Although the Asia-Pacific region remains a major investment destination, foreign direct investment (FDI) inflows in the region declined slightly in 2016. This decline may be attributed to timid growth, low commodity prices, and structural reforms towards higher value-added industries in leading economies in the region. On the contrary, FDI outflows from the region increased significantly, further establishing the region as a major outward investor. Overall, the different subregions and economies in the Asia-Pacific region performed heterogeneously.

Unlike overall FDI flows, greenfield FDI inflows increased significantly, showing investors’ continued and future oriented interest and confidence in the region. It also shows that service industries continue to attract steady and increasing levels of greenfield FDI inflows. FDI inflows to the region are expected to increase as a result of on-going regional integration efforts as well as both national polices and international agreements pushing for further investment liberalization.
A. OVERVIEW OF GLOBAL AND REGIONAL TRENDS IN FOREIGN DIRECT INVESTMENT

1. Global trends

After having increased since 2013, FDI inflows fell in 2016 by 2% to $1.7 trillion. FDI inflows to developed economies increased further after significant growth in the previous year – by 5% to $1 trillion in 2016. Increased FDI inflows to developed economies were equity investment flows, mainly cross-border mergers and acquisitions (M&As). Conversely, developing countries suffered from slowed FDI inflows in 2016 – a decline of 10% to $714 billion. This is likely the result of low commodity prices and weakened growth (UNCTAD, 2017).

Global FDI outflows decreased by 9% to $1.5 trillion in 2016. FDI outflows from developed economies declined by 11% to $1.0 trillion, while FDI outflows from developing economies fell by 3% to $409 billion in 2016. These trends were mainly the result of the unstable global economic climate, including timid growth, low commodity prices and stiffened trade dynamics.

2. Regional trends

FDI inflows to the Asia-Pacific region contracted by 3% to $541 billion in 2016. This decline at the regional level was slightly larger than the decline at the global level. Thus, Asia and the Pacific’s share of global FDI inflows declined from 32% in 2015 to 31% in 2016 (figure 3.1). Still, developing economies from the Asia-Pacific region accounted for a significant share of the world’s FDI inflows and for 74% of total FDI inflows to developing countries worldwide.

By contrast, the Asia-Pacific region increased its FDI outflows to the world by 10% to $495 billion in 2016, mainly because of strengthened outflows from China and Hong Kong, China. As global FDI outflows fell, the region’s share of global FDI outflows increased to 34% in 2016 (figure 3.2).

“Many economies in the Asia-Pacific region have experienced decreased FDI inflows due to timid growth and low commodity prices. On the contrary, FDI outflows increased, establishing the region as a main outward investor.”

![Figure 3.1](image-url)
Unlike overall FDI inflows, greenfield FDI inflows to the Asia-Pacific region increased by 11.7% in 2016. This was significantly higher than global greenfield FDI inflows, which increased by only 4.6%. The Asia-Pacific region accounted for 43% of global greenfield FDI inflows in 2016, receiving almost $395 billion. Greenfield FDI outflows also increased significantly by 20.3% in 2016, reaching $315 billion (figure 3.3). Increased greenfield FDI inflows are positive signs for the region, as they are barometers of the FDI contribution to local economic development. It is recognized that greenfield FDI contributes to job generation, skills development, and capital and technology transfer. Greenfield FDI is more likely to be a long-term investment when compared to M&As, portfolio investment and other channels of investment (Investment Consulting Associates, 2016).

"Greenfield FDI inflows to the Asia-Pacific region as a whole have increased significantly, showing investors’ continued interest and confidence in the region."

Source: ESCAP calculations based on UNCTAD (2017).
3. Intraregional FDI flows

Economies from Asia and the Pacific have steadily increased their greenfield FDI flows within the region during the last decade. While the average annual growth rate of global greenfield FDI inflows to Asia and the Pacific from 2003 to 2016 was 1.4%, the average annual growth rate of intraregional greenfield FDI inflows during the same period was 4%. However, intraregional greenfield FDI inflows stagnated in 2016 with only a very slight increase of 0.3%. After increasing for half a decade, the share of intraregional greenfield inflows in total greenfield inflows to the Asia-Pacific region has decreased to 48% in 2016 – the first decline in this trend since 2010 (figure 3.4). This could be due to economic restructuring leading to temporary disruptions in regional value chains, which will be discussed in greater detail in later sections.

