

**JANINA WITKOWSKA \***

---

**Foreign Direct Investment Between Asian Developing Countries  
and the EU Member States: The Role of Integration Processes**

**Abstract**

*This article discusses the conditions surrounding the flow of foreign direct investment (FDI) between the developing countries of Asia (East Asia, South-East Asia, Southern Asia, and Western Asia) and the countries with membership in the European Union (EU), including the so-called 'new' Member States (EU12). At the intra-regional and inter-regional levels, the flow is especially affected by the world economic crisis, which has effected changes in the positions of the analyzed countries on a global scale. The integration processes taking place in the EU also significantly affect the intensity of FDI flow within the group, while the processes taking place in the developing countries of Asia are not yet sufficiently enough advanced to significantly affect the flow of FDI. Inter-regional FDI flows take place between the subject regions and sub-regions. The observed phenomenon of emerging Asian net exporters of capital in the form of FDI to the European Union may be strengthened by the process of Asian integration. For the new EU Member States the developing Asian countries may constitute an alternative source of capital in the crisis conditions.*

---

\* Ph.D., Full Professor at the University of Łódź, Faculty of Economics and Sociology, Department of World Economy and European Integration

## **1. Introduction**

The developing countries of Asia, similar to the new EU Member States (EU12), are net importers of capital in the form of foreign direct investment (FDI). The global financial crisis however has changed the position of both groups in terms of global FDI flows. The developing countries of Asia have experienced a growing interest of part of foreign investors during this time, while the EU Member States have witnessed a decrease of FDI inflows. Some Asian developing countries have in turn been emerging as significant investors abroad. The new EU Member States could be treated as a potential location for their FDI outflow. At the same time European firms are trying to enter into Asian economies using the FDI mode of entry.

The main objective of this paper is to analyze the scale of intra- and interregional FDI flows between Asian developing countries and the EU Member States, as well as to evaluate the role of the integration processes as one of the factors influencing these flows. The more detailed research tasks are as follows:

- to analyze the changing position of the developing countries of Asia and the EU Member States both as recipients of FDI from investors abroad as well as foreign investors in their own right under the conditions of the global financial crisis;
- to examine the role of intra-regional integration processes in encouraging FDI flows within regions (the Single European Market, the ASEAN Economic Community);
- to characterize the scale and dynamics of the inter-regional FDI flows between Asian developing countries and the EU Member States;
- to evaluate the impact of the European integration processes on the motivations of investors for inter-regional FDI flows between the analyzed groups of countries.

## **2. FDI stocks and flows under the conditions of the global financial crisis: the position of the developing countries of Asia and the New EU Member States**

The global financial crisis has brought about a decline in accumulated global FDI assets (FDI stocks) as well as the annual global FDI flows. In 2008, for the first time since 1980 (that is, since the time when data concerning FDI flows on the global economic scale became available), there was a decline in the absolute scale of accumulated FDI flows. While for 2007 the estimated global

FDI inward stock was 17.9 trillion USD, the same figure for 2008 was only 15.5 trillion USD, i.e. a 13.7% decline (UNCTAD data base and own calculations). This data indicates a significant disinvestment in 2008. The same trend could be observed in the global FDI outward stock. In 2008 it was 15.2% less than in the previous year. The years 2009-2011 witnessed a return to growth trends, both with respect to FDI inward and outward stocks, which at the end of 2011 reached levels higher than the pre-crisis levels.

The group of countries which are the subject of this article felt the effects of the crisis in various ways. As a group, both the **European Union** as well as **the developing countries of Asia** noted a significant decline in FDI inward stocks in 2008 as compared to the previous year, by 13.3% and 10.6% respectively. However, for **the new Member States of the EU** this decline was small, at 0.6% (UNCTAD data base and own calculations). In the years 2009-2011, when an incremental recovery of FDI inward stock took place on a global scale, the situation of the analyzed group of countries began to differentiate. The European Union as a whole, following a rebound in 2009 of 10.1%, experienced a subsequent period of stagnation in FDI inward stock. The **new Member States of the EU** experienced a similar dynamic with respect to FDI inward stock. At the same time, **the developing countries in Asia** experienced significant growth overall in their FDI inward stock in the years 2009-2011, amounting to 20.4%, 19.4%, and 7.3% respectively. It should be noted that the growth of 7.3% in 2011, while a representing decline from the previous two years, was still significantly higher than the global average, which was 2.7% (See Graph 1, UNCTAD data base and own calculations).

The dynamics of the FDI outward stock from the analyzed countries was also differentiated. In 2008 there was a decline in FDI outward stock originating in and coming from the EU 27 countries as well as the developing countries of Asia with respect to the previous year, although the 'new' EU12 Member States experienced a 15.5% growth rate during this time (See Graph 2, UNCTAD data base and own calculations). The following years witnessed a steady recovery of the dynamic in the developing countries of Asia (increases of 15.4%, 16%, and 12.7% respectively for 2009-2011). In the EU 27 there was a decisive increase in the FDI outward stock only in 2009, when it amounted to 12.3%, while in subsequent years the increases were only very slight. On the other hand, the new Member States of the EU (EU 12) continued to record significant increases in such FDI, ranging between 12.3% - 9.9%.

In the prevailing financial crisis situation, the changes in the growth/decline rates in the global FDI inward and outward stocks led to a changes in the overall accumulation of FDI in the world economy. This is reflected in the shares of the countries subject to this analysis in overall

accumulated global FDI. In 2007, the share of the entire EU in global FDI inward stock was 41.9%, while the 'new' EU12 countries accounted for only 3.4% and the developing countries of Asia 16.2%. In 2011 the respective shares of the same regions in global FDI inward stock was 35.6% for the entire EU, 3.3% for the EU12, and 19.5% for the developing countries of Asia (UNCTAD and own calculations). So in comparison to the pre-crisis situation, the share of the EU27 in as a whole in global FDI inward stock **decreased by 6.3** percentage points while the share of the 'new' EU12 **decreased only slightly (0.1** percentage points), and the share of the developing countries of Asia **increased by 3.3** percentage points (UNCTAD and own calculations).

