Determinants of Intra-FDI Inflows in East Asia: Does Regional Economic Integration Affect Intra-FDI?

Jung Sik Kim and Yonghyup Oh

This paper analyzes macroeconomic determinants of the intra-FDI inflows in the ASEAN plus three economies. Some of the variables like openness and exchange rate volatility have direct implications for regional FTAs and regional common currency arrangements, and thus to East Asian economic integration. Our findings suggest that an FTA would increase intra-FDI flows in this region.
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Kyung Tae Lee
President
Determinants of Intra-FDI Inflows in East Asia: Does Regional Economic Integration Affect Intra-FDI?

Jung Sik Kim and Yonghyup Oh
Executive Summary

This paper analyzes the validity of macroeconomic variables, such as exchange rate uncertainty, macroeconomic instability, and openness, in determining intra-FDI inflows in the ASEAN countries, China, Japan, and Korea. Our empirical results show that openness, exchange rates, exchange rate volatility, per capita GDP, and foreign reserve accumulation are statistically significant factors that determine regional intra-FDI inflows; other variables such as macroeconomic instability are not significant. Variables like openness and exchange rate volatility have direct implications for regional FTAs and regional common currency arrangements, and thus to East Asian economic integration. Our findings suggest that a regional FTA that would increase regional openness by 10 percent would increase intra-FDI inflows by almost 2 percent. A regional exchange rate arrangement that would reduce regional exchange volatility by half would increase intra-FDI inflows by around 10 percent.

Keywords: FDI, Openness, Exchange Rate Uncertainty, Exchange Rate, Regional Economic Integration
JEL Classification: F21, F23
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Determinants of Intra-FDI Inflows in East Asia: Does Regional Economic Integration Affect Intra-FDI?

Jung Sik Kim* and Yonghyup Oh**

I. Introduction

The rapid growth of foreign direct investment (FDI), particularly since the rise of cross-border financial and trade flows in the 1990s, has recently garnered greater interest in international economic research, and the quest to identify the motivations that drive FDI is experiencing a revival. A large body of literature (Blonigen 2005) has examined the determinants of FDI both at the macroeconomic level and industry level focusing on the motives for market-seeking or horizontal FDI and resource-seeking or vertical FDI based on push or pull factors, including factors like technology spillovers (Aitken and Harrison 1999; Eizenman and Marion 2003).

The level of FDI has, however, tended to fluctuate sharply over time and there has been little explanation on substantial short-run movements, although traditional theories do seem to explain FDI

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Research assistance by Byung Cheul Sohn and Bun Jeong Joo is gratefully acknowledged. All errors are the authors’ responsibilities.
increases in the long run (Dixit 1989). Furthermore, the rise of regional economic trade blocs has reduced trade barriers, and regional exchange rate uncertainty is reshaping the flow of FDI. Both trade barriers and exchange rate uncertainty are regarded as important determinants of FDI flows, but there still are conflicting views on the size of their impacts on FDI movements, either in theory or empirical studies (Cushman 1985; Goldberg et al. 1995). Regional trade arrangements can increase FDI when FDI and trade are complements, but decrease FDI when they are substitutes (Blonigen 2001). On the role of exchange rate uncertainty, it is argued that a devaluation of a host country’s currency can give foreigners an edge in buying the country’s assets (Froot and Stein 1991); on the other hand, high exchange rate uncertainty may also negatively affect the expected returns on FDI and the transaction costs of multinational firms, suppressing immediate FDI (Campa 1993).

The financial crisis marks a significant watershed moment for East Asia, as the proportion of intra-FDI inflows in East Asia’s total FDI inflows plunged dramatically after the crisis only to recently regain pre-crisis levels. Moreover, the investment environment in East Asia has also changed drastically: integration through trade has strengthened in East Asia and financial markets have opened up to international capital. Moreover, most countries have now adopted floating exchange rate regimes that have resulted in more volatility in exchange rate movements.

