

PERSPECTIVE

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Diversity and Development: Foreign Direct Investment in Southeast Asia

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EXECUTIVE SUMMARY

- In Southeast Asia, there is a disproportionately strong correlation between an economy's level of economic development and openness and its attraction of FDI both in quantum terms and in terms of the diversity of major FDI sources.
- Outside of the small CLM economies, China is a non-major source of FDI and there is little sign of this changing given the underweighting of Southeast Asia in China's global FDI stock.
- Intra-regional FDI is a powerful force for economic integration and for the reduction of the development gap among Southeast Asian economies. The most advanced Southeast Asian economies, along with Taiwan, have the largest shares of their total outward FDI flowing to destinations within the region. Such regionally-sourced FDI is particularly important for the CLM economies, which are Southeast Asia's poorest and most isolated, and for Indonesia, the region's largest economy.



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INTRODUCTION

Significant foreign direct investment (FDI) inflows to maritime Southeast Asia (and more recently Vietnam) have been the key factor behind the economic development and in the integration into the global economy of the countries located in that region. Southeast Asia's prospects as a destination for foreign direct investment are bright, and over the last decade, FDI stock per capita in the region has increased five-fold from USD\$500 in 2000 to nearly USD\$ 2,500 in 2013.¹ In this same period, regional real GDP per capita grew only 1.6 times to reach USD\$ 2,255 in 2013.² Using the latest UNCTAD statistics on bilateral foreign direct investment flows into nine Southeast Asian economies³, this *Perspective* will look at what FDI flows tell us about two of the major strategic concerns of Southeast Asian states and of ASEAN:

- The significance of the relationship for each Southeast Asian state and the region as a whole, between economic development, global economic integration and dependence on (or autonomy from) major extra-regional powers.⁴ The growing trade dependence of Southeast Asian economies on China and China's growing influence in Southeast Asia are the current focus of this foundational regional concern.
- Further strengthening of integration among Southeast Asian economies and through this reducing the development gap between them. This regional economic virtuous circle is seen to be particularly important for supporting ASEAN unity and centrality.

Fortunately, FDI flows and trends provide reassurance on both counts for most Southeast Asian economies and for the region as a whole.

DIVERSITY AND AUTONOMY

The FDI portfolio for the region as a whole is a very diverse one with no single dominant source economy, as is shown in Table 1 of the annex. Reflecting their respective economic size, level of economic advancement and dominant role in global finance and production chains, the 28 EU economies, Japan and the US respectively have the largest FDI stocks in Southeast Asia.⁵ Singapore has the fourth largest stock. FDI inflows over the past five years

¹ *ASEAN investment report 2013-2014: FDI, development and regional value chains*. Jakarta, ASEAN Secretariat, October 2014.

² *UNCTADstat database*, United Nations Conference on Trade and Development <<http://unctad.org/en/Pages/Statistics.aspx>> (accessed on 5 June 2015).

³ Brunei Darussalam has been excluded due to paucity of data and its small size and unique economic structure. The most recent UNCTAD statistics, though a bit dated, are used as they are the most complete, comparable figures for all Southeast economies available publicly.

⁴ Southeast Asian societies have a long history of sensitivity towards perceived economic domination. Examples of this include the raft of policies across the region limiting the economic role of local Chinese communities in the early post-war period and the riots that greeted Japanese Prime Minister Tanaka during his 1974 tour of the region.

⁵ Unless otherwise cited, all figures used in this *Perspective* come from or are directly derived from the tables in the statistical annex.

have reflected and reinforced this ordering. The EU, the US and Japan have been the three largest sources of new FDI respectively and Singapore has again been the fourth largest.

At the regional level, China is a non-major source of FDI in both stock and flow terms accounting for less than one of every 40 dollars directly invested from overseas into the region by the end of 2012, a share noticeably smaller than that of Malaysia. Looking at flows from 2009 to 2012, China again was only a minor investor accounting for less than one out of every 30 dollars invested; again below what Malaysia had invested in the region.

Southeast Asia is not a major destination for Chinese FDI. At the end of 2012, Southeast Asia's share of global FDI stock stood at 6.7%. And as a whole, the region only accounted for 5.3% of total Chinese outward FDI stock.⁶ As shown in Table 4, Southeast Asian economies are keener on investing in China than China is on investing in the region.

FDI figures for individual Southeast Asian economies show a disproportionately strong correlation between an economy's level of economic development and openness and its attraction of FDI both in quantum terms and in terms of the diversity of major FDI sources. The wealthier and more open a Southeast Asian economy is, the more FDI it attracts and the less dependent it is on any particular national source. The nine Southeast Asian economies under study here fall into three separate categories when it comes to the quantum of FDI received and the diversity of FDI sources.

