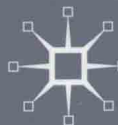


Capital Flows and Foreign Direct Investments in Emerging Markets



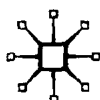
Edited by
Sima Motamen-Samadian



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SIMA MOTAMEN-SAMADIAN

Preface

The eight studies presented in this volume are put together to provide a new insight into the role of capital flows and foreign investments in emerging markets. The objective is to identify the array of variables that are influenced by capital flows and the extent to which these need to be focused on in order to maximize the gains of foreign investments. The chapters report on empirical studies carried out on a number of countries in Asia, Eastern Europe, Latin America, Africa and the Middle East and present the latest findings that are important and interesting for all those involved in decision-making in the countries involved and those who are conducting research in the area. In this respect Chapter 2 concentrates on the impact of foreign investments and trade openness on the financial development of 43 countries. Chapter 3 examines the responsiveness of macroeconomic variables to capital flow fluctuations under different exchange rate regimes in Mexico. Chapter 4 discusses the significance of the political stability of states in their bargaining power with multinational enterprises (MNEs), and considers the case of five different groups of post-Soviet states. Chapter 5 shifts the attention to Asia and provides an important insight into the risk-taking behaviour of Malaysian multi-ethnic practitioners. Here the authors, based on an empirical study, report the observance of a specific pattern of risk-taking behaviour that appears to prevail among Malaysian managers in relation to their ethnic background.

The remaining four chapters concentrate on the role of foreign direct investment (FDI) in North African and Middle Eastern Countries and provide interesting reports on the extent by which FDI inflows have affected the economies of various countries in the region. The studies show that African and Middle-Eastern countries appear to lag behind other emerging economies in Asia and Eastern Europe in terms of the size of FDI that they attract. All the studies also highlight the role of political and economic freedom as some of the most important determining factors in attracting FDIs. Accordingly they all argue for the need to adopt various political and

economic adjustment policies to improve the chances of the countries involved in receiving FDIs. Overall the volume can be of interest to all researchers and policy-makers who are working on the role of capital flows and FDI in the economic and financial development of emerging economies.

SIMA MOTAMEN-SAMADIAN

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1

Introduction

Sima Motamen-Samadian

The role of capital flows and foreign exchange risks in emerging markets has been the subject of numerous studies in recent years. It is widely accepted that foreign investments can have a range of positive impacts on the economy of recipient countries. They are believed to stimulate trade and industry in the recipient countries as well as their financial development and overall employment and income level. To attract foreign investors many emerging economies have embarked on a range of liberalization and privatization programmes. These led initially to large inflows of capital and appeared to help economic growth. The repeated experiences of financial crisis in a number of emerging economies in the 1990s, however, alarmed both investors and host countries about the risks associated with such investments. The sudden outflows of capital in each case exerted acute pressure on the economy of the host country and adversely affected the stability of its foreign exchange market. The economic downturn and the uncertainties that were created in each case drove many investors out of emerging markets. The shortage of capital, on the other hand, compelled the authorities in many an emerging economy to adopt a number of new measures to regain the confidence of the investors, and attract them back.

The present book is a collection of eight studies that demonstrate the role of foreign investments and capital flows in economies of a number of emerging economies in South-East Asia, Latin America, Eastern Europe, North Africa and the Middle East. Each chapter looks at a different aspect of foreign investment and its impact on economy of a different region. In this respect Siong Hook Law in Chapter 2