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Will Foreign Direct Investment Accelerate the Economic Integration of East Asia?

An Analysis of the Changing Trade Structure in East Asia Due to Increasing FDI and Economic Effects Thereof

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INSTITUTE FOR INTERNATIONAL TRADE

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Contents

Summary

The amount of foreign direct investment (FDI) flowing into advanced economies began to take a noticeable downturn since the dawn of the new millennium. By contrast, the amount of FDI flowing into East Asia has been steadily growing as East Asian economies began to emerge as the most appealing and important objects of investment to multinational corporations (MNCs). Between 2000 and 2012, the amounts of FDI directed toward the member states of the North American Free Trade Agreement (NAFTA) and the European Union (EU) have been on a constant decline, while the share of the overall FDI made in East Asia in the worldwide total grew from 7.2% to 24.4%. Also, East Asia is now recognized as a significant investor overall, as South Korea, China, and Japan, along with the member states of the Association of the Southeast Asian Nations (ASEAN) are increasingly becoming important sources of FDI. These nations of East Asia have been steadily climbing up the FDI trustworthiness rankings as well as the list on the FDI Performance Index, which measures the FDI each country makes against its gross domestic product (GDP). FDI indeed makes up significant parts of these East Asian economies' GDPs and gross fixed capital, while the shares of FDI in their respective GDPs also continue to grow.

There are a number of reasons why East Asia is emerging as the most appealing target of FDI, including East Asian economies' rising profiles around the world in general and the improvement in international opinions

regarding the investment conditions in the region. As of 2012, East Asia accounted for 29.5% of the worldwide GDP, 29.0% of worldwide trade, 24.4% of FDI received, and 48.7% of the world population. East Asia therefore represents a bigger market than either the EU or the NAFTA bloc. Because of the region's rapid economic growth, East Asia is also raising its profile and influence worldwide. The aggregate foreign reserves of the East Asian governments have significantly increased their share in the world total from 27.3% in 2000 to 43.8% in 2012. Of the 3.4 billion people inhabiting the region, at least 69% are capable of working. With their income levels rising, East Asians are also becoming able to spend more and more, thus contributing to the enlargement of their respective domestic markets.

Furthermore, East Asia attracts investors with the various improvements it is making to the investment environment, including the lowering of trade barriers and the formation of FTA networks. Numerous states in the region strive to minimize the setup costs for investors looking to establish local offices or companies and to reinforce investor protection while reducing the tax rates on earnings. East Asian governments also actively invest in the development of highly skilled and well-educated workforces. As all the states in East Asia are now members of the World Trade Organization (WTO), they have set out to reduce tariffs across the board and enter an increasing number of FTAs with major markets worldwide.

Since the onset of the latest global financial crisis, the appeal of the ASEAN member states as recipients of FDI has been on rise. In the meantime, the FDI in manufacturing began to drop, while that in the service sector began to grow. The most popular form of FDI in the region is the greenfield investment, which goes toward establishing production bases. The greenfield investment has been occupying an increasing weight in total investment that East Asia has been receiving over the last five years, thus strengthening the region's production network. Whereas Korea and China's shares of greenfield FDI in the ASEAN member states grew smaller between 2008 and 2012, Japan's significantly grew by contrast with its share of the outward direct investment (ODI) in the region growing by 13.4% age points from 48.6% to 62.0%. While the volume of intraregional trade among all East Asian states except Japan grew dramatically from 2008 to 2012, it took an abrupt downturn in 2012 as Japan decreased the volume of its intraregional exports, and together with Korea and China, it also decreased its volume of intraregional imports. The territorial dispute between Japan and China and the dramatic appreciation of the yen (JPY), in particular, were the main causes of the shrinking intraregional trade, cutting Japan and China's shares in it from 42.2% to 29.7% and from 31.2% to 25.8%, respectively.

In the meantime, South Korea has been consolidating its position as a main producer of intermediate goods, increasing the share of intermediate goods in its exports from 58.9% to 66.1% between 2002 and 2011. Exports to fellow East Asian countries account for more than half of all the exports made from South Korea, amounting to USD 274.9 billion. The share of intermediate goods in Korea's exports to East Asia amounted to 74.7% in 2011, far higher than either China's (49.3%) or Japan's (65.8%). East Asia is therefore the most important market for Korea. The Korean government therefore needs to develop an FDI strategy, focusing on exporting more intermediate goods for industrial processing as well as processed food and beverages (for industries) and transport equipment, parts and accessories thereof, which are the main best sellers among the intermediate goods that Korea exports.

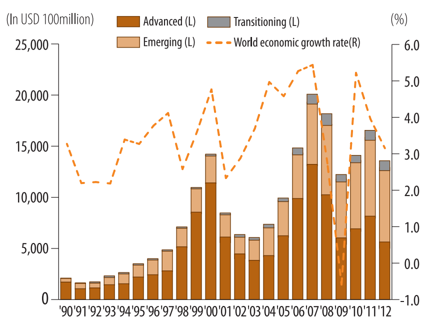
FDI has contributed significantly to the development and growth of not only the manufacturing sector but also the related services industries in East Asia by allowing East Asian businesses to adopt advanced technology and develop and export their own patents and intellectual properties worldwide in consequence. Because of the greenfield investment in East Asia, 1.83 million new jobs have been created over the last five years. As more and more investment goes to benefit small-to-medium projects in the service sector, the employment effect of FDI has also increased significantly. The increase in the FDI in East Asia has prompted the development and expansion of the region's production network, the growth of intraregional trade, the creation of new jobs, and technological progress. With East Asia becoming increasingly integrated on the economic plane, these positive effects of FDI will grow even more. Nevertheless, East Asia took only 22.6% of all FDI flowing from Korea in 2012. The Korean government therefore needs to employ a negotiation strategy vis-à-vis other East Asian countries so as to allow Korean businesses to make maximum use of the burgeoning intraregional production network.

Ⅰ. Importance of East Asia in FDI

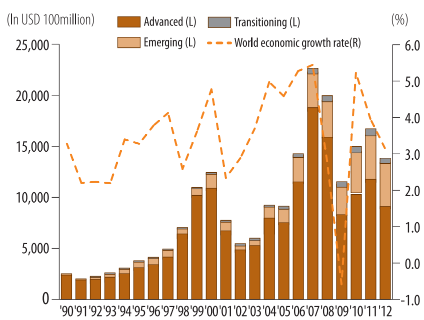
1. Trends

Foreign direct investment (FDI)[1] and outward direct investment (ODI)[2] are closely related to economic growth, and they have been growing worldwide over the last several decades, particularly because of the expansion of multinational corporations (MNCs) and the increase in the number of international merger and acquisition (M&A) deals. In 2007, the world economic growth rate reached 5.4%, which is the highest since 1980. At the same time, the amounts of FDI and ODI also reached their peaks at USD 2.0027 trillion dollars and USD 2.272 trillion dollars, respectively.

<Trend in FDI>



<Trend in ODI>



Note: Transitioning economies refer to states that are making transition from socialism to market economy. This category includes 25 Eastern European states, including Russia.

Sources: UNCTAD and IMF

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1) FDI refers to corporate activities by which an individual or an organization transfers various factors of production, such as capital, management systems, technology, trademarks, etc., with the intent of directly participating in the management of an invested entity in a country other than the investor's residence.

2) ODI forms a conceptual contrast to FDI, i.e., investment by an individual or an organization in entities in countries other than that of the investor's residence.

The worldwide amount of FDI took a drastic downturn with major turns in the international economy, such as the collapse of the IT bubble in 2001 and the onset of the global financial crisis in 2008, thus significantly slowing down economic growth around the world. The collapse of the IT bubble caused the amounts of FDI and ODI to drop by 40.8% and 38.7%, respectively, and set back the world economic growth rate by 2.4% age points. The onset of the global financial crisis led to a negative growth rate, similarly causing drastic cuts in the amount of FDI worldwide. The amount of FDI worldwide dropped by 18.2% in 2012 with FDI from EU and American investors plummeting by 41.5% and 26.1%, respectively.

<FDI and Economic Growth at Major Turns in the International Economy>

(Units: USD 100 million, %, %p)

Year	2000	2001	Increase/ decrease	2007	2008	2009	Increase/ decrease	2011	2012
FDI inflow	14,132	8,360	-40.8%	20,027	18,164	12,165	-39.3%	16,515	13,509
FDI outflow	12,403	7,599	-38.7%	22,720	20,053	11,498	-49.4%	16,780	13,910
World economic growth rate	4.8%	2.3%	-2.4%p	5.4%	2.8%	-0.6%	-6.0%p	3.9%	3.2%

Sources: UNCTAD and IMF.

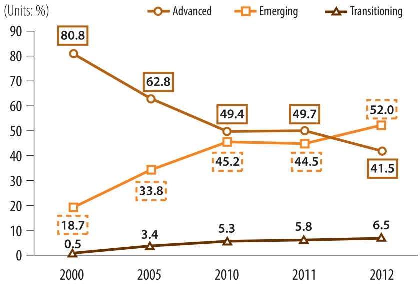
Since 2000, the advanced economies' shares of both FDI inflows and outflows worldwide have been decreasing, while emerging economies' have significantly increased. FDI inflows in the advanced economies took a downturn at 5.8% a year between 2000 – 2012, while FDI inflows in emerging and transitioning economies have been growing by 8.5% and 23.4%, respectively. This reversal reflects the economic slowdown in the Eurozone and other advanced economies and the concomitant increase in the relative stability and attractiveness of investment in developing economies. Developing economies now claim over 50% of all FDI inflows.

<Trend in FDI Inflows (by Amount)>

(Units: USD 1 billion, %)

Recipient type	Advanced	Emerging	Transitioning	Total
2000	1,142	265	7	1,413
2005	622	335	34	990
2010	696	637	75	1,409
2011	820	735	96	1,652
2012	561	703	87	1,351
Yearly growth rate	-5.8	8.5	23.4	-0.4

<Trend in FDI Inflows (by Share)>



Note: Transitioning economies refer to states that are making transition from socialism to market economy. This category includes 25 Eastern European states, including Russia.

Source: UNCTAD.

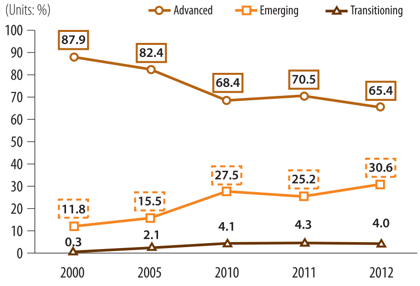
In the meantime, developing economies are also increasingly playing significant roles in ODI, with China rising to become the third-largest investor in the world, after the United States and Japan. Whereas the amount of ODI flowing from advanced economies declined at a rate of 1.5% yearly from 2000 to 2012, the amounts of ODI From emerging and transitioning ones grew by 9.3% and 26.9%, respectively. Advanced economies' share

<Trend in ODI Inflows (by Amount)>

(Units: USD 1 billion, %)

Recipient type	Advanced	Emerging	Transitioning	Total
2000	1,091	146	3	1,240
2005	744	140	19	904
2010	1,030	413	62	1,505
2011	1,183	422	73	1,678
2012	909	426	56	1,391
Yearly growth rate	-1.5	9.3	26.9	1.0

<Trend in ODI Inflows (by Share)>



Note: Transitioning economies refer to states that are making transition from socialism to market economy. This category includes 25 Eastern European states, including Russia.

Source: UNCTAD.

of the worldwide investment similarly dropped from 87.9% to 65.4% over the same period, while emerging economies increased theirs from 11.8% to 30.6%.

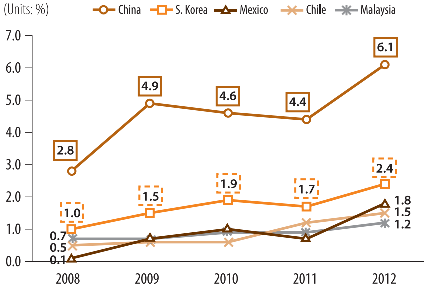
As major emerging economies, such as China, South Korea, Mexico, and Chile, have been increasing their ODI in other countries worldwide, they have significantly boosted emerging economies' presence in ODI and performance on global investment rankings. More and more MNCs from these major emerging economies are merging with and acquiring businesses around the world. In 2012, ODI from China and Korea reached USD 8.4 billion and USD 3.3 billion, up by 12.8% and 13.7% from the previous year, respectively. The two countries also stepped up to the third and 13th places on the global ODI rankings of 207 countries, both nine places higher than their records in 2008.

<Emerging Economies' ODI Rankings>

State	'08	'09	'10	'11	'12	Up by
China	12	6	5	6	3	+9
Hong Kong	11	5	3	4	4	+7
S. Korea	22	18	16	16	13	+9
Mexico	57	24	24	28	15	+42
Singapore	34	15	18	18	16	+18
Chile	31	27	31	21	17	+14
Malaysia	25	25	26	22	21	+4
Thailand	39	33	36	33	26	+13

Source: UNCTAD.

<Emerging Economies' Shares of ODI>



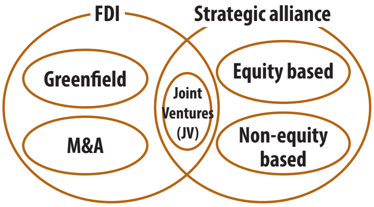
【Definition and Types of FDI】

By making FDI, a nonresident individual or organization of a given country transfers various factors of production, such as capital, management capabilities, technology, and trademarks, to the country with the intent of participating directly in the management of the invested company. Corporations today expand their global presence by either making FDI or forming strategic alliances.

More specifically, a foreign individual or organization making the FDI must either establish a corporation in the given country, or own at least 10% of the total number of shares with voting rights that the invested company issues. Long-term loans, with terms lasting for at least five years in which a company that receives FDI takes from its parent company overseas, also constitute FDI. FDI also includes greenfield investment, merger and acquisition (M&A), and the establishment of joint ventures (JVs).

ODI, by contrast, refers to a resident individual or organization of a given country that invests in individuals or entities outside the country.

<Globalization of Corporations>



<Types and Definitions>

Type		Definition
FDI	Greenfield investment	Direct investment in setting up a new business.
	M&A	Acquiring management rights by taking over part or the entirety of the shares of a given company.
	Joint ventures	Making investment with a partner to create a joint venture. Also constitutes a form of strategic alliance, as it involves cooperation among coinvestors.
Strategic alliance: Two or more companies arrange partnership in pursuit of common strategic goals (e.g., technological development, production, sales, capital, etc.), while still retaining their respective independence, unlike in the case of M&A.	Joint ventures	
	Equity based	Involves investors acquiring shares of partner companies or making other forms of capital investments. Should an investor own at least 10% of the shares, the deal can also be classified as FDI.
	Non-equity based	Based on a contract delineating mutual responsibilities and terms of alliance, without either of the parties making any capital investment.

Sources: IMF, UNCTAD, and KOTRA.

2. Importance of FDI in East Asia

FDI in advanced economies has been steadily dwindling in amount since 2000, while East Asia[3)] is increasingly emerging as one of the most attractive recipients of investment. Between 2000 and 2012, the amounts of FDI inflows into Korea–China–Japan and the ASEAN member states[4)] grew at rates of 7.1% and 14.2% a year, respectively. The aggregate share of Korea–China–Japan in FDI inflows grew from 4.1% in 2000 to 9.8% in 2012, while the ASEAN member states' share also dramatically grew from 1.6% to 8.2% over the same period. With the amounts of FDI inflows into East Asia growing at upwards of 10% each year, the collective share of the region's countries in worldwide FDI inflows also multiplied from 7.2% in 2000 to 24.4% in 2012. The amounts of FDI inflows into the member states of the Trans-Pacific Partnership (TPP), the North American Free Trade Agreement (NAFTA), and the EU have been declining, dropping to 19.1% in the case of the EU in 2012, reflecting the financial crisis in the Eurozone.

