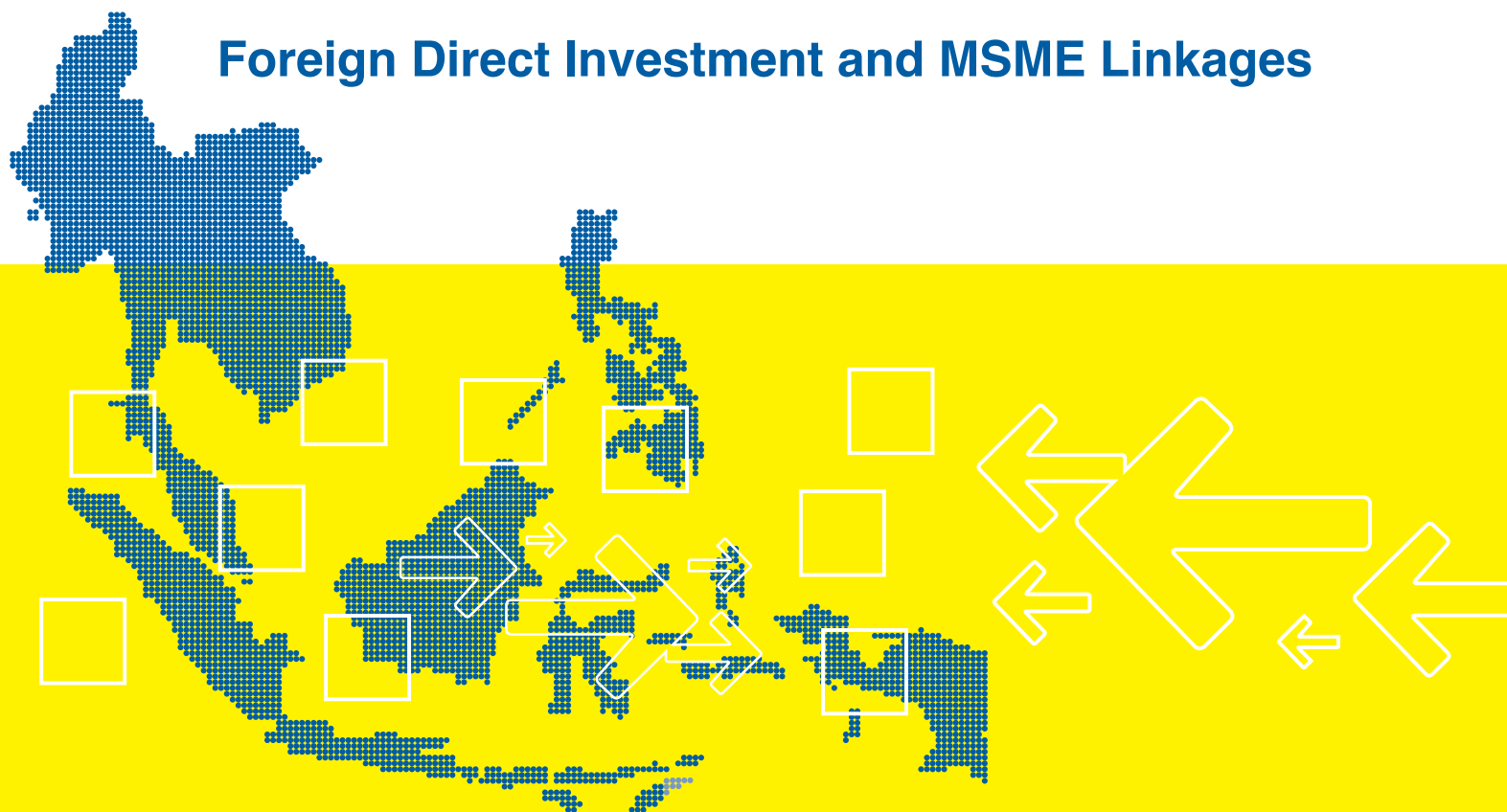


ASEAN Investment Report 2016

Foreign Direct Investment and MSME Linkages



one vision
one identity
one community



UNITED NATIONS
UNCTAD



ASEAN Investment Report 2016

Foreign Direct Investment and MSME Linkages

The ASEAN Secretariat

**United Nations Conference on
Trade and Development**

The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967. The Member States are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.
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The ASEAN Investment Report is produced to facilitate a better understanding of FDI developments in ASEAN. The findings, interpretations and analysis in the Report should be treated with care, as work on harmonising and improving FDI data quality across the region is on-going.

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FOREWORD

ASEAN remains a major destination of global foreign direct investment (FDI), receiving around 16 per cent of the world FDI among developing economies with total FDI flows of \$120 billion in 2015. Regional investment expansion by Multinational Enterprises (MNEs) was strong in 2015 and foreign MNEs continued to strengthen their footprint in the region in manufacturing, finance, infrastructure and other services. ASEAN companies also continued to export and made new investments in the region, pushing up both intra-regional investment and the region's share of FDI in ASEAN. All these positive indicators seem to defy the 8% decline in total FDI flow and the gloomy and rather uncertain global economic outlook. How do we make sense of these developments in the investment landscape of the ASEAN region? What was the impact of the ASEAN Economic Community on the investment environment in ASEAN?

The ASEAN Investment Report 2016 will provide some answers to these questions, and more. With the theme “Foreign Direct Investment and MSME Linkages”, this latest edition examines the drivers and motivations that underpin investments in ASEAN. It takes a closer look at MNE activities and operations in the ASEAN region. Specifically, it examines the case of two important sources of FDI to ASEAN, that of Korea and the United States, with useful insights on the approaches taken, and the success and challenges faced.

An additional feature of this year's report is the study and analysis on the investment activities of micro, small and medium enterprises (MSME) in ASEAN – namely on their linkages and internationalization strategies – why and how they do so. ASEAN MSMEs account for the lion's share of business establishments and contribute significantly to employment and GDP in the region. They play an important role as suppliers or contractors to MNEs by helping large firms source locally or by operating close to their MNE clients in overseas markets.

An increasing number of ASEAN MSMEs are “born global” firms, taking advantage of digital platforms and business models to rapidly grow regionally and internationally. ASEAN MSMEs that have invested in the region include Java Offshore (Indonesia), CMC (Malaysia), KLT Fruits (Philippines), Vela Diagnostics (Singapore), QUO Global (Thailand), and Phibious (Viet Nam). These and many more are featured in this report, providing useful lessons learned for entrepreneurs in ASEAN, as well as for policy makers keen to increase the competitiveness of MSMEs, increase their level of participation and contribution towards the goals of the ASEAN Economic Community and in improving the overall investment environment.



Le Luong Minh
Secretary-General of ASEAN

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TABLE OF CONTENTS

FOREWORD	v
ACKNOWLEDGEMENTS	vi
ABBREVIATIONS	xi
OVERVIEW	xv

PART ONE: FDI AND MNE DEVELOPMENT IN ASEAN

CHAPTER 1: FDI DEVELOPMENT AND MNE ACTIVITIES IN ASEAN.....	3
1.1. Introduction.....	3
1.2. FDI trends and developments in 2015	3
1.3. MNE activities and operations in ASEAN	9
1.4. Cross-border M&As in ASEAN.....	25
1.5. Intra-ASEAN investment and enterprise regionalization	27
1.6. CLMV countries.....	33
1.7. Conclusion	46

PART TWO: SPECIAL ISSUE: FDI AND MNEs FROM SELECTED COUNTRIES

(The Case of the Republic of Korea and the United States)

CHAPTER 2: KOREAN FDI AND MNEs IN ASEAN	51
2.1. Introduction.....	51
2.2. Korean FDI position in ASEAN.....	51
2.3. The pattern of Korean FDI and MNEs in ASEAN.....	56
2.4. Korean SME investments in ASEAN	60

2.5. Entry strategy of Korean companies in ASEAN.....	61
2.6. Korean M&A purchases in ASEAN.....	62
2.7. Drivers and motivations of Korean FDI in ASEAN.....	64
2.7.1. Efficiency-seeking FDI	65
2.7.2. Market-seeking FDI	66
2.7.3. Resource-seeking FDI	68
2.7.4. Strategic-asset seeking FDI.....	68
2.7.5. Korean FDI in ASEAN from a GVC perspective.....	69
2.8. Home-country OFDI measures	70
2.9. Conclusion	71
CHAPTER 3: UNITED STATES FDI AND MNEs IN ASEAN.....	75
3.1. Introduction.....	75
3.2. The importance of ASEAN to United States FDI.....	76
3.3. The significance of United States FDI in ASEAN.....	77
3.4. United States investments and MNEs in ASEAN	79
3.4.1. Manufacturing industries	81
3.4.1.1. Electronics industry.....	82
3.4.1.2. Chemical industry	84
3.4.1.3. Machinery and equipment industry	84
3.4.1.4. Automotive industry.....	85
3.4.1.5. Consumer goods industry.....	86
3.4.2. Services industries.....	87
3.4.2.1. Insurance industry.....	87
3.4.2.2. IT services	88
3.4.2.3. Banking industry	89
3.4.2.4. Engineering industry	89
3.4.3. Mining industry	89
3.5. Drivers, motivations and strategies of United States MNEs in ASEAN	90
3.6. Mergers and acquisitions.....	92

3.7. United States MNE and MSME linkages through sourcing and contract manufacturing..... 94

3.8. Prospects and conclusion 95

***PART THREE: MSME INVESTMENT
AND LINKAGES IN ASEAN***

CHAPTER 4: ASEAN MSME INVESTMENT AND INTERNATIONALIZATION 103

4.1. Introduction..... 103

4.2. Importance of MSMEs 104

4.3. Why MSMEs internationalize..... 107

 4.3.1. Drivers and motivations 107

 4.3.2. MSME ecosystems and internationalization..... 109

 4.3.3. Challenges to MSMEs’ internationalization 111

4.4. How MSMEs in ASEAN internationalize: patterns and modalities..... 117

 4.4.1. Internationalization through exports 117

 4.4.2. Internationalization through franchising and licensing 122

 4.4.2.1. Franchising by ASEAN MSMEs 122

 4.4.2.2. ASEAN brands (franchisors)..... 122

 4.4.3. Internationalization through contracting 127

 4.4.3.1. ASEAN MSMEs in contract manufacturing..... 128

 4.4.3.2. ASEAN MSMEs in contract services 128

 4.4.4. MSME internationalization through FDI 133

4.5. Conclusion 133

CHAPTER 5: MSME FDI FROM AND IN ASEAN 135

5.1. Introduction..... 135

5.2. Internationalization of ASEAN MSMEs through FDI 136

 5.2.1. Start-ups, “born global” firms and FDI 141

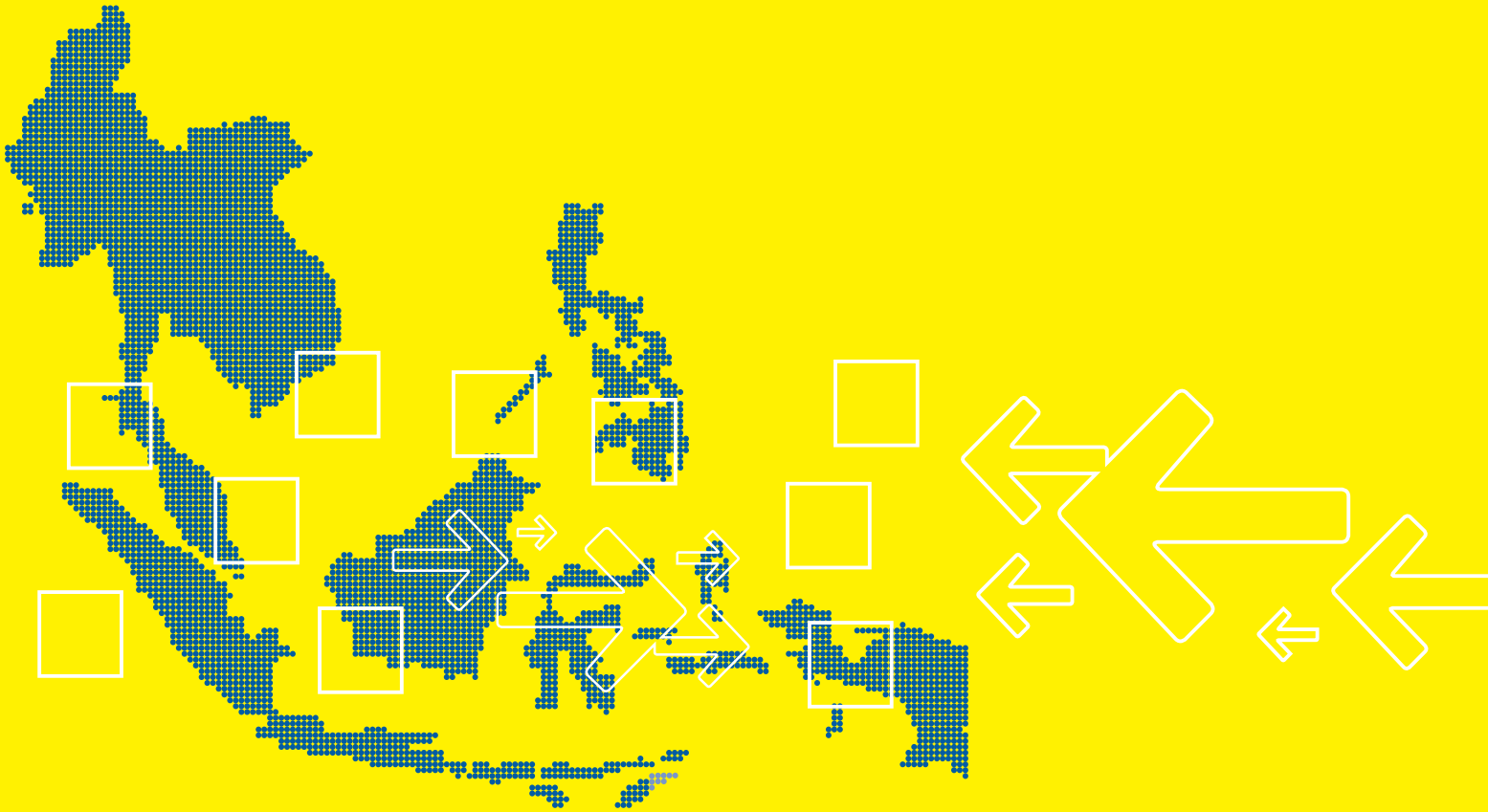
 5.2.2. ASEAN MSMEs started by women..... 145

5.2.3. FDI by ASEAN MSME contractors.....	149
5.3. FDI by foreign MSMEs in ASEAN: Building supporting industries and business linkages.....	151
5.3.1. Japan MSMEs in ASEAN.....	152
5.3.1.1. Drivers, motivations and entry strategies	156
5.3.1.2. Home-country measures and institutional support	156
5.3.1.3. Case studies: Japan MSMEs in ASEAN	159
5.3.2. Korean MSMEs in ASEAN	160
5.3.2.1. Drivers and motivations	164
5.3.2.2. Korean MNE-MSME production networks and business linkages.....	167
5.3.2.3. Case studies: Korean MSMEs in ASEAN.....	171
5.3.3. United States FDI and MSME linkages in ASEAN.....	172
5.4. Co-evolution of ASEAN MSMEs and MNEs in regional production networks	173
5.4.1. Functional partnerships	173
5.4.2. Niche specialization	174
5.4.3. Production platforms	178
5.5. Conclusion	179
Annex 5.1. FDI by ASEAN MSMEs: In-depth case studies	183
Annex 5.2. FDI by ASEAN MSMEs: Shorter case studies	188
Annex 5.3. Case studies of selected ASEAN “born global” and “born regional” firms.....	191
Annex 5.4. Cases of Japanese MSMEs in ASEAN	197
Annex 5.5. Cases of Korean MSMEs in ASEAN	199
Annex 5.6. Selected Korean MSMEs in ASEAN	207
REFERENCES	213
ANNEXES	221

ABBREVIATIONS

AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AIR	ASEAN Investment Report
ATIGA	ASEAN Trade in Goods Agreement
BOT	build-operate-transfer
BOOT	build-own-operate-transfer
CEO	chief executive officer
CEPT	Common Effective Preferential Tariff
COD	commercial operation date
CORP	corporation
EMS	electronics manufacturing services
EPC	engineering, procurement and construction
FDI	foreign direct investment
FTA	free trade agreement
GDP	gross domestic product
GVCs	global value chains
HDD	hard disk drive
ICT	information and communication technology
IPO	initial public offering
KV	kilovolt
LED	light-emitting diode
LNG	liquefied natural gas
M&A	mergers and acquisition
MNEs	multinational enterprises
MSMEs	micro, small and medium enterprises
MW	megawatts
NEMs	non-equity modalities
ODM	original design manufacturer
OEM	original equipment manufacturer
OFDI	outward foreign direct investment
PPA	power purchase agreement
RCEP	Regional Comprehensive Economic Partnership
R&D	research and development
RVCs	regional value chains
SEZ	special economic zone
SME	small and medium-sized enterprise
UNCTAD	United Nations Conference on Trade and Development
WIR	World Investment Report

OVERVIEW



OVERVIEW

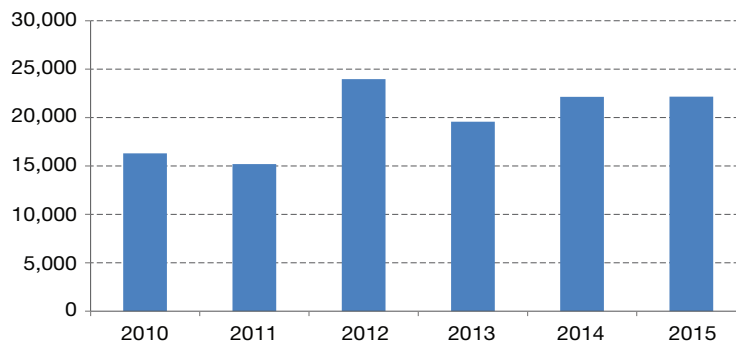
FDI AND MNE DEVELOPMENT IN ASEAN

FDI flows to the ASEAN region declined by 8 per cent, from \$130 billion in 2014 to \$120 billion in 2015. Falls in FDI in services, cross-border mergers and acquisitions (M&As) and lower intracompany loans were the main reasons behind this development. The performance of ASEAN Member States differed in attracting FDI; five received higher inflows, two had inflows at a level similar to that of 2014, and three witnessed a decline.

There were some bright spots: FDI in manufacturing rose, equity capital financing of FDI activities was at an all-time high, and regional investment expansion by MNEs remained strong. Investment from the six prospective partners with ASEAN in the Regional Comprehensive Economic Partnership (RCEP) increased by 11 per cent to \$40 billion in 2015; and these countries contributed some 30 per cent of inflows in 2014–2015, underscoring their position as a significant source of FDI for the region. Investors are also more attentive to the CLMV countries (Cambodia, the Lao People’s Democratic Republic, Myanmar and Viet Nam): total FDI flows to these countries taken together rose by 38 per cent to \$17.4 billion in 2015. Their share as recipients of FDI flows in the region rose from 10 per cent in 2014 to 14 per cent in 2015.

Intra-ASEAN investment remained the largest source of FDI flows, rising marginally by \$15 million to \$22.1 billion last year (figure 1). The share of intra-ASEAN investment in total FDI flows to the region rose from 17 per cent in 2014 to 18.5 per cent in 2015. Seven ASEAN Member States received higher levels of intraregional investment (Malaysia, the Philippines, Thailand and CLMV countries), suggesting a further increase in regional connectivity. Intra-ASEAN M&A activities also grew, contributing to an increase in intraregional corporate investment and activities by ASEAN companies. Intraregional investment is the largest source of FDI for some ASEAN Member States.

Figure 1. Intra-ASEAN investment flows, 2010–2015 (Millions of dollars)



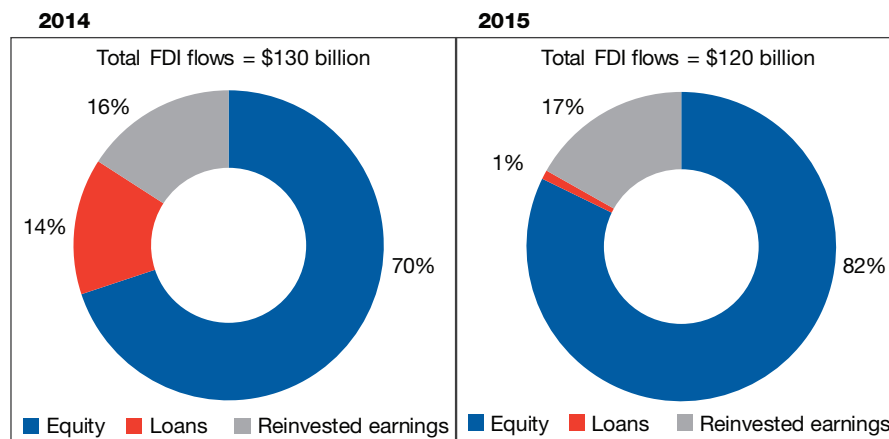
Source: ASEAN Secretariat, ASEAN FDI database.

FDI flows to the primary, manufacturing and services sectors differed markedly. **Flows to manufacturing activities rose significantly by 61 per cent, from \$18 billion in 2014 to \$29 billion in 2015.** However, flows to the services industries declined by 21 per cent, to \$79 billion – dragged down by a fall in FDI in finance. Investments in the primary industries were flat, at the same level as in 2014 (\$12 billion).

Direct investors were considerably more active in using equity capital to finance investment projects in ASEAN in 2015 as compared with previous years. In contrast, the intracompany loans component of FDI finance declined significantly, from 14 per cent in 2014 to only 1 per cent in 2015, which contributed to the \$10 billion decline in FDI flows (figure 2). The amount of outflows of intracompany loans (repayment of loans or provision of new loans to affiliates and parent companies) was greater than the amount of inflows of intracompany loans to subsidiaries based in ASEAN, in particular Singapore and Thailand. Some outflows of intracompany loans supported the financing of investment in affiliates in other ASEAN Member States. In Singapore, the net outflows of intracompany loans went to destinations outside of ASEAN.

Figure 2.

FDI flows in ASEAN, by types of financing sources, 2014 and 2015



Source: ASEAN Secretariat, ASEAN FDI database.

Foreign MNEs continued to strengthen their footprint in the region in manufacturing, finance, infrastructure and other services. Some also announced plans to expand their regional operations further, not only in a particular host country but also in new projects in other ASEAN Member States. They include European MNEs, Japanese firms and United States companies. Other MNEs that invested in the region come from China, Canada, Republic of Korea, Hong Kong (China), Taiwan Province of China and the other prospective RCEP partner countries.

ASEAN companies also continued to expand and made new investments in the region, pushing up both intraregional investment and the region’s share of FDI

in ASEAN. Intra-ASEAN M&A sales rose from \$7.3 billion in 2014 to \$8.0 billion, which accounted for 39 per cent of cross-border M&A sales in the region in 2015. Companies from at least six ASEAN Member States – Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam – announced plans for or made intraregional investments in 2015–2016.

The investment environment in the region continues to improve, with Member States implementing and introducing measures that further streamline, facilitate, promote and support FDI. **Investor perception of the region is on the rise, following the launch of the ASEAN Economic Community (AEC) in December 2015.** Foreign and ASEAN companies are already factoring in the impact of the AEC into their investment plans and regional operations. Some companies are enlarging their footprints with investments in a number of ASEAN Member States, and others are planning to expand their presence over the next few years. In light of this increasingly positive investor sentiment, the prospects for higher FDI flows in the region over the next few years are promising, barring regional or global economic shocks.

The above developments are contributing to strengthening the connectivity of ASEAN and deepening the commitment of MNEs to doing business with, and investing in, the region. Regional production networks involving intra- and inter-firm activities continue to strengthen, with affiliates based in some ASEAN Member States operating as regional headquarters and production hubs, and setting up production facilities in other ASEAN Member States (including the CLMV countries) to tap regional locational complementarities.

KOREAN FDI AND MNEs IN ASEAN

ASEAN is a major destination for outward foreign direct investment (OFDI) from the Republic of Korea. Some 16 per cent of all Korean OFDI worldwide and over 40 per cent of all Korean OFDI in Asia during 2010–2015 went to ASEAN (table 1). Some \$41 billion of Korean FDI stock was in ASEAN in 2015, with three Member States (Viet Nam, Singapore and Indonesia, in that order) accounting for 63 per cent.

More than 3,770 Korean subsidiaries operate in ASEAN, in a wide range of industries. The top 20 most internationalized Korean MNEs all have a presence in the region, with almost half of them present in multiple locations. Large Korean companies and small and medium-size Korean enterprises (SMEs) are expanding their presence in the region, with a rapidly rising number of micro, small and medium enterprises (MSMEs).

However, compared with other major investors in ASEAN, the total amount of Korean FDI in the region is relatively small. In 2010–2015, the Republic of Korea accounted for only 3.4 per cent of total FDI flows in the region. Nonetheless, the country is becoming a proportionally bigger investor in some ASEAN Member States such as the Lao People's Democratic Republic, the Philippines, Thailand and Viet Nam. Since 2006, Korean investment in Viet Nam has risen rapidly, particularly in manufacturing activities, becoming the largest source

Table 1.
Korean outward FDI flows into Asia and ASEAN, 1996–2015
 (Millions of dollars and per cent)

	Korean OFDI flows to selected regions			ASEAN share of Korean global OFDI flows (%)	ASEAN share of Korean outward FDI flows to Asia (%)
	World	Asia	ASEAN		
1996	4,559	1,946	491	10.8	25.3
1997	3,882	1,899	634	16.3	33.4
1998	4,806	2,017	540	11.2	26.8
1999	3,402	1,315	516	15.2	39.2
2000	5,290	1,714	523	9.9	30.5
2001	5,366	1,474	432	8.1	29.3
2002	4,059	1,912	439	10.8	22.9
2003	4,788	2,668	617	12.9	23.1
2004	6,565	3,623	568	8.6	15.7
2005	7,288	4,355	752	10.3	17.3
2006	11,877	6,462	1,422	12.0	22.0
2007	22,701	12,050	3,201	14.1	26.6
2008	24,040	11,904	3,760	15.6	31.6
2009	20,731	7,083	2,113	10.2	29.8
2010	24,658	10,154	4,401	17.8	43.3
2011	29,083	11,036	4,884	16.8	44.3
2012	28,540	11,480	4,550	15.9	39.6
2013	30,193	11,181	3,813	12.6	34.1
2014	26,999	8,964	4,110	15.2	45.8
2015	27,180	11,053	4,168	15.3	37.7
<i>Memorandum</i>					
2010–2015 (Annual average)	27,775	10,645	4,321	15.6	40.6

Source: Korean Eximbank FDI database.

of investment in that country – thanks to large-scale investments in recent years by MNEs such as LG and Samsung.

The pattern of Korean FDI in ASEAN has evolved. Resource-seeking activities were dominant in 1982–1987, but by 2005–2009, investments were concentrated in manufacturing, extractive industries, construction, infrastructure activities and finance. During 2010–2015, the share of manufacturing industries in Korean investment in ASEAN rose considerably, to 46 per cent.

The motivations for FDI by Korean companies in ASEAN have become more complex in recent years. **Korean investments are increasingly driven by a mix of factors, which include GVC-related strategies of some Korean MNEs.** Especially for MSMEs, market-seeking factors include the need to follow customers or to operate close

to customers in a host country or in the region. Follow-the-customer abroad has become a more important market-seeking reason for Korean MSMEs in manufacturing activities, especially in electronics in ASEAN.

Large Korean corporate groups dominate the list of investors in ASEAN, including companies such as LG and Samsung in electronics, POSCO in metals and infrastructure, and the Lotte Group in retail and chemicals. Their networks in ASEAN are in some cases very extensive: 14 major Korean MNEs had 116 subsidiaries in the region in 2015, across eight Member States.

Many Korean MSMEs are also active in the region, with FDI increasing rapidly, from at least 513 projects in 2005 to some 1,786 projects in 2015. Among others, they are contributing to the development of the electronics parts and components and apparel industries in ASEAN. They operate closely with large Korean MNEs as suppliers, and in some cases establish linkages with ASEAN MSMEs through contractual production arrangements. Large Korean MNEs also involve ASEAN MSMEs as their suppliers, helping them develop and participate in the MNEs' GVCs.

Increasingly, Korean FDI in ASEAN is related to an integral part of Korean companies' value chain activities. In the automobile sector, Hyundai Motors has established regional headquarters in Malaysia and Viet Nam for sales, and sales organizations in all other ASEAN Member States. In the steel sector, Krakatau POSCO in Indonesia is ASEAN's first integrated steel mill and POSCO's first integrated mill overseas. POSCO has rolling mills in Viet Nam and India but needs hot-rolled coil to produce cold-rolled steel; Indonesia plays a role in providing such materials. About 70 per cent of the company's production is sold in the host-country to firms operating in the steel, shipbuilding and other heavy industries. POSCO's investment is not just market-seeking but aimed at achieving more comprehensive benefits through realizing a more efficient GVC overall.

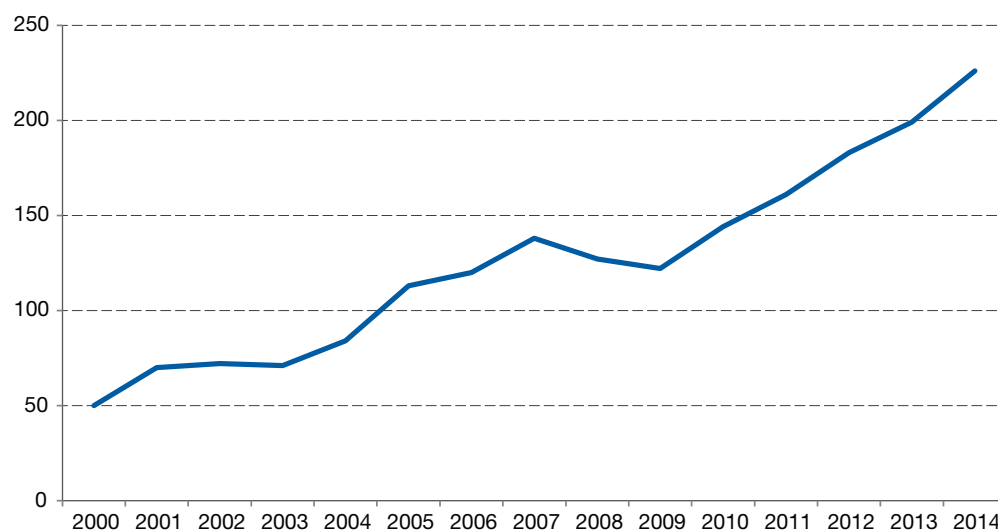
To further reduce the costs of parts or inputs used in its mobile phones, Samsung encouraged its Korean subsidiaries and subcontractors in component manufacturing to invest in Viet Nam, operating close to its assembly plants. Samsung also procured parts and components by outsourcing to non-Korean FDI enterprises (e.g. Japan, the United Kingdom and Germany) that can meet its standards for quality and price. Samsung has recently increased its outsourcing to local Vietnamese suppliers to lower input and logistics costs. Satellite firms affiliated with Samsung are supplying components to Samsung's operations in that host-country. At least 97 firms in Viet Nam are supplying parts and accessories to the company.

Corporate strategy, home-country measures and competition, as well as complementary locational advantages in ASEAN, have all influenced Korean companies to invest in the region in growing numbers. **As more large Korean firms strengthen their foothold in ASEAN, they are also encouraging many Korean MSMEs and their suppliers to invest in the region.** The prospects for a further rise in Korean FDI and Korean companies in ASEAN are promising. Greater linkages between Korean MNEs and MSMEs, including involving ASEAN companies in their value chain activities, can be expected.

UNITED STATES FDI AND MNEs IN ASEAN

South-East Asia is host to the largest number of United States companies in Asia, with over 1,500 companies operating in ASEAN. Some 70 per cent of the 130 United States MNEs listed in the Global Fortune 500 in 2015 are present in the region. **United States FDI stock in ASEAN has risen sharply in recent years, from \$50 billion in 2000 to \$226 billion in 2014** (figure 3). More than 30 per cent of United States direct investment in Asia is in ASEAN, a number greater than the combined total of United States investment in China, Japan and the Republic of Korea. Between 2010 and 2015, the United States accounted for 11 per cent of FDI in the region and was the fourth largest source of FDI, after intra-ASEAN investment, the European Union and Japan.

Figure 3. United States direct investment position in ASEAN, 2000-2014
(Millions of dollars)



Source: United States Bureau of Economic Analysis.

Notes: On an historical cost basis, the United States direct investment position reflects the book value of investors' equity in, and net outstanding loans to, their foreign affiliates. Equity includes capital stock, additional paid-in capital, retained earnings and cumulative translation adjustments. Data cover Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam.

The majority of United States FDI stock in ASEAN as of 2014 is in services industries (72 per cent). Manufacturing accounts for 20 per cent, and mining for the remainder. In the services sector, holding companies account for the largest portion of investment (65 per cent), and most of these investments are in Singapore. In manufacturing activities, the electronic industry accounts for the largest share.

United States FDI in ASEAN is driven by three main factors: using the region as a production platform (efficiency-seeking), to serve the host country and regional market with goods and services produced locally, and to access raw materials or other resources. Access to

natural resources has led to investment in mining and in oil and gas operations in the region by United States companies.

Many United States companies use ASEAN as a production platform and a base from which to sell to regional and global markets. About 60 per cent of the total sales they record in the region are in markets outside the host country. Of sales outside the host country, over 90 per cent are sales to countries other than the United States. American companies' operations in ASEAN account for 10 per cent of their global sales, even though ASEAN is the destination for less than 5 per cent of United States global investment.

Some United States companies also use a sourcing and/or contracting model, whereby substantial investments in the region by non-United States companies are dedicated to serving United States brands and customers, i.e. efficiency seeking through contractual modes. **United States companies have substantial sourcing operations in ASEAN through contractual arrangements, which involve hundreds of factories producing items such as footwear and apparel, often exclusively for United States brands.** United States companies source from such contract manufacturers but do not own or have financial stakes in them. Contract companies from Hong Kong (China), the Republic of Korea and Taiwan Province of China operating in the region are often major suppliers.

To support their operations in ASEAN, some United States companies also bring their larger suppliers with them (e.g. General Motors and Seagate). In turn, these suppliers procure raw materials, components, subassemblies, and other primary and intermediate products in the local market. In this fashion, they assist local MSMEs in upgrading their product quality and standards, and in participating in the larger companies' regional and global supply chains. The sourcing activities of United States MNEs have linkage effects in supporting MSMEs' development in ASEAN and help MSMEs integrate into United States companies' GVCs.

Many United States MNEs continue to expand their regional footprint in ASEAN. They invest through greenfield projects, expansion of existing operations and M&As. Favourable returns to investment and growing regional opportunities have also played a role in encouraging their investment and operations in the region. **The outlook for United States FDI in ASEAN is positive overall.** United States companies view ASEAN's economic integration as an opportunity to grow their trade and investment in the region.

About 50 per cent of United States manufacturing investment in the region is concentrated in computers and electronics, and about 20 per cent in chemicals (including petrochemicals). Computers and electronic products are the single largest focus. The region has been an important production base for companies such as Intel, Seagate, Western Digital and Texas Instruments, as well as the three United States chemical companies in the top 10 list – Dow, ExxonMobil and DuPont. In the machinery and equipment industries, Caterpillar and General Electric have a significant presence in the region, as do Ford and General Motors in the automotive industry. Procter & Gamble is one of the largest consumer goods companies in ASEAN.

The preponderance of United States investment in the region is in the services sector. Nonbank holding companies account for the largest share of investment (65 per cent), followed by finance companies (excluding depository institutions) and insurance firms. As with manufacturing, the bulk of United States services investment in ASEAN is directed to Singapore. However, much of the FDI flows to Singapore end up in other countries, often in other ASEAN Member States.

In the insurance sector, United States companies such as MetLife and AIA have increased their investments in recent years through a series of cross-border M&A deals. In information technology services, IBM and HP have a significant business presence in the region. Citibank has been in the region for well over a century. Bechtel, Black & Veatch, and Fluor and Halliburton are active in the region, particularly in providing construction and engineering services for infrastructure development across ASEAN.

ASEAN MSME INVESTMENT AND INTERNATIONALIZATION

MSMEs are key economic actors in all ASEAN Member States. They account for the lion's share of business establishments and contribute significantly to employment and GDP. They add to the pool of suppliers, strengthen industrial linkages and contribute to developing competitive supporting industries, which in turn helps strengthen the home-country's investment environment. The existence of a strong supporting industry is an important FDI determinant, and ASEAN MSMEs have a major role to play in its development.

ASEAN Member States have in place specific measures and programmes to promote a greater entrepreneurial environment and support the development of competitive MSMEs, including their internationalization. They also cooperate at the regional level to support MSMEs' development through agreements stipulated in the ASEAN MSMEs Blueprint and the ASEAN Strategic Action Plan for MSME Development, 2016–2025.

ASEAN MSMEs internationalize for various reasons, including access to greater market opportunities and additional sources of revenue, and to improve competitiveness. The internationalization of MSMEs is motivated by similar factors as for larger firms, and evolves in a comparable fashion. Most drivers can be classified as either push factors (e.g. a constrained market size for a product or service, large numbers of domestic competitors) or pull factors (e.g. the opportunity to access foreign technology, markets, raw materials or cheaper labour). In addition, MSME motives for internationalizing or investing abroad vary by firm, industry and nationality, and can be grouped as market-seeking, cost-reduction or efficiency-seeking, resource-seeking or strategic asset-seeking. **Because of their size and orientation, market-seeking internationalization is most common for MSMEs** (table 2).

Whether an MSME wants to, could or should internationalize depends on a number of factors such as corporate strategy, access to finance, the ability and readiness to venture overseas, industry and technology-specific factors, the home-country environment and host country attractiveness.

Table 2.

Examples of market-seeking internationalization by ASEAN MSMEs

MSMEs	Home-country	Industry/business activities	Selected host-country(ies)	Remarks/reasons
ICT Group	Indonesia	Steel	A number of ASEAN Member States	<ul style="list-style-type: none"> Sales and marketing offices overseas Opportunities arising from growing steel demand in ASEAN
Barong Batik	Indonesia	Garments	Philippines and Indonesia	<ul style="list-style-type: none"> Business opportunities in host markets Strategic asset seeking to a degree (access to skilled artisans in batik production)
Human Nature	Philippines	Beauty and care products	Malaysia and Singapore	<ul style="list-style-type: none"> Use of partnerships with long-established distributors in host-country
Love and Madness	Philippines	Clothing	Singapore and France	<ul style="list-style-type: none"> Distributorship arrangement with overseas partners
Phoenix Voyages	Myanmar, Viet Nam	Tour and travel	Cambodia, Indonesia, Lao People's Democratic Republic and Thailand	..
Vela Diagnostics	Singapore	Molecular solutions for infectious diseases	Malaysia, Germany and the United States	<ul style="list-style-type: none"> Representative offices overseas, including with overseas partners Choice of locations also motivated by availability of strategic assets (skills and technology)
Technofit	Malaysia	Engineering services	Indonesia and Oman	<ul style="list-style-type: none"> Representative offices overseas
Phibious	Viet Nam	Brand marketing and communication consultancy	Cambodia, Indonesia, Lao People's Democratic Republic and Myanmar	<ul style="list-style-type: none"> Offices overseas
Quo Global	Thailand	Advertising and marketing agency	Singapore, Viet Nam, India and the Netherlands	<ul style="list-style-type: none"> Offices overseas in order to be close to clients
Cool Company	Thailand	Manufacture of commercial freezers, coolers and cold chain products	Indonesia, Malaysia, Philippines and Viet Nam	<ul style="list-style-type: none"> Service centres and a warehouse overseas A contract manufacturer
Applied Total Control Treatment	Singapore	Metal finishing industry	Indonesia, Malaysia, Philippines and China	<ul style="list-style-type: none"> Offices overseas to be close to customers
Efficient Technology	Malaysia	Mechanical services to energy markets	Singapore	<ul style="list-style-type: none"> Operates in Singapore to be near lead firms in the industry Has developed technical partnerships with these lead firms, which are foreign MNEs
KLT Fruits	Philippines	Processing of tropical fruits	Singapore	<ul style="list-style-type: none"> A trading and marketing office in Singapore for the ASEAN market
Java Offshore	Indonesia	Oil and gas survey and subsea solutions	Malaysia and Singapore	<ul style="list-style-type: none"> Representative offices where major clients operate
ADI Group	Thailand	Human resource and recruitment agency	Indonesia and Singapore	<ul style="list-style-type: none"> Established offices in host countries with market potential
Zanroo	Thailand	Software (social listening tool technology)	ASEAN Member States	<ul style="list-style-type: none"> Expanding markets for big data processing

Source: UNCTAD–ASEAN Investment Report 2016 research.

There are various modes or channels of MSME internationalization. An MSME can internationalize by producing at home and exporting to an overseas market, by engaging in international business through franchising or licensing (e.g. as franchisee or franchisor), by acting as contractors to MNEs based in their home-country or abroad, or through FDI.

ASEAN MSMEs in different industries are involved in all of these modes. Many produce and export to customers abroad. Many are also associated with franchising businesses by selling foreign brand products and services in home-market. Some internationalize through first developing their brand names at home and then franchise them to MSMEs in ASEAN and elsewhere. Some ASEAN MSMEs are involved in several modes at the same time – producing for exports while franchising their brands and also maintaining a presence in other countries through FDI.

Numerous ASEAN MSMEs operate as contract manufacturers to local and foreign MNEs. The success of these companies is often due to their internationalization, as a large proportion of their revenues are generated outside the home-country. MSME contractors in manufacturing in most Member States still rely heavily on their home economy. For instance, many Indonesian MSMEs manufacture automotive parts and supply them to preponderantly foreign-owned major automotive manufacturers with operations in the country (table 3). ASEAN MSMEs also have extensive business linkages with foreign MNEs through contracts in areas such as professional services, research, engineering or infrastructure development and operation management.

Table 3.
Indonesian automotive parts MSMEs or companies with small-scale operations that supply foreign companies in Indonesia, 2015

Company	Date established	Parts supplied	Clients in Indonesia (selected cases)	Size (number of employees)
PT Armada Indah Agung Glass	1981	Safety glass	Caroseri, after market	Direct: 24 Indirect: 27 Staff & Mgt: 29
PT Braja Mukti Cakra	1986	Brake drums, flywheels, disc brakes, pressure plates and pulleys	PT Krama Yudha Tiga Berlian Motor, PT Mitsubishi Krama Yudha Motors, PT Exedy, PT HMMI, PT IAMI	Direct: 106 Indirect: 77 Staff & Mgt: 48
PT Central Karya Megah Utama	2000	Radiators	Automotive companies	Direct: 49 Indirect: 33 Staff & Mgt: 3
PT Cipta Kreasi Prima Muda	1994	Rear-view mirrors, auto lamps, grills	PT Sinar Terang, PT Citra Plastik Makmur, PT Hino Motor Mfg.	Direct: 115 Indirect: 50 Staff & Mgt: 10
PT Cipta Saksama Indonesia	1979	Exhaust mufflers and pipes, catalytic converters, door beams, instrument panels, stamping parts and other metal components for automotive	Honda, Isuzu, Mitsubishi, Nissan, UD Trucks, Suzuki, Daihatsu	Direct: 166 Indirect: 68 Staff & Mgt: 20
PT Danmotor Indonesia	1970	Motorcycle parts, transmission parts	Motorcycle manufacturing companies	Direct: 68 Indirect: 47 Staff & Mgt: 52

Table 3.

Indonesian automotive parts MSMEs or companies with small-scale operations that supply foreign companies in Indonesia, 2015 (continued)

Company	Date established	Parts supplied	Clients in Indonesia (selected cases)	Size (number of employees)
PT Eka Swastya	1980	Brake shoes, brake pads, brake linings for motorcycle	PT Dinamis	Direct: 213 Indirect: 31 Staff & Mgt.: 33
PT Ekamitra Jayatama	1989	Automotive lamps, plastic Injection components, press parts	Astra, Pantja Motor, Hino	Direct: 102 Indirect: 10 Staff & Mgt: 20
PT Frina Lestari Nusantara	2000	Bonnet guards, side visors, front bumper guards, side steps, mud guards, bumper corner protectors, side body mouldings, spare wheel covers, roof racks	PT Astra Daihatsu Motor, PT Honda Prospect Motor, PT Pantja Mtoro, PT Nissan Motor, PT KIA Motor Indonesia, PT Krama Yudha Tiga Berlian Motor, PT Toyota Manufacturing Indonesia, Isuzu, Ford, Hyundai	Direct: 250 Indirect: 7
PT Indobaja Primamurni	1996	Spring steel flat bars	PT Indospring Tbk	Direct: 116 Staff & Mgt: 31
PT Indowire Prima Industrindo	1995	Automotive wires, corrugated tubes, vinyl tubes	PT Sumi Indo Wiring Systems (a subsidiary of Sumitomo Wiring System Ltd)	Direct: 64 Indirect: 46 Staff & Mgt: 42
PT Inkoasku	1974	Steel wheel rims for passenger cars	PT Toyota Motor Mfg Indonesia, PT Astra Daihatsu Motor, PT Krama Yudha Tiga Berlian Motor, PT Suzuki Indomobil Motor, PT Isuzu Astra Motor Indonesia	Direct: 100 Indirect: 75 Staff & Mgt: 37
PT Ionuda	1974	Shock absorbers, exhaust systems	PT Komponen Futaba Nusantara, PT Dirgantara Mitramahadi, PT Hyundai, P General Motor Indonesia, PT. General Motor Astra Isuzu, PT Kancil, PT Astra Nissan Diesel Indonesia	Direct: 134 Indirect: 80 Staff & Mgt: 6
PT Jakarta Marten Logamindo	1996	Heat treatment service	PT Astra Honda Motor, PT Toyota Manufacturing Indonesia, PT Yamaha Indonesia Motor Manufacturing, PT Suzuki Motor, PT Mitsubishi Kramayudha Motor	Direct: 91 Staff & Mgt: 13
PT Karya Bahana Berlian	1991	Seat assembly	PT Krama Yudha Tiga Berlian	Direct: 161 Indirect: 75 Staff & Mgt: 51
PT Muarateweh Spring	1977	Leaf springs	PT Kramayudha Tiga Berlian Motor, PT Toyota Motor Manufacturing Indonesia, PT United Tractor, Hino, Nissan, Isuzu	Direct: 134 Indirect: 25 Staff & Mgt: 22
PT Multi Makmur Indah Industri	2004	Automotive filters	After market	Direct: 93 Indirect: 44 Staff & Mgt: 4
PT Multi Prima Sejahtera Tbk	1982	Sparkplugs	PT Astra Otoparts, PT Hyundai Indonesia Motor	Direct: 121 Staff & Mgt: 23
PT Palingda Nasional	1981	Steel wheel rims for trucks and buses	Hino Motor Mfg, Kramayudha Tiga Berlian Motor, Isuzu Astra Motor Indonesia, Isuzu Hicom Malaysia	Direct: 105 Indirect: 50 Staff & Mgt: 22

Table 3.
Indonesian automotive parts MSMEs or companies with small-scale operations that supply foreign companies in Indonesia, 2015 (concluded)

Company	Date established	Parts supplied	Clients in Indonesia (selected cases)	Size (number of employees)
PT Pema Meta Presindo	2001	Subassembly parts, deep draw parts, fuel tanks, oil pans	PT Astra Motor, PT Inti Pantja Press Industri, PT Yamaha Indonesia, PT Astra Honda Motor, PT Denso Indonesia	Direct: 130 Staff & Mgt: 10
PT Srirejeki Perdana Steel	2011	Mufflers for four-wheel and two-wheel vehicles	PT Yamaha Indonesia Motor Mfg, PT Indomobil Suzuki International	Direct: 224 Indirect: 4 Staff & Mgt: 7
PT Waja Kamajaya Sentosa	1977	King pins, spring pins, spring brackets, spring shackles, dies, jigs, fixtures, stamping, fabrication	PT Aisin Indonesia, PT Astra Daihatsu Motor, PT Astra Hondo Motor, PT Astra Otoparts, Daimler Chrysler Indonesia, Hitachi Construction Machinery Indonesia, PT Indomobil Suzuki International, Komatsu Indonesia, PT Yamaha Indonesia Motor Mfg, PT Yutaka Mfg Indonesia	Direct: 90 Indirect: 35 Staff & Mgt: 25

Source: UNCTAD–ASEAN Investment Report 2016 research, based on GIAMM and company websites.

In most cases, ASEAN MSMEs invest abroad as part of a natural internationalization process after having gained experience through international trade (exports), as well as other modes, such as licensing or subcontracting. Some invest in neighbouring countries after having built their brand names or technology in the domestic market. Some invest abroad very early because they see their markets in a borderless context made possible by ICT and other technological developments.

MSME FDI FROM AND IN ASEAN

Which MSMEs invest internationally, as well as the patterns of their FDI across ASEAN, depends on a host of factors, including the industry in which firms operate, their home- and host-country ecosystems, the vision of their founders and management, and their ability to raise finance to support growth, as well as supporting home-country measures. **MSMEs in more mature, high-cost or small-market Member States (e.g. Malaysia and Singapore) have a relatively greater tendency to invest abroad.** Those from Indonesia, the Philippines, Thailand and Viet Nam, for example, also invest in other Member States, but to a lesser degree in view of their lower-cost and bigger home-market environments.

ASEAN MSME investor types include start-ups, “born global” or “born regional” firms, MSMEs established by women entrepreneurs and subcontractors serving firms in foreign markets. FDI by these MSMEs can be found in a wide range of industries, from low- to high-technology manufacturing (e.g. cosmetics, electronics, food and beverages, medical devices, metal design, pharmaceuticals and semiconductors) and

in a wide range of services (e.g. consulting, education and training, engineering services, information and communication technology (ICT), logistics, media and R&D services) (table 4). For most, market-seeking motivations are the main reason to expand overseas, but quite a few are targeting MNEs as a market, driven by a need to follow their customers. “Born global” firms internationalize rapidly (including through FDI) in order to benefit from first-mover advantages in circumstances in which their competitive edge is tenuous, or the market niche they serve is small in individual markets but significant taken together.

After decades as a major production hub, and with a large pool of assets such as skilled workers in electronics and other advanced industries, efficient cross-regional infrastructure and connectivity, ASEAN is in a favourable situation in an era when digital technologies are at the forefront of growth. An increasing number of start-ups or MSMEs are “born global” firms, taking advantage of digital platforms and business models to rapidly grow regionally and internationally.

Many ASEAN MSMEs that started as contract manufacturers in the automotive and electronics parts and components industries have since internationalized as foreign direct investors. Today, in the context of RVCs and GVCs, they manufacture at home and abroad as suppliers to major original equipment manufacturers. These MSMEs started from humble beginnings and have grown through expansion at home and later through FDI abroad to become large ASEAN MNEs in their own right.

Foreign MSMEs are also investing in ASEAN and contributing to strengthening the region’s MSME environment. **ASEAN is an important destination for MSME FDI from countries such as Japan and the Republic of Korea.** Many of the former operate in automotive parts and components, and electronics industries in the region. Korean MSMEs are more active in apparel and in electronics industries. Competitive home-market conditions, the need to follow customers from the home-country to ASEAN (e.g. in electronics), the need to increase sales and the support of home-country measures are major drivers for MSMEs from these countries. In some industries, such as apparel, Korean and other Asian MSMEs have established multiple factories in the region to manufacture for and supply to major international brand names. Although fewer United States MSMEs have invested in ASEAN, many United States MNEs are actively involved in sourcing and contract manufacturing activities in the region. For instance, Seagate and Western Digital source from a variety of suppliers to serve their operations in Malaysia, the Philippines and Thailand, which in turn helps develop the capacity of local MSMEs.

The prospects for further growth in FDI in ASEAN by some Asian MSMEs (e.g. from Japan and the Republic of Korea) are promising. As more of these Asian MNEs increase their investments or scale up their operations in ASEAN, they continue to attract and encourage MSMEs from their home countries and from third countries to operate close to them as their suppliers or contract manufacturers.

