Trends in Global and Regional Foreign Direct Investment Flows

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I. INTRODUCTION

Sudden and sharp capital inflow reversals have been a key feature of recent emerging market crises. Among different capital account components, short-term bank flows and portfolio flows, in particular, have been most volatile. Longer-term capital flows such as FDI, on the other hand, have generally been more stable. Against this background, FDI is increasingly seen as a "desirable" form of capital inflow compared with other more volatile flows. There are, in addition, other more fundamental reasons why emerging market economies might be interested in attracting FDI. Beyond providing additional financial resources (when not financed locally), FDI can facilitate the transfer of intangible assets such as technology, skills, and management know-how, thus helping to directly boost productivity, and growth; in addition, FDI may help secure foreign market access. In short, FDI appears to offer a bundle of "good" characteristics ranging from a high degree of stability, financial resource augmentation, positive productivity effects and, perhaps, access to foreign markets. Papers at this conference will consider these potential benefits, the extent to which they may be exaggerated and possible pitfalls with FDI policies. In this paper, however, we take as given the interest in attracting FDI and focus on global and regional trends in FDI.

For countries interested in attracting FDI, we consider the scale of such flows over time, the main source and recipient countries, how stable such flows have actually been and the form FDI flows have taken. The paper sheds light on these and related issues by reviewing global and regional trends in FDI, the scale of such flows in relation to other capital flows as well as output and trade, and which countries have been receiving and supplying FDI. Following this introduction, Section II considers a number of issues associated with the definition and the measurement of FDI. Section III provides an overview of global and regional FDI trends in both the advanced and emerging market countries, while Section IV looks at the structure and destination of FDI flows in Asia. Two current topics of interest concerning FDI in Asia – the direction of Japanese FDI and the FDI boom in China-- are discussed in Section V. Finally, conclusions are provided in the last section.

II. THE ABC'S OF FDI?

A. DEFINITION AND MEASUREMENT OF FOREIGN DIRECT INVESTMENT

Conceptually, the key feature that distinguishes FDI from other capital flows is the intention to exercise control over a firm. As defined in the *Balance of Payments Manual,* direct investment is that category of international investment that reflects the objective of a resident entity (i.e., the direct investor) in one economy obtaining a *lasting interest* in an enterprise (i.e., the direct investment enterprise) in another economy. Implicitly, lasting interest is taken to imply the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise[2]. In a related vein, the *OECD Benchmark Definition of*

[2] Direct investment comprises not only the initial transaction establishing the relationship between the investor and the enterprise but also all subsequent transactions between them (continued)

Foreign Direct Investment explicitly specifies that a direct investment enterprise is an incorporated or unincorporated enterprise in which a direct investor owns 10 percent or more of the ordinary share or voting power. The 10 percent ownership threshold has become the practical guideline for determining the existence of a direct investment relationship.

Direct investment flows in the balance of payments are recorded on a directional basis, resident direct investment abroad and non-resident direct investment in the reporting economy. The three components of direct investment are equity capital, reinvested earnings, and capital associated with inter-company debt transactions. Equity capital comprises equity in branches, shares in subsidiaries, and other capital contributions. Increasingly, countries also provide data on reinvested earnings. Inter-company transactions, on the other hand, cover the borrowing and lending of funds between direct investors and direct investment enterprises, and between direct investment enterprises that share the same direct investor.

Several points should be taken into account in interpreting FDI data in the balance of payments statistics.

- **Not all countries use the 10 percent threshold for defining FDI.** Although the 10 percent criterion is specified for defining direct investment in the balance of payments, some countries choose other criterion. For example, data on inward FDI in China are based on information collected from foreign-funded enterprises, which are resident enterprises with an aggregate of 25 percent or more of their equity funded by non-residents. In Malaysia, FDI data are collected through a survey of a limited number of companies, and foreign controlled companies are those in which non-residents hold more than 50 percent of the equity capital.

- **Incremental rather than accumulated ownership is used to define FDI.** If a non-resident acquires 10 percent or more of the shares of an enterprise in a single transaction, the entire transaction is recorded as a direct investment. Conversely, if a non-resident initially holds less than 10 percent of the shares of an enterprise as a portfolio investment, and subsequently acquires additional shares resulting in a holding of 10 percent or more, only the purchase of the additional shares is recorded as direct investment transaction. For instance, if an investor purchases 200 units or 2 percent of the share in an enterprise as a portfolio investment, and subsequently acquires another 800 units or 8 percent of the shares of the enterprise, only 800 units is recorded as direct investment. In short, shares previously classified as portfolio investment are not reclassified in the balance of payments when the 10 percent threshold is reached (but are in the international investment position).

- **FDI does not necessarily imply a controlling share in a firm.** Based on the 10 percent threshold, it is clear than an investor need not have the controlling share, or even the largest share, of ownership in an enterprise to qualify as a “direct

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and among affiliated enterprises, both incorporated and unincorporated (IMF (1993), p.86).

investor". The concept of direct investment in the balance of payments is fundamentally different from the concept of 'foreign-controlled enterprise'. The latter are subsidiaries, which are more than 50 percent owned by a foreign parent in SNA.

- **FDI should be considered in both gross and net terms.** . Direct investment flows, in contrast to many capital international flows measured on a net basis, are usually measured and analysed on a gross as well as net basis. This is because an equal direct investments from, say, Japan to the U.S. and the U.S. to Japan will not necessarily offset each other, since the two- way direct investment may result in an addition of Japanese technology of production in the U.S. and an addition of American style of management in Japan.

B. Foreign direct investment data

Statistical data on foreign direct investment are of two types. The first type is the financial data from the balance of payments. The IMF publishes data on FDI inflows (direct investment in the reporting economy) and FDI outflows (direct investment abroad) in the *Balance of Payments Statistics Yearbook*, which are also available in the *International Financial Statistics*. UNCTAD has published the *World Investment Report (WIR)* annually since1991, which has the largest coverage of country. The WIR database on FDI flow and stock are complied mainly from published and unpublished national official FDI data from central banks, statistics offices and national authorities, supplemented by data obtained from other international organizations such the IMF, the World Bank, and the OECD, as well as UNCTAD's own estimates. The OECD International Investment Statistics Yearbook provides detailed flow and stock statistics for inward and outward FDI based on reports of OECD countries. While the OECD data cover only OECD member countries (28 countries), it has the advantage over IMF and UNCTAD data of including FDI flows by sector and by partner country in a uniform format.

The second type of FDI data comprises inward FDI (as well as outward FDI) approved by the government bodies when investment can only take place through an approval procedure or investment commitments submitted to the authorities on a notification basis. Approval or notification based FDI data from host governments have the advantage of providing information on the number of projects and by sectors that are not available in financial data from the balance of payments. However, as approval or notification based FDI data do not necessary represent 'actual flows', the discrepancy between approval or notification based FDI figures and FDI flows in the balance of payments statistics could be large in cases where the implementation or actualisation rate of projects is low.

In addition, some FDI source countries such as the U.S. and Japan compile data on the activities of foreign affiliates in the host countries[3]. These data provide

[3] Surveys on U.S. direct investment abroad and direct investment in the U.S. are conducted by the U.S. Department of Commerce. For surveys on Japanese outward FDI, see METI (a), METI (b) and METI (c).

(continued)

information such as the size of the affiliate, production, sales and employment, which are essential for the analysis on the impact of FDI on both the host and home countries.

Global capital flows can be examined by either looking at capital outflows from all countries or capital inflows to all countries, which theoretically should be equal in magnitude. In practice, world capital inflows tend to be larger than world capital outflows. For instance, cumulated world capital inflows amounted to US$ 16.5 trillion as compared to world capital outflows of US$ 15.3 trillion during the period 1996-2000. In this paper, for the purpose of focusing on FDI in host countries, inflows figures based on IFS figures are mainly used. Source country data as well as host country data collected on an approval basis are used when looking at FDI by country of origin and by sector.

C. Greenfield investment versus cross-border mergers and acquisitions

There are two basic types of foreign direct investment. Foreign direct investment can take the form of green-field investment in a new establishment or the merger and acquisition (M&As) of an existing local enterprise. While both involve the management control of a resident entity in one country by an entity in another, the motivation behind green-field investment and M&As could be different, as could their impact on the host economy. While many issues regarding FDI in the form of cross-border M& As have been raised, answers are at best inconclusive. Issues raised for instance include whether green-field FDI is better than cross-border M &As from the perspective of the host country? Both green-field FDI and cross border M&As can add to the financial resources of the host country, to the extent that both operations are not financed by locally raised capital. However, differences may arise because while green-field FDI brings in new production facilities, FDI inflows via M&As transfer the ownership of local assets to foreign investors (UNCTAD 2000, p.164). Hence, the differences in the case of FDI via cross-border M&As as compared to green-field investment may lie in whether 'investible' resources placed in the hands of the former local owners are actually invested to add on to the country productive resources?

In the least developed countries, FDI via cross border M&As may not be very common as there are few firms to acquire, and FDI may largely take the form of green-field investment. On the other hand, cross border M&As are important in privatisation when there are no domestic buyers, as well as in rescuing ailing firms and restructuring of state-owned firms. M&As could be seen as placing the host economy in disadvantages as in the Asian crisis, when foreign investors are able to buy into local firms at fire sale prices. However, M&As could be the only alternative to bankruptcy for firms that fail to raise finance elsewhere and M& As can provide foreign exchange resources to the host country.

D. Stability of FDI

Are FDI flows inherently more stable than other capital flows? FDI tended to be more stable than other types of capital flows, during the Mexican crisis in 1994-95 and the Asian crisis (Lipsey 2001). In comparison to other capital forms of inflows, FDI inflow is also typically not subject to rapid reversal. As the typical FDI in developing countries involves the setting up of production facilities, it is usually seen as implying a long-term commitment to the host economy in comparison to speculative portfolio investments or short-term lending. FDI could also be seen as being more stable because the factors determining the attractiveness of a location in hosting FDI-- such as market potential, resource availability, infrastructure-- are less inclined to change in a short period of time.

Notwithstanding the above considerations, however, the apparent stability of FDI flows should be treated with care. There are several reasons for this. First, there is the possibility that the FDI may not be measured very accurately and might capture commitments rather than actual inflows, with the former a poor predictor of the latter. Most importantly, however, even if FDI were correctly measured, account must be taken of the possibility that some of the risks associated with FDI might be hedged through other capital flows. Hence, as an example, a typical FDI would potentially expose an investor to many risks including those associated with changes in exchange rates and market interest rates. In order to (dynamically) hedge these risks, the investor might undertake transactions in the forward market or local money market, thus leading to other capital flows that might potentially be quite volatile. It would be misleading in these cases to regard FDI as stable and the other flows as the source of volatility. Moreover, if these other capital flows were controlled out of concerns about their volatility this may lead to greater instability in recorded FDI flows. .

III. GLOBAL AND REGIONAL FDI TRENDS

This section reviews global and regional FDI trends using reported data on FDI inflows. Key features of these trends are as follows.

World FDI inflows grew rapidly and faster than world GDP and world exports during the period 1981-2000. In particular, world FDI inflows over the period 1991-2000 increased 4.8 fold as compared to the previous ten years period, and surpassed the 4.5 fold increase attained between the 1970s and the 1980s. (Table 1). World FDI inflows also increased more rapidly than world GDP and exports over the1970s and 1980s. FDI as a percentage share of gross domestic product rose rapidly since the early 1990s until the peak attained in 1997-98. Across regions, FDI inflows typically constituted 5-6 percent of GDP in the respective regions, with the exception of the Middle East, towards the end of the 1990s (Figure 1).

From an all-time high of US$ 1.4 trillion in 2000, world FDI inflows fell by around 50 percent to US$ 0.7 trillion in 2001 thus belying simple notions of stability[4]

[4] As figures for 2001 are still not available for a large number of countries, the decline in FDI inflows in 2001 could be slightly smaller.

(Table 2). The decline in world FDI inflows in 2001 could be seen as a return to the inflow level in 1998, following a 'bubble' in 1999 and 2000 largely associated with the boom in the US economy. The surge in FDI was largely related to the sharp increase in investments in the high-tech and telecommunication sectors in the advanced economies that were in part facilitated by the equity market boom[5]. These FDI flows largely took the form of a growing number of cross-border M&As, mostly in the advanced economies. Although it is difficult to calculate precisely what percentage of FDI flows are accounted for by cross-border M&As, world inflows of cross border M&As reached a peak of US$1143.8 billion in 2000, from US$531.6 billion in 1998 and US$766.0 billion in 1999 (World Investment Report 2001)[6]. As illustrated below, global FDI inflows have exhibited large changes in the 1990s compared to the earlier period

The share of direct investment inflows relative to other capital flows has increased since the 1980s, constituting slightly less than 30 percent of world capital inflows in the second half of the 1990s. World international capital inflows, measured by the aggregation of the three major types of investment outflows, namely direct investment, portfolio investment and other investments, increased rapidly in the period 1996-2000 to 3 times the inflows level in the 1991-95 period. While direct investment flows increased since the mid-1980s, portfolio investment (including equity securities and debt securities) inflows also increased sharply in the 1990s against the backdrop of the equity market boom in the advanced economies. In contrast, the relative share of other investment (comprises trade credits, loans, currency and deposits, and other assets) inflows has displayed a declining trend since the 1980s (Table 3).

