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**Degree of Master of International Studies
(International Area Studies)**

**A Comparative Approach of the Global
Competitiveness of Singapore, Malaysia,
Mauritius and Madagascar**

August, 2016

Development Cooperation Policy Program
Graduate School of International Studies
Seoul National University

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**A Comparative Approach of the Global
Competitiveness of Singapore, Malaysia,
Mauritius and Madagascar**

A thesis presented

by

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A dissertation submitted in partial fulfillment
of the requirements for the degree of
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**A COMPARATIVE APPROACH OF THE GLOBAL
COMPETITIVENESS OF SINGAPORE, MALAYSIA,
MAURITIUS AND MADAGASCAR**

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Abstract

The research aims to identify determinants of foreign direct investment in four island economies of Singapore, Malaysia, Mauritius and Madagascar over the period of 2009-2013. In particular, it seeks to isolate the most significant factors to increase the attractiveness for a more diverse array of investment where resource-intensive investments still prevail.

The research uses the Generalized Double Diamond inspired by Moon's framework aiming to assess both national and international competitiveness. The methodology includes four controllable sets of factors divided into twenty sub-factors for the domestic diamond and into seven sub-factors for the international diamond that influence decisions for investment in one or another country.

Key findings suggest that for Singapore, foreign direct investment positively responds to the quality of governance and the development of a supportive industry infrastructure. Governance and related industries are determinants of both national and international competitiveness for Singapore and to a lesser extent for Mauritius. However, the quality of governance is not relevant as a determinant for attractiveness in resource-rich country like Madagascar on both national and international attractiveness, and to a lesser extent for Malaysia in terms of national attractiveness. Furthermore, the research finds that better demand conditions in Singapore, Mauritius and Malaysia improve international attractiveness of the host economy.

However, there are limitations to the research. The findings do not assess in a precise quantitative manner the correlation between better regulatory quality, industry infrastructure, and the level of investment a particular sector attracts.

Key words: foreign direct investment, Generalized Double Diamond, competitiveness, Malaysia, Singapore, Mauritius, Madagascar

I. Introduction

Since the mid-1980s, Southeast Asia has been listed among the most favored destinations for industrial location and factor flows among major developing regions, thus enabling the region to benefit from considerable economic opportunities arising from globalization and increasing fragmentation of the production process.

Amidst the determinants that the literature identifies¹ for this success in attracting foreign direct investments are notably its geographical proximity to capital abundant (Japan) and economically dynamic East Asia (China, South Korea, Hong Kong, Taiwan), as well as its comparative advantages in terms of relatively cheap factors (natural resources and skilled labor), its more advanced infrastructure and connectivity with the global economy (communication and transport) and foremost, its stable political and macroeconomic environment, good institutions and sound regulations.

According to the United Nations Conference on Trade And Development (UNCTAD), statistics have shown that the global financial crisis in 2008 slightly affected inflows of foreign direct investments to Southeast Asia during 2009-2010 with a temporary low compared to its pre-2008 level. Since 2011 however, inflows of foreign direct investments in the region have gradually increased and even doubled their value prior to the crisis.

In 2014, inflows of foreign direct investments reached an all-time peak of 132,867 USD million. The top destination economy of the region is Singapore,

¹ Cf. Chapter III Literature Review

harnessing more than half of total inflows with 67,523 USD million. Indonesia follows as the second host economy with 22,579 USD million and Thailand takes the third place before Malaysia with respectively 12,575 USD million and 10,799 USD million. More and more, economies like Singapore have been specializing in quality foreign direct investment, and have been orientating their strategy to attract knowledge-intensive industries rather than resource-intensive ones.

However, all developing regions, Africa in particular, have not shared this success of Southeast Asia in attracting foreign direct investment in general, and quality foreign direct investment in particular.

As shown by UNCTAD statistics, recovery has been very slow after the financial crisis of 2008 for the whole African continent. On a regional level, inflows of foreign direct investment in terms of value have been more than twelve fold lower than in Southeast Asia for West Africa, the most dynamic region in terms of investment inflows for the period post-2008. On an individual economy level, these inflows have been stagnating (Senegal and Côte d'Ivoire), declining (Nigeria and South Africa) or at best doubled (Democratic Republic of Congo, United Republic of Tanzania, and Zambia). Inflows of foreign investment in economies like Mozambique, Ethiopia and Kenya have exceptionally increased more than ten fold since 2008, though.

As for East Africa², our region of interest, in 2014 the region received 6,794 USD million, the lowest net inflow of foreign direct investment within

² Both economies have overlapping membership in regional communities of the Common Market of Eastern of Southern Africa (COMESA, 1992) and Southern African Development

the African continent³, with the United Republic of Tanzania (2,141 USD million), Ethiopia (1,200 USD million), and Uganda (1,146 USD million) as the three main destinations. Island economies of Mauritius and Madagascar rank 5th and 6th in the region with respectively net inflows of 418.4 USD million and 350.7 USD million.

It is noteworthy to mention that in addition to the lower level of investment on the African continent compared to that of Southeast Asia region only, most of foreign investments highly concentrate in extractive industries (fuels and mining). Many African economies heavily depend on resource-intensive investments, which constitute their main exports (Nigeria, Angola, and South Africa).

Nonetheless, economies like South Africa, Kenya, Mauritius, Seychelles or Rwanda possess potential for diversification aimed to knowledge-intensive foreign investments. The same applies to any other African economy to put in place the right conditions. Thus, identifying the determinants of quality foreign direct investment constitutes a primordial step in order to be able to diversify from the dependency on resource-intensive foreign direct investments.

Within this context and perspective, the main objective and focus of the research consist in attempting to isolate the actual determinants of foreign direct investment for the purpose of diversification of target sectors using a Generalized Double Diamond Model.

Community By precedence, they belong to East African grouping as founding members since in 1992 whereas they signed adhesion to SADC later in 2005.

³ Central Africa, West Africa and Southern Africa hosted respectively 12,763 USD million, 10,056 USD million and 10,757 USD the same year (UNCTAD statistics).

In this sense, the research does not seek anymore to prove the evidence of the influence of foreign direct investments on the development of the host economy, but rather pursues to find out the determinants which present a comparative advantage in attracting quality foreign direct investment. Specifically, knowledge-intensive rather than resource-intensive foreign direct investments aimed at strengthening technological knowledge in Sub-Saharan economies such as Madagascar.

Justifications

The research focuses on three case studies of island economies of Malaysia, Singapore and Mauritius as a benchmark for Madagascar. The motive of the choice of these three case studies finds justification in their similar geographical isolation, which requires policies focused on a higher level of internationalization than continental economies.

Moreover, the research finds inspiration in the theoretical model of East Asian developmental state which puts emphasis on the role of policy-orientation in fostering adequate factor conditions, demand conditions, and related industries and business regulations⁴ conducive to a fast structural change of the economy. Singapore has used the East Asian developmental state model to build its economy and to attain its current level of development as an economy that relies more and more on knowledge intensive industries like financial services for instance.

In the 1990s, a voluminous literature written by the World Bank (The World Bank, 1993) analyzed thoroughly and acclaimed the economic success

⁴ Diamond model's four interrelated components

of Asian developmental states⁵. The report responded to the demand of academics and the development policy communities in both developed and developing countries who demonstrated high interest for the “Asian Miracle” as part of the enthusiastic proponent of this model of economic development.

Indeed, it fostered adhesion for particular reasons notably its high and sustained rates of economic growth and the success of a rapid structural transformation consistent with a relatively egalitarian distribution of income (Ziya, 1991). In this regard, the World Bank’s “Asian Miracle” saw the economic rise of Asia through the lens of Japan, the East Asian model of developmental state during the post-war economic reconstruction as described in one seminal paper on the developmental state in East Asia (Chalmers, 1982).

On one hand, the World Bank literature emphasized the efficacy of state interventionism in specific policy areas, showing the fundamental role of government in stimulating a consistent high economic growth in the eight Highly Performing Asian Economies (HPAEs)⁶. On another hand, it showed the importance of adequate policy-mix in these economies, which had been in favor of the fast structural change of these economies through industrial growth

⁵ The rise of the East Asian developmental state started with the economic ascent of Japan during its post-war reconstruction as described in one seminal literature identifying the characteristics of the Asian developmental state (Chalmers, 1982). In the 1960s onwards to the 1980s, the Asian developmental state implemented by Japan finds its adaptation in neighboring countries of the region with a variety of experiences and degrees of efficacy. It becomes a distinctive model, with its specific approaches regarding institutions and policy mix as well as its capacities of achieving economic growth and prosperity at a pace of two or three generations only.

