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Foreign direct investments and economic development among ASEAN region: the Vietnamese case

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Introduction

Nowadays, the foreign investments have often been a tool for governments to develop their economies; since FDI flows involve parties from different countries all over the world, they are ruled by the international business law, which takes care of all the aspects related to foreign investments, from securities to customs regulation. Moreover, multinational companies are always looking in internationalizing their businesses and supply chains to compete into global markets. Unfortunately, there is no perfect solution which can fit in any national environment; therefore, each scenario has characteristics (e.g. taxation, trade openness, regulation) which influence the kind and the use of FDIs. The first chapter will try to present the points of view of the parties involved, countries and MNEs, by analysing different determinants of investments and how they could influence national and companies' strategies. Then, a macroeconomic analysis would introduce the Association of Southeast Asian Nations (ASEAN), which is a regional intergovernmental organization comprising ten Southeast Asian states and promotes cooperation between members and other partners worldwide and represents a market of more than 2.6 trillion US dollars and over 600 million people. In 2008 the crisis hit the region as well, because of its high level of dependence with the worldwide financial markets; thus, hierarchies within the community changed after this event, with investors looking for costs minimization and governments trying to attract inflows from neighbouring industries. Within the region, differences among countries' development and FDI attractiveness is significant; indeed, while Vietnam and Thailand are competing for enhancing the manufacture of products, from automotive to biotechnology, other countries such as Cambodia and Lao are still focused on developing agriculture, tourism and building adequate infrastructures like roads, railways and airports. However, many differences are related to factors such as the geographical position, natural resources and recent political history; data shows the presence of 3 sub-groups in the area: ASEAN-5 (which are considerable the leaders), CLM countries (the less developed members) and Brunei and Singapore (the richest countries). In the third chapter, I will analyse the FDIs between those countries and their openness; the attractiveness of the area significantly increased thanks to Free Trade Agreements (FTAs) such as the AFTA (ASEAN Free Trade Area). Starting from a description of the regional characteristics and agreements, I will in particularly study Laos, Cambodia and Thailand to explain differences and similarities between them; the first two are considerable as emerging economies, while the last is a developed nation if compared to other ASEAN members. Furthermore, I will also analyse the main aspects of those economies, highlighting the most important characteristic in terms of FDIs attractiveness. In the last chapter I will describe the Vietnamese scenario by analysing economic and legal aspects and government intervention in the national markets and its presence in the domestic companies; therefore, Vietnam will be analysed through a trade and investments risk index, which is based on the factors mentioned above.

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1. Foreign Direct Investments

1.1 Definitions

Definitions of FDI are contained in the Balance of Payments Manual: Fifth Edition (BPM5) (Washington, D.C., International Monetary Fund, 1993) and the Detailed Benchmark Definition of Foreign Direct Investment: Third Edition (BD3) (Paris, Organisation for Economic Co-operation and Development, 1996)

According to the BPM5, FDI refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Further, in cases of FDI, the investor´s purpose is to gain an effective voice in the management of the enterprise. The foreign entity or group of associated entities that makes the investment is termed the "direct investor". The unincorporated or incorporated enterprise-a branch or subsidiary, respectively, in which direct investment is made-is referred to as a "direct investment enterprise". Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise; the BPM5 suggests a threshold of 10 per cent of equity ownership to qualify an investor as a foreign direct investor.

Once a direct investment enterprise has been identified, it is necessary to define which capital flows between the enterprise and entities in other economies should be classified as FDI. Since the main feature of FDI is taken to be the lasting interest of a direct investor in an enterprise, only capital that is provided by the direct investor either directly or through other enterprises related to the investor should be classified as FDI. The forms of investment by the direct investor which are classified as FDI are equity capital, the reinvestment of earnings and the provision of long-term and short-term intra-company loans (between parent and affiliate enterprises).

According to the BD3 of the OECD, a direct investment enterprise is an incorporated or unincorporated enterprise in which a single foreign investor either owns 10 per cent or more of the ordinary shares or voting power of an enterprise (unless it can be proven that the 10 per cent ownership does not allow the investor an effective voice in the management) or owns less than 10 per cent of the ordinary shares or voting power of an enterprise, yet still maintains an effective voice in management. An effective voice in management only implies that direct investors could influence the management of an enterprise and does not imply that they have absolute control. The most important characteristic of FDI, which distinguishes it from foreign portfolio investment, is that it is undertaken with the intention of exercising control over an enterprise.

1.2 Relationship with Economic Growth

Figure 7.1 summarizes the amount of worldwide outward FDIs, starting from 2005; those flows record the value of cross-border transactions related to direct investment during a given period: financial flows consist of equity transactions, reinvestment of earnings, and intercompany debt transactions. Outward flows represent transactions which increase the investment that investors in the reporting economy have in enterprises in a foreign economy, such as through purchases of equity or reinvestment of earnings, less any transactions that decrease the investment that investors in the reporting economy have in enterprises in a foreign economy, such as sales of equity or borrowing by the resident investor from the foreign enterprise. On the other hand, inward flows represent transactions that increase the investment that foreign investors have in enterprises resident in the reporting economy less transactions that decrease the investment of foreign investors in resident enterprises. It is important to evidence that the difference between OECD and non-OECD countries is decreasing year by year, reflecting the development of new "characters" worldwide; moreover, as shown by the line graph, the European Union covers a considerable amount of the overall outward flows in the analysed period, but the gap with the non-OECD area is becoming less significant.

The relationship between the FDI flows and economic development has been studied deep for years. In theory, the causal relation between FDI and GDP growth can run in two main directions: according to the "FDI-led growth hypothesis", FDI inflows can stimulate growth for the host countries by increasing the capital stock, creating new job opportunities and facilitating technologies' transfers (De Gregorio, 2003). On the other hand, according to the "market size hypothesis", a rapid GDP growth creating new investment opportunities in the host country can also cause larger inflows of FDI (Mah, 2010). In addition, despite studies generally describing a positive impact, it is also possible that FDI has negative effects on economic growth by crowding out domestic investment, raising external vulnerability and causing dependence (Lipsey, 2002).

Many empirical researches tried to explain the link between FDI and economic growth (it has been studied by explaining four main characteristics: determinants of growth, determinants of FDI, role of multinational firms in host countries, and direction of causality between the two variables):

Table 1: FDI and Growth: Literature survey[1]

Studies	**Samples analysed**	**Period analysed**	***Relation***
Wang (2002)	12 Asian economies	1987- 97	*Positive*
Alfaro et al. (2001)	Different samples 39 countries mixed, 41 developed countries and 49 developing countries	Three periods: 1981- 97, 1977- 97, 1970- 95.	*Positive*

[1] *Source*: Griggio M., *2017*

Bacic et al. (2005)	11 transition economies	1994- 2002	*Not significant and mixed results*
Nath (2005)	13 economies of CEE and CEEB	1990- 2003	*In the presence of trade, FDI does not have any significant effect on growth*
Hermes and Lensink (2003)	67 developing countries	1970- 95	*Positive for 37 countries (Latin America and Asia region), for all others no effect*
Mencinger (2003)	8 transition countries	1994- 2001	*Robust negative causal relationship between FDI and growth*
Alfaro (2003)	47 countries	1981- 99	*FDI exerts an ambiguous effect on growth. FDI in the primary sector, however, tend to have a negative effect on growth, while investment in manufacturing a positive one.*
Karbasi et al. (2005)	42 countries	1971- 2000	*Positive effect. The contribution of FDI on economic growth is enhanced by its positive interaction with human capital macroeconomic - institutional stability.*
De Mello (1999)	32 countries (15 OECD and 17 non-OECD)	1970- 90	*Not strong: Positive for OECD, but negative effect for non-OECD*
Choe (2003)	80 countries	1971- 95	*Positive but weak*

Although the growth impact of FDI is debatable, it is still strongly believed and recommended that the variable has a vital role in boosting economies worldwide. Moreover, the relationship has motivated a voluminous literature focusing on both developed and developing countries; usually, studies focusing on data from only less developed countries (LDC's) has tended to find a clear positive link, while researches that have ignored this distinction, or have focused on data from only developed countries (DC's), have found no growth benefit for the sample analysed (Ozturk, 2007).

Figure 7.2 describes FDI stocks, which are a measure of the total level of direct investment at a given point in time; the outward FDI stock is the value of the resident investors' equity in and net loans to enterprises in foreign economies; the inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy. They are measured in USD and as a percentage of GDP and, as we can observe, there are several values which depend on many economic factors; thus, there is no best solution which could fix worldwide, but each country, basing on their characteristic, balance inward and outward FDIs to achieve the most efficient possible result.

1.3 How governments manage FDIs' flows

Countries use to impose tax on the income of foreign investors; however, they also provide incentives and subsidies to attract FDIs. Maximizing the advantages that governments would take from those flows could be seriously difficult, due to the requirement of finding the right trade-off between attracting and making profit from foreign investments. In practice, the measure of subsidies and incentives to promote them can be significant and some firms could effectively receive a net subsidy rather than paying less taxes, which reduce governments' net revenues; such policies are motivated because the benefit gained by domestic workers from attracting FDIs could overcome the fiscal cost for the country (Sharma, 2016).

Thus, governments are incentivised in both taxing and subsidizing foreign firms; the marginal subsidy generates benefits because of two main motivations. First, a sufficiently small subsidy targeted towards marginal firms has a negligible fiscal cost; second, the subsidy increases the domestic wage by attracting more firms to the hosting nation. These two points together imply that the benefit to domestic workers exceeds the fiscal cost of the subsidy, leading to an overall enhancement of the state's welfare. Since the wage in the hosting nation is tied to the price of its domestic goods through a free entry condition for domestic firms, an appreciation in the relative price of the domestic goods allows the rise in labour demand to translate into an increase in the real wage. This means that even a smaller nation can affect its terms-of-trade because the goods produced in other countries are differentiated; anyway, these taxes and subsidies, optimal for the host country, introduce inefficiencies from a worldwide perspective. Hence, international coordination in this setting could simultaneously lead to reductions in taxes and subsidies; while countries and sub-national jurisdictions often discuss potential attempts to reduce harmful tax competition, bilateral tax agreements involve reductions in the withholding taxes imposed on foreigners (Sharma, 2016).

- **Subsidies and balancing measures**

A subsidy is a financial contribution made by a government or a public authority, that confers a benefit on an enterprise, a group of enterprises, or an industry; if they are improperly used to promote countries' export trade, subsidies are forbidden by General Agreement on Tariffs and Trade 1994 (GATT, 1994).

If subsidies have a not reasonable impact on another country's market, that country can impose countervailing or balancing measures to offset their impact, but only if it follows certain conditions to ensure that its reaction is justified, appropriate and not excessive. The Agreement on Subsidies and Countervailing Measures states that its disciplines apply only to those subsidies that target an enterprise or industry, specific groups of enterprises or industries, or enterprises in a specific region (disciplines do not apply to non-specific subsidies and agricultural subsidies). Those subsidies are divided into two categories: prohibited subsidies (informally referred to as red subsidies), and actionable (yellow) subsidies (August, Mayer, Bixby; 2013).

- Prohibited subsidies (red subsidies) depend on a firm's or industry's success in exporting its products or are contingent upon the use of domestic instead of imported goods (e.g., subsidies based on so-called domestic content rules). Red subsidies are presumed to be trade distorting, and WTO member states are forbidden to grant or maintain them.

- Actionable subsidies (yellow subsidies) may or may not be trade distorting, depending on how they are applied. They are defined as specific subsidies that support a domestic industry of a different member nation; WTO member states are discouraged, but not forbidden, from using actionable subsidies

- **Contemporaneous Subsidies and taxes**

Sharma's study (2016) has shown that taxes on inframarginal firms and subsidies to marginal firms improve welfare separately. To establish the optimality of the subsidy, the analysis needs to consider how it will affect tax revenue: by increasing wages, the subsidy will reduce the profits of foreign firms and thereby reduce tax revenues. Usually, national policies lead to a net subsidy on targeted firms combined with a net tax on untargeted firms; Sharma (2016) also concluded that a tax on inframarginal firms raises revenue at the expense of these firms' profits, while a subsidy on marginal firms can increase domestic welfare by attracting foreign firms at a relatively low fiscal cost. Thus, these strategies develop national welfare at the expense of those other countries which lose the investments, and so are not the optimum looking worldwide. Therefore, we understand why bilateral treaties entail reductions of taxes on foreign investors, while policymakers are worried regarding the damages caused by the competition of subsidies and tax incentives. Indeed, consistently with these results, the European Union has eliminated specific withholding taxes on dividends and royalties within the region, while, at the same time, has set up a State aid regime that slows the use of preferential subsidies. (Griggio, 2017)

As shown in Figure 7.3, FDI restrictiveness is an OECD index gauging the restrictiveness of a country's foreign direct investment (FDI) rules by looking at four main types of restrictions: foreign equity restrictions; discriminatory screening or approval mechanisms; restrictions on key foreign personnel and operational restrictions; the index values fluctuate between 0 (for open) and 1 (for closed). Regarding the OECD average restrictiveness, which could be considered as more stable economies, the value, close to 0 (0.066), describes a favourable environment for foreign investments in the area; moreover, the ASEAN countries values fluctuate between Cambodia (0.054) and Philippines (0.39), showing multiple scenarios in those economies which could be identified as more dynamic than the OECD ones.

1.4 How FDIs' taxation affect companies' decisions

Decisions by multinationals to undertake FDI are usually complex since they involve strategies relevantly influenced by taxation and incentives of foreign countries. Dunning (2008) states that for MNEs trying to maximize their value, FDI brings benefits if the so-called OLI (Ownership, Location and Internalisation) conditions are met. At first, there must be an advantage for MNEs related to ownership by local firms; this could deal with tax issues, but also with specific technological or organisational knowledge. Secondly, producing abroad must be attractive in terms of comparative advantage, if not, it would be more remunerative to export, rather than to invest. Finally, it should be attractive to undertake activities within the firm, rather than getting them from foreign companies. There is a connection between those conditions: for example, the ownership advantage (O) of a financial blueprint to avoid corporate income tax is strongly linked with its internalisation (I) by the firm. In addition, the host country location advantage (L) of a tax haven, can plausibly be transformed into an ownership advantage (O). Tax rate, as other local features, can affect all three OLI conditions by affecting the tax treatment of a foreign firm, related to domestically owned firms; they can also determine the attractiveness of a location for undertaking investments. Other factors include good infrastructures, size of the markets, quality of labour force and the network advantages due the proximity to other businesses (Jones and Temouri, 2016).

A foreign subsidiary is always subject to Corporate Income Taxation (CIT) in the hosting country and its returns can be burdened once more under the CIT ruling the parent's home country. Given that the international double taxation discourages FDI, most of countries tries to evade it through bilateral taxation treaties, modelled on the OECD (Organisation for Economic Co-operation and Development) Model Tax Convention. The US and Japan chose the credit scheme, while most of EU countries adopts the tax exemption system; under the exemption system (or territorial taxation), the foreign income which is taxed within the host state, is exempted from taxes in the parent's home state. Therefore, revenues are subject to taxation only where the subsidiary is set: an Italian enterprise which invests in a German subsidiary is subject to the German corporate income tax alone. In this way, dividends in favour of the Italian equity owners are not taxed in Italy; however, in some countries, firms can be exempted from taxation only if they control a certain amount of capital share and when a minimum of foreign corporate income tax is paid. In a credit system (worldwide taxation), tax liabilities in the host state of the subsidiary are credited against taxes in the parent's home state; countries usually pose limits to foreign taxation credits which can be claimed by enterprises. If foreign taxation exceeds tax liabilities in the home state of the parent firm, there is an excess of foreign tax credit. In such a situation, firms are usually allowed to ask for the same tax credit of the domestic tax rate, so it turns to be exempt from taxation. In the case that the tax rate in the home country of the parent overdoes the foreign tax payment, there is a deficit tax credit. The fact that the parent company is subject to CIT just on the moment of the repatriation, makes the effect of home country taxes less relevant for investors who come from tax credit countries. Under credit systems, home and host country taxations apply different incentives for FDI with respect to the exemption systems. In fact, exempted investors are taxed only by host country rates, therefore, home taxes do not influence FDI. Contrary, credit investors will be subject to a worldwide tax basis in the home country so, in this case, home country tax rates are significant. The influence of the home-country tax rates depends on how FDIs are financed, i.e. transfers or retained earnings, and if there is an excess foreign tax credit. Regarding mergers and acquisitions, higher tax rates in the host nation are less relevant because they affect domestic and foreign owners in the same way (De Mooij and Ederveen, 2003).

To summarize, a higher tax rate in the host country is likely to reduce FDI from exemption countries. For investors from tax credit countries, anyway, higher taxes in a host country can have ambiguous effects: it may reduce real investment to the extent that parents are in an excess credit position or, on the other hand, it can foster foreign ownership of capital in the host country (De Mooij and Ederveen, 2003).

1.5 FDIs' determinants

As mentioned before, taxation is a main determinant in MNEs strategies regarding FDIs; however, several other determinants contribute in making markets attractive:

- The ***effects of exchange rates*** on FDI have been examined both from the volatility of exchange ratios and from the changes in the bilateral levels. Before the study of Froot and Stein in 1991, the common thought was that the probable variations affecting the exchange rates would not modify firm's decision to invest abroad. The two researchers set a currency appreciation in an imperfect capital market, where it might increase foreign investment by a firm; acting within imperfect markets of capitals determines a decrease of internal capital costs with respect to resources from the outside. So, a currency appreciation leads to an increased business capital and gives the company cheaper resources than foreign competitors, dealing with the devaluation (Blonigen, 2005).

- The ***institutional and political environment*** is a crucial factor for MNEs' investment strategies. High levels of corruption and insufficient legal guarantees represent a threat for business activities in many developing countries. The fact is that an eventual quantitative esteem of the institutional or political effects on foreign investments is very difficult to obtain because of the illegal and sunk nature of the issue itself, so there are not effective measurements (Blonigen 2005).
- Higher ***trade protection*** raises attractiveness for firms to implement local production using branches or subsidiaries rather than facing important exports' costs. This kind of FDI is usually called tariff-jumping, which allow a foreign firm to avoid a trade barrier by locating production within the destination market. Even in this case, it is hard to give a quantitative measure of non-tariff forms of protection across industrial sectors (Blonigen 2005).
- ***Trade effects*** of foreign investments are strictly related to drivers of the investment behaviour. Usually, the main reason behind FDI is the plan of substitution for exports; they may imply higher trade barriers and relevant transference expenses. Serving that geographical area through sales from foreign direct investments could reduce such expenses, even if fixed costs would increase; thus, firms apply this strategy only when the foreign market's demand of MNE's goods reaches a sufficient level (Blonigen 2005).

Furthermore, Dunning and Lundan (2008) have evidenced 4 categories of FDIs, basing on different determinants:

- ***Market-seeking FDIs*** which are adopted by companies aiming to provide their products to a targeted area, focusing on local and regional markets. They might be used to defend or develop existing markets, or to face new ones. Market size of the host economy, barriers to the local markets, tariffs and transport costs influence those kinds of FDIs.
- ***Resource-seeking FDIs*** relate to a different kind of resource seeker; first, we find investments directed to find physical resources; the second group includes MNEs looking for economic and unskilled (or semi-skilled) labour force; the thirds are driven by the need for technological capability, management or marketing expertise and organisational skills.
- ***Efficiency-seeking FDIs*** which could differ in two ways: on one hand, the foreign investments aim to exploit the different accessibility and inputs, costs in several countries; on the other hand, the investment is directed to nations with similar income levels and economic structures regarding the origin country, but it also aims to discover possible economies of scope and scale, different supply's capabilities or differences in consumers' preferences.
- ***Strategic asset-seeking FDIs*** which usually consist in the acquisition of resources from firms operating in targeted foreign markets. Thus, they could bring to a sustainable or advanced global competitiveness of the investor, according to his strategic goals.

1.6 Regulation and supervision of foreign investments

Analysing rules and laws which affect investments worldwide is crucial because they deal with many scenarios arising from international exchanges and they are fundamental in setting constraints and guarantees for MNEs' activities abroad, adapting their strategies and behaviours. Usually, guidelines on which regulation is based on are stated as investments laws; in socialist-oriented countries, as many in ASEAN region, FDIs are only allowed in the form of joint ventures (regulation is called "joint venture laws"). For instance, Vietnam allowed only joint ventures, but since FDIs are one of the most important resources for a nation, in 1987, new laws were issued to encourage joint ventures and maximize the benefit for the country; moreover, the new code also allowed full profit repatriation after taxation and it started protecting foreign firms against government expropriation. Some nations do not have general regulations on investments, but they put limitations on investment in specific economic areas, such as media, to control them better; others set rules for controlling investment, governing technology transfers, providing incentives and limiting foreign exchange (as an "investment code"). Frequently, those laws and rules are included into Bilateral Investment Treaties (BITs); BITs influence foreign investment and the circumstances under which investors from one country can invest in another one and, most of them, ensures certain guarantees for investments from a Contracting State to another one; they usually include agreements of fair treatment, provisions for repatriation of profits and protection from expropriation. They even guarantee fund transfers and they could also provide procedures for dispute settlement (Griggio M., 2017).

The regulations on foreign investments could differ country by country, but the purposes are almost the same worldwide: promote local productivity and technological development, encourage local participation and minimize foreign competition in economic areas already served by local businesses. To achieve their purpose, investment laws must screen and regulate FDIs' applications; these generally fall into three groups: the firsts aim to encourage investments through incentives and minimal regulations; the seconds aim to use investment incentives but also to require local participation quotas; the thirds aim to allow foreign investment subjects to local screening and supervision. Usually, foreign investors must register their proposal according to a central agency, set up specifically to facilitate foreign investments; the central agency may conduct the screening, or it may coordinate the process with other governmental units. The criteria for determining which proposal needs to be screened could significantly vary; few states may subject all foreign investment or limit the controls over those whose projected investment exceeds a certain amount of capital. For instance, the Board of Investment of Philippines screens all new investments and all expansions or additional investments in 22 existing firms that have foreign ownership of more than 40%. Moreover, specific kinds of foreign investment proposals, such as in natural resource-based industries, require the approval of specialized agencies, that formulate special criteria tailored to the industries involved. Since generally a foreign investment proposal is judged on its congruence with a country's national development goals, foreign investors are required to supply screening agencies detailed information about their proposal, which typically include financial and marketing plans, an employment scheme, the extent of local inputs usage, the composition of the management and the relative percentages of foreign and local control. The investment application shall prove to the authority that the project fits the rules of the investments law and it is compatible with the philosophy and the environment of the hosting country (conforming to the regulatory philosophy can be difficult, because the regulatory authority is often reserved and might not be favourable to foreign investors).

After the screening, the host country shall approve or reject a foreign investor's proposal; if the proposal did not ask for the host to grant determined incentives and if the host does not claim any concession from the investor, the approval shall be communicated from the competent agency. While, if the host state grants an incentive or the investor agrees to some concession, the arrangement will be set out in a formal investment agreement. Typically, the agreement will be governed by the host state's regulation and possible disputes will be debated in that country's courts, unless the parties have agreed in a different way (August, Mayer and Bixby 2013; Thangavelu 2015). International investors trying to set up a business activity might be restricted in the allowed choices of investment forms; most countries commonly desire that foreigners limit themselves to businesses with local participation, which could consist in forms of joint venture, organized as partnerships, limited liability companies or publicly traded stock corporations. For instance, Saudi authorities allow local branches without any Saudi participation, but the company is not eligible for any incentive, but they are reserved to companies that have at least 25% of Saudi ownership (August, Mayer and Bixby 2013).

Finally, some countries, called "tax heavens", try to collect foreign investment and generally impose no disclosure requirements. By mandating secrecy, these countries, such as the Bahamas, Bermuda and the Cayman Islands, represent a problem for many industrialized democracies and for the worldwide regulatory framework. After those steps, further requirements should be observed; many countries ask investors to provide periodic reports during the start-up period, describing their progress in importing capital, constructing facilities, hiring personnel and beginning production. For instance, in Indonesia, during the construction and trial production period, investors must submit monthly reports to the Bank of Indonesia, so it can keep track the amount of foreign currency brought into the country, and semi-annual reports to the Investment Coordinating Board to supervise projects' operational progress. Once a foreign-owned enterprise is in full operation, it becomes subject to periodic monitoring; this may involve the submission of information on various aspects of the business activities and regular inspections to prove that it follows the local regulation. If a central agency is responsible for supervising foreign investments, it will conduct the inspections, otherwise, specialized agencies may be involved. Investment regulations usually states that changes in the agreement should be approved by the host state; moreover, laws and agreements usually require the host country to act in good faith on modification's requests. Any foreign investor is habitually entitled to have the same right to run a business in the new country like local entities and companies; but, they cannot take advantage of not being present in the host state, escaping full responsibilities regarding their investments. Hence, they are subject to the same obligations as local entrepreneurs and they are subdued to a normative designed to prevent them from abusing their subsidiaries' employees or creditors. All firms, either they are foreign subsidiaries or domestic enterprises, must comply with different grades of disclosure about their organizational structure and their activities to protect the public (i.e., shareholders and creditors) from fraud and misrepresentation. There are two basic sets of disclosure rules: disclosure reports which must be made when a company is first organized and periodic reports to update changes in the organization and activities; in federal states, the constituent states enact the initial disclosure rules, and the central government enacts the periodic disclosure laws. In common law countries, a company's Memorandum of Association and/or Articles of Incorporation is filed with a registrar who maintains a copy that can be examined by the public, while in civil law countries the organizational documents are inserted in the Commercial Register, that is disclosed to the public. Publicly traded companies must provide more extensive information in their annual reports, while privately held companies are usually required to report only limited information because the information asymmetry could harm small investors who have no financial education and could suffer unbearable losses due to a company bankruptcy. Foreign-owned corporations in some countries, such as Malaysia, are subject to the same disclosure requirements as domestic companies while, in some others, they are also subject to special additional reporting requirements (August, Mayer and Bixby 2013; Healy and Palepu 2001).

Some attempts have been made to harmonize the information collected by different countries. In 2001, the IASB (International Accounting Standards Board) was provided with accounting standard-setting responsibilities and it is now responsible for the development of a unified set of regulation, called International Financial Reporting Standards, IFRS. The IFAC (International Federation of Accountants) has established international auditing guidelines; through its independent standard-setting boards, it develops and issues regulations on ethics, auditing, assurance, education, and public-sector accounting standards (August, Mayer and Bixby 2013).

1.7 Free areas, limits and guarantees

There are several instruments that governments use to attract FDIs and, as we will see for ASEAN countries, a lot of nations decide to create ad hoc regulations for specific geographical areas to enhance their economic development; indeed, multinational enterprises are often incentivised to invest abroad by establishing their business activities in the so-called free zones, wherein goods may be imported and exported free from tariffs and in which various trade-related activities may be carried on (from simple storage to manufacturing and retailing). August, Mayer and Bixby (2013) categorized these zones by their geographical size and by the kinds of activities that may be carried on within:

- ***Free Zones Categorized by Size***, from large multistate regions to small subzones; the largest ones are called free trade areas (FTAs) and are made up by an agreement between countries in which they let some or all each other's enterprises carry on their trades across and within each state's borders avoiding duties and other restrictions (NAFTA and the European Community represent FTAs). A nation may also open some or all its economic sectors to international trade and/or specific regions; the oldest type of free zone is the free city (or free port), in which a port city is opened to international trade (a relatively modern example could be Hong Kong, at least until the transfer of Hong Kong by Britain to the PRC). The free trade zone is the modern variant of the free city; rather than granting free trade status to some entire port cities, governments designate smaller areas, usually within or near them, as free trade zones. In addition, some states also provide special purpose subzones associated with those areas to favourite limited purpose trading activities, such as a single manufacturing plant.

- ***Free Zones Categorized by Activities*** depend on activities which are allowed in the areas: they could be storage, distribution, manufacturing and retailing; however, zones might not permit all these actions. Concessions of operating activities could vary according to the type of area and to the country in which are located; typically, the full range of these activities is allowed in a free trade zone, as, for example, in U.S. Other examples, with a more limited range of activities, are export processing zones and free retail zones.
- ***Export processing zones (EPZs)*** could be defined as a territory within a geographical location where the government allows imports of various factors of production (i.e. capital, machinery, labour etc.) without levying any taxes so that goods could be manufactured and exported from the country; duties are not paid neither when they are imported, nor when they are exported. EPZs result very popular especially in developing countries, that is because their purpose is to incentivise multinational enterprises to hire local people and to start joint ventures with local businesses (in ASEAN this kind of zones is prevalent in Cambodia and Lao PDR)
- ***Free retail zones*** (or duty-free zones) are frequent in international airports and harbours and near the busiest border crossings; their objective is to offer to travellers which are leaving the nation, "tax-free" goods
- ***Bonded warehouses*** are like the free zones; they are usually set at the entry ports of the countries. Private and owned by transportation firms, they are areas where shippers can keep goods from arrival to the time they leave the customs and they are given to importers. They are not meant as sites for business, but they solve a problem that customs authorities would face if they had to store foreign goods while they were being administered for entering the country. Furthermore, an importer using bonded warehouses has less probabilities to escape from regulation, because customs forms should be filled out when goods enter and leave the warehouse. No manufacturing activities are allowed inside those areas.

Free zones and other trade agreements are widely used worldwide, but what are their real effects in shaping MNEs international strategies? To understand how FTAs influence FDIs, some researchers (Li, Scollay and Maani 2016) started their analysis from differentiating MNEs in two types: horizontal and vertical. The first ones set up foreign subsidiaries to produce and to supply different markets with similar demand, while the vertical multinationals establish different production stages in different countries to minimize production costs. Markusen (2002), combined the two types into a “knowledge capital” model, that claims the presence of scale economies rising from the joint-input nature of knowledge capital through geographically separated production facilities. In this model, horizontal multinationals try to save on trade costs, providing local markets; the disadvantage of this strategy is represented by higher fixed costs than the ones arising from exporting national firms. Consequently, this kind of firms would be successful if markets are big enough to generate economies of scale, costs of setting-up are low and costs of trade are elevated. On the other hand, vertical MNEs involve exchanges in intermediate goods between foreign subsidiaries and trade in final goods between subsidiaries and the home country; they would succeed if the home-to-host skilled-to-unskilled labour endowment ratio is high, and both costs of trading and costs of plant setting-up are low. Thus, four types of ‘complex’ FDI are possible, depending on the combinations of relative factor endowments, transport costs and economies of scale; considering *d* the home country, *i* the host country and *j* the third country, the investment model of the home country could be:

- ***horizontal*** - with plants set in *d* and *i,* and exports from d to *j;*
- ***complex horizontal*** - with plants set in *d* and *i*, and exports from *i* to *j;*
- ***vertical*** - with plants set in *i* and *j*, and exports from *i* to *d*;
- ***complex vertical*** - with plants set in *i* and *j*, and exports from *j* to *d*.

Complex vertical FDIs and vertical FDIs differ due to terms of the exporting country of final goods. Export platform MNEs aim to take advantage of local resources in *i* and supply another market through exportations; those platforms would be established when the host country presents advantages in production costs or trade costs with third parties. Trade completes export platform FDI because the platform aims to facilitate exports to third countries; moreover, trade also complements vertical FDI because they comprehend intensive trade in intermediate and final goods. Nowadays, this relationship is gaining importance thanks to the increased division of production and the improvement of distribution channels across countries. A move towards a free trade area means that imperfectly competitive firms in the integrating nations that sell their output to and import intermediates from other members will face lower trade barriers, as compared to firms outside the free trade area. Thus, profitability of firms located in the liberalizing countries would raise and the industry would shift toward them. So FDI could be attracted into free trade areas, as inside firms are more profitable (Li, Scollay and Maani 2016).

Besides incentives provided to attract FDIs, internal regulations could limit foreign presence for those economic sectors that are considered strategical for national interests; typically, limitations delegate certain economic areas entirely to the locals or the state itself or, alternatively, they allow a partial ratio of foreign capital. In some cases, they define specific sectors where most or full foreign ownership is allowed or even stimulated. August, Mayer and Bixby (2013) categorized several types of limitations:

- ***Restricted Sectors***, in which governments limit investments from abroad to prevent foreigners from influencing national issues like politics, economy or social life; Australia, for instance, limits foreign investment in its radio and television companies to 35%.
- ***Closed Sectors***, in which states don't allow foreign ownership; they usually are public utilities, strategic industries, sufficiently developed sectors or medium/small-scale industries that can be developed by domestic entrepreneurs. For example, Mexico reserves industries as petroleum and other hydrocarbons, basic petrochemicals, nuclear energy, electric power and postal services to the state; in addition, radio and television, railroads, urban and interurban land transportation and retail gasoline sales are reserved to Mexicans or to Mexican companies.
- ***Geographic Limitations*** restrict the physical zones where foreigners might establish activities or possess properties; for instance, Indonesia forbids foreigners from owning land. The faculty of a state to limit investments from abroad in determined areas is observed by other governments as a manifestation of the national sovereign authority.
- ***Foreign Priority Sectors***, in which foreign investments are usually enhanced because national resources could be slightly advanced; thus, investments would increase occupation and the export trade. Developing countries let foreign participation in innovative industries and in those productions which are capital intensive, require a high degree of technology, are addressed to the export or present a high level of local value added. Tanzania, for example, encourages foreign participation in agriculture and livestock development, natural resources, manufacturing, transit trade with neighbouring nations and high technology.

A host country provides guarantees to foreigner investors; for August, Mayer and Bixby (2013) the most important ones are:

- Compensation in the event of nationalization of a foreign-owned enterprise and repatriation of the payments made.
- Repatriation of the proceeds upon the sale of the enterprise.
- Repatriation of profits, dividends and other forms of current income.
- Repatriation of the principal and interests from loans.
- Stabilization of taxes and other regulations.

Specific guarantees could be provided by constitution, legislation, policy statements and administrative practices of the hosting country. Constitutional provisions deal with the compensation of investors in the case of nationalization or expropriation; these prescribe how properties should be taken and how they should be paid for. The guarantees in legislations usually are more detailed and more extensive, including some that are not often present in constitutions, as repatriation guarantees, assurances of non-discrimination and stability clauses. The most common repatriation guarantees relate to the right of foreign investors to transfer profits and investment capital to their home country in the event of the partial or complete termination of their enterprises; less common are the ones dealing with the repatriation of other types of current income (like royalties, licensing fees and other services). In many countries, monetary transfers abroad are subjected to various qualifications, as:

- The transfer of capital might be partly o completely restricted in case of very tight foreign exchange situations.
- Transfers might be limited for a certain time after the investment is made.
- Transfers of income will be subject to the requirement of paying taxes and complying with auditing requirements.
- The transfer of proceeds from the sale or liquidation of an investment could be subject to governmental approval.

A non-discrimination guarantee ensure that foreign investors will be treated as national ones; statutory provisions commonly state that equality of treatment relates to ownership rights, taxation and social matters. Stabilization clauses are a kind of guarantee provided by a few countries; those promise to foreign investors that the host country will not change taxation model, foreign exchange or other legal regime within a certain period. A stabilization clause could be modified by agreement of parties or by changes in the surrounding environment; anyway, it is not able prevent a state from nationalizing or expropriating a foreign investment because each country has the ultimate power on those activities. At the same time, the law could also provide some protection to subsidiaries from the disadvantageous decisions of their parent company; generally, those provisions aim to preserve the capital basis and financial viability of the subsidiary. German law, for example, combines and requires the parent company to compensate its subsidiaries for any disadvantageous effects that result from its instructions. If a parent and its subsidiaries enter into a formal contract of domination, this formal combine is subject to special rules. The subsidiary is required to set up a special reserve, the amount of profits that can be transferred to the parent is limited and the parent company must assume the annual losses of the subsidiary (August, Mayer and Bixby 2013).

1.8 Securities regulations

A particular attention is needed for securities regulation, which could affect MNEs' strategies worldwide: businesses raise much of their operating capital by issuing securities and trading in foreign share markets; thus, regulating securities is a fundamental step for national governments: they should define which form securities should take, oversee the markets in which securities are traded, establish disclosure requirements to protect buyers and sellers, adopt clear and settled procedures, limiting opportunistic behaviour. Usually, countries authorize both registered and bearer securities; however, some believe that stock certificates must be registered securities. Bearer securities commonly have coupons attached that can be detached, so the bearer can send them to the issuer to collect dividends or interest as they come due (Healy and Palepu 2001).

Entities who may trade in securities are limited and specified in most nations; typically, these are brokers and dealers who have registered with a commission that oversees traders and exchanges. Furthermore, banks, lawyers, accountants and other experts are commonly allowed to provide advice about securities transactions in case it is related to their principal business. The marketplaces, in which member brokers and dealers buy and sell securities on behalf of investors, facilitate securities' issuers in finding investors and investors in trading their securities (August, Mayer and Bixby 2013).

Corporations, offering securities to the public, must prepare and register a prospectus, which consist in a statement setting out a full disclosure of all relevant facts relating to securities and to the issuer, to present attached with the offer. The contents are generally similar worldwide and they are:

- history of the issuer and a description of its purpose;
- description of the issuer's business and its present and anticipated course;
- current financial statement with significant transactions;
- profits earned and dividends paid for the previous years.

In some countries, a prospectus is submitted to the listing committee of the securities exchange on which it will be offered; in others it is filed with a national supervisory agency. Before the official acceptance, an issuer may offer its securities orally, by distributing a preliminary prospectus (called a red herring prospectus) and/or by means of a limited advertisement (known as a tombstone advertisement) that identifies the security, its price and who will execute orders; however, only after the prospectus' final approval, the sale of the securities could be conducted. To facilitate this step, many countries allow an issuer to use the same prospectus it registered in its home country. However, certain securities, as those issued by governmental bodies, by banks and by no-profit organizations, and transactions, non-public or limited offerings, as are exempt from registration. Procedures by which a buyer turns over the purchase price and the seller turns over the securities in transaction are based on clearance and settlement; anyway, they differ from area to area. In most developing countries the buyer's and seller's brokers make an actual trade; despite sales are settled within five business days in developed nations, the settlement process can take several weeks in developing ones. The Emerging Markets Clearing Corporation provides trade matching, clearance, settlement and risk management services to global dealers, interdealer brokers and correspondent clearing firms involved in emerging markets with debt instruments (August, Mayer and Bixby 2013; Healy and Palepu 2001).

Insider trading occurs when an entity takes advantage from non-public information regarding a corporation or the securities market to buy or sell for personal benefit; even if in some countries it is unfair and dishonest, many others consider it as a common practice. The U.S. prohibitions against insider trading prohibit a person, who has access to material non-public information, in buying or selling shares for his own account, if the person knows that the information is unavailable to the counterpart of the dealing; information is material when a reasonable investor would act upon it and it becomes public once it is available for the counterparts. Moreover, due to the internationalization of markets, financiers became actively involved in foreign acquisitions, mergers and takeovers in the 1980s: British, Canadian, and Japanese corporate raiders made headlines for bidding on or taking over American entertainment, liquor, and publishing businesses; they were generally successful in the United States but unsuccessful elsewhere due to securities regulations (outside US, countries are suspicious of takeovers). Common barriers are restrictions on share transferability, cross-ownership of shares and restrictions on voting rights; in the US and in the UK, stock exchange listing requirements prohibit restrictions on the transferability of shares of publicly held companies; furthermore, in contrast to the countries with takeover barriers, the countries with an active acquisition marketplace, as the UK and the US, have legislation or exchange rules that directly regulate the takeover process (August, Mayer and Bixby 2013).

International cooperation in the enforcement of securities regulations is a relatively recent development; in 1961, the OECD adopted a Code of Liberalization of Capital Movements, which it would have abolished stock exchange restrictions among its member states. But, the code had no effective enforcements and the OECD members, in practice, ignored it. Until the 1980s, there were no other attempts to establish any mechanism of international cooperation. Then the U.S. started pushing its major trading partners to enter into cooperative agreements, and the Council of Europe began working on an insider trading convention; the U.S. Securities and Exchange Commission (SEC) was among the first securities regulators to receive the legal authority to assist their foreign counterparts in investigations of securities fraud. It can now assist foreign securities authorities in their investigations using several tools, including exercising the SEC's compulsory powers, to obtain documents and testimony, even if the supervised conduct is not a violation of the American law; the SEC could also provide access to non-public information in its files and give them specified foreign entities; however, the authority requesting this kind of information must establish and maintain such safeguards as are necessary and appropriate to protect the confidentiality of files. It has approached enforcement-related information-sharing on a multilateral basis; information sharing arrangements operate based on a Memoranda of Understanding (MOU) between securities authorities. Such MOUs delineate the terms of information-sharing between and among MOU signatories and create a framework for regular cooperation in securities law enforcement; moreover, multilateral MOUs detail objectives and terms of information-sharing among securities regulators (August, Mayer and Bixby 2013).

1.9 Final remarks

FDIs represent a significant issue for governments and companies: countries should balance incentives and subsidies, otherwise new companies could represent a net cost; they also should set up an adequate legislative environment, which comprehends every aspect of foreign investors activity. For instance, Myanmar, despite the internal market and its proximity to India, is not able to enhance its economic development because of a confused political situation and a lack of effective regulations. From companies' point of view, several analyses should be carried on before entering a foreign market and they must not be limited to the taxation rates; many macro and microeconomic factors can determine the attractiveness of a specific market: as we will see for Cambodia and Lao, the effective enforcement of specific rules can determine the success of their agricultural sector. Furthermore, the whole legal framework directly influences FDIs: the treatment that local governments reserve to foreign investors can vary throughout all the aspects of investor's activities. International business law sets rules at a worldwide level, but specific requirements, limitations and approvals are stated by local.