3) "East Asia" in this report encompasses the 16 member states of the Regional Comprehensive Economic Partnership (RCEP), i.e., the 10 member states of the ASEAN, South Korea, China, Japan, Australia, New Zealand, and India.

4) The ASEAN consists of 10 Southeast Asian countries, i.e., Singapore, Malaysia, the Philippines, Brunei, Indonesia, Thailand, Cambodia, Laos, Vietnam, and Myanmar.

<Trend in FDI Inflows into Major Economic Blocs>

(Units: USD 100 million, %, %p)

Year	2000	2005	2010	2011	2012	Yearly growth rate
Korea–China–Japan	58.3 (4.1)	81.5 (8.2)	123.6 (8.8)	132.5 (8.0)	132.7 (9.8)	7.1%
ASEAN	22.6 (1.6)	43.3 (4.4)	97.9 (6.9)	109.0 (6.6)	111.3 (8.2)	14.2%
East Asia	101.5 (7.2)	109.7 (11.1)	278.3 (19.8)	347.3 (21.0)	329.4 (24.4)	10.3%
TPP	451.2 (31.9)	169.0 (17.1)	372.3 (26.4)	459.3 (27.8)	405.8 (30.0)	-0.9%
EU	701.8 (49.7)	501.7 (50.7)	379.4 (26.9)	441.6 (26.7)	258.5 (19.1)	-8.0%
NAFTA	399.1 (28.2)	154.9 (15.7)	248.4 (17.6)	289.8 (17.5)	225.7 (16.7)	-4.6%
World total	1,413.2 (100.0)	989.6 (100.0)	1,408.5 (100.0)	1,651.5 (100.0)	1,350.9 (100.0)	-0.4%

Notes: (1) Figures in parentheses represent the respective share of each economic bloc in the world total FDI inflows.
(2) The "EU" includes 27 countries.

Source: UNCTAD.

Thanks to the increase in the amounts of ODI from Korea–China–Japan and the ASEAN member states, East Asia is also emerging as an important source of international investment. Between 2000 and 2012, the amounts of ODI outflows from Korea–China–Japan and the ASEAN grew at rates of 16.8% and 17.2% a year, respectively. Whereas Korea–China–Japan accounted for only 3.0% of all ODI made worldwide in 2000, their aggregate share multiplied by 17.2% by 2012, while the ASEAN's aggregate share also rose from 0.7% to 4.4%. China, in particular, has dramatically multiplied the amounts of ODI it makes worldwide, under the Global Penetration Strategy of 2000 that aims to pioneer new markets abroad and secure resources, and since China's joining of the WTO in 2001.

While the amounts of ODI outflows from all countries except the EU member states have been on rise, East Asia's growth is particularly noticeable. The amount of ODI outflows from East Asia on the whole grew at a rate of 16.6% a year between 2000 and 2012, thus enlarging East Asia's share in the worldwide total from 4.1% to 23.3%. The EU, on the other hand, saw its share of the worldwide total plummet with the onset of the financial crisis in the Eurozone from 66.8% in 2005 to 23.2% in 2012.

<Trend in ODI Outflows from Major Economic Blocs>

(Units: USD 1 billion, %)

Year	2000	2005	2010	2011	2012	Yearly growth rate
Korea–China–Japan	37.0 (3.0)	64.4 (7.1)	153.4 (10.2)	211.3 (12.6)	239.7 (17.2)	16.8%
ASEAN	9.0 (0.7)	18.5 (2.1)	47.4 (3.2)	59.0 (3.5)	60.6 (4.4)	17.2%
East Asia	51.3 (4.1)	53.5 (5.9)	244.6 (16.3)	299.5 (17.8)	324.6 (23.3)	16.6%
TPP	236.7 (19.1)	79.6 (8.8)	487.6 (32.4)	646.0 (38.5)	609.0 (43.8)	8.2%
EU	809.2 (65.2)	603.3 (66.8)	497.8 (33.1)	536.5 (32.0)	323.1 (23.2)	-7.4%
NAFTA	187.7 (15.1)	49.4 (5.5)	354.2 (23.5)	458.6 (27.3)	408.4 (29.4)	6.7%
World total	1,240.3 (100.0)	903.8 (100.0)	1,504.9 (100.0)	1,678.0 (100.0)	1,391.0 (100.0)	1.0%

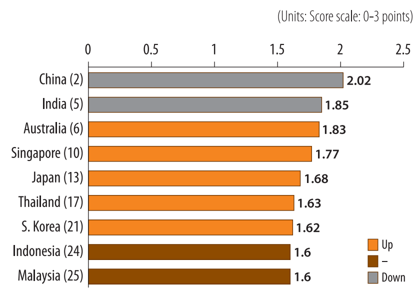
Note: The figures in parentheses represent the respective share of each economic bloc in the world total FDI inflows.
Source: UNCTAD.

A. T. Kearney, a management consulting firm,[5] released its FDI Confidence Index in 2013,[6] showing that the FDI confidence rankings of a number of East Asian states significantly rose from their previous rankings in 2005. Singapore, for instance, stepped up by eight places from the 18th to the 10th, while Thailand also rose from the 20th to the 17th. Australia, Japan, and South Korea also rose by two places. In the meantime, China and India saw their rankings downgraded from first to the second and from second to fifth, respectively. Nevertheless, they still remain the top two Asian countries with the highest confidence rankings.

<East Asia's FDI Confidence Rankings>

Country	2005	2013	Up/down by
China	1	2	-1
India	2	5	-3
Australia	8	6	2
Singapore	18	10	8
Japan	15	13	2
Thailand	20	17	3
S. Korea	23	21	2
Indonesia	-	24	-

<East Asia's FDI Confidence Scores>



Notes: (1) Based on the scores and rankings of the 25 countries receiving the greatest amounts of FDI inflows.
(2) Figures in parentheses represent rankings in 2013. Changes in the rankings were tracked from 2005 to 2013.

Source: A.T. Kearney, Foreign Direct Investment Confidence Indices (2005, 2013).

On the FDI Performance Index, which measures the amount of FDI inflows a country has received against its GDP, East Asian countries also rose up their ranks, while the member states of the EU and the NAFTA took a setback. Since 2000, the ASEAN member states and Korea–China–Japan have witnessed a steady improvement in their FDI performance. Because of these countries' improvements, the aggregate FDI performance of the TPP member states also improved slightly. From 2000 to 2012, the FDI performance of the ASEAN rose by 0.87 to 2.45 in 2012, which

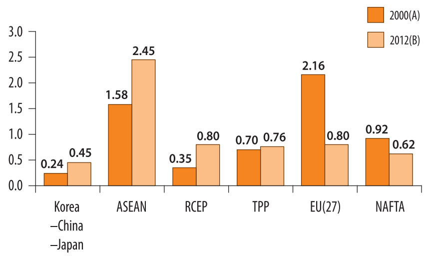
5) A. T. Kearney has been publishing Foreign Direct Investment (FDI) Confidence Indices since 1998.

6) The FDI confidence rankings of 2013 were based on the weighted sums of each country's score on a survey, which asked the executives of MNCs earning USD 500 million or more each year in revenue (i.e., 302 companies across 28 countries) in which countries they planned to directly invest over the following three years, and how much they planned to invest.

is significantly high given these countries' GDPs. The EU and NAFTA member states, on the other hand, took a dip by -1.36 and -0.3, respectively.

<Changes in the FDI Performance of Major Economic Blocs>

Year	2000(A)	2005	2010	2012(B)	(B)-(A)
Korea–China–Japan	0.24	0.54	0.42	0.45	0.21
ASEAN	1.58	2.36	2.17	2.45	0.87
E. Asia	0.35	0.54	0.67	0.80	0.45
TPP	0.70	0.42	0.64	0.76	0.06
EU(27)	2.16	1.85	0.98	0.80	-1.36
NAFTA	0.92	0.54	0.61	0.62	-0.30



Note: The FDI performance refers to the weight of the net FDI inflows (i.e., amounts arrived or returned) in the GDP of a given country.
FDI performance index of country "i": = 〖〖*FDI*_〖*i*〗∕*FDI*_〖*world*〗〗〗/〖〖*GDP*_〖*i*〗∕*GDP*_〖*world*〗〗〗

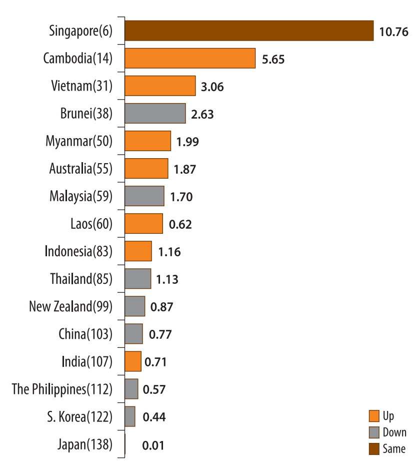
Source: The authors' own calculations, based on the UNCTAD database.

Whereas the FDI indices of Korea, China, and Japan declined a bit given the relative sizes of their economies, the indices of most ASEAN member states, Australia, and India saw improvements.

<Changes in East Asia's FDI Performance Indices>

Country	'00(A)	'12(B)	(A)-(B)
S. Korea	90	122	-32
China	63	103	-40
Japan	131	138	-7
Brunei	17	38	-21
Cambodia	54	14	40
Indonesia	143	83	60
Laos	87	60	27
Malaysia	58	59	-1
Myanmar	72	50	22
The Philippines	76	112	-36
Singapore	6	6	0
Thailand	79	85	-6
Vietnam	53	31	22
Australia	59	55	4
New Zealand	82	99	-17
India	116	107	9

<East Asia's FDI Performance Rankings, 2012>

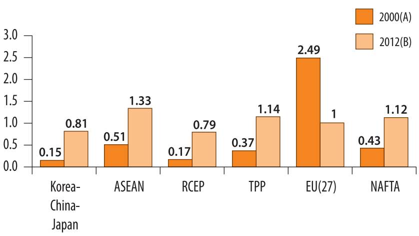


Source: The authors' own calculations based on the UNCTAD database.

East Asia's ODI performance has also steadily improved, with East Asia increasingly emerging as an important source of international investment. East Asia's aggregate score rose from 0.17 in 2000 to 0.26 in 2005, to 0.58 in 2010, and again to 0.79 in 2012, thus marking the region as the only major economic bloc worldwide with continuous rises in the ODI performance scores. The EU's score, in the meantime, dropped from 2.49 in 2000 (the highest in that year) to 1.00 by 2012 because of the ongoing recession.

<Changes in the ODI Performance of Major Economic Blocs>

Bloc	2000(A)	2005	2010	2012(B)	(B)-(A)
Korea–China–Japan	0.15	0.42	0.52	0.81	0.66
ASEAN	0.51	1.01	1.05	1.33	0.82
E. Asia	0.17	0.26	0.59	0.79	0.62
TPP	0.37	0.20	0.82	1.14	0.77
EU(27)	2.49	2.22	1.29	1.00	-1.49
NAFTA	0.43	0.17	0.87	1.12	0.69



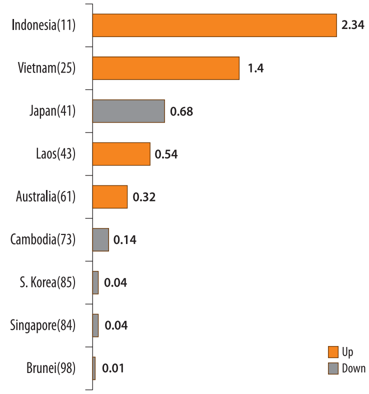
Source: The authors' own calculations based on the UNCTAD database.

More specifically, Indonesia's ODI performance ranking rose from the 125th to the 11th by the incredible 114 places, while Vietnam and Australia also showed a dramatic improvement, raising their respective rankings from 108th to 25th and from 144th to 61th.

<East Asia's ODI Performance Rankings>

Country	2000(A)	2005	2012(B)	(A)-(B)
S. Korea	32	71	85	-53
China	76	137	105	-29
Japan	35	28	41	-6
Brunei	39	39	98	-59
Cambodia	58	103	73	-15
Indonesia	125	34	11	114
Laos	53	83	43	10
Malaysia	22	55	103	-81
Singapore	11	85	84	-73
Vietnam	108	37	25	83
Australia	144	42	61	83
New Zealand	31	1	124	-93

<East Asia's ODI Performance Rankings, 2012>



Note: The figures in parentheses represent rankings in 2013. Changes in the rankings were tracked from 2005 to 2013.
Source: The authors' own calculations based on the UNCTAD database.

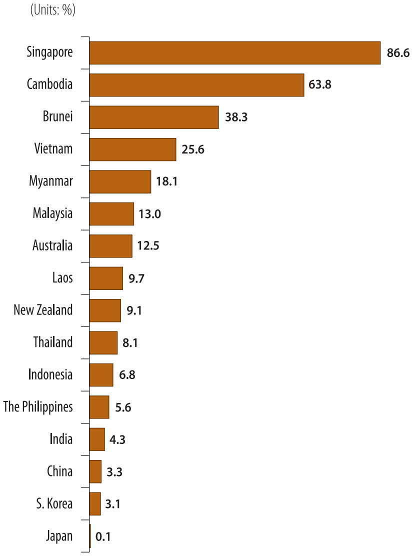
FDI makes up significant parts of East Asian states' GDPs and gross fixed capital formations,[7)] and is expected to increase in important further in the future. FDI, in other words, will remain a significant factor of East Asian economies. In 2012, for example, Singapore's FDI-to-GDP ratio was the highest at 252.3%, followed by Brunei (80.0%), Cambodia (59.4%), Vietnam (51.6%), and Malaysia (43.6%). The majority of East Asian states have FDI-to-GDP ratios that hover well above the Asian average[8)] of 26.9%.

Over the last five years, the FDI-to-GDP ratio has been on consistent rise in 13 East Asian countries, except for Japan, the Philippines, and Myanmar. The FDI-to-gross fixed capital formation ratios also remain quite high, i.e., 86.6% for Singapore, 63.8% for Cambodia, 38.3% for Brunei, 25.6% for Vietnam, and 18.1% for Myanmar. These East Asian/ASEAN countries possess ratios well above the Asian average of 6.5%.

<FDI-to-GDP Ratios (%)>

Country	'08(A)	'09	'10	'11	'12(A)	(A)-(B)
Singapore	226.4	258.7	261.1	240.8	252.3	25.9
Cambodia	44.8	49.8	53.0	53.4	59.4	14.6
Malaysia	31.9	39.1	41.2	40.0	43.6	11.7
Australia	29.1	42.4	40.0	36.5	39.0	9.9
Indonesia	14.2	20.2	22.7	21.9	23.4	9.3
Brunei	71.2	98.9	90.9	76.1	80.0	8.9
New Zealand	39.9	55.2	48.9	45.2	47.5	7.6
Thailand	33.3	39.4	41.8	40.7	40.7	7.4
Vietnam	45.2	50.1	53.3	51.9	51.6	6.4
S. Korea	10.2	14.5	13.2	12.0	12.7	2.6
India	9.7	12.8	12.2	10.9	12.2	2.5
China	8.3	9.3	9.9	9.9	10.3	1.9
Laos	26.9	28.8	28.0	26.7	27.0	0.1
The Philippines	12.5	13.6	13.0	12.6	12.4	-0.1
Japan	4.2	4.0	3.9	3.8	3.5	-0.7
Myanmar	26.3	24.2	20.7	17.5	20.6	-5.7
Asia	23.3	27.6	28.0	25.2	26.9	3.6

<FDI-to-Gross Fixed Capital Formation Ratios (%)>



Note: The FDI-to-GDP ratios are based on cumulative stocks, while the FDI-to-gross fixed capital formation ratios are based on FDI flows.

Source: UNCTAD.

3. Increase in the Greenfield-Type[9] FDI in East Asia

While the worldwide and Eurozone financial crises have drastically

7) "Gross fixed capital formation" refers to all capital goods that a given producer has either purchased or produced. The concept includes the installation costs, acquisition and registration taxes, and other ancillary expenses attendant upon purchasing fixed assets, but does not apply to the purchases of land or secondhand goods.

