

ASEAN: Record FDI inflows for the third year

Summary

The latest foreign direct investment (FDI) data showed that global FDI inflows dropped by 2% in 2023 to a total of US\$1.33 tn while ASEAN saw record inflows for the third year with a gain of 1.2% to US\$226.3 bn, due to robust economic growth and extensive global value chain (GVC) linkages.

Among ASEAN members, Singapore remained the largest FDI destination, rising 13% to nearly US\$160 bn and Vietnam gained 3.4% to US\$18.5 bn, while others experienced declines following the broader global trends.

Outlook - A greater degree of cross-border coordination, deepening integration, political stability and demographic dividend in ASEAN will be supportive of positive prospects in the years ahead. However, the ongoing global geoeconomic fragmentation, fragmenting trade networks, diverging regulatory environments and the reconfiguring of international supply chains will create both obstacles and opportunities as well as uncertainty ahead.

Record FDI inflows into ASEAN for the third year amid global declines

In the latest foreign direct investment (FDI) data released late Jun 2024 ([link](#)) by the United Nations Trade and Development (UNCTAD), the 10-member Southeast Asian grouping (ASEAN) remained to be the world's top destination of FDI inflows in 2023 after the US, registering its third year of record inflows.

Global FDI inflows totaled US\$1.33 tn in 2023, a 2% drop from 2022, which UNCTAD attributed to the "wild swings" in a small number of European conduit economies, partly due to the global minimum tax (GMT) for large multinational enterprises (MNEs) as well as "a big drop" in the value of cross-border M&As in developed markets. **Excluding the effect of these conduits, the headline global FDI inflows in 2023 experienced a far larger decline, down by more than 10% y/y**, while inflows to developing markets shrank by 7%, led by Developing Asia, the largest FDI recipient, which dropped by 8%, according to UNCTAD.

Singapore retains its role as a regional hub

Similar to the headline figure, FDI flows to Developing Asia receded in 2023 but remained elevated, at \$621 bn, and the region stayed as the largest recipient of FDI, accounting for nearly half of global inflows.

While inflows declined in East Asia, due to a significant drop in China after a decade-long growth trend, inflows to ASEAN remained stable as a result of robust economic growth and extensive global value chain (GVC) linkages, as highlighted in the World Investment Report (WIR).

In Developing Asia, inflows to China fell by 14% to US\$163.3 bn and to India plunged by 43% y/y to US\$28.2 bn. In contrast, **inflows to ASEAN rose 1.2% to US\$226.3 bn in 2023**, although the distributions were uneven, gripped by tight monetary policy conditions worldwide. **Among ASEAN members, Singapore remained the largest destination, rising 13% to nearly US\$160 bn** while Vietnam saw a smaller increase of 3.4% to US\$18.5 bn. However, Indonesia, Malaysia and Thailand reported y/y declines of 15% to 59%, following the broader trends globally during the year as economic activities slowed in response to tight monetary policy stance by various central banks. UNCTAD noted that about half of the developing economies experienced declines in FDI inflows in 2023.

The WIR noted that greenfield investments have been a main driving force during the year. The overall value and the number of greenfield project announcements in Developing Asia increased significantly by 44% and 22%, respectively. In ASEAN, there was a 42% y/y jump in investment announced in 2023, particularly in electronics and vehicle production, as the drive to diversify and de-risk supply chains and markets continue. Within ASEAN, Indonesia was a top destination for announced greenfield projects by value in 2023 (+73% y/y), with notable investments including a glass and solar manufacturing project and battery supply chain for electric vehicles. Malaysia, the Philippines, Thailand and Vietnam also saw sharp increases in announced greenfield investment projects, with y/y gains of 49%, 33%, 88% and 72%, respectively.

ASEAN: The US remains the largest source of inflows

Separately, [ASEANstats](#) also updated its database of FDI concurrently with UNCTAD's report release. The latest data from ASEANstats show that the US remained the largest contributor of FDI inflows to ASEAN, since at least 2019.

The US accounted for 32% share of total inflows to ASEAN in 2023, more than doubled from the 13% share in 2022 and the average value of 12% in 2010-2019, suggesting that rising US-China tensions, the shifting of supply chains and de-risking/"friend-shoring" continue to be the main motivating factors.

Similar to the US but at a much smaller scale, inflows from Europe have increased significantly compared to historical average. For example, inflows from Switzerland and Germany saw multiple times of increases compared to the 2010-2019 period.

In contrast, flows arising from China and HK SAR did not show significant deviations from its past growth trends. This suggests that in the boardrooms of these MNEs head offices, decisions are made to increase investments in locations such as ASEAN, while inflows to China and HK SAR saw a steady deceleration especially over the past few years.