Regarding the regional distribution of FDI inflows for the period 1991-2000, about three quarters of FDI went to the advanced economies whereas the developing countries absorbed about 20 percent of world inflows. In particular, during 1999-2000, FDI inflows into the advanced economies grew to more than 80 percent of world

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[5] For example, FDI in the U.S. increased sharply by 69 percent to US$ 295 billion in 1999, before levelling to US$ 281 billion in 2000. Direct investment in the manufacturing sector had remained relatively stable at US$90.9 billion in 1999 and US$95.1 billion in 2000. In contrast, direct investments in finance (US$ 15.9 billion in 1999 and US$ 19.7 billion in 2000), services (US$ 22.5 billion in 1999 and US$ 42.4 billion in 2000) and other non-manufacturing industries (US$ 97.9 billion in 1999), contributed significantly to the surge in direct investment inflows in 1999-2000 (U.S. Department of Commerce (Sep 2001), Table 11.1).

[6] It is difficult to estimate precisely the share of FDI accounted for by M&As as FDI flows registered in the balance of payments are not directly comparable to cross-border M&As data, which are compiled either on an announcement basis or a completion basis. In particular, the value of cross-border M&As included funds raised both in local and international financial markets but data on the sources of financing of M&A are not separately available in most cases; whereas by definition FDI data do not. In developing counties where capital markets are poorly developed, cross-border M&As are, however, more likely to be financed by FDI. In addition, payments for cross-border M&As are not necessarily made in a single year as in the case of FDI flows, but can be phased over several years (see more discussion in UNCTAD pp.104-104).

FDI inflows, related to the surge in investment in the high-tech and telecommunication sectors, at the expense of a contraction in the FDI share in the developing countries.

In the case of FDI inflows within the developing countries during 1991-2000, Asia and Latin America each absorbed about 8 percent of the world inflows, while FDI inflows into Africa and Middle East remained at less than 1 percent of world inflows (Table 2, Figure 2). On the other hand, while the absolute amount of FDI inflows to developing countries continued to grow until 1999, Asia has been losing share to Latin America since 1997.

FDI inflows in the developing countries were concentrated in a handful of countries such as China, Brazil, Argentina and Mexico (these three Latin American countries hosted 70-80 percent of FDI inflows in the Western Hemisphere in 1998-2000). For the countries in transition in Central and Eastern Europe, and CIS and Mongolia, FDI only began to take off as they moved towards more market-based economies in the early 1990s. The share of the FDI inflows in the transition economies in the 1991-2000 period reached 3 percent, surpassing that in developing Asia excluding China, which had a much longer history of hosting FDI. However, two-thirds of the total inflows to these transition economies are concentrated in Poland, Hungary, the Czech Republic and Russia.

In terms of the major sources of FDI, the European countries supplied close to 60 percent of the world FDI outflows, followed by the U.S. with a share of 14 percent and Japan with a share of less than 3 percent of the total outflows in the period 1996-2000. Although FDI outflows from the U.S. increased 2 times in the 1996-2000 period (US$ 650 billion) as compared to the first 5 years in the 1990s, the share of U.S. FDI outflows fell by 15 percentage points to 14 percent. On the other hand, the importance of the U.S. as a supplier of FDI has continued to decline since the 1970s, with the 1991-1995 period being more of an exception. As for Japanese FDI, its gained share in the second half of the 1980s to reach 19 percent of world total outflows, owing to the relocation of Japanese manufacturing in Asia in response to rapid appreciation of the yen after the Plaza Accord in late 1985. Japanese FDI outflows, since the historical peak of US$ 51 billion or 21 percent of total outflows in attained in 1990, have declined in both amount and share in all the years up to 1999. In 2000 and 2001, Japanese FDI outflows picked up to US$32 billion and US$39 billion respectively, but it remained to be seen if this level of outflows is sustainable (Table 4).

Host countries receiving a high level of FDI inflows and home countries supplying large FDI outflows tend to overlap in a small number of cases. For the top 20 countries with the largest FDI inflows during the 1991-2000 period, 15 countries, with the exception of Brazil, Mexico, Argentina, Ireland and Malaysia, turn out to be the top 20 home / investor countries as well during the same period. In terms of net inflows, the difference between FDI in the economy and FDI abroad, China has the largest net inflows, followed by the U.S. and Brazil in the 1990s. Among the top 20 countries with the largest net inflows, 5 were economies in the Asian region, namely, China, Malaysia, Singapore, Thailand and Indonesia, whereas Korea had a small net inflows and Taiwan Province of China had a net FDI outflows in the 1990s (Table 5).

IV. FDI TRENDS AND STRUCTURE IN THE ASIAN REGION

Since the 1980s, FDI flows into Asia have played important roles in promoting trade and economic growth in a number of countries in the region. FDI inflows, however, have tended to be concentrated in only a few countries in the region; during the 1990s China has absorbed a large share of the inflows.

A. Trends in FDI

FDI inflows in the Asian region (including NIEs but excluding Japan) began to pick up the second half of the 1980s, maintaining a steady rise in inflows before attaining a peak in 1997. FDI inflows to developing Asia picked up to US$ 52 billion in 2001, following three consecutive years of decline, but this was largely due to strong inflows into China alone (Table 2, Figure 3). FDI inflows to China exceeded US$ 30 billion in 1993 and were in the range of US$35-45 billion before reaching a new peak of US$47 billion in 2001. For developing Asia excluding China, although FDI held up well in 1997, inflows declined in the post crisis period. This has to some extent reflected significant disinvestment in Indonesia since the Asian crisis. Market turbulence during the 1997-98 crisis period could have deterred investment decision, uncertainties that hinged on the progress of structural reforms in the crisis-affected countries, coupled with the increased attractiveness of China as a FDI hosting location might have reduced the potential of ASEAN as locations of FDI after the crisis.

FDI inflows to the newly industrialised Asian economies[7], on the contrary, remained strong at around US$ 20 billion in 1999 and 2000. The rise of cross border M&As in Korea and to a less extent Singapore is one of factors contributing to the buoyant FDI inflows. Cross-border M&As purchases in Korea in particular rose from almost non-existing to US$4 billion in 1998, US$10 billion in 1999 and US$ 6.4 billion in 2000. Finance became the largest industry for foreign acquisitions in the crisis-hit countries after the Asian financial crisis[8]. (Table 6).

In terms of the performance of the individual Asian economies hosting FDI, China is the world fourth largest host country for FDI, with the NIEs and ASEAN 4 (with the Philippines ranked 41st) ranking within the world top 40 destinations during the 1990s. Among the lower-income Mekong countries, Vietnam was in the 44th position for FDI inflows (Table 7).

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[7] The newly industrialised Asian economies consisted of Korea, Singapore and Taiwan POC. Hong Kong SAR is excluded as it only started to report FDI data based on the balance of payments in 1998. Excluding Hong Kong SAR figures also help to avoid possible double counting between FDI in Mainland China and Hong Kong SAR. Some of the FDI inflows into Hong Kong SAR are funds for ultimate investment in Mainland China, and also the round tripping of Chinese capital flows through Hong Kong to benefit from foreign investor's status.

[8] UNCTAD, p.131.

B. The degree of dependence on FDI

A central issue regarding FDI in Asia is whether China is absorbing a predominantly large share of FDI and crowding out FDI to the rest of Asia. In dollar terms, China has clearly been—and remains—the predominant destination for FDI inflows in Asia but this may simply represent the fact that (outside of Japan) China is the biggest economy in the region. The situation can look quite different when FDI inflows are scaled by some measure of economic size or structure. For example, FDI inflows can be scaled by population, GDP, or local investment to take into account differences in market size and structure. As shows below, the relative importance of FDI inflows in the respective Asian economies looks different depending on the yardsticks used for comparison (Figures 4a-d).

First, dividing FDI inflows by population size, FDI per capita in China (US$ 33 per capita in 1996-2000) was 11 times higher than India (US$ 3) for countries with population size over 1 billion. For country with a population size of around 75 million, FDI per capita in Vietnam (US$ 24 per capita in 1996-2000) was in fact higher than the Philippines (US$18 per capita) that has a longer history of opening up to foreign investment (Figure 4a).

Second, putting FDI inflows relative to market size, despite recent attention on the influx of FDI to China, the share of FDI inflows as a share of GDP was still below the 6.2 percent recorded in its first FDI boom in 1994 (Figure 4b). Moreover, if the relative importance of FDI is measured using the purchasing-power-parity (PPP) valuation of the country GDPs, then FDI in China never exceeded more than 1.2 percent of its PPP valued GDP (Figure 4c). On the other hand, among the Asian NIEs, Singapore has the highest dependency on FDI, with FDI inflows as a percentage share of GDP ranging between 5 to 15 percent since the 1980s. In contrast, FDI inflow as a percentage share of GDP in Taiwan POC and Korea[9] never exceeded more than 3 percent. Hence, there are considerable variations in the importance of FDI although the NIEs are often categorized as a group in terms of their openness to FDI. For Malaysia, the importance of FDI as a percentage share of GDP trended upward from the second half of the 1980s, reaching the peak of around 9 percent of GDP in 1992.

Third, in terms of the share of FDI in gross fixed capital formation[10], FDI accounted for around 10-18 percent of gross fixed capital investment in China for the period 1994-2001, only marginally higher than the average of 12 percent for Malaysia over the corresponding period (Figure 4d). In contrast, FDI accounted for an average of

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[9] Despite the widely acknowledged importance of FDI inflow in the economic development of Taiwan Province of China. In contrast, Korea pursued an extremely cautious policy towards FDI until the early 1980s (Chowdhury and Islam (1993), p.109). This explains the low level of inward FDI stock in Korea and which only started to show sign of increase in the 1990s.

[10] Strictly speaking, the value of the investment expenditure by foreign affiliate is not necessarily the same as that of FDI inflows since resources can be raised in local and international capital markets (UNCTAD 2000, p.166)

30 percent of gross fixed capital formation in Singapore in 1980-2000, and was a more important source of investment in Taiwan Province of China as compared to Korea.

FDI inflows in the Asian region over the past 20 years seem to have been mainly motivated by the relocation of production facilities of Japanese firms following the rapid appreciation of the yen after the Plaza Accord in September 1985, together with the subsequent currency appreciation and changing comparative advantage in the Asian NIEs in the late 1980s. In the 1990s, the greater adoption of globalization strategies by Asian firms as China was brought into the global manufacturing network has become the important factor shaping FDI in Asia.

C. FDI inflows by country of origin

Based on host country's data[11], FDI inflows from the U.S. typically constituted 15-20 percent of total inflows in ASEAN 4. In contrast, FDI inflows from Japan showed more variation among the ASEAN 4, ranging from slightly more than 10 percent in the Philippines, close to 20 percent in Indonesia and Malaysia and 30 percent of total inflows in Thailand. Due to the greater reliance on FDI flows from Hong Kong (close to 40 percent of total FDI inflows to China), both the U.S. and Japanese FDI in China constituted less than 10 percent of the FDI stock (Figure 5).

In terms of investment positions, Asia is the home ground for Asian investors. Although these figures are not directly comparable due to differences in valuation, the cumulative inflows of US$ 103 billion from the U.S. is about 2 times larger than that from Japan, even though the share of FDI in Asia constituted one-sixth of total Japanese FDI outflows, as compared to less than one-tenth of total U.S. direct investment abroad. Direct investments by European investors in Asia constituted only 3 percent of total European FDI.

On the other hand, industrial restructuring of Japanese firms was mirrored by investments from the Asian NIEs. Against the backdrop of currency appreciation and the loss of preferential market access to the advanced economies as the NIEs graduated from developing country status, the Asian NIEs have become important investors in the region. As in the case of Korea, FDI position in Asia is about one-fifth of Japanese FDI stock in Asia, about 40 percent of Korean FDI is concentrated in the Asian region (Table 8).

D. FDI inflows by sector

FDI inflows by sector in Asia can be assessed using source country data. **For U.S. FDI outflows to Asia, the share of non-manufacturing sector (including**

[11] Host country's approval data are likely to be less accurate depending on the rate of realisation of investment project and are not strictly comparable across country.

petroleum) is generally larger than the share of the manufacturing sector. China, being the exception with the share of manufacturing close 60 percent, is an important production base of the U.S. firms (Table 9). **In contrast, Japanese FDI outflows to Asia are concentrated in the manufacturing sector** with the exception of Hong Kong SAR (concentrated in finance & insurance and trade sectors), Singapore and Indonesia (mining). Japanese manufacturing FDI inflows are heavily concentrated in the electrical industry in Taiwan POC, Malaysia, the Philippines, as well as in China and Vietnam (Table 10). In addition to the higher presence of activities of Japanese manufacturing firms in Asia, studies[12] have also shown that Japanese FDI leads to more pronounced changes in production and trade patterns than FDI from the U.S.

V CURRENT ISSUES CONCERNING FDI IN ASIA

Two key issues concerning FDI in Asia are: whether Japanese FDI—which was a major factor before the 1997-98 crisis—will pick up again, and whether China will draw FDI away from the rest of the region.

A. Will Japanese FDI outflows pick up?

Japanese firms are one of the largest investors in Asia. Due to their traditional concentration in the manufacturing sector, their strategies have had important implications for regional FDI flows as well as on the evolution of production network, trade pattern and economic growth in the Asian region.