2. The ASEAN region

The Association of Southeast Asian Nations is a regional intergovernmental organization subscribed by ten countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) that promotes international cooperation and facilities economic, political and social integration of the members. Since it is one of the world's most prominent areas, ASEAN maintains a global network and it is involved in several international affairs, as in the Shanghai Cooperation Organisation (SCO), developing cooperation model with the organisation for the stability, development and sustainability of the Asian continent. Founded in 1967 in Bangkok, the Association of Southeast Asian Nations included Indonesia, Malaysia, Philippines, Singapore and Thailand; then, Brunei Darussalam joined it in 1984, followed by Vietnam in 1995, Lao PDR and Myanmar in 1997, and Cambodia in 1999, making up what today are the ten-member states. This cooperation enhanced the economic development of the region by creating, in 2015, the ASEAN Economic Community (AEC), forming a market of 2.6 trillion US$ and achieving the free movement of products, services, skilled workers and investments. The other major economic integration schemes include the ASEAN Investment Area (AIA), the ASEAN Free Trade Area (AFTA) and the ASEAN Mekong Basin Development Cooperation (AMBDC); the AIA Council is the Ministerial body, under the counties' Economic Ministers, responsible for overseeing the implementation of the ASEAN Comprehensive Investment Agreement (ACIA), it is the main economic instrument to realise a free and open investment regime. Since it is composed of Ministers from the ten Member States and of the Secretary-General of ASEAN, who signed the Framework Agreement on the AIA on 7 October 1998, the agreement aims to foster investments in the region through the following measures:

- implementing the coordination of ASEAN investments' cooperation and facilitation programmes;
- immediate opening all industries to investments, with some exceptions as specified in the Temporary Exclusion List and the Sensitive List
- providing an improved and simplified investment process;
- actively involving the private sector in the AIA development process;
- providing transparency in investment policies, rules, procedures and administrative processes;
- promoting freer flows of capital, skilled labour, professional expertise and technology amongst the member countries;
- eliminating investment barriers and liberalizing investment rules and policies in the sectors covered by the Agreement.

Hence, the AIA has important implications for investment strategies and production activities in the region; for instance, it encourages investors to adopt regional investment strategies and local networks. Current and potential investors will benefit from the AIA arrangements in the following ways:

- greater investment access to industries and economic sectors because of the opening up of industries under the AIA arrangements;
- greater transparency, information and awareness of investment opportunities in the region;
- more liberal and competitive investment regimes;
- lower transaction costs for business operations across the region.

An ASEAN investor is defined as being equal to a national investor in terms of the equity requirements of the member country in which the investment is made: therefore, a foreign firm with a majority interest can avail itself of national treatment and investment market access privileges, in addition to the other benefits provided under the AIA Agreement and other regional economic schemes. Thanks to the agreements that ASEAN subscribed within its member states and with other commercial partners, businesses are choosing South-East Asia as their hub for activities in Pacific Asia and Oceania. (asean.org, 2018).

2.1 Population and GDP

The demographic indicator should never be underestimated, especially if the analysis regards the Asian continent or some of the member countries; basing on the latest United Nations estimates (July 2018), the whole ASEAN population should be more than 656 million, accounting for 8.59% of the overall population and ranking 3rd in the Asian sub regions.

Table 2: Asian sub regions by population (2018)

	Population (million)	**Yearly change**	**Fertility rate**	**Medium Age**	**Urban Pop. %**	**World share**
South Asia	1891	1.20%	2.5	26	35.50%	24.80%
East Asia	1654	0.35%	1.6	38	63.10%	21.70%
ASEAN	656	1.06%	2.3	29	49.20%	8.60%
West Asia	272	1.73%	2.9	27	69.50%	3.60%
Central Asia	72	1.44%	2.7	26	39%	0.90%

Furthermore, a fertility rate higher than 2 drive a forecasted growth rate of 1.06%; anyway, as shown in figure 7.4 by the trend line, the population growth rate is decreasing significantly in the past 30 years (from 2.16% in the 1987 to 1.09% in the 2017), in part due to high levels of pollution and terrible hygiene and health standards which contribute in keeping the medium age under 30. Demographic indicators also give information regarding the volume of the South East Asian market, which ranks third in the continent following the South Asian, which includes India, and East Asian market, which includes China.

Moving the analyses on single countries, we can observe that in the 12 most populated Asian nations, there are 5 ASEAN's members;

Table 3: Asian countries by population (2018)

	Population (million)	Yearly Change %	Density (P/km2)	Fertility rate	Medium Age	Urban Pop. %
China	1415	0.39%	151	1.6	37	58%
India	1354	1.11%	455	2.4	27	32%
Indonesia	**267**	**1.06%**	**147**	**2.5**	**28**	**54%**
Pakistan	201	1.93%	260	3.7	22	38%
Bangladesh	166	1.03%	1278	2.2	26	35%
Japan	127	-0.23%	349	1.4	46	94%
Philippines	**107**	**1.52%**	**357**	**3.1**	**24**	**44%**
Vietnam	**95**	**0.99%**	**311**	**2**	**30**	**34%**
Iran	82	1.05%	50	1.7	30	74%
Turkey	81	1.45%	106	2.1	30	71%
Thailand	**69**	**0.21%**	**135**	**1.5**	**38**	**52%**
Myanmar	**54**	**0.91%**	**82**	**2.3**	**28**	**36%**

thus, as showed by the United Nations estimates, the human factor would be fundamental in region's development, particularly for economies (as Indonesia, Philippines, Vietnam, Thailand, Myanmar) which could count on a significant amount of young (ASEAN average age is 29) people. Figure7.5 describes the composition of the whole population of the region during the period 2008-2018, evidencing deep differences between members which should be considered in analysing the GDP per capita and the policies adopted by governments to improve the national economies, like strategies which concern FDIs flows.

Figures 7.6 and 7.7 refigure the GDP's fluctuations starting from 1980 to 2023: the first one compares the Asian GDP with the East Asian GDP, which is the most significant in the whole continent; the second shows the fluctuations of the other main sub regions, as the South East. Generally, growth in Emerging Asia – ASEAN, China and India – is projected to remain robust in 2018; in many ASEAN countries and in China, it has noticed a strong trade rebound and resilient domestic consumption, while growth in India has edged downwards owing to taxation and monetary reforms. The region's development is also projected to remain solid and sustainable in the medium term, while it will slow in China and it is expected to remain fast in India, due to robust domestic private consumption and infrastructure initiatives planned by several governments. Figure 7.8 describes the whole value of the ASEAN's GDP during the period 2008-2018; despite not being constant, the overall trend of the period is positive (the total value of 1619.5 billion USD in the 2008 is almost doubled in ten years, achieving 2974.38 in the 2018). Comparing it with figure 7.5, Singapore, Malaysia, Thailand are more relevant in economic terms rather than demographics; on the other side, Cambodia's and Laos' GDP contribute to the area is derisory if compared to the data on population.

Finally, a better measure used to make GDP data more comparable is the GDP per capita, considering the country's number of populations. Referred to as the 'average income of the people in an economy', this also indicates the amount of economic activity contributed by each member of the population; thus, a higher GDP per capita reflects a better economic condition of a country. Basing on data showed in the figure 7.9, in ASEAN we could classify the countries into three income groups:. Singapore, Brunei Darussalam, and Malaysia belong to the high-income level; Thailand, Indonesia, Philippines and Vietnam comprise the upper middle-income while Cambodia, Laos and Myanmar are in the lower middle-income group. This further indicates that emerging prospects are to be expected that will boost further the region's economic growth. Moreover, the analysis of the GDP pro capita in the area would show how the wealth is not distributed proportionally between countries: for each year between 2008 and 2018, Brunei and Singapore accounted more than twice the overall score of the other 8 members, despite they are considered as city States. Data regarding Vietnam, Indonesia, Philippines and Thailand, if compared to their contribution to the whole ASEAN GDP, could represent an unfair wealth distribution between the population, while Cambodia, Laos and Myanmar score low results, mirroring their sensitive economic and political environments as I will explain below. Thus, basing on macroeconomic data and scenarios, it is possible to identify 3 groups among the South East Asia:

- *ASEAN-5* (Indonesia, Malaysia, Philippines, Thailand and Vietnam)
- Brunei and Singapore
- *CLM countries* (Cambodia, Laos, Myanmar)

Table 4: Real GDP growth in ASEAN, China and India (annual % change)[2]

	2016	2017	2018-22 (average)	2011-2015 (average)
ASEAN-5 countries				
Indonesia	5%	5%	5.40%	5.50%
Malaysia	4.20%	5.5%	4.90%	5.30%
Philippines	6.90%	6.60%	6.40%	5.90%
Thailand	3.20%	3.80%	3.60%	2.90%
Vietnam	6.20%	6.30%	6.20%	5.90%
Brunei and Singapore				
Brunei	-2.50%	0.00%	0.50%	-0.10%
Singapore	2%	3.20%	2.30%	4.10%
CLM countries				
Cambodia	6.90%	7.10%	7.20%	7.20%
Lao PDR	7%	6.90%	7.10%	7.90%
Myanmar	5.90%	7.20%	7.40%	7.30%
China and India				
China	6.70%	6.80%	6.20%	7.90%
India	7.10%	6.6%	7.30%	6.80%
Average ASEAN-10	4.80%	5.10%	5.20%	5.10%
Average Emerging Asia	6.40%	6.40%	6.30%	7.10%

The economic outlook for Gross domestic product (GDP) in Emerging Asia is expected to grow by 6.3% during 2018-22, according to the OECD Development Centre’s Medium-term Projection Framework (MPF-2018); over the medium term, however, China’s growth rate is expected to slow to an average of 6.2%, while India’s average expansion rate in the next five years will remain robust at 7.3%. Structural reform challenges in China indicate that the pace of growth will slow from its 2011-15 rate. Southeast Asia is poised to achieve average growth of 5.2% between 2018 and 2022, relatively unchanged from 5.1% between 2011 and 2015; among the bloc’s ten-member countries, Cambodia, Lao PDR and Myanmar are projected to grow the fastest from now through 2022, while the Philippines and Vietnam would lead in growth among the ASEAN-5. The accommodative monetary stances of central banks in many countries in the region persist, anchored on benign inflation, even though recent data indicate some manifestations of renewed price pressures. Inflation balanced most of the big ASEAN economies, driven by the marked rise in food and transport sub-indices; however, headline inflation declined in the CLM countries. Moreover, the external positions of Emerging Asia and of ASEAN have remained generally robust; the recovery of exports and of imports have had contradictory impacts on current account (CA) balances, while net FDI inflows to Emerging Asia and ASEAN have stayed largely on the uptrend in recent years. Those factors, including also future trade prospects, announced big-

[2] *Source*: OECD, *2018*

ticket infrastructure projects, the resilience of domestic demand and the aggressive drive of some governments to develop industries related to information technology and e-commerce through investment incentives, have kept investors interested in the region.

2.2 Employment and labour participation

Unfortunately, due to lack of information, it is not possible to have a clear picture of the ASEAN employment and labour participation; anyway, as shown by figure 7.10, there are several differences between members. Despite having high GDP per capita, Brunei's unemployment rate is the highest and it never goes below the 6.5%, while Philippines recorded a reduction reaching the 5.5% in the 2017 (it was 6.6% between the 2012 and 2015); Indonesia is also constantly reducing the internal unemployment rate, favouring the development of the economy. Cambodia registered the lowest percentages for each period analysed and Myanmar accounted for the most sharply reduction in the rate, moving from the 3.9% averaged between 2012 and 2015 to less than 1% in the 2016; furthermore, the non-availability of data for Laos mirrors an inefficient bureaucratic national system for the period 2012-2015. Furthermore, considering the period 2013-2015, it is possible analyse some data regarding the labour force participation; it usually stands between 65% and 75% of the total population, but there are some important differences between men and women to notice. For instance, in Indonesia, Malaysia, Myanmar and the Philippines, more than 80% of men participate to labour force, while only 50% of women does it; the same difference is less highlighted in Singapore and Thailand, while it is almost insignificant in Vietnam

Table 5: Labour Force Participation[3]

Country	Female			Male			Total		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Indonesia	50.30%	50.20%	-	83.60%	83.10%	-	66.90%	66.60%	-
Malaysia	52.60%	53.70%	54.10%	81%	80.60%	80.60%	67.30%	67.60%	67.90%
Philippines	49.90%	50.70%	-	78.10%	78.60%	-	63.90%	64.60%	-
Thailand	63.20%	62%	61.60%	80.40%	79.30%	78.60%	71.60%	70.30%	69.80%
Vietnam	73.20%	73.30%	72.90%	82.10%	82.50%	83%	77.50%	77.70%	77.80%
Brunei	-	58.30%	-	-	72.40%	-	-	65.60%	-
Singapore	58.10%	58.60%	60.40%	75.80%	75.90%	76.70%	66.70%	67%	68.30%
Cambodia	77.80%	-	-	88.70%	-	-	83%	-	-
Laos	-	-	69%	-	-	62%	-	-	68%
Myanmar	50.70%	50.50%	-	83.50%	85.20%	-	66.90%	67%	-

[3] *Source*: ASEAN Secretariat, *2016.*

Important differences regard even the employment in different sectors due not only to the diverse degrees of economic development of the states, but also to the geographic and historical-political characteristics (figure 7.11); indeed, Singapore is a small region which makes up an independent state and even because of its colonial past that made it the commercial hub of the region, nowadays most of its inhabitants works in the service sector, with more than 20% employed in the financial one. Opposite to this case, we find Lao, whose labour force is involved in primary sector for 71.67% of the total while only the 0.34% works for the finance or other business services, or Cambodia, which accounts the highest employment in agriculture, fishing and forestry.

The ASEAN Socio-Cultural Community (ASCC) vision for the 2025 engages and benefits the peoples and is inclusive, sustainable, resilient, and dynamic; the overall objective is to make the quality of life for ASEAN people better through workforce with enhanced competitiveness and engaged in safe and decent work derived from productive employment, harmonious and progressive workplace, and adequate social protection. Among the specific goals, there are: improving workforce competitiveness and productivity, increasing number of skilled workers in member States, reducing levels of unemployment and under-employment in ASEAN member States, supporting for workers in rural employment and micro, small and medium enterprises, promoting sound industrial relation system, fostering safe and healthy environment in the workplace, expanding coverage, affordability, availability, quality, equitability and sustainability of social protection (ALM, 2017)

2.3 Trade balance

Information on imports and exports would support in understanding many aspects of a country and of a market, as also the economic stability; furthermore, it will also contribute in evidencing differences among a geographic area. Figure 7.12 shows the ASEAN trade balance of the last ten years. The total value is more than doubled in the period analysed, achieving €1 748 061 million in the 2017 (it was €884 741 million in the 2007), and highlighting countries' development; the overall amount's trend would also explain the constant increasing of ASEAN importance in international markets. Indeed, the recent commercial agreements signed by the region' members should enhance imports and exports, boosting the area's economy; excepted in the 2008, the growth rate did not show any significant contraction in the overall flows. On the other hand, the trade balance, which was €52 696 million in the 2007, reduced its value in ten years, registering a surplus of €4 842 in the 2017, and it has more alternances of positive and negative growth rates for each year (figure 7.13); in particularly, starting from the 2012, the balance was positive just in the 2015 and in the 2017, while it never recorded a surplus higher than the 2007 (about €53 000 million)

Table 6: ASEAN top trading partners 2017 (values in € million)[4]

Imports			Exports			Total trade		
World	871,609	***100%***	***World***	876,451	***100%***	***World***	1,748,060	***100%***
China	222,967	***25.6%***	***China***	157,252	***17.9%***	***China***	380,219	***21.8%***
EU	100,447	***11.5%***	***EU***	131,132	***15.0%***	***EU***	231,579	***13.2%***
Japan	100,146	***11.5%***	***USA***	126,859	***14.5%***	***USA***	205,706	***11.8%***
South Korea	84,488	***9.7%***	***Japan***	93,424	***10.7%***	***Japan***	193,570	***11.1%***
USA	78,847	***9.0%***	***Hong Kong***	76,741	***8.8%***	***South Korea***	132,304	***7.6%***
Taiwan	61,677	***7.1%***	***South Korea***	47,816	***5.5%***	***Taiwan***	93,595	***5.4%***
India	22,831	***2.6%***	***India***	40,290	***4.6%***	***Hong Kong***	92,071	***5.3%***
Saudi Arabia	21,453	***2.5%***	***Taiwan***	31,918	***3.6%***	***India***	63,121	***3.6%***
Australia	21,317	***2.4%***	***Australia***	30,820	***3.5%***	***Australia***	52,137	***3.0%***
UAE	20,689	***2.4%***	***UAE***	16,460	***1.9%***	***UAE***	37,149	***2.1%***

Looking at these figures describing the total trade in relation to the major commercial partners in 2017 (excluding intra-ASEAN members), we can deduct that China is the main foreign market for ASEAN countries, with more than €380 000 million exchanged and a share of 25.6% of the imports total value; European Union and the United States, each trading for a value of more than €200 000 million, are mainly exports markets, while Japan and South Korea are considerable more as imports nations. Despite ranked 9th in the classification, Australia would be an important partner also in the future, due to the geographical closeness and the significant presence of expats in the country.

Moreover, figure 7.14 describes the trade balances of ASEAN members, evidencing differences in the economies and in the policies adopted; country as Singapore and Malaysia recorded positive and significant scores for the whole period, while the Philippines performed in the opposite way. Thailand and Vietnam, despite having several fluctuations in the period analysed, are on a positive trend, registering a surplus respectively for the 3rd and the 2nd year consecutive which will boost the national economies. Cambodia recorded negative results in the whole period, mirroring a sensitive scenario, but exports are becoming more relevant, in particularly in the last months,

[4] *Source:* Directorate-General for Trade European Union, *2018*

2.4 ASEAN-5

The first group is composed by the leading economies which drive the whole development in the area; they are significantly important in terms of contribution to ASEAN’s GDP, population and economic potential. For each year between 2008 and 2018, the population Indonesia, Philippines, Vietnam, Thailand and Malaysia include more than 80% of the whole region population (figure 7.5), while their GDP’s sum accounted more than 75% of the whole ASEAN product (figure 7.8); anyway, each member (except Malaysia) have registered low GDP per capita values, mirroring developing national economies (figure 7.9). Hence, considering the overall positive trend of those members in the 2008-2018 period, we could deduct that the economic potential of this region and of each nation would be impressive and their development will influence the worldwide scenario.

The following table describes the inflation rate changes in the period 2011-2017 based on the consumer price index;

Table 7: ASEAN-5 inflation rate, year-on-year % change of the consumer price index (year average)

Country	*Base year*	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	***Var. 7 years***	***Var. 3 years***
Indonesia	*2012*	5.36	4.28	6.98	8.08	6.36	3.53	3.60	*3.10*	*2.62*
Malaysia	*2010*	3.20	1.66	2.11	3.14	2.10	2.09	3.70	*0.58*	*0.86*
Philippines	*2006*	4.74	3.17	2.87	4.24	1.41	1.80	3.18	*1.43*	*0.86*
Thailand	*2011*	3.81	3.01	2.19	1.90	-0.90	0.19	0.66	*2.74*	*0.64*
Vietnam	*2014*	18.63	9.09	6.59	4.09	0.63	2.66	3.50	*36.32*	*2.17*

The analysis of the variance in the 7 years could evidence differences among policies and performance adopted by the different countries: particularly, the Vietnam has a significant volatility of the inflation rate (36.32); Indonesia (3.1) and Thailand (2.74) follow by far, while Malaysia seems the more stable (0.58). Those results, compared to the variance between 2015 and 2017, evidence how countries are trying to reduce the fluctuation in this index to stabilize the internal scenario and to create a solid basis for the economic development; most of them scored a lower volatility in the last 3 years (Vietnam variance has fallen of more than 34 points) excepted for Malaysia, which slightly increased from the average of the whole period.

Table 8: Exchange rate, US$ 1 in national currency, end of period

Country	***Currency***	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Indonesia	***Rupiah***	9069	9793.	12173.00	12440.00	13788.0	13473.0	13555.0
Malaysia	***Ringgit***	3.18	3.06	3.28	3.50	4.29	4.49	4.06
Philippines	***Peso***	43.93	41.19	44.41	44.62	47.17	49.81	49.92
Thailand	***Baht***	31.69	30.63	32.34	32.71	36.01	35.83	32.67
Viet Nam	***Dong***	20828	20828	21036	21246	21890	22078	22451

Furthermore, the study of the fluctuation of exchange rates in those countries evidence some aspects of their economies; all ASEAN-5 members depreciated its currency in relation to the USD during the period 2011-2017, but the changes year by year could explain some differences between the nations and their policies. In particularly, Indonesian, Philippines and Vietnamese currencies depreciate each year (the only exception regards the Philippines Peso in the 2012, which has been appreciating its value related to the USD), while Malaysian and Thailanders ones tend to be more stable (they slightly depreciate in the whole period), probably due to more efficient internal systems and economic organization if compared with the previous 3 nations.

- **Indonesia**

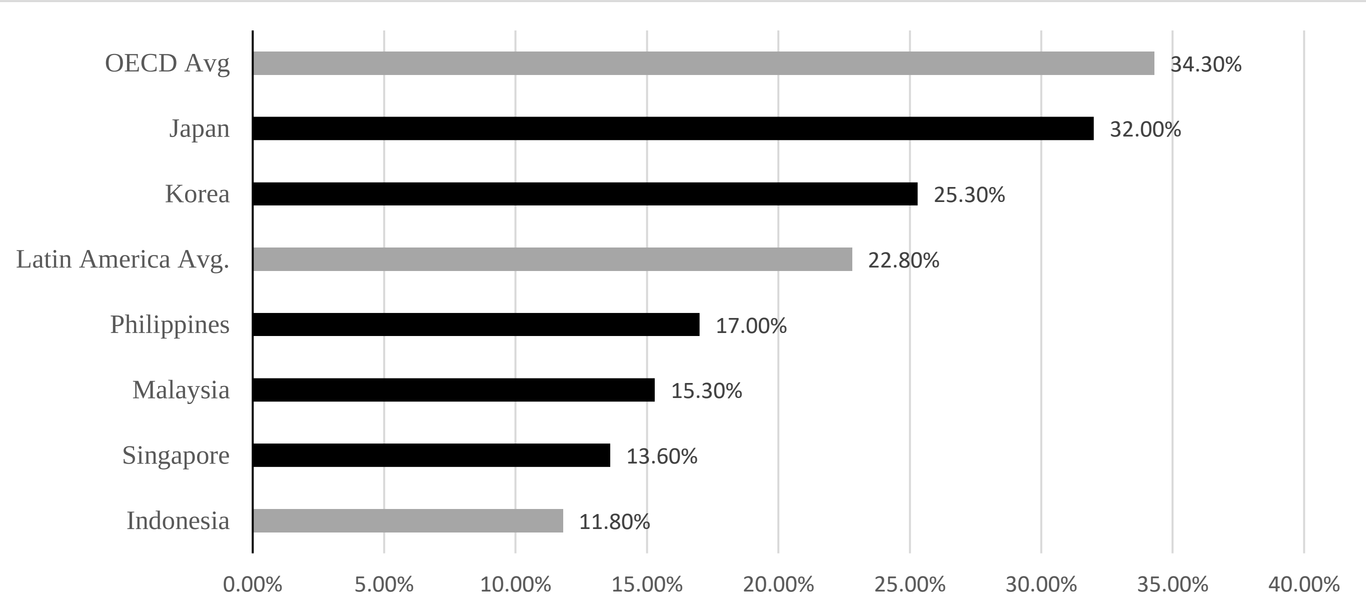
Indonesia’s growth remained robust at 5.0% in the 2017, closely tracking the 5.1% expansion in 2016 (figure 7.15) as the government’s target of 5.2% for this year. Private consumption, which accounts for more than half of the economy, maintained its contribution share of 5.0% in the 2017, similarly to the previous years analysed. Exports and investments have also grown faster in 2017 than in 2016; in particularly, net exports have registered a positive contribution in achieving the 5.8% to reverse the 2.7% decline in 2016. Goods (excluding oil and gas) as services exports have grown strongly during the period, even as oil and gas outbound sales reduced of more than 2%. Moreover, fixed capital accumulation rose 5.1% in 2017, largely due to the construction of buildings and structures, which increased to 6.0% in 2017 from 5.9% in 2016. On the other hand, public spending slowed markedly in 2016 and 2017 if compared to the 2015.

Indonesia GDP raised of 5% for the whole of 2017, the same as 2016; since the unemployment rate is constantly declining this year and bank credit to individuals is increasing, private consumption and fixed investments should have strong support. Moreover, the policy interest rate, which was cut in August and September 2017, would favourite private demand even more; export recovery also continues to impress due to significant offshore sales of non-oil and gas commodities (mainly agricultural, mining and manufactured goods), influencing about 90% of the country’s total goods exports. Over the medium term, Indonesia’s growth will average 5.4% between 2018 and 2022, mainly driven by fixed capital formation and private consumption;

in addition, the less restrictive investment environment provides incentives private-sector investors and private consumption growth, which averaged about 5.1% since 2007, is expected to constantly raise (improvement in investment prospects also concerns consumer appetite because of higher employment rate and better wages). The staging of the 2018 Asian Games in Jakarta and Palembang would also contribute to the spending boost; meanwhile, except for significant regulation shocks and if global oil prices stay modest, exports should be able to consolidate in the next few years, after contracting in 2015 and 2016. Enhancing the existing framework for private-sector involvement in construction projects may be crucial since the government is seeking to keep the deficit down; in addition to infrastructure development, it is important for the government to follow up on its initiatives to optimise revenue collection and resource allocation, given the legal constraints on state spending.

A tax amnesty programme in 2016 was designed to improve revenue collection; tax revenue has been historically low in Indonesia due to tax evasion and low voluntary compliance; as highlighted in the following bar graph,

Table 9: Tax-to-GDP ratios in Asia, 2015 (tax revenues as percentage of GDP)[5]



comparing to other developing countries in the region, Indonesia's tax revenues in relation to GDP are quite low. In 2014, only 10.4% Indonesians were registered taxpayers and only a fraction of these taxpayers, about 900 000, paid what they owed (OECD, 2016a). To solve those issues and generate more revenues to support public services, the government has made efforts in the past years to enforce the efficiency of tax administration (introducing reforms in the 2000s, offering a low tax rate to SMEs to improve their compliance and expanding electronic invoicing for VAT). The tax amnesty programme, launched on 18 July 2016, is the

[5] *Source*: OECD (2017): *Revenue Statistics in Asian countries*

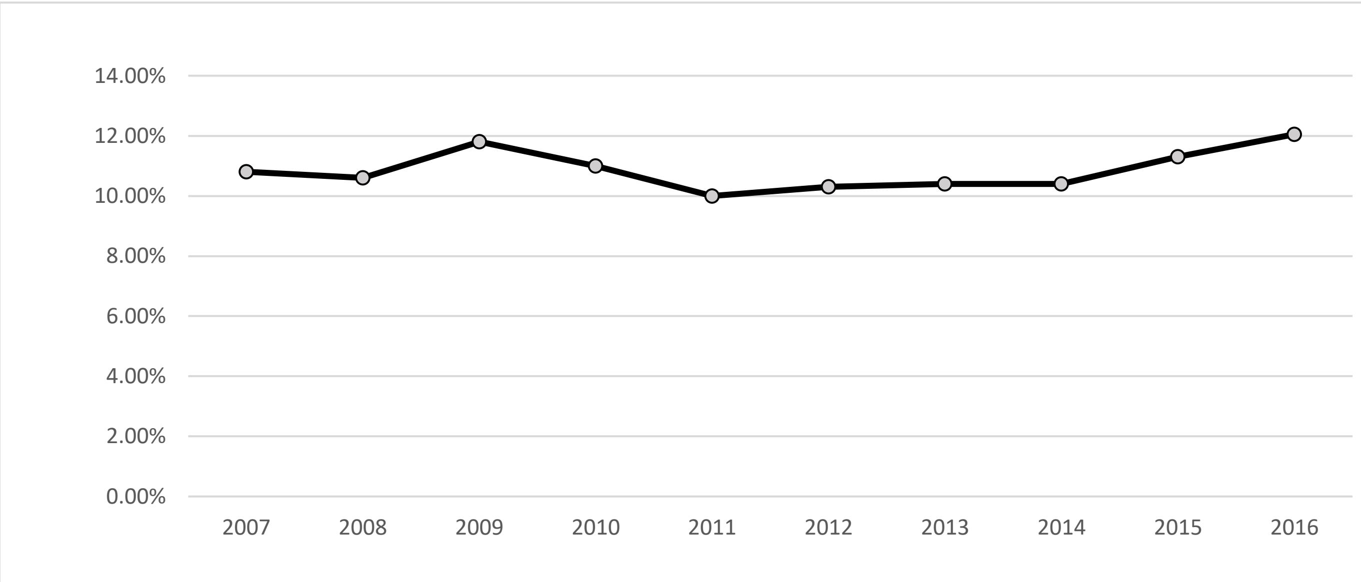
biggest government project in recent years to address this challenge. It aimed to extend the base of taxation, raise revenues from the non-oil and gas sector and draw in offshore corporate profits by effectively forgiving hidden and undeclared assets on which taxes had not been paid. A tariff was forced over declared assets, depending on factors such as when the assets were reported, whether the assets would be repatriated to Indonesia and the business size of taxpayers; repatriated offshore assets needed to be retained in Indonesia for at least three years and invested in designated instruments such as government bonds and SOE bonds. The programme lasted nine months from July 2016 to March 2017 and some of the results are described below: a total of 965 983 people participated in the tax amnesty programme but fewer than 200 000 were new taxpayers; hence, it did not help to boost compliance in a significant way. A total of IDR 4 865.7 trillion (Indonesian rupiah) in assets were declared, surpassing the government's target, but the majority (about 75%) had been stored domestically and not hidden overseas while overseas assets were the main target of the amnesty programme. Only IDR 147 trillion in assets were repatriated back to Indonesia, fulfilling 14.7% of the amnesty programme's target. Anyway, it is believed that most of these assets were repatriated due to fear of discovery after implementation of the OECD Automatic Exchange of Information (AEOI) initiative in 2018 and not because of the appeal of the tax amnesty itself. (OECD, 2018)

- **Malaysia**

Malaysia's growth in 2017 averaged 5.5%, a vast improvement from 4.2% in 2016, with leading indicators suggesting a sustained increase of GDP also in the 2018; the industrial production index (IPI) rose 6.4% on average between July and August 2017 (figure 7.16). The steadiness in IPI growth was supported by manufacturing and electricity output in line with the increase of more than 22% in the nominal value of goods exports in the same period. In a similar way, the wholesale retail and trade volume index raised up to 8.7% in July and August 2017, faster than the 6.9% averaged in the first half of 2017 and the 6.4% expansion of 12 months earlier, indicative of strengthening domestic turnover of major consumer items. In the medium term, Malaysia is expected to maintain a growth rate of 4.9%, not far off its annual average of 5.3% from 2011 to 2015 though significantly lower than the 5.9% average recorded from 2002 to 2007. In particularly, private consumption will play an even bigger role in boosting the economy (figure 7.15), also through the sustained increase in real wages (up 4.1% annually between 2011 and 2016). Foreign investment in major industries such as mining, manufacturing and financial services would probably benefit from better trade conditions moving forward; furthermore, efforts to address investments even at the subindustry level should help in making the economy development more sustainable. Fostering industries like aerospace-related manufacturing and services, for instance, could reduce growth reliance on dominant manufacturing segments like automotive and consumer electronics and could also provide more opportunities to downstream enterprises that are currently servicing related subindustries

Official estimates place household debt at 88.4% of GDP in 2016, about 14 percentage points higher than in 2010. Household debt is mostly concentrated in real estate (Bank Negara Malaysia, 2017); the central bank started to tighten some lending standards in 2016, paving the way for some adjustments in loan disbursements (debt ratio was at 89.1% of GDP in 2015). A new consumer credit law is also being projected to enforce protection of borrowers and to establish responsible and fair lending practices, debt relief, disclosures and debt recoveries. Anyway, youth unemployment in Malaysia remains an important issue to be solved; the participation of youth in the labour force is a critical component in sustaining a country's growth and its economic activities. The United Nations defines youth as people aged 15 to 24: they currently represent more than 18% of the world's population and about 15% of the world's labour pool. The effects of global financial crisis in 1997, 2003 and 2008 led to increased youth unemployment in developed and developing countries alike. In 2016, youth were estimated to account for over 35% of global unemployment: more than one-third of youth in emerging and developing countries are pushed into the extreme and moderate poverty categories, even when they are employed, raising questions on the quality of jobs among youth worldwide. The International Labour Organization (ILO) reported that youth unemployment in the South-Eastern Asia and Pacific region will reach 13.6% in the 2017, a significant rise from 12.4% in 2015 (it corresponds to 500'000 people more). Indonesia drives the trend, where 20% of the youth population is unemployed and it is expected to continue in the short term.

Table 10: Youth unemployment rate in Malaysia, 2007-16[6]



In Malaysia, the youth unemployment rate has reached more than three times the national one of 3.1%, with an increase related to slower growth in hiring by private and public sectors (Bank Negara Malaysia, 2016). This steady increase of youth unemployment is highlighted in the previous line graph, which shows youth joblessness rising from 10.7% in 2007 to 12.12% in 2016. Due to cautious hiring practices, people between

6 Source: World Bank (2017), *World Development Indicators (database).*

18-24 are the last group to be employed; secondly, even when hired, they are more likely to be fired because of their limited job experience and expertise; finally, youth are also vulnerable due to information mismatch in the labour market and by their poor communication skills. Nowadays, only about 16% of Malaysian youth have attained tertiary education and skilled is still a minority: this could be challenging for a country that aims to become a high-income economy in the next years. (OECD, 2018)

- **Philippines**

GDP growth of the Philippines achieved 6.5% in 2017, the ninth straight quarter of growth above 6% and it remains the fastest among ASEAN-5 economies. A 20% expansion in exports in 2017, which nearly doubled 2016's 10.4%, boost the development, driven by encouraging offshore deliveries of manufactures, particularly electronics and agriculture commodities. Following the national elections in 2016, public and private consumption marginally decreased (figure 7.15) and the fixed investment growth also decelerated. Benign inflation, a stable financial sector, an accommodative monetary policy, robust remittance inflows and a healthy fiscal position should continue to facilitate domestic consumption growth at least until the end of the year; on the other hand, IPI volume growth has decelerated markedly (figure 7.16). Furthermore, the Philippines will register growth of around 6.4% on average between 2018 and 2022, higher than the 5.9% recorded from 2011 to 2015. In particularly, private consumption, which has maintained its share of about 70% of the economy since 2000, will continue this trend. A proposed reduction in the personal income tax rate of a significant portion of workers nationwide, contained in tax reform package legislation, should contribute to raise consumers' spending impulse. Moreover, full liberalisation of the banking sector and increased focus on e-commerce services are expected to attract interest among offshore investors in the coming years. Manufacturing, especially the semiconductor business, is also well positioned to capture opportunities presented by improvements in external conditions, despite issues related to electricity cost and stability requiring further action. On the other hand, one key challenge for the Philippines is to alleviate business uncertainties related to contract enforcement and continuity of government programmes; efforts undertaken to facilitate competition in various sectors should stimulate investors' interest, as government's decision to review the foreign investment negative list and to update of the Investment Priorities Plan. Another challenge is to realize in time infrastructure projects announced and planned before national elections in 2022.. Finally, while underemployment has steadily declined, from about 20% in 2012 to 16.2% 2017, the persistent decline in the labour participation rate could be a potential hurdle. (OECD, 2018)

- **Thailand**

The increase of exports was the main factor behind Thailand's growth of 3.5% in 2017; gross exports, led by minerals and fuels, agriculture products, and manufactures, grew by 4.3%, up from 2.9% the previous year, while consumption expansion nudged down marginally to 3.1% from 3.4%, with wages proving sticky this year and growth of bank lending to individuals softening.. Wholesale and retail trade services, as well as transport, storage and communication services, likewise recorded faster growth. Thailand growth rate was 3.8% for the whole of 2017, with the expectation that the economy will expand moderately faster in the future. Exports, which show a sustained uptick after the first half of the 2017 (especially shipments of agriculture and manufacturing goods), will likely lead the growth (figure 7.15); in the same way, a rapid rise in imports of raw materials, intermediate products and capital should influence capital formation in the coming years. However, leading indicators for consumption are sending several signals; for instance, growth of spending on accommodation and restaurants remains relatively high, while consumption of clothing products has contracted since April 2017. Thailand's average growth from 2018 to 2022 is expected to average 3.6%, modestly higher than the 2.9% mean annual expansion rate from 2011 to 2015; with regulatory uncertainties gradually clearing, along with improving competitiveness and a better global trade picture, capital formation should be more robust in the coming years. To facilitate this process, government set some measures as: i) the removal of certain financial services from the protected industries list in February 2016; ii) passage of a new Customs Act in March 2017 (effective November 2017) that focuses on trade-related legal infractions, levies and procedural transparency after almost a decade of negotiations; and iii) the launching of Thailand 4.0 to support the development of the automotive industry, aviation, tourism, health care, food processing and an array of technology-based industries; the establishment of some Free Trade Zones is positive for exports, especially of the industries identified in Thailand 4.0. It also entails more infrastructure spending. One of the key domestic challenges is mitigating the potential medium- to long-term risks associated with increased household debt which has risen to about 80% of GDP in 2016 from roughly 57% at the beginning of 2010 (ASEAN, 2016) Addressing the high household leverage will probably keep private consumption growth around the 2011-16 average in the near term; the central bank has already stiffened the rules on credit card and unsecured loans by reducing credit limits as asset quality pressures mount. There is also an opportunity to raise growth in the medium term by fast-tracking the rollout of infrastructure projects; furthermore, the slow accumulation of non-performing loans in bank portfolios is another issue, although not an imminent risk

Thailand has observed a strong expansion in the agricultural sector over the past year, which helped boost incomes. The growth is coupled with continued fiscal stimulus and an increase in merchandise exports, the highest in the last four years (Thailand Economic Monitor, 2017). Despite slow global economic growth and the uncertainty faced by the local government, Thailand's GDP increased of 3.8% in 2017. Thai agriculture sector has shown signs of recovery after the severe drought of 2015; output was also higher for rice, rubber and palm oil, boosting the income of local farmers and fuelling domestic private consumption growth. In particularly, a large increase of rice exports, amounting to 5.4 million metric tonnes in the first half of 2017, was confirmed by the Ministry of Commerce; this marks an increase of 8%. Recent agricultural sector growth boosts Thai rice trade growth compared to the previous year and is attributed to the fact that Thai white and parboiled rice are more competitive in the Middle East and Africa; exports of white rice alone reached 2.7 million metric tonnes in the first half of 2017, while parboiled rice exports reached 1.2 million metric tonnes in the first half of 2017. Anyway, the positive trend of rice export growth slowed in the second half of 2017, mainly for white rice; this was due to the halt of sales of the government's rice stock in mid-2017. Thus, to delay sales of rice, the government in November 2016 introduced a new short-term rice subsidy programme, called the rice loan scheme, with an allocation of THB 54 billion (Thai baht). Through this programme, Thai farmers received credit of up to 90% of the market price of their rice in stock and subsidies of 10% for barn storage; moreover, an additional 20% of subsidy was allocated for harvesting and paddy-quality improvement activities. The policy ended in February 2017. (OECD, 2018)

- **<u>Vietnam</u>**

Viet Nam saw its economy expand by 7.5% in the third trimester of 2017, pushing the annual growth to 6.3%, from 6.2% the previous year, on the strength of domestic consumption and external demand (figure 7.15). The services sector, which comprises more than 38% of GDP, grew 7.3%, up from 6.7%, led by wholesale-retail trade, accommodation services and finance; moreover, retail sales growth has been particularly strong at 10.5%, up from 9.5% last year and is indicative of a significant domestic demand. Similarly, agriculture growth accelerated from 6.0% to 6.4% and manufacturing production from 11.2% to 12.8%, largely boosted by a sharp rise in export receipts, which increased by almost 20% from about 7.0% in the 2016 (nominal basis). Offshore sales of electronic components, machinery and related products, as rice, vegetables, rubber and nuts, accounted for contributed most in the increase in exports. The near-term outlook for Viet Nam is better than last year's: although slightly slower than the 6.7% government target, the rate of 6.3% in the 2017 is an important result. Exports are expected to gain GDP's share in the coming years; in addition, a 15.4% YTD rise (as of September 2017) in business registration, which yielded a 43.5% increase in business capital by end-September 2017 based on the data of GSO (2017), signals good employment prospects ahead. Between 2018 and 2022, Viet Nam's economy is projected to expand by 6.2%, a modest rise from the 5.9% average between 2011 and 2015. Given that the proportion of gross exports to GDP is roughly 110% of GDP based on the data of the Asian Development Bank (ADB, 2017), up from 72% in 2010, stability in the global trade environment is key in Viet Nam's economic ascension. Private consumption, which is about 70% of total output, should benefit from lower unemployment (job creation has kept pace with new labour-force participants) and a decreasing underemployment rate. Meanwhile, progress in competitiveness should help attract investment and recent measures would improve the business environment, easing conditions and sublicenses required under investment law, advances in regulations on intellectual property rights and relaxing labour-code restrictions on foreign employees. Positive factors include the rising share of employees who graduated college in the total of employees nationwide and the increasing number of colleges and universities that can be catalysts in raising productivity. Domestic challenges for Vietnam include managing the large amount of bad debts and some difficulties in fostering a competitive market for assets linked to bad loans; in 2016, the non-performing loans ratio of banks was reportedly about 2.5%. However, this rises to 8.86% if assets transferred to Vietnam's asset management company are included (OECD, 2018).

2.5 Brunei and Singapore

Brunei Darussalam (about 417 000 habitants) and Singapore (about 5 612 000 habitants) are the less populated countries of the area, while their economies influence the ASEAN environment; in particularly, Singapore's GDP is comparable with the Philippines one in terms of contribution to the whole product (figure 7.8). Moreover, they rank 1st and 2nd in GDP per capita in the region (figure 7.9), which implies that their development is steps ahead if compared to the other ASEAN members and their internal environments require a specific study.

Table 11: Brunei and Singapore inflation rate, year-on-year % change of the consumer price index

Country	Base year	2011	2012	2013	2014	2015	2016	2017	Var.7 years	Var. 3 years
Brunei Darussalam	*2010*	1.67	-5.87	0.39	-0.20	-0.42	-0.72	-0.18	*4.86*	*0.05*
Singapore	*2014*	5.25	4.57	2.35	1.04	-0.52	-0.51	0.56	*4.68*	*0.26*

Through the analysis of the inflation rate, we could highlight the reduction of the variance in the last three years examined if compared to the same data related to the whole period; despite being more stable, Brunei's inflation registered negative averages from 2014 to 2017, mirroring the several challenges the country is facing. On the other hand, Singapore' inflation felt below 0 for just two years (2015 and 2016), showing a more stable economic scenario.

Table 12: Exchange rate, US$ 1 in national currency, end of period

Country	Currency	2011	2012	2013	2014	2015	2016	2017
Brunei Darussalam	***Dollar B$***	1.30	1.22	1.25	1.30	1.41	1.41	1.35
Singapore	***Dollar S$***	1.30	1.22	1.27	1.32	1.41	1.45	1.35

Data on the exchange rates evidence a similar trend for countries' currencies; both did not register changes tear by year of more than 10% of the starting value, while both accounted a slight depreciation of 0.05 in the whole period. Compared to the ASEAN-5 data, we could assume that Brunei's and Singaporean dollars are currencies which belong to more mature and developed economies.