The positions of the analyzed groups also changed with respect to global FDI outward stock. In 2007, the share of the entire EU in global FDI outward stock was 45.3%, while the 'new' EU12 countries accounted for only 0.4%, and the developing countries of Asia 9.5%. In 2011 the respective shares of the same regions in global FDI inward stock was 43,5% for the entire EU – a **decrease of 1.8** percentage points, while the EU12 **increased its share by 0.2** percentage points, and the developing countries of Asia **increased their share by 2.7** percentage points (UNCTAD and own calculations).

Thus in sum the engagement of the EU as a whole with foreign direct investment decreased, which means the crisis caused the EU to be a less attractive location for foreign investors, while at the same time investors in the EU were less inclined to invest abroad. While the 'new' EU12 countries share in global FDI stocks is still very small, it's worth noting that that the decrease in the global FDI inward stock which they experienced in comparison to the pre-crisis level was minimal, and that EU12 investors increased their investment abroad.

Capital flows in the form of FDI are particularly sensitive to changes in the economic growth rates which can be seen in the changes – sometimes significant – **in the annual FDI flows**. Twice in the last two decades record levels were recorded in the annual FDI flows, i.e. in 2000 and 2007, in both instances followed by drastic declines. The **changes in the annual FDI flows in the global economy** for the years 2004 – 2011, including those of the analyzed countries, are set forth in Graphs 3 and 4.

In the world economy, drastic declines in the FDI flows, both incoming and outgoing, were recorded in the two consecutive years 2008 and 2009. The scale of the collapse is demonstrated by the fact that in 2009 the global FDI inflows constituted only 60% of the pre-crisis level, while the same figure for the global FDI outflows was only 53% (UNCTAD data base and own calculations). Taking into consideration the two groups of countries subject to this analysis, it can be seen that the EU countries as a whole were particularly

hard hit by the crisis, recording drastic declines for three consecutive years. The FDI inflows to the EU as a whole declined in 2010 to only 37% of its pre-crisis level, while the FDI outflows from the EU declined to 33% of its pre-crisis level. The same figure for the EU12 was about 50% (UNCTAD and own calculations).

In this context the situation of the developing countries of Asia was diametrically opposite. While it's true they felt the decline in FDI inflows, their decline was only 12.9 percentage points and only for 2009. In the following years the level of FDI inflow was greater than before the crisis. In 2011 the developing countries of Asia received 423.2 billion USD in FDI, and this stream was larger than that which was absorbed by the EU27 (420.7 billion USD).

The stream of outgoing FDI from the developing countries of Asia declined only slightly in the years 2008 and 2009, by 2.2 percentage points and 5.5 percentage points. It should be noted that the absolute level of the FDI outflow from the developing countries of Asia in 2012 constituted one-half of the same stream flowing out of the EU27 (UNCTAD data base and own calculations).

The above-described changes which took place during the global financial crisis for the analyzed groups of countries resulted in a change in the overall geographical pattern of capital flows in the form of FDI, strengthening the position of the developing countries of Asia. The question remains whether the structural changes described will be of a permanent nature.

### **3. Intra-regional distribution of FDI stocks and flows: the European Union and the developing countries of Asia**

The analyzed groups of countries are characterized by a high degree of differentiation internally, including the degree of their engagement in international capital flows in the form of FDI. The **European Union**, having regard to its expansions in 2004 and thereafter, was transformed into a union of countries for which it was indispensable to conduct policies of social and economic cohesion. This internal differentiation concerned not only the classic measures of cohesion, i.e. GDP per capita and levels of employment and unemployment, but also the abilities of the respective countries to attract foreign capital and their engagement in capital exports. The data shows that the new EU Member States have not yet attracted 10% of the foreign capital in the form of FDI invested in the EU as a whole (the level was 9.2% in 2011). It should be noted however during the period of the financial crisis there was a slight increase (of 1 percentage point) in the share of the EU12 in overall FDI invested

in the EU as a whole. They also increased their share in the EU FDI outward stock by 0.4%, although their overall share in this respect remains minimal (1.3% in 2011). In sum, the 'new' EU12 countries receive slightly less than 1/10<sup>th</sup> of all FDI invested in the EU, and their share of FDI exports is only slightly above 1/100<sup>th</sup> (UNCTAD data base and own calculations).

The reaction of foreign investors to the situation in particular EU Member States during the financial crisis is reflected in the changes in annual FDI inflows to particular countries. In the case of the EU12, their situation with respect to FDI inflows during the years 2008-2010 was both differentiated and subject to changes over time. In 2008 four new member states – **Hungary, Romania, Slovakia, and Slovenia** – showed an increase in FDI inflow despite the crisis. In 2009 however, these same countries all showed a decrease in the inflow of foreign capital, sometimes drastically (as was the case with Slovakia and Slovenia, which suffered from disinvestment). At the same time two countries, Cypress and Estonia, experienced growth in their inflows of FDI compared to the previous year. The year 2010 brought about increases in FDI inflows to seven of the twelve new EU members, while the remaining five, including Cypress and Estonia, experienced declines in FDI inflow compared to the previous year. In 2011 the situation improved to such an extent that the overall declining trend in FDI inflows was reversed. Nonetheless five countries experienced individual declines (Cypress, the Czech Republic, Estonia, Malta, and Romania).

