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THE RISE OF OUTWARD FOREIGN DIRECT INVESTMENT FROM ASEAN

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1. INTRODUCTION

Over the past decade, developing economies have been actively investing abroad. This is reflected in their share of the world foreign direct investment (FDI) outflows which increased significantly from 11.87 per cent in 2000 to a record of 35 per cent in 2014 (Table 1.1). In particular, due to the surge in outward foreign direct investment (OFDI) from Asian developing economies since 2005, developing Asia became the world's largest investor region for the first time in 2014, accounting for approximately one-third of the global FDI outflows (UNCTAD 2015).

A number of countries from the Association of Southeast Asian Nations (ASEAN) have become major players in the investment arena. Even though ASEAN countries have been major recipients of FDI, they have evolved into an emerging source of investment for many developing economies, especially in the ASEAN region (ASEAN Secretariat 2013). The overall FDI outflow from ASEAN rose rapidly from US\$8.97 billion in 2000 to US\$56.36 billion in 2013 (Table 1.1).

TABLE 1.1
ASEAN FDI Outflows, 1980–2013 (in US\$ million and per cent)

	1980	1990	2000	2010	2012	2013
World	51,252	241,614	1,241,223	1,467,580	1,346,671	1,410,810
Developing economies	2,855	11,317	147,372	420,919	440,164	454,067
ASEAN	394	2,328	8,972	57,546	53,834	56,361
% of World	0.77	0.96	0.72	3.92	4.00	3.99
% of Developing	13.79	20.57	6.09	13.67	12.23	12.41

Source: UNCTAD.

TABLE 1.2
Selected Top 20 Sources of OFDI in Asia, 2014

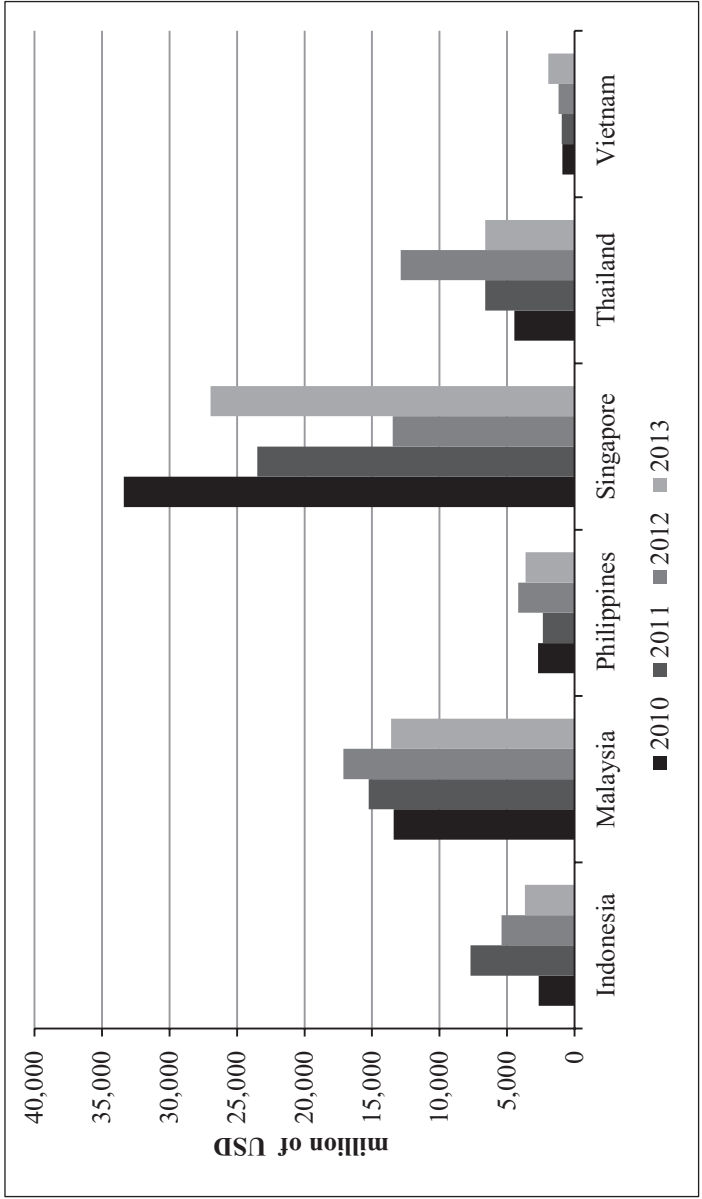
Rank in 2014	FDI Outflows (US\$ billion)		Growth Rate (%)
	2014	2013	2014/2013
2 Hong Kong	143	81	76.54
3 China	116	101	14.85
10 Singapore	41	29	41.38
13 Korea	31	28	10.71
17 Malaysia	16	14	14.29
20 Taiwan	13	14	-7.14

Source: UNCTAD (2015).

Among the top source countries for OFDI, two leading investors from ASEAN — Singapore and Malaysia — made it to the 10th and the 17th rank respectively in 2014 (Table 1.2). Other major investors from East Asia are Hong Kong, Korea, Taiwan and China. The first three have long been leading global investors since the past few decades while China has become the major source of OFDI recently, with a rapid rise in overseas investment. Aside from Singapore, Malaysia and Thailand have emerged as net investors in 2007 and 2011, respectively.

This new FDI landscape in ASEAN has been shaped by many factors including the increase in mergers and acquisitions (M&As) and the rising importance of the region as a key player in the global value chain. In addition, ASEAN's outward investment has been enhanced by regional economic integration. The ASEAN Economic Community (AEC) aims to

FIGURE 1.1
Outward FDI Flows from Selected ASEAN Countries, 2010–13



Source: UNCTAD.

achieve a single market and production base in the region. Governments of ASEAN member states have been actively encouraging their national companies to invest abroad to take advantage of the benefits of the AEC (ASEAN Secretariat 2013).

This chapter aims to examine the development of outward FDI in ASEAN countries, its characteristics and motives, as well as prospects for the future. The rest of this chapter is organized as follows: Section 2 provides a brief review of literature on outward FDI from developing countries; Section 3 presents the development, characteristics and motives of ASEAN's FDI outflow; Section 4 examines lessons for ASEAN countries that can be drawn from the experiences of major East Asian investors — China, Hong Kong, Korea and Taiwan. The conclusion is presented in Section 5.