Singapore

Two related elements of FDI inflows into Singapore distinguish the city-state from other Southeast Asian economies. First, despite the comparatively small size of its domestic market, Singapore accounted for roughly half of the total stock of FDI in Southeast Asia in 2012, almost three times more than Indonesia's share. In 2009-2012, Singapore accounted for a smaller but still significantly disproportionate share of new FDI inflows into the region at 44%.⁷

Second, alone in Southeast Asia, a majority of foreign direct investment flows into Singapore is determined by Singapore's long-standing and growing role as Southeast Asia's and in some sectors, East Asia's economic hub. A growing share of FDI inflows to Singapore is concentrated in the finance and insurance sector in line with Singapore's role as East Asia's largest Asian dollar market and largest foreign exchange market.

This is part of the larger and most determining trend for FDI inflows to Singapore. According to the McKinsey Global Institute, in 2010, Singapore had the highest number of large foreign subsidiaries of any city (or for that matter country) among emerging markets globally with 188. Kuala Lumpur came next in Southeast Asia with 23.⁸ Singapore's pivotal position as a regional

⁶ UNCTAD, *World investment report 2014*. Geneva, United Nations Publication, 2014, 205-206.

⁷ Singapore alone accounted for 49.6% of FDI inflows in Southeast Asia in 2013. *ASEAN statistical yearbook 2014*, Jakarta, ASEAN Secretariat, 2015, 106-107.

⁸ Richard Dobbs et al. *Urban world: the shifting global business landscape*. McKinsey Global Institute, October 2013, p. 11. Singapore's expanding role as a regional headquarters' hub for Southeast Asia and East Asia

headquarters and global financial hub means that the more advanced economies and financial centres in the world are by far the largest investors in Singapore both in stock and new flows. According to the latest Statistics Singapore figures, the United States and the Netherlands were the two largest investors by stock and new inflows in 2013, with the US alone accounting for one out of every seven dollars of FDI stock in Singapore. China accounted for less than one in every 50 dollars.

Middle-income Southeast Asian 5

In terms of total FDI stock and the nature of investment, Indonesia, Thailand, Malaysia and Vietnam and the Philippines make up the next group of Southeast Asian host economies. The stock of FDI in each is significantly smaller than that of Singapore and significantly larger than the combined stocks of Myanmar, Cambodia and Laos. Japan is the largest investor in stock and new inflows terms for these five economies as a group, accounting for roughly one-sixth of their collective FDI stock, though not for each individually.⁹ With the partial exception of the resource-rich Indonesian economy, the main focus of FDI inflows to these five is export-oriented manufacturing.¹⁰ Vietnam is the late-comer to this Southeast Asian development story but by 2012, had already surpassed the Philippines in total FDI stock. In 2014, South Korea was the largest source of new FDI to Vietnam accounting for over a third of new inflows.¹¹

China again is a non-major source of FDI for these five economies, accounting for less than one out of every 60 dollars invested by the end of 2012. With the partial exception of Thailand, the latest data on new FDI inflows into these five economies reinforce this status.¹²

The CLM

The FDI portfolios of Cambodia, Laos and Myanmar are very similar in two important aspects that each and together strongly differentiate them from the other Southeast Asian economies. First is the very small size of their respective FDI stocks and annual inflows.¹³ In 2012, the three poorest Southeast Asian economies together accounted for only 1.6% of the region's total

overstates Singapore's real share of FDI inflows to Southeast Asia. Some of these inflows are from the global headquarters of the foreign firms that are then invested by their Singapore regional headquarters into other host economies in the relevant region.

⁹ Japan is the single largest national source of FDI for Thailand and Vietnam. Singapore is the largest for Indonesia and Malaysia and the United States is the top investor in the Philippines.

¹⁰ According to figures from Indonesia's Investment Coordinating Board (BKPM), mining accounted for over 16% of total new FDI inflows in 2014, close to twice the share for the metal, machinery and electronic industry sector. *Domestic and foreign direct investment realization in quarter IV and January-December 2014*, Jakarta, BKPM, 28 January 2015, 15. According to the latest statistics from the Department of Statistics Malaysia, the finance and insurance industry in Malaysia is gaining a growing share of total FDI inflows. In 2013, this industry captured over a fifth of total new FDI inflows, close to half the amount for the manufacturing industry.

¹¹ *Brief on foreign direct investment in 12 months of 2014*, Hanoi, Ministry of Planning and Investment, 1-2.