Japanese outward FDI has shown a strong correlation with the upward movement of the yen-dollar exchange rate. Following the rapid appreciation of the yen after the Plaza Accord in the late 1985, Japanese FDI outflows increased from US$12 billion in FY1985 to US$22 billion in FY1986, and maintained a yearly growth rate of 45 percent in the FY1987-89, attaining the historical peak of US$63 billion in FY1989. During the FY1986-89 period, while about 70 percent of Japanese FDI went to the North America and Europe, and the share of manufacturing FDI lowered to an average of 25 percent owing to the increased share of FDI in the real estate and finance sectors, Japanese FDI in Asia picked up substantially since FY1986 (Figure 6). Cost minimization against the backdrop of the rapid yen appreciation and labour shortages due to demographic changes are among the major factors that motivated Japanese manufacturing firms to establish production networks in Asia first in the Asian NIEs (notably Singapore and Taiwan POC) and in the second wave in ASEAN4.

Japanese FDI outflows rebounded in FY1993, with a greater share flowing to Asia, and direct investment in the manufacturing sector constituting more than half of Japanese FDI flows to Asia. Globalisation strategies of Japanese firms and the picking up of direct investment in China at around 1992 are the major factors contributing to the upward trend.

[12] For instance, Ramstetter (1991).

Since 1998, Japanese FDI outflows[13] have displayed a sharply declining trend, in part due to the sharp depreciation of the yen against the dollar in early 1997 and the weakness of the Japanese economy. Recent figures showed that outflows of FDI from Japan in FY2001 declined by 35 percent from the previous year to US$ 32 billion. Although Japanese FDI to Asia held up well by a 4 percent increase despite the reduction in Japanese FDI abroad, the current inflow level at around US$ 6 billion was only half of the level attained in FY1997.

In the short-term, two counter-acting forces seem to be at work. On one hand, the slowdown of the domestic economy and the rise of the yen may encourage Japanese firms to further expand and deepen their international production networks. Japanese firms are likely to focus on improving efficiency of existing operation though consolidation rather than to expand abroad. On the other hand, the intensifying competition in the global market and the market opportunities in China may lead to the expansion of Japanese firms operations abroad. About 72 percent of Japanese firms surveyed in FY2001[14] planned to 'expand business operations abroad' in the next three years, a large jump compared to 55 percent in the FY2000 survey.

B. The rise of FDI inflows to China and implication for the rest of Asia

While China has emerged as the major host country for FDI since the first half of the 1990s, FDI flows to other parts of Asia, notably ASEAN also increased during the most of the 1990s. It was only after the Asian crisis that the relative stagnation of inflows into the ASEAN appeared. This could be seen as disturbances from the financial crisis working against the ASEAN4 in particular. On the contrary, favourable factors, most notably China's accession to the WTO in 2001, have helped to boost investors' confidence in its economic potential. Recent news reports indicate that Japanese manufacturing firms are planning to downsize operations in Singapore and ASEAN while relocating to China where costs of production are lower and a larger consumer market[15].

The "China world factory' serving as an export base to the G3 and other parts of Asia, as well as the existence of a potentially large domestic market serve to enhance the competitiveness of China in hosting FDI. In the longer run, agglomeration effect of FDI may work to benefits of China in attracting more relocation of production network from within and outside Asia. A survey conducted in 2001 showed that that China, the U.S., Thailand and Indonesia are the top four most promising locations for Japanese's firms'

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[13] Japanese FDI outflows in FY1999 surged by 67 percent to reach US$ 67 billion surpassing the historical peak in 1989. However, about half of the 2-fold increase in FDI in Europe was due to Japan Tobacco's US$ 7.8 billion acquisition of the international arm of RJR Nabisco through the holding company in the Netherlands (*Kokosai Kinyu* (*International Finance)*, February 1, 2001, p.18).

[14] Survey conducted by the Japan Bank for International Cooperation in July 2001 of 792 Japanese manufacturing MNCs with an effective response rate of 63.3 percent.

[15] Nikkei (July 25, 2002).

business operation for the next three year. While the rankings were unchanged since the previous survey in 2000, the ratio of firms picking China as the top location has risen from 65 percent to 82 percent. Separately, 57 percent of the Japanese firms responded indicated that China is more attractive than ASEAN 4 owing to its growth potential and inexpensive labour force. However, it is also worth noting that 10.2 percent of the Japanese firms responded that 'ASEAN 4 is more attractive than China' while another 33 percent was unable to make current judgement[16]. This suggests that firms could well be trying to diversify location risk in their direct investment decision.

Hence, while the medium term prospect point to the possibility that FDI flows are likely to favour China over the other part of Asia, viewed from a longer-term perspective, FDI inflows to China and to the other part of Asian could well be complementary rather than competitive. FDI is not a zero-sum game with one country receiving more inflows at the expense of another. Although China is absorbing FDI in a wide range of industries, ranging from textile and apparels, electrical machinery to transport equipment, FDI will be drawn based comparative advantages in trade in each of the location and not on China's absolute advantage. In addition, the need to have production located close to market of final demand, and to be close to supplier or purchases within the global production network also suggests that FDI will likely be more diversified rather than concentrated in one location. Hence, while competition to attract FDI is becoming more intense with the Asian region, a sound investment climate remains the most essential element for countries to attract FDI.

VI. CONCLUSIONS

This paper has reviewed global and regional trends in FDI with particular emphasis on developments in Asia. The review has been conducted against the background of recent increased focus on FDI as a stable source of financial capital and a means by which countries can upgrade their technology, skills and management know-how. Rather then seek to summarize the main trends identified in the paper, we conclude with three observations that may be of relevance to countries as they consider their policies towards FDI.

First, and most importantly, although FDI inflows into one country do not necessarily imply less FDI for other countries, countries must ultimately compete for FDI. Accordingly, a key element of any effort to encourage FDI will be the establishment of an attractive enabling environment. In short, FDI like other capital flows will tend to be attracted to locations which offer the highest risk-adjusted returns, which will imply the need for countries to develop the appropriate enabling conditions to make them attractive. The empirical and theoretical literature on FDI contains many lessons regarding the factors that are important in attracting FDI.

Second, within developing Asia, the regional environment for FDI over the next decade or so is likely to be influenced importantly by whether and to what extent Japanese FDI outflows pick up, and by whether China continues to be the major

[16] Japan, Bank of International Corporation (2002).

"destination of choice" for foreign investors. On both counts, it may well be that the external environment faced by smaller Asian countries seeking FDI over the next decade may be less favourable than in the 1980s and early 1990s; there is no reason, in principle, however, why FDI to China and other parts of should not be complimentary. More FDI for China need not imply less for other countries.

Finally, although attracting FDI can be an important element of a development strategy, the key to successful development will ultimately be sound domestic macroeconomic and structural policies, adequate and efficient domestic savings and investment and human capital accumulation, supported by sound and strong domestic institutions including in the financial sector. FDI is not a substitute for getting domestic policies "right". Appropriate domestic policies will also help attract FDI and maximize its benefit.

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Table 1. FDI Inflows, World Output and World Exports
(Billions of U.S. dollars, percent)

	1970	1980	1985	1990	1995	2000	1980s/1970s	1990s/1980s
				FDI Inflows				
World/1	7	52	56	204	322	1,377	4.5	4.8
Major advanced economies	5	37	32	113	129	724	4.0	3.8
Other advanced economies	2	11	12	66	90	498	4.8	5.9
Newly industrialized Asian economies /2/3	0	1	2	8	12	21	6.6	3.7
Developing countries	0	4	12	24	103	154	6.9	6.9
Africa	-	1	1	1	4	3	3.1	3.6
Asia	-	1	3	11	52	47	9.4	9.8
Middle East	-	(4)	2	3	(0)	1	-7.0	0.7
Western Hemisphere	0	6	6	8	30	75	3.1	7.1
Countries in transition	-	0	0	0	16	28	8.0	210.0
Central and Eastern Europe	-	0	0	0	12	23	8.0	158.4
CIS and Mongolia	-	-	-	-	4	5	-	-
				Output				
World	n.a.	11,704	12,804	22,558	29,112	31,377	1.6	1.8
Major advanced economies	1,891	6,618	7,981	14,264	19,531	21,033	2.4	1.9
Other advanced economies	306	1,479	1,354	3,172	4,328	4,186	2.2	2.1
Newly industrialized Asian economies	21	144	208	524	977	1,027	4.0	3.1
Developing countries	605	2,413	2,286	3,173	4,481	5,409	2.0	1.7
Africa	73	355	287	396	412	434	1.8	1.2
Asia	286	745	815	1,103	1,762	2,195	2.0	1.9
Middle East	65	527	468	569	625	821	2.1	1.2
Western Hemisphere	180	787	716	1,105	1,683	1,960	1.9	2.1
Countries in transition	n.a.	1,195	1,183	1,950	771	748	1.3	0.6
Central and Eastern Europe	n.a.	294	303	377	348	394	1.3	1.0
CIS and Mongolia	398	901	880	1,573	423	355	1.7	0.4
				Exports				
World	309	1,960	1,894	3,414	5,035	6,252	2.3	2.1
Major advanced economies	163	905	938	1,770	2,468	2,885	2.4	2.0
Other advanced economies	65	414	443	944	1,488	1,762	2.7	2.4
Newly industrialized Asian economies	100	581	557	1,212	1,645	1,790	4.7	3.2
Developing countries	52	503	369	545	863	1,323	1.8	2.1
Africa	13	98	70	91	101	132	1.7	1.4
Asia	11	81	88	171	378	605	2.8	3.5
Middle East	13	230	116	153	180	286	1.3	1.4
Western Hemisphere	15	94	95	129	205	299	2.2	2.0
Countries in transition	29	139	143	156	215	283	2.0	1.3
Central and Eastern Europe	16	62	60	57	98	134	1.7	1.6
CIS and Mongolia	13	76	84	99	117	149	2.4	1.2

Sources: IMF, International Financial Statistics (CD ROM, July 2002); and national sources.

/1 Comprises countries in the IFS and Taiwan POC from national sources in which "Direct investment in respective economy, N.I.E." are listed. Figures are available for 119 economies in 2000.

/2 Consist of Korea, Singapore and Taiwan Province of China. Hong Kong SAR, which only began releasing balance of payment statistic, is

/3 As Taiwan POC data in the 1970s made no distinction between FDI abroad and FDI in the economy, credit entries are taken as FDI inflows.

Table 2. FDI Inflows by Region

	1970	1980	1985	1990	1995	1996	1997	1998	1999	2000	2001 /4
						(Billions of U.S. dollars)					
World/1	7.2	52.3	55.7	203.7	321.7	371.3	459.3	671.2	1,056.4	1,376.6	690.5
Major advanced economies	5.2	37.3	31.7	113.5	129.5	155.7	197.2	334.1	535.7	724.1	341.8
Other advanced economies	1.9	10.6	12.1	66.4	89.6	86.8	94.5	164.4	343.0	498.3	224.4
Newly industrialized Asian economies /2/3	0.1	1.4	1.5	7.7	12.1	14.6	18.1	12.0	19.5	20.6	7.3
Memorandum: Euro area	-	-	-	-	-	-	-	-	-	378.6	110.1
Developing countries	0.1	4.4	12.0	23.8	102.6	128.8	167.5	172.7	177.7	154.1	124.4
Africa	-	0.7	1.0	1.2	4.5	4.3	7.9	6.0	7.6	3.4	7.7
Asia	-	1.2	3.1	10.6	51.9	62.1	67.0	61.0	51.9	47.0	51.5
Asia excluding China	-	-	1.4	7.1	16.1	22.0	22.8	17.3	13.1	8.6	4.6
Middle East	-	(4.0)	2.2	3.4	(0.1)	2.8	5.4	6.9	2.3	1.2	0.3
Western Hemisphere	0.1	6.4	5.7	8.3	30.2	43.9	66.0	73.7	88.4	74.8	53.0
Countries in transition	-	0.0	0.0	0.3	16.1	15.6	21.2	25.1	27.5	27.7	11.9
Central and Eastern Europe	-	0.0	0.0	0.3	12.3	10.4	12.4	18.5	20.8	22.6	5.5
CIS and Mongolia	-	-	-	-	3.8	5.2	8.9	6.6	6.7	5.1	6.4
Memorandum: Euro area						(Percent of world total)					
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Major advanced economies	72.6	71.3	56.8	55.7	40.2	41.9	42.9	49.8	50.7	52.6	49.5
Other advanced economies	26.0	20.3	21.6	32.6	27.9	23.4	20.6	24.5	32.5	36.2	32.5
Newly industrialized Asian economies /2/3	0.9	2.7	2.7	3.8	3.8	3.9	3.9	1.8	1.8	1.5	1.1
	-	-	-	-	-	-	-	-	-	27.5	15.9
Developing countries	1.4	8.4	21.5	11.7	31.9	34.7	36.5	25.7	16.8	11.2	18.0
Africa	0.0	1.3	1.8	0.6	1.4	1.2	1.7	0.9	0.7	0.2	1.1
Asia	0.0	2.3	5.5	5.2	16.1	16.7	14.6	9.1	4.9	3.4	7.5
Asia excluding China	0.0	0.0	2.6	3.5	5.0	5.9	5.0	2.6	1.2	0.6	0.7
Middle East	0.0	-7.6	3.9	1.6	0.0	0.8	1.2	1.0	0.2	0.1	0.0
Western Hemisphere	1.4	12.3	10.2	4.1	9.4	11.8	14.4	11.0	8.4	5.4	7.7
Countries in transition	0.0	0.0	0.0	0.1	5.0	4.2	4.6	3.7	2.6	2.0	1.7
Central and Eastern Europe	0.0	0.0	0.0	0.1	3.8	2.8	2.7	2.8	2.0	1.6	0.8
CIS and Mongolia	0.0	0.0	0.0	0.0	1.2	1.4	1.9	1.0	0.6	0.4	0.9

Sources: IMF, International Financial Statistics (CD ROM, July 2002); and national sources.
See notes in Table 1.
/4 Preliminary figures for 2001 as data for many countries are still not available.

