Institutional determinants of outward foreign direct investment in Latin America

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Abstract

Outward FDI has become a topic that has received increased attention by scholars in recent years. Not only its effects on host countries but also its effects on home countries. This thesis looks at institutional determinants for outward FDI, asking how do institutional factors (such as capital market efficiency i.e.) influence outward foreign direct investment decisions in Latin American countries? Latin America was chosen, as it is an often-overlooked emerging market region. To address this topic a quantitative study was conducted, looking for a potential correlation between outward FDI and institutional variable such as capital market efficiency, product market efficiency or government efficiency. Furthermore, a comparison is made between investment flows destined to the entire world and investment flows destined only to the region.

The Results indicate mixed effects for different countries, depending on their resource endowments, size and industry background, institutions seem to influence outward FDI differently. Surprisingly, some variables indicate a negative correlation between outward FDI and institutional variables as in the case of capital market efficiency. When comparing outward FDI flows towards the entire world and those only to the region no clear pattern was found that points to an increase of investments due to improved institutions within the region.

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List of Abbreviations

CEPAL	Comisión económica para América Latina
FDI	Foreign Direct Investment
GCR	Global Competitiveness Report
MNC	Multinational Corporation
OFDI	Outward Foreign Direct Investment
UNCTAD	United Nations conference on trade and development

1 Introduction

With the onset of globalization in the second half of the 20th century companies began to expand their economic activities increasingly beyond the boundaries of their respective country of origin. Driven by the desire to create economies of scale and accessing resources unavailable in their home markets, these investments abroad had a profound effect on the economies of the investing country but also on the economies of the countries that received these investments. The triggers of these effects began to be understood only gradually and in recent decades, through intensive research, part of which forms the basis of this thesis. Despite all recent findings certain knowledge-gaps remain today. One important question that this thesis will analyse is the role that governments in developing countries, in this case in Latin America, can play to promote foreign direct investment abroad by asking the following question:

How do institutional factors (such as capital market efficiency i.e.) influence outward foreign direct investment decisions in Latin American countries?

To help answer this question a set of sub-questions will further be used:

Which institutional factors have played the most prominent role in enhancing outward FDI and which factors seem less important?

What policies should governments pursue to trigger outward FDI, which are regarded as most beneficial to home countries?

Does a combined improvement of institutional variables enhance an increase in outward FDI within the region?

To answer these questions the thesis will provide a thorough literature review about topics related to institutional theories and Outward Foreign Direct Investment (OFDI). It will then present a framework, first introduced by Khanna and Palepu (1997) on how institutions shape strategy of companies. This framework serves as basis to analyse how institutions determine outward foreign direct investment decisions in Latin America. This is achieved by using a panel data set of 17 countries in the region during a period of 7 years (2006 – 2013).

This chapter focuses on providing background information to the reader about the topic that this thesis addresses and giving an overview of the latest economic development in the region.

1.1 About Foreign direct investment

One phenomenon that is greatly associated with today's globalizing world is foreign direct investment (FDI). According to the (OECD, 2014), foreign direct investment is an investment that has as its objective the establishment of a lasting interest by a resident enterprise from one economy in an enterprise in another economy. The relationship has to go beyond arm's length transaction or a pure speculative financial stake and the resident enterprise needs to exert some direct control over the company with a stake of at least 10% in the invested company for it to be considered foreign direct investment. Foreign direct investment is usually grouped into two categories: "mergers & acquisition" (M&A) and "greenfield investment". While the first one is the acquisition of an already existing company abroad or a merger with such a company the latter one refers to a completely new investment, without the involvement of already existing trading partners (Calderón, Loayza & Servén, 2004; Lasserre, 2012).

There are different ways to measure such investment abroad (UNCTAD, 2014), one option is to measure FDI stocks, that is the accumulated value of assets and shares that a parent company holds in the foreign country of investment. Flows of investment are another measure. These are calculated on a net basis, (capital transactions' credits minus debits between direct investors and their foreign affiliates).

Foreign direct investment flows are either measured through inflows, the sum that countries receive from investors abroad, or through outflows, the sum of money that domestic investors invest abroad (OECD, 2014). This thesis will focus on the latter one, so-called outward foreign direct investment or OFDI, since it has been studied to a lesser degree and its importance in the developing world is on the rise.

1.2 Latin America and a history of its industrial policy

Depending on its definition Latin America includes different countries. The UN (2013) defines the region as Latin America and the Caribbean including all countries on the South American continent, all countries in Central America and Mexico and all countries in the Caribbean Sea basin. Another

perspective is the term 'Ibero-America' specifically referring to countries that were colonized by the two former European naval powers Spain and Portugal, excluding former French and English colonies (Real Academia Española, 2014). However, this thesis will focus on South- and Central America only, since Caribbean countries tend to have special institutional regulations that promote holdings and other juridical entities that do not necessarily reflect the investment flows that this thesis tries to analyse.

Spanish and Portuguese explorers colonized the region in the 16th century, later France, Britain and the Netherlands also laid claim to some territory and captured several islands from the Spanish. After a prolonged struggle for independence in the early 19th century several nation states emerged (Archer, 2000).
While big economic and political differences exist within the region, it is nevertheless culturally quite homogenous.
The population is predominantly catholic or belonging to some protestant church and the main languages spoken are either Spanish or Portuguese (CIA Factbook, 2015). The shared history and culture make it an interesting region to study institutional impact on investment decisions of local companies. Political differences exist, despite having similar social problems such as corruption, high inequality and crime rates. In order to talk about the significance of outward FDI from the region it is important to have some information on its economic history and how politics previously tried to enhance and improve its development agenda.
During the two centuries after independence countries in the region tried to modernize and overcome political instability with differing levels of success. Poverty and a high level of inequality remains a problem to this day. With Nicaragua, Honduras and Bolivia having comparable rates of 'GDP per capita' to some developing countries in Africa (World Bank, 2015). Some of the reasons can be found in the regions economic policy. From after independence until the first half of the 20th century many countries in Latin America were purely agro-exporting countries, selling resources and other raw materials to the quickly industrializing European and US markets. This policy presented a continuation of colonial policies whereby few powerful landowners controlled a lot of land and prospered while the majority of the population were not able to benefit. The problem of this policy became evident in the great economic depression and the two world wars at the beginning of the twentieth century (Artal-Tur, 2002) (Bodemer, 2008).

Price swings and a general trend to reduced prices for raw materials as well as a weak position to negotiate prices led to severe economic problems and many countries in the region needed to change their policies to become more competitive.

From the 30s and 40s, and in some nations even before that, Latin American countries started to promote the so-called import substituting strategy (IS). This policy aims to develop domestic industries by sheltering them from foreign competition through import tariffs and other restrictions and was promoted by economists such as Hans Singer and Raúl Prebisch. They based their demands on the theory that the net barter terms of trade between raw materials and manufactured products showed a long-term downward trend. Since developing countries rely on exporting raw materials to import manufactured products this inevitably led to a negative terms of trade with industrialized countries and explained the continents underdevelopment (Toye & Toye, 2003).

The promotion of domestic industries that were mostly shielded from international competition led to the development of big domestic corporations that served the local market. The success of the IS policy was, however, always limited. First, because not all countries were equally able to introduce these policies and some countries barely industrialized at all during this period. Secondly, the dependency of high technology importation did not cease to exist because most innovative products and materials still had to be imported from the US and Europa. Thirdly, prices of domestically produced goods did not reflect world prices and depended a lot on how much the government was willing to subsidies them. Therefore, business groups that were able to exert greater influence over the government were able to receive higher subsidies for their respective industries, even if those industries were not necessarily the most competitive ones.

Another problem was that despite impressive economic growth numbers, no economic middle class was able to develop as occurred in Europe during its industrialization. As growth numbers started to fall in the late 60s and early 70s more and more Latin American economies had increasing difficulties to finance the subsidies to support their domestic industries. The IS "policy-epoch" came to an abrupt end, when the UK and US decided to raise their interest rates in 1980 – 1981 and countries in Latin America were no longer able to pay their interests and a paradigm shift occurred (Artal-Tur, 2002; Ramirez 2012).

The new economic policy that was in place for much of the 80s and early 90s in Latin America was influenced by neo-liberal theories and a desire to reduce government interference in the private sector. This wave of ideas originated in the UK and the US where privatisation and government reforms were also taking place and culminated in the so-called Washington consensus of 1989 a document drafted by John Williamson. The author lists ten policy reforms that countries in Latin America should most urgently pursue, among them points such as: Fiscal discipline, tax reform, trade liberalization, privatization and deregulation among others (Williamson, 2003).

Latin American countries embraced the recommendations put forth by the Washington consensus and many countries in the region began to privatize corporations that were previously held in public hands. Rodrik, 2006 (p.973) put it this way: "There was more privatization, deregulation and trade liberalization in Latin America and Eastern Europe than probably anywhere else at any point in economic history."

Despite the good intentions of the recommendations that the consensus promoted it did not have its desired effect on the region. It failed to recognize that by just abolishing government protectionist policies and subsidies, the previously fostered industries would just fail and falter when confronted with international competition (Lin, 2014; Rodrik, 2006). Inequality and social injustice were not addressed in the consensus, fiscal austerity lead to a sharp increase in rates of poverty since poorer sections of society suffered disproportionally from these policies (Bodemer, 2008; Jacobo, 2012).

Despite the negative critique that the Washington consensus received, there are also some authors that do not regard it in such a bad light. Estevadeordal (2008), using a quantitative study, finds that countries liberalizing tariffs on imported capital and intermediary goods in the early 90s showed a higher GDP growth rate than countries that did not pursue these policies. Further positive tendencies directly or indirectly attributed to the Washington consensus is a democratization process occurring in almost all of Latin America during that decade, better fiscal control and subsequently reduced levels of inflation in the region (Jacobo, 2012). The author of this thesis would also argue that the emergence of OFDI was in large part made possible due to recommendations followed after the publication of the Washington consensus, namely to reduce government intervention in the private sector and the subsequently higher integration of Latin American corporations in global value chains that followed.

Today the global development paradigm and with it, its economic policy has shifted again to topics centred around: inclusive growth, reduction of poverty and addressing inequality (The economist, 2013; Rodrik, 2006). This is evident when looking at the focus that big multinational organizations are taking such as the UN millennia development goals (UN, 2015), the World bank's latest monitoring report, called: 'Ending poverty and sharing prosperity' (World Bank, 2014) or ECLAC's (Economic Commission for Latin America and the Caribbean) compacts for equality: towards a sustainable future addressing equality issues and sustainability in Latin America (ECLAC, 2014).

These are but some examples of many authors and organizations that have begun to emphasise a greater role of the government in the economic development of developing countries. When looking back through economic policies that Latin American countries applied in the last 200 years a pattern becomes clear.

Policy-generated challenges	Policy-based support	
	Low	**High**
High	Washington Consensus [EOI]	Active industrial policy
Low	No policy	Protection under ISI

Table 1: A simplified typology of Industrial policies in Latin America (Schmitz, 2007)

This graph shows how economic policy in Latin America shifted from no real policy during the first hundred years after independence, shifting towards protection under ISI until that model was no longer sustainable due to the high level of policy related support necessary. Then a shift to export oriented industrialization (EOI) and neo-liberal policies occurred which was again overturned in favour of more active industrial policies which not only address concerns of the economy but also social and institutional aspects. This is important to know, since this thesis directly contributes to the current industrial policy paradigm, looking at investment flows abroad as a heritage

of the EOI days and taking into account how institutions can play a role to steer these flows into the right direction. While the overarching industrial policies in Latin America shared a lot in common, the investment decisions that companies have taken to invest abroad have vastly diverged and the next section briefly discusses this topic.

1.3   Outward Foreign direct investment in Latin America

After introducing the industrial policy of Latin America, this section now focuses on the current state of outward FDI in different countries in the region. According to Forbes global 2000 list, which represents the 2000 biggest corporations globally, the number of companies from South and Central America featuring in this list swelled from 44 in 2004, to 69 in 2013 albeit for 2014 it was reduced to 58 firms (Forbes, 2014). Thus, Latin America still only has a relatively small percentage of the world's corporations but the number has been growing steadily. Many of these companies developed during the ISI phase that the region underwent in the 60s and 70s and later survived the policies of market liberalization that the Washington consensus introduced. Especially companies in the energy sector are still publicly owned entities. The following figure shows the distribution among different economic sectors of the 100 biggest Latin American companies.
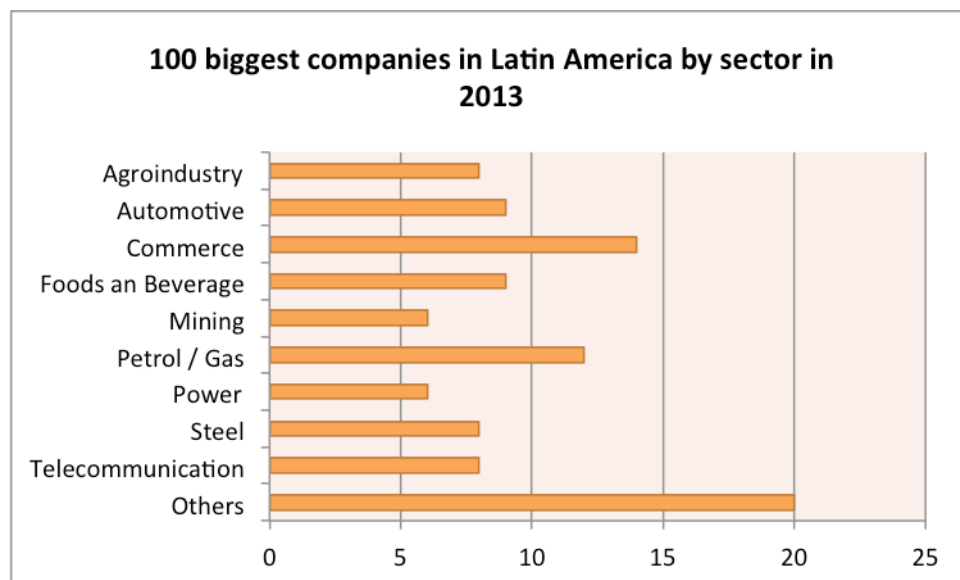
Figure 1: 100 biggest companies according to their economic sector 2013 (Americaeconomia, 2013)

It demonstrates that companies are spread out quite equally over different industry sectors with those active in Commerce and Petrol and Gas having the biggest share of all.

For varying reasons, some of which will be analysed in this thesis, these companies began to invest abroad and outward FDI began to take place in the region. The following graph highlights the total outward FDI that occurred in the region during the period between 2006 and 2013.

Total outward FDI from Latin America, 2006 - 2013
(Billions of Dollars)
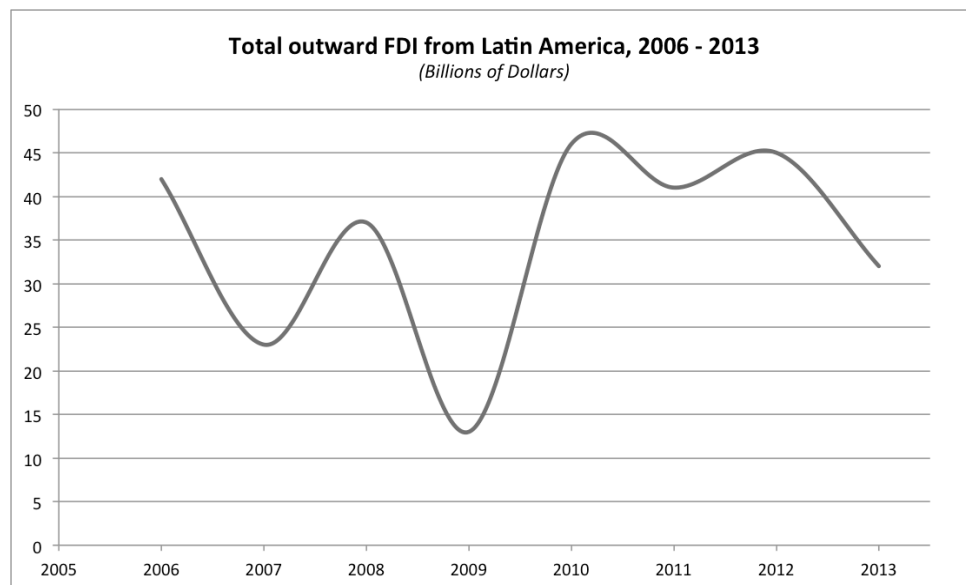
Figure 2: Total outward FDI from Latin America, 2006 – 2013 (UNCTAD, 2015)

As can be seen the total outward FDI of all countries in South- and Central America has been very volatile during recent years. Part of the reason may be found in the financial crisis and the subsequent global slowdown in economic activity. However, since this figure highlights total numbers it does not account for big fluctuations in individual countries and their respective industry mix. The following section will provide an overview of the most important Latin American investing countries and their industries. The five biggest investing countries in Latin America in the years 2010 - 2013 have been, in descending order: Chile, Mexico, Colombia, Argentina and Brazil.

Brazil:
Brazil was one of the first developing countries to have significant investment abroad. This investment began in the 1970s, thus, still during the IS policy phase and initially centred around Petrobras, the then national oil company, which was looking for new resources abroad. This was followed by Vale the big Brazilian mining company and after market liberalization reforms in the early 90s it expanded to engineering companies and banking industries

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(Bárcena, Prado, Cimoli, & Pérez, 2014). The companies were increasingly looking for new markets in Latin America or know-how in Europe and the US. For example, in 2014 Brazilian financial institute BTG Pactual acquired a small Swiss private bank (Imwinkelried, 2014). While Brazil contributes a big part of total investment flows abroad, compared to the rest of Latin America, its companies have begun to reinvest back to Brazil in recent years, this is evidenced by recent negative OFDI flows (Bárcena, Prado, Cimoli, & Pérez, 2014).

Argentina:
Compared to the rest of the region Argentina has seen a different development in recent years. It was the biggest investor out of all Latin American countries in the 90s with 2 billion Dollars of investment, contributing 25% of the total investment of the region alone. Since the economic crisis in 2000 – 2001 hit the country the level of outward FDI has been steadily declining. The single biggest investor is Techint, a steel producing company investing in many locations around the world. Molínos Rio de la Plata and Arcor are two food-producing companies that invest predominantly in South America (Bárcena, Prado, Cimoli, & Pérez, 2014).

Colombia:
Unlike other countries in the top five, Colombia has only recently begun to invest abroad but at an accelerating speed. Major investors are state-owned companies, not unlike in the early years of Brazilian FDI, above all in the energy sector. Ecopetrol, Colombia's national oil company, has made investments in Brazil, Peru and the US. Other important investors abroad include Interconexión Eléctrica Sociedad Anónima, which dominates power transmission and is a specialist of linear infrastructure provider. While the focus of investment lies in Energy and Infrastructure some banks have recently also begun to expand to Central America and Avianca the national airline carrier has consolidated its position as one of the leading airlines in the region by acquiring other carriers in the region (Bárcena, Prado, Cimoli, & Pérez, 2014).

Mexico:
Mexican corporations started to invest abroad with the onset of market liberalization in the early 90s compared to Argentina and Brazil, Mexico's outward FDI flows have continued to rise even during recent years and it now constitutes the second biggest investor of the region. Mexico's corporations

that are conducting investment abroad are very large; despite their size they conduct their investment not as geographically diversified as other countries in the region do. Most investment either goes to the US or to the rest of Latin America. The biggest company is Pemex the national oil corporation whose domestic monopoly inhibited it from investing abroad in large numbers for a long time, recent reforms by the current President Enrique Peña Nieto will change these regulations. Private corporations that do invest a lot abroad among others are América Móvil, Femsa, Grupo Alfa and Cemex. They are active in very different sectors, such as telecommunication, industrial conglomerate or food.

