A. RECENT TRENDS IN FOREIGN DIRECT INVESTMENT INFLOWS AND OUTFLOWS

1. Global trends

Following what seemed to be a swift recovery from the global financial crisis in 2010-2011, global foreign direct investment (FDI) inflows have again taken a downward turn. As the world economic recovery continues to be uncertain and fragile, global FDI inflows have declined by 18%, from $1.65 trillion in 2011 to $1.35 trillion in 2012.

Inflows decreased both in developed and developing economies. However, while the majority of developed countries experienced a significant reduction in their FDI inflows, by 32% on average, those to developing economies remained relatively resilient, declining by only 4% on average. More importantly, for the first time developing economies alone absorbed more FDI than developed countries, accounting for 52% of global FDI inflows (figure 3.1).
In 2012, for the first time, developing economies absorbed more FDI than developed countries, accounting for 52% of global FDI inflows.

Mirroring global FDI inflows, global outflows declined by 17% in 2012. The continued economic uncertainty, especially in developed countries, has led companies from these locations to scale back their operations. As a result, most of the global decline can be attributed to developed economies, which saw a 23% decline in FDI outflows. Since peaking in 2007 at $2.3 trillion, global FDI outflows have decreased by almost 40%, while outflows from developed economies...
in 2012 amounted to less than half of what they were in 2007. In contrast, apart from a small dip in 2009, developing economies have been slowly but steadily increasing their outward investments since 2007. Developing countries have made advances in catching up with the developed countries as a source of FDI. In 2012, developing countries provided 31% of global FDI outflows, whereas developed countries supplied 65% of global outflows and transition countries accounted for the remaining 4%. Compared to 2007 the difference is striking. In 2007, only 15% of outflows originated in developing countries compared to 83% in developed countries and 2% in transition countries (figure 3.2).

2. Regional trends

Much of the relative success of developing countries can be attributed to the Asia-Pacific region,\(^{17}\) which has shown notable resilience in the challenging economic climate. Asia-Pacific countries attracted $510 billion of FDI inflows in 2012. Although FDI volumes received in 2012 fell short of the record set in 2011 ($550 billion), they exceeded the annual average for the decade.

In terms of FDI inflows, the developing Asia-Pacific region has significantly outpaced other developing regions in the world. This reflects the solid position of Asia and the Pacific as a leading investment destination for transnational companies looking for investment opportunities. The developing countries in the Asia-Pacific region account for 33% of global inflows compared to the 18% share of countries in Latin America and the Caribbean, and the 4% share of countries in Africa (figure 3.3).

\[\textbf{FIGURE 3.3}\]

*Foreign direct investment inflows to major world developing regions and their share of global foreign direct investment inflows, 2010-2012 (billions of United States dollars and percentage)*

Source: ESCAP calculations, based on UNCTADStat.
FDI outflows from the region in 2012 totaled $481 billion compared to $484 billion in 2011. The share of the Asia-Pacific region in total world FDI outflows increased from 29% in 2011 to 35% in 2012. Not only are the Asia-Pacific countries proving to be attractive investment destinations in the current economic climate, they are also becoming increasingly important as sources of investment.

3. Subregional trends

Among the developing Asia-Pacific subregions, East and North-East Asia continues to attract the largest amount of FDI inflows, although the South-East Asian subregion is progressively catching up (figure 3.4). FDI inflows to the East and North-East Asian subregion reached $215 billion in 2012, down 8% from the previous year. The decline can be attributed to weaker inflows to China, Hong Kong, China and the Republic of Korea. Mongolia attracted large FDI inflows in 2010 and 2011, mainly driven by investments in the mining sector. In 2012, however, it witnessed a 6% reduction in FDI inflows. This may be due to the new Strategic Foreign Investment Law passed in March 2012, stating that the parliament must approve foreign takeovers in strategic sectors, such as mining. Investors have stated that this law has brought about regulatory uncertainty that weakens Mongolia’s position in attracting FDI.18

The South-East Asian subregion is exhibiting a robust growth trend, which is supported by labour-intensive FDI and value chain activities in low-income countries, such as Cambodia, the Philippines and Viet Nam. In 2012, inflows amounted to $111 billion, up by 2% compared to the previous year. This makes it the only subregion in Asia and the Pacific region that has continued to experience FDI growth despite the slowdown of the global economy.

