



# ASEAN INVESTMENT REPORT

## 2007

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## ASEAN INVESTMENT REPORT 2007

### “Sustaining FDI Flows into the ASEAN Investment Area”

#### Executive Summary

1. 2006 was an excellent year for ASEAN in terms of foreign direct investments (FDI) inflows. ASEAN FDI performed consistently in terms of share and growth. ASEAN FDI grew by 27.5% from US\$ 41.0 billion in 2005 to US\$ 52.4 billion in 2006, taking a 23% share of FDI in the Asia and Oceania region. This growth sustained ASEAN's FDI performance in 2005, where ASEAN FDI flows exceeded 1997.
2. Globally, FDI reached US\$1.2 trillion in 2006, up by 34% from US\$ 916 billion in 2005. The challenge for ASEAN in 2006 was to sustain and grow the level of FDI Flows that was achieved in 2005 given the increasing global FDI flows.
3. The top investors of ASEAN in 2006 were Japan, the United Kingdom, the United States of America, the Netherlands and Germany. In particular, Japanese investments into ASEAN surged 49% in 2006 after a few years of feeble growth in the early 2000s. Together with the above named developed countries, they contributed almost half of total FDI in ASEAN.
4. Intra-ASEAN investments has grown significantly over the last two years since it was draw attention to that this was an area that should be a main contributor for FDI growth for ASEAN. The revised and updates statistics for 2005 currently indicates that intra-ASEAN investments was US\$3.76 billion or 9.2% of total ASEAN FDI. For 2006, intra-ASEAN investments grew by 66% to US\$6.24 billion, contributing 12% of total FDI in ASEAN. This is a significant increase and highly satisfying for ASEAN member countries which have made intensive efforts to promote intra-ASEAN investments.
5. FDI outlook for 2007-2008 remains bright and is build upon the increasing interest and confidence by investors in investing and doing business in the region. Barring any financial or economic shocks, such as a recession in the United States, this favourable outlook is expected to continue in the next few years. Against this background, flows to ASEAN in 2007 are projected to reach another record level - surpassing \$60 billion in 2007, up from \$52.4 billion in 2006.
6. To maintain the growth momentum of FDI into the region, ASEAN needs practices to improve its regional policy framework for investments, including a co-ordinated ASEAN approach towards creating a business-friendly environment to attract more investments from existing, as well as potential investors. In this regard, ASEAN has agreed to accelerate its economic integration efforts to enhance competitiveness. The vision of ASEAN Leaders is to transform ASEAN into a single market and production base, highly competitive and fully integrated into the global community by 2015 with emphasis on equitable economic development where all citizens share in the benefits of ASEAN economic integration.

7. In addition, the ASEAN Leaders have endorsed the ASEAN Economic Community Blueprint which outlines that vision and provides a practical plan to turn the vision into reality. The Blueprint is the result of cooperative efforts of various stakeholders. It is a plan to create an attractive investment climate that stimulates ongoing developments in ASEAN and promotes enterprise growth, as well as job creation.

8. As part of the response to global and regional challenges and opportunities, the ASEAN Investment Area (AIA) Council of Ministers has agreed to revise the Framework Agreement on the ASEAN Investment Area and merge with the ASEAN Agreement on the Promotion and Protection of Investments into a single agreement known as the ASEAN Comprehensive Investment Agreement (ACIA).

9. ASEAN's performance in attracting FDI over the past five years since the rebound of FDIs in 2002 has been reasonably outstanding. However, the competition to attract FDI has become more intense over these past five years. ASEAN needs to remain vigilant of the competition and continue to improve and reform to make it more attractive as a FDI destination.

## Chapter One: General External Environment

### Global FDI Performance

10. Based on UNCTAD preliminary estimates, global foreign direct investment (FDI) reached US\$1.2 trillion in 2006, up by 34% from last year's level of US\$ 916 billion.

11. Significant growth was recorded in FDI flows to developed and developing economies (**Table 1**). In particular, FDI flows to Asia and Oceania maintained their upward trend, reaching a new high of US\$ 230 billion – a 15% increase from 2005 level. The share of the Asia and Oceania region in total FDI to developing countries also rose from 59% to 63%.

**Table 1: Distribution of Global FDI Inflows, 2002-2006 (US\$ million)**

	2002	2003	2004	2005	2006 <sup>a</sup>
<b>World</b>	<b>716,128</b>	<b>557,869</b>	<b>710,755</b>	<b>916,277</b>	<b>1,230,400</b>
<i>Developed Countries</i>	<i>547,778</i>	<i>358,539</i>	<i>396,145</i>	<i>542,312</i>	<i>800,700</i>
<i>Developing Countries</i>	<i>155,528</i>	<i>175,138</i>	<i>275,032</i>	<i>334,285</i>	<i>367,700</i>
<b>Developed Region &amp; Countries</b>					
United States (USA)	71,331	53,146	122,377	99,443	177,300
European Union	420,433	253,728	213,726	421,899	549,000
Japan	9,239	6,324	7,816	2,775	-8,200
<b>Developing Region &amp; Countries</b>					
<b>Asia and Oceania</b>	<b>92,009</b>	<b>110,137</b>	<b>157,300</b>	<b>200,000</b>	<b>229,900</b>
China	52,743	53,505	60,630	72,406	70,000
Republic of Korea	2,975	3,892	7,727	7,198	500
India	3,449	4,585	5,474	6,598	9,500

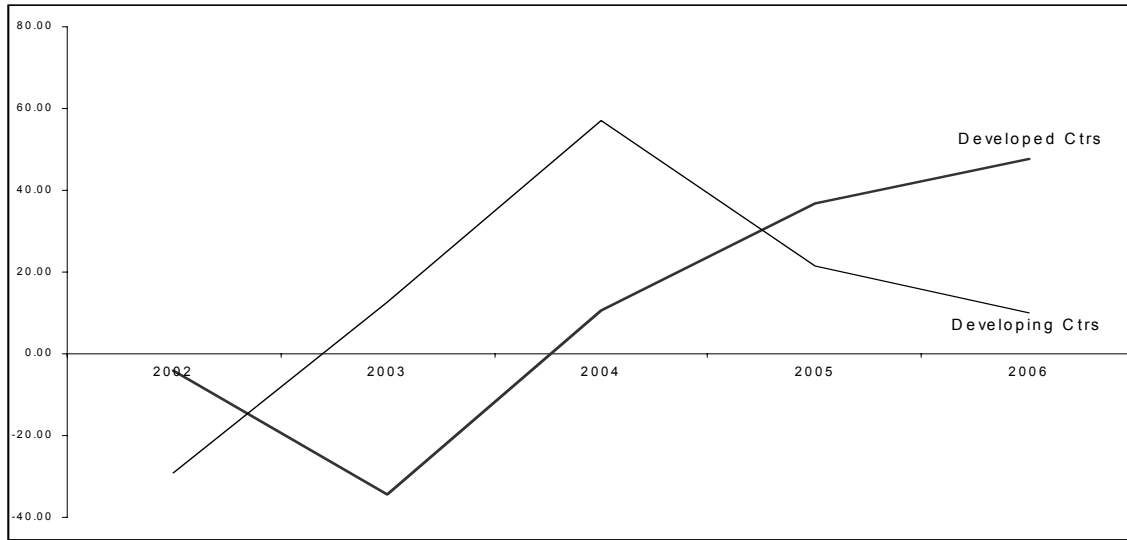
Source: World Investment Report 2007

<sup>a</sup>) Preliminary Estimates

### FDI into Developed Countries FDI Increases

12. Foreign Direct Investments into the developed countries grew at a shining pace of 47.65% in 2006 to reach more than US\$800 billion compared to an already high growth pace of 36.89% than in 2005. FDI into developed countries have grown faster compared to developing countries over the last 2 years reinforcing the notion of flight to quality over the past 2 years. FDI into the USA surged by 78.29% to US\$177 billion while the enlargement of the European Union contributed to a 30% soar in FDI to US\$549 billion as more countries investments are now included in the EU figures.

**Graph 1: Rate of Growth of FDI into Developed and Developing Countries (US\$ billion)**

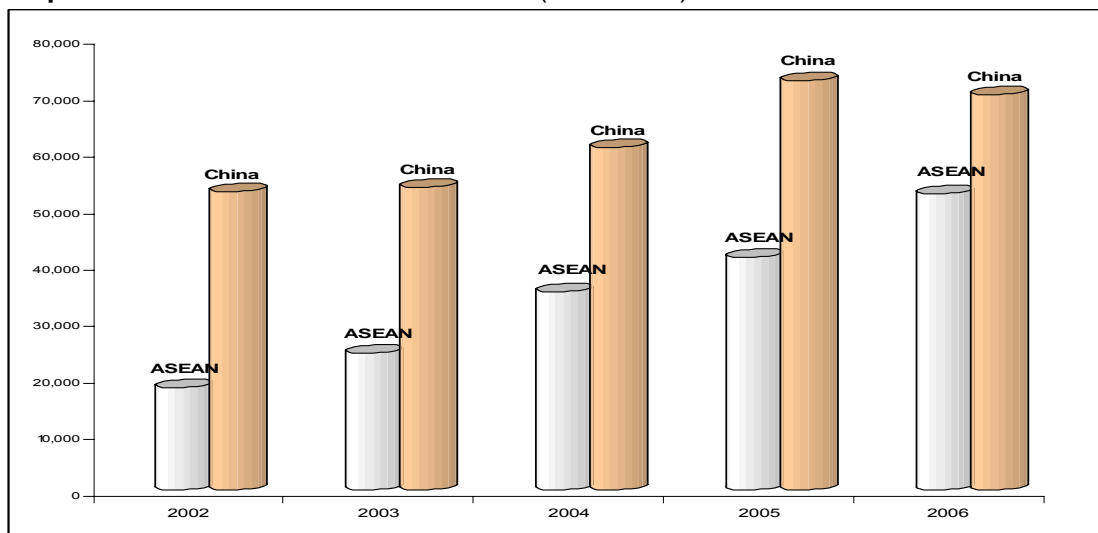


Source: World Investment Report 2007

### FDI into Developing Countries Continues

13. Foreign Direct Investments into the developing countries grew at a decent rate of 10.0% in 2006 to US\$367.7 billion. Preliminary estimates indicate that China continued to receive the highest amount of FDI of US\$70 billion among the developing countries (19% of total). The huge amount of FDI into China has propelled China to record four consecutive annual GDP growth of above 10%. It is expected that Chinese annual economic growth would surpass the 10% mark in 2007 (based on the annualized growth rate of 11.5% in the 1<sup>st</sup> three quarters of 2007) and is forecast to exceed 10% in 2008 too. FDI into China is expected to be maintained at a high level for the foreseeable future.

