Intra-regional investment:

The neglected aspect of Asean integration

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Intra-regional foreign direct investment:

The neglected aspect of Asean integration

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Abstract:

This paper explores whether and how the rise of outward FDI from Southeast Asia could contribute to the region's further integration. The paper focused on answering four questions: how significant is Asean as outward investors?; how important is intra-Asean investment?; who are Asean investors and hosts?; and in which sector do they invest? The paper concludes that the key mechanism behind Asean regional integration has been the interests of non-state actors, particularly multinational firms from outside the region that have established extensive production networks within the region. Nonetheless, the opportunity to develop intra-regional investment into another major mechanism that deepens regional integration should not be overlooked, especially when Asean countries are increasingly undertaking outward investment. Asean therefore needs to be responsive to these two mechanisms—inward investment from outside the region and intra-regional investment. Implications at the regional, country and firm level are discussed.

Key words: intra-regional investment, regional integration, Asean, emerging multinationals, Southeast Asia

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Introduction

Since 1967, the Association of Southeast Asian Nations (Asean) has fostered regional integration in Asia.[2] As a regional grouping whose initial purpose was more security-related than economic, the significant changes brought about by the end of the Cold War and the deepening of globalisation requires Asean to reassess its future direction. From a focus on politico-security up until the late 1980s, Asean needs to evolve into an organisation with a more comprehensive range of regional issues. In 2003, the Asean leaders resolved that an Asean Community shall be established comprising three pillars, namely Asean Security Community, Asean Economic Community and Asean Socio-Cultural Community. The ultimate goal for the Asean Economic Community is to establish Asean as a single market and production base, with a free flow of goods, services, investment and capital, making the region a more dynamic and stronger segment of the global supply chain. Important mechanisms that have been initiated to achieve the economic integration goal include the Asean Free Trade Area (Afta), Asean Framework Agreement on Services (Afas), and Asean Investment Area (AIA) (see details in www.aseansec.org, Dent 2008).

Throughout its existence, Asean's foreign direct investment (FDI) relationships have been closely tied to countries outside the region, especially the US and East Asia, i.e. Japan, Korea and Taiwan. Asean's main role has mainly been as a low-cost supplier for multinationals from those countries. Not much emphasis has been placed on how intra-regional investment can strengthen the region's economic integration. Despite its limited amount, outward FDI from Asian developing countries

[2] Ten members of the Association of Southeast Asian Nations (Asean), sequenced by their year of joining (shown in parenthesis), are: Indonesia (1967), Malaysia (1967), Philippines (1967), Singapore (1967), Thailand (1967), Brunei (1984), Vietnam (1995), Laos (1997), Myanmar (1997), and Cambodia (1999). Although Timor-Leste is considered part of Southeast Asia, it has yet to be included in Asean. In this paper, however, 'Southeast Asia' and 'Asean' are used interchangeably.

has been an increasingly significant trend of the global FDI. Within Asia, Southeast Asia was the third largest source of FDI outflows, following East and West Asia (UNCTAD 2008). Whether and how the rise of outward FDI from Southeast Asia can contribute to the closer regional integration in Asean is the main concern of this paper.

The paper comprises four parts. After the introduction, relevant literatures are reviewed to provide a theoretical background on Southeast Asia's regional integration and on foreign direct investment. The third part discusses the nature of outward FDI from Asean, before the last part provides conclusions and implications for the region's further integration.

Theoretical background: Southeast Asia and foreign direct investment

Two overlapping theoretical perspectives that provide the background to the understanding of FDI within a region are on regionalism and that on motives of foreign direct investment. While the former provides the logic behind a regional integration, the latter explains the mechanism the strategies that drive business activities within the region.

Southeast Asia and Regional Integration

The taxonomy within the regionalism literature differentiates *'regionalism'*—the government-led, institutionalised, top-down process of economic integration from *'regionalisation'*—the bottom-up process of regional integration, driven by market forces and profit-seeking objectives of the private sector, that leads to the expanding flow of goods, services, capital, technology and people (Das 2005: 2, see also Dent 2008: 6-8). While the classic regionalism literature pays more attention to the state-driven approach, new regionalism scholars extends their emphasis to non-state actors and market-driven activities like those of business firms and multinational enterprises (MNEs).

Unlike the European Union (EU) and North American Free Trade Agreement (Nafta), in which political institutions play a crucial role in spearheading the regional integration, Southeast Asia's integration has been led by the market-led mechanisms of multinational firms' location strategies (Das 2005, Fujita 2007, Dent 2008). Decisions of multinational enterprises (MNEs) to locate their operations in different countries throughout Southeast Asia have been the key force in economically integrating the region. Reinforcing the role of Southeast Asia as a major production base, empirical evidence has demonstrated how US, Japanese and East Asian MNEs create dense networks of subsidiaries and suppliers throughout Southeast Asia to maximise their production efficiency. These production networks play a key role in integrating the economies within the region.

Scholars have come up with different names and definitions to describe these relationships, ranging from cross-border production networks (Giroud 2004) to international production networks (Yun 2003, Dent 2008) and global production networks (Kuroiwa and Heng 2008). Although the definition of these terms differs in detail, in general they all refer to the spread of systemic forms of relationships, within and between firms, which may or may not involve equity ownership, of the various stages of international production. These networks could combine horizontal and vertical linkages, which often focus around a core firm.

Two industries that are most referred to as having the most extensive production networks within Southeast Asia are automobile and electronics. Rasiah (2008) pointed out that foreign-driven electronics manufacturing evolved in Southeast

Asia when Japanese and American firms relocated assembly activities to Singapore, Malaysia and Philippines in the 1960s, Thailand from the 1970s, Indonesia from the 1980s, and Vietnam from the 1990s. For automobile, the stagnation of car markets in developed economies since the mid-1980s and the increased production costs forced car manufacturers to look for new markets and lower-cost locations for component manufacturing in East Asia. The rising production cost for Japanese car manufacturers in the period following the Plaza Accord in 1986 was a major factor that drove Japanese car manufacturers to relocate their production to the Asean countries, whose governments at the time increased efforts to attract foreign investment in the automobile industry (Poapongsakorn and Techakanont 2008). The success of Southeast Asia in attracting foreign multinationals in these two industries reinforced the new regionalism view that non-state actors, particularly business firms, played a crucial role in Southeast Asia's regional integration.

The literature on regional integration in Southeast Asia overwhelmingly emphasises the role of the region as production base for component manufacturing of multinationals from outside the region. Intra-Asean FDI has rarely been considered as part of the integrating mechanism. While there is no lack of studies on large multinationals' investment in Southeast Asia, very little has been done on how intra-Asean investment contributes to the regional integration. With outward FDI from developing economies becoming a key feature of the global FDI flows, and with Southeast Asia as the third largest source of outward investors from developing economies, the intra-Asean investment should no longer be ignored. Despite its modest sum of US$ 8 billion compared with US$ 53 billion FDI from outside Asean in 2007 (Asean FDI Database 2007)[3], a stronger intra-regional investment by Asean firms should strengthen the region's integration processes (UNCTAD 2008: 50). How a country goes through different stages of FDI as it develops and how that applies to Asean is explored in the next part.

Southeast Asia and Outward Foreign Direct Investment

A country's position toward inbound and outbound FDI can serve as intermediate indicators of its competitiveness (Porter, Ketels and Delgado 2007). This view is similarly shared in the Investment Development Path (IDP) concept, which systematically linked a country's international investment position to its level and structure of economic development and the degree of competitive advantages of its firms (see Dunning 1981, 1986, Dunning and Narula 1996, 2004, Dunning et al 1997). Countries will engage in outward FDI only when they have reached a certain level of economic development, at which time domestic firms have accumulated sufficient ownership advantages. The IDP suggests that countries tend to go through five stages of development, each of which reflects the countries' propensity of being net recipients to ultimately becoming net sources of FDI. In the first stage where countries have few location-specific factors and domestic firms have not accumulated enough ownership advantages to engage in overseas activities, there is likely to be little inward and outward FDI. In the second stage, inward FDI starts to rise as location-specific factors develop, but outward FDI remains minimal owing to the limited development of local firms. During this stage, the country continues to be a net recipient of FDI. As indigenous firms accumulate their ownership advantages in stage 3, they begin to expand abroad, leading to an increase of outward FDI. Stage 4

[3] These preliminary FDI statistics were obtained through the Statistics Unit of the Asean Secretariat.

is reached when a country's outward FDI stock exceeds or equals that of inward FDI, reflecting the competitiveness level of domestic firms in the global economy. Finally at stage 5, the country's net investment position tends to fluctuate around zero—a sign of balanced inward and outward FDI. Dunning and Narula (2004: 43-44) placed the least developed countries, or those they call the 'falling behind' economies, in stages 1 and 2; while the more advanced developing countries, the 'catching up' ones, in advanced stage 2 and stage 3; and developed economies in stages 4 and 5. This view implies that as the economic development of Southeast Asian countries improves, more of their outward investment should take place. The increased level of outward FDI from Asean should add to the increasingly complex economic relationships that are crucial to the region's further integration.

