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US-World Decoupling and South-South Cooperation Through The Lens of FDI in ASEAN Countries

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Abstract

Using Foreign Direct Investment (FDI) data from 2010 to 2022 for ASEAN countries, we examine the increasing South-South cooperation in the background of the US' decoupling from the world. The US' decoupling from the world during the Trump presidency is reflected in the US great reduction and reversal in FDI to the ASEAN countries. The vacuum left by the reversal of the US FDI in ASEAN countries was filled in by FDI from other developing economies (A.K.A the South). While the US' decoupling strategy may be due to Trump's administration, the stepping-in of developing countries' FDI in ASEAN countries is due to the strengthening trade and FDI linkages (as a part of South-South economic cooperation). Trade is also found to positively affect FDI as more bilateral trade between other developing and ASEAN countries has led to more FDI from those countries in ASEAN countries.

Introduction and motivation

Figure 1: the US decouples from the world – an FDI evidence

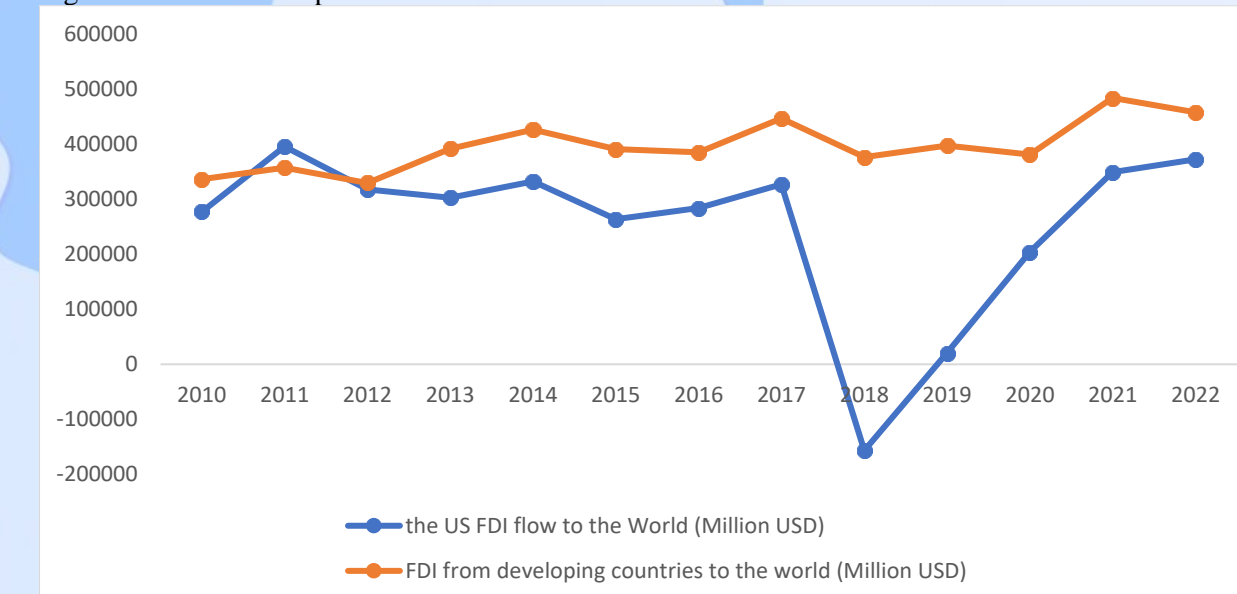


Figure 1: FDI from the South countries filled in the gap left by the US

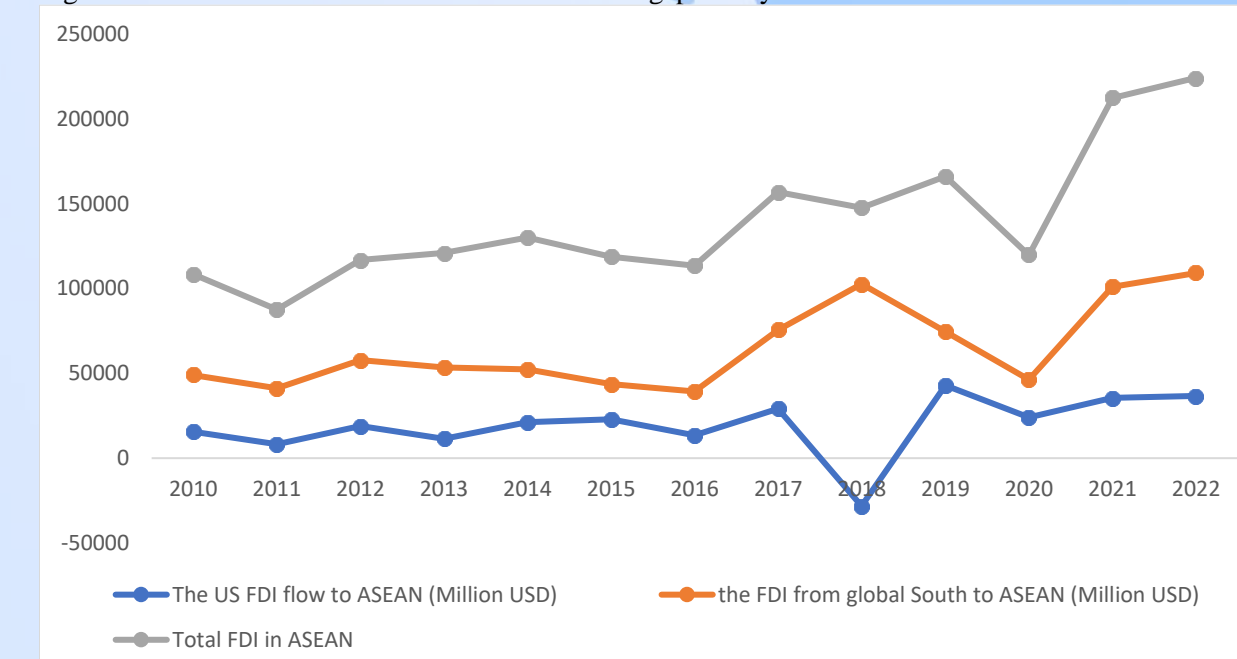
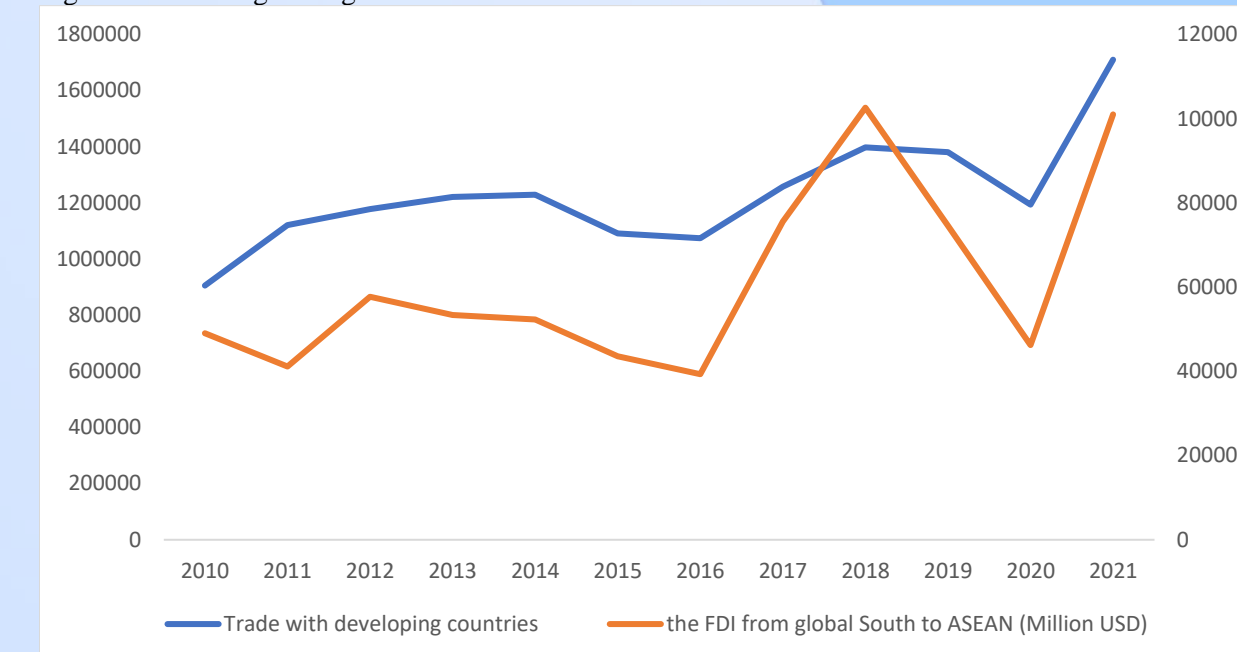


