ASEAN INVESTMENT REPORT
2008

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ASEAN INVESTMENT REPORT 2008

"Improved FDI Performance in 2007 But Challenges Emerging"

EXECUTIVE SUMMARY

i. The current financial and economic crises and their impact on global economic growth are expected to have consequences on Foreign Direct Investment (FDI) inflows in 2008 and 2009. Investment flows into ASEAN are expected to see lower growth in these two years after four straight years of rapid expansion. Nevertheless, strong growth in ASEAN's approved investments in the manufacturing sector in the first half of 2008 may be an indicator that given the continued economic expansion in the ASEAN Investment Area, investment interest in the region remains good. The implementation of stimulus policies and greater ASEAN integration in terms of trade and investment should mitigate the more challenging global economic conditions.

ii. Despite incipient signs of a financial crisis in the second half of 2007, UNCTAD reported that global FDI inflows expanded to a record US$1.83 trillion, an increase of 30% over 2006. The dynamic global FDI performance was due to good corporate performances, accompanied by high rates of re-invested earnings and cross-border mergers and acquisitions (M&A) activities, as well as a growing contribution from a new source of FDI funding, the sovereign wealth funds.

iii. Developed countries continued to absorb the largest proportion of FDI inflows, accounting for 68.1% of such flows or US$1,247.6 billion, while FDI flows to developing countries amounted to US$499.7 billion, representing a 27.3% share of global FDI inflows.

iv. Asia remains a favoured destination for FDI flows into developing countries, accounting on average for more than 60% of these flows in the last five years. A larger proportion of such flows were increasingly directed at ASEAN. ASEAN's share of Asian FDI increased from 18.8% in 2006 to 19.8% in 2007.

v. FDI inflows into ASEAN in 2007 maintained its strong growth path of the last three years. ASEAN registered a growth of 23% in FDI inflows to US$63.3 billion in 2007, the highest FDI level recorded. The strong growth was due mainly to a surge in FDI inflows into CLMV countries (Cambodia, Lao PDR, Myanmar and Viet Nam). FDI inflows into CLMV expanded by 136.8% in 2007 to reach US$8.2 billion. Its share of ASEAN FDI increased to 12.9% in 2007, compared with a share of 6.7% in 2006. ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand) registered a growth in FDI flows of 14.8% to US$55.1 billion in 2007.

vi. While Japan remains the top ASEAN investor, intra-ASEAN FDI inflows continued on its upward trend in 2007, rising by 19.8% to US$9.5 billion. The share of intra-ASEAN investment to total ASEAN FDI grew to 15%, compared with 10.7% in 2005. Intra-ASEAN FDI flows have grown by an extraordinary three-fold compared with the US$2.9 billion invested in 2004. Such rapid growth is significant, bearing strong testimony to the success of ASEAN integration efforts.

vii. Most of the FDI inflows into ASEAN went predominantly to the non-financial services sector, with a share of 35.9% or US$22.7 billion. The manufacturing sector received a share of 32% or US$20.2 billion. Consonant with the developing financial crisis, FDI inflows into the *financial intermediation and related services* experienced a corresponding decline. FDI inflows into this sector declined by 28.3% to US$9.7 billion, from US$13.5 billion in 2006.

CHAPTER ONE: GLOBAL FDI DEVELOPMENTS

Record Levels of Global FDI Inflows in 2007[1]

1. Global foreign direct investment (FDI) inflows continued its dynamic expansion to register a record high of US$1,833.3 billion in 2007, an increase of 30% over 2006's US$1,411 billion. (See Table 1). This was achieved despite incipient signs of the financial and credit crises in 2007, which reached more serious proportions by the latter half of 2008.

2. The relatively strong rate of growth of global FDI inflows in 2007 reflected in the main, sustained strong global economic expansion of 5% in 2007, excellent corporate performances accompanied by high rates of re-investment and cross-border mergers and acquisitions (M&A) activities. A new source of FDI funding is seen to be the emergence of sovereign wealth funds which invested 0.2% of total FDI flows in 2007.

3. Developed countries continued to absorb the largest proportion of FDI inflows, accounting for 68.1% of total FDI inflows or US$1,247.6 billion, while FDI flows to developing countries was US$499.7 billion, representing a 27.3% share of global FDI inflows. The transition economies of South Eastern Europe (SEE) and Commonwealth of Independent States (CIS) countries accounted for the remainder of US$85.9 billion or a 4.6% share.

4. The share of global FDI inflows into developed countries has risen quite substantially, after a dip to 55.7% in 2004. This is in contrast to developing countries, whose share has been declining from a high of 38.7% in 2004, to the present 27.3%. This was due mainly to the continued dominant position of developed countries with its favourable economic growth which have attracted higher FDI inflows as well as the enhanced FDI performance of CIS and SEE countries where FDI inflows grew by 50% in 2007.

5. Cross-border M&A activities increased to US$1,637 billion in 2007, representing a growth of 46.4% over 2006. The high level of such activities was attributed to the strong global economic expansion and competitive pressures on transnational corporations (TNCs) to expand operations and to develop new markets through acquisitions. There were 300 M&A deals in 2007 that were above US$1 billion, representing an all-time record. Strong corporate balance sheets also resulted in higher levels of FDI inflows, with at least 30% of FDI flows attributable to reinvested earnings. The higher corporate investments balanced to some extent reduced bank lending to finance investment consequent upon the emerging sub-prime mortgage crisis in the United States.

6. Nevertheless, while the rate of FDI growth in 2007 was considered robust, this was much lower than the 34.9% and 47.2% achieved in 2005 and 2006, respectively. The slower expansion was reflected across all three regions:

[1] Based on the UNCTAD's 2008 World Investment Report

developed, developing economies and the Eastern European and CIS countries, reflecting uncertainties in financial markets associated with the start of the sub-prime housing crisis in the United States.

Table 1: Distribution of Global Foreign Direct Investment Inflows 2003 – 2007 (US$ million)

	2003	2004	2005	2006	2007
World	**557,869**	**710,755**	**958,697**	**1,411,018**	**1,833,324**
Developed Countries	*358,539*	*396,145*	*611,283*	*940,861*	*1,247,635*
Developing Countries	*175,138*	*275,032*	*316,444*	*412,990*	*499,747*
Developed Region & Countries of which					
United States (USA)	53,146	122,377	104,773	236,701	232,839
European Union	253,728	213,726	498,400	562,444	804,290
Japan	6,324	7,816	2,775	(6,506)	22,549
Developing Region & Countries of which					
Asia	***110,137***	***156,622***	***210,026***	***272,890***	***319,333***
ASEAN [a]	24,235	35,117	39,184	51,414	63,260
China	53,505	60,630	72,406	72,715	83,521
India	4,585	5,474	7,606	19,662	22,950

Source: World Investment Report 2008 - UNCTAD
[a)] ASEAN FDI 2008 - ASEAN Secretariat

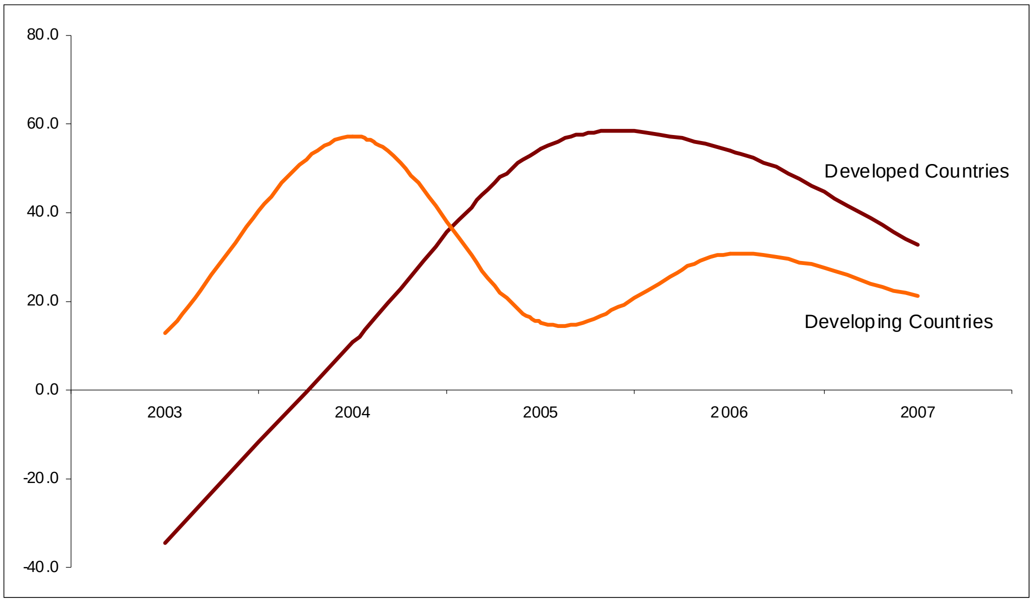
Share of FDI into Developed Countries Increase

7. Developed countries continued to enjoy strong growth in FDI inflows in 2007, with its share of global FDI inflows increasing to 68.1%, the highest in the last five years. In value terms, FDI inflows to developed countries rose to US$1,247.6 billion, maintaining a strong rate of growth of 32.6%, though less rapid than the 53.9% achieved in 2006. (Refer Graph 1).

8. The largest recipient of FDI inflows in 2007 was the European Union (after its enlargement to 27 countries) with US$804.3 billion or 64.5% of total inflows into developed countries. Among the largest EU recipients were the United Kingdom, France and the Netherlands. This was followed by the United States with US$232.8 billion of inward FDI in 2007. The increase in FDI inflows to developed countries reflected the continued strong economic expansion in these countries, higher company profits and rising equity prices which further stimulated cross-border mergers and acquisitions (M&As), particularly in the first half of 2007.

9. FDI outflows emanating from developed countries amounted to US$1,692.1 billion in 2007, an increase of 55.6% over 2006 levels. The European Union accounted for 57.2% of the global outflows or US$1,142.2 billion, followed by the United States with 15.7% or US$313.8 billion, driven mainly by higher levels of corporate profits.

Graph 1: Rate of Growth of FDI into Developed and Developing Countries (%)



Source: World Investment Report 2008 - UNCTAD

Highest Level of FDI Inflows into Developing Countries

10. FDI inflows into developing countries increased by 21% to US$499.7 billion in 2007, the highest level of FDI inflows ever achieved. The bulk of FDI inflows went to Asia, which accounted for 63.9% of total FDI inflows into developing countries. Latin America's share of developing countries' FDI was 25.3%, while that of Africa was 10.6%.

11. Growth in FDI flows into China recovered to register a 14.9% improvement over 2006 to US$83.5 billion. This maintained China's position as the single largest FDI recipient among developing countries. Other large FDI recipients among developing countries were Hong Kong (US$59.9 billion), Brazil (US$34.6 billion), Mexico (US$24.7 billion), Saudi Arabia (US$24.3 billion), Singapore (US$24.1 billion), India (US$23 billion) and Turkey (US$22 billion).

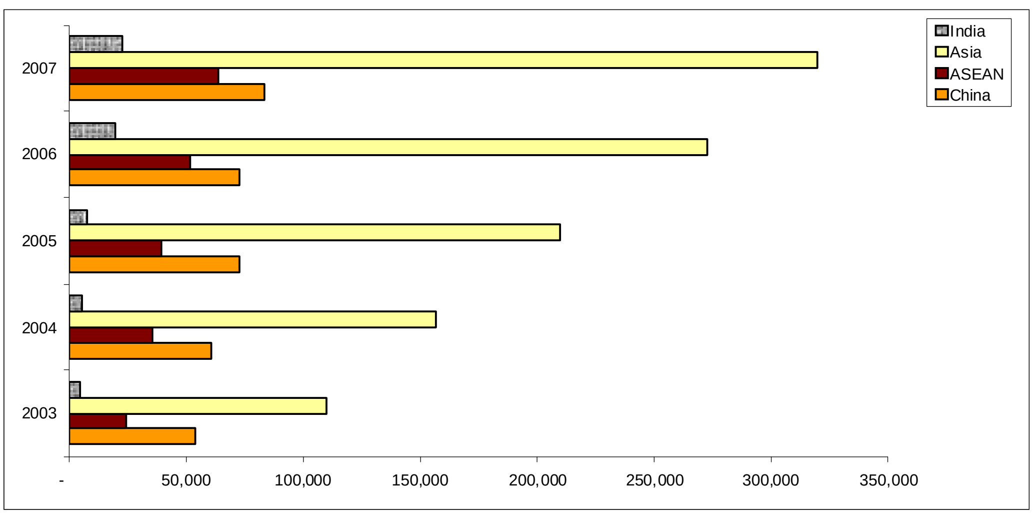
12. At the same time, developing countries were themselves important sources of FDI, with outflows rising to a new record level of $253 billion in 2007, mainly as a result of outward expansion by Asian TNCs. Sustained economic expansion, an export boom from manufactures and commodities have strengthened external balances and allow a number of developing countries to be net exporters of capital.

