

Preventive Restriction of FDI Outflow: The Relative Gains Problem in FDI Dyads

Gyu Sang Shim* · Jeonghun Min**

I . Introduction
II . Literature Review On The Determinants Of FDI
III. Preventive Restriction Of FDI Outflow
IV. Research Design
V . Results
VI. Conclusion
Keywords: Foreign Direct Investment, Relative Gains, Economic Power Gap, Trade Openness, Preventive Restriction

| ABSTRACT |

Previous studies of foreign direct investment (FDI) concentrate on favorable investment environments to foreign investors such as political stability and economic performance of a host country. However, they fail to explain the reduction of FDI flows to a host country despite its investor-friendly conditions. This paper addresses the relative gains problem that hinders stable international cooperation due to concerns regarding the amount of which others gain. We argue that home countries adjust the amount of FDI flows as their trading partners grow powerful enough to challenge them. We examine 2744 FDI dyads from 1985 to 2012. The results of the analysis show that when the economic power gap between a FDI dyad becomes narrower, the home country reduces the amount of FDI outflows to the host country. Trade openness of the home country moderates the effect of relative gains concerns by increasing the cost of protective foreign economic policy.

✦ 『국제관계연구』 (*Journal of International Politics*), Vol. 23, No. 1 (summer 2018).
<http://dx.doi.org/10.18031/jip.2018.06.23.1.127>

* 1st Author, Ph.D. Student, Department of Political Science, University of Rochester.

** Corresponding Author, Assistant Professor, Department of American Studies, Korea National Diplomatic Academy.

I. Introduction

FDI has contributed to narrowing the economic gap between rich and poor countries. Some developing countries use benefits from FDI to counter the long-lasting economic stagnation and further pursue the high rates of economic growth. The accumulation of unequal gains narrows the power disparity between them. When this gap narrows too quickly, as seen in the cases of Japan and the United States in the 1980s and in China and the United States in recent years, there has been a significant rise in political tensions between trading partners.

A large body of literature exploring the determinants of foreign direct investment (FDI) flows has focused on the attractive political and economic conditions to foreign investors. Much of the economic literature suggests that foreign investors choose to invest in a country considering the host country's economic performance which signals the degree of risk and potential for profit found in the prospective recipient. Meanwhile, political science literature has mainly focused on how a host country's domestic political institutions reduce long-term political risks associated with a negative policy change against foreign investors. However, few studies investigate the roles of home countries of foreign investors in explaining the variation of FDI flows.

This study takes the political influence of home countries into account, especially focusing on their concerns over relative gains. We argue that the amount of FDI flows is altered by the disparity in economic power between home and host countries. However, the effect of changes in economic power disparity is conditional upon the economic openness of a home country. As a home country's economy is more open to the global economy, it is more likely to disincentivize that it would take protectionist policies against the emerging relative gains problem with the host country. Using the panel data for 2744 FDI dyads between 34 OECD countries and 186 host countries from 1985 and 2012, we explore how the distribution of power between home and host coun-

tries in FDI affects the variation of FDI flows and evaluate the impact of relative gains problem on the pattern of FDI. We find that a narrowing disparity in economic power reduces the FDI outflows from a home country, conditional upon how much its economy is open.

II. Literature Review On The Determinants Of FDI

Most of the research on the determinants of FDI has focused on the host country's conditions that could be attractive to foreign investors. The basic assumption is that international investors consider not only the economic profitability of the host country, but also risks from various sources when engaging in FDI activities because they want to maximize profits by investing in foreign markets.

Economists predominantly focus on economic factors that investors take into consideration when choosing an investment option. Their studies are based on the purported Ownership-Location-Internalization (OLI) paradigm (Dunning 1979, 2001). According to the theory, FDI provides three types of advantages to multinational corporations (MNCs). First, FDI facilitates the ownership advantage by building a branch or a factory abroad, and MNCs can create more cost-efficient production and distribution systems worldwide at a lower cost. Second, FDI provides the location advantage, meaning that MNCs can benefit from various political and economic incentives such as avoiding tariffs, lower labor costs, and appealing business environments supported by a friendly host government. Finally, FDI offers the internalization advantage because MNCs can also reduce the uncertainty of transactions.¹⁾

1) John H. Dunning, "Explaining Changing Patterns of International Production: In Defence of the Eclectic Theory," *Oxford Bulletin of Economics and Statistics*, Vol. 41, No. 3 (1979), pp. 269-295; John H. Dunning, "The Eclectic (OLI) Paradigm of International Production: Past, Present and Future," *International Journal of the Economics of Business*, Vol. 8, No.

On the top of this analytical framework, the “new theory of trade” suggests more concrete macroeconomic factors which indicate whether a host country is a worthwhile place to invest. It shows that market size, market growth, economic openness, and factor endowments are strongly associated with the level of FDI inflows to a host country.²⁾

More recent works in economics focus on the role of firm heterogeneity in transnational economic exchanges, so called “new-new trade theory.” Following the model of Melitz (2003), economists have suggested that FDI location and strategy is determined by various factors influencing firms’ productivity, economies of scale, and the level of market competition.³⁾

2 (2001), pp. 173-190.

- 2) Elizabeth Asiedu, “Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability,” *World Economy*, Vol. 29, No. 1 (2006), pp. 63-77; Valerija Botric and Lorena Skuic, “Main Determinants of Foreign Direct Investment in the Southeast European Countries,” *Transition Studies Review*, Vol. 13, No. 2 (2006), pp. 359-377; Yin-Wong Cheung and Xingwang Qian, “Empirics of China’s Outward Direct Investment,” *Pacific Economic Review*, Vol. 14, No. 3 (2009), pp. 312-341; Chee-Keong Choong and Siew-Yong Lam, “The Determinants of Foreign Direct Investment in Malaysia: A Revisit,” *Global Economic Review*, Vol. 39, No. 2 (2010), pp. 175-195; Emmanuel Cleeve, “How Effective are Fiscal Incentives to Attract FDI to Sub-Saharan Africa?” *Journal of Developing Areas*, Vol. 42, No. 1 (2008), pp. 135- 153; Svetlana Ledyeva, “Spatial Econometric Analysis of Foreign Direct Investment Determinants in Russian Regions,” *World Economy*, Vol. 32, No. 4 (2009), pp. 643-666; Nomathemba Mhlanga, Garrick Blalock and Ralph Christy, “Understanding Foreign Direct Investment in the Southern African Development Community: an Analysis Based on Project-level Data,” *Agricultural Economics*, Vol. 41, No. 3-4 (2010), pp. 337-347; Suan E. Mohamed and Moise G. Sidiropoulos, “Another Look at the Determinants of Foreign Direct Investment in MENA Countries: an Empirical Investigation,” *Journal of Economic Development*, Vol. 35, No. 2 (2010), pp. 75-95; Friedrich Schneider and Bruno S. Frey, “Economic and Political Determinants of Foreign Direct Investment,” *World Development*, Vol. 13, No. 2 (1985), pp. 161-175; Narayanamurthy Vijayakumar, Sridharan Perumal and Kode C. S. Rao, “Determinants of FDI in BRICS Countries: A panel analysis,” *International Journal of Business Science and Applied Management*, Vol. 5, No. 3 (2010), pp. 1-13.
- 3) Marc J. Melitz, “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity,” *Econometrica*, Vol. 71, No. 6 (2003), pp. 1695-1725; Elhanan Helpman, Marc J. Melitz and Stephen R. Yeaple, “Export versus FDI with Heterogeneous Firms,” *American Economic Review*, Vol. 94, No. 1 (2004), pp. 300-316; Volker Nocke and Stephen Yeaple, “Cross-border mergers and acquisitions vs. greenfield foreign direct investment: The role of firm heterogeneity,” *Journal of International Economics*, Vol. 72, No. 2 (2007), pp. 336-365; Ulrich Doraszelski and Jordi Jaumandreu, “R&D and Productivity: Estimating