⁶ According to the World Bank literature, the HPAEs consisted in the following countries: Japan, the Four Tigers (Hong Kong, Singapore, South Korea, Taiwan), China, and the three newly industrializing countries (NICs, originally NIEs – Newly Industrialized Economies) of South-east Asia Indonesia, Malaysia and Thailand

and to some extent⁷ to the early success of internationalization, even at the earliest stages of economic development using an outward-oriented and export-led strategy.

The Asian Economic Crisis in 1997, however, brought substance and opportunity to reassess the “Asian Miracle”. On one ground, Paul Krugman⁸, its main critic, purported his claim on the inefficiency created by the superficial nature of growth in the four Asian tigers⁹, relying solely on high savings and the increase of factors through investment in capital or labor and its subsequent diminishing returns, rather than a real improvement of productivity through technological innovation, thus limiting global competitiveness. On another ground, the Asian financial crisis has brought new challenges for the economies of the region in order to be more responsive to the demand and fluctuations of the global economy.

Purpose of the research

The research aims to contribute to the literature on determinants of foreign direct investment in Sub-Saharan Africa in general. In particular, it targets to complement the literature on the determinants of foreign direct investment to help host economies in Sub-Saharan Africa to diversify, where resource-intensive investments still prevail.

Research question

In the view of the experiences of Singapore and to a lesser extent Malaysia and Mauritius, the research will aim to answer the following questions: what

⁷ Outside of favorable external conditions

⁸ The Myth of Asia's Miracle, 1994

⁹ Hong Kong, South Korea, Singapore and Taiwan

are the determinants for diversification in foreign direct investment? And to a further extent, what lesson can resource-rich developing small/ island economies like Madagascar learn for investment policy reform?

Hypothesis

The research postulates the assumption that inward foreign direct investment is demand-driven. Natural resources endowment is attractive to resource-seeking foreign direct investment whereas better regulations can direct investment into sectors other than resource extraction. Host economy can make use of regulations. Indeed, regulations predominantly affect the environment and determine the sectors of orientation of foreign direct investment inflows.

Regulations, whether directly or indirectly related to the increase of foreign direct investment, are more effective to the condition that they are designed and implemented within an integrated institutional environment conducive to a more diverse type of foreign direct investment. This integrated environment includes institutions such as markets, education, and supportive industry infrastructure etc., with the capacity of absorbing all transactions related to foreign direct investment. The improvement of such institutional capacity is therefore highly desirable for developing economies, particularly economies that depend heavily on extractive industries (mining and fuels) because of its attractiveness for a more diverse array of foreign direct investments.

The research uses a comparative approach with the Generalized Double Diamond Model. Based on the extension of Porter's Diamond Model, Moon (Moon, 2015) has defined a framework of four controllable determinants and two exogenous variables in order "to examine specific foreign direct investment targets, and to find a strategic fitness between the firm's motivations and the

location's relative competitive assets" (Moon, 2015, pp. 118-119).

It compares national and global competitiveness of two Southeast Asian small/island economies of Singapore and Malaysia to those of two East African small/island economies of Mauritius and Madagascar for the period of 2009 through 2013. The research attempts the identification of factors that could make these economies more attractive nationally and internationally. The research tries in particular to sort out the determinants that trigger national and global competitiveness, or thereof the lack, in attracting foreign direct investments in sectors other than resource-intensive. Finally, the research draws possible implications from Singaporean, Malaysian and Mauritian experiences for Madagascar.

The research is organized as follows: Chapter II introduces briefly the four economies object of the research. Chapter III makes a short review of the literature. Chapter IV provides the research approach, its methodology and variables. Chapter V discusses the findings and their implications. Final chapter makes some concluding remarks.

II. Overview of Singapore, Malaysia, Mauritius and Madagascar

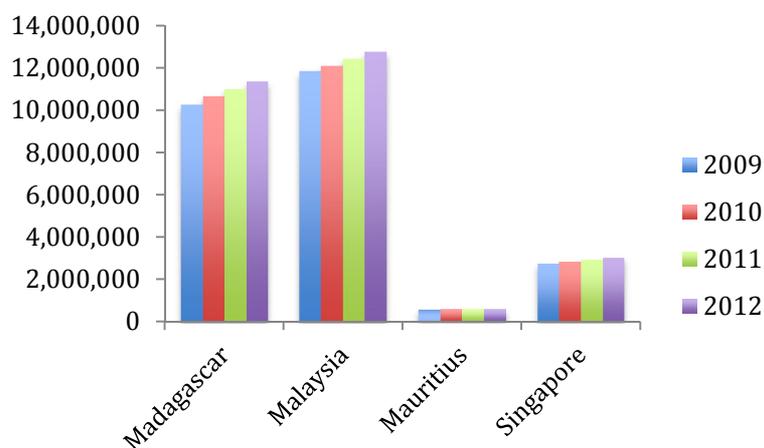
This chapter introduces briefly differences and similarities and potential advantages or disadvantages affecting the four economies in terms of factors conditions (labor and land) and demand conditions (income, economy structure, and trade profile).

1. Factors conditions

1.1. Labor

As the figures of last five years from the WB demonstrate, Madagascar and Malaysia differ from Mauritius and Singapore as labor abundant economies. The labor force in Madagascar and Malaysia is 5 times bigger than in Singapore and 20 times bigger than in Mauritius.

Figure 1 Work force in million (2009-2013)



Source: World Bank database

However the biggest challenge for Madagascar to make labor abundance a comparative advantage is the low rate of education among adults. WB statistics show that in the 2000s, adult literacy rate was the lowest (70.69) compared to adult literacy rate in Singapore (92.55), Malaysia (88.69) and Mauritius (84.30). Regarding tertiary education, only 3.40% of labor force attended higher education in Madagascar whereas 10% of labor force in Mauritius, around 24% in Malaysia and 27% in Singapore possess a tertiary education.

1.2. Land

The following table shows the potential of Madagascar in terms of land availability besides the other three much smaller territories of Malaysia, Mauritius and Singapore. However, with lower capital, a huge territory posits the challenge of developing infrastructure in an even manner.

Table 1 Land area (sq. km)

Madagascar	581,540
Malaysia	328,550
Mauritius	2,030
Singapore	700

Source: World Bank database

Madagascar is a group of islands composed of a large island of 581,540 sq. km (4th largest) off southeast African coast, several smaller islets and disputed territories of Iles Eparses. The Channel of Mozambique separate it from the African continent.

Mauritius is an island nation 800 km off eastern coast of Madagascar including the islands of Mauritius and Rodrigues with a territory of 2,030 sq.km.

Malaysian territory accounts for 328,550 sq.km and is located on two islands separated by the South China Sea into similarly sized regions Peninsular Malaysia and East Malaysia, Malaysian Borneo. Peninsular Malaysia shares land border with Thailand and maritime borders with Singapore, Vietnam, and Indonesia. East Malaysia shares land and maritime borders with Brunei and Indonesia and a maritime border with the Philippines.

Singapore is a city-state consisting in a main island and sixty smaller islets with a total area of 700 sq. km in 2013. The Strait of Johor separates its territory to Peninsular Malaysia in the north and the Strait of Singapore divides it from Indonesian Riau Islands in the south.

After this review of prevailing factors conditions in the four economies, in the next section, the research gives an overview on demand conditions.

2. Demand conditions

The factors introduced in this part pertain to income, and structure of economy.

2.1. Income groups

Moreover of being island economies that depend on foreign rather than domestic market, Singapore, Malaysia, Mauritius and Madagascar shared similar particularities of low-income economies in the early years of their development in the 1960s-1970s.