2. OUTWARD FDI FROM DEVELOPING ECONOMIES

It is imperative to review the theories on outward FDI from developing countries in order to develop a theoretical framework where the case of FDI from ASEAN can be examined.

2.1 Ownership Advantages

According to Dunning (1993), ownership (O), location (L) and internalization (I) advantages are the reasons why firms invest abroad. A firm would engage in FDI when it has ownership advantage — technology and know-how, managerial skills and organization capabilities — over other firms in foreign markets. When firms decide to invest abroad, they select host countries based on location-specific advantages which benefit them in terms of access to natural resources, larger markets and cheaper inputs including labour. Thus, firms exploit ownership and location advantages by investing abroad rather than through other options such as exporting or licensing arrangements.

For firms in developing countries, ownership advantages take the form of (i) suitable technologies in which foreign technology can be modified to suit the tastes and preferences in developing markets, and (ii) lower overhead and expatriate costs. The familiarity with local markets is another advantage possessed by MNEs from developing world. Thus, it can be argued that developing economies may have some commonalities in terms of socio-economic root, ethnic and cultural environment, infrastructural

conditions and bureaucratic inefficiency. Lastly, investments from the MNEs based in the developing economies may be more welcome in the developing world since they are often perceived to be less threatening compared to their counterparts from developed countries (Nayak and Choudhury 2014).

2.2 Emergence and Development of Outward FDI

The Product Life Cycle (PLC) theory developed by Vernon (1966) can offer an explanation for the emergence of outward FDI from developing economies. Instead of creating new products themselves, firms from developing world generally import technology from developed countries. Such technology is more suitable for large markets. Thus these firms produce to serve the domestic market first and then export to other countries. Once the products become popular and established in foreign markets, the firms tend to set up production facilities abroad rather than export from the present base (Nayak and Choudhury 2014).

The dynamic pattern of FDI from developing countries can also be explained by the revised Investment Development Path (IDP) which is a dynamic approach of the OLI theory. The IDP provides a framework to understand the interactions between economic development, FDI and governments, and the emerging role of strategic asset-seeking investment as a determinant of outward FDI. As countries achieve higher level of development, they participate more in international investment and evolve through several stages of investment-development, starting from FDI inflow, to outward FDI and the balanced inward and outward FDI in the last stage (Dunning and Narula 1996; Dunning et al. 1997; Narula and Dunning 2000).

2.3 Drivers and Motivations of Investment Abroad

Recent work by Banga (2007) demonstrates that trade-related drivers, capability-related drivers and domestic factors are the important determinants of FDI outflow from developing countries to the developed world. First, in terms of trade-related drivers, an increase in export can provide some assurance of the potential business in foreign markets. This results in lower uncertainty and risks from investing abroad. At the same time, imports may displace domestic production which signals to domestic

firms to relocate their production to countries with lower production costs and larger markets.

Second, the necessary requirements, in terms of capability, for firms to invest abroad include skills, technology, information and capital. Third, in terms of domestic factors, firms from developing economies may be faced with poor infrastructure, expensive capital, costly skilled labour and small market in the home country. Another domestic constraint is market integration and competition where firms may decide to relocate their production to other countries in order to be more competitive.

Beside the factors mentioned above, home country policies on FDI obviously are major factors that affect FDI outflows. In many developing countries, restrictions on FDI have been relaxed or eliminated as part of liberalization policies that foster the internationalization process (Hill and Jongwanich 2014; Nayak and Choudhury 2014). The government can also introduce new measures to support outward FDI including financial support, taxation, investment insurance, fiscal measures, overseas investment services and institutional services such as administration, information and technical assistance (Kim and Rhe 2009; Sauvant et al. 2014).

It is widely accepted that there are four major types of outward FDI, clustered according to motives underlying investment decisions: market-seeking FDI, efficiency-seeking FDI, resource-seeking FDI and strategic asset-seeking FDI (Kim and Rhe 2009; ASEAN Secretariat 2013).

First, market-seeking FDI happens when firms want to secure markets abroad, to diversify their revenue base, to follow their customers or to establish new markets. In this case, firms tend to invest in markets which are large enough to compensate for the costs of investing in those markets.

Second, firms with efficiency-seeking motives will invest in countries with low production costs in order to increase their cost competitiveness. Kim and Rhe (2009) argue that once the original host country faces intense competition, investors undertake efficiency-seeking investment in other low-wage countries to reduce costs and this investment is likely to recur in the future.

Third, resource-seeking FDI is mainly aimed at securing supplies of natural resources, particularly in the oil and gas industry, other mining industries and agricultural industries.

Fourth, for strategic asset-seeking FDI, firms seek to acquire new advantages in the form of brand names, reputation, business networks and

advanced technology. In the real world, firms from developing countries invest in developed countries to strengthen their non-price competitiveness. This type of FDI has grown rapidly during the past two decades (Kim and Rhe 2009).

3. OUTWARD FDI FROM ASEAN

In order to gain some perspectives on the outward FDI from ASEAN, this section begins with a discussion of the development, characteristics as well as drivers and motivation of ASEAN's outward investment. Trends and prospects of ASEAN's outward FDI are also presented.

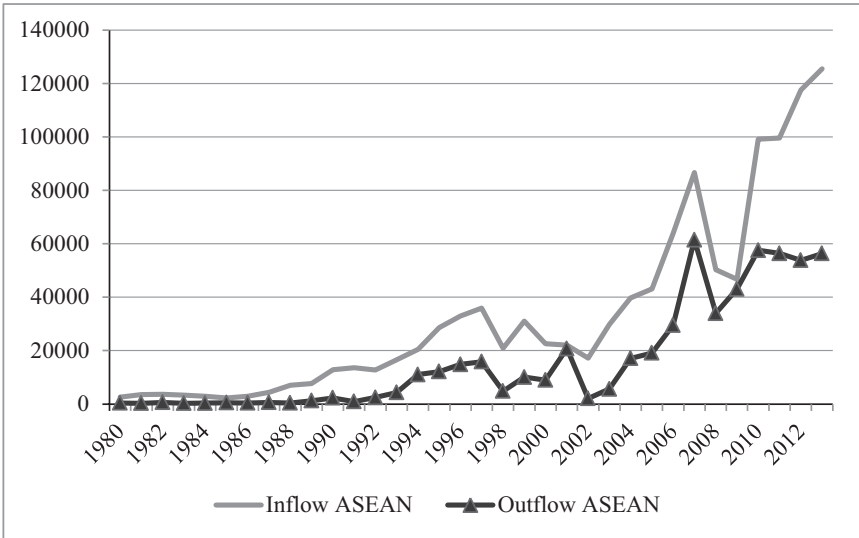
3.1 Development of FDI Outflow from ASEAN