¹² According to the latest Bank of Thailand statistics, China accounted for 11.6% of new inflows into Thailand in 2013-2014. In contrast, China only accounted for 1.5% of new FDI inflows into Indonesia during this period and less than 1% of total new inflows into Malaysia in 2012-2013.

¹³ Unfortunately, UNCTAD's FDI statistics for Myanmar and Laos are incomplete as shown by the blanks in Tables 1 & 2 in the statistical annex.

FDI stock. The CLM economies accounted for about 4% of the regional GDP in 2012.¹⁴ Growth rates in FDI inflows from 2009-2012 among these three countries were also not noticeably higher than those of the wealthier regional economies and noticeably lower than Vietnam's, as indicated in Table 2.¹⁵

The largest source of FDI into Cambodia, Laos and Myanmar and this source's share of total FDI are similar and again very different than for the rest of the region. In all three, China is the single most important source of foreign direct investment and accounts for a comparatively high share of the total stock in each. In 2012, Chinese FDI accounted for 58.8% of the total stock in Laos and 36.9% in Myanmar. These are the two highest shares for any single source economy in any Southeast Asian host economy. As shown in Table 4, Laos and Myanmar are also the only two Southeast Asian economies whose FDI dependence on China (in stock and flow terms) is higher than their import dependence on China. China's share of Cambodia's total FDI stock in 2012 was significantly lower at 17.8%. Cambodia though has the second highest import dependence on China after Laos.

INTEGRATION AND DEVELOPMENT GAP

Since the expansion of ASEAN to include the CLMV states and the expansion of ASEAN's economic role, fostering greater regional integration and reducing the yawning development gap between the new continental and the original maritime member states has become a central concern for the organisation. In the 2007 leaders' declaration on the ASEAN Economic Community Blueprint, leaders reiterated that they are:

CONSCIOUS of the increasing interdependence of the ASEAN economies within the region as well as with the rest of the world and stressing the importance of narrowing the development gap for accelerating the ASEAN Economic Community by 2015.

Fortunately, FDI flows show that, again, the concerns of political leaders are following, not driving, the market. Dating from the Asian Financial Crisis almost two decades ago, intra-regional FDI has emerged as the region's third most important source of FDI. In 2000, intra-regional FDI in fact stood at just US\$0.9bn.¹⁶ But by 2014, this had grown to US\$24.3bn, representing 17.9% of total regional inflows.¹⁷ Singapore, Malaysia and Thailand are the largest source economies for intra-regional FDI and all three share the similar trait of being heavily overweighted in terms of stock in Southeast Asia, with almost one-third of Thailand's, over one-fifth of Singapore's and one-sixth of Malaysia's outward FDI stocks being placed within Southeast Asia. As shown in Table 3, among the 10 major source economies for investment into Southeast Asia, Thailand has had the highest concentration of investment in

¹⁴ World Bank database, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (accessed on 23 September 2015).

¹⁵ Reliable 2013 and 2014 FDI statistics could not be found for these three economies.

¹⁶ The Economist Intelligence Unit (EIU). *Re-drawing the ASEAN map: How companies are crafting new strategies in Southeast Asia*. EIU, November 2014, p 6.

¹⁷ ASEAN Foreign Direct Investment Statistics Database. Table 26: *Foreign direct investment net inflows from selected partner countries/regions*. The ASEAN Secretariat, 26 May 2015.

Southeast Asia followed by Taiwan, Singapore and Malaysia respectively. On the other hand, the three major Southeast Asian source economies were the only ones in which Southeast Asia's shares of new FDI outflows were lower than the region's share in the 2012 stock indicating a declining, from a very high starting point, of interest by Southeast Asian investors in Southeast Asia.

Singapore again stands out as the largest source of regional FDI with almost two-thirds of intra-regional FDI from 2005 to 2012 channelled through Singapore.¹⁸ Singapore is also the largest recipient of intra-regional FDI. In 2009-2012, Singapore captured 46% of total intra-regional FDI inflows from the other eight Southeast Asian economies. Singapore's high share of FDI inflows from other Southeast Asian economies suggests that Southeast Asian firms may be shifting regional and global functions to Singapore.

Intra-regional FDI is particularly important for the CLM economies. While China is the single largest investor in Cambodia, Laos and Myanmar, investment from other Southeast Asian economies is larger than Chinese investment in Cambodia and Myanmar. In all three host economies, the second largest source of FDI inflows was one of the other Southeast Asian economies but a different one for each. With 12.5% of stock, Malaysia is the second largest foreign direct investor in Cambodia. In Laos, China replaced Thailand as the largest investor only recently. In Myanmar, Singapore is the second largest investor with a stock very similar to that of China. Thailand is the third largest investor in Myanmar.