Similar to past years, FDI inflows to financial services and manufacturing remained the top two sectors in 2023, accounting for 42% and 23%, respectively, of the total (2022: 27% and 33%). Of note is that professional/technical services saw its share of FDI rising to 9.5% from 0.1% in 2022, a trend that is also highlighted by UNCTAD (see note below describing rising investments in services sector).

Outlook - Prospects positive for ASEAN with possible shifts in patterns

Are FDI inflows to ASEAN sustainable in the years ahead? And will the decline in key ASEAN markets (Indonesia, Malaysia and Thailand) reverse? We believe that the following are key factors supporting a positive outlook in the next 3-5 years:

- 1) Greater cross-border policy coordination and cooperation: A truly groundbreaking development is the signing of the MOU between the Singapore and Malaysia governments in Jan 2024 ([link](#)) to implement Johor-Singapore Special Economic Zone (JS-SEZ). An agreement could be signed in Sep, according to a Malaysian minister. This enlightened approach of economic cooperation reflects the progressive and pragmatic approach in these governments' business and investment policy.
- 2) Prevalence of the ASEAN spirit and the deepening integration of regional economies: In addition to the JS-SEZ, increased integration of the region are reflected in some recent developments, including the entering into force of the Regional Comprehensive Economic Partnership (RCEP) in 2022 ([link](#)), the sizeable intra-ASEAN flows of trade and FDI, and increased adoption of cross border payments via QR and digital channels, among others.
- 3) Domestic political stability - Power transitions after recent elections in Indonesia, Malaysia and Thailand have been smooth and uneventful, demonstrating the increased maturity of these countries, which ensure policy continuity and stability in these key ASEAN members at least in the next 3-5 years.

4) Population - Demographic dividend will be unfolding in the years ahead as income rises and wealth increases for the large pool of young population.

From the standpoint of an investor, a place with greater degree of economic integration and coordination, political stability and lower frictions (such as smoother movements of people, goods and services) would certainly be conducive and reassuring to deployment of tens or even hundreds of millions of dollars' worth of investment projects.

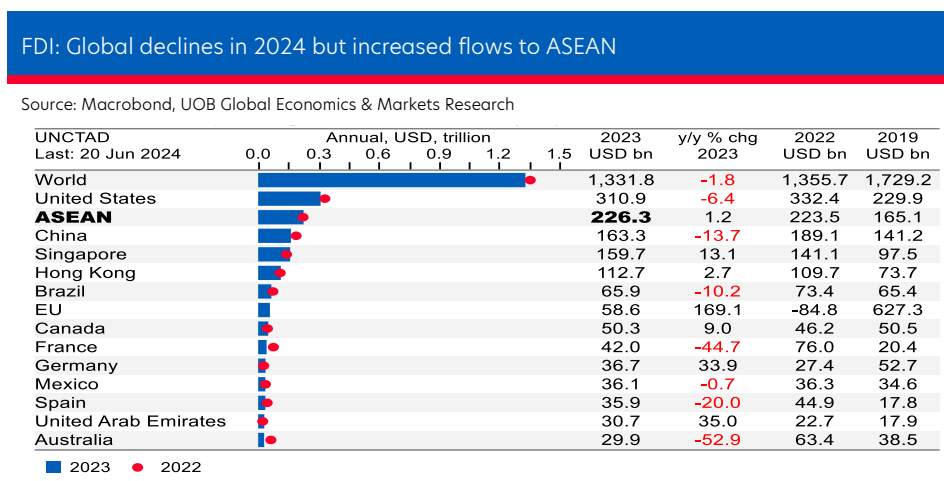
Specifically, UNCTAD has identified some major trends of FDI investment that are worthy of note in a Apr 2024 study ([link](#))

- o Increasing FDI flows to services (increase towards more service-centric and asset light investment cross-border investment)
- o Deglobalization of manufacturing (increase localization of production by shrinking international component and reduced trade in intermediate inputs with the fragmentation of global value chain)
- o Diminishing role of FDI in China (declining share of China in global FDI suggests transition from globally integrated production networks to more domestically focused ones)
- o Fracturing trend in FDI along geopolitical lines (i.e. reduction in investment between "geopolitically distant" countries)
- o The sustainability imperative driving new FDI sectors (FDI in environmental technologies stands out as the main pocket of growth outside services)
- o The increasing concentration of FDI and marginalization of developing countries (FDI is increasingly concentrated in developed and emerging economies)

The trends highlighted above by UNCTAD mirror that of UOB's clients' investment and business activities across the region. For instance, there is a trend towards services-oriented activities such as logistics, warehousing and distribution, coupled with a heightened focus on sustainability practices. Additionally, there is a heightened awareness and strategic planning regarding the potential repercussions of escalating US-China tensions, which may extend to third countries . Overall, ASEAN remains a unique location for companies which are progressively able to localise their production capability and contents as supply chains evolve to become more robust and extensive, particularly in the areas of intermediate inputs within the electronics sector.