Another approach to explore the outward FDI from Southeast Asia is to look at the investment's motive. Dunning (1993, 1998) differentiated FDI into four types based on the key location advantages of host countries: natural resource seeking, market seeking, efficiency seeking, and strategic asset seeking. Natural resource seekers are prompted to invest abroad to acquire resources at a lower cost than could be obtained at home. These resources could be physical such as minerals and agricultural products, as well as cheap, unskilled and semi-skilled labour. Market seekers invest abroad to supply goods or services to new markets. While output of resource seekers tends to be exported to other countries, the majority of output of market seekers is likely to be sold in the country in which it is produced. Market seekers could be suppliers who invest abroad to follow their customers when they go overseas. Efficiency-seeking FDI will rationalise the structure of the investing companies in such a way that they can benefit from the establishment of geographically dispersed activities. Efficiency seekers are likely to concentrate their production in a limited number of locations to take advantage of location specific factors of different countries. Usually, these firms are experienced and large multinationals that are engaged in international production. As a consequence, they are likely to flourish most in regionally integrated markets. Last, strategic asset investors invest abroad to acquire assets of foreign corporations to promote their long-term strategic objectives.

The next part applies these theoretical viewpoints to explain the outward FDI from Asean countries. While it is clear that Asean regional integration has been mainly driven by FDI from external sources, the increasing significance of intra-regional FDI should not be underestimated because it could be another engine driving countries in the region to integrate further. A better understanding of the nature of outward FDI from Asean should have significant implications on the regional integration.

Outward Foreign Direct Investment from Southeast Asia

Five main questions related to Asean outward FDI are addressed: how significant are Asean members as outward investors?; how important is intra-Asean investment?; who are Asean investors?; where and in which sector do they invest?; and what drives their investment strategies? In order to address these questions, this paper relies on an interpretative analysis of publicly available statistics on outward FDI and of published articles related to the issue. Key sources of the statistics include central banks and/or department of statistics of selected Asean countries, the Asean Secretariat, and UNCTAD.

How significant is Asean as outward investors?

Two types of indicators that can be used to assess the role of Asean in their foreign direct investment activities are the percentage of inward/outward FDI stock[4] to GDP and the inward/outward performance index. While the former can indicate the significance of inward/outward FDI to the country's economy, the latter is an indicator of a home country's inward/outward FDI relative to its size in the world economy. It is calculated as the ratio of a country's share in global inflows/outflows to its share in global GDP (UNCTAD 2006: 38).

(Insert Table 1 here)

Three observations can be noted from Table 1. First, it is confirmed that inward FDI to Asean far outweighs the region's outward FDI. The contribution of inward FDI to the overall economy of all Asean countries, except Indonesia and Philippines, was also higher than the average of other developing economies, indicating the significance of inward FDI to these economies. The second feature to be noted is the prominent role of Singapore and Malaysia as the major outward investors from Asean. Singapore's and Malaysia's percentage of outward FDI stock per GDP were highest in the region (92.7 and 31.2) and higher than the 16.5 percent average of all developing countries. Their leading role as outward investors was also confirmed by their outward FDI performance. Both countries were included in the

[4] The foreign direct investment statistics collected by UNCTAD's *World Investment Report* are based on national official data, complemented by those obtained from other international organizations (e.g. IMF) or regional organizations (e.g. Asean Secretariat) and UNCTAD's own estimates (UNCTAD 2008: 250). For those economies for which stock data are not available, estimates can be made by either adding up FDI flows over a period of time. Because the Asean Secretariat does not collect FDI stock data, this paper follows the UNCTAD estimate method by adding up FDI flows over the period that statistics are available from the Asean Secretariat (1995-2007). This method may present some discrepancies with the FDI stock data reported by national authorities. Despite these limitations, the statistics collected by the Asean Secretariat remains the most complete one for the region (see Hattari and Rajan 2008, UNCTAD 2006, and Pananond 2004 for more discussion on the limitations of developing economies' FDI statistics).

world's top 25 rankings for their outward FDI performance, with Singapore occupying number 10 and Malaysia 22. It is clear that both countries played a crucial part in pushing Southeast Asia to become the third most important source of FDI from developing economies following East Asia and Central America. Third, the different performance of Asean members as outward investors should be noted. While Singapore and Malaysia maintained their strong performance during 2005-2007, other Asean countries remain rather uninspiring in their outward investment.

In sum, despite Southeast Asia's increasing significance as outward investors, this role is still limited when compared with the region's traditional role as FDI recipient. Moreover, the overwhelmingly dominant role of Singapore and Malaysia in the region's overall outward FDI cannot be denied. In 2007, outward FDI stock of Singapore alone accounted for almost 62% of Southeast Asia's total outward FDI stock. When the share of Malaysia is included, the percentage increased to 85% (see Table 1). The lacklustre outward FDI performance of other Asean members is alarming, especially when China and India are making an outstanding performance in the global economy with their increased outward FDI. As outward FDI can be regarded as an indicator of competitiveness, the uninspiring performance of key Asean members, with the exception of Singapore and Malaysia, implies that they risk being bypassed by other emerging economies that have been able to upgrade their economic development to the point where they are actively engaged in outward FDI. In addition, without more Asean members actively participating in outward investment, Asean is likely to remain a region whose integration is largely driven solely by inward FDI from outside the region without a sufficient role of intra-regional linkages.

How important is intra-Asean investment?

(Insert Figures 1 and 2 here)

To determine the importance of intra-Asean investment, both inward FDI to the region and outward FDI from the region are considered. Figure 1 contrasts FDI flows to Asean from extra- to intra-Asean sources, while Figure 2 shows the largest source of FDI inflows to Asean. These two figures confirm that the region is heavily dependent on FDI inflows from non-members. Intra-Asean FDI accounts for less than 20 per cent of total FDI flows to the region. This ratio has not altered much despite the rapid growth of inward FDI into the region after the year 2002. More alarmingly, the ratio of intra-Asean FDI is slightly declining from 16 per cent in 1995 to 13 per cent in 2007 (see Figure 1). This amount is rather limited when compared to the intra-regional investment within the EU, in which 66% of total FDI flows originated from within the region (Hiratsuka 2006).

(Insert Figures 3, 4, 5 here)

When outward FDI is assessed, however, Asean becomes relatively more important to each other as investment destinations. As evident from Figures 3 to 5, which show the geographical destination of outward FDI from Singapore, Thailand and Malaysia,[5] Asean accounted for the highest amount of outward FDI for these

[5] Due to the Internet accessibility of the statistics, these three countries were selected. Among these three countries, only Singapore provides time-series FDI stock data (see details in Singapore Department of Statistics 2006). Thailand only started to show outward FDI stock data (equity investment and reinvested earnings) as part of Thai assets overseas in the country's international investment position of private non-bank sector, which was based on survey results made public for the first time in 2005, with the latest update in 2007 (see

countries. As of 2006, 23 per cent of total outward FDI from Singapore was directed to other Asean countries, while the ratios for Thailand and Malaysia were 45 and 34 per cent respectively. It should be noted, however, that the significance of Asean as intra-regional destinations is being challenged by China. Both Singapore and Malaysia, the region's two largest investors, have increasingly directed their outward investment to China during the past decade (see Figures 3 and 5). Although China's share in Singapore outward investment has not surpassed that of Asean as a region, China, as an individual country, became the highest recipient of Singapore's outward FDI since 1997.[6] As of the end of 2006, Singapore's investment in China rose by 12.5% over the previous year raising the total FDI stock to S$30.7 billion—almost 60% of Singapore's total outward FDI stock in all Asean countries. The increasing attraction of China as an investment destination for Malaysia is also evident, as Malaysia outward FDI stock to China increased more than thirty folds during 2000-2006.