Table 3. Global Capital Flows/1

	1971-75	1976-80	1981-85	1986-1990	1991-95	1996-2000	1999	2000	2001/*2
					(Billions of U.S. dollars)				
Total Capital Inflows/*3	339	1,513	1,895	4,316	5,541	16,503	3,845	5,150	3,463
Direct Investment Inflows	67	168	282	770	1,105	4,623	1,265	1,755	801
Portfolio Investment Liabilities	69	186	393	1,274	2,633	6,680	1,842	1,759	1,613
Other Invesments Liabilities	203	1,159	1,219	2,273	1,803	5,199	739	1,637	1,048
					(Percent of total capital inflows)				
Total Capital Inflows	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Direct Investment Inflows	19.7	11.1	14.9	17.8	19.9	28.0	32.9	34.1	23.1
Portfolio Investment Liabilities	20.5	12.3	20.7	29.5	47.5	40.5	47.9	34.1	46.6
Other Invesments Liabilities	59.9	76.6	64.4	52.7	32.5	31.5	19.2	31.8	30.3

Sources: IMF, International Financial Statistics (CD ROM, July 2002); and national sources.
/1 Measured as the sum of gross capital inflows by country. Due to incomplete recording, global capital inflows do not equal outflows.
/2 Preliminary figures for 2001 as data for many countries are still not available.
/3 Figures exclude Hong Kong SAR

Table 4. Sources of FDI Outflows

	1971-75	1976-80	1981-85	1986-1990	1991-95	1996-2000	1999	2000	2001
	(Billions of U.S. dollars)								
World	88.5	208.1	226.6	903.2	1,224.2	4,626.0	1,320.4	1,632.7	851.9
United States	41.6	82.2	42.8	162.2	349.1	647.1	155.4	152.4	156.0
Japan	-	9.3	25.5	167.0	103.4	127.9	22.3	31.5	38.5
Europe /1	41.3	99.1	129.0	487.5	642.0	2,660.2	762.4	1,011.7	394.1
Newly industrialized Asian economies/2	0.1	0.6	1.9	24.5	34.3	72.1	12.6	16.0	8.1
	(Percent of total capital outflows)								
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
United States	47.0	39.5	18.9	18.0	28.5	14.0	11.8	9.3	18.3
Japan	0.0	4.5	11.3	18.5	8.4	2.8	1.7	1.9	4.5
Europe /1	46.7	47.6	56.9	54.0	52.4	57.5	57.7	62.0	46.3
Newly industrialized Asian economies/2	0.1	0.3	0.8	2.7	2.8	1.6	1.0	1.0	0.9

Sources: IMF, International Financial Statistics (CD ROM, July 2002); and national sources.

1/ Comprises Austria, Belgium-Luxembourg, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Protugal, the Netherlands, Norway, Spain, Sweden, Switzerland and United Kingdom.

2/ Consist of Korea, Singapore and Taiwan Province of China.

Table 5. FDI Flows: Leading Recipients and Source Countries (cumulative flows 1991-2000)

(Billions of U.S. dollars)

	Inflows		Outflows		Net Inflows	
1	UNITED STATES	1157.3	UNITED STATES	-996.1	~~**CHINA,P.R.: MAINLAND**~~	294.7
2	BELGIUM-LUXEMBOURG	467.2	UNITED KINGDOM	-836.9	UNITED STATES	161.2
3	UNITED KINGDOM	429.2	FRANCE	-516.6	~~BRAZIL~~	125.2
4	~~**CHINA,P.R.: MAINLAND**~~	318.0	GERMANY	-460.0	~~ARGENTINA~~	63.5
5	GERMANY	310.1	BELGIUM-LUXEMBOURG	-430.8	IRELAND	45.3
6	FRANCE	261.6	NETHERLANDS	-294.3	~~POLAND~~	40.0
7	NETHERLANDS	200.7	JAPAN	-231.4	~~**MALAYSIA**~~	39.3
8	CANADA	161.6	SWITZERLAND	-174.3	BELGIUM-LUXEMBOURG	36.4
9	SWEDEN	147.9	CANADA	-168.8	**SINGAPORE**	35.3
10	~~BRAZIL~~	136.5	SPAIN	-150.8	AUSTRALIA	35.3
11	SPAIN	128.5	SWEDEN	-126.7	~~**THAILAND**~~	28.6
12	~~MEXICO~~	94.6	ITALY	-81.6	SWEDEN	21.3
13	~~ARGENTINA~~	78.0	DENMARK	-64.9	~~VENEZUELA, REP. BOL.~~	21.1
14	DENMARK	75.3	FINLAND	-64.5	~~CZECH REPUBLIC~~	20.4
15	**SINGAPORE**	72.4	**SINGAPORE**	-37.1	~~HUNGARY~~	19.3
16	AUSTRALIA	68.4	**TAIWAN POC**	-36.3	NEW ZEALAND	19.0
17	SWITZERLAND	64.3	NORWAY	-35.5	~~CHILE~~	17.6
18	IRELAND	64.0	AUSTRALIA	-33.1	~~COLOMBIA~~	16.8
19	ITALY	46.3	**KOREA**	-33.1	~~PERU~~	15.7
20	~~**MALAYSIA**~~	42.8	~~**CHINA,P.R.: MAINLAND**~~	-23.3	~~**INDONESIA**~~	12.3
21	~~POLAND~~	40.6	PORTUGAL	-20.1	AUSTRIA	11.0
22	~~CHILE~~	35.7	AUSTRIA	-19.8	~~**PHILIPPINES**~~	10.5
23	**KOREA**	34.3	IRELAND	-18.7	DENMARK	10.3
24	FINLAND	32.6	~~CHILE~~	-18.1	~~EGYPT~~	7.5
25	~~**THAILAND**~~	32.5	~~ARGENTINA~~	-14.4	~~RUSSIA~~	7.3
26	JAPAN	32.3	~~SOUTH AFRICA~~	-13.7	GREECE	6.3
27	AUSTRIA	30.8	~~RUSSIA~~	-11.7	ISRAEL	5.9
28	NORWAY	29.9	~~BRAZIL~~	-11.3	~~TURKEY~~	5.5
29	~~VENEZUELA, REP. BOL.~~	24.7	ISRAEL	-9.5	~~CROATIA~~	4.5
30	PORTUGAL	23.0	~~**THAILAND**~~	-3.9	~~BAHRAIN~~	4.2
31	NEW ZEALAND	22.6	NEW ZEALAND	-3.7	PORTUGAL	2.9
32	~~CZECH REPUBLIC~~	21.4	~~VENEZUELA, REP. BOL.~~	-3.5	~~ESTONIA~~	2.0
33	~~HUNGARY~~	21.1	~~**MALAYSIA**~~	-3.5	~~JAMAICA~~	1.9
34	~~COLOMBIA~~	19.9	~~COLOMBIA~~	-3.1	~~MOROCCO~~	1.7
35	~~RUSSIA~~	19.0	GREECE	-2.6	**KOREA**	1.2
36	**TAIWAN POC**	18.2	~~**INDONESIA**~~	-2.6	CYPRUS	0.4
37	~~**INDIA**~~	17.1	~~TURKEY~~	-2.5	ICELAND	-0.2
38	~~PERU~~	16.0	~~HUNGARY~~	-1.8	~~LIBYA~~	-0.9
39	ISRAEL	15.4	~~**PHILIPPINES**~~	-1.4	~~SOUTH AFRICA~~	-4.2
40	~~**INDONESIA**~~	14.9	~~BAHRAIN~~	-1.0	NORWAY	-5.6
41	~~**PHILIPPINES**~~	11.9	~~CZECH REPUBLIC~~	-1.0	CANADA	-7.2
42	~~NIGERIA~~	11.2	ICELAND	-0.8	**TAIWAN POC**	-18.1
43	~~SOUTH AFRICA~~	9.5	~~POLAND~~	-0.6	SPAIN	-22.2
44	~~**VIETNAM**~~	9.0	CYPRUS	-0.6	FINLAND	-31.9
45	GREECE	9.0	~~JAMAICA~~	-0.5	ITALY	-35.3
46	~~TURKEY~~	8.0	~~LIBYA~~	-0.5	NETHERLANDS	-93.6
47	~~EGYPT~~	8.0	~~EGYPT~~	-0.5	SWITZERLAND	-110.0
48	~~KAZAKHSTAN~~	7.4	~~CROATIA~~	-0.4	GERMANY	-149.9
49	~~ROMANIA~~	6.5	~~ESTONIA~~	-0.3	JAPAN	-199.0
50	~~ANGOLA~~	6.1	~~PERU~~	-0.3	FRANCE	-255.0

Sources: IMF, International Financial Statistics;and CEIC (for Taiwan POC data).

Table 6. Cross-border Merges and Acqusitions by Economy of Seller
(Billions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World Total	**150.6**	**80.7**	**79.3**	**83.1**	**127.1**	**186.6**	**227.0**	**304.8**	**531.6**	**766.0**	**1,143.8**
Developed countries	**134.2**	**74.1**	**68.6**	**69.1**	**110.8**	**164.6**	**188.7**	**234.7**	**445.1**	**681.1**	**1,057.2**
of which:											
European Union	62.1	36.7	44.8	38.5	55.3	75.1	81.9	114.6	187.9	357.3	586.5
United States	54.7	28.2	15.8	20.0	44.7	53.2	68.1	81.7	209.5	251.9	324.4
Japan	0.1	0.2	0.2	0.1	0.8	0.5	1.7	3.1	4.0	16.4	15.5
Developing countries	**16.1**	**5.8**	**8.1**	**12.8**	**14.9**	**16.0**	**34.7**	**64.6**	**80.8**	**73.6**	**69.7**
of which:											
Latin American & the Caribbean	11.5	3.5	4.2	5.1	10.0	8.6	20.5	41.1	63.9	42.0	45.2
Eastern and Central Europe	0.3	0.8	2.6	1.2	1.3	5.9	3.6	5.5	5.1	9.1	16.9
Asia	4.1	2.2	3.6	7.3	4.7	7.0	13.4	21.3	16.1	28.8	22.2
China	0.0	0.1	0.2	0.6	0.7	0.4	1.9	1.9	0.8	2.4	2.2
Hong Kong SAR	2.6	0.6	1.7	5.3	1.6	1.7	3.3	7.3	0.9	4.2	4.8
Indonesia	-	0.1	0.2	0.2	0.2	0.8	0.5	0.3	0.7	1.2	0.8
Malaysia	0.1	0.1	0.0	0.5	0.4	0.1	0.8	0.4	1.1	1.2	0.4
Philippines	0.0	0.1	0.4	0.1	0.8	1.2	0.5	4.2	1.9	1.5	0.4
Korea	0.0	0.7	0.0	0.0	0.0	0.2	0.6	0.8	4.0	10.1	6.4
Singapore	1.1	0.2	0.3	0.4	0.4	1.2	0.6	0.3	0.5	3.0	1.5
Taiwan POC	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.6	0.0	1.8	0.6
Thailand	0.1	0.1	0.5	0.0	0.1	0.2	0.2	0.6	3.2	2.0	2.6

