Evidence-based Recovery and Resilience

ASEAN-5 Countries: In Competition for FDI by Maria Rica M. Amador, Marie Edelweiss G. Romarate, Hazel C. Parcon-Santos

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Research Questions

- What factors explain differences in FDI across the ASEAN-5?
- How do foreign direct investors discriminate across potential host countries?
- Are sovereign credit ratings useful for FDI?

Importance of FDI for the post-pandemic economic recovery of the ASEAN-5.

ASEAN-5 limited fiscal resources or budget to bring back their economies to growth.

Methodology

- Gravity model - PPML
  - ASEAN countries - Indonesia, Malaysia, Philippines, Thailand, and Vietnam
  - 15 FDI source countries
  - 2009-2019

- Gravity model expanded to include locational and institutional quality factors

- 3 sets of estimation according to source countries: (i) FDI from top 15 sources (entire sample); (ii) FDI from top Asian source countries; (ii) FDI from non-Asian countries.

- Several specifications, including, or excluding certain variables to test their significance in determining FDI

General Findings

- Stylized facts very informative; provide up-to-date and comparative data for ASEAN-5 on FDI and variables considered in the empirical model.
- Results of the study are consistent with the literature and empirical studies.
- Across 3 sets of estimations, common factors found statistically significant in affecting FDI include: host market size, distance, corporate tax rate, foreign equity restrictions, governance indicators, or ease of doing business.
- Across 3 sets of estimations, minimum wage, inflation, & human capital index lose their significance once governance indicators, or ease of doing business, or infrastructure quality are included in the specifications.

Comments

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- Foreign equity restrictions are negative and significant for all specifications for top Asian source countries (Table 6.2) but positive and significant for most specifications for top non-Asian source countries (Table 7.2). The latter runs counter to expectations. What could possibly explain this?

- High corporate income tax lowers FDI. Even with CREATE, Philippines still has the highest rate among the ASEAN-5. But given the country's limited fiscal space, will there be room for a further decrease? What would be the marginal effect if the Philippines would lower it further?

  - Corporate income tax versus governance indicators or ease of doing business
  - Given the increase in debt/GDP ratio from 39.6% in 2019 to 53.5% in 2020, priority be given to improving governance structure and enhancing ease of doing business.

Comments

- Re-structuring of international production due to industrial automation and digitalization of the supply chains could affect the attractiveness of the ASEAN-5 as FDI hosts.

- Since 1990s, FDI in ASEAN-5 driven by global production networks of MNEs; efficiency-seeking and export platform FDI.
- Digitalization, the advent of industrial robots, AI-enabled systems have the potential to reverse this trend; may trigger a wave of re-shoring (as opposed to offshoring) of manufacturing activities.
- Could reduce the competitive advantage of low-cost manufacturing hubs in the region, particularly ASEAN-5.
- Longer-term policy reaction to the pandemic and the drive for greater supply chain resilience of MNEs could accelerate existing trends in international production.
- Need to expand model to include an indicator on technological innovation in production