Asia Continued to Receive a Large Share of FDI Flows

13. Asia remains a favourite destination for FDI inflows, accounting on average of over 60% of FDI inflows into developing countries in the last five years. This strong performance is attributed among others to continued strong economic potential in the region, significant M&A activities and measures undertaken to improve the investment environment including regional liberalisation initiatives under the Free Trade Agreements (FTAs).

14. China and Hong Kong continued to attract the largest share of FDI flows, accounting for 26.2% and 18.7%, respectively of Asian FDI inflows in 2007 or US$83.5 billion and US$59.9 billion, respectively. Such large FDI inflows continued to fuel the rapid economic expansion in China of 11.9% in 2007 and the export boom of China. However, much of Asia's FDI were also increasingly directed at ASEAN countries, where FDI inflows increased by a brisk 23% to US$63.3 billion in 2007 as well as South Asia where FDI inflows increased by 18.8% to US$30.6 billion in 2007. Much of the inflows into South Asia went to India, amounting to US$23 billion or 7.2% share of Asia's FDI inflows. (See Graph 2).

Graph 2: World FDI to Asia, China, India and ASEAN (US$ million)



Source: World Investment Report 2008 - UNCTAD; ASEAN FDI 2008 - ASEAN Secretariat

15. Despite the significant inflows, Asia's FDI growth in 2007 of 17% was below the global growth rate of 21% for developing countries, and slower than the more rapid growth in Latin America (35.9%) and SEE/CIS countries (50%). This was due to more moderate FDI growth in 2007 in West, East and South Asia after a very strong expansion in 2006.

CHAPTER TWO: ASEAN INVESTMENT PERFORMANCE

ASEAN Investment Performance in 2007

16. The strong global FDI expansion since 2004 continued to impact positively on ASEAN. ASEAN registered a growth of 23% in FDI inflows to US$63.3 billion in 2007. (Refer **Table 2**). As a consequence, ASEAN's share of Asian FDI inflows rose to 19.8%, compared with a share of 18.8% in 2006 and reflected a recovery from the low of 16.1% in 2000.

Table 2: ASEAN FDI, 2003-2007 (US$ million)

	2003	2004	2005	2006	2007
ASEAN	***24,235***	***35,117***	***39,184***	***51,414***	***63,260***
Brunei Darussalam	3,123	212	289	434	260
Cambodia	84	131	381	483	867
Indonesia	(596)	1,895	8,336	4,914	6,928
Lao PDR	20	17	28	187	324
Malaysia	2,473	4,624	4,064	6,060	8,401
Myanmar	291	251	236	428	258
Philippines	491	688	1,854	2,345	2,928
Singapore	11,664	19,827	13,929	24,744	25,317
Thailand	5,235	5,862	8,048	9,460	11,238
Viet Nam	1,450	1,610	2,021	2,360	6,739
ASEAN Share to Developing Countries (%)	*13.8*	*12.8*	*12.4*	*12.4*	*12.7*
ASEAN Share to Asia (%)	*22.0*	*22.4*	*18.7*	*18.8*	*19.8*
ASEAN FDI Growth (%)	*34.5*	*44.9*	*11.6*	*31.2*	*23.0*

Source: ASEAN FDI 2008 - ASEAN Secretariat

17. Almost all ASEAN countries recorded double-digit expansion in FDI flows in 2007. Among them were Cambodia and Lao PDR with exceptional growth rates of over 70%, while Indonesia, Malaysia, the Philippines and Thailand achieved strong growth of 41%, 38.6%, 24.8% and 18.8%, respectively. Of particular note however, was Viet Nam's outstanding performance, with FDI flows expanding by close to 200% to US$6.7 billion in 2007.

18. The expansion of ASEAN-6 FDI inflows in 2007 remained high at 14.8%, to reach US$55.1 billion. However, of greater significance was the rapid increase in FDI flows to CLMV countries. In total, CLMV countries were the recipients of quite a substantial share of FDI inflows in 2007, amounting to US$8.2 billion, representing a growth of 136.8%. This resulted in CLMV's share of ASEAN FDI rising to 12.9% of total ASEAN FDI inflows, compared with a share of only 6.7% in 2006. Much of the increase was due to the exceptional increase of FDI inflows into Viet Nam, though Cambodia and Lao PDR also experienced strong expansion in FDI inflows.

19. FDI flows from Japan topped the list of ASEAN's sources of foreign investment for the fourth consecutive year. Japanese FDI inflows into ASEAN reached US$9.54 billion in 2007, representing a 15.1% share of total FDI inflows. Intra-ASEAN FDI flows were a close second, at US$9.5 billion. Other top foreign investors were the United Kingdom (US$5.5 billion), the United States (US$5.1 billion), Netherlands (US$4.6 billion) and Korea (US$2.8 billion). Investments from Korea, the United Kingdom and the United States increased significantly by 111.5%, 57.6% and 63.1%, respectively in 2007. The top 10 investors in ASEAN accounted for 68.8% of total ASEAN FDI flows. **Table 3** below shows ASEAN's top ten investors between 2005 and 2007.

Table 3: Major Sources of FDI Flows to ASEAN, 2005 – 2007

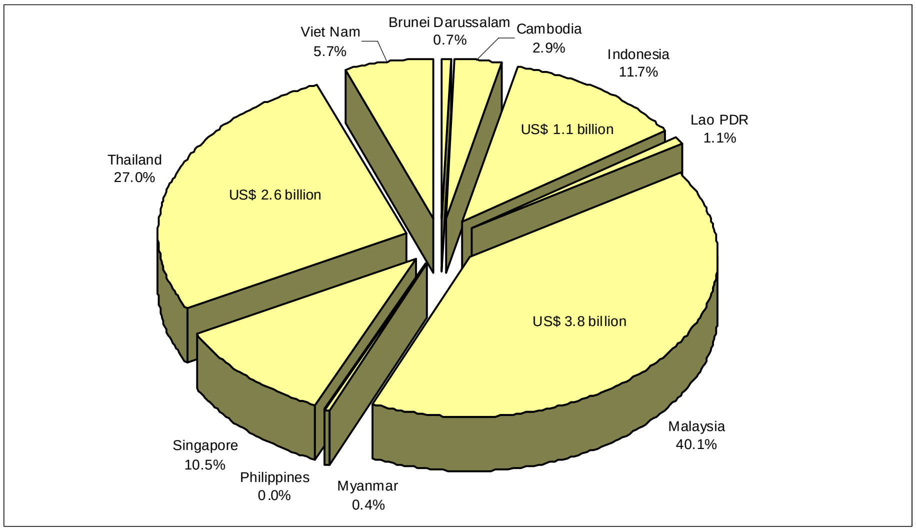
RANK	2005			2006			2007		
	COUNTRY	VALUE (US$ Mill)	%	COUNTRY	VALUE (US$ Mil)	Share %	COUNTRY	VALUE (US$ Mil)	Share %
1	Japan	6,134	15.7	Japan	10,715	20.8	Japan	9,540	15.1
2	United States	4,799	12.2	**ASEAN**	**7,947**	**15.5**	**ASEAN**	**9,502**	**15.0**
3	United Kingdom	4,521	11.5	Netherlands	4,535	8.8	United Kingdom	5,470	8.6
4	**ASEAN**	**4,203**	**10.7**	United Kingdom	3,470	6.7	United States	5,077	8.0
5	Netherlands	2,285	5.8	United States	3,112	6.1	Netherlands	4,569	7.2
6	France	936	2.4	Cayman Islands	3,091	6.0	Rep of Korea	2,758	4.4
7	Luxembourg	851	2.2	Germany	1,529	3.0	Bermuda	2,060	3.3
8	Germany	552	1.4	Bermuda	1,497	2.9	Hong Kong	1,833	2.9
9	China	536	1.4	Hong Kong	1,393	2.7	Cayman Island	1,385	2.2
10	Rep of Korea	534	1.4	Rep of Korea	1,304	2.5	France	1,354	2.1
ASEAN TOTAL		**39,184**			**51,414**			**63,260**	

Source: ASEAN FDI 2008 - ASEAN Secretariat

Intra-ASEAN Investment Flows

20. Intra-ASEAN investments continued on its upward trend in 2007, rising by 19.8% to US$9.5 billion. The share of intra-ASEAN investment to total FDI inflows into ASEAN grew to 15%, compared with 10.7% in 2005. Intra-ASEAN FDI flows have grown by an extraordinary three-fold over the US$2.9 billion invested in 2004. Such rapid growth is significant, bearing strong testimony to ASEAN integration efforts. Tariff reduction modalities under the CEPT, services sector liberalisation under AFAS and a liberal investment area have made ASEAN countries increasingly attractive to ASEAN investors. In addition, this also demonstrates the increasing capacity of certain ASEAN Member States to undertake outward investment.

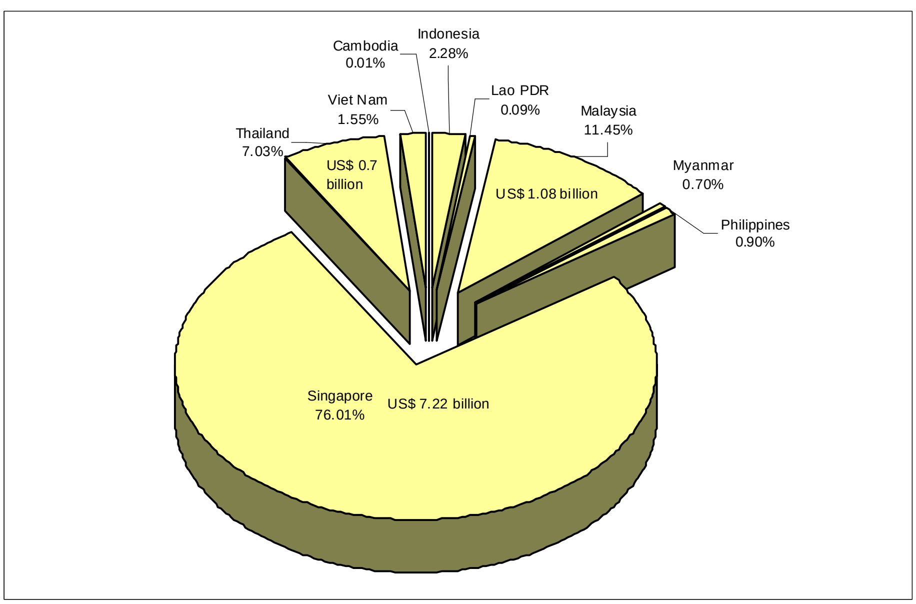
Figure 1: Intra-ASEAN Investment Recipients by Country (2007)



Source: ASEAN FDI 2008 - ASEAN Secretariat.

21. The largest recipients of intra-ASEAN investment flows were Malaysia (US$3.8 billion), Thailand (US$2.6 billion), Indonesia (US$1.1 billion) and Singapore (US$994.4 million). (See **Figure 1**). They accounted for a share of 40.1%, 27%, 11.7% and 10.5%, respectively. In terms of outward investment flows, Singapore was the largest investor in ASEAN, dominating with a share of 76% amounting to US$7.2 billion. Malaysia was second with FDI investment in ASEAN worth US$1.1 billion or a share of 11.5%. Thailand invested US$668.1 billion, representing a share of 7%. (See **Figure 2**).

Figure 2: Intra-ASEAN Outward Investment Flows (2007)

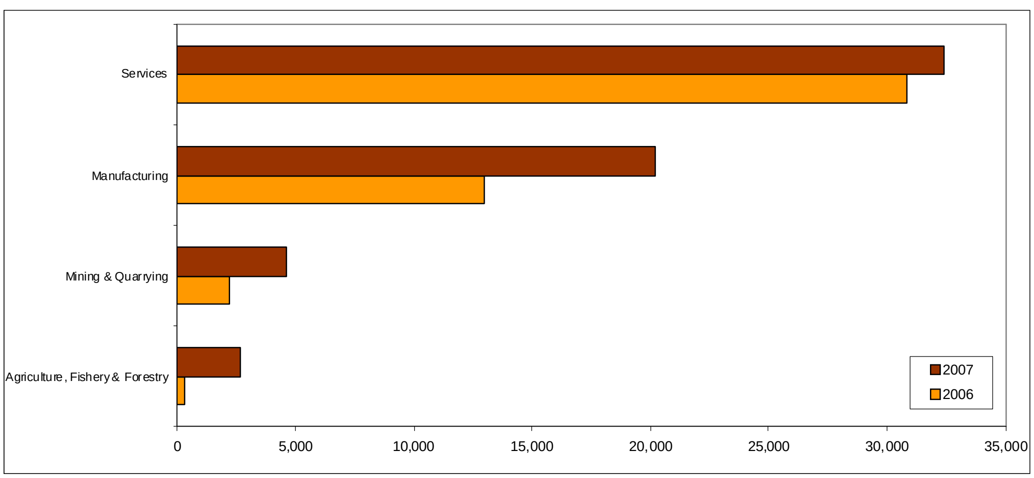


Source: ASEAN FDI 2008 - ASEAN Secretariat.