Chile:

Chile's companies have been the number one investors abroad out of all nations in the region. High raw material prices during the last years have helped to boost the domestic economy and finance these investments. Much of the outward FDI, however, stems from foreign companies with subsidiaries in Chile. This is a big difference to other Latin American economies where primarily domestic corporations account for outward FDI. In the retail sales sector companies such as Cencosud, Falabella or Ripley account for a lot of outward FDI. In transportation LAN the national carrier recently merged with TAM Brazil's biggest airline creating LATAM (BBC, 2012). Arauco and CMPC are investors active in the forestry industry.

While other countries in the region such as Venezuela, Peru and Uruguay had some outward FDI their number is relatively small in comparison (Bárcena, Prado, Cimoli, & Pérez, 2014).

After highlighting the important phases of economic development and industrial policy in Latin America this introduction also provided an overview of the current situation of OFDI that Latin America has been conducting in recent years. The remainder of this thesis will be structured as follows. A thorough literature review will introduce the current strain of research and illustrate some of the recent findings in the field and gaps that still exist. This is followed by the theoretical framework that this thesis uses as base for calculations and answering of the research question. The methodology will explain the quantitative methods used in the analysis. This is then followed by the results, analysis and discussion of the results. Finally, the conclusion will try to answer the research question and sub-questions posed at the beginning of the introduction. An outlook and limits of this thesis conclude this paper and provide guidance for future research on this topic.

2 Literature Review

After introducing the concept of foreign direct investment to the reader and highlighting cornerstones of Latin Americas industrial policy and its previous economic development, this chapter now looks at literature and research that has been conducted, addressing the main topics of this paper. The literature review will be structured into three sections, the first looking at institutional theories since they are central to this study, forming the independent variable in the methodology. The second part is looking at potential benefits and drawbacks of outward FDI, showing why it is important to study its determinants. And the last part of this chapter looks at previous research conducted specifically on how institutions determine outward FDI, providing the bases for the framework and methodology of this thesis.

2.1 Institutional-based view: More than just a catchphrase

Institutions have been studied for a long time, first by sociologists, later by economists and in recent years also by business scholars.

The concept of what institutions are subsequently differed between the different branches of social sciences and different values are attached to the various components (Mudambi & Navarra, 2002). More than a century ago in the year 1883 Menger pointed out that there was a difference between pragmatic institutions being the direct consequence of a conscious contractual agreement and organic institutions that evolve gradually as an unforeseeable result of individual interests (as cited in Mudambi & Navarra, 2002). More than hundred years later, Elster pointed out that some institutions may be unintended at first but are later consciously preserved because they are regarded as beneficial (as cited in Mudambi & Navarra, 2002).

Douglas North, an economist coined a famous definition of institutions, which has subsequently been cited a lot. "Institutions are the humanly devised constraints that structure political, economic and social interaction" (North, 1991, p. 97). In the same article the author argues that institutions consist of informal constraints and formal rules, a distinction, which was also used in many later works of different scholars. This means that rules and laws are formal institutions, whereas informal constraints may be associated with cultural values and norms that differ from each culture.

Scott (1995) proposed a different framework differentiating between regulative, normative and coercive institutions, with similar results as North. The same author also defined institutions as "social 'structures' that have attained a high degree of resilience that together with associated activities and resources provide stability in societies" (Scott, 2010, p 6). Hodgson defined institutions as relatively stable "systems of established and embedded social rules that structure social interactions" (Hodgson, 2006, p. 18).

While some of the previously mentioned authors have demonstrated that institutions matter and what purpose they serve, not every branch of social science put an equally great emphasize on their role. Scholars in economic science have begun to place a greater emphasize on institutions during the last 20 to 30 years. Their main focus of research was how institutions contribute to growth, economic development and lead to an increase in income. Several studies in this field have found a positive correlation between higher prosperity and stronger institutions (Dollar & Kraay, 2002; Ros, 2011; Nakabashi, Gonçalves Pereira & Sachsida, 2013).

In political science, institutions' role in shaping rules and regulations has been an important branch of study. Businesses for instance are not only shaped by political rules and the juridical system that they operate in, they in turn also shape the setting of new policies and influence politicians and the institutional environment. Graz and Nölke (2008) explore a series of transnational private governance actors and their role in forming transnational rules and regulations and find significant evidence that private governance is taking place on regional, national and supranational level. Other authors such as Reed, Utting and Mukherjee (2012) look at similar issues.

Peng was one of several authors who introduced institution-based views into strategic management studies through several studies in the early millennia (Peng, 2002; Peng, Wang & Jiang, 2008; Peng, Li Sun, Pinkham & Chen, 2009). The author argues that strategies of companies are shaped not only by their internal resources and capabilities and the industry-based competition, but also by the institutional environment and how institutions evolve over time. The latter aspect will be looked at in more detail further into the chapter. Taking all aspects of business strategy into consideration Peng named it the Strategy Tripod. It acknowledges institutional factors as an important driver of strategy in firms.
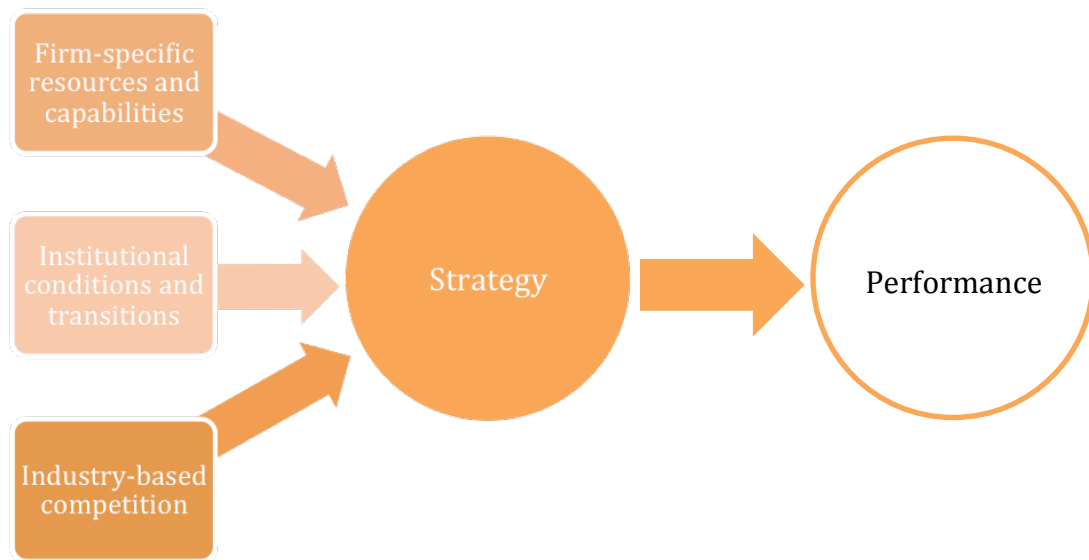
Figure 3: The Institution-Based View: A Third Leg of the Strategy Tripod (Peng et al., 2009)

The theoretical findings from this study form an important basis for this thesis, since it shows that a company's strategy is shaped by institutions in its environment. Different authors have since begun to look at different aspects on how institutions shape strategy and the business in general. Liability of foreignness is one of these aspects that were studied by several authors (Ghemawat, 2007; Shi & Hoskisson, 2012; Sethi & Judge, 2009). They conclude that both difficulties and opportunities exist when a company enters an alien market and subsequently an alien foreign institutional environment. Opportunities exist since it can also lead to important firm-specific performance-related outcomes, which have previously been underestimated.

Other authors have looked at organizational change and how it is influenced by institutional configuration, in this particular case by the US, Japan and Germany (Lewin & Kim, 2004). Or how corruption influences multinationals' strategy making and how they respond when faced with demands of bribery in their host country (Rodriguez, Uhlenbruck, & Lorraine, 2005).

2.2   Institutional change

Besides the fact that institutions matter, another important aspect is how changing institutions influence firm strategy. In this regard Peng (2003) developed a framework on how companies active in developing countries address institutional changes through time. The author uses a two-phased model of institutional transition, looking at incremental change happening gradually as a transition of complex rules and norms over a period of time,

and fundamental change which may even occur overnight, when new laws and rules are implemented suddenly. The author further looks at the transitional state the economy finds itself in and how three different categories of firms, incumbent firms, domestic new comers and foreign market entrants, respond to change. Finally, the author concludes: "As emerging economies evolve, the best-performing firms seem to be those that convert the gains from the previous, relationship-based phase into market-centred resources and capabilities" (Peng, 2003, p. 292). This article provides a very good theoretical framework from which to analyse institutional change.

Other studies have focused on more specific and regional aspects of institutional changes. One quantitative paper focused on the integration of European institutions under the treaty of Maastricht and its effects on business cycles (Canova, Ciccarelli, & Ortega, 2012) another study analysed Finnish business operations in Estonia and Russia, and how the post-socialist institutional environment is shaping business strategy of these companies (Heliste, Karhunen, & Kosonen, 2008). Bjerregaard and Lauring (2012) take a specific look on entrepreneurship and institutions. While the study uses Malawi as a case, it differs from other studies, in that its focus is the entrepreneur and how he manages institutional contradictions and works on maintaining and changing institutions rather than analysing a specific institutional environment.

A common finding that all authors agree with is that the strategy of a company is not only shaped by its institutions and strategy not only responds to institutional change, but that businesses in itself may act as a driver for change and that interaction between business strategy and institutional change always runs in both directions. In conclusion, one can say that institutions influence strategic decisions of corporations in varying ways and the exact interplay between both is still part of on-going research. This paper hopes to directly contribute to the theory in that it looks for a correlation between institutions, institutional change and strategic choices of outward FDI in developing countries.

2.3 Benefits and drawbacks of outward FDI

The previous chapter introduced the concept of foreign direct investment and the distinction between inward and outward FDI. When looking at benefits and drawbacks of outward FDI the literature differentiates between

productivity spillovers and other quantitative and qualitative benefits that can be associated with outward FDI.

Several studies have been conducted on productivity gains originating from outward FDI in different industries, following business-, industry- or country-level approaches. This was specifically carried out in European and Asian economies (Vahter & Masso, 2006; Hsu, Gao, Zhang & Lin, 2011; Athukorala & Chand, 2000). While some authors find a correlation between productivity growth and outward FDI others do not find such a connection. In a detailed study Herzer (2011) analyses 33 developing countries in a period from 1980 – 2005 and, on average, the author finds a positive correlation between total factor productivity gains in the economy and outward FDI.

However, not all countries reported an increase in productivity and higher outward FDI. A famous example is South Korea, which, during the period studied, demonstrated a steady increase in outward FDI but a fall in total factor productivity. Foster-McGregor, Isaksson & Kaulich (2013) find a positive correlation of productivity and degree of internationalization in Sub-Saharan African companies. Similar findings were also published in a study from Slovenia (Damijan, Polanec & Prašnikar, 2007). Both studies, however, leave room for interpretation since the question of cause and effect remains unanswered. A time series study would have to analyse if OFDI is causing gains in productivity or if gains in productivity lead to higher outward FDI. Some studies did not find any correlation between OFDI and productivity (Al Azzawi, 2012; Lee, Chyi, Lin & Wu, 2013).

In summary, the studies analysed do not provide a conclusive picture on economic productivity gains that may be derived from OFDI. While some studies found a positive correlation others did not. This may also be explained due to regional differences and different industries that were studied in this context.

When considering other potential benefits and drawbacks of OFDI, research has focused on different country- and sector specific effects. Among them is the effect OFDI has on employment, and while public opinion often negatively associates OFDI as a means for corporations to offshore or outsource jobs to emerging markets, some studies have found a marginal increase in employment. These jobs were created after companies outsourced parts of their production abroad (UNCTAD, 2006; Frederico & Minerva, 2008).

Several authors studied a potential connection between outward FDI and the

balance of trade of a country and the consensus is that there is a positive correlation between the two factors (Lee, 2002; Bajo-Rubio & Montero-Muñoz, 2001; Chow 2011). While production abroad may generally lead to a reduced need for companies to export from their home country, since goods can now be produced more efficiently elsewhere, this effect may be offset in the longer run by other factors. An increase in competitiveness, scale and scope economies that accrue thanks to the fragmentation of value chains and transfer of technologies between headquarter and subsidiary, may all in turn lead to higher overall export numbers.

Domestic public finances may also be influenced by companies that invest abroad if the government decides to acquire a stake in another company or take over the foreign company altogether. In national oil corporations it may often be the case that the corporation invests abroad and with its investment strategies impact the financial household of the entire country, since its earnings may be reduced temporarily. This, however, applies more to developing countries where bigger, government-owned companies exist compared to western economies where companies are mostly in private hands (UNCTAD, 2006).

A series of qualitative studies has also looked at advantages and disadvantages of outward FDI. Kokko & Blomström (1998) specifically analysed spillover effects occurring from outward FDI. Besides productivity gains, which are direct benefits from FDI and hence not considered spillovers and were mentioned previously the authors also found structural changes occurring in the home country where more specialization takes place. Other positive effects such as the establishment of advanced training institutes or specialized business services such as technical consulting firms may occur, which would not have a sufficient market if the industry had not specialized as a result of FDI. Chen, Li & Shapiro (2012) find evidence of reverse spillover effects occurring when emerging market MNCs have subsidiaries in developed countries richer in technological resources.

The authors further argue that companies should emphasize on innovation input captured by R&D investment rather than output with patents issued from the host country since knowledge is tacit and more easily transferred via R&D than through the acquisition of patents. To that end, Zhao and Ordóñez de Pablos (2010) provide a framework on how to facilitate knowledge and technology transfer based on the Chinese model. They argue that it is both responsibility of the government that may act as a facilitator and the strategy

the company pursues that decide how much knowledge spillover may occur from OFDI.

Not all spillovers, however, are necessarily positive. According to Kokko and Blomström (1998) some outward FDI to countries with an abundant skilled labour pool may lead to a reduction in higher skilled jobs in the home country and subsequently negative spillover effects. The authors do admit, however, that this scenario is most likely not very common and that companies rather use outward FDI to more developed countries to acquire new technology unavailable in their home country.

A final strain of research looks at how competitiveness levels of corporations are influenced by outward FDI. This resembles the previous studies looking specifically at knowledge transfer, technology upgrading and positive and negative spillovers, however, the studies conducted are at a micro-level and case study based, whereas the studies in the previous section looked at macro-level benefits and drawbacks. Jeenanunta et al. (2013) analysed three different companies in Thailand that invested in developed countries between 2008 and 2010. They find elaborate training for Thai employees in the newly acquired affiliates, exchange possibilities and joint projects were all taking place to increase knowledge sharing and diffusion. This in turn had a positive impact on all companies and improved their competitiveness.

Another study (Mani, 2013) focused on the Indian car manufacturer Tata where the company founded a Joint Venture with Daewoo a South Korean car manufacturer that has since ceased operations. Knowledge transfer occurred through three separate channels: Joint product development through combined research and development, technology transfer through licensing and exchange of employees for training purposes. Lissoni (2001) is more critical when it comes to tacit knowledge transfer. The author's findings point to knowledge circulation taking place in few and small "epistemic communities" and even local messages are highly codified and not easily transferable. The research was conducted in small Italian mechanical firm clusters and thus only represents a very specific industry and is geographically limited. More research would have to be conducted to better understand knowledge transfer occurring from OFDI.

Taking all the literature presented in this section into account, it can be said that outward FDI has been thoroughly studied and that both negative and positive findings can be attributed to it. While perceived effects of OFDI in developed countries may be more negative than their actual role in the

economy, it is worth to further study its effects in different areas of the economy, also in regard to its promotion, which this thesis focuses on. For developing countries the consensus seems to be more positive with several authors recognising technology and knowledge transfer from developed countries taking place. Therefore this thesis will generally regard higher OFDI as something desirable when studying institutional determinants.

2.4 Institutional and other determinants on outward FDI

Motivations and triggers for outward FDI have been studied extensively in recent decades and an important taxonomy has been established since. Dunning developed the Investment development path (IDP) as one tool to understand FDI flows, it is a model demonstrating that outward and inward investment flows are dependent on the development stage of a country (Dunning & Narula, 1996). When a country is in its early development stage both in- and outward FDI are practically non-existent but as the country develops foreign investors become increasingly interested in having a presence in the country and inward FDI increases. At a later stage this inward FDI is gradually replaced by more outward flows as domestic companies become sufficiently competitive to invest abroad and reap the benefits of FDI mentioned in the previous section. At a later development stage both flows balance out. The model provides a macro-economic example as to why FDI occurs and when it may be expected to occur depending on the development stage of a country, it has been tested quantitatively and proven to be true. However, some countries such as China have also shown that this rule does not always apply and OFDI may occur sooner than would otherwise be expected from the IDP model. This may be explained due to firm-level strategic decisions or the institutional environment.

Incentives that trigger OFDI were also studied by Dunning's framework of investment motivation (Dunning, 2008; Lasserre, 2008, Bezares Calderón, 2014). Dunning argues that companies hold different motivations for investing abroad. One category are *natural resource seeking* companies, they are predominantly interested in the resources, either of higher quality or lower real cost that can be found abroad and conduct OFDI to acquire these resources. Most of these resources are then exported to industrialized countries for further processing. Another category are *market seeking* corporations, looking for access to bigger markets, either because their home markets are already saturated or because exporting to another market

has become too expensive due to tariffs and other cost-raising factors. A third category are *efficiency seeking* companies that want to gain from common governance in geographically dispersed regions. Their intention is to take advantage of different factor endowments, economic policies or demand patterns in different parts of the world. This group of corporations are usually experienced, large and diversified multinationals. The final group of corporations are labelled *strategic asset (capability) seeking* they engage in OFDI for long-term strategic goals. When the company tries to access or buy competitive strength in a hitherto unfamiliar market. The motive thus is less to exploit specific cost or marketing advantages over competitors, and more to augment ones global portfolio of physical assets and human competences to take advantage of ones competitors.

This taxonomy has become widely used and quoted but some authors also challenged it and applied their own definition and wording. Moghaddam et al. (2014) labelled the strategies: End-customer market seeking; Natural resource seeking; downstream and upstream knowledge seeking; efficiency seeking; global value consolidation seeking and geopolitical influence seeking, providing detailed explanation to each term. Despite these differences the inherent aspect of Dunning's framework of FDI motivation may be too simplistic to explain all aspects of strategy formation. The framework assumes that the decision making process is solely taken up by the investing company without any outside interference. This leaves out an important aspect: the institutional environment the company finds itself in and how it influences the internal decision making process of a firm.

As discussed in the previous section of this literature review, institutions play a vital role in shaping corporate strategy and should be taken into consideration when trying to determine the reason and motives of corporations for conducting OFDI. While past research focused mainly on specific policy effects of foreign direct investment (Dunning, 1996; Vernon, 1998) more recent studies have taken a broader look at institutions as a whole and how they influence OFDI. This section looks at studies that specifically address several institutional variables in regard to OFDI and not just specific institutions such as corruption or trade liberalization. These broader studies have only recently been researched in more detail with institutional theories playing a more prominent role in business studies in general. Witt and Lewin (2007) argued that OFDI was driven by a so-called misalignment of firm needs on the one hand and home country institutional environment on the other and that this misalignment was likely to be further increased in coming years in industrialized countries as social coordination

in political economy further intensified the misalignment of institutions.

