and a challenge for the Indonesian government to support OFDI to develop its economy and shift its position on the IDP stages. Therefore, to achieve this goal, the government should frame and generate policies and regulations related to OFDI by considering HCMs. Having such policies and regulations in place can support and nurture the development of domestic companies’ capabilities, encourage the domestic companies to engage in OFDI, and ensure that the domestic companies engaged in OFDI serve the development of Indonesia’s economy. By promoting OFDI from Indonesia, the level of OFDI can increase and contribute to the progression of Indonesia’s position on the IDP.

5.7 Conclusion

This study assessed the applicability of the IDP concept to Indonesia from 1990 to 2019. Unlike previous studies, we consider a single-country analysis by engaging the theoretical and empirical aspects of the IDP concept to assess Indonesia’s position on the IDP. From the theoretical perspective of the IDP, we applied the IDP classification approaches to investigate whether Indonesia follows the same path as the theory proposed. From an empirical perspective, we applied the model estimation test to our available data to investigate which IDP model and variable best fit Indonesia’s characteristics. From an institutional
perspective, this study engages in a policy analysis to identify measures to support the movement of Indonesia’s position along the IDP stages. This study is of benefit to policymakers, researchers, and companies as they can treat this study as a reference for their separate pursuits.

From a theoretical perspective, we found that Indonesia is a net of inward direct investment with its position having fluctuated between stage two, three, and four of development. We found a deviation in the case of Indonesia from the established theory. Indonesia’s positioning on the IDP was found not to follow the established linear stages progression. Having shifted from the second stage to the fourth stage in the period 1998 to 2004 due to a major decline in IFDI as a result of the political and social instability of that era, it regressed to the second stage in subsequent years.

Even though we found a deviation from the established theory from a theoretical perspective, the empirical analysis generates a best fit model for Indonesia. The suitable IDP models for Indonesia are polynomial models with third-, fourth- and fifth degrees using GDP and GDP per capita. These models follow the estimation criteria of the best-fit models and of the established theory.

Moreover, from an institutional perspective of the FDI regime in Indonesia, we found that Indonesia focuses only on attracting IFDI, thus restricting its progression from stage two of the IDP. The country’s comparative advantages in the global market still lag behind some other emerging economies. The capabilities of Indonesia’s domestic companies have not been upgraded since most companies are micro and small with low technology involvement. Accordingly, Indonesia’s role in global value chains remains as a supplier of raw materials and intermediate products. Therefore, we derived several recommendations for Indonesia’s policymakers to stimulate and augment the domestic companies’ capabilities, upgrade the country’s comparative advantages in the global markets, and promote OFDI, thus shifting the country’s position on the IDP stages.

Given the extant focus on China and India in the literature on IDP, there is an opportunity to extend our analysis to other emerging economies.

5.8 Reference list


CHAPTER 6
OUTWARD FOREIGN DIRECT INVESTMENT AND HOME COUNTRY ECONOMIC DEVELOPMENT - THE CASE OF INDONESIA

This study was presented at the 49th Academy of International Business UK and Ireland Chapter Conference in 2022. The abstract is provided at Kadek Ade Sawitri and Louis Brennan, Outward Foreign Direct Investment and Home Country Economic Development - the case of Indonesia, 48th AIB-UKI Annual Conference, Reading, April 2022, edited by Davide Castellin and Rajneesh Narula, 2022, pp41.

ABSTRACT
We investigate the role of OFDI in Indonesia’s economy using empirical and institutional analyses. We found that OFDI is a means of developing the economy and Indonesia has competitive advantages in generating OFDI. Domestic companies and Indonesia’s government can play important roles in OFDI. However, Indonesia’s government neglects OFDI and focuses only on IFDI. Most domestic companies are micro and small, with limited capabilities for OFDI. Therefore, we recommend that Indonesia’s government focus on nurturing and boosting the development of domestic companies’ capabilities to enable them to engage in OFDI and also focus on generating OFDI policies and regulations due to their absence to promote OFDI and ensure that it serves the economy. We established a framework to promote the development of domestic companies’ capabilities which governments can consider applying.

Keywords:
Economic Development, Empirical Analysis, Indonesia, Institutional Analysis, OFDI

6.1 Introduction
The contribution of developing countries to globalisation has been seen as a crucial engine of the global economy (Paul & Benito, 2018; Yang, 2012). The phenomenon of emerging Multinational Companies (MNCs) from developing countries has been increasing (Awate et al., 2012; Goh, 2011; Paul & Benito, 2018; Sahoo & Bishnoi, 2021). The developing countries received 54% of total inward FDI (IFDI) in 2018 and contributed 45% of global outward FDI (OFDI) in 2018 (UNCTAD, 2019). OFDI from developing countries in 2018 was mainly dominated by China, Russia, South Korea, Singapore, Saudi Arabia, Thailand, and United Arab Emirates (UNCTAD, 2019). In the case of Indonesia, the country has been a
favourite destination for IFDI (Amirahmadi & Wu, 1994). Given its large market size, competitive labour cost, and vast natural resources, Indonesia was in the top 20 host economies for IFDI in 2017 (UNCTAD, 2018). However, in terms of OFDI, there is no evidence that the country embraces OFDI as a means of economic development. As a result, in 2019, Indonesia’s IFDI accounted for $24.9 billion compared to its OFDI of $4.4 billion (World Bank, 2020). In addition, a previous study investigated the progression of Indonesia’s position based on the Investment Development Path (IDP) theory (Sawitri & Brennan, 2022c). This study found that Indonesia is a net of IFDI with a significant difference between its IFDI and OFDI (Sawitri & Brennan, 2022c). As a result, the country’s position on the IDP has been restricted to stage two of the IDP stages (Sawitri & Brennan, 2022c). In order to shift its position on the IDP stages, Indonesia’s government needs to promote its OFDI and upgrade the country’s comparative advantages in the global market. Therefore, there is a potential area for Indonesia to stimulate its OFDI to advance its comparative advantages in the global market and compete with other developing countries. Accordingly, this study focuses on the home country perspective to investigate the role of OFDI in Indonesia’s economy by establishing the determinant factors of OFDI from Indonesia and its impacts on the country’s economy, investigating the government’s role in nurturing and stimulating the domestic companies to engage in OFDI, and deriving the recommendations for Indonesia’s government to promote OFDI. This study applies both empirical and institutional analyses to address these objectives.

This study differs from previous empirical studies on OFDI and the home country’s economic development. Most studies only focus on developed countries and most of them employ cross-section or panel data (Bano & Tabbada, 2015; Herzer, 2012; Ibrahim et al., 2019; Tsung-Li et al., 2017). In addition, a literature review study on OFDI from developing countries by Paul & Benito (2018) found that most studies focused on China and India as a unit of analysis. Since Indonesia has competitive advantages (e.g., human and natural resources and level of economic development) favouring its further development, it is necessary to investigate why these competitive advantages have not transformed into the country’s comparative advantages in the global market by exploring the growth of OFDI from Indonesia and investigating the role of government in promoting OFDI from Indonesia. Accordingly, a study focusing on Indonesia’s OFDI is merited.

Previous studies have addressed the relationship between OFDI and home country market size, economic development, IFDI, and exchange rate in other countries (Banga, 2007; Dasgupta, 2009; Desai et al., 2005; Herzer & Schrooten, 2008; Lee, 2010). However, previous studies that employed the number of listed
domestic companies as a variable are rare with all of them focused on China and have different purposes compared to our study (Lv et al., 2021; Qiao et al., 2020). Domestic companies play an important role in OFDI, and the number of listed domestic companies can reflect the development of domestic companies’ capabilities. Therefore, by focusing on this variable, our analysis investigates its role in promoting OFDI. This study is the first to offer such an analysis. Accordingly, it yields insight into the role of listed domestic companies in the context of OFDI from a developing country.

We identify only five studies that focused on the trends, patterns, and one particular determinant of OFDI from Indonesia (Aminullah et al., 2013; Carney & Dieleman, 2011; Gondo et al., 2021; Lecraw, 1993; Sambodo, 2017). This study advances previous studies by investigating the causality relationship between Indonesia’s OFDI and economic development. It establishes the significant factors that influence OFDI from Indonesia and its impacts on Indonesia’s economy, while an earlier study by Gondo et al. in 2021 only focused on one variable, i.e., domestic investment. In addition, the methodology deployed in most past empirical studies that focused on OFDI employed statistical methods such as regression analysis (Buckley et al., 2007), Granger causality test (Herzer, 2011b, 2011a; Tolentino, 2010), correlation analysis, and co-integration analysis (Paul & Benito, 2018). This study advances previous studies by establishing a causal relationship model between OFDI and economic development in Indonesia from 1980 to 2019 by using the Toda-Yamamoto-Dolado-Lutkephol (TYDL) augmented Vector Auto Regression (VAR). This study is the first to employ this methodology for OFDI, while other applications have focused on IFDI (Frimpong & Oteng-Abayie, 2006; Oladipo, 2013).

From our empirical and institutional analysis, we develop a framework incorporating the determinants of OFDI, its impacts on the economy, and the factors that can promote OFDI from the home country. Accordingly, further research can apply this framework in assessing the causality relationship between OFDI and economic development in other developing countries. It also establishes a framework addressing the development of domestic companies’ capabilities. Both frameworks can benefit companies who want to assess their progression in developing their capabilities. They can also benefit governments in other developing countries as a reference for their decision-making process in promoting their OFDI.

This study consists of seven sections. Section one introduces the research focus and context and the contributions and benefits of the study. Section two reviews supporting theories and pertinent literature on OFDI and the home country’s economic development, and the development of our hypotheses. Section three encompasses the methodology applied, i.e., empirical and institutional analyses. Section four contains
the findings and discussions of the empirical analysis. Section five presents the findings and discussions of the institutional analysis. Section six consists of further discussion and policy implications. Finally, section seven offers some conclusions.

6.2 OFDI and home country economic development

This section presents the underlying theories, concepts, and previous studies on OFDI and the home country’s economic development. It also addresses the development of our hypotheses.

6.2.1 OFDI from developing countries

Paul & Benito (2018) identified the following established theories that can depict the phenomenon of OFDI from developing countries. The first is the OLI framework which consists of Ownership (O)-advantages (representing why companies engage in OFDI), Location (L)-advantages (representing the location selection process for OFDI), and Internalisation (I)-advantages (representing how companies engage in OFDI) (Cantwell & Narula, 2003b). The second is the Upsala model that presents the internationalisation process of OFDI from developing countries (Johanson & Vahlne, 2017). The third is the Linkage, Leverage, Learning (LLL) model which elaborates on the main drivers for OFDI from a company’s perspective (Mathews, 2006b). The fourth is the springboard theory that focuses on the development of MNCs in developing countries (Luo & Tung, 2017). The fifth is the IDP that shows that IFDI, OFDI, and the economic development of a country are inseparable parameters (Marton & McCarthy, 2007; Sawitri & Brennan, 2022c). The last is institutional theory that emphasises the important role of institutional changes in stimulating organisational changes (Deng, 2012; Scott, 2013; Dacin et al., 2002).

The drivers for companies to engage in OFDI are the acquisition of novel competitive advantages (i.e., technology, management system, and knowledge) and of scarce strategic resources in the home country (Luo & Tung, 2017; Ramamurti, 2012). Another driver is the right stimulus (i.e., in the form of supportive policies and regulations towards OFDI) from the home country’s government that can shape companies’ decisions to engage in international expansion activities (Lu et al., 2014; Wang et al., 2012). Accordingly, the government plays an important role in nurturing domestic companies’ capabilities and motivating them to engage in the international expansion (Arregle et al., 2016; Buckley, Clegg, et al., 2018; Gaur et al., 2018). The last driver is the disadvantage of the home country’s institutions, such as high tax rate (Caves, 2007; Gordon & Hines Jr, 2002), political instability and uncertainty (Barnard & Luiz, 2018; Chung, 2014; Stal & Cuervo-Cazurra, 2011), and a conflictual relationship between the home country’s government and companies (Buitrago R & Barbosa Camargo, 2020; Rugman & Verbeke, 2000).
Moreover, previous studies established the impacts of OFDI on the home country’s economic development from the perspective of companies and countries. From the perspective of companies, companies can send their acquired profits from OFDI and reinvest them in the home country, and subsequently contribute to economic development (Wong, 2010). In addition, as many OFDI motives pertain to strategic-asset seeking investment, the MNCs can bring back the acquired knowledge from OFDI to the home country thus improving the performance of parent companies via the knowledge and technology transferred (Barry et al., 2003; Luo & Tung, 2017; Ramamurti, 2012). Meanwhile, from the perspective of countries, governments believe that by stimulating OFDI from its home country, the company can gain international knowledge, develop its competitive advantage, and boost its productivity in both its host and home countries (Buckley et al., 2007; Deng, 2009; Hu & Cui, 2014). In addition, governments also believe that allowing its companies to compete and engage in international markets via OFDI can increase a country’s political and economic influence internationally, thus contributing to the advancement of the country’s comparative advantages in the global market (Hu & Cui, 2014; Wang et al., 2012).

Given the theories and concepts that explain the phenomenon of OFDI from developing countries and the drivers for companies to engage in OFDI, it can be concluded that the home country’s government plays an important role in maintaining supportive economic conditions, nurturing, and stimulating the development of domestic companies’ capabilities, and promoting OFDI. Moreover, given the benefits that can arise from OFDIs for the home country’s economic development, it is important to investigate the role of OFDI and its impact on the home country’s economic development. Accordingly, this study investigates the determinant factors of OFDI from Indonesia and its role in Indonesia’s economy using both empirical and institutional analyses.

### 6.2.2 OFDI and the Home Country Economic Development

Two theories of economic growth that can be considered in explaining the phenomenon of OFDI and the home country’s economic development are classical economic growth and Schumpeter’s economic growth theories. From the perspective of classical economic growth theory, FDI can promote economic growth with an increase in the total production of goods and services and trade surplus (Piętak, 2014; Sharipov, 2015). In the case of OFDI, we found evidence from previous studies that OFDI can promote the total production of goods and services, thus stimulating economic growth (Kyrkilis & Pantelidis, 2003; Saad & Nor, 2014). We also find evidence from previous studies that OFDI can promote international trade, particularly by increasing exports that can generate a surplus in trade, thus stimulating economic growth.
(Ahmad et al., 2016; Shah & Ameer, 2021; Singh, 2017). Therefore, from the perspective of classical economic growth theory, we can conclude that OFDI can be considered as a means of the home country’s economic development with an increase in OFDI related to an increase in GDP and international trade. Moreover, from the perspective of Schumpeter’s economic growth theory, one of the determinant factors for economic growth is entrepreneurs’ innovation (Sharipov, 2015). The measurement for the entrepreneurs’ innovation is the companies specific ownership advantages (Lundan, 2010), such as total patents (Loukil, 2016; Papageorgiadis et al., 2019); capital or financial resources (Trąpczyński & Gorynia, 2017; Yaprak et al., 2018); technology, brand, production know-how, marketing (Sutherland et al., 2018; Zhu et al., 2017); absorptive capabilities and corporate culture (Cuervo-Cazurra et al., 2018; Rui et al., 2016); corporate social responsibility (Adarkwah & Malonæs, 2020; Borda et al., 2017); and size of the companies (Madhok & Keyhani, 2012; Sahaym & Nam, 2013). In the case of OFDI, we found evidence from previous studies that the companies’ competitive advantages are the main determinant factors for OFDI, thus contributing to the home country’s economic development (Hu & Cui, 2014; Meyer et al., 2009). Therefore, we can conclude that OFDI can serve the home country’s economic development through the augmentation of the company’s competitive advantages.

Based on the theories of economic growth and previous studies supporting the relationship between OFDI and the home country’s economic development, OFDI can be considered as a means of driving a country’s development. Regarding to Indonesia’s economic development, the country’s GDP per capita has increased significantly from USD 748.26 in 2001 to USD 4,135.2 in 2019 (World Bank, 2020). The country GDP at current prices has increased from USD 160.45 billion in 2001 to USD 1,119 trillion in 2019 (World Bank, 2020). Indonesia’s GDP ranked 1st among ASEAN countries and was one of the world’s most connected emerging economies in 2018 (Global Competitiveness Report, 2019, p.27). Indonesia's participation in Global Value Chains (GVC) is dominated by the supply of primary and raw materials to other countries (ADB, 2019). It is also dominated by the receipt of intermediate inputs and raw materials from upstream industries abroad to assemble these inputs into final products in-house (ADB, 2019). As a result of its inability to diversify, produce, and export its products with complexity and comparative advantages, the country’s comparative advantages in the global market have not increased significantly relative to its economic development. Accordingly, it is necessary to investigate the role of OFDI in Indonesia in promoting the country’s comparative advantages. By doing so, the findings of this study offer support for
other developing countries to stimulate and promote OFDI as means of the country’s economic development.

### 6.2.3 Previous studies on OFDI and economic development

Previous studies have focused on the causal relationship between OFDI and the home country’s economic development. A study by Herzer (2010) found a positive relationship in 50 small open market economies from 1980 to 2000. Another study by Herzer (2011b) found a positive relationship in 30 developing home countries from 1980 to 2005. Moreover, Wong (2010) found a positive relationship in Malaysia from 1999 to 2008. Another study by Lee (2010) investigated this causal relationship in Japan from 1977 – 2006 and found that in the long run, there was one-way causality, and in the short run, there was no causality. We conclude that only a few previous studies focused on OFDI and the home country’s economic development and found mixed findings on such a relationship.

Moreover, we identified five previous studies focusing on Indonesia’s OFDI. The first study by Lecraw (1993) found the benefits of engaging in OFDI for Indonesian companies. Another study by Carney & Dieleman (2011) found that the OFDI’s companies mainly focused on serving the domestic market; official statistics did not address OFDI activities by Indonesian companies; and the constraints on OFDI from Indonesia are firm-level and institutional factors. Furthermore, a study by Aminullah et al. (2013) identified the motives of the sample MNCs to engage in OFDI as market-seeking, locating the production process closer to the market, expanding the brand image in international markets, generating access to the host country’s resources and technology, and increasing the firm-specific advantages through international competition. Another study by Sambodo (2017) found that most Indonesian businesses are still domestic-oriented. A recent study by Gondo et al. (2021) found that OFDI has a negative impact on domestic investment in the case of Indonesia due to an inadequate domestic financial system supporting its outflow activities.

Based on previous studies focusing on Indonesia’s OFDI, no study investigated OFDI’s role in Indonesia’s economy and its determinant factors. Accordingly, this study is the first to address such an investigation in Indonesia using the TYDL augmented VAR method. This study differs from previous studies since it applies both empirical and institutional analyses. From the empirical analysis, this study investigates and establishes the role of OFDI in Indonesia’s economy by using macroeconomic variables and without any predetermination of the variables as to whether they are endogenous or exogenous. From the institutional
analysis, this study identifies the potential areas for promoting OFDI from Indonesia by assessing the role of Indonesia’s government in nurturing and stimulating domestic companies to engage in OFDI.

6.2.4 Hypotheses development

There are two main categories of the determinants of OFDI i.e., macroeconomic (country-level) and microeconomic (firm-level). At the macroeconomic level, the determinants of OFDI were exports and imports (Ahmad et al., 2016; Buckley et al., 2007; Dunning et al., 2001), home country market size and economic growth (Ahmad et al., 2018; Chiappini & Viaud, 2021), exchange rate (Chiappini & Viaud, 2021; Takagi & Shi, 2011), and the institutional support from government (Lu et al., 2014; Wang et al., 2012). At the microeconomic level, the determinants of OFDI were the financial capital; firm-specific advantages; subsidiary size and density, parent firm diversity, and Research and Development (R&D) intensity (Demirbag et al., 2010; Morck et al., 2008).

Indonesia’s OFDI was among the top 15 developing countries in 2005 (UNCTAD 2006). The level of OFDI increased significantly from USD 6 million in 1980 to USD 2,725.75 million in 2006 (World Bank, 2007). However, the development of Indonesia’s OFDI remains insignificant compared to its IFDI. In 2019, Indonesia’s IFDI accounted for $ 24.9 billion compared to its OFDI of $ 4.4 billion (World Bank, 2020). The main reason is that the government does not embrace OFDI as a means of development, the official statistics do not address OFDI activities, and most domestic companies are micro and small companies with a limited capacity to engage in OFDI. Accordingly, it is necessary to conduct a country-level analysis of Indonesia by applying the macroeconomic variables that are available in our selected time frame such as exchange rate, IFDI, the home country’s market size and economic growth, exports and imports and the number of listed domestic companies. The main research question of this study is: “What is the role of OFDI from Indonesia in its economic development?” and “How can Indonesia’s government promote OFDI from Indonesia?”. To address this research question, we select several variables and elaborate below on the underlying reasons for our selected variables.

The first variable chosen is exchange rate. This variable reflects the monetary capabilities of the company to engage in OFDI. The assumption is that if there is an appreciation of the home country’s exchange rate relative to the host country’s exchange rate, OFDI from the home country increases (Aggarwal & Nayyar, 2019; Das, 2013; Georgopoulos, 2008). In contrast, if the home country’s exchange rate depreciates relatively to the host country’s exchange rate, OFDI from the home country decreases (Kiyota & Urata, 2004; Xing & Wan, 2006). A number of studies have found a positive relationship between OFDI and
exchange rate (Bolling et al., 2007; Das, 2013; Nayyar & Mukherjee, 2020; Singh, 2017). Moreover, previous studies from Takagi and Shi (2011) and Chiappini and Viaud (2021) found a negative relationship between OFDI and exchange rate. Meanwhile, a study from Phillips and Ahmadi-Esfahani (2008) found no relationship between OFDI and exchange rate. Since the findings of previous studies vary, this study investigates the causal relationship between Indonesia’s OFDI and exchange rate using the exchange rate of the IDR to the USD as a variable.

The second variable chosen is IFDI. The level of IFDI in the home country represents the country’s competitive advantages and the government’s capabilities to attract foreign investors by maintaining its investment and business climate. The presence of IFDI can benefit domestic companies by gaining spillover effects. A number of studies found benefits from the presence of IFDI to domestic companies as it can encourage the domestic companies to become a partner with MNCs so they can leverage their capabilities in terms of technology, management, and knowledge; it can increase the competition with domestic companies in the domestic market; it can increase the absorbing capabilities of domestic companies to gain the spillover effects; and it can encourage transfer of knowledge via the mobility of human resources (Kayam, 2009; Mathews, 2006b; Nayyar & Mukherjee, 2020). In addition, based on the IDP model, OFDI is associated with a country’s economic development. As the economy develops, the FDI position of a country shifts from more IFDI to more OFDI (Marton & McCarthy, 2007; Sawitri & Brennan, 2022c). Therefore, IFDI is one of the crucial factors that can promote OFDI by augmenting the capabilities of domestic companies and encouraging them to expand their business overseas via OFDI (Chiappini & Viaud, 2021; Luo & Tung, 2017; Rui & Yip, 2008). Accordingly, we apply IFDI as a variable to investigate the causal relationship between OFDI and IFDI.

The third variables chosen are trade in exports and in imports. These variables reflect the capabilities of a country to participate in the global market and the intensity of international trade relations (Buckley et al., 2007). They can also indicate the domestic companies’ capabilities to acquire relevant information and knowledge about product and service opportunities from foreign markets (Banga, 2007; Nayyar & Mukherjee, 2020), the experience of domestic companies in the global market (Buckley et al., 2007), the government’s capabilities to generate and provide the trade-supporting infrastructure (Nayyar & Mukherjee, 2020), and the government’s policies and regulations to stimulate their productivity to promote their participation in international trade (Nayyar & Mukherjee, 2020). Previous studies have found a causality relationship between OFDI and exports and imports (Ahmad et al., 2016; Hasanat Shah & Ameer,
In contrast, other studies found no causality between OFDI and exports and imports (Aizenman & Noy, 2006; Bhasin & Paul, 2016; Wei & Zhu, 2007). The previous studies found different results. Accordingly, we investigate the causal relationship between OFDI and exports and imports as variables.

The fourth variables chosen are the home country’s market size and economic growth. These variables reflect the economic development of a country and the country’s competitive advantages concerning its market size and income level (Kyrkilis & Pantelidis, 2003; Saad & Nor, 2014). They can reflect the government’s policies and regulations in promoting its economy by transforming the economic structure to generate economic development (Kyrkilis & Pantelidis, 2003). They can also reflect the home country’s economies of scale in producing its goods and services (Kyrkilis & Pantelidis, 2003). Moreover, the level of a home country’s economic growth has been found to be an important determinant of OFDI (Bhaumik & Co, 2011; Buckley et al., 2007; Lee et al., 2016; Zhang & Daly, 2011). Therefore, we investigate the causal relationship between Indonesia’s OFDI and its market size and economic growth by applying GDP and GNI as variables.

The fifth variable chosen is the number of listed domestic companies. Previous studies on OFDI in developing countries concluded that the determinants factors of OFDI include the support of the home country’s institutions and the companies’ competitive advantages (Hu & Cui, 2014; Meyer et al., 2009). The support of the home country’s institutions is represented by the provision of suitable policies and regulations that can nurture the development of domestic companies’ capabilities and encourage them to engage in OFDI. Companies’ competitive advantages are measured by the development of company specific advantages (Deng et al., 2018). Accordingly, it is necessary to investigate the causality relationship between OFDI and the development of domestic companies. The number of publicly listed companies can represent the development of companies’ capital structure, ownership structure, and management systems. It also can depict the capacity of companies to mitigate the risk of international expansion activities with the support of their investors (Deng et al., 2018). In relation to Indonesia, the number of listed domestic companies has increased significantly from 123 companies in 1990 to 668 companies in 2019 (World Bank, 2020). Despite a significant increase in the number of listed domestic companies, the country’s comparative advantages in the global market lag behind some other developing countries. Therefore, we investigate the role of listed domestic companies in promoting OFDI from Indonesia and upgrading the country’s
comparative advantages. Accordingly, we apply the number of listed domestic companies as a variable to reflect the development of domestic companies.