Table 4.
Selected internationalized ASEAN MSMEs through FDI

Company	Year established	Business activities/ Industry	Country of origin	International presence (selected locations)
Britmindo	2004	Metal mining	Indonesia	Singapore and Australia
Java Offshore	2010	Oil and energy	Indonesia	Malaysia and Singapore
Sucofindo Appraisal	1980	Information technology and services	Indonesia	Viet Nam
Bintang Subsea	2012	Oil and energy	Indonesia	Brunei Darussalam, Indonesia, Malaysia, Singapore
Directive Communication International	2002	Professional training and coaching	Indonesia	Malaysia and partners in Egypt and India
PT Petronesia Benimel	2005	Oil and energy	Indonesia	Malaysia
PT Indonesia Bulk Carrier	2010	Logistics	Indonesia	Singapore
Brilliant Merchandising Sdn Bhd	1994	Bag manufacturing	Malaysia	Sales office in Brunei Darussalam and Singapore
Datamicron System Sdn Bhd	2002	Business intelligence	Malaysia	Singapore and the United States
SRM Integration (M) Sdn Bhd	1996	Semiconductors	Malaysia	Thailand, the Philippines, China, the Republic of Korea and the United States
N2N Global Solutions Sdn Bhd	2006	R&D software	Malaysia	Singapore
SecureMetric Technology Sdn Bhd	2007	Software (digital security)	Malaysia	Indonesia, the Philippines, Singapore and Viet Nam
C.S. Alloy Design (M) Sdn Bhd	1991	Metal design	Malaysia	Singapore
Ecava Sdn Bhd	2005	Industrial automation	Malaysia	Germany
MedKlinn International Sdn Bhd	2005	Electronic manufacturing	Malaysia	Indonesia, the Philippines, Singapore and Thailand
Quantum Electro Opto Systems Sdn Bhd	2008	Electronic manufacturing	Malaysia	United States
Safe Air Engineering & Services	1995	Engineering design	Malaysia	Australia and New Zealand
Vepro Group Sdn Bhd	..	Electronic manufacturing	Malaysia	Indonesia, Singapore, Thailand and Viet Nam
MIT Innovation Sdn Bhd	2010	Oil and gas	Malaysia	United States
Oriental Fastech Manufacturing Sdn Bhd	2006	Metal and plastics	Malaysia	Singapore and Viet Nam
Techbond Manufacturing Sdn Bhd	1995	Adhesive manufacturing	Malaysia	Viet Nam
Wavelet Solutions Sdn Bhd	2003	Enterprise software	Malaysia	China
Dream Catcher Consulting Sdn Bhd	2002	Technical training	Malaysia	Thailand, Singapore and Taiwan Province of China
DreamEDGE Sdn Bhd	2007	Digital engineering services	Malaysia	Japan
Exis Tech Sdn Bhd	2002	Design and manufacturing for semiconductor industry	Malaysia	Philippines, Thailand, China and the United States
General System Engineering Sdn Bhd	1992	Industrial engineering	Malaysia	Japan
Ban Kah Chai	1977	Medicine manufacturing	Malaysia	Singapore
Cryocord	2002	Stem cell bank	Malaysia	Indonesia

Table 4. Selected internationalized ASEAN MSMEs through FDI (continued)

Company	Year established	Business activity/ Industry	Country of origin	International presence (selected locations)
VHR Consultancy	2012	Human resources consulting	Malaysia	Indonesia
VG Offshore Containers International	1994	Logistics (containers)	Malaysia	Australia
Far East Pyramid Sdn Bhd	2008	Manufacturing-power sockets	Malaysia	Singapore
Mersing Group	1980	Construction	Malaysia	Singapore and Hong Kong (China)
NGL Tech	2009	Oil and gas	Malaysia	Australia
Technofit	1998	Engineering	Malaysia	Indonesia and Oman
Ruyi Holdings	1990	Medical and wellness	Malaysia	Singapore
Frontline Cosmeceutical (M) Sbn Bhd	1998	Cosmetics	Malaysia	Singapore
Circle Corp	2008	Media	Malaysia	Hong Kong (China) and China
Abeer Education Consular	2008	Education management	Malaysia	Egypt and Syria
Global Strategic	2006	Outsourcing	Philippines	United States
IT Group Inc.	2003	Information technology and services	Philippines	Indonesia
Techcel, Inc.	2009	Outsourcing	Philippines	United States
Exist Software Labs	2001	Information technology and services	Philippines	United States
Chalre Associates Executive Search	2001	Staffing and recruiting agency	Philippines	Singapore
Touch Solutions, Inc.	2001	Information technology and services	Philippines	Japan
99.co	2014	Internet real estate search operation	Singapore	Indonesia
BGC Group	2005	Staffing and recruiting agency	Singapore	Indonesia, Malaysia, Singapore and Hong Kong (China)
Achieve Group	1990	Staffing and recruiting agency	Singapore	Malaysia, Singapore and Hong Kong (China)
Epsilon Telecommunications	2003	Telecommunication services	Singapore	Outside ASEAN
Canalys	1998	Information technology and services	Singapore	Outside ASEAN
Dalwin Marine	2008	Mechanical/industrial engineering	Singapore	Outside ASEAN
NTC Integration Pte Ltd	1994	Information technology and services	Singapore	Malaysia
Korvac Holdings	1999	Information technology and services	Singapore	Indonesia, Malaysia and Thailand
Maha Chemicals (Asia) Pte Ltd	1975	Chemicals	Singapore	Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, Thailand, Viet Nam, China and Sri Lanka
Insight Asia	1998	Market research	Singapore	Indonesia, Malaysia, the Philippines, Thailand and Viet Nam
Vela Diagnostics	2011	Medical devices	Singapore	Germany and the United States

Table 4.
Selected internationalized ASEAN MSMEs through FDI (continued)

Company	Year established	Business activity/ Industry	Country of origin	International presence (selected locations)
Hastraa Consulting Service	2005	Information technology and services	Singapore	Malaysia, Dubai, India and the United Kingdom
Web Synergies (S) Pte Ltd	1998	Information technology and services	Singapore	India
Rice Communication	2009	PR and communication	Singapore	Myanmar
Les Amis	1989	Restuarant	Singapore	Myanmar
Blue Aqua	..	Aquaculture	Singapore	Thailand
Consistel	1996	Wireless software solutions provider	Singapore	Philippines and Indonesia
Pronto Marketing	2008	Marketing and advertising	Thailand	United States
QUO Global	1996	Marketing and advertising	Thailand	Singapore, Viet Nam, India and the Netherlands
Movaci	2005	Information technology and services	Thailand	United States
Baezeni Co, Ltd	2007	Information technology and services	Thailand	Viet Nam
Augmentis Group	2010	Information technology and services	Thailand	Indonesia, Singapore and Australia
Travex Group	1974	Leisure, travel and tourism	Thailand	Cambodia, Myanmar and Viet Nam
Flight of the Gibbon	2007	Leisure, travel and tourism	Thailand	Cambodia
Go Beyond Asia	1983	Leisure, travel and tourism	Thailand	Viet Nam, China, India and Nepal
Asian Horizon	1997	Leisure, travel and tourism	Thailand	Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam
Blink Design Group	2006	Hospitality consulting	Thailand	Singapore, China and India
Bespoke Hospitality Management	2011	Hospitality consulting	Thailand	Indonesia, Viet Nam and Australia
The Vinarco Group	1993	Recruitment agency	Thailand	Cambodia, Indonesia, Malaysia, Myanmar, Singapore, Thailand, Viet Nam and other countries outside ASEAN
Inspire Ventures	2013	Venture capital and private equity	Thailand	Indonesia and Viet Nam
The Freight Co Ltd	1996	Logistics and supply chain	Thailand	Myanmar and Viet Nam
Siam Legal International	2000	Legal services	Thailand	Australia, the United Kingdom and the United States
Dove Equipment & Machinery Co, Ltd	1992	Industrial engineering	Thailand	Malaysia and Thailand
ADI Group - Asia	2010	Staffing and recruiting agency	Thailand	Indonesia, Singapore and India
Born2Invest	2001	Marketing and advertising	United States and Philippines	Germany and the United States
Phibious	2002	Marketing and advertising	Viet Nam	Cambodia, Indonesia and Singapore
IMT Solutions	2008	Software outsourcing	Viet Nam	Singapore

Table 4. Selected internationalized ASEAN MSMEs through FDI (concluded)

Company	Year established	Business activity/ Industry	Country of origin	International presence (selected locations)
Silicon Straits Saigon	2013	Information technology and services	Viet Nam	Singapore
Expertrans Global Corp	2005	Translation and localization	Viet Nam	Thailand and Singapore
Savvycom	2009	Information technology and services	Viet Nam	Australia and the United States
Phoenix Voyages Group	1999	Leisure, travel and tourism	Viet Nam	Cambodia, Lao People's Democratic Republic, Myanmar, Thailand and the Republic of Korea
Fresh Studio	2006	Food and beverages	Viet Nam	Philippines
Vinasource	2001	Information technology and services	Viet Nam	Canada and the United States
Synectics Consulting Corporation	2011	Construction	Viet Nam	Singapore and the United States

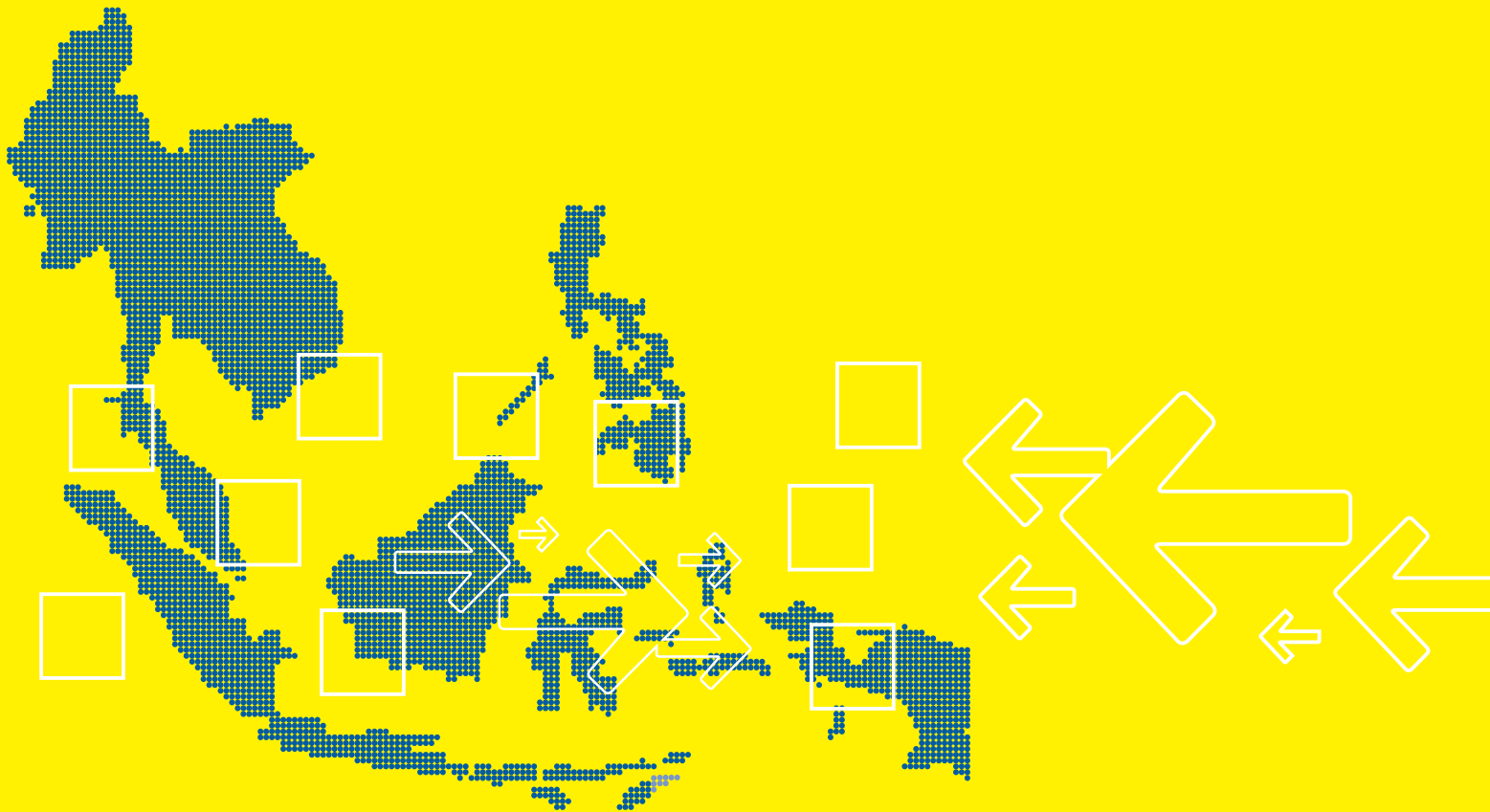
Source: UNCTAD–ASEAN Investment Report 2016 research, based on www.sme100.asia, Singapore Enterprise 50 Awards, OneSource Business Information and websites of and interviews with MSMEs.

ASEAN MSMEs are also involved with regional production networks associated with global lead firms or other MNEs or in interfirm relationships. Notwithstanding the role of ASEAN MSMEs, the contribution of foreign MSMEs in supporting the development of regional production networks and RVCs in the region cannot be stressed enough. They play important roles in a number of respects: supplying large MNEs in the region, contributing to the development of industries in host countries, establishing business linkages with ASEAN MSMEs and helping the region connect in the GVCs of products and industries that these MSMEs serve. They also help strengthen MNE-MSME production networks and business linkages, including by involving ASEAN MSMEs in them. They enhance the competitiveness of local supporting industries by expanding the pool of local suppliers and thus enhance the overall supply industry in ASEAN and the region's investment environment. Their linkages with local MSMEs and suppliers are important for building the productive capacities of local firms, including benchmarking on quality and production processes, and business development. The interface between foreign and ASEAN MSMEs in the context of their roles in supporting industrial development and in establishing connectivity in and among Member States is important.

The internationalization or regionalization of ASEAN MSMEs plays an important role in supporting the realization of the AEC goals (e.g. a single market and production base) and the objectives of the ASEAN MSMEs blueprint. Their internationalization activities also help connect countries and strengthen regional integration. They contribute to the development of RVCs and regional production networks through contract manufacturing, direct investors, suppliers and franchisors in the region, thereby making ASEAN more competitive. Through investment in the region, ASEAN MSMEs contribute to the increasing number of regionalized companies and to a growing level of intraregional investment. To the extent that they interface with local MSMEs and source inputs locally, they establish further connections with local economies, businesses and other local stakeholders (farmers, local MSMEs as suppliers), further strengthening regional integration. Their internationalization helps their home countries become more competitive through GVCs they participate in and by inspiring others to internationalize or regionalize to grow.

PART ONE

FDI AND MNE DEVELOPMENT IN ASEAN



CHAPTER ONE

FDI DEVELOPMENT AND MNE ACTIVITIES IN ASEAN

1.1. Introduction

FDI flows in ASEAN declined by 8 per cent to \$120 billion in 2015. Despite the decline, ASEAN remained a major destination of FDI flows among developing economies, receiving some 16 per cent of global FDI flows to such economies.

The FDI decline last year was visible in a fall in inflows in services, cross-border mergers and acquisitions (M&As) and intracompany loans. However, there were some bright spots: FDI in manufacturing rose, equity capital financing of FDI activities was at an all-time high, and regional investment expansion by MNEs remained strong, as did intra-ASEAN investments. FDI flows to the CLMV countries (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam) in general rose significantly. Investment from most of the six prospective partners with ASEAN in the Regional Comprehensive Economic Partnership (RCEP) increased, and these countries contributed some 30 per cent inflows in 2014–2015.

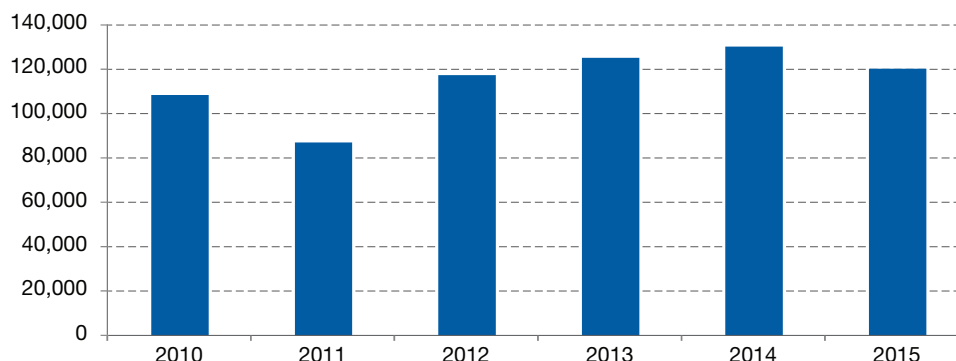
The overall investment environment in the region improved further with the launch of the ASEAN Economic Community (AEC) in December 2015 and the introduction, including announcements, of national policy measures in 2014–2016 that are generally favourable to FDI. Investor sentiment and their perception of the region as a competitive and attractive FDI destination strengthened further, with more companies indicating plans to invest or expand their regional presence in ASEAN.

This chapter analyses FDI development and corporate investment activities in ASEAN in 2015 and the first half of 2016. In particular, it examines FDI into ASEAN, intra-ASEAN investment, cross-border M&As and the strategies of foreign and regional MNEs. As with previous ASEAN Investment Reports, the chapter dedicates a section to analysing FDI and MNE activities in the less developed but emerging ASEAN Member States (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam).

1.2. FDI trends and developments in 2015

FDI flows to the region declined by 8 per cent, from \$130 billion in 2014 to \$120 billion last year (figure 1.1). The performances of ASEAN Member States were uneven; five received higher inflows, two had inflows at a level similar to that of 2014, and three witnessed a fall in FDI. The significant decline in FDI was particularly visible in services, intracompany loans and cross-border M&A activities. There were some positive developments: FDI in manufacturing rose significantly, expansionary investment activities continued to grow, the use of equity capital for FDI activities rose to an all-time high, and intraregional investment remained strong. Nevertheless, these positive developments were insufficient to compensate for the overall decline, led primarily by services.

Figure 1.1. FDI flows in ASEAN, 2010–2015
(Millions of dollars)



Source: ASEAN Secretariat, ASEAN FDI database.

Other bright spots

- The CLMV countries witnessed a stronger growth in FDI flows, which increased by 38 per cent, to \$17.4 billion in 2015. On average, investment increased in manufacturing, finance and infrastructure (albeit with differences by country).
- The rise in FDI flows from China (17 per cent, to \$8.2 billion), India (107 per cent, to \$1.3 billion), Japan (11 per cent, to \$17.4 billion) and New Zealand (307 per cent, to \$2.2 billion) pushed up flows to ASEAN from the six prospective partner countries in the RCEP (i.e. these four countries, Australia and the Republic of Korea) by 11 per cent to \$40 billion in 2015. FDI from these prospective RCEP partners accounted for 30 per cent of the 2014–2015 inflows in ASEAN, which underscores their position as a significant source of FDI for the region.
- Intra-ASEAN M&A activities continued to rise – suggesting an increase in intraregional corporate activities and regional expansion of investment by ASEAN companies. In most ASEAN Member States, intra-ASEAN investment is a major source of FDI. In some (e.g. Brunei Darussalam, Indonesia, Malaysia and Myanmar), intraregional investment is the largest source of FDI.

Geographical distribution

Although FDI flows from some major partner countries rose (e.g. China, India, Japan and New Zealand), they were not sufficient to compensate for the larger decline in inflows from economies such as the European Union and the United States (annex table 1.1). FDI flows from the European Union declined by 20 per cent, from \$25 billion in 2014 to \$20 billion in 2015, and those from the United States declined by 17 per cent, from \$14.7 billion to \$12.2 billion. Flows from other partner countries (e.g. the Republic of Korea and Australia) also declined, but not much.

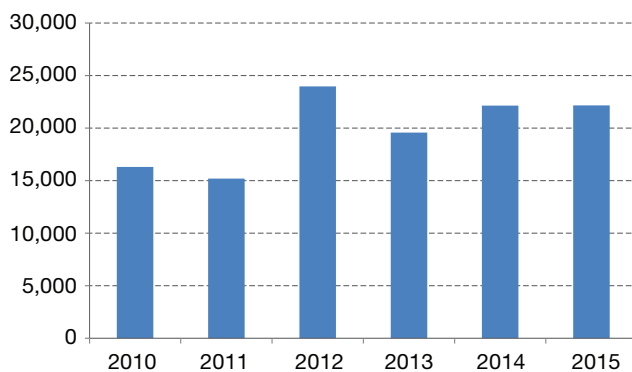
The share of the top 10 investors in ASEAN rose from 71 per cent in 2014 to 75 per cent in 2015 (table 1.1). The composition of the top 10 did not change much in 2015 except

Table 1.1. Top 10 investors in ASEAN, 2014 and 2015
(Millions of dollars; per cent)

Country/region	2014	Country/region	2015
Intra-ASEAN	22,134	Intra-ASEAN	22,149
Japan	15,705	Japan	17,395
United States	14,749	United States	12,191
Luxembourg	7,997	China	8,155
United Kingdom	7,583	Netherlands	7,907
China	6,990	United Kingdom	6,698
Australia	6,282	Republic of Korea	5,680
Republic of Korea	5,751	Australia	5,193
France	2,761	Denmark	2,693
Netherlands	2,699	New Zealand	2,241
Top 10 total	92,651	Top 10 total	90,303
Top 10 share of FDI in ASEAN	71%	Top 10 share of FDI in ASEAN	75%

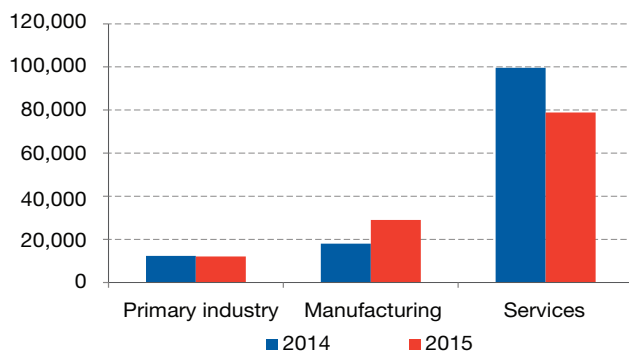
Source: ASEAN Secretariat, ASEAN FDI database.

Figure 1.2. Intra-ASEAN investment flows, 2010–2015 (Millions of dollars)



Source: ASEAN Secretariat, ASEAN FDI database.

Figure 1.3. FDI flows in ASEAN, by industry, 2014–2015 (Millions of dollars)



Source: ASEAN Secretariat, ASEAN FDI database.

for the entry of Denmark and New Zealand, while Luxembourg and France dropped out of the ranking.

Intra-ASEAN investment remained the largest source of FDI flows, rising marginally by \$15 million, to \$22.1 billion last year (figure 1.2). The share of intra-ASEAN investment in total FDI flows to the region increased from 17 per cent in 2014 to 18.5 per cent in 2015. Seven ASEAN Member States received higher levels of intraregional investment (i.e. Malaysia, the Philippines, Thailand and the CLMV countries).

Industry distribution

FDI flows to the three economic sectors (i.e. primary, manufacturing and services) differed markedly (figure 1.3). Flows to manufacturing activities rose significantly, by 61 per cent, from \$18 billion in 2014 to \$29 billion in 2015. However, flows to the services industries declined by 21 per cent, to \$79 billion – dragged down by a fall in FDI in finance. With the exception of infrastructure-related industries such as electricity, transportation and storage, and information and communication, most other services industries saw a decline in inflows. Investments into the primary industries (i.e. largely in agriculture, forestry and mining) were flat, at the same level as in 2014 (\$12 billion).

FDI from different economies dominated in different industries in ASEAN. As with 2014, three industries accounted for the lion's share of FDI; finance (33 per cent), manufacturing (24 per cent) and wholesale and retail (9 per cent) (table 1.2). In agriculture, forestry and fishery, 84 per cent of FDI flows came from within ASEAN. FDI in extractive industries was dominated

Table 1.2. FDI flows in ASEAN, by selected industries and economies, 2014 and 2015
 (Millions of dollars)

	Source economy											Total		
	ASEAN	Japan	United States	European Union	Republic of Korea	Hong Kong (China)	Taiwan Province of China	China	India	Australia	New Zealand		Russian Federation	Canada
2014														
Agriculture, forestry, and fishing	4,101.2	72.8	-21.0	332.3	90.5	18.4	5.4	51.5	4.7	10.2	0.0	0.0	1.0	4,715.8
Mining and quarrying	1,127.2	816.1	-876.3	1,667.9	58.9	-55.8	2.5	1,121.4	-0.1	134.6	152.5	-0.3	65.8	7,660.1
Manufacturing	6,257.0	6,941.2	-129.6	1,889.5	2,799.6	1,442.0	737.4	845.5	15.7	-67.0	94.4	4.0	183.3	18,012.5
Electricity, gas, steam and air conditioning supply	24.1	17.6	8.2	110.2	34.3	-63.0	4.8	387.6	0.2	0.5	0.0	0.1	1.3	428.8
Wholesale and retail trade; repair of motor vehicles and cycles	1,099.2	1,365.0	6,291.2	2,387.8	985.9	458.7	530.2	152.3	90.8	324.9	-104.7	0.1	-18.3	20,526.5
Transportation and storage	397.3	190.5	68.4	675.6	11.4	-40.9	33.1	180.2	151.8	271.1	-0.0	0.0	2.1	2,742.7
Information and communication	-799.1	174.2	30.4	350.3	-5.1	957.7	1.7	-2.9	-3.5	-71.5	-0.9	0.1	0.4	1,298.0
Financial and insurance activities	5,928.1	5,132.4	5,040.9	11,540.8	471.1	5,298.7	1,724.0	1,787.8	10.1	2831.7	199.7	-22.9	802.0	45,624.5
Real estate activities	4,407.3	494.8	485.8	512.4	423.9	968.8	94.4	2,100.5	431.0	190.4	2.8	39.6	22.6	10,088.1
Other services	-1,469.5	-283.0	2,128.4	4,829.6	-175.9	-103.4	-80.5	-295.1	-82.5	2,646.2	203.0	-134.4	349.4	11,224.2
Others/unspecified ^a	742.1	328.4	1,375.5	-228.2	582.8	618.0	141.8	75.8	-1.1	13.3	1.8	-0.0	53.2	4,215.2
Total	22,134.5	15,705.4	14,748.5	24,989.9	5,750.7	9,813.2	3,253.9	6,990.1	605.9	6,281.5	550.0	-113.2	1679.0	129,995.1
2015														
Agriculture, forestry, and fishing	4,079.6	56.3	9.4	138.0	100.3	327.5	9.0	62.0	3.5	2.3	0.2	0.3	0.0	4,831.0
Mining and quarrying	1,037.6	791.9	397.8	1,614.9	6.1	-69.5	0.3	230.4	0.2	38.2	51.0	1.5	20.2	7,253.0
Manufacturing	5,118.6	8,394.5	905.9	2,482.0	2,706.3	504.5	920.2	930.2	-223.4	-50.1	7.6	2.5	32.1	29,015.0
Electricity, gas, steam and air conditioning supply	345.5	188.3	18.2	-155.1	485.5	76.7	93.8	550.2	8.9	13.0	0.7	0.8	0.4	1,982.5
Wholesale and retail trade; repair of motor vehicles and cycles	1,043.2	2,221.1	273.7	4,551.3	936.8	698.2	267.0	161.7	175.9	4,843.2	-3.1	0.2	23.4	11,188.0
Transportation and storage	303.6	390.8	51.9	234.2	-47.0	151.3	31.2	339.0	0.4	-44.7	0.1	0.0	15.7	3,281.2
Information and communication	1,113.1	161.2	22.7	274.4	16.5	-269.3	0.5	3.4	0.6	-17.8	0.2	0.0	0.0	1,825.3
Financial and insurance activities	3,584.1	2,544.3	8,594.5	705.7	605.0	1,241.9	1,004.8	3,585.8	1,034.4	3,329.5	2,152.2	-22.7	739.0	39,322.2
Real estate activities	2,751.7	130.8	425.4	511.4	416.1	588.3	115.6	1,822.3	272.0	55.8	8.8	25.3	16.9	9,207.4
Other services	376.9	2,033.0	782.3	8,788.9	315.9	108.9	31.3	417.3	-98.5	-2,976.2	17.9	-36.8	7.3	8,142.3
Others/unspecified ^a	2,395.1	483.0	709.8	520.6	138.6	262.5	172.7	53.0	80.5	0.1	5.7	-0.1	37.5	3,927.0
Total	22,149.0	17,395.2	12,191.5	19,666.5	5,680.2	3,621.1	2,646.4	8,155.3	1,254.4	5,193.0	2,241.1	-28.9	892.8	119,974.8

Source: ASEAN Secretariat, ASEAN FDI database.

^a Includes data suppressed for confidential reason.

by European Union and ASEAN investors. Japan, ASEAN, the Republic of Korea and the European Union, in that order, accounted for 64 per cent of total FDI inflows into the manufacturing industry in 2015.

In services, three industries were the primary recipients (i.e. finance, wholesale and retail trade, and real estate). Within them, different economies dominated. More than 54 per cent of investment in finance and insurance last year came from five economies (i.e. United States (22 per cent), China (9 per cent), ASEAN (9 per cent), Australia (8 per cent) and Japan (6 per cent)). Australia, the European Union and Japan were the largest investors in wholesale and retail trade activities. Together they accounted for the majority share of FDI flows into this industry. In real estate, ASEAN (30 per cent), China (20 per cent) and Hong Kong, China (6 per cent) were the major sources of investment.

FDI flows from different economies are highly concentrated in one or two key industries, and there are differences between major investors and the industry concentration of their investment. Japanese FDI flows in ASEAN remained highly concentrated in manufacturing activities. Some 48 per cent of Japanese FDI flows in the region last year were in manufacturing, which rose from \$6.9 billion in 2014 to \$8.4 billion in 2015. United States MNEs were active investors in finance, with 70 per cent of United States FDI flows in the region in this industry alone. United States FDI in finance rose by 70 per cent, to \$8.6 billion in 2015. More than 75 per cent of the European Union's FDI in the region last year was in services. Intra-ASEAN investment was dominated by two key industries (i.e. manufacturing and agriculture, forestry and fishery), which accounted for 58 per cent of intraregional investment. About 48 per cent of Korean FDI last year went to manufacturing – similar to in 2014. Finance was the largest industry recipient of FDI flows from Canada, China, India, Hong Kong (China), Taiwan Province of China and New Zealand. Two industries dominated Australian investment in ASEAN last year (wholesale and retail trade, and finance).

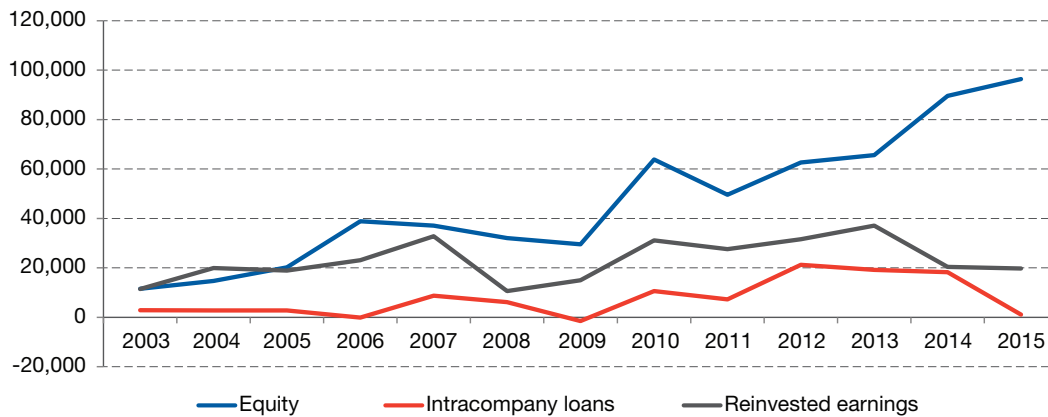
FDI financing sources

The pattern in the finance of FDI activities in 2014 and 2015 in the region highlights some interesting developments. Direct investors were considerably more active in using equity capital to finance investment projects in ASEAN last year than in any previous years (figure 1.4). This trend suggests continued investment commitment (new and expansionary ones) by investors in the region.

For instance, both Viet Nam and Singapore witnessed a significant rise in equity capital financing of FDI activities in 2015. The FDI equity component in total FDI flows for Viet Nam rose by 100 per cent, from \$5 billion in 2014 to \$10 billion in 2015; while for Singapore it rose to \$60 billion in 2015, up from \$57 billion in 2014. Equity capital financed 87 per cent of FDI flows in Viet Nam in 2015, while in Singapore the figure was over 90 per cent.

The use of the three components of FDI (i.e. equity, intracompany loans and reinvested earnings) by MNEs for investment activities in ASEAN Member States differs depending on a number of factors in relation to the purpose, function and operation of the affiliate

Figure 1.4. Sources of FDI finance in ASEAN, 2003–2015
(Millions of dollars)

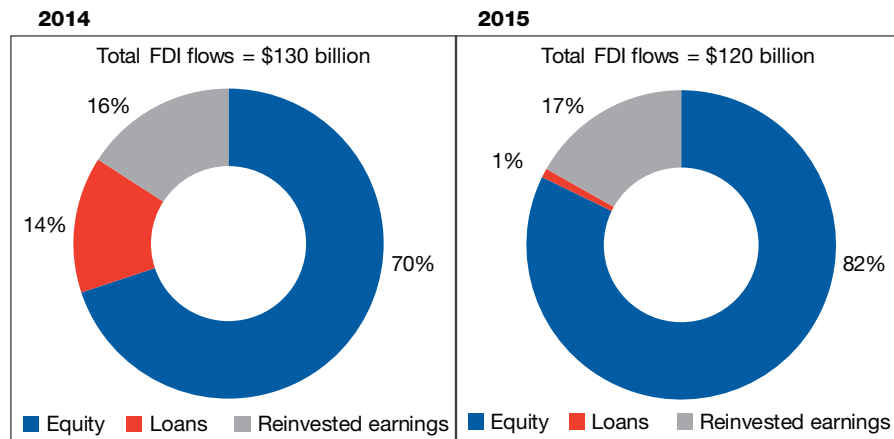


Source: ASEAN Secretariat, ASEAN FDI database.

receiving the investment (e.g. whether the affiliate has regional headquarters functions, maturity of operations, expansionary versus new FDI projects, and corporate financing strategy vis-à-vis operations of affiliates and subsidiaries in ASEAN).

The intracompany loans component of FDI finance in the region declined significantly, from 14 per cent in 2014 to only 1 per cent in 2015, which contributed to the \$10 billion decline in FDI flows (figure 1.5). Intracompany loan financing in 2015 was considerably lower than in 2014, due to significant outflows of loans by MNEs or affiliates based in Singapore and Thailand. The amount of outflows of intracompany loans (repayment of loans or provision of new loans to affiliates and parent companies) was greater than the amount of inflows of intracompany loans to subsidiaries based in these two ASEAN Member States. The significant outflow of loans by subsidiaries from Singapore and Thailand suggest that these subsidiaries repaid intracompany loans not only because of obligations falling due but also because they have generated

Figure 1.5. FDI flows in ASEAN, by types of financing sources, 2014 and 2015



Source: ASEAN Secretariat, ASEAN FDI database.

sufficient profits to make the repayments. In the case of Singapore, the net outflows of intra-company loans were to destinations outside of ASEAN.

There are also other strategic reasons for the intracompany loan transactions between these subsidiaries and their parent companies in home countries. Some foreign MNEs (e.g. from Japan and the United States) operate regional headquarters in Singapore and Thailand, and they in turn invest in other ASEAN Member States (e.g. the CLMV countries) on behalf of their parent companies. They finance new investment projects through the injection of equity capital and through intracompany loans. The large outflows of intracompany loans relate to the provision of loan capital to sister subsidiaries established in other ASEAN Member States (e.g. Indonesia and the CLMV countries) – helping those sister subsidiaries establish a presence or expand operations in the region. These investments are recorded as FDI from Singapore or Thailand, although the investors are not indigenous companies (ASEAN Secretariat and UNCTAD 2015).

For instance, recent investment expansions into Cambodia, the Lao People’s Democratic Republic and Myanmar by HP (United States) were coordinated through HP Thailand.¹ Some United States MNEs invest in Indonesia through their holding companies or regional headquarters based in Singapore (chapter 3). The expansion of Denso (Japan) in Thailand in 2015 was identified as investment from Singapore. Similarly, the expansion of Isuzu Global CV Engineering Center Co Ltd and Mitsubishi Electric Asia in Thailand were identified as investments from Singapore.

1.3. MNE activities and operations in ASEAN

Foreign MNEs continued to expand their operations in ASEAN to make a stronger footprint in a particular host-country or across the region. For instance, United States companies (3M, Dana Holding, Dao Chemical, Gentherm, Goodyear, Ford, Johnson Controls, Lear, Visteon), Japanese firms (Denso, Fujikura Electronics, Hitachi, Honda, JVC, Mazda, Nissan, Rohm, Sanden, Shin-Ei, Sumitomo Electric, TDK, Toshiba, Yamaha), European MNEs (BASF, Continental, Infineon, Nestlé, L’Oreal, GN ReSound) and companies from other countries, such as Celestica (Canada), Min Aik Technology (Taiwan Province of China) and Posco (Republic of Korea), increased their operations in ASEAN through expansion of their investments in ASEAN host countries. ASEAN companies too continued to expand and made new investments in the region, pushing up intraregional investment and the region’s share of FDI in ASEAN.

Some MNEs are not only expanding in a particular ASEAN host-country but also concurrently expanding or investing in new projects in other ASEAN Member States. Coca-Cola (United States) is building a second plant in Cambodia and a fourth distribution centre in Indonesia and is further expanding in Indonesia with a \$500 million investment in plant expansion and in its business infrastructure over the next three to four years. It has also announced plans in 2016 to expand its operation in the Philippines with a \$200 million investment annually for the next four years. United States MNEs such as Nike, Gap, Apple and Seagate

continued to actively engage in the region through sourcing and contract manufacturing arrangements to support their supply chains (chapter 3). Some have helped the region transform into a substantive operation location, linking ASEAN into their global value chains (GVCs) (box 1.1). MNEs from other economies such as the European Union, Japan and the Republic of Korea have also deepened ASEAN's participation in GVCs. For instance, 50 per cent of Samsung's mobile phones today are produced by its operations in Viet Nam.²

Seagate, which already has operations in other ASEAN Member States, opened a S\$100 million research and development (R&D) centre in Singapore in 2015 to focus on the development of 2.5-inch small-form-factor hard drives, hybrid drives, firmware, software and other technologies. In early 2016, HP's Thailand operation announced plans to expand into Myanmar, Cambodia, and the Lao People's Democratic Republic, using Thailand as a digital hub. It will provide marketing, consultant work and products to these three ASEAN Member States.³ IBM launched a consulting practice in Thailand in 2015, focused on cognitive computing, the simulation of human thought processes in a computerized model. Black & Veatch was selected in 2015 by a subsidiary of Vietnam Electricity to be the project technical lead on the expansion of the Duyen Hai 3 power plant, a 688-megawatt (MW) plant to be completed by 2018. The company will provide plant engineering liaison

Box 1.1. The significance of United States MNEs' operations in ASEAN (selected cases)

- The ExxonMobil chemical plant in Singapore is the company's largest integrated petrochemical complex in the world.
- Half of the global production of computer hard drives by Western Digital and Seagate is manufactured in Thailand.
- Eighty per cent of the world's central processing units for personal computers are produced at Intel's Viet Nam facilities. Intel's Penang (Malaysia) site has the company's largest manufacturing test team outside the United States.
- Texas Instruments is one of the largest employers and exporters in Malaysia and the Philippines.
- GE's iCentre in Kuala Lumpur (Malaysia), one of three such facilities in the world, monitors over 800 gas turbines and compressors in 27 countries.
- P&G's hair care product manufacturing plant in Thailand is the company's largest hair care export plant in the world. P&G's Cabuyao (Philippines) plant is the company's largest multi-category manufacturing facility in Asia.
- Citibank has been in ASEAN for over a century. It is the largest issuer of Visa credit cards in Singapore and the largest employer in the banking sector in that host country.
- United States MNEs such as GE and Dow Chemical have been in the region since before the birth of ASEAN.

Source: UNCTAD-ASEAN Investment Report 2016 research.

and commissioning, and some procurement for the \$1 billion project.⁴ In Indonesia, Black & Veatch was chosen by PLN, the national electricity utility company, as a consortium partner to build a 315 MW coal-fired plant. Fluor, which has operations in other ASEAN Member States, was selected by Petronas (Malaysia) to provide engineering, procurement and construction (EPC) management for its Refinery and Petrochemical Integrated Development (RAPID) project in Johor. The refinery is expected to commence operations by early 2019.

European MNEs also expanded their activities in ASEAN. Evonik Industries (Germany) further enlarged its footprint in the region. Having expanded its plants in Indonesia in 2013 and in Thailand in 2014, the company invested in Singapore with an expanded oil additives plant in 2015. It has started building an additional methionine plant in Singapore, which is expected to start operation in 2019. ABB (Switzerland) inaugurated a new manufacturing facility in 2015 in Jakarta (Indonesia) for the production of medium-voltage air-insulated switchgear. The new facility is part of a \$20 million investment plan, which included opening a new factory for low-voltage products in West Java in 2014. In 2016, the company won a contract to supply four 66-kilovolt (kV) gas-insulated switchgear substations to SP PowerGrid in Singapore, with a scheduled completion date of 2018. In Indonesia, Unilever (Netherlands) opened a \$145 million oleochemical processing plant,⁵ L'Oreal (France) a production plant⁶ and Shell (Netherlands) a lubricant blending plant in 2015. Osram (Germany) announced in 2015 its plan to build a €1 billion LED chip plant in Malaysia.

Japanese companies continued to strengthen their presence in the region with some \$17.4 billion in FDI inflows in 2015 as compared with only \$15.7 billion in 2014. Along with significant greenfield investment projects in the region, Japanese companies are also entering the ASEAN market using the M&As channel. In 2015, Kintetsu World Express acquired APL Logistics (Singapore) for \$1.2 billion, Mitsubishi Corp acquired a 20 per cent share of Olam International (Singapore) for \$1.1 billion and Kirin Holdings acquired a 55 per cent share of Myanmar Brewery from Fraser and Neave (Singapore), which is owned by Thai Beverage, headquartered in Thailand, for \$560 million.

Sumitomo continued to expand its presence in the region. In Indonesia it entered into an agreement with consortium partners Kansai Electric Power (Japan) and a local company, to develop the Tanjung Jati B coal-fired power plant Unit 5 & 6 Expansion Project in Central Java. It and consortium partners Black & Veatch (United States) and PT Satyamitra Surya Perkasa (Indonesia) were awarded a \$450 million EPC contract to build Unit 4 of the Lontar coal-fired steam power plant in Java and through an affiliate it acquired an additional 17.5 per cent stake of PT Bank Tabungan Pensiunan Nasional. In Viet Nam, it is building a third industrial park in Hanoi, which is targeted to open in 2018. In Myanmar it has jointly established a logistics company in the Thilawa Special Economic Zone (SEZ) with Kamigumi (Japan) and has been awarded a contract to construct Units 1 and 2 of a gas-fired power generation plant next to the Thilawa SEZ. Sumitomo announced plans in 2016 to establish the headquarters of Sumitronics Manufacturing in Cambodia, to provide electronics manufacturing services in collaboration with affiliate Alpine Technology Manufacturing (Thailand). In Thailand the company – together with consortium partners Mitsubishi Heavy

Industries (Japan) and Hitachi (Japan) – won a contract to design and build an electric and mechanical system for the Red Line rail mass transit project in Bangkok.

Japanese automobile manufacturers continued to expand their capacities and operations in the region in 2015–2016, with the establishment of new production plants (table 1.3). Their expansion and investments in the region have also attracted other parts and components manufacturers, including non-Japanese companies, to invest and expand in the region.

Japanese auto parts manufacturers also continued to expand their activities in ASEAN with investment in new plants, expansion of production capacities of existing production lines and diversification activities (table 1.4). Some, such as Aisin AW, Daido Steel and Toyo Advanced Technology, established their first production facilities in the region. In 2016, Denso and Toyota Tsusho established a joint venture in Thailand to develop automotive software.

Having started production of conveyor belts in July 2015 at the Rayong (Thailand) manufacturing facility, Bridgestone announced the establishment of a joint venture with PT Astra Otoparts in Indonesia to manufacture anti-vibration rubber products for automobiles and open fleet points or service outlets in Viet Nam. Sumitomo Electric established a branch in Myanmar in 2015 and announced plans in 2016 to expand in Indonesia.

Table 1.3.
Japanese automobile manufacturers: new major investments in ASEAN in and after 2015

Company	Host country	Remarks
Toyota	Indonesia	Second passenger car engine plant in Karawang, West Java started operation in March 2016
Daihatsu	Indonesia	Extended production line for passenger car engines at its Astra Daihatsu Motor plant in 2015 (total investment cost estimated at \$217 million)
	Malaysia	Constructed a \$147 million engine production plant in Negeri Sembilan
Honda	Thailand	Expects to start full operations at a \$476 million new plant for four-wheeled vehicles in Prachinburi in 2016
		Plans to construct in 2017 a \$47 million automobile test course in the same province
Isuzu	Indonesia	Started operation of a \$132 million new commercial vehicle plant in Karawang, West Java, in 2015
Mazda	Thailand	Started mass production of transmissions in 2015 at its new established transmission plant in Chonburi
Mitsubishi Motors	Philippines	Opened a manufacturing plant in Santa Rosa, Laguna, in 2015, which it acquired from Ford Motors in 2014
	Indonesia	Ground breaking ceremony held for the construction of a new manufacturing plant in Bekasi. The new plant is expected to start operation in 2017
Suzuki	Indonesia	Opened a new four-wheeled vehicle manufacturing plant in Bekasi in 2015
	Myanmar	Started construction of a second vehicle plant

Sources: Company press releases and Japan Automobile Manufacturers Association.

Note: Up to March 2016.

Table 1.4. Japanese auto parts manufacturers: expansion of operations in ASEAN, 2015–2016 (selected cases)

Company	Investment status	Production items	Main customers	Remarks
Indonesia				
Hitachi Automotive Systems	New	Automotive systems	Final products produced are transferred to affiliates of Hitachi	Production due to start in 2016
Lao People's Democratic Republic				
Toyota Boshoku	New	Interior parts	Supply to group affiliates in the region	New company in 2015 in Lao People's Democratic Republic. The new plant to produce seat covers for 200,000 vehicles yearly
Malaysia				
Daihatsu Motor Co Ltd	New	Engines	Affiliates in ASEAN	Opened a new engine plant, with a local partner, in Malaysia in 2016
Philippines				
Tokai Rika Toyota	Expansion	Automotive switches and shift lever control	OEM in ASEAN, North America and Europe	Expanded plant in the Philippines, started in late 2014, to increase capacity by 50% by 2017
Furukawa Denshi	New	Automotive coils	Subcontractor to mainly Chinese companies	Started production in 2016 in the Philippines; plans to further increase capacity by 2017
Thailand				
Aisin AW	New	Automatic transmissions	Toyota. The company aims to expand to other Japanese OEMs (e.g. Isuzu and Mitsubishi) in Thailand and export to other ASEAN countries	The company is building an automatic transmission plant, which is to start production in 2017
Daido Steel	New	Forged transmission parts	Target automotive OEMs and other customers in Thailand	Started production in 2016
Toray Hybrid Cord	New	Fibre materials for timing belts	Target customers based in Thailand	Established a sales office in 2015 in Thailand. Plans to establish a plant in the region within two years
Nitta	New	Hose and tube products	Target customers in ASEAN	Plant started operation in 2016
Shin-Etsu Chemical	Expansion	Silicon monomers	Car makers, predominantly in Japan, but aims to diversify customer base	Expansion of Thai plant by 2017
Sumitomo Rubber Industries	Expansion	Tyres	Automotive OEMs in Thailand	Expanded tyres production in 2016
Asahi Tec	Expansion	Aluminium wheels	Most products are targeted at Japanese OEMs in Thailand	Expanding its aluminium plant in Thailand
Oiles Corporation	Expansion	Bearings	Car makers, predominantly in Japan	Expanded production in 2016
Sanyo Special Steel	Diversification	Formed bearing materials	Customers in Thailand	Established a new subsidiary in 2015
NGK	Diversification	Ceramics for exhaust gas purifiers	Customers in Thailand and ASEAN	Established new subsidiary in Thailand in 2015 with a plant ready for production in 2018
Viet Nam				
Asahi Glass Co Ltd	Expansion	PVC production	Customers based in ASEAN	Expanded production capacity in 2015 and 2016
Yokowo Co Ltd	Expansion	Antenna and relay cords	...	Plans to expand in the host country in 2016

Sources: Company press releases and Marklines.

Sanken Electric opened a \$68 million plant in 2015 in Thailand to produce sensor chips. Toshiba opened a manufacturing facility for diagnostic imaging systems in Penang (Malaysia) in 2015. During 2015–2016, it won contracts in the region to supply equipment for the development of power stations in Indonesia and Myanmar, rolling stock for a mass rapid transit system in Thailand and other equipment, including automated systems, in Singapore. Toshiba announced plans to invest \$1 billion in ASEAN between 2015 and 2019.

Other Japanese companies also increased their investment in the CLMV countries in 2015 (section 1.6, table 1.4). Komatsu opened its first production plant to produce components of power generators, and construction and mining equipment in Myanmar. Kubota is building an \$8.2 million assembly plant and established a sales and service centre at the Thilawa SEZ, and Foster Electric opened a factory to produce audio equipment and car stereos in the same host country.

Chinese companies continued to make new investments in ASEAN. In 2015, Shanghai Automotive Industry Corporation (China), General Motors (United States) and Wuling Automotive Company (China) began construction of a \$700 million plant in Indonesia for the production of mini commercial vehicles and multipurpose vehicles.⁷ Foton, an automotive manufacturer, invested in a new assembly plant in the Philippines with production expected in 2016. Beijing Auto International Cooperation established a new plant in Malaysia, with a local partner, and production is expected to start in 2016. Other Chinese companies also made investments in the region. They include Zhongce Rubber, which opened a new tyre plant in Pattaya (Thailand) in 2015 and started production in 2016. Concord Medical Services Holding Ltd acquired Fortis Surgical Hospital (Singapore) for \$40 million, and Marston International acquired a controlling stake in Yokohama Industries in Malaysia for \$26 million.

* * *

Foreign and ASEAN MNEs in services industries have also been busy expanding in the region in 2015 and 2016. In retail, MNEs are expanding with more outlets and stores. A key driver of their expansion is market growth and the rise of middle-income consumers in the region. These retail companies (through franchise) include Starbucks, which opened an outlet in Cambodia and its sixth in Viet Nam; KFC in Myanmar; Krispy Kreme's first outlet in Cambodia; and McDonald's and 7-Eleven opened more stores in the region. Korean retail companies have also been busy opening up stores in the region. E-mart opened its first store in Viet Nam in late 2015 with a \$60 million investment. It plans to open a second store through licensing and to have 10 stores in Viet Nam by 2020.⁸ It also has plans to open stores in Indonesia, the Lao People's Democratic Republic and Myanmar.⁹ Lotte Mart has 12 stores in Viet Nam and plans to open 60 by 2020.¹⁰ In 2016, it has announced plans to add five new outlets in Indonesia; if realized, this Korean retail chain will have 46 outlets in Indonesia by the end of 2016.¹¹ The Lotte Group operates in a wide range of business activities in ASEAN. For instance, in Indonesia, the group not only operates fast-food chains and supermarkets, but through Lotte Department Store it has two duty-free shops in the

host-country and plans to open more in 2016.¹² Lotte Cinema expanded its presence in Viet Nam by opening two new cinemas in 2016.¹³

ASEAN retail companies have further opened outlets in other ASEAN Member States. For instance, Commonwealth Capital Group (Singapore) opened restaurants in Cambodia and Myanmar. It already has a presence in Brunei Darussalam and Malaysia, and plans to open more franchise stores in ASEAN. Bonia (Malaysia), a clothing and fashion retailer, plans to expand with more stores in the region. Central Group (Thailand) announced plans in 2016 to expand retail businesses in the CLMV countries. Index Living (Thailand), a home-furnishing retailer, established a presence in Malaysia and plans to open 30 branches in this ASEAN host-country within 15–20 years. It also announced plans to expand in ASEAN in 2016, especially in the Philippines through a franchise agreement with the SM Group (Philippines). Mobile World (Viet Nam), an electronics, mobile phones and groceries retailer, plans to open stores in Cambodia, Lao People's Democratic Republic and Myanmar in 2017.

In infrastructure, foreign and ASEAN companies remain active across the region with both investments and construction completed and awarded in 2015 and 2016 (table 1.5). Asian MNEs dominate in the contracts awarded in the power and transportation sectors. In telecommunication, European companies such as Ericsson (Sweden), Nokia (Finland) and Alcatel-Lucent (Finland) are building infrastructure in the region and secured new network equipment contracts in 2015–2016 (table 1.6, box 1.2).

Chinese companies remained active players in building and investing in power infrastructure in the region in 2015–2016 (table 1.5). They include Power Construction Company, Hubei Electric Engineering, China National Heavy Machinery Corporation, China International Water and Electric, China National Electric Engineering, China Investment Corporation and Energy China. Although Chinese companies' involvement in infrastructure development in the region are significant, a large proportion of their investment or the value of their operations are not reflected in the FDI statistics. This is because some of the values of infrastructure contracts are not captured in the FDI data system (ASEAN Secretariat and UNCTAD 2015).

Similarly, many Japanese and Korean companies continued to be involved in building infrastructure in the region in 2015 and 2016 as EPC contractors or subcontractors (table 1.5). These companies include Hazama Ando, JGC Corporation, Mitsubishi Heavy Industries, Marubeni and Sumitomo (all Japan) and Daelim Industrial, Halla Corporation, Lotte Engineering and Construction, Busan Transport Corporation, Samsung C&T and Posco (all the Republic of Korea).

Finance and insurance

In 2015, foreign and ASEAN banks established more operations in the region with new branches or representative offices such as in Myanmar (section 1.6). Indian banks, including Bank of Baroda, Indian Overseas Bank and Andhra Bank, invested in Malaysia last year. Other foreign banks also increased their presence through the acquisition of stakes in

Table 1.5.
**Infrastructure projects involving private sector participation, 2015–2016
(selected cases)**

Location	Project	Sector	Company	Nationality	Value (\$ million)	Announcement date	Remarks
Brunei Darussalam	Nationwide wi-fi service	Telecommunication	Aptilo Networks	Sweden	..	December 2015	Nationwide wi-fi service to be launched in 2016
Brunei Darussalam	Temburong Bridge project (Package I)	Transport	Daelim Industrial	Republic of Korea	440	September 2015	With a local partner, signed a contract to build the mega-project's navigational bridges
Brunei Darussalam	Temburong Bridge project (Package IV)	Transport	China State Construction Engineering Ocean Quarry & Construction	China Malaysia	330	September 2015	Signed the EPC contract (Package IV) to build the Temburong viaduct, a mega bridge project scheduled to be completed in 2019
Brunei Darussalam	Exploration rig	Oil and gas	PetroVietnam	Viet Nam	100	2015	Completed construction of the rig in 2015 as the main EPC entity
Cambodia	Tatay River hydropower plant	Power	National Heavy Machinery Corporation	China	540	December 2015	Inaugurated commercial operation of the 246 MW power plant, the country's sixth Chinese-built plant, in December 2015
Indonesia	Various	Power	GE	United States	1,000	2015	..
Indonesia	Yogyakarta new airport	Airport	GVK	India	500	2016	Will establish in 2016 a JV with a local partner to build the airport.
Indonesia	PT Paiton Energy	Power	Nebras Power	Qatar	..	2016	Acquired a 35.5 per cent stake in PT Paiton Energy from Engie (France)
Indonesia	Java coal-fired power plant	Power	YTL	Malaysia	2,700	December 2015	In its second power investment in Indonesia, won a contract to build two 660 MW power plants in West Java
Indonesia	Kayan 1 hydropower plant	Power	China Railway Construction Corporation	China	1,700	2015	Won an EPC contract to build the power plant
Indonesia	Java-7 coal fired power plant	Power	Banpu and Ratchaburi Electricity Generating	Thailand	3,700	2015	Formed a joint venture and submitted the investment proposal to develop the power plant
Indonesia	East Java geothermal power plant	Power	Aboitiz Power	Philippines	..	2015	Signed an agreement with two other partners to develop a 127 MW hydropower plant in Central Sulawesi
Indonesia	Banten coal-fired power plant	Power	Sumitomo Corporation Black & Veatch	Japan United States	446	2015	With a local partner, signed an EPC contract to construct the 315 MW power plant
Indonesia	Balikpapan-Samarinda highway	Transport	Beijing Urban Construction Group	China	60	2015	Awarded contract to build the highway with two local partners
Indonesia	Sulawesi coal-fired power plant	Power	Hubei Electric Engineering	China	..	2015	Building two 50 MW power plants in South Sulawesi
Lao PDR	Wattay Airport expansion	Transport	Hazama Ando Corporation	Japan	61	2015	Expansion project, scheduled for completion in 2018
Lao PDR	Hongsa Mine Mouth power plant	Power	Banpu and Ratchaburi Electricity Generating	Thailand	3,700	December 2015	With Lao Holding State Enterprise, completed and commissioned the first thermal plant in December 2015, after China National Electric Engineering constructed it

Table 1.5. Infrastructure projects involving private sector participation, 2015–2016 (selected cases) (continued)

Location	Project	Sector	Company	Nationality	Value (\$ million)	Announcement date	Remarks
Lao PDR	Power transmission (Kohing-Naphia and Namxam-Houamuang lines)	Power	China Machinery Engineering Corporation (CMEC)	China	484	2015	Constructing the two lines at estimated costs of \$338 million and \$146 million respectively
Lao PDR	Sekong Coal-Electricity integration project	Power	China National Heavy Machinery Corporation (subsidiary of China National Machinery Industry Corporation (Sinomach))	China	2,100	2016	Includes a coal mine and 2 X 350 MW power plant
Lao PDR	Nam Ngiep 2 hydropower project	Power	China International Water & Electric Corporation	China	..	2015	Completed construction of the second BOOT hydropower investment project in 2015
Lao PDR	Hongsa power plant	Power	China National Electric Engineering Company	China	1,680	2015	Completed construction of the Hongsa 3 x 626 MW power plant in 2015; most output to be sold to Thailand
Lao PDR	Nam Mang 3 hydropower plant	Power	China International Water & Electric Corporation	China	..	2015	..
Malaysia	Bandar Malaysia	Transport	China Railway Engineering Corporation	China	1,720	2015	With local partners, bought 60 per cent equity in Bandar Malaysia to develop the future transport hub of Kuala Lumpur, which will contain the terminal of the proposed Malaysia-Singapore high-speed railway
Myanmar	Hanthawaddy International Airport	Transport	JGC Corporation Yongnam Holdings Changi Airports International	Japan Singapore Singapore	1,500	2016	Signed the framework agreement in 2016; concession agreement expected to be signed in later 2016 and construction to begin in 2017
Myanmar	Kyaukphyu Special Economic Zone	Special economic zone (SEZ)	CITIC China Harbor Engineering China Merchants Holdings TEDA Investment Holding Yunnan Construction Engineering Charoen Pokphand	China China China China China Thailand	14,000	December 2015	Won the contract to build and operate the SEZ, including construction of a deep sea port
Myanmar	Yangon Expressway	Transport	Halla Corporation and Lotte Engineering & Construction	Republic of Korea	620	2015	With a local partner, proposed to construct a 20.5 km highway to link Yangon to Bago
Myanmar	Telecommunication towers	Telecommunication	OCK	Malaysia	75	2015	With a local partner, constructing 3,000 telecommunication towers for Telenor Myanmar; will invest \$75 million to construct 920 towers
Myanmar	Yeywa hydro-power plant	Power	Energy China	China	..	2015	..
Myanmar	220 kV Transmission Line	Power	Hubei Electric Engineering	China	..	2015	Completed a 150 km double-circuit transmission line from Shweli hydropower station to the Tagaung Taung nickel mine

Table 1.5. Infrastructure projects involving private sector participation, 2015–2016 (selected cases) (concluded)

Location	Project	Sector	Company	Nationality	Value (\$ million)	Announcement date	Remarks
Philippines	Metro Rail transit line 3 (MRT-3)	Transport	Busan Transport Corporation	Republic of Korea	..	2015	Won a contract with local partners to rehabilitate and maintain MRT-3 fleet over three years
Singapore	Marine Terrace MRT station	Transport	Ssangyong Engineering & Construction and Hyundai Engineering & Construction	Republic of Korea	253	2016	Beginning construction of the station and tunnels for the Thomson-East Coast MRT line in 2016; also involved in other transport contracts in Singapore
Singapore	Katong Park MRT station	Transport	Shanghai Tunnel Engineering	China	205	2016	Beginning construction of the station and tunnels for the Thomson-East Coast MRT line in 2016; also involved in other MRT construction projects
Singapore	Tuas WtE plant	Power	Mitsubishi Heavy Industries	Japan	750	2015	With Hyflux (Singapore), awarded the contract to build the 120 MW power plant by 2019
Singapore	Three-runway system at Changi Airport	Transport	Samsung C&T	Republic of Korea	1,120	2015	With a local partner will construct the additional runway by 2020
Thailand	China-Thailand railway project	Transport	China Railway Construction Corporation	China	..	2015	Awarded the contract to construct an 867 km railway line connecting Nong Khai province, Bangkok and eastern Rayong province
Viet Nam	Nam Dinh 1 Thermal Power Plant	Power	Consortium of ACWA & Taekwang Power	Saudi Arabia	2,200	2016	Building a 1,200 MW thermal power plant on a 25-year BOT basis
Viet Nam	Vinh Tan 3 Energy JSC	Power	CLP	Hong Kong (China)	..	2015	Secured financing facility from China Development Bank to build Vinh Tan 3
Viet Nam	SonLa Cement Plant	Other	China National Heavy Machinery Corporation	China	..	2015	Won the contract to design, build and install equipment for a cement plant
Viet Nam	Quynh Lap-2 Thermal Power Plant	Power	Posco	Republic of Korea	..	February 2016	Won a contract to build the 1,200 MW power plant, the company's second power plant construction in Viet Nam
Viet Nam	Mong Duong 2 power plant	Power	Posco AES China Investment Corporation	Republic of Korea United States China	2,100	May 2015	Completed and started commercial operation of the power plant in October 2015, with Doosan Heavy Industries (Republic of Korea) as the EPC company and subcontractors including Yokogawa Electric (Japan)
Viet Nam	Duyen Hai II thermal power plant	Power	Teknik Janakuasa (subsidiary of MMC) (Malaysia)	Malaysia	2,200	2015	Won the contract to build the power plant, scheduled for completion in 2020
Viet Nam	Ca Mau gas processing plant	Oil and gas	Posco Engineering and Construction	Republic of Korea	249	2015	With its local partner, awarded the EPC contract for the plant
Viet Nam	Intelligent transportation system	Transport	SK C&C	Republic of Korea	..	2015	Received a license to build the system for the Hanoi-Haiphong Expressway

Source: UNCTAD–ASEAN Investment Report 2016 research, based on country information, industry news, other media and corporate websites.

