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A BRIEF TALE ON THEORIES OF FDI

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ABSTRACT

Numerous theories have been given by various researchers to explain the determinants of foreign direct investment (FDI). However, there is no single that theory explains the behaviour of MNCs in making investment in a particular country or region. In this paper, we intend to review the theories of the FDI, since its evolution to the present days, focusing on its corner stones. The applicability of the theory differs according to the type and origin of investment. There is not any single theory of FDI, but various theoretical models that attempts to explain FDI and the location decision of multinational companies. Nevertheless, all these theories have a common view that a firm moves abroad to undertake advantages of in the form of location, firm-specific or internationalization of markets.

KEYWORDS: *Foreign direct investment, internalization, MNCs, OLI paradigm; LLL model.*

INTRODUCTION

After the Second World War, probably over the last two decades increased globalisation has steered the growth of international business. There has been a major expansion of foreign direct investment (FDI), which in turn has provided the motivation for many researchers to examine the issue of MNCs and therefore extensive research has been done on the phenomenon of multinational enterprises (MNEs) and FDI.

As a result, many theories were formulated to explain the international movement of capital. Initially, empirical research was mainly undertaken in the form of theories of capital market and portfolio investments. A theory of FDI – or international capital movement in general – was developed independently (Kindleberger, 1969). In fact, before 1950, FDI was regarded as a subcategory of portfolio investment. Accordingly, it was stated that the main chief reason for capital flows was due to differences in interest rates. This approach laid that when there were no uncertainties or risks involved, capital inclined to flow towards the regions where it reaps the highest return. However, this perspective failed to incorporate the fundamental difference between portfolio and direct investment. Descriptive analysis subjugated until the 1960s, while econometric analysis started to begin in the 1960s and early 1970s. Various combinations of research methodologies can be applied, in studies based on secondary data using econometrics. FDI flows from a single or a group of home economies (these can be developed economies, developing economies or both) into a single or a group of host economies can be analysed using time-series, cross-section or a combination of two in the form of panel data in an balanced or unbalanced form, while determinants can be macroeconomic factors, microeconomic factors or a combination of both.

Research scholars' started to research for answers at questions like: Which are the inherent characteristics of the multinational enterprises (MNE)? What are the motivations of MNEs for investing abroad? Where and how do these MNCs execute their expansion? As research scholars found empirically or theoretically affirmative answers at these questions, the theory of international business and (FDI) started to get a concrete shape. Shortly named as the theory of the FDI or the theory of the MNE, this is an independent research field and answers today much more questions than at its initial stage. It is in this context that an attempt is made in this paper to examine various theories that explain FDI, the reasons that drive MNCs to invest abroad, to explain various determinants of FDI as given by various theories of FDI, and location choice of MNCs. And lastly, to find the reasons for outward FDI by multinational countries emerging from third world economies for e.g. India, Brazil etc.

In section 1, types of FDI, section 2 explains various theories of FDI. This section explains theories of FDI assuming perfect competition, then it examines different theories against the framework of imperfect competition, the theories that have linked FDI with international trade, then it considers theories that explain the outflow of FDI from developing countries and finally new dimensions of FDI are discussed such as institutional advantages and after that classification of determinants of FDI by UNCTAD is given. Section 3 concludes the paper.

1. THEORETICAL FRAMEWORK

1.1 Types of FDI:-

(Dunning, 1993) describes three main types of FDI based on the motive behind the investment from the perspective of the investing firm.

1. Resource seeking FDI:-

It is a type of FDI which is made to acquire particular resources that are more efficient and cheap than those obtainable in the home country. There are three types of resource seekers:

- Seeking physical resources like, minerals, raw materials, etc.
- Seeking human resources like cheap labour, skilled/unskilled workers, etc.
- Seeking technological or soft resources like, managerial, technical or organizational skills.