However, the Association of South East Asian Nations (ASEAN) has continued to attract significant amount of intraregional FDI inflows (figure 3.5). Intraregional greenfield FDI inflows to ASEAN rose by 3.4% to $90 billion in 2016. This is likely to continue. The vertical fragmentation effect – associated with an extension of the investment network that results from the trade liberalization of intermediate goods – and the horizontal effect – a market expansion effect resulting from the reduction of trade barriers – are very likely to attract increasing investment flows from the region’s multinational enterprises (MNEs) to ASEAN, including from ASEAN member countries themselves (Li, Scollay, Maani, 2016). For instance, intra-ASEAN flows accounted for 18.5% of total FDI flows to ASEAN in 2015 (ASEAN, 2016a). Continued economic integration efforts and the relocation of investment from China will provide further impetus to intraregional FDI.
B. OVERVIEW OF ASIA- PACIFIC SUBREGIONAL TRENDS

1. FDI inflows

The expansion of FDI inflows to the Asia-Pacific region was not uniform among subregions and individual countries (figure 3.6). The economic restructuring in leading countries, especially China and its main partners could create temporary disruptions in established regional value chains and these structural changes may slow FDI inflows in some countries.

“In leading economies in the region, structural reforms towards higher value-added industries could have slowed FDI inflows.”
In developing East and North-East Asia, FDI inflows declined 20% in 2016, reversing the growth trend in 2015. This was heavily affected by a 38% decline of inflows to Hong Kong, China – from $174 billion in 2015, which had been exceptionally high due to major corporate restructuring, to $108 billion in 2016. Other economies in the subregion showed uneven performances. The Republic of Korea showed robust growth and FDI inflows in 2016 jumped 164%, helped by business facilitating reforms. However, Mongolia suffered a $4 billion loss in FDI inflows in 2016 compared to 2015. China received $134 billion in FDI inflows in 2016, a slight decline of 1%, due to various factors. On one hand, FDI inflows increased due to trade liberalization and facilitation measures. Notably, under the Free Trade Zone Strategy, the pilot free trade zones – Shanghai, Fujian, Guangdong and Zhejiang – received $13 billion FDI inflows in 2016, a surge of 80% (UNCTAD, 2017). On the other hand, a slowdown of FDI in the financial sector led to an overall net decline. Also, as discussed in last year’s Asia-Pacific Trade and Investment Report (ESCAP, 2016), China is losing its competitive cost advantage in manufacturing in general and in labour-intensive production. As a result, some foreign investors are moving to other Asian countries with lower labour cost, mainly in the ASEAN subregion. In addition, credit-rating agencies such as Moody’s or Standard and Poors, presented a negative outlook for North-East Asian economies and downgraded the sovereign credit rating of China and Hong Kong, China from stable to negative based on perceived economic imbalances in March 2016, discouraging some investors (Li, 2017). Still, with China’s Belt and Road Initiative (BRI) gaining momentum, both FDI inflows to and outflows from China are expected to increase (Nye, 2017).

(b) South-East Asia (ASEAN)

FDI inflows in the South-East Asian subregion also fell 20% in 2016. Declining inflows to Indonesia, Thailand, Singapore and Malaysia heavily weighted to the subregion as a whole as these countries together accounted for 75% of FDI inflows to the subregion in 2016. Despite an increase in M&As, economic uncertainty drove FDI inflows to Malaysia down to $10 billion in 2016. Indonesia and Thailand have also suffered from timid cross-border M&As and substantial divestments from foreign MNEs, resulting
in decreases of 84% and 73%, respectively, in FDI inflows in 2016. Singapore remains the main recipient of FDI inflows among South-East Asian countries, but still FDI inflows decreased 13% in 2016, probably due to weak global economic and trade growth (UNCTAD, 2017). In contrast, the Philippines and Viet Nam have been rising stars. FDI inflows to the Philippines rose by 60% in 2016, attracted by strong macro-economic fundamentals and robust growth, while Viet Nam attracted a new record $13 billion in FDI inflows in 2016.

