

**Fourth Meeting of the
Asia-Pacific Foreign Direct Investment (FDI) Network
for Least Developed and Landlocked Developing Countries**

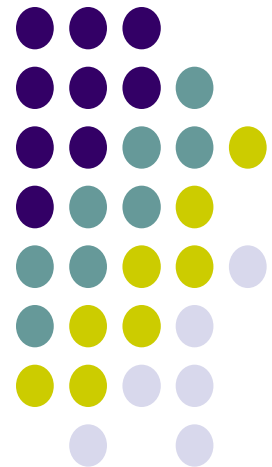
**FDI, Trade Agreements and Value Chains –
Lessons **from/for** South Asia**

by

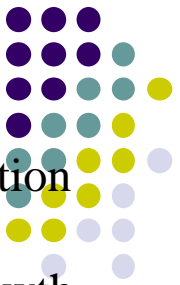
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**Organized by:
United Nations ESCAP
Colombo, Sri Lanka
25 November 2014**

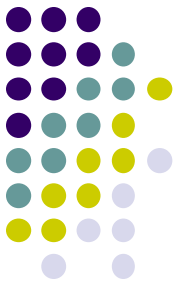


Key Messages

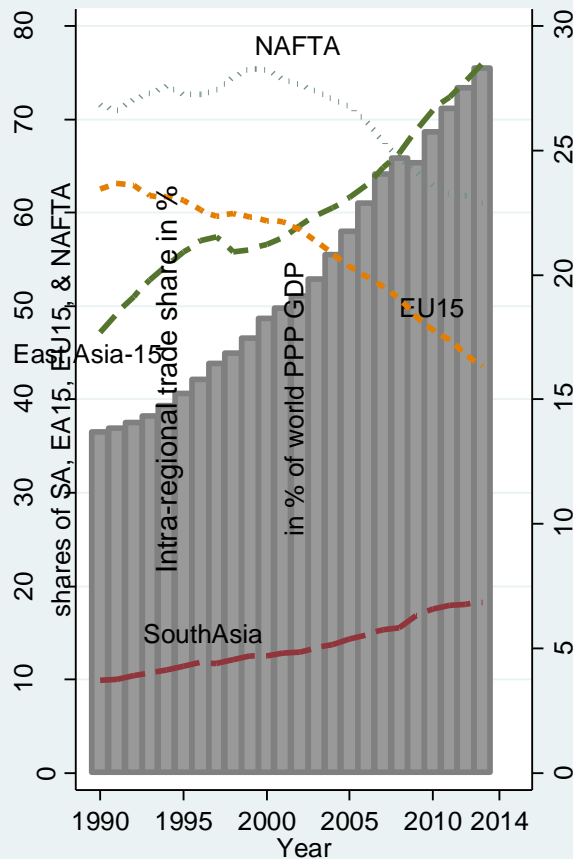


- The globalization of the world economy has progressed by a relative concentration of world economic activity across three economic regions.
- Economic interdependency has however grown stronger than the economic growth only within the East Asian economic region. International/regional/global organization of production has become the norm.
- The latest phase of globalization also accompanied the development of an unsustainable payment imbalance btw the US and some East Asian countries including China notably. Capital flow happened to be from the poor to the rich.
- As the imbalances are unwinding and the world economic crisis is yet continuing, a tectonic change is underway that the gravity of the world economy is moving away from “**Across the Pacific**” to the “**Indo-Pacific Region.**”
- South Asia itself in this latest phase of globalization is yet no coherent economic region and no credible framework of shared responsibility is in place. But the economic zone is poised to be increasingly integrated in the Indo-Pacific economic landscape.
- Integration into the global value chain brings about rising technological capabilities. Evidence from the East Asian countries indicate how China and ASEAN countries have upgraded across the value chain.
- Proliferation of free trade agreements (FTAs) across Asia and the Pacific and a growing coverage of non-traded and services in recent FTAs. How does a trans-pacific partnership will impact trade and FDIs across Asian economies?
- Will Bangladesh be a “nod & hub” in the Indo-Pacific Ocean Rim? Potential and challenges to this end.

