THE FDI FLOWS BETWEEN THE TRIAD MEMBERS

Razvan Hagima*

Abstract: *The economic Triad is one of the most important players in the economic world. It is attracting the most of the FDI flows and it is the main investor of the world. The FDI flows between the members of the Triad, USA, Japan and EU, represents more than 400 billion dollars per year.*

Keywords: Triad; FDI flows
JEL Classification: G01; E00

INTRODUCTION

The increasing liberalization of capital movements, the great financial mobility registered in the worlds market represents a fabulous weapon against the old social contract and the principal of national sovereignty (Brailean, 2001). The foreign direct investment provides a major source of capital, which brings along with it the latest technologies. The capital invested by foreign countries would be very difficult to get through domestic savings and the transfer of foreign technologies to indigenous companies with no prior experience of use is very difficult, risky and expensive.

The level and structure of foreign direct investment has change significantly over time and this has implications for how the investments affect the development, largely because many countries that attract FDI obtain the most part of the advantages. In the past decades the level of FDI had increased, especially in the developing countries, although with some differences between them.

The inflows of foreign direct investment rose, between 1990 and 1997, by an average of 13% per year, but the percentage grew radically in period 199-2000, when the indicator reached 50% per year, due to large cross-border merges and acquisitions. In 2000, the level of FDI inflows reached 1,500 billion USD but next year, in 2001, the level dropped suddenly with about 800 billion USD due to a sharp contraction in mergers and acquisitions of companies between industrial countries. The FDI inflows to developing countries increased with about 23% per year in period 1990-2000 but in 2001% they only reached 13% or 215 billion USD (International Monetary Fund, 2003)

* Doctoral School of Economics, Alexandru Ioan Cuza University of Iasi, Romania, email: r.hagima@gmail.com.

In terms of geographical areas, the most attractive country is China, followed by India and Thailand. At the opposite pole is Africa continent, an area that is outside investor preferences. Out of Africa, Morocco is the country which attracts most of foreign direct investment. Among European Union, United Kingdom attracts most of the investor' funds.

1. EUROPEAN UNION FOREIGN DIRECT INVESTMENT WITH THE TRIAD MEMBERS

The foreign direct investment policy of European Union focuses on providing a stable, legal economic framework to investors, a predictable, fair and equitable environment where investors can operate on accordance with international agreements. The European Union is considered the largest investor in the global economy and has always promoted FDI as a source of growth and development. But the European Union remains also the main recipient of foreign direct investment. Within the European Union, the FDI flows are very important, they act as an essential element in strengthening the internal market while investing in and beyond the EU provides a leading position in the world market and integration into the world technological flows.

The European Union direct most of its investment funds to their own countries. North America represents the top location for the EU foreign direct investment flows, especially the United States, followed by Canada. From Asia, the countries which attract most of the European investing funds are China, India, South Korea and Japan. From the European countries that are not an EU member, Switzerland attracts a big part of the European Union FDI flows, followed by Russia and Turkey (Eurostat Pocketbooks, 2008).

Regarding the Triad members, the evolution of foreign direct investment made from the European Union is represented in the table 1:

Table 1 – The evolution of the European Union outflows to the Triad members

EU	2007	2008	2009	2010
USA	178,51	126,43	82,164	25,2
JAPAN	10,2	2,8	1,01	0,2
Total EU FDI	1277	923	512	404

Source: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00048

As can be seen from the table, the European Union invests mostly in the United States. Investments in the United States had a fluctuating trend and in 2010 the indicator reached 25.2 billion USD, with about 75% less than in the previous year. The largest EU investors in the U.S. are the UK, France, Germany, Luxembourg and the Netherlands.

Regarding Japan, the investment flows from the European Union declined over the past years and in 2010 reached a level of 204 million USD. Investment flows to Japan dropped sharply in 2008 compared with 2007 with about 75%.

FDI flows from the EU are directed to members of the union, they attracted more than 50% of total investments. Currently, EU investors are focusing to EU-15, here is concentrating a big part of the investment capital due to easy access, well-educated workforce and developed infrastructure. As for Japan, it is the host country for only 0.2% of the total EU investment. In total, 73.2% of EU foreign direct investment can be found in the member states of the Triad. The United Kingdom is the largest investor of the European Union.

The amount of FDI has declined in recent years due to the economic crisis faced by the global economy, investors have not taken the risk of placing their funds in risky business. In addition, the economic crisis has led to constrains in terms of liquidity for transnational corporations, limited access to credit, the business balance has deteriorated so the ability to invest was weakened.

2. U.S.A. AND THE FOREIGN DIRECT INVESTMENT WITH THE TRIAD MEMBERS

Foreign direct investment in the U.S. declined gradually after 2000 when approximately 3000 billion dollars were placed in U.S and real estate companies. In 2010, according to U.S. trade department, foreigners invested almost 236 billion dollars in in the American business environment, especially in the real estate one. While foreign direct investment in the U.S. economy is encouraged to offset the negative economic effects of the recent economic crisis, some of the foreign investors are concerned to procure major U.S. companies.