**(Box 3.1) Rising foreign direct investment in Viet Nam**

Viet Nam accounted for 13% of FDI inflows of total FDI inflows to ASEAN in 2016. It attracted increased level of FDI inflows thanks to its relatively transparent and improving investment environment, political stability, improved legal environment for FDI, relatively low wages, generous investment incentives, as well as a strengthened banking system and capital market. The country is continuously strengthening its position as a major electronic manufacturing centre alternative to China, which attracts strong intraregional flows (UNCTAD, 2017). It has also become a favourable destination for investment from countries that have strong ties with ASEAN, namely China, Japan and the Republic of Korea. Over the past 10 years, Viet Nam has become the number one ASEAN member State for greenfield investment from Japan and the Republic of Korea, and number three for investments from China. Between 2005 and 2016, Japan made greenfield investments amounting to $45 billion in Viet Nam, while the Republic of Korea investments were worth $50 billion. Korean firms (e.g. Samsung, LG Electronics, Kumho Tire and Lotte) also played an important role in Viet Nam’s rapid rise in FDI (ASEAN Secretariat, 2016b). United States MNEs are also increasingly investing in Viet Nam’s electronic sector. For instance, Jabil Circuit, a major United States company in electronics, recently started to build manufacturing workshops at the Saigon High-Tech Park (Vietnamnet, 2017). Still, it is not yet clear what the fall-out will be of the United States withdrawal from the Trans-Pacific Partnership Agreement, of which Viet Nam is a member.

Overall, despite the noted decline in 2016, South-East Asia has attracted steady and increasing FDI inflows during the last decade. The advantageous geographical locations and the steady improvement of the business climate within individual countries are crucial factor explaining this trend. Also, the less developed member States of ASEAN are ideally placed to capture labour-intensive processes of production outsourced by China, the Republic of Korea and Japan. In addition, the massive attraction of FDI by China seems to induce a strong synergetic effect and fosters FDI inflows towards South-East Asia. This “China effect” acts as a co-movement, or synchronisation, of FDI between China and the subregion. It may be the result of financial interdependence or the result of expanding and diversifying production networks of MNEs in South-East Asia and also the result of increased trade flows between China and ASEAN, partly encouraged by the China-ASEAN free trade agreement assisting trade flows between China and ASEAN (Sohn, 2016).

**(c) South and South-West Asia**

In South and South-West Asia, FDI inflows decreased slightly by 4% to $66 billion in 2016. India topped FDI inflows for the second year in a row, reaching about $45 billion in 2016. In terms of greenfield FDI, India retained its position as the leading recipient of capital investment in the Asia-Pacific region. India has strong assets to attract FDI inflows: sustained growth, a huge and educated labour force, and large access to capital and institutional support. Continued reforms to improve India’s business environment, coupled with personal interventions of the Prime Minister to attract funds, have potentially led to a surge in FDI inflows (Banerjee, 2017). In addition, the recent and historically ambitious country-wide uniform Good and Services Tax implemented on 1 July 2017 – improving the indirect tax structure and doing away with multiple layers of different state-level indirect taxes – is likely to foster FDI inflows to India (Suneja, 2017). Nevertheless, several obstacles to FDI
FDI inflows remain, such as poor infrastructure, rigidity of the labour market and excessive red tape (Mondal, 2016).

FDI inflows to some other countries in the subregion are affected by these countries’ geopolitical conditions and sometimes by large investment projects. In Turkey, FDI declined sharply by 31% in 2016. The country’s political challenges and internal tensions – notably the failed coup d’état in the summer of 2016 – may have been a strong deterrent to FDI. By contrast, inflows to the Islamic Republic of Iran rose by 64% in 2016, arguably because of the lifting of economic sanctions following the implementation of the Joint Comprehensive Plan of Action3 in January 2016 (Financial Tribune, 2017). Pakistan also attracted increased levels of FDI inflows, which jumped by 56% in 2016. This is likely the outcome of China’s rising investment in Pakistan driven by the China-Pakistan Economic Corridor (CPEC) as part of the BRI. In addition, the Netherlands made a massive investment in the food sector in Pakistan in late 2016 (Iqbal, 2017). FDI inflows to Bangladesh also increased to $2.3 billion in 2016 as a result of large investments in electricity projects (UNCTAD, 2017).

(d) North and Central Asia

FDI inflows to North and Central Asia more than doubled in 2016 to almost $59 billion. This reflected the recovery of the Russian Federation and Kazakhstan after the dramatic fall in FDI inflows in 2015. These inflows reached almost $38 billion and $9 billion, respectively, in 2016. The Russian Federation benefited from large investments from developing countries’ MNEs, including greenfield projects from ASEAN countries. However, the Russian Federation has not reached its pre-2013 level of FDI inflows and is still suffering from Western financial restrictions imposed in 2014 (European Parliament, 2016). Chinese investors are still adopting a wait-and-see approach, deterred by possible further sanctions and a deterioration of the economic climate in the Russian Federation (Eurasian Development Bank, 2016). Regarding Kazakhstan, “industrial-innovative and infrastructural projects [...] within anti-crisis programmes” fostered a steep increase in FDI inflows in 2016 (Astana Times, 2016). Kazakhstan may further benefit from subregional integration within the context of the Eurasian Economic Union (EAEU).