In sum, the statistics confirmed that Asean remains important to each other as an investment destination. Larger and more advanced Asean economies, particularly Singapore, Malaysia and Thailand, have been actively investing in the region. Given that the intra-Asean investment ratio is only less than 20 per cent compared with the 66 per cent intra-EU investment, the potential for intra-regional investment remains

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http://www.bot.or.th/English/EconomicConditions/Survey/reportEN/IIPSurvey_E.pdf). To present a time-series statistics from the period prior to 2002, this paper used a similar method employed by UNCTAD for countries that do not report stock data. The estimation for Thai outward FDI stock was calculated by adding Thai equity investment flows from the first year that the statistics was reported (1978). For Malaysia, outward FDI stock was also estimated by the same method. The publicly available data only covered the period of 2000-2007 (see http://www.bnm.gov.my/files/publication/msb/2008/8/xls/7.14.xls, downloaded in October 2008). Malaysian statistics were also complemented by a 2006 BNM report on outward FDI, which was downloaded from http://www.bnm.gov.my/files/publication/qb/2006/q3/p6.pdf, also downloaded in October 2008.

[6] Although the country that accounted for the highest amount of Singapore's outward FDI from 2002-2006 was the British Virgin Islands, it is difficult to trace the trans-shipping of this type of investment (see discussion of investment in offshore financial centres in UNCTAD 2006: 12-13).

large. Nonetheless, the tendency to invest within the region may be diverted with the increasing attraction of non-Asean developing economies, especially China. The rise of China and, on a lesser degree, India could pose as a major challenge for Asean's goal to increase its level of intra-regional investment. The next sections analyse the nature of intra-Asean investment in further details.

Nature of intra-Asean investment: who are the Asean investors and hosts?

(Insert Figure 6 here)

(Insert Table 2 here)

Figure 6 and Table 2 present an overall picture of which countries act as the source and the host countries within Asean. While Figure 6 shows the accumulated intra-Asean FDI flows by host and source country between 1995 and 2007, Table 2 sums up the top intra-regional source and host countries. The dominant role of Singapore as the main source country for intraregional investment is evident. From 1995 to 2007, investment from Singapore alone accounted for 65 per cent of total accumulated intra-Asean investment. Followed in the distant second was Malaysia (17.7 per cent), the third was Indonesia (9 per cent), while Thailand was fourth (4.9 per cent). Singapore's investment spreads through the region but is more concentrated in the more advanced Asean economies like Thailand, Malaysia and Indonesia. Singapore is also the largest intra-regional investor in the less developed Asean members like Cambodia, Laos, Myanmar, and Vietnam.

For the region's second and third largest outward investors, it should be noted that outward FDI flows from Malaysia and Indonesia were remarkably concentrated in Singapore. As much as 57 percent of Malaysia's total accumulated intra-regional investment went to Singapore, while 18 per cent was in Indonesia, followed by Thailand (9.7 per cent), Vietnam (7.5 per cent), Brunei (3 per cent) and Cambodia (2 per cent). Indonesia similarly showed a strong preference for Singapore, with 89 per cent of their accumulated intra-regional investment concentrated there and another 6 per cent in Malaysia. The fourth largest Asean investor, Thailand, had a more diversified intra-regional investment pattern, spreading to Vietnam (26 per cent), Malaysia (19 per cent), Singapore (13.6 per cent), Myanmar (13 per cent) and other Asean members.[7]

For the top host economies, the larger and more advanced economies of Indonesia, Malaysia, Singapore and Thailand dominated with over 80 per cent of intra-regional investment concentrated in these four countries (see Table 2). Thailand was the most favourite intra-regional investment destination, accounting for 27.9 per cent of total intra-regional flows, followed by Malaysia (24.7 per cent), Singapore (20.1 per cent), and Indonesia (10.3 per cent). Among the newer Asean members, Vietnam was the top recipient (7.3 per cent), followed by Myanmar (2.3 per cent), Cambodia (1.3 per cent) and Laos (0.7 per cent).

In sum, the geographical distribution of intra-Asean investment shows two notable trends. First, Singapore's leading role as the region's investment centre is undeniable. Not only is Singapore the largest source country that has expanded its regional investment to all other Asean countries, it is also a significant destination for other countries' outward investment. Even the isolated Myanmar undertook foreign direct investment in Singapore. Its central role is even more highlighted considering that most of Malaysia's and Indonesia's outward investment was concentrated in

[7] The Bank of Thailand's report on the country's international investment position as of end of 2007, however, suggested that Singapore (19.4%) was the Asean country with the highest amount of Thai outward FDI, followed by Myanmar (9.2%), Vietnam (5.8%), Philippines (3.7%), Malaysia (3.5%), Indonesia (2.6%), and Cambodia (1.3%).

Singapore. Hiratsuka (2006) attributed this characteristic to Singapore's role as the region's main international trade and research and development (R&D) centre.

Second, there appears to be two layers of intra-Asean investment. The first one is the two-way investment among the larger and more advanced Asean-5,[8] especially Singapore, Malaysia and Indonesia. The extensive two-way, intra-regional investment among these three countries is partly a result of the integrated sub-regional integration of the Indonesia-Malaysia-Singapore Growth Triangle, which facilitates intra-industry investment in industries like communication equipment (Dent 2008, p.74, Hiratsuka 2006). The second layer takes place in a more one-way direction, with the more advanced countries investing in lesser ones. Typical of this second type of intraregional investment are Singapore, Malaysia and Thailand investment in the lesser developed Asean countries, namely Cambodia, Laos, Myanmar and Vietnam (CLMV). This particular concentration of intra-regional investment highlights the importance of sub-regional groupings within Asean. Two notable sub-regions that emerged under Asean are the Growth Triangle linking Singapore to Indonesia's Riau province and Malaysia's Johor province, and the Greater Mekong Sub-region (GMS) linking Thailand with Myanmar, China, Cambodia, Laos and Vietnam (Bartels 2004, Dent 2008). There is clear evidence of intra-regional investment among the three members of the Growth Triangle, and of Thailand's role in the GMS area. To better understand the dynamics of intra-Asean investment, the discussion now turns to the industrial distribution of intra-regional FDI.

Nature of intra-Asean investment: to which sectors do intra-Asean investment goes?

[8] Asean-5 generally refers to the five founding members, namely Indonesia, Malaysia, Philippines, Singapore and Thailand. When Singapore is excluded from this group thanks to its more advanced level of economic development, the four remaining countries are often referred to as Asean-4.

(Insert Figure 7 here)

Figure 7 shows that the five most important sectors for intra-Asean investment were manufacturing (32.3%), financial intermediation & services (23.3%), real estate (16.1%), other services (11.5%), and mining & quarrying (8.8%). Singapore was once again the most dominant player in all these sectors, except for real estate, in which Indonesia and Malaysia were the two largest investors. Singapore's prominent role was most evident in manufacturing and financial intermediation and services. Investment from Singapore alone accounted for more than 80% of total intra-regional investment in these sectors. National statistics also confirm the predominance of Singapore's outward investment in financial and insurance services (Singapore Department of Statistics 2006). The key sectors for Malaysia's outward investment were real estate, financial intermediation and services, manufacturing and services, collectively accounting for over 95% of Malaysia's investment in the region. Within the service sectors, Malaysian investors were also active in financial and insurance services. Malaysian manufacturing investments abroad were concentrated in three main industries, namely fabricated metal products; machinery and equipment; and food and beverages (Bank Negara Malaysia 2006). Indonesia showed a strong preference for real estate, which accounted for about 78% of the country's outward investment in the region. Thailand's intraregional investment is led by mining & quarrying and services sectors, followed closely by manufacturing. The Bank of Thailand 2007 report on the country's international investment position pointed out that the two key sectors in which Thai manufacturing activities were concentrated were electrical machinery & appliances; and food & beverage. The significance of food & beverages as a key industry for intra-Asean investment was also evident in manufacturing approval statistics (see Table 3).[9] Two key sectors that showed active intraregional activities were communication equipment and food & beverages. While communication equipment also attracted the highest amount of extra-regional investors (23.1%), food and beverages received little interest from them (3.7%).

