ASEAN INVESTMENT REPORT 2009

"Sustained FDI Flows Dependent on Global Economic Recovery"

EXECUTIVE SUMMARY

i. *The global outlook for foreign direct investment (FDI) flows is expected to remain fragile. It is estimated that global FDI flows will decline further to US$1.2 trillion in 2009, after a decrease of 14.2% to US$1.7 billion in 2008.*

ii. *Although global FDI flows declined in 2008, the reduction is uneven across regions. Developed countries experienced a substantial decline of 29.2% to US$962.3 billion. This brought their share of global FDI flows to its lowest level in this decade to 56.7%, compared with a high of 80% in 2000.*

iii. *In contrast, the FDI environment in developing countries was much more resilient. Inward FDI to the developing and transition economies increased by 17.3% to US$620.7 billion in 2008, despite the escalation in the financial crisis in the second half of 2008. Developing countries' share of global FDI flows rose to 43% in 2008, compared with a share of 31.3% in 2007.*

iv. *All regions in the developing world continued to record an increase, led by Africa, where inflows increased by 26.6% to a record level of US$87.6 billion. FDI inflows to Asia maintained its 2007 growth rate of 17% in 2008, bringing FDI inflows to a new high of US$387.8 billion. Inflows to Latin America and the Caribbean increased by 13.3% to US$144.4 billion.*

v. *The decline in FDI flows was reflected in the decline in investments from cross-border M&As and greenfield projects, while divestments increased in 2008. Global M&A activities are estimated to have declined by 34.7% in 2008 to US$673.2 billion, compared with 2007's US$1,031.1 billion.*

vi. *For ASEAN, there was a marked a 14.6% decline in FDI inflows, from US$69.9 billlion in 2007 to US$59.7 billlion in 2008.*

vii. *Nevertheless, intra-ASEAN investment flows remained resilient, increasing by 14.5% in 2008 to US$10.8 billion. The share of intra-ASEAN FDI flows went up from 13.5% in 2007 to 18.4% in 2008. The top ASEAN investor was the European Union, which accounted for 21.9% of ASEAN FDI inflows in 2008. The share of the United States declined from 9% in 2007 to 5% in 2008, while Japan's share remained the same at 12%.*

viii. *The bulk of intra-ASEAN investment in 2008 went to Indonesia, Thailand, Viet Nam and Malaysia with a share of 27.3%, 22.6%, 21% and 14.8% respectively. The biggest investors were from Malaysia and Singapore, with a share of 27.8% and 56.7% respectively.*

ix. *FDI flows to ASEAN continued to be concentrated in the services and manufacturing sectors. The share of FDI in the services sector accounted for 50.5% of FDI inflows in 2008, while the share of manufacturing was 29.4%.*

x. *The current global economic and financial crisis highlighted structural issues within the region that may need to be dealt with in the longer-term, such that giving more weight towards creating synergies through ASEAN integration.*

xi. *ASEAN faces longer-term challenges in continuing to position itself as a center for global investment and trade and remaining on the radar screen for FDI among foreign investors. In the short-term, instituting investment-related measures conducive to FDI must be a priority. In the medium-term, sustaining the goal of ASEAN integration is an imperative and ASEAN has to make the decision to intensify integration efforts in a meaningful and comprehensive manner.*

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CHAPTER I

GLOBAL FDI DEVELOPMENTS

Global FDI Outlook Remains Fragile

1. The global outlook for foreign direct investment (FDI) flows is expected to remain fragile, with a further contraction in such flows expected in 2009. It is estimated that global FDI flows will decline further to US$1.2 trillion in 2009, after a decrease of 14.2% in 2008. The nascent global economic recovery in the second half of 2009 is expected to have mitigated the decline in FDI flows somewhat and these flows are expected to climb back to 2008 levels by 2011[1] as investors' confidence return and mergers and acquisitions activities strengthen.

2. The global economic downturn has seen global FDI flows declining in absolute value terms to US$1,697.4 billion in 2008, from a record US$1,978.8 billion in 2007. (See Table 1). The declines in FDI in 2008 came mainly from a significant reduction in FDI flows to developed countries, whereas flows to developing countries remained resilient with an expansion of 17%.

Table 1 – Global FDI Flows
(US$ billion)

	2004	2005	2006	2007	2008
World	**710.8**	**916.3**	**1,461.1**	**1,978.8**	**1,697.4**
Developed Countries	*396.1*	*542.3*	*972.8*	*1,358.6*	*962.3*
Developing Countries	*275.0*	*334.3*	*433.8*	*529.3*	*620.7*
Developed Regions & Countries of which					
United States (USA)	122.4	99.4	237.1	271.2	316.1
European Union	213.7	421.9	590.3	842.3	503.5
Japan	7.8	2.8	-6.5	22.5	24.4
Australia	36.0	-35.3	27.9	44.3	46.8
Developing Regions & Countries of which					
Africa	18.0	29.5	57.1	69.2	87.6
Latin America and the Caribbean	94.3	76.4	93.3	127.5	144.4
South-East Europe and CIS	40.3	31.0	54.5	90.9	114.4
Asia	156.6	199.6	282.1	331.4	387.8
ASEAN [a]	35.3	39.6	55.0	69.9	59.7
China	60.6	72.4	72.7	83.5	108.3
India	5.5	6.6	20.3	25.1	41.6
Russian Federation	15.4	14.6	29.7	55.1	70.3

Source: UNCTAD WIR 2009/ [a]ASEAN Secretariat database - revised March 2010

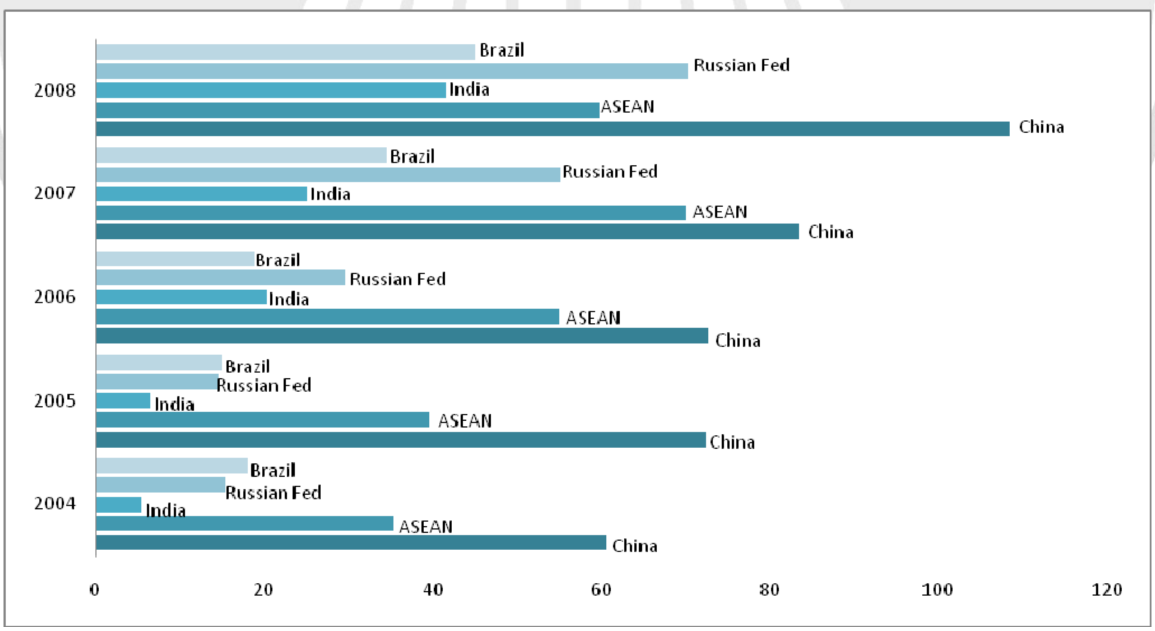
[1] UNCTAD World Investment Report (WIR) 2009

3. ***Differing levels of impact on FDI flows within regions -*** Although global FDI flows declined in 2008, the reduction is uneven across regions. Developed countries experienced a substantial decline of 29.2% to US$962.3 billion. This brought their share of global FDI flows to its lowest level in this decade to 56.7%, compared with a high of 80% in 2000. The decline in inward FDI was the most pronounced in the European Union with a decline in such flows by 40.2% in 2008. However, the United States, Japan and Australia maintained a positive inward FDI growth of 16.6%, 8.3% and 5.5% respectively. The global financial crisis bears responsibility for the poor FDI performance across most of the developed world, affecting mainly cross-border mergers and acquisitions (M&A) activity.