Political scientists focus more on the risks foreign investment decisions entail due to the possibility of policy changes that could affect the legal status of foreign investors and their assets. Host governments could also choose to impose unappealing corporate taxes on foreign investors. In addition, they could even decide to expropriate investors' assets or breach contracts. According to Hajzler (2012), there were 559 expropriations between 1960 and 1979.⁴⁾ In fact, 14 countries engaged in 17 expropriations from 1980-1989, 13 countries enacted 22 expropriations from 1990-1999, and 14 states expropriated assets 27 times from 2000-2006. Given this phenomenon, many studies have focused on identifying the conditions that could reduce the costs to a host government of reneging on contracts. They found that the amount of wealth in terms of resources,⁵⁾ the level of political stability,⁶⁾ the nature of interstate security relations,⁷⁾ and the degree of national diversity in the FDI that a host country receives⁸⁾ could affect whether or not to breach contracts. Thus, foreign investors are highly sensitive to uncertainties associated with policy change. They prefer to enter a country

Endogenous Productivity," *Review of Economic Studies*, Vol. 80, No. 4 (2013), pp. 1338-1383; Pol Antràs and Davin Chor, "Organizing the Global Value Chain," *Econometrica*, Vol. 81, No. 6 (2013), pp. 2127-2204; Thierry Mayer, Marc J. Melitz and Gianmarco I. P. Ottaviano, "Market Size, Competition, and the Product Mix of Exporters," *American Economic Review*, Vol. 104, No. 2 (2014), pp. 495-536.

- 4) Christopher Hajzler, "Expropriation of foreign direct investments: sectoral patterns from 1993 to 2006," *Review of World Economics*, Vol. 148, No. 1 (2012), pp. 119-149.
- 5) Nathan M. Jensen and Noel P. Johnston, "Political Risk, Reputation, and the Resource Curse," *Comparative Political Studies*, Vol. 44, No. 6 (2011), pp. 662-688.
- 6) David W. Loree and Stephen E. Guisinger, "Policy and Non-policy Determinants of US Equity Foreign Direct Investment," *Journal of International Business Studies*, Vol. 26, No. 2 (1995), pp. 281-299; Friedrich Schneider and Bruno S. Frey, "Economic and Political Determinants of Foreign Direct Investment," *World development*, Vol. 13, No. 2 (1985), pp. 161-175; Douglas P. Woodward and Robert J. Rolfe, "The Location of Export-oriented Foreign Direct Investment in the Caribbean Basin," *Journal of International Business Studies*, Vol. 24, No. 1 (1993), pp. 121-144.
- 7) Quan Li and Tatiana Vashchilko, "Dyadic Military Conflict, Security Alliances, and Bilateral FDI Flows," *Journal of International Business Studies*, Vol. 41, No. 5 (2010), pp. 765-782.
- 8) Rachel L. Wellhausen, "Investor-State Disputes When Can Governments Break Contracts?" *Journal of Conflict Resolution*, Vol. 59, No. 2 (2015), pp. 239-261.

that can make a credible, stable, and sustained commitment.

Since North emphasized the role of host countries' institutional arrangements in shaping and constraining incentives,⁹⁾ studies have examined institutions that could affect the credibility of government commitment. They argued that political constraints on policy change explain the variation of inward FDI flow because investors prefer a country that makes credible commitments on investment contracts and has more predictable markets. Their findings suggested that regime type,¹⁰⁾ partisanship of the incumbent government,¹¹⁾ rule of law,¹²⁾ the number of domestic institutional veto players — veto points,¹³⁾ and international

9) Douglass C. North, *Institutions, institutional Change and Economic Performance* (New York: Cambridge University Press, 1990).

10) Michael M. Bechtel, "The Political Sources of Systematic Investment Risk: Lessons from a Consensus Democracy," *Journal of Politics*, Vol. 71, No. 2 (2009), pp. 661-677; Nathan Jensen, "Political Risk, Democratic Institutions and Foreign Direct Investment," *Journal of Politics*, Vol. 70, No. 4 (2008), pp. 1040-1052; Nathan Jensen, Glen Biglaiser, Quan Li and Edmund Malesky, *Politics and Foreign Direct Investment* (Michigan: University of Michigan Press, 2012); David C. Kang, "Transaction Costs and Crony Capitalism in East Asia," *Comparative Politics*, Vol. 35, No. 4 (2003), pp. 439-458; Quan Li and Adam Resnick, "Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries," *International Organization*, Vol. 57, No. 1 (2003), pp. 175-211; Guillermo O'donnell, "Reflections on the Patterns of Change in the Bureaucratic authoritarian State," *Latin American Research Review*, Vol. 13, No. 1 (1978), pp. 3-38; Mancur Olson, "Dictatorship, Democracy, and Development," *American Political Science Review*, Vol. 87, No. 3 (1993), pp. 567-576.

11) Michael M. Bechtel, "The Political Sources of Systematic Investment Risk: Lessons from a Consensus Democracy," *Journal of Politics*, Vol. 71, No. 2 (2009), pp. 661-677; Pablo M. Pinto and Santiago M. Pinto, "The Politics of Investment Partisanship: the Sectoral Allocation of Foreign Direct Investment," *Economics & Politics*, Vol. 20, No. 2 (2008), pp. 216-254.

12) Fathi Ali, Norbert Fiess and Ronald MacDonald, "Do Institutions Matter for Foreign Direct Investment?" *Open Economies Review*, Vol. 21, No. 2 (2010), pp. 201-219; Stephan Haggard, Andrew MacIntyre and Lydia Tiede, "The Rule of Law and Economic Development," *Annual Review of Political Science*, Vol. 11 (2008), pp. 205-234; Nathan Jensen, Glen Biglaiser, Quan Li and Edmund Malesky, *Politics and Foreign Direct Investment* (Michigan: University of Michigan Press, 2012).

13) Witold J. Henisz, "The Institutional Environment for Economic Growth," *Economics & Politics*, Vol. 12, No. 1 (2000), pp. 1-31; Nathan Jensen, "Political Risk, Democratic Institutions and Foreign Direct Investment," *Journal of Politics*, Vol. 70, No. 4 (2008), pp. 1040-1052; Andrew MacIntyre, "Institutions and Investors: The Politics of the Economic Crisis in Southeast Asia," *International Organization*, Vol. 55, No. 1 (2001), pp. 81-122.

agreements such as GATT and WTO membership, bilateral investment treaties (BITs), and preferential trade agreements (PTAs)¹⁴⁾ could mitigate policy volatility.