Figure 1: the strengthening South-ASEAN link in FDI and international trade



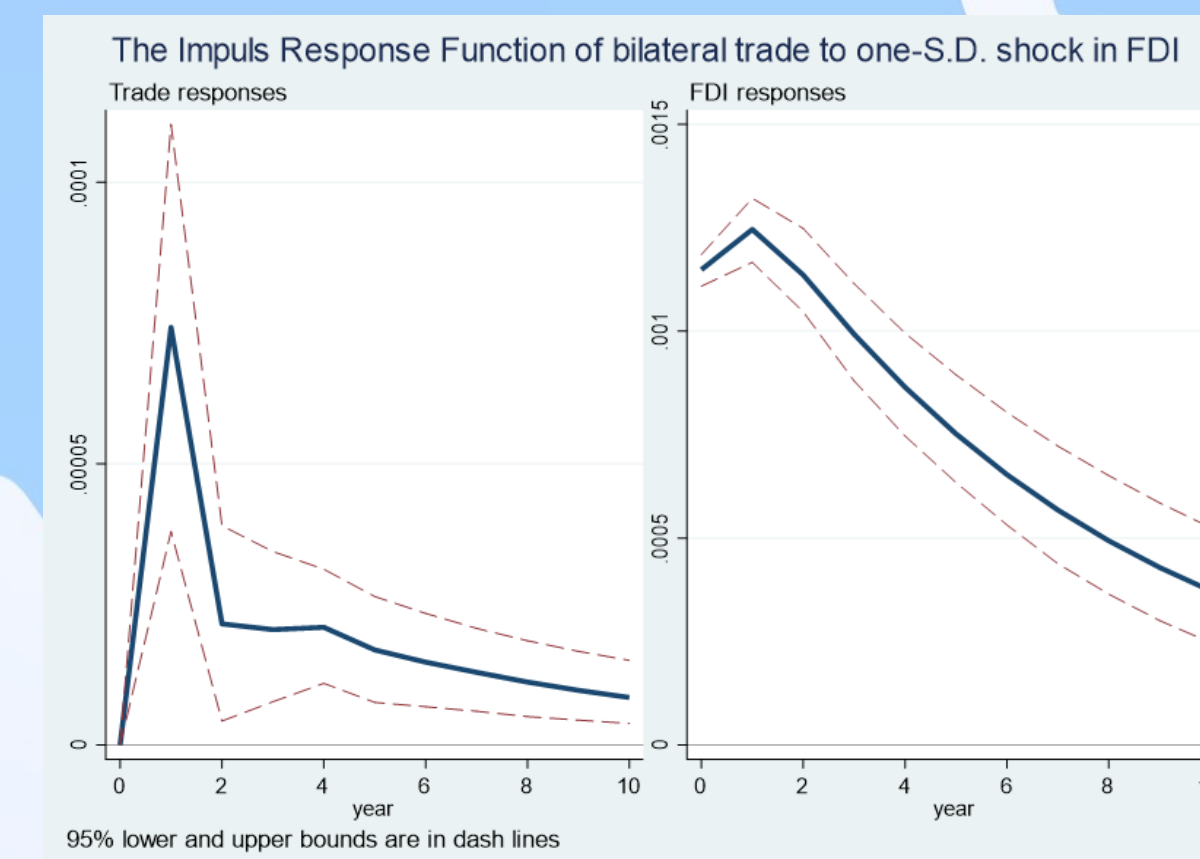
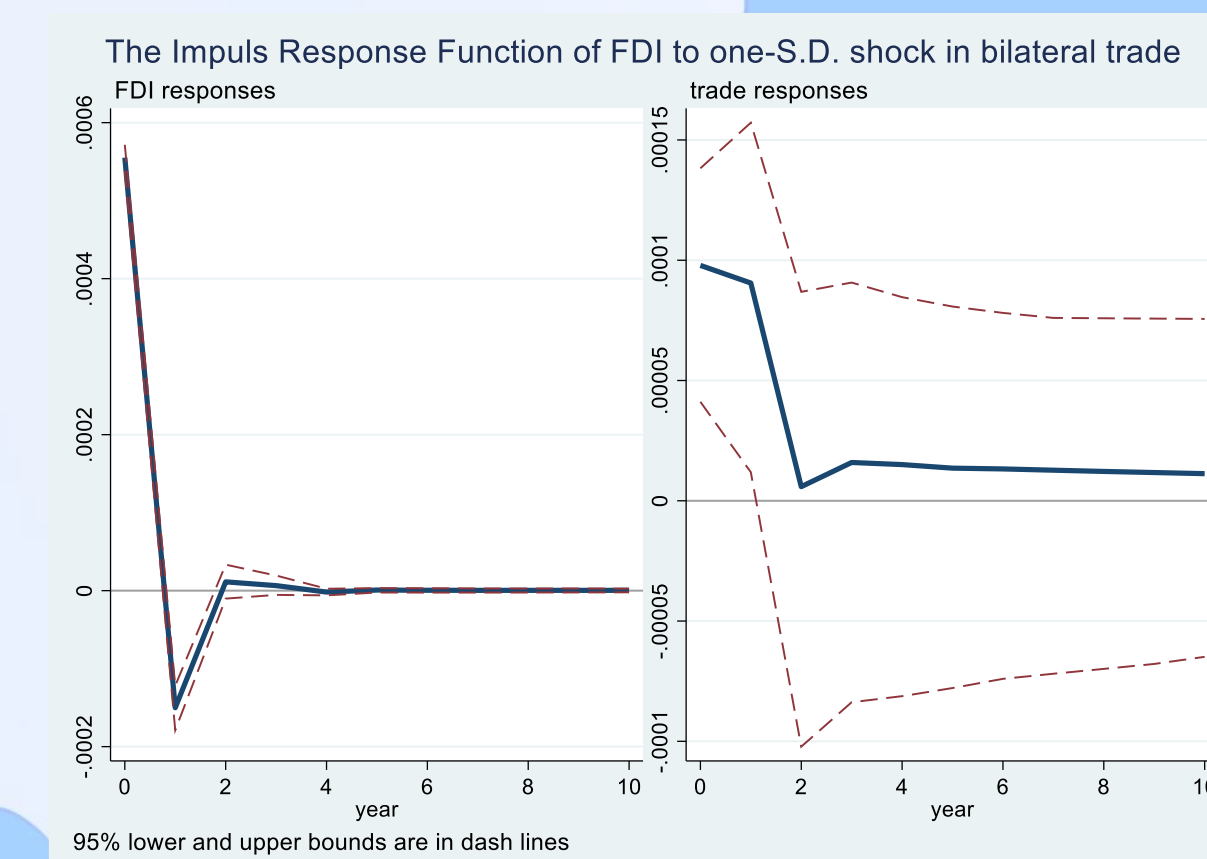
Following Sims (1980) who argues that vector autoregressions (VARs) provide a coherent and credible approach to macro-data description and macroeconomic structural inference, we use a structural VAR model to examine how and the degree to which foreign countries flow FDI to ASEAN and their bilateral trade with ASEAN interact and influence each other. The reduced form of VAR model is specified as follows:

$$Y_{c,t} = \{FDI_{c,t}, TRADE_{c,t}\}$$

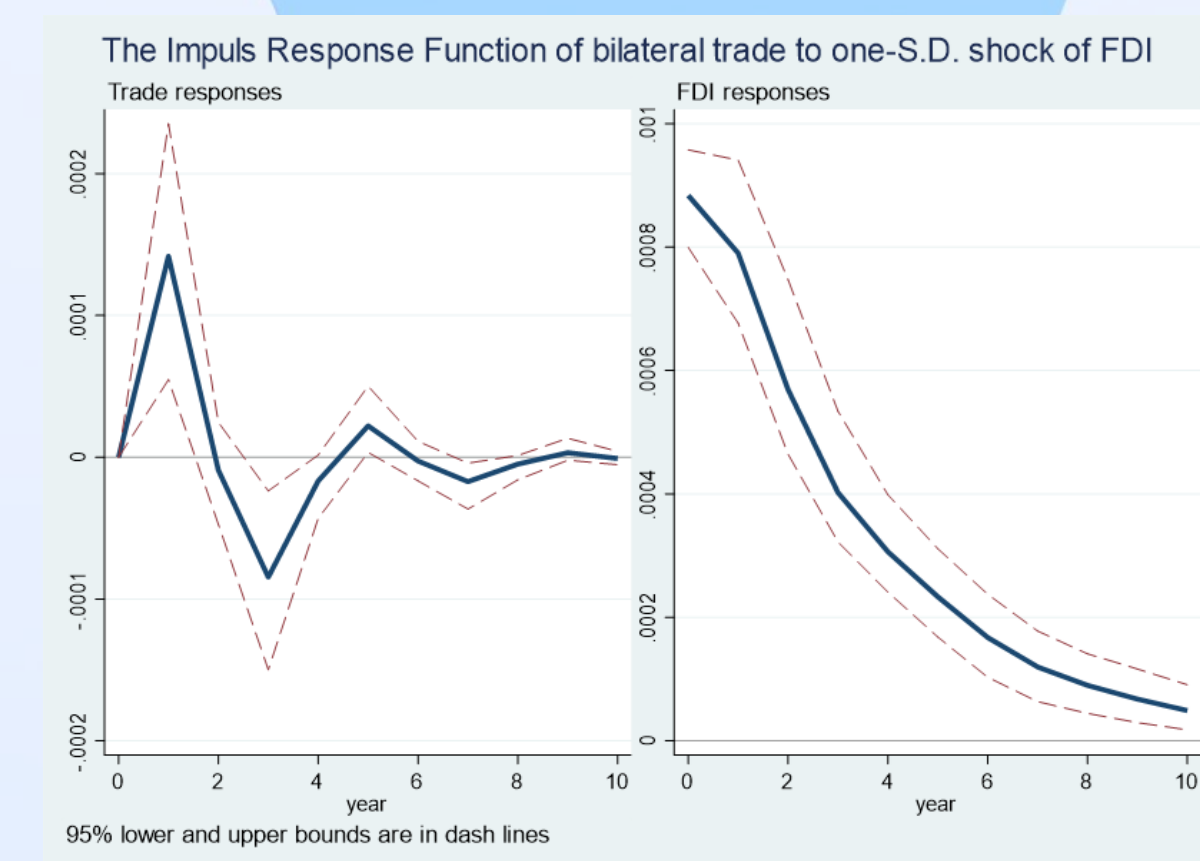
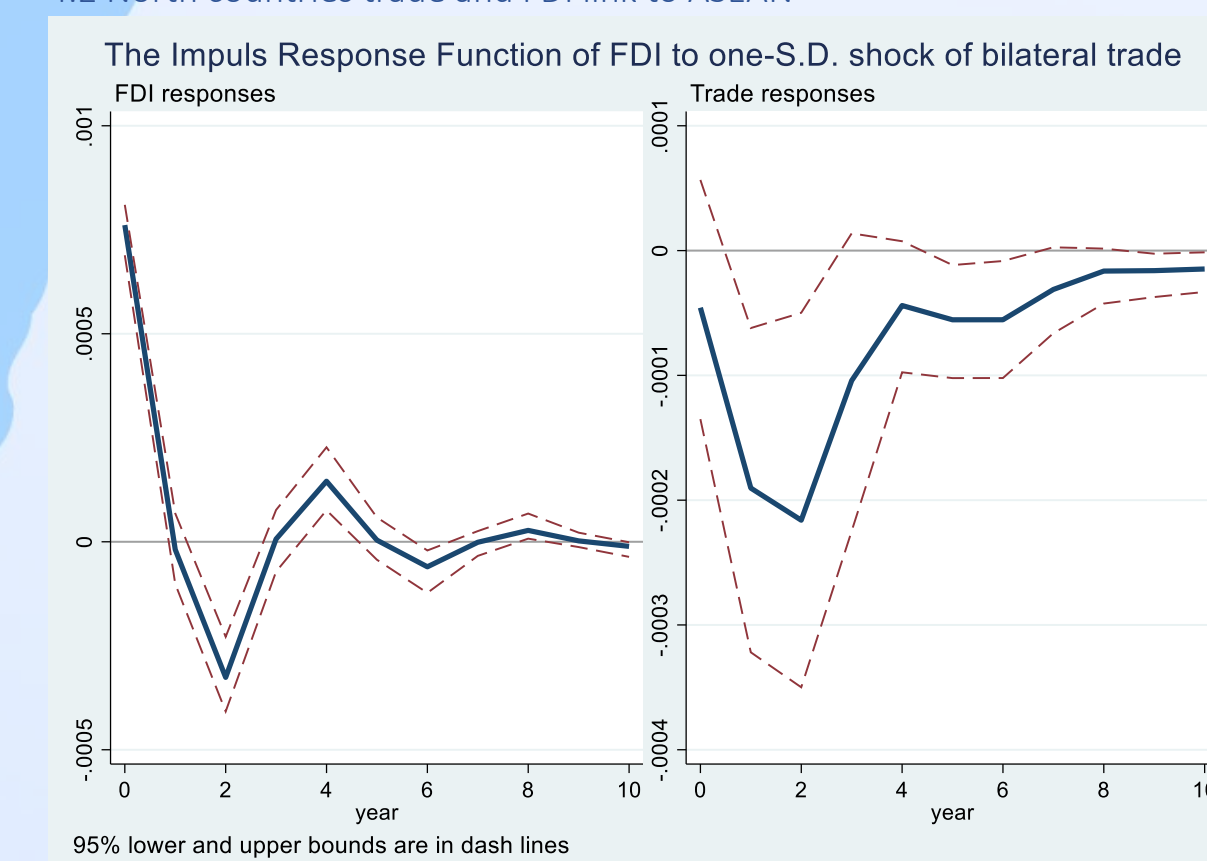
where, $FDI_{c,t}$ is the ratio of FDI flows in ASEAN to GDP; $TRADE_{c,t}$ is the bilateral trade between a country with ASEAN to GDP ratio; c and t are indexes for country and year, respectively.

