Chapter 4

The Current State and Outlook of ASEAN’s Intra-Regional Direct Investment
— ASEAN becomes its own largest investor

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【Key Points】

➢ Foreign direct investment (FDI) between the ASEAN Member States has been steadily expanding as ASEAN works toward the establishment of the AEC. As a result, ASEAN has become its own largest investor of inward FDI, which indicates that integration among the ASEAN Member States is deepening in terms of FDI as well.

➢ Most of the intra-regional FDI is among four major countries: Singapore, Malaysia, Thailand, and Indonesia. They mutually invest and receive intra-regional FDI. Aside from these countries, FDI from Thailand to Myanmar, (intended to acquire resources and the market) has been notable over the last few years.

➢ With ASEAN’s integration, intra-regional FDI that aims to capture the markets of partner countries is expected to increase. FDI that aims to develop vertical process specialization is currently limited; however, it is anticipated to gradually increase.

Inward FDI to ASEAN (By extra-regional and intra-regional investors)

![Graph](https://example.com/graph.png)

Note: Singapore’s 2012 data is not available. Percentage of intra-regional FDI = Intra-regional FDI/Inward FDI.
Source: UNCTAD “Bilateral FDI Statistics.”
1. Foreword

ASEAN is planning to establish the ASEAN Economic Community (AEC) by the end of 2015. The AEC aims to eliminate tariffs and non-tariff barriers between the Member States, and liberalize trade in services and the flow of skilled labor. Since the markets of the ASEAN countries would be integrated, not only is mutual intra-regional trade among the Member States expected to increase, but intra-regional foreign direct investment (FDI) is also expected to intensify.

The aim of chapter 3 is to analyze the current situation of ASEAN’s intra-regional FDI, which is currently subject to high expectation. Using various statistics, the actual conditions of the intra-regional FDI will be closely examined. Statistics on ASEAN’s FDI are largely restricted; therefore, information from individual corporations will be used to supplement missing data.

2. Inward FDI from the world to ASEAN

Inward FDI from the world to ASEAN was $125.4 billion (USD) in 2013, which was +6.7% year-on-year (figure 1). Country-by-country, FDI inflow from the world to Singapore accounts for half of ASEAN’s share at $63.8 billion (+4.3% year-on-year). Indonesia follows at $18.4 billion (-3.6% year-on-year), then Thailand at $12.9 billion (+20.9% year-on-year), and Malaysia at $12.3 billion (+22.2% year-on-year). After Ben Bernanke’s remarks caused so-called “taper tantrum” in May 2013, Indonesia’s rupiah currency fell compared to the other ASEAN currencies; however, FDI inflow to Indonesia fell only slightly and Indonesia was able to maintain its place as ASEAN’s second biggest FDI receiver after Singapore. In 2013, large protests to remove then-Prime Minister Yingluck Shinawatra erupted in Bangkok, the capital of Thailand. Even through the political crisis, though, Thailand’s FDI continued to rapidly increase. This indicates that investors have not significantly changed their views on Indonesia or Thailand’s long-term growth. When looking at the medium-to-long term picture, the trend is also encouraging. Inward FDI to ASEAN first peaked at $86.7 billion in 2007, but following the Global Financial Crisis of 2008, it dropped by half to $46.7 billion in 2009. Inward FDI would make a v-shaped recovery, though, and between 2010 and 2013 it rose again and reached a new peak in 2013. This was a huge contrast to the FDI inflow to developed countries, which
continued to experience a slump during this period. Moreover, even compared to other emerging countries and regions, FDI inflow to ASEAN recovered the fastest.

**Figure 1: FDI between ASEAN and the World**

![Figure 1: FDI between ASEAN and the World](image)

Source: UNCTAD.

The percentage of ASEAN’s inward FDI to total global FDI has also reached new heights. In 1995 and 1996, about 8% of the global FDI went to ASEAN countries, but this fell after the Asian Financial Crisis of 1997. In 2000, it was just 1.6%. Although the amount of FDI inflow to ASEAN Member States recovered until the Global Financial Crisis of 2008, since the amount of global FDI also increased, the percentage of ASEAN’s FDI to the global FDI was stagnant. However, the amount of FDI into the ASEAN Member States after the Global Financial Crisis was so outstanding that in 2012 and 2013, ASEAN’s share of the global FDI had increased up to about 8.5%.