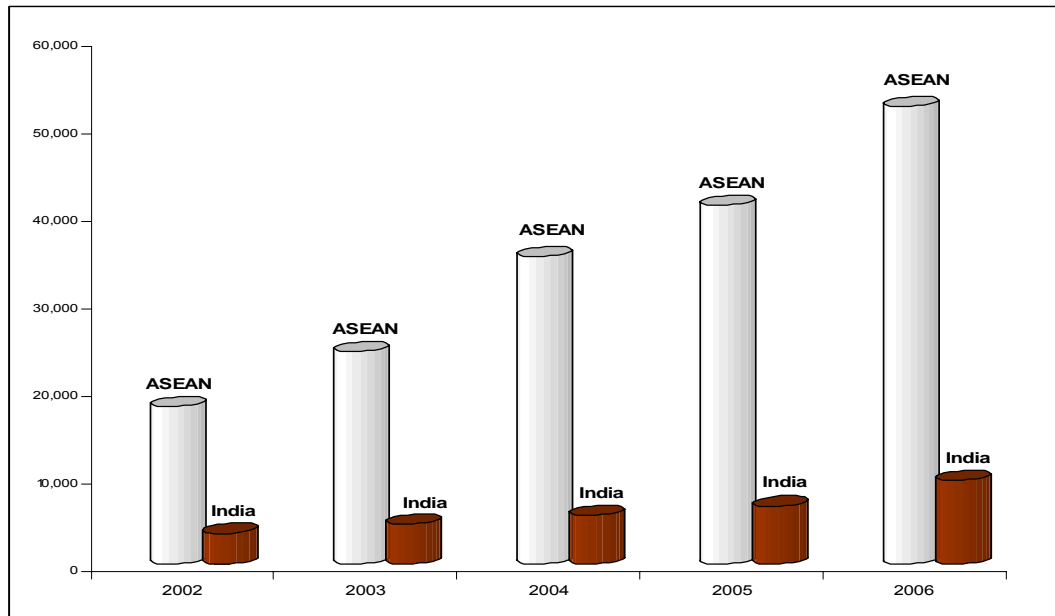
**Graph 2: World FDI to ASEAN and China (US\$ billion)**



Source: World Investment Report 2007; ASEAN Secretariat: ASEAN FDI Database 2007, BOP Basis

14. Another strong engine of economic growth within the developing countries is India. India's economic growth over the last few years has been equally impressive as China. FDI to India has rose steadily since 2003 and rose by a record 44% from US\$6.6 billion in 2005 to US\$9.5 billion in 2006. The Indian government continued to undertake comprehensive reforms in its FDI policy and was highlighted as the top reformer in trading across borders in the World Bank report on ease of "Doing Business 2008".

**Graph 3: World FDI to ASEAN and India (US\$ billion)**



Source: World Investment Report 2007; ASEAN Secretariat: ASEAN FDI Database 2007, BOP Basis

## Chapter Two: ASEAN Investment Performance

### ASEAN Investment Performance in 2006

15. 2006 was an excellent year for ASEAN in terms of FDI inflows. ASEAN FDI performed consistently in terms of share and growth (**Table 2**). ASEAN FDI grew by 27.5% from US\$ 41.0 billion<sup>1</sup> in 2005 to US\$ 52.4 billion in 2006, taking a 23% share of FDI in the Asia and Oceania region. This growth sustained ASEAN's FDI performance in 2005, where ASEAN FDI flows exceeded FDI flows during the 1997 crisis.

16. Almost all ASEAN countries recorded significant improvements in FDI flows in 2006 compared to 2005. Singapore's FDI grew 60.3%, Malaysia's FDI grew 52%, Philippines's FDI grew 26.5% and Thailand's FDI grew by 20.1% to hit US\$10.7 billion (exceeding the US\$10 billion mark for the first time).

**Table 2: ASEAN FDI Share and Growth, 2002-2006 (US\$ million)**

	2002	2003	2004	2005	2006 <sup>a</sup>
<i>Asia and Oceania</i>	92,009	110,137	157,300	200,000	229,900
<b>ASEAN<sup>b</sup></b>	<b>18,023</b>	<b>24,235</b>	<b>35,117</b>	<b>41,068</b>	<b>52,380</b>
Brunei Darussalam	1,035	3,123	212	289	434
Cambodia	145	84	131	381	483
Indonesia	145	-596	1,895	8,336	5,556
Lao PDR	25	20	17	28	187
Malaysia	3,203	2,473	4,624	3,965	6,060
Myanmar	191	291	251	236	143
Philippines	1,542	491	688	1,854	2,345
Singapore	7,200	11,664	19,828	15,002	24,055
Thailand	3,335	5,235	5,862	8,957	10,756
Viet Nam	1,200	1,450	1,610	2,021	2,360
<i>ASEAN Share to Asia &amp; Oceania (%)</i>	19.6	22.0	22.3	20.5	22.8
<i>ASEAN FDI Growth (%)</i>	-11.5	34.5	44.9	16.9	27.5

Source: World Investment Report 2006 – UNCTAD

<sup>a)</sup> Preliminary

<sup>b)</sup> ASEAN FDI Database 2007, BOP Basis

17. The top investors of ASEAN in 2006 were Japan, the United Kingdom, the United States of America, the Netherlands and Germany. In particular, Japanese investments into ASEAN surged 49% in 2006 after a few years of feeble growth in the early 2000s. Together with the other developed countries named above, they contributed almost half

<sup>1</sup> The US\$41.0 billion is a revised figure (15th WGFDIS Meeting, April 2007). Originally this was US\$38 billion as reported in the 9th AIA Council (August 2006).



of total FDI in ASEAN. **Table 3** below shows ASEAN's top ten investors in 2004, 2005 and 2006.

**Table 3: Major Sources of FDI Flows to ASEAN, 2004, 2005 and 2006**

2004			2005			2006		
COUNTRY	VALUE (US\$ Mill)	%	COUNTRY	VALUE (US\$ Mill)	%	COUNTRY	VALUE (US\$ Mil)	Share %
United Kingdom	5,389	15.3	Japan	7,235	17.6	Japan	10,803	20.6
Japan	5,732	16.3	United Kingdom	5,634	13.7	United Kingdom	6,729	12.8
United States	5,232	14.9	<b>ASEAN</b>	<b>3,765</b>	<b>9.2</b>	<b>ASEAN</b>	<b>6,242</b>	<b>11.9</b>
<b>ASEAN</b>	<b>2,804</b>	<b>8.0</b>	United States	3,011	7.3	United States	3,865	7.4
Netherlands	2,278	6.5	Netherlands	2,075	5.1	Netherlands	2,886	5.5
Cayman Islands	2,029	5.8	France	976	2.4	Germany	1,580	3.0
Germany	963	2.7	Hong Kong	773	1.9	Hong Kong	1,353	2.6
Rep of Korea	806	2.3	Rep of Korea	578	1.4	Rep of Korea	1,099	2.1
China	732	2.1	China	502	1.2	China	937	1.8
Bermuda	649	1.8	Germany	478	1.2	Taiwan (ROC)	668	1.3
<b>ASEAN TOTAL</b>	<b>35,117</b>			<b>41,068</b>			<b>52,380</b>	

Source: ASEAN Secretariat; ASEAN FDI Database, 2007; BOP Basis.

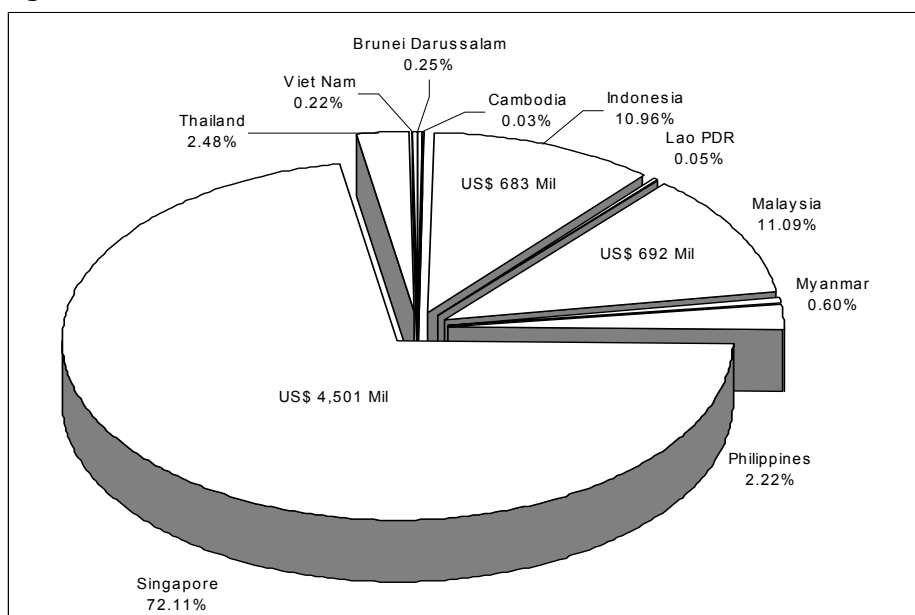
18. Korea and China were the fastest growing sources of FDI, rising by 90% (from US\$578 million in 2005 to US\$1 billion in 2006) and 87% (from US\$502 million in 2005 to US\$937 million in 2006), respectively. This rise has occurred against the backdrop of strong economic growth in these countries and the conclusion of the ASEAN-China and ASEAN-Korea Free Trade Areas have spurred greater bilateral investments between ASEAN and China/Korea.

### **Intra-ASEAN Investments Flows**

19. Intra-ASEAN investments has grown significantly over the last two years since it was draw attention to that this was an area that should be a main contributor for FDI growth for ASEAN. Last year, the ASEAN Investment Report indicated that the intra-ASEAN investments totalled some US\$2.2 billion amounting to a mere 5.8% of total ASEAN FDI. However, the revised and updates statistics currently shows that the intra-ASEAN investments in 2005 totalled US\$3.76 billion or some 9.2% of total ASEAN FDI.

20. For 2006, intra-ASEAN investments grew by 66% to US\$6.24 billion, contributing 12% of total FDI in ASEAN. This is a significant increase and highly satisfying for ASEAN member countries which have made intensive efforts to promote intra-ASEAN investments. The top three intra-ASEAN investors were Singapore, Indonesia and Malaysia with a total investment of US\$ 5.9 billion in 2006 (**Figure 1**).

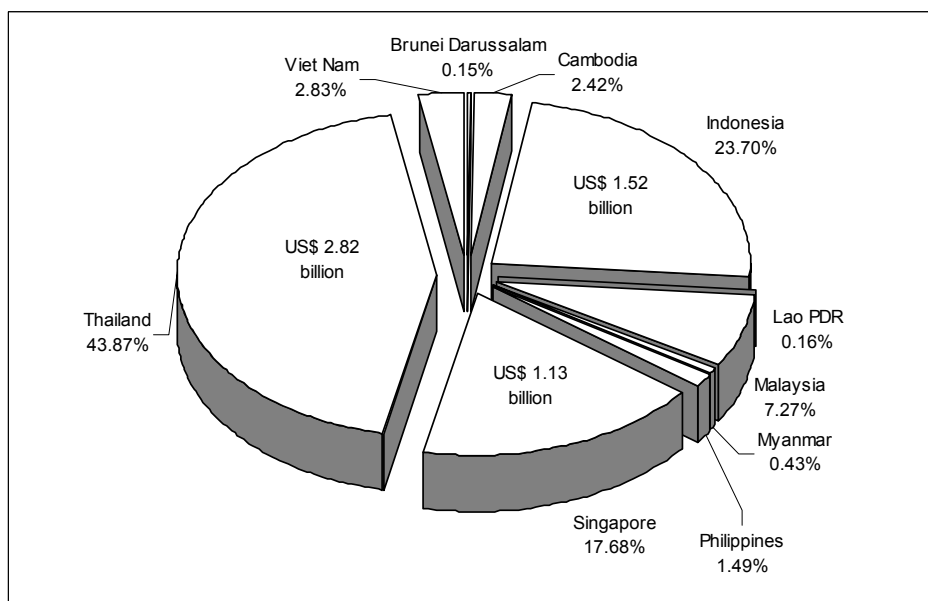
**Figure 1: Share of Intra-ASEAN Investors, 2006**



Source: ASEAN Secretariat; ASEAN FDI Database, 2007; BOP Basis.

21. The top three recipients of intra-ASEAN investment, in 2006 (**Figure 2**), were Thailand, Indonesia and Singapore with a total share of 88% (US\$ 5.48 billion). The CLMV countries' received US\$ 376 million of investment (6% of total intra-ASEAN FDI). The ASEAN-6 countries are committed to continue making outbound investment missions to the CLMV countries to boost intra-ASEAN investments into these countries.