(e) Developed Asia-Pacific economies

In 2016, the developed Asia-Pacific countries reversed their 2015 declining FDI inflows. FDI inflows to Japan reached more than $11 billion, mainly as a result of infrastructure and electronics investments from European investors. Australia and New Zealand also reversed their 2015 slump, and attracted $48 billion and $2.3 billion respectively in FDI inflows in 2016. FDI in services in Australia and an expanding economy, driven by reinvested earnings, in New Zealand were major factors in such a recovery (UNCTAD, 2017).

(f) Developing Pacific

In the developing economies in the Pacific subregion collectively, FDI inflows increased by 7% to $1.9 billion in 2016. However, such inflows remain highly volatile. Countries in the subregion are currently seeking to diversify their economies in order to attract more FDI flows (UNCTAD, 2017).

2. FDI outflows

East and North-East Asian economies – especially China, Hong Kong, China and Japan – accounted for most of the FDI outflows from the region, comprising 85% of the total share in 2016 compared to 78% in 2015. FDI outflows for the subregion as a whole increased 19% in 2016 (figure 3.7). China was the biggest investor from the subregion, and, hence, the whole Asia-Pacific region. Outflows increased 44% in 2016, which exceeded inflows to the country for the first time. This surge in outflows is the outcome of strengthening cross-border M&A purchases by Chinese MNEs. These purchases targeted a wide range of strategic industrial sectors, especially in developed countries, and are expected to generate high technological spillovers. Such strategy is in line with the “Made in China 2025” initiative. This initiative aims at strengthening innovation in the high-tech sector by deepening reform of the manufacturing sector, focusing on high value-added industries and prioritizing quality over quantity (China Briefing, 2017; Jin, 2017). Countries associated with the BRI have also become substantial recipients of Chinese FDI, mainly from state-owned enterprises. China’s FDI outflows focus mainly on infrastructure, and through the BRI, China seeks to create new markets in Eastern Europe.
North Africa and South-East Asia for Chinese goods (Nye, 2017). However, at the same time, the Government of China seeks to stem the flight of non-strategic capital abroad – as the outflows of capital are likely to reduce the effect of Chinese monetary policy (Garcia-Herrero, 2016; Schaeffer, 2016). FDI outflows from China exceeded $10 billion, and those exceeding $1 billion but not in the investor’s core business, are targeted and increasingly monitored. Such policy could lower the incentive for Chinese investors to invest abroad.

FDI outflows from South and South-West Asia continued to decline in 2016 – a fall of 33% – mainly led by a 32% decline in Indian outward investment flows, which are likely to have been affected by protocol amending the avoidance of double-taxation between India and Mauritius in May 2016 (UNCTAD, 2017). Indeed, Mauritius is the largest recipient for Indian FDI outflows. The reduced round-tripping induced by amending the tax exemption between India and Mauritius might have impacted Indian investors’ incentive to invest abroad (Desai, 2016).

FDI outflows from developed countries in the Asia-Pacific region increased, owing mainly to Japan’s 13% rise in outward FDI to $145 billion in 2016. Large acquisitions in Europe – such as the SoftBank-ARM deal – have boosted Japan outward investment; three quarters of such flows went to developed economies (UNCTAD, 2017).
C. SECTORAL FOREIGN DIRECT INVESTMENT FLOWS

Among the most noteworthy sectoral trend in FDI inflows to the Asia-Pacific region is FDI in the services sector. The region received a significant amount of greenfield FDI in the services sector – an increase of 31% in 2016 to $155 billion. This amount is closer to the level of inflows for the manufacturing sector (figure 3.8). Service sector greenfield FDI inflows have grown especially in the real estate sector, increasing by 71% in 2016. The purchase of real estate properties in Australia by Chinese individuals has fuelled this boom (UNCTAD, 2017).

"The region is steadily increasing its importance in the services industry, while maintaining its traditional importance in the primary and manufacturing sectors."

Greenfield FDI inflows to the primary sector in the Asia-Pacific region also increased by 6% to $105 billion in 2016. The primary sector’s growth was mostly due to growth in the coal, oil and natural gas industries. For instance, the largest announced greenfield FDI project in the region in 2016 was an extraction project by Chevron Corporation in Kazakhstan in May amounting to $37 billion. Other primary sectors – metals, minerals and rubber extractions – however, saw significant decreases in greenfield FDI inflows in 2016.