Source: UNCTAD, World Investment Report 2001

Table 7. FDI Inflows : Ranking by Selected Country/Economy, 1981-2000

		Billion U.S. dollars					Percentage share of total inflows				
Ranking/1		1981-1990	1991-2000	*1991-96*	*1997-2000*	2000	1981-1990	1991-2000	*1991-96*	*1997-2000*	2000
1	UNITED STATES	361.3	1,157.3	*284.8*	*872.5*	287.7	34.3	23.0	*19.3*	*24.5*	20.9
2	BELGIUM-LUXEMBOURG	29.0	467.2	*64.7*	*402.5*	234.8	2.8	9.3	*4.4*	*11.3*	17.1
3	UNITED KINGDOM	133.8	429.2	*109.4*	*319.8*	119.9	12.7	8.5	*7.4*	*9.0*	8.7
4	~~**CHINA,P.R.: MAINLAND**~~	18.2	318.0	*152.9*	*165.1*	38.4	1.7	6.3	*10.4*	*4.6*	2.8
5	GERMANY	17.3	310.1	*29.0*	*281.1*	189.2	1.6	6.2	*2.0*	*7.9*	13.7
6	FRANCE	51.1	261.6	*119.3*	*142.4*	43.2	4.9	5.2	*8.1*	*4.0*	3.1
7	NETHERLANDS	37.8	200.7	*54.1*	*146.6*	56.6	3.6	4.0	*3.7*	*4.1*	4.1
8	CANADA	39.5	161.6	*39.6*	*122.0*	62.8	3.8	3.2	*2.7*	*3.4*	4.6
9	SWEDEN	8.6	147.9	*36.8*	*111.2*	22.1	0.8	2.9	*2.5*	*3.1*	1.6
10	~~**BRAZIL**~~	16.5	136.5	*23.6*	*112.9*	32.8	1.6	2.7	*1.6*	*3.2*	2.4
11	SPAIN	46.3	128.5	*57.8*	*70.8*	36.9	4.4	2.6	*3.9*	*2.0*	2.7
12	~~**MEXICO**~~	21.3	94.6	*43.2*	*51.4*	14.2	2.0	1.9	*2.9*	*1.4*	1.0
13	~~**ARGENTINA**~~	7.0	78.0	*25.9*	*52.1*	11.7	0.7	1.5	*1.8*	*1.5*	0.8
14	DENMARK	3.4	75.3	*14.2*	*61.1*	35.5	0.3	1.5	*1.0*	*1.7*	2.6
15	**SINGAPORE**	23.4	72.4	*39.5*	*32.9*	6.4	2.2	1.4	*2.7*	*0.9*	0.5
16	AUSTRALIA	43.5	68.4	*37.5*	*30.9*	11.5	4.1	1.4	*2.5*	*0.9*	0.8
17	SWITZERLAND	15.5	64.3	*17.4*	*46.9*	17.9	1.5	1.3	*1.2*	*1.3*	1.3
18	IRELAND	1.8	64.0	*8.8*	*55.2*	22.8	0.2	1.3	*0.6*	*1.5*	1.7
19	ITALY	24.7	46.3	*19.8*	*26.5*	13.2	2.3	0.9	*1.3*	*0.7*	1.0
20	~~**MALAYSIA**~~	11.0	42.8	*27.8*	*15.0*	3.8	1.0	0.8	*1.9*	*0.4*	0.3
21	~~**POLAND**~~	0.2	40.6	*12.7*	*27.9*	9.3	0.0	0.8	*0.9*	*0.8*	0.7
22	~~**CHILE**~~	5.3	35.7	*13.0*	*22.8*	3.7	0.5	0.7	*0.9*	*0.6*	0.3
23	**KOREA**	4.6	34.3	*7.4*	*26.9*	9.3	0.4	0.7	*0.5*	*0.8*	0.7
24	FINLAND	2.9	32.6	*4.7*	*27.9*	9.1	0.3	0.6	*0.3*	*0.8*	0.7
25	~~**THAILAND**~~	7.3	32.5	*11.7*	*20.8*	3.4	0.7	0.6	*0.8*	*0.6*	0.2
26	JAPAN	3.3	32.3	*5.3*	*27.0*	8.2	0.3	0.6	*0.4*	*0.8*	0.6
27	AUSTRIA	3.3	30.8	*11.4*	*19.4*	9.1	0.3	0.6	*0.8*	*0.5*	0.7
28	NORWAY	4.8	29.9	*8.2*	*21.7*	5.9	0.5	0.6	*0.6*	*0.6*	0.4
29	~~VENEZUELA, REP. BOL.~~	1.4	24.7	*6.9*	*17.8*	4.5	0.1	0.5	*0.5*	*0.5*	0.3
30	PORTUGAL	6.9	23.0	*9.5*	*13.4*	6.5	0.7	0.5	*0.6*	*0.4*	0.5
31	NEW ZEALAND	10.9	22.6	*14.2*	*8.4*	3.2	1.0	0.4	*1.0*	*0.2*	0.2
32	~~CZECH REPUBLIC~~	-	21.4	*5.5*	*15.9*	4.6	0.0	0.4	*0.4*	*0.4*	0.3
33	~~HUNGARY~~	-	21.1	*13.2*	*7.8*	1.6	0.0	0.4	*0.9*	*0.2*	0.1
34	~~COLOMBIA~~	5.1	19.9	*7.7*	*12.2*	2.4	0.5	0.4	*0.5*	*0.3*	0.2
35	~~RUSSIA~~	-	19.0	*5.3*	*13.7*	2.7	0.0	0.4	*0.4*	*0.4*	0.2
36	**TAIWAN POC**	5.8	18.2	*7.9*	*10.3*	4.9	0.5	0.4	*0.5*	*0.3*	0.4
37	~~**INDIA**~~	-	17.1	*6.4*	*10.7*	2.3	0.0	0.3	*0.4*	*0.3*	0.2
40	~~**INDONESIA**~~	4.2	14.9	*17.9*	*6.8*	-4.6	0.4	0.3	*1.2*	*-0.1*	0.0
41	~~**PHILIPPINES**~~	2.8	11.9	*6.6*	*5.3*	1.2	0.2	0.3	*0.2*	*0.4*	0.1
44	~~**VIETNAM**~~	-	9.0	*2.4*	*6.6*	1.3	0.1	0.0	*0.2*	*0.2*	0.1
54	~~**PAKISTAN**~~	1.3	5.1	*3.0*	*2.1*	0.3	0.1	0.1	*0.1*	*0.2*	0.0
68	~~**MYANMAR**~~	0.2	2.4	*1.2*	*1.2*	0.3	0.0	0.0	*0.0*	*0.1*	0.0
76	~~**SRI LANKA**~~	0.4	1.7	*0.7*	*1.0*	0.2	0.0	0.0	*0.0*	*0.0*	0.0
85	~~**CAMBODIA**~~	-	1.2	*0.6*	*0.6*	0.1	0.0	0.0	*0.0*	*0.0*	0.0
97	~~**BANGLADESH**~~	0.0	0.8	*0.0*	*0.8*	0.3	0.0	0.0	*0.0*	*0.0*	0.0
119	~~**LAO PEOPLE'S DEM.REP**~~	0.0	0.4	*0.4*	-	0.0	0.0	0.0	*0.0*	*0.0*	0.0
	Memorandum										
	TOTAL	**1,052.0**	**5,039.5**	***1,476.1***	***3,563.4***	**1,376.6**	**100.0**	**100.0**	***100.0***	***100.0***	**100.0**
	Asia (excluding Japan)	79.2	582.6	*286.4*	*306.0*	67.6	7.7	11.4	*19.0*	*8.8*	5.3
	Asia (excluding Japan & Chi	61.0	264.7	*133.5*	*140.8*	29.2	6.0	5.0	*8.7*	*4.2*	2.5
	Asian NIEs	33.8	124.8	*54.8*	*70.1*	20.6	3.2	2.5	*3.7*	*2.0*	1.5
	ASEAN4	25.3	102.1	*64.0*	*47.9*	3.8	2.4	2.1	*4.1*	*1.4*	0.7

Sources: IMF International Financial Statistics; and CEIC.

Table 8. Direct Investment Position of U.S., Europe, Japan and Korea in Selected Economies in Asia
(Billions of U.S. dollars, percent)

	World	Asia/1	China	HK SAR	Korea	Singapore	Taiwan POC	Indonesia	Malaysia	Philippines	Thailand	India
U.S.(2000)	1,244.7	103.3	9.6	23.3	9.4	23.2	7.7	11.6	6.0	2.9	7.1	1.3
Europe (1999)	1,371.9	43.0	6.1	14.9	3.3	3.8	1.4	1.5	4.9	1.4	3.5	3.2
Japan (2001)	300.1	53.1	10.0	5.5	4.4	10.2	3.6	5.0	4.3	2.1	6.1	1.1
Korea (2000)	25.8	10.2	4.4	1.1	-	0.5	0.0	1.4	0.3	0.4	0.5	0.5
						(Percent share to world)						
U.S.	100.0	8.3	0.8	1.9	0.8	1.9	0.6	0.9	0.5	0.2	0.6	0.1
Europe (1999)	100.0	3.1	0.4	1.1	0.2	0.3	0.1	0.1	0.4	0.1	0.3	0.2
Japan	100.0	17.7	3.3	1.8	1.5	3.4	1.2	1.7	1.4	0.7	2.0	0.4
Korea (2000)	100.0	39.5	17.0	4.1	-	1.9	0.1	5.5	1.2	1.5	1.8	1.8

Sources: U.S. Department of Commerce, *Survey of Current Business* (September 2001); OECD, International Direct Investment Database; Bank of Japan, Regional Direct Investment Position; and IMF, International Financial Statistics.
1/ Asia excludes Japan.

Table 9. U.S. Outward Direct Investment in Selected Asia Economies by Sector (historical-cost basis, 2000)

	World	Asia /1	China	HK SAR	Korea	Singapore	Taiwan POC	Indonesia	Malaysia .	Philippines	Thailand .	India .
						(Millions of U.S. dollars)						
Total	**1,244.7**	**103.3**	**10**	**23**	**9**	**23**	**8**	**11.6**	**6.0**	**2.9**	**7**	**1.3**
Manafacturing	**344.0**	**36.9**	**6**	**3**	**4**	**12**	**4**	**0.3**	**3.4**	**1.2**	**3**	**0.8**
Food & Kind Products	36.8	1.5	0	0	1	0	0	0.0	0.0	0.3	0	0.2
Chemicals & Allied Products	86.1	4.8	0	0	1	1	1	0.1	0.3	0.4	0	0.1
Primary &Fabricated Metals	18.7	0.7	0	0	0	0	0	0.0	0.0	0.1	0	(D)
Industrial Machinery and Equipment	42.5	8.8	1	0	0	5	0	0.0	0.2	0.0	1	0.4
Electronic & Other Electric Equipment	43.4	16.0	3	2	1	5	1	0.0	2.7	0.3	1	0.2
Transportation Equipment	41.1	0.7	0	0	0	0	0	(D)	0.0	0.0	0	-0.2
Other Manufacturig	75.3	4.3	1	1	1	1	0	(D)	0.2	0.1	0	(D)
Non-manufactuirng	**900.7**	**63.6**	**4**	**20**	**4**	**11**	**4**	**11.3**	**2.1**	**1.7**	**4**	**0.5**
Petroleum	105.5	16.3	2	0	(D)	2	0	8.4	1.3	0.0	3	-0.4
Wholesale Trade	88.1	10.2	0	6	1	2	1	(D)	0.3	0.2	0	0.1
Depository Institutions	37.2	7.4	0	2	2	1	1	0.2	(D)	0.2	1	0.3
Finance, Insurance & Real Estate*	497.3	19.3	1	8	0	6	2	0.4	0.5	1.0	0	0.2
Services	79.9	2.7	0	1	1	1	0	(D)	0.2	0.0	0	0.1
Other Industries	92.8	7.6	1	3	(D)	0	0	2.2	(D)	0.3	0	0.2
						(Percent share to total)						
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Manafacturing	**28**	**36**	**59**	**14**	**42**	**51**	**48**	**2**	**57**	**41**	**39**	**63**
Food & Kind Products	3	1	2	0	6	0	1	0	0	12	1	19
Chemicals & Allied Products	7	5	3	2	9	2	19	1	5	13	6	7
Primary &Fabricated Metals	2	1	2	1	0	0	1	0	0	2	1	-
Industrial Machinery and Equipment	3	9	10	1	4	23	2	0	3	0	18	28
Electronic & Other Electric Equipment	3	15	33	8	11	21	19	0	45	10	7	12
Transportation Equipment	3	1	2	0	2	1	1	-	0	0	1	-13
Other Manufacturig	6	4	8	3	11	3	5	-	3	5	5	-
Non-manufactuirng	**72**	**62**	**41**	**86**	**38**	**49**	**52**	**97**	**36**	**58**	**61**	**37**
Petroleum	8	16	19	1	-	7	1	73	21	0	37	-34
Wholesale Trade	7	10	4	24	9	7	11	-	5	8	4	10
Depository Institutions	3	7	1	10	22	3	9	2	-	7	9	23
Finance, Insurance & Real Estate*	40	19	8	34	1	27	25	3	8	34	6	14
Services	6	3	3	2	5	4	2	-	3	-1	1	5
Other Industries	7	7	6	15	-	1	4	19	-	11	3	19

Source: U.S. Department of Commerce, Survey of Current Business (September 2001).
*/ Except depository institutions. 1/ Asia excludes Japan.

Table 10. Japanese Outward Direct Investment in Selected Asian Economies by Sector (Notification Basis, Cumulative Total of FY1951-FY2001)/1