- **Brunei Darussalam**

Brunei Darussalam grew 0.7% in 2017 to arrest four consecutive quarters of decline (by end of the first half of 2017 economic growth was still negative at -0.6%). Private consumption, government spending and investment have contributed positively to growth, while net exports pushed it down during the period 2015-2017 (figure 7.17). Moreover, short-term prospects are still uncertain; exports of mineral fuels, which comprise about 90% of total commodity exports, were up 12.8% by end-July 2017 (in US dollars), a vast improvement from -27.5% in the same period in 2016. However, non-mineral fuel exports decreased by 30.2% over the same period, in stark contrast with the 46.8% expansion 12 months earlier. However, with global energy prices slowly on the rise, production should experience less downside pressure and the recovery of corporate earnings and public sector finances should expand domestic spending potential. The 2017 real GDP of Brunei Darussalam did not increase from the previous year, but it has stopped the negative trend which began in 2012; in the medium term, Brunei Darussalam's growth is expected to average 0.5% from 2018 to 2022 on the assumption that oil prices will at least remain stable. The development in global trade activity in the next few years is also anticipated to increase, although it should slow down due to base effects. Reorienting its strategies to attract foreign investment is one vital challenge as the government pushes ahead with diversifying the economy away from oil and gas; measures such as fast-tracking the process of establishing a business, especially for small enterprises and strengthening laws on intellectual property rights should make the national scenario more interesting for investors. However, although incentives have been offered to certain industries since 2001 and despite the country's highly educated population and commendable infrastructure, direct investment flows have not been attracted efficiently (OECD, 2018).

- **Singapore**

Singapore's growth accelerated to 4.6% in the 3rd trimester of 2017, from 1.2% of the same period in 2016, mainly driven by an improvement in overseas demand that benefited manufacturing and trade-related services, although construction continues to contract. However, by end-2017, apart from a large increase in exports, domestic demand appeared to be stabilising as well; government spending also grew robustly – at 5.3% in 2017, largely in line with the average growth of 5.7% since 2016. At the same time, private consumption limited the contraction in 2016 and recorded a marginal increase of 0.1% in 2017 (figure 7.17). With global trade momentum likely to hold up at least until the end of the year, Singapore's economic growth is projected to stay on course and it closed the 2017 at 3.2%, up from 2% in 2016; monthly export growth increased to 6.5% in August 2017, up from 6.1% in June 2017 (figure 7.18), mirroring the optimism in manufacturing Purchasing Managers Index (PMI) trends. Consumption has also moderately expanded, while bank lending continues to enforce. New home purchases are also still rising, though growth has slowed substantially since reaching the peak in February. In the medium term, Singapore's growth is expected to average around 2.3% between 2018 and 2022. Not including exports, which are about twice the size of GDP, the economy is projected to reap investment gains from promoting business opportunities related to digitalisation and industries that require less labour and space – part of its investment strategy recalibration. The government would show the willingness to support domestic demand by intensifying social and infrastructure spending and incentivising firms to hire older workers by extending the special employment programme (OECD, 2018).

2.6 CLM countries

Cambodia, Laos and Myanmar are considerable the least developed countries of the ASEAN region, as also highlighted by the data on GDP per capita (figure 7.9); on the other hand, they registered the highest national product growth rate of the area in the period 2011-2015 and the trend, despite slightly slowing, is still significantly positive until the 2017. Furthermore, they would be the most promising countries in terms of improvement rate of national economies.

Table 13: CLM countries inflation rate, year-on-year % change of the consumer price index (year average)

Country	**Base year**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	***Var. 7 years***	***Var. 3 years***
Cambodia	***2006***	5.48	2.94	2.94	3.74	1.33	3.04	2.20	*1.44*	*0.49*
Lao PDR	***2010***	7.55	4.26	6.37	4.13	1.28	1.60	0.83	*5.86*	*0.10*
Myanmar	***2006***	2.76	2.82	5.72	5.90	11.45	7.02	4.50	*7.60*	*8.25*

The information in the previous table confirm that economies in those countries were and are strongly influenced by high values and instability of the inflation rate; but, while Cambodia and Laos performed better in the last three analysed reducing significantly their variance, data on Myanmar would describe a not stable scenario for the national economy: the peak of 11.45% of the 2015 significantly increased the country's variances, mirroring the internal political instability. Moreover, among the group, Laos recorded the most optimistic rates and trend from the 2011 until the 2017.

Table 14: Exchange rate, US$ 1 in national currency, end of period

Country	Currency	2011	2012	2013	2014	2015	2016	2017
Cambodia	***Riel***	4061.5	3995	3995	4075	4051.67	4050	4053
Lao PDR	***Kip***	8016.21	7996.58	8015.24	8078.23	8152.93	8195.06	8285.76
Myanmar	***Kyat***	NA	857	987	1026	1309	1365	1362

The exchange rates' analysis also highlights some differences between countries; in particularly, considering the whole period 2011-2017, Laos' Kip slightly depreciated, while Cambodian Riel appreciated to the US dollar. On the other hand, Myanmar's Kyat value is significantly increasing, reflecting the weakness of the currency; furthermore, the not availability of data in the 2011 shows an inefficient national bureaucratic system.

- **Cambodia**

Cambodia's economy should stay strong after posting 6.9% growth in 2016, the first time that the country has grown less than 7% since 2011; the investments' contribution is significantly increasing and the private consumption is also playing a fundamental role in the national product (figure 7.19). Moreover, exports continued to expand impressively; in particularly, the good exports recorded an overall positive trend between January 2016 and July 2017 (figure 7.20). Government consumption contribution is still marginal, but it could support the future growth by public spending in internal infrastructure. Short-term prospects are optimistic; commodity exports in nominal US dollar terms were up 18.8% by end July 2017, surpassing 12.6% recorded in the same period last year and erasing signs of weakness seen in January 2017. In addition, tourism has picked up robustly. Considering this background, 2017 growth achieved 7.1%. and is projected to average 7.2% from 2018 to 2022, matching its average from 2011 to 2015, with the exports that will acquire more importance; thus, the stability of economic recovery in the United States, which is Cambodia's main export market, would be essential. Furthermore, the new industrialisation policy, which aims to modernise enterprises and enhance the labour skill set should support private consumption and investments. Initiatives to increase fiscal space gave also positive results, with tax-to-GDP inching up from less than 10% in 2009 to 15% in 2016. A key challenge facing the government is managing capital inflows to improve job quality; even though the unemployment rate is low, at 0.1%, informal employment comprises 81.2% of total employment (MLVT-Cambodia and ILO, 2014). The country could also attract more capitals by enhancing the financial market, such as through the corporate bond market regulatory framework, which was finalised in August 2017; finally, investing in Cambodia's overseas business linkages, in human capital and in physical infrastructure would strengthen the basis of a sustainable development (OECD,2018).

- **Lao PDR**

Economic growth in Lao PDR, while still at 7.0% in 2016, reached its slowest rate in more than ten years; the industry sector contribution to the improvement is gaining more importance for the country, while agriculture, services and net taxes, despite still playing fundamental roles in the economy, have reduced their shares (figure 7.19). Offshore shipments increased by 19.6% from October 2016 to June 2017, close to the 19.8% recorded in the same period of the previous fiscal year (figure 7.20). However, tourism, declined by 11.3% in the first trimester of the 2017 Q1, compared to the 7.5% gain in the same period of 2016. Considering those scenarios, it is estimated that Lao PDR grew by 6.9% in 2017, slightly slower than the previous year, and, in the short term, country is expected to improve GDP by averaging 7.1% for each year between 2018 and 2022, below the value of the period from 2011 to 2015. The incidence of poverty, which declined dramatically over the last 15 years and is expected to continue this trend, should boost private consumption; on the other hand, the decline in competitiveness and fiscal space could interfere with investments and government spending, which have risen in terms of economic importance. New regulations, as the competition law passed in 2015 and the amendments to the investment law signed in 2016 aim to revaluate some of the investment constraints. One prominent challenge is to contain the possibility of fiscal debt; budget deficits averaged more than 5.2% of GDP between 2013 and 2016 and the IMF (2017) estimated that the public and publicly guaranteed debt-to-GDP ratio will reach 69% in the 2018, up from 56% in 2011. Additionally, mitigating the impact of asset-quality issues in the banking sector (particularly public banks) on macro stability and on initiatives to enforce domestic capital markets and to de-dollarize the economy is crucial for Laos. For instance, IMF noted that in the 2017 non-performing loan ratio of public banks has risen from to 8%; hence, the weakening of the balance sheets of public banks could potentially get worse the national government's fiscal position (OECD,2018).

- **Myanmar**

Myanmar settled with a more modest expansion rate in 2016. Growth dipped to 5.9% from 7.0% a year earlier owing to a slowdown in FDI, a decline in tourist arrivals and subdued export recovery. However, there are early signs of a rebound; total commodity exports from April to July 2017 had risen 36.5%, reversing the contraction in the same period the previous fiscal year (figure 7.20). Considering the available information, we expect that Myanmar's GDP has grown of 7.2% in 2017, 1.3 percentage points faster than the previous year; moreover, from 2018 to 2022, it is projected to average around 7.4% for each year. Net exports are reducing their negative contribution to the national product, which is mainly sustained by private and public consumption; the investments also play an important role in increasing the GDP's growth rate (figure 7.19). Consumption should raise due to a relatively low unemployment rate, while wages are still subjected to regular review; government's ability in promoting diversification to reduce dependence on oil and gas will also be relevant in making the growth path sustainable and reform legislations enacted since 2012 (e.g. the arbitration law and the new investment law that contains provisions on foreign investment fiscal incentives) are seen to be helpful. Additional reforms should be implemented to improve the business climate, as facilitation in starting a business, construction permits and in enforcing contracts, to make the country more attractive for investors. Finally, better tax administration and targeted spending are also a key challenge for Myanmar; non-tax revenues continue to cover much of government's spending, as the tax effort stays comparatively low by regional standards and has been dropping over the last two years (OECD, 2018).

3. FDI among ASEAN countries

3.1 Region outlook

The 1997 Asian financial crisis beset many ASEAN Member States and affected economic growth and financial - flows to the region, including annual FDIs in the immediate aftermath (figure 7.21). They started to rebound in 2003, but the region was again affected by the 2007–2008 global financial crisis, registering a significant drop in the 2008-2009 flows. Anyway, the FDI recovery period after this crisis was much shorter than after the preceding one and the region came out of the crisis more attractive and stronger; despite FDIs in 2016 ($96 billion) have declined for the second consecutive year, ASEAN attracted 2.8 times more investment than the pre-crisis peak of $34 billion in 1997. A few factors contribute to the resilience and attractiveness of the region for FDI; they include the rapid growth of economies in the region, a more integrated ASEAN, a greater regional division of labour exploited by MNEs, a more mature M&A environment, a significantly improved investment environment, the growth of new sources of FDI and an increasing number of more mature ASEAN companies that invested or expanded their presence in the region. Indeed, many of the Fortune Global 500 companies that are present in ASEAN continued to invest and expand in the area; generally, improvements in the regional investment environment, new opportunities, rapid economic growth, improved cash or asset holdings of foreign and ASEAN MNEs, and regional integration that facilitates the division of labour and production networks encouraged regional corporate expansion. MNEs that opened R&D facilities in the region include Nestle (Switzerland), Panasonic (Japan), Osram Opto Semiconductor (Germany), Honda (Japan), Nissan (Japan), Apple (United States) and Samsung Electronics (Republic of Korea); in 2016–2017, some of them also increased their investment in regional headquarters operations to coordinate their expanding networks in the region and most of the investments from MNEs were concentrated in a few member states such as in Indonesia, Malaysia and Thailand. Additionally, many American and European finance companies have been in the region for a long time; the 2016 brought a few first-time investors, in particularly Chinese companies in infrastructural finance and banks, which also diversified in other financial services in the region. MNEs continue also to participate in infrastructure development in the region in various segments of the value chain; they operate as owners and operators of power plants, as providers of engineering, procurement and construction (EPC) services and as equipment suppliers to infrastructure projects. (ASEAN Secretariat; 2017)

Table 15: FDIs in ASEAN by selected partners and regions (in USD million)[7]

	2013	2014	2015	2016
Intra ASEAN	18209	21556	21340	23948
Australia	2195	4495	1935	3433
China	6345	6185	6412	9211
EU	19656	37861	20834	30465
India	2108	1216	962	1049
Japan	24359	12982	14738	13989
South Korea	4235	4690	5704	5890
USA	11180	13578	23379	11657
ASEAN TOTAL	120051	133057	121621	96723

FDI flows to ASEAN in 2016 fell by 20 per cent, to $96.7 billion, reflecting the general decline in global FDI flows and in flows to developing economies; flows to those economies declined by 14 per cent, from $752 billion in 2015 to $646 billion in 2016, mainly due to the drop of inflows in five member states and cross-border M&A sales. Inflows to Indonesia and Singapore together declined by about $22 billion, which significantly depressed FDIs. In particularly, the intracompany loan component of FDI in Singapore fell to -$12.4 billion in 2016, which suggests significant repayments of intracompany loans by affiliates based in that Member State; thus, repayment of intracompany loans should be interpreted in the context of affiliates being able to generate profits and revenues to repay intragroup loan obligations. In Indonesia, FDI declined significantly, from $16.6 billion in 2015 to $3.6 billion in 2016, a change linked with divestment of assets in finance, a reduction of round-tripping investment by Indonesian companies and the tax amnesty programme introduced between July 2016 and March 2017. Intraregional investment flows continued the uptrend they have been on since 2003 (except for a blip in 2013; the increase in 2016 was driven by raise in investments in manufacturing, to $8.3 billion and a growth of investment in finance, to $5 billion. Between the member countries, Singapore, Malaysia and Thailand dominated intra-ASEAN investment. The main factors of this improving are the growing financial strength, significant cash holdings of regional firms and their increasing drive to internationalize to build competitiveness and to access markets, natural resources and strategic assets. Furthermore, the CLMV countries continued to receive attention from investors in 2016; FDI flows to this group (Cambodia, the Lao People's Democratic Republic, Myanmar and Vietnam) rose by 8 per cent, from $17.4 billion in 2015 to $18.9 billion in 2016. Hence, their share in total ASEAN FDI inflows rose from 10% in 2015 to 13% in 2016 and intra-ASEAN investments remained the major source in those countries. Considering foreign countries, China is a major investor in Cambodia and the Lao People's Democratic

[7] *Source*: ASEAN Secretariat, *2017*

Republic, while Republic of Korea is the largest investor in Vietnam; activities of foreign companies in Cambodia concentrate in finance, light manufacturing and infrastructure activities, while the Lao People's Democratic Republic attracted strong infrastructure investment, particularly in power projects. FDI into Myanmar rose, with growing investor interest across all sectors and flows in Vietnam were dominated by strong manufacturing investments. Moreover, Japanese companies invested strongly in manufacturing, raising significantly flows from $7.9 billion in 2015 to $23.8 billion in 2016 and reflecting the growing expansion of Japanese activities in the region. FDI from Hong Kong also increased, concentrating in finance, electricity, manufacturing and real estate activities. While China went mainly to finance, wholesale and retail trade, transportation and real estate. Australian, EU and US investments were mainly concentrated in finance (most of them go to Singapore) and intra-ASEAN investment remained the largest source of investment in agriculture and mining (ASEAN Secretariat; 2017).

Thus, for countries across the region, China is becoming an increasingly important economic partner, raising questions about the region's direction and future. But researches on data for trade, foreign direct investment and tourism in ASEAN countries has found that, while China's expanding influence is undeniable, Japan, South Korea, and other countries remain important players and the region's members still mostly trade with one another (figure 7.22). China's growing role in the region's economies comes at a time when it is also expanding its military presence in the South China Sea, raising concerns among countries in the region. Chinese influence is increasingly becoming a factor in the region's politics, including in Malaysia, where it has emerged as a campaign issue in the May 9 election. "It's never going to be either-or, or binary- Japan, Korea, the EU will always be present in the ASEAN market," said Thitinan Pongsudhirak, a professor of political science at Bangkok's Chulalongkorn University. "But China has raised its investment, and over the decade it's going to go markedly up." Japan is the main investor in south-east Asia Japan remains the dominant foreign investor in south-east Asia. About 20 per cent of capital invested in the region in so-called greenfield projects (those that are being built from the ground up) in the past seven years originated from Japan. Chinese FDI in south-east Asia is growing faster, but only just, at nearly 7 percentage points over the same period, to a total of 14 per cent of capital invested in the region. "Because of rising labour costs in China, companies are moving labour-intensive assembly operations to Asian countries," says Juzhong Zhuang, deputy chief economist with the Asian Development Bank. One example, he says, is Cambodia's large garment industry, where Chinese companies are major investors. Richer countries, including Thailand and Malaysia, show the highest rates of FDI from outside ASEAN; in Thailand, for example, over 50 per cent of capital invested came from Japan and the US. China has invested more than Japan and the US in the region's poorer economies, but its contribution was still dwarfed by the collective investment of the other countries in the region. (Financial Times; 2018)

A characteristic of the ASEAN region is the presence of more than 1,600 economic zones of various types, which refer to all types of industrial and non-industrial zones, estates or parks that facilitate investments, especially FDI. These zones have played an important role as industrialization tools for Member States in the ASEAN region, while their development varies by country depending on institutional set-up, stage of industrial development and demand and, in some member states, it involves government authorities in owning and operating such zones (e.g. Malaysia and Vietnam). In some other countries, all economic zones are regulated or coordinated through a central authority (e.g. the Industrial Estate Authority of Thailand and the Philippine Economic Zone Authority); moreover, in most members the private sector is actively involved in the development and operation of economic zones. They facilitate quick set-up of operations for foreign investors, lower the transaction costs of investing and operating in the host country, ensure factories are more secure, induce agglomeration of firms and generate cluster benefits. To the extent that economic zones could reduce transaction costs, they increase their attractiveness to potential economic zone tenants; the key issue is how to make them more effective in attracting FDI and in achieving the economic objectives of the host country. Not all economic zones are successful; some have not been successful in attracting investment because of their lack of competitiveness and lack of good facilities, others are located far from major road networks, ports or airports, or face other logistical challenges as well as issues such as a lack of housing facilities for workers or an inadequate pool of low-cost workers in the vicinity. Hence, regional cooperation in economic zone development, to facilitate regional value chains and production networks, could be considered or pursued to improve the competitiveness and connectivity of economic zones; actors involved in the development include public and private owners and developers, service providers, foreign MNEs and zone tenants. It is also important to understand the roles of these different actors and how they contribute to economic zone development, industrial agglomeration and improvement in the competitiveness of the overall FDI environment. The roles and involvement of players depend on factors such as the role of the government, institutional support, investment opportunities in industrial estates, stage of industrial development, the external environment and the demand for economic zones. For economic zones to be successful and for a country to be competitive, all players need to play their roles by providing suitable industrial facilities to facilitate investment to designated areas and by operating in them. Local players (public and private sector) are the main contributors to economic zone development in ASEAN; they have contributed to shaping the landscape of industrial facilities through the zones they have built, owned and managed. The public sector regulates, encourages and develops economic zones, providing investors (tenants) with facilities across the country depending on their needs and types of investment. Although the private sector is the largest developer and owner of economic zones in the region, the public sector provides the crucial enabling environment through policy, institutional support and public–private partnerships (ASEAN Secretariat; 2017).

3.2 FDIs' determinants in the region

Recent studies of Hoang and Bui (2015), using data of six ASEAN countries (Vietnam, Indonesia, Malaysia, Philippines, Singapore and Thailand), tried to study and analyse the determinants of FDI inflows in ASEAN countries, considering the time span from 1991 to 2009. For the dependent variable, they took the natural logarithm of 1 plus FDI inflows to each country on the considered period. The variables considered are:

- Market size of the host country, including national economic conditions and potential demand of the local market.
- Trade openness, representing the level of economic integration in the host country with the rest of the world.
- Labour cost, because it could directly influence the benefit for investors.
- Interest rate, which represent the cost of capital for investors that want to use the financial resources in the host country (entry cost of production).
- Labour productivity, that reflects the efficiency of labour in the economy.
- Inflation rate, as an indicator of macroeconomic instability.
- Human Capital, which reflects the quality of labour in host countries.
- The financial development, allowing firms to get funding sources effectively.
- Political stability which is related to the institutional quality and political risk.
- Exchange rate, as a reflection of price competition.

Thus, size of national market, infrastructural development and degree of openness towards foreign trade are all aspects which could positively influence FDIs' flows. Real interest rates and exchange rate policies have an impact on FDI inflows, while the degree of financial development and the inflation rate are not relevant from a statistical point of view. Moreover, as mentioned before, the institutional environment plays a crucial role in affecting investment strategies; while it should be highlighted the influence of labour components: nominal cost of labour, human capital and its productiveness positively influence FDIs towards the region. This conclusion suggests that investors look for skilled labour force and improved labour productivity rather than inexpensive nominal labour costs. Furthermore, results from Hoang and Bui's studies in 2015 generate different policy consequences: first, despite the importance of the domestic market dimensions, small ASEAN nations can attract investment flows throughout the development of a better institutional environment. Hence, a lower level of corruption and political stability are the two best manners to reduce the risks and the uncertainty for foreign investors. In addition, the findings also say that the underdeveloped ASEAN members, gathering small volumes of FDI, must accelerate trade liberalisation, infrastructure development and regional integration through the ASEAN contribution, while a weaker national currency with respect to the U.S. dollar should be exploited efficiently for higher levels of export and FDI inflows. Finally, a cheap labour force does not necessarily attract resources, therefore countries should concentrate on human capital development; Ismail

(2009) provided similar results, finding out that besides the market dimension, other features like common borders and languages, macroeconomic factors such as lower inflation rate, slightly higher exchange rate and good management of public resources are among the key reasons which are able to catalyse investors' attention. In addition to economic factors like efficient telecommunication and infrastructure provisions, noneconomic and social factors, i.e. transparency and welfare policies aimed at empowering people development, can gather higher FDI to the ASEAN as well.

Regarding the service sector, several peculiarities belong specifically to the determinants; Kaliappan, Khamis and Ismail investigated them using a static linear panel data analysis, transforming all the variables into the natural logarithm: they analysed the years from 2000 until 2010 considering as dependent variables market size, trade openness, inflation, human capital and infrastructures for each ASEAN member. Their results indicate that the inflow of services FDI is positively influenced by market size, trade openness, human capital and infrastructure. Looking at the motivations of FDI to the host country, (market-oriented or non-market oriented FDI) service companies are more market seeking rather than an export-oriented: many investments to establish operating activities and projects in foreign location aim to simultaneously satisfy requirement in production and consumption of services. Hence, a country with a large market size is likelier to attract more services FDI inflows; furthermore, the significance of trade openness or the implementation of a liberal trade policy have been observed in the ASEAN countries since 1980, where several nations abandoned import substitution trade strategies in favour of a more open international trading regime. Positive effects were registered in most of the members, especially for Indonesia, Thailand, Malaysia and Singapore which managed to attract a substantial amount of foreign investments. Finally, economies with relatively high levels of human capital are more attractive also services sector: often the providing requires physical interaction between individuals; thus, skilled work force is important to deal with different customers in services industries. Infrastructure integrating markets across nations is fundamental and their absences discourage foreign investors as it increases transaction costs; indeed, foreign investors' efficient operation depends highly on reliable utilities, telecommunication system and infrastructure (Kaliappan, Khamis and Ismail 2015).

3.3 Restrictiveness Index in ASEAN

Important differences are visible in several degrees of openness toward foreign investments and in the way tax rates affect investors in their strategic choices; the FDIs' restrictiveness index could provide useful information about national policymakers. Thangavelu provided some studies regarding the ASEAN region, setting an index made up of six areas:

- national treatment;
- market access or foreign ownership;

- management and board of directors' composition;
- screening and approval procedure;
- movement of people;
- performance requirements.

The results show that the liberalisation of the manufacturing sector is still possible in countries as Thailand and Vietnam; moreover, the services sector is not keeping the pace of the manufacture in terms of liberalisation for multinational activities. The changes in FDI restrictiveness index, with the introduction of ASEAN free trade area (AFTA), brought Cambodia, Burma and Vietnam in decreasing their horizontal commitments, mostly due to the new employment laws that have been implemented in the last period. As instance, Vietnamese work permit for intra-corporate transferees was shortened from 36 to 24 months and nowadays Cambodian companies must give priority to locals when hiring. There have been no relevant variations in the horizontal commitments of Lao PDR and Brunei, since the surge in one or more categories (as board of directors for Brunei) was counterweighted by the diminution in another classes (as performance requirements). As shown in figure 7.23, market access to foreign firms is the highest value among all categories (higher scores reflect more open FDIs' regulations); the results reinforce the concept that economies with mature domestic industries, especially Indonesia and Thailand, tend to protect them. Indeed, foreign ownership in Thailand is limited to 49% and a similar restriction is imposed in Indonesia; on the other hand, emerging economies tend to be more open to foreign firms to support and develop their domestic services industries. Then, we can also see that screening and national treatments tend to have the lowest scores for most of countries except for Singapore, Philippines, and Brunei. Regarding the openness for the board of directors, Thailand scored almost zero, mainly due to its recent policy requiring all members of the boards of directors to be Thai or permanently domiciled in the nation. Malaysia, under the screening and approval category, also scored zero; this is due to the strict screening on the investments before the approval. Considering the different sectors, figures 7.24 and 7.25 highlight the differences between ASEAN members. First, transport services are the least open to foreign firms, where rail and road transports are the most protected by the national government; communication services are also relatively closed within ASEAN, except for Lao and the Philippines, indicating that countries generally want to have more control over FDI directed to these areas. Regarding the financial and business sectors, Lao, Singapore, and Brunei tend to have the highest score for services FDI inflows; in particularly, Laos, by liberalizing business and financial sectors, differs from the policies of the other CLMV countries, which tend to have lower scores (Thangavelu 2015).

Several studies highlight the importance of more openness in the services sector for industrial development, due to its complementary effects on the manufacturing sector through intermediate input linkages and, hence, overall productivity improvements in the economy. The importance of services sector liberalisation for growth could be represented by the increase in several "inputs" that support specialisation, creation and diffusion of knowledge, and exchange of goods and services. Telecommunication, which facilitate trade and enhance the diffusion of technology and knowledge across borders, also have a greater impact on investment and growth: the more open it is, the lower the costs of cross-border trade are, relevantly contributing to exchange and specialize production activities. Other services, such as financial activities are very important in reducing transactions cost in terms of allocation to productive investments, risk diversification, and mobilising private and public savings through financial innovation. Increasing the attractiveness for foreign capitals in field as accounting, consulting, legal services and engineering could reduce transaction costs, developing management and human resource practices across countries; furthermore, improvements in wholesale and retail distribution are necessary to connect producers and consumers, affecting the effectiveness of the whole supply chain. Another dimension is that services are frequently direct inputs into economic activities that generate knowledge, goods and other services: R&D, education and health are examples of resources to produce human capital. Since most inputs are intermediate for services and manufacturing, these are relevant elements of production processes and productivity of the economy. Another aspect is that services increase with the growth of middle-income households in the domestic economy (their income elasticities of demand tend to exceed one) because their demand for specialised services rises proportionally to their incomes. One critical issue is that the productive contribution of the services sector to the overall economy is limited, due to their technological capacity and limited potential growth for investment (Thangavelu and Ing 2015).

In general, studies noticed that developing economies have a more open policy towards foreign investments compared to developed industries; in particularly, Vietnam and Cambodia have adopted significant policies to maintain their drive to liberalization and integration within the economic community. Moreover, Laos' reforms determined an easier access to the market, a more fluent movement of people and a drop in the board of directors and performance requirements; on the other hand, Malaysia, Thailand, Indonesia, and the Philippines have not progressed further from their relatively higher investment base and this poses an important challenge for their competitiveness since they should liberalize their services sector to make it an important component of their growth. ASEAN members show high protection over communication and transports, limiting foreign firms and competition, while greater control is imposed to manage the types of industries that could locate and operate in the domestic economy; indeed, highest degrees of protection are held over the financial, business and communication services. The improvement the productivity of services sector and FDI in the region, even thanks to improved agreements and treaties with existing partners, is still facing several challenges:

- Innovation and competition in services across the region should be improved; trade facilitation and behind-border-issues are key factors to increase them through better national treatment and greater foreign ownership in the key domestic sectors.
- Despite some countries have made tremendous improvements in human capital development, much more should be done; while CLMV countries need to address issues on basic education, more mature economies have to improve the skills and training of their workers to maintain the relevance and

contribution of their labour force in the economy. Thus, human capital and labour mobility are crucial factors in developing the services sector in the region, because human capital development and mobility of skilled workers will increase the impact of productivity and the contribution of services sector to the overall growth of both domestic and regional economies.

- Third, there are still infrastructure gaps in ASEAN; hard and soft infrastructures are both important tools to enable trade and to develop the services sector. Improvements in the management systems in ports could enhance the development in analysing information and communications technology, while infrastructure will improve links for trade and movement of goods, influencing also services trade.
- Last, there is a huge data gap in the services sector in the region in terms of quality of data and information which can be used to understand the key issues and guide policy discussions on relevant topics such as productivity, innovation and linkages of the services sector and services trade in the region (Thangavelu 2015).

3.4 Taxation in ASEAN

Different levels of taxation characterise ASEAN members but generally tax rates are low. Anyway, identifying optimal tax treatments include several factors which influence the national environment, as time, compliances required when filing taxes and the effectiveness of governmental tax strategies, which could alter the capability of companies to maximize profits. For instance, nations like Vietnam, Lao PDR and the Philippines are still linked to their communist structures and ideologies, while Singapore has always been considered by businesspeople for its special tax treatments. Anyway, among the different factors that determine competitiveness within ASEAN countries, tax rates can be used as an estimation for the treatment of foreign investment: corporate income taxation can be indicative of a state’s outlook on the private sector, while international withholding tax is even more telling because it directly targets overseas capital flows, so it provides information on a country’s FDI policy (Wrest and Brown, 2016).

In ASEAN, governments use Value Added Tax (VAT) or Goods and Services Tax (GST) as the main components of indirect taxation, even if some do not have indirect tax at all.

Table 16: ASEAN indirect tax overview[8]

Country	Type of indirect tax	Rate	Is voluntary registration possible for an overseas company?	Typical frequency of return	Is electronic invoicing allowed?
Indonesia	**VAT**	10%	No	Monthly	Yes
Malaysia	**GST**	6%	Yes	Quarterly	Yes
Philippines	**VAT**	12%	No	Monthly and quarterly	Yes
Thailand	**VAT**	7%	Yes	Monthly	Yes
Vietnam	**VAT**	10%	Yes	Monthly and quarterly	Yes
Brunei	-	-	-	-	-
Singapore	**GST**	7%	Yes	Quarterly	Yes
Cambodia	**VAT**	10%	No	Monthly	No
Laos	**VAT**	10%	No	Monthly	No
Myanmar	**Commercial tax**	5%	No	Quarterly	Yes, but not common in practice

VAT rates vary importantly among countries, from governments which do not levy these taxes at all, like Brunei, to the 12% rate in the Philippines. Recent years have witnessed a rise of this kind of taxes, like the case of Malaysia introducing a GST system of 6% in 2015. The study from KPMG highlighted some trends particularly evident in the ASEAN area; the Organisation for Economic Co-operation and Development highlights the fact that most of the member countries increased their VAT or GST rates at least once during the period from 2009 to 2014. Anyway, reduced rates and other concessions have not been an effective manner to protect lower income individuals and address the so-called regressivity of indirect taxes, which is one of the main reasons given by policy makers for providing such concessions. Moreover, a recent OECD study shows that a better way to achieve equity and social objectives would be to remove reduced rates and provide more targeted relief measures, such as income-tested benefits and tax credits. Another trend is the progressive move to a global framework for applying VAT and GST to cross-border flows of intangible resources and services; it is expected to bring higher consistency between nations in the VAT/GST treatment of international trade flows, based on the destination principle that VAT and GST should be levied in the place where services and goods are consumed, not where they originate.

- **Indonesia:** supplies which are liable to the VAT rate in Indonesia are: the delivery of taxable goods by an entity in the country, the imports of taxable goods, the rendering of taxable services, the

[8] *Source*: KPMG International, *2017*

utilization of national intangible goods from abroad, the utilization of offshore taxable services, export services by an entity in Indonesia (except for exports of certain services, such as toll manufacturing services, repair and maintenance services, and construction services), self-construction activities and the disposal of fixed assets. On the other hand, a zero rate is applied on exports of certain goods and services, as manufacturing, repair, maintenance and construction services; moreover, deliveries and/or the import of taxable goods designated as strategic by the government and certain goods or other services that support the achievement of certain national objectives are exempt from taxation.

- **Malaysia:** domestic supplies of goods and services, which are not exempt or did not receive a relief, and imported goods and services are subject to the national GST rate. Furthermore, no reduced rates are applied in the country, while a zero-rate is applied to some categories of goods and services, as basic foods, certain medicaments and medical gasses and supplies of treated water to domestic users. Registration of a foreign principal who does not belong in Malaysia and who makes taxable supplies in Malaysia is allowed, with the condition that he or she appoints a local agent to act on his or her behalf for all matters pertaining to GST.

- **Philippines:** sales, barter, exchange of goods and/or properties in the course of trade or business in the country, sale of services including the use or lease of properties in the course of trade or business in the Philippines and importation of goods, whether or not in the course of trade or business, are subject to the VAT. Zero rate transactions include: sales to any person/entity whose exemption under special laws or international agreements to which the Philippines is a signatory, sales of services rendered to people engaged in business conducted outside the Philippines or to a non-resident person not engaged in business who is outside the Philippines when the services are performed (the consideration for which is paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP) and other services contemplated in Section 108 (B) of the National Internal Revenue Code (NIRC). Among others, there are some categories exempt from taxation, as certain residential sales or leases, educational services, employment, services rendered by regional or area headquarters established in the Philippines by multinational corporations that act as supervisory, communications and coordinating centres for their affiliates, subsidiaries or branches in the Asia-Pacific Region and do not earn or derive income from the Philippines, transport of passengers by international carriers doing business in the country, sale, importation or lease of passenger or cargo vessels and aircraft, including engine, equipment, and spare parts for domestic or international transport operations and sale or lease of goods or properties or the performance of services other than the transactions mentioned (the gross annual sales and/or receipts cannot exceed the amount of 1,919,500 Philippine pesos (PHP))

- **Thailand:** the 7% value, which is a temporary rate reduced from the standard 10% introduced by a special royal decree, is valid until 30 September 2018; it affects importation of goods and sale of goods, provision of services that are performed and used in Thailand and provision of services outside Thailand and used in the country. Zero-rated supplies include the export of goods, bringing domestic goods into a duty-free zone, provision of services performed in the country but used abroad and provision of services for the manufacturing of goods within a duty-free zone; moreover, fertilizers, fish meals, animal feeds, newspapers, educational services, healthcare services and others are exempt from the VAT.

- **Vietnam:** goods and services used for the purposes of production, trading and consumption are subject to the VAT; meanwhile, a zero-rate is applied to exported goods or services, construction and installation overseas and in non-tariff zones, international transportation and certain airline and marine services. Furthermore, are exempt certain agricultural products, equipment used for agricultural activities, transfer of land use rights, life insurance, financial, public postal and telecommunications, temporary imported goods for re-export and technology transfer.

- **Singapore:** are taxable supplies of goods and services made in Singapore by taxable persons and all imports of goods (except for qualifying investment precious metals) into the country, unless import relief or one of the import GST schemes applies; the group of zero-rated supplies include export of goods from Singapore provision of international services and supply of a prescribed tool or machine used in the manufacturing of goods in the nation, while sale/lease of residential properties, supply of qualifying investment-grade gold, silver and platinum and most financial services are exempt.

- **Cambodia:** Supplies of goods and services in Cambodia and imported goods are liable to the standard rate; zero rate applies to exported goods and services and certain charges in relation to the international transportation of people and goods; it is also applicable for any goods and services supplied by Supporting Industry Qualified Investment Projects (QIPs)/contractors to particular export industries. Exempt supplies include public postal services, wholly state-owned public transportation services, insurance services, primary financial services and educational services and non-profit activities in the public interest recognized by the Ministry of Economy and Finance.

- **Laos:** the rate is applied to goods and services produced and consumed domestically or imported, services provided by overseas or non-resident entities in the country and services performed in Laos to overseas entities. Zero-rated supplies include: raw materials, equipment, machinery for production that is produced domestically and imported from foreign countries that could not be produced domestically or domestic production could not meet demand and investments that are registered as fixed assets; are exempt to taxation certain imports related to air transport, certain educational operations, specified financial services operations, specified medical services, certain vehicles for specific purposes.

- **Myanmar:** generally, a 5% standard rate applies to most products and services; commercial tax on certain items (such as inbound air travel, real estate, gold and electricity) ranges from 1% to 8%. There are certain products, including basic food and medicines, that are exempt, as specific services, like contract manufacturing, educational services, financial services and public transportation (KPMG International, 2017).

3.5 The ACFTA agreement and the impact on FDIs

The birth of the ASEAN bloc empowered the importance of the whole region, which became an attractive commercial partner for many other economic players and communities. Indeed, opening up services for investments and trade has accelerated in South-East Asia within the last two decades, characterised by a relevant increase in Free Trade Agreements (FTAs); such agreements played a central role in fostering investments inflows in ASEAN from worldwide partners. The first major FTA for Southeast Asian countries was the ASEAN Free Trade Area (AFTA) enacted in 1992. ASEAN member countries also began to actively establish bilateral and regional FTAs. Moreover, region's members have established five ASEAN + 1 FTAs with its six main trading partners: China (ACFTA), Japan (AJCEP), Korea (AKFTA), India (AIFTA) and Australia - New Zealand (AANZFTA). For several economic, cultural and geographic reasons, the most significant is the free trade agreement with China, signed on the 4th of November 2002 in Phnom Penh, which represents a remarkable point in the economic relations for both parties; the accord gave birth to the third economic group worldwide, after NAFTA and European Union. The framework agreement stipulated in 2005 involves the description of tariff and non-tariff reduction provisions for member countries. These tariff reduction provisions categorise tariff lines into Normal and Sensitive Track; the amount of tariff lines in the Sensitive Track must not overcome the limit of 10% of the total import value, decided upon trade statistics of 2001. For what concerns the Normal Track, tariffs saw a regular elimination ending in 2010 for China and for most of ASEAN members and, in 2015, for Cambodia, Lao, Myanmar and Vietnam Further reductions drove the elimination of tariffs on 7000 goods categories for 90% of exchanged products in 2010. For what concerns non-tariff side of the agreement, Rules of Origin (ROOs) provisions regulate criteria of origins for goods can be entitled of preferential concessions, which are different for wholly or non-wholly obtained products but, at the same time, were and are often reviewed to keep the flexibility and to develop new rules. Furthermore, the agreement of 2007 on services trades rules and determines the access to the national and regional market; from one hand, China ensures their trade plus market admittance to ASEAN nations for services related to environment, construction, recreational activities, transportation and business. On the other side, ASEAN countries offer access to China in many strategic areas like finance, tourism, education, telecommunications and medical services. Anyway, the average ACFTA yields regarding national treatments and the market access are relatively low if compared to other FTAs, showing a lower rate of service trade liberalization, but it helps to improve services accessibility to member countries and to give national treatment for foreign enterprises. Between 2000 and 2010, the GDP annual growth was 10.8% for China and 5.5% for the ASEAN region; moreover, the parties also saw increasing FDI inflows. Indeed, the quick raise of investments stock in ASEAN could be due to the preferential access to the Chinese market provided by the agreement, which improved attractiveness to MNEs as a destination for FDI and it may indicate a positive correlation between ACFTA and FDI growth. Li, Scollay and Maani (2016) analysed three main effects:

- Vertical fragmentation effect
- Market expansion effect
- Plant rationalization effect

The impact of the vertical fragmentation depends on the complementarity between trade in intermediate goods and vertical FDI; by removing trade barriers on intermediate goods, the ACFTA allowed MNEs to low costs of production, splitting their processes to different members, depending on the strategic advantages. In the case of ASEAN-China FTA, the vertical fragmentation effect is relevant, because all members put their effort to build up an advanced East Asian production network, intensifying trade of intermediate goods among countries. Lower trade costs of intermediate products increase relevantly the efficiency of companies inserted vertically within the network and in the case a tariff is lowered by a certain rate, the production cost of a vertically integrated output drops by a multiple of the starting reduction. Vertical fragmentation effects of ACFTA have been particularly clear looking at automotive sector. For example, Truong Hai is a privately-owned company set in Da Nang, Vietnam, which manufactures CKD (Complete Knocked-Down) kits into complete units for major global Original Equipment Manufacturers. Among the others, Kia has some important manufacturers in China which send CKDs and other central components to get the final assembly done by Truong Hai and minimise costs; in Cambodia, the Beijing Automotive Industry Corp. set the productions of light trucks with components from China, which are sent back again to China to complete the assemblage of the trucks. (Kobayashi, Jin, 2015). The second effect is represented by the market expansion brought by FTAs, that influences especially foreign companies which are blocked by elevated duties; they suffer from a competitive disadvantage with respect to internal firms that already supply the market. In this way, establishing such agreement promotes horizontal FDI from external countries. Another effect of the market expansion is the encouragement of export platform; lower costs of trade among members allow multinationals to establish factories in one nation and sell the products to different states through export. In this specific case, the effect of market expansion should endorse a wider quantity of market-seeking FDI to the region rather than China, because the national market is already way much bigger compared to ASEAN and the effect is less remarkable. Preferential access to the vast Chinese market makes the area more attractive for foreign investors; an example is Ducati, the Italian motorbike producer, which decided to set up a factory in Thailand, in 2014, which ranks second for productiveness, with almost the 25% of the total production (the first is in Borgo Panigale, Italy and the third in Brazil). The strategic choice of setting the production in Thailand depended on different factors: at first, Ducati already had an important appeal in the local market and the relevant size allowed a further growth in domestic sales; secondly, Thai manufacturing sector was technologically ready to host Ducati's production and, thanks to the agreements with Asian and Oceanian partners, the country supported Ducati in serving crucial markets in a better way, such as for Australia, Japan and, most of all, China (Ducati Thailand, 2018). The last effect is called the plant rationalization effect, which represents the substitution of horizontal FDI with trade. Because of lower costs, MNEs develop production plants in a smaller number of sites and provide other markets with their goods through export, exploiting possible economies of scale and finally favouring export platform FDI. This effect could be relevant on ASEAN-China FTA because of the high barriers among countries before the agreement; by the way, the large geographical region and high transportation costs within the trade area imply that this kind of effect is significant. Thus, the result of ACFTA might be considered positive both for fostering the attractiveness of FDI in ASEAN and for Chinese market's expansion because of two main motivations: first, vertical fragmentation of ACFTA should be relevant, but plant rationalization effects are not likely to be robust; secondly, bilateral trade and FDI in the region have a strong complementary relation (Li, Scollay and Maani 2016).