The changing trends in the annual flows of FDI do not follow a single pattern for the new EU12 countries. Particularly interesting in this case is the situation of **Poland**. Although it did not suffer an economic collapse and continued to be one of the few expanding economies in the EU, nevertheless Poland's annual FDI inflows shrunk in 2010 to 38% of its pre-crisis level. This indicates that factors other than economic collapse affect the behavior of foreign investors in a crisis situation and need to be taken into account. Of particular significance seem to be the **character of foreign investment** in a particular country, as well as the **motives** guiding the investors (Kalotay, Filipov 2009). For example, investors looking for foreign markets (**market-seeking**) or oriented toward sales in a domestic market decidedly feel the effects of an economic collapse, which results in reduced employment and reduced purchasing power on the part of consumers. In the case of investors looking for increased efficiency (**efficiency-seeking**), a general crisis leads to a decreased demand on international markets for the products produced by the firms with shares of FDI. In particular this concerns the production of items designed for export in industries characterized by an excess productive capacity, for example in the motor vehicle industry. On the other hand, in crisis conditions new

business opportunities might arise in connection with the low prices of locations and lower costs of production.

An analysis of **the annual FDI outflows** from the new EU Member States indicates that these countries, in the crisis conditions, limited their engagement in foreign markets in the years 2009-2010. For some countries, i.e. Poland, Hungary, and Cyprus, this limited engagement was only of short duration, while other countries radically reduced their FDI outflows, even to the point of disinvestment (Bulgaria, Estonia, Latvia, Romania, Slovenia).

A large internal differentiation in terms of **FDI inward stock** can also be seen in **the developing countries of Asia**, as is represented in Table 1. The international statisticians divide the developing countries of Asia into four sub-regions: **Eastern Asia, Southern Asia, South-Eastern Asia and Western Asia**. Among these groups, the leading sub-region in terms of FDI is Eastern Asia, which took in over 50% of the FDI inward stock into the developing countries of Asia between 2005 and 2011. Second position among the sub-regions was held by South-Eastern Asia, which took in 27% of cumulative FDI inflow into the region in 2011, followed by Western Asia (14.4%) and Southern Asia (6,7%). The domination of the two sub-regions, i.e. **Eastern Asia and South-Eastern Asia** is undeniable, as together they account for more than  $\frac{3}{4}$  of all FDI inflows into the developing countries of Asia. The years 2005-2011 also reflect however a certain erosion in the position of Eastern Asia, whose share in the FDI inward stock in the developing countries of Asia fell by 7 percentage points during this time. The other sub-regions in turn increased their proportional shares, the largest increase being noted in Western Asia (almost 3 percentage points).

In terms of **FDI outward stock**, the domination of the two sub-regions is even greater. Almost 90% of FDI comes from Eastern Asia and South –Eastern Asia. Here too however one can observe, in the years 2005-2011 an incremental diminishment in the position of Eastern Asia to the advantage of the remaining sub-regions (see Table 1).

Analysis of **the annual FDI inflows** to the particular sub-regions in the years 2008-2010 shows that all of the countries experienced a decline. (UNCTAD data base and own calculations). However, in the case of **Eastern Asia** the decline in the FDI inflows into the main recipient countries took place only in 2009. The exception to this pattern is the Taiwan Province of China, which has experienced a steady decline since 2008, and in 2011 even experienced disinvestment. In the countries of **South-Eastern Asia**, for most of the countries in the region (Singapore, Malaysia, the Philippines, Thailand, Laos, and Cambodia) the decrease in the FDI inflows began earlier, i.e. already in 2008, and lasted longer than just one year. The situation of the countries

comprising Southern Asia and Western Asia shows a wider differentiation in terms of the time periods in which they experienced declines in FDI inflows, the size of the decline in each country, and the capacity of each country to rebuild its FDI inflow to pre-crisis levels.

In the sub-regions of the developing countries of Asia, with the exception of Eastern Asia, one may observe a certain similarity to the situation of the 'new' EU12 countries. In both analyzed groups of countries there are differentiated trends, with some countries experiencing deep declines and even a collapse in their stream of inflowing FDI. In addition, some countries were unable to reverse the declines and increase their FDI inflows in subsequent years.

At the same time however it should be noted that the differentiation in the sub-regions of the developing countries of Asia was deeper than in the EU12 countries. In each sub-region there are two or three countries which occupy the position as 'leaders' in attracting FDI inflow, and owing to the weak positions of the remaining countries in the sub-region, the performance of the 'leaders' usually determines the overall position of the sub-region as a whole. In Eastern Asia the leaders are **China** and **Hong Kong/China**. In South-Eastern Asia the leaders are **Singapore** and **Indonesia**, although **Malaysia** and **Thailand** also contribute to the strengthening the overall position of the sub-region. In South Asia the **India** is undoubtedly the country whose performance determines the position of the sub-region, while in Western Asia the leaders are **Saudi Arabia**, **Turkey**, and the **United Arab Emirates**. In the EU12 countries, the performance of the largest country – Poland – was not the decisive factor in determining the performance of the EU12 countries as a whole.

The global financial crisis also affected **the annual FDI outflows** in the analyzed group of countries, although to a lesser degree than in the case of FDI inflows. The leaders in the particular Asian sub-regions reacted somewhat differently to the crisis situation. In **Eastern Asia** the foreign investments flowing out of China systematically increased during the crisis, reaching a level in 2010 which was three times greater than in 2007, although China's foreign investment slightly declined in 2011. The situation of Hong Kong/China was similar, and in addition it should be noted that Hong Kong/China is more engaged in FDI investments than China as a whole. The growing engagement of the South Korea in outgoing FDI also deserves attention, as it has become a net plus exporter of capital in the form of FDI. In the countries of South-Eastern Asia, following declines in the outflow of FDI from almost all the particular countries (except Thailand) in the years 2008-2009, the annual FDI outflows were quickly and efficiently rebuilt. In **South Asia** India noted a significant decline in out flowing FDI which was only reversed in 2011. **Western Asia**

noted the longest-lasting decline in out flowing FDI among the sub-regions of the developing countries of Asia. Only in 2011 did the sub-region as a whole rebuild its stream of FDI outflows to a level approximating that which it had before the crisis. The United Arab Emirates, however, is an exception to this pattern, as its annual FDI outflows shrunk by almost seven times from its pre-crisis level.