22. Intra-ASEAN investment flows into CLMV expanded rapidly by 128.7% to US$958.4 million in 2007. As a result, CLMV's share of intra-ASEAN investment increased from 5.3% in 2006 to 10.1% in 2007. This reflected increasing attractiveness of CLMV to ASEAN investors and awareness of the investment potential of the economies of CLMV. This is consequent upon the more liberal trading and investment environment engendered under ASEAN economic integration initiatives. Viet Nam accounted for the bulk of these investments or close to 60% of total CLMV intra-ASEAN inflows.

23. FDI inflows continued to be predominantly directed at the *non-financial services, manufacturing* and the *financial intermediation and related services sectors (including insurance).* Investment in *non-financial services* (including construction, trade/commerce, and real estate) rose by 31% to US$22.7 billion in 2007. The non-financial services sector accounted for the largest share of FDI inflows (35.9%). However, growth in FDI flows into the manufacturing sector were even more robust, increasing by 55.9% to UD$20.2 billion. As a result, the share of manufacturing investments increased to 32% of total FDI inflows, after a drop to 25.2% in 2006 from 41.2% in 2005. FDI inflows into the financial intermediation and related services sub-sector registered a fall to US$9.7 billion, a decline of 28.3% in 2007. **Figure 3** below shows FDI flows into ASEAN by sector in 2006 and 2007.

Figure 3: FDI Flows into ASEAN by Sector, 2006-2007 (US$ million)



Source: ASEAN FDI 2008 - ASEAN Secretariat.

24. In the non-financial services sector, construction and real estate services experienced strong growth in FDI inflows of 89.8% and 104.6% to US$450.1 million and US$6.1 billion, respectively. However, in this sub-sector, much of the FDI inflows continued to be directed at the trade and commerce sub-sector with investments of US$10.1 billion, representing 31.2% of FDI in the services sector. Consonant with the developing financial crisis, FDI inflows into the *financial intermediation and related services* experienced a corresponding decline. FDI inflows into this sub-sector declined by 28.3% to US$9.7 billion, from US$13.5 billion in 2006. (Refer **Table 4**)

Table 4: Growth in FDI Flows to ASEAN by Economic Sectors 2005-2007 (%)

ECONOMIC SECTOR / YEAR	2005	2006	2007
AGRICULTURE, FISHERY AND FORESTRY	-11.9	65.3	724.4
MINING AND QUARRYING	445.8	-27.8	108.8
MANUFACTURING	13.6	-19.2	55.9
SERVICES	-8.0	91.6	5.0
- Construction	-142.3	920.1	89.8
- Trade / Commerce	21.7	85.7	11.9
- Real Estate	27.3	111.1	104.6
- Other Services	77.4	18.9	19.2
- Financial Intermediation and Services (incld. Insurance)	-45.1	144.9	-28.3
OTHERS (Not Elsewhere Classified)	7.0	35.9	-39.9

Source: ASEAN FDI 2008 - ASEAN Secretariat.

25. Of significance is the increase in investment into the agriculture, fishery and forestry and the mining and quarrying sectors. Rising demand due to strong economic growth as well as higher prices of commodities have triggered a surge in investment in these sectors in 2007. Investment in the agriculture, fishery and forestry sector increased by a massive 724.4% to US$2.7 billion in 2007. FDI flows into the mining and quarrying sector increased substantially by 108.8% to US$4.6 billion in 2007.

26. ASEAN's sustained economic expansion in the last few years continued to encourage favourable FDI inflows. This was evidenced by approved investments in the manufacturing sector which rose by 51% to US$62.9 billion in 2007. Over the last five years since 2003, the average rate of growth per annum in approved investments was 36.1%. This was a three-fold increase over the US$18.3 billion of approved investments in 2003. (See **Table 5** below).

27. The impact of the current economic crisis on approved investments in the first half of 2008 is uncertain. Available figures showed that approved investments in the manufacturing sector in this period continued to increase substantially in Viet Nam (376.8%), Malaysia (71.1%) and Singapore (160.5%) over first half of 2007, but declined in Brunei, Cambodia and Thailand. Given the strong growth in these three countries, overall approved ASEAN investments in the manufacturing sector in the first half of 2008 showed an expansion of 15.2% in the first half of 2008 to US$36.3 billion. The growth rate would be higher if investment figures from Indonesia and other countries could be made available at the time of publication. Given this, it would seem that despite the onset of the crisis, confidence in ASEAN's economies remains high and any decline in FDI flows in 2008 and 2009 could be modest.

Table 5: ASEAN Approved Investments in the Manufacturing Sector 2003- 2008 (US$ million)

YEAR / HOST COUNTRY	2003	2004	2005	2006	2007	1st Half 2008
Brunei Darussalam	1.39	0.70	6.56	3.03	36.41	0.54
Cambodia	78.20	11.71	509.26	159.70	509.48	124.18
Indonesia	4,427.32	5,314.00	4,463.04	6,667.85	19,987.71	N.A
Lao PDR	15.41	34.41	12.11	3,235.13	884.95	N.A
Malaysia	4,115.89	3,458.93	4,706.03	5,511.69	9,716.83	7,157.35
Myanmar	12.88	6.34	158.28	6,065.68	719.70	N.A
Philippines	379.74	781.00	1,232.23	2,176.40	1,750.90	N.A
Singapore	3,483.97	3,551.06	3,836.72	4,641.70	9,908.60	8,263.60
Thailand	3,675.03	4,943.53	6,149.48	4,591.51	8,996.66	2,609.99
Viet Nam	2,156.72	2,716.91	4,532.42	8,571.35	10,358.26	18,101.06
ASEAN TOTAL	**18,346.54**	**20,818.59**	**25,606.14**	**41,624.05**	**62,869.50**	**36,256.72**

Source: ASEAN FDI 2008 - ASEAN Secretariat
N.A: Not Available.

28. ASEAN's attractiveness as an investment destination is also seen in the improvements in overall rankings in the "Ease of Doing Business" in a majority of the ASEAN countries in 2008. (See **Table 6**). Singapore maintained its top position, while Thailand and Malaysia improved upon their positions. In terms of competitiveness, the World Economic Forum "Global Competitiveness Report" ranked Singapore as the 5th best in terms of the global competitiveness index, with Malaysia at 21st position, Thailand (34), Brunei Darussalam (39), Indonesia (55)**,** Vietnam (70) and the Philippines (71). These strong rankings seek to assert ASEAN's continued strong position as a top recipient of FDI flows.

Table 6 : World Bank Rankings: Ease of Doing Business

Economy	2008	2007
Brunei	88	-
Cambodia	135	143
Indonesia	129	135
Lao PDR	165	159
Malaysia	21	25
Philippines	140	126
Singapore	1	1
Thailand	14	18
Vietnam	92	104

CHAPTER THREE: INVESTMENT POLICY MEASURES AND DEVELOPMENTS IN ASEAN

29. Since the Asian financial crisis in 1998, ASEAN has been working towards building up its economies by strengthening global and regional integration and reinforcing further macro-economic fundamentals and building-up resilience towards future shocks. ASEAN intends to transform itself into a regional powerhouse that would be a driver of both regional and global growth. ASEAN's integration policies through internal expansion and intensified external cooperation with trade partners will form part of this process.

30. ASEAN have begun to intensify internal and external integration measures towards the process of evolving into an economic area that would take advantage of the strong economic potential of a combined market of close to 600 million people. Towards this end, ASEAN undertook a number of measures such as the adoption of the ASEAN Economic Community Blueprint (AEC Blueprint) in December 2007.

31. Under this Blueprint, the vision of ASEAN Leaders is to transform ASEAN into a single market and production base, being highly competitive and fully integrated into the global community by 2015, with an emphasis on equitable economic development where all citizens share in the benefits of ASEAN economic integration. The Blueprint provides a practical plan to turn the vision into reality by setting out a roadmap with clearly defined targets and timelines for more comprehensive ASEAN economic integration by 2015.

32. The AEC Blueprint with its plan for the attendant revision of the goods and investment agreements was conceived to also provide an enabling and attractive investment environment in ASEAN that would continue to promote enterprise growth and job creation through enhanced intra-ASEAN and extra-ASEAN FDI flows. In addition, the Blueprint also provides for timelines and numerical targets for the progressive liberalisation of services sectors. The liberalisation of the services markets in ASEAN would further boost ASEAN's attractiveness as an investment destination as an efficient service sector would promote economic growth and enhance competitiveness.

33. As part of this regional integration process, instruments of regional integration such as the various internal ASEAN agreements were reviewed to make them relevant to the present competitive global economic environment. These measures included the review of the various goods agreements and protocols and their integration into a single comprehensive agreement known as the ASEAN Trade in Goods Agreement (ATIGA). In addition, the ASEAN Investment Area (AIA) Council of Ministers agreed to step up regional efforts in attracting FDI. Ten years after the signing of the AIA Agreement and in support of the development of an ASEAN Economic Community (AEC) Blueprint, the AIA Council agreed to revise the Framework Agreement on the ASEAN Investment Area and combine it with the ASEAN Agreement on the Promotion and Protection

of Investments into a single ASEAN Comprehensive Investment Agreement (ACIA). Both these agreements were concluded in 2008.

34. In concluding ACIA to make ASEAN an investment hub that would be able to compete effectively with other emerging economies, key features were incorporated into the agreement. These were:

- comprehensive investment liberalisation and protection provisions
- clear timelines for investment liberalisation in line with the ASEAN Economic Community
- benefits extended to foreign-owned ASEAN-based investors
- preservation of AIA preferential treatment; and
- a more liberal, facilitative, transparent and competitive investment environment.

35. The ACIA is a comprehensive agreement, merging the four pillars of investment liberalisation, protection, facilitation and promotion into a single agreement, and incorporates new provisions such as: Prohibition of Performance Requirements (PPR) and Senior Management and Board of Directors (SMBD), as well as a dedicated section for detailed provisions on Investment Disputes between an Investor and a Member State (ISDS).

36. In addition, the ACIA extends benefits to ASEAN-based foreign investors that are investing in other ASEAN Member States, thereby, helping to accelerate the pace of intra-ASEAN investment. The ACIA has also taken into account of international best practices that would further enhance investors' confidence in ASEAN.

37. With these on-going initiatives, the deepening and broadening of ASEAN economic integration is expected to lead to more sustainable economic growth as well as increase the region's resilience to withstand the adverse impact of any internal and external economic and financial disturbances.

Policy Changes in National Investment Laws

38. Most of the ASEAN Member States continued with measures to improve the investment climate through improving incentive measures that targets specific investments, improving infrastructure capacities and reducing bureaucratic red-tape from administrative procedures.

39. Indonesia, however, made significant policy changes to its national investment laws in 2007. To encourage a conducive investment and business climate and accelerate investment in Indonesia, the Government of Indonesia in 2007 introduced a new Investment Law, namely the Law of the Republic of Indonesia No. 25/2007, which combines the Foreign Investment Law (Law of the Republic of Indonesia No. 1/1967) and Domestic Investment Law (Law of the Republic of Indonesia No. 6/1968). This new Law provides equal treatment to the domestic and foreign investors in Indonesia. Under the new Investment Law,

there will be freedom to repatriate capital and profits, no minimum capital requirement, legal certainties are strengthened and opportunities are provided for development and protection of micro-small and medium businesses and cooperatives. Of note is that the law provides for a single investment negative list in which activities not included in the list are open to foreign investment.

40. The highlights of national policy changes implemented by ASEAN countries in 2007 are attached in the Annex.

CHAPTER FOUR: FDI OUTLOOK FOR 2008-2009 AND CHALLENGES

FDI Outlook for 2008-2009

41. Global growth prospects for 2008 and 2009 are expected to be impacted by the deteriorating global economic conditions caused by the current economic and financial crisis. Given the cyclical nature of investment flows and the fact that a number of the countries that are major sources of ASEAN's foreign investment are in an economic downturn, the FDI Outlook for these two years is not expected to be encouraging. The US sub-prime mortgage crisis of 2007 that developed into full-blown global financial and economic crises, have began to negatively impact upon global economic growth in the second half of 2008. Financial markets are faced with uncertainties and tightening credit conditions. Financial intermediation activities that support FDI activities are slowing, putting FDI financing and lending at risk. Excess capacity and worsening balance sheets of corporations especially that of a large number of MNCs may not bode well for re-investment and mergers and acquisitions activities.