3.6 Strategies of emerging countries: Cambodia and Laos

Cambodia and Lao have always played a marginal role in South-East Asia economy and, with Myanmar, they represent the poorest and less developed nations; an important help came from the enforcement of the Mekong regional cooperation, which arose from the post-colonial period of Indo-China and the political progresses. The U.N. Commission for Asia and Far East set up the "Committee for Coordination on the Lower Mekong Basin" in '57, which became the Mekong River Commission in 1995. During the 90s, as peace and stability returned among the nations, cooperation programs were started, like the Greater Mekong Sub-region program signed in '92 by Asian Development Bank to link Mekong nations and boost their economies. Then, the entry of all CLMV countries in ASEAN community during the 90s, brought the Lower Mekong Sub-region to reach the maximum integration among the countries, boosting trades and commercial exchanges. By the way, the economies of Cambodia, Lao, Myanmar are still strongly related to investment coming from richer economies like China, Thailand, United States and South Korea. Manufacture occupies the second position in Cambodia and Lao PDR, while it is the third in Myanmar, even behind services, while in all CLM group, agriculture still represents the most significant sector. The labour-intensive manufacturing started gaining importance in those countries since 2010; in particularly, in Laos and Myanmar garment and textile industries are growing, while in Cambodia the production of houseware manufacture is developing. These recent progresses do not contribute as much as the primary sector does, but the increasing production costs in China and Thailand could perpetrate the shift in production towards CLM countries (Kobayashi, Jin, 2015). As shown in figures 7.26 and 7.27, in the early 2000s, FDI inflows to Lao and Cambodia improved relevantly thanks to the empowerment of integrated policies and FTAs within the nations of the region. Anyway, they are still far from their neighbouring states; in particularly, Vietnam keeps enlarging the difference with them, maintaining the positive trend. Moreover, the FDI restrictiveness of Laos and Cambodia have higher levels of openness to FDI with respect to developed nations, and low-cost labour force, which can attract multinational enterprises looking for maximization of costs. However, their manufacturing sector is not developed enough to host a wide range of productions; infrastructures are not efficient and electricity provisions lack stability. Important projects have been implemented, but until their complete enforcement, Lao and Cambodia are trying to attract those low-cost productions that are complementary to assembly processes in other nations like China, Thailand and Vietnam. In the economies of those countries, a relevant role is played by economic corridors connecting the Lower Mekong Sub-region; agriculture is still the most important economic sector for Lao and Cambodia. Natural resources are used in different ways and with different results: Laos enforced effective policies and managed to give international visibility to its products through certifications and quality productions; on the other hand, Cambodian productions are not certified and large quantities are smuggled across the borders. Then, there is the matter of hydric resources exploitation of the rivers that are used by Laos to irrigate plantations and to produce electricity, but it also causes droughts in Cambodia. In this cases ASEAN should implement common policies to manage natural resources fairly and maximize the outputs of agricultural productions, through common projects, certifications, consortia and trade channels.

- **Cambodia**

The economic development of Cambodia is seriously marked by its history; an example is given by extremely poor rights and difficult access to secure land because Khmer Rouge's abolition of private ownership in 1975. Nowadays, the government assigns ownership rights on a 99-year lease basis, most of times after contestable verdicts; almost the 60% of Supreme Court cases deals with land disputes. The agrarian economy is heavily supported by Mekong river and the country is exposed to the arbitration actions of the upstream countries, especially Lao and China.; since these actors are exploiting these river flows, especially Lao for plantations and electricity generation, Cambodia is running short of hydric resources in these last years. After the Paris Peace Agreement of 1991, the country became seriously dependent on foreign aids; in particularly, it counts the highest ratio of NGO's per person and, probably, the government relies too much on foreign donors and NGOs to fund key public sectors like education and healthcare. Donors' presence affects even the distribution and the development of the urban centres like the capital of Phnom Penh and Siem Reap, close to Angkor Wat temples, because of the growing donors' expenditure for structures and social programs in those cities. There are even cases where some Cambodians receive donor salaries which are 5 times higher than those of the public sector. In 1994, the Council for the Development of Cambodia (CDC) enacted the Law on Investment, and one year later the investment amount was 2.3 billion US$. In 2015, they reached 25.75 billion US$. Of the total Foreign Direct Investment registered in the latest period, the largest amount came from China (almost 24%), the source of important investments in the fields of resource development, including rubber, and tourism, followed by South Korea with more than 10% of the total amount. The other relevant players are Malaysia, Taiwan, Hong Kong, and Thailand, whose investments originate especially from garment and shoes MNEs (Council for the development of Cambodia, 2016). From 1993 to 2003, the economy saw a rapid growth with a yearly average of 7.6%, overcoming the 10% from 2004 to 2007. Because of the global financial crisis of 2008, the trends dropped from 6.7% in the same year to 0.1% in 2009, since the garments industry and tourism are heavily dependent on the Western Markets. Short term capital flows fell, bringing to the failure of some building plans in the capital city, to which banks were importantly exposed; this could be a cause of National Bank's cautiousness of enhancing International banking practices. Industry improved significantly from 2000 to 2005, but mining is still small despite the positive trend. Considering the low-income economy, Cambodia has a large service sector, mostly because of tourism and connected activities like hotels, transportations and restaurants (Singh, Das; 2015). As represented in the recent Industrial Development Policy, the country commits itself to increase the GDP share of industrial sector to 30% by 2025 with the manufacturing sector increasing from 15.5% in 2013 to 20% in 2025. At the same time, they want to diversify the exports by growing the export of non-textile goods, reaching the 15% share by 2025 and promoting the export of processed agricultural goods to reach 12% of the total by the same year (Council for the development of Cambodia, 2016). Furthermore, Cambodia is a heavily dollarized country, with both advantages and disadvantages; the main cost is the limited ability of the monetary authority to implement discretionary monetary policy. Even if Cambodia has a reverse relationship with dollarization and inflation yet being heavily dollarized means having a fixed exchange rate. Additionally, prices of many non-traded goods may also be set in US dollars and the higher the percent of these non-traded products, the greater the rigidity of the real exchange rate to nominal rate. It should also be noted that dollarization is more an effect than a problem, the real problem is the underdevelopment of the financial system (Singh, Das; 2015).

The core of Cambodian set of incentives is still focused on agriculture and manufacturing; however, the major problem is not the target sector itself, but the lack of effective policies and their full enforcement. The Council for the Development of Cambodia (2017) states that Qualified Investment Projects (QIPs) can benefit of the following incentives:

- Profit tax exemption (Selective): the tax holiday period is composed of "Trigger period" + 3 years + Priority Period (for a total maximum of 9 years). Maximum Trigger Period is considered by starting from the emission of the Final Registration Certificate and ending on the last day of the taxation year immediately preceding the earlier of generating the first profit; Priority Period, which has a maximum of 3 years, depends on the investment capital and kind of project.

- Special depreciation (Selective): 40% special depreciation allowance on the value of the tangible properties used in the processing or production.
- Duty free import of production equipment, as QIPs domestically oriented, export oriented or aiming to support the industry
- A QIP can benefit from full exemption of the export tax.
- The rights of a qualified project can be transferred or assigned to a person who has acquired a QIP subject to approval.

Some incentives are exclusively reserved to projects located in Special Economic Zones. Regarding the basic concept and conditions for SEZs, they are defined as those zones for the development of the economic sectors which catalyse industrial and other related activities and can include Export Processing Zones (EPZ) and General Industrial Zones (GIZ). Every Special Economic Zone must have a Production Area which may have a Free Trade Area, Residential Area, Service Area and Tourist Area; moreover, it must have management office building and Zone Administration offices, all necessary infrastructures should be provided, It must have a land of more than 50 hectares with precise location and geographic boundaries. A QIP located in a designated Export Processing Zone (EPZ) or Special Promotion Zone (SPZ) is entitled to the same incentives and privileges as other QIPs stipulated within the law (Council for the Development of Cambodia; 2017):

- The exemption period for the Tax on Profit shall be provided for a maximum period of 9 years.
- The import of equipment and construction materials to be used for infrastructure construction in the zone shall be allowed and exempted of import duties and other taxes.
- The developer shall receive custom duty exemption on the import of machineries, equipment for the construction of the road connecting the town to the zone, and other public services infrastructures for the public interests as well as for the interests of the zone.
- The Zone Developer may request, under the form of a temporary admission, the import of means of transport and machineries used for the construction of the infrastructures.
- The Zone Developer may obtain a land concession from the State for establishing the SEZ in areas along the border or isolated region in accordance with the Land Law and may lease this land to the Zone Investors.
- The same incentives on customs duty and tax as other QIP shall be entitled.
- The Zone Investor entitled to the incentive on Value Added Tax (VAT) at the rate of 0% shall record the amount of tax exemption for every import.
- Zone developers, investors or foreign employees have the right to transfer all the income derived from the investment and salaries received in the zone to banks located in other countries after payment of tax.

- The Zone Developer and the Zone Investor are entitled to obtain the investment guarantees, such as non-discriminatory treatment as foreigners, non-nationalization or no-fixing price.

As underlined by the Council for the Development of Cambodia (2017), incentives on VAT exemption to the investors located in the SEZ has been extended without specific time limit. The imposition of VAT shall be automatically suspended in case of construction materials, production equipment and materials to be imported by Export-oriented and by Domestic Manufacturing QIPs in SEZ, Products produced by QIPs in the SEZ, which will become the production input to other QIPs in the same SEZ. Additional incentives have been introduced (Council for the Development of Cambodia; 2017):

- Import duty reduction or exemption and the government-borne VAT scheme (VAT exemption) have been introduced on various agricultural materials such seeds, breeds or residues and agricultural machines including tractors.
- Investment activities in agriculture and agro-industry may obtain incentives in the form of a priority period of tax exemption on profit for 3 years.
- VAT on the imported production input by garment factories is exempted if the final products are exported.
- VAT on the imported production input and equipment of supporting industry, who serves to the export of garment, textile or footwear, shall be exempted. The supply of the products or services for the export of the garment by the supporting industry or contractor shall be exempted.

- **Lao PDR**

The economic growth in Laos is due to economic reforms, enhancement of market-oriented policies and the development of exports through the exploitation of natural resources, like products of logging, mining and hydroelectric power, which is partly sold to Thailand. The communist government started decentralizing control, introducing reforms in 1986, as the expansion of foreign and inter-provincial trade, the removal of price controls, the introduction of private enterprise in agriculture and manufacturing and unified exchange rate (Singh and Das 2015). Despite the Asian crisis in 1998 and the global one of 2008, the last twenty years saw a constant economic growth, with rates around the 7% per annum. The development also determined a gradual move from agriculture to industry and services; the primary sector dropped from 60% in ‘90 to 30% in 2011, counterbalanced by the growth of the industrial sector, boosted by the growth in manufacturing, particularly in garments and textiles. Resource based products grew up from 5.5% of GDP in 1999 to more than 27% in 2011, determined by minerals and electricity exports and investment in hydropower generators. In 2015, the majority of FDI was direct to electricity generation with the 44,8% of the total amount; investors, especially from Vietnam, Malaysia, Lao and China, are exploiting the numerous flows of water present in the nation to generate electricity, reselling the surplus to neighbouring countries like and provide water for extensive plantations. Many hydropower projects have been improved in the country with the support of the private sector, aiming to strengthen export; this is influencing Cambodian economy because it is set downstream of the biggest rivers of the region like Mekong and the lack of water is becoming a constant problem. Investments are directed significantly to components of the primary sector; indeed, the first three catalysers are electricity production, agriculture and mining because Laos is still under development and manufacturing and services are not important components of the economy. Anyway, these investments on the primary sector, especially for energetic production and agriculture, are providing a solid basis for the future: energy is produced by hydroelectric stations and an important part is sold to near countries, while agriculture has been enhanced with biological and certified plantations, whose products are exported around the world. The highest part of FDI comes from Vietnam and Malaysia, which can take advantage of the agreements that ease relations among ASEAN members (Investment Promotion Department of Lao; 2017).

One peculiarity of Lao investment regime, which distinguishes it from many other nations in the area, is that it allows 100% foreign ownership in most sectors, excluding those which are considered strategic for national security, health, environment protection or national traditions; it is even more remarkable considering that Laos is a communist country, with a political structure that can be considered close to the Chinese one. The foreign investment applications are approved through a body called the Foreign Investment Management Committee which approves or rejects the applications within 60 days. These unilateral policies boosted the outward oriented trade and the investment regime in Lao, nevertheless the limited capability of the unilateral policies encouraged the government to participate in economic agreements of cooperation for a further acceleration in trade openness. The first economic cooperation agreement was the Greater Mekong Sub-region (GMS) started by Asian Development Bank in ’92; a detailed Cross Border Transport Agreement (CBTA) has been stated to ease investments and trade, and the CLM and Vietnam single visa of 2013, launched under the framework of Ayeyawady-Chao Phraya-Mekong Economic Cooperation, aims to attract ASEAN visitors through easier procedures. Thailand is Lao’s most important trade partner and it contributed to the 32.84% of total Lao’s export, while China ranks second, contributing to 20.7%. Moreover, protection policy in Laos, along with other new ASEAN members, acts on a two-tier tariff system with a different Common Effective Preferential Tariff (CEPT) and favoured nation rate for each tariff line. Thus, the country had to subscribe many different FTAs to become part of the ASEAN. The domestic absorption of the revenues coming from natural resources destabilised the competitiveness of the traditionally traded goods industries and, since the capacity of Lao PDR to implement efficient and productive use of new sources of revenue is limited, caution and restraints should be implemented in the short run (Singh, Das; 2015).

The major investment incentives provided by Lao PDR are represented by (Lao Investment Promotion Department; 2017):

- Exemption from profit taxation in the following accounting year, if the net profit from business activities is used for business operations.

- Losses can be carried forward for three consecutive accounting years.
- Corporate income tax exemption up to 10 years based on location: 4 – 10 years for projects located in zone 1 (plain and mountainous areas with poor infrastructures able to facilitate investments), 2 – 6 years for zone 2 (plain and mountainous areas with a moderate level of economic infrastructure to accommodate investments) and 1 – 4 years for zone 3 (plain areas with good economic infrastructure available for investments).
- Exemption from import duties for imported raw material, equipment, vehicles and spare parts directly used for production.
- Exemption from import duties for exportation of general goods and products.

Hence, investment promotion Incentives are strictly linked to the geographical location of the projects. Lao is divided into 3 kinds of SEZ, which differ on the level of development of the infrastructures: zone number 1, number 2 and number 3 (figure 7.28). According to the Investment Promotion Law (IP Law), the promoted sectors are agriculture, industry, handicraft and services. After the different SEZs, promoted sectors activities are classified by the government into three further levels for each Special Economic Zone; this coincides to different tax exemption on corporate income and depends on the specific field of investment. Specific exemptions are applied to investments for the development of schools, hospitals, kindergartens, research centres, universities, colleges, universities and some public utilities; they can obtain the exemption rental or land concession up to 15, 10 or 3 years for zone 1, 2 or 3, respectively. Then, additional 5 years are provided for cooperate profits tax exemption; further promotion and non-tax incentives regular import duty rates stands between 3% and 40%, depending on the kind of the imported goods, while, after profit tax incentives, investors are entitled to customs duty and tax incentives (Lao Investment Promotion Department; 2017):

- Exemption from import duties for the imports of raw material and equipment directly used for production, respecting specific laws.
- Exemption from export duties for general goods and products; the exportation of natural resources and natural resources-made products must observe current regulations.
- Exemption from profit tax in the next accounting year, if the net profit from business activities is used for business expansion.
- If an investor suffers losses after completion of tax finalization with the tax office, the investor could carry the loss forward to 3 consecutive accounting years.

For SEZs, the provision of incentive treatment must follow the compliance with the Decree on the Establishment and Activities of respective zone; then, the government grants assurances against expropriation or nationalization without any kind of compensation. The following incentives are granted to all foreign investors (Lao Investment Promotion Department; 2017):

- Permission to lease land, up to 20 years, from a Lao national and up to 50 years from the government.

- Permission to own all improvements and structures on the leased land and permission to dispose of the improvements or structures on it.
- Facilitation of visa and work permits for foreign skilled labour force if no Laotian is available to work on the projects.

3.7 FDIs in Thailand

Moving the analysis on other ASEAN members, it is possible observe changes in the historical hierarchy of the region; in detail, Thailand represents an emblematic example since it saw important change in the last years. As highlighted in figure 7.29, the country, which is one of the most developed in the region, is losing its central position as a destination for FDI inflows; it does not present increasing rates like other nations, as Cambodia and Laos, and, in these last, years it seems to be less attractive for international investors. Meanwhile, near nations as Vietnam are attracting a higher amount, due to changes in macroeconomics and MNEs strategies, but also because of different domestic strategies in FDI attractiveness and investments to favour businesses. However, Thailand is going to modify its strategy by fostering outward FDI to favour domestic businesses and by enhancing its productiveness through incentives and investments on productions with high levels of technologic content. Inward flows have been one of the most significant driving forces for country's economic growth during the last decades, since it is an important production and assembly base for many industries such as automobiles and hard-disk drives. As a result, many investments come from multinational enterprises of developed countries including Japan, the European Union and the United States. Inward FDI in Thailand significantly promotes employment, total factor productivity and economic growth. But the nation has experienced a lack of operational workers for several years because of a mismatch between demand and supply in the labour market; while the demand for workers that graduate from vocational school has been increasing thanks to a rise in manufacturing bases, a larger portion of the new generation chooses to pursue a bachelor's or higher degree instead. Furthermore, the minimum salary of qualified workers with a degree raised to 15,000 THB per month (approximately 500 US$) in 2011; this policy further drives students away from pursuing vocational study, so the country is facing the most severe problem of shortage in operational workers and skilled labour when compared with other ASEAN members. Additionally, Thailand is turning to be an aging society, which also causes a decline in labour force and intensifies the lack of operational workers. Besides those issues, the nation faces a sharp increase in the wage rate and it has enacted a national minimum and uniform wage that mandates a daily rate of nearly 10 US$ in 2013 (the minimum wage rate was around 7.17 US$ in Bangkok and 5.40 US$ in provincial areas in 2011 and became 9.86 US$ and 7.44 US$ respectively in 2012); this increase affected labour-intensive industries such as textiles, garments, electronics and leather wares. Both, the shortage in operational workers and the higher wage rate, led to a sharp growth in Thailand's outward FDI. Trade liberalization and economic reforms in the Greater-

Mekong Sub-regional (GMS) countries like trade agreements and economic cooperation programs in ASEAN region also represent important driving force for Thai outward FDI; indeed, the last Board of Investment's (BOI) five-year strategic plan (2013-2017), the mission changed from "promoting inbound investment" to "promoting both inbound and outbound investment". As a result, the BOI has set up Thailand Oversea Investment Support Centre (TOISC) and Thai Overseas Investment (TOI) plan (Cheewatrakoolpong and Boonprakaikawe 2015). Anyway, among its ASEAN counterparts, namely Singapore and Malaysia, current level of outward FDI is still rather low. Cheewatrakoolpong and Boonprakaikawe, with their study of 2015, analysed those factors influencing outward FDI decisions of Thailand and its counterparts in CLMV countries, their prioritized host countries. They started with the estimation of time series regression, then, factors explaining the gaps between outward FDI of Thailand and those of Singapore and Malaysia. Using panel regression, they found out that host countries' market demand, their openness policies and their trade openness policies influence significantly the level of outward FDI of Thailand. Per capita GDP which indicates market demands of recipient countries is the most influential factor determining outward FDI, followed by FDI openness, which is measured by the stock of FDI inflows in host countries per their GDP. Moreover, productivity and labour force are important explanatory variables for outbound investment; higher productivity leads to more outward FDI and a smaller size of labour force leads to more outbound investment from Thailand. Then, economic-related factors of host countries including real effective exchange rate and inflation rate are not significant determinants, while geographic factors and natural resources boost investments in those nations. In conclusion, the gap decomposition suggests that difference in national income and implementation of outward FDI promotion policy contribute most to the difference between outward FDI performance of Thailand and the other two selected ASEAN countries. As a result, the introduction of effective outward FDI promotion policy may help to catch up with these ASEAN colleagues in term the outward FDI performance, since the country has started its outward FDI promotion policy in 2013 while its counterparts have implemented such policies for several decades (Cheewatrakoolpong and Boonprakaikawe 2015).

Some measures could be adopted to enhance to foster outward FDI and that could be helpful for Thailand future development: information provision and supporting service, providing relations and contacts and financing projects; moreover, a government proactive support in creating a favourable environment for tax treaties and negotiations. Among the measures that Thai government has already enhanced to support outward Direct Investments, we can find (Board of Investment; 2018):

- the protection of foreign investments, through agreements for the promotion and protection with partner countries;
- fiscal measures, such as Double Taxation agreements and tax exemption on dividends from offshore investments;
- the provision of information and investment related services like training and consulting services or exploration of opportunities for overseas investment;

- financial measures, i.e. long-term loans, risk guarantees and capital outflow, provided in collaborations with EXIM Bank, commercial banks, Thai Credit Guarantee Corporation and the Bank of Thailand.

Thailand also presents some specific factors which would require specific solutions involving the internal companies' environment. In fact, firms in local competitive sectors, such as food and hospitality, are relatively small; then, Thai export sector is unlikely to drive outward FDI, because electronics and motors (which accounts for the 32%) are often part of transnational corporations' supply chains, and the number of Thai transnational corporations is limited. These weaknesses in value chain suggest that Thai outward FDI is unlikely to look like newly industrialised economies, where manufacturing functions are relocated overseas, while keeping R&D, branding and marketing within the national borders (Board of Investment; 2018). Furthermore, it is important to analyse and understand even the policies that Thai government has activated to attract new FDI. Besides the traditional incentives like Special Economic Zones, it developed a policy with the purpose to enhance science, R&D, technology and development and innovation; those new fields are vital because would allow the nation to improve the productivity of labour force and attract those investments which cannot be addressed to less developed countries like Cambodia and Laos. In 2016, Thailand allocated 20.3 billion THB to increase R&D capabilities, as part of the policy to boost its knowledge economy and provide new opportunities for investors. The new policy highlights some separate targets to stimulate Thailand's R&D capabilities (Board of Investment; 2018):

- Increase funding of national research and development to 1% of national GDP.
- Support the use of R&D and innovation in national investment projects, including projects in clean energy, electricity, automotive vehicles, rail systems, water and waste management, as well as promoting domestic products and technology.
- Review public sector strategies to create opportunities for domestic technology development and in necessary occasions requiring the need to acquire foreign materials and technologies, taking advantage of possible spill overs for future technological self-reliance.
- Supporting integrated science, technology, engineering, and math education to meet the needs of sectors with skill shortages, connecting education to employment and encouraging public sector research personnel to work with the private sector.

Looking at the single projects, they are eligible for the following merit-based incentives (Board of Investment; 2018):

- Projects in R&D are guaranteed an 8-year corporate income tax exemption without being subject to an exemption cap, exemption of import duty on machinery or materials used in manufacturing export products.

- One additional accounting year of tax exemption is applied if qualified investments or expenditures are at least 1% of the project's total revenue of the first 3 years combined (the total period of exemption must not exceed 8 years).
- Two additional accounting years of tax exemption are provided if qualified investments are not less than 2% of the project's total revenue of the first 3 years combined (the total period of exemption must not exceed 8 years).
- Three further accounting years of corporate income tax exemption if qualified investments or expenditures are not less than 3% of the project's total revenue of the first 3 years combined (the total period of exemption must not exceed 8 years).
- For new R&D equipment and machinery, the depreciation value is set at 40% of the asset cost for the first year
- Projects located in a promoted science and technology park or one that is approved by the Board will receive an additional 50% reduction in corporate income tax for 5 years after the end of its corporate tax exemption period.
- Non–Tax incentive include permission to bring in expatriates, own land and take or remit foreign currency abroad.

Established in 2003, NIA (National Innovation Agency) serves between private and public agencies to boost innovation in Thai economy; the NIA currently offers grant programs for firms with promising prototypes of technological products. The requirements that have to be observed are: the innovative device or technology is already functional and can perform its supposed role; the project must be certified or given financial support from an education institute, research institute, research support agency or a widely recognized business association; the certification must be in the form of a written document and signed by an authorized person at the institute or agency; projects that have completed the laboratory phase and are entering the commercial phase, or are prototypes, experimental units, pilot scales or plants, and pre-commercial to full-scale trials. Moreover, the loan must go towards development of a prototype or pilot project that is in the initial phase of commercial production, while the project must be in a pre-revenue generating phase and has good market potential. This program grants expenses reimbursements up to 75% of the overall value of the projects.

Until twenty years ago, many companies that were looking for low production costs and enough level of infrastructures to produce basic goods or intermediate parts to be assembled in the major industrial sites, chose peripheral provinces around the main Thai production zones. With the entering of Myanmar, Lao and Cambodia in ASEAN community, the enforcement of internal free trade agreements and the implementation of economic corridors, many of low cost productions moved from Thailand to poorer nations, mining local manufacturing production. To contrast this important loss, the country implemented special economic zones in border and less developed areas, providing incentives and tax relief.

This tool has been particularly effective for the productions of those intermediate elements that are assembled in bigger and more technological factories, like it happens for automotive; one example of the effectiveness of this politic is represented by Lafranconi Ltd., an Italian brand that established a factory in Rayong province and produces exhaust components for motorbikes produced in Thailand by Ducati and Triumph. About the government's policy to develop border areas with Myanmar, Malaysia, Lao and Cambodia, to improve the quality of life and promote trade and investments, 10 Special Economic Zones are being established close to the borders, in strategical locations. Furthermore, the government provides supporting measures and other promotions for the development of basic infrastructure, including tax and non-tax incentives. From 2010 to 2014, the trade value between Thailand and its neighbouring countries has grown continuously to an average of 900,000 million BHT, and kept on doing it, especially after the formation of the ASEAN Economic Community (AEC) at the end of 2015. Nowadays, labour intensive industries and distribution centres are taking interest in investing in these countries to access labour and to distribute goods conveniently, as well as import goods, including raw materials or parts, from abroad to Thailand. When the AEC is fully implemented, business communications and connectivity for raw materials and supply chain, including the domestic consumer market along Thailand's border, will increase. Activities or industries suitable for investment in the Special Economic Development Zones (SEZ) include labour intensive industries, industries relying on raw materials from close partners, border trading requiring the establishment of a bonded 167 warehouse, and distribution centres to near countries, tourism supporting businesses as well as various service activities to support community expansion around the SEZs.

Projects investing in those areas will receive government support like fiscal measures and government facilitation (Board of Investment; 2018)

- Double deduction from the costs of transportation, electricity and water supply.
- A 25% deduction of the project infrastructure construction costs from the project capital.
- Permission to employ foreign unskilled labour.
- Exemption of import duties on machinery, raw or essential materials used in manufacturing of export products;
- Non-tax incentives such as land ownership and bringing in foreign skilled labour.

Non-BOI promoted projects, i.e. activities that are not listed in the eligible list of activities or do not meet the minimum investment requirement stipulated by the BOI, can apply for the incentives offered by The Revenue Department, Ministry of Finance, which entitles a reduction of corporate income tax from 20 to 10% for 10 accounting periods for new projects or expansion of permanent building used in the project, for revenue deriving from goods manufactured for import substitution, for export goods losing competitiveness or for revenue derived from services or use of services in the SEZs (Board of Investment; 2018).

4. Vietnam

4.1 Country outlook

Vietnam's development of the last 30 years is significant; reforms launched since 1986 have consistently the economic growth of the country. Indeed, the Vietnamese performance of 2017 has been resilient, mirroring strong export-oriented manufacturing sector and domestic demand, while agriculture is improving gradually if compared to the previous years. GDP growth is estimated at 6.3 percent in 2017 and it is the fastest expansion in the past ten years reflecting, among the several sources, also robust foreign investment inflows. In the medium term, the country outlook remains positive, sustained by continuous development and macroeconomic stability, while inflation is projected to stay moderate thanks to a benign global price environment. Furthermore, external balances are projected to benefit from robust exports and FDI inflows; on the fiscal front, the combination of deficit reduction and divestment from State owned enterprises is expected to contain public debt over the medium term. Vietnam is also experiencing rapid demographic and social change; the population reached about 95 million in 2017 (up from about 60 million in 1986) and is expected to expand to 120 million before the 2050. Currently, 70 percent of the population is under 35 years of age, with a life expectancy of close to 73 years, but people are rapidly aging. Moreover, the emerging middle class, accounting for 13 percent of the population in the 2017. is expected to achieve 26 percent by 2026; this is mainly due to the significant development of basic services provisions, as health and education, and of access to household infrastructure in particularly in rural areas (in 2016, the amount of population using electricity as main source of lighting was 99%, up from 14% in 1993). Regarding gender gaps in the labour force, women's economic empowerment has also steadily improved in Vietnam over the past decade; their participation rate is within 10 percent of that of men, which is a smaller difference than that found in most other countries. In addition, there has been an upward trend in the share of women in wage work, mostly driven by increased employment opportunities for women in foreign-owned export-oriented factories. As one of the most open economies in the world, Vietnam is seeking regional and global opportunities for further international integration; it is member of the World Trade Organization (WTO), the Association of the Southeast Asian Nations (ASEAN) and the ASEAN Economic Community, while has signed sixteen bilateral and multilateral trade agreements, including the Vietnam-EU FTA, the Regional Comprehensive Economic Partnership (RECEP) and the Trans-Pacific Partnership (TPP). (World Bank, 2017)

Table 17: Vietnam, key economic indicators 2014-2022[9]

	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
Real economy								
GDP (nominal, trillion dong)	3938	4193	4503	4987	5517	6095	6747	7472
Real GDP (% change)	6	6.7	6.2	6.3	6.4	6.4	6.5	6.5
Consumer price index (% change)	4.1	0.6	2.7	4	4	4	4	4
Fiscal								
Revenues and grants (% GDP)	22.2	23.3	22.9	22.9	23.1	23.3	23.4	23.4
Total expenditure (% GDP)	28.5	29.5	29.5	29.1	29	28.6	28.3	28.3
Fiscal balance (% GDP)	-6.3	-6.2	-6.5	-6.2	-5.9	-5.3	-4.9	-4.9
Public debt (% GDP	55.1	58.3	62.1	63.6	64	65.3	66.6	66.9
External								
Exports of goods (% change)	13.8	7.9	9	9	9.5	9.9	10.1	10.3
Imports of goods (% change)	12	12	5.2	9.6	10.2	10.5	10.8	11.1
Current account balance (%GDP)	5.1	0.5	3	1.2	0.8	0.5	0.5	0.4

While bringing opportunities and establishing Vietnam's commitment to further economic and trade integration, these new generation agreements also pose challenges as success will require further economic, market, and business reforms. Thus, some macroeconomic vulnerabilities persist and should be managed to ensure the economic growth and to reduce possibility of negative shocks; despite steps to enhance banking sector stability, asset quality problems in the sector have not been fully addressed and the credit growth remained elevated at 19 percent (year-on-year) in 2016. This rapid expansion of credit, more than twice the growth rate of nominal GDP, is cause for concern, because of the incremental declining of output gains. Additionally, the country's total outstanding public debt (central government, publicly guaranteed, and local government) is estimated at 62 percent of GDP in 2016 (see table 17), about 15 percentage points higher than in 2010 and quickly approaching the legally mandated ceiling of 65 percent. Hence, this medium-term outlook is subject to several downside risks; domestically, slow implementation of structural and fiscal reforms may worsen medium term growth prospects; on the external front, Vietnam's economy remains susceptible to a further slowdown in the global economy because of a potential rise in protectionist policies As mentioned before, GDP growth is mainly supported by robust domestic demand, in turn reflecting strong private consumption and investment growth. With an expected pickup in global activity, Vietnam's economic prospects may improve to 6.4 percent between 2017 and 19 and inflation is forecasted to stay moderate over the medium term. Meanwhile, the current account surplus is expected to decline as imports recover and the fiscal account is would gradually rise, in line with government commitments to reduce the deficit. This medium-term outlook is subject to several downside risks. On the external front, national economy remains susceptible to a further slowdown in the global scenario due to the potential issuing of protectionist policies

[9] *Source*: World Bank, *2017*

regarding trade and investment channels. Vietnam aspires to become a modern, dynamic middle-income economy; thus, it is planning four key structural change processes: institutional transformation from plan to market; structural transformation from an agrarian to a manufacturing and services base; population and spatial transformation from rural to urban; and shifting from a largely closed to an export-driven and globally integrated economy. Reaching these goals will require successful implementation of these structural transformations, while picking opportunities and managing risks that exist or appear would also play fundamental roles. Opportunities include an emergent domestic middle class, a healthier and more educated population and an increasing integration into global and regional markets. Major risks are a rapidly aging population, a less hospitable global economy, climate change, and a need to keep up with technological and business innovations. The past country's development model, based on factor accumulation and supported by a rapidly expanding labour force and high investment rates, may no longer give positive results; a slowdown in labour force growth generated a productivity improvement which is unlikely to register the rates Vietnam aspires to. Thus, a boost will be needed and it should come from reforming the state-owned enterprise sector, strengthening the domestic private sector, and transforming agriculture, where productivity is low; moreover, several advantages could also come from maximizing benefits of urbanization and increasing efficiency of infrastructure investments. However, despite the nation has maintained macroeconomic stability over recent years, some vulnerabilities, including fiscal imbalances and unresolved problems in the banking sector, persist; hence, a sustained fiscal consolidation and adoption of a monetary policy framework that uses inflation and increases exchange rate flexibility might also support the country's economic stability. Such reforms could be enhanced by strengthening the institutional foundations for monetary, fiscal, and public financial management; furthermore, addressing nonperforming loans (NPLs), consolidation and capitalization will also be fundamental in sustaining growth and solving issues of the banking sector, while a further improvement of nonbank financial institutions would increase access to investment finance and long-term capital gains, needed for critical infrastructure projects. Vietnam is an attractive FDI destination, but most domestic firms are small and only serve the domestic market; production is dominated by family farms in agriculture and household enterprises in manufacturing and services. Most medium and large domestic firms are state-owned enterprises or closely connected to the state; to ensure equality between actors, improve access to finance and markets, protect property rights and enforce competition policies, the business environment and regulatory framework require further adjustments. Over the past 30 years, Vietnam has also experienced an extensive urban transformation; this phenomenon has mainly taken place in Hanoi and Ho Chi Minh City (HCMC), with limited industrial specialization in secondary cities. Urbanization and the enabling of agglomeration economies will be essential to meet Vietnam's growth aspirations. However, a review of policies and investments is needed to amplify economic density in and around large metropolitan areas and a network of secondary cities and to reduce distance to markets and equalize access to services between migrants and urban residents. The need for further productive infrastructure is still an issue, in particularly considering energy, transport, water, sanitation and telecommunications networks; the increased fiscal pressure and the national public debt ceiling limit resources available from the state for infrastructure investments (including the amount the government can borrow for publicly financed infrastructure). Furthermore, investor structures and challenges and project governance issues have, in the past, limited the use of public–private partnerships (PPPs) in the country; there are also limitations to the possibility for the private sector to build, finance and operate infrastructure through build-own-operate-transfer (BOOT) or build-own-operate (BOO) models. Agriculture employs about half of the labour force, but the sector needs to be adapted to new and global scenarios; its contribution to growth and poverty reduction has recently weakened, while labour productivity is also declining and land productivity is low compared with that in near countries. (World Bank; 2017)

A BMI's (Business Monitor International) research on Vietnamese trade and investment risk (see table 18) break it up into different areas:

- Economic openness;
- Government intervention;
- Legal.

Table 18: Vietnam, trade and investment risk (100=lowest risk; 0=highest risk)[10]

	Economic openness	**Government Intervention**	**Legal**	**Trade and Investment risk**
Vietnam	70.6	44.4	51.5	55.5
East and South East Asia average	55.3	56.7	55.2	55.7
Asia average	45.1	51.2	46.8	47.7
Global average	49.4	50.3	50.3	50

Companies benefit from a high level of economic openness, which has enabled robust expansion in both trade and foreign investment. However, competitiveness and productivity are hindered by several factors, including high levels of government intervention in the economy through regulation and the dominance of state-owned enterprises in key sectors (such as banking and mining). The country is further affected by pervasive corruption that influence the efficacy of the legal system, as well as the onerous bureaucracy surrounding paying taxes and opening and closing a business. That information is also summarized in figure 7.30, which describe a SWOT analysis of Vietnam and highlight the main aspects of the national economic environment from a trader or an investor point of view. (BMI; 2018)

[10] *Source*: BMI; *2018*

4.2 Economic openness

Vietnam has become a rising economy in the ASEAN region through its rapid growth and increasing FDIs; import and export have also supported the national economy with a robust improvement, facilitating the efforts to liberalise trade and to expand regional and international trade agreements. Moreover, government reforms have opened the economy to foreign investors which also contributed to the GDP growth of more than 6% in 2017, making the country one of the fastest growing economies in the world. This trend would continue in the coming years basing on relative political stability, FDI inflows, high productivity and higher savings; furthermore, the trade liberalisation is giving significant positive results in sector as manufacturing, construction and services. In the first quarter of 2018, Vietnam's Ministry of Finance announced 10 draft decrees on preferential tariff rates for 2018-2020 related to its 10 Free Trade Agreements (FTAs), including the ASEAN Free Trade Area, as well as FTAs between ASEAN and Japan, India, Australia-New Zealand, South Korea, China and EU. Most of the goods will enjoy a 0% import tariff (in effect from January 2018), in line with the country's commitments within the FTAs' frameworks. Exporters will continue to benefit from the reduced tariffs, leading to greater economic integration; this will further lead to an increase in foreign investments, competition, production and business efficiency, while it will also reduce the input cost for domestic firms. With reduced tariffs leading to a reduction in import tax revenues, the state will likely offset it by an increase in domestic tax collection in the medium term. The country is further developing a strong infrastructure project, in particularly in transport and power, as it seeks to improve logistics and address electricity shortages; the government is trying to draw in foreign private sector expertise, given the high technical requirements of these projects. In 2017, the industry showed significant growth opportunities in terms of production, exports and retail sales, particularly regarding the rice, coffee, livestock and dairy sectors. Then, economic and financial integration in South East Asia will benefit Vietnam's exports of agricultural products, but the country will face increasing competition in its key markets. The concretization of its promising potential will only be achieved if the country would rise its competitiveness and would improve product quality and supply chain efficiency. Thus, summarizing, Vietnam takes advantage from increased FDI due to its relative macro-stability, low wages and a large and youthful workforce, which contribute in keeping its appeal as a regional manufacturing base; government expects that inward FDI flows will rise in 2018-2020 in line with increased efforts to attract factories by building a more pro-business environment. (BMI; 2018)

Concerning the trade openness, export and investment-led growth model that the Vietnamese government is pursuing has drawn significant investor interest and enhanced trade; the increasing pace of regional integration presents many lucrative opportunities that businesses can enjoy (in particularly manufacturing industries). By expanding trade relations and lowering tariffs between key trade partners, the country should continue experiencing robust trade growth over 2018-2022. The Vietnamese economy is dominated by its manufacturing and services sectors, and both are becoming increasingly diversified, advanced and integrated with regional and global value chains. Indeed, medium-term growth will likely be driven by important expansions in those sectors, which are supported by steady FDI inflows, diversified and resilient exports and a fast-rising tourism industry; moreover, increasing economic and financial integration in East and South East Asia will benefit Vietnam's economy. As mentioned, despite transitioning to a more service and industrial base, agriculture remains a key sector in the nation, employing about half of the population; in particularly, the country is one of the top rice and coffee exporters in the world. The agricultural and agro-processing industries hold some growth opportunities in terms of production, exports and retail sales; however, the country faces growing competition in its key markets. Additionally, Vietnam's industrial manufacturing sector growth will remain robust, supported by steady inflows of investment and diversified export markets and types of goods; in recent years, nation's economy has benefited from multinational companies, such as Samsung Electronics, Intel, Toyota and Ford, and many textile, apparel and shoemakers including Nike, which has moved their manufacturing facilities into the country to take advantage of increasing population and trade openness. This has raised Vietnam's trade profile to become one of the largest South East Asian exporters to the US and EU; the nation is a rapidly growing market for manufactured intermediate goods, vehicles parts, textiles, chemicals and derivatives. Furthermore, the manufacturing sector is a key import driver because several production inputs come from close countries as China, South Korea, Singapore and Japan; thus, BMI expects that the total trade will achieve 402 USD billion in 2018, with exports accounting 231 of them and imports 171, while it forecasts a significant growth in terms of trade volumes over the medium term (13% each year between 2018 and 2022) supported by several factors, including a large, rapidly growing population of around 96 million that provides a sizeable labour force to satisfy production needs. Export growth to the US will, however, remain uncertain in the short- to medium-term due to the US administration's movement towards more protectionist policies, with Asian products in focus. The US is Vietnam's largest export partner (figure 7.31), accounting for an estimated 21% of Vietnamese exports in 2016; on the other hand, the US imports accounted for just 2.7% of the national value, ranking behind Singapore and Hong Kong. In addition, the country remains vulnerable to fluctuations of Chinese economy, since the economic partner accounted for 13% of exports and 31% of imports of the total value; thus, any significant growth slippages in China will weigh on growth and investment dynamics in the wider region, in particularly Vietnam. Enhancing Vietnam’s exports is a continued focus on further integration in the regional and global economy; hence, the country’s average tariff rate stands at a low 3.4%; while it has been a member of WTO since January 2007. Firms dependent on imports and exports have benefited from the government's consistent efforts to liberalise foreign trade since the 1980s, which has lowered the cost of trade while increasing the competitiveness of local products. Trade has been facilitated by Vietnam's membership of the Association of South East Asian Nations (ASEAN) and the ASEAN Free Trade Area (AFTA), which significantly lowered import tariffs and regional manufacturing costs, and of other FTAs.