In 2012, FDI inflows to South-East Asia increased by 2%, making it the only Asia-Pacific subregion that continued to experience FDI inflows growth.

The year 2012 proved to be tough for South and South-West Asia, as FDI inflows to the subregion dropped by almost a quarter. This development can be largely attributed to India, given its size in the subregion, although several other countries in the subregion also suffered declines in FDI inflows. For example, Sri Lanka and Turkey both saw their FDI inflows fall by a little more than 20%, whereas those of Pakistan fell by 36%.

**FIGURE 3.4**

Foreign direct investment inflows to Asia-Pacific developing subregions and developed economies, 2010-2012

*Source:* ESCAP calculations, based on UNCTADStat.

*Note:* Due to the small share of inflows to the Pacific subregion, that subregion is not represented in this figure.
North and Central Asia attracts the third largest amount of FDI inflows after East and North-East Asia, and South-East Asia. Inflows to the subregion fell by 5% in 2012, to a value of $74 billion. Accounting for a 70% share of inflows, the Russian Federation has a major impact on subregional developments. Another important destination for FDI is Kazakhstan, inflows to which grew by 1% in 2012. Kazakhstan has traditionally attracted large investments in the natural resources sector, although in 2012 the largest announced greenfield projects were in the tourism, communications and transportation industries.

The developing Pacific subregion attracts less than 1% of FDI inflows to developing countries in the Asia-Pacific region. In 2012, inflows to the subregion increased by 6% and amounted to slightly over $2 billion. Growth in inflows can be mainly attributed to Papua New Guinea and Samoa, although the Marshall Islands and the Northern Mariana Islands experienced larger FDI inflows as well.

FDI inflows to Asia-Pacific least developed countries (LDCs) reached a new peak of almost $5.5 billion in 2012. Driven by increasing inflows to the largest FDI recipient countries among the LDCs, namely Cambodia and Myanmar, inflows to the group increased by almost 10%. FDI inflows to landlocked developing countries (LLDCs) in the region remained at a high level of $26 billion, although they fell, somewhat, from the previous year.

Similar to other developed countries in the world, FDI inflows to the Asia-Pacific developed countries fell by 9% to $62 billion in 2012. Of the three developed countries in the region, only Japan attracted higher FDI inflows than the previous year. After two years of foreign investors scaling down their investments, FDI into Japan reached $1.7 billion. Australia continues to dominate as the largest destination for inflows among developed countries, drawing in $57 billion in 2012. Australia’s resource sector has proven to be highly attractive; however, falling commodity prices mean that investments into areas such as mining could have already reached their peak (Capital Economics, 2013a).

The subregional division of FDI outflows from developing Asia-Pacific countries is not uniform (figure 3.5). The East and North-East Asian subregion accounts for the lion’s share of total outflows from developing countries in the region. Recently, its share has edged up further from 59% in 2011 to 63% in 2012, with total outflows from the subregion at $214 billion. A similar

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**FIGURE 3.5**

Foreign direct investment outflows from Asia-Pacific developing subregions and developed economies, 2010-2012

![Graph showing FDI outflows from different subregions and developed countries, 2010-2012.](image)

*Source:* ESCAP calculations, based on UNCTADStat.

*Note:* Due to the small share of outflows from the Pacific subregion, that subregion is not represented in this figure.
increase has taken place in the South-East Asian subregion, with its share of total outflows from developing Asia-Pacific countries increasing from 16 to 18%. Outflows from the subregion now amount to $61 billion. FDI outflows from both South and South-West and North and Central Asia have declined.

The developed countries continue to be a notable source of FDI, increasing their share of outflows from the whole region from 26% in 2011 to 29% in 2012. This increase is largely the result of an increase of outflows from Japan, which contrary to other developed countries in the world has boosted its outward investments. Japan is almost solely responsible for investments from the developed countries in the Asia-Pacific region. Japanese overseas investments have been characterized by being weighted towards the Asia-Pacific region, particularly in the member countries of (ASEAN), and focused heavily on manufacturing projects.

