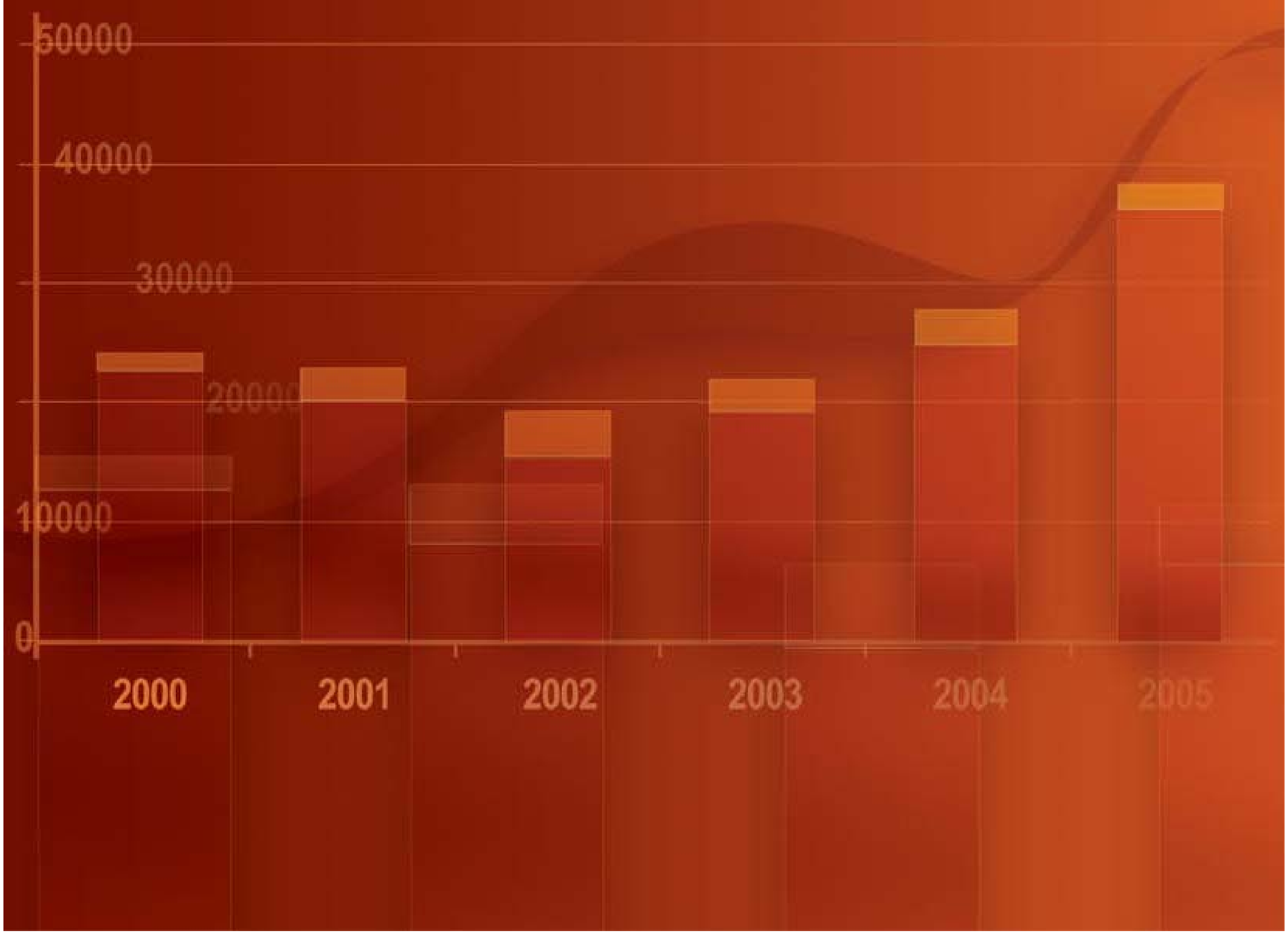
Association of Southeast Asian Nations

ASEAN
Investment Report 2006



ASEAN INVESTMENT REPORT 2006

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Global Economic Trend

The global economy is expected to maintain a slow and steady growth this year with global GDP growth expected to increase to 4.9% in 2006 from 4.8% last year. This anticipated increase may be attributed primarily to a positive rally on the part of advanced economies whose combined GDP growth rate is expected to improve to 3% this year from 2.7% last year. The European Union alone is expected to realize a significant recovery from 1.8% last year to 2.4% this year.

The economic performance of the ASEAN 6 is forecasted to slightly slowdown from 5.2% GDP growth last year to a projected 5.1% this year. This is reflective of the estimated deceleration of developing Asian economies from a combined figure of 8.6% GDP growth last year to 8.2% this year.

Table 1: Global GDP Growth And Forecasts

	Ten-Year Averages					
	1987-1996	1997-2006	2004	2005	2006	2007
World	**3.3**	**3.9**	**5.3**	**4.8**	**4.9**	**4.7**
Advanced Economies	**3**	**2.7**	**3.3**	**2.7**	**3**	**2.8**
- United States	2.9	3.4	4.2	3.5	3.4	3.3
- Euro area	–	2	2.1	1.3	2	1.9
- Japan	3.2	0.9	2.3	2.7	2.8	2.1
- Other Advanced Economies	3.8	3.3	4.6	3.7	4.1	3.7
- Other Emerging Market and Developing Countries	3.9	5.3	7.6	7.2	6.9	6.6
Regional Groups						
- Africa	2.2	4	5.5	5.2	5.7	5.5
- Central and Eastern Europe	0.9	3.6	6.5	5.3	5.2	4.8
- Commonwealth of Independent States	–	5.2	8.4	6.5	6	5.8
Developing Asia	7.8	6.6	8.8	8.6	8.2	8
- China	–	–	10.1	9.9	9.5	9
- India	–	–	8.1	8.3	7.3	7
- ASEAN-4	–	–	5.8	5.2	5.1	5.7
Middle East	3.4	4.5	5.4	5.9	5.7	5.4
Western Hemisphere	2.8	2.8	5.6	4.3	4.3	3.6
European Union	2.2	2.4	2.5	1.8	2.4	2.3

Source: World Economic Outlook, September 2005

Arguably, the strong growth posted by developed economies is an indication of sound business environments, superior business confidence and a more conducive location for FDI to agglomerate. Furthermore, this also signals a wider range of prospective and more constructive investment opportunities with higher value added potential – such as R&D which will be discussed in greater depth later.

The slightly and relatively more modest performance on the part of developing countries and ASEAN on the other hand would seem to show a needed improvement in their competitiveness and attractiveness as investment destinations. Nevertheless, competition amongst developing countries can not be discounted. As will be seen later however, some developing economies in Asia, Europe and South America have emerged as highly viable investment locales which may rival ASEAN.

The succeeding section will provide a brief discussion of how global FDI has fared, and how a select few countries have successfully improved their promotion and management of inward FDI flows for long term development. It is therefore important to keep an observant eye on the nature, quality, and direction of FDI, particularly from the viewpoint of sustainability and constructiveness (i.e. capability to generate additional and a more diverse range of investments) for developing country economies. For this reason, this Report will dwell heavily on an analysis of investments made among developing countries (i.e. intra-ASEAN) and those pertaining to R&D.

Global FDI Flow

Drawing from the previous ASEAN Investment Report (AIR), Foreign Direct Investments (FDI)[1] at the global level has remained stable. This positive situation, however, should be viewed with caution as various types of investments – coupled with other external economic factors (e.g. inflation from rising oil prices, exchange rate fluctuations) – could produce varied results. The degrees of impact in the improvement of developing country economies should also be taken into consideration, let alone ASEAN, and their respective capacities for attracting investment and spurring economic development.

According to UNCTAD, Inflows of Foreign Direct Investment (FDI) were substantial in 2005. They rose by 29% – to reach $916 billion – having already increased by 27% in 2004. Nevertheless, world inflows remained far below the 2000 peak of $1.4 trillion. Inflows to developed countries in 2005 amounted to $542 billion, an increase of 37% over 2004. This effectively reverses a slump that was the trend for 4 consecutive years prior to then. In percentage terms, the share of developed countries increased somewhat, to 59% of global inward FDI. FDI flows to Asia

[1] FDI is the movement of capital across national frontiers in a manner that grants the investor control over acquired asset. It is distinct from portfolio investment which may cross borders, but does not offer such control (Wikipedia- http://en.wikipedia.org/wiki/FDI).

and Oceania on the other hand increased by around 11%, to an estimated $173 billion.[2]

Developing countries as a group however, especially the bigger ones are not to be left behind. It is estimated that by 2050, Brazil, Russia, China India, Indonesia, Mexico and Turkey may have a combined GDP that is 1.75 times that of the G7[3].

The following segment will show how growing economies, particularly China, India, Brazil and Russia continue to attract FDI, at least in the medium term. It will also point out that, notwithstanding the successes of fast growing economies in drawing FDI, large developed countries (e.g. the US, UK) and small developed countries (Finland and Sweden) are still the major destinations for FDI – mainly due to the factor of their capability to attract and harness R&D investments.

Developed Countries Are Still The Major Destination For FDI

Interestingly, developed countries such as USA and UK, remain the top destinations of FDI. The following portion will provide a brief profile of developed countries that have received the lion's share of FDI inflows, principally from fellow developed countries.

United States

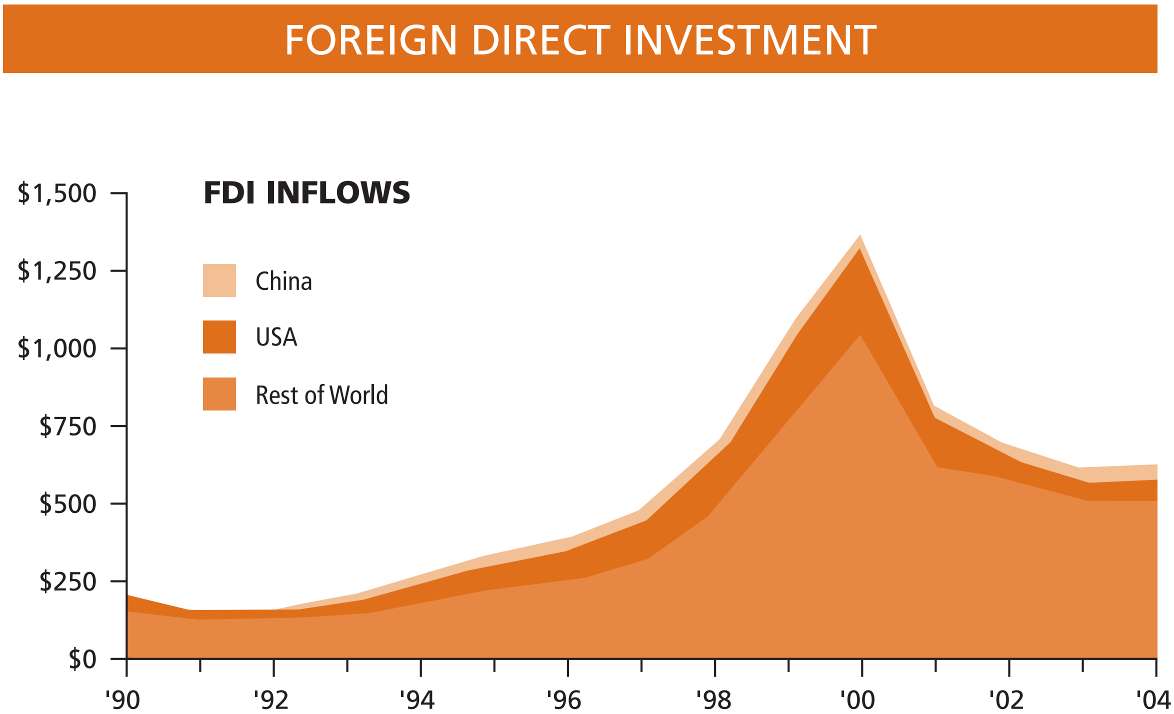
Even for a nation as big as the US, FDI still plays a significant part on its economy. According to some observers, firms usually invest in the US for a number of reasons, three of which are; to serve the local market, increase efficiency, or to gain access to natural resources. More often than not, these investing firms would either start from scratch or invest in an existing operation through a merger or acquisition.[4] Thus:

> *"Foreign direct investment (FDI) is the underlying driver of many key U.S. economic issues including off shoring, the trade deficit, job creation, the current account deficit, and even interest rates."*

After a few volatile years, FDI inflows to the US peaked in 1999 and 2000, raising an estimated amount of over $200 billion for both years. *Graph 1* shows a downturn again in 2004. However, at $106 billion, FDI to the US remains quite high relative to the previous years.

