

ASEAN IPAs Collaboration to Attract More FDI: Opportunities and Risks

Background

Foreign Direct Investment (FDI) significantly contributes to ASEAN's economic expansion. Over the past decade, FDI inflows to ASEAN have seen substantial growth. Notwithstanding the global downturn due to the COVID-19 pandemic in 2020, FDI inflows into ASEAN immediately recovered in 2021 and even surged further in 2022 more than doubling in value compared to those in 2012, establishing ASEAN as one of the leading FDI destinations worldwide.

FDIs have been instrumental in generating employment, facilitating the transfer of skills and technology, and boosting economic output. Nonetheless, the current trend has not reached its full potential, as evidenced by the lower net FDI to GDP ratio compared to that of 2012. Although this mirrors global FDI trends, ASEAN should continue to explore ways to enhance the quality and attractiveness of its FDI, including through regional investment promotion initiatives.

The Role of IPAs in FDI Generation

Investment Promotion Agencies (IPAs) are vital in attracting and facilitating investments, in alignment with their countries' respective economic policies. Crescenzi, et al. (2021)¹ mentioned that IPAs also play critical role in addressing information gaps or misconceptions about the host economy and the costs for respective foreign companies to enter.

The activities of IPAs include (1) investor servicing, such as assisting investors with practical issues, incorporating bureaucratic challenges; (2) policy advocacy, aimed at persuading governments to approve regulation or eliminate barriers to investment; (3) image building, promoting their operational areas as prime investment locales; (4) investment generation, proactively seeking investors in line with governmental development strategies.^{2,3,4} IPAs are operational at both national and subnational levels worldwide, including the ASEAN region.

IPAs in ASEAN

IPAs exist at national and subnational levels all around the world including in ASEAN (Table 1). The basic roles and structures of IPAs in ASEAN are similar with those at the global level, and is evolving. Indonesia, for instance, recently had an institutional reform on their investment sector, where the Indonesia Investment Coordinating Board has become the Ministry of Investment in 2021. Furthermore, in most ASEAN Member States, investment promotion is mandated by law, indicating the high level of state commitment toward attracting FDI. To some extent, the corresponding net FDI to GDP ratio reflects the role of FDI in each country.

¹ Crescenzi, R., Cataldo, M. D., & Giua, M. (2021). *FDI inflows in Europe: Does investment promotion work?* *Journal of International Economics*, 132, 103497

² Wells, L., & Wint, A. (2001). *Marketing a country, revisited*. *FIAS occasional paper*, 13.

³ OECD. (2015). *Investment Promotion and Facilitation*. OECD.

⁴ What Works Centre for Local Economic Growth. (2017). *Investment Promotion Agencies (IPAs)*. WWG.

Table 1: IPAs and FDIs in ASEAN

ASEAN Member State	Lead of Investment Promotion Agencies (IPAs)	Law Related to Investment Promotion	Net FDI flows to GDP ratio ⁵
Brunei Darussalam	Brunei Investment Agency, Ministry of Finance and Economy	Laws of Brunei Chapter 97 and 137 on Investment Incentives and Brunei Investment Agency	-1,80%
Cambodia	The Council for the Development of Cambodia (CDC), executive agency of the Royal Government of Cambodia	The Law on Investment 2021	12,10%
Indonesia	Ministry of Investment	Law No. 27 of 2007 regarding Capital Investment (as amended)	1,60%
Lao PDR	Investment Promotion Department, Ministry of Planning, and Investment	The Law on Investment Promotion No. 14/NA (LIP) (2017)	3,40%
Malaysia	Malaysian Investment Development Authority (MIDA), The Ministry of Investment, Trade and Industry (MITI)	New Investment Policy (NIP) 2022	3,60%
Myanmar	Myanmar Investment Commission, Ministry of Planning and Finance	Myanmar Investment Law 2016	2%
Philippines	Board of Investments (BOI)	Foreign Investment Act of 1991	2,30%
Singapore	The Economic Development Board, Ministry of Trade and Industry	No specific law on investment, Singapore follows sector-specific law for foreign investment ⁶ .	30,20%
Thailand	The Board of Investments, Office of the Prime Minister	Foreign Business Act B.E. 2542 (1999)	2,10%
Viet Nam	Foreign Investment Agency, Ministry of Planning and Investment	Law on Investment (2021)	4,4%

Source: various national websites

Effectiveness of IPAs

⁵ World Bank Data, 2022.

⁶ Singapore parliament recently passed The Significant Investments Review Bill (SIRA)

Many studies, such as by Crescenzi et al. (2021),⁷ showed that FDI is affected by IPAs, both for advanced and emerging countries. IPAs increasingly became a national policy tool, alongside other tools such as tax breaks and locational incentives, that attract investors beyond the original motive of FDI, which is to seek resources, markets, efficiency, and technology. The study also revealed that IPAs work best in countries with considerable information asymmetries and suboptimal institutional settings such as in less developed countries. It also works best if it is sectoral-targeted, closer to FDI location, for occasional investors, and for knowledge-intensive sectors where systemic collaboration is critical.