FDI outflows from each of the developing subregions are highly influenced by one dominating economy, just as with FDI inflows. For East and North-East Asia the dominating economy is China, along with Hong Kong, China. In South-East Asia, Singapore remains the largest investor, although outflows from Malaysia are on the rise. In South and South-West Asia, India accounts for 65% of outflows. However, Turkey is catching up, increasing its outflows by 73% in 2012 and now accounting for 31% of total outflows from the subregion. In North and Central Asia the Russian Federation has an even stronger hold on the top position as its share of total outflows is over 90%. Together, these five so-called “FDI giants” supply 73% of FDI originating in the developing Asia-Pacific region.

### 4. Country highlights

**CHINA**

China continues to attract high levels of FDI. Investments in 2012 remained at the level of $121 billion, falling slightly short of the peak of $124 billion reached in 2011. Abundant low-cost labour and close proximity to trade networks have been major factors in attracting FDI into China. The country has also taken steps to become more market-friendly and to improve infrastructure. However, recent rising production costs and weakening export markets have pushed foreign companies to relocate from China to lower-income countries. This is reflected in the lack of increase of inward FDI to the country. Despite this, China is still the leading FDI recipient among developing countries and competes with the United States for the position of the largest destination for FDI in the world.

A critical change is the country’s increasing engagement in higher value-added activities. FDI into its high-tech and advanced manufacturing sectors has been on the rise with the country looking to directly compete with more advanced countries, such as Japan or the Republic of Korea. This development is due to the country’s wide-open FDI stance, which has proven to attract valuable new technology and know-how (Capital Economics, 2013b).

Despite rising production costs and weakening export markets, China remains the leading recipient of FDI in the developing world and is attracting investments from developing countries.

China receives an increasing amount of investments from developing countries, especially those in Asia (China Ministry of Commerce, 2013). Moreover, foreign companies are opting for a wholly controlled ownership structure as opposed to previously mandated joint ventures with Chinese partners (Li, 2013). This development may be a reaction to a more liberal investment environment. Additionally, it may be an indication that foreign companies are becoming more familiar with the business culture in China.

In recent years, FDI out of China has mirrored trends in FDI inflows to China. In the past decade FDI outflows from China have grown from a meagre $2.9 billion in 2003 to more than $84 billion in 2012 (figure 3.6). This now makes China the third largest source of FDI in the world, after the United States and Japan.

State-owned enterprises continue to be the most active investors from China, although private companies are also showing interest in investing abroad. While Chinese state-owned enterprises are motivated with the need to secure access...
to natural resources, private companies are looking into accessing new and growing markets. Many private companies are also interested in gaining access to new technology and buying brands, which makes developed countries more attractive as investment destinations for Chinese companies (Economist Intelligence Unit, 2013).

FIGURE 3.6  
Foreign direct investment inflows and outflows of China, 2003-2012  
(billions of United States dollars)

Chinese investors still largely target other Asian countries; investors looking to expand into new markets prefer to invest in South-East Asia (Hong, 2013). At the same time, Chinese investments in Africa remain strong. These investments have been mainly resource-seeking, but Chinese investors are also involved in several infrastructure upgrading and construction projects in Africa. As for Latin America and the Caribbean, Chinese FDI in Brazil has risen due to the active involvement of Chinese investors in the Brazilian mergers and acquisitions (M&A) market (UNCTAD, 2013a).