Similar to inward FDI from the world to the ASEAN Member States, outward FDI from ASEAN Member States to the world has also held steady. ASEAN’s outward FDI was $56.4 billion (+4.7% year-on-year) in 2013, which is close to the peak of $61.4 billion in 2007. In 2012 and 2013, ASEAN’s outward investment peaked at 4.0%
of the world’s FDI. Country-by-country, Singapore’s outward FDI was $27 billion in 2013, which was a 100.3% increase from the previous year.

These factors prove that ASEAN is not only a major receiver of FDI, but has also been increasing its presence as an investor.

3. ASEAN’s intra-regional FDI

As mentioned in section 2.2, ASEAN is not only a major receiver of the world’s FDI, but has also been rising as an investor. Here, the trend of ASEAN’s inward FDI will be examined by looking at both FDI within the region, that is intra FDI, and from outside the region. Similarly, the trend of ASEAN’s outward FDI will be examined by looking at FDI to ASEAN Member States as intra one and to non-ASEAN Member States.

The “ASEAN Investment Report” and the “ASEAN FDI Statistics,” both published by ASEAN, and the “UN Bilateral Statistics” published by UNCTAD are the main sources for data on ASEAN’s intra-regional FDI. Here, the UNCTAD data will be primarily used since it has the longest period of data collection.1 If necessary, the data from ASEAN will be used to supplement.

3.1 Overview of ASEAN’s intra-regional FDI

First, inward FDI to ASEAN will be examined, by investor, from within the region and outside the region. The amount of intra-regional FDI has steadily grown since the early 2000s (figure 2). As the ASEAN economies have integrated, more Member countries have become interested in investing in each other. Meanwhile, FDI amount from outside the region has also increased, reflecting ASEAN’s rising presence in the global economy.

The percentage of intra-regional FDI to the total inward FDI to ASEAN was 22.2% in 2005. Although it fell to 8.3% in 2007, in the past few years, it has been around 15% and the most recent data shows that in 2011, it was 14.6%.2

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1 Unless otherwise noted, the UNCTAD data will be used for analysis.
2 The “ASEAN Investment Report 2013-2014” includes four years’ worth of data on intra-regional FDI from 2010 to 2013. According to this data, it was 15.1% in 2010, 15.6% in 2011, 18.1% in 2012, and 17.4% in 2013. The data on 2011 is almost the same as the one from UNCTAD and from 2012 to 2013, the ASEAN’s data shows an upward trend.
Meanwhile, the largest investors of extra-regional FDI are Japan and the EU. Japan and the EU’s percentages of inward FDI to the ASEAN Member States change from year to year; however, on the whole, both of these sources contribute almost the same as ASEAN to intra-regional FDI in recent years.

ASEAN, which had been growing using extra-regional FDI as a leverage, is turning into its own largest investor, on par with Japan and Europe. Intra-regional FDI is becoming a valuable source of capital for ASEAN.

**Figure 2: Inward FDI to ASEAN (By extra-regional and intra-regional investors)**

Next, the outward FDI from ASEAN will be examined by intra-regional and extra-regional destination. In recent years, the percentage of intra-regional FDI in the ASEAN’s total outward FDI has remained in the range of 25% to 40% range (figure 3).

Unfortunately, data is only available after 2008; therefore, it is difficult to determine whether the percentage is increasing or decreasing. Nonetheless, compared to inward FDI, outward FDI has a higher intra-regional ratio. ASEAN is putting value on itself as an investor and is actively investing capital in other member states.³

³ See chapter 4 for more details regarding ASEAN companies developing their businesses in the ASEAN region.
What can be learned when comparing ASEAN’s intra-regional FDI to that of the EU? The EU traces its origin to the European Economic Community (EEC) formed by six countries in 1958. The EU is an economic union that had more than half a century of history until it expanded to include 28 member states. Based on the 15 countries that were members of the EU in 1995, the percentage of intra-regional FDI as compared to total inward FDI reached 80% in 2000. Meanwhile, the percentage of intra-regional FDI as compared to outward FDI was also at a high level of around 60% during the same period. Member states of the EU actively invested in each other, reflecting the deepening integration of the EU market.

However, the situation in the EU changed drastically with the blows of the Global Financial Crisis and the European Debt Crisis of late 2009. The intra-regional percentage of inward FDI in 2012 was 23.0%, and intra-regional percentage of outward FDI fell to 29.3%. These levels are not much different from ASEAN’s

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4 Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, Austria, Finland, and Sweden.