Overall the focus of studies on institutions and outward FDI in developing countries has been placed on the largest contributor economies. China stands out prominently, (Buckley et al., 2007; Boateng, Qian & Tianle, 2008; Cui & Jiang, 2009; Yan, Hong & Ren, 2010; Luo, Xue & Han, 2010; Wang, Hong, Kafouros & Boateng, 2012; Sun, Peng, Lee & Tan, 2015) but also India, (Bhaduri, 2005; Hansen, 2008; Saeed & Athreye, 2014) Russia and CEE countries, (Kalotay & Sulstarova, 2010; Stoian, 2013; Marinova, Child & Marinov, 2015). Some studies were also made for Latin America (Amal, Raboch & Tomio, 2009; Stal & Cuervo-Cazurra, 2011; Bezares Calderón, 2014).

The recent surge of publications of several studies in this field highlight the increasing importance attributed to this topic and augmented interest that scholars have. This is also confirmed by a number of international organizations such as UNCTAD, which dedicated papers to this topic such as the flagship World Investment Report from 2012, focusing on investment policies and promotion methods of investment (UNCTAD, 2012). While most studies focus on a specific country, in particular China that has a unique institutional environment, there have also been some multinational studies in recent years (Salehizadeh, 2007; Das, 2013; Amal & Tomio, 2015; Klimek, 2013, Stoian, 2013; Thangavelu & Findlay, 2011).

Most multinational studies are of quantitative nature and look at a group of developing countries or a specific segment such as BRIC nations using panel data and different institutional variables to determine impact of institutions on outward FDI. These findings have shown mixed results with some indicating a correlation between different institutional variables and OFDI and others finding no such correlation. The level of analysis also varies between different authors, most focus on a national level since data of OFDI is most readily available on that level; these are (Witt & Lewin, 2007; Khanindra, 2013; Hansen, 2008) among others. Other scholars focused on an industry analysis level Yan et al., 2010 for instance differentiated between Trade-Oriented, Produce-Oriented, R&D-Oriented, Resource-Oriented and Other Companies when conducting their quantitative studies. On a third level some studies analysed OFDI on a firm-level basis (Sun, Peng, Lee & Tan, 2015; Cui & Jiang, 2009) the former one specifically using control variables such as firm size, firm age, and CEO specifics to account for firm individual behaviour in their quantitative study.

As mentioned previously studies about institutional determinants on outward FDI have become somewhat more common in recent years, however, in the case of Latin American there has still been relatively little research, which is one of the reasons why this study was undertaken. Amal et al., (2009) uses a panel data focusing specifically on three Latin American countries: Brazil, Chile and Mexico which during the timeframe analysed between 2003 and 2007 held the biggest amount of OFDI stock in the region, contributing 42.8% of the total. The authors chose to use outward FDI stock over flows and looked at institutional variables such as globalization and education levels. They find a direct relation between outward FDI stock and their chosen dependant variables for the three countries in question.

Stal & Cuervo-Cazurra (2011) study the applicability of the IDP and what other elements may contribute to outward FDI in developing countries. The authors find two additional factors influencing a firm's investment decision that can directly be linked to institutional theories. Brazil was used as an example in this study highlighting institutional changes that occurred in the 1990s. It is the push of pro-market reforms that enables companies to expand their business abroad sooner than would have otherwise been the case following the IDP model. "…(a) commercial and financial liberalization in foreign relations; (b) economic integration program with Mercosur countries; (c) implementation of Plano Real in 1994, which stabilized inflation; and (c) privatization" (Stal & Cuervo-Cazurra, p. 219, 2011). And secondly the push of institutional voids that exist in the home country in the case of Brazil. This was primarily identified as high taxes and burdensome government regulations on the private sector. The authors use a quantitative model to demonstrate their findings.

Bezares Calderón (2014) also focuses on Brazil in her study analysing how economic growth and social development have been impacted by OFDI. The author analyses in particular taxes, unemployment and a substitution effect from developing to developed countries and finds a correlation between the different variables, attributing negative societal effects such as creating an asymmetric tax burden. In this sense the author deviates from other studies in that she looks at how outward FDI impacts on institutions and not the other way round which is an interesting perspective.

To the authors knowledge these three studies comprise all extant literature on this specific topic. Therefore it can be said that the literature is still relatively scant focusing on either Brazil in two cases or Chile, Mexico and Brazil in one case. There is, however, a lack of multi-country studies

comparable to studies conducted in Eastern Europe or on a global scale to account for local peculiarities in the institutional environment of Latin America, which this thesis tries to address.

In summary it can be said that the last decade has witnessed an increased interest in the topic of whether institutions determine outward FDI. The focus has mostly rested on BRIC countries, specifically China, Russia and India. All levels of analysis from a national to an industry and firm level have been analysed in different studies. Both, quantitative and qualitative approaches were used to study the effects and many papers found at least some correlation between the two variables. For Latin America there is only scant literature available on this topic, underlining the need for further research in this field.

The following graph summarizes the different approaches used in recent literature to study institutional determinants on outward FDI.

Studies on the determinant of outward foreign direct Investment in developing countries

Theoretical models	**Level of analysis**	**Scope and Focus**
• Dunning's OLI framework	• National level	• Focusing on one country only i.e. *China or Russia*
• Dunning's framework for investment motivation	• Industry level	• Focusing on several home countries *CCE*
• Dunning's IDP (Investment development path)	• Firm level	• Focusing on a large *group of developing countries*
• Resource based views	**Type of analysis**	• Focusing on either *host- or home country* variables
• Institution based view	• Qualitative studies	
• Strategy tripod	• Quantitative studies	**Data**
		• Secondary data
		• Case study

Table 2: Overview of previous literature on determinants of outward FDI, based on Stoian (2013).

This chapter analysed literature on three topics related to this thesis, institutional theories, benefits and drawbacks of OFDI, and looking at extant literature on institutional determinants of OFDI. The next section discusses the theories and hypothesis used in this thesis by introducing a theoretical framework.

3 Theoretical Framework

After introducing important literature on outward FDI and institutions to the reader this chapter presents the theoretical framework used in this thesis. To study the effects that institutions have on OFDI, several variables will be used in a quantitative analysis. Each variable introduces a hypothesis, which the analysis will later try to answer.

The first set of variables discusses institutional factors that may influence outward FDI from Latin America and introduces 5 hypotheses. This is followed by a hypothesis related to economic performance and one about South-South or Intra-Latin trade, which will be used to complement the findings from the institutional study.

Khanna and Palepu (1997) are scholars in the field of international business strategy. The authors analysed so-called institutional voids, where institutions are found to work less efficiently in developing markets compared to developed markets. Subsequently the authors analysed strategies that firms use in developing markets to shield themselves from these voids. The authors identify several categories where institutions directly influence strategy making in businesses that are active in emerging markets. The following list will briefly elaborate each variable and formulate a hypothesis accordingly.

3.1 Product Market

The first institutional context that Khanna and Palepu (1997) analysed, are product markets. Compared to product markets in the developed world companies active in developing countries are faced with several obstacles. The authors identify three main differences, the communication infrastructure is often underdeveloped, difficulties with power shortages and a lack of internet-facilities make communication much more difficult. Information about products is much harder to corroborate since independent consumer organizations are rare and it is up to the consumer to form a judgement. And consumers have no redress possibility if a product does not deliver on its promises. The governments offer few possibilities to appeal when a product does not deliver its promised usefulness. In a different paper the authors Khanna, Palepu & Sinha (2005) also highlight the lack of market research. Many developing countries lack the databases of potential consumers that

exist in developed markets to conduct successful marketing campaigns of the scale of developed markets.

Conway, Herd, Chalaux, He & Yu, (2010) find that product markets in China are still heavily influenced by government interventions and regulations. State-owned enterprises and government agencies still bar competitors from entering the market in some industries and thus contribute to a reduction of FDI, favouring a few select national corporations. This results in a reduced overall productivity for the Chinese economy. In the case of China's state-owned enterprises their usually huge size may well make up some of this lack of productivity. They do so with sheer economies of scale and holding enough financial resources to expand abroad, despite institutional voids present in their domestic market. In Latin America state-owned companies play a less prominent role after the liberalization wave and the Washington consensus as seen in the introduction, however, government interventions are also commonplace and some of the features mentioned in Khanna an Palepu apply to Latin American countries as well. Companies are overall smaller in size than many Chinese counterparts and are faced with challenges of a product market with many failures. They may find outward expansion prohibitively expensive due to insufficient financial means. Therefore the following hypothesis is made:

H1a: *OFDI is positively related to more sophisticated goods markets such as higher domestic and foreign competition and increased consumer sophistication.*

3.2 Capital Markets

Khana & Palepu (1997) see similar problems in the capital market as in the product market. The lack of information present in developing countries keeps investors from putting too much money into these markets. Therefore, large and well-established companies have superior access to capital in developing countries whereas smaller firms find it much more difficult to obtain credit. In their other paper Khana, Palepu & Sinha (2005) also point out that corporate governance was notoriously poor in emerging markets and therefore the creation of joint-ventures and other business alliances is faced with obstacles since trust building needs to take place before big financial transactions occur. In the case of Latin America, Chong & Lopez-de-Silanes (2007) find that high scale corporate scandals that occurred in the western world in recent years have been relatively rare. The evidence, however, does

not indicate a relatively better level of investor protection compared to western standards but that low level of protection and transparency have created an environment where scandals are simply not easily uncovered.

Santiso (2003) highlights the difficulties companies are faced with in the capital markets of Latin America where, until recently, capital flights and currency crashes were quite a common occurrence. The two most recent being Mexico in 1994 and Argentina in 2001 in both cases a sharp currency devaluation and high inflation led to a very challenging environment for businesses. Even today, both Argentina and Venezuela maintain currency controls to fight capital flight and do not allow a free conversion of their currencies (Dallen, 2015).

The combination of high financing costs, lacking transparency on corporate governance and currency risks associated with the region may well reduce potential outward FDI, especially from medium sized enterprises that would have otherwise undertaken such investment. Therefore the following hypothesis is made:

> **H1b:** *OFDI is positively related to capital market development and subsequent access to loans and means of financing.*

3.3   Labour Markets

Differences in the labour market are maybe the most visibly pronounced between developing and developed countries. Whereas products and capital move increasingly freely between borders thanks in part to free trade agreements and new technology, labour is still mostly restricted to the geographical borders of a country and its institutions. According to Khana and Palepu (1997) a big institutional difference represents the scarcity of trained labour available in developing countries. This is due to lacking education available for many citizens. Stiff labour regulations are another difficulty that businesses are confronted with in developing markets, making adjustments to employee numbers due to changing economic situations extremely difficult.

When looking at the labour market situation of Latin America and in particular at education of labour Levy & Schady (2013) find that the region has a high enrolment rate of children attending school at the primary level of over 90% and still reach between 60% - 80% on secondary schools. Unfortunately,

Latin America scores abysmal when it comes to quality of education. This has been proven in several PISA studies on education quality. The same authors make a direct connection between low productivity rates on the continent and poor education. Burgess (2010) analysed labour laws and regulations in Latin America in recent years and found different results among countries in the region due to different historical backgrounds. Among the countries analysed, labour populism was present in Argentina, Bolivia, Brazil, Mexico, Peru and Venezuela. A pluralist welfare system was in place in Chile, Costa Rica and Uruguay. A conservative oligarchy in Colombia, El Salvador, Guatemala, Honduras, Nicaragua and a Paternalist dictatorship in Ecuador, Panama and Paraguay. While labour laws were more or less tightly regulated in the pre-Washington consensus phase many countries loosened some of these laws subsequently.

Core labour standards in short (CLS) have been introduced in the region by several external institutions. Free Trade Agreements that include such standards are one way to introduce the CLS to the region and international financial organizations such as the World Bank, the ILO or the IMF also promoted the implementation of some basic labour rules.

Considering the theory discussed in the previous chapter, some corporations decide to invest abroad to access human capital, which otherwise is not available in their domestic market. Considering how poorly Latin American countries score in terms of education this may very well apply to companies in the region. Different labour standards within the region may also provide opportunities for investments abroad to access labour markets that are less stringently controlled by the government. When human capital available in the domestic market becomes more readily available there is less need to offshore parts of production abroad. Due to these findings the following hypothesis is made:

H1c: *OFDI is negatively related to more efficient labour markets such as better employee training and use of skills.*

Thus, a negative correlation is expected between OFDI and labour market efficiency. In the long run, however, this correlation may be reversed when countries become sufficiently developed to no longer seek human capital abroad but rather cheaper labour instead, as occurred in Europe and the US. However, in the case of Latin America this stage has not yet been reached.

3.4 Government efficiency

The next institutional context to analyse is the government as an actor in markets. Khana and Palepu (1997) notes that the government in developing countries often acts very different compared to developed countries. Interventions in the market are much more frequent and actions undertaken by the government are often arbitrary and make government actions difficult to predict. Bribes and corruption are another side phenomenon of lax government regulations and an uneven playing field.

Certain rules and regulations imposed by governments also influence business behaviour. Import substitution (Toye & Toye, 2003; Mauro, 2010) are a set of institutions that directly influence import and investment flows and may prevent OFDI from occurring. In some countries, such as China the government actively promotes outward FDI and forces some state controlled firms to invest abroad as a means of acquiring new knowledge and technology (Wang et al., 2012). Governments can also influence outward FDI through the signing of free trade agreements with other countries or economic blocs as indicated by (Thangavelu & Findlay, 2011).

In the case of Latin America all levels of failure in government inefficiency can be found, and interference in markets are present. This is in some countries more pronounced than in others. Nationalizations have occurred in Bolivia, Venezuela and Argentina in recent years (Achtenberg, 2012; Romero, 2007). While such nationalizations may in the short run lead companies in affected countries to expatriate assets abroad to safeguard them from the government, the more likely scenario is that companies will rather refrain from risky investments abroad when the domestic market is mired in uncertainty over government actions.

Coherent and better governance will therefore likely outweigh factors such as capital flight when it comes to making investment decisions for abroad. Therefore the following hypothesis is made in regard to government regulations:

H1d: *OFDI is positively influenced by high government efficiency and therefore little intervention in domestic market and favouritism in the decision-making process of government officials.*

3.5 Contract enforcement

The final institutional context difference that Khana and Palepu (1997) identified in their research was contract enforcement. Despite the usually bigger involvement of governments in markets in developing countries their relative inefficiency leads to a lack of contract enforcement. Confidence in the judicial system makes it easier for businesses to enter into arms-length relationships with other companies and make investments abroad. However, in developing countries courts often make arbitrary rules and do not offer the required level of protection needed for investments to take place, thereby hampering the entire business activity in the country.

Another aspect related to contract enforcement is the protection of property rights. This is often insufficient in developing countries and leads to losses for innovative firms. Yasar, Paul & Ward (2011) find a significantly positive relationship between firm performance and perceived property rights protection when studying a sample of 52 countries. The findings were made independently of other firm specific characteristics. This implies that firms in developing countries are at a severe disadvantage to its peers from developed countries and may find their innovative ideas eroded by competitors originating from within the same country, before they are able to expand abroad.

In the case of Latin America the same problems apply that can be found elsewhere in the developing world. In a study conducted to determine variables to measure judicial performance Staats, Bowler & Hiskey (2005) conclude that Latin America has some of the most inefficient, ineffective and corrupt judicial systems in the world. While specific literature on contract enforcement in Latin America is scant, several studies focused on spcefic cases of judicial reforms in different timeframes in recent years in countries such as Mexico, Argentina or Ecuador (Inclán Oseguera, 2009; Ruibal, 2009; Basabe-Serrano, 2012). The studies have shown mixed results as to the effectiveness of these reforms and deep institutional voids persist in many countries. This has direct consequences for businesses active in the area. While they may be accustomed to a deficit of rule of law and thus cope relatively better, compared to market entrants from developed countries, the issues will still most likely negatively affect their investment decisions. Thus, the following hypothesis is made in regard to government regulations:

H1e: *OFDI is positively related to better levels of contract enforcement such as protection of property rights and intellectual property rights.*

3.6   Inward FDI as a percentage of economic growth

As discussed in the literature review previous studies have looked at economic indicators such as economic growth and inward FDI levels to determine outward FDI. Dunning and Narula (1996) presented the IDP, proving a direct correlation between level of development of a country and FDI in- and outflows. While the IDP has been empirically proven it is nevertheless interesting to test it in combination with institutional variables and is included in this framework as a separate economic indicator.

When applying the IDP to Latin American countries it can be expected that most countries find themselves in stage 3 of the model belonging to the group of newly industrialised countries. This category sees both rising in- and outflows of FDI, with a net positive balance of investment. Motives for inward FDI are primarily market seeking and to a lesser extent strategic asset seeking and natural resource seeking, this may well apply to countries such as Mexico, Brazil and Chile among others. Some countries in Latin America may, however, be placed into stage 2 where outward FDI is still marginal but inward FDI is growing. Primary motivation for inward FDI here is natural resource seeking this may be the case for Peru, Bolivia and other smaller nations in the region. Since this model has been tested and empirically validated the following hypothesis is made in regard to the economic variables:

H2: *OFDI is positively influenced by inward FDI*

3.7   Intra-Latin American investment flows

The final variable that this framework analyses is investment flows between countries in Latin America. This is interesting because it allows a look at differences that may exist between total investment flows and flows that remain within Latin America. So-called South-South investment has become increasingly important in recent years and in 2013 around two thirds of all outward FDI in Latin America remained in the region according to the data analysed in this thesis. These numbers have to be regarded with caution, however, since secondary data on FDI outflows and its destination is not easily available. More detail will be provided in the next chapter.
According to UNCTAD (2005) bilateral and multilateral investment treaties have seen a surge in recent years and this trend has continued since the article was published. When taking the above hypothesis about institutions

into account the overall improvement of institutions will have a positive effect on OFDI from home countries. It seems therefore likely that improved institutions in the entire region will be seen as a further positive feedback for companies from investing countries and may increase total OFDI even further. Therefore, the following hypothesis is made in regard to government regulations:

H3: *Institutional reforms analysed in this thesis are positively related with an increase in OFDI flows to other countries within the region.*

The following graph summarizes the theoretical framework used in this thesis. It highlights the different variables and the main theories underlying each category.
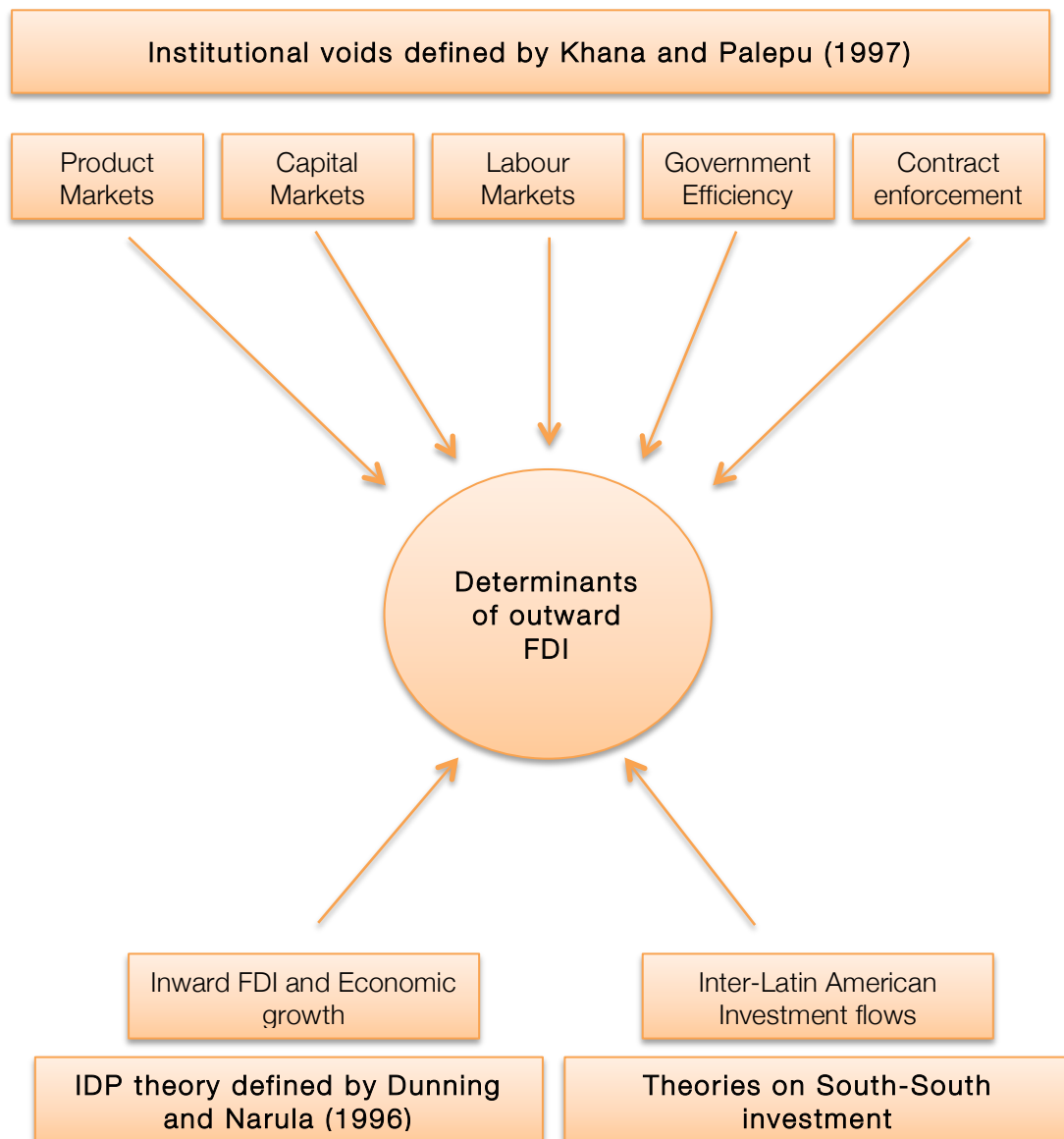
Figure 4: Theoretical framework used in this thesis highlighting variables that may influence outward FDI from Latin America

After introducing the theoretical framework and its seven hypotheses that will subsequently be tested with a quantitative analysis the next chapter on methodology will look at research philosophy and data used in this thesis.