	World	Asia	China	HK SAR	Korea	Singapore	Taiwan POC	Indonesia	Malaysia	Thailand	Philippines	India	Vietnam/3
							(Billions of U.S. dollars)/2						
TOTAL	**811.6**	**139.4**	**21.2**	**20.1**	**9.1**	**16.7**	**6.7**	**26.6**	**9.9**	**15.7**	**6.9**	**2.0**	**1.3**
Manufacturing	**269.8**	**72.0**	**15.3**	**2.7**	**4.8**	**6.9**	**4.6**	**11.6**	**7.4**	**10.8**	**4.6**	**1.6**	**1.1**
Food	26.9	3.7	0.9	0.2	0.2	0.5	0.1	0.2	0.2	0.5	0.7	0.0	0.1
Textile	9.9	5.4	1.9	0.3	0.4	0.1	0.1	1.4	0.2	0.7	0.1	0.0	0.1
Lumber&Pulp	7.3	1.5	0.2	0.0	0.0	0.1	0.0	0.6	0.3	0.1	0.0	-	0.0
Chemical	33.9	10.8	1.1	0.1	0.9	1.8	0.6	3.5	1.0	1.0	0.3	0.3	0.1
Metal	23.4	9.0	1.3	0.3	0.6	0.2	0.6	2.4	0.9	1.8	0.5	0.1	0.1
Machinery	22.4	6.0	1.9	0.3	0.5	0.8	0.3	0.2	0.5	1.1	0.3	0.1	0.0
Electrical	75.3	18.3	4.2	0.9	1.0	1.9	1.8	1.1	2.5	2.8	1.6	0.2	0.3
Transport	40.0	7.8	1.6	0.1	0.5	0.1	0.4	1.2	0.3	1.7	0.8	0.7	0.1
Others	30.7	9.6	2.2	0.4	0.6	1.3	0.6	0.9	1.4	1.1	0.4	0.2	0.3
Non-manufacturing	**560.5**	**63.7**	**6.4**	**17.0**	**3.8**	**9.7**	**1.8**	**14.9**	**2.5**	**4.0**	**2.2**	**0.3**	**0.2**
Farming&Forestry	2.5	0.5	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.0
Fishery	1.6	0.7	0.1	0.2	0.0	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0
Mining	28.6	10.7	0.0	0.0	0.0	0.0	0.0	9.6	0.3	0.0	0.5	0.0	-
Construction	5.9	2.0	0.4	0.2	0.1	0.5	0.1	0.1	0.2	0.4	0.1	0.0	0.0
Trade	78.7	12.3	1.0	5.5	0.3	2.6	1.1	0.2	0.3	1.1	0.1	0.1	0.0
Finance & Insurance	159.5	12.3	0.1	5.4	0.5	2.2	0.1	2.2	0.6	0.6	0.4	0.1	0.0
Service	89.0	12.1	2.4	2.3	2.7	1.0	0.4	1.2	0.6	0.6	0.4	0.1	0.0
Transportation	61.2	4.0	0.2	0.6	0.0	1.5	0.1	0.2	0.1	0.6	0.4	0.0	0.0
Real Estate	95.8	7.4	1.0	2.2	0.1	1.8	0.1	0.9	0.3	0.6	0.2	-	0.1
Others	7.6	1.7	1.0	0.4	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	-
Branches	10.7	3.7	0.5	0.4	0.5	0.0	0.3	0.1	0.0	0.8	0.1	0.2	0.1
							(Percent of total)						
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Manufacturing	**33**	**52**	**72**	**14**	**52**	**42**	**69**	**44**	**74**	**69**	**67**	**77**	**80**
Food	3	3	4	1	2	3	2	1	2	3	10	1	4
Textile	1	4	9	1	5	1	2	5	2	4	1	2	4
Lumber&Pulp	1	1	1	0	0	0	0	2	3	1	1	-	0
Chemical	4	8	5	1	10	11	9	13	10	7	5	13	8
Metal	3	6	6	2	7	1	10	9	10	12	7	3	9
Machinery	3	4	9	2	5	5	4	1	5	7	4	3	4
Electrical	9	13	20	5	11	11	26	4	25	18	24	11	20
Transport	5	6	8	0	6	1	7	5	3	11	11	33	9
Others	4	7	10	2	6	8	9	3	14	7	5	12	22
Non-manufacturing	**69**	**46**	**30**	**84**	**42**	**58**	**27**	**56**	**25**	**26**	**31**	**15**	**15**
Farming&Forestry	0	0	0	0	0	0	0	0	0	1	1	0	1
Fishery	0	1	0	1	0	0	0	1	1	0	0	0	0
Mining	4	8	0	0	0	0	0	36	3	0	7	2	-
Construction	1	1	2	1	1	3	1	0	2	3	1	0	1
Trade	10	9	5	27	4	16	16	1	3	7	1	3	0
Finance&Insurance	20	9	1	27	6	13	1	8	6	4	6	4	1
Service	11	9	11	12	30	6	6	5	6	4	5	5	3
Transportation	8	3	1	3	0	9	1	1	1	4	6	0	2
Real Estate	12	5	5	11	1	11	2	3	4	4	3	-	7
Others	1	1	5	2	0	1	0	0	0	0	0	0	-
Branches	1	3	2	2	6	0	4	0	0	5	1	8	5

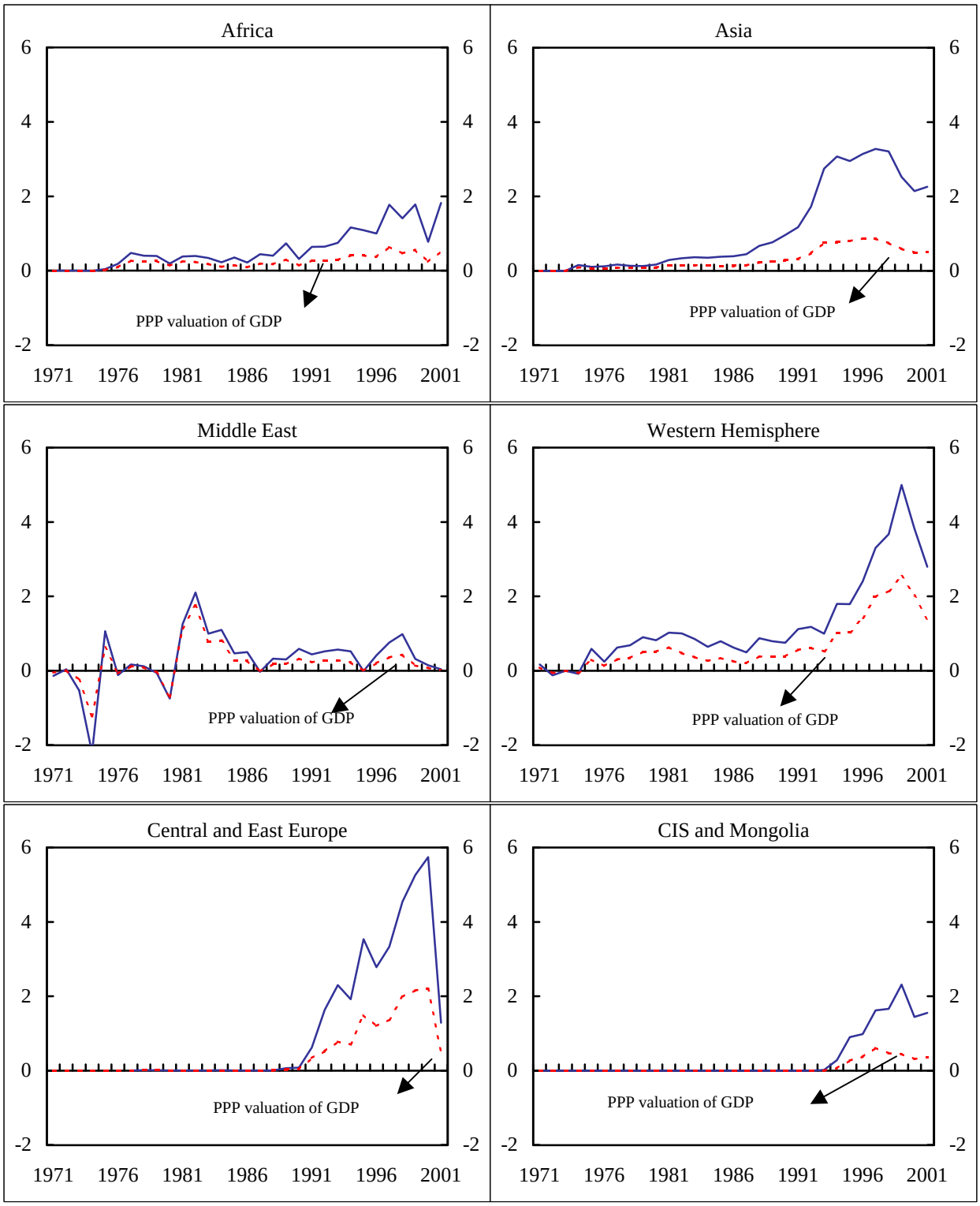
Sources: Japan Ministry of Finance; IMF, International Finanical Statistics.

1/ Fiscal year begins in April and ends in the following March.

2/ Figures before FY 1991 are released in U.S. dollars. Figures since FY 1991 are converted from yen to U.S. dollars based on average yen-dollar rate for each fiscal year compiled from IFS.

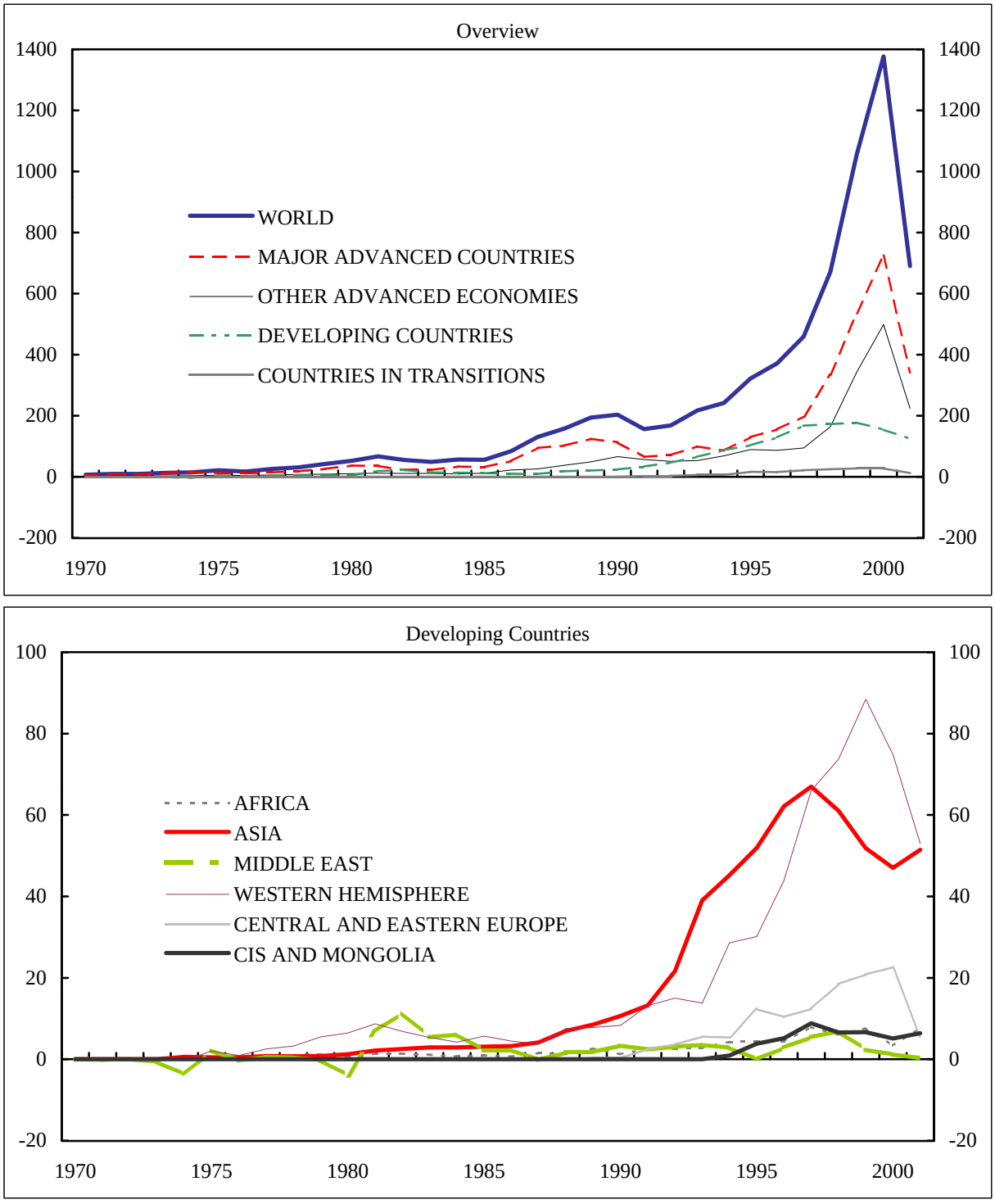
3/ For Vietnam, the cumulative total is from FY 1989 to FY2001.

Figure 1. FDI inflows as a percentage of gross domestic product (1971-2001)
(Percent)



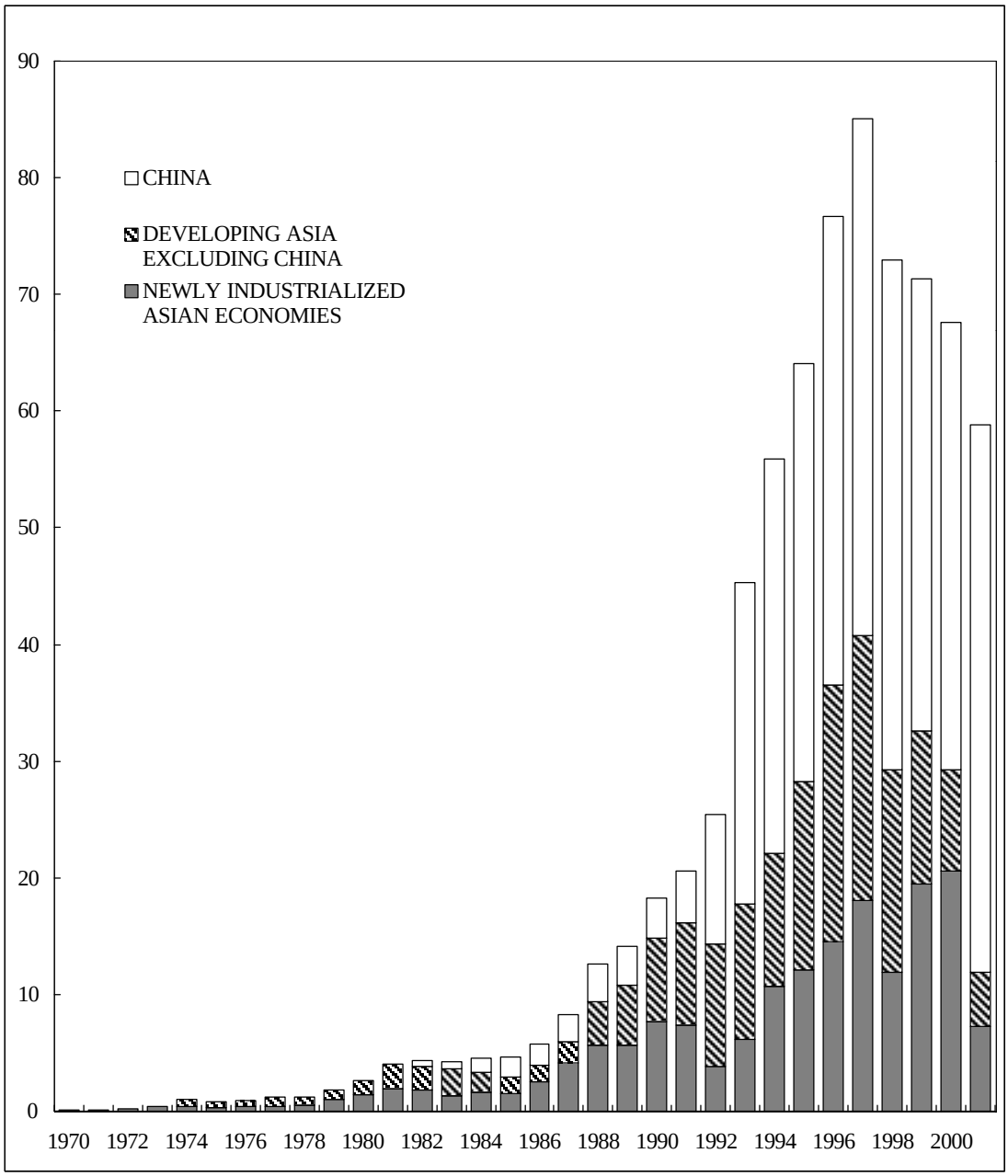
Source: IMF International Financial Statistics; WEO database; others