In this paper, we attempt to integrate macroeconomic variables suggested in the literature as determinants of intra-FDI inflows and apply them to ASEAN countries, China, Japan, and Korea (henceforth ASEAN+3). In particular, variables representing openness, exchange
rate uncertainty, and macroeconomic variability are investigated. In addition, we examine whether the behavior of intra-FDI inflows in the pre- and post-crisis periods are asymmetric, as the crisis may have modified the risk perception of FDI by foreign investors.\footnote{Lipsey (2001) provides a case study on large and sudden exchange rate swings. He examines US FDI in three regions that have experienced currency crises, and observes that FDI flows are much more stable during times of crises compared to other types of capital inflows. Desai, Foley and Forbes (2004) find that US affiliates increase investments more than local firms during and subsequent to crises.} Finally, we try to derive policy implications with respect to regional free trade agreements (henceforth FTAs) and multinational exchange rate arrangements. If intra-FDI inflows are positively related to openness, a regional FTA could increase intra-FDI flows, which provides an additional rationale for strengthening regional economic integration. If exchange rate uncertainty and macroeconomic instability are important factors of intra-FDI inflows, a common currency arrangement could be adopted to increase intra-FDI flows.

In the next section, we set out the determinants of FDI and discuss linkages between these and economic integration. In section III, we study the trends of the intra-FDI flows in ASEAN+3 countries. In section IV, we present the model, data, methodology, and empirical test results, as well as sensitivity tests. In the final section, we draw some conclusions.
II. Determinants of FDI and Economic Integration

Regional economic integration may affect FDI through different channels. First, an FTA could increase openness and affect intra-FDI flows by removing tariffs or promoting regional trade. The literature suggests mixed effects of trade openness and FDI. High trade protection would make firms more likely to substitute exports with affiliated foreign production (commonly termed tariff-jumping FDI). Blonigen (2001) argues that trade flows may either be of finished products that are substitutes for the products that are produced by the affiliate of a multinational enterprise (MNE) in the host country or intermediate inputs that are used by the MNE’s affiliate to produce a finished product. The former situation would suggest a negative correlation between trade and FDI, whereas the latter would see a positive relationship between the two. We use the trade dependence ratio as a proxy for openness.2)

Monetary integration may also affect FDI. It reduces exchange rate volatility and macroeconomic uncertainty related to price variables and changes in policies and rules. Note that since its inception in 1999, the European Central Bank (ECB) has successfully anchored inflation expectations and substantially reduced macroeconomic instability in EU member countries.3) In addition, uncertainty regarding future returns can also be reduced, which would facilitate

---
2) Amaya et al., as cited in the reference.
3) Sousa and Lochard (2004) show the positive effects of currency unions on FDI.
FDI as an option value of waiting (Dixit and Pyndick 1994); the greater the economic and political uncertainty, the more likely a firm will wait before entering the market. Campa (1993) also observes that greater exchange rate uncertainty increases the option value for firms to wait before investing in the US market, depressing current FDI levels. Goldberg and Kolstad (1995) present an alternative hypothesis in which exchange rate uncertainty is expected to increase FDI by risk averse firms, given such uncertainty is correlated with export demand shocks in the market. They confirm this hypothesis with empirical analysis using the bilateral data for US FDI to Canada, Japan, and the United Kingdom. They conclude that exchange rate uncertainty can affect FDI flows, depending on firm characteristics. Kohlhagen (1997) and Cushman (1985) show that foreign currency depreciation lowers foreign production costs and thus stimulates FDI. Froot and Stein (1991) develop a model in an imperfect capital market to show that a depreciation in the domestic currency can lead to foreign acquisitions by lowering the relative wealth of domestic agents.

Besides these factors, market size variables are expected to affect intra-FDI flows in a positive way, because large countries generally receive more flows than small countries. Good proxies for market size are the host country GDP, the GDP growth rate, and private consumption. Per capita GDP measures economic development, or wage levels, rather than market size. All of these variables are expected to have a positive sign in regression models. (Razin and Sadka 2001)
III. Intra-FDI Inflows in East Asia

As the full set of bilateral FDI flows between East Asian economies is unavailable, we are confined to the FDI data from individual countries. For our analysis, we have opted to use data on intra-FDI inflows. Figures 1 show the trends of total FDI and intra-FDI inflows in ASEAN+3 at the regional level, whereas Figure 2 to 4 show the trends in individual ASEAN+3 countries.

Figure 1. Total FDI inflows and intra-FDI inflows in ASEAN (10) + China, Japan, and Korea (CJK)

4) Data used here are net FDI inflows on a balance of payment basis.
Figure 2. Intra-FDI inflows in China, Korea, Singapore, and Malaysia

![Intra-FDI Inflows in China, Korea, Singapore, and Malaysia](image)

Figure 3. Intra-FDI inflows in Japan, Vietnam, Philippines, and Thailand

![Intra-FDI Inflows in Japan, Vietnam, Philippines, and Thailand](image)
Figure 4. Intra-FDI inflows in Indonesia, Cambodia, Lao PDR, and Myanmar