(Insert Table 3 here)

Considering the nature of the industries that attract high intra-regional investment, the majority of the intra-Asean investment appears to be market-seeking because these industries do not involve complex production networks. Other types of FDI may exist, but do not make up the bulk of intra-regional investment. UNCTAD (2006: 158-163) similarly pointed out that market-seeking FDI was by far the most common type of strategy for developing-country multinationals, particularly those investing in neighbouring countries during the early stage of internationalisation. This is apparent for three key sectors which recorded a high level of intra-regional investment, namely food & beverage and financial & insurance services, and real estate. Firms in these sectors are most likely to enter their neighbouring countries to expand their market coverage. Pananond (2009) also suggested that market-seeking FDI was by far the most obvious strategy for Thai multinationals prior and after the 1997 economic crisis.

[9] Table 3 is based on Hiratsuka (2006), which used project approval statistics to indicate industrial distribution of intra-Asean investment. Approval-based data carry some limitations, however. For example, not all approved projects turn into actual investment. On the other hand, some actual FDI projects may not require approval. Since the Asean Secretariat does not collect balance-of-payment-based intraregional FDI data by industrial classification, the approval statistics provided the best proxy for analysis of industrial distribution of intraregional investment in manufacturing sectors.

Efficiency-seeking investment is more evident among East Asian firms with complex production networks established throughout Southeast Asia in three key industries, namely electrical and electronic products, garments, and information technology services (UNCTAD 2006). The efficiency-seeking investment in Southeast Asia is more commonly reflected in relocations to lower cost countries rather than investment that would increase the firm's operational synergy. This type of investment is more typical of firms from outside the region than inside ones. Pananond (2009) suggests that while some large Thai multinationals with relatively higher international experience may start to engage in efficiency-seeking FDI, the majority remains primarily concerned with market-seeking FDI. Malaysian multinationals showed a similar trend in market-seeking FDI to respond to the small and limited domestic market (Ariff and Lopez 2008).

There is also a growing trend of intra-Asean resource-seeking FDI in primary sectors like mining & quarrying and oil & gas. This is evident for the region's two main oil companies—Malaysia's Petronas and Thailand's PTT. These two oil companies are among the leading investors in Myanmar's energy market (Pananond 2007).

(Insert Table 4 here)

Table 4 shows which firms are the leading Asean multinationals. The 18 firms in the list were included in UNCTAD 2008's top 100 multinationals from developing economies. Two key features should be noted. First, the prominent role of Singapore and Malaysia is reflected in the number of their firms included in the list. Among the 18, 11 were from Singapore, 6 from Malaysia and 1 from Philippines. This list reinforces the importance of Singapore and Malaysia as Southeast Asia's leading outward investors. The second feature to be noted is the role of state ownership among Southeast Asian multinationals. Among Singaporean's top 11 multinationals, 6 were partly owned by the Singaporean government through its main holding company Temasek. While Government-linked-companies (GLCs)[10] of Singapore and Malaysia could be instrumental in spearheading intra-Asean investment, there are also evidences that GLCs' investment in neighbouring countries could lead to conflicts that undermine regional integration (see Goldstein and Pananond 2008a, b).

The sectoral analysis in this part suggests that the intra-Asean investment is primarily led by market-seeking FDI investment in a few key sectors, particularly financial services and real estate sectors. Although there is some efficiency-seeking investment in some manufacturing sectors and resource-seeking in primary sectors, these types of FDI are not as prominent as the market-seeking one. While the market-seeking objective of Asean firms could be a stimulus for intra-regional investment, it nonetheless can be a challenge for further regional integration as regional firms are increasingly competing against each other. Such competition has sometimes been heightened by the indirect involvement of the state through ownership in firms that are expanding in the region.

IV. Conclusive Remarks and Implications for Regional Integration

This paper considered the intra-Asean FDI and the implication for the region's further integration. The paper focused on answering four questions: how significant is Asean as outward investors?; how important is intra-Asean investment?; who are

[10] For Singapore, government-linked-companies (GLCs) are those in which Temasek Holdings or other statutory boards hold more than 20% of the voting shares. For Malaysia, GLCs are defined as non-financial public enterprises in which the government has an equity of more than 50% and with sales turnover of at least RM 100million (see Bank Negara Malaysia 2006).

Asean investors and hosts?; and in which sector do they invest? The analysis in the previous parts revealed five features on intra-Asean FDI. First, it is evident that Southeast Asia's role as outward investor remains limited when compared with the region's traditional role of FDI recipient. Within the limited but growing role as outward investors, Singapore and Malaysia play a crucial role in spearheading the region's outward FDI. Second, intra-regional investment is an important feature of Asean outward FDI but not inward FDI. The majority of inward FDI to the region continues to be overwhelmingly led by inflows from non-Asean countries. Nonetheless, Asean is the main geographical destination for outward FDI of regional multinationals. Third, Singapore is the region's most active player, both as the leading investor in the region and as the main recipient of regional investment. Fourth, there are two layers of intra-regional investment. One is the two-way investment among the larger and more advanced Asean-5, and the other is the one-way investment from the more advanced Asean countries to the less developed members. Lastly, intra-Asean FDI is predominantly market-seeking in nature. Government-linked companies also play a major part in the intra-regional investment.

The above conclusions are in accordance with the literature reviewed earlier. It confirms that Southeast Asia's regional integration is mainly driven by investment from multinationals outside of the region that set up extensive production networks within Asean. The above findings also confirm that countries in Southeast Asia are at different stages of the investment development path. Those that are at a higher stage, notably Singapore and Malaysia, are more actively involved in outward FDI compared to the less advanced Asean members. Outward investment by these countries is often directed to neighbouring countries in the region. The existence of intra-regional investment implies that there are indeed opportunities to use this mechanism as another catalyst for further regional integration in addition to inward investment from outside the region. The need to strengthen Southeast Asia's regional integration cannot be denied, especially in the face of the ever rising competition from other economies with similar factor endowment and larger markets like China and India. Buckley *et al.* (2005) pointedly stated that without a serious attempt to further integrate their economies, Southeast Asian countries risk losing out to China due to its scale and improving location specific factors. Bhaskaran (2005) also warned that Asean was being challenged by India, another country that is rapidly attracting inward FDI from around the world.

It cannot be denied that the key mechanism behind Asean regional integration has been the interests of non-state actors, particularly multinational firms from outside the region. The need of these firms to establish a regionally seamless production network to serve the markets as well as to reduce their production costs has been the major factor that drove closer integration in the past (see Yoshimatsu 2002). Nonetheless, the opportunity to develop intra-regional investment into another major mechanism that deepens regional integration should not be overlooked, especially when Asean countries are increasingly undertaking outward investment. Unlike outside investors who look for benefits from the integrated region, intra-Asean investment at the moment continues to be led by firms seeking market opportunities in the neighbouring countries. The need for Asean regional integration to be responsive to these two mechanisms—inward investment from outside the region and intra-regional investment—leads to implications at different levels.

At the regional level, Asean needs to be flexible enough to accommodate extra-regional structures as much as sub-regional ones. Initiatives that link the region with key players outside the region, like Asean Plus Three Cooperation, need to be maintained to encourage inward investment to the region. At the same time, sub-regional groupings such as the GMS or the Growth Triangle should also be strengthened to stimulate more intra-regional investment flows. Economically, Asean has long viewed a deeper regional integration as an incentive for inward investment from outside. It is about time that intra-regional investment receives more attention from the region's policy makers.

At the country level, there should be a clear strategy toward outward investment. Singapore is the obvious example of having policies that encourage outward investment. Goh et al. (2001) clearly pointed out how Singapore's national strategy, 'Regionalisation 2000', was launched to encourage Singaporean firms to invest in the region in order to cope with the country's constraints in factors of productions and to benefit from the high potential demand from regional economies. Singapore is the exception rather than the norm, as other Asean members, particularly the more advanced ones, still have not paid much attention to their outward investment. Pananond (2009) argued that Thailand's policies toward outward FDI have been more reactive than proactive. The Thai government considers overseas investment as responses to the increased competition in the global economy rather than a key part of strategy to develop Thai firms' competitive advantages. As a result, policies on outward FDI have been made to encourage Thai firms to expand abroad in order to seek lower-cost resources or to seek new markets for their existing products and services, rather than to increase their overall efficiency from overseas investment. On the contrary, policies on outward FDI should be taken from a proactive and integrated approach. Capacity development and capability building measures are needed both for domestic and international competition.