2. Market seeking FDI:-

It is a type of FDI which is made seeking new and growing markets for products. It is done to capture market share and increase sales growth in target foreign market. For example: FDI in BRICS (Brazil, Russia, India, China, and South Africa) economies. The main aim driving it is to better serve the local and regional markets efficiently and profitably. It is also called horizontal FDI, as the purpose of horizontal FDI is to fully serve a local market by undertaking local production which involves having similar production facilities in the host country. Market size and market growth of the host economy have a major role to play in promoting this type of FDI. Barriers in accessing local markets, such as tariffs and transport costs, also encourage this type of FDI. Variant of this type of FDI is tariff-jumping or export-substituting FDI.

3. Efficiency seeking FDI:-

Such type of FDI is done with the intention to reap benefits arising due to differences in economic systems, policies, market structure, infrastructure and institutional arrangements between source and host economy. The investing firm can benefit from the common governance of geographically dispersed activities and with the existence of economies of scale and scope.

2. THE THEORETICAL APPROACHES OF THE DETERMINANTS OF FDI

2.1 Theoretical approaches to FDI:-

The vast existing literature examines a large number of variables which have been put forward to explain FDI. Some of these variables are encompassed in formal hypotheses or theories of FDI, whereas others are suggested because they make sense intuitively. One way of classifying these key determinants is based on the theories of international investment.

Many authors (cf. Table 1) have focussed on the determinants of FDI and they have put forward various theories to explain them.

Table 1: Theories of FDI

Theory/Theoretical approach	Determinants	Author(s) (year)
Neo classical trade theory (Heckscher - Ohlin Model / MacDougall-Kemp Model)	Higher return on capital, lower labour costs, exchange risk (currency risk)	(Heckscher & Ohlin, 1933), (Hobson, 1914), (Jasay, 1960), (MacDougall, 1960), (Kemp, 1964), (Aliber, 1970)
Structural Market imperfections	Ownership Advantages (product differentiation - imperfect goods market), internal or external economies of scale, government incentives, new technology or patents, managerial expertise.	(Hymer, 1976), (Kindleberger, 1969)
Product differentiation (monopolistic advantages)	Imperfect competition encouraged horizontal FDI.	(Caves, 1971)
Oligopoly markets (Theory of oligopolistic reaction)	Following rivals (Follow the leader) Reaction to rivals investing in their home country	(Knickerbocker, 1973)
Product life cycle hypothesis	Production function characteristics	(Vernon, 1966)
Behaviour theory	Suggested by government institutions, Fear of loss of competitiveness, follow the leader, and increased competition in their own country.	(Aharoni, 1966)
Internalization	Inefficient/imperfect markets leading to market failures. Imperfects markets, leads to creation of internal markets.	(Buckley & Casson, 1976)
	Transfer of technology or information leads to FDI. Know-how or goodwill (market power)-leads to horizontal integration, market inefficiency, incompetence or failure (leads to vertical internalisation)	(Hennart, 1982, 1991), (Casson, 1987)
Eclectic paradigm (OLI – Ownership, location, internalisation)	Benefit of owning knowledge capital: human capital, management skills, patents, technologies, brand, reputation, tax benefits and favours. (O) Access to protected markets, Favourable tax systems, low production and transportation costs, obtaining cheaper inputs, Jumping trade barriers, lower risk. (L) Lowering the risk of revealing information, avoid damage to brand reputation, minimizing the risk of imitating technology. (I)	(Dunning 1977, 1979)
International Trade and investment theory	Profit maximizing firm chooses to serve foreign market, imperfect market, comparative advantages, and economies of scale.	(Hirch, 1976)
Kojima Hypothesis	Resource labour & market orientation, inability to efficiently compete in domestic markets.	(Kojima hypothesis, 1973, 1975, 1985)
New theory of trade	Country size Transport costs Trade barriers to entry Relative Factor endowments Benefits from economies of scale	(Dixit & Grossman 1982),(Sanyal & Jones ,1982), (Krugman, 1983), (Helpman, 1984, 1985), (Markusen, 1984), (Horstmann & Markusen, 1987,1992), (Markusen & Venables, 1998, 2000),(Zhang & Markusen, 1999), (Deardorff, 2001)
LLL	Advantage of advance technology through imitation, lower overheads & expatriate costs, similar socio- economic conditions, ethnic & cultural environment, infrastructural conditions.	(Mathews, 2002,2006), (Buckley, 2010)
Institutional Approach	Political variables Financial and economic Incentives Tariffs Tax rate	(Root and Ahmed, 1978), (Bond and Samuelson, 1986), (Black and Hoyt, 1989), (Benassy Quere *et al.*, 2001), (Hubert and Pain, 2002), (Asiedu, 2006), (Cleeve, 2008), (Jadhav, 2012)