Indonesia is also a key destination for intra-regional FDI. Singapore is Indonesia's single largest source of FDI inflows and Malaysia a significant source as well as shown in Tables 1 & 2. In 2013-14, FDI from Southeast Asia accounted for over a quarter of new inflows into Indonesia. According to statistics from the ASEAN Secretariat, Indonesia's importance as a recipient of intra-regional FDI is growing and may surpass Singapore. Indonesia, befitting its economic size, accounted in 2014 for as much as 55.2% of intra-regional FDI inflows compared to Singapore's 18.6% in 2014.¹⁹

LOOKING FORWARD

Conventional wisdom tells us that attempts to simplify complex relations often ends up being erroneously simplistic. This quick look at FDI is a strong corrective to the increasingly prevailing view that Southeast Asia is economically dependent on China and that the United States and Japan are declining presences. Rather, FDI stock and flows tell a very consistent story of regional diversity where no one major power is economically dominant and where

¹⁸ ASEAN Statistical Yearbook 2013. Table VI.5: *Share of foreign direct Investment into ASEAN from ASEAN member states (by source), 2005-2012*. Jakarta, ASEAN Secretariat, June 2014. Singapore. Singapore's expanding role as a regional headquarters' hub for Southeast Asia and East Asia overstates Singapore's real share of FDI outflows to Southeast Asia. Some of these outflows are from the global headquarters of the foreign firms that are invested by their Singapore regional headquarters into host economies in the relevant region.

¹⁹ ASEAN Foreign Direct Investment Statistics Database. Table 25: *Foreign Direct Investment Net Inflow, intra-and extra- ASEAN*. The ASEAN Secretariat, 26 May 2015.

China is a non-major investor underweighted in Southeast Asia. The richer and more open an Southeast Asian economy is, the more this is the case.

Similarly, the CLMV convention of grouping Cambodia, Laos, Myanmar and Vietnam together as similarly challenged and poor economies distinct from other ASEAN member states does not hold up when it comes to FDI. The CLM economies receive comparatively little FDI and China is the major source economy for their FDI inflows. Vietnam today is in a very different position, and is in fact in this context similar to the maritime Southeast Asian economies.

Vietnam receives a comparatively high level of FDI inflows and China is a non-major investor despite its proximity to the country. Vietnam is the latest participant in the Southeast Asian virtuous circle first started by Singapore over 50 years ago of opening up to FDI in export-oriented sectors to spur economic development, global economic integration and diversification of economic partners. More economic development and diversity both contribute to more political and strategic autonomy.

Finally, intra-regional FDI flows are a powerful source of regional economic integration and a force for reducing the development gap. The more ASEAN member states, particularly Cambodia, Laos and Myanmar, can realise the ASEAN Economic Community's commitment to free and open investment, the more these flows can be speeded up. Indonesia, Cambodia, Laos and Vietnam have benefitted the most from intra-regional FDI flows over the past two decades and should continue to do so, if they reduce their national and local barriers to FDI in line with their ASEAN commitments.

Statistical Annex

Table 1: 2012 FDI Stock in Southeast Asian Host Economies by Major Investors, US millions

	EU@	Japan	USA	Singapore	Hong Kong	Malaysia	China	South Korea	Taiwan	Thailand	Total
Singapore	154,773	47,278	87,834	--	22,444	21,707	11,646	2,572	6,173	3,737	598,365
<i>% of total</i>	25.9	7.9	14.7		3.8	3.6	1.9	0.4	1.0	0.6	
Indonesia	33,133	11,574	10,160	37,013	2,282	10,731	4,772	1,237	175	2,917	211,900
<i>% of total</i>	15.6	5.5	4.8	17.5%	1.1	4.9	2.2	0.6	0.0	1.4	
Thailand	30,241	57,627	17,035	33,314	8,900	3,919	2,572	2,139	1,915	--	185,689
<i>% of total</i>	19.1	31.0	9.2	17.9	4.8	2.1	1.4	1.2	1.0		
Malaysia	28,897	20,232	15,486	26,040	6,208	--	715	2,902	672	580	151,039
<i>% of total</i>	19.1	13.5	10.3	17.2	4.1		0.5	1.9	0.4	0.4	
Vietnam	--	8,393	1,064	2,642	--	2,768	1,604	5,777!	--	1,850	26,761
<i>% of total</i>	--	31.3	4.0	9.9		10.3	6.0	21.6	--	6.9	
Philippines	1,992	6,444	7,646	1,228	1,935	110	301	364	286	9	25,851
<i>% of total</i>	7.7	24.9	30.0	5.0	7.6	0.4	1.2	1.4	1.1	0.0	
Myanmar	--	--	1	3,054	--	--	3,094	580!	---	1,527	8,376
<i>% of total</i>	--	--	0.0	36.5		--	36.9	6.9	--	18.2	
Cambodia#	634	118	187	411	328	990	1,408	849	738	497	7,889
<i>% of total</i>	8.0	1.5	2.4	5.2	4.2	12.5	17.8	10.8	9.4	6.3	
Laos	--	--	--	148	--	--	1,928	131!	--	1,009	3,281
<i>% of total</i>	--	--	--	4.5	--	--	58.8	4.0	--	30.8	
SEA 9 Total	249,670	151,757	139,413	103,850	42,097	40,225	28,040	16,551	14,377	12,126	1,219,151
<i>% of total</i>	20.5	12.4	11.4	8.5	3.5	3.3	2.3	1.4	1.2	1.0	