Based on the explanation above, we establish the following hypotheses of the role of OFDI in our selected economic development variables. The null hypothesis (H0) is that Indonesia’s OFDI does not have any causality relationship with its economic development variable(s). The first alternative hypothesis (H1) is that one-way causality of Indonesia’s OFDI is a determinant of its economic development variable(s). The second alternative hypothesis (H2) is that one-way causality of Indonesia’s economic development variable(s) is a determinant of its OFDI. The last alternative hypothesis (H3) is that two-way causality of Indonesia’s OFDI is a determinant of its economic development variable(s), and vice versa.

In addition, a study relating to China and Russia, establishes that the home country government plays a significant role in relation to OFDI (Holtbrügge & Kreppel, 2012). Therefore, in our study, we also investigate the role of Indonesia’s government by assessing the current policies and regulations that can nurture the development of domestic companies and promote OFDI.

6.3 Methodology

We apply several steps in conducting an empirical analysis of OFDI and the home country’s economic development, as represented in Figure 6.1.
Figure 6.1. Steps in methodology

From the findings of empirical analysis, we then apply institutional analysis using a policy analysis to assess the role of government in promoting OFDI from Indonesia and investigate the potential areas for boosting OFDI.

6.3.1 Data collection

The first step in our empirical analysis is data collection. This study draws on annual time series data from 1980 to 2019 to investigate the relationship between OFDI and economic development in Indonesia. This study employs secondary data from recognized international institutions viz. the World Bank and International Monetary Fund due to the absence of official reports from Indonesia’s government related to OFDI. Table 6.1 represents the variables applied in this study.
### Table 6.1. Parameter and data sources

<table>
<thead>
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<th>PARAMETER</th>
<th>DATA</th>
<th>DATA UNIT</th>
<th>DATA SOURCE</th>
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<td>Exchange rates</td>
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<td>Indonesian Rupiah to 1 US dollar</td>
<td>International Monetary Fund</td>
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</table>

### 6.3.2 Data processing

The second step involved in our empirical analysis is data processing. The nature of the collected data is varied due to its characteristics. Most of the data that are employed in this study represent an absolute value. Accordingly, all the data need to be transformed into natural logarithm form to remove the noise thus generating reliable and consistent empirical results (Gujarati, 2004; Shahbaz et al., 2016). After conducting the data transformation, the following step is the data validity test encompassing multicollinearity, the heteroscedasticity, the autocorrelation, and the Jarque Bera tests (Alhodiry et al., 2021; Zeng, 2019).

### 6.3.3 Data analysis

The last step applied in our empirical analysis is data analysis. We apply three steps in data analysis. The first step is the unit root test using Augmented Dickey Fuller (ADF), Phillips-Perron (PP), and Kwiatkowski-Phillips-Schmidt-Shin (KPSS) tests. The second step is generating the estimated VAR model and determining the optimal lag length. VAR is a suitable model for testing causality relationships without any predetermination of the variables as to whether they are endogenous or exogenous (Gujarati, 2004). The last step is the TYDL test. The advantage of this method to test the causality relationship is that this method is applicable even with the presence of cointegration and the different levels of stationarity of the variables. It employs a Modified Wald Test (MWALD) with respect to the Chi-Squared test statistic to check the robustness of each model (Frimpong & Oteng-Abayie, 2006; Guru-Gharana, 2012). The following section will present the findings and discussions of empirical analysis.
6.4 The findings and discussions of empirical analysis

This section addresses the summary of data analysis, the findings, and the discussions of empirical of OFDI and the home country’s economic development.

6.4.1 Summary of data analysis

In conducting the TYDL test, the VAR model is augmented by the maximum level of stationarity \((d)\) and the true lag length \((k)\). Table 6.2 summarises the results of the unit root tests. These findings show that all variables are stationary at different levels. The maximum level of stationary \((d)\) of all variables equals 1. From the findings of the unit root tests, we confirm that TYDL is suitable for investigating the causal relationship between OFDI and economic development variables. The value of \(d\) was added to the augmented VAR model to conduct a TYDL causality test.

### Table 6.2: Summary of the unit root tests

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>DATA</th>
<th>UNIT ROOT TEST</th>
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<td></td>
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<td><strong>Foreign Direct Investment</strong></td>
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<td></td>
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<tr>
<td>IFDI</td>
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<td>-</td>
</tr>
<tr>
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<td>ofdi</td>
<td>-</td>
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<tr>
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<td></td>
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<tr>
<td>GDP</td>
<td>gdp</td>
<td>-</td>
</tr>
<tr>
<td>GNI</td>
<td>gni</td>
<td>-</td>
</tr>
<tr>
<td>Exports</td>
<td>exports</td>
<td>-</td>
</tr>
<tr>
<td>Imports</td>
<td>imports</td>
<td>-</td>
</tr>
<tr>
<td>The number of listed domestic companies</td>
<td>ldc</td>
<td>✓</td>
</tr>
<tr>
<td>Exchange rates</td>
<td>excrate</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors

The true lag length for the VAR model is determined by comparing the lag order that satisfies most criteria (i.e., Likelihood Ratio test statistic (LR), Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Information Criterion (SC), and Hannan-Quinn Information Criterion (HQ)) (Dolado & Lütkepohl, 1996; Toda & Yamamoto, 1995). Table 6.3 presents the VAR lag order selection criteria.
Table 6.3. VAR lag order selection criteria

<table>
<thead>
<tr>
<th>LAG</th>
<th>LOGL</th>
<th>LR</th>
<th>FPE</th>
<th>AIC</th>
<th>SC</th>
<th>HQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>-27.92874</td>
<td>NA</td>
<td>9.63E-10</td>
<td>1.942094</td>
<td>2.290400</td>
<td>2.064888</td>
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<tr>
<td>1</td>
<td>240.6708</td>
<td>406.5291</td>
<td>1.64E-14</td>
<td>-9.117342</td>
<td>-5.982583</td>
<td>-8.012193</td>
</tr>
<tr>
<td>2</td>
<td>318.8473</td>
<td>84.51509</td>
<td>1.28E-14</td>
<td>-9.883637</td>
<td>-3.962426</td>
<td>-7.796133</td>
</tr>
</tbody>
</table>

Red indicates lag order selected by the criterion

LR: Sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

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To assess whether the selection lag is significant or not, we conduct the VAR lag exclusion Wald test. The lag order is selected from the number of lag orders presented in Table 6.4.

Table 6.4. VAR lag exclusion Wald test

<table>
<thead>
<tr>
<th>LAG</th>
<th>OFDI</th>
<th>EXCRATE</th>
<th>EXPORTS</th>
<th>GDP</th>
<th>GNI</th>
<th>IFDI</th>
<th>IMPORTS</th>
<th>LDC</th>
<th>JOINT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[17.62071]</td>
<td>[17.46116]</td>
<td>[41.62449]</td>
<td>[21.62060]</td>
<td>[27.51225]</td>
<td>[10.14475]</td>
<td>[40.64018]</td>
<td>[53.46074]</td>
<td>[369.7659]</td>
</tr>
<tr>
<td></td>
<td>[0.0243]</td>
<td>[0.00256]</td>
<td>[0.0000]</td>
<td>[0.0057]</td>
<td>[0.0006]</td>
<td>[0.2550]</td>
<td>[0.0000]</td>
<td>[0.0000]</td>
<td>[0.0000]</td>
</tr>
<tr>
<td>Lag 2</td>
<td>[10.60251]</td>
<td>[3.712609]</td>
<td>[13.32877]</td>
<td>[5.089152]</td>
<td>[6.974624]</td>
<td>[11.55067]</td>
<td>[8.976694]</td>
<td>[10.80841]</td>
<td>[151.5147]</td>
</tr>
<tr>
<td></td>
<td>[0.2253]</td>
<td>[0.8821]</td>
<td>[0.1010]</td>
<td>[0.7480]</td>
<td>[0.5394]</td>
<td>[0.1724]</td>
<td>[0.3443]</td>
<td>[0.2128]</td>
<td>[0.0000]</td>
</tr>
<tr>
<td>df</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>64</td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors

As a result, the true lag length \((k)\) equals 2. This value is then added to the augmented VAR model for conducting the TYDL causality test. Therefore, Table 6.5 presents the augmented VAR models with a \(d\) value of one and a \(k\) value of two to perform the TYDL analysis.
Economic development is a determinant of OFDI

\[ \text{OFDI} = \beta_0 + \sum_{i=1}^{2+1} \beta_1 \text{ofdi}_{t-1} + \sum_{i=1}^{2+1} \beta_2 \text{gdp}_{t-1} + \beta_3 \text{exrate}_{t-1} + \sum_{i=1}^{2+1} \beta_4 \text{gni}_{t-1} \\
+ \sum_{i=1}^{2+1} \beta_5 \text{importe}_{t-1} + \beta_6 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_7 \text{ldc}_{t-1} + \epsilon_{1t} \]

OFDI is a determinant of economic development

\[ \text{GDP} = \beta_0 + \sum_{i=1}^{2+1} \beta_1 \text{ofdi}_{t-1} + \sum_{i=1}^{2+1} \beta_2 \text{exrate}_{t-1} + \sum_{i=1}^{2+1} \beta_3 \text{gni}_{t-1} \\
+ \sum_{i=1}^{2+1} \beta_4 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_5 \text{ldc}_{t-1} + \epsilon_{1t} \]

\[ \text{Exports} = \beta_0 + \sum_{i=1}^{2+1} \beta_1 \text{ofdi}_{t-1} + \sum_{i=1}^{2+1} \beta_2 \text{gdp}_{t-1} + \sum_{i=1}^{2+1} \beta_3 \text{exrate}_{t-1} + \sum_{i=1}^{2+1} \beta_4 \text{gni}_{t-1} \\
+ \sum_{i=1}^{2+1} \beta_5 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_6 \text{ldc}_{t-1} + \epsilon_{1t} \]

\[ \text{Exrate} = \beta_0 + \sum_{i=1}^{2+1} \beta_1 \text{ofdi}_{t-1} + \sum_{i=1}^{2+1} \beta_2 \text{exports}_{t-1} + \sum_{i=1}^{2+1} \beta_3 \text{gni}_{t-1} \\
+ \sum_{i=1}^{2+1} \beta_4 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_5 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_7 \text{ldc}_{t-1} + \epsilon_{1t} \]

\[ \text{GNI} = \beta_0 + \sum_{i=1}^{2+1} \beta_1 \text{ofdi}_{t-1} + \sum_{i=1}^{2+1} \beta_2 \text{exports}_{t-1} + \sum_{i=1}^{2+1} \beta_3 \text{exrate}_{t-1} + \sum_{i=1}^{2+1} \beta_4 \text{gdp}_{t-1} \\
+ \sum_{i=1}^{2+1} \beta_5 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_6 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_7 \text{ldc}_{t-1} + \epsilon_{1t} \]

\[ \text{Imports} = \beta_0 + \sum_{i=1}^{2+1} \beta_1 \text{ofdi}_{t-1} + \sum_{i=1}^{2+1} \beta_2 \text{exports}_{t-1} + \sum_{i=1}^{2+1} \beta_3 \text{exrate}_{t-1} \\
+ \sum_{i=1}^{2+1} \beta_4 \text{gni}_{t-1} + \sum_{i=1}^{2+1} \beta_5 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_6 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_7 \text{ldc}_{t-1} + \epsilon_{1t} \]

\[ \text{LDC} = \beta_0 + \sum_{i=1}^{2+1} \beta_1 \text{ofdi}_{t-1} + \sum_{i=1}^{2+1} \beta_2 \text{exports}_{t-1} + \sum_{i=1}^{2+1} \beta_3 \text{exrate}_{t-1} + \sum_{i=1}^{2+1} \beta_4 \text{gni}_{t-1} \\
+ \sum_{i=1}^{2+1} \beta_5 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_6 \text{importe}_{t-1} + \sum_{i=1}^{2+1} \beta_7 \text{gdp}_{t-1} + \epsilon_{1t} \]

Whereas:
- ofdi = outward FDI
- exrate = exchange rate
- exports = exports

Table 6.5. The augmented VAR (2+1) models
The findings of the TYDL causality test are presented in Tables 6.6 to 6.13.

Table 6.6. TYDL findings on OFDI

<table>
<thead>
<tr>
<th>Excluded</th>
<th>Chi-Sq</th>
<th>df</th>
<th>Probability</th>
<th>Result</th>
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</thead>
<tbody>
<tr>
<td>Exchange Rates</td>
<td>1.523131</td>
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<td>0.4669</td>
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</tr>
<tr>
<td>Exports</td>
<td>1.947653</td>
<td>2</td>
<td>0.3776</td>
<td>Accept $H_0$</td>
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<tr>
<td>GDP</td>
<td>2.375641</td>
<td>2</td>
<td>0.3049</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>GNI</td>
<td>2.162109</td>
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<td>0.3392</td>
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</tr>
<tr>
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<td>6.784438</td>
<td>2</td>
<td>0.0336*</td>
<td>Reject $H_0$</td>
</tr>
<tr>
<td>Imports</td>
<td>6.589178</td>
<td>2</td>
<td>0.0371*</td>
<td>Reject $H_0$</td>
</tr>
<tr>
<td>Listed Domestic Companies</td>
<td>7.480566</td>
<td>2</td>
<td>0.0237*</td>
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</tr>
<tr>
<td>ALL</td>
<td>33.529720</td>
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</table>

Source: Analysed using EViews 10 by authors

Table 6.7. TYDL findings on Exchange Rates

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<td>0.0033*</td>
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</tr>
<tr>
<td>Exports</td>
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<td>0.9535</td>
<td>Accept $H_0$</td>
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<tr>
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<td>2.864412</td>
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<td>0.2388</td>
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</tr>
<tr>
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<td>1.144913</td>
<td>2</td>
<td>0.5641</td>
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<tr>
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<td>1.668814</td>
<td>2</td>
<td>0.4341</td>
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</tr>
<tr>
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<td>3.237617</td>
<td>2</td>
<td>0.1981</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>Listed Domestic Companies</td>
<td>7.109749</td>
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<td>0.0286*</td>
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<td>ALL</td>
<td>22.864840</td>
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<td>0.0625</td>
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Source: Analysed using EViews 10 by authors

Table 6.8. TYDL findings on exports

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<td>0.2186</td>
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<tr>
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<td>2</td>
<td>0.6483</td>
<td>Accept $H_0$</td>
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<tr>
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<td>4.202295</td>
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<td>0.1223</td>
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</tr>
<tr>
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<td>0.185</td>
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</tr>
<tr>
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<td>2.582706</td>
<td>2</td>
<td>0.2749</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>Imports</td>
<td>8.164301</td>
<td>2</td>
<td>0.0169*</td>
<td>Reject $H_0$</td>
</tr>
<tr>
<td>Listed Domestic Companies</td>
<td>2.950196</td>
<td>2</td>
<td>0.2288</td>
<td>Accept $H_0$</td>
</tr>
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<td>ALL</td>
<td>24.941380</td>
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</table>

Source: Analysed using EViews 10 by authors
### Table 6.9. TYDL findings on GDP

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<td>0.0014*</td>
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</tr>
<tr>
<td>Exchange Rates</td>
<td>4.909534</td>
<td>2</td>
<td>0.0859*</td>
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<tr>
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<td>0.274511</td>
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<td>0.8717</td>
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<td>0.5452</td>
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<td>0.3255</td>
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</tr>
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<td>6.099021</td>
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<td>0.0474*</td>
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Source: Analysed using EViews 10 by authors

### Table 6.10. TYDL findings on GNI

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<tr>
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<td>13.489860</td>
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<td>0.0012*</td>
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</tr>
<tr>
<td>Exchange Rates</td>
<td>5.834877</td>
<td>2</td>
<td>0.0541*</td>
<td>Reject $H_0$</td>
</tr>
<tr>
<td>Exports</td>
<td>0.090237</td>
<td>2</td>
<td>0.9559</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>GDP</td>
<td>6.340283</td>
<td>2</td>
<td>0.042*</td>
<td>Reject $H_0$</td>
</tr>
<tr>
<td>IFDI</td>
<td>3.444450</td>
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<td>0.1787</td>
<td>Accept $H_0$</td>
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<tr>
<td>Imports</td>
<td>4.778968</td>
<td>2</td>
<td>0.0917*</td>
<td>Reject $H_0$</td>
</tr>
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<td>Listed Domestic Companies</td>
<td>6.561926</td>
<td>2</td>
<td>0.0376*</td>
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Source: Analysed using EViews 10 by authors

### Table 6.11. TYDL findings on IFDI

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</tr>
</thead>
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<td>0.3001</td>
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</tr>
<tr>
<td>Exchange Rates</td>
<td>0.705475</td>
<td>2</td>
<td>0.7028</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>Exports</td>
<td>0.540508</td>
<td>2</td>
<td>0.7632</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>GDP</td>
<td>1.025320</td>
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<td>0.5989</td>
<td>Accept $H_0$</td>
</tr>
<tr>
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<td>0.481369</td>
<td>2</td>
<td>0.7861</td>
<td>Accept $H_0$</td>
</tr>
<tr>
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<td>1.526311</td>
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<td>0.4662</td>
<td>Accept $H_0$</td>
</tr>
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</tr>
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Source: Analysed using EViews 10 by authors
Table 6.12. TYDL findings on imports

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</tr>
<tr>
<td>Exchange Rates</td>
<td>1.14</td>
<td>2</td>
<td>0.5653</td>
<td>Accept $H_0$</td>
</tr>
<tr>
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<td>2.65</td>
<td>2</td>
<td>0.2647</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>GDP</td>
<td>3.60</td>
<td>2</td>
<td>0.1648</td>
<td>Accept $H_0$</td>
</tr>
<tr>
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<td>2.86</td>
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<td>0.2387</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>IFDI</td>
<td>3.60</td>
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<td>0.1653</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>Listed Domestic Companies</td>
<td>5.89</td>
<td>2</td>
<td>0.0527*</td>
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</tr>
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<td>ALL</td>
<td>41.01</td>
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</tbody>
</table>

Source: Analysed using EViews 10 by authors

Table 6.13. TYDL findings on the number of listed domestic companies

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<th>Chi-Sq</th>
<th>df</th>
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<th>Result</th>
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<td>OFDI</td>
<td>5.39</td>
<td>2</td>
<td>0.0673*</td>
<td>Reject $H_0$</td>
</tr>
<tr>
<td>Exchange Rates</td>
<td>2.15</td>
<td>2</td>
<td>0.3412</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>Exports</td>
<td>3.24</td>
<td>2</td>
<td>0.1974</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>GDP</td>
<td>2.64</td>
<td>2</td>
<td>0.266</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>GNI</td>
<td>0.51</td>
<td>2</td>
<td>0.7744</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>IFDI</td>
<td>0.59</td>
<td>2</td>
<td>0.7419</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>Imports</td>
<td>1.99</td>
<td>2</td>
<td>0.3693</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>ALL</td>
<td>14.67</td>
<td>14</td>
<td>0.4009</td>
<td></td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors

From the findings of the TYDL test, we established the relationship between Indonesia’s OFDI and the economic development variables. The following subsections present the findings and discussions of this relationship.

6.4.2 The findings and discussions of no causality between OFDI and exports

We found no causality between OFDI and exports. This finding is consistent with previous studies (Bhasin & Paul, 2016; Kim & Rang, 1997) and inconsistent with previous studies that established a causality between OFDI and exports (Hasanat Shah & Ameer, 2021; Tham et al., 2018). OFDI can be considered as a substitution for exports when the cost of engaging in OFDI can offset the cost of exports and the domestic MNCs have established competitive advantages and significant market share in the international market (Ahmad et al., 2016; Bhasin & Paul, 2016; Liu et al., 2016). Meanwhile, OFDI can be treated as a complement to exports when the home country has a competitive advantage in resource endowments or
advanced technology, as domestic MNCs contribute to increasing exports in production materials and technology from the home country (Ahmad et al., 2016; Bhasin & Paul, 2016; Liu et al., 2016).

In the case of Indonesia, OFDI is predominately based on reinvested earnings and equity capital (Sambodo, 2017). As a result, most Indonesian companies that engage in OFDI seek to secure resources and technology, establish production, and serve host country markets. Therefore, it can be concluded that in the case of Indonesia, the relationship between OFDI and exports is neither a complement nor a substitute for one another. The challenge for Indonesia’s government is to transform this relationship by stimulating and boosting advanced technology, producing competitive advantages of resource endowments, and generating a competitive cost for trading or transportation.

6.4.3 The findings and discussions of one way causality between OFDI, exchange rate, GDP, and GNI

We found OFDI is a determinant of exchange rate, GDP, and GNI. These findings are consistent with previous studies in developed countries and in developing countries (Choi & Jeon, 2007; Kyrkilis & Pantelidis, 2003; Nayyar & Mukherjee, 2020; Singh, 2017). Regarding exchange rate, the strengthening of the local currency implies a lesser amount of foreign currency required to acquire assets in foreign markets, thereby encouraging domestic companies to engage in OFDI and to discourage exports (Aliber, 1970; Stevens, 1998). We found that there is a negative relationship in the case of Indonesia as OFDI is a determinant of exchange rate. As noted, the exchange rate of the IDR to the USD is considered to be weak compared to other ASEAN currencies (ADB, 2020). Therefore, the challenge for Indonesia’s government is to strengthen the exchange rate of the IDR to the USD by maintaining political and economic stability, thus stimulating and encouraging domestic companies to engage in OFDI.

We also found a positive relationship between OFDI and GDP. In terms of the GDP, OFDI can be considered as a substitute for domestic investment due to the scarcity of resources availability (Herzer, 2008) or as a complement to domestic investment due to its impacts on stimulating local production (Desai et al., 2005). In the case of Indonesia, OFDI can be considered as complementary to domestic investment in stimulating local production to gain access and compete in domestic and international markets. Therefore, there is an opportunity for Indonesia’s government to encourage OFDI by generating supportive policies and regulations where currently there are no policies and regulations regarding Indonesia’s OFDI. Furthermore, we found an inconsistent finding with this previous study (Kyrkilis & Pantelidis, 2003), as we found a negative relationship between OFDI and GNI. This phenomenon arises as companies tend to serve demand from the domestic markets first as income levels rise rather than engaging in OFDI.
Therefore, the challenge for Indonesia’s government is to transform this negative relationship by augmenting domestic companies’ capabilities via the increased competition between domestic companies and MNCs in the domestic market, increasing the level of education and training, the promotion of advanced technology, and the provision of infrastructure. Accordingly, an increase in domestic companies’ capabilities in the domestic market can stimulate them to penetrate and compete in the global market by engaging in exporting or even OFDI.

6.4.4 The findings and discussions of one way causality between OFDI and IFDI

We found one way causality of IFDI is a determinant of OFDI. This finding is consistent with previous studies (Erdilek, 2003; Kayam, 2009; Nayyar & Mukherjee, 2020). IFDI is a means of obtaining advanced skills in terms of management and technology (Nayyar & Mukherjee, 2020). Accordingly, this indicates that the host country can gain benefits from the spillover effects of IFDI that advance the domestic companies’ capabilities to engage in OFDI (Nayyar & Mukherjee, 2020). Therefore, the more liberal a country’s stance towards IFDI, the more OFDI can be generated (Nayyar & Mukherjee, 2020).

In the case of Indonesia, we found that an increase in IFDI is associated with an increase in OFDI. IFDI to Indonesia can be seen as a source of advanced management and technology skills. Therefore, it is necessary for Indonesia’s government to be selective in attracting IFDI that can generate value-added (i.e., export-oriented investment, advanced technology investment, and pioneer product development for domestic and international markets). Up until now, Indonesia’s government has created 135 industrial clusters to generate national champions, to promote equitable development, and to maximise the spillover impacts to domestic companies via knowledge and technology transfer (BKPM, 2022). Therefore, the challenge for Indonesia’s government is to attract more IFDI to these industrial clusters by providing competitive opportunities for foreign investors and then to stimulate and boost the spillover effects from the presence of MNCs for domestic companies, thus developing and improving their O-advantages to engage in OFDI.

6.4.5 The findings and discussions of two-ways causality between OFDI, imports, and the number of listed domestic companies

We found two-ways causality between OFDI and imports. This finding is consistent with previous studies (Banga, 2007; Dasgupta, 2009; Lee, 2010). The higher imports into the country indicates the transference effect on investment, which might shift the domestic companies to re-allocate their production process to other countries with a lower production cost or greater access to the market (Banga, 2007). OFDI and imports are complementary, in that MNCs that engage in OFDI increase imports to the home country by
acquiring foreign resources (i.e., raw materials or semi-finished inputs) for their production process (Dasgupta, 2009; Lee, 2009; Lin, 1995). We found a positive relationship in both ways. This indicates that an increase in OFDI is associated with an increase in imports and vice versa. Indonesia’s OFDI is a complement for imports by acquiring foreign resources for production. Given that the top imports to Indonesia were machinery including computers, equipment, mineral fuels, vehicle including spare parts, most of the imported commodities are employed for the production process viz. vehicle spare parts, equipment, and machinery (Indonesian Ministry of Trade, 2021). Therefore, there is an opportunity for Indonesia’s government to stimulate the development of infrastructure and to provide incentives for producing imported commodities, so that the domestic companies can gain and improve their O-advantages in producing these products and services and hence engage in exporting or even in OFDI.

