

Report on the Asia-Pacific Economies



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Staff: Luis I. Argüero, Nadia Radulovich

Foreign direct investment in Asia Pacific and India: change and continuity

- Foreign Direct Investments (FDI) to Asia Pacific and India decreased 13.2% in 2023. There was a slight increase in FDI to ASEAN, and China, India, Korea, Japan, and Taiwan posted large declines.
- There is an increasing interest of investors in the manufacturing sector of India, influenced by its low labor costs and the advantages of the *Make in India* policy.
- The region consolidates as one of the main origins of FDI: In 2023 35% of the total FDI came from firms from Asia Pacific and India.
- Tourism has rebounded after the collapse of 2020, but it is still below the pre-pandemic numbers. The sector will be one of the pillars for the growth of ASEAN in the coming years.

Foreign Direct Investment in Asia Pacific and India

The Asia Pacific and India region was once again the main recipient of Foreign Direct Investment in 2023, attracting more than a third of global investment flows. Even though there is a decline year on year in the FDI to the region (-13.2% and a fall of 4.5 percentage points in global participation), FDI to the region are in nominal and real terms above the prepandemic levels.

ASEAN shows a nominal increase in FDI in 2023, boosted by the growth of Singapore, the main recipient of foreign investment in the Association. The other economies of the region posted steep declines, between 13% (China) and 44% (Taiwan).

Singapore reached its highest level of FDI in its history, just below the amount received by the largest economy of the region, China. Investments went to the finance and insurance sector, which was responsible for more than half of total flow of FDI. The USA, Netherlands, China, Hong Kong, and Japan were the main origins of the investments in Singapore, positioning the island-nation as the main financial center of the region in 2023/24, according to the Global Financial Centers Index, published by the English think tank Z/Yen. Political stability, a strict finance regulation system, tax incentives and trade openness are the elements that made Singapore to be the region's leader.

Foreign investment in China shows the two sides of a coin. On the one hand, there was a strong reduction of investments by individuals and investment funds in Chinese assets and firms, which made foreign investment, as measured by China's State Administration of Foreign Exchange, to reach only 33 billion USD, 82% less than in 2022 and the lowest level in 30 years. The higher rate of return offered by other countries, geopolitical uncertainty, and the weakness of some sectors (as real estate), made investors choose other destinations rather than China.

On the other hand, following UNCTAD's methodology, which measures greenfield investments, mergers and acquisitions, intracompany loans, and reinvestments of profits, shows a decline of *just* 13%. To the factors mentioned above, the increasing labor costs should be added, as foreign companies perceive other destinations to be more attractive for the establishment of factories or offices. This is why greenfield investments announcements in India have more than doubled those of China in 2023, and even those in Vietnam were higher than in China. This will reinforce the role of these countries as the new manufacturing centers of Southeast Asia.

Table 1: Inbound FDI, in millions of USD

	2005-2007	2017-2019	2020	2021	2022	2023	2023 vs 2022 (%)
Brunei	328	372	77	205	-292	-51	n.a.
Cambodia	577	3,233	3,625	3,483	3,579	3,958	10.6
Philippines	2,534	9,625	6,822	11,983	5,939	6,209	4.5
Indonesia	6,726	21,524	18,591	21,131	25,390	21,627	-14.8
Laos	180	1,254	968	1,072	636	1,668	162.3
Malaysia	6,240	8,277	3,160	12,173	16,940	8,652	-48.9
Myanmar	279	3,554	1,907	2,067	1,239	1,520	22.7
Singapore	32,612	85,471	72,903	131,151	141,211	159,670	13.1
Thailand	8,451	9,185	-4,951	14,641	11,082	4,548	-59
Vietnam	3,778	15,240	15,800	15,660	17,900	18,500	3.4
ASEAN	61,705	157,736	118,902	213,566	223,624	226,301	1.2
China	76,214	138,615	149,342	180,957	189,132	163,253	-13.7
Korea	10,544	13,243	8,765	22,060	25,044	15,178	-39.4
India	17,766	44,204	64,072	44,763	49,355	28,163	-42.9
Japan	6,723	11,025	10,703	24,652	32,509	21,433	-34.1
Taiwan	5,606	6,252	6,053	5,416	10,189	5,700	-44.1
CKJIT	116,853	213,339	238,935	277,848	306,229	233,727	-23.7
TOTAL AP&I	178,558	371,075	357,837	491,414	529,853	460,028	-13.2
World	2,296,700	1,582,849	984,557	1,621,808	1,355,749	1,327,648	-2.1
Share	7.8	23.6	36.3	30.3	39.1	34.6	

Source: Research Institute, based on UNCTAD.

