ASEAN Investment Report 2005

TABLE OF CONTENTS

TABLE OF GRAPHS

LIST OF TABLES

Executive Summary

Enhancing ASEAN long-term Competitiveness by Leveraging on Investments and unlocking the full potential of Intangibles

The positive inflow of foreign direct investments into ASEAN continued in 2005 with the region posting a substantial 48% growth over the past year from US$ 25,661 million in 2004 to US$ 38,083 million in 2005, exceeding pre-1997 levels. Dramatic increases in FDI were noted particularly for Indonesia, the Philippines, Singapore and Thailand. This is expected to be sustained in the short-term. However, for the long-term, ASEAN should keep a wary eye open on mounting competition from other regional blocs such as Brazil, Russia, India and China (BRIC) and the Eastern European countries which are more and more being favorably looked upon as viable investment destinations by the international business community.

In the past, foreign investors merely sought destinations which afforded lesser costs. The development of new international business models, however, have shifted the attention of foreign investors from merely exploiting cost saving opportunities (e.g. labor), towards a concerted drive to acquire new markets through the development of the market value of their companies. For this reason, investments in intangibles (e.g. brands, technology, services and research and development [R&D]) which are aimed at bolstering market value of products and companies are gaining more and more ground on the agenda of multinational enterprises. To better illustrate, the total market value of Global 500 companies are now dominated more by intangible assets rather than tangible assets.

Other developed countries, such as USA, UK, Finland and Sweden have managed to increase their investments into intangibles such as brands and technology. This has proven critical to the success of their respective economies by way of creating a positive multiplier effect whereby investments in these constructive areas led to a further agglomeration of high-value and sustainable investments in related fields. Developing countries, such as China and India, are also increasing cognizant of this fact.

ASEAN, therefore, needs to position itself to leverage on these intangible assets and should focus its energies in investing and forming a unified effort in attracting investments therein.

In conclusion, ASEAN needs to come up with clear mechanisms to enable these desired outcomes of improving the quantity and quality of FDI to forge ahead with its vision of establishing an ASEAN Economic Community by 2020.

A. External Environment

a. Global economic trend

The global economy is expected to maintain a slow, steady streak of growth this year with global GDP growth expected to increase to 4.9% in 2006 from 4.8% last year. This anticipated increase may be attributed primarily to a positive rally on the part of advanced economies whose combined GDP growth rate is expected to improve to 3% this year from 2.7% last year. The European Union alone is expected to realize a significant recovery from 1.8% last year to 2.4% this year.

The economic performance of the ASEAN 6 is forecasted to slightly slowdown from 5.2% GDP growth last year to a projected 5.1% this year. This is reflective of the estimated deceleration of developing Asian economies from a combined figure of 8.6% GDP growth last year to 8.2% this year.

Table 1: GLOBAL GDP GROWTH AND FORECASTS

	Ten-Year Averages					
	1987-96	1997-2006	2004	2005	2006	2007
World	**3.3**	**3.9**	**5.3**	**4.8**	**4.9**	**4.7**
Advanced economies	**3**	**2.7**	**3.3**	**2.7**	**3**	**2.8**
United States	2.9	3.4	4.2	3.5	3.4	3.3
Euro area	…	2	2.1	1.3	2	1.9
Japan	3.2	0.9	2.3	2.7	2.8	2.1
Other advanced economies	3.8	3.3	4.6	3.7	4.1	3.7
Other emerging market and developing countries	3.9	5.3	7.6	7.2	6.9	6.6
Regional groups						
Africa	2.2	4	5.5	5.2	5.7	5.5
Central and Eastern Europe	0.9	3.6	6.5	5.3	5.2	4.8
Commonwealth of Independent States	…	5.2	8.4	6.5	6	5.8
Developing Asia	7.8	6.6	8.8	8.6	8.2	8
China			10.1	9.9	9.5	9
India			8.1	8.3	7.3	7
ASEAN-4			5.8	5.2	5.1	5.7
Middle East	3.4	4.5	5.4	5.9	5.7	5.4
Western Hemisphere	2.8	2.8	5.6	4.3	4.3	3.6

	Ten-Year Averages					
	1987-96	1997-2006	2004	2005	2006	2007
European Union	2.2	2.4	2.5	1.8	2.4	2.3

Arguably, the strong growth posted by developed economies is an indication of sound business environments, superior business confidence and a more conducive location for FDI to agglomerate. Furthermore, this also signals a wider range of prospective and more constructive investment opportunities with higher value added potential – such as R&D which will be discussed in greater depth later.

The slightly and relatively more modest performance on the part of developing countries and ASEAN on the other hand would seem to show a needed improvement in their competitiveness and attractiveness as investment destinations. Nevertheless, competition amongst developing countries can not be discounted. As will be seen later however, some developing economies in Asia, Europe and South America have emerged as highly viable investment locales which may rival ASEAN.

The succeeding section will provide a brief discussion of how global FDI has fared, and how a select few countries have successfully improved their promotion and management of inward FDI flows for long term development. It is therefore important to keep an observant eye on the nature, quality, and direction of FDI, particularly from the viewpoint of sustainability and constructiveness (i.e. capability to generate additional and a more diverse range of investments) for developing country economies. For this reason, this Report will dwell heavily on an analysis of investments made among developing countries (i.e. intra-ASEAN) and those pertaining to R&D.

b. Global FDI Flow

Drawing from the previous ASEAN Investment Surveillance Report (AISR), Foreign Direct Investments (FDI)[1] at the global level has remained stable. This positive situation, however, should be viewed with caution as various types of investments - coupled with other external economic factors (e.g. inflation from rising oil prices, exchange rate fluctuations) - could produce varied results. The degrees of impact in the improvement of developing country economies should

[1] FDI is the movement of capital across national frontiers in a manner that grants the investor control over acquired asset. It is distinct from portfolio investment which may cross borders, but does not offer such control (Wikipedia- http://en.wikipedia.org/wiki/FDI).

also be taken into consideration, let alone ASEAN, and their respective capacities for attracting investment and spurring economic development.

UNCTAD released data early last year showing an estimated 38% increase in the flow of FDI to developed countries which, in effect, reverses a slump that was the trend for 4 consecutive years prior to then. FDI flows to Asia and Oceania on the other hand increased by around 11%, to an estimated $173 billion.[2] Developing countries as a group however, especially the bigger ones are not to be left behind. It is estimated that by 2050, Brazil, Russia, China India, Indonesia, Mexico and Turkey may have a combined GDP that is 1.75 times that of the G7[3].

The following segment will show how growing economies, particularly China, India, Brazil and Russia continue to attract FDI, at least in the medium term. It will also point out that, notwithstanding the successes of fast growing economies in drawing FDI, large developed countries (e.g. the US, UK) and small developed countries (Finland and Sweden) are still the major destinations for FDI – mainly due to the factor of their capability to attract and harness R&D investments.

1. Developed countries are still the major destination for FDI

Interestingly, and as reported in last year's AISR, developed countries remain the top destinations of FDI. The following portion will provide a brief profile of developed countries that have received the lion's share of FDI inflows, principally from fellow developed countries.

i. United States

Even for a nation as big as the US, FDI still plays a significant part on its economy. According to some observers, firms usually invest in the US for a number of reasons, three of which is (all of which may be considered and adopted in the ASEAN scenario): to serve the local market, increase efficiency, or to gain access to natural resources. More often than not, these investing firms would either start from scratch or invest in an existing operation through a merger or acquisition.[4] Thus:

> "Foreign direct investment (FDI) is the underlying driver of many key U.S. economic issues including offshoring, the trade deficit, job creation, the current account deficit, and even interest rates. FDI is

[2] unless otherwise indicated, the currency to be referred to herein shall be the United States Dollar
[3] CEO Survey 2006 pg. 6
[4] Daniel Kah, Foreign Direct Investment Trends, www.angeloueconomics.com?FDI_Trends.html

a domestic firm investing in a foreign market and vice versa."[5]

After a few volatile years, FDI inflows to the US peaked in 1999 and 2000, raising an estimated amount of $1 trillion for both years. Graph 1 below shows a downturn again in 2004. However, at $650 billion, FDI to the US remains quite high relative to the previous years.

Graph 1 : FDI inflows on China, US and Rest of the World

After a few years, the US seemed to return to the leadership position as the world's leading source and destination of FDI. Nevertheless, apart from the continued rise in US investor confidence, this position has been rivaled by strong contending economies like China and the UK.[6] Notably, however during the second half of 2005, the US and the UK were the largest recipients of inward FDI.

ii. United Kingdom

Among the OECD member countries, the UK came out as the top recipient of inward FDI in 2005, displacing US of this position which it held the year before that. Table 2 on the next page shows the UK continued to attract strong FDI flows in the second half of 2005, amounting to at least $112 billion, not counting the cross-border mergers and acquisitions made by the country.

[5] Ibid.
[6] Ibid.

Table 2 : FOREIGN DIRECT INVESTMENTS OF OECD COUNTRIES FOR 2003-2005

Inward Foreign Direct Investment, bn. US$

	2003	2004	2005	2005:Q1	2005:Q2	2005:Q3	2005:Q4
Australia	9.7	42.0	-36.8	3.6	-47.4	3.2	3.3
Austria	7.1	4.0	..	1.3	2.2	1.0	..
Belgium	33.4	42.1	23.7	7.3	-1.7	1.2	16.5
Canada	6.3	6.3	33.0	6.0	3.9	10.2	13.2
Switzerland	16.6	0.7	..	-1.4	2.3	1.5	..
Czech Republic	2.1	5.0	11.0	1.4	5.7	2.2	1.7
Germany	26.9	-15.1	32.6	3.9	7.5	1.1	19.6
Denmark	2.9	-9.3	5.0	0.2	-1.0	1.9	3.7
Spain	25.9	16.7	18.8	5.6	1.9	4.0	7.2
Finland	3.3	3.5	4.6	2.7	0.0	1.2	0.8
France	42.5	24.3	49.8	14.1	11.6	11.7	12.5
United Kingdom	27.4	77.7	164.5	28.3	23.3	114.8	-2.5
Greece	0.7	1.4	0.6	0.5	0.4	-0.4	0.2
Hungary	2.2	4.7	6.7	1.4	1.6	0.6	3.1
Ireland	22.8	11.2	-22.8	7.9	0.5	-14.9	-14.9
Iceland	0.3	0.6	2.3	0.1	0.1	0.0	2.2
Italy	16.4	16.8	15.7	3.3	2.8	2.0	7.5
Japan	6.4	8.0	2.7	3.6	0.8	2.5	-3.7
Luxembourg	90.2	77.3	29.3	6.5	0.4	4.3	17.6
Netherlands	21.7	0.4	40.8	1.0	10.5	19.5	9.2
Norway	3.5	2.5	3.4	0.2	1.5	-3.8	5.4
New Zealand	3.7	2.6	1.6	0.6	1.1	-0.5	0.5
Portugal	6.6	1.6	3.1	1.6	1.0	0.5	0.1
Sweden	5.0	12.6	13.7	5.0	0.2	3.4	5.1
United States	67.1	106.8	128.6	33.9	17.0	50.4	27.3
Korea	3.5	9.2	4.3	0.4	2.3	0.7	0.9
Mexico	11.7	18.2	17.8	4.9	4.0	5.0	3.8
Poland	4.1	12.4	8.7	2.9	1.4	2.2	2.2
Slovakia	0.6	1.1	1.9	0.1	1.0	0.4	0.4
Turkey	1.7	2.7	9.7	0.7	0.4	2.7	5.9
Total[1]	446.5	488.0	583.5	148.0	55.0	228.0	..

Sources: OECD Balance of Payments Statistics and OECD International Investment Statistics. Discrepancies between quarterly and annual figures can occur.

As previously mentioned, the US and the UK were the top FDI recipients in the latter part of 2005.

iii. Finland and Sweden

Finland and Sweden share a close similarity in size with ASEAN economies. The data in Table 2 above show Finland and Sweden posting FDI inflow figures at US$ 4.6 billion and US$ 13.7 billion in 2005 respectively.

At least on the surface, these levels are already comparably similar to most ASEAN 6 countries. However, an underlying difference would be noted in the nature and quality of these investments between ASEAN and comparable developed countries, particularly in the level of intangibles and R&D which are incorporated into the value of these investments. This concept, and how importantly it relates to ASEAN will be described in better detail in the succeeding portions of this report.

2. Growing economies continue to attract investments in the medium term

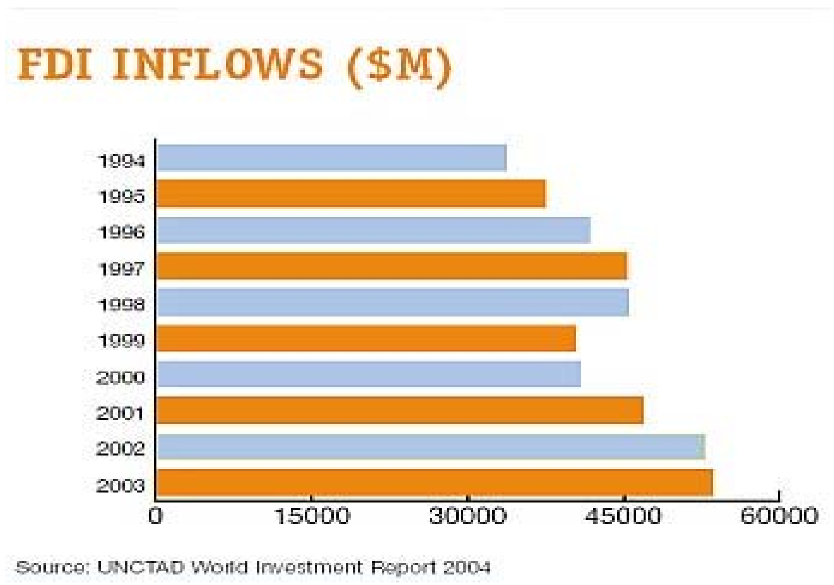
Strong inward FDI performance was not exclusively limited to the developed countries, since large growing developing economies such as China, India, Russia and Brazil too have received a considerable slice of the global FDI pie. As such, ASEAN would do well to gather signals not only from large developed countries, but from its developing country neighbors as well – which, like ASEAN, are implementing similar measures to improve their ability to attract and retain FDI – focusing on sectors of higher intangible value. These countries will be paid better attention to in this portion, starting with China.

i. China

China has widely been increasing and outpacing its neighboring Asian countries. Two of the principal attractions that China has for FDI are its low-cost labor and the huge potential domestic market of 1.2 billion consumers. Data provided by the Ministry of Commerce showed that FDI inflows were at $53.781 billion in the first months of 2004 and have increased 23% year-on-year. It was also reported that more than 35,000 foreign capital ventures have been approved. Despite the news of possible over-heating of the economy and its various economic vulnerabilities, data shows that there is an increase in industrial production and easing up of money supply, as well as consumer prices.[7]

Graph 2 below shows figured of FDI going into China in 2003. Notably, despite years of posting smaller growth numbers than previous ones, a general uptrend is observable between 1994 and 2003.

Graph 2: FDI Inflows to China

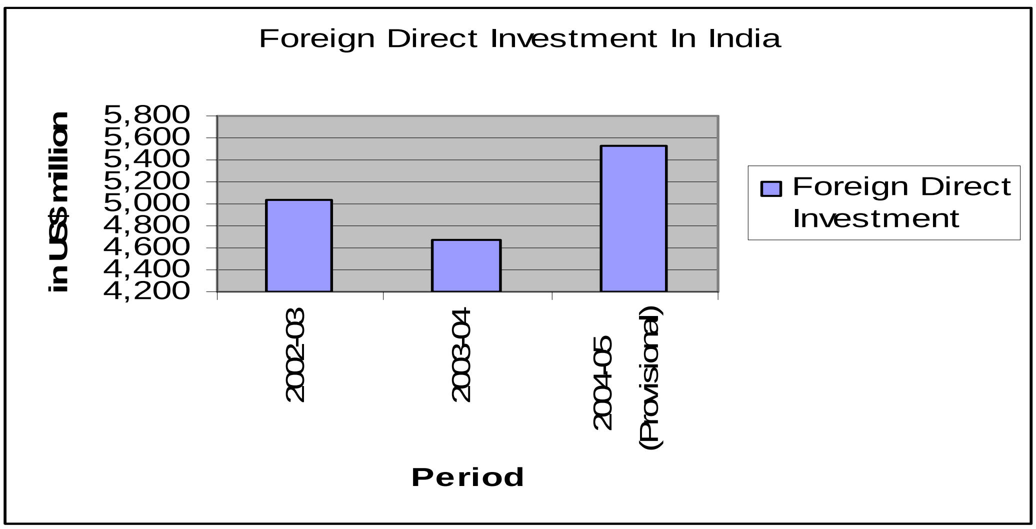


[7] China, http://www.fdimagazine.com/news/fullstory.php/aid/1023/China.html

ii. India

Apart from China, India is similarly recognized as one of the fastest growing FDI destinations in the world particularly in the services (especially business process outsourcing) and manufacturing (pharmaceuticals, textiles, auto-parts etc.) sectors. As a matter of fact, according to AT Kearney, it has already replaced the US as the 2nd most favored investment destination in the world after China. The country has marked significant growth in its FDI inflows as seen in Graph 3 below. Initial estimates for the first half of the 2005-2006 figures is said to have already reached around US $ 7.96 billion, or more than 3 times its performance in the same period the previous year[8]. Topping the list of sectors which received the largest share of FDI in India are manufacturing, computer services and construction.

Graph 3 : FDI into China



Source: Reserve Bank of India

Sources of FDI into India is comprised of a diversity of companies of which, according to Commerce and Industry Minister Kamal Nath, over a hundred belong to Fortune 500 as compared to only 33 of the same status currently invested in China[9]. Investments in research and scientific services in India have shown a sharp increase from practically nil in the period 2002-2005 to some US$ 5 million from 2004-2005 as illustrated among other sectors in Table 3 on the next page.