Note: BOOT = build, own, operate, transfer; BOT = build, operate, transfer; EPC = engineering, procurement and construction.

Table 1.6. Telecommunication deals/projects in ASEAN in 2015 (selected cases)

Country	Operator	Nationality	Partner	Nationality	Remarks
Cambodia	Chuan Wei	Cambodia	Alcatel-Lucent*	Finland	Deployment of LTE and voice over LTE network infrastructure
	Chuan Wei	Cambodia	Alcatel-Lucent*	Finland	Deployment of 100G fibre-optic data network in the country
	Seatel	China	ZTE	China	Construction of a national FDD-LTE network
Indonesia	Indosat Ooredoo	Qatar	Nokia Networks	Finland	Deployment of LTE-Advanced network, including the roll-out of 4G+ base transceiver stations in key cities across Java, Kalimantan and Sumatra
	Telkomsel	Indonesia	Ericsson	Sweden	Full radio network transformation in Kalimantan
	Indosat Ooredoo	Qatar	Ericsson	Sweden	Deployment of 4G LTE network in Greater Jakarta
	XL Axiata	Malaysia	Ericsson	Sweden	Turnkey supplier for 4G LTE design and implementation in Jakarta and Central Java and 2G and 3G network upgrades
	Indosat Ooredoo	Qatar	NEC	Japan	Provision of a comprehensive operations support systems upgrade to help the operator develop their enterprise user base and launch new services
	Hutchison 3	Hong Kong (China)	CSG International	United States	Provision of a convergent billing solution platform across the operator's network
	Indosat	Qatar	Ericsson	Sweden	Deployment of device connection platform for the operator's cloud-based M2M platform in the country
Malaysia	U Mobile	Malaysia	ZTE	China	Development of pre-5G broadband technologies and research and development for 5G technology
	U Mobile	Malaysia	Telekom Malaysia	Malaysia	Provision of fibre mobile backhaul connectivity of up to 1 Gbps per site for U Mobile's network across the country
	U Mobile	Malaysia	ZTE	China	Expansion of 3G and 4G LTE infrastructure; provision of power supply, bearer network and microwave transmission for the operator's services
	XL Axiata	Malaysia	NEC	Japan	Provision, installation and maintenance services for the iPASOLINK Series of ultra-compact microwave communication systems
Myanmar	Ooredoo	Qatar	Windsor	Singapore	Build, lease and manage 500 towers for 15 years
Philippines	Globe Telecom	Philippines	Huawei	China	Capacity expansion of the operator's 3G and 4G networks, including installation of LTE carrier aggregation technology, greenfield site deployments to boost indoor/outdoor coverage, a core network upgrade and expanding the company's fibre-optic footprint
	Globe Telecom	Philippines	Aviat Networks	United States	Supply of CTR 8540 microwave networking solution to support the operator's LTE network expansion
Singapore	SingTel	Singapore	Ericsson	Sweden	Deployment of tri-band carrier aggregation platform
Viet Nam	Vinaphone	Viet Nam	ZTE	China	Reallocation of the operator's spectrum in the 900 MHz band and expansion of network capacity in the 2100 MHz band

Source: Southeast Asia Infrastructure Research.

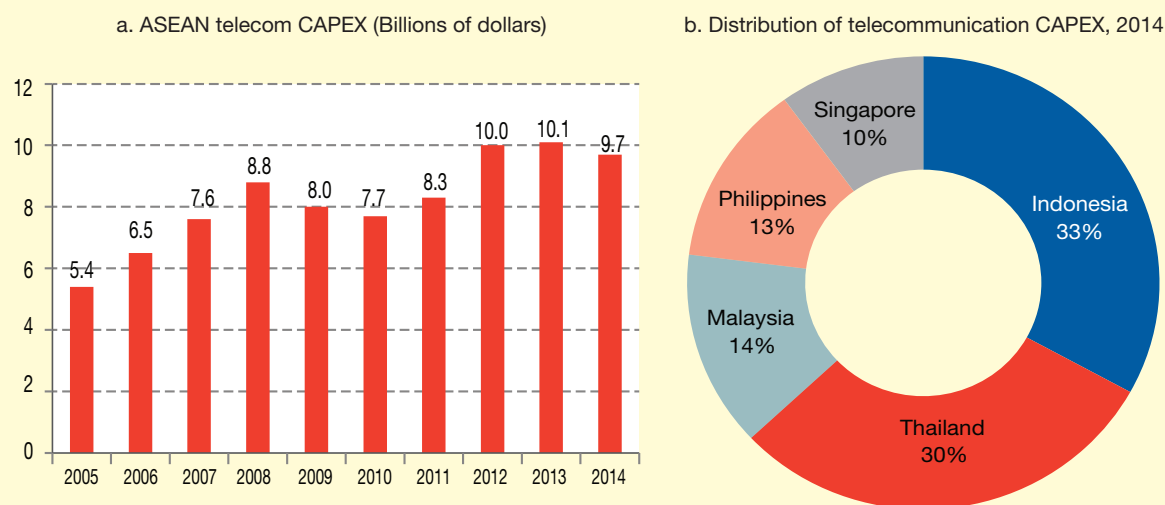
Note: LTE = long-term evolution, FDD = frequency division duplex, M2M = machine-to-machine

* In January 2016, Nokia (Finland) controls Alcatel-Lucent through share acquisition. Prior to that date, Alcatel-Lucent was a french multinational corporation.

Box 1.2. Investment in telecommunication networks in ASEAN

Investment in telecommunication networks by ASEAN operators for which data are available (covering over 80 per cent of the market, measured by revenue) has totalled about \$10 billion a year over the past few years (box figure 1.2a). There has been a steady rise over the last decade, with capital expenditure in 2014 almost double that in 2005. Investment dipped following the 2008 financial crisis, but spending has since recovered. In 2014, Indonesia accounted for a third of ASEAN’s telecommunication investment (box figure 1.2b). Thailand was second as operators made large investments to transfer their subscribers to mobile broadband networks.

Box figure 1.2: Capital expenditure by ASEAN telecommunication operators



Source: Adapted from operator reports.

Note: Refers to Indonesia, Malaysia, the Philippines, Singapore and Thailand, which accounted for 82 per cent of ASEAN’s telecommunication service revenues in 2014 (data not available for other countries). Data refer to capital expenditure by telecommunication operators. Conversion to US\$ based on annual average exchange rates.

The biggest expense category for telecommunication infrastructure is the specialized equipment used to run networks. The equipment market for key infrastructure is highly concentrated, with five major global players: Huawei and ZTE from China, Sweden’s Ericsson, Finland’s Nokia Siemens Networks^a and Alcatel-Lucent from France (box table 1.2.1). These vendors provide 2G, 3G and 4G wireless gear as well as fibre-optic transmission equipment. They are also involved in panregional projects such as the construction of international fibre-optic backbones. They often provide an end-to-end solution for network deployment. Equipment selection is based on a variety of factors including technical solution, price and payment options. Data on the value of equipment awards are not available, often due to contractual arrangements. However, most report contract awards, and between January 2015 and April 2106, these vendors announced 22 deals in the region. The majority of the awards were for advanced 4G mobile broadband networks.

Box 1.2. Investment in telecommunication networks in ASEAN (concluded)**Box table 1.2.1. Announced network equipment deals, ASEAN telecommunication operators, 2015–April 2016**

Project	Host country (operator)	Vendor	Headquarters	Date*
Mobile	Indonesia (H3I)	Nokia	Finland	April 2016
LTE	Thailand (TrueMove)	Ericsson	Sweden	March 2016
LTE	Thailand, Myanmar (Telenor)	Ericsson	Sweden	February 2016
Cloud	Malaysia (Axiata)	Ericsson	Sweden	February 2016
IoT	Singapore (Singtel)	Ericsson	Sweden	February 2016
Cloud	Indonesia (XL)	Huawei	China	February 2016
Network software	Thailand (AIS)	ZTE	China	January 2016
LTE	Indonesia (Ooredoo)	Nokia	Finland	December 2015
2G/3G	Indonesia (Telkomsel)	Ericsson	Sweden	November 2015
2G/3G/LTE	Indonesia (Indosat)	Ericsson	Sweden	November 2015
International gateway	Thailand (True)	Huawei	China	November 2015
3G	Viet Nam (Vinaphone)	Nokia	Finland	November 2015
Network software	Thailand (AIS)	Huawei	China	September 2015
4G	Indonesia (Smartfren)	Nokia	Finland	September 2015
4G	Singapore (Starhub)	Nokia	Finland	October 2015
LTE	Indonesia (Smartfren)	ZTE	China	August 2015
LTE	Cambodia (SEATEL)	ZTE	China	June 2015
Backbone upgrade	Thailand (AIS)	Alcatel-Lucent	France	June 2015
Fibre backbone and LTE	Cambodia (Chuan Wei)	Alcatel-Lucent	France	March 2015
Network software	Philippines (Globe)	Huawei	China	March 2015
LTE	Malaysia (Umobile)	ZTE	China	February 2015

Source: UNCTAD.

* Announcement date.

Source: UNCTAD–ASEAN Investment Report 2016 research.

^a In April 2015, Nokia and Alcatel-Lucent announced they would merge (<https://www.alcatel-lucent.com/press/2015/nokia-and-alcatel-lucent-combine-create-innovative-leader-next-generation-technology-and-services-ip>).

ASEAN banks. For instance, Sumitomo Corp (Japan) acquired an 18 per cent stake in Bank Tabungan Pensiunan Nasional (Indonesia), Cathay Financial Holding (Taiwan Province of China) acquired a 22 per cent stake in Rizal Commercial Banking Corp (Philippines) and a 25 per cent stake in Bank Mayapada Internasional (Indonesia), and Shinhan Financial Group (Republic of Korea) bought a 40 per cent interest in Bank Metro Express (Indonesia). In insurance, Assicurazioni Generali (Italy) bought a 49 per cent stake in Multi-Purpose Insurans (Malaysia), Dongbu Insurance (Republic of Korea) acquired a 37 per cent stake in Post & Telecommunication Joint Stock Insurance Company (Viet Nam), and Fairfax Financial Holdings (Canada) gained a 35 per cent interest in BIDV Insurance Corporation (Viet Nam).

ASEAN financial institutions also expanded regionally through intraregional M&A activities. Creador (Malaysia) bought a 20 per cent stake in Bank Index Selindo (Indonesia), and CIMB (Malaysia) acquired Finansa Asset Management (Thailand).

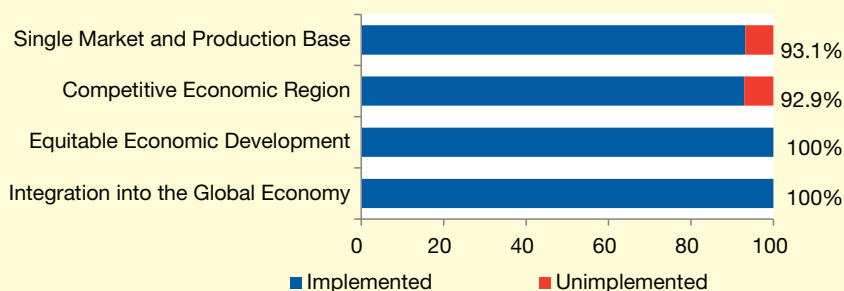
Regional expansion continues into 2016

Foreign and ASEAN MNEs continued to expand their presence in the region in 2016. Investor perception of the region is on the rise (box 1.3). In 2016, Toyota started work to build a fifth factory in Indonesia to produce aluminium-block engines for local and Asian markets. Volkswagen (Germany) and PSA (France) are planning additional investments in Thailand. BMW (Germany), with a presence in Thailand, announced plans in 2016 to build a \$6.2 million automotive parts distribution centre in the host country. Sika (Switzerland), with operations in many ASEAN countries, opened new production plants for concrete admixtures in Myanmar and Cambodia in 2016. LafargeHolcim (Switzerland) completed its Indonesian Tuban project in 2015, with the opening of the second kiln line at the new cement plant. Its subsidiary in the Philippines announced plans in 2015 to invest an additional \$40 million to increase cement production in the host country.¹⁴ Bosch (Germany) is building a

Box 1.3. Investor perception of the region strengthened with the launch of the ASEAN Economic Community and improving investment environment

The AEC, a more closely integrated ASEAN and the prospects of a rapidly growing region contributing to a single market and production base are attracting greater attention from existing and potential investors. The AEC was established on 31 December 2015 with 93 per cent of a focused-base list of 506 measures identified in the AEC Blueprint^a implemented (box figure 1.3.1). The final implementation rate, based on the full AEC scorecard of 611 measures, stood at 82.3 per cent. The remaining AEC 2015 measures yet to be implemented are prioritized for implementation under the AEC Blueprint 2025.^b Other measures contained in the AEC Blueprint 2025 will also be implemented, including strategic measures that will be further elaborated in and effected through work plans of various sectoral bodies in ASEAN.

Box figure 1.3.1. Status of focused base AEC 2015 Scorecard Measures



Source: ASEAN Secretariat.
 Note: As at 31 December 2015.

The AEC Blueprint 2025 has five main characteristics, which covers (i) a highly integrated and cohesive economy, (ii) a competitive, innovative and dynamic ASEAN, (iii) enhanced connectivity and sectoral cooperation, (iv) a resilient, inclusive and people-oriented, people-centred ASEAN and (v) a global ASEAN. This latest AEC Blueprint sets out the strategic measures under each of the five characteristics and corresponding elements of AEC 2025.

Box 1.3. Investor perception of the region grew stronger with the launch of the ASEAN Economic Community and improving investment environment (concluded)

Although some measures remain to be implemented before the AEC will fully transform ASEAN into a seamless interconnected region for the free flow of goods, services and investment, foreign and ASEAN companies are already factoring the impact of the AEC into their investment plans and regional operations. Some companies are enlarging their footprints across the region with investments in multiple ASEAN Member States. Some have expressed investment plans to expand or make new investments in the region over the next few years. In light of this increasingly positive investor sentiment, the prospects of higher FDI flows in the region over the next few years are promising, barring regional and global economic shocks.

This is corroborated by recent major studies on investment and business outlooks in the region. For instance:

- The 2016 ASEAN Business Outlook Survey of about 500 business executives of United States MNEs in ASEAN is optimistic about the growth prospects in the region (AmCham Singapore and U.S. Chamber of Commerce 2016). They plan to increase investments in ASEAN. About 60 per cent of these executives expect higher profits in 2015 and 76 per cent forecast higher profits in 2016. Some 63 per cent of them expect their company to expand in ASEAN.
- The EU-ASEAN Business Council Business Sentiment Survey 2015 found that European businesses have a positive outlook for their operations in the region and view ASEAN as a bright spot for future investment and development of their businesses (EU-ASEAN Business Council 2015). Some 70 per cent of the respondents foresee an increase in profits in ASEAN and 80 per cent expect trade and investment with the region to increase over the next five years.
- The JETRO FY 2015 Survey on the International Operations of Japanese Firms indicates that some 73 per cent of the 895 Japanese firms surveyed plan to expand in ASEAN,^c a percentage significantly higher than in other locations (JETRO 2016).

The investment environment in the region continues to improve with Member States implementing and introducing measures favourable to FDI (ASEAN Secretariat and UNCTAD 2014, 2015). The ASEAN Member States are collectively negotiating economic agreements with other economies at the time of writing this report. These include the Regional Comprehensive Economic Partnership, which involves also Australia, China, India, Japan, the Republic of Korea and New Zealand. ASEAN is also negotiating a free trade agreement with Hong Kong (China). In addition, the ASEAN Member States have also announced and introduced national measures in 2015–2016 that further streamline, facilitate, promote and support FDI. The improvement in the region's investment environment increases further the region's attractiveness for FDI.

Source: UNCTAD–ASEAN Investment Report 2016 research.

^a See “ASEAN Economic Community 2015: Progress and Key Achievements” (http://asean.org/?static_post=asean-economic-community-2015-progress-and-key-achievements-2). This document explains the origin of the AEC, what it means, where it is now and what kind of benefits it brings.

^b See “ASEAN 2025: Forging Ahead Together” (<http://www.asean.org/wp-content/uploads/2016/01/ASEAN-2025-Forging-Ahead-Together-2nd-Reprint-Dec-2015.pdf>).

^c includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam. The respondents also indicated expansion plans in favour of Cambodia and Myanmar.

\$28.5 million R&D plant for gasoline systems in Thailand, Lectra (France) is opening a factory for manufacturing fabric in Viet Nam, Stihl (Germany) opened a \$50 million new factory in the Philippines, Atotech (France) is expanding its operation in Malaysia and Infineon (Germany) expanded its semiconductor wafer production in that ASEAN host country.

Marubeni (Japan) is building a fertilizer plant and has commenced a repackaging business with a local partner in the Thilawa SEZ (Myanmar) in 2016. The plant is expected to start operation in 2017. It also expanded its operations in Malaysia in packaging businesses, with the acquisition of Dazun Paper Industrial Company together with Oji Holdings (Japan) in February 2016. With other consortium companies, Marubeni is expanding the Cirebon coal-fired power plant project in Indonesia, with a 25-year power purchase agreement signed in October 2015. The consortium will develop and construct the plant, with commercial operations set to begin in 2020. Marubeni and Toshiba jointly won a contract to provide the railway systems and maintenance services of the Purple Line of the Bangkok mass transit railway for 10 years. The company also signed agreements with the Government of Myanmar in 2015 on railway safety and power construction projects. Together with Alstom (France), Marubeni signed a \$1 billion EPC contract with the Electricity Generating Authority of Thailand for the construction of a new unit of a lignite-fired power plant in Mae Moh, Thailand. Hitachi continued to expand its operations in ASEAN with numerous infrastructure projects across the region in 2015 and 2016.

Tokai Tokyo Financial Holdings (Japan), with a presence in Singapore and the Philippines through affiliate partners, signed an agreement with K&N Kenanga Holdings (Malaysia) in April 2016 to explore business opportunities. Other Japanese companies are also expanding their presence in the region. For instance, Suzuki started production of a new MPV Ertiga model in Myanmar and opened a \$1 billion assembly plant in Indonesia in 2015. It also announced plans to build a second plant in Myanmar, to be completed in 2017. Toyota and Mitsubishi have announced plans to invest in cars production in the Philippines, under the country's Comprehensive Automotive Resurgence Strategy programme. Aeon, which already has a significant presence across ASEAN, opened more new malls in Malaysia, Thailand, Viet Nam and Indonesia in 2015. In 2016, the company opened a new mall in Malaysia, scheduled the opening of its fourth mall in Viet Nam and is building its second mall in Indonesia, to open in 2017, as well as its second mall in Cambodia, to be opened in 2018. Owndays, which makes eyewear, established stores in Cambodia and Thailand. It plans to open 100 stores in ASEAN by 2020. Lawson, an operator of convenience stores, opened its 20th store in the Philippines in April 2016 and plans to expand further its operations in Indonesia, Malaysia, Thailand and Viet Nam. FamilyMart, another operator of convenience stores, announced plans to open a first store in Malaysia through QL Resources (Malaysia) in 2016. It plans to open some 300 stores in Malaysia within the next five years. Nippon Express announced it will be launching a second operation for logistics and warehousing in Myanmar in 2017. NGK Spark Plug expanded its presence in Thailand further with a plant opened in November 2015.

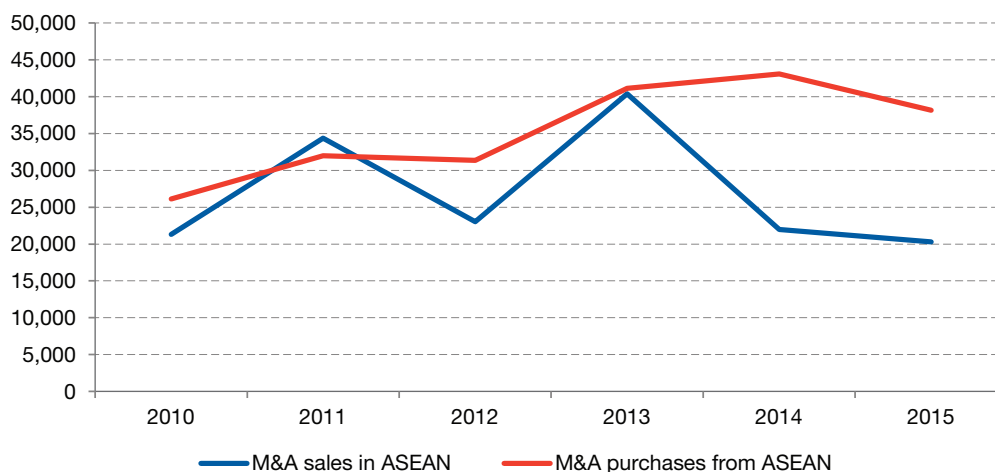
Other MNEs are also expanding in the region; Cargill (United States) with a \$8.5 million investment in an animal nutrition plant in Viet Nam, Camso (Canada) with a facility for the production of forklift tyres in Viet Nam, HB Fuller (United States) with an investment in adhesives manufacturing facility in Indonesia, and Du Pont (United States) with an investment in a new innovation and business hub and headquarters for ASEAN in Singapore.

1.4. Cross-border M&As in ASEAN

Cross-border M&A sales in ASEAN provide another channel through which MNEs expanded or deepened their operations in the region. In 2015, MNEs from Australia, Canada, China, the European Union, Japan, Hong Kong (China), the Republic of Korea, Taiwan Province of China and the United States acquired assets in ASEAN (annex table 1.2).

Cross-border M&A sales in ASEAN declined by 8 per cent¹⁵ in 2015, from \$22 billion in 2014 – a contributory factor in the overall decline in FDI. However, for the fourth consecutive year, ASEAN companies made more acquisitions worldwide than total cross-border M&A sales in the region (figure 1.6).

Figure 1.6. Cross-border M&A sales in and purchases from ASEAN, 2010–2015
(Millions of dollars)



Source: UNCTAD M&As database.

Cross-border M&A sales in the CLMV countries rose, but significant declines were witnessed in the more mature Member States (Indonesia, Malaysia, the Philippines, Singapore, Thailand). Developing economies continued to be the largest acquirers of assets in ASEAN, with values that rose from \$12.0 billion in 2014 to \$12.6 billion in 2015 (table 1.7). About 62 per cent of cross-border M&A sales in the region in 2015 came from companies based in developing economies, in particular within ASEAN. About 40 per cent of all cross-border M&A sales in ASEAN in 2015 is from within the region.

Table 1.7.
**Cross-border M&A sales in ASEAN,
by geographical distribution,
2012–2015** (Millions of dollars)

Acquiring nations	2012	2013	2014	2015
World	23,043	40,363	21,974	20,308
Developed economies	10,664	15,989	9,879	7,322
United States	513	164	3,106	2,249
Japan	2,554	8,461	3,933	2,653
Developing economies	12,233	23,269	12,035	12,596
China	222	186	2,531	1,647
Hong Kong, China	2,235	1,545	1,090	1,854
ASEAN	8,460	20,339	7,316	7,955
Brunei Darussalam	..	..	..	47
Cambodia	100	..	..	..
Indonesia	936	1,321	1,992	2,069
Malaysia	383	3,454	1,344	365
Philippines	705	108	27	133
Singapore	2,355	2,376	2,336	3,537
Thailand	3,950	13,077	1,617	1,805
Viet Nam	31	2	..	..
Unspecified	146	507	60	390

Source: UNCTAD M&A database.

Note: Gross basis.

Cross-border M&A sales in services declined by 28 per cent to \$11.3 billion, but transportation and storage, and finance bucked the trend, with M&A sales rising by 40 per cent to \$2.1 billion and 14 per cent to \$3.8 billion, respectively. Cross-border M&A sales in the primary sector and in manufacturing rose (in particular, mining rose by 125 per cent and manufacturing by 4 per cent, to \$4.5 billion each) but was not sufficient to match the larger decline in cross-border M&A sales in services.

Extractive industries, finance, transportation and storage, and food and beverages dominated cross-border M&A sales in ASEAN in 2015. Together, they accounted for some 61 per cent of all cross-border M&A sales values in the region last year. Cross-border M&A sales in these industries rose. Two mega deals contributed to the significant rise in cross-border M&As in extractive industries. United Fiber System

(Singapore) bought a 67 per cent stake in Golden Energy Mines (Indonesia) for \$2.3 billion, and Pertamina (Indonesia) acquired a 30 per cent interest in Murphy Oil Corporation in Malaysia for \$2 billion (annex table 1.2).

In the first half of 2016, ASEAN companies continued to actively internationalize with cross-border M&As, both within and beyond the region. In particular, Thai MNEs have been active in acquiring retail assets in neighbouring countries. For instance, Thailand Central Group acquired a 100 per cent interest of Big C Vietnam Stores, a supermarket chain, from Casino Guichard-Perrachon (France) for \$1.1 billion, and TCC Holding (Thailand) acquired Metro Cash & Carry Vietnam from the Metro Group (Germany) for \$705 million. Singapore MNEs have also been active, and they include Frasers Centerpoint's acquisition of a 29 per cent stake in Golden Land Property Development (Thailand) for \$139 million and SATS acquisition of Brahims Airline Catering Holdings (Malaysia) for a 49 per cent interest for a value of \$51 million. Two significant M&A deals, although not cross-border, are worth highlighting as they underline the increasing financial prowess and interest of ASEAN companies to grow through acquisition of assets owned by foreign MNEs in the former home-country. These deals include Thai Charoen Corporation's acquisition of a 58 per cent stake in Big C Supercentre PCL, a hypermarket/supermarket operator, based in Thailand from Casino Guichard-Perrachon (France) for \$3.4 billion and PT Sarana Menara's (Indonesia) 100 per cent acquisition of XL Axiata-Telecommunication Towers in Indonesia from Axiata Group (Malaysia) for \$260 million.

1.5. Intra-ASEAN investment and enterprise regionalization

Like their foreign MNE counterparts, ASEAN companies continued to be active in investing and expanding in other Member States in various industries (table 1.8). Their reasons include pursuing market and customer base expansion drives; obtaining access to land and natural resources; investment opportunities and winning contracts; capturing more value added activities through a regional value chain strategy; maximizing production efficiency and reducing costs. These reasons can vary by companies and industries (ASEAN Secretariat and UNCTAD 2014, 2015).

ASEAN companies have been active in investing or expanding their operations in the region through greenfield and M&A activities, which contributed to supporting a high level of intra-ASEAN investments. Intra-ASEAN M&A sales rose from \$7.3 billion in 2014 to \$8.0 billion, which accounts for 39 per cent of cross-border M&A sales in the region in 2015, which helped sustain a high level of intraregional investment. Companies from Singapore, Indonesia and Thailand, in that order, were major acquirers of assets in the region. Regional cross-border M&A purchases by companies from these three countries rose in 2015 (table 1.7).

Companies from different ASEAN Member States made various intraregional investments, which include the following.

Indonesian companies

The Lippo Group, with a Myanmar partner, launched a \$420 million health care joint venture in Myanmar in 2015.¹⁶ The first hospital was completed with a \$10 million upgrade of equipment, systems and services at Pun Hlaing Siloam Hospitals in Yangon in June 2015. The Lippo Group and the local partner plan to develop a network of 20 hospitals across the country within 10 years. In 2015, other Indonesian companies announced investment plans in other ASEAN Member States. Aneka Tambang announced interest to invest in gold and ferronickel mines in Myanmar and the Philippines, PT Timah announced plans to expand in Myanmar, Sritex established a presence in Cambodia for the production of garments and Nippon Indosari made an investment in food production in the region. Pertamina and Bank Negara Indonesia have expressed strong interest and are identifying investment opportunities in the CLMV countries. In addition, Gunung Sewu Kencana and Mahanusa Capital acquired a stake in Navigat Group (Singapore), and Sinar Mas Group has been expanding in the region (e.g. in Malaysia) through M&As.

Malaysian companies

In 2015, Malaysian companies made investments in a number of ASEAN Member States. Daya Materials, an upstream and downstream oil and gas service operator, expanded its operations to Viet Nam; Sengenics opened an \$11 million biotechnology R&D facility in Brunei Darussalam; and Mega First secured a \$500 million 260 MW hydropower project contract in the Lao People's Democratic Republic. Armadeus Acquisitions acquired a 46 per cent stake in Bukaka Teknik Utama (Indonesia), which is involved in infrastructure development and in production of steel frames and equipment. Having established a

Table 1.8.
Increasing connectivity through intra-ASEAN investment: selected investment projects in 2015–2016 (selected cases)

Company	Home-country	Investment	Host-country	Remarks
Bank of Ayudhya	Thailand	Finance (microfinance)	Cambodia	With Mitsubishi UFJ Financial Group, acquired Hattha Kaksekar, a microfinance company
Siam Cement Group	Thailand	Cement and building materials	Cambodia Indonesia Lao PDR Myanmar	Plans to expand investment in Cambodia by \$200–300 million between 2016 and 2020 Indonesia plant started operation in 2015, Myanmar plant in 2016 Building a cement plant in the Lao PDR to start operation in 2017 Announced plans in 2016 to expand logistics operations in ASEAN to better serve customers
Muang Thai Life	Thailand	Insurance	Cambodia	Established a joint venture with a local partner, Canadia Investment Holding, to provide life insurance products
TOA Paint	Thailand	Paint	Cambodia Indonesia Myanmar	Building new factories in each of these ASEAN countries, to start production in 2017
Major Cineplex Group	Thailand	Cinemas and entertainment	Cambodia Lao PDR Myanmar Viet Nam	Plans to expand in the CLMV countries
Pestech	Malaysia	Power infrastructure	Cambodia	Building the 230 kV Kampong Cham Kratie Transmission System Project worth \$61 million, expected to be complete in 2017 Also constructing a transmission line from Phnom Penh to Sihanoukville to be completed by 2018
IHH	Malaysia	Hospital	Myanmar	Started construction of a \$70 million hospital in Yangon in 2016, expected to open in 2020
PTT	Thailand	Retail liquefied petroleum gas (LPG) fuel station	Cambodia Lao PDR Myanmar	Plans to expand retail LPG in Cambodia Opened more petrol stations in the Lao PDR in 2015 and a fourth one in Myanmar in January 2016 Plans to open 43 petrol stations in Myanmar by 2020 and grow from the current 20 to 63 stations in Cambodia by that time
Sritex	Indonesia	Garments	Cambodia	Won a \$50 million deal to supply police and armed forces with new uniforms Will set up Sritex Cambodia to facilitate the operation Plans to build a factory in late 2016
Nippon Indosari	Indonesia	Food	Philippines	Established a joint venture with Monde Nissin Corp (Philippines), to start operation in 2017
Hoang Anh Gia Lai (HAGL)	Viet Nam	Real estate	Myanmar	Built first phase of Myanmar Centre, opened in 2015 Building the second phase, which is expected to be completed in 2018
Parkson	Malaysia	Shopping mall	Cambodia	Expected to be opened in 2016
Big Apple Donuts & Coffee	Malaysia	Food retailing	Cambodia	Opened fourth outlet in Phnom Penh in April 2016 with the first one in January 2015
RMA Group	Thailand	Food retailing	Cambodia	Plans to open 10 franchised Krispy Kreme outlets over the next five years
Viettel	Viet Nam	Telecommunication	Myanmar	With a local consortium, will invest in and operate a mobile phone service in 2016
VNPT	Viet Nam	Telecommunication		
Keppel Land	Singapore	Real estate and property developer	Indonesia Malaysia Myanmar Philippines Thailand Viet Nam	Building commercial and residential projects in various ASEAN Member States
Sembcorp	Singapore	Conglomerate	Indonesia Myanmar Viet Nam	Building a port and industrial estate in Indonesia, a power plant in Myanmar and a seventh Vietnam-Singapore park in Viet Nam
Beyonics Technology	Singapore	Manufacturing	Malaysia	Opened a manufacturing campus in Johor

Source: UNCTAD–ASEAN Investment Report 2016 research, based on company information and media.

subsidiary in Cambodia in 2014, in 2015 Tan Chong Motors registered a new subsidiary in Thailand for regional operating headquarters functions and another in Viet Nam for sales, marketing and service support of certain automotive brands.¹⁷ In 2015, Insas acquired a 59 per cent stake in Roset Limousines Services (Singapore), Pharmaniaga acquired Errita Pharma (Indonesia), CIMB Group Holdings acquired Finansia Management (Thailand) and Bintai Kinden Corp acquired a 45 per cent stake in E+HPS (Singapore). Ocean Quarry and Construction, YTL, OCK and Teknik Janakuasa were involved in infrastructure projects in the region.

In 2015, YTL established a subsidiary (YTL Cement Myanmar) and plans to build a cement plant in that host country. In 2016, IHH held a ground-breaking ceremony to build a \$70 million hospital with a consortium of partners in Yangon (Myanmar), and Axiata (through a subsidiary) began building telecommunication towers in that host country. Pharmaniaga also announced that it is expanding in Indonesia by upgrading a manufacturing plant there.

Philippines companies

Ayala Corporation, which already has operations in Myanmar, announced plans to expand in that host country. United Laboratories established a \$13 million joint venture in Myanmar in 2015 to develop personal care products. Metro Pacific Investments Corporation, through its subsidiary in Viet Nam, acquired a 41 per cent stake in CII Bridges and Roads Investment JSC (Viet Nam). Aboitiz Power won a contract with other consortium partners to build the East Java geothermal power plant in Indonesia.

Singaporean companies

Surbana International expanded its activities in Myanmar in 2015 with various project management contracts involving design service and project management of Yangon's first integrated bus terminal, development of the i-Land Park in Bogo and development of a 22-storey serviced apartment in Yangon. Soilbuild and Tiong Aik expanded their business operations in the property and construction industry to other ASEAN Member States. Oxley Holdings, a property developer, established a subsidiary in Myanmar in 2015. The company announced plans to build a 20-storey commercial and residential development in Yangon, and a residential and commercial development in Batam (Indonesia). Yongnam Holdings and Changi Airport International signed a framework agreement in 2016 to build the \$1.5 billion Hanthawaddy International Airport in Myanmar.

With various water and power plant projects in different ASEAN Member States, Sembcorp is investing in and developing a \$300 million 225 MW gas-fired power plant in Myingyan (Myanmar), to be completed in 2018. It has established Sembcorp Myingyan Power in Myanmar to undertake the project. The group and its joint venture partners are developing the seventh Vietnam-Singapore Industrial Park (VSIP) in Nghe An, following a ground-breaking ceremony in September 2015. The VSIP has attracted \$7.9 billion of investment capital from more than 580 companies to Viet Nam.¹⁸ The company is also building an integrated port and industrial estate in Indonesia. CapitaLand entered into a joint venture with a local partner in late 2015 to develop Sembcorp's eighth residential project in Viet

Nam. In June 2015 it established a joint venture with Thien Duc Trading-Construction Company to develop a \$140 million real estate project in the same location in Ho Chi Minh City. CapitaLand also added a portfolio of residential properties in 2015 in Cambodia, Indonesia, Malaysia, the Philippines and Thailand.¹⁹ OCBC opened a branch in Yangon and deepened its presence in Indonesia by opening a securities subsidiary in April 2015.

Thai companies

Thai companies in different industries have been active in the past few years in investing abroad, in particular in the CLMV countries, Indonesia and the Philippines. Market-seeking reasons and cost challenges at home have been the driving forces for Thai outward FDI (OFDI). Given the active Thai OFDI to a number of ASEAN Member States, the Thai Board of Investment is planning to open branches in Myanmar and Indonesia in 2017 to support Thai investments in these countries.

Dusit is building a new hotel in Yangon, which is expected to open in 2017. The company, which already has two hotels in Manila, is expanding further in the Philippines with a third one in Cebu, to commence operation in 2019. Thonburi Hospital Group and Bumrungrad Hospital are building hospitals in Myanmar through joint venture operations with local partners. Bangkok Hospital Group is also planning to expand into Myanmar's health care industry.

Ratchaburi Electricity signed a contract in 2015 with PTT (Thailand) to jointly invest in a \$400 million liquefied natural gas (LNG) terminal in Myanmar. It also announced an investment with PTT Energy to build a \$1.3 billion coal-fired power plant in Kyaing Tong (Myanmar) and with Global Power (another subsidiary of PTT) to build a power plant in Viet Nam.²⁰ Lumpoondum signed a memorandum of understanding in 2015 to build a 660 MW power plant in Shan State, and Toyo Thai won a concession to build a \$2.8 billion 1,280 MW coal-fired plant in Mon State (Myanmar). United Power signed a power purchase agreement in 2016 to supply electricity from a 200 MW gas-fired power plant in the Dawei SEZ (Myanmar) that it is building. Italian-Thai Development and Rojana Industrial Park PCL are developing the first phase of the Dawei SEZ. The former also announced plans to develop a \$500 million LNG terminal at the SEZ. Banpu, with Ratchaburi Electricity, is building power plants in Indonesia and the Lao People's Democratic Republic. Charoen Pokphand and its consortium partners won the contract to build and operate the \$14 billion Kyaukphyu SEZ in Myanmar.

SCG Logistics, a subsidiary of Siam Cement Group (SCG), announced plans in 2016 to further develop its regional logistics networks in ASEAN. It plans to establish and expand transportation networks in the Greater Mekong Subregion countries and Indonesia, including establishing logistics companies in Cambodia, the Lao People's Democratic Republic and Myanmar.²¹ SCG continued to expand cement plant operations in ASEAN. SCG has constructed a \$356 million plant in Indonesia and another \$400 million plant is being constructed in Myanmar in 2016, and a plant in the Lao People's Democratic Republic is expected to commence operation in 2017. The group has also been opening showrooms and construction materials retail stores in Indonesia and Myanmar in 2015–2016. With local

partners, Siam City Cement established a \$150 million joint venture company in Cambodia in 2015 to construct and operate a cement plant and related businesses in the host country. It is also exploring opportunities to invest in new cement plants in Myanmar, the Lao People's Democratic Republic and Viet Nam.

Other Thai companies have also increased their regionalization operations. For instance, TrueIDC opened a \$1 million data centre at the MITC Park in Yangon in 2015 and plans to expand cloud service into Cambodia and Viet Nam in 2016 and into Indonesia in 2018.²² Thai Tex opened a \$5 million rubber treatment and purification plant with a local partner in Myanmar. Toa Paint started construction of factories in Cambodia, Indonesia and Myanmar in 2015. Major Cineplex is opening cinemas in the Lao People's Democratic Republic. The company plans to open 30 screens in the host country over the next three years.²³

With growing Thai OFDI in the region, Thai banks continued to increase their presence in the region to better serve their clients. For instance, Kasikorn Bank further expanded in the region by establishing two representative offices in Viet Nam in 2015, Bangkok Bank opened a branch in Cambodia in 2015 and Siam Commercial Bank opened a branch in Ho Chi Minh City in 2016.

Vietnamese companies

Companies from Viet Nam continue to be active in investing in neighbouring countries (ASEAN Secretariat and UNCTAD 2015). The Bank for Investment and Development of Vietnam in 2016 received a banking license to operate in Myanmar. Viettel received approval in 2015 to operate in Myanmar and announced that it will invest \$800 million in a telecommunication project with other partners. Vinamilk started construction of a joint-venture milk manufacturing plant in the Phnom Penh SEZ (Cambodia) in 2015.²⁴ The plant started operation in 2016. The Vietnam Rubber Group opened a rubber latex processing plant in Cambodia in 2015.

In 2015, Hoang Anh Gia Lai invested in a number of business activities in the Lao People's Democratic Republic, including a cow breeding business, rubber and oil palm plantations and a \$523 million investment in a kali salt mining project.²⁵ In 2015, it completed the construction of the \$36 million Attapeu International Airport in the Lao People's Democratic Republic and the \$550 million HAGL Centre in Myanmar. In 2016, the Hoang Anh Gia Lai Group started construction of the second phase of the HAGL Centre in Myanmar and will start operation of a luxury hotel with Melia Hotels (Spain) at the centre.

Foundation Engineering and Underground Construction was awarded a port contract in 2015 for the expansion of the Myanmar International Terminals at Thilawa. It has also established a joint venture company with a local partner in that host country. Dong A Shipbuilding Joint Stock Company entered into a joint venture agreement with the Myanmar Ministry of Transport in early 2015 to establish a shipbuilding company in the country. PetroVietnam completed construction of a \$100 million exploration rig in Brunei Darussalam in 2015.

* * *

ASEAN companies are not just investing in the region through greenfield projects. Intra-ASEAN M&A purchases have grown significantly in recent years, which implies the increasing use of M&As as a strategy for accessing markets or natural resources or for strategic reasons.

The three largest M&A deals in the region in 2015 were done by ASEAN companies (annex table 1.2 and table 1.9). These mega deals by a Singaporean, an Indonesian and a Thai company collectively totalled \$5.9 billion, which accounted for 29 per cent of all cross-border M&A sales in ASEAN last year and 74 per cent of total intra-ASEAN M&A sales. They include the acquisition by United Fiber System (Singapore) of a 67 per cent stake in Golden Energy Mines (Indonesia) for \$2.3 billion, the acquisition by Pertamina (Indonesia) of a 30 per cent stake of Murphy Oil Corporation's (United States) oil and gas assets in Malaysia for \$2 billion and the acquisition by Bank of Ayudhya (Thailand) of the Bank of Tokyo-Mitsubishi UFJ operation in Thailand for \$1.5 billion.

Table 1.9.
ASEAN companies continued to expand regionally through cross-border M&As, 2015 (selected cases) (Millions of dollars and per cent)

Ultimate acquiring company	Ultimate acquiring nation	Target company	Target nation	Target industry	Value	Shares acquired
United Fiber System	Singapore	Golden Energy Mines	Indonesia	Bituminous coal and lignite surface mining	2,336	67
PT Pertamina	Indonesia	Murphy Oil Corporation	Malaysia	Crude petroleum and natural gas	2,000	30
Bank of Ayudhya	Thailand	Bank of Tokyo-Mitsubishi UFJ Ltd - Bangkok, Thailand Branch	Thailand	Banks	1,550	100
EG Industries	Malaysia	WE Holdings	Singapore	Electronic components, nec	154	10.22
Bangchak Petroleum	Thailand	Galoc Production	Philippines	Crude petroleum and natural gas	108	100
Ayala Corporation	Philippines	MCT	Malaysia	Packaging paper and plastics film, coated and laminated	92	23.79
Golden Agri-Resources	Singapore	Billford Investment Corporation	Malaysia	Investors, nec	54	100
Chin Well Holdings	Malaysia	Asia Angel Holdings	Viet Nam	Machine tools, metal cutting types	29	100
Oriental Holdings	Malaysia	Surya Agro Persada	Indonesia	Forest nurseries and gathering of forest products	27	90
Creador	Malaysia	Bank Index Selindo	Indonesia	Banks	22	20
Gek Poh (Holdings)	Malaysia	Hafary Holdings	Singapore	Brick, stone and related construction materials	21	26.71
Electricity Generating	Thailand	Quezon Power	Philippines	Electric services	15	2
PSL Holdings	Singapore	PT Momentum Indonesia Investama	Indonesia	Marine cargo handling	12	49
Keppel Corporation	Singapore	Estella Joint Venture	Viet Nam	Land and real estate	11	43
mm2 Asia	Singapore	Cathay Cineplexes Sdn Bhd	Malaysia	Motion picture theaters, except drive-in	11	100
ISEC Healthcare	Singapore	Southern Specialist Eye Centre	Malaysia	Offices and clinics of optometrists	9	100
Silverlake System	Malaysia	SunGard Ambit	Singapore	Prepackaged software	9	100
Hotel Royal	Singapore	The Baba House	Malaysia	Hotels and motels	8	100
CIMB Group Holdings	Malaysia	Finansa Asset Management	Thailand	Investment advice	7	100
Zico Holdings	Malaysia	BACS	Singapore	Security brokers, dealers and flotation companies	6	100
CAB Cakaran Corporation	Malaysia	Tong Huat Poultry Processing Factory	Singapore	Poultry and poultry products	6	51

Table 1.9. ASEAN companies continued to expand regionally through cross-border M&As, 2015 (selected cases) (Millions of dollars and per cent) (concluded)

Ultimate acquiring company	Ultimate acquiring nation	Target company	Target nation	Target industry	Value	Shares acquired
iProperty Group	Malaysia	ThinkOfLiving.com	Thailand	Prepackaged software	6	100
Zico Holdings	Malaysia	Finova Singapore Pte Ltd, Finova Associates	Singapore	Business consulting services, nec	5	100
Asia United Bank Corporation	Philippines	Pinoy Express	Singapore	Functions related to depository banking, nec	4	100
Golden Land	Malaysia	Parimo Agri Holding	Singapore	Vegetable oil mills, nec	3	68.75
RYM Business Management	Philippines	Prime Media Holdings	Philippines	Investors, nec	3	44.6
Golden Land	Malaysia	Parigi Plantation Holding	Singapore	Vegetable oil mills, nec	2	68.75
Tembusu Industries	Singapore	Sinjia Land Ltd	Myanmar	Power, distribution and specialty transformers	2	100
YTL Corporation	Malaysia	Tanjung Jati Power	Indonesia	Electric services	2	80
Zico Holdings	Malaysia	Stamford Law Corporation	Singapore	Legal services	2	51
Intouch Holdings	Thailand	Playbasis	Singapore	Prepackaged software	2	15.36
CB Industrial Product	Malaysia	Manyangan Jaya	Indonesia	Forest nurseries and gathering of forest products	1	94
Xurpas	Philippines	MatchMe	Singapore	Prepackaged software	1	31.52
Rotary Engineering	Singapore	Orbit Terminal Merak	Indonesia	Petroleum bulk stations and terminals	1	10
Max's Group of Cos	Philippines	Global Max Services	Singapore	Business consulting services, nec	1	100
Golden Agri-Resources	Singapore	PT Duta Anugerah Indah	Indonesia	Television broadcasting stations	1	28.08
Insas	Malaysia	Roset Limousines Services	Singapore	Local passenger transportation, nec	1	59
Declout	Singapore	AWS Cambodia	Cambodia	Electronic parts and equipment, nec	1	55
Bintai Kinden Corporation	Malaysia	E+HPS	Singapore	Electronic parts and equipment, nec	1	45
GEMS Capital	Singapore	Pentamaster Engineering	Malaysia	Special industry machinery, nec	1	100
GEMS Capital	Singapore	Pentamaster Solutions	Malaysia	Investors, nec	1	100
IMC Oil & Gas Investments	Singapore	Yilgarn Petroleum Philippines	Philippines	Crude petroleum and natural gas	1	100

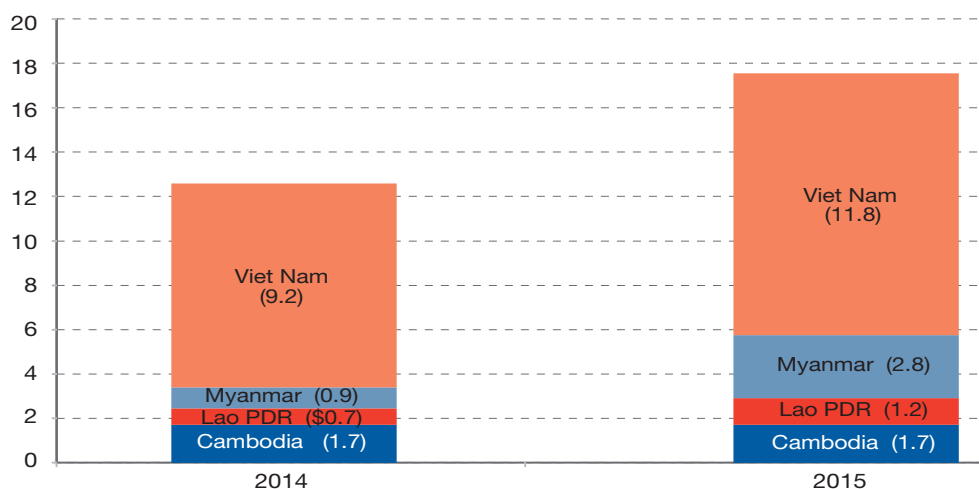
Source: UNCTAD M&A database.

1.6. CLMV countries

The CLMV countries continued to receive increasing attention from investors. With the exception of Cambodia, which saw flat FDI flows, the other Member States witnessed a strong increase in inflows in 2015. FDI flows in the CLMV countries rose by 38 per cent, from \$12.6 billion in 2014 to \$17.4 billion in 2015 (figure 1.7). Their share as recipients of FDI flows in the region rose from 10 per cent in 2014 to 14 per cent in 2015.

In general, investment in infrastructure, manufacturing and services rose. FDI from ASEAN remained an important source of investment for these Member States. In 2015–2016, some ASEAN companies started operations, announced new investments and expanded their presence in the CLMV countries (section 1.5).

Figure 1.7. FDI to CLMV countries, 2015
(Billions of dollars)



Source: ASEAN Secretariat, ASEAN FDI database.

Despite a five-fold increase in M&A sales in the CLMV countries (combined), the level of transactions remained small compared with those in the other major ASEAN Member States (e.g. Indonesia, Malaysia, Thailand) (table 1.10). Foreign investors are making increasing acquisitions in the CLMV countries, albeit in a limited environment for M&As. M&A sales are dominated by one or two major transactions in Cambodia, Myanmar and Viet Nam (table 1.11), which exemplifies the issue of lumpiness in analysing cross-border M&A trends in these countries.

Table 1.10.

Cross-border M&A sales in CLMV countries, 2014–2015
(Millions of dollars)

	2014	2015
Cambodia	185	313
Lao PDR	..	1
Myanmar	..	562
Viet Nam	105	897
Total CLMV	290	1,773

Source: UNCTAD M&A Database.

Table 1.11.

Cross-border M&A sales in Cambodia, Myanmar and Viet Nam, 2015
(Millions of dollars and per cent)

Ultimate acquiring company	Ultimate acquiring nation	Target company	Target nation	Target industry	Value	Shares acquired
Mondelez International	United States	Kinh Do Binh Duong JSC	Viet Nam	Cookies and crackers	370	80
Premier Education Holdings	Cayman Islands	The British International School	Viet Nam	Elementary and secondary schools	167	90
Warburg Pincus	United States	Vincom Retail Co Ltd	Viet Nam	Land subdividers and developers	100	..
Kirin Holdings	Japan	Myanmar Brewery Ltd	Myanmar	Malt beverages	560	55
Donaco International	Australia	Star Vegas Resort & Club	Cambodia	Hotels and motels	302	100

Source: UNCTAD M&A database.

Cambodia: FDI in finance leads, investment in manufacturing declines

China and ASEAN dominated investment in Cambodia in 2015. The former accounts for 32 per cent and the latter 25 per cent of FDI flows to the host country. Chinese companies dominate in FDI in manufacturing (48 per cent of total manufacturing FDI), and ASEAN investors lead in FDI in finance (30 per cent of investment in this industry).

FDI in finance and insurance activities rose from \$325 million in 2014 to \$515 million last year, overtaking manufacturing, which used to dominate inflows. The decline in FDI in garments and footwear contributed to the 14 per cent drop in manufacturing FDI, from \$524 million in 2014 to \$452 million in 2015. However, manufacturing FDI has become more diversified, with investment in light and non-garment manufacturing industries becoming more visible. Examples include foreign companies that have started production or are building new factories to produce electrical parts, automotive components and food and beverages (table 1.12).

Garments

In 2015, some garment factories were closed while new ones were opened in their place. Asian companies that continued to set up factories in 2015 and have been awarded approvals to operate include Crystal Group (Hong Kong, China), Shinih (Taiwan Province of China), Heng Yang Cotton and Plastic (China), Kanejyu (Japan) and Nakatora (Japan), which opened new factories in the country last year with production mainly for exports.

Light manufacturing industries

Denso (Japan) is expanding in Cambodia by building a second plant to produce magnetos and oil coolers, which is scheduled to start production in 2016.²⁶ The plant, estimated to cost \$19 million, is located in the Phnom Penh SEZ. The production from the new plant will be exported to Denso (Thailand) for quality assurance, and then supplied to the motorcycle and automotive industry in Thailand and in other ASEAN Member States. The connection between Denso operations in Thailand and Cambodia provides evidence of increasing regional production networks involving MNEs and of division of labour in the region.

Similarly, NHK Spring (Japan), through its subsidiary in Thailand, established a joint venture with Chai Watana (Thailand) in 2015 to sew fabric and leather seat covers for the automotive industry. The joint venture plant in Poipet SEZ started operation in 2016 with production aimed for export to Thailand. NHK Spring is a Toyota supplier.

Other automotive part and component manufacturers are also setting up factories in Cambodia's industrial zones near Thailand because of low labour costs and proximity to customers based in Thailand. Yazaki (Japan) in 2015 announced plans to expand further in Cambodia with additional production facilities. Sam Chai Steel (Thailand) is planning to build a factory in the same industrial zone. Tata and Bajaj Auto (both from India) are setting up automotive parts and components manufacturing facilities. Bajaj has started construction of a \$2 million plant, and Tata is planning to set up a plant in Sihanoukville SEZ in 2016. Toyota (Japan) is building a new facility in 2016, which will include a showroom, office, warehouse and training centre.

Table 1.12.
Cambodia: Foreign companies started operations and building factories in the Phnom Penh SEZ, 2014–2016 (selected cases)

Company	Nationality	Industry	Market orientation	Start of operation
Taiyo Kogyo	Japan	Flexible container bags	Export	February 2014
Stratco Cambodia	Australia	Metal building materials	Export	February 2014
CH Steel Wire Industries Cambodia	Malaysia	Wire mesh	Domestic	April 2014
Laurelton Diamond	United States	Diamond polish	Export	May 2014
Nikko-Kinzoku Cambodia	Japan	Lost-wax casting	Export	June 2014
Meikodo Cambodia	Japan	Pins	Export	June 2014
Kousei Plastic	Taiwan Province of China	Plastic products	Export, domestic	September 2014
Take off Cambodia	Japan	Stuffed animals	Export	November 2014
Rohto-Mentholatum	Japan	Eye drops	Domestic	December 2014
Heiko Cambodia	Japan	Packaging products	Export, domestic	December 2014
Printe Cambodia	Japan	Electrical parts	Export	January 2015
Shinh Cambodia	Taiwan Province of China	Non-woven fabric	Export	January 2015
Yi Zhixin Non-Woven Shinh Cambodia	Taiwan Province of China	Non-woven fabric	Export	January 2015
Midori Technopark Cambodia	Japan	Automobile interior trim	Export	February 2015
Heng Yang Cotton and Plastic	China	Thread	Export	February 2015
Kanejyu Cambodia	Japan	Garments	Export	May 2015
Artnature	Japan	Hair pieces	Export	May 2015
Rokko Phoenix	Japan	Shoes	Export	June 2015
Ruey Chang Cambodia	Taiwan Province of China	Jewelry carving	Export	June 2015
Nakatora Cambodia	Japan	Garments	Export	August 2015
Betagro Cambodia	Thailand	Animal feed	Domestic	August 2015
Kuipo Cambodia	Japan	Leather bags and wallets	Export	August 2015
Okato Cambodia	Japan	Household production	Export	September 2015
Angkor Dairy Products	Viet Nam, Cambodia	Dairy products	Domestic	October 2015
YHS (Cambodia) Food & Beverage	Singapore	Food and beverage	Export, domestic	Factory construction ongoing
Aprati Foods Cambodia	United States	Candy	Domestic	Factory construction ongoing
Cambodia Beverage	United States	Food and beverage	Domestic	Factory construction ongoing
Yamaha Motor Cambodia	Japan	Motorbike assembly	Domestic	Preparing factory construction
Medipro Cambodia	Japan	Medical garments	Export	Preparing factory construction
Hosiden Cambodia	Japan	Connectors	Export	Preparing factory construction
Winsun Cambodia	Cayman Island	Sanitary production	Export	Preparing factory construction
SVI Public Cambodia	Thailand	Electronics and electrical products and parts	Export	Preparing factory construction
Toyota Cambodia	Japan	Bonded warehouse	Domestic	Preparing factory construction
Masakatsu Kouzai	Japan	Construction material	Export	Processing application registration
Yamato Printing	Japan	Packaging and paper products	Export	Processing application registration
Thai President food	Thailand	Instant noodles	Export	Processing application registration
Wing Corporation	Japan	Dietary supplement	Export	Processing application registration
Sankei Engineering	Japan	Precision parts	Export	Processing application registration

Source: UNCTAD–ASEAN Investment Report 2016 research, based on information of Phnom Penh Special Economic Zone.

Toyota Tsusho (Japan) is building a Techno-Park in a new SEZ in Poipet, Cambodia, with a local partner. The Japanese company plans to encourage some auto parts and component manufacturers affiliated with Toyota Motors to operate in the industrial park.²⁷ Siam Cement Group (Thailand) started its second production line in 2015 at its existing facilities in Kampot. The Group announced plans to invest \$200–300 million in Cambodia over the next five years. In addition, Siam City Cement (Thailand) entered into a joint venture in 2015 with a local company to operate a cement plant in the host country.

Coca-Cola (United States) is building a \$100 million plant, its second in the country, in the Phnom Penh SEZ. It is expected to start operation in July 2016. The first phase of the investment will include four production lines, a showroom, an office building, a product warehouse and a water treatment facility.

