ASEAN Investment Report 2011

Sustaining FDI Flows in a Post-Crisis World

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Contents

Foreword

This year's *ASEAN Investment Report* is prepared against a backdrop of a post-crisis world. It highlights the challenges facing the ASEAN region after the 2008 global financial crisis, particularly the fundamental changes in FDI location determinants that can affect the attractiveness of ASEAN as an investment destination, as well as the region's ability to manage the volatile global capital flows. Unfortunately the post-crisis recovery has recently become much more uncertain. The adverse developments in advanced markets (particularly in the Euro Zone area) – a major source of foreign direct investment (FDI) inflows in ASEAN – will surely put additional strains on global and regional investment climate.

The Report provides a critical assessment of FDI developments in the global economy and ASEAN. It reveals that like other emerging and developing markets, ASEAN has done well in overcoming the recent global economic and financial crisis. In 2010, total FDI inflows into the region increased by 100% and reached a record high US$75.8 billion. This reflects not only the region's improved economic fundamentals, but also its ability to implement a number of structural reforms that contributed to the strengthening of investors' confidence into the region.

While ASEAN has done relatively better in attracting FDI inflows into the region, challenges remain. The Report attempts to outline the areas that ASEAN should seriously address to become an integrated investment area by 2015, particularly the need to reduce the costs of doing business in ASEAN and to improve the investment climate. In fact, a key message of the Report is that in order to achieve the ASEAN Economic Community by 2015, it is critical that the remaining impediments to cross-border investment flows are eliminated. With three more years to go to AEC 2015, ASEAN has to move quickly and decisively.

The Report provides recommendations toward achieving an integrated investment area by 2015, from strengthening investment facilitation and improving local absorptive capabilities to implementing the regional investment commitments. While there are many determinants of FDI flows, including country-specific characteristics, strong policy action is of the essence.

Through this Report, we hope to provide market players, investors and other stakeholders more relevant and up-to-date information about the ASEAN investment regime.

Thank you.

Dr. Surin Pitsuwan
Secretary-General of ASEAN

Executive Summary

Global foreign direct investment (FDI) flows have recovered, but the post-crisis world still presents challenges to the management of global capital flows. The crisis has not only changed the fundamentals of FDI location determinants, but has also affected the level of global liquidity that has important implication on the financing conditions and operations of transnational corporations (TNCs). While global FDI flows are expected to reach their pre-crisis level this year, a return to their previous peak will not occur until 2013. With risks to the global economy still largely elevated, a key challenge for many countries around the world, particularly the emerging and developing economies, is how to sustain the current global economic recovery and the associated capital and financing flows needed to support it.

In 2010 ASEAN has generated a record high US$75.8 billion FDI inflows as the region continued to benefit from favorable economic conditions and strong investor interest. Intra-ASEAN flows also exceeded the US$10 billion mark for the first time (US$12.1 billion to be exact) since the Asian financial crisis in 1997. Despite these gains, challenges remain. As a percent of regional GDP, the level of FDI inflows in the region is still small at 4.2% and has remained stagnant over the last fifteen years. Intra-regional investments (16% of total ASEAN FDI inflows), while rising, are still below their previous peak in 2002 (22.2%) and the pre-crisis level in 1996 (16.4%). ASEAN countries are also not stepping up their outward investments abroad, which raises concern on their ability to manage risks in case of strong surges in FDI inflows. By all dimensions, it seems that ASEAN is still not realizing its full potential as an integrated investment area.

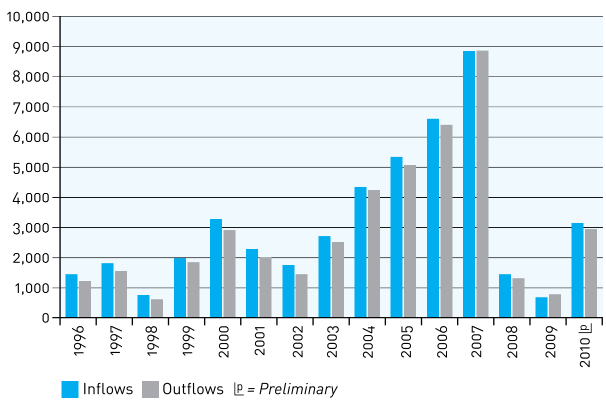
Therefore, it is critical that the post-crisis FDI agenda for ASEAN continues to focus on the strengthening of the region's competitive strength as a basic requirement to achieve a dynamic investment regime. In terms of policy actions, an immediate priority is for ASEAN to create a credible and transparent business and regulatory environment. This involves efforts to reduce the costs of doing business in the region, improve the quality of governance in each country, and strengthen investment facilitation.

This Report *(2011 ASEAN Investment Report)* maintains that these measures are nothing new but can create significant changes if Member States adhere to their effective implementation. In as much as foreign direct investment depends crucially on country-specific characteristics, a sufficient condition to induce FDI into the region is to create a quality policy environment that can develop positive spillover effects, like the development of small and medium-sized enterprises (SMEs). Given the continued internationalization of transnational production and intense competition for FDI, policies aimed at attracting transnational operations within the region should go beyond the traditional manufacturing FDI. Instead, ASEAN should continue to leverage on its competitive strength by capitalizing, for example, on other non-equity forms of FDI like services outsourcing, and deepening its economic integration. This is crucial if greater FDI flows are to be sustained in the region. This is also the challenge that ASEAN must face in a post-crisis world.

1. Trends in Global FDI Flows

Since the August *2010 ASEAN Investment Report (2010 AIR),* the global economic recovery has strengthened. World output rebounded sharply to 5.1% in 2010 and is expected to remain stable at 4.0% in 2011. Although a moderation in global economic activity has been noted in the first half of 2011, the overall consensus is for the global recovery to continue. A number of factors contributed to this improved global outlook, including the improvement in financing conditions, buoyant activity in emerging markets, and growing confidence in advanced economies. Along with economic recovery is the resumption of global capital flows, including the foreign direct investment[1] (FDI) flows.

Figure 1. Global Inflows and Outflows ***(in billions U.S. dollars)***



Source : IMF, Global Financial Stability Report, April 2011
International Financial Statistics

However, unlike the recovery in global output and trade, global investment flows have not recovered to their pre-crisis level (UNCTAD, 2011). While the crisis is now over, the global FDI landscape has also changed. The crisis has not only affected the fundamentals of FDI location determinants, but has also altered the global liquidity which is expected to affect FDI flows through changes in financial positions of transnational corporations (TNCs). A study by the International Monetary Fund (Dabla-Norris et al, 2010) has indicated that since FDI flows will be significantly lower than their pre-crisis level, competition for FDI will be fiercer than before. In addition, there are also risks affecting the full recovery of FDI flows, including possible protectionist measures on investment. With these changes in global FDI environment and continued uncertainty in the global economy[2], the challenge for many countries, especially the emerging and developing economies, is to ensure that the current global recovery is sustained, and along with that, the cross-border capital flows needed for economic development.

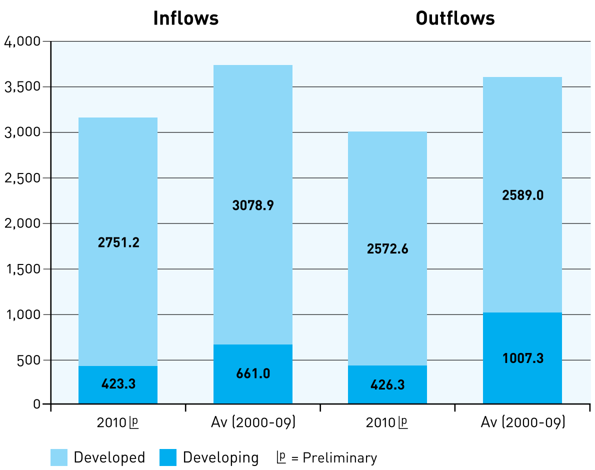
Following their collapse during the global financial crisis, global cross-border capital flows – consisting of direct investment, portfolio equity and other investments – rebounded in mid-2009, and continued their upward momentum in 2010. Preliminary estimates by the IMF indicate that total capital flows amounted to US$3.17 trillion in 2010, but remained 50% below their pre-crisis average (2004-07) and

1 In this paper, inflows mean net inward FDI transactions, i.e., inward investments less disinvestments (FDI in the reporting economy); outflows mean net outward FDI transactions, i.e., outward investments less disinvestments (FDI abroad). Thus net FDI inflows measure the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment earnings, and loans as shown in the balance of payments.

2 These include risks of heightened unemployment and debt burden in the United States, sovereign debt crisis in the Euro zone, and risks of high commodity and food prices in emerging economies.

nearly 65% below their 2007 peak (Figure 1). The rise is evident in both developed and developing economies. However, the post-crisis rebound remains uneven across these two groups of countries. Unlike in advanced economies, capital flows recovered more sharply in emerging markets, due perhaps to better growth prospects in these markets and the fact that they are more resilient during the crisis. As of end-September 2010, net flows in developing markets particularly in Asia and Latin America, have already exceeded their averages during the period of strong net capital flows prior to the crisis (2004-07), although the levels are still below their previous highs (IMF, 2011). Nonetheless, global capital flows are still dominated by developed economies (Figure 2).

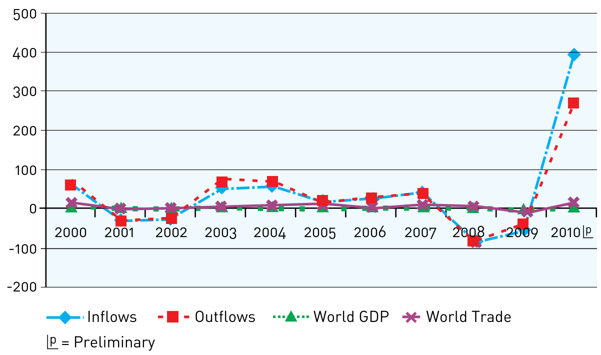
Figure 2. Breakdown of Global Capital Flows ***(in billions U.S. dollars)***



Source : IMF, Global Financial Stability Report, April 2011

The post-crisis recovery in cross-border capital flows was also impressive in its pace, as capital flows recovered quickly in a short span of time. There is evidence that the supply of international capital has also expanded and become more diverse. The flows and stocks of cross-border capital are much larger and they have also exerted significant impact in both financial markets and economies around the world. Since 2003, the ratios of capital inflows and outflows

Figure 3. Global Indicators:
Capital Flows, GDP and Trade (Growth Rate) ***(in percent per year)***



Source : IMF, Global Financial Stability Report April 2011, World Economic Outlook April 2011

to world GDP have also been on a steady upward trend (except during the crisis in 2008 and 2009), indicating the deepening of foreign investment across all regions. Growth in capital flows has also outpaced growth in global output and trade[3] (Figure 3).

With the resurgence of capital flows, global FDI inflows also started to increase as well although the recent upturn shows a lower share of FDI compared to historical trends.UNCTAD estimated that global FDI inflows in 2010 have increased marginally by 5% to US$1.24 trillion from US$1.18 trillion in 2009. Nevertheless the rebound is still encouraging given the 32% decline in inflows a year ago. The modest increase was facilitated by retained earnings that continued to be stable, as the other components of FDI – namely inter-company loans and equity investment – remained subdued. Reflecting the favorable economic conditions, international production, including foreign sales, employment and assets of TNCs, also picked up (Table 1). Global mergers and acquisitions also rose by 35.7% at US$339 billion, reflecting increased corporate earnings.

3 Historically a number of factors account for this uptrend. Along with strong global economic growth, favourable external financing conditions such as lower interest rates and ample liquidity have enabled or prompted foreign investors to seek for new opportunities and diversify into new markets. In some countries, particularly in emerging markets, the opening of their economies through various domestic liberalization measures – together with removal of technological and regulatory barriers - have heightened cross-border capital flows, thereby contributing further to increased internationalization of asset allocation.

Table 1. Global Indicators: FDI and International Production

	Values (Billions Dollars)				Annual Percent			
	2008	2009	2010	Average (2005-2007)	2008	2009	2010	Average (2005-2007)
FDI inflows	1,744	1,185	1,244	1,472	-11.5	-32.1	4.9	33.6
FDI outflows	1,911	1,171	1,323	1,487	-12.2	-38.7	13.1	31.4
FDI inward stock	15,295	17,950	19,141	14,407	-13.9	17.4	6.6	16.9
FDI outward stock	15,988	19,197	20,408	15,705	-16.1	20.1	6.3	15.8
Cross-border M&A	707	250	339	703	-30.9	-64.7	35.7	57.7
Sales of foreign affiliates	33,300	30,213	32,960	21,293	-4.5	-9.3	9.1	14.8
Gross product of foreign affiliates	6,216	6,129	6,636	3,570	-4.3	-1.4	8.3	14.2
Total assets of foreign affiliates	64,423	53,601	56,998	43,324	-4.9	-16.8	6.3	16.7
Exports of foreign affiliates	6,599	5,262	6,239	5,003	15.4	-20.3	18.6	13.1
Employment of foreign affiliates (thousand)	64,484	66,688	68,218	55,001	-3.7	3.4	2.3	18.5

Source: UNCTAD, World Investment Report 2007, 2009, 2011

For the first time developing and transition economies absorbed more than half (US$627.1 billion) of global FDI flows, with markets from South, East and South-East Asia leading the pack. Among the top countries in this region that attracted most FDI inflows are China (US$105 billion), Hong Kong, China (US$68.9 billion), Singapore (US$35.5 billion), India (US$24.6 billion), Indonesia (US$13.3 billion), Malaysia (US$9.1 billion) and Viet Nam (US$8 billion). This is in contrast to a contraction in FDI in developed economies (-0.15%), particularly in European countries (-19.2%) and Japan (-110%), following the uncertainties surrounding the sovereign debt and fiscal problems in these countries. As in previous years, bulk of FDI inflows to developing world is highly concentrated in middle-income countries, particularly in Brazil, Russia Federation, India and China (BRIC) which account for 38% of total inflows.