The share of intra-regional FDI flows in terms of total regional FDI inflows has picked up since 2000, reaching pre-crisis levels (24%) in 2004. Net intra-FDI has increased sharply since 2000 in China, while it has been decreasing in Thailand since 2001. Cambodia, Lao, and Myanmar have received about the same amount of FDI from other East Asian economies as they have sent out. Vietnam shows an overall increase, while the rest of the economies show fluctuating trends. Figures A-3, A-4, and A-5 in the Appendix indicate the
intra-FDI inflow shares of ASEAN+3 countries in 1995, 1998, and 2004, respectively. China’s share of intra-FDI inflows in ASEAN+3 has increased to 56.9% since the crisis. Shares have also increased in Korea (16%) and Japan (3%) since the crisis, while they have reduced substantially in ASEAN countries.
IV. Determinants of Intra-FDI Inflows in East Asia

1. Model

Traditional FDI models examine the behavior of horizontal or vertical FDI through the sign and significance of the variables for market size and wage in each country. In contrast, the purpose of this paper is to show the possible impacts of economic integration on FDI, controlling for FDI channels and introducing an additional set of variables to focus on the barriers. First, we include two variables, openness and exchange rate volatility, to examine the impact of economic integration (e.g. FTA or monetary integration). The exchange rate variable is introduced because most countries have adopted floating exchange rate regimes. Finally, we control for the macroeconomic stability variable to capture currency union effects beyond the convergence of macroeconomic fundamentals.

Thus, our model is

\[
\ln (\text{FDI}_{it}) = a_1 + b_1 \ln (\text{GDP}_{it}) + b_2 (\text{openness}_{it}) + b_3 (\text{M instability}_{it}) + b_4 \ln (\text{EX}_{it}) + b_5 (\text{Ex Volatility}_{it}) + e_{it} \quad \ldots \quad (1)
\]

where \(\text{FDI}_{it}\) is each host country’s intra-FDI net inflow from ASEAN+3 at time \(t\), scaled by the host country’s GDP. \(\text{GDP}_{it}\) is the per capita GDP of the host country. Openness is the sum of regional exports and imports from the host country, scaled by GDP. \(\text{M instability}\) is the macroeconomic instability, which is used as a proxy
for, inter alia, the current accounts of the host country’s GDP, foreign reserves of the host country’s GDP, real exchange rate volatility, and the short term external debt of the host country’s GDP.

The expected sign of the per capita GDP variable is negative when it indicates the wage level of the countries, while it is positive when it reflects market size. Openness may have a positive sign because more open economies will be associated with higher FDI inflows, when FDI and trade are complements. Macroeconomic instability is expected to have a negative sign as higher uncertainty decreases investments. The exchange rate could be positive or negative, depending on the region’s FDI and market characteristics, as well as cost-seeking opportunities.

2. Methodology and Data

The econometric framework used in this analysis is a static panel data set. We begin by running a standard OLS pooled model, corrected for heterocedasticity and autocorrelation.

This model can be written for individual \( i \) as follows:

\[
y_t = X_t \beta + e_t \tag{2}
\]

where \( i = 1, 2, \ldots, N \), and

\[
E[e_t] = 0 \tag{3}
\]

5) Taken from Judge et al. (1985). See also Greene (1999), and Amaya and Rowland (2004), “Determinants of Investment flows into Emerging Markets.”
where \( y_i = (y_{it1}, \ldots, y_{iT}) \) is a vector of intra-FDI variables, \( X \) is a matrix of explanatory variables, \( b \) is a vector of parameters to be estimated, and \( e \) is a disturbance vector that follows the above conditions together with \( E[r_{it}] = 0, E[r_{it} r_{jt}] = s_{ij}, \) and \( E[r_{it} r_{is}] = 0 \) for all \( t = s. \)

This model assumes that 1) coefficients are the same for all autoregressive processes, 2) the disturbance vector for a given individual follows a first order autoregressive process, 3) the disturbance can be different for different individuals, and 4) the disturbances for different individuals are contemporaneously correlated.

However, this model requires an additional set of assumptions, specifically assuming that all coefficients are constant. While we also estimate the model under the assumption that the slope coefficients are constant, the intercept may change according to individuals.

The model can be expressed as follows:

\[
y_{it} = b_1 + n_i + \sum b_k X_{ikt} + e_{it} \quad \cdots \quad (6)
\]

where \( i = 1, 2, \ldots, N \) and \( t = 1, 2, \ldots, T. \) In this model, \( b_1 \) is the average intercept, while \( n_i \) is the individual effect that captures the possibility of changing intercepts.