Moreover, we also found two-ways causality between OFDI and the number of listed domestic companies. OFDI from Indonesia is dominated by the top big companies both private (Indonesian conglomerate business groups) and public owned business groups (State-Owned Enterprises). Accordingly, the size of domestic companies and support from government influence OFDI from Indonesia (Carney & Dieleman, 2011). We found a positive relationship that indicates an increase in OFDI is influenced by an increase in the number of listed domestic companies and vice versa. This finding confirms the importance of domestic companies in relation to OFDI from Indonesia. This finding is also supported by OFDI theories (i.e., the OLI framework, the Upsala model, the LLL model, and the springboard theory) that explore the motivation of a company and development of its capabilities to engage in OFDI. Since the home country’s government can play an important role in nurturing and stimulating domestic companies to engage in OFDI, we apply institutional considerations in investigating such a role in the following section.

6.5 The findings and discussions of institutional analysis

The findings of the empirical analysis led to the identification of OFDI’s determinants from Indonesia and OFDI’s impacts on Indonesia’s economy. Nonetheless, the development of Indonesia’s OFDI still lags behind its IFDI. One of the main constraints is the deficit in domestic companies’ capabilities to engage in OFDI. Therefore, in this section, we apply an institutional perspective analysing Indonesia’s government role in nurturing and stimulating the development of domestic companies’ capabilities, hence enabling and encouraging them to engage in OFDI, and promoting OFDI from Indonesia.
We establish a novel framework (as presented in Figure 6.2) incorporating the findings from the empirical analysis addressed in the previous section and from the institutional analysis addressed in this section.

The previous studies of OFDI in developing countries confirm the important role of the home country’s government in nurturing and encouraging domestic companies to engage in OFDI (Andreff, 2016; Ramamurti & Hillemann, 2018; Yang et al., 2020). In reverse, even though Indonesia’s government has policies and regulations in nurturing the development of domestic companies’ capabilities, we found no policies and regulations in promoting domestic companies to engage in OFDI. Therefore, we evaluate the government initiatives to nurture the development of domestic companies and identify the barriers to the development of their competitive advantages and engagement in OFDI. Accordingly, based on this analysis, we derive recommendations for Indonesia’s government to stimulate and boost OFDI.

a. Indonesia’s sectoral structure

Before the AFC, Indonesia’s economy achieved high levels of annual economic growth of 8.2% in 1995 (World Bank, 2021). Meanwhile, in 1998, Indonesia’s economy experienced a severe downturn of -13% as a result of the AFC and political and social disorder. Since then, the country’s economic growth has
never regained its past heights due to the unfinished economic transformation. One such example relates to the transformation of manufacturing sector. Even though, the share of this sector in GDP was significant (World Bank, 2020), this sector is considered unsophisticated and undiversified (ADB, 2019). Therefore, we recommend that Indonesia’s government boosts the diversification of manufacturing products at the national and regional levels to produce complex and comparative advantage products and pursue a niche product/market strategy to escalate its contribution to the global market. We suggest that Indonesia’s government needs to stimulate the agriculture sector to elevate its production beyond providing resource-based raw materials. It also needs to stimulate the downstream development of primary and raw materials suppliers and stimulate other industries (e.g., automotive and telecommunication industries) to go beyond assembling.

b. **Indonesia’s employment and workforce**

Concerning employment, the agriculture and service sectors are still the main contributors in the case of Indonesia with both productivity and growth levels relatively lower than the manufacturing sector (ADB, 2019). Accordingly, we recommend that Indonesia’s government reorient the economy towards the manufacturing sector, which can generate more productivity and growth and to promote the development of domestic companies. We also suggest Indonesia’s government to stimulate and boost the participation rate at the tertiary level and ensure the participation rate is equal across the regions.

c. **The constraints on doing business in Indonesia**

The constraints for domestic companies to grow relate to the procedures for doing business, political instability, labour regulations, corruption, and tax administration (ADB, 2019). Accordingly, we recommend that Indonesia’s government establish targeted policies to promote the development of domestic companies by simplifying the business procedures for micro, small, and medium companies. It is also necessary to maintain political stability; be transparent and clear about labour regulations; be aggressive in fighting corrupt practices; provide financial support; and redesign its tax incentive policies based on performance. Moreover, there is still an issue with the implementation of the Online Single Submission (OSS) System in the provision of a simpler and faster business licensing process. Accordingly, Indonesia’s government needs to ensure that this system is well-established and well-managed at the national and regional levels to boost the business licensing process. The applicant also needs to be informed of the user’s guide to mitigate the occurrence of errors.

d. **Indonesia’s infrastructure**
One of the constraints for doing business in Indonesia is an inadequate infrastructure that causes high transportation and logistics costs compared to Thailand and Malaysia (World Bank, 2015). Accordingly, we recommend Indonesia’s government boost the connectivity among cities and islands by investing in roads, airports, ports, and railway systems to minimise transportation and logistics costs. It is also necessary to promote advanced technology, the supply of electricity and telecommunications, and other infrastructure and ensure the provision of the infrastructure at regional levels.

**e. Indonesia’s IFDI policies and regulations**

Indonesia’s government is committed to policies directed towards the attraction of IFDI. It also seeks to augment the capabilities of domestic companies by expanding those business activities that require partnership with domestic companies and reduced the number of business activities where foreign investment is restricted. We suggest Indonesia’s government ensures that the refinement of investment policies and regulations is effectively communicated and transparent to the investors, so they commit to investing in Indonesia. It is also necessary for the central government to engage local or regional governments in redesigning and establishing policies and regulations for stimulating and boosting investment, problem-solving for investment realisation, and supervising investment activities.

**f. Indonesia’s development planning and policy**

Indonesia’s development planning and industrial policy at a national level are written in a descriptive rather than prescriptive manner. By contrast, China’s development planning and policy are precise in every aspect. In Indonesia, the action plans and policies are written at the ministerial level. Accordingly, there is a gap between the planning and the implementation of these policies and targets. Therefore, we recommend Indonesia’s government clearly state and be precise in its targets to avoid misinterpretation.

**g. Indonesia’s OFDI policies and regulations**

Due to the current absence of OFDI policies and regulations, we recommend Indonesia’s government to establishing these policies and regulations. The importance of having in place such policies and regulations is to ensure that Indonesian companies who engage in OFDI bring the benefits of OFDI that they gain overseas back to Indonesia and to stimulate the development of OFDI from Indonesian companies.

Based on our analyses on empirical and institutional analyses, we then identify the implications of our findings for theory and practice. The presentation of our identified implications elaborates in the following section.
Further discussion and policy implication

Our empirical analysis leads to the establishment of the determinant factors of OFDI from Indonesia and its impacts on Indonesia’s economy. Accordingly, further research can consider applying these variables to investigate the drivers and impacts of OFDI from developing countries. The determinant factors of OFDI from Indonesia are imports, the number of listed domestic companies, and IFDI. The first driver for OFDI is imports, which is consistent with previous studies by Banga (2007), Dasgupta (2009), and Lee (2010). The value of imports stimulates domestic companies to engage in OFDI as they enter the foreign market to gain access to resources and technology and consider applying these foreign resources to improve their domestic production. The second driver for OFDI is the number of listed domestic companies. This study offers the first investigation of its role in OFDI. We found that even though the number of listed domestic companies in Indonesia has increased significantly and promoted OFDI from Indonesia, the domestic companies are still dominated by micro and small companies lacking competitive advantages. Accordingly, Indonesia’s government needs to nurture and stimulate the development of domestic companies’ capabilities hence enabling them to engage in OFDI. The third driver for OFDI is IFDI, which is consistent with previous studies by Erdilek (2003), Kayam (2009), and Nayyar & Mukherjee (2020). IFDI is a means of developing domestic companies’ capabilities via the precondition of joint partnership from the government to generate spillover impacts. Accordingly, the government needs to intensify the attraction of value-added IFDI, as the domestic companies can gain benefit from the presence of IFDI to advance their competitive advantages hence enabling them to engage in OFDI.

As mentioned before, we also confirmed that OFDI is a means of developing Indonesia’s economy by complementing domestic investment and imports and increasing the number of listed domestic companies. First, OFDI impacts Indonesia’s GDP, which is consistent with previous studies by Kyrkilis & Pantelidis (2003) and Saad & Nor (2014) and inconsistent with a previous study by Gondo et al. (2021). We found that OFDI is a complement to domestic investment as OFDI by domestic companies can stimulate domestic production by gaining access to foreign resources to advance their competitive advantages in domestic and international markets. Second, OFDI impacts imports, which is consistent with previous studies by Banga (2007), Dasgupta (2009), and Lee (2010). OFDI is complementary to imports as it is a channel for domestic companies to gain access to foreign resources that are unavailable or more expensive in the home country to elevate their domestic production. Lastly, OFDI impacts the number of listed domestic companies. OFDI by Indonesian domestic companies can stimulate other domestic companies to engage in OFDI as their
strategy to compete with their competitors. Accordingly, the remaining domestic companies must augment their competitive advantages hence enabling them to engage in OFDI. Moreover, the government also needs to stimulate the augmentation of domestic companies’ capabilities hence promoting OFDI from Indonesia. In addition to our empirical analysis, we applied an institutional analysis. The findings of these analyses lead to the development of a comprehensive framework encompassing the determinant factors of OFDI from Indonesia, the impacts of OFDI on Indonesia’s economy, and the channels to promote OFDI from Indonesia. Accordingly, further research can apply this framework in assessing and investigating the relationship between OFDI and economic development, particularly from developing countries. Companies can also apply our framework as a reference for their decision-making process for OFDI. Moreover, we established the factors for policymakers to assess and promote OFDI from their home country by investigating the country’s sectoral structure, employment and workforce, the constraints on doing business, infrastructure, the country’s IFDI policies and regulations, the country’s development planning and policy, and the country’s OFDI policies and regulations. Accordingly, governments from other developing countries can focus on these factors in seeking to stimulate the development of their OFDI.

![Figure 6.3. Framework encompassing the development of domestic companies](image-url)
Moreover, the findings from our empirical and institutional analyses lead to the establishment of a framework addressing the development of domestic companies’ capabilities (as seen in Figure 6.3). Figure 6.3 depicts the areas of development in each progression of the development of domestic companies’ capabilities. By referring to our framework, we then investigate the challenges for investors in starting, running, and promoting their businesses and derive recommendations for the government in stimulating the development of domestic companies’ capabilities. The following presents the challenges and recommendations in each progression of the development of domestic companies’ capabilities.

a. Starting a business

Even though Indonesia had improved its policies and regulations for starting a business, the implementation of these policies and regulations has been unevenly distributed at regional levels. Therefore, the government needs to supervise the implementation of these policies and regulations and ensure the implementation is aligned with the government initiatives at the regional level. There are constraints facing new and current applicants in getting information about the business licensing system. Therefore, the government needs to be proactive in providing assistance and information about the system applied for business licensing.

b. Running a business

The challenge for Indonesia’s government is to promote the transformation of micro and small companies to become medium and large companies. The constraints are financing, human capital, and infrastructure. Therefore, the government needs to provide incentives to financial institutions to finance these micro and small companies to expand their business. It is also necessary to provide tax incentives based on the performance of these micro and small companies so they can be motivated to perform better.

Even though the government encourages foreign investors to have joint partnerships with domestic companies with a view to augmenting domestic companies’ capabilities, foreign investors have faced difficulties in finding a matchmaking partner. Accordingly, it is necessary that the government provides accessible and inexpensive training and education systems that promote the development of skilled and high-skilled labour and entrepreneurial skills. This can be incorporated within the education system at national and regional levels. By accelerating the investment in human capital, Indonesia’s government can generate high-quality human resources. It is also necessary to accelerate the development of physical and technological infrastructure across the regions in Indonesia. These initiatives will then
impact and promote the country’s competitive advantages and the development of domestic companies’ capabilities.

c. Promoting a business

Given that the development of OFDI from Indonesia still lags behind its IFDI, there is evidence that domestic companies prefer to serve the domestic market and gain benefits from it. Domestic companies also prefer to engage in international trade rather than engaging in OFDI due to the high cost and lack of information. Therefore, by promoting domestic companies’ capabilities, the government can generate more eligible domestic companies to engage in OFDI. Indonesia’s government also needs to promote OFDI from Indonesia by providing information about the market intelligence of the potential host countries and providing assistance for domestic companies interested in investing in foreign countries. By applying and maximising the bilateral investment treaties, the government can mitigate the potential risk of OFDI. Lastly, due to the absence of OFDI policies and regulations, the government needs to generate such policies and regulations towards OFDI. By having these policies and regulations in place, the government can promote the development of OFDI from Indonesia and ensure that the companies engaged in OFDI can serve the country’s economic development.

This framework enables the company to assess and promote its development based on its progression level. It can also serve governments in other developing countries as a reference for their decision-making process in generating policies and regulations that are supportive for the development of their domestic companies.

6.7 Conclusion

This study is the first to offer an analysis of the causality relationship between OFDI and economic development variables in Indonesia from 1980 to 2019 incorporating both empirical and institutional perspectives. From an empirical analysis, we establish that the drivers of OFDI from Indonesia are imports, the number of listed domestic companies, and IFDI. Even though we found that OFDI is a means of supporting Indonesia’s economic development as a complement to domestic investment and imports and in increasing the number of listed domestic companies, the development of OFDI still lags behind IFDI. Accordingly, we also considered the institutional perspective, assessing the role of Indonesia’s government in promoting OFDI from Indonesia. From an institutional analysis, we derive recommendations for Indonesia’s government to transform its economic structure, ensure the provision of advanced infrastructure, and stimulate the provision of high-skilled labour to produce competitive products and gain
advantages in domestic and global markets. The government also needs to establish and design OFDI policies and regulations due to the absence of these policies and regulations.

Moreover, from our analyses, we establish a framework encompassing the determinants of OFDI and its impacts on the economy and the factors that can promote OFDI from Indonesia. Accordingly, further research can apply this framework in assessing the role of OFDI from other developing countries. We also establish a framework addressing the development of domestic companies’ capabilities. Accordingly, domestic companies and governments in other developing countries can apply this framework as their reference for assessing and promoting their OFDI.

Given the absence of micro-level firm data from official sources, this study has engaged in a macro-level analysis. However, it would be useful from research and planning perspectives if Indonesia were to start to collect firm level data on OFDI. This would enable the current analysis to be extended. While this study applies a new method to the analysis of OFDI, there is a research opportunity to extend our method to other country contexts.

6.8 Reference list


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CHAPTER 7
DISCUSSION

This thesis applies a country-level analysis using aggregate level data on Indonesia’s Foreign Direct Investment (FDI) and economic development. By conducting a comprehensive analysis of Indonesia’s FDI, this thesis provides new insight into the progression of Indonesia’s FDI relative to its economic development. From 1945-1965, Indonesia was one of the poorest and underdeveloped countries in the world due to colonialism and its traditionally closed economic positioning (Basri & Hill, 2020; Coxhead & Li, 2008; Lindblad, 2015). When Indonesia received its first bail-out from the International Monetary Fund in 1967, its economic structure and development planning began to transform (Basri & Hill, 2020; Coxhead & Li, 2008; Lindblad, 2015). Moreover, with lessons learned from the Asian Financial Crisis (AFC) and the Global Financial Crisis (GFC), Indonesia repositioned its strategies and development planning to transform into its current, economically successful state (Basri & Hill, 2020; Coxhead & Li, 2008; Lindblad, 2015).

As mentioned in Chapter 2, FDI can be considered an important growth factor for a country’s economic development. Several economic theories (i.e., classical economic growth theory, Schumpeter economic growth theory, Keynesian and post-Keynesian economic growth theories, neoclassical economic growth theory, and endogenous economic growth theory) have supported this argument. However, the role of FDI in emerging economies and developing countries remains debated (Álvaro-Moya et al., 2020; Paul & Singh, 2017; Reiter & Steensma, 2010). Therefore, this thesis investigates the role of FDI in a country’s development, particularly in the case of Indonesia, to determine how a country can promote its growth by stimulating FDI.

Indonesia has been a favourite destination for inward FDI (IFDI) since the 1990s (Amirahmadi & Wu, 1994). Given its large market size, competitive labour cost, and vast natural resources, Indonesia was in the top 20 host economies for the IFDI in 2017 (UNCTAD, 2018). However, in 2019, Indonesia’s IFDI was valued at $ 24.9 billion compared to its outward FDI (OFDI) value of $ 4.4 billion according to the World Bank (2020). It is apparent that Indonesia’s OFDI lags behind its IFDI.

Therefore, to investigate this phenomenon, this thesis investigates the performance of FDI and the economic development in Indonesia. One concept that can be applied to investigate the progression of FDI relative to economic development is the Investment Development Path (IDP). Accordingly, to address the research
aim, this thesis conducts three studies with the following purposes: 1) review the evolution of the relevant IDP literature to outline the IDP concept and identify the gap in the pertinent IDP literature and the potential avenue for further research on the IDP; 2) assess the performance of FDI and economic development in Indonesia by applying the IDP concept; and 3) investigate the causality relationship between OFDI and economic development in Indonesia. In this chapter, I will first introduce three studies undertaken in this thesis and then summarise the findings of the three studies involved in this thesis. Moreover, I will have further discussions on the findings of the three studies and present the implications for the theory and implication for practice and policy implications of this thesis.

7.1 Introduction

I will recall the purpose and methods applied in the three studies undertaken in this thesis before presenting the summary of the three studies undertaken in this thesis. Study one is a systematic literature review of the IDP, which addresses the meaning of the IDP as a concept to assess the progression of a country based on its FDI performance. The analysis also identified a gap in the literature to establish potential areas for further research. This study relies on manual and coding thematic analyses approaches from previous studies on IDP published in CABS-ranked journals since the IDP’s inception (Braun & Clarke, 2006; Khandker, 2022). Study two assesses the development of FDI in Indonesia following its economic development using the IDP concept. This analysis uses the theoretical perspective of IDP by applying five approaches to classify Indonesia’s position on the IDP. This analysis also applies the empirical perspective of the IDP by investigating suitable IDP model(s) for Indonesia. It also applies the institutional perspective of the IDP by conducting a policy analysis of FDI regimes in Indonesia. Finally, study three investigates the causality relationship between OFDI and economic development from the home country’s perspective in the context of Indonesia. This study investigates the role of OFDI in Indonesia’s economy, the determinants of OFDI from Indonesia, and the government’s role in promoting OFDI from Indonesia using empirical and institutional analyses. The empirical analysis investigates the causal relationship between OFDI and economic development variables. Meanwhile, the institutional analysis assesses the role of the Indonesian government in nurturing domestic companies’ capabilities and stimulating OFDI from Indonesia. A summary of the findings from the three studies is presented in the following section.

7.2 The summary of the findings from three studies

Summaries of the findings from the three studies undertaken in this thesis are organised by presenting the research questions and the findings of each question.
7.2.1 Study 1: The Investment Development Path Literature: A Review and Research Agenda

This study investigated the evolution of IDP literature over time using thematic Systematic Literature Review (SLR). The research question addressed in this study is how has IDP literature evolved from its inception? The study found that the deployment of the IDP literature is quite extensive, covering many aspects of the IDP concept. Moreover, to address the main research question of this study, this study established the following derivative research questions. The first derivative research question is what is the theme(s) in the IDP literature? This study identified several themes and revealed potential areas for further research on the IDP concept based on these themes. The first theme is the assessment of a country’s development using the IDP concept. This theme covers studies that focus on assessing the applicability of the IDP concept in investigating country development. Concerning this theme, the potential areas for further research are the selection of research approaches (i.e., cross-country analysis using cluster analysis, factor analysis, or spatial analysis and single-country analysis using comparative analysis or policy analysis) and research contexts (i.e., country selection of low-income, lower-middle income, upper-middle income, or high-income countries and selection of time frame). The second theme is the FDI phenomenon in IDP. This theme covers studies that focus on applying IDP to explain FDI phenomena in the International Business (IB) research domain, namely, the importance of IFDI in the economic development of a country, the trend and pattern of OFDI from developed and developing countries, and the strategy of multinational companies (MNCs) to engage in OFDI (i.e., location decision strategy). Regarding the IFDI, this study identifies three areas for further research related to the types of investment, investment location, and impacts of investment. In relation to OFDI, this study identifies an area for further research that focuses on the transformation process of a country from net inward direct investment to net outward direct investment. In relation to the MNCs strategy, further research can apply the IDP concept to assess and classify the motives of MNCs, investigate the failure and success factors of MNCs, and investigate the location-decision process in a specific company or sector. The third theme is the internal and external factors influencing a country’s position in the IDP stages. This theme covers studies that focus on influential factors that can shift the position of a country in IDP stages. Further research can investigate internal and external factors, in addition to those addressed in previous studies, and assess their impact(s) on shifting a country’s position on the IDP stages. The fourth theme is further development of the IDP concept. This theme covers studies that investigate and develop the IDP concept by adding additional variables, selecting the unit of analysis, and choosing the methodology. Further research can add more variables to the analysis (i.e., human
development, technology development, institutional factors, and research and development stages). Further research can also compare or combine the IDP concept with other IB theories as an additional analysis (i.e., stages in a global value chain, resource-based view, Upsala models, internationalisation process, and product life cycles).

The second derivative research question is, *what is the relationship between FDI performance and the economic development of a country according to IDP?*. The analysis establishes a framework based on the pertinent literature on the IDP, representing the interrelationship between FDI performance and the economic development of a country and its position in the IDP stages. Further research can apply this framework to depict the relationship between FDI and economic development and assess the FDI decision factors that influence a country’s position along the IDP stages.

The third derivative research question is *how to classify a country’s position on the IDP concept?*. The analysis leads to the establishment of five approaches to the classification of IDP stages (i.e., economic development, FDI performance, locational-advantages, MNCs strategies, and the role of government) that can assist further research, policymakers, and companies in assessing a country’s position on the IDP stages.

### 7.2.2 Study 2: The Investment Development Path Theory: Evidence from Indonesia

This study assesses Indonesia’s FDI and economic performance from 1990 to 2019, using the theoretical, empirical, and institutional perspectives of the IDP. Apart from China and India, there is limited literature on IDP applied to emerging economies. This study focuses on Indonesia, an emerging economy that is growing in significance. The research question addressed in this study is *how has FDI developed in Indonesia?*. This study found that Indonesia is a net of inward direct investment. The country focuses only on attracting IFDI, thus restricting its progression on the IDP stages. The country’s comparative advantages in the global market still lag behind those of other emerging countries. The capabilities of Indonesia’s domestic companies have not been upgraded because most companies are micro and small with low technology involvement. Accordingly, Indonesia’s role in global value chains remains as a supplier of raw materials and intermediate products.

Moreover, to address the main research question of this study, this study established the following derivatives research questions. The first derivative research question is *what is the position of Indonesia on the IDP stages?*. The study found that the country’s position on the IDP has fluctuated between stage two, three, and four of development.
The second derivative research question is *what are the impacts of IFDI and OFDI on Indonesia’s economic development?*. The study found that IFDI and OFDI play an important role in Indonesia’s economic development. Having shifted from the second stage to the fourth stage in the period 1998 to 2004 due to a major decline in IFDI as a result of the political and social instability of that era, it regressed to the second stage in subsequent years. This study found a deviation in the case of Indonesia from the established theory. Indonesia’s positioning on the IDP was found not to follow the established linear stages progression. Indonesia’s case provides an example of how economic shrinkage due to the AFC can generate a deviation in the progression of the country on the IDP. Therefore, it can be concluded that the progression of Indonesia on the IDP is highly dependent on its IFDI and OFDI. There is a potential area for further research to assess a country’s position in the time of economic shrinkage or high economic uncertainty (i.e., covid 19 pandemic condition) in Indonesia and other countries.

The third derivative research question is *which IDP model(s) is suitable for Indonesia’s case?*. This study generated the best-fit model for Indonesia. The suitable IDP models for Indonesia are polynomial models with third-, fourth- and fifth degrees, using GDP and GDP per capita. These models follow the estimation criteria of best-fit models and the established theory. However, the study found an issue of multicollinearity owing to the application of multiple degrees of variables that caused a high correlation. Therefore, there is a potential area for further research to generate an extended IDP model that can eliminate multicollinearity.

The fourth derivative research question is *how to shift Indonesia’s position on the IDP stages?*. The study derived several recommendations for Indonesia’s policymakers to stimulate and augment domestic companies’ capabilities, upgrade the country’s comparative advantages in global markets, and promote OFDI, thus shifting the country’s position on the IDP stages. The findings of this study can be treated as inputs for policymakers in Indonesia, other developing countries, and emerging economies to frame supportive policies and regulations to boost their FDI performance and stimulate their economic performance, thus advancing their position on the IDP stages.

### 7.2.3 Study 3: Outward Foreign Direct Investment and Home Country Economic Development – The Case of Indonesia

This study investigates the causal relationship between OFDI and economic development variables in Indonesia from 1980 to 2019, using TYDL augmented VAR method. The research question addressed in this study is *what is the relationship between OFDI and economic development in Indonesia?*. This study found that there is a causal relationship between OFDI and economic development in Indonesia. However,
there is no evidence that the country embraces OFDI as a means of its economic development. The country only focuses on attracting IFDI as a means of developing its economy. Accordingly, Indonesia’s OFDI still lags behind its IFDI.

Moreover, to address the main research question of this study, this study established the following derivatives research questions. The first derivative research question is what is the role(s) of OFDI from Indonesia in its economic development?. The study found that OFDI is a means of developing Indonesia’s economy by complementing domestic investment and imports, and increasing the number of listed domestic companies. However, Indonesia’s OFDI still needs to be promoted to catch up with its IFDI by establishing policies and regulations that can promote and stimulate domestic companies’ capabilities, thus enabling them to engage in OFDI.