Chinese companies are also active in Cambodia. Rui Feng International opened a \$360 million sugar mill in 2016 and plans to invest up to \$1 billion by expanding in sugarcane plantations and building an ethanol factory and a fertilizer plant.²⁸ Betagro (Thailand) opened a manufacturing facility in 2016 for production of animal feed for local market and exports.

Sumitomo (Japan), through its subsidiary Sumitronics, is setting up an electronics manufacturing services (EMS) operation in the host country, which will target Japanese manufacturers operating in Thailand. The EMS operation is expected to commence in October 2016.

Retail

Dairy Farm International, a member of Jardine Matheson (Hong Kong, China), through its subsidiary Giant is opening its first supermarket outlet in Phnom Penh and is planning a second one in the Parkson Mall, owned by the Lion Group (Malaysia). AEON (Japan) opened its first mall in the host country in 2014 and is building its second one in Phnom Penh, scheduled to open in 2018. Owndays (Japan), a retail store for eyewear, opened stores in the country last year. Starbucks (United States), through franchise arrangements, established a presence in the host country in 2015, and Commonwealth Capital (Singapore) opened restaurants in Cambodia that year.

Infrastructure

South East Asia Telecom Group (China), through its subsidiary in Singapore, announced plans to expand in Cambodia in 2015, with a \$400 million investment in telecommunication infrastructure. It has already invested \$100 million in upgrading the Cambodian subsidiary's networks.²⁹ The \$500 million 338 MW Russei Chrum Krom hydropower dam built by Huadian (China) started operation in 2015. CITIC Heavy Industries (China) won an EPC contract in 2015 to build a \$262 million cement plant in the country. Rojana (Thailand) announced that it is planning to build an industrial park in Cambodia. Sumitomo Mitsui (Japan) and Swing Corporation (Japan) won a contract in 2016 to construct a waterworks system in the host-country.

Lao People's Democratic Republic: Investment in infrastructure continues to dominate

China is the largest investor in the Lao People's Democratic Republic at 62 per cent of FDI flows, followed by ASEAN as a whole, which accounted for another 21 per cent. Infrastructure remained the key recipient of FDI in the country, in particular electricity projects. This industry accounted for more than 50 per cent of inflows in 2015 and was dominated by investment from China, which accounts for 77 per cent of investment in the industry. FDI in manufacturing remained small, but investment in finance activities rose by 240 per cent due to a significant rise in such investment by ASEAN companies. Many Asian companies, including those from other ASEAN Member States, are investing and building and won contracts in 2015 to develop infrastructure in this host country.

Infrastructure

Companies such as China International Water and Electric Corporation, China Huadian, China Electric Power Technology Import and Export Corporation, China Machinery Engineering Corporation, Hoang Anh Gai Lai (Viet Nam), Banpu (Thailand) and Ratchaburi Electricity (Thailand) are building power plants in the host country. In 2015, some power projects built by foreign companies started commercial operations. Other power projects involving Viet-Lao Power (Viet Nam), Energy Development (Norway), Far East Industrial (Hong Kong, China) and China Electrical Equipment Corporation are expected to commence operations in 2016 (table 1.13).

The completion of these power plants involved the participation of many other EPC MNEs and financiers. For instance, nine Thai commercial banks were involved in providing financing for the Thai majority-owned \$3.7 billion Hongsa plant, completed in 2015. These banks include Bangkok Bank, Siam Commercial Bank, Krungthai Bank, Kasikorn Bank, Export-Import Bank of Thailand and TMB Bank, which have a presence in other ASEAN Member States. Chinese MNEs such as China National Electric Equipment Corporation, Harbin Power Engineering, Harbin Turbine and Harbin Electric Machinery participated as the EPC companies for the construction of the plant. ABB (Switzerland) supplied the equipment and control system and was responsible for commissioning.

In 2015, Impact Energy Asia (Thailand) announced plans to build the largest wind farm in ASEAN in the Lao People's Democratic Republic at an estimated value of \$1.5 billion. The farm is expected to start operation in 2019. China Machinery Engineering Corporation is constructing two power transmission lines in the country. Hazama Ando (Japan) is involved with the \$61 million Wattay Airport expansion, which is targeted for completion in 2018. In 2015–2016, Chinese companies such as the China Railway Group are starting to build railway projects in the country; Yunnan Provincial Energy Investment Group is investing in a \$120 million cement factory to support infrastructure activities, including the construction of the China–Lao People's Democratic Republic railway project; and Yunnan Hai Cheng, a Chinese developer, is investing in developing the Boten Special Economic Zone.

Table 1.13. Lao People's Democratic Republic: Power projects with completed date of delivery in 2015–2016

Project	Location	Installed capacity (MW)	Investors (sponsors)	Value (\$ millions)	Date operations began	Planned market
Nam Ngiep 2	Xiangkhouang	180	Electricité du Laos (Lao PDR) 20% China International Water & Electric Corporation (China) 80%	345	2015	Lao PDR
Hongsa	Xayaboury	1,878	Lao Holding State Enterprise 20% Banpu (Thailand) 40% Ratchaburi Electricity Generating (Thailand) 40%	3,710	2015	Thailand Lao PDR
Nam Ou 2	Luangphabang, Phongsaly	120	Electricité du Laos (Lao PDR) 15% Sinohydro (China) 85%	..	2015	Lao PDR
Nam Ou 5		240			2015	
Nam Ou 6		180			2015	
Nam Kong 2	Attapue	66	Hoang Anh Gai Lai JSC (Viet Nam) 100%	..	2015	Lao PDR
Xekaman 1	Attapue	322	VLP (Viet Nam) 100%	..	2016	Viet Nam Lao PDR
Nam Sim	Houaphanh	8	ECI (Lao PDR) 25% Energy Development (Norway) 75%	..	2016	Lao PDR
Nam Mang 1	Bolikhamxay	64	Electricité du Laos (Lao PDR) 15% Far-East Industrial (Hong Kong, China) 85%	..	2016	Lao PDR
Nam Beng	Oudomxay	34	China Electrical Equipment Corporation 100%	..	2016	Lao PDR

Source: Lao People's Democratic Republic, Ministry of Energy and Mines.

Manufacturing

FDI in manufacturing remains small – less than \$70 million in 2015. Companies such as Coca-Cola (United States) and Mitsubishi Materials Corporation (Japan) established plants in 2015. The former produces soft drinks for the local market while the latter manufactures thermistor sensors to export abroad. These are in addition to Japanese companies such as Toyota Boshoku, Mitsubishi Materials, Nikon, Minebea and Siam Cement (Thailand) that are already operating in the country (ASEAN Secretariat and UNCTAD 2015). Many of these companies are connecting their manufacturing activities in the Lao People's Democratic Republic with their operations based in other ASEAN Member States such as Thailand.

Tri Petch Isuzu, a subsidiary of Mitsubishi Corporation based in Thailand, opened a representative office in the Lao People's Democratic Republic in 2016 because of the host country's market potential.

Retail

Major Cineplex Group (Thailand) plans to have 30 screens in the host country. Siam Makro, a supermarket chain, owned by CP (Thailand) announced plans in 2016 to invest in the Lao People's Democratic Republic. A Lao-Thai consortium is building a duty-free mall in Vientiane.

Myanmar: Increase FDI flows and increasing investor interests across all sectors

Myanmar saw a huge surge in FDI inflows in 2015, influenced by a rise in investment in various economic sectors. In particular, foreign and ASEAN companies continued to invest and expand their activities in manufacturing, infrastructure and extractive industries. The opening of the services industry, such as in finance, has also received strong interest from investors looking to establish a presence in this host country.

Manufacturing

In 2015–2016, more companies set up operations or expanded in Myanmar in various types of manufacturing activities. Suzuki (Japan) constructed a new plant in 2015 to produce automotive parts. Koyo Radiator (Japan) established a plant in 2015 and APM (Malaysia) plans to open a manufacturing facility in the host country. Nissan is building a new manufacturing plant in Bago and will begin assembly of new cars in 2016. Chinese companies such as Beijing Automotive Industry Holdings and Dong Feng Motor Group plan to establish a presence in Myanmar.³⁰

Mitsui (Japan) and Behn Meyer (Germany) established a joint venture with Myanmar Agribusiness Public Corporation to manufacture and distribute fertilizer in the country. The joint venture company, established in 2016, will build a \$10 million fertilizer plant. With a local partner, China CAMC Engineering is building a rice mill, which will be operational by 2017.

Millcon Steel (Thailand), together with General Engineering (Thailand) and a local partner, established a steel production facility in the Thilawa SEZ in 2016. Zenner International (Germany) has set up a joint venture to assemble and calibrate water meters. ThyssenKrupp (Germany) and ABB (Switzerland) opened an office each in Yangon in 2015.

Mitsubishi Corporation and a local partner established a joint venture in 2015 to invest \$200 million over the next three years to manufacture and distribute food in ASEAN. Yakult Honsha (Japan) is building a manufacturing plant in the Thilawa SEZ for the production of fermented milk drinks. Ajinomoto (Japan) announced plans in April 2016 to invest \$10.6 million in a new production facility. Carlsberg (Denmark) opened a \$75 million brewery with a local joint venture partner in May 2015. Heineken (Netherlands) opened a brewery plant also through a joint venture.³¹ Kirin (Japan) bought a 55 per cent stake in Myanmar Brewery, and Yum Brand (United States), through a franchise arrangement, opened a KFC store in 2015.

The garment industries have witnessed rapid growth in recent years, dominated by investment from Asian garment and textile companies. In 2015, China, Hong Kong (China), Japan and the Republic of Korea dominated the announced approved projects (table 1.14). More garment companies received investment approvals in 2015 to set up factories. Some of these companies include Zhongrun, J-Land, JOC, Jia Mein and Heshan, which are all Chinese firms. Indorama Ventures (Thailand) announced plans to invest in Myanmar, and Wacoal (Japan) aims to start production in late 2016. Some foreign companies with local registered names such as Cheung Hing (Hong Kong, China), Hope One (Japan), Parfun (Thailand), Myanstar (Republic of Korea) and Actex International (Hong Kong, China) are expanding their activities in the host country.

Infrastructure and real estate

VPower (Hong Kong, China) started to build its first gas-fired power plant in Kyaukphyu in 2015. Electricité de France signed an MOU with the Myanmar authority in December 2015 to build a \$1.4 billion 1,050 MW hydropower project in Moe Meik. Mitsubishi (Japan) and J-Power (Japan) are building a coal-fired power plant in Ayeyarwady region. Marubeni (Japan) is building a \$1 billion 400 MW gas-fired power plant in Thanlyn, to be completed by 2019. Daewoo (Republic of Korea) and its consortium announced plans to build a \$2.5 billion 1,230 MW coal-fired power plant in Rakhine State. Vestas (Denmark) and a local partner are developing a 32 MW wind power project in Mon State. Sembcorp (Singapore)

Table 1.14.

Myanmar: Asian companies dominate in garments and textiles operations, 2015 (selected cases)

Company	Country of origin	Company	Country of origin
Tough Way Garment	China	Fulltex	Hong Kong, China
Wan He Garment	China	Great Lucky Star Garment	Hong Kong, China
Qiyang Fashion	China	Kakado Myanmar	Hong Kong, China
Textile Palace	China	Smooth World International	Hong Kong, China
Xiang Yi Industrial	China	J&J Garment	Hong Kong, China
JOC	China	Asia Vista Manufacturing	Japan
Jai Mei Garment	China	Fukuyama Apparel	Japan
HeShan	China	Pathein Just	Japan
Zhongrun	China	Seinus Cliq Fashion	Republic of Korea
Dongtai	China	J-Land	Republic of Korea
Longsheng Fashion	China	Musung Garment	Republic of Korea
Cheng Zhang Garment	China	K-World	Republic of Korea
Newtop Myanmar	China	World Apparel Manufacturing	Republic of Korea
Cheung Hing	Hong Kong, China	Arao	Republic of Korea
Fook Hing	Hong Kong, China	Global Apparel Textile	Singapore

Sources: Media and DICA, Myanmar.

Note: Name of company is based on locally registered name in Myanmar.

is building a \$300 million 225 MW gas-fired power plant at Myingyan, which is expected to be completed by 2018. Sumitomo Corp (Japan) won contracts to build \$41 million worth of thermal power plants to supply the Thilawa SEZ. The plants are expected to start operation in 2016. The company is also building a \$300 million gas-fired power plant in Mandalay to be completed in 2017.

The construction of the Hanthawaddy International Airport by a consortium of Yongnam Holdings (Singapore), Changi Airport Planners and Engineers (Singapore) and JGC Corporation (Japan) will commence in 2016 and be complete by 2020. Mitsubishi Corporation (Japan) and Hitachi (Japan) signed a \$20 million contract in 2015 to supply and install railway signalling systems.

MIRAIT Technologies Corporation (Japan) established a subsidiary in 2016 to construct mobile communication equipment. Windsor Holdings (Singapore) won a contract to construct 500 mobile phone towers for Ooredoo (Qatar). In December 2015 OCK (Malaysia) and its Myanmar partner signed an agreement with Telenor (Norway) to build 3,000 telecommunications towers over a five-year period. OCK plans to invest \$75 million initially to build 920 telecommunications towers to be delivered in 2016 to Telenor.

A consortium led by CITIC (China) won two contracts in late 2015 to develop a deepwater port and an industrial zone at the Kyaukphyu SEZ.³² The other partners in the consortium include CP Group (Thailand), China Harbour Engineering, China Merchants Holding, TEDA Investment Holding (China) and Yunnan Construction Engineering (China) (see table 1.5). Toyo Construction (Japan) and JFE Engineering (Japan) are building a \$118 million container terminal at Thilawa port, which is scheduled for completion in 2018.

Lotte E&C and Halla (Republic of Korea) entered into a joint venture with a local partner to build the new \$620 million Yangon Urban Expressway Development. Other companies such as Energy China are building a hydropower plant, and Hubei Electric Engineering (China) completed construction of a power transmission line.

Accorhotels (France) announced plans to expand the group's operation from its current three hotels to nine by 2019. The fourth hotel from the group is to be built later in 2016. Best Western (United States) opened a hotel in Mandalay in 2015, and Summit Parkview Hotel (Singapore) constructed a new wing for its existing property in Yangon. Melia Hotels (Spain) started operation in 2015 at the recently completed Myanmar Centre by HAGL (Viet Nam).

Extractive industries

FDI in oil and gas and in mining of minerals was active in 2015 and 2016. In a joint venture project, Wanbao (China) is constructing a copper mining operation in Letpadaung. The mine is expected to start production in 2016. Tap Oil Limited (Australia) signed an exploration agreement in 2015 and assumed operation of a production-sharing contract for the shallow-water Block M-7 in the Moattama Basin, offshore in Myanmar. Reliance Industries (India) entered into two production-sharing contracts with the Government of Myanmar,

and Eni (Italy) and PetroVietnam entered into production-sharing contracts in exploration and development of offshore blocks in 2015.

Petronas (Malaysia), Chevron (United States) and Royal Dutch Shell (Netherlands) started exploration in their fields in 2015.³³ Royal Dutch Shell and Mitsui Oil Exploration (Japan) signed a production-sharing agreement with Myanmar Oil and Gas Enterprise in February 2015. BG Group (United Kingdom) and Woodside Energy (Australia) started exploration on deepwater blocks awarded to them. They each plan to invest up to \$1 billion in their exploration activities in these blocks. Other companies such as Total (France), Foresight Group (Canada), Statoil (Norway) and ConocoPhillips (United States) signed production-sharing contracts on oil and gas blocks with the authority in 2015. Guangdong Zhenrong Energy (China) received approval in 2016 to build a \$3 billion refinery with local partners while Interra Resources, based in Singapore, completed drilling of oil and gas at the Chauk field in 2015. Titeline Valentis (Australia) plans to invest \$27 million in providing exploration drilling services to the mining sector. In 2015, it commenced exploration and mining services and drilling service for a gold-mining project in Singu, Myanmar. PanAust Group (Australia) was awarded three exploration licenses in January 2016 for prospecting for and mining copper and gold.

Services

QNET (Hong Kong, China) opened its first direct selling office in Yangon in 2015 and the second one in Mandalay in 2016. Through a franchise arrangement involving Jardine Restaurant Group (Hong Kong, China) and a local partner, Pizza Hut opened its first restaurant in Yangon in 2015 and aims to have 20 outlets by 2020.

Rice Communications (Singapore) and Bell Pottinger (United Kingdom) each established an operation in Yangon in 2015. In the same year, Ford opened a second showroom and a service centre in Mandalay, BASF (Germany) opened a representative office and Panalpina (Switzerland) opened a logistic office in Yangon. TUEV Rheinland Group (Germany), a provider of technical, safety and certification services, established a presence in Myanmar. Comsoft (Germany) established a joint venture in 2015 with a local partner to provide aviation technology and consultancy services. Saha Group (Thailand) expanded in Myanmar with a local partner in logistics and warehouse businesses.

Thonburi Hospital Group (Thailand) announced plans in 2015 to build two hospitals in Yangon with a local joint venture partner. The joint investment is estimated at about \$100 million.

Banking and finance

Sumitomo Mitsui Banking Corporation (Japan), Bangkok Bank (Thailand), United Overseas Bank (Singapore), Malayan Banking (Malaysia), Bank of Tokyo-Mitsubishi UFJ (Japan), Mizuho (Japan), Industrial and Commercial Bank of China, Oversea-Chinese Banking Corporation (Singapore) and Australia and New Zealand Banking Group each opened a branch in Myanmar in 2015.

Having issued banking licenses to nine foreign banks in late 2014, Myanmar granted preliminary licenses in the first quarter of 2016 to the Bank for Investment and Development of Vietnam, State Bank of India, Sun Commercial Bank (Taiwan Province of China) and Shinhan Bank (Republic of Korea). In 2015, the authority also issued representative office licenses to other foreign banks, including Bank Negara Indonesia, Taishin International Bank (Taiwan Province of China), Ho Chi Minh City Development Joint Stock Commercial Bank (Viet Nam) and Qatar National Bank.³⁴ The Bank of China opened a representative office in September 2015. Visa (United States) opened an office in Yangon in 2015.

In insurance, Dongbu Insurance (Republic of Korea) opened a branch in 2015. New India Assurance and Metlife (United States) each opened a representative office. Jardine Lloyd Thompson, headquartered in the United Kingdom and a member of the Jardine Matheson Group (Hong Kong, China), also opened a representative office in September 2015.

Some ASEAN companies have announced significant investment plans to enter Myanmar in the next few years. For instance, Lippo Group (Indonesia) is planning to invest \$600 million to \$1 billion in a number of industries, including hospitality, health care and education services. Global Power Synergy (Thailand), together with its consortium partners, is building a 400 MW gas power plant in the Thilawa SEZ, and in 2015 MDR (Singapore) established a subsidiary for providing graphic design solutions and large-format digital inkjet production.

Viet Nam: strong manufacturing FDI

FDI flows to Viet Nam rose by 28 per cent to \$11.8 billion in 2015, dominated by Asian investors (in particular the Republic of Korea and ASEAN). Some 67 per cent of FDI flows last year were in manufacturing and were led by Korean investors.

Strong FDI in manufacturing and a number of big-ticket projects helped Viet Nam sustain strong inflows of FDI in 2015. These big projects include the investment expansion facilities of Samsung (Republic of Korea) and LG (Republic of Korea), the investment of PTT (Thailand) and Saudi Aramco in a \$22 billion petrochemical and oil refinery project, the 2,640 MW BOT Van Phong Thermal Plant I and the \$5 billion real estate development in Ho Chi Minh City by two Korean companies, Eunsan Group and Oue Group.

Korean companies have played a significant role in the rapid rise in Viet Nam's manufacturing FDI (see chapters 2 and 5). Such companies include Samsung, LG Electronics, Kumho Tire, Lotte and the many Korean MSMEs that followed their clients to the host country. In 2015, the Lotte Group was involved in a \$250 million coffee plantation project in the host country, while Samsung and LG continued to expand their presence with additional manufacturing facilities and new plants – transforming Viet Nam into their major global hub for production and export of mobile phones and some other consumer electronics goods. Samsung has announced plans for a \$3 billion investment expansion to establish facilities for production of display modules. LG Electronics, through its subsidiary LG Display Group, is expanding its presence in Viet Nam by building another \$1.5 billion plant to produce digital displays. The plant is expected to start operation in 2017. In 2015 LG opened a \$1.5 billion plant to

produce digital devices and electronics in Hai Phong. Korea Electric Terminal invested in a \$5 million new plant for production of connectors and wire harnesses.

Japanese companies, such as Panasonic and Canon, that have operations in other ASEAN Member States are also expanding in Viet Nam. Yazaki and Bridgestone started operations in the country in 2015, and Asahi Kasei established a subsidiary in 2016 to produce plastic parts for the automotive industry.

Kenda Rubber Industrial Company (Taiwan Province of China) is building a second tyre factory in Myanmar, estimated to cost \$160 million. Sailun Jinyu (China) announced plans in 2015 to invest an additional \$200 million to produce tyres in the host country.

A number of textile and garment companies invested in Viet Nam in 2015–2016. They include Toray Industries (Japan), Dong-IL (Republic of Korea), Pacific Textiles Holdings (Hong Kong, China), Texhong Textile Group (Hong Kong, China), Far Eastern New Century Corp (Taiwan Province of China) and Jiansu Yulun Textile Group (China). Singtex (Taiwan Province of China), a high-tech fabric manufacturer and supplier to companies such as Nike and Timberland, opened a factory in the host country last year. Eclat Textile (Taiwan Province of China) announced plans to increase production capacity in Viet Nam with a \$50 million investment to upgrade two factories.

European and American MNEs are also expanding their activities in the host country. For instance, technology companies such as Nokia (Finland), Intel (United States) and Microsoft (United States) are investing in or expanding their presence in Viet Nam. Nestle (Switzerland) is building its sixth factory, estimated to cost \$70 million, to be completed by 2017. Cargill (United States) is expanding with another \$30 million investment to establish another animal feed mill and a \$10 million agreement with Saigon International Terminals Vietnam to establish dedicated warehousing facilities in Phu My port. Mercedes Benz (Germany) plans to develop two new assembly lines in 2016.

ASEAN companies have also been active in investing in the country. Semen Indonesia, which has had a presence in Viet Nam since 2012, announced plans in 2015 to further expand its operations in the country. It will increase capacity with a \$300 million investment in a new plant as part of its business expansion strategy in ASEAN.

Infrastructure and construction

Asian infrastructure and construction companies won more contracts in Viet Nam. They are dominated by ASEAN, Chinese, Korean and Japanese companies (table 1.5). A consortium led by Mitsubishi Corporation (Japan) and Doosan Heavy industries and Construction (Republic of Korea) and two local partners is building a coal-fired power plant in southern Viet Nam. Other Korean companies such as Daewoo and Posco are involved with infrastructure projects awarded in 2015 and 2016 (chapter 2).

ASEAN companies have been active in expanding into Viet Nam. Amata Corporation (Thailand), which already has a presence in the host country, is building an integrated

city-industrial estate. Its subsidiary, Amata Vietnam, received official approval in August 2014 to develop the \$530 million Amata City Long Thanh industrial park in Dong Nai.³⁵ MMC (Malaysia) through its subsidiary Teknik Janakuasa signed a build-operate-transfer agreement in December 2015 to build the \$2.4 billion Duyen Hai 2 power plant. The plant is expected to commence construction in 2016. Singapore companies such as Sembcorp are building industrial parks and Oxley Holdings is involved in real estate and commercial development in the host country.

Retail and hospitality

FamilyMart and Ministop from Japan, with a total of 130 stores in Viet Nam, will open 70 more outlets by 2016. 7-Eleven plans to launch its first store in the host country in 2017. Aeon (Japan) first entered Viet Nam in 2014 and announced plans in 2016 to build a fourth mall, estimated to cost about \$200 million, in the country. In 2015, Aeon also expanded its presence in the country through the acquisition of stakes in two major local retail chains (e.g. Fivimart and Citimart). Wyndham (United States) partnered with a local company to open a hotel in Quang Ninh province, scheduled for 2016. Korean retail company E-mart opened its first store while the Lotte Group continued its business expansion with Lotte Mart and Lotte Cinema in the host country.

Extractive industry

Gazprom (Russian Federation) and PetroVietnam received an approval in late 2015 to establish a \$1 billion joint venture to produce gas engines. A representative office was subsequently opened that year.

1.7. Conclusion

ASEAN remains a competitive and attractive destination for FDI. Surveys by international organizations and chambers of commerce and industry found that investor perception of the region has been largely and increasingly positive. Investors welcomed the launch of the AEC in 2015, and many plan to invest in or increase their investment in the rapidly integrating region over the next few years. Against this positive sentiment and with healthy corporate cash flows in the region – and barring external shocks and a change in the fragile state of the global economy – the outlook for higher FDI flows to ASEAN is promising.

Regional production networks involving intra- and inter-firm activities continued to strengthen, with MNEs based in some ASEAN Member States such as Singapore and Thailand operating as regional headquarters, continuing to make investments in other Member States (e.g. the CLMV countries). Some MNEs operating in Thai manufacturing industries are setting up production facilities in the CLMV countries because of nearer or easy transportation to their plants in Thailand. This development in how MNEs organize their production or supply chains provides further indications of the increasing use of a production network strategy by MNEs in ASEAN.

Last year witnessed a number of other significant FDI and MNE developments in the region. MNEs used equity capital more than ever before in financing FDI activities – suggesting a rise in new and expansion projects. ASEAN companies remained active investors in the CLMV countries. The growth in intra-ASEAN investment, including the rise in intra-ASEAN M&A activities, is boosting regional industrial and corporate connectivity. All these developments are contributing to strengthening the connectivity of ASEAN and deepening the commitment of MNEs to doing business with and in the region.

Notes

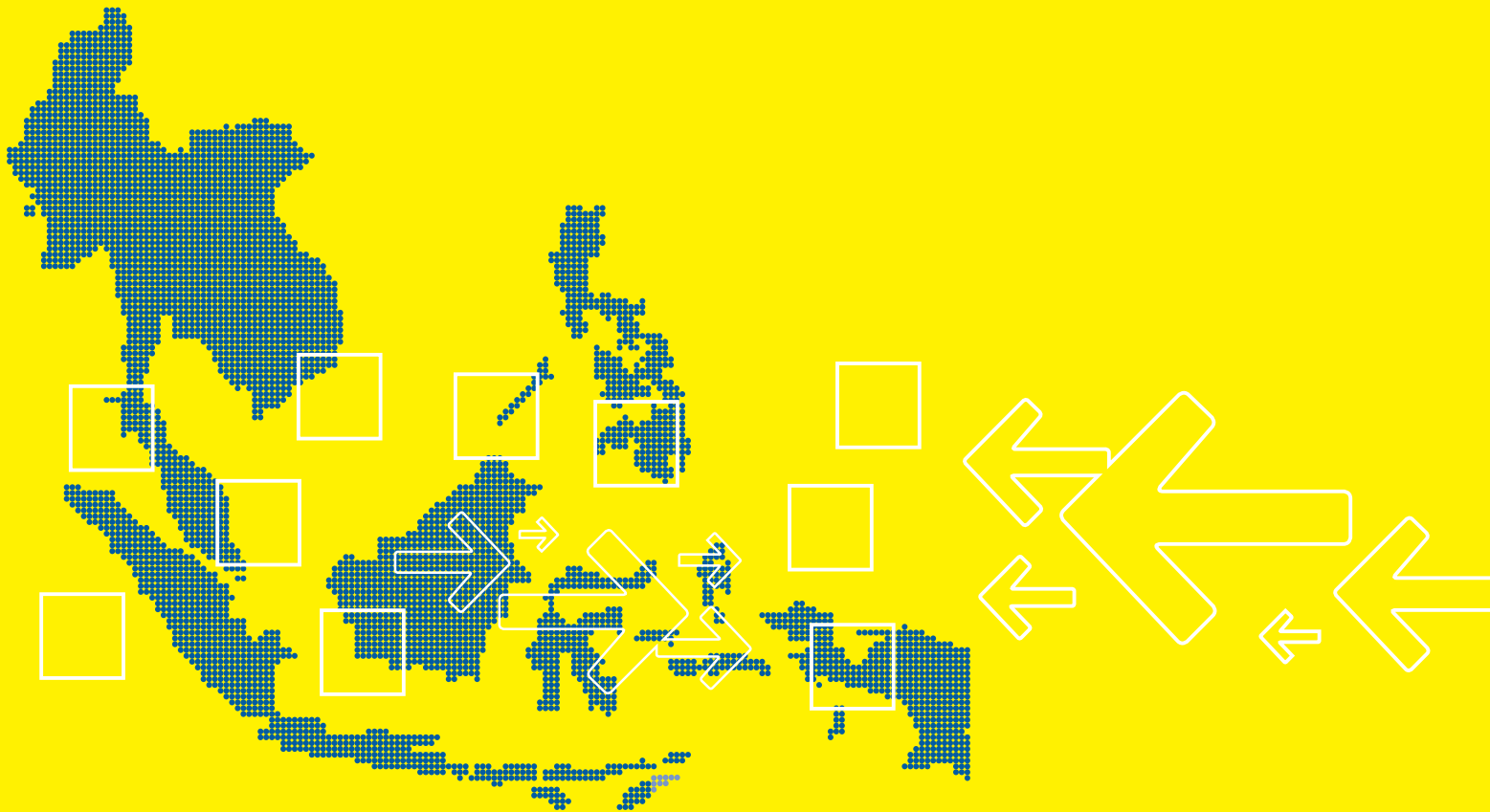
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PART TWO

SPECIAL ISSUE: FDI AND MNEs FROM SELECTED COUNTRIES

**(The Case of the Republic of Korea
and the United States)**



CHAPTER 2

KOREAN FDI AND MNEs IN ASEAN

2.1. Introduction

ASEAN is an important destination for Korean FDI, in particular for manufacturing, extractive and infrastructure-related activities. More than 3,770 Korean subsidiaries operate in ASEAN. Small and large Korean companies are expanding their presence in the region with a rapidly rising number of establishments. However, compared with other major investors in ASEAN, the total amount of Korean FDI is relatively small and concentrated in a few Member States.

The motivations of FDI by Korean companies in ASEAN vary, especially depending on the industries of the investment. Korean manufacturing FDI in the region is driven primarily by cost considerations (efficiency-seeking), which include high costs in the home-country and low wage cost in ASEAN, but at the same time other motives – such as market-seeking considerations – are also present. Especially for MSMEs; market-seeking factors include the need to follow customers or to operate close to customers in a host-country or in the region. Korean finance and retail companies have generally invested in ASEAN for market-seeking reasons. Korean FDI in extractive activities is driven by the need to secure access to natural resources, while Korean infrastructure-related companies invest in ASEAN to grow their market shares and to win contracts.

This chapter examines the trends in Korean FDI and MNEs in ASEAN. It also analyses key reasons that drive Korean companies to invest abroad, in particular in ASEAN, including the strategies they consequently pursue. The relationships between Korean MNEs and MSMEs,¹ and linkages with indigenous ASEAN suppliers and MSMEs are also examined.

2.2. Korean FDI position in ASEAN

ASEAN is a major destination for Korean outward foreign direct investment (OFDI). The region attracted about 16 per cent of all Korean OFDI worldwide and over 40 per cent of all Korean OFDI in Asia during 2010–2015. Box 2.1 describes four stages of development in Korean OFDI flows to ASEAN.

The Republic of Korea has been an investor in ASEAN for a long time, but its investment flows to the region took off in the mid-2000s and have generally been on the rise since then (table 2.1); by 2015 Korean FDI stock in the region amounted to \$41 billion (figure 2.1; annex table 2.1). This FDI stock is concentrated in a few Member States, with three (Viet Nam, Singapore and Indonesia, in that order) accounting for 63 per cent of Korean FDI stock in the region in 2015.

Box 2.1. Stages of development in Korean FDI in ASEAN

Earlier studies (e.g. Kwak 2007; Yang et al. 2009; Kim and Rhee 2009; Nicolas, Thomsen and Bang 2013) identified the phases of Korean OFDI on the basis of economic development stages or changes in Korean OFDI policy. In the ASEAN context, this approach has two main limitations. First, there is a time gap between a policy's introduction or implementation and its effects on Korean OFDI flows. In other words, instead of having an immediate influence, a policy might bring about an increase or decrease in OFDI flows a few years after the policy's introduction. Second, this approach is more suitable for the overall and general analysis of countries. An alternative approach is to look at the characteristics and motives of Korean OFDI in the region holistically. Four stages can be discerned (box table 2.1.1).

Box table 2.1.1. Stages and characteristics of Korean OFDI in ASEAN
(Millions of dollars and per cent)

Stage	Characteristics	Cumulative FDI flows in ASEAN	Drivers/motives	Share of large or small firms ^a
Stage 1 (1982–1987)	Initial stage (government-led industrialization)	109	Resource-seeking	LF: 64% SME: 35%
Stage 2 (1988–1997)	Growing stage (pre-crisis liberalization)	3,225	Resource-seeking, market-seeking (i.e., export promotion)	LF: 26% SME: 66%
Stage 3 (1998–2005)	Restructuring stage (post-crisis liberalization)	4,387	Resource-seeking, market-seeking (i.e., export promotion, local market penetration), cost reduction	LF: 12% SME: 56%
Stage 4 (2006–)	Proactive stage (acceleration of globalization)	36,422	GVC integration	LF: 13% SME: 54%

Source: Korean Eximbank FDI database.

Notes: GVC = global value chain, LF = large firm, SME = small and medium-sized enterprise.

^a The shares of investment by individuals, sole proprietors and other entities (e.g. non-profit organizations) are not included in the last column of table. Therefore the percentages in the table do not add up to 100 percent.

The first stage was driven mainly by resource nationalism caused by the second oil shock in 1979. The Korean government relaxed OFDI restrictions and removed the prior-approval system in 1981. Resource-seeking FDI accounted for 92 per cent of Korean investment in ASEAN during this period (box figure 2.1.1).

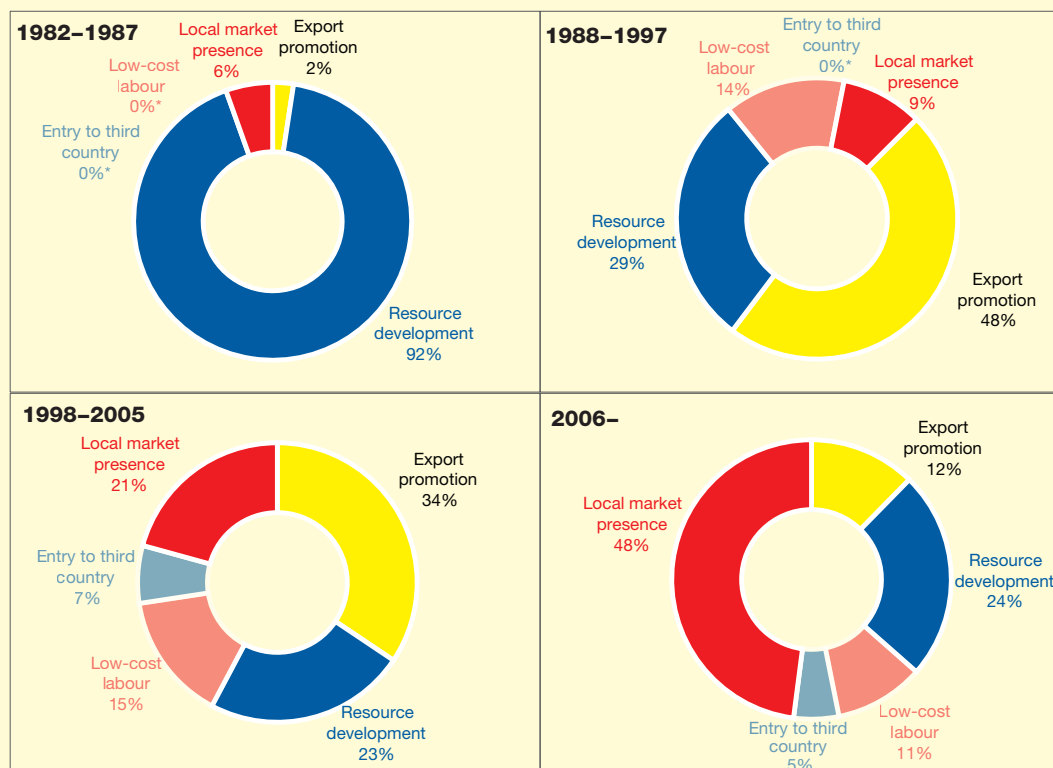
Korean FDI in ASEAN expanded rapidly in two periods, the so-called second and fourth stages. The second stage of FDI in ASEAN began in the late 1980s when the Korean government liberalized the country's OFDI policy to overcome the appreciation of the national currency, high labour costs at home and trade conflicts. In this period, the amount of Korean OFDI in ASEAN seeking cost reductions or low-cost labour was not significant compared with investment linked to companies seeking resources and targeting ASEAN as a market (export promotion). During this period, Korean OFDI motivated by low costs was directed more towards China, after the normalization of relations in 1992. Korean OFDI in ASEAN motivated by export promotion and resource-seeking strategies continued until 1997.

Korean OFDI liberalization slowed down in the third stage because of the 1997 financial crisis. However, during the recovery period after the crisis, the Korean government further relaxed OFDI regulations and provided various measures to support Korean OFDI. In this period (1998–2005), the share of FDI motivated by export promotion and resource development declined, while that

Box 2.1. Stages of development in Korean FDI in ASEAN (concluded)

linked to local market presence and entry to third countries rose. Korean FDI flows in ASEAN stabilized at \$500–750 million per year during this stage.

The fourth stage and most recent phase began after 2006. Many Korean companies, having already invested in China in the third stage, moved some or all of their production facilities to ASEAN and significantly increased new investments. Korean FDI in ASEAN since 2008 has grown eight-fold over the level in the third stage. In contrast to previous stages, Korean FDI flows were led by large firms, particularly Korean chaebols after the 2008 global financial crisis. The number of large Korean companies that made overseas investments rose, and the amounts that they invested also increased. During this stage, such Korean MNEs invested in ASEAN by incorporating the region into their global value chains (GVCs), aiming to create synergies with other locations (e.g. China, the Republic of Korea, and advanced countries). In addition, the increase in the share of “local market presence” motivation to 48 per cent after 2006 (fourth quadrant of box figure 2.1.1) suggests an increasing connection of Korean companies investing in the region to supply Korean and other MNEs in ASEAN (see section 2.7) – thereby strengthening regional value chains or production networks between them. When intermediate or final products (e.g. mobile phones and consumer electronic goods) are exported to third markets or home-country, a value chain connection between ASEAN and non-ASEAN countries is established (i.e. as part of a GVC process) through these Korean operations.

Box figure 2.1.1. Changing patterns and motivations of Korean OFDI in ASEAN

Source: Korean Eximbank FDI database.

Notes: Shares calculated on the basis of the average OFDI flows for each motivation.

* Rounding for shares of less than 5 per cent.

Table 2.1.
Korean outward FDI flows into Asia and ASEAN, 1996–2015
 (Millions of dollars and per cent)

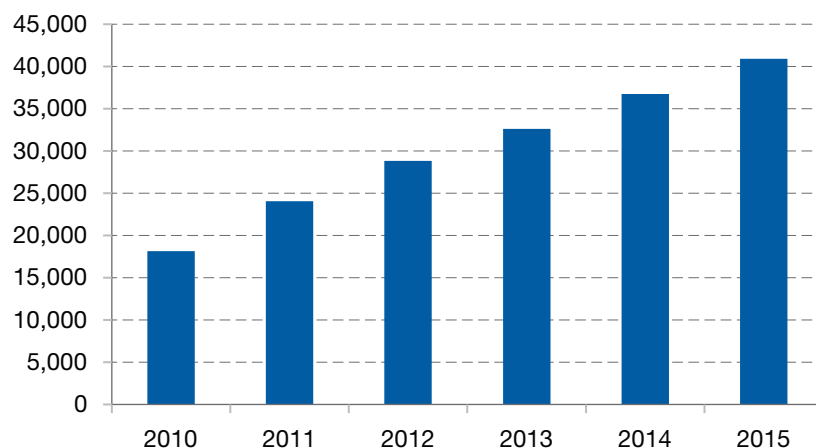
	Korean OFDI flows to selected regions			ASEAN share of Korean global OFDI flows (%)	ASEAN share of Korean outward FDI flows to Asia (%)
	World	Asia	ASEAN		
1996	4,559	1,946	491	10.8	25.3
1997	3,882	1,899	634	16.3	33.4
1998	4,806	2,017	540	11.2	26.8
1999	3,402	1,315	516	15.2	39.2
2000	5,290	1,714	523	9.9	30.5
2001	5,366	1,474	432	8.1	29.3
2002	4,059	1,912	439	10.8	22.9
2003	4,788	2,668	617	12.9	23.1
2004	6,565	3,623	568	8.6	15.7
2005	7,288	4,355	752	10.3	17.3
2006	11,877	6,462	1,422	12.0	22.0
2007	22,701	12,050	3,201	14.1	26.6
2008	24,040	11,904	3,760	15.6	31.6
2009	20,731	7,083	2,113	10.2	29.8
2010	24,658	10,154	4,401	17.8	43.3
2011	29,083	11,036	4,884	16.8	44.3
2012	28,540	11,480	4,550	15.9	39.6
2013	30,193	11,181	3,813	12.6	34.1
2014	26,999	8,964	4,110	15.2	45.8
2015	27,180	11,053	4,168	15.3	37.7
<i>Memorandum</i>					
2010–2015 (Annual average)	27,775	10,645	4,321	15.6	40.6

Source: Korean Eximbank FDI database.

Korean FDI flows in ASEAN are small compared with those of other countries investing in the region (table 2.2). In 2010–2015, the Republic of Korea accounted for only 3.4 per cent of total FDI flows in the region, although its share had increased compared with earlier periods. However, the Republic of Korea is becoming a proportionally bigger investor in ASEAN Member States such as the Lao People’s Democratic Republic, Thailand and Viet Nam (table 2.3). Earlier investments from Korean companies were mainly in Indonesia. Since 2006, Korean investment in Viet Nam has risen rapidly, particularly in manufacturing activities. The Republic of Korea is now the largest investor in Viet Nam, thanks to large-scale investments in recent years by Korean MNEs such as LG and Samsung.

The number of Korean FDI projects in ASEAN has also risen significantly. In the 1990s, about 200 Korean FDI projects were recorded in the region each year, on average. The number rose

Figure 2.1. Korean FDI stock in ASEAN, 2010–2015
(Millions of dollars)



Sources: UNCTAD FDI database and Korea Eximbank FDI database.

to a peak of 1,013 projects in 2007 before plummeting in 2008 and 2009, as a result of the global financial crisis. Since then, Korean companies' investments in the region have risen again, with about 850 projects recorded in 2015 (figure 2.2). Viet Nam dominates as a major recipient economy; in 2015 it garnered some 60 per cent of Korean FDI projects in the region.

Table 2.2. Korean FDI flows in ASEAN, 1995–1999, 2000–2004, 2005–2009 and 2010–2015
(Millions of dollars and per cent)

	1995–1999	2000–2004	2005–2009	2010–2015
Annual average Korean FDI flows in ASEAN	492	172	1,480	3,844
Share of Korean FDI in ASEAN	1.7	0.7	2.7	3.4

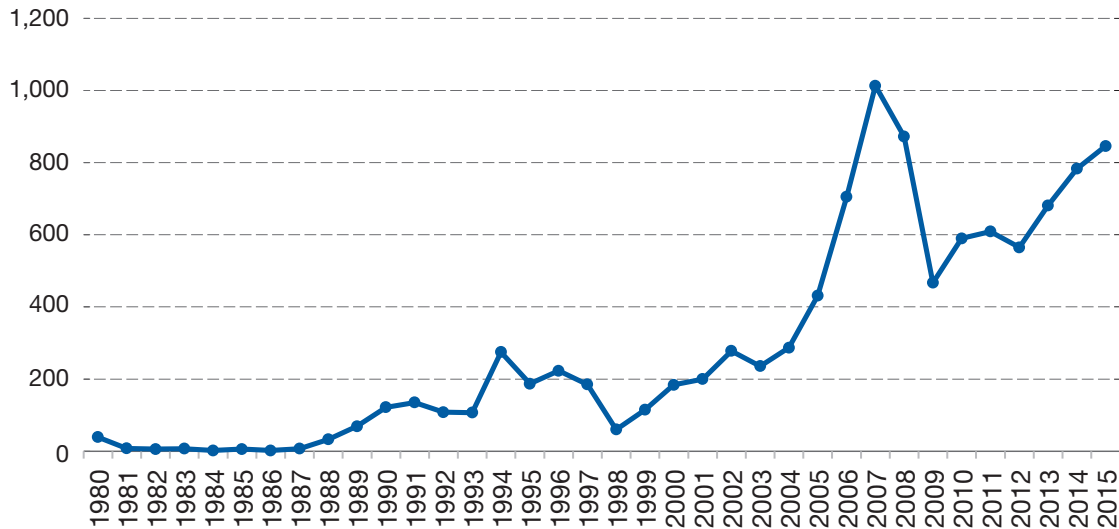
Source: ASEAN Secretariat, ASEAN FDI database.

Table 2.3. Ranking of Korean FDI flows in ASEAN, 2014–2015
(Millions of dollars)

Country	2014		2015	
	Rank	Value	Rank	Value
Brunei Darussalam	Not in top 10	..	Not in top 10	..
Cambodia	5th	106	8th	72
Indonesia	5th	946	9th	260
Lao People's Democratic Republic	8th	13	5th	46
Malaysia	Not in top 10	-254	Not in top 10	146
Myanmar	8th	11	9th	37
Philippines	3rd	576	6th	102
Singapore	Not in top 10	956	Not in top 10	989
Thailand	6th	141	6th	529
Viet Nam	1st	3,248	1st	3,488

Source: Based on data of ASEAN Secretariat, ASEAN FDI database.

Figure 2.2. Number of new Korean investment projects in ASEAN 1980–2015



Source: Korean Eximbank FDI database.

2.3. The pattern of Korean FDI and MNEs in ASEAN

In 2005–2009, Korean investments in ASEAN were concentrated in manufacturing, extractive industries, construction, infrastructure activities and finance. Over time, the industry pattern has changed, and investment has become more concentrated in industries such as manufacturing. During 2010–2015, the share of manufacturing and extractive industries in all Korean investments in ASEAN rose considerably, with the two sectors accounting for more than two-thirds of the total (figure 2.3a and 2.3b). The share of investments in finance and insurance has also risen, at the expense of relatively declining investments in construction and real estate activities.

More than 3,770 Korean subsidiaries² operate in ASEAN and they operate in a wide range of manufacturing and services industries

Figure 2.3a. Korean investment in ASEAN, average 2005–2009 (Per cent)

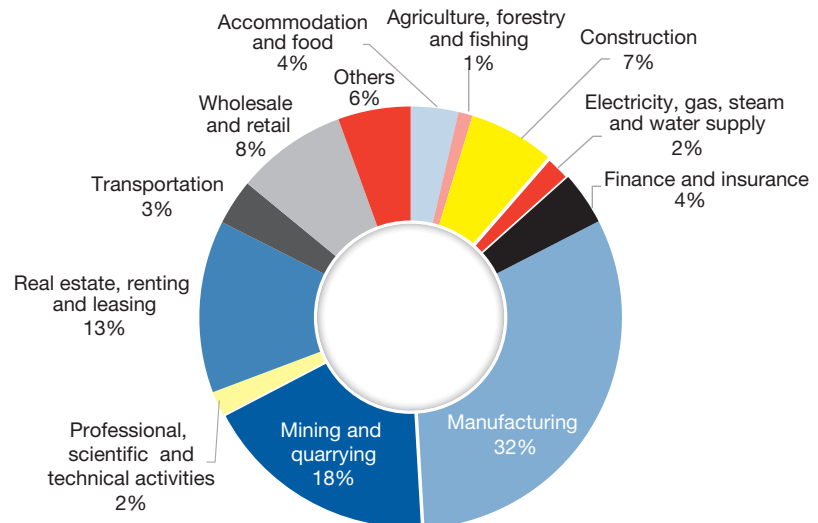
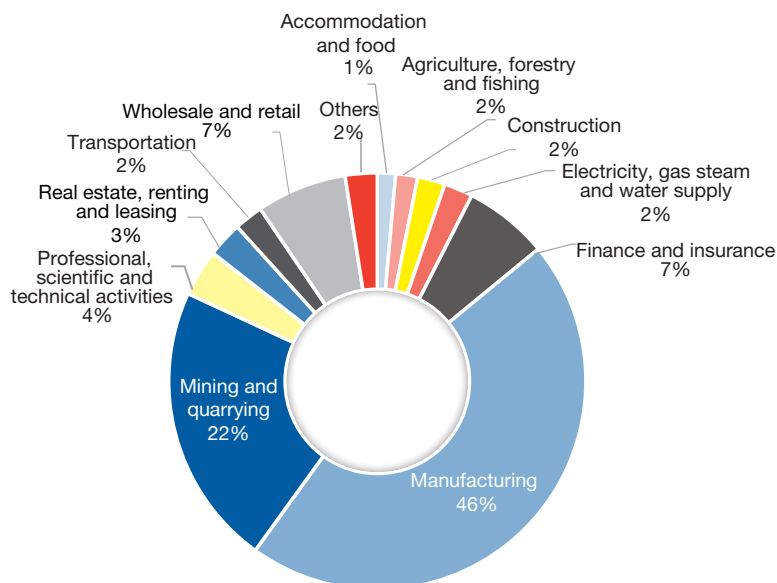


Figure 2.3b. Korean investment in ASEAN, average 2010–2015 (Per cent)

Source: Korean Eximbank FDI database.

(table 2.4). The top 20 most internationalized Korean MNEs all have a presence in the region, with almost half of them present in multiple locations (table 2.5; Moon and Yin 2015).

Large Korean corporate groups dominate the list of investors in ASEAN, including companies such as LG and Samsung in electronics, POSCO in metals and infrastructure, and the Lotte Group in retail and chemicals. In addition to subsidiaries, all of them have sales offices or representative offices in the region. Companies such as the auto maker Hyundai Motors have regional headquarters in

Table 2.4. Other Korean MNEs in ASEAN, 2016 (selected cases)

Company	Industry/activity	Presence in ASEAN (selected countries)
Amore Pacific Group	Cosmetics	Indonesia, Singapore, Viet Nam
Autonics Corporation	Manufacturers and wholesale suppliers	Indonesia, Malaysia, Viet Nam
CJ Cheiljedang Corporation	Food	Indonesia, Malaysia, Philippines, Singapore, Viet Nam
Daesang Corp	Fermentation and consumer foods	Indonesia
Daewoo Securities	Stock brokerage and investment banking	Indonesia, Singapore
Dongbu Steel	Steel	Singapore, Thailand
Doosan Heavy Industries and Construction	Heavy industries and construction	Indonesia, Singapore, Viet Nam
Doosung Motor	Transportation equipment	Viet Nam
Easy Bio	Biological resources	Philippines
Export-Import Bank of Korea	Financial services	Viet Nam
Flexcom	Information technology and services	Viet Nam
GS Energy Corporation	Energy	Singapore
GS Engineering and Construction	Engineering and construction	Cambodia, Thailand, Viet Nam
Hankook Tire	Auto and truck parts	Indonesia, Malaysia, Singapore, Thailand
Hanon Systems Corp	Automotive	Thailand
Hansae Yes24 Holdings	Original equipment manufacturing	Viet Nam
Hansoll Textile	Apparel and fashion	Viet Nam
Hanwha	Conglomerate	Thailand
Hanwha Life Insurance	Insurance	Indonesia, Viet Nam
HJLK Corporation	Logistics	Singapore
Hyundai Engineering and Construction	Engineering and construction	Indonesia, Philippines, Singapore, Viet Nam
Hyundai Kefico Corporation	Automotive	Viet Nam
KB Insurance Company	Insurance	Indonesia

Table 2.4. Other Korean MNEs in ASEAN, 2016 (selected cases) (concluded)

Company	Industry/activity	Presence in ASEAN (selected countries)
KB Kookmin Bank	Financial services	Cambodia
KCC Corporation	Automotive and chemicals	Viet Nam
KDB Capital Corporation	Financial services	Viet Nam
KEB Hana Bank	Financial services	Indonesia, Philippines
Kiwoon Securities	Financial services	Indonesia
Kolon Industries	Manufacturing	Indonesia
Korea Investment and Securities	Financial services	Singapore, Viet Nam
Korea Investment Holding	Financial services	Viet Nam
Korean Ginseng Corporation	Ginseng products	Indonesia
KT&G Corporation	Tobacco	Indonesia, Singapore
Kumho Tire	Automotive and aerospace	Viet Nam
LG International	Conglomerate	Singapore
LS Cable & System	Cable and metal	Malaysia, Viet Nam
LS Industrial Systems	Electric power and automation	Thailand, Viet Nam
Meritz fire & Marine Insurance	Insurance	Indonesia
NH Investment and Securities	Financial services	Indonesia, Malaysia, Singapore, Viet Nam
OCI	Green energy and chemical	Philippines, Viet Nam
Pan Ocean	Shipping	Singapore
Phoenix Materials	Manufacturer and distributor of display components	Thailand
Poongsan Corporation	Metal	Malaysia, Thailand
Samsung Engineering	Engineering	Malaysia, Thailand
Samsung Fire & Marine Insurance	Insurance	Indonesia, Singapore and Viet Nam
Samsung SDS	Information technology services	Indonesia, Malaysia, Philippines, Singapore, Thailand
Samtan	Mineral resources	Indonesia
SHC Management	Credit card	Indonesia
Shinhan Bank	Financial services	Viet Nam
Sinokor Merchant Marine	Container liner services	Viet Nam
SK E & S	Electric power	Indonesia, Singapore
SK Engineering and Construction	Engineering and construction	Singapore, Thailand
SK Global Chemical	Chemicals	Singapore
SK Planet	Commerce services	Indonesia, Singapore
Soo-Seok	Liquor	Singapore
STX Corporation	Heavy equipment	Indonesia, Philippines, Singapore
Taeyoung Engineering and Construction	Engineering and construction	Malaysia
Vatech Global	Health care supply chain	Malaysia
Woori Bank	Financial services	Cambodia, Indonesia
Youngone Corporation	Apparel and fashion	Thailand, Viet Nam
Yura Corporation	Automobiles	Viet Nam

Source: Orbis database.

Malaysia and Viet Nam, as well as sales offices in other Member States. However, Hyundai does not produce cars in ASEAN.

The networks of major Korean MNEs in ASEAN are in some cases extensive (tables 2.6 and 2.7, annex table 2.2). For instance, 14 major Korean MNEs had a combined number of

Table 2.5. Top 20 internationalized Korean MNEs and locations of their subsidiaries in ASEAN, 2015

Rank	Company	Industry	Foreign assets	Presence in ASEAN
1	Samsung Electronics	Conglomerate	18,449	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
2	POSCO	Conglomerate	8,160	Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam
3	Hyundai Motor Company	Conglomerate	6,786	Malaysia, Singapore, Viet Nam
4	Korea Gas Corporation	Gas utility	5,419	..
5	LG Chem	Conglomerate	4,239	Singapore
6	LG Electronics	Conglomerate	3,456	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
7	SK Hynix	Semiconductors and related devices	3,165	Singapore
8	Korea Electric Power Corporation	Electricity	2,670	Indonesia, Lao People's Democratic Republic, Malaysia, Philippines, Singapore, Viet Nam
9	Lotte Chemical Corporation	Petrochemicals	2,045	Malaysia
10	Lotte Shopping	Conglomerate	2,017	Indonesia, Philippines, Singapore, Viet Nam
11	Samsung Display	Display panels	1,955	Singapore, Viet Nam
12	Kia Motors Corporation	Motor vehicles	1,617	..
13	Samsung C&T Corporation	Conglomerate	1,591	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
14	LG Display	Display panels	1,565	Singapore
15	Hyundai Mobis	Automotive parts	1,162	..
16	SK Telecom	Telecommunications	1,155	Singapore
17	Hyosung Corporation	Conglomerate	896	Indonesia, Singapore, Viet Nam
18	Samsung SDI	Display panels and batteries	874	Malaysia, Thailand, Viet Nam
19	Hyundai Heavy Industries	Conglomerate	873	Indonesia, Malaysia, Philippines, Singapore, Viet Nam
20	SK Innovation	Conglomerate	812	Indonesia, Malaysia, Singapore

Sources: Moon and Yin (2015), Orbis database and company annual reports.

Note: Foreign assets are based on data for 2013 from Moon and Yin (2015).

Table 2.6. Subsidiaries of 14 major Korean MNEs in ASEAN, 2015
(Number and millions of won)

No.	Company	No. of subsidiaries	Total assets	Assets per subsidiary	No.	Company	No. of subsidiaries	Total assets	Assets per subsidiary
1	POSCO	45	8,656,357	192,363	8	SK Innovation	3	450,424	150,141
2	Samsung C&T Corporation	15	570,187	38,012	9	SK Telecom Co, Ltd	3	34,413	11,471
3	Lotte Shopping	13	1,774,588	136,507	10	Hyundai Heavy Industries	2	592,170	296,085
4	Samsung Electronics	12	17,183,930	1,431,994	11	LG Chem Ltd	1	..	..
5	LG Electronics	11	1,767,180	160,653	12	Lotte Chemical Corporation	1	1,811,606	1,811,606
6	Hyosung Corporation	4	1,249,363	312,341	13	Samsung Display	1	..	..
7	Samsung SDI	4	888,809	222,202	14	SK Hynix Inc	1	386,135	386,135

Source: Based on annex table 2.2 and respective company annual reports.