4. In contrast, the FDI environment in developing countries was much more resilient. Inward FDI to the developing and transition economies increased by 17% to US$620.7 billion in 2008, despite the escalation in the financial crisis in the second half of 2008. Developing countries' share of global FDI flows rose to 37% in 2008, compared with a share of 27% in 2007. All regions in the developing world continued to record an increase, led by Africa, where inflows increased by 26.6% to a record level of US$87.6 billion. FDI inflows to Asia maintained the 2007 growth rate of 17% in 2008, bringing FDI inflows to a new high of US$387.8 billion. Inflows to Latin America and the Caribbean increased by 13.3% to US$144.4 billion.

5. Inward FDI flows to the BRICs (Brazil, Russia, India and China) seemed almost recession proof, with double digit-growth in 2008. The highest expansion was seen in India (65.4%) and Brazil (30.3%), though China's inward FDI of US$108.3 billion in 2008 is more than doubled that of any of the other three countries.

Figure I : FDI Inflows
ASEAN and BRIC (US$ billion)



Source: UNCTAD WIR 2009; ASEAN Secretariat

6. The expansion in FDI inflows to South-East Europe and the Commonwealth of Independent States (CIS) also strengthened in 2008, with their share of global inward FDI rising to 6.7%

from 4.6% in 2007. This brings the level of inward FDI flows into these economies to US$114.4 billion in 2008.

7. The shifting trend of FDI flows mirrored the pattern of the global crisis, in which the decline in FDI growth was more severe in those countries where the crisis originated and where the economic downturns were much steeper, namely in the developed countries. The impact on the developing countries was more gradual, quickening in pace only towards the latter part of 2008. This explained to some extent why developed countries' FDI flows were more significantly affected by the crisis, while that of developing countries continued to sustain an expansion. However, the deepening effects of the crisis extending into 2009 will affect both the developed and developing countries, with a strong deterioration in global FDI growth of 44%[2], as already experienced in the first quarter of 2009.

8. The steeper decline in FDI flows for developed countries is basically attributed to the economic crisis, which stemmed mainly from systemic problems in the financial sector which affected the financial institutions and credit flows. A major exception seemed to be the United States, where FDI flows rose to $316.1 billion in 2008. This is explained by two major factors: movement of capital by foreign companies to affiliates in the United States facing liquidity problems, in the form of equity or intra-company loans, and/or the crisis in the United States economy has opened up opportunities for the acquisition of local firms by foreign interests.

9. Of note is that many developing and transition economies have emerged as large investors, and accounted for 19% of global FDI outflows in 2008. Asia accounted for a large percentage of this outflow (11.9%), amounting to US$220 billion, mainly from East Asia (excluding Japan).

Table 2 – Cross Border M&A Flows
(US$ billion)

	2005	2006	% Change	2007	% Change	2008	% Change
World	929.4	635.9	-31.6	1,031.1	62.1	673.2	-34.7
Developed Countries	820.4	538.4	-34.4	903.4	67.8	551.8	-38.9
Developing Countries	35.2	89.0	153.1	97.0	9.0	100.9	4.0

*Source:*UNCTAD

10. The decline in FDI flows was reflected in the decline in investments from cross-border M&As and greenfield projects, while divestments increased in 2008. Global M&A activities are estimated to have declined by 34.7% in 2008 to US$673.2 billion, compared with 2007's US$1,031.1 billion. (See Table 2). This is due mainly to lower stock market prices, limited access to financing and a decline in leveraged buyout transactions. The decline in M&A

[2] Based on UNCTAD's data available on 96 countries.

activity occurred mainly in the developed countries, where cross-border M&A flows fell by 38.9% to US$551.8 billion in 2008, from US$903.4 billion in 2007.

11. The impact of the crisis was less severe for greenfield investments (new investments and expansion of existing facilities). UNCTAD data showed that in 2008, the number of such investments increased markedly to reach over 15,000, largely exceeding the level registered for 2007. There was a manifest increase in such investment projects in developing countries by 51.6% in 2008. However, judging from anecdotal evidence and mass media reports that many companies will put on hold expansion plans, the consequences which will be more fully felt in 2009.

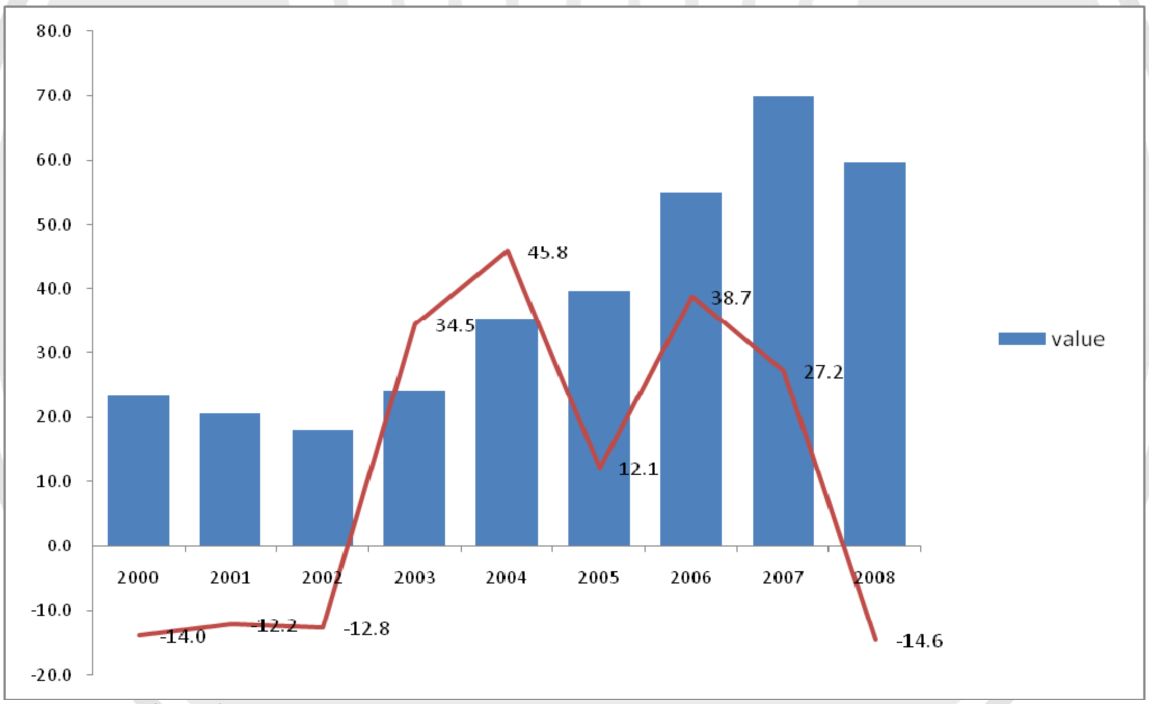
CHAPTER II

ASEAN INVESTMENT PERFORMANCE

Declines in ASEAN FDI in 2008

12. ASEAN foreign direct investment inflows declined in 2008 as the global crisis puts an end to five consecutive years of ASEAN FDI expansion when FDI flows rose from a low of US$18 billion in 2002 to its peak of US$69.9 billion in 2007. The 2008 inward FDI flows to ASEAN fell 14.6% to US$59.7 billion. (See ***Figure II***). The decline in FDI flows to ASEAN was marked in contrast with the growth of 17.3% for developing countries and 17.1% for Asia as a whole. Correspondingly, ASEAN's share of global FDI, which has been rising from 2.5% in 2002 to 5% in 2004, dipped to 3.5% in 2008.