To sum up this section of the article, the analyzed group of **countries within the EU and the developing countries of Asia** continue to show a high degree of differentiation. The global financial crisis brought about a certain re-arrangement between the sub-regions, although it has not yet changed the overall balance of power within the region as a whole. Still, the situations of particular countries have undergone far-reaching changes, which is particularly visible in the EU12 countries. The oscillations in the annual FDI inflows to these countries were connected with the character of the FDI in each country and with the motives of the foreign investors. The declines in FDI outflows, on the other hand, which sometimes reached the stage of disinvestment, is connected with the weak positions of firms in these countries to compete as foreign investors. Among the sub-regions of the developing countries of Asia one can observe a strengthening of the positions of the two leading sub-regions, i.e. Eastern Asia and South-Eastern Asia, both in terms of receiving FDI as well as investing abroad in the form of FDI. In each sub-region of the developing countries of Asia clear-cut 'leaders' have developed, and their performance largely determines the performance of the sub-region as a whole. Eastern Asia was the least affected by the global economic crisis in terms of annual FDI flows. The significant and serious engagement of the countries of Eastern Asia, and some of the countries of South-Eastern Asia, in investing abroad may create opportunities for many recipient countries, including the EU12, as a source of alternative capital other than that coming from the highly developed countries.

#### **4. The role of intra-regional integration processes in encouraging FDI flows – the case of the European Union and ASEAN Economic Community/ACIA and SAARC/SAFTA**

Significant and far-reaching integration processes are taking place in the analyzed regions and sub-regions, and these processes also affect the FDI flows. While the European Union has long established its so-called "four fundamental freedoms", which include the free flow of capital, the developing countries of Asia are only in the early phase of integration. Nevertheless they are making

concrete efforts to establish the free flow of investment capital as a norm in the region, at a minimum putting the issue on their various agendas.

The **ASEAN** countries are consistently and consequently trying to deepen the integration processes in the region, and have set for themselves the goal of establishing a single internal market which would encompass the free flow of goods and capital. This is reflected in the official documentation aimed at creation of the **ASEAN Economic Community** by 2015, based on current trade initiatives (the AFTA -ASEAN Free Trade Area) as well as investment agreements (the ASEAN IGA and AIA Agreement) (ASEAN, [www.asean.org](http://www.asean.org)). The current consensus concerning the liberalization of investment and the implementation of the national treatment rule as well as the principle of most-favored-nation treatment has been confirmed by the signing of a new investment agreement – **the ASEAN Comprehensive Investment Agreement (ACIA)** – signed in 2009. It identifies its aims as “...*enhancing ASEAN’s attractiveness as an investment destination, creating a free and open investment regime and meeting economic integration goals*” (Investment [www.asean.org](http://www.asean.org)). It should be emphasized that the ASEAN countries, by signing multi-lateral agreements concerning free trade and investment with third countries, are creating a broad area bound together by increasing economic ties between the developing countries of Asia and other developing, and in some cases developed, countries. These include (FTA Agreements, [www.asean.org](http://www.asean.org)):

- ASEAN-China Free Trade Area (ACFTA),
- ASEAN-Korea Free Trade Area (AKFTA),
- ASEAN-India Free Trade Area
- ASEAN-Australia-New Zealand Free Trade Area (AANZFTA),
- ASEAN –Japan Comprehensive Economic Partnership (AJCEP).

In Southern Asia the integration process is not so advanced as in South-Eastern Asia. The countries which created, in 1985, the **South Asian Association for Regional Co-operation (SAARC)** attempted to liberalize trade in the form of an agreement concerning preferential trade (SAPTA), followed by the creation of a free-trade area (SAFTA). SAPTA was treated as the first phase in the creation of a free-trade area. The free-trade area came into existence in 2006. It was initially planned that a ten-year period of incremental reductions in tariffs would take place with respect to internal trade. Attainment of the aims of the SAFTA agreement is not an easy task, inasmuch as it seeks to link the large, rapidly developing countries in the region with other countries which are among the least-developed in the world. The level of regional integration, measured by the scale of internal, regional trade, is still low, much lower than the levels achieved by the ASEAN countries. With respect to investment, the SAFTA agreement provides that the aim of the member countries is the

'...removal of barriers to intra-SAARC investments' (SAFTA Agreement, [www.saarc.org](http://www.saarc.org)). The countries belonging to SAARC have declared that they are also interested in signing an agreement aimed at the promotion and protection of investments.

According to classic integration theory, one can expect an increase in FDI flows among integrating countries. The experiences of the EU and the ASEAN Economic Community confirm that integration processes stimulate intra-regional FDI flows, although the decisions of investors still depend on other factors as well. Intra-EU direct investment inflows and outflows constitute a vast portion of the total FDI flows into and out of the EU. However, these ratios fell in comparison to the previous years. In 2010, intra-EU FDI inflows accounted for **65.8% of the total FDI inflows to the EU**, representing a decline of 12.3% in comparison to 2005. Outward investments in other EU Member States amounted to **56.1% of total FDI** in 2010, i.e. 8.1% less than in 2005. (Faes-Cannito, Gambini, Istatkov 2012, p. 2). In the new EU12 countries the percentage of intra-EU direct investment inflows is unusually high. In 2010 intra-EU DFI accounted for more than 95% of the FDI inflows into Estonia, the Czech Republic, and Romania, and between 80% and 95% of the FDI inflows into Poland, Bulgaria, and Lithuania. On the other hand, Malta, Cypress, and Hungary's parallel percentages fall far below the overall EU average (approximately 35%). The new EU12 countries also direct a vast majority of their foreign investments to other EU countries, although the crisis also brought about disinvestment (Faes-Cannito, Gambini, Istatkov 2012, p.5).