[2] unless otherwise indicated, the currency to be referred to herein shall be the United States Dollar.
[3] CEO Survey 2006, pg. 6
[4] Daniel Kah, Foreign Direct Investment Trends, www.angeloueconomics.com?FDI_Trends.html

Graph 1: FDI Inflows on China, US and Rest of the World



Source: UNCTAD; values in $billions

After the interim years between 2000 and 2004 when FDI slowed, the US seemed to return to the leadership position as the world's leading source and destination of FDI. Nevertheless, apart from the continued rise in US investor confidence, this position has been rivalled by strong contending economies like China and the UK.[5] Notably, however during the second half of 2005, the US and the UK were the largest recipients of inward FDI.

United Kingdom

Among the OECD member countries, the UK came out as the top recipient of inward FDI in 2005, displacing US of this position which it held the year before that. *Table 2* shows the UK continued to attract strong FDI flows in the second half of 2005, amounting to at least $115 billion, not counting the cross-border mergers and acquisitions made by the country.

[5] Ibid.

Table 2: Foreign Direct Investments Of OECD Countries for 2003-2005

INWARD FOREIGN DIRECT INVESTMENTS, bn. US$

	2003	2004	2005	2005:Q1	2005:Q2	2005:Q3	2005:Q4
Australia	9.7	42.0	-36.8	3.6	-47.4	3.2	3.3
Austria	7.1	4.0	–	1.3	2.2	1.0	–
Belgium	33.4	42.1	23.7	7.3	-1.7	1.2	16.5
Canada	6.3	6.3	33.0	6.0	3.9	10.2	13.2
Switzerland	16.6	0.7	–	-1.4	2.3	1.5	–
Czech Republic	2.1	5.0	11.0	1.4	5.7	2.2	1.7
Germany	26.9	-15.1	32.6	3.9	7.5	1.1	19.6
Denmark	2.9	-9.3	5.0	0.2	-1.0	1.9	3.7
Spain	25.9	16.7	18.8	5.6	1.9	4.0	7.2
Finland	3.3	3.5	4.6	2.7	0.0	1.2	0.8
France	42.5	24.3	49.8	14.1	11.6	11.7	12.5
United Kingdom	27.4	77.7	164.5	28.3	23.3	114.8	-2.5
Greece	0.7	1.4	0.6	0.5	0.4	-0.4	0.2
Hungary	2.2	4.7	6.7	1.4	1.6	0.6	3.1
Ireland	22.8	11.2	-22.8	7.9	0.5	-14.9	-14.9
Iceland	0.3	0.6	2.3	0.1	0.1	0.0	2.2
Italy	16.4	16.8	15.7	3.3	2.8	2.0	7.5
Japan	6.4	8.0	2.7	3.6	0.8	2.5	-3.7
Luxembourg	90.2	77.3	29.3	6.5	0.4	4.3	17.6
Netherlands	21.7	0.4	40.8	1.0	10.5	19.5	9.2
Norway	3.5	2.5	3.4	0.2	1.5	-3.8	5.4
New Zealand	3.7	2.6	1.6	0.6	1.1	-0.5	0.5
Portugal	6.6	1.6	3.1	1.6	1.0	0.5	0.1
Sweden	5.0	12.6	13.7	5.0	0.2	3.4	5.1
United States	67.1	106.8	128.6	33.9	17.0	50.4	27.3
Korea	3.5	9.2	4.3	0.4	2.3	0.7	0.9
Mexico	11.7	18.2	17.8	4.9	4.0	5.0	3.8
Poland	4.1	12.4	8.7	2.9	1.4	2.2	2.2
Slovakia	0.6	1.1	1.9	0.1	1.0	0.4	0.4
Turkey	1.7	2.7	9.7	0.7	0.4	2.7	5.9
TOTAL[1]	446.5	488.0	583.5	148.0	55.0	228.0	–

Sources: OECD Balance of Payments Statistics and OECD International Investment Statistic. Discrepancies between quarterly and annual can occur.

Finland and Sweden

Finland and Sweden share a close similarity in size with ASEAN economies. The data in Table 2 above show Finland and Sweden posting FDI inflow figures at US$ 4.6 billion and US$ 13.7 billion in 2005 respectively.

In terms of quantity, these levels are comparably similar to most ASEAN 6 countries. However, an underlying difference would be noted in the nature and quality of these investments between ASEAN and comparable developed countries, particularly in the level of intangibles and R&D which are incorporated into the value of these investments. This concept and how importantly it relates to ASEAN will be described in better detail in the succeeding portions of this report.

Growing Economies Continue To Attract Investments In The Medium Term

Strong inward FDI performance was not exclusively limited to the developed countries, since large growing developing economies such as China, India, Russia and Brazil too have received a considerable slice of the global FDI pie. These developing countries are implementing similar measures to improve their ability to attract and retain FDI by focusing on sectors of higher intangible value. These countries should be paid better attention, starting with China.

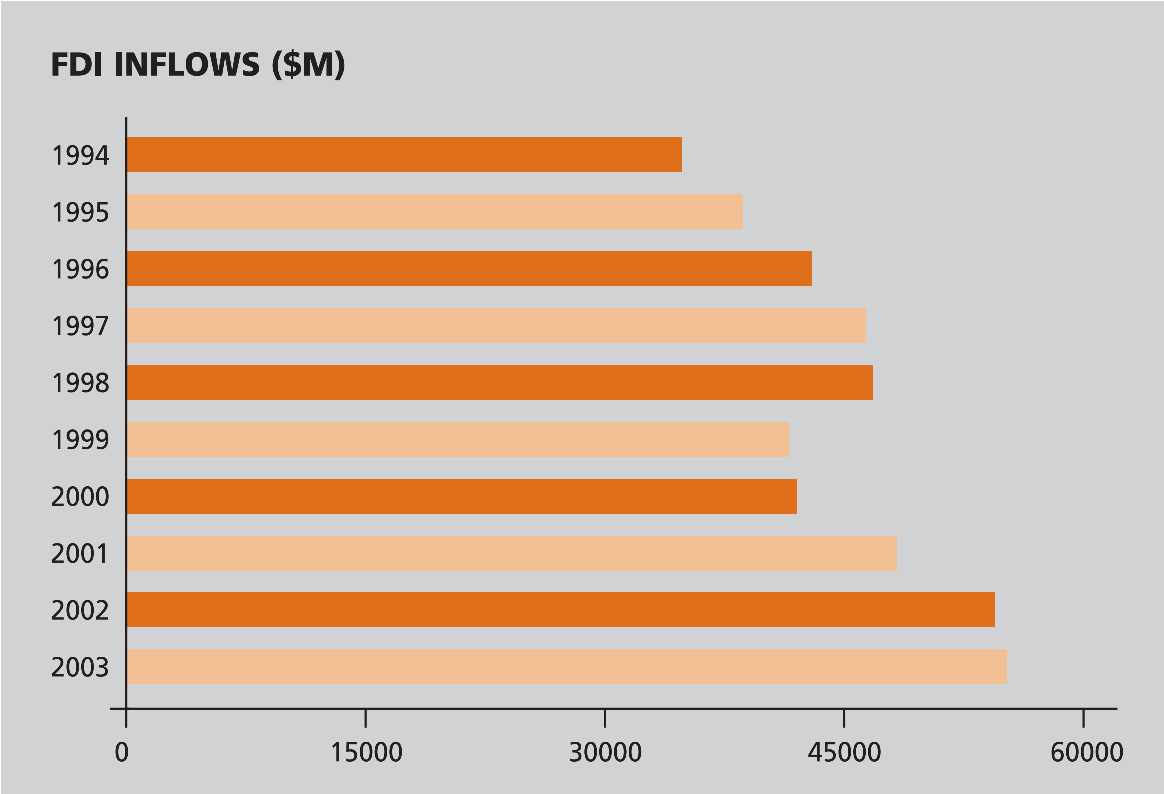
China

China has widely been increasing and outpacing its neighbouring Asian countries. Two of the principal attractions that China has for FDI are its low-cost labour and the huge potential domestic market of 1.2 billion consumers. Data provided by the Ministry of Commerce showed that FDI inflows were at $53.781 billion in the first months of 2004 and have increased 23% year-on-year. It was also reported that more than 35,000 foreign capital ventures have been approved. Despite the news of possible over-heating of the economy and its various economic vulnerabilities, data shows that there is an increase in industrial production and easing up of money supply, as well as consumer prices.[6]

Graph 2 shows figured of FDI going into China in 2003. Notably, despite years of posting smaller growth numbers than previous ones, a general uptrend is observable between 1994 and 2003.

[6] China, http://www.fdimagazine.com/news/fullstory.php/aid/1023/China.html

Graph 2: FDI Inflows to China



Source: UNCTAD World Investment Report 2004

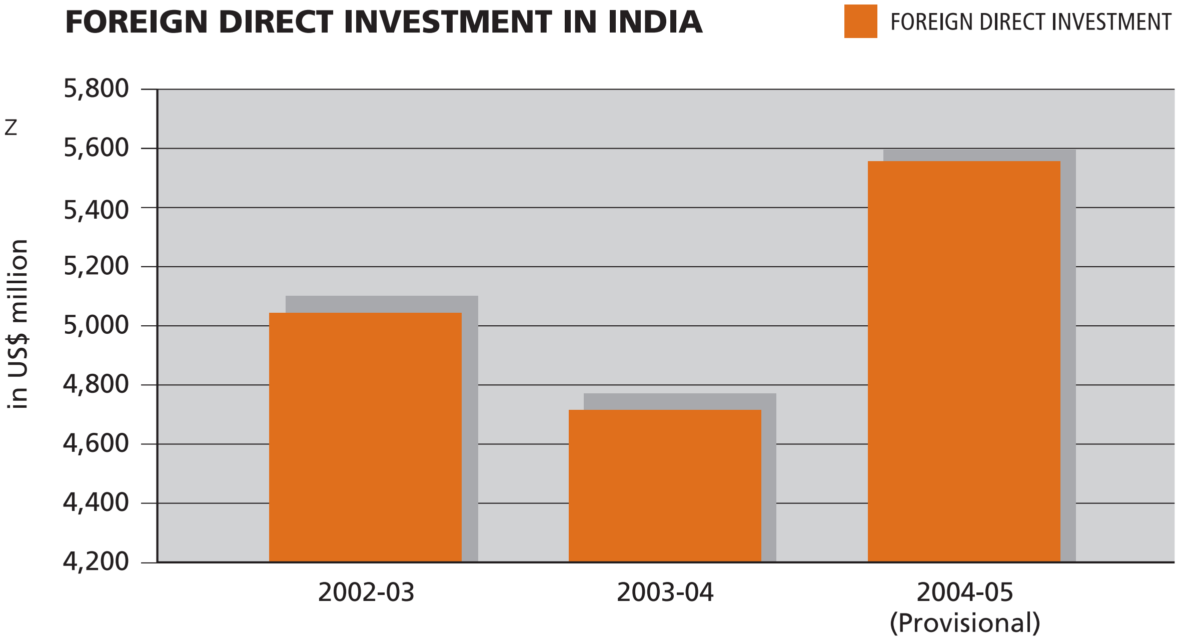
India

Apart from China, India is similarly recognized as one of the fastest growing FDI destinations in the world particularly in the services (especially business process outsourcing) and manufacturing (pharmaceuticals, textiles, auto-parts etc.) sectors. As a matter of fact, according to AT Kearney, it has already replaced the US as the 2nd most favoured investment destination in the world after China.

The country has marked significant growth in its FDI inflows as seen in *Graph 3*. Initial estimates for the first half of the 2005-2006 figures is said to have already reached around US $ 7.96 billion, or more than 3 times its performance in the same period the previous year[7]. Topping the list of sectors which received the largest share of FDI in India are manufacturing, computer services and construction.

[7] http://www.ibef.org/economy/fdi.aspx

Graph 3: FDI into India



Source: Reserve Bank of India

Sources of FDI into India is comprised of a diversity of companies of which, according to Commerce and Industry Minister Kamal Nath, over a hundred belong to Fortune 500 as compared to only 33 of the same status currently invested in China[8]. Investments in research and scientific services in India have shown a sharp increase from practically nil in the period 2002-2005 to some US$ 5 million from 2004-2005 as illustrated among other sectors in *Table 3.*

Table 3: FDI Into India by Industry

FDI: Industry-Wise Inflows* (In US$ million)			
INDUSTRY	**2004-05 (P)**	**2003-04**	**2002-03**
Fisheries	10	2	9
Mining	11	18	9
Manufacturing	924	426	480
Food & Dairy Products	183	64	39
Electricity	14	90	48
Construction	209	172	237
Trade, Hotels & Restaurants	22	67	39
Transport	70	20	12
Financing, Insurance, Real Estate & Business Services	363	206	223
Computer Services	372	166	297
Educational Services	2	0	1
Research & Scientific Services	5	1	0

[8] http://www.indiaonestop.com/economy-fdi.htm

FDI: Industry-Wise Inflows* (In US$ million)			
Health & Medical Services	25	15	28
Other Services	10	2	18
Others	100	213	218

* : Data in this table exclude FDI inflows by way of acquisition of shares by non-residents under section 6 of FEMA, 1999
P : Provisional
Source: Reserve Bank of India Annual Report 2004--05

The Indian government is now in the middle of implementing comprehensive reforms in its FDI policy which include, among others, the liberalization of their retail trade sector, allowing full foreign ownership in power trading, processing and warehousing of copper and rubber, and raising the foreign ownership limit on telecommunications firm to 74% from the previous 49%[9].