Overall, even though outward FDI in the ASEAN region has been on an upward trend during the past three decades, countries in the region remain important host countries for inward FDI from the global market (Figure 1.2). Before the late 1970s, the size of outward FDI from ASEAN countries was quite small, lower than US\$50 million, and this was driven mainly by investments from Singapore. In 1980, the OFDI flow reached US\$394 billion, equivalent to 13.79 per cent of the flow from developing world. This increase was mainly due to the increasing role of Malaysia as an international investor.

During the 1980s, Singapore and Malaysia dominated the outward FDI from ASEAN with more active FDI outflows from Philippines and Thailand. This resulted in a rise in outward investment from US\$326 million in 1981 to US\$2,328 million in 1990. In the late 1990s, Malaysia had contributed significantly to a big leap of FDI outflows from ASEAN. The upward trend of OFDI from ASEAN has continued until the Asian Financial Crisis (AFC) in 1997–98, which caused a huge drop in FDI from this region.

Entering into the 2000s, ASEAN's outward FDI started rising again. An upward trend in FDI outflows can be observed after 2003 during which firms in the region recovered from the AFC. This rapid rise in FDI outflows was a reflection of the strong interest shown by firms in ASEAN countries to participate in the international market (ASEAN Secretariat, 2013). The new wave of outward FDI from ASEAN countries during the past decade is an important phenomenon. From 2000 to 2010, the outward

FIGURE 1.2
ASEAN Inward and Outward FDI Flows, 1980–2013 (US\$ million)



Source: UNCTAD.

investment from ASEAN countries have increased dramatically from US\$8,972 million to US\$57,546 million, mainly contributed by a jump in intra-regional investment. This rapid development of ASEAN's outward FDI is a reflection of the ASEAN economy becoming increasingly integrated with the regional and global economy.

Since ASEAN countries do not participate equally in outward FDI, it is necessary to examine the pattern of each country's outward and inward FDI. According to the level of outward FDI, countries in ASEAN are divided into three groups: (1) the traditional largest investors abroad — Singapore and Malaysia, (2) the emerging investors abroad — Thailand, Indonesia, Philippines and Vietnam, and (3) the recipients of FDI — Brunei, Lao PDR, Cambodia and Myanmar.

Traditional Largest Investors from ASEAN

Singapore and Malaysia have invested in the international market since the 1980s. Even though Singapore is the largest source of OFDI in ASEAN,

with their OFDI having increased significantly from US\$97.61 million in 1980 to US\$26,966.59 million in 2013, the country remains a net recipient of FDI during most of the past three decades (Figure 1.3).

Malaysia, like other ASEAN countries, started out as a net capital recipient country. FDI inflows into Malaysia increased significantly after the launch of the Promotion of Investment Act in 1986. Even though outward FDI has been observed since the 1980s, a significant upsurge of overseas investment happened only after 2006. The value of Malaysia's OFDI has increased dramatically from US\$6,021.02 million in 2006 to US\$11,313.89 million in 2007. As a result, Malaysia has transformed itself into the net international investor in 2007. Even the country was hit by the AFC which resulted in a decline in outward FDI, Malaysia has continued to play the role of a major global investor.

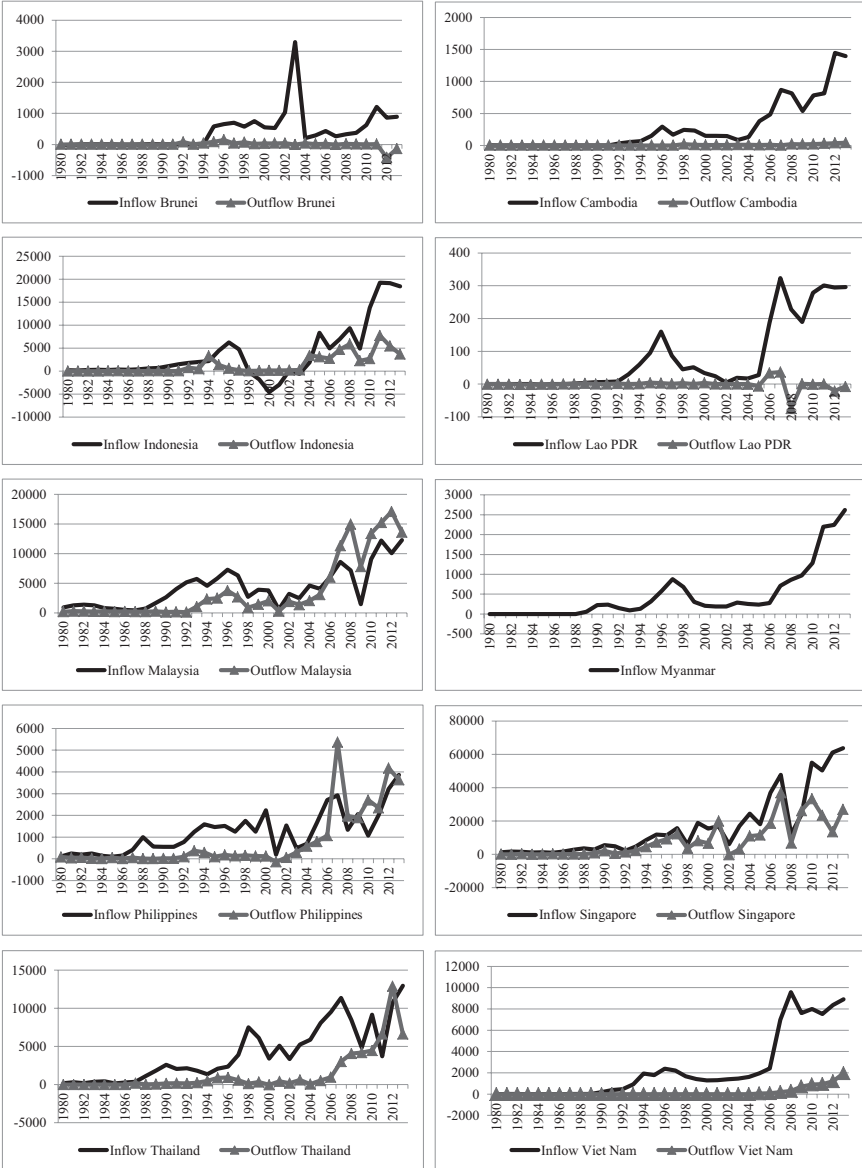
Singapore and Malaysia's FDI patterns are not consistent with the revised IDP model because both inward and outward FDIs have increased together since the beginning. This may be explained, in case of Singapore, by the unique characteristics of its trade and investment policies which have always been very open (Hill and Jongwanich 2014). For Malaysia, the constraints of domestic market and the support from government have pushed outward investments since the 1980s.

