the North Asia region increased from US$2.2 billion in 1980 to US$17.2 billion in 1990, an increase of 681 per cent.[34] U.S. investment in the region also increased, but at a less spectacular pace than Japan's. As will be detailed in sub-section 4.3 below, however, there is no indication of a trend to intraregional investment accounting for a greater share of total outward investment from the North Asian economies.

The relationship between FDI and trade is often debated. In some cases the establishment of overseas subsidiaries, such as manufacturing facilities, can substitute for exports from the home country. In other cases, such as in wholesale distribution or parts assembly, FDI can enhance export opportunities. Foreign affiliates can be a source of information about overseas market opportunities and affiliates may be a source of demand for home-country produced capital goods.

4.1 Trade Patterns

North Asian intraregional trade has increased from roughly 18.5 per cent of total North Asian trade (exports plus imports) in 1980 to nearly 34 per cent in 1992, with intraregional imports totalling US$221 billion in 1993. This increase reflects the rapid growth that the economies of North Asia have enjoyed over this period.

Japanese exports to the rest of North Asia of US$71.6 billion (see table 4.1) in 1992 exceeded Japanese exports to any other individual country or region, surpassing exports to the U.S. by almost US$20 billion and to the EU by US$9 billion. The share of total Japanese exports going to North Asia was 21 per cent in 1992, up from 18 per cent in 1985 and 16 per cent in 1980. Japanese imports from North Asia quadrupled to US$40 billion between 1980 and 1992. This compares to Japanese imports from the U.S. of US$53 billion in 1992 and imports from the EU of US$31 billion. The share of total Japanese imports originating in North Asia was 17 per cent in 1992, up from 11 per cent in 1985 and 8 per cent in 1980.

[34] As mentioned previously, however, an important component of the increased flow of FDI into China is actually investment by domestic Chinese firms. This "round-tripping" reflects efforts by Chinese firms to access the preferential treatment offered to foreign investors, as well as attempts to bury assets through off-shore connections. Chinese investors channel their investments through foreign intermediaries, generally located in Hong Kong. Round-tripping should be viewed as domestic investment and, if the exact size of this flow were known, the value of the flow from Hong Kong could be disaggregated. This would reduce the magnitude of the intraregional investment flow. See C. Fred Bergsten and Edward M. Graham, "Towards an Asia Pacific Investment Code: Issues and Options", Institute for International Economics, 1994, p.3.