Meanwhile, FDI in the manufacturing sector in the region plateaued at $146 billion, increasing only 0.4% in 2016. Nevertheless, the manufacturing sector remained the largest recipient of FDI inflows (figure 3.9) Importantly, intraregional FDI inflows are changing in the Asia-Pacific region, affected by industrial reconfiguration of the subregions’ value chains (UNCTAD, 2017). This is largely driven by China’s reconfiguration of its industrial sectors towards advanced and high value-added industries. Additionally, increasing labour and land costs, the phasing out of FDI inflows restrictions and China’s environmental policies are further promoting this trend (Jin and Li, 2016). This “China effect” benefits ASEAN, which maintains labour-cost advantages, but the more advanced ASEAN countries are also attempting to shift to more advanced and capital- and technology-intensive production structures.
This shift opens up opportunities for the less developed ASEAN countries such as Cambodia, the Lao People’s Democratic Republic, Myanmar and Viet Nam. South-West Asia is also gradually linking itself to the Asian regional value chains as well. For instance, India is increasingly linking up with the sophisticated production networks of East and South-East Asia, especially in sectors such as smartphone production and information technology services (UNCTAD, 2017).

**Figure 3.9**

Share of FDI inflows to the Asia-Pacific region, by sector, 2014-2016

![Pie chart showing the share of FDI inflows by sector: Services (32%), Primary (17%), Manufacturing (51%)](image)

Source: ESCAP calculations based on fDi Intelligence data (accessed June 2017).

Figure 3.10 shows the top 10 industries attracting greenfield FDI in periods 2011-2013 and 2014-2016. While, major increases were made in oil and natural gas and real estate, there were also significant changes in greenfield FDI in alternative/renewable energy and electric components. This trend reflects the region’s re-orientation towards emerging and high-technology industries.

**Figure 3.10**

Greenfield FDI inflows to top industries, 2011-2013 and 2014-2016

![Bar chart showing greenfield FDI inflows by industry and period](image)

Source: ESCAP calculations based on fDi Intelligence data (accessed June 2017).
D. NATIONAL POLICIES AND INTERNATIONAL AGREEMENTS ON INVESTMENT

1. National policies on investment

National investment policies in the Asia-Pacific region continue to promote and liberalize investment. In 2016, on the global level, 58 countries and economies adopted 124 policy measures affecting foreign investment, according to UNCTAD (2017), which was the highest number since 2006. Eighty-four of these measures liberalized, promoted or facilitated investment, whereas 22 of the new policy measures introduced new restrictions or regulations on investment. According to the UNCTAD Policy Monitor database, the 19 countries in this region adopted 52 investment policies affecting FDI, accounting for 42% of such policies of the global total. Of these measures, 43 were related to liberalization, promotion and facilitation of investment, while nine introduced new restrictions or regulations on investment (figure 3.11).

Governments are continuing to put more emphasis on investment policy for sustainable development, as in the UNCTAD’s Investment Policy Framework for Sustainable Development and the OECD guidelines for multinational enterprises (Loewendahl, Kollinsky and van den Berghe, 2017; UNCTAD, 2015).

![Figure 3.11](image)

**Number and types of investment policy changes in Asia-Pacific countries, 2016**


“Investment liberalization continues in Asia and the Pacific, with India and Myanmar adopting the largest number of new liberalization measures in 2016.”

The Asia-Pacific region was very active in FDI liberalization and facilitation. The national policy changes in Asia-Pacific countries that liberalize, promote and facilitate FDI focused on three aspects: (a) relaxation on foreign ownership; (b) privatization; and (c) promotion and facilitation of foreign investment.

(a) Relaxation on foreign ownership

Many countries in the region relaxed restrictions on foreign ownership. Financial services, in particular, were the focus of the FDI liberalization measures. India, the Philippines and Thailand all allowed increased foreign ownership in the financial services sector via policy measures during 2016 (UNCTAD, 2017). In addition, the Philippines allowed 100% of foreign ownership in adjustment companies, lending companies, financing companies and investment houses (Agcaoili, 2016).
There were also many countries which liberalized and eased foreign ownership. India introduced a comprehensive FDI liberalization policy, including increases in sectoral caps under the automatic route, covering civil aviation, defence, pharmaceuticals, food product retail trading, broadcasting and others. Brunei Darussalam and Thailand exempted several business activities from the requirement of a business licence (Shen, 2016; KPMG, 2016). Indonesia’s new negative list permitted or increased the allowed ceiling for foreign investment in a number of sectors (Molina, 2016). Myanmar eased investment restrictions on foreign-local joint ventures by revoking a ceiling on the amount of funds they can use in operations, and also permitted foreign owners to own as much as 40% of a condo building (Htwe 2016; Property Report, 2016). Finally, Vanuatu removed the minimum capital requirement for foreign investors (Vanuatu Investment Promotion Authority, 2016).