[8] http://www.ibef.org/economy/fdi.aspx
[9] http://www.indiaonestop.com/economy-fdi.htm

Table 3 : FDI INTO INDIA BY INDUSTRY

FDI: (In	Industry-wise US$		inflows* million)
INDUSTRY	**2004-05 (P)**	**2003-04**	**2002-03**
Fisheries	10	2	9
Mining	11	18	9
Manufacturing	924	426	480
Food & Dairy Products	183	64	39
Electricity	14	90	48
Construction	209	172	237
Trade, Hotels & Restaurants	22	67	39
Transport	70	20	12
Financing, Insurance, Real Estate & Business Services	363	206	223
Computer Services	372	166	297
Educational Services	2	0	1
Research & Scientific Services	5	1	0
Health & Medical Services	25	15	28
Other Services	10	2	18
Others	100	213	218

*** : Data in this table exclude FDI inflows by way of acquisition of shares by non-residents under section 6 of FEMA, 1999**

P: Provisional

SOURCE: Reserve Bank of India Annual Report 2004-05

The Indian government is now in the middle of implementing comprehensive reforms in its FDI policy which include, among others, the liberalization of their retail trade sector, allowing full foreign ownership in power trading, processing and warehousing of copper and rubber, and raising the foreign ownership limit on telecommunications firm to 74% from the previous 49%[10].

iii. Brazil

Brazil is a middle-income country that lies at the heart of South America and with a US$ 32 billion inflow of foreign investments in 2000. With the country's quick liberalization and potential growth of its market, it became attractive to foreign investments, thus it increased significantly.[11]

A study shows that the top 10 destinations that are most attractive to corporate investors are emerging markets like China, Mexico, Brazil and Russia. These markets are said to be most attractive for their offshoring IT and businesses process.[12] Accordingly, Business week magazine stated that the $10 billion

[10] http://www.ibef.org/economy/fdi.aspx

[11] European Commission, Country Strategy Paper 2001-2006, http://ec.europa.eu/comm/external_relations/brazil/csp/02_06en.pdf#search=%22FDI%20into%20Brazil%202006%22

[12] A.T Kearney Study, China widens leads vs US and the top choice for foreign investment, http://www.atkearney.com/main.taf?p=1,5,1,136

software industry of Brazil continue to grow at 10% per year since 2000, thus attracting more investments.[13]

iv. Russia

In 2005, China, India and Eastern European countries have been attracting FDI as they competed for value-added investments, specifically on R&D; United States however, have even been dropped to 3rd place. FDI inflows to the EU market have increased from $12 billion in 2003 to $20 billion in 2004. Russia, Romania and Turkey made significant expansion in attracting FDI in 2005, which further proves a higher FDI prospects in Eastern and Southern Europe. [14]

In 2003, Russia placed 8th and then 11th in 2004; currently, Russia places 6th in the Index and is the 4th most preferred location especially for first-time investors. The country's retail market has sustained investor interests and ranked 2nd among paper and allied products companies. In terms of the food, tobacco, textiles and apparel industry, it has maintained its position being the most attractive for investors.[15]

c. The Business Perspective

International businesses and their executives, whose interests and activities are the main driving force behind the direction and volume of global FDI, have shifted their perspectives and made certain adjustments to their objectives since last year. The succeeding graphs are excerpts from the 9th PricewaterhouseCoopers Global CEO Survey, which gathers responses from some 1,400 CEO worldwide on their views regarding crucial areas of international business and is indicative of worldwide business sentiment on a variety of issues.

1. China and India are top FDI destinations

It is interesting yet unsurprising to note that among the emerging economies, China and India are viewed as the top destinations wherein CEOs of global companies based in developed countries intend to further their investments at least in the next 3 years. One can observe in Graph 4, below that some 64% of CEO in surveyed from developed countries[16] readily selected China as the place where in which they are planning to do business in the future. China ranked also

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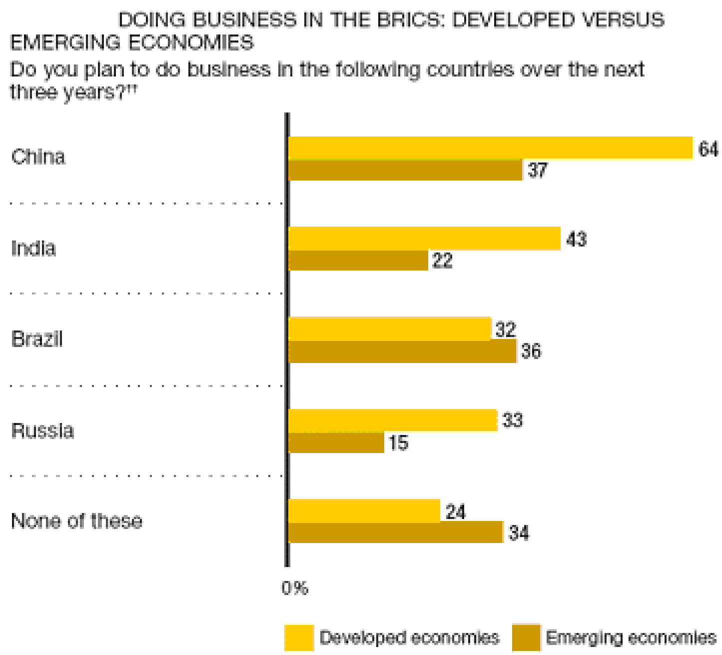
[13] Bright Simons, The Spectre of Communism, http://english.ohmynews.com/articleview/article_view.asp?no=302171&rel_no=1
[14] 2005 Foreign Direct Investment Confidence Index, http:www.atkearney.com/main.taf?p=1,5,1,136
[15] Ibid.
[16] Limited to those who chose China, India, Brazil and Russia as places where they were planning to do business in the future, with the exception of those located in the aforementioned countries.

as the first choice among CEOs based in developing countries as a place they would consider to do business, with 37% of respondents from developing countries selecting this option. Some 43% of respondents in developed countries chose India as a place where they were eager to invest, ranking it at 2nd place. It however is only the 3rd (at 22%) in terms of the number for CEOs in developing countries who say they are interested in investing there, the second being Brazil (at 36%).

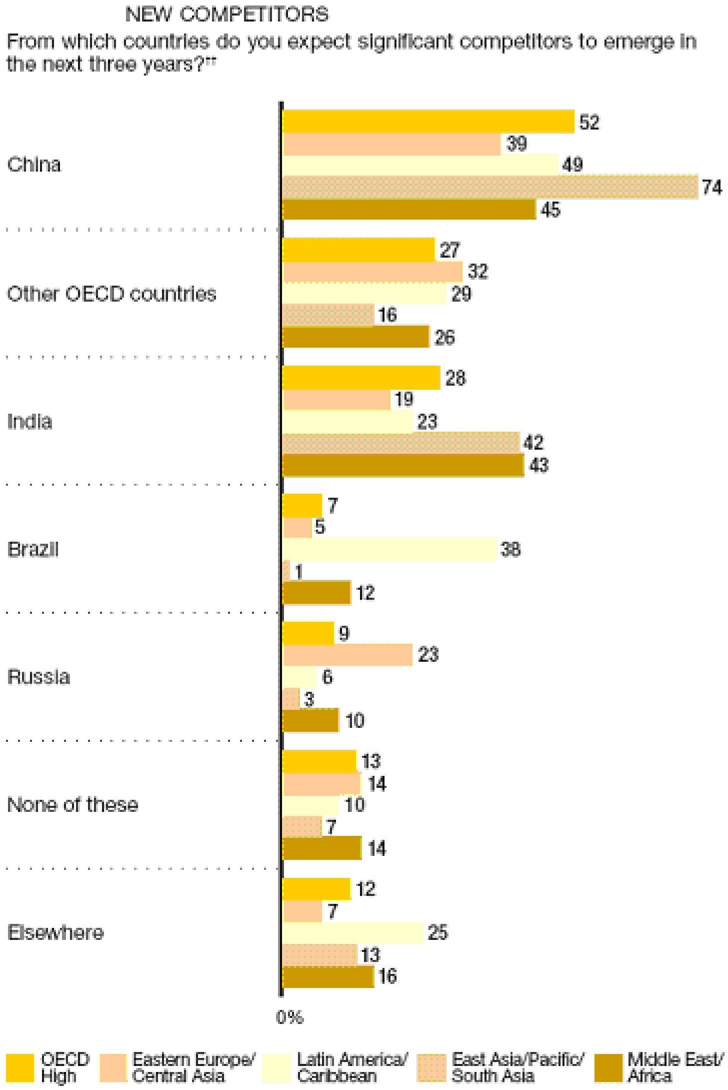
Graph 4 : CEOs on doing business in BRICS



2. Most perceive China as a competitor more than India

A good number of CEOs from ASEAN and Asia-Pacific meanwhile perceive China as a rising competitor, way ahead of the more developed OECD member countries. Graph 5 on the next page shows 74% of CEOs in ASEAN and the Asia Pacific region regarding China as the place where they expect future competitors to emerge in the next 3 years. India, meanwhile follows with some 42% of CEOs based in ASEAN and the Asia Pacific region, considering it as a source of future competition in the coming 3 years.

Graph 5 : CEOs on new competitors

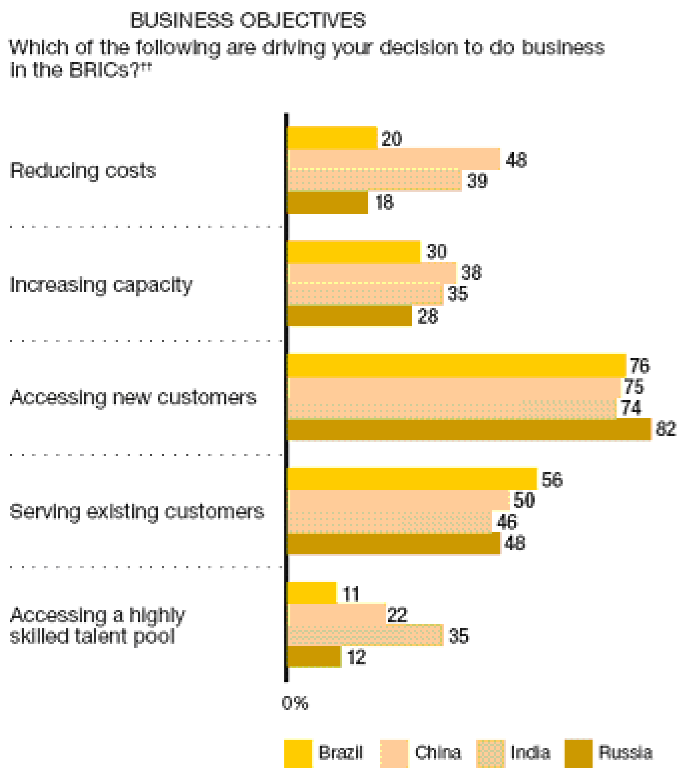


3. Objectives have shifted from cost mitigation to better market access

A reorientation of business perspective, per the findings of the survey, was also noted. Whereas businessmen located in the large developing countries were previously very much concerned with the reduction of business costs in 2005, their main focus for this year has shifted to gaining access to newer markets.

Graph 6 on the next page shows the responses of the CEOs when asked as to what their primary objectives and motivations for doing business in the emerging economies of Brazil, Russia, India and China were. Majority of the respondents answered that their main objective this time around is to tap new markets and customers, with cost reduction modestly trailing behind as a business motivation. This focus on increased market access should be regarded as an important facet of ASEAN's investment promotion strategy as the region is replete with established local marketing channels which foreign investments may consider to tap into.

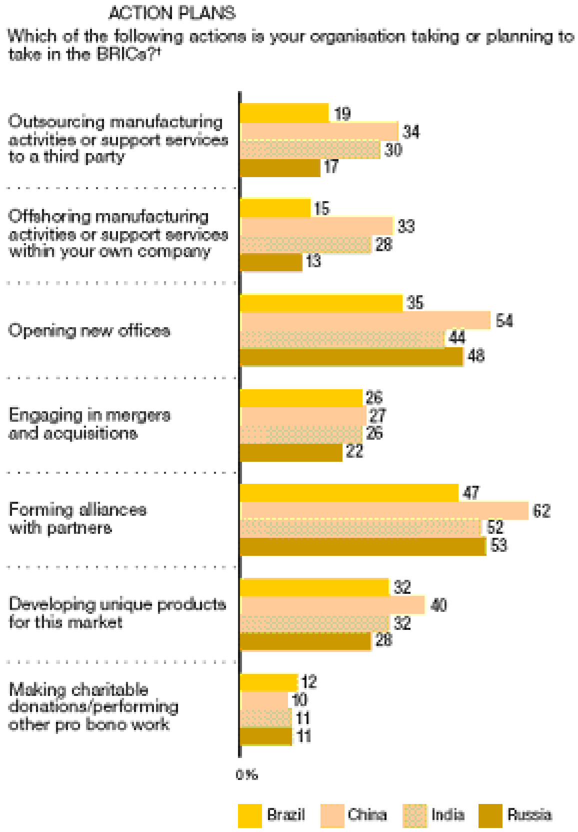
Graph 6 : CEOs on business objectives



4. From outsourcing to alliances

In relation to the above, the course of action that CEOs are now willing to pursue to meet their business objectives have likewise shifted from outsourcing to the formation of alliances with new partners, as illustrated in Graph 7 on the next page. This augurs and aligns well with their recalibrated objective to gain access to newer markets, since prospective business partners in their resident countries would have the marketing networks and domestic connections to introduce prospective foreign investors to new customers.

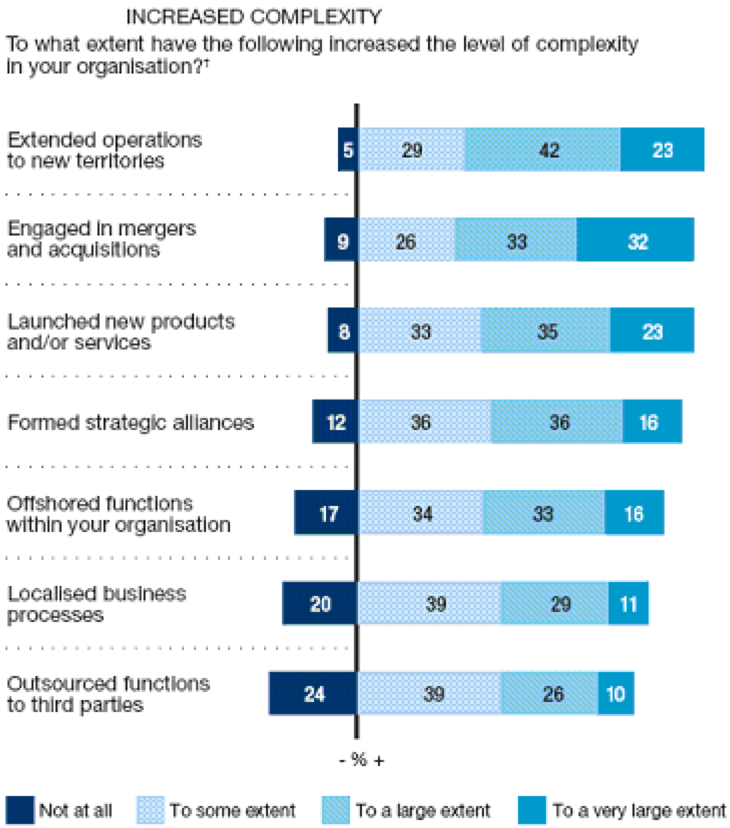
Graph 7 : CEOs on actions plans



5. Operations are becoming more complex

A large percentage of the CEOs interviewed considered the extension of their operations into new territories, mergers and acquisitions, and the launching of new products and/or services as the top three areas in their businesses wherein their levels of complexity have increased. This is illustrated in Graph 8 on the next page, and it may be seen that the most of the complexities perceived by the CEOs are within the area of extending operations offshore to introduce new products and gain access to foreign markets. This denotes a faster pace in the internationalization of businesses.

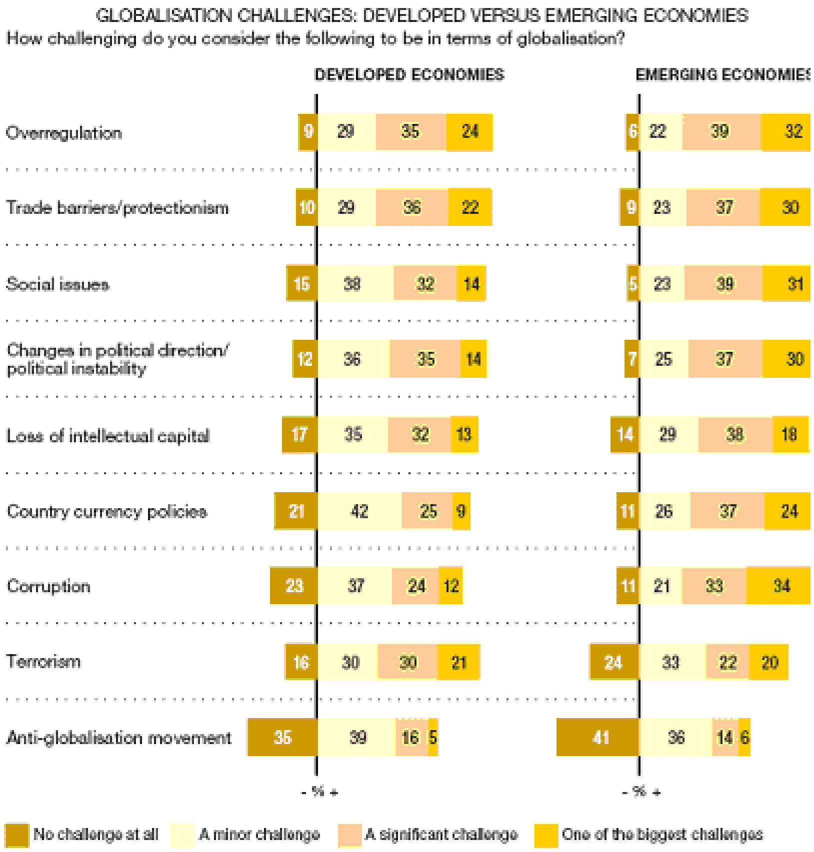
Graph 8 : CEOs on increased complexity



6. Overregulation and trade protection problems

The strong desire for CEOs and international businesses nowadays to expand and make a footing abroad to widen their market opportunities however may be tempered by growing concerns in relation to possible trade barriers and the rigidity of the domestic regulatory regime. Overregulation and trade barriers/protectionism ranked high on the list of the respondent CEOs as primary sources of challenges to their efforts to globalize their business. This trend may be observed in Graph 9 on the next page.