42. World economic growth is projected to slow from 5% in 2007 to 3.7% in 2008 and to just over 2% in 2009, with the downturn led by the developed economies.[2] Similarly, the World Bank [3] expects the slowdown to intensify in 2009 because most of the real-economy side-effects of the banking crisis will be felt in the final months of 2008 and the first two quarters of 2009. It expects that the main mechanism for the slowdown in both developing and high-income countries will be through investment, which for 2009 is expected to decline 3.1% in high-income countries. In developing countries, investment growth is projected to slow sharply to 3.4% in 2009 from more than 13% in 2007.

43. The bleaker outlook for global growth is compounded in developing economies by the precipitous decline in oil and non-oil commodity prices in the second half of 2008. The sharp fall in the prices of these commodities may see a pullback in investments in the agriculture, mining and quarrying sectors which were enjoying a renaissance in 2007 and in the first half of 2008. The net effect of lower FDI will be a similar slowdown in the economies of developing countries.

44. A major impact of the global economic crisis is the putting to an end the four years of brisk expansion of FDI flows since 2004. As the economic crisis has its roots in developed economies, which are the main sources of ASEAN FDI inflows, it is thus not unexpected that FDI inflows from these countries will be affected to some extent. An FDI flow reversal is thus assumed with a decrease in global FDI flows in 2008 and 2009. This would parallel the situation in the 2000/2001 global economic slowdown when FDI inflows declined by 41% in 2001 and which continued to fall over the following two years. However, given the greater severity of the present crisis, the impact on FDI flows may be considerable.

[2] IMF World Economic Outlook Update, November 2008
[3] World Bank "Global Economic Prospects 2009"

45. ASEAN's strong economic fundamentals and relative minor exposure to the banking crisis puts it in good stead to weather the current economic crisis. While there is no denying that ASEAN is not immune from the current financial volatility and uncertain economic conditions, it is in a better position to withstand the crisis due to stronger BOP positions and continued sustained growth. Approved investment figures for the first six months of 2008 demonstrated continued high foreign investment interest. However, given that the extent of the economic and financial crisis only became more apparent in the second half of 2008, it remains to be seen if such investments would be realised in 2009. Under these trying conditions, the impact on ASEAN's growth and investment could be mitigated if stimulus policies implemented by ASEAN countries work to sustain domestic demand including enhanced spending on investment.

46. The conclusion of the ASEAN Comprehensive Investment Agreement (ACIA) in 2008 is thus very timely. ACIA consolidates the previous ASEAN Investment Area Agreement (AIA) and investment guarantee provisions as well as expand into a broader investment agreement that focuses on enhancing the investment environment and protection for investors.

47. The challenge for ASEAN is thus to maintain a policy environment that remains attractive to foreign investment. This would include maintaining expansionary macroeconomic policies and its present momentum of economic liberalisation and integration initiatives. Given that recovery is expected in 2010, the time is now to put into place measures that will continue to attract capital once global economic conditions improves in 2010. The conclusion of several FTAs with major trading partners such as China, Japan (EPA), Korea, Australia, New Zealand and India (Goods) will continue to be major drivers of ASEAN's pull factors as an investment destination.

48. The strong momentum of ASEAN's internal and external integration measures will increasingly enhance the competitiveness of ASEAN as a major investment destination as evidenced by the increase in ASEAN's share of Asian FDI in recent years. The strong growth in intra-ASEAN investment over the last few years should result in greater inter-relatedness among the ASEAN economies. Hence, given the synergies from economic integration, further deepening of market integration should continue to provide impetus to the economic expansion of ASEAN in 2009, and mitigate the effects of a downturn in developed countries on investment flows.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

49. The uncertain global economic conditions are expected to have a sobering impact on FDI flows and present greater challenges to ASEAN in the near future. The World Bank[4] noted that tighter credit conditions, weaker capital inflows and a sharp reduction in global import demand are expected to be the main factors driving the slowdown in developing countries' investment growth. A recent estimate by the OECD put the decline in FDI flows to developing countries at 40% in 2008.

50. In light of these more challenging conditions, ASEAN Member States' policy stance have been focused on sustaining growth and employment through more liberal fiscal and monetary policies. ASEAN will also benefit from pursuing its integration goals as set under the AEC Blueprint, including greater economic cooperation and integration with major trading partners under the Free Trade Agreements.

[4] World Bank "Global Economic Prospects 2009"

ANNEX

UPDATES OF FDI AND NEW INVESTMENT MEASURES INTRODUCED BY ASEAN MEMBER COUNTRIES[5]

Trends and Developments on FDI and New Investment Measures introduced by ASEAN Member Countries in 2007

Country	Trends and Developments on FDI
Brunei Darussalam	**Foreign Direct Investment in 2007 (BOP Basis)** There was a decline of 43% in overall Foreign Direct Investment (FDI) inflows in 2007 to US$260.2 million, from US$457.6 million in 2006. In terms of source country, Japan contributed 29.5% to total FDI inflows with a value of US$76.6 million. This was followed by Malaysia at 15.9% (US$41.2 million), United Kingdom at 14.2% (US$37 million), Canada at 10.2% (US$26.4 million), Singapore at 7.8% (US$20.2 million), Hong Kong at 7.7% (US$19.9 million), USA at 7.7% (US$19.9 million) and China at 6.6% (US$17.2 million). The European Union (EU) contributed 14.5% of total FDI inflows, amounting to US$37.6 million. Within EU, the United Kingdom was the largest investor with US$37 million. ASEAN countries contributed 23.9% with a value of US$62.2 million. Within ASEAN, Malaysia was the largest investor contributing about 66.3% with a value of US$41.2 million in which the majority of investments were in the manufacturing and financial services sectors. In term of economic sectors, financial services was the largest recipient of FDI inflows and accounted for 38.5% of total FDI inflows with a value of US$100.2 million, followed by mining & quarrying at 31.2% (US$81.2 million), manufacturing at 29.1% (US$75.7 million), construction at 0.5% (US$1.26 million), real estate at 0.37% (US$0.97 million), trade 0.23% (US$0.61 million) and others at 0.09% (US$0.20 million) **Approved Foreign Investment in 2007** In 2007, there were 6 new projects in the Manufacturing sector valued at US$17.1 million compared with the previous year of 5 projects with a value of US$4.11 million.

[5] Submissions from ASEAN Member States

Country	Trends and Developments on FDI
Cambodia	**Foreign Direct Investment Flows and Investment Abroad in 2007 (BOP Basis)** Based on foreign investment project approval data, net FDI inflow was estimated at US$866.2 million for 2007, up from US$391.4 million net inflow recorded in 2006. This was due to an increase of US$290.1 million in the non-bank sector and US$94 million in the banking sector. The main inflows in the non-bank sector during that period were investments in telecommunications, garments, agriculture, resorts, and beverages which accounted for 28%, 22%, 17%, 10% and 5%, respectively. During the same period, the net outflow of Cambodian direct investment abroad was estimated to be minimal. The level of Cambodian direct investment abroad is also quite small, and mainly comprised of capital investment in housing and retail businesses. The level of actual foreign direct investment in Cambodia amounted to US$3,821.5 million in 2007, up from US$2,954.2 million at the end of 2006. These estimates were based on accumulated flows data since 1994. Up to 2007, FDI was dispersed in several industries, mainly in: garments, banks, hotels and resorts, telecommunications, wood paper and publishing, and agriculture. China had the largest share of investment by country of investor, followed by Malaysia, Thailand, Taiwan, and Korea. **International Investment Survey** The International Investment Survey for the reference year 2006 was conducted by the National Bank of Cambodia (NBC). Based on the survey results, total international investment in the Cambodian private sector is estimated to be around US$4,390 million (BOP-FDI = US$4,360.8 million) as at 31 December 2006, almost 49% higher compared to current IIP estimates of US$2,954.2 million. The main reasons for the higher survey estimates are: the cumulative effect of reinvested earnings for Council for the Development of Cambodia (CDC) registered enterprises and the currently unrecorded contribution of FDI in non-CDC registered enterprises. There were 652 enterprises selected and interviewed for the international investment survey (IIS), of which 541 enterprises submitted their completed Forms to NBC. The effective

Country	Trends and Developments on FDI
	response rate for the survey was 83% of the total. NBC considers the possibility of extrapolating the IIS result backward to the previous years. If necessary, NBC will run another IIS survey to collect data for 2007. For further information on the survey result, please refer to *the Report on the International Investment Survey 2006*. **Approved Foreign Investment in 2007** In 2007, the inflow of foreign investments into Cambodia was US$1,344.5 million, a reduction of US$1,018.9 million compared with 2006. This was due mainly to the absence of investment in the Electricity, Construction and Exploration and Oil Refining sub-sectors. However, during that period, foreign investment in garments, agriculture and resorts continued to increase, by US$62.42 million, US$62.35 million, and US$52.5 million, respectively. In addition, the main inflows of foreign investment projects approved by the CDC in 2007 were telecommunications (US$422.4 million) and packaging (US$17.3 million). In 2006, the major foreign investment projects were: construction (US$988.3 million), exploration and oil refining (US$400 million), resorts (US$277.7 million), agriculture (US$231.9 million), electricity (US$192 million), and garments (US$89.4 million).
Indonesia	**Foreign Direct Investment in 2007 (BOP Basis)** Direct Investment (DI) in Indonesia in 2007 registered a net surplus of US$5.6 billion, an increase of 13.4%. The DI increase was mainly supported by the growing DI inflow in the non-oil and gas sector which recorded a 60.5% increase. Meanwhile, in the oil and gas sector, FDI inflows of US$7.2 billion were recorded, an increase of 8.5%. The outflow of DI in Indonesia was US$12.3 billion, an increase of 34.2% from 2006. The main reason was the higher debt repayments from the non-oil and gas sector companies to their parent companies abroad, which reached US$6 billion, a significant increase of 81.5%. The increase in investment in the non-oil and gas sector was in line with expanding domestic economic activities, such as the acquisition of affiliated companies of Bumi Resource by Tata Tower Company Ltd. (India).

Country	Trends and Developments on FDI
	The increase on inflow of DI in oil and gas sector from US$6.6 billion in 2006 to US$7.2 billion in 2007 - which was in line with the sharp increase of oil prices - has a positive impact on the acceleration of oil and gas exploration and exploitation activities. On the other hand, the hike in oil prices was also a main factor driving the increase in oil and gas sectors outflow in the form of cost recoverables. Cost recovery has increased 7.1% from US$5.8 billion in 2006 to US$6.2 billion in 2007. **FDI in Indonesia by Country of Origin** In 2007, most of the FDI into Indonesia originated from the Netherlands (US$1.8 billion), Japan (US$0.96 billion), Singapore (US$0.8 billion), Germany (US$0.3 billion) and South Korea (US$0.2 billion). These five countries' total investment was US$4.2 billion or 75% of total FDI into Indonesia. The main investors in oil and gas sector, according to country of origin, were USA, France, Japan, China, and UK. These five countries invested nearly US$0.8 billion and accounted for 88% of total investment in the oil and gas sector. Meanwhile for the non-oil and gas sector, the main investors were the Netherlands, Japan, Singapore, Germany and Malaysia. Their investments accounted for 77% of total investment in the non-oil and gas sector. The main creditors providing inter-company loans to Indonesian enterprises were the Netherlands, Japan, Singapore and USA. In terms of loan disbursement, their funds accounted for US$4.3 billion or 79% of total loan disbursement. While for loan repayment, these four countries accounted US$4.2 billion or 69% of total loan repayments made by companies to their foreign creditors. **FDI in Indonesia by Economic Sectors** The composition of FDI flows by economic sector remained focused on manufacturing, financial institutions, mining, services and agriculture. These five sectors accounted for 92% of total FDI in Indonesia.