Outbound FDI from Southeast Asia and India

In 2023 the region's firms sent 468 billion USD abroad as foreign direct investments, a 0.8% less than in 2022. Nevertheless, FDI felt even more at the global scale (-2.1%), and it is the result of the lower expansion of Korean firms. Its Ministry of Economy and Finance says:

“The decrease in Korea's OFDI in 2023 can be attributed to several factors, such as the persistently high global interest rates, with U.S. interest rates reaching their highest levels since 2001, economic slowdown in China and geopolitical risks in Europe. Meanwhile, investments from Korean firms into the U.S. continue, in advanced industries including semiconductors and batteries, aligning with their strategies to restructure global supply chains.”

Table 2. Outbound FDI, in millions of USD

	2005-2007	2017-2019	2020	2021	2022	2023	2023 vs 2022 (%)
Cambodia	5	114	127	92	150	151	0.7
Philippines	2,516	3,591	3,562	2,251	308	1,251	305.8
Indonesia	3,489	4,503	4,448	3,845	6,848	7,070	3.2
Malaysia	6,803	5,685	2,419	4,676	13,322	7,643	-42.6
Singapore	24,499	50,540	38,393	61,368	52,239	62,997	20.6
Thailand	908	13,241	17,260	18,398	7,365	10,369	40.8
Vietnam	111	514	380	358	2,674	-950	-135.5
ASEAN	38,338	78,192	66,589	90,988	82,906	88,531	6.8
China	18,800	139,483	153,710	178,819	146,503	147,850	0.9
Korea	14,241	35,843	34,832	66,001	65,799	34,541	-47.5
India	11,501	11,564	11,109	17,253	14,618	13,341	-8.7
Japan	56,532	180,764	95,666	146,782	162,126	184,022	13.5
Taiwan	8,178	13,786	11,500	11,341	15,589	24,714	58.5
CKJIT	109,252	377,519	295,317	408,855	389,046	379,754	-2.4
TOTAL AP&I	147,590	455,711	361,906	499,843	471,952	468,284	-0.8
World	2,296,700	1,576,046	984,557	1,621,808	1,355,749	1,327,648	-2.1
Share	6.4	29	36.8	30.8	34.8	35.3	

Note: No data for Brunei, Myanmar, and Laos

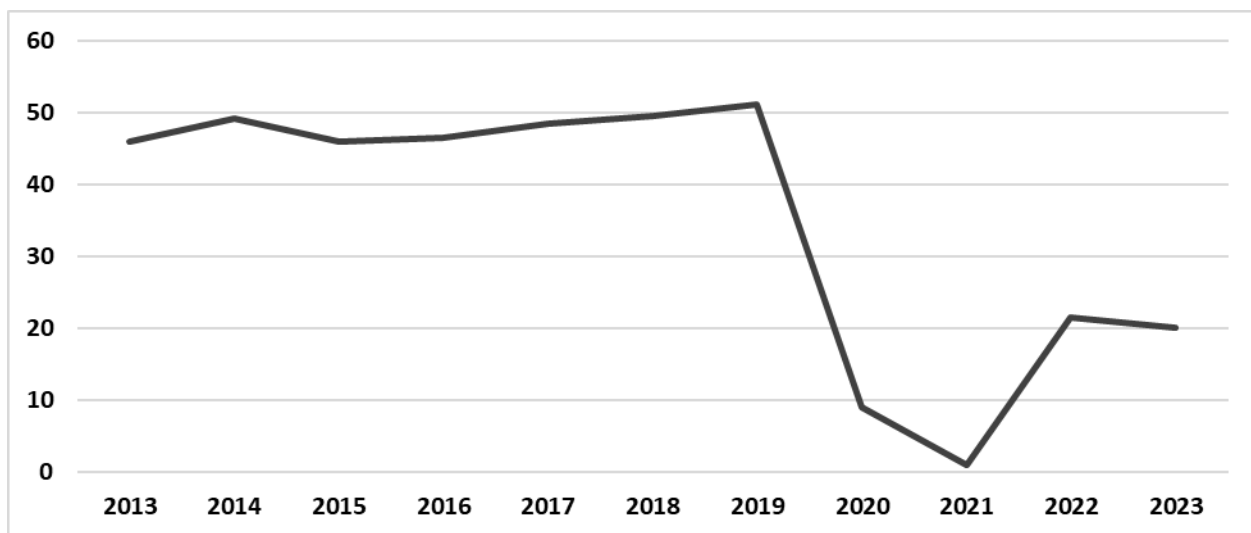
Source: Research Institute, based on UNCTAD.