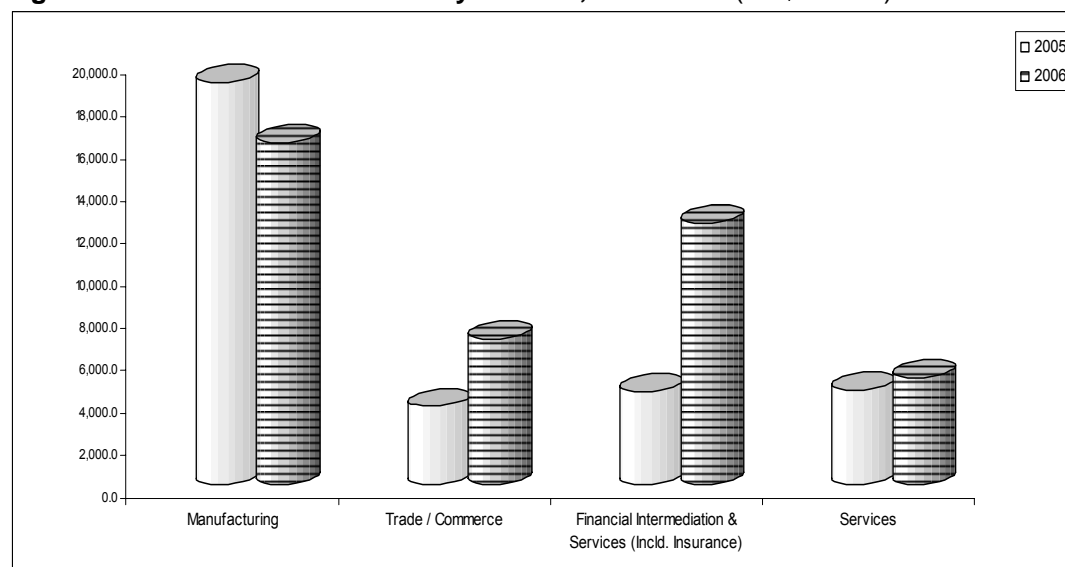
**Figure 2: Share of Intra-ASEAN Recipients, 2006**



Source: ASEAN Secretariat; ASEAN FDI Database, 2007; BOP Basis.

22. By economic sectors, the top recipients of ASEAN FDI were *manufacturing, financial intermediation and related services, including insurance, trade/commerce and services*. Altogether, these sectors accounted for 76% of total FDI. **Figure 3** below shows FDI flows into ASEAN by sectors in 2005 and 2006. **Table 4** shows the sectoral share of FDI flows for the period from 2002 to 2006.

**Figure 3: FDI Flows into ASEAN by Sectors, 2005-2006 (US\$ million)**



Source: ASEAN Secretariat; ASEAN FDI Database, 2007; BOP Basis.

**Table 4: Share of FDI Flows to ASEAN by Economic Sectors, 2004-2006 (US\$ million)**

ECONOMIC SECTOR	YEAR	2004		2005		2006	
		Value	Share	Value	Share	Value	Share
AGRICULTURE, FISHERY AND FORESTRY		221.7	0.6	184.4	0.4	341.0	0.6
MINING AND QUARRYING		557.5	1.6	2,266.1	5.5	1,376.0	2.6
MANUFACTURING		12,802.1	36.5	18,988.5	46.2	16,147.2	30.3
CONSTRUCTION		-10.1	0.0	226.5	0.6	523.4	1.0
TRADE / COMMERCE		4,973.9	14.2	3,675.6	8.9	6,835.8	12.8
FINANCIAL INTERMEDIATION AND SERVICES (incl. Insurance)		9,559.2	27.2	4,355.5	10.6	12,360.7	23.2
REAL ESTATE		1,439.2	4.1	2,110.2	5.1	4,154.1	7.8
SERVICES		2,801.6	8.0	4,467.0	10.9	5,038.9	9.4
OTHERS (Not Elsewhere Classified)		2,834.3	8.1	3,957.5	9.6	4,544.4	8.5

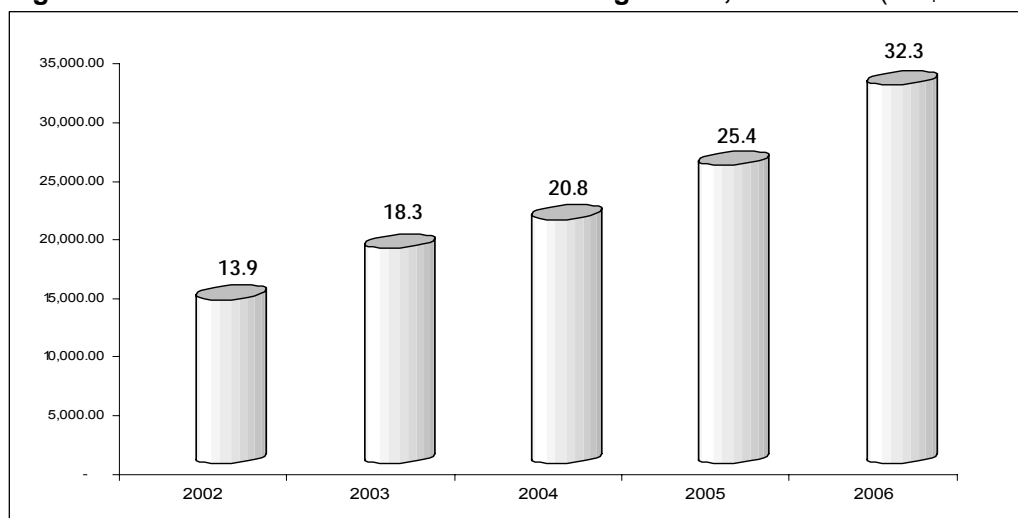
Source: ASEAN Secretariat; ASEAN FDI Database, 2007; BOP Basis.

23. Notably, the fastest growing sectors in 2006 were *financial intermediation and related services sectors*, which increased from US\$4.4 billion in 2005 to US\$12.4 billion and *construction*, which increased from US\$226 million in 2005 to US\$523 million. Record increases were also noted for *real estate* and *trade/commerce*, which grew by 97% and 86% in 2006, respectively. Strong growth in the *financial intermediation and related services sectors, real estate and trade/commerce* sectors reinforces the

increasing significance of the Services sector as the main sector for FDI in ASEAN. In terms of share, in 2006, *manufacturing* accounted for 30.3% of total FDI, followed by *financial intermediation and related services* sectors (23.2%) and *trade and commerce* (12.8%).

24. Meanwhile, consistent with the overall growth of FDI in ASEAN, Approved Manufacturing Investment grew by 27 % to US\$32.3 billion from US\$25.4 billion in 2005 (**Figure 4**). The main sectors of investment include *radio, television and communication equipment & apparatus*; *chemicals & chemical products*; *basic metals*; *machinery & equipment*; and *non-metallic mineral products*.

**Figure 4: FDI Flows to ASEAN in Manufacturing Sector, 2002-2006 (US\$ billion)**



Source: ASEAN Secretariat; ASEAN FDI Database, 2007; Approval Basis.

25. Notably, preliminary estimates of Approved Manufacturing Investments for the first half of 2007 recorded a 147% increase to US\$30.8 billion from US\$12.4 billion in the same period last year. This indicates the continued strength of the manufacturing sector in ASEAN.

## **Chapter Three: FDI Outlook for 2007-2008 and Challenges**

### **FDI Outlook for 2007-2008**

26. FDI flows to ASEAN have been increasing since 2002. This upward trend is reflective of increasing interest and confidence of investors in investing and doing business in the region. Barring any financial or economic shocks, such as a recession in the United States, this favourable trend is expected to continue in the next few years. Against this background, flows to ASEAN in 2007 are projected to reach another record level - surpassing \$60 billion in 2007, up from \$52.4 billion in 2006.

27. Aside from external influences favourable to the region, a number of other ASEAN-specific factors will contribute to the optimistic outlook in 2007 and 2008. Flows to the region's manufacturing sector will remain strong and investment in services industries is expected to grow further as well as those in the oil and gas industries. Strong regional macroeconomic fundamentals, further opening up of industries for FDI and regional integration will help ASEAN attract new Greenfield FDI and intra-ASEAN investments and encourage more reinvestment from existing foreign firms in the region. The increasing global demand for oil and gas will continue to benefit resource rich ASEAN countries as foreign investors position themselves to secure access to energy supply. Services industries will continue to account for a substantial share of FDI inflows, particularly in such sectors as telecommunication and finance, which are likely to be driven by cross-border mergers and acquisition (M&A) transactions. M&As in the region in 2007 are expected to be significantly stronger than the year before and will help increase the level of FDI inflows.

28. Intra-ASEAN investments flow is expected to become increasingly important as an engine for FDI growth and for ASEAN economic integration. Intra-ASEAN investments have recovered from a projected low of 5.8% in 2005 to hit 11.9% in 2006. There is much room for improvement in this area, compared with the experience of the EU and NAFTA in terms of intra-regional investments. For the CLMV countries, cumulative intra-ASEAN investments (1999-2006) amounted to US\$2.4 billion, about 21.2% of the CLMV's total cumulative FDI (1999-2006). This significant percentage suggests that intra-ASEAN FDI was a strong integration driver and will continue to have a more prominent role for investments into the CLMV within the next few years.

### **Challenges Ahead and Enhancing ASEAN's Competitiveness**

#### **Challenges Ahead**

29. Despite the region's stable and favourable macro-economic fundamentals, the ASEAN region will continue to face challenges. The ADB has projected growth of 5.6% in 2007 and 6.0% in 2008 for Southeast Asia which is expected to continue to draw FDI into the region. However, such projections have inherent downside risks, which include factors such as price volatility, disruption of oil supplies, protectionist pressures, security

risks and avian influenza. Increasing the looming threat of a significant slow-down in the US economy is weighing heavily on the growth prospects of the region.

30. In addition, competition for FDI will continue to come from China and India, as these countries continue to introduce policy reforms. Competition from other regions and other FTA arrangements, such as the enlargement of the EU, will add to the competitive pressure. ASEAN will need to be more proactive to attract more FDI.

31. Based on the latest published World Bank Report on Doing Business 2007 in October 2007 (see **Table 5**), which uses an ease of doing business index<sup>1</sup> in ranking economies, China and India's ranking rose from 108 to 93 and 138 to 134, respectively.

**Table 5: World Bank Doing Business Rankings of ASEAN Member Countries, China and India**

<b>Economy</b>	<b>2007</b>	<b>2006</b>
Cambodia	143	142
China	93	108
India	134	138
Indonesia	135	131
Lao PDR	159	147
Malaysia	25	25
Philippines	126	121
Singapore	1	2
Thailand	18	19
Vietnam	104	98

Note: The World Bank Report on Doing Business does not include Brunei Darussalam and Myanmar in its analysis.

Source: World Bank Report on Doing Business 2007.

32. However, the ranking of all other ASEAN countries, except Singapore (which has been ranked number 1 from number 2), Thailand (which rose from 19 to 18) and Malaysia (which maintained its ranking at 25), have declined.

33. The World Bank Report, in particular, indicated that China and India had the biggest improvements in "starting a business". China and India both reduced business start-up from 48 days to 35 days and from 89 days to 35 days, respectively. India simplified its complex tax registration system, more than halving start-up time. China amended its company law, reducing the minimum capital requirement by 70% and eliminating substantive review at the registry. The Report is a clear indication of China and India's commitment to improve their investment climate.

<sup>1</sup> The index is calculated as the ranking on the simple average of country percentile rankings on ten topics, which include: Starting a Business; Dealing With Licenses; Hiring and Firing Workers; Registering Property; Getting Credit; Protecting Investors; Paying Taxes; Trading across Borders; Enforcing Contracts; and Closing a Business.