Opportunities and Risks for ASEAN Investment Promotion

There are compelling arguments for ASEAN Member States to undertake regional investment promotion collectively, in complementing to their individual country's efforts. Firstly, such collaboration will facilitate innovation sharing that can enhance the capacity of all IPAs and help the region more effectively toward the current dynamic FDI condition. Although ASEAN's FDI performance is generally positive, there are risks coming from geopolitical tension that affects governments' investment policies, innovation disruption that affects investing companies' performance, "war" on incentives, and talent shortages. There are opportunities that the regionalisation effort could tap into, such as the rise of industrial policy that can create new markets where FDI can serve as a catalyst for those new industrial policies.

Secondly, collaboration amplifies the scale, recognition, and competitiveness of ASEAN economy. The global arena for attracting FDI is intensely competitive, with approximately 16,000 FDI projects reported in 2022 and only around 159 large FDI projects worth at least US\$ 1 billion (FDI Intelligence, 2022⁸) vying for attention among limited number of national and sub-national Investment Promotion Agencies (IPAs) worldwide. By presenting itself as a unified region, ASEAN could bolster its standing among competing IPAs.

Thirdly, collaborative approach aligns with the emerging global trend. Examples of such cooperative endeavours in investment promotion include the Nordic Battery Collaboration, Pacific Alliance Infrastructure Investment, and the Caribbean Association of IPAs (CAIPAs). These collaborations demonstrate the feasibility and potential of attracting investment as a collective pursuit, rather than individual country's effort.

Fourthly, collaboration is not new to ASEAN as it has continuously worked toward establishing a single market base. The free flow of goods, services, and investment as well as the freer flow of capital and labour are essential to enable FDI. Besides, the region has attempted to become even more connected in terms of infrastructure through several other frameworks such as the ASEAN Power Grid.

Lastly, collaboration amplifies the essential similarity of ASEAN economies, which serve as important drivers of FDI flows into the region. This could be seen in the similarly fast economic growth, rising middle-class population, and improvements in the ease of doing business. The latter signals the Member States' growing readiness to meet the demands of FDI, which

⁷ Crescenzi, R., Cataldo, M. D., & Giua, M. (2021). *FDI inflows in Europe: Does investment promotion work?* *Journal of International Economics*, 132, 103497.

⁸ <https://www.fdiintelligence.com/content/data-trends/wave-of-mega-projects-mounts-in-2022-82551>

includes the provision of reliable infrastructure, skilled talents, and macroeconomic and political stability.

Having a regional FDI action plan is not without its risks. One risk comes from a potential intersection with national mandates tied to the IPAs. This rationalises the competition trend as seen in terms of different national policy tools for FDI generation, such as investment incentives and resources of IPAs. Besides, there is also risk stemming from variation in fundamental availability of resources and competitive edges. However, this competition should not be seen as a drawback, as they shall also contribute to strengthening competitiveness in attracting FDI flows into the region.

Way Forward

Successful IPA initiatives will therefore depend on the ability to work with such opportunities and risks. In general, ASEAN IPAs could consider a strategy that mirrors the literature findings, such as sector-specific in determining target, and based on an in-depth diagnosis of the gap to be addressed by IPAs -which is a gap between investor needs and underlying market and institutional weaknesses of each FDI locations, as well as in determining the appropriate strategy.

As we know, having a sector-specific plan is almost essential because it has proved to have a more significant effect on FDI generation compared to the undifferentiated, horizontal strategy of attracting investments across all sectors,⁹. It has created more tailored and more powerful signal to a narrower and more specialised potential FDI home country,¹⁰ while also relevant in the middle of a limited fiscal capacity for ASEAN member states.

When deciding on the sectoral target, ASEAN IPAs can investigate the relevant regional agenda, national agenda, comparative advantage, and potential trend from their respective countries. Together with the in-depth gap diagnosis, it could help ASEAN IPAs identify their strategies. Lastly, the development of ASEAN investment promotion plan should at least be consultative and transparent, be that among the ASEAN IPAs themselves as well as with their respective governments and sectoral agencies. **

⁹ Sirr, G., Garvey, J., & Gallagher, L. (2012). A quantitative approach to guiding the promotional efforts of IPAs in emerging markets. *International Business Review*, 21(4), 618–630.

¹⁰ Harding, T., & Javorcik, B. S. (2011). Roll Out the Red Carpet and They Will Come: Investment Promotion and FDI Inflows. *The Economic Journal*, 121(557), 1445–1476.