116 subsidiaries in the region in 2015, across 8 ASEAN Member States, with the largest numbers in Viet Nam, Indonesia, Singapore and Malaysia, in that order.

The vast majority of these subsidiaries were established in recent years, which underlines the growing interest of large Korean companies in ASEAN. POSCO had the greatest number (45, one-third of them in resource-rich Indonesia), more than 70 per cent of them established after the 2008 global financial crisis. Lotte Shopping and Samsung C&T also established more than 50 per cent of their subsidiaries in the region after 2008.

The location of the subsidiaries established by these 14 Korean MNEs reflects their specific functions or activities. For instance, most of those in Viet Nam are involved in manufacturing electronic devices and parts (e.g. Samsung Electronics, LG), retail and distribution (e.g. Lotte Group through its subsidiary, Lotte Shopping), and construction (e.g. Hyosung, Samsung C&T, Hyundai Heavy Industries). In Indonesia, they are targeted at energy and resource development (e.g. POSCO). Some have been set up in Singapore as regional business hubs and therefore focus on business functions related to trading, investments and sales.

2.4. Korean SME investments in ASEAN

In addition to large Korean companies, many Korean SMEs are also active in the region. FDI by Korean SMEs has increased rapidly, from at least 513 projects in 2005 to 1,786 projects in 2015 (chapter 5). Some Korean SMEs that already had a presence in Member States with low wage costs are expanding their operations in these countries, especially those operating in apparel industry. As with larger MNEs, some Korean SMEs are moving their operations from China to ASEAN because of rising costs in the former.

ASEAN has become a more attractive location for Korean SME FDI. In 2015, Korean SME FDI in ASEAN exceeded that in China by more than 50 per cent. However, a majority of this investment was concentrated in the manufacturing industry (73 per cent) and in particular in Viet Nam (67 per cent).

Some Korean SMEs also have had a presence in ASEAN for a long time, ranging from 20 to 50 years. These SMEs are highly competitive not only in the home-country but also in the global market. For example, Sees Global, a Korean glove manufacturer, accounts for about 20 per cent of the global output of sports gloves. Similarly, Dong-In Entech has 40 per cent of the global market share of ODM (original design manufacturer) backpacks.

Table 2.7.

Number of subsidiaries in ASEAN of the 14 major Korean MNEs, 2015

Country	Number of subsidiaries
Cambodia	1
Indonesia	28
Malaysia	16
Myanmar	7
Philippines	6
Singapore	18
Thailand	11
Viet Nam	29

Source: Based on annex table 2.2.

The motivations of Korean SME FDI in ASEAN are diverse. They have invested not only for conventional motivations (e.g., efficiency-, market-, and resource-seeking FDI) but also for variations of these, which reflect their size. The latter include follow-the-customer, infrastructure project seeking, regulation bypassing, catch-up and strategic-location-seeking (see chapter 5). Among these reasons, follow-the-customer is one of the most important and can be regarded as a type of motivation for FDI; i.e. when major customers (large Korean MNEs) move to a foreign location, they follow them to retain (and expand) their business. In many cases, SMEs moving to ASEAN for this reason supply parts and components and provide services to their larger MNE clients.

Korean SMEs are contributing to the development of the electronics parts and components and the apparel industries in ASEAN. They operate closely with large Korean MNEs as suppliers, and in some cases they in turn establish linkages with ASEAN SMEs through contractual production arrangements (chapter 5). Large Korean MNEs also involve ASEAN SMEs as their suppliers, helping the latter develop and participate in the MNEs' GVCs.

2.5. Entry strategy of Korean companies in ASEAN

Korean companies possess substantial specific ownership advantages that they exploit abroad. Companies such as Samsung, LG, Hyundai Motor and POSCO are among the leading companies in their respective sectors, with advanced technologies, patents, networks and other assets. The exploitation of such advantages can take many forms. Although this chapter concentrates on FDI through majority or wholly owned subsidiaries, in many cases such investments are complemented by other modalities, including collaborative partnership agreements in research and development or distribution, and contractual relationships.

Majority-owned greenfield investment has been the predominant form of internationalization for Korean companies worldwide, and this is also the case in the ASEAN region (Moon and Yin 2015). The foreign subsidiaries of the 14 major Korean MNEs mentioned earlier are preponderantly majority owned (table 2.8). The choice of this modality depends not only on the preferences and ownership advantages of the investing firm, but also on the availability of alternative modes of entry, as well as any restrictions on greenfield investment or M&As in a given market.³

Table 2.8.

Share ownership of foreign subsidiaries of the 14 major Korean MNEs in ASEAN, 2015

Ownership percentage	Number of subsidiaries
Less than 50%	6
More than 50%–less than 100%	29
100%	46
Unknown	35
Total	116

Sources: Based on annex table 2.2 and company reports.

2.6. Korean M&A purchases in ASEAN

Korean companies are less active than other investors in using cross-border mergers and acquisitions (M&As) as a channel to enter ASEAN (tables 2.9 and 2.10). Over 2004–2009, Korean companies acquired a cumulative total of \$562 million worth of assets in the region, which represents about 1.5 per cent of global M&A purchases made by Korean companies in that period. However, cross-border M&A purchases by Korean companies are rising in some ASEAN Member States, especially in those with more mature M&A environments (Indonesia, Malaysia, the Philippines and Thailand). In 2010–2015, Korean cross-border M&A cumulative purchases in ASEAN rose by 7.4 times over the amount registered in 2004–2009, to \$4.7 billion. These M&A purchases represented about 7.3 per cent of Korean firms' global M&A purchases over the same years.

Between 2010 and 2015, Korean MNEs made at least 83 M&A purchases in ASEAN, although none of these exceeded the \$1 billion mark (annex table 2.3). Most Korean cross-border M&A purchases in ASEAN are in manufacturing, reflecting the dominance of the sector in Korean FDI flows to the region. Cross-border M&As in services were fewer

Table 2.9. Korean M&A purchases in ASEAN, by industry (gross basis), 2000–2015
(Millions of dollars)

	2010	2011	2012	2013	2014	2015	2010-2015
Total	2,023	1,454	161	142	787	168	4,736
Primary	533	69	92	..	55	..	749
Manufacturing	1,373	709	3	50	1	89	2,225
Food, beverages and tobacco	100	186	..	24	..	5	315
Textiles, clothing and leather	4	..	..	..	..	..	4
Manufacture of paper and paper products	..	..	..	8	..	38	46
Manufacture of chemicals and chemical products	1,264	..	..	..	..	..	1,264
Manufacture of rubber and plastics products	5	5	..	..	..	22	32
Manufacture of basic metal and metal products	..	484	..	..	1	5	491
Other manufacturing, n.e.c.	..	..	..	18	..	..	18
Tertiary	117	676	66	92	731	80	1,761
Electricity, gas, water and waste management	..	420	16	-	441	..	877
Construction	..	31	..	67	..	..	98
Trade	..	..	..	16	..	..	16
Accommodation and food service activities	..	..	..	9	..	..	9
Transportation and storage	..	..	..	..	41	..	41
Information and communication	100	..	..	..	228	..	328
Financial and insurance activities	17	..	50	..	21	80	167
Business activities	..	151	..	..	..	..	151
Real estate activities	..	151	..	..	..	..	151

Source: UNCTAD M&As database.

Table 2.10. Korean M&A purchases, by destination, 2004–2015 (gross basis)

(Millions of dollars and per cent)

	2004–2009											2010–2015		
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Cumulative	Share of global Korean M&A purchases (%)
World	275	1,250	5,096	11,613	10,545	7,740	14,468	9,564	13,968	8,044	6,341	12,818	36,520	65,203
Asia	83	1,065	4,564	3,782	4,000	729	7,652	2,949	6,255	3,196	2,478	10,299	14,223	32,828
ASEAN	0	-	14	110	360	77	2,023	1,454	161	142	787	168	562	4,736
Cambodia	-	-	-	-	-	8	-	-	-	-	-	-	-	5
Indonesia	-	-	4	11	301	6	539	259	85	26	46	30	-	-
Lao People's Democratic Republic	-	-	-	-	-	-	-	5	-	-	-	-	-	-
Malaysia	-	-	10	50	19	-	1,364	-	-	-	228	-	-	-
Philippines	0	-	-	-	-	-	100	400	58	24	482	-	-	-
Singapore	-	-	-	-	-	-	10	35	-	25	21	-	-	-
Thailand	-	-	-	-	22	0	-	479	18	0	-	18	-	-
Viet Nam	-	-	-	49	19	63	10	276	-	67	10	115	-	-

Source: UNCTAD M&As database.

and concentrated in infrastructure-related activities (electricity, water, information and communication) including in finance.

2.7. Drivers and motivations of Korean FDI in ASEAN

Investments by Korean companies in ASEAN are concentrated in a few ASEAN Member States. This reflects both strategies of Korean companies and their motives for investments. For instance, Korean investments that are efficiency-seeking and labour-intensive, such as those in the apparel industry, target ASEAN Member States that offer low-cost and labour-abundant locational advantages. Market-seeking, more technology-oriented and services operations are more likely to locate in ASEAN Member States that offer more competitive services environments and infrastructure support.

As the ASEAN region spans high- to medium- and low-income countries, all of the four main motivations for FDI (resource-, market-, efficiency-, and strategic asset-seeking) are present, albeit in different proportions in each of the ASEAN Member States. Singapore attracts some strategic-asset-seeking acquisitions, as well as market-seeking investments that exploit the liberalized investment climate, particularly in services. The middle-income countries of the region are also increasingly attracting market-seeking investment aimed on the one hand at emerging middle-class consumers and on the other hand at the infrastructure demands of growing economies.

As with market-seeking investment, middle- and low-income markets also attract efficiency-seeking investments that aim to exploit the availability of a relatively low-cost labour force in order to supply the broader regional market, and to use locations in the region as production sites that link to GVCs. In middle-income markets, this is particularly the case in the electronics and automotive industries; in lower-income countries, the apparel and agriculture industries are more to the fore. The fourth type of Korean FDI, namely resource-seeking investment in oil and gas, mining and agriculture, is found in resource-rich ASEAN Member States.

In order to better understand the motivations of Korean MNEs in ASEAN, Dunning's eclectic, or an OLI framework, is useful.⁴ The premise of the framework is that investment decisions can be seen as the result of the interplay between the ownership-specific assets of the investing firm, the locational attributes of the host country and the gains from internalization; i.e. the benefit to the firm from engaging in investment rather than using another modality such as licensing or contractual relationships (Dunning and Lundan 2008, Dunning 2000). In addition, Korean investment motivations reflect the rise of GVCs, which require a more nuanced use of the OLI approach (box 2.2).

The cases described in the following sections highlight the various motives for investment by Korean companies in different industries in ASEAN.

Box 2.2. GVC-related motivations

Motivations of Korean FDI have become more complex in recent years. Korean companies are not investing abroad only to seek low-cost labour, natural resources or larger markets per se; their investments are increasingly driven by a mix of factors (UNCTAD 2006, 2007). The changing pattern of global FDI, including that by Korean firms, is characterized by an international fragmentation of production associated with GVCs (UNCTAD 2013).

Few MNEs can dominate an entire value chain; thus they determine which activities they should do and which they should outsource to other firms in other locations on a global scale. No country is competitive enough to host all activities in a value chain in a single location. Hence both firms and countries need to determine which activities to perform and which to outsource. The complementarity of host countries and related firms in a value chain, if tapped effectively, can help both maximize the benefits and minimize the transaction costs of operating in GVCs. GVCs require additional locational advantages of host countries, such as the level of connectivity with other locations related to value chain activities (UNCTAD 2013).

ASEAN as a region has comparative advantages in offering a suitable platform to investors, from a global or regional value chain perspective. The economic development of the Member States varies, with complementary locational advantages that can support different value chain activities of MNEs. Deepening regional integration through the ASEAN Economic Community increases connectivity and provides competitive advantages for interwoven market-seeking and efficiency-seeking regional value chain activities or regional production networks. Such regional deepening appeals to MNEs operating in industries such as apparel, footwear, automobile, electronics, and food production in the region. Korean investments in these industries collectively in ASEAN have risen by 2 to 5.5 times since 2006, compared with their levels during the liberalization period of 1998–2005.

Source: UNCTAD–ASEAN Investment Report 2016 research.

2.7.1. Efficiency-seeking FDI

Most Korean FDI in the electronics industry in ASEAN is driven by efficiency-seeking motives. The recent investments by two Korean giants (LG and Samsung) in the electronics industry in Viet Nam are an example. Samsung opened a \$2 billion facility in Thai Nguyen Province in northern Viet Nam in 2014 to build smartphones, citing low labour cost as the principal benefit. It also expanded its operations in the host country with additional production capacity and factories. As a consequence of this and similar investments, in 2013 mobile phones and accessories overtook garments in terms of export revenue in Viet Nam for the first time, earning about 20 per cent of total exports that year. Samsung's exports of electronics accounted for 23 per cent of all Vietnamese exports in 2014 (Vietnam Trade Promotion Agency 2015).

As part of a regional reorganization of its activities, in 2014 Samsung invested \$1.4 billion in a consumer appliances complex in Ho Chi Minh City for R&D and production of high-end televisions. The Samsung Group has also announced that it plans to invest in some other large-scale projects in areas such as energy, shipbuilding and airports, which would amount to a further \$20 billion (KITA 2015).

Following Samsung, the LG Group launched a \$1.5 billion factory in the northern Vietnamese city of Hai Phong. In early 2013, LG initially announced an investment of \$300 million in the project and then increased its commitment to \$1.5 billion. This project will be built over 10 years and will serve as LG's largest production base in ASEAN, with an expected 70 per cent of its products to be exported. The company expects the localization rate in the plant to reach 50 per cent. LG Electronics also announced the expansion of its television production in Viet Nam due to lower labour costs and closer proximity to its China-based suppliers.

2.7.2. Market-seeking FDI

In terms of market-seeking investment, two groups of Korean companies are illustrative. The first group involves traditional market-seeking investment in consumer goods where, for example, Korean conglomerates such as the Lotte Group have made greenfield investments and acquisitions in food retailing. The second group involves industrial groups such as POSCO, which has engaged in steel production and metal processing, as well as infrastructure-related projects in the energy sector (i.e. focusing on business customers, or the State). Similarly, Hyundai Engineering and Construction has engaged in several projects (e.g. in the energy sector) and has also explored new investment opportunities in transport infrastructure. For infrastructure-related companies, having a presence in the local market is important to better serve clients and to win infrastructure concessionary contracts.

Consumer services. In 2015, Indonesia and Viet Nam were the two largest recipients of Korean FDI driven by market-seeking motives. Major Korean retailers and supermarket chains such as Lotte and E-mart invested or expanded in these two ASEAN host countries, as did Hanwha in the insurance industry.

Lotte is investing abroad to increase its foreign sales. The company is active in several sectors in Indonesia and Viet Nam, including food processing, retail, construction, real estate, logistics and trade.⁵ Following some regulatory changes which allowed it to increase its capital in a joint venture, Lotte Mart is planning to boost its investment in Viet Nam. Lotte Mart first entered Viet Nam in 2006 through a joint venture with a local partner, with initial investment capital of \$65 million. In 2012 Lotte Mart received approval to turn its joint venture into a 100 per cent foreign-invested company and raised its chartered capital to \$120 million, with the aim of developing more projects in Viet Nam. In 2014, the company opened Lotte Mart Dong Da, its first shopping centre in Hanoi, and its seventh in Viet Nam. The company aims to expand its chain to 60 supermarkets nationwide by 2020.

E-mart, a subsidiary under Shinsegae Group, is Korea's largest discount store chain, with more than 160 stores around the world. E-mart established Emart Go Vap campus in Ho Chi Minh in 2015 (Vietnam Investment Review 2015). About 95 per cent of the goods are produced locally, and E-mart imports the other 5 per cent.⁶ E-mart hopes to develop Ho Chi Minh City as the base for future expansion to the rest of Viet Nam and other neighbouring countries, such as the Lao People's Democratic Republic and Myanmar.

Hanwha began its insurance activities in Viet Nam in 2009, before investing the market in Indonesia following the acquisition of PT Multicorelife Insurance in 2013.⁷ Hanwha sees Viet Nam as a strategic point from which to tap into ASEAN markets, which will help it expand its interests in solar energy, natural resource development and life insurance. In a market that is still dominated by established players such as Prudential, Manulife, Baoviet, AIA and Daiichi, Hanwha has become one of the top insurance companies, with the highest capital in Viet Nam.⁸

Infrastructure development. In addition to China (see ASEAN Secretariat and UNCTAD 2015), the Republic of Korea is a major player in infrastructure projects and development in ASEAN. Korean infrastructure companies are active in power and electricity, transportation, water supply and sanitation. Their investments were motivated by the need to be present in a market where there are active or prospective infrastructure developments.

POSCO, one of the largest steel makers in the world, is present across ASEAN, with operations in Indonesia, Malaysia, Myanmar, the Philippines, Thailand and Viet Nam. In Indonesia, POSCO formed a joint venture with the State-run steel maker Krakatau; the Korean company holds a 70 per cent share, with a total investment value of \$6 billion. The joint venture is the company's first integrated steel mill overseas. The construction was completed in 2013. About 70 per cent of the output is sold in Indonesia, but POSCO sees the plant as part of a chain that links the steel markets of China, India, Indonesia and Viet Nam.⁹

In Viet Nam, POSCO completed the construction of a cold-rolled stainless steel factory near Ho Chi Minh City in 2012, substantially expanding its production in the host country. POSCO now holds about a 40 per cent share of Vietnam's stainless steel market. Its investments in Viet Nam date back to 1992, with about \$2 billion invested as of 2014.¹⁰ In the Lao People's Democratic Republic, POSCO Engineering and Construction began construction of a hydroelectric power plant in 2013, which is operated as a build-operate-transfer project with a time span of 30 years. It is a joint investment with Krungthai Bank, the Export-Import Bank of Thailand and NL1PC. This is the first time that POSCO has participated as both investor and builder; it will be in charge of design, procurement and construction in the turnkey project.¹¹

Hyundai Engineering and Construction (Hyundai E&C) is also active in construction and infrastructure development in ASEAN. It was awarded the engineering-procurement-construction contract for the \$1.27 billion Mong Duong 1 coal-fired power plant project in Quang Ninh Province in Viet Nam in 2012. Doosan Heavy Industries (Republic of Korea)

will supply two steam turbines and generators, including auxiliary equipment for the plant, under a \$130 million contract awarded by Hyundai E&C.¹²

In 2014, Hyundai E&C won a \$325 million order for two coal-fired thermal power plants in Indonesia, in the Tanjung region of Borneo. Earlier the same year, the company secured an order for a \$91 million project to build a hydroelectric power station in Rajamandala, with a target completion date of 2017, and a combined cycle power plant in Batam.¹³ Also in 2014, in the Philippines, Hyundai Engineering E&C won a \$500 million project for the construction of a coal-fired thermal power plant in Cebu, awarded by Therma Visayas, which is a unit of the Filipino energy producer Aboitiz.¹⁴

In 2014, Hyundai Engineering E&C announced an agreement with Russian builder RZDstroy to construct a \$1.6 billion railroad project in Indonesia. The company indicated that the partnership with the Russian builder could open new opportunities for Hyundai to engage in similar work in Indonesia and in the Russia Federation.¹⁵ Daelim Industrial, another Korean infrastructure-related company, developed an 8.5 km elevated rail system in Hanoi and constructed the Sungai Brunei Bridge in Brunei Darussalam. In addition to investments in building power plants and railroads in Indonesia, the Korea Water Resources Corporation is involved with drinking water treatment projects in Bali, Gresik and Semarang. It also participated in a flood prevention project in Thailand (ASEAN Secretariat and UNCTAD 2015).

2.7.3. Resource-seeking FDI

Indonesia, Myanmar and Viet Nam were major destinations for Korean resource-seeking FDI in 2015. Although some Korean MNEs invested in Indonesia for mining and energy resources, a majority of them operated in the forestry sector. The Korindo Group is involved in forestry activities in Indonesia. Until the early 1990s, the Republic of Korea's wood sufficiency rate was very low (only about 5 per cent), and the majority of the demand was supplied with wood imported from ASEAN and Australia. Korindo's investments in the region date back to the late 1960s, beginning with the lumber business in Indonesia. It has diversified into various businesses, including core businesses such as plywood, newsprint paper and container manufacturing.

2.7.4. Strategic-asset seeking FDI

Strategic-asset-seeking FDI searches for resources such as technology, skilled workers and assets that can support development of a firm's worldwide networks (Dunning 2000; Moon 2016a). For instance, LG Chem (a member of the LG Group) established a subsidiary (NanoH2O Singapore Private Ltd) in Singapore in 2014 to gain access to the host country's distinctive technology hub environment. The host country is simultaneously developing several key technologies such as biotechnology, medicine and ICT, and linking them to other businesses to build an efficient global business ecosystem (Moon 2016b). LG

Chem's investment in this case in Singapore is to seek strategic assets, such as a skilled labor force, an established R&D infrastructure and the country's technology ecosystem. Access to the bundle of these strategic assets contributed to helping LG Chem become a global leader in the reverse osmosis business.

2.7.5. Korean FDI in ASEAN from a GVC perspective

Increasingly, Korean FDI in ASEAN is related to an integral part of Korean companies' value chain activities. In the automobile sector, Hyundai Motors has established regional headquarters in Malaysia and Viet Nam for sales, and sales organizations in all other ASEAN Member States. Hyundai, the world's fifth largest carmaker, does not have a significant presence in ASEAN in terms of production facilities. Sales in ASEAN accounted for only about 1 per cent of Hyundai-Kia's total sales in the global market in 2014 (Hankook Ilbo 2014).

In early 2016, Hyundai announced that it is considering the Philippines as a location for manufacturing its automotive parts and for assembly activities, and to consolidate its position in the region. The Philippines is seen as having an advantage of a strong dealership network for Hyundai, which would help it gain competitive advantages in the distribution network. Hyundai could also gain the benefits of lower tariffs when exporting to ASEAN markets under the ASEAN–Republic of Korea Free Trade Agreement. Hyundai's selection of locations for its assembly plants is driven not only by low labour costs (efficiency-seeking), but also by benefits in coordinating other activities in the value chain, such as the consumer market, the distribution network and easy access to other benefits from an integrating region.

Steel sector. PT Krakatau POSCO, a steel mill established in 2010, is a joint venture between POSCO and Indonesia's State-run steel maker, Krakatau.¹⁶ Krakatau POSCO is ASEAN's first integrated mill and also POSCO's first integrated steel mill overseas. POSCO considered Indonesia as part of the steel belt in ASEAN, connecting with China and India. It has rolling mills in Viet Nam and India but needs hot-rolled coil to produce cold-rolled steel. Indonesia plays a role in providing such materials to other places. With no tariff imposed in ASEAN on the trading of the materials, the company is able to reduce transaction costs. About 70 per cent of its production is sold in the host country to firms operating in the steel, shipbuilding and other heavy industries. In this regard, POSCO's investment is not just market-seeking but aimed at achieving more comprehensive benefits that can contribute to realizing a more efficient GVC for the company.

Electronics sector. Samsung needs to have access to parts and components in order to produce final goods. However, owing to the underdeveloped supply industry in Viet Nam, Samsung has to source them from non-Vietnamese firms. In order to further reduce the costs of parts or inputs used in its mobile phones, Samsung encouraged its Korean subsidiaries and subcontractors in component manufacturing to invest in Viet Nam, operating close

to its assembly plants (chapter 5). Samsung also procured parts and components by outsourcing to non-Korean enterprises (e.g. Japan, the United Kingdom and Germany) that can meet its standards for quality and price. Samsung has also recently increased its outsourcing to local Vietnamese suppliers to lower input and logistics costs, including the cost of complying with local government requirements.

Beyond the investments made by the Samsung Group in Viet Nam, satellite firms affiliated with Samsung, including companies such as Partron Vina and Heasung Vina, are supplying components to Samsung's operations in the host-country. It is estimated that about 97 firms in Viet Nam are supplying parts and accessories to the company.¹⁷ Samsung imports other sophisticated and higher value added parts from China and the Republic of Korea.

Assembly in Viet Nam plays an important role in Samsung's mobile phone GVC, and it is planning to expand production in Viet Nam to make the country its major global manufacturing hub. The linkages that Samsung has established with its suppliers from home and Vietnamese companies contribute to improving its supply chain networks. These intra- and inter-firm linkages, including with local suppliers in the host country, are an important part of Samsung's GVC operations.

2.8. Home-country OFDI measures

The Government of the Republic of Korea has introduced a number of measures to support Korean companies in venturing overseas. It has also liberalized policies on OFDI and public sector investment abroad (Ministry of Strategy and Finance 2015). The Republic of Korea has entered into various trade and investment agreements with ASEAN Member States and with ASEAN as a region (box 2.3.). The government has also introduced the following measures and programmes that support Korean OFDI (MOTIE and KOTRA 2016):

Policies. The government announced overseas investment promotion plans in June 2015 that cover foreign portfolio investment, overseas M&As and public sector participation in foreign investment.

Measures and programmes. The Korea Trade-Investment Promotion Agency (KOTRA) provides various support services for Korean export companies and Korean firms engaging in OFDI. In accordance with the new government initiative to support Korean SMEs (Administration Park, 2013–2018), the Global M&A Centre was established in 2013. This institution provides Korean SMEs with information, helps them build connections for possible M&A transactions, and provides access to government co-investment funds and fund managers. Other OFDI measures undertaken by the government relate to finance, taxation and administration matters (annex table 2.4).

Box 2.3. ASEAN–Republic of Korea Agreements

Korean trade and investment relationships with ASEAN are also governed by a set of free trade agreements (FTAs), beginning with the Korea–Singapore FTA signed in 2005. This was followed by a series of agreements with ASEAN as a region, namely the Korea–ASEAN Trade in Goods Agreement in 2006, the Korea–ASEAN Trade in Services Agreement in 2007 and the Korea–ASEAN Investment Agreement in 2009.

The latest agreement is an FTA with Viet Nam concluded in 2015. The deal is expected to increase exports of agricultural produce and seafood to the Republic of Korea, and imports of Korean materials and components for the garment and electronics factories in the host country.^a

Source: ASEAN Secretariat.

^a *Reuters News*, “Vietnam, South Korea seal FTA, target doubling of trade”, 5 May 2015 (Document LBA0000020150505eb5500b1n).

2.9. Conclusion

Corporate strategy, home-country measures and cost considerations, including complementary locational advantages in ASEAN, have all influenced Korean companies to invest in the region in growing numbers.

Korean firms are increasingly making inroads in ASEAN. A majority of Korean FDI is concentrated in manufacturing activities. Their efficiency-seeking FDI in electronics has resulted in the creation of an electronics hub in the region, with Viet Nam helping to play a major global production role, increasingly supported by other regional investments and contracts as part of Korean MNEs’ regional value chains. Market-seeking investments by Korean firms are also expanding, with retail and other services investors utilizing different modalities to access growing regional and host-country markets. In the industrial and infrastructure sectors, Korean firms are active, including in constructing power plants, water treatment facilities and railroads. Some large Korean companies, influenced by market-seeking motives, are also actively building and running steel mills and chemical plants in various ASEAN Member States.

There is a considerable need for further infrastructure investment in the region (ASEAN Secretariat and UNCTAD 2015). Given their experiences and commitment to the region, Korean construction and infrastructure-related companies are well placed to participate in future infrastructure development. As more large Korean firms strengthen their foothold in ASEAN, they are also encouraging many Korean MSMEs and their suppliers to invest in the region. Access to natural resources and extractive industries remains a significant motive for a subset of Korean investors, especially in forestry.

Korean companies are increasingly investing abroad for a combination of reasons rather than just a single motive. ASEAN’s integration and complementary locational advantages provide an attractive platform for Korean and other investors, large and small, to build their regional

production networks or value chains linking to the broader global value chain processes in which they participate, lead or dominate. Against this background, the prospects for a further rise in Korean FDI and Korean companies in ASEAN are promising. Greater linkages between Korean MNEs and MSMEs, including involving ASEAN companies in their value chain activities, can be expected.

Notes

- ¹ Korean MSMEs relate mainly to Korean SMEs throughout this chapter as information on the internationalization of Korean microenterprises are not available.
- ² Based on the Korean Overseas Investment Information System (www.ois.go.kr), which has no record of Korean investment in Brunei Darussalam. Includes only production, sales and service corporations; excludes local branches and liaison offices.
- ³ The investing firm must be able to bundle its firm-specific resources and capabilities with those available in the local market (Hennart 2009), which may require the use of multiple modalities (acquisitions, joint ventures, contracts, partnerships). Acquisitions in particular are a complementary means to build a presence in new markets that overcomes the investor's lack of knowledge about the market, although they often introduce other problems in terms of lack of integration with the firm's other operations.
- ⁴ The OLI framework argues that three types of advantages need to be satisfied in order for a company to engage in FDI. First, the firm must hold some form of ownership advantages that they are able to exploit to the host country. Second, the host country should have locational advantages, a pull factor for the firm to want to enter into the market (for example, good market size or low labor costs). Finally, the firm must have internalization advantages, where it must be more beneficial for the firm to keep the operations internally through a foreign subsidiary than to outsource to a third party, license or just export.
- ⁵ *Financial Times*, "Lotte wakes up to cultural hitch in foreign foray", 3 February 2011 (Factiva document FTCOM00020110203e723004xu).
- ⁶ *Korea Herald*, "E-mart prepares to enter Vietnamese market", 9 April 2015 (www.koreaherald.com/view.php?ud=20150409000938).
- ⁷ *Jakarta Post*, "Hanwha Life sets foot into RI insurance business", 25 October 2013 (Factiva document JKPOST0020131025e9ap0001d).
- ⁸ *Vietnam News Summary*, "Life insurance in Vietnam records strong growth in first two months", 25 April 2015 (Factiva document VENEWS0020150425eb4p0001x).
- ⁹ *Korea JoongAng Daily*, "POSCO sees Indonesia as a hot spot", 18 September 2014 (Factiva document JOONAI0020140917ea9i0000o).
- ¹⁰ *Vietnam News Summary*, "POSCO Head talks solutions to Vietnamese steel sector woes", 6 October 2014 (Factiva document VENEWS0020141006eaa60003h).
- ¹¹ *PR Newswire Asia*, "POSCO E&C Begins Construction of Nam Lik1 Hydroelectric Power Plant in Laos", 18 July 2014, (Factiva document PRNASI0020140718ea7i0015q).
- ¹² *Power in Asia*, "Mong Duong-2 awards contract", Issue 611, 13 September 2012 (Factiva document PWRA000020120927e89d0000o).

- ¹³ “Hyundai Engineering wins \$325 mln Indonesia thermal power plant order”, 12 December 2014 (<http://english.yonhapnews.co.kr/business/2014/12/12/42/0501000000AEN20141212003400320F.html>).
- ¹⁴ *Maeil Business Newspaper*, “Hyundai Eng, Daelim Ind bag plant orders from the Philippines”, 2 June 2014 (Factiva document MAEIL00020140602ea620018j).
- ¹⁵ *Investvine*, “Hyundai Eyes \$1.6b Indonesia Railway Project”, 5 February 2014 (<http://investvine.com/hyundai-eyes-1-6b-indonesia-railway-project/>).
- ¹⁶ *Korea JoongAng Daily*, “Posco sees Indonesia as a hot spot”, 18 September 2014 (<http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=2995009>).
- ¹⁷ *Vietnam News Brief Service*, Toan Viet “Samsung satellite firms in Vietnam province post H1 revenue of \$304.4 M”, 27 July 2015 (Factiva document IETNB0020150727eb7r0003e).

CHAPTER 3

UNITED STATES FDI AND MNEs IN ASEAN

3.1. Introduction

United States companies have a long history in South East Asia. Major MNEs such as General Electric, Coca-Cola, Citibank, Procter & Gamble, Texas Instruments and Dow Chemical have been operating in the region for decades – in many cases since long before the establishment of ASEAN. Today, over 1,500 United States companies and some 70 per cent of the top 130 United States companies listed in the Global Fortune 500 in 2015 operate in ASEAN.

FDI stock in ASEAN from the United States has grown sharply in recent years. It has doubled twice since the turn of the century, reaching \$226 billion by the end of 2014. It accounts for 31 per cent of all United States investment in Asia.¹ The United States accounted for about 11 per cent of cumulative FDI flows into ASEAN from 2010 to 2015, and United States MNEs are actively involved in sourcing arrangements, including contract manufacturing, in the region. On a global level, about 4.6 per cent of United States FDI worldwide is in ASEAN.

The majority of United States FDI in ASEAN – 72 per cent – is in the services sector. Manufacturing accounts for 20 per cent, and mining for the remainder. In the services sector, holding companies account for the largest portion of investment (65 per cent), and electronics accounts for the largest share in the manufacturing sector.

United States FDI is driven by a variety of factors. Many United States companies use ASEAN as a production platform (efficiency-seeking) and a base from which to sell to regional and global markets. About 60 per cent of the total sales recorded by United States companies in the region are in markets outside the host country. Of sales outside the host country, over 90 per cent are sales to countries other than the United States. American companies' operations in ASEAN account for 10 per cent of their global sales, even though, as just mentioned, ASEAN is the destination for less than 5 per cent of United States global investment. United States affiliates generated 21.3 per cent of ASEAN's \$1.5 trillion in total exports of goods and services in 2013, up slightly from the figure of 20.2 per cent in 2010. Access to natural resources has led to investment in mining and in oil and gas operations in the region by United States companies.

United States companies also have substantial sourcing operations in ASEAN through contractual arrangements, which involve hundreds of factories producing items such as footwear and apparel. These contractors – commonly companies from the Republic of Korea or Taiwan Province of China – often produce exclusively, or primarily, for United States brands. To support their operations in ASEAN, some United States companies also bring their larger suppliers with them (e.g. General Motors and Seagate). In turn, their suppliers

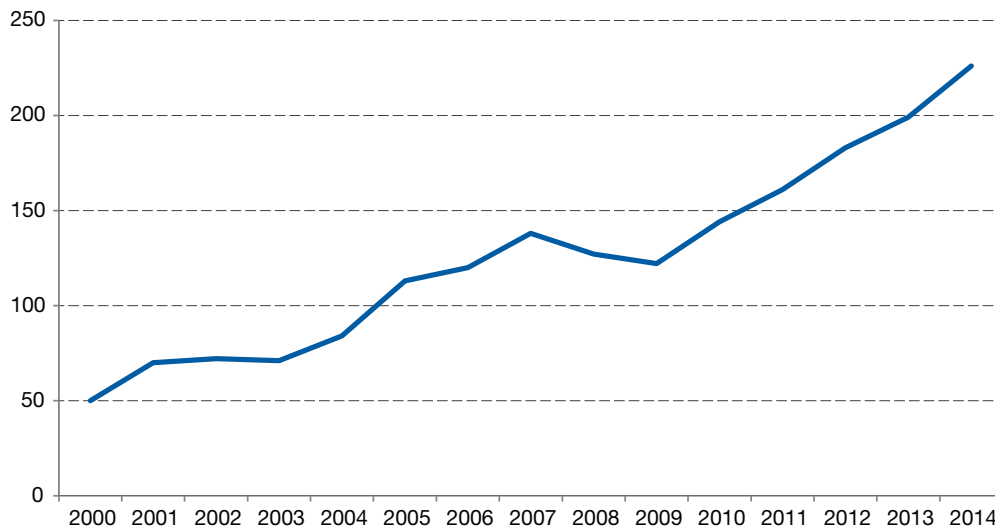
procure raw materials, components, subassemblies, and other primary and intermediate products in the local market. In this fashion, they assist local MSMEs in upgrading their product quality and standards, and in participating in the larger companies’ regional and global supply chains.

Many United States MNEs continue to expand their regional footprint in ASEAN, where most have operations in a number of Member States. They invest through greenfield projects, expansion of existing operations, and merger and acquisition (M&A). Favourable returns to investment and growing regional opportunities have also played a role in encouraging their investment and operations in the region.

3.2. The importance of ASEAN to United States FDI

United States investments in ASEAN have grown sharply since the turn of the century. In 2000, the United States direct investment position in ASEAN stood at \$50.4 billion (figure 3.1). By 2005, it had more than doubled, reaching \$112.9 billion, and by 2014 it had repeated the feat, reaching \$226 billion – which is equivalent to the size of the economies of Cambodia, the Lao People’s Democratic Republic and Viet Nam combined. This growth trajectory has been steady, especially following the slight dip during the global financial crisis.

Figure 3.1. United States direct investment position in ASEAN, 2000-2014
(Millions of dollars)



Source: United States Bureau of Economic Analysis.

Notes: On an historical-cost basis, the United States direct investment position reflects the book value of investors’ equity in, and net outstanding loans to, their foreign affiliates. Equity includes capital stock, additional paid-in capital, retained earnings and cumulative translation adjustments.

Data covers Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam.

ASEAN is an important destination for United States investment compared with other parts of Asia. As a proportion of United States FDI worldwide, the amount directed to ASEAN is relatively small. However, more than 30 per cent of United States direct investment in Asia is in ASEAN, and this number is greater than the combined total of United States investment in China, Japan and the Republic of Korea. Before the global financial crisis, ASEAN accounted for 5 per cent of United States direct investment abroad. This figure fell to as low as 3.4 per cent during and in the immediate aftermath of the crisis but has since recovered to 4.6 per cent in 2014 (table 3.1).

Table 3.1. ASEAN: Largest destination for United States investment in Asia, 2010–2014
(Billions of dollars and per cent)

	World	Asia	ASEAN	ASEAN share of global (%)	ASEAN share of Asia (%)
2010	3,741.9	570.1	143.5	3.8	25.2
2011	4,050.0	591.7	159.8	3.9	27.0
2012	4,410.0	672.8	182.3	4.1	27.1
2013	4,693.3	696.4	198.0	4.2	28.4
2014	4,920.6	738.9	226.0	4.6	30.6

Source: United States Bureau of Economic Analysis.

Note: Asia covers South, East and Southeast Asia.

3.3. The significance of United States FDI in ASEAN

The United States is a major source of FDI in ASEAN. Between 2010 and 2015, the United States accounted for an 11 per cent share of FDI in the region (table 3.2). Flows of inward direct investment to ASEAN from the United States trailed off sharply during the global financial crisis in 2008–2009 but recovered to \$13.7 billion in 2010 and rose to a historical high of nearly \$19.8 billion in 2012, before falling sharply the following year. United States companies invested some \$12 billion in ASEAN in 2015. Since 2000, inflows of United States FDI in ASEAN have lagged well behind those of the European Union, and alternated

Table 3.2. FDI flows in ASEAN, selected countries and region, 2010–2015
(Millions of dollars and per cent)

	2010	2011	2012	2013	2014	2015 ^a	2010–2015	
							Annual average	Share of ASEAN (%)
Intra-ASEAN	16,307	15,198	23,961	19,562	22,266	21,938	19,872	17.4
European Union 28	21,145	24,190	1,670	24,511	25,029	19,640	19,364	16.9
Japan	12,987	8,284	14,851	24,750	15,699	17,324	15,649	13.7
United States	13,682	9,040	19,845	7,157	14,572	12,185	12,747	11.1
China	3,489	7,160	8,070	6,426	7,016	8,161	6,720	5.9
ASEAN total	108,175	86,839	117,099	124,865	130,049	119,412	114,406	100

Source: ASEAN Secretariat, ASEAN FDI Database (accessed 3 June 2016).

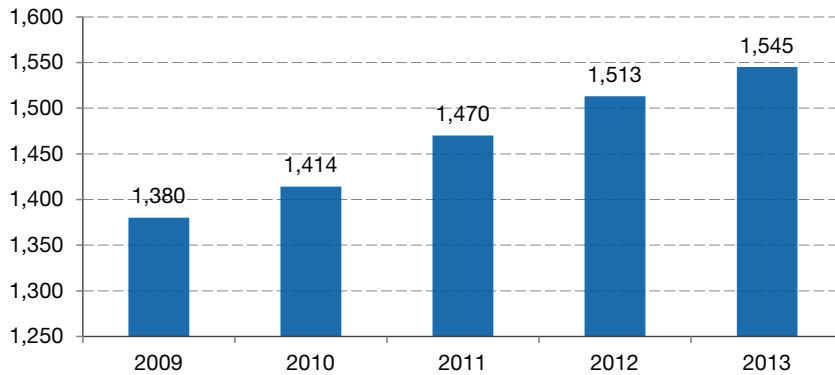
Note: Ranked by 2015 FDI inflows.

^a preliminary.

behind or slightly ahead of those from Japan.² Nonetheless, United States was the fourth largest source of FDI in ASEAN between 2010 and 2015, after intra-ASEAN investment, FDI from the European Union and FDI from Japan.

ASEAN hosts the largest number of United States companies in Asia. By one measure, at the end of 2013 (latest year for which data are available), United States companies had

Figure 3.2. Number of United States corporate affiliates in ASEAN, 2009–2013

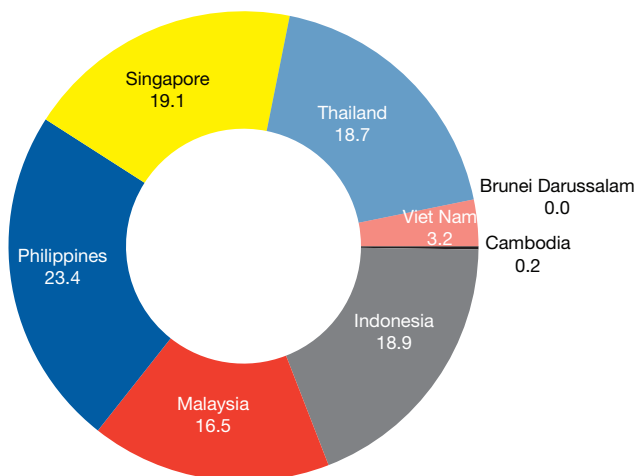


Source: United States Bureau of Economic Analysis.
 Note: Affiliates with assets, sales or net income (+/-) greater than \$25 million. Data are latest available as of May 2016.

1,545 affiliates in ASEAN as compared with 1,177 affiliates in China, 842 in Australia and 660 in Japan (figure 3.2).³ About half of the affiliates in ASEAN are in Singapore, and nearly all of them are majority-owned by the United States parent.

These affiliates in ASEAN directly employed over 900,000 workers and generated over \$22 billion in remuneration in 2013 (figure 3.3).⁴ These figures do not include employment generated by suppliers or

Figure 3.3. Employment by American companies in ASEAN, 2013 (Per cent)



Source: United States Bureau of Economic Analysis.
 Note: More than 900,000 people directly employed in 2013.

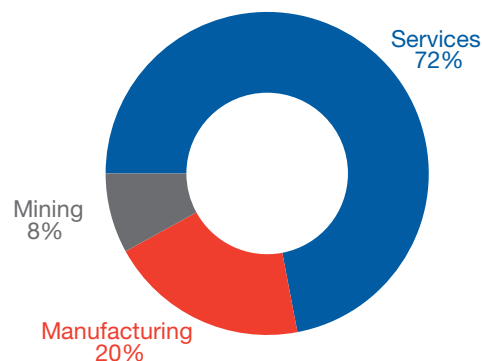
contractors linked with United States MNEs in the region. Suppliers to Nike alone, for example, employ more than 600,000 workers in ASEAN.

United States companies generate economic impact in manufacturing and services industries (section 3.4), where most United States FDI is concentrated, including in knowledge-intensive and high-value-added sectors. They create significant business linkages involving suppliers and contractors operating in the region. For instance, Caterpillar directly employs some 2,000 people in ASEAN and supports 9,000 jobs at its dealerships across the region.

3.4. United States investments and MNEs in ASEAN

The United States is primarily a service economy, and the majority of its overseas investments are similarly in service industries. At the end of 2014, United States manufacturing investment in ASEAN stood at \$45.8 billion, mining investment was \$16.9 billion, and the lion's share – in services – of \$163 billion was in a variety of industries (figure 3.4).⁵ FDI in holding companies (non-bank) account for 65 per cent share of United States investment in services in ASEAN and most of these investments are in Singapore. United States companies in many industries (e.g. manufacturing and services) have established a presence in multiple ASEAN Member States (table 3.3).

Figure 3.4. United States investment in ASEAN, by sector, 2014 (Per cent)



Source: United States Bureau of Economic Analysis.
Note: Total United States FDI in ASEAN at the end of 2014 stood at \$226 billion.

Table 3.3. United States MNEs in ASEAN, 2015 (selected cases)

Company	Industry or activities	Presence in ASEAN (selected locations)
3M Company	Conglomerate	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Abbott Laboratories	Health care	Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
American Express Company	Banking and financial services	Brunei Darussalam, Indonesia, Malaysia, Singapore, Thailand
American International Group	Insurance and financial services	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Amphenol Corporation	Electrical and electronic manufacturing	Indonesia, Malaysia, Singapore, Viet Nam
Aon Corporation	Financial services	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Autoliv	Automotive	Indonesia, Malaysia, Philippines, Thailand
Bank of America	Banking and financial services	Indonesia, Malaysia, Philippines, Singapore, Thailand
Baxter International	Medical devices	Singapore, Thailand
Becton, Dickinson and Company	Medical devices	Indonesia, Malaysia, Philippines, Singapore, Thailand
Boeing Company	Aerospace and defense	Malaysia, Singapore
Cargill	Trading	Malaysia, Philippines, Viet Nam
Caterpillar	Heavy equipment	Indonesia, Malaysia, Philippines, Singapore, Thailand
Chevron Corporation	Oil and gas	Indonesia, Philippines, Singapore, Thailand
Cisco Systems	Networking equipment	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Citigroup	Banking and financial services	Malaysia, Philippines, Singapore, Viet Nam
Coca-Cola Company	Beverage	Indonesia, Philippines, Singapore, Viet Nam
Cognizant Technology Solutions Corporation	IT services and IT consulting	Malaysia, Philippines, Singapore, Thailand

Table 3.3. United States MNEs in ASEAN, 2015 (selected cases) (continued)

Company	Industry or activities	Presence in ASEAN (selected locations)
Convergys Corporation	IT, outsourcing and consultancy	Indonesia, Malaysia, Philippines, Singapore, Thailand
Cummins	Automotive	Malaysia, Philippines, Singapore
Deere	Heavy equipment	Singapore, Thailand
Dell	Computer hardware and software	Indonesia, Malaysia, Philippines, Singapore, Thailand
Dow Chemical	Chemicals	Indonesia, Malaysia, Philippines, Singapore, Thailand
E. I. DuPont De Nemours and Company	Chemicals	Indonesia, Philippines, Singapore, Thailand, Viet Nam
Ecolab	Conglomerate	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
EMC Corporation	Computer storage	Malaysia, Singapore, Thailand
Emerson Electric	Electrical equipment	Indonesia, Malaysia, Philippines, Singapore, Thailand
ExxonMobil Corporation	Oil and gas	Malaysia, Singapore, Thailand
Gap	Retail	Singapore, Thailand
General Dynamics	Aerospace and defence	Malaysia, Singapore
General Electric	Conglomerate	Philippines, Singapore, Thailand
General Motors	Automobile	Indonesia, Philippines, Singapore, Thailand, Viet Nam
Goodyear Tire and Rubber	Manufacturing	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Hanesbrands	Consumer goods	Indonesia, Philippines, Thailand, Viet Nam
Hilton Worldwide Holding	Hospitality, hotels	Indonesia, Malaysia, Myanmar, Singapore, Thailand
Honeywell International Inc.	Conglomerate	Malaysia, Singapore
HP	Information technology	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
IBM	Technology and consulting	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Illinois Tool Works	Manufacturing	Indonesia, Malaysia, Philippines, Singapore, Thailand
International Paper	Paper and forest products	Indonesia, Malaysia, Singapore, Thailand
Jabil Circuit	Electronics manufacturing services	Indonesia, Singapore, Malaysia, Thailand, Viet Nam
Jacobs Engineering Group	Engineering and construction	Malaysia, Singapore
Johnson and Johnson	Medical equipment, pharmaceutical	Indonesia, Malaysia, Philippines, Singapore, Thailand
JPMorgan Chase	Banking and financial services	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Lear Corporation	Manufacturing	Indonesia, Malaysia, Singapore, Thailand, Viet Nam
Marriott International	Hospitality	Indonesia, Malaysia, Philippines, Singapore, Thailand
Marsh & McLennan Companies	Insurance brokers and professional services	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Merck	Pharmaceuticals	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Metlife	Financial services	Singapore, Thailand
Microsoft	Computer software, hardware and electronics	Malaysia, Singapore, Viet Nam
Mondelez International	Food processing	Thailand, Philippines, Singapore, Indonesia, Malaysia

Table 3.3. United States MNEs in ASEAN, 2015 (selected cases) (concluded)

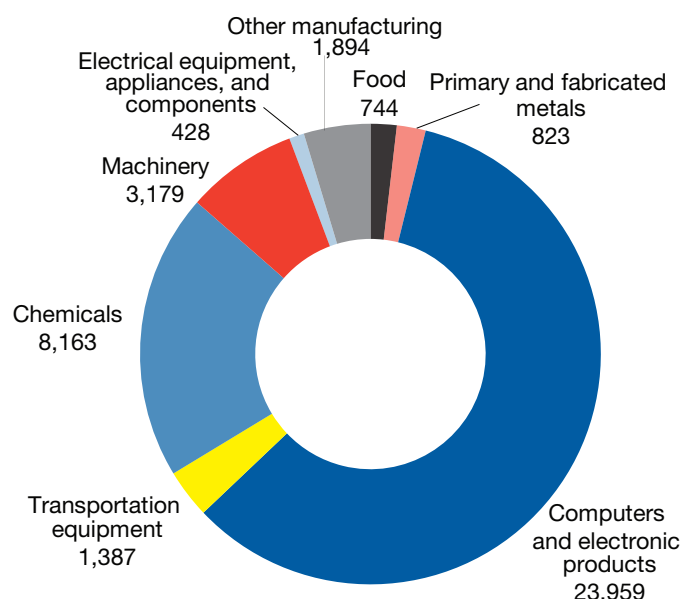
Company	Industry or activities	Presence in ASEAN (selected locations)
Morgan Stanley	Banking and financial services	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
National Oilwell Varco	Oil and energy	Brunei Darussalam, Indonesia, Malaysia, Singapore, Viet Nam
Nike	Apparel, accessories	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Omnicom Group	Advertising, public relations	Malaysia, Singapore
Oracle Corporation	Enterprise software and cloud computing	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Parker Hannifin Corporation	Mechanical or industrial engineering	Indonesia, Malaysia, Singapore, Thailand, Viet Nam
PepsiCo	Food, snack and beverage	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Pfizer	Pharmaceutical	Indonesia, Malaysia, Philippines, Singapore, Thailand
Philip Morris International	Tobacco	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
PPG Industries	Chemicals	Indonesia, Malaysia, Philippines, Singapore, Thailand
R. R. Donnelley & Sons Company	Commercial printing	Philippines, Singapore
Stanley Black & Decker	Consumer goods	Indonesia, Malaysia, Singapore, Thailand
Starbucks	Coffee	Singapore, Thailand
Synnex Corporation	Supply chain and electronics manufacturing services	Malaysia, Philippines, Singapore
Toys R Us	Retail	Malaysia, Singapore, Thailand
TRW Automotive Holding Corporation	Automotive	Malaysia, Singapore, Thailand
Tyson Food	Food processing	Philippines, Thailand
Unilever	Consumer goods	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Wells Fargo	Banking and financial services	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
Western Digital Corporation	Computer data storage	Malaysia, Philippines, Singapore, Thailand
Whirlpool Corporation	Home appliance	Malaysia, Singapore, Thailand
Xerox Corporation	Document services	Malaysia, Philippines, Singapore
Yum! Brands	Fast food	Singapore, Thailand

Source: UNCTAD–ASEAN Investment Report 2016 research, based on Orbis database.

3.4.1. Manufacturing industries

United States FDI in the manufacturing sector has grown steadily, from \$22.4 billion in 2005 to almost \$46 billion in 2014, some \$32 billion of it directed to Singapore. About 50 per cent of United States manufacturing investment in the region is concentrated in computers and electronics, and about 20 per cent in chemicals (including petrochemicals) (figure 3.5).

Figure 3.5. United States manufacturing investment position in ASEAN, 2014 (Millions of dollars)



Source: United States Bureau of Economic Analysis (BEA).

Note: The BEA suppresses certain data to protect the confidentiality of companies in cases where only one or two companies account for the bulk of investment or sales in a particular sector in a specific country. Therefore, although BEA data show that total United States manufacturing investment in ASEAN is \$46 billion, not all data at the subsector level are disclosed. For this reason, the disaggregated numbers do not add up to \$46 billion.

Computers and electronic products are the single largest sector for United States FDI in ASEAN; for more than five decades, the region has been an important production base for companies such as Intel, Seagate, Western Digital and Texas Instruments. By the 1960s, electronic firms were becoming increasingly interested in relocating labour-intensive parts of production outside the United States. Two of the earlier United States firms to outsource production to Singapore at that time were Texas Instruments and National Semiconductors.⁶

Manufacturing exports by the ASEAN-based affiliates of United States companies to the United States totalled \$34 billion in 2013, which was about 27 per cent of all United States

merchandise imports from ASEAN that year. However, manufacturing sales to the host countries were far larger, at \$103 billion. Sales to third countries totalled \$74 billion the same year. Computers and electronic products are the largest subsector of manufactured goods shipped by United States companies in ASEAN back to the United States; but at \$21.4 billion the sector accounts for much less than sales locally (\$33.1 billion) and in third-country markets (\$42 billion).⁷

ASEAN is a manufacturing hub and production-platform for United States MNEs in a number of industries and, consequently, driven by both market servicing and efficiency seeking reasons in the context of GVCs.

3.4.1.1. Electronics industry

The region is an important global hub for the production of hard-disk drives (HDDs), semiconductors, and related equipment and components for United States companies.

Hard disk drives

The HDD industry has been through a continuous consolidation process in the past 25 years. Only three players remain in the industry: Western Digital and Seagate, both of

which are American, and Toshiba, which is Japanese.⁸ The two United States players in the industry have a substantial investment presence in ASEAN.

Seagate, which established operations in Thailand in 1983, has two production plants with about 16,400 employees, where it manufactures drives and drive subassemblies.⁹ Over the past 30 years, the company has invested more than \$2.5 billion in Thailand. In Malaysia, it manufactures drive subassemblies, substrates, and test equipment and systems.¹⁰ In 2014, the company announced a five-year, \$327.5 million investment in Malaysia to expand its operations.¹¹ In 2015, Seagate opened a S\$100 million research and development (R&D) centre in Singapore to focus on the development of 2.5-inch, small form factor HDDs, as well as hybrid drives, firmware, software and other technologies. Seagate's production in ASEAN is exported to global markets: 55 per cent of the revenues from these exports are from the Asia-Pacific, 29 per cent from the Americas and 16 per cent from Europe, Middle East and Africa.

There is significant regional integration of and interdependency in Seagate's production footprint in ASEAN. Production sites and networks in ASEAN produce various components and technologies, which form a supply chain that ships output between locations and ultimately produces HDDs that are assembled in Thailand and China for global export.¹²

Like Seagate, Western Digital also has significant manufacturing operations in ASEAN (e.g. in Malaysia, the Philippines, Singapore and Thailand). The company manufactures HDDs, media and related components in these ASEAN locations. It has 29,000 employees in Thailand, making it the largest United States employer in the country, and has an additional 7,500 workers in the Philippines. Just under one-third of the company's 2015 revenue came from Asia, the largest portion of any geographic region.¹³ Between Western Digital and Seagate, half of the world's computer hard drives are manufactured in Thailand.¹⁴

Semiconductors

Intel, a major semiconductor producer, has facilities in Malaysia and Viet Nam. The Viet Nam's factory opened in 2006 began assembling and testing semiconductor components in 2010. It achieved over \$1.8 billion in exports in 2014, and the factory has provided more than 1,000 jobs and attracted 80 component providers, including Vietnamese ones.¹⁵ Eighty per cent of the world's CPUs for PCs around the world are now produced at the Viet Nam facility.

In Malaysia, Intel started operations in Penang in 1973. Since then, it has invested \$4 billion and used the facility to design and manufacture a range of products from core processors to CPUs. In 2013, it opened a new Penang facility, having shuttered two older operations in 2009.¹⁶ The Viet Nam site is Intel's largest overseas facility, while the Penang site has the company's largest manufacturing test team outside the United States.

Texas Instruments has also operated in the region for many years. It ships wafers from facilities in the United States, Japan, Germany and other advanced facilities to its production facilities in the Philippines and Malaysia, where wafers are cut, tested and packaged before

being sent on to product distribution centres or directly to customers. The company is one of the biggest employers and exporters in both countries. Chemicals related to its production processes are shipped in from all over the world, but not in significant amounts from within ASEAN. Close to 100 per cent of the output is exported out of the region.