## **Chapter Four: Investment Policy Measures and Developments in ASEAN**

### **ASEAN Economic Community Blueprint**

34. In response to the challenges and opportunities globally, ASEAN agreed to accelerate its economic integration efforts to enhance competitiveness. The vision of ASEAN Leaders is to transform ASEAN into a single market and production base, highly competitive and fully integrated into the global community by 2015 with an emphasis on equitable economic development where all citizens share in the benefits of ASEAN economic integration.

35. The ASEAN Economic Community Blueprint outlines that vision and provides a practical plan to turn the vision into reality. The Blueprint is the result of cooperative efforts of various stakeholders. It is a plan to create an attractive investment climate that stimulates ongoing developments in ASEAN and promotes enterprise growth, as well as job creation.

36. The ASEAN Investment Area (AIA) Council of Ministers has agreed that the region should be more aggressive in its efforts at attracting FDI. Ten years after the signing of the AIA Agreement and in support of the development of an ASEAN Economic Community (AEC) Blueprint, the AIA Council agreed to revise the Framework Agreement on the ASEAN Investment Area and merge with the ASEAN Agreement on the Promotion and Protection of Investments into a single ASEAN Comprehensive Investment Agreement (ACIA).

37. Based on the agreed Guiding Principles of the Revised Agreement, the key features of ACIA are:

- Comprehensive investment liberalisation and protection provisions;
- Clear timelines for investment liberalisation in line with the ASEAN Economic Community;
- Benefits extended to ASEAN-owned investors and foreign-owned ASEAN-based investors;
- Preservation of AIA preferential treatment; and
- A more liberal, facilitative, transparent and competitive investment environment.

38. The deepening and broadening of ASEAN economic integration will not only lead to more sustainable economic growth but also increase the region's resilience from adverse impact of any internal and/or external economic and financial shocks.

### **New Investment Measures introduced by ASEAN Member Countries**

39. Aside from the regional initiatives that have so far been formulated and carried out by ASEAN to increase FDI, each ASEAN member country continues to devoted its investment climate in accordance with regionally and multilaterally accepted principles through the new investment measures enacted individually.

40. These individual measures are encouraged by various regional agreements and multilateral bodies to increase the competitiveness of the region in attracting FDI. These include the improvements of the overall investment policy framework, granting of incentives, opening up of sectors for foreign investments, reduction of business cost through lowered taxation, streamlining and simplification of the investment process, and other investment facilitation measures.

41. The proceeding table enumerates the highlights of national policy changes that ASEAN countries have implemented.

**Table 6: Updates of FDI and New Investment Measures Introduced by ASEAN Member Countries**

Country	Developments in FDI
<p><b>Brunei Darussalam</b></p>	<p><b>FDI Flows in 2006 and 1<sup>st</sup> Quarter 2007 (BOP Basis)</b></p> <p>Foreign Direct Investment (FDI) for the year 2006 had been recorded at BND 689.6 million, a growth of 43.1 per cent over the previous year at BND 481.9 million which was mainly attributed to the mining sector. By country of origin, United Kingdom was the largest contributor of FDI inflows at 50.5 per cent, followed by France (19.4 per cent), Japan (8.1 per cent), Bermuda (7.7 per cent), USA (7.3 per cent), Canada (3.1 per cent), Malaysia (1.8 per cent), China (1.1 per cent) and others (1.0 per cent).</p> <p>By region, European Union (EU) continued to be Brunei Darussalam's largest source of FDI, accounted for 70 per cent of the total FDI inflows of which, United Kingdom and France contributed 72.3 per cent (BND 348.6 million) and 27.7 per cent (BND 133.1 million) respectively. Within ASEAN countries, Malaysia and Singapore were the main investors contributing about 78.1 per cent (BND 12.1 million) and 16.6 per cent (BND 2.6 million) respectively, majority of which were invested in construction and real estate sector.</p> <p>By industrial sector, mining was still the largest recipient of FDI in 2006 accounted for 81.2 per cent (BND 559.8 million) share of total investment, followed by manufacturing at 16.2 per cent (BND 111.80 million), trade &amp; commerce at 1.3 per cent (BND 9.1 million), construction at 0.8 per cent (BND 5.4 million), real estate at 0.4 per cent (BND 2.8 million) and others at 0.1 per cent (BND 0.8 million).</p> <p>In 2006, the number of companies with foreign participation increased by 26% (219 companies) compared with 174 companies in the previous year.</p> <p>Foreign Direct Investment (FDI) for the first quarter of 2007 recorded USD 61.1 million, a significant growth over the previous quarter with USD 1.5 million. By country of origin, the main investors came from Japan with 73.3 per cent of total FDI inflows followed by Malaysia (7.2 per cent), Canada (4.6 per cent), Singapore (3.5 per cent), Hong Kong (3.5 per cent), USA (3.5 per cent) and China (3.0 per cent)</p> <p>By region, ASEAN contributed 10.8 per cent of total FDI inflows with a value of</p>



Country	Developments in FDI
	<p>USD 61.1 million. Meanwhile European Union (EU) contributed 1.3 per cent with an amount of USD 7.1 million. Within ASEAN countries, Malaysia and Singapore were the main investors contributing about 66.4 per cent (USD 40.5 million) and 32.5 per cent (USD 19.9 million) respectively, majority of which were invested in construction and real estate sector.</p> <p>By industrial sector, manufacturing was the largest recipient of FDI in Q1 2007 accounted for 83.2 per cent (USD 412.5 million) share of total investment, followed by financial intermediation at 17.4 per cent (USD 98.0 million) and mining at 8.8 per cent (USD 50.0 million).</p> <p><b>Administrative Foreign Investment in 1<sup>st</sup> Half 2007</b></p> <p>Foreign Investment (FI) in Brunei Darussalam for the first half of 2007 showed an increase compared to previous year. There were 6 new projects in first-half of 2007 amounting USD 14.6 million compared to previous year which were only 5 new projects amounting USD 4.1 million. The investment mostly came from Europe and Malaysia.</p>
Cambodia	<p><b>FDI Flows and Investment Abroad in the 1<sup>st</sup> Quarter 2007 (BOP Basis)</b></p> <p>With regard to foreign direct investment project approval data, BOP-FDI was estimated to be a net inflow of US\$203.6 million in the first quarter 2007, up US\$79 million on the net inflow recorded from the fourth quarter 2006 and up US\$96.5 million on the net inflow recorded for the same quarter last year. This was due to an increase of US\$77.5 million in equity capital of non-bank sector, largely reflecting an increase in the inflow of foreign direct investment enterprises. The main inflow during that period were investments in Agricultures (US\$81.0 million), Garments (US\$45.5 million), Banks (US\$20.5 million), Telecommunications (US\$17.9 million), and Beverages (US\$12.2 million). China took the largest share of the investment.</p> <p>During the same period, the net outflow of Cambodian direct investment abroad was estimated to be small. The level of Cambodian direct investment abroad is also small, and mainly comprises of capital investment in housing and retail businesses.</p> <p>The level of the actual foreign direct investment in Cambodia amounted to US\$3,157.9 million in the first quarter 2007, up from US\$2,954.2 million at the end 2006. These estimations were based on accumulated flows data since 1994.</p> <p><b>Foreign Direct Investment Survey</b></p> <p>The Exploratory and International Investment Surveys have been conducting throughout the country by the Economic Research and Statistics Department of the National Bank of Cambodia. The purposes of the surveys are to collect data on foreign investment in Cambodia and Cambodian investment abroad, as well as other international transactions for reference year 2006. The final survey results are expected to be complete by the end of December 2007.</p>

Country	Developments in FDI
	<p><b>Administrative Direct Investment Abroad in 1<sup>st</sup> Half 2007</b></p> <p>In the first half of 2007 the inflow of foreign investment in Cambodia revised a total amount of (\$401 million), showing (\$930 million) lower than the second half of 2006.</p> <p>The main amount of investment projects approved by the Council for the Development of Cambodia were mobile phone network, fixed and wireless communication service alcohol industry and agricultural products processing and cloths manufacturing and embroidery. Vietnam took the largest share of total investment during that period.</p> <p>In the second half of 2006, the largest amount of foreign investment projects were explore and oil refinery (\$400 million) resort development (\$277 million) and hydroelectric power plan (\$170 million) indicating the difference between the first half of 2007 and the second half of 2006.</p>
Indonesia	<p><b>FDI Flows in 1<sup>st</sup> Quarter 2007 (BOP Basis)</b></p> <p>During the 1st quarter of 2007, FDI in Indonesia registered a net surplus of USD3.9 billions, increased by 15.5% from the same period in the previous year. This increase mainly supported by the above average increases of DI inflow ON non-oil and gas sector which recorded 57.8%. On the other hand, DI inflow on oil and gas sector had a decrease of 4.4%. While at the same period, DI in Indonesia also showed outflow USD 2.8 billions, increased 37.8% from Q1 2006. The main cause was the soaring of debt repayments from Indonesian non-oil and gas sectors companies to their company' parent abroad. It reached USD1.4 billions or significantly increased by 105.6%.</p> <p>As an oil producing country, investment development on oil and gas sector has main role on supporting Indonesian economy and as major indicator of foreign investment intention to the country also. Inflow of DI in oil and gas sector decreased slightly by 4.4% from USD 1.64 billions in the Q1 2006 to USD 1.57 billions in Q1 2007, which was driven by lower activities in energy sector due to the decrease of the proven reserve of oil from the several blocks, such as West Seno block, Makassar Strait block, and Sadewa-West Kalimantan block. In the other hand, the soaring oil prices caused the increasing of production cost. This condition, in turn, caused slightly increased of DI outflows in form of Cost Recovery from USD1.34 billions in Q1 2006 to USD1.37 billions in Q1 2007. The main investors in oil and gas sector, according to country origin, are USA, Japan, France, China, and UK. These five countries invested nearly USD1.5 billions and accounted for 92% of total investment in oil and gas sector.</p> <p>Meanwhile, investment in non-oil and gas sector increased significantly by 57.8% in Q1 2007 compare to the same period in the previous year. The Netherland, Japan, Singapore, Germany and South Korea invested more than USD1.6 billions altogether. Their investment accounted for 85% of total investment in non-oil and gas sector. In terms of loan repayment to parent company, in Q1 2007, there was a significant increased of more than 100% from USD 0.7 billions to USD1.4 billions.</p>

Country	Developments in FDI
	<p><b>FDI in Indonesia by Country of Origin</b></p> <p>In Q1 2007, most of the FDI coming to Indonesia sourced from the Netherlands (USD1 billion), Japan (USD0.8 billions), Singapore (USD0.4 billions), USA (USD0.3 billions) and France (USD0.2 billions). These five countries total investment was USD 2.7 billions, or 70% of total FDI coming to Indonesia.</p> <p>Other source of investment in Indonesia is Reinvested Earnings (RE). During first quarter of 2007, reinvested earnings of companies that originated from Singapore, Japan, Germany, the Netherlands, and South Korea, amounted to USD 0.8 billions or 63% of total reinvested earnings.</p> <p>By comparing total inflows and total outflows, at present, USA position as the biggest investor has been replaced by Japan. This is because most of the Japanese investor reinvested their earning in Indonesia, and also because of most USA affiliated companies in Indonesia repaid their parent companies.</p> <p><b>FDI in Indonesia by Economic Sectors</b></p> <p>The composition of FDI coming to Indonesia by economic sector remained focusing on Manufacturing, Financial Institution, and Services sectors. These three biggest sectors accounted for 97% of total FDI in Indonesia.</p> <p><b>Recent Activities in Improving FDI Data Collection</b></p> <p>There are some efforts taken by Bank Indonesia in order to improve the quality of Direct Investment (DI) to Indonesia data, as has been always reported on the previous WGFDIS series meetings. Current results that deserved to be shared are:</p> <p><b>Gathering data on Cross Border Mergers and Acquisitions (M&amp;A) by subscribing to Thomson Financial Database</b></p> <p>Started from April 2007, Bank Indonesia had been subscribing to Thomson Financial Database, a database which contained data on M&amp;A transactions from 1999, to Indonesia and all over the world. This database has been used in producing the Indonesia's M&amp;A data and this database also used in verifying the FDI data for BOP, for example if there is any big M&amp;A transactions, BI will invite the related company and request for explanation.</p> <p><b>Gathering data on ASEAN Multinational Enterprises (MNEs) from secondary sources</b></p> <p>BI used information from Jakarta Stock Exchange (JSX) and Surabaya Stock Exchange, which contained information such as number of overseas company and share of ownership of Indonesian local company.</p> <p><b>Enhancing the External Debt Reporting System Output</b></p> <p>Bank Indonesia, c.q. Directorate of International Affairs, has been running the project on enhancing external debt reporting system output in 2007. The project is scheduled to be accomplished by the end of 2007. Specifically, the enhancement process mean adding and standardizing tables produced to meet external debt analysis and balance of payment needs, and also creating system</p>

