ASEAN Investment Area: An Update

Foreign direct investments play an important role in the rapid economic development of the newly industrializing and developing economies of Southeast Asia.

Among the components of resource flows to the ASEAN countries, FDI constitutes a considerable share, indicating the importance of FDI as a major source of finance for economic development. Between 1990 and 1997, FDI represented an annual average of 40 % of the net resource flows to the ASEAN countries, with Malaysia, Myanmar and Viet Nam having more than 50% FDI composition. A high percentage of FDI to net private capital flows in the 1990s is almost the norm for many developing countries, and this is true for ASEAN. This suggests the increasing importance of net private capital flows, particularly FDI, to official flows for development finance.

The ASEAN region is a leading recipient of FDI flows in the developing world, with five ASEAN countries in the top 20 developing-countries recipients of such long-term global capital flows from 1997 to 1998. Between 1993 and 1998, ASEAN received about 17.4% of the US$760 billion in cumulative global net FDI flows to developing countries. Over the same period, ASEAN received an annual average of US$22 billion in net FDI flows, compared with an annual average of US$7.8 billion in the period between 1986 and 1991. FDI flow in ASEAN increased on average by about 14% annually from 1996 to 1998, while FDI stock in ASEAN grew tenfold from US$23.8 billion in 1980 to US$233.8 billion in 1998.

Despite the region's successes in attracting sizeable FDI flows, the countries in the region continue to undertake collective as well as individual measures to further liberalise their investment regimes and to provide competitive and attractive investment environments. Further policy measures have been introduced to attract greater FDI flows as a means to helping the countries recover from the economic crisis, that beset the region in 1997-1998.

For instance, Brunei Darussalam allows 100% foreign-equity ownership in high technology manufacturing and export-oriented industries. Indonesia offers qualified investors 100% foreign-equity ownership in wholesale and retail trading companies, in addition to 100% foreign-equity ownership in all areas of the manufacturing sector. Indonesia has reduced the processing time required for the approval of investments of less than US$100 million to 10 working days. Listed Indonesian banks are now open to 100% foreign-equity ownership. Lao PDR allows duty exemptions on imported capital goods required by promoted investment project.

Malaysia offers 100% foreign-equity ownership in the manufacturing sector, with no export conditions imposed on new investments, expansions and diversifications. With limited exceptions, foreigners can also own land in Malaysia. Myanmar has extended a minimum three-year corporate tax exemption to investment projects in all sectors. In addition, Myanmar has extended the privilege of duty-free import of raw materials to all industrial investments for the first three years of operation. The Philippines has opened its retail and distribution sectors to foreign equity, and allowed foreign companies to compete in the domestic private construction sector.

Singapore has reduced business costs significantly as past of a cost-reduction package amounting to savings of US$10 billion, in addition to extending a 30% corporate investment tax allowance on a liberal basis to industrial projects and to selective service industries. These activities span manufacturing, engineering and technical services and computer-related services. One hundred percent foreign-equity ownership for manufacturing projects regardless of location is now also allowed by Thailand. In addition, agricultural projects that export 80% of sales receive import-duty exemptions on machinery regardless of location.

Viet Nam has allowed duty exemptions for imported capital goods for all projects, on the importation of raw materials for production in encouraged investments and for projects located in mountainous or remote regions for the first five years of operation. The period required for the issuance of investment licences for several types of project has been reduced to 15 days from the receipt of the required documentation. Investment licensing for projects under US$5million in Viet Nam has been decentralized to provincial and city levels.

In addition to these individual actions, the member economies are collectively promoting ASEAN as a single investment area. Regional cooperation will facilitate more cost-effective industrial and production activities in ASEAN, providing firms with greater synergy and competitive edge in servicing both global and regional markets. The major ASEAN economic integration schemes include the ASEAN Investment Area (AIA), ASEAN Free Trade Area (AFTA) and the ASEAN Industrial Cooperation (AICO) scheme. This issue of the public Information Series shall focus on the AIA.

