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

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Outline

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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.
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 Taipei, China, had negative FDI assets.
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.
East Asia’s Growing Importance

Share in World Exports, in %

<table>
<thead>
<tr>
<th>Year</th>
<th>East Asia</th>
<th>USA</th>
<th>EU</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>25.2</td>
<td>43.2</td>
<td>11.3</td>
<td>20.3</td>
</tr>
<tr>
<td>2006</td>
<td>26.0</td>
<td>38.0</td>
<td>8.7</td>
<td>27.3</td>
</tr>
</tbody>
</table>

Share in FDI Inflows, in %

<table>
<thead>
<tr>
<th>Year</th>
<th>East Asia</th>
<th>USA</th>
<th>EU</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>18.9</td>
<td>46.5</td>
<td>11.3</td>
<td>30.3</td>
</tr>
<tr>
<td>2004</td>
<td>33.7</td>
<td>30.3</td>
<td>14.8</td>
<td>21.2</td>
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</tbody>
</table>

Source: IMF Direction of Trade Statistics and UNCTAD Database
Market-Driven Economic Integration in East Asia

Drivers of Integration

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

Source: IMF Direction of Trade Statistics and UNCTAD
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.
Rise of China and India
GDP Growth Rates, 1980-2006

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
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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