Brazil

Brazil is a middle-income country that lies at the heart of South America and with foreign investments peaking at $32 billion in 2000. With the country's quick liberalization and potential growth of its market, it became attractive to foreign investments, thus it increased significantly.[10] In 2004, foreign investments reached $18 billion and declined slightly to $15 billion in 2005 due to lower value of cross border M&A and a real appreciation of the Brazilian currency.

A study shows that the top 10 destinations that are most attractive to corporate investors are emerging markets like China, Mexico, Brazil and Russia. These markets are said to be most attractive for their off shoring IT and businesses process.[11] Accordingly, Business Week magazine stated that the $10 billion software industry of Brazil continue to grow at 10% per year since 2000, thus attracting more investments.[12]

The Business Perspective

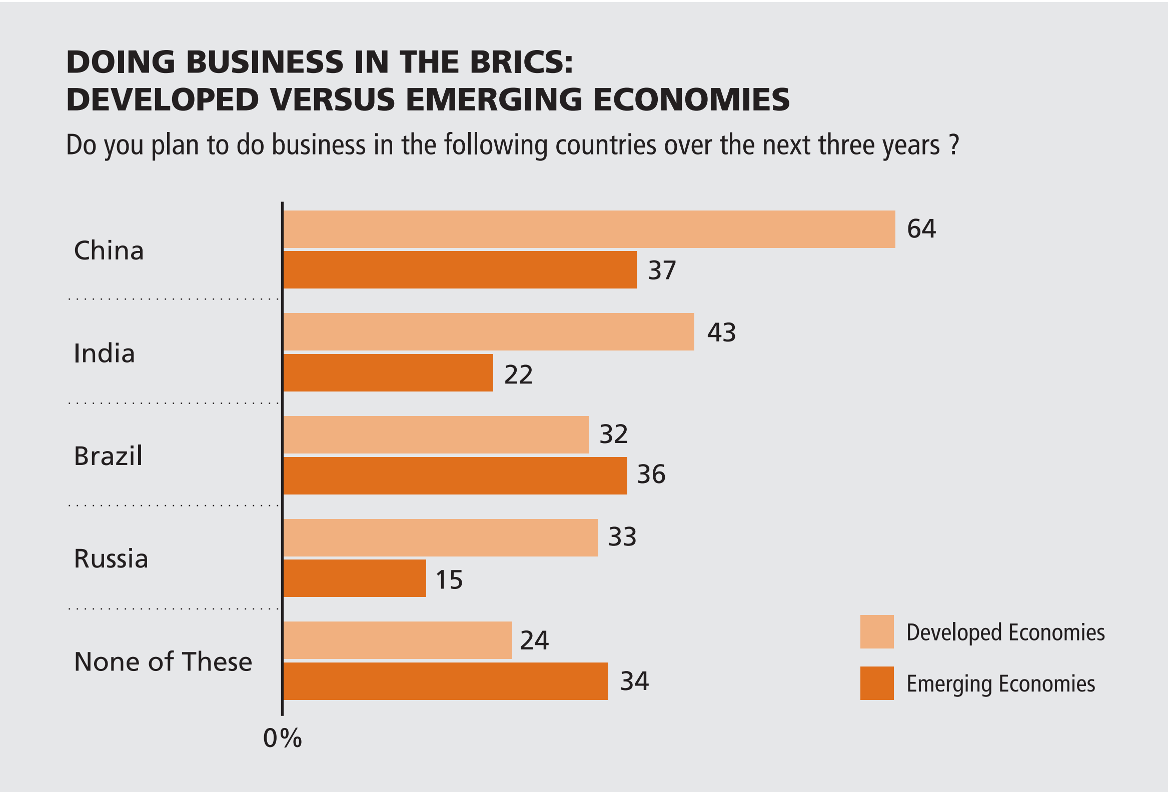
International businesses and their executives, whose interests and activities are the main driving force behind the direction and volume of global FDI, have shifted their perspectives and made certain adjustments to their objectives since last year. The succeeding graphs are excerpts from the 9th PriceWaterhouseCoopers Global CEO Survey, which gathers responses from some 1,400 CEO worldwide on their views regarding crucial areas of international business. The Global CEO Survey is indicative of worldwide business sentiment on a variety of issues.

[9] http://www.ibef.org/economy/fdi.aspx
[10] European Commission, Country Strategy Paper 2001-2006, http://ec.europa.eu/comm/external_relations/brazil/csp/02_06en.pdf#search=%22FDI%20into%20Brazil%202006%22
[11] A.T Kearney Study, China widens leads vs US and the top choice for foreign investment, http://www.atkearney.com/main.taf?p=1,5,1,136
[12] Bright Simons, The Spectre of Communism, http://english.ohmynews.com/articleview/article_view.asp?no=302171&rel_no=1

China and India Are Top FDI Destinations

It is interesting yet unsurprising to note that among the emerging economies, China and India are viewed as the top destinations wherein CEOs of global companies based in developed countries intend to further their investments at least in the next 3 years. One can observe in *Graph 4*, below that some 64% of CEO surveyed from developed countries[13] readily selected China as the place in which they are planning to do business in the future. China ranked also as the first choice among CEOs based in developing countries as a place they would consider to do business, with 37% of respondents from developing countries selecting this option. Some 43% of respondents in developed countries chose India as a place where they were eager to invest, ranking it at 2nd place. It however is only the 3rd (at 22%) in terms of the number for CEOs in developing countries who say they are interested in investing there, the second being Brazil (at 36%).

Graph 4: CEOs on Doing Business in BRICS



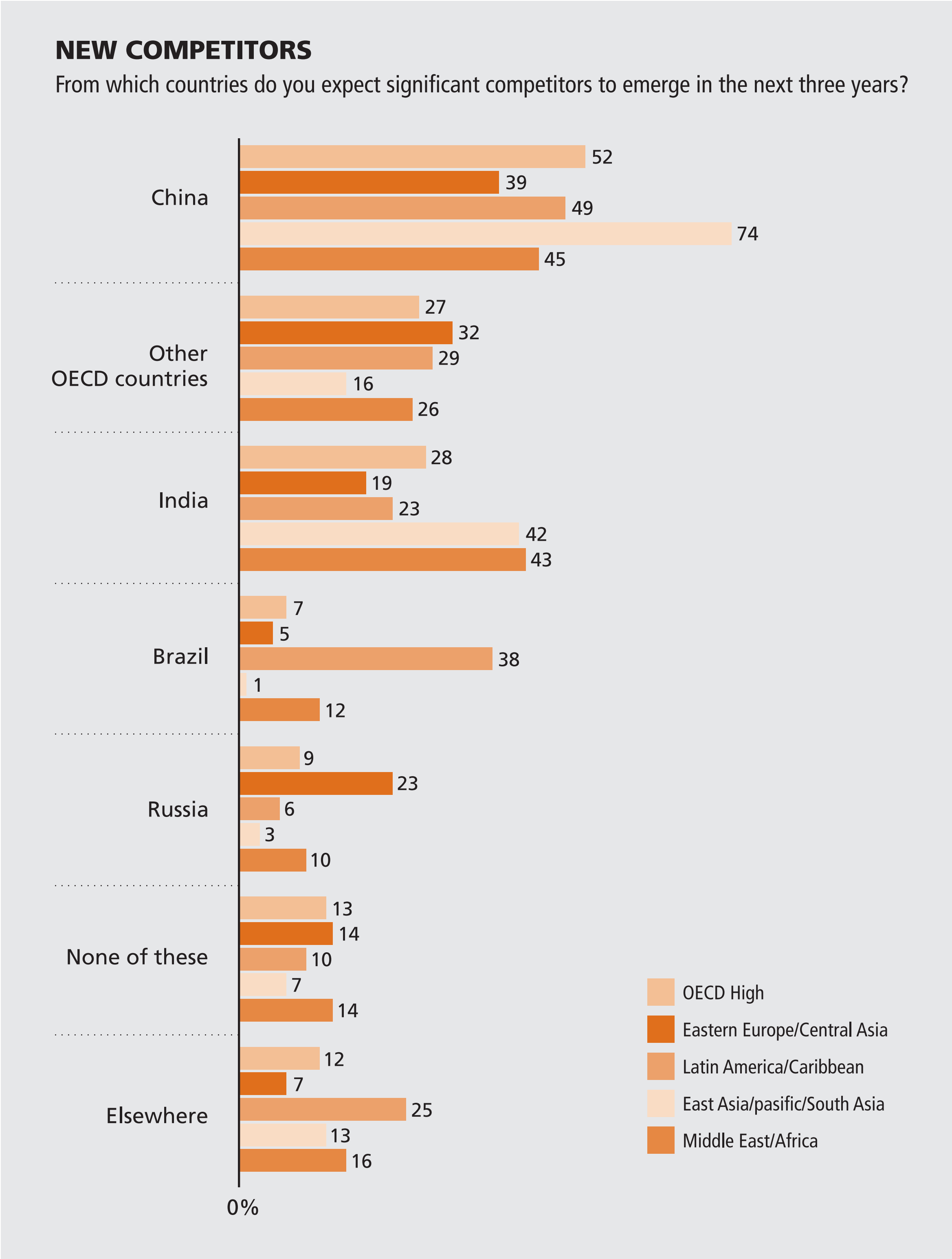
Most Perceive China as a Competitor More Than India

A good number of CEOs from ASEAN and Asia-Pacific meanwhile perceive China as a rising competitor, way ahead of the more developed OECD member countries. *Graph 5* shows 74%

[13] Limited to those who chose China, India, Brazil and Russia as places where they were planning to do business in the future, with the exception of those located in the aforementioned countries.

of CEOs in ASEAN and the Asia Pacific region regard China as the place where they expect future competitors to emerge in the next 3 years. India, meanwhile follows with some 42% of CEOs based in ASEAN and the Asia Pacific region, considering it as a source of future competition in the coming 3 years.

Graph 5: CEOs on New Competitors

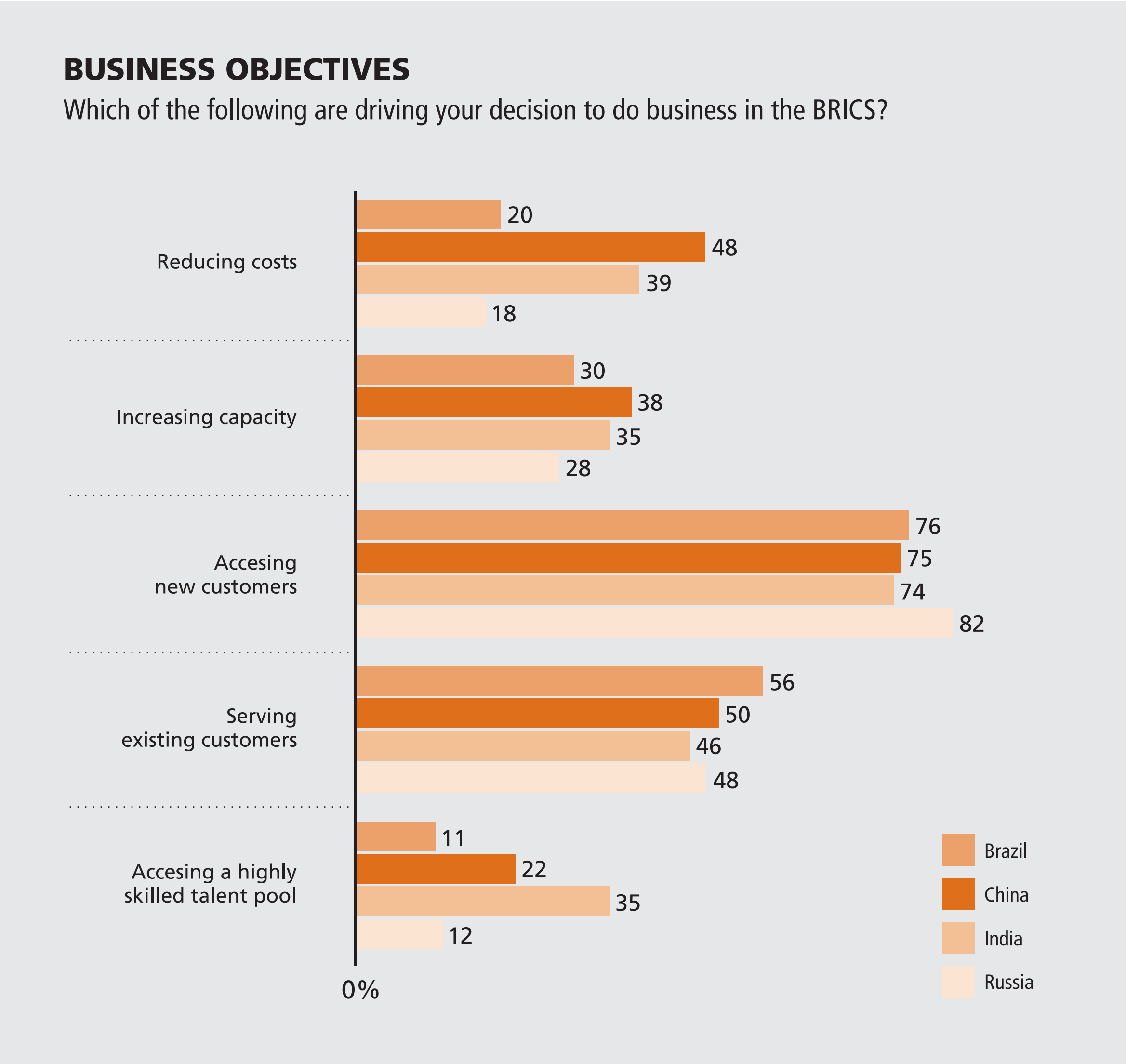


Objectives Have Shifted From Cost Mitigation To Better Market Access

A reorientation of business perspective, per the findings of the survey reported in *Graph 6*, was also noted. Whereas businessmen located in the large developing countries were previously very much concerned with the reduction of business costs (the main reason that was chosen in 2005 as their top business objectives), the main focus for this year has shifted to accessing new customers, i.e. access to new markets.