8) Here the concept of "Asia" encompasses all of East, South, and Southeast Asia.

9) "Greenfield investment" refers to the investment made for the purposes of establishing or creating new businesses and facilities (i.e., factors for manufacturers and offices for service providers). Taken more broadly, it may also encompass investments made in expanding existing production and sales facilities.

reduced the worldwide total amount of ODI over the last five years, the margin of decrease in the case of East Asia has been relatively smaller, with East Asian countries emerging as new important sources of ODI. The worldwide total of greenfield-type ODI declined at a rate of 21.1% a year from USD 1.5821 trillion in 2008 to USD 612.2 billion in 2012, while the margin of decline remained at 13.3% in East Asia, increasing East Asia's share in the worldwide total from 19.7% to 28.8% as a consequence. In particular, the amounts of ODI outflows from all East Asian countries except for China actually grew. By increasing its ODI by 2.7%, South Korea also managed to significantly increase its share in the worldwide total, from 2.2% in 2008 to 6.3% in 2012. China's, on the other hand, took a slight dip from 3.3% in 2008 to 3.1% in 2012.

<East Asia's Greenfield-type ODI>

(Units: USD 1 billion, %)

Year	2008	2009	2010	2011	2012	Yearly growth rate
S. Korea	34.8 (2.2)	30.6 (2.9)	37.5 (4.2)	20.8 (2.3)	38.7 (6.3)	2.7%
China	51.5 (3.3)	26.5 (2.5)	32.9 (3.6)	40.1 (4.4)	19.1 (3.1)	-22.0%
Japan	98.6 (6.2)	64.1 (6.2)	66.0 (7.3)	75.9 (8.3)	42.7 (7.0)	-18.9%
ASEAN	53.4 (3.4)	40.4 (3.9)	36.2 (4.0)	29.0 (3.2)	38.9 (6.4)	-7.6%
Australia-New Zealand-India	73.4 (4.6)	43.7 (4.2)	33.6 (3.7)	50.2 (5.5)	36.8 (6.0)	-15.8%
Subtotal (E. Asia)	311.6 (19.7)	205.4 (19.7)	206.1 (22.9)	216.1 (23.7)	176.3 (28.8)	-13.3%
World total	1,582.1 (100.0)	1,041.9 (100.0)	901.2 (100.0)	913.8 (100.0)	612.2 (100.0)	-21.1%

Note: Figures in parentheses represent the countries' respective shares in the worldwide total amount of ODI outflows.
Source: UNCTAD, fDi markets database.

Ⅱ. Causes of Increase in FDI in East Asia

1. Rising Economic Profile of East Asia

In 2012, East Asia accounted for 29.5% of the world's total GDP, 29.0% of trade, 24.4% of the worldwide FDI inflows, and 48.7% of the world population. This makes East Asia a bigger market than either the EU or the NAFTA bloc. With a total GDP of USD 21.1887 trillion, East Asia has a regional economy greater and more productive than either the EU or the NAFTA bloc, which respectively account for 23.1% and 26.1% of the world's total GDP. With a volume of trade amounting to USD 10.5 trillion, East Asia is also bigger than the TPP bloc (USD 9.6 trillion). The triumvirate of South Korea, China, and Japan leads the region's economy,

<Economic Performance of Major Economic Blocs>

(Unit: USD 1 billion, 1 million population)

Bloc	GDP	Trade	Investment		Population
			FDI	ODI	
Korea–China–Japan	15,347 (21.4)	6,627 (18.2)	133 (9.8)	240 (17.2)	1,530 (21.7)
ASEAN	2,306 (3.2)	2,516 (6.9)	111 (8.2)	61 (4.4)	618 (8.8)
East Asia	21,189 (29.5)	10,540 (29.0)	329 (24.4)	325 (23.3)	3,434 (48.7)
TPP	27,558 (38.4)	9,641 (26.5)	406 (30.0)	609 (43.8)	799 (11.2)
EU	16,584 (23.1)	11,284 (31.0)	259 (19.1)	323 (23.2)	504 (7.2)
NAFTA	18,681 (26.1)	5,619 (15.4)	226 (16.7)	408 (29.4)	466 (6.6)

Note: Based on 2012, with figures in parentheses indicating each bloc's respective shares.

Sources: IMF, UNCTAD, and *Global Insight*.

accounting for 72.4% of the region's total GDP, 62.9% of the region's trade, and 44.6% of the region's population.

While the TPP, EU, and NAFTA's respective shares of the world's total GDP steadily declined between 2000 and 2012, East Asia managed to increase its, thanks to its rapid economic growth. The ASEAN member states, India, Australia, and New Zealand saw their economies grow at rates of 11.7%, 11.8%, 11.9%, and 10.1% a year respectively, hovering well above the world's average. East Asia's regional GDP also multiplied from USD 8 trillion in 2000 to USD 21.1887 trillion in 2012, at a rate of 8.5% a year, and increasing its share in the world's total GDP by 5.2% age points.

<Major Economic Blocs' Shares in the World's Total GDP>

(Units: USD 1 billion, %)

Year	2000	2005	2010	2011	2012	Yearly growth rate
Korea–China–Japan	6,463 (20.0)	7,674 (16.8)	12,441 (19.6)	14,335 (20.4)	15,347 (21.4)	7.5 (1.4)
ASEAN	608 (1.9)	918 (2.0)	1,886 (3.0)	2,182 (3.1)	2,306 (3.2)	11.7 (1.7)
East Asia	8,001 (24.7)	10,241 (22.4)	17,331 (27.3)	20,008 (28.5)	2,118 (29.5)	8.5 (5.2)
TPP	16,904 (52.3)	20,585 (45.1)	24,999 (39.4)	26,687 (38.0)	27,558 (38.4)	4.2 (-13.9)
EU	8,501 (26.3)	13,788 (30.2)	16,288 (25.7)	17,589 (25.0)	16,584 (23.1)	5.7 (-3.2)
NAFTA	11,363 (35.1)	14,636 (32.0)	17,149 (27.0)	18,015 (25.7)	18,681 (26.1)	4.2 (-9.0)
World total	32,331	45,679	63,468	70,221	71,707	6.9

Note: The figures in parentheses indicate each bloc's respective shares in the world's total GDP.

Source: IMF.

East Asia's foreign reserves also multiplied dramatically over the 12-year period, from USD 885.2 billion to USD 6 trillion. The region's share in the worldwide total amount of foreign reserves has consequently increased from 27.3% to 43.8%. In particular, China led the world in this regard in 2012, with foreign reserves totaling USD 3.3 trillion, while Japan came in second with foreign reserves amounting to USD 1.2 trillion.

<East Asia's Foreign Reserves>

(Units: USD 1 billion, %)

Year	'00	'05	'10	'11	'12	Yearly growth rate
S. Korea	96	211	292	307	323	10.6
China	172	831	2,914	3,255	3,331	28.0
Japan	362	847	1,096	1,296	1,227	10.7
ASEAN	192	306	693	766	760	12.2
Australia	19	43	42	47	45	7.5
New Zealand	4	9	17	17	18	13.2
India	41	138	300	299	271	17.0
Total	885	2,385	5,355	5,986	5,975	17.2

<East Asia's Share in the Worldwide Foreign Reserves>

(Units: %)

Year	'00 (A)	'05	'10	'11	'12 (B)	(B)-(A)
S. Korea	4.6	4.7	3.0	2.9	2.8	-1.8
China	8.3	18.7	30.0	30.4	29.1	20.8
Japan	2.0	3.1	3.1	2.8	2.4	0.4
ASEAN	9.3	6.9	7.1	7.2	6.6	-2.6
Australia	0.9	1.0	0.4	0.4	0.4	-0.5
New Zealand	0.2	0.2	0.2	0.2	0.2	0.0
India	2.0	3.1	3.1	2.8	2.4	0.4
Total	27.3	37.7	47.0	46.6	43.8	16.5

Note: Include the gold reserves.

Source: IMF.

2. Improvement in International Assessment of East Asia

East Asia's population amounted to 3.4 billion in 2012, which is almost half the world's total. This region with its burgeoning and gigantic domestic markets is also rich with young and capable workforces who can provide labor and consume the goods that the region produces.

<East Asia's Share of the Worldwide Population>

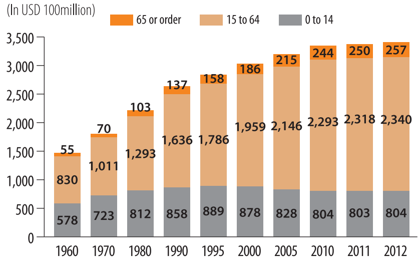
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population (in millions)	3,125	3,157	3,189	3,221	3,251	3,281	3,311	3,341	3,371	3,400
Rate of increase (%)	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Share in world total (%)	49.3	49.2	49.1	49.0	48.9	48.8	48.7	48.5	48.4	48.3

Note: The rate of increase applies to growth from year to year.

Source: World Bank.

In particular, 69% of the region's population is capable of working for income. With the level of income rising across the region, the domestic markets possess significant potential for growth as well. Whereas the size of the economically active population, aged 15 to 64, amounted to a mere 830 million in the region in 1960, it multiplied to 2.34 billion or 68.8% of the region's total population by 2012.

<Changes in East Asia's Economically Active Population>



Note: An economically active population refers to persons aged 15 to 64.

Source: World Bank.

(Unit: millions, %)

Age	1960	2012	Yearly growth rate
0 to 14	578 (39.5)	804 (23.6)	0.6
15 to 64	830 (56.7)	2,340 (68.8)	2.0
65 or older	55 (3.8)	257 (7.5)	3.0
Total	1,463	3,400	1.6

Note: The figures in parentheses indicate each age group's share in the total population.

Source: World Bank.

The rapid economic growth of the region has dramatically increased the sizes of its middle classes and of its domestic markets. These favorable improvements in investment settings are reflected in the rising credit ratings given to the region by the world's three prestigious international credit rating agencies, i.e., Moody's, S&P, and Fitch Ratings. Seven of 15 East Asian states[10)] are either receiving increasingly higher ratings from these agencies or have managed to maintain their ratings so far.

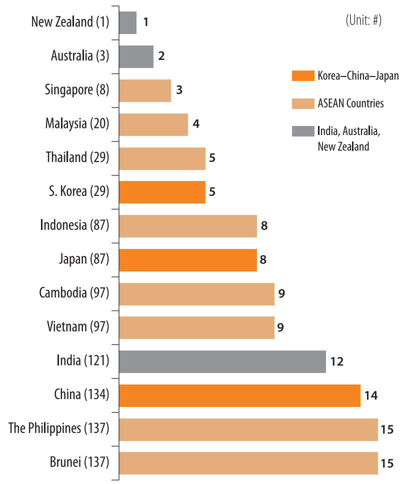
Australia, in particular, has maintained the most stable and highest ratings in East Asia over the last decade or so, receiving the highest rating of "AAA" from Fitch Ratings in November 2011. At least one of these agencies, however, has lowered its ratings for Japan, Malaysia, Vietnam, New Zealand, and India.

3. Improving Investment Environment in East Asia

Greater ease of setting up new businesses in the region: The cost of setting up new businesses in East Asia is steadily decreasing, while the procedures involved in setting up new businesses in the region have also been simplified, made 2.1 procedures less and 10 days faster on average between 2008 and 2012. The number of procedures involved has been decreasing in all East Asian states except China, and the amounts of time it takes to set up new businesses have also been decreasing in all East Asian states except China and Japan.

10) The seven states include South Korea, China, Indonesia, the Philippines, Singapore, Thailand, and Australia.

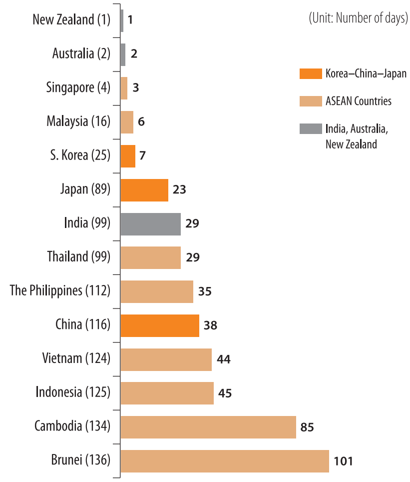
<Numbers of Procedures in Setting up New Businesses>



<Trend in the Numbers of Procedures>

Country	2008(A)	2012(B)	(B)-(A)
S. Korea	10	5	-5
China	13	14	1
Japan	8	8	0
Australia	2	2	0
New Zealand	2	1	-1
India	13	12	-1
Singapore	5	3	-2
Thailand	8	5	-3
Vietnam	11	9	-2
Brunei	18	15	-3
Cambodia	10	9	-1
Malaysia	9	4	-5
Indonesia	12	8	-4
The Philippines	15	15	0
Simple average	9.7	7.6	-2.1

<Amounts of Time Involved in Setting up New Businesses>



<Trend in the Amounts of Time>

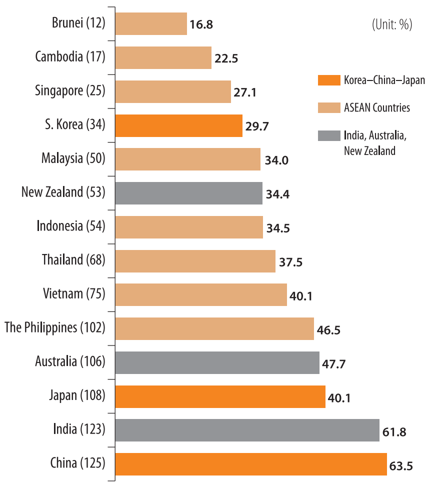
Country	2008(A)	2012(B)	(B)-(A)
S. Korea	17	7	-10
China	35	38	3
Japan	23	29	6
Australia	2	2	0
New Zealand	12	1	-11
India	33	29	-4
Singapore	5	3	-2
Thailand	33	29	-4
Vietnam	50	44	-6
Brunei	116	101	-15
Cambodia	86	85	-1
Malaysia	24	6	-18
Indonesia	105	45	-60
The Philippines	52	35	-17
Simple average	42.4	32.4	-10.0

Note: The figures in parentheses indicate the ranking of each country out of 141 countries in total in terms of how efficient and fast the process of setting up new businesses is in that country.

Sources: World Economic Forum, The Global Competitiveness Report of each year.

Business-friendly policy on foreign investors: East Asian states are also reinforcing their protection of investors and lowering the tax rates on corporate income. All East Asian states except Singapore have reduced their tax rates, thus bringing the East Asian average down from 43.2% in 2007 to 38.9% in 2011.

<Income Tax Rates in East Asia>



<Changes in Total Income Tax Rates>

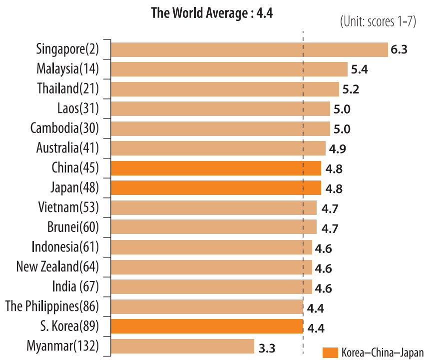
Country	2008(A)	2012(B)	(A)-(B)
S. Korea	34.9	29.7	↓ 5.2
China	73.9	63.5	↓ 10.4
Japan	52.0	49.1	↓ 2.9
Australia	50.6	47.7	↓ 2.9
New Zealand	35.1	34.4	↓ 0.7
India	70.6	61.8	↓ 8.8
Singapore	23.2	27.1	↓ -3.9
Thailand	37.7	37.5	↓ 0.2
Vietnam	41.1	40.1	↓ 1.0
Brunei	37.4	16.8	↓ 20.6
Cambodia	22.6	22.5	↓ 0.1
Malaysia	36.0	34	↓ 2.0
Indonesia	37.3	34.5	↓ 2.8
The Philippines	52.8	46.5	↓ 6.3
Simple average	43.2	38.9	↓ 4.3

Note: The figures in parentheses indicate the countries' respective rankings out of 141 countries in total, with one indicating "little" and seven indicating "much." The tax rates take into account income taxes, labor taxes, and other public dues and charges.