We can see that the previous studies on the determinants of FDI have paid more attention to the economic and institutional characteristics of host countries that could be attractive to foreign investors. In the meantime, the role of a home country in FDI¹⁵⁾ and political aspects in relation to home and host countries have been less examined. This study attempts to fill the gap by focusing on what roles home countries of foreign investors play on the variation of FDI flows, particularly their concerns over relative gains in a FDI dyad.

14) Daniel J. Blake, "Thinking Ahead: Government Time Horizons and the Legalization of International Investment Agreements," *International Organization*, Vol. 67, No. 4 (2013), pp. 797-827; Tim Buthe and Helen V. Milner, "The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements?" *American Journal of Political Science*, Vol. 52, No. 4 (2008), pp. 741-762; Tim Buthe and Helen V. Milner, "Foreign Direct Investment and Institutional Diversity in Trade Agreements: Credibility, Commitment, and Economic Flows in the Developing World, 1971-2007," *World Politics*, Vol. 66, No. 1 (2014), pp. 88-122; Peter Egger and Michael Pfaermayr, "The Impact of Bilateral Investment Treaties on Foreign Direct Investment," *Journal of Comparative Economics*, Vol. 32, No. 4 (2004), pp. 788-804; Eric Neumayer and Laura Spess, "Do Bilateral Investment Treaties Increase Foreign Direct Investment to Developing Countries?" *World development*, Vol. 33, No. 10 (2005), pp. 1567-1585.

15) Beazer and Blake (2018) argues that the quality of the home institution shapes firms' evaluation on institutional risk of the host country. However, this study does not discuss the strategic consideration of the home government with respect to global power competition which this study mainly considers. Other previous literature considering home effect mainly focuses on how FDI benefits firms more than running factory in their home country such as tax haven theories, avoiding trade-barriers, and hedging exchange rate fluctuations. But these explanations emphasize the condition of the host country rather than the governmental behavior of the home country.

III. Preventive Restriction Of FDI Outflow

1. Relative Gains Problem and FDI

Both parties in a FDI dyad benefit from their economic exchange. Home countries strive to increase the competitiveness of their corporations, increase income from foreign earnings, expand the export of intermediate goods or inputs for production overseas, and gain higher revenues from the taxable income earned by MNCs. For host countries, FDI offers access to massive amounts of foreign capital, the creation of new jobs, and the opportunity for technology transfers. In addition, FDI contributes to import substitution and export goods by producing goods that were previously imported.

By focusing on such mutual gains, some studies argue that economic ties among countries reduce the benefits of conquest and increase the opportunity costs of military conflicts, leading them to become less concerned about power and security matters and more focused on managing and fostering economic cooperation.¹⁶⁾ In other words, as FDI is a type of international economic exchange, FDI contributes to reducing the probability of militarized conflicts between home and host countries. Rosecrance and Thompson (2003) pointed out that interdependence created by FDI is deeper than that created by international trade.¹⁷⁾ If FDI ge-

16) Margit Bussmann, "Foreign Direct Investment and Militarized International Conflict," *Journal of Peace Research*, Vol. 47, No. 2 (2010), pp. 143-153; Erik Gartzke, Quan Li and Charles Boehmer, "Investing in the Peace: Economic Interdependence and International Conflict," *International Organization*, Vol. 55, No. 2 (2001), pp. 391-438; Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Little, Brown, 1977); Hoon Lee and Sara M. Mitchell, "Foreign Direct Investment and Territorial Disputes," *Journal of Conflict Resolution*, Vol. 56, No. 4 (2012), pp. 675-703; Quan Li, "Foreign Direct Investment and Interstate Military Conflict," *Journal of International Affairs*, Vol. 62, No. 1 (2008), pp. 53-66; Solomon Polachek, Carlos Seiglie and Jun Xiang, "The Impact of Foreign Direct Investment on International Conflict," *Defence and Peace Economics*, Vol. 18, No. 5 (2007), pp. 415-429.

nerates mutual gains and countries in a FDI dyad do not care much about power and security matters, FDI would increase regardless of changes in the distribution of power.

Those studies did not reflect, however, that gains from bilateral FDI flows are usually unequal. Because of the disparity in purchasing power, the amount of FDI flow from rich to poor countries is far greater than that from the inversed direction.¹⁸⁾ Although some corporations from less wealthy states conduct FDI in wealthier actors (such as a Korean auto supplier *Hyundai Mobis* building an automotive assembly plant in Detroit US), these cases are relatively much fewer than FDI flows from wealthy to poor states. Thus, wealthy states often have to endure negative net inflows of investment. In addition, they rarely receive beneficial technology transfers from the FDI investments made by their poor trading partners because technological sophistication is highly correlated to the wealth of a state.

Realists have been skeptical toward the assumption that a harmony of interest is possible.¹⁹⁾ They focus on the fact that even though economic cooperation promotes mutual profits among collaborators, their gains are not the same. By exploiting the disproportionate benefits resulting from cooperative economic activities such as FDI, some countries can counter a long-lasting economic stagnation and further achieve the high rate of economic growth that can be converted to an advantage in the power competition with other states.²⁰⁾ A conflict between states is

17) Richard Rosecrance and Peter Thompson, "Trade, Foreign Investment, and Security," *Annual Review of Political Science*, Vol. 6, No. 1 (2003), pp. 377-398. As FDI involves irreversible sunk costs such as building factories and the acquisition of companies, it is difficult to withdraw money from the host country without accepting an enormous loss. To get details, see Raymond Vernon, *Sovereignty at Bay: The Multinational Spread of US Enterprises* (New York: Basic Books, 1971).

18) Only a firm that is productive enough to endure the enormous fixed costs for local production overseas can make a FDI. Refer to Elhanan Helpman, Marc J. Melitz and Stephen R. Yeaple, "Export versus FDI with Heterogeneous Firms," *American Economic Review*, Vol. 94, No. 1 (2004), pp. 300-316.

19) John C. Matthews III, "Current Gains and Future Outcomes: When Cumulative Relative Gains Matter," *International Security*, Vol. 21, No. 1 (1996), pp. 112-146.

probable if their relationship can be significantly transformed by one party's unequal accumulation of gains.²¹⁾ Likewise, economic cooperation between countries is possible but it is neither stable nor long-lived because each party is concerned about not only what it gets — absolute gains, but what the other party gains — relative gains.²²⁾ If the power gap narrows between countries in a FDI dyad, therefore, the home country is likely to adjust the relationship considering the relative gains the host country receives from FDI.

Due to the absence of a higher authority beyond states, realists posit that countries ought to practice self-help to secure their own survival and wealth from others. As there is no guarantee that FDI can preclude a state from using military force or expropriating the assets of foreign investors during international disputes, a continuing disparity between countries in terms of gains from bilateral FDI has a potential to trigger conflicts.²³⁾ Thus, if the power gap between them is reduced, the home country may consider stopping the outflows of capital and technology

20) Dale C. Copeland, "Economic Interdependence and War: A Theory of Trade Expectations," *International Security*, Vol. 20, No. 4 (1996), pp. 5-41; Joanne Gowa, *Allies, Adversaries, and International Trade* (New Jersey: Princeton University Press, 1994).