3.4.1.2. Chemical industry

The three United States chemical and petrochemical companies in the top 10 players list – Dow, ExxonMobil and Dupont¹⁷ – have significant operations in ASEAN. Dow has been in the Philippines, where it has both a manufacturing facility and a business centre, for over 50 years.¹⁸ It has been in Indonesia, where it has manufacturing facilities for agrochemicals and specialty materials, for over 40 years. PT Dow Indonesia imports chemicals that serve a wide range of industries, while Dow AgroSciences imports and distributes agricultural chemical and urban pest management products.¹⁹

Dow does not source extensively from within ASEAN. Some inputs come from the United States and elsewhere, but its suppliers have not followed it into the region. However, output from its facilities in Thailand and other ASEAN Member States – chemical inputs to hundreds of products for industries such as automotive, food packaging and building materials – are sold within and outside ASEAN. Dow focuses more on the size of the market and ready access to reliable energy sources, as well as regulatory cooperation and harmonization of standards, with less emphasis on regional production networks.²⁰

ExxonMobil Chemical has operations in Singapore and Thailand. Its Singapore Chemical Plant is the company's largest integrated petrochemical complex in the world, and feedstock is provided by ExxonMobil's petroleum refining operations, also in Singapore.²¹ Its chemical plant in Sriracha (Thailand) began operations in 1999 and produces raw materials used in the production of polyester, film, packaging resin and fabrics.²²

DuPont is present in eight ASEAN countries and has operated in the region since 1973.²³ It serves a range of industries, including agriculture, automotive, building and construction, electronics, energy, food and beverage, health care and medical, marine, mining, packing and printing, and plastics. It operates in four locations in Indonesia, and one each in Malaysia and the Philippines. Its Singapore operations include a new innovation centre, and it has six agribusiness-focused operations in Thailand.²⁴

3.4.1.3. Machinery and equipment industry

Major United States companies have a presence in the machinery and equipment industry in ASEAN. Caterpillar is a leading United States producer of construction and earth-moving equipment and machinery, and one of the largest United States investors in this sector. It has been in ASEAN for nearly 50 years and has 2,000 direct employees in the region, in addition to 9,000 employees at its dealerships. The company has major manufacturing operations in Thailand to produce underground mining equipment and tractors. It also has manufacturing facilities in Jakarta and Batam (Indonesia), a remanufacturing facility

in Singapore and distribution centres around the region.²⁵ The company draws on the comparative advantages of respective ASEAN Member States to set up its domestic manufacturing and sales operations. Its regional ASEAN strategy involves capitalizing on Thailand's location as an export base to the rest of ASEAN and globally. Although Thailand continues to serve as Caterpillar's hub for the rest of ASEAN, the company has also made investments in Viet Nam to manufacture labour-intensive heavy welders.²⁶

General Electric (GE), a diversified United States manufacturer, has been present in ASEAN for over a century, and has operations in energy, health care, water, transportation, finance and media. It has over 8,000 employees in ASEAN, with significant operations in Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam.²⁷

GE has been in Indonesia since 1940, and has a turbine service facility in Bandung, oil and gas equipment manufacturing in Batam, and a light bulb manufacturing facility in Yogyakarta, the last of which produces for export.²⁸ In Malaysia, GE supplies equipment and services to organizations like TNB, Petronas, KTM and local water authorities. Its health care division supplies private and public hospitals with diagnostic imaging equipment and health care information systems. Its lighting division supplies stadiums and ports, and it runs an aircraft engine maintenance, repair and overhaul facility in Subang Jaya. GE's iCentre, established in Kuala Lumpur in 2014, is one of three such facilities around the world and monitors over 800 gas turbines and compressors in 27 countries.²⁹ In Singapore, GE has 3,400 employees, four manufacturing operations including aircraft engine components and oil and gas manufacturing and engineering for surface and subsurface systems, five engineering and application development teams, one R&D centre for water, two joint R&D collaborations between and GE Healthcare and GE Aviation with the Agency for Science, Technology & Research (Astar).³⁰

GE is one of Thailand's largest foreign investors with investments of more than \$1 billion in energy, aviation and health care.³¹ It runs a wind turbine manufacturing operation in Viet Nam in addition to providing after-sales services for medical, electrical and energy equipment.³² GE's investments in ASEAN typically serve the local market, with certain exceptions such as its wind turbine operation in Viet Nam. In Indonesia, it imports locomotive kits from the United States which are then assembled locally.

3.4.1.4. Automotive industry

Ford and General Motors (GM) are the two United States automobile manufacturers with a presence in the region. Unlike their Japanese rivals, such as Toyota, Ford and GM only started significant manufacturing in ASEAN in the 1990s, and thus have comparatively weaker supplier and distribution networks. Japanese automakers account for more than 80 per cent of the total regional market share for both auto production and auto parts manufacturing.³³

Ford Motor Company established its ASEAN regional headquarters in Bangkok in 2003. Its wholly owned and joint-venture operations in Thailand currently employ about 10,000 people. Ford is also one of the largest automotive investors in Thailand, with cumulative

investments totalling more than \$2.5 billion since 1995. This includes \$450 million for its passenger car production facility in Rayong, the output of which is sold in the domestic market and exported across the region. Ford also invested an additional \$377 million in 2011 to upgrade and expand production of pickup trucks at its AutoAlliance Thailand operation. It also has a joint venture in Viet Nam, which assembles a variety of passenger and commercial vehicle models.³⁴ In addition, it has a smaller joint-venture operation in Malaysia.

In 2014, GM split its Asian operations into two separate business units – one focused solely on China and another focused on ASEAN as well as the remaining Asian countries (including the Middle East). The ASEAN-focused business unit is headquartered in Singapore. In Thailand, GM produces for the ASEAN and Australian markets.³⁵ Of the company's total production of trucks and SUVs in Thailand, more than half are sold in Australia and New Zealand, and just under half are sold in ASEAN. The remainder is sold to countries in the Middle East and other markets.³⁶

Some of GM's key suppliers have followed it into the markets where it operates. For instance, companies such as American Axle, Guardian Industries and Lear Wiring have facilities in Thailand that supply to GM. Through development work done with Isuzu, GM is also able to piggyback on some of the latter's suppliers. In addition, GM's tier 1 suppliers utilize local tier 2 and tier 3 suppliers, thus building up the capacity of the indigenous industry and integrating local firms into GM's supply chain.³⁷

3.4.1.5. Consumer goods industry

Procter & Gamble, a major United States producer of a wide range of consumer goods, is one of the largest consumer goods companies in ASEAN. It employs more than 4,500 people across six Member States in eight manufacturing sites, eight mega-distribution centres, and a business service centre. Singapore serves as its regional headquarters in the Asia-Pacific, hosting regional and global business units as well as a \$250 million R&D facility. It has a business service centre in the Philippines, and Thailand serves as the marketing hub for its beauty, fabric and home care products.

P&G has manufacturing operations in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam. Its broad manufacturing footprint in ASEAN covers the full spectrum of the company's value chain. For instance, P&G's \$50 million oleochemicals plant in Malaysia processes feedstock from Indonesia and Malaysia into chemicals that go to other P&G plants in ASEAN and other parts of the world as raw materials (ASEAN Secretariat and UNCTAD 2014). In Thailand, P&G's hair care manufacturing plant is the company's largest hair care export plant in the world, while its Cabuyao plant in the Philippines is P&G's largest multi-category manufacturing plant in Asia.

The company also seeks to source raw materials and other inputs from within the region, but its ability to do so varies with the type of input (table 3.4). On an overall dollar basis, for its raw materials (chemicals plus hygiene related inputs plus packing material), P&G

imports 22 per cent into ASEAN and sources 78 per cent locally. Several large United States suppliers such as Dow, DuPont and Stepan Chemicals have set up facilities in ASEAN to serve P&G. P&G also imports from a smaller set of United States suppliers in ASEAN, including from companies such as Momentive, Encapsys and Eastman.³⁸

Table 3.4. P&G spending on sourcing within ASEAN, 2015 (Per cent)

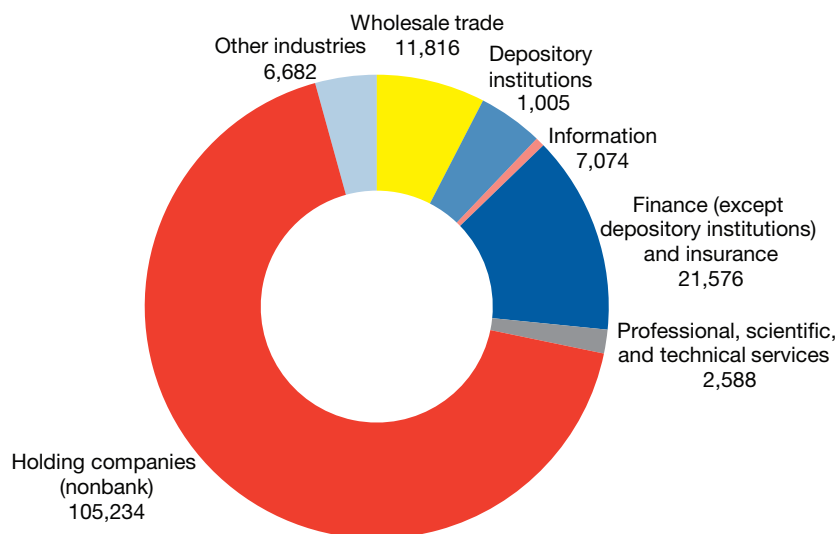
Types of input materials	Per cent sourced within ASEAN
Chemicals and ingredients	81
Hygiene material	34
Packing material	80

Source: Procter & Gamble.

3.4.2. Services industries

The preponderance of United States investment in the region is in the services sector. Within services, nonbank holding companies account for the largest share of investment by far (65 per cent), and followed by finance companies (except depository institutions) and insurance firms (figure 3.6). As is the case with manufacturing, the bulk of United States services investment in ASEAN is directed to Singapore. Total United States services investment in Singapore is over \$100 billion, and most of that is in holding companies.³⁹

Figure 3.6. United States services investment in ASEAN, 2014 (Millions of dollars)



Source: United States Bureau of Economic Analysis (BEA).

Much of the FDI flows to Singapore end up in other countries, often in other ASEAN Member States.⁴⁰ In Indonesia, for example, some of the investment officially listed as Singaporean is actually from United States companies' regional subsidiaries based in Singapore.⁴¹ For this and other reasons (e.g. supplier networks), United States MNEs' presence and investment in ASEAN is underreported.

3.4.2.1. Insurance industry

In the insurance sector, United States companies have increased their investments in recent years through a series of cross-border M&A deals. In 2014, MetLife acquired a stake in AmLife Insurance Berhad and AmFamily Takaful Berhad. Prudential Financial invested \$158

million in a deal in 2013 with Malaysia's Uni Asia Life Assurance Bhd. AIA acquired ING Management Holdings in Malaysia in 2012 in a \$1.7 billion deal, and ACE Ltd. purchased an 80 per cent stake in Indonesia's PT Asuransi Jaya Proteksi.⁴²

AIA is the market leader among United States insurance companies in ASEAN; its market share in the region derives from Indonesia (4 per cent), Malaysia (15 per cent before the ING Malaysia acquisition), the Philippines (12 per cent), Singapore (21 per cent), Thailand (26 per cent) and Viet Nam (9 per cent).⁴³

United States insurance companies see potential in the ASEAN region given its growth, and the underdeveloped social protection systems in many Member States. None of the ASEAN Member States seek to build centrally funded social welfare systems; therefore private insurance will retain an integral role in both private and public provision.

3.4.2.2. IT services

Although United States companies have been leaders in computer equipment and hardware, the trend at such companies in more recent years has been to focus on higher-margin IT services. IBM's sale of its PC business is a prominent example, as is HP's restructuring into two companies, one focused on enterprise services and the other on PCs and printers. These companies pursue services-focused investments in ASEAN. For example, in September 2015, IBM launched its Smarter Commerce Centre of Competency (SCCOC) in Singapore to help clients improve process efficiency, create new market opportunities and accelerate the digitisation of businesses. The Centre will also train local staff in software development and analytics to serve the Asia-Pacific region. The SCCOC aims to employ more than 30 research scientists and engineers by the end of 2017 to oversee the development of products and solutions.⁴⁴ In Malaysia, IBM entered into a joint venture in 2014 with VADS Bhd., a subsidiary of Telekom Malaysia Bhd, to offer customized virtual private cloud services for large enterprises. The deployment will also include backup and disaster recovery services to ensure data protection and business continuity.⁴⁵ In late 2015, IBM launched a consulting practice in Thailand focused on cognitive computing, the stimulation of human thought processes in a computerized model. The company is now working with retailers and banks to get them to adopt these solutions on the IBM Watson cloud-based platform.⁴⁶

In late 2015, HP Singapore split into two smaller firms, with HP Enterprises selling IT solutions and HP Inc. focusing on PCs and printers. HP Inc.'s global printer division runs the global printer supply chain in Singapore, and its factories there produce printer heads and inks, among other items. HP Enterprises also has a manufacturing facility for servers. HP Labs, which works on new innovations, has a facility in Singapore.⁴⁷ In early 2016, HP's Thailand operation announced plans to expand into Myanmar, Cambodia, and the Lao People's Democratic Republic, using Thailand as a digital hub. As such, it will provide marketing, consultant work and products to these three ASEAN Member States.⁴⁸

3.4.2.3. Banking industry

Citibank has been in the region for well over a century and is looking to enhance its regional operations as the ASEAN Economic Community (AEC) moves forward. The 2004 free trade agreement signed between Singapore and the United States lifted restrictions on the number of branches it could open, allowing it to expand from a single branch and 4 ATMs before the free trade agreement to 1,600 access points, including 23 branches and 174 Citibank ATMs. In addition to its aggressive retail strategy, Citibank is now the largest issuer of Visa credit cards in Singapore: half the country's credit holders have Citibank cards. The company has more than 10,000 local staff, making it the largest employer in the banking sector.

The AEC is a new frontier for the bank. Citibank continues to open branches in the region. Deeper regional integration is expected to boost manufacturing activities in ASEAN, which in turn will increase demand for financial services. Such regional development is expected to encourage Citibank to further strengthen its position in ASEAN to capitalize on the growing regional market.⁴⁹

3.4.2.4. Engineering industry

United States companies such as Bechtel, Black & Veatch, Fluor and Halliburton are active in the region, particularly in providing construction and engineering services for infrastructure development across ASEAN (ASEAN Secretariat and UNCTAD 2015). In May 2015, Black & Veatch was selected by a subsidiary of Vietnam Electricity to be the project technical lead on the expansion of the Duyen Hai 3 power plant, a 688 megawatt plant to be completed by 2018. Black & Veatch will provide plant engineering liaison and commissioning, as well as some procurement for the \$1 billion project.⁵⁰ In Indonesia, the company has a long-standing partnership with PLN, the national electricity utility. In November 2015 it was chosen by PLN as a part of consortium to build a 315 megawatt coal-fired plant.

In 2014, Texas-based Fluor Corporation was selected by BASF Petronas Chemicals (Malaysia) to provide engineering, procurement and construction management services for an integrated aroma ingredients facility in Kuantan. In a separate project, Petronas chose Fluor to provide engineering, procurement and construction management for its Refinery and Petrochemical Integrated Development (RAPID) project in Johor. The refinery is expected to commence operations by early 2019. In addition to the work in Malaysia, the company has a portfolio of projects across Thailand, Indonesia and the Philippines.⁵¹

3.4.3. Mining industry

Access to raw materials is a major determinant of United States FDI in some ASEAN Member States. For example, United States companies were estimated to have invested \$61 billion in Indonesia from 2004 to 2012, primarily in the oil and gas sector, although much of this is reported as investment from Singapore.⁵² The United States direct investment

position in the mining sector in Indonesia in 2014 was \$9.9 billion, out of its total of \$13.5 billion in investment in all industries. In Malaysia, United States investment in mining was \$4.8 billion, out of a total of \$14.4 billion in investment in all industries. In other ASEAN Member States, mining attracts a much smaller portion of the total of United States investments.

PT Freeport Indonesia began mining operations in 1972, and in 1988 discovered the Grasberg mine. Today, after significant production work, the Grasberg mining district contains one of the world's largest recoverable copper reserves and the largest gold reserve.⁵³ Output is sold primarily to international smelters. Alcoa has a Cooperation Agreement with Vietnam National Coal-Minerals Industries Group (Vinacomin), for development of the aluminium industry in Viet Nam.⁵⁴ Newmont Mining operates the Batu Hijau mine in Indonesia's Nusa Tenggara Province, a deposit with small amounts of gold and silver. Batu Hijau's copper concentrate is shipped to a number of smelters in the country and overseas.⁵⁵

3.5. Drivers, motivations and strategies of United States MNEs in ASEAN

In general, the drivers and motivations of United States FDI in ASEAN can be categorized under three main sets of reasons, aside from using the region as a production platform (efficiency-seeking): to serve the host-country market with goods and services produced locally, and to access raw materials or other resources (table 3.5).⁵⁶ Some United States companies also use a sourcing and/or contracting model, whereby substantial investments in the region by non-United States companies are dedicated solely or largely to serving United States brands and customers, i.e. efficiency seeking through contractual modes.

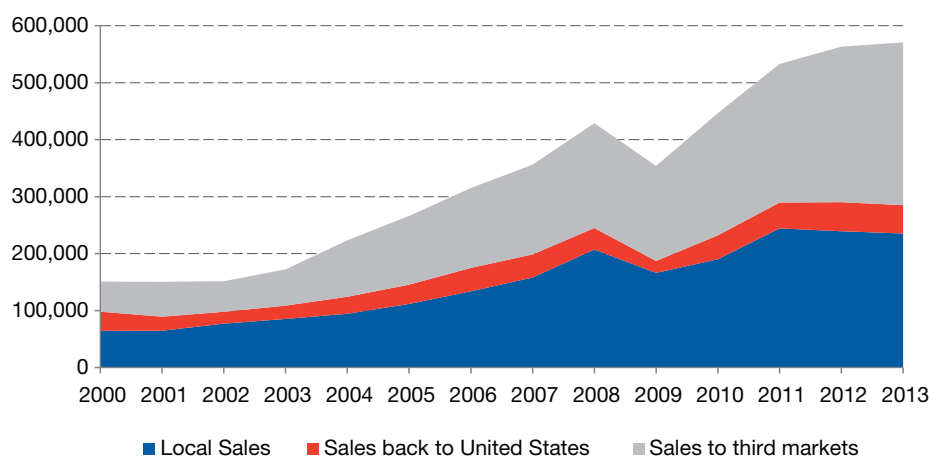
Table 3.5. Drivers and motivations of United States FDI/MNE in ASEAN (selected cases)

MNE/FDI	Industry	Key reasons for FDI
DuPont and Stepan Chemicals	Chemical	Set up facilities in ASEAN to serve customers (primarily market-seeking).
GE	Diversified	To serve local markets in infrastructure equipment (e.g. turbines).
Ford	Automotive	Local market seeking
Axle and Lear Wiring	Automotive parts	Follow or supply to customers (such as GM) from home; local market factors also play an important role (market seeking)
Texas Instruments	Semiconductors	Set up facilities in ASEAN to serve global markets (primarily efficiency seeking)
Seagate	HDDs	Set up facilities in ASEAN to serve regional and global markets (primarily efficiency seeking)
AIA	Insurance	To serve local markets
Fluor Corporation	Construction engineering	To serve local markets
Freeport McMoRan	Mining	Access to raw materials for sale to regional and global markets

Source: Compiled from Section 3.4 of this chapter.

Production for the local market is a major driver of United States FDI. In 2013, United States sales of goods and services by majority-owned affiliates of United States companies in ASEAN amounted to \$570 billion. Of this, \$235 billion, or approximately 40 per cent, derived from

Figure 3.7. Sales by United States affiliates in ASEAN, 2000–2013
(Millions of dollars)



Source: United States Bureau of Economic Analysis (BEA).

Export production is another major factor in United States investment decisions in the region (table 3.6). United States companies accounted for \$335 billion in ASEAN exports in 2013, representing almost 60 per cent of the total sales of United States companies' ASEAN affiliates and one-quarter of ASEAN's total exports that year. Of that total, a relatively small portion (\$49 billion) was in the form of exports back to the United States. ASEAN is therefore an important hub for United States companies' regional and global operations, and United States companies in turn are contributing substantially to the region's balance of trade.

United States companies are generally not producing in ASEAN for the purpose of selling into the United States market; the data show that the relative share of sales of United States affiliates of goods and services exported back to the United States has dropped sharply, from 22 per cent at the turn of the century to less than 9 per cent in 2013 (figure 3.8). In other words, ASEAN is a global hub and, in some cases, a "home from home" for United States MNEs.

sales in the local market (figure 3.7). These \$570 billion in sales represent 10 per cent of all United States affiliate sales that year worldwide. Although, as noted earlier, ASEAN is the destination for less than 5 per cent of United States global investment, it accounts for 10 per cent of the global sales of United States MNEs.

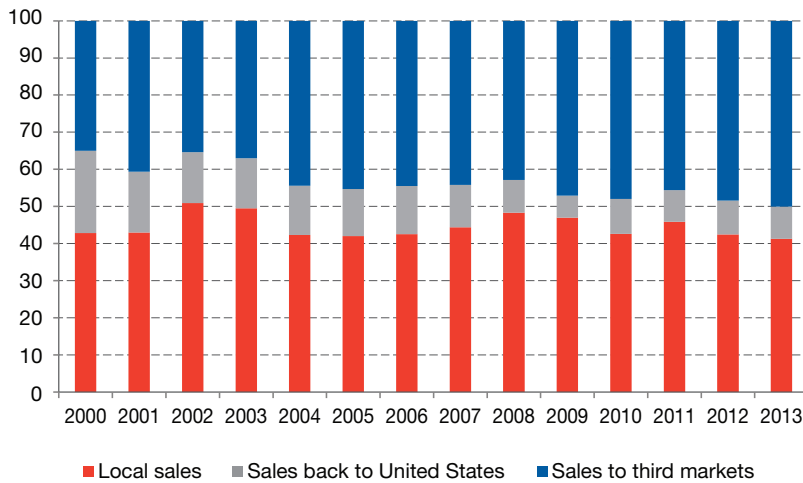
Table 3.6.

Goods and services supplied by United States affiliates to foreign countries other than the host-country, 2013
(Millions of dollars)

Country	Value
Indonesia	14,884
Malaysia	26,371
Philippines	9,096
Singapore	262,748
Thailand	22,224
ASEAN	335,323

Source: United States Bureau of Economic Analysis.

Figure 3.8. ASEAN-based United States affiliate sales, by destination, 2000–2013 (Millions of dollars)



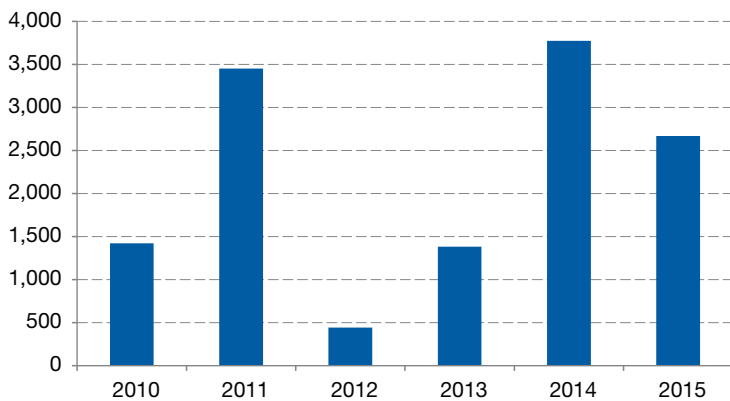
Source: United States Bureau of Economic Analysis (BEA).

ASEAN is a profitable market for United States companies. Following the global financial crisis, United States companies' net income rose from \$40 billion in 2009 to \$55 billion the next year, to \$66 billion in 2011. Sales flattened or declined slightly in the following two years, to \$60 billion in 2013, due primarily to declining sales in Indonesia and Singapore. This compares with net income in 2013 for United States companies of \$21 billion in China, \$14 billion in Hong Kong (China), \$13 billion in Australia and \$12 billion in Japan.

3.6. Mergers and acquisitions

United States companies are active in using M&As to enter ASEAN (figure 3.9). During 2010–2015, they carried out 290 such transactions, worth \$13.1 billion in all. The number of transactions varied between 43 and 56 deals per year during this period. M&A activity was diversified across a number of industries. High technology was the largest sector, followed by consumer products and services, materials, industrials and financials, media and entertainment, real estate and other sectors (figure 3.10).

Figure 3.9. United States cross-border M&A transactions in ASEAN, 2010–2015 (Millions of dollars)

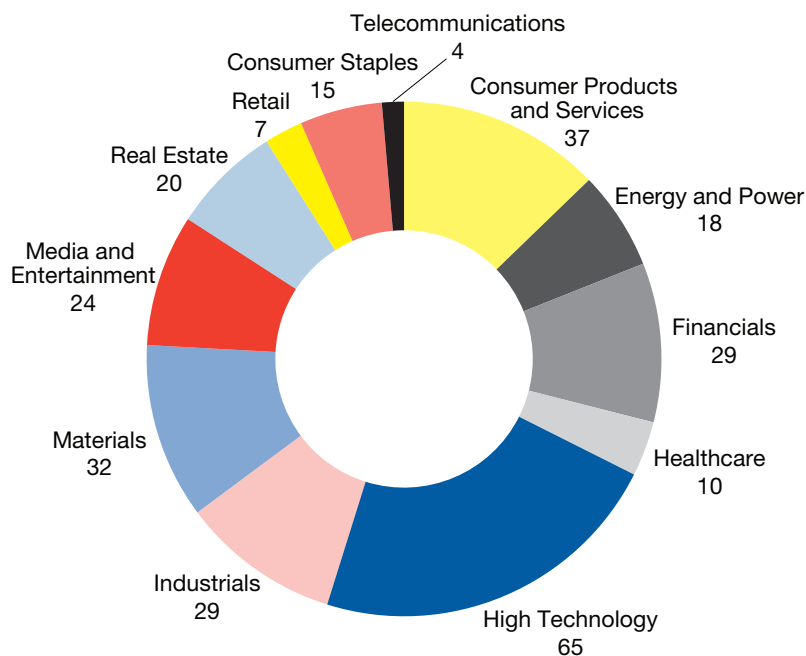


Source: Institute for Mergers & Acquisitions.

The total value of these transactions varies greatly across sector. For example, the 65 transactions in high technology were worth \$2.7 billion, while 18 in energy and power were valued at \$2.4 billion (figure 3.10). The 37 M&As in consumer products totalled \$1.5 billion, 29 in financials were \$1.4 billion, just slightly ahead of the figure for industries

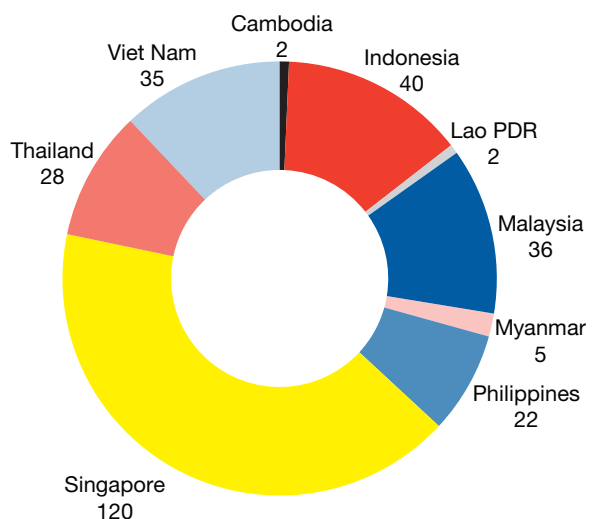
power were valued at \$2.4 billion (figure 3.10). The 37 M&As in consumer products totalled \$1.5 billion, 29 in financials were \$1.4 billion, just slightly ahead of the figure for industries

Figure 3.10. United States cross-border M&As in ASEAN, by industry, 2010–2015 (Number of deals)



Source: Institute for Mergers & Acquisitions.

Figure 3.11. United States cross-border M&As in ASEAN, by country, 2010–2015 (Number of deals)



Source: Institute for Mergers & Acquisitions.

and 15 transactions in consumer staples were worth \$1.3 billion. The remaining sectors were all under \$1 billion.⁵⁷ Singapore was the top target country, followed by Indonesia, Malaysia, Viet Nam, Thailand and the Philippines (figure 3.11).

Some notable examples include Sun Edison’s \$580 million acquisition of Singapore’s Continuum Wind Energy, Cargill’s deal with Indonesia’s Poliplant Group, Mondelez’s \$375 million stake in Viet Nam’s Kinh Do snack food operation, Colgate-Palmolive’s \$100 million acquisition of Myanmar’s Laser Toothpaste and Metlife’s \$250 million stake in Malaysia’s AmLife Insurance Bhd (annex table 3.1).

3.7. United States MNE and MSME linkages through sourcing and contract manufacturing

The operations of United States MNEs in ASEAN have generated linkages with ASEAN MSMEs through contractual arrangements with the latter, for instance as subcontractors and franchisees (e.g. to KFC and Pizza Hut). These linkages, which facilitate ASEAN MSMEs entry into regional and global value chains, can be fostered by United States MNEs located in ASEAN (as in the case of the HDD industry), but can also be set up directly from the United States itself or through intermediate companies, often based in Hong Kong (China), the Republic of Korea and Taiwan Province of China (as well as in ASEAN itself).

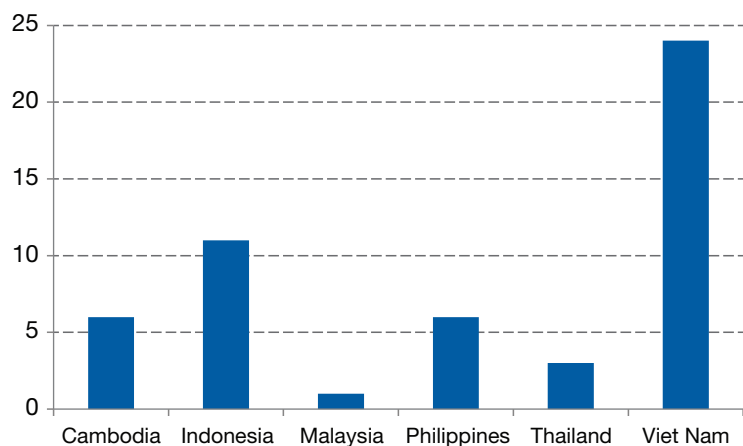
Many United States companies source from contract manufacturers across ASEAN but do not own or have financial stakes in these operations.⁵⁸ Examples of United States companies using this business model include Nike, New Balance, Gap and Target. Contract companies from Hong Kong (China), the Republic of Korea and Taiwan Province of China are often the major suppliers to United States companies. They have been important in the development of ASEAN as a supplier of apparel and footwear to the world.

Nike is a leading United States provider of footwear. It contracts manufacturing work to factory owners across ASEAN (as well as in China and other markets). It does not own the factories where its shoes are produced. The majority of these factories produce solely for Nike. The company’s contracting and purchasing arrangements indirectly spur significant investment and employment in the region; Nike’s contractors employ over 630,000 workers at 174 factories across ASEAN (5 in Cambodia, 44 in Indonesia, 22 in Malaysia, 28 in Thailand, and 73 in Viet Nam).⁵⁹ Viet Nam is Nike’s largest supplier, having surpassed China in 2010 (annex table 3.2).

New Balance uses a similar model. It sources from 51 factories across seven ASEAN Member States (figure 3.12).⁶⁰

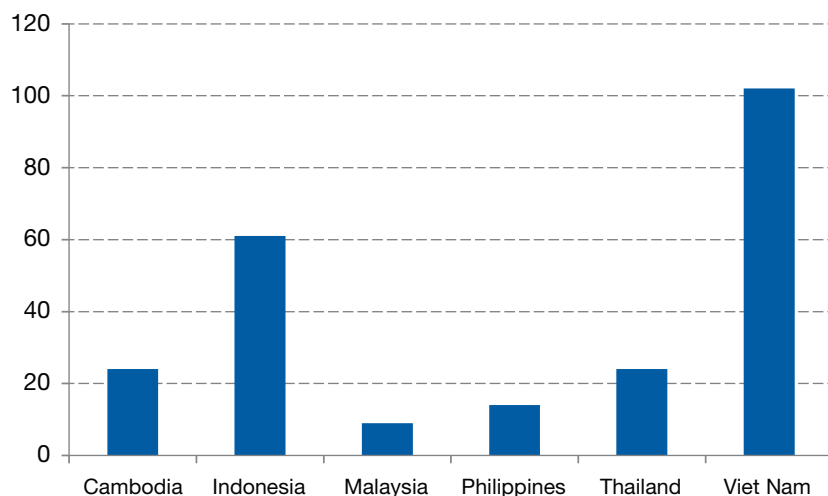
GAP sources from 331 factories in ASEAN,⁶¹ in Cambodia, Indonesia, Malaysia, Myanmar, the Philippines and Viet Nam. United States big-box retailer Target uses a similar contracting model. It sources from 234 factories in ASEAN but does not have ownership stakes in them. These factories produce for multiple customers – generally not exclusively for Target. Much of the production is apparel, but it also includes a range of other products, such as furniture, kitchenware and jewellery (figure 3.13).

Figure 3.12. New Balance: sourcing from ASEAN, 2015
(Number of factories)



Source: New Balance.

Figure 3.13. Target: contractors in ASEAN, 2015
(Number)



Source: Taget Corporation.

It is not only garments and footwear companies that have established strong linkages with suppliers in the region. In electronics, United States companies such as Apple (annex table 3.3) and Seagate are sourcing parts and components, and have assembling contracts with other foreign and ASEAN companies in the region. Although some contractors are other MNEs, these suppliers in turn subcontract work to local companies, thus building their capacity.

3.8. Prospects and conclusion

The United States is a major source of FDI to ASEAN. Many United States MNEs are actively doing business in the region. Many of them have a significant presence across the region and some are also actively sourcing or involving ASEAN MSMEs in their value chains by producing products such as electronic components and apparels for United States brands or retailers. The outlook for United States FDI in ASEAN is overall positive. United States companies are consistently optimistic about the outlook for regional sales and profit, and plans for expansion of their operations in the region.

Although United States companies view the ASEAN Trade in Goods Agreement (ATIGA) and other regional economic integration schemes as important to their operations in the region, they do not use them to the extent that their Japanese counterparts do; nor, with some important exceptions, have they generally structured their operations around regionally segmented supply chains. However, they recognize the value of regional integration, and slightly over half of the United States companies that have been surveyed on this question report that they are developing corporate strategies to adapt to the more integrated region following the establishment of the AEC at the end of last year.

Surveys of United States companies operating in ASEAN consistently find optimism about growth prospects in the region. The annual ASEAN Business Outlook Survey polls companies in the region. In the 2016 survey, 76 per cent of executives representing United States companies expected greater profits in 2016 than in 2015, and 63 per cent expected their companies to expand in the region. Slightly over half reported that ASEAN has become more important in their companies' global revenues over the preceding two years, while 40

per cent said that ASEAN markets held the same importance during this period. About 72 per cent of respondents reported that their companies' levels of trade and investment in the region have risen over the past two years, similar to the 74 per cent who said so in the 2015 survey.⁶²

Two-thirds of respondents expected ASEAN markets to become more important to their companies' worldwide revenues over the next two years, virtually unchanged from the 2015 survey. Eighty-six per cent expect their level of trade and investment in the region to increase over the next five years. These figures again are consistent with those in the 2015 survey. Companies also cite a variety of reasons for the growing importance of ASEAN to their global revenues. The top reason cited by 58 per cent of respondents was the growth of the middle class or consumer class in the region. Thirty-six per cent cited limited growth opportunities in other regions, and 34 per cent pointed to ASEAN's regional integration.

For some years, United States companies have viewed ASEAN's economic integration as an opportunity to grow their trade and investment in the region. At the same time, the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) negotiations are prompting United States companies to consider regional strategies to adapt to increasing economic integration across the broader Asia-Pacific region.⁶³

In the annual survey, across all 10 ASEAN countries three-quarters of executives surveyed believe that ASEAN integration is important to helping their companies do business in the region. They cite a variety of reasons, including more efficient operations, simplified export-import activity and supply chain efficiencies. Executives consider ATIGA, the Comprehensive Investment Agreement, the Framework Agreement on Services, and the Trade Facilitation Work Program and Strategic Plan of Customs Development all to be important to their companies' investment plans in the region (AmCham Singapore and U.S. Chamber of Commerce 2016). Just over half of the respondents indicate that their companies have an ASEAN regional strategy based on the goals of the AEC and the ASEAN Economic Blueprint. Of those who did not, many noted that their strategies were still in development or that they focus on only a single market in the region.⁶⁴ Some are waiting to see how the regional integration develops and what it will mean in the overall context of their operations in the region and beyond.

For the reasons cited above, United States investments in ASEAN are expected to remain high in the coming years. The expectation of greater growth relative to other markets gives reason for optimism that United States companies will continue to seek to expand in ASEAN. Regional economic integration under the AEC is another favourable factor. About half of United States companies operating in the region have or are considering strategies to adapt to a more integrated regional market. In addition, should the RCEP agreement be completed, it will provide more market access for ASEAN-based affiliates of United States companies, which will be well positioned to take advantage of their geographic proximity to ASEAN's biggest Asian trading partners. Some United States companies are involved with regional value chain operations and contractual arrangements, including sourcing in ASEAN. Foreign companies or suppliers and their subcontractors, including ASEAN

MSMEs, are producing in the region for American brands. The sourcing activities of United States MNEs have linkage effects in supporting MSMEs' development in ASEAN and help MSMEs integrate into United States companies' global value chains.

The AEC is increasing the attractiveness of ASEAN as a regional investment location and a production base. This closer regional integration is welcomed by United States companies, and many of them are planning to expand or invest in the region. This regional development will further support the ease of sourcing in the region, which will increase United States MNEs' contractual production arrangements in ASEAN.

Notes

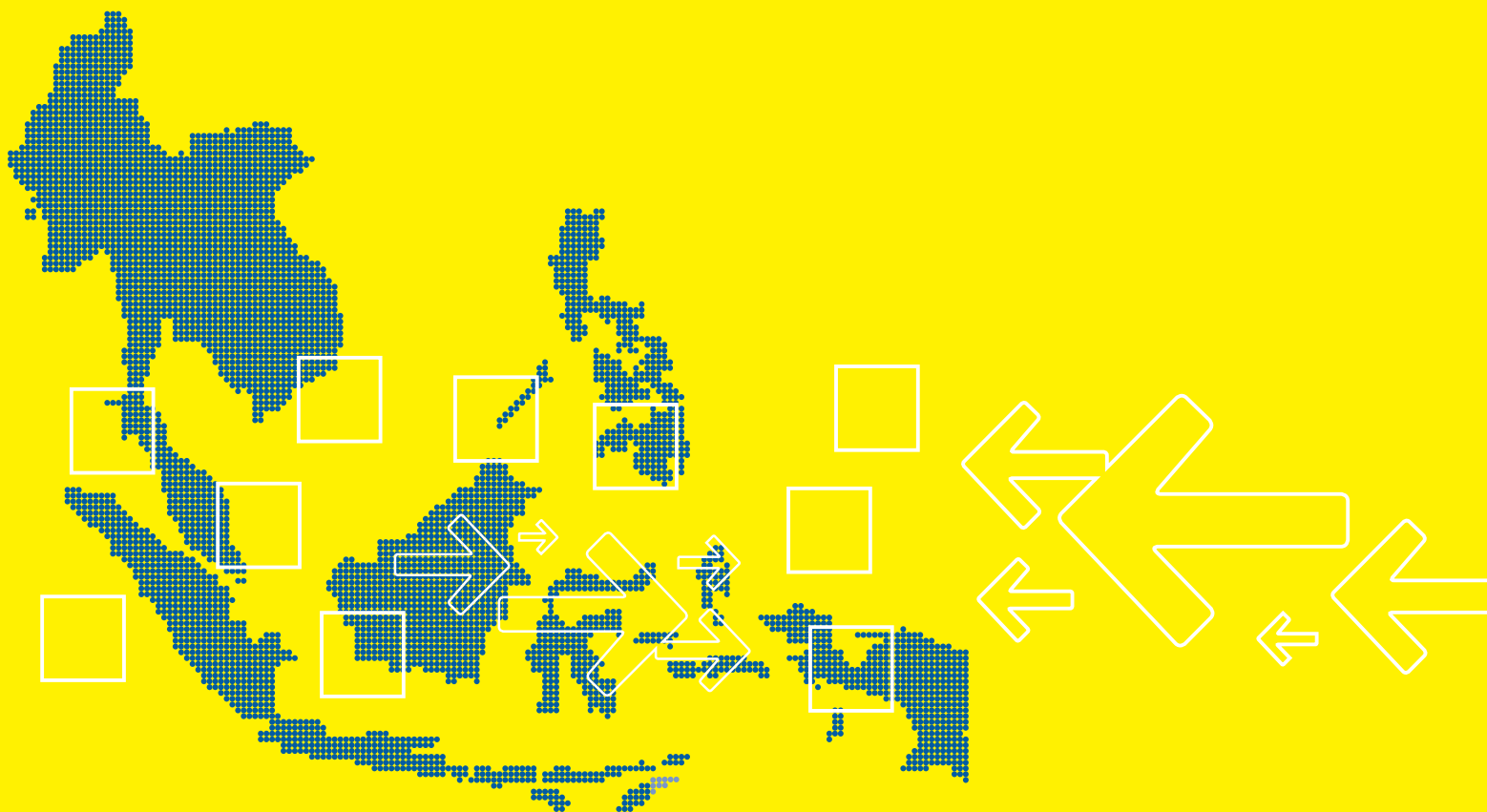
- ¹ Covers South, East and Southeast Asia.
- ² ASEANstats database.
- ³ BEA. Selected table for majority-owned affiliates for 2013. Data are not available for entities with assets, sales or net income less than \$25 million.
- ⁴ BEA.
- ⁵ BEA.
- ⁶ Fredrik Sjöholm. 2013. "Foreign Direct Investments in Southeast Asia". IFN Working Paper No. 987, Research Institute of Industrial Economics, Stockholm.
- ⁷ BEA. Similarly, of the \$40 billion in sales generated by United States chemical companies in ASEAN in 2013, \$16.6 billion were sales in the host market, while \$23.1 billion were exports to a third country.
- ⁸ Seagate purchased Maxtor in May 2006 and acquired Samsung's HDD business in December 2011. Toshiba bought Fujitsu's HDD business in October 2009, and Western Digital obtained Hitachi's HDD business in March 2012, decreasing the number of players from seven to three in 10 years.
- ⁹ *Reuters*, "Seagate to invest \$470 mln in Thailand over next 5 years". 10 February 2015, www.reuters.com/article/us-thailand-seagate-technolo-idUSKBN0LE15720150210.
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- ²⁴ www.dupont.com/corporate-functions/our-company/global-locations.html.
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- ⁵⁸ One important exception to this contracting model is Hanes Brands, which owns its manufacturing operations in Thailand and Viet Nam. After establishing itself in Viet Nam in 2007, Hanesbrands Viet Nam has seen stable growth. It has developed two production hubs, in Hung Yen and Phu Bai in the central province of Thua Thien-Hue, with total investment capital of \$45 million. In November 2014, the company opened its third factory in Viet Nam, a \$15 million facility. The majority of its international sales are wholesale sales to retailers.
- ⁵⁹ Nike Inc. manufacturers database. <http://manufacturingmap.nikeinc.com/>.
- ⁶⁰ New Balance website: http://demandware.edgesuite.net/aagi_prd/on/demandware.static/-/Sites-newbalance_us2-Library/default/dw83668c51/inside-nb/inside-nb-invpeople/nb_supplier_master_list_as_of_3.25.2015.pdf.
- ⁶¹ www.gapinc sustainability.com/measuring-our-progress.
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PART THREE

MSME INVESTMENT AND LINKAGES IN ASEAN



CHAPTER 4

ASEAN MSME INVESTMENT AND INTERNATIONALIZATION

4.1. Introduction

Micro, small and medium enterprises (MSMEs) in each ASEAN Member State account for the lion's share of business establishments and contribute significantly to employment and GDP. They also play an important role as suppliers to MNEs by helping the latter source locally through arms-length purchases or contractual arrangements. They add to the pool of suppliers, strengthen industrial linkages and contribute to developing competitive supporting industries, which in turn help strengthen the home-country's investment environment. The existence of a strong supporting industry is an important FDI determinant, and MSMEs have a significant role to play in its development.

Despite regional integration and MSMEs' dominance in numbers, they are less active in establishing a presence in other ASEAN Member States than larger companies. The uncertainty, the risks associated with FDI, the lack of overseas market information, difficulties in access to finance and the lack of an internationalization agenda are some of the reasons holding back MSMEs' regionalization. Many factors contribute to the differences in the extent of MSMEs' internationalization between countries. These factors include the pool of MSMEs that have the capacity to internationalize, home-country policies and support measures, home-grown brands that are ripe for internationalization and MSMEs' culture of internationalization. There are also industry differences in MSME internationalization, especially in terms of FDI. MSMEs that operate in traditional sectors such as labour-intensive manufacturing take a longer time to go abroad than MSMEs that operate on e-commerce or finance technology platforms.

The role of MSMEs in supporting the realization of the ASEAN Economic Community (AEC) cannot be underestimated. If ASEAN is to be a competitive region, including as a single production base, then MSMEs operating in parts, components, intermediate inputs and supporting industries, including in international trade and investment, are indispensable building blocks to realizing AEC goals. Their investments and regionalization activities help support regional production networks and regional value chains, including connections with other MSMEs in other ASEAN Member States. The ASEAN MSMEs Action Plan 2016–2025 recognized the importance of supporting MSMEs' internationalization to build a larger pool of competitive MSMEs. However, regional integration and emerging business and investment opportunities are already increasing the attention paid by MSMEs to the idea of establishing a presence in other ASEAN Member States.

ASEAN MSMEs can internationalize through various channels. These channels include exports (international trade), international franchising and licensing, and manufacturing or

service activities under contract to foreign and ASEAN MNEs. ASEAN MSMEs can also be direct investors, franchisors or licensors with a presence overseas. Their connection with foreign MNEs and participation in regional production networks help connect firms, the Member States and the region in global value chains (GVCs).

This chapter examines why and how ASEAN MSMEs internationalize or regionalize. It also highlights the development path of MSMEs from entrepreneurship to start-ups to internationalized MSMEs. Against the background of regional integration, the chapter highlights the important role that ASEAN MSMEs play in connecting firms, industries and countries in regional value chains, and as important stakeholders in realizing the goals of the AEC.

Definition of MSMEs

The study of ASEAN MSMEs, especially on their internationalization, is hampered by the lack of statistics and the different definitions of MSME among ASEAN Member States, although this is partly understandable because the level of development differs between them (table 4.1). This is one area that the ASEAN MSME and statistical committees need to address for better understanding of MSMEs' development in ASEAN and their contribution to regional integration. For the purposes of this report, national definitions of MSMEs are followed where possible, with an upper limit of 250-300 employees.

4.2. Importance of MSMEs

The importance of MSMEs in ASEAN has been well documented (ASEAN Secretariat 2015). MSMEs are important economic actors in ASEAN in terms of number of establishments, employment and GDP contribution. They account for 88 to 99 per cent of all establishments, 51 to 97 per cent of total employment, 23 to 58 per cent of contribution to GDP, and 10 to 30 per cent of total exports in the region (ASEAN Secretariat 2015, ERIA and OECD 2014).

They can play a role in helping the region integrate more closely within the framework of the AEC as regional value chain contributors, as suppliers and as investors. They are key contributors to developing supporting industries and improving national investment environments.

The importance of MSMEs' internationalization is also recognized by the respective ASEAN Member States, which have in place specific measures and programmes to promote a more entrepreneurial environment and support the development of competitive MSMEs, including their internationalization. The ASEAN Member States also cooperate at the regional level to support MSMEs' development through agreements stipulated in the ASEAN Economic Community Blueprint 2025 on "Equitable Economic Development" and the ASEAN Strategic Action Plan for MSME Development, 2016–2025 (box 4.1).

Table 4.1. Definition of MSMEs in ASEAN

Country	Micro			Small			Medium		
	Employees	Assets	Turnover	Employees	Assets	Turnover	Employees	Assets	Turnover
Brunei Darussalam	<4	..	..	<19	..	..	<99	..	..
Cambodia	<10	<50 (US\$)	..	<50	<250,000 (US\$)	..	<100	<500,000 (US\$)	..
Indonesia	..	<50 million (Rp)	<300 million (Rp)	..	<500 million (Rp)	<2.5 billion (Rp)	..	<10 billion (Rp)	<50 billion (Rp)
Lao People's Democratic Republic	..	..	..	<19	<250 million (KN)	<400 million (KN)	<99	<2 billion (KN)	<1,000 million (KN)
Malaysia									
Manufacturing	<5	..	<300,000 (RM)	<75	..	<15 million (RM)	<200	..	<50 million (RM)
Services	<5	..	<300,000 (RM)	<30	..	<3 million (RM)	<75	..	<20 million (RM)
Myanmar									
Manufacturing	..	..	..	<50	<500 million (K) capital	..	<300	<1 billion (K) capital	..
Labour-intensive manufacturing	..	..	..	<300	<500 million (K) capital	..	<600	<1 billion (K) capital	..
Retail	..	..	..	<30	..	<50 million (K)	<60	..	<100 million (K)
Services	..	..	..	<30	..	<100 million (K)	<100	..	<200 million (K)
Philippines	..	<3 million (P)	..	..	<15 million (P)	..	..	<100 million (P)	..
Singapore	..	..	..	..	..	..	<200	<15 million (S\$)	..
Thailand									
Manufacturing	..	..	..	<50	<50 million (B)	..	<200	<200 million (B)	..
Retail	..	..	..	<15	<30 million (B)	..	<30	<60 million (B)	..
Other services	..	..	..	<50	<50 million (B)	..	<200	<200 million (B)	..
Viet Nam									
Manufacturing	<10	..	..	<200	<20 billion (đ) capital	..	<300	<100 billion (đ) capital	..
Services	<10	..	..	<50	<10 billion (đ) capital	..	<100	<50 billion (đ) capital	..

Sources: ASEAN Member States and "ASEAN Strategic Action Plan for SME Development 2016-2025".

Box 4.1. ASEAN Strategic Action Plan for MSME Development, 2016–2025

The Action Plan identifies actions and goals to be pursued between 2016 and 2025 to strengthen ASEAN MSMEs' capacity and development across a number of key areas. These areas include the following:

- Promote productivity, technology and innovation
- Increase access to finance
- Enhance market access and internationalization
- Enhance policy and regulatory environment
- Promote entrepreneurship and human capital development

The Action Plan also identifies activities that can expand the opportunities of ASEAN MSMEs to participate in value chains, industrial linkages and internationalization.

Two strategic goals of the ASEAN Plan for MSME Development made specific references to ASEAN MSME internationalization and to increasing industrial linkages and opportunities:

1. Promote productivity, technology and innovation

Improvements to productivity and technology are considered to be key drivers of integration with the production networks of MNEs in the region. MSMEs perform better when they are allied with other MSMEs or with large enterprises, including MNEs. From this perspective, industry clusters would help MSMEs enhance productivity and foster innovation.

Desired outcome: Industry clusters are enhanced

Actions:

- Enhance industrial linkages among MSMEs and between MSMEs and large enterprises, including MNEs.
- Promote technology and build capabilities to foster industry clustering.

2. Enhance market access and internationalization

ASEAN enterprises have limited information on how to access markets and are not well aware of issues related to international requirements. The lack of technical knowledge prevents these enterprises from participating in the GVCs and thus MSMEs' contribution to exports remains small. Providing information platforms and capacity-building programmes can therefore play an important role in enhancing their market access, from both the regional and international perspectives.

Desired outcome: Support schemes for market access and integration into the global supply chain are further developed

Actions:

- Increase information on regional and global market access and opportunities
- Promote partnership with MNEs and large enterprises to expand market access and opportunities
- Enhance the use of e-commerce
- Promote adoption of international standards of quality to facilitate market access

Desired outcome: Export capacity is promoted

- Establish mechanisms to assist in increasing exports

Source: UNCTAD–ASEAN Investment Report 2016 research, based on “ASEAN Strategic Action Plan for MSME Development, 2016–2025”.

4.3. Why MSMEs internationalize

MSMEs are firms like any other; and, in principle, their internationalization is motivated by similar factors as that of larger firms, and evolves in a comparable fashion. At the same time, a majority of MSMEs will never internationalize both because of their nature (e.g. small corner shops, personal services, or the optimal size of a firm's operations are well within the size of the domestic market) or constraints (e.g. firms may lack the assets or resources to even consider internationalization; or they operate in a market where larger firms dominate and constrain their options). Nevertheless, because of both proactive and reactive reasons, a proportion of MSMEs do internationalize. For some it may be a part of a natural process of growth leading to their evolution into larger firms or MNEs. In other cases, while the nature of an MSME's business or technology may confine them to a small size, such niche roles can nevertheless be highly profitable and lead to internationalization. For instance, Vela Diagnostics (Singapore) is a supplier of integrated molecular solutions for the diagnosis of infectious diseases and cancer, and is present in a number of markets, including Germany, Malaysia and the United States (section 4.4.3.2). Although it has only 200 employees worldwide, it is nevertheless a successful company by offering highly profitable, niche services to a narrow type of company worldwide (which delimits its size).

4.3.1. Drivers and motivations

Most drivers behind MSME internationalization can be classified as either “push factors” (i.e. some aspect of the domestic economy or ecosystem encourages a firm to look to overseas markets, resources or other opportunities); or “pull factors” (i.e. foreign markets or companies lure an MSME to do business overseas). Push factors depend on the nature of the domestic market (e.g. a constrained market size for a product or service and/or large numbers of domestic competitors); while pull factors include the opportunity to access foreign technology, raw materials or cheaper labour (table 4.2).

The two types of drivers are interrelated; for example in the ASEAN context, MSMEs from Member States such as Brunei Darussalam and Singapore are more likely to be “pushed” by their small domestic markets and “pulled” by larger markets in Indonesia or Thailand or emerging business opportunities in the region. In addition to push and pull factors, “neutral” drivers include technological developments (e.g. in Information and Communication Technology (ICT)) which ease doing business across borders and distance; and the phenomenon of “born global” firms (i.e. firms whose products, services or technologies are inherently regional/global or aimed at the same niche in many markets) (chapter 5). In many cases, “born global” firms operate in a knowledge-intensive or high-technology sector; they possess technical and strategic assets that they can exploit in many international markets and are keen to exploit a “first mover advantage” or “network effects” before other firms in a competitive environment.

In addition to overall drivers, the motives of MSMEs can be proactive, reactive or neutral. For example, proactive firms aim to maximize their technological advantages and are thereby “pushed” to overseas markets to do so; and in some cases they might also internationalize

Table 4.2. Drivers and motives of MSME internationalization in ASEAN

Types of drivers and motives leading to MSME internationalization	Motive			Relative significance of driver by type of MSME	
	Proactive	Reactive	Neutral	“Traditional”	“Entrepreneurial engine”
Push factors					
Lack of opportunities in domestic economy		√		√	
Maximise use of technology and other assets	√				√
Risk diversification	√			√	√
High levels of competition in domestic market		√		√	
Pull factors					
Opportunities in foreign markets	√				
Access to foreign knowledge, technology or other assets/resources	√				√
Approach by foreign customers		√		√	
Approach by foreign partner (including as supplier within a GVC or RVC)		√			√
Other					
New communication technologies easing access to foreign markets			√	√	√
“Born global” firms			√		√

Source: UNCTAD–ASEAN Investment Report 2016 research.

Note: These factors are among the most common; they are not complete or comprehensive.

to supplement their knowledge and are thereby “pulled” to specific economies. In contrast, a reactive firm might be “pushed” by high levels of competition in its home-economy to seek less competitive markets overseas; or it might be “pulled” overseas by an approach by a foreign customer or potential partner.

“Entrepreneurial MSMEs” are more likely to internationalize in a proactive fashion in order to access foreign markets, technologies or other assets. Because they possess higher levels of skills, technology and entrepreneurial drive, they are more likely to participate in domestic, regional and global value chains. Such companies represent a subset of what can be referred to as an “entrepreneurial engine” of growth, i.e. a distinct group of MSMEs which are at the forefront of business, commercial and technological development in many economies (table 4.2).

“Traditional MSMEs” are more likely to be motivated by reactive factors. However, traditional MSMEs can shift into an entrepreneurial mode, for instance through management

leadership and vision, building innovatory capacity and learning from international customers keen to ensure receipt of high-quality goods and services.

In reality a combination of “push” and “pull” factors can encourage MSMEs to establish a presence abroad (ASEAN Secretariat and UNCTAD 2013). Like large firms, MSME motives for internationalizing or investing abroad vary by firm, industry and nationality, and are also grouped as market-seeking, efficiency-seeking, resource-seeking or strategic asset-seeking (ASEAN Secretariat and UNCTAD 2015). However, because of their size and orientation, market-seeking internationalization or investment are more prevalent (table 4.3, chapter 5).

4.3.2. MSME ecosystems and internationalization

Whether a specific MSME internationalizes and through which modalities depends on firm-specific factors, as well as the domestic and foreign ecosystems. As mentioned earlier, the likelihood and patterns of an MSME’s internationalization depends on how entrepreneurial it is; the experience, commitment and vision of its management; and its firm-specific advantages in terms of technology, expertise and innovatory capacity (including absorptive capacity, i.e. its ability to internalize, utilize and adapt knowledge received from external sources be this through licensing or from OEMs it is supplying) (figure 4.1). As important are conditions within its home-economy ecosystem, including those related to the industry and product, and other firms (competitors and collaborators). Particularly important for successful MSMEs are ecosystems with well-defined clusters, including ones in high-technology activities. Clusters are seen as a driver for innovation and for developing competitive firms.

