

# Selected Macroeconomic Determinants of Foreign Direct Investment Outflow of Singapore

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## **Abstract**

The role of Foreign Direct Investment (FDI) outflow has become significant and essential for sustainable economic growth in Southeast Asia region particularly Singapore. The saturation of the domestic resources accumulation and as export-led regime, the government of Singapore introduced the regionalization policy in the 1990s to encourage abroad investment. Due to that, this study aims to investigate the determinants of Singapore FDI outflows from the perspective of selected macroeconomics variables namely income, trade openness, interest rate and exchange rate. This study adopted the Johansen and Juselius cointegration test and Granger causality based on vector error correction model to investigate the annually data from 1975 to 2007. Empirical results indicated that FDI outflow of Singapore is positively associated with income while inverse linkage with trade openness, interest rate and exchange rate in the long run. Moreover, exchange rate has the tendency to have greater influence towards the FDI outflow of Singapore in relative to the other determinants. Meanwhile, income, trade openness and interest rate portrayed causality linkage towards FDI outflow of Singapore, except for exchange rate in the short run. The continuous commitment towards economic integration in the East Asia region via the Free Trade Area has further contributed to the expansion of FDI outflow of Singapore in the future.

Keyword: FDI outflow, trade openness, vector error correction model

JEL Classification: F21, F13, C32

## **Introduction**

Foreign Direct Investment (FDI) outflow has become an essential component of economic growth particularly for developing countries. This is due to the fact that the main source of FDI outflow is from the developed countries. Nevertheless, the emergence of globalization leads to the removal of barriers among countries which allow some developing countries to gain a share as a source of global outward FDI. Global FDI outflows and outward stocks recorded significant growth as shown in Table 1. FDI outflows achieved US\$1.32 billion in 2006 and expand with tremendous growth rate of 50.9% to reached US\$1.99 billion in 2007. In related to that, developed countries play significant role as source of FDI outflow with the amount of US\$1.69 billion or accounted approximately for 85% of total FDI outflow in 2007. Notwithstanding, developing countries particularly in Asia region have emerged as sources of FDI due to the globalization and trade liberalization. The contribution of