Country	Developments in FDI
	<p>to check position and flow data reconciliation. The standardized table produced from the enhanced External Debt Reporting System (Sistem Informasi Utang Luar Negeri/SIUL) would lead to on line process for BOP compilation. This process hopefully could increase the BOP compilation accuracy.</p> <p><b>Improving FDIS Analysis Process</b></p> <p>Bank Indonesia, c.q. Balance of Payment Bureau, has been conducting FDI Survey (FDIS) since 2000. In order to improve the quality of survey analysis process, it has been applied the on line analysis process by using COGNOS software. BOP Bureau has also used the similar software for export-import data analysis. By adopting COGNOS, the processing time of survey result analysis would be reduced and the result has better quality.</p> <p><b>Administrative Foreign Investment in 1<sup>st</sup> Half 2007</b></p> <p>During the period of January until June 2007, the foreign capital investment in industry sector reaches 227 projects with an investment value of US\$ 17,888.4 million. As a comparison, the following table shows the comparison between the period from January until June 2007 with the corresponding period in 2006 (year-on-year).</p> <p>In first half of year 2007, the total amount and the total number of most the preferable investment plans for all sectors are chemicals and pharmaceuticals industry = US\$. 13,664.6 million (20 projects), paper and printing industry = US\$. 2,052.1 million (8 projects), Food product and beverages = US\$. 1,079.6 million (36 projects), non-metallic mineral industry = US\$. 277.4 million (4 projects) and metal, machinery and electronic industry = US\$. 231.5 million (47 projects).</p> <p>The most outstanding country of origin is United States of America (USA) = US\$. 13,075.4 million (3 projects), Singapore = US\$. 636.2 million (30 projects), Malaysia = US\$. 424.8 million (21 projects), Other Europe = US\$. 165.1 million (3 projects) and United Kingdom = US\$. 162.5 million (4 projects).</p> <p>The most outstanding ASEAN countries are Singapore = US\$ 636.2 million (30 projects), Malaysia = US\$ 424.8 million (21 projects), and Thailand = US\$ 251.9 million (1 project).</p> <p><b>Factors Affecting Such Trends and Developments</b></p> <p>Political and Economic stability.</p> <p>Indonesia has reached a new era after held a democratically election for the first time in it's history. This mean that the President was elected directly by most of Indonesian which could bring more stable political condition and the political stability finally will improve the economic stability.</p> <p>Macro economic performance in the first half of year 2007 have shown a positive sign such as :</p> <ul style="list-style-type: none"> <li>- Rupiah's exchange rate remained favourable;</li> <li>- Inflation rate was relatively controllable at a reasonably low level of 6.5%;</li> <li>- Domestic economic growth is expected around 6.1% - 6.4% (y to y);</li> </ul>

Country	Developments in FDI
	<p>- Interest rate was cut at 8.00%</p> <p>The diligent effort to establish a better investment climate and regulation by the Government of Indonesia has shown a positive indication that bring more expectation for investor to come. The effort to establish a better investment climate and regulation also have been followed by unceasing investment promotion activities.</p> <p><b>National measures and policy changes introduced or announced in 2007 to attract greater FDI flows</b></p> <p>In order to support the investment increase especially Foreign Capital Investment, government issues some policies such as:</p> <ol style="list-style-type: none"> <li>1. Regulation of Government of the Republic of Indonesia Number 1 of 2007 regarding Income Tax Facilities for Investment in particular field and area. Based on the new income tax facility, which allows: deduction on net income (before tax) as much as 30% for 6 years (5% per year) of the realized investment; accelerated depreciation and amortization for maximum of 10 years; loss carried forward facility for period of up to 10 years; 10% income tax in dividends paid for overseas tax payer or possibly lower if stipulated in the provisions of a particular tax treaty.</li> <li>2. Regulation of Government of the Republic of Indonesia Number 7 of 2007 Regarding the third amendment to government regulation Number 12 of 2001 regarding import and/or transfer of strategic certain taxable items which included in value added tax exemption.</li> <li>3. Regulation of Government of the Republic of Indonesia Number 38 of 2007 regarding distribution of government arrangement between Central Government, Provincial Government and Regional Government.</li> <li>4. Law of the Republic of Indonesia Number 25 of 2007 concerning Investment. The Investment Law sets investment's principles and objectives; basic investment policies; types of business entities and locations; treatment towards investment; labor; business sectors; investment development for micro, SMEs, and cooperatives; rights, obligations and responsibilities; implementation of investment; special economic zones; dispute settlement and sanctions.</li> <li>5. Credential decree number 77/2007 concerning list of line of business closed and open with condition to investment.</li> </ol>
Lao PDR	<p><b>FDI flows in 2006 and 1<sup>st</sup> Quarter 2007 (BOP Basis)</b></p> <p>FDI flows through the banking system for the year 2006 recorded for US\$ 187.4 million which was the highest value compared to the last five years (2001: US\$23 million, 2002: US\$25.4 million, 2003: US\$19.5 million, 2004: US\$16.9 million, 2005: US\$27.7 million). This was mainly due to the enormous inflows of capital from hydro-power sector accounting for US\$ 161.42 million, followed by agriculture US\$ 9.51 million, manufacturing US\$ 6.86 million, mining and quarrying US\$ 6.37 million and services US\$ 2.5 million. Major foreign investors</p>

Country	Developments in FDI
	<p>contributing to FDI flows were France (US\$155.79 million); followed by Thailand (US\$7.75 million), China (US\$5.28 million), Viet Nam (US\$ 2.81 million) and Taiwan (US\$ 2.22million). Looking at Intra-ASEAN, Thailand remained the largest contributor in 2006 and followed by Viet Nam, investing mainly on electricity generation and manufacturing.</p> <p>FDI in the first quarter of 2007 continued to have a significant increase of US\$ 126 million, approximately 9 times increase compared to the same period last year. Much of inflows were attributed to agriculture sector accounted for US\$ 32.14 million, manufacturing US\$ 21.35 million, financial intermediation and service US\$ 15.54 million, services US\$ 12.11 million, mining and quarrying US\$ 7.66 million, respectively. FDI classified by zones, ASEAN was the largest flows of capital with value of US\$ 54.39 million, mostly from Thailand and Singapore; followed by joint countries US\$ 36.06 million, Japan US\$ 17.57 million, Europe US\$ 12.5 million and ANIEs US\$ 3.46 million.</p> <p><b>Improvement of FDI data collection and monitoring</b></p> <p>In order to improve FDI data collection and monitoring, Bank of the Lao PDR has some progresses during 2007 as follows:</p> <ul style="list-style-type: none"> <li>- Attempt to establish a working group among concerned agencies: Bank of the Lao PDR, National Statistical Centre, and Department for Domestic and Foreign Investment;</li> <li>- Develop a database management programme, so called: International Transaction Reporting System (ITRS), which is ongoing;</li> <li>- Organized a seminar on the role of BOP and its importance to concerned agencies: Commercial Banks, Ministry of Finance, National Statistical Centre, etc.</li> </ul> <p><b>Administrative Foreign Investment in 2006 and 1<sup>st</sup> Half 2007</b></p> <p>In 2006, 156 projects of foreign direct investment were approved with the value at US\$ 3,045.9 million. Of total investment, manufacturing sector received 45 projects amounting for US\$ 1302.9 million or sharing 34.1% of total investment. This sector, 71.3% was from wood and wood products, 14.6% from non-metal mineral products, 9.5% from foods and beverage, and 2.8% from other sectors.</p> <p>The major sources of foreign investment in manufacturing sector were Viet Nam (US\$ 383 million), India (US\$ 350 million), Thailand (US\$ 38.7 million), and Korea (US\$ 29 million).</p> <p>In the first half of 2007, total value of foreign investment was US\$ 700.5 million, with 92 projects approved. Of total investment, manufacturing sector shared 10% and valued at US\$ 70.8 million, with the 28 approved projects. Manufacturing sector showed a downward trend for first half of 2007 compared with the first half of 2006 which registered at US\$ 863.8 million. This was due to the more attraction on other industries, which shared 90% of total investments in the first half of 2007.</p> <p>In the first half of 2007, major sub-sector of manufacturing sector was rubber and plastics products (US\$ 44.5 million), followed by textile products (US\$ 8 million), foods and beverage (US\$ 7.2 million).</p>

Country	Developments in FDI
	<p>The major sources of foreign investment in manufacturing sector were Viet Nam (US\$ 34.9 million), China (US\$ 4.1 million), Japan (US\$ 3.8 million), Thailand (US\$ 3.2 million), and joint countries (US\$ 22.4 million).</p>
<p><b>Malaysia</b></p>	<p><b>FDI Flows in 2006 and 1<sup>st</sup> Quarter 2007 (BOP Basis)</b></p> <p>In 2006, Malaysia's FDI sustained a net inflow of US\$6.1 billion; a significant increase of 52.8% from that of US\$4.0 billion in 2005. This was mainly due to significant increase on Equity, which amounted to US\$3.2 billion from that of US\$0.4 billion recorded in 2005; and Reinvested Earnings, which increased by 15.1% (+US\$0.6 billion) from US\$3.9 billion in 2005. Loans showed higher net outflow of US\$1.5 billion in 2006 from that of US\$0.3 billion in 2005. In terms of contribution to total net FDI, Reinvested Earnings showed the biggest share of 73.4%.</p> <p>In 2006, Japan remained the leading economy with US\$2.8 billion worth of investment. This was followed by United States of America (US\$1.4 billion), Singapore (US\$0.47 billion), Hong Kong (US\$0.45 billion) and Netherlands (US\$0.34 billion). These five main investing economies had accounted for 91% of the total net FDI in Malaysia. Apart from Singapore, other ASEAN countries with significant investment were Thailand (US\$5.9 million) and Philippines (US\$0.6 million).</p> <p>With respect to economic sector, the Financial Intermediation was the main recipient for FDI. The sector had accounted for US\$3.3 billion of FDI in 2006. This was followed by Manufacturing which accounted for US\$1.2 billion, Mining &amp; Quarrying (US\$0.8 billion) and Trade &amp; Commerce sector (US\$0.7 billion). The four sectors had contributed to about 98% of the total net FDI in 2006.</p> <p>Given the above scenario, the leading countries associated with direct investment in Financial Intermediation in 2006 were Japan (US\$2.01 billion), European Union (US\$0.34 billion), United States of America (US\$0.29 billion) and Hong Kong S.A.R (US\$0.23 billion). Within ASEAN, Singapore showed the biggest investment amounting to US\$0.10 billion. For Manufacturing sector, the main direct investors according to country of origin were Japan (US\$0.68 billion), European Union (US\$0.65 billion), Singapore (US\$0.27 billion) and United States of America (US\$0.24 billion). While for Mining &amp; Quarrying, United States of America was the largest contributor of FDI amounting to US\$0.59 billion. This was followed by Japan, which posted of US\$0.11 billion.</p> <p>Foreign Direct Investment (FDI) flow into Malaysia during 1<sup>st</sup> quarter 2007 was US\$1.6 billion, an increase of 64.3% as compared with the same period of 2006 (US\$1.0 billion). Reinvested Earnings remained the largest component amounting to US\$1.1 billion (65.0%), followed by Equity and Loans, which accounted for US\$286 million (17.6%) and US\$284 million (17.4%) respectively.</p> <p>In terms of country of foreign direct investors, Q1 2007 saw Portugal had the biggest share amounting US\$0.9 billion. This was followed by United Kingdom (US\$0.3 billion) and Netherlands (US\$0.2 billion). The contribution of the three</p>

