RESEARCH NOTES

European Union direct investment in developing Asia and developing Asian direct investment in the European Union

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Abstract

This is a summary of two recently published studies, *Investing in Asia's Dynamism: European Union Direct Investment in Asia* and *Sharing Asia's Dynamism: Asian Direct Investment in the European Union*, in which the authors were involved. Both European Union foreign direct investment in Asia and Asian foreign direct investment in the European Union are relatively small, but the underlying reasons for this are different. The article describes the current state of foreign direct investment between Asia (in particular developing Asia) and the European Union, explains the performance of European Union firms in Asia and the constraints that Asian firms face in the European Union, and suggests a set of policy measures to facilitate investment flows between the two regions.

Introduction

The European Union (EU) has the largest outward foreign-direct-investment (FDI) stock of all regions in the world (UNCTAD, 1996, annex table 4). But only 3 per cent of that stock is located in developing Asia

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(European Commission and UNCTAD, 1996, tables I.2 and I.5). In comparison, developing Asia hosts 12 per cent of Japan's outward FDI stock and 7 per cent of that of the United States (UNCTAD, 1996, table 1.6 and annex table 1). (If one excludes intra-EU FDI, Asia accounts for 6 per cent of the EU FDI stock and about one tenth of EU FDI flows.)

Asian developing countries, for their part, have seen their outward FDI stock grow rapidly. But only 4 per cent of that stock is located in the EU and its prospective member economies in Central and Eastern Europe. When it comes to FDI flows, only 5 per cent of them are directed to the EU.

In other words, neither Europe nor developing Asia has directed its outward investments significantly to the other. Their attention has focused elsewhere. But while Europe's low share in Asia is arguably due to European firms' neglect of a region that is the most dynamic in the world today, Asia's low share in Europe simply reflects the fact that Asian firms are only just beginning to build up their outward investment stocks.

Regardless of the different interpretations one might have for the two sides of these low FDI shares, mutual interest in economic cooperation, including through FDI, is on the rise. On the one hand, the sustained growth performance of Asian economies—in particular, that of the developing Asian economies of East and South-East Asia—creates new opportunities for investment. On the other hand, the sheer size and accumulated technological assets of the EU make it very attractive to firms seeking markets and access to locational assets.

Global foreign-direct-investment trends

Since 1993, the end of a two-year recession in FDI flows, global FDI flows have grown at an annual rate of 25 per cent. In comparison, during the previous investment boom (1987-1990), the growth rate was 14 per cent per annum. With world inflows having reached $315 billion, the year 1995 witnessed record FDI flows (UNCTAD, 1996, chap. I)—nearly twice as large a volume as in 1991 or 1992. This surge reflects, in part, cyclical fluctuations in economic growth but, more important, the response of transnational corporations (TNCs) to competitive pressures emanating from liberalization and globalization. An increasing number of companies from both developed and developing countries are actively seeking foreign markets through equity investments or non-equity arrangements.

Although flows to developed countries grew faster than those to developing countries in 1995, developing countries received about 30 per cent of world inflows. In terms of the absolute value of FDI received, this was a record level. Although the United States had a strong performance in 1995 in terms of both FDI outflows and inflows, the position of Asia as the largest developing host region for FDI, and that of the EU as the largest host as well as home region, did not change.

European Union direct investment in Asia

Trends and patterns

The low level of European FDI in Asia remained unchanged throughout the 1980s. Most recently, however, there have been signs that FDI flows from the EU to developing Asia are increasing, reaching $3 billion in 1994, an amount comparable to Japanese flows to that area during the early 1990s (European Commission and UNCTAD, 1996).

Overall data on FDI conceal disparities among individual countries. Although Asia's low share is a characteristic common to major European home countries, the United Kingdom represents something of an exception, with 6 per cent of both its stock (in 1993) and flows (during 1990-1993) directed towards developing Asia (table 1). Even for that country, it is striking that the value of its 1993 FDI stock in developing Asia was only just comparable to that of its stock in Australia, and the value of flows to Asia (during 1990-1993), to those of a single European country, Sweden.