Although FDI inward stock remains substantial (US$19.1 trillion or 30.3% of world GDP), global FDI inflows are still below their peak in 2007 (US$1.9 trillion). Their share and contribution to growth of global cross-border flows also seem to be declining over time. For example, the share of global FDI inflows to total capital inflows in 2010 was only one third of their level in 1998, and has been contributing less and less to overall growth in inflows since then.

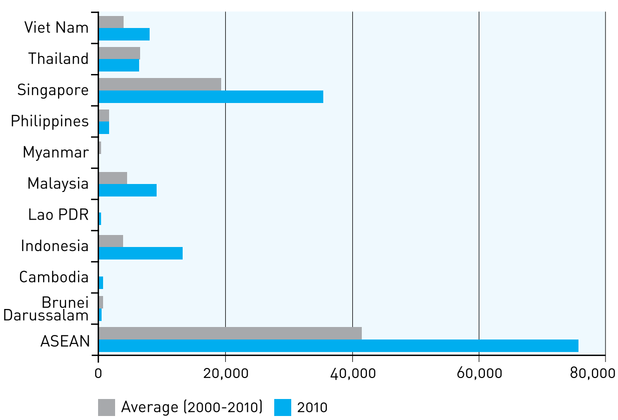
Global FDI outflows also show the same pattern, with share and contribution to growth of cross-border outflows declining since 2000. In 2010 FDI outflows rose by 13% but their levels (US$1.3 trillion) are still below their peak in 2007 (US$2.1 trillion). Much of the increase in outflows was due to higher re-invested earnings and intra-company loans as a result of strong corporate profits, compared to stagnant flows of equity investments. Interestingly, the recent recovery in FDI outflows was triggered by strong outward investment by developing markets, which accounted for 25% of global FDI outflows in 2010 from 8% in 2000. In terms of mode of entry, both M&A and green field investments contributed to upward trends in global FDI outflows in 2010.

2. Developments in Foreign Direct Investment in ASEAN

Reflecting the continued favorable economic outlook and optimism in the developing region, FDI inflows to ASEAN reached a record US$75.8 billion in 2010 from US$37.8 billion a year ago (Figure 4). Both the level and rate of increase are quite unprecedented. The inflows represent the highest annual growth rate (almost 100%) registered since 1999. Their levels also exceed the average peak of US$52.3 billion during the period of strong capital flows (2004-07), and the average flows of US$34.8 billion over the last 15 years (1995-2009) (Table 2). Despite the record inflows last year, ASEAN still accounts for a small share of FDI in developing world (on average 10% in the last decade).

FDI inflows continued to be concentrated in advanced ASEAN countries (which account for around 87% of the total), reflecting the huge size of their economies and financial assets (Figure 2), and Viet Nam. Singapore remains the largest market for these flows by significant margin (US$35.5 billion or 47% of total inflows), followed by Indonesia (US$13.3 billion), Malaysia (US$9.1 billion) and Viet Nam (US$8 billion). Indonesia's emergence as one of the top 20 destination countries for FDI in the world is impressive after an erratic performance in the previous years. Its record inflows in 2010 alone amount to four times its average inflows (US$2.6 billion) in more than a decade and exceed the US$10 billion mark for the first time. Much of this increase came from equity investment and reinvested earnings, facilitated perhaps by small investment projects with quick profits rather than the traditional infrastructure projects with long gestation period for returns (Otsuka et al, 2011).

Figure 4. ASEAN FDI Inflows *(in millions U.S. dollars)*



Source : ASEC FDI Database

All ASEAN countries received higher inflows than in 2009, except for the Philippines. The lower than 2009 investments level in the Philippines may have been due to the investors' "wait–and–see attitude" in 2010, being a national election year and the country's first automated election. Higher growth rates were sustained in Brunei Darussalam and Singapore, while strong rebounds were recorded in other countries particularly in Indonesia and Malaysia. While domestic factors might have influenced this remarkable surge in inflows, capital flows in the region continue to be more volatile and sensitive to global cycle, as evident in the unusually large fluctuations in growth rates of these inflows compared to their historical trends. This provides evidence that capital flows in ASEAN can be generally fickle and which makes the management of those flows more challenging to policy makers than ever (IMF, 2011).

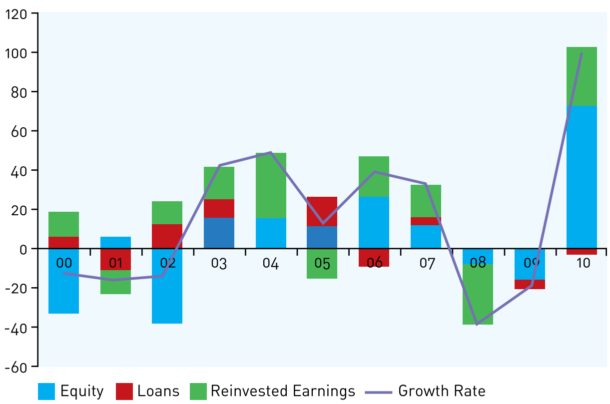
Table 2. Flows of Inward Direct Investment to ASEAN
(In millions U.S. dollars, percent per year)

HOST COUNTRY	Average (1995-2009)	Average (2004-2007)	2007	2008	2009	2010 P
Brunei Darussalam	686	299	260	239	370	629
	(21.3)	(-11.7)	(-40.0)	(-8.1)	(54.5)	(70.3)
Cambodia	322	466	867	815	539	783
	(23.2)	(88.2)	(79.5)	(-6.0)	(-33.9)	(45.2)
Indonesia	2,694	5,518	6,928	9,318	4,877	13,304
	(-6.8)	(-19.5)	(41.0)	(34.5)	(-47.7)	(172.8)
Lao PDR	107	139	324	228	319	333
	(43.4)	(174.8)	(72.6)	(-29.6)	(39.9)	(4.5)
Malaysia	4,533	5,825	8,538	7,248	1,381	9,156
	(31.1)	(41.2)	(40.6)	(-15.1)	(-80.9)	(563.0)
Myanmar*	455	407	715	976	579	N / A
	(13.8)	(32.2)	(67.1)	(36.5)	(-40.7)	N / A
Philippines	1,614	2,095	2,916	1,544	1,963	1,713
	(62.8)	(66.8)	(-0.2)	(-47.1)	(27.1)	(-12.7)
Singapore	15,643	25,716	37,033	8,589	15,279	35,520
	(20.3)	(41.4)	(26.2)	(-76.8)	(77.9)	(132.5)
Thailand	5,805	8,675	11,330	8,539	4,976	6,320
	(14.5)	(21.6)	(19.8)	(-24.6)	(-41.7)	(27.0)
Viet Nam	2,970	3,192	6,739	9,579	7,600	8,000
	(18.3)	(59.0)	(180.8)	(42.1)	(-20.7)	(5.3)
ASEAN TOTAL	**34,829**	**52,332**	**75,650**	**47,076**	**37,881**	**75,758**
	(5.8)	**(33.2)**	**(33.5)**	**(-37.8)**	**(-19.5)**	**(100.0)**

P : Preliminary ; N/A = Not Available
**Myanmar's fiscal year starts on 1st April and ends on 31 March of the following calendar year. Data for 2010 is not available.*
(.) figures in parentheses are annual growth rate in percent
Source : ASEC FDI Database

Equity capital and reinvested earnings remained the key drivers of FDI growth in ASEAN. Equity capital rebounded to US$50.1 billion, reversing the temporary slowdown in 2009. Historically, equity capital has been an important source of growth of FDI inflows in ASEAN as evident in its sustained contribution to FDI growth. The pattern is most pronounced last year as equity capital accounts for a significant share of total variation in FDI inflows (Figure 5) in most countries particularly in Cambodia, Indonesia, Malaysia and Singapore. For example, equity capital contributed 73.1 percentage points to total FDI growth of the region in 2010. This also suggests a higher investor appetite for new capital investments in these countries and possibly more additional investments in the short term.[4]

Figure 5. Components of ASEAN FDI Inflows *(in percent per year)*



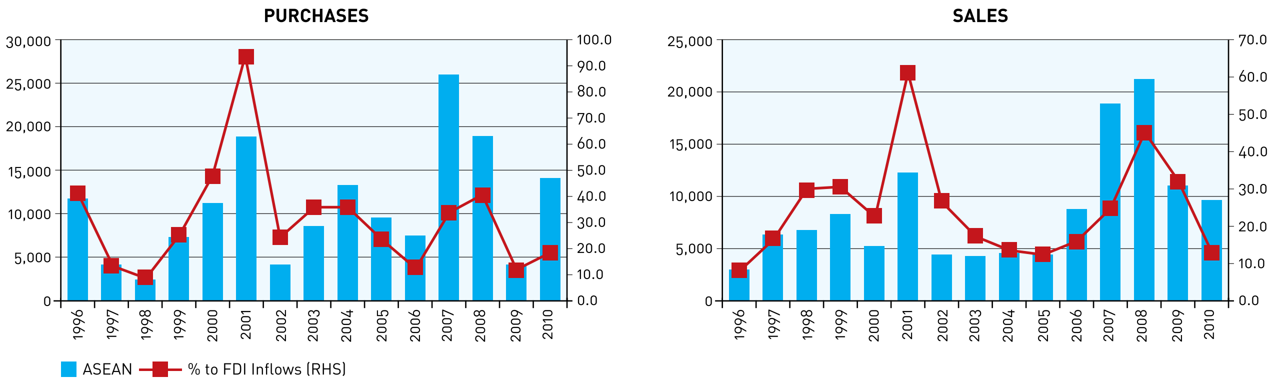
Note: Figures do not include Lao PDR and Myanmar due to incomplete data
Source : ASEC FDI database

After detracting from growth during the last two years[5], reinvested earnings contributed quite substantially to overall FDI growth as seen in their positive contribution

4 Evidence (Aykut, 2007) shows that the resilience of Asian economies during the 1997 Asian financial crisis can be traced to the equity component, which is in contrast to the inter-company loans and reinvested earnings that were used as means to adjust FDI exposure. The same trend can possibly explain the relative stability of equity component of FDI in ASEAN countries during the global financial crisis.

5 Actually the contribution of reinvested earnings to FDI growth was negative in 2008 (-29.9 percentage points) and positive but marginally small in 2009 (0.76 percentage point). Thus, the average contribution to growth for the two years (2008-09) was still negative.

Figure 6. Mergers and Aquisitions ***(in millions U.S. dollars, percent per year)***



Source : ASEC FDI database

to growth (30 percentage points). This implies that a significant portion of income by foreign companies in ASEAN have started to be retained in the region again. Reinvested earnings significantly sustained the growth of inflows in Indonesia and Malaysia, but seemed to have limited impact in Thailand (i.e., the contribution to growth was negative). Meanwhile, inter-company loans also detracted from growth (3.1 percentage points) to FDI growth indicating that activities between local and parent companies abroad are yet to recover quickly. In fact, the contribution of the loan component of FDI inflows to overall FDI growth was negative in Cambodia, Malaysia, Singapore and Viet Nam.

One factor that boosted FDI growth in the region last year is the increasing trend toward mergers and acquisitions. In 2010, cross-border inward M&A purchases in ASEAN increased by more than 200% to US$14 billion, while M&A sales declined by 21% to US$10 billion. According to an independent study by Pickering Pacific (2011), of the 2,337 M&A deals being recorded in 2010, around 33% are in financial and industrial sectors, particularly in building and infrastructure activities and banking services. Although ASEAN M&A market has remained small as indicated by the relatively lower ratios of cross-border M&A purchases and sales to FDI inflows (Figure 6), the role of M&A as form of FDI has increasingly become more significant for the region. Recent evidence suggests that foreign companies have been ramping up expansion in the region with acquisitions and controlling stakes, reflecting strong global M&A activity in general and favorable financing conditions in the region. Still, there are hurdles that prevented ASEAN from becoming a true center for buyout activity.[6]

The European Union countries (EU), United States and Japan retained their position as top providers of direct investment funds to ASEAN (Table 3), accounting for around 45% of total inflows. This trend, while high, is still below the average share (51%) by these countries over the last decade. Japan's share has remained stable over the years while the share of European countries has actually declined compared to the previous average share. After slowing in 2008, investments by Japan, EU and United States started to increase again in 2009 and continued their upward momentum last year. Interestingly, non-traditional suppliers of capital into the region have increased their share of FDI investments in ASEAN. Australia, China and South Korea easily stand out – with combined investments of US$8.2 billion 2010 (10.9% share) from an average of US$3.2 billion (6.3% share) over the last ten years.