Graph 6 shows the responses of the CEOs when asked as to what their primary objectives and motivations for doing business in the emerging economies of Brazil, Russia, India and China were. Majority of the respondents answered that their main objective this time around is to tap new markets and customers, with cost reduction modestly trailing behind as a business motivation.

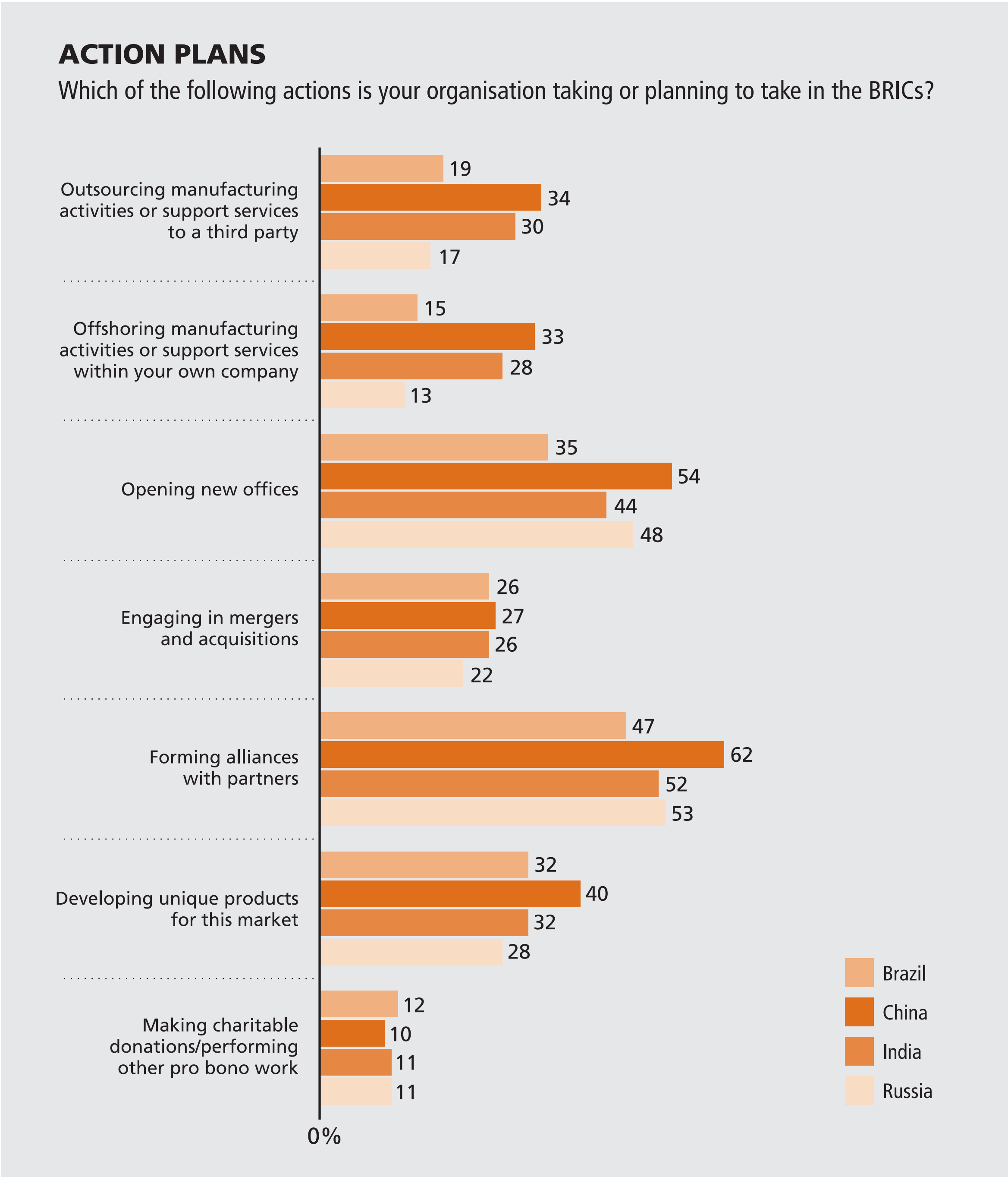
Graph 6: CEOs on Business Objectives



From Outsourcing To Alliances

In relation to the above, the course of action that CEOs are now willing to pursue to meet their business objectives have likewise shifted from outsourcing to the formation of alliances with new partners, as illustrated in *Graph 7*. This augurs and aligns well with their recalibrated objective to gain access to newer markets, since prospective business partners in their resident countries would have the marketing networks and domestic connections to introduce prospective foreign investors to new customers.

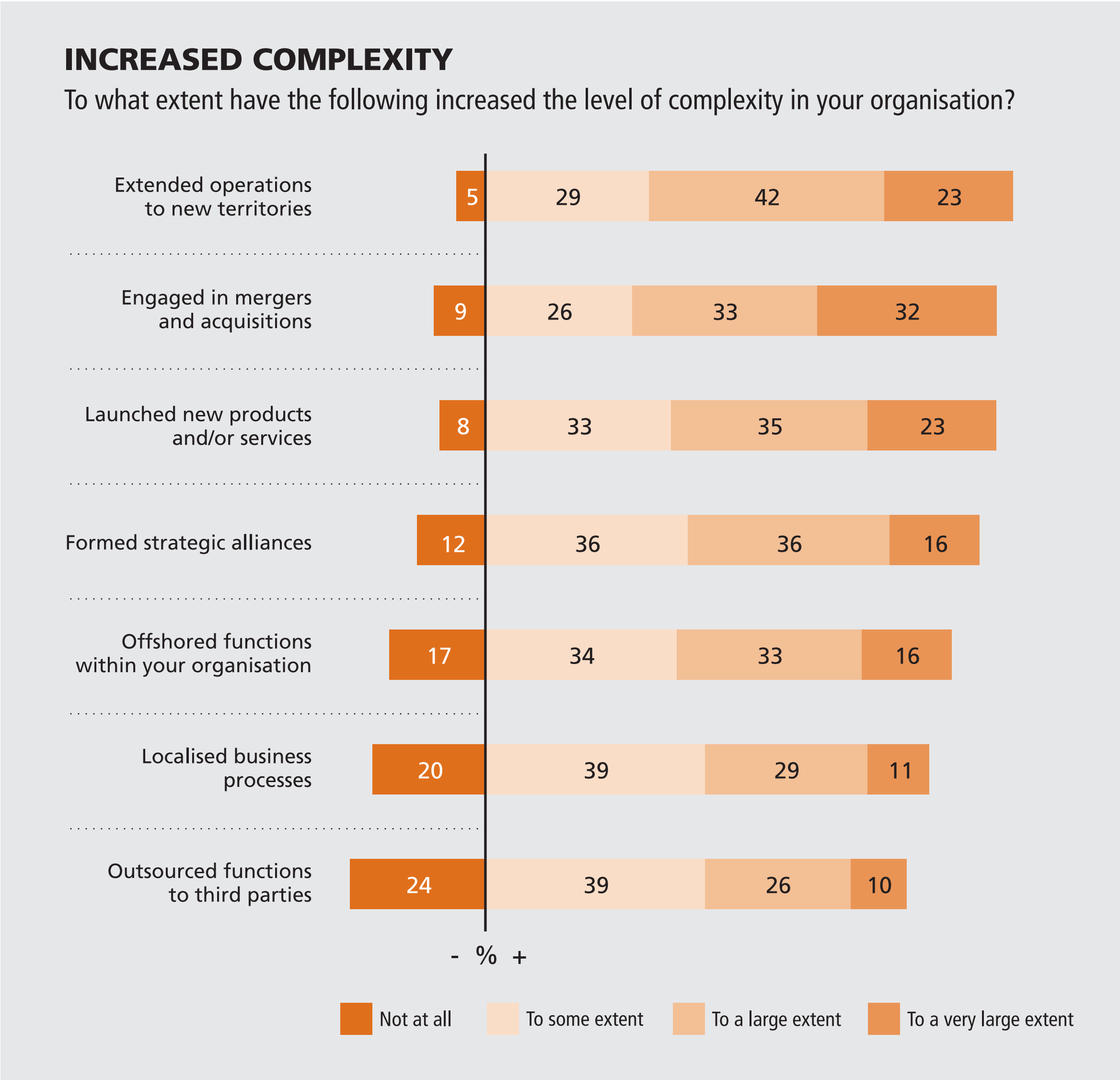
Graph 7: CEOs on Actions Plans



Operations Are Becoming More Complex

A large percentage of the CEOs interviewed considered the extension of their operations into new territories, mergers and acquisitions, and the launching of new products and/or services as the top three areas in their businesses wherein their levels of complexity have increased. This is illustrated in *Graph 8*, and it may be seen that the most of the complexities perceived by the CEOs are within the area of extending operations offshore to introduce new products and gain access to foreign markets. This denotes a faster pace in the internationalization of businesses.

Graph 8: CEOs on Increased Complexity



Overregulation and Trade Protection Problems

The strong desire for CEOs and international businesses nowadays to expand and make a footing abroad to widen their market opportunities however may be tempered by growing concerns in relation to possible trade barriers and the rigidity of the domestic regulatory regime. Overregulation and trade barriers/protectionism ranked high on the list of the respondent CEOs as primary sources of challenges to their efforts to globalize their business. This trend may be observed in *Graph 9*.

Graph 9: CEOs on Challenges of Globalization

Chapter Two

Current Status

International trends now show a recovery of global FDI, as well as a growing focus on R&D investments and on intangible assets. The following portion will provide a snapshot of how ASEAN is faring against the backdrop of the abovementioned global trends.

FDI into ASEAN is Increasing and Has Breached Pre-1997 Levels

This year, FDI flows into ASEAN reached record highs at US$ 38,083 million (as can be seen in *Table 4*). The attainment of this level, which exceeds pre-1997 levels, is attributed mainly to a strong influx of FDI to Indonesia, the Philippines, Singapore and Thailand. Such constitutes a historical record as this performance marks ASEAN FDI levels finally surpassing pre-1997 levels.