Figure II – ASEAN FDI Inflows (2000-2008)



Source: ASEAN Secretariat Database

13. The impact of the global crisis on individual Member States has so far demonstrated uneven effects on FDI flows across ASEAN. An examination of the distribution of FDI flows (see Table 3) provided an indication of the extent of the FDI flow reversals in 2008 across certain ASEAN Member States, while positive growth was maintained in some countries. The differentiation among ASEAN, where there was a substantial slump in FDI inflows for some ASEAN countries and expansion in others, may lie in the different degree of openness, integration into the supply chain and reliance on external demand of the Member States.

Table 3- ASEAN FDI Flows (2005- 2008)
(US$ billion)

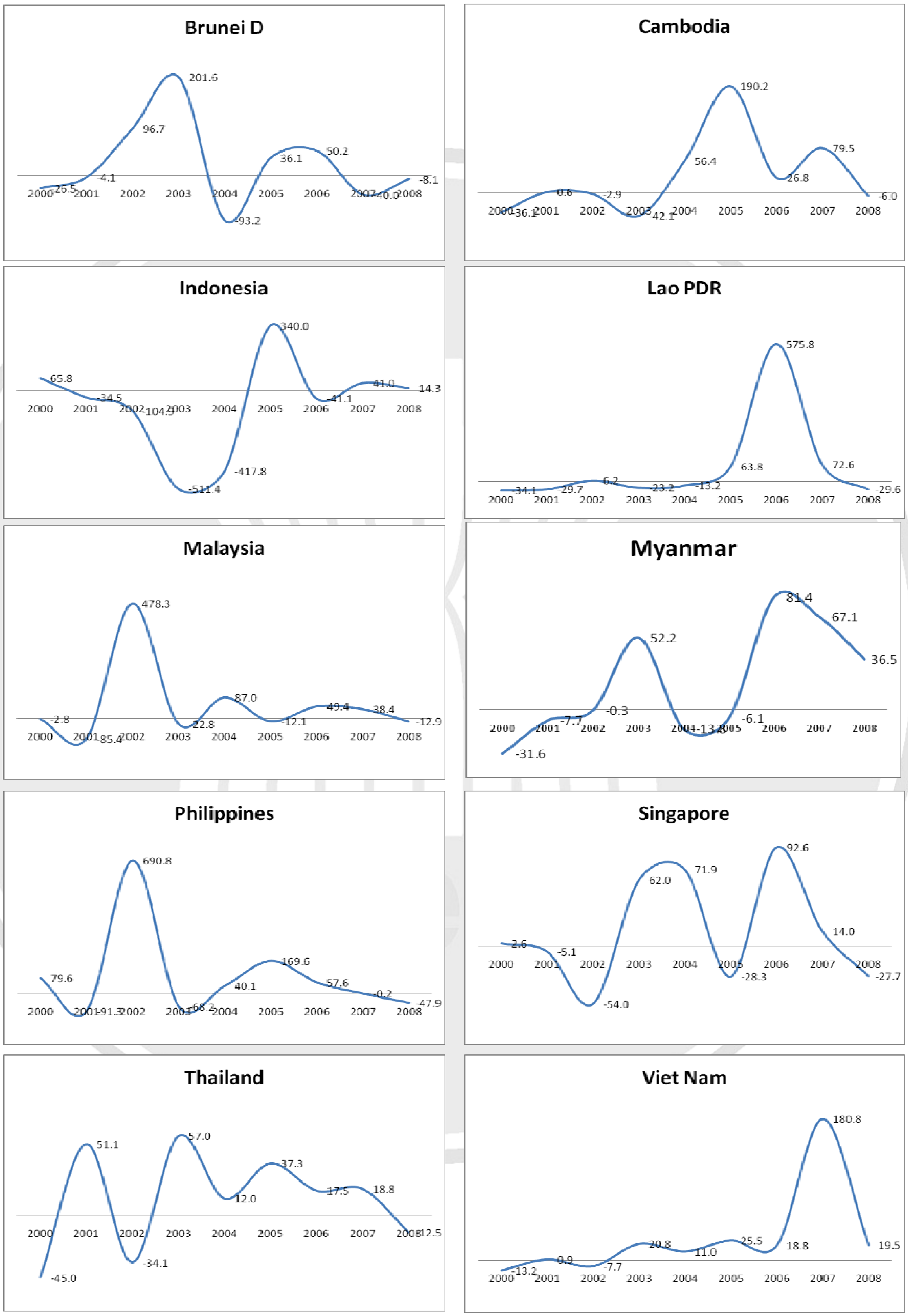
	2004	2005	2006	2007	2008
ASEAN	***35.5***	***39.6***	***55.0***	***69.9***	***59.7***
Brunei Darussalam	0.21	0.29	0.43	0.26	0.24
Cambodia	0.13	0.38	0.48	0.87	0.82
Indonesia	1.89	8.34	4.91	6.93	7.92
Lao PDR	0.017	0.028	0.019	0.34	0.98
Malaysia	4.62	4.06	6.07	8.40	7.32
Myanmar	0.25	0.24	0.43	0.72	0.28
Philippines	0.69	1.85	2.92	2.91	1.52
Singapore	20.05	14.37	27,68	31.55	22.80
Thailand	5.87	8.05	9.46	11.24	9.84
Viet Nam	1.61	2.02	2.40	6.74	8.10

Source: ASEAN Secretariat Database

14. All ASEAN Member States experienced a decline in FDI flows except for Indonesia and Viet Nam. The rate of decline was higher in Philippines, Lao PDR and Singapore, and was quite significant in Malaysia and Thailand. However in absolute values, the drop in ASEAN FDI flows was accounted mainly by the decrease in FDI flows to Singapore, and the rest attributed to the Philippines, Thailand and Malaysia. (See Figure III).

15. In contrast, FDI inflows to Indonesia and Viet Nam demonstrated continued durability, reflecting strong domestic demand conditions in these countries which were able to sustain FDI interest. Indonesia's FDI inflows expanded by 14.3% to US$7.9 billion, while Viet Nam's inward FDI flows increased by an even higher percentage of 19.5% to US$8.1 billion. This reflected the increasingly favourable economic conditions in these two economies that upheld investor confidence. Although Myanmar shared less than 2% of the total FDI into ASEAN, it scored a significant increase again, 36.5%, from $0.71 billion in 2007 to $0.98 billion in 2008.

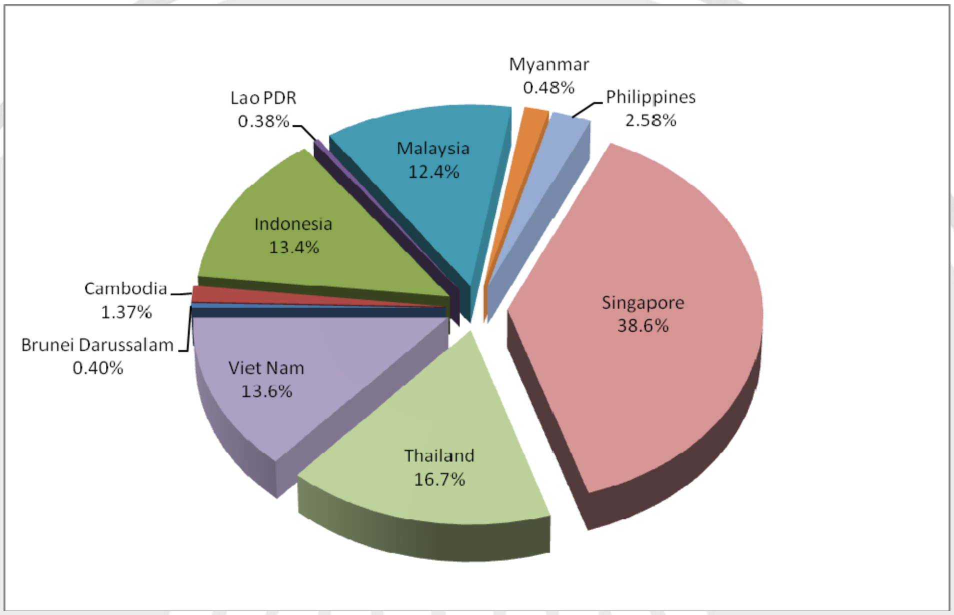
Figure III
FDI Growth (%) (2000-2008)



Source: ASEAN Secretariat Database

16. The major recipients of FDI flows in ASEAN remained to be Singapore with US$22.8 billion (38.6% of total ASEAN FDI), Thailand with US$9.8 billion (16.7%), Viet Nam with US$8.1 billion (13.6%), Indonesia with US$7.9 billion (13.4%) and Malaysia with US$7.3 billion (12.4%). (See Figure IV).