Source: Adopted from (Assuncao et al., 2011)

As (Faeth, 2009) underlines, the first explanations of drivers of FDI were based on the theories related to international trade.

1. THEORIES OF FDI ASSUMING PERFECT COMPETITION

Then came the early theoretical model which was proposed by (Heckscher-Ohlin, 1933)[1]of neo classical trade theory and the MacDougall-Kemp model by (MacDougall, 1960) and (Kemp, 1964), according to which FDI was driven by higher profitability in foreign markets reaping the benefits of growth, lower labour costs and exchange risks. They assumed perfect completion in factor and goods market where FDI was seen as part of international capital trade.

(Aliber, 1970) prolonged the view that capital moves due to a difference in capital returns, but claimed that this difference was due to a difference in capital endowments and currency risks, as interest rates include a premium that is charged according to the expected currency depreciation. Firms from countries with currencies with less fluctuation in value could borrow money in countries with 'weaker' currencies at a lower interest rate than host country firms due to their lower risk structure. Foreign firms could therefore capitalize the same stream of expected earnings at a higher rate than host country firms, giving them a reason to invest in the host country. He suggested that weaker currencies compared with stronger currency had a higher capacity to attract FDI in order to take benefits due to differences in the market capitalization rate.

Above studies were based on perfect competition and similar work can be found in the works of (Caves, 1971).

2. THEORIES BASED ON IMPERFECT COMPETITION

2.1 Structural market imperfections:-

Authors such as (Hymer, 1976)[2] in (Dunning, 1993) and (Kindleberger, 1969) in (Cleeve, 2008) believe that for FDI to exist there must be imperfections in the goods market or factor market. They claimed that the assumption of perfect competition in neoclassical theory could not fully explain FDI, which – in their view – needed structural market imperfections to grow.

2.1.1 Industrial organization approach:-

(Hymer, 1976) developed the FDI theory approach of industrial organization. The main core of Hymer's theory is that foreign firms operating outside their home country are at a disadvantage than local firms in host countries with regard to position in terms of culture, language, legal system, consumer's preference, tax systems, understanding of business environment, and the cost of less favourable treatment by the governments of host countries. Furthermore, foreign firms are also exposed to foreign exchange risk. These firms must have some kind of market power to set aside these disadvantages and overcome it. Market power can be possessed only under conditions of imperfect competition (Lall, 1976).)

The sources of market power[3] – the firm-specific advantage in Hymer's terms or monopolistic advantage in Kindleberger's terms – are in the form of superior technology which is patent protected, brand and reputation, marketing and management skills (imperfect factor markets), the presence of internal or external economies of scale, low-cost sources of finance, ownership advantages such as product differentiation (imperfect good markets), or government interference to balance out the disadvantages of entering a foreign market in order to compete with local firms.

Since the market is imperfect, firms are able to reap benefits from their market power by generating higher profits by investing in countries abroad.

His theory, was the early work to explain the international production in an imperfect market framework, and was reinforced by (Kindleberger, 1969), (Knickerbocker, 1973), (Caves, 1974), (Dunning, 1974) among others.