Table 4: FDI Flows To ASEAN for 1995- 1st Quarter 2006

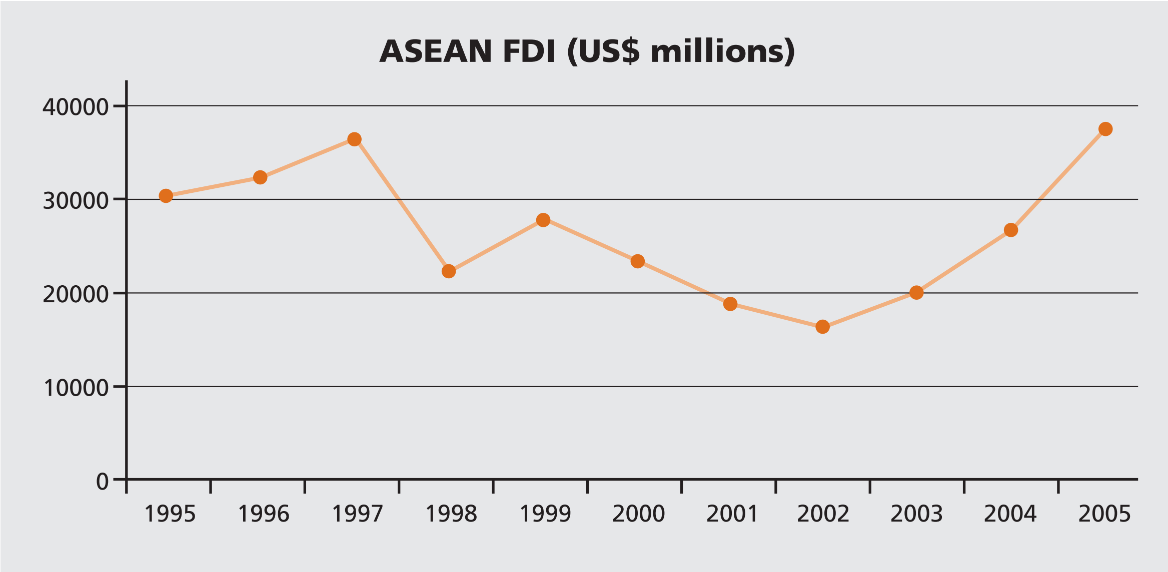
FDI FLOWS TO ASEAN (US$ million)
1995-1st Quarter 2006

HOST COUNTRY	YEAR													
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1st Quarter 2005	1st Quarter 2006 p/	TOTAL CUMULATIVE 1995-2005
Brunei Darusallam	**583**	**654**	**702**	**573**	**748**	**549**	**526**	**1,035**	**3,123**	**212**	**289**	**27**	**73**	**8,993**
Cambodia **(1)**	**151**	**294**	**168**	**243**	**232**	**149**	**149**	**145**	**84**	**131**	**381**	**61**	**92**	**2,127**
Indonesia	4,346	6,194	4,678	-356	-2,745	-4,550	-3,279	145	-596	1,895	6,107	1,067	1,255	**11,839**
Lao PDR	88	128	86	45	52	34	24	25	20	17	28	7	14	**547**
Malaysia	**5,815**	**7,297**	**6,323**	**2,714**	**3,895**	**3,788**	**554**	**3,203**	**2,473**	**4,624**	**3,965**	**802**	**991**	**44,651**
Myanmar **(2)**	318	581	879	683	304	208	192	191	291	251	72	N.A	N.A	**3,970**
Philippines **(3)**	1,577	1,618	1,261	1,718	**1,247**	**2,240**	**195**	**1,542**	**491**	**688**	**1,132**	**386**	**430**	**13,709**
Singapore	**11,503**	**9,303**	**13,533**	**7,594**	**16,067**	**16,485**	**15,649**	**7,338**	**10,376**	**14,819**	**20,081**	**4,898**	**8,173**	**142,748**
Thailand	2,070	2,338	3,882	7,491	6,091	3,350	3,886	947	1,952	1,414	4,008	125	3,006	**37,428**
Viet Nam	1,780	1,803	2,587	1,700	1,484	1,289	1,300	1,200	**1,450**	**1,610**	**2,021**	N.A	N.A	**18,225**
ASEAN TOTAL	**28,231**	**30,209**	**34,099**	**22,406**	**27,375**	**23,541**	**19,197**	**15,773**	**19,664**	**25,661**	**38,083**	**7,374**	**14,035**	**284,238**

Source: ASEAN Secretariat - ASEAN FDI Database, 2006.
Data compiled from the respective ASEAN Central Banks and Central Statistical Offices. Unless otherwise indicated, the figures include equity and inter-company loans.
Figures for Brunei Darussalam, Cambodia, Malaysia (for the whole data series); figures for Indonesia (2004-1st Q 2006); Philippines (1999-1st Q 2006) and figures for Myanmar and Viet Nam (2003-2005) include reinvested earnings. Figures for Singapore include reinvested earnings for the whole data series, but exclude inter-company loans from 1995-1996.
(1) Cambodia's figures for 2005 are estimated figures.
(2) Myanmar's figures are in fiscal year which ends in March of the following calendar year.
(3) Philippine's figures for 1999-1st Quarter 2006 includes reinvested earnings.
p/ : Preliminary
N.A : Not Available

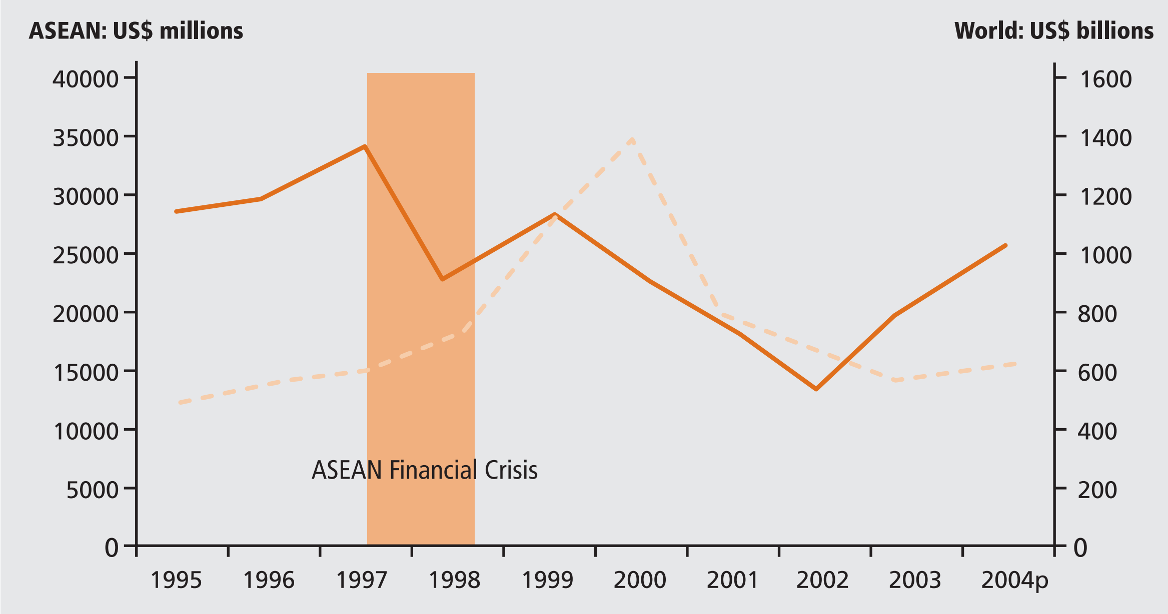
This recovery can be better appreciated in *Graph 10* which shows a continuous upward trend in ASEAN-bound FDI beginning in the middle of 2002, culminating in a figure surpassing pre-1997 levels.

Graph 10: ASEAN FDI (US$ millions)



All of these bode consistently well with the continued upward trend that has marked ASEAN's performance relative to the rest of the world as seen in *Graph 11*.

Graph 11: ASEAN FDI vs. Rest of the World



Source: The ASEAN Secretariat, UNCTAD

What About ASEAN's Competitors

Landmark figures and optimistic projections have been sounded for ASEAN, however it is important that the region does not lose track of the parallel performance and capacity of other countries and regional trading blocs. In its most recent Global Competitiveness Report, the World Economic Forum (WEF) ranked Finland, US and Sweden as the top 3 most competitive countries. Singapore fared a good 6th place but other ASEAN countries trailed behind in varying degrees – reflective of the wide gaps in economic development that continue to prevail in the region. This disparity would continue to serve as a challenge to ASEAN regional integration. *Table 5* provides reference of this below:

Table 5: Global Competitiveness Report 2005 Rankings

COUNTRY	2005 Rank	Score	2004 Rank
Finland	1	5.94	1
United States	2	5.81	2
Sweden	3	5.65	3
Singapore	6	5.48	7
United Kingdom	13	5.11	11
Malaysia	24	4.9	31
Thailand	36	4.5	34
Indonesia	74	3.53	69
Philippines	77	3.47	76
Vietnam	81	3.37	77

Source: WEF Global Competitiveness Report 2005

Intra-ASEAN Investments

Like other regional trading blocs, ASEAN received a fair share of FDI from external sources. However, one particular area where ASEAN could tap on is to boast intra-ASEAN investments. In 2005, total intra-ASEAN investments totalled US$ 2.22 billion dollars, or a mere 5.8% of total ASEAN FDI. In Europe and America, the intra-regional investments constitute a significant portion of inward investments for the member countries concerned.

Table 6 shows the cumulative figures of intra-ASEAN FDI from 1995 to 2005 according to country. Subsequent to that, *Graph 12* compares the level of intra-ASEAN investments to total ASEAN investments from the years 2000 to 2005.

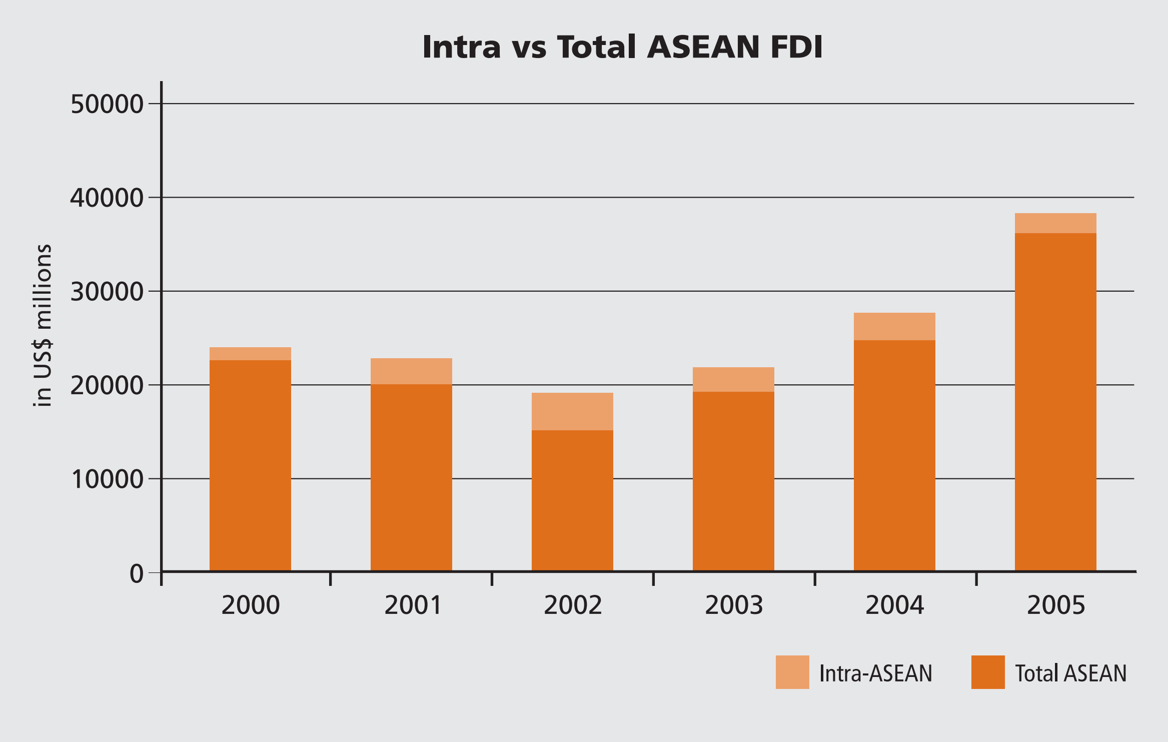
Table 6: Intra-ASEAN FDI

**INTRA ASEAN DIRECT INVESTMENT FLOWS BY COUNTRY OF ORIGIN (US$ million)
Cumulative 1995-2005**

SOURCE COUNTRY	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Viet Nam	1995-2005*
Brunei Darussalam	–	–	-26.84	0.00	298.51	–	0.29	194.89	4.12	2.00	**472.96**
Cambodia	–	–	–	0.04	2.64	–	–	5.71	13.43	0.60	**22.41**
Indonesia	56.90	1.13	0.05	–	293.31	38.82	38.56	3,388.06	44.30	60.65	**3,921.78**
Lao PDR	–	–	–	–	0.16	0.00	0.01	0.93	-0.64	11.62	**12.08**
Malaysia	232.24	54.96	976.21	97.18	–	57.28	87.72	4,045.94	226.72	578.12	**6,356.37**
Myanmar	–	–	–	0.05	0.48	–	–	59.80	1.71	–	**62.03**
Philippines	4.96	1.63	13.28	–	96.82	3.80	0.27	105.47	222.95	48.81	**497.98**
Singapore	1,117.26	55.10	954.08	6.15	7,622.90	750.20	1,167.21	–	5,998.91	1,909.66	**19,581.46**
Thailand	7.60	86.94	144.06	160.37	209.13	195.64	22.61	406.26	–	491.95	**1,724.55**
Viet Nam	0.17	26.95	–	6.48	38.16	–	0.03	23.76	5.82	–	**101.37**
TOTAL ASEAN	**1,419.13**	**226.71**	**2,060.83**	**270.26**	**8,562.10**	**1,045.74**	**1,316.70**	**8,230.81**	**6,517.32**	**3,103.41**	**32,753.00**