At the firm level, it is crucial that Asean firms do not limit their regional investment to market-seeking purposes only. The larger and more experienced Asean firms should upgrade their competitiveness by engaging in higher-value and more complex activities and benefiting from regional investment in a similar manner to how multinationals from outside the region maximised their advantages from establishing extensive networks in Southeast Asia.

Many favourable factors could allow intra-Asean investment to stimulate a deeper regional integration. The major obstacle to further regional integration is in fact the true commitment from policy makers. Two characteristics of outward FDI from the region that could harm trust among Asean member countries are the competition among Asean multinationals and the involvement of the state in private firms. Because many of the Asean multinationals compete in the same sector for the same regional markets, allowing a deeper regional integration would increase the competition for local firms. Whether Asean leaders are truly committed to liberalising intraregional investment to allow regional competitors to expand into their own market will remain a test to the region's strong will toward a deepening integration. The second problematic characteristic of intraregional investment that could hamper further intraregional investment is the undeniable influence of some governments in their private firms' operation. UNCTAD (2006: 163) identified that one of the most significant motives for outward FDI from developing countries is the strategic and political goal assigned to state-owned or state-linked companies by their home government. This could be a sensitive area that is not well received in host countries. No other example had clearer and more devastating ramifications than the acquisition of Thailand's Shin Corp by Singapore's Temasek Holdings (see Goldstein and Pananond 2008b).

From the analysis of outward FDI from Southeast Asia, there are a variety of factors for and against further regional integration. What is certain is that outward FDI from the region can certainly become another force that drives Asean economies closer together. The uncertainty, however, is whether Southeast Asian countries can perceive these benefits and further develop intra-regional investment to further deepen their integration.

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Table 1: Asean as FDI home and host economies

Country	Inward FDI stocks as a percentage of GDP			Outward FDI stocks as a percentage of GDP			Outward FDI stocks ($ millions)			Inward FDI Performance Index			Outward FDI Performance Index		
	1990	2000	2007	1990	2000	2007	1990	2000	2007	2005	2006	2007	2005	2006	2007
Southeast Asia															
Brunei Darussalam	1	64.5	81.1	-	7.4	5.6	-	447	698	2	64	89	47	60	74
Cambodia	2.2	43.1	44.3	-	5.3	3.3	-	193	284	-	-	-	-	-	-
Indonesia	6.9	15.2	13.6	0.1	4.2	5	86	6,940	21,425	106	103	104	43	43	52
Laos	1.4	32.1	30.5	-	1.2	0.5	-	21	20	-	-	-	-	-	-
Malaysia	23.4	56.2	41.1	1.7	16.9	31.2	753	15,878	58,175	68	67	71	31	25	22
Myanmar	5.4	53.1	40.2	-	-	-	-	-	-	82	101	99	-	-	-
Philippines	10.2	24.2	13.1	0.9	2.7	3.9	406	2,044	5,573	109	99	96	59	67	49
Singapore	82.6	121.5	154.7	21.2	61.2	92.7	7808	56,766	149,526	4	6	7	12	8	10
Thailand	9.7	24.4	34.9	0.5	1.8	2.9	418	2,203	7,025	49	54	64	67	65	66
Vietnam	25.5	66.1	56.3	-	-	-	-	-	-	55	62	43	90	86	84
East Asia															
China	5.1	16.2	10.1	1.1	2.3	3	4455	27,768	95,799	64	75	88	62	58	59
Hong Kong, China	262.3	269.3	573	15.5	229.6	496.6	11920	388,380	1,026,587	3	2	1	3	2	3
Taiwan Province of China	5.9	6.1	12.7	18.4	20.7	41.3	30356	66,655	158,361	132	122	111	28	31	34

Republic of Korea	2	7.4	12.3	0.9	5.2	6.8	2301	26,833	66,220	115	126	130	50	51	48
South Asia															
India	0.5	3.7	6.7	n.a	0.4	2.6	124	1,859	29,412	119	110	106	63	50	50
Averages															
World	**9.1**	**18.1**	**27.9**	**8.5**	**19.4**	**28.9**									
Developing economies	**13.6**	**25.2**	**29.8**	**4**	**12.9**	**16.5**									
Asia	**15.9**	**25.5**	**28.6**	**3.2**	**14.8**	**18.5**									

Source: UNCTAD (2008)

Table 2: Top intra-Asean source and host countries

Source Country	Amount	%	Host Country	Amount	%
Brunei Darussalam	440.90	0.85	Brunei Darussalam	1,490.99	2.87
Cambodia	24.90	0.05	Cambodia	653.48	1.26
Indonesia	4,678.36	9.00	Indonesia	5,365.70	10.33
Lao PDR	57.93	0.11	Lao PDR	381.23	0.73
Malaysia	9,192.37	17.69	Malaysia	12,839.19	24.71
Myanmar	170.44	0.33	Myanmar	1,193.54	2.30
Philippines	752.65	1.45	Philippines	1,250.34	2.41
Singapore		65.12	Singapore		

	33,839.74			10,444.71	20.10
Thailand	2,547.49	4.90	Thailand	14,510.63	27.93
Viet Nam	256.66	0.49	Viet Nam	3,831.62	7.37
Total	**51,961.44**	**100.00**	**Total**	**51,961.44**	**100.00**

Source: ASEAN Secretariat - ASEAN FDI

Database, 2008.

Table 3: FDI inflows from extra- and intra-Asean in manufacturing industry

FDI Inflows from Extra-and Intra-ASEAN in Manufacturing Industry

(approval base) by Industrial Sector (1999-2003)

Host country	Value of Projects(US$ millions)		% of Share by Industry	
Sectors	**Extra-ASEAN**	**Intra-ASEAN**	**Extra-ASEAN**	**Intra-ASEAN**
Food & Beverages	2,347	1,084	3.7	17.8
Tobacco Products	75	16	0.1	0.3
Textiles	1,890	173	3	2.8
Wearing Apparel	1,418	129	2.3	2.1
Tanning of Leather	850	36	1.4	0.6
Wood & Wood Products	1,450	174	2.3	2.9
Paper & Paper Products	1,961	589	3.1	9.7
Publishing, Printing	146	19	0.2	0.3
Refined Petroleum	12,942	168	20.6	2.8
Chemicals Products	4,958	432	7.9	7.1
Rubber & Plastics Products	4,998	437	8	7.2
Other Non-Metallic Minera	2,237	106	3.6	1.7
Basic Metals	2,579	172	4.1	2.8
Fabricated Metal	1,477	290	2.4	4.8

Machinery & Equipment	1,979	333	3.2	5.5
Office Machinery	330	25	0.5	0.4
Electrical Machinery	1,486	94	2.4	1.5
Communication Equipment	14,474	1,404	23.1	23
Precision Instruments	534	99	0.9	1.6
Motor Vehicles	1,831	164	2.9	2.7
Other Transport Equipment	1,542	66	2.5	1.1
Furniture	704	67	1.1	1.1
Recycling	45	7	0.1	0.1
Others	436	7	0.7	0.1
TOTAL	**62,689**	**6,091**	**100**	**100**

Source: Hiratsuka (2006)

