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Outward Foreign Direct Investment in ASEAN

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Outward Foreign Direct Investment in ASEAN

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CONTENTS

<i>List of Tables</i>	vii
<i>List of Figures</i>	x
<i>Foreword by Suthipand Chirathivat</i>	xiii
<i>About the Contributors</i>	xv
Introduction	1
<i>Cassey Lee and Sineenat Sermcheep</i>	
1. The Rise of Outward Foreign Direct Investment from ASEAN	5
<i>Sineenat Sermcheep</i>	
2. ASEAN's Outward Foreign Direct Investment	30
<i>Aekapol Chongvilaivan and Jayant Menon</i>	
3. The Impact of the ASEAN Economic Community on Outward FDI in ASEAN Countries	47
<i>Pitchaya Sirivunnabood</i>	
4. Determinants of Singapore's Outward FDI	79
<i>Cassey Lee, Chew Ging Lee and Michael Yeo</i>	
5. Outward Foreign Direct Investment from Malaysia	103
<i>Tham Siew Yean, Teo Yen Nee and Andrew Kam Jia Yi</i>	
6. Indonesia's Outward Foreign Direct Investment	128
<i>Maxensius Tri Sambodo</i>	

7.	Factors Influencing Thailand's Outward FDI <i>Kornkarun Cheewatrakoolpong and Panutat Satchachai</i>	152
8.	Outward Foreign Direct Investment: The Case of Vietnam <i>Hoang Thi Thu</i>	180
9.	Myanmar as a Destination for OFDI: A New ASEAN Foreign Investment Frontier <i>Jean-Pierre A. Verbiest and Tin Htoo Naing</i>	202
	<i>Index</i>	227

LIST OF TABLES

1.1	ASEAN FDI Outflows, 1980–2013	6
1.2	Selected Top 20 Sources of OFDI in Asia, 2014	6
2.1	Rankings of Top TNCs from ASEAN by Foreign Assets, 2012	35
2.2	Top Sovereign Wealth Funds (SWFs) of Developing Asia, Ranked by the Value of Assets, 2007	38
2.3	Distribution of Outward FDI Stock by Economic Sector and Industry, 2000, 2008	41
2.4	Country Rankings by Outward FDI Performance Index, 2000–07	43
3.1	Mechanisms of the Impacts of Regional Economic Integration on FDI	50
3.2	Relative Bilateral FDI Intensity of Selected ASEAN Countries as Home Economies, 2012	52
3.3	ASEAN’s Key Investment Efforts	60
3.4	Assessment of ASEAN+1 FTAs	62
3.5	FDI Flows of Each AMS to ASEAN	64
3.6	Flows of Intra-ASEAN FDI in 2013	65
3.7	Outward FDI Flows from ASEAN, annual average	66
4.1	ASEAN Country Share of Singaporean OFDI Stock, 1997–2012	87
4.2	Singapore’s OFDI by Sector, 2012	88
4.3	Sectoral Composition of Singapore’s OFDI for Main Destination Countries, 2012	89

4.4	Determinants of OFDI Stock — Arellano-Bond Dynamic Panel-Data Estimation	94
4.5	Determinants of OFDI Flow — Arellano-Bond Dynamic Panel-Data Estimation	96
5.1	Description of Variables	118
5.2	Regression Results	120
6.1	Inward and Outward FDI Stock for Selected Countries	141
6.2	OFDI from Indonesia in Singapore by Major Industry	142
6.3	Remittance and Number of Indonesian Migrants in 2013	143
6.4	Incentives for ASEAN Countries — Presidential Regulation No. 39 Year 2014	148
7.1	Thailand's Outward FDI Flows during 2009–14, by Sectors	156
7.2	Thailand's Outward FDI Flows in Manufacturing Sub-Sectors during 2009–14	158
7.3	Summarized Data Sources	162
7.4	Descriptive Statistics for the Case of ASEAN-5	163
7.5	Descriptive Statistics for the Case of CLMV	163
7.6	Estimation Results for ASEAN-5	164
7.7	Panel Regression of Equation (1) in Case of CLMV	167
8.1	Structure of GDP in Vietnam	184
8.2	Annual Average Value and Ratio per GDP of Major Factors	185
8.3	Vietnam's Outward FDI	192
8.4	Structure of Outward FDI of Vietnam by Sector, 1989–2013	193
8.5	Vietnam's Outward FDI by Economic Activity, 1989–2013	194
8.6	Structure of Outward FDI of Vietnam by Region	196
8.7	Top 10 Destination of Outward FDI of Vietnam, 1989–2013	197