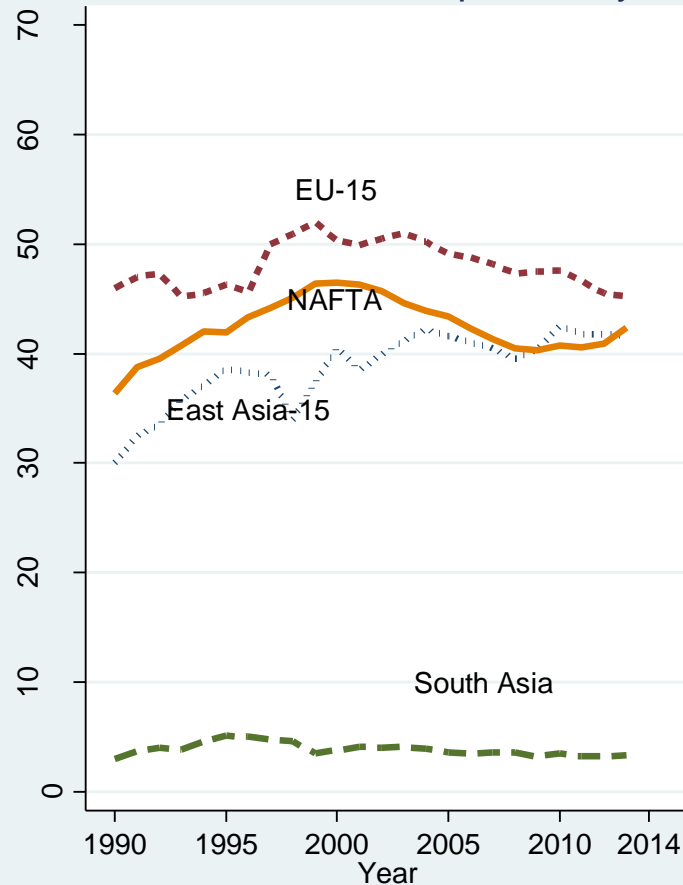
Globalization, Regional Growth, and Economic Interdependency, 1990-2014



The world economy & its distribution



Economic interdependency



Sources: International Monetary Fund, World Economic Outlook Database, October 2014, the IMF Direction of Trade Statistics (DOTS) and the CEPII CHELEM Databases.

Schematic View of East Asian Production Network



(Trade flows in 2010)