Figure 2. FDI inflows by region (1970-2001)
(In billion U.S. dollars)



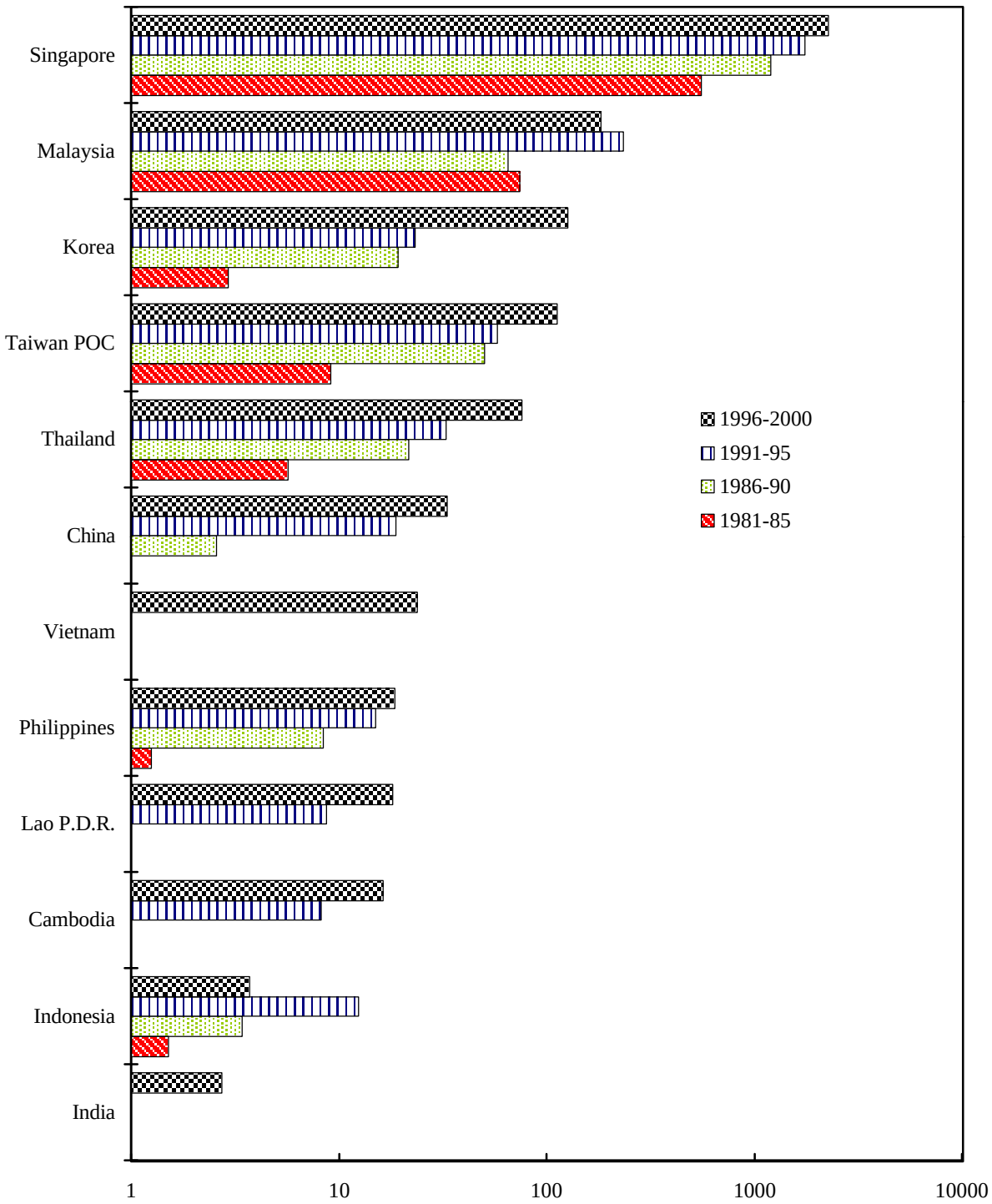
Sources: IMF, International Financial Statistics; and national sources.

Figure 3. FDI inflows in the Asian region (1970-2001)
(In billion U.S. dollars)



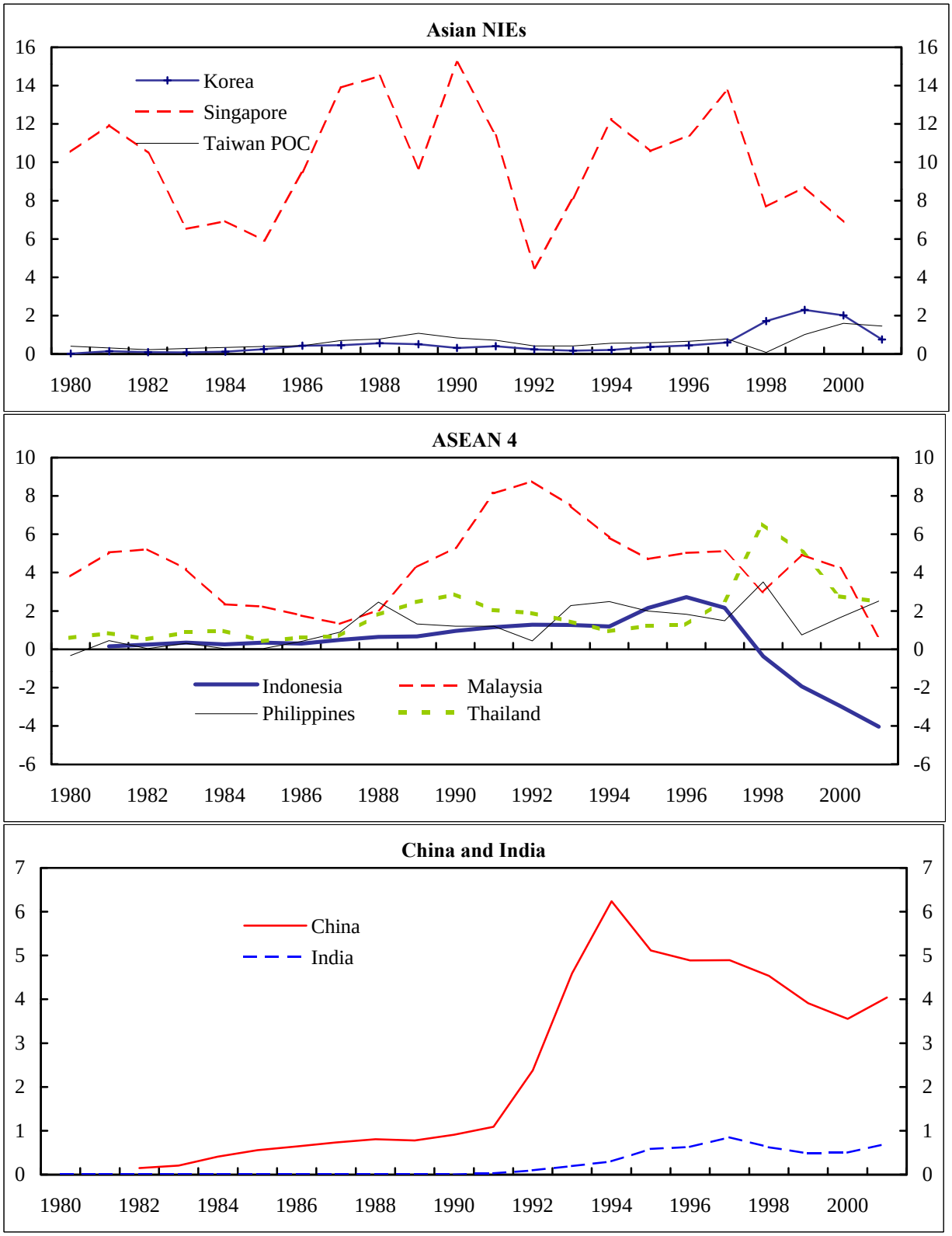
Source: IMF, International Financial Statistics; and national sources.

Figure 4A. FDI Inflows per capita
(In U.S. dollars)



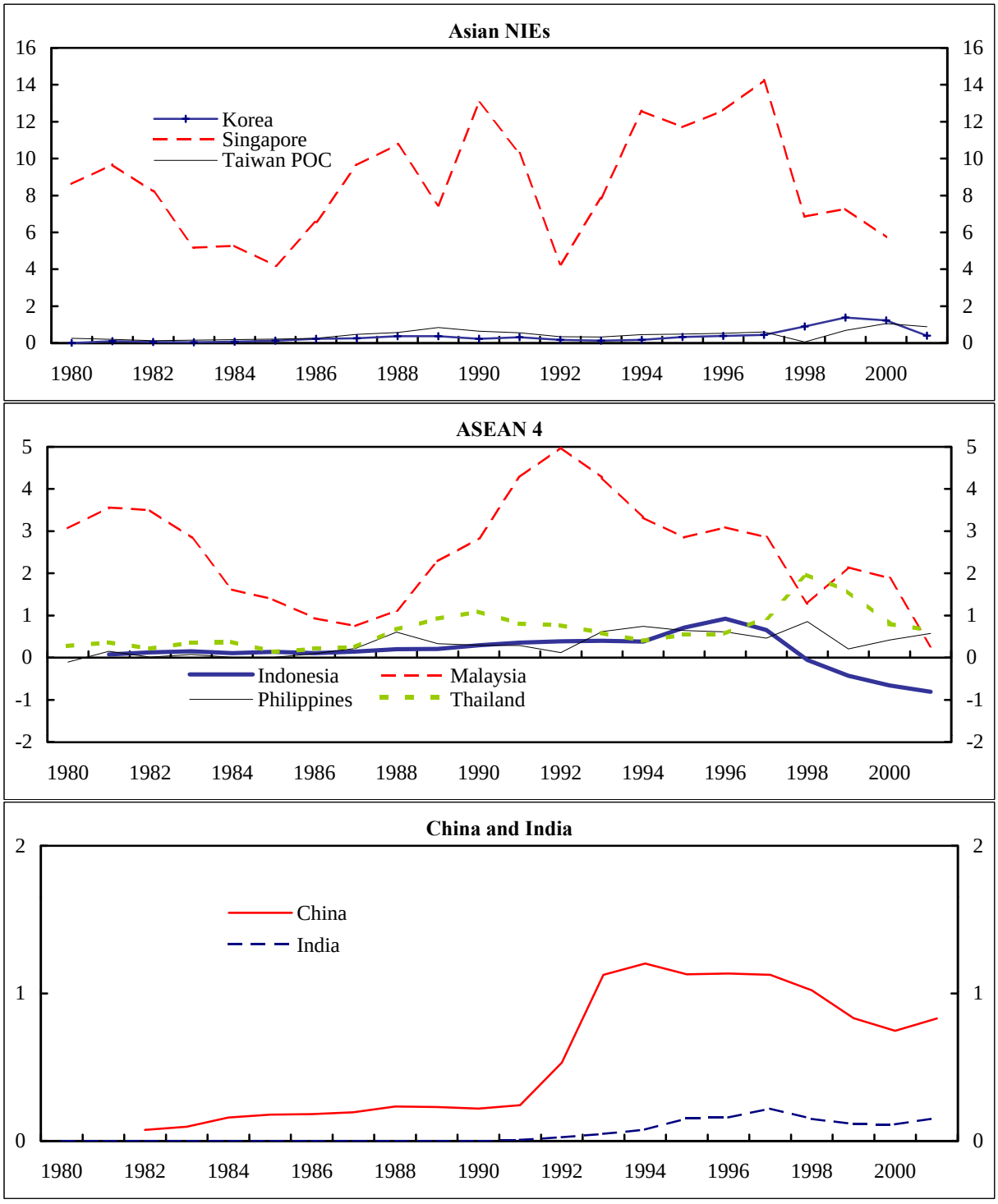
Sources: IMF, International Financial Statistics; WEO database; IMF country reports; and national sources.

