

Characteristics of Trade and FDI in Asia and Their Implication for EiSMAP

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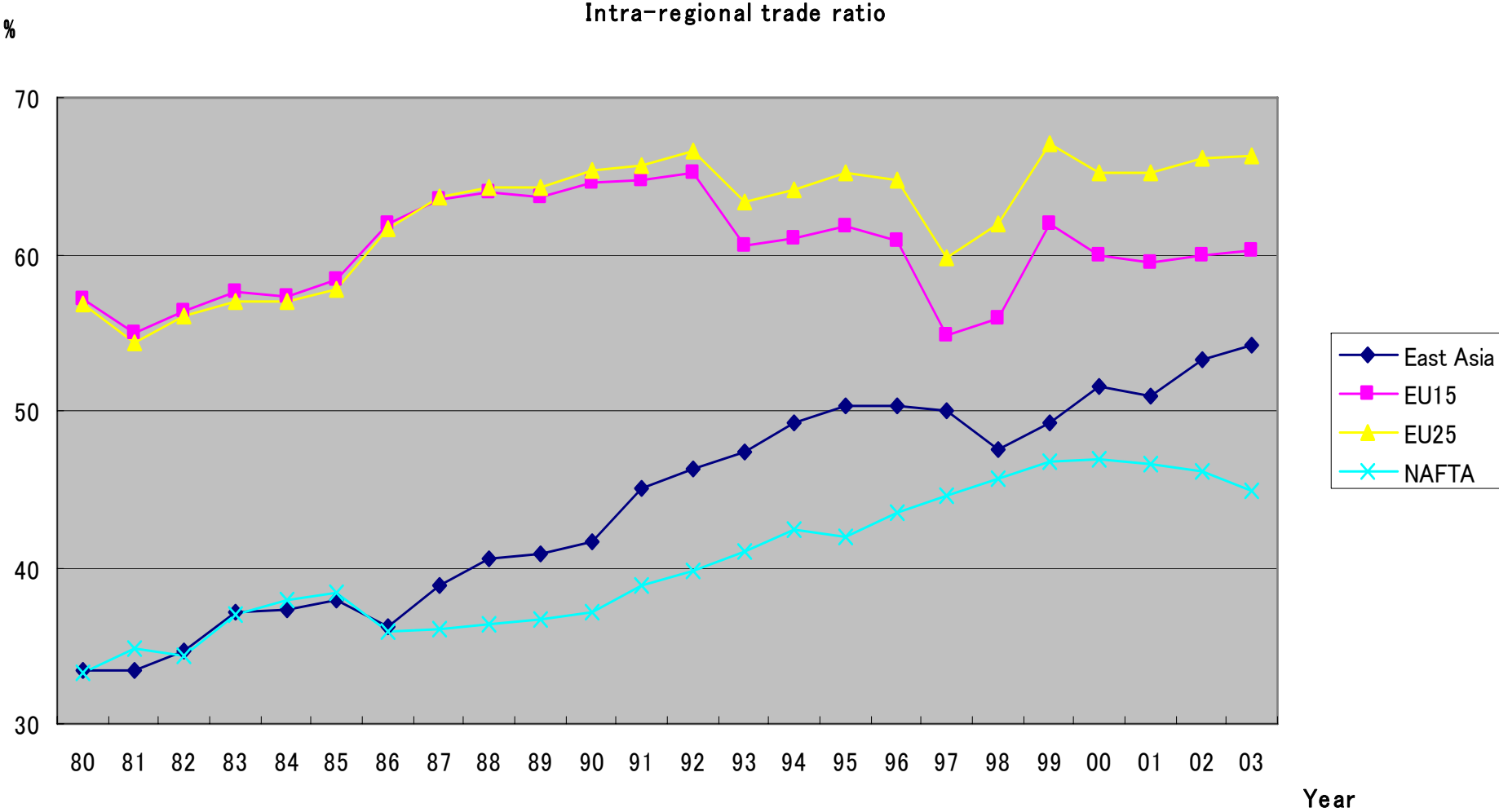
Scope and perspective of my presentation

- Macro-oriented than micro
- Focus on Asia, and East-Asia in particular
- A Japanese perspective