Country	Developments in FDI
	<p>economies was 83.8% of the total net FDI of Malaysia. Amongst ASEAN, the biggest FDI was from Singapore, which accounted US\$81.6 million (Q1 2006: US\$70.7 million). This was followed by Thailand, which posted of US\$49.3 million (Q1 2006: US\$3.8 million).</p> <p>By economic sector, most FDI in Malaysia was directed to Manufacturing. The sector had accounted for 52.0% (US\$846.9 million) of the total FDI in Q1 2007. This was followed by Trade/Commerce sector (26.5% or US\$431.5 million), Financial Intermediation sector (16.8% or US\$273.9 million) and Mining &amp; Quarrying sector (7.8% or US\$127.4 million).</p> <p>During the quarter under review, FDI in manufacturing sector was mainly from European Union (EU), which accounted for US\$1.2 billion. While for ASEAN, the biggest investment came from Thailand (US\$3.4 million). Similar to Manufacturing sector, the largest investment for Trade/Commerce sector was from European Union, which posted of US\$221.9 million. This was followed by United States of America with the value of investment of US\$126.5 million. In the meantime, the largest investment in Financial Intermediation sector was from Singapore (US\$84.9 million). This was followed by Japan (US\$76.2 million) and United States of America (US\$71.7 million).</p> <p><b>Administrative Foreign Investments in 1<sup>st</sup> Half 2007</b></p> <p>During the period January-June 2007, a total of 242 projects with foreign participation involving investments of US\$4.2 billion were approved, as compared with US\$5.5 billion in 571 projects for the whole year of 2006.</p> <p><u>Foreign Investment by Industry</u></p> <p>Foreign investments were mainly in the following industries:</p> <ul style="list-style-type: none"> <li>- electrical and electronics US\$2.2 billion</li> <li>- petroleum products including petrochemicals US\$0.9 billion</li> <li>- chemicals &amp; chemical products US\$263.3 million</li> <li>- non-metallic mineral products US\$253.1 million</li> <li>- machinery manufacturing US\$108.2 million</li> </ul> <p>The electrical and electronics sector continued to attract the largest share of foreign investments, amounting to US\$2.2 billion or 53.3% of the total approved investments. Investments were mainly in projects to produce electronic components such as 'advanced memory integrated circuits (ICs) and substrates for data storage' and in industrial electronics products such as 'monitors, printed circuit boards and design, development and production of Bluetooth headsets'.</p>



Country	Developments in FDI												
	<p data-bbox="423 323 808 357"><u>Foreign Investment By Country</u></p> <p data-bbox="423 388 1352 422">Major sources of foreign investments in the period January-June 2007 were:</p> <table data-bbox="423 426 997 636"> <thead> <tr> <th></th> <th data-bbox="824 426 997 455"><u>Jan-June 2007</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="423 464 537 493">- Iran</td> <td data-bbox="773 464 964 493">US\$884.5 million</td> </tr> <tr> <td data-bbox="423 497 561 527">- Japan</td> <td data-bbox="773 497 964 527">US\$765.4 million</td> </tr> <tr> <td data-bbox="423 531 597 560">- Germany</td> <td data-bbox="773 531 964 560">US\$472.8 million</td> </tr> <tr> <td data-bbox="423 564 630 594">- Netherlands</td> <td data-bbox="773 564 964 594">US\$414.9 million</td> </tr> <tr> <td data-bbox="423 598 610 627">- Singapore</td> <td data-bbox="773 598 964 627">US\$412.9 million</td> </tr> </tbody> </table> <p data-bbox="423 674 1399 737">Iran's investments were mainly due to its participation in a joint-venture petroleum refinery project.</p> <p data-bbox="423 768 1399 926">Japan was the second largest source of foreign investments during the period Jan-June 2007, with 31 projects approved involving investments of US\$765.4 million. Approximately 70 per cent of Japanese investments were in the electrical and electronics industry, producing a range of products including 'Integrated circuits &amp; transistors and LCD television receivers.</p> <p data-bbox="423 957 1399 1209">Germany with investments mainly electrical and electronics products industry (US\$ 246.2 million) emerged as the third largest source of foreign investments in the period Jan-June 2007. The Netherlands was the fourth largest source of foreign investments with US\$414.9 million in 3 projects, including a project with investments of more than US\$400 million to produce advanced memory integrated circuits. Singapore was the fifth largest source of foreign investments with US\$412.9 million in 58 projects. Singapore's investments were in a wide range of products, from food manufacturing to electrical and electronics.</p> <p data-bbox="423 1241 1373 1270"><b>Measures Announced or Introduced in 2006 to Attract Greater FDI Flows</b></p> <p data-bbox="423 1287 984 1316"><u>Incentives Introduced Under the 2007 Budget</u></p> <ul data-bbox="472 1331 1317 1404" style="list-style-type: none"> <li data-bbox="472 1331 1143 1360">● Enhancing tax incentives for biotechnology industry</li> <li data-bbox="472 1371 1317 1404">● Enhancing incentives for the promotion of Malaysian Brand Name</li> </ul> <p data-bbox="423 1436 781 1465"><u>Foreign Exchange Measures</u></p> <ul data-bbox="472 1480 1399 1850" style="list-style-type: none"> <li data-bbox="472 1480 1360 1514">● <u>Liberalisation of Foreign Exchange Administrative measures</u> such as: <ul data-bbox="516 1549 1399 1850" style="list-style-type: none"> <li data-bbox="516 1549 1399 1612">○ <u>Removal of the overdraft limit</u> of RM200 million for foreign stock broking firms;</li> <li data-bbox="516 1619 1399 1682">○ <u>Abolishing the limit</u> on the number of residential or commercial loans acquired by non-residents;</li> <li data-bbox="516 1688 1399 1782">○ <u>Allowing offshore banks to appoint overseas branches</u> as a vehicle to facilitate the settlement of any Ringgit assets of their non-resident clients; and</li> <li data-bbox="516 1789 1399 1850">○ <u>Removing the restriction on Labuan Offshore Banks</u>, to transact in Ringgit, on behalf of non-resident clients.</li> </ul> </li> </ul>		<u>Jan-June 2007</u>	- Iran	US\$884.5 million	- Japan	US\$765.4 million	- Germany	US\$472.8 million	- Netherlands	US\$414.9 million	- Singapore	US\$412.9 million
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- Singapore	US\$412.9 million												

Country	Developments in FDI
	<p><u>Other Measures</u></p> <ul style="list-style-type: none"> <li>● <u>Establishment of a special task force (PEMUDAH) to facilitate business in Malaysia.</u> This task force will identify and propose appropriate measures to improve procedures, regulations and existing laws, as well as to cut red tapes in local governments to ensure their delivery system is business-friendly.</li> <li>● Application for duty exemption for services sector under MIDA.</li> <li>● Relaxation of guidelines for the purchase of property by foreign investors, and the abolishment of real property gains tax, effective 1 April 2007.</li> <li>● <u>Formation of the Cabinet Committee on Investment</u> to facilitate speedier approvals, provide customized incentives and monitor closely the implementation of high impact investment projects.</li> </ul> <p><u>Launching of National Plans for Growth and Development</u></p> <ul style="list-style-type: none"> <li>● In the year 2006, the Third Industrial Master Plan (IMP3) and the Ninth Malaysia Plan (RMK9) were launched. The IMP3 outlines strategies and policies for the 2006-2020 period to ensure that the manufacturing and related services sector continue on the path of growth and development while the Ninth Malaysia Plan details the measures and initiatives to be taken from 2006-2010. Included in both the IMP3 and RMK9 are measures to enhance national competitiveness through incentives for encouraging investments, trade facilitation, promote greater use of information and communication technology (ICT).</li> </ul>
<p><b>Myanmar</b></p>	<p><b>FDI Flows (BOP Basis)</b></p> <p>For the year 2005-2006, FDI flows US\$ 235.85 million and 2006-2007 (first six months) flows US\$ 142.96 million. BOP FDI flows are only equity basis.</p> <p><b>Administrative Foreign Investment</b></p> <p>In the year 2006, Myanmar Investment Commission had permitted 6 projects amounting to US\$ 945.402 million. 4 in oil and gas sector and 2 in power sector. In the year 2007 (January to June) Myanmar Investment Commission had permitted 8 projects. One in livestock and fisheries and 6 in oil and gas sector. The leading sector is Thailand and the second is United Kingdom.</p>
<p><b>Philippines</b></p>	<p><b>FDI Flows in 2006 and 1<sup>st</sup> Quarter 2007 (BOP Basis)</b></p> <p>Non-residents' direct investment in the Philippines recorded a net inflow of US\$2.345 billion in 2006, 26.5 percent higher than the year-ago net inflow of US\$1.854 billion on the back of positive investor sentiment on the economy. The FDI inflows were sustained as the country continued to post significant macroeconomic gains in 2006, including strong external payments position, better-than-expected fiscal position, and declining inflation.</p>

Country	Developments in FDI
	<p>The higher level of FDIs in 2006 was shored up by the net inflows in the equity capital account and the other capital account. Equity capital investments, rising by 9.0 percent to US\$1.287 billion, were channeled into manufacturing (such as chemical/healthcare/steel products, electronics, and air-conditioning system), electricity, gas and water, financial intermediation, real estate, mining, and construction industries.</p> <p>The Other Capital account – which consists mainly of intercompany borrowing and lending transactions between foreign direct investors and their local subsidiaries, branches and affiliates – more than doubled from the previous year’s level to reach US\$1.078 billion in 2006. Loans extended by head offices to Philippine subsidiaries or branches went mostly to the electronics and automotive firms. The major sources of FDI flows were the United States, the Netherlands, the United Kingdom, and Japan.</p> <p>For the first quarter of 2007, non-residents’ direct investments grew by 18.5 percent to US\$710 million relative to the level posted during the same quarter in 2006. This positive development reflected the country’s solid macroeconomic fundamentals. The increase in FDI net inflows during the first quarter resulted mainly from a more than twofold increase in net equity capital at US\$682 million.</p> <p>The bulk of these investments came from the U.S., Japan, Singapore, and Korea. Major recipient industries included manufacturing (electronics, health products), services (international courier, information technology development), mining, real estate, financial intermediation, agriculture and construction.</p> <p>Reinvested earnings remained positive at US\$8 million, albeit lower by about 53 percent than the year-ago level of US\$17 million. Meanwhile, the other capital account, the bulk of which were loans granted by head offices to their subsidiaries in the Philippines, amounted to US\$20 million, lower than the level last year as subsidiaries paid off some of their maturing loans.</p> <p>Looking ahead, FDI inflows are expected to remain strong for the rest of 2007, given the string of positive first quarter developments (such as favorable corporate earnings, buoyant GDP growth of 6.9 percent, and stable prices). This should help promote an economic environment of continued non-inflationary growth.</p> <p><b>Administrative Foreign Investment in 2006 and 1<sup>st</sup> Half 2007</b></p> <p>The year 2006 saw a significant recovery of investor interest as shown by the surge in approvals of Foreign Direct Investments (FDIs) in the manufacturing sector to US\$ 2.2 billion from the US\$ 1.2 million worth of approvals in 2005. The significant 81.4 percent growth can be attributed to the heightened investor confidence due to improved macroeconomic conditions and upbeat expectations for 2006.</p> <p>The bulk of investment commitments in 2006 came from Republic of Korea with US\$ 988.1 million, which comprised close to half or 45.4 percent of total approvals in 2006. Other significant contributors for the year were The U. S. A.,</p>