5 There were credit concerns over the ability of governments in the so-called PIIGS countries – Portugal, Italy, Ireland, Greece, and Spain – to repay or refinance their national debt.
numbers. In the EU, intra-regional FDI has decreased following the Global Financial Crisis, which is a contrast to ASEAN’s upward trend.

3.2 Intra-regional FDI destinations by industry

Next, ASEAN’s intra-regional FDI destinations by industry will be examined. Since industrial trends cannot be determined from UNCTAD’s data, the data from the “Investment Report 2012-2013” that was published by ASEAN in 2013 will be used.

According to the report, the latest data in 2011 showed that FDI in the manufacturing sector was the largest at $5.9 billion, which accounted for 20% of the total intra-regional FDI. Following that the real estate sector at $3.9 billion, the financial sector at $2.7 billion, and the trading sector at $2.5 billion. Compared to these, investments in industries such as agriculture, mining, and construction have been sluggish (figure 4).

Figure 4: Intra-Regional FDI Destinations by Industry (2002-2011)

Note: Graph of intra-regional FDI by industry for each year from 2002 to 2011.
Source: ASEAN (2013).

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6 “The ASEAN Investment Report 2013-2014” published by ASEAN in 2014 includes two years of data on intra-regional FDI by industry (2013 and 2014). It is necessary to take note that classification of industries differs from the report published in 2013 and there may be no continuity. However, even in 2013, the result was similar in that industries classified as manufacturing, financial, real estate, and trading were the main destinations for FDI within the region. When industries is devided into just only sectors, manufacturing or services, the latter attracted a much larger FDI. See chapter 4 on details regarding how the ASEAN companies are actively developing their businesses in the ASEAN region with a focus on the service sector.
The time-series trend from 2002 to 2011 by industry shows that FDI in the manufacturing sector has been relatively large since the beginning and it rapidly increased in recent years. Similarly, FDI in the real estate sector and trading sector also rapidly increased. On the other hand, FDI in the financial sector seems as if it has reached a plateau at a high level.

The reason why FDI in the manufacturing sector increased is that the expansion of ASEAN’s consumer market triggered the increase in market-seeking FDI, in which both production and sales are done in partner countries. Since tariff rates have already been lowered since AFTA (ASEAN Free Trade Area) took effect, efficiency-seeking FDI that aims to avoid tariffs could not have been the motive. The trend on strategic-fragmentation-seeking FDI, which establishes division of manufacturing process within the ASEAN network, is hard to examine with only data by industry available.

The increase in FDI in services sectors such as real estate, finance, and trading are also a result of market-seeking FDI in partner countries. Particularly in recent years, FDI in real estate and trading sectors have risen due to urbanization and expansion of the consumer markets in ASEAN.

By contrast, resource-seeking FDI in mining and agricultural sectors did not grow. This indicates that the dynamism of economic development has shifted to manufacturing and service sectors in the ASEAN region.

3.3 Investors and receivers of the intra-regional FDI

With regard to ASEAN’s increasing intra-regional FDI, ASEAN Member States can be divided into very active and somewhat active investors. Singapore has been the most prominent investor: 60% of the total intra-regional FDI was from Singapore in 2012. Following Singapore are Malaysia, Thailand, and Indonesia. The other member states invest almost nothing in other ASEAN nations7 (figure 5).

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7 However, investment to ASEAN from companies in Philippines and Vietnam has recently started to increase (see chapter 4).
Which countries are the destinations for major investors of intra-regional FDI? Two characteristics can be found when studying the investment amount by destination from the four main investors (Singapore, Malaysia, Thailand, and Indonesia).

The first characteristic is that the destinations of intra-regional FDI from the main four countries are the four countries themselves. For example, Singapore’s biggest investment destination in the ASEAN region is Indonesia, and Indonesia’s biggest (and almost only) investment destination is Singapore. This type of reciprocal relationship among these four countries forms the core of intra-regional investment in the ASEAN region.

The second characteristic is that aside from the four main countries, although small in scale, Thailand’s FDI to Myanmar is becoming prominent. Singapore and Malaysia invest in Vietnam as well.

The breakdown of intra-regional FDI by country shows that there are two patterns: reciprocal investment by the four main countries and peripheral investment by the four main countries to the rest of the ASEAN Member States.