Source: World Bank, Doing Business of each year (2008, 2012).

In particular, major East Asian states are actively vying for the attention of foreign investors by reinforcing their various investor protection measures and incentives.

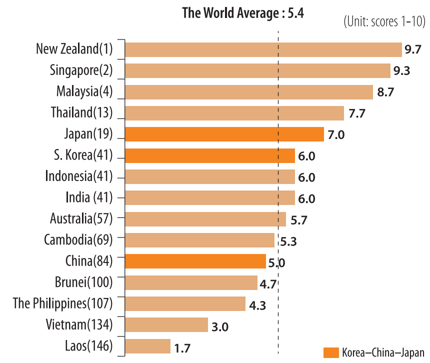
<Incentives for Foreign Investors>



Note: The figures in parentheses indicate the countries' rankings out of 148 countries in total, with one indicating "little" and seven indicating "much."

Source: WEF, Global Competitiveness Report 2013-2014.

<Levels of Investor Protection>

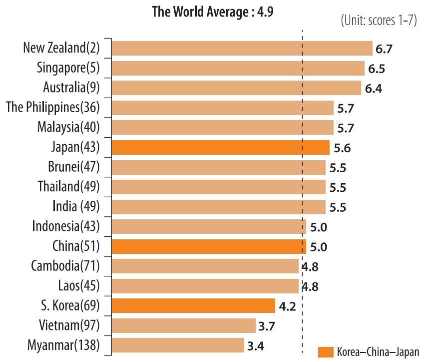


Note: The figures in parentheses indicate the countries' rankings out of 148 countries in total, with one indicating "little" and seven indicating "much."

Source: WEF, Global Competitiveness Report 2013-2014.

The majority of East Asian states also offer highly accessible financial services and banks with high degrees of financial stability. East Asia thus hovers well above the world average in terms of financial competitiveness.

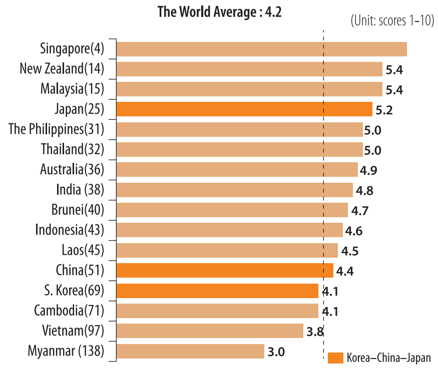
<Financial Stability of Banks>



Note: The figures in parentheses indicate the countries' rankings out of 148 countries in total, with one indicating "little" and seven indicating "much."

Source: WEF, Global Competitiveness Report 2013-2014.

<Accessibility of Financial Services>



Note: The figures in parentheses indicate the countries' rankings out of 148 countries in total, with one indicating "little" and seven indicating "much."

Source: WEF, Global Competitiveness Report 2013-2014.

<Recent Changes in Major East Asian States' Policies on Foreign Investors>

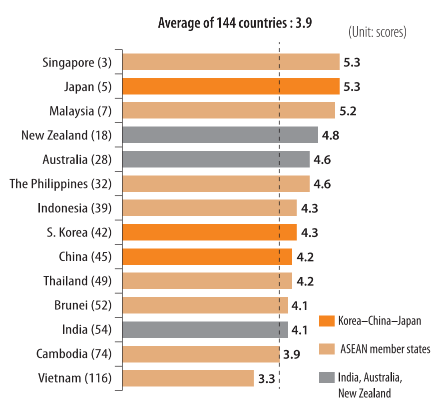
	Main incentives for foreign investors
China	- Raise of the ceiling on foreign investment projects in high-tech, energy, and environmental protection from USD 1 million to USD 3 million (2010). - Simplification of the review of foreign capital companies and permission to procure capital in China (April 2010). - Expansion and reform of the scope of foreign capital companies' investment with a view to increasing investment in high added-value industries and the development of remote rural areas (2010). - Elimination of tariffs and VATs on goods imported to support R & D centers and facilities of foreign capital companies (2010). - Reform of the Industrial Guidance List for Foreign Investors with a view to increasing investment in high-tech (January 2012).
India	- Permission for foreign direct investors to issue shares in exchange for returns on capital goods, machinery, etc. (April 2011). - Opening of the distribution industry: permitting foreign direct investors to own up to 51% of shares of multiple retail brands (November 2011). - Permission for foreign direct investors to own up to 100% of shares of port and food processing companies (November 2011). - Permission for foreign direct investors to own up to 100% of B2B e-commerce companies (April 2012). - Permission for foreign direct investors to set up companies entirely owned by them in certain agricultural industries (May 2012).
Indonesia	- Increase in the amounts of shares that can be held by foreign investors (55% to 67% in construction and 65% to 67% in hospital services; May 2010). - Reform of Land Expropriation Act with a view to increasing investment in infrastructure (January 2012). - New Investment Plan: simplifying the investment procedures and offering new incentives (February 2012). - Detailed Rules of Mining Act: adding the provision that all mineral resources are to be exported after processing (February 2012).
Malaysia	- Elimination of taxes on interests and dividends earned (August 2008). - Elimination of limits on amounts of shares that can be held by foreign investors in 27 service industries, local distribution centers, and international purchase centers (April 2009). - Raise of ceilings on foreign investors' holding of shares in insurance and securities companies (49% to 70%), and deregulation on establishment of local corporations (June 2009). - Creation of Special Economic Zones, elimination of taxes on new growth industries, and other incentives (August 2009).
The Philippines	-Reduction of income taxes on all corporations by 30%, permission for foreign companies to sell and purchase foreign currencies freely (January 2009). -Creation of PPP Center to encourage and promote private-public partnership programs and projects (March 2011). -IPP: prioritizing and offering incentives for investing in energy, minerals, infrastructure, and R & D (March 2011).
Thailand	- Decrease in corporate income tax rate (from 30% to 23% in 2012, and to 20% in 2013; October 2011). - Permission for foreign banks to convert branches into subsidiary companies (February 2012).

Vietnam	- Improvement of investment environment, joining WTO and opening up construction, transportation, and communication industries phase by phase (November 2006). - Enactment of the Act on Protection of Copyrights and Intellectual Property Rights (May 2009).
S. Korea	- Foreign Investment Fostering Plan: encouraging foreign investment in four sectors, i.e., knowledge services, tourism and recreation, logistics and SOC and infrastructure, and finance, education and medicine (September 2010). - Creation of a new organization to attract foreign investment in parts and materials industries (December 2010). - Foreign Investment Promotion Plan: prioritizing green/new growth industries, high value-added services, and parts and materials industries (February 2011). - Strengthening foreign investor services and strategies particularly for Chinese, Japanese, and American investors (August 2012).

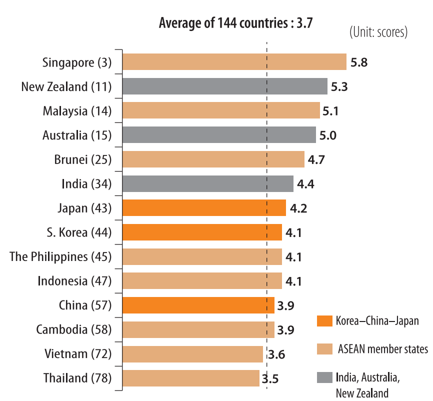
Source: Bank of Korea.

Improving the quality of education and workforces: Famous for its zeal for learning, East Asia has been rigorously investing in the education and development of human resources. All East Asian states except Vietnam hovers the worldwide average in terms of the amounts of money they invest in the development of human resources and the improvement of the quality of education.

<Levels of Investment in Human Resources Development>



<Quality of Educational Systems>

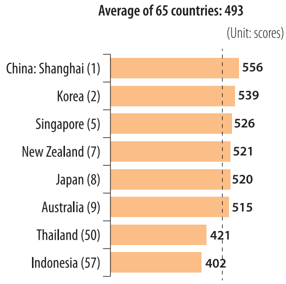


Note: Based on a survey of corporate executives' opinions, with one indicating "poor" and seven indicating "excellent." The figures in parentheses indicate the countries' rankings out of 144 countries in total.

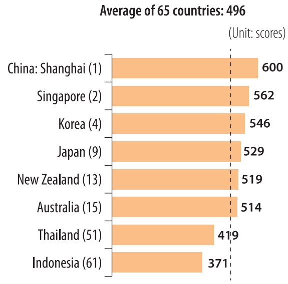
Source: World Economic Forum, The Global Competitiveness Report 2012-2013.

Because of these efforts to improve the quality of their workforces, East Asian students also continue to have high scores on the Program for International Student Assessment (PISA).[11)]

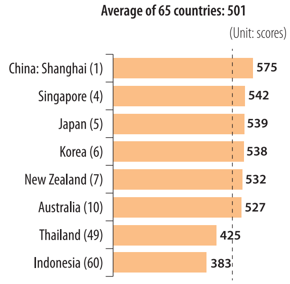
<PISA Reading Scores>



<PISA Mathematics Scores>



<PISA Science Scores>



Note: The figures in parentheses indicate the countries' rankings out of 65 countries in total, with a score of one indicating "poor" and a score of 600 indicating "perfect" (2009).

Source: OECD.

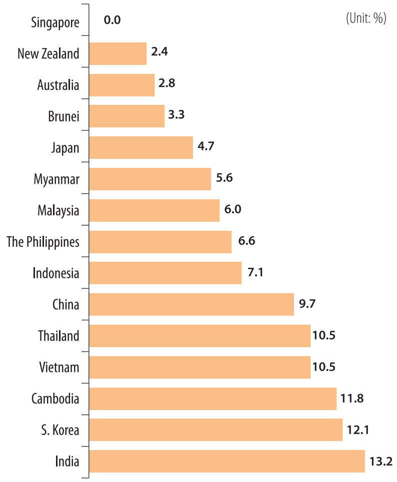
4. Lowering the Trade Barriers and Extending the FTA Network

With all the East Asian states now having joined the WTO, there is a significant trend particularly in the ASEAN toward lowering the tariff rates with a view to promoting trade and attracting greater foreign investment. As

11) The PISA evaluates the reading, mathematical, and scientific abilities of students aging 15 years old and above in certain countries with the aim of collecting basic data for each country's education policy. The tests are conducted every three years in 65 countries, including the 34 member states of the Organization for Economic Cooperation and Development (OECD) and 31 partner states. The 65 countries include eight of the East Asian states, i.e., China/Shanghai, South Korea, Japan, Singapore, New Zealand, Australia, Thailand, and Indonesia.

the ASEAN member states have begun to abandon their formerly high tariff rates, the region's average tariff rates on imports have decreased by 0.5% age points over the last five years.

<East Asia's Average Tariff Rates on Imports, 2012>



<Changes in East Asia's Average Tariff Rates on Imports>

(Units: %, %p)

Year	2008(A)	2012(B)	(B)-(A)
S. Korea	11.8	12.1	0.3
China	9.7	9.7	0.0
Japan	4.6	4.7	0.1
Australia	**3.6**	**2.8**	**-0.8**
New Zealand	**2.5**	**2.4**	**-0.1**
India	12.7	13.2	0.5
Singapore	0.0	0.0	0.0
Thailand	10.4	10.5	0.1
Vietnam	**11.6**	**10.5**	**-1.1**
Brunei	**3.6**	**3.3**	**-0.3**
Cambodia	**15.0**	**11.8**	**-3.2**
Malaysia	**7.3**	**6.0**	**-1.3**
Indonesia	**7.8**	**7.1**	**-0.7**
The Philippines	**6.7**	**6.6**	**-0.1**
Myanmar	**6.1**	**5.6**	**-0.5**
Simple avg.	**7.6**	**7.1**	**-0.5**

Note: All data are based on tariff rates applying to all categories of goods as of 2012, except for Thailand and Brunei whose figures are from 2011 and for China whose figures are from 2010.

Source: WTO.

The East Asian states have entered 62 free trade agreements (FTAs) with 64 countries in total, thus attracting a significant number of MNCs looking to make use of the FTA arrangements. These states together have also signed or concluded negotiations for six other FTAs with 36 countries so far.

<FTAs in East Asia>

Ratified	Signed/concluded
62 FTAs with 64 countries	6 FTAs with 36 countries
ASEAN, Thailand, Singapore, Malaysia, Indonesia, Brunei, The Philippines, Vietnam, Laos, TPP[12], Australia, New Zealand, Chile EFTA,[13] Switzerland, EU, SAFTA,[14] Pakistan, Sri Lanka, India, Korea–China–Japan, Peru, Mexico, Turkey, U.S., Panama, Costa Rica, Jordan, Macao, Hong Kong.	Chile, Costa Rica, Colombia, GCC,[15] EU.

Sources: KITA-IIT and WTO.

12) Trans-Pacific Partnership (TPP): currently counts Chile, Brunei, Australia, and New Zealand as its members, and in negotiations over membership with 12 other countries now, including Singapore, Vietnam, Peru, Malaysia, the United States, Mexico, Canada, and Japan.

13) European Free Trade Association (EFTA): includes Switzerland, Norway, Iceland, and Lichtenstein as its member states.

14) South Asian Preferential Trade Agreement (SAFTA): includes India, Pakistan, Sri Lanka, Bangladesh, Nepal, Bhutan, and the Maldives as its member states.

15) Gulf Cooperation Council (GCC): includes Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Oman, and Bahrain as its member states.

Ⅲ. FDI Trends in East Asia by State, Sector, and Investment Type

1. FDI Trends in East Asia by State

Between 2008 and 2012, the amounts of FDI inflows into Singapore, Indonesia, and Myanmar have significantly increased, abruptly increasing the ASEAN's share of the total amount of FDI inflows that East Asia receives by 16.6% age points. Notwithstanding the decrease in the worldwide total amount of FDI inflows at a rate of 7.1% from year to year, the amount of FDI inflows into the ASEAN member states multiplied at a rate of 21.8% a year, from USD 50.5 billion in 2008 to USD 111.3 billion

<FDI Inflows into ASEAN Member States>

(Units: USD 100 million, %)

Countries	'08	'09	'10	'11	'12	Yearly growth rate
Brunei	3	4	6	12	9	26.7
Cambodia	8	5	8	9	16	17.6
Indonesia	93	49	138	192	199	20.8
Laos	2	2	3	3	3	6.6
Malaysia	72	15	91	122	101	8.9
Myanmar	9	10	13	22	22	27.0
The Philippines	15	20	13	18	28	16.0
Singapore	122	249	536	559	567	46.8
Thailand	85	49	91	78	86	0.4
Vietnam	96	76	80	74	84	-3.3
ASEAN	505	478	979	1,090	1,113	21.8
East Asia	2,929	2,252	2,783	3,473	3,294	3.0
World total	18,164	12,165	14,085	16,515	13,509	-7.1

Source: UNCTAD

<ASEAN Member States' Shares in East Asia Total>

(Units: %, %p)

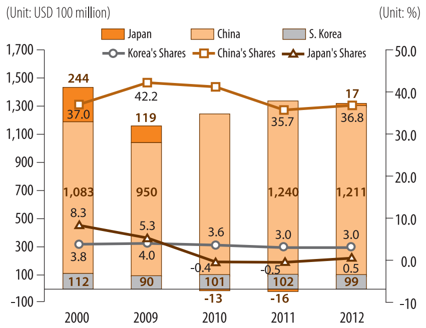
Countries	'08	'09	'10	'11	'12	Yearly growth rate
Brunei	0.1	0.2	0.2	0.3	0.3	0.2
Cambodia	0.3	0.2	0.3	0.3	0.5	0.2
Indonesia	3.2	2.2	4.9	5.5	6.0	2.8
Laos	0.1	0.1	0.1	0.1	0.1	0.0
Malaysia	2.4	0.6	3.3	3.5	3.1	0.7
Myanmar	0.3	0.4	0.5	0.6	0.7	0.4
The Philippines	0.5	0.9	0.5	0.5	0.8	0.3
Singapore	4.2	11.1	19.3	16.1	17.2	13.0
Thailand	2.9	2.2	3.3	2.2	2.6	-0.3
Vietnam	3.3	3.4	2.9	2.1	2.5	-0.8
ASEAN	17.2	21.2	35.2	31.4	33.8	16.6

Source: UNCTAD.

in 2012, thus increasing the total amount of FDI inflows into East Asia by 3.0%.