As regards its distribution among host countries, EU FDI in the developing Asian economies is concentrated mainly in Indonesia, Malaysia and Singapore. In recent years, the Republic of Korea has been a particularly strong performer as a host to EU investments (European Commission and UNCTAD, 1996, table I.7). Sectorally, Europe's investments in Asia are concentrated in chemicals, petroleum, other services, finance and insurance, distributive trade and electronics (table 2).

Table 1. FDI by the European Union in Asia

(Billions of dollars and percentage)

Country	Stocks						Flows					
	1985			1993			1985-1987			1990-1993		
	Developing Asia	World	Share of developing Asia	Developing Asia	World	Share of developing Asia	Developing Asia	World	Share of developing Asia	Developing Asia	World	Share of developing Asia
European Union[a]	8.2	281.2	2.9	26.6	846.3	3.1	1.143	47.29	2.4	2.233	99.31	2.2
Austria	-	0.5	-	-	5.4	-	-	0.23	-	0.035	1.71	2.0
Belgium-Luxembourg[b]	..	..	..	..	..	..	0.051	1.39	3.7	-0.006	6.78	-0.1
Denmark	..	..	..	..	..	..	0.015	0.51	2.9	0.045	1.79	2.5
Finland	-	1.8	-	-	9.4	-	0.011	0.64	1.7	0.008	1.77	0.5
France[c]	0.6	51.7	1.2	2.5	141.4	1.7	0.180	5.39	3.3	0.330	19.71	1.7
Germany	1.2	59.9	2.1	4.76	185.0	2.5	0.125	7.84	1.6	0.322	19.57	1.6
Italy	0.5	16.3	3.0	0.5	73.8	0.7	-	2.27	-	0.025	6.73	0.4
Netherlands	1.4	47.8	3.0	4.5	123.0	3.7	0.104	4.27	2.4	0.281	12.51	2.2
Portugal	..	..	..	..	..	..	0.005	0.01	39.1	0.015	0.44	3.5
Spain	..	..	..	..	..	..	0.002	0.65	0.4	-0.001	2.33	-0.1
Sweden[d]	-	16.1	-	-	44.6	-	0.043	3.45	1.3	0.031	7.48	0.4
United Kingdom[e]	4.2	83.0	5.1	14.1	249.7	5.7	0.574	19.96	2.9	1.171	19.48	6.0
Memorandum:												
United States	14.9	256.9	5.8	39.4	547.2	7.2	0.800	16.30	4.9	4.200	38.50	10.9
Japan[f]	8.4	44.0	19.2	29.8	259.8	11.5	1.244	13.48	9.2	3.301	27.42	12.0

Source: European Commission and UNCTAD, 1996, table I.6.

[a] Data on FDI in Asia for Ireland and Greece are not available. Stock data exclude Belgium and Luxembourg, Denmark, Portugal and Spain.

[b] Data refer only to Belgium.

[c] 1987.

[d] 1986.

[e] 1984.

[f] Estimated, for developing Asia, by multiplying the values of the cumulative flows to the region according to FDI approvals/notifications in the case of stocks, and values of annual flows to the region according to FDI approvals/notifications in the case of flows for 1985-1987, by the relevant ratios of disbursed to approved FDI in the region. The applied ratios are 43 per cent for the 1985 stock in Asia, 45 per cent for the 1993 stock in Asia and 43 per cent for the 1985-1987 flows in Asia. Data on actual flows to developing Asia are available from 1988. Data do not include reinvested earnings.