Figure IV - ASEAN Member States – Share of FDI Flows
(In percentage)



Source: ASEAN Secretariat Database

Sources of ASEAN FDI Flows

17. As the financial and economic crisis affected the developed countries to a more severe degree due to the instability in their financial markets in most of 2008, it was expected that FDI outflows from these countries would decline significantly in tandem with the adverse global conditions. This is indeed borne out in the 2008 FDI flows from developed countries into ASEAN. (See Table 4).

18. FDI flows from the United States were the most affected, plunging 53% to US$3 billion in 2008. The other big declines came from the Member States of the European Union (EU), which declined by 29% to US$13 billion in 2008, compared with a growth of 73% in 2007. Among the EU Member States with the largest declines in FDI flows to ASEAN, were Germany which fell sharply by 51.3%, Netherlands by 25.1% and the United Kingdom by 18.4%. The recovery in these economies should see FDI inflows into ASEAN moving upwards in 2009 and 2010.

19. Sources of FDI flows from Asia also declined - Korea by 48%, China by 9% and Japan by 15%.

Table 4 - ASEAN FDI – Sources of Investment Flows (US$ billion)

2006		2007		2008	
European Union	10.67	European Union	18.48	European Union	13.06
Japan	10.23	ASEAN	9.46	ASEAN	10.83
ASEAN	7.60	Japan	8.38	Japan	7.16
Cayman Island	3.51	USA	6.35	USA	3.01
USA	3.42	Rep. of Korea	3.03	Cayman Island	2.54
Bermuda	1.32	Bermuda	2.78	Bermuda	2.12
Hong Kong	1.28	Hong Kong	1.67	Taiwan (ROC)	1.42
Panama	1.27	China	1.57	Republic of Korea	1.59
Rep. of Korea	1.25	Australia	1.04	China	1.44
China	1.02	Taiwan (ROC)	0.87	British Virgin Islands	1.06

Source: ASEAN Secretariat Database

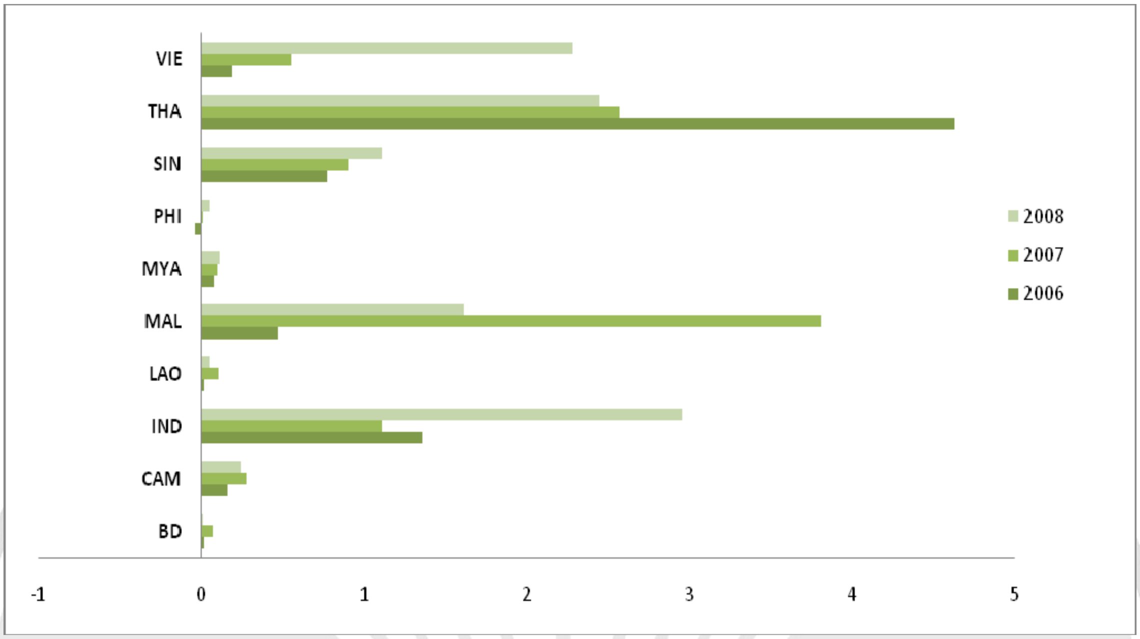
Intra-ASEAN FDI Flows Were Resilient

20. ***However, intra-ASEAN flows remained resilient***. This was in the face of declines in FDI flows from the developed countries. Intra-ASEAN FDI flows went against the grain to increase by 14.5% in 2008 to US$10.8 billion. As FDI flows from developed countries fell due to the combined financial and economic uncertainties, the share of intra-ASEAN FDI flows went up from 13.5% in 2007 to 18.2% in 2008. Intra-ASEAN share, which came second to the European Union, is gaining ground against that of ASEAN's traditional investors. The European Union accounted for 21.9% of ASEAN FDI inflows in 2008. The share of the United States came down substantially from 11.5% in 2007 to 5% in 2008, while Japan's share was reduced slightly to 12% from 15.2% in 2007.

21. The increasing strength of intra-ASEAN flows could be explained to a certain extent by the rising confidence of ASEAN investors in investing in Member States given shared geographical and cultural similarities. In addition, as ASEAN economies become more integrated and barriers to trade and investment come down, and as the benefits of ASEAN integration efforts become more well-known and established, higher levels of intra-ASEAN flows may be expected.

22. The bulk of intra-ASEAN investment in 2008 went to Indonesia, Thailand, Viet Nam and Malaysia with a share of 27.3%, 22.6%, 21% and 14.8% respectively. Indonesia received US$2.9 billion, Thailand, US$2.4 billion, Viet Nam US$2.3 billion, while Malaysia had US$1.6 billion. (See Figure V).

Figure V – Intra ASEAN FDI Flows (US$ billion)
(2006-2008)



Source: ASEAN Secretariat Database

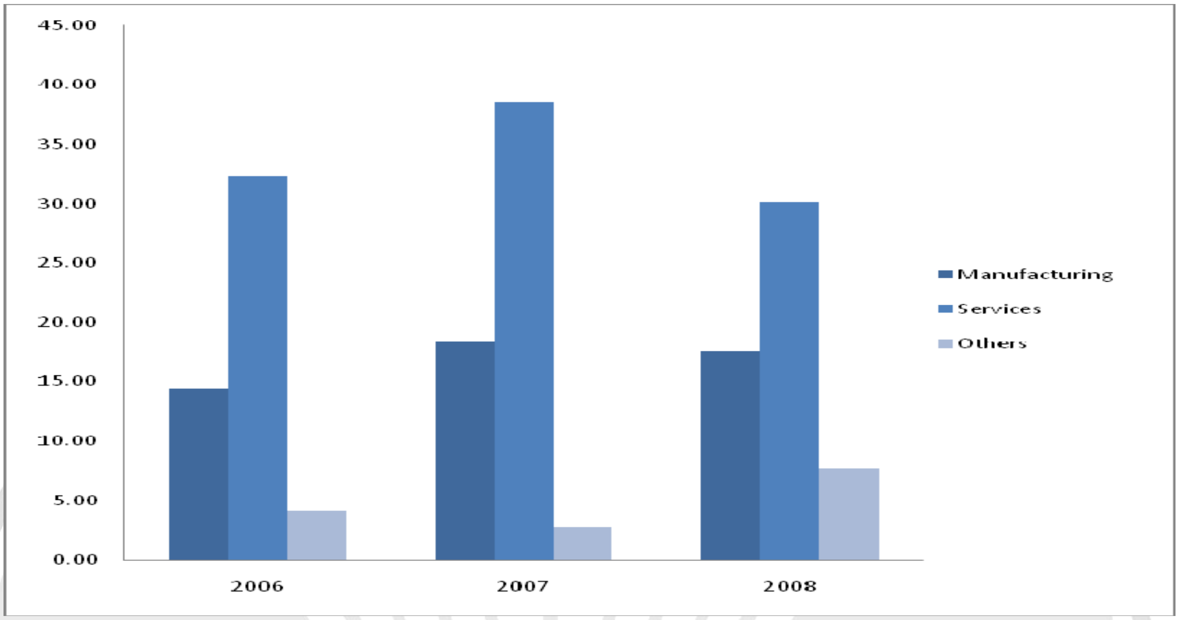
23. While these countries received the bulk of intra-ASEAN flows, positive growth in such flows were registered in Singapore and Myanmar, particularly strong in Philippines, Vietnam and Indonesia. The strength in intra-ASEAN FDI growth was due to the exceptionally high flows to the Philippines, which rose by 708% to US$47.6 billion, Viet Nam where the inflows increased by 316%, as well as to Indonesia, where the increase was 167% over the 2007 level. The main investors were Malaysia (US$3.1 billion) and Singapore (US$6.1 billion), with a share of 28.1% and 57.2% respectively.