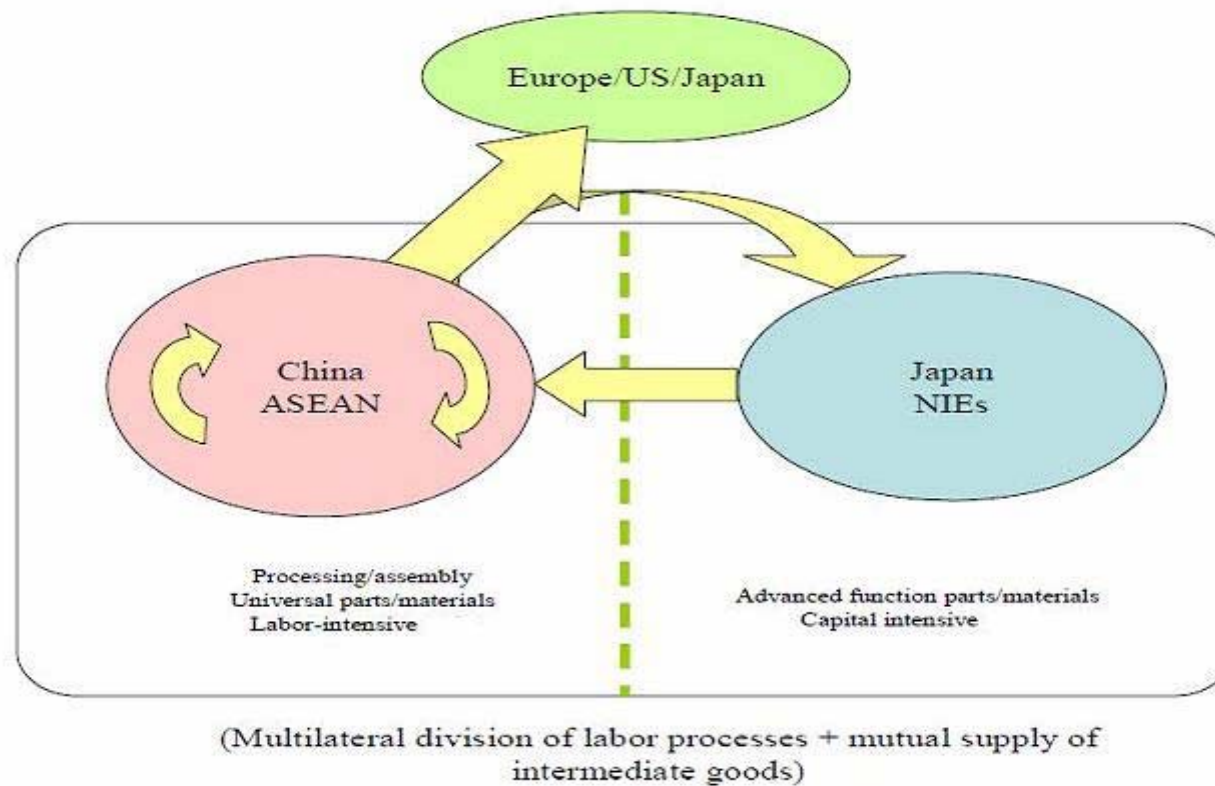
Characteristics of Trade Patterns in East Asia

- (1) Increasing intra-regional trade
- (2) Formation of regional production network by TNCs
- (3) Rising triangular trade
- (4) Emergence of China as a major exporter/importer and FDI source/recipient