(b) Privatization

Faced with the constraints of low revenue base, high levels of national debt, and tight fiscal position, some countries privatized infrastructure and services to generate further FDI flows (Regan, 2017). For example, Australia sold the Melbourne port to a consortium including foreign investors (Australia, Victorian State Government, 2016). Republic of Korea sold its stake in Woori Bank to multiple bidders including China investors (Korea Time, 2016) and the Russian Federation partially privatized the diamond mining company Alrosa (Seddon, 2016) and the oil producing company Rosneft (Devitt and Korsunskaya, 2016).

(c) Promotion and facilitation of foreign investment

A number of countries have amended their legal requirements for foreign investment to better facilitate foreign investment. China’s amendment of the existing four foreign investment laws significantly changed the regime governing inbound foreign investment by adopting a negative list approach that replaces the Foreign Investment Catalogue. Moreover, the Ministry of Commerce record-filings for foreign investment projects will replace the Ministry approvals except certain sectors. Also, the Republic of Korea amended the Foreign Investment Promotion Act to simplify FDI registration procedures (United States, 2016a) and Tajikistan amended its investment law to provide a “single window” to facilitate investment (UNCTAD, 2017).

Other countries also introduced new systems for simplifying procedures for foreign investment. For instance, Cambodia introduced an online business registration system that allows all companies to register online (Economist Intelligence Unit, 2015). Similarly, India introduced the SPICE (Simplified Proforma for Incorporating Company Electronically) system allowing for documentation to be submitted online (Times of India, 2016). Kazakhstan expanded the “one stop shop” approach, so all investors can apply for more than 360 different permits and licences (Kazakhstan, 2016). Meanwhile, the Philippines streamlined the business permit and licensing system and launched “project repeal” to reduce unnecessary laws (Philippines, 2016).

However, there were also some new regulations to restrict investment. These involved strategic industries and investments that could affect national security. For instance, in Australia, any acquisitions by private foreign investors of certain infrastructure assets are subject to foreign investment reviews (Treasurer of the Commonwealth of Australia, 2016). Indonesia imposed a 20% limit on foreign ownership in companies that offer electronic payment services (Reuters, 2016). The Russian Federation capped foreign ownership in media companies at 20% (United States, 2016b). These restrictions also affected foreign investments that originated from the region. For example, three M&As from China that targeted high-tech firms involved in semiconductor manufacturing were terminated because of national security related concerns (UNCTAD, 2017).

2. International investment agreements

In addition to national policies, economies in the Asia-Pacific region have continued to pursue global international investment agreements (IIAs). According to the UNCTAD International Investment Agreements Navigator database, countries concluded 37 new IIAs globally in 2016. Out of these IIAs, the Asia-Pacific region signed 20 IIAs and 5 IIAs entered into force. Turkey was the most active country in the Asia-pacific region, followed by the Islamic Republic of Iran; Singapore; Japan and Hong Kong, China (figure 3.12).
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The region is continuing to pursue investment liberalization and promotion through international investment agreements.

On the other hand, some countries also initiated the termination of IIAs, namely, Indonesia (11) and India (7). In 2016, India was the respondent in four cases brought by investors. It was also one of the most frequently-named respondent States in bilateral investment treaty proceedings (Peacock and Joseph, 2017). Both India and Indonesia want to renegotiate their investment treaties to recalibrate the balance between the State and foreign investors. For example, India introduced a new model bilateral investment treaty which restricts the standards of protection given to investors and set exhaustion of local remedies as the precondition for foreign investor to commence the arbitration (Baker McKenzie, 2017).

"The region is continuing to pursue investment liberalization and promotion through international investment agreements."

E. IMPLICATIONS OF REGIONAL INTEGRATION AGREEMENTS FOR FOREIGN DIRECT INVESTMENT

Regional integration agreements (RIAs) are a form of investment agreement to the extent that they contain investment provisions. RIAs foster economic cooperation among members, which, in turn, can lead to stronger competitiveness of the members in the RIA in the global market by pursuing favourable investment and business environments (UNCTAD, 2013). The Asia-Pacific region has many RIAs with investment provisions. Three important ones are: (1) ASEAN Economic Community and ASEAN Comprehensive Investment Agreement; (2) the Treaty on the Eurasian Economic Union; and (3) the Regional Comprehensive Economic Partnership.