21) Michael Mastanduno, "Do Relative Gains Matter? America's Response to Japanese Industrial Policy," *International Security*, Vol. 16, No. 1 (1991), pp. 73-113.

22) Joseph M. Grieco, "Anarchy and the Limits of Cooperation: a Realist Critique of the Newest Liberal Institutionalism," *International Organization*, Vol. 42, No. 3 (1988), pp. 485-507; Joseph M. Grieco, Robert Powell and Duncan Snidal, "The Relative-Gains Problem for International Cooperation," *American Political Science Review*, Vol. 87, No. 3 (1993), pp. 729-743; Stephen D. Krasner, "Global Communications and National Power: Life on the Pareto Frontier," *World Politics*, Vol. 43, No. 3 (1991), pp. 336-366; Michael Mastanduno, "Do Relative Gains Matter? America's Response to Japanese Industrial Policy," *International Security*, Vol. 16, No. 1 (1991), pp. 73-113; Robert Powell, "Absolute and Relative Gains in International Relations Theory," *American Political Science Review*, Vol. 85, No. 4 (1991), pp. 1303-1320; Duncan Snidal, "Relative Gains and the Pattern of International Cooperation," *American Political Science Review*, Vol. 85, No. 3 (1991), pp. 701-726; Jonathan B. Tucker, "Partners and Rivals: a Model of International Collaboration in Advanced Technology," *International Organization*, Vol. 45, No. 1 (1991), pp. 83-120; Kenneth N. Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979).

23) Countries are more likely to care about relative gains when these factors affect or alter the disparity in power with competing states. See John J. Mearsheimer, "The False Promise of International Institutions," *International Security*, Vol. 19, No. 3 (1994), pp. 5-49.

because of the possibility that the host country could become its potential competitor. Accordingly, limiting FDI investments could be a signal that the home country is checking the potential growth of a serious threat that the host country may pose. It means that the positive net FDI flow into the host country could be translated as a power decrease of the home country in their relations. It is expected, therefore, that the host country is likely to consider all possible options to sustain the power gap that it had in relations with the host country.

2. Tools to Limit FDI Outflow

Countries have both direct and indirect ways of adjusting the amount of foreign investment flows when there is a risk of substantial injury to the home country's economy and national security. They can enact laws to restrict FDI. The *Trading with the Enemy Act* (TWEA) in 1917 and the *International Emergency Economic Powers Act* (IEEPA) in 1977 are good examples of this mechanism. TWEA provided the United States government with the power to restrict all economic transactions with hostile countries and IEEPA extended its authority by giving US president the power to control all economic transactions in times of national emergency.

In addition, countries can control FDI outflows by using public agencies to support foreign investment and functions associated with the financing of exports. For example, the United States has two organizations that support and manage foreign investment: the *Overseas Private Investment Corporation* (OPIC) and the *US Export-Import Bank* (US Ex-Im Bank). Although their work often overlaps, OPIC deals with foreign investment related to development, while US Ex-Im Bank focuses mainly on commercial investment. Based on the *Export-Import Bank Act of 1945* and the *Foreign Assistance Act of 1961*, these agencies have an authority to guarantee that an investment is backed by US

government's credit. They employ a screening process to evaluate the impact of foreign investment on the economy and national security of the United States. In the United States, any firm that does not pass this screening process is not able to engage in FDI. Hence, it can manage FDI outflows in response to foreign policy objectives by denying support for investments that do not meet standards specified in the legislations. Likewise, we can find similar agencies in other countries which act to prevent negative impacts from FDI on their national interests, although they may vary in the structure of organizations that regulate and monitor FDI. For instance, China has three agencies — *Export-Import Bank of China*, *China Export and Credit Insurance Corporation*, and *China Development Bank* — and Japan has one organization — *Japanese Bank for International Cooperation*.

Countries can also indirectly control FDI outflows by manipulating macroeconomic policy through interest rates, exchange rates, and currency policy. The most common method is adjusting domestic interest rates. By decreasing their interest rates, countries can encourage domestic investment but discourage foreign direct investment. Lower interest rates signal that borrowing costs for investors are lower, enticing firms to invest more money in their home country. Moreover, if the home country drops its interest rate lower than that of the host country, investors would sell the currency of their home country and buy that of the host country because they can gain more earnings from savings. Through this process, the increased demand on the host country's currency would inflate the exchange rate. This action would make foreign investment less attractive due to the decrease in purchasing power of investors. For example, in January 2009, the United States Federal Reserve announced it would conduct quantitative easement that would lower and keep interest rates at a specific target value. By doing so, it could boost domestic investment and consumption, creating more jobs and fueling growth in GDP.

The direct and indirect methods for controlling FDI flows suggest that home countries' roles and their concerns over relative gains problem

need to be taken into account in explaining the variation of FDI flows. When the host country grows rapidly to the extent that they can challenge the home country, the latter can adjust the amount of its FDI outflows by using the screening process. The home country may be able to cite domestic economic worries or even national security concerns as reasons for controlling FDI activities.

<Hypothesis 1> As the economic power gap between home and host countries becomes narrower, FDI outflows are likely to be smaller.

3. Trade Openness and Relative Gains Problem in FDI

This study argues that the level of trade openness of a home country moderates the effect of power disparity on FDI flows.²⁴⁾ Although we posit the positive relationship between economic power gap and FDI outflows (hypothesis 1), the narrower economic power gap does not always reduce the amount of FDI. While changes in the distribution of power provides a necessary condition for protective foreign economic policy, the home country's willingness to implement actual preventive restrictions on FDI flows is constrained by its global economic interdependence.

24) Much literature in Economics focuses on whether the relationship between FDI and trade is substitutive or complementary. Following Mundell (1957), FDI has been regarded as a substitute for international trade. Caves (1985) argued, for instance, that FDI is an alternative way for corporations to enter a foreign market in the face of huge transaction costs such as tariffs and transportation fees. Meanwhile, recent studies argue the complementary relationship between FDI and trade. For example, Blonigen (1997) found a strong complementary relationship between trade and FDI because FDI can increase intra-firm trade. See Robert A. Mundell, "International Trade and Factor Mobility," *American Economic Review*, Vol. 47, No. 3 (1957), pp. 321-335; Richard E. Caves, "International Trade and Industrial Organization: Problems, Solved and Unsolved," *European Economic Review*, Vol. 28, No. 3 (1985), pp. 377-395; Bruce A. Blonigen, "Firm-specific Assets and the Link between Exchange Rates and Foreign Direct Investment," *American Economic Review*, Vol. 87, No. 3 (1997), pp. 447-465.