There are several facets of successful home-economy ecosystems, which all link together and reinforce one another. Successful ecosystems tend to have good universities, infrastructure, human capital, access to capital, supporting industries, high competitiveness and, at times, government support and other types of involvement. Such environments can spin out start-ups (i.e. from MSMEs emerging from larger firms), or engender skills and entrepreneurship talent to start businesses from scratch (i.e. a functioning entrepreneurial engine). The prime example of a successful ecosystem cluster is Silicon Valley in the United States, but there are several examples of clusters across ASEAN, for example, electronics/semiconductors in Malaysia, the automotive sector in Thailand and shipping and financial services in Singapore.

Effective clusters often provide support to overcome a number of constraints to internationalization, including access to finance, infrastructure and connectivity (including communications and logistics) and information. Nevertheless, these and other constraints, such as rules and regulations, can be formidable and supportive home government policies are important (section 4.3.3).

Most MSMEs internationalize incrementally through a process of experiential learning (Johanson and Vahlne 1977 and 2009, Bilkey 1978, Cavusgil 1980, Brouthers et. al. 2016, and Zucchella and Magnani 2016). The internationalization decisions of MSMEs are

Table 4.3. Examples of market-seeking internationalization by ASEAN MSMEs

MSMEs	Home-country	Industry/business activities	Selected host-country(ies)	Remarks/reasons
ICT Group	Indonesia	Steel	A number of ASEAN Member States	<ul style="list-style-type: none"> Sales and marketing offices overseas Opportunities arising from growing steel demand in ASEAN
Barong Batik	Indonesia	Garments	Philippines, Indonesia	<ul style="list-style-type: none"> Business opportunities in host markets Strategic asset seeking to a degree (access to skilled artisans in batik production)
Human Nature	Philippines	Beauty and care products	Malaysia, Singapore	<ul style="list-style-type: none"> Use of partnerships with long-established distributors in host-country
Love and Madness	Philippines	Clothing	Singapore, France	<ul style="list-style-type: none"> Distributorship arrangement with overseas partners
Phoenix Voyages	Myanmar, Viet Nam	Tour and travel	Cambodia, Indonesia, Lao People's Democratic Republic and Thailand	..
Vela Diagnostics	Singapore	Molecular solutions for infectious diseases	Malaysia, Germany, United States	<ul style="list-style-type: none"> Representative offices overseas, including with overseas partners Choice of locations also motivated by availability of strategic assets (skills and technology)
Technofit	Malaysia	Engineering services	Indonesia, Oman	<ul style="list-style-type: none"> Representative offices overseas
Phibious	Viet Nam	Brand marketing and communication consultancy	Cambodia, Indonesia, Lao People's Democratic Republic, Myanmar	<ul style="list-style-type: none"> Offices overseas
Quo Global	Thailand	Advertising and marketing agency	Singapore, Viet Nam, India, Netherlands	<ul style="list-style-type: none"> Offices overseas in order to be close to clients
Cool Company	Thailand	Manufacture of commercial freezers, coolers and cold chain products	Indonesia, Malaysia, Philippines and Viet Nam	<ul style="list-style-type: none"> Service centres and a warehouse overseas A contract manufacturer
Applied Total Control Treatment	Singapore	Metal finishing industry	Indonesia, Malaysia, Philippines and China	<ul style="list-style-type: none"> Offices overseas to be close to customers
Efficient Technology	Malaysia	Mechanical services to energy markets	Singapore	<ul style="list-style-type: none"> Operates in Singapore to be near lead firms in the industry Has developed technical partnerships with these lead firms, which are foreign MNEs
KLT Fruits	Philippines	Processing of tropical fruits	Singapore	<ul style="list-style-type: none"> A trading and marketing office in Singapore for the ASEAN market
Java Offshore	Indonesia	Oil and gas survey and subsea solutions	Malaysia and Singapore	<ul style="list-style-type: none"> Representative offices where major clients operate
ADI Group	Thailand	Human resource and recruitment agency	Indonesia and Singapore	<ul style="list-style-type: none"> Established offices in host countries with market potential
Zanroo	Thailand	Software (social listening tool technology)	ASEAN Member States	<ul style="list-style-type: none"> Expanding markets for big data processing

Source: UNCTAD–ASEAN Investment Report 2016 research.

determined by the dynamic interplay between increasing foreign market commitments and the knowledge and experience gained therefrom, including learning feedback loops. MSME internationalization commonly occurs through small, successive steps to deepen involvement in foreign economies.

Such an internationalization process can be lengthy: initial expansion is often through exports into markets which are better known, e.g. geographically proximate regional ones, or those with common cultural or linguistic roots. As MSMEs accumulate experience and their business becomes more mature, they then start to go beyond exports to a wider range of overseas activity, including establishing a presence abroad through licensing and franchising arrangements for home-grown brands or through FDI. Such FDI can include setting up a sales/distribution subsidiary, a factory or a branch office (Eriksson et al. 2000, Vahlne and Johanson 2013, and DaSilva and Trkman 2014).

Some ASEAN MSMEs – including “born global” firms – are also forced to internationalize very quickly because their home markets are limited or lack resources, including low-cost labour or specific technology and expertise. Going abroad is almost an imperative. MSMEs today potentially have access to a lot of information, and they can access it quickly. Rapid development of ICT has also contributed to the manner, and the pace, at which MSMEs internationalize business activities.

The choice of foreign location will depend on foreign economies’ ecosystems, including macroeconomic conditions and endowments, the policy framework, business facilitation measures, business conditions and various economic determinants (e.g. market size, natural resources and created assets such as skills, technologies and entire firms) (figure 4.1).

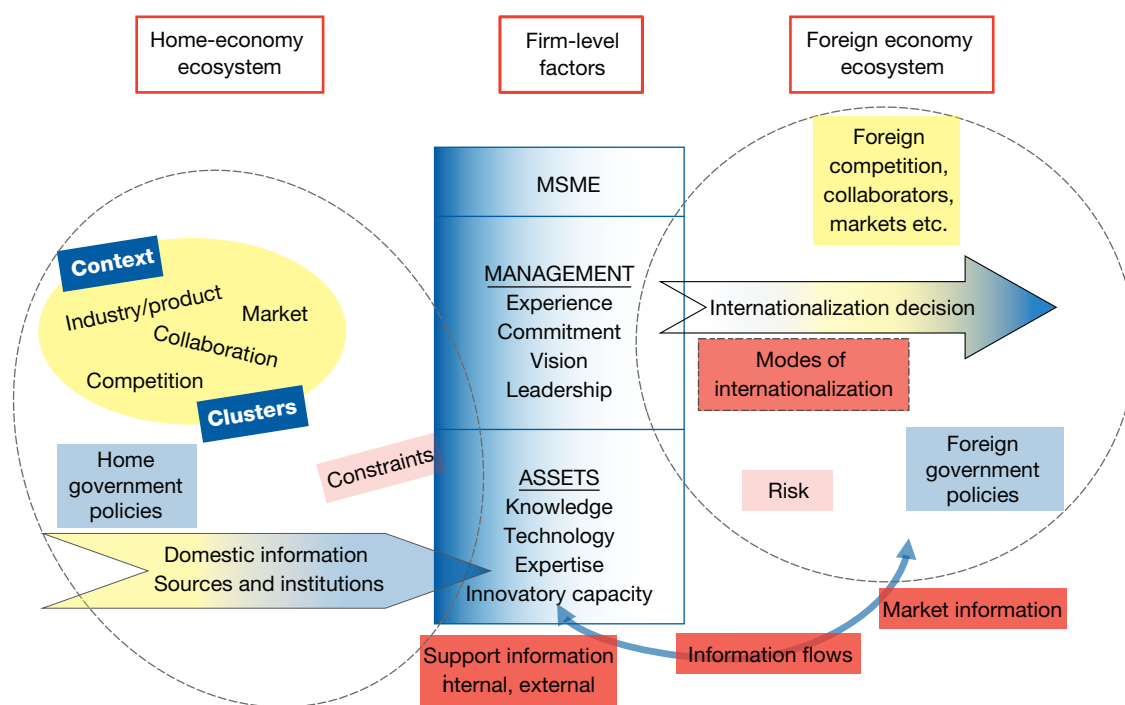
Internationalization by all firms, including MSMEs, can be through a number of modalities which are not mutually exclusive and indeed can complement and reinforce each other. These modalities include exports; contractual or non-equity modes (NEMs) such as licensing, franchising, subcontracting; and foreign direct investment (FDI) (section 4.4).

Which of these modalities is chosen for initial and subsequent internationalization, and in which combination, depends on a number of factors. For some MSMEs it may be more profitable to export to overseas markets and thereby realize scale economies, while minimizing risks associated in foreign markets. Where a presence is required in a foreign economy, one option is FDI (which requires capital or equity investment in the host economy); but an alternative is to license or franchise the MSMEs’ knowledge, brand or technology to a host economy firm. The latter produces and sells the good or service in that economy, while the MSME reaps profits through royalty receipts and other fees without bearing the cost of capital investment (but at the risk of losing control of its technology).

4.3.3. Challenges to MSMEs’ internationalization

Although MSMEs face challenges in growing domestically, they face further challenges when internationalizing. In particular, the foreign economies in which they operate are

Figure 4.1. Conceptual framework of factors and processes underlying MSME internationalization



Source: UNCTAD, adapted from Mirza 2004.

unfamiliar and potentially risky; and even experienced, technologically advanced MSMEs need to bolster their knowledge and information to cultivate local partnerships to mitigate this disadvantage. Generally, such constraints are an interplay of internal MSME factors and those related to the domestic and foreign ecosystems (figure 4.1, Hilmersson and Johanson 2016).

Key barriers to MSME internationalization include an absence of an international mindset among MSME managers; functional constraints, including lack of access to finance; gaps in information on foreign markets; and government policies and regulations (Abonyi 2015, Leonidou 2004).

Absence of an international managerial mindset. Most MSMEs, particularly micro and smaller firms, are frequently focused more on survival and on the domestic market. This organizational culture is often ingrained in them. Going international poses added complications, costs and risks, which may be regarded as insuperable barriers. Inertia in MSMEs means that many are resistant to change, resulting in them missing out on opportunities to expand beyond their domestic markets (Hilmersson and Johanson 2016). However, an incremental, experiential approach to internationalization can overcome

concerns and build commitment and vision on whether, how and to what extent to venture overseas (section 4.3.2).

Functional and financial constraints. On the whole, MSMEs will initially have functional constraints to internationalizing (e.g. because of insufficient management and worker experience in international business, or an inability to meet foreign product/process standards). One of the most cited constraints MSMEs face is the lack of access to finance. Banks are unlikely to offer loans to borrowers that are perceived as high risk and are even more reluctant to lend to MSMEs without a track record of going international. Moreover, in many developing countries other sources of capital (e.g. venture capital) are not readily available (Abonyi 2015).

Dearth of information on foreign markets. MSMEs often lack information on essential issues such as the market characteristics of a foreign economy, regional and bilateral investment and trade agreements affecting overseas operations, and regulations in general in the host-country. In a similar vein, they also often do not have access to crucial economic data and information (or lack the analytical wherewithal to use them); this can lead to missing opportunities or taking avoidable risks. Among others, this may result in not adapting goods and services appropriately for foreign markets or business clients, ineffective use of marketing and distribution channels, or adoption of a non-optimal strategy in going international.

Government policies and regulations also present challenges to MSMEs. In the home-country, government regulations and rules can make exporting (or other modes of internationalization) difficult; some countries may be reluctant to let their MSMEs venture abroad because of the major role they play in providing domestic employment. In the foreign economy, similarly, government regulations and rules may be hard to navigate or may require actions (e.g. the setting up of a local subsidiary) which force an MSME to adjust its business practices to meet new conditions. Strong competition from firms in the foreign economy – small and large – has to be met; but such competitors are able to leverage their positional advantages, such as economies of scale, domestic networks and local knowledge.

ASEAN MSMEs are beset by these challenges and constraints, as are all MSMEs. Moreover, ASEAN Member States are not a homogenous group. As such, the obstacles an MSME from Malaysia is likely to face differ in type and degree to those affecting a firm from the Lao People's Democratic Republic. For example, access to finance is easier for MSMEs in Singapore than for MSMEs in the CLMV countries (Cambodia, the Lao People's Democratic Republic, Myanmar, Viet Nam). The same applies to solutions on offer to MSMEs; for instance, Government support for MSME internationalization in Singapore is far more extensive than in most other countries in the region.

There are many ways to mitigate MSMEs' internationalization challenges. In addition to adopting strategies which incrementally build up the experience, resources and facility to internationalize effectively, MSMEs are increasingly able to draw on support from

governments (home and foreign), specialist agencies and businesses (banks, consultants, partner firms and others) to alleviate difficulties such as raising finance and obtaining information. For instance, while access to finance remains among the biggest hurdles for ASEAN MSMEs, a growing number of foreign venture capital funds and private equity investors based in the region are investing in fast-growth ASEAN companies, including MSMEs (box 4.2).

Many ASEAN governments are working towards improving the ecosystems within which MSMEs operate, including in terms of their internationalization. At the broadest level, the AEC has created and is in the process of creating structures of support for all ASEAN firms across the region, including MSMEs. Moreover, for many MSMEs, larger MNEs provide a system of support through regional integrated networks, which underlie their RVCs and GVCs; and for this reason internationalization through regional value chains (RVCs) is a major phenomenon in the region (chapter 5, ASEAN Secretariat and UNCTAD 2014).

Box 4.2. Northstar Group (Singapore)

The Northstar Group is a private equity firm established in Singapore in 2006. It invests in companies in Indonesia and, to a lesser extent, in other ASEAN Member States. The Group's strategy is to invest in fast-growing companies, including start-ups, by buying shares in them or by becoming a joint-venture partner. The Northstar Group provides mentorship, access to finance and management expertise and helps companies that it invests grow to become key players in their respective industries. Some of the companies in which the Northstar Group has invested were MSMEs, which later grew rapidly in scale.

To date, the Northstar Group has invested more than \$2.1 billion in a portfolio of 43 companies in different industries in ASEAN. Most of these investments are in Indonesia, including the following (table 4.4):

- **Natural Resources.** The Northstar Group's founders initiated their business in the natural resources sector in 2003. Since then, the Group has actively invested in the oil and gas, coal, and agribusiness sectors in Indonesia, in such companies as Samudra, Interex, SIS, Batuah, Delta/BUMA, Sunny Ridge and TAP.
- **Consumer/Retail.** Key consumer/retail investment targets by the Northstar Group include Alfamart, Trikomsel, Indomaret, Kino and Breadlife in Indonesia. Some of these companies grew rapidly after investment by the Northstar Group. For instance, Alfamart's retail outlets rose from approximately 1,600 to more than 4,800 within five years of the Group's investment.
- **Financial Services.** The Northstar Group has successfully invested in several financial services companies, including Bank BPTN, BFI, Trimegah and Tugu in Indonesia, TCRB in Thailand and PBCom in the Philippines.
- **Telecommunications.** Another regulated sector in which the Northstar Group has actively invested is telecommunications infrastructure and network services. The Group has invested in Centratama and MAC in Indonesia, and Nera Telecommunications in Singapore.

Source: UNCTAD–ASEAN Investment Report 2016 research, based on information from Northstar Group and published sources.

Table 4.4. Northstar Group: Investment in growth companies including start-ups in ASEAN, 2016

Company (Category)	Sector	Date of investment	Ownership	Size of company at entry of Northstar	Size of company in 2016	Northstar's engagement	Remarks
PT Go-Jek Indonesia (start-up)	Transportation (Public transport)/ Services	2014	Active and substantive investment	Less than 1,000 registered drivers	More than 190,000 registered drivers	Given that this is a recent investment, Northstar is focused on helping the company develop its infrastructure for growth (including access to financing) and driving operations and administrative efficiencies.	All efforts are geared towards helping Go-Jek realize its phenomenal growth potential in order to maximize domestic market opportunities. Indonesia has a very large domestic market. Aside from the key tier 1 cities, there are many other rapidly growing cities in other provinces that remain to be tapped.
PT Prima Garda Andalan ("Breadlife") (medium-scale enterprise)	Consumer/ Retail	September 2012	Fully owned	21 distribution outlets	65 distribution outlets	Actively involved in store expansion and professionalizing the company – i.e. implementation of IT and financial system, product development and marketing, and bringing best practices in areas such as finance, supply chain management and human resource development.	Efforts are geared towards full coverage of domestic market.
PT Sumber Alfaria Trijaya Tbk ("Alfamart")	Consumer/ Retail	September 2006	Fully divested in October 2010	1,600 stores in September 2006	4,800 stores as of December 2010	Infrastructure expansion, enhancing efficiency of operations systems, professionalizing the company's organization.	Expansion of stores nationwide.
PT Bank Tabungan Pensiunan Nasional Tbk	Financial Services (specializing in pension and micro-loans in Indonesia)	March 2008	Active minority shareholder	Upon Northstar's investment, BPTN was a mid-sized bank that has now grown in size. As of March 2008, total assets were at \$1.3 billion and market capitalization at \$0.3 billion.	As of 31 December 2015, BPTN had total assets of \$5.9 billion and a market capitalization of \$1.0 billion. Since Northstar's acquisition, BPTN has grown its loan book and net income in rupiah terms by approximately sixfold (about double the rate of the overall banking industry's growth). BPTN has become one of the best performing banks in Indonesia, with one of the highest net interest margins, an attractive return on equity, a solid capital adequacy ratio, and a relatively low non-performing loan ratio.	Over the period of Northstar's investment, management has implemented a number of strategic initiatives designed to enhance the bank's performance, including (1) improvement of its funding structure through bond issuances and long-term loans to better address the maturity mismatch between its load and deposits; (2) revamping of end-to-end processes by strengthening strategic alliances, restructuring its life insurance scheme and sales process, introducing a new incentive program and improving its customer acquisition strategy; (3) improvement of corporate governance and fostering a performance-based culture; (4) establishment of a disaster recovery centre and full online branches.	Focused on continued growth in domestic market.

Table 4.4. Northstar Group: Investment in growth companies including start-ups in ASEAN, 2016 (concluded)

Company (Category)	Sector	Date of investment	Ownership	Size of company at entry of Northstar	Size of company in 2016	Northstar's engagement	Remarks
PT Centratama Telekomunikasi Indonesia Tbk (Centratama)	Telecommunications	August 2012	Majority shareholder	At the time of acquisition, Centratama had 41 towers and Northstar's investment thesis was (and still is) that Centratama is a platform for growth in the sector.	As of 31 December 2015, Centratama had 653 towers at various stages of development and operations.	Active involvement in the company's: (a) expansion (including access to financing); (b) strengthening of management team and structure; (c) implementation of more efficient operations and administration systems (including IT system).	<p>Focused on the continuous growth of the company</p> <p>Indonesia telecommunications tower penetration remains relatively low despite strong growth over the last few years. The majority of the towers in Indonesia are owned by telecommunication operators, while the four largest independent tower providers collectively own about 25% of the towers in the country. There are opportunities for organic growth through build-to-suit for telecommunication operators. There are also opportunities for inorganic growth through acquisition of towers from telecommunication operators (who are seeking to strengthen their balance sheet by selling non-core assets).</p>

Source: UNCTAD-ASEAN Investment Report 2016 research, based on information from Northstar Group.

4.4. How MSMEs in ASEAN internationalize: patterns and modalities

Internationalization does not necessarily mean that an MSME has an extensive physical presence outside of its home-country. An MSME can internationalize by producing at home and exporting to an overseas market. Through exports (international trade), an MSME can expand the market reach of its products and services – thereby helping it to grow, increase revenues and generate employment at home. For these reasons, among others, ASEAN Member States – through various measures, programmes and assistance – are actively supporting their MSMEs in exporting.

As discussed in the previous section, ASEAN MSMEs can also internationalize by engaging in international business through franchising or licensing. As franchisees or licensees, ASEAN MSMEs are exposed to foreign technology or brands (e.g. producing and/or selling products or services of foreign brands in the home-market), hence connecting them with companies headquartered in different parts of the world. In addition, ASEAN MSMEs can also be creators of technology and brand names; and thereby internationalize by licensing or franchising this knowledge to foreign companies. Some ASEAN Member States have active programmes in helping their MSMEs build brand names, which can then be internationalized (e.g. Malaysia and Singapore).

Many ASEAN MSME internationalize as subcontractors to foreign companies based in their home-country or abroad. For instance, they may manufacture a component or offer an engineering service to a lead firm or the main contractor involved in producing a good or service for the local, regional or global markets.

In addition, ASEAN MSMEs can internationalize through making an investment abroad (FDI). Traditionally, MSMEs follow an incremental internationalization path before they reach the stage of investing overseas (section 4.3). Some MSMEs may leap-frog this incremental process by internationalizing rapidly, almost as soon as they are established. They are created as global or regionally oriented entities as a result of technological developments that make that possible (e.g. information technology, digital economy and internet) and the nature of the industry they are in (e.g. e-commerce, where markets are “borderless”) (box 4.3).

4.4.1. Internationalization through exports

MSMEs that produce for export do so for reasons such as expanding their market reach, increasing their sources of revenue, or risk diversification. Some of them are producers, exporters and subcontractors at the same time. The list of existing and prospective exporters in ASEAN Member States is very long. Table 4.5 provides an indicative list of MSME manufacturer exporters based in ASEAN.

ASEAN Member States provide specific support to help their firms export abroad, including MSMEs. For instance, they provide directories of exporters, market information and export guides; and they additionally help overseas buyers find local suppliers, organize trade fairs abroad, issue national brand labels to recognize quality products and provide institutional support including funding.

Box 4.3. Investment in telecommunication services and ICT-enabled MSMEs in ASEAN

The technology-based start-up sector is viewed as a promising source of entrepreneurship and innovation. MSMEs in this sector leverage telecommunication networks to enable services in businesses such as e-commerce, online classifieds, taxi hire, food ordering and IT applications. Having few tangible assets and perhaps considered too risky for traditional lending, many tech start-ups rely on venture capital to finance their growth.

The top 10 venture capital firms operating in ASEAN invested \$2.5 billion in 74 ASEAN start-ups between January 2014 and October 2015 (box table 4.3.1). The most active was 500 Startups, which invests in early stage start-up funding; Tiger Global invested the most funds. Both are headquartered in the United States.

Box table 4.3.1. Top 10 venture capital firms and ASEAN investment, January 2014–October 2015

Investor	Number of deals	Aggregate transactions (Millions of dollars)
Tiger Global Management	3	415
Coatue Management	1	350
Rocket Internet	3	274
Square Peg Capital	2	260
TPG	2	260
Verlinvest	1	249
Kinnevik	1	249
Sequoia Capital	7	200
Vertex Venture Holdings	9	120
500 Startups	45	108
ASEAN	74	2,485

Source: Adapted from Preqin Venture Deals Analyst.

Box table 4.3.2 highlights the five largest venture capital deals in ASEAN between 2014 and 2015. Four of the top five start-ups were located in Singapore and the fifth in Indonesia. The companies were involved in taxi hailing applications e-commerce, and online classifieds for property.

Box table 4.3.2. Five largest venture capital deals in ASEAN, 2014–October 2015
(Millions of dollars)

Start-up (Country)	Business	Amount	Investors (Country)
GrabTaxi (Singapore)	Taxi hailing application	350	China Investment Corporation (China) Coatue Management (United States) SoftBank (Japan) Tiger Global (United States)
Lazada (Singapore)	E-commerce	249	Kinnevik (Sweden) Rocket Internet (Germany) Temasek Holdings (Singapore) Verlinvest (Belgium)
PropertyGuru (Singapore)	Property portal	130	Emtek Medika Corpora (Indonesia) Square Peg Capital (Australia) TPG (United States)
Tokopedia (Indonesia)	E-commerce	100	Sequoia Capital (United States) Softbank (Japan)
Giosis (Singapore)	E-commerce	82	Singapore Press Holdings (lead investor)

Source: Adapted from Preqin Venture Deals Analyst.

Source: UNCTAD–ASEAN Investment Report 2016 research.

Table 4.5. ASEAN MSME manufacture exporters, 2015 (selected cases)

Company	Country of origin	Size (number of staff)	Industry/activities	International presence as share of business (major destination of exports)
Soho Premium Rice Ltd	Cambodia	51-100	Rice retailing	Southern Europe (20%) North America (20%) Eastern Europe (15%) Western Europe (15%) Middle East (15%) ASEAN 15%)
Tatan Agrotech	Cambodia	51-100	Agriculture	Eastern Asia (50%) ASEAN (25%) Domestic market (10%) North America (10%)
Samathea	Cambodia	40-59	Manufacturer, distributor and wholesaler	Domestic market (30%) North America (25%) Western Europe (20%) East Asia (15%) ASEAN (10%)
CV Priskilla	Indonesia	51-100	Manufacturer	Central America (60%) Eastern Europe (30%) South Asia (10%)
PT Kartika Tirta Hema	Indonesia	51-100	Cosmetics manufacturing	South Asia (28%) Domestic market (20%) Middle East (15%) ASEAN (14%) Africa (11%)
PT Atlantic Anugrah Metalindo	Indonesia	101-200	Metal fabrication manufacturing	Domestic market (80%) ASEAN (15%)
PT Bu Kwang Medical	Indonesia	101-200	Disposable syringes manufacturing	Worldwide (81-90%)
Pandawa Elektrindo	Indonesia	51-100	LED lighting manufacturing	ASEAN (25%) Middle East (25%) South Asia (25%) Domestic market (25%)
UD Debags	Indonesia	less than 50	Garment manufacturing	Eastern Asia (30%) North America (30%) Western Europe (25%)
UD Mita Furniture	Indonesia	51-100	Garden furniture manufacturing	Western Europe (40%) North America (20%) Northern Europe (15%) South America (11%)
Burapha Agro Forestry	Lao People's Democratic Republic	51-100	Teak and eucalyptus products, including furniture and sawn wood manufacturing	Western Europe (50%) Eastern Europe (20%) North America (10%) ASEAN (10%)
Green Solar Energy	Malaysia	less than 50	Solar panel manufacturing	Worldwide (61-70%)
BioSurge Asia	Malaysia	less than 50	Environmentally friendly biofuel additives manufacturing	Western Europe (26%) ASEAN (18%) Eastern Asia (10%) Africa (7%) South Asia (5%)
Solarmate Malaysia	Malaysia	51-100	Solar panel manufacturing	Domestic market (80%) Oceania (10%) ASEAN (10%)
LTP Engineering Sdn Bhd	Malaysia	51-100	Design, development and manufacturing of mechanical machines and concrete moulds	Worldwide (81-90%)

Table 4.5. ASEAN MSME manufacture exporters, 2015 (selected cases) (continued)

Company	Country of origin	Size (number of staff)	Industry/activities	International presence as share of business (major destination of exports)
Pearl Glove Sdn Bhd	Malaysia	51-100	Rubber glove manufacturing	Western Europe (33%) Northern Europe (20%) Middle East (12%) North America (9%) ASEAN (5%)
Teo Mah Poh Plastic Industry	Malaysia	51-100	Plastic manufacturing	Africa (50%) Middle East (20%) Oceania (20%) South Asia (10%)
Cordage Industrial Rope	Malaysia	51-100	Industrial products manufacturing	Northern Europe (30%) Domestic market (30%) ASEAN (20%) North America (10%)
Green Age Solar Technology	Malaysia	51-100	Solar panel manufacturing	Africa (30%) Oceania (20%) Middle East (20%) South Asia (20%) Domestic market (10%)
Meru Electric	Malaysia	51-100	Electric and solar panel manufacturing	Domestic market (70%) ASEAN (20%) Middle East (5%) South Asia (5%)
Tusker Transmission	Malaysia	51-100	Conventional and industrial wrapped-belts manufacturing	Worldwide (71-80%)
P. L. Myanmar Co, Ltd	Myanmar	less than 10	Lubricants and specialty chemicals manufacturing	Exports to China
Quilter Philippines Inc	Philippines	less than 50	Garment manufacturing	North America (40%) East Asia (30%) Domestic market (20%) South Asia (10%)
Vens Mining	Philippines	less than 50	Mining equipment manufacturing	Worldwide (71-80%)
Mera Textile Co, Ltd	Philippines	51-100	Textile manufacturing	Worldwide (81-90%)
Growl Corporation	Philippines	51-100	OEM in-dash audio, video and navigation system.	Domestic market (30%) South America (14%) Northern Europe (10%) North America (10%) ASEAN (10%)
Benrico Systems & Electronics Pte Ltd	Singapore	less than 50	Electronics manufacturing	Worldwide (61-70%)
Threepac Solutions Pte Ltd	Singapore	less than 50	Packaging solutions and manufacturing	ASEAN (40%) Eastern Europe (20%) South America (20%) Middle East (10%) Africa (10%)
Seacon Engineering Equipments	Singapore	51-100	Air conditioner manufacturing	Worldwide (61-70%)
Five Aluminum Boat & Engineering Pte Ltd	Singapore	51-100	Aluminium manufacturing	Middle East (30%) ASEAN (30%) Western Europe (10%) South America (10%)
SKIMZ Singapore LLP	Singapore	51-100	Marine equipment manufacturing	ASEAN (23%) North America (23%) Southern Europe (20%) Western Europe (15%) South America (5%)

Table 4.5. ASEAN MSME manufacture exporters, 2015 (selected cases) (concluded)

Company	Country of origin	Size (number of staff)	Industry/activities	International presence as share of business (major destination of exports)
MilWorks Solutions Pte. Ltd.	Singapore	less than 50	Energy, battery and subsystems manufacturing	Domestic market (35%) Western Europe (20%) ASEAN (15%) Middle East (15%)
Alva Aluminium	Thailand	51-100	Metal manufacturing	Middle East (25%) ASEAN (20%) Eastern Europe (15%) Northern Europe (15%)
Tanadol	Thailand	less than 50	OEM and design service	ASEAN (25%) Africa (11%) South America (10%) North America (10%) Oceania (7%)
Bsiri Company Limited	Thailand	More than 200	Wood products manufacturing	Western Europe (30%) Eastern Asia (30%) North America (15%) Eastern Europe (10%)
Mega Home Products Co Ltd	Thailand	less than 50	Bathroom and housewares manufacturing	Middle East (33%) South Asia (33%) Domestic market (33%)
Siam Water Flame Co Ltd	Thailand	51-100	Hydrogen generator manufacturing	Domestic market (50%) Middle East (40%) North America (5%) Eastern Europe (5%)
N.I.K Woods Limited Partnership	Thailand	less than 10	Wood products manufacturing	Domestic market (40%) South Asia (10%) Eastern Asia (8%) ASEAN (5%)
Megasun Manufacturer Co Ltd	Viet Nam	51-100	Manufacturer (solar water heater, solar collector, heat pump)	Asia, predominantly (11-20%)
An Loc Joint stock Company	Viet Nam	51-100	Marble manufacturing	Middle East (15%) South Asia (12%) Eastern Asia (10%) South America (10%) Africa (10%) ASEAN (10%)
Sai Gon Phu Thanh T-Shirt Garment Production Co Ltd	Viet Nam	51-100	Garment manufacturing	North America (70%) Oceania (10%) Domestic market (10%)
Vietnam Cast Iron Co Ltd	Viet Nam	51-100	Cast iron products manufacturing	United States, Germany, Austria, United Kingdom and Japan (90%)
Global Gowell Co Ltd	Viet Nam	51-100	Wood products manufacturing	South Asia (70%) Domestic market (15%) Western Europe (5%)
Ban Mai Co Ltd	Viet Nam	51-100	Apparel manufacturing	Worldwide (91-100%)
Sunshine Viet Co Ltd	Viet Nam	51-100	Apparel manufacturing	Worldwide (71-80%)
Viet Nam Electronics and Telecommunications Technology	Viet Nam	51-100	Electronic and telecommunications manufacturing	ASEAN (40%) Domestic market (20%) Western Europe (10%) Middle East (6%)
Cam Long Manufacturer Trading Company Limited	Viet Nam	51-100	Plastic bag manufacturing	Western Europe (70%) South Asia (10%) North America (10%)

Sources: UNCTAD–ASEAN Investment Report 2016 research, based on official trade websites, company websites and global sources.

4.4.2. Internationalization through franchising and licensing

ASEAN MSMEs and entrepreneurs participate in international franchising (as franchisees and franchisors) and licensing (as licensees and licensors). Many ASEAN MSMEs are involved with franchising for major brands in merchandising luxury retail consumer goods; they also operate in businesses such as food and beverage, health care, beauty, fashion and education services.

4.4.2.1. Franchising by ASEAN MSMEs

ASEAN entrepreneurs and MSMEs are involved with starting their small business by taking up franchise rights from international brands in the food and restaurant business (e.g. Baskin-Robbins (ice cream), Auntie Anne (pretzels), Kumon (after-school tuition programmes), Montessori (kindergarten education), Secret Recipe (lifestyle café chain), BreadTalk (bakery and retail) and Black Canyon (food and beverages) and other types of businesses. Some of these brands, such as Secret Recipe and BreadTalk, now belong to ASEAN MNEs (4.4.2.2). These brands and companies started from a single shop, which grew through franchising and investment within and outside their home countries.

Many franchisees are highly entrepreneurial. For example, Blugroupe Sdn Bhd (Malaysia) was established in 2013 by a young Malaysian entrepreneur. He bought the Milkcow franchise, a Korean ice cream parlor, and has expanded to eight outlets across the country.¹ A number of major MNEs which operate international franchise networks, such as convenience store brand 7-Eleven, have offered opportunities to many ASEAN entrepreneurs (box 4.4).

Box 4.4. Philippines: 7-Eleven franchising by small business entrepreneurs

A number of small business entrepreneurs in the Philippines have taken up 7-Eleven franchises. They normally started with one franchise store and grew quickly to own multiple franchise licenses. For instance, a corporate worker quit his job and started a 7-Eleven franchise store in 2007. He now owns three such stores and claims that having a global brand behind him has led to the success of his business. In another case, a Filipino couple opened their first 7-Eleven outlet in 2004. After 36 months of operation, they recouped their investment and have opened four more 7-Eleven franchise outlets.

Source: UNCTAD–ASEAN Investment Report 2016 research, based on 7-Eleven (<http://www.7-eleven.com.ph/>).

4.4.2.2. ASEAN brands (franchisors)

There are an increasing number of home-grown brands in ASEAN. Many of these brand owners started small and have over time built their brand names and the size of their business. These companies subsequently have invested abroad or provided franchise or license rights to partners in other ASEAN Member States to sell products or provide services under their brand name (box 4.5, table 4.6). Some of these companies, based on information from their respective websites, include the following:

Box 4.5. Home-grown brand names in ASEAN

Many home-grown brands in ASEAN started from a small business, with a rapid increase in recognition of their brand and in the number of stores or outlets established in their home-economy. They then franchised their brands to other local MSMEs and to overseas partners. In some cases, these ASEAN brand owners undertake joint ventures in opening stores overseas with a host-country partner.

Numerous ASEAN brands that started in this way are today large companies. Some, such as Es Teler 77 (Indonesia), J. CO Donuts and Coffee (Indonesia), Old Town White Coffee (Malaysia), Secret Recipe (Malaysia), Optical England (Malaysia), Jollibee (Philippines), BreadTalk (Singapore), YaKun (Singapore), MK Restaurant (Thailand) and Coca Restaurant (Thailand), have grown to become large entities or chain stores with a presence across ASEAN. Their journeys from humble beginnings are inspiring stories to new start-ups and MSMEs that aim to build their own home-grown brands.

Source: UNCTAD–ASEAN Investment Report 2016 research.

Indonesia (selected cases)

- *J. CO Donuts and Coffee*, established in 2006, was the fastest growing donut and coffee chain in Indonesia. It has expanded rapidly by opening multiple stalls in Indonesia, and in Malaysia, the Philippines and Singapore.
- *Es Teler 77*, is a fast food chain established in 1982. The brand name is a reference to a popular Indonesian dessert drink, es teler. The company sells Indonesian food, such as bakso, in addition to es teler. The company has more than 200 outlets in Indonesia and outlets in Malaysia, Singapore and Australia.

Malaysia (selected cases)

- *Old Town White Coffee* is a chain of café outlets. The company was started by two entrepreneurs in Ipoh (Malaysia) in 1999 and grew rapidly. It later became a publicly listed international chain outlet. The company expanded overseas through investment and franchising arrangements. It is also engaged in the manufacturing, marketing and sales of coffee and other beverages. It sells coffee to local and overseas markets, such as Brunei Darussalam, Indonesia, the Philippines, Singapore, Thailand, Australia, Canada, China and Hong Kong (China).
- *Secret Recipe* started in 1997. It has evolved rapidly to become one of the fastest-growing lifestyle cakes and café chains in ASEAN. It expanded overseas through investment and franchising. The Secret Recipe brand has expanded to Brunei Darussalam, Indonesia, Cambodia, Myanmar, the Philippines, Singapore, Thailand, China and Australia.
- *Fipper* was founded in 2008 by a young entrepreneur. The company manufactures, distributes and markets slippers, primarily targeting the ASEAN region. It has a presence in Brunei Darussalam, Cambodia, Indonesia, Thailand, Singapore, Viet Nam and the United States.

Table 4.6. ASEAN franchisors and home-grown brands (selected cases)

Brand names/ franchisors	Country of origin	Industry	Overseas presence (selected locations)
Ayam Penyet Api	Malaysia	Food	Myanmar
Dapur Penyet	Malaysia	Food	Brunei Darussalam, Indonesia and Singapore
Cleanpro	Malaysia	Laundry	Singapore and Thailand
Gloria Jean's Coffees	Malaysia	Coffee	Brunei Darussalam, Indonesia and Myanmar
Go Fun Kee Cafe	Malaysia	Food	China
Hot&Roll	Malaysia	Food	Singapore and United Arab Emirates
Secret Recipe	Malaysia	Food/restaurant	Brunei Darussalam, Indonesia, the Philippines and Singapore
Old Town White Coffee	Malaysia	Food/restaurant	Indonesia, Singapore
Ogawa	Malaysia	Health and wellness equipment	Indonesia, Myanmar, Singapore, Viet Nam and non-ASEAN countries
Flipper	Malaysia	Slippers	Cambodia, Thailand and Viet Nam
Beryl	Malaysia	Chocolates	Philippines and Singapore
Optical England	Malaysia	Optical care	Cambodia and Singapore. Plans to expand to Viet Nam.
JobStreet	Malaysia	Employment search website	Various ASEAN Member States
Figaro Coffee Company	Philippines	Coffee	Malaysia, China, Saudi Arabia and Papua New Guinea
Jollibee	Philippines	Fast food	Brunei Darussalam, Viet Nam, Hong Kong (China), Saudi Arabia, Qatar and the United States
Potato Corner	Philippines	Food	Malaysia, Indonesia, Singapore, Thailand, Australia, Dubai and the United States
Oryspa	Philippines	Spa	Singapore
Manhattan Fish Market	Singapore	Food	Indonesia, Malaysia, Myanmar, Thailand, Sri Lanka and other Asian countries
Mr Bean	Singapore	Soya bean, food and beverage	Philippines and Japan
Ramen Ten	Singapore	Food	Malaysia, Qatar, Saudi Arabia and other middle east countries
BreadTalk	Singapore	Bread	Indonesia, Malaysia and outside ASEAN
YaKun	Singapore	Food and beverages	Cambodia, Indonesia, Myanmar, the Philippines, Thailand and outside ASEAN
Osim	Singapore	Health and wellness equipment	Indonesia, Malaysia and outside ASEAN
Spa Esprit	Singapore	Spa	Indonesia, Malaysia, the Philippines, Thailand and outside ASEAN
Bee Cheng Hiang	Singapore	Food	Indonesia, Malaysia, the Philippines, Thailand, Viet Nam and other Asian countries
Paradise Group	Singapore	Food	Malaysia, Indonesia, China, Japan, Hong Kong (China) and Dubai
The Waffle	Thailand	Food	Malaysia, Singapore, the Philippines and United Arab Emirates
Doi Chaang Caffé	Thailand	Food and beverages	Republic of Korea
Coffee World	Thailand	Food	Indonesia, Lao People's Democratic Republic, Thailand, Bahrain, Bangladesh, China and India
Black Canyon	Thailand	Food and beverages	Cambodia, Indonesia, Malaysia, Myanmar, the Philippines and Singapore

Source: UNCTAD–ASEAN Investment Report 2016 research, based on information from companies' websites.

- *Beryl* chocolates was established in 1995. The chocolates are also sold in foreign markets such as the Philippines, Singapore, Japan, Hong Kong (China), Taiwan Province of China and Dubai.
- *Optical England* provides optical care. It started with its first outlet in Malaysia in 1979. Today, it is one of the largest optical chain stores in Malaysia, with a presence through investment and franchise arrangements in Cambodia, Singapore and China under the brand name E-Optics. It plans to expand its brand to Viet Nam and other ASEAN Member States.
- *Sports Planet* was incorporated in 2002. It provides futsal venues (futsal is a five-a-side variant of football), services and facilities. In 2004, it was officially registered as a franchisor and established a presence in Indonesia in 2005 and in Singapore in 2007. Today, Sports Planet has 15 futsal venues across three countries in ASEAN.
- *Rotiboy* was incorporated in 1998 as a small bakery shop. It expanded rapidly in 2002 in Malaysia to become a bakery chain and a recognized brand. Having built its brand in the home-country, Rotiboy established a presence in Singapore in 2004 and in Indonesia in 2005. In 2007, Rotiboy acquired a company that owned the brand Mr Bun in Thailand and strengthened its presence in that host-country. The company's international expansion has been through franchising and investment. It is planning to expand into China.

Philippines (selected cases)

- Philippine companies have also successfully built up their brand names (e.g. Potato Corner, Figaro Coffee and Oryspa). Some started as a franchisee, then became a franchisor with extensive investment and franchising arrangements abroad, including in ASEAN (box 4.6).

Box 4.6. Jollibee: From a franchisee to a franchisor

Jollibee started as a franchisee in 1975 with the Magnolia Dairy Ice Cream franchise. The franchise business was started by a 22 year old entrepreneur, with financial assistance from his family. In response to customer demand, the owner added hot meals and sandwiches to the menu, which became more popular than the ice cream itself. In 1978, encouraged by this development, the ice cream parlor franchise was discontinued and the business was transformed into a fast food outlet called Jollibee. Since then, the owner has worked on branding and marketing the Jollibee's business lines and products, and today Jollibee has eight brands, including "Jollibee" for fast food business, "Greenwich" for its pizza and pasta chain, "Chowking" for its oriental food outlets, and other trademarks.

Jollibee internationalized rapidly through FDI and franchising activities. It now has 80 stores outside the Philippines, of which 11 are in Brunei Darussalam and 32 in Viet Nam.

Source: Based on company's information.

- *Potato Corner* was incorporated in 1992 with the first store selling fries. The company began franchising the following year. Its first overseas presence was in Indonesia in 2006 after it has built a strong brand name in the Philippines and two years later it

had 10 stores in the home-country. Potato Corner has also opened outlets through franchising in Malaysia, Singapore, Thailand, Australia, Panama, the United States and in Middle East.

- *Bench* was incorporated in 1987. It started as a small clothes store selling t-shirts for men. The company has expanded into a reputable brand and has branched out to have full men's line, ladies' line and lifestyle products. Bench has expanded internationally through exporting, FDI and franchising. Today, the brand is available in over 500 stores worldwide, which includes Singapore, China, the United States and Middle East.

Singapore (selected cases)

- *BreadTalk* opened its first bakery store in 2000. It grew rapidly in the early years of its business development. In 2003, BreadTalk was listed on the Singapore stock exchange. In the same year, it opened its first overseas outlet in Indonesia, in 2004 it opened an outlet in China and an outlet in Malaysia in 2007. BreadTalk continues to expand with more outlets in ASEAN and has also franchised its brand to business partners in the Middle East and elsewhere outside the region.
- *YaKun* was incorporated in 1944 by a Singaporean entrepreneur. YaKun is now an established coffee chain with international outlets in Cambodia, Indonesia, Myanmar, the Philippines, Thailand, China, Hong Kong (China), Japan, the Republic of Korea and Taiwan Province of China. The company has grown at a steady pace. In 2012, it employed about 300 people, but the number employed by its franchisees is much more.
- *Spa Esprit Group* was incorporated in 1996 by a Singaporean woman entrepreneur. It has a diverse portfolio spanning beauty products and food and beverages, and is today present in Indonesia, Malaysia, the Philippines, Thailand, China, Hong Kong (China), the United Kingdom and the United States. The company has announced plans to open 15 more salons by 2019 through franchising arrangements in various countries.
- *Awfully Chocolate* was established in 1996 by a Singaporean woman entrepreneur. It started as a cake shop selling only one type of cake. Today, the company sells a wide range of cakes and ice creams. Through franchising, the brand has expanded to China and Hong Kong (China). The company plans to expand, through franchise, to the Philippines and Thailand.
- *4FINGERS* started as a single store in Singapore in 2009 as a fast food chicken restaurant. Since then, it has expanded through franchising and has eight outlets domestically and one outlet each in Indonesia and Malaysia.
- *Home-Fix* was established in 1993 by two brothers. It started as a family-owned hardware shop. Home-Fix grew into a chain of DIY and home improvements retail stores across Singapore. It subsequently expanded overseas. It has nine outlets in Malaysia and recently opened the first outlet in Cambodia. The company's expansion was through franchising and it is now actively looking to expand to other foreign countries.

Thailand (selected cases)

- *Black Canyon* was incorporated in 1993. It is a food and beverages chain. Black Canyon owns and operates some branches directly in Thailand but the overseas outlets are owned and operated by franchisees. It has expanded internationally to Cambodia, Indonesia, Malaysia, Myanmar, the Philippines and Singapore.
- *Coca Restaurant* started from a single shop in 1957. The company expanded with the opening of more restaurants in different parts of Thailand before opening its first international outlet in 1988 in Singapore. The brand has expanded to Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Viet Nam, China, Japan and Republic of Korea. The Coca restaurant also pursues franchising as part of the company's growth model.
- *MK Restaurants* was incorporated in 1962. The company started off as just one restaurant and expanded steadily. The restaurant chain expanded through franchising and grew to have more than 400 outlets in the home-country. It expanded its business overseas in 1996, partnering with entrepreneurs in each new market. In 2011, MK entered into Singapore and now has six outlets in that country, four in Viet Nam and one in Indonesia.

4.4.3. Internationalization through contracting

International contracting, including linkages with MNEs, is a common non-equity or contractual mode through which MSMEs internationalize, in both manufacturing and services. Such a relationship can occur with both domestic and foreign firms, but where the latter are involved this is referred to as international contracting. It can take a number of forms. For example, the MSME may be contracted directly by a purchasing firm (the principal firm) or indirectly through an intermediary firm. Depending on factors such as the industry, business model adopted by the principal firm, the intermediary itself may take different forms; for example, it may play the role of a sourcing arm for the main firm (with additional services in many cases), or it may be a ('first tier') contractor, which then subcontracts some elements of the contracted work to an MSME.

ASEAN MSMEs are an important part of local and regional production networks. They help foreign MNEs source parts and components locally, making their production networks efficient, and potentially boosting the efficiency and competitiveness of the region as a whole (section 5.4). ASEAN MSMEs can be contract manufacturers producing parts and components and supplying them to ASEAN and foreign MNEs (section 4.4.3.1). Many ASEAN MSMEs offer contract services in a similar way (section 4.4.3.2). Through both contract manufacturing and services, MSMEs link companies, increase industrial activities, support the domestic investment environment and help the home-country integrate into GVCs (ASEAN Secretariat and UNCTAD 2014).

4.4.3.1. ASEAN MSMEs in contract manufacturing

Many ASEAN MSMEs operate as contract manufacturers to big firms (local and foreign MNEs). The success stories of these companies are often due to their internationalization path, as a large proportion of revenues are generated outside the home-country. For example, Exis Tech (Malaysia) was incorporated in 2002 and specializes in the design and manufacturing of back-end test equipment for the semiconductor industry. The core business includes design and manufacturing of machines and equipment catered for the testing segment of the semiconductors and automation industries. It has offices in the Philippines, Thailand, China and the United States.

In some cases, ASEAN MSMEs that started as contract manufacturers or contract service providers for large companies are today international companies with a footprint across the region. For instance, Armstrong Industrial (Singapore) was established in 1974 and began manufacturing custom-made die-cut foam and rubber products two years later. As well as supplying companies in Singapore, it has internationalized through a series of overseas operations, with its first overseas subsidiary established in Kuala Lumpur in 1987. It established a presence in Thailand through a joint venture with Bridgestone in 1992. In 1995, it was listed on the Singapore Stock Exchange Mainboard and has since expanded to Indonesia, China and Viet Nam. It set up a new plant in Johor Bahru (Malaysia) in 1996 and further expanded its presence in Malaysia with a third plant in Penang in 2001. By 2014, Armstrong's manufacturing plant in Singapore was transferred to Johor Bahru (Malaysia).

Notwithstanding case studies such as Armstrong Industrial, most ASEAN MSME contractors in manufacturing still rely heavily on their home-economy. For instance, many Indonesian MSMEs manufacture automotive parts and supply them to preponderantly foreign-owned major automotive manufacturers with operations in the country (table 4.7). Foreign auto-part MSMEs have also set up plants in Indonesia to manufacture and supply to automotive manufactures in a similar fashion. Both local and foreign auto-part MSMEs based in Indonesia play an important role in supporting the automotive industry, in achieving production efficiency and in developing the local supporting industry.

4.4.3.2. ASEAN MSMEs in contract services

ASEAN MSMEs have established business linkages with foreign MNEs through services contracts such as professional services, and engineering or infrastructure development and operations management. The cases below, based on information from companies' websites, provide examples of connections between ASEAN MSMEs and MNEs through contractual service arrangements.

Java Offshore (Indonesia) was incorporated in 2010.² It is an offshore MSME services contractor with about 100 employees that provides survey and subsea solutions to clients in the oil and gas industry. Some of this MSME's customers include national and international oil companies such as Petronas (Malaysia), BP (United Kingdom), ConocoPhillips (United States), Santos Limited (Australia), Saipem S.p.A (Italy), Eni S.p.A (Italy) and PremierOil

(United Kingdom). Java Offshore has set up representative offices in Malaysia and Singapore. The international expansion of Java Offshore was driven by market-seeking reasons.

Mersing Group (Malaysia) was incorporated in 1980.¹⁰ It specializes in trenchless technology for the construction industry. The company offers services in tendering,

Table 4.7. Indonesian automotive parts MSMEs or companies with small-scale operations that supply foreign companies in Indonesia, 2015

Company	Date established	Parts supplied	Clients in Indonesia (selected cases)	Size (number of employees)
PT Armada Indah Agung Glass	1981	Safety glass	Caroseri, after market	Direct: 24 Indirect: 27 Staff & Mgt: 29
PT Braja Mukti Cakra	1986	Brake drums, flywheels, disc brakes, pressure plates and pulleys	PT Krama Yudha Tiga Berlian Motor, PT Mitsubishi Krama Yudha Motors, PT Exedy, PT HMMI, PT IAMI	Direct: 106 Indirect: 77 Staff & Mgt: 48
PT Central Karya Megah Utama	2000	Radiators	Automotive companies	Direct: 49 Indirect: 33 Staff & Mgt: 3
PT Cipta Kreasi Prima Muda	1994	Rear-view mirrors, auto lamps, grills	PT Sinar Terang, PT Citra Plastik Makmur, PT Hino Motor Mfg.	Direct: 115 Indirect: 50 Staff & Mgt: 10
PT Cipta Saksama Indonesia	1979	Exhaust mufflers and pipes, catalytic converters, door beams, instrument panels, stamping parts and other metal components for automotive	Honda, Isuzu, Mitsubishi, Nissan, UD Trucks, Suzuki, Daihatsu	Direct: 166 Indirect: 68 Staff & Mgt: 20
PT Danmotor Indonesia	1970	Motorcycle parts, transmission parts	Motorcycle manufacturing companies	Direct: 68 Indirect: 47 Staff & Mgt: 52
PT Eka Swastya	1980	Brake shoes, brake pads, brake linings for motorcycle	PT Dinamis	Direct: 213 Indirect: 31 Staff & Mgt.: 33
PT Ekamitra Jayatama	1989	Automotive lamps, plastic Injection components, press parts	Astra, Pantja Motor, Hino	Direct: 102 Indirect: 10 Staff & Mgt: 20
PT Frina Lestari Nusantara	2000	Bonnet guards, side visors, front bumper guards, side steps, mud guards, bumper corner protectors, side body mouldings, spare wheel covers, roof racks	PT Astra Daihatsu Motor, PT Honda Prospect Motor, PT Pantja Mtoro, PT Nissan Motor, PT KIA Motor Indonesia, PT Krama Yudha Tiga Berlian Motor, PT Toyota Manufacturing Indonesia, Isuzu, Ford, Hyundai	Direct: 250 Indirect: 7
PT Indobaja Primamurni	1996	Spring steel flat bars	PT Indospring Tbk	Direct: 116 Staff & Mgt: 31
PT Indowire Prima Industrindo	1995	Automotive wires, corrugated tubes, vinyl tubes	PT Sumi Indo Wiring Systems (a subsidiary of Sumitomo Wiring System Ltd)	Direct: 64 Indirect: 46 Staff & Mgt: 42

Table 4.7.
Indonesian automotive parts MSMEs or companies with small-scale operations that supply foreign companies in Indonesia, 2015 (concluded)

Company	Date established	Parts supplied	Clients in Indonesia (selected cases)	Size (number of employees)
PT Inkoasku	1974	Steel wheel rims for passenger cars	PT Toyota Motor Mfg Indonesia, PT Astra Daihatsu Motor, PT Krama Yudha Tiga Berlian Motor, PT Suzuki Indomobil Motor, PT Isuzu Astra Motor Indonesia	Direct: 100 Indirect: 75 Staff & Mgt: 37
PT Ionuda	1974	Shock absorbers, exhaust systems	PT Komponen Futaba Nusantara, PT Dirgantara Mitramahadi, PT Hyundai, P General Motor Indonesia, PT. General Motor Astra Isuzu, PT Kancil, PT Astra Nissan Diesel Indonesia	Direct: 134 Indirect: 80 Staff & Mgt: 6
PT Jakarta Marten Logamindo	1996	Heat treatment service	PT Astra Honda Motor, PT Toyota Manufacturing Indonesia, PT Yamaha Indonesia Motor Manufacturing, PT Suzuki Motor, PT Mitsubishi Kramayudha Motor	Direct: 91 Staff & Mgt: 13
PT Karya Bahana Berlian	1991	Seat assembly	PT Krama Yudha Tiga Berlian	Direct: 161 Indirect: 75 Staff & Mgt: 51
PT Muarateweh Spring	1977	Leaf springs	PT Kramayudha Tiga Berlian Motor, PT Toyota Motor Manufacturing Indonesia, PT United Tractor, Hino, Nissan, Isuzu	Direct: 134 Indirect: 25 Staff & Mgt: 22
PT Multi Makmur Indah Industri	2004	Automotive filters	After market	Direct: 93 Indirect: 44 Staff & Mgt: 4
PT Multi Prima Sejahtera Tbk	1982	Sparkplugs	PT Astra Otoparts, PT Hyundai Indonesia Motor	Direct: 121 Staff & Mgt: 23
PT Palingda Nasional	1981	Steel wheel rims for trucks and buses	Hino Motor Mfg, Kramayudha Tiga Berlian Motor, Isuzu Astra Motor Indonesia, Isuzu Hicom Malaysia	Direct: 105 Indirect: 50 Staff & Mgt: 22
PT Pema Meta Presindo	2001	Subassembly parts, deep draw parts, fuel tanks, oil pans	PT Astra Motor, PT Inti Pantja Press Industri, PT Yamaha Indonesia, PT Astra Honda Motor, PT Denso Indonesia	Direct: 130 Staff & Mgt: 10
PT Srirejeki Perdana Steel	2011	Mufflers for four-wheel and two-wheel vehicles	PT Yamaha Indonesia Motor Mfg, PT Indomobil Suzuki International	Direct: 224 Indirect: 4 Staff & Mgt: 7
PT Waja Kamajaya Sentosa	1977	King pins, spring pins, spring brackets, spring shackles, dies, jigs, fixtures, stamping, fabrication	PT Aisin Indonesia, PT Astra Daihatsu Motor, PT Astra Hondo Motor, PT Astra Otoparts, Daimler Chrysler Indonesia, Hitachi Construction Machinery Indonesia, PT Indomobil Suzuki International, Komatsu Indonesia, PT Yamaha Indonesia Motor Mfg, PT Yutaka Mfg Indonesia	Direct: 90 Indirect: 35 Staff & Mgt: 25

Source: UNCTAD–ASEAN Investment Report 2016 research, based on GIAMM and company websites.

preliminary and detailed design, project management, contract administration, feasibility studies, environmental protection study, technical and construction feasibility studies, and construction management and supervision. It has international offices in Singapore and Hong Kong (China) and has completed projects in Indonesia, the Philippines, India and elsewhere.

NGLTech (Malaysia) was incorporated in 2009.¹¹ It is a technology development and licensing MSME focusing on developing innovative solutions for improvement and enhancement of processes in the upstream oil and gas production facilities. NGLTech holds numerous worldwide patents. It has clients such as UOP (a Honeywell Company), 2H Offshore, JGC, Technip SA, Erin Energy Corporation, Allied Energy, Maersk, Petrofac, Pertamina and HESS. It has a regional office in Australia.

Technofit (Malaysia) was incorporated in 1998.¹² Originally providing boiler services and maintenance to numerous power plants in Malaysia, now Technofit has expanded its business to cover other related engineering services such as procurement fabrication, construction, maintenance and commissioning of power plants in line with clients' requirements and industry demand. Some of its customers include Alstom (France), IHI Corporation (Japan), Sinohydro (China) and Toshiba (Japan). It has representative offices in Indonesia and Oman.