"Ongoing regional integration efforts have created more favourable investment and business environments in some countries in the region."

1. ASEAN Economic Community and ASEAN Comprehensive Investment Agreement

ASEAN member countries have established economic cooperation and integration frameworks to create a more conducive environment for FDI. A major driver of ASEAN’s development was the establishment of the ASEAN Economic Community (AEC) in 2015. It pushed members to meet requisites across several areas for the creation of a single market. The ASEAN Comprehensive Investment...
Agreement (ACIA) entered into force on 29 March 2012 and is the latest and most comprehensive rule-based framework for investment. It succeeded the 1987 ASEAN Agreement for the Promotion and Protection of Investment (AIGA or IGA) and the 1998 Framework Agreement on the ASEAN Investment Area (AIA). The key provisions of ACIA liberalize the investment regimes of individual ASEAN member States and enhance cooperation among member States for the attraction, promotion and facilitation of FDI. Moreover, it strengthens the protection of investors and improves transparency (ACIA, Art. 1 (a)-(c)). The ACIA promotes intra-ASEAN investment as well as ASEAN’s competitiveness in attracting international foreign investment (Asian Development Bank Institute, 2013).

While the provisions of ACIA are not perfect, its objectives have been met on many fronts. The increase in FDI inflows to ASEAN and their share in global FDI inflows in the past decade can be, at least partially, attributed to ongoing efforts towards integration (figure 3.13). Increases in FDI to ASEAN can also be attributed to numerous factors related to ACIA, such as a steady liberalization and facilitation of investment, improved protection of investments, deepening market integration and a harmonization of general policy frameworks (UNCTAD, 2013). The improved investment climate in ASEAN is reflected by the Ease of Doing Business Index rankings. The Index shows that seven out of ten ASEAN Members improved or maintained their rankings between 2012 and 2017.

Figure 3.13 FDI inflows to ASEAN and their share in global FDI inflows, 2007-2016

Source: ESCAP calculations based on UNCTAD (2017).

2. Treaty on the Eurasian Economic Union

The Treaty on the Eurasian Economic Union (hereafter called “EAEU Treaty”), which became effective on 1 January 2015, is based on the Customs Union.8 The EAEU identified new areas for deepening integration, improving transparency, as well as measures for creating a more attractive business climate (Roberts and Moshes, 2016; Eurasian Economic Commission, 2015). The EAEU Treaty outlines provisions for the formation of a common market of goods, services, capital and labour for deeper integration and for building the Customs Union.

It is too early to tell whether the EAEU Treaty and its provisions have had an impact on FDI inflows into the region. The EAEU member States had to deal with declining global FDI inflows after the 2008 financial crisis, and have been affected by further declines since 2013 due to sanctions on the Russian Federation and economic problems such as currency devaluations and declining oil prices (International...
Crisis Group, 2016). Figure 3.14. illustrates FDI inflows to the EAEU as well as their share in global FDI inflows between the years of 2005 and 2015, showing a declining trend since 2008. Furthermore, extractive industries make up a large share of FDI inflows within the EAEU region, while FDI inflows in the manufacturing industry and service sector for all EAEU member States remain rather low (Kheifets, 2016). Even though FDI inflows to the EAEU subregion and their share in global FDI inflows showed a general downward trend since 2008, individual EAEU member States have improved their investment climate as proven by the Ease of Doing Business Index rankings. All EAEU Member States, apart from Kyrgyzstan, have moved up in the rankings between 2012 and 2017.

Figure 3.14

FDI inflows to the Eurasian Economic Union and their share in global FDI inflows, 2007-2016

Still, it is anticipated that ongoing efforts to increase transparency, improve investor protection, and harmonize standards will further strengthen the EAEU as an attractive investment hub. The BRI is also expected to increase investment opportunities in the subregion since EAEU countries play a pivotal role as the Eurasian Land Bridge. In particular, the BRI provides investment opportunities in infrastructure, energy and information and communications technology-related industries, which serve as essential foundation for the EAEU and the BRI. These investments, in turn, could serve as catalysts and contribute to promoting sustainable development in the EAEU member States and neighbouring countries.

