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ASIA AS AN ATTRACTIVE LOCALIZATION FOR FOREIGN DIRECT INVESTMENTS OF THE EUROPEAN UNION MEMBER STATES

Abstract: To the end of 2008 Asian states have attracted capital in form of foreign direct investments amounting to 2.5 trillion USD. Just in 2008 investors located nearly 400 billion USD in these economies. Main beneficiaries of the foreign direct investments are: Hong Kong, China, India, Saudi Arabia, Japan and Singapore. It is estimated that the European Union economies annually increase in value of investments in Asian states and presently their share in shape of the global value of FDI inflow amounts to approximately 15% and it grows up annually. Competitors for Asian states offering better and better conditions are Middle-East states which are still characterized by low production costs and, first of all, by localization close to European Union's states, which makes up a hazard for increase in inflow of the foreign direct investments' inflow to Asia.

Key words: Asia, Europe, FDI, investments, capital flow.

1. Introduction

For a few years economists have observed the economic dynamics of states belonging to Asia and Pacific, which significantly affect the alteration of economic world situation. Asia is the largest and the most populated continent inhabited by four billion of inhabitants, which constitutes 60% of total population. United Nations in its annual investment report (WIR)¹ singles out the following regions in terms of economy:

- West Asia,
- East Asia,
- South Asia,
- South-East Asia.

In the Asia and Pacific region a few groups and associations were established in order to enhance cooperation between Asian states. The ASEAN (Association of South East Asian Nations) is the most recognized organization from this territory;

¹ *World Investment Report 2009. Transnational Corporations, Agricultural Production and Development*, United Nations, New York and Geneva 2009, pp. 249-250.

10 states of South-East are members of this organization.² The objectives of the established association are: acceleration of economic growth, social and cultural growth in the region and promotion of peace and stabilization in the territory of states belonging to this group. A second international organization operating in Asia is APEC (Asia-Pacific Economic Cooperation),³ whose aim is to head for tight economic integration which means liquidation of barriers, technological cooperation and support for economic growth in the member states and fair share of profits. SAARC (South Asian Association for Regional Cooperation)⁴ is a regional group whose aim is to accelerate the economic and social growth in the member states. In 1966 a cooperation between two regions was established: European Union's states and East Asia, South and South-East Asia, whose activity was regulated in AECF document (*Asia-Europe Cooperation Framework*). Within frameworks of ASEM operation (Asia-Europe Meeting),⁵ since this is the name of relations between Asia and Europe, it was agreed that the main assumption is development of cooperation regarding politics, economies and culture. Within the economic cooperation special pressure is put on liquidation of barriers in terms of trade and investments and in terms of financial and social policy reforms.

The objective of the article is the presentation and elaboration of the level of the foreign direct investments in Asian states made by European Union's member states. To achieve the objective, the author shall make statistic analysis of data regarding the capital flows between these regions, which will enable verification of the hypothesis concerning more and more tight cooperation in terms of FDI between Asian states and economies of the European Union.

2. Foreign direct investments in Asia

Asia region has been a subject of interest of foreign investors, who willingly locate their capitals there in form of the foreign direct investments. To the end of 2008 the Asia has attracted the capital of 2.583 billion USD, which made up 17% of total capital flows in form of FDI in the world. Annual value of foreign investments, whose Asia is beneficiary, has been growing rapidly. In 2000 the FDI level amounted to 142 billion USD and in 2008 it was 388 billion USD, which is 2.7 times more.⁶

Among main factors determining the inflow of investments to Asian economies the following are the most significant:

² Brunei Darussalam, Philippines, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Singapore, Thailand and Vietnam.

³ States associated in ASEAN are: Australia, New Zealand, Canada, USA, Japan and Republic of Korea.

⁴ India, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, Sri Lanka.

⁵ 27 states of the European Union, The European Commission, 10 members of ASEAN, China, Japan, Republic of Korea, Mongolia, India, Pakistan.