**Intra-ASEAN investment** flows have recovered since the onset of the global economic crisis, reaching a level of 12 billion USD in 2010 (ASEAN Statistics). Their share in overall FDI inflows into the ASEAN countries has remained rather low, however, particularly if one compares them with the intra-regional investment flows in the EU as described above. In 2010 intra-ASEAN investment flows accounted for 16.1% of all FDI inflows into the region, which represented a decline in the share of four percentage points from 2008 (See Table 2.) The same figure for four countries however is much higher than the average: Cambodia (44.6%), Indonesia (44.4%), Lao PDR (40.7%) and Myanmar (38.1%). In no country, however, did intra-ASEAN investment flows reach one-half of the total FDI inflow.

As may be expected, the large gap between the EU and the ASEAN countries in terms of intensity of intra-regional investment is a result of the stage of each region in the integration process, as well as the level of development of the member countries. The intensifying effect of integration can be seen by comparing capital investment flows in the EU between the free-trade area stage and the single market stage of its integration. While it's true the ASEAN

countries have declared in favor of creating a common market, they are still only at the beginning of this path. In addition, the ASEAN countries do not possess large amounts of free capital, hence most incoming FDI comes from the highly developed countries and from other regions in developing Asia. Among the top ten contributors of net FDI capital to the ASEAN countries one may find: the EU (22.4%); the USA and Japan (above 11% each), but also the Korean Republic (4.9%), China (3.8%) and India (3.4%) (ASEAN Statistics [www.asean.org](http://www.asean.org)).

Having regard to its advanced stage of integration, the EU-27 shows effects which are much discussed in the theory of integration, in particular the search for the optimum location of capital in the integrating area, avoidance of tariffs, and reorganization and rationalization of firms engaged in FDI (Yannopoulos 1990, Molle 1990, Pelkmans J. 2006). The internal differentiation of various EU countries is not without significance here. Within the EU one may find countries which are well equipped with investment capital, and these countries are proportionately large investors in the new EU12 countries. The trade connections established in earlier stages of economic relations also encourage EU investors from the developed countries to expand into the new Member States.

## **5. Prospects of inter-regional FDI flows between the EU Member States and developing Asia**

The EU-27, as a net capital exporter, invests in all regions of the global economy. The largest recipient of FDI from the EU is North America (34% of FDI outward stock in 2010), followed by other European (but non-EU) countries (25%). The countries of Asia (including Japan), are in third place with 14% (Foreign Direct Investment Statistics <http://epp.eurostat.ec.europa.eu>). In Asia the most attractive locations for foreign capital are **Singapore, Hong Kong/China, and Japan**, which together account for more than 50% of the EU FDI outward stock located in Asia. **China** proper is also growing in importance as a recipient country of the EU FDI outward stock, while the next most important Asian partners for the EU are South Korea, India, and Indonesia (Foreign Direct Investment Statistics <http://epp.eurostat.ec.europa.eu>).

The changes in the FDI outflows from the EU-27 during the years 2008-2010 indicate that Asia is maintaining its position as the third largest recipient region of EU FDI outflows. In 2010 Asia accounted for 20.4% of the external flow of FDI from the EU-27, despite disinvestment in Japan of about 1.5% (Foreign Direct Investment Statistics <http://epp.eurostat.ec.europa.eu>). The

Asian countries' share of FDI flowing into the EU constituted 29.3% (despite the 4.9% disinvestment of Japan), and this high proportion placed the region in second place, after North America, as a source of FDI inflow into the EU. Most importantly, the Asian region became a net exporter of FDI capital to the EU. The leading Asian countries investing abroad are: **Hong Kong/China, Singapore, and the Arabian Gulf countries.**

The above data confirms our earlier observations that 'leaders' emerge in each of the particular sub-regions of Asia, who are interested not only in locating investment capital in neighboring countries, but also in carrying out FDI in chosen countries and regions which they deem to be of strategic importance. The motives for such investments seem to be similar to those of investors from the highly developed countries – *inter alia*, searching for a cheap workforce, product markets, and maximizing efficiency – while using the developing Asian countries as a platform for exports. One may speak separately here of strategic motivations, which may be connected with building a long-term competitive position, access to advanced new technologies, and making new connections.

The question arises whether the EU integration processes are a primary source of motivation or significant factor encouraging Asian investors to invest in the EU region? Having regard to the decreasing role and importance of tariffs in international trade it is unlikely that tariff avoidance is a major factor (as it was when American investors first began investments into the European Economic Community). It is also unlikely that Asian investors are motivated by a fear of a 'Fortress Europe', which motivation was deemed to spur Japanese investment during the creation of the Single Market. On the other hand, certain elements of the European Single Market, such as the rules regarding product origin and non-tariff policy instruments in international trade (meeting established technical, environmental, and health norms and standards) may motivate investors in the developing countries of Asia to expand into the EU market.

Paradoxically, the internal differentiation between the countries of EU, primarily a result of the addition of the EU12 countries, might also act to attract the interest of Asian investors. The 'new' EU Member States possess a cheap but highly qualified workforce, constitute a growing market for products, and are a part of the internal EU single market. Hence investment into these countries offers foreign investors the same possibilities and advantages which investors in the highly developed countries seek when investing into lesser developed countries.