6 In the same study by Pickering Pacific, it is reported that in 2010, transactions in ASEAN accounted for only 6% of M&A deals concluded worldwide and 24% of the deals recorded in Asia.

Table 3. Source of ASEAN FDI Inflows *(In percent)*

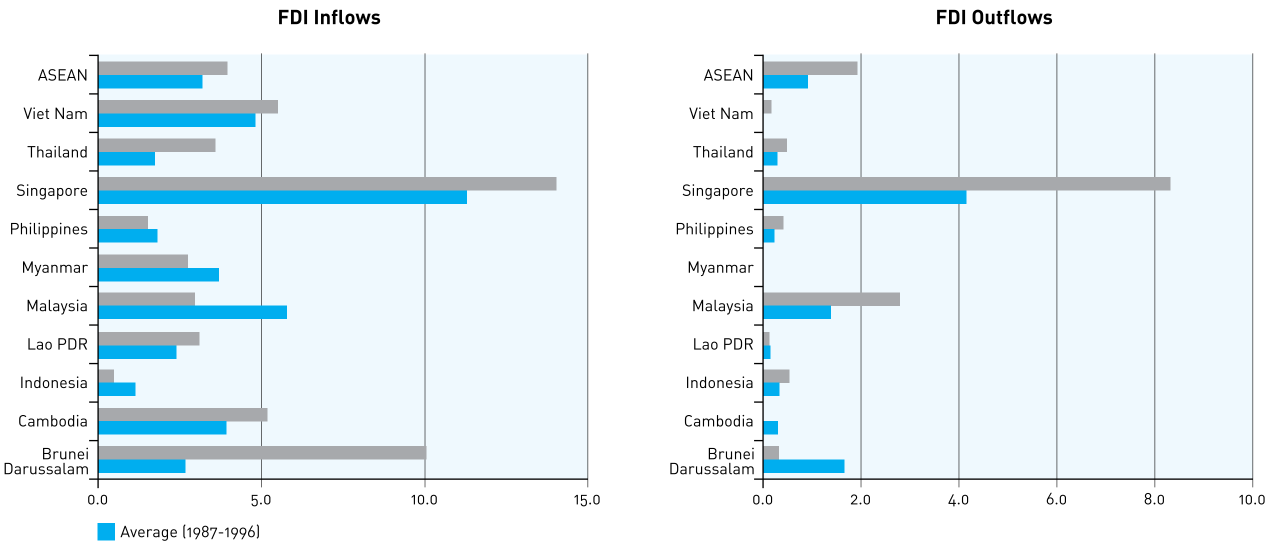
	Percent Share to Total				Percent Annual Change			
	2008	2009	2010*	Average (2001-2010)	2008	2009	2010*	Average (2001-2010)
Australia	1.7	2.1	2.3	1.2	-47.0	-0.9	127.4	30.0
China	4.0	10.4	3.6	2.7	7.5	109.6	-31.2	-23.3
European Union	15.0	24.1	22.4	26.0	-62.1	29.4	86.3	15.4
India	1.2	2.2	3.4	1.1	-62.0	49.9	212.6	-1.6
Japan	8.9	9.9	11.1	14.5	-52.8	-9.8	122.9	60.9
South Korea	3.4	3.9	4.9	2.4	-41.1	-8.0	156.1	89.6
USA	7.5	10.8	11.3	9.9	-57.6	15.8	109.9	42.1
ASEAN	**20.1**	**13.8**	**16.0**	**13.9**	**-2.2**	**-44.5**	**110.6**	**48.1**
Others**	1.4	2.5	2.4	1.4	22.4	40.3	95.7	-64.5

** New submission format, which includes the Caribbean countries*
*** Include Canada, New Zealand, Pakistan and Russia Federation*
Source : ASEC FDI Database

Investment among ASEAN countries has also increased in 2010. For the first time in so many years, intra-ASEAN FDI inflows reached the US$10 billion mark or 16% of total flows, exceeding the peak in 2007 (US$9.6 billion) and the average levels (US$4.5 billion) in the last 15 years (1995-2009). Bulk of these inflows was directed to Indonesia (US$5.9 billion), Singapore (US$3.3 billion) and Viet Nam (US$1.3 billion). Despite the uptrend, however, current figures still suggest that there is a need for ASEAN to increase its potential for greater intra-regional investment. While intra-FDI inflows have been steadily rising, the share to total ASEAN trade is still below the highest level in 2002 (22.2%) and the pre-crisis level in 1996 (16.4%). Given rising competition for foreign capital among emerging markets in the world, it seems that accelerating intra-regional investment is critical to increase inflows to ASEAN.

While private capital has returned in the region, it is interesting to examine where ASEAN economies are sending their outward FDI. Until last year, however, ASEAN is still not stepping up their investments abroad. FDI outflows in ASEAN did not increase much and displayed less volatility over the last 15 years. During that period (1995-2009), the volatility of FDI inflows has generally increased compared to that of FDI outflows (Figure 7), as average inflows (US$29.8 billion) continued to exceed average outflows (US$15.1 billion). Inward FDI stock (US$420.1 billion) also outpaced outward FDI stock (US$107.9 billion). Although total outflows continued to rebound in 2010 (up by 24.7% to US$42.2 billion) from a decline a year earlier, there was no clear pattern to establish the direction of direct investment outflows over the years. What was clear, though, is the low magnitude of the flows. Singapore and Malaysia are still the key players for outward investments, accounting for 46.7% and 31.5%, respectively of total FDI outflows from the region in 2010. This result suggests two important implications about outward investments in ASEAN. First, the region as a whole has not become yet an important source of capital in international markets despite the region's increasing links with the rest of the world. Second, given the region's limited ability to invest overseas, it also raises concerns on their ability and willingness to manage risks, which is crucial to balance the effects of strong surges in FDI inflows in the region.

Figure 7. Volatility of Capital Flows in ASEAN *(in percent of flows to GDP)*



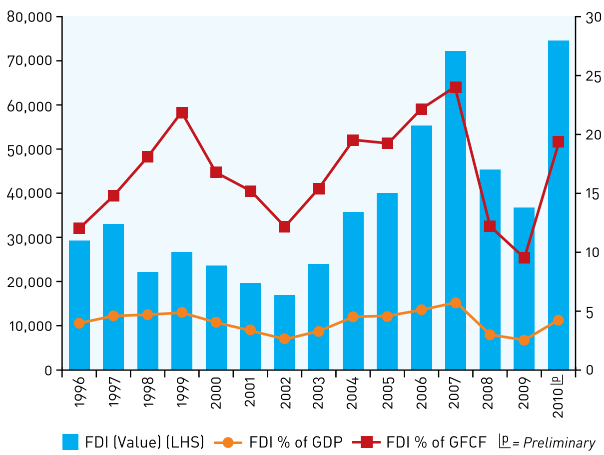
Source : ASEC FDI Database (FDI Inflows), UNCTAD (FDI Outflows)

3. Assessment of FDI Issues and Policy Challenges in ASEAN

Since the implementation of the ASEAN Investment Agreement (AIA) in 1998, ASEAN has been committed to strengthen its investment regime. This commitment was further reinforced with the signing of ASEAN Comprehensive Investment Agreement (ACIA) in 2009. Under the ASEAN Economic Community (AEC), free flow of investment is targeted as a core measure to achieve an integrated single market and production base by 2015, along with free movement of goods, services, skilled labor, and freer flow of capital. While progress has been made, establishing the region as a single investment market is not easy.

An immediate challenge for ASEAN is how to sustain the FDI flows in the face of changing FDI environment and global uncertainty (Box 1). One change that ASEAN should cope with is the possible slowdown in global liquidity and financing conditions in the coming years as more stringent regulations in the financial sector come into effect. According to the IMF, the result of such slowdown is stiffer competition for FDI flows especially among developing countries. Since FDI is a major source of private capital flows in developing economies, a reversal in these flows will have direct impact on financing needs as well as supply of capital in these countries.[7]

Figure 8. ASEAN FDI Inflows *(percentage to GDP)*



Source : ASEC FDI Database, IMF International Financial Statistics, Excluding Lao and Myanmar due to incomplete data.

Despite considerable progress in trade and FDI liberalization in the region, total FDI in ASEAN is still relatively small. By end-2010, inflows amounted only to 4.2% of ASEAN GDP (Figure 8), the same level over the last 15 years and still below the peak in 2007 (when inflows reached 5.8% of GDP). This also raises concerns on the ability of FDI liberalization to increase the level of domestic investment and/or its productive capacity. Domestic investment in ASEAN has remained sluggish and has been declining as a share of GDP since 1997. From 1998 to 2009, investment in the region averaged around 23% of GDP compared to its savings rate of 28% of GDP. Thus, most ASEAN economies are investing below the rate implied by their domestic saving and current account surplus position.

The contribution of investment to growth has also been erratic. To the extent that cross-border investors respond directly to country characteristics in making

7 Like other developing economies, ASEAN needs FDI to sustain its growth potentials. Many countries around the world actively seek out foreign direct investment to augment their capital stock and consequently to accelerate economic growth and raise living standards. In fact, aside from its growth impact, FDI is often seen as a channel to trigger productivity gains, stimulate investment, and allow greater competition in the markets.

Box 1: How significant are the spillovers from global financial market turmoil?

In general, financial market turbulence can spill over into the real economy through two channels: first is through a credit re-pricing that limits the overall provision and channeling of credit; and second, through a loss in confidence that leads to a weakening of consumer and business sentiments. Such a tightening of credit conditions could have significant macroeconomic impact by reducing consumption through the wealth effect, and curtailing investment owing to higher cost of capital to the firms.

Recent evidence from the IMF[1] suggests that global financial stability risks have increased. This is brought about by the sovereign debt crisis in the Euro Area which spilled over to the banking systems. According to the IMF, the spillover effects can be significant if the market stress further intensifies. Previous episodes of financial market stress[2] in the United States also led to volatile financial conditions. The episodes were also accompanied by persistent increases in spreads, contractions on credit and declines in equity prices that could have some effects on consumption and investment. However, the impact on overall economic growth was mixed. Only in one episode (2000) did the financial turbulence was preceded by a short recession; in other episodes, output growth either increased (1987 and 1998) or remained the same (2001).

So what are the macroeconomic implications of the current market turmoil to ASEAN? Given the increasing linkages with international financial markets, ASEAN will not be totally shielded from the financial fallout despite the region's much improved fundamentals. Spillovers in terms of volatility in spreads and equity prices cannot be avoided. This is more so if the sovereign debt crisis deteriorates and if there are tighter global funding conditions. In such a case, financial conditions in ASEAN will also be affected.

1 For a recent evidence on these financial spillovers, see "Euro Area Policies: Spillover Report for the 2011 Article IV Consultation and Selected Issues" (IMF, July 2011).

2 These episodes are: the US stock market crash of 1987; the Russian debt default and collapse of Long-Term Capital Management of 1998; the "dotcom" crash of 2000; and the aftermath of September 11, 2001 terrorist attacks.

Source: IMF, World Economic Outlook, October 2007

investment decision, any deterioration in these conditions can adversely affect FDI flows. Hence, it is crucial that ASEAN responds quickly to alleviating these investment constraints (i.e., low investment to GDP ratios and declining contribution to growth) in order to make the region more attractive to FDI (Box 2).

As shown in Box 3, the policy environment in ASEAN countries has been supportive of FDI in terms of policies to facilitate market access and the operations of foreign companies. For example, in the aftermath of the global financial crisis and to restore capital flows in the region, a number of investment-specific and related measures have been implemented by ASEAN to promote the liberalization and facilitation of FDI. These include measures that ease entry conditions for certain industries (like banking industry in Malaysia and the aviation industry in the Philippines), promotion of outward investment (Thailand), as well as specific measures on taxation (Viet Nam) and establishment of Special Economic Zone (Myanmar).

Box 2. Does foreign investment "crowd out" domestic investment in ASEAN?

Typically foreign investment results in increased domestic investment. This is likely to happen when FDI inflows stimulate investment in local firms in a place where foreign investors operate. Empirical evidence seems to support these predictions of the theory. For example, in a study of 58 developing countries, Bosworth and Collins (1999) estimated that a dollar increase in FDI could bring about an increase in domestic investment by about the same amount. In another study (using sample of 64 developing countries) by Razin (2002), FDI flows were also found to have larger effect on domestic investment and output growth than loan flows and portfolio flows.

Given the increasing importance of FDI flows in ASEAN in the past few years, to what extent have they impacted on local investment? Looking at the actual state of domestic investment in the region, it seems that no significant contribution has taken place. Which begs the question whether foreign investment actually "crowds out" domestic investment.

More than ten years after the Asian financial crisis, domestic investment in ASEAN has remained sluggish and has been declining as a share of GDP. The same puzzle is observed across all emerging Asian economies. According to the IMF, the decline in investment in emerging Asia (which includes the four crisis-affected ASEAN countries such as Indonesia, Malaysia, Philippines and Thailand) is excessive and does not seem to be supported by economic fundamentals. Cross-country regressions of 85 countries covering 100 currency crisis events also reveal that the investment slump in Asia has been prolonged and sizeable compared to other crisis episodes.