Country	Trends and Developments on FDI
	FDI in Indonesia: Outlook for 2008 Continuous improvement in the investment climate and stable macroeconomic conditions are expected to be major factors driving incoming foreign investment to Indonesia. The effort to create favorable conditions were also supported by the convening of a series of infrastructure summits, the results of which were the implementation of projects on energy (Paiton 3-4), gas pipeline (East Kalimantan-Java, Duri-Dumai-Medan), new airport in Medan, and the road & toll road projects (Cikampek-Palimanan and Cikarang-Tanjung Priok). The implementation of these projects would hopefully attract more FDI inflows into Indonesia. The projection of net FDI inflows for 2008 is US$6.4 billion, an increase of 16% over 2007. In gross value, total inflow is projected to be US$19.4 billion, while outflows are US$12.9 billion. FDI inflow projections by sector will compose of US$11.6 billion (about 60%) for the non-oil and gas sector and the remaining in the oil and gas sector. **Recent Activities in Improving FDI Data** In 2007, Bank Indonesia took measures to improve the quality of Foreign Direct Investment (FDI) data. Current results indicate the need for: (i) improving FDI survey forms (ii) assessing the equity component of listed companies in order to improve FDI estimation, and (iii) conducting assessments of merger and acquisitions data. **Improving FDI Survey Form** The Foreign Direct Investment Survey (FDIS) has been conducted by Bank Indonesia (c.q. Balance of Payment Bureau) since 2000. However, the low response rate (approximately 40%) from the surveys compiled remained a major problem. Respondents' problems are: (i) FDIS questionnaire seems too complicated; (ii) FDIS seek almost similar data and information contained in other reports requested by Central Bank, i.e. the external debt report (SIUL) and international transaction reporting system (LLD). Considering these problems, Bank Indonesia has started a multiyear work-program in 2008 to integrate the external debt report (SIUL), the international transaction reporting system (LLD), and other related surveys. At this moment, in supporting the integration or simplification of surveys, FDIS forms have been simplified by eliminating part of the questions

Country	Trends and Developments on FDI
	on data that could be obtained from other sources such as the external debt report, specifically on data of liabilities to direct investor and liabilities to direct investment enterprises. Data of external debt reporting system (SIUL) is also employed for constructing Indonesia International Investment Position (IIIP), especially to fill FDI's stock data - Other Capital. Furthermore, efforts are being made to provide assistance to respondents who have difficulties in completing FDIS questionnaires through group or individual-based focus discussions. **Assessing Equity Component of Listed Companies of Indonesia Stock Exchange** The methodology in calculating the equity component of FDI's data is being revisited. As a start, there has been analysis on financial reports of all the Listing Companies on Indonesia Stock Exchange. The samples are divided into two main groups: (i) companies with individual non-resident investor who own shares more than 10%, (ii) companies with individual non-resident investor who own shares of 10% or less. Quarterly changes of equity capital and equity securities of every company are being observed. The data results will be used in improving the quality of FDI and portfolio investment data. At present, FDI data in form of equity is estimated from foreign borrowings (SIUL report) by assuming that a certain percentage of it is equity. However, the percentage or ratio needs to be observed periodically to get a more realistic number in order to have better estimation. **Conducting Assessment on Merger and Acquisitions Data** In addition to obtaining more comprehensive information on direct investment transactions, Bank Indonesia has conducted continuous assessments of M&A transactions taken from media reports. The assessment also employed data from Thomson and Thomson data reports that will be followed by detail information searching process. Steps of assessment are as follows: first, searching via internet and or other publication regarding M&A issues in order to obtain more detailed information. Second, identify M&A transactions by registering the related parties. Third, record M&A transactions and analyse its effect on compilation of BOP FDI. Since February 2008 BOP publication, the data resulted from this

Country	Trends and Developments on FDI
	study have been incorporated in the compilation of the BOP FDI. **Approved Investments in 2007** There has been a significant increase in approved investments in the manufacturing sector in 2007, with US$27.2 billion worth of approved investment, compared with US$8.3 billion in 2006 and US$6.1 billion in 2005. The total value of investments approved in the manufacturing sector in 2007 is the highest recorded since the economic crisis hit Indonesia in 1998. The significant rise of investment came from ASEAN countries, where investments rose from US$0.7 billion in 2005 to US$1.5 billion in 2006 and US$1.9 billion in 2007. North America (USA & Canada) accounted for the largest share of foreign investment in 2007, amounting to US$13.3 billion or almost 50% of total investment approved in 2007. The second highest share came from joint countries amounting to US$7.4 billion or 27% of the total investment approved this year. ASEAN countries contributed the 3rd largest, amounting to US$1.9 billion or almost 7% from the total investment approved. The other countries like Bermuda and Cayman Island contributed US$1.6 billion or almost 6% while Europe is the 5th highest with US$0.8 billion or 3% from the total investment approved. Similar levels of investment originated from ASEAN NIEs countries with US$0.8 billion or 3% and Asia with US$0.7 billion or 2.5%. Japanese investments only reached US$0.5 billion or almost 2% of total investment approved this year. The last were investments from Australasia (Australia and New Zealand) amounting to US$0.2 billion or 0.8% from the total investment approved. In terms of approved foreign investment in the Manufacturing sector, foreign investments in Indonesia were mainly from Chemicals and Chemical products (ISIC 24) with the amount of US$14.1 billion or almost 50% from the total investment in 2007. The second was from Paper and Paper Products (ISIC 21) with the amount of US$6.8 billion or 25% from the total investment and the third coming from Food Products and Beverages (ISIC 15) with an amount of US$1.7 billion or 6% from the total investment. Coke, Refined Petroleum Products and Nuclear Fuel (ISIC 23) were the fourth highest with the amount of US$1.2 billion or 4.4% of total investment. The fifth was Basic Metals (ISIC 27) with the amount of US$0.9 billion

Country	Trends and Developments on FDI
	or 3.7% of total investment. The rest were Radio, Television & Communication Equipment & Apparatus (ISIC 32), Motor Vehicles And Trailers (ISIC 34), Other Non Metallic Mineral Products (ISIC 26) with the approximate amount of US$0.3 billion or around 1% of total investment and Wood & Wood products (ISIC 20) and Rubber & Plastic products (ISIC 25) both with the amount of US$0.2 billion or less than 1% of the total investment approved in 2007. **Investment Policy and Regulation** The Government of Indonesia has been strengthening the investment regulation with the enactment of Law Number 25 in the first month of 2007. The objective is to make Indonesia a better place for investors from all over the world to invest through a clean government, in a profitable and secure environment, with reduced bureaucratic investment procedures as stipulated in Presidential Instruction Number 6 in 2007. The Instruction no. 6 assigns the Chairman of the Indonesian Coordinating Board (BKPM) to use one single system (window) to expedite investment procedures in the central and regional government. In order to develop one single window for investment activities, a few teams were set up in 2007/2008 involving more than twenty ministries and a group of personnel. The system is under construction and expected to be completed by the year 2008.
Lao PDR	**Foreign Direct Investment Flows in 2007 (BOP Basis)** BOP-FDI through the banking system has seen significant upward trend in the past few years. In 2007, FDI registered was US$322.7 million, an increase of 72%, compared with 2006. Much of the inflows were attributed to the Agriculture sector which accounted for US$62.6 million, Manufacturing US$44.9 million, services US$38.6 million and Financial Intermediation US$26.4 million. Major foreign investors were Thailand (US$85.9 million), followed by Taiwan (US$20.7 million), Korea (US$14.6 million), Japan (US$10.2 million) and Singapore (US$ 10.15 million). In terms of intra-ASEAN flows, Thailand remained the largest contributor in 2007, with investment mainly in the Agriculture and Manufacturing sectors. The second largest was Singapore in the services sector, and followed by Viet

Country	Trends and Developments on FDI
	Nam in the electricity sector. In terms of FDI classified by zones, apart from joint countries, ASEAN contributed the largest flows of capital with a value of US$100.35 million, followed by ASEAN NIEs US$35.41 million, and Europe US$20.98 million. **Improvement of FDI Data Collection and Coordination** For improvement of FDI data collection, compilation and coordination, there were some developments during 2007 as follows: • Completed the development of a database management programme, or the so called International Transaction Reporting System (ITRS). This programme was launched in May 2008; • Established a working group among concerned agencies: Bank of the Lao PDR, National Statistical Centre, and Department for Domestic and Foreign Investment, to work on relevant-FDI issues to find a better way for improving quality of data and timeliness of report; and • Initiated designing 'enterprises survey forms', in particular to capture data on investment position and external debts. The operation of the survey will be in between 2008-2009. **Approved Foreign Investment in 2007** In 2007, the total number of projects approved was 124, amounting to US$884.9 million, a significant decreased of 72.6%, compared with the total FDI flow in 2006 ofUS$3,235 million). Of this, 81.7% was from ASEAN countries, with a total of 82 projects approved amounting to US$723 million. Other major FDI flows were from Korea, Viet Nam, Thailand, China and UK. In terms of the project value, the investment was in the Electricity sector (39.6%), Manufacturing (12.5%), Social and Personal Services (12.3%), Mining (5.7%), and Hotels and Restaurants (5%). FDI in Manufacturing in Lao PDR in 2007 mainly focused on Wood and Straw products, Rubber and Plastic products.

Country	Trends and Developments on FDI
	Investment Policy and Regulations Lao PDR has amended the investment promotion law (both domestic and foreign investment laws) in 2005 with the objective to facilitate better investment promotion and to attract more investments into Lao PDR. This Law aims to introduce the single window service or "one stop service", which consists of members from line ministries in order to facilitate the fast track approval for the foreign investment project. **Issues and Challenges** The FDI data collecting and recording do not comply with the ASEAN's statistic framework. However, the National Statistics Department is constructing the data using a database system which would comply with the ASEAN's CIC. This process will be assisted by the National Statistics Department and the Bank of Laos. The Department is also facing a shortage of technical staff that fully understands the collection and recording of data. The support and assistance from the Working Group on Foreign Direct Investment Statistics (WGFDIS) in establishing a good system which complies with the ASEAN system would help in facilitating the FDI database in the future. However, Lao PDR is now ready to support and work to make the Lao PDR FDI data system to match ASEAN and international standards in order to have a good investment tracking system and promote a better foreign investment environment.
Malaysia	**Foreign Direct Investment in 2007 (BOP Basis)** In 2007, Malaysia's FDI registered a net inflow of US$8.4 billion, a significant increase of 37.7% from that of US$6.1 billion in 2006. Such an increase was attributable to higher net inflow of equity amounting to US$ 3.9 billion, compared with US$3.2 billion recorded in 2006, coupled with reinvested earnings, which rose 5.2% to US$4.7 billion from US$4.4 billion in 2006. Meanwhile, loans showed lower net outflow of US$0.2 billion in 2007 from (-US$1.5 billion) last year. **Major Source of FDI by Country** In 2007, Malaysia received the biggest amount of direct investment from Singapore (US$3.5 billion). Other economies which had also significant shares were Japan (US$0.9 billion), Portugal (US$0.8 billion) and USA (US$0.7 billion). These four

Country	Trends and Developments on FDI
	economies had accounted for 70.2% of the total FDI flows into Malaysia. Excluding Singapore and Thailand (US$0.3 billion), FDI from other ASEAN countries was marginal. **FDI by Economic Sector** In terms of economic sector, Manufacturing was the biggest recipient of FDI inflows in 2007 amounting to US$3.1 billion. This was followed by Agriculture, Hunting & Forestry which accounted for US$2.0 billion, financial intermediation (US$1.7 billion) and Mining & Quarrying, US$1.2 billion. Notably, these four main sectors contributed to about 97% of the total FDI in Malaysia in 2007. **FDI by Country and Sector** In 2007, the Manufacturing sector had the largest FDI inflows, with investment from the European Union (US$1.5 billion) and Japan (US$0.5 billion). For ASEAN countries, the biggest investment in the sector came from Singapore (US$0.8 billion). In 2007, Singapore was not only the biggest source of FDI inflow amounting to US$2.0 billion in Agriculture, Hunting & Forestry sector, but also contributed the biggest share in the financial intermediation sector amounting to US$0.5 billion. Equally important, other sources of FDI inflow were to the financial intermediation sector, with foreign investment from the European Union (US$0.4 billion) and USA (US$0.4 billion). **Outlook for FDI in 2008** FDI into Malaysia is expected to remain strong, despite the intense competition for investment, as well as the more cautious global economic outlook in 2008. In line with the existing large presence of MNEs, FDI is expected to be generated mainly in the form of earnings retained for reinvestment and new inflows of equity capital. FDI is also anticipated to remain broad based, dispersed among the Manufacturing, Services and Oil And Gas sectors. In the Manufacturing sector, FDI is expected to remain strong, encouraged by the record level of approved foreign projects in this sector in 2006 and 2007, respectively (2006: US$5.9 billion; 2007: US$9.7 billion). These approvals were mainly for high value-added Electrical and Electronics (E&E), Chemical-related and Petroleum-related industries. In the services sector, the Wholesale and Retail trade, Hotels and

Country	Trends and Developments on FDI
	Restaurants sub-sector would continue to receive foreign investment in line with strong consumption and tourism activities. Meanwhile, in the Financial Services sub-sector, it is anticipated that there will be significant acquisition of strategic domestic interests, particularly in Islamic banking and Takaful activities. FDI in the Oil and Gas sector will continue to remain strong, in line with sustained elevated energy prices. **Approved Foreign Investments in 2007** In 2007, a total of 469 projects with foreign participation involving investments of US$9.7 billion were approved, as compared with US$5.9 billion in 571 projects in 2006. Foreign investments in 2007 were the highest recorded to date and marked the fourth consecutive year of increase. Malaysia continues to be a competitive location for new manufacturing projects with foreign investments of US$5.0 billion and expansion/diversification projects involved US$ 4.7 billion foreign investments. Existing foreign companies have also continued to show their confidence in Malaysia through their re-investments in expansion/diversification projects, amounting to US$8.4 billion. **Foreign Investments by Industry** Foreign investments were mainly in the following industries: **US$** a. E&E Products 3.98 billion b. Petroleum Products (incl. petrochemicals) 1.54 billion c. Basic Metal Products 1.45billion d. Paper, Printing & Publishing 409 million e. Chemicals & Chemical Products 453 million Investment in the E&E industry increased by 59.3% to US$3.98 billion in 2007 compared with US$2.3 billion in 2006. Malaysia is continuously attracting investments in high value-added products/activities such as wafer fabrication for ICs and Light Emitting Diodes (LED), solar cells, advanced packaging and substrates. The presence of these activities is a testimony that Malaysia is ready in terms of infrastructure, facilities, human resource and government support to meet the demands of high technology and knowledge-intensive industries.