Source: ASEAN Secretariat - ASEAN FDI Database, 2006.
Data compiled from the respective ASEAN Central Banks and Central Statistical Offices. Unless otherwise indicated, the figures include equity and inter-company loans.
Figures for Brunei Darussalam and Malaysia (for the whole data series); Cambodia (for 2001-2004); Indonesia (2004-2005) Myanmar and Viet Nam (2003-2004) include reinvested earnings.
Myanmar's figures are in fiscal year which ends in March of the following calendar year.
Singapore's figures for 1995 exclude inter-company loans.
Thailand's figures include capital fund of banking sector.
*** Total cumulative intra-ASEAN direct investment for 1995-2005 by source countries excludes data on Cambodia for 1995-2000.**

Graph 12: Intra-ASEAN vs. Total ASEAN FDI



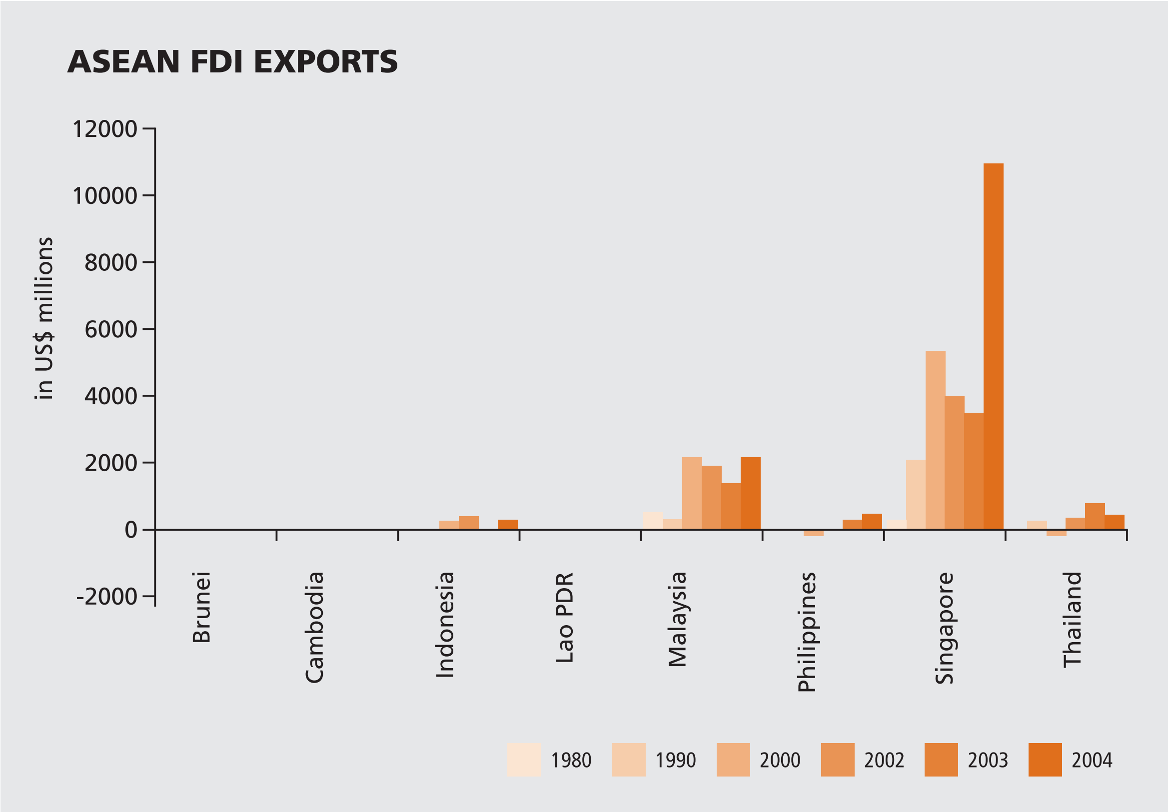
Intra-ASEAN FDI decreased from $2.63 billion in 2004 to US$ 2.22 billion in 2005. Interestingly, Singapore (among the ASEAN Members) holds the largest share of investments into other ASEAN countries, having invested at least US$1.33 billion in 2004 and US$1.056 billion in 2005.

The gaping difference between intra-ASEAN FDI and FDI among developed countries is clear and requires comprehensive explanation with a view to formulate an effectual plan to ameliorate it. There are numerous factors as to why a gap exists between FDI coming into ASEAN and FDI into developed countries. Details will be further explained in the subsequent discussion below.

Outward ASEAN FDI

One primary reason behind the relatively lackluster performance of ASEAN as far as intra-regional FDI is concerned is the equally low amount of outbound FDI attributable to each ASEAN country (with the exception of Singapore and Malaysia). This could be due to the fact that the private sector within ASEAN is still relatively underdeveloped and more governmental encouragement and assistance is required to expand the private sector capacity and capability in venturing overseas. It is heartening to note that Singapore invests more than 10% of its FDI exports within ASEAN. *Graph 13* highlights the wide disparity of FDI exports among ASEAN members.

Graph 13: ASEAN FDI Exports



Source: ASEAN Secretariat

Chapter Three

New Investment Measures Introduced by ASEAN

In view of the challenges and opportunities globally, ASEAN is rapidly responding with individual and unilateral FDI policy initiatives to improve its investment climate and facilitate its regional integration efforts. The succeeding portion enumerates FDI updates, the various policy thrusts and actions that have been undertaken by the ASEAN members towards the attainment of the said objectives. Briefly these updates include the latest FDI trends, the identification of priority areas and the provision of new incentives. These are summarized in *Table 7*.

Table 7: Updates and New Investment Measures Introduced by ASEAN

COUNTRY	Developments in FDI
Brunei Darussalam	**BOP FDI in 2005** The overall FDI at the end of 2005 showed a growth of 36 percent at USD 288 million compared to USD 212 million in 2004. The United Kingdom, Republic of Korea and Japan were the largest foreign investors amounting to 85 percent over total FDI. The other investors were Bermuda, France, India, British Virgin, Malaysia, Singapore and Mauritius. By region, Europe invested more than 70 percent of the total FDI mainly in mining sector while Asian investments were mostly in manufacturing, wholesale and retail trade. In term of economic sectors, mining was the main contributor to FDI amounting to 75 percent (USD 216.16 million), manufacturing at 16 percent (USD 46.77 million) and trade/commerce at 6 percent (USD 17.12 million). The

COUNTRY	Developments in FDI
	remaining sectors of construction, financial intermediation and services, real estate, services and others, contributed 3 percent to FDI. Within Asian countries, Japan is the main investor, invested USD 46 million in the manufacture of refined petroleum products, while Republic of Korea invested USD 22 million in non-metallic mineral products. Among ASEAN countries, Malaysia and Singapore were the main investors. These two countries invested a total of USD 18 million to the manufacturing of wood and metal products, trade and commerce, and services. **Administrative FI in 2005** In 2005, there were 6 new projects amounting to USD 20.05 million compared to only 3 new projects amounting to USD 1.28 million in 2004. The new investments were from Malaysia and Republic of Korea. **BOP FDI in 2006** In the first quarter of 2006, total FDI provisionally stood at USD 73.42 million which showed an increase of more than 100 percent compared to the same period of 2005 at USD 27.44 million. The positive growth had been attributed to an increase on investment in the mining sector from USD 24.22 million in 1st Quarter 2005 to USD 53.84 million in first Quarter 2006. The bulk of the investments were from United Kingdom at 73 percent, followed by Japan at 23 percent in the manufacture of refined petroleum products. **Administrative FI in 2006** No new projects were noted for 2006.

COUNTRY	Developments in FDI
Cambodia	**BOP FDI and Direct Investment Abroad Data (Q1 2006)** According to foreign investment project approvals data, it is estimated that BOP FDI recorded a net inflow of US$136.2 million in the March quarter 2006, up US$5.4 million (4%) on the net inflow recorded for the December quarter 2005. This was mainly due to an increase of US$119.8 million in equity capital of non-bank sector. The main contributors to the net increase were garments, hotels and resorts, banks and agricultures. During the same period, the outflow of Cambodian direct investment abroad was an estimated US$4.2 million, up US$1.2 million on the outflow recorded for the December quarter 2005. The level of Cambodian direct investment abroad is quite small, and mainly comprises of capital investment in housing and retail businesses. The level of foreign direct investment in Cambodia amounted to US$2,611.2 million at the end of the March quarter 2006, up from US$2,388.3 million in the December quarter 2005. These estimates are based on accumulated flows data since 1994. Up to the March quarter 2006, foreign direct investment was dispersed over several industries, mainly in Garment; Wood, Paper and Publishing; Banks; Hotels; Telecommunications; and Food and Beverages. Malaysia had the largest share of investment by country of investor, followed by China, Taiwan, Thailand, Singapore, Korea, Hong Kong and United Kingdom. **Data Collection and Compilation Issues** In the absence of a regular international investment survey (because of budget constrains), BOP FDI data are still estimated using foreign investment approvals information on fixed assets provided by the Council for the Development of Cambodia, supplemented by Balance of Payments Statistics Division estimates for working capital by all companies and fixed assets by non-CDC companies. The source data are

COUNTRY	Developments in FDI
	used as inputs to the estimation model developed by the Economic Research and Statistics Department. The estimation model applies different lag variables by type of investment in order to produce estimates that more closely approximate actual FDI. Cambodian Direct Investment Abroad estimates are also generated using an estimation model. The source data used in the estimation process include, for example, partner country data (when available), media reports, and investigations into Cambodian investments close to the border in neighbouring countries.
Indonesia	**FDI 2005** The total number of Foreign Direct Investment (FDI) that has been approved by Investment Coordinating Board for the period of 2005 in the industry sector pursuant to Law number 1 Year 1967 in conjunction with Number 11 Year 1970 regarding Foreign Capital Investment is 1,648 projects with investment values of USD 13,579.2 million. If it is compared with the same period in 2004, the number of foreign capital investment especially in the industry sector experiences investment increase of 1.4% with project value of 1.3%. **FDI 1st Semester 2006** During the period of January until June 2006, the foreign capital investment in industry sector reaches 864 projects with an investment value of USD 5,978.1 million. The total amount of investment value and the number of investment plans in the period of January – June 2006 compared with the corresponding period of January – June 2005 have experienced a decrease of investment plan by 0.8%. In 2006 (1 January - 30 November), Ranking of Investment Planning Approvals value by sectors are: • Basic Metal Industry = USD 2,626.3 million (75 projects);

COUNTRY	Developments in FDI
	• Construction = USD 2,122.0 million (41 projects); • Chemical and Pharmaceutical Industry = USD 1,319.0 million (49 projects); • Electricity, Gas and Water Supply = USD 1,179.5 million (15 projects); and • Paper and Printing Industry = USD 1,168.8 million (20 projects). **Ranking of Foreign Investment Planning Approvals Value By Country of Origin** The most outstanding Asia countries of origin are: • Malaysia = USD 2,218.1 million (187 projects); • Singapore = USD 1,789.7 million (212 projects); • South Korea (Republic of Korea = USD 685.6 million (283 projects); • Japan = USD 430.2 million (51 projects); and • Hong Kong = USD 353.5 million (17 projects). The most outstanding ASEAN countries of origin are: • Malaysia = USD 2,218.1 million (187 projects); • Singapore = USD 1,789.7 million (212 projects); and • Thailand = USD 124.4 million (13 projects). **FDI Promotion Policies** The increase of total amount and number of industry sector investment value plan for the period of January – December 2005 is USD 37,133 million compared with the corresponding period of January – December 2004 which is USD 25,663 million. It can be shown that the investment value of 2005 experiences an increase of 1.4%. It increased because of the establishment of a conducive investment condition, transparency, as well as the legal certainty in the implementation of capital investment. In order to support the investment increase especially Foreign Capital Investment and Domestic Capital Investment, government issues some policies such as:

COUNTRY	Developments in FDI
	Year 2005 - To establish stability of macro economy as the step of acceleration process to support global economic growth. - The acceleration of investment service in Central and Regional Government. **Year 2006** - Government issues Presidential Instruction number 3 Year 2006 concerning on the Policy Package for Improving the Investment Climate. The measures are; a. To revise laws and regulations on investment provision. b. To accelerate business permits and licenses as well as capital investment permits and licenses and establishment of a company, including: - The simplification of process and procedure (deregulation) of capital investment approval issuance and business permit issuance (automation system) by providing front office and back office system. - To prepare concept of integrated service system in capital investment sector. - To provide information concerning the application procedure of capital investment permit through printed media and website. c. To provide tax incentives to promote direct investment in business activity and/or in certain national priority areas in order to reduce regional disparity. **The package covers five main policy areas for 2006, as follows:** 1. Policy area emphasises general issues including institutional strengthening of investment services (most importantly, finalising the draft law on investment), harmonising and synchronising national and local government regulations, and the requirement for conducting a proper environment impact analysis.