Vietnamese government is also focused on attracting foreign investment, especially in sectors that will bring advanced technology, increase the labour market skills and improve country's labour productivity. The attractiveness as an FDI destination has raised due to continues key legal reforms related to the business environment. Other FDI pull-factors include a national stable political system, a strategic location near global supply chains and an abundant labour force that is less costly relative to China. However, the state's role in the economy remains significant and some sectors are restricted for 100% foreign ownership, including energy, transport, mining, utilities and agriculture. Recent changes to the Investment Law and the development of special economic zones have demonstrated Vietnam's open attitude to investment; manufacturing and processing activities account for the majority of FDIs, at 69.9% of Vietnam's total registered capital. BMI forecasts, in the medium term, a more stable economic environment in Vietnam, based on a decisive shift in the government's focus towards policies aimed at maintaining price stability and ongoing efforts to further address fiscal imbalances. Moreover, Vietnam is one of the few counties in Asia that has been able to sustain manufacturing growth; since it is a developing economy with young, increasingly urbanised population and inexpensive labour, the country will maintain its manufacturing powerhouse status in Asia. Indeed, the sector dominated FDI inflows (in particularly since 2013) as investors continued to move large scale operations from other developing nations to Vietnam, such as the investment influx to the textiles and apparel industries. Over the medium term, however, as wages rise, the manufacturing focus will shift to higher value add production. Hence, the country is attracting new and additional investment in the ICT and energy sectors. Information technology (IT) has drawn investments from companies such as Samsung (USD3bn), LG (USD1.5bn), and Microsoft (USD500mn) in recent years. The FDI inflows to the IT sector are in line with Vietnam's strategic efforts to shift FDI from low-end manufacturing to the high-tech sector; currently, it has two high-tech industrial parks: Hoa Lac High-Tech Park (located in Hanoi) and Saigon High-Tech Park. The country also continued to attract investment in infrastructure projects such as power generation, roads, railways and water treatment; if the government further liberalises the sectors, it could create highly lucrative opportunities for investors. The legal environment for foreign investment is enshrined in the 2005 Investment Law, which offers protection to foreign investors against the nationalisation or confiscation of property or assets, defines investment incentives and rules and outlines government policies for other investment issues. As mentioned, foreign ownership is prohibited or restricted in certain sectors, such as national defence and security; however, the participation is particularly encouraged in agriculture, labour-intensive industries, hi-tech industries and infrastructures development. Under the current laws of Vietnam, there are various investment preferences and incentives to investors who have projects in industries or locations encouraged via government policies; a 10% rate for the 15-year period beginning with the first year of revenue may be available for income from new investment projects in areas with especially difficult socioeconomic conditions. Then, incentives for research and development (R&D) have been consistently among the most favourable in Vietnam, since they include tax exemptions, financial support and preferential land lease fees. The government's gradual liberalisation of industry regulation and the use of public-private partnerships (PPPs) for the country's construction and infrastructure industries is improving the national logistic profile. Furthermore, liberalisation efforts, including decisions in 2014 and 2015 to lift restrictions on foreign real estate investments and ownership of several industries will help improve the attractiveness of Vietnam for PPPs; anyway, this appeal may be decrease due to the lack of transparency in the processes. Since the government has been making efforts to break up state monopolies and privatise state-owned enterprises, despite being a slow process, it would offer opportunities in the future; indeed, efforts to introduce private sector in the road and rails sectors will support the economic growth in the coming years. Much of the country's FDI flows come from regional peers such as China, South Korea, Japan and Malaysia. Vietnam's Small and Medium Enterprise Development Fund (SMEDF) is also partnering with South Korea's Small and Medium Business Corporation (SBC) to encourage SME development in the two nations. Indeed, South Korea is currently one of the largest foreign investors in the country, with specific investments going into the electronics, energy and manufacturing sectors. This investment flow has boosted Vietnamese SME growth, enabling them to gain access to advanced technologies and to the global supply chain. Special economic zones in Vietnam are also well developed; the country has around 300 industrial zones (IZs) and export processing zones (EPZs) which allow investors to enjoy a range of investment incentives. Additional services located within the zones facilitate businesses in registration and export processes; however, investors should be aware that in practice the time involved for clearance and delivery can be lengthy and unpredictable. This is because additional services relating to customs declaration, appraisal, insurance, reprocessing, or packaging require the approval of the provincial customs office. Summarizing, as the economy gradually shifts towards a more market-oriented system by allowing an increased foreign competition, this will create opportunities for foreign investors seeking to penetrate the Vietnamese market. Indeed, continued state efforts to implement reforms and simplify bureaucracy will likely benefit businesses by increasing transparency, accountability and fair competition. Then, foreign participation in sectors that are presently dominated by SOEs should also contribute to an overall improvement in the efficiency of the economy over the next decade. Anyway, there are some barriers to FDI that can largely be attributed to the slow liberalisation of the investment space in sectors dominated by the state, legal risks, as well as the existing restrictions on 100% of FDI in all sectors. Firms still face challenges applying for investment licences, for which the procedures are complex and lengthy, increasing delays and operational costs: (BMI; 2018)

- *Regulatory barriers and administrative burden*: the overall administrative burden negatively affects investment decisions; with the new Investment Law, businesses must apply for an investment license when establishing a new company and update their business license when they: make significant changes (such as increasing investment capital), restructure the form of investment or investment ratios between foreign and domestic partners, change the foreign management structure, or add new business activities. Foreign investors are also subject to different business licensing processes and restrictions. Efficiency of procedures in construction and environmental permitting is insufficient, while corruption raises risk for investors; in addition, the lack of substantive regulations on merger and acquisition activities makes such transactions risky.

- *Dominance of state-owned enterprises*: there are approximately 2,000 SOEs where the state controls a majority interest, and they operate in most industries and areas, including those such as apparel, banking and mobile phone services where the private sector would operate more efficiently. Privatisation processes have been slow; in several key sectors, including transportation, agriculture, utilities, financial services, manufacturing, and construction, government linked corporations continue to dominate the market, while the resource industry is largely state-led and heavily regulated.
- *Localisation requirements and foreign ownership limits*: Foreign investors have maximum ownership restrictions on some sectors considered strategic; electricity, transport, mining, banking and telecoms infrastructure sectors have maximum foreign ownership limits (ranging from 49%-65%). Moreover, foreign investors may possess majority shares in securities or fund management companies in Vietnam only if they possess the required licence in their home country and have at least two years of experience in the financial sector in their country of origin.
- *Conformity with Economic Master Plans*: FDI projects must conform to one or more sectoral master plans; they are economic development policies that set five- to ten-year targets for an industry. The requirement for projects to conform to relevant master plans can be problematic for foreign investors, as the grounds for assessing compliance with a specific plan are unclear.

4.3 Government intervention analysis

Onerous tax bureaucracy and relatively low levels of financial inclusion in Vietnam altered the country's competitive landscape; businesses face inefficient, costly and cumbersome tax administration, compounded by high levels of government involvement in important economic sectors, in particularly banking and financial services have barriers for foreign investors. However, operating costs are partly moderated by a steady improvement in access to international financial markets and moderate corporate tax rates by regional comparison. Those services industries remain in a development stage; there are several opportunities for domestic and foreign players to grow, as through mergers and acquisitions. Vietnam's regulatory and legal framework, as well as its business environment, is mediocre relative to regional ASEAN standards, but continuous improvement going forward should boost the attractiveness of the market. BMI forecasts consider a significant economic growth averaging over 6% per annum over the coming decade to elevate household incomes considerably, creating strong demand for retail banking, insurance and wealth management products. Vietnam is also aiming to reduce corporate income taxes on small- and medium-sized enterprises (SMEs) by 3% between 2017 and 2020; through this strategy, the Finance Ministry's Tax Policy Department is aiming to boost the number of SMEs in the country to one million by 2020, which will help to offset the revenue drop and increase the state budget. Advantages to investors in Vietnam include a moderately low corporate income tax rate and relatively high fiscal freedom; anyway, Vietnamese tax administration systems and significant government control over major strategic economic sectors continue to increase operational costs while restraining competition in the market. The government is heavily reliant on tax revenues to boost public spending; corporate Income tax in Vietnam applies to all domestic and foreign entities that have income from the country. The standard rate is 20%, but specific sectors, as oil & gas or natural resources, are subject to rate between 32%-50; meanwhile, those in preferential sectors may receive rates of 10%-20%. The lowest rates may be offered to encourage sectors such as healthcare, education, high-tech, infrastructure development and software, as well as investors in special economic zones or underdeveloped areas with difficult socio-economic conditions. However, benefits from tax incentives are offset by the complexity and difficulty in paying taxes, hindering business operations and increasing administrative costs because it requires on average 14 annual payment procedures for a total of 498 hours (in Singapore the time is just 64 hours); thus, the tax collection system is viewed by investors as poorly managed. In 2017, Vietnam made paying taxes less costly and arduous by facilitating the administrative process of complying with tax obligations and abolishing environmental protection fees while reducing the number of procedures and documents for filing VAT and social security contributions. The country's financial system poses a high amount of risk to firms, including an underdeveloped banking system that remains struggled with significant non-performing loans, limited raise of capital stocks and fixed and state-controlled currency regime that can adversely affect the value of foreign investments in the country. Hence, in 2017, Vietnam strengthened minority investor protections by making it easier to sue directors in cases of prejudicial transactions between interested parties, increasing shareholder rights and role in major corporate decisions, strengthening the ownership, control structures of companies and increasing corporate transparency requirements, which fits well for the business environment in the long term. Moreover, the high level of competition from state-owned enterprises creates a risk to investors by decreasing the efficiency of the market and reducing competition; while SOE's share of the economy has steadily declined over the last decade, they still account for around one third of Vietnam's GDP. The government still plays a leading role in many sectors of the economy and it remains dominant in key strategic ones, such as oil & gas, telecommunications, electricity, mining and banking. BMI's prospects suggest that a positive outlook on the banking sector, as on the finance and insurance industry, continue to grow, supported by robust expansion in other sectors of the economy (particularly construction and manufacturing), favourable demographics, and an increase in banking penetration among the population. With about 60% of its 90mn population under the age of 35, the working-class population will continue to expand rapidly over the next twenty years and bring about greater demand for consumer banking services. Moreover, the under-banked nature of the population suggests that there are opportunities for further financial inclusion and customer base expansion for Vietnamese banks. Private sector businesses are particularly disadvantaged when trying to access credit due to a preference for offering capital to public entities; this is mainly the result of poor private lending institutions and the inadequacy of existing credit records coverage in Vietnam. Despite having this potential, the sector suffers of poor asset quality inefficient and mandatory lending practices, as well as somewhat arbitrary government regulations. Furthermore, the Vietnamese government also established a debt management agency, known as the Vietnam Asset Management Company, in July 2013, which will help to strengthen risk management practices and address the high non-performing loans ratios among local banks over the long run and will play a significant role in boosting Vietnam's competitiveness and economic growth over the long term. The national currency, the Vietnamese dong (VND), is not fully convertible and its flow is regulated by currency controls implemented by the State Bank of Vietnam; to provide flexibility in responding to exchange rate volatility, the SBV now announces the interbank reference exchange rate daily. The rate is determined based on the previous day's average interbank exchange rates, considering movements in the currencies of Vietnam's major trading and investment partners. As part of its efforts to de-dollarize the economy, the government prohibited foreigners from holding foreign currency denominated savings accounts, while they are still allowed to have cheque and investment accounts in any foreign currency and VND. The country's stock market includes two main stock exchanges: Ho Chi Minh City Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX); most of the companies listed on the exchanges were previously state-owned enterprises that have been partly privatised. (BMI; 2018)

4.4 Legal environment analysis

Bureaucratic and legal bottlenecks still present obstacles to foreign players in Vietnam; key risks include the presence of corruption and the regulation of intellectual property rights. Additionally, administrative procedures regarding starting a business, obtaining construction permits and registering property raise the risk of starting up new ventures in the country. Time needed to register a business, a property or to resolve legal disputes and wind up operations is still a risk for investors. Though benefits to companies include low costs of establishing a business; in particularly:

- Opening a new business needs 9 procedures and 24 days.
- Registering a property purchase takes 5 procedures and more than 57 days.
- Obtaining construction permits has 10 procedures in 166 days.
- Completing insolvency proceedings takes 5 years.

Furthermore, there are several bureaucratic barriers for different activities: (BMI; 2018)

- The process of opening a business in Vietnam is relatively complex and length; as the country looks to develop its value chains and with increasing regional integration, it is vital that bureaucratic procedures are swift and transparent as seen in states such as Hong Kong and Singapore. In 2017 Vietnam made starting a business more difficult by requiring entrepreneurs to receive approval of the seal sample before using it. The decentralisation of licensing authority to provincial authorities has, in some cases, facilitated the licensing process and reduced processing times. It has also, however, given rise to considerable regional differences in procedures and interpretations of investment laws and regulations. Insufficient guidelines and unclear regulations could bring the local authorities to consult national authorities, resulting in additional delays. A significant incentive to investors is the fact that businesses are not required to pay any minimum amount of capital when registering. This not only reduces the need for businesses to source high levels of capital before beginning their operations, but also creates an environment in which entrepreneurship can improve.

- The process of registering a property in Vietnam is also arduous; businesses must first build an application for the transfer of land use rights and ownership of assets attached to the land. The transferor and transferee will then sign the contract which will be witnessed and certified by a notary located in the same area as the property. However, a major concern to investors is the relatively variable protection of property rights in Vietnam. While property rights of enterprises and the people in general are recognised in many of the country's laws, in effect, ownership rights, especially of land, are still often ineffective. For example, land use rights of enterprises can still be revoked to serve loosely defined goals such as socio-economic development. This leaves investors at risk of losing significant amounts of money. Expatriates and Vietnamese nationals are not able to own land in Vietnam, as it is owned by the state, although foreigners are permitted to lease land for 50-70 years depending on the region, with the ability to renew the lease. Foreign businesses therefore face an increased risk of difficulties in enforcing property rights that could potentially lead to complicated and costly legal proceedings.
- Vietnam performs well by regional standards in terms of the cost of construction permits; therefore, firms could take advantage from lower costs and relatively faster procedures in acquiring permits.
- Closing a business in Vietnam remains highly risky; the legal system is still underdeveloped and ineffective in setting disputes.

Weak adherence to the rule of law remains a key threat to foreign businesses in the country; corruption is pervasive and it adversely impact the independence and efficacy of the judicial system, the accountability and transparency of ruling officials as well as freedom of speech and the press. Difficulties within these areas therefore substantially increase the risk of influenced court decisions and unfair market competition; hence, these factors lower the ability of foreign firms to compete and increasing operational costs. The Government has tasked various agencies to deal with corruption, including the Central Steering Committee for Anti-Corruption and the Government Inspectorate. Furthermore, Vietnam's judicial system includes the Supreme People's Court, Provincial People's Court and the District People's Courts; thus, regulatory authority exists in both the central and provincial government, and foreign companies are subject to both central and provincial authority. Vietnam has its own accounting standards to which publicly listed companies are required to adhere to. Along with corruption, the judicial system continues to face additional problems; for example, many judges and arbitrators lack adequate legal training and are appointed through personal or political contacts with party leaders or based on their political views, while extremely low judicial salaries engender corruption. In generally, national legal system remains underdeveloped and is often ineffective in settling commercial disputes. State protection of property rights is still evolving, as the state can expropriate land for socio-economic development; as instance, real estate rights in Vietnam are divided into collective land ownership by the government and land-use and building rights, which can be held privately. Hence, there is also the risk that local authorities may intend to increase requirements for land-use rights; in addition, the lack of substantive regulations on merger and acquisition activities makes such transactions risky. The increasingly sophisticated capabilities of domestic counterfeiters, coupled with developing not legal routes through Vietnam's porous borders, are also negative for intellectual property rights protection, while the country has one of the highest rates of online piracy worldwide. As a result, there is a very high risk for businesses of increased costs and difficulties associated with copyright infringement or piracy. (BMI; 2018)

4.5 Trade & Investments risk and final remarks

The BMI's trade and investments operational risk is quantified on a scale from 0 to 100, with 100 being the lowest risk state; it is made up of three categories, further broken down into sub-categories and both measured on a scale 0-100, following the previous criteria. The overall is calculated using the average of the Economic Openness, Government intervention and Legal sub-component scores: (BMI; 2018)

- *Economic openness* (score: 70.6): it analyses a country's openness to investment and trade (sub categories). This is generated from indicators such as imports, exports and foreign direct investments; a country that is more open is a better prospect for businesses, as it means firms have access to a better selection of imported raw materials and can realise opportunities to sell overseas. Vietnam scores well in this section, mirroring the strategies of the government to attract FDIs flows and of multinational enterprises which are choosing the Vietnamese market.
- *Government intervention* (score: 44.4): it is composed of information on fiscal and trade barriers and taxation (sub categories); the evaluation favours countries where governments are more supportive of businesses, lower taxation and good financial market development. Vietnam registered a low value in this section, reflecting the strong presence of SOEs and other state interferences into several domestic sectors which generate inefficiencies.
- *Legal* (score: 51.5): it reviews the rule of law and quality of information and communications technology (ICT) governance and evaluates the development of the bureaucratic environment in particularly the requirements to set up businesses, buy properties and construct facilities. It considers issues such as corruption, freedom of the press and rule of law; a strong legal system, with patent protection, is essential for a business to be able to operate securely. Vietnamese score highlights the problems related to the national corruption and to the intellectual property rights, which lack in

efficiency; however, the government is trying to manage those problems for making investments less risky for foreigners.

Thus, the country score in trade and investment risk is of 55.5, which is close to the average of the South East and East Asia; further improvements, in particularly regarding the legal aspect and the presence of government into the markets, should be made to make the country a more attractive place for investors and to facilitate the national economic development. Vietnam would face those challenges to continue the positive trend of the last years and to also improve it, making the country a more important member of the ASEAN region and of the global market. However, despite existing some problems related to the national environment, the country is one of the most promising worldwide in terms of opportunities for foreign investors.

Conclusions

The big internal market, the large disposal of low-cost labour, the important trade partners and the outstanding growth rates are some characteristics that make ASEAN attractive to worldwide businesses; in many nations relevant opportunities have been created through the improvement of a technologic and productive environment. MNEs should look to the region to set important projects for the medium-long run, based on research and development. ASEAN presents different levels of economic development and political structures, making hard to elaborate a shared strategy that aims to satisfy all the different necessities. The first steps of liberalisations, such as creating the economic community, was fundamental not just to attract new FDIs from MNEs that could take advantage of the internal markets, but even for ASEAN companies. Strategies are diversified due to the different members peculiarities: for example, the most developed nations like Thailand, Indonesia and Malaysia should attract FDIs addressed to high technology industries, developing and specialising in sectors whose knowledge and technologies are not easy to be replicated or replaced. Furthermore, in ASEAN multinational enterprises which produce elevated quantities of goods take advantage of the economies of scale that arise from the diversification of the production sites; the establishment of SEZs and the development of economic corridors have successfully become important factors in companies' strategies due to the convenience to set the production of basic components in border areas of countries like Lao and Cambodia, and then assemble final products in Thai or Vietnamese plants. Anyway, most ASEAN members should empower basic services such as education and healthcare, infrastructures and labour force productivity to stabilize their economies in the long term, while a higher degree of service openness is also required for basic ones such as telecommunications or energy providers. Additionally, the region should give more attention to the primary sector; agriculture could be supported by enhancing certifications and promoting the cultivation of biological and local productions which can attract FDIs and earnings comparable to those addressed to industrialisation, with remarkable outcomes even by the social side (the Golden Triangle across Myanmar, Thailand and Lao is still one of the main sites for opium production in the world, but incentives for tea and coffee plantations and an important touristic promotion are providing an effective alternative to the illegal activity to those populations). Finally, Vietnam is one of the most promising economies worldwide due to the increasing wealth and population and the capability to attract FDIs; however, to be able in continue this important growth, the country should elaborate a more favourable and clear legal system for companies also by significantly reducing the internal corruption. Moreover, the presence of state-owned enterprises is hindering many FDI inflows and is raising the trade and investment risk for multinational enterprises; therefore, a further liberalisation of the market is needed to be more competitive in the global investments, market

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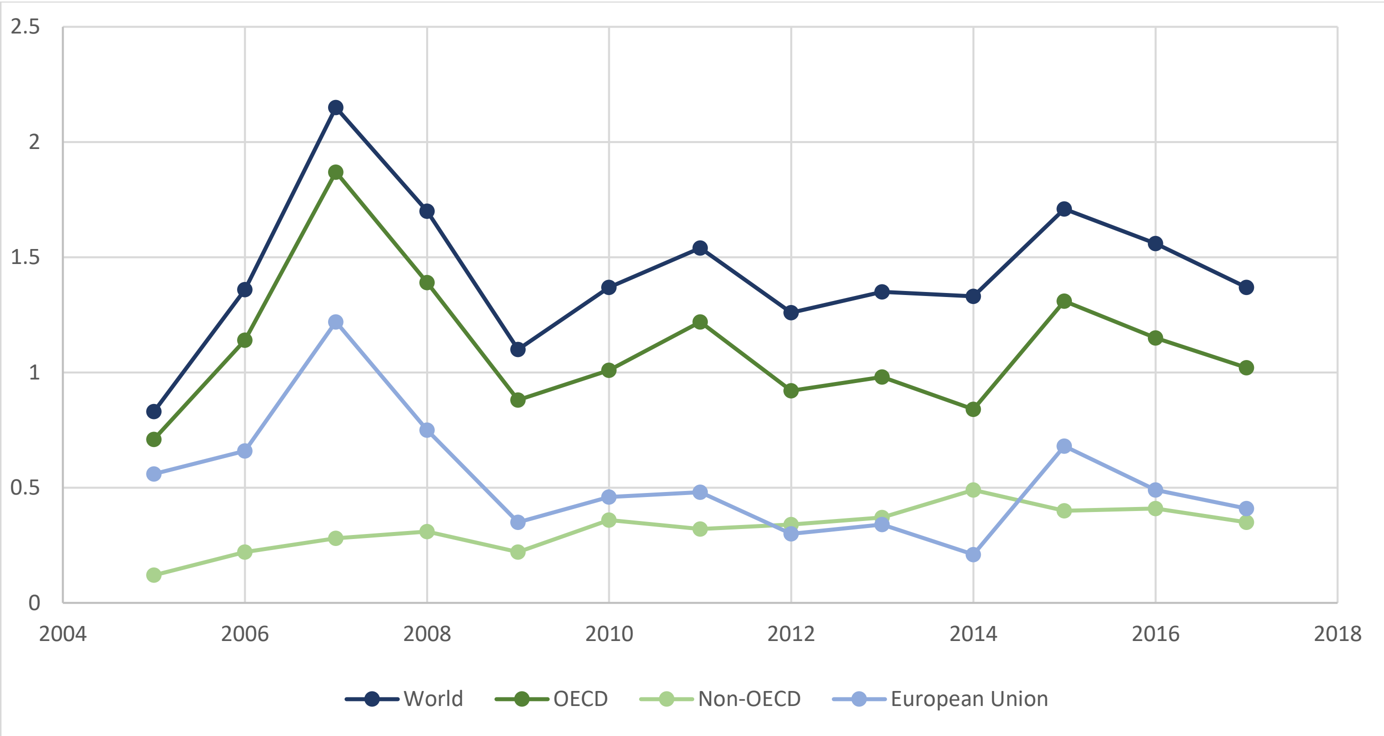
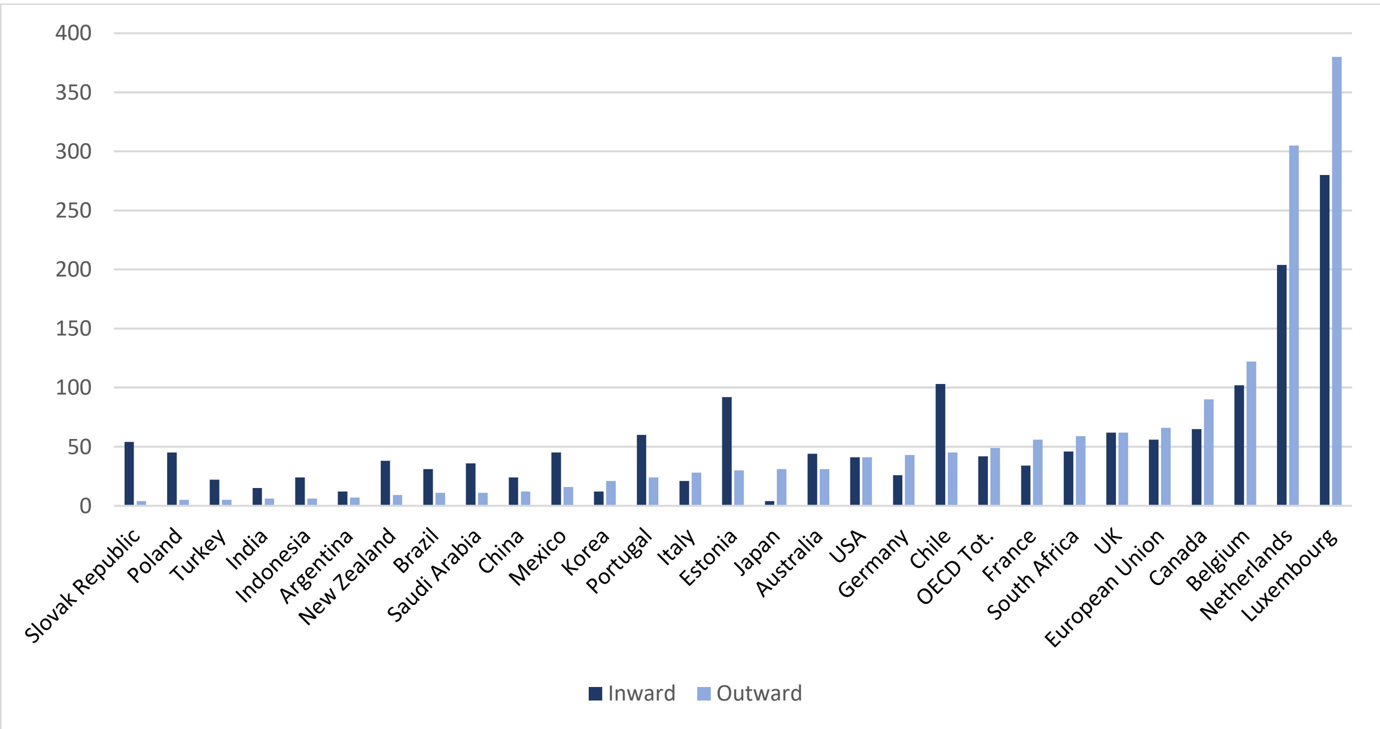
7. FIGURES APPENDIX:

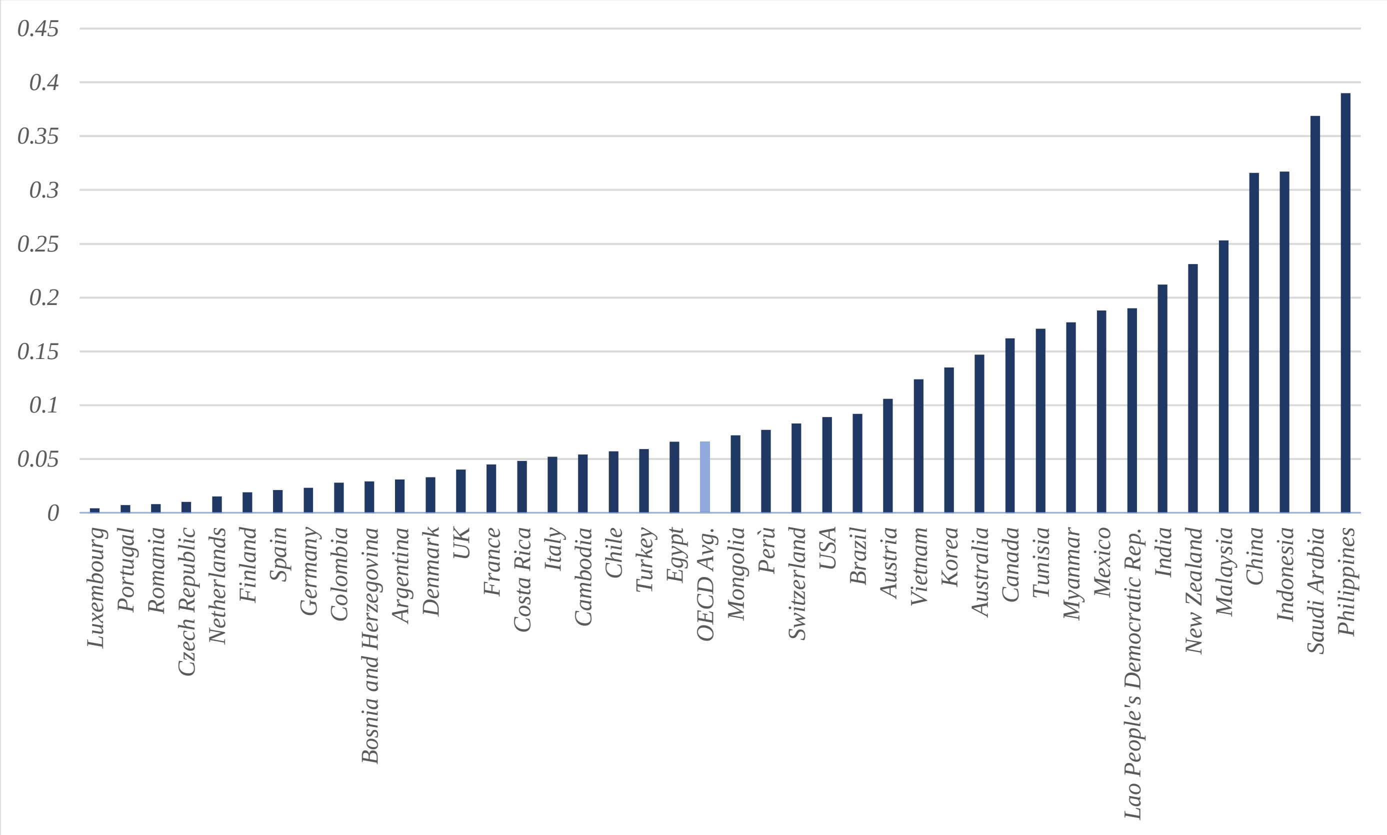
7.1 Outward, Million US dollars, 2005 – 2017 (*Source: Benchmark definition, 4th edition (BMD4): Foreign direct investment: financial flows, main aggregates)*



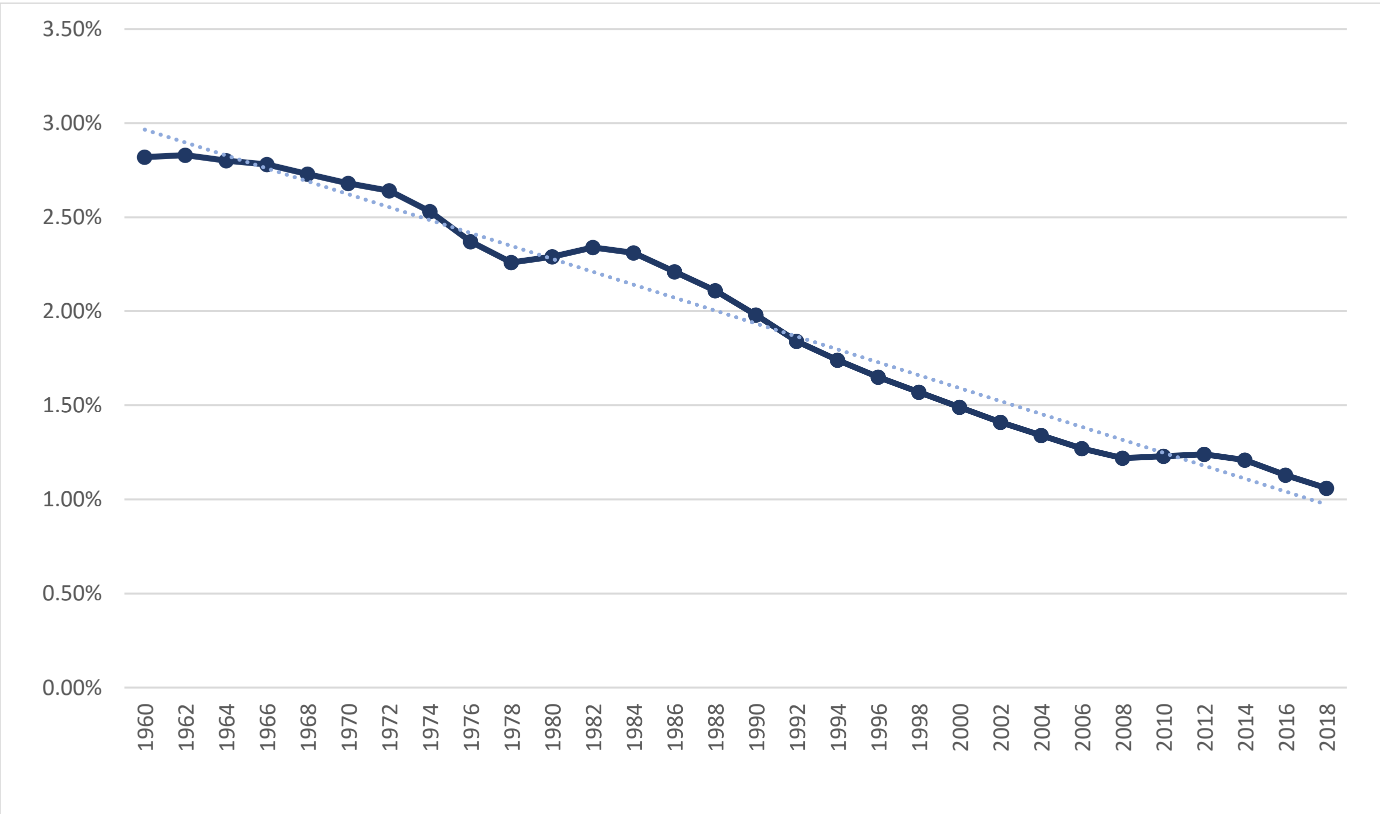
7.2 Outward / Inward, measured in USD as % of GDP 2017 or latest available (*Source: Benchmark definition, 4th edition (BMD4): Foreign direct investment: positions, main aggregates*)



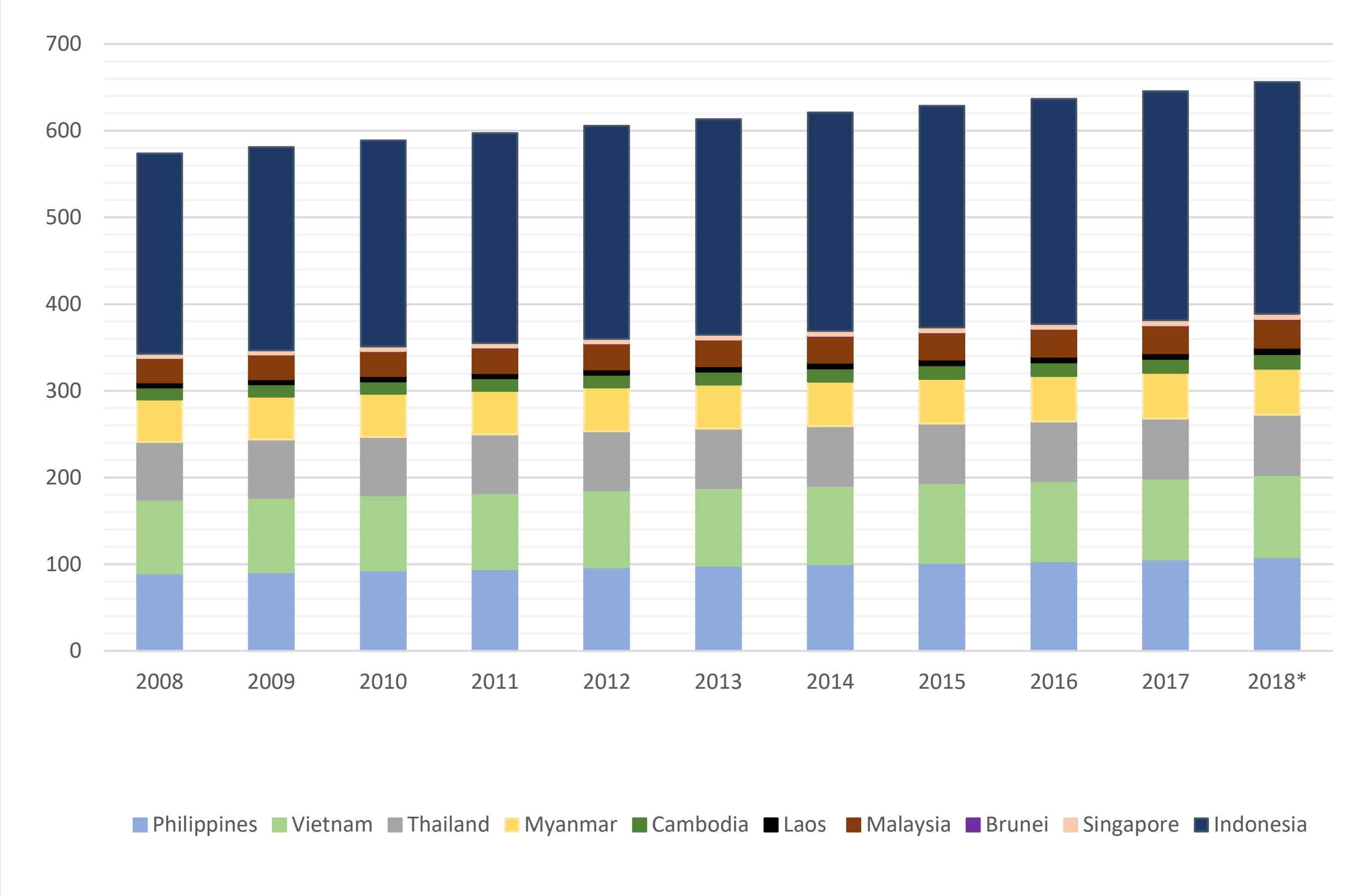
7.3 Countries FDIs restrictiveness (0 = open; 1 = closed), 2017 (*Source: OECD FDI regulatory restrictiveness index*)



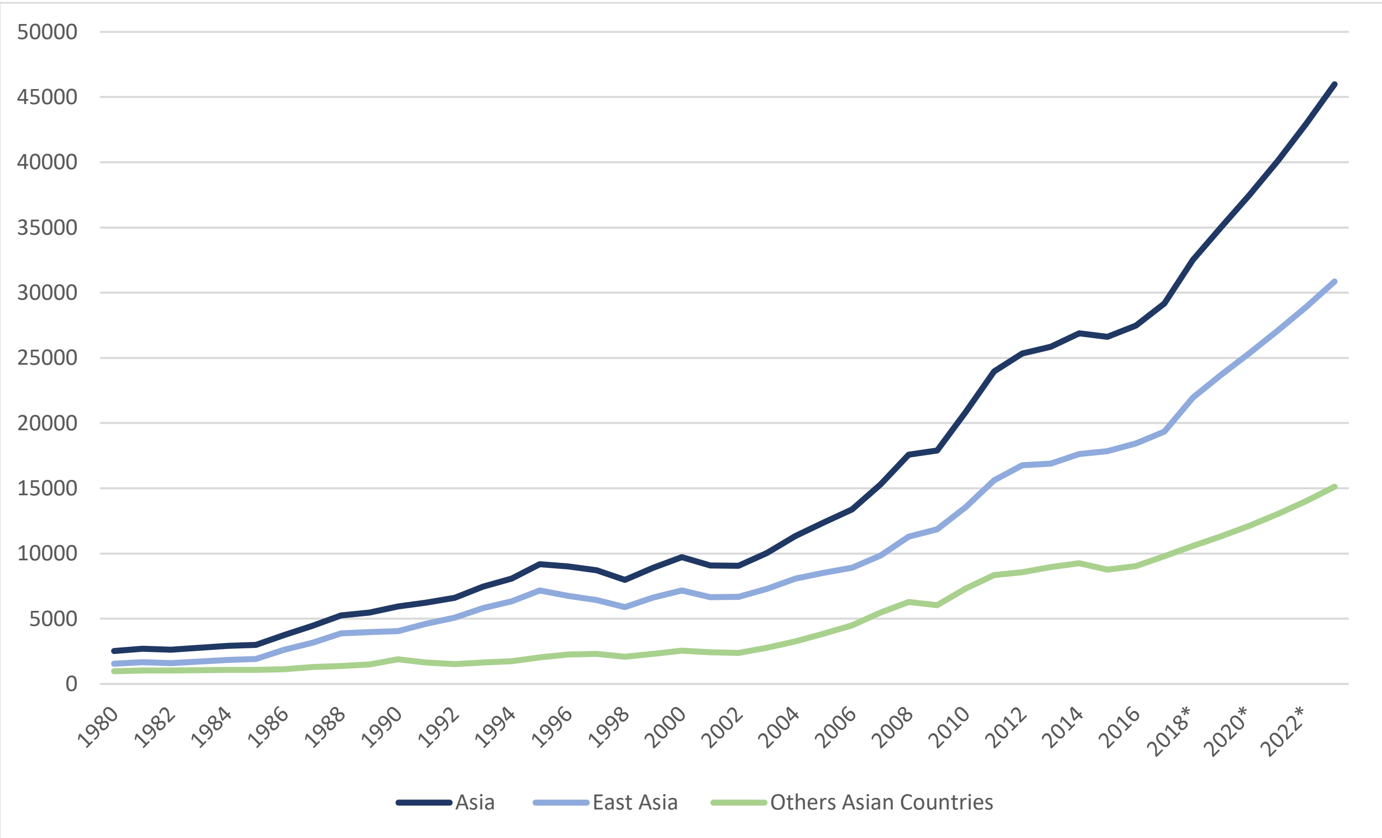
7.4 Yearly ASEAN population growth rate % (1960-2018) *(Source: United Nations estimates, 2018)*