The second derivative research question is what is the determinant factor(s) of OFDI from Indonesia?. The study found that the determinant factors of OFDI from Indonesia are imports, the number of listed domestic companies, and IFDI. The findings of this study benefit companies interested in engaging in FDI in Indonesia as they can treat this study as a reference for the location decision-making process. The study found that IFDI is one of the drivers of OFDI. In fact, with a significant number of IFDI in Indonesia, as in 2018, the country is in the top 20 favourable host countries for FDI (UNCTAD, 2018), the country’s role in the Global Value Chain remains as a supplier of raw materials and intermediate products that is related to an increase in imports (BKPM, 2022). And 99% of domestic companies were micro and small companies in 2016 that is related to an increase in the number of listed domestic companies (Indonesia Central Agency of Statistics, 2019). It is clearly stated in the investment laws (No.25/2007) that foreign investment by foreign companies should benefit domestic companies to escalate their ownership advantages and, hence, compete in the global market. In fact, the development of spinoff impacts between MNCs and domestic companies still requires intensive supervision. Therefore, it can be concluded that in the case of Indonesia, IFDI is less significant to contribute to the country’s competitive and comparative advantages particularly in augmenting the capabilities of the domestic companies to enable them to compete with MNCs in domestic market or even in engaging in OFDI. Accordingly, the government needs to intensify the attraction of value-added IFDI, because domestic companies can benefit from the presence of IFDI to advance their competitive advantages, thereby enabling them to engage in OFDI.

The third derivative research question is how can Indonesia’s government promote OFDI from Indonesia?
The study established the factors for policymakers to assess and promote OFDI from their home country by investigating the country’s sectoral structure, employment and workforce, constraints on doing business, infrastructure, IFDI policies and regulations, development planning and policy, and OFDI policies and regulations. Accordingly, governments from other developing countries can focus on these factors in seeking to stimulate the development of their OFDI.

7.2.4 The summary findings

Based on a summary of the findings from the three studies undertaken in this thesis, it can be concluded that Indonesia is an emerging economy. The Financial Times Stock Exchange (FTSE) and Bloomberg’s Morgan Stanley Capital International (MSCI) classify Indonesia as an emerging economy (Kearney, 2012). Emerging economies are used to classify countries that hold the majority of the world’s population and land (Kearney, 2012). The development of their economies is also faster than that of developed countries (Kearney, 2012). Moreover, the competitive advantages of emerging economies in terms of their political, social, cultural, institutional, legal, economic, and business environments are worth investigating, assessing, and reassessing, to generate new insights into how these countries’ economies transform and develop their competitive advantages to contribute to their economic development (Kearney, 2012). Emerging economies tend to possess substantial infrastructure in their financial markets (i.e., commercial banks, central banks, and stock exchanges) (Kearney, 2012). On the other hand, they also have insufficient systems and processes regarding their governance, policies and regulations, accounting, and other financial infrastructure (Kearney, 2012). These disadvantages lead them to have an inefficient market and insignificant liquidity compared with the world’s more advanced countries (Kearney, 2012). As an implication, these countries attempt to attract foreign investors in their countries to offset their competitive disadvantages and transform these disadvantages into competitive and comparative advantages. These emerging countries expect to grow if they can pursue catching-up strategies to develop their economies, markets, infrastructure, institutions, and human capital, and consolidate their economic conditions with business ventures.

In the case of Indonesia, the findings of the studies undertaken in this thesis have acknowledged the importance of FDI as a means of developing its economy. Study two that assessed the applicability of IDP theory in Indonesia, showed that Indonesia’s IFDI has increased significantly due to the refinement of policies and regulations that support FDI attraction. Nevertheless, the Indonesian government does not embrace OFDI as a means of developing its economy, and OFDI’s role has not been explored extensively
compared to its IFDI. Accordingly, study two found that Indonesia’s Net Outward Investment Position (NOIP) has mostly been stagnant in the second position of the IDP. The study also found that Indonesia’s progression on the IDP experienced a deviation from the established theory. This is because Indonesia’s position shifted from the second to the fourth stage from 1998 to 2004 due to a major decline in IFDI due to the political and social instability of that era. It then regressed to the second stage in the subsequent years. Based on this finding, Indonesia can stabilise its FDI performance, if the country can generate more OFDI. Accordingly, study three undertaken in this thesis addresses such an analysis.

The findings of the third study confirm the importance of OFDI from Indonesia as another means of developing its economy. However, this analysis revealed that Indonesia’s OFDI still lags behind its IFDI due to the inadequacy of domestic companies’ capabilities, as most companies are micro and small companies. Therefore, the analysis concludes that Indonesia’s government plays an important role in attracting IFDI, which has value-added to the economy, particularly in escalating domestic companies’ capabilities to compete with MNCs in domestic and global markets, enabling them to engage in OFDI and promote OFDI from Indonesia. Accordingly, in the following subsection, I will explore more on the role of Indonesia’s government in promoting FDI. The analysis then leads to the identification of potential areas for Indonesia to boost FDI, thereby contributing to its economic development.

7.3 Further discussion of the findings

The findings from the studies of this thesis confirm the importance of FDI (both IFDI and OFDI) as a means of developing Indonesia’s economy. These studies argue that Indonesia’s government, whether Indonesia as the host country has an important role in attracting FDI or Indonesia as the home country has an important role in generating FDI. Accordingly, this subsection emphasises on the role of the Indonesian government in promoting FDI and the identification of the potential areas for the further development of Indonesia’s FDI. The organisation of further discussion is divided into four analyses: an overview of Indonesia’s economy, the analysis of FDI as a determinant of economic development, the analysis of MNCs strategies in engaging in FDI in Indonesia, and the analysis of FDI in promoting the development of Indonesia’s domestic companies.

7.3.1 The overview of Indonesia’s economy

The first analysis provides an overview of Indonesia’s economy. It takes a deep look into Indonesia’s economy and investigate potential areas for further development. Figure 7.1 presents Indonesia’s economic growth percentage from 1970 to 2019. The average annual Indonesian economic growth from 1970 to 2019
was 5.56% according to World Bank database. Pritchett (2000) classified Indonesia as an accelerator based on the levels and changes in growth rates from the 1960s to the 1990s. The accelerator is, at first, that the country’s economic growth has a lower growth rate than industrialised countries; later, the country can catch up and reach an evident success in the economy.

Furthermore, Basri & Hill (2011) classified Indonesia's economic growth into six discernible subperiods: before the AFC (1990 - 1996), during the AFC (1997-1999), after the AFC (2000-2003), before the GFC (2004-2007), during the GFC (2008-2009), and after the GFC (2009-onward). Before the AFC, from 1990 to 1996, Indonesia's economic growth increased significantly, with an average annual growth of 7-8% growth (Basri & Hill, 2011). During the AFC, from 1997 to 1999, the combination of political instability, social disorder, and economic crisis led to catastrophic economic contraction (Basri & Hill, 2011). During this period, the country’s economic growth was severely impacted by the downturn of its economy to its lowest point of -13% in 1998 and started to recover at 0.79% in 1999 (Basri & Hill, 2011). This was because Indonesia experienced precarious economic and political conditions during this period. Moreover, after the AFC, from 2000 to 2003, its economic growth began to recover with an increase in annual growth of around 4 – 5 % due to the refinement of financial structure and recovery in the political and social conditions (World Bank, 2021). In the period before the GFC, from 2004 to 2007, Indonesia’s economic growth continued to accelerate from 5.03% in 2004 to 6.35% in 2007. During the GFC in 2008-2009, Indonesian
economic growth slowed moderately, however, the effect of the GFC was mild compared to that of the AFC. The annual economic growth declined from 6.01% in 2008 to 4.63% in 2009 (World Bank, 2021). Finally, from the GFC in 2009 to the present, Indonesia’s economic growth began to recover and grow higher than its annual growth rate before the GFC. As a result, the country became a member of G-20 countries. The takeaway from the downturn and subsequent growth of Indonesia’s economy from the 1990s to the present shows that the country has competitive advantages in achieving successful growth. However, the country’s economic growth has never achieved the high growth recorded before the AFC. Accordingly, the country still needs to explore and develop its potential areas to replicate its prior success, or even grow faster and compete with other developed countries. As the findings of the studies undertaken in this thesis establish the important role of FDI as a means of developing Indonesia’s economy, the Indonesian government needs to investigate and promote sustainable growth factors in boosting FDI, thus favouring Indonesia’s economic growth. The subsequent analysis presents the determinants of economic development based on FDI activities.

7.3.2 The analysis of FDI as the determinant of economic development

To investigate the potential areas for Indonesia’s economic development from the FDI perspective, I analyse the potential role of FDI based on economic growth theories. There are several economic theories about economic growth, as mentioned in Chapter 2, namely, classical theories, the innovative growth theory of Schumpeter, Keynesian theories, post-Keynesian or neo-Keynesian theories, neoclassical theories and the endogenous theory of Robert Solow, and the endogenous Growth theories (Sharipov, 2015). Accordingly, the following analysis encompasses and presents the role of FDI based on these economic growth theories.

a. Classical theory of growth

Based on the classical theory of growth, FDI contributes to economic growth by increasing the total production of goods, increasing exports to generate a surplus in trade, and increasing productivity by maximising the utilisation of labour, stimulating labour specialisation, and innovating the production of goods and services (Barro & Sala-i-Martin, 2003; Marx, 2000; McDermott, 1999; Osipian, 2007; Piętak, 2014; Sharipov, 2015).

In line with these theories, the studies undertaken in this thesis found that both IFDI and OFDI in Indonesia are a means of developing its economy. In the case of IFDI in one particular sector, a study undertaken as part of this thesis (see the appendix) focused on Indonesia’s manufacturing IFDI (Sawitri & Brennan, 2021).
The findings of this study confirm the determinant factors of manufacturing IFDI in Indonesia: value-added manufacturing to total Gross Domestic Product (GDP), manufacturing employment, and manufacturing exports (Sawitri & Brennan, 2021). The impacts of manufacturing IFDI on Indonesia’s economy are increasing manufacturing employment, GDP per capita, and Total Factor Productivity (TFP) (Sawitri & Brennan, 2021). These findings also confirm that IFDI, in this priority sector in Indonesia, serves the country’s economy by maximising labour utilisation and increasing productivity.

Moreover, study two found that Indonesia’s position on the IDP fluctuated between stages two, three, and four from 1990 to 2019. Indonesia’s position deviated from the established linear progression of the IDP theory because the impact of the AFC and political and social instability from 1998 to 2004 resulted in a significant decline in IFDI and led to a surplus of OFDI. It regressed to the second stage in the subsequent years. Accordingly, since Indonesia has a surplus of IFDI compared to its OFDI most of the time, it can be concluded that Indonesia is a net of IFDI. The Indonesian government focuses only on IFDI and neglects OFDI, thus restricting its progression from stage two of the IDP. The study found that the Indonesian government needs to explore OFDI due to the absence of policies and regulations, as well as to stimulate and support OFDI from Indonesia. The characteristic of Indonesian companies are micro and small companies, and large companies tend to serve domestic market. Accordingly, these findings lead to further investigation of Indonesia’s OFDI in the third study.

The third study investigated the relationship between Indonesia’s OFDI and economic development variables. The study found that OFDI is also a means of supporting Indonesia’s economic growth by increasing GDP and the number of listed domestic companies and complementing imports. This study also reveals that determinants of OFDI from Indonesia are imports, the number of listed domestic companies, and the IFDI. Therefore, I conclude that the role of FDI in Indonesia aligns with established classical theories of economic growth. Accordingly, FDI is an important growth factor in the Indonesian economy.

**b. Innovative growth theory of Schumpeter**

According to Schumpeter’s innovative growth theory, FDI can contribute to economic growth through the innovation of entrepreneurs (Maddison, 1980; Sharipov, 2015). The innovation of entrepreneurs can be measured by the company specific ownership advantages (Lundan, 2010), i.e., total patents (Erdal & Göçer, 2015; Loukil, 2016; Papageorgiadis et al., 2019); capital or financial resources (Kedia et al., 2012; Lee & Rugman, 2012; Lei & Chen, 2011; Luo et al., 2011; Mauri et al., 2017; Nguyen & Rugman, 2015; Rabbiosi et al., 2012; Shih & Wickramasekera, 2011; Temouri et al., 2016; Trapczyński & Gorynia, 2017; Yaprak
et al., 2018); technology, brand, production know-how, marketing (Sutherland et al., 2018; Zhu et al., 2017); absorptive capabilities and corporate culture (Cuervo-Cazurra et al., 2018; Cui et al., 2015; Halaszovich & Lundan, 2016; Hung & Tseng, 2017; Lee et al., 2016; Lee et al., 2018; Li et al., 2016; Li et al., 2017; Liang et al., 2012; Ma et al., 2013; Park & Harris, 2014; Rui et al., 2016; Sun et al., 2018; Thakur-Wernz & Samant, 2019; Zhang et al., 2016); corporate social responsibility (Adarkwah & Malonæs, 2020; Borda et al., 2017; Tatoglu et al., 2014); and size of the companies (Madhok & Keyhani, 2012; Sahaym & Nam, 2013).

The third study undertaken in this thesis offers the first investigation of the role of the number of listed domestic companies in OFDI. The finding is that the number of listed domestic companies influenced GDP and stimulated OFDI from Indonesia. Moreover, the number of listed domestic companies can represent the ownership advantages of domestic companies in terms of financial or capital resources (Field & Karpoff, 2002; Gompers et al., 2003; Moeller et al., 2004; Ritter, 1991). It also represents the size of the company and its capabilities to generate sustainable profits by reducing costs, the accumulation of business process excellence, and management systems (Field & Karpoff, 2002; Gompers et al., 2003; Lundan, 2010; Moeller et al., 2004; Ritter, 1991). Accordingly, augmenting domestic companies’ capabilities can contribute to the advancement of their ownership advantages and can be considered an entrepreneur’s innovation. Eventually, an increase in domestic companies’ capabilities can contribute to an increase of OFDI, thereby contributing to the country’s economic growth.

c. Keynesian and Post-Keynesian theories

According to Keynesian and post-Keynesian theories, the determinant factor of economic growth is on the demand side. FDI can generate multiplier effects, beginning with the utilisation of labour and capital for the development of goods and services production and suppliers, thereby increasing production capabilities (Barro & Sala-i-Martin, 2003; Piętak, 2014; Sharipov, 2015; Van Staveren, 2015).

The findings of the studies undertaken in this thesis establish two frameworks addressing IFDI and OFDI on Indonesia’s economic development. The first study undertaken as part of this thesis (in the appendix) established the framework in Figure 7.2, which presents the relationship between IFDI and economic growth in the manufacturing sector. This framework shows that manufacturing IFDI generates multiplier effects for Indonesia’s economy by increasing manufacturing employment, stimulating TFP, and increasing GDP per capita. This framework also shows that an increase in manufacturing IFDI can decrease the basis price for production, as more companies produce the same products and services in the country. The
implication is that there is a technology spillover between IFDI and domestic companies because domestic companies tend to escalate their capabilities by increasing their standards to produce goods and services using new technologies and innovations to compete in the domestic market. There is also a potential impact of knowledge spillovers as an increase in manufacturing IFDI can motivate the mobilisation of domestic labour to work in MNCs, thereby stimulating the knowledge spillovers to domestic labour and enabling them to move from one MNC to other MNCs or even to domestic companies in the manufacturing sector or other sectors.

Figure 7.2. A framework encompassing IFDI and economic development for Indonesia’s manufacturing sector

Source: Sawitri & Brennan (2021)

Moreover, the third study undertaken in this thesis establishes the framework in Figure 7.3, which presents the relationship between Indonesia’s OFDI and economic development. This framework encompasses the impacts of OFDI on Indonesia’s economy, including increasing imports, the number of listed domestic companies, and GDP. Indonesia’s government can maximise the impact of OFDI on imports by allowing
imports of advanced technologies and strategic resources that are unavailable or about to diminish domestically. The government can also maximise the impact of OFDI by promoting the number of listed domestic companies and providing suitable support for domestic companies to augment their capabilities so that they enable to compete with MNCs in domestic and global markets. Accordingly, OFDI can also be considered a means of generating financial stability in Indonesia. The second study showed that during the AFC, Indonesia’s FDI performance, as represented by NOIP, reached a positive level because the OFDI level exceeded that of the IFDI. Therefore, to promote Indonesia’s position on the IDP, the Indonesian government needs to start promoting OFDI from Indonesia by generating policies and regulations towards OFDI due to the absence of such policies and regulations. In addition, the characteristics of Indonesian companies are micro and small companies with the inadequacy of companies’ competitive advantages. Accordingly, it is also necessary to nurture the development of domestic companies by selecting IFDI that has value-added to the development of domestic companies, thereby advancing the country’s competitive and comparative advantages in the global market.

Figure 7.3. A framework addressing OFDI and economic development for Indonesia

Source: Sawitri & Brennan (2022)
d. Neoclassical theory

According to neoclassical theory, FDI can contribute to economic growth by the emergence of new technology, increasing productivity and organisation of production, resource (i.e., capital and labour) utilisation, and maximisation (Sharipov, 2015; Solow, 1978). A study undertaken as part of this thesis (see the appendix) confirms that manufacturing IFDI impacts manufacturing employment, TFP, and GDP. This statement indicates that FDI increases resource utilisation and maximisation. By increasing GDP as a result of an increase in FDI, the country can allocate capital from FDI to investment in human capital and infrastructure, which can promote an increase in the country’s competitive advantages to attract value-added investment and generate OFDI. Moreover, study three undertaken in this thesis reveals that OFDI from Indonesia also promotes an increase in the number of listed domestic companies. This indicates that more listed domestic companies can generate job opportunities in the domestic market. The government should consider focusing on OFDI by promoting the augmentation of the capabilities of listed domestic companies that enable them to engage in OFDI so that they can share the knowledge and experience gained from OFDI with their parent companies in the home country. Accordingly, the augmented capabilities of domestic companies in the home country can increase domestic market competition and generate a multiplier effect within or among sectors.

e. Endogenous growth theory

According to endogenous growth theory, FDI can contribute to economic growth by increasing technological innovation (Aghion & Howitt, 1990; Grossman & Helpman, 1990; Lucas Jr, 1988; Romer, 1986). A study on manufacturing IFDI (see the appendix) confirms that an increase in manufacturing IFDI can increase TFP. An increase in TFP indicates the involvement of technology and human capital. Therefore, to maximise the development of technological innovation, the Indonesian government needs to focus on intensifying the attraction of high-tech investment by providing talented human resources, ensuring the provision of other physical infrastructure, and generating a conducive investment climate.

7.3.3 The analysis of MNCs strategies to engage in FDI in Indonesia

The first study in this thesis also considered MNCs’ strategies as one of the approaches to classifying a country’s position on the IDP stages (Sawitri & Brennan, 2022). It established the important role of MNCs’ strategies in assessing a country’s investment development path, since MNCs’ strategies are the influential factors that motivate MNCs to engage in FDI. Accordingly, this subsection analyses and identifies potential
areas for promoting FDI based on MNCs’ strategies, that is, market-seeking investment, resource-seeking investment, efficiency-seeking investment, and strategic-seeking investment.

A study undertaken as part of this thesis (see the appendix) established a framework addressing determinant factors of Indonesia’s FDI based on MNCs’ motives for investment. Figure 7.4 presents such a framework. I argue that attracting value-added IFDI to a country can help the country promote OFDI by advancing its competitive and comparative advantages in the global market. Accordingly, to identify the factors that the government needs to pursue in order to attract value-added IFDI, I consider the established factors from previous studies about the determinants of FDI based on MNCs’ motives for investment (Cui et al., 2014;
Dunning & Lundan, 2008b). I then assess these factors to investigate the motives of MNCs to engage in FDI in Indonesia and identify potential areas for Indonesia to promote both IFDI and OFDI according to MNCs’ motives for FDI. The explanation for each individual motive is as follows:

a. **Resource seeking investment**

Resource seeking motivates a company to engage in FDI in a particular host country to acquire and exploit specific resources with higher quality and lower prices than the home country (Behrman, 1972; Buckley & Ghauri, 2014; Cui et al., 2014; Dunning & Lundan, 2008a). The indicators for this type of investment in selecting the host country are the provision of natural resources and other resources in the production inputs criteria (Cui et al., 2014).

Study two analysed Indonesia’s position using five approaches to the classification of IDP stages. One approach is based on MNCs’ strategies. The analysis led to the identification that the motives for IFDI in Indonesia have been motivated by resource-seeking due to the wide variety of natural resource endowments and the provision of cheap labour. There are three types of resource-seeking investment. The first type of resource seeking is access to physical resources such as minerals, fuels, metals, and agricultural products. Indonesia is located both on the equator and in the “fire ring” of the Pacific. This overly contributes to the country’s advantages in terms of natural resources. Accordingly, the country benefits from its location and has competitive advantages in terms of the provision of resources, such as mining, agriculture, fisheries, timber, and energy (Coxhead & Li, 2008). Indonesia is also a major commodities supplier of cocoa, timber, coffee, palm oil, and rubber in the global market (Indonesia’s Ministry of Trade, 2021). An example of resources seeking investment was American Freeport Sulfur in 1960 as the first and most prominent foreign company to invest in Indonesia (Lindblad, 2015; Sawitri & Brennan, 2022b). This company focuses on the mining industry in Papua (Lindblad, 2015; Sawitri & Brennan, 2022b). However, the competitive advantage of natural resources for a country like Indonesia, which focuses on resource-based exports and FDI, can reduce its potential diversification in the global market and economic growth in the future (Barbier, 2005; Coxhead & Li, 2008; Sachs & Warner, 1999). This phenomenon can be explained in three ways. The first cause is “Dutch disease effects”. Thus, the export of natural resource can impede the growth of other tradeable sectors due to competition for capital and labour from the natural resource sectors and the shift in demand expansion from non-tradeable sectors (Corden & Neary, 1982; Coxhead & Li, 2008). The second cause is the decrease in the returns on human capital investment due to specialisation in natural resource sectors, thereby minimising the incentive for educational achievement (Coxhead & Li, 2008;
The third cause is economic instability owing to the effects of Dutch diseases. The price of a commodity fluctuates more than that of other goods (Coxhead & Li, 2008; Hausmann & Rigobon, 2003). According to this, the prices and incomes of a country dominated by the trade of natural resources sectors can be less stable, causing instability in the economy’s condition (Coxhead & Li, 2008; Hausmann & Rigobon, 2003). Indonesia’s exports are dominated by mineral fuels, lubricants, and related materials; animal and vegetable oils and fats; inedible raw materials; gas and crude oil (Indonesia’s Ministry of Trade, 2020). The third study undertaken in this thesis found that Indonesia’s participation in Global Value Chains (GVC) is still dominated by the supply of primary and raw materials to other countries (ADB, 2019). It is also dominated by receiving intermediate inputs and raw materials from upstream industries abroad to assemble these inputs into final products in-house (ADB, 2019). The slow pace of Indonesia's economic development resulted from its inability to diversify, produce, and export products with complexity and comparative advantages. Accordingly, the Indonesian government needs to stimulate FDI in the downstream development of primary and raw materials suppliers and stimulate other industries (e.g., automotive and telecommunication industries) to go beyond assembly. The study included in this thesis about the manufacturing IFDI and economic development in Indonesia (see the appendix) identified the recent government initiative for developing the downstream activity of the nickel industry in specific economic zones since nickel ore is one of the raw materials for producing lithium battery cells (BKPM, 2021).

Currently, there is no downstream nickel ore industry in Indonesia, even though Indonesia’s contribution of nickel ore to the World’s total nickel ore output is significant at 29.6% (BKPM, 2021). Therefore, this example can be treated as a pilot project to develop Indonesia’s other leading commodities by promoting the development of downstream industries for these commodities in specific zones (Sawitri & Brennan, 2021).

In the case of OFDI from Indonesia, study three undertaken in this thesis identified the motive for OFDI from Indonesia in resource-seeking investment, which was to gain access to and secure the host country’s resources and technologies (Aminullah et al., 2013; Carney & Dieleman, 2011; Sambodo, 2017; Sawitri & Brennan, 2022a). Most OFDI from Indonesia is dominated by State Owned Enterprises (SOE) and family business conglomerates (Carney & Dieleman, 2011; Sawitri & Brennan, 2022a) and invested in other emerging economies and developing countries (i.e., China, India, and ASEAN countries) (Carney & Dieleman, 2011; Sambodo, 2017; Sawitri & Brennan, 2022a). The development of OFDI from Indonesia still lags behind its IFDI (Sawitri & Brennan, 2022a, 2022b). Accordingly, Indonesia’s government needs
to promote OFDI from Indonesia, particularly related to natural resources seeking investment, to generate alternative access in foreign countries to the limited natural and strategic resources in the home country and secure these foreign resources.

The second type of resource seeking is access to abundant supplies of cheaper real costs and well-motivated skilled (unskilled or semi-skilled) labours. Indonesia has benefitted from being the fourth most populous country in the world. The productive age population in Indonesia was 68.7% in 2019 (Indonesia Central Agency on Statistics, 2019), and predicted to have a 180 million productive age population by 2030 (World Bank, 2018). Moreover, Indonesia's unemployment level has decreased from 8.06% in 2007 to 6.2% in 2015 and 5.2% in 2019 (World Bank, 2020). Based on the studies undertaken in this thesis, there are two perspectives of FDI in relation to employment. A study about manufacturing IFDI (see the appendix) found that manufacturing IFDI is associated with an increase in manufacturing employment and manufacturing employment is a determinant factor for manufacturing IFDI. In the case of OFDI, OFDI is associated with an increase in the number of listed domestic companies. Accordingly, with an increase in the number of listed domestic companies, the number of employees in the listed domestic companies also increases. Therefore, it can be concluded that there are relationships between manufacturing IFDI and OFDI with employment in Indonesia. However, the distribution of employment in Indonesia from 2009 to 2019 was still dominated by the service sectors (World Bank, 2020). A characteristic of this sector is that the skills required, innovations, and technology involvement are relatively lower than those in the manufacturing and agriculture sectors. In addition, Indonesia has lagged behind other emerging economies in maximising its FDI to increase its development in advanced technology and productivity (Coxhead & Li, 2008; Frankema & Lindblad, 2006; Wie, 2005). Therefore, the Indonesian government needs to promote IFDI in the manufacturing and agriculture sectors that can generate significant value-added for the country’s development in the innovation of technology and products, thus stimulating the country’s specialisation in the global niche market by engaging the country’s leading commodity resources. To achieve this goal, the Indonesian government needs to ensure an even distribution across its regions for the provision of a supporting infrastructure and skilled and high-skilled labour and provide incentives for attracting IFDI to Indonesia. In the presence of value-added IFDI, the government needs to ensure that the spillover impacts occur for domestic companies by establishing a competitive environment in the domestic market and encouraging MNCs to join partnerships with domestic companies. Moreover, by engaging in OFDI, the
government needs to ensure that companies transfer the benefits they gain overseas to serve the country’s development.