In 2023 firms from Asia Pacific and India were responsible for 35.3% of global FDI, surpassing the 2022 numbers and consolidating the importance of the region's firms in the globalization process: China and Japan are responsible for a quarter of the total FDI.

Tourism in Southeast Asia

Tourism is for many of the region's countries one of the main economic sectors. Thailand is the main destination for foreign visitors, and Malaysia and Singapore follow. Thailand has become the most attractive country for tourism and gastronomy in the region, fostered by an efficient public policy of soft power. For Malaysia and Singapore, the quality of their touristic services, as hotels and flight connections, are attractive to visitors. In the last decade, the two main origins of inbound tourism are ASEAN countries' residents and Chinese visitors.

Figure 1: Arrival of Intra-ASEAN tourists (in millions of people)



Source: Research Institute, based on ASEAN Statistical Brief.

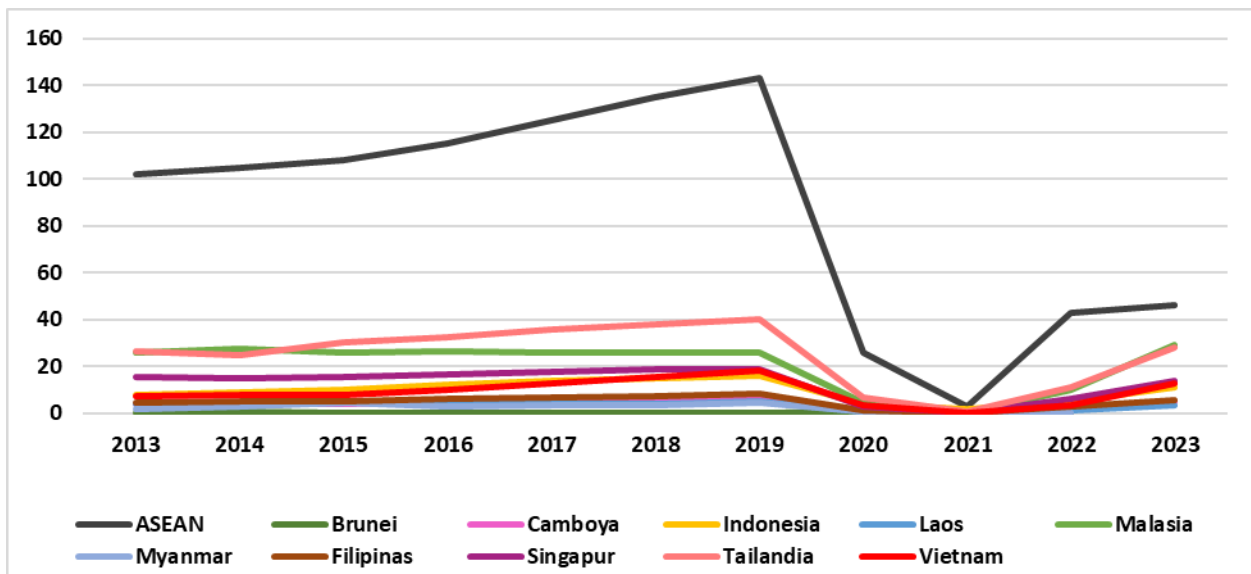
Chinese tourists choose Thailand as the main destination for their trips in the region. The increasing disposable income for the Chinese that led to an enlargement of its middle class matched with the attractiveness of ASEAN countries due to their proximity and affordable costs. Tourism from China is conducted by travel agencies that organize group trips and that offer their services at lower prices than the ones offered locally. One of the problems of this “zero-dollar tours” is the reduced impact of Chinese tourism on the local economies, as they pay in advance in Renminbi, so they avoid paying taxes in the receiving country. Moreover, the local shops connected to the Chinese travel agencies, accept payments through platforms as WeChat Pay and Alipay, therefore avoiding the payment of commissions for the exchange of foreign money, reducing the activity of local forex bureaus.