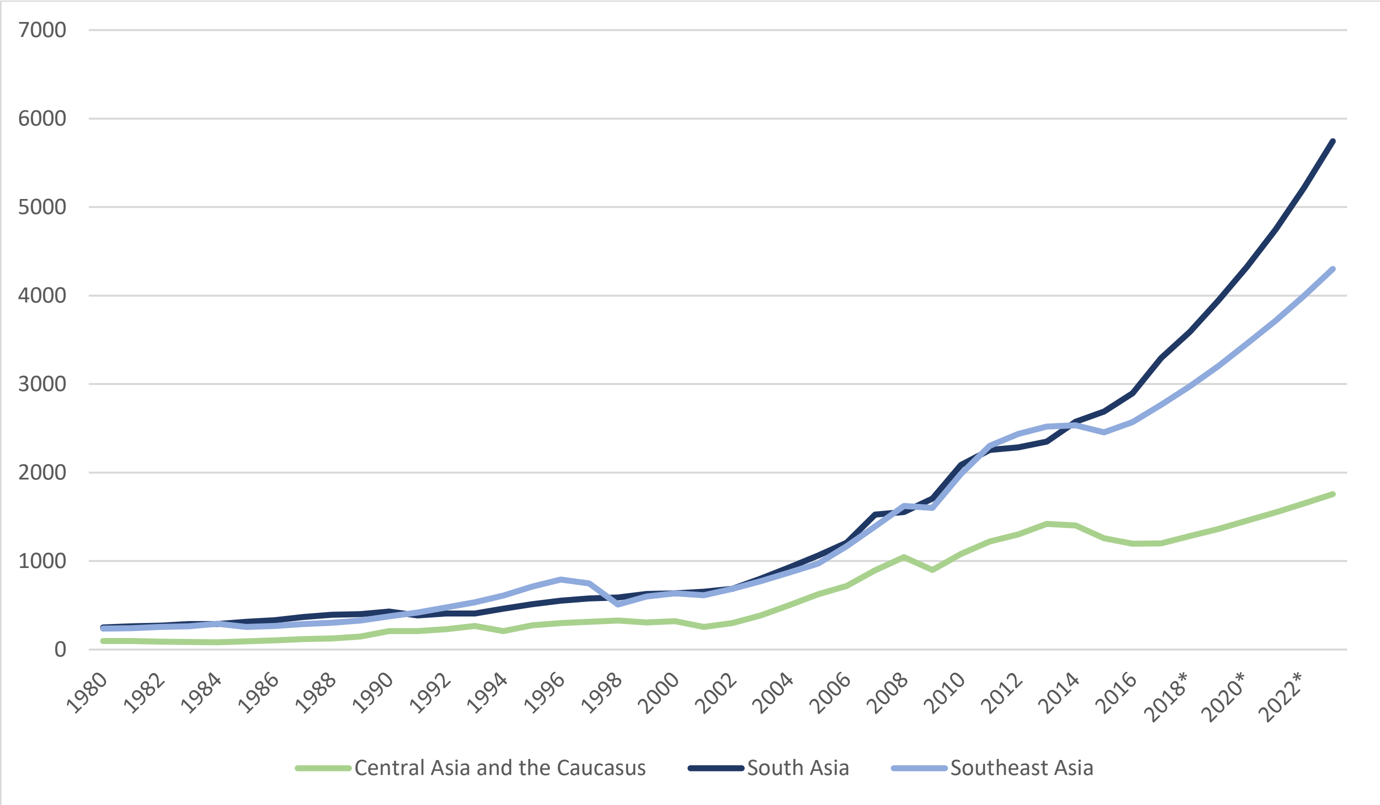
7.5 <u>Total population of ASEAN countries from 2008 to 2018</u> *(Source: Statista, 2018)*



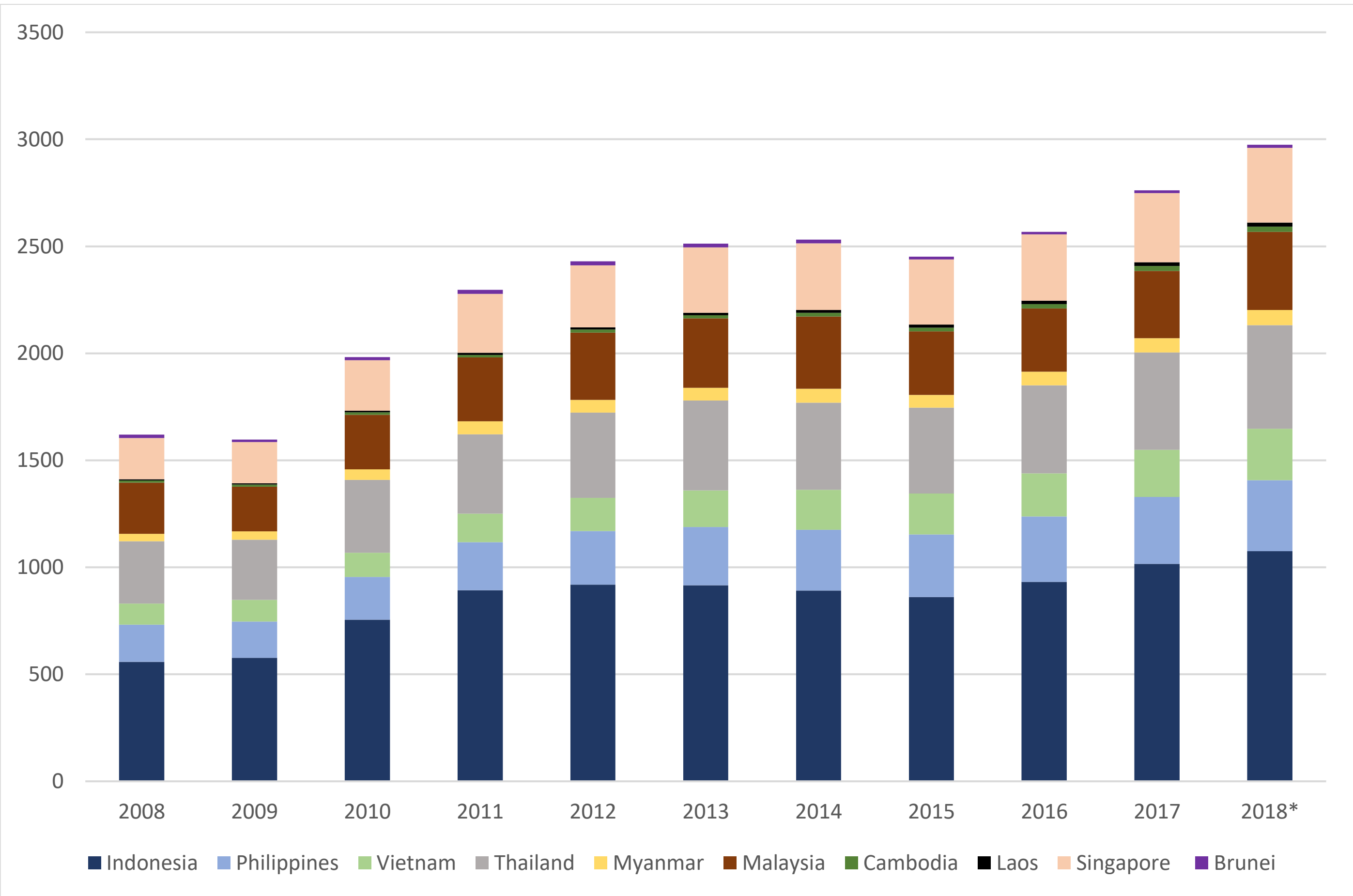
7.6 <u>Asian GDP at current prices (billions of USD)</u> *(Source: International Monetary Fund, 2018)*



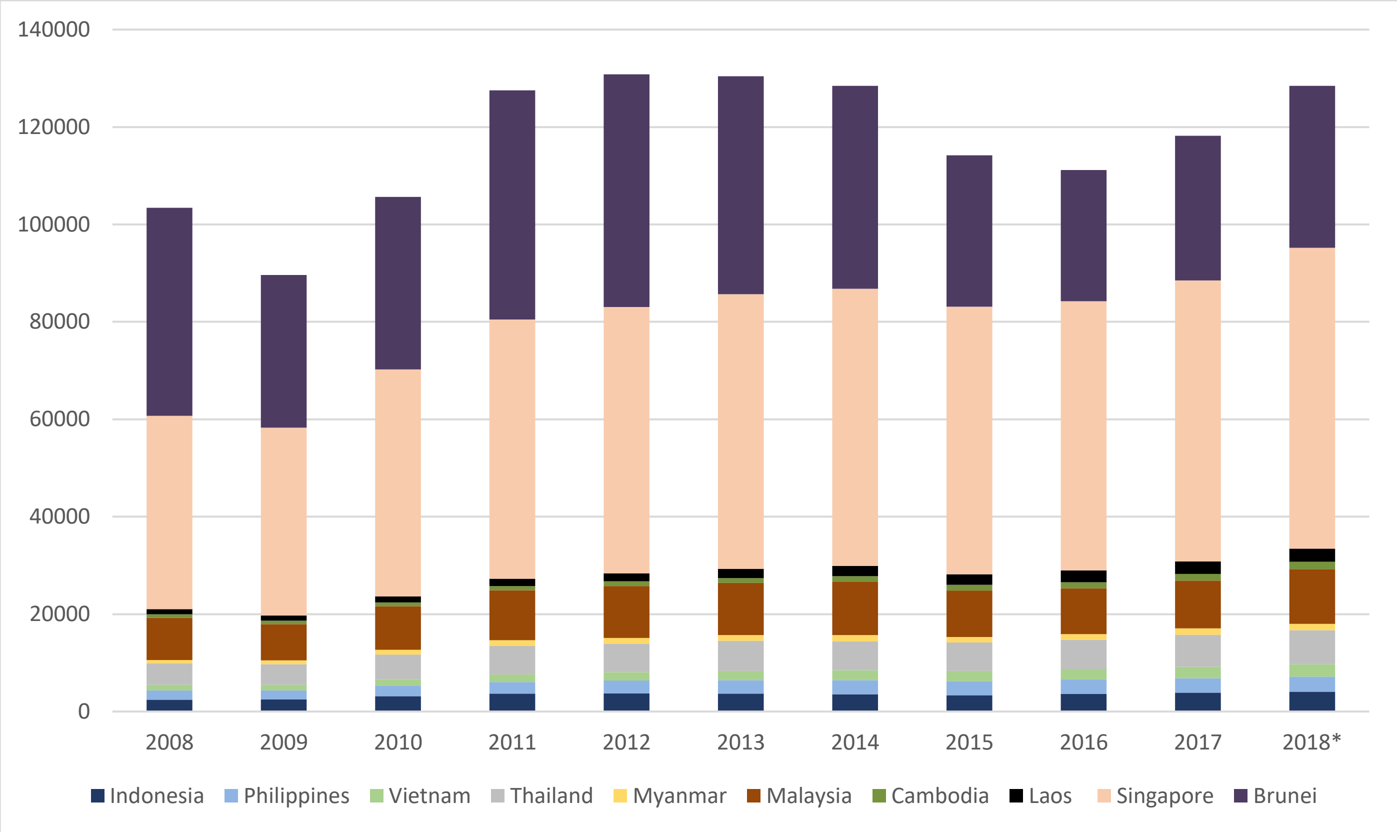
7.7 GDP of Asian sub regions, current prices (billions USD) *(Source: International Monetary Fund, 2018)*



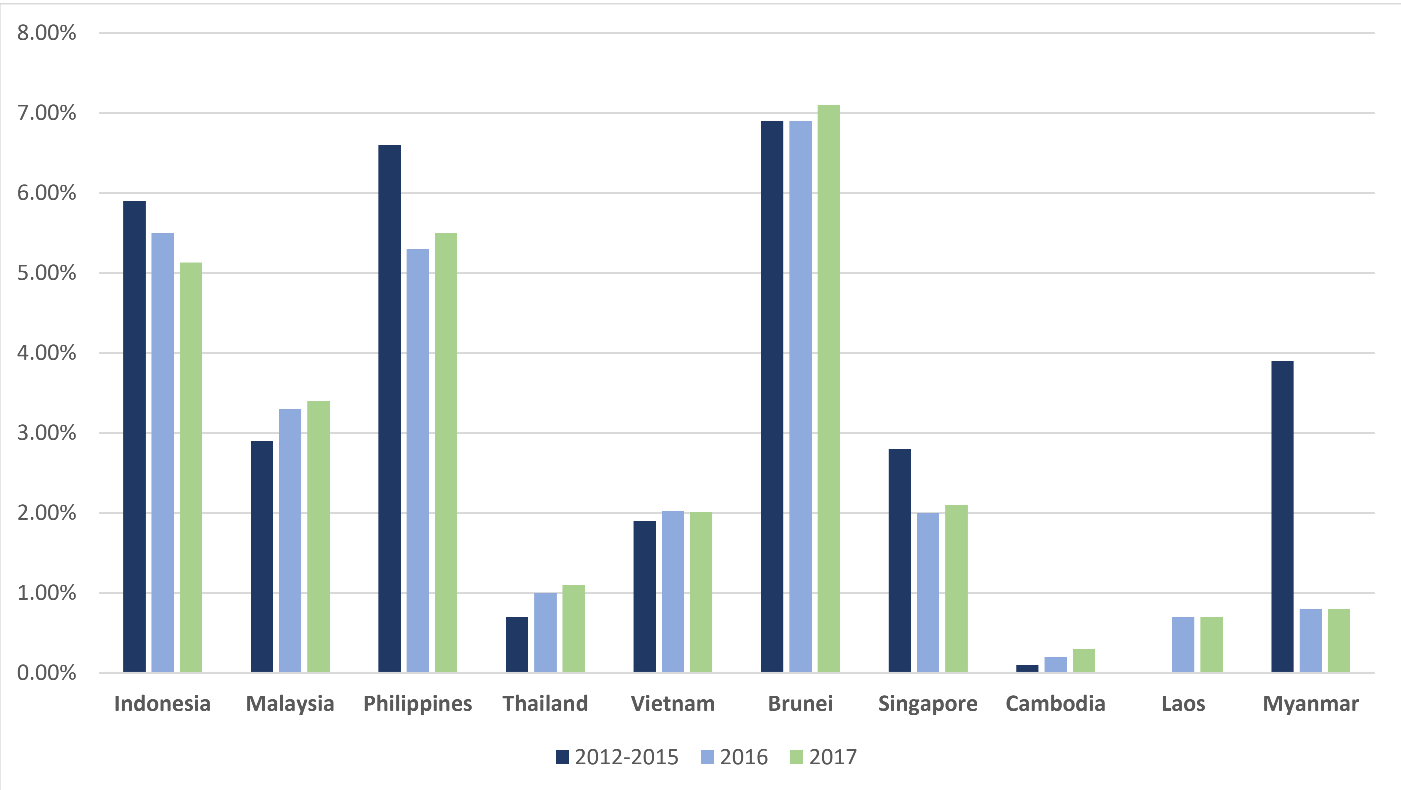
7.8 GDP of the ASEAN countries from 2008 to 2018 (billions USD) *(Source: Statista, 2018)*



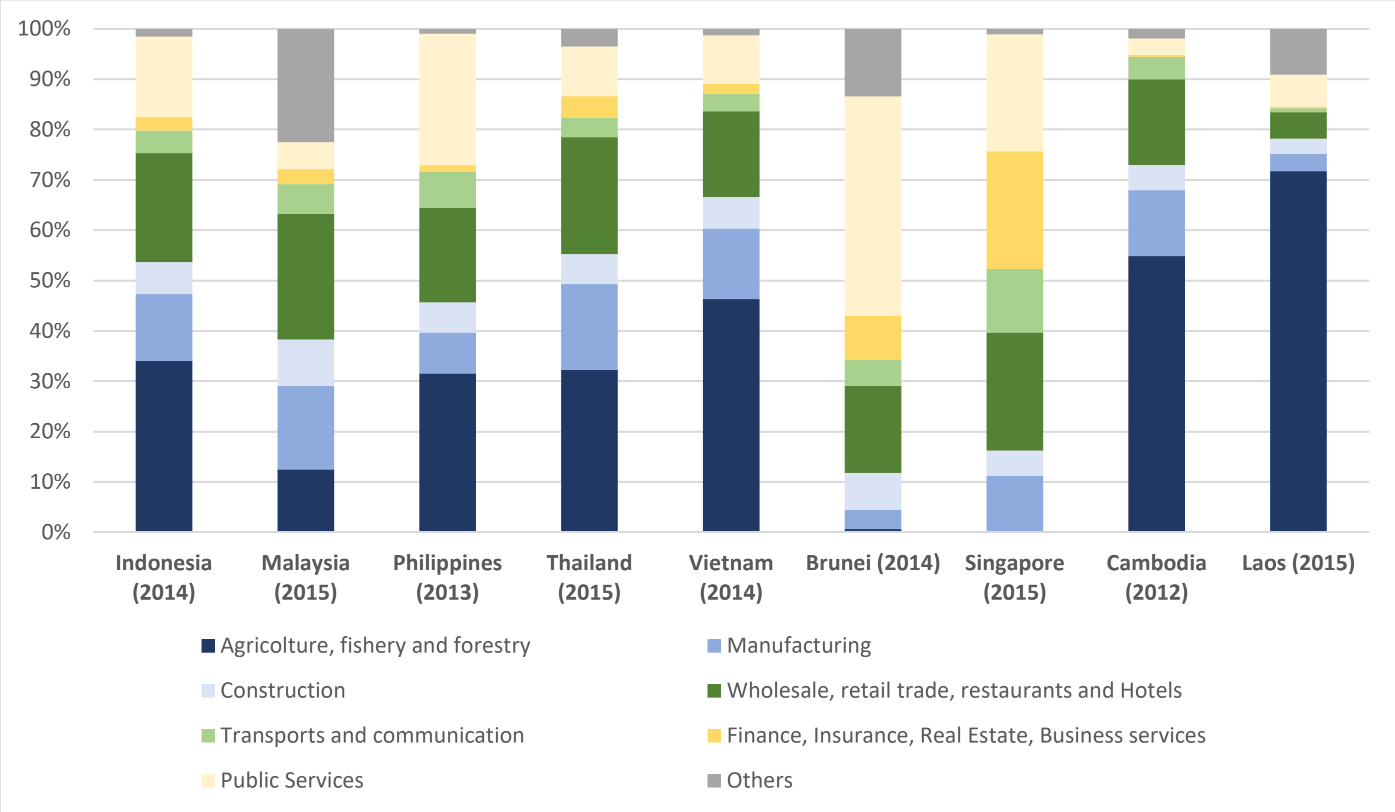
7.9 ASEAN countries: Gross domestic product (GDP) per capita in current prices from 2008 to 2018 (in U.S. dollars) *(Source: Statista, 2018)*



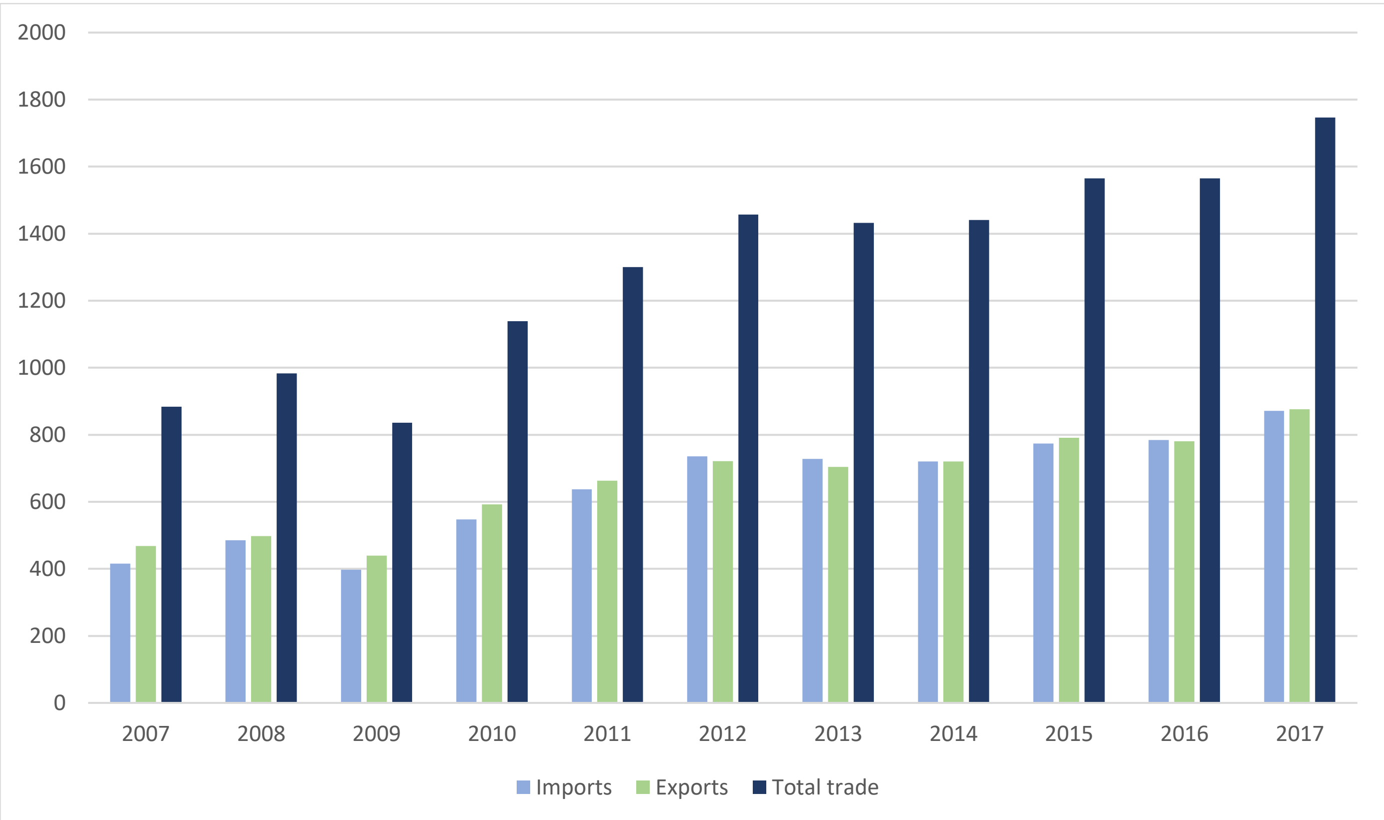
7.10 Unemployment rate in ASEAN countries *(Source: ASEAN secretariat, 2017)*



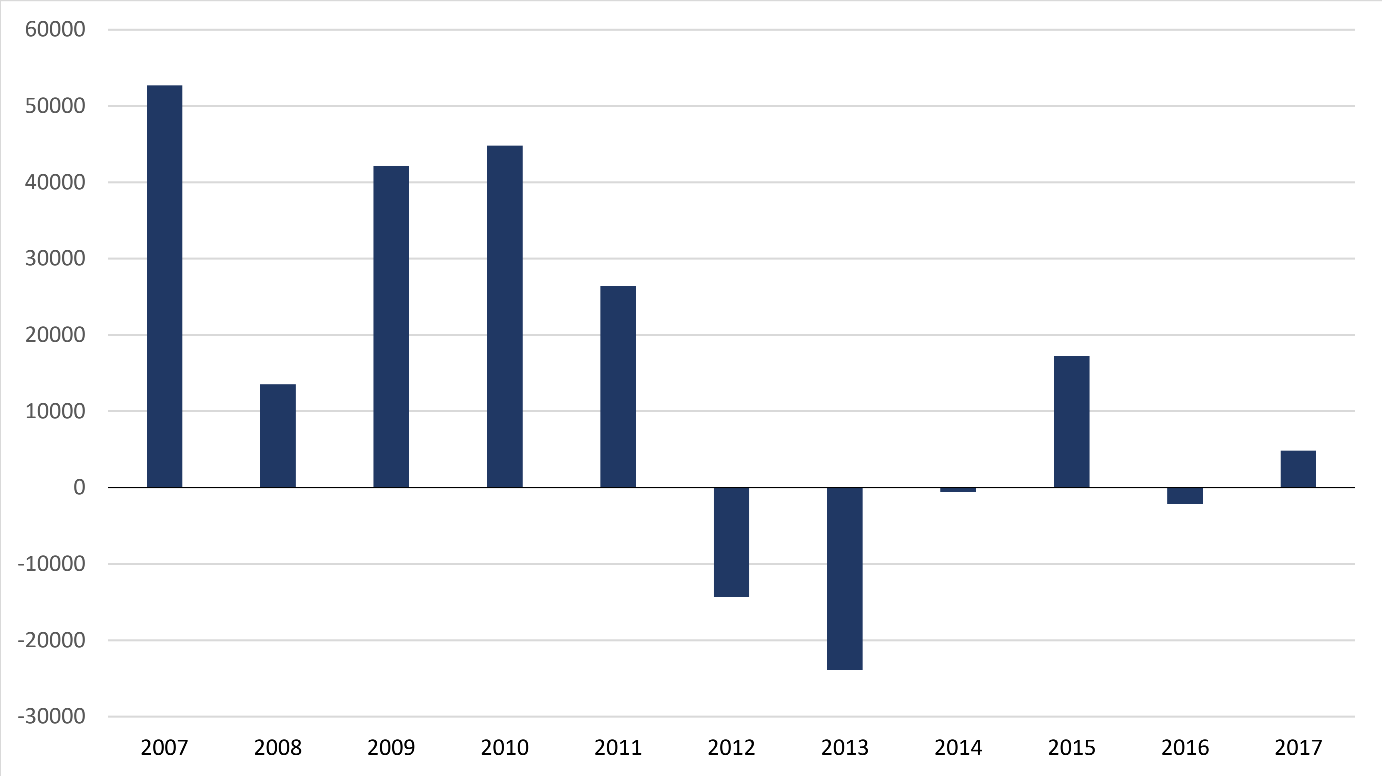
7.11 ASEAN countries employment by sector *(Source: ASEAN secretariat, 2016)*



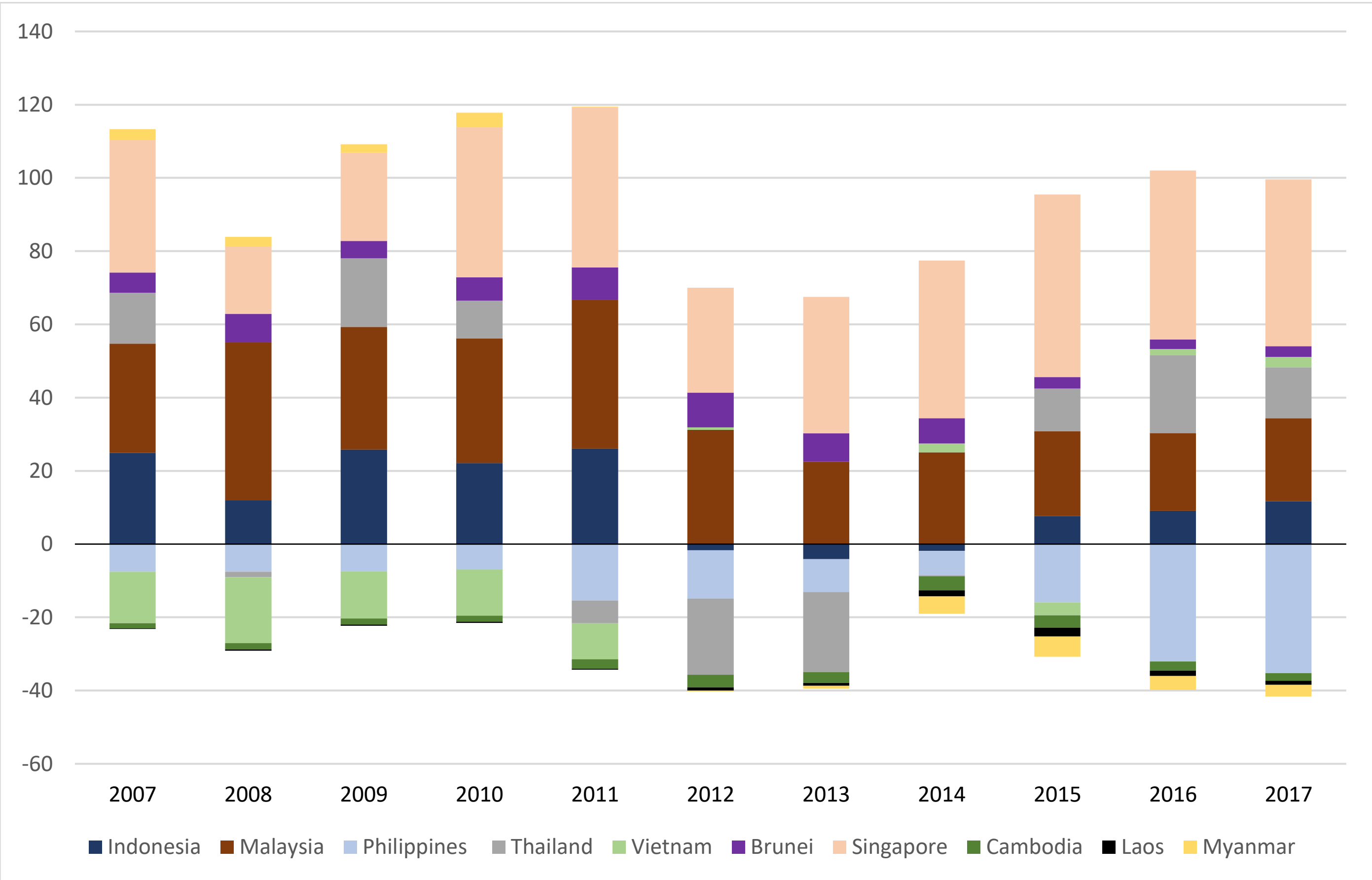
7.12 ASEAN imports, exports and total trade (€ millions) *(Source: Directorate-General for Trade European Union, 2018)*



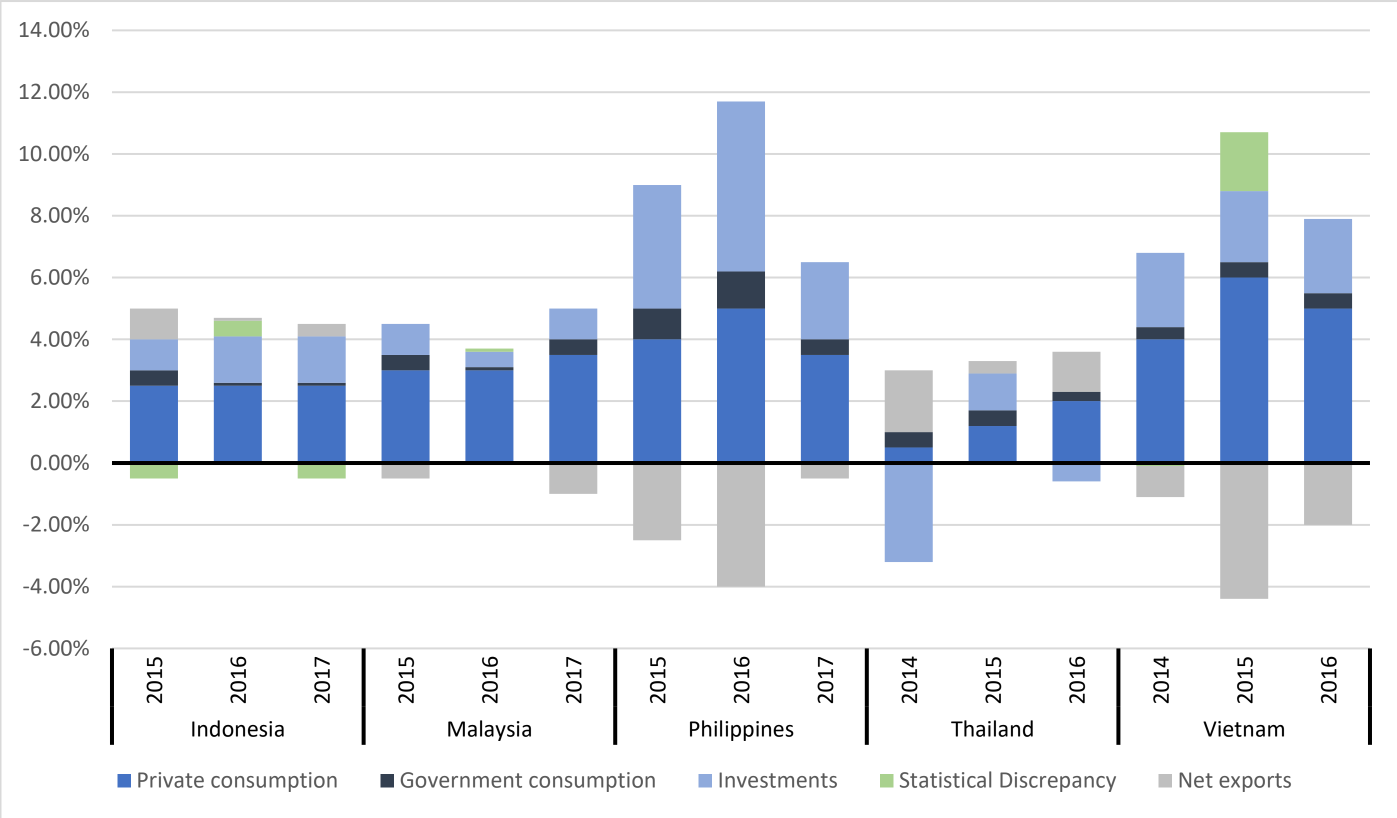
7.13 ASEAN trade balance (€ millions) *(Source: Directorate-General for Trade European Union, 2018)*



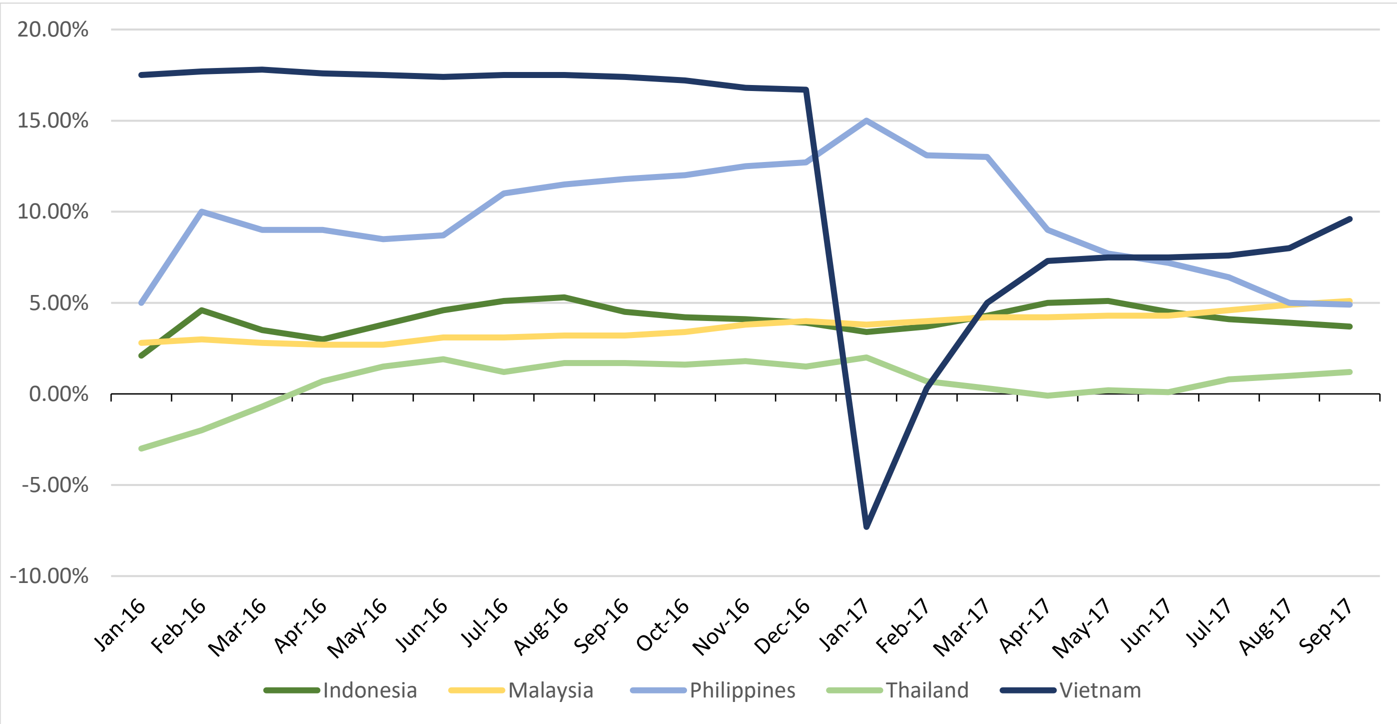
7.14 ASEAN countries trade balances (in billion USD) *(Source: OECD, 2018)*



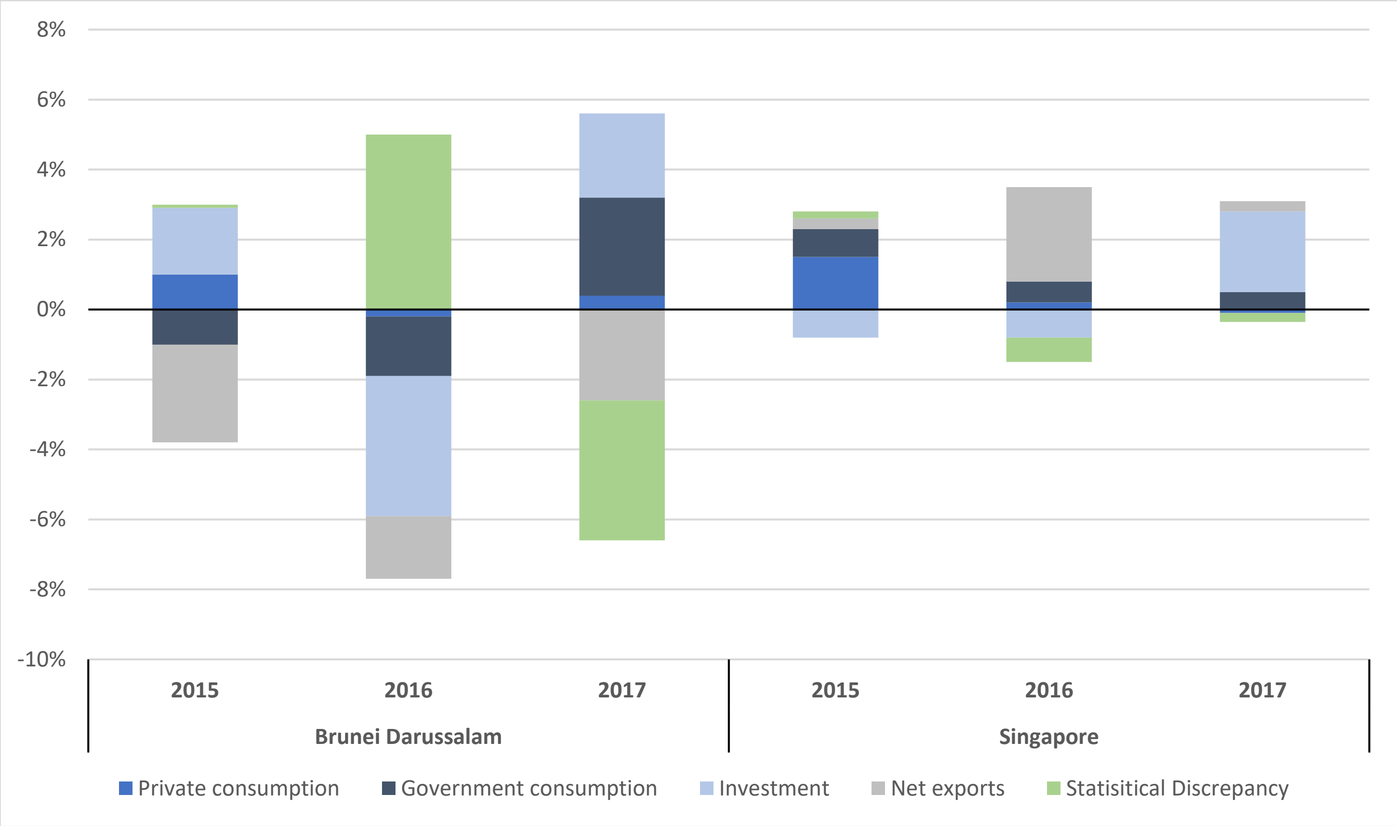
7.15 Contribution to real GDP growth rate in ASEAN-5 countries (Note: Thailand uses chain volume measures. Contributions of Thailand sum up to equal Gross Domestic Expenditure instead of GDP; *Source: OECD Development Centre calculations based on CEIC and national sources, 2017*)



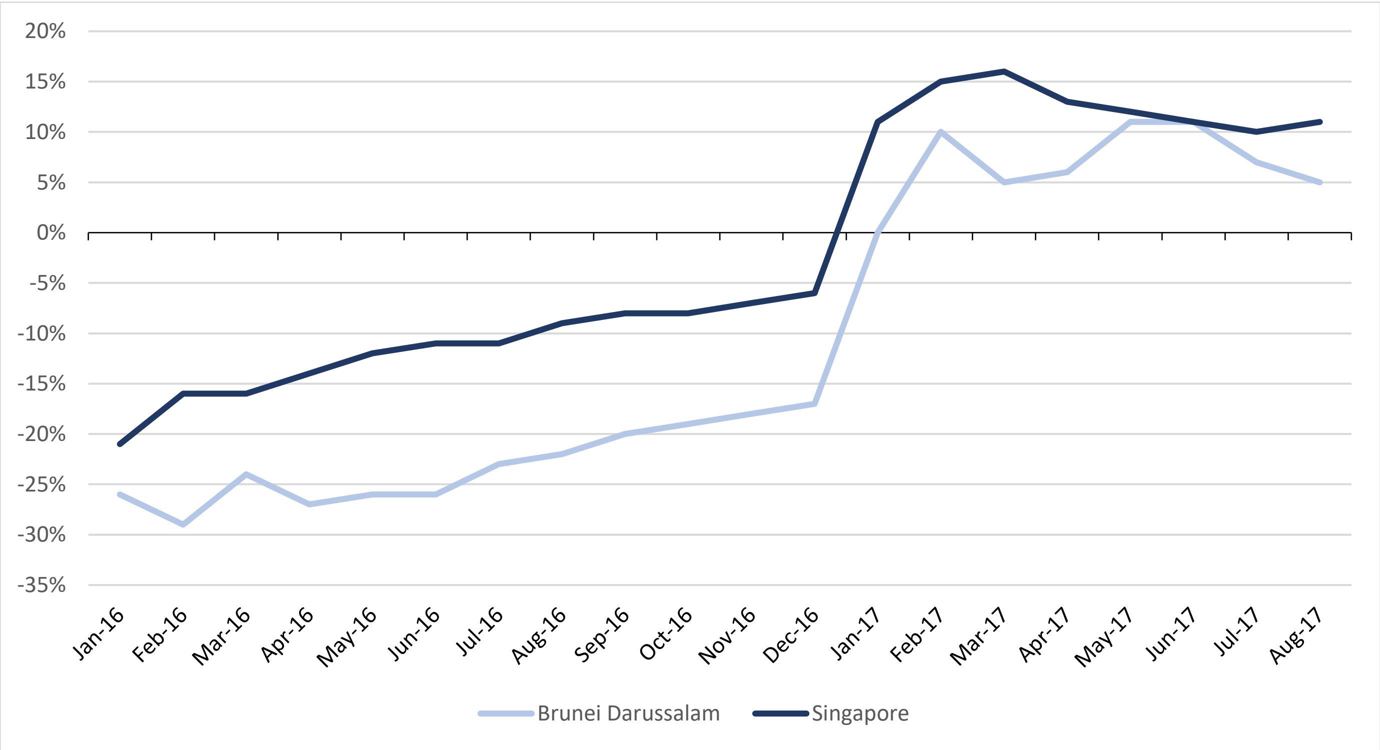
7.16 Industrial production index (IPI) in ASEAN-5 countries, 2016-17 monthly average growth *(Source: OECD Development Centre calculations based on CEIC and national sources)*