The third type of resource seeking involves access to experts in management or marketing, organisational skills, and technology capabilities. Indonesia’s FDI was motivated by two other resource motives. Currently, there is no evidence in this thesis or other studies about the motives of FDI in relation to seeking expertise. This finding leads to the identification of further development of FDI in Indonesia to provide experts in management or marketing, organisational skills, and technological capabilities to attract foreign investors. To achieve this goal, the government needs to increase the country’s investment in human capital, physical infrastructure, and technological infrastructure; promote the development of R&D across industries; establish and stimulate the innovation and creative environment; and increase national and regional championship for expertise specialisation. The government also needs to nurture the development of domestic companies’ capabilities, so that they can escalate their capabilities and compete in the global market, hence, they can engage in OFDI to expand their brand awareness and increase their international experience.

b. Market seeking

Market seeking motivates a company to engage in FDI in a particular host country to serve and supply services and goods in the domestic and adjacent host countries’ markets (Behrman, 1972; Buckley & Ghauri, 2014; Cui et al., 2014; Dunning & Lundan, 2008a). The indicators for this type of investment in selecting the host country are the market conditions, including the potential growth and size of the market (Cui et al., 2014). There are four reasons a company pursues a market-seeking investment (Behrman, 1972; Buckley & Ghauri, 2014; Dunning & Lundan, 2008a). The first reason is to follow customers, competitors, and suppliers that have established their production facilities abroad so that the company can retain its business. The second reason is to adapt products and services to the local preferences. The third reason is to gain benefits from adjacent markets to reduce the transaction costs of production or suppliers. The fourth reason is to be present in the leading markets served by the company’s competitors as part of its marketing and production strategy.

In the case of Indonesia’s IFDI, study two undertaken in this thesis found that the motivation of MNCs to engage in FDI is dominated by market seeking. In terms of IFDI, as the populous country, Indonesia has benefited from the size of the domestic market and adjacent markets. Indonesia’s geography has benefited from international trade. Accordingly, based on the Global Competitiveness Report, Indonesia’s position
in terms of market size was ranked 9th in 2018 and 7th in 2019 (GCR, 2019, 2020). Therefore, Indonesia’s position as a favourable host country for IFDI was in the top 20 (UNCTAD, 2018).

One example of such an investment is PT. Toyota-Astra Motor. This company was established in Indonesia in 1971 as an importer and distributor of Toyota’s vehicles (BKPM, 2021). The company expanded its business by establishing an assembly factory called PT. Multi-Astra in 1973 due to the high demand in the domestic market (BKPM, 2021). In 1977, Indonesia’s government focused on developing the automotive industry by enacting the Ministry of Industry Regulation No. 307 on the requirement for assembling commercial vehicles using domestically produced components (BKPM, 2021). Accordingly, Toyota established PT. Toyota Mobilindo in 1976 that domestically produced components for Toyota’s vehicles (BKPM, 2021). The Indonesian government also had restrictions on completely built unit (CBU) vehicles. Toyota addressed this restriction by establishing PT. Toyota-Engine Ind in 1982 started vehicle machinery production in 1985 (BKPM, 2021). At present, PT. Toyota Motor Manufacturing Indonesia focuses on producing and exporting Toyota’s vehicles (BKPM, 2021). The development of Indonesia’s automotive industry in terms of average sales growth from 2005 to 2018 was approximately 6%, and average production growth from 2005 to 2018 was approximately 7.5% (BKPM, 2021). Indonesian automotive products for both CKD (completely knocked down) and CBU vehicles from 2008 to 2020 were exported to more than 80 countries (BKPM, 2021). The example of Toyota in Indonesia and the development of the automotive industry can be an example for other industries following the success of this industry’s development. Therefore, the government needs to promote the development of other industries, especially those that can generate specialisation of Indonesia’s competitiveness in the global and niche markets by attracting IFDI that contributes to the development of a particular industry, encouraging IFDI to engage domestically produced raw materials or semi-finished products, and then transform these products into finished-products, which in turn serve the country’s economic development.

Furthermore, in relation to OFDI, the motive for Indonesia’s companies to engage in OFDI was also dominated by market-seeking investment (Aminullah et al., 2013; Carney & Dieleman, 2011; Sambodo, 2017; Sawitri & Brennan, 2022a). They enter a host country to locate their production closer and broader to the international market, having a better position in controlling the market, and in turn increasing their brand awareness among global customers (Aminullah et al., 2013; Carney & Dieleman, 2011; Sambodo, 2017; Sawitri & Brennan, 2022a). Therefore, the government needs to promote OFDI from Indonesia to establish and expand awareness of the Indonesian brand and to gain access to the international market,
advanced technology, and strategic resources in other countries. The government also needs to ensure that OFDI serves the country’s development by generating policies and regulations towards OFDI due to the absence of these policies and regulations in Indonesia.

c. Efficiency seeking investment

Efficiency seeking is the motivation for a company to engage in FDI in a particular host country to encourage and promote established market-seeking or resource-seeking investments and gain benefits (i.e., economies of scale and scope and risk diversification) across geographical and national boundary activities (Behrman, 1972; Buckley & Ghauri, 2014; Cui et al., 2014; Dunning & Lundan, 2008a). In selecting a host country, the main indicators that are sought include the combination of availability, lower cost, high-quality labour, natural resources, and capital (Cui et al., 2014). Two types of efficiency-seeking investment are those that wants to gain benefits from the relative cost and provision of factor endowments in foreign countries (i.e., labour cost and value-added activities in the capital, technology, and information) and those that want to expand business activities at similar income levels and economic structures in order to gain benefits from economies of scale and scope, demand patterns, and customer preferences (Behrman, 1972; Buckley & Ghauri, 2014; Cui et al., 2014; Dunning & Lundan, 2008a). In the case of Indonesia, most MNCs are motivated by a combination of market-seeking and resource-seeking investments as the country has competitive advantages in terms of the large and diverse variation of resources and the vast domestic market. The study of manufacturing IFDI (see the appendix) established that the determinant factors for IFDI are value-added manufacturing to total GDP, manufacturing exports, and manufacturing employment (Sawitri & Brennan, 2021). These findings confirm that the IFDI in Indonesia is motivated by the country’s trade openness, market size, and employment (Sawitri & Brennan, 2021). However, countries like China and India that also provide comparative advantages in terms of the cost of inputs (i.e., resources, more advanced technology, and highly skilled labour) can negatively affect a country like Indonesia in the competition to attract foreign investors. In comparison, in terms of the provision of high-skilled labour represented by school enrolment at the tertiary education level, in 2019, the ratio of school enrolment at the tertiary education level in China was 51% of its population, India was 28% of its population, and Indonesia was 36% of its population (World Bank, 2021). The areas for IFDI’s development in Indonesia in attracting efficiency-seeking investment are the provision of high-skilled labour, technological and physical infrastructure, and the country’s economies of scale and scope. The benefits of an efficiency-seeking
investment in place can promote the country’s long-term development in terms of advancing and sustaining its global competitiveness in the global market (Dunning & Lundan, 2008b).

Therefore, promoting the comparative advantages (i.e., infrastructure, high-skilled labour, and the country championship in specialising productions) of Indonesia in attracting efficiency-seeking investment can sustain and advance Indonesia’s competitive advantages in the global market, thus promoting its economic development. By promoting Indonesia’s comparative advantages, the country also needs to stimulate the development of domestic companies and nurture their capabilities to compete with MNCs in domestic and international markets, thus promoting OFDI from Indonesia. By stimulating the development of OFDI from Indonesia, the country can attain and gain more comparative advantages from the expansion of Indonesian companies in the global market.

d. Strategic asset seeking

Strategic asset seeking motivates a company to engage in FDI in a particular host country to acquire foreign corporations’ assets and to stimulate and promote their strategic objectives in the long term by maintaining and advancing their global competitiveness (Behrman, 1972; Buckley & Ghauri, 2014; Cui et al., 2014; Dunning & Lundan, 2008a). The purpose of strategic asset-seeking investment is to improve the global portfolio by acquiring human talents and physical assets, to gain benefits from marketing or specific costs over competitors, and to capitalise on the benefits of either diversifying capabilities and activities or diversifying the economy and environment of similar capabilities and activities. The main factors in selecting a host country for this type of investment are the embedded assets within the organisations that are intangible and distinctive, such as brand assets, advanced technology, and managerial know-how (Cui et al., 2014).

In the case of Indonesia, the studies undertaken in this thesis and the previous studies on FDI in Indonesia did not provide information about strategic asset seeking investment. Therefore, it can be concluded that there is ample opportunity for the country to pursue and establish a specialisation in particular industries or leading commodities to promote its comparative advantages in stimulating strategic asset seeking investment in the country.

7.3.4 The analysis of FDI in promoting the development of Indonesia’s domestic companies

According to Indonesia’s decennial economic census, in 2016, Indonesia had 26.71 million non-agriculture companies compared to 22.73 million non-agriculture companies in 2006 (Indonesia Central Agency on Statistics, 2019). Most of these companies were micro and small companies, with only 0.45 million
companies identified as medium and large companies (Indonesia Central Agency on Statistics, 2019). Furthermore, study three of this thesis also identified only 537 companies listed on the national stock exchange market (World Bank, 2021). Moreover, study two undertaken in this thesis also identified a requirement for IFDI in Indonesia, which is that there needs to be joint partnerships with domestic companies. However, a study focusing on manufacturing IFDI in Indonesia (see the appendix) found that foreign investors face difficulties finding a matchmaking partner for particular types of investment (Sawitri & Brennan, 2021). In addition, study three undertaken in this thesis also found that Indonesia’s OFDI is still lagging behind its IFDI. The study also found that IFDI and the number of domestic companies are significant determinant factors of OFDI. Therefore, study three explored how Indonesia nurtures and promotes the development of domestic companies’ capabilities, hence promoting OFDI from Indonesia. Given the facts about the development of Indonesia’s companies, it can be concluded that Indonesia’s government faces a huge challenge in promoting and stimulating the development of domestic companies to generate the country’s comparative advantages in the global market. Accordingly, this subsection focuses on how a country promotes its economic development by nurturing and stimulating the development of domestic companies.

Figure 7.5. A framework encompassing the development of domestic companies’ capabilities
Figure 7.5 presents a framework addressing the development of domestic companies’ capabilities in Indonesia. The analysis consists of three distinct areas related to starting a business, running a business, and promoting a business. Each area is then analysed by two elements: the provision of resources and policies and regulations to investigate the current conditions and constraints and then to derive recommendations for further development of domestic companies. The analysis is performed as follows.

a. Starting a business

The number of new businesses registered in Indonesia has increased from 38,106 companies in 2010 to 58,426 companies in 2016 (World Bank, 2022). Meanwhile, the growth of new business density did not increase as significantly as the number of companies, with a ratio of 0.2 (in 2010) to 0.3 (in 2016) per one thousand people of productive age (World Bank, 2022). As one of the indicators for selecting a potential host country, the World Bank established the Ease of Doing Business (EODB) ranked for 190 countries (World Bank, 2022). The indicators for EODB include starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing the contract, and resolving insolvency (BKPM, 2022). Indonesia’s position on EODB was 129th ranked in 2008 and 72nd in 2018 (World Bank, 2022). However, the rank of each indicator of EODB for Indonesia showed that in relation to starting a business, Indonesia was ranked 144th in 2018. Therefore, it is a challenge for the Indonesian government to transform the procedure to start a new business. In 2020, the government enacted the Omnibus Law on Job Creation. The law aims to alter the number of previous government regulations that can hamper Indonesia’s growth, improve Indonesia’s competitiveness index and EODB rank to attract FDI, be more open to foreign investors by reducing the restricted types of investment and expanding the types of investment that qualify for specific incentives, and provide a simpler procedure for business licensing and starting a business. As an executing agency, BKPM established an integrated system for business licensing and starting a business called the Online Single Submission (OSS) system at national and regional levels.

Although the country had improved its policies and regulations for starting a business, the implementation of these policies and regulations was unevenly distributed at the regional levels. Therefore, the government, especially the central government, needs to supervise the implementation of these policies and regulations and ensure that the implementation is aligned with government initiatives at the regional level. There is also a constraint facing new and current applicants in obtaining information about the business licensing
system. Therefore, the government, particularly BKPM, needs to be proactive in providing assistance and information about the system applied for business licensing.

b. Running a business

Most non-agricultural companies in Indonesia (95.5%) were classified as micro and small companies with a number of employees less than 20 employees (Indonesia Central Agency on Statistics, 2019). The medium and large non-agricultural companies (0.5%) are dominated by the family business conglomerate groups and SOE. Therefore, the challenge for the Indonesian government is to promote the transformation of micro and small companies to escalate their capabilities to become medium and large companies. The difficulties faced by these micro and small companies to grow include financing, human capital, talent, and infrastructure. Therefore, the government needs to provide easier access to these micro and small companies to obtain finance from financial institutions and expand their business. It is also necessary to provide incentives through the performance of these micro and small companies to motivate them to perform better. Moreover, even though the Indonesian government encourages foreign investors to have joint partnerships with domestic companies to augment their capabilities, foreign investors face difficulties in finding a matchmaking partner. Accordingly, the Indonesian government needs to provide accessible and inexpensive training and education systems that promote the development of skilled and high-skilled labour and entrepreneurial skills. This can be incorporated into the education system at national and regional levels. By accelerating investments in human capital, the Indonesian government can generate high-quality human resources. It is also necessary to boost the development of physical and technological infrastructure across Indonesia. These initiatives then impact and promote the country’s competitive advantages and stimulate the development of domestic companies’ capabilities to advance the country’s comparative advantages.

c. Promoting a business

Given that the development of OFDI from Indonesia still lags behind its IFDI, there is evidence that domestic companies prefer to serve the domestic market and gain benefits from it. Domestic companies also prefer to engage in international trade rather than in OFDI because of the high cost and lack of information. Therefore, by promoting domestic companies’ capabilities, the government can generate eligible domestic companies to engage in OFDI. Indonesia’s government also needs to promote OFDI from Indonesia by providing information in the form of the market intelligence about potential host countries and providing assistance for domestic companies interested in investing in foreign countries. Indonesia’s
government can mitigate the potential risk of OFDI by applying and maximising the bilateral investment treaties. Lastly, due to their absence, the Indonesian government needs to generate OFDI policies and regulations. By having these policies and regulations in place, the government can promote OFDI from Indonesia and ensure that companies engaged in OFDI can serve the country’s economic development.

7.4 Implication for theory

The findings from the three studies involved in this thesis contribute to International Business studies by extending the understanding of FDI in a dynamic emerging country and developing country like Indonesia. This thesis applies IDP theory as an empirical assessment of FDI and a country’s economic development (Zhu et al., 2011; Lall, 1996; Sawitri & Brennan, 2022b). The first study systematically reviewed the literature on the IDP to investigate the evolution of IDP literature since its inception, identify gaps in the literature and establish an agenda for further research. This study established four themes in IDP studies: assessment of a country’s development in relation to the IDP concept, FDI phenomena in the IDP concept, internal and external factors influencing the country’s position in the IDP stages, and further development of the IDP concept. From these established themes, this study identified areas for further research in the context of IDP. This study also generates a framework that represents the interrelationship between FDI (both IFDI and OFDI) and a country’s economic development to the IDP stage classification. Figure 7.6 present such a framework. This framework represents the importance of IDP theory in assessing the FDI performance of a country in accordance with its economic development by establishing multi-faceted approaches to the classification of IDP stages (i.e., economic development, FDI performance, L-advantages, MNCs strategies, and the role of government) (Sawitri & Brennan, 2022).
Figure 7.6. Framework for the inter-relationship between FDI and the economic development of a country to the IDP stages classification

Source: Sawitri & Brennan (2022)

Table 7.1. Five approaches to classifications of IDP stages

<table>
<thead>
<tr>
<th>Approach to IDP stages classification</th>
<th>Classification determinants</th>
<th>The influential factors</th>
<th>Number of stages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Economic development</td>
<td>GDP per capita</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>FDI performance</td>
<td>Net Outward Investment Position (NOIP)</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Locational advantages</td>
<td>Macroeconomic conditions, demographic, infrastructure, and education</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>MNCs strategies</td>
<td>FDI motives</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>The role of government</td>
<td>Inward FDI policies and regulations</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Sawitri & Brennan (2022)
Table 7.1 presents five approaches for the classification of a country on IDP stages. The explanations of the five approaches are as follows:

a. The first classification approach is based on a country’s economic development as represented by GDP per capita (Dunning, 1981a; Dunning et al., 2001; Liu et al., 2005; Verma & Brennan, 2011). Based on this approach, there are four IDP stages. The advantage of this approach is that GDP per capita data are relatively accessible from domestic and international sources. A disadvantage of this approach is that each country is unique and idiosyncratic.

b. The second classification approach is based on FDI performance, represented by the Net Outward Investment Position (NOIP) (Dunning, 1981b, 1981a, 1986). Based on this approach, there are five IDP stages. The advantage of this approach is that, as long as the IFDI and OFDI data are available, the NOIP (OFDI less IFDI) can be calculated. The disadvantage of this approach is that NOIP is determined by the IFDI and OFDI levels, and, for some developing countries, OFDI data are unavailable or missing for some periods of time (Cardillo et al., 2004).

c. The third classification approach is based on a country’s locational advantages, such as economic conditions, demographics, infrastructure, and education (Boudier-Bensebaa, 2008; Galan et al., 2007; Ly, 2021; Narula & Dunning, 2000, 2010; Narula & Guimon, 2010; B. Park & Lee, 2003; Scott-Kennel & Enderwick, 2005). Based on this approach, there are five IDP stages. The advantage of this approach is that it can be used as a reference by a country to shift its position by generating and improving its location advantages. The implications of the IFDI in each IDP stage can also be treated as a reference for the home country’s government to frame appropriate policies and regulations to create a favourable investment climate. The disadvantage of this approach is that it focuses only on providing suitable L-advantages to attract the IFDI. However, the home country should also consider attracting IFDI to encourage the development of OFDI.

d. The fourth classification approach is based on MNCs’ strategies reflecting their motives to engage in FDI (Narula & Dunning, 2010). Based on this approach, there are five IDP stages. The advantage of this approach is that the motives of IFDI and OFDI in the IDP stages can be treated as a reference for the host and home country governments to develop a conducive investment environment by providing supportive policies and regulations to attract more IFDI and generate more OFDI. The disadvantage of this approach is that it only focuses on MNCs strategies. The government also plays an important role in providing suitable policies and regulations related to MNCs’ strategies.
e. The fifth classification approach is based on government policies and regulations, particularly macroeconomic policies and regulations (Dunning, 1981b; Zhu et al., 2011; Narula & Dunning, 2010). According to this approach, there are five IDP stages. The government can play an important role in advancing and regressing the position of a country in the IDP stages. The home country’s government should be selective in framing policies and regulations, as well as promoting and accepting IFDI. Moreover, the home country’s government should also consider framing and generating policies and regulations that support not only IFDI attraction but also OFDI generation.

The findings of the first study confirm that the application of IDP theory to each country varies owing to the peculiarity of a country’s characteristics (Dunning & Narula, 1996; Dunning, 1981, 1986; Sawitri & Brennan, 2022b). Further research can apply both framework and five approaches to classify a country’s position on the IDP.

The findings of the first study provided an avenue for the second study undertaken in this thesis. The second study assessed the applicability of IDP in the context of Indonesia. The findings of this study confirm the peculiarity of a country that can influence the assessment of its position on the IDP. This study established suitable IDP models for Indonesia. Nevertheless, Indonesia’s progression on the IDP experiences a deviation from the established theory. The reason for this that the country shifted from the second to the fourth stage in the period 1998-2004 because of a major decline in IFDI as a result of the political and social instability of that era. It regressed to the second stage in subsequent years. This finding shows that Indonesia needs to boost and promote the development of its OFDI to shift its position on the IDP and improve the performance of the country’s FDI in the long term. The second study found that a major challenge for Indonesia is promoting OFDI. First, Indonesia has no policies or regulations towards OFDI. Although BKPM is the only executing agency for the OFDI mandate, it focuses mainly on attracting IFDI. Accordingly, the government, particularly BKPM, needs to derive a novel strategy towards OFDI. Second, Indonesia’s medium and large sized domestic companies prefer to serve the domestic market rather than engage in OFDI. Accordingly, the government needs to encourage these types of companies to engage in OFDI to advance their competitive advantages by expanding brand awareness in the global market and gaining benefits from access to strategic resources in foreign countries, thus serving the country’s economic development. Third, Indonesia’s domestic companies’ sizes and capabilities are dominated by micro and small companies. Accordingly, to promote OFDI from Indonesia, the government needs to nurture and stimulate the development of domestic companies’ capabilities to enable them to compete with MNCs in
the domestic and global markets and engage in OFDI. The findings of the second study then became an avenue for the third study undertaken in this thesis to investigate the role of OFDI in Indonesia’s economy and the role of the Indonesian government in promoting OFDI from Indonesia.

The second and third studies undertaken in this thesis established that market size and natural resources are significant determinant factors for FDI. The findings confirm that even though the development of IFDI in Indonesia has increased significantly, this does not mean that the development of OFDI from Indonesia can be catch-up with its IFDI. Therefore, the government needs to be more proactive in selecting the IFDI for Indonesia, maximise the presence of IFDI to develop its economy, and develop domestic companies’ capabilities to compete in the domestic and global markets. The analysis leads to the establishment of the determinant factors of OFDI from Indonesia and impacts of OFDI on Indonesia’s economy. The determinant factors of OFDI from Indonesia are as follows.

a. The first driver of OFDI is imports, which is consistent with the findings of Banga (2007), Dasgupta (2009), and Lee (2010). The value of imports stimulates domestic companies to engage in OFDI as they enter the foreign market to gain access to resources and technology and consider applying these foreign resources to improve their domestic production.

b. The second driver of OFDI is the number of listed domestic companies. This study offers the first investigation of its role in OFDI. We found that although the number of listed domestic companies in Indonesia has increased significantly and promoted OFDI from Indonesia, domestic companies are still dominated by micro and small companies that lack competitive advantages. Accordingly, the Indonesian government needs to nurture and stimulate the development of domestic companies’ capabilities, thus enabling them to engage in OFDI.

c. The third driver of OFDI is IFDI, which is consistent with previous studies by Erdilek (2003), Kayam (2009), and Nayyar & Mukherjee (2020). IFDI is a means of developing domestic companies’ capabilities via the precondition of joint partnerships from the government to generate spillover impacts. Accordingly, the government needs to intensify the attraction of value-added IFDI because domestic companies can gain benefit from the presence of IFDI to advance their competitive advantages, thereby enabling them to engage in OFDI.

As mentioned before, the analysis also confirmed that OFDI is a means of developing Indonesia’s economy, as follows:
a. First, OFDI impacts Indonesia’s GDP, which is consistent with previous studies by Kyrkilis & Pantelidis (2003) and Saad & Nor (2014) and inconsistent with a previous study by Gondo et al. (2021). The analysis found that OFDI is a complement to domestic investment as OFDI by domestic companies can stimulate domestic production by gaining access to foreign resources to advance their competitive advantages in domestic and international markets.

b. Second, OFDI impacts imports, which is consistent with the findings of Banga (2007), Dasgupta (2009), and Lee (2010). OFDI is complementary to imports as it is a channel for domestic companies to gain access to foreign resources that are unavailable or more expensive in the home country to elevate their domestic production.

c. Finally, OFDI impacts the number of listed domestic companies. OFDI by Indonesian domestic companies can stimulate other domestic companies to engage in OFDI as a strategy to compete with their competitors. Accordingly, the remaining domestic companies must augment their competitive advantages, enabling them to engage in OFDI. Moreover, the government also needs to stimulate the augmentation of domestic companies’ capabilities, thereby promoting OFDI from Indonesia.

In addition to our empirical analysis, this study also applied an institutional analysis. The findings of these analyses lead to the development of a comprehensive framework encompassing the determinant factors of OFDI from Indonesia, the impacts of OFDI on Indonesia’s economy, and channels to promote OFDI from Indonesia. Accordingly, further research can apply this framework to assess and investigate the relationship between OFDI and economic development, particularly in the case of developing countries. Companies can also apply our framework as a reference for their decision-making process for OFDI. Moreover, the study established the factors for policymakers to assess and promote OFDI from their home country by investigating the country’s sectoral structure, employment and workforce, the constraints on doing business, infrastructure, the country’s IFDI policies and regulations, the country’s development planning and policy, and the country’s OFDI policies and regulations. Accordingly, governments from other developing countries can focus on these factors in seeking to stimulate the development of their OFDI. This study also established a framework in which country can apply to nurture and promote the development of domestic companies (as seen in Figure 7.5). This framework shows the important role of domestic companies in FDI and that of the government in promoting the development of domestic companies’ capabilities. Accordingly, the government needs to ensure that the policies and regulations are supportive of nurturing and promoting the development of domestic companies’ capabilities, from starting a business.
to running and promoting a business. Further research can apply this framework to assess the development of domestic companies’ capabilities.

In addition to the established frameworks from three studies undertaken in this thesis, a study of IFDI in Indonesia’s manufacturing sector as a part of this thesis (see the appendix) established a framework based on MNCs’ strategies (as seen in Figure 7.4). Further research can apply this framework to assess the motives of MNCs in engaging in FDI and then investigate the role of the country’s government in promoting FDI.