Table 2. European Union FDI stock[a] in the world and in developing Asia, by industry, 1985 and 1993

(Millions of dollars)

	1985			1993		
Industry	*World*	*Developing Asia*[b]	*Share of developing Asia*[b]	*World*	*Developing Asia*[b]	*Share of developing Asia*[b]
Primary sector	39 529	2 383	6.0	57 074	4.045	7.1
Agriculture	905	345	38.1	1 728	277	16.0
Mining and quarrying	2 376	3	0.1	4 632	44	0.9
Petroleum	36 249	2035	5.6	50 714	3.725	7.3
Secondary sector	57 169	1 953	3.4	192 341	7.041	3.7
Food, beverages and tobacco	6 279	413	6.6	27 493	668	2.4
Textile, leather and clothing	113	1	0.5	1 329	20	1.5
Paper	1275-	51	4.0	It 237	241	2.1
Chemicals	19 849	842	4.2	59 437	4.395	7.4
Coal and petroleum products	12			356	1	0.2
Rubber products	19			925	-13	(1.4)
Non-metallic mineral products	49 -			4 332		0.1
Metals	3 368	74	2.2	7 980	69	0.9
Mechanical equipment	4 982	62	1.2	11 340	171	1.5
Electrical equipment	8 011	250	3.1	31 226	942	3.0
Motor vehicles	4017 '	32	0.8	14 223	67	0.5
Other transport equipment	842	99	1 1.8	2 295	45	2.0
Other manufacturing	8 355	131	1.6	20 167	431	2.1
Tertiary sector	77 028	3 347	4.3	304 405	8.522	2.8
Construction	1 524	131	8.6	5 026	-12	(0.2)
Distributive trade	26 523	735	2.8	58 755	1.899	3.2
Transport and storage	2240	703	31.4	10 186	90	0.9
Communication	9			227		
Finance and insurance	15 802	976	6.2	114 770	2.747	2.4
Real estate	473		-	2 485	3	0.1
Other services	30 458	801	2.6	112 956	3.796	3.4
All industries	173 727'	7 683	4.4	553 820	2.1025	3.8

Source: European Commission and UNCTAD, 1996, table 1.2.

[a] Data include only data for France, Germany and the United Kingdom. These three countries together account for about two thirds of total EU outward FDI stock in the world and four fifths in developing Asia. For France, stock data are cumulative flows from 1981. For the United Kingdom, the 1985 and 1993 data are, respectively, for 1984 and 1992.

[b] For Germany, the 1985 data include only data for Hong Kong, India and Singapore, and the 1993 data include, in addition to these three economies, Malaysia and the Republic of Korea. For France, the data include only China, Hong Kong, the Republic of Korea and Thailand.

Includes unallocated data.

Table 3. **Sales by foreign affiliates and exports from home country by the Triad members, 1993**

(Billions of dollars)

Triad	Developing Asia			World		
	Sales by foreign affiliates (A)	Exports (B)	Ratio of (A) to (B)	Sales by foreign affiliates (A)	Exports" (B)	Ratio of (A) to (B)
European Union	72	85	0.8	2 600	1 300	2
Japan	80	138	0.6	700	363	1.9
United States	106	82	1.3	1 500	465	3.2
Memorandum:						
World	660	646	1.1	5 800	3 687	1.6

Source: European Commission and UNCTAD, 1996, table 1.10.
[a] Merchandise trade.

Although the share of Asia in Europe's global investments is low, Europe's share in Asia's inward FDI-13 per cent-is not. But this share does not compare well with these shares of Japan and developing Asia itself, although it is close to that of the United States.

Comparing FDI and trade, EU firms rely more on trade than on FDI to access Asian markets. In contrast with the United States, for which sales by foreign affiliates in Asia exceed exports to Asia, for the EU the reverse holds true (table 3). However, the difference between developing Asia's share in the EU's FDI flows (2 per cent) and its share in EU trade (8 per cent) is not enough to argue that trade compensates for the relative "neglect" by EU firms of the Asian market in terms of FDI, particularly when compared with other major investor and trading regions (Japan and the United States).

Explanatory factors

There are various factors responsible for the relatively low level of FDI from the EU in Asia:

- European Union firms seem to have underestimated the growth potential of the dynamic Asian economies. Of course, there are several exceptions to this: Unilever (food processing), Siemens, Philips and Asea Brown Boveri (electrical or electronic products) have a longestablished presence in the region, and have continued to build on it. Overall, however, EU TNCs have lagged behind their United States and Japanese competitors, especially with regard to the establishment of local production facilities. European firms have preferred to focus on investing in other markets, to rely more on trade for accessing Asian markets and to use neighbouring countries within Europe for cost-based production relocation. Consequently, the trade and FDI involvement of EU TNCs in Asia was often below the ''critical mass'' beyond which a virtuous cycle of increased trade and investment can come into being.