2.2 Theory based on monopolistic advantages (product differentiation):-

In terms of ownership advantages, (Caves, 1971) dedicated his study on product differentiation as a major monopolistic advantage in the faith that FDI has an edge over export and licensing if product differentiation is established on the knowledge. The imperfect competition reinvigorated MNEs to differentiate products and engage in horizontal FDI.

2.3 Theories based on oligopolistic markets:-

(Knickerbocker, 1973) in (Hill, 2009) based his study on the relationship between FDI and the oligopoly rivalry between firms. He contended that FDI flows reveal the strategic rivalry between the companies in the global market because FDI is a result of reactive behaviour by a firm to the entry of competitors in their domestic markets. We can say it differently, that firms often have imitative behaviour. They keep an eye on the internationalization of competitors and follow them so that the competitors are unable to gain any strategic advantage. His theory came to be known as the 'theory of oligopolistic reaction' and it is based on market imperfections.

The previous explanation changed FDI theory from neoclassical trade theories into the industrial organization theory. However, Hymer's thesis does not provide a complete explanation for FDI because it fails to provide reasons for where and when FDI takes place. This issue has been undertaken by Vernon in PLC theory, Behavioural theory by (Aharoni, 1966), the eclectic approach by (Dunning, 1977, 1979, and 1988) and the internalization theory by (Buckley and Casson, 1976).

2.4 Product life cycle theory by Vernon (1966):-

(Vernon, 1966) incorporated international trade with international investment. He said that firms need to make a choice between exporting and investing. He gave a cost based rationale for switching to being an importer than from being an exporter.

Hill (2007) in (Assuncao et al., 2011) explained that firms decide to invest directly in a given location as a substitute to exporting, in so long as goods travel along their life cycle stages (growth, maturity and decline), and to the extent that as they are at decline stage they have fewer needs in terms of specialized labour and innovative technology. In the growth stage, companies opt to invest in other developed economies where markets are still growing and are unsaturated so that local production can be absorbed easily, while in the maturity and decline stages production is shifted to developing countries as markets become fully saturated and products become less innovative, thereby creating pressure to reduce costs.

2.5 Behavioural theory by Aharoni (1966):-

(Aharoni, 1966) in (Faeth, 2009) explained why companies opt for FDI through competition factors than to exporting, such as the fear of loss of competitive edge over rivals, the need to follow rivals into foreign markets (reactive behaviour) and added pressures through increased competition in the domestic market, suggestions made by government institutions, through advice given by senior executives', their personal experiences and preferences also mattered.

2.6 Internalization Theory:-

Internalization theory was first proposed by (Buckley & Casson, 1976). Their theory was an extension of (Coase's, 1937) internalization concept. Coase compared the efficiency of various forms of transactions between the firms. Since the market approach was mostly inefficient leading to market failure, firms were better off internalizing transactions. According to Buckley and Casson the same concept applied to MNEs which says, that firms choose internalising their operations through FDI when transaction costs (i.e. information and negotiation costs, arising from resorting to the market) are higher than internalisation costs (costs relating to internal communication and organisation). When market risk and uncertainty are highly present then transaction costs are high, and internalisation of operations i.e. undertaking FDI is an ideal option. Internalization theory of FDI by Buckley and Casson provided an additional explanation of FDI by putting focus on intermediate inputs and technology. They shifted the emphasis of the international investment theory from economy-specific factors of FDI towards industry-specific and firm-specific determinants of FDI as cited in (Nayak & Choudhary, 2014). Buckley and Casson analysed the behaviour of MNCs within a broad-based framework which was developed by Coase (1937).[4]

Their theory came to be known as internalization theory as they focussed on the fact it leads to the creation of MNCs. They framed their theory based on three claims:

(a) Firms maximize their profits by investing in a market that is imperfect.
(b) When there are imperfections in the intermediate products markets, there is benefit in
(c) Internalization of markets across the world leads to creation of MNCs. A firm that is pursuing continuous research and development may develop a new modern technology or production process, or inputs.[5]

It may be very complex to transfer technology or sell the inputs to these unrelated firms because these firms may find the transaction costs too high to bear.