4 Methodology

This chapter introduces the methodology that is used in this thesis providing details on several areas related to the quantitative study. First a brief outline of the research philosophy will provide insight into the motivation, ideas and thoughts of the author used to establish the methodological basis for this thesis. Then a sample description and data introduction is given where all variables used in the model will be introduced. The chapter concludes with a section about the analytical methods and econometrics used in this thesis.

4.1 Research philosophy and ideas

According to Easterby-Smith, Thorpe and Jackson (2012) scientists draw from different philosophical assumptions when conducting their research and according to different philosophical assumptions different methodological approaches are chosen. The first level of observation is ontology, according to Easterby-Smith et al., (2012) it is assumptions about the nature of reality where the main differentiation lies between realism and relativism. Out of the different ontological approaches available, this paper mostly takes an internal realist approach. Assuming there is a single reality that may be analysed but that facts cannot be accessed directly. In the authors believe it is possible to analyse if there is a correlation between outward FDI and institutions, however, in order to find out, indirect evidence through statistical methods needs to be used. Other ontological traits are relativism and nominalism that hold different views on nature and reality.

The next level is called epistemology and includes two traditions on how to conduct research: Positivism and social constructionism. The first one builds upon the ontological ideas of realism and proposes to actively measure results through objective methods instead of making subjective inferences, the latter one builds on relativism and nominalism and states that reality is not objective and is socially constructed by people to give meaning to it (Easterby-Smith et al., 2012). The thesis will follow a more positivist approach since this stands in line with the philosophical principles of internal realism that reality can be studied and is seen by the author as a good way to provide a first overview over a topic that has not been studied thoroughly yet.

Taking a more positivist philosophy for this study also has implications for the way data is collected and evaluated. A positivist approach usually includes a hypothesis and propositions, which the thesis will answer. This is then combined with numeric data sets and a correlation or regression analysis leading to results that should allow for an acceptance or rejection of a previously stated hypothesis. While these philosophical research traits are fluid and researchers often rely on several approaches and philosophies to determine their methodology this thesis will mostly rely on an internal realist and positivist approach. Other options existed and the study could have been conducted with a relativist oncology and a social constructivist etymology, which would have lead to a more qualitative methodology with interviews and case study analysis to account for differences in country behaviour. More detail on limitations for this study will be provided in the final chapter of this thesis.

4.2 Description of methodology and data

Drawing on the research philosophy introduced in the previous section this thesis uses a panel data set of 17 countries in South- and Central America. To test the limits of extant literature the region provides an ideal place for further study. The variety of institutional differences that exist between the 17 nations analysed should further help to find institutions that hold a true influence on outward FDI, if any at all, depending on the outcome found in different countries. The focus on one region only is justified in that most previous literature has either focused on a single country or a specific region. The following 17 countries are included in this study, which the United Nations (2013) considers as Central- and South America.

Central America:

Costa Rica
El Salvador
Guatemala
Honduras
Mexico
Nicaragua
Panama

South America:

Argentina
Bolivia (Plurinational State of)
Brazil
Chile
Colombia
Ecuador
Paraguay
Peru
Uruguay
Venezuela (Bolivarian Republic of)

While, Belize, Guyana and Surinam were also initially included in this list, their relatively small size and often lacking outward FDI did not provide a satisfying amount of data to include them. French Guyana and the Falkland islands, although included in the UN list of South America, are not included in the calculation as both territories are not sovereign, either belonging to the United Kingdom or France and no separate data would be available for these entities.

As defined previously, most countries are in either stage 2 or 3 of the IDP (Dunning & Narula, 1996) and many have seen increasing inflows of FDI in recent years (Calderón, de Groot, Pérez Ludeña & Rojo, 2014). The same authors write in their latest report from ECLAC on foreign direct investment to the region, that while great volatility in outward FDI flows existed, its upward fundamental was still present and multinational companies from Latin America were acquiring corporations abroad and making new investments. This development ensures the timeliness of this study with solid foreign direct investment taking place in the region, despite some countries recording negative OFDI flows.

Three different sources are used for this dataset. UNCTAD is used for the dependant variable in this model with data on outward FDI flows from each country to the entire world. Secondary data from this organization is also used for inward FDI flows to address one independent variable. UNCTAD offers the advantage of almost complete datasets and as a renowned international organization the data is trustworthy. Nevertheless data is gathered from local government institutions that may have varying ability to account for all FDI flows in their economies, a risk generally present when using government sources from developing countries. (UNCTAD Stat, 2014)

Data used for all institutional variables comes from the world competitiveness report, gathered and publicised by the world economic forum (WEF). This report has been published annually since 2006 and its methodology is based upon questionnaires sent to leading business people and other representatives of each country. It holds a solid reputation and its annual publication is widely published in the international press (WEF, 2014).

Finally the outward FDI flows from Latin American countries to the region is based on data provided by ECLAC, which in turn is based on data from Mergers & Acquisitions and Greenfield investment numbers. Grouping outward FDI flows to its geographic destination is an extremely challenging task because no actual database exists and all data needs to be gathered from lists of individual investment transactions taking place, accounting for its

destination. Due to this, and because data on brownfield transactions are not included the data, it is not entirely complete. This deficiency should be taken into consideration when making conclusions based on this variable. Nevertheless the near complete absence of studies focusing on destination of outward FDI and its implications make an investigation very important and while this thesis will only elaborate relatively briefly on this subject with one hypothesis and one variable it may still provide interesting observations and serve as a starting point for further studies on this topic in the future as more complete data becomes available.

Variable	Measurement	Source
Dependent variable:		
Outward FDI	Flows of outward FDI from country as a percentage of GDP	UNCTAD (2014)
Outward FDI (H3)	Flows of outward FDI from country to specific destination as a percentage of GDP	ECLAC (2014)
Independent variable:		
Home country product market (H1a)	Goods market efficiency indicator (scale 1 - 7)	Global competitiveness report (2014)
Home country capital market (H1b)	Financial market development (scale 1 – 7)	Global competitiveness report (2014)
Home country labour market (H1c)	Labour market efficiency (scale 1 – 7)	Global competitiveness report (2014)
Home country governance efficiency (H1d)	Government efficiency (scale 1 – 7)	Global competitiveness report (2014)
Home country contract enforcement (H1e)	Property rights (scale 1 – 7)	Global competitiveness report (2014)
Inward FDI levels (H2)	Inward FDI as a percentage of GDP	UNCTAD (2014)

Table 3: List of variables used in calculation with source and mode of measurement.

The exact description of all institutional variables can be found in Appendix A. The period of analysis is 7 years, starting the analysis is 2006. This is justified by the fact that OFDI for many countries in Latin America is a rather recent phenomenon and only bigger economies such as Brazil or Mexico already conducted serious OFDI in the 80s and 90s, which could have been analysed. The final year of analysis is 2013 this is explained by the complete availability of data until that year since at the time of writing FDI data was not yet available for 2014. The relative brief period of analysis ensures a higher level of data completion, which provides more reliability to the model.

As previously introduced in the theoretical framework of this thesis the *dependent variable* (OFDI) is based on outward FDI flows to the entire world as a percentage of total GDP in each given year. Using percentage instead

of total numbers ensures better comparability regarding the actual size of the economy since there are big differences in the region. Using relatively smaller nominal numbers in the model made the calculation also easier. Flows of investment were favoured over FDI stocks abroad. On the one hand data on flows have shown to be more reliable in developing countries (Duce, 2003) with sources from UNCTAD and IMF correlating more strongly compared to stocks. On the other hand flows seemed the more feasible option for analysing South-South investment within the region since obtaining data on the origin of stocks would have been even more difficult to achieve than with flows. Stocks on the other hand would be better suited to analyse how persistent countries hold investments abroad and how this is influenced by institutions, which would be a different approach to this thesis. The other dependent variable used only for a calculation of all of Latin America with flows directed at the region only is denominated (OFDILATAM)

When looking at *independent variables* two categories are used. One, the main category, is focusing on institutions. The variables selected for this study are in themselves comprised of several sub-questions in the global competitiveness report, providing deeper breadth for each institutional variable. The explanation provided in brackets, indicate different components the GCR includes in its estimations. Home country product market (HPM), (goods market efficiency, comprised of variables on competition and quality of demand competition), home country capital market (HCM), (financial market comprised of variables on efficiency and trustworthiness and confidence), home country labour market (HLM) (labour market efficiency comprised of variables on flexibility and efficient use of talent), home country government efficiency (HGE) (government efficiency comprised of wastefulness of government spending, burden of government regulation, efficiency of legal framework in settling disputes, efficiency of legal framework in challenging regulations and transparency of government policymaking) and home country contract enforcement (HCE) (property rights comprised of property rights and intellectual property protection). These variables are complemented with an economic variable on inward FDI (IFDI) (calculated as a percentage of total GDP) this is to keep in line with the dependant variable in this model. Natural numbers were used in the model for the calculation of the results.

A summary of all variables and their sources can be found in table 3.

4.3 Analytical methods

To determine how our dependant variable affects our independent variables the following equation was chosen:

$$OFDI = \alpha + \alpha_1 HPM + \alpha_2 HCM + \alpha_3 HLM + \alpha_4 HGE + \alpha_5 HCE + \alpha_6 IFDI + \varepsilon_{it}$$

This calculation was then applied to all countries independently and finally, to determine the differences between outward FDI to the entire world and outward FDI within the region alone, an average number for the region was calculated for each independent variable to estimate a total for the region. To ensure validity of data this average was weighted according to the economic size of each country.

As an analytical approach both simple and partial correlation were chosen to learn about a possible correlation between (OFDI) and the respective independent variable. Each country was calculated separately to better interpret economic and industrial differences that may exist in the region.
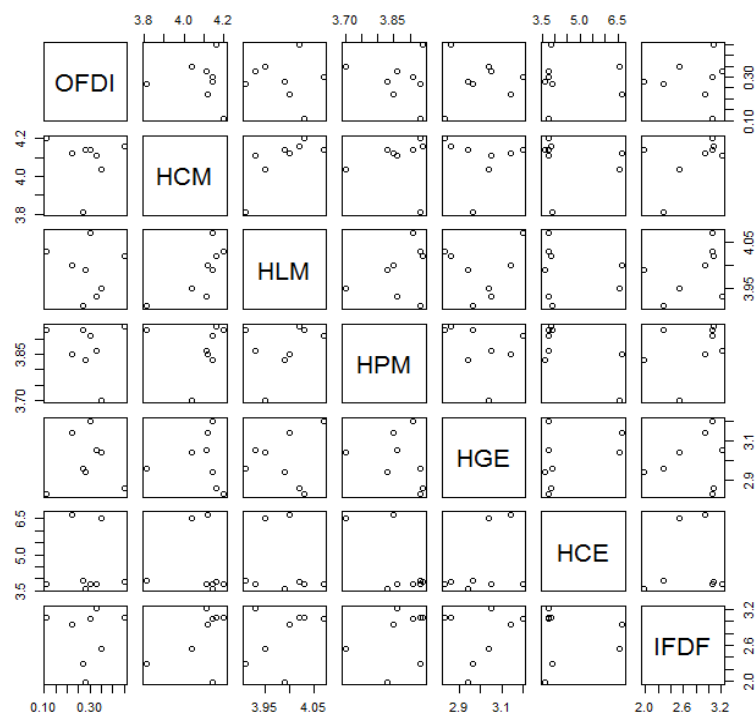
Figure 5: Data distribution grid graphically illustrated on the case of Latin America as a total

The table above graphically illustrates the data distribution of our independent variables compared to the dependent variable.

Calculating simple correlation shows if any correlation between our dependent and independent variable exists. If a number is close to 1 then if

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one independent variable increases the other will increase as well. The same holds true for negative correlation with negative values. The simple correlation results of these calculations as well as the coefficients can be found in the appendix B.

To eliminate the influence independent variables may have on one another a partial correlation is used. This seems appropriate since various interrelated factors will eventually determine outward FDI and choosing a partial correlation model will take account of other institutional variables interfering with the results. By keeping the third variable in the model constant it is possible to discern the influence of our dependant variable on our independent variable indistinctive of how many independent variables are analysed (Explorable, 2015).

Furthermore, some tests were conducted to proof the statistical robustness of the model. All limitations arising from not sufficiently significant results will be mentioned within the analysis of each country. The main method of testing statistical significance is done by looking at the p-test value, which indicates statistical significance. Values smaller than 0.05 indicate a statistical significance of 95% and higher, values smaller than 0.01 a significance of 99% this will be marked in the model with (*) or (**) respectively.

The p-value may also be used to test the 0 hypothesis. This is done by taking the coefficients calculated in this model and looking at the p-value, which has to be different to 0 in order to reject our 0 hypothesis.

$H_0: A_1 = A_2 = A_3 = A_4 = A_5 = A_6 = 0$

$H_1:$ All other results

Another method taken into consideration when looking at the robustness of our data is the R_2 and adjusted R_2 value. This tells us how many data points fall within the line of our regression equation. Generally, a higher R-squared rate indicates a better fit between the model and data (Peyman, 2015). The adjusted value is taken into consideration unless both values lie close to one another.

The software used to calculate the results was CRAN from r-project.org. While using open software meant accepting certain limitations on what could be calculated it provided all the necessary tools needed for this analysis. The programme was initiated in the late 90s and holds a solid track record with contributors working on this platform from around the world.

After introducing the methodology of this thesis the next chapter will now focus on the analysis and discussion of results.

5 Analysis and Discussion of results

After introducing all theory and the methodology, this chapter will address the findings of this thesis and analyse differences that exist between countries in the region. The first part of this chapter, the analysis, will look at findings from the quantitative study and relate these findings to country specific aspects. Subsequently, the discussion will focus more on the research hypothesis and serves to either accept or reject the hypothesis stated in the theoretical framework.

5.1 Analysis of findings

The aim of this chapter is to provide an overview of the findings from the statistical model introduced in previous chapters. The analysis will be structured on a country-by-country level analysis. Each country will be briefly elaborated on and the statistically significant findings presented. In cases where the model did not pertain any significant correlation the analysis will focus on reasons why this may be the case. Due to the wide variety of countries analysed the results are also very varied and some countries showed no statistically significant results at all.

Due to the amount of data calculated not all results are going to be present in the text, only the partial correlation as the main data to draw information from. All results are available in appendix B. The order of analysis is conducted alphabetically. Country particular information related to outward FDI is usually derived from the ECLAC report on outward FDI in the region 2013 (Bárcena, Prado, Cimoli, & Pérez, 2014). Data from the global competitiveness report are based on the latest GCR (WEF, 2014) and were also used in the analysis. Other additional information will be quoted separately. The flags used in this chapter are derived from Flagpedia (Flagpedia, 2015).

Argentina

Argentina belongs to the group of countries that began investing abroad relatively early. For Latin American standards its economy is quiet diversified with a big service sector but also quite sizeable secondary and primary sectors. Its politics has been volatile and some macroeconomic crisis as recent as 2001 lead to sharp currency devaluations while this did not occur during the data analysed here, it may have influenced investor behaviour.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.87146*	0					
HLM	-0.9415*	-0.7838*	0				
HPM	-0.6962	-0.72576	-0.8225	0			
HGE	0.94245*	0.78874*	0.99094*	-0.8225*	0		
HCE	0.85186*	0.85294*	0.91776*	0.99094*	-0.9149*	0	
IFDF	-0.73658*	-0.7684*	-0.84021*	0.91776*	0.8408*	0.9649*	0

When looking at the table quite a high correlation between institutional variables and OFDI can be found. A high positive correlation exists between governance efficiency (HGE) and contract enforcement (HCE), indicating that both contribute to an increase in OFDI. This is interesting considering that both indicators from the GCR have in recent years witnessed deterioration under the leftist governments of the Kirchner family and OFDI as a percentage of GDP has fallen from 1.13% to 0.25% over the observed timeframe. At the same time a strong negative correlation between capital markets, labour markets and outward FDI can be observed. This indicates that the recent imposition of currency controls in Argentina led to greater OFDI as investors try to protect their assets in countries abroad. And more rigid labour conditions and reduced labour movement may indicate that corporations in Argentina opt to move elsewhere with part of their production to avoid these obstacles.

There is no significant correlation between outward FDI and product market efficiency and inward FDI.