Why the decline? Three possible reasons are given to explain the puzzle. First, greater uncertainty in the region could have pushed down the post-crisis recovery in investment. For example, the governance indicators have improved since the crisis, but they have not fully recovered in most countries. Second, financing constraint to investment is still a problem despite the progress made in financial and corporate sector restructuring. This is particularly true for small and medium enterprises where access to capital markets by the firms is still a problem. Finally, the investment slump can be partially explained by the sluggish investment in non-tradable sector, where firms in this sector are still constrained by their ability to access bank financing and raise capacity utilization levels.

Unfortunately, the IMF noted that none of the above factors can by themselves fully explain the investment slump in the four-crisis affected countries of ASEAN. It seems that various combinations of factors rather than one single factor can account for the slow investment recovery in those countries. Thus, addressing the complicated roots of the problem should be a priority to help foster a balanced growth in investment.This calls for a comprehensive package of measures that take into account the removal of obstacles to private investment, as well as the establishment of political stability.

Source: Bosworth, Barry and Susan M. Collins, "Capital Flows to Developing Economies: Implications for Saving and Investment," Brookings Papers on Economic Activity, Brookings Institution, pp. 143-69; Razin, Assaf, "FDI Contribution to Capital Flows and Investment in Capacity," NBER Working Paper 9204, National Bureau of Economic Research, pp.1-32; IMF Asia and Pacific Regional Economic Outlook, May 2006.

Box 3. Recent investment policy measures in ASEAN

Country	Investment-specific measures	Investment-related measures
Brunei Darussalam	• On 1st January 2011, Brunei Darussalam enforced the amended Companies Act, whereby the registration requirements for establishing corporate entities have been liberalized. Now the Act requires the directorship of such entity in which one of the 2 directors or where there are more than 2 directors, at least 2 of them shall be ordinarily resident in Brunei Darussalam.	• On 1 January 2011, the Monetary Authority Brunei Darussalam (AMBD) was established serving as the country's central bank. AMBD will be responsible for the formulation and implementation of monetary policy, supervision of financial institutions and currency management – tasks that will become increasingly important to improve overall investment climate in the country. • The corporate income tax rate has been gradually reduced from 30% in 2007 to 27.5 in 2008, 23.5% in 2010, and subsequently to 22% in 2011. • On 9th July 2009, Brunei Darussalam enforced the amended Land Code (Strata) Act which liberalized property ownership. Locals, permanent residents and foreigners can now purchase units in a particular building which holds a strata title on a leasehold basis for up to 99 years, extended from the previous 60 years.
Cambodia	• On 4 April 2011, Instructive Circular No. 365 was issued on the procedure to apply for extension, suspension or cessation of a company's investment activity. • On 4 March 2011, Prakas No. 242 was issued on procedure to implement the regulation on the operation of factories and handicrafts. This Prakas aims to push the development and ensure the effectiveness of the factory and handicraft procedure in accordance with the existing laws and procedures.	• On 31 March 2011, Prakas No. 288 was issued on authorization to use tax removal/ reduction programs of Cambodia under the Agreement on ASEAN Merchandise Trade. • On 22 April 2011, Sub-Decree No. 70 was issued on tax incentive in securities exchange. This Sub-Decree sets out the following tax incentives: (i) 10% of tax on profit for securities companies; and (ii) 50% reduction of withholding taxes on interest and dividend distribution for public investors.
Indonesia	• On 25 May 2010, Presidential Regulation 36/2010 was issued setting out to what extent foreigners can invest in specific industries in Indonesia. The Regulation has changed business fields to be more open to include construction services, film technical services, hospital and health care, and small-scale electric power plants. • New obligation for companies in the mining sector to sell a certain share of their production in the domestic market. • On 30 December, 2010, Government Regulation (PP) no. 94/2010 on Calculation of Non Taxable Income and Payment of Income Tax in Current Year was issued. The PP gives discretion to Minister of Finance to be able to provide a tax holiday incentive to new investors in certain industries and locations.	• In June 2011, Bank Indonesia introduced measures to slow down short-term capital flows. These measures include (i) one-month minimum holding period on Sertifikat Bank Indonesia (SBIs) with effect from 7 July 2010; and (ii) regulations on banks' net foreign exchange positions.

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Country	Investment-specific measures	Investment-related measures
Lao PDR	• On 1 March 2011, a Presidential Decree on New Rates of Profit Tax, Business Turnover Tax and Personal Income Tax has been passed which amends the existing tax rates contained in the current Tax Law No 46/OP dated 25 May 2005. Under the new decree, the following changes will be made: (i) Business Turnover Tax (BTT) rate of 10%; (ii) reduced tax rate of profit profit tax for both foreign and domestic invested companies from 35% to 28%. Companies engaged in the manufacture of tobacco products will pay a rate of 30%, of which 2% will be contributed to a tobacco control fund; and (iii) new personal income tax rates applicable to Lao, foreigners, aliens and expatriates who generate income in Lao PDR is based on a progressive rate from 0% to 28%.	
Malaysia	• On April 22, 2009, the government further liberalized the services sector to attract more foreign investments and bring more professionals and technology as well as strengthen competitiveness of the sector. Recognizing the growth potential in the services sector, the government has decided to immediately liberalize 27 services subsectors, with no equity condition imposed. These sub-sectors are in the areas of health and social services, tourism services, transport services, business services and computer and related services.	• The Malaysian Trade Marks Office has made several amendments to the Trade Marks Regulation 1997 with effect from 15 February 2011 via the Malaysian Trade Marks (Amendment) Regulation 2011. The amendments mark a speedier examination process, with the introduction of an expedited examination process to reduce the trademark pendency period.
Myanmar	• On 27 January 2011, the Myanmar State Peace and Development Council issued the Special Economic Zone Law, aimed at attracting more foreign investment to boost the country's economy. Myanmar also designated 24 development zones in the country, carrying out major projects. The Law, which comprises 12 chapters as a legal base, covers formation of a central body, special privileges of investors, land use, bank and finance management and insurance business as well as quarantine inspection and confinement and matters related to labor.	

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Country	Investment-specific measures	Investment-related measures
Philippines	• The government, through Executive Order (EO) No. 29, dated 14 March 2011, established the "open skies policy" enabling it to pursue its international civil aviation liberalization policy more aggressively. EO 29 primarily aims to "ease restrictions" on domestic aviation which specifically provides the grant of third, fourth and fifth freedom rights, part of a set of commercial aviation rights, as well as unrestricted capacities and frequencies to foreign air carriers, among others. With this policy, it is expected that the entry of foreign carriers would be boosted and, thus, enhance the country's competitiveness as a tourism destination and investment location.	• A number of reform measures are currently undertaken by government mainly to improve the country's business environment. One of these is the streamlining of bureaucratic procedures aimed at reducing the cost of doing business through improvement in the present system of licensing, registration, and issuance of permits, particularly, at the local level. Specifically, to simplify and cut down the business registration process, the Philippine Business Registry (PBR) will be made fully operational and will harmonize registration requirements of SSS, Philhealth, Pag-ibig, and the Bureau of Internal Revenue. Meanwhile, the process of Business Name Registration has been enhanced through implementation of the online Business Name Registration System (BNRS). Further, there has been close collaboration with the Department of Interior and Local Government (DILG) and this shall continue to be strengthened to ensure that local government units (LGUs) will adhere to the standards for an efficient business permit and licensing system. • Moreover, business competitiveness is further enhanced by fostering transparency, promoting e-commerce and IT-enabled automation, and encouraging partnerships with the private sector.
Singapore		• The Electronic Transactions Act (ETA) has been re-enacted as of 1 July 2010 to harmonize Singapore's laws on electronic transactions with international developments, facilitate more effective delivery of e-Government services and enhance technology neutrality so that Singapore can better respond to the changing and continued developments in security technology. • The Ministry of Finance is preparing to issue new income tax regulations for Islamic finance. The Singapore government has identified three areas where the country can offer its services as a financial center to support the growth of Islamic finance - namely in wholesale banking services, asset management and capital markets. Singapore will provide additional clarification and detailed explanation of the income tax treatment of further defined Islamic financing arrangements, including financing through a partnership arrangement, project finance and the interbank placement of funds.

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Country	Investment-specific measures	Investment-related measures
Thailand	• Cabinet approved the proposed tax incentives for Regional Operating Headquarters (ROH) to set up in Thailand. Key changes include: (i) A 15-year corporate income tax exemption on net profits derived from offshore income, with net profits from onshore income taxed at a rate of 10%; (ii) the criteria that minimum revenue be at least 50% of total revenue will be waived. ROHs currently are subject to a 10% income tax on net profits derived from all income provided the gross amount of offshore income is at least 50% of total income reported by the ROH; (ii) Reduced personal income tax of 15% for expatriates employed by an ROH for up to eight years (currently four years). • New measures have been introduced aimed at promoting outward investment by relaxing approval requirements on foreign exchange regulations in relation to such activities.	
Viet Nam	• The Foreign Investment Agency (FIA) under the Ministry of Planning and Investment has proposed the Ministry of Finance (MOF) to reconsider the unreasonable regulations relating to the investment incentive policies applied to expanded projects. It believes that it is necessary to add the expanded projects in hi-tech sector into the list of enterprises, subject to investment incentives. This means that not all expanded projects would get preferences. • Entry into force of the Law on Natural Resources Tax. The tax applies to new investment projects as of 1 July 2010 and affects companies exploiting precious stones and coal, and companies using forest products, marine products or natural water. The new Law increases royalty rates for some categories of natural resources.	• On 16 February 2011, the Government issued Decree No. 14/2011/ND-CP setting conditions for registration and operation of customs clearance agents. • In late 2010, Vietnam's National Assembly passed a law amending the 2006 Law on Securities (the Amended Law). The Amended Law revisits a number of issues on securities, securities business and the securities market, and becomes effective on 1 July 2011. Upcoming implementing regulations will hopefully clarify the legislators' intention in respect of some of the changes. • A new Vietnamese law on credit institutions came into force on 1 January 2011. It addresses how to organize and operate these institutions, covering corporate governance, share structure and other issues.

Source: UNCTAD Investment Policy Monitor (Issue No. 1-5; 2009-2011); various country websites and national newspapers.

Unfortunately, such environment has not been effectively leveraged to attract more FDI flows in the region. During the last ten years, ASEAN fails to attract as much inflows as other groupings of developing markets, despite the region's improved economic fundamentals. For example, over the last five years, the share of ASEAN to total inflows to developing economies averaged by 10% compared to 18% for Central and South American countries. The issue becomes more compelling in a post-crisis world where competition for capital flows is expected to be more intense. This raises the questions of to what extent ASEAN has done to enhance its overall environment for FDI - and what else should be done to ensure an increasing share of global FDI.

Arguably, the biggest question is how to make ASEAN an integrated investment area. Although the problem is recognized, governments still grapple with finding the best-practice FDI policies to induce investments into the region. Which policies work – and which do not – depend on specific country conditions and needs, as well as the objective of the country and the derived FDI strategy. However, there are common elements in the countries that might work. Therefore, it is essential that any regional agenda for FDI development to focus on those common elements to ensure that regional interventions produce the optimal provision of FDI as regional goods.

Reducing transaction costs to business

One important aspect of regional agenda for FDI is to ensure that policies to reduce transaction costs in the region will continue to be pursued. While ASEAN countries have managed to promote competition in their economies since the Asian financial crisis, significant barriers still exist that prevent them from realizing their competitive strength. Based on the *2010 ASEAN Competitiveness Report,* the region ranks 57th (out of 132 countries: 2009 ranking 54th) in various areas of competitiveness measured by macroeconomic (e.g., political institutions, macroeconomic policy, rule of law, etc.) and microeconomic (e.g., company operations, demand, factor-input conditions, etc.) factors. ASEAN is most competitive in support of industries and clusters, company strategy and operational effectiveness, and existence of strong capital market infrastructure; but is least competitive in infrastructure, human development, and rule of law. According to the *2011 Doing Business Report* by the World Bank, the ease of doing business for ASEAN has not improved much, as evident in the overall rank of 89th out of 183 countries. Although individual countries like Brunei Darussalam and Viet Nam managed to improve their rankings in 2011, the region's overall rank hardly changed from its 87th position in 2007. In another survey by the World Economic Forum using the *2010/11 Global Competitiveness Index,* improvements in rankings among individual ASEAN members are noted, but the disparities in competitive strength across countries remain wide.

Table 4 shows the change in regulatory environment in ASEAN over the last five years (2007-2011), as measured by individual country ranking in the Doing Business indicators: starting a business, getting permits, registering business, paying taxes, trading across border, accessing credit, protecting investors, enforcing contracts, and closing business. To the extent that foreign companies respond directly to regulatory changes in making investment decisions, movements in rankings should be able to provide an indication by which the overall regulatory environment has affected investment decisions. Overall, the results suggest that ASEAN's regulatory environment has not been made easier for business, as shown in the deterioration of rankings in the various indicators. In particular, starting a business, registering property and closing a business have not become easier for most countries across the region.

