Overview of FDI: The US, Europe, Japan and Emerging Asia

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Outline

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4. Intraregional FDI in East Asia
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6. Conclusion

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1. Introduction

- In addition to the traditional pattern of north-north FDI and north-south FDI, we increasingly observe south-south FDI in recent years.
- This new pattern reflects the emergence of new FDI sources in the south, such as Hong Kong, Russia, British Virgin Islands, Singapore, and Taipei,China.
- In East Asia, much of the recent FDI expansion has been intra-regional—from Japan & the Asian NIEs to China and ASEAN, and from ASEAN to ASEAN and China.
- What lessons can be learned from the East Asian experience for other developing countries?

2. Developed-Country FDI Activities

- Total inward FDI stock in developed countries (OECD-23) was $7.96 trillion, and its outward FDI stock was $10.59 trillion in 2006. Developed countries had a net FDI asset of $2.63 trillion.
- The US had the largest FDI stocks, both inward ($1.79 trillion) and outward ($2.38 trillion), with the largest net FDI asset of $595 billion.
- The UK had the second largest FDI stocks, with the third largest net FDI asset.
- France, Belgium and Germany had large inward FDI stocks. France, Germany and the Netherlands had large outward FDI stocks.

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3. Emerging-Economy FDI Activities

- Total inward FDI stock in emerging/developing economies was $4.04 trillion, and its outward FDI stock was $1.89 trillion in 2006. These economies had a net FDI liability of $2.15 trillion.
- Hong Kong had the largest FDI stocks in the emerging/developing world, both inward ($769 billion) and outward ($689 billion), with the net FDI liability of $80 billion.
- China, Mexico, Brazil, Singapore and Russia had large inward FDI stocks. China had the largest net FDI liability in the world ($219 billion).
- Russia, British Virgin Islands, Singapore, and Taipei,China had large outward FDI stocks.
- All major emerging economies, except BVI and Tiapei,China, had negative FDI assets.

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4. Intraregional FDI in East Asia

- FDI inflows into East Asia (including Japan) have grown from 5% of world total FDI inflows in 1980 to 16% in 2006. East Asian FDI outflows increased from 5% to 11% of world total outflows.
- Much of the FDI expansion has been intra-regional—from Japan & Asian NIEs to China and ASEAN, and from ASEAN to ASEAN and China
- Total East Asian trade grew faster than world trade and the intra-regional trade share increased from 35% in 1980 to 55% in 2006 (vs. 49% in NAFTA region), approaching the EU level