Bolivia

Bolivia is the poorest country in South America when measured by GDP per capita and its economy is still primarily driven by exports of raw materials (CIA Factbook, 2015). In recent years and under the guise of indigenous president Evo Morales, the country has demonstrated some remarkable growth rates and thanks to increased access of financing this has also lead to first and tentative investments abroad. These numbers, however, are still minor compared to most of its neighbours. Thus, when looking at the data this background needs to be taken into consideration when analysing institutional factors on outward FDI in Bolivia.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.3261*	0					
HLM	-0.7629	-0.7104	0				
HPM	0.2794*	-0.4463*	-0.1195*	0			
HGE	-0.3157*	-0.6037*	0.0864*	0.2468*	0		
HCE	-0.8574	0.9261	-0.6693	0.2274	-0.7531	0	
IFDF	0.3399	0.2963	0.0487	-0.5729	0.8504	-0.4310	0

Evidently the data indicates a small negative correlation between outward FDI and efficiency of capital markets. Similar to Argentina this correlation may be explained with the fact that some investors try to shield assets abroad when domestic financial market conditions deteriorate. Other significant variables correlate only to a small extent with outward FDI. This may be due to the relatively low skilled workforce that Bolivia uses where still nearly a third of the workforce is employed in the agriculture sector and another 20% in the industry (CIA Factbook, 2015). The small correlation in the product market may also exist because companies producing goods are still mainly focusing on the domestic market and are unable to compete abroad. Bolivia is clearly a country standing in phase two of the investment development path model and if the current macro economic environment can be maintained it is to be expected that OFDI flows will accelerate, which in turn makes another thorough country-level analysis in a few years an interesting study topic.

Brazil

Latin America's most populous country and biggest economy, a member of the famous BRIC countries, Brazil is a country that began investing abroad relatively early in the 1980s. Over the years outward FDI has fluctuated quite substantially and also witnessed reinvestment flows back to Brazil in recent years, driven by its somewhat volatile domestic economy. Brazil has also a relatively protected market, which probably all influence the outcome of this study. The following table shows the results of the partial correlation calculation for Brazil

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.4300*	0					
HLM	-0.1179	0.6248	0				
HPM	0.1545**	-0.2642**	0.8126**	0			
HGE	0.2293*	-0.0664*	0.7150*	-0.7312*	0		
HCE	-0.2169	-0.3463	-0.2663	0.6683	0.5089	0	
IFDF	0.1120*	0.5076*	-0.1373*	-0.2292*	-0.0706*	0.7278*	0

It indicates relatively weak correlation between OFDI and the institutional variables chosen for this study. This may be due to the fact that Brazil's OFDI has primarily occurred in the primary sector industry such as mining and petrochemical industry, where institutional variables may have less influence. A somewhat stronger correlation can be found in the home capital market efficiency, albeit negatively. This negative correlation may be explained to historic reasons. While this study only reaches back to the most recent history where the Brazilian macroeconomic environment has been rather stable, Brazil experienced some wild swings in the valuation of its currency in previous decades. This may have led to investment outflows during that period by investors trying to protect their assets from high inflation and currency volatility. The remaining significant variables in this analysis are not enough correlated to make direct assumptions.

On a side-note an interesting correlation can be found between home country product market efficiency and labour market efficiency. This is quite sensible, considering that Brazil has a rather closed economy producing a

lot of products domestically a more efficient labour market should in theory correlate with higher quality products. However, since the product market efficiency variable mainly analysis product market competition it also seems to benefit internal competition as the efficiency of the Brazilian labour market increases.

Therefore, the primary finding for Brazil is that there is a small negative correlation between OFDI and an improved domestic capital market.

Chile

Chile currently has some of the highest outward FDI in the region with values of up to 8% of GDP, which even at a global level is quite remarkable. According to UNCTAD (2012) the average in the developed world in recent years was close to 2% of GDP. There is, however, a specific reason for this, which will be explained shortly. Generally the country is doing well and stands out in many rankings as the most developed country in Latin America, including the global competitiveness report (WEF, 2014). The country has a stable macroeconomic environment, a very open and internationalized economy, efficient government and relatively low levels of corruption. This has also lead to significant outward FDI in recent years.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8242*	0					
HLM	-0.6644	0.9508	0				
HPM	-0.5382	-0.8924	0.9746	0			
HGE	-0.5263	-0.7950	0.8315	-0.8558	0		
HCE	-0.8183*	-0.6950*	-0.6515*	-0.5185*	-0.5704*	0	
IFDF	0.9775*	0.7469*	-0.5500*	0.4212*	0.4364*	0.7198*	0

The results of Chile give rise to a broader pattern visible when looking at previous countries analysed here, namely the negative correlation between capital market efficiency and outward FDI. This correlation is also confirmed in the case of Chile with quite a strong negative correlation. Unfortunately, variables on labour market, product market, and government efficiency did not yield a statistically significant result for further interpretation. This may seem surprising, considering the sound level of government institutions

generally present in Chile but may be explained with the last variable IFDF, which correlates highly. High inward FDI seems to be directly correlated to high outward FDI in Chile and this can be explained. According to the FDI report on Latin America from CEPAL (Bárcena, Prado, Cimoli, & Pérez, 2014) much of Chile's outward FDI stems from foreign corporations that use Chile as their regional base and invest up to 26% of Chiles inward FDI again abroad in other parts of the continent. This matches the findings of this study, explaining the high positive correlation between inward FDI and outward FDI, but it could also help explain why other institutional variables did not seem to be statistically relevant.

Chile's negative correlation in contract enforcement fits a pattern with Mexico and the overall result for the region, a more detailed possible explanation for this negative correlation is provided later in this chapter.

Colombia

Colombia has for a long time faced severe political challenges that have reduced its development. The civil conflict with left wing guerrillas and the drug cartels holding control of almost entire cities were two famous examples of challenges the country faced and, to some extent, still faces. In recent years a marked improvement could be witnessed in these areas and this has also helped to stabilize the private sector and make the country more attractive for investors. On the other hand, since 2003 Colombia has begun to invest abroad and its outward FDI is one of the fastest growing in the region going up from 0.67% of GDP in 2006 to above 2% of GDP. While still lacking behind other major economies this turnaround is still remarkable. As indicated in the introduction, most companies that conducted investments abroad in recent years were either state owned electric utility firms or semi-private banks (Bárcena, Prado, Cimoli, & Pérez, 2014).

Unfortunately, the results of this analysis do not imply a lot of significant correlations between outward FDI and Colombia's institutional environment. A small negative correlation can be found between Colombia's labour market and its outward FDI, such a result was also found in the case of Argentina and Peru.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.1359	0					
HLM	-0.5222*	0.6423*	0				
HPM	-0.1230	-0.1443	-0.1231	0			
HGE	-0.4931	0.4466	-0.6300	0.1675	0		
HCE	0.3781*	-0.5154*	0.6748*	-0.2171*	0.9276*	0	
IFDF	-0.5367	0.6974	-0.9119	0.1798	-0.7581	0.8212	0

This would indicate that Colombian firms prefer to keep investments within the country if education and labour market efficiency increases, since the labour pool is still abundant. However, as the correlation is not too strong there may be other factors at play that influence this result. There is a very small correlation between contract enforcement such as protection of intellectual property and OFDI.

Another reason that may explain the relative lack of significant results is the high share of state owned enterprises as main contributors to outward FDI compared to privately owned companies. It may be that these corporations are less sensitive to institutional changes and driven by other, strategic politically motivated motives.

Costa Rica

According to the GCR-Report this small Central American nation is the second most competitive country in Central America and also holds the second highest rank on the Human development index in the same region (CIA Factbook, 2015). Historically, Costa Rica has been a politically stable country in a region that has seen both civil wars and several coup attempts during the last decades of the 20th century. While this attracted a lot of tourism it also helped to foster a small but vibrant private sector. According to the report from CEPAL, Costa Rican companies have seen themselves confronted with rising international competition and are trying to respond to this development by investing abroad.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8915**	0					
HLM	0.8794*	0.9738*	0				
HPM	-0.8507*	-0.9213*	0.8499*	0			
HGE	0.8706**	0.9663**	-0.9054**	0.9889**	0		
HCE	0.6571*	0.6529*	-0.5790*	0.7151*	-0.7123*	0	
IFDF	0.8773*	0.9674*	-0.9049*	0.9869*	-0.9983*	-0.6908*	0

This has lead to a sharp increase in OFDI from Costa Rica in recent years. The country displays a high significant correlation with most institutional variables chosen for this study. An increase in labour market efficiency, government efficiency, inward FDI and, to a lesser extent, property rights protection have all positively contributed to outward FDI. Since Costa Rica is a relatively small country with a more efficient government and a competitive labour market than most of its neighbours this may help local enterprises to expand to other similar sized countries in the region and explain the correlations. The shared cultural and historical background helps to ease access to those markets and local competition lacks the relatively stable institutional environment of Costa Rica, which should further help to strengthen the position of Costa Rican corporations.

Similar to other countries a negative correlation exists between capital market efficiency and outward FDI and with product markets. The latter one is interesting, as one would think that a more efficient product market would automatically lead companies to expand abroad, as the home market becomes more saturated and difficult to gain market share.

Ecuador

The smallest Andean country has faced many political and economic challenges during the last decades. High inflation and macroeconomic instability led to a fragile private sector and only the introduction of the US Dollar in early 2000 brought some kind of macroeconomic stability (Beckerman, 2001). Even more than Argentina, Ecuador has connected its market to Asia and benefited from the recent surge of demand in raw materials from that region.

As an investor abroad Ecuadorian companies are still relatively few and as a percentage of GDP these investments account on average for barely 0.01%.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.7894*	0					
HLM	0.5364	0.8234	0				
HPM	-0.4137	-0.1563	-0.0031	0			
HGE	0.6889*	0.8526*	-0.9155*	0.3654*	0		
HCE	-0.4324	-0.7302	0.9736	0.1634	0.8409	0	
IFDF	-0.6698	-0.9139	0.9651	0.0734	0.9257	-0.9124	0

Two variables were statistically significant. Yet again, an improvement of financial market efficiency seems to deter OFDI. In this specific example an analysis with data around the introduction of the Dollar would have been interesting to analyse, to see different investor behaviour prior and past the dollarization phase. Looking at data by UNCTAD stat (2014) from that time indicates that outflows in the first years of the new century remained close to zero and thus slightly lower compared to the last years of the nineties. However, it is difficult to draw firm conclusions from looking at those numbers, since the subsequent lower levels of investments that occurred after the process of dollarization may be explained by other reasons, such as losses that firms incurred during the crisis. Increased government efficiency also correlates positively with OFDI.

El Salvador

El Salvador is a small country in Central America, which emerged in the 1990s from several years of civil war and has since stabilized despite high levels of organized crime that at times threaten its stability. Like Ecuador it also adopted the Dollar only a year later than Ecuador in 2001 as its currency (Swiston, 2011). The GCR has seen a gradual improvement of Salvadoran competitiveness in recent years placing it on rank 84 on its global list.

Unfortunately the partial correlation matrix did not yield any significant results to study. This may be due to low volume that outward FDI plays as a percentage of GDP. In fact during several years outflows were even

negative, which means that Salvadoran corporations were repatriating investments from abroad.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.6064	0					
HLM	0.4447	-0.3667	0				
HPM	0.8721	-0.6279	-0.6509	0			
HGE	-0.8617	0.6820	0.7636	0.9316	0		
HCE	0.3127	-0.0869	0.5095	0.0168	0.0512	0	
IFDF	-0.8594	0.7048	0.3295	0.6217	-0.7186	0.4141	0

According to CEPAL part of that reason can be found in the competition of big western transnational corporations that have been competing with local firms. Many family-owned corporations decided against direct competition and chose to invest their fortunes in an industry where local knowledge was more essential for success: The real estate sector. Grupo Poma and Grupo Agrisal are two Salvadoran companies, which are actively investing in Hotel chains in the region (Cabrera, 2013). Unicomer, specializing in household goods is another Salvadoran corporation active in Central America. Since the outflow numbers are so small it may happen that in some years a handful of corporations contribute to the total outward investment of the country and therefore distort data and make it insignificant.

Guatemala

The most populous country in Central America, Guatemala shares a lot of the turbulent economic and political history of its southern neighbours. After years of civil war the country has seen some steady growth in recent years, but its small size and impoverished population have made any development of big corporations competing abroad difficult. According to the GCR the country is ranked 78th in terms of competitiveness and it has made some improvements in recent years, mainly due to a more efficient goods market. Nevertheless, outward FDI as a percentage of GDP has remained low, with less than 0.1% of GDP.

Some statistically significant data was found for Guatemala.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.0922	0					
HLM	0.4587*	-0.0988*	0				
HPM	-0.7115*	0.0984*	0.8924*	0			
HGE	0.1622*	0.4354*	0.4894*	-0.1235*	0		
HCE	-0.2966	-0.7331	0.0632	-0.2671	0.7352	0	
IFDF	-0.1870	0.5280	0.3835	-0.4570	-0.1367	0.1438	0

Similar to Costa Rica, Guatemala shows a negative correlation between its product market efficiency and outward FDI, which is yet again surprising since one would expect a more developed product market to better enable corporations to expand abroad. It may be that inefficiencies and a lack of competition is a driver for some corporations to look for better market shares in neighbouring countries where the main destination of Guatemala's OFDI flows can be found. However, institutional restraints that exist in Guatemala are often present in neighbouring Central American countries as well.

The correlation between a more efficient labour market and government efficiency, while significant, is not very strong. Similar to El Salvador, Guatemala has some family-owned corporations active in real estate in all of Central America such as Spectrum. Future studies could take a closer look at this specific industry and its outward investment decision-making process to determine institutional influences since it is an important contributor to Central America's OFDI.

Honduras

Honduras, unlike El Salvador and Guatemala did not have to go through civil war but despite that the country is faced with similar challenges as its neighbours. Together with Guatemala the country was long famous for exporting banana and other agriculture produce and the private sector remained underdeveloped and in the hands of a few wealthy families. Today, Honduras ranks 100th on the GCR and is therefore the least competitive country in Central America, despite such bleak results the country rose 13 ranks from the previous year, a marked improvement.

Not surprisingly, its share of outward FDI as a percentage of GDP remains

very low and comparable to neighbouring Central American countries.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.8649	0					
HLM	0.7305	-0.0513	0				
HPM	0.2311	0.2665	-0.5030	0			
HGE	-0.9202	0.8413	0.4794	0.1262	0		
HCE	0.5883	-0.7817	0.0397	0.4320	0.8017	0	
IFDF	-0.3820	0.6811	0.3750	-0.5429	-0.2580	0.3654	0

The calculation on Honduras showed no statistically significant results. The Honduran private sector is faced with several challenges on the social and macroeconomic sphere that inhibit outward FDI at this stage of its development. Access to adequate financing options may be too limited in order for companies to expand abroad and interest rates too high. According to a Honduran government report from 2011 a big challenge that the Honduran private sector faces is a strong imbalance between needs for education and what the Honduran education system is actually able to deliver. While reforms are needed the high levels of crime and insecurity further contribute to bad results (Secretaria de Trabajo y Seguridad Social, 2011).

While the ease of doing business has improved somewhat in recent years local companies still complain of much red tape and corruption from public sector employees so that many challenges remain for the future (Rodríguez, 2015). As a consequence OFDI will likely remain subdued in the coming years.

Mexico

Mexico is the second largest economy in Latin America after Brazil and strongly focused on North America. Most internationalization of Mexican corporations occurred in the first half of the 1990s after economic opening and deregulation. Compared to Brazil and Argentina where OFDI has turned negative in recent years, Mexico's OFDI has expanded and many big Mexican corporations have invested in both Latin America and other parts of the world. According to CEPAL's FDI report

some corporations have already over 50% of their operations, sales and assets abroad (Bárcena, Prado, Cimoli, & Pérez, 2014). Nevertheless challenges remain as the GCR reports, especially in matters related to the functioning of institutions and the quality of education and skill sets.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.4891*	0					
HLM	0.8205**	0.3522**	0				
HPM	-0.1341**	-0.4645**	-0.7730**	0			
HGE	0.7593**	0.6013**	0.4814**	0.7102**	0		
HCE	-0.6347*	-0.2217*	0.2092*	0.8573*	0.3327*	0	
IFDF	-0.7035	0.8811	0.1380	-0.9731	-0.1275	0.1892	0

There are several statistically significant results from this analysis on Mexico. A very strong correlation was found with labour market efficiency. As Mexico's labour market becomes more efficient companies in Mexico directly benefit from this and are better able to expand abroad. This is probably also related to an increase in competitiveness of Mexican firms. Another quite strong correlation can be seen with government efficiency, which also supports outward FDI. As in the case of Chile contract enforcement and property protection see a negative correlation, albeit not too strong. As many companies work in both Mexico and the US, due to strong economic links, corporations may have opted to make use of the more stringent property laws in the US. As Mexico improves its own contract enforcement such investments are less necessary. Weaker positive correlation exists between capital market efficiency and OFDI, which indicates that Mexican corporations are not driven by safeguarding assets abroad in times of crisis but rather benefit from an efficient financial market. In recent years current Mexican president Enrique Peña Nieto initiated a series of reforms that should improve education and allow some private investments to flow into the energy sector. If properly implemented it may also help to further boost outward FDI as labour market efficiency is directly related to our dependent variable.

Mexico has a lot of potential to also internationally play a big role as an investor, the foundation for this is set with multinational corporations present on several continents, but reforms also in government efficiency should not be neglected so that these investments continue to grow in the future.

Nicaragua

Nicaragua has the lowest HDI score in the set of countries analysed in this thesis and it also has the lowest nominal GDP per capita (CIA Factbook, 2015). According to these indicators it is the second poorest country in the hemisphere just behind Haiti. Faced with similar challenges as its neighbouring countries its private sector is rather small and so are investments abroad. As a percentage of GDP, however, Nicaragua has had more outward FDI than Honduras or El Salvador in recent years. Late president Daniel Ortega joined forces with other left leaning presidents in the region and subsequently trade and investments have increased between those countries.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.3174	0					
HLM	0.6302*	-0.4972*	0				
HPM	0.7492	0.0463	-0.9738	0			
HGE	-0.2047	0.3841	0.7362	0.2108	0		
HCE	0.3497*	-0.2873*	0.4761*	0.7461*	0.1147*	0	
IFDF	-0.1489	0.6749	0.1412	-0.0371	-0.8631	0.8261	0

In this analysis there is some correlation with labour market efficiency and outward FDI. Ortega has made it a priority of his mandate to improve education standards and reduce school dropouts (Lakhani, 2015) according to this article only 72% of all children finish primary school in Nicaragua and the mandatory school age is until 12. At the same time the president has also tried to protect labour right and strengthened Unions. While the effects of these reforms remain to be seen it is at least questionable if the labour market will become more efficient, something that Nicaraguan companies would apparently need to also invest abroad. There is also a small correlation with contract enforcement. Unfortunately judicial independence, which could enforce contracts and help Nicaraguan corporations protect their intellectual property rights have only deteriorated in recent years (Freedomhouse, 2015).

Given the current political and economic situation, OFDI from Nicaragua will probably remain subdued for some time to come.