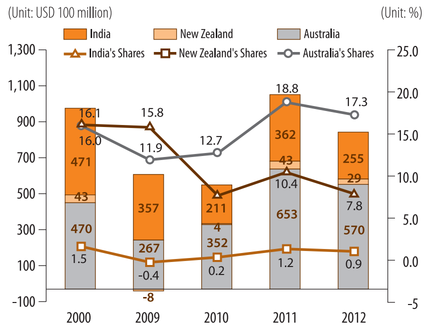
In 2012, China claimed 36.8% or the greatest share of all FDI inflows into East Asia followed by Australia (17.3%), Singapore (17.2%), and India (7.8%). The amount of FDI inflows into China grew at a rate of 2.8% a year from USD 108.3 billion in 2008 to USD 121.1 billion in 2012. The amount of FDI inflows into Japan, by contrast, has drastically decreased at a rate of 48.4% a year, leading Japan to drop from fourth place in 2008 to 13th place in 2012. In the meantime, the amount of FDI inflows into Korea also dropped at a rate of 3.0% a year, from USD 11.2 billion in 2008 to USD 9.9 billion in 2012, decreasing the country's share of FDI inflows into East Asia from 3.8% to 3.0%. The country came in sixth place in 2008 in the region but was pushed down to the seventh place in 2012, having lost the race to Indonesia and Malaysia.

<FDI Inflows into Korea, China, and Japan>



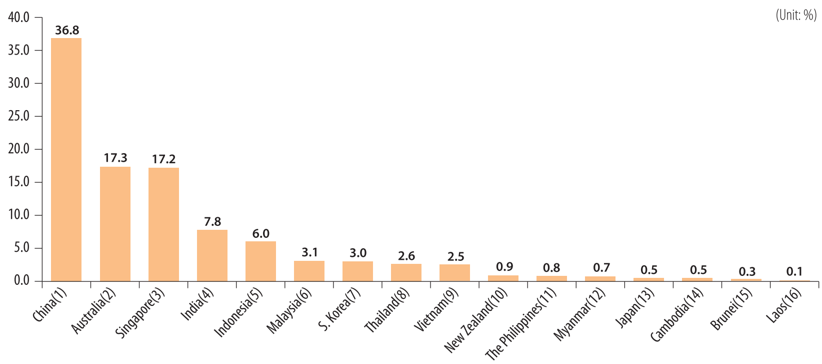
Note: Each country's share in FDI inflows into East Asia.
Source: UNCTAD.

<FDI Inflows into Australia, New Zealand, and India>



Note: Each country's share in FDI inflows into East Asia.
Source: UNCTAD.

<Countries' FDI Shares and Rankings in East Asia>



Note: The ranking each country is based on the amount of FDI inflows it has received.

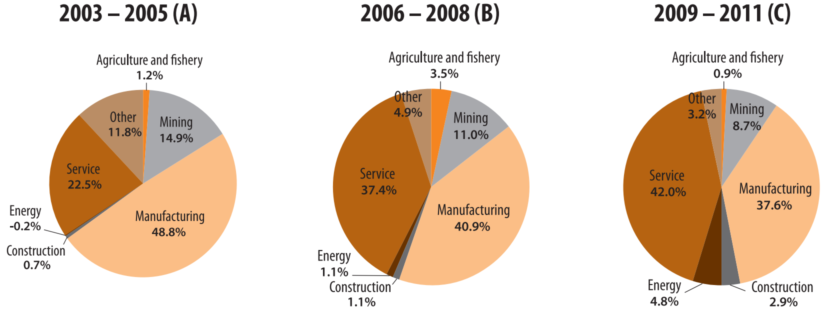
Source: UNCTAD.

2. FDI Trends in East Asia by Sector

From 2003 to 2011, although the amounts of FDI inflows into ASEAN member states' manufacturing and primary industries began to decrease after the global financial crisis, the amounts of inflows into tertiary industries, particularly the service sector, energy, and construction, rather increased. Manufacturing used to claim almost half (48.8%) of all FDI inflows into ASEAN from 2003 to 2005, but its share dropped to 40.9% from 2006 to 2008, and again to 37.6% after the financial crisis.

In the meantime, the service sector saw a dramatic increase in its share, from 22.5% to 42% over the same period of time. Energy and construction also saw their shares increase from less than 1% to 4.8% and 2.9%, respectively. The importance of construction, energy, and other areas of infrastructure has grown concomitantly with the rapid economic growth of these countries. However, the share of FDI inflows into primary industries, which once reached 16.1% (1.2% for agriculture and fishery, 14.9% for mining) in 2003 – 2005, dropped to 14.5% (3.5% and 11%) in 2006 – 2008, and again to 9.6% (0.9% and 8.7%) in 2009 – 2011.

<FDI Inflows into Different Sectors of ASEAN Member States>

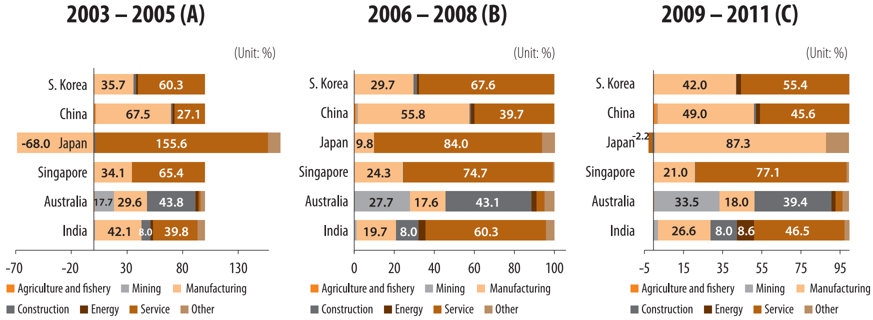


Note: Based on yearly averages, except for Singapore.

Source: Compiled by the authors based on the CEIC, OECD, and ITC databases.

While FDI in manufacturing decreased and in service industries increased in the cases of China, Australia, India, and Singapore, the pattern was reversed in the cases of Japan and South Korea. The manufacturing's share of FDI in China dropped from 67.5% in 2003 – 2005 to 49.0% in 2009 – 2011, while the service sector's share multiplied from 27.1% – 45.6%. In Japan and Korea, on the other hand, the service sector's share decreased from 155.6% and 60.3% in 2003 – 2005 to -2.2% and 55.4% after the financial crisis, respectively. The manufacturing sectors in these two countries, however, have come to claim increasing shares. Japan, in particular, began to pursue FDI in its manufacturing sector actively after suffering an FDI inflow rate of -68% in 2003 – 2004. The FDI in these two countries' service sectors plummeted after the global financial crisis.

<FDI Shares of Different Sectors: S. Korea, China, Japan, Australia, India, and Singapore>



Notes: (1) Based on the yearly averages.

(2) The negative rates indicate that greater amounts of investment were collected back than made in the given year.

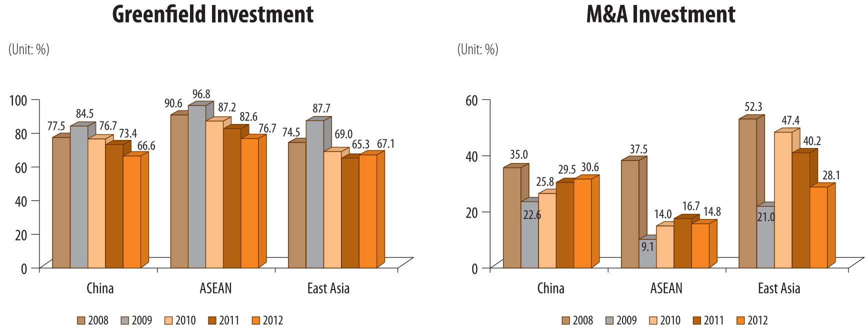
Source: compiled by the authors based on the CEIC, OECD, and ITC databases.

3. Trends of FDI in East Asia by Investment Type

Increasing significance of greenfield-type investment: In most cases, FDI flowing into East Asia is greenfield investment that supports the creation of new production bases. While greenfield investments and M&A are the two leading types of FDI worldwide, greenfield investment has always taken predominance in East Asia, although its relative share dwindled somewhat between 2008 and 2012. China and the ASEAN, claiming 36.8% and 33.8% of all FDI made in East Asia, respectively, saw that the amounts of greenfield-type FDI they received decreased by 10.9%

and 13.9%, respectively, between 2008 and 2012, thus causing the total amount of greenfield-type FDI in East Asia to drop by 24.2% age points. In the meantime, the M&A investment suffered a significant setback in 2009 because of the global financial crisis, before returning to normal level in 2010 and again declining to 28.1% of all FDI in East Asia in 2012. China and the ASEAN claimed 22.6% and 9.1% of M&A-type FDI in 2009, respectively. On the other hand, China's share has been steadily growing because ASEAN began to drop again in 2012.

<Shares of Different Types of FDI in East Asia>



Note: The greenfield and M&A types are the leading forms of FDI worldwide today. / Source: UNCTAD.

Ⅳ. Economic Effects of FDI in East Asia

1. Increasing Investment in East Asia

(1) Increasing importance of greenfield investment in East Asia

Over the last five years, the importance of greenfield investment in East Asia has been on consistent rise, boosting the production network in the region greatly. The increase in FDI inflows into East Asia, from 31.6% in 2008 to 37.7% in 2012, has also served to boost the level of overall investment in the region by 1.7%. While ODI from East Asia accounted for 40.3% of total investment involving the region, it took a slight decline from the 45.4% of 2008. As a matter of fact, intraregional investment has been declining at a larger margin, 15.8%, than the region's ODI in other parts of the world, at 13.3%, over the last five years.

<Intraregional Greenfield Investment in East Asia>

(Units: %, %p)

	2008(A)	2009	2010	2011	2012(B)	(B)-(A)
Inflows	31.6	33.8	32.3	36.7	37.7	6.1
Outflows	45.4	55.3	46.2	44.7	40.3	-5.1
Total	37.3	41.9	38.0	40.3	39.0	1.7

Note: The intraregional shares refer to the shares that other East Asian countries claim from the FDI that each East Asian country makes.
Source: Based on the authors' own calculations, applying the UNCTAD Statistics and the fDi markets database.

Nine* out of the 16 East Asian states increased their investment in fellow East Asian states.

* China, Japan, Brunei, Thailand, Indonesia, Australia, Malaysia, India, and Singapore.

In particular, while the intraregional FDI in East Asia took a downturn after 2008 due to the worldwide recession, intraregional FDI inflows in Brunei, Australia (5.9%) and Myanmar (4.2%) all grew. In the meantime, the amounts of FDI inflows into seven other East Asian states, including Vietnam (-38.5%) and South Korea (-23.8%), decreased drastically.

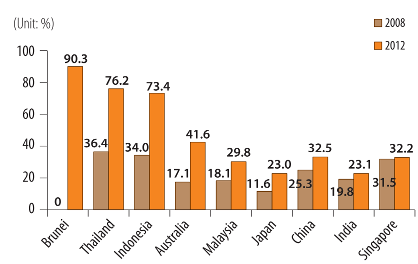
While East Asia is a key source of FDI inflows into the ASEAN member states, it is not the case for Korea, China, Japan, New Zealand, and India. As of 2012, Brunei had the highest rate of dependency on East Asia for FDI inflows, at 90.3%, followed by Myanmar (88.9%), Laos (88.0%), Thailand (76.2%), and Indonesia (73.4%), in that order. South Korea, Japan, India,

<Intraregional FDI by Country >

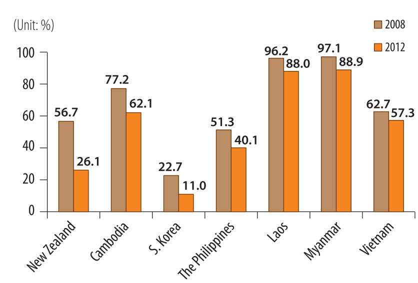
(Units: USD 1 million, %)

	2008	2009	2010	2011	2012	Yearly growth rate
S. Korea	2,688	1,143	449	2,249	690	-28.8
China	33,002	34,257	25,109	26,254	23,990	-7.7
Japan	1,306	1,430	560	451	1,206	-2.0
Brunei	-	69	8	5,852	70	-
Cambodia	2,766	3,501	1,292	1,748	1,010	-22.3
Indonesia	14,270	15,718	8,217	17,059	12,297	-3.7
Laos	1,107	2,118	321	980	518	-17.3
Malaysia	4,347	2,541	3,840	6,051	2,035	-17.3
Myanmar	1,392	1,881	449	605	1,708	5.2
The Philippines	8,100	6,315	1,494	1,451	1,711	-32.2
Singapore	4,413	3,220	3,871	8,882	3,167	-8.0
Thailand	5,499	2,086	3,845	2,732	4,729	-3.7
Vietnam	40,696	21,677	11,650	4,957	3,585	-45.5
Australia	5,141	3,540	20,917	1,760	6,856	7.5
New Zealand	1,152	138	69	1,225	343	-26.1
India	15,654	14,007	13,016	14,421	7,133	-17.8
East Asia	141,532	113,639	95,107	96,677	71,047	-15.8

<Increases in Shares of Intraregional FDI >



<Decreases in Shares of Intraregional FDI>



Source: Based on the authors' own calculations, applying the UNCTAD Statistics and the fDi markets database.

New Zealand, and China, on the other hand, relied on East Asia for FDI inflows for only 11.0%, 23.0%, 23.1%, 26.1%, and 32.5%, respectively, of all FDI inflows.

As the major states in East Asia, such as Korea, China, Malaysia, Australia, the Philippines, and Indonesia, have cut back on their ODI in intraregional projects and programs, the overall volume of intraregional ODI in the region has also taken a setback. The increasing unpredictability and volatility of the world economy has led all East Asian countries, except New Zealand (29.4%) and Indonesia (6.1%), to reduce the amounts of ODI they make. South Korea's investment in East Asia, in particular, plummeted from 62.8% in 2008 to 22.6% in 2012, while Malaysia and Indonesia have also decreased their intraregional investment from 62.2% to 27.1% and from 100% to 67.9%, respectively. In the meantime, Japan, Singapore, Vietnam, India, and New Zealand rather increased their intraregional ODI.

While East Asia is a significant recipient of ODI from Japan and the ASEAN member states, it is not the case for Korea, China, Australia, or India. As of 2012, Thailand boasted the highest rate of intraregional ODI, at 88.0%, followed by Singapore (77.5%), Indonesia (67.9%), Vietnam (63.0%), and Japan (63.0%), in that order. On the other hand, only 21.1%, 22.6%, 26.5%, and 27.9% of all ODI outflows from Australia, South Korea, India, and China, respectively, are directed toward other East Asian countries.