3. Regional Comprehensive Economic Partnership

The Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement (FTA) comprising 10 ASEAN member States and 6 ASEAN FTA partners, namely Australia, China, India, Japan, New Zealand and the Republic of Korea. It was formally launched in November 2012. In September 2017, the 5th RCEP Ministerial Meeting was held, and in October 2017, the 20th round of RCEF negotiation took place. Although still in the negotiation stage, RCEP offers a strong potential for wider regional integration, with countries from the region leading the process, especially with the Trans-Pacific Partnership’s future uncertainty. One important feature of RCEP is its emphasis on developmental issues, including appropriate forms of flexibility and provision for special and differential treatment (Hamanaka, 2014).
F. CONCLUSION

The Asia-Pacific region has shown a mixed performance in the global FDI scene. Generally speaking, the region has witnessed a contraction in FDI inflows as a result of timid growth and low commodity prices. Hong Kong, China in particular experienced a sharp decline in 2016, after exceptionally high FDI inflows in 2015 due to major corporate restructuring. Major economies in South-East Asia, with the exception of the Philippines and Viet Nam, also experienced declining FDI inflows in 2016 due to economic uncertainty. However, greenfield inflows to the region as a whole have increased significantly. This signals investors’ continued interest and confidence in the region.

The significant trend in the region is the shifting and restructuring of the economies in leading countries. China, in particular, which used to be the production base for manufacturing of labour-intensive products, is now undertaking structural reforms towards higher value-added industries. This change could temporarily disrupt established regional value chains and slow down FDI inflows. However, it also presents new opportunities. For instance, select countries in South-East Asia have been attracting investors seeking lower wages for labour-intensive production. These countries have benefited from a relatively stable political and business environment, fortified by economic integration efforts within the framework of ASEAN.

Increasingly, selected economies from the region are establishing their position as major outward investors. Despite decreasing globally, FDI outflows increased in the region. Consequently, the region accounted for a bigger share of global FDI outflows at 34% in 2016. China led the trend with FDI outflows increasing by 44% in 2016. This exceeded its FDI inflows as Chinese MNEs are targeting a wide range of strategic industrial sectors. Particularly noteworthy is the BRI, which is opening up many investment opportunities in participating countries.

The analysis of sectoral distribution of FDI inflows to the region shows that the region is steadily increasing its importance in the services industry, while maintaining its traditional importance in the primary and manufacturing sectors. Looking closer, the region is shifting to more advanced and technology-based production, supported by increasingly sophisticated and more capital-intensive production networks, both in major economies such as China and smaller economies such as Viet Nam. FDI flows in alternative/renewable energy have also increased in the region, showing the region’s interest in and strategic focus on more advanced industries.

A review of national policies on investment and international investment agreements from the Asia-Pacific region shows that the region is continuing to pursue investment liberalization and promotion. Regional integration efforts have further led to improved business environments, which not only attract investment but also help countries maximize the positive spillovers. Subregional initiatives, such as the ASEAN Economic Community and its ASEAN Comprehensive Investment Agreement, as well as the Eurasian Economic Union and its Treaty are great examples of such economic integration efforts, and they are expected to contribute to further increases in sustainable inflows of FDI to the region.
Endnotes

1 All FDI data are from UNCTAD World Investment Report 2017 with the exception of data on the value of announced greenfield FDI projects, which were collected from FDI Intelligence database for bilateral and sectoral analysis.

2 Sohn (2016). The “China effect” refers to a crowding-in effect: FDI inflows to China strengthen FDI inflows to South East Asia instead of crowding it out.

3 The Joint Comprehensive Plan of Action is an international agreement on the nuclear programme of the Islamic Republic of Iran reached in Vienna on 14 July 2015 between the Islamic Republic of Iran, the P5+1 (the five permanent members of the United Nations Security Council, i.e. China, France, Russian Federation, United Kingdom, United States, plus Germany), and the European Union.

4 Softbank, a telecommunication Japanese company, acquired ARM Holdings, a British chip designer, for $31 million in September 2016. This is the biggest ever purchase of a European technology company.

5 The Government of India, through the Ministry of Commerce and Industry issued its consolidated Foreign Direct Investment Policy Circular of 2016 that updates the FDI regulations. Under the Automatic Route, the foreign investor or the Indian company does not require any approval from the Reserve Bank or Government of India for investment. On the other hand, under the approval route or government route, prior approval of the Government of India agencies or bodies specified should be obtained.

6 The National People’s Congress (NPC) Standing Committee passed the Decision to Amend Four Laws including the Wholly Foreign-Owned Enterprise Law of the People’s Republic of China on 3 September 2016.

7 Regional integration agreements (RIAs) is just another term for what is known as the regional trade agreements aiming towards market integration beyond a free trade in goods.

8 The Customs Union was established in 2000. This original treaty was terminated by the agreement establishing the EAEU which incorporated the Customs Union into the EAEU’s legal framework.
REFERENCES


ONLINE DATABASES