Emerging Investors from ASEAN

For Thailand, inward FDI has continued to be the country's engine of growth. As one of the major FDI destinations in ASEAN, the FDI inflow to Thailand rose rapidly from US\$188.99 million in 1980 to US\$12,945.60 million in 2013. FDI outflow from Thailand has grown at a modest rate and only reached US\$529.49 million in 2005. Recently, the country's FDI policy has been liberalized and outward investment jumped drastically to US\$6,620.47 million in 2011, almost 50 per cent growth from the previous year. With this momentum, Thailand became a country with net FDI outflow during 2011–12.

Another emerging investor is Indonesia. As the largest economy in ASEAN with a vast reserve of natural resources, Indonesia has received a large number of FDI inflows, especially prior to the AFC in 1997–98. Despite a drop in FDI inflow during AFC, it increased again after 2002 and reached a peak of US\$19,241.25 million in 2011. Compared to the inflow, Indonesian outward FDI was relatively small and fluctuated around the

FIGURE 1.3
ASEAN Countries' Inward and Outward FDI Flows, 1980–2013
(US\$ million)



Source: UNCTAD.

AFC period. However, the outward investment had reemerged and jumped to US\$3,408 million in 2004. This was caused by the decline in investment climate and higher investment risk in Indonesia during this time. In 2011, the trend in investing abroad has continued and FDI outflow reached the peak of US\$7,713 million.

In the case of Philippines, the size of inward and outward FDI has been relatively small. During the 1990s, FDI inflow increased and reached US\$2,240 million in 2000 as a result of the effective reforms in Philippines (Hill and Jongwanich 2014). OFDI reached a peak of US\$5,372.67 million in 2007. As a result, Philippines became a net capital outflow country, even though this happened at a low level of FDI.

For Vietnam, the value of foreign investment flowing into Vietnam has skyrocketed from approximately US\$1,500 million at the beginning of the 2000s to hit a record high of US\$9,579 million in 2008. This huge inflow has confirmed the competitive advantage of Vietnam as a host country. For the FDI outflow, even though it has taken place since the mid-2000s, the amount has been insignificant. OFDI only became more visible in 2013 with the surge in outward FDI to almost US\$2,000 million.

FDI Recipients

Brunei, Lao PDR, Cambodia and Myanmar have mainly played role as recipients of FDI. Even though the size of inflows were relatively small, they signalled an increasing trend for inward FDI. Outward FDI is limited or negligible in these countries. This situation may be due to the fact that these countries are still at the early stage of the internationalization process and in most cases do not possess the competitive advantage which would enable them to invest abroad. The lack of a strong private sector in these countries is also part of the reason (ASEAN Secretariat 2013).

3.2 Characteristics of Outward FDI from ASEAN Countries

ASEAN's outward FDI has expanded to a greater degree than in the past. To understand the characteristics of ASEAN's OFDI outflows further, questions pertaining to who the investors are, where capital flows have gone and which sectors have received the capital should be examined.

Types of Investors from ASEAN

The players of outward FDI from ASEAN involve a wide range of firms by types and sizes. These firms are mostly large public-listed companies, state-owned enterprises (SOEs) and government-linked companies (GLCs). In ASEAN, GLCs have played a significant role in contributing to the internationalization process of the region (ASEAN Secretariat 2013). These include for Singapore — DBS, Temasek Holdings, Singapore Telecommunications — and for Malaysia — PETRONAS, Sime Darby and CIMB. Moreover, part of the FDI outflow from Singapore has been made by foreign-invested companies based in Singapore.