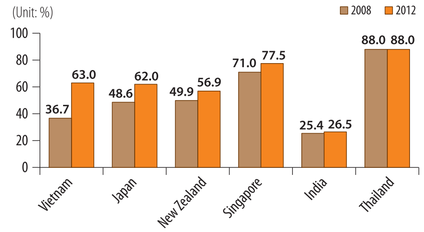
<Intraregional ODI by Country>

(Units: USD 1 million, %)

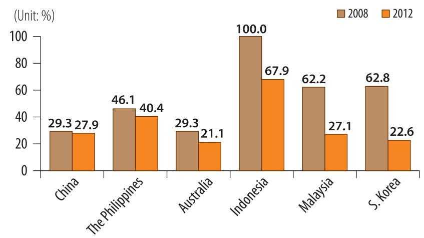
	2008	2009	2010	2011	2012	Yearly growth rate
S. Korea	21,832	23,199	17,305	7,325	8,770	-20.4
China	15,090	6,627	7,879	17,282	5,319	-22.9
Japan	47,957	42,993	33,838	36,305	26,492	-13.8
Indonesia	393	831	183	4,717	498	6.1
Malaysia	12,440	12,504	19,610	2,948	4,988	-20.4
The Philippines	260	1,011	635	194	254	-0.5
Singapore	15,215	8,680	6,671	9,208	12,819	-4.2
Thailand	6,980	5,506	2,193	2,875	2,123	-25.7
Vietnam	1,028	1,569	774	414	129	-40.4
Australia	9,361	6,762	2,765	3,849	2,206	-30.3
New Zealand	305	239	621	560	855	29.4
India	10,352	3,571	2,635	10,999	6,594	-10.7

Source: Based on the authors' own calculations, applying the UNCTAD Statistics and the FDI markets database.

<Increases in Shares of Intraregional ODI >



<Decreases in Shares of Intraregional ODI >



Note: Each East Asian country's share of intraregional ODI.

Source: UNCTAD, fDi markets database data

(2) Greenfield ODI from Korea, China, and Japan: Japan increases its ODI in East Asia.

Between 2008 and 2012, the overall volume of intraregional ODI in East Asia was on a decline particularly from Korea, China, and the ASEAN member states. Contrasting this phenomenon was Japan's radical increase in its ODI in other East Asian countries. More specifically, the amount of intraregional ODI outflows from Japan did take a dip from USD 48 billion in 2008 to USD 26.5 billion in 2012, at a rate of 13.8% from year to year. Nevertheless, the country's share of intraregional ODI grew dramatically by

13.4%. In the meantime, South Korea's investment in East Asia dropped from USD 21.8 billion to USD 8.8 billion at 20.4% a year, and China's investment also dropped from USD 15.1 billion to USD 5.3 billion at 22.9% a year.

<Trend in Intraregional ODI in East Asia>

(Units: USD 100 million, %)

Countries	'08	'09	'10	'11	'12	Yearly growth rate
S. Korea	218	232	173	73	88	-20.4
China	151	66	79	173	53	-22.9
Japan	480	430	338	363	265	-13.8
ASEAN	366	302	301	204	208	-13.2
East Asian total	1,415	1,136	951	967	710	-15.8

<Changes in Shares of Intraregional ODI in East Asia>

(Units: %, %p)

Countries	'08 (A)	'09	'10	'11	'12 (B)	(B)-(A)
S. Korea	62.8	75.8	46.2	35.1	22.6	-40.2
China	29.3	25.0	24.0	43.0	27.9	-1.4
Japan	48.6	67.0	51.3	47.8	62.0	13.4
ASEAN	68.5	74.8	83.0	70.3	53.4	-15.1
East Asian total	45.4	55.3	46.2	44.7	40.3	-5.1

Source: Based on the authors' own calculations, applying the UNCTAD Statistics and the fDi markets database.

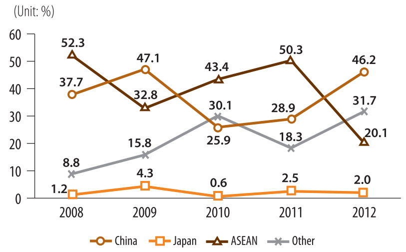
While China is the biggest recipient of South Korea's greenfield ODI in East Asia, the ASEAN member states are the primary foci of both China and Japan. China claimed 46.2% of the total of USD 8.8 billion of ODI that Korea made in East Asia in 2012, and its share has been on a steep increase since 2010. The ASEAN, on the other hand, saw its share decrease from 50.3% in 2011 to 20.1% in 2012.

<Trend in South Korea's ODI in East Asia>

(Units: USD 1 million, %)

Country	'08	'09	'10	'11	'12	Yearly growth rate
China	8,228	10,929	4,485	2,118	4,052	-16.2
Japan	269	997	101	180	172	-10.6
ASEAN	11,412	7,598	7,509	3,686	1,762	-37.3
Other	1,923	3,675	5,209	1,341	2,784	9.7
East Asian total	21,832	23,199	17,305	7,325	8,770	-20.4

<Shares of South Korea's ODI in East Asia>



Source: Based on the authors' own calculations, applying the UNCTAD Statistics and the FDI markets database.

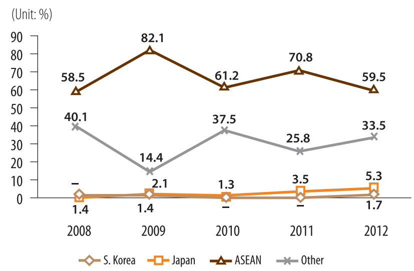
The ASEAN member states collectively claim more than half of all intraregional ODI that China makes. Japan's share in China's ODI was relatively marginal at 5.3% in 2012, but it was a significant growth from the 1.3% of 2010.

<Trend in China's ODI in East Asia>

(Units: USD 1 million, %)

Country	'08	'09	'10	'11	'12	Yearly growth rate
S. Korea	209	94	-	-	88	-19.4
Japan	-	139	100	180	281	26.4
ASEAN	8,825	5,441	4,823	3,686	3,165	-22.6
Other	6,056	952	2,956	1,341	1,784	-26.3
East Asian total	15,090	6,627	7,879	5,207	5,319	-22.9

<Shares of China's ODI in East Asia>



Note: The yearly growth rate of China's ODI in Japan is based on data from 2009 to 2012.

Source: Based on the authors' own calculations, applying the UNCTAD Statistics and the fDi markets database.

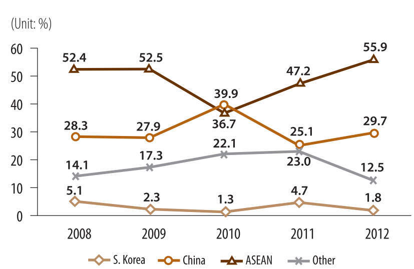
The ASEAN member states also dramatically increased their collective share of Japan's intraregional greenfield ODI from 36.7% in 2010 to 55.9% in 2012.

<Trend in Japan's ODI in East Asia>

(Units: USD 1 million, %)

Country	'08	'09	'10	'11	'12	Yearly growth rate
S. Korea	2,458	1,007	434	1,720	487	-33.3
Japan	13,587	11,986	13,507	9,101	7,881	-12.7
ASEAN	25,130	22,578	12,420	17,122	14,811	-12.4
Other	6,783	7,422	7,477	8,362	3,313	-16.4
East Asian total	47,957	42,993	33,838	36,305	26,492	-13.8

<Shares of Japan's ODI in East Asia>



Source: Based on the authors' own calculations, applying the UNCTAD Statistics and the fDi markets database.

2. Increasing Volume and Decreasing Weight of Intraregional Trade in East Asia

Over the five years from 2008 to 2012, the volume of intraregional trade in East Asia increased at 5.1% a year, reaching USD 4.743 trillion. The weight of intraregional trade for these East Asian countries, however, decreased from 42.7% to 40.3%. While the weight of intraregional trade for the countries participating in the East Asian Negotiations continued to grow from 2008 to 2011, it decreased by 3.4% age points in 2012. Whereas the weight of trade among the ASEAN member states grew by 0.5%, the weight of trade among Korea–China–Japan and in East Asia continued to decline.

<Trend in the Weight of Intraregional Trade in East Asia>

(Units: %, %p)

Trade type	2008 (A)	2009	2010	2011	2012 (B)	(B)-(A)
Exports	39.7	40.6	41.3	41.9	39.9	0.2
Imports	45.9	46.7	47.0	45.5	40.8	-5.1
Overall	42.7	43.5	44.1	43.7	40.3	-2.4

Source: Based on the authors' own calculations, applying the IMF statistics.

While the weight of intraregional exports in the region also took a slight dip of 0.2% age points, the weight of intraregional imports decreased at an even greater rate of 5.1% age points, thus bringing down the weight of overall intraregional trade by 2.4% age points.

<Changing Weight of Intraregional Trade in East Asia>

(Units: %, %p)

Countries	2008(A)	2009	2010	2011	2012(B)	(B)-(A)
Korea–China–Japan	21.5	22.3	22.1	21.3	20.2	-1.3
ASEAN	26.7	25.9	26.4	26.0	27.2	0.5
East Asia	42.7	43.5	44.1	43.7	40.3	-2.4

Note: The weight of intraregional trade refers to the share of intraregional trade in each country's total trade amount.

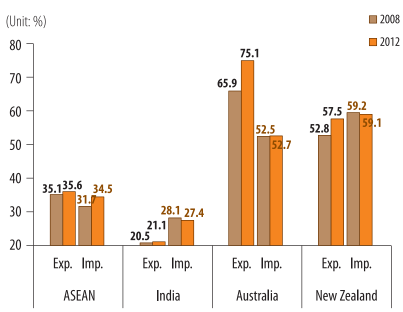
Source: Based on the authors' own calculations, applying the IMF statistics.

While the weights of intraregional exports grew for the ASEAN member states, Australia, New Zealand, and India, the weight of intraregional imports slightly decreased by 0.7% and 0.1%, respectively, for Australia and India. The ASEAN states saw the weights of both their intraregional exports and imports increase. Notwithstanding the drastic drop in the weight of intraregional imports in East Asia overall, it rather increased for the ASEAN member states by 2.8%.

<Weights of Intraregional Imports and Exports: ASEAN, Australia, New Zealand, India>

(Units: %, %p)

Trade type		'08 (A)	'09	'10	'11	'12 (B)	(B)-(A)
ASEAN	Exp.	35.1	33.8	33.6	33.7	35.6	0.6
	Imp.	31.7	30.1	30.2	30.0	34.5	2.8
Australia	Exp.	20.5	21.8	22.8	22.1	21.1	0.6
	Imp.	28.1	30.3	29.1	28.7	27.4	-0.7
New Zealand	Exp.	65.9	70.5	72.9	74.4	75.1	9.2
	Imp.	52.5	53.0	54.1	51.8	52.7	0.2
India	Exp.	52.8	54.8	57.3	56.6	57.5	4.7
	Imp.	59.2	58.7	60.3	56.5	59.1	-0.1



Source: Based on the authors' own calculations, applying the IMF statistics.

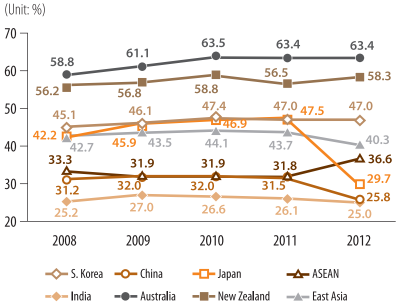
While the volumes of intraregional trade grew for all East Asian states except Japan, the weights of intraregional trade grew only slightly for the ASEAN, South Korea, Australia, and New Zealand. As of 2012, Australia boasted the greatest level of intraregional trade at 63.4% followed by New Zealand (58.3%), South Korea (47.0%), the ASEAN (36.6%), and Japan (29.7%). The weights of intraregional trade declined rather steeply for Japan and China, from 42.2% and 31.2% in 2008 to 29.7% and 25.7% in 2012, respectively, thus bringing down the overall weight of intraregional trade in East Asia. Although the amount of Japan's trade with East Asia continued to grow until 2011, the new turn in the territorial disputes with other East Asian countries and the appreciation of the yen slowed down the growth of Japan's exports to China in 2012, thus decreasing the weight of intraregional trade for Japan by 37.2% from the previous year.

<Trend in Intraregional Trade in East Asia>

(Units: USD 100 million, %)

Country	'08	'09	'10	'11	'12	Yearly growth rate
S. Korea	3,884	3,211	4,245	5,113	5,033	6.7
China	7,990	7,057	9,512	11,461	9,980	5.7
Japan	6,518	5,203	6,882	7,969	5,006	-6.4
ASEAN	11,125	8,874	11,804	14,140	14,919	7.6
India	1,156	1,142	1,528	2,015	1,964	14.2
Australia	2,332	2,020	2,704	3,365	3,400	9.9
New Zealand	364	288	365	421	442	4.9
East Asia	33,369	27,794	37,039	44,484	40,743	5.1

<Trend in the Weight of Intraregional Trade in East Asia>



Source: Based on the authors' own calculations, applying the IMF statistics.

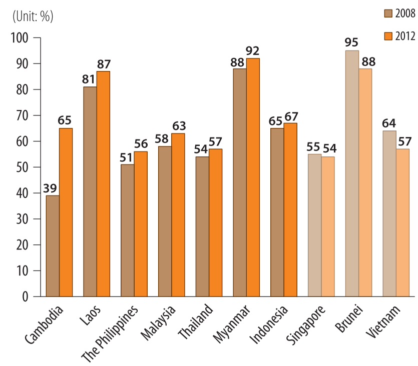
Of the ASEAN member states, the growth in the volumes of intraregional trade was especially noticeable with respect to least developed countries, such as Cambodia (44.3%), Laos (23.6%), and Myanmar (18.6%), thereby helping to increase the overall volume of intraregional trade in East Asia. As of 2012, Myanmar was the ASEAN member state with the greatest weight of intraregional trade at 91.9% followed by Brunei (88.4%) and Laos (87.1%). The weights of intraregional weight were relatively small for Singapore (53.8%), the Philippines (56.2%), and Vietnam (56.9%).

<Trend in the ASEAN's Intraregional Trade>

(Units: USD 100 million, %)

Country	'08	'09	'10	'11	'12	Yearly growth rate
Brunei	122	84	106	166	160	7.1
Myanmar	117	116	148	199	232	18.6
Cambodia	35	35	43	119	150	44.3
Indonesia	1,734	1,364	1,941	2,544	2,546	10.1
Laos	36	36	49	65	84	23.6
Malaysia	2,082	1,674	2,199	2,541	2,674	6.5
Philippines	556	441	604	601	640	3.5
Singapore	3,627	2,822	3,656	4,198	4,266	4.1
Thailand	1,903	1,579	2,148	2,523	2,733	9.5
Vietnam	914	722	911	1,184	1,434	11.9

<Changing Weights of Intraregional Trade in the ASEAN>



Source: Based on the authors' own calculations, applying the IMF statistics

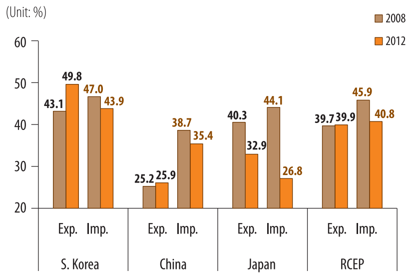
While South Korea and China increased their exports to East Asia between 2008 and 2012, Japan's intraregional exports decreased, and all the three countries' intraregional imports also decreased, thus bringing down the overall weight of East Asia's intraregional trade. While South Korea and China increased their intraregional exports by 6.7% and 0.7% over the five-year period, their intraregional imports also decreased by 3.0% age points and 3.3% age points, respectively. In the meantime, Japan's intraregional exports and imports dropped by 7.5% age points and 17.5% age points, respectively.

<Weights of Intraregional Imports and Exports: Korea, China, and Japan>

(Units: %, %p)

Trade type		'08 (A)	'09	'10	'11	'12 (B)	(B)-(A)
S. Korea	Exp.	43.1	43.8	46.1	47.6	49.8	6.7
	Imp.	47.0	48.7	48.7	46.4	43.9	-3.0
China	Exp.	25.2	25.8	25.2	25.7	25.9	0.7
	Imp.	38.7	39.4	39.7	37.8	35.4	-3.3
Japan	Exp.	40.3	44.3	45.6	46.3	32.9	-7.5
	Imp.	44.1	47.6	48.5	48.6	26.8	-17.2

<Weights of Intraregional Imports and Exports: Korea, China, and Japan>

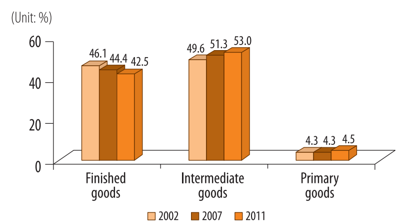


Source: Based on the authors' own calculations, applying the IMF statistics.