Country	Developments in FDI
	<p>China and Japan, with shares at 14.7 percent, 14.3 percent, and 12.5 percent, respectively, of the total approved investments in manufacturing in 2006.</p> <p>The robust turnout of pledges to the manufacturing sector in 2006 was boosted by intentions to invest in the manufacture of <i>other transport equipment</i> valued at US\$ 984.9 million which comprised the lions share of 45.3 percent of total pledged infusion to the manufacturing sector for the year. Manufacture of <i>radio, television and communication equipment and apparatus</i>, valued at US\$ 428.4 million comprised a significant 19.7 percent of the total pledges during the year. Investment commitments to the manufacture of <i>fabricated metal products, except machinery and equipment</i> likewise contributed a significant US\$ 382.3 million in 2006.</p> <p>In the first semester of 2007, total approved FDIs for the manufacturing sector was registered at US\$ 860.5 million, a decrease of 47.0 percent from last year's US\$ 1.6 billion in the comparable period.</p> <p>The U.S.A was top source of investment pledges with US\$ 437.4 million or 50.8 percent of projects approved during the period. Japan followed at US\$ 106.2 million.</p> <p>The bulk of the pledges in the first half of 2007 were intended for the manufacture of <i>radio, television, and communications equipment</i> at US\$ 527.1 million which comprised 61.3 percent of investments commitments to the sector in the first half of 2007. Pledges in the <i>manufacture of motor vehicles, trailers and semi-trailers</i> were tallied at US\$ 527.1 million in the semester.</p> <p><b>Investment Outlook for 2007</b></p> <p>The investment outlook remains positive with investment priority plans firmly established, rigorous promotion and specific systems reforms undertaken. To wit:</p> <p><b><u>2006 Investments Priority Plan (IPP)</u></b></p> <p>The <b>2006 Investment Priorities Plan (IPP)</b> with the theme, "<i>Propelling the Nation to 1<sup>st</sup> World Status in 20 Years</i>", 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, export activities and the activities mandated by law to be included in the IPP or be granted incentives under Executive Order No. 226. 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.</p>

Country	Developments in FDI
	<p data-bbox="423 296 899 323"><b><u>2007 Investments Priority Plan (IPP)</u></b></p> <p data-bbox="423 342 1399 873">The 2007 IPP shall continuously support the Philippine vision of ‘Propelling the Nation to 1<sup>st</sup> World Country Status in 20 Years’. It shall remain in representing the development thrust of the government for sustained and equitable economic growth as espoused in the 10-point agenda of the Arroyo government. This year’s IPP has the following list of priority areas: (1) preferred activities covering 11 investment areas recommended by the private sector, (2) export activities covering the manufacture of non-traditional products (3) projects under the Retention, Expansion, and Diversification (R.E.D.) Program. The IPP was prepared by the BOI in cooperation with concerned government agencies. The 2007 IPP will continue to utilize the Industry Cluster approach to enhance industrial competitiveness, promote investments in the countryside, develop micro and small and medium enterprises (MSMEs) and support the One Town, One Product (OTOP) Program as it applies to the activities listed in the IPP. The modernization of existing activities as well as the establishment and operation of Centers of Excellence and Training Institutions to support the human resources requirements of the preferred activities are also encouraged.</p> <p data-bbox="423 911 716 938"><b><u>Investment Promotion</u></b></p> <p data-bbox="423 957 1399 1394">Outbound and inbound missions to India, Japan, China, Taiwan, and the U.S. were organized to boost investments in the country, from both local and foreign sources. To further strengthen the country’s bid as the preferred outsourcing destination, the BOI organized its first investment promotion mission to the United States on 12-23 June 2006. The investment mission aims to achieve the following: 1) sustain the promotion of the country’s IT and IT-enabled services and enhance country brand image; 2) expand the Department’s support network in promoting investment opportunities in the Philippines; and 3) establish new linkages and partnerships with relevant U.S. organizations for image building and investment generation. The investment mission in US obtained positive results, i.e., nine new investment leads, six companies with confirmed investment prospects, and seven companies expressed investment interests. Assistance was also extended during the Presidential visits in China, Kingdom of Saudi Arabia (KSA), Spain and Italy.</p> <p data-bbox="423 1432 1399 1583">To spur investments in the countryside, eight domestic roadshows, i.e., Davao City, Isabela, Cagayan de Oro, Baguio City, Cagayan North, Caraga (Butuan City), Region 9 (Zamboanga City), and Region 6 (Iloilo City and Kalibo) were conducted. As a result, some 84 investment leads were generated with a prospective investment of Php 74.14 billion.</p> <p data-bbox="423 1621 1399 1772">Five Capability Building Training on Investments Promotion were conducted to enhance the capabilities of the LGUs to promote their areas as investment destinations. The trainings were conducted for LGU executives, line-agency and private sector representatives of Rizal Province, CAR, Legazpi City, Ilocos Sur, and Marikina City.</p> <p data-bbox="423 1810 607 1837"><b><u>Infrastructure</u></b></p> <p data-bbox="423 1856 1399 1915">The Department recognizes the need for modern infrastructure as a crucial component of improving the industries’ competitiveness by reducing their cost</p>

Country	Developments in FDI
	<p>of doing business.</p> <p>DTI, through the Build-Operate-Transfer (BOT) Center, the National Development Company (NDC), and the NDC-Philippine Infrastructure Corporation (PIC), continued to address investor concerns pertaining to the limited infrastructure facilities in the country. Their accomplishments include the following key infrastructure projects involving five toll roads and one airport project, which are considered to be priority projects and consistent with the President's 10-point agenda.</p> <p><u><i>South Luzon Expressway (SLEX)</i></u>  The South Luzon Expressway is reaching its maximum capacity. As such, PNCC is working double time to start the expansion and rehabilitation works in SLEX. Some advance work was done along San Pedro, Laguna. This project would have a significant impact on the socio-economic growth in the CALABARZON by facilitating the efficient movement of basic commodities and services between Metro Manila and the region. PIC and NDC have assisted PNCC in fast tracking the implementation of the project.</p> <p><u><i>CALA North-South Expressway</i></u>  To decongest Southern Metro Manila and Cavite and serve industries in the CALABARZON Region, PIC, in partnership with DPWH, is developing the CALA North-South Expressway. The project will ease the traffic congestion along the Aguinaldo intersection and improve access to the industrial estates in Cavite.</p> <p><b>Amendment to EO 226 (Omnibus Investments Code of 1987)</b>  E.O. 226 aims to adopt an incentive system that is consolidated, highly focused, cost-effective, time-bound and simple to administer; harmonizes the government's administration of programs and policies on the grant of fiscal and non-fiscal incentive.</p> <p>Recent developments indicate that the government is reviving plans to create a separate body that would take over the regulatory functions of the Board of Investments so it could be transformed into a purely national investment promotions agency. This will be the framework to serve as basis for the draft bill to be filed in Congress.</p> <p><b>Amendment to RA 7718 – The BOT Law</b>  With the filing of HB 5002 (Amending RA 7718, the BOT Law), the DTI Technical Working Group (TWG) on the BOT Law Amendment reviewed and prepared comments on the Bill, which seeks to establish a clear policy framework for private sector participation in government infrastructure and development projects enhancing their attractiveness to private investors but at the same time, ensure protection of government interests.</p> <p><b>On Contractor's Licensing.</b> The Philippine Contractors Accreditation Board (PCAB) has reduced its documentary requirements for the renewal of contractors' licenses which translates to a reduction in transaction cost by as much as Php 2,500 and in terms of processing time, from 68 down to 15 days.</p>

Country	Developments in FDI
	<p>This translates to about 78% reduced processing time.</p> <p><b>On Cement and Copper Export Clearances.</b> The Board of Investments (BOI) has reduced the processing time of the following services as well as issuance of clearances and certificates:</p> <ul style="list-style-type: none"> <li>- Cement Export Clearance (from 5 days to 4 days);</li> <li>- Copper Export Clearance (from 10 days to 9 days);</li> <li>- Certificate of Qualification to Import Tax and Duty Free Spare Parts and Supplies (from 10 days to 4 days)</li> <li>- Certifications/Endorsements for Not Locally Available (NLA) (from 5 days to 2 days);</li> <li>- Certificate of Accreditation (CA) (from 5 days to 1 day);</li> <li>- Request for Modification of Terms and Conditions of BOI Registration as well as Request for Cancellation of BOI Registration (from 15 days to 11 days)</li> </ul> <p>Fees are also waived for the application of Cement and Copper Export Clearances. A help-desk or information counter was put up to accommodate queries and complaints. Overall, DTI agencies providing frontline services have adopted the “No Noon Break Policy” in order to provide uninterrupted service. DTI agencies have also displayed signages indicating their procedures, requirements and fees as well as placed client satisfaction feedback boxes within the business areas. Worthy of note is the Department’s continued efforts to review and enhance transaction flows within the Department pursuant to its goal to provide superior public service.</p> <p><b>Temporary Visitors’ Visa (TVV) –‘Visa on Arrival’.</b></p> <p>The Board of Investments and the Bureau of Immigration signed a Memorandum of Agreement (MOA) aimed at reducing to three days from 10 days, the visa application process for foreign businessmen faster and easier by offering “visa on arrival”. The TVV would be valid for 30 days and maybe renewed before it expires. There would be special lanes in both immigration arrival and departure areas for the processing of the TVV.</p>
Singapore	<p><b>FDI Flows in 2006 (BOP Basis)</b></p> <p>Singapore recorded strong foreign direct investment (FDI) inflows in 2006, as macroeconomic growth remained robust and global economic conditions continued to improve.</p> <p>Inward FDI rose to US\$24 billion in 2006, up from US\$15 billion in the preceding year, with the majority going into financial, commerce and manufacturing related industries.</p> <p><b>Sources of Foreign Direct Investment</b></p> <p>UK was the largest foreign direct investor, with US\$5.6 billion, followed by Japan with US\$3.1 billion. Netherlands was the third largest foreign investor as FDI inflows from the Netherlands more than doubled from US\$480 million in</p>