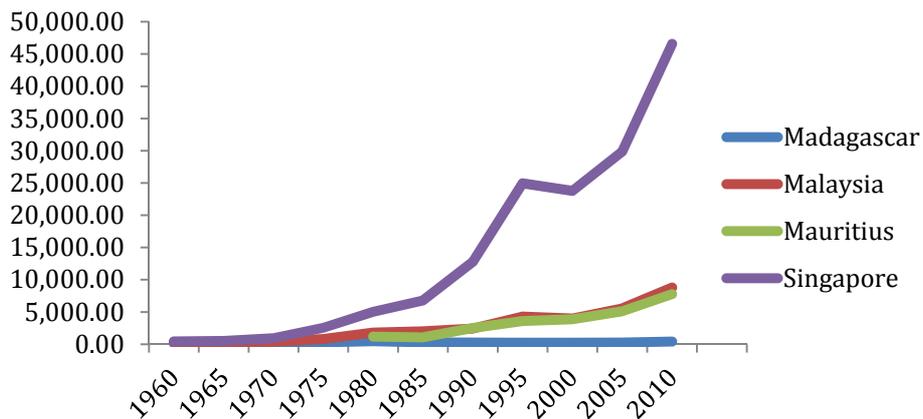
According to the WB statistics (cf. figure 2), Singapore graduated as a

lower middle-income in the early 1970s, Malaysia during the late-1970s and Mauritius between the 1980s-1990s, whereas Madagascar has remained a low-income country.

The ten-year period between 1985 and 1995 was of a formidable economic booming for Singapore, which saw its GDP per capita multiplied by 3.7 from 6,700 USD to 24,900 USD, thus graduating from upper middle-income to a high-income country. Current GDP in Singapore is approximately 49,500 USD.

On their parts, Malaysia and Mauritius have been stagnating to the level of upper middle-income since the 1990s. However, it is noteworthy to mention their GDP per capita have gradually increased since, and doubled in a ten-year span from 1985 to 1995 to reach their current level of respectively 8,800 USD and 7,700 USD.

Figure 2 GDP per capita in USD (1960-2010)



Source: World Bank database

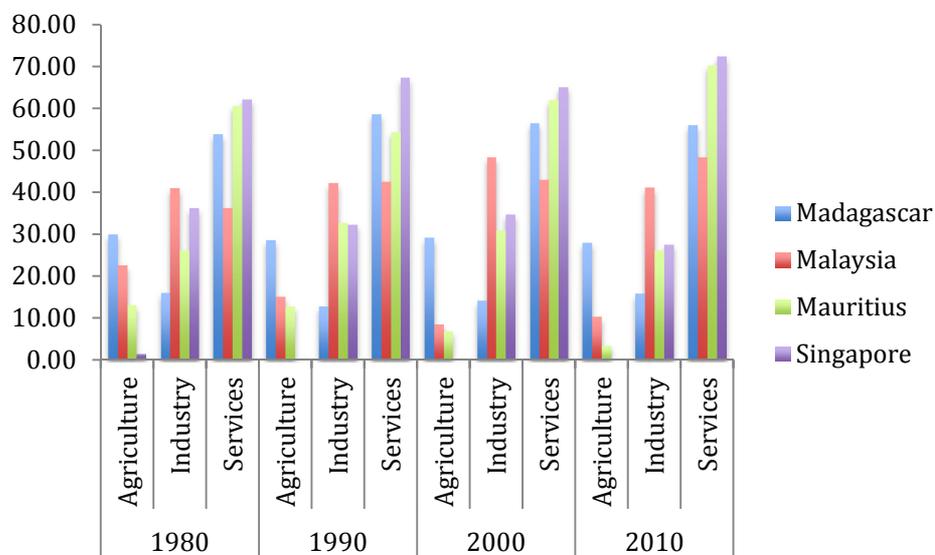
The following section deals with the structure of the four economies, and the contribution of each sector to GDP.

2.2. Structure of economy

The share of the primary sector in the economy of Madagascar has remained to its 1980s level of 30%. Agriculture share has however drastically decreased in other three economies and accounts for merely 10% in Malaysian GDP in 2010, whereas its share is negligible in Mauritian (3.56%) and Singaporean GDP (0.08%).

Regarding the share of secondary sector, industry has contributed considerably in Malaysian GDP up to 40% from 1980s onwards. In the 2000s, industry share made 50% of GDP. Similarly, secondary sector accounts for roughly around 35-36% of Singapore GDP since the 1980s with a slight decrease below 30% in the 2010s. Secondary sector has made around 25-30% of Mauritian GDP since the 1980s onward. Comparatively, the share of industry in GDP in each economy approximates to 30-40%. However, secondary sector has stagnated to its 1980s' level and accounts for only 15% of GDP in Madagascar (13-16%).

Figure 3 Share of primary, secondary and tertiary sectors in % of GDP (1980-2010)



Source: World Bank database

Tertiary sector has contributed to more than 60% of Singapore and Mauritius GDP since the 1980s. Its share has substantially increased for both economies since the 2000s reaching 70% of contribution to GDP during last decade. Comparatively, the share of services remained lower, but up to 50-55% in Madagascar GDP and 40-50% in Malaysia GDP.

The following section analyses economies trade profiles, as well as their trade dependence.

2.3. Trade profile

Table 2 Country Trade Profile (% of total exports)

Average for the period of 2009-2013

Economy	Agricultural Products	Fuels and mining	Manufacture	Services
<i>Madagascar</i>	16.2719	11.1030	24.4313	43.9076
<i>Mauritius</i>	13.7185	2.5110	22.9944	53.3138
<i>Malaysia</i>	12.7535	142.1812	55.3181	14.5558
<i>Singapore</i>	0.0018	13.6760	51.2891	22.2762

Source: calculations based on data from WTO and WB

As the table shows, during the period of 2009-2013, services have been predominant in Mauritius and Madagascar as a percentage of GDP with respectively an average of 53.3 and 43.9 %, whereas surprisingly services share in Singapore decreases to an average of 22.2 %. During this period, Singapore and Malaysia have been focusing on manufacturing, probably through re-exports¹⁰, with respectively an average share of 51.2 % and 55.3%. Malaysian GDP shows a substantial contribution of fuels and mining with an average of 142.1 % for the period.

Within the context of global recession, one could assess, these figures are only reflecting the conjuncture for a matter of diversification. Moreover, the units used here are expressed in terms of average of a period of 5 years.

How about the dependence of each economy to international trade?

¹⁰ The research could possibly further investigate on the direction and the nature of exports

Table 3 Trade to GDP ratio (2009-2013)

Economies	2009	2010	2011	2012	2013	Average
Madagascar	74.00	68.02	69.08	72.98	73.05	71.42
Malaysia	162.56	169.66	166.62	158.94	154.08	162.37
Mauritius	107.28	116.26	119.78	121.30	120.78	117.08
Singapore	360.23	372.10	376.15	368.23	359.89	367.32

Source: World Bank database

Singapore trade dependency is 5 times higher than Madagascar, almost 3 times than that of Malaysia and 2.3 times larger than Mauritius dependence on international trade. This situation reflects the higher degree of internationalization of the economies of Singapore, Malaysia, and Mauritius.

Both Madagascar and Mauritius belong to the Indian Ocean sub-region with overlapping memberships to the sub-regional grouping of the Indian Ocean Commission (IOC), and regional economic communities of the Common Market of Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). Malaysia and Singapore are members of the regional economic community of the Association of Southeast Asian Nations (ASEAN) and participate to Asia Pacific Economic Partnership (APEC).

In terms of regional economic dynamic, in 2014 the value of exports of ASEAN with only its top ten trading partners amounted for 1,120,405.6 USD million with one third of its exports value as intra-ASEAN exports¹¹. According to the latest data available, in 2011, the value of COMESA total exports (all

¹¹ Figures from ASEAN Secretariat (June 2015)

trading partners) was only 89,696 USD million and the value of intra-COMESA exports accounted for its tenth¹². Relatively, ASEAN exports 12 times more than COMESA.

¹² Figures from COMESA Secretariat

III. Literature Review

For a brief reminder, from the host country perspective, there are substantial benefits to foreign direct investment.

Earlier theories on growth have emphasized the contribution of foreign direct investment to economic growth, enhancing the marginal productivity of capital stock in host economy (Wang & Bolstrom, 1992) through resources transfer effect in terms of capital (Xiao & Dickie, 2000); its central role in technological progress in recipient countries (Borozeinsein, Gregorio, & Lee, 1998) through the “spill over” effect (Athakurola & Menon, 1996), stimulation of competition (Chen, Chang, & Zhang, 1995), (Lahiri & Ono, 1998), employment effect, exports and foreign exchange.

To create the conditions for economic growth requires the essential capital factor. Foreign direct investment constitutes a source of capital formation. It enables net inputs of capital stock in an economy in the form of creation of production units (factories), acquisition of capital goods (new machinery), and infrastructure through investments in the upgrading of assets in transportation.