2.7 Eclectic Paradigm (OLI framework):-

The more holistic and complete approach was given by Dunning, the eclectic or OLI paradigm which is a mix of internalization theory and traditional trade theories (Dunning, 2002), and it explains the advantages for firms that operate internationally, and the various entry modes chosen by them (Faeth, 2009).

For Dunning (1977), there are three types of benefits in choosing FDI: ownership advantages - O, location advantages – L and internalization advantages - I. Ownership advantage concerns the importance of a firm owning assets such as modern technology, exclusive productive processes, patents, firm specific capital known as knowledge capital: human capital (managers), brand, reputation, management skills so that these advantages can generate high profits in the future. This capital can be easily replicated and transferred within the firm in different countries without losing its value, and without incurring high transaction costs.

Location is important when a company gains from its existence in a given market by generating profits from conditions such as: special tax regimes; lower production costs; market size; access to protected markets, and lower risk (Dunning & Lundan, 2008). Other location advantages are producing close to final consumers or downstream customers, saving high transport costs, access to cheaper inputs, jumping trade barriers, providing fast services and delivery (for most services production).

In (Assuncao, 2011), market imperfections (e.g., the imbalance of international allocation of resources) can be reduced to a great extent by internalising operations, saving in transaction costs associated with risks of imitating technology, for instance (Dunning, 2002) compared internalization with licensing or exporting – and said that the former had the advantages of lowering transaction costs, minimizing imitation of technology and maintaining the firm's goodwill and reputation through effective management and quality control.

The eclectic, or OLI paradigm, proposes that the greater the O and I advantages owned by firms and higher the opportunity of creating, acquiring and exploiting these advantages from a location outside its home country, the more FDI will be undertaken by firms.

Where firms has substantial O and I advantages but the L advantages favour the home country, then domestic investment will be favoured to FDI and foreign markets will be served by exports.

The major contribution of Dunning's eclectic paradigm to the literature was to bring together and integrate several complementary theories, identifying a set of variables (ownership, location and internalization) that drives the activities of multinational firms (Dunning & Lundan, 2008).

In (Assuncao, 2011), the crux of this approach is the wide application of these variables to trade, to international production and to the international organisation of production, which means that the same analytical framework covers three main modes of internationalisation (exports, FDI and licensing) (Ietto-Gillies, 2005).

3. INTERNATIONAL TRADE AND INVESTMENT THEORIES

Other theories related to international trade was given by authors such as (Hirsch, 1976) and Helpman and others (1984 and 2004) and they analysed which route is better for firms to enter foreign markets, whether to go for the FDI route or to export.

3.1 In (Nayak & Choudhary, 2014**), (Hirsch, 1976) developed an international trade and investment theory** by concentrating on two aspects: (a) when a profit-maximizing firm chooses to serve a foreign market, and (b) the conditions under which foreign market servicing is carried out either through exporting or local manufacture as a result of direct investment. Hirsch asserted that FDI could be analysed within the framework of industrial organization and location theory models. However, it is not consistent with trade models that assume perfect markets, factor immobility, zero transportation costs, international identical production functions and constant returns to scale plant will be less costly to operate in countries enjoying comparative advantage. International direct investment takes place only in a world that admits revenue-producing factors that are firm-specific on the one hand, and information, communications and transaction costs, which increase with economic distance, on the other. He concluded his theory by noting that international investment facilitates specialization according to comparative advantage to a greater extent than trade, since firms that are purely exporters will incur differential export-marketing costs (M); in the case of MNCs, some exemptions from such costs are granted. Furthermore, multinationals have an incentive to enhance the gains from trade by expanding output or setting up new units in least-cost locations and by supplying to all markets from that location.

