

ASEAN Launches Investment Report 2011



The ASEAN Secretariat has issued an official publication entitled the ASEAN Investment Report 2011.

Launched on the sidelines of the ASEAN Business and Investment Summit held on November 17-18, 2011 in Bali, Indonesia, the Report discusses: (a) Trends in Global Foreign Direct Investment (FDI) Flows; (b) Developments in FDI in ASEAN; (c) Assessment of FDI Issues and Policy Challenges in ASEAN; and (d) Outlook for ASEAN FDI and Way Forward.

Below is an executive summary of the Report.

Executive Summary

Global foreign direct investment (FDI) flows have recovered, but the post-crisis world still presents challenges to the management of global capital flows. The crisis has not only changed the fundamentals of FDI location determinants, but has also

affected the level of global liquidity that has important implication on the financing conditions and operations of transnational corporations (TNCs). While global FDI flows are expected to reach their pre-crisis level this year, a return to their previous peak will not occur until 2013. With risks to the global economy still largely elevated, a key challenge for many countries around the world, particularly the emerging and developing economies, is how to sustain the current global economic recovery and the associated capital and financing flows needed to support it.

“In 2010 ASEAN has generated a record high US\$75.8 billion FDI inflows as the region continued to benefit from favorable economic conditions and strong investor interest. Intra-ASEAN flows also exceeded the US\$10 billion mark for the first time (US\$12.1 billion to be exact) since the Asian financial crisis in 1997. Despite these gains, challenges remain. As a percent of regional GOP, the level of FDI inflows in the region is still small at 4.2 % and has remained stagnant over the last fifteen years. Intra-regional investments (16% of total ASEAN FDI inflows), while rising, are still below their previous peak in 2002 (22.2%) and the pre-crisis level in 1996 (16.4%). ASEAN countries are also not stepping up their outward investments abroad, which raises concern on their ability to manage risks in case of strong surges in FDI inflows. By all dimensions, it seems that ASEAN is still not realizing its full potential as an integrated investment area.

“Therefore, it is critical that the post-crisis FDI agenda for ASEAN continues to focus on the strengthening of the region’s competitive strength as a basic requirement to achieve a dynamic investment regime. In terms of policy actions, an immediate priority is for ASEAN to create a credible and transparent business and regulatory environment. This involves efforts to reduce the costs of doing business in the region, improve the quality of governance in each country, and strengthen investment facilitation.

“This Report (2011 ASEAN Investment Report) maintains that these measures are nothing new but can create significant changes if Member States adhere to their effective implementation. In as much as foreign direct investment depends crucially on country-specific characteristics, a sufficient condition to induce FDI into the region is to create a quality policy environment that can develop positive spillover effects, like the development of small and medium-sized enterprises (SMEs).

“Given the continued internationalization of transnational production and intense competition for FDI, policies aimed at attracting transnational operations within the region should go beyond the traditional manufacturing FDI. Instead, ASEAN should continue to leverage on its competitive strength by capitalizing, for example, on other non-equity forms of FDI like services outsourcing, and deepening its economic integration. This is crucial if greater FDI flows are to be sustained in the region. This is also the challenge that ASEAN must face in a post-crisis world.” ■