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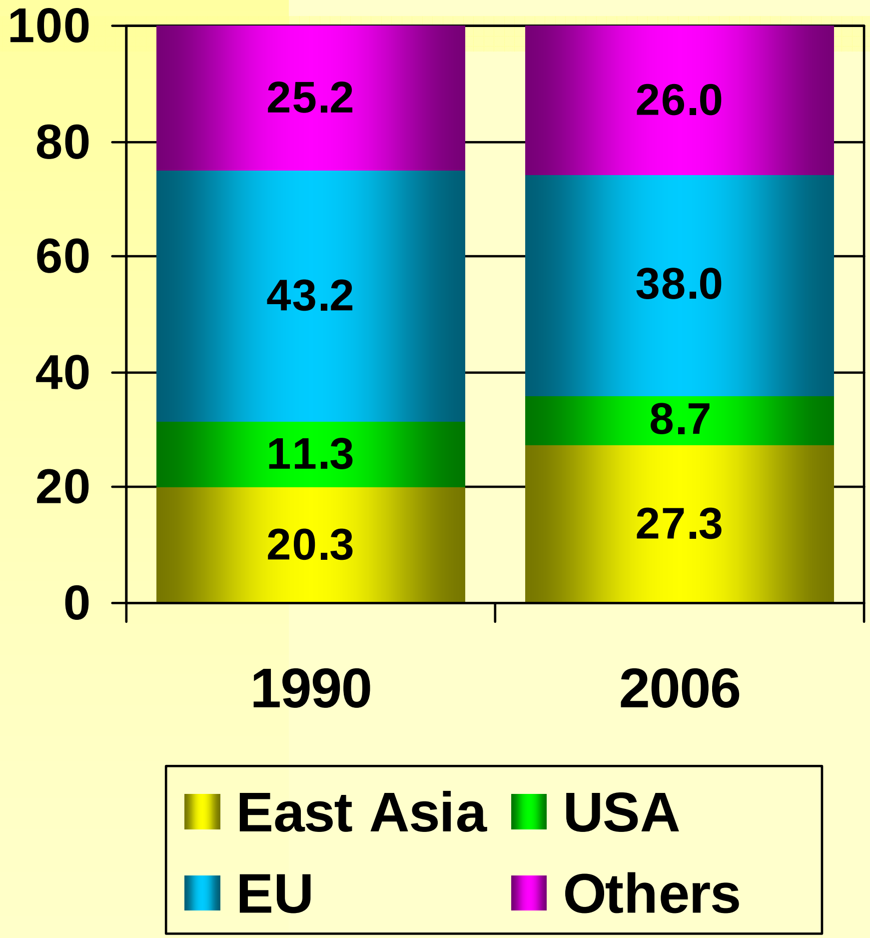
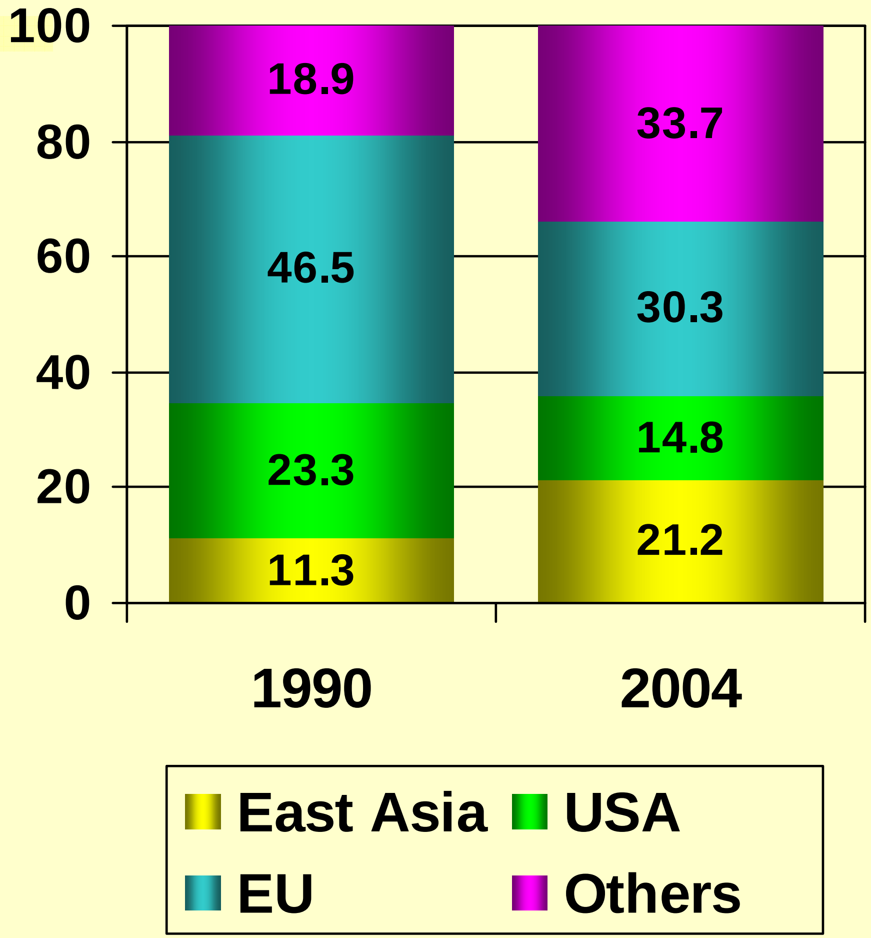
East Asia’s Growing Importance