Highest ASEAN FDI Flows to Services

24. FDI flows to ASEAN continued to be concentrated in the services and manufacturing sectors. The share of FDI in the services sector accounted for 50.5% of FDI inflows in 2008, while the share of manufacturing was 29.4%. FDI flows to the services sector thus accounted for the lion's share of total. This is also consistent with the GDP sectoral profile where services and manufacturing are the largest sectors in the economy. (See Figure VI).

25. FDI inflows into the primary sector (comprising agriculture, mining and quarrying), has in recent years experienced resurgence, with the share of this sector's FDI to total FDI being higher, compared to its share to GDP. This is attributed to global price movements and perceived tight supply conditions from scarce and depleting resource that have led to higher investments including through M&A activities, particularly in the mining and quarrying sector. However, the primary sector was a victim of the fluctuating commodity prices in 2008, with FDI inflows dropping 52% to US$4 billion with an only 7% share of FDI flows in 2008, compared with a share of 12.2% in 2007. This is mostly due to the severe dip of FDI flows into the agriculture sector, declining by 91% to US$426.3 million in 2008.

Figure VI – ASEAN FDI By Sector
(US$ billion)



Source: ASEAN Secretariat Database

26. FDI flows to the services sector also declined by a much larger margin of 22% in 2008 to US$30.1 billion over 2007. Financial services was the biggest sub-sector, accounting for almost 40% of the FDI in services in 2008. However, given the recent turmoil in the banking system, it is not surprising that FDI flows in the financial services sector declined quite substantially by 16.2% to US$12 billion. Declines were even steeper for trade services and real estate services, where FDI growth was a negative 34.6% and 31.3% respectively in 2008. Due to data limitations, disaggregated data on FDI inflows in services sub-sectors cannot be presented but the residual services data showed that this sub-sector declined by 7.5% to US$5.6 billion.

27. Manufacturing FDI flows into ASEAN contracted by 4% to US$17.6 billion in 2008, the rate of the decline being slower than the overall FDI decline. Given the contraction in export markets of ASEAN, the decline in manufacturing FDI inflows can be seen to be less severe than expected. Nevertheless, the overall premise is that the economies that are more integrated into the supply chains may experience a corresponding higher decline in manufacturing investment flows.

28. However, approved manufacturing investments data for 2008 suggest otherwise, as approvals in this sector for ASEAN as a whole, increased by 38% to US$88.4 billion. This may be a reflection of continued interest in particular countries and confidence in ASEAN regional growth prospects that augurs somewhat well for investment growth in 2010.

CHAPTER III

INVESTMENT POLICY MEASURES AND DEVELOPMENTS IN ASEAN

29. A number of ASEAN countries have introduced measures to ensure that the investment environment remain conducive to investment during the present global crisis. Of the ASEAN countries, among those that reported such steps include Indonesia which introduced a new presidential regulation for an integrated one-stop service system for local and foreign investors. Malaysia took steps to further liberalise its services sector and to relax foreign investment rules, while the Philippines implemented reforms to address improvement of the country's competitiveness. (See Box Article). Such steps are expected to further ensure the sustainability of key FDI investment flows. More elaboration is in the ANNEX.

Box Article

Improving the Investment Climate
The Case of Indonesia, Malaysia and the Philippines

Indonesia introduced a subsidiary regulation under its 2007 Investment Law that requires the establishment of a One Stop Service for Investment (OSSI). The key features of the regulation includes:

- ministries and state agencies delegate authority on licenses and incentives to the Investment Coordinating Board (BKPM), while governors delegate their authority to the provincial investment agencies and heads/regents and mayors to the city and regency investment heads
- a two-year transition period is allowed for the delegation of authority.
- a code of conduct for the one-stop integrated system be issued in one-year's time
- supporting facilities to be made available within a year
- establishing an online investment licensing system within three years to support One Stop Service for Investment (OSSI).

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Malaysia introduced a number of liberalisation measures involving the financial sector and the non-financial services sectors. Among the measures are:

- financial sector:
  - o additional Islamic banking licences with paid-up capital of at least US$1 billion;
  - o new commercial banking licences
  - o two new family takaful licences
  - o 100% foreign ownership in the wholesale segment of the fund management
  - o 70% foreign shareholding limits for the unit trust management companies from the current level of 49%
  - o 70% foreign ownership shareholding limits in existing stock broking companies from the current level of 49%
- review of all visa applications for the financial services industry and capital market industries.
- full liberalisation of 27 services sub-sectors, with no equity condition imposed. These sub-sectors are in the areas of health and social services, tourism

services, transport services, business services and computer and related services.

- deregulation of the Foreign Investment Committee (FIC) Guidelines
  - o guidelines covering the acquisition of equity stakes, mergers and takeovers is repealed, no administrative processing of any share transactions, nor imposition of equity conditions on such transactions except in strategic sectors

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The **Philippines** established the National Competitiveness Council (NCC) in October 2006 by virtue of Executive Order (EO) 571 to improve the country's competitiveness. One of the areas being addressed by the Council is the reduction of transaction costs and flows by improving transparency, among other measures. The Board of Investments has spearheaded the continuous implementation of measures to reduce transaction costs and flows that include:

Simplifying Business Permit and Licensing Process of Local Governments – A Toolkit on Standard Business Registration and Permit (SBRP) for Local Governments and Flyers on Registering Your Business by the Bureau of Micro, Small and Medium Enterprises Department (BMSMED)

- The toolkit, which shows an outline of how a Local Government Unit (LGU) can implement good practices in business registration, have been distributed to the League of Municipalities of the Philippines, the Union of Local Authorities of the Philippines, the Department of Trade and Industry offices, and other relevant government agencies.
- A Joint Memorandum Circular (JMC) and Covenant for Standardization of Business Registration and Permit Processes (SBRP) for LGUs wherein all LGUs in Metro Manila committed to adopt and implement the SBRP for new business.
- It seeks to simplify procedures for application of business registration and permits in LGUs as well as to encourage cooperation of the National Government Agencies (NGAs) to simplify and/or use a standardized form in securing these permits and licenses.

Philippine Business Registry (PBR)

- The PBR is a web-based IT system that will eventually allow the online filing of application for business registration, business permits and licenses, and business dissolution using a single data entry facility, with links to the systems of the NGAs and LGUs. The PBR Portal is accessible through www.business.gov.ph. To date, the available functionalities include online business registration for sole proprietorships, business registry search facilities, and User Account Management.

The BOI Investment Aftercare Services Department is also implementing the Strategic Investors Aftercare Program (SIAP), a proactive program designed to create a high quality, trust based, working relationship of BOI and existing investors in ensuring continuing business in the country. Its major activities include:

- provide aftercare service to existing Micro, Small, Medium and Large Investors;
- facilitate the resolution of investor issues and concerns;
- formulate and implement programs leading to Retention, Expansion, and Diversification of existing investments; and provide technical assistance to the national competitiveness program of the country; and
- provide technical assistance to the national competitiveness programme of the country.