The correct estimation for this model depends on whether we assume that \( n_i \) is fixed or random. If \( n_i \) is fixed, it becomes a dummy
variable. If \( n_i \) is assumed to be random, estimation is possible using an error component. The Breusch-Pagen Lagrange Multipliers Test and the Hausman Specification Test help us to select the appropriate models, i.e. pooled vs. individual effects, fixed vs. random effects, etc.

This framework provides us with several merits that makes it unique to standard OLS estimations. Baltagi (2000) and Hsiao (1986) summarize the advantages as i) providing a larger number of data points which increases the degrees of freedom and reduces collinearity, and thus, results in more efficient estimates, ii) the possibility of controlling individual heterogeneity, iii) allowing for the investigation of issues that could not be addressed through either time series or cross-sectional sets, and iv) the possibility of taking into account the diversity of individuals as a way to control for the effects of omitted or unobserved variables.

The key variables used in the regressions are each host country’s total intra-FDI inflows from ASEAN+3, the bilateral exchange rate between the US and each ASEAN+3 member country, the per capita GDP of the host country, the bilateral exchange rate volatility between the US and each ASEAN+3 member country, the regional trade dependence ratio as a proxy of openness, and other proxies of macroeconomic instability, such as current accounts to GDP, foreign exchange reserves to GDP, and short term external debt to GDP.6)

6) Table A-1 and Table A-2 in the Appendix reveal the nominal exchange rate and real exchange rate volatilities in ASEAN+3 during 1995-2004 and 1998-2004. In most ASEAN+3 countries, nominal exchange rate volatility has increased, while real exchange rate instability has decreased. The proxies of macroeconomic instability – volatility of the interest rate, the GDP growth rate, and inflation – may be used for future research.
Determinants of Intra-FDI Inflows in East Asia: Does Regional Economic Integration Affect Intra-FDI?

We compute our estimations on a sample of ASEAN 10+3 countries (Malaysia, Thailand, the Philippines, Singapore, Indonesia, Myanmar, Vietnam, Cambodia, Lao PDR, Brunei, China, Korea, and Japan) and ASEAN 10+2 (Malaysia, Thailand, the Philippines, Singapore, Indonesia, Myanmar, Vietnam, Cambodia, Lao PDR, Brunei, Korea and Japan) for the time periods 1995-2004 and 1998-2004. All data incorporated are annual.

FDI data are cited from the ASEAN Statistics Yearbook, the China Statistical Yearbook, Japanese Trade and Investment Statistics, and Foreign Investment Statistics in Korea. FDI statistics are BOP-based data. Other data come from International Financial Statistics (IFS), Direction of Trade (DOT), and the BIS-IMF-OECD-WB Debt Table. Exchange rate volatility is defined as the standard deviation of monthly bilateral exchange rates.

3. Results

This model is a fixed effects regression, which includes host country dummy variables. These variables are meant to capture all host country characteristics that may affect the amount of inward FDI inflows, including size and level of development. A fixed effect model therefore is the right one as it allows us to infer on all these dummy variables.

Results for 1995-2004 are reported in Table 1. The estimated coefficients for openness have expected positive signs and significance at the 5 percent level. This provides that FTAs may increase intra-FDI inflows in this region.

The exchange rate and per capita GDP have negative signs and
are significant. The results reveal that depreciation of the host country’s currency decreases intra-FDI inflows, implying that intra-FDI in East Asia may be market seeking investments.7) In fact, intra-FDI has increased since the crisis, while the exchange rate has decreased. In the case of per capita GDP, the sign is negative; we can, therefore, interpret per capita GDP as a proxy of wages, or unit labor cost, as opposed to market size.

Empirical results indicate that the coefficients of exchange rate volatility and macroeconomic instability are not significant, which implies that the establishment of monetary integration in this region might not increase intra-FDI.

We conduct a sensitivity test related to the sample as detailed in Table 2. In terms of the time period, the estimation runs over the period 1998-2004, excluding the sample for pre-crisis years.

Table 2 shows that most of the variable coefficients have similar signs and significance except for the variable for exchange rate volatility. Exchange rate volatility has a significant negative sign, which provides that exchange rate uncertainty will reduce intra-FDI inflows in this region. The results reveal that exchange rate volatility has, in fact, increased since 1997, concurrent with the adoption of the floating regime in East Asia. Our results appear quite robust to sample period modifications, even though the effects of exchange rate volatility are not.