Share in World Exports, in %



Share in FDI Inflows, in %



Source: IMF Direction of Trade Statistics and UNCTAD Database

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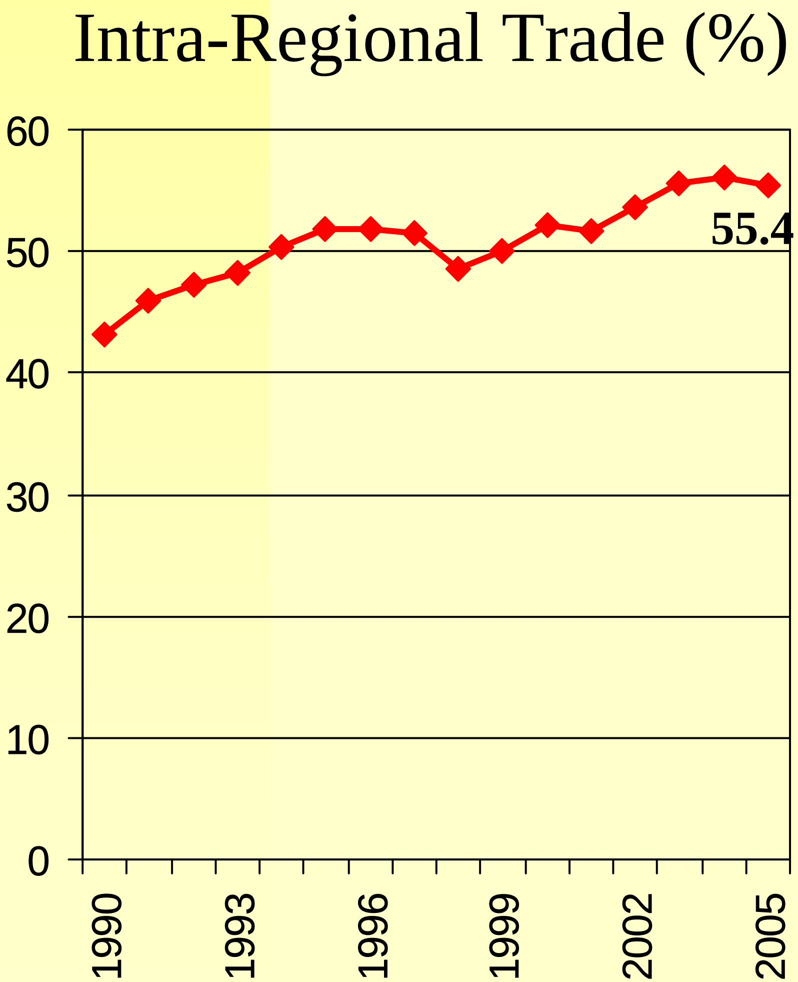
Market-Driven Economic Integration in East Asia



Source: IMF Direction of Trade Statistics and UNCTAD

Drivers of Integration

- Economic openness—trade and FDI
- Improved physical connectivity
- IT revolution
- Production networks and supply chains by MNCs
- Rapid growth of China

Trade & FDI: Production Networks

- The rise of production networks underlies East Asia's industrial growth, export and integration
- MNCs' strategy to locate different sub-processes in different Asian countries according to comparative advantage and to re-integrate them
- Asian NIEs was the first to be part of such networks, followed by ASEAN, and now China is firmly participating in the networks
- As a result, much of the region's trade is between Asian affiliates of global MNCs and Asian MNCs in parts, components, semi-finished and finished goods