To conclude theoretical implications of three studies undertaken in this thesis, I establish a framework encompassing the determinants and impacts of FDI in Indonesia and the factors that can promote FDI in Indonesia, as presented in Figure 7.7.

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**Figure 7.7. A theoretical framework encompassing the findings of three studies undertaken in this thesis**

This framework represents the factors that can contribute to a country’s sustainable economic development by engaging in FDI. There are three main factors that need to be focused on: the factors that attract IFDI, the factors that can advance the country’s competitive advantages and serve the country’s economic development by engaging in FDI, and the factors that can generate OFDI and contribute to the advancement of the country’s comparative advantages in the global market. Accordingly, further studies can apply this framework to assess a country’s economic development relative to its FDI performance.
7.5 Implication for practice and policy implications

The findings of the three studies undertaken in this thesis have practical and policy implications. In relation to the practical implications, the first study established a framework addressing the interrelationship between FDI and a country’s economic development. It also established five approaches for classifying a country on the IDP stages. Accordingly, companies interested in investing in a potential host country can apply these frameworks and approaches to assess a country’s position on the IDP stages to select potential host countries. The second study provides a comprehensive analysis Indonesia’s FDI performance relative to its economic development. It also provides an analysis of Indonesia’s FDI regime. Accordingly, companies interested in investing in Indonesia can treat this study as a reference for the location decision-making process in Indonesia or other emerging economies that are similar to the progression of Indonesia on the IDP. The third study undertaken in this thesis investigated the role of OFDI in Indonesia’s economy. It establishes the determinants, impacts, and factors that can promote OFDI from Indonesia. It also establishes a framework addressing the development of domestic companies’ capabilities. Both frameworks can benefit companies that want to assess their progression in developing their capabilities to enable them to engage in OFDI.

Regarding policy implications, the findings of the three studies undertaken in this thesis confirm the important role of Indonesia’s government in stimulating and promoting its economy via FDI by positioning policies and regulations that are supportive of attracting and generating FDI. The first study undertaken in this thesis establishes a framework addressing the interrelationship between FDI and a country’s economic development and five approaches to the classification of a country on the IDP stages. Accordingly, this study can benefit policymakers by providing a reference for assessing a country’s position in the IDP. They can also apply the identified IDP classification approaches while framing policies and regulations that boost FDI performance, stimulate economic performance, and thus advance a country’s position on the IDP stages. The second study undertaken in this thesis assessed the applicability of IDP in the context of Indonesia. The analysis revealed that Indonesia’s government embraces IFDI as one of the critical instruments for economic development. As a result, the level of IFDI has been mostly increasing year-by-year. This study also investigates the role of the Indonesian government in promoting its FDI performance, thus contributing to its economic development. An analysis of IFDI policies and regulations by applying the HCM framework provides a better understanding of the existing policies and regulations. Policy makers have tended to redesign and reframe Indonesia’s policies and regulations to support IFDI. The analysis also
identifies potential improvement in IFDI policies and regulations to generate a better investment climate to attract more IFDI to Indonesia. The analysis derived recommendations for the Indonesian government to frame, design, and generate policies and regulations that can attract value-added investments, particularly those with high spillover effects in terms of technology and knowledge. As most of Indonesia’s domestic companies are micro and small with low technology involvement, Indonesia’s role in global value chains remains as a supplier of raw materials and intermediate products (BKPM, 2022). Accordingly, the benefits of having value-added investments in place are upgrading the country’s comparative advantages in international markets by augmenting domestic companies’ capabilities to compete with MNCs in the domestic market and encourage them to engage in OFDI (Dunning, 1994). The Indonesian government also needs to ensure the implementation of IFDI policies and regulations at the national and regional levels. Notwithstanding the evidence of the positive impacts of OFDI on home country development from previous studies, there is no evidence that the Indonesian government tends to encourage domestic companies to engage in OFDI. Accordingly, there is a big opportunity and a challenge for the Indonesian government to support OFDI in developing its economy and shifting its position on the IDP stages. To achieve this goal, the government should frame and generate policies and regulations related to OFDI by considering Home Country Measures (HCMs). Having such policies and regulations in place can support and nurture the development of domestic companies’ capabilities, encourage domestic companies to engage in OFDI, and ensure that domestic companies engaged in OFDI serve the development of the Indonesian economy. By promoting OFDI from Indonesia, the level of OFDI can increase and contribute to the progress of Indonesia’s position on the IDP. From the policy implications established in this study, the government can consider the recommendations derived in this study in the policy-making process to promote and boost FDI performance in Indonesia, thus serving the country’s economic development.

Finally, the third study undertaken in this thesis investigates the role of OFDI in Indonesia’s economy. The analysis established the determinant factors of OFDI from Indonesia and its impacts on Indonesia’s economy. The determinant factors of OFDI from Indonesia are imports, the number of listed domestic companies, and IFDI. The analysis also confirmed that OFDI is a means of developing Indonesia’s economy by complementing domestic investment and imports and increasing the number of listed domestic companies. The analysis revealed that OFDI is a complement to domestic investment as OFDI by domestic companies can stimulate domestic production by gaining access to foreign resources to advance their competitive advantages in domestic and international markets. The analysis also revealed that OFDI
impacts imports. OFDI is complementary to imports as it is a channel for domestic companies to gain access to foreign resources that are unavailable or more expensive in the home country to elevate their domestic production. It also revealed that OFDI impacts the number of listed domestic companies. OFDI by Indonesian domestic companies can stimulate other domestic companies to engage in OFDI as a strategy to compete with their competitors. Accordingly, the remaining domestic companies must augment their competitive advantages, enabling them to engage in OFDI. Moreover, the government also needs to stimulate the augmentation of domestic companies’ capabilities, thereby promoting OFDI from Indonesia.

This study also established the factors for policymakers to assess and promote OFDI from their home country by investigating the country’s sectoral structure, employment and workforce, constraints on doing business, infrastructure, the country’s IFDI policies and regulations, the country’s development planning and policy, and the country’s OFDI policies and regulations. Accordingly, Indonesia’s government and governments from other developing countries can focus on these factors in seeking to stimulate the development of their OFDI. Moreover, the findings from the empirical and institutional analyses lead to the establishment of a framework addressing the development of domestic companies’ capabilities to depict the areas of development in each progression of the development of domestic companies’ capabilities. By referring to this framework, this study investigates the challenges for investors in starting, running, and promoting their businesses and derives recommendations for the government to stimulate the development of domestic companies’ capabilities. This framework can serve governments in other developing countries as a reference for their decision-making process in generating policies and regulations that are supportive for the development of their domestic companies.

To conclude the policy implications of three studies undertaken in this thesis, I establish a framework encompassing the decision making process of the government towards FDI policies and regulations to promote the development of FDI for a country.
Accordingly, Figure 7.8 presents the steps involved in the decision making process for generating policies and regulations toward FDI. This framework was adapted from previous studies (Elhanna, 2006; Lunenburg, 2010; Slovic et al., 1988; and Wang & Ruhe, 2007). This framework combines the processes involved in the institutional analysis of the three studies undertaken in this thesis. Indonesia’s government and governments in other emerging economies and developing countries can apply this framework in their policy making process to position their policies and regulations that are supportive of IFDI’s attraction and OFDI’s generation. There are four steps involved in this framework encompassing the decision making process of the government towards FDI policies and regulations, as follows:

a. Identification

Before generating policies and regulations, the decision makers need perform an identification process. The identification process in this framework involves assessing the available data in a particular context to generate a valid assumption for the purpose of a particular policy or regulation. The identification process also involves identifying the constraints and issues regarding the current policy and regulation that can hinder a country’s development planning by refining this policy or regulation to better serve the country’s development planning.

For example, in Indonesia, due to the absence of OFDI policies and regulations, it is necessary for the government to generate such policies and regulations. This is because of the absence of data from recognised domestic sources. The first step in the identification process is to collect data on OFDI in country-level, industry-level, geographical host countries level, and firm-level data. Accordingly, the data can be analysed to derive findings on the importance of OFDI in Indonesia’s economy. The potential findings of this identification process are the significant determinant factors of OFDI from Indonesia and the significant impacts of OFDI on Indonesia’s economy.
The third study undertaken in this thesis can be applied as part of the identification process for such an analysis, as the findings of this study present the determinant factors of OFDI from Indonesia and the impacts of OFDI on Indonesia’s economy. Given the absence of micro-level data such as industry-level, geographical host countries level, and firm-level data from official sources, particularly from Indonesian sources, study three has engaged in a macro-level analysis. This study found that the number of listed domestic companies is a significant determinant factor for OFDI from Indonesia. OFDI is also associated with an increase in the number of listed domestic companies. Therefore, the following steps ensure that Indonesia has particular policies or regulations to nurture the development of domestic companies and promote their engagement in OFDI.

b. Regulation

Once the identification process is conducted to investigate the importance of one particular context (i.e., OFDI and the number of listed domestic companies), the subsequent process assesses the current regulations or policies regarding this particular context. By assessing current regulations and policies, decision makers can identify the constraints and necessary strategies to ensure the implementation of these regulations and policies. In another case, if a country does not have regulations and policies for emerging issues, the government needs to establish such policies and regulations. The benefits of having particular policies or regulations towards specific emerging issues are to give direction to the executing agency to implement the policies and regulations, mitigate the potential risks, and ensure that the implementation of such policies and regulations serves the country’s development planning. The fundamental characteristic of such policies and regulations should be written in a prescriptive rather than a descriptive manner to mitigate the gap and misinterpretation between the planning and implementation of these policies and regulations to their targets.

c. Promotion

Once the policies and regulations are established, the following step is to promote these policies and regulations to all interested parties, such as local governments, executing agencies, service-provider institutions, promotion agencies, and both domestic and foreign investors by employing a mass and vast number of publications to reach all the implementing agencies. In relation to the promotional tools of these policies and regulations, the government needs to ensure that there is no gap or misinterpretation of these policies and regulations and that the information provided in the tools is clear for the audience.
d. Assessment

After the promotion of policies and regulations, in the case of policies and regulations towards FDI, the government needs to assess each policy and regulation by investigating public opinion through international and domestic reports (BKPM Investment Realisation report, World Investment Report, Country’s Statistic Report, country’s outlook and report from consulting firms and investment promotion agencies), and the country’s ranking (i.e., EODB and Global Competitiveness Index). By doing so, the government can investigate whether the planning and implementation of these policies and regulations align with the country’s planning and serve its development. If the assessment findings are the recommendation for refining such policies and regulations, decision makers need to go back to the first step of identification.

7.6 Summary

This chapter provides a broad summary of the three studies undertaken in this thesis and a further discussion of the findings of the three studies. Implications for theory, practice, and policy are also discussed in this chapter by offering insights and support for further research, governments, and companies in emerging economies and developing countries. The following chapter addresses the general conclusion and summary of this thesis as well as the limitations and areas for further research.
CHAPTER 8
CONCLUSION

The previous chapters have presented the aims and purposes of this thesis, the reviewed literature supporting the analysis of the Indonesian FDI, the methodology deployed in conducting such an analysis, and the three studies undertaken to investigate the Indonesian FDI. This chapter presents the summary of this thesis, the learning points of this thesis, the contributions of this thesis, and the research limitations and areas for future research.

8.1 The summary of the thesis

This thesis aims to investigate FDI in Indonesia from 1980 to 2019 by conducting three studies to support the analysis. I conclude each study undertaken in this thesis, as presented in Table 8.1.

Table 8.1. The conclusion for three studies undertaken in this thesis

<table>
<thead>
<tr>
<th>Three studies undertaken in this thesis</th>
<th>Research questions</th>
<th>The findings</th>
<th>The location of the findings in the thesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study 1: The Investment Development Path Literature: A Review and Research Agenda</td>
<td>How has IDP literature evolved from its inception?</td>
<td>The evolution of the pertinent studies in relation to the IDP theory, the gap in the literature, and the avenue for further research in the context of IDP</td>
<td>Chapter 4 (pages 118-167)</td>
</tr>
<tr>
<td></td>
<td>a. What is the theme(s) in the IDP literature?</td>
<td>The theme in the IDP literature</td>
<td>Chapter 4 – subsection 4.3 (pages 125 – 147)</td>
</tr>
<tr>
<td></td>
<td>b. What is the relationship between FDI performance and the economic development of a country according to IDP?</td>
<td>A framework encompassing the relationship between FDI performance and economic development of a country</td>
<td>Chapter 4 - subsection 4.4.1 (pages 147-148)</td>
</tr>
<tr>
<td></td>
<td>c. How to classify a country’s position on the IDP concept?</td>
<td>Five classification approaches for assessing a country’s position on the IDP stages</td>
<td>Chapter 4 - section 4.4.2 (pages 148 – 155)</td>
</tr>
<tr>
<td>Study 2: The Investment Development Path Theory: Evidence from Indonesia</td>
<td>How has FDI developed in Indonesia?</td>
<td>Indonesia needs to attract value-added IFDI to serve sustainable FDI performance and promote OFDI from Indonesia</td>
<td>Chapter 5 (pages 168 – 201)</td>
</tr>
<tr>
<td>---</td>
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</tr>
<tr>
<td>a. What is the position of Indonesia on the IDP stages?</td>
<td>The position of Indonesia on the IDP stages</td>
<td>Chapter 5 - subsection 5.4.2 (pages 182 – 184)</td>
<td></td>
</tr>
<tr>
<td>b. What are the impacts of IFDI and OFDI on Indonesia’s economic development?</td>
<td>The impacts of IFDI and OFDI on Indonesia's economic development</td>
<td>Chapter 5 - subsection 5.4.1 (pages 180 – 182)</td>
<td></td>
</tr>
<tr>
<td>c. Which IDP model(s) is suitable for Indonesia’s case?</td>
<td>The suitable IDP models for Indonesia's case</td>
<td>Chapter 5 - subsection 5.4 (pages 180 – 184)</td>
<td></td>
</tr>
<tr>
<td>d. How to shift Indonesia’s position on the IDP stages?</td>
<td>The policies and regulations for shifting Indonesia's position on the IDP stages</td>
<td>Chapter 5 - subsection 5.6 (pages 187 - 194)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Study 3: Outward Foreign Direct Investment and Home Country Economic Development – The Case of Indonesia</th>
<th>What is the relationship between OFDI and economic development in Indonesia?</th>
<th>OFDI is a means of developing Indonesia’s economy</th>
<th>Chapter 6 (pages 202 – 241)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. What is the role(s) of OFDI from Indonesia in its economic development?</td>
<td>The roles of OFDI in Indonesia's economy</td>
<td>Chapter 6 - subsection 6.4 (pages 215 – 224)</td>
<td></td>
</tr>
<tr>
<td>b. What is the determinant factor(s) of OFDI from Indonesia?</td>
<td>The determinant factors of OFDI from Indonesia</td>
<td>Chapter 6 - subsection 6.4 (pages 215 – 224)</td>
<td></td>
</tr>
<tr>
<td>c. How can Indonesia’s government promote OFDI from Indonesia?</td>
<td>The policies and regulations for promoting OFDI from Indonesia</td>
<td>Chapter 6 – subsection 6.5 (pages 224 – 227) and subsection 6.6 (pages 227 – 231)</td>
<td></td>
</tr>
</tbody>
</table>
Summaries of the three studies undertaken in this thesis are as follows:

a. The first study investigated the evolution of the IDP literature from its inception in 1981 to 2022 using thematic analysis to identify gaps in the literature and avenues for further research on the IDP concept. The analysis led to the identification of four themes in the IDP literature, the establishment of an IDP framework that addresses the relationship between FDI performance and the economic development of a country and the identification of five approaches to the IDP stage classification. The analysis established the significant role of IDP theory in assessing the FDI performance of a country in relation to its economic development. It can be concluded that this theory acknowledges that the peculiarity of a country’s characteristics can influence the peculiarity of its progression on the IDP. It can also be concluded that this theory establishes the important role of the government in shifting the position of a country towards IDP stages. Therefore, a framework that addresses the relationship between FDI performance and the economic development of a country and the five approaches to IDP stage classification can assist further research in assessing a country’s position on the IDP stages in other countries. They can also assist governments in other countries in their policymaking process to promote FDI. They can also benefit companies interested in engaging in FDI in Indonesia, other emerging economies, or developing countries by treating this study as a reference to select potential host countries for FDI.

b. The second study assessed the applicability of IDP theory to investigate Indonesia’s position based on its FDI performance and economic development between 1990 and 2019 using the theoretical, empirical, and institutional perspectives of the IDP. From the theoretical perspective of IDP, the study applied the five identified approaches to the classification of the IDP stages established in the first study. The analysis found that the position of Indonesia in the IDP stages fluctuated in the second, third, and fourth stages. The analysis also revealed that Indonesia’s progression deviated from established linear progression stages of development. The country experienced a significant decrease in IFDI due to the impact of the Asian Financial Crisis and political and social instability. As a result, the position of Indonesia shifted from the second to the fourth stage from 1998 to 2004. However, the country’s position regressed to its second stage in the subsequent years. From an empirical perspective of IDP, this analysis found suitable IDP models for Indonesia, even though the country’s position deviated from the established linear development path. Therefore, the analysis from the institutional perspective of IDP derived recommendations for Indonesia’s government to shift its position on the IDP by attracting
value-added investment to promote the economic development of the country and the development of domestic companies’ capabilities, thereby promoting OFDI from Indonesia. This study can serve as a reference for policymakers in Indonesia, other developing countries, and emerging economies to frame the right policies and regulations to promote their FDI performance, thereby stimulating their economic performance. It also benefits further research to pursue a similar approach in other countries. This study also benefits companies interested in investing in Indonesia, as it can be treated as a reference for the location decision-making process.

c. The third study investigated the relationship between OFDI and economic development from the home country’s perspective from 1980 to 2019 using empirical and institutional analyses. This study aimed to justify the recommendations established in the second study and to investigate the role of OFDI in Indonesia. The empirical analysis established the determinant factors of OFDI from Indonesia, the impacts of OFDI on Indonesia’s economy, and the factors that can promote OFDI from Indonesia. The analysis revealed the important role of OFDI as a means of supporting Indonesia’s economic development. The analysis also revealed that although Indonesia is a favourite destination for IFDI, domestic companies’ capabilities and the country’s comparative advantages in the global market still lag behind those of other emerging economies. Accordingly, to promote the development of domestic companies’ capabilities and the country’s comparative advantages, the findings from the institutional perspective derived recommendations for Indonesia’s government to transform its economic structure, ensure the provision of advanced infrastructure, and stimulate the provision of high-skilled labour. Moreover, due to the absence of current policies and regulations regarding OFDI, the government needs to establish OFDI policies and regulations to boost OFDI from Indonesia and ensure the benefits of OFDI to the country’s economic development. The analyses led to the establishment of a framework encompassing the determinants of OFDI, its impacts on the economy, and factors that can promote OFDI from Indonesia. Accordingly, further research can apply this framework to assess the role of OFDI in other developing countries. The analysis also led to the establishment of a framework that addresses the development of domestic companies’ capabilities. Accordingly, domestic companies and governments in other developing countries can apply both frameworks as their reference for assessing and promoting their OFDI.
8.2 The learning points of this thesis

This thesis embraces and defines FDI as a process of controlling and acquiring assets undertaken by foreign companies through the investment of their valuable resources to establish a new venture or joint partnership with domestic company(s) in the host country. This thesis confirms that FDI will be beneficial for a country’s development under the following conditions. First, FDI will be beneficial for a country’s development if only the country can improve its absorptive ability to capitalise on the benefits of FDI (Asheghian, 2004). The impact variables of a country’s absorptive ability are determined by the types and quantities of FDI flowing into the country, and the policies and regulations of the government that enable the maximisation of benefits (Asheghian, 2004).

Before engaging in FDI, the company should nurture and develop significant competitive and comparative advantages that can be reflected in its goals, visions, and strategies to promote the development of its capabilities. To advance the company’s competitive and comparative advantages in domestic and international markets, it should engage in the internationalisation process (Aharoni, 1966; Brouthers et al., 1996; Dunning, 2015; Hill et al., 1990; Johanson & Vahlne, 1977; Kim & Hwang, 1992; Luo & Tung, 2007, 2017; Mathews, 2002, 2006b; Vahlne & Johanson, 2017). For example, in the Samsung Electronics success story, the company is responsive and proactive in its behaviour, strategies, and policies to advance its capabilities, enabling it to advance its comparative and competitive advantages and engage in OFDI (Lee & Slater, 2007). I confirmed that, to accelerate the development process of a company’s competitive and comparative advantages, the government also plays an important role as a catalyst to motivate the company to engage in FDI (Donnelly & Manolova, 2020; Kostova et al., 2008). Accordingly, I argue that there are several approaches through which the government can promote FDI attraction and generation. In the case of attracting IFDI, first, the government needs to ensure that the provision of the country’s competitive advantages is supportive of FDI attraction. Second, the government needs to ensure that incoming IFDI can promote the country’s economic development and contribute to the development of domestic companies’ capabilities. In the case of generating OFDI, first, the government needs to nurture, stimulate, and promote the development of domestic companies to augment their capabilities, thereby enabling them to engage in FDI. Second, the government needs to encourage domestic companies to engage in FDI to promote their businesses and advance their competitive and comparative advantages to compete with MNCs in domestic and international markets. Encouraging domestic companies to engage in FDI can also advance a country’s comparative advantages in the international market. Third, the government needs
to provide the right stimulus for domestic companies to engage in FDI. Therefore, it can be concluded that there is a triangular relationship between the company, host country, and home country in FDI.

8.3 Contributions of this thesis

IDP is the most applicable concept in assessing the progression of a country based on its FDI and economic performance (Dunning & Narula, 1994, 1996, 2002; Narula, 1994; Narula & Dunning, 2010; Sawitri & Brennan, 2022). By applying this concept, the country can assess its FDI and economic performance in developing the country, thereby identifying the potential areas for developing such a country by promoting its FDI and economic development (Sawitri & Brennan, 2022). Narula and Dunning (2010, p.265) stated that studies focusing on IDP using cross-country analysis are insufficient to present the idiosyncratic characteristics of a country and its development, since there are distinct features of a country’s economic structure, the specialization in industrial frontier and technological development, the population size, the locational advantages (i.e., geographical location and natural endowments), and the government policies and regulations in supporting FDI. The first study undertaken in this thesis generates five approaches to the classification of IDP stages that can be applied to other countries to assess their progression to develop and promote their FDI and economic development.

Moreover, this thesis extends the applicability of the IDP in assessing a country’s position based on its FDI and economic performance. The IDP is applicable to assess a country’s FDI and economic performance in the business as a usual condition. In the case of economic shrinkage due to financial crises or pandemics, the progression of a country on IDP might deviate (Lagos & Wang, 2022). This thesis found a consistent finding from a previous study by Lagos and Wang (2022), that there is a deviation in the progression of Indonesia on the IDP from the established theory. The country’s position on the IDP did not follow established linear-stage progression. Having shifted from the second stage to the fourth stage in 1998–2004 due to a major decline in IFDI as a result of the political and social instability of that era, it regressed to the second stage in subsequent years. Accordingly, Indonesia’s case provides an example of how an economic shrinkage due to the AFC can generate a deviation in the progression of the country on the IDP. Therefore, this study extends the applicability of the IDP concept to Indonesia.

This thesis also extends the understanding of the compatibility relationship between IFDI and OFDI. Previous studies have confirmed that IFDI is one of the crucial factors that can promote OFDI by augmenting the capabilities of domestic companies, thereby encouraging them to expand their business overseas via OFDI (Chiappini & Viaud, 2021; Luo & Tung, 2017; Morck et al., 2008; Rui & Yip, 2008;
Song et al., 2022). In the case of Indonesia, even though, the third study undertaken in this thesis found that IFDI is one of the drivers of OFDI. In fact, with a significant number of IFDI in Indonesia, as in 2018, the country is in the top 20 favourable host countries for FDI (UNCTAD, 2018), the country’s role in the Global Value Chain remains as a supplier of raw materials and intermediate products (BKPM, 2022). And 99% of domestic companies were micro and small companies in 2016 (Indonesia Central Agency of Statistics, 2019). It is clearly stated in the investment laws (No.25/2007) that foreign investment by foreign companies should benefit domestic companies to escalate their ownership advantages and, hence, compete in the global market. In fact, the development of spinoff impacts between MNCs and domestic companies still requires intensive supervision. Therefore, it can be concluded that in the case of Indonesia, IFDI is less significant to contribute to the country’s competitive and comparative advantages particularly in augmenting the capabilities of the domestic companies to enable them to compete with MNCs in domestic market or even in engaging in OFDI. This thesis provides several preconditions and recommendations for Indonesia’s government to maximize the benefits of IFDI to promote the country’s competitive and comparative advantages, thus can augment the domestic companies’ capabilities to compete with MNCs in the domestic market and even motivate them to engage in OFDI.

8.4 Research limitations and areas for further research

The research limitations and areas for further research are divided into four types: data, time frame, unit of analysis, and methods deployed. First, this thesis pursued a macro-level analysis of FDI and economic development in Indonesia because of several challenges in promoting and boosting FDI to stimulate economic development from the country’s perspective. Given the absence of micro-level firm data and limited industry-level data from official sources, this thesis has engaged in macro-level analysis. However, it would be useful from research and planning perspectives if Indonesia’s institutions or further research on Indonesia were to start collecting firm- or industry-level data on FDI. This would enable the current analysis to be extended. Second, this study selected the period 1980 - 2019. There is a potential area for further research to address other time frame, such as the covid-19 period, from 2019 onward. Third, this study uses a single-country analysis of Indonesia. There is a potential area for further research to conduct a single-country analysis of other ASEAN countries (that is Brunei Darussalam, Cambodia, Lao People’s Dem. Rep., Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor Leste, and Vietnam), developing countries, and emerging economies.
Fourth, this study applies underdeveloped methods, such as thematic analysis for systematic literature review, TYDL augmented VAR for the OFDI research topic, and institutional analysis. There is potential for further research to apply other methods (i.e., Computable General Equilibrium model and Input-Output analysis) to conduct a similar analysis.
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APPENDIX

FOREIGN DIRECT INVESTMENT AND ECONOMIC DEVELOPMENT IN

THE INDONESIAN MANUFACTURING SECTOR

This paper was presented at the 47 European International Business Academy Annual Conference in 2021. The abstract is provided at: Kadek Ade Sawitri and Louis Brennan, Foreign Direct Investment and Economic Growth in the Indonesian Manufacturing Sector, 47th EIBA Annual Conference, Madrid, December 2021, edited by Isabel Álvarez, 2021, pp54.