Panama

Panama is in many ways quite different from other Central American countries. It scores highest in the GCR in Central America, ranking 48th globally. The report particularly highlights its very good infrastructure and strong financial sector as assets. And its GDP per capita is highest in Central America even surpassing that of Mexico (CIA Factbook, 2015). The financial sector is also the main driver of OFDI in Panama, while recorded as OFDI the money may be from foreign investors only operating through banks in Panama. This explains the great fluctuations that exist throughout the years when looking at Panama's outward FDI as a percentage of GDP ranging from 2.21% in 2006 to -0.71% only three years later.
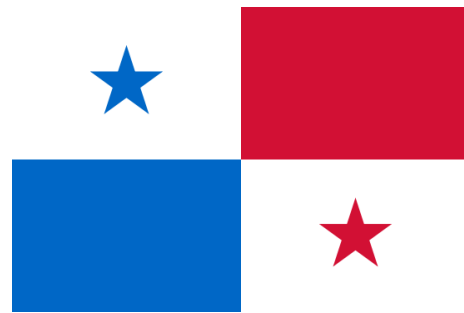
	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.7602*	0					
HLM	-0.2933	-0.6868	0				
HPM	-0.7492	-0.3922	-0.4492	0			
HGE	0.4021	0.0372	0.8772	0.3209	0		
HCE	-0.0821	-0.5937	-0.7446	-0.3977	-0.5394	0	
IFDF	0.6238*	0.7301*	0.2684*	0.1274*	0.3721*	0.9372*	0

The estimations find two correlations that can be analysed. The capital market has a medium to strong positive correlation with outward FDI. This is not very surprising, considering that a lot of investments that Panama conducts abroad is taking place thanks to its strong financial sector. Further strengthening of its efficiency will therefore lead to more OFDI. Another somewhat positive correlation can be found between outward and inward FDI investments, as investors purchase assets in Panama this money eventually leaves the country again as outward FDI. In this analysis a similar observation was made in the case of Chile, both countries serve as hubs in their respective region because they offer stability, infrastructure and a relatively healthy financial sector. Other variables seem to be of no statistical significance for Panama. Considering that the country is also a transport hub with the canal and international airport it would be interesting to look in more details at the role that infrastructure plays and if it is also related to OFDI.

Paraguay

According to the GCR Paraguay ranks 120th and thus on the lower end of the entire list of countries analysed. Due to its geographic location the country has traditionally been agrarian and even today 19.9% of GDP are generated in this area. With Soya beans being the main exporting product. Due to its turbulent past and several wars with neighbouring countries that decimated the population the country was long one of the poorest in the region and even today it lags behind in many social development indicators (CIA Factbook, 2015). For these reasons it is not surprising that Paraguay has not registered any OFDI in recent years. And when it did from 2006 – 2008 the amount was a mere 0.05% of GDP.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8485	0					
HLM	0.6080	0.7461	0				
HPM	-0.1671	-0.3653	0.6691	0			
HGE	-0.9401	-0.7069	0.4085	0.1577	0		
HCE	0.7405	0.7830	-0.3823	0.3023	0.6157	0	
IFDF	0.8414	0.8227	-0.8258	0.4186	0.7189	-0.5126	0

Most likely due to the low volume of outward FDI no statistically significant results could be found. Reasons for the small amount of outward FDI in addition to the ones mentioned above is the relatively small size of the domestic economy and the rather big size of neighbours in comparison. Brazil, Argentina or Chile make acquisitions for Paraguayan firms prohibitively costly as these firms will most likely have a high market capitalization.

While, according to previous theory, economic growth and higher development should eventually lead to higher OFDI flows, Paraguay also needs to address government inefficiencies and lacking infrastructure to better compete with its neighbours.

Peru

Peru, the country in the central Andes shares economically some similarities with Bolivia. Both economies are dependent on exporting resources and social issues such as poverty and a lack of infrastructure remain a problem. However, Peru ranks relatively high in the global competitiveness report (65th) and its goods, labour and financial market efficiencies are seen as a particular strength of the country. In terms of outward FDI the country has started to witness increased outflows in recent years in combination with sound economic growth rates. However, compared to some other nations in the region there is still room for further improvement.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.2115*	0					
HLM	-0.4552**	0.1298**	0				
HPM	0.2905	-0.1126	0.9122	0			
HGE	0.3413*	-0.2957*	0.9364*	-0.8567*	0		
HCE	0.1176	0.5348	-0.6994	0.7315	0.8697	0	
IFDF	-0.0539	0.7463	-0.2751	0.3429	0.4352	-0.5829	0

The results of this analysis only show relatively weak correlation between OFDI flows and institutional variables. There is a modest negative correlation between OFDI and labour market efficiency. This is similar to Argentina and Colombia and may be related to an under-educated workforce in the domestic market, which serves as a reason for companies to expand abroad and look for higher human capital elsewhere. As the domestic labour market becomes more efficient these investments will no longer be needed and the investments are relocated back to Peru where cost of labour is most likely cheaper.

Furthermore, there is a weak positive correlation between outward FDI and government efficiency and capital market efficiency, both correlations are relatively weak but could become more pronounced as the Peruvian economy accelerates its growth rates in the future, strengthening its private sector and outflows increase.

Uruguay
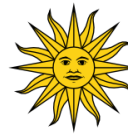
Uruguay, the other small South American country between Brazil and Argentina has a relatively stable macroeconomic environment and is ranked 80th in the GCR. It is primarily a service driven economy with 72.1% of GDP generated in that sector in 2014 (CIA Factbook, 2015). Uruguay's outward FDI has been modest when measured as a percentage of GDP and witnessed quite a lot of fluctuations throughout the period of analysis. Flows have turned negative in recent years, probably also due to weakness in both neighbouring economies, especially in Argentina.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.9595*	0					
HLM	0.9918*	0.9616*	0				
HPM	0.9683*	0.9323*	-0.9842*	0			
HGE	-0.9472	-0.8834	0.9314	0.8966	0		
HCE	-0.8205	-0.7830	0.8360	0.8886	-0.6963	0	
IFDF	-0.9926*	-0.9709*	0.9930*	0.9669*	-0.9390*	-0.8264*	0

The analysis found a strong positive correlation between outward FDI and labour market efficiency and product market efficiency. This may be the case as Uruguay belongs to the group of more developed countries in the region with a big service industry and as it is a relatively small country with big neighbouring economies, corporations expanding to either Brazil or Argentina would need a sufficiently sophisticated home labour and goods market to be successful abroad. Furthermore, there is a strong negative correlation between outward FDI and capital market efficiency, similar to what was discovered in Argentina and Brazil. In other words if financial market efficiency deteriorates at home OFDI flows increase. As the opposite actually happened in recent years and Argentina was forced to impose capital controls these findings would also explain the negative outward FDI flows in recent years form Uruguay from its next-door neighbour.

Finally, another negative correlation between outward FDI and inward FDI exists, this may be either related to the current stage of development where according to the IDP Uruguay's outward FDI increases as inward FDI falls, or it may be coincidental because of recent negative outward FDI flows.

Venezuela

Venezuela's recent history has been marked by political and economic instability beginning in the late 80s when the government tried to implement reforms brought forward in the Washington consensus that lead to bloody street riots and culminating in Hugo Chavez populist Bolivarian revolution of the last decade. The economy has always been very dependent on oil exports, contributing roughly 96% of total exports (CIA Factbook, 2015) but recent waves of nationalizations and an increase in corruption and a breakdown of institutions place Venezuela on the 131st place in the GCR barely ahead of Haiti. Venezuela begun to invest abroad in the 1990s but flows have not grown in the same pace as elsewhere in the continent and most stem from the national oil company PDVSA.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8240*	0					
HLM	0.6971	0.6273	0				
HPM	0.3304	-0.5535	-0.2091	0			
HGE	-0.1147	0.1683	0.9288	-0.4899	0		
HCE	0.4205*	0.5827*	-0.3719*	0.2761*	0.1947*	0	
IFDF	-0.3889*	0.0722*	0.8877*	0.5983*	-0.4208*	0.5612*	0

The results find a primarily negative correlation between outward FDI and capital market efficiency in Venezuela. When capital controls were introduced in 2003 (The Economist, 2013) currency conversion became increasingly restricted and they have in recent years led to shortages of foreign currencies. This may have caused some companies to invest abroad to safeguard from domestic inflation. There is a slight positive correlation between outward FDI and contract enforcement, which may have led to a decrease of investments in recent years by Venezuelan firms since the GCR notes a general deterioration of judiciary independence in Venezuela. Undertaking risky investments abroad when your own property is not necessarily protected domestically from expropriation by the state is a difficult endeavour. Under these circumstances the slight negative correlation between inward FDI and outward FDI can also be explained. Due

to the particular market circumstances present in Venezuela it is rather difficult to make bold predictions also regarding the slight negative correlation between outward and inward FDI. Generally the institutional environment has worsened in recent years, to an extent that made both inward and outward FDI rather unattractive, but as PDVSA, the government owned oil-company, may invest or reinvest independently of institutional and macro-environmental fundamentals the results of this analysis may hold certain bias towards their decision making.

Outward FDI from South- and Central America to the World and to the region

After analysing each country individually we now turn to the average results of the entire region. As mentioned previously the average was weighted according to the economic size each country represents in the region. The following table shows the analysis made on total outflows of FDI from the region to the world.

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8916*	0					
HLM	0.6473*	0.9545*	0				
HPM	0.9740	0.9861	-0.9021	0			
HGE	-0.4673	-0.5392	0.5576	0.5151	0		
HCE	-0.2835*	-0.9946*	0.9253*	0.9972*	-0.5346*	0	
IFDF	0.9922	0.9980	-0.9440	-0.9868	0.5333	0.9948	0

The analysis shows a strong negative correlation between OFDI and the variables *HCM* and *HCE*. The negative correlation in capital market efficiency and OFDI has been observed in several countries to a stronger or lesser extent, what stands out, however, is the negative correlation between contract enforcement and outward FDI. This was only observed in a few countries such as Mexico and Chile it was also negative in Brazil but without statistical significance there. These countries, however, contribute a lot to the total outflow of FDI and are thus represented more strongly in this calculation. There is also a strong positive correlation between OFDI and labour market efficiency, this helps to explain how more efficient labour markets such as Mexico have helped companies to overcome hurdles to expand abroad. However, as in the two previous cases the results among individual countries are very mixed and it is difficult to draw firm conclusions from the total results

because of this.

When contrasting the analysis with OFDI flows to the region the following results present themselves.

	OFDILATAM	HCM	HLM	HPM	HGE	HCE	IFDF
OFDILATAM	0						
HCM	-0.1995*	0					
HLM	0.0902	0.8371	0				
HPM	-0.3176	-0.7106	0.6507	0			
HGE	-0.8470	-0.5183	0.5066	-0.4496	0		
HCE	0.2957*	0.4435*	0.3436*	-0.7374*	-0.0497*	0	
IFDF	0.6635*	0.6858*	-0.4627*	0.7024*	0.4573*	0.4884*	0

Evidently labour market efficiency does not seem to be a trigger of outward FDI when investments to other Latin American countries are made, compared to the entire world. This may relate to the fact that Latin American companies investing outside the region specifically look for resources such as high skilled labour, which are difficult to find within the home continent.

Another interesting observation that can be made is that in both cases capital market efficiency seems to negatively influence outward FDI but in the case of regional outward FDI this correlation becomes much less pronounced. This lends support to the theory that at least some companies shield some assets abroad from macroeconomic instability in their domestic market and since the region as a whole does not provide such protection, investments need to be undertaken in other industrialized countries of Caribbean nation states that were not included in this thesis. On the other hand investments within the region are primarily undertaken for other reasons. The analysis finds some correlation between outward FDI and inward FDI for investment within the region, unfortunately no statistically significant results were found in the analysis for the entire world but it shows that pattern of reinvestment may hold true for the region in particular. As we have seen in the case of Chile and Panama foreign investors use one base country to invest and use it to reinvest to other countries in the region. Considering the diversity and different developmental stages that countries find themselves in, it is difficult to argue with the IDP since that model looks at single countries only.

Finally, compared to outward FDI to the entire world where contract enforcement seems to be negatively correlated there is a slight positive

correlation between the two when looking at flows toward the region. The correlation is not particularly strong but it may still be a hint that, as general legal frameworks improve for the private sector, so does OFDI.

This chapter introduced the results of all countries analysed and gave a brief possible explanation on each one. It also looked at the results of the entire region and how it compares to outward investment that remains solely within Latin America. The Discussion will now focus on the hypotheses made in this thesis.

5.2   Discussion of results

After looking at the results of this study this section now discusses the implications and looks at the hypothesis that were stated in the theoretical framework.

Hypothesis H1a stated that 'OFDI is positively related to more sophisticated goods markets such as higher domestic and foreign competition and increased consumer sophistication'. The results provide a mixed picture Bolivia, Brazil and Uruguay find a modest positive correlation between product market efficiency and outward FDI, whereas Mexico, Guatemala and Costa Rica find a negative correlation. When looking at the results for the entire region combined there was no statistically significant result. In light of this Hypothesis H1a needs to be rejected as there is not sufficient proof that it is always positive, however, especially in South America there seems to be a positive correlation between both variables that merits further studying. However, as these correlations are fairly weak and the composition of the Brazilian, Uruguayan and Bolivian economy is very different, other reasons may have led to these results.

Hypothesis H1b specified that OFDI is positively related to capital market development and subsequent access to loans and means of financing. When looking at the results 8 countries show a negative correlation and in many cases this negative correlation is quite pronounced. The only two countries to show a positive correlation are Mexico and Panama. In the case of Panama this is most likely related to its status as financial hub in the region where a more efficient capital market leads to even more investment and in Mexico whose free trade agreements with the US and Canada may have created a different subset of institutions for corporations to engage in OFDI. The majority of countries with significant statistical results show a negative correlation, however, and therefore the hypothesis needs to be rejected. This

is also backed by the negative correlation in both region wide results. The result may be surprising but as pointed out previously inefficient credit markets may cause some investors to allocate some investments abroad as a means to diversify risks. Other investors from countries with relatively weak capital markets invest in countries with more developed capital markets to gain a foothold and benefit from the more efficient system. As the domestic capital market becomes more efficient this relationship turns positive and capital protection abroad is no longer needed. Instead, domestic corporations are strengthened and it allows them to conduct business abroad, as in the case of Mexico.

Hypothesis H1c expected a negative correlation by stating that 'OFDI is negatively related to more efficient labour markets such as better employee training and use of skills.' Out of the 17 countries analysed in this study only three countries showed a negative correlation and 5 a positive. But overall most countries did not yield statistically significant results indicating that at least in the case of Latin America it isn't a strong determinant for outward FDI. When looking at geographic distribution out of the 5 countries that find a positive correlation 4 are from Central America with the 5th being Uruguay, which is striking, since these economies are not resource exporters but depend a lot more on their labour market for exports than Brazil or Bolivia that have historically been exporters of commodities. Thus, there seems to be a correlation between a country's resource endowments and the importance labour market reforms have on outward FDI flows. When looking at the entire region then a positive correlation presents itself at least when analysing outward FDI flows to the entire world. Similar to the last two hypotheses there is not sufficient proof to accept the hypothesis as only few countries actually had a negative correlation but it can be said that in the region as a whole a positive correlation is present and the resource endowments of each country may be a decisive factor.

Hypothesis H1d states that high government efficiency and therefore little intervention in domestic market and favouritism in the decision-making process of government officials positively influences OFDI. Overall the results confirm this hypothesis, out of the 17 countries in this analysis 8 demonstrated such a positive correlation. Some countries showed a very strong correlation and others only a rather weak one. When looking at the region as a whole no statistically significant results were found either with flows towards the world or only the region, despite that and since over half

the countries showed a positive correlation we can accept hypothesis H1d since there was no negative correlation present in the sample and the geographic distribution was also very wide with countries from Mexico to Argentina figuring in the list. Countries that did not show any statistically significant results are either small or as in the case of Chile and Panama a lot of outward FDI is financed with money originating in other third countries and the role government plays in attracting FDI may be the contributing factor that later determines outward FDI. Although this does not mean that Chilean and Panamanian companies would not benefit from a more efficient government when trying to conduct investments abroad.

Hypothesis H1e argues that OFDI is positively related to better levels of contract enforcement such as protection of property rights and intellectual property rights. Similar to product market the analysis does not yield many statistically significant results 5 countries see a positive correlation between contract enforcement and outward FDI and 2 countries a negative one. Interestingly, when looking at the entire region a slight negative correlation is visible in both, flows towards the entire world and investment flows to within the region. Because of the mixed results and the relative high level of insignificant results the hypothesis has to be rejected. As with previous hypotheses a clear picture emerges that depending on local institutions, different correlations persist. One possible explanation for these differences can be found in the different developmental stages that countries are in. Companies in Chile and Mexico, where a negative correlation with contract enforcement and OFDI exists, may use OFDI as a means to access higher property right protection elsewhere and offshore R&D production to destinations with sufficient patent laws. Both countries are sufficiently developed to have corporations active in a higher segment of the value chain where such protection becomes crucial if these corporations want to gain a competitive foothold internationally.

A positive correlation, such as in Costa Rica, Colombia or Venezuela shows that the lack of contract enforcement and property right protection is an obstacle to growth for most companies further down the value chain and results in a reduction of outward FDI here. As the private sector in these countries has not reached the level of sophistication yet, as for instance in Chile, they need at least a somewhat stronger set of rules to be able to acquire the resources necessary to conduct serious R&D and move up the value chain.

Hypothesis H2 proposed that OFDI is positively influenced by inward FDI. This hypothesis has been previously tested in many cases with studies on the IDP but for reaffirmation and to see what regional difference exist it was included in this study. While only a few countries actually found a statistically significant correlation, the region as a whole showed a positive correlation between outward and inward FDI when looking at investments within Latin America. It is important to remember that the IDP shows both positive and negative correlation depending on the development stage of the country and that both positive and negative correlation found in this thesis do not necessarily contradict the validity of this model. In the case of Panama and Chile where both countries receive high inward FDI with subsequent reinvestment elsewhere the correlation was naturally higher. Brazil on the other hand barely had any correlation at all, which may be related to the reinvestment in the domestic market by Brazilian corporations in recent years and subsequent negative outward FDI flows. This hypothesis as posed in this thesis cannot be accepted, as there are also countries that experience negative correlation and many without any statistically significant results. As pointed out previously, this does not mean that the IDP itself is not valid for Latin America, it just shows that the composition of an economy and its development stage matter when looking at this particular correlation.

Hypothesis H3 is the final hypothesis that looks at south-south business relationship and states that institutional reforms analysed in this thesis are positively related with an increase in OFDI flows to other countries in the region. This hypothesis is somewhat set apart from other hypotheses, as it does not analyse on a country-to-country level basis but rather the entire region. When contrasting institutional variables with outflows towards the entire world and only towards the region two variables of statistical significance appear in both models. One is home capital market HCM, which in both models displays negative results, however, when looking at flows towards the world the correlation is much stronger, this underlines that investments undertaken to access more efficient capital markets and to hedge from fallout of macroeconomic instability at home is rather done outside the region as in either the US or Europe where more efficient capital markets can be found.

The second variable that can be compared is found in contract enforcement and the protection of private property laws. One can find a negative correlation for investments towards the entire world and a positive correlation

towards the region. Both correlations are not particularly strong though but they lend support to the theory proposed in hypothesis H1e, since investments towards the entire world are negatively correlated meaning that Latin American companies choosing to invest in Europe or the US may be motivated to acquire patents and protection from copyright infringement, which in their own home country is not readily available or not sufficiently enforced. As only more sophisticated companies with production in higher value added segments of the value chain are concerned with this it affects a relatively small number of companies, whereas other corporations that merely want to expand their business in the region may find even small improvements in the domestic property rights protection helpful enough to internationalize within the region, even though it may not be enough of a protection for R&D on a globally competitive scale. That explains the small positive correlation found in outward FDI towards the region. Due to the limited amount of variables that could be compared when looking at flows towards the world and the region alone this hypothesis cannot be accepted but the interpretations that can be made do show that institutional differences that exist within the region and outside lead to different results in outward FDI.

6 Conclusion and outlook

In the introduction of this thesis the research question asked:

How do institutional factors (such as product market efficiency i.e.) influence outward foreign direct investment decisions in Latin American countries?

The previous chapter, which analysed and discussed the results, have already provided part of the answer and demonstrated that a single sentence reply to this question will not be sufficient as the variety of different findings is too big. The rejection of most hypotheses highlighted that, if anything, very different results arise depending on the country studied. This chapter will therefore use the secondary research questions presented in the introduction to help answer how institutional factors influence OFDI decisions in Latin America.