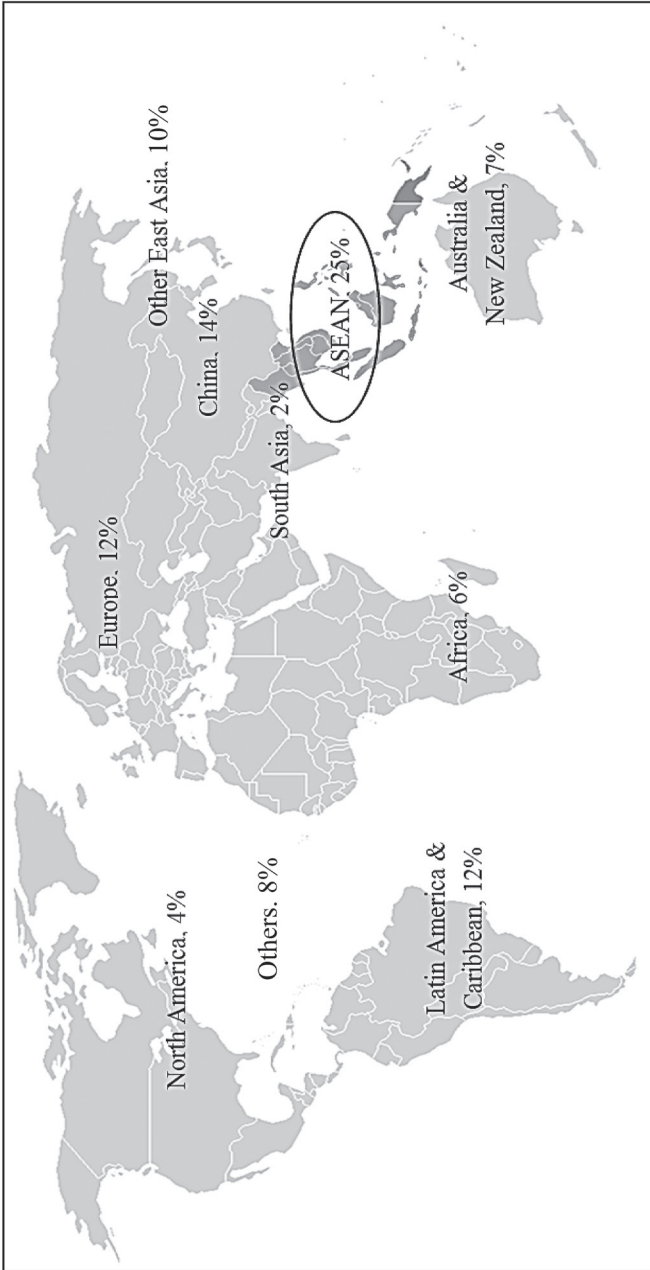
Governments of Indonesia and Vietnam also encourage their SOEs to expand the business abroad. For Indonesia, those investors are Aneka Tambang, Semen Indonesia and Bank Negara Indonesia (ASEAN Secretariat 2014). The ethnic Chinese Indonesians, who are dominant in the country's modern business sector, are also the major source of outward FDI (Hill and Jongwanich, 2014). For Vietnam, the recent surge of OFDI was mostly conducted by SOEs including Song Da, Petrovietnam and Viettel. In case of Thailand, OFDI flows are led by large private firms such as Siam Cement Group, CP Group and Thai Beverage as well as GLCs such as PTT, Thai Airways International, and the Electricity Generating Authority of Thailand (EGAT) (ASEAN Secretariat 2014).

Aside from large companies, SMEs from ASEAN have also increased their presence abroad especially in the ASEAN region. The key driver of this trend is the goal to be more competitive by expanding their revenue and market base through gaining access to low-cost labour and production inputs. ASEAN Secretariat (2014) also mentioned that SMEs from Malaysia, Singapore and Thailand have been actively expanding their investments within ASEAN and become stronger regional players.

Geographical Distribution

The overall distribution of ASEAN outflow covers all regions. As of 2012, the majority (25%) of ASEAN outward FDI stock was located within ASEAN, followed by the concentration in China (14%), Europe (12%), Latin America and Caribbean (12%) and other East Asia (10%). The rest of the outward FDI stocks from ASEAN were in Australia and New Zealand (7%), Africa (6%), North America (4%) and South Asia (2%) in 2012 (see Figure 1.4).

FIGURE 1.4
Geographical Distribution of Outward FDI Stock, as of 2012



Source: UNCTAD.

Like other developing countries, ASEAN countries' outward stocks tend to be located in their neighbouring countries with a similar or lower level of development than their home countries (Aykut and Goldstein 2006). For Thailand, more than 35 per cent of outward FDI during 2006–11 flowed to ASEAN whereas 40 per cent of Malaysian outward FDI between 2008 and 2011 were intra-ASEAN investment. In 2010, about 25 per cent of Singapore's outward FDI stocks were in ASEAN (ASEAN Secretariat 2013). Reasons for a surge in intra-ASEAN investment during 2010–11 are (i) the realization of the ASEAN Free Trade Area (AFTA) in 2010, (ii) the closed geo-cultural proximity, and (iii) the spreading of regional value chains and production networks.

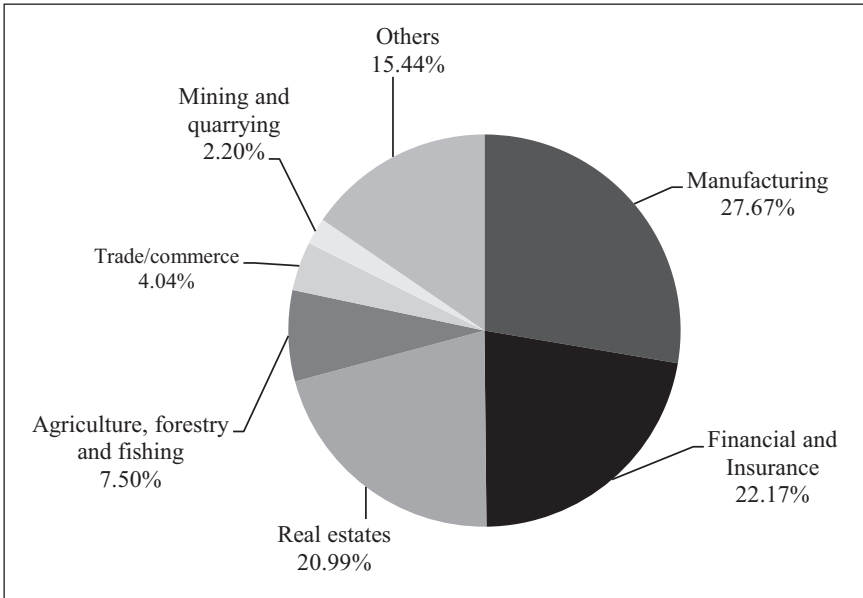
Beside intra-regional investment, ASEAN has become a more important source of investment in non-ASEAN countries. FDI from ASEAN countries have spread to African countries in the plantation or agri-based businesses. In Europe, in particular in the United Kingdom and Germany, the focus has been on technology seeking (ASEAN Secretariat 2013). In the 1990s, neighbouring Asian countries and China were the primary destinations for Singapore's investments. Later on in the 2000s, Singapore diversified their outward FDI and become a global investor with more focus on the developed countries and other regions. Unlike Singapore, other ASEAN countries such as Thailand, Malaysia and Vietnam have concentrated their investments in the region.

Sectoral Distribution

Outward investment from ASEAN involves a wide range of sectors. In the case of intra-ASEAN investment, the 2013 data indicates that the highest share (27.67%) was in manufacturing industry, followed by financial and insurance (22.17%), real estate (20.99%), agriculture, forestry and fishing (7.50%) and trade and commerce (4.04%) (see Figure 1.5). This has been partly driven by the expansion of ASEAN production network in manufacturing industry. For Singapore, Malaysia and Thailand, in particular, most of the outflows have gone to mining, manufacturing and services sectors.