9.1	Cumulative Foreign Direct Investment in Myanmar by Sector (up to 31 March 2011)	208
9.2	Cumulative Foreign Direct Investment in Myanmar by Country (up to 31 March 2011)	210
9.3	Yearly Approved Foreign Investment by Sector	212
9.4	Yearly Approved Foreign Investment by Country	213

LIST OF FIGURES

1.1	Outward FDI Flows from Selected ASEAN Countries, 2010–13	7
1.2	ASEAN Inward and Outward FDI Flows, 1980–2013	12
1.3	ASEAN Countries' Inward and Outward FDI Flows, 1980–2013	14
1.4	Geographical Distribution of Outward FDI Stock, as of 2012	17
1.5	Sectoral Distribution of Intra-ASEAN Investment in 2013	19
1.6	Outward FDI Flows from ASEAN, China, Hong Kong, Taiwan and Korea, 1980–2013	24
1.7	China, Hong Kong, Korea and Taiwan Inward and Outward FDI Flows, 1980–2013	25
2.1	Outward FDI Flows from ASEAN, 1990–2013	32
2.2	Intra-ASEAN FDI, 2005–14	33
2.3	Outward FDI Stock by ASEAN Country, 1990–2013	36
2.4	Value of Cross-border M&As by Purchasers from ASEAN Countries, 1990–2013	37
2.5	Value of Greenfield FDI Projects by Sources from ASEAN Countries, 2003–13	38
3.1	ASEAN's Inward FDI Trend, 1995–2013	53
3.2	Top 10 Investors in ASEAN, 2012–13	54
3.3	ASEAN's Outward FDI, 2003–13	55

3.4	ASEAN's Outward Foreign Direct Investment Trends, 2000–13	66
3.5	ASEAN's Outward FDI, by Destination, 2001–12	69
3.6	Starting Up a Foreign Business in ASEAN, 2014	71
3.7	Barriers to Business Expansion in Southeast Asia	73
3.8	Critical Business Expansion Enablers in ASEAN	73
4.1	Singapore's Investment Abroad	83
4.2	Composition of Singapore's Investment Abroad	84
4.3	Singapore's OFDI Flow	85
4.4	OFDI Flow as a Percentage of GDP	85
4.5	Main OFDI Stock Country Destinations	86
5.1	Malaysia's Inward FDI and Outward FDI by Flows and Stocks, 1980–2013	105
5.2	Stocks of Outward FDI by Top 10 Countries, 2003–13	107
5.3	Malaysia's Stock of Outward FDI by Top 5 Countries Sectors, 2003–13	107
5.4	Stocks of Outward FDI by Sector, 2003 Compared with 2013	109
5.5	Investment Income Repatriation (Credit) from Direct Investment, 2005–13	110
6.1	Inward and Outward Foreign Direct Investment of Indonesia	129
6.2	Number of Companies in Top 100 Non-financial TNCs from Developing and Transition Economies, Ranked by Foreign Assets, 2012	131
6.3	Inward FDI Flow	133
6.4	Indonesia's Investment Development Path	134
6.5	Stock of Direct Investment Abroad from Indonesia	137
6.6	Indonesia's Greenfield OFDI	138
6.7	Indonesia's FDI Stock Abroad, by Geographical Destination (in 2012)	140
7.1	Thailand's FDI Stocks, 2001–13	155

7.2	Thailand's Outward FDI in Textile Industry in ASEAN and CLMV	169
8.1	Economic Growths in Vietnam, 1986–2013	183
8.2	Trend of Vietnam's Outward FDI, 1989–2013	191
9.1	Approved Foreign Direct Investment, Annual Foreign Direct Investment Inflows and Total Investment	206

FOREWORD

Outward foreign direct investment (OFDI) from developing countries has been growing significantly since the turn of the century. According to a recent study by UNCTAD, the share of developing country's outward FDI to global outflows has increased from 11.79 per cent in 2000 to 33.79 per cent in 2014. These growing outflows are driven by an increase in capital and trade openness from globalization and economic integration, and an increase in participation in international production networks.

