SUPPORTING ECONOMIC TRANSFORMATION

Supporting UK foreign direct investment in ASEAN

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22 June 2021

Key messages

- The stock of UK foreign direct investment (FDI) in ASEAN[1] has been volatile in the past five years – recording strong growth of 15% (to £23 billion) in 2018 and 27% (to £29 billion) in 2019, following double-digit contractions in 2016 to 2017 (owing to negative FDI flows). The level in 2019 was nearly the same as in 2015.
- The share of ASEAN in UK's FDI stock abroad fell by a quarter from 2.6% in 2015 to 1.9% in 2019. However, profits on UK FDI in ASEAN have been consistently more than double those in Organisation for Economic Co-operation and Development (OECD) countries, and there is now a government push to increase trade and investment links with the region.
- The stock of UK FDI in the region is currently invested largely in Singapore (50%), Indonesia (22%) and Malaysia (14%). UK investment in relatively lower-income ASEAN members remains low and stagnant, but UK FDI in Vietnam has been increasing at a fast rate.
- The UK has been investing relatively less (in terms of percentage share of FDI stock) in ASEAN compared to Chinese and US investors. As with other major investment partners, UK FDI in the region is concentrated in financial services.

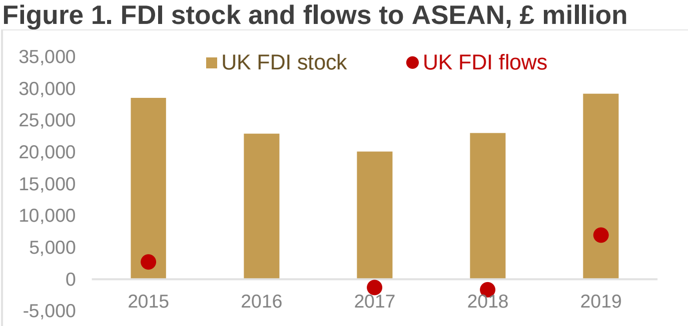
Introduction

The UK's latest international development strategy indicated more efforts towards deepening engagement with Indo-Pacific countries by sustaining and supporting bilateral and multilateral partnerships in the region, including with the ASEAN. In June 2020, the UK applied to be one of ASEAN's Dialogue Partners, which would allow the UK to attend high-level ASEAN meetings together with the US and China, and would facilitate further practical cooperation with the regional bloc. All ASEAN countries are also members of the Regional Comprehensive Economic Partnership (RCEP), while some are in the Comprehensive and Progressive Agreement Trans-Pacific Partnership (CPTPP), with whose members the UK recently launched accession talks. This note presents the trends in UK FDI in ASEAN, compares UK investment with that of other major investors such as China and US, and makes recommendations for boosting the role of the UK in bringing quality investment to the region, especially to the poorer ASEAN members.

UK FDI in ASEAN: recent experiences

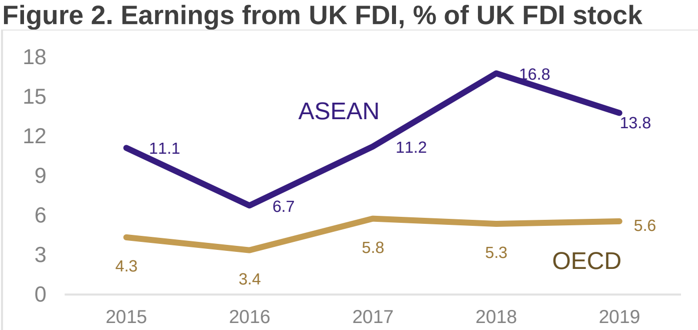
According to the UK Office for National Statistics (ONS), UK FDI flows to ASEAN reached at least £6.9 billion in 2019, a significant jump from -£1.7 billion and -£1.3 billion negative UK FDI flows to the region in 2017 and 2018, respectively (Figure 1). This trend is also reflected in UK FDI stock in the region. In 2019 UK FDI grew by 26%, reaching £29 billion, marginally exceeding UK FDI level in the region in 2015 and rebounding from disinvestments between 2016 and 2018. The fluctuations in UK FDI in the region are heavily driven by UK FDI in Singapore, which received about 50% of UK FDI stock and 70%–100% of UK FDI flows in ASEAN in the past few years. On aggregate, earnings (or profits) from UK FDI in ASEAN are more than double those in OECD countries (Figure 2).