INDIA

India continued to be the dominant recipient of FDI inflows to South and South-West Asia in 2012. However, inflows to the country dropped by significant 29% in 2012, which is a much bigger decline than the average for all developing economies (-4%) and Asia-Pacific developing countries (-7%). The economy of India experienced its slowest growth in a decade in 2012, and also struggled with risks related to high inflation. In addition to the overall economic situation, a research study conducted by the Reserve Bank of India on FDI flows into the country notes that complex policies and cumbersome procedures could have dampened FDI flows. This relates to land acquisition and environmental regulation, for example. The Government of India has been recently addressing these issues with gradual liberalization of FDI policy. In September 2012, the Government allowed FDI in multi-brand retailing under certain conditions. With the conditions governing multi-brand retail relaxed, foreign retailers are allowed to invest in cities with less than one million inhabitants. They are also given five years to reach the requirement of sourcing 30% of products from small Indian firms. Also, government approval is no longer needed for up to 49% FDI in single-brand retail or petroleum refining. India has also relaxed its rules for FDI in aviation and television broadcasting and 100% foreign ownership in telecommunication companies has been approved (India, Department of Industrial Policy and Promotion, 2012 and 2013). These policy reforms, while preserving
a desirable policy space to ensure long-term developmental benefits from FDI, together with complementary initiatives to improve the investment environment, will be important to attract FDI flows with high impact in the future. India would also greatly benefit from upgrading its infrastructure and strengthening of ties with key investment and trade partners.

The recent efforts of India to reform FDI policy and simplify investment procedures could not stop FDI inflows falling by 29% in 2012.

The services sector continues to account for the largest share of FDI equity inflows to India (India, Ministry of Commerce and Industry, 2013). Ongoing efforts to open economic sectors, such as retailing, are likely to increase inflows to services. Inflows to manufacturing are expected to increase as well, with a number of major investing countries, including Japan and the Republic of Korea, establishing country or industry specific industrial zones in India (UNCTAD, 2013b). In fact, during 2012 some of the largest greenfield projects in India originated from the Republic of Korea and Japan, targeting the manufacturing industry. Additionally, in 2012 single-brand Swedish retailer IKEA announced that it is planning to invest almost $1.5 billion in opening stores in India.

Investors from Mauritius top the list of investors in India, accounting for 38% of cumulative inflows since 2000. This is mainly due to fiscal incentives that make it advantageous to funnel FDI through Mauritius to India. Singapore and the United Kingdom also increased their investments, taking the second and third place on the list of investing countries and accounting for 10% and 9% of cumulative equity inflows, respectively (India, Ministry of Commerce and Industry, 2013).

India continues to be the leading source of FDI outflows from the South and South-West Asian subregion. It accounts for 65% of the total, despite a 31% decline in outflows in 2012. According to the Reserve Bank of India (2012), outward investments from India tend to take the form of M&A when targeting developed countries and the form of greenfield investments when targeting developing countries. In 2012, the value of M&A deals by Indian companies dropped by over a half, suggesting a reduced interest in investing in developed countries. However, the value of greenfield projects also fell by 28%. A large share of Indian investment is channeled through financial centres, such as Mauritius, Singapore and the Netherlands. This round-tripping, whereby funds are sent out of a country and through another country to take advantage of fiscal measures before returning to the country of origin, over-represents these countries as investment destinations. According to the Reserve Bank of India (2012), in recent years Indian companies have become increasingly interested in the resource sectors in Australia, Indonesia and Africa. In 2012, some of the largest greenfield projects have been the $4.5 billion investment in coal extraction by Adani Enterprises in Australia and the $2 billion investment in natural gas manufacturing by Bharat Petroleum in Mozambique.

JAPAN AND THE REPUBLIC OF KOREA

Following two consecutive years (2010 and 2011) of negative foreign investment flows (disinvestment by foreign investors exceeded FDI inflows), Japan experienced significant growth in FDI in 2012. This brought the value of FDI inflows back into the positive range at $1.7 billion. Despite this, the latest figure is still very weak compared to the levels in the period 2007-2009 (ranging from $12 billion to $24 billion). Continued uncertainty over the Japanese economy is likely to influence the volatility in FDI flows in the years ahead. However, the Government’s recent economic stimulus measures show signs of bringing about renewed growth and could potentially boost FDI flows.

The inflow of FDI remains relatively resilient in the Republic of Korea, with a mild 3% drop in 2012. This is less than the average decrease in East and North East Asia, which was 7% for the same period. In the years ahead, FDI is expected to gradually rise as investors take advantage of the United States-Korea Free Trade Agreement that came into effect in early 2012 and removed tariffs across many sectors.