Taking into account the dynamic economic growth of the leading countries of the various Asian sub-regions, one may expect further expansion

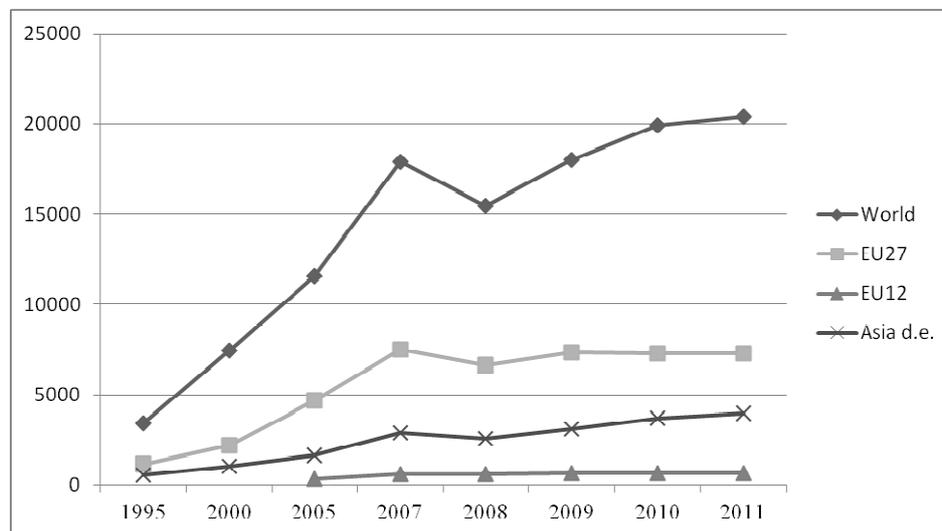
and development of the reciprocal flows of capital in the form of FDI stocks between the analyzed groups of countries.

## 6. Conclusions

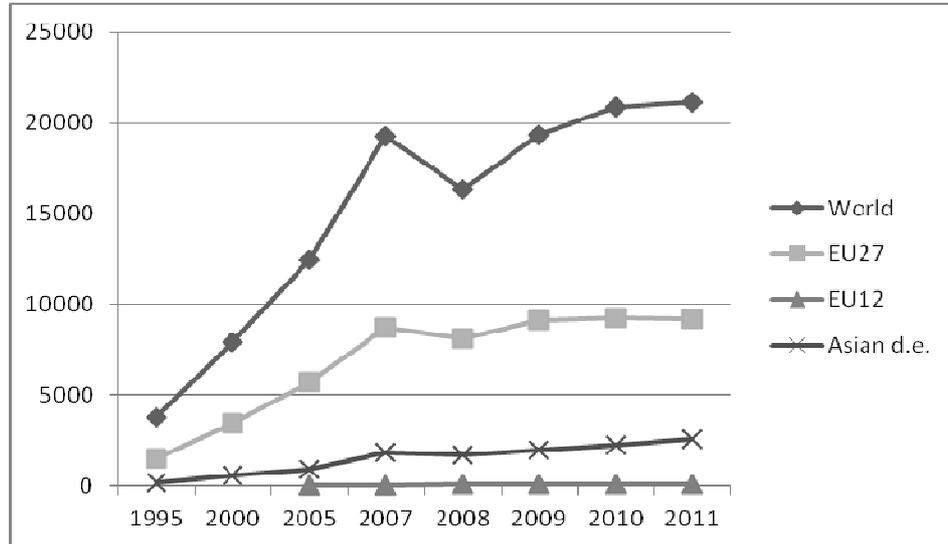
- (1) During the period of the global financial crisis, changes in the previous patterns of global capital movements in the form of FDI had the effect of strengthening the relative position of the developing countries of Asia and weakening the position of the EU, particularly of the EU15 (the 'old' Member States). These changes are reflected in both the overall shares of the respective regions in global FDI inward and outward stock, as well as in the annual of FDI flows.
- (2) The EU as a whole diminished its engagement in foreign countries in the form of FDI, and the EU economy made it a less attractive location for incoming FDI. The new EU12 countries were affected by the oscillations in FDI flows, but they felt them differently, depending on the character of investment capital located in their countries and the motivations of the individual investors.
- (3) Both the European Union and the developing countries of Asia are highly differentiated in terms of their resources and engagement in inflowing and out flowing FDI. In the EU FDI continues to be dominated by the EU 15, while in Asia the sub-regions of Eastern Asia and South Eastern Asia hold a dominant position in the region overall. The position of the new EU12 countries may be characterized as slightly stronger than the position of the weakest sub-region in Asia, i.e. South Asia. Nonetheless each of the sub-regions in developing Asia had a stronger internal position with respect to outgoing FDI than the countries of the EU12.
- (4) The global economic crisis brought about a decrease in annual FDI inflows to all the analyzed countries, albeit the extent and depth of such decreases and their effect over time was differentiated. The situation of Eastern Asia is worth noting in this regard – the collapse in the FDI aspect of the economy was short-lived, lasting only one year (with the exception of Taiwan). The crisis affected to a lesser extent the outgoing FDI flows from the developing countries of Eastern Asia and South-Eastern Asia. Some Asian countries increased their engagement in foreign investment abroad during this time (China, Hong Kong/China, South Korea, and Thailand).