The “spill over” effect induces the effect of resources transfer from foreign firms to domestic firms. Such resources transfer includes absorption of new and advanced technology, ideation, management practices and skills thus enhancing marginal productivity of local firms in host economy (Wang & Bolstrom, 1992) that interact with foreign firms through subcontracts. Multinational corporations (MNC) use network of global trading and distribution channels established by parent firms to produce capital goods and intermediate inputs and to export their products. These subcontracts raise employment in host economies by

either creating new employments directly or using local inputs, thus creating more employment indirectly.

Moreover, according to Chen et al. (Chen, Chang, & Zhang, 1995), presence of foreign firms with superior endowments of technology and management skills expose domestic firms to competition. Competitive pressures on local firms induce to innovate and invest in research and development.

MNCs play an important role in developing host economies' productive capacities directed towards export-oriented activities. Foreign direct investment provides new opportunities for the host economy to enhance its reach in international markets through its international links, to develop its exports and foreign exchange (Chia, 1995).

In that sense, foreign direct investment contributes to the transformation of the industrial structure of host economy affecting macroeconomic variables such as employment, composition of its exports, consumption and saving. Lahiri and Ono (Lahiri & Ono, 1998) observe that higher efficiency of foreign firms might help lower prices and hence increase consumers' surplus. All of these factors contribute to technological progress and efficiency improvement. They not only stimulate economic growth, but also directly contribute in raising living standards within host countries.

Foreign direct investment not only affects the level of investment, but also the quality of investment. Foreign firms possess ownership advantage in the form of technology and cost effectiveness when competing with local firms. These ownership advantages establish market and financial strength, enabling

them to operate in the host country. In return, host economy benefits from these assets.

Empirical evidence has shown that attraction of foreign direct investment is dependent upon a set of conditions in the host country's or local economy. The abundant literature on the determinants of foreign direct investment identifies a multitude of factors. (Koojaroenprasit, 2012)

These factors include GDP, GDP/capita, natural resources endowment, availability of skilled labor, land prices, and real estate (Asiedu & Lien, 2011) (Blonigen, A, 2005); (Blonigen & Piger, 2011), the role of government institutions, governance, control of corruption, rule of law, strength of the legal system, macroeconomic policies (Asiedu, 2006) (Benassy-Coupet, Coupet, & Mayer, 2007) (Jadhav & Katti, 2012), infrastructure (transport, communication, etc.), geographical location, level of education, political stability (Asiedu, 2006);, economic growth, and openness to trade (Asiedu, 2002; Lim, 2001; Chakraborty and Basu, 2002).

There can be two main critiques regarding this abundance of literature. The first critical argument relates to the lack of diversity and quality in the methodology most of the literature use, and the second refers to the fragmentation of the literature in identifying crucial determinants to attract foreign direct investment.

The first critique purports on the quality of the methodology that most of the literature use, notably on the limitations of econometrics as the main instrument to assess the determinants of foreign direct investment. Arguably the existing literature suffers from a lack of diversity in terms of methodology and

is subject to the weaknesses that affect econometric analysis in general regarding endogeneity bias, qualitative issue due to the nature of the instrument itself, overly selective, too numerous and changing variables across literature.

Secondly, the abundance of literature does not necessarily translate the existence of a general consensus between authors to identify a particular determinant or set of determinants to be crucially relevant among the various factors the literature has identified to truly matter. In other words, the literature is fragmented between proponents of a multitude of factors. Simply put, one can assume there can be as many crucial determinants to foreign direct investment as there are authors / literatures.

Moon (Moon, 2015) wrote the most comprehensive and most pragmatic literature on the determinants of foreign direct investment. This literature integrates the multitude of factors that previous literature on the determinants of foreign direct investment has identified, classifying them into four perspectives: government regulation, country risk, economic attractiveness and national competitiveness as the following table shows.

Table 4 Perspectives of assessing investment attractiveness

Perspectives	Index
Government regulation	<ul style="list-style-type: none"> • Ease of Doing Business Index (World Bank) • Index of Economic Freedom (Heritage Foundation & The Wall Street Journal)
Country Risk	<ul style="list-style-type: none"> • Political Risk Service (Political Risk Service Group) • International Country Risk Guide
Economic Attractiveness	<ul style="list-style-type: none"> • Inward FDI Potential Index (UNCTAD)
National Competitiveness	<ul style="list-style-type: none"> • World Competitiveness Yearbook (IMD) • Global Competitiveness Report (WEF) • National Competitiveness Research (IPS)

Source: Moon, 2015, p. 114

Moreover, Moon has developed an integrative framework inspired from his previous extension of Porter’s Diamond model (Moon, Rugman & Verbeke, 1998) to serve as a pragmatic methodology to evaluate in the author’s own terms “the strategic fitness between the firm’s motivations and the location’s relative competitive assets”.

In his new adaptation of Porter’s Diamond model (Moon, 2015), Moon identifies five controllable factors positively related to enhance the investment attractiveness. The five factors are composed of the following: factors conditions, demand conditions, related industries, business context, and government. The author divides these five factors further into two or three sub-factors, with altogether a total of 12 sub-factors highlighting different aspects of competitiveness.

Factors conditions refer to the nation's situation in factors of production necessary to compete in an industry classified into basic and advanced sub-factors. *Demand conditions* characterize the nature of market demand in terms of size and quality in a country for the industry's product or service. *Supporting or related industries* emphasize the local presence or absence of internationally competitive suppliers. It comprehends two dimensions: physical industry infrastructure (transportation and communication services), and the living environment of the host countries if MNCs send their employees and managers. *Business context* (Firms Strategy, Structure, and Rivalry) describe local firms' structure, organization and management of as well as conditions and nature of competition in host country. *Government* relate to the positive or negative influence of government policy, assessing government capability to enhance economic performance through three criteria: regulations, incentives, and policy implementation structure.

The methodological framework that Moon provides presents several advantages. It incorporates the academic findings of previous literature on the determinants of foreign direct investment through the inclusion of a wide array of sub-factors in terms of production and demand for instance. Besides, the model possesses a pragmatic aspect appealing to practical dimensions such as the assessment of business environment, and government capability and policy. Moreover, the model makes use of a more accurate and qualitative instrument¹³.

The present research intends to complement the literature through the identification of controllable factors that host countries can influence in order to enhance their investment attractiveness in sectors other than extractive industry

¹³ To the condition that corresponding data is available

by considering a wider set of potential factors affecting the country's business attractiveness. For its purpose, the research inspires from the pragmatic methodology approach in Moon (Moon, 2015) on assessing the investment attractiveness of countries, using the Generalized Double Diamond Model.

IV. Methodology and variables

This research adapts from Moon (Moon, 2015) (Moon, 1998). Moon uses the extended Porter's Diamond Model (Generalized Diamond Model) to examine specific foreign direct investment targets, and "to find a strategic fitness between the firm's motivations and the location's relative competitive assets". As mentioned in the literature review section, Moon takes into account a set of five controllable determinants (demand conditions, factor conditions, business context, related industries, and government), while excluding Porter's "chance" factor considered as the exogenous factor to assess two levels of competitiveness: national and international.

1. Domestic Diamond variables

Domestic diamond assessing the investment attractiveness includes the four controllable following determinants divided into the following sub-factors: factor conditions only takes into account basic factors due to the unavailability of data for the four economies for the period of study in terms of advanced sub-factors such as literacy rate or labor force with tertiary education as percentage of total labor force; demand conditions is divided into size and quality; and related industry is divided into industry infrastructure and living environment. For the purpose of the research, Business Context has been omitted and replaced by Government, which is divided into regulation, and implementation structure. The following table sums up selected variables for each sub-factor for the domestic diamond.