Japan and the Republic of Korea are also important sources of FDI to the rest of the region.
RUSSIAN FEDERATION

Following a notable 28% increase in 2011, FDI inflows to the Russian Federation fell in 2012 by 7% to $51 billion. The financial and manufacturing sectors received the most investments. Although the latest figure is lower than the country’s record high of $75 billion in 2008, it is still significantly higher than the average over the last ten years ($39 billion). The Foreign Investment Advisory Council (2012) expects FDI in the Russian Federation to rise steadily in the long term; helped by the size of its consumer market, skilled labour force and availability of natural resources. Additionally, accession of the Russian Federation to WTO in 2012 is anticipated to attract new investment into the country.

Round-tripping is one of the characteristics of FDI into the Russian Federation. This process involves the recycling of funds from the Russian Federation to another country, usually a financial hub, and then back to the home country. Many companies find this beneficial for fiscal reasons. Traditionally, Cyprus has been a favoured round-tripping location, although recent economic events have encouraged Russian investors to redirect investments elsewhere. Data from the Central Bank of the Russian Federation (2013) show that net FDI inflows from economies, such as the Bahamas, British Virgin Islands, and Cyprus, continue to be significant. Additionally, European Union members, such as France, Germany, Luxembourg and the Netherlands, have become large investors in the Russian Federation. In terms of sectoral distribution of inward investments, the financial and manufacturing sectors attracted a large share of inflows. The wholesale and retail activity for motor vehicles also attracts investments from abroad.

FDI outflows from the Russian Federation decreased by 24% in 2012, amounting to $51 billion. As discussed above, a large part of investments from the Russian Federation is recycled back into the home country. Therefore, outflows mostly target the same countries where inflows originate. Data from the Central Bank of the Russian Federation (2013) confirm this, showing 43% of net outflows going to Cyprus in 2012.

ASSOCIATION OF SOUTHEAST ASIAN NATIONS

As mentioned earlier, the South-East Asian subregion was the only subregion in Asia and the Pacific to enjoy FDI inflow growth in 2012. Recently, economic integration in ASEAN has intensified, adding to the dynamism of the subregion. With the opening of the ASEAN-5 common trade market in 2014, Indonesia, Singapore, Malaysia, Thailand and Viet Nam are poised to benefit further. Inflows to ASEAN increased by 2% in 2012 to $111 billion, fuelled partly by higher flows to Singapore, which rose by slightly more than 1% to $57 billion. Inflows to low-income countries such as Cambodia, Myanmar, the Philippines and Viet Nam also added to this increase. Cambodia proves to be an attractive destination, especially for labour-intensive FDI and value-chain activities. In 2012, inflows to Cambodia rose by 73%. The level of inflows to Viet Nam remains below the peak of almost $10 billion reached in 2008. Despite this, FDI flows were higher in 2012 than in the previous year. Viet Nam would have to pay more attention to reforming investment policies in order to attract more FDI.

Cambodia, Myanmar, the Philippines and Viet Nam were important contributors to the growth in FDI inflows to ASEAN in 2012.

According to the Organisation for Economic Co-operation and Development (OECD, 2013), each member country of ASEAN appears to specialize in attracting FDI in specific sectors, depending on each country’s comparative advantage and natural endowments relative to regional neighbours. As mentioned, Viet Nam mainly attracts investments in export-oriented manufacturing industries, and also in the real estate and service sectors. Cambodia focuses on garment manufacturing, financial services and agriculture. Investments in the Lao Peoples’ Democratic Republic tend to target the service sector, and in Myanmar the natural resources sector dominates FDI inflows.

Indonesia and Thailand continued to attract high levels of greenfield investments in 2012, particularly in the automotive and metals industries. Indonesia became a star attraction, due to its large and growing population.
Over the last decade Thai companies have become increasingly international. This expansion abroad began in the 1990s, but was interrupted by the Asian financial crisis in 1997. In recent years, outward FDI from Thailand has surged (see figure below) as Thai companies look to invest abroad. With this, Thailand is beginning to take on the characteristics of a developed country by becoming a net investor.