Purpose:

This study investigates the role of manufacturing IFDI on Indonesia’s economic development from 1990-2019.

Methodology:

We investigate manufacturing IFDI’s role in Indonesia’s economy using TYDL augmented VAR method and the government’s role in promoting manufacturing IFDI using a policy analysis.

Findings:

We found that Indonesia has significant competitive advantages in attracting manufacturing IFDI. It is also a means of developing the economy. However, despite the presence of IFDI, the country’s comparative advantages do not advance. Most domestic companies are micro and small companies that only focus on supplying raw materials to or receiving intermediate inputs from the global market. Accordingly, the government needs to intensify the attraction of value-added investment and ensure that it serves the advancement of the country’s economic development and comparative advantages.

Originality:

There is a paucity of previous studies at the industry-level. As a developing country that is growing in significance, a study focusing on an important sector in Indonesia’s economy is merited.

Research implications:

We establish a framework encompassing manufacturing IFDI’s role in Indonesia’s economic development and the factors that promote manufacturing IFDI. Further research can apply this framework to investigate IFDI’s role in other developing countries.

Practical implications:

We establish a framework addressing MNCs’ motives for IFDI and the factors that derive their investment. Governments in other developing countries can apply this framework for the policy-making process in
promoting their IFDI. Companies interested in engaging in IFDI in developing countries can apply this framework in selecting their potential host countries.

**Keywords:**
Economic Development, IFDI, Indonesia, Institutional Analysis, TYDL, VAR

1. **Introduction**

Foreign Direct Investment (FDI) inflows to developing countries have continuously increased from $30 billion in 1989 to $706 billion in 2018 (UNCTAD, 2019). By attracting foreign investors, FDI represents a signal of maturity for the host country and its maintenance of sound macroeconomic, political, and social conditions (Mourao, 2018). However, there is an exception in Indonesia’s case. Despite a largely unsupportive FDI regime from the mid-1960s to the 1990s, Indonesia has been a favourite destination for Inward FDI due to its large market size and vast natural resource endowments (Amirahmadi & Wu, 1994). The theories of economic growth have acknowledged the role of FDI as a growth factor that can contribute to the country’s economic growth (Asheghian, 2004; Li & Liu, 2005). However, the role of FDI in a developing country’s economic development has remained debatable (Álvaro-Moya et al., 2020; Paul & Singh, 2017; Reiter & Steensma, 2010). Six Asian countries (China, Hong Kong, Singapore, India, Indonesia, and the Republic of Korea) were in the top 20 host economies for IFDI in 2017 (UNCTAD, 2018). Most previous studies have focused on China (Baharumshah & Thanoon, 2006; Jadhav, 2012; Liu et al., 2002; Liu, 2002) and India (Chakraborty & Basu, 2002; Chakraborty & Nunnenkamp, 2006, 2008; Jadhav, 2012). However, previous studies that have focused on Indonesia are rare compared to these countries. Given its large domestic markets and ample human resources, the development of Indonesia’s IFDI has lagged compared to other Asian countries such as China and India. Even though since the 2000s, the government has embraced IFDI as a means of developing its economy by refining its policies and regulations to attract IFDI, investors still face difficulties in realising their investment, according to the 2017 World Economic Forum Survey. With the presence of IFDI, the development of the country’s comparative advantages also does not advance. Most domestic companies in Indonesia are small and micro (BKPM, 2021). The role of Indonesia in the Global Value Chain is limited to supplying raw materials and intermediate output (BKPM, 2021). Accordingly, this study investigates the role of manufacturing IFDI on Indonesia’s economy and the government’s role in leveraging the benefits of manufacturing IFDI in generating the country’s comparative advantages and serving the country’s economic development. To address these purposes, we conduct an empirical and institutional analyses.
The findings of previous empirical studies related to IFDI and economic development in Indonesia are diverse, and the studies vary in their choice of variables (Blomström & Sjöholm, 1999; Dhanani & Hasnain, 2002; Lipsey & Sjöholm, 2004; Sari, 2019; Suyanto & Salim, 2011; Wie, 1991). This study advances the previous empirical studies as it seeks to determine the role of manufacturing IFDI in Indonesia’s economy without pre-determining the dependent or independent variables. This study also differs from the previous studies since it applies an underutilised method in the context of developing countries like Indonesia by using a Toda-Yamamoto-Dolado-Lutkephol (TYDL) augmented Vector Autoregression (VAR) and modifying formulas and variables of previous studies (Ayad & Belmokaddem, 2017; Frimpong & Oteng-Abayie, 2006; Guru-Gharana, 2012; Karimi & Yusop, 2009; Oladipo, 2013; Saleem et al., 2018). This study also advances previous studies as it applies institutional analysis to extend our empirical analysis. This analysis investigates the role of Indonesia’s government in promoting manufacturing IFDI and derives recommendations for the government to leverage the benefits from the presence of manufacturing IFDI.

Based on our analysis, we generate a framework encompassing the role of manufacturing IFDI and the factors that can promote manufacturing IFDI in Indonesia. We also establish a framework addressing the MNCs motives for IFDI and the factors that influence their decision. Accordingly, the findings of these analyses can benefit further research that focuses on investigating the role of IFDI in a particular sector or in a country in other developing countries. This study also benefits governments in other developing countries to apply both frameworks in their policy-making process in promoting their IFDI to serve their economic development. It also benefits companies interested in investing in developing countries to consider both frameworks in their decision making process in selecting the potential host countries.

The structure of this study is as follows: the introduction in section one presents the research focus and context and the contributions and benefits of the study. Section two reviews the literature that addresses the relationship between IFDI and economic development. Section three describes the methodology applied to investigate such a relationship. Section four contains the findings and discussion of an empirical analysis. Section five presents the findings and discussion of an institutional analysis. Section six provides the further discussion and implication for policy. Finally, section seven offers some conclusions.

2. IFDI and economic development

The relationship between IFDI and economic development is not a novel topic in the International Business (IB) research domain. Research has been conducted for some time, and a body of knowledge on the contribution of FDI to the host country’s economic development has emerged with various findings
Moreover, given the paucity of previous literature on industry-level analysis (Wan, 2010), this study is merited. This section presents the theories and concepts explaining the relationship between IFDI and economic development based on theoretical and empirical considerations. It also presents the hypotheses development of this study.

2.1 Theoretical considerations

The theoretical considerations consist of the theories and concepts that support the rationale behind the positioning of the country and company to engage in IFDI.

2.1.1 Why a country attracts IFDI

The reason why a country seeks to attract IFDI is based on two main advantages of IFDI for a country: direct and indirect. Examples of direct advantages are increased in labour absorption and production capacity (Sari, 2019). Meanwhile, indirect advantages are spillovers or externalities generated by several channels, such as technology, knowledge, and management efficiency (Sari, 2019). Moreover, another reason is that FDI generates several channels that can impact a country’s development, such as by increasing capital formation (Hansen & Rand, 2006; Johnson, 2006; Mehic et al., 2013), increasing employment (Alfaro & Charlton, 2013; Dimelis & Louri, 2001), increasing the acquired skills and knowledge (Alfaro & Charlton, 2013; Girma & Gong, 2008; Jyun-Yi & Chih-Chiang, 2008; Kugler, 2006), generating a wage spillover (Barry et al., 2001; Görg & Greenaway, 2001; Lipsey & Sjöholm, 2004), generating the transferred technology and imposing an advanced technology (Bosco, 2001; Johnson, 2006; Müller & Schnitzer, 2006), generating a productivity spillover (Driffield, 2001; Liu et al., 2016; Takii, 2004), promoting international trade (Aitken et al., 1997; Balasubramanyam et al., 1996; Cobos et al., 2001), increasing the competition in the domestic and international markets (Griffith et al., 2004; Smarzynska Javorcik, 2004; Suyanto & Salim, 2010), and increasing the domestic companies’ capabilities (Alfaro & Charlton, 2013; Görg & Greenaway, 2001; Konings, 2001). These channels enable and serve the country’s progression in economic development. Accordingly, every country tends to attract more IFDI to promote its economic development.

2.1.2 Why a company engages in IFDI

The motives of Multinational Companies (MNCs) to engage with internationalisation are market-seeking (expanding the market to other countries with large populations), efficiency-seeking (involving economies of scale, e.g., low wages, large-scale economy, education level, and organizational efficiency), natural resource-seeking (seeking natural resources in the host country that do not exist in the home country), and
strategic asset-seeking (improving the business process to be more efficient and effective) (Dunning, 1993). UNCTAD (1998) elaborates on the determinants of IFDI in the host country in terms of economic determinants (e.g., market size, income per capita, input costs, and infrastructure), policy frameworks for IFDI (e.g., political, social, and economic stability, international agreements, tariff policy, policy regarding the structure and functioning of the market, and privatisation policy), and business facilitation (e.g., IFDI incentives, investment promotion, and after-service for IFDI).

Based on these explanations about the reasons why a country and a company engage in FDI, there is a view that IFDI is beneficial to the host country’s economy, especially in a developing country. Moreover, FDI is driven by the MNCs’ strategies and the locational advantages that the host country’s government can offer to them. In addition, a study by Wan (2010) identified a gap in the literature on the role of IFDI in economic development in terms of country-or industry-specific effects. Since our study focuses on the industry-level analysis in one leading sector, the findings of this study will generate a comprehensive analysis of the role of FDI in this sector in the economy and the channels to promote this sector to serve the country’s economic development. Regarding Indonesia, the manufacturing sector has contributed 18.59% of Indonesia’s total Gross Domestic Product (GDP) and accounted for 29.3% of IFDI in 2019 (BKPM, 2020). Therefore, this sector is a critical engine for the economy and IFDI in Indonesia (Indonesia Central Agency on Statistics, 2020). Accordingly, we investigate the role of manufacturing IFDI in Indonesia’s economic development. By investigating such a relationship, our study provides insight for other developing countries to embrace manufacturing IFDI or other priority sectors in their country as a means of developing their economy.

2.2 **Empirical considerations**

Previous studies of the relationship between IFDI and economic development in a single-country analysis are as follow. Frimpong and Oteng-Abayie (2006) focused on Ghana over the period of pre-and post-Structural Adjustment Programs (SAP) by applying the Toda-Yamamoto Granger no-causality test. They found no causality between FDI and economic development in the pre-SAP period and positive causality between FDI and economic development in the post-SAP period (Frimpong & Oteng-Abayie, 2006). Another study by Khaliq and Noy (2007) focused on Indonesia’s various sectors, excluding the manufacturing sector, over the period 1997-2006 by using OLS fixed effects regression. Khaliq and Noy (2007) found a positive relationship between FDI and economic development in very few sectors and a negative relationship in the case of mining and quarrying (Khaliq & Noy, 2007). Another study by Karimi
and Yusop (2009) focused on Malaysia over the period 1970-2005 by applying the Toda-Yamamoto test and autoregressive distributed lag model (ARDL). The finding was no bidirectional causality between FDI and economic development in the long run, but FDI has an indirect effect on economic development in Malaysia (Karimi & Yusop, 2009). It can be concluded that previous studies focusing on developing countries found mixed results and applied a different approach. Accordingly, this study investigates the role of manufacturing IFDI in economic development using empirical and institutional analyses.

2.3 Hypotheses development

Economic growth is an indicator to measure a country’s wealth and its economic development progression (Parkin et al., 2009; Pelsa & Balina, 2022; Sharipov, 2015). Several theories and concepts of economic growth established the role of FDI as growth factor for economic growth. The first theory is the classical theory of growth. According to this theory, FDI contributes to economic growth by increasing the total production of goods, increasing the export to generate a surplus in trade, and increasing productivity by maximising the utilisation of labour, stimulating the labour specialisation, and innovating the production of goods and services (Barro & Sala-i-Martin, 2003; Marx, 2000; McDermott, 1999; Osipian, 2007; Piętak, 2014; Sharipov, 2015). The second theory is the innovative growth theory of Schumpeter. According to this theory, FDI can contribute to economic growth through the innovation of entrepreneurs (Maddison, 1980; Sharipov, 2015). The third theory is Keynesian and Post-Keynesian theories. According to these theories, the determinant factor of economic growth is from the demand side, which can generate the multiplier effects (Barro & Sala-i-Martin, 2003; Piętak, 2014; Sharipov, 2015; Van Staveren, 2015). FDI can contribute to growth via the utilisation of labour and capital in the development of goods and services production and of suppliers hence increasing production capabilities (Barro & Sala-i-Martin, 2003; Piętak, 2014; Sharipov, 2015; Van Staveren, 2015). The fourth theory is the Neoclassical theory. According to this theory, FDI can contribute to economic growth via the emergence of new technology, the increasing productivity and organisation of production, resources (i.e., capital and labour) utilisation, and maximisation (Sharipov, 2015; Solow, 1978). The last theory is the endogenous growth theory. Based on this theory, FDI can contribute to economic growth by increasing technological innovation (Aghion & Howitt, 1990; Grossman & Helpman, 1990; Lucas Jr, 1988; Romer, 1986). Based on these theories, we conclude that FDI can be considered a growth factor that contributes to economic growth, thereby serving the country’s economic development. Accordingly, we consider the established macroeconomic determinants of FDI from the previous studies in developing our hypotheses.
The determinants of IFDI have evolved with the changes in the global economy and political environment (Chakrabarti, 2001). The determinants of FDI are peculiar based on the country’s perspective, methodologies, analysis tools, and sample selections (Chakrabarti, 2001). Some determinants of IFDI that were established in previous studies are market size (Papanastassiou, 1990; Pistoresi, 2000), labour cost (Pistoresi, 2000; Shamsuddin, 1994; Wheeler & Mody, 1992), trade barriers (Culem, 1988; Lunn, 1980), growth rate (Billington, 1999; Culem, 1988), trade openness (Edwards, 1990; Pistoresi, 2000), trade deficit (Hines Jr & Rice, 1994; Pistoresi, 2000; Tsai, 1994), exchange rate (Feenstra, 2008; Froot & Stein, 1991), and tax (Billington, 1999; Loree & Guisinger, 1995). The variables employed in previous studies are GDP (Guru-Gharana, 2012; Iqbal et al., 2010; Khaliq & Noy, 2007), GDP per capita (Azam & Lukman, 2010; Dhanani & Hasnain, 2002; Feridun & Sissoko, 2011; Kottaridi & Filippaios, 2015), employment (Zhao & Du, 2007), exports (Dhanani & Hasnain, 2002; Guru-Gharana, 2012; Xiaming Liu et al., 2001), imports (Kotjaridi & Filippaios, 2015; Liu et al., 2001; Liu et al., 2011), and Total Factor Productivity (Arısoy, 2012; Baltabaev, 2014; Liu et al., 2016; Senbeta, 2008). Based on the established determinants of FDI from previous studies, we then consider the following variables to be applied in this study. The explanations of these variables and the rationales behind the selection of these variables are presented as follows: 

First, international trade is an indicator of economic development and a determinant of MNCs’ investment in a host country (Edwards, 1990; Pistoresi, 2000). FDI complements trade in the case of vertical FDI, in which MNCs are motivated by the host country’s resource endowment to allocate part or some part of the production process to gain access to and exploit resource availability in other countries (Iqbal et al., 2010; Miroudot & Ragoussis, 2009). Moreover, FDI substitutes for trade in the case of horizontal FDI, in which MNCs are motivated by the domestic market to allocate the entire production process to gain access to and serve the domestic market in other countries (Iqbal et al., 2010). Indonesia’s economy relies on exporting commodities (BKPM, 2022). Moreover, Indonesia’s role in the Global Value Chain is limited to supplying raw materials and intermediate output (BKPM, 2021). Accordingly, we investigate the relationship between manufacturing IFDI and international trade using data on manufacturing exports (Dhanani & Hasnain, 2002; Guru-Gharana, 2012; Xiaming Liu et al., 2001) and imports (Kotjaridi & Filippaios, 2015; Liu et al., 2001).

Second, the host country’s market size is an indicator of economic development and a determinant of MNCs’ investment in a host country (Papanastassiou, 1990; Pistoresi, 2000). Since the Asian Financial Crisis (AFC) of the late 1990s, Indonesia has recorded impressive economic growth (World Bank 2018).
The country’s GDP per capita increased from $748.26 in 2001 to $4,135.2 in 2019 (World Bank, 2020). At current prices, the country’s GDP increased from $160.45 billion in 2001 to $1,119 trillion in 2019 (World Bank, 2020). Indonesia is also the only member of G-20 in the Association of Southeast Asian Nations (ASEAN) (World Bank, 2018). The Indonesian economy is supported by investment, trade, and domestic and government consumption (Indonesia Central Agency on Statistics, 2018). Indonesia’s purchasing power parity in 2019 was the highest among the ASEAN countries (World Bank, 2020). Regarding IFDI, Indonesia was among the top 20 host countries in the world, with inflows of $21.9 billion in 2018 compared to $4.8 billion in 2009 (UNCTAD, 2018). Among the Asian countries, Indonesia is among the top five host countries in Asia and the 2nd largest in Southeast Asia (UNCTAD, 2018). It had the highest share of intra-ASEAN IFDI in 2016 and 2017 (ADB, 2018). Given the scale of Indonesia’s economy and its demographic and competitive advantages, the position of Indonesia as an FDI destination can be improved. Therefore, we investigate the relationship between manufacturing IFDI and the host country’s market size using GDP (Guru-Gharana, 2012; Iqbal et al., 2010; Khaliq & Noy, 2007) and GDP per capita (Azam & Lukman, 2010; Dhanani & Hasnain, 2002; Feridun & Sissoko, 2011; Kottaridi & Filippaios, 2015). This is because they provide a common perspective on the size of the economy and the performance of a country (Easterly & Levine, 2001; Parkin et al., 2009).

Third, employment is an indicator of human resources and a determinant of MNCs’ investment in a host country (Pistoresi, 2000; Shamsuddin, 1994; Wheeler & Mody, 1992). Employment is part of the host country’s competitive advantage that attracts IFDI. The reason is that from the perspective of cost efficiency, if a host country has a competitive advantage in terms of labour cost, such as low wages and provision of this labour, this is sufficient to attract IFDI. Another reason is that from the perspective of strategic efficiency, if a host country has a competitive advantage in terms of labour skills, for example expertise in specific processes or industries and provision of this labour, this is also sufficient to attract IFDI. FDI also contributes to an increased level of employment as it generates job opportunities in a host country. Indonesia is ranked 4th in terms of population and the availability of labour has increased significantly. Manufacturing employment in Indonesia accounted for 22.29% of total employment in 2018 and 22.36% in 2019 (Indonesia’s Ministry of Industry, 2020). Accordingly, we investigate the relationship between manufacturing IFDI and employment using manufacturing employment data (Zhao & Du, 2007).

Fourth, Total Factor Productivity (TFP) is an indicator of productivity growth to depict the capability of the manufacturing sector to produce products and services (Arsoy, 2012; Baltabaev, 2014; Liu et al., 2016;
Senbeta, 2008). IFDI can improve production capacity in a host country by generating production varieties and deploying technology. TFP can also be a determining factor for MNCs to engage in IFDI in relation to strategic asset- or market-seeking investments. The share of Indonesia’s manufacturing output in global manufacturing output was 1.6%, ranking Indonesia among the top ten countries in the world after China, the United States, Japan, Germany, South Korea, India, Italy, France, and the United Kingdom (World Bank, 2020). The share of the manufacturing sector in Indonesia’s GDP was 21% in 2018 and 18.59% in 2019 (World Bank, 2020). Moreover, the share of manufacturing IFDI in Indonesia to the total IFDI was 19.86% in 2018 and 29.3% in 2019 (BKPM, 2020). Accordingly, we investigate the relationship between manufacturing IFDI and productivity using TFP data (Arısoy, 2012; Baltabaev, 2014; Liu et al., 2016; Senbeta, 2008).

Based on the explanations above, we apply manufacturing IFDI flows, value-added of the manufacturing sector to total GDP, GDP per capita, manufacturing employment to the total employment, manufacturing exports to total exports, manufacturing imports to total imports, and TFP as variables in this study. The following section then addresses the methodology applied in analysing these variables.

3. Methodology

The main research questions for this study are “What is the role of manufacturing IFDI in Indonesia’s economic development?” and “How Indonesia leverages the benefits from the presence of manufacturing IFDI?”. To address these questions, we apply two steps in our methodology: an empirical analysis and institutional analysis. Figure 1 presents the steps involved in our empirical analysis that consist of data and data collection, data processing, and data analysis.
Moreover, in our institutional analysis, we apply a policy analysis in assessing the FDI regimes in Indonesia, identifying the constraints for investors in realising their investments, and deriving recommendations for Indonesia’s government to promote manufacturing IFDI.

3.1 Data and data collection

This study draws on annual time-series data from 1990 to 2019 to investigate role of manufacturing IFDI in Indonesia’s economic development. This study employs secondary data from recognised international institutions such as the World Bank and International Labour Organization (ILO), and data from domestic institutions such as the Indonesia Investment Coordinating Board (BKPM) and Ministry of Industry. Due to the absence of industry-level data on IFDI from international sources, we collected our data concerning manufacturing IFDI from the domestic source BKPM, the only government institution that deals with FDI in Indonesia.
Table 1 represents the variables applied in this study: manufacturing IFDI flows, value-added of the manufacturing sector to total GDP, GDP per capita, manufacturing employment to the total employment, manufacturing exports to total exports, manufacturing imports to total imports, and TFP.

3.2 Data processing

The nature of the collected data varied owing to its characteristics. Most of the data utilised in this study are shown as percentages (i.e., value-added manufacturing to total GDP, manufacturing employment, manufacturing exports and manufacturing imports) and index of TFP. Meanwhile, the remaining data applied (i.e., manufacturing IFDI and GDP per capita) are in absolute value at a constant price of millions of US dollars. Accordingly, the data for manufacturing IFDI and GDP per capita need to be transformed into natural logarithm to remove the noise, thus generating reliable and consistent empirical results (Gujarati, 2004; Shahbaz et al., 2016). After conducting the data transformation, the following step is the data validity test encompassing multicollinearity, the heteroscedasticity, the autocorrelation, and the Jarque Bera tests (Alhodiry et al., 2021; Zeng, 2019).
3.3 Data analysis

There are three steps involved. The first step is unit root test using the Augmented Dickey Fuller (ADF), Phillips-Perron (PP), and Kwiatkowski-Phillips-Schmidt-Shin (KPSS) aims to determine whether the data collected are stationary or not (Dickey & Fuller, 1981; Kwiatkowski et al., 1992; Phillips & Perron, 1988) and to identify the maximum degree of integration of the data series variables (Dolado & Lütkepohl, 1996; Toda & Yamamoto, 1995). The second step generates the estimated VAR model and determines the optimal lag length to perform the TYDL test. VAR is a suitable model for investigating causality relationships within variables without any predetermination of whether the variables are endogenous or exogenous. Furthermore, the optimal lag length is generated by comparing the lag order selected by each criterion that satisfies most criteria (Dolado and Lütkepohl, 1996; Toda & Yamamoto, 1995). The last step is the TYDL method. This method allows the causality test irrespective of the degree of stationarity of all variables in any possible outcome and recognises the possibility of cointegration among variables (Dolado & Lütkepohl, 1996; Guru-Gharana, 2012; Toda & Yamamoto, 1995). The advantages of the TYDL method to test the causality relationship are: TYDL is applicable even in the presence of cointegration and difference in stationarity levels of the variables; and the TYDL method engages a modified Wald test (MWALD) with respect to the chi-squared test statistic to generate a robustness check of each model (Dolado & Lütkepohl, 1996; Guru-Gharana, 2012; Toda & Yamamoto, 1995). We present our findings and discussions of our empirical analysis in the following section.

4. Findings and discussions of an empirical analysis

This section encompasses the summary of data analysis, the findings, and the discussion of empirical analysis of manufacturing IFDI and economic development.

4.1 Summary of data analysis

In conducting the TYDL test, the VAR model is augmented by the maximum level of stationarity \(d\) and the true lag length \(k\). Table 2 summarises the results of the unit root tests. These findings show that all variables are stationary at different levels. The maximum level of stationary \(d\) of all variables equals 1. From the findings of the unit root tests, we confirm that TYDL is suitable
for investigating the causal relationship between manufacturing IFDI and economic development in Indonesia. The value of d was added to the augmented VAR model to conduct a TYDL causality test.

**Table 2 Summary of unit root tests**

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>DATA</th>
<th>UNIT ROOT TEST</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>ADF TEST</td>
</tr>
<tr>
<td><strong>Manufacturing IFDI</strong></td>
<td>lnifdi</td>
<td>I(0)</td>
</tr>
<tr>
<td><strong>Economic Development</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing Value Added % of GDP</td>
<td>mgdp</td>
<td>I(0)</td>
</tr>
<tr>
<td>GDP Per Capita</td>
<td>inpgdp</td>
<td>I(0)</td>
</tr>
<tr>
<td>Manufacturing employment as % of total employment</td>
<td>memploy</td>
<td>I(0)</td>
</tr>
<tr>
<td>Manufacturing exports as % of total exports</td>
<td>mexport</td>
<td>I(0)</td>
</tr>
<tr>
<td>Manufacturing imports as % of total imports</td>
<td>minimport</td>
<td>I(0)</td>
</tr>
<tr>
<td>Total Factor Productivity</td>
<td>tfp</td>
<td>I(0)</td>
</tr>
</tbody>
</table>

The true lag length for the VAR model is determined by comparing the lag order that satisfies most criteria (i.e., Likelihood Ratio test statistic (LR), Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Information Criterion (SC), and Hannan-Quinn Information Criterion (HQ)) (Dolado & Lütkepohl, 1996; Toda & Yamamoto, 1995). Table 3 presents the VAR lag order selection criteria.