Increasing intra-regional trade in East Asia

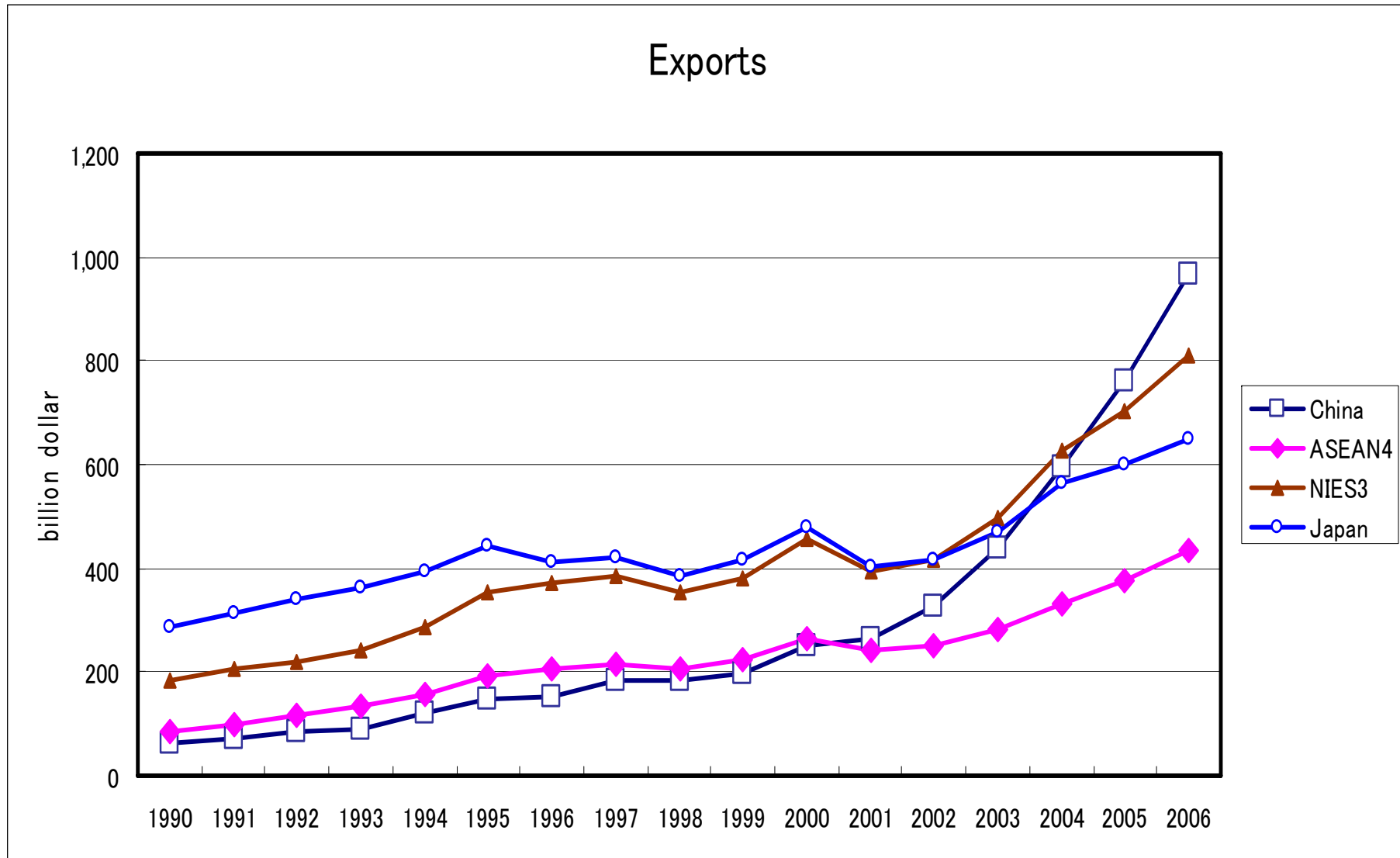


Rising triangular trade: A recent trend

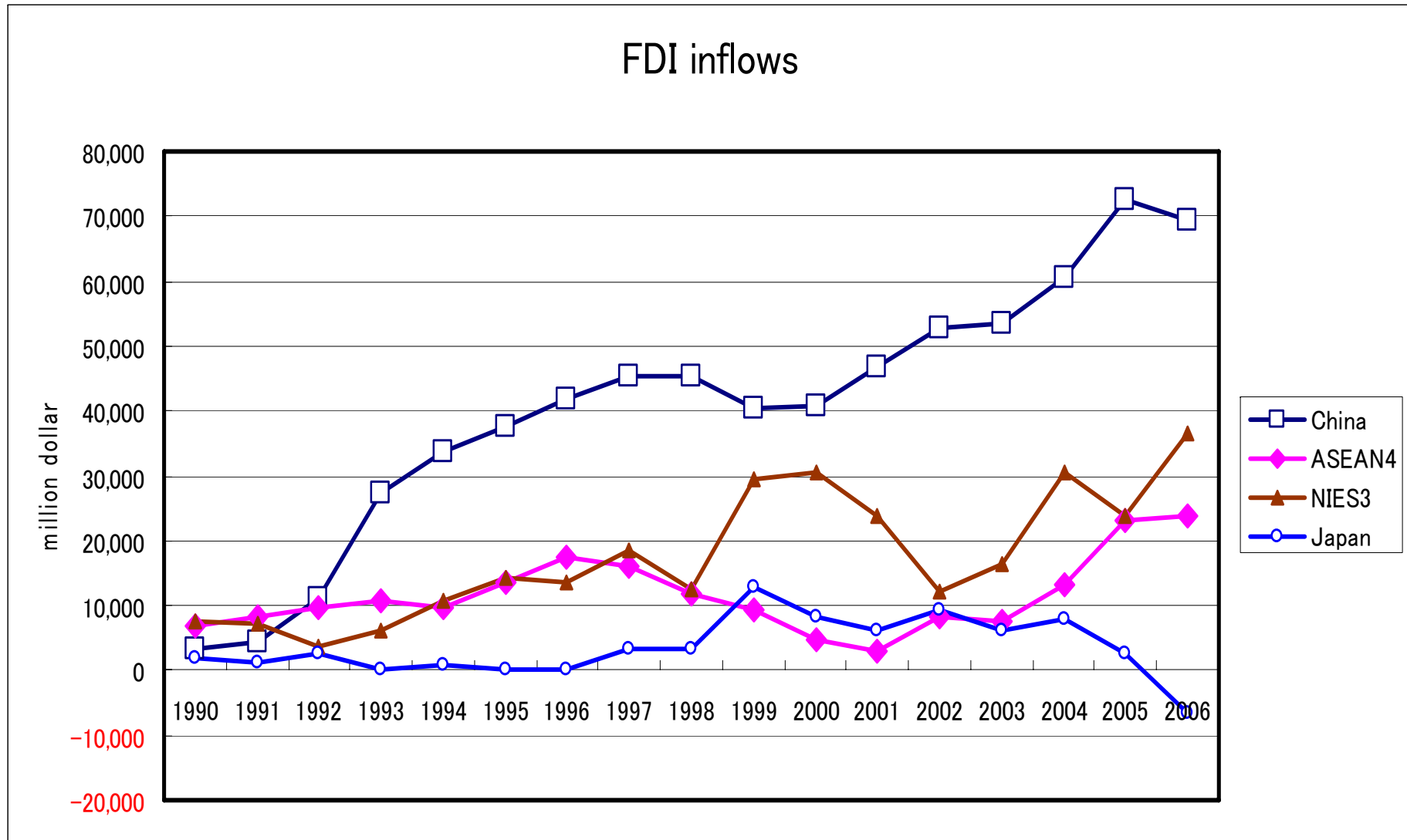


Source: METI.

Exports of East Asia



FDI inflows to East Asia



Trade creation effect of FDI

- The trade creation effect is particularly large in developing Asia



A relatively large share of cost-pursuing export-base type manufacturing FDI, particularly from the U.S. and Japan, and a relatively small share of domestic market-oriented manufacturing FDI

Why developing Asia attracts such manufacturing FDI?

- More liberal trade regimes (export-oriented policies = low import barriers etc.)
- Relatively small individual local markets (except for China)
 - Compared with, say, Latin America -

A more recent trend in FDI

- Emergence of competitive indigenous companies in developing Asia



An increase in outward FDI from developing Asia

[UNCTAD World Investment Report 2006]

Impact of FDI on host countries

- Transfer of capital, technology and modern business method
 - Job opportunities
 - Integrated into regional production networks
- ⇒ Economic Development
Economic Growth

IT revolution and technology transfer

- In some cases, technology can now be transferred to host countries more easily



IT revolution and digitization have made some production techniques less obscure and more explicit

Policies needed for host countries to attract FDI

Figure Business risks in each country (Unit: %)

	China (n=596)	Thailand (n=353)	Indonesia (n=238)	Malaysia (n=245)	Philippines (n=177)	Singapore (n=244)	Vietnam (n=236)	India (n=201)
Political/social unrest	41.3	28.3	50.4	3.3	52.5	0.8	9.7	15.4