The changing position of Thailand can be linked to broader developments taking place in the Asia-Pacific region. Due to the emergence of global value chains and increased economic integration, intraregional investment flows have increased in significance. As countries’ industries advance and move up the value chain, they start outsourcing and looking for investment opportunities in other countries. Thai investors have chiefly been targeting other member countries of ASEAN, of which Singapore has been a major destination. Thai investments have been driven by companies looking for expansion into new markets, as well as the need to improve efficiency by relocating to countries with lower labour costs.

Additionally, a number of Thai companies have joined the ranks of what may be called the emerging-market multinational enterprises. These companies originate from emerging markets and have acquired a significant international presence. Despite lagging behind countries such as China and India in terms of international expansion, some major Thai companies have been involved in large M&A deals in recent years. These include PTT, Banpu PLC (both in the energy industry), The Siam Cement Group and Thai Beverage PLC. One of the largest deals to date involved PTT buying a stake in a Canadian oil sands project for $2.3 billion in 2011. PTT also bought a United Kingdom-based platinum and nickel exploration company, Cove Energy PLC, in 2012 for close to $2 billion following a bidding withdrawal from Royal Dutch Shell. Through this purchase, PTT gained access to natural gas reserves in Mozambique. Another large deal was Thai Beverage PLC’s acquisition of a $2.2 billion stake in a Singaporean producer and seller of soft drinks, Fraser & Neave Ltd, in 2012. In addition, in 2010 Banpu PLC purchased an Australian coal mining company for $1.6 billion.

While most Thai companies still aim to expand to other markets and look to improve production efficiency by investing in neighbouring countries, there is a rising number of Thai enterprises that focus on international expansion in order to move up the value chain, acquire strategic assets and become global players in their industry. While some companies have already established a strong foothold in international markets, there are many others with the potential to follow.

Furthermore, it is a G20 country with an annual growth rate of about 6% year-on-year, and $1.4 trillion GDP in purchasing power parity terms. Also, in the last decade the country’s middle class has expanded from 81 million to 131 million people, indicating increases in domestic purchasing and consumption power within the country (Ernst and Young, 2012).

FDI outflows from the South-East Asian subregion increased in 2012, although the growth rate has slowed compared to the previous year from 24 to 3%. Nevertheless, the value of outflows reached a new record of $61 billion. Singapore, a major contributor to outward FDI flows, accounted for 38% of the total from the subregion. The Philippines and Viet Nam also witnessed increasing outflows in 2012, although far behind those of Singapore. While flows from the Philippines tripled over the course of one year and have been volatile in the past, outflows from Viet Nam have been steadily increasing since 2005. Intraregional FDI flows have increased in recent years, especially among member countries of ASEAN. This has potential to increase further with the establishment of the ASEAN Economic Community in 2015. Recently, FDI outflows from Thailand have also been on the rise, increasing by 45% in 2012 and reaching a record-breaking $12 billion. Thailand is a significant investor in its neighbouring countries; however, lately Thai companies have shown growing interest towards acquiring strategic assets from outside the subregion (see box 3.1).

These developments show that FDI has been, and remains, a critical component of the growth strategy of regional economies. FDI plays an important role in virtually all Asian economies, and working to ensure its inclusive impact should therefore be a policy priority for Governments throughout the region.

B. INTRAREGIONAL FOREIGN DIRECT INVESTMENT

As the economic relevance and dynamism of the Asia-Pacific region increases, intraregional FDI flows are replacing those from the developed economies. These have traditionally supplied the bulk of FDI in the region. East and North-East Asian countries have become major investors in other Asia-Pacific countries, with China and the member countries of ASEAN being the most attractive destinations (figure 3.7). In fact, due to rising levels of integration, ASEAN is becoming a central player in the investment landscape.

The increased economic relevance and dynamism of the Asia-Pacific region has boosted intraregional FDI flows.