East Asia's Trade

T_w	Ig	Fg
X	760	1608
M	641	877

Japan

T_w	Ig	Fg
X	205	345
M	98	225

Korea

T_w	Ig	Fg
X	100	175
M	84	100

Taiwan

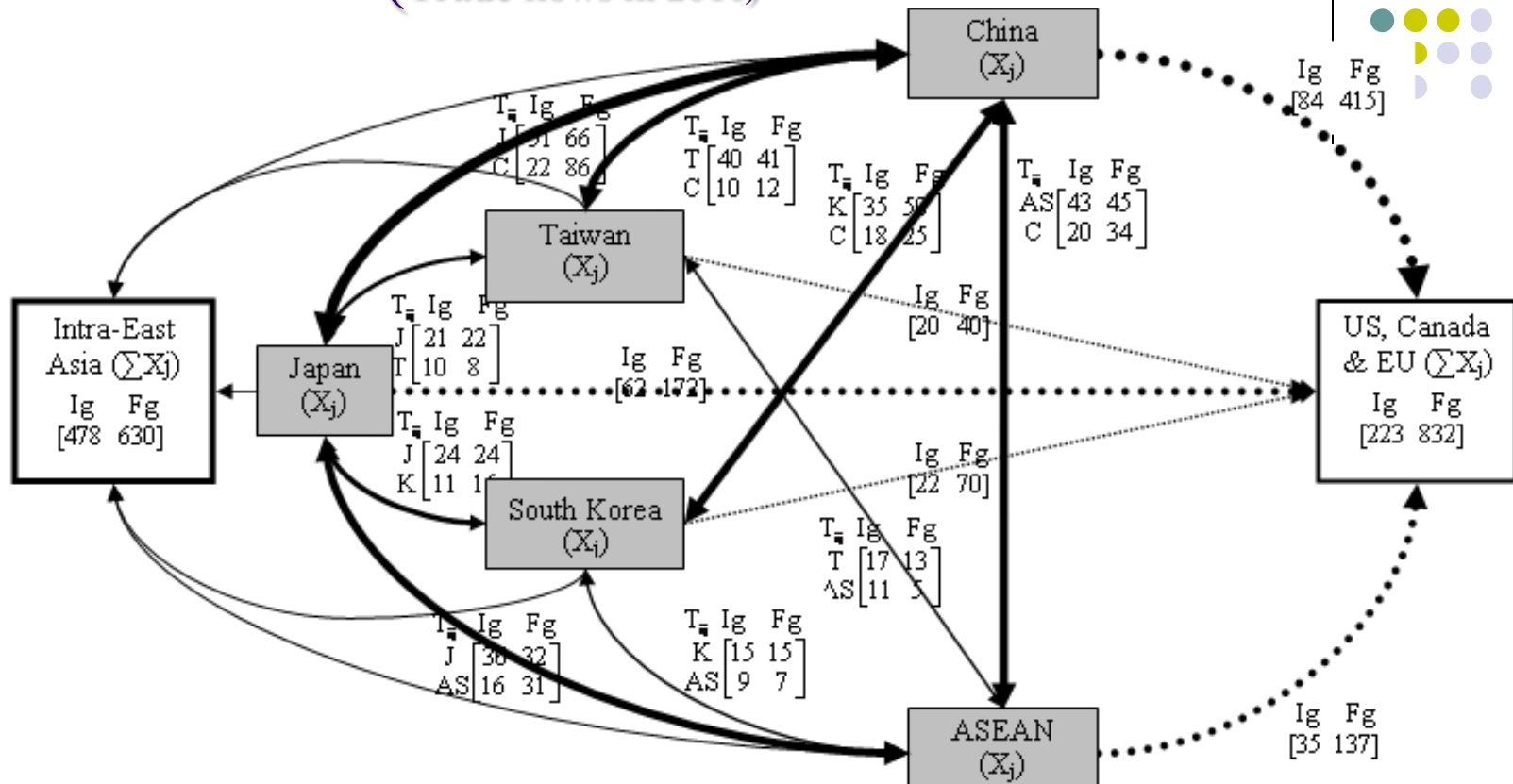
T_w	Ig	Fg
X	95	111
M	70	67

China

T_w	Ig	Fg
X	204	656
M	207	250

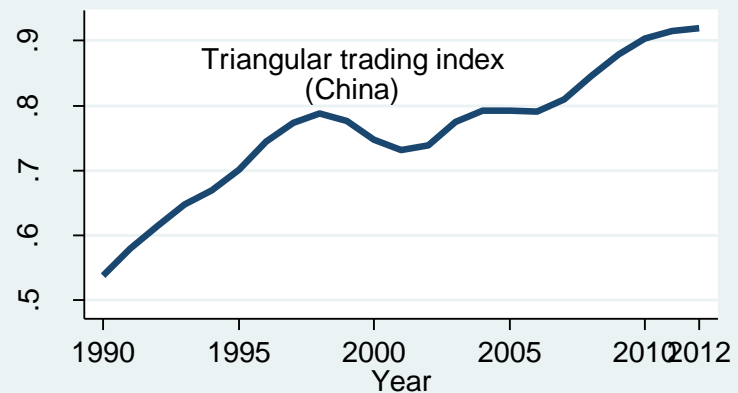
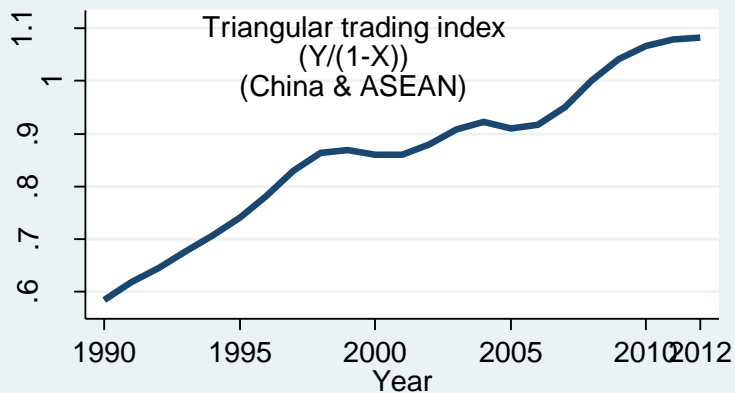
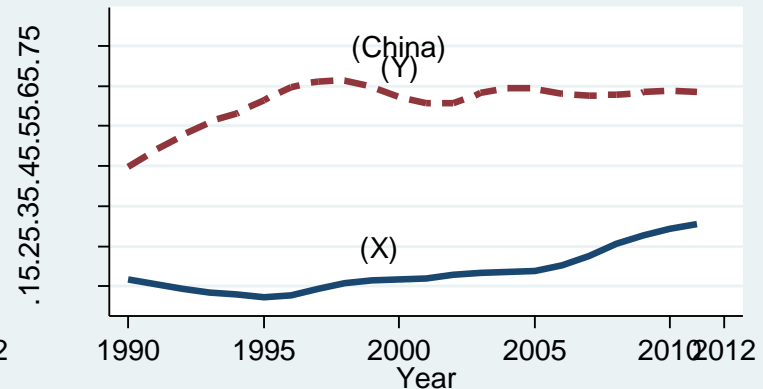
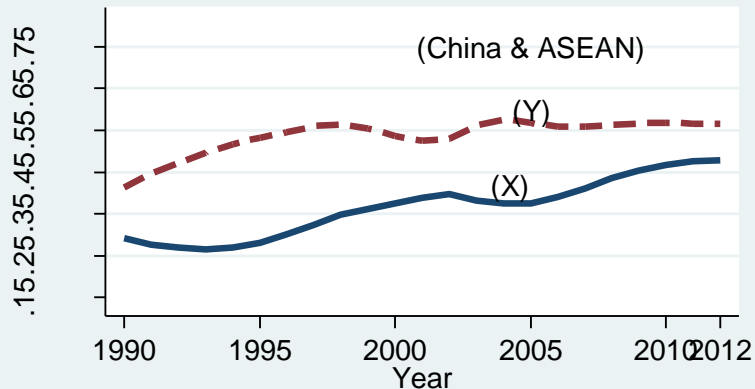
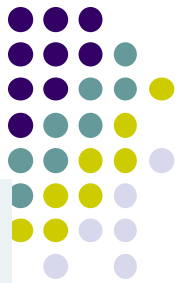
ASEAN

T_w	Ig	Fg
X	165	322
M	182	236



I_z and F_z represent trade in intermediate and final goods respectively. Total exports and imports by stages of production from East Asian countries (individually and jointly) to a cross section of 40 major trading partners are shown to the left; networked production locations are identified in shaded rectangles and connected by two-way solid arrows; extra-regional exports between East Asian country j and the developed end-user markets are indicated by one-way dotted arrows; the combined intra-regional market is shown to the left; X_j 's in the shaded rectangles are unobserved incremental value added by East Asian country j ; bilateral exports are recorded on a gross basis ($\sum X_j$) rather than as value added (X_j); a (2×2) matrix on the network shows bilateral flows (T_w) of intermediate goods and final goods between two production locations; extra-regional trade in both categories between an East Asian country and the developed markets are shown in the row vectors along the dotted lines; thickness of the line represents its relative weight.

Triangular Trade in East Asia, 1990-2012



Source: Authors' estimates based on CHELEM Database. Each series is a weighted moving average with weights being 1, 2, and 3 to the $x(t-2)$, $x(t-1)$, and $x(t)$ terms respectively. (Y): (Export of final goods from China and/or ASEAN to developed markets)/(Export of final goods from China and/or ASEAN to the world). (X): (Export of intermediate goods from Japan & NIEs2 to China and/or ASEAN)/(Export of intermediate goods from Japan & NIEs2 to the world).