Nonetheless, the WIR cautioned that the global environment for international investment "remains challenging" in 2024, due to weakening growth prospects, economic fracturing trends, trade and geopolitical tensions, industrial policies and supply chain diversification that are reshaping FDI patterns, causing some MNEs to adopt a cautious approach to overseas expansion.

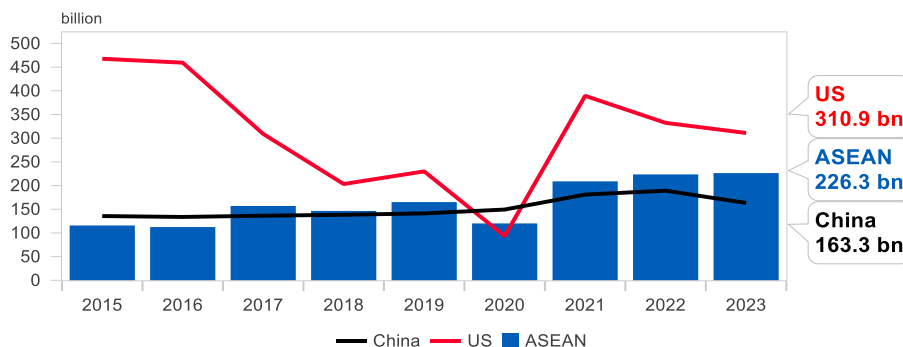
In addition, geoeconomic fragmentation is also reshaping the landscape of global investment, with fragmenting trade networks, diverging regulatory environments and the reconfiguring of international supply chains creating both obstacles and isolated opportunities, with some countries benefiting from investments in global value chain-intensive manufacturing while others struggle to participate in the global economy. This is a clear reminder that governments and businesses will need to stay nimble and competitive in such an environment.



FDI: ASEAN is the world's largest destination after the US

Source: Macrobond, UOB Global Economics & Markets Research

Global FDI Flows: Top Three Destinations (latest: 2023)



FDI: Singapore remained the top destination in ASEAN

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Foreign Direct Investment (FDI), Annual inflows, (latest: 2023)

UNCTAD Last: 20 Jun 2024	USD, billion						Latest USD bn	y/y % chg Latest-2022	2022 USD bn	2019 USD bn
	-25	25	75	125	175	225				
ASEAN							226.3	1.2	223.5	165.1
Singapore							159.7	13.1	141.1	97.5
Indonesia							21.6	-14.8	25.4	23.9
Vietnam							18.5	3.4	17.9	16.1
Malaysia							8.7	-48.9	16.9	7.8
Philippines							6.2	4.6	5.9	8.7
Thailand							4.5	-59.0	11.1	3.8
Cambodia							4.0	10.6	3.6	3.7
Laos							1.7	162.4	0.6	0.8
Myanmar							1.5	22.7	1.2	2.5
Brunei							-0.1	82.5	-0.3	0.4

■ Latest ● 2022

The US the largest contributor to ASEAN's FDI inflows in 2023

Source: Macrobond, UOB Global Economics & Markets Research

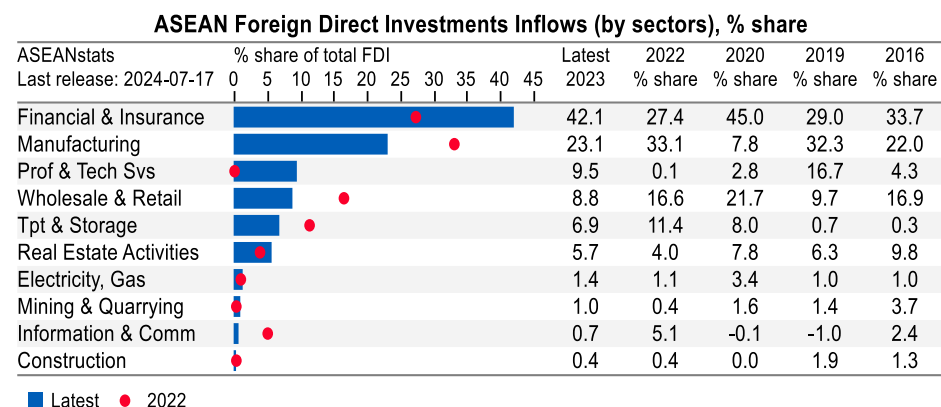
ASEAN: Foreign Direct Investments Inflows (Major sources)