Country	Trends and Developments on FDI
	Foreign Investments by Country The top five sources of foreign investments in 2007 were: US$ Japan 1.9 billion Germany 1.1 billion Iran 901 million USA 878 million Singapore 858 million By region, Asia accounted for the largest share with US$5.5 billion or 57%, including US$920.5 million from ASEAN Member States. This was followed by Europe (US$2.0 billion) and North America (US$893 million). Japan was the largest source of foreign investment in 2007, with 60 projects approved involving investments of US$1.9 billion. Approximately 42% of Japanese investments were in the E&E industry, producing a wide range of products including Wafer Fabrication & Semiconductor Devices, Integrated Circuits and Transistors and LCD Television Receivers. Germany with investments mainly in E&E products industry (RM814 million) emerged as the second largest source of foreign investments in 2007. Iran's investments were mainly due to its participation in a joint venture petroleum refinery project. USA was fourth largest sources of foreign investment with US$878 million in 33 projects. Investments from the USA were recorded highest in Petroleum Products (including petrochemicals) industry, producing hydrogen, liquefied petroleum Gas (LPG), chemical naphtha, ethylene and crude butane. Singapore was the fifth largest source of foreign investments with US$858 million in 108 projects. Singapore investments were in a wide range of products, from Food Manufacturing to Electrical and Electronics.

Country	Trends and Developments on FDI
	Approved Foreign Investments in 1st Half 2008 In the period of January-June 2008, Malaysia received a total of US$7.2 billion of foreign investment, or 72% of the total investment. The amount of foreign investments approved in the year 2007 was US$9.7 billion, 55.7 per cent of total investment approved. The substantial amount of foreign investment was from the Basic Metal products industry (US$5.3 billion or 74% of total foreign investment) followed by the Electronics & Electrical products industry (US$1.8 billion/25%). Foreign investment in January-June was concentrated in the following industries: 1) Basic Metal Products (US$5.3 billion) 2) Electronics & Electrical Products (US$1.8 billion) 3) Transport Equipment (US$469.2 million) 4) Chemicals & Chemical Products (US$455.1 million) 5) Food Manufacturing (US$352.7 million) Australia was the largest source of foreign investment in January-June 2008 with investment of US$3.9 billion, accounting for 54.2% of the total foreign investment. This was followed by Germany (US$1 billion), USA (US$ 840.3 million), Taiwan (US$245.3 million) and Singapore (US$231.6 million). **Measures Announced/Introduced in 2007 to Attract Greater FDI Flows** <u>Incentives Introduced under the 2008 Budget</u> • Reduction in corporate income tax to 26% in 2008 and 25% in 2009. • Implementation of a single-tier tax system where profits are taxed at the company level and dividends distributed to shareholders are exempted from tax. • Incentives for companies investing in medical testing laboratories. • Enhancement of incentives for companies generating renewable energy and companies involved in conservation of energy. • Incentives for companies that invest in Greenhouse Gas emission reduction projects. • Relaxation of guidelines for the purchase of property by foreign investors, and the abolishment of real property gains tax, effective 1 April 2007.

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	Foreign Exchange Measures <u>Liberalisation of Foreign Exchange Administrative measures such as:</u> • Removal of the overdraft limit of RM200 million for foreign stock broking firms; • Abolishing the limit on the number of residential or commercials loans acquired by non-residents; • Allowing offshore banks to appoint overseas branches as a vehicle to facilitate the settlement of any Ringgit assets of their non-resident clients; and • Removing the restriction on Labuan Offshore Banks, to transact in Ringgit, on behalf of non-resident clients. <u>Enhancement of the Government Delivery Systems</u> • A mechanism has also been introduced to 'hand-hold' and assist investors in obtaining all necessary approvals until projects are operational. • Establishment of a Cabinet Committee on Investment to consider projects from investors which are high impact in nature and which require special Government consideration. • Establishment of a special task force (PEMUDAH) to facilitate business in Malaysia. This task force has been given the mandate to identify and propose appropriate measures to improve procedures, regulations and existing laws, and its first task was to cut red tape in local governments to ensure their delivery system is business-friendly. • Establishment of District Industry Implementation Units (DIIU) to monitor the implementation of projects at the district level and provide the necessary assistance to expedite the approval process. DIIUs will be chaired by the relevant District Officers/Council Presidents and MIDA will act as the secretariat.

Country	Trends and Developments on FDI
	• Establishment of an immigration branch office in MIDA to expedite the issuance of work permits and visas to expatriates and their spouses. • Establishment of 10 new MIDA overseas offices and upgrading of existing overseas offices.
Myanmar	**Foreign Direct Investment Flows (BOP Basis)** In terms of BOP FDI data, the actual inflow in the year 2006-2007 was US$427.69 million. FDI data during the first six months period of 2007-2008 reached an uptrend of US$251 million due to approved oil & gas projects, actual in flow amount were more than the approved invested amount. **Approved Foreign Investment** Since the promulgation of the Myanmar Foreign Investment Law, Myanmar Investment Commission had approved 419 projects from 28 countries and regions up to the end of August 2008. There were 154 projects in the Manufacturing, 85 in Oil And Gas, 60 in Mining, 43 in Hotel And Tourism, 25 in Livestock And Fisheries, 19 in Real Estate, 16 in Transport And Communication, Six in Other Services, four in Agriculture, Three in Industrial Estate, two in Power Sectors and Two in Construction Industries. The FDI in these projects amounted to US$15.59 billion. The major investors in Myanmar in 2006-2007 were Thailand, UK, Singapore, China and Malaysia. These countries accounted for about 81.5% of the total amount of FDI. Among the ASEAN countries, seven countries namely: Thailand, Singapore, Malaysia, Indonesia, the Philippines, Viet Nam and Brunei Darussalam have collectively pledged about US$9,999.6 million worth of investment in projects. These projects accounted for 64.1% share of the total FDI flow to Myanmar. The FDI trend was satisfactory during the period of 1992/1993 to 1996/1997, when it started to decline slightly due to the Asian financial crisis. It reached US$2,814.24 million in 1996/1997 which was the highest level since 1989/1990. The regional financial crisis has indirectly affected FDI flows of ASEAN investors into Myanmar which constitutes about 59% of the total investment flow during that period. The post crisis

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	has indirectly affected FDI showed a slight increase in 1999/2000 and onwards. This improved trend shows the FDI continues to increase in the future. The positive growth of FDI was recorded in 2006 because of the Ta Sang Hydropower Projects made by Thailand in the amount of US$6,030 million. In the year 2006, Myanmar Investment Commission approved 5 projects worth US$6,412.40 million, among others the hydropower projects from Thailand accounted for US$6,030 million or 94% of the total FDI in this year. In the year 2007, Myanmar Investment Commission had approved 14 projects worth US$538.02 million in only Livestock and Fishery, Oil & Gas and Manufacturing sectors. Up to August 2008, Myanmar Investment Commission approved 2 projects worth US$860.99 million in only the Mining Sector.
Philippines	**Foreign Direct Investment in 2007 (BOP Basis)** The Philippines continues to attract foreign investors in 2007 as a result of the country's sound macroeconomic fundamentals. In particular, investor sentiment was boosted by sustained strong fiscal position, easing inflation and expectations of strong economic growth. As a result, net inflows of foreign equity capital reached US$2 billion in 2007, 52.6% higher than the year-ago net inflow of US$1.3 billion. Specifically, gross equity capital placements expanded by 28.2% to US$2.2 billion during the year. These were channelled largely into Manufacturing (Electronics, Health and Chemical Products, Food, Automotive Sensor and Safety Products, Decorative Crafts and Moulded Plastic Products, Cleaning Products), services (International Courier, Information Technology Development, Multimedia service provider), Construction, Mining, Real Estate, Financial Intermediation and Agricultural Industries. The bulk of these inflows came from Japan, USA, the U.K., Germany, South Korea, Malaysia, and Hong Kong. The reinvested earnings account during the year rose to US$567 million from US$485 million in 2006, as favourable corporate reports encouraged foreign direct investors to plough back a portion of their earnings into local enterprises/corporations.

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	Meanwhile, the other capital account, which consists largely of inter-company borrowing/lending between foreign direct investors and their subsidiaries/affiliates in the Philippines registered a lower net inflow of US$341 million compared to the net inflow of US$1.1 billion a year ago. This developed as local affiliates settled loans obtained from their parent companies abroad amounting to US$1.5 billion. As a result of the loan repayment to foreign parent companies, total net inflows of FDI increased by only US$7million in 2007 to reach US$2.9 billion. **Foreign Direct Investment in 2008 (up to January)** Foreign direct investments (FDIs) in January 2008 recorded a net inflow of US$133 million, 15.7% higher than the US$115 million posted in 2007 due largely to higher equity capital placements. In particular, non-residents' gross equity capital placements surged to US$126 million from only US$59 million last year. The bulk of these investments came from Japan, USA, Malaysia, and Korea. Major recipient industries included financial intermediation, manufacturing (ship building/repair), services, construction, and real estate. Reinvested earnings to FDI enterprises in the country amounted to US$ 23 million, albeit lower by 48.9% than the year-ago level of US$45 million. Meanwhile, the other capital account, the bulk of which were loans granted by head offices to their subsidiaries in the Philippines, amounted to US$17 million, lower than the level last year as subsidiaries paid off some of their maturing loans. **Approved Foreign Investment in 2007** The total approved FDIs in 2007 reached US$4.8 billion from US$3.2 billion in 2006, registering a 49.1% increase during the period. Of the total approved FDIs in 2007, 21.4% came from Singapore, which intended to extend US$1 billion worth of investments, mostly to finance projects for the electricity industry. Singapore's investment is the highest since the compilation of the consolidated FDI statistics in 1996. Japan and USA account for 17.5% and 16.3% of the pie, respectively with US$835.4 million and US$781.7 million, intended mostly for the Manufacturing industry. A significant portion of

Country	Trends and Developments on FDI
	investments from the USA is expected to go to the Private Services industry as well. Of the 122,813 new jobs expected from total approved FDI in 2007, the Private Services industry stands to contribute 45.5%, Manufacturing, 41.4%, and Finance and Real Estate industry, 5.8%. The Manufacturing industry topped all other industries as it garnered 36.6% of total approved FDIs during the year albeit a decline in investments, from US$2.2 billion in 2006 to US$1.8 billion in 2007. The bulk of investments in Manufacturing came from Japan, pledging US$794.7 million and USA with US$516.3 million, comprising 45.4% and 29.5%, respectively of total approved investments in the sector. Other top investors include the Netherlands with US$126.7 million and India with US$100.2 million. More than half (57.4%) of the investment commitments to Manufacturing or US$1 billion were intended to the manufacture of Radio, Television and Communication Equipment and Apparatus. This was followed by investments in the manufacture of Motor Vehicles, Trailers and Semi Trailers, with 10.8 share or US$ 189.5 million. Manufacture of Office, Accounting and Computing Machinery; and Other Transport Equipment shared 8.2% and 6.3%, or US$142.8 million and US$111.1 million worth of investments, respectively. A great majority of investments intended for the Manufacture of Radios, Televisions and Communications Equipment and Apparatus came from the USA and Japan. Japan's other investment pledges were in the manufacture of Motor Vehicles, Trailers and Semi-Trailers while major chunk of the Netherlands' commitments are intended for the Manufacture of Office, Accounting and Computing Machinery. **National Measures and Policy Changes Introduced/Announced in 2007-2008** FDIs are expected to post net inflows in 2008 with investors taking advantage of the country's improving investment climate. To wit:

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	a. **2007 Investments Priority Plan (IPP)** The 2007 IPP continues to utilise the Industry Cluster approach to enhance industrial competitiveness, promote investments in the countryside, develop Micro, Small, and Medium Enterprises (MSMEs), and support the OTOP (One Town One Product) Program as it applies to the activities listed in the IPP. b. **Implementation of RED (Retention, Expansion, and Diversification) Program** Projects and activities of existing investors either considered as global players or engaged in strategic industries that are encouraged for retention, expansion, and diversification of their operations in the country are included in the 2007 Investments Priorities Plan. This will enable them to avail incentives prescribed under E.O.226, *The Omnibus Investments Code of 1987*, as amended, subject to the General Policies and Specific Guidelines issued by the Board of Investments (BOI). c. **Full Implementation of SIAP (Strategic Investor Aftercare Program)** As part of the Department of Trade and Industry's (DTI) function to provide services to investors, SIAP was designed to ensure effective and sustained interaction between the BOI and key investors for the purpose of providing prompt and adequate service. The program also aims to assist in handling issues and concerns affecting company operations in the Philippines through the help of the Investment Promotion Network which links the BOI with 28 government agencies through an established referral system. In 2007, the BOI-One Stop Action Center was able to resolve 28 issues encountered by investors. d. **Infrastructure Programs** The government is increasing its investments in infrastructure to reduce cost of doing business. In response to investor concerns pertaining to the limited infrastructure in the country, the DTI, through Build-Operate-Transfer (BOT) Center, the National Development Company (NDC), and the NDC-Philippine Infrastructure Corporation (PIC) continue to address these concerns through construction of modern infrastructure.

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	The newly constructed Subic-Clark-Tarlac Expressway (SCTEX) which opened in April 2008 not only links physically the natural deep seaport of Subic with the Clark International Airport, but it will also significantly improve the operation efficiency of business enterprises operating in these growth areas, as the travel time between Subic and Clark has been cut to only 30 minutes. Further, the SCTEX has been linked with the North Luzon Expressway, making the two ports more accessible to Metro Manila. This vital infrastructure will further enhance the emerging status of the Clark and Subic as among the most efficient and competitive Freeports in the region. In 2 to 3 years time, a rail system which will connect Clark with Metro Manila will further expand the modes of transport available in this growth area. Ultimately easy access to sea, land, air and rail routes will greatly boost the efficient and economic movement of passengers and cargoes. Expansion of the Diosdado Macapagal International Airport (DMIA) in Clark is underway to increase terminal capacity to 2 million passengers per year. This will increase to 10 million capacities once terminal 2 is constructed in the year 2009. e. **Privatization of Power Generation and Transmission** The government is vigorously pursuing privatisation of power generation and transmission as a way of stimulating investments in the sector as well as in reducing its costs. One goal is to sell 70% of the power generation assets in Luzon and Visayas by end of 2008. Having started with sales of relatively small hydropower plants, the government expects to sell major facilities, including two 600-megawatt coal-fired thermal plants, and to award the concession for transmission assets in 2007 and 2008. f. **Banking and Capital Market Reforms** The Bangko Sentral ng Pilipinas (BSP) remains committed to maintaining a more financially viable and stronger banking system in 2008. Specifically, the BSP will continue to push for banking and capital market reforms to make it more supportive of investments growth. In addition, the BSP will push for the implementation of a centralized credit information bureau

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	to improve the quality of financial information to investors, expand private sector access to credit, minimise exposure to risks of financial intermediaries, and lower cost of borrowing. g. **Tourism and Business Support Services** The Philippine government will capitalise on its positive reputation as an ideal location for the business process outsourcing (BPO) sector. These developments then would trigger the virtuous circle of more jobs, improved collective purchasing power, higher personal expenditures to sustain broader markets, stimulate new and higher production, which will initiate new rounds of job creation. For 2008, the government anticipates improved performance of the tourism investment sector with the operation of large tourism-related estates in Clark like Widus Corporation, Fontana Expansion, and imminent privatisation of Mimosa Leisure Estate. Along with other key attractions of the zone, a more vibrant tourism sector will create a synergistic link with the expansion of the DMIA passenger terminal and number of international flights. To further attract business travelers and tourists, both local and foreign, the government through the Clark Development Corporation (CDC) plans to open, launch, and inaugurate new golf courses, casinos, and hotels. Clark will also promote more tourism activities, and develop new and better tourist destinations that will cater to both local and foreign visitors. h. **Republic Act No. 9400** Republic Act 9400 or "an *Act Amending R.A. 7229, as Amended, otherwise known as the Bases Conversion and Development Act of 1992, and for other purposes"*, rectified the deficiency as far as explicit provision of incentives for the Clark Special Economic Zone, as it did for the Subic Special Economic and Freeport Zone. One of the major provisions of R.A. 9400 is the official declaration of Clark as a Freeport Zone which would cover the 4,400 hectare area of the Main Zone. i. **Republic Act No. 9399** Republic Act 9399 or *"An Act Declaring a One-time Amnesty on Certain Tax and Duty Liabilities, Inclusive of*

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	Fees, Fines, Penalties, and other Addition thereto incurred by Business Enterprises operating within the Special Economic Zone and Freeport" corrected the possible tax liabilities of concerned businesses/investors within the Clark Special Economic Zone prior to the passage of R.A. 9400 declaring it to become a Freeport Zone. j. **Board of Investments – Bureau of Immigration Agreement to Ease Investor Visa Application** An agreement was recently forged between DTI, through BOI, and the Bureau of Immigration (BI) wherein visa application process will only take three working days. The reduced application process aims to attract investors and enhance mobility of businessmen in order to sustain investor confidence and encourage more foreign capital infusion in the country. k. **G-2-G Agreement to Improve Investor Service** Top government officials representing 28 offices signed recently a Memorandum of Agreement (MOA) to boost investments in the country by enhancing the system of linkages and networking between and among government agencies. Under the agreement, the BOI will coordinate with other investment promotion units (IPUs) and relevant organizations in tackling investment-related issues and concerns affecting foreign and local investors in the Philippines. **Data Improvement Activities/Best Practices** Among the improvements that the Inter Agency Committee on Foreign Direct investment Statistics (IACFDIS) envisions to pursue include: • Adoption of the Philippine Standard Industrial Classification (PSIC) by the compilers of FDI statistics to facilitate the generation of relevant statistical tables such as FDI by country of origin and industry/sub-industry; and enhance the FDI report by adding sub-national dimension to it to identify potential investment areas in a particular region/province. • Inclusion of additional FDI-related data and variables in the database, e.g., technology transfer; contribution to GDP and employment; FDI in services; actual number of employees of existing locators; data on imports and

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	exports; and actual investment to determine the performance or effectiveness of every investor that are coming in. • Formulation of a common definition of realised investments and development of a methodology towards its measurement and compilation. Statistics on realised investments would serve as a tool/mechanism for: (a) monitoring and evaluating implementation, compliance and viability of investments, (b) assessing the effectiveness of investment promotion policies and programs, and (c) formulating short-term policy intervention. • Updating of the *Registry of Top Foreign Direct Investment Enterprises in the Philippines.* The Registry is a useful reference in determining the key contributors to the country's capital and economic growth as it identifies the top corporations with foreign equity investments in the Philippines. • Report on FDI stocks. In addition to the quarterly FDI report which provides information on FDI flows, an annual FDI report will be prepared that will deal on FDI stocks. However, before this could be done, a benchmark survey to determine FDI stocks will have to be conducted.
Singapore	**Foreign Direct Investment Flows in 2007 (BOP Basis)** <u>Overall Trends</u> Foreign Direct Investment (FDI) inflows into Singapore remained strong in 2007 as both the Singapore and the world economy continued to grow at a healthy pace. Total FDI inflows reached US$24 billion for the year, with the Commerce, Manufacturing and Finance-related industries receiving the bulk of investments. FDI into the Commerce and Manufacturing sectors were mainly from investors in the EU, while USA was the largest source of investments for the financial sector.

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	Sources of Foreign Direct Investment The UK, Japan and Netherlands continued to be the largest investor countries in 2007, with the UK overtaking Japan as the top investor. In terms of regional FDI, Europe remained the top source of investments, accounting for 47% of total FDI inflows. Asia was the next largest investor, constituting 25% of the total compared with a 32% share in 2006. **Investment Commitments in 2007** Investments in Manufacturing were exceptionally strong in 2007. In the final quarter, some US$8.7 billion of fixed assets investment were committed. For the full year, the sector attracted US$16.1 billion of investment commitments, up from US$8.8 billion in 2006. When fully operational, these commitments would generate US$6 billion of value added and create almost 16,900 jobs, of which 59% are skilled. EU investors (mainly from the Netherlands, Switzerland, Germany, UK and France) committed almost US$8.4 billion or 52% of total investments. This was followed by US investors, which accounted for 19%. The next largest sources came from local and Japanese investors, which committed 11% and 6.3%, respectively. About 91% of the commitments went to projects in the Chemicals, Electronics, and Biomedical Manufacturing clusters, which attracted US$ 8.6 billion, US$ 5.1 billion and US$ 0.9 billion, respectively. For the Transport Engineering and Precision Engineering clusters, investment commitments amounted to US$0.5 billion and US$ 0.4 billion, respectively.
Thailand	**Foreign Direct Investment Flows in 2007 (BOP Basis)** BOP-FDI for the year 2007 recorded a net flow of US$9.6 billion, compared with US$9 billion last year. Despite an increase in net BOP-FDI, the growth rate was slower compared with those of previous years, especially in loan from affiliates. This coincided with the declining trend of the overall private investment.

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	The surplus was largely attributed to an increase in equity investment and reinvested earnings, especially in the Manufacturing sector (particularly electrical appliances industry and machinery and transport equipment industry), Financial Institutions, Real Estate, as well as Trading Businesses. Repatriation was mostly observed in Mining and quarrying and Petroleum industry. Meanwhile, net flow of loans from affiliates dramatically decreased from the previous year and mainly went to sectors such as Services, Financial Institution and Mining and quarrying, while repayment of loans were largely observed in the manufacturing and trading sectors. Within non-bank sector itself, foreign investors mostly concentrated in Manufacturing sector (46.9%) – especially in electrical appliances industry (16.8%), Machinery and transport equipment industry (12.3%), Real estate (16.2%) and Services (11.1%). Major investors were Japan (26.5%), Singapore (10.4%), the Netherlands (10.2%) and the United States (6.2%). Most investors invested in the form of equity, while investors from the United Kingdom mostly invested in the form of loan from affiliates. **Improvement of Thailand's Compilation of FDI Statistics (BOP-FDI)** The Bank of Thailand (BOT) has shifted the FDI data source from annual IIP survey to quarterly survey (via Sor Bor chor 3/1 Form) with collaboration of the Department of Business Development, Ministry of Commerce. The BOT sent Q1/2007 survey forms to 898 major companies, covering approximately 80% of the total FDI in 2007. BOT achieved nearly 37% response rate. Yet, it was found that most of the responses may not be reflective because providers find it difficult to report the real "market value" or even a good proxy of it since the survey period does not match with the company's accounting period. Some companies get their balance sheet marked to market, but it was not the officially audited figures; thus, they were not comfortable to share the figures with the authorities. Several companies ended up reporting the exact same figures as they did for the end-2006 survey, or reported the estimated figures instead. Consequently, the BOT tried to work it out the other way around. That is, BOT still uses ITRS data as preliminary

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	figures if the annual IIP survey and quarterly external debt survey results are not yet available. Quarterly stock figures are derived from the latest year-end outstanding obtained through survey, combined with quarterly flow data primarily obtained from ITRS and an estimate of reinvested earnings (based on the latest survey-based figures). BOT is attempting to investigate more on this issue to find a better way to estimate and capture FDI-related data. **Approved Foreign Investment in 2007** In 2007 approved manufacturing investments with foreign interest depicted an upward trend, both in terms of number and value of projects. The total number of approved projects was 560 projects, and the total value of projects increased by 143.4% to approximately US$10.7 billion in 2007.[6] The largest source foreign direct investment was Japan (US$ 3.7 billion), followed by US (US$2.3 billion), Cayman Islands (US$ 0.65 billion), EU (US$0.61 billion), and British Virgin Islands (US$0.32 billion), respectively. In terms of industry, classified by 2-digit level of ISIC code, the manufacture of radio, television and communication equipment was the largest recipient of foreign direct investment in 2007, accounting for approximately US$2.7 billion, or 25.7% share of total investment. The second largest was the manufacture of motor vehicles, trailers and semi-trailers approximately US$1.8 billion or 17.3% of total investment, followed by chemical and chemical products. (16.7%), machinery and equipment n.e.c. (11.4%), and fabricated metal products, except machinery and equipment (8.5%). **Policy Development 2007** Thailand Board of Investment (BOI) offers and revise new measures and incentives to stimulate investment as follows: 1. **Biotech Industry** BOI has introduced incentives to support the biotechnology industry by providing a maximised incentive package comprised of an eight-year corporate income tax exemption and an additional 50% corporate income tax break for five years should be applicants' facilities be located in the science and technology parks.