COUNTRY	Developments in FDI
	2. Policy area deals with customs and excise, improving customs procedure, expediting flow of goods, promoting the role of bonded warehouses, eradicating smuggling, and debureaucratisation of the responsible agency. 3. Policy area covers tax reforms: investment tax incentives, consistent implementation of a self-assessment system, realigning value added tax to promote exports, and protecting the rights of taxpayers as well as promoting transparency and disclosure. 4. Policy area involves labour issues: creating a more conducive environment for industrial relations to support job creation, protecting and assisting proper job placement for overseas Indonesia labour, facilitating amicable, quick, coos-effective and just settlement on labour disputes, simplifying the process of permit issuance on labour/employment related matters, creating a flexible and productive labour market, and developing new approach for transmigration to generate employment. 5. Policy area focuses on issues related to empowering small and medium enterprises (SMEs) and cooperatives. **- The Establishment of Special Economic Zone** This is a fast growing area and it is expected to be able to give direct economic impacts such as new employment opportunity, technology transfer process, and may support the economic growth of the surroundings area. It is planned that a number of Special Economic Zones will be formed and for the first phase, Batam, Bintan and Karimun have been announced as Special Economic Zone on 25 June 2006.

COUNTRY	Developments in FDI
Lao PDR	**FDI Trends 2005 to 1st Semester 2006** In FY 2004/05, Foreign Direct Investment (FDI) showed a significant increase and 143 projects with the investment capital of USD1,249 million have been approved. Actual inflows increased by 66 percent from USD330 million in 2003/04 to USD499 million in 2004/05. The following sectors have received the most investment: power generation has attracted USD1,065 million particularly from Nam Theun 2 hydroelectric project, mining USD93.5 million, services USD20.8 million and agriculture USD17 million. FDI for the year 2005 based on FDI balance of payments data through the banking system recorded at USD27.7 million, an increase of approximately 64 percent compared to USD16.9 in 2004. In terms of actual capital inflows regarded to BOP data, major foreign investors were attracted to manufacturing 37 percent of the total FDI inflows, agriculture 25 percent and mining 24 percent, while FDI classified by country of origin showed that Thailand was the largest contribution of FDI (19%); followed by China (16%), Australia (15%) and United Kingdom (14%). Intra-ASEAN, Thailand remained the largest contributor in 2005 (USD5.21 million); followed by Vietnam (USD1.08 million), Singapore (USD0.36 million) and Malaysia (USD0.04 million). In the first half of FY 2005/06 (October 2005-March 2006), there were 89 approved projects with the total FDI of USD1,277 million. Of total investment, energy sector received more attention from investors, recording of USD996 million; followed by construction sector USD130 million, agriculture USD90 million and trade USD32 million. For the source of countries of FDI, Thailand was the largest contributor during this period which accounted for USD643 million largely due to its share in a big project such as Nam Theun II project. This was followed by Vietnam (USD246 million), China (USD192 million) and Korea (USD153 million).

COUNTRY	Developments in FDI
	Factors Affecting Investment Trend and Policy Development The increase of FDI is owing to the improved investment policy and the introduction of the one-stop service approach, which has allowed a more speedy approval process. Also, arrangement meetings have been made for the government and the private sector twice a year on matters related to investment management and promotion, which has helped address investors' concerns more speedily. This will be made to create more varied ways of mobilizing foreign investment including the organizing of seminars within and outside Lao PDR by focusing on the existing business opportunities, the organizing of meetings between the Lao leadership and entrepreneurs, providing more information on investment, marketing and technology and promoting marketing through internet. In the matter of improving investment regulation, Lao PDR has improved the domestic and foreign investment laws and drafted corresponding decrees for implementation. These include a mechanism and policy to encourage investment in industrial zones. Also, delegate the provinces in order to authorize investment in prioritized areas and in granting permission to import vehicles and raw materials, according to the existing regulation, while the central authority will monitor the performances of the provinces. Simultaneously, Bank of Lao PDR has been pursuing flexible monetary and exchange rate policies in order to sustain the stability of macroeconomic as a whole and to stimulate greater FDI in the country.
Malaysia	There was an increase of 37% in approved foreign investments in the manufacturing sector in 2005 compared with 2004. Of the 1,027 projects approved in 2005, a total of 563 manufacturing projects involved foreign investments. Foreign investments in these projects amounted to US$4.7 billion, compared with US$3.4 billion in 2004. Foreign investments in new projects amounted to US$1.2 billion while reinvestments by foreign investors totalled US$3.5 billion, as existing foreign investors continued to reinvest, consolidate, expand and diversify into higher value-added products and activities.

COUNTRY	Developments in FDI
	In terms of industries, foreign investments were mainly in electrical & electronics products, scientific & measuring equipment, chemicals & chemical products, non-metallic mineral products and plastic products industries. Foreign investments in the electrical & electronics products industry constituted more than 60% of total foreign investments approved in 2005, with many of the projects approved incorporating R&D activities as an important component of their expansion activities. This is in line with the Malaysian Government's efforts to promote the development of technology and knowledge-driven industries. The top five sources of foreign investments were USA, Japan, Singapore, Netherlands and Korea. By region, Asia accounted for the largest share with US$2.3 billion or 49%, including US$819.7 million from ASEAN member countries. This was followed by North America (US$1.4 billion) and Europe (US$0.8 billion). In 2005 and 2006, various tax measures were introduced to enhance foreign and domestic investments in the manufacturing and related services sectors, reduce costs of doing business, and improve the business environment. New incentives introduced include : - **Tax Incentives for Production of Halal Food** Companies producing halal food that use new, modern, updated technology and equipment are eligible for Investment Tax Allowance of 100% of qualifying capital expenditure for five years. - **Incentives for Relocation of Manufacturing Activities to Promoted Areas** Existing companies which relocate their manufacturing activities to the promoted areas of Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak are eligible for a second round of Pioneer Status/Investment Tax Allowance incentives.

COUNTRY	Developments in FDI
	- Incentives for Commercialisation of Public Sector R&D (i) Companies that invest in subsidiary companies that are engaged in the commercialisation of the R&D findings are eligible for tax deduction equivalent to the amount of investment made in the subsidiary companies; and (ii) Subsidiary companies that undertake the commercialisation of the R&D findings are eligible for Pioneer Status with 100% tax exemption on statutory income for 10 years. **- Review of Tax Incentives for Generation of Renewable Energy** (i) Pioneer Status with tax exemption of 70% is increased to 100% of statutory income and the incentive period is extended from 5 to 10 years; or (ii) Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years is increased to 100% with the allowance to be offset against 100% of statutory income for each year of assessment. (iii) The incentive package of Pioneer Status and Investment Tax Allowance as well as import duty and sales tax exemption is extended for another 5 years until 31 December 2010. **- Introduction of Group Relief as Tax Treatment** Group relief as tax treatment is provided to all locally incorporated resident companies. Provision of group relief is limited to 50% of current year unabsorbed losses to be offset against the income of another company within the same group (including new companies undertaking activities in approved food production, forest plantation, biotechnology, nanotechnology, optics and photonics) subject to conditions.

COUNTRY	Developments in FDI
	- Extending the Scope of Incentives for Multimedia Activities Selected companies undertaking multimedia activities outside the Cyber cities (Cyberjaya, Kuala Lumpur City Centre, Technology Park Malaysia, Bayan Lepas in Penang and Kulim Hi-Tech Park in Kedah) are eligible for the following incentives: i. Pioneer Status with tax exemption of 50% of statutory income for a period of 5 years; or ii. Investment Tax Allowance of 50% of qualifying capital expenditure incurred within a period of 5 years to be offset against 50% of statutory income. **- Extending the Scope of Incentives for Private Higher Education Institutions** The current incentive i.e. Investment Tax Allowance (ITA) of 100% on qualifying capital expenditure incurred within a period of 10 years to be offset against 70% of statutory income is extended to : i. PHEIs in the field of qualifying science; and ii. existing PHEIs in the field of science that undertake additional investment to upgrade equipment or expand their capacity. **- Tax Treatment on Expenses Incurred for New Courses by Private Higher Education Institutions** The following expenses incurred by PHEIs are allowed as deductions to be amortised for 3 years: i. development of new courses; and ii. compliance with regulatory requirements for introducing new courses.

<table>
<tr><th>COUNTRY</th><th>Developments in FDI</th></tr>
<tr><td>Myanmar</td><td>
FDI Trend 2005 to 1st Semester of 2006
- Administrative FDI
Since the promulgation of the Union of Myanmar Foreign Investment Law, Myanmar Investment Commission had permitted 399 Projects from 27 Countries and Regions up to the end of the first half of 2006. There are 152 manufacturing sector, 71 in Oil and Gas, 24 in Livestock and Fisheries, 19 in Real Estate, 16 in Transportation and Communication, 6 in other services, 4 in Agriculture, 3 in Industrial Estate, 2 in Construction Industry and 1 in power sector. The FDI in these projects amounted to US $ 13,816.86 million.
The leading sectors are power, oil and gas, manufacturing, hotel and tourism, real estate and mining sector.
The leading investors are Thailand, United Kingdom, Singapore, Malaysia and Hong Kong. The major source of FDI in Myanmar is from the ASEAN Countries. Among the 4 top investors, there are from ASEAN countries. At present Six ASEAN countries are investing in Myanmar. Six countries namely Thailand, Singapore, Malaysia, Indonesia, the Philippines and Brunei Darussalam have collectively pledged about US $ 9,860 million worth of investment in projects. These projects, accounted for 71.3 percent of the total FDI flow to Myanmar.
This outlook is as such because majority of FDI in Myanmar comes from ASEAN and other Asian countries.
The main recipient industries are Power, Oil and Gas, Manufacturing, Hotel and Tourism industry, Real Estate Development and Transportation.
In the year 2005, MIC had approved 7 projects worth US $ 98.3 million among them FDI under Oil and Gas sector was accounted for US $ 97.6 million, 99.3 percent of the total FDI in the said year.
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COUNTRY	Developments in FDI
	In the first half of 2006, MIC had approved only one project worth US $ 6030 million in Hydropower Electricity Generation on Than Lwin River under the name of Ta Sang Hydropower Co., Ltd. **- BOP FDI** In the view of BOP FDI data, actual inflow in the year 2004-2005 was US $ 251.13 million and 2005-2006 was US $ 71.76 in million respectively. We do hope that BOP FDI data shall be up trend during the period of 2005-2006 because of permitted to "Hydropower Electricity Generation" on Than Lwin River. There are no investment policy change and measure introduced in 2005 and 1st semester 2005-2006.
Philippines	**FDI Trends** For the period January to September 2006, total approved FDIs in the Philippines posted a 155 % growth, totaling $2.96 billion compared to the $1.16 billion worth of FDI approvals in the same period of 2005. The manufacturing sector expanded by 163%, trade sector by 231%, and services sector by 115%. Korea was the top source of FDI commitments in the first nine months of 2006 constituting 34.7% of the total FDIs for the period. USA, China and Japan followed with 23%, 11.7%, and 11.5% shares to total FDI, respectively. Together, the top four countries contributed 80.7% of potential FDIs for the period. **Policy Measures/Initiatives** - Approval of the Investments Priorities Plan (IPP) for 2006 by President Gloria Macapagal-Arroyo. The 2006 Investment Priorities Plan (IPP) with the theme, *"Propelling the Nation to 1st World Status in 20 Years"*,

COUNTRY	Developments in FDI
	embodies the development thrust of the government for sustained and equitable economic growth with focus on the sectors identified in the Medium-Term Philippine Development Plan (MTPDP) 2004-2010. It covers the eleven (11) investment areas identified in the MTPDP (IT & IT-enabled Services Sector, Automotive, Electronics, Mining, Healthcare and Wellness, Tourism, Shipbuilding, Ship repair, Fashion Garments, Jewellery, and Agribusiness), export activities and the activities mandated by law to be included in the IPP or be granted incentives under Executive Order No. 226 or the Omnibus Investments Code of 1987. Three (3) new priority areas are included in the 2006 IPP, namely: (1) Projects under the Retention, Expansion, and Diversification (R.E.D) Program to encourage existing investors to retain their investments in the country as well as expand and diversify their interest; (2) Relocation Activities or investments from other countries that would transfer its production or service facilities into the Philippines; and (3) Production of machineries and equipment, raw materials, and intermediate inputs in support of the activities listed in the IPP to improve the supply chain of listed activities. - Republic Act 9343 *"An Act Amending RA 9182 Otherwise Known as the Special Purpose Vehicle Act of 2002 for the Purpose of Allowing the Establishment of Registration of New SPVs and for other Purposes"* President Arroyo signed into law RA 9343, a measure extending tax incentives for the establishment and registration of entities that will buy banks' idle assets. The law will widen channels of investments as it would encourage financial institutions to get rid of non-performing assets to create liquidity that can be used to generate economic growth and rehabilitate distressed businesses. **- Rationalization of the Incentives Bill** The Philippine Board of Investments (BOI) is cooperating closely with the Bureau if Internal Revenue (BIR) in the administration and monitoring of incentives granted to BOI-