4. The background of intra-regional FDI (Singapore and Thailand’s cases)
This section will review the background of intra-regional FDI by further analyzing the data. From the two patterns that emerged from ASEAN’s intra-regional FDI, Singapore, the largest investor will be examined as a case for reciprocal intra-regional FDI by the main four countries. Similarly, investment from Thailand to Myanmar will be examined as a case of peripheral intra-regional FDI.8

4.1 Singapore’s case

The government of Singapore publishes data on FDI (stock base) by industry. Two types of data by industry are available: the industry that invests from Singapore as well as the industry that is invested in a partner country. The reason that Singapore is examined here as a case for reciprocal intra-regional FDI by the four main countries is not only because Singapore is the largest investor, but also because it has relatively abundant data on FDI and is easy to analyze.

First, Singapore’s intra-regional FDI stock will be examined by the domestic investor’s sector. Singapore’s financial sector was the largest sector to invest in Indonesia (accounting for 84.4% of Singapore’s total investment in Indonesia), the largest investment destination at the end of 2012. Similarly, Singapore’s financial sector accounted for close to 70% of Singapore’s investment in Malaysia (65.2%) and Thailand (69.6%).

Next, data by sector in the investment destination will be studied. In Indonesia, 29.9% of Singapore’s investment went to the financial sector, with 28.7% going to the manufacturing sector. Singapore’s main investing sector, the financial sector, does not necessarily invest in Indonesia’s corresponding financial sector, half of Singapore’s financial sector’s investment is in manufacturing. Similar trends can be seen in Malaysia and Thailand. The percentage of Singapore’s total investments in the financial sectors of Malaysia and Thailand is less than half, 49.2% and 45.8%, respectively. By contrast, the percentage of Singapore’s total investments in the manufacturing sectors of Malaysia and Thailand is as high as at 32.4% and 30.7%, respectively (table 6).

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8 Chapter 4 explains in detail about Malaysia’s investment to ASEAN.
The GIC (Government of Singapore Investment Corporation) and Temasek (Temasek Holdings) are two sovereign wealth funds of Singapore that can be classified as FDI investors in the financial sector. GIC is an organization that manages foreign reserves held by the Monetary Authority of Singapore. GIC does not disclose the amount of funds it manages, but according to GIC’s homepage, it oversees more than $100 billion (11.7 trillion yen) in assets and some say that the figure is more than that. The annual report discloses information on asset allocation and in 2014, 57% of the money invested was in equities. Within those equity investments, though, the breakdown between FDI and portfolio investments is unknown. However, it is fair to say that GIC is involved in FDI.\(^9\) Meanwhile, Temasek is an agency owned by Singapore’s Ministry of Finance. Originally, its function was to become a stable stockholder for government-affiliated companies; however, in recent years, Temasek has also been investing in foreign companies and, similar to GIC, it is contributing to Singapore’s FDI.

In addition to FDI by two major government funds, global money is collected at investment companies founded in Singapore and then used in FDI in manufacturing sectors throughout the ASEAN region. In these cases, for statistical reasons, it was recorded that Singapore’s financial sector was the one that invested; however, in reality, it is FDI by a third country via Singapore. Singapore is serving as a financial hub that collects and reinvests global money due to the following factors: (1) the

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\(^9\) Kumagai (2014). Pananon (2008) also state that government agencies play a major role as investors of FDI within the ASEAN region.
corporate tax rate is 17%, which is low compared to the rest of the world, (2) there is no capital gains tax, (3) dividends can be tax exempt, and (4) Singapore holds tax treaties with countries around the world (including the ASEAN Member States) and is able to mitigate the effects of double taxation. These are the reasons why FDI by Singapore is significant within the ASEAN region.

4.2 Thailand’s case

The characteristic of intra-regional FDI by Thailand is that it invests not only in main ASEAN countries such as Singapore, Malaysia, and Indonesia, but also in Myanmar.

Although detailed data on FDI from Thailand to Myanmar by sector is not available, it has been pointed out that a large share of the investments are resource-seeking FDIs for oil and gas. For example, Thailand’s energy company, Public Company Limited (PTT), has been operating in Myanmar for over 15 years and is currently working on three projects that focus on the production and exploration of natural gas. Myanmar allows the export of 30% of the natural gas produced in the projects to Thailand.

Even though it cannot be confirmed by statistics, in recent years, non-resource-seeking FDI from Thailand to Myanmar has also been taking place. For instance, Thailand’s large company, The Siam Cement Group, which has a long history of exporting to Myanmar for over 20 years, invested $400 million in Myanmar in July 2014 and announced plans to build its first cement plant in Myanmar. According to The Siam Cement Group, Myanmar’s market is expected to grow; therefore, the plant will be built to support exports.