Graph 9 : CEOs on challenges of globalization



	Developed: No challenge at all	Developed: A minor challenge	Developed: A significant challenge	Developed: One of the biggest challenges	Emerging: No challenge at all	Emerging: A minor challenge	Emerging: A significant challenge	Emerging: One of the biggest challenges
Overregulation	9	29	35	24	6	22	39	32
Trade barriers/protectionism	10	29	36	22	9	23	37	30
Social issues	15	38	32	14	5	23	39	31
Changes in political direction/ political instability	12	36	35	14	7	25	37	30
Loss of intellectual capital	17	35	32	13	14	29	38	18
Country currency policies	21	42	25	9	11	26	37	24
Corruption	23	37	24	12	11	21	33	34
Terrorism	16	30	30	21	24	33	22	20
Anti-globalisation movement	35	39	16	5	41	36	14	6

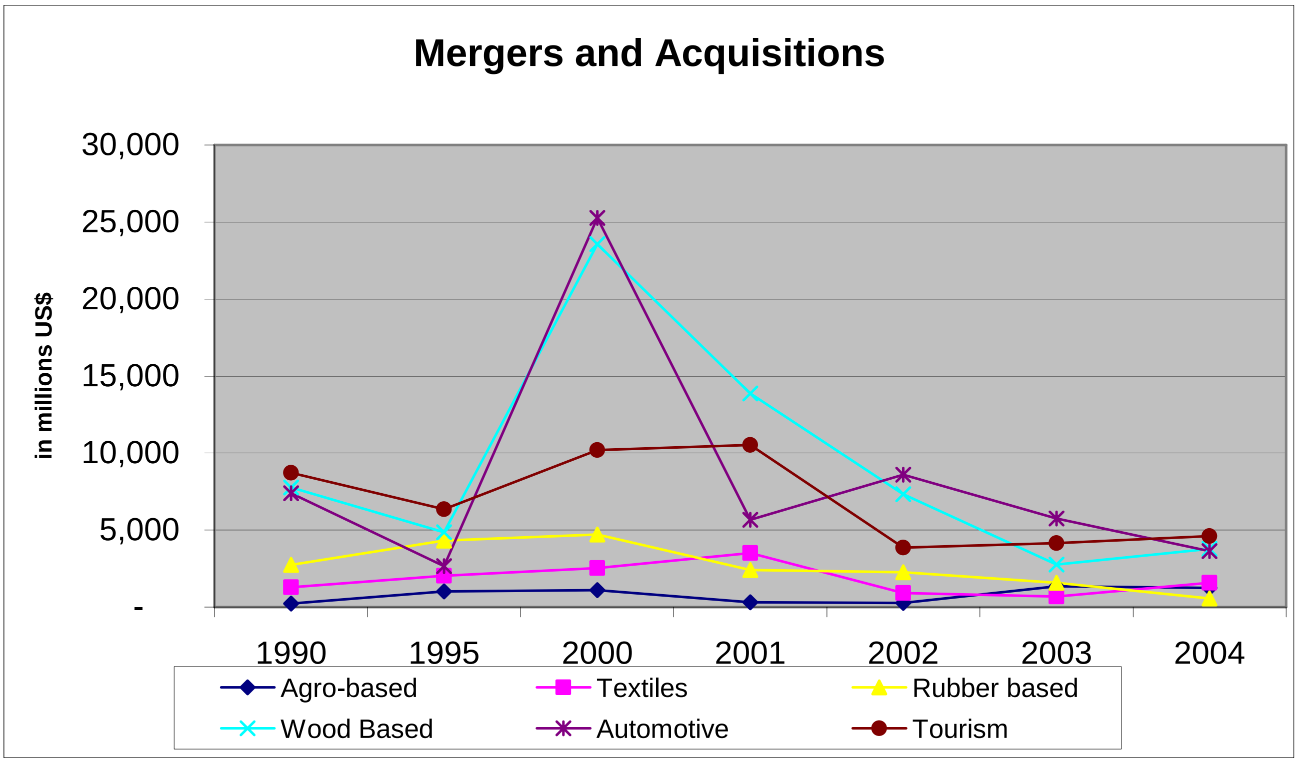
d. Trends

There is a diversity of methods by which companies can invest and gain access to international markets. Trends recently have shown that among these options, one of those modes that is being increasingly used is that of Mergers and Acquisitions (M&A), particularly because it lends foreign investors access to pre-existing marketing networks and channels which it can exploit in expanding its business in the host country. Investments in R&D have likewise become notable trend, particularly in developing countries where resources are increasingly being allocated for training knowledge workers, acquiring newer technologies and developing highly sophisticated, high-value added products with significant intangible cost components.

1. M&A

M&A is being more actively used as a tool for gaining access into another country's market for the expansion of businesses. From a peak in the year 2000 (as can be seen in Graph 10 below), the total value of global M&A has stabilized and is expected to become a more preferred norm of investment in the future as this encourages the transfer of technology and intangibles.

Graph 10 : Mergers and Acquisitions



2. R&D

Allocating investments in R&D have more or less been the norm in developing countries, including developed countries of an economic size generally comparable to ASEAN such as Finland and Sweden. This prioritization of R&D may be arguably grounded on the generally accepted notion that R&D investments would, in the medium and long term, create a multiplier effect that will spur productivity and a more expansive range of manufacturing activities for a company.

i. Investments into Technology and R&D are high in developed countries

Developed countries place a premium on investments in R&D. The examples below show how much some countries have allocated specific outlays and concerted efforts to promote and engage in R&D related activities and investments:

- "Sweden and Finland spend the highest percentage of their GDP on R&D;
- Germany hosts the most (267,000) researchers, whereas Iceland (2%) and Finland (1.9%) have the highest shares of researchers in relation to the active population;
- Poland has the highest percentage of graduates as a share of the population aged 20-29;
- Innovation expenditure as a percentage of EU-25 businesses' turnover is higher in the manufacturing sector than in services:
- German (5%) and Cypriot (4.3%) businesses spend the most on the manufacturing sector;
- Russian businesses invest as much as 6.6% in the services sector whereas the European average varies between the Slovakian 1.8% and the Dutch and Hungarian 0.3%."[17]

The consequences of not having the proper facilities to undertake R&D or accommodate R&D investments are serious. One need not look far and may take the case of pharmaceutical industries wherein many people are not given adequate access to badly needed medicines mainly due to lack of R&D investments. Most of their needs are overlooked only because their markets are not deemed as profitable as those of developed countries.[18]

ii. R&D investments increase productivity and manufacturing capability

Productivity and the availability of factors of production are the two sources of output growth in an economy. Generally, productivity growth takes place due to improvements and enhancements of technology, scale economies, and other sources of efficiency gains over time.[19] R&D advances in the state of knowledge of society through technological change which determines productivity growth over long periods of time. Investments in R&D therefore contribute directly to knowledge accumulation.[20] Thus, it has been commented that:

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[17] Ibid.
[18] David Winters, Expanding global research and development for neglected disease, http://www.scielosp.org/pdf/bwho/v84n5/v84n5a25.pdf
[19] http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/ra01068e.html
[20] Ibid

> "Investment in R&D generates new products and production processes, and thereby contributes to productivity improvements. A distinctive feature of R&D investment is that the benefits from R&D activities spill over among firms and other organizations. Productivity growth in an industry, therefore, depends on its own R&D activities, as well as on the R&D efforts of other knowledge-generating industries. This implies that productivity growth is influenced by joint cumulative R&D activity. The significance of R&D spillovers in generating productivity growth has stimulated a growing interest in the sources of R&D spillovers."[21]

Furthermore, it must be noted that high-tech technologies will relatively produce higher rates of productivity growth and end results. An operative example may be cited in the case of companies operating in the Canadian communications industry and other electronic equipment industries which are centres of knowledge-based activity. Thus, their industry model provides an important opportunity to consider the role of R&D investment in assisting the improvement of productivity performance.[22]

The positive effect of increased R&D investments in manufacturing can not be disregarded. Studies have shown that, in the manufacturing sector, if all industries invested in R&D with the same intensity as the so-called high-tech industries, annual R&D investment by this sector would have to increase dramatically. One economic study on the US economy concluded that, based on rate-of-return differentials between R&D and other investments, it increased its R&D spending by a factor of four.[23]

iii. Value added of intangibles are increasing

The value of intangible assets as a percentage of a company's tangible assets has grown considerably in the past decades, indicating how significant the economic values of ideas, research, innovation and reputation have become. More importantly, the consideration of intangibles in deciding on whether a company would invest or acquire another company has become a critical factor amongst the world's largest investors. Such may be explained by the centrality of the notion that control over intangible assets enable companies to overcome certain market imperfections and broaden their advantage over competitors.

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[21] Ibid
[22] Ibid
[23] http://www.euractiv.com/en/science/business-rd-investment-highest-manufacturing-sector/article-143670

Briefly explained, "tangible assets" are those involved with the physical products where it is a source of value creation. It focuses on the physical assets and to the market. "Intangible assets", on the other hand, include human capital, brands, and non-codified knowledge.[24] Whereas the advantage afforded by tangible assets is apparent, it is now increasingly becoming more important for companies to develop intangible assets as well, as one study argues:

> "Hymer made a distinction between portfolio and direct investment and rejected the capital-arbitrage hypothesis for explaining foreign direct investment (FDI). He argued that for a firm to conduct foreign production they must possess some kind of firm-specific ownership advantages, such as superior technology (patent), brand name and marketing which provide it with an advantage over local firms in the host country."[25]

Although business investments in intangibles such as product development and training are oftentimes omitted in the computation of GDP, it is clear that these functions are critical to long-tern profitability and sustainability. To highlight the relevance of intangibles, the above quoted study also connects the relevance of tangible and intangible assets to market imperfections[26]. It argues that investing in a foreign country is essentially a decision to control some firm-specific proprietary asset rather than transact it through the market. Now, whether the firm will take advantage of that benefit through licensing or FDI will still depend on the degree of market imperfections in the host market. The higher the extent of market imperfections, the greater will be the need to control the asset through direct investment. Revenue earned is higher for the foreigner than for the local capitalist because of an advantage in intangible assets.[27] It also asserts that intangible assets are a greater source of advantage for multinational companies in developing countries. Thus:

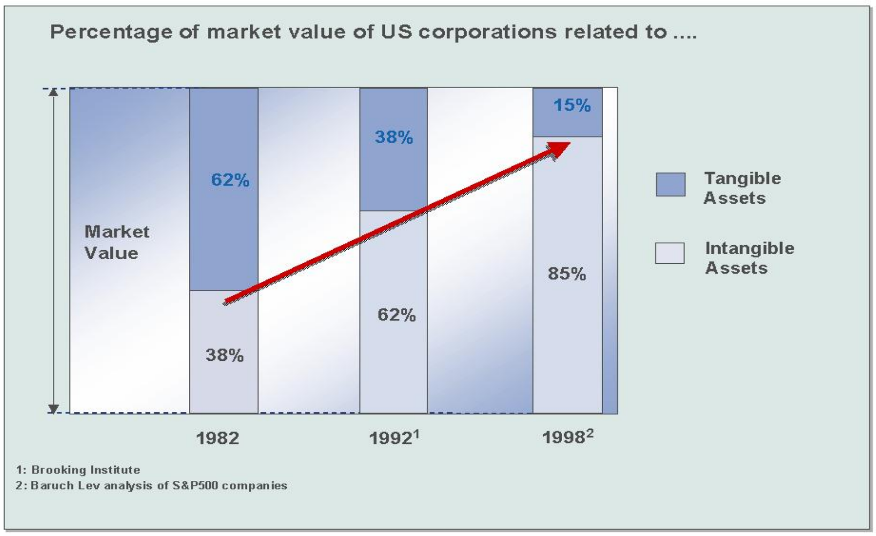
> "Generally, the MNEs' advantage in intangible assets, such as global brand names and technology, tends to be more dominant in developing economies than in developed economies because local firms in developing economies are underdeveloped. Secondly, MNE have to adopt higher levels of internalization to protect intangible assets with public

[24] Lilach Nacchum, MNE's in the Digital Economy, http://www.cbr.cam.ac.uk/pdf/WP236.pdf
[25] http://ir.lib.cbs.dk/download/ISBN/x65619756x.pdf
[26] Defined as any deviation of the market having a perfect competition
[27]http://ir.lib.cbs.dk/download/ISBN/x65619756x.pdf

goods properties because market imperfections are more dominant in developing economies."[28]

It therefore does not come as a surprise that the share of intangibles to the assets of several US companies have grown tremendously over the decades, as illustrated in Graph 11 below:

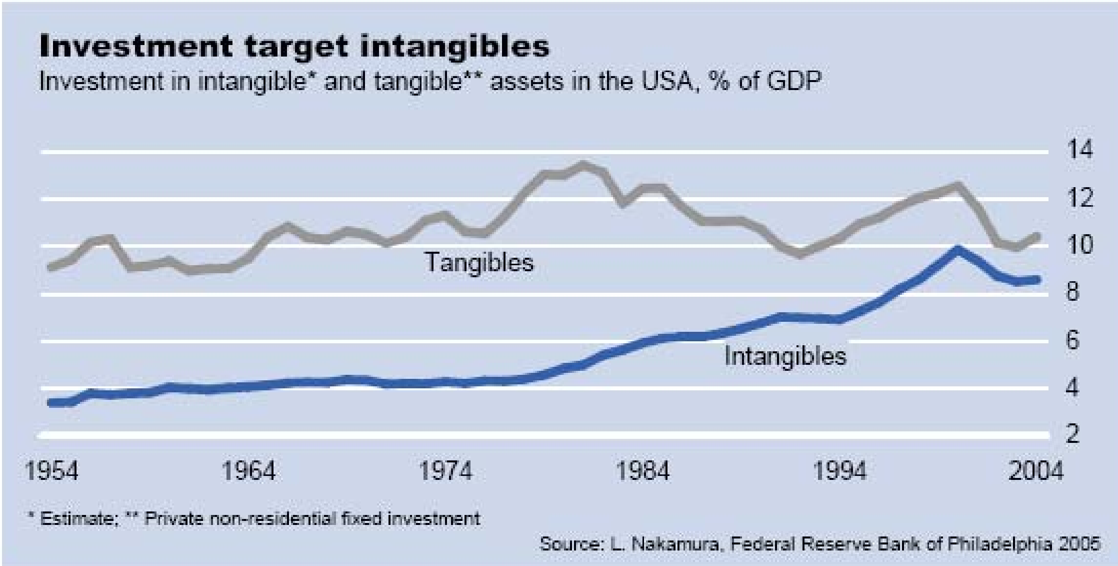
Graph 11: Tangible/Intangible percentage of market value of US Corporations[29]



Corollary to this phenomenon, the percentage share of intangible assets to US GDP has also been following an increasing trend, narrowing its gap with the percentage value of tangible assets to US GDP, as can be better appreciated in the Graph 12 on the next page:

[28] Ibid – quoting Lall S, Siddharthan NS. 1982. The monopolistic advantages of multinational firms: lessons from foreign investment from the US. Economic Journal 92: 668-83.
[29] "In the last 20 years the source of value has shifted from tangible to intangible assets with the turning point at the begin of the 1990s" (Taken from http://www.juergendaum.com/news/07_06_2001.htm)

Graph 12 : Percentage of tangible/intangible assets to US GDP



Taken from Deutsche Bank Research

In view of the foregoing, businesses around the world are restructuring to capture a share of this fast appreciating value.

A good example of this effort is that of the Apple iPod which is designed by Apple in California and assembled in China. The location and tangible component of its production has very minimal, if no bearing at all on its recent popularity. Rather it was the iPod's design, technical innovation and savvy marketing (all on the intangible side) which brought about the sale some 40 million units worldwide. A valid explanation for this phenomenon could be the US$ 800 million that Apple spends annually on brand development.

The iPod example is replicated across the developed world. Table 4 on the next page, which is based on data provided by Forbes Magazine, shows how many companies based in selected developed countries are listed in the Forbes 200. It also shows as an example, the intangible value of the top companies in the respective countries.

