TRENDS IN FDI
WHO IS FUNDING SOUTHEAST ASIA?
SOUTHEAST ASIA RISING

An emerging market with immense potential. Southeast Asia is a thriving region home to more than 600 million people. Located close to China and India, it has traditionally sat within global trade flows for centuries. However, Southeast Asia today is rising to prominence with a market appeal of its own. Rapid urbanisation, a large and growing young population, as well as rising incomes are combining to create an enormous consumer market. According to McKinsey, ASEAN’s cities already account for more than 65 percent of the region’s GDP, and their purchasing power is only set to rise further. By 2030, its consuming class will double in size to 163 million households.1 At the same time, Southeast Asia as a whole boasts a diverse set of markets, low labour costs, and digitally savvy consumers. The founding of the ASEAN Economic Community (AEC) in 2015 created the possibility of an integrated market and production base. The timely combination of all these factors have led many businesses to view Southeast Asia as a hotbed of opportunities – be it for market expansion, outsourcing, or business development.

Key investment destination. As a result, major source economies, including the U.S., China, and Japan, have steadily raised their outward foreign direct investment (OFDI) into ASEAN over the past five years. Major schemes like China’s Belt and Road Initiative, South Korea’s New Southern Policy and India’s Act East policy seem poised to disrupt or at least alter the landscape of foreign investment into Southeast Asia. There are growing claims that Chinese tech giants are carving up Southeast Asia’s startup ecosystem, that India is the region’s latest trade ally, and that Japan is beating China at the infrastructure race in the region. Amidst these changes, how exactly is Southeast Asia’s investment landscape evolving?
Highly diversified. The reality is that Southeast Asia’s sources of foreign investment are well-diversified. The major source economies all contribute generally comparable levels of investment. From 2013 to 2016, the top five external investors were the EU (23%), Japan (14%) and the U.S. (13%) – who together contributed half of all FDI – followed by China (6%) and South Korea (4%).

Indeed, the ability to cater to the needs of a variety of investors has been one of the traditional strengths of the region. Singapore is a financial hub suited to processing cross-border investments; 85 per cent of the Belt and Road Initiative’s (BRI) inbound investments to China pass through the city-state. Vietnam, Cambodia and the Philippines offer a pool of young, skilled and cost-competitive labour in areas like manufacturing and business process outsourcing, while Myanmar and Laos are notable for their natural resource endowments, including hydropower and arable land. Indonesia, with over 260 million people, offers a sizable consumer market.
ASEAN increasingly central to investment strategies. ASEAN is taking on central importance in the investment strategy of many economies, especially South Korea and India. Southeast Asia offers a large, young, and tech-savvy population – ideal for Korean startups and technology companies looking to forge synergies in new markets.

Intra-ASEAN integration is deepening. Not only are external flows increasing, investment from within the region has also been on the rise. This points to the development of a truly integrated market. In 2016, the share of intra-ASEAN investment rose to a record US$23,948 million, up from US$21,340 million in 2015 (Figure 2), accounting for one-fourth of total inflows compared to one-fifth in previous years. The dominant investors were Singapore, Malaysia and Thailand. The expansion of ASEAN’s free trade agreement (FTA) network and major infrastructural connectivity projects in recent years – such as the China-Laos Railway that links Vientiane with the Mohan Port and connects with the Kunming-Singapore railway – will improve logistical connectivity and allow production networks in ASEAN to diversify across value chains.

Figure 2: Intra-ASEAN investment 1995-2016 (millions of dollars and per cent)
Source: ASEAN secretariat, ASEAN FDI database
Japan is the dominant single investor. Drilling down into individual economies, Japan has consistently stood out as one of the region’s biggest investors. In 2016, US$13,989 million of total FDI came from Japan, compared to US$11,657 from the second-biggest investor, the U.S. Japan also contributed 20% of all greenfield foreign direct investment in the region from 2010 to 2017.\(^7\) In particular, more Japanese manufacturing companies are expanding their operations in the region, capitalising on the region’s cost-competitive workforce; minimum wages for garment workers are low in Cambodia (US$153), Vietnam (US$166) and Thailand (US$250). Flows into this sector increased from $7.9 billion in 2015 to $23.8 billion in 2016.\(^8\)

The U.S. has a narrower investment focus. Although the U.S. has also been a major investor in the region, the majority of its investment (about 80% in 2016) is in financial and insurance activities, and a large portion of all finance investment into the region is concentrated in Singapore.\(^9\) Singapore boasts quality infrastructure, deep and liquid capital markets and is one of the world’s largest offshore renminbi hubs.

Chinese and Korean interest are growing rapidly from a low base. Inbound FDI flows from China rose by 43% from US$6,412 million in 2015 to US$9,211 million in 2016, making China the third-largest country investor in ASEAN. It has a strong presence in lower-income countries like Laos and Cambodia, boosted by major infrastructure projects under the Belt and Road Initiative such as the Cambodia-China Friendship Bridge, which links Phnom Penh to Sihanoukville.