Table 5 Domestic Diamond Variables

	<i>Criteria</i>	<i>Explanation</i>	<i>Source</i>
Factor conditions			
Basic	Labor force	Million people	WB
	Natural Resource	Total natural resource rents (%GDP)	WB
	Land Area	Sq. km	WB
Demand conditions	Real GDP	Billion (current USD)	WB
Size	GDP growth	GDP growth rate (annual)	WB
	Good export	Million USD (BoP current USD)	WB
	Good import	Million USD (BoP current USD)	WB
	Service export	% GDP	WB
	Service import	% GDP	WB
Quality	GDP per capita	USD (current)	WB
Related Industries			
Industry Infrastructure	Logistic Performance Index	Quality of trade and transport-related infrastructure	WB
	Communication	Secure Internet servers	WB
		Internet users (per 100)	WB
	Openness to trade	% GDP	WB
	Political stability	Political stability and absence of violence	WGI
Living Environment	Health expenditure	Per capita USD current	WB
	Healthy environment	Human Development Index	UNDP
	Language capability	English as a recognized and spoken language	Country data
Government			
Regulation	Regulatory quality		WGI
	Government effectiveness		WGI
	Starting a business	Number of days required	WB
	Registering a property	Number of days required	WB
Implementation structure	Control of corruption	Corruption Index	WGI

2. International Diamond variables

Variables for the international diamond comprehend seven sub-factors distributed as following: factor conditions include two sub-factor (inward foreign direct investment and total manufactured products); demand conditions incorporate two sub-factors (total merchandise exports and final consumption expenditure); related industries comprise two sub-factors (air transport, registered carrier departures worldwide, and investment in telecoms with private participation), and business context use one sub-factor (business extent of disclosure).

3. Dataset and methodology

The research analyses the period post-global financial crisis. In this perspective, it seeks to find out through empirical results the aim to pace up economic activity for recovery, particularly in economies like Madagascar that logically rely on internationalization due to the narrowness of their domestic market and the need to attract more capital. As a consequence of the economic recession, economies aim to be more responsive and competitive in order to increase their attractiveness to foreign direct investment.

For its purpose, the research uses secondary data collected from the World Bank (WB), the World Trade Organization (WTO), the United Nations Conference on Trade and Development (UNCTAD), the World Governance Index (WGI), the United Nations Development Program (UNDP) and covers the period of 2009 through 2013.

The variables are chosen for a matter of convenience and for the matter of availability of data for the four economies during the period of the study. For

instance, in the assessment of domestic diamond, the research desires to put an emphasis on the crucial role of governance effectiveness in increasing national competitiveness through policy and implementation capacity. However, through the international diamond, the research also seeks to demonstrate the influence of an international business-friendly environment to attract foreign firms to the host economy.

As in Moon (2015), the research uses the Standard Deviation Method (SDM) to compare variables. The SDM is applied to the average of the period 2009-2013 for each variable. Score ranges from 0 to 100, displayed in the results tables and calculated as follows:

$$\frac{\text{country score} - \text{sample minimum}}{\text{Sample maximum} - \text{sample minimum}} * 100$$

Accordingly, for a specific variable, 100 represents the highest score and signifies better performance, while 0 represents the lowest score signifying the lowest performance. Furthermore, for some variables selected for this study, particularly in the assessment of domestic diamond sub-factors *Starting a Business* and *Registering a Property*, the higher value represents the lowest performance. The research therefore adjusts with the reverse formula:

$$100 - ((\text{country score} - \text{sample minimum}) / (\text{Sample maximum} - \text{sample minimum})) * 100$$

In turn, aggregation for all the variables follows in next chapter.

V. Empirical Results and Implications

1. Domestic Diamond performance

The following table sums up the empirical results related to the aggregation of variables for the four factors for domestic competitiveness.

Table 6 Domestic Diamond Aggregated Score

Economy	Factor Conditions	Demand Conditions	Related Industries	Government	Overall
<i>Madagascar</i>	100	0	0	0	25
<i>Mauritius</i>	51.1	10.9	41.6	53.1	39.1
<i>Malaysia</i>	0	51.4	56	27.1	33.6
<i>Singapore</i>	74.1	100	100	100	93.5

The empirical results demonstrate a better performance of Singapore with an overall score of 93.5 whereas the lowest performer is Madagascar with an overall score of 25. Mauritius performs better than Malaysia with 5.5 points ahead although, with a low overall score of 39.1.

In terms of specific factors, Singapore performs better in terms of demand conditions, related industries and government with the maximum score for these three factors. Its factors conditions have as well a high score of 74.1. Malaysia has good average scores of 51.4 and 56 respectively in demand conditions and in related industries. Nevertheless its score in government remains low with a score of 27.1. Mauritius comparative advantage stands in its factors conditions with a score of 51.1 and in government with a score of 53.1. Though, demand conditions are still uncompetitive, scoring 10.1 only. Madagascar has the highest score in terms of factors in the form of land and

labor. However it performs poorly in the three other factors demand conditions, related industries and government.

Relatively, these empirical results underline that in the four economies, determinants of national competitiveness comprehend the following implications.

Basic factors conditions such as availability of labor still matters. Nevertheless, advanced factors conditions like education¹⁴ are desirable, particularly when there exists the comparative advantage of better skills, which is the case of Singapore and Mauritius highly skilled labor with a labor force with tertiary education which specializes more and more in the service sector (cf. figure 2). Higher proportion of labor force with tertiary education does not however necessarily mean a specialization in services. This is the case of Malaysia for example, which specializes in industries. Labor with lower skills can still be attractive to foreign investment. However, it focuses only on attracting low value-added labor-intensive investments such as light manufacturing (garments, foot wear, etc.), an industry in which Southeast Asian economies like Vietnam and Cambodia or South Asian economy like Bangladesh are the most competitive.

In terms of demand conditions, greater market size and quality are positively correlated to economic attractiveness. Singapore, Mauritius and Malaysia are attractive due to their higher GDP and GDP per capita. These indicators translate a higher domestic capacity in terms of production of goods

¹⁴ Intentionally, the variables do not include education as sub-factor for advanced factors conditions due to the unavailability of data on labor force with tertiary education for all the four economies for the period. Basic education such as literacy rate could however be used in replacement but does not sufficiently reflect the actual intent of the research.

and services in quantity and quality responding to economies of scale, as well as a higher domestic capacity to absorb investment in various sectors of the economy.

More developed related industries in Singapore, Malaysia and Mauritius add to their national attractiveness to foreign investors. This dimension takes into account the supportive role of interconnectedness between existing industries and sectors through logistics and communication infrastructure for example, thus increasing efficiency and connectivity between domestic industries to develop into clusters of internationally competitive domestic suppliers.

Moreover, their openness to trade is higher with higher level of internationalization. To a larger extent, globalization has turned in favored of the expansion of English as the lingua franca of major international business and transactions in major economies. This is in the advantage of countries like Singapore, and Mauritius and to a lesser extent Malaysia where English is widely used for economic purpose.

Another substantially attractive sub-factor is the existence of a more advanced health-related infrastructure as indicated by a higher level of expenditure in health in the host economy. Such is the case for Singapore, Malaysia, and Mauritius. A more developed health-related system can affect decision-making for foreign firms to open branches for the benefit of their management staff and other foreign employees.

The last but crucial sub-factor existing in these three economies is a relatively stable political environment. Despite ethnic rivalries in and between

Singapore and Malaysia, and regional territorial disputes in the South China Sea, both economies have enjoyed more than four decades of political peace. Political stability correlates to physical and financial risks and thus, matters for decision-making in a firm's overseas investments.

Government refers to the soundness and efficiency of regulations, and a better control of corruption. Host countries with governments possessing a higher implementation capacity are more attractive, which is the case for Singapore and Mauritius.

The following section analyzes the international attractiveness of the four economies.

2. International competitiveness

The section develops a brief overview of the international position of the four economies before interpreting the empirical results of the international diamond.

2.1. International position

The table that follows relates to the international position of the four economies in terms of inward foreign direct investment within their respective region and their average regional share ranking in brackets, the value of their exports in 3 merchandise sectors (agricultural products, manufacturing, fuels and mining) and the service sector. Moreover, the table sums up their global position in terms of business-environment from the World Bank Doing Business Report, income and governance effectiveness.