**Table 3 VAR lag order selection criteria**

<table>
<thead>
<tr>
<th>LAG</th>
<th>LOGL</th>
<th>LR</th>
<th>FPE</th>
<th>AIC</th>
<th>SC</th>
<th>HQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>-270.2982</td>
<td>NA</td>
<td>0.943736</td>
<td>19.80702</td>
<td>20.14007</td>
<td>19.90883</td>
</tr>
<tr>
<td>1</td>
<td>-112.4888</td>
<td>225.4421</td>
<td>0.000446</td>
<td>12.03491</td>
<td>14.69932*</td>
<td>12.84945</td>
</tr>
<tr>
<td>2</td>
<td>-38.01131</td>
<td>69.15766*</td>
<td>0.000154*</td>
<td>10.21509*</td>
<td>15.21086</td>
<td>11.74235*</td>
</tr>
</tbody>
</table>

Red indicates lag order selected by the criterion
LR: Sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion
To assess whether the selection lag is significant or not, we conduct the VAR lag exclusion Wald test. The lag order is selected from the number of lag orders presented in Table 4.

Table 4 VAR lag exclusion Wald tests

<table>
<thead>
<tr>
<th>LAG</th>
<th>LNIFDI</th>
<th>LNPGDP</th>
<th>MEMPLOY</th>
<th>MEXPORT</th>
<th>MGDP</th>
<th>MIMPORT</th>
<th>TFP</th>
<th>JOINT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lag 1</td>
<td>1.919834</td>
<td>43.72129</td>
<td>26.54779</td>
<td>15.01328</td>
<td>13.81567</td>
<td>14.10163</td>
<td>63.31837</td>
<td>437.8988</td>
</tr>
<tr>
<td></td>
<td>[0.0000]</td>
<td>[0.0000]</td>
<td>[0.5103]</td>
<td>[0.0427]</td>
<td>[0.5269]</td>
<td>[0.0012]</td>
<td>[0.0004]</td>
<td>[0.0000]</td>
</tr>
<tr>
<td></td>
<td>[0.6191]</td>
<td>[0.0184]</td>
<td>[0.0107]</td>
<td>[0.05269]</td>
<td>[0.0012]</td>
<td>[0.0103]</td>
<td>[0.0427]</td>
<td>[0.0000]</td>
</tr>
</tbody>
</table>

As a result, the true lag length ($k$) equals 2. This value is then added to the augmented VAR model for conducting the TYDL causality test. Therefore, Table 5 presents the augmented VAR models with a $d$ value of one and a $k$ value of two to perform the TYDL analysis.

Table 5 The augmented VAR (2+1) models
\[ m\text{export}_t = \beta_0 + \sum_{i=1}^{2+1} \beta_1 \ln i\text{fdi}_{t-1} + \sum_{i=1}^{2+1} \beta_2 m\text{gdp}_{t-1} + \sum_{i=1}^{2+1} \beta_3 \ln \text{pgdp}_{t-1} \]
\[ + \sum_{i=1}^{2+1} \beta_4 m\text{empl}_t + \sum_{i=1}^{2+1} \beta_5 m\text{import}_{t-1} + \sum_{i=1}^{2+1} \beta_6 \text{tfp}_{t-1} + \epsilon_{1t} \]

\[ m\text{import}_t = \beta_0 + \sum_{i=1}^{2+1} \beta_1 \ln i\text{fdi}_{t-1} + \sum_{i=1}^{2+1} \beta_2 m\text{gdp}_{t-1} + \sum_{i=1}^{2+1} \beta_3 \ln \text{pgdp}_{t-1} \]
\[ + \sum_{i=1}^{2+1} \beta_4 m\text{empl}_t + \sum_{i=1}^{2+1} \beta_5 m\text{export}_{t-1} + \sum_{i=1}^{2+1} \beta_6 \text{tfp}_{t-1} + \epsilon_{1t} \]

\[ \text{tfp}_t = \beta_0 + \sum_{i=1}^{2+1} \beta_1 \ln i\text{fdi}_{t-1} + \sum_{i=1}^{2+1} \beta_2 m\text{gdp}_{t-1} + \sum_{i=1}^{2+1} \beta_3 \ln \text{pgdp}_{t-1} + \sum_{i=1}^{2+1} \beta_4 m\text{empl}_t \]
\[ + \sum_{i=1}^{2+1} \beta_5 m\text{export}_{t-1} + \sum_{i=1}^{2+1} \beta_6 m\text{import}_{t-1} + \epsilon_{1t} \]

Whereas:
\( \ln i\text{fdi} = \) manufacturing IFDI (natural logarithm of IFDI)
\( m\text{gdp} = \) value-added percentage of manufacturing sector to total of GDP
\( \ln \text{pgdp} = \) GDP per capita (natural logarithm of GDP per capita)
\( m\text{empl} = \) percentage of manufacturing employment to total of employment
\( m\text{export} = \) percentage of manufacturing exports to total of exports
\( m\text{import} = \) percentage of manufacturing imports to total of imports
\( \text{tfp} = \) the index of Total Factor Productivity
\( t = \) time period of the data from 1990 to 2020

The findings of the TYDL causality test are presented in Tables 6 to 12.

**Table 6 TYDL findings on manufacturing IFDI**

<table>
<thead>
<tr>
<th>Excluded</th>
<th>Chi-Sq</th>
<th>df</th>
<th>Probability</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNPGDP</td>
<td>2.833367</td>
<td>2</td>
<td>0.2425</td>
<td>Accept</td>
</tr>
<tr>
<td>MEMPLOY</td>
<td>5.116349</td>
<td>2</td>
<td>0.0774*</td>
<td>Reject H0</td>
</tr>
<tr>
<td>MEXPORT</td>
<td>7.398482</td>
<td>2</td>
<td>0.0247*</td>
<td>Reject H0</td>
</tr>
<tr>
<td>MGDP</td>
<td>6.344473</td>
<td>2</td>
<td>0.0419*</td>
<td>Reject H0</td>
</tr>
<tr>
<td>MIMPORT</td>
<td>2.468922</td>
<td>2</td>
<td>0.2910</td>
<td>Accept H0</td>
</tr>
<tr>
<td>TFP</td>
<td>0.784840</td>
<td>2</td>
<td>0.6754</td>
<td>Accept H0</td>
</tr>
<tr>
<td>ALL</td>
<td>45.892020</td>
<td>12</td>
<td>0.0000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors
Table 7 TYDL findings on GDP per capita

<table>
<thead>
<tr>
<th>Excluded</th>
<th>Chi-Sq</th>
<th>df</th>
<th>Probability</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNIFDI</td>
<td>15.432480</td>
<td>2</td>
<td>0.0004*</td>
<td>Reject $H_0$</td>
</tr>
<tr>
<td>MEMPLOY</td>
<td>3.922450</td>
<td>2</td>
<td>0.1407</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>MEXPORT</td>
<td>8.513934</td>
<td>2</td>
<td>0.0142*</td>
<td>Reject $H_0$</td>
</tr>
<tr>
<td>MGDP</td>
<td>0.868242</td>
<td>2</td>
<td>0.6478</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>MIMPORT</td>
<td>4.487711</td>
<td>2</td>
<td>0.1060</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>TFP</td>
<td>1.460883</td>
<td>2</td>
<td>0.4795</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>ALL</td>
<td>63.826450</td>
<td>12</td>
<td>0.0000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors

Table 8 TYDL findings on manufacturing employment

<table>
<thead>
<tr>
<th>Excluded</th>
<th>Chi-Sq</th>
<th>df</th>
<th>Probability</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNIFDI</td>
<td>7.217528</td>
<td>2</td>
<td>0.0271*</td>
<td>Reject $H_0$</td>
</tr>
<tr>
<td>LNPGDP</td>
<td>1.926569</td>
<td>2</td>
<td>0.3816</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>MEXPORT</td>
<td>4.571359</td>
<td>2</td>
<td>0.1017</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>MGDP</td>
<td>4.969424</td>
<td>2</td>
<td>0.0833*</td>
<td>Reject $H_0$</td>
</tr>
<tr>
<td>MIMPORT</td>
<td>3.285623</td>
<td>2</td>
<td>0.1934</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>TFP</td>
<td>0.450291</td>
<td>2</td>
<td>0.7984</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>ALL</td>
<td>70.695720</td>
<td>12</td>
<td>0.0000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors

Table 9 TYDL findings on manufacturing exports

<table>
<thead>
<tr>
<th>Excluded</th>
<th>Chi-Sq</th>
<th>df</th>
<th>Probability</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNIFDI</td>
<td>3.511599</td>
<td>2</td>
<td>0.1728</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>LNPGDP</td>
<td>2.045141</td>
<td>2</td>
<td>0.3597</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>MEMPLOY</td>
<td>4.496232</td>
<td>2</td>
<td>0.1056</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>MGDP</td>
<td>2.625010</td>
<td>2</td>
<td>0.2691</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>MIMPORT</td>
<td>2.585153</td>
<td>2</td>
<td>0.2746</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>TFP</td>
<td>3.465839</td>
<td>2</td>
<td>0.1768</td>
<td>Accept $H_0$</td>
</tr>
<tr>
<td>ALL</td>
<td>23.134420</td>
<td>12</td>
<td>0.0266</td>
<td></td>
</tr>
</tbody>
</table>

Source: Analysed using EViews 10 by authors
From the findings of the TYDL test, we established the relationship between manufacturing IFDI and economic development in Indonesia. The following subsections present the findings and discussions of this relationship.
4.2 The findings and discussions of no causality between manufacturing IFDI and manufacturing imports

We find no causality between manufacturing IFDI and manufacturing imports. This finding is inconsistent with previous studies about IFDI and manufacturing imports in Central and Eastern European countries (Kottaridi & Filippaios, 2015) and China (Liu et al., 2001). In the case of Indonesia, the top five manufacturing industries based on the average IFDI flows within the manufacturing sector from the period 1990 - 2019 were the food industry and food crops, plantations, and livestock industry (24%), chemical and pharmaceutical industry (18%), rubber and plastic-based goods industry (14%), metal, except machinery and equipment industry (12%), and vehicle and other transportation industry (9%) (BKPM, 2020). We conclude that most MNCs that engage in manufacturing IFDI are motivated by market- and resource-seeking investments. They come to Indonesia to acquire resources and produce them in-house. Accordingly, we confirm that manufacturing IFDI is unrelated to imports. The remaining challenge for Indonesia’s government is attracting foreign investors who are motivated to engage in strategic asset-seeking investment and intensifying the value-added investment. By shifting the focus of Indonesia’s government to attract this particular investment, it can stimulate and promote the development of advanced technology and high-skilled labour domestically, hence advancing the country’s comparative advantages in the global market.

4.3 The findings and discussions of one-way causality between manufacturing IFDI, GDP per capita, and TFP

We find a positive relationship between manufacturing IFDI and GDP per capita, as manufacturing IFDI is a determinant of GDP per capita. This is consistent with the findings of previous studies (Acikgoz et al., 2016; Bahri et al., 2018; Fetahi-Vehapi et al., 2015; F. Yu & Xiaoqing, 2013). We conclude that by attracting manufacturing IFDI through the refinement of Indonesia’s locational advantages, GDP per capita can increase.

We also find a positive relationship between IFDI and TFP. This finding is consistent with the results of previous studies (Baltabaev, 2014; Liu et al., 2016; Liu, 2002; Salim & Bloch, 2009). We confirm that an increase in manufacturing IFDI can increase TFP. TFP is related to efficiency-
and strategic asset-seeking investments. In the case of Indonesia, the minimum wage is relatively lower at 102.10 USD/month in 2019 in comparison with Malaysia (247.8 USD/month) and Thailand (217.8 USD/month) (World Bank, 2020). Accordingly, Indonesia offers a competitive labour cost for attracting manufacturing IFDI, particularly in efficiency-seeking investment. The challenge for Indonesia’s government is to focus on attracting knowledge-skilled investments to boost TFP. These types of investments can contribute to the country’s productivity by introducing new technology, encouraging technology spillover to domestic companies, increasing competition in the domestic market, and stimulating the regional transfer of technology via labour mobility (Slaughter, 2002). In addition, the government also needs to attract strategic asset-seeking investment by stimulating the development of high-technology and R&D centers hence contributing to the advancement of Indonesia’s comparative advantages in the global market.

4.4 The findings and discussions of one-way causality between manufacturing IFDI and manufacturing exports

We find a positive relationship between manufacturing IFDI and manufacturing exports. This finding is consistent with the results of previous studies (Asafu-Adjaye, 2000; Dhanani & Hasnain, 2002; Guru-Gharana, 2012; Narula & Wakelin, 1998; Tuman & Emmert, 1999). An increase in manufacturing exports can increase manufacturing IFDI. In the case of Indonesia, the country benefits from its vast natural resources as the leading exporter of several commodities such as palm oil, coal, copper, rubber, ores, textiles, cacao, coffee, fishery, automotive, and furniture (Ministry of Trade, 2020). However, the role of Indonesia in Global Value Chains is limited to supply of raw materials and receipt of intermediate input (BKPM, 2021). Accordingly, to advance its position in the global value chain of such commodities, Indonesia’s government needs to promote the development of the downstream industry for its leading commodities (BKPM, 2022). Given its significant part in international trade, Indonesia has competitive advantages in attracting manufacturing IFDI. In addition, the government focuses on intensifying export-oriented manufacturing IFDI by providing specific incentives (Indonesia Central Agency on Statistics, 2020). However, the investors still face some constraints in realising their investments due to the high transaction cost of trade (OECD, 2020). Therefore, to promote
manufacturing IFDI, Indonesia’s government needs to ensure the provision of export-supported infrastructure and competitive costs in foreign trade transactions.

4.5 **The findings and discussions of two-way causality between manufacturing IFDI, value-added manufacturing to total GDP, and manufacturing employment**

We find a **negative relationship between manufacturing IFDI and value-added manufacturing to total GDP**. This finding is inconsistent with the results of previous studies that find an insignificant relationship (Abdul Hadi et al., 2018) and a positive relationship (Chakrabarti, 2001; Changwatchai, 2010; Nunnenkamp, 2002; Salahuddin & Islam, 2008; Wadhwa & Reddy, 2011). The previous studies apply GDP as a variable, while we apply value-added manufacturing to total GDP as a variable representing the manufacturing sector’s share of total GDP. Value-added manufacturing to total GDP is related to the basic price or production price (World Bank, 2019).

In the case of Indonesia, we find that more manufacturing IFDI will decrease the basic price in the manufacturing sector. We argue that this phenomenon arises as an increase in manufacturing IFDI creates more competition on the supply side. As a result, the basis price or production price decreases. We also find that a lower production price in the manufacturing sector attracts manufacturing IFDI, particularly in the efficiency seeking-investment, as it generates cost efficiency for MNCs. The challenge for Indonesia’s government in promoting manufacturing IFDI is in maintaining a conducive investment climate via stabilising the macroeconomic, political, and social conditions. In addition, it is also necessary to intensifying the attraction of high value-added manufacturing IFDI leading to the transfer of knowledge and technology to advance the domestic companies’ capabilities.

We also find a **positive relationship between manufacturing IFDI and manufacturing employment**. This finding is consistent with the results of previous studies (Djankov and Hoekman, 2000; Estrin, 2017; Khor, 2000; Liu, 2002; Salim & Bloch, 2009; Sjöholm, 1999b). In Indonesia, the availability of labour has increased significantly. The share of the working-age population was 70.64% in 2018 and 70.97% in 2019 (World Bank, 2020). The total labour force in Indonesia was around 133 million people in 2018 and 136 million in 2019 (World Bank, 2020). However, Indonesia’s demographic surplus has no led to the development of high-skilled labour.
Therefore, the challenge for Indonesia’s government is to stimulate the population’s participation at the secondary and tertiary education levels to increase the availability of high-skilled labour. Moreover, in addition to an empirical analysis, we conduct an institutional analysis on the role of Indonesia’s government in promoting manufacturing IFDI. We address this analysis in the following section

5. Findings and discussion of an institutional analysis

From our empirical analysis, we establish the role of manufacturing IFDI as a means of developing Indonesia’s economy. We found that even though the policies and regulations do not drive manufacturing IFDI to Indonesia, we argue that Indonesia’s government can promote manufacturing IFDI by refining its investment-related policies and regulations and ensuring the development of locational advantages. MNCs’ decision process for engaging in IFDI is mainly driven by government policies concerning the incentives and locational advantages (Faeth, 2009). Indonesia’s government has acknowledged the benefits that MNCs bring to its economy by pursuing the refinement policies and regulations that contribute to a conducive investment climate. However, based on the findings of the 2017 World Economic Forum survey, MNCs still face several constraints in realising their investment in Indonesia, such as: corruption, inefficiency, bureaucracy, insufficient infrastructure, and uncertain policies and regulations. Therefore, to address these limitations, we divide our institutional analysis into three main foci: the current investment-related policies and regulations, the government initiatives concerning the development of Indonesia’s locational advantages, and the promotion strategy to attract manufacturing IFDI.

Table 13 Summary of institutional analysis

<table>
<thead>
<tr>
<th>Investment-related policies and regulations</th>
<th>Current condition</th>
<th>Constraints</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving Indonesia’s rank in EODB</td>
<td></td>
<td>The refinement of its investment-related policies and regulations is unclear and complicated</td>
<td>Building investors’ awareness by actively informing and promoting all investment-related policies and regulations via media promotion (both domestic and international), BKPM’s website, and promotion kits</td>
</tr>
<tr>
<td>Forming an investment task force team for accelerating problem-solving, and supervising investment realisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expanding the types of investment that qualify for specific incentives</strong></td>
<td><strong>Reducing types of investment where foreign investment is restricted</strong></td>
<td><strong>Establishing the One Stop Integrated Service (PTSP), incorporating the Online Single Submission (OSS) system at the national and regional levels</strong></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Foreign investors face difficulties finding a matchmaking partner(s) for engaging in joint partnerships with domestic companies for particular types of investment.</td>
<td></td>
<td>Ensuring the availability of eligible domestic companies to meet the requirement of joint partnership for foreign investors by supporting the development of domestic companies’ capabilities and the transformation process of micro and small domestic companies to become medium and large domestic companies.</td>
<td></td>
</tr>
<tr>
<td>Indonesia’s manufacturing sector is focused on labour-intensive manufacturing rather than innovation manufacturing, and most manufacturing companies are micro and small.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Requiring foreign investors to engage in joint partnerships with domestic companies for particular types of investment</strong></th>
<th><strong>Encouraging foreign investors to hire employees domestically to realise their investment</strong></th>
<th><strong>Pursuing the development of economic zones and research and innovation centers by establishing 118 industrial clusters, 19 special economic zones, and four trade zones</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Challenges to hire qualified employees domestically.</td>
<td>Most industrial clusters, economic zones, and free trade zones are located in remote or underdeveloped areas with rudimentary infrastructure and low availability of skilled labour.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ensuring the provision of infrastructure and skilled labour in the dedicated clusters and zones.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To maximise the development of dedicated clusters and zones, the government needs to promote the development of downstream industries for leading commodities in specific zones.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Locational advantages</strong></th>
<th><strong>Current condition</strong></th>
<th><strong>Constraints</strong></th>
<th><strong>Recommendations</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining its political, social, and economic stability</td>
<td>There is an issue regarding red tape and corruption practices in Indonesia.</td>
<td>Combating corruption and introducing meaningful deterrents to prevent it.</td>
<td></td>
</tr>
<tr>
<td>Having a competitive advantage in market size as it is the fourth most populous nation</td>
<td></td>
<td>Restructuring of its bureaucracy to effectively and efficiently serve investment activities.</td>
<td></td>
</tr>
<tr>
<td>Being the world’s 10th largest economy based on purchasing power parity</td>
<td>The cost of trading and transportation is still high due to the severe congestion and long shipping waiting periods.</td>
<td>Ensuring the infrastructure quality and quantity are equitable across regions.</td>
<td></td>
</tr>
<tr>
<td>Developing infrastructure to increase the connectivity between cities and regions by improving road quality and quantity, railway systems, ports, and airports</td>
<td>Many stakeholders (i.e., institutions) are involved.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
in the shipping processes, which creates more costs

Developing other physical infrastructure (e.g., electricity, housing, water supply, and telecommunication satellite)  There are some issues regarding the provision of electricity, waste management, water supplies, and telecommunication/internet connectivity

Having 180 million people of productive age by 2030  The participation rate in education representing the development of high-skilled labour in Indonesia is still low

Improving the quantity and quality of its education system by providing affordable education across regions

<table>
<thead>
<tr>
<th>Current condition</th>
<th>Constraints</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanding the role of BKPM as the only government institution that regulates the investment planning, promotion, licensing, supervising, and agreements to the ministerial level</td>
<td>The number of BKPM representative offices is still low compared with other developing countries</td>
<td>Increasing the number of representative offices in the potential home countries</td>
</tr>
<tr>
<td>Establishing eight overseas representative offices in the potential home countries</td>
<td>Increasing the number of qualified staff with skills (i.e., negotiation, persuasion, and bargaining) to maximise the role of the representative office in promoting IFDI</td>
<td></td>
</tr>
<tr>
<td>Including investment promotion and business meetings agenda in Presidential and Ministerial visits to potential home countries</td>
<td>Increasing the number of Presidential and Ministerial visits with an agenda for promoting Indonesia’s investment</td>
<td></td>
</tr>
</tbody>
</table>

Table 13 presents a summary of the institutional analysis of these three foci. Within the context of each of these three foci, we identify the constraints for investors in doing business and realising their investment. Lastly, we derive several recommendations related to our three foci for Indonesia’s government to stimulate and boost manufacturing IFDI. Accordingly, Indonesia’s government needs to consider these factors in its policy-making process in promoting manufacturing IFDI.

We confirm that manufacturing IFDI in Indonesia benefits Indonesia’s economy by increasing capital accumulation and employment. It also benefits Indonesia’s economy by increasing domestic companies’ capabilities to compete with MNCs in domestic and international markets and generating knowledge transfer through management and training (Haskel et al., 2007; Slaughter, 2002). It also stimulates Indonesia’s government to promote a conducive investment
climate in terms of macroeconomic, social, and political conditions via the generation of sound policies and regulations, boosting the development of infrastructure and advanced technology, and the development of human resources. However, we argue that these benefits can be maximised if the host country’s government can intensify the attraction of the value-added investment that can promote the country’s comparative advantages. Accordingly, we present our proposed frameworks addressing our findings in the following section.

6. **Further discussion and implication for policy**

The findings of the empirical analysis confirm the important role of manufacturing IFDI in Indonesia’s economy. Moreover, the findings of the institutional analysis confirm the important role of Indonesia’s government in promoting manufacturing IFDI. Accordingly, based on our analyses, we developed a framework (Figure 2) encompassing the determinants of manufacturing IFDI, its impacts on Indonesia’s economy, and the factors promoting manufacturing IFDI in Indonesia. This framework can assist other developing countries in promoting IFDI in a particular sector that can serve their economic development.
Figure 2 Framework addressing the determinants and impacts of manufacturing IFDI in Indonesia’s economy and factors promoting manufacturing IFDI in Indonesia

We extended our analysis by considering our findings about the role of manufacturing IFDI in Indonesia’s economy and the motives of MNCs in engaging in FDI as presented in subsection 2.1.2. We then identify the factors driving the MNCs’ decision to engage in FDI. We developed a framework (Figure 3) addressing the motives of MNCs to engage in FDI and the factors influencing their investment decision. We recommend that Indonesia’s government focus on the factors in this framework in seeking to intensify the attraction of manufacturing IFDI hence advancing the country’s competitive and comparative advantages and promoting OFDI from Indonesia.
Our proposed frameworks (Figures 2 and 3) can benefit further research that focuses on developing countries to investigate the potential role of IFDI in their economies. These frameworks also benefit policymakers of other governments in other developing countries in their
efforts to promote IFDI in their countries. Lastly, these frameworks also benefit companies interested in investing in Indonesia or other developing countries, as they can apply these frameworks as their reference in their decision-making process for selecting their potential host country.

7. Conclusion

Previous studies have focused on country-specific analyses using different methods, while this study advances previous studies by focusing on the industry-level analysis of a particular country. This study also advances previous studies since it comprehensively analyses the role of manufacturing IFDI in Indonesia’s economic development by conducting empirical and institutional analyses.

From our empirical analysis, we established the determinants of manufacturing IFDI and its impacts on Indonesia’s economy. Moreover, from our institutional analysis, we found that even though investment-related policies and regulations do not drive manufacturing IFDI, Indonesia’s government can promote manufacturing IFDI by refining its investment-related policies and regulations and ensuring sound locational advantages. Accordingly, we establish a framework addressing the findings of empirical and institutional analyses. Moreover, from these findings, we also establish a framework encompassing the motives of MNCs to engage in IFDI and the important factors that derive their investment. Accordingly, this study can benefit policymakers, researchers, and companies by employing this study as a reference.

Due to the limitation of sectoral data of other sectors in Indonesia’s FDI and its economic development variables, there is an opportunity to extend the methods applied in this study to other sectors in Indonesia if the recognised domestic or international institutions provide sectoral data of these sectors in the future. There is also an opportunity for further research on other developing countries to apply our methods.

8. Reference list


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