⁶ *World Investment Report 2003. FDI Policies for Development: National and International Perspectives*, United Nations, New York and Geneva 2003.

- existence of financial support and promotion of foreign investments, in fiscal and non-fiscal form as well as easiness of running of business activity for foreign entities. There is also well developed information and advisory function of governmental administration, which encourages entrepreneurs to take on economic initiatives;
- protection of investments, which aims to protect intellectual property and freedom of business activity run by foreign entities;
- having an accurate legislation regarding the labour market, terms and conditions regarding hiring of foreigners on managers' positions, attaining of a consent for residence and established role of trade unions;
- regulation of market competitiveness in form of acts restricting on unfair business practices and imposing supervision and sanctions.

Analyzing data concerning accumulated inflow of foreign direct investments into the Asian region, to the end of 2008, it may be concluded that a target localization for foreign capital there is East Asia (1.363 billion USD), then South-East Asia (663 billion USD), West Asia (362 billion USD) and South Asia (186 billion USD). In Asia, the largest beneficiary of FID there is Hong Kong, which, to the end of 2008, attracted more than 30% of investments made by entrepreneurs in this region. The second position is held by China with share approximately 15% and Singapore (13%).

Table 1. Accumulated value of foreign direct investments in the Asia region – the largest beneficiaries of foreign capital to the end of 2008

Regions	Main beneficiaries (in billion USD)	
Asia	2.575	
West Asia	Saudi Arabia	114
	Turkey	70
	United Arab Emirates	69
East Asia	Hong Kong	835
	China	378
	Japan	203
South Asia	India	123
	Pakistan	31
	Iran	20
South-East Asia	Singapore	326
	Thailand	104
	Malaysia	73

Source: *World Investment Report 2009...*, p. 253.

In 2008 the largest inflow of foreign capital concerned Chinese economy – 108 billion USD. The second position was held by Hong Kong – 63 billion USD, while the third position – by India with FDI of value amounting to 41 billion USD. Following positions: Saudi Arabia – 38 billion USD, and Japan – 24 billion USD. Those 5 states attracted together foreign capital in the amount of 274 billion USD which constituted more than 70% of total value of the foreign direct investments located in 40 states of the region.

Analyzing real values, which means value of foreign investments per inhabitant in 2008, the leader of the ranking there is economy of the Hong Kong (9.023 USD), then Qatar (5.231 USD) and Singapore (4.924 USD).

Table 2. Value of foreign direct investments in Asian states in 2008 (in billion USD)

West Asia		East Asia		South Asia		South-East Asia	
Saudi Arabia	38 223	China	108 132	India	41 554	Singapore	22 725
Turkey	18 198	Hong Kong	63 003	Pakistan	5 438	Thailand	10 091
United Arab Emirates	13 700	Japan	24 426	Iran	1 492	Malaysia	8 053
Qatar	6 700	Republic of Korea	7 603	Bangladesh	1 086	Indonesia	7 919
Lebanon	3 606	Taiwan	5 432	Sri Lanka	752	Viet Nam	2 400
Oman	2 928	Macao	1 905	Afghanistan	300	Philippines	1 520
Syria	2 115	Mongolia	683	Bhutan	30	Cambodia	815
Jordan	1 954	Korea DPR	44	Maldives	15	Myanmar	283
Bahrain	1 794			Nepal	1	Brunei D.	239
Iraq	488					Lao	228
Yemen	463						
Kuwait	56						
Palestine	29						

Source: *World Investment Report 2009...*, p. 249.