Table 4. ASEAN Cost of Doing Business: 2007-2011

COUNTRY	Ease of Doing Business	COST OF DOING BUSINESS INDICATORS**								
		Starting Business	Getting Permits	Registration	Taxes	Trading Across	Investor Protection	Credit	Contract	Closing Business
Brunei Darussalam	78 (112)	↓	↓	↓	↑	↓	↑	↓	↓	↓
Cambodia	143 (147)	↓	↑	↓	↓	↓	↑	↑	↓	↓
Indonesia	135 (121)	↑	↑	↑	↑	↑	↑	↓	↓	↓
Lao PDR	159 (171)	↓	↑	↓	↓	↓	↓	↑	↑	↓
Malaysia	25 (21)	↓	↑	↑	↑	↑	N/C	↑	↑	↓
Philippines	126 (148)	↓	↓	↓	↓	↑	↓	↑	↑	↓
Singapore	1 (1)	↓	↑	↓	↑	↑	N/C	↑	↑	N/C
Thailand	18 (19)	↓	↓	↓	↓	↑	↑	↓	↑	↓
Viet Nam	104 (78)	↓	↓	↓	↓	↑	↓	↑	↑	↓
ASEAN	**87 (89)**	↓	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	↓	↓
Brazil	121 (79)	↓	↓	↑	↓	↑	↓	↓	↓	↑
Russia	96 (123)	↓	↓	↓	↓	↓	↓	↑	↑	↓
India	134 (134)	↓	↑	↑	↑	↓	↓	↑	↓	↓
China	93 (79)	↓	↑	↓	↑	↓	↓	↑	↑	↑

** Figures represent the overall rank in the ease of doing business in 2007. Those in parentheses are the corresponding rank in 2011.*
*** Arrows represent diretion of ranking in each indicator for 2007 Doing Business Report and 2011 Doing Business Report.*
↑= Improvement in ranking between 2007 and 2011 surveys; ↓= deterioration in ranking; N/C = no change in ranking; N/A = no ranking available.

Source: World Bank, Doing Business Reports (Various Years)

Therefore, ASEAN must continue to promote competitive markets by eliminating restrictions on foreign investment, streamlining the requirements for new businesses and encouraging more entrants to the markets. Current initiatives in ASEAN to enhance competition through regular regulatory dialogue and exchange of international best practices are encouraging, but more is needed. It is essential that all Member States gradually put in place a competition policy that will induce multinationals to upgrade their facilities and prevent abuse of market power that often times becomes a source of disputes between a foreign firm and host country. Effective competition policy is also needed to maximize the benefits of FDI as the region continues to build its integrated regional production networks. Moreover, as the region increasingly deals with TNCs, it is important to enforce competition among firms through measures that allow TNCs to compete strategically and contribute to upgrading the capabilities of local firms.

Strengthening investment facilitation and removing "beyond the-border" barriers to FDI

Investment facilitation should also remain a priority and should be further strengthened. Since 1998 barriers to FDI in ASEAN have generally fallen, but still remain substantial in comparison to other economies and regions. Evidence suggests that the additional FDI that comes from removal of barriers can be significant. For example, in the case of APEC economies, partial analyses suggest that lowering FDI barriers to the level of the most open APEC economy could boost FDI by 20% to 30% and increase GDP to the region by 2% to 3% (APEC, 2006). This is due to the potential benefits of stimulating FDI flows as well as the added effects on future investment that FDI generates. Thus, to improve investment outcomes in the region, policy measures to remove FDI barriers such as foreign ownership limits, screening and approval requirements for FDI should continue to be implemented. Priority should also be given to the "behind-the-border" barriers that exercise decisive influence over such things as security or property rights, regulation and taxation, provision of infrastructure, and functioning of financial and labor markets (World Bank, 2010b).

One key impediment to trading and investing across borders in ASEAN is inadequate trade facilitation and logistics. Better logistics performance is often seen to lead to trade expansion, export diversification, ability to attract foreign direct investments, and economic growth (World Bank, 2010). Table 5 presents the performance of ASEAN countries across a number of indicators (e.g., customs, infrastructure, international shipment, etc.) that measure the quality of logistics environment in each country. The argument is that country-specific factors such as trade procedures or infrastructure affect the efficiency of domestic markets, which in turn is a key consideration by multinational firms when they invest across borders. Based on overall logistics performance index (LPI) in 2007 and 2010, some of the middle-income ASEAN countries (Malaysia, Philippines and Thailand) rank well and even perform better than some of the BRIC countries (India and Russian Federation). ASEAN (2010 LPI score = 2.98) also ranks higher than other emerging economies in Eastern Europe (2.74), Latin America (2.73) and Middle East (2.60) – and even higher than the group of high middle-income countries (2.80).

However, the disparities in terms of logistics competence among ASEAN countries still persist, particularly in the efficiency of customs and border procedures and the quality of transport and IT infrastructure. Except for Malaysia, Singapore and Thailand, all other ASEAN countries continued to score poorly in customs efficiency in 2010. This means that the border procedures and time across many dimensions (from clearance of customs documents to final inspection and release of goods) may take longer to complete on average in an ASEAN country (not including Singapore) than in other high performance countries (for example, China, which scores higher in this category than all ASEAN countries except Singapore and Thailand).

The same deterioration in rankings is evident in infrastructure quality. As a group ASEAN (2010 LPI infrastructure score = 2.73) also lags behind China (3.54), Brazil (3.10) and India (2.91) in terms of quality and cost of infrastructure. While sustained investment in infrastructure has helped some countries in the region – in particular, Thailand and Viet Nam – develop considerable comparative advantage in attracting FDI, still other countries (for example, Cambodia, Indonesia and Lao PDR) continue to face infrastructure bottlenecks. This results in market fragmentation that prevents the region from realizing its potentials as a seamless integrated market. Infrastructure bottlenecks do not only limit the ability of foreign firms to operate efficiently, but they also reduce the absorptive capacity of domestic economy to assimilate new techniques and benefit from FDI.

The forgoing analysis confirms earlier claims on the importance of removing beyond-the-border impediments to investment. It is not enough that ASEAN opens its markets for foreign investors. What's more critical is to keep them in the region particularly if the intention is to attract export-oriented foreign investment. Building the necessary infrastructure support for investment is still crucial. This involves credible efforts on the various economies to provide an operating environment conducive for transnational operations and reduce high transaction costs associated with inefficiencies in infrastructure. In this regard, recent initiatives on public-private partnerships (PPP) for infrastructure in some countries are encouraging. At the regional level, initiatives such as the Master Plan on ASEAN Connectivity and ASEAN Infrastructure Fund (AIF), along with other regional activities on infrastructure

Table 5. Logistics Performance Index (LPI) Score*

Countries	LPI		Customs		Infrastructure		International Shipments		Logistics Quality Competence		Tracking & Tracing		Domestic Logistic Cost		Timeliness	
	2007	2010	2007	2010	2007	2010	2007	2010	2007	2010	2007	2010	2007	2010	2007	2010
Brunei Darussalam	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cambodia	2.50	2.37	2.19	2.28	2.30	2.12	2.47	2.19	2.47	2.29	2.53	2.50	3.21	n.a.	3.05	2.84
Indonesia	3.01	2.76	2.73	2.43	2.83	2.54	3.05	2.82	2.90	2.47	3.30	2.77	2.84	n.a.	3.28	3.46
Lao PDR	2.25	2.46	2.08	2.17	2.00	1.95	2.40	2.70	2.29	2.14	1.89	2.45	2.13	n.a.	2.83	3.23
Malaysia	3.48	3.44	3.36	3.11	3.33	3.50	3.36	3.50	3.40	3.34	3.51	3.32	3.13	n.a.	3.95	3.86
Myanmar	1.86	2.33	2.07	1.94	1.69	1.92	1.73	2.37	2.00	2.01	1.57	2.36	2.08	n.a.	3.29	2.92
Philippines	2.69	3.14	2.64	2.67	2.26	2.57	2.77	3.40	2.65	2.95	2.65	3.29	3.27	n.a.	3.14	3.83
Thailand	3.31	3.29	3.03	3.16	3.02	3.16	3.24	3.27	3.31	3.16	3.25	3.41	3.21	n.a.	3.91	3.73
Singapore	4.19	4.09	3.90	4.02	4.27	4.22	4.04	3.86	4.21	4.12	4.25	4.15	2.70	n.a.	4.53	4.23
Vietnam	2.89	2.96	2.89	2.68	2.50	2.56	3.00	3.04	2.80	2.89	2.90	3.10	3.44	n.a.	3.22	3.44
ASEAN	**2.92 (64)**	**2.98 (70)**	**2.76 (61)**	**2.70 (69)**	**2.71 (67)**	**2.73 (74)**	**2.92 (62)**	**3.02 (66)**	**2.88 (63)**	**2.82 (76)**	**2.90 (66)**	**3.04 (69)**	**2.97 (62)**	**2.97 (62)**	**3.37 (63)**	**3.55 (65)**
Brazil	2.75 (61)	3.20 (41)	2.39 (74)	2.37 (82)	2.75 (49)	3.10 (37)	2.61 (74)	2.91 (65)	2.94 (49)	3.30 (34)	2.77 (65)	3.42 (36)	2.58 (126)	n.a.	3.10 (72)	4.14 (20)
Russia	2.37 (99)	2.61 (94)	1.94 (136)	2.15 (115)	2.23 (93)	2.38 (83)	2.48 (94)	2.72 (96)	2.46 (83)	2.51 (88)	2.17 (119)	2.60 (97)	2.40 (131)	n.a.	2.94 (87)	3.23 (88)
India	3.07 (39)	3.12 (47)	2.69 (47)	2.70 (52)	2.90 (42)	2.91 (47)	3.08 (39)	3.13 (46)	3.27 (31)	3.16 (40)	3.03 (42)	3.14 (52)	3.08 (46)	n.a.	3.47 (47)	3.61 (56)
China	3.32 (30)	3.49 (27)	2.99 (35)	3.16 (32)	3.20 (30)	3.54 (27)	3.31 (28)	3.31 (27)	3.40 (27)	3.49 (29)	3.51 (31)	3.55 (30)	3.13 (72)	n.a.	3.95 (36)	3.91 (36)

**Figures refer to score in each category (1-5; 5, best). Figures in parentheses represent rank out of 150 countries surveyed in 2007 and 155 countries surveyed in 2010; n/a = not available.*
Source: World Bank, Connecting to Compete reports (2007 and 2010)

and transport integration, should be fully leveraged to ensure that priority infrastructure projects are in line with investment and trade facilitation.

Improving the quality of border management is another key element of facilitating FDI flows in the region. Realizing that efficient customs procedures are important for business operations by TNCs, the implementation of ASEAN Single Window (ASW) should be further strengthened. However, border management as a channel for investment facilitation should go beyond customs. The region is now well positioned to integrate customs procedures (via the ASW). Hence what's more crucial is to ensure that customs management is well integrated with the quality and standards inspection requirements, so as not to create supply chain problems that can undermine logistics performance of countries (World Bank, 2010), and hence the trade and investment flows.

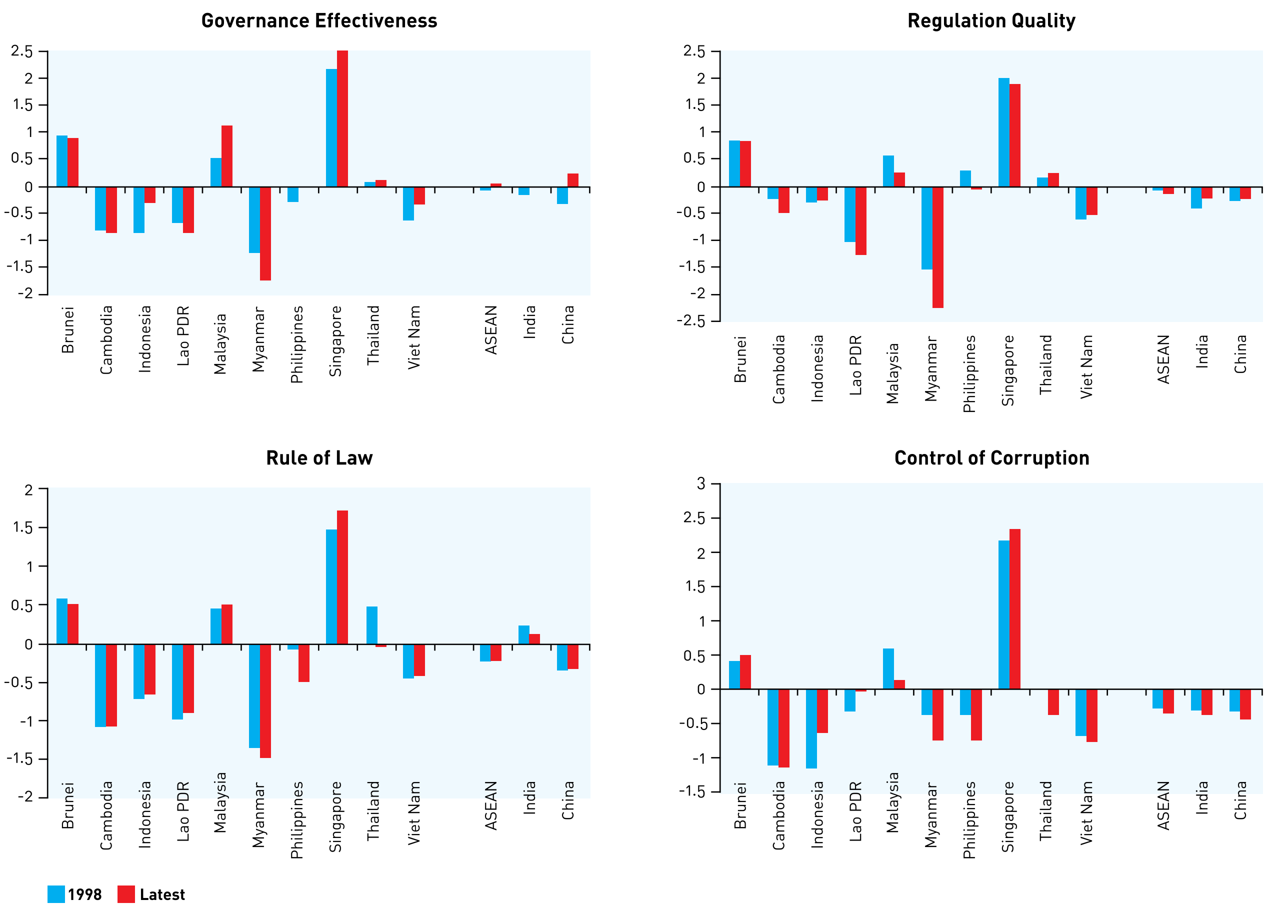
Creating quality and favorable policy environment for FDI