With regard to consumer-related investments, Thailand’s retailers are planning to start hotel businesses and build shopping malls in Myanmar.

In October 2014, Bangkok Bank – along with Japan’s three largest banks – was among the eight banks that won licenses for operations in Myanmar.

Furthermore, in June 2014, Thailand’s conglomerate, Saha Group, formed a joint venture with a company in Myanmar to expand their logistics business. Earlier, Saha Group had planned 2 billion baht investment (approximately 7.2 billion yen

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10 Hanamizu and Fukuda (2014).
using the exchange rate at the time of this paper) to set up an industrial estate in Myanmar. The joint venture is a strategic move for the estate.

To sum, Thailand’s FDI has not been limited to Resource-seeking one anymore. Market-seeking FDI – such as investment in construction material, and consumer and financial services – are becoming more prominent as Myanmar’s domestic demand grows. The development of industrial estates can also be seen as a market-seeking FDI as infrastructure demand also grows in Myanmar.

5. Outlook

5.1 Impact of ASEAN’s integration

As stated at the beginning of this chapter, intra-regional FDI is expected to intensify with the establishment of the AEC by the end of 2015. Empirical research such as Cheong and Plummer (2009), also shows that the process of the ASEAN integration will have a positive impact on intra-regional FDI.

The ASEAN Comprehensive Investment Agreement (ACIA) that entered into effect in March 2012 is a policy framework regarding investment in ASEAN’s integration process. The aim of the ACIA is to expand investment within the region and promote the establishment of a complementary division of labor system in each country. The ACIA stipulates matters regarding the liberalization, promotion, facilitation, and protection of investment. The target sectors for the liberalization of investment are manufacturing, agriculture, fishery, forestry, mining, quarrying, and services incidental to these sectors. The ACIA adopted a negative list approach in which Member States self-select sectors they wish to keep closed. In other words, it means that sectors not listed on the reservation list are liberalized.

The ACIA states that the negative list, which includes sectors that are closed to liberalization, will be progressively reduced. At the 46th ASEAN Economic Ministers Meeting in August 2014, the ministers signed a protocol to amend the ACIA. This reflected that preparations are underway to reduce the number of target sectors on the negative list and that ASEAN Member States are working to further liberalize intra-regional investment.

The ACIA mainly covers investment in manufacturing, while the ASEAN Framework Agreement on Services (AFAS) covers the liberalization of investment in...
the services sector. The AFAS aims to progressively increase the ASEAN equity participation up to 70% for the services sector (excluding finance) by the end of 2015 when the AEC is formed. Within the ASEAN region, there are many countries that impose tight restrictions on foreign equity for the services sector. Therefore, if the goals of the AFAS are achieved, solely the intra-regional investors can invest up to 70% and they will be able to enjoy a preferential treatment compared to investors from outside the ASEAN region.

After a year’s delay, ministers almost unanimously agreed on the interim goals of the 9th Package, which would ease restrictions on intra-regional FDI for service sectors in the AFAS. The package was supposed to be signed in 2013, but was not signed until the AEM held in August 2014. The 10th Package – which includes the final goal of raising foreign (ASEAN) equity participation up to 70% – has yet to be negotiated. After ministers agree on the 10th Package, intra-regional FDI in the services sector is anticipated to intensify.

5.2 Types of intra-regional FDI that is anticipated to grow

Within the intra-regional FDI that will receive a boost from ASEAN’s integration, the type of FDI that is anticipated to grow the most will be the market-seeking FDI that aims to capture demands in the partner country. In this case, since the size of the market becomes an important factor, four core countries, namely, Singapore, Malaysia, Thailand, and Indonesia, are expected to be the main receiving countries of FDI. Meanwhile, main investors will be government agencies such as sovereign wealth funds in Singapore, conglomerates in Singapore, Thailand, and Malaysia, and foreign-affiliated companies operating businesses in the ASEAN region.

Although the strategic fragmentation-seeking FDI that aims to implement vertical international specialization is currently limited, it is expected to gradually increase. Countries anticipated to become receiving ends of strategic fragmentation-seeking FDI are Cambodia, Laos, and Myanmar (CLM countries) that have relatively low wages. For instance, Myanmar is forming FDI-related legislation and rapidly preparing to receive FDI as it is scheduled to start operating an industrial estate in the Thilawa special economic zone (SEZ) in 2015. The main investors of the strategic fragmentation-seeking FDI is anticipated to be Thailand, where labor costs are rising and there are concerns over labor shortages due to a low birth rate and an aging society.
References