Dynamic Competitive Advantage of Exports by Stages of Production & Geo. Locations, 1990-2010 (Contd.)



Exports by stages of production	Intermediate goods			Final equipment goods			Final consumer goods		
Trading partners/Year	1990	2000	2010	1990	2000	2010	1990	2000	2010
Japan									
China & Hong Kong	0.81	1.05↑	1.20↑↑	1.22	1.43↑	1.42↑↑	0.84	0.86↑	1.08↑↑
South Korea & Taiwan	1.73	1.55↓	1.78↑↑	1.87	1.81↓	1.95↑↑	1.44	1.61↑	1.92↑↑
ASEAN-7	1.15	1.17↑	1.21↑↑	1.24	1.17↓	1.11↓↓	0.70	0.76	0.56
East Asia	1.06	1.07↑	1.19↑↑	1.29	1.16↓	1.20↑↓	0.57	0.62	0.77
US	1.26	1.22↓	1.31↑↑	1.33	1.05↓	0.84↓↓	0.94	1.07↑	1.10↑↑
EU-15	1.13	1.15↑	1.12↓↓	1.44	1.03↓	0.72↓↓	0.98	0.93↓	0.79↓↓
US+EU-15	1.21	1.20↓	1.23↑↑	1.37	1.04↓	0.78↓↓	0.95	1.02	0.97
ROW	1.22	1.08	0.92	1.50	1.11	0.80	0.94	0.91	0.99
Total	1.14	1.12↑	1.17↑↑	1.36	1.09↓	0.96↓↓	0.83	0.87↑	0.90↑↑
South Korea	1990	2000	2010	1990	2000	2010	1990	2000	2010
China & Hong Kong	1.54	1.91↑	1.76↓↑	0.56	1.13↑	1.94↑↑	0.78	2.00↑	2.12↑↑
Japan	3.42	1.92↓	1.70↓↓	2.88	1.16↓	0.85↓↓	2.51	1.33↓	1.16↓↓
ASEAN-7	0.97	1.14↑	1.04↓↑	0.56	0.56	0.77	0.58	0.97	0.89
East Asia (inc. Taiwan)	1.26	1.35↑	1.35↑↑	0.65	0.83↑	1.16↑↑	1.31	1.28↓	1.30↑↓
US	1.07	1.18↑	0.97↓↓	0.69	0.89	0.57	1.42	0.73↓	0.68↓↓
EU-15	0.86	1.10↑	0.74↓↓	0.65	0.95↑	1.08↑↑	1.01	0.75↓	0.86↑↓
US+EU-15	0.99	1.15↑	0.87↓↓	0.68	0.91	0.80	1.26	0.74↓	0.76↑↓
ROW	1.43	1.57	1.25	0.68	1.18	1.24	1.31	1.15	1.06
Total	1.17	1.30↑	1.21↓↑	0.67	0.90↑	1.00↑↑	1.28	0.97↓	0.99↑↓
Taiwan	1990	2000	2010	1990	2000	2010	1990	2000	2010
China & Hong Kong	1.81	2.08↑	2.62↑↑	1.49	1.61↑	1.70↑↑	1.52	1.59↑	2.91↑↑
Japan	1.77	1.94↑	2.03↑↑	2.59	2.14↓	0.80↓↓	1.65	0.71↓	0.60↓↓
ASEAN-7	0.93	1.16↑	1.64↑↑	1.03	0.78↓	0.67↓↓	0.82	0.78↓	1.35↑↑
East Asia (incl. South Korea)	1.03	1.34↑	1.83↑↑	0.99	1.12↑	1.04↑↑	1.20	0.88↓	1.51↑↑
US	1.04	1.16↑	1.23↑↑	1.13	1.31↑	0.72↓↓	1.24	0.59↓	0.46↓↓
EU-15	1.02	1.01↓	0.88↓↓	1.17	1.35↑	0.75↓↓	0.84	0.62	0.45
US & EU-15	1.03	1.10↑	1.08↑↑	1.15	1.32↑	0.73↓↓	1.08	0.60↓	0.45↓↓
ROW	1.03	1.23	0.83	0.97	1.27	0.56	0.97	0.56	0.43
Total	1.03	1.25↑	1.53↑↑	1.08	1.24↑	0.84↓↓	1.11	0.69↓	0.84↑↓

Dynamic Competitive Advantage of Exports by Stages of Production & Geo. Locations, 1990-2010 (Contd.)