As for Korea, more SMEs are venturing into Southeast Asia, bolstered by an OFDI growth rate of 32 per cent in 2016 compared to 8 per cent for MNEs, helped by new FTAs like the Republic of Korea-Vietnam Free Trade Agreement signed in 2015, which eliminated tariffs on a majority of products traded.

\[\text{Figure 3: Major Economies’ FDI flows in ASEAN, 2013 - 2016 (millions of dollars)}\]

Source: UNCTAD\(^{10}\)
Singapore dominates in finance. Investments in services accounted for the bulk of all FDI inflows (64%), out of which finance was the largest sector (46%) (Figure 4). Singapore received the majority of investment in finance, including in financial activities, regional headquarters functions, and holding company operations.\(^\text{11}\)

Vietnam’s investment flows from Korea are accelerating. Vietnam received 46 per cent of total Korean OFDI to ASEAN, surpassing Singapore (23 per cent) and Indonesia (13 per cent). A large proportion of this was in manufacturing, although companies are branching out into other industries like real estate due to a strong investor perception of Vietnam as a viable consumer market and strategic manufacturing base with access to supply chains.\(^\text{12}\)

CLMV countries are rising to prominence. Cambodia, Laos, Myanmar and Vietnam saw their total FDI flows increase by 8%, from $17.4 billion in 2015 to $18.9 billion in 2016. Their share of total ASEAN FDI inflows grew from 10 per cent to 13 per cent.\(^\text{13}\) In particular, Cambodia was a key destination for China and ASEAN, particularly in finance, light manufacturing and infrastructure. Laos also received significant infrastructure investment in power projects – the nation’s hydropower potential is among the highest in Asia. The subbasins of the Mekong River produce about 26,000 MW of capacity and the country has a theoretical hydropower potential of 26.5 GW. Laos is also an energy exporter to Thailand, Vietnam and Cambodia, and the government aims to extend this further and make Laos “the battery of Southeast Asia”.\(^\text{14}\)
**TOP SECTORS**

Finance, wholesale and retail, infrastructure and real estate dominate. Services was the largest sector, accounting for 64 per cent of all FDI from 2000 to 2016 (Figure 4). A majority of this investment (46 per cent) was in finance, which entered Singapore.

Infrastructure was another a key sector (5 per cent). The Asian Development Bank (ADB) estimates that Asia will need to fork out US$1.7 trillion a year from 2016 to 2030 to sustain its growth momentum. ASEAN countries, especially Laos, Myanmar, Vietnam, Indonesia and Malaysia have significant infrastructure needs, particularly in developing road and rail networks and power infrastructure. Foreign companies are taking this chance to partner with local governments in large infrastructure projects, such as China’s co-funding of the US$5.2 billion Jakarta-Bandung high speed rail.

**ASEAN has an important place in production chains.** Services (64%) and manufacturing (23%) were the main sectors receiving FDI flows. ASEAN’s heterogeneity in development levels makes it well-suited to an integrated supply chain. For example, countries like Cambodia and Laos are raw material exporters, while Thailand has a strong ecosystem of suppliers across the value chain, and Singapore provides professional services and expertise for companies looking to expand into the region.

*Figure 4: The bulk of recent inward FDI flows to ASEAN went to the services sector.*

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**a. by sector, 2000-16**

Source: OECD

- 64% Services
- 23% Manufacturing
- 6% Other
- 7% Primary

**b. by services, 2012-16**

Source: OECD

- 46% Finance
- 21% Trade
- 3% ICT
- 11% Business Services
- 11% Real Estate
- 12% Other
- 5% Infrastructure
- 6% THA
- 4% VNM
- 1% KHM
- 5% IDN
- 1% LAO
- 1% MMR
- 1% MYS
- 1% PHL
- 76% SGN
Burgeoning startup ecosystem. Another area in which Southeast Asia is rising to prominence is its startup scene. Investors are starting to take notice of the region’s young and entrepreneurial population, mobile-first users, rising incomes and large pool of lower-cost, high-skilled talent. Total funding more than tripled from 2016 to 2017, rising from $2.52 billion to $7.86 billion. This was the largest increase since 2013.  

Top sectors are mobile-first. Fintech ($3.18 billion), e-commerce ($2.87 billion) and gaming ($553 million) attracted the most funding in 2017.

Singapore comes out tops, Indonesia gaining momentum. Based on deal value, Singapore startups received nearly three quarters of all funding (71.2 per cent), followed by Indonesia (22.1 per cent). Thailand (2.2 per cent) and Malaysia (3.2 per cent) were also important destinations.

![Figure 5: Southeast Asia total tech funding from 2013 to 2017.](image)

Source: Tech in Asia


3 Ibid.


6 Ibid.


9 Ibid.

10 Ibid.

11 Ibid.

12 Ibid.

13 Ibid.


16 Ibid.


18 Ibid.

19 Ibid.

20 Ibid.


22 Ibid.