Source: Latest UNCTAD Table 3: FDI stock in host country by geographical origin for each of the 9 Southeast Asian economies

Vietnam's FDI stock in Cambodia is 770 million

! 2010 figure

@ Vietnam, Myanmar and Laos do not include FDI stock or flow figures for the EU as a whole, only select European economies

Table 2: FDI inflows to SEA Host Economies by Major Investors, 2009-2012, \$ millions

	EU@	USA	Japan	Singapore	Hong Kong	China	SEA (excl Singapore)	Total
Singapore	35,703	45,934	11,371	--	9,514	4,716	12,485	188,698
Indonesia	7,629	485	-425	10,478	1,684	1,322	7,782	103,105
Thailand	9,600	6,556	20,795	17,232	2,927	1,975	1,891	75,619
Malaysia	8,834	3,331	9,225	10,103	2,863	322	80	59,379
Vietnam	--	326	5,038	411	--	875	2,522#	--
Philippines	-1,548	1,239	728	18	310	1	-6	1,507
Myanmar	--	1	--	1,477	--	2,164	1,477&	--
Cambodia	166	24	18	126	160	736	751	2,713
Laos	--	0	--		--	856	457&	--
SEA 9 total	59,754	57,896	46,730	39,382	17,458	12,967	27,439	431,021
<i>% share</i>	<i>13.9</i>	<i>13.4</i>	<i>10.8</i>	<i>9.2</i>	<i>4.1</i>	<i>3.0</i>	<i>6.4</i>	<i>100</i>

Source: Latest UNCTAD Table 3: FDI stock in host country by geographical origin for each of the 9 Southeast Asian economies

@ Vietnam, Myanmar and Laos do not include FDI stock or flow figures for the EU as a whole, only select European economies

Combined figures for FDI inflows from Malaysia and Thailand only

& Figures for FDI inflows from Thailand only

Table 3: Share of Global FDI in Southeast Asia

Home Economy	% of 2012 stock	% of inflows, 2009-2012
USA	4.3	7.6
Japan	11.7	15.5
EU4^{>}	1.8	15.5
Singapore	21.7	18.3
Hong Kong	0.7	0.8
China	5.3	6.5
Malaysia	17.6	17.1
South Korea	14.2	15.4
Taiwan	27.0	54.2
Thailand	31.0	29.2

Source: Latest UNCTAD Table 4: FDI stock abroad, by geographical destination for each of the 10 home economies

[>]No figures provided for European Union in UNCTAD's bilateral FDI database. The figures presented are the aggregate ones for the four largest EU national economy investors in Southeast Asia – the United Kingdom, France, Germany and the Netherlands respectively by measure of 2012 FDI stock.

Table 4: Dependence on China

	% inward FDI stock (2012)	% outward FDI stock (2012)	% of exports (2013)	% of imports (2013)
Singapore	1.9	30.4	11.8	11.7
Indonesia	2.2	38.4	12.4	16.0
Thailand	1.4	17.5	11.9	15.0
Malaysia	0.5	1.6	13.5	16.4
Vietnam	6.0	--	10.0	27.9
Philippines	1.2	22.1	12.2	13.1
Myanmar#	36.9	--	6.2	27.1
Cambodia	17.8	--	3.0	32.5
Laos%	58.8	--	10.4	46.1

Source: FDI data latest UNCTAD Tables 3&4; trade data, 2013 United Nations ComTrade data

WTO trade statistics database

% Statistics from International Trade Centre

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