As regards to the robustness of a particular zone, we run our estimation excluding China. The results are reported in Table 3 and 4.

7) The results for the exchange rate may be inconsistent with those for per capita GDP. We argue here that intra-FDI in this region has increased since the crisis, while the exchange rate has decreased after the crisis.
### Table 1. Regression Results for ASEAN (10)+3, 1995-2004

<table>
<thead>
<tr>
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<th>I</th>
<th>II</th>
<th>III</th>
<th>VI</th>
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<td><strong>c</strong></td>
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<td>0.1321**</td>
<td>0.1118**</td>
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<td>(4.1592)</td>
<td>(4.2330)</td>
<td>(4.8136)</td>
<td>(4.0929)</td>
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<td>GDP per Capita</td>
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<td>-0.0035*</td>
<td>-0.0009</td>
<td>-0.0019</td>
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<tr>
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<td>(-1.7902)</td>
<td>(-0.5371)</td>
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<tr>
<td>Ext.+Imp./GDP (intra)</td>
<td>0.0521*</td>
<td>0.0429**</td>
<td>0.0551*</td>
<td>0.0597*</td>
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<tr>
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<td>(1.9874)</td>
<td>(2.6961)</td>
<td>(2.0887)</td>
<td>(2.2678)</td>
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<td>Current Acct./GDP</td>
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<td>(-1.3467)</td>
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<td>Foreign Exch./GDP</td>
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<td>0.0102</td>
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<td></td>
<td>(0.5945)</td>
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<td>Real Exch. Volatility</td>
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<td>Ext. Debt/GDP</td>
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<td>(0.8073)</td>
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<td>Exchange Rate</td>
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<td>-0.0221**</td>
<td>-0.0232**</td>
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<tr>
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<td>(0.3533)</td>
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<td>(-0.5807)</td>
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<tr>
<td>R²</td>
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<td>0.6167</td>
<td>0.6347</td>
<td>0.6248</td>
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<tr>
<td>Durbin-Watson Stat.</td>
<td>1.9541</td>
<td>1.9451</td>
<td>1.7786</td>
<td>1.7766</td>
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</tbody>
</table>

Notes: 1) ** and * denote significance at the 1% and 5% levels.  
2) t-statistics are in parentheses.

In Table 4, the results are consistent to Table 1 in which the per capita GDP, exchange rate, and openness variables have significant and expected signs, except for the exchange rate volatility, which is not significant and has an expected negative sign.
### Table 2. Regression Results for ASEAN (10)+3, 1998-2004

<table>
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<tr>
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<th>III</th>
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<td>-0.0212**</td>
<td>-0.0198**</td>
</tr>
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<td></td>
<td>(-2.3341)</td>
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<td>(-2.3000)</td>
<td>(-2.1145)</td>
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<tr>
<td>Ext.+Imp./GDP (intra)</td>
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<td>0.0061</td>
<td>0.0188*</td>
<td>0.0179*</td>
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<td></td>
<td>(1.6899)</td>
<td>(1.2715)</td>
<td>(1.6553)</td>
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<td>Current Acct./GDP</td>
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<td>(0.0492)</td>
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<tr>
<td>Foreign Exch./GDP</td>
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<td></td>
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<td>(0.7993)</td>
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<tr>
<td>Real Exch. Volatility</td>
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<td>-0.0103</td>
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<td>-0.1014*</td>
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<tr>
<td></td>
<td>(1.7247)</td>
<td>(-1.5325)</td>
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Notes: 1) ** and * denote significance at the 1% and 5% levels.
2) t-statistics are in parentheses.

In Table 4, exchange rate volatility has a significant negative sign, openness has a positive sign (as in Table 2), and the foreign reserve variable has an expected positive sign with significance. These results reveal that the effects of exchange rate uncertainty and
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<td>(2.9282)</td>
<td>(3.2335)</td>
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<td>GDP per Capita</td>
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<td>-0.0324**</td>
<td>-0.0198**</td>
<td>-0.0279**</td>
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<td>(-2.3918)</td>
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<td>0.1161</td>
<td>0.1277*</td>
<td>0.1460**</td>
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<td>(2.0451)</td>
<td>(1.5352)</td>
<td>(1.9102)</td>
<td>(2.2659)</td>
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<td>(-1.5313)</td>
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<tr>
<td>Foreign Exch./GDP</td>
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<td>-0.1107**</td>
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Notes: 1) ** and * denote significance at the 1% and 5% levels.  
2) t-statistics are in parentheses.

openness on FDI are quite robust compared to the sample zone.