CHAPTER IV

FDI OUTLOOK FOR 2009-2010 AND CHALLENGES

30. The Asian financial crisis in 1997-98 was considered a defining moment for policy-makers in the region, dealing with hitherto unknown challenges of maintaining financial stability in the face of extreme exchange rate volatility and declining financing flows to ASEAN Member States. However, the dimension of the present global and financial crisis for ASEAN breaks new ground when compared with the 1997-98 experience. The present crisis stemmed mainly from external factors: recession in the developed countries, declines in capital flows due to liquidity problems in the global financial system and a considerable erosion in external trade growth within a short span of time. Thus, the global and systemic nature of the present crisis, evolving from the financial system and leading to significant declines in trade and investment flows, has exposed ASEAN Member States to vulnerabilities in the global economic system.

31. The present crisis is of a wider systemic nature and is considered more difficult to predict in terms of its long-term effects and the options available to resolve the issues. Further, the extent of the recovery in the developed countries is also harder to forecast and the degree of the upturn is uncertain. The main concern is that there is no longer certainty that consumer demand in the developed countries will stage a strong recovery to sustain high import growth in the region. There is support for a rebalancing of growth to domestic consumption and investment. However, these are wider structural economic issues that will require longer-term solutions.

32. This crisis has perhaps thrown up a number of issues in the quest to sustain high levels of FDI growth in ASEAN. Firstly, there is a need to maintain and even increase the level of FDI flows, as these have proven to be beneficial to ASEAN's development. In general, FDI flows represented about 13% of gross capital formation for developing countries and for ASEAN, FDI flows account for a higher share of 16%, while FDI stocks accounted for 44% of GDP. FDI is thus important for its direct capital augmenting effect of increasing the level of investment and/or its productive capacity and efficiency, allowing the economy to operate on a higher long-term growth path. There are also vertical or backward spill-overs arising from increased specialisation in production which can induce higher productivity and quality of output.

33. Secondly, there is a need to consider enhancing domestic or regional sources of investment. Most ASEAN Member States have large current account surpluses and this could be used to invest in more stable and productive investments within ASEAN itself. Given the case for diversification of FDI growth sources, this could be an issue for thought. There is thus a case for further inward examination of domestic policies and the type of adjustments that could be undertaken to sustain FDI flows, particularly in line with the strategic actions under the AEC Blueprint to reduce limitations to growth.

34. Thirdly, there are the implications from the swiftness and intensity of the global economic crisis on ASEAN, in terms of economic growth, trade and investment declines. The FDI downswing has been even larger in ASEAN than in other regions, and deeper. Many of the causes cited are region's exceptional integration into the global economy; a large percentage of trade based on intra-industry processing and assembly through vertically

integrated production chains; and a stronger cyclical response to the business cycles of developed countries.

35. In this respect, investment flows of ASEAN will thus be more vulnerable to the effects of trade declines given ASEAN's exposure to the risk of a structural decline in demand from the developed economies. Policies to address investment flows may need to look beyond those related to the international supply chains towards more intra-ASEAN and services-oriented investment.

36. ASEAN countries need to continue improving their regulatory systems and competitiveness towards a more favorable and effective environment for doing business. According to the World Bank's Doing Business 2010 Report, six out of the nine AMSs covered in the Ease of Doing Business rankings for EAP countries are in the lower percentile whille the other three (namely Singapore, Thailand and Malaysia) are ranked among the top four. A similar picture can be found in the 2008-2009 Global Competitiveness Report. This implies a disproportion of opportunities made availed to investors among ASEAN countries which can negatively affect the investment flows into the AMSs individually, hence sustainable economic growth of the ASEAN as a single entity

37. As the global investment environment becomes more competitive, ASEAN will need to work harder to achieve the AEC goals and provide investors the certainty and predictability agreed under the various ASEAN agreements. Investors will need to be able to view ASEAN as a single regional market that has more drawing power than individual markets.

CHAPTER V

CONCLUSION - GOING BEYOND THE CRISIS

38. The current global economic and financial crisis, while grave and posing serious consequences for foreign direct investment flows, looks to be stabilising in the second half of 2009, with signs of emergence from the crisis. Nevertheless, as with other crises, this has highlighted structural issues within the region that may need to be dealt with in the longer-term, such giving more weight towards generating synergies through ASEAN integration.

39. The current vertical investment structure based on integration into the international supply chains versus horizontal integration that focuses on intra-ASEAN growth through more domestic-led demand concentrated within ASEAN, needs further thought. The potential of enhancing intra-ASEAN FDI flows by focusing on emerging growth sectors such as services (education, healthcare, tourism and environment), infrastructure, energy and agriculture would help to diversify sources of ASEAN FDI growth and bring more balanced growth to the region.

40. ASEAN faces longer-term challenges in continuing to position itself as a center for global investment and trade and remaining on the radar screen for FDI among foreign investors. In the short-term, instituting investment-related measures conducive to FDI must be a priority. In the medium-term, sustaining the goal of ASEAN integration is an imperative and ASEAN has to make the decision to intensify integration efforts in a meaningful and comprehensive manner.

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ANNEX

TRENDS AND DEVELOPMENTS IN FOREIGN DIRECT INVESTMENT AND INVESTMENT MEASURES INTRODUCED BY ASEAN MEMBER STATES[1] IN 2008

BRUNEI DARUSSALAM

Trends in Foreign Direct Investment

There was a decline of 8.1% in overall Foreign Direct Investment (FDI) inflows in 2008 to US$239.2 million, from US$260.2 million in 2007.

FDI from the Rest of the World

The main sources of FDI flows were from the United Kingdom and Netherlands which respectively contributed 78.3% (US$157.5 million) and 17.9% (US$ 35.9 million) of the total FDI inflows. Most of the investments were in the mining sector. Meanwhile, Japan contributed 2.9% mostly in manufacturing sector. While ASEAN member countries particularly Malaysia and Singapore contributed 0.3% and 0.2% in wholesale and retail trades.

Compared with 2007, FDI inflows from United Kingdom increased significantly from US$37.1 million in 2007 to US$ 157.5 million in 2008. Meanwhile, investment from other countries declined.

FDI by Economic Sectors

Looking into the economic sectors, mining contributed 63.4 % (US$ 151.75 million) to the total FDI inflows followed by manufacturing at 20.8 % (US$ 73.70 million), transportation at 4.9 % (US$ 11.8 million) and real estate at 0.58 % (US$ 1.4 million).

Compared to 2007, investment in mining showed an increase of 86.8 % from US$ 81.3 million to US$ 151.8 million. Investment in transportation sector increased significantly to US$ 11.8 million. Meanwhile, investments in other sectors declined.

CAMBODIA

Trends in Foreign Direct Investment

During 2008, the amount of FDI inflow was estimated to be US$815.2 million. The banking sector appeared to have a contribution of equity capital of US$93.4 million and reinvested earnings of US$74 million. Simultaneously, equity capital of non-bank sector accounted for

[1] Submissions from ASEAN Member States

US$471.1 million. The major source countries in 2008 were Korea (US$202.7 million), Malaysia (US$135.6 million), Vietnam (US$98.5 million) and China (US$76.9 million).

Comparing with 2007, the growth rate of FDI inflow in 2008 of US$52 million was 6% lower, while the growth rates were 26.8% and 79.5% in 2006 and 2007, respectively. The slowdown in investments was mainly due to the global financial crisis.

FDI from ASEAN

In 2008, the total FDI level flew from ASEAN countries into Cambodia was estimated to be US$1,625.6 million; in which Malaysia, Thailand, Singapore and Vietnam were the key investors. Other ASEAN countries invested US$240.9 million into Cambodia. Malaysia and Vietnam were the largest contributors. However, compared with 2007, the 2008 inflow was US$30 million or 11% less; this represented the lowest rate in this decade.