Global economic interdependence affects a home country's behavior in the face of the relative gains problem. If the cost of the protective policy change exceeds its benefit, the preventive restrictions on FDI outflows are no longer an attractive option to the home country. The restrictive FDI policy can be effective for the home country to prevent or delay the rise of a potential competitor, but it also harms its reputation as a credible trading partner. International commerce is very sensitive to political risks associated with negative policy changes against foreign economies. After the policy change, the home country has to not only endure the loss of trading partners and foreign capital flows but also spend its time and resources to rebuild the credibility of its commitment to foreign commerce. The cost of such policy change is greater in countries with a higher degree of trade openness. As their economy is more dependent on the global economy, the potential loss of transnational economic exchanges is more detrimental compared to other countries with lower trade openness.

<Hypothesis 2> A narrower economic power gap between home and host countries is more likely to decrease the amount of FDI outflows, to the extent which the home country is open to the global economy.

IV. Research Design

We test the effect of relative gains concern on FDI outflows using the panel data for 2744 FDI dyads between 34 OECD countries and 186 host countries from 1985 to 2012.²⁵⁾ The data are from *OECD Foreign Direct Investment Statistics*.²⁶⁾ Following Jensen and McGillvray

25) 186 host countries include those 34 OECD membership countries.

26) It is available at <http://www.oecd.org/corporate/mne/statistics.htm>

(2005), we employ ‘the amount of annual FDI outflows per GDP’ as the dependent variable of the analysis. We measure the percentage of home countries’ FDI outflows to its GDP.²⁷⁾

$$Outward FDI_{ijt} = \frac{FDI \text{ outflow}_{ijt}}{GDP}$$

Two key independent variables of the analysis are ‘economic power gap’ and ‘trade openness.’ To test the effect of economic power gap on FDI outflows, we operationalize the economic power gap in a FDI dyad as the relative economic size of a home country to that of a host country. We measure the economic size with annual GDP based on World Development Indicators (WDI) made available by the World Bank.²⁸⁾

Trade openness is measured by the trade openness ratio (the sum of real exports and imports over GDP), which is one of the most widely used indicators to capture the extent of a country’s integration into international commerce. The data are also taken from the World Bank WDI database.

$$Economic \text{ Power Gap}_{ij(t-1)} = \frac{\log GDP_{i(t-1)}}{\log GDP_{i(t-1)} + \log GDP_{j(t-1)}}$$

$$Economic \text{ Openness}_{i(t-1)} = \frac{Trade_{i(t-1)}}{GDP_{i(t-1)}} \times 100$$

To control the effect of other factors on FDI flows, we include seven control variables in the analysis: the number of cumulative PTAs,

27) FDI has grown over time through the proliferation of globalization. This apparent upward trend may induce the risk of spurious correlation. To obtain more definite results, this study uses the detrended ratio of FDI to GDP as the dependent variable.

28) <http://data.worldbank.org/data-catalog/world-development-indicators>

GATT/WTO membership, veto points, IBRD loans, market Size, GDP per capita, GDP growth, and lagged FDI outflow.

The number of PTAs and GATT/WTO membership are two of the prominent political institutions that effectively improve the credibility of governmental commitments in FDI.²⁹⁾ We construct the cumulative PTAs data based on the data set of Jo and Namgung³⁰⁾ and World Bank Agreements Library. For GATT/WTO membership, we code 1 for every year after a country acquires the membership in GATT or WTO.

Veto points are one of frequently cited determinants of FDI in the literature of political economy. To measure veto points, we use POLCON data, which are collected by Henisz.³¹⁾ It measures the number of independent veto points and the distance of preferences among the executive body, members of lower legislature, members of upper legislature, sub-federal governments, and judiciary. The involvement of IBRD can be comforting for investors by guaranteeing risks such as changes in law and non-payment. To control for this effect, we include the amount of loans a host country receives from IBRD.

Market size, GDP per capita, and GDP growth indicate the profitability of each host country.³²⁾ Considering that most firms make additional investments by using earnings from host countries and how the costs of maintenance they spend are accounted as FDI outflows, we also include lagged FDI outflow in the analysis. It is measured by the amount of FDI outflows made in the previous year. Table 1 shows the correlation

29) Tim Buthe and Helen V. Milner, "The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements?" *American Journal of Political Science*, Vol. 52, No. 4 (2008), pp. 741-762.

30) Hyeran Jo and Hyun Namgung, "Dispute Settlement Mechanisms in Preferential Trade Agreements: Democracy, Boilerplates, and the Multilateral Trade Regime," *Journal of Conflict Resolution*, Vol. 56, No. 6 (2012), pp. 1041-1068.

31) Witold J. Henisz, "The Institutional Environment for Economic Growth," *Economics & Politics*, Vol. 12, No. 1 (2000), pp. 1-31.

32) We use the population of a host country for its market size.

〈Table 1〉 Correlation Matrix

	(1) GDP Gap ij(t-1)	(2) Trade Open. i(t-1)	(3) PTAs ij(t-1)	(4) GATT /WTO j(t-1)	(5) Veto Points j(t-1)	(6) IBRD Loans j(t-1)	(7) Market Size j(t-1)	(8) GDP PC j(t-1)	(9) GDP Growth ij(t-1)	(10) Lagged FDI ij(t-1)
(1)	1.000									
(2)	-.307	1.000								
(3)	-.216	.059	1.000							
(4)	-.139	.034	.085	1.000						
(5)	-.212	-.029	.198	.247	1.000					
(6)	-.468	-.042	.010	.153	.117	1.000				
(7)	-.387	-.038	-.043	.035	.003	.862	1.000			
(8)	-.118	.060	-.023	-.097	-.030	.115	.170	1.000		
(9)	-.064	.060	-.095	-.088	-.087	.090	.146	.967	1.000	
(10)	-.064	.057	.047	.013	.035	.048	.031	.001	-.007	1.000

matrix of all variables.

The equation estimating the relationship between these explanatory variables and FDI outflows is as follows:

$$\begin{aligned}
 Outward FDI_{ijt} = & B_0 + B_1 Economic\ PowerGap_{ij(t-1)} \\
 & + B_2 Trade\ Openness_{i(t-1)} + \\
 & B_3 Economic\ PowerGap_{ij(t-1)} \\
 & \times Trade\ Openness_{i(t-1)} + Z_{(t-1)} + \epsilon_{ijt}
 \end{aligned}$$

where Z is a vector of control variables: GATT/WTO $_j$, PTAs $_j$, Veto Points $_j$, IBRD Loans $_j$, Market Size $_j$, Per Capita GDP $_j$, GDP Growth $_j$, and FDI $_{ij}$.

We conduct the Ordinary Least Squares (OLS) regression analysis with country fixed effects to test the hypotheses.³³⁾ In the data set, each

33) The fixed effects model was developed to investigate the effects of variables that vary over time within a group. Statistics of the Hausman test shows that the fixed effects model

dyad contains different dyad-specific features that might be omitted in the model such as culture, the history of territorial disputes, and diplomatic relations. By including fixed effects, coefficients estimate the effects of independent variables that are not common to all countries in a given year but identified by within-country variations.

V. Results

Table 2 presents the results of the analysis. Model 1 contains all control variables without the key independent variables. With the exception of lagged FDI outflow, all of them are statistically significant. We found that IBRD loans and GDP growth have positive relationships with FDI outflows and they follow what the previous studies found. Meanwhile, the other control variables are negatively related with FDI outflows, which are opposite to the findings of the extant literature.