Exports by stages of production Trading partners/Year	Intermediate goods			Final equipment goods			Final consumer goods		
	1990	2000	2010	1990	2000	2010	1990	2000	2010
China									
Japan	1.61	1.11↓	1.07↓↓	0.82	1.41↑	1.71↑↑	2.43	2.73↑	1.78↓↓
South Korea & Taiwan	0.38	0.55	0.73	0.26	0.54↑	1.09↑↑	0.36	0.94	0.96
ASEAN-7	0.53	0.26	0.45	0.19	0.44	0.78	0.68	0.49	0.41
East Asia (inc. Hong Kong)	0.88	0.48	0.51	0.41	0.60	0.83	1.45	1.44↓	0.81↓↓
US	0.34	0.60↑	1.03↑↑	0.25	1.00↑	1.38↑↑	1.47	1.78↑	1.42↓↓
EU-15	0.83	0.76↓	1.13↑↑	0.19	0.98↑	1.43↑↑	1.67	1.69↑	1.50↓↓
US & EU-15	0.51	0.66↓	1.08↑↑	0.22	1.00↑	1.40↑↑	1.54	1.75↑	1.46↓↓
ROW	0.60	0.84	1.24	0.27	0.83	1.39	1.26	1.51	1.22
Total	0.71	0.57	0.73	0.29	0.82↑	1.16↑↑	1.49	1.62↑	1.19↓↓
Singapore	1990	2000	2010	1990	2000	2010	1990	2000	2010
China & Hong Kong	0.41	0.81↑	1.50↑↑	1.04	1.45↑	1.18↓↑	2.23	1.76↓	1.87↑↓
Japan	0.57	0.82	0.81	2.01	1.30↓	0.76↓↓	1.69	0.45↓	0.55↑↓
South Korea & Taiwan	0.44	0.97↑	1.24↑↑	0.78	1.09↑	0.60↓↓	2.32	1.26↓	0.56↓↓
ASEAN-6	1.16	1.73↑	1.77↑↑	1.63	2.20↑	2.15↑↑	4.25	3.61↓	4.69↑↑
East Asia	0.70	1.17	1.43	1.33	1.58	1.26	2.58	1.61↓	2.01↑↓
US	0.62	0.67	0.53	1.59	1.27↓	0.70↓	0.39	0.17	0.22
EU-15	0.72	1.07↑	1.02↓↑	1.15	1.26↑	0.74↓	0.65	0.27	0.34
US & EU-15	0.65	0.82	0.74	1.40	1.27↓	0.72↓↓	0.49	0.21	0.27
ROW	0.48	0.43	0.36	0.92	1.32	0.98	1.38	0.96	1.48
Total	0.66	0.99↑	1.14↑↑	1.34	1.40↑	0.97↓↓	1.20	0.78↓	1.06↑↓
Indonesia	1990	2000	2010	1990	2000	2010	1990	2000	2010
China & Hong Kong	1.66	0.85↓	0.63↓↓	0.34	0.29	0.42	0.37	0.62	0.90
Japan	6.11	2.75↓	2.50↓↓	0.23	0.89↑	1.00↑↑	4.22	1.56↓	1.74↑↓
South Korea & Taiwan	1.15	0.95↓	0.84↓↓	0.03	0.24	0.29	1.27	1.59↑	1.02↓↓
ASEAN-6	1.59	1.22↓	1.97↑↑	0.18	2.01↑	2.03↑↑	2.11	2.22↑	2.33↑↑
East Asia	2.13	1.25↓	1.26↑↓	0.17	0.96	0.92	2.41	1.48↓	1.51↑↓
US	0.53	0.55	0.57	0.02	0.30	0.23	0.92	1.23↑	1.20↑
EU-15	1.54	1.12↓	0.96↓↓	0.03	0.39	0.32	1.40	2.03↑	1.65↑↑
US & EU-15	0.89	0.75	0.74	0.02	0.33	0.27	1.10	1.50↑	1.39↑↑
ROW	0.89	1.40	1.25	0.04	0.30	0.29	0.66	1.27	1.34
Total	1.52	1.09↓	1.12↑↓	0.07	0.59	0.54	1.47	1.48↑	1.43↓↓