Table 4: Intangible assets of Forbes 200 companies

Country	No. of Companies in the Forbes top 200	Example Company & Value of Intangible Assets (in $B)
Japan	14	Canon- $21.85
Finland	1	Nokia- $52.56
Sweden	2	LM Ericsson- $30.02
United Kingdom	19	GlaxoSmithKline- $104.49
United States	74	Microsoft- $211.76

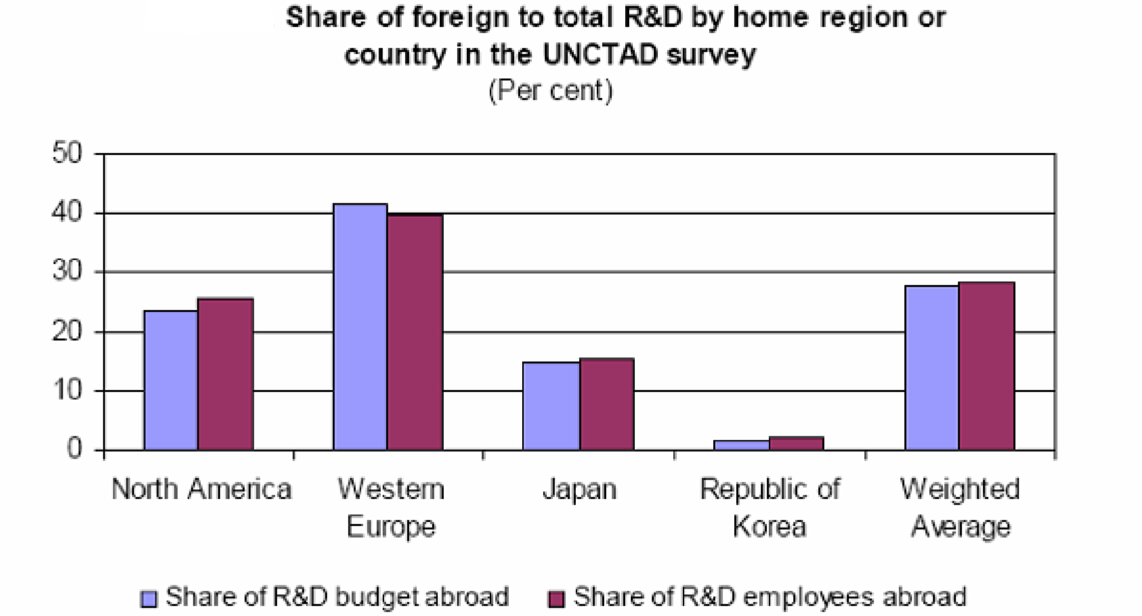
Source: Forbes Magazine

The US clearly is the top grosser, with some 74 companies listed. Microsoft, one of the biggest in its industry in the US, as of the most recent Forbes listing, had over US$ 211 billion worth of intangible assets.

iv. Internationalization of R&D investments

Being inextricably linked with a company's intangible value, R&D investments are becoming more and more of an internationalized practice. As a matter of fact, a large percentage of the R&D budget and R&D related employment of companies based in developed countries, are based offshore. This can be seen in Graph 13 on the next page, which was generated by UNCTAD based on a survey they conducted on R&D investments late last year. The said survey shows that, for the most part, companies in developed countries have at least 28% of their R&D resources abroad.

Graph 13: Share of foreign to total R&D by home region or country in the UNCTAD survey



Source: UNCTAD, 0ccasional Note, UNCTAD survey on the internationalizationof R&D Current patterns and prospects on the internationalization of R&D, 12 December 2005.

The following table on the other hand breaks down how much of a percentage of those R&D resources abroad are distributed per industry. Chemicals emerge as the industry where R&D investments are most heavily made offshore and most "internationalized".

Table 5: Degree of R&D internationalization by industry

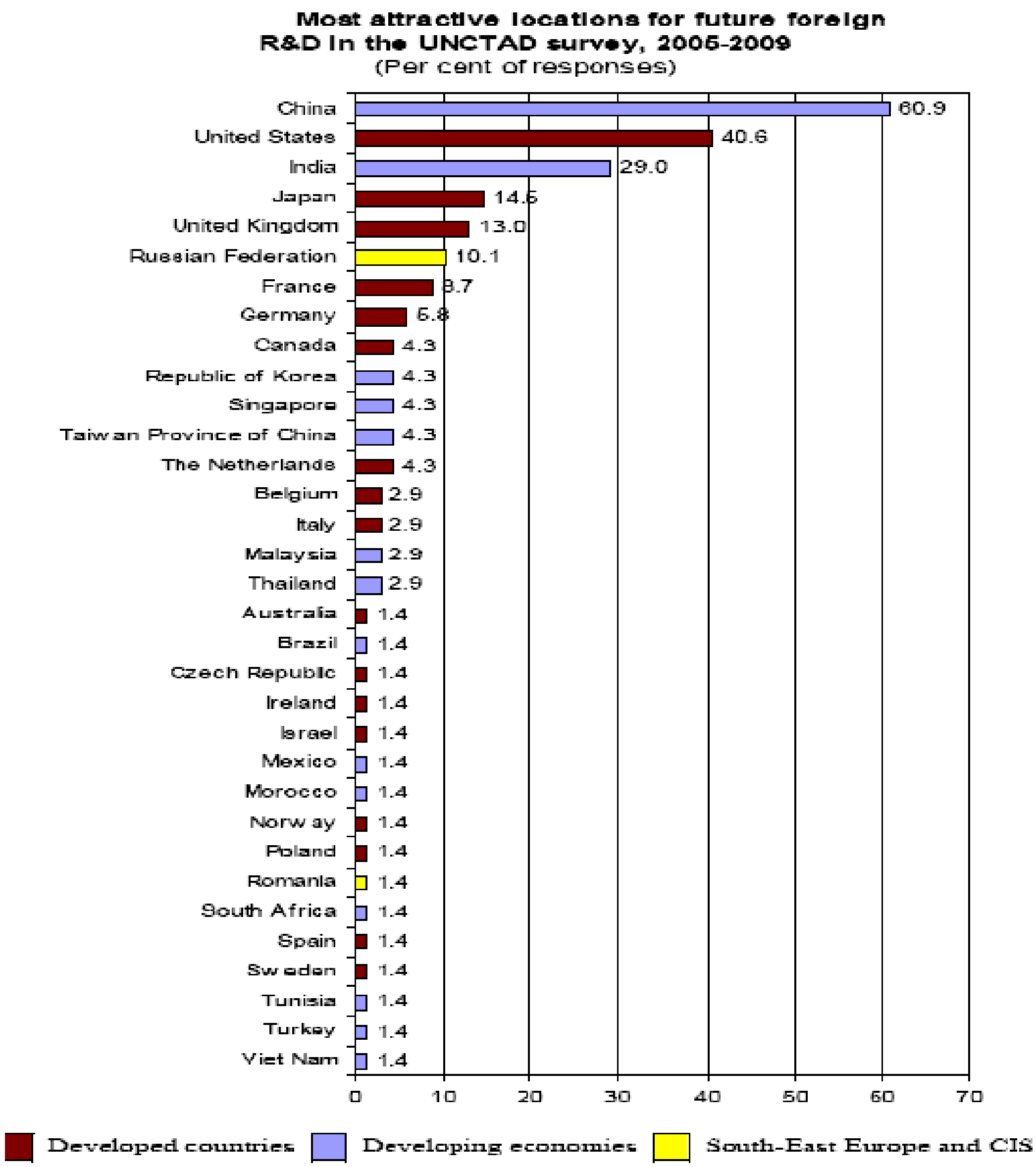
Degree of R&D internationalization by industry

Industry	% R&D expenditure abroad	% of R&D employee abroad
Chemicals	47.70	45.40
Pharmaceuticals/ biotechnology	40.30	39.50
Automotive	31.00	23.20
IT hardware	29.80	37.50
Others	23.10	26.70

Source: UNCTAD, 0ccasional Note, UNCTAD survey on the internationalizationof R&D Current patterns and prospects on the internationalization of R&D, 12 December 2005.

Most interestingly though, according again to UNCTAD, investors have come to prefer China as the primary and most favoured location to invest in terms of R&D. Graph 14 below shows a set of results culled from an UNCTAD survey showing that over 60% of all respondents consider China as the most attractive location for foreign R&D. The only ASEAN countries that were mentioned as an attractive choice for investments in R&D were Singapore, Malaysia, Thailand and Vietnam with only 4.3%, 2.9%, 2.9% and 1.4% of total respondents, respectively, saying so.

Graph 14: UNCTAD survey results on most attractive locations for future foreign R&D



B. Current Status

International trends now show a recovery of global FDI, as well as a growing focus on R&D investments and on intangible assets. The following portion will provide a snapshot of how ASEAN is faring against the backdrop of the abovementioned global trends.

a. FDI into ASEAN is increasing and has breached pre-1997 levels.

This year, FDI flows into ASEAN reached record highs at US$ 38,083 million (as can be seen in Table 6 below). The attainment of this level, which exceeds pre-1997 levels, is attributed mainly to a strong influx of FDI to Indonesia, the Philippines, Singapore and Thailand. Such constitutes a historical record as this performance marks ASEAN FDI levels finally surpassing pre-1997 levels.

Table 6 : FDI FLOWS TO ASEAN FOR 1995- 1ST QUARTER 2006

FDI FLOWS TO ASEAN
1995 - 1st Quarter 2006

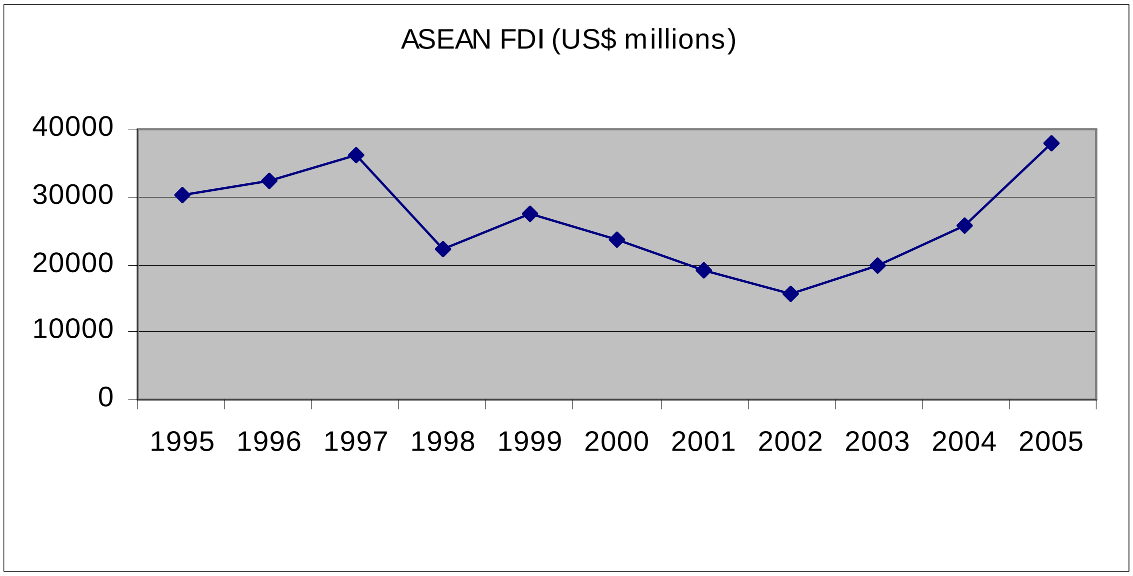
(US$ million)

YEAR / HOST COUNTRY	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1st Quarter 2005	1st Quarter 2006 p/	TOTAL CUMULATIVE 1995 - 2005
Brunei Darussalam	583	654	702	573	748	549	526	1,035	3,123	212	289	27	73	8,993
Cambodia (1)	151	294	168	243	232	149	149	145	84	131	381	61	32	2,127
Indonesia	4,346	6,194	4,678	-356	-2,745	-4,550	-3,279	145	-596	1,895	6,107	1,067	1,255	11,839
Lao PDR	88	128	86	45	52	34	24	25	20	17	28	7	14	547
Malaysia	5,815	7,297	6,323	2,714	3,895	3,788	554	3,203	2,473	4,624	3,965	802	991	44,651
Myanmar (2)	318	581	879	683	304	208	192	191	291	251	72	N.A	N.A	3,978
Philippines (3)	1,577	1,618	1,261	1,718	1,247	2,240	195	1,542	491	688	1,132	386	430	13,709
Singapore	11,503	9,303	13,533	7,594	16,067	16,485	15,649	7,338	10,376	14,819	20,081	4,898	8,173	142,749
Thailand	2,070	2,338	3,882	7,491	6,091	3,350	3,886	947	1,952	1,414	4,008	125	3,006	37,428
Viet Nam	1,780	1,803	2,587	1,700	1,484	1,289	1,300	1,200	1,450	1,610	2,021	N.A	N.A	18,225
ASEAN TOTAL	**28,231**	**30,209**	**34,099**	**22,406**	**27,375**	**23,541**	**19,197**	**15,772**	**19,664**	**25,661**	**38,083**	**7,374**	**14,035**	**284,238**

Source: ASEAN Secretariat - ASEAN FDI Database, 2005
Notes:
Data compiled from the respective ASEAN Central Banks and Central Statistical Offices. Unless otherwise indicated, the figures include equity and inter-company loans.
Figures for Brunei Darussalam, Cambodia, Malaysia (for the whole data series) and figures for Myanmar and Viet Nam (2003-2005) include reinvested earnings.
Figures for Singapore include reinvested earnings for the whole data series, but exclude inter-company loans for 1995-1996.
(1) Cambodia's figures for 2005 are estimated figures.
(2) Myanmar's figures are in fiscal year which ends in March of the following calendar year.
(3) Philippine's figures for 1999-1st Q 2006 includes reinvested earnings.
p/ Preliminary
N.A Not available

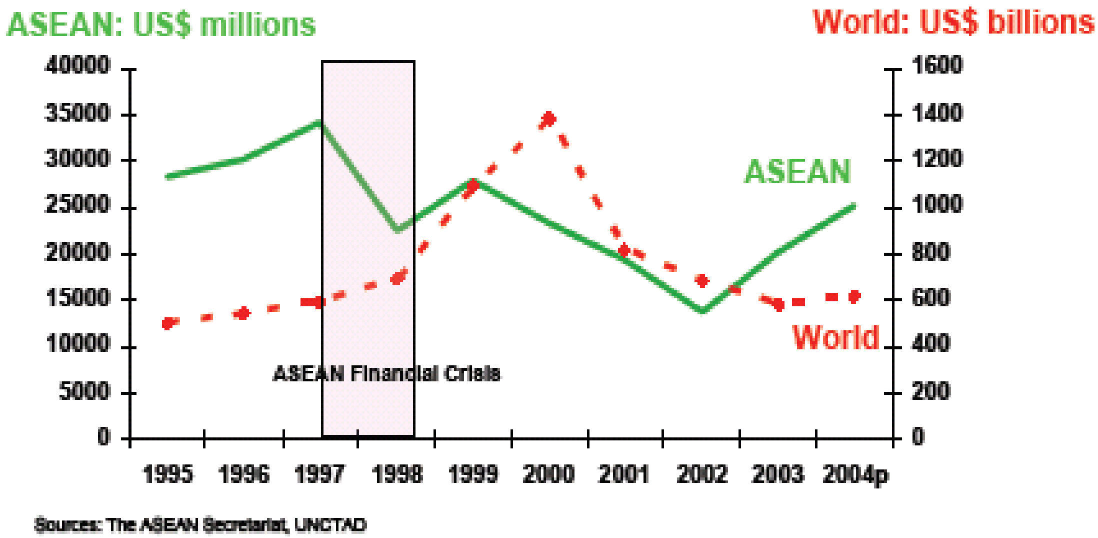
This recovery can be better appreciated in Graph 15 below which shows a continuous upward trend in ASEAN-bound FDI beginning in the middle of 2002, culminating in a figure surpassing pre-1997 levels

Graph 15: ASEAN FDI (US$ millions)



All of these bode consistently well with the continued upward trend that has marked ASEAN's performance relative to the rest of the world as seen in Graph 16 below.

Graph 16 : ASEAN FDI vs. Rest of the World



Although such performance is indeed impressive, the question of whether this pick-up since the middle of 2002 would be sustained remains to be answered.

b. What about ASEAN's competitors

Landmark figures and optimistic projections have been sounded for ASEAN, however it is important that the region does not lose track of the parallel performance and capacity of other countries and regional trading blocs. In its most recent Global Competitiveness Report, the World Economic Forum (WEF) ranked Finland, US and Sweden as the top 3 most competitive countries. Singapore fared a good 6th place but other ASEAN countries trailed behind in varying degrees – reflective of the wide gaps in economic development that continue to prevail in the region. This disparity would continue to serve as a challenge to ASEAN regional integration. Table 7 below provides reference of this below:

Table 7: Global Competitiveness Report 2005 Rankings

Country	2005 Rank	Score	2004 Rank
Finland	1	5.94	1
United States	2	5.81	2
Sweden	3	5.65	3
Singapore	6	5.48	7
United Kingdom	13	5.11	11
Malaysia	24	4.9	31
Thailand	36	4.5	34
Indonesia	74	3.53	69
Philippines	77	3.47	76
Vietnam	81	3.37	77

Source: WEF Global Competitiveness Report 2005

The prevailing disconnect in ASEAN in terms of regional integration is reflected in the relatively lower amount of FDI investments that ASEAN countries make amongst themselves.

c. Intra-ASEAN Investments

Like other regional trading blocs, ASEAN has received a fair share of FDI. However, whereas FDI among developed countries run in the hundreds of billions of dollars, FDI from ASEAN countries to other ASEAN countries have not even reached the tens of billions of dollars. In 2005, total intra-ASEAN investments totaled only US$ 2.22 billion dollars, or a mere 5.8% of total ASEAN FDI.

Table 8 below shows the cumulative figures of intra-ASEAN FDI from 1995 to 2005 according to country. Subsequent to that, Graph 17 below compares the level of intra-ASEAN investments to total ASEAN investments from the years 2000 to 2005.