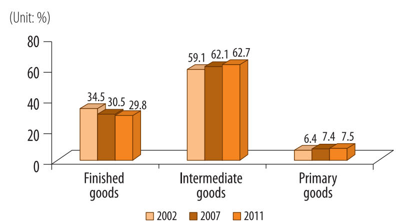
3. Expanding the Production Facilities and Increasing the Intraregional Trade of Intermediate Goods

The increase in FDI inflows into the emerging economies of East Asia has dramatically multiplied the weight of intermediate goods in the overall intraregional exports relative to the worldwide exports. Intraregional exports of intermediate goods in East Asia hover above 10% of the region's total

<East Asia's Exports Worldwide by Category of Goods>



<East Asia's Intraregional Exports by Category of Goods>



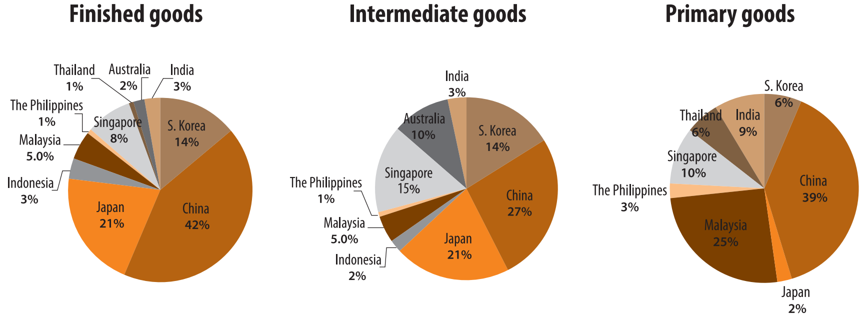
Note: Classification by Broad Economic Categories (BECs) (applying to the classification of commodities by RIETI-TID).

Source: Based on the authors' own calculations, applying the UN Comtrade statistics.

exports worldwide. Intermediate goods have formed the greatest weight of all categories of goods intraregionally exported between 2002 and 2011, while the weight of finished goods has been decreasing steadily.

South Korea, China, and Japan collectively account for over 60% of all intraregional exports of finished and intermediate goods in East Asia. China, India, Malaysia, Thailand, and the ASEAN countries, meanwhile, take up greater shares of primary goods exports.

<Weights of Intraregional Exports of Different Categories of Goods for Each East Asian Country in 2011>

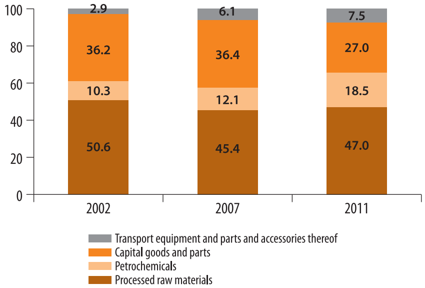


Note: Classification by BECs (applying to the classification of commodities by RIETI).
Source: Based on the authors' own calculations, applying the UN Comtrade statistics.

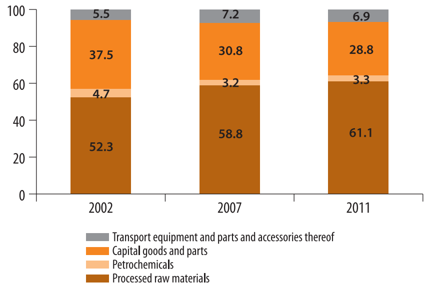
The processed raw materials (for industries) by far occupy the greatest share of intermediate goods exported by East Asian countries. In the case of South Korea and China, these processed raw materials took up the greatest shares followed by capital goods and parts. The shares of petrochemicals and transport equipment and parts and accessories thereof have also increased in South Korea's exports of intermediate goods to East Asia.

While the share of processed raw materials has increased in China's exports of intermediate goods to East Asia, the share of capital goods and parts has been decreasing.

<Changing Makeup of South Korea's Intraregional Exports of Intermediate Goods>



<Changing Makeup of China's Intraregional Exports of Intermediate Goods>

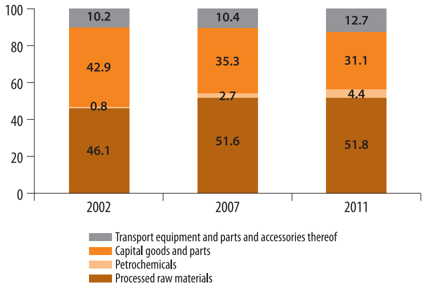


Note: Processed raw materials (for industries). Based on classification by BECs (applying to classification by RIETI-TID).

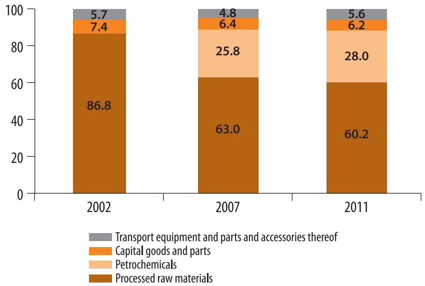
Source: Based on the authors' own calculations, applying the UN Comtrade statistics.

While the shares of transport equipment and parts and accessories thereof and petrochemicals in Japan's intraregional exports of intermediate

<Changing Makeup of Japan's Intraregional Exports of Intermediate Goods>



<Changing Makeup of India's Intraregional Exports of Intermediate Goods>



Note: Processed raw materials (for industries). Based on classification by BECs (applying to classification by RIETI-TID).

Source: Based on the authors' own calculations, applying the UN Comtrade statistics.

goods are on gradual rise, the share of capital goods and parts has dropped by contrast. While the share of processed raw materials in India's exports plummeted from 86.8% in 2002 to 60.2% in 2011, the share of petrochemicals abruptly multiplied from 0.01% to 28.0%.

4. Transfer of Knowledge and Technology and Increasing Productivity of East Asian States

(1) Levels of technological development and trade patterns

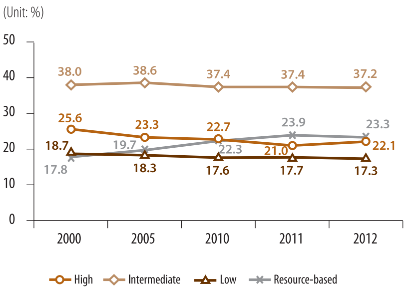
While the share of resource-based commodities is on a rapid increase on the world export market, the shares of intermediate- and high-tech commodities have decreased.

<Worldwide Exports by Technological Level>

(Units: USD 1 billion, %)

Country	'00	'05	'10	'11	'12	Yearly growth rate
High	1,263	1,863	2,545	2,742	2,720	6.6
Intermediate	1,879	3,088	4,182	4,887	4,581	7.7
Low	922	1,466	1,968	2,313	2,132	7.2
Resource-based	878	1,573	2,495	3,119	2,868	10.4
Total	4,943	7,990	11,190	13,062	12,301	7.9

<Weights of Technological Levels in Worldwide Exports>

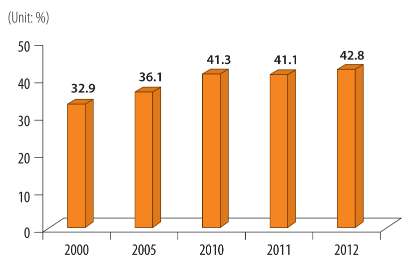


Source: Based on the authors' own calculations, applying the UN Comtrade statistics.

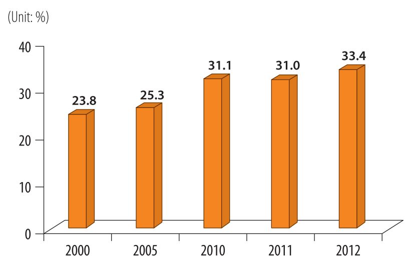
East Asia has been increasing its presence on the worldwide high- and intermediate-tech markets by increasing its exports in these categories.

Between 2000 and 2012, East Asia's share of these markets has increased by almost 10% age points. As of 2012, high- and intermediate-tech goods made up 60.1% (34.1% for intermediate-tech goods and 26.0% for high-tech goods) of East Asia's total exports worldwide, which is above the worldwide average of 59.3%.

<East Asia's Share of the Worldwide High-tech Market>



<East Asia's Share of the Worldwide Intermediate-tech Market>



Source: Based on the authors' own calculations, applying the UN Comtrade statistics.

(2) Increasing exports of patents thanks to the increase in FDI for technological innovation

The increase in the amount of FDI inflows into East Asia has led many East Asian states to import increasing amounts of technology from advanced economies and thereby raised the amounts of royalties the East Asian states pay. Simultaneously, however, the increasing FDI has also allowed East Asian states to innovate and improve their technologies and to increase their exports of patents and intellectual property rights. The amount of royalties on imported intellectual property rights increased by 6.9% for East Asia.

Yet, the countries in the region are also enhancing their capabilities to develop and commercialize newer and better technologies. The majority of East Asian countries, except Malaysia, saw the increases in the amounts of royalties they received on the exports of their intellectual property rights at 6.6% a year between 2008 and 2012. By promoting the exports of patents and intellectual property rights, FDI fosters not only manufacturing but also related service industries.

<Royalties on Patents and IPRs[16] Paid by East Asia>

Country	'08	'09	'10	'11	'12	Yearly growth rate
Australia	3,019	2,832	3,422	4,095	4,218	8.7
Cambodia	6.4	8.4	6.3	10.1	11.1	14.9
China	10,319	11,065	13,040	14,706	17,749	14.5
India	1,529	1,860	2,438	2,820	-	16.5
Indonesia	1,328	1,530	1,616	1,788	1,800	7.9
Japan	18,312	16,835	18,769	19,173	19,898	2.1
S. Korea	5,656	7,188	9,031	7,295	8,387	10.4
Malaysia	1,268	1,133	1,318	1,634	1,532	4.9
New Zealand	620	579	699	1,008	914	10.2
The Philippines	382	421	445	442	504	7.2
Singapore	12,456	11,755	14,009	16,391	16,511	7.3
Thailand	2,559	2,250	3,084	3,119	3,610	9.0
East Asia	57,453	57,456	67,877	72,480	75,133	6.9

Note: India's growth rates are based on years 2008 through 2011.

Source: IMF.

<Royalties on Patents and IPRs Received by East Asia >

Country	'08	'09	'10	'11	'12	Yearly growth rate
Australia	700	747	931	1,052	976	8.6
Cambodia	0.53	0.04	0.34	1.00	3.84	64.1
China	571	429	830	743	1,044	16.3
India	148	192	128	302	-	19.6
Indonesia	27	38	60	79	58	20.9
Japan	25,701	21,698	26,680	28,989	31,892	5.5
S. Korea	2,382	3,199	3,145	4,336	3,436	9.6
Malaysia	199	266	101	149	135	-9.2
New Zealand	204	185	255	335	310	11.1
The Philippines	n/a	2.0	4.0	5.0	8.0	41.4
Singapore	784	842	976	1,637	1,649	20.4
Thailand	101	145	153	177	241	24.3
East Asia	30,817	27,744	33,263	37,805	39,753	6.6

Note: India and The Philippines' growth rates are based on years 2008 through 2011 and years 2009 through 2012, respectively.

Source: IMF.

16) Royalties on patents and intellectual property rights encompass the money transferred not only for the services regarding patents, trademarks, sales and distribution rights, exclusive industrial processes, and computer technology but also money transferred with respect to other types of intellectual properties, such as copyrights, translation rights, and publishing rights.

5. Increasing FDI and an Increasing Number of Jobs

The greenfield FDI in East Asia increased the number of jobs available in the region by 1.83 million between 2008 and 2012. The majority of these jobs, some 1.04 million, were concentrated in the ASEAN bloc with another 620,000 created in China and another 300,000 created in India. Korea, Japan, and Australia also saw increases in their respective numbers of jobs by 21,000, 18,000 and 49,000, respectively. The decrease in intraregional investment in East Asia has led to a decrease in the number of jobs somewhat. While the amount of intraregional investment in East Asia dropped by 49.8% from USD 141.5 billion in 2008 to USD 71 billion in 2012, the number of investment-created jobs decreased by 33.1%, from 4.388 million to 2.836 million.

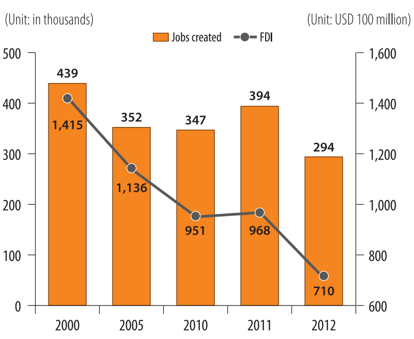
<New Jobs Created Thanks to FDI>

(Units: USD 100 million, %)

Countries	'08	'09	'10	'11	'12	Sum
S. Korea	43	28	24	91	21	207
China	1,468	1,534	1,087	1,124	975	6,187
Japan	65	21	14	22	55	177
ASEAN	2,058	1,221	1,540	1,872	1,466	10,428
Australia	129	136	131	32	59	487
New Zealand	14	7	5	30	20	76
India	610	571	674	773	340	2,967
East Asia	4,388	3,517	3,475	3,944	2,936	18,259

Source: FDI markets database

<FDI's Impact on the Creation of Jobs>



The job-creating effect of intraregional greenfield FDI in East Asia rose as the focus of such investment shifted from large projects to relatively smaller projects in service industries. The amount of FDI per project in East Asia has been steadily decreasing from USD 106.3 million in 2008 to USD 74.6 million in 2012 at a rate of 8.5% a year. The margin of decrease in the amount of FDI per project was especially manifest in New Zealand (USD 78 million), the ASEAN bloc (USD 65 million), and South Korea (USD 63 million).

<Amount of FDI per Project>

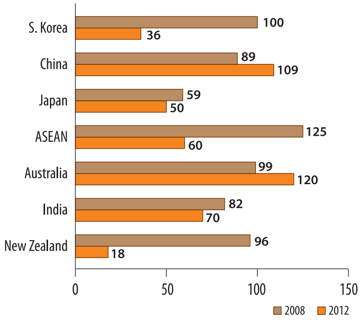
(Units: USD 1 million, %)

Countries	'08 (A)	'09	'10	'11	'12 (B)	(B)-(A)
S. Korea	99.6	49.7	24.9	75.0	36.3	-63.3
China	89.4	120.6	79.7	87.8	109.0	19.6
Japan	59.4	57.2	20.7	26.5	50.3	-9.1
ASEAN	125.1	114.4	72.6	106.8	60.2	-64.9
Australia	98.9	61.0	387.3	35.2	120.3	21.4
New Zealand	96.0	17.2	9.9	58.3	18.0	-78.0
India	82.4	97.9	84.0	75.5	69.9	-12.5
East Asia	106.3	107.4	89.9	89.6	74.6	-31.7

Source: FDI markets database.

<Margin of Change in the Amount of FDI per Project>

(Unit: USD 1 million, %)



The number of greenfield investment projects in East Asia dwindled from 1,333 in 2008 to 953 in 2012, at a rate of 8.0% a year. In the meantime, the number of jobs per million dollars of FDI increased from 3.1 to 4.1. Countries with smaller FDI projects, such as New Zealand and South Korea, especially benefitted from this increase in the job-creating effect, while countries with larger projects, such as Australia and China, could not do so. The job-creating effect of every million dollars of FDI also increased because of the increasing focus of investors on construction and other service industries in the ASEAN.