- In terms of trade, EU TNCs relied more on direct exports than on establishing extensive marketing networks and building production facilities. The longer-standing trade and investment links of Japanese and United States TNCs with Asian developing countries, and the regional core networks created by them, enabled firms from those parts of the Triad to secure longer-term competitive advantages in Asian markets over EU TNCs.

- The benign neglect of Asia by EU TNCs was encouraged by the regional integration process in Europe. Successive enlargements of the Community, the removal of internal trade and investment barriers, monetary arrangements to reduce exchange-rate volatility, free trade agreements with non-member European countries and, more recently, ''Europe Agreements'' with Central and Eastern European countries all tended to nourish an inward (regional) focus of EU TNCs.

- Japanese and United States TNCs not only enjoy the competitive advantages of being first-movers, but the former have also found East and South-East Asian countries to be ''natural'' trade and investment partners because of their shorter economic and psychological distance. Hence, investment-transaction costs tend to be less for Japanese firms than for European ones. These ''natural'' competitive advantages have been further strengthened through financial, fiscal and institutional support provided by the Government of Japan, of particular importance for FDI by small and medium-size enterprises. Both large and small Japanese firms, furthermore, had the additional incentive—and push—of an appreciating yen.

- Competitive disadvantages of EU TNCs in Asia exist *vis-à-vis* not only Japanese and United States TNCs, but also investors from Asian developing economies. Increasingly, stiff competition with outside investors is coming from a number of Asian TNCs themselves.

- Finally, an analysis of host country factors does not suggest that Asian governments have discriminated against EU TNCs in favour of TNCs from elsewhere. In any event, the likelihood of a systematic bias against EU investors resulting from host country policies has further declined with the liberalization of FDI regimes in Asia, although a number of things still remain to be done.

The recent increase in EU FDI to Asia suggests a notable departure from the earlier behaviour of EU TNCs. If this change represents, indeed, a reorientation in the investment strategies of EU firms, then the basic first step has been taken: EU firms have recognized that Asia is a large and dynamic market, and their full involvement in it is to the mutual benefit of both Asia and Europe.

Implications for policy and action

Both Europe and Asia stand to gain from a stronger European FDI presence in Asia. For the EU, it brings a range of factor advantages, opportunities for technological cooperation and long-term involvement in the most dynamic region of the global economy. For Asia, European investment brings access to an established source of capital, technology, management and organizational know-how, as well as closer linkages with the important markets of the Union and the surrounding regions.

What are the policy implications of a recognition of these gains and of the need for increasing EU FDI in Asia?

To begin with, increasing the investment links between Europe and Asia requires, first and foremost, efforts by enterprises themselves. Ultimately, the success of firms in establishing a stronger position in Asia depends on their recognizing the opportunities that exist, and elaborating investment and trade strategies that allow them to benefit from these opportunities and that enable their long-term, constructive participation in Asia's development.

But public policies and institutional measures have a role to play. The European Union has taken a number of steps towards providing substantial institutional support to EU firms seeking to invest in Asia. The principal ones relate to information, initial contacts and investment promotion. With the exception of large TNCs, firms typically do not have sufficient information about investment opportunities in Asia, and contacts with companies in the region are fairly limited. The initiatives already undertaken by the EU to provide mechanisms for making information available to firms and help in evaluating prospects for FDI are quite comprehensive, and take public policy possibilities close to the limit of what can be provided at the EU level—especially now that the Asia-Invest Programme is in place. There is scope, however, for better coordination between initiatives at the Union level and those undertaken by the member States.

On the host country side, the steady liberalization of investment regimes in Asia is facilitating the task. Additional efforts could be considered for liberalizing further investment regimes, reducing market distortions, simplifying procedures and disseminating information about the progress made and the investment opportunities available. Efforts could also be considered with regard to limiting excesses in incentives competition for FDI. All these national efforts to improve the investment climate would further benefit from regional arrangements that increase the predictability, stability and transparency of investing in Asia.