ASEAN INVESTMENT AREA

Pursuant to the mandate of the Fifth ASEAN Summit, ASEAN Ministers signed the Framework Agreement on the ASEAN Investment Area (AIA) on 7 October 1998 in Manila.

Investment Incentives

The AIA aims to make ASEAN a competitive, conducive and liberal investment area through the following measures:

a. Implementing coordinated ASEAN investment cooperation and facilitation programmes;
b. Implementing a coordinated promotion programme and investment awareness activities;
c. Immediate opening up of all industries for investment, with some exceptions as specified in the Temporary Exclusion List (TEL) and the Sensitive List (SL), to ASEAN investors by 2010 and to all investors by 2020;
d. Granting immediate national treatment, with some exceptions as specified in the Temporary Exclusion List (TEL) and the Sensitive List (SL), to ASEAN investors by 2010 and to all investors by 2020;
e. Actively involving the private sector in the AIA development process;
f. Promoting freer flows of capital, skilled labour, professional expertise and technology amongst the member countries;
g. Providing transparency in investment policies, rules, procedures and administrative processes;
h. Providing a more streamlined and simplified investment process; and

i. Eliminating investment barriers and liberalizing investment rules and policies in the sectors covered by the Agreement.

Investment Benefits

The AIA will have important implications for investment strategies and production activities in the region. For instance, the AIA will encourage investors to think increasingly in the regional terms and to adopt a regional investment strategy and network of operations. It will provide greater scope for division of labour and industrial activities across the region, creating opportunities for greater industrial efficiency and cost competitiveness. In addition, current and potential investors will benefit from the AIA arrangements in the following ways:

a. greater investment access to industries and economic sectors as a result of the opening up of industries under the AIA arrangements, if investors qualify as ASEAN investors;
b. national treatment, if investors qualify as ASEAN investors;
c. greater transparency, information and awareness of investment opportunities in the region;
d. more liberal and competitive investment regimes; and
e. lower transaction costs for business operations across the region.

An ASEAN investor is defined as being equal to a national investor in terms of the equity requirements of the member country in which the investment is made. Thus, a foreign firm with a majority interest can avail itself of national treatment and investment market access privileges, in addition to the other benefits provided under the AIA Agreement and other regional economic schemes.

Exemptions

The privileges offered by the AIA in investment market access and the granting of national treatment take immediate effect for ASEAN investors, with the exception of those sectors in the list of exclusions.

There are three categories of exclusions for which these privileges will not be accorded immediately: (a) Temporary Exclusion List (TEL) contains industries and investment measures that are temporarily closed to investment and not granted national treatment, but will be phased out within specified timeframes; (b) Sensitive List (SL) covers industries and investment measures that are not subject to phasing out, but will be reviewed by the AIA Council in 2003 and thereafter at subsequent intervals; and (c) General Exception List consists of industries and investment measures that cannot be opened up for investment or granted national treatment because of reasons of national security, public morals, public health or environmental protection.

Brunei Darussalam, Indonesia, Malaysia, Myanmar, the Philippines, Singapore and Thailand have until 1 January 2003 to phase out their TEL for the manufacturing sector. The newer members of ASEAN, Cambodia, Laos and Viet Nam have until 1 January 2010.

Implementation Strategies

A ministerial-level ASEAN Investment Area Council has been established to oversee the implementation of the Framework Agreement. The Council is assisted by the ASEAN Coordinating Committee on Investment. Three approaches will form the main pillars for establishing the ASEAN Investment Area:
Cooperation and Facilitation Programme shall enhance ASEAN's competitiveness and provide investors with an efficient and low-transaction cost investment environment. It includes activities aiming at facilitating investment flows, human-resource development and the upgrading of skills of ASEAN investment agencies.

Promotion and Awareness Programme shall promote ASEAN as a single investment destination. It aims to give investors a better understanding and awareness of the region's investment opportunities. This programme includes regular high-level outward ASEAN Joint Investment Promotion Missions, the creation of investment websites and databases, and the publications of timely and useful investment information.
Liberalisation Programme shall open up investment regimes throughout the region by eliminating investment barriers, liberalizing investment rules and policies, and granting national treatment.