Table 7 Share of total inward foreign direct investment (average percentage 2009-2013) and Doing Business Rank

Economy	Regional share of total inward FDI (%)	Agricultural Products Exports (Million USD)	Manufacture Exports (Million USD)	Fuels and Mining Exports (Million USD)	Services Exports (Million USD)	Doing Business Rank (2014-2015) ¹⁵	GDP ¹⁶ per capita	Governance Effectiveness (Percentile Ranking 2014) ¹⁷
<i>Madagascar</i>	13.9 (6)	416.8	625.8	284.4	1,124.6	163	439	9
<i>Mauritius</i>	7.2 (8)	772.6	1,295	19.4	3,002.5	28	8,485	83
<i>Malaysia</i>	8.9 (5)	30,517.4	132,369.2	43,390	34,830.2	18	9,475	84
<i>Singapore</i>	51.6 (1)	8,995	260,563.6	69,478.2	113,169.8	1	49,765	100

Source: calculations based on data from UNCTAD, WTO, WB

In the view of the figures, one can establish a positive correlation between the inward shares of investment with a better ranking in terms of business-friendly environment, governance effectiveness, income, as well as trade to a lesser extent. Singapore ranks regionally first as investment recipient with half of regional share. Its trade, all merchandise and services included, is twice larger than that of Malaysia with an average of total value of 452,206.6 million USD.

However, this assumption does not apply when observing the case of Madagascar compared to that of Mauritius. Madagascar received almost 14% or regional share of foreign investment, thus ranking 6th while Mauritius only received 9%, ranking 8th regionally). Mauritius has a higher score of 83 (against 9 for Madagascar) in terms of governance effectiveness, a trade twice the value of that of Madagascar (5,089 million USD against 2,451 million USD), a much

¹⁵ World Bank, 2015

¹⁶ Average 2009-2013

¹⁷ Better performance is 100, while 0 is lowest performance

higher GDP per capita of 8,485 USD (against 439 USD in Madagascar), and a good ranking of 28 out of 189 economies in the ease of doing business.

In a way or another, one can only assume the type of foreign direct investment Madagascar attracts is different from the ones Singapore, Mauritius and Malaysia attract even though Madagascar can be considered as a top regional performer in the sample, comparatively to Malaysia and Mauritius.

With due consideration of these results, the type of foreign direct investment Singapore, Mauritius and Malaysia attract demand a higher quality of governance, as well as a more developed industry infrastructure, better business regulations and a market of better quality and larger trade capacity. Such criteria induce theoretically that Singapore, Malaysia and Mauritius attract more desirable types of foreign direct investments.

On the basis of such analysis, there is a hypothesis on the fact that the factors of national competitiveness in these three islands make them attractive to foreign investment that interacts more with domestic sectors of economy with a substantial spillover effect, whereas factors of national competitiveness in Madagascar do not produce the same and desirable effects.

The following section discusses the empirical results of the international diamond.

2.2. International Diamond Performance

Table 8 gives an overview of the factors of international attractiveness of the four economies. The more attractive economy on an international scale is

Singapore with an overall score of 92.7, followed by Malaysia with an overall score of 82.3. Least attractive economies are Mauritius with a surprisingly low overall score of 0.03 and Madagascar with an overall score of 0.92.

Table 8 International Diamond Aggregate Score

	<i>Madagascar</i>	<i>Mauritius</i>	<i>Malaysia</i>	<i>Singapore</i>
Factor Conditions	0.20	0	33.63	100
Inward FDI	0.65	0	16.74	100
Total Exports of Manufactured Products	0	0.25	50.68	100
Demand Conditions	0	0.15	95.72	100
Total Merchandise Trade	0	0.23	62.35	100
Final Consumption Expenditure	0	0.04	100	69.60
Related Industries	3.51	0	100	71.09
Air Transport, Registered Carrier Departure Worldwide	0	0.21	100	42.26
Investment in Telecoms with Private Participation	7.23	0	100	100
Business Context	0	0	100	100
Business extent of Disclosure	0	0	100	100
Overall	0.92	0.03	82.3	92.7

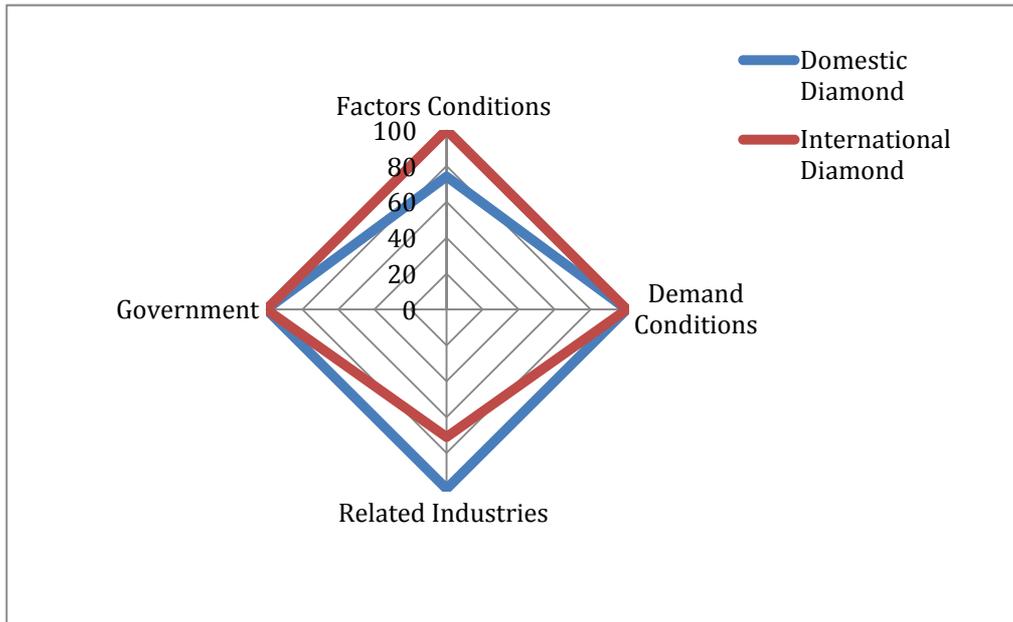
Source: calculations based on data from WB and WTO

The empirical results of international competitiveness demonstrate a pull effect. For example, in terms of factors conditions, the more an economy attracts foreign direct investment the more it is attractive to foreign direct investment. In the same token, the presence of an industrial base attracts foreign firms to locate in the host economy.

Such findings confirm as discussed earlier regarding the empirical results for the domestic diamond, of the international attractiveness of a more developed related industries, through a higher and increased global connectivity in terms of transport (air, terrestrial, and maritime logistics) and communication particularly for “sea-locked” economies like these four economies.

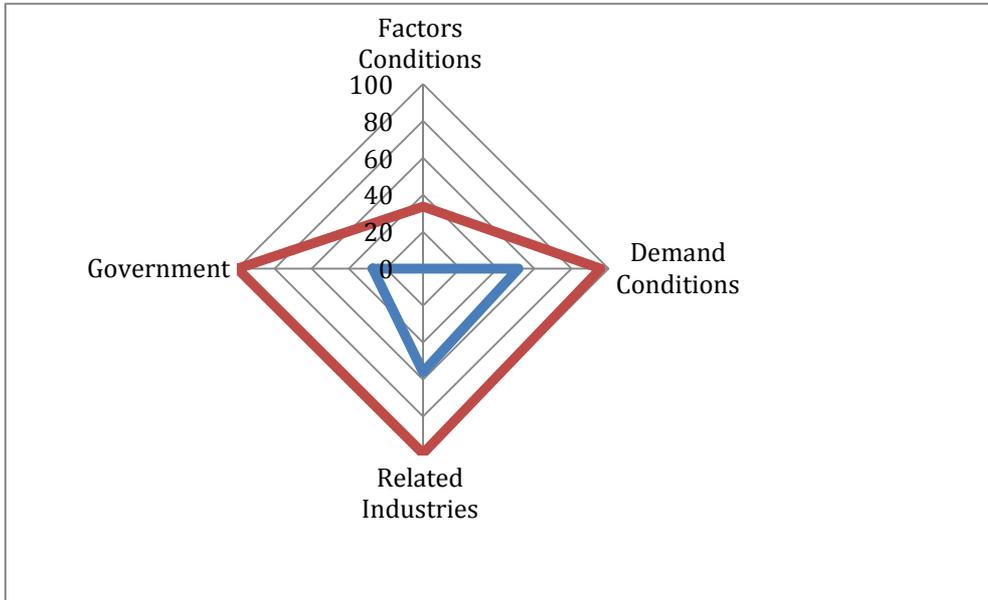
Combined results of the assessment of both domestic and international competitiveness of the four economies are summed up into the following Generalized Double Diamonds. The blue diamond indicates domestic competitiveness and the red diamond shows performance on international level.