ASEAN, a group of mostly developing countries in Southeast Asia, has, in between times, played an active role in international investment. Many ASEAN countries are already destinations of FDI from the developed economies. More recently, some of these countries have adjusted their own positions from being net capital inflow countries to become net capital outflow countries. Today, the obvious major investors from ASEAN are Singapore, Malaysia, and Thailand — collectively generating 79.54 per cent of outward FDI from ASEAN in 2014. With the advent of the ASEAN Economic Community (AEC) in 2016 and beyond, these net capital outflows from ASEAN to other destinations will continue to expand.

As a matter of fact, outward FDI from ASEAN countries is only at the beginning stage, so there is no wonder why literature on the topic is still very limited. To understand the integrated picture of outward FDI and to foresee the potential future of outward FDI in ASEAN, an overview of outward FDI in the region as well as the role of AEC should be examined. By bringing in the experiences from each country, as major investors or as major recipients of FDI, and the new players in the region will help to contribute to a more complete and integrated picture of international investment in ASEAN.

For this reason, ASEAN Studies Center and the Faculty of Economics, Chulalongkorn University and ISEAS – Yusof Ishak Institute jointly

cooperated in this book project. The objectives of this book are to: (1) discuss the development of outward FDI in ASEAN; (2) examine the potential impact of AEC on outward FDI in ASEAN; and (3) discuss the experiences of the major investors from ASEAN (Singapore, Malaysia, Thailand), potential investors (Vietnam and Indonesia) and a major recipient of FDI (Myanmar). The seminar for the book project was organized with the cooperation of all parties concerned. Finally, we would like to thank the editors, chapter writers and the secretariat support staff from both institutions.

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INTRODUCTION

Cassey Lee and Sineenat Sermcheep

Southeast Asian countries have historically engaged in international trade long before the arrival of European colonial powers in the sixteenth century. The prospects and potential gains from trade and the control of the sources of natural commodities attracted these powers and eventually led to the colonization of much of Southeast Asia. With the exception of Thailand, which was never colonized by any European power, much of Southeast Asia became further integrated with the global economy as foreign colonies. In the aftermath of the Second World War, countries in the region gained independence and with it, sought to develop their economies via export-oriented industrialization. This did not take place simultaneously and concurrently amongst countries in the region. Political and institutional differences meant that some countries (such as Malaysia, Singapore, Thailand and Indonesia) had an earlier headstart than others (such as Cambodia, Laos, Myanmar and Vietnam). As a result, there are still large differences in the level of development amongst countries in the region. This continues to be a significant challenge for member countries of the Association of Southeast Asian Nations (ASEAN) as they seek to achieve higher levels of regional economic integration.

One important manifestation of the differences in the level of development amongst ASEAN member countries is the difference in the patterns of foreign direct investment (FDI). At the initial stage of development, most ASEAN countries have abundant labour but lacked capital and technology. For ASEAN countries that adopted the export-oriented industrialization strategy early, the inflow of foreign direct

investment (inward FDI) into the export-oriented industries in the manufacturing sector helped overcome these limitations. Over time, as higher levels of development and income per capita were attained, the factor composition in these more developed ASEAN countries began to tilt towards greater capital intensity and higher technology. At this juncture, enterprises in these countries, both local and foreign-owned, began seeking countries abroad to invest in — with the hope of establishing production facilities and/or accessing the final markets in these countries. The result is the emergence of outward FDI (OFDI) from the more developed ASEAN countries. The above transformation has been observed amongst ASEAN countries. Singapore, Malaysia and more recently Thailand has become net-investors in which outward FDI exceeded inward FDI.