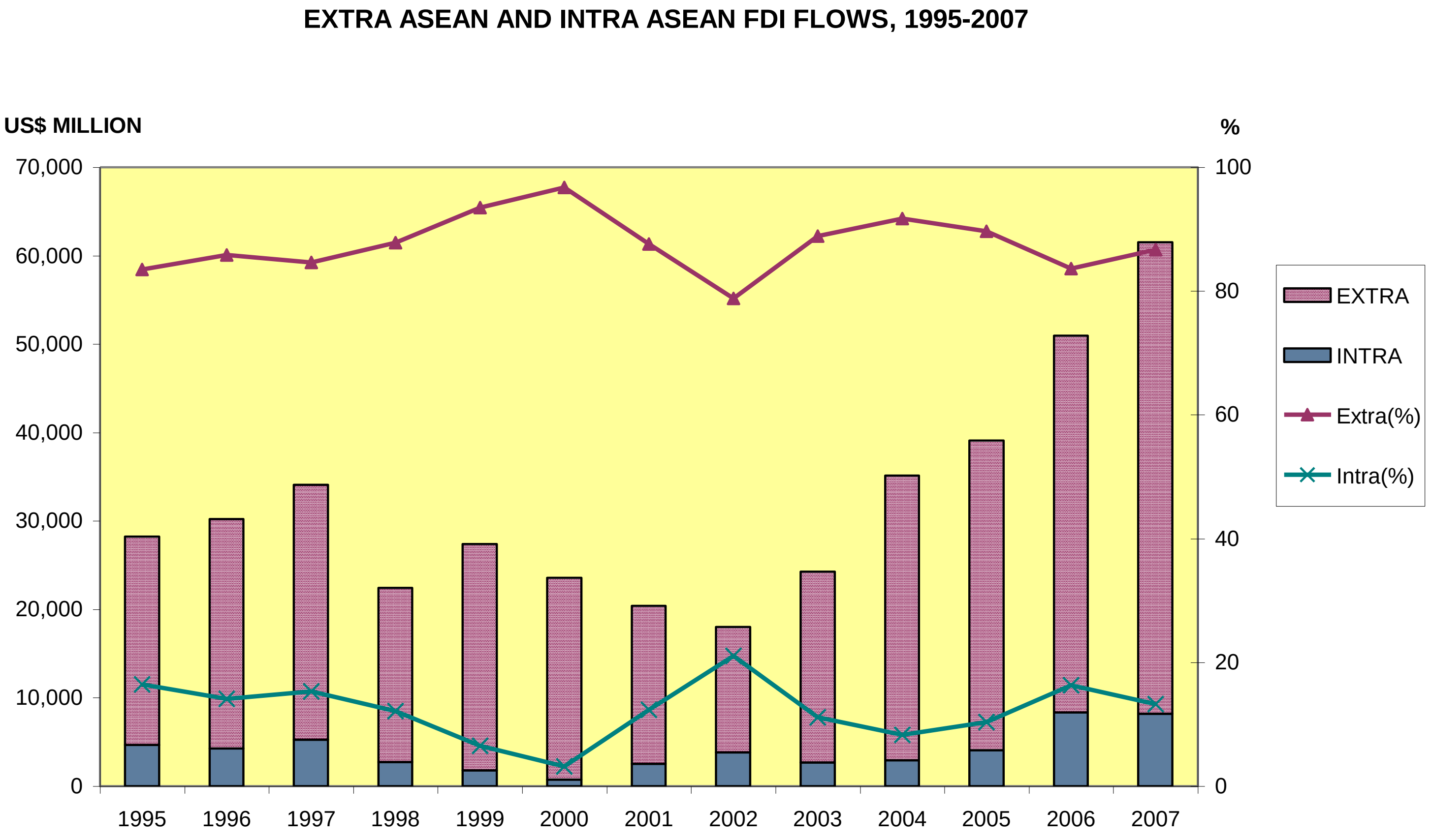
Table 4: Asean multinationals in the world's top 100 non-financial multinationals from developing countries, ranked by foreign assets, 2006

Country	Rank No.	Name of Company	Industry
Singapore	6	Singtel Ltd.	Telecommunications
	17	Capitaland Limited	Real Estate
	35	Flextronics International Ltd.	Electrical& electronic equipment
	50	Keppel Corporation Limited	Diversified
	56	Fraser & Neave Limited	Food & beverages
	58	City Developments Limited	Hotels
	62	Asia Food & Properties	Food & beverages
	63	Neptune Orient Lines Ltd.	Transport and storage
	73	Stats Chippac Limited	Diversified
	95	Want Want Holdings Ltd.	Food & beverages
	98	Olam International Limited	Agri-business
Malaysia	2	Petronas-Petroliam Nasional Bhd	Petroleum expl./ref./distr.
	27	YTL Corp.Berhad	Utilities

	43	Genting Berhad	Hotels
	53	Telekom Malaysia Berhad	Telecommunications
	61	Sime Darby Berhad	Diversified
	68	Maxis	Telecommunications
Philippines	60	San Miguel Corporation	Food & beverages

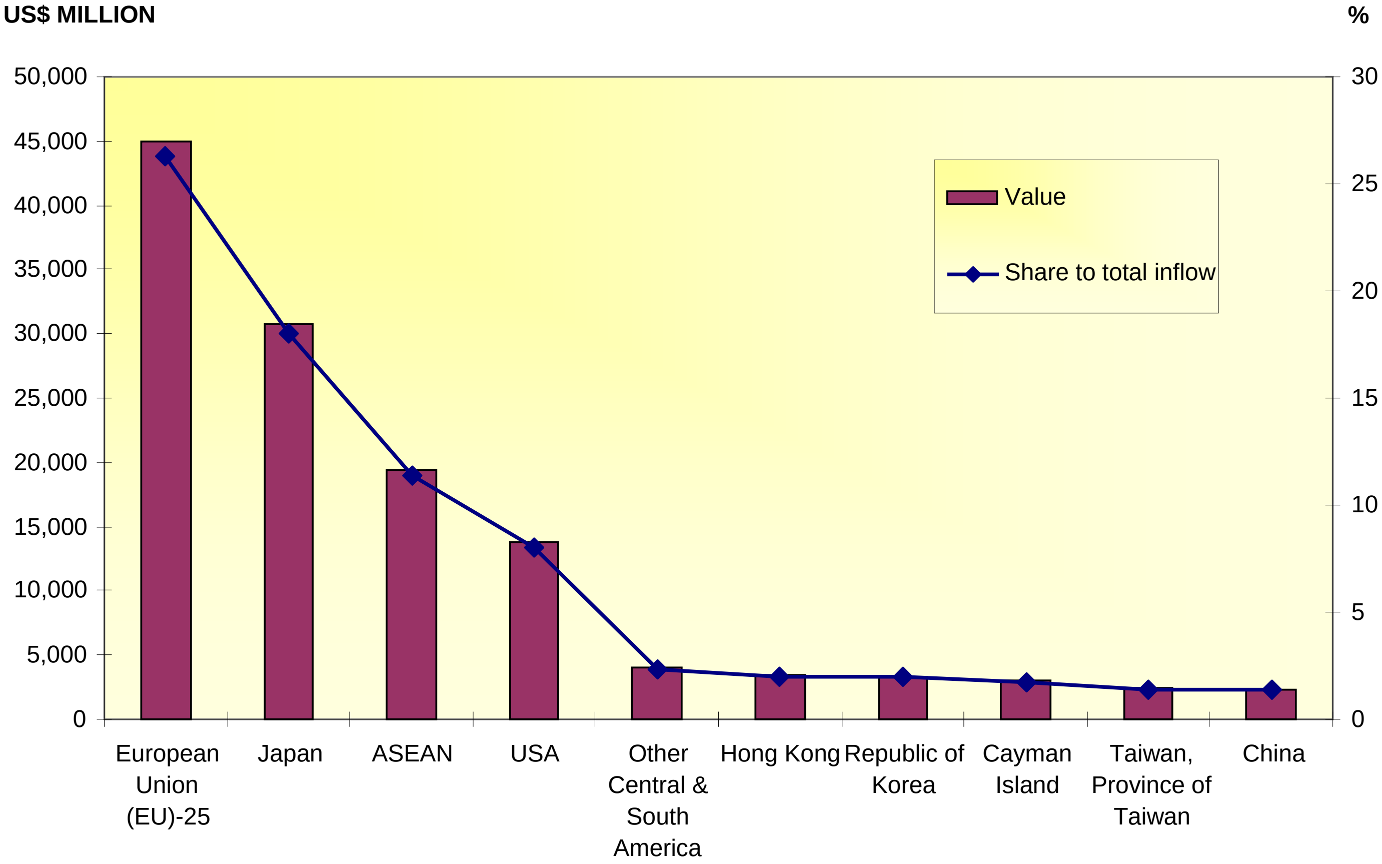
Source: UNCTAD (2008)