[6] Foreign exchange rate (US$ = 33 Baht)

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	2. **Logistics** BOI makes a move to gear up the logistics business by supporting the setting-up of "Logistics Parks" to facilitate trade and exports and ensure Thailand's global competitiveness. 3. **Promote Eco-Cars** To promote motor vehicles which save fuel and have reduce the impact on the environment, the BOI agreed to grant privileges for investment projects which will manufacture eco-cars that meet international standards and specified BOI conditions. Proposals for investment promotion should be for integrated projects that include car assembly, engine manufacturing and the manufacture of key parts with a minimum investment of THB 5 billion. The privileges include exemptions from import duties on machinery and equipment and an 8-year corporate income tax waiver, regardless of the investment's location. Eligible investment projects should meet a series of international standards for eco-car features. 4. **Upstream Steel Sector** BOI has laid guidelines to promote investment in the manufacturing of high-quality upstream steel, with a view to supporting the growth of automotive, electrical appliances and electronics industries and reducing dependence on imported steel. Environmental friendliness is a key principle. Investment promotion criteria include the following; 1. Modern technologies must be applied to every production process. 2. There must be investment in R&D. 3. Environmental-friendly Technologies and pollution control management system must be applied. 4. Production output must not be less than 20 million tons per year to achieve economies of scale. 5. Investors must process good corporate governance and corporate social responsibility. 5. **Revised Policy on Industrial Estates** BOI has revised promoted industrial estate standards to be in line with that of Industrial Estate Authority of

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	Thailand. The objective of the policy revision is to reduce the costs of land development and sales prices in the industrial estates. The advances in new technology have resulted in smaller areas requirements for the common utility and infrastructure; for example, a modern waste water treatment facility can be installed vertically. A large number of industrial estates are increasingly purchasing water from outside of industrial estates, making large reservoirs within the estates unnecessary. Waste disposal services can also be outsourced, requiring no sites for incinerators. The board has also be redefined the minimum size of an industrial estate for the textile industry to 500 rai in order to enable firms to integrate upstream and downstream production chains within the same area. 6. **Manufacturing of Passenger Car and Big-Bike Motorcycles** Passenger car projects will be offered privileges for the investment, including waivers on import duty for machinery, and an exemption on corporate income tax in an amount not to exceed the total investment value. This new policy would attract investment in passenger car manufacturing and will completely set the stage for Thailand to become a manufacturing and export site for the automobile industry. 7. **Policy to Encourage Industrialists to Seek ISO 14000 Certification for Environmental Conservation** BOI rolled out a new condition for promotion, effective from October 1, 2007, requiring that investment projects valued over THB 10 million (exclusive of land cost and working capital) achieve registration for ISO 9000 or ISO 14000 or other approved comparable international standards. The measure is intended to encourage firms to pay more attention to their environmental impact and issues. 8. **Revised Policy to Promote Calcium Oxide and Calcium Carbonate Industries** BOI has revisited promotion measures for the manufacturer of calcium oxide and calcium carbonate to accommodate increased demand from related industries including steel, paper, sugar, chemicals, construction, and agriculture. The demand is expected to rise to 960,000 tons in 2010.

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	9. **Confectionary Manufacturing** The BOI agreed to promote confectionary manufacturing (candy, chocolate, and gums), in response to the growing global demand. It is also expected to upgrade manufacturing technology and create more added-value for cane sugar as well as to attract leading producers to invest in Thailand. (BOI used to promote this type of manufacturing, but stopped in the year 2000 because most of the manufacturers at that time were using simple technology and were mostly non BOI-promoted). 10. **Environmental Protection Technology** BOI approved a new measure to encourage existing plants to invest more on environmental protection technology that will go beyond the legal minimum standard. The incentive is comprised of import duty on machinery and equipment, and a corporate tax holiday covering 70% of the expense of the investment, over a three year period. 11. **Shipbuilding and Shipyard** BOI approved an additional investment promotion privileges to attract shipbuilding and shipyard businesses in Zone 2 and Zone 3 by offering a corporate income tax exemption for eight years, with a view to promoting Thailand as a regional hub of maritime transportation. **Administrative Foreign Investment in 1st half 2008** Thailand FDI in 1st half of 2008 depicted a downward trend. The total number of projects was 257 projects and the value of total FDI was US$ 2,609.991 million, dropped by 11.31% compared to the same period in 2007. The top 5 investors that contributed to Thai economy in 1st half of 2008 are Japan (US$914.458 million) followed by the Netherlands (US$613.092 million), Malaysia (US$486.718 million), India (US$226.416 million), and Singapore (US$59.972 million). In terms of industry classified by ISIC code, manufacture of rubber and plastics products remain the largest recipient industry in terms of number of projects (57 projects), followed by manufacture of machinery and equipment n.e.c. (51 projects), manufacture of fabricated metal products, except machinery and equipment (35 projects), Manufacture of furniture; manufacturing n.e.c. (26 projects), and manufacture

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	of radio, television and communication equipment and apparatus (24 projects).
Viet Nam	**Approved Foreign Investment in 2007 and 1st Quarter 2008** **Trend and Development in 2007** Continuing its growth trend in attracting foreign investment in 2006, the year of 2007 Viet Nam has made its record in attracting investment inflow, both in registered investment and disbursement. In 2007 Viet Nam attracted US$21.3 billion of green investment, 78% increase; the disbursement reached US$8.03 billion, 96% increase compared with 2006. **Investment by Sectors** In 2007, the major share of registered investments (green investment and expansion) was mainly in the industrial sector taking 54% of total investment, taking the next post was services sector accounting for 44% and the last was agriculture, forestry and fishery with 2% of total registered investment. **Investment by Partners** in 2007, 55 investment partners have made their investment in Viet Nam in which South Korea continued its ranking as the top investment partner, with total registered investment approximately US$5 billion (1), comprising to 25.7% of total registered investment. British Virgin Islands ranked the second, accounting for 20.7%; the third was Singapore with 12%; Taiwan ranked 4th with 11.7%; Japan ranked 5th accounting for 6.5% and Malaysia took the 6th with 5.5% of total investments. **Investment Allocated by Regions** In 2007, excluding oil and gas mining, there were 58 localities that have attracted foreign direct investment with top ten localities. Ha Noi took the first place with registered investment of US$2.5 billion, comprising to 11.8% of total investment; Ho Chi Minh city ranked the second with 10.6% of registered investment and Binh Duong ranked the third accounting for 10.6%.

Country	Trends and Developments on FDI
	Operating Circumstances of Foreign Invested Enterprises (FIEs) Besides the fresh investment projects, the operating projects have contributed a considerable capital for implementation in 2007, with over US$8 billion, in which foreign partners disbursed US$6.7 billion. It was the highest disbursement since 20 years of attracting foreign investment in Viet Nam. 2007 was the year of the highest turnover achievement in 20 years, achieving US$39.6 billion, a 34% increase compared with 2006, in which the export value (excluding the crude oil export) reached US$19.3 billion, a 31.2% increase compared with the previous year. If including the crude oil export, the total value reached US$27.8 billion, increasing 21% compared with 2006. The actual import volume made by FIEs reached US$21.6 billion, increasing 31.5% compared with the previous year. **Foreign Investment in the First Quarter 2008** In the first quarter of 2008, Viet Nam has attracted 147 invested projects with total registered investment of US$5.4 billion (including the expansive investment), a 43% increase in registered investment compared with the previous year. The registered investment in the first quarter of 2008 has risen rather high compared with 2007 due to several major projects licensed, considerably project of Good Choice USA Ltd. from the US which invested in a five-star hotel, including its recreation and restaurant area in Baria-Vungtau with total investment of US$1.299 billion; Viet Nam Financial Center, invested by Berjaya Leisure Group of Malaysia with a total investment of US$930 million to develop real estate; Viet Nam-Japan Human Resource Development Ltd. invested by 3 Japanese corporations to develop office buildings for rent, software development and human resource supplier with a total investment of US$610.3 million. **Investment Partner** US is the investor with the largest investment in the first quarter of 2008, covering 8 projects with a total investment of US$1.31 billion, accounting for 25.5% of total investment as above-mentioned project of Good Choice USA-Viet Nam and Malaysia comes next with 4 projects and a total investment of US$1.26 billion comprising to 24.6% of total investment.

Country	Trends and Developments on FDI
	Investment by Sector Registered investment in the first quarter of 2008 concentrated in the services sector with over US$4.6 billion, accounting for 89.9% of total investment in which the highest ratio focuses in real estate and hotel development. The Industrial sector just accounted for 10% of total investment and the rest falling under the agriculture, forestry and fishery. **Forecast for Foreign Investment Trend in 2008** On the basis of advantages and challenges under the condition of the world and domestic economic development and based on the situation of FDI trend in the first quarter of 2008 and some major projects under negotiation, the FDI trend to Viet Nam in 2008 is estimated to increase by US$25 billion including of greenfield and expansion investment, with a 17% rise compared with 2007 and the disbursement is estimated to reach US$10 billion, increasing by 25% over 2007 (US$8 billion). **Activities to Improve Data and Information Collection on Foreign Direct Investment** Information on FDI of Viet Nam is currently stored in the Ministry of Planning and Investment Departments, Provincial Planning and Investment Departments and IZ and EPZ Boards of Management. The Foreign Investment Agency is the focal point for collaboration with the Department of IZ & EPZ management in classifying and supplying information on FDI for the state management. However, the compiling and classifying and handling of FDI information remains to have great constraints and is insufficient, which is due to the following: • The data and information are manually updated, the automatic updating system on data and information from localities and corporations has not yet been set up. • The software for data and information gathering and storage currently used in the Foreign Investment Agency is FoxPro software and this software cannot meet the requirements for data and information gathering and classifying, especially under the circumstances of the increasing numbers of projects.

Country	Trends and Developments on FDI
	• The format and forms on FDI statistics among Ministry of Planning and Investment and the investment licensing bodies' countrywide (Provincial Departments of Planning and Investment and Board of Management) has not yet been set up. To improve the FDI statistics, the Ministry of Planning and Investment has submitted its budget proposal to the Prime Minister to set up the FDI information system in Viet Nam for approval. On 24th March 2008, the Prime Minister has enforced the Decision No 43/2008/QD-TTG which approved the scheme of application for information technology in the state management activities. In accordance with the Decision, the proposal on "Management System of Foreign Direct Investment Information" of the Ministry of Planning and Investment has been approved and the implementing time frame of the project shall be from 2008 to 2011 with total budget of VND 15 billion, in which the 2008 budget for the project allocated VND 4 billion. This is a large project to be implemented and the project would bring about a total change in the current information and FDI statistics system in Viet Nam, which are to: • Computerise the receipt of investment project files, licensing and licensing amendment of the investment certificate, foreign investment management for the investment licensing bodies; • Computerise the gathering, classifying and FDI statistics information in the Ministry of Planning and Investment and localities; • Produce a data system on FDI in Viet Nam; • Make an online trial of the investment licensing in some certain major cities and provinces; • Set up a Centre for data processing and management on FDI online system on a website basis in the Ministry of Planning and Investment; • Create data systems on FDI in provinces/cities under the central government where these data systems would be synchronised with the data system under the Centre for

Country	Trends and Developments on FDI
	data processing and management (offline system); • Link the data system on FDI to the Information portal of the Ministry of Planning and Investment to make an official information supplying channel on the foreign direct investment and public services; For the time being, the Foreign Investment Agency, in collaboration with competent departments of the Ministry would implement the project, which in 2008 proposed for the software to be made for updating the FDI information in the Foreign Investment Agency; concluding the equipment procurement for FDI information system; and finalising the feasibility study of the Project.

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