Asian direct investment in the European Union

Trends and patterns

Asian developing economies have recently emerged as dynamic international investors, increasing their share from 2 per cent of worldwide FDI outflows during the first half of the 1980s to more than 10 per cent during the first half of the 1990s (UNCTAD, 1996, table I.1). At least three of the newly industrializing economies (Hong Kong, the Republic of Korea and Taiwan Province of China) are now net outward investors. China, and several South-East Asian economies have joined the ranks of countries with sizeable outward FDI, albeit at levels lower than those of the inward investment they host. In fact, the spurt in this FDI deserves much of the credit for the recovery of world-FDI outflows from their 1991-1992 recession.

Table 4. Regional distribution of outward FDI stock of Asian developing economies, 1980 and 1992

(Billions of dollars and percentage)

	Total (Billions of dollars)		Of which: (per cent)[a]											
			Asian developing economies		Japan		Australia[b]		North America		European Union		Rest of the world	
Economy	**1980**	**1992**	**1980**	**1992**	**1980**	**1992**	**1980**	**1992**	**1980**	**1992**	**1980**	**1992**	**1980**	**1992**
China	0.1	1.0	25	72	2	1	..	0	49	17	2	11	22	..
NIEs	5.2	64.4	83	69	1	1	4	4	5	14	2	4	4	8
Hong Kong	4.1	42.4	89	84	2	1	4	3	5	9	1	3	..	..
Korea, Republic of	0.2	5.6	22	32	1	2	2	4	17	38	30	7	28	18
Singapore	0.8	10.8	76	48	..	-	4	11	2	9	3	7	16	24
Taiwan Province of China	0.1	5.6	38	35	1	-	1	-	43	34	-	2	17	29
ASEAN (4)	0.8	6.1	84	63	..	-	5	6	11	10	-	20	-	1
Indonesia	0.04	2.4	98	40	..	-	3	3	-2	7	1	49	..	..
Malaysia	0.5	2.1	89	82	..	..	7	13	3	5	..	-	..	..
Philippines	0.3	0.9	74	90	..	..	..	-	26	8	-	2	..	..
Thailand	0.01	0.7	51	50	..	1	..	1	46	35	3	5	1	8

Source: UNCTAD, 1996, table I.7.

[a] Because of rounding, figures may not add up to 100.

[b] Including New Zealand.

Investment from developing Asian economies has been growing in all major host regions. So far, however, it remains principally concentrated in Asia, which hosts nearly seven tenths of outward FDI from Asian economies (table 4). Moreover, these inflows are very important for the host economies involved: for nine major Asian developing economies, FDI inflows from other Asian developing economies are, with nearly 40 per cent of the total, larger than inflows from Europe, Japan or the United States. Outside the region, the largest share goes to North America. The EU share is low: a mere 5 per cent during 1990-1993. There, it accounts for less than 1 per cent of the EU's total FDI stock and only 1 per cent of total EU inflows (UNCTAD, 1996, table II.5).

Despite this low figure, a number of firms from Asian developing economies have already established an important presence in Europe. The largest share of Asian developing-economy investments in Europe (about a quarter) is held by Hong Kong. The Republic of Korea ranks as the second largest investor in the EU from developing Asia, and firms from this country are expanding their investments in many parts of Europe, including Central and Eastern Europe.

Sectorally, the data suggest that manufacturing and services are of similar importance in the outward FDI of Asian newly industrializing economies (table 5). For other Asian developing economies, the largest share of FDI in Europe is in services, most of it of a trade-supporting nature. Investment in the manufacturing sector is heavily biased towards the electronics industry, accounting for three quarters of all manufacturing investments by the four newly industrializing economies in the EU. Trade-related investments figure prominently, but FDI in financial services industries is equally important.