3.2 Kojima (1973, 1975, and 1985) also integrated trade theories with direct investment theories. He strongly suggested that FDI was required in order to make factor markets more competitive and efficient globally as well as to improve production processes in a country that is well-endowed with the given resource. Kojima identified resource, labour and market orientation as the three major motives behind international investment by a firm. Kojima's theory mainly focused on Japanese investment and the inability of these firms to compete efficiently in domestic markets, which leads them to invest abroad.

4. NEW TRADE THEORY

Based on Kindleberger's theoretical models (1969) along with those of (Hymer, 1976) and Caves, 1971) cited in (Faeth, 2009), an alternative analytical framework has come up - a "new theory of trade" - that combines the ownership advantages (knowledge), location advantages(market size and low transaction costs) with technology and the factor endowments which reflect the intrinsic characteristics of a country. This new theory is an addition to Dunning's eclectic paradigm in that it aims to correlate the three variables OLI (ownership, location, internalisation) with technology and factor endowments in a rational way (Markusen, 2002). Several empirical studies have been done on this issue (e.g., (Helpman, 1984, 1985), (Markusen, 1984, 1997), cited in (Faeth, 2009). It has extra benefits like first mover advantages, economies of scale through large market size, low transportation costs (Hill, 2007).

5. LLL (LINKAGE, LEVERAGE AND LEARNING) THEORY BY MATHEWS.

First the focus was on developed nations but now in contrast to above theories, the studies has started focussing on the FDI analysis at the level of the developing economies, the last decade was characterized by an afflux of analyses focussing on FDI attracted by and originating in the emerging economies ((Mathews, 2002, 2006), (Buckley, 2010)). Even the theoretical discourse highlights conceptual frameworks specific to this group of economies (Mathews, 2002, 2006). John A. Mathews gave a complementary model to the OLI paradigm, adapted to the level of MNEs from the emerging or developing economies: LLL (linkage, leverage and learning). (Mathews, 2006d) underlines the following aspect: the fact that MNEs from the emerging economies (especially from Brazil, the Russian Federation, India and China) are the new entrants in the international markets may be, at the same time, a benefit for them, is the access to advanced technology (by imitation), and based on this, the reduction of property gaps against MNEs in the developed countries.

(Dunning et al., 2008) says that emerging MNEs are short of the "O" component (ownership or property benefits), but this doesn't mean that such benefits are not there. While, MNEs in the developed countries make use of FSA based on assets, such as technologies, brands and other intellectual property rights, MNEs from the emerging economies resort to networks, relationships and organization structure (UNCTAD, 2006).

6. INSTITUTIONAL THEORY

Also at theoretical level, in the last decade one can see the scholars' frequent return to the "origins" of the FDI theory, either those generated by Hymer or the internalization theory or the OLI paradigm, in order to consolidate the theoretical FDI construction ((Dunning, 2001a, 2001b, 2003, 2008), (Rugman, 2008), (Dunning & Pitelis, 2008), (Buckley & Casson, 2009), (Dunning & Lundan, 2010)) as cited in (Sincai, 2011).

For instance, (Dunning & Lundan, 2010) focus on a new element of the OLI paradigm, namely the institutional advantages, both endogenous and exogenous, that represent the key of the successfully regeneration of the ownership advantages (Oi).

In (Assuncao et al., 2011) it says about the effect of political variables on FDI, from the institutional viewpoint. Institutional theory says that firms operate in a very complex environment which is uncertain and sometimes challenging, and so a company's decisions will depend on the institutional forces that have an effect on it, especially on regulations, policies, and incentives (Francis et al., 2009), cited in (Assuncao, 2011). In this reference, the strategies undertaken by companies and their performance on international markets are greatly determined by institutions, that is, by the "rules of the game" (Peng, 2009). Foreign direct investment can thus be regarded as a 'game' in which the players are the multinational companies and the government of the host country, or as a contest between various governments to attract FDI (Faeth, 2009).