Figure 1: Extra- and Intra-Asean FDI flows, 1995-2007



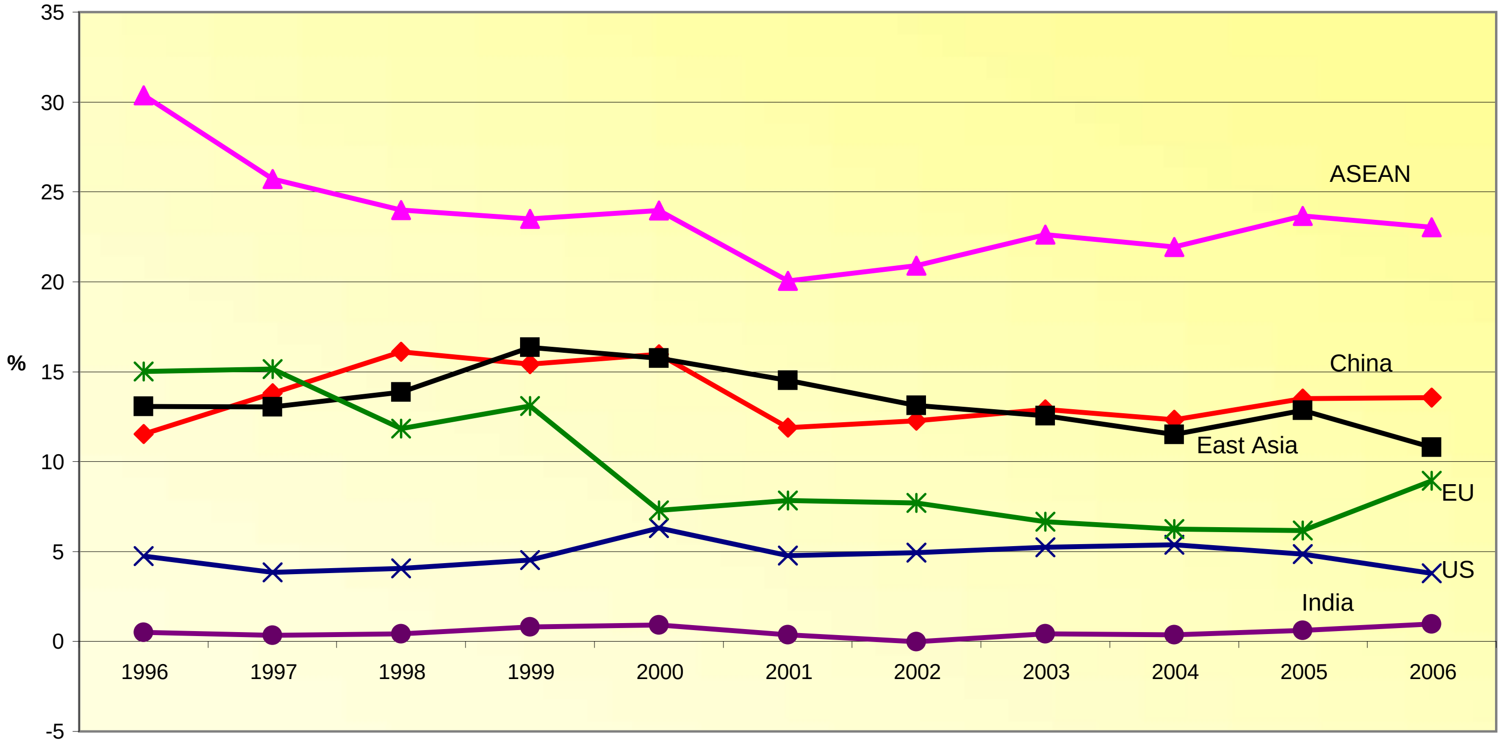
Source: ASEAN Secretariat - ASEAN FDI Database, 2008.

Figure 2: Top ten sources of accumulated FDI inflows to Asean, 2002-2006



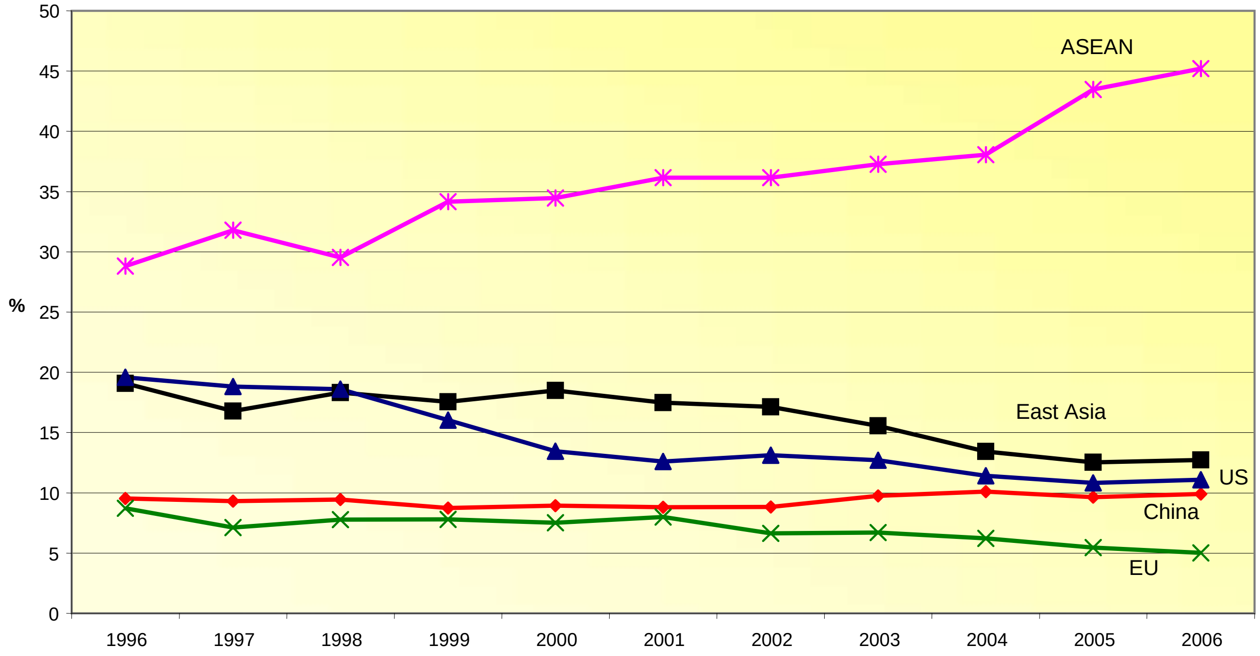
Source: ASEAN Trade Database, ASEAN Secretariat

Figure 3: Share of outward FDI stock from Singapore by geographical destination, 1996-2006



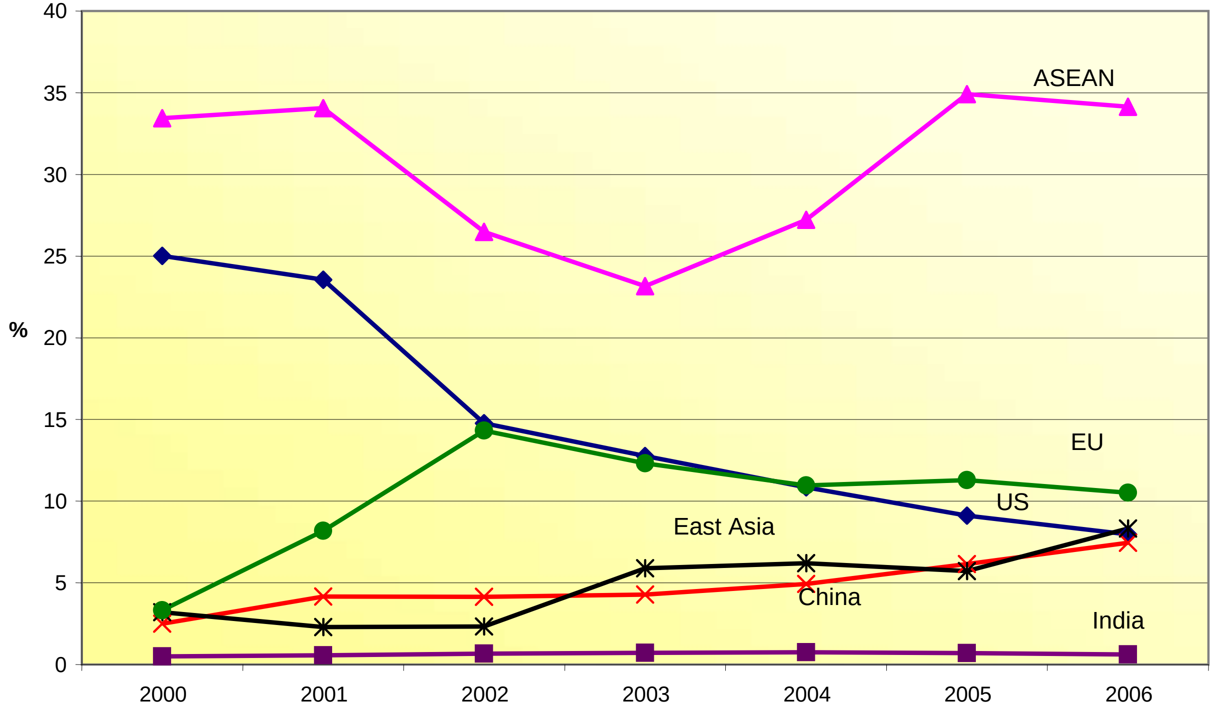
Source: Singapore Department of Statistics (2006)