The manufacturing investments from ASEAN include those from food and beverage, electronics and automotive industries. In the case of OFDI in the extractive industries, companies from Malaysia (PETRONAS), Thailand (PTT, Banpu, Lanna Resources) and Vietnam (Petrovietnam) are significant

FIGURE 1.5
Sectoral Distribution of Intra-ASEAN Investment in 2013



Source: ASEAN Secretariat (2014).

players. In the case of finance and real estate in ASEAN, Singapore and Malaysia dominate in market.

3.3 Drivers and Motivations for ASEAN’s Outward FDI

In general, a key driver of outward FDI from ASEAN countries is the competitive pressures from globalization. Companies seek competitive advantage through investing abroad. Regional integration is also a driver for FDI outflow from ASEAN (ASEAN Secretariat 2013).

For ASEAN countries, there are a wide variety of drivers and motives for FDI outflow, depending on the size of firms, countries and industries. First, compared to the large firms, SMEs from ASEAN tend to invest less in countries outside the region and this is driven by a closer geo-cultural proximity and affinity. Second, for countries like Singapore and Malaysia,

firms have strong desire to invest abroad because of their domestic constraints: a relatively small home market size, saturated markets, limited opportunities for growth and the need to secure resources including land and labour force. Third, firms from different industries have different reasons for outward FDI. For oil, gas and mining of other natural resources industries, ASEAN's firms invest abroad to access or secure natural resources while agriculture companies go abroad to access agricultural land and utilize low-cost labour. Outward FDI from healthcare industry intend to exploit their brand reputation and some firms acquire existing medical facilities in host countries. In case of infrastructure, real estate and construction industries, investing abroad is to diversify their markets and revenue bases (ASEAN Secretariat 2013).

Beside the firms' motivation, the government has also played an important role in promoting the internationalization process of firms in ASEAN countries. The government of Singapore, for example, has played a very active and direct role in promoting outward FDI through (i) GLCs which used to push regionalization activities either on their own or in partnerships with other firms and (ii) generous incentives and other programmes such as tax incentives, finance schemes or training to foster the development of local firms.

3.4 Trends and Prospects of ASEAN's Outward FDI

This section analyses the changing trends and prospects of outward FDI from ASEAN countries. The prospect for increasing outward FDI from ASEAN countries is promising for a number of reasons. First, the capabilities to develop brand names and reputation at home as well as the strong growth in home market (which contributes to the building up of financial resources needed for investing abroad) exist in ASEAN countries. Second, the intense pressure from globalization forces a wider pool of firms to invest abroad in order to become more competitive. Third, many firms in ASEAN countries need and want to become global players and investing abroad is one channel to achieve their objectives. Fourth, many governments in ASEAN have liberalized their FDI policies during the last decade and this strategy is likely to be implemented further in the future. Fifth, the expansion of the regional production network also contributes to the higher outward FDI in the region. Sixth, the realization of AEC in 2015 is an increasingly influential factor supporting overseas investment.

There is a changing trend in the structure and composition of ASEAN FDI outflow. First, the share of services in outward FDI from ASEAN is increasing. Singaporean and Malaysian firms have dominated in overseas investment in the service sector, particularly in finance and real estate. Recently, the establishment of hotels and hospitals abroad by Thai firms has been led by prospective market growth (ASEAN Secretariat 2013). Second, even though ASEAN countries are a growing source of intra-regional investment and outward FDI to the developing economies, their investment in developed countries aimed at obtaining previously out-of-reach competitive advantages is rising. Recently, besides Singapore, countries such as Malaysia, Thailand, and Indonesia have started venturing in developed countries such as the United Kingdom, United States and Australia. Third, in general, ASEAN firms have been motivated to invest abroad mainly due to efficiency-seeking, market-seeking and resource-seeking reasons. Strategic asset-seeking FDI from ASEAN has become more noticeable. ASEAN firms invest abroad to acquire business networks, brand names and strategic production facilities.

From the data observation, many prominent investment activities were undertaken by SOEs or GLCs at the early stage. However, today, private firms are participating more in the outward FDI than in the past. For SMEs, unlike in the past, they do not need to grow to a certain size before they internationalize. There is a growing number of SMEs investing at the regional level.

4. EXPERIENCES FROM EAST ASIAN ECONOMIES AND LESSONS FOR ASEAN

This section examines the lessons learnt from the experience of the global players from East Asia, namely, China, Hong Kong, Taiwan and Korea.

4.1 Experience of Outward FDI from China, Hong Kong, Taiwan and Korea

Taiwan and Korea started liberalizing their outward FDI policies since the late 1980s. In Taiwan, the rising pressures from sharp increases in labour costs and land prices have forced Taiwanese firms to invest abroad to boost their competitiveness. The government introduced policies and measures to promote outward FDI such as the “Go South” policy which

encouraged firms to invest in Southeast Asia. Taiwan has long been a net investor since the early stage of its development. The government has supported overseas acquisitions in order to access technology and to secure their position at the higher end of the value chain, especially after 1998 (Thurbon and Weiss 2006). However, the Taiwanese government has maintained significant control over the kind of investment that helps sustain its technological position. In the electronics industry, for example, the government has allowed Taiwanese firms to increase their manufacturing investments in China while at the same time keep high-technology firms at home to safeguard its competitive advantage.

For Korea, domestic constraints — increasing land and labour costs as well as the need to maintain the firms' competitiveness — have triggered OFDI since 1987. After 1997, Korean firms, such as Samsung and Hyundai, have actively participated in investing abroad because of the country's outward investment policy in the 1990s. For the labour-intensive manufacturing industry, firms shifted their production to lower-wage countries such as those in Southeast Asia while keeping higher value-added production at home. Firms from Korea with market-seeking and strategic asset-seeking purposes tend to invest in North America and Europe whereas the efficiency-seeking firms invested in Asia for low-cost labour. One interesting characteristic of Korean investment is that the developed economies were the destinations for acquiring new technology especially at the early stage. Gradually, Korean overseas investment diversified to cover both developed and developing countries (Kim and Rhe 2009). Korean inward and outward FDI have increased together since the end of 1980s; however, after 2005, the growth of outward flow exceeds the inward growth. Their outward FDI flow reached a peak of US\$30,632.1 million in 2012.