Figure 1. FDI stock and flows to ASEAN, £ million



Source: UK ONS. Aggregate UK FDI flows to ASEAN in 2016 not included since data is not available for Singapore (major UK FDI destination) for that year.

Figure 2. Earnings from UK FDI, % of UK FDI stock

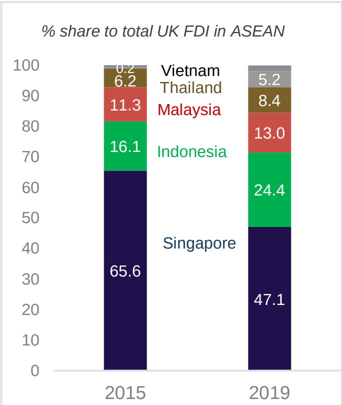


Source: UK ONS. ASEAN aggregate data excludes Brunei Darussalam (2015–19) due to disclosive data and Myanmar (2017–19) with less than £0.5m earnings.

[1] The Association of South East Asian Nations (ASEAN) has 10 member countries: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. In this analysis, UK FDI aggregate data for ASEAN cover all member countries except for Brunei Darussalam (2015–2019) and Lao PDR (2015) for which data are not available (disclosive).

While Singapore received 66% of UK FDI stock in the region in 2015, UK investors have been diversifying to Indonesia and Vietnam in recent years (Figure 3). However, among these major UK FDI stock destinations, investment from 2016 to 2019 remain concentrated in financial services (around 20% in Indonesia, 62% in Singapore, and 58% in Thailand) and in mining and quarrying (60% Malaysia). On aggregate, the share of ASEAN in UK's FDI stock abroad fell by a quarter from 2.6% in 2015 to 1.9% in 2019.

Figure 3. UK FDI stock to ASEAN, by country



ASEAN country	2015	2019
UK FDI stock £m		
Cambodia	12	36
Indonesia	4,575	7,116
Laos	N/A	3
Malaysia	3,213	3,795
Myanmar	7	2
Philippines	179	508
Singapore	18,698	13,742
Thailand	1,758	2,453
Vietnam	61	1,513
Total	28,503	29,168
% share of UK FDI worldwide		
ASEAN	2.6	1.9
CPTPP	7.5	7.1

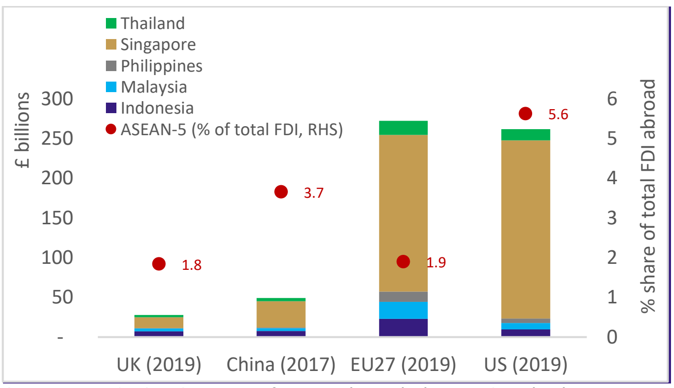
Source: UK ONS. Excludes Brunei Darussalam due to data unavailability.

Comparing UK FDI to other investors

To compare major investors in ASEAN, we compare the level of FDI stock of UK with those of China, the US and EU in Indonesia, Malaysia, Singapore, Philippines and Thailand (ASEAN-5, due to data availability). Data are for 2019 in all cases except China, for which data are for 2017. Figure 4 shows that FDI stock in ASEAN-5 ranges from £272 billion from the EU and £262 billion from the US, to £28 billion from the UK (2019) and £49 billion from China (2017).