In 2008 the European Union's states invested just in Hong Kong 8 billion USD in form of foreign direct investments, consequently, annual inflow of FDI from European Union to this region increased by 60% compared to 2002. The largest number of investments from Union's states in Hong Kong in 2008 were made by entrepreneurs from Belgium. Inflow of FDI from this economy amounted to approximately 3 billion USD, which means it makes up 50% of total invested resources by the European Union, the second position is held by the Great Britain – 1.7 billion USD and the third position – by France – 1.5 billion USD. A significant

role was also played by Spanish economy with investments amounting to more than 1 billion USD. It means that the share of those four Union's states amounts to 90% of total inflow of foreign direct investments into the Hong Kong economy from the European Union.⁷

Investments from the Union's enterprises in the Chinese economy have been at the level of 8 billion USD for years, which, together with Hong Kong, makes up the annual value of 16 billion USD. Investments of the largest value in 2008 were made by companies originating from Great Britain, France, Switzerland, Holland and Germany. Amount of the capital in form of the foreign direct investments invested by them amounted to 6.5 billion USD, which made up 80% of total resources in this economy invested by the European Union's member states.

Value of the capital located by the European Union enterprises in India has been growing year by year and in 2008 it amounted to 4.3 billion USD, which made up 10% of the total inflow of foreign direct investments in this state. Most of the resources were located by companies originating from Germany – more than 1.5 billion USD, from Great Britain – 773 million USD and France – 456 million USD.

Foreign investors are mostly interested in such sectors of Asian economies as: radio appliances production, TV sets and telecommunication, chemical agents manufacture, rock oil refinery products as well as machines and devices.⁸ Analyzing data regarding the sector structure in terms of the foreign direct investments inflow into the South and East Asia one may conclude that, year by year, the meaning of labour-consuming production decreases while the capital-consuming grows up, which is observed in the electronic and electric appliances industry.

Among investors in the Asia region, in the statistic data more and more frequently new members of the European Union from 2004 appear. And therefore, in 2008 Polish enterprises invested on Hong Kong 1.3 billion USD. China was supported by Cypriot enterprises – 13 million USD, and Polish and Slovenian – 1 million USD. Cypriot enterprises invested 60 million USD in India in 2008, while Polish enterprises – 30 million USD.

In the annual A.T. Kearney ranking – “Global Services Location Index”,⁹ rating potential of 50 states to attract investments in the sector of global services, the Asian states take first positions. This ranking takes 43 determinants into consideration, which enables comparison of particular states. The determinants are divided into three groups of parameters: financial attractiveness, labour market and business surroundings.

⁷ *Direct Investment Outward Flows by Main Country of Destination*, Eurostat, <http://epp.eurostat.ec.europa.eu> (accessed 30.04.2010).

⁸ *Tenth ASEAN Investment Area (AIA) Council Meeting Joint Media Statement, 23 August 2007, Makati City, Philippines*, www.aseansec.org (accessed 30.04.2010).

⁹ www.atkearney.com (accessed 12.02.2010).

In accordance with data presented in the ranking the best business process localizations are India, China, Malaysia, Thailand and Indonesia.¹⁰ Two first states attract 50% of offshoring business processes in the world and the value of revenues generated due to the offshoring is estimated at the level of USD 30 billion and it has increased by 25% for two years. Nevertheless, the global crisis affected this business activity field as well. In the period from October 2008 to January 2009 the value of newly-signed offshoring contracts was lower by 38% compared to analogous period of the previous year. The reason for such a large decrease was reduction on the meaning of the financial services branch in offshoring. In India 40% of the offshoring business activity is run by banks and, consequently, the world-wide financial crisis worsened the results generated by this sector as well.