<Number of FDI Projects>

Countries	'08	'09	'10	'11	'12	Yearly growth rate
S. Korea	27	23	18	30	19	-8.4
China	369	284	315	299	220	-12.1
Japan	22	25	27	17	24	2.2
ASEAN	660	517	482	472	512	-6.2
Australia	52	58	54	50	57	2.3
New Zealand	12	8	7	21	19	12.2
India	190	143	155	191	102	-14.4
East Asia	1,332	1,058	1,058	1,080	953	-8.0

<Number of Jobs Created Per Million Dollars of FDI>

(Units: number of jobs/USD 1 million)

Countries	'08 (A)	'09	'10	'11	'12 (B)	(B)-(A)
S. Korea	1.6	2.4	5.4	4.1	3.0	1.4
China	4.4	4.5	4.3	4.3	4.1	-0.3
Japan	5.0	1.5	2.5	4.8	4.5	-0.5
ASEAN	2.5	2.1	4.4	3.7	4.8	2.3
Australia	2.5	3.8	0.6	1.8	0.9	-1.6
New Zealand	1.2	5.1	7.3	2.4	5.8	4.6
India	3.9	4.1	5.2	5.4	4.8	0.9
East Asia	3.1	3.1	3.7	4.1	4.1	1.0

Source: fDi markets database

As a matter of fact, the major greenfield FDI projects in East Asia in 2012 and 2013 were concentrated in industries with relatively greater job-creating effects, such as construction, logistics/transportation/distribution, and energy, as well as manufacturing industries of smaller scales. Japan was the leading source of investment for major FDI projects in South Korea, where construction attracted the greatest amount of investment (USD 360 million) and created most jobs (2,067).

【Job-creating Effect of FDI in South Korea: By Sector and Industry】

FDI turned out to have a remarkable job-creating effect in South Korea's service sector. All the top five industries with the greatest numbers of jobs created by FDI and the highest employment-inducing coefficients of FDI belonged to the service sector. Of the 644,000 new jobs created because of FDI in South Korea between 2002 and 2008, 485,000 or 75.2% were concentrated in the service sector.

<Ranking South Korean Industries by Job-creating Effect of FDI >

Rank	Top 10 industries with the greatest numbers of FDI-created jobs	Top 10 industries with the greatest coefficients of FDI-created jobs
1	Wholesale retail	Education/healthcare
2	Real estate / business services	Restaurants/accommodations
3	Communications/broadcasting	Social and other services
4	Finance/insurance	Wholesale/retail
5	Transportation	Construction
6	Nonmetal mineral goods	Textile and leather goods
7	Construction	Publishing/duplication
8	Electric/electronic goods	Public administration / national defense
9	Mineral goods	Other
10	Restaurants/accommodations	Other manufactured goods

<Employment-inducing Effect of the World's FDI in South Korea>

(Units: number of persons, %)

Sector	1990 – 1995	1996 – 2001	2002 – 2008
Primary sector	5,188 (2.85)	54,932 (10.46)	32,629 (5.07)
Manufacturing sector	47,712 (26.18)	137,432 (26.17)	126,904 (19.70)
Service sector	129,314 (70.97)	332.862 (63.37)	484,630 (75.23)
Total	182,215	525,227	644,163

Notes: (1) The shaded areas indicate industries that belong to the service sector.
(2) The employment-induction coefficient refers to the number of jobs created for every KRW 1 billion.
(3) The figures in parentheses indicate the industries' shares in the overall employment-inducing impact.

Source: KOTRA, Study on How to Increase the Job-Creating Effect of FDI (2010).

Ⅴ. Conclusion and Implications

1. General

Since 2000, the amounts of FDI inflows into and outflows from advanced economies have been decreasing, while the amounts of FDI inflows into and outflows from East Asia have been consistently increasing, making East Asia the most appealing target for MNC investors and one of the most important regions of investment in the world today. Between 2000 and 2012, the amounts of FDIs into the TPP, NAFTA, and EU blocs have steadily been decreasing, while East Asia's share of the worldwide total FDI inflows multiplied from 7.2% to 24.4%. Because of the rise in ODI from Korea–China–Japan and the ASEAN, East Asia has also become an important source of international investment now.

<Comparing the Investment Inflows into and Outflows from East Asia and the EU>

(Units: USD 1 billion, %)

Year		2000	2005	2010	2011	2012	Yearly growth rate
East Asia	FDI (inflow)	101.5 (7.2)	109.7 (11.1)	278.3 (19.8)	347.3 (21.0)	329.4 (24.4)	10.3%
	ODI (outflow)	51.3 (4.1)	53.5 (5.9)	244.6 (16.3)	299.5 (17.8)	324.6 (23.3)	16.6%
EU	FDI (inflow)	701.8 (49.7)	501.7 (50.7)	379.4 (26.9)	441.6 (26.7)	258.5 (19.1)	-8.0%
	ODI (outflow)	809.2 (65.2)	603.3 (66.8)	497.8 (33.1)	536.5 (32.0)	323.1 (23.2)	-7.4%

Notes: (1) The figures in parentheses indicate the blocs' respective shares in the world's total amount of FDI.
(2) The "EU" includes 27 countries.
Source: UNCTAD.

Accordingly, East Asia has been improving its performance on both the FDI Confidence Index and the FDI Performance Index. In the FDI Confidence Index of 2013 from A.T. Kearney, numerous East Asian countries saw their rankings rise from their previous places in 2005. On the FDI and ODI Performance Indices, which measure the amounts of FDI and ODI that a country receives and makes against its GDP, East Asian states have also shown noticeable improvements. FDI makes up significant parts of the GDPs and gross fixed capital formations in many of these countries. The FDI-to-GDP ratios are on continued rise in many East Asian countries, reflecting the economic indispensability of FDI in this region.

The main factors behind the rise of FDI in East Asia include the improving international opinion and assessment of East Asia; the large population the region has; and the great potentials of the region's domestic markets. As of 2012, East Asia accounted for 29.5% of the worldwide total GDP, 29.0% of international trade, 24.4% of the world's total FDI inflows, and 48.7% of the world population. As such, East Asia is already a bigger market than either the EU or the NAFTA bloc and is likely to increase its importance in the world only further because of the rapid economic growth of its countries. Of the 3.4 billion people inhabiting the region, at least 69% are capable of working. With their income levels rising, East Asians are also becoming able to spend more and more, thus contributing to the enlargement of their respective domestic markets.

Furthermore, East Asia attracts investors with the various improvements it is making to the investment environment, including the lowering of trade barriers and the formation of FTA networks. Numerous states in the region strive to minimize the setup costs for investors looking to establish local businesses and to reinforce investor protection while also reducing the tax rates on earnings. East Asian governments also actively invest in the development of highly skilled and well-educated workforces. As all the states in East Asia are now members of the World Trade Organization (WTO), they have set out to reduce tariffs across the board and enter an increasing number of FTAs with major economic blocs worldwide, including the United States, the EU, and the ASEAN, thus attracting MNCs looking to make use of such FTA arrangements.

Since the onset of the global financial crisis, the ASEAN's share of the FDI inflows into East Asia has increased dramatically, particularly in Singapore, Indonesia, and Myanmar. The primary focus of FDI is also rapidly shifting from manufacturing to service. As of 2012, China claimed the greatest portion of FDI inflows into East Asia at 36.8%, followed by the ASEAN (33.8%), Australia (17.3%), Singapore (17.2%), and India (7.8%). While FDI in the manufacturing sectors decreased and in the service sectors increase in the cases of China, Australia, India, and Singapore, the pattern was reversed for Japan and South Korea.

The majority of FDI in the region was in the form of greenfield investment intended to support the creation of production bases and facilities. Between 2008 and 2012, the share of greenfield intraregional investment in East Asia has been on steady rise, significantly strengthening the production network in the region. In at least nine out of the 16 East

Asian countries, the shares of intraregional FDI inflows increased. While East Asia is a significant source of FDI for the ASEAN member states, it is not the case for Korea, China, Japan, New Zealand, or India.

While the share of intraregional ODI in East Asia, by contrast, was on steady decline between 2008 and 2012, particularly from South Korea, China, and the ASEAN member states, Japan's share increased rather significantly. East Asia claimed 63.0% of all ODI from Japan, while claiming only 22.6% from South Korea, 27.9% from China, and 26.5% from India. China is by far the biggest recipient of South Korea's intraregional greenfield ODI, while the ASEAN is the primary focus of both China and Japan. The weight of intraregional ODI in East Asia has been decreasing along with ODI from major East Asian states, such as South Korea, China, Malaysia, Australia, the Philippines, and Indonesia. Japan, on the other hand, increased its share in the intraregional ODI from 48.6% in 2008 to 62.0% in 2012 by increasing its investment in the ASEAN.

Whereas the volumes of intraregional trade in all East Asian countries except Japan grew significantly between 2008 and 2012, the weights of intraregional trade took a dip. As of 2012, Australia boasted the greatest weight of intraregional trade in its trade portfolio at 63.4%, followed by New Zealand (58.3%), South Korea (47.0%), the ASEAN (36.6%), and Japan (29.7%). While South Korea and China also significantly increased their exports to other East Asian states between 2008 and 2012, the steady decline in Japan's intraregional exports and in intraregional imports by all the three countries served to bring down the overall weight of intraregional trade in East Asia.

The growing amount of FDI inflows into East Asia has allowed East Asian countries to adopt advanced technologies from abroad and consequently to enhance their productivity. Accordingly, East Asia's share of the worldwide high- and intermediate-tech market is steadily increasing, while the amount of income that the region earns by exporting patents, technologies, and other forms of intellectual property rise is also on rise.

The greenfield FDI that flowed into East Asia also increased the number of jobs in the region by 1.83 million between 2008 and 2012. As more and more FDI projects focus on smaller service businesses, the job-creating effect of every million dollars of FDI is also increasing.

2. Conclusion and Implications

The importance of East Asia to South Korea's trade continues to grow along with the rising profile of East Asia around the world. As of 2012, the trade between South Korea and the rest of East Asia amounted to USD 503.3 billion in value, which was almost half the total value of South Korea's trade. East Asia far exceeds the other economic blocs, such as the TPP, the EU, and the NAFTA, in importance to South Korea. Trade with East Asia accounts for 47.2% of South Korea's trade (50.2% of exports and 44% of imports), which hovers well above the TPP's 32.4%, the NAFTA bloc's 11.6%, and the EU's 9.3%.

<South Korea's Trade with Major Economic Blocs>

(Units: In USD 100 million)

Trade type	East Asia	TPP	EU	NAFTA
Exports	2,749	1,725	494	724
Imports	2,284	1,734	504	512
Total	5,033	3,459	998	1,236

<Major Economic Blocs' Shares of Trade with South Korea>

(Units: %)

Trade type	East Asia	TPP	EU	NAFTA
Exports	50.2	31.5	9.0	13.2
Imports	44.0	33.4	9.7	9.9
Total	47.2	32.4	9.3	11.6

Note: Based on 2012 alone.

Source: KITA (www.kita.net).

The continuous growth of intraregional greenfield investment in East Asia between 2008 and 2012 has significantly boosted the region's production network. East Asia, however, claimed only 22.6% of South Korea's ODI in 2012.

As intermediate goods account for 62.7% of all intraregional exports in East Asia, the South Korean government needs to develop an FDI strategy based on this fact, which would allow Korean businesses to make full use of the burgeoning and widening production network in East Asia so as to maximize their exports of intermediate goods. The share of intermediate goods in intraregional exports in East Asia hovers above the share of intermediate goods in exports worldwide by at least 10% age points. With processed raw materials (for industries) facing growing demand, South Korea, China, and Japan together account for 64% of all intermediate goods exported to intraregional recipients. This is even higher than the combined share of the three countries, 62.9%, in overall intraregional trade in East Asia.

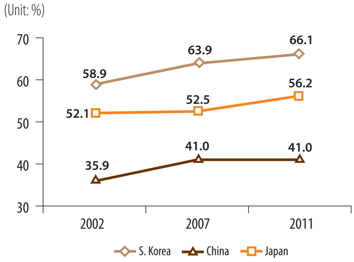
The three countries' shares of intermediate goods exports are much higher in East Asia than worldwide. Intermediate goods make up 74.7% of all intraregional exports from South Korea. The creation and expansion of the production network in East Asia is therefore likely to exert positive impact on Korea's plan to increase its exports of intermediate goods. The share of intermediate goods in South Korea's exports worldwide rose from 58.9% in 2002 to 66.1% in 2011, securely marking Korea as a major producer of intermediate goods in the international trade structure. The 74.7% share of intermediate goods in South Korea's intraregional exports in 2011 is far higher than that of either Japan (65.8%) or China (49.3%).

<Shares of Different Categories of Goods in Intraregional Exports: S. Korea, China, and Japan>

(Units: %)

BEC	S. Korea			China			Japan		
	'02	'07	'11	'02	'07	'11	'02	'07	'11
Finished goods	27.3	24.2	24.5	56.6	47.0	49.0	31.2	29.9	32.3
Intermediate goods	72.2	74.8	74.7	38.5	50.1	49.3	67.9	68.0	65.8
Primary goods	0.5	0.9	0.8	4.9	2.9	1.7	0.9	2.1	2.0

<Share of Intermediate Goods in Exports Worldwide: S. Korea, China, and Japan>

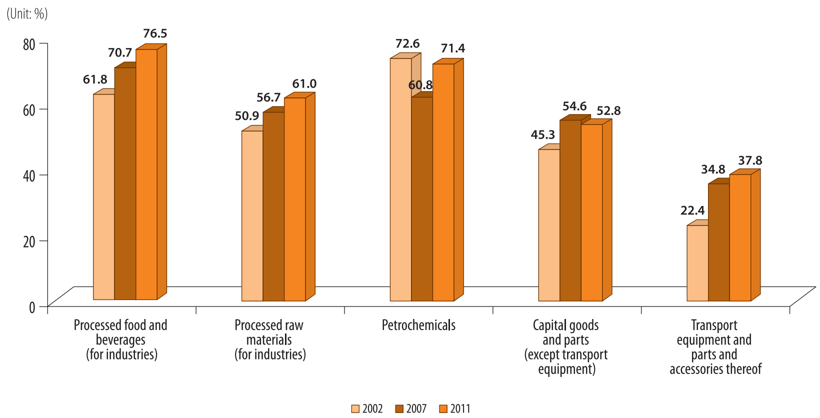


Note: Classification by BECs (applying to the classification of commodities by RIETI-TID).

Source: Based on the authors' own calculations, applying the UN Comtrade statistics.

South Korea therefore needs an FDI strategy that increases the country's intraregional investment and opportunities for exports with respect to processed raw materials (for industries) (by far the most important category of intermediate goods being exported), as well as to processed food and beverages (for industries) and transport equipment and parts and accessories thereof. In 2011, processed raw materials (for industries) made up 47% of all South Korean exports of intermediate goods to East Asia. The shares of petrochemicals and transport equipment and parts and accessories thereof also rose significantly, from 10.3% and 2.9% in 2002 to 18.5% and 7.5% in 2011, respectively.

<Shares of Different Types of Intermediate Goods in South Korea's Intraregional Exports>



Note: Classification by BECs (applying to the classification of commodities by RIETI-TID).

Source: Based on the authors' own calculations, applying the UN Comtrade statistics.

FDI, furthermore, allows countries to adopt advanced technologies and increase their exports of patents and other forms of intellectual properties. FDI therefore contributes to the growth of not only the manufacturing sector, but also related service industries.

The growing FDI in East Asia has created and expanded the region's production network, thereby strengthening intraregional trade, creating new jobs, and prompting technological innovation in the region. The rising discourse on the economic integration of East Asia can help to multiply these beneficial effects.

Despite the expansion and advancement of the production network across East Asia, the region claimed only 22.6% of South Korea's ODI in 2012. In negotiating over FTAs with other East Asian states, the Korean government should focus on improving the intraregional investment environment for Korean companies.

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Will Foreign Direct Investment Accelerate the Economic Integration of East Asia?

An Analysis of the Changing Trade Structure in East Asia Due to Increasing FDI and Economic Effects Thereof

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