ASEAN has a relatively higher share of total FDI coming from the US and China at 3.7% and 5.6%, respectively. The UK and EU's comparable FDI shares to ASEAN were just under 2% (Figure 4). All these investors consistently make the bulk of their investments in Singapore, followed to some extent by Indonesia. By industry, 65% of UK FDI in Singapore goes to financial services, while 57% of US FDI in Singapore comprised non-bank holding company activities in 2019.

Figure 4. FDI stock in ASEAN-5



Sources: UK ONS, US Bureau of Economic Analysis, EuroStat database, China Ministry of Commerce 2017 Statistical Bulletin

Recommendations

Step up economic development aid to overcome investor constraints in lower-middle-income ASEAN members, particularly Cambodia, Lao PDR and Myanmar. UK FDI has been low in these countries in the past five years, and the UK can help improve labour force skills, technology diffusion, infrastructure, access to finance, institutional capacity, and regulatory reforms to improve the investment climate in poorer ASEAN members.

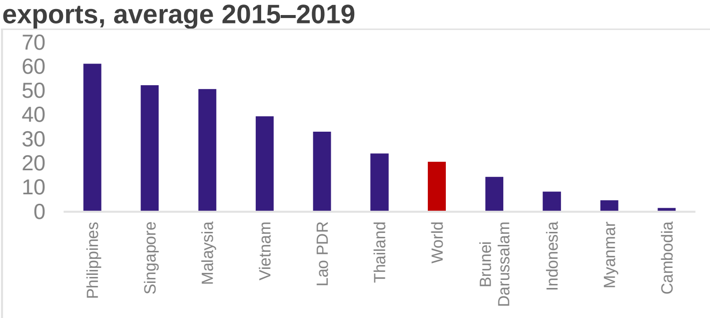
Table 1. Ease of doing business, rank out of 190 countries

ASEAN member	Ease of doing business	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Brunei Darussalam	66	16	54	31	144	1	128	90	149	66	59
Cambodia	144	187	178	146	129	25	128	138	118	182	82
Indonesia	73	140	110	33	106	48	37	81	116	139	38
Lao PDR	154	181	99	144	88	80	179	157	78	161	168
Malaysia	12	126	2	4	33	37	2	80	49	35	40
Myanmar	165	70	46	148	125	181	176	129	168	187	164
Philippines	95	171	85	32	120	132	72	95	113	152	65
Singapore	2	4	5	19	21	37	3	7	47	1	27
Thailand	21	47	34	6	67	48	3	68	62	37	24
Vietnam	70	115	25	27	64	25	97	109	104	68	122

Source: World Bank Ease of Doing Business database, 2020

Diversify destination and sectoral recipients of UK FDI in the region. While the UK has a comparative advantage in financial services in ASEAN, the UK needs to invest more beyond Singapore and to contribute to ASEAN's transformation by targeting high and quality growth sectors. **One opportunity is in digital economy** – as indicated by the six ASEAN members who have a higher share of high-technology products in total exports relative to the world average (Figure 5). In addition, digital investment can leverage ASEAN's more than a 100% mobile subscription penetration as of 2019 (except Lao PDR, 60%).

Figure 5. High-technology exports as % of manufactured exports, average 2015–2019



Source: World Development Indicators

Tailor UK partnerships in ASEAN countries to cover a range of aid, aid-and-trade, and trade- and private investment-led approaches, transitioning more towards the latter. An aid-focused approach in which the UK helps to restore peace, rebuild an investment environment and address basic human needs may be relevant in Lao PDR and Myanmar. An aid-and-trade approach where the UK phases out aid grants and moves towards loans on less concessional terms to encourage countries to trade more, grow faster and raise domestic resources may be extended to lower-middle-income countries such as Cambodia, Philippines and Vietnam, and to some extent to Brunei Darussalam. A trade- and private investment-led approach that involves dialogues for mutually beneficial trade and investment can be applied in relatively stronger economies in the region such as Indonesia, Malaysia, Singapore and Thailand.

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