FDI from the Rest of the World

The 2008 FDI inflow from the rest of the world (except ASEAN countries) was US$574.2 million, a decline of US$21.7 million or 3.7% over the 2007's inflow. The major investors were Korea, China, Saudi Arabia, and United States. In 2007 the major investors were China, followed by Korea, Taiwan and Saudi Arabia.

Although, China was among the top three investors, the investment inflow declined from US$164.9 million in 2007 to US$76.9 million in 2008. FDI flows from Hong Kong and Taiwan decreased from US$21.6 to US$0.3 million and from US$45 to US$18.4 million, respectively. During the same period, there were however, increases in investments from other countries such as Korea, Japan and Kazakhstan.

FDI by Economic Sectors

The banking sector and agriculture were the major sectors of interest for ASEAN investment in 2008, while hotels and resorts, telecommunications, garments and banks experienced investments from the non-ASEAN countries.

Overall, there was a decline of 35.7% in investment in garments, while there was an increase of US$176.7 million (or 105%) in the banking sector, compared with 2007. Investment in the agriculture, hotels and resorts, and telecommunication sectors appeared to have been changed at an insignificant level.

FDI Abroad

During the same period, the outflow of Cambodian direct investment abroad was estimated to be small. The level of Cambodian direct investment abroad was also quite small, and comprises of capital investment in housing and retail businesses.

INDONESIA

Trends in Foreign Direct Investment

Foreign Direct Investment (FDI) in Indonesia for 2008 registered a net surplus of USD7.92 billions, increased by 14.3% from the previous year. This increase was mainly supported by the growing direct investment inflow into non oil and gas sector which recorded USD12.90 billions or an increase of 55.31% (y-o-y).The soaring of equity and debt disbursement received by non oil and gas companies from their parent companies abroad was the main source for the increased of FDI inflows on this sector. Meanwhile, for oil and gas sector, gross FDI inflow for 2008 was recorded USD8.93 billions, slightly increased by USD412 millions or increased by 4.84% (y-o-y).

The reverse conditions were in place, with the reinvested earnings (RE) component recording only USD451 millions, decreasing sharply from USD1.84 billion (by 80.35%) of the previous year. The decline of reinvested earnings was possible related to global crisis which caused the declining of company's profit and so the reinvested earning.

FDI Inflow from ASEAN

Direct investment in Indonesia from ASEAN countries was recorded a net inflow of USD2.96 billions (37% from total net inflow of FDI in Indonesia) or increasing sharply by 167% from previous year which was recorded USD1.1 billions. This condition was different from the situation in 2007, where the net inflow from ASEAN countries declined by 22.32% (y-o-y).
The increase of FDI inflow from ASEAN was due to the inflows of DI from Malaysia and Singapore related to the acquisitions of several companies in Indonesia by Singapore and Malaysian companies. In general, the inflow of FDI from ASEAN countries for recent years was still dominated by inflows received from Singapore and Malaysia.

FDI Inflow from the Rest of the World

A net inflow of FDI coming from the rest of the world for 2008 was recorded USD4.96 billions, decreased by 14.71% from previous year which was recorded USD5.82 billions. The declining was due to the decrease of FDI inflows from European countries and the United States which respectively recorded USD1.21 billions and USD650 million or a decrease by 54.03% and 40.54% (y-o-y). It was understandable considering the financial crisis occurred in the United States and European countries during the year which led to the falling of their investments to emerging countries, including Indonesia. Meanwhile, the inflows from Japan and Australia were increased by 30.24% and 26.24% respectively to USD1.46 billions and USD 390 million. However, the net inflows from European countries and the United States were still providing the largest FDI inflow to Indonesia after Japan.

FDI in Indonesia by Economic Sectors

Manufacturing, Financial Institution, and Mining were still the most attractive sectors for foreign investment in Indonesia. These three sectors accounted for 81% of net FDI in Indonesia. The inflows of Mining and Quarrying sector contributed the highest inflows, which recorded USD2.46 billions or increase sharply by 29.36% (y-o-y), followed by Manufacturing and Financial Institutional sector which recorded USD2.39 billions and USD1.52 billions respectively. The significant increase of FDI inflow from mining and quarrying sector was in line with the rising of oil's price during the first semester of 2008.

For FDI inflows from ASEAN countries, the highest inflow was coming from financial institutional sector which recorded a net inflow of USD1.23 billions and increased by 256% (y-o-y), followed by manufacturing sector which recorded USD941 millions and increased by 137%, mainly from the merger and acquisition activities of Singapore and Malaysian companies to Indonesian companies (i.e. merger of Bank Niaga, BII, UOB and MIRA).

For the rest of the world (non ASEAN countries), the FDI inflows were dominated by mining, manufacturing and trading sectors. Meanwhile, the FDI inflows on financial institutions sector which usually being one of the most attractive sector on FDI in Indonesia in previous years was decreasing sharply with only USD294 million net inflow or decreased by 70% (y-o-y). This condition could be a result of the financial crisis occurred during the year, which made an impact to the flows of FDI to Indonesia in this sector. Decreasing FDI inflow in Manufacturing, Services, and other sectors recorded USD1.45 billions, USD174 millions and USD329 millions respectively. Increasing inflow compared to the previous year figures was recorded only by Mining and Trade sectors. Mining sector recorded the highest increasing of FDI inflow with USD2.12 billion or 18.2% growth compared to the previous year.

LAO PDR

Trends in Foreign Direct Investment

Foreign Direct Investment (FDI) in Lao PDR for 2008 that was recorded through the banking system (cash basis) was US$227.9 million, a decrease of 29.6% compared with US$323.5 million recorded in 2007. Much of capital inflow in 2008 was attributed to the Manufacturing sector, amounting to US$76.4 million, Electricity - US$55 million, Services - US$28.6 million, Mining and Quarrying - US$16.3 million, and Agriculture - US$9.4 million.

FDI Inflows from ASEAN

Thailand ranked the first in 2008 in terms of the contribution to foreign investment, with capital received at US$34.3 million, mainly in the Manufacturing and Electricity sectors. The second largest source of FDI was Viet Nam, with a record of US$12.5 million.

FDI Inflows from the Rest of the World

In terms of the source country, South Korea, China, Thailand, Viet Nam and Japan were the major foreign investors in the country with the total amount of investment of US$146.4 million.

FDI by Economic Sectors

The inflows of capital were mainly in the Manufacturing, Electricity, Services and Agriculture sectors. ASEAN accounted for the largest inflows, with capital flows valued at US$ 47.6 million; followed by ANIEs at US$ 47.2 million, and the rest of Asia at US$42.9 million.

Improvements to the FDI Data Collection System and Policy Changes

- BOL launched the International Transaction Reporting System (ITRS) in September 2008.

- A coordinating and monitoring committee (comprising the Bank of the Lao PDR (BOL), Department of Statistics and Investment Promotion, Department for Domestic and Foreign Investment) was established to work on relevant-FDI issues to find a better way for improving quality of data.

- In supporting the national economic development and closer cohesion and economic integration into the world, the Presidential Decree Law on Management of Foreign Exchange and Precious Metals was amended and has been effectively enforced since March 17, 2008. This decree was amended such that restrictions on international transactions on payments, transfers and foreign exchanges are no longer imposed.

MALAYSIA

Trends in Foreign Direct Investment

In 2008, FDI flows into Malaysia (balance of payment basis) registered a declined to US$7.3 billion from US$8.4 billion in 2007.

The total FDI flows from other ASEAN member states was US$1,607 million compared to US$3,809 million in 2007.

Malaysia continued to attract investments from her traditional sources of investment in 2008, i.e. USA (US$1.3 billion), Singapore (US1.25 billion), and Japan (US$0.6 billion).

FDI Flows by Economic Sector

The main sectors of FDI were in financial intermediation, which accounted for US$3.9 billion of total FDI in 2008. This was followed by the manufacturing (US3.8 billion) and real estate activities (US$230 million).

FDI Abroad

In 2008, the total value of Malaysia's outward FDIs increased by 24 per cent to US$14,557 from US$11,087 million in 2007.

MYANMAR

Trends in Foreign Direct Investment

Actual inflow of FDI was US$ 975.56 million in the year 2008-2009. This figure covers power, oil and gas, manufacturing, hotel and tourism, mining and other services sectors.