Incomplete legal system or problems with operation	59.9	5.9	28.2	6.5	13.0	0.0	32.2	35.3
Problems with protection of IPR	59.2	6.2	9.2	4.1	9.0	1.6	11.9	13.9
Risks and problems concerning taxes	33.2	7.6	15.5	6.5	7.3	2.0	10.2	17.9
High foreign exchange risk	20.5	9.1	23.5	5.3	7.9	3.3	8.5	6.5
Undeveloped infrastructure	21.6	7.4	29.8	7.8	32.2	0.0	47.9	57.2
High or rising personnel costs	28.4	20.4	5.5	13.9	4.0	39.3	5.1	3.5
Lack of concentration or development of related industries	4.7	6.2	15.1	12.7	20.9	3.7	31.4	18.4

Notes: 1. Population parameter (n) shows the number of companies with current business relations, or those seeking business relations.

2. Response rates are color coded - 40% and above are colored pink, between 20 and 40% are colored yellow, between 5 and 20% are white, and below 5% are colored cyan.

Source: *Questionnaire Survey on Foreign Business Activities by Japanese Companies FY2006*, (2007)(JETRO).

International cooperation

- Trade and FDI liberalization has played an important role in promoting production network building by TNCs and in expanding intra-regional trade
 - unilateral lib. → bilateral FTAs → plurilateral and regional FTAs
- In the future, high-quality FTAs and global liberalization under WTO will be important factors

Implication for EiSMAP coverage (1)

(1) Directly related areas

- Trade
- FDI

(2) Impact on host countries

- Employment
- Productivity
- Competitiveness
- GDP

Implication for EiSMAP coverage (2)

(3) Domestic economic and policy conditions

- Wages
- Infrastructure
- Intellectual property rights
- Trade and FDI barriers

(4) International cooperation

- FTA