China started and continues to be a net recipient of FDI even though their investment outflow has increased substantially over the past decade. Aside from being a global manufacturer, China is also recognized as a global investor. In 2014, China became the third largest global investor with the outflow of US\$116 billion. Chinese government has played an important and active role in promoting these outflows including the "Go Global" strategy in 2000. It has implemented measures to relax and streamline the approval process and procedures for OFDI (Sauvant 2005). In terms of the destinations for Chinese FDI, the lion's share of outward FDI went to Hong Kong (58% in 2013). Latin America was the second most important destination for Chinese OFDI (13%), followed by Europe (6%). Other

regions — Southeast Asia, North America, Australia and Africa — each accounted for 3–4 per cent of the overall Chinese OFDI in 2013.

Recently, the focus of Chinese outward investment has shifted from the natural resource industry to the high technology consumption-oriented sector. Chinese investment has been diversified mainly from the energy and mining industry in Asia, Latin America and Africa to mergers and acquisitions in technology, agriculture and real estate sectors in developed countries such as Europe and America. Moreover, private-owned enterprises (POEs) in China are more active in investing abroad. By the end of 2013, more than half of China's total accumulated outward FDI were from the non-SOEs. With this new force, the Chinese POEs, the country is likely to gain better results and benefits from outward FDI because they are more flexible, faster growing, more diversified outward FDI and more welcome in the host countries (Ernst & Young 2015).

The inward and outward FDI have moved together in the case of Hong Kong with an increasing trend since the 1990s. For OFDI, Hong Kong is registered as one of the largest investors; however, the data on OFDI include significant amounts of round-tripping and indirect FDI which is the investment from the foreign affiliates established in Hong Kong. China is the largest destination of Hong Kong's investment, accounted for 63.3 per cent in 2013. The advantages arising from Hong Kong's privileges under the Close Economic Partnership Arrangement for investing in China has attracted indirect FDI which contributed to the Hong Kong's role as a major investor (UNCTAD 2004).

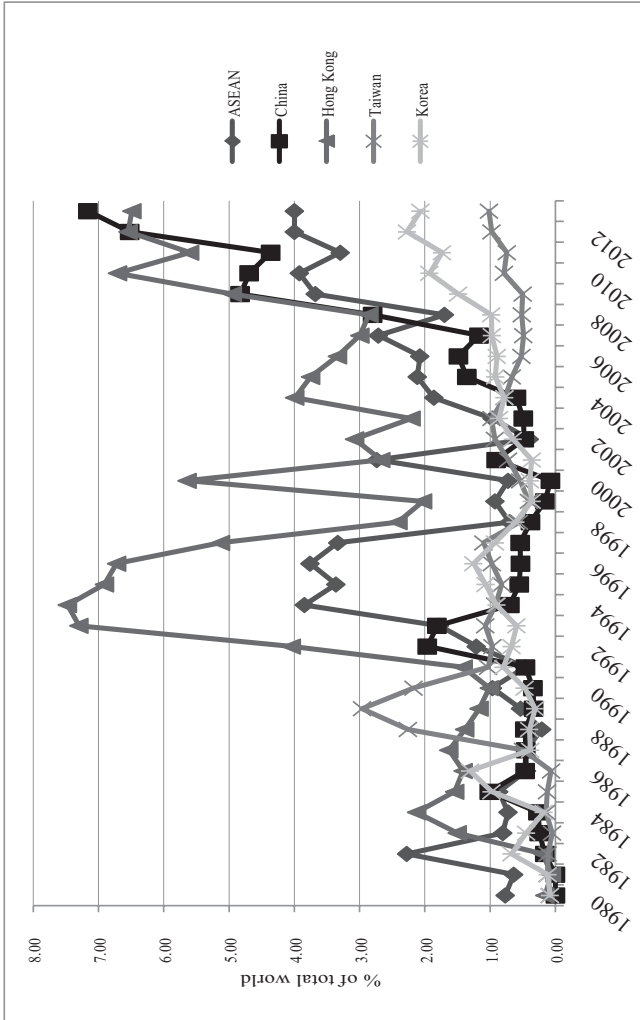
4.2 Lessons for ASEAN

To sum up, the experiences of outward FDI from major investors in Asia — China, Hong Kong, Taiwan and Korea serves the following lessons for ASEAN.

First, the development of outward FDI does not follow the revised IDP. The constraints in domestic markets in these countries such as increasing land and labour costs and the active role of governments are the major drivers of outward FDI. In Hong Kong, Korea and Taiwan, the outward and inward FDI have moved together, like in cases of Singapore and Malaysia.

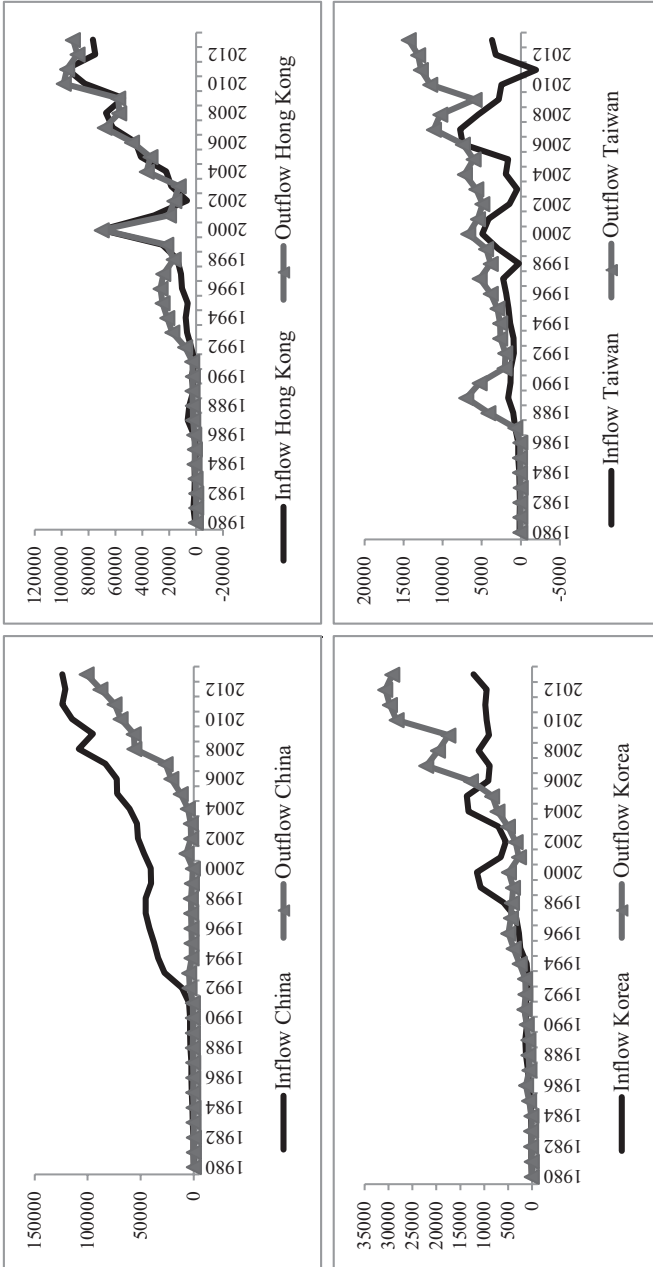
Second, the role of the government in fostering the FDI outflow is a significant factor for overseas investment. Examples include China's "Go Global" strategy in 2000 and Taiwan's "Go South" policy in 1994. The liberalization of FDI policy and measures which includes the relaxation