Source: ASEANstats Annual	% share of total FDI inflows					Latest 2023	2022 % share	2019 % share	2010-19 % share	2016-19 % share
	-5	0	5	10	15					
United states [US]						32.4	13.1	27.3	12.3	9.5
Unspecified country [QU]						10.8	16.9	17.0	18.5	22.8
Total Intra-ASEAN						9.5	14.6	12.9	17.1	17.0
China [CN]						7.5	6.4	5.5	6.7	8.1
HK SAR [HK]						6.5	6.3	7.5	5.4	7.1
Japan [JP]						6.3	10.5	13.3	13.3	14.4
Singapore [SG]						6.3	9.4	9.4	11.0	11.2
Korea [KP]						4.8	6.5	4.7	1.7	2.2
Netherlands [NL]						3.8	4.1	-4.2	3.1	1.2
Taiwan region [TW]						3.5	4.5	1.7	1.8	1.9
India [IN]						2.5	0.9	0.9	1.4	0.7
Switzerland [CH]						2.3	3.0	1.8	0.5	0.4
Luxembourg [LU]						2.2	-0.9	-1.4	3.8	3.5
Germany [DE]						1.5	1.2	-0.5	0.0	0.5
Canada [CA]						1.5	0.4	3.0	1.5	1.5

■ Latest ● 2022

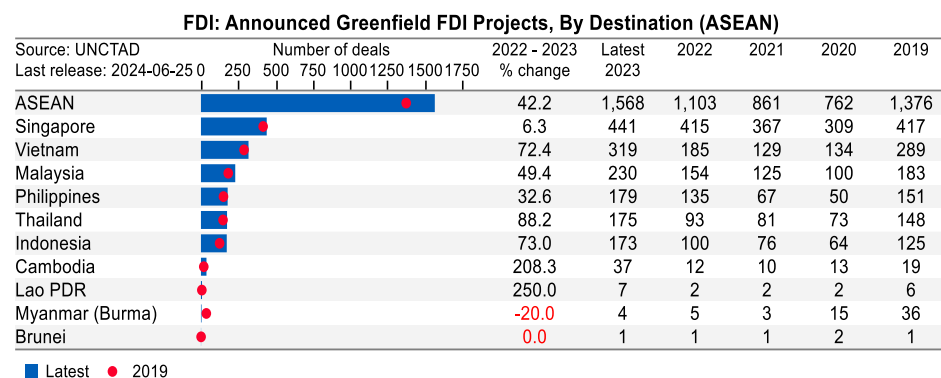
Financial and manufacturing sectors attracted the most FDI inflows in ASEAN

Source: Macrobond, UOB Global Economics & Markets Research



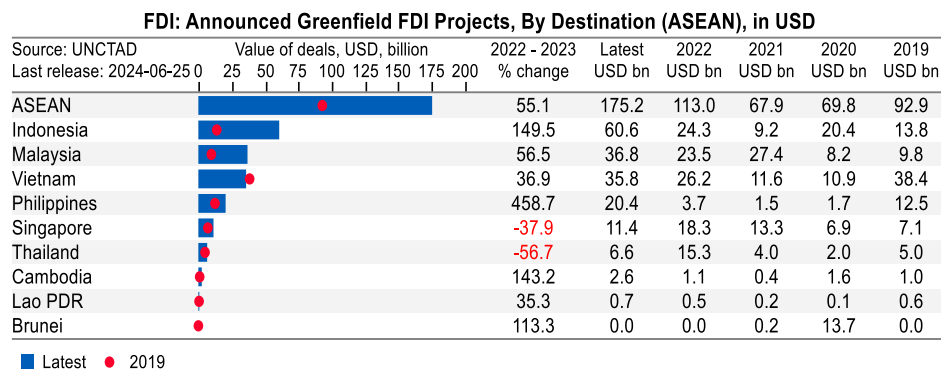
ASEAN: Strong deal flows in greenfield FDI projects in 2024

Source: Macrobond, UOB Global Economics & Markets Research



ASEAN: Indonesia saw the biggest jump in deal values

Source: Macrobond, UOB Global Economics & Markets Research



Suan Teck Kin, CFA
Head of Research
Suan.TeckKin@uobgroup.com

Research insights

 www.uob.com.sg/research

Contact us

 Email: GlobalEcoMktResearch@UOBgroup.com
Bloomberg: NH UOB <GO>

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