Table 8 : INTRA-ASEAN FDI

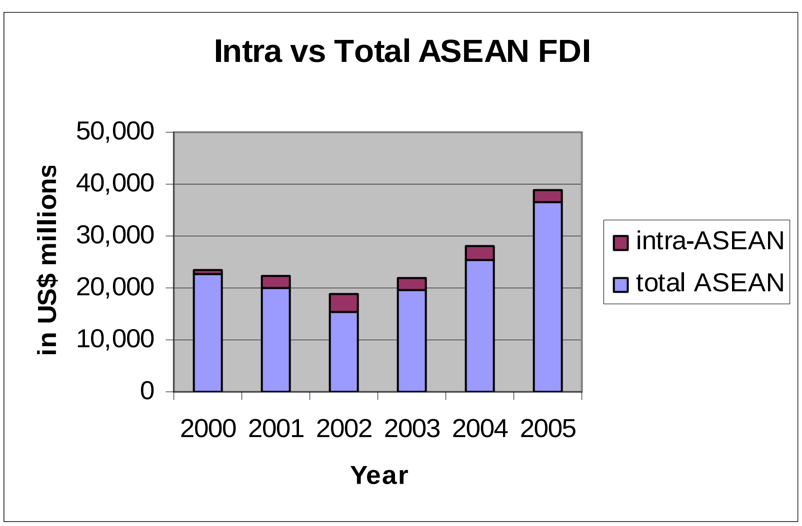
INTRA-ASEAN DIRECT INVESTMENT FLOWS
BY COUNTRY OF ORIGIN
Cumulative 1995 - 2005

(US$ million)

SOURCE COUNTRY	Brunei Darussala	Cambodia *	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Viet Nam	1995 - 2005
Brunei Darussalam	-	-	-26.84	0.00	298.51	-	0.29	194.89	4.12	2.00	**472.96**
Cambodia	-	-	-	0.04	2.64	-	-	5.71	13.43	0.60	**22.41**
Indonesia	56.90	1.13	1.05	-	293.31	38.82	38.56	3,388.06	44.30	60.65	**3,922.78**
Lao PDR	-	-	-	-	0.16	-	0.01	0.93	-0.64	11.62	**12.08**
Malaysia	232.24	54.96	408.21	97.18	-	57.28	87.72	4,045.94	226.72	578.12	**5,788.37**
Myanmar	-	-	-	0.05	0.48	-	-	59.80	1.71	-	**62.03**
Philippines	4.96	1.63	13.28	-	96.82	3.80	0.27	105.47	222.95	48.81	**497.98**
Singapore	1,117.26	55.10	1,561.58	6.15	7,622.90	750.20	1,167.21	-	5,998.91	1,909.66	**20,188.96**
Thailand	7.60	86.94	144.06	160.37	209.13	195.64	22.61	406.26	-	491.95	**1,724.55**
Viet Nam	0.17	26.95	-	6.48	38.16	-	0.03	23.76	5.82	-	**101.37**
TOTAL ASEAN	**1,419.13**	**226.71**	**2,101.33**	**270.26**	**8,562.10**	**1,045.74**	**1,316.70**	**8,230.81**	**6,517.32**	**3,103.41**	**32,793.50**

Notes:
Data compiled from the respective ASEAN Central Banks and Central Statistical Offices.
***) Cambodia data available from 2000 - 2005.**

Graph 17 : Intra-ASEAN vs. Total ASEAN FDI



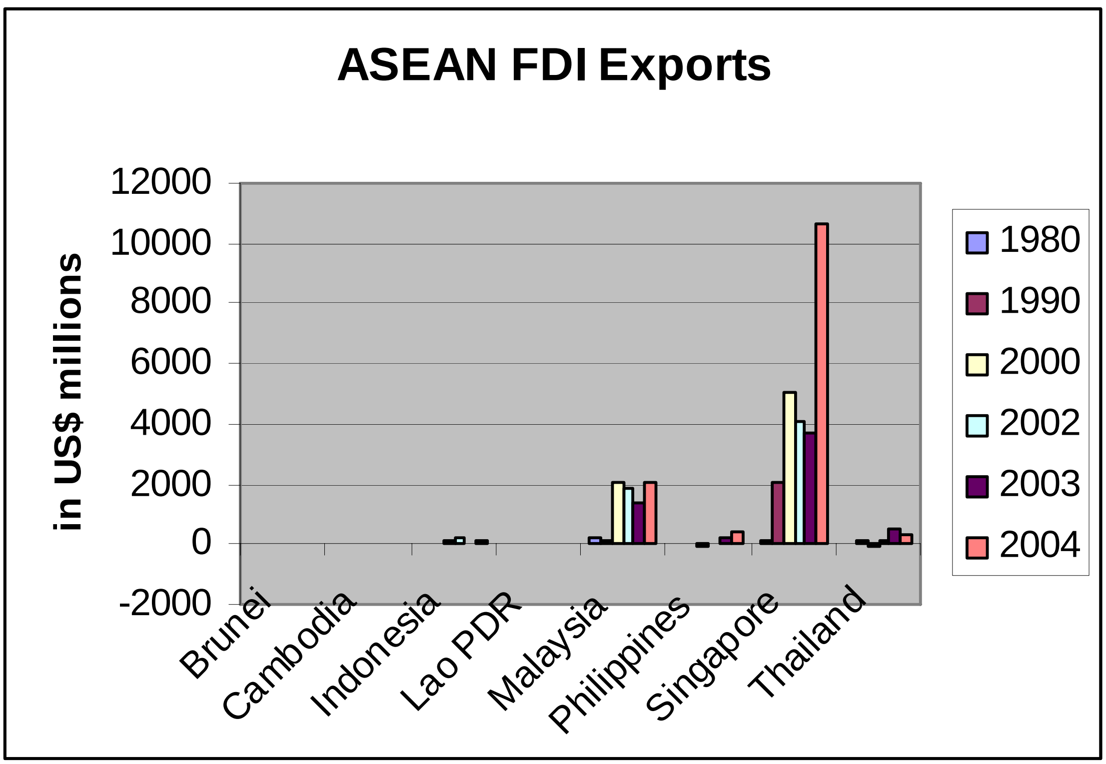
Intra-ASEAN FDI even decreased from $2.432 billion in 2004 to US$ 2.22 billion in 2005. Interestingly, Singapore (among the ASEAN Members) holds the largest share of investments into other ASEAN countries, having invested at least US$1.221 billion in 2004 and US$1.256 billion in 2005.

The gaping difference between intra-ASEAN FDI and FDI among developed countries is clear and requires comprehensive explanation with a view to formulate an effectual plan to ameliorate it. There are numerous factors as to why a gap exists between FDI coming into ASEAN and FDI into developed countries. Details will be further explained in the subsequent discussion below.

d. Outward ASEAN FDI

One primary reason behind the relatively lackluster performance of ASEAN as far as intra-regional FDI is concerned is the equally low amount of outbound FDI attributable to each ASEAN country (with the exception of Singapore and Malaysia). Hence, efforts have to be undertaken to improve the figure in order for ASEAN to retain its relevance as a single economic unit. Graph 18 below highlights the wide disparity of FDI exports among ASEAN members.

Graph 18 : ASEAN FDI Exports



Source: ASEAN Secretariat

C. Challenges

The above indications show that ASEAN should maintain an informed and proactive stance of responsiveness to the constant shifts in business objectives, market trends and other challenges that shape the global economy. ASEAN has to know what investors seek and, more importantly, know what the region itself needs and wants out of the investors it would like to attract. This should be directed towards the objective of addressing the gap in intra-ASEAN investments and improve its standing in terms of intangible assets.

This part of the report will discuss, in terms of the above, the problems and challenges that ASEAN would have to overcome to enhance its viability as an investment region and render it competitive vis-à-vis other regional and bilateral trading arrangements that continue to proliferate.

a. What investors are looking for now

As discussed in a previous section regarding the PwC CEO survey, business objectives perennially shift, as a response to market forces and the needs of the global economy. Presently, as culled from the said survey, it has been noted that businesses are aiming to improve access to global capabilities and markets.

1. Access to capability and capacity

Businesses are aware that access to countries' capabilities to innovate and exploit R&D investments would depend on the respective capacities and capabilities of those countries as well. Different countries have different capabilities varying with their economic grouping. Thus, it has been commented that:

> "According to a new measure of national innovation capabilities – the UNCTAD Innovation Capability Index – the differences appear to be growing over time (sic). Developed countries fall into the high capability group, as do Taiwan Province of China, the Republic of Korea and Singapore, along with some of the economies of South-East Europe and the CIS. The medium capability group comprises the remaining economies in transition, most of the resource-rich and newly industrializing economies and two sub-Saharan African economies (Mauritius and South Africa). The low capability group contains most of the sub-Saharan African countries as well as

> several countries in North Africa, West Asia and Latin America."[30]

Also, according to the above-cited study among the developing countries, South-East and East Asia are the leaders in innovation capability, while Latin America and the Caribbean position has weakened over time and has been overtaken by North Africa and West Asia. The innovative capabilities of one country are directly pertinent to its attractiveness as a host country for R&D by transnational companies, as well as to its ability to benefit from R&D. The quality of R&D performed outside its country is dependent on the local capabilities of the host country. On the other hand, whether or not R&D deepens over time and how far it is involved in different activities are the result of an interactive process between the TNCs and local actors in the host economy. This process is in turn affected by the institutional framework and government policies of the host country.[31]

The said study also adds that what matters most is the quality of FDI coming in rather than its quantity. This means that more that the amount of money FDIs infuse into a host country's economy, these inflows should also contribute significantly to the transfer of knowledge and capital to the host country – depending on the capacity of the local firms to absorb this knowledge and technology.

2. Access to Goods and Services Markets

The level of FDI received by a country is also a gauge of meausure for its international connectivity. More open trade in a host country or region will mean allowing potential or current investors greater access to the goods and services market therein, and therefore bolstering its attractiveness as an investment locale.

Likewise, as in a virtuous cycle, a strong presence of FDI in a country also increases its access to goods and services. International experience shows that FDI can generate valuable spillover benefits. For instance, FDI can improve facilitation and access of overseas resources and markets. Furthermore, it can contribute to the dissemination of better technology and better managerial practices for firms. Also, there is the added access to other countries' goods and services. Therefore, as one study makes clear, it will be useful to differentiate "openness" from "connections". Openness refers to the absence of formal barriers to forming linkages. Whereas, connections are the actual flows generated by the linkages. Being open is necessary for having strong international connections but it is not enough.[32] This self-reinforcing character of FDI benefits is explained further in the following:

[30] UNCTAD, World Investment Report 2005, page 25
[31] Ibid.
[32] http://www.gif.med.govt.nz/aboutgif/international.asp

> "Outward FDI by definition involves capital outflows from the home economy to finance the purchase or establishment of an overseas operation. Over the longer-term, however, profits repatriated from foreign affiliates to the parent as a result of outward FDI can bring improvements to the home country's balance of payments position. Indeed, many countries with historically large outward FDI stocks finance deficits in goods and services trade through repatriated profits from overseas investments."[33]

There is ample reason for investors to view ASEAN and Asia as a prospective market for viable investments considering the fact that it is the top destination for merchandize exports originating from Asia.

Table 9: MERCHANDISE EXPORTS OF ASIA BY DESTINATION, 2004

Merchandise exports of Asia by destination, 2004

(Billion dollars and percentage)

	Value	Share		Annual percentage change			
	2004	2000	2004	2000-04	2002	2003	2004
World	2388.4	100.0	100.0	10	8	18	25
Intra-Asia	1201.3	48.8	50.3	10	10	20	26
China	269.5	7.4	11.3	22	27	36	30
Japan	203.9	9.6	8.5	6	-1	14	22
Australia and New Zealand	66.5	2.4	2.8	13	14	23	26
Other Asia	661.3	29.3	27.7	8	8	16	26
North America	533.1	26.4	22.3	5	6	8	20
United States	481.9	24.2	20.2	5	6	8	19
Other North America	51.3	2.2	2.1	9	12	6	30
Europe	416.9	17.4	17.5	10	4	24	24
European Union (25)	390.0	16.4	16.3	10	4	23	24
Other Europe	26.9	1.0	1.1	13	5	45	29
Middle East	75.1	2.5	3.1	16	13	19	26
Africa	44.9	1.3	1.9	19	5	25	42
South Africa	12.0	0.4	0.5	16	7	33	47
Other Africa	32.8	1.0	1.4	20	4	22	40
South and Central America	39.4	1.8	1.6	8	-7	7	40
Brazil	11.1	0.5	0.5	8	-8	7	53
Other South and Central America	28.3	1.3	1.2	8	-6	7	35
Commonwealth of Independent States (CIS)	25.3	0.5	1.1	35	24	66	46
Russian Federation	17.3	0.3	0.7	32	20	58	47

[33] http://www.indianbusiness.nic.in/faq/gats_trade1.htm

Other CIS	8.0	0.1	0.3	39	37	84	43
Inter-regional trade	1134.7	49.9	47.5	8	5	15	24

Source: WTO World Trade Statistics 2005

As implied above, apart from goods, liberalization in services encourages as well as attracts foreign direct investment. Along with this, new skills are derived and developed. Access to world-class services assist exporters and producers in developing countries to capitalize on their competitive advantage, whatever goods and services they might be selling.[34]

3. Access to GSP, FTA benefits

ASEAN is comprised of developing countries, most of which are granted preferential access to developed countries through the Generalized System of Preferences (GSP). Apart from the GSP, investing in ASEAN also carries with it the benefit of establishing a base of production from which FTA privileges (via the AFTA, the ASEAN-China FTA, and the ASEAN-Korea FTA) can be exploited. This, in effect, broadens the range of prospective markets for these investors and allows them to leverage preferential tariff rates to gain a better competitive advantage.

4. Alternative to China

In relation to the above, special emphasis must be given to ASEAN’s objective of organizing and promoting itself as an alternative production base to access the 1.2 billion strong China market. It has been reiterated in the previous AISR that China should not be regarded as a threat, but rather as an opportunity to benefit from. Some success in this marketing effort can be appreciated. With the phasing in of the ASEAN-China FTA, investors are now eyeing ASEAN as the potential gateway to China that the region would like to become. To attain this more effectively however, ASEAN will have to compete more efficiently as low cost base.

5. Low-cost production base

Although cost concerns may not be as high as it used to be last year, the motivation for international businesses to invest in a region, such as ASEAN, due to cost considerations, still can not be disregarded. It is therefore important for ASEAN to keep up with its initiative to present itself as a low-cost production base – to maintain business and consumer confidence. Strategically attracting and managing investments in the right places such as R&D and in intangibles are an effective way to keep this in order.

According to a survey conducted by The Economist, the high prices of commodities already weigh on many executives’ minds, from fuel-intensive

[34] Ibid.

transportation industries to less obvious sectors. Although growth rates have diverged across countries, activity in much of the region has been put into a disadvantageous position by rising international oil prices (which have, in a way, affected the purchasing power of the domestic market), fragile public finances, weak employment growth, an unfavorable stock cycle, and deteriorating consumer and business confidence.[35] It adds further that:

> "Continued high oil prices pose a major threat to economic growth prospects in Asia, which imports two-thirds of the oil that it consumes. The region is particularly vulnerable to developments in the US (a major purchaser of Asian exports). The rise of protectionism threatens to undermine the export performance of some emerging Asian economies, with protectionist sentiment rising in both the US and EU. Lastly, the region faces the prospect that bird flu could mutate and spread between humans, with potentially catastrophic consequences."[36]

These price considerations may result in setbacks and uncertainties as foreign investors would think twice in proceeding with their business plans in the region if these rising costs of doing business are not dealt with.

It can be readily assumed that the economic sector to first voice out its rants against increased costs, particularly if no corresponding increase in income is realized, would be that of the consuming public. The absence of consumer confidence in the market may be deemed a negative blow to a country's FDI viability as this may signal the presence of anti-competitive influences – which is a bane to any prospective foreign investor. This is acknowledged by the Canadian Competition Bureau which, in a report on rising oil prices in Canada, had this to say:

> "High price complaints, usually from consumers, alleged collusion or joint abuse of dominance by the major oil companies. Complainants often point to significant price increases, similar prices, synchronized price changes or excessive profits as evidence of these acts. Complaints received from retailers may also relate to high prices where suppliers are forcing retailers to maintain specific prices or to inflate prices in an anti-competitive manner. This is what we consider to be price maintenance."[37]

[35] The Economist, Economist Intelligence Unit, CEO Briefing 2006
[36] Ibid.
[37] http://www.competitionbureau.gc.ca/internet/index.cfm?itemID=1946&lg=e

Commonly, increases in the prices of commodities and services are passed on to the consumer which, depending on the price elasticity of the product, may be of consequence to the size of a supplier's market and likewise to a host country's overall appeal to foreign investors. Thus, price increases should be avoided as much as possible, not necessarily by withering a company's profitability but by revisiting the value chain. This can be done by enacting policies that would reduce transaction costs at every link, assuming that the prices of oil, fuel and primary commodities would either remain as they are or increase further.

Whether rising costs are passed on to consumers or not, a company's profit margin, expectedly, may be negatively affected due either to a shrinking of its market or its inability to stretch its prices further. Couple this problem of costs with a consuming public heavily averse to rising prices, then the threat of profit margins narrowing further and investors being more averse to entering the market becomes more imminent. Companies faced with this grind may consider implementing cost cutting measures either by downsizing or compromising product quality. However, both these options may not produce a result consistent with the ASEAN Investment Area (AIA) objectives. Both options would entail possible divestments and hostile market responses from compromises in product quality, all of which send a detrimental signal to foreign investors or potential foreign investors to the region.