In model 2, we include ‘economic power gap’ and ‘trade openness.’ The results show that the home country’s relative gains concern over the economic power gap is statistically significant. The positive relationship between economic power gap and FDI outflows suggests that as the economic power gap between a FDI dyad becomes narrower, FDI outflows from rich to poor countries is getting smaller, which supports the first hypothesis of this study. Regarding trade openness, the finding indicates the positive relationship between trade volumes and FDI. We also explore the interaction between economic power disparity and trade openness. Hypothesis 2 expects that the effect of the economic power gap on FDI outflows is conditional to the economic openness of the home country. The finding shows that the coefficient

is appropriate for the analysis of this study. The chi-square is 683.46 which rejects the null hypothesis at 0.001 level.

of the interaction term (Economic Power Gap \times Economic Openness) is negatively associated with FDI outflows. Considering that each variable has the positive relationship with FDI outflows, it suggests that economic power gap and economic openness are negatively associated

(Table 2) The Effects of Relative Gains Concern on FDI Outflows, 1985–2012

	Model 1	Model 2	Model 3
GDP Gap		4.360*** (0.414)	3.060*** (0.631)
Trade Openness		.009*** (.003)	.013*** (.004)
Gap \times Openness		-.018*** (.006)	-.030*** (.008)
PTAs	-0.017*** (0.003)	-.011*** (.003)	-.005*** (.003)
GAT/WTO	-0.038*** (0.003)	-.022*** (.003)	-.011*** (.004)
Veto Points	-0.011*** (0.003)	-.006*** (.002)	-.011*** (.003)
IBRD Loans	1.87e-12* (0.000)	1.306e-12 (.000)	5.39e-13 (.000)
Market Size	-2.86e-10*** (0.000)	-1.021e-10 (.000)	1.04e-11 (.000)
GDPPC j(t-1)	-0.003*** (0.001)	-.002*** (.001)	-.003*** (.001)
GDP Growth	0.003*** (0.001)	.002*** (.001)	.003*** (.001)
Lagged FDI	0.038 (0.004)	.039 (.121)	.108 (.181)
Constant	0.038*** (0.004)	-2.273*** (.227)	-1.559*** (.353)
Observations	24139	24139	4272
Dyads	2744	2744	414
R ²	+0.060	+0.084	+0.392
Country FE	Yes	Yes	Yes

Note: Entries in parentheses are clustered-robust standard errors (Arellano 1987)

*** p<0.01, ** p<0.05, * p<0.1

in explaining changes in the amount of FDI outflows. When an economic power gap is getting narrower between home and host countries, a home country with a lower degree of trade openness is more likely to implement preventive restrictions on FDI outflows, while a country that is more open to global trades is less likely to choose a protective measure.

The main linkage between narrowing GDP gap and outward FDI is the security concern of home country. This implies that estimates in model 1 and model 2 might not be accurate if the sample includes some dyads that do not necessarily have security concerns because each party in these dyads cannot project their power to the other. As the result, the estimated coefficients in these two models might be incorrect.

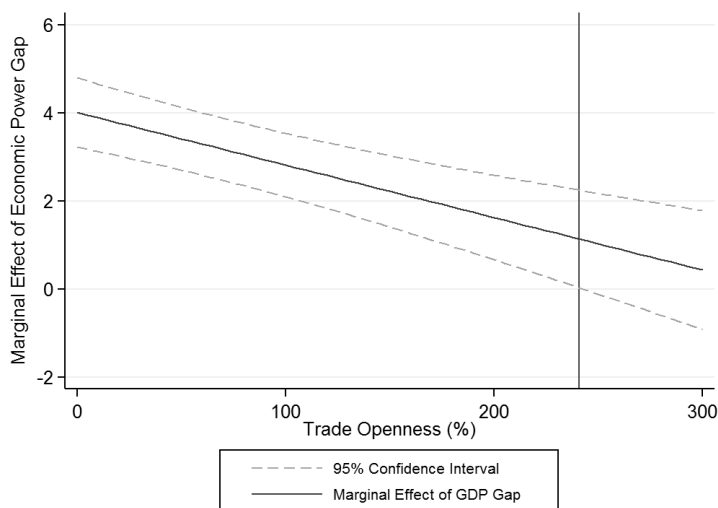
Since conflicts are more likely if countries are geographically contiguous or one party within a dyad is a great power, model 3 checks the robustness of the results by using restricted samples which fall under Maoz and Russett (1993)'s definition of politically relevant dyads.³⁴⁾ There are 414 politically relevant dyads in our data set. Model 3 shows that the result holds the same with the restricted sample, which suggests that countries consider relative gains problem even if the realization of military conflicts are not highly probable.

Figure 1 depicts how the marginal effect of the economic power gap changes as trade openness increases. The marginal effect of power disparity is getting greater when economic openness becomes smaller. The plot shows that the effect of the economic power gap on FDI outflows is no longer statistically significant if the trade openness of a country is greater than 241%.³⁵⁾ It also supports our argument that economic power gap and trade openness are negatively associated in

34) They define politically relevant dyads which is defined as a set of country-pairs including geographically contiguous dyads and in which at least one party is a great power.

35) In the data set, 4% of samples have a home country with trade openness greater than 241%.

〈Figure 1〉 Marginal Effect of Economic Power Gap



relations to FDI outflows.

VI. Conclusion

FDI is an international economic activity that creates global production networks by bridging capital, production, and distribution across the globe. Unlike the extant literature that has not paid much attention to the roles of home countries in FDI, this study addresses their roles and inter-state power dynamics in FDI by focusing on the relative gains problem between home and host countries. By analyzing 2744 FDI dyads from 1985 to 2012, we found that the power disparity between them affects the amount of FDI outflows. Home countries tend to adjust FDI outflows when the economic power gap with host countries becomes smaller.

This study contributes to the study of FDI. We introduce the roles

of home countries as a determinant of FDI outflows. Previous studies assumed that home countries are either always supportive to foreign investment, or that their influence is limited. By taking into account the constraints imposed by home countries on foreign investment decisions, this study showed that the political conditions of home countries could affect changes in the amount of FDI outflows.

This study also contributes to the academic literature by making implications on the roles of trade openness on FDI. The extant literature regarding the relationship between trade and FDI has mainly focused on whether their relationship is substitutive or complementary. We found that the effect of relative gains on FDI outflows is moderated by the trade openness of the home country. While the relative gains problem could be increased by FDI, the global economic interdependence of the home country increases the cost of protective foreign economic policies. The cost of such policy change is greater in countries with a higher degree of trade openness. As their economy is more dependent on the global economy, the potential loss of transnational economic exchanges is more detrimental compared to other countries with lower trade openness.