Figure 4b. FDI inflows as a percentage of GDP



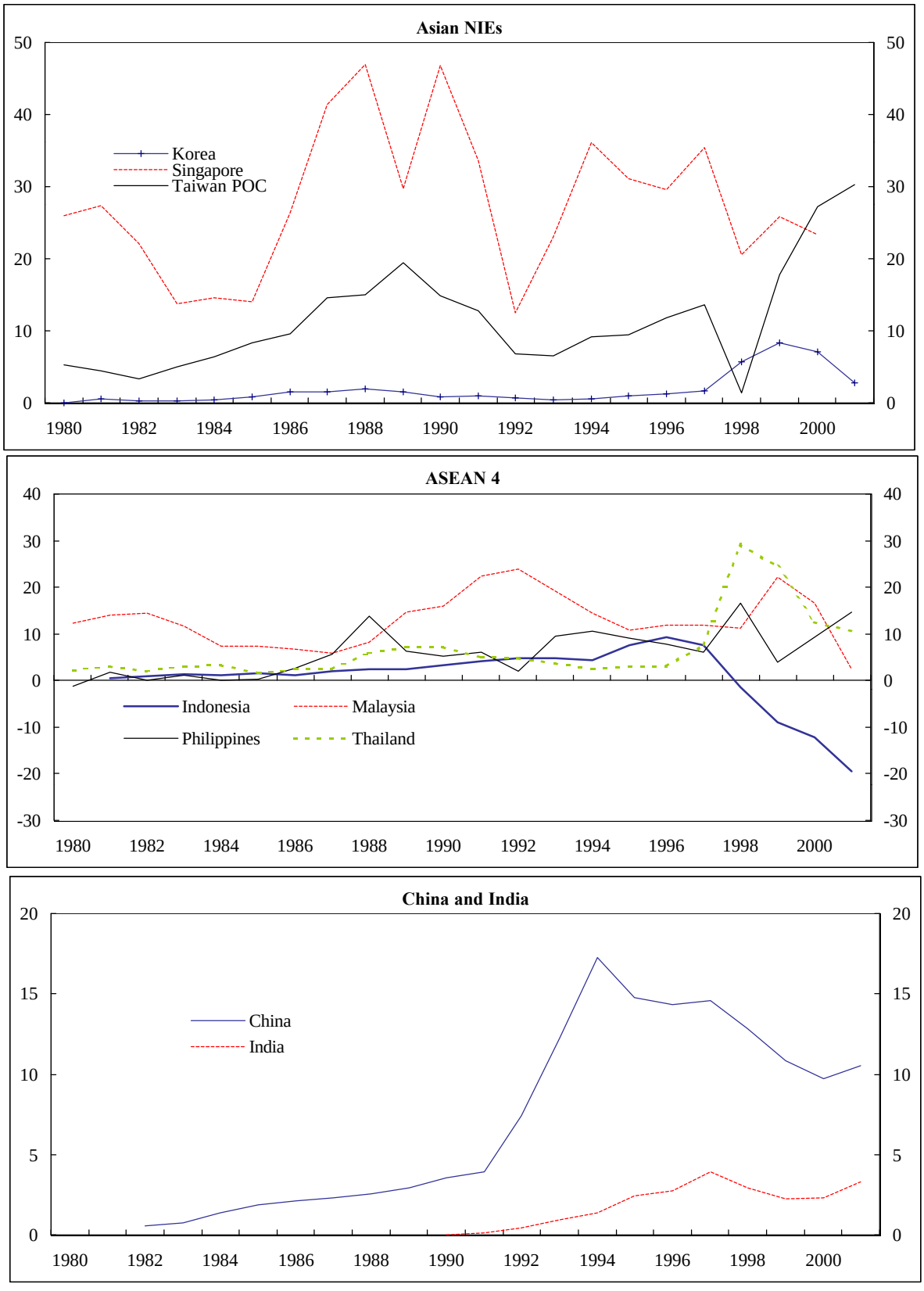
Sources: IMF, International Financial Statistics; WEO database; IMF country reports; and national sources

Figure 4c. FDI inflows as a percentage of PPP valuation of GDP



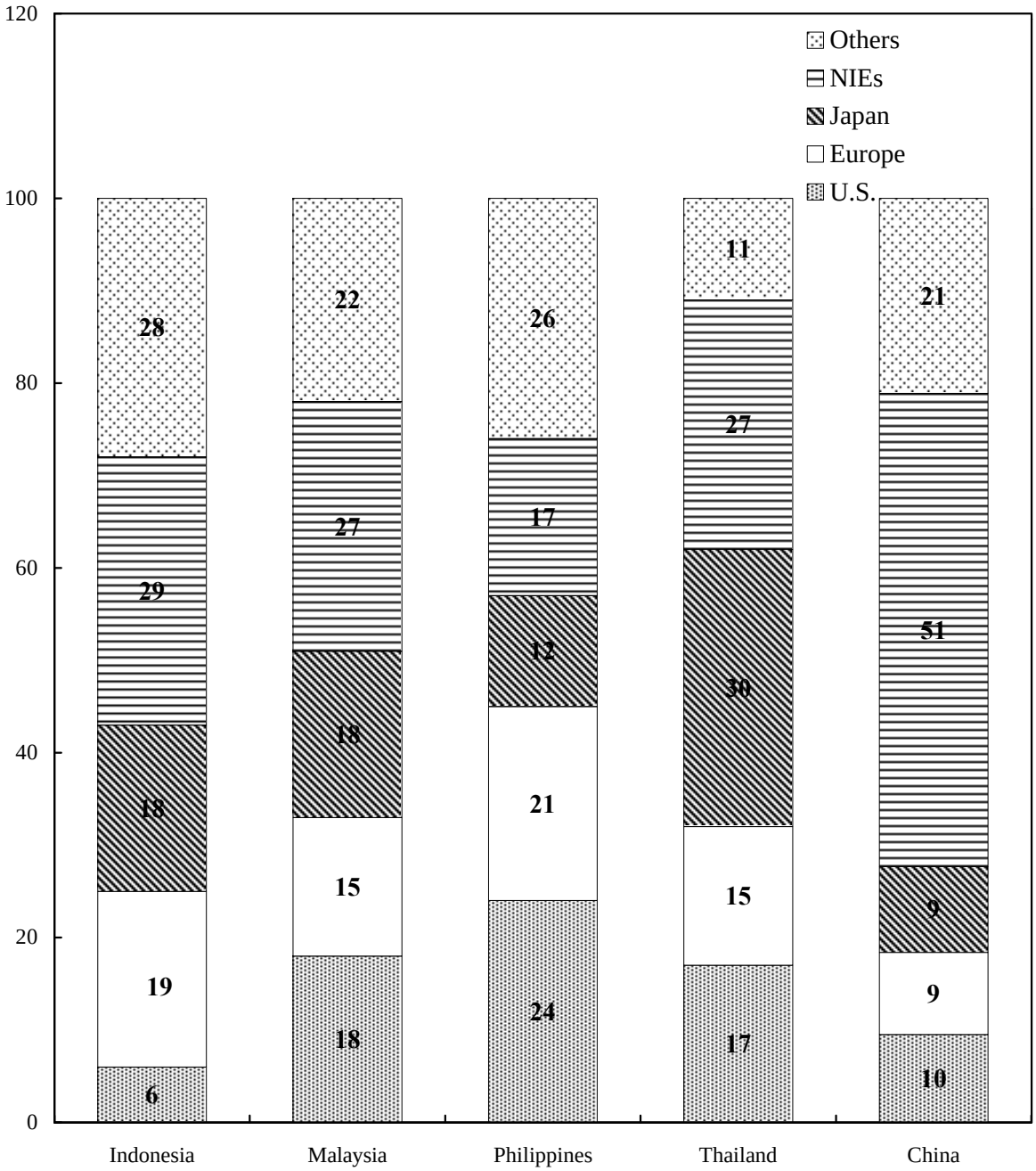
Sources: IMF, International Financial Statistics; WEO database; IMF country reports; and national sources.

Figure 4d. FDI inflows as a percentage of gross fixed capital formation



Sources: IMF, International Financial Statistics; WEO database; IMF country reports; and national sources.

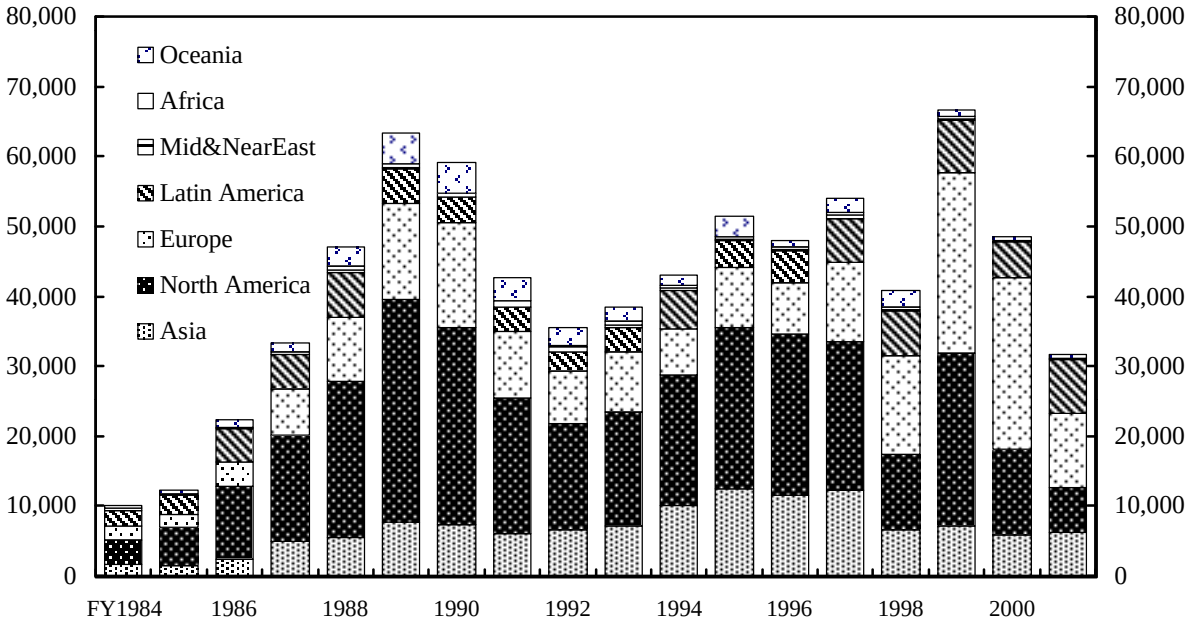
Figure 5. FDI inflows in ASEAN-4 and China by Source Country/Economy
(Percent share of total)



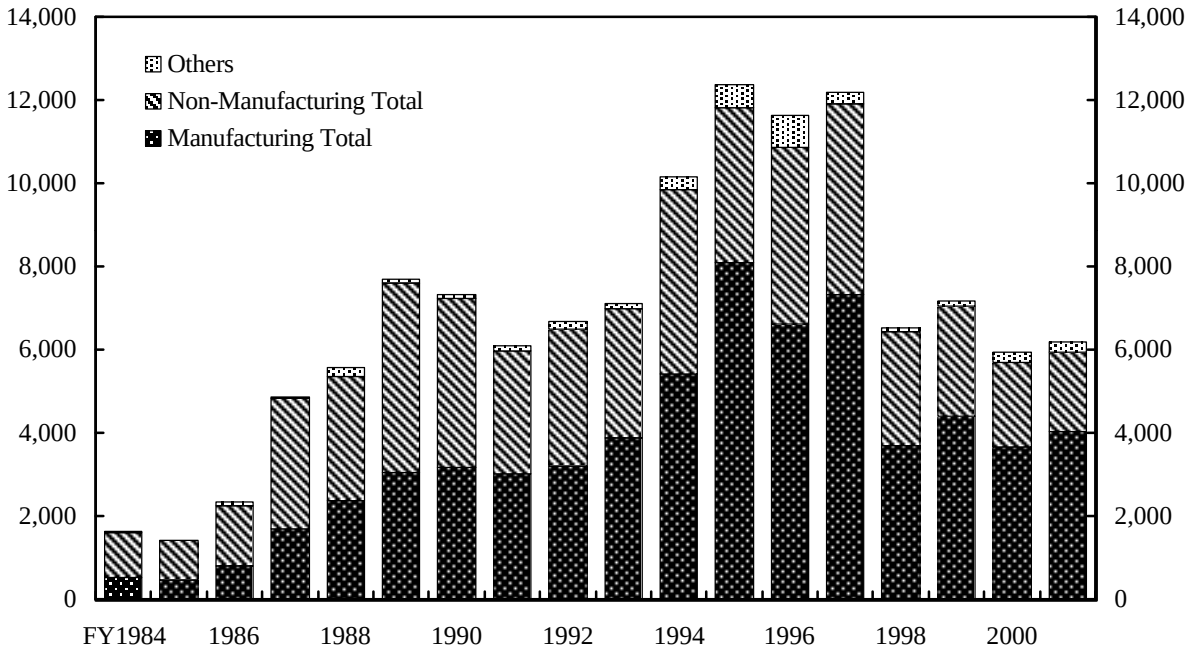
Source:Source: National goverments (CEIC).
1/ Indonesia: Cumulation of implemented FDI in 1968-1999.
2/ Malaysia :FDI approved in 1991-2000.
3/ Philippines: FDI approved by Board of Investment in 1968-2000.
4/ Thailand : Net flows of FDI by Bank of Thailand in 1970-2001.
5/ China: Foreign direct investment utilized up to end-2001.
6/ NIEs comprise Hong Kong SAR, Korea, Singapore and Taiwan POC.

Figure 6. Japanese FDI outflows
(Millions of U.S. dollars)

By Region



To Asia by Sector



Source: Japan , Ministry of Finance (notification basis)