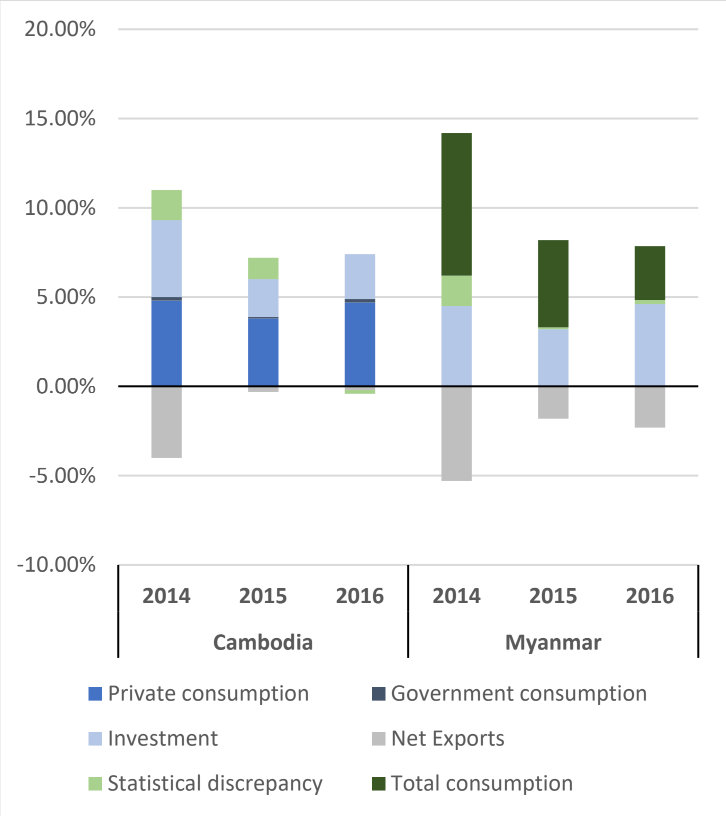
7.17 Contribution to real GDP growth rate in Brunei Darussalam and Singapore (*Source: OECD Development Centre calculations based on CEIC and national sources*)

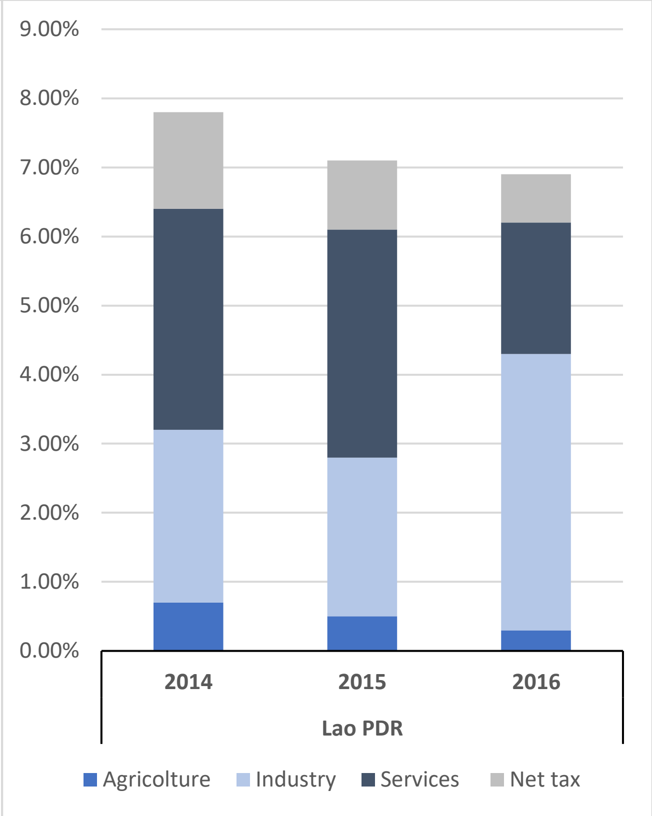


7.18 Goods exports of Brunei Darussalam and Singapore (monthly growth rate) *(Source: OECD Development Centre calculations based on CEIC and national sources)*

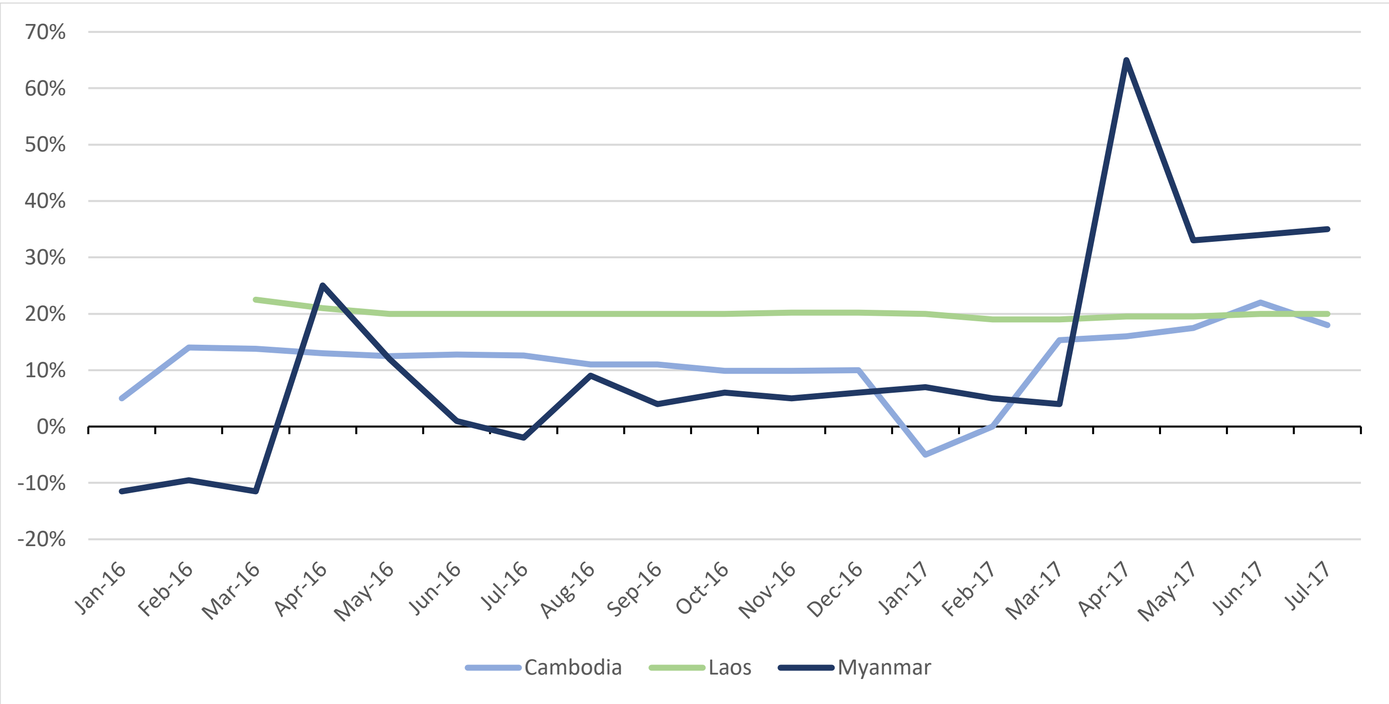


7.19 Contribution to real GDP growth rate in CLM countries (Note: Lao PDR does not publish demand-side data. Total consumption = private consumption + government spending. Net tax = Taxes minus subsidies) *(Source: OECD Development Centre calculations based on CEIC and national sources)*

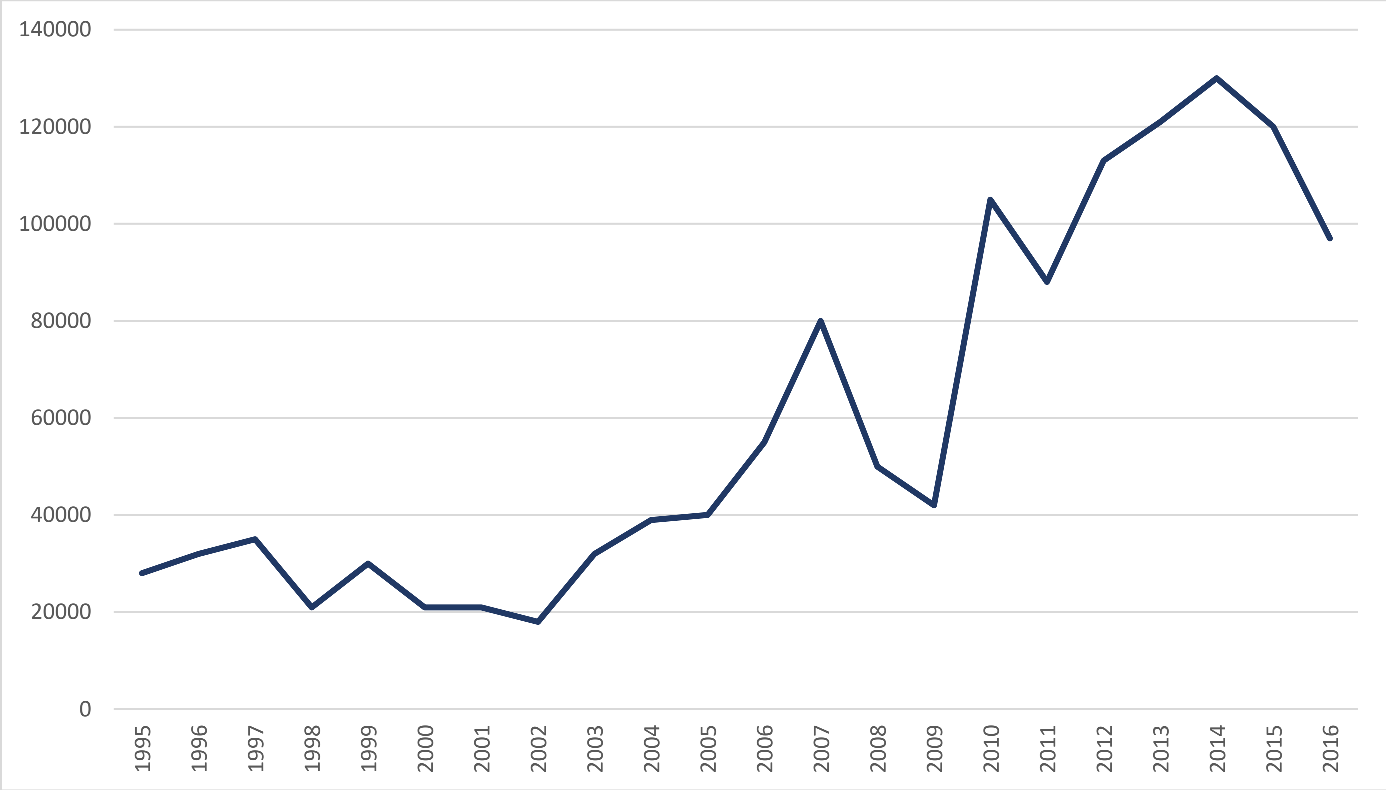




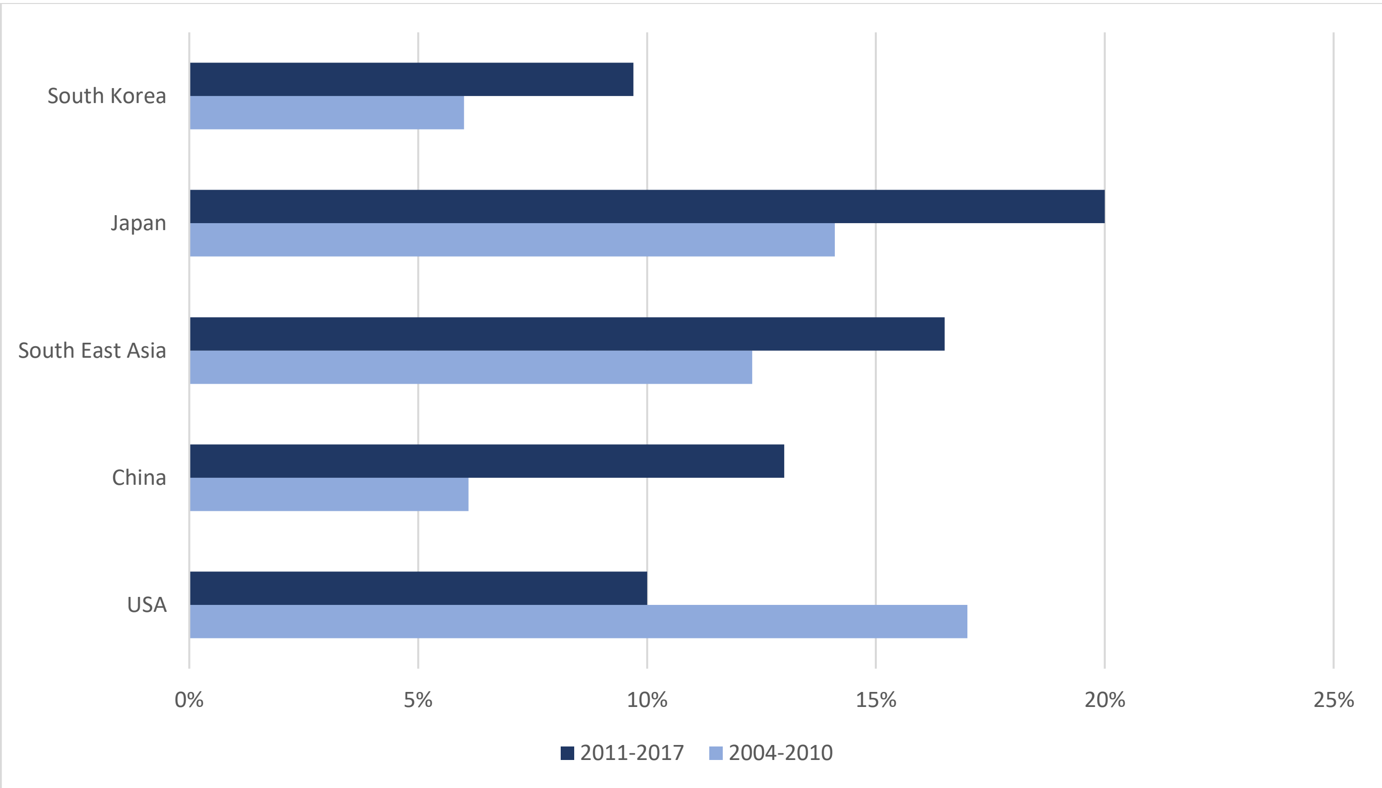
7.20 Goods exports of CLM countries (monthly growth rate) *(Source: OECD Development Centre calculations based on CEIC and national sources, 2018)*



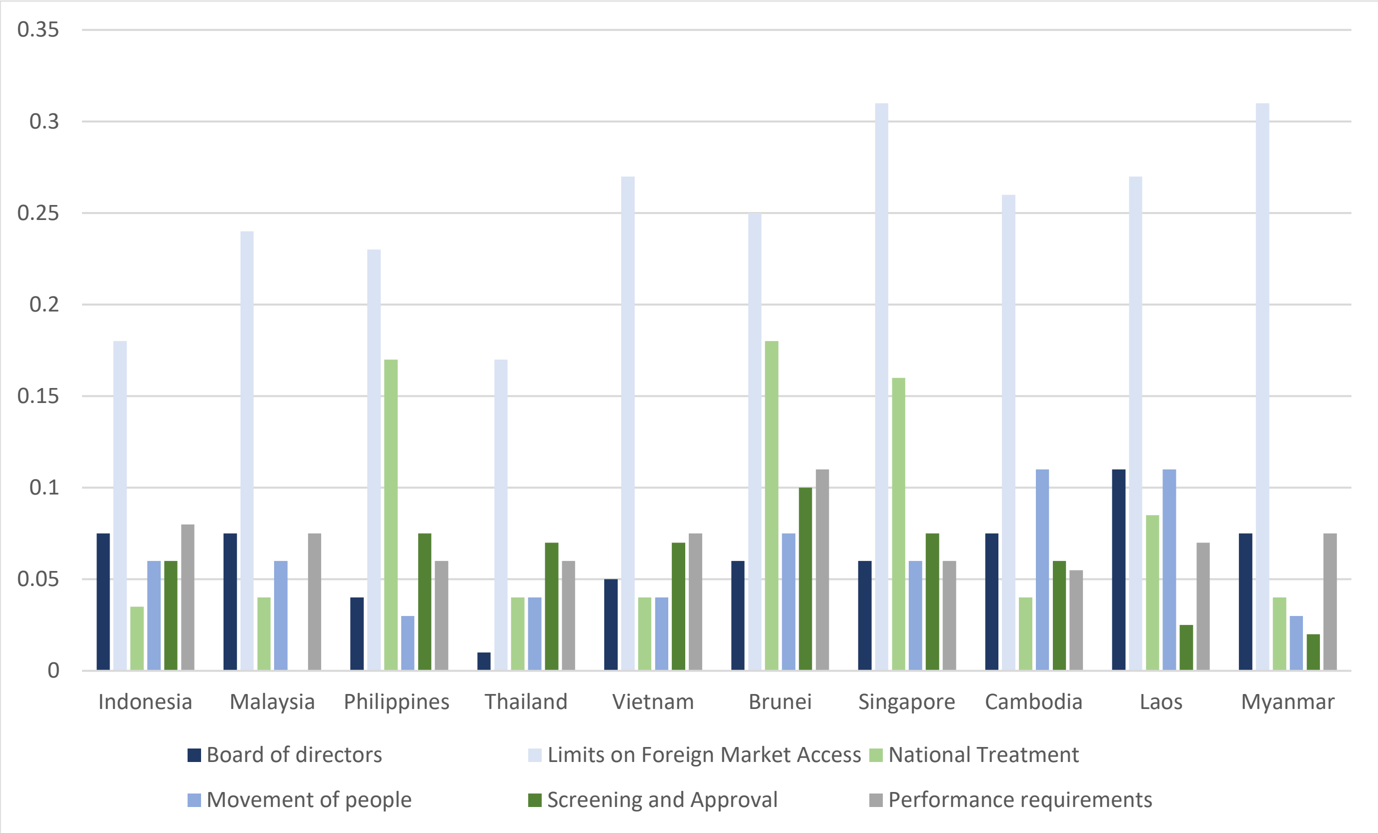
7.21 ASEAN FDIs between 1995-2016 (in USD million) *(Source: ASEAN Secretariat; 2017)*



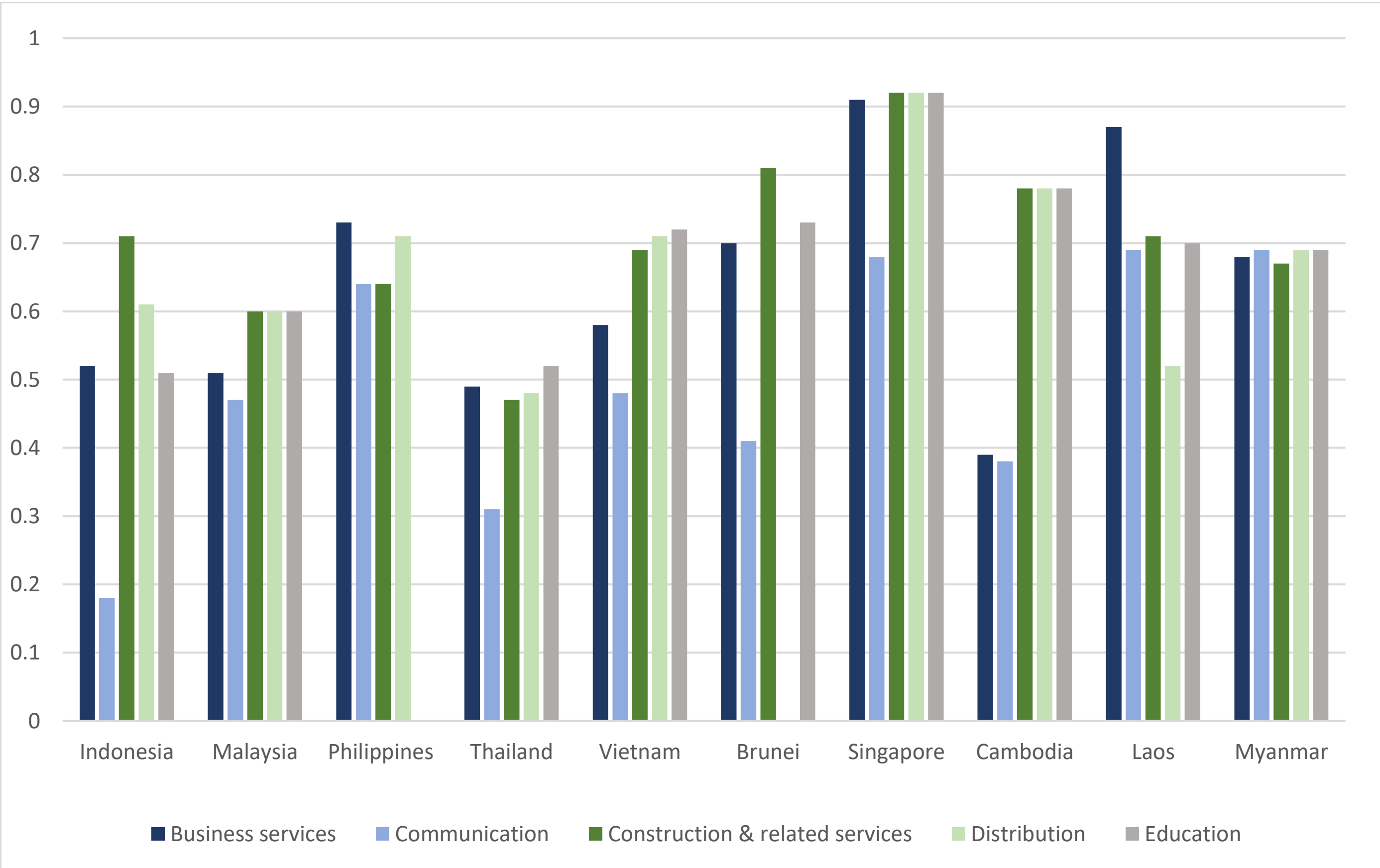
7.22 Greenfield FDIs in ASEAN (by capex % of regional total) *(Source: Financial Times, 2018)*



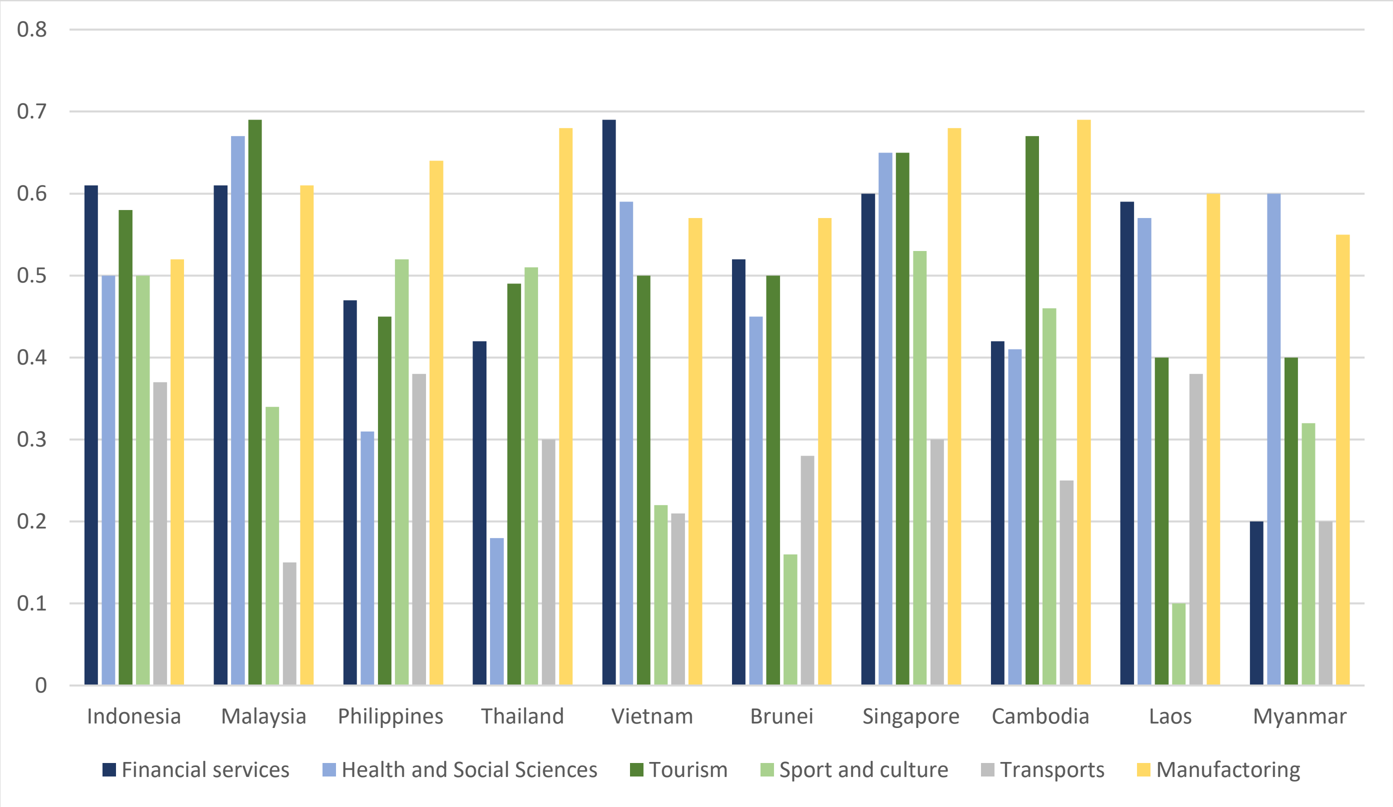
7.23 FDI Restrictiveness Index by Categories for ASEAN *(Source: Thangavelu, 2015)*



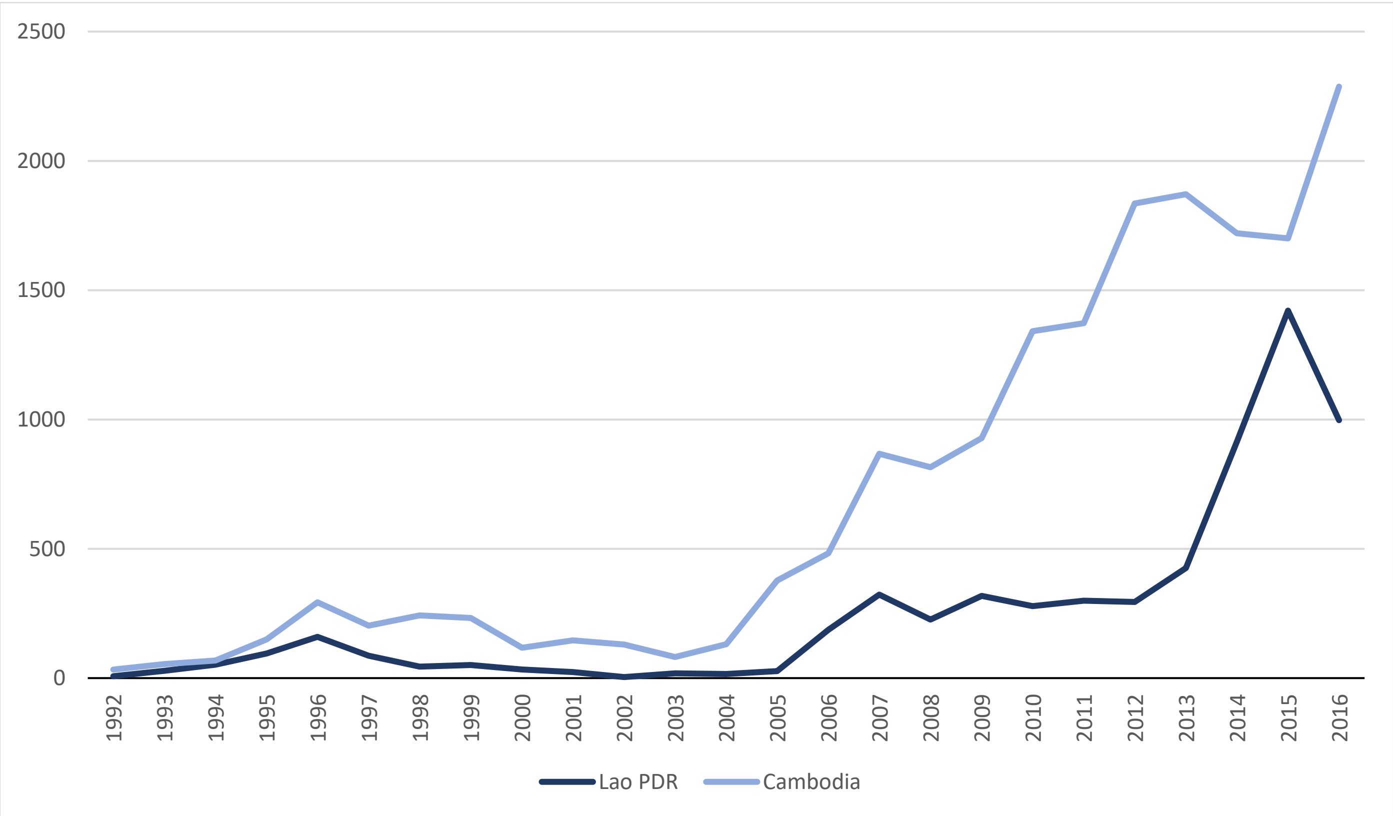
7.24 FDI Restrictiveness Index by Sector for ASEAN *(Source: Thangavelu, 2015)*



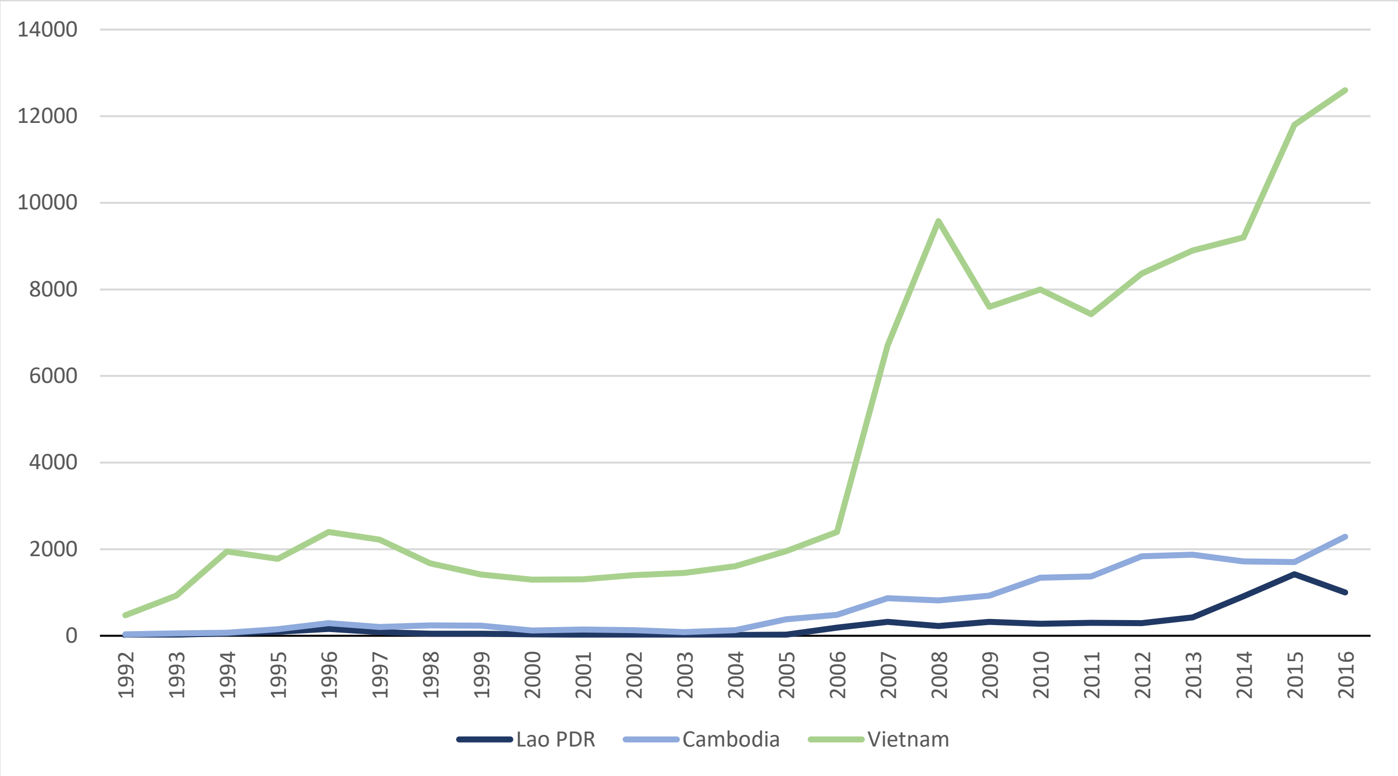
7.25 FDI Restrictiveness Index by services sector and manufacturing for ASEAN *(Source: Thangavelu, 2015)*



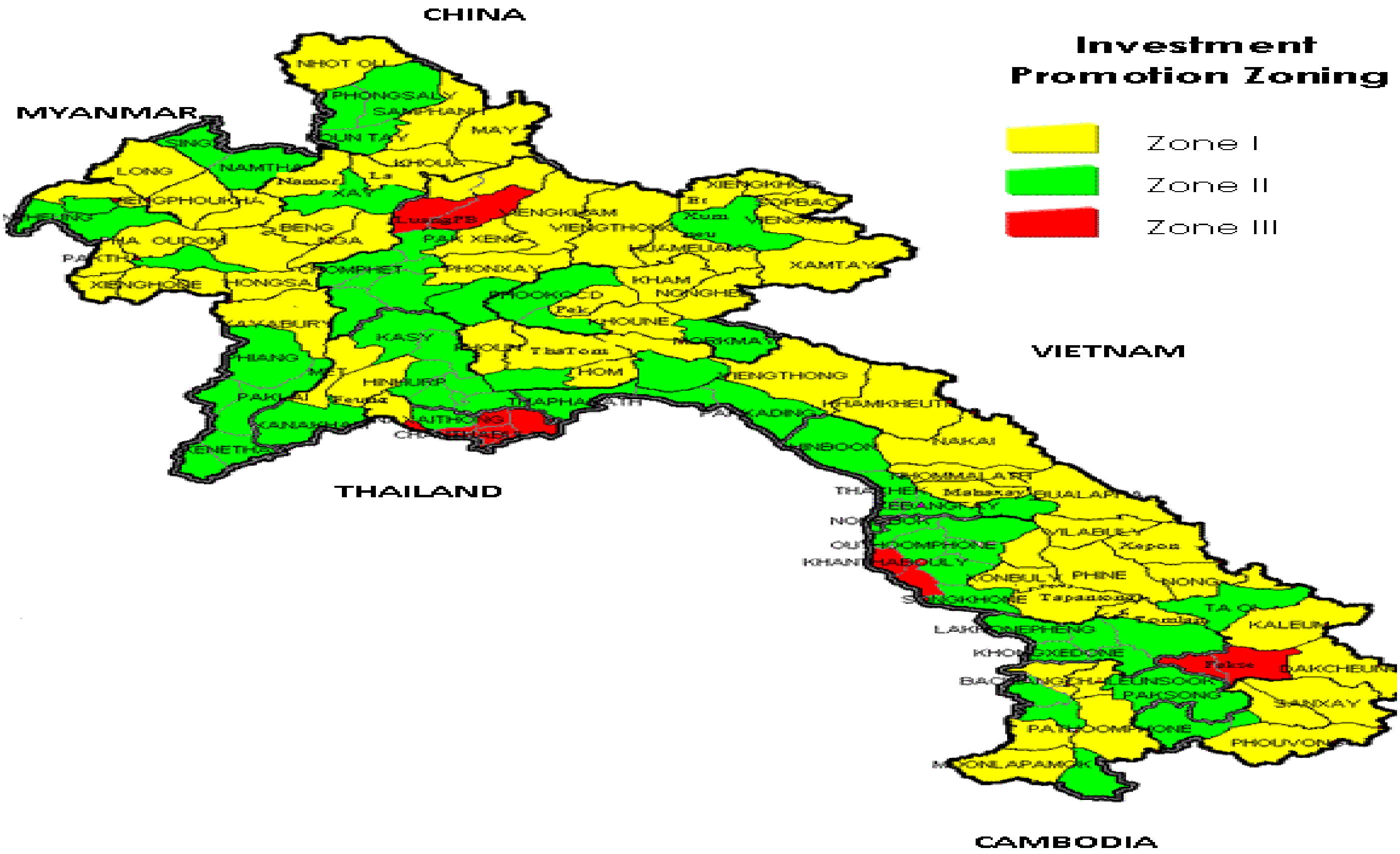
7.26 FDI in Laos and Cambodia between 1992-2016 (in USD million) *(Source: The World Bank, 2018)*



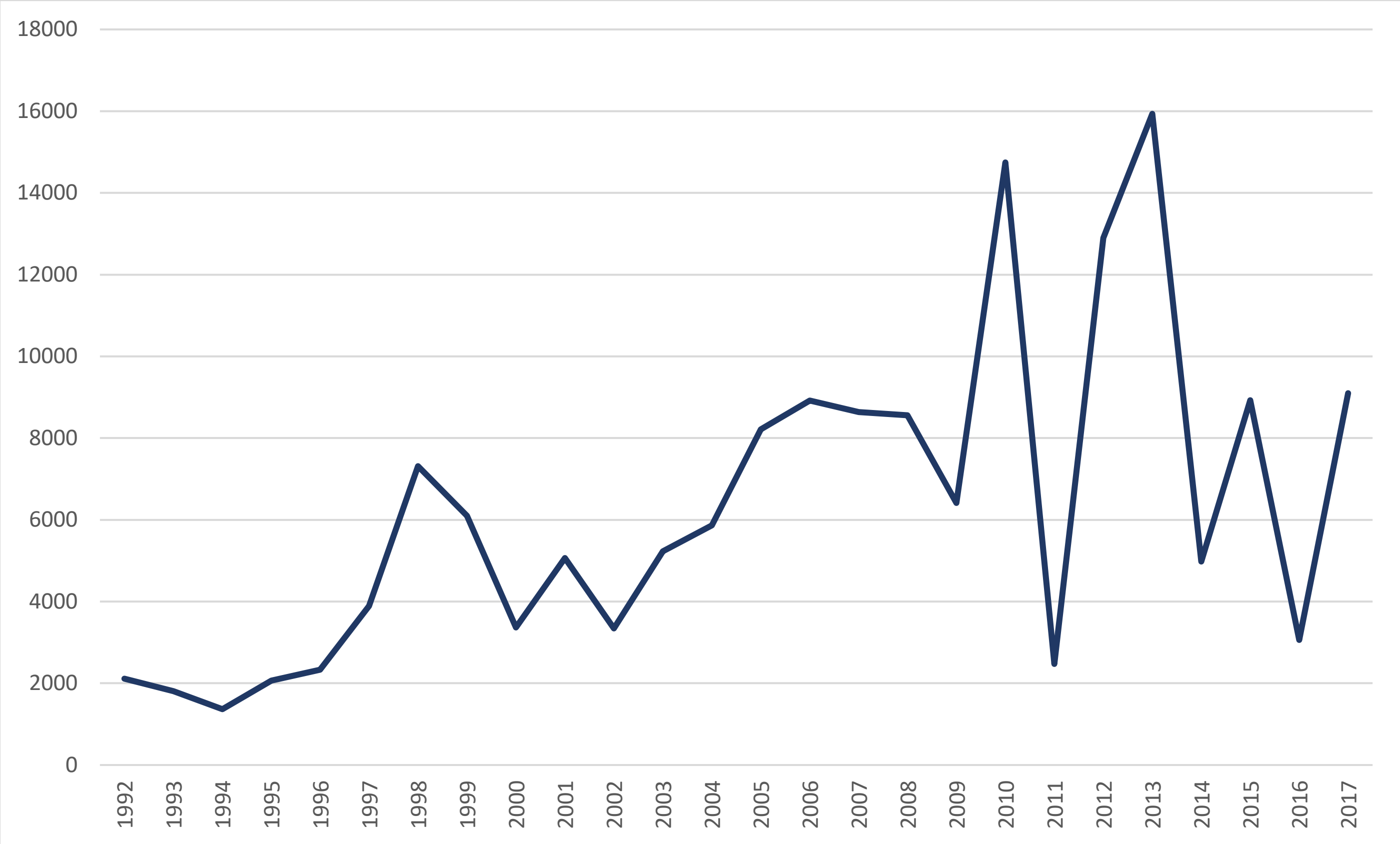
7.27 FDI in Laos, Cambodia and Vietnam between 1992-2016 (in USD million) (*Source: The World Bank, 2018)*