COUNTRY	Developments in FDI
	registered firms particularly the Income Tax Holiday (ITH) incentive. A Memorandum of Agreement between the BOI and the BIR, which is currently in its finalization stage, would provide the framework and amend the existing procedural guidelines. **- Implementation of the Reformed Value Added Tax (RVAT)** The government implemented the RVAT, a two-percentage point increase in the value added tax beginning February 2006, which increased the country's revenue base by scrapping some sectors' exemption from paying such taxes. **- Build-Operate-Transfer Schemes (BOT)** Significant gains have been made in the BOT Schemes as an alternative way of encouraging private sector investment in the country's infrastructure development. - The SME Development Plan is being implemented and the twin strategies of credit provision and product development are being pursued. - The Philippines continues to participate and conclude various international trading agreements, i.e. Japan-Philippines Economic Partnership Agreement (JPEPA), the ASEAN Priority Integration Program (PIP), the ASEAN China Free Trade Area, and the ASEAN-Australia and New Zealand FTA, among others. **Institutional Reforms** **- Ease of Doing Business Thru Competitiveness** The Philippine Government, together with the private sector and the Foreign Chambers of Commerce, conducted the 1st ever National Competitiveness Summit on 06 October 2006 to address the results of the Philippines' ranking in

COUNTRY	Developments in FDI
	the *"Doing Business Survey"* conducted by the World Bank and Global Competitiveness Index. As a result of the summit, the National Competitiveness Council (NCC) was created under Executive Order 571. The following were defined as the focus areas of the NCC in enhancing the country's competitiveness: - Competitive Human Resources - Efficient Public and Private Sector Management - Effective Access to Financing - Improved Transaction Flows and Costs - Seamless Infrastructure Network - Energy Cost Competitiveness/Self Sufficiency Although investors' concerns cut across all the focus areas, the ANTI-RED TAPE TASK FORCE (ARTTF) created under Executive Order 557 to combat red tape in the government, and serves as the sub-committee of the Improved Transaction Flows and cost of the NCC, explicitly handles these concerns. At present, the ARTTF is monitoring the agencies' compliance with the anti-red tape initiative of the government. **- Institutionalization of Simplified Registration Procedure** The new procedures reduced project evaluation processing time from twenty (20) working days to one (1) day. **- Commitment of the Central Bank of the Philippines** The Bangko Sentral ng Pilipinas (BSP) has remained committed to maintaining a more financially viable and stronger banking system as reflected in the policy issuances implemented in 2005. The reforms undertaken were focused on creating a deep and efficiently functioning domestic capital market through the establishment of basic market infrastructures and an enabling environment that will promote increased business activity.

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Singapore	**2005 FDI Trends and Developments (Commitments in Manufacturing)** The manufacturing sector attracted $8.5 billion in terms of fixed assets investment commitments in 2005 surpassing the $8.3 billion in 2004. This reflected Singapore's attractiveness and competitiveness as a hub for the full chain of manufacturing activities. The commitments will create new capacities in manufacturing and enhance future growth. When fully operational, they will generate $6.4 billion of value added and create 16,700 jobs, of which 49% are for skilled workers. About three quarters of the total commitments came from overseas investors. The top investors were from the US, Europe and Japan with $2.1 billion, $2.0 billion and $1.3 billion respectively. Commitments from new geographical areas totalled $1.0 billion. Local investors accounted for another $2.1 billion. Almost 75% of the commitments were for projects in the electronics and chemicals clusters. Biomedical manufacturing, transport engineering and precision engineering cluster attracted commitments of $0.9 billion, $0.6 billion and $0.4 billion respectively.
Thailand	**FDI Trends in Manufacturing (2005-1st Semester 2006)** In 2005 approved manufacturing investment with foreign interest depicted a upward trend, in terms of value of projects. The total number of approved projects is 605 projects, same as previous year. The total value of projects increased by 20 percent to approximately 247 billion baht (USD 6.2 billion*). The largest source of foreign direct investment was Japan (141 billion baht or USD 3.5 billion), followed by Malaysia (17billion baht or USD 0.42 billion), Taiwan (12 billion baht or USD 0.3 billion), and Netherlands (11 billion baht or USD 0.27 billion) respectively. In terms of industry, classified by 2-digit level of ISIC code, the manufacturer of radio, television and communication

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	equipment and apparatus were the largest recipient of foreign direct investment in 2005, accounting for approximately 78 billion baht (USD1.95 billion), or 31 percent share of total investment. The second largest was the motor vehicles, trailers and semi-trailers (27 percent machinery and equipment N.E.C. (17 percent), followed by chemical and chemical products (6 percent), and fabricated metal products, except machinery and equipment (6 percent). In the first half of 2006, a downward trend was observed as value of projects are decreased compared to the same period of previous year. In particular, the number of approved projects increased by 0.3 percent while the value of approved projects decreased by 23.3 percent. Foreign investment inflows in the first half of 2006 were primarily dominated by investments from Japan, United State, Taiwan, Cayman Island, Singapore, Korea. Japan continued being the largest source of manufacturing investment. However, the number of projects decreased from 156 projects in the same period of 2005 to 152 projects in 2006. In terms of value of projects, Japan investment share accounted for 51.5 percent of the total value of approved projects, decreased from a 69 percent share in the first half of 2005. In terms of industry, the manufacturer of chemical and chemical products were the largest recipient of foreign direct investment in the first half of 2006, accounting for approximately 35 billion baht (USD0.9 billion) or 34 percent share of total investment. The second largest was the manufacturer of radio, television and communication equipment shared 29 percent, and followed by manufacturer of machinery and equipment (9 percent). **Policy Developments,** Thailand Board of Investment offers additional incentives given to 3 target industries which are electronics, petrochemical and agro-processing to stimulate investment. **Electronics Industry,** Projects that have investments of over 30 billion baht and are considered priority activities,

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	i.e. requiring high technology applications or manufacturing products not yet produced in Thailand, will receive maximum tax incentives and other additional assistance measures. Those measures include setting up human resource funds and R&D funds. **Petrochemical Industry,** The BOI will offer investment promotion privileges to project manufacture five basic agents used in the petrochemical industry: sodium chloride, chlorine, caustic soda, hydrochloric acid and hydrogen peroxide. The objectives of promoting production of these five agents are to reduce reliance on foreign imports and to strengthen competitiveness in Thailand petrochemical's sector. The industry is not a major income earner, generating export revenue of more than 275 billion baht per year. **Automotive rubber tire industry,** The BOI will offer duty-free import of machinery for expansion projects in Zone 1 and 2. To encourage existing manufacturers to expand their capacity, the BOI will offer duty-free import of machinery for expansion of the tire manufacturing facilities located outside industrial estates, they were not eligible for this incentive. These additional incentives would draw more investment to the three target sectors. One of the reasons restricting the flows of investments into some industries, such as petrochemical and alternative energy, is the lack of raw materials on the upstream end of the production line. As the government offers more support to create integrated production, more industrial linkages are expected, and related industries will be developed. **FDI Trends 2005 to 1st Semester 2006** Vietnam has gained important achievements in social economic development by consistently pursuing its reform policy. During 5 years of 2001-2005, the GDP growth rate has increased yearly, achieving the average growth rate of 7.5 percent per annum. In 2005, Vietnam's GDP growth rate was 8.4 percent, of which industry sector increased by 10.6

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	percent, service sectors increased by 8.5 percent and export increased by 22 percent.
Viet Nam	Foreign Direct Investment (FDI) has played an important role in the above-mentioned achievements. Since the year 2000 the inflows of foreign direct investment has gradually recovered and increased again, especially during the past three years. Foreign investment was US$3.1 billion, US$4.5 billion and US$6.8 billion in 2003, 2004 and 2005 respectively. The foreign direct investment of 2005 is doubled that of 2000. It is also the highest figure of FDI into the country since Asia financial crisis, showing a strong signal of increasing FDI inflow into Vietnam. By the end of 2005, Vietnam has been home to more than 6000 valid foreign investment projects from 74 countries and territories with total committed capital of about US$ 51.6 billion, total implemented capital of US$34 billion. In 2005, foreign investment sector is responsible for 20 percent of GDP, 37 percent of total industrial production and 55 percent of national export earnings. There were 970 new projects amounting to US$6.84 billion, increased 50 percent compared to previous year 811 new projects with US$4.54 billion. The new investors were from 52 countries and territories, in which Japan and Korea were the biggest. They were mostly attracted to manufacturing with the total registered capital of US$4.81 billion. During first half of 2006, total approved FDI reaches $2.85 billions, increased by 4.2% compared to same period of the previous year. The new investors were from 30 countries and territories, in which Hong Kong and Korea were the biggest. They were mostly attracted to manufacturing with the total registered capital of US$1.38 billion. The implemented capital is increasing stably for the past 5 years (2001-2005). It was US$2.1 billion, US$2.6 billion, US$2.5 billion and US$2.8 billion in 2001, 2002 and 2003, 2004 and 2005.

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	In the upcoming years, foreign investment activities in Vietnam shall be carried out in the context of deep integration into regional and international economies. Based on the assessment about the impact of the economic international integration process and the domestic potential, Vietnam shall strive for a sustainable development, in conjunction with increasing of social welfare and environment protection. FDI inflow is, thus, expected to continue its increasing trend. **Factors Affecting Investment Trends** In recent years, Vietnam has improved incessantly its investment and business environment towards increasing transparency and creating more favourable conditions for investors. **- Laws and policies on investment have been improved and innovated** Last November, the Vietnamese National Assembly approved a number of important laws, including the Law on Investment and Enterprise Law which are applied to all investors regardless of economic sectors. These laws took effect on the 1st July 2006. Accordingly, investors shall be permitted to invest in all sectors and in all industries which are not prohibited by law; and shall have the right to autonomy in investment – business; to select the form of investment, scale of the investment and investment partner; to register business in one or more industries; to access and use investment resources; to assign or adjust capital of investment project; to access relevant information about investment activities. Dispute regulations are made clearer and more compatible to international practices. The State provides equitable and fair treatment to all investors from all economic sectors and also between domestic investment and foreign investment. Beside limited liability company, foreign investors shall be able to establish other form of investment such as joint-stock company, partnership, investment by purchasing stocks, directly invest in economic organizations, merger and acquisition. Apart from financial incentives such

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	as preference on tax and land use rights, investors can also take advantage of non-financial incentives such as training, technology transfer and infrastructure development. The Government is elaborating degrees providing instruction to the above mentioned Laws in order to create a transparency and favourable legal environment for investors. In addition, regulations on intellectual property, goods label, and technology transfer have been amended in order to comply with international practices. The issuance of Competition Law has created legal framework for healthy competitive activities. - **Continue deeper integration into regional and international economies** The ASEAN integration process and implementing of Bilateral Trade Agreement (BTA) between Vietnam and the United States, Vietnam - Europe Cooperation Framework and other bilateral and multilateral economic agreements have created favourable conditions to expand export market and to help enterprises to overcome the limitation of market. Vietnam is concluding its bilateral and multilateral negotiations to WTO accession and is expected to become a WTO member by the end of this year. By following the international commitments and the requirements of economic international integration, Vietnam is slowly opening door in service sector to foreign investors, even in areas of real estate, urban zone, supermarket, banking, insurance and entertainment centers. Following the success of the Vietnam-Japan Joint Initiative to improve Vietnam's investment environment with a view to strengthening the country's competitiveness, Vietnam and Japan have agreed to launch the Phase 2 of the Initiative in December 2005. The Action plan of the Phase 2 is expected to complete the implementation by the end of 2007. Many issues raised by foreign investors are expected to be resolved and the business environment shall be further improved.

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	- **Improving communication mechanism between ministries, governmental agencies and investors.** The Government continues to improve the communication mechanism between ministries, governmental agencies and investors in order to promptly discover and address problems of on-going projects, ensuring their effective and timely operation. Business forums and the Consultative Group meeting are organized semi-annually to open opportunities for foreign investors to have their recommendations and for governmental leaders and representatives to discuss measures.