In sum, Asian firms have emerged as dynamic global investors of FDI capital. Their share in world outward FDI is increasing. Although, so far, non-Japanese Asian FDI is mostly of an intraregional nature, there is a trend towards a greater geographical dispersion. Europe has begun receiving more attention from Asian TNCs, and this represents only the beginning of a process.

Explanatory factors

Investing in the EU is not an easy task for Asian developing country TNCs. There are several constraints:

Table 5. Sectoral structure of outward FDI from selected Asian developing economies, various years

(Percentage)

Sector/Industry	Hong Kong[a] (Stock, 1990)	Republic of Korea (Cumulated flows, 1960-Feb. 1996)	Malaysia[b] (Cumulated approvals, 1990-1995)	Singapore[b] (Stock, 1994)	Taiwan Province of China (Cumulated flows, 1959-1992)	Thailand (Cumulated flows, 1970-1993)
Total (Million dollars)	..	11 270	..	37 319	5 650	979
Primary sector	..	8.0	..	..	0.3	0.5
Manufacturing	..	57.5	..	20.2	56.7	30.9
Food, beverage	9.2	..	2.0	..	3.5	4.3
Textiles, leather	10.6	..	5.9	..	4.4	3.7
Paper, printing	4.4	..	1.1	..	2.0	..
Chemicals	7.6	..	12.3	..	12.6	0.7
Coal and petroleum products	..	..	22.2	..	..	..
Non-metallic	..	..	6.0	..	3.7	8.6[c]
Metal products	10.6	..	16.6	..	8.1	..
Mechanical equipment	30.4	..	2.8	..	0.5	..
Electric/electronic	10.1	..	20.2	..	18.7	9.9
Motor vehicles	..	..	..	..	..	1.6
Other transport	3.7	..	2.0[d]	..	..	..
Other manufacturing	13.4	..	8.8[e]	..	3.2	2.1
Services	..	34.5	..	..	42.9	68.7
Construction	..	1.9	..	1.2	1.1	2.0
Trade	..	21.5	..	..	5.9	4.5
Transport, storage	..	0.7	..	4.2	0.6	4.2
Finance, insurance	..	-	..	63.6	24.8	35.7
Communication	..	-	..	..	-	..
Other	..	10.4	..	9.7	10.4	22.2

Source: UNCTAD, 1996, table I.3.

[a] Includes manufacturing industries in percentage of total manufacturing.

[b] Includes investment in paid-up shares and attributable reserves, not including intra-company loans and investment by financial institutions.

[c] Includes, also, metal products.

[d] Includes only motor vehicles.

[e] Includes wood products, furniture, rubber and plastic products, scientific and measuring equipment, and miscellaneous.

- Asian investors have *competitive constraints*, reflecting the fact that their economies are less developed than most European ones. Technological limitations are particularly evident in complex manufacturing activities and advanced services such as infrastructure development, communications, merchant banking or media. These explain in part the pattern of Asian investment in Europe, although firms especially from Hong Kong, Singapore, the Republic of Korea and Taiwan Province of China do invest in manufacturing and more advanced services, as well as in trade-related activities.

- For Asian investors, *transaction costs, including those related to knowledge of local markets, culture and conditions*, are higher when investing in Europe than in other Asian economies, or North America. As regards the latter, this is largely a result of closer trade, political and educational relations and the fact that the United States represents a unified market, compared to the still fragmented and differentiated markets of Europe.

- *The home-country regulatory framework* is also a constraint. Host countries, i.e., the European countries, have liberalized their FDI regimes to a large extent, even though there remain pockets of (mostly sectoral) restrictions (UNCTAD, 1996, table IV.3). Most Asian home economies have only recently begun to liberalize their outward FDI regimes, although some have gone quite far in this respect and have even begun to promote outward FDI through various measures.

Despite these constraints, there are certain pull and push factors that make investment in the EU attractive. The pull factors revolve primarily around the benefits of investing in the EU, which are increasingly recognized by Asian firms and governments. They include access to a large, rich and discriminating market to serve, which, may need a direct presence; access to advanced technology and skills; location-specific advantages (high skill levels, flexible labour markets in a number of countries, supplier networks and technology systems) of producing in Europe (and especially in Central and Eastern Europe); overcoming protectionist sentiments; winning infrastructure and government contracts; participating in EU research-and-development programmes; forging closer relations with European firms; and diversifying the investment portfolio. In short, Europe offers a diversity of opportunities to firms from different Asian economies to invest according to their respective advantages.