Soaring costs and a consuming public no longer eager to absorb additional price increases (with the exception of essential products) sends a strong message to governments and private sector players alike – which is to work in tandem to streamline cost structures and eliminate all unnecessary costs as decisively as possible. Thus, R&D in various sectors and industries must be pursued in order to spur innovations that aim at cutting material, process, and transaction costs to maintain a country's attractiveness to foreign investors.

b. What ASEAN expects to get from FDI

Although the business intentions of potential investors can be readily seen, it is likewise important for ASEAN to know exactly what it would like to derive out of them. Investment promotion should not only be about catering to the business interests of foreign investors to reap passive gains from the ensuing economic activity these may provide. Rather ASEAN should have a clear idea of what it would gain from inbound investments to serve its own objectives. Primary among these objectives is the transfer of technology, the opportunity to gain better access to foreign markets and obtaining funding for critical internal projects (such as infrastructure) to improve their competitiveness and capacities.

1. Technology

The earlier discussion on the positive trend in intangibles and its strong link with R&D highlights the need and desire for ASEAN to acquire technology and knowledge based resources that will enable them to compete globally. Therefore, it is a primordial concern in ASEAN to ensure that FDI promotion activities and contracts with foreign companies would be geared at terms which will result in a smooth, comprehensive and effectual transfer of technology and knowledge to the neediest of ASEAN countries. The success of this initiative would be crucial for ASEAN to gain the wherewithal to expand the intangible portion of its assets and obtain the chance to compete on equal footing with the more developed and sophisticated economies.

2. Market Access

Symbiotic and parallel to the thrust of investors from developed countries to tap foreign markets through ASEAN's FTA and GSP connections, ASEAN companies and joint venture partners would similarly be keen on gaining more comprehensive market access as facilitated by an increase in foreign investments. Through improved R&D infrastructure, better partnerships with foreign investors and eligibility for preferential treatment companies based in ASEAN can develop better market presence abroad not only for merchandize goods, but for services as well.

3. Funding (e.g. infrastructure projects)

Among the direct benefits of improved FDI flows is the access to private funding for the development of domestic infrastructure that will better accommodate and facilitate the productivity of newly established business ventures. Infrastructural development is undoubtedly a critical backbone for economic growth in developing countries, including ASEAN. As such, ASEAN's FDI promotion efforts are focused not solely on the short-term generation of employment and capital infusion but is likewise, on a parallel basis, aimed at improving the quality of domestic infrastructure that will bolster local competitiveness and enable higher value and more sophisticated investment ventures in the long term on a sustainable and self-improving basis.

Furthermore, the rise in business confidence that results from the reduced costs and the more business friendly environment brought about by improved domestic infrastructure, it will make the region a more attractive location for the public funding of critical development projects (governance reform, technical assistance, infrastructure etc.).

c. Realities to contend with

Above are the goals and aspirations of ASEAN as far as the benefits it intends to derive from FDI are concerned. However, these would have to be measured up with the reality that ASEAN resources are very limited. The main concerns, which will be discussed at length in this section is the low level of R&D in ASEAN, its scarce resources for R&D and the wide gap within ASEAN in so far as intra-ASEAN FDI and the involvement of SMEs are concerned.

1. FDI into R&D is very low

The lack of technology and a lack of access to it remain a perennial challenge that ASEAN will have to address through the strategic promotion and management of FDI in this area. Investment figures in ASEAN related to technology and R&D are still relatively low compared to the total FDI received by ASEAN in 2004. Table 10 below shows the breakdown of total business expenditure on R&D in ASEAN for that year which amounted to some $1.78 billion. This constitutes a mere 7% of the total FDI ASEAN received amounting to $25.7 billion[38] in that same year.

Table 10 : BUSINES EXPENDITURE ON R&D IN ASEAN

Business Expenditure on R&D (US$ millions) - 2004	
(unit : US$ millions)	
Country	Value
Singapore	1168
Malaysia	443
Thailand	119.2
Philippines	21
Vietnam	12.23
Indonesia	10.92
Cambodia	0.26
Lao	0.08
Brunei	0.04

Source: ASEAN STI/TCI[39]

2. ASEAN has few R&D personnel

Furthermore, the R&D potential in every ASEAN country varies, although their priorities bear similarities as can be seen in Tables 11 below and 12 on the next page showing the number of human resources available for R&D and their R&D priorities respectively.

Table 11 : HUMAN RESOURCES FOR R&D BY SECTOR OF PERFORMANCE

<table>
<tr><th>No. of R&D Personnel</th><th>Indonesia</th><th>Malaysia</th><th>Philippines</th><th>Singapore</th><th>Thailand</th><th>ASEAN Tot.*</th></tr>
<tr><td>Business Enterprises</td><td>8 317</td><td>1 078</td><td>1 694</td><td>6 174</td><td>1 079</td><td>10 025</td></tr>
<tr><td>Higher Education</td><td rowspan="2">17 852</td><td>1 155</td><td>6 929</td><td>2 487</td><td>7 301</td><td>17 872</td></tr>
<tr><td>Government</td><td>2 330</td><td>6 065</td><td>1 950</td><td>7 158</td><td>17 503</td></tr>
</table>

[38] http://www.kln.gov.my/?m_id=15&hid=179
[39] http://aseank.kisti.re.kr/tciind/tciind_view.jsp

No. of R&D Personnel	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN Tot.*
Research Institutes						
PNP/Other		(0)	922	0	183	1 105
Total R&D Personnel	26 169	4 563	15 610	10 611	15 721	46 505
Per Cent of Total for Each Country	**Indonesia %**	**Malaysia %**	**Philippines %**	**Singapore %**	**Thailand %**	**ASEAN Tot.***
Business Enterprises	31.8	23.6	10.9	58.2	6.9	21.6
Higher Education		25.3	44.4	23.4	46.4	38.4
Government Research Institutes	68.2	51.1	38.9	18.4	45.5	37.6
PNP/Other		0.0	5.9	0.0	1.2	2.4
Total R&D Personnel	100.0	100.0	100.0	100.0	100.0	100.0

Note : FTE for Malaysia; ASEAN Tot. excludes Indonesia. Including Indonesia, total R&D personnel = 72,674.

Source: ASEAN Science and Technology Network[40]

Table 12 : COMPARISON OF NATIONAL RESEARCH PRIORITIES IN MALAYSIA, THE PHILIPPINES AND SINGAPORE

Percent of national GERD	**Malaysia %**	**Philippines %**	**Singapore %**	**ASEAN Tot %**
Math, Physical, Chemical, Earth & Biol. Sciences ('Natural Sciences')	14.6	20.0	4.6	8.9
Computer and Communication Technologies	6.5	n.a.	17.3	12.6
Engineering & Applied Sciences	49.6	19.4	67.0	56.9
Agricultural Sciences	25.9	31.8	0.5	10.4
Medical and Health Sciences	1.7	8.1	9.1	7.2
SUB-TOTAL NSE	98.3	79.3	98.5	96.0
Social Sciences	1.6	14.8	n.a.	2.2
Humanities	0.1	1.9	n.a.	0.3
SUB-TOTAL SSH	1.7	16.7	1.5	3.5
Other n.e.c.	0.0	4.0	0.0	0.5
TOTAL	100.0	100.0	100.0	100.0
Percent of GDP x 100	**Malaysia**	**Philippines**	**Singapore**	**ASEAN Tot**
Math, Physical, Chemical, Earth & Biol. Sciences ('Natural Sciences')	5.4	4.4	5.4	3.8
Computer and Communication Technologies	2.4	n.a.	20.4	5.4
Engineering & Applied Sciences	18.4	4.3	79.1	24.2
Agricultural Sciences	9.6	7.0	0.6	4.4
Medical and Health Sciences	0.6	1.8	10.7	3.1
SUB-TOTAL NSE	36.4	17.5	116.2	40.9
Social Sciences	0.6	3.2	n.a.	1.0
Humanities	0.1	0.4	n.a.	0.1
SUB-TOTAL SSH	0.6	3.7	1.8	1.5
Other n.e.c.	0.0	0.9	0.0	0.2
TOTAL	37.0	22.0	118.0	42.6

[40] http://www.astnet.org/index.php?name=Main&file=content&cid=52

* No details are available for Thailand and Indonesia

Source: ASEAN Science and Technology Network[41]

Having different capabilities and similar priorities, without a conscious and concerted regional effort (which seems to be the case in ASEAN) may result in disparate, uncoordinated, and poorly focused R&D efforts among ASEAN members. The absence of a clear regional R&D objective has brought about a duplication of R&D initiatives across the region which ignores economies of scale. This in the long run would be inefficient and ineffective. Thus, it offers a plausible explanation for the relatively low levels of technology that continues to characterize ASEAN. This low level of technology has been noted and commented on by some observers. Thus:

> "FDI in these countries has not only added to the stock of domestic capital to finance investment in new development projects but simultaneously provided access to new technology and managerial and marketing know-how. ASEAN economies such as Malaysia, Thailand, Indonesia and the Philippines are said to be moving towards achieving the status of newly industrialized countries, following the path of first tier economies of Singapore, Hong Kong, China, the Republic of Korea and Taiwan Province of China. In the pursuit of achieving this status, these countries must develop a competitive edge in terms of quality products, market efficiency, especially at the international level, and ability to develop and upgrade technology. In this regard, as developing countries, the level of local technology and skills in Malaysia, Thailand, Indonesia and the Philippines (subsequently referred to as the ASEAN 4) are relatively low."[42]

The ASEAN Intellectual Property Right Action Plan, seconds this observation that R&D investments ASEAN is relatively limited. It states that:

> "The sustainability cross-border linkages and strategic alliances depend on the age-old issue of trust, reliability, quality and timeliness in delivery among partners and stakeholders. It is thus conditional on the building up or the availability of strong R&D capabilities and critical mass in (some specific fields of) S&T. All these are a severe weakness virtually across ASEAN at present.

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[41] ibid

[42] http://www.competitionbureau.gc.ca/internet/index.cfm?itemID=1946&lg=e

> The current S&T base and capabilities are both narrow and limited in virtually all the regional countries. This is both the cause and consequence of the persistent and significant under-investment in R&D activities virtually across ASEAN."[43]

Increasing the pressure on ASEAN are the findings of a survey conducted by the Economist Intelligence Unit (apart from the UNCTAD survey mentioned earlier) which presented how fast large developing countries such as China and India are moving at the R&D front. According to the said survey 39% of their respondents favored China as their top choice for R&D spending, while a total of 29% chose the US and another 28% chose India for overseas R&D spending over the next three years.

3. Prevailing gaps in ASEAN

ASEAN still has to address the disparity between total intra-ASEAN investments and total ASEAN FDI. Corollary to this is the need to involve SMEs better in the FDI (particularly in R&D) as well as improve the implementation of the ASEAN investor concept.

i. Intra-ASEAN investments

Comparable to the case of intra-ASEAN trade vs. total ASEAN trade, intra-ASEAN investments constituted a mere 9% of total FDI into ASEAN in 2004. The breakdown of intra-ASEAN investments may be better appreciated in Table 13 on the next page.

[43] ASEAN INTELLECTUAL PROPERTY RIGHT ACTION PLAN 2004-2010, http://www.aseansec.org/17071.htm

Table 13 : INTRA-ASEAN FDI BY HOST COUNTRY (BALANCE OF PAYMENT BASIS)

ASEAN Statistics

Intra-ASEAN foreign direct investments by host country

as of 31 December 2005

in US$ million; balance of payments basis

Host Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Brunei Darussalam	311.3	353.1	384.9	247.2	4.3	10.6	10.6	21.2	36.8	24.6
Cambodia	-	-	-	-	-	-	37.2	8.5	19.9	31.9
Indonesia	608.9	193.3	272.5	(38.4)	(427.8)	(232.6)	(240.0)	1,336.6	384.0	31.7
Lao PDR	6.5	102.6	64.4	28.3	31.4	13.7	3.1	7.9	3.0	7.8
Malaysia	1,676.5	1,475.8	2,261.5	469.9	536.0	258.1	80.0	0.0	251.1	980.2
Myanmar	96.7	228.6	323.3	153.9	41.2	74.0	67.4	25.1	24.3	12.3
The Philippines	241.6	74.9	142.9	106.9	110.9	126.5	222.3	37.9	175.1	116.2
Singapore	1,165.1	1,206.7	941.6	794.6	632.1	(78.8)	423.4	773.6	637.3	649.3
Thailand	160.6	308.1	297.5	569.6	572.0	389.0	1,650.0	1,223.0	670.0	336.0
Viet Nam	387.3	328.7	547.2	398.7	289.3	202.4	241.5	200.4	100.4	242.9
ASEAN[1/]	**4,654.4**	**4,271.8**	**5,235.7**	**2,730.8**	**1,789.3**	**763.1**	**2,495.4**	**3,634.4**	**2,301.8**	**2,432.7**

Source: ASEAN Secretariat - ASEAN FDI Database ((compiled from data submission and/or websites of ASEAN Member Countries' national statistics offices, central banks and other relevant government agencies)

Notes

- p/ preliminary
- r/ revised
- \- not available as of publication time
- x not available/not compiled
- n.a. not applicable

Unless otherwise indicated, the figures include equity, re-invested earnings, and inter-company loans.

1/ Excludes: (a) total FDI in Cambodia (1995-2000); (b) reinvested earnings in Myanmar (1995-2002); (c) reinvested earnings (1999-2002 & 2004) and inter-company loans in the Philippines (2004); and (d) reinvested earnings (2004) and inter-company loans (1995-1996 & 2004) in Singapore ; figures for Myanmar cover the fiscal year ending in March of the following calendar year; and includes privatization and asset sales under the Indonesian Bank Restructuring Agency program for 2002.

ii. Intra-ASEAN trade should spur intra-ASEAN investments

Despite continued liberalization efforts within ASEAN, intra-ASEAN trade has remained only a fraction of total ASEAN trade. Also more important to consider is the fact that in spite of the lowering down of tariff barriers, intra-ASEAN investments have not flourished as much as initially expected. This again may be tied down to the observation discussed in the previous AISR that trade and investment policies are not in synchronicity with each other.

Investment policy in ASEAN may generally be characterized as focused mainly on the provision of incentives, independent of the tariff setting policies. This has inadvertently resulted in ASEAN countries competing for foreign investments instead of presenting regional investment packages to transnational companies for them to optimize their savings and streamline their operations in several ASEAN countries. The absence of this synchronized approach has made it difficult for companies to be presented with a complete picture as to how it can develop an investment strategy to take full advantage of AFTA benefits.

It is clear that synchronizing trade and investment policy is essential for governments to cater more effectively to the needs and interests of businesses. In this regard, it is strongly advised that investment promotion activities of governments be properly aligned with their respective trade or tariff policies. Trade policies and the promotion of intra-ASEAN trade should be envisioned as a means to bolster ASEAN's investment profile. Likewise, investments should be promoted wholesale under a framework of decreased tariff barriers among ASEAN members and not in competition among each other.

iii. SMEs are not involved in cross-border investments

The non-involvement of SMEs, which comprise more than a majority of employment generating businesses in ASEAN, is another concern in the region's integration efforts. Other integration initiatives outside ASEAN, such as in the European Communities, for example, took careful note of this phenomenon and deemed it imperative to loop in SME participation in the benefits an FTA.

A financing memorandum from the EC to the Slovak Republic[44] made mention that one of the main characteristics of the structure of its economy is a private sector comprised of a large number of small companies. These companies for the most part are small and micro enterprises and are usually characterized by a low degree of investments, outdated technology, low productivity, and a low level of management skills. SMEs would also have to face external factors which include weak business infrastructure, varying quality of SME support services, and fragmented SME support. The said financial memorandum had this to say:

> "SME initiatives for cross-border co-operation are also to be strengthened as the SME sector is lacking of information on the possibilities and market offers existing beyond the border. Cross-border connections are still quite weak among SMEs due to the general under capitalisation, meanwhile multinational companies have a relatively strong presence on both sides of the border area.
>
> However, in spite of all these gaps, SMEs have a great potential of development so as to play a significant role in tackling unemployment and strengthening the productive basis of the cross border regions."[45]

The above example reflects ASEAN's condition, as enterprises in ASEAN are mostly composed of SME's and more than 90% of all domestic firms and employ 75-90 per cent of the non-agriculture domestic workforce. However, their output and direct exports are disproportionately low: output ranges at 20% of gross sales value or manufacturing value added; and direct exports, 10-20% of regional

[44] http://www.government.gov.sk/phare/dokumenty/FM_CBC_SR_HU_en.doc
[45] http://www.government.gov.sk/phare/dokumenty/FM_CBC_SR_HU_en.doc

export earnings.[46] The need to involve ASEAN SMEs into the mainstream of FDI creation and reception is highlighted by the case of logistics companies in ASEAN as described in the subsequent quote.

> "Furthermore, ASEAN has only a limited number of regional and global logistics players, with several in Singapore. By and large, many segments of this sector remain fragmented and many logistics suppliers are SMEs in the region. More generally, there is a wide gap in efficiency and capabilities between the regional SMEs and their American or European counterparts. For example, small businesses in America (those with 500 employees or less) account for more than half of the inventions and innovations, and for almost three-quarter of new employment creation there. SMEs in the EU-15 (with 250 workers or less) are the source of about one-half of the total value added and two-thirds of the domestic workforce."[47]

Apart from the fact that SMEs are not involved in cross-border investments another cause for concern is the growing involvement of SMEs in other Asian countries in FDI activities. An example would be Korea, which is shown in the table below.