In view of the increased competition for FDI flows post-crisis, ASEAN should continue to ensure the quality of its policy environment and the associated regulatory reforms to attract investment. This would include not only the enforcement of laws and regulations but also the appropriate institutions that support investment and risk-taking, including the rules of law, government effectiveness, corruption and regulatory quality. In a fast changing global FDI landscape, challenges that face most developing countries to attract FDI are no longer in terms of liberalization or offering incentives, but more on developing an enabling environment which addresses issues of national treatment, competition, and domestic policies, among others. Thus, where capital flows to recipient economies maybe driven by the economies' structural characteristics (IMF, 2011), it is essential that country-specific conditions are carefully considered in the formulation of FDI policies.

There is increasing evidence that foreign investors especially in developing countries respond more to policy coherence and good governance when making decisions on where to locate and invest (World Bank, 2011b). In a recent survey of executives by the World Bank's Multilateral Investment Group Agency *(MIG-EIU Global Prospects Survey 2010),* macroeconomic instability and weak government institutions (including red tape and corruption) are identified as the most important constraints for investment when it comes to planned investment in developing countries in the next twelve months. Investors also ranked these constraints as most important when investing in these countries in the medium term. In another World Bank (2010b) report *(Investing Across Borders 2010),* countries that attract more foreign direct investment are found to have lower incidence of corruption, lower levels of political risk, and stronger governance structures.

Given the current institutional weaknesses in ASEAN (Figure 9), developing an enabling environment remains a viable investment strategy for the region. Evidence suggests that strengthening the rule of law, market institutions and macroeconomic stability are

Figure 9. Governance Indicators



Note: Figures reflect quality of governance for each category based on index value (-2.5 to 2.5; higher value indicates better level of governance for each category)
Source : World Bank, World Trade Indicators

important elements of this policy environment. As a critical first step, governments should ensure that appropriate economic and investment policies are being implemented. For example, UNCTAD (2011) has recently highlighted the need for FDI policy to interact closely with industrial policy in order to prevent possible investment protectionism. It is also essential to develop a new foreign direct investment agenda that focuses on improving FDI competitiveness, most notably through regulatory quality and development of good institutions (for example, strengthening the role of investment promotion intermediaries). At a regional level, a more holistic approach to investment liberalization and facilitation should be undertaken. This will require better collaboration among key economic bodies (i.e., trade, finance, investment) both at the ministerial and official levels, to ensure that financial policies are well coordinated with trade and investment policies. Joint activities like roadshows can be undertaken to maximize the sharing of information and policy dialogues with investors.[8]

Strengthening local capabilities and absorptive capacity of domestic industries

With increased competition in the world, it is important that ASEAN continues to enhance the international competitiveness of its local production. This implies the ability of Member States to build up local capabilities to attract FDI and maximize the spill overs and positive effects associated with FDI. While investment decisions are often influenced by investment climate, they also crucially depend on whether there are enough local capabilities that can help integrate foreign companies' operations into the local business. For example, it has been argued that foreign firms are often willing to source locally, but the problem is they do not have information on the local suppliers. As a result, FDI inflows are reduced, and consequently, the ability to capture the spillover effects to local firms. Similar to infrastructure, countries should recognize that providing such measures as linkages and training programs (e.g., R&D) in local firms can be as significant as the incentives given to attract FDI.

Similarly, evidence (Lall and Narula, 2004) suggests that the nature of a foreign investment depends initially on the host country's absorptive capacity. Where such capacity is lacking in domestic firms, fewer backward linkages are created, and consequently, fewer opportunities for multinational firms to expand. In general, FDI in activities that match the comparative advantage of the host country tends to create wider linkages that can attract additional FDI.

Given the role of local capabilities and absorptive capacity to induce FDI and capture spillover effects, the challenge for ASEAN governments is to provide more active support. This involves creating complementary domestic assets such as the provision of efficient business services to foreign companies that enhance edge in the competition for FDI (Nunnenkamp, 2001). It is also essential that the governments provide the necessary "locational advantages" to foreign firms, particularly in the provision of technology infrastructure and training. This is not just to attract the initial investment but also to create the latent capacity by foreign firms to recognize the dynamic comparative advantages in the host economy.

Related to this is the need for proactive policies that promote entrepreneurship in each ASEAN country. The idea is to develop entrepreneurs capable of partnering with multinational firms and taking advantage of them. One important support from the governments is the establishment of business

8 One area that could be strengthened among ASEAN Member States is in transparency and access to information. Since FDI is difficult to reverse, uncertainties about legislative action and rules of enforcement could act as major barriers. Hence, a business environment that is transparent can create an enabling environment that will further promote FDI.

"incubators" to assist local producers particularly at the early stage of business development. This can be tied up with a strong educational policy that tries to improve the entrepreneurial, technological and managerial skills of the labor force. Governments can also establish business networks and linkages to assist entrepreneurs gain access with established companies and engage in useful interactions related to business operations. Finally, governments can provide a facilitative environment through a simplification of administrative regulations and procedures for business start-ups and commercialization.

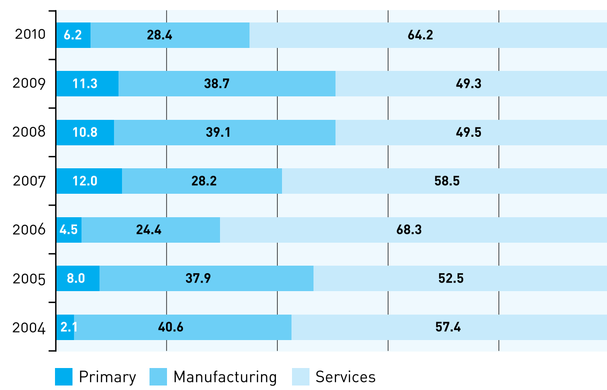
Perhaps one area where the build-up of local capabilities becomes important is in the development of small and medium-sized enterprises (SMEs) that are an important backbone of ASEAN economies. Although FDI has been seen as a preserve of large firms, there is evidence of increasing involvement of SMEs as foreign investors and medium sized firms internationalizing their operations as a result of competitive pressure. As argued by Smallbone (2006), FDI represents a potential means of growing and diversifying the SME base and achieving greater integration within global networks.

Within ASEAN evidence of increased linkages between FDI and SMEs, where the development of local firms contributed to further involvement by multinationals, is quite encouraging. In Penang, for example, the establishment of the first semi-conductor plant in the early 1980s has contributed to the emergence of SME suppliers, whose presence has also encouraged multinational corporations to delegate more responsibility to local affiliates and consequently led to greater participation of global players in the electronics industry in Penang (Smallbone, 2006). In Singapore, a similar success story is reported where increased partnerships between inward investors and local SMEs have enabled Singapore to be a regional hub for FDI in Southeast Asia.

Exploring "new" sources of FDI: services FDI

In view of increasing global value chains, there is now an increasing recognition that policy makers in the region should explore other sources of international production beyond manufacturing FDI. One potential area for the region is investment in services. Over the years, the services sector has been generating the bulk of FDI flows in ASEAN. In 2000 the share of the sector to total FDI inflows is 39% valued at US$9.2 billion; by 2010 it has risen to almost 65% or an estimated US$47.8 billion, mostly in trade, financial and business services (Figure 10). Growth of the sector has also been robust. Between 2000 and 2010, it grew by 26% on average despite the existence of various impediments in the sector. In terms of stock, services FDI amounts to US$239.2 billion or 13% of ASEAN GDP in 2010.

Figure 10. ASEAN FDI Inflows by Sector *(in percent)*



Source : ASEC FDI Database

According to UNCTAD (2011), services FDI is now increasingly an integral part of competitiveness around the world and can give rise to a new international division of labor in the production of services. Hence, it will be good for ASEAN to position itself and build the capabilities in the supply of competitive services. Since manufacturing FDI is already dominated by BRIC countries, services FDI can be a source of additional competitiveness for the region. For example, the Philippines is now the third largest outsourcing market in the world (after India and China) with US$10.7 billion revenues expected to be generated this year (XMG, 2011). Malaysia and Singapore are also showing potential in promoting third-party call and contract centers and in taking more role as regional hub for leading-edge offshore services. Even Viet Nam is fast emerging as one of the top countries in global services outsourcing. ASEAN has also been at the forefront of services liberalization under the ASEAN Framework Agreement on Services (AFAS) since 1998, thus allowing the region to take advantage of the growing services trade market.

Given that the international production system for services is still evolving, the challenge for ASEAN is to maintain an environment in which the benefits from FDI in services can materialize. In particular, ASEAN should continue to pursue the progressive liberalization of services particularly those priority services sectors under the AEC. Evidence suggests that ASEAN services sectors are still one of the most restrictive in the world (UNCTAD, 2005). Hence, there is a need to ensure that the AFAS framework is working and that the benefits of liberalization are indeed being realized to encourage foreign firms to come in. At the country level, governments have to ensure that proper policy adjustments are made through changes in regulatory environment.

Aligning commitments to ACIA and AEC agreements

Finally, ASEAN's advantage in regional integration can serve as an opportunity to induce more inflows into the region. Economic integration is seen to create wealth and market that will make the region attractive. However, to the extent that ASEAN is also competing with other regional groupings who share the same goal of establishing an integrated market, the credibility of the integration process remains crucial. And this is best ensured if the various regional initiatives are being implemented with the best interest of the markets. As earlier mentioned, investors will tend to go to those countries that promote the most open and transparent investment regime.

Therefore, to ensure credibility to foreign investors, it is in ASEAN's best interest to ratify the ASEAN Comprehensive Investment Agreement (ACIA) as soon as possible. The Agreement was signed two years ago but is still yet to be ratified. Recently the reservation lists have been finalized and officials have agreed on the modality for the elimination of those lists over time. But it is crucial that the governments work hard to implement the ACIA as soon as possible to preserve the credibility of the Agreement. In addition, there are also provisions within the ACIA, like the targeted timeline for investment liberalization and provision of preferential treatment, which need to be re-examined to ensure that ACIA leads to optimal investment outcomes for ASEAN (Pupphavesa, 2007).

It is also essential that the investment targets under ACIA be aligned with other milestones and commitments under the AEC Blueprint, particularly those in trade liberalization and financial integration. As is now well known, investment flows do not occur in a vacuum. Considerations on where to invest depend crucially on trade and financial flows as well, especially issues related to tariffs, rules of origin, non-tariff barriers, capital and exchange rate controls. Currently ASEAN is using the AEC Scorecard as a compliance tool, but a more comprehensive monitoring is still needed to ensure that integration remains on track. This will also make the ASEAN integration process credible in the eyes of the investors.

4. Conclusion: Outlook for ASEAN FDI and Way Forward

UNCTAD has projected the recovery in global FDI flows to reach their pre-crisis level in 2011, possibly reaching US$1.4-1.6 billion by year end. A number of factors will trigger this upward trend, including the continued recovery in global economy, improvements in business environments, technological change and greater global competition among corporations across the world. Both developed and developing regions will continue their road to recovery in 2011, with expected increase of flows in these economies by 31% and 13%, respectively. For example, in the case of ASEAN, FDI inflows continued to grow in the first half of 2011, with Indonesia, Malaysia and Singapore as major beneficiaries.[1]

However, the risks to the outlook are on the downside. These risks include the sovereign debt crisis in some developed markets, rising food and commodity prices, continued financial market stresses, investment protectionism, and political instability in some regions. Hence, with risks still elevated, global FDI flows are not expected to fully recover until 2013. In fact, there is evidence that FDI prospects have started to dampen as a result of increased global uncertainties.[2] Reflecting this, the outlook for FDI flows in ASEAN will also be cautiously optimistic (Box 4).