Country	Developments in FDI
	<p>2005 to US\$1.2 billion.</p> <p>While FDI from Asia has grown substantially to account for 26 percent of total FDI inflows, Europe remained the largest source of regional FDI, contributing to almost half of total inward FDI.</p> <p><b>Investment Commitments in 1<sup>st</sup> Half 2007</b></p> <p>Manufacturing investment commitments in fixed assets in the first half 2007 totalled S\$5.2 billion. These projects are expected to generate value-added of S\$1.7 billion and more than 8,000 jobs when fully implemented.</p> <p>Foreign investors accounted for 94 per cent (S\$4.8 billion) of total commitments. Europe was the biggest contributor, accounting for 41 per cent of the total or S\$2 billion. This was followed by investors in the US and Japan, which contributed S\$1.8 billion and S\$0.6 billion respectively.</p> <p>The electronics cluster attracted strong foreign interest, garnering S\$2.6 billion in investment commitments in the first half. This was followed by the chemicals and biomedical manufacturing clusters, which pulled in S\$1.7 billion and S\$0.3 billion respectively.</p>
<p><b>Thailand</b></p>	<p><b>FDI Flows in 2006 and 1<sup>st</sup> Quarter 2007 (BOP Basis)</b></p> <p>BOP-FDI for the year 2006 recorded a net flow of US\$10.8 billion, compared to US\$9.0 billion last year. Despite an increase in net BOP-FDI, the growth rate tended to slow down compared to those of previous years. This coincided with the declining trend of the overall private investment and business sentiment index, the reasons behind which were said to encompass factors such as vague political phenomena and policy direction, etc.</p> <p>The surplus was largely attributed to an increase in equity investment, especially in holding business. Other major contributors scattered across real estate business, manufacturing sector (especially transport equipment industry and electrical appliances industry) as well as banking sector. Repatriation was mostly observed in mining and holding businesses. Despite the overwhelming size of gross flow of short-term loans, long-term loans tended to contribute more in net term and mainly went to sectors such as retail &amp; wholesale, manufacturing and financial institution.</p> <p>Within non-bank sector itself, foreign investors mostly concentrated in manufacturing sector (44.6%) - especially in transport equipment industry (12.3%), holding companies (16.6%), real estate (15.8%), and retail &amp; wholesale (15.6%). Mining was the only sector which registered net outflow of investment. Major investors were the Japan (29.8%), Singapore (25.4.0%), and the United States (7.8%). Most investors invested in the form of equity, while Singaporean investors mostly invested in the form of loans from affiliates.</p> <p>BOP – FDI for the first quarter of 2007 recorded a net flow of US\$2.7 billion, compared to US\$2.0 billion for the fourth quarter of 2006, an increase of US\$0.7 billion or 36.7 percent. The surplus was largely a result of equity</p>



Country	Developments in FDI
	<p>investment, especially in banking sector, non-bank financial institutions, transportation industry, and electrical appliance industry. Major investors were the United states (28%) followed by Japan (26%), and Singapore (21%).</p> <p><b>Improvement of Thailand's Compilation of FDI Statistics as Part of BOP</b></p> <p>Starting 2007, the BOT has decided to change the IIP data source from survey to direct reporting (Sor Bor Chor 3/1 Form), with collaboration of the Department of Business Development. (DBD), Ministry of Commerce. The data to be obtained through this direct reporting comprise balance sheets filed by all companies with foreign equity liability of one percent and above. This new source would allow the BOT to obtain year-end outstanding amount of major financial account components, including FDI.</p> <p>For quarter-end data, the BOT also plan to run voluntary survey using this same report form. This would allow us to compile quarterly IIP for major financial account components.</p> <p><b>Administrative Foreign Investment in 1<sup>st</sup> Half 2007</b></p> <p>In 1<sup>st</sup> half 2007 approved manufacturing investment with foreign interest depicted a downward trend, in terms of number of projects. The total number of approved projects was 263 projects. Whereas the total value of projects increased by 10 percent to approximately 95.7 billion baht (US\$ 2.9 billion*) at the same period of time in 2006.<sup>1</sup> The largest source foreign direct investment was Japan (49.5 billion baht or US\$ 1.5 billion), followed by US (21.45 billion baht or US\$ 0.65 billion), EU (79.2 billion baht or US\$ 0.24 billion), Taiwan (3.6 billion baht or US\$ 0.11 billion), and Singapore (2.6 billion baht or US\$ 0.08 billion) respectively.</p> <p>In terms of industry, classified by 2-digit level of ISIC code, the manufacture of radio, television and communication equipment was the largest recipient of foreign direct investment in 1 half 2007, accounting for approximately 36.3 billion baht (US\$ 1.1 billion), or 39 percent share of total investment. The second largest was the manufacture of fabricated metal products except machinery and equipment 14.19 billion baht (US\$ 0.43 billion) or 15 percent of total investment, followed by machinery and equipment n.e.c. (11 percent), motor vehicles, trailers and semi-trailers (8 percent) and chemicals and chemical products (8 percent) .</p> <p><b>Policy Development</b></p> <p>Thailand Board of Investment offers new measures and incentives to stimulate investment as follows:</p> <p><b>1. Biotech Industry</b></p> <p>The Board of Investment has introduced incentives to support the biotechnology industry by providing a maximized incentive package comprised of an eight-year corporate income tax exemption and an additional 50 per cent corporate income tax break for five years should the applicants' facilities be located in the science and technology parks.</p>

<sup>1</sup> Foreign exchange rate (USD = 33 Baht)

Country	Developments in FDI
	<p><b>2. Logistic</b> BOI makes a move to gear up the logistics business by supporting set-up of “Logistics Parks” to facilitate trade and exports and ensure Thailand’s global competitiveness</p> <p><b>3. Eco-cars</b> To promote motor vehicles which save fuel and have reduced impact on the environment, the BOI agreed to grant privileges for investment projects which will manufacture eco-cars that meet international standards and specified BOI conditions.</p> <p>Proposals for investment promotion should be for integrated projects that include car assembly, engine manufacturing and the manufacture of key parts with a minimum investment of THB 5 billion. The privileges include exemptions from import duties on machinery and equipment and an 8-year corporate income tax waiver, regardless of the investment’s location. Eligible investment projects should meet a series of international standards.</p>
<p><b>Viet Nam</b></p>	<p><b>FDI Flows in 2006 and 1<sup>st</sup> Half 2007 (BOP Basis)</b></p> <p>FDI flows in Viet Nam in 2006 was recorded at US\$ 2360 million, increased by 18% percent from that of US\$ 1994.41 million in 2005. In term of source of FDI flows, Japan, USA, Europe, ANIEs and ASEAN have still played an important role, accounting for the lion’s share of 84 percent in 2006.</p> <p>In term of economic sector: Manufacturing is most attractive to FDI with US\$ 1510.64 million inflows, accounting for 62,94 percent, then Real Estate US\$ 537.78 million (22,41 percent); construction US\$ 126.12 million (5,25 percent) agriculture, fishery and forestry US\$ 52.39 million (2,18 percent); whereas only 1,92 percent in other with US\$ 46.22 million investment.</p> <p><b>Factors affecting such trends and developments</b></p> <p>The reason for the increase of FDI flows in Viet Nam in 2006 was due to the fact that more projects have been licensed and Viet Nam has improved incessantly its investment and business environment in odder to and create more favorable conditions for investors. Viet Nam became a WTO member by the end of 2006.</p> <p><b>National measures and policy changes introduced or announced in 2006 and the first half of 2007</b></p> <p>Within our assigned function, the State Bank of Viet Nam is undertaking our commitment of creating a legal framework that facilitates FDI activities in Viet Nam, the policy on foreign exchange management has been revised remarkably. Decree number 160/2006/NŞ-CP date 28<sup>th</sup> 12 year 2006 defines key changes, such as:</p> <ul style="list-style-type: none"> <li>-Liberalizing current account transactions.</li> <li>-Controlling FDI inflows and outflows into and from Vietnam, by requiring</li> </ul>

Country	Developments in FDI
	<p>Foreign Company to open one specific account at one commercial bank and all cash flows relating to FDI activities must be transferred through that account.</p> <p><b>Administrative Foreign Investments in 2006 and 1<sup>st</sup> Half 2007</b></p> <p>The year 2006 saw a new wave of foreign direct investment into Viet Nam with a record amount of \$12 billion registered capital, representing a 50 per cent increase over 2005 and surpassing the year's targets by 57 per cent. This year, FDI continues to flow into Viet Nam. In the first half of the year 2007, FDI in Vietnam grew 8 percent against the same period of last year, amounting to US\$5.22 billion.</p> <p>In the past six months, 575 new projects were licensed representing US\$4.3 billion in investment capital, a 6.4 percent rise in capital compared to the same period last year. In addition, 199 current projects sought to increase capital by US\$870 million.</p> <p>It is notable that the amounts of FDI going to provinces and cities shifted dramatically. Hanoi and Ho Chi Minh City, the country's two economic centers, attracted less FDI than did other provinces. This year it was BaRia-VungTau that attracted the biggest FDI in the first six months of the year with registered capital of US\$724 million, followed by Hue and Binh Duong province with US\$553 and US\$482 million of registered capital, respectively.</p> <p>In first half of 2007, Singapore was the largest source of investment with US\$890 million. Following were Korea with invested capital of US\$733 million and India with invested capital of US\$527 million.</p> <p>Industry sector is still the largest recipient of FDI with \$2.46 billion. However, there is a trend of FDI flow shifting to services sectors. During the first half of 2007 FDI in industry sector contributed 56.5% of total registered capital, reduced from 72.7% of total registered capital in 2006. While FDI in service sector increased from 22% of total registered capital last year to 43.2% in first half of 2007.</p> <p>FDI in 2007 is likely to reach new record and is expected not only far surpassing 2006's record of \$12 billion but also far beyond the US\$13 billion projected for the year. So far there were more than 40 large projects preparing to be invested in Vietnam, representing total registered capital of almost US\$45 billion.</p> <p><b>Factors affecting</b></p> <ul style="list-style-type: none"> <li>- WTO accession starting from 11 January this year is a positive factor for Viet Nam economic growth, helping accelerate Vietnam's on-going reform process. After WTO accession, Viet Nam committed to open the door for foreign investor in 11 out of 12 service sectors including business services, communication, construction and related engineering, distribution, health, insurance, education, tourism, environment, finance, entertainment and transportation. Some commitments are put in force right after WTO accession; some are phased out over 2-4-6 years. Viet Nam also followed</li> </ul>

Country	Developments in FDI
	<p>international practices, including eliminates the application of requirements on trade balance, foreign exchange control on imports, export performance, export restrictions, local contents.</p> <ul style="list-style-type: none"> <li>- New Law on Investment and Enterprise Law that are jointly applicable for both domestic and foreign investors came into effect from 1<sup>st</sup> July 2006. The government also issued decrees to provide guidelines of the above-mentioned laws. Those decrees came into effect from late 2006. Accordingly, the authority to approve and issue investment certificates now is decentralised to management board of industrial parks for project within industrial park and to provincial people's committee for project within the province and outside industrial parks. That helps to facilitate investment procedure for investors and strengthen the capacity of one-stop agency.</li> <li>- The government of Viet Nam prioritises the construction of infrastructure (such as the power, water, transportation, and seaport), education and training and the battle against corruption.</li> <li>- Stock market in Viet Nam is expanding and growing very fast during past year, creating a dynamic capital market for enterprises. The Government is pushing up and expanding the number of state-owned enterprises which need to be equitized including major corporations in the areas of power, engineering, chemicals, cement, construction, transportation, telecom, banking, insurance, etc. Important industry and product strategies are also promptly reviewed and amended in order to reinforce the advantages and expand the participation of foreign investors.</li> </ul>

## **Chapter Five: Conclusions and Recommendations**

42. ASEAN's performance in attracting FDI over the past five years since the rebound of FDIs in 2002 has been reasonably remarkable. However, the competition to attract FDI has become even more intense over these past five years. The number of economically dynamic countries and regions vying for such investment has grown, suggesting that competition will only grow as ASEAN creates the AEC by 2015. Therefore, ASEAN must take advantage of the current regional developments and the process underway to establish the ASEAN Economic Community to position ASEAN in a more competitive environment and thereby, sustain FDI flows.

43. By undertaking the necessary actions to address the challenges posed in the global environment, it would ideally assist ASEAN in reaching its goals of being a single production area, stimulate intra-ASEAN investments within the region, attract investments from outside the region, and contribute to the continued dynamic economic growth of the region and all ASEAN Member Countries. It should not be overlooked that each Member Country, operating on its own, would not realise the same level of benefits as ASEAN operating as a group will realise. Only by working together as one Community and entity will ASEAN have sufficient weight and influence to be attractive to major investors in the global marketplace.

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