The three industries to attract the largest share of intraregional FDI are the coal, oil, and natural gas industry, metals, and real estate. From 2010 to 2012, $66 billion was invested in coal, oil and natural gas, accounting for a 16% share of total intraregional greenfield FDI. Investments in the metals industry for this three-year period were $44 billion, a share of 11% of total investments. Greenfield FDI into the real estate industry more than doubled from 2011 to 2012, reaching $17 billion in 2012, pushing it into third place. Over the period 2010-2012, greenfield investments in the real estate industry totaled $35 billion, a 9% share of total intraregional greenfield FDI.

Overall, total intraregional greenfield FDI flows amounted to $414 billion in 2010-2012. Japan continues to be the main source of investments, accounting for a 26% share ($108 billion) of total intraregional FDI. Japanese investments have targeted automotive industries as well as other component production industries, with automotive original equipment manufacturing (OEM) holding the top investment position.

China is one of the main destinations for Japanese investments, which amounted to $30 billion in 2010-2012. Japanese investors have also shown much interest in the ASEAN region, which attracted over $44 billion in greenfield FDI from Japan during the period 2010-2012. The main investment destinations within the ASEAN region are Indonesia ($11 billion), followed by Thailand ($9 billion) and Viet Nam ($8 billion).

Intraregional greenfield FDI flows from the Republic of Korea declined from $20 billion in 2010 to $13 billion in 2012. However, the country remains a significant source of intraregional greenfield FDI; in the period 2010-2012, $43 billion (10%) of total intraregional greenfield FDI in Asia and the Pacific originated from the Republic of Korea. China attracted close to $11 billion in FDI from the Republic of Korea in that period, and member countries of ASEAN received...
$13 billion in investments. India was also a major investment destination, attracting $9 billion of greenfield FDI from the Republic of Korea during the period 2010-2012. Korean companies have been especially attracted to the metals industry in India. One of the largest greenfield projects in India in 2012 was a $1.5 billion manufacturing project in the metals industry by Pohang Iron and Steel. Recently, investors from the Republic of Korea have broadened their focus to Central Asia, Uzbekistan in particular. In 2012, Korea Gas Corporation invested $4 billion in a manufacturing project in the chemicals industry, making Uzbekistan the second largest destination for greenfield FDI from the Republic of Korea in that year.

For the period 2010-2012, China accounted for 10% ($42 billion) of total intraregional greenfield FDI despite the fact that in 2012 outflows from China were less than half of those in 2011. China is a large investor in the ASEAN region, reaching $21 billion in investments over the course of 2010-2012. One of the main destinations, Indonesia, attracted close to $9 billion. Chinese investments are said to be resource-seeking; however, investments targeting South-East Asia are more often motivated by market access or efficiency considerations. The focus appears to be shifting from the resource sector to the service sector (Hong, 2013), and greenfield data supports this, with investments in both the metals and coal, oil and natural gas industries falling significantly in 2012. Apart from the ASEAN region, Chinese investors have shown interest in India and the Russian Federation. India attracted $6 billion and the Russian Federation $4 billion in greenfield FDI. However, China attracted a larger share of intraregional greenfield FDI than it has supplied. During the period 2010-

**FIGURE 3.7** Intraregional greenfield foreign direct investment flows between selected countries and total inflows and outflows to and from those countries, 2010-2012 (billions of United States dollars)

*Source: ESCAP calculations, based on fDi Intelligence (2013) data.*
2012, China attracted $117 billion in greenfield FDI, which accounts for a share of 28% of total intraregional FDI flows. China is attracting investments from throughout the region, with Japan and ASEAN both accounting for close to $30 billion each. Within ASEAN, Singapore is the largest investment source, accounting for a half of the $30 billion.

Due to strengthening integration, ASEAN is becoming a central figure in the investment landscape.