Table 6. Ratio of FDI stock to merchandise exports in the European Union and United States, selected Asian developing economies, 1993

(Percentage)

Economy	European Union	United States
China	1.5	2.1
Hong Kong	7.1	12.9
Korea (Republic of)	4.0	10.7
Singapore	8.2	7.1
Taiwan Province of China	0.8	7.5
Malaysia	0.1	1.6
Philippines	1.2	1.7
Thailand	0.6	3.3

Source: UNCTAD, 1996, table VI.4.

The developing economies of Asia have so far reached European markets primarily through exports rather than FDI. The internationalization of Asian developing economies (excepting Singapore) through FDI as compared with exports is lower in the EU than in the United States (table 6). And their investments in Europe have been largely supportive of their export activity. However, the competitive advantages that lead to successful exporting often also provide the push to engage in FDI in its own right, generally in ways that further complement trade. Foreign direct investment tends to support the development of competitiveness by allowing resources to be spread over the most efficient sites, providing technology and market feedbacks and allowing the upgrading of domestic operations. As an example, Japanese FDI and export growth in Europe have gone together, with service investments supporting manufacturing exports. It seems that developing Asia's FDI in Europe is also driven by trade—but with each investment made, this is less and less the case as further investments draw on the underlying competitive strengths of the firms involved.

These competitive strengths are revealed in the export performance of Asian economies. Manufactured products are the engine of Asian export growth to Europe (UNCTAD, 1996, table VI.3). But there are large differences between Asian economies. The newly industrializing economies, as well as China, are the main exporters of manufactures, with Indonesia, Malaysia and Thailand close behind. The technological basis of their comparative advantage varies also: the newly industrializing economies and

Malaysia tend to have more technology-intensive exports than the others, while exports from China, Indonesia, Thailand and India are primarily in resource- and labour-intensive activities (UNCTAD, 1996, table VII.5).

In terms of domestic technological capabilities enabling firms to undertake overseas investment, firms from the Republic of Korea (followed by those from Taiwan Province of China) are well in the lead (UNCTAD, 1996, tables VIII.4 and VIII.5). This is evident from recent industrial investments in Europe (UNCTAD, 1996). The pattern of these investments reflects differences in the basic ingredients on which firms build their ownership advantages, namely, human capital and technological capacities. Despite rapid convergence, Asian developing economies still differ considerably in their enrolment ratios at different stages of education, particularly tertiary education, and their research-and-development expenditures (UNCTAD, 1996, tables VIII.1 and VIII.4).

Implications for policy and action

Driven by growing exports, as well as increasingly independent of them, Asian FDI in Europe is on the rise. Still, it is incipient and needs to be nurtured, especially since most Asian firms have little or no experience of investing in Europe. Again, governments have a role to play.

At home, there is a trend towards the liberalization of outward FDI by developing Asian economies (as part of a broader market-based, outward-oriented development strategy)—and this liberalization momentum should be maintained where it serves the home countries involved. This process has to be gradual, and needs to take into account national development objectives, as well as various constraints. Where these constraints are of a balance-of-payments nature, there are a number of ways to deal with them, including through approval procedures and the application of various criteria.

Beyond liberalization, a number of Asian governments have begun to assist their outward investors—but more could be done in this respect. The principal areas of assistance are education, training and orientation programmes; the provision of information services; the promotion of partnerships and contacts; and financial assistance.

Each Asian economy could design its individual programme relating to FDI in Europe. Additionally, it might be useful to have an umbrella for the various activities described above, perhaps in the form of a "Europe-Invest Programme". It could be established by interested countries with offices in the participating countries. The design of each national Europe-Invest office could differ, depending on local circumstances and needs; and each office could be linked back to national institutions, including export-import banks and other agencies involved in outward FDI.