Moving forward, policy makers in the region must act now to make the macroeconomic environment resilient to any unexpected shocks, thereby enabling them to support the on-going recovery. An important priority is to make the financial system more robust, especially in the management of capital flows. Notwithstanding the surges in FDI inflows in the region in 2010, it must be borne in mind that FDI is not a substitute to domestic capital formation. While FDI may be superior to other types of capital flows, in a sense that it is the most stable, governments should recognize that FDI is there only to support the overall domestic investment. Domestic investment still holds the key to sustained economic growth and development, and therefore, should remain the priority.

1 Preliminary figures show that in Malaysia, FDI inflows surged to US$7.1 billion in the first six months of 2011 compared to US$4.1 billion a year ago. In Indonesia, it was reported that inflows reached almost US$15 billion as of end-September 2011.

2 UNCTAD *(Global Investment Trends Monitor, October 2011)* reported that while global FDI flows rose by 2% year-on-year in the first half of 2011, prospects in the second half appear to be bleaker amid the turmoil in advanced markets and declining investor confidence. Like what was observed in 2010, developing and transition economies accounted for more than half of global FDI inflows in the first six months of 2011. UNCTAD further reported a deceleration in cross-border M&As and greenfield investment in the third quarter of 2011 as the debt crisis in Europe worsened.

Box 4. Euro Area debt crisis and implications to ASEAN

Although ASEAN exposure to the sovereign debt crisis in the Euro Area (EA) is limited, due to limited exposure by European banks in ASEAN, the potential spillover effects of the crisis on the region can be large, especially if the crisis intensifies. This is due to two reasons. First is through the impact on global growth. According to the IMF (2011), a further deterioration in the EA sovereign crisis will cut world GDP growth by 0.4 percentage point in 2011, and the combined GDP growth of US and EU by 2.1 percentage points. Since the US and EU account for 20% of the ASEAN total trade, any deterioration in growth in these countries will definitely impact ASEAN growth through the trade channel. Another channel for transmission is through financial links such as FDI. Although ASEAN has limited financial links to Europe, the resulting de-leveraging by European banks is likely to impact on the funds markets, including financial flows to emerging markets like ASEAN. In terms of FDI, the EU accounts for the largest source of inflows into ASEAN (22.4%). Hence, any intensification of the debt crisis, especially if the problem spreads to the core EU countries, will have significant global repercussions (IMF, 2011). In a globalized world, these financial stresses are likely to feed to real sector with negative repercussions on growth prospects in the countries around the world, including ASEAN.

This potential for significant spillovers can be seen by reaction of ASEAN economies to developments in the euro area and US over the past six months. As seen in Table 1, growth started to decelerate in major economies in ASEAN since the beginning of the year, particularly in the more open economies in the region such as Singapore. In contrast, in countries with strong domestic market like Indonesia, the impact of adverse external developments seems to be less. Recently the intensification of the euro area debt crisis has also led to some intense reactions in financial prices such as stock prices and currencies in ASEAN.

Table 1. Real GDP Growth: Selected ASEAN Countries

	2010	1Q 2011	2Q 2011	2011*
Indonesia	6.1	6.5	6.5	6.5
Malaysia	7.2	4.9	4.0	5.0-5.5
Philippines	7.6	4.6	3.4	4.5-5.5
Singapore	14.5	9.3	0.9	5.0-6.0
Thailand	7.8	3.2	2.6	4.1

** Forecast*

Despite the continued uncertainty in global economy, ASEAN is still expected to grow in 2011, albeit slowly, at between 4.9% and 5.6%. Growth is going to be supported by rebound in exports and continued expansion in domestic demand, and increased confidence in the region. However, sustaining economic growth amid global uncertainty remains a key challenge. To this end, ASEAN needs to implement forceful and accommodative macroeconomic policies to ensure that the recovery gains firm footing. On the structural side, it is essential to re-think the development strategies. It's about time that policy makers address the issue of how more growth can be extracted from domestic demand, by eliminating incentives that favour quick build-up of export-led and investment-heavy manufacturing. Re-thinking also involves utilizing the benefits of regional economic integration.

Source: IMF, World Economic Outlook, September 2011; various ASEAN country websites.

Appendix – ASEAN FDI Statistics

APPENDIX 1: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN: 2000 - 2010*
(US$ millions)

HOST COUNTRY / YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 IP
Brunei Darussalam	549	526	1,035	3,123	212	289	434	260	239	370	629
Cambodia	149	149	145	84	131	381	483	867	815	539	783
Indonesia	-4,550	-2,979	145	-596	1,895	8,336	4,914	6,928	9,318	4,877	13,304
Lao PDR	34	24	25	20	17	28	187	324	228	319	333
Malaysia	3,788	554	3,203	2,473	4,624	4,064	6,072	8,538	7,248	1,381	9,156
Myanmar (1)	208	192	191	291	251	236	428	715	976	579	-
Philippines	2,240	195	1,542	491	688	1,854	2,921	2,916	1,544	1,963	1,713
Singapore	16,485	15,087	6,402	11,941	21,025	15,458	29,349	37,033	8,589	15,279	35,520
Thailand	3,350	5,061	3,335	5,235	5,862	8,048	9,460	11,330	8,539	4,976	6,320
Viet Nam	1,289	1,300	1,200	1,450	1,610	2,021	2,400	6,739	9,579	7,600	8,000
ASEAN TOTAL	**23,541**	**20,111**	**17,224**	**24,512**	**36,315**	**40,714**	**56,648**	**75,650**	**47,076**	**37,881**	**75,758**
WORLD INWARD FDI **	1,387,953	817,574	716,28	557,869	710,755	982,593	1,461,863	1,970,940	1,744,101	1,185,030	1,243,671
INTRA-ASEAN	762	2,548	3,815	2,712	2,963	4,060	7,876	9,626	9,449	5,222	12,108
RATIO (%) **Year on Year Change**											
World FDI	27.7	-41.1	-12.4	-22.1	27.4	38.2	48.8	34.8	-11.5	-32.1	4.9
ASEAN FDI	-14.0	-14.6	-14.4	42.3	48.2	12.1	39.1	33.5	-37.8	-19.5	100.0
Intra-ASEAN FDI	-57.3	234.4	49.8	-28.9	9.3	37.0	94.0	22.2	-1.8	-44.7	131.8
ASEAN Share to WORLD FDI	1.7	2.5	2.4	4.4	5.1	4.1	3.9	3.8	2.7	3.2	6.1
Intra-ASEAN Share to ASEAN	3.2	12.7	22.2	11.1	8.2	10.0	13.9	12.7	20.1	13.8	16.0

Notes:
** Net FDI = Equity + Net Inter-company Loans + Reinvested Earnings.*
*** World Investment Report 2010; UNCTAD*
IP : Preliminary
(1) Myanmar's fiscal year starts on 1st April and ends on 31st March of the following calendar year. Data for 2010 is not available.

Source: ASEAN Secretariat - ASEAN FDI Database as of 20 July 2011

APPENDIX 2: FLOWS OF INTRA-ASEAN INWARD DIRECT INVESTMENT: 2000 - 2010* (US$ millions)

HOST COUNTRY / YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (p)
Brunei Darussalam	11	11	21	37	20	19	10	62	1	3	90
Cambodia	0	37	9	20	32	129	156	271	241	174	349
Indonesia	-233	-221	1,297	383	204	883	1,354	1,108	3,398	1,380	5,904
Lao PDR	14	3	3	3	8	7	11	100	48	57	135
Malaysia	258	80	0	251	980	721	462	3,780	1,646	-270	526
Myanmar (1)	74	67	25	24	9	38	71	94	103	20	-
Philippines	125	199	87	175	71	13	-43	6	140	-5	-8
Singapore	-79	420	765	657	707	983	1,048	1,168	660	2,108	3,377
Thailand	389	1,711	1,408	1,060	689	1,101	4,627	2,489	508	1,326	434
Viet Nam	202	241	200	100	243	165	182	546	2,705	429	1,301
TOTAL INTRA-ASEAN	**762**	**2,548**	**3,815**	**2,712**	**2,963**	**4,060**	**7,876**	**9,626**	**9,449**	**5,222**	**12,108**
TOTAL ASEAN	**23,541**	**20,111**	**17,224**	**24,512**	**36,315**	**40,714**	**56,648**	**75,650**	**47,076**	**37,881**	**75,758**
Intra-ASEAN Share (%)	**3.24**	**12.67**	**22.15**	**11.06**	**8.16**	**9.97**	**13.90**	**12.72**	**20.07**	**13.79**	**15.98**

Notes:
** Net FDI = Equity + Net Inter-company Loans + Reinvested Earnings.*
(1) Myanmar's fiscal year starts on 1st April and ends on 31st March of the following calendar year. Data for 2010 is not available.

Source: ASEAN Secretariat - ASEAN FDI Database as of 20 July 2011

APPENDIX 3: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ASEAN'S DIALOGUE PARTNERS: 2000 - 2010*
(US$ millions)

SOURCE COUNTRIES	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
ASEAN	762	2,548	3,815	2,712	2,963	4,060	7,876	9,626	9,449	5,222	12,108
Australia	-303	-118	149	155	500	212	467	1,491	787	776	1,765
Canada	-398	-82	186	82	860	741	252	391	661	504	1,641
China	-133	148	-84	201	740	608	1,035	1,741	1,874	3,926	2,701
European Union **	13,469	7,671	4,145	6,866	11,610	11,290	13,387	18,611	7,010	9,113	16,984
India	80	28	102	104	86	418	-282	1,453	547	827	2,584
Japan	503	2,353	4,424	3,903	5,767	6,645	10,413	8,844	4,129	3,763	8,386
New Zealand	43	15	55	83	-23	512	-209	99	-82	263	93
Pakistan	4	9	-1	2	5	3	10	21	6	9	31
Republic of Korea (ROK)	-42	-219	149	552	835	515	1,256	2,714	1,596	1,472	3,769
Russian Federation	0	0	0	0	0	0	1	31	81	157	61
USA	7,293	4.653	675	1,363	4,548	3,216	3,041	8,340	3,518	4,087	8,578
CER	-260	-103	204	238	477	724	258	1,591	705	1,039	1,858
Plus Three (3)	327	2,283	4,490	4,656	7,342	7,768	12,704	13,299	7,599	9,160	14,857
Plus Six (6)	147	2,208	4,795	4,998	7,905	8,909	12,680	16,342	8,851	11,025	19,299
ASEAN-CER	502	2,445	4,019	2,950	3,440	4,784	8,134	11,216	10,154	6,261	13,966
ASEAN Plus Three	1,089	4,830	8,305	7,368	10,305	11,828	20,580	22,924	17,048	14,382	26,964
ASEAN Plus Six	909	4,756	8,610	7,709	10,868	12,969	20,556	25,968	18,301	16,248	31,407
ASEAN TOTAL	**23,541**	**20,111**	**17,224**	**24,512**	**36,315**	**40,714**	**56,648**	**75,650**	**47,076**	**37,881**	**75,758**

Notes:
** Net FDI = Equity + Net Inter-company Loans + Reinvested Earnings.*
*** consists of EU27*

Source: ASEAN Secretariat - ASEAN FDI Database as of 20 July 2011

APPENDIX 4.1: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2000 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	-	-	25	7	0	6	-	3	1	91	133
MINING AND QUARRYING	530	-	-275	9	677	107	80	-	-275	311	1,165
MANUFACTURING	14	-	-3,269	9	1,463	25	238	8,178	1,811	509	8,977
CONSTRUCTION	2	-	-271	0	-	-	16	-59	-2	106	-208
TRADE / COMMERCE	2	-	-41	0	-	22	31	2,237	68	-	2,319
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	-	-	-57	-	-	-	39	4,240	133	11	4,365
REAL ESTATE	0	-	-144	-	11	2	3	781	69	-	722
SERVICES	1	-	-424	6	-	38	360	1,106	448	262	1,798
OTHERS (Not Elsewhere Classified)	-	-	-93	1	1,636	8	566	-	1,097	-	3,215
SUB TOTAL	**549**	**-**	**-4,550**	**34**	**3,788**	**208**	**1,332**	**16,485**	**3,350**	**1,289**	**22,486**
FDI in Cambodia		149									149
Philippines' data on Reinvested Earnings							-334				-334
Philippines' data on Inter-company Loans							1,241				1,241
TOTAL	**549**	**149**	**-4,550**	**34**	**3,788**	**208**	**2,239**	**16,485**	**3,350**	**1,289**	**23,541**

APPENDIX 4.2: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2001 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	-	5	-1,566	1	-	6	-	-2	-4	120	-1,441
MINING AND QUARRYING	506	-	76	2	911	111	-	3	759	299	2,668
MANUFACTURING	14	59	-117	14	424	25	275	4,036	2,960	497	8,188
CONSTRUCTION	2	-	-278	1	-	0	14	-65	5	74	-248
TRADE / COMMERCE	2	-	-212	1	-	3	2	1,533	1,069	-	2,398
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	-	-	-108	-	-	-	68	6.57	-186	16	6,357
REAL ESTATE	0	-	-369	-	13	44	7	878	71	-	644
SERVICES	2	46	-311	5	-	1	121	2,137	156	294	2,451
OTHERS (Not Elsewhere Classified)	-	39	-95	1	-794	3	71	-	231	-	-544
SUB TOTAL	**526**	**149**	**-2,979**	**24**	**554**	**192**	**556**	**15,087**	**5,061**	**1,300**	**20,472**
Philippines' data on Reinvested Earnings							-258				-258
Philippines' data on Inter-company Loans							-103				-103
TOTAL	**526**	**149**	**-2,979**	**24**	**554**	**192**	**195**	**15,087**	**5,061**	**1,300**	**20,111**