FIGURE 1.6
Outward FDI Flows from ASEAN, China, Hong Kong, Taiwan and Korea, 1980–2013



Source: UNCTAD.

FIGURE 1.7
China, Hong Kong, Korea and Taiwan Inward and Outward FDI Flows, 1980–2013 (US\$ million)



Source: UNCTAD.

and streamlining of the approval processes and procedures are examples of government support. Similar policies are observed in ASEAN countries such as Singapore and Malaysia. One lesson learnt for ASEAN countries is that governments have to maintain control over the kind of investment that needs to be kept at home and those that should relocate to overseas in order to sustain the competitive advantage of the home countries.

Third, once the internationalization process has started, firms would seek markets, natural resources and efficiency in the early stage. Later on, the focus of the outward FDI is on the high technology consumption-oriented sector. The same pattern can be found in case of South Korea where firms in the country first invest to have technology catch-up and then to become the technology leader. Strategic asset-seeking FDI gains more significance and tends to expand further (in terms of destination country) from the ASEAN region. Many firms from this region invest abroad to gain access to brand name, network and technology. In order to make access to strategic asset possible, government has to support and enhance the capabilities of local investors to venture abroad.

Fourth, investors tend to diversify the geography of investment after the internationalization process takes place at certain level. Driven by a shift in investment objective from acquiring production factor such as resource and market access to acquiring advanced technology and brands, the investment destinations are becoming increasingly diversified. Beside developing countries such as Asia, Africa and Latin America, the developed countries — Europe and America — have become a new focus of outward FDI.

Fifth, despite SOEs and GLCs being leaders of outward FDI from many developing countries, the role of private firms in these outflows has continued to expand. The advantages of players from private sector include flexibility, fast-growth and more diversified investments. However, additional support to enhance capabilities of these firms is needed. The assistance from the government may take the form of measures such as reforms of the administration and approval processes, financial support, guidance and coordination between private firms and SOEs.

5. CONCLUSION

Globalization and more intense competition have forced firms from developing countries to actively undertake outward FDI. China, Hong

Kong, Korea, Taiwan and two countries from ASEAN, Singapore and Malaysia, are major investors from the developing Asia. Given the changing landscape in ASEAN which shifted the region from a major recipient of FDI to become an emerging source of outward FDI, it is necessary to understand the extent to which OFDI from ASEAN countries is explicable by referring to the theory of FDI from developing countries. This chapter examines the development of ASEAN's outward FDI, its characteristics, motives, trends and prospects as well as the lessons learned from other major Asian investors such as China, Hong Kong, Korea and Taiwan.

Observations from data indicate that outward FDI in ASEAN countries has been driven mainly by domestic constraints such as the cases of Singapore and Malaysia which started investing abroad since the 1980s. For other ASEAN countries with a relatively larger domestic market and abundance in resources such as Thailand, Indonesia and Vietnam, they started as major destinations for FDI. The intensification in competition from liberalization and rising costs of land and labour during the past decade have forced firms in these countries to actively invest abroad. Governments have played important roles in promoting the internationalization process in many ASEAN countries through the active roles of SOEs and GLCs as well as by initiating policies and measures aimed at liberalizing outward FDI and supporting the outflow process.

Most ASEAN countries, like other developing countries, invested in neighbouring countries in the early stage with the objective securing natural resources for their extractive industry, to access market and achieve efficiency in manufacturing industries. Intra-regional investment accounts for approximately one-fourth of the outward stock. Some outward FDI went to developed countries such as Europe and United States to acquire high technology. Manufacturing, finance and insurance, and real estate industries are the major sectors for intra-ASEAN investment.

Outward FDI from ASEAN has the potential to increase further because some ASEAN firms have gained higher capabilities, desire to become global players and are pressured to escape from their intense competition in domestic markets. The support from governments, the expansion of production networks and the coming of AEC have enhanced this process. In addition, larger share of investments in services sector will take place in the next stage. Strategic asset-seeking FDI and the FDI flow to developed countries will be the future trend for ASEAN. Both private

firms and SMEs will become important players in outward investment in the future.

The experiences from China, Hong Kong, Korea and Taiwan can provide important lessons for ASEAN countries. Governments of ASEAN countries need to be aware of the increasing significance of outward FDI as a mean to gain and maintain their competitiveness. Government are important players in the internationalization process of the businesses. They need to initiate and design policies and measures to create an optimal environment to support outward investment. Playing an active role at the right time and fostering private sector to have higher capabilities to compete in the global market are what the government should consider doing. Investing abroad may drain domestic resources or disadvantage home countries. The way out for this situation is a careful sequencing of supports and FDI liberalization. At the industry level, investments in some activities need to be shifted overseas while keeping some within the country in order to gain and maintain their advantage. In some cases, investing abroad is a way to gain competitiveness and will expand the rest of the value chain. Optimal outward FDI strategy is a key to success.

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