Despite the increasing importance of OFDI in ASEAN countries, relatively little research has been published on the topic. The goal of this book is to rectify this research and literature gap. This is achieved by examining and assessing the current state of OFDI in ASEAN countries. This is undertaken using two approaches. The first approach seeks to analyse OFDI from a cross-country and regional (ASEAN) perspective. The second approach looks at outward FDI from country perspectives.

BOOK COVERAGE

Cross-country and regional analyses of OFDI in the ASEAN region are covered in the first three chapters of this volume. Sineenat Sermcheep (Chapter 1) provides a review of the literature on OFDI as well as the recent trends in the patterns of OFDI in ASEAN countries. The chapter also examines the experiences of East Asian countries and draw some important lessons for ASEAN countries. The issue of intra-ASEAN OFDI is examined by Aekapol Chongvilaivan and Jayant Menon (Chapter 2). The authors also identify and discuss some of the key OFDI players in the region. The ASEAN framework and agreements for regional investment integration is discussed in the chapter by Pitchaya Sirivunnabood (Chapter 3). The author also discusses future challenges facing ASEAN member countries and ASEAN (as an institution) in promoting greater regional economic integration via intra-regional direct investments.

The country case studies on OFDI in this volume covers Singapore, Malaysia, Indonesia, Thailand, Vietnam and Myanmar. The case of Singapore is examined by Cassey Lee, Chew Ging Lee and Michael Yeo (Chapter 4).

The authors provide a review of the Singaporean government's policy on OFDI and analyse the country's OFDI trends. This is supplemented by an econometric analysis of the drivers of the country's OFDI. Malaysia OFDI patterns and drivers are examined by Tham Siew Yean, Teo Yen Nee and Andrew Kam Jia Yi (Chapter 5). Indonesia's OFDI trends are analysed by Maxensius Tri Sambodo (Chapter 6). In addition, the chapter reviews the country's OFDI in Singapore (as a country destination) and MNE's involvement in OFDI. Kornkarun Cheewatrakoolpong and Panutat Satchachai (Chapter 7) review OFDI trends in Thailand and provide an econometric analysis of the determinants of OFDI in Thailand in two groups of ASEAN countries, namely, the ASEAN-5 and CLMV countries. The case of Vietnam is examined by Hoang Thi Thu (Chapter 8). In her chapter, the author traces the evolution of OFDI-related policies, regulations and laws in Vietnam as well as OFDI trends during different periods. Myanmar as a country destination for ASEAN OFDI is discussed by Jean-Pierre A. Verbiest and Tin Htoo Naing (Chapter 9).

MAIN FINDINGS

The level of outward FDI flows from ASEAN countries has increased rapidly in the past two decades despite reversals during periods of economic crises in 1997/98 and 2008. There has been an increase in intra-ASEAN OFDI flows particularly since 2009. As expected, there is significant diversity in terms of the size of OFDI flows across ASEAN countries. Singapore has been a major investor for some time. Malaysia, Thailand and Indonesia are relatively newcomers to OFDI. More recently, OFDI from Vietnam has also increased rapidly. OFDI flows from ASEAN countries have focused primarily in three sectors, namely, manufacturing, financial services and real estate.

What are the drivers of the OFDI flows in ASEAN countries? The theoretical explanations for OFDI ranges from macro-level theories incorporating elements from the Product Life Cycle theory to the more micro-oriented approach by Dunning. The former charts the evolution of production for domestic markets to production from foreign base driven by changes in domestic input and output markets as countries become more developed. Dunning's theory emphasizes on ownership, locational and internalization advantages that accrue to firms from investing abroad. The list of OFDI drivers have also been mapped to different types of

FDI — market-seeking, efficiency-seeking, resource-seeking and strategic asset-seeking. The empirical evidence documented in this volume suggest that the drivers of OFDI differ across different industries and sectors. Key drivers include market size, tax rates, trade cost, transport cost and trade agreements. These results and the qualitative evidence from country case studies point to the importance of trade and domestic policies as well as regulations that can enhance OFDI. Finally, the prospects of OFDI in ASEAN countries are promising, especially OFDI from more developed ASEAN countries to less developed ASEAN countries. The rising importance of intra-ASEAN OFDI supports this view.