[References]

- Ali, Fathi, Norbert Fiess, and Ronald MacDonald. "Do Institutions Matter for Foreign Direct Investment?" *Open Economies Review*, Vol. 21, No. 2 (2010), pp. 201-219.
- Antràs, Pol, and Davin Chor. "Organizing the Global Value Chain." *Econometrica*, Vol. 81, No. 6 (2013), pp. 2127-2204.
- Arellano, Manuel. "Computing Robust Standard Errors for Within-groups Estimators." *Oxford Bulletin of Economics and Statistics*, Vol. 49, No. 4 (1987), pp. 431-434.
- Asiedu, Elizabeth. "Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability." *World Economy*, Vol. 29, No. 1 (2006), pp. 63-77.
- Beazer, Quintin H., and Daniel J. Blake. "The Conditional Nature of Political Risk: How Home Institutions Influence the Location of Foreign Direct Investment." *American Journal of Political Science*, Vol. 62, No. 2 (2018), pp. 470-485.
- Bechtel, Michael M. "The Political Sources of Systematic Investment Risk: Lessons from a Consensus Democracy." *Journal of Politics*, Vol. 71, No. 2 (2009), pp. 661-677.
- Blake, Daniel J. "Thinking Ahead: Government Time Horizons and the Legalization of International Investment Agreements." *International Organization*, Vol. 67, No. 4 (2013), pp. 797-827.
- Blonigen, Bruce A. "Firm-specific Assets and the Link between Exchange Rates and Foreign Direct Investment." *American Economic Review*, Vol. 87, No. 3 (1997), pp. 447-465.
- Botric, Valerija, and Lorena Skuic. "Main Determinants of Foreign Direct Investment in the Southeast European Countries." *Transition Studies Review*, Vol. 13, No. 2 (2006), pp. 359-377.
- Bussmann, Margit. "Foreign Direct Investment and Militarized International Conflict." *Journal of Peace Research*, Vol. 47, No. 2 (2010), pp. 143-153.
- Buthe, Tim, and Helen V. Milner. "The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements?" *American Journal of Political Science*, Vol. 52, No. 4 (2008), pp. 741-762.
- Caves, Richard E. "International Trade and Industrial Organization: Problems, Solved and Unsolved." *European Economic Review*, Vol. 28, No. 3 (1985), pp. 377-395.
- Cheung, Yin-Wong, and Xingwang Qian. "Empirics of China's Outward Direct Investment." *Pacific Economic Review*, Vol. 14, No. 3 (2009), pp. 312-341.
- Choong, Chee-Keong, and Siew-Yong Lam. "The Determinants of Foreign Direct

- Investment in Malaysia: A Revisit.” *Global Economic Review*, Vol. 39, No. 2 (2010), pp. 175-195.
- Cleeve, Emmanuel. “How Effective are Fiscal Incentives to Attract FDI to Sub-Saharan Africa?” *Journal of Developing Areas*, Vol. 42, No. 1 (2008), pp. 135-153.
- Copeland, Dale C. “Economic Interdependence and War: A Theory of Trade Expectations.” *International Security*, Vol. 20, No. 4 (1996), pp. 5-41.
- Doraszelski, Ulrich, and Jordi Jaumandreu. “R&D and Productivity: Estimating Endogenous Productivity.” *Review of Economic Studies*, Vol. 80, No. 4 (2013), pp. 1338-1383.
- Dunning, John H. “Explaining Changing Patterns of International Production: In Defence of the Eclectic Theory.” *Oxford Bulletin of Economics and Statistics*, Vol. 41, No. 4 (1979), pp. 269-295.
- _____. “The Eclectic (OLI) Paradigm of International Production: Past, Present and Future.” *International Journal of the Economics of Business*, Vol. 8, No. 2 (2001), pp. 173-190.
- Egger, Peter, and Michael Pfaermayr. “The Impact of Bilateral Investment Treaties on Foreign Direct Investment.” *Journal of Comparative Economics*, Vol. 32, No. 4 (2004), pp. 788-804.
- Gartzke, Erik, Quan Li, and Charles Boehmer. “Investing in the Peace: Economic Interdependence and International Conflict.” *International Organization*, Vol. 55, No. 2 (2001), pp. 391-438.
- Gowa, Joanne. *Allies, Adversaries, and International Trade* (New Jersey: Princeton University Press, 1994).
- Grieco, Joseph M. “Anarchy and the Limits of Cooperation: a Realist Critique of the Newest Liberal Institutionalism.” *International Organization*, Vol. 42, No. 3 (1988), pp. 485-507.
- Grieco, Joseph M., Robert Powell, and Duncan Snidal. “The Relative-Gains Problem for International Cooperation.” *American Political Science Review*, Vol. 87, No. 3 (1993), pp. 729-743.
- Haggard, Stephan, Andrew MacIntyre, and Lydia Tiede. “The Rule of Law and Economic Development.” *Annual Review of Political Science*, Vol. 11 (2008), pp. 205-234.
- Hajzler, Christopher. “Expropriation of foreign direct investments: sectoral patterns from 1993 to 2006.” *Review of World Economics*, Vol. 148, No. 1 (2012), pp. 119-149.
- Helpman, Elhanan, Marc J. Melitz, and Stephen R. Yeaple. “Export versus FDI with

- Heterogeneous Firms.” *American Economic Review*, Vol. 94, No. 1 (2004), pp. 300-316.
- Henisz, Witold J. “The Institutional Environment for Economic Growth.” *Economics & Politics*, Vol. 12, No. 1 (2000), pp. 1-31.
- Jensen, Nathan. “Political Risk, Democratic Institutions, and Foreign Direct Investment.” *Journal of Politics*, Vol. 70, No. 4 (2008), pp. 1040-1052.
- Jensen, Nathan, and Fiona McGillivray. “Federal Institutions and Multinational Investors: Federalism, Government Credibility, and Foreign Direct Investment.” *International Interactions*, Vol. 31, No. 4 (2005), pp. 303-325.
- Jensen, Nathan M., and Noel P. Johnston. “Political Risk, Reputation, and the Resource Curse.” *Comparative Political Studies*, Vol. 44, No. 6 (2011), pp. 662-688.
- Jensen, Nathan, Glen Biglaiser, Quan Li, and Edmund Malesky. *Politics and Foreign Direct Investment* (Michigan: University of Michigan Press, 2012).
- Jo, Hyeran, and Hyun Namgung. “Dispute Settlement Mechanisms in Preferential Trade Agreements: Democracy, Boilerplates, and the Multilateral Trade Regime.” *Journal of Conflict Resolution*, Vol. 56, No. 6 (2012), pp. 1041-1068.
- Kang, David C. “Transaction Costs and Crony Capitalism in East Asia.” *Comparative Politics*, Vol. 35, No. 4 (2003), pp. 439-458.
- Keohane, Robert O., and Joseph S. Nye. *Power and Interdependence: World Politics in Transition* (Little, Brown, 1977).
- Krasner, Stephen D. “Global Communications and National Power: Life on the Pareto Frontier.” *World Politics*, Vol. 43, No. 3 (1991), pp. 336-366.
- Ledyeva, Svetlana. “Spatial Econometric Analysis of Foreign Direct Investment Determinants in Russian Regions.” *World Economy*, Vol. 32, No. 4 (2009), pp. 643-666.
- Lee, Hoon, and Sara M. Mitchell. “Foreign Direct Investment and Territorial Disputes.” *Journal of Conflict Resolution*, Vol. 56, No. 4 (2012), pp. 675-703.
- Li, Quan. “Foreign Direct Investment and Interstate Military Conflict.” *Journal of International Affairs*, Vol. 62, No. 1 (2008), pp. 53-66.
- Li, Quan, and Adam Resnick. “Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries.” *International Organization*, Vol. 57, No. 1 (2003), pp. 175-211.
- Li, Quan, and Tatiana Vashchilko. “Dyadic Military Conflict, Security Alliances, and Bilateral FDI Flows.” *Journal of International Business Studies*, Vol. 41, No. 5 (2010), pp. 765-782.
- Loree, David W., and Stephen E. Guisinger. “Policy and Non-policy Determinants of

