Chapter 1
Foreign Direct Investment, Technological Innovation, and Export Performance: Empirical Evidence From Developing Asia

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ABSTRACT

This chapter’s objective is to explore the effects of foreign direct investment inflows and technological innovations on export performance in developing Asian countries (Hong Kong, China, Indonesia, Singapore, India, Turkey, Malaysia, Vietnam, United Arab Emirates, and Thailand) in the period of 1990-2015 by using the panel cointegration technique. The empirical results reveal that there is a cointegration among the variables, and cointegration regression shows that the foreign direct investments, per income and patent applications, have a positive and statistically significant impact on export performance in developing Asian countries. The results reveal that the impact of patent applications is greater than the foreign direct investments on exports. Then, technological development affects exports positively in all countries in the sample, except for India and the United Arab Emirates.

DOI: 10.4018/978-1-5225-3026-8.ch001

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INTRODUCTION

The aggregation of knowledge and the development of technological capabilities are the key elements for the economic growth and competitiveness building in emerging countries. One of the most important ways of getting technology in developing economies is to attract foreign direct investment (Fu, 2007; Silovagathasan & Wuu, 2014).

Foreign Direct Investment (FDI) is a form of the large multinational enterprises (MNEs). It is widely believed that multinational exporter corporations have higher productivity than domestic non-exporters (Helpman et al., 2004). Also, MNEs activities carry the technology to the host country due to having knowledge of new technologies and materials, production process, or management experience (Barios et al., 2005).

In the economic growth perspectives, the Solow’s neoclassical growth (1956) model, suggest that technology is exogenous, and capital increases are the engine of economic growth. Since the mid-1980s the new endogenous growth theories have emerged and focused on the technological knowledge and its transmission. It exclaims that the accumulation of innovation and human capital are the critical elements in economic growth. Grossman and Helpman (1991), Lucas (1988), and Romer (1990) emphasize the role of technology, human capital improvement and the impact of their externalities on economic growth. In that, FDI can affect positively domestic production through spillovers benefits (Fan, 2002:7). Such benefits could be in the type of technology expansion, productivity advancement, transfer of skills, increased competition, and market access effects (Görg & Greenaway, 2004).

It is believed that China, Hong Kong, Singapore, South Korea, India, Malaysia, and had a strong economic growth and enhanced their competitiveness over the past twenty years. After they had produced high-tech products by FDI inwards, they exported them in the global competitive market (Erdal & Göçer, 2015:750).

FDI’s effects on technological improvement and economic growth in emerging countries have been studied extensively in the literature. Also, there are many studies investigate the FDI impact on export in developing and developed countries. This study is one of the few studies which have explored the matter of both foreign direct investment and technological innovations on export performance in developing countries.

The purpose of this chapter is to determine the impacts of the foreign direct investments and technological investments on export performance in ten host developing Asian economies between 1990-2014.
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