Dynamic Competitive Advantage of Exports by Stages of Production & Geo. Locations, 1990-2010



Exports by stages of production	Intermediate goods			Final equipment goods			Final consumer goods		
Trading partners/Year	1990	2000	2006	1990	2000	2006	1990	2000	2006
Malaysia									
China & Hong Kong	0.86	0.51↓	1.18↑↑	0.25	0.84	0.75	1.02	0.51↓	0.80↑↓
Japan	1.41	1.71↑	1.21↓↓	1.71	1.62↓	0.90↓↓	0.71	0.85	0.63
South Korea & Taiwan	0.90	1.33↑	0.89↓↓	0.13	0.76	0.52	0.74	0.54	0.73
ASEAN-6	1.82	1.62↓	1.65↑↓	2.31	1.76↓	1.86↑↓	3.56	1.79↓	2.17↑↓
East Asia (inc. Hong Kong)	1.29	1.25↓	1.25↓	1.29	1.28↓	1.03↓↓	1.54	0.93↓	1.08↑↓
US	1.55	1.22↓	0.73↓↓	0.50	1.28↑	2.27↑↑	0.70	0.57	0.45
EU-15	1.77	1.17↓	0.97↓↓	0.31	0.97↑	1.13↑↑	1.20	0.63↓	0.52↓↓
US & EU-15	1.63	1.20↓	0.84↓↓	0.42	1.16↑	1.75↑↑	0.89	0.59	0.48
ROW	0.70	0.85	0.83	0.25	1.08	1.04	1.32	1.00	0.67
Total	1.37	1.20↓	1.09↓↓	0.68	1.20↑	1.37↑↑	1.12	0.75↓	0.72↓↓
Philippines	1990	2000	2010	1990	2000	2010	1990	2000	2010
China & Hong Kong	0.59	0.61↑	2.58↑↑	0.38	0.78↑	1.61↑↑	0.41	0.23	0.39
Japan	2.05	2.25↑	2.02↓↓	4.02	2.85↓	2.30↓↓	1.62	0.56↓	0.55↓↓
South Korea & Taiwan	0.85	1.87↑	1.48↑↑	0.50	1.42↑	0.71↑↑	1.05	0.27↓	0.31
ASEAN-6	0.98	1.45↑	1.96↑↑	0.30	0.85↑	1.01↑↑	0.30	0.32	0.59
East Asia	1.00	1.43↑	2.10↑↑	0.72	1.37↑	1.40↑↑	0.93	0.38	0.47
US	1.37	2.15↑	1.16↓↓	0.63	0.99↑	0.67↓↑	1.94	0.77↓	0.66↓↓
EU-15	1.31	0.97↓	1.48↑↑	0.24	1.26↑	1.01↑↑	1.33	0.38↓	0.36↓↓
US & EU-15	1.35	1.72↑	1.30↓↓	0.46	1.10↑	0.82↓↑	1.71	0.64↓	0.54↓↓
ROW	0.43	0.69	0.52	0.14	0.51	0.31	0.79	0.30	0.22
Total	1.09	1.47↑	1.73↑↑	0.52	1.16↑	1.01↓↑	1.39	0.51↓	0.47↓↓
Thailand	1990	2000	2010	1990	2000	2010	1990	2000	2010
China & Hong Kong	0.27	0.64	0.70	0.24	0.83↑	1.32↑↑	1.04	0.88↓	0.84↓↓

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