---

8) Accumulation of foreign reserves may represent the soundness of a country’s fundamentals and increase FDI inflows.
### Table 4. Regression Results for ASEAN (10)+2, 1998-2004

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<td>(3.0826)</td>
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<td>0.1300**</td>
<td>0.1275**</td>
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<td>(1.6615)</td>
<td>(2.7692)</td>
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<td>Foreign Exch./GDP</td>
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<tr>
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<td>(1.9185)</td>
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<td>-0.3906**</td>
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<td>$R^2$</td>
<td>0.7527</td>
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<td>1.9672</td>
<td>1.9367</td>
<td>1.9255</td>
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Notes: 1) ** and * denote significance at the 1% and 5% levels.
2) t-statistics are in parentheses.
V. Conclusion

The impacts of economic integration, FTAs, and common currency arrangements on FDI is an interesting issue. However, only a small number of studies have investigated the interrelation between FDI and regional economic integration, e.g. FTAs or currency unions.

Until recently, there was a conspicuous increase in intra-FDI inflows in East Asia and several proposals for regional economic cooperation had been suggested, such as the APEC or Asian FTA and the ACU or RCU.

In this paper, we examine the possible merits of FDI in regional economic integration (ASEAN+3) by estimating the determinants of intra-FDI inflows. We find that openness is an important factor of intra-FDI inflows, whereas macroeconomic instability is not.

Exchange rate volatility has affected FDI significantly since the crisis, although it seems to have had little effect before the crisis. The results are robust to the sample period and regional zone modifications. Moreover, they suggest that regional economic integration may increase intra-FDI inflows in ASEAN+3, especially a regional FTA, which would noticeably increase intra-FDI inflows.

However, there still remain many miscellaneous factors which may play a part in increasing FDI, such as source country push factors, etc. Therefore, it is difficult to conclude that regional trade and exchange rate arrangements are solely responsible for intra-FDI flows in East Asia. Nonetheless, it is useful to document the link between the size of FDI and trade openness (or exchange volatility) that has established since the crisis.
References


Campa, Jose M. 1993. “Entry by Foreign Firms in the US under Exchange
Determinants of Intra-FDI Inflows in East Asia: Does Regional Economic Integration Affect Intra-FDI?


## Appendix

### Table A-1. Exchange Rate Instability in ASEAN (10), China, Japan and Korea

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<td>0.0259</td>
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<td>0.0135</td>
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<td>Vietnam</td>
<td>0.0069</td>
<td>0.0042</td>
<td>0.0081</td>
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Table A-2. Real Exchange Rate Instability in ASEAN (10),
China, Japan and Korea

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<td>China</td>
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<td>Vietnam</td>
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<td>0.0042</td>
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Table A-3. Intra-FDI Inflow in ASEAN + China, Japan and Korea by Host Country

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Figure A-1. Intra-FDI inflows in ASEAN (10), Japan, and Korea

Note: ASEAN (10) + Japan and Korea
Sources: ASEAN, ASEAN Statistics Yearbook, (http://www.aseansec.org/18175.htm);
China Statistics Press, China Statistical Yearbook;

Figure A-2. Intra-FDI inflows in ASEAN (5), China, Japan, and Korea

Note: ASEAN (5) + Korea, Japan and China
Sources: ASEAN, ASEAN Statistics Yearbook, (http://www.aseansec.org/18175.htm);
China Statistics Press, China Statistical Yearbook;
Figure A-3. Intra-FDI inflow in East Asia (1995)


Figure A-4. Intra-FDI inflow in East Asia (1998)

Figure A-5. Intra-FDI inflow in East Asia (2004)

![Intra-FDI inflow in East Asia (2004)](image)

Source: ASEAN, *ASEAN Statistics Yearbook*, (http://www.aseansec.org/18175.htm);
China Statistics Press, *China Statistical Yearbook*;
JETRO, *Japanese Trade and Investment Statistics*,
(http://www.jetro.go.jp/en/stats/statistics/);
(http://www.mocie.go.kr/index2.html).
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Determinants of Intra-FDI Inflows in East Asia: Does Regional Economic Integration Affect Intra-FDI?

Jung Sik Kim and Yonghyup Oh

This paper analyzes macroeconomic determinants of the intra-FDI inflows in the ASEAN plus three economies. Some of the variables like openness and exchange rate volatility have direct implications for regional FTAs and regional common currency arrangements, and thus to East Asian economic integration. Our findings suggest that an FTA would increase intra-FDI flows in this region.