- (5) The integration processes ongoing in the EU have significantly affected the intensity of capital flows in the form of FDI for this group of countries. The intra-EU FDI flows, both incoming and outgoing, exceed 50% of the FDI flows for the entire EU. On the other hand, the ASEAN Economic Community has so far had only a minimal effect on the intra-regional FDI flows. This is connected with the large gap in the level and stage of advancement of the two integration processes, as well as in their access to investment capital. For the ASEAN countries the EU continues to be the largest source of incoming FDI.
- (6) Significant flows of capital in the form of FDI are taking place between the analyzed regions and sub-regions of the world economy. For the European Union the developing countries of Asia constitute its third largest recipient of outgoing FDI, and its second largest supplier of inflowing FDI. What's more, in 2010 the Asian Countries constituted a net exporter of FDI to the European Union. Certain elements of the EU Single Market may constitute a significant motivation for Asian foreign investors to expand into the EU (i.e., the rules regarding product origin and non-tariff instruments of trade policy). For the 'new' EU 12 countries, the developing countries of Asia taken as a whole constitute a 'new player' which offers good opportunities for the acquisition of foreign capital investment.

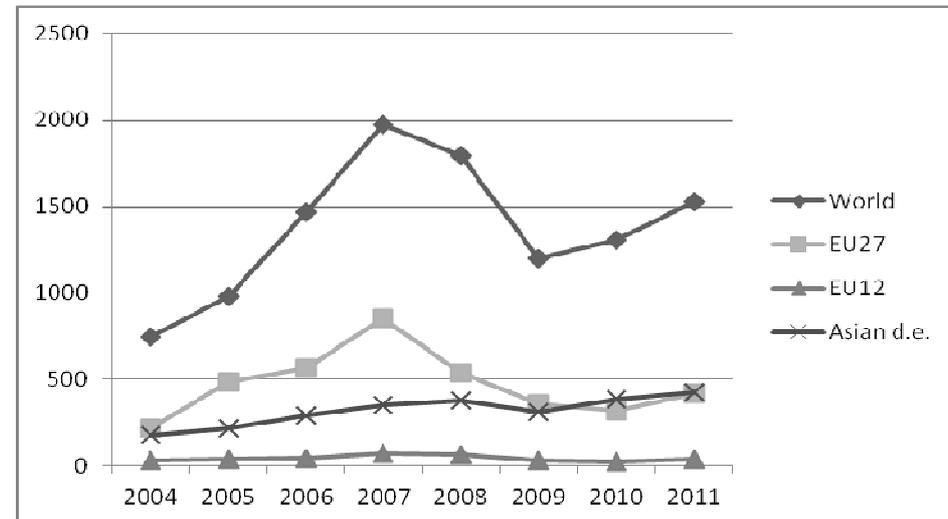
**Graph 1. Inward FDI Stock - World, EU, developing Asia, 1995-2011, USD billion**



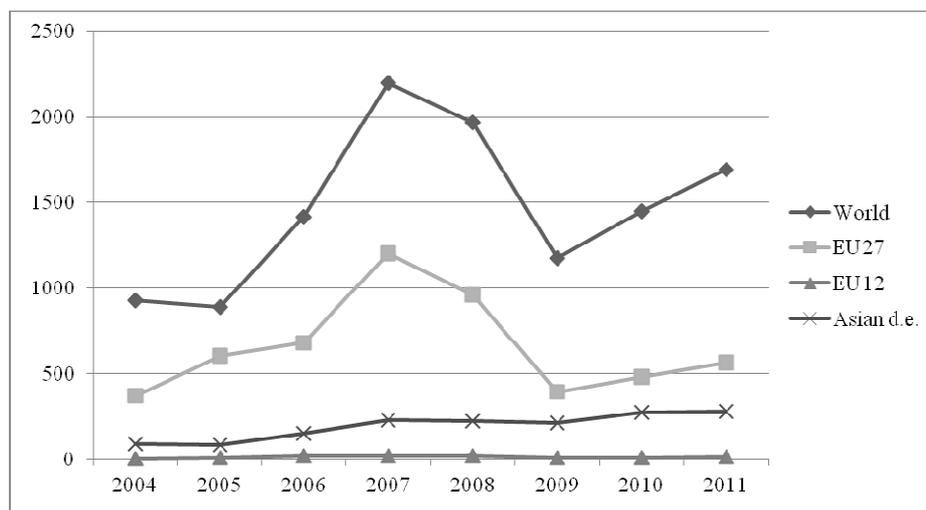
Source: FDI Statistics <http://www.unctadstat.unctad.org> and own elaboration.

**Graph 2. Outward FDI Stock - World, EU, developing Asia, 1995-2011, USD billion**

Source: FDI Statistics <http://www.unctadstat.unctad.org> and own elaboration.

**Graph 3. Inward FDI flows- World, EU, developing Asia, 2004-2011, USD billion**

Source: FDI Statistics <http://www.unctadstat.unctad.org> and own elaboration.

**Graph 4. Outward FDI flows- World, EU, developing Asia, 2004-2011,USD billion**

Source: FDI Statistics <http://www.unctadstat.unctad.org> and own elaboration.

**Table 1. Geographical distribution of inward and outward FDI stocks within Asian developing countries, 2005, 2007, 2011, %**

| Specification                        | 2005   |                  | 2007   |         | 2011   |         |
|--------------------------------------|--------|------------------|--------|---------|--------|---------|
|                                      | Inward | Outward          | Inward | Outward | Inward | Outward |
| Asian developing countries in which: | 100    | 100 <sup>a</sup> | 100    | 100     | 100    | 100     |
| Eastern Asia                         | 58.5   | 73.7             | 58.3   | 73.1    | 51.8   | 69.5    |
| Southern Asia                        | 4.7    | 1.3              | 5.6    | 2.6     | 6.7    | 4.5     |
| South-Eastern Asia                   | 25.2   | 20.4             | 23.2   | 18.8    | 27.0   | 19.3    |
| Western Asia                         | 11.5   | 4.6              | 12.5   | 5.5     | 14.4   | 6.8     |

Source: FDI Statistics <http://www.unctadstat.unctad.org> and own calculations.