In other A.T. Kearney ranking – “Global Retail Development Index”, 185 economies are subject to analysis on the basis of 30 parameters. Consequently, there is generated a ranking of the most attractive localizations for commercial investments. To the parameters there are assigned determinants which are divided into four categories: economic and political risk, market attractiveness, market saturation and time pressure for investments.¹¹ For four years the first position in the ranking has been held by India as the most attractive market for investments in retail trade. The second position, among the Asian states is held by China (third position overall in the world), then come United Arab Emirates (fourth position overall), Saudi Arabia (fifth position), Vietnam (sixth position) and Malaysia (tenth position). High position of India makes this state very attractive for investors and the recent decrease in the retail sale in the India economy caused that national retail chains stopped expansion. This is an opportunity for foreign enterprises which shall be attracted by a large, absorbent and more and more wealthy market on which brand awareness and will to purchase foreign products grows up. Moreover, the economy of India offers attractive prices in terms of rent and purchase of real properties in perfectly situated localizations in large and middle cities. China runs an expansive pro-investment policy and established a pack stimulating its economy. China allocated more than 500 billion USD. Its superior objective is to generate growth in consumption and attaining investors in Chinese provinces. Nevertheless, the largest promotion – by 16 positions – concerns United Arab Emirates. 5-million market of consumers is considered to be the largest in terms of consumption when taking into consideration the value of products consumed per inhabitant. This makes this state more and more attractive for foreign investors, who, looking for a demand for their products will invest in economies where the world crisis did not cause the decrease in number of products purchased by customers.

¹⁰ *The Shifting Geography of Offshoring. The 2009 A.T. Kearney Global Services Location Index*, A.T. Kearney, 2009, p. 2.

¹¹ *Windows of Hope for Global Retailers. The 2009 A.T. Kearney Global Retail Development Index*, A.T. Kearney, 2009, p. 2.

In the UNCTAD classification in terms of effectiveness regarding attracting of foreign direct investments to Asian states under Inward FDI Performance Index,¹² the highest position, first one among 141 economies in 2007, was held by Hong Kong. The second position in Asia and sixth in the world is held by Jordan, followed by Singapore (seventh position in the world). Other index rated by UNCTAD is Inward FDI Potential Index¹³ and it presents potential of a state in terms of attracting the foreign direct investments. From data as of 2006 the highest rate was assigned to Singapore economy – second position in the world, next Qatar (seventh position) and Hong Kong (tenth position).

In the latest ranking by Gartner¹⁴ examining localizations for offshoring type services in the Asia and Pacific region, analytics found out that India and Singapore are the best states for such a type of business activity. China and Philippines also were rated high among other Asian states. The analysis was based on 10 criteria, including: language skills, government support, labour pool, infrastructure, educational system, cost, political and economic stability, cultural compatibility, globalization maturity, security and privacy. The survey covered just 8 Asian states from Asia and Pacific region,¹⁵ however, on the basis of the presented rates one may make some conclusions picturing determinants having an impact on making decision by entrepreneurs on selection of localization for foreign investments. Singapore offers to entrepreneurs a very good infrastructure, political and economic stability as well as globalization maturity. When it comes to India, it is characterized by a support investors are provided with by public institutions and a good employment market. Pakistan and Vietnam have been rated the most frequently negatively. The latter has been appreciated for low costs of business activity in its territory.

3. Conclusions

From 48 above-mentioned economies more and more of them perform a policy of openness for foreign direct investments. For a few years one may observe implementation of institutional and legal modifications, whose task is to simplify administration procedures related to setting business activity up by foreign entrepreneurs. In rankings rating ability and attractiveness of states to attract the foreign direct investments one may observe that Asian states attract more and more deposits, which proves that the policies implemented by governments of particular states are effective. Analysis of statistic data shows large diversification between

¹² It is a relation of a share of state in global inflow of FDI to its share in global GDP.

¹³ Calculated on the basis of average values of factors affecting the ability of a state to attract the foreign investors, among others: GDP *per capita*, GDP growth rates, share of export in GDP, share of R&D expenses in the GDP.

¹⁴ *Gartner's 10 Leading Locations for Offshore Services in Asia/Pacific for 2009*, www.gartner.com (accessed 20.04.2010).

