Return Differentials of Foreign Investment among OECD Countries

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Abstract

This paper develops three bodies of analysis. First, I examine the bilateral estimation of income yields from financial assets among 10 OECD countries. There are three kinds of assets: debt, portfolio equity, and FDI. I found that Finland, Sweden, the UK, and the USA have large advantages of FDI, that is, these countries enjoy wide margins of their FDI over foreign portfolio equity investment. This means that companies located in these countries have profitable intangible assets which are exchanged in FDI transactions. Second, I employ the estimated rates of return as determinants of international capital transaction. My analysis shows that the standard deviation of income yields has a significant effect on investors' country and asset choice, but that income yields themselves generally don't. Finally, I apply the estimated asset returns to clarify the effects of cross-border capital transaction on labor and capital incomes as well as on national income. My analysis shows that a basic characteristic of symmetrical effects on incomes is still dominant, that is, labor income of a net capital importer increases and its capital income decreases, while labor income of a net capital exporter decreases and its capital income increases.

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