Figure 4 Singapore Generalized Double Diamond¹⁸



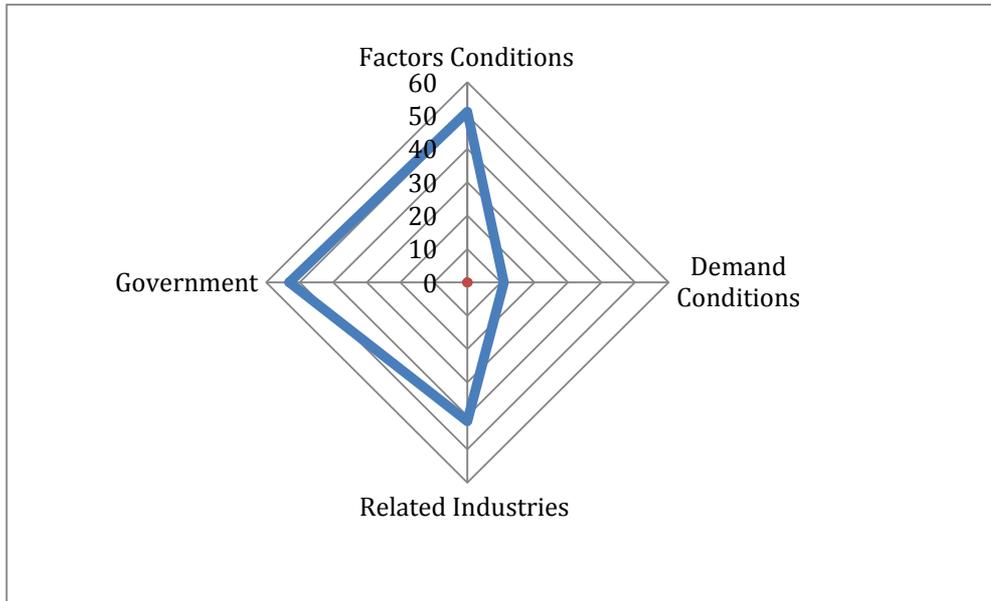
¹⁸ Source: Author's calculations based on WB database

Figure 5 Malaysia Generalized Double Diamond¹⁹



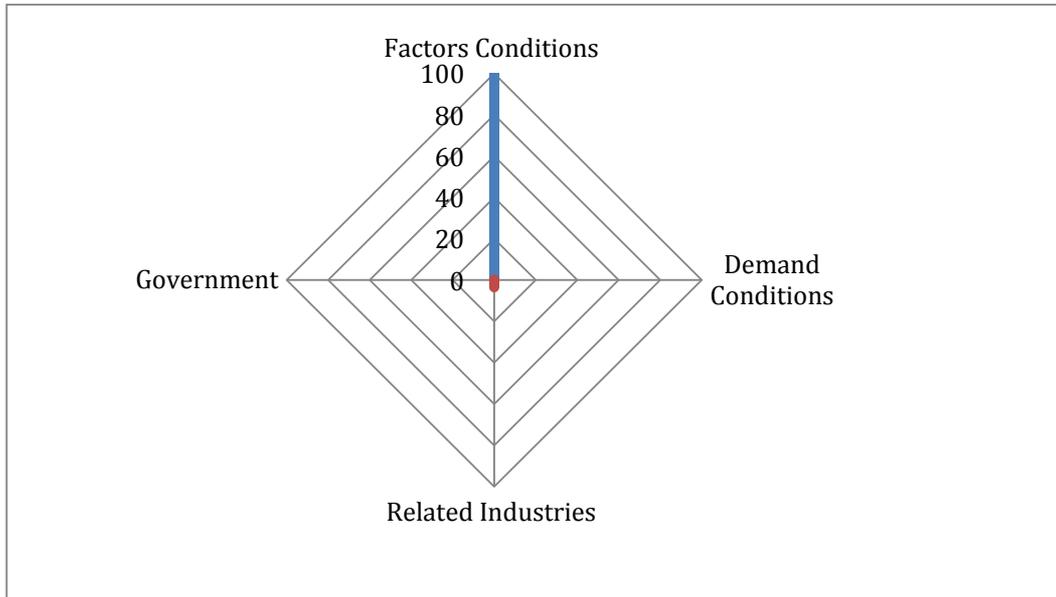
¹⁹ Source: Author's calculations based on WB database

Figure 6 Mauritius Generalized Double Diamond²⁰



²⁰ Source: Author's calculations based on WB database

Figure 7 Madagascar Generalized Double Diamond²¹



According to these findings, the following table classifies the determinants attractive to investment in terms of weaknesses and strengths for each economy.

²¹ Source: Author's calculations based on WB database

Table 9 A summary of strengths and weaknesses in terms of domestic and international competitiveness

	DOMESTIC		INTERNATIONAL	
	STRENGTHS	WEAKNESSES	STRENGTHS	WEAKNESSES
<i>SINGAPORE</i>	Factor conditions Demand conditions Government Related industries		Factor conditions Demand conditions Government Business context	
<i>MALAYSIA</i>	Demand conditions Related industries	Factor conditions Government	Demand conditions Related industries Business context	Factor conditions
<i>MAURITIUS</i>	Factor conditions Related industries Government	Demand conditions		Factor conditions Demand conditions Government Business context
<i>MADAGASCAR</i>		Factor conditions Demand conditions Government Related industries		Factor conditions Demand conditions Government Business context

With consideration to these empirical results, the two following section answers to the second research question regarding the way forward for reform for Madagascar to improve its competitiveness.

3. Implications

The implications of these empirical results for Madagascar consist in the identification of areas of reform to improve factors of national and international competitiveness. The research recommends two main areas of reforms, respectively in two controllable factors of “Government” factor, and “Related Industries” factor.

3.1 Government

As the research emphasizes in the beginning, the developmental state model has proved, to a certain extent, its capacity to produce substantial economic benefits from the right policy-mix. Empirical results confirm that a higher performance in the factor government in terms of efficiency, effectiveness, regulatory capacity and control of corruption is more attractive and improves both national competitiveness and international competitiveness.

In this regard, government capacity and effectiveness are essential in providing a more attractive regulatory environment for foreign firms to invest. Practical examples from the findings prove for instance that improvement of regulation to reduce the number of days for starting a business or registering a property positively affects scoring for Singapore, Malaysia and Mauritius. Moreover, according to the findings, a better regulatory environment improves the quality of investment as the case studies of Singapore and Mauritius demonstrate. By quality investment, the research puts an emphasis on foreign direct investment that induces growth for the host economy in terms of resources transfer (employment, technological spillover, management practices, exports...) through interaction between foreign and domestic firms.

The second area of reform the research suggests is the factor “related industries”. This factor has a positive correlation with the factor “government” in providing an internationally competitive domestic environment in the form of a supportive industry infrastructure and relies heavily on policy orientation to enable domestic private sector to be internationally credible and competitive.

3.2 Related Industries

According to the empirical results of the assessment of both national and international competitiveness, globally competitive economies score higher in “related industries” factor and this constitutes a comparative advantage. This is the case for Singapore, which is the most internationalized of the four economies with a trade to GDP ratio of 367.32%, a trade capacity of 187 times larger than that of Madagascar, and an overall score of 100. The same applies to Malaysia and Mauritius, where trade dependence, are higher than that of Madagascar, respectively 162.37 and 117.08 and scoring 56 and 41.6 in the “related industries” factor. Their trade is respectively 98 and twice as large than that of Madagascar.

Moreover, results of the international diamond assessing international competitiveness confirm the importance of infrastructures such as communication and transportation for sea-locked economies, in order to improve their global attractiveness. Higher logistics and infrastructure capacities enhance connectivity with other parts of the world in terms of movement of goods and persons. Malaysia scores higher due to its better air connection to other parts of the world whereas Mauritius has the lowest performance due to its low air connectivity.

Specialization is attractive as it favors clustering in a particular sector. Singapore, Malaysia and Mauritius have chosen to specialize in particular sectors. Both Singapore and Malaysia for instance specialized in industry (manufacturing) and later on in technology, gradually transforming their economies for more knowledge utilization. More and more, Singapore and Mauritius are recognized for their specialization in services, particularly financial services. In the case of Madagascar, with consideration to all factors that present comparative advantage, specialization in tourism services for example can induce the positive effect of clustering to lift up other sectors of the economy.

