World Investment Trends and New Directions in the Asia/Pacific Region

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Thank you very much Mr. Chairman, and good morning ladies and gentlemen. My topic is "World Investment Trends and New Directions in the Asia/Pacific Region". More specifically, I would like to focus first on the importance of foreign direct investment (FDI), and then, secondly, on competition in the world market for FDI, both as far as TNCs (and especially transnational corporations (TNCs) in Asia) and governments are concerned. My presentation is based on the *World Investment Report* which is published annually by Division on Transnational Corporations and Investment of UNCTAD, the focal point within the United Nations for all matters related to FDI and TNCs.

Ladies and gentlemen,

In today's world economy, FDI has become the principal vehicle for bringing goods and services to foreign markets. This has been the result of the rapid rise of FDI as undertaken by over 38,000 TNCs—firms that control assets abroad, most of which headquartered in developed countries. Cumulatively, FDI flows have reached a total of $2.1 trillion in book value, a stock that, in 1992, produced about $5.8 trillion in sales. If one compares these $5.8 trillion of world sales of foreign affiliates with the $4.7 trillion of world exports, one can only conclude that, indeed, FDI has become the most important way to bring goods and services to foreign markets.

This capacity to produce abroad is growing constantly: FDI flows reached over $200 billion in 1994, about four times as much as during the early 1980s.

Japan, however, which had become the largest foreign investor by the end of the 1980s, has slipped back in the years since then to fourth place, although outflows from Japan are beginning to recover again. Japan, therefore is joining the rank of those countries that are leading us out of the FDI recession which we experienced during the first two years of the 1990s. *Among the developed countries*, the recovery from the FDI recession was led by firms from the United States, the United Kingdom and France which, like TNCs from other developed countries, concentrate most of their activities in other developed countries.

Among the developing countries, the recovery from the FDI recession was led by Asia and Latin America. In fact, even during the FDI recession, inflows to these two regions continued to increase, as a result of which developing countries as a group received 40 per cent of world investment flows in 1994—a historic high, indeed. This indicates that developing countries have become very attractive investment locations, reflecting high economic growth rates, successful efforts to establish stable macroeconomic policies, progress in liberalizing trade and investment regimes in the context of a greater outward orientation of their economies and the successful implementation of privatization programmes. In fact, a number of developing countries, especially in Asia, are themselves becoming outward investors: in 1994, FDI outflows from the developing countries as a group were about as high as FDI outflows from Germany.

Among the developing countries, Asia alone attracted about two-thirds of all flows to developing countries. The highlights are:

— China particularly successful: it attracted $28 bn in 1993. $30 bn in 1994. Although approval data declined in 1994, China will remain a very attractive investment location
— At the same time, FDI flows to ASEAN countries continued to increase, even though a number of the countries are becoming more selective with respect to the kind of FDI they seek to attract, focussing especially on technology-intensive FDI.
— Finally, the countries to watch are India, Viet-Nam and Indonesia, the second- or third-tiers of countries in the flying geese formation that characterizes tandem economic development in Asia. If the discussions in the framework of APEC should be successful–and I am sure we all hope that they will–APEC would create a liberal framework for FDI in the region, thus increasing the stability, predictability and transparency of national FDI regimes. This, in turn, would further stimulate investment flows into the region.

At the same time, the FDI market in Asia is likely to become more competitive as far as TNCs are concerned. Two reasons are particularly noteworthy:

1. TNCs from the European Union have so far largely neglected the Asian developing countries: today, only some 4 per cent of the total FDI stock of the European Union, and about 3 per cent of the Union's FDI outflows are directed towards Asia. (The share of exports is not much bigger.) Compared to Europe, Japanese TNCs give four times as much attention to developing countries in Asia, and United States TNCs two-to-three times as much attention to developing Asia than European Union TNCs. To give you some concrete examples:

   — Germany's FDI stock in developing Asia is about half the size of its stock in Spain, and Germany's flows to Asia are less than Germany's flows to Austria.
   — In the case of the United Kingdom, the country's FDI stock in developing Asia is about that in Australia, while flows to that region are about the size of flows to Spain.

   However, there are strong signs that EU firms are changing course: outflows to Asia, especially China, are rising, encouraged by the European Commission, as well as national governments. The principal instruments are: information on FDI opportunities and investment conditions; facilitation of business cooperation through European Business Information Centres; and support to TNCs, including financial support to SMEs.

2. The second reason why the FDI market in Asia is becoming more competitive is the rise of TNCs from Asian developing countries, especially NICs, but also China. Indicators are:

— The share of FDI from developing Asian countries in total FDI inflows of Asian countries increased from about 30 per cent in 1980 to 45 in 1993. In other words: almost every second FDI dollar in developing Asia comes from another developing country in the region.
— In fact, the Republic of Korea and Taiwan Province of China (and possibly Singapore) are net-outward investors.
— Telling is also that FDI inflows to Japan decreased in 1993 from all groups of countries, excluding the Asian NICs.

My conclusion is therefore, that FDI competition among TNCs in developing Asia will increase, as a result of the "discovery" of Asia by EU TNCs, the continuing increasing engagement of United States TNCs in the region, and the growth of TNCs from Asian developing countries. In a sense, this is not surprising since Asia is, after all, the most dynamic region worldwide in terms of economic growth.

But competition in the world market for FDI is also fierce among governments worldwide to attract FDI:

1. Most governments try to get their macro-economic frameworks right, primarily to stimulate domestic investment, but also to attract foreign investment.

2. Moreover, as part of the policy competition to attract FDI, FDI frameworks worldwide are converging around broadly similar standards. These standards typically permit the right of establishment, provide for national treatment, guarantee protection against nationalization, allow international arbitration in case of disputes, and permit the free transfer of earnings. In the highly competitive world market for FDI, countries wanting to attract such investment have to establish policy frameworks that incorporate most if not all of these standards.

3. Beyond establishing appropriate legislation for FDI, more and more governments are also trying to become more efficient in the administrative implementation of their regulatory frameworks. The principal aim here is to reduce, so to speak, "the hassle costs" of doing business.

4. Beyond that, governments need to pay more attention to the improvement of infrastructure and training. Infrastructure needs are particularly high. Countries have to explore all possibilities—including privatization, FDI and BOT schemes—to ensure that their infrastructure is adequate for modern business—domestic and foreign alike, I may add. Finally, competition in the world FDI market is further intensified by the support home country governments give to "their" TNCs, to assist them in establishing themselves abroad.

In other words: in the highly competitive world market for FDI, "best practices" by one government in respect to FDI and the treatment of TNCs rapidly become "benchmarks" for other governments. And such benchmarking among governments is particularly relevant in a regional context.

To conclude:

Competition among TNCs and competition among governments are the dominant characteristics of the world FDI market in general and the Asian FDI market in particular. It is therefore perhaps appropriate to close with an African proverb: "Each gazelle that gets up at dawn in Africa knows that it has to run faster than the fastest lion if it wants to survive. At the same time, each lion that gets up at dawn knows that it has to run faster than the slowest gazelle in order to survive." The point is, I suppose, that it does not matter whether you are a gazelle or a lion: if you want to survive, you better get up in the morning and run as fast as you can.

Thank you very much for your attention.

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