On the other hand, the United States is a major investor abroad, the total investment in 2010 was 351 billion dollars, with about 48 billion dollars more than the value recorded in 2009 (UNCTAD, 2012). In 2009, the U.S. companies targeted a smaller percentage of the investment funds in Europe and Asia, but instead they focused on certain sectors in Canada. Also, the developed countries received almost 70% of the investment funds of the U.S. multinational companies while developing countries have attracted only the rest of 30% of these funds.

The foreign direct investment flows from the U.S. to Triad members are analysed in the following table:

Table 2 - Evolution of the U.S. foreign direct investment flows to Triad members (2007-2010) – billion dollars

USA	2007	2008	2009	2010
EU	221	146.3	145.2	168
Japan	15.7	1.65	6.56	6.48
Total USA ISD	414	329	303	351

Source: http://stats.oecd.org/Index.aspx?DatasetCode=FDI_FLOW_PARTNER#

It is noted that half of the foreign direct investment made by the U.S. is concentrated towards the European Union. In 2010 the total value of the U.S. investment in Europe was 168 billion dollars, which is 47% of the total investment flows that have left the U.S. The FDI flows targeted especially several countries like the Netherlands, U.K., Luxembourg, Ireland and Germany.

Regarding Japan, it attracted only 2% of the U.S. investment funds, in 2010 the value of the investments reached 6.48 billion dollars. In recent years, the foreign direct investment from the U.S. to Japan were lower than those that came from Japan to U.S.A.

3. JAPAN AND THE FOREIGN DIRECT INVESTMENT WITH THE TRIAD MEMBERS

Japan's foreign direct investment increased significantly in recent years, particularly in financial services and real estate sector. The U.S. is the main destination of Japanese investments. Foreign direct investment flows from Japan to other countries were much higher than the ones entered in the Nippon country. This situation worried the population of the country because the production capacity moved outside the state, affecting domestic economic growth and employment.

Table 3 - Japans foreign direct investment flows to Triad members (2007-2010) – billion dollars

Japan	2007	2008	2009	2010
EU	15,7	43,15	10,6	9,07
USA	20,07	22,6	17,03	8,14
Total Japan ISD	73,5	127,9	74,7	56,2

Source: http://stats.oecd.org/Index.aspx?DatasetCode=FDI_FLOW_PARTNER#

As can be seen from the table above, the main investment flows from Japan targeted the United States and the European Union. In 2010 Japan invested in the European Union almost 9,07 billion dollars while E.U. invested only 200 million dollars in the Nippon country. An interesting fact is that in 2010 approximately 30% of Japanese investments were concentrated in U.S. and European Union.

The Japanese investments to the U.S. are the most intriguing and misunderstood of all FDI made by the Nippon country. The acquisition of companies such as Rockefeller Centre and Columbia Pictures has sparked many tensions between the two countries in the 1980s. Such acquisitions are unusual among the Japanese investors because they targeted, primarily, the construction of new production or distribution centres. Indeed, until recently, Japan did not participate in hostile takeovers of companies like other foreign investors did.

However, it cannot be questioned the fact that the Japanese presence in the U.S. market has increased. While investment flows from the most industrialized countries increased in value, the Japanese rose exponentially (Kenneth A., 1991).

In the European Union the presence of the Japanese companies has a relatively lower influence than the one exercised in the global economy. In the last 50 years Europe has received an average of 20% of the Japanese investment. The main beneficiaries were the United Kingdom and the Netherlands, countries which concentrated about 75% of the Nippon investments in this region. It is expected that in the future the share of Japanese investments in the European Union will increase, the flows will be directed especially in countries like Hungary, Czech Republic or Poland due to the low level of wage.

CONCLUSIONS

In the past decades the economic Triad was the most important player in the foreign direct investment field, even if we refer to the investment made between the three members or the investment made in the whole world. Even so, in the last years China became a very strong opponent, the Asian country is received a very important amount of FDI. But China is not only a perfect location for the foreign direct investment flows, it is an important investor too.

If we would make an analysis of the FDI trend between the members of the Triad and from the Triad to the rest of the world we could see that USA, Japan and UE are the most important players in FDI matter. Even if some of the economists think that this triangle will be caught up by other economic unions or at least the gap between them and the other opponents will shrink, the present economic facts contradict those provisions.

REFERENCES

Brailean, T. (2001) *Noua economie. Sfarsitul certitudinilor*, Iasi: European Institute.

International Monetary Fund (2003) *Foreign Direct Investment trends and statistics*

Eurostat Pocketbooks (2008) *European Union foreign direct investment yearbook 2008*, European Commission.

UNCTAD (2012) *Global investments Trends Monitor*, No. 6/27.04.2012.

Kenneth, A., Froot, (1991) *Japanese Foreign Direct Investment*, National Bureau of Economic Research, Cambridge, MA.

***http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/