Figure 4: Share of outward FDI stock from Thailand by geographical destination, 1996-2006



Source: Bank of Thailand

Figure 5: Share of outward FDI stock from Malaysia by geographical destination, 2000-2006



Source: Bank Negara Malaysia

Figure 6: Accumulated intra-Asean FDI flows by host and source country, 1995-2007

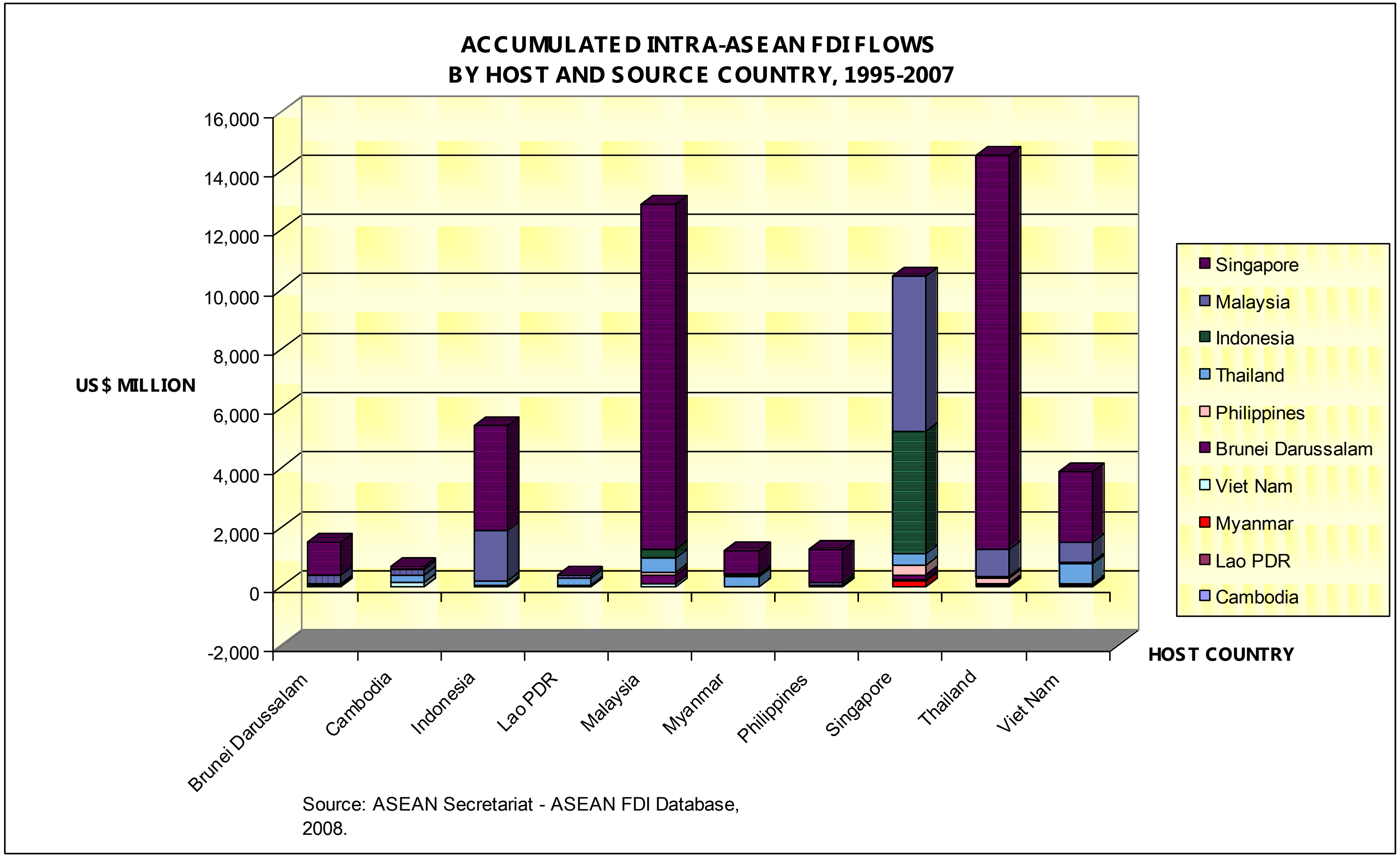
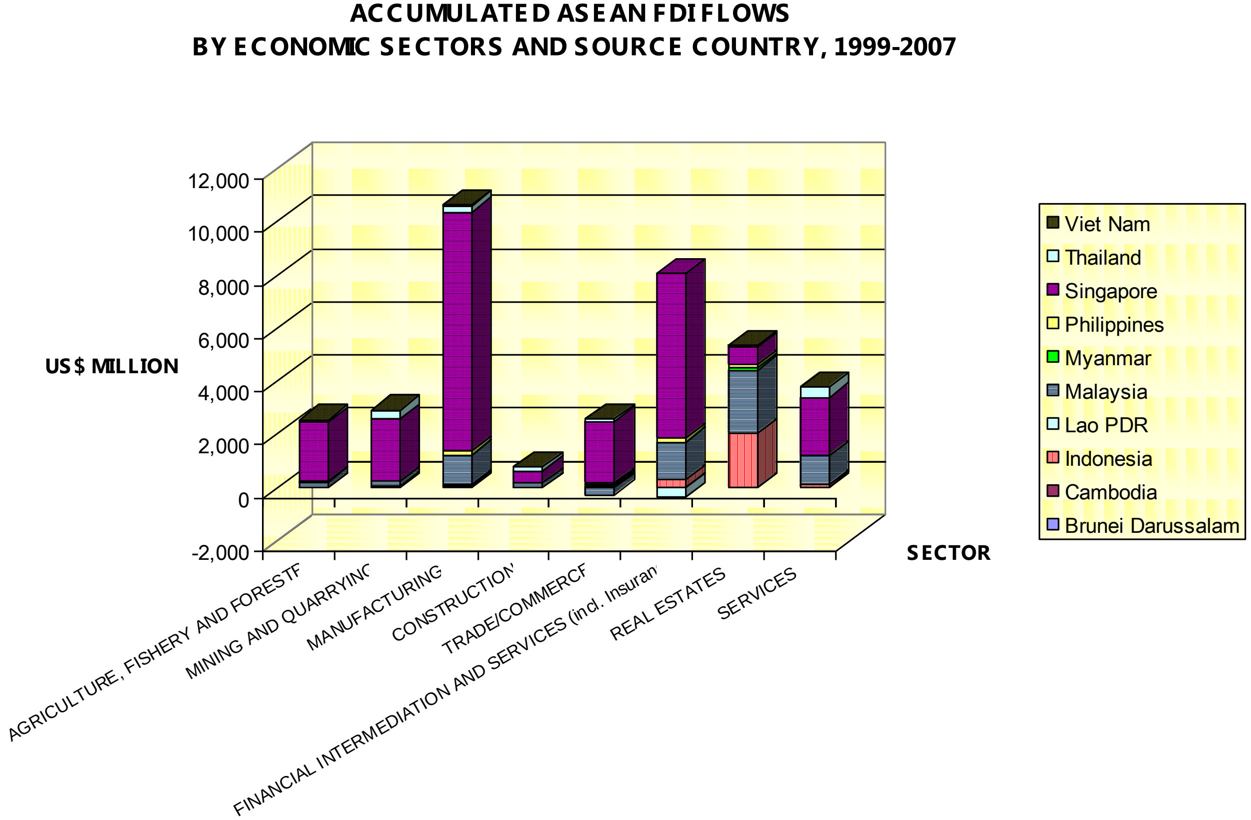


Figure 7: Accumulated intra-Asean FDI flows, by economic sectors and source country, 1999-2007



Source: ASEAN Secretariat - ASEAN FDI Database, 2008