ASEAN, as a group, is an important supplier of intraregional greenfield FDI. In 2010-2012, Singapore and Malaysia both invested a little over $30 billion in greenfield projects within the Asia-Pacific region. Together, they accounted for close to 80% of the $79 billion worth of flows from the member countries of ASEAN. Thailand and Indonesia accounted for $8 billion and $6 billion, respectively. Similar to China, the ASEAN region attracts more intraregional greenfield FDI than it supplies. During the period 2010-2012, a total of $140 billion worth of investments were destined for the ASEAN region. Indonesia, Viet Nam and Singapore were the main destinations, attracting $39 billion, $28 billion and $21 billion, respectively. Also like China, the ASEAN region attracts investments from multiple sources. Japan is the largest investor by far, investing over $44 billion during 2010-2012. In the same period, Chinese investments amounted to over $20 billion, and investment flows from India and the Republic of Korea remained at a more modest $11 billion and $13 billion, respectively.

Since the 1990s, investments among member countries of ASEAN have increased dramatically, with $24 billion having been invested between member countries of ASEAN from January 2010 to December 2012. This trend is anticipated to continue with the establishment of the ASEAN Economic Community, which will create a single market with free flow of goods, services and investments. One of its goals will be to further improve connectivity in the subregion, by integrating industries in order to promote regional sourcing.

CONCLUSION

While developed countries experienced a sharp drop in both in- and outward FDI, developing countries were significantly less affected by the decline in global FDI flows in 2012. In fact, in 2012 developing countries for the first time attracted more FDI than developed countries and they also provided almost one third of global investment outflows. Asia and the Pacific is by far the leading investment destination among the world’s developing regions and at the same time the region is becoming an increasingly important investor on the global level.

Although East and North-East Asia remains the largest recipient and provider of FDI within Asia and the Pacific, South-East Asia was the only subregion to witness growth in both inward and outward FDI in 2012. Low-income countries such as Cambodia, Myanmar, the Philippines and Viet Nam were especially attractive investment destinations. The establishment of the ASEAN Economic Community by 2015 could stimulate further FDI growth. The strong decline of almost one quarter in investment inflows to South and South-West Asia was mainly due to a dramatic drop in FDI inflows to India, where recent FDI liberalization policies have yet to show their effect.

Unlike other developed countries, Japan not only experienced higher FDI inflows in 2012, it also boosted its outward investments, focusing in particular on the member countries of ASEAN. However, continued uncertainty over the economy of Japan is likely to influence the volatility in FDI levels in the years ahead.

Intraregional FDI flows within Asia and the Pacific are on the rise and the region is becoming less dependent on investments from developed economies. Member countries of ASEAN, due to increased regional integration, and China, are attractive destinations for East and North-East Asian investors, which account for the largest share in intraregional investments in the Asia-Pacific region. Thanks to the increasingly dynamic business environment in Asia and the Pacific and the region's growing economic importance, intraregional investment ties are likely to further be strengthened.
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ONLINE DATABASES


ENDNOTES

15All FDI data from UNCTADstat, except for greenfield FDI data which is from FDI Intelligence, and data on mergers and acquisitions, which is from Thomson Reuters.

16Developed and developing economies as defined in UNCTAD (2013b).

17The Asia-Pacific region here refers to the regional ESCAP member States, plus Taiwan Province of China.

18See chapter 10 of this Report for a more thorough discussion about regulatory reform in Mongolia.
19China; India; the Russian Federation; Singapore and Hong Kong, China.

20Literature indicates a gradual liberalization in FDI policy in China. The Law on Wholly Foreign-Owned Enterprises was adopted in 1986, allowing for full foreign ownership. The rules regarding the implementation of the law were approved in 1990. China’s accession to WTO led to further liberalizations; however, there are still a number of conditions placed on full foreign ownership.

21The data used in this section are provided by fDi Intelligence, which tracks greenfield FDI project announcements on a global basis. The data are based on information available at the time of the project announcement and, therefore, differ from official FDI flows often based on balance of payments statistics. Discrepancies may arise from the timing of the investment, as the database does not take any phasing of the investment into account. fDi Intelligence also uses its own estimates of capital investment if those data have not been given in the announcement. Finally, there is the question of how capital for the projects is raised. Some of the announced investment may be raised locally, meaning that only a part of the capital invested may manifest itself as actual FDI flows.