7.28 Laos SEZs map *(Source: Lao Investment Promotion Department, 2017)*



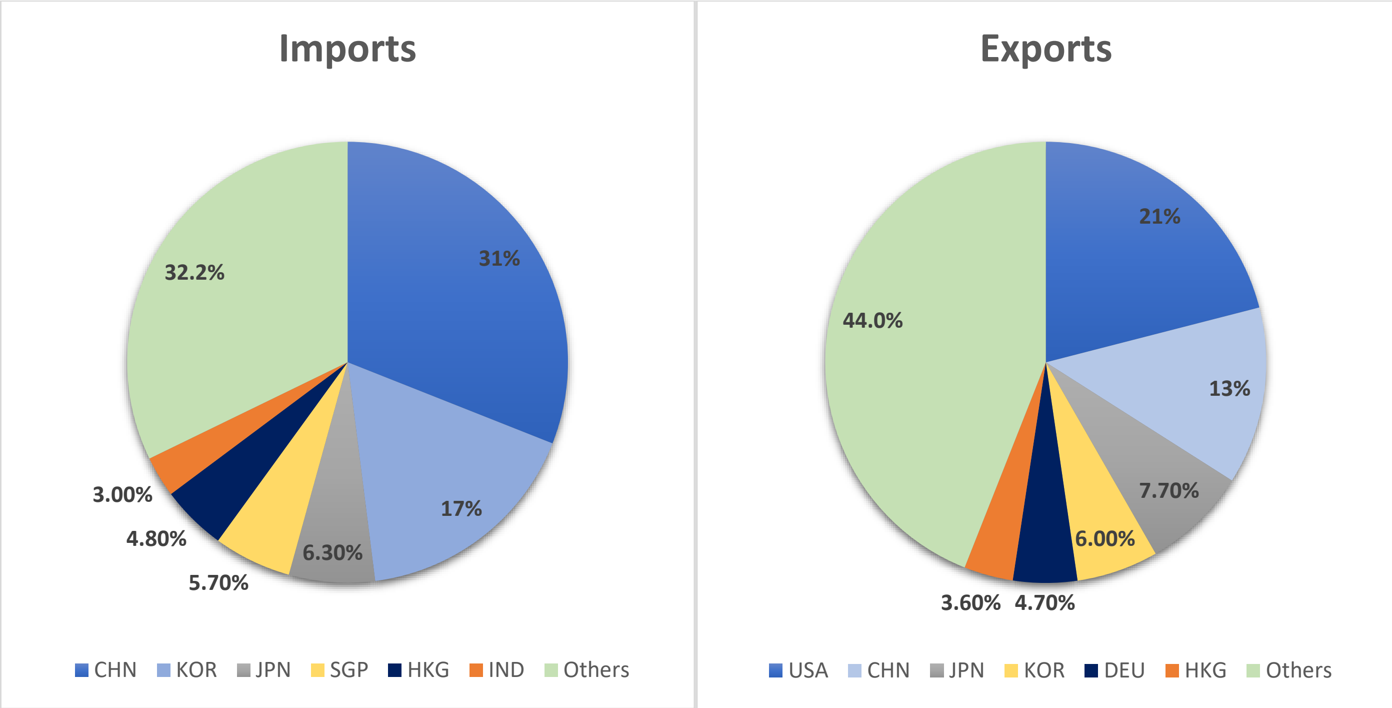
7.29 FDIs in Thailand between 1992-2017 (in USD million) *(Source: The World Bank, 2018)*



7.30 SWOT analysis Vietnam *(Source: BMI; 2018)*

Strengths
• Growing levels of foreign investment encourage further trade and value-addition opportunities.
• Strong contract enforcement capabilities increase security when engaging with local entities.
• Diversified economy provides investment opportunities for businesses across a wide range of sectors.
Weaknesses
• Onerous tax administration increases the costs and time to pay taxes.
• It is a lengthy process to start a business and register property.
• An underdeveloped banking sector reduces the options for keeping money in the state.
Opportunities
• Efforts to reduce trade barriers are making it easier to enter the market.
• Increased foreign participation in the banking sector will increase the availability of funds for loans.
Threats
• A high level of nonperforming loans in the banking system may lead to wider economic risks.
• Corruption and inefficiency in the legal system raises cost and investment risks.
• The government's war against corruption will realise gains but only in the long term as favouritism still rife.
• Vietnam may lose trade opportunities from rising global protectionism, largely stemming from inward-looking US policies

7.31 <u>Vietnam's main commercial partners (% of total trade value)</u> *(Source: BMI; 2018)*



SUMMARY

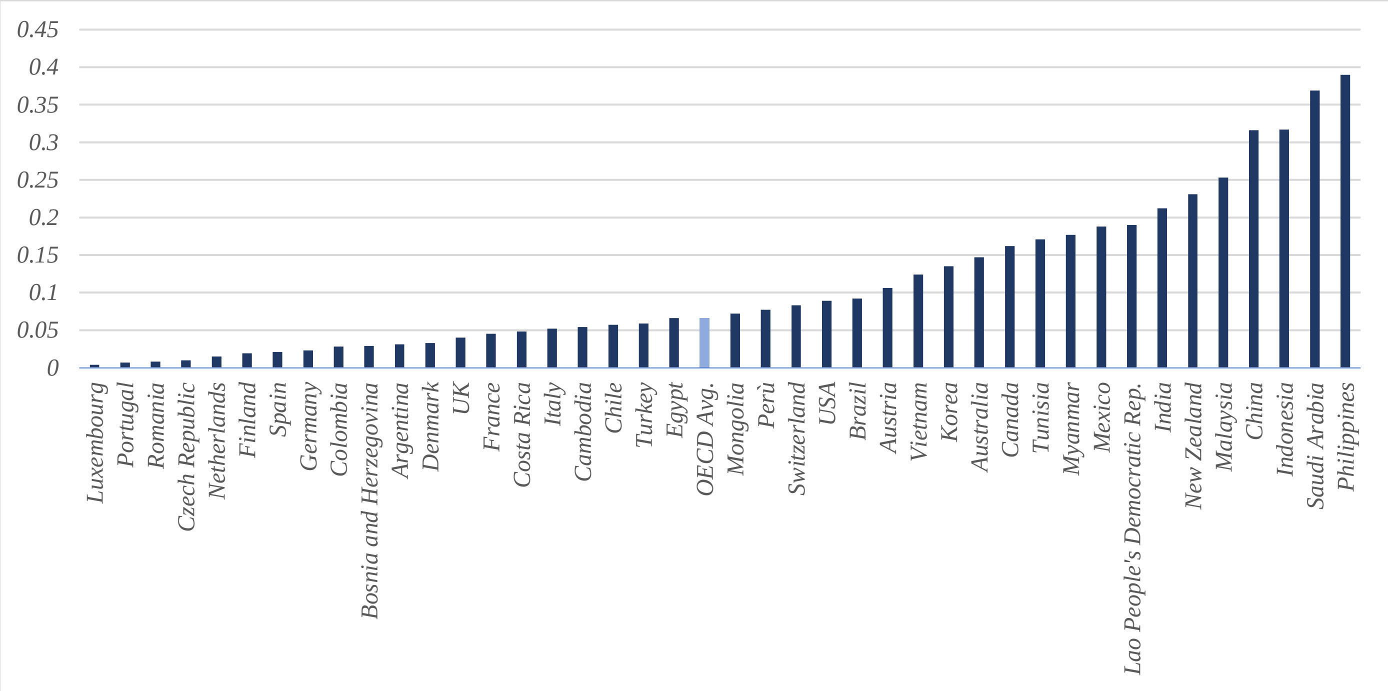
1. Foreign Direct Investments

Nowadays, foreign investments have often been a tool for governments to develop their economies; since they involve parties from different countries worldwide, they are ruled by international business law. According to the Balance of Payments Manual: Fifth Edition (BPM5) (Washington, D.C., International Monetary Fund, 1993) FDI refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor; further, in cases of FDI, the investor´s purpose is to gain an effective voice in the management of the enterprise. Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise; the BPM5 suggests 10 per cent of equity ownership to qualify an investor as a foreign direct investor. Moreover, the forms of investment by the direct investor which are classified as FDI are equity capital, the reinvestment of earnings and the provision of long-term and short-term intra-company loans. The most important characteristic of FDI, which distinguishes it from foreign portfolio investment, is that it is undertaken with the intention of exercising control over an enterprise.

The relationship between investment flows and economic development has been studied deep for years; theoretically, the causal relation between FDI and GDP growth can run in two main directions: according to the "FDI-led growth hypothesis", inflows can stimulate growth for the host countries by increasing the capital stock, creating new job opportunities and facilitating technologies' transfers. On the other hand, according to the "market size hypothesis", a rapid GDP growth creating new investment opportunities in the host country can also cause larger inflows. In addition, despite studies generally describing a positive impact, it is also possible that FDI has negative effects on economic growth by crowding out domestic investment, raising external vulnerability and causing dependence. Hence there is no perfect solution which can fix in any case, but several national or regional characteristics which influence the kind and use of foreign investments and the internal attractiveness. Governments are incentivised in both taxing and subsidizing foreign firms; a study of Sharma (2016) described that a tax on inframarginal firms raises revenue at the expense of these firms' profits, while a subsidy on marginal firms can increase domestic welfare by attracting foreign firms at a relatively low fiscal cost.

As shown in the figure below, FDI restrictiveness is an OECD index describing the restrictiveness of a country's foreign direct investment (FDI) rules by looking at four main types of restrictions: foreign equity restrictions; discriminatory screening or approval mechanisms; restrictions on key foreign personnel and operational restrictions; the index values fluctuate between 0 (for open) and 1 (for closed). Regarding the OECD average restrictiveness, which could be considered as more stable economies, the value, close to 0 (0.066), describes a favourable environment for foreign investments in the area; moreover, the ASEAN countries values fluctuate between Cambodia (0.054) and Philippines (0.39), showing multiple scenarios in those economies which could be identified as more dynamic than the OECD ones.

Countries FDIs restrictiveness (0 = open; 1 = closed), 2017 (*Source: OECD FDI regulatory restrictiveness index*)



Decisions by multinationals to undertake FDI are usually complex since they involve strategies relevantly influenced by taxation and incentives of foreign countries. Dunning (2008) states that for MNEs trying to maximize their value, FDI brings benefits if the so-called OLI (Ownership, Location and Internalisation) conditions are met. At first, there must be an advantage for MNEs related to ownership by local firms; this could deal with tax issues, but also with specific technological or organisational knowledge. Secondly, producing abroad must be attractive in terms of comparative advantage, if not, it would be more remunerative to export, rather than to invest. Finally, it should be attractive to undertake activities within the firm, rather than getting them from foreign companies.

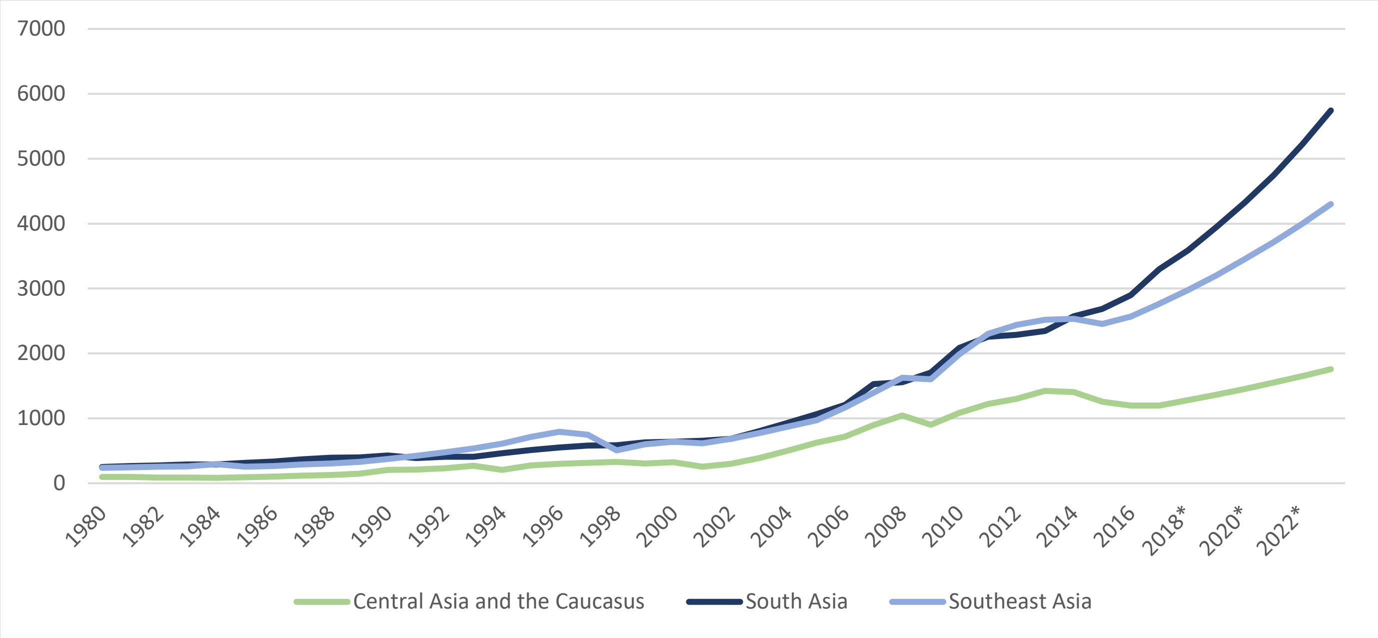
Thus, taxation is a main determinant in MNEs strategies regarding FDIs; however, several other determinants contribute in making markets attractive: effects of exchange rates on investments, institutional and political environment, trade protection and trade effects. Dunning and Lundan (2008) have evidenced 4 categories of FDIs, basing on different determinants: market-seeking FDIs, adopted by companies aiming to provide their products to a targeted area, focusing on local and regional markets; resource-seeking FDIs; efficiency-seeking FDIs, which relate to investments aim to exploit the different accessibility and inputs costs in several countries and also to discover possible economies of scope and scale; strategic asset-seeking FDIs, which usually consist in the acquisition of resources from firms operating in targeted foreign markets.

The regulations on foreign investments could differ country by country, but the purposes are almost the same worldwide: promote local productivity and technological development, encourage local participation and minimize foreign competition in economic areas already served by local businesses. To achieve their purpose, investment laws must screen and regulate FDIs' applications; these generally fall into three groups: the firsts aim to encourage investments through incentives and minimal regulations; the seconds aim to use investment incentives but also to require local participation quotas; the thirds aim to allow foreign investment subjects to local screening and supervision. Anyway, some countries, called "tax heavens", try to collect foreign investment and generally impose no disclosure requirements. By mandating secrecy, these states, such as the Bahamas, Bermuda and the Cayman Islands, represent a problem for many industrialized democracies and for the worldwide regulatory framework. There are several instruments that governments use to attract FDIs and, as we will see for ASEAN countries, a lot of nations decide to create ad hoc regulations for specific geographical areas to enhance their economic development; August, Mayer and Bixby (2013) categorized these zones by their geographical size and by the kinds of activities that may be carried on within: free zones categorized by size (as the largest ones called Free Trade Areas of smaller such as the so called "free cities"); free zones categorized by activities (as storage, distribution, manufacturing and retailing); export processing zones (EPZs) (as a territory within a geographical location where the government allows imports of various factors of production without levying any taxes); free retail zones (or duty-free zones); bonded warehouses (usually set at the entry ports of the countries). Besides incentives provided to attract FDIs, internal regulations could limit foreign presence for those economic sectors that are considered strategical for national interests; August, Mayer and Bixby (2013) also categorized several types of limitations: restricted sectors, in which governments limit investments from abroad to prevent foreigners from influencing national issues; closed sectors, in which states don't allow foreign ownership; geographic limitations, which restrict the physical zones where foreigners might establish activities or possess properties; foreign priority sectors, in which foreign investments are usually enhanced because national resources could be slightly advanced. A host country provides also guarantees to foreigner investors; for August, Mayer and Bixby (2013) the most important ones are: compensation in the event of nationalization of a foreign-owned enterprise and repatriation of the payments made; repatriation of the proceeds upon the sale of the enterprise; repatriation of profits, dividends and other forms of current income; repatriation of the principal and interests from loans; stabilization of taxes and other regulations.

2. ASEAN region

The Association of Southeast Asian Nations is a regional intergovernmental organization subscribed by ten countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) that promotes international cooperation and facilities economic, political and social integration of the members. Between the 12 most populated Asian nations, there are 5 ASEAN's members, reflecting the significant size of the regional market and the role of the human factor, which would be fundamental in area's development.

GDP of Asian sub regions, current prices (billions USD) *(Source: International Monetary Fund, 2018)*



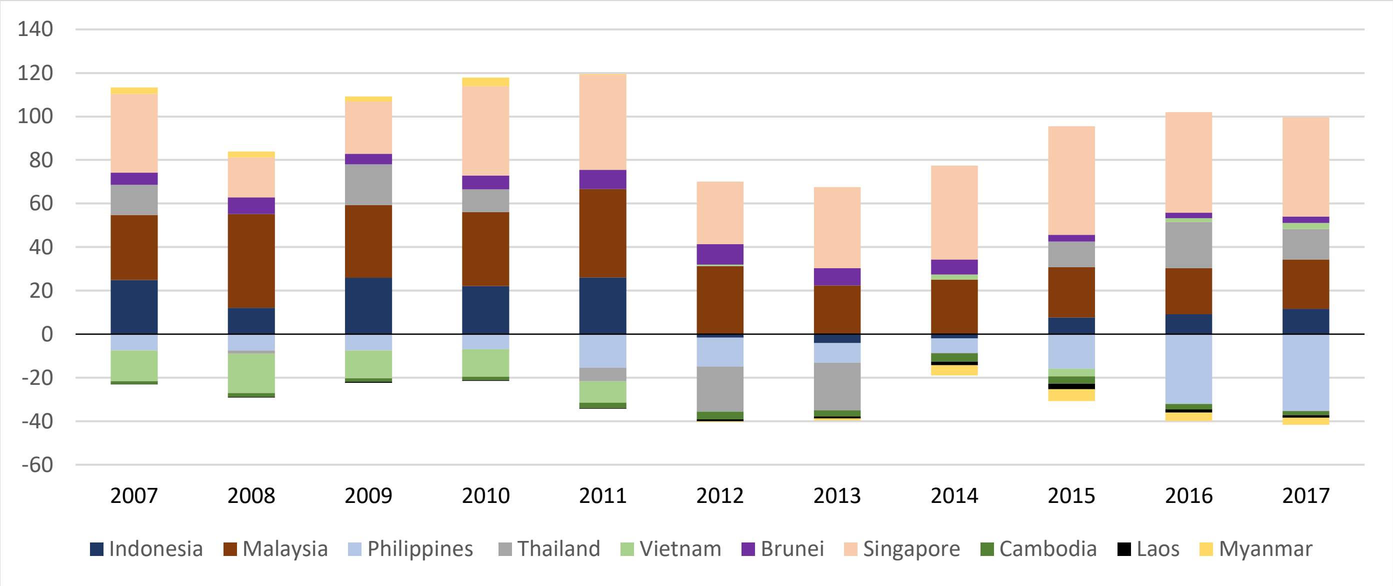
Data of the International Monetary Fund suggest a stable and positive trend in terms of GDP growth for the region; as shown in the figure above the total domestic product is significantly increasing in the Southeast Asia. Basing on macroeconomic data and national environment, it is possible to identify 3 groups among the ASEAN region: ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand and Vietnam), which are considerable the leaders; Brunei and Singapore, which are the richest members, and CLM countries (Cambodia, Laos, Myanmar), the less developed economies.

Real GDP growth in ASEAN, China and India (annual % change) (*Source: OECD, 2018)*

	2016	2017	2018-22 (average)	2011-2015 (average)
ASEAN-5 countries				
Indonesia	5%	5%	5.40%	5.50%
Malaysia	4.20%	5.5%	4.90%	5.30%
Philippines	6.90%	6.60%	6.40%	5.90%
Thailand	3.20%	3.80%	3.60%	2.90%
Vietnam	6.20%	6.30%	6.20%	5.90%
Brunei and Singapore				
Brunei	-2.50%	0.00%	0.50%	-0.10%
Singapore	2%	3.20%	2.30%	4.10%
CLM countries				
Cambodia	6.90%	7.10%	7.20%	7.20%
Lao PDR	7%	6.90%	7.10%	7.90%
Myanmar	5.90%	7.20%	7.40%	7.30%
Average ASEAN-10	4.80%	5.10%	5.20%	5.10%
Average Emerging Asia	6.40%	6.40%	6.30%	7.10%

As showed in the table above, Southeast Asia is poised to achieve average growth of 5.2% between 2018 and 2022, relatively unchanged from 5.1% between 2011 and 2015; among the bloc's ten-member countries, Cambodia, Lao PDR and Myanmar are projected to grow the fastest from now through 2022, while the Philippines and Vietnam would lead in growth among the ASEAN-5. Thus, to support this improvement, the ASEAN Socio-Cultural Community (ASCC) vision for the 2025 has the objective of making the quality of life for ASEAN people better through workforce with enhanced competitiveness and engaged in safe and decent work derived from productive employment, harmonious and progressive workplace, and adequate social protection.

<u>ASEAN countries trade balances (in billion USD)</u> *(Source: OECD, 2018)*



Looking at data describing the total trade in relation to the major commercial partners in 2017 (excluding intra-ASEAN members), we can deduct that China is the main foreign market for ASEAN countries, with more than share of 25.6% of the imports total value; European Union and the United States are mainly exporting markets, while Japan and South Korea are considerable more as importing nations. Furthermore, as described in the previous figure, countries as Singapore and Malaysia recorded positive and significant scores for the whole period, while the Philippines performed in the opposite way. Thailand and Vietnam, despite having several fluctuations in the period analysed, are on a positive trend, registering a surplus respectively for the 3rd and the 2nd year consecutive which will boost the national economies. Cambodia recorded negative results in the whole period, mirroring a sensitive scenario, but exports are becoming more relevant, in particularly in the last months.

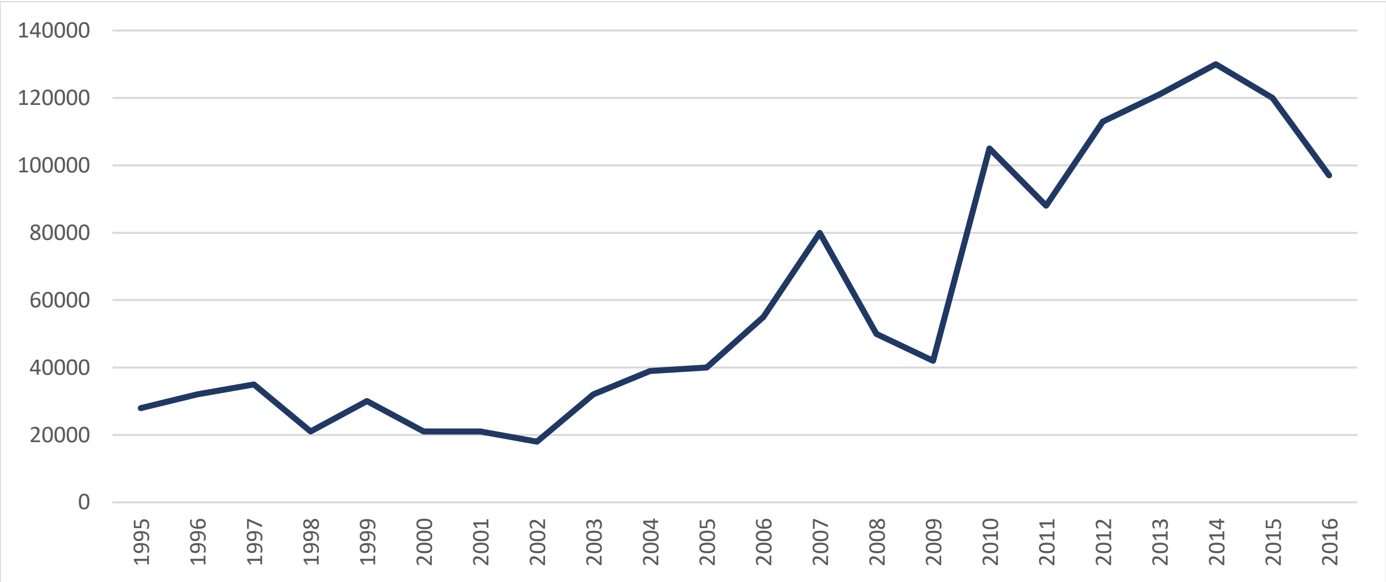
As mentioned, the ASEAN-5 group is composed by the leading economies which drive the whole development in the area; they are significantly important in terms of contribution to regional GDP, population and economic potential. For each year between 2008 and 2018, the population Indonesia, Philippines, Vietnam, Thailand and Malaysia include more than 80% of the whole region population, while their GDP's sum accounted more than

75% of the whole ASEAN product; anyway, each member (except Malaysia) have registered low GDP per capita values, mirroring developing national economies. Brunei Darussalam and Singapore, despite being the less populated countries of the area, have economies able to influence the regional environment; in particularly, Singapore's GDP is comparable with the Philippines one in terms of contribution to the whole product. Moreover, they rank 1st and 2nd in GDP per capita. Finally, Cambodia, Laos and Myanmar are the least developed ASEAN countries, as highlighted by economic data; on the other hand, they registered the highest national product growth rate of the area in the period 2011-2015 and the trend, despite slightly slowing, is still significantly positive until the 2017.

3. FDIs among ASEAN

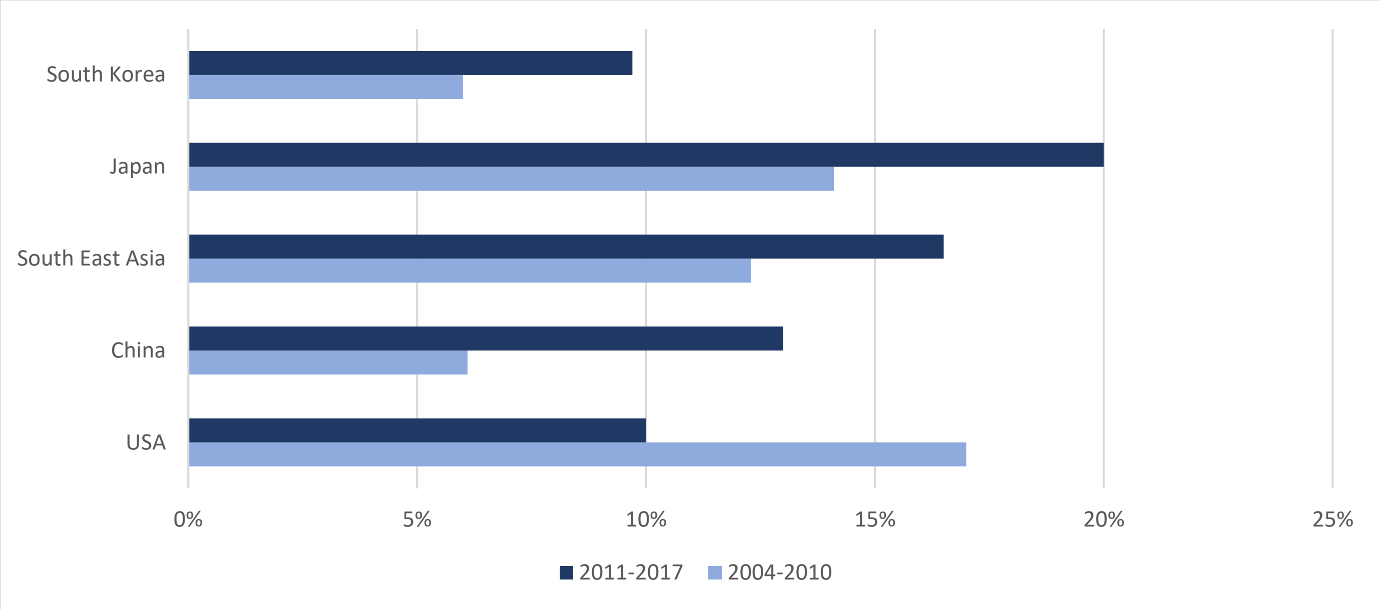
The 1997 Asian financial crisis beset many ASEAN members and affected economic growth and financial - flows to the region, including annual FDIs in the immediate aftermath (figure 7.21). They started to rebound in 2003, but the region was again affected by the 2007–2008 global financial crisis, registering a significant drop in the 2008-2009 flows.

ASEAN FDIs between 1995-2016 (in USD million) *(Source: ASEAN Secretariat; 2017)*



Anyway, the FDI recovery period after this crisis was much shorter than after the preceding one and the region came out of the crisis more attractive and stronger; despite FDIs in 2016 ($96 billion) have declined for the second consecutive year, ASEAN attracted 2.8 times more investment than the pre-crisis peak of $34 billion in 1997. A few factors contribute to the resilience and attractiveness of the region, including the rapid growth of national economies, a greater regional division of labour exploited by MNEs and a more mature M&A. Indeed, many of the Fortune Global 500 companies that are present in ASEAN continue to invest and expand in the area.

Greenfield FDIs in ASEAN (by capex % of regional total) *(Source: Financial Times, 2018)*



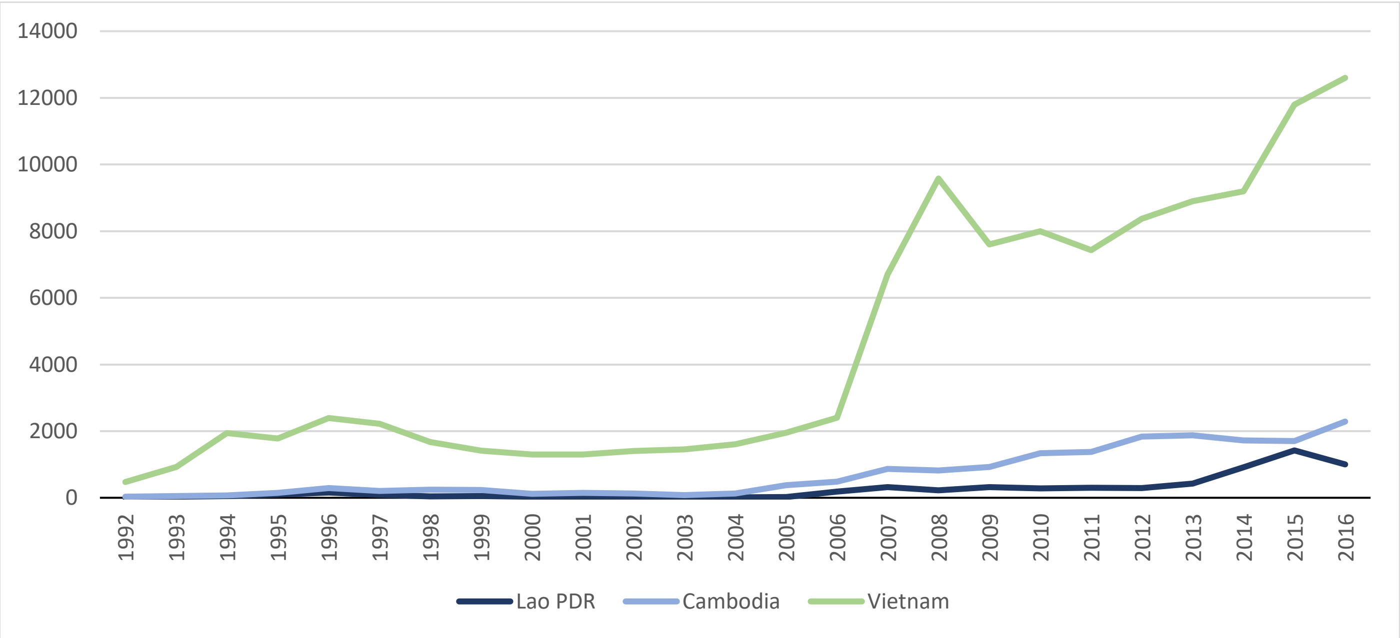
For countries across the region, China is becoming an increasingly important economic partner, raising questions about the region's direction and future. But researches on data for trade, foreign direct investment and tourism in ASEAN countries has found that, while China's expanding influence is undeniable, Japan, South Korea, and other countries remain important players; indeed, richer members, including Thailand and Malaysia, show the highest rates of FDI from outside ASEAN (in Thailand, for example, over 50 per cent of capital invested came from Japan and the US), while China has invested more in the region's poorer economies, as Cambodia. A characteristic of the ASEAN region is the presence of more than 1,600 economic zones of various types, which refer to all types of industrial and non-industrial zones, estates or parks that facilitate investments, especially FDIs.

Hoang and Bui's (2015) studies showed that size of national market, infrastructural development and degree of openness towards foreign trade are all aspects which could positively influence FDIs' flows in the region. Real interest rates and exchange rate policies have an impact on inflows, while the degree of financial development and the inflation rate are not relevant from a statistical point of view. Moreover, as mentioned before, the institutional environment plays a crucial role in affecting investment strategies, as the nominal cost of labour, human capital and its productiveness. Indeed, despite the importance of the domestic market dimensions, small ASEAN nations can attract investment flows throughout the development of a better institutional environment. Hence, a lower level of corruption and political stability are the two best manners to reduce the risks and the uncertainty for foreign investors. In addition, the findings also say that the underdeveloped ASEAN members, gathering small volumes of FDI, must accelerate trade liberalisation, infrastructure development and regional integration through the ASEAN contribution, while a weaker national currency with respect to the U.S. dollar should be exploited efficiently for higher levels of export and FDI inflows. The improvement the productivity of services sector and FDI in the region, even thanks to improved agreements and treaties with existing partners, is still facing several challenges: for example, innovation and competition in services across the region should be improved. Moreover, despite some countries have made tremendous improvements in human capital development, much more should be done; infrastructure gaps in ASEAN are still remarkable problems, while there is also the huge data gap in the regional services sector in terms of quality of data and information which can be used to understand the key issues and guide policy discussions on relevant topics. Furthermore, different levels of taxation characterise ASEAN members but generally they are low.

The birth of the ASEAN bloc empowered the importance of the whole region, which became an attractive commercial partner for many other economic players and communities. Indeed, opening up services for investments and trade has accelerated in South-East Asia within the last two decades, characterised by a relevant increase in Free Trade Agreements (FTAs); such agreements played a central role in fostering investments inflows in ASEAN from worldwide partners. The first major FTA for Southeast Asian countries was the ASEAN Free Trade Area (AFTA) enacted in 1992. ASEAN member countries also began to actively establish bilateral and regional FTAs. Moreover, region's members have established five ASEAN + 1 FTAs with its six main trading partners: China (ACFTA), Japan (AJCEP), Korea (AKFTA), India (AIFTA) and Australia - New Zealand (AANZFTA). For several economic, cultural and geographic reasons, the most significant is the free trade agreement with China.

Regarding the emerging economies, Cambodia and Lao have always played a marginal role in South-East Asia economy and they r are still strongly related to investment coming from richer countries like China, Thailand, United States and South Korea. Manufacture occupies the second position in those nations, while agriculture still represents the most significant sector.

FDI in Laos, Cambodia and Vietnam between 1992-2016 (in USD million) (*Source: The World Bank, 2018)*



FDI inflows to Lao and Cambodia improved relevantly thanks to the empowerment of integrated policies and FTAs within the nations of the region; however, they are still far from their neighbouring states; in particularly, Vietnam keeps enlarging the difference with them, maintaining the positive trend. The FDI restrictiveness of Laos and Cambodia have higher levels of openness to investments respect to developed nations and low-cost labour force, which can attract multinational enterprises looking for maximization of costs. Anyway, infrastructures are not efficient and electricity provisions lack stability. Important projects have been implemented, but until their complete enforcement, Laos and Cambodia are trying to attract those low-cost productions that are complementary to assembly processes in other nations. On the other hand, Thailand, which is one of the most developed members of the region, is losing its central position as a destination for FDI inflows; it does not present increasing rates like other nations, and, in these last, years it seems to be less attractive for international investors. Meanwhile, near nations as Vietnam are attracting a higher amount, due to changes in macroeconomics and MNEs strategies, but also because of different domestic strategies in FDI attractiveness and investments to favour businesses. However, Thailand is going to modify its strategy by fostering outward FDI to favour domestic businesses and by enhancing its productiveness through incentives and investments on productions with high levels of technologic content. Inward flows have been one of the most significant driving forces for country's economic growth during the last decades, since it is an important production and assembly base for many industries such as automobiles and hard-disk drives. Moreover, due to the increasing of wages, the country is facing the most severe problem of shortage in operational workers and skilled labour when compared with other ASEAN members.

4. Vietnam

Vietnam's development of the last 30 years is significant; reforms launched since 1986 have consistently the economic growth of the country. Indeed, the Vietnamese performance of 2017 has been resilient, mirroring strong export-oriented manufacturing sector and domestic demand, while agriculture is improving gradually if compared to the previous years. GDP growth is estimated at 6.3 percent in 2017 and it is the fastest expansion in the past ten years reflecting, among the several sources, also robust foreign investment inflows. In the medium term, the country outlook remains positive, sustained by continuous development and macroeconomic stability, while inflation is projected to stay moderate thanks to a benign global price environment. Moreover, the emerging middle class, accounting for 13 percent of the population in the 2017. is expected to achieve 26 percent by 2026; this is mainly due to the significant development of basic services provisions, as health and education. Furthermore, as one of the most open economies in the world, Vietnam is seeking regional and global opportunities for further international integration; it is member of the World Trade Organization (WTO), the Association of the Southeast Asian Nations (ASEAN) and the ASEAN Economic Community, while has signed sixteen bilateral and multilateral trade agreements, including the Vietnam-EU FTA, the

Regional Comprehensive Economic Partnership (RECEP) and the Trans-Pacific Partnership (TPP). Anyway, some macroeconomic vulnerabilities persist and should be managed to ensure the economic growth, such as a banking sector not stable with asset quality problems and country's total outstanding public debt (central government, publicly guaranteed, and local government), which is estimated at 62 percent of GDP in 2016 about 15 percentage points higher than in 2010 and quickly approaching the legally mandated ceiling of 65 percent. Hence, this medium-term outlook is subject to several downside risks; domestically, slow implementation of structural and fiscal reforms may worsen medium term growth prospects; on the external front, Vietnam's economy remains susceptible to a further slowdown in the global economy because of a potential rise in protectionist policies. Thus, since it aspires to become a modern, dynamic middle-income economy, it is planning four key structural change processes: institutional transformation from plan to market; structural transformation from an agrarian to a manufacturing and services base; population and spatial transformation from rural to urban; and shifting from a largely closed to an export-driven and globally integrated economy.

SWOT analysis Vietnam *(Source: BMI; 2018)*

Strengths
• Growing levels of foreign investment encourage further trade and value-addition opportunities.
• Strong contract enforcement capabilities increase security when engaging with local entities.
• Diversified economy provides investment opportunities for businesses across a wide range of sectors.
Weaknesses
• Onerous tax administration increases the costs and time to pay taxes.
• It is a lengthy process to start a business and register property.
• An underdeveloped banking sector reduces the options for keeping money in the state.
Opportunities
• Efforts to reduce trade barriers are making it easier to enter the market.
• Increased foreign participation in the banking sector will increase the availability of funds for loans.
Threats
• A high level of nonperforming loans in the banking system may lead to wider economic risks.
• Corruption and inefficiency in the legal system raises cost and investment risks.
• The government's war against corruption will realise gains but only in the long term as favouritism still rife.
• Vietnam may lose trade opportunities from rising global protectionism, largely stemming from inward-looking US policies

The BMI's SWOT analysis summarize the key points of the Vietnamese environment from investors and traders' perspective; in particularly, the underperforming banking sector could be a remarkable opportunity for foreigners, while trade barriers make difficult to operate or invest in sector which are considerable strategic for the government.

Vietnam has become a rising economy in the ASEAN region through its rapid growth and increasing FDIs; import and export have also supported the national economy with a robust improvement, facilitating the efforts to liberalise trade and to expand regional and international trade agreements. Moreover, government reforms have opened the economy to foreign investors which also contributed to the GDP growth of more than 6% in 2017, making the country one of the fastest growing economies in the world. This trend would continue in the coming years basing on relative political stability, FDI inflows, high productivity and higher savings; furthermore, the trade liberalisation is giving significant positive results in sector as manufacturing, construction and services. Concerning the trade openness, export and investment-led growth model that the Vietnamese government is pursuing has drawn significant investor interest and enhanced trade; the increasing pace of regional integration presents many lucrative opportunities that businesses can enjoy (in particularly manufacturing industries). By expanding trade relations and lowering tariffs between key trade partners, the country should continue experiencing robust trade growth over 2018-2022. The Vietnamese economy is dominated by its manufacturing and services sectors, and both are becoming increasingly diversified, advanced and integrated with regional and global value chains. Despite transitioning to a more service and industrial base, agriculture remains a key sector in the nation, employing about half of the population; in particularly, the country is one of the top rice and coffee exporters in the world. The agricultural and agro-processing industries hold some growth opportunities in terms of production, exports and retail sales; furthermore, Vietnam's membership of several FTAs has facilitated trade. Vietnamese government is also focused on attracting foreign investment, especially in sectors that will bring advanced technology, increase the labour market skills and improve country's labour productivity. The attractiveness as an FDI destination has raised due to continues key legal reforms related to the business environment. Other FDI pull-factors include a national stable political system, a strategic location near global supply chains and an abundant labour force that is less costly relative to China. However, the state's role in the economy remains significant and some sectors are restricted for 100% foreign ownership, including energy, transport, mining, utilities and agriculture. Firms still face challenges applying for investment licences, for which the procedures are complex and lengthy, increasing delays and operational costs; some are represented by: regulatory barriers and administrative burden, dominance of state-owned enterprises, localisation requirements and foreign ownership limits and conformity with Economic Master Plans issued by the authority.

Onerous tax bureaucracy and relatively low levels of financial inclusion in Vietnam altered the country's competitive landscape; businesses face inefficient, costly and cumbersome tax administration, compounded by high levels of government involvement in important economic sectors, in particularly banking and financial services have barriers for foreign investors. However, operating costs are partly moderated by a steady improvement in access to international financial markets and moderate corporate tax rates by regional comparison. Bureaucratic and legal bottlenecks also represent obstacles to foreign players in Vietnam; key risks include the presence of corruption and the regulation of intellectual property rights. Additionally, administrative procedures regarding starting a business, obtaining construction permits and registering property raise the risk of starting up new ventures in the country. Time needed to register a business, a property or to resolve legal disputes and wind up operations is still a risk for investors.

Vietnam, trade and investment risk (100=lowest risk; 0=highest risk) *(Source: BMI, 2018)*

	Economic openness	**Government Intervention**	**Legal**	**Trade and Investment risk**
Vietnam	70.6	44.4	51.5	55.5
East and South East Asia average	55.3	56.7	55.2	55.7
Asia average	45.1	51.2	46.8	47.7
Global average	49.4	50.3	50.3	50

Thus, the BMI's trade and investments operational risk is quantified on a scale from 0 to 100, with 100 being the lowest risk state; it is made up of three categories: economic openness, government intervention and legal risk. The country scores 55.5, which is close to the average of the South East and East Asia; further improvements, in particularly regarding the legal aspect and the presence of government into the markets, should be made to make the country a more attractive place for investors and to facilitate the national economic development. Vietnam would face those challenges to continue the positive trend of the last years and to also improve it, making the country a more important member of the ASEAN region and of the global market. However, despite existing some problems related to the national environment, the country is one of the most promising worldwide in terms of opportunities for foreign investors.

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