But any action along these lines would not be a substitute for action by Asian firms; it is they that are the principal actors when it comes to increasing FDI in Europe, based on a recognition that they too benefit from investing there.

There is also a role to play for public authorities in the host region—i.e., the European Commission and the EU's individual governments—since European countries, as recipients, benefit from inward FDI as well. While the EU's FDI framework is liberal, there are a number of areas in which liberalization could go further. Moreover, precisely because FDI and trade are inextricably intertwined and Asian FDI in the EU is to a considerable extent trade-led, maintaining and improving a liberal trade regime by the EU is important for ensuring that the mix of FDI and trade can be used by firms in the most efficient manner.

Furthermore, governments of member countries and the European Commission can both assist prospective Asian investors in a number of ways to establish themselves in Europe and, once established, to prosper there. Europe's Investment Promotion Agencies could play a useful role in this respect. They could make a special effort to target, attract and help Asian investors, including by establishing branches in Asia. The European Commission could also consider the possibility of extending some existing European schemes devoted to expanding FDI in Asia (e.g., the European Union Business Information Centres) in such a manner that they can simultaneously promote Asian FDI in Europe.

Since most laws, regulations and administrative procedures governing inward FDI are established by the Union's individual governments, the framework facing a foreign investor is sometimes complex. In spite of progress in this area, there is scope for further harmonization, including as regards a European company law. From the viewpoint of Asian investors, such an approach would be beneficial because it would be comprehensive, increase transparency and reduce transaction costs.

Finally, there is also room for action by the private sector in Europe. European firms can benefit from the capabilities and experience of Asian TNCs by establishing joint ventures or strategic alliances. For example, local European knowledge and skills could be effectively combined in Central and Eastern European infrastructure projects with Asian firms' recent successful experience in "building" Asia.

Towards joint policies

There are a number of areas in which Asian and European governments could benefit from joint action. Some of these areas require cooperation by their very nature, especially where the strengthening of the international framework for FDI is concerned. In other areas, practical cooperation would be to the benefit of all countries involved.

As for the international framework for FDI, its most important elements are still bilateral agreements on the promotion and protection of FDI and double-taxation treaties. Not all the economies involved have concluded such agreements with each other (UNCTAD, 1996, annex tables 3 and 5). There are also other areas in which agreements between governments can facilitate business operations, such as the mutual recognition of standards.

The actions that Asian and EU governments could fruitfully take, each on its own, to increase FDI flows from Asia to Europe and from the EU to Asia could also benefit from active and practical cooperation between institutions in Europe and Asia. An Asia-Invest Programme has already been put in place by the European Commission. If a Europe-Invest Programme—or any other mechanism of this sort—were to be established to coordinate and mutually support Asian activities regarding FDI in Europe, the question arises whether it would be helpful to create a common roof for the Europe-Invest and the Asia-Invest Programmes, so as to coordinate the two Programmes, in order to reduce duplication and enhance synergies. Such an approach could build on existing successful measures and instruments and apply them in either direction. Moreover, some of the objectives of the programmes could be better achieved because policy makers and business people from both areas would be working together in order to facilitate FDI in both directions. And, finally, by having a single programme working in both directions, Asian and European governments and business would have an equal stake in making the process work. The Asia-Europe Meeting (ASEM), begun in early 1996, offers the framework within which closer cooperation on investment matters can be pursued between the two regions.

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During the next decade, increased globalization, made possible by rapid technological developments and the liberalization of investment and trade regimes, will further change the global structure of economic activities and intensify competition. Asia can be expected to remain the world's fastest-growing region in terms of industrial production, investment flows and exports. The countries of Asia are not only major and growing markets but also efficient producers. Many have become global manufacturers for a wide range of products, including those involving new and emerging technologies. Europe remains an economic giant with the capacity to absorb goods and services and to provide created assets of all kinds. Increased investment by firms from Asia in Europe and from Europe in Asia, within the context of increasing economic cooperation, can only enhance the further growth of both Asia and Europe. ■

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