¹⁵ China, India, Malaysia, Pakistan, Philippines, Singapore, Thailand, Vietnam.

states in terms of attracting the foreign direct investments. These are economies which are leaders in the world in terms of inflow of foreign capital, the annual value of which amounts to 50-100 billion USD. However, there are states where the value of attracted investments amounts just to a few or several million. The largest beneficiaries of the foreign direct investments are states of the East Asia region, then West Asia, South and South-East Asia. European Union is, as it was proved in the above analysis, more and more serious exporter of the investments into the Asian economies. Establishment of a series of organizations and forms of dialogue regarding economic cooperation between states of Asia and the European Union makes that Asian states will be subject of growing interest of entrepreneurs, year by year, and the number of the entrepreneurs has been increasing, since the European Union structure grows up. Union enterprises more and more frequently invest in Asian region, since labour costs in this region are relatively low. Entrepreneurs select, most of all, Japan, Singapore or Hong Kong as the target localization for their capitals. In the recent years also the meaning of the Chinese economy – as a localization for Union's foreign direct investments – has been growing up at the cost of lower capital inflows in other states of the region. China for a few years have generated high economic growth and it has a large potential, therefore, everything indicates that it will be the main beneficiary of the Union's investments the following years.

In the subject-matter literature different areas of affection of the foreign direct investments on economy's performance are described. Four main effects are as follows: effect of resources transfer (capital, know-how, management), effect of payment balances, effects regarding competitiveness and growth and employment effect.¹⁶ Inflow of the capital in form of foreign direct investments into Asia states related to increasing range of business activity of trans-national enterprises has constituted a main external finances and effected in substantial economic growth of particular states. Asian economies, encouraged by positive effects of the inflow of foreign capital try to attract the largest number of investors implementing series of economic alterations but also political modifications. For a few years there have been observed a regular economic growth, increase in skills and qualifications of the work force, economic reforms, liberalization of investment policy, support for private sector, privatization processes or tightening of cooperation within frameworks of organizations or agreements. Such transformations encourage foreign investors, including investors from the Union, to locate their economic resources in foreign economies. On the other hand, one must pay attention to the fact that Middle-East states constitute also attractive localization for enterprises of the European Union due to opportunity for reduction of production costs, without the opportunity to move the production away from its market, but also for Asian enterprises which more and more frequently look for the access to European market and use states which

¹⁶ R. Scharff, *Bezpośrednie inwestycje zagraniczne oraz rynek pracy w Niemczech*, [in:] W. Małachowski (ed.), *Polska-Niemcy a rozszerzenie Unii Europejskiej*, Vol. 2, SGH, Warszawa 2004, p. 172.

offer the lowest production costs. The following years will show which markets will become main beneficiaries of the foreign capital, including capital from Union's entrepreneurs.

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AZJA JAKO ATRAKCYJNE MIEJSCE DO LOKOWANIA BEZPOŚREDNICH INWESTYCJI ZAGRANICZNYCH DLA KRAJÓW UNII EUROPEJSKIEJ

Streszczenie: Do końca 2008 r. kraje azjatyckie pozyskały kapitał w postaci bezpośrednich inwestycji zagranicznych wynoszący 2,5 bln USD. W samym 2008 r. inwestorzy ulokowali w tych gospodarkach prawie 400 mld USD. Do głównych beneficjentów bezpośrednich inwestycji zagranicznych należą: Hongkong, Chiny, Indie, Arabia Saudyjska, Japonia oraz Singapur. Szacuje się, iż gospodarki Unii Europejskiej corocznie zwiększają wartość dokonywanych w państwach azjatyckich inwestycji i obecnie ich udział w kształtowaniu globalnej wartości napływu BIZ wynosi około 15% i corocznie wzrasta. Konkurencją dla oferujących coraz lepsze warunki inwestycyjne państw azjatyckich są kraje Europy Środkowo-Wschodniej, które nadal charakteryzują się niskimi kosztami produkcji, ale przede wszystkim bliskością w stosunku do państw unijnych, co stanowi zagrożenie dla zwiększania napływu bezpośrednich inwestycji zagranicznych do Azji.