**Table 2. The shares of intra- and extra-ASEAN foreign direct investment net inflow in the total net inflow<sup>a)</sup>, 2008-2010, %**

| Country               | 2008        |             | 2009        |             | 2010        |             |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                       | Intra-ASEAN | Extra-ASEAN | Intra-ASEAN | Extra-ASEAN | Intra-ASEAN | Extra-ASEAN |
| Brunei Darussalam     | 0.4         | 99.6        | 0.9         | 99.1        | 14.2        | 85.8        |
| Cambodia              | 29.6        | 70.4        | 32.3        | 67.7        | 44.6        | 55.4        |
| Indonesia             | 36.5        | 63.5        | 28.3        | 71.7        | 44.4        | 55.6        |
| Lao PDR               | 20.9        | 79.1        | 18.0        | 82.0        | 40.7        | 59.3        |
| Malaysia              | 22.7        | 77.3        | -19.5       | 119.5       | 5.7         | 94.3        |
| Myanmar               | 10.6        | 89.4        | 7.0         | 93.0        | 38.1        | 61.9        |
| The Philippines       | 9.1         | 90.9        | -0.2        | 100.2       | -0.5        | 100.5       |
| Singapore             | 7.7         | 92.3        | 13.8        | 86.2        | 9.5         | 90.5        |
| Thailand              | 6.0         | 94.0        | 26.7        | 73.3        | 6.9         | 93.1        |
| Viet Nam              | 28.2        | 71.8        | 5.6         | 94.4        | 16.3        | 83.7        |
| <b>TOTAL</b>          | <b>20.1</b> | <b>79.9</b> | <b>13.8</b> | <b>86.2</b> | <b>16.1</b> | <b>83.9</b> |
| ASEAN-5 <sup>b)</sup> | 18.0        | 82.0        | 15.9        | 84.1        | 15.5        | 84.5        |
| BLCMV <sup>b)</sup>   | 26.2        | 73.8        | 7.5         | 92.5        | 20.1        | 79.9        |

a) Net FDI = Equity+ Net inter-company loans+ Reinvested Earnings. Net FDI can be negative,

b) ASEAN-5 consists of Indonesia, Malaysia, the Philippines, Singapore and Thailand, while BLCMV comprises Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Viet Nam.

Source: ASEAN Statistics, [www.asean.org](http://www.asean.org) and own calculations.

## References

ASEAN Economic Community, [www.asean.org](http://www.asean.org)

ASEAN Foreign Direct Investment Statistics Database [www.asean.org](http://www.asean.org)

Faes-Cannito F., Gambini G., Istatkov R., (2012), *Intra EU share of UE-27 trade in goods, services and foreign direct investments remains more than 50% in 2010*, 'Eurostat. Statistics in Focus' 2012, No 2

FDI Statistics <http://www.unctadstat.unctad.org>

FTA Agreements [www.asean.org](http://www.asean.org)

Foreign Direct Investment Statistics – Statistics Explained, <http://epp.eurostat.ec.europa.eu>

Investment [www.asean.org](http://www.asean.org)

Kalotay K., Filipov S. (2009), *The global crisis and FDI in new Europe*, Expert article 383, Baltic Rim Economies, 31.8.2009, Bimonthly Review 2009, No 4

- Molle W. (1990), *The Economics of European Integration ( Theory, Practice, Policy)*, Aldershot
- Pelkmans J. (2006), *Economics of European Integration. Methods and Economic Analysis*, Harlow
- SAFTA Agreement, [www.saec.org](http://www.saec.org)
- UNCTAD (2011), *Non-Equity Modes of International Production and Development*, N. York, Geneva
- UNCTAD data base, <http://www.unctadstat.unctad.org>
- Yannopoulos G.N. (1990), *Foreign Direct Investment and the European Integration. The Evidence from the Formative Years of the European Community*, 'Journal of Common Market Studies' vol. XXVIII, No. 3

## Streszczenie

### **BEZPOŚREDNIE INWESTYCJE ZAGRANICZNE MIĘDZY AZJATYCKIMI KRAJAMI ROZWIJAJĄCYMI SIĘ A KRAJAMI CZŁONKOWSKIMI UNII EUROPEJSKIEJ: ROLA PROCESÓW INTEGRACYJNYCH**

*Przedmiotem artykułu są uwarunkowania przepływów bezpośrednich inwestycji zagranicznych (BIZ) między rozwijającymi się krajami Azji (Azji Wschodniej, Azji Południowo-Wschodniej, Azji Południowej i Azji Zachodniej) oraz krajami Unii Europejskiej, w tym nowymi krajami członkowskimi. Na przepływy wewnątrz-regionalne i międzyregionalne oddziałuje w szczególności sytuacja kryzysowa w gospodarce światowej, zmieniając pozycję analizowanych grup krajów w skali globalnej. Procesy integracyjne w ramach Unii Europejskiej oddziałują silnie na intensywność przepływów BIZ wewnątrz ugrupowania, podczas gdy procesy te w rozwijającej się Azji nie są jeszcze zaawansowane i ich oddziaływanie na przepływy BIZ jest niewielkie. Między analizowanymi regionami i subregionami dokonują się międzyregionalne przepływy BIZ. Obserwowane zjawisko wyłaniania się azjatyckich eksporterów netto kapitału w formie BIZ do Unii Europejskiej może być wzmacniane procesami integracyjnymi. Dla nowych krajów członkowskich UE azjatyckie kraje rozwijające się mogą stanowić alternatywne źródło kapitału w warunkach kryzysowych.*