6.1 Conclusion

Which institutional factors have played the most prominent role in enhancing outward FDI and which factors seem less important?

Despite the relative homogeneity of Latin America in a cultural and historical sense, differences in resource endowments, size, and development outweigh similarities and this can be seen when looking at the results of this study. When Latin American corporations embark on outward FDI, institutions hold different degrees of influence in the decision making process.

Capital market conditions appear to influence outward FDI in the highest number of countries studied in this analysis both negatively and positively. Investors in some countries, however, respond more strongly to labour market reforms or government efficiency when deciding to invest abroad. Goods market efficiency on the other hand has shown the smallest number of statistically significant results. Nonetheless, each variable analysed in this thesis was found to be statistically significant in enhancing OFDI in at least one or two countries and determining a clear champion among institutions is therefore not possible.

What policies should governments pursue to trigger outward FDI, which are regarded as most beneficial to home countries?

Here the answer again very much depends on the particular set of circumstances of each country, we have seen that Labour market efficiency is more important in small and relatively resource scarce Central American countries whereas in most Southern American countries it played no statistically significant role. In those countries the capital market and government efficiency played a bigger role.

If, as in the case of capital market efficiency, a domestically deficient capital market drives OFDI flows, promoting further OFDI by the government cannot be in the interest of the economy. Instead governments should analyse well why some of their industries conduct more investments abroad and others do not and if it is to their benefit.

Acknowledging that governments in developing countries rarely have the resources to address all institutional deficiencies at once, this study contributes in that it provides a recommendation for each country studied in this thesis. The following table shows what institutions it should primarily focus on to achieve greater OFDI and hopefully benefit from its positive effects. The list only includes countries with statistically significant results.

Country	Institutional focus	Possible benefits
Argentina	Government efficiency and contract enforcement	High correlation with OFDI, help to strengthen R&D
Bolivia	Government efficiency	Focus on improving environment for business
Brazil	Capital market efficiency	May lead to temporary reinvestments but on the long term beneficial
Chile	Contract enforcement	Help to cement Chile as a business hub in the region
Colombia	Labour market efficiency	May lead to a temporary reduction in OFDI since high skilled jobs will be found domestically, long term benefit
Costa Rica	Government efficiency and Labour market efficiency	Improve education to strengthen local enterprises and maintain competitive edge in the region
Ecuador	Capital market efficiency	May reduce investment outflows in the short run, but strengthen firms in the long run
Guatemala	Labour market efficiency	Improvement in labour laws and education to help strengthen business
Mexico	Labour market efficiency and Government efficiency	Improve education and labour laws to strengthen the private sector and public governance
Nicaragua	Labour market efficiency	Improve education and increase work skills
Panama	Capital market efficiency	Maintain position as financial hub for Latin America
Peru	Capital market efficiency and Labour market efficiency	May lead to a temporary reduction in OFDI since high skilled jobs will be found domestically, long term benefit
Uruguay	Labour market efficiency	Improve education and work skills
Venezuela	Capital market efficiency and contract enforcement	Change current macro environmental policies and strengthen private property protection

Table 4: Policy recommendation to different countries depending on results of analysis and discussion

Does a combined improvement of institutional variables enhance an increase in outward FDI within the region?

Results do not indicate a stronger correlation between improved institutions and investments when looking at Latin America only compared to the entire world. While in theory the beneficial effects of institutional improvement should lead to a virtuous cycle and further enhance the ability of corporations to invest in neighbouring countries this is either not the case in Latin America or only leads to a marginally limited improvement.

This thesis made some important contributions to the overall theory on international business literature and internationalisation strategy. It looked at institutional theory from a different angle highlighting an often-overlooked aspect of international business, namely outward FDI and it revisited the IDP

by looking at Latin America's correlation between outward and inward investment. To the author's knowledge it was the first time that outward FDI flows were grouped and studied according to their destination and compared to outward FDI flows in the entire world.

6.2   Limitations and outlook

The scope of this thesis also led to certain limitations. Strategy decision-making is usually influenced by several factors and trying to analyse a specific determinant inevitably leaves out other factors that may have led to outward FDI. To better account for firm internal drivers of outward FDI, future studies should also take these drivers into consideration. A mixed method approach with either surveys or interviews of managers in all countries studied would better account for specific motivation of individual managers. Unfortunately, the scope of this thesis and the funds available to conduct such a study did not allow for such a multi-level analysis to be executed.

Another limitation of this thesis is the relatively short timespan of data available, starting in 2006 when the GCR of the World Economic Forum began its publication. This problem, however, is relative as many countries in the region did not conduct any noteworthy outward FDI prior to this time and, as can be seen in the results of this study, even to this day several countries lack sufficient amounts of investment abroad to receive statistically significant results. With economic growth expected to increase also in smaller economies, hopefully future studies will find it easier to access data on both outward FDI and institutional variables over a longer time horizon. Another possibility to avoid the problems mentioned previously would be that future studies either focus primarily on countries with big outward FDI flows such as Mexico, Brazil and Chile and disregard smaller states or use the previously mentioned approach and offset lacking quantitative data with qualitative one. This would also help to improve study results in countries with only limited OFDI flows. Analysing linkages between the private sector and government that are needed to enhance corporate competitiveness and subsequently outward FDI could be another topic to study.
Other potential areas of research could lie on specific variables used in this thesis to find further in-depth evidence of why some countries demonstrated a positive correlation with outward FDI while others had a negative one. New variables not studied in this thesis could also be analysed and the

geographic scope broadened or limited to single country studies or the entire region.

While the last years have shown an increase in both inward and outward FDI in many countries of the region, coupled with economic growth and a reduction in poverty levels the future does not look as promising. Most of the recent growth numbers have been driven by extraction of raw materials and sale of commodities, fuelled by a resource hungry China. This has helped to stabilize macroeconomic indicators in the region and created financial reserves for future crisis but China's growth has recently been falling drastically and with it the consumption of raw materials from Latin America. If these countries want to play a bigger role in the world economy it is essential that they strengthen their private sectors and create an environment that enables local firms to become competitive on an international level. While several companies have succeeded in doing so, more needs to be done and this thesis provided some advice so that corporations in the region find the necessary institutions to invest abroad and benefit from knowledge available outside the region. Thanks to political, and more recently also economic stability, Latin America has the potential for a lot of growth to compete with other emerging-market regions such as Asia but it needs to address its institutional deficits and foster innovation and entrepreneurship.

The future will show whether local governments can live up to this opportunity but hopefully they will, so that Latin America can finally assume its economic and political role that the continent deserves to play in this world.

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Appendix

Appendix A

Abbreviation of Indicator	Indicator Name	Description	Source
HPM	Home country product market	Aa: Competition (Domestic) 1. Intensity of local competition 2. Extent of Market dominance 3. Effectiveness of anti-monopoly policy 4. Effect of taxation to invest 5. Total tax rate 6. Number of procedures required to start a business 7. Time required to start a business 8. Agricultural policy cost Ab: Foreign competition 1. Prevalence of trade barriers 2. Trade tariffs 3. Prevalence of foreign ownership 4. Business impact of rules on FDI 5. Burden of customs Procedures 6. Imports as a percentage of GDP B: Quality of demand conditions 1. Treatment of customers 2. Buyer sophistication	WEF Global competitiveness Report (2014)

HCM	Home country capital market	A: Efficiency 　1. Availability of financial services 　2. Affordability of financial services 　3. Financing through local equity market 　4. Ease of access to loans 　5. Venture capital availability B: Trustworthiness and confidence 　1. Soundness of banks 　2. Regulation of securities exchanges 　3. Legal rights index	WEF Global competitiveness Report (2014)
HLM	Home country labour market	A: Flexibility 　1. Cooperation in labour-employer relations 　2. Flexibility of wage determination 　3. Hiring and firing practices 　4. Redundancy costs 　5. Effect of taxation on incentives to work B: Efficient use of talent 　1. Pay and productivity 　2. Reliance on professional management 　3. Country capacity to retain talent 　4. Country capacity to attract talent 　5. Female participation in labour force	WEF Global competitiveness Report (2014)
HGE	Home country government efficiency	1. Wastefulness of government spending 　2. Burden of government regulation 　3. Efficiency of legal framework in settling disputes 　4. Efficiency of legal framework in challenging regulations 　5. Transparency of government policymaking	WEF Global competitiveness Report (2014)
HCE	Home country contract enforcement	A: Property rights 　1. Property rights 　2. Intellectual property protection	WEF Global competitiveness Report (2014)

Argentina:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	0.2299*	1					
HLM	0.1149*	0.5864*	1				
HPM	0.7306	0.7725	0.4639	1			
HGE	0.4002*	0.1549*	0.7565*	0.3013*	1		
HCE	0.6902*	0.8221*	0.5240*	0.9715*	0.3025*	1	
IFDF	0.2463*	0.0702*	0.1359*	0.0572*	0.1853*	0.2509*	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8714*	0					
HLM	-0.9415*	-0.7838*	0				
HPM	-0.6962	-0.7257	-0.8225	0			
HGE	0.9424*	0.7887*	0.9909*	-0.822*	0		
HCE	0.8518*	0.8529*	0.9177*	0.9909*	-0.9149*	0	
IFDF	-0.7365*	-0.7684*	-0.8402*	0.9177*	0.8408*	0.9649*	0

Coefficient

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	8.4350	2.5662	3.287	0.188
HCM	-17.4715	0.6464	-27.029	0.023*
HLM	-39.2358	0.8137	-48.219	0.013*
HPM	-3.2832	2.4302	-1.351	0.405
HGE	16.7494	0.9236	18.135	0.035*
HCE	127.5937	2.7671	46.111	0.013*
IFDF	-4.6729	0.2225	-21.002	0.030*

Multiple R-squared 0.9853, Adjusted R-squared 0.897

F Statistics: 99.994 on 6 and 1 DF, p-value: 0.0764

Bolivia:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	0.1057*	1					
HLM	0.5240	0.3343	1				
HPM	0.2277*	0.3580*	0.5891*	1			
HGE	-0.070*	0.1598*	0.3007*	0.9189*	1		
HCE	0.4784	0.2648	0.7745	0.9263	0.7755	1	
IFDF	-0.0315	0.2079	0.3419	0.8611	0.8307	0.6617	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.3261*	0					
HLM	-0.7629	-0.7104	0				
HPM	0.2794*	-0.4463*	-0.1195*	0			
HGE	-0.3157*	-0.6037*	0.0864*	0.2468*	0		
HCE	-0.8574	0.9261	-0.6693	0.2274	-0.7531	0	
IFDF	0.3399	0.2963	0.0487	-0.5729	0.8504	-0.4310	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	-6.7113	0.5388	-12.455	0.051
HCM	-5.7291	0.4241	-13.509	0.047*
HLM	-14.7927	1.6032	-9.227	0.0687
HPM	3.8998	0.2795	13.953	0.0455*
HGE	-0.6758	0.0298	-22.678	0.0279*
HCE	-3.77110	0.5055	-7.460	0.0848
IFDF	-13.4789	1.0701	-12.596	0.0504

Multiple R-squared 0.9901, Adjusted R-squared 0.9763

F Statistics: 416.2 on 6 and 1 DF, p-value: 0.0375

Brazil:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.8162*	1					
HLM	-0.7193	0.8655	1				
HPM	-0.1742**	0.1478**	0.5223**	1			
HGE	-0.5596*	0.7441*	0.7782*	0.1438*	1		
HCE	0.0598	-0.1545	0.1022	0.6182	0.1373	1	
IFDF	-0.2905*	0.3405*	0.2893*	0.2024*	0.4144*	0.6007*	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.4300*	0					
HLM	-0.1179	0.6248	0				
HPM	0.1545**	-0.2642**	0.8126**	0			
HGE	0.2293*	-0.0664*	0.7150*	-0.7312*	0		
HCE	-0.2169	-0.3463	-0.2663	0.6683	0.5089	0	
IFDF	0.1120*	0.5076*	-0.1373*	-0.2292*	-0.0706*	0.7278*	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	32.5298	5.1051	6.372	0.0991
HCM	-35.320	1.9283	-32.32	0.0197*
HLM	-6.7743	1.7701	-3.827	0.1627
HPM	23.1743	0.1711	135.38	0.0047**
HGE	14.5140	0.5949	24.397	0.0260*
HCE	-8.1375	1.0255	-7.9347	0.0798
IFDF	3.5909	0.2099	17.107	0.0371*

Multiple R-squared 0.8905, Adjusted R-squared 0.8367

F Statistics: 1315.7 on 6 and 1 DF, p-value: 0.0211

Chile:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.4593*	1					
HLM	-0.4293	0.7810	1				
HPM	-0.4819	0.4823	0.8964	1			
HGE	0.5520	-0.5160	-0.6304	-0.7226	1		
HCE	-0.8205*	0.6470*	0.7480*	0.7376*	-0.7073*	1	
IFDF	0.9438*	-0.1808*	-0.2614*	-0.4248*	0.4559*	-0.6745*	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8242*	0					
HLM	-0.6644	0.9508	0				
HPM	-0.5382	-0.8924	0.9746	0			
HGE	-0.5263	-0.7950	0.8315	-0.8558	0		
HCE	-0.8183*	-0.6950*	-0.6515*	-0.5185*	-0.5704*	0	
IFDF	0.9775*	0.7469*	-0.5500*	0.4212*	0.4364*	0.7198*	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	1.62175	0.5378	3.015	0.204
HCM	-1.3905	0.4302	-32.32	0.019*
HLM	0.77296	1.2096	0.639	0.638
HPM	-1.3209	1.4858	-0.889	0.537
HGE	-1.5375	0.3311	-4.643	0.135
HCE	-7.4790	0.3459	-21.619	0.029*
IFDF	9.4125	0.2135	44.087	0.014*

Multiple R-squared 0.994, Adjusted R-squared 0.9479

F Statistics: 16.972 on 6 and 1 DF, p-value: 0.1837

Colombia:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.4312	1					
HLM	0.2135*	-0.0838*	1				
HPM	-0.3199	0.1111	-0.7286	1			
HGE	-0.4646	0.1176	-0.0863	0.0877	1		
HCE	-0.5023*	0.2140*	-0.2609*	0.1845*	0.8462*	1	
IFDF	-0.4904	0.4106	-0.8582	0.6732	0.2018	0.5040	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.1359	0					
HLM	-0.5222*	0.6423*	0				
HPM	-0.1230	-0.1443	-0.1231	0			
HGE	-0.4931	0.4466	-0.6300	0.1675	0		
HCE	0.3781*	-0.5154*	0.6748*	-0.2171*	0.9276*	0	
IFDF	-0.5367	0.6974	-0.9119	0.1798	-0.7581	0.8212	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	5.7886	0.1068	54.163	0.011*
HCM	1.3060	0.1507	8.663	0.073
HLM	-2.8043	0.2063	-13.592	0.0467*
HPM	-0.1739	1.4029	-0.124	0.921
HGE	-0.9916	1.7490	-0.567	0.672
HCE	9.9755	0.6678	14.938	0.0425*
IFDF	-1.5899	0.3607	-4.408	0.142

Multiple R-squared 0.5945, Adjusted R-squared 0.4821

F Statistics: 4.286 on 6 and 1 DF, p-value: 0.3538

Costa Rica:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.2410**	1					
HLM	0.1850*	0.7907*	1				
HPM	-0.4013*	0.8668*	0.4521*	1			
HGE	-0.6111**	0.5305**	0.0626**	0.7274**	1		
HCE	0.4856*	0.0957*	0.3746*	-0.0630*	-0.5191*	1	
IFDF	0.3659*	0.4497*	0.5835*	0.2692*	-0.4512*	0.6224*	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8915**	0					
HLM	0.8794*	0.9738*	0				
HPM	-0.8507*	-0.9213*	0.8499*	0			
HGE	0.8706**	0.9663**	-0.9054**	0.9889**	0		
HCE	0.6571*	0.6529*	-0.5790*	0.7151*	-0.7123*	0	
IFDF	0.8773*	0.9674*	-0.9049*	0.9869*	-0.9983*	-0.6908*	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	12.3616	0.3984	31.022	0.0205*
HCM	-3.5765	0.0556	-64.281	0.0099**
HLM	5.7781	0.3206	18.023	0.0352*
HPM	6.002795	0.1952	30.741	0.020*
HGE	9.2279	0.1276	72.278	0.0088**
HCE	9.1305	0.1809	50.473	0.0126*
IFDF	5.2370	0.1533	34.162	0.0186*

Multiple R-squared 0.8894, Adjusted R-squared 0.8258

F Statistics: 3167.5 on 6 and 1 DF, p-value: 0.0136

Ecuador:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.4943*	1					
HLM	-0.4302	0.3359	1				
HPM	-0.3631	0.7487	0.3828	1			
HGE	-0.2253*	0.6907*	0.2034*	0.9512*	1		
HCE	-0.3548	0.7568	0.6888	0.8853	0.7837	1	
IFDF	-0.2148	-0.3974	0.4412	-0.0193	-0.0225	-0.0170	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.7894*	0					
HLM	0.5364	0.8234	0				
HPM	-0.4137	-0.1563	-0.0031	0			
HGE	0.6889*	0.8526*	-0.9155*	0.3654*	0		
HCE	-0.4324	-0.7302	0.9736	0.1634	0.8409	0	
IFDF	-0.6698	-0.9139	0.9651	0.0734	0.9257	-0.9124	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	1.5079	0.9062	1.664	0.345
HCM	-1.6301	0.0556	-29.32	0.0217*
HLM	3.2204	0.3206	10.045	0.0631
HPM	-1.6059	0.1952	-8.2271	0.0770
HGE	2.1129	0.1276	16.559	0.0383*
HCE	-0.7071	0.1809	-3.909	0.1594
IFDF	-1.3908	0.1533	-9.073	0.0698

Multiple R-squared 0.7775, Adjusted R-squared 0.7532

F Statistics: 6.671 on 6 and 1 DF, p-value: 0.2880

El Salvador:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.6070	1					
HLM	-0.4261	0.8747	1				
HPM	0.1172	0.5527	0.7868	1			
HGE	-0.3803	0.8555	0.9819	0.8511	1		
HCE	-0.3354	0.8477	0.9773	0.8194	0.9603	1	
IFDF	-0.8617	0.7223	0.5115	0.0260	0.4393	0.4873	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.6064	0					
HLM	0.4447	-0.3667	0				
HPM	0.8721	-0.6279	-0.6509	0			
HGE	-0.8617	0.6820	0.7636	0.9316	0		
HCE	0.3127	-0.0869	0.5095	0.0168	0.0512	0	
IFDF	-0.8594	0.7048	0.3295	0.6217	-0.7186	0.4141	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	-1.3269	0.7609	-1.744	0.331
HCM	0.4166	0.5461	0.763	0.585
HLM	0.6374	1.2839	0.497	0.707
HPM	3.4136	1.9151	1.782	0.325
HGE	-1.9871	1.1699	-1.698	0.339
HCE	0.2564	0.7788	0.329	0.798
IFDF	-0.0492	0.0292	-1.681	0.342