Empirical results and economics interpretation

4.1 South countries trade and FDI link with ASEAN

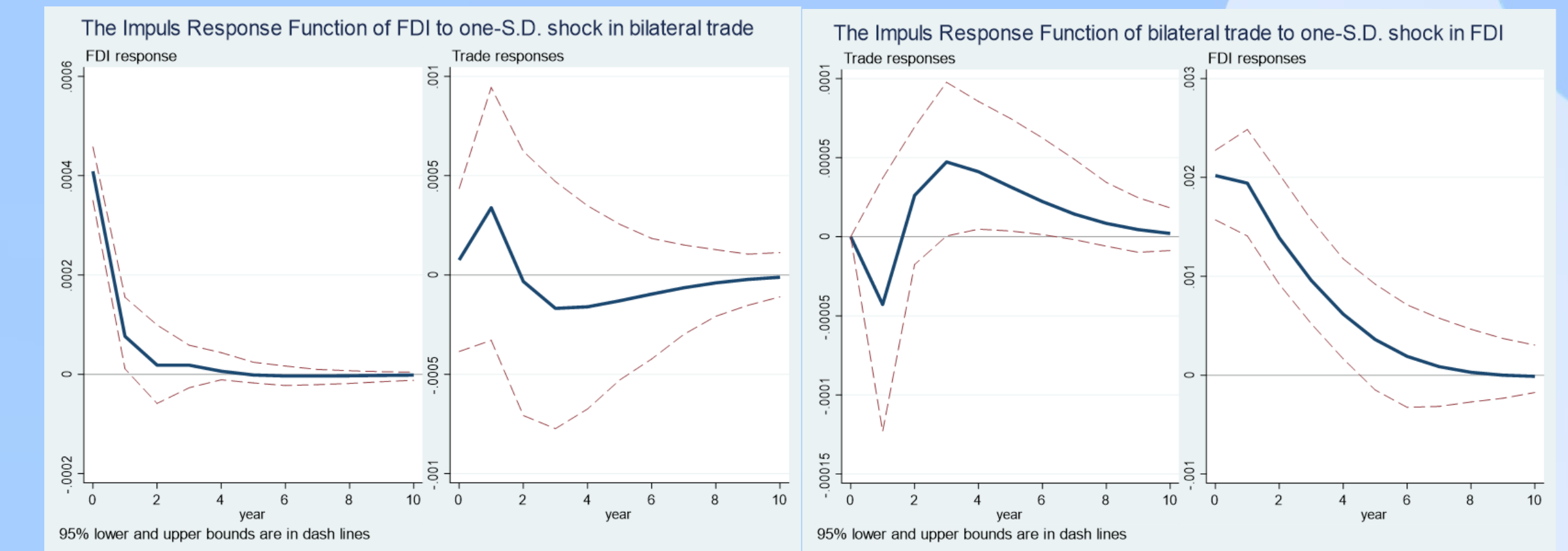


4.2 North countries trade and FDI link to ASEAN



While developing (South) and developed countries' (North) FDI flows into ASEAN countries respond positively to their bilateral trade with ASEAN countries, the magnitude of such responses is stronger for the South than the North. Our IRF analyses suggest that, facing a one-standard-deviation shock in bilateral trade, the South responds with 4 times higher FDI flows to ASEAN countries than does the North. Moreover, the South's FDI flows to ASEAN and their bilateral trade are found to have a two-way causality. In other words, the South's FDI flows to ASEAN positively respond to their bilateral trade. In turn, their bilateral trade responds positively to their FDI flows. This is not the case for developed countries' FDI flows to ASEAN countries and their bilateral trade with ASEAN.

Cooperation among ASEAN countries



ASEAN countries have persistently increased their FDI activities and bilateral trade with each other. However, no significant evidence was found to indicate that their bilateral trade enhances their FDI activities with each other; nor their FDI activities strengthen the bilateral trade during the study period from 2010 and 2022. The IRF analyses suggest, however, that it's possible that FDI among ASEAN countries tends to positively impact bilateral trade four years later and that it takes time for FDI from an ASEAN country to another to facilitate their bilateral trade.

Concluding remarks

Using FDI flows to ASEAN as a model, we find the cooperation between developing countries (the South) and ASEAN countries in their FDI and bilateral trade activities. Strengthening bilateral trade tends to enhance the FDI flow to ASEAN countries; this is particularly prominent during the Trump presidency when the US withdrew from the world affairs. The gap left by the reduction and reversal of the US FDI was then filled by the FDI from developing countries thus enhancing South-South cooperation.

References

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Econometric methodology for mechanism analyses

Data from Bureau of Economic Analysis, United Nations, and ASEAN consisting of 180 countries from 2010 to 2022 were used to conduct the empirical data analysis on the relationship between foreign countries' FDI flows into ASEAN and their bilateral trade with ASEAN.