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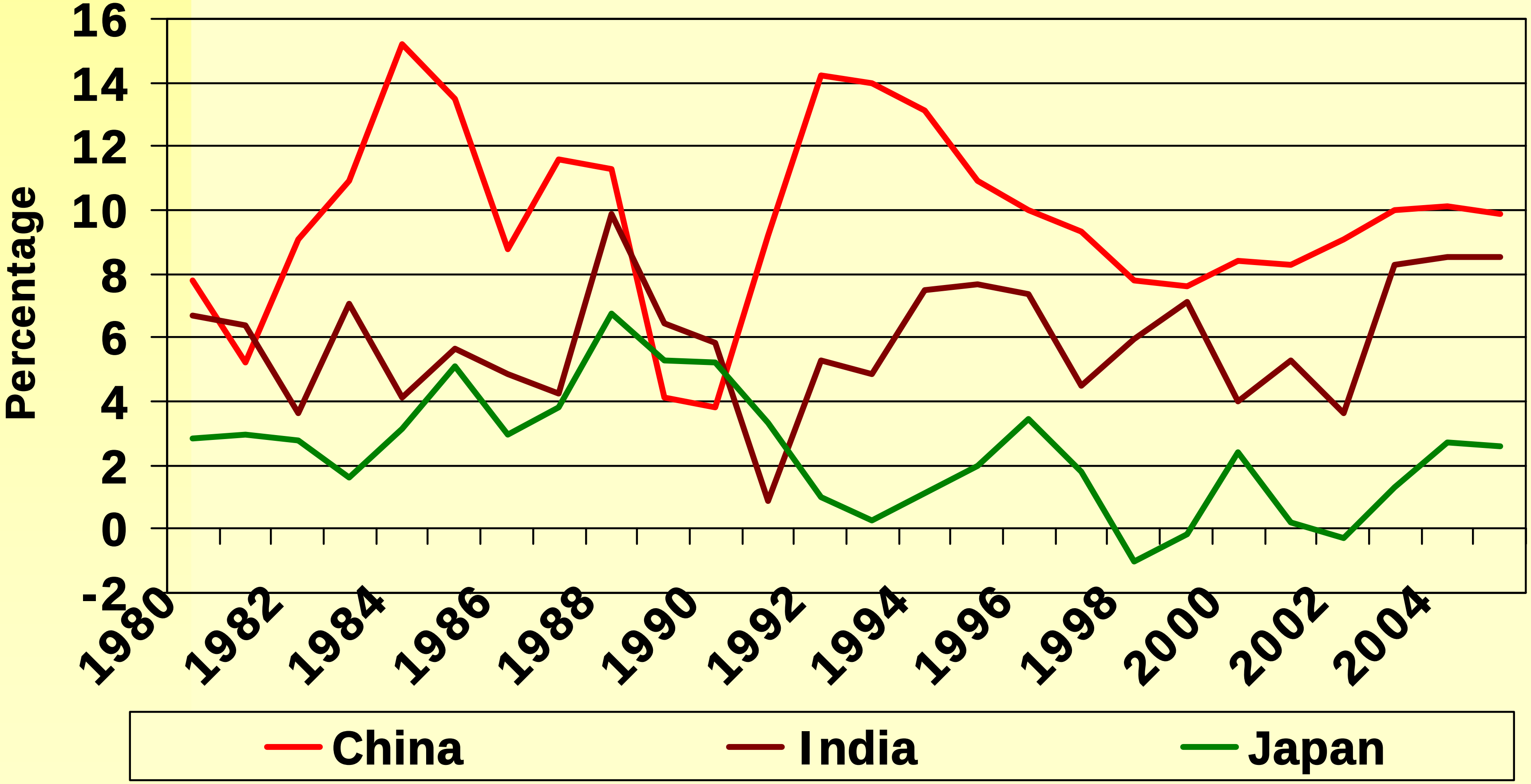
Rise of Chia and India
GDP Growth Rates, 1980-2006



Source: World Bank, World Development Indicators Online, 2006.

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5. Policy Lessons for Developing Countries

- Development lessons from East Asia
  - Political stability, policies, institutions and ownership
  - Outward orientation and private sector development
  - Conducive developed-country policies
- Developing countries need to set up market friendly environments for private sector activity through provision of industrial infrastructure, greater business predictability, and rule of law (property rights)
- Developed countries need to maintain stable macroeconomic/financial conditions and an open trading regime, provide FDI, and be ready to accept industrial adjustment in response to trade competition from developing countries

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6. Conclusion

- In recent years, south-south FDI has expanded
- East Asia has achieved market-driven economic growth, development and integration through trade and FDI, involving both global and Asian MNCs
- Intraregional FDI facilitated the formation of production networks in East Asia
- To attract FDI, developing countries must pursue structural reforms, build industrial infrastructure, strengthen governance and rule of law, and develop skilled human resources to support liberalization and globalization.
- Developed and emerging market economies, as suppliers of FDI, need to pursue structural adjustment domestically

Thank you
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