Government policies that include tax benefits, subsidies, incentives, and easy repatriation of capital and profits can thus impact the choice between exporting, FDI and licensing. This issue has been examined by a number of authors, such as (Bond & Samuelson 1986), (Black & Hoyt 1989) and (Hubert & Pain 2002) in (Faeth, 2009), who have concluded that financial and fiscal incentives, tariffs and lower corporate tax rates have positive effect in attracting FDI (Faeth, 2009). Corruption is another, equally important factor in firms' decisions to opt for a particular location. There are authors who say that low levels of corruption are linked to greater prosperity and have a considerable impact on the institutional quality of a country, and stimulate its development.

As a conclusion, the economists' interest for the FDI theory hasn't lost its intensity since its launch, more than half a century before, especially as the MNEs from the emerging economies, particularly from Brazil, the Russian Federation, India and China are nowadays active players in the field of the FDI.

And another way of classification is given by (UNCTAD, 2002) which classifies the determinants of inward FDI, as shown in Table 3.

Table 3: The UNCTAD's Classification of FDI Determinants

Determinants Variables	Examples
Policy Variables	Tax policy, trade policy, privatisation policy, macroeconomic policy
Business Variables	Investment incentives
Market-related Economic Determinants	Market size, market growth, market structure
Resource-related Economic Determinants	Raw materials, labour cost, technology
Efficiency-related Economic Determinants	Transport and communication costs, labour Productivity

Source: (UNCTAD, 2002)

The determinants of the FDI are great in number. Whether particular action of investor or government is responsible for increase or decrease in the investment for a given period is treated as determinant. There is not a single variable which would influence investment to rise or fall but it is comprised of a set of variables. It would be very valuable to review the key determinants and factors of FDI and to know the expected relation between FDI and these determinants before doing empirical investigation regarding relationship of FDI.

3. CONCLUSION

However, there is no single that theory explains the behaviour of MNCs in making investment in a particular country or region. Nevertheless, all these theories have a common view that a firm moves abroad to undertake advantages in the form of location, firm-specific ownership advantages or internationalization of markets.

In more recent times, especially during the past decade, the academic discourse related to the FDI is characterized by two distinct features:

1. A number of developing economies have come up on the map of international investors. The third world economies have been actively pursuing outward FDI. Even the theoretical discourse through light on conceptual frameworks specific to this group of third world economies (Mathews, 2002, 2006).
2. In the last one decade, there has been consolidation at the theoretical level in FDI construction, the scholars' are frequently returning to the "origin" of the FDI theory, either those generated by Hymer or the internalization theory or the OLI paradigm (Dunning, 2001a, 2001b, 2003, 2008), (Rugman, 2008), (Dunning & Pitelis, 2008), (Buckley & Casson, 2009), (Dunning & Lundan, 2010).New components are being added to the old

theories. For instance, (Dunning & Lundan, 2010) in (Sincai, 2011) focus on a new component of the OLI paradigm, namely the institutional advantages, both endogenous and exogenous, that represent the key of the successfully regeneration of the ownership advantages (Oi).

NOTES

1. Bertil Ohlin wrote and published his book in 1933 which first explained the theory. He wrote the book alone, Heckscher was credited as co-developer of the model, because of his earlier work on the problem, and because many of the ideas in the final model came from Ohlin's doctoral thesis, supervised by Heckscher.
2. Hymer's dissertation was subsequently published in book form in 1976.
3. Market power refers to the ability of firms, acting singly or in collusion, to dominate their respective market.
4. As Ietto-Gillies notes (2005), internalisation theory dates back to Coase (1937) and his theory of the firm, but it was extended to international firms by Buckley and Casson (1976).
5. This is known as the internalization of firms' activities.

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