PHILIPPINES

Trends in Foreign Direct Investment

Notwithstanding the uncertainties in the global market, foreign direct investments (FDI) continued to post net inflows in 2008 amounting to US$1.5 billion though lower by 47.9 % than the year-ago net inflows of US$2.9 billion.

Net equity capital inflows in 2008 reached US$1.4 billion, lower by 30.7 % than the US$1.9 billion net inflow recorded in 2007. The U.S., Japan, Singapore, South Korea, Germany, Malaysia, Taiwan, Hong Kong, United Kingdom, and the Netherlands were the major sources of equity capital flows. The bulk of these inflows were channelled to the following sectors: manufacturing (shipbuilding/repair, auto electronics parts/ components, paper/cigarette/tobacco products), services (recreational/cultural), mining, construction (hotel/resort/water spa development, power plant facility, global gateway and logistics hub), utilities, real estate, trade/commerce, and financial institutions.

Reinvested earnings reversed to a net outflow of US$91 million due to losses realised by some foreign direct investment enterprises in the country in 2008. Meanwhile, the other capital account—consisting largely of intercompany borrowing/lending between foreign direct investors and their subsidiaries/ affiliates in the Philippines—also recorded net inflows amounting to US$261 million. The level, however, slipped by almost 25% compared to the previous year, attributed mainly to the lower loan availments by Philippine subsidiaries from their mother companies as global economies continue to feel the financial squeeze and the slowdown in economic activity.

FDI Abroad

For 2008, net residents' investments abroad amounted to US$237 million, 93.3 % lower than the year-ago level of US$3.5 billion.

The bulk of residents' equity investments went to the U.S., China, Argentina, Singapore, and Hong Kong.

Equity funds were channeled mostly to the hotels and restaurants (e.g., fast-food center), transport, storage and communications (e.g., cargo handling and storage), and manufacturing sectors (e.g., food and beverage).

Government Measures

To sustain and improve the entry of FDI flows into the country, several measures have been undertaken/ being undertaken by the current administration.

Investment Promotion

The Philippines' Department of Trade and Industry, through the Board of Investments (BOI), is urging lawmakers to fast track the amendments to the Philippine Constitution in increasing the percentage of foreign ownership of particular enterprises (currently 60% for Filipinos and 40% for foreigners) to facilitate the inflow of foreign investments.

The BOI is promoting the country's image as an attractive investment destination which can guarantee the sanctity of business contracts, assure high economic rate of return, provide competitive labor force and offer lower cost of doing business.

2008 Investment Priorities Plan (IPP)

The 2008 IPP continues to support the Administration's governance priorities and economic agenda as advocated by the 10-point agenda and enunciated in the 2004-2010 Medium Term Philippine Development Plan (MTPDP). It aims to fulfill the Administration's vision for the country to be in the 1st World Country Status in 20 years through strengthened efforts in investment promotion to generate more jobs, provide food and deliver basic services to the people.

The 2008 IPP covers the following categories:

- ✓ Preferred Activities -cover the identified six (6) investment areas that were recommended by concerned agencies and private sector to support their respective programs. These are: Agriculture/Agribusiness and Fishery, Infrastructure, Tourism, Research and Development, Engineered Products and Strategic Activities;

- ✓ Mandatory Inclusions -cover all areas/activities where the inclusion in the IPP and/or the grant incentives under EO 226 is mandated by law. These are: Industrial Tree Plantation; Exploration, Mining, Quarrying and Processing of Minerals; Printing, Publication and Content Development of Books and Textbooks; Refining, Storage, Marketing and Distribution of Petroleum Products; Ecological Solid Waste Management; Clean Water Act; and Development of Self-Reliance of Disabled Persons;

- ✓ Export Activities -cover the manufacture of non-traditional export products and activities in support of exporters; and

- ✓ ARMM List -covers priority areas that have been independently determined by the Regional Board of Investments of the Autonomous Region of Muslim Mindanao (RBOI-

ARMM) in accordance with EO 458. The economic activities listed in the ARMM shall be entitled to incentives only when said activities are undertaken in the ARMM region.

Creation of National Economic Research and Business Assistance Centers (NERBACs)

In order to address the difficulties encountered by businesses in registration and accessing services from the government, NERBACs have been created in 15 regions nationwide. These are one-stop shops which serve as single entry points for investors on comprehensive and highly integrated business support by pooling government resources to reduce red tape and improve efficiency in government service. All NERBACs are currently fully operational. Major functions of these Centers are the following:

- ✓ Business licensing and registration in response to the Anti-Red Tape Program of the Administration;
- ✓ Investment marketing that links investment promotion units within regions as well as investment consultancy and assistance; and
- ✓ Knowledge management and research for a central business database with timely and relevant information.

Strategies of the Investment Promotion Agencies (IPAs) in the Philippines

The IPAs have lined-up several strategies/activities in various industries to generate more investments coming in to the country. Among them are the following:

- ✓ Building logistics hubs;
- ✓ Encouraging greater investments in R&D activities;
- ✓ Developing new cost-competitive tourism packages centered around diving, beaches, eco-tourism, meetings, incentives, conventions and exhibitions (MICE), sports and adventure tourism; and
- ✓ Providing additional incentives to pioneering knowledge-based industries.

SINGAPORE

Trends in Foreign Direct Investment

Foreign direct investment (FDI) inflows into Singapore declined to US$23 billion in 2008 as the Singapore economy recorded lower growth for the year.

The UK remained the top investor country in Singapore, while investments from Japan and the Netherlands overtook the US to be the next largest sources of investments in 2008.

On a regional level, Europe continued to constitute the bulk of FDI inflows despite a decline in its share of total investments into Singapore from 45 per cent in 2007 to 42 per cent. Asia accounted for 15 per cent of total inflows in 2008, down from 17 per cent in the previous year.

FDI by Economic Sectors

The commerce, manufacturing and financial sectors continued to be the main recipients of FDI inflows, with the EU being the largest source of investments for these industries.

THAILAND

Trends in Foreign Direct Investment

BOP-FDI for the year 2008 recorded a net flow of US$ 9.8 billion, compared to US$ 11.2 billion in 2007 (equivalent to 12.5% decrease YOY). Despite considerable amount in gross term, loan from affiliates contributed very little to the overall FDI. This was especially highlighted in 2007-2008, when the figures for net flow of loan from affiliates were slightly negative.

FDI by Economic Sectors

Almost all investment went into the non-bank sector (especially in manufacturing sector). As seen in the diagrams below, major investors such as Japan, Singapore, the United States, and Switzerland were largely involved in loan-related transactions, although net contributiona came from equity and RE portions instead.

Recipient-wise, loan inflows and outflows mainly concentrated in manufacturing, non-bank financial institutions, real estate, and retail/wholesale sectors. Real estate was the only sector in which reinvestment of earnings seemed relatively less active. Investment largely financed out of reinvested earnings was especially evidenced in the manufacturing sector and the non-bank financial institutions.

VIET NAM

Trends in Foreign Direct Investment

During 2008, the “Credit Storm” from the US has been extending all over the world, and Viet Nam was not an exception. This posed several serious challenges to Vietnam’s monetary market and banking and the need to face up to:

(i) high rate of inflation (in the first year) and high rate of deflation (in the latter part of the year);
(ii) changes to the monetary policy, increasing price of gold and a freeze in real estate growth.

As such, the State Bank of Viet Nam (SBV) is carrying on tight monetary policy including:
(i) Issuing denominated bonds to collect cash from money market
(ii) Issuing basic interest rate policy based on commercial bank to set collecting interest rate not more than 150% base interest rate.

(iii) Adjusting the exchange rate with the extended benchmark by +/- 3% and increasing the interbank average exchange rate.

The SBV and the Vietnamese banking system need to overcome difficulties and challenges to keep monetary market stable, control inflation and stabilize macroeconomic fundamentals and prevent the decline of the economy.

FDI inflows into Vietnam in 2008 were a record US$ 8.1 billion and accounted for a growth of 19.4% over 2007. The economy grew 6.2% in 2007.

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