Beside the identification of these two crucial areas of reform to investment policy, the scope of the research also covers recommendations in terms of policy options for Madagascar to improve its attractiveness to foreign investment as a resource endowed economy.

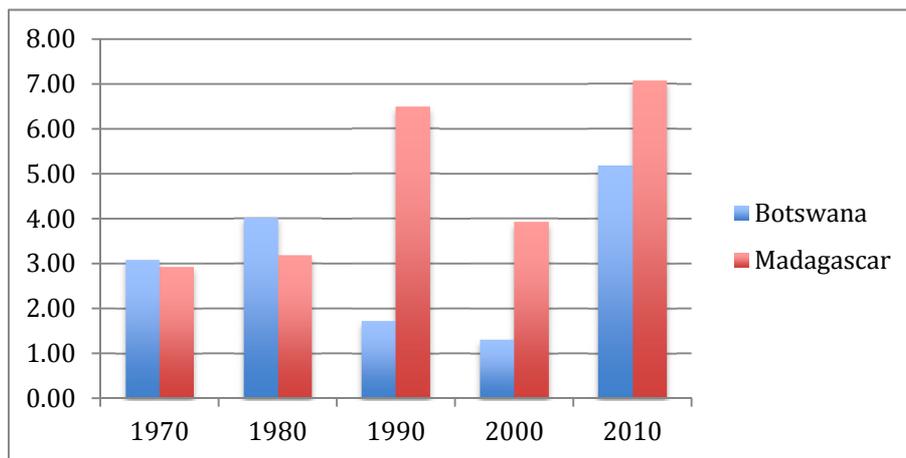
3.3 Policy options

The research recommends policy options, especially within the context of the role for natural resources in Madagascar's economic development in general and, and attractiveness to foreign direct investment in particular. In this perspective, the research emphasizes on the necessity for a quest for diversification and refers to a policy briefing related to policy options intended for Botswana in terms of resources governance to leverage attractiveness to foreign direct investment²².

²² Harvey, 2015

In order to contextualize the choice of Botswana as a reference, it is noteworthy to mention the similarities between both economies relying on the revenues of natural resources for economic growth.

Figure 8 Total Natural Resources Rents (%GDP) 1970-2010



Source: WB

As the figure above shows, Botswana mineral revenues have declined during the 1990s-2000s. According to Harvey (Harvey, 2015), this suggests the occurrence of some diversification within the economy. However, natural resources still constitute the majority of the country's exports at 82.6% in 2013. Madagascar mineral revenues have increased from 6 to 7% of GDP since the 1990s and growth driven by exhaustible resources urges the country for policies of economic diversification.

In order to foster favorable conditions to diversification, the first and foremost policy option the research suggests relates to increasing investment in

human and physical capital. In this sense, the research recommends that mineral rents to be invested essentially in building these two crucial elements to attractiveness: education and infrastructure.

Education includes the improvement of the quality of public education from primary to tertiary education, as well as encouraging the development of specialized disciplines and internationally credited programs related to services such as management and Information Technology for example, to increase the technical capacity and competitiveness of local labor force. Infrastructure constitutes the backbone of building connectivity with the global economy through better communication infrastructure (internet broadband, roads, ports, and airports) as a sea-locked economy.

The second policy option the research suggests relates to the improvement of local industry to process its minerals, instead of exporting raw minerals. Currently, the country relies on foreign investments within the extractive industry to process raw minerals it exports. Local transformation by local industries brings more domestic value addition on one hand, but moreover, it builds the inter-industry linkages the economy needs the most for its industrial base through the benefits of downstream.

Finding new sources of growth is the third policy option the research proposes. Within this perspective of diversification, the research puts emphasis on the development of tourism as a long-term policy focus. As Harvey quotes (Harvey, 2015) “international tourism is a major and growing contributor to national output, employment and foreign exchange.” Taking into account its endowment, Madagascar possesses real potentials on making tourism more successful, and an economic anchor in the long run. According to the World

Trade Organization, in 2013, the travel industry contribution to the economy was 45.8 USD million whereas mining contributed to 33.4 USD million only. Tourism is a sector with a significant potential for Madagascar to tap into regional as well as global value chains. Retaining higher levels of tourism revenues for local tourism industry is essential since the sector is still foreign-dominated.

VI. Conclusion

The purpose of the research is to identify determinants of foreign direct investment in four island economies of Singapore, Malaysia, Mauritius and Madagascar over the period of 2009-2013. In particular, it seeks to isolate the most significant factors to increase the attractiveness to a more diverse array of investment where resource-intensive investments still prevail.

The research uses the methodological framework inspired from Moon's Double Diamond model (Moon, 2015) in order to assess factors of national and international competitiveness in the four economies. Such methodology takes into account four controllable sets of factors divided into twenty sub-factors for the domestic diamond and into seven sub-factors for the international diamond that are likely to influence decision for investment in one or another country.

To assess national competitiveness, the subset of variables include factors endowment (labor force and total resources rents), market size (growth rate, imports and exports of good and services) and quality (real GDP), logistic performance index, communication, openness to trade (% of GDP), political stability, health expenditure, healthy environment (Human Development Index), language capability (use of English language for economic purpose), regulatory quality, government effectiveness, number of days required to start a business and to register a property, and control of corruption.

Sub-factors of international diamond comprehend inward foreign direct investment, total exports on manufactured products, total merchandise trade, final consumption expenditure, air transport, registered carrier departure worldwide, investment in telecoms with private participation, and extent of

business disclosure.

In the light of the empirical results, key findings suggest that for country like Singapore, foreign direct investment positively responds to the quality of governance and the development of a supportive industry infrastructure. Governance and related industries are determinants in both national and international competitiveness for Singapore and to a lesser extent for Mauritius. However, the quality of governance is not a relevant determinant for attractiveness in resource-rich country like Madagascar on both national and international attractiveness, and to a lesser extent for Malaysia in terms of national attractiveness. Furthermore, the case studies of Singapore, Mauritius and Malaysia have shown that better demand conditions improve international attractiveness of the host economy.

In addition, the research has provided evidence to support the hypothesis that better regulations and institutions, thus implying the development of factors “government” and “related industries”, affect in a significant way attractiveness for foreign direct investment into sectors, other than resource-intensive. The empirical results have shown that even in the case of a lack of resources, improvement in regulations in the host economy is still attractive to foreign investment. This applies to Singapore for example.

These findings give an idea of the relevant areas of investment reform for Madagascar. However, the research does not quantify the correlation between a better capacity in regulation, a more developed industry infrastructure and diversification of sectors of investment in host economy. This could be the object of a further investigation.

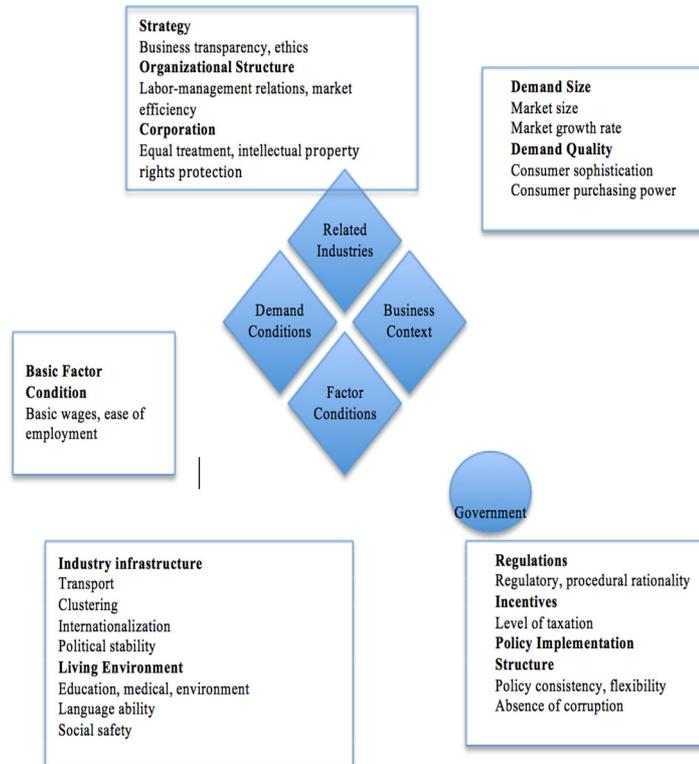
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Annex

Figure 9 Model for Assessing Investment Attractiveness



Source: Moon, 2015, p. 119