Multiple R-squared 0.9675, Adjusted R-squared 0.7728

F Statistics: 1.0863 on 6 and 1 DF, p-value: 0.6256

Guatemala:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.0633	1					
HLM	-0.7606*	0.4833*	1				
HPM	-0.8622*	0.5934*	0.9735*	1			
HGE	-0.5776*	0.2616*	0.9407*	0.8535*	1		
HCE	-0.1309	-0.3358	0.5688	0.4045	0.7835	1	
IFDF	-0.0251	0.3612	0.1388	0.0806	0.1512	0.0367	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.0922	0					
HLM	0.4587*	-0.0988*	0				
HPM	-0.7115*	0.0984*	0.8924*	0			
HGE	0.1622*	0.4354*	0.4894*	-0.1235*	0		
HCE	-0.2966	-0.7331	0.0632	-0.2671	0.7352	0	
IFDF	-0.1870	0.5280	0.3835	-0.4570	-0.1367	0.1438	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	7.8991	0.5631	14.028	0.045*
HCM	0.4153	0.0785	5.291	0.118
HLM	10.2063	0.7035	14.508	0.043*
HPM	8.4439	0.4278	19.738	0.032*
HGE	-6.6109	0.4395	-15.042	0.042*
HCE	2.2182	0.2418	9.174	0.069
IFDF	-0.2347	0.0501	-4.685	0.133

Multiple R-squared 0.8836, Adjusted R-squared 0.6328

F Statistics: 19.415 on 6 and 1 DF, p-value: 0.1720

Honduras:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	0.6472	1					
HLM	-0.4216	-0.5333	1				
HPM	0.2441	0.7797	-0.2196	1			
HGE	-0.3700	0.2672	0.4002	0.7120	1		
HCE	-0.4140	0.0435	0.6170	0.5643	0.9499	1	
IFDF	-0.1822	-0.0243	0.6142	-0.0940	0.3580	0.3808	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.8649	0					
HLM	0.7305	-0.0513	0				
HPM	0.2311	0.2665	-0.5030	0			
HGE	-0.9202	0.8413	0.4794	0.1262	0		
HCE	0.5883	-0.7817	0.0397	0.4320	0.8017	0	
IFDF	-0.3820	0.6811	0.3750	-0.5429	-0.2580	0.3654	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	-2.1297	0.4688	-4.543	0.138
HCM	0.5768	0.3348	1.723	0.335
HLM	0.1570	0.1468	1.070	0.479
HPM	0.1256	0.5279	0.238	0.852
HGE	-0.8143	0.3464	-2.351	0.256
HCE	0.4129	0.5673	0.728	0.600
IFDF	-0.0120	0.0291	-0.413	0.750

Multiple R-squared 0.9843, Adjusted R-squared 0.8898

F Statistics: 10.42 on 6 and 1 DF, p-value: 0.2328

Mexico:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.1272*	1					
HLM	-0.1183**	0.6223**	1				
HPM	-0.1908**	0.4939**	0.8872**	1			
HGE	0.8328**	-0.2459**	0.0435**	0.1872**	1		
HCE	-0.1604*	0.0016*	0.6086*	0.7952*	0.3265*	1	
IFDF	-0.5501	0.3822	0.3854	0.3524	-0.4558	0.3095	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.4891*	0					
HLM	0.8205**	0.3522**	0				
HPM	-0.1341**	-0.4645**	-0.7730**	0			
HGE	0.7593**	0.6013**	0.4814**	0.7102**	0		
HCE	-0.6347*	-0.2217*	0.2092*	0.8573*	0.3327*	0	
IFDF	-0.7035	0.8811	0.1380	-0.9731	-0.1275	0.1892	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	-10.9777	0.0544	-201.78	0.0031**
HCM	0.4758	0.0092	51.32	0.0124*
HLM	3.3052	0.0272	121.44	0.0052**
HPM	-3.8764	0.0309	-125.45	0.0050**
HGE	4.5236	0.0115	391.43	0.0016**
HCE	-0.5144	0.0174	-29.47	0.0216*
IFDF	-0.0028	0.0028	-0.99	0.5032

Multiple R-squared 0.8401, Adjusted R-squared 0.8387

F Statistics: 40'364 on 6 and 1 DF, p-value: 0.0038

Nicaragua:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	0.0257	1					
HLM	-0.4653*	0.5405*	1				
HPM	0.1460	0.0104	0.4802	1			
HGE	0.4340	-0.0512	0.1042	0.8535	1		
HCE	0.7651*	0.3595*	-0.0844*	0.0713*	0.3760*	1	
IFDF	0.1657	-0.2691	0.3462	0.6441	0.3305	-0.0492	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.3174	0					
HLM	0.6302*	-0.4972*	0				
HPM	0.7492	0.0463	-0.9738	0			
HGE	-0.2047	0.3841	0.7362	0.2108	0		
HCE	0.3497*	-0.2873*	0.4761*	0.7461*	0.1147*	0	
IFDF	-0.1489	0.6749	0.1412	-0.0371	-0.8631	0.8261	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	0.9144	0.5895	1.551	0.364
HCM	0.7178	0.0578	12.419	0.051
HLM	-3.9334	0.1171	-33.570	0.019*
HPM	3.0949	0.3427	9.030	0.070
HGE	-0.8914	0.1214	-7.339	0.086
HCE	1.1186	0.0605	18.478	0.034*
IFDF	0.0247	0.0074	3.318	0.186

Multiple R-squared 0.7297, Adjusted R-squared 0.6482

F Statistics: 925.22 on 6 and 1 DF, p-value: 0.02516

Panama:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	0.2228*	1					
HLM	-0.2032	0.8272	1				
HPM	-0.5218	-0.1003	0.3569	1			
HGE	-0.6879	-0.3233	0.1533	0.9440	1		
HCE	-0.0899	0.6610	0.7684	0.5262	0.3316	1	
IFDF	0.8397*	-0.1354*	-0.3226*	-0.1536*	-0.3064*	-0.0585*	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.7602*	0					
HLM	-0.2933	-0.6868	0				
HPM	-0.7492	-0.3922	-0.4492	0			
HGE	0.4021	0.0372	0.8772	0.3209	0		
HCE	-0.0821	-0.5937	-0.7446	-0.3977	-0.5394	0	
IFDF	0.6238*	0.7301*	0.2684*	0.1274*	0.3721*	0.9372*	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	-7.7647	1.5303	-5.074	0.123
HCM	8.3573	0.5136	16.271	0.039*
HLM	-3.9699	0.4041	-9.824	0.064
HPM	-3.0383	0.9793	-3.102	0.198
HGE	1.8515	0.4805	3.853	0.161
HCE	-2.8590	0.3175	-9.002	0.070
IFDF	0.3483	0.0159	21.891	0.029*

Multiple R-squared 0.7012, Adjusted R-squared 0.6703
F Statistics: 599.2 on 6 and 1 DF, p-value: 0.0312

Paraguay:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.5666	1					
HLM	-0.4489	0.7186	1				
HPM	-0.8239	0.7077	0.7087	1			
HGE	-0.9586	0.6188	0.5158	0.9231	1		
HCE	-0.2460	0.7739	0.6534	0.6231	0.4235	1	
IFDF	-0.1710	0.4529	0.0547	0.4476	0.3720	0.5403	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8485	0					
HLM	0.6080	0.7461	0				
HPM	-0.1671	-0.3653	0.6691	0			
HGE	-0.9401	-0.7069	0.4085	0.1577	0		
HCE	0.7405	0.7830	-0.3823	0.3023	0.6157	0	
IFDF	0.8414	0.8227	-0.8258	0.4186	0.7189	-0.5126	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	0.0943	0.1250	0.755	0.588
HCM	-0.0386	0.0240	-1.604	0.355
HLM	0.0317	0.0414	0.766	0.584
HPM	-0.0065	0.0389	-0.170	0.893
HGE	-0.0868	0.0314	-2.578	0.221
HCE	0.0719	0.0652	1.102	0.469
IFDF	0.0133	0.0085	1.557	0.363

Multiple R-squared 0.992, Adjusted R-squared 0.9442
F Statistics: 1.031 on 6 and 1 DF, p-value: 0.6371

Peru:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	0.4561*	1					
HLM	-0.1460**	0.4077**	1				
HPM	-0.0002	0.5322	0.8347	1			
HGE	0.0749*	0.5047*	0.9130*	0.6818*	1		
HCE	0.2965	0.6894	0.7349	0.7037	0.8760	1	
IFDF	0.2374	0.7502	0.4654	0.5173	0.4823	0.4519	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	0.2115*	0					
HLM	-0.4552**	0.1298**	0				
HPM	0.2905	-0.1126	0.9122	0			
HGE	0.3413*	-0.2957*	0.9364*	-0.8567*	0		
HCE	0.1176	0.5348	-0.6994	0.7315	0.8697	0	
IFDF	-0.0539	0.7463	-0.2751	0.3429	0.4352	-0.5829	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	1.4884	0.13071	11.387	0.557
HCM	7.9972	0.12851	62.227	0.010*
HLM	3.4721	0.0417	83.073	0.007**
HPM	-8.6851	3.6218	-2.398	0.251
HGE	-9.6198	0.4424	-21.740	0.029*
HCE	7.65348	0.7265	10.534	0.060
IFDF	2.6978	0.4118	6.551	0.096

Multiple R-squared 0.7688, Adjusted R-squared 0.72472
F Statistics: 47.77 on 6 and 1 DF, p-value: 0.1103

Uruguay:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	0.0868*	1					
HLM	0.3709*	-0.2098*	1				
HPM	-0.1737*	0.2150*	-0.8661*	1			
HGE	-0.4195	0.4676	-0.3547	0.3400	1		
HCE	-0.1894	0.3651	-0.6254	0.7784	0.5536	1	
IFDF	-0.1438*	-0.5615*	0.7160*	-0.6106*	-0.4448*	-0.5840*	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.9595*	0					
HLM	0.9918*	0.9616*	0				
HPM	0.9683*	0.9323*	-0.9842*	0			
HGE	-0.9472	-0.8834	0.9314	0.8966	0		
HCE	-0.8205	-0.7830	0.8360	0.8886	-0.6963	0	
IFDF	-0.9926*	-0.9709*	0.9930*	0.9669*	-0.9390*	-0.8264*	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	-6.4203	0.1334	-48.114	0.013*
HCM	2.7895	0.0837	33.328	0.019*
HLM	2.3476	0.1467	16.003	0.039*
HPM	-8.6938	0.2783	-31.239	0.020*
HGE	-0.5157	0.1431	-3.604	0.172
HCE	1.3237	0.2533	5.226	0.120
IFDF	1.0649	0.0291	36.595	0.017*

Multiple R-squared 0.8887, Adjusted R-squared 0.8739
F Statistics: 113.58 on 6 and 1 DF, p-value: 0.0717

Venezuela:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.0777*	1					
HLM	0.0335	0.9646	1				
HPM	0.0714	0.8815	0.9398	1			
HGE	-0.2404	-0.5421	-0.5432	-0.3281	1		
HCE	0.3085*	0.8333*	0.8411*	0.8569*	-0.3742*	1	
IFDF	-0.4438*	-0.2533*	-0.3130*	-0.4114*	0.1061*	-0.7041*	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8240*	0					
HLM	0.6971	0.6273	0				
HPM	0.3304	-0.5535	-0.2091	0			
HGE	-0.1147	0.1683	0.9288	-0.4899	0		
HCE	0.4205*	0.5827*	-0.3719*	0.2761*	0.1947*	0	
IFDF	-0.3889*	0.0722*	0.8877*	0.5983*	-0.4208*	0.5612*	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	7.5435	0.3900	19.342	0.032*
HCM	-5.7558	0.2776	-20.734	0.030*
HLM	1.0237	0.2854	3.586	0.173
HPM	-0.0244	0.2507	-0.098	0.938
HGE	-1.8977	0.1524	-12.449	0.051
HCE	5.7802	0.2765	20.902	0.030*
IFDF	0.7682	0.0506	15.178	0.041*

Multiple R-squared 0.9987, Adjusted R-squared 0.991

F Statistics: 130.1 on 6 and 1 DF, p-value: 0.067

Latin America outward FDI to the entire world:

Simple Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	1						
HCM	-0.2168*	1					
HLM	0.0446*	0.7347*	1				
HPM	-0.0943	0.0351	0.3324	1			
HGE	0.6547	-0.0642	0.1028	-0.3048	1		
HCE	0.0209*	-0.2802*	0.0133*	0.9026*	-0.2627*	1	
IFDF	0.4078	0.4932	0.3906	0.3366	0.1687	0.3430	1

Partial Correlation

	OFDI	HCM	HLM	HPM	HGE	HCE	IFDF
OFDI	0						
HCM	-0.8916*	0					
HLM	0.6473*	0.9545*	0				
HPM	0.9740	0.9861	-0.9021	0			
HGE	-0.4673	-0.5392	0.5576	0.5151	0		
HCE	-0.2835*	0.9946*	0.9253*	0.9972*	-0.5346*	0	
IFDF	0.9922	0.9980	-0.9440	-0.9868	0.5333	0.9948	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	3.3467	0.9496	3.524	0.176
HCM	-4.6967	0.2617	-17.947	0.035*
HLM	9.0126	0.5929	15.201	0.041*
HPM	0.9259	0.3128	2.959	0.207
HGE	-0.5320	0.1006	-5.288	0.118
HCE	1.3462	0.0450	29.904	0.021*
IFDF	0.4120	0.0517	7.969	0.0795

Multiple R-squared 0.9927, Adjusted R-squared 0.9487

F Statistics: 68.53 on 6 and 1 DF, p-value: 0.092

Latin America outward FDI to the region:

Simple Correlation

	OFDILATAM	HCM	HLM	HPM	HGE	HCE	IFDF
OFDILATAM	1						
HCM	-0.0862*	1					
HLM	-0.1470	0.7347	1				
HPM	-0.1662	0.0351	0.3324	1			
HGE	0.0693	-0.0642	0.1028	-0.3048	1		
HCE	-0.0205*	-0.0813*	-0.1499*	-0.6803*	0.4171*	1	
IFDF	0.0258*	0.4932*	0.3906*	0.3366*	0.1687*	-0.0067*	1

Partial Correlation

	OFDILATAM	HCM	HLM	HPM	HGE	HCE	IFDF
OFDILATAM	0						
HCM	-0.1995*	0					
HLM	0.0902	0.8371	0				
HPM	-0.3176	-0.7106	0.6507	0			
HGE	-0.8470	-0.5183	0.5066	-0.4496	0		
HCE	0.2957*	0.4435*	0.3436*	-0.7374*	-0.0497*	0	
IFDF	0.6635*	0.6858*	-0.4627*	0.7024*	0.4573*	0.4884*	0

Coefficients

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	2.5153	0.0999	25.166	0.025*
HCM	-6.3998	0.1726	-37.077	0.017*
HLM	2.0408	0.3520	5.798	0.108
HPM	-0.6622	0.2519	-2.629	0.231
HGE	-1.6767	0.9489	-1.767	0.327
HCE	1.5889	0.1139	13.950	0.045*
IFDF	6.3115	0.3321	19.005	0.033*

Multiple R-squared 0.6322, Adjusted R-squared 0.5847

F Statistics: 3.129 on 6 and 1 DF, p-value: 0.1273

Measure	Outward FDI as a percentage of Gross Domestic Product							
YEAR	2006	2007	2008	2009	2010	2011	2012	2013
ECONOMY								
Argentina	1.138168321	0.573148333	0.423460883	0.230467848	0.260560659	0.332020315	0.220500478	0.253050798
Bolivia (Plurinational State of)	0.02619665	0.030487609	0.029986249	-0.01512244	-0.14659422	0	0	0
Brazil	2.589155729	0.517001889	1.237169338	-0.62241960	0.540708119	-0.04154808	-0.12516705	-0.15534450
Chile	1.430060112	2.803050763	5.094648276	4.206191197	4.348627639	8.062385189	8.322413779	3.914424812
Colombia	0.675500349	0.440059513	1.018922179	1.431920029	2.401530629	2.468995324	-0.16392136	2.009030818
Costa Rica	0.435421209	0.996899926	0.019820433	0.025402707	0.068253833	0.140854169	0.949843728	0.554775758
Ecuador	0.124052274	0.013186219	0.077155107	0.081743834	0.195877049	0.081011708	-0.01593925	0.066470946
El Salvador	0.142312375	-0.47451140	-0.37095881	0	-0.02194385	0.000432171	-0.00712358	0.01181932
Guatemala	0.132313955	0.074458222	0.041904841	0.069698755	0.056844978	0.036044032	0.077821153	0.062290203
Honduras	0.005495755	0.011810715	-0.00701555	0.024575864	-0.00874702	0.011947866	0.294410309	0.140455865
Mexico	0.595581545	0.791237242	0.105072797	1.073093208	1.431752392	1.080303432	1.898388467	1.025450942
Nicaragua	0.309447191	0.205461954	0.228970351	-0.35677771	0.203804107	0.070567422	0.417789379	0.568137366
Panama	2.212756025	1.247366586	1.076012104	-0.71928452	1.171034636	0.562655273	-0.75663747	0.693976959
Paraguay	0.063872295	0.052192872	0.045397092	0	0	0	0	0
Peru	0	0.060988375	0.569913966	0.31558392	0.168882978	0.062701405	-0.02808131	0.06386928
Uruguay	-0.00526312	0.381829937	-0.03593648	0.054283043	-0.15362199	-0.01461354	-0.01070921	-0.02811830
Venezuela (Bolivarian Republic of)	0.830619458	0.01866611	0.506336809	0.678770848	0.450981748	-0.36052581	0.643264303	0.557482831

SOURCE: (UNCTAD, 2014)

Measure	Outward FDI to the region as a percentage of Gross domestic Product							
YEAR	2006	2007	2008	2009	2010	2011	2012	2013
ECONOMY								
Argentina	0.462858185	0.417176317	0.203014137	0.182468436	0.068410764	0.199173364	0.702490046	0.267954973
Bolivia (Plurinational State of)	0	0	0	0	0	0	0	0.143848188
Brazil	0.282015311	0.397146583	0.368213717	0.601160662	0.140039413	0.088307591	0.180299197	0.26406118
Chile	0.189247485	1.820554972	0.446694822	1.908903863	1.425069732	0.495845918	3.69306511	1.348021081
Colombia	0.4552084	0.678390611	0.155175514	0.119038154	2.219422483	1.540435836	0.855025709	1.431709421
Costa Rica	1.713540161	0.204011852	0.01876808	0.087126113	0.157307523	0.025346634	0	0.179752466
Ecuador	0.07157807	0.044502998	0.054239945	0.174425021	0	0.049590231	0.005714632	0
El Salvador	0	3.244981576	0	1.228399386	0.688196542	0.086434159	0.000838068	0.069285666
Guatemala	0	0.543486391	0.094030375	0.25891895	0.20730275	0.070246964	0.108779696	0.301726476
Honduras	0.129150232	0.489432299	0	0	0	0	0.032320224	1.637286266
Mexico	0.115570215	0.191614895	0.12600556	0.101225498	0.260373925	0.894887914	0.097560505	0.423301279
Nicaragua	0	0.358551253	0.162338767	0	1.034160266	0	0	0
Panama	1.124566727	0.289486049	0.116100619	0.201548655	0.659076627	0.215479087	0.058834563	0.164726915
Paraguay	0	0	0	0	0	0	0	0
Peru	0.015164823	0.107697163	0.431059811	0.392886087	0.056551293	0.30073041	0.156490679	0.269405518
Uruguay	0	0	0.00922078	0.161862434	0.007207918	0.027996319	0.019655951	0.020741388
Venezuela (Bolivarian Republic of)	0.784619273	0.275073347	0.037074437	0.237660866	0.017102264	0.394966932	0.014486521	0.031759424

SOURCE: (FT Database on M&A and Greenfield investments, provided by CEPAL, 2015)