APPENDIX 4.3: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2002 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	2	32	385	1	-	1	-	14	3	87	526
MINING AND QUARRYING	415	-	-242	5	1,089	163	21	0	147	407	2,004
MANUFACTURING	32	32	-1,169	4	897	14	744	2,134	1,845	573	5,106
CONSTRUCTION	2	-	39	1	-	0	21	59	19	33	174
TRADE / COMMERCE	8	-	230	0	-	11	6	107	682	11	1,056
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	-	-	1,409	-	-	-	69	2,699	67	40	4,285
REAL ESTATE	-	-	0	-	-	2	-	943	68	6	1,019
SERVICES	576	-6	-677	15	-	0	316	445	741	21	1,431
OTHERS (Not Elsewhere Classified)	-	87	168	0	1.217	-	428	-	-236	22	1,686
SUB TOTAL	**1,035**	**145**	**145**	**25**	**3,203**	**191**	**1,606**	**6,402**	**3,335**	**1,200**	**17,288**
Philippines' data on Reinvested Earnings							235				235
Philippines' data on Inter-company Loans							-300				-300
TOTAL	**1,035**	**145**	**145**	**25**	**3,203**	**191**	**1,541**	**6,402**	**3,335**	**1,200**	**17,223**

APPENDIX 4.4: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2003 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	1	0	180	0	-67	0	-	0	28	42	186
MINING AND QUARRYING	3,055	-	232	10	253	270	-7	0	271	432	4,514
MANUFACTURING	36	37	-450	6	1,355	9	89	3,039	2,409	583	7,113
CONSTRUCTION	11	-	61	0	-6	-	19	-14	43	5	119
TRADE / COMMERCE	9	-	-353	0	155	9	0	2,706	818	26	3,370
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	2	-	667	-	762	1	-36	3,683	-25	18	5,072
REAL ESTATE	8	-	0	-	-3	0	27	660	126	6	825
SERVICES	0	25	-933	3	20	1	-307	1,867	362	315	1,353
OTHERS (Not Elsewhere Classified)	0	21	2	0	4	-	463	-	1,203	24	1,718
SUB TOTAL	**3,123**	**84**	**-596**	**19**	**2,473**	**291**	**249**	**11,941**	**5,235**	**1,450**	**24,270**
Philippines' data on Reinvested Earnings							168				168
Philippines' data on Inter-company Loans							74				74
TOTAL	**3,123**	**84**	**-596**	**19**	**2,473**	**291**	**491**	**11,941**	**5,235**	**1,450**	**24,512**

APPENDIX 4.5: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2004 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	0	10	141	0	14	1	-	-6	6	56	223
MINING AND QUARRYING	145	-	99	4	-597	233	0	-1	192	483	558
MANUFACTURING	41	78	834	7	3,508	13	84	5,890	3,786	564	14,805
CONSTRUCTION	5	-	-18	0	-23	-	-15	-93	71	9	-65
TRADE / COMMERCE	13	-	-214	2	450	3	19	3,684	183	30	4.170
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	1	-	233	-	1,119	1	7	8,841	222	18	10,440
REAL ESTATE	6	-	-18	1	23	0	55	1,395	-344	9	1,127
SERVICES	0	19	228	3	86	-	100	1,316	303	403	2,458
OTHERS (Not Elsewhere Classified)	0	25	609	0	43	-	501	-	1,443	39	2,661
SUB TOTAL	**212**	**131**	**1,895**	**17**	**4,624**	**251**	**750**	**21,025**	**5,862**	**1,610**	**36,377**
Philippines' data on Reinvested Earnings							141				141
Philippines' data on Inter-company Loans							-203				-203
TOTAL	**212**	**131**	**1,895**	**17**	**4,624**	**251**	**688**	**21,025**	**5,862**	**1,610**	**36,315**

APPENDIX 4.6: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2005 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	0	12	12	7	98	-	0	0	13	56	198
MINING AND QUARRYING	199	-	1,227	7	1,059	71	0	0	220	260	3,043
MANUFACTURING	64	170	5,265	10	1,777	1	532	3,300	3,044	1,210	15,371
CONSTRUCTION	3	-	130	2	23	-	-3	-147	31	24	63
TRADE / COMMERCE	17	-	60	1	436	-	4	4,582	359	60	5,518
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	0	54	781	-	481	-	200	3,546	1,548	21	6,629
REAL ESTATE	2	-	18	0	75	-	112	1,062	41	44	1,354
SERVICES	4	25	547	1	60	-	-22	3,115	348	300	4,379
OTHERS (Not Elsewhere Classified)	0	119	301	0	55	163	358	-	2,444	46	3,486
SUB TOTAL	**289**	**381**	**8,337**	**28**	**4,064**	**235**	**1,181**	**15,458**	**8,048**	**2,021**	**40,041**
Philippines' data on Reinvested Earnings							140				140
Philippines' data on Inter-company Loans							533				533
TOTAL	**289**	**381**	**8,337**	**28**	**4,064**	**235**	**1,854**	**15,458**	**8,048**	**2,021**	**40,714**

APPENDIX 4.7: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2006 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	0	131	230	10	-101	-	0	6	-2	52	325
MINING AND QUARRYING	361	-	322	6	808	420	32	5	206	44	2,204
MANUFACTURING	62	141	1,691	7	1,255	2	409	4,316	4,069	1,511	13,461
CONSTRUCTION	3	-	85	0	223	-	9	-6	-86	126	355
TRADE / COMMERCE	6	-	382	0	656	6	8	7,113	788	31	8,992
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	0	73	1,028	-	3,256	-	-20	12,184	1,470	21	18,012
REAL ESTATE	2	-	-14	0	37	-	120	2,195	263	538	3,141
SERVICES	0	28	591	164	-69	-	-129	3,536	711	31	4,864
OTHERS (Not Elsewhere Classified)	0	111	599	0	8	-	893	-	2,041	46	3,698
SUB TOTAL	**434**	**483**	**4,914**	**187**	**6,072**	**428**	**1,324**	**29,349**	**9,460**	**2,400**	**55,051**
Philippines' data on Reinvested Earnings							485				485
Philippines' data on Inter-company Loans							1,112				1,112
TOTAL	**434**	**483**	**4,914**	**187**	**6,072**	**428**	**2,921**	**29,349**	**9,460**	**2,400**	**56,648**

APPENDIX 4.8: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2007 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	-	118	2,412	74	2.016	-	4	-3	3	156	4,780
MINING AND QUARRYING	81	-	1,338	10	1,244	482	155	16	840	121	4,286
MANUFACTURING	77	231	203	34	3,200	13	549	8,389	3,718	4,205	20,619
CONSTRUCTION	1	-	196	2	-14	-	50	87	35	361	720
TRADE / COMMERCE	1	-	1,904	2	810	0	5	7,136	611	97	10,566
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	100	167	305	26	1,747	-	-23	8,996	2,859	57	14,234
REAL ESTATE	1	-	537	-	269	-	138	4,538	1,208	1,474	8,165
SERVICES	0	273	-4	38	-783	-	58	7,874	1,127	90	8,672
OTHERS (Not Elsewhere Classified)	0	78	37	137	49	220	1.014	-	929	178	2,641
SUB TOTAL	**260**	**867**	**6,928**	**324**	**8,538**	**715**	**1,949**	**37,033**	**11,330**	**6,739**	**74,683**
Philippines' data on Reinvested Earnings							620				620
Philippines' data on Inter-company Loans							347				347
TOTAL	**260**	**867**	**6,928**	**324**	**8,538**	**715**	**2,916**	**37,033**	**11,330**	**6,739**	**75,650**

APPENDIX 4.9: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2008 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	-	72	173	9	77	1	1	3	9	347	693
MINING AND QUARRYING	152	117	3,610	16	-637	790	155	55	1	112	4,369
MANUFACTURING	74	-	2,323	76	3,698	14	312	-1,010	5,747	5,440	16,674
CONSTRUCTION	0	-	24	0	34	-	172	38	-37	1,520	1,751
TRADE / COMMERCE	0	-	1,175	5	21	1	22	4,330	36	240	5,830
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	0	344	1,927	-	3,512	-	53	528	1,309	104	7,777
REAL ESTATE	1	-	-201	-	219	-	158	2,945	1,131	1,263	5,516
SERVICES	12	218	75	29	90	-	-33	1,701	23	68	2,183
OTHERS (Not Elsewhere Classified)	0	64	212	100	234	170	395	-	320	486	1,974
SUB TOTAL	**239**	**815**	**9,318**	**228**	**7,248**	**976**	**1,235**	**8,589**	**8,539**	**9,579**	**46,767**
Philippines' data on Reinvested Earnings							53				53
Philippines' data on Inter-company Loans							256				256
TOTAL	**239**	**815**	**9,318**	**228**	**7,248**	**976**	**1,544**	**8,589**	**8,539**	**9,579**	**47,076**

APPENDIX 4.10: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2009 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	-	88	-44	6	-68	0	0	2	7	44	37
MINING AND QUARRYING	316	-	1,301	28	1,182	486	6	246	550	135	4,250
MANUFACTURING	45	113	1,574	56	-651	6	888	7,255	3,686	1,171	14,143
CONSTRUCTION	1	-	6	-	-24	-	79	262	22	186	533
TRADE / COMMERCE	1	-	74	-	699	-	4	-840	322	106	367
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	0	175	148	-	1,156	-	237	5,131	-578	-	6,270
REAL ESTATE	5	-	-25	-	-18	-	89	4,020	722	2,586	7,378
SERVICES	0	73	1,853	62	-703	87	430	-797	-264	3,154	3,894
OTHERS (Not Elsewhere Classified)	0	89	-10	167	-193	-	-3	-	508	218	776
SUB TOTAL	**370**	**539**	**4,877**	**319**	**1,381**	**579**	**1,731**	**15,279**	**4,976**	**7,600**	**37,649**
Philippines' data on Reinvested Earnings							155				155
Philippines' data on Inter-company Loans							77				77
TOTAL	**370**	**539**	**4,877**	**319**	**1,381**	**579**	**1,963**	**15,279**	**4,976**	**7,600**	**37,881**

APPENDIX 4.11: FLOWS OF INWARD DIRECT INVESTMENT TO ASEAN BY ECONOMIC SECTORS - 2010 (US$ millions)

ECONOMIC SECTORS / HOST COUNTRIES	BND	CAM	IND	LAO	MAL	MYA	PHI	SIN	THA	VIE	Total
AGRICULTURE, FISHERY AND FORESTRY	-	157	337	4	28	-	2	3	6	9	546
MINING AND QUARRYING	486	3	1,897	10	992	-	278	125	342	0	4,132
MANUFACTURING	27	175	4,971	57	5,030	-	-2	4,945	3,370	2,445	21,018
CONSTRUCTION	15	-	-50	-	-41	-	-2	29	-225	805	532
TRADE / COMMERCE	88	-	2,456	5	913	-	127	3,094	554	116	7,353
FINANCIAL INTERMEDIATION AND SERVICES (incld. Insurance)	3	300	405	54	2,044	-	48	12,405	1,197	35	16,490
REAL ESTATE	0	-	-77	-	0	-	182	9,853	548	2,340	12,847
SERVICES	9	44	2,597	151	221	-	204	5,068	493	2,158	10,944
OTHERS (Not Elsewhere Classified)	0	104	768	51	-29	-	12	-	34	91	1,031
SUB TOTAL	**629**	**783**	**13,304**	**333**	**9,156**	**-**	**848**	**35,520**	**6,320**	**8,000**	**74,893**
Philippines' data on Reinvested Earnings							291				291
Philippines' data on Inter-company Loans							574				574
TOTAL	**629**	**783**	**13,304**	**333**	**9,156**	**-**	**1,713**	**35,520**	**6,320**	**8,000**	**75,758**

Notes:
** Net FDI = Equity + Net Inter-company Loans + Reinvested Earnings.*
P : Preliminary
Myanmar's fiscal year starts on 1st April and ends on 31st March of the following calendar year. Data for 2010 is not available.
Breakdown on Services sector could not be provided.

Source: ASEAN Secretariat - ASEAN FDI Database as of 20 July 2011

Abbreviations and Acronyms

ASEAN	Association of Southeast Asian Nations
ACIA	ASEAN Comprehensive Investment Agreement
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AIA	ASEAN Investment Area
AIA Council	ASEAN Investment Area Council
AIF	ASEAN Infrastructure Fund
AIR	ASEAN Investment Report
AIMO	ASEAN Integration Monitoring Office
ASW	ASEAN Single Window
BRIC	Brazil, Russia, India, China
EA	Euro Area
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
LPI	Logistics Performance Index
M&As	Mergers and Acquisitions
PPP	Public-Private Partnerships
SMEs	Small and Medium-sized Enterprises
TNCs	Transnational Corporations
UNCTAD	United Nations Conference on Trade and Development

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