- US Equity Foreign Direct Investment.” *Journal of International Business Studies*, Vol. 26, No. 2 (1995), pp. 281-299.
- MacIntyre, Andrew. “Institutions and Investors: The Politics of the Economic Crisis in Southeast Asia.” *International Organization*, Vol. 55, No. 1 (2001), pp. 81-122.
- Mastanduno, Michael. “Do Relative Gains Matter? America’s Response to Japanese Industrial Policy.” *International Security*, Vol. 16, No. 1 (1991), pp. 73-113.
- Matthews III, John C. “Current Gains and Future Outcomes: When Cumulative Relative Gains Matter.” *International Security*, Vol. 21, No. 1 (1996), pp. 112-146.
- Mayer, Thierry, Marc J. Melitz, and Gianmarco I. P. Ottaviano, “Market Size, Competition, and the Product Mix of Exporters.” *American Economic Review*, Vol. 104, No. 2 (2014), pp. 495-536.
- Mearsheimer, John J. “The False Promise of International Institutions.” *International Security*, Vol. 19, No. 3 (1994), pp. 5-49.
- Melitz, Marc J. “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity.” *Econometrica*, Vol. 71, No. 6 (2003), pp. 1695-1725.
- Mhlanga, Nomathemba, Garrick Blalock, and Ralph Christy. “Understanding Foreign Direct Investment in the Southern African Development Community: an Analysis Based on Project-level Data.” *Agricultural Economics*, Vol. 41, No. 3-4 (2010), pp. 337-347.
- Mohamed, Suan E., and Moise G. Sidiropoulos. “Another Look at the Determinants of Foreign Direct Investment in MENA Countries: an Empirical Investigation.” *Journal of Economic Development*, Vol. 35, No. 2 (2010), pp. 75-95.
- Mundell, Robert A. “International Trade and Factor Mobility.” *American Economic Review*, Vol. 47, No. 3 (1957), pp. 321-335.
- Neumayer, Eric, and Laura Spess. “Do Bilateral Investment Treaties Increase Foreign Direct Investment to Developing Countries?” *World development*, Vol. 33, No. 10 (2005), pp. 1567-1585.
- Nocke, Volker, and Stephen Yeaple. “Cross-border mergers and acquisitions vs. greenfield foreign direct investment: The role of firm heterogeneity.” *Journal of International Economics*, Vol. 72, No. 2 (2007), pp. 336-365.
- North, Douglass C. *Institutions, institutional Change and Economic Performance* (New York: Cambridge University Press, 1990).
- O’donnell, Guillermo. “Reflections on the Patterns of Change in the Bureaucratic authoritarian State.” *Latin American Research Review*, Vol. 13, No. 1 (1978), pp. 3-38.
- Olson, Mancur. “Dictatorship, Democracy, and Development.” *American Political*

- Science Review*, Vol. 87, No. 3 (1993), pp. 567-576.
- Pinto, Pablo M., and Santiago M. Pinto. "The Politics of Investment Partisanship: the Sectoral Allocation of Foreign Direct Investment." *Economics & Politics*, Vol. 20, No. 2 (2008), pp. 216-254.
- Polachek, Solomon, Carlos Seiglie, and Jun Xiang. "The Impact of Foreign Direct Investment on International Conflict." *Defence and Peace Economics*, Vol. 18, No. 5 (2007), pp. 415-429.
- Powell, Robert. "Absolute and Relative Gains in International Relations Theory." *American Political Science Review*, Vol. 85, No. 4 (1991), pp. 1303-1320.
- Rosecrance, Richard, and Peter Thompson. "Trade, Foreign Investment, and Security." *Annual Review of Political Science*, Vol. 6, No. 1 (2003), pp. 377-398.
- Schneider, Friedrich, and Bruno S. Frey. "Economic and Political Determinants of Foreign Direct Investment." *World Development*, Vol. 13, No. 2 (1985), pp. 161-175.
- Snidal, Duncan. "Relative Gains and the Pattern of International Cooperation." *American Political Science Review*, Vol. 85, No. 3 (1991), pp. 701-726.
- Tucker, Jonathan B. "Partners and Rivals: a Model of International Collaboration in Advanced Technology." *International Organization*, Vol. 45, No. 1 (1991), pp. 83-120.
- Vernon, Raymond. *Sovereignty at Bay: The Multinational Spread of US Enterprises* (New York: Basic Books, 1971).
- Vijayakumar, Narayanamurthy, Sridharan Perumal, and Kode C. S. Rao. "Determinants of FDI in BRICS Countries: A panel analysis." *International Journal of Business Science and Applied Management*, Vol. 5, No. 3 (2010), pp. 1-13.
- Waltz, Kenneth N. *Theory of International Politics* (New York: McGraw-Hill, 1979).
- Wellhausen, Rachel L. "Investor-State Disputes When Can Governments Break Contracts?" *Journal of Conflict Resolution*, Vol. 59, No. 2 (2015), pp. 239-261.
- Woodward, Douglas P., and Robert J. Rolfe. "The Location of Export-oriented Foreign Direct Investment in the Caribbean Basin." *Journal of International Business Studies*, Vol. 24, No. 1 (1993), pp. 121-144.

[초 록]

해외직접투자의 예방적 제한: 상대적 경제력 격차 변화가 미치는 영향

심규상 | 미국 로체스터 대학교 (박사과정)

민정훈 | 국립외교원

해외직접투자(FDI)에 대한 기존 연구들은 개발도상국의 정치적 안정성이나 경제상황 등과 같이 해외투자자들이 선호하는 투자 환경에 대해 초점을 맞춰왔다. 하지만 이러한 연구들은 투자 유치국이 투자에 유리한 조건을 지속적으로 제시함에도 불구하고 투자가 감소하는 상황에 대해서 적절한 설명을 제시하지 못하는 한계를 갖고 있다. 본 연구는 투자자의 국적 국가와 투자 유치국간의 상대적 이익 문제에 초점을 맞추어 해외직접투자가 감소하는 원인에 대하여 설명하고자 한다. 분석 결과는 해외직접투자로 인해 투자자의 본국과 투자 유치국간의 경제력 격차가 줄어들에 따라 양국 간 해외직접투자가 감소함을 보여주었다. 한편, 이러한 경제력 격차의 변화가 갖는 효과는 투자자 본국의 무역 개방도에 영향을 받았다.

주제어: 해외직접투자, 상대적 획득, 경제력 격차, 무역 개방도, 예방적 제한

투고일: 2018년 4월 13일, 심사일: 2018년 5월 14일, 게재확정일: 2018년 6월 5일
--