Table 14 : REPUBLIC OF KOREA: OFDI FLOWS BY SMES, 2000-2004 (MILLION $)

Republic of Korea: OFDI flows by SMEs, 2000-2004 (million $)

	2000	2001	2002	2003	2004	2000-2004
Total OFDI	6,074	6,353	6,332	5,906	8,053	6,544
OFDI by SMEs	2,867	1,339	2,220	2,557	3,074	2,411
Share of SMEs (%)	47.2	21.1	35.1	43.3	38.2	36.8

Source: Export-Import Bank of Republic of Korea, www.koreaexim.go.kr

[46] Ibid.
[47] New Growth and Business Opportunities for ASEAN SME's, http://www.aseansec.org/18365.htm

In turn, this raises yet another issue which is the unavailability or lack of ASEAN data in relation to SMEs, much less their FDI performance. Korea has detailed information, through its banking system, on how much offshore economic involvement their SMEs have. ASEAN however would appear to be lacking a similar facility or system that would monitor and document statistical information relating to ASEAN SMEs.

iv. ASEAN needs to recognize and treat ASEAN investors better

ASEAN investors remain a minority in the overall FDI portfolio of ASEAN which is constituted mainly of US and Western European investors. This condition prevails notwithstanding the creation of the ASEAN investor concept that sets forth investors from ASEAN members as a class apart. Thus:

> "ASEAN members endorsed the concept of an ASEAN investor, under which the 10 countries agree to treat each other's investors as their own. The agreement will make it possible for investors of an ASEAN country to buy equity in a company that is usually reserved for locals. It will also allow third country investors to access ASEAN countries through a joint venture partner."[48]

In this connection, Article 7.1 of the AIA Agreement states that:

> "Subject to the provisions of this Article, each Member State shall:
>
> a) open immediately all its industries for investments by ASEAN investors;
> b) accord immediately to ASEAN investors and their investments, in respect of all industries and measures affecting investment including but not limited to the admission, establishment, acquisition, expansion, management, operation and disposition of investments, treatment no less favourable than that it accords to its own like investors and investments ("national treatment").

However, this concept has not been uniformly operationalized and implemented. Observations have circulated that ASEAN investors have been met with barriers and de-facto discrimination in their endeavors to set foot in other ASEAN countries as opposed to Western investors. Issues such as this should be cleared up and resolved as soon as possible as this discourages ASEAN

[48] http://www.aftaonline.com/aol%20archives/aftawatch/inv99.htm

members from investing in their own region and does not bode well for overall investor confidence.

This situation will have to be improved as adopting a common investor concept is indispensable to economic integration, as history would show. The EC, for one, recognizes the need to promote investments through mechanisms akin to the ASEAN investor concept. It has initiated the stipulation of what are called the trade rules on foreign direct investment. This would essentially give rights to foreign enterprises to enter any country, establish themselves there, and have the same treatment as what the local companies receive.[49] ASEAN, therefore, should consider this experience and implement its ASEAN investor concept with heightened resolution.

d. New Investment Measures Introduced by ASEAN

In view of the challenges and opportunities discussed above, ASEAN is rapidly responding with individual and unilateral FDI policy initiatives to improve its investment climate and facilitate its regional integration efforts. The succeeding portion enumerates FDI updates, the various policy thrusts and actions that have been undertaken by the ASEAN members towards the attainment of the said objectives. Briefly these updates include the latest FDI trends, the identification of priority areas and the provision of new incentives. These are summarized in Table 15 below.

Table 15: Updates and New Investment Measures introduced by ASEAN

Country	**Developments in FDI**
Brunei Darussalam	BOP FDI in 2005 The overall FDI at the end of 2005 showed a growth of 36 per cent at USD 288 million compared to USD 212 million in 2004. The United Kingdom, Republic of Korea and Japan were the largest foreign investors amounting to 85 percent over total FDI. The other investors were Bermuda, France, India, British Virgin, Malaysia, Singapore and Mauritius. By region, Europe invested more than 70 percent of the total FDI mainly in mining sector while Asian investments were mostly in manufacturing, wholesale and retail trade. In term of economic sectors, mining was the main contributor to FDI amounting to 75 percent (USD 216.16 million),

[49] EU'S WTO-INVESTMENT REGIME WILL HIT SOUTH, http://www.sunsonline.org/trade/process/followup/1995/07280195.htm

Country	Developments in FDI
	manufacturing at 16 percent (USD 46.77 million) and trade/commerce at 6 percent (USD 17.12 million). The remaining sectors of construction, financial intermediation and services, real estate, services and others, contributed 3 percent to FDI. Within Asian countries, Japan is the main investor, invested USD 46 million in the manufacture of refined petroleum products, while Republic of Korea invested USD 22 million in non-metallic mineral products. Among ASEAN countries, Malaysia and Singapore were the main investors. These two countries invested a total of USD 18 million to the manufacturing of wood and metal products, trade and commerce, and services. Administrative FI in 2005 In 2005, there were 6 new projects amounting to USD 20.05 million compared to only 3 new projects amounting to USD 1.28 million in 2004. The new investments were from Malaysia and Republic of Korea. BOP FDI in 2006 In the first quarter of 2006, total FDI provisionally stood at USD 73.42 million which showed an increase of more than 100 percent compared to the same period of 2005 at USD 27.44 million. The positive growth had been attributed to an increase on investment in the mining sector from USD 24.22 million in 1st Quarter 2005 to USD 53.84 million in first Quarter 2006. The bulk of the investments were from United Kingdom at 73 percent, followed by Japan at 23 percent in the manufacture of refined petroleum products. Administrative FI in 2006 No new projects were noted for 2006.
Cambodia	BOP FDI and Direct Investment Abroad Data (Q1 2006) According to foreign investment project approvals data, it is estimated that BOP FDI recorded a net inflow of US$136.2

Country	Developments in FDI
	million in the March quarter 2006, up US$5.4 million (4%) on the net inflow recorded for the December quarter 2005. This was mainly due to an increase of US$119.8 million in equity capital of non-bank sector. The main contributors to the net increase were garments, hotels and resorts, banks and agricultures. During the same period, the outflow of Cambodian direct investment abroad was an estimated US$4.2 million, up US$1.2 million on the outflow recorded for the December quarter 2005. The level of Cambodian direct investment abroad is quite small, and mainly comprises of capital investment in housing and retail businesses. The level of foreign direct investment in Cambodia amounted to US$2,611.2 million at the end of the March quarter 2006, up from US$2,388.3 million in the December quarter 2005. These estimates are based on accumulated flows data since 1994. Up to the March quarter 2006, foreign direct investment was dispersed over several industries, mainly in Garment; Wood, Paper and Publishing; Banks; Hotels; Telecommunications; and Food and Beverages. Malaysia had the largest share of investment by country of investor, followed by China, Taiwan, Thailand, Singapore, Korea, Hong Kong and United Kingdom. Data Collection and Compilation Issues In the absence of a regular international investment survey (because of budget constrains), BOP FDI data are still estimated using foreign investment approvals information on fixed assets provided by the Council for the Development of Cambodia, supplemented by Balance of Payments Statistics Division estimates for working capital by all companies and fixed assets by non-CDC companies. The source data are used as inputs to the estimation model developed by the Economic Research and Statistics Department. The estimation model applies different lag variables by type of investment in order to produce estimates that more closely approximate actual FDI. Cambodian Direct Investment Abroad estimates are also generated using an estimation model. The source data used in the estimation process include, for example, partner country data (when available), media reports, and investigations into Cambodian investments close to the border in neighboring

Country	Developments in FDI
	countries.
Indonesia	FDI CY 2005 The total number of Foreign Direct Investment (FDI) that has been approved by Investment Coordinating Board for the period of 2005 in the industry sector pursuant to Law number 1 Year 1967 in conjunction with Number . . regarding Foreign Capital Investment is 436 projects with investment values of USD 6,955.9 million. If it is compared with the same period in 2004, the number of foreign capital investment especially in the industry sector experiences investment increase of 1.1% with project value of 1.3%. FDI 1st Semester 2006 During the period of January until June 2006, the foreign capital investment in industry sector reaches 227 projects with an investment value of USD2,971.4 million. The total amount of investment value and the number of investment plans in the period of January – June 2006 compared with the corresponding period of January – June 2005 have experienced a decrease of investment plan by 0.8%. Most Preferable Investment Plan on Approval Cost Basis In 2006, the total amount and the total number of most the preferable investment plans for all sectors are: • non metal mineral industry = USD742.6 million (6 projects); • Food Industry = USD626.7 million (21 projects); • Basic Metal Industry = USD504.2 million (41 projects); • Basic Chemical Industry without fertilizer = USD469.8 million (24 projects); and • Motor Vehicle Industry = USD289.1 million (19 projects). Most Outstanding Country of Origin on Approval Cost Basis The most outstanding countries of origin are: • South Korea (Republic of Korea = USD421.7 million (82 projects); • Singapore = USD395.3 million (17 projects); • Malaysia = USD212.3 million (15 projects); • Japan = USD186.2 million (9 projects); and • Taiwan = USD175.1 million (4 projects).

Country	Developments in FDI
	Most Outstanding ASEAN Countries on Approval Cost Basis The most outstanding ASEAN countries are: • Singapore = USD395.3 million (17 projects); • Malaysia = USD212.3 million (15 projects); and • Thailand = USD99.6 million (2 projects). Most Preferable Investment Plan on Equity Value Basis The total amount and the total number of most the preferable investment plans for industries/manufacture sector are: • Food Industry = USD216.9 million (39 projects); • Motor Vehicle Industry = USD144.5 million (20 projects); • Non Metal Mineral Industry = USD113.4 million (5 projects); • Basic Chemical Industry except fertilizer = USD98.2 million (25 projects); and • Textile Industry = USD55.7 million (61 projects). Most Outstanding Country of Origin on Equity Value Basis The most outstanding countries of origin are: • Singapore = USD153.1 million (23 projects); • Thailand = USD49.0 million (2 projects); and • Malaysia = USD45 million (17 projects). Most Preferable Investment Plan on Apportionment Basis The total amount and the total number of most the preferable investment plans for industries/manufacture sectors are: • Non Metal Mineral Industry = USD755.5 million (10 projects); • Food Industry = USD667.7 million (33 projects); • Basic Metal Industry = USD508.2 million (44 projects); • Basic Chemical Industry without Fertilizer = USD493.4 million (31 projects); and • Motor Vehicle Industry = USD310.6 million (22 projects). Most Outstanding Country of Origin on Apportionment Basis The most outstanding countries of origin are: • South Korea (Republic of Korea) = USD432.7 million (88 projects); • Singapore = USD414.3 million (31 projects); • Malaysia = USD232.3 million (24 projects);

Country	Developments in FDI
	• Japan = USD214.8 million (22 projects); and • Taiwan = USD178.1 million (13 projects). FDI Promotion Policies The increase of total amount and number of industry sector investment value plan for the period of January – December 2005 is USD6,955.9 compared with the corresponding period of January – December 2004 which is USD6,397.4 million. It can be shown that the investment value of 2005 experiences an increase of 1.1%. It increased because of the establishment of a conducive investment condition, transparency, as well as the legal certainty in the implementation of capital investment. In order to support the investment increase especially Foreign Capital Investment and Domestic Capital Investment, government issues some policies such as: Year 2005 - To establish stability of macro economy as the step of acceleration process to support global economic growth. - The acceleration of investment service in Central and Regional Government. Year 2006 - Government issues Presidential Instruction number 3 year 2006 regarding the investment policy covering: a. The completion of the Draft of Capital Investment Law, in lieu of Law Number 1 Year 1967 regarding Foreign Capital Investment and Law Number 6 Year 1968 regarding Domestic Capital Investment. b. The preparation of regulations regarding the criteria and the list of close business activities and open business activities with some requirements. c. The acceleration of business permits and licenses as well as capital investment permits and licenses and establishment of a company, including: 1. The simplification of process and procedure

Country	Developments in FDI
	(deregulation) of capital investment approval issuance and business permit issuance (automation system) by providing front office and back office system. 2. To prepare concept of integrated service system in capital investment sector. 3. To provide information concerning the application procedure of capital investment permit through printed media and website. - The establishment of Special Economic Zone This is a fast growing area and it is expected to be able to give direct economic impacts such as new employment opportunity, technology transfer process, and may support the economic growth of the surroundings area. It is planned that a number of Special Economic Zones will be formed and for the first phase, Batam, Bintan and Karimun have been announced as Special Economic Zone on June 25th 2006.
Lao PDR	FDI Trends 2005 to 1st semester 2006 In FY 2004/05, foreign direct investment (FDI) showed a significant increase and 143 projects with the investment capital of USD1,249 million have been approved. Actual inflows increased by 66 percent from USD330 million in 2003/04 to USD499 million in 2004/05. The following sectors have received the most investment: power generation has attracted USD1,065 million particularly from Nam Theun 2 hydroelectric project, mining USD93.5 million, services USD20.8 million and agriculture USD17 million. FDI for the year 2005 based on FDI balance of payments data through the banking system recorded at USD27.7 million, an increase of approximately 64 percent compared to USD16.9 in 2004. In terms of actual capital inflows regarded to BOP data, major foreign investors were attracted to manufacturing 37 percent of the total FDI inflows, agriculture 25 percent and mining 24 percent, while FDI classified by country of origin showed that Thailand was the largest contribution of FDI (19%); followed by China (16%), Australia (15%) and United Kingdom (14%). Intra-ASEAN, Thailand remained the largest contributor

Country	Developments in FDI
	in 2005 (USD5.21 million); followed by Vietnam (USD1.08 million), Singapore (USD0.36 million) and Malaysia (USD0.04 million). In the first half of FY 2005/06 (October 2005-March 2006), there were 89 approved projects with the total FDI of USD1,277 million. Of total investment, energy sector received more attention from investors, recording of USD996 million; followed by construction sector USD130 million, agriculture USD90 million and trade USD32 million. For the source of countries of FDI, Thailand was the largest contributor during this period which accounted for USD643 million largely due to its share in a big project such as Nam Theun II project. This was followed by Vietnam (USD246 million), China (USD192 million) and Korea (USD153 million). Factors Affecting Investment Trend and Policy Development The increase of FDI is owing to the improved investment policy and the introduction of the one-stop service approach, which has allowed a more speedy approval process. Also, arrangement meetings have been made for the government and the private sector twice a year on matters related to investment management and promotion, which has helped address investors' concerns more speedily. This will be made to create more varied ways of mobilizing foreign investment including the organizing of seminars within and outside Lao PDR by focusing on the existing business opportunities, the organizing of meetings between the Lao leadership and entrepreneurs, providing more information on investment, marketing and technology and promoting marketing through internet. In the matter of improving investment regulation, Lao PDR has improved the domestic and foreign investment laws and drafted corresponding decrees for implementation. These include a mechanism and policy to encourage investment in industrial zones. Also, delegate the provinces in order to authorize investment in prioritized areas and in granting permission to import vehicles and raw materials, according to the existing regulation, while the central authority will monitor the performances of the provinces. Simultaneously, Bank of Lao PDR has been pursuing flexible monetary and exchange rate policies in order to sustain the stability of macroeconomic as a whole and to stimulate greater FDI in the country.

Country	Developments in FDI
Malaysia	In the 2005 and 2006 Budgets, various tax measures were introduced to enhance foreign and domestic investments in the manufacturing and related services sectors, reduce costs of doing business, and improve the business environment. The major incentives introduced include the following: - Tax Incentives for Production of Halal Food To encourage new investments in halal food production for the export market and to increase the use of modern and state-of-the art machinery and equipment in producing high quality halal food that comply with international standards, companies producing halal food are eligible for Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years. This allowance can be offset against 100% of statutory income in each year of assessment. This incentive is granted on condition such companies have already obtained halal certification from JAKIM and other quality certification. - Incentives for Relocation of Manufacturing Activities to Promoted Areas In order to reduce the cost of doing business and to provide a competitive business environment, existing companies which relocate their manufacturing activities to the promoted areas are eligible for a second round of the following incentives: (i) Pioneer Status with tax exemption of 100% of statutory income for a period of 5 years; or (ii) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. This allowance can be used to offset against 100% of statutory income in each year of assessment. - Incentives for Commercialisation of Public Sector R&D (i) a company that invests in its subsidiary company engaged in the commercialisation of the R&D findings is eligible for tax deduction equivalent to the amount of investment made in the subsidiary company; and (ii) the subsidiary company that undertakes the commercialisation of the R&D findings is eligible for Pioneer Status with 100% tax exemption on statutory income for 10

Country	Developments in FDI
	years. The incentive is provided subject to the following conditions: (i) at least 70% of the company is owned by Malaysians; (ii) company which invests should own at least 70% of the equity of the company that commercialises the R&D findings; (iii) only resource-based R&D findings are eligible; and (iv) the commercialisation of the R&D findings should be implemented within one year from the date of approval of the incentive. - Review of Tax Incentives for Generation of Renewable Energy To further encourage the generation of renewable energy, the Pioneer Status and Investment Tax Allowance incentive for companies generating energy from renewable sources such as biomass, hydropower (not exceeding 10 megawatts) and solar power is enhanced as follows: (i) Pioneer Status with tax exemption of 70% is increased to 100% of statutory income and the incentive period is extended from 5 to 10 years; or (ii) Investment Tax Allowance of 60% is increased to 100% on the qualifying capital expenditure incurred within a period of 5 years with the allowance to be offset against 100% of statutory income for each year of assessment. In addition, the incentive package of Pioneer Status and Investment Tax Allowance as well as import duty and sales tax exemption is extended for another 5 years until 31 December 2010. The company is required to implement the project within one year from the date of approval. - Introduction of Group Relief as Tax Treatment To enhance private sector investment in high-risk projects, group relief is provided to all locally incorporated resident companies under the Income Tax Act 1967. The group relief is limited to 50% of current year unabsorbed losses to be offset against the income of another company within the same group (including new companies undertaking activities in approved food production, forest plantation, biotechnology,