Among the reasons that foster intra and extra ASEAN tourism is the spread of low-cost airlines, the proximity of the region's countries, the facilitation of procedures to get a visa, and the reduced food and lodging costs. According to a report by OECD, in 2019 travel and tourism contributed 11.7% of the ASEAN's GDP, creating almost forty-two million jobs.

To reignite the sector after the collapse related to the pandemics, ASEAN launched in September 2021 the document “*The Post-Covid-19 Recovery Plan For Asean Tourism*” with the goal of

establishing a guide for the reopening of the touristic sector. With the lift of all the restriction by 2022, tourism started growing once again, but it still is far from the levels shown in 2019. In 2023, for the first time Malaysia surpassed Thailand as the main destination in the region, receiving twenty-nine million visitors.

Figure 2: Arrival of tourists to ASEAN by country of origin (2013-2023), in millions



Source: Research Institute, based on ASEAN Statistical Brief.

A change in the preferences of tourists can be appreciated when comparing the current demands by tourists with the pre-pandemic ones: Now people choose destinations with less people, surrounded by nature, prioritizing the health infrastructure. Among the ASEAN initiatives to foster receptive tourism are the investments on infrastructure, connectivity, and digital services. Sustainable tourism is a sector that is being promoted by the ASEAN. Laos, pro-tempore president of the bloc this year is promoting it through the certification “Ecotourism Standard” and supporting the development of rural tourism and destinations with a great ecological diversity.

As for extra-ASEAN tourism, most of the tourists arrived from China (8.2%), Korea (8.1%), and the EU (6.9%). Singapore, Malaysia, and Thailand have recently made the decision not to require visas to Chinese visitors, which will certainly favor the flow of tourists to those destinations. According to the World Tourism Organization, approximately 285 million tourists traveled abroad in the first quarter of 2024. Tourism to Asia Pacific recovered 82% from the pre-pandemic levels and due to the facilitation to the movement of people and the increased income of the region’s citizens, it is expected that the pre-pandemic levels will be reached soon.

Note on Singapore.

Lawrence Wong became the new prime minister of Singapore. His party, People’s Action (PAP), is a center-right party that has ruled since the island-nation became independent from Malaysia in

1965. The election of Wong concludes the Lee family ruling period. Wong's predecessor, Lee Hsien Loong, is son of the former prime minister Lee Kuan Yew, and remained in power for 20 years. The political life of Singapore was defined by Lee Kuan Yew, who dominated the politics and the economy of the country for three decades, in which he managed to transform Singapore into a strong economy, under a strict government control. Despite Lee is not running the government today, Hsien Loong holds a Senior Minister position in Wong's government, and the two maintain a good relationship.

Singapore starts a new era with Wong as the chief of government, that in fact initiated last September, when Tharman Shanmugaratnam was elected president of the country. Both Wong and Tharman are economists and have worked in the Ministry of finance and in the monetary authority of Singapore.

The new prime minister faces several national and regional challenges. On the domestic side, Singapore is an economy that is dependent on international trade, and exports have not yet full returned to the pre-pandemic levels. The increasing costs of housing, incipient inflation, low fertility rate and an ageing society are still topics on the agenda for the new government. A report from the government highlights four economic issues: a) Slow growth. In 2023 was 1.1%, while in 2022 was 3.8%. b) The decline in production in some sectors: The manufacturing sector declined 4.3% and services 2.3%. On the other hand, the construction sector grew 5.2%. c) the decline of internal demand (-2.6%). D) the small growth of exports (2.6%)

At the regional level, Singapore is facing an array of challenges. Among them, maintaining an equilibrium in its relationship with the USA and China, being them their main trading partners. Also, dealing with the tense situation at the China Sea, which directly affects ASEAN members who have territorial disputes, as Philippines, Vietnam, Malaysia, and Brunei, against China, which claims 90% of the territory.