

**Remarks by
Lim Hong Hin
Deputy Secretary-General of ASEAN
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Distinguished Guests
Ladies and Gentlemen
Good afternoon.

It is my pleasure to join you in this session and be part of the 6th ASEAN Business Investment Summit. I would like to thank the ASEAN Business Advisory Council for the opportunity to contribute to the discussion on investment in ASEAN.

Investment Landscape in ASEAN

Investment is a vital cornerstone underpinning the economic performance of ASEAN Member States (AMS). While far from being impervious to external shocks, ASEAN economies have shown resilience through the 2008 global financial crisis as many economies outside the region reeled from its effects. In 2012, ASEAN economies remained robust, growing by 5.7% at the backdrop of a still weak global environment. Gross domestic investment has been a key driver of growth in 2012, exceeding the contribution of the other components of domestic demand. It is noteworthy to point out that the contribution of investment to ASEAN's economic growth in 2012 exceeds its average contribution over the last five years (2007-2011). ASEAN's solid external trade linkages further bolstered the region's overall economic performance.

ASEAN's strong economic showing has been a major "pull" factor attracting foreign direct investment (FDI) in the region. This is most evident after the 2008 crisis when anaemic growth still troubled many economies around the world. While FDI flows to developed economies declined considerably after the crisis, FDI inflows to developing economies remained resilient.

And ASEAN was a favoured destination. In 2012, FDI inflows to ASEAN reached US\$108.2 billion, bouncing back from 2008 and 2009 levels when capital flows to the region also fell. These FDI inflows fuelled productive activities in the region, with the service sector being the biggest beneficiary. In 2012, the service sector received about 56% of the total FDI flowing into ASEAN economies. Manufacturing sector accounted for 35% of the total FDI inflows.

ASEAN's Initiatives on Investment

ASEAN recognizes the important role of investment to the region. As such, investment is one of the key policy areas in the ASEAN Economic Community (AEC) Blueprint. The AEC Blueprint defines the architecture for ASEAN to achieve, by 2015, the four pillars of AEC. That is, an ASEAN region that: has one single market and production base; is highly

competitive; is supportive of equitable economic development; and is fully integrated into the global economy. Under the pillar of one single market and production base, free flow of investment is one of the core elements. The AEC Blueprint states clearly that a free and open investment regime is key to enhancing ASEAN's competitiveness in attracting FDI. And it is through the sustained inflows of investment that the dynamic development of ASEAN economies is ensured.

To this end, ASEAN reviewed its past investment agreements—ASEAN Investment Guarantee Agreement (IGA) and ASEAN Investment Area (AIA) Framework Agreement—and came up with a consolidated framework embodied by the ASEAN Comprehensive Investment Agreement (ACIA). Entered into force in March 2012, ACIA is envisaged to be an overarching framework which is forward looking and with improved provisions, taking in consideration international best practices that would increase investor confidence in ASEAN.

ACIA covers four dimensions of investment, namely, liberalization, protection, facilitation and promotion. Aside from being comprehensive, ACIA offers notable improvements from the past ASEAN investment agreements, primary of which is the acceleration of ASEAN investment integration. ACIA brings forward the objective to achieve an ASEAN open investment regime to all investors to 2015 instead of 2020, as previously stated under AIA. Also, ASEAN-based foreign investors can benefit from non-discriminatory treatment by 2015, earlier than the offered 2020 timeline under AIA. Further, ACIA provides new articles on the prohibition of performance requirements and nationality requirements of managers. ACIA also provides detailed procedures on dispute settlement, where investors have a recourse to bring a claim to domestic courts (as applicable) or international arbitration in case of disputes with host government. And to improve transparency, ACIA mandates prompt notification of new laws (and changes to it) and new international investment agreements entered into by ASEAN economies.

From the enforcement of ACIA in March 2012, work continues on other related investment initiatives in ASEAN.

A peer review process of investment policies has started in line with the provisions of ACIA. With the investment policy review, countries are encouraged to implement reform programs leading to greater transparency of investment liberalization and facilitation measures.

To increase awareness and deepen understanding among stakeholders, primarily investors, an introductory booklet on ACIA was published in April 2012. This was followed by an ACIA Guidebook for Businessmen and Investors released in March 2013. An ACIA Socialization Forum was likewise organized in March 2013. An ASEAN Investment Website (*InvestASEAN*) was developed and was officially launched at the recent AEM-AIA Council Meeting. *InvestASEAN* will serve as a one-stop knowledge and information portal to promote and increase awareness of ASEAN being an investment destination.

Investment missions were conducted from ASEAN6 to CLMV countries with the objective of promoting intra-ASEAN investment. ASEAN is also implementing a project on improving business licensing procedures in CLMV countries to enhance investment facilitation.

Policy Challenges

ASEAN's undertaking to achieve a free and open investment region is far from being an easy task. Challenges abound. Progress in implementation across initiatives and across member states is uneven. As a consequence, the distribution of FDI in the region is likewise highly imbalanced. Decomposing the region's total FDI inflows reveals that Singapore has accounted for more than half of the total in 2012. And this has been the trend from 2000. Indonesia is a far second, with an 18% share while the shares of Malaysia, Thailand and Vietnam range from 8-9% each. The rest of ASEAN accounted for just 5% of total FDI inflows to ASEAN.

FDI, by its nature, will seek environment where the invested capital could generate maximum economic gains. And so, cost matters significantly. This is especially true for the type of FDIs flowing into ASEAN. A recent report on ASEAN integration (ASEAN Integration Monitoring Report, 2013), jointly prepared by ASEAN and World Bank, stated that FDI inflows to the region are linked with "vertical"-type FDIs. These FDIs are motivated by access to cheap and competitive production inputs. Similarly, FDI flowing into ASEAN FDIs flow are motivated to create export platforms.

Findings of various investment climate surveys suggest that while a selected few among ASEAN countries have made much headway in fostering good investment environment within their borders, the majority still lags behind. This is not to discount the advances made by many ASEAN countries to streamline cumbersome administrative procedures. The *World Bank Doing Business 2013* indicated that significant improvement was made in streamlining procedures to start a business in many ASEAN economies. Still, it resonates that further reforms are called for, especially in strengthening legal institutions relevant to business regulation.

Going beyond national frontiers, facilitating regional investment is likewise fraught with challenges. A survey on enterprises doing business in ASEAN indicated that firms identified transparent and consistent cross-border investment policies as vital factors for them to explore a regional expansion of their businesses (Accenture, 2011). There is a nascent development at this front. A recent survey of large multinationals from a wide variety of sectors operating in the ASEAN region averred that many of these multinationals have begun to explore "regional corporate strategy".

For enterprises to view the ASEAN region as one investment destination, convergence towards good business practices is essential. One policy measure under the investment component of AEC supports this thrust, that is, the identification for potential adoption of applicable international best practices on investment measures. A comprehensive study will be undertaken to support the initiative. The study, which is still currently being tendered, needs to be fast-tracked.

Conclusion

To conclude, I reiterate that ASEAN recognizes the importance of investment in sustaining the region's dynamic development. That is why ASEAN remains unwavering in its commitment to pursue initiatives to foster a free and open investment regime in the region. Accomplishments have been many, yet, we all can agree that, indeed substantial work still remains. We carry on.

And as we move the policy agenda forward, sharing insights and exchanging views in sessions like what we have today is very much welcomed. Together with all the participants, I am looking forward to the rich discussion that we are going to have shortly.

Thank you.