Country	Developments in FDI
	nanotechnology, optics and photonics) subject to the following conditions: i. the claimant and the surrendering companies each has a paid-up capital of ordinary shares exceeding RM2.5 million; ii. both the claimant and the surrendering companies must have the same accounting period; iii. the shareholding, whether direct or indirect of the claimant and surrendering companies in the group must not be less than 70%; iv. the 70% shareholding must be on a continuous basis during the preceding year and the relevant year; v. losses resulting from the acquisition of proprietary rights or a foreign-owned company should be disregarded for the purpose of group relief; and vi. companies currently enjoying the following incentives are not eligible for group relief: a. Pioneer Status; b. Investment Tax Allowance/Investment Allowance; c. Reinvestment Allowance; d. Exemption of shipping profits; e. Exemption of income tax under Section 127 of the Income Tax Act 1967; and f. Incentive Investment company With the introduction of the above incentive, the existing group relief incentive for approved food production, forest plantation, biotechnology, nanotechnology, optics and photonics will be discontinued. However, companies granted group relief incentive for the above activities shall continue to offset their income against 100% of the losses incurred by their subsidiaries. - Extending the Scope of Incentives for Multimedia Activities To further encourage ICT and multimedia activities, including Regional Shared Service Centres throughout the nation, selected companies undertaking such activities outside the Cybercities (Cyberjaya, Kuala Lumpur City Centre, Technology Park Malaysia, Bayan Lepas in Penang and Kulim Hi-Tech Park in Kedah) will be eligible for the following incentives: i. Pioneer Status with tax exemption of 50% of statutory income for a period of 5 years; or

Country	Developments in FDI
	ii. Investment Tax Allowance of 50% of qualifying capital expenditure incurred within a period of 5 years to be offset against 50% of statutory income for each year of assessment. Selected companies eligible for such incentives require the recommendation of the Multimedia Development Corporation (MDC). - Extending the Scope of Incentives for Private Higher Education Institutions To increase the number of scientists in the country, the present incentives for private higher education institutions (PHEIs) that provide technical and vocational courses, is extended to: i. PHEIs in the field of science; and ii. existing PHEIs in the field of science that undertake additional investment to upgrade equipment or expand their capacity. The qualifying science courses are as follows: i. Biotechnology – Medical and Health Biotechnology – Plant Biotechnology – Food Biotechnology – Industrial and Environmental Biotechnology – Pharmaceutical Biotechnology – Bioinformatics Biotechnology ii. Medical and Health Sciences – Medical Science in Gerontology – Medical Science in Clinical Research – Medical Biosciences – Biochemical Genetics – Environmental Health – Community Health iii. Molecular Biology – Immunology – Immunogenetics – Immunobiology iv. Material Sciences and Technology v. Food Science and Technology

Country	Developments in FDI
	PHEIs are eligible for Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 10 years to be offset against 70% of statutory income. - Tax Treatment on Expenses Incurred for New Courses by Private Higher Education Institutions To encourage PHEIs to increase the number of new courses, the following expenses incurred by PHEIs will be allowed as deductions to be amortised for 3 years: i. development of new courses; and ii. compliance with regulatory requirements for introducing new courses.
Myanmar	FDI Trend 2005 to 1st Semester of 2006 - Administrative FDI Since the promulgation of the Union of Myanmar Foreign Investment Law, Myanmar Investment Commission had permitted 399 Projects from 27 Countries and Regions up to the end of the first half of 2006. There are 152 manufacturing sector, 71 in Oil and Gas, 24 in Livestock and Fisheries, 19 in Real Estate, 16 in Transportation and Communication, 6 in other services, 4 in Agriculture, 3 in Industrial Estate, 2 in Construction Industry and 1 in power sector. The FDI in these projects amounted to US $ 13,816.86 million. The leading sectors are power, oil and gas, manufacturing, hotel and tourism, real estate and mining sector. The leading investors are Thailand, United Kingdom, Singapore, Malaysia and Hong Kong. The major source of FDI in Myanmar is from the ASEAN Countries. Among the 4 top investors, there are from ASEAN countries. At present Six ASEAN countries are investing in Myanmar. Six countries namely Thailand, Singapore, Malaysia, Indonesia, the Philippines and Brunei Darussalam have collectively pledged about US $ 9,860 million worth of investment in projects. These projects, accounted for 71.3 percent of the total FDI flow to Myanmar. This outlook is as such because majority of FDI in Myanmar

Country	Developments in FDI
	comes from ASEAN and other Asian countries. The main recipient industries are Power, Oil and Gas, Manufacturing, Hotel and Tourism industry, Real Estate Development and Transportation. In the year 2005, MIC had approved 7 projects worth US $ 98.3 million among them FDI under Oil and Gas sector was accounted for US $ 97.6 million, 99.3 percent of the total FDI in the said year. In the first half of 2006, MIC had approved only one project worth US $ 6030 million in Hydropower Electricity Generation on Than Lwin River under the name of Ta Sang Hydropower Co., Ltd. **-** BOP FDI In the view of BOP FDI data, actual inflow in the year 2004-2005 was US $ 251.13 million and 2005-2006 was US $ 71.76 in million respectively. We do hope that BOP FDI data shall be up trend during the period of 2005-2006 because of permitted to “Hydropower Electricity Generation” on Than Lwin River. There are no investment policy change and measure introduced in 2005 and 1st semeter 2005-2006.
Philippines	The investment outlook for the Philippines remains positive with fiscal policies firmly established and specific institutional reforms undertaken. Policy Measures Implemented - Approval of the Investments Priorities Plan (IPP) for 2005 and 2006 by President Gloria Macapagal – Arroyo For 2005, the preferred sectors entitled for incentives are SMEs, Agribusiness, Healthcare and Wellness Products and Services, ICT, Electronics, Motor Vehicle Products, Energy, Infrastructure, Tourism, Shipbuilding/Shipping, Jewelry, and Fashion Garments. Meanwhile, for 2006, additional sectors were added to the 2005 list, namely Machinery and Equipment, Raw Materials and Intermediate Inputs.

Country	Developments in FDI
	- RA 9343 President Arroyo signed into law Republic Act 9343, a measure extending tax incentives for the establishment and registration of entities that will buy banks' idle assets. The law will widen channels of investments as it would encourage financial institutions to get rid of non-performing assets to create liquidity that can be used to generate economic growth and rehabilitate distressed businesses. - Implementation of RVAT Government implemented the reformed value added tax (RVAT), a two-percentage point increase in the value added tax beginning February 2006 which increased the country's revenue base by scrapping some sectors' exemption from paying such taxes. Institutional Reforms - Reorganization of BOI and PEZA The Senate Ways and Means Committee has prepared a bill to harmonize the grant and administration of fiscal and non fiscal incentives. The proposed bill entitled "Consolidated Investment and Incentives Code of the Philippines" propose to reorganize the Board of Investments and the Philippines Economic Zone Authority to be called the Philippine Investment Promotion Administration (PIPA) under the Department of Trade and Industry. - Revival of the Task Force on Investors Concerns With strong support from the Office of the President, the Task Force was revived to address the industry issue on investor identification through the implementation of the Alien Certificate of Registration Identity Card. The BI/ACR I-card project is fully operational in both departure and arrival areas in NAIA, Legazpi, Cebu and Davao airports. - Commitment of the "Bangko Sentral ng Pilipinas" The "Bangko Sentral ng Pilipinas" (BSP) has remained committed to maintaining a more financially viable and stronger

Country	Developments in FDI
	banking system as reflected in the policy issuances implemented in 2005. Banking reforms focused on restructuring and reforming the financial system by ensuring the passage of key legislative measures to further enhance existing legal and regulatory frameworks that govern the system. These reforms also focused on creating a deep and efficiently functioning domestic capital market through the establishment of basic market infrastructures and an enabling environment that will promote increased business activity. These measures are expected to enhance the financial institutions' resiliency, boosting further investor confidence in the country. - Institution of the Simplified Registration Procedure The procedure reduced project evaluation processing time from the legally required period of 20 working days to one day. During its first month of implementation the BOI evaluated and registered projects amounting to PhP2.04 billion. - Build-Operate-Transfer Schemes Government is also addressing infrastructure bottlenecks in order to draw more investors. Significant gains have been made in build-operate-transfer (BOT) schemes as an alternative way of encouraging private sector investment in infrastructure development. Philippine Recognition in Investor Relations The Philippines topped the list of 30 countries including China, Korea, Thailand, Malaysia, Chile and Russia for investor relations and data transparency practices based on the report of the Institute of International Finance entitled ' Investor Relations; An Approach to Effective Communication and Enhanced Transparency 2005 assessment of Key Borrowing Countries. Moreover, the Philippines is a recipient of International Country award from the British mining publication "The Mining Journal" for making the most improvement in mineral policies as assessed by top mining companies world wide.
Singapore	2005 FDI Trends and Developments (Commitments in Manufacturing)

Country	Developments in FDI
	The manufacturing sector attracted $8.5 billion in terms of fixed assets investment commitments in 2005 surpassing the $8.3 billion in 2004. This reflected Singapore's attractiveness and competitiveness as a hub for the full chain of manufacturing activities. The commitments will create new capacities in manufacturing and enhance future growth. When fully operational, they will generate $6.4 billion of value added and create 16,700 jobs, of which 49% are for skilled workers. About three quarters of the total commitments came from overseas investors. The top investors were from the US, Europe and Japan with $2.1 billion, $2.0 billion and $1.3 billion respectively. Commitments from new geographical areas totalled $1.0 billion. Local investors accounted for another $2.1 billion. Almost 75% of the commitments were for projects in the electronics and chemicals clusters. Biomedical manufacturing, transport engineering and precision engineering cluster attracted commitments of $0.9 billion, $0.6 billion and $0.4 billion respectively.
Thailand	FDI Trends in Manufacturing (2005-1st Semester 2006) In 2005 approved manufacturing investment with foreign interest depicted a upward trend, in terms of value of projects. The total number of approved projects is 605 projects, same as previous year. The total value of projects increased by 20 percent to approximately 247 billion baht (USD 6.2billion*).[50] The largest source of foreign direct investment was Japan (141 billion baht or USD3.5 billion), followed by Malaysia (17billion baht or USD0.42 billion), Taiwan (12 billion baht or USD0.3 billion), and Netherlands (11 billion baht or USD0.27 billion) respectively. In terms of industry, classified by 2-digit level of ISIC code, the manufacturer of radio, television and communication equipment and apparatus were the largest recipient of foreign direct investment in 2005, accounting for approximately 78 billion baht (USD1.95 billion), or 31 percent share of total investment. The second largest was the motor vehicles, trailers and semi-trailers (27 percent machinery and equipment N.E.C. (17 percent),

[50] Foreign exchange rate (USD = 40 Baht)

Country	Developments in FDI
	followed by chemical and chemical products (6 percent), and fabricated metal products, except machinery and equipment (6 percent). In the first half of 2006, a downward trend was observed as value of projects are decreased compared to the same period of previous year. In particular, the number of approved projects increased by 0.3 percent while the value of approved projects decreased by 23.3 percent. Foreign investment inflows in the first half of 2006 were primarily dominated by investments from Japan, United State, Taiwan, Cayman Island, Singapore, Korea. Japan continued being the largest source of manufacturing investment. However, the number of projects decreased from 156 projects in the same period of 2005 to 152 projects in 2006. In terms of value of projects, Japan investment share accounted for 51.5 percent of the total value of approved projects, decreased from a 69 percent share in the first half of 2005. In terms of industry, the manufacturer of chemical and chemical products were the largest recipient of foreign direct investment in the first half of 2006, accounting for approximately 35 billion baht (USD0.9 billion) or 34 percent share of total investment. The second largest was the manufacturer of radio, television and communication equipment shared 29 percent, and followed by manufacturer of machinery and equipment (9 percent). Policy Developments - Thailand Board of Investment offers additional incentives given to 3 target industries which are electronics, petrochemical and agro-processing to stimulate investment. Electronics Industry – Projects that have investments of over 30 billion baht and are considered priority activities, i.e. requiring high technology applications or manufacturing products not yet produced in Thailand, will receive maximum tax incentives and other additional assistance measures. Those measures include setting up human resource funds and R&D funds. Petrochemical Industry – The BOI will offer investment promotion privileges to project manufacture five basic agents used in the petrochemical industry: sodium chloride, chlorine, caustic soda, hydrochloric acid and hydrogen peroxide. The objectives of promoting production of these five agents are to

Country	Developments in FDI
	reduce reliance on foreign imports and to strengthen competitiveness in Thailand petrochemical's sector. The industry is not a major income earner, generating export revenue of more than 275 billion baht per year. Automotive rubber tire industry – The BOI will offer duty-free import of machinery for expansion projects in Zone 1 and 2. To encourage existing manufacturers to expand their capacity, the BOI will offer duty-free import of machinery for expansion of the tire manufacturing facilities located outside industrial estates, they were not eligible for this incentive. These additional incentives would draw more investment to the three target sectors. One of the reasons restricting the flows of investments into some industries, such as petrochemical and alternative energy, is the lack of raw materials on the upstream end of the production line. As the government offers more support to create integrated production, more industrial linkages are expected, and related industries will be developed.
Vietnam	FDI Trends 2005 to 1st Semester 2006 Vietnam has gained important achievements in social economic development by consistently pursuing its reform policy. During 5 years of 2001-2005, the GDP growth rate has increased yearly, achieving the average growth rate of 7.5 percent per annum. In 2005, Vietnam's GDP growth rate was 8.4percent, of which industry sector increased by 10.6 percent, service sectors increased by 8.5 percent and export increased by 22 percent. Foreign direct investment (FDI) has played an important role in the above-mentioned achievements. Since the year 2000 the inflows of foreign direct investment has gradually recovered and increased again, especially during the past three years. Foreign investment was US$3.1 billion, US$4.5 billion and US$6.8 billion in 2003, 2004 and 2005 respectively. The foreign direct investment of 2005 is doubled that of 2000. It is also the highest figure of FDI into the country since Asia financial crisis, showing a strong signal of increasing FDI inflow into Vietnam.

Country	Developments in FDI
	By the end of 2005, Vietnam has been home to more than 6000 valid foreign investment projects from 74 countries and territories with total committed capital of about US$ 51.6 billion, total implemented capital of US$34 billion. In 2005, foreign investment sector is responsible for 20 percent of GDP, 37 percent of total industrial production and 55 percent of national export earnings. There were 970 new projects amounting to US$6.84 billion, increased 50 percent compared to previous year 811 new projects with US$4.54 billion. The new investors were from 52 countries and territories, in which Japan and Korea were the biggest. They were mostly attracted to manufacturing with the total registered capital of US$4.81 billion. During first half of 2006, total approved FDI reaches $2.85 billions, increased by 4.2% compared to same period of the previous year. The new investors were from 30 countries and territories, in which Hong Kong and Korea were the biggest. They were mostly attracted to manufacturing with the total registered capital of US$1.38 billion. The implemented capital is increasing stably for the past 5 years (2001-2005). It was US$2.1 billion, US$2.6 billion, US$2.5 billion and US$2.8 billion in 2001, 2002 and 2003, 2004 and 2005. In the upcoming years, foreign investment activities in Vietnam shall be carried out in the context of deep integration into regional and international economies. Based on the assessment about the impact of the economic international integration process and the domestic potential, Vietnam shall strive for a sustainable development, in conjunction with increasing of social welfare and environment protection. FDI inflow is, thus, expected to continue its increasing trend. Factors affecting investment trends In recent years, Vietnam has improved incessantly its investment and business environment towards increasing transparency and creating more favourable conditions for investors. - Laws and policies on investment have been improved and innovated

Country	Developments in FDI
	Last November, the Vietnamese National Assembly approved a number of important laws, including the Law on Investment and Enterprise Law which are applied to all investors regardless of economic sectors. These laws took effect on the 1st July 2006. Accordingly, investors shall be permitted to invest in all sectors and in all industries which are not prohibited by law; and shall have the right to autonomy in investment – business; to select the form of investment, scale of the investment and investment partner; to register business in one or more industries; to access and use investment resources; to assign or adjust capital of investment project; to access relevant information about investment activities. Dispute regulations are made clearer and more compatible to international practices. The State provides equitable and fair treatment to all investors from all economic sectors and also between domestic investment and foreign investment.. Beside limited liability company, foreign investors shall be able to establish other form of investment such as joint-stock company, partnership, investment by purchasing stocks, directly invest in economic organizations, merger and acquisition. Apart from financial incentives such as preference on tax and land use rights, investors can also take advantage of non-financial incentives such as training, technology transfer and infrastructure development. The Government is elaborating degrees providing instruction to the above mentioned Laws in order to create a transparency and favourable legal environment for investors. In addition, regulations on intellectual property, goods label, and technology transfer have been amended in order to comply with international practices. The issuance of Competition Law has created legal framework for healthy competitive activities. - Continue deeper integration into regional and international economies. The ASEAN integration process and implementing of Bilateral Trade Agreement (BTA) between Vietnam and the United States, Vietnam - Europe Cooperation Framework and other bilateral and multilateral economic agreements have created favourable conditions to expand export market and to help enterprises to overcome the limitation of market. Vietnam is concluding its bilateral and multilateral negotiations to WTO accession and is expected to become a WTO member

Country	Developments in FDI
	by the end of this year. By following the international commitments and the requirements of economic international integration, Vietnam is slowly opening door in service sector to foreign investors, even in areas of real estate, urban zone, supermarket, banking, insurance and entertainment centers. Following the success of the Vietnam-Japan Joint Initiative to improve Vietnam's investment environment with a view to strengthening the country's competitiveness, Vietnam and Japan have agreed to launch the Phase 2 of the Initiative in December 2005. The Action plan of the Phase 2 is expected to complete the implementation by the end of 2007. Many issues raised by foreign investors are expected to be resolved and the business environment shall be further improved. - Improving communication mechanism between ministries, governmental agencies and investors. The Government continues to improve the communication mechanism between ministries, governmental agencies and investors in order to promptly discover and address problems of on-going projects, ensuring their effective and timely operation. Business forums and the Consultative Group meeting are organized semi-annually to open opportunities for foreign investors to have their recommendations and for governmental leaders and representatives to discuss measures.