

nature of the definition of a "bloc" and the implications of defining blocs by looking only at trade flows which cross *international* borders.

## 5. Regional Economic Integration Measured by International Direct Investment

### 5.1 Is regional direct investment indicative of regional integration?

International direct investment, like international trade, can be seen as a measure of integration of the involved countries, called the home and host economies. A home and host are integrated through international investment in direct and indirect ways. The home country experiences the implications of the outflow of investment through several channels, although employment and trade are of primary importance. The host country also experiences the effects of the investment through employment and trade. If there is a high degree of intra-regional investment, and foreign direct investment (FDI) is significant relative the host country's size, it is possible to say that the host country is integrated with the home country. If the direct investment that is occurring is within one region, and is two-way (i.e., there is a significant amount of direct investment abroad (DIA) and FDI between the same home and host countries) then it can be said that the regional economies are integrated, although the term "investment bloc" is not usually used. The home and host countries would also be integrated in that economic conditions that affected the parent in the home country would have implications for the subsidiary in the host, and vice versa. This linkage between home and host country has a parallel in the relationship between importing and exporting countries. Income levels based on economic conditions in the importing country partially determine the demand for exports from the exporting country.

### 5.2 Methodology, data and scope

Foreign direct investment is concentrated among the OECD countries, with the triad of the U.S., EU and Japan alone accounting for some 80 per cent of global stocks and flows. This section investigates intra-regional FDI and attempts to evaluate to what extent FDI undertaken by the triad is intra- versus inter-regional. The source used for this analysis is the OECD's compilation of domestic statistics, the *International Direct Investment Statistics Yearbook*.<sup>64</sup> The *Yearbook's* definition of North America, Europe and Asia are slightly different than those used in section 4 of this Paper. For the present section, North America is still considered to include the U.S., Canada and Mexico. Europe consists of the EU (Belgium-Luxembourg, Denmark,

---

<sup>64</sup>OECD, *International Direct Investment Statistics Yearbook*, 1993 and 1994.