EON (Philippines), a public relation (PR) company, was founded in 1998. The company started with just three workers and have grown to less than 100 employees. EON exports services to support other PR companies who serve multinational companies based in Asia, which includes sending employees abroad, including to Singapore and China.

AllAlloy (Singapore) offers a comprehensive range and mix of welding consultancy services and solutions, and related products for the steel fabrication industries for the oil and gas, offshore and marine, and petrochemical and power plant industries. It has offices in Indonesia, Malaysia, Viet Nam and Australia.

InsightAsia (Singapore) was incorporated in 1998.³ It is a pan-Asian full-service research agency, with a team of 120 full-time researchers. This MSME focused on bringing a more intimate understanding of the Asian consumer context and mindset to assist clients in creating strategic and profitable solutions for the Asian marketplace. Its list of customers includes names such as Michelin (France), Philips (Netherlands), GSK (United Kingdom), Unilever (United Kingdom), Airbnb (United States), Facebook (United States), Nestle (Switzerland), Danone (France), Roche (Switzerland), Samsung (Republic of Korea), Panasonic (Japan) and Asahi (Japan). InsightAsia internationalized by opening offices overseas, including in Indonesia, Thailand, Malaysia, the Philippines and Viet Nam. A key reason for doing so was to have a presence in the market it serves and also to meet client demand by operating close to them.

MahaChem (Singapore) started as a one-man operation and was incorporated in 1975.⁷ This MSME focused on importing raw materials for the paint industry. It has now grown into a chemical solutions provider with a workforce of over 100 people. It develops new

technologies, skills and methods to maximize solutions and efficiency in the chemicals distribution industry. Some of its clients include Chromaflo Technologies (United States), AkzoNobel (Netherlands), Q-Lab Corporation (United States), Toyo Aluminium K.K. (Japan), Cabot Corporation (United States), Angus Chemical Company (United States), Arkema Group (France), Hanwha Chemical (Republic of Korea) and Rowasol GmbH (Germany). So far, it has internationalized predominantly in ASEAN. It has offices in Malaysia (1994), the Philippines (2001), Thailand (2003), Viet Nam (2004 and 2015), Indonesia (2010 and 2014), Myanmar (2011), China (2012) and Cambodia (2013). The motivation for expansion was market seeking, through opening up representative offices. However, some overseas subsidiaries also do product development.

Vela Diagnostics (Singapore) was incorporated in 2011.⁸ It is a supplier of integrated molecular solutions for the diagnosis of infectious diseases and cancer. This MSME has fewer than 200 employees worldwide. Its international expansion was rapid. It set up regional operations in Germany and the United States within the first year of its birth. The internationalization process in the United States was motivated by strategic asset-seeking motives. Vela set up a research and development plant in the United States and established market-seeking commercial offices in Germany and the United States. It established sales offices in Malaysia and in a few other major developed countries. It also internationalized through distribution agreements with AmeriLab for markets in China, with Diagnostica Longwood for Spain and with SurgiTech AS for Estonia.

QUO Global (Thailand) was incorporated in 1996.⁴ It is an advertising and marketing agency that caters to the travel, tourism and hospitality industries. It offers services such as hospitality feasibility studies and global marketing campaigns for clients, which include Premier Inn (United Kingdom), Steigenberger Hotel Group (Germany), Accor Hotels (France) and Marriott (United States). QUO has opened offices in Singapore, Viet Nam, India and the Netherlands to meet client demand.

ADI Group (Thailand) was incorporated in 2000.⁹ It provides clients based in Asia with staffing and talent management solutions. It specializes in IT staff outsourcing, permanent and contract recruitment, contract management and payroll service. Some of the clients of this MSME include Accellence, AIS, Amadeus, Cuel, Fujitsu, HP, Samsung Life Insurance, Indorama, Insource Asia, Volvo and Prudential. ADI has opened offices in Indonesia, Singapore and India.

Synectics Consulting Corporation (Viet Nam) was incorporated in 2011.⁵ It operates as a building information modelling consultancy and a provider of virtual design and construction products with clients across the globe. Its portfolio includes high-end resorts, hospitals, commercial offices, industrial buildings, and residential homes with clients such as Crown Systems, Newforma and Autodesk. The company has about 100 employees and has expanded internationally with a presence in Singapore and the United States.

Phibious (Viet Nam) was incorporated in 2002.⁶ It is an independent brand marketing and communications company, serving clients with brands such as Coca-Cola, Fanta, Sprite,

Google, Minute Maid, Piaggio, FV Hospital, Cellcard, Excelso, MTV, Forte Insurance, Prudential and OREO. The company has expanded into the rapidly growing ASEAN markets, with offices in Cambodia, Indonesia, the Lao People's Democratic Republic and Myanmar. It has less than 100 employees.

4.4.4. MSME internationalization through FDI

ASEAN MSMEs invest in other Member States for a variety of economic and strategic reasons and thus contribute to the increasing number of ASEAN companies operating in the region (ASEAN Secretariat and UNCTAD 2013).

In most cases, ASEAN MSMEs invest abroad as part of a natural internationalization process after having gained experience through international trade (exports) and work with distributors or agents, as well as other modes, such as licensing or subcontracting. Some invest in neighbouring countries after having built their brand names or technology in the domestic market, and believe that they are proficient enough to expand through overseas ventures (i.e. FDI). Some invest abroad very early because they see their markets in a borderless context made possible by ICT and other technological developments.

MSME FDI is examined in detail in chapter 5.

4.5. Conclusion

The economic importance of MSMEs in ASEAN cannot be emphasized enough. They are major players in generating employment, contributors to GDP and growth, and preponderant in the number of business establishments. Against this background, growing a broader pool of MSMEs and entrepreneurs is important. Equally important is the need to foster competitive MSMEs which can help the home-country and ASEAN connect and do business with the world. Among other aspects, entrepreneurial culture needs to be further encouraged; it forms the base for the creation and development of MSMEs with the leadership and vision to take action in pursuit of competitiveness, expand and subsequently internationalize.

Whether an MSME wants to, could or should internationalize depends on a number of factors such as corporate strategy, access to finance, ability and readiness to venture overseas, industry and technology-specific factors, the home-country environment (including the implications of MSME internationalization on the domestic economy) and host-country attractiveness. Overall, internationalized MSMEs have greater market opportunities, access to additional sources of revenue and other benefits.

However, although internationalization can be beneficial to MSMEs in the longer run, it also poses immediate challenges and risks. ASEAN MSMEs – and governments – need to consider and assess these benefits, challenges and risks carefully, and based on the assessment determine whether going international is worth doing. The decision to internationalize or not may not depend on MSMEs or home countries. This is because in a fast-changing

global investment and trade landscape, growing competition (at home and from abroad), emerging regional opportunities and the drivers for internationalization by ASEAN MSMEs are becoming more intense. These factors can influence MSME internationalization.

Some ASEAN MSMEs have successfully internationalized, whether through exports, franchising, licensing, linkages with foreign MNEs or FDI. Their internationalization processes connect them with GVCs from the international customers they serve. Internationalization has expanded their market reach and connected them to a vast network of RVCs and GVCs; in many cases they have become more competitive, diversified their revenues and helped boost home-country growth and employment. The internationalization of MSMEs can be – and has been – a win-win situation for firms, the home-country and the ASEAN region in the context of GVCs and a highly competitive world. The realization of the AEC goals has to include the development and internationalization of MSMEs as a central component.

ASEAN MSMEs internationalize for different reasons and motives, which can differ by type of MSMEs and the industries in which they are based. Home-country-specific factors such as limited labour supply and small markets are among the key drivers pushing MSMEs from some ASEAN Member States to actively internationalize to grow and survive. Some ASEAN MSMEs are less compelled to internationalize, or do not see the need, as they are preoccupied with strategies to grow in a large domestic market. Nonetheless, there are increasing numbers of ASEAN MSMEs internationalizing or regionalizing. Home-country measures, increasing opportunities created by ASEAN's regional integration and firms' internationalization strategies and visions play roles in MSMEs' internationalization.

Notes

- ¹ In another case, a young Malaysian finance and marketing graduate became aware of Wafflemeister, a Belgium waffle brand, when he travelled in Europe. He bought the franchise from the Belgium company and opened his first outlet in 2010, followed by a second one since.
- ² www.javaoffshore.com/.
- ³ www.insightasia.com/.
- ⁴ www.quo-global.com.
- ⁵ www.synectics.vn/about/1/.
- ⁶ <http://phibious.com/us/in-words.html>.
- ⁷ <http://mahachem.com/>.
- ⁸ www.veladx.com/.
- ⁹ www.adiresourcing.com/.
- ¹⁰ www.mersing-group.com/.
- ¹¹ <http://ngltech.com/clients.php>.
- ¹² <http://technofit.com.my/proj/>.

CHAPTER 5

MSME FDI FROM AND IN ASEAN

5.1. Introduction

ASEAN MSMEs are increasingly investing across borders, driven by emerging regional opportunities, the influence of lead firms in the context of RVCs, the need to follow key customers to neighbouring countries, to grow and for a combination of other “push” and “pull” factors.

Which MSMEs invest internationally, as well as the patterns of their FDI across ASEAN, depends on a host of factors, including the industry in which firms are active, their home- and host-country ecosystems, and the vision of their founders and management. MSMEs in more mature, high-cost or small-market ASEAN Member States (e.g. Malaysia and Singapore) have a relatively greater tendency to invest abroad. Those from Indonesia, the Philippines, Thailand and Viet Nam also invest in other ASEAN Member States, but to a lesser degree in view of their lower-cost and bigger home-market environments. Building on case studies, the first part of this chapter (section 5.2) highlights FDI by ASEAN MSMEs in the context of the conceptual framework of internationalization elaborated in chapter 4. Although this chapter focuses on FDI by ASEAN MSMEs, they may simultaneously be involved internationally through exporting, licensing and franchising. Moreover, quite often these modes are complementary (e.g. export of components or inputs by a parent MSME to its subsidiaries overseas).

ASEAN MSME investor types are varied and include “born global” firms (section 5.2.1), MSMEs established by women entrepreneurs (section 5.2.2) and subcontractors serving firms in foreign markets (section 5.2.3). Although some of these firms were established many years ago, many – especially those linked to the digital economy – were created more recently (section 5.2.1).

The landscape of MSME internationalization in ASEAN is also shaped by foreign MSMEs operating in the region; and inasmuch as they establish supporting industries in the context of global value chains (GVCs), they strengthen the regional business and economic environment through their linkages with foreign MNEs, as well as with ASEAN firms. Foreign MSMEs (as well as larger foreign MNEs), also examined in this chapter (section 5.3), provide opportunities for ASEAN MSMEs to participate in RVCs and GVCs, and thereby improve the latter’s prowess in skills, technology and product quality in a competitive environment, as well as enhance their absorptive capacity. It is crucial to appreciate the importance of the interface between foreign and ASEAN MSMEs in the context of their respective roles in supporting industrial development, and in establishing connectivity in and among ASEAN Member States (section 5.4; ASEAN Secretariat and UNCTAD 2014, 2015).

5.2. Internationalization of ASEAN MSMEs through FDI

ASEAN MSMEs that invest overseas are mostly (but not entirely) headquartered in advanced ASEAN Member States. Although in most cases their overseas subsidiaries are located in the region, they are also widely present in other parts of the world, especially in Asia and North America (table 5.1).

Historically, and to a significant degree still today, ASEAN MSMEs typically operated in relatively low-tech sectors. This was and is reflected in the motives behind their internationalization and the pattern of FDI across the region and beyond. For example, MSMEs such as Barong Batik (Indonesia), Human Nature (Philippines) and Love and Madness (Philippines) manufacture consumer products such as clothing and natural bath products, and their internationalization is essentially market-seeking (table 5.2; fuller case studies in annex 5.1). Their FDI takes the form of sales subsidiaries or branches that support their exports from their home-country production base; the same applies for the ICT Group (Indonesia), although its primary activity is in metal and steel products.

In common with other MSMEs investing abroad, the internationalization effort by ASEAN MSMEs supports a wide number of home- and host-country firms and their employees through linkages with suppliers and vendors or franchisees (which are mostly also MSMEs). As such, institutional support is warranted, especially as the case studies show that sometimes companies are not aware of regional developments and opportunities or government facilities available to them (annex 5.1).

Increasingly, FDI by ASEAN MSMEs can be found in a wide range of industries, ranging from low- to high-technology manufacturing (e.g. cosmetics, electronics, food and beverages, medical devices, metal design, pharmaceuticals and semiconductors), and in a wide gamut of services (e.g. consulting, education and training, engineering services, information and communication technology (ICT), logistics, media and research and development (R&D) services) (table 5.1). Many are highly innovative and widely dispersed internationally, such as CMC (Malaysia, engineering consultants), TSI (Philippines, end-to-end information and communication technology services), Freshening Industries (Singapore, wet-wipe manufacturer targeting niche markets), Numoni (Singapore, social banking) and Baezeni (Thailand, 3D engineering services). For most, market-seeking motivations are the main reason to expand overseas, but inasmuch as quite a few are targeting MNEs as a market, a subtext is that such FDI is driven by a need to follow their customers. This applies, for instance, to Directive Communications International (Indonesia), which supplies leadership development and organizational culture change solutions to MNEs such as Citibank, Emirates, Philips and Toyota (annex 5.2).

The primary sector appears to be underrepresented, possibly because in some industries (e.g. agricultural crops or mining) significant financial muscle or scale economies are needed in order to be competitive. However, this is not always a barrier, with companies such as Dao-Heuang Group (Lao PDR) prospering on the back of coffee production, processing and overseas sales (including through FDI) (section 5.2.3). In addition, the existence of large

Table 5.1. Selected internationalized ASEAN MSMEs through FDI

Company	Year established	Business activities/ Industry	Country of origin	International presence (selected locations)
Britmindo	2004	Metal mining	Indonesia	Singapore and Australia
Java Offshore	2010	Oil and energy	Indonesia	Malaysia and Singapore
Sucofindo Appraisal	1980	Information technology and services	Indonesia	Viet Nam
Bintang Subsea	2012	Oil and energy	Indonesia	Brunei Darussalam, Indonesia, Malaysia, Singapore
Directive Communication International	2002	Professional training and coaching	Indonesia	Malaysia and partners in Egypt and India
PT Petronesia Benimel	2005	Oil and energy	Indonesia	Malaysia
PT Indonesia Bulk Carrier	2010	Logistics	Indonesia	Singapore
Brilliant Merchandising Sdn Bhd	1994	Bag manufacturing	Malaysia	Sales office in Brunei Darussalam and Singapore
Datamicron System Sdn Bhd	2002	Business intelligence	Malaysia	Singapore and the United States
SRM Integration (M) Sdn Bhd	1996	Semiconductors	Malaysia	Thailand, the Philippines, China, the Republic of Korea and the United States
N2N Global Solutions Sdn Bhd	2006	R&D software	Malaysia	Singapore
SecureMetric Technology Sdn Bhd	2007	Software (digital security)	Malaysia	Indonesia, the Philippines, Singapore and Viet Nam
C.S. Alloy Design (M) Sdn Bhd	1991	Metal design	Malaysia	Singapore
Ecava Sdn Bhd	2005	Industrial automation	Malaysia	Germany
MedKlinn International Sdn Bhd	2005	Electronic manufacturing	Malaysia	Indonesia, the Philippines, Singapore and Thailand
Quantum Electro Opto Systems Sdn Bhd	2008	Electronic manufacturing	Malaysia	United States
Safe Air Engineering & Services	1995	Engineering design	Malaysia	Australia and New Zealand
Vepro Group Sdn Bhd	..	Electronic manufacturing	Malaysia	Indonesia, Singapore, Thailand and Viet Nam
MIT Innovation Sdn Bhd	2010	Oil and gas	Malaysia	United States
Oriental Fastech Manufacturing Sdn Bhd	2006	Metal and plastics	Malaysia	Singapore and Viet Nam
Techbond Manufacturing Sdn Bhd	1995	Adhesive manufacturing	Malaysia	Viet Nam
Wavelet Solutions Sdn Bhd	2003	Enterprise software	Malaysia	China
Dream Catcher Consulting Sdn Bhd	2002	Technical training	Malaysia	Thailand, Singapore and Taiwan Province of China
DreamEDGE Sdn Bhd	2007	Digital engineering services	Malaysia	Japan
Exis Tech Sdn Bhd	2002	Design and manufacturing for semiconductor industry	Malaysia	Philippines, Thailand, China and the United States
General System Engineering Sdn Bhd	1992	Industrial engineering	Malaysia	Japan
Ban Kah Chai	1977	Medicine manufacturing	Malaysia	Singapore
Cryocord	2002	Stem cell bank	Malaysia	Indonesia

Table 5.1. Selected internationalized ASEAN MSMEs through FDI (continued)

Company	Year established	Business activity/ Industry	Country of origin	International presence (selected locations)
VHR Consultancy	2012	Human resources consulting	Malaysia	Indonesia
VG Offshore Containers International	1994	Logistics (containers)	Malaysia	Australia
Far East Pyramid Sdn Bhd	2008	Manufacturing-power sockets	Malaysia	Singapore
Mersing Group	1980	Construction	Malaysia	Singapore and Hong Kong (China)
NGL Tech	2009	Oil and gas	Malaysia	Australia
Technofit	1998	Engineering	Malaysia	Indonesia and Oman
Ruyi Holdings	1990	Medical and wellness	Malaysia	Singapore
Frontline Cosmeceutical (M) Sbn Bhd	1998	Cosmetics	Malaysia	Singapore
Circle Corp	2008	Media	Malaysia	Hong Kong (China) and China
Abeer Education Consular	2008	Education management	Malaysia	Egypt and Syria
Global Strategic	2006	Outsourcing	Philippines	United States
IT Group Inc.	2003	Information technology and services	Philippines	Indonesia
Techcel, Inc.	2009	Outsourcing	Philippines	United States
Exist Software Labs	2001	Information technology and services	Philippines	United States
Chalre Associates Executive Search	2001	Staffing and recruiting agency	Philippines	Singapore
Touch Solutions, Inc.	2001	Information technology and services	Philippines	Japan
99.co	2014	Internet real estate search operation	Singapore	Indonesia
BGC Group	2005	Staffing and recruiting agency	Singapore	Indonesia, Malaysia, Singapore and Hong Kong (China)
Achieve Group	1990	Staffing and recruiting agency	Singapore	Malaysia, Singapore and Hong Kong (China)
Epsilon Telecommunications	2003	Telecommunication services	Singapore	Outside ASEAN
Canalys	1998	Information technology and services	Singapore	Outside ASEAN
Dalwin Marine	2008	Mechanical/industrial engineering	Singapore	Outside ASEAN
NTC Integration Pte Ltd	1994	Information technology and services	Singapore	Malaysia
Korvac Holdings	1999	Information technology and services	Singapore	Indonesia, Malaysia and Thailand
Maha Chemicals (Asia) Pte Ltd	1975	Chemicals	Singapore	Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, Thailand, Viet Nam, China and Sri Lanka
Insight Asia	1998	Market research	Singapore	Indonesia, Malaysia, the Philippines, Thailand and Viet Nam

Table 5.1. Selected internationalized ASEAN MSMEs through FDI (continued)

Company	Year established	Business activity/ Industry	Country of origin	International presence (selected locations)
Vela Diagnostics	2011	Medical devices	Singapore	Germany and the United States
Hastra Consulting Service	2005	Information technology and services	Singapore	Malaysia, Dubai, India and the United Kingdom
Web Synergies (S) Pte Ltd	1998	Information technology and services	Singapore	India
Rice Communication	2009	PR and communication	Singapore	Myanmar
Les Amis	1989	Restuarant	Singapore	Myanmar
Blue Aqua	..	Aquaculture	Singapore	Thailand
Consistel	1996	Wireless software solutions provider	Singapore	Philippines and Indonesia
Pronto Marketing	2008	Marketing and advertising	Thailand	United States
QUO Global	1996	Marketing and advertising	Thailand	Singapore, Viet Nam, India and the Netherlands
Movaci	2005	Information technology and services	Thailand	United States
Baezeni Co, Ltd	2007	Information technology and services	Thailand	Viet Nam
Augmentis Group	2010	Information technology and services	Thailand	Indonesia, Singapore and Australia
Travex Group	1974	Leisure, travel and tourism	Thailand	Cambodia, Myanmar and Viet Nam
Flight of the Gibbon	2007	Leisure, travel and tourism	Thailand	Cambodia
Go Beyond Asia	1983	Leisure, travel and tourism	Thailand	Viet Nam, China, India and Nepal
Asian Horizon	1997	Leisure, travel and tourism	Thailand	Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam
Blink Design Group	2006	Hospitality consulting	Thailand	Singapore, China and India
Bespoke Hospitality Management	2011	Hospitality consulting	Thailand	Indonesia, Viet Nam and Australia
The Vinarco Group	1993	Recruitment agency	Thailand	Cambodia, Indonesia, Malaysia, Myanmar, Singapore, Thailand, Viet Nam and other countries outside ASEAN
Inspire Ventures	2013	Venture capital and private equity	Thailand	Indonesia and Viet Nam
The Freight Co Ltd	1996	Logistics and supply chain	Thailand	Myanmar and Viet Nam
Siam Legal International	2000	Legal services	Thailand	Australia, the United Kingdom and the United States
Dove Equipment & Machinery Co, Ltd	1992	Industrial engineering	Thailand	Malaysia and Thailand
ADI Group - Asia	2010	Staffing and recruiting agency	Thailand	Indonesia, Singapore and India
Born2Invest	2001	Marketing and advertising	United States and Philippines	Germany and the United States
Phibious	2002	Marketing and advertising	Viet Nam	Cambodia, Indonesia and Singapore
IMT Solutions	2008	Software outsourcing	Viet Nam	Singapore

Table 5.1. Selected internationalized ASEAN MSMEs through FDI (concluded)

Company	Year established	Business activity/ Industry	Country of origin	International presence (selected locations)
Silicon Straits Saigon	2013	Information technology and services	Viet Nam	Singapore
Expertrans Global Corp	2005	Translation and localization	Viet Nam	Thailand and Singapore
Savvycom	2009	Information technology and services	Viet Nam	Australia and the United States
Phoenix Voyages Group	1999	Leisure, travel and tourism	Viet Nam	Cambodia, Lao People's Democratic Republic, Myanmar, Thailand and the Republic of Korea
Fresh Studio	2006	Food and beverages	Viet Nam	Philippines
Vinasource	2001	Information technology and services	Viet Nam	Canada and the United States
Synectics Consulting Corporation	2011	Construction	Viet Nam	Singapore and the United States

Source: UNCTAD–ASEAN Investment Report 2016 research, based on www.sme100.asia, Singapore Enterprise 50 Awards, OneSource Business Information and websites of and interviews with SMEs.

Table 5.2. FDI by ASEAN MSMEs: summary table of case studies

Name	Products/ industry	Home-country	Presence in other ASEAN Member States	Linkages effect	Remarks
Barong Batik	Clothing	Indonesia	Showrooms in Indonesia and the Philippines	<ul style="list-style-type: none"> • Involves 200 batik artisans • Imports batik materials from the Philippines (mainly from MSME suppliers) • Batik production in Indonesia, exports to the Philippines 	<ul style="list-style-type: none"> • Started by two entrepreneurs from Indonesia and the Philippines • Plans to expand further in Indonesia and overseas • 200 employees
ICT Group	Metal and steel products	Indonesia	Offices in Malaysia, Thailand and Viet Nam	<ul style="list-style-type: none"> • Strong interaction between suppliers and customers 	<ul style="list-style-type: none"> • Generates a majority of its revenues abroad • 30 employees
Human Nature	Natural bath and body products	Philippines	Offices in Malaysia and Singapore	<ul style="list-style-type: none"> • Expanded locally through franchising, which involves other MSMEs • Sources supplies from local farming communities and packaging manufacturers 	<ul style="list-style-type: none"> • Started as a microenterprise • Plans to increase overseas revenues from 10 per cent to 50 per cent in five years • 360 employees
Love and Madness	Clothing	Philippines	Distributorship and partner in Singapore	<ul style="list-style-type: none"> • Sources from local MSME suppliers 	<ul style="list-style-type: none"> • Started as a microenterprise • Some 30-40 per cent of revenues from overseas

Source: UNCTAD–ASEAN Investment Report 2016 research, based on interviews with MSMEs and information from MSME websites.

Note: For case studies of the above companies, see annex 5.1.

ASEAN and foreign MNEs in the primary sector has encouraged specialist ASEAN MSMEs to serve them as suppliers of goods and services. Thus Britmind (Indonesia) offers a range of mining services (e.g. geotechnical, mine management and GIS services) to international clients from subsidiaries in Australia and Singapore (annex 5.2).

5.2.1. Start-ups, “born global” firms and FDI

Start-ups are normally (but not always) enterprises with a small number of workers and limited markets. Some remain small after the first or second year of operation, whereas others grow rapidly in terms of revenues and employees, and may become large firms. The pace of internationalization of start-ups varies. How quickly they expand is partly related to the vision of their founders, their business model and strategy (including in seizing international opportunities), and their ability to raise finance to support growth. Equally important is the ecosystem (industry and market environment) in the home economy, as is the ecosystem in host economies – especially for “born global” (or “born regional”) firms (chapter 4).

Effective ecosystems are often driven by successful home-grown companies (large and small), the interaction of stakeholders, and characteristics such as advanced local universities, the availability of venture capital, a favourable financial environment and a skilled workforce. As in Silicon Valley, successful start-ups leave a legacy in the ecosystem and help spur new businesses. Large, successful start-ups generate significant employment opportunities, notably in the technology industry. This gives employees an opportunity to observe and to learn how start-ups scale up – and perhaps establish a company themselves. Such companies might be totally independent or be linked (e.g. as a supplier) to existing companies. This ongoing process expands the pool of talent in the area, by training local workers and employing local graduates and giving them experience. Large companies also legitimize the potential success of an industry within a country, especially if the company becomes a frontier firm. This is likely to incentivize investors to invest in other start-ups. It is also not uncommon for entrepreneurs that have made large exits from a successful venture (through an initial public offering (IPO) of a company or its sale to a larger concern), to become mentors to other start-ups, sit on boards and/or become angel investors, which helps drive the ecosystem forward (Moore 2006).

ASEAN possesses some of the attributes of such an ecosystem both in specific locations within the region and, in a sense, across the region itself. After decades as a major production node in the GVCs of many major MNEs, ASEAN possesses a large pool of assets, including skilled workers, efficient cross-regional infrastructure and connectivity, education and research institutions and a manufacturing base defined by a network of ASEAN and foreign MNEs. Most importantly, in an era when digital technologies are at the forefront of growth, ASEAN is a global centre in the electronics and related industries (Boston Consulting Group 2015). ASEAN thus finds itself in a potentially favourable situation arising from a confluence of factors going back to the first foothold of MNEs and advanced technologies in the region (ASEAN Secretariat and UNCTAD 2014, 2015). As a consequence, an increasing number of internationally active start-ups and MSMEs in ASEAN are in digital industries (table 5.3).

Table 5.3. Selected ASEAN MSMEs with international operations in a digital age

Name of MSME	Year established	Business activity/ Industry	Country of origin or headquarters	International presence (selected locations)	Remarks
2C2P	2003	Fintech	Singapore	Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Hong Kong (China)	<ul style="list-style-type: none"> • Finance raised from venture capital from Hong Kong (China), Japan and Singapore. • They offer payment processing solutions for e and m-commerce businesses.
Agility	2011	Software services	Malaysia	Singapore, Viet Nam and the United States	<ul style="list-style-type: none"> • Founded by Wall Street and Silicon Valley technologists.
Anchanto	2011	e-logistics	Singapore	India; plans to expand to Indonesia and Malaysia	<ul style="list-style-type: none"> • They are an e-commerce logistics network that offers to take care of customer support and delivery, customs clearance, returns management and shipments.
Apexpeak	2013	Fintech	Singapore	South Africa, Kenya, Malaysia and United Arab Emirates	<ul style="list-style-type: none"> • Acts as an intermediary to sell an MSME's business' invoices to third parties at a discount. The MSME forgoes some revenue in return for immediate funds.
Ayannah	2008	Fintech	Philippines	United States (Silicon Valley)	<ul style="list-style-type: none"> • Raised finance from venture capitalists from Singapore and the United States. • Digital commerce and payment services for people without bank accounts.
Az Stack	2013	Messaging platform provider	Viet Nam	Singapore	..
Beeketing	2008	E-commerce developer	Singapore	Viet Nam and the United States	<ul style="list-style-type: none"> • Finance raised from venture capital from the United States. • They are a marketing automation platform designed to increase conversion rates and sales for online stores
Carousell	2012	Online person-to-person marketplace	Singapore	Malaysia, Indonesia, Australia, Hong Kong (China) and the United States	<ul style="list-style-type: none"> • United States and Japanese venture capital.
Coda Payments	2011	Fintech	Singapore	Indonesia and Hong Kong (China)	<ul style="list-style-type: none"> • Markets served in ASEAN: Indonesia, Malaysia, Philippines, Singapore and Thailand. The company raised capital from investors from Japan, Singapore and the United States. • Coda Payments is an alternative payment gateway that enables merchants to accept payments from cardless customers in ASEAN
Creative HotHouse	2013	Mobile engagement software	Singapore	Indonesia and the Philippines	..
CtrlShift	2008	Advertising	Singapore	Indonesia, Malaysia, the Philippines and Thailand	..
Eatigo	2013	Restaurant reservation platform	Thailand	Singapore	..

Table 5.3. Selected ASEAN MSMEs with international operations in a digital age (continued)

Name of MSME	Year established	Business activity/ Industry	Country of origin or headquarters	International presence (selected locations)	Remarks
Fastacash	2012	Fintech	Singapore	International teams across India, the United Kingdom and the United States	<ul style="list-style-type: none"> Finance raised from venture capital from Singapore. The company allows people to send cash through online and mobile platforms
Fetchplus	2010	Social media marketing	Singapore	Philippines and the United States	..
Flexiroam	2011	International budget roaming services	Malaysia	Australia, Canada, Indonesia, Singapore, the United Kingdom and the United States	<ul style="list-style-type: none"> Through an application, users are able to gain free internet data when going abroad on their mobile phones by sharing the app on social media, watching promotional videos and so on. The application also allows the user to buy internet data outright as well.
IH Digital	2006	Digital marketing agency	Singapore	Malaysia, the Philippines, Thailand, China, Hong Kong (China) and Taiwan Province of China	..
Kurio	2013	News application	Indonesia	Malaysia and Singapore	<ul style="list-style-type: none"> Finance from Japanese venture capitalists
Laku6.com	..	E-commerce	Indonesia	Singapore	<ul style="list-style-type: none"> Purchase and sale of second hand mobile phones
Lawcanvas	2013	Legal software	Singapore	Malaysia, Australia and Hong Kong (China)	..
Leo Tech	2010	Software R&D services	Singapore	Myanmar and the United Kingdom	<ul style="list-style-type: none"> Leo Tech has three business lines. The first is offering services on mobile, web design, hosting and support, software architecture and software and IT Consulting. The second is “Venture Builders” where they design, build and work with startups in exchange for equity or in a joint venture partnership. The third line is as an investor in startups
Naiscorp	2006	Mobile games	Viet Nam	Singapore	..
Near	2012	Location intelligence platform	Singapore	Australia, India, Japan, the United Kingdom and the United States	<ul style="list-style-type: none"> Finance raised from United States and Japan venture capitalists An e-service providing real-time information on places, people and products
Ninja Van	2014	Logistics	Singapore	Malaysia	<ul style="list-style-type: none"> Venture capitalists from Singapore, Dubai, Japan and the United States Specializes in next-day deliveries for e-commerce companies
Playbasis	2012	Cloud based technology platform	Thailand	Singapore	<ul style="list-style-type: none"> Thai and United States venture capitalists Playbasis develops engaging loops and game mechanics for their clients to increase engagement
Playlab	2012	Game development	Thailand	Philippines	<ul style="list-style-type: none"> Finance raised from venture capital from Singapore

Table 5.3. Selected ASEAN MSMEs with international operations in a digital age (concluded)

Name of MSME	Year established	Business activity/ Industry	Country of origin or headquarters	International presence (selected locations)	Remarks
Plunify	2009	Big data analytics	Singapore	United States	<ul style="list-style-type: none"> Venture capitalists from Malaysia, Singapore and Japan
Printerous	2012	Arts and crafts	Indonesia	Singapore	..
StockRadars	2010	Fintech	Thailand	Singapore; plans to expand to Indonesia	<ul style="list-style-type: none"> Finance raised from venture capital from Japan StockRadars uses stock market data to reduce the sourcing time and mitigating portfolio risk for users
TableApp	2013	Online restaurant reservation	Malaysia	Thailand	<ul style="list-style-type: none"> Venture capitalists from Malaysia, Singapore and the United States
Tinggal	2016	Hotel	Indonesia	Singapore	<ul style="list-style-type: none"> Venture capital from Luxembourg
TradeGecko	2012	Inventory Management Software	Singapore	Philippines	<ul style="list-style-type: none"> Finance raised from venture capital from Singapore and the United States. Co-founders from New Zealand
Wedding.com.my	2013	Wedding services	Malaysia	Singapore	..
Xfers	2014	Fintech	Singapore	Indonesia	<ul style="list-style-type: none"> Eyeing expansion into Malaysia, Thailand and Hong Kong (China) Finance rose from venture capital from Indonesia, Singapore, Japan and the United States Xfers is a payment gateway that makes it easier to collect payments and make payouts automatically
Yoose	2008	Advertising	Singapore	Viet Nam, Germany and the United States	<ul style="list-style-type: none"> Founder from Germany Yoose uses an integrated location based advertising platform to deliver effective location based mobile campaigns for businesses
Zilingo	2015	Clothing and accessories marketplace	Thailand	Singapore and India	<ul style="list-style-type: none"> Venture capital from the United States

Source: UNCTAD–ASEAN Investment Report 2016 research, based on company websites and <https://www.crunchbase.com/organization/coda-payments#/entity>.

Underwritten by elements of the digital economy, such as cloud computing, big data and analytics, and additive manufacturing (e.g. 3D printing), many of these start-ups or MSMEs are involved in software services, consultancy services, technology-finance platforms, internet-based businesses and e-commerce activities. The market reach of these activities can stretch beyond borders, e.g. customers in one country can order goods or services using e-commerce platforms operating in a different location. The fact that these MSMEs have overseas subsidiaries or some other local presence is due to a variety of location-specific factors (or motives):

- Importance of face-to-face communication with customers, for instance in designing locally oriented advertising campaigns, as in the case of Yoose (Singapore) which is present in Viet Nam, Germany and the United States.

- Access to local skills or other assets (including e.g. good infrastructure). For example, Playlab's (Thailand) subsidiary in the Philippines was established in 2014 through the acquisition that year of Anino Games for its games development technology and skills.
- Legal requirements, as in the case of industries such as finance and telecommunications. The presence of iMoney (Malaysia) and 2C2P (Singapore) across ASEAN are cases in point.
- Need for physical presence, as for logistics companies such as Deliverree (Thailand) with its investments in Indonesia and the Philippines (table 5.4), and for ride-hailing platform Grab (Malaysia) with its subsidiaries in Indonesia, the Philippines, Thailand and Viet Nam (box 5.2).

Increasingly, ASEAN MSMEs that operate in the digital economy can be conceived of as being “born global” (or more commonly “born regional”) firms. “Born global” firms rapidly internationalize (including through FDI) in order to benefit from first-mover advantages in circumstances in which their competitive edge is tenuous, or the market niche they serve is small in individual markets but significant taken together. Moreover, the costs of going international are declining sharply for both technological (e.g. electronic platforms) and policy reasons. In the case of ASEAN companies, the AEC is making a big difference in the ease of operating across the region, and the rate at which start-ups are going international (i.e. going regional or global) is accelerating (table 5.4, annex 5.3).

In addition to being facilitated by digital technological and policy developments, most of the MSME investors listed in table 5.4 have more ready access to information than in the past, as well as to venture capital funds from within and outside the region, including from Hong Kong (China), Japan, the Middle East and the United States. Successful ASEAN-originated “born global” firms that have expanded at a rapid pace and are often profiled as frontier tech companies in their home countries include ZALORA (Singapore), HappyFresh (Indonesia), CleverAds (Viet Nam), Orami (Indonesia) and Garena (Singapore) (box 5.1), as well as Grab (Malaysia) and FashionValet (Malaysia) (box 5.2).

5.2.2. ASEAN MSMEs started by women

A number of successful and internationalized ASEAN MSMEs were started and are owned by women entrepreneurs, including a growing number of microenterprises. In some cases, these MSMEs have grown rapidly to become big, internationally oriented entities. For instance, Dao-Heuang Group (Lao People's Democratic Republic), established in 1991, has grown from an export-import business to a diversified company today. Its biggest business is in the growing, processing and export of coffee. Human Nature (Philippines) was established in 2008 by two sisters. The company specializes in natural bath and body products and employs 360 people, with a manufacturing plant and distribution outlets in the Philippines, as well as offices in Abu Dhabi, Malaysia, Singapore and the United States.

Companies founded by women operate in a wide range of industries, with similar drivers to internationalization as other MSMEs (box 5.2). A number were “born global” firms but most internationalized in response to customer interest or growth opportunities overseas, not only regionally, but also as far afield as Europe, the Middle East and North America.

Table 5.4. Rapid growth of some startups in ASEAN (selected cases)

Name of mSME	Year established	Business activities/ Industry	Country of origin/ headquarters	Presence in other countries	Remarks
Appota	2011	Mobile development platform	Viet Nam	Indonesia and Singapore	Raised funding from investors in Japan and Singapore
Ayannah	2008	Fintech	Philippines	United States (Silicon Valley)	Raised finance from venture capitalists from Singapore and the United States
Coda Payments	2011	Fintech	Singapore	Indonesia and Hong Kong (China)	Markets served in ASEAN: Indonesia, Malaysia, the Philippines, Singapore and Thailand; capital raised from investors from Japan, Singapore and the United States
Deliveree	2015	Logistics	Thailand	Indonesia	Finance raised from venture capital from Thailand
Duriana	2013	Mobile marketplace	Singapore	Malaysia and the Philippines	..
Get Links	2015	Recruiting	Thailand	Viet Nam	Finance raised from venture capital from Japan and the United States
Hipvan	2013	E-commerce (Furniture)	Singapore	Malaysia, the Philippines and Viet Nam	Venture capitalists from Japan, Hong Kong (China) and the United States
IMoney	2012	Fintech	Malaysia	Indonesia, the Philippines, Singapore, Thailand and China	Venture capitalists from Singapore, Germany and the United States
Kaodim	2014	Peer-to-peer platform	Malaysia	The Philippines and Singapore	Finance raised from venture capital from Singapore, Japan, India and the United States
Medical Departures	2014	Medical	Thailand	Malaysia, the Philippines, Singapore and outside ASEAN	Finance raised from venture capital from Singapore, Japan and the United States
Near	2012	Location intelligence platform	Singapore	Outside ASEAN	Finance raised from United States and Japan venture capitalists
Ninja Van	2014	Logistics	Singapore	Malaysia	Venture capitalists from Singapore, Dubai, Japan and the United States
Omise Holdings	2013	Fintech	Thailand	Indonesia, Singapore and Japan	Venture capitalists from Indonesia, Japan and the United States
Pomelo Fashion	2013	Fashion	Thailand	Indonesia, Singapore and the Republic of Korea	Finance raised from venture capital from Malaysia, India and the United States
Servishero	2015	Mobile marketplace (for services)	Malaysia	Singapore and Thailand	..

Source: UNCTAD–ASEAN Investment Report 2016 research, based on Annex 5.1, company websites and <https://www.crunchbase.com/organization/coda-payments#/entity>

Box 5.1. Rapid growth of ASEAN “born global” firms

ZALORA (Singapore) was incorporated in 2012 as an online fashion company. It started as an MSME with fewer than 50 employees in its first year of operation. Despite being only four years old, it is now one of Asia’s leading online fashion companies, with success in raising finance to fund its expansion. The company has a presence in Brunei Darussalam, Indonesia, Malaysia, the Philippines, Thailand and Viet Nam. In 2015, ZALORA was valued at \$3 billion and employed over 2,000 people. Most of its customers are based in ASEAN.

HappyFresh (Indonesia) was incorporated in 2014. It is the first and fastest-growing online grocery platform in ASEAN. It has quickly expanded to Malaysia, the Philippines and Thailand and has ambitious growth plans. It now employs over 250 people.

CleverAds (Viet Nam) was incorporated in 2008. It helps clients maximize business opportunities from intelligent information systems such as Google. In 2014, CleverAds became one of Facebook’s first authorized resellers in Viet Nam. Being a reseller enabled CleverAds to advise Vietnamese businesses on advertising on the Facebook platform. It has offices in Indonesia and the Philippines.

Orami (Indonesia) is an e-commerce platform for women and a well-funded start-up that was founded in 2016 as a result of the merger between Moxo (founded in 2015, with offices in both Indonesia and Thailand) and Bilna (an Indonesian start-up founded in 2012). It has raised funds and is in the process of expanding to Malaysia, Viet Nam and the Philippines through acquisitions.

Garena (Singapore) was incorporated in 2009. It has since grown swiftly to become a leading platform provider for online PC and mobile digital content, e-commerce and payments across Asia, serving millions of users. The company has over 5,000 employees and is valued at \$3.75 billion, the highest valuation of any tech start-up in ASEAN.

Source: UNCTAD–ASEAN Investment Report 2016 research, based on companies’ websites and other sources.

Box 5.2. ASEAN MSMEs started by women entrepreneurs (selected cases)

Women entrepreneurs are making a mark in the ASEAN MSME landscape. Examples of women-originated MSMEs which have gone international include:

Doku (Indonesia) was established in 2007. It is Indonesia’s leading e-payment business platform with services covering e-payment processing and mobile applications for a wide range of e-Commerce transactions. The company’s founder and CEO is a woman. Garuda Indonesia and AirAsia are among the company’s major clients.

Qerja (Indonesia) was established in 2014. It is an online community portal that provides information about salaries and work environments in various companies in Indonesia and Malaysia. The founder and CEO grew the company to more than 100 employees in one year and closed a Series A round investment^a in 2015.

Dao-Heuang Group (Lao People’s Democratic Republic) was established in 1991. Although it is a large company today, it started as a small import-export company, specializing in the import and distribution of products from France and Singapore, and later Thailand. In 1998, it began exploring opportunities for producing coffee, tea, other agricultural products and industrial goods. By 2008 the company expanded had into the hotel and food and beverage businesses, most especially coffee which it grows, processes and exports. Today, 80 per cent of the coffee revenue comes from exports

Box 5.2. ASEAN MSMEs started by women entrepreneurs (selected cases) (concluded)

to Cambodia, Myanmar, Viet Nam, China, Europe, Japan and the United States. The company also has coffee-bean contract farming activities in Thailand. It has opened a flagship restaurant and coffee house in Bangkok and has plans to open coffee chains in Cambodia and Viet Nam and in the Middle East.

Grab (Malaysia) was established in 2012. The company was originally named MyTeksi before changing its name and moving its headquarters to Singapore in October 2013. One of its co-founders is a leading female entrepreneur in the region. Grab is a leading ride-hailing platform in ASEAN. It began as a taxi-hailing app in 2012 but has extended its product platform to include private car services (GrabCar), motorcycle taxis (GrabBike), social carpooling (GrabHitch) and last-mile delivery (GrabExpress). The company has international offices in Indonesia, the Philippines, Thailand and Viet Nam. In 2015, Grab's valuation was \$1.6 billion. It is now one of the leading and largest tech start-ups in ASEAN.

FashionValet (Malaysia) was established in 2010. It is an independent online fashion and beauty retailer with over 200 brands and 10,000 products from ASEAN. It specializes in bringing fashion designers and celebrity brands online. It is one of the largest online stores in ASEAN and has an international office in Singapore.

Human Nature (Philippines) started as a microenterprise, with fewer than five workers in 2008. It manufactures, distributes and markets natural bath and body products (table 5.2, annex 5.1).

Rags2Riches (Philippines) is a social enterprise and started by a woman. The company's specialization is in fashion and design house empowering community artisans. The stores and retailers have expanded in the Philippines and to other countries such as Switzerland and the United States.

FLY Entertainment (Singapore) was established in 1999. It is Singapore's leading artiste management company. It started with two staffs and has expanded with an office in Thailand.

Love, Bonito (Singapore) was established in 2006 by two women. It was one of the first fashion blog shops in Singapore to attract a lot of attention from female shoppers. Love, Bonito won the MSME Asia Award 2014 and expanded into Malaysia in 2015 because of growing interest from customers in that country. It also has had a dedicated site for Indonesia since 2015.

Eatigo (Thailand) was established in 2013. It operates a food and beverage e-commerce site, focused on markets in ASEAN. One of the cofounders is a woman; she oversees the company's international office in Singapore. Eatigo was able to raise financing to fund its expansion and closed a Series A round investment in late 2015.

Zilingo (Thailand) was established in 2015. The company's cofounder and CEO is a woman. Zilingo is a mobile marketplace that aggregates long-tail sellers across Singapore, Thailand and India, and leverages artificial intelligence to provide buyers with better shopping experiences from their favourite stores and street markets.

Pops Worldwide (Viet Nam), established in 2007, licenses music and entertainment content in collaborations with local and international music and entertainment partners. It employs over 100 people and has an international office in Thailand.

Source: UNCTAD–ASEAN Investment Report 2016 research, based on information from companies' websites and other sources.

^a Some companies or start-ups are involved in a series of significant rounds of venture capital finance. Series A is first, followed by Series B and so on.

5.2.3. FDI by ASEAN MSME contractors

Many ASEAN MSMEs that started as contract manufacturers in the automotive and electronics parts and components industries have since internationalized as foreign direct investors. Today, in the context of RVCs and GVCs, they manufacture at home and abroad as suppliers to major original equipment manufacturers (OEMs) (section 5.4). This process is also observable in other manufacturing industries and services. For instance, ASEAN MSMEs in software and consulting engineering services contract for international operations within infrastructure value chains (for a full analysis of ASEAN MSMEs and larger firms, see ASEAN Secretariat and UNCTAD 2014 and 2015).

The examples below, based on information the respective companies' websites, highlight the humble beginnings of some ASEAN MSMEs that have grown through expansion at home and later through FDI abroad to become large ASEAN MNEs in their own right.

Eng Teknologi (Malaysia) was established in 1974. The company operates in the precision engineering manufacturing and technology industry. It is also a supplier of metal components to customers operating in the industrial valve, laser, medical equipment and automotive industries.

Growth and internationalization journey

Eng Teknologi started as an MSME contract manufacturer for electronics MNEs with operations in Malaysia. Some of its customers included Western Digital (United States), Emerson (United States) and Nidec (Japan). The company expanded domestically and established its first overseas manufacturing plants in 1996 in China. In 1997, it expanded to the Philippines with a fully integrated manufacturing facility producing hard disk drive (HDD) actuators and peripheral assemblies. In 1998, it set up an operation in Thailand at the Ayutthaya export processing zone. In 2003, it set up strategic alliances with Singapore's Altum Precision, and in 2006 it expanded further in Thailand. Eng Teknologi's internationalization process was driven by efficiency-seeking FDI, which reflects the need to maintain cost competitiveness and to operate close to customers. Today, the company is a major global supplier of HDD components (e.g. baseplates and actuators) and has a team of 3,000 employees, with manufacturing facilities spanning the Philippines, Thailand and China.

JCY (Malaysia) started in 1994. It operates as a design and development company for HDD components. It manufactures actuator pivot flex assemblies and baseplates.

Growth and internationalization journey

JCY started as an MSME, and in its early years supplied assembly services for printed circuit boards to Western Digital. In 1996, it opened more manufacturing plants in Malaysia. In 2006, it established production facilities in Thailand and in the same year started to supply products to Seagate (United States). Today, it has other subsidiaries in Singapore, China and Mauritius. Most of its plants in Malaysia and abroad are located close to its customers (Western Digital and Seagate).

Patec (Singapore) was incorporated in 1992 and is a leading engineering solutions partner in the metal-forming industry. It provides engineering solutions ranging from original design manufacturer (ODM) precision work, mechanical press machines, tool design and fabrication, to turnkey manufacturing and in-house series manufacturing.

Growth and internationalization journey

Patec started as an ODM of high-performance mechanical press machines and robotic systems. In its early internationalization, it set up research and development centres in Japan and China. In 2001, *Patec* diversified into components manufacturing and subsequently established manufacturing facilities in Indonesia, China and Hungary. It set up design and fabrication facilities in Singapore and China to support its global manufacturing infrastructure. Today, *Patec* employs more than 1,000 staff in two research locations, five production sites and six service centres worldwide.

Beyonics Technology (Singapore) was incorporated in 1981. It manufactures precision-engineered components and offers full turnkey electronics subassembly and complete product manufacturing. It operates as a strategic manufacturing partner to global producers in the medical and automotive industries and a broad range of industrial markets.

Growth and internationalization journey

In 1995, *Beyonics Technology* was involved in an IPO on the Singapore Exchange. The business expanded through a M&A of *Techplas Industries* in 2000. The company's internationalization started in 2002 through the acquisition of *Pacific Plastics Holding Ltd.*, which had two Chinese operations. In the same year, *Beyonics* set up operations in Thailand. In 2005, it opened a manufacturing facility in Malaysia and in 2006 expanded further in China. In 2007, it opened an electronic manufacturing plant in Indonesia and in 2015 expanded further in Malaysia.

Cheung Woh Technology (Singapore) was incorporated in 1972 with about 10 staff over 30 years ago. It became a publicly listed company in December 2002. *Cheung Woh* provides high-precision engineering products to the HDD, communications, electrical and electronics, semiconductor and automotive industries.

Growth and internationalization journey

After its first decade of operation, *Cheung Woh* set up foreign subsidiaries in Malaysia in 1982 and 1995. It established a presence in China in 2011 and subsequently expanded its operations in that host country. Today, it employs about 1,800 staff in three locations.

Hana Microelectronics (Thailand) was established in 1978 with 30 employees assembling light-emitting diode (LED) watch modules. *Hana* offers printed circuit board assembly and produces integrated circuits.

Growth and internationalization journey

In 1982 the company expanded domestically by establishing a second factory to serve the Swiss company *SMH Group*, to assemble electronic modules. In 1996, it set up a

subsidiary in China and today, it has manufacturing facilities in Cambodia and the United States. It employs over 10,000 people worldwide.

Dufu Industries (Malaysia) was incorporated in 1987 and began operations upon completion of its acquisition of Dufu Industries Sdn Bhd and I.P.G. Metal Industry (M) Sdn Bhd. It later expanded into China through the acquisition of Futron Technology Limited (China). It designs and manufactures precision machining components, consumer electronics and computer-related products. Dufu also has operations in Singapore.

KCE Electronics (Thailand) was incorporated in 1983. It grew rapidly and in 1988 became a publicly listed company. It manufactures and distributes printed circuit boards. Its customers include major automotive and electronics manufacturers in Thailand and abroad. KCE has sales offices in Singapore and other parts of the world.

5.3. FDI by foreign MSMEs in ASEAN: Building supporting industries and business linkages

Two types of internationalized MSMEs – indigenous and foreign ones – form the pool of MSMEs operating in the region. ASEAN MSMEs are also internationalizing by supplying goods and services, including through contract manufacturing, to foreign MNEs and MSMEs based in and outside the region.

Foreign MSMEs have contributed to the development of the regional landscape within which ASEAN MSMEs work. Many of them have established linkages with ASEAN MSMEs. They operate as tier 1 or tier 2 contract manufacturers to other foreign and larger ASEAN MNEs, and they also source from or subcontract work to ASEAN MSMEs. Their presence in ASEAN helps local MSMEs benchmark their products and processes, and enhance their competitiveness, as foreign MSMEs often have better technological capacity, including product quality control and production processes, and network linkages with larger MNEs. The linkages between foreign MSMEs and MNEs based in ASEAN contribute to improving the region's investment environment and help strengthen local and regional supporting industries.

ASEAN is an important destination for MSME FDI from countries such as Japan and the Republic of Korea. Geographic and cultural proximity and affinity play a role. Competitive home-market conditions and the need to follow customers from the home-country to ASEAN (e.g. in electronics) are major drivers for MSMEs from these countries. Many Japanese automotive part and component MSMEs have and are establishing factories in ASEAN, persuaded to do so by their customers. In some industries such as apparel, Korean and other Asian MSMEs have established multiple factories in the region to manufacture for and supply to major international brand names. Although fewer United States MSMEs have invested in ASEAN, many United States MNEs are actively involved in sourcing and contract manufacturing activities in the region. In this context, the United States MNEs are also establishing linkages with ASEAN MSMEs through sourcing and contractual arrangements – thereby connecting ASEAN into their global value chains.

5.3.1. Japanese MSMEs in ASEAN

ASEAN is a major destination for FDI by Japanese MSMEs,¹ many of which operate in automotive parts and components, and electronics industries in the region. They tend to be concentrated in a few ASEAN Member States (box 5.3).

A majority of these Japanese MSMEs provide services or produce parts for larger MNEs, either as suppliers or contract manufacturers. They play an important role in the linkages between them and the foreign and local MSMEs in the region. They help strengthen the regional production networks of many large MNEs, especially in the automotive and electronics industry in ASEAN. Japanese MSMEs and MNEs also involve many ASEAN MSMEs as their suppliers, distributors, technology collaborators, subcontractors or joint venture partners in their production processes (boxes 5.4 and 5.5, table 5.5). In this regard,

Box 5.3. High concentration of Japanese MSMEs in ASEAN

A recent JETRO survey found that most Japanese MSMEs with overseas bases have one or two facilities that focus on specific countries and regions, in particular in ASEAN and China (JETRO 2015; box table 5.3.1). They tend to locate in Indonesia, Malaysia, Thailand, Singapore and Viet Nam, owing to the attractive costs and the concentration of Japanese automotive MNEs, including electronics companies. They are also active in establishing sales functions in these locations. This suggests that Japanese MSMEs invest in ASEAN in general for efficiency-seeking (i.e. to maintain cost competitiveness) and market-seeking reasons.

Box table 5.3.1. Japan companies with overseas bases, by size and destination, 2015

Region/Country	Total (n=1469)		Large-scale firms (n=528)		SMEs (n=941)		SMEs ratio among total numbers
	Numbers	Ratio	Numbers	Ratio	Numbers	Ratio	
■ Asia Pacific	1,360	92.6	510	96.6	850	90.3	62.5
China	948	64.5	425	80.5	523	55.6	55.2
ASEAN	929	63.2	423	80.1	506	53.8	54.5
Thailand	552	37.6	321	60.8	231	24.5	41.8
Viet Nam	324	22.1	184	34.8	140	14.9	43.2
Singapore	318	21.6	204	38.6	114	12.1	35.8
Indonesia	315	21.4	214	40.5	101	10.7	32.1
Malaysia	244	16.6	155	29.4	89	9.5	36.5
Philippines	151	10.3	98	18.6	53	5.6	35.1
Myanmar	76	5.2	51	9.7	25	2.7	32.9
Cambodia	50	3.4	29	5.5	21	2.2	42.0
Lao People's Democratic Republic	19	1.3	12	2.3	7	0.7	36.8
India	221	15.0	154	29.2	67	7.2	30.3
■ North and Middle/South America	524	35.7	310	58.7	214	22.7	40.8
■ Europe and Russia	360	24.5	227	43.0	133	14.1	36.9
■ Middle East and Africa	91	6.2	71	13.4	20	2.1	22.0
■ Others	14	1.0	3	0.6	11	1.2	78.6

Source: JETRO (2015).

Note: Data on microenterprises are not available.

they contribute to ASEAN MSMEs' participation in GVCs driven by lead or principal firms, such as Toyota, Nissan, Mazda, Sony and Matsushita, many of which also operate in the region.

The operations of Japanese MSMEs in the parts and components industry in ASEAN are helping improve the region's supporting industry. For instance, the advanced skills sets of Japanese MSMEs in precision and tooling operations provide a high standard for the development of ASEAN MSMEs (section 5.3.1.3).

More Japanese MSMEs are internationalizing through FDI: The number that have foreign subsidiaries rose from 5,630 in 2009 to 6,346 in 2014 (figure 5.1). This number nonetheless remains small compared with the 180,000 MSMEs in Japan that have manufacturing facilities that employ four or more workers (and even smaller if MSMEs in services are included). This suggests that there is further potential for Japanese MSMEs to venture abroad, given increasing cost pressures at home, changing demographics, the need to follow customers overseas and the desire to diversify risks and increase sales. ASEAN will continue to be a principal destination for Japanese MSMEs' outward FDI ventures, given its locational advantage, regional integration and the increasing activities of regional production networks involving Japanese MNEs.

Box 5.4. A joint venture between an Indonesian and Japanese MSME to supply parts in the automotive industry

A local Indonesian firm, company A,^a is a tier 1 manufacturer of automotive stamping parts. It has received contracts from some Japanese automobile manufacturers such as Daihatsu and Mitsubishi Motors. This Indonesian MSME supplies parts to these automotive OEMs. It has also set up a joint venture with Japanese company B. In April 2013, company A and company B started producing automotive stamping parts and moulds together.

It was easy for the two companies to establish the joint venture. They had known each other for a long time as operators in the Indonesian automotive industry. They have a broad business network, not only in manufacturing of stamping and moulds but also in distribution of know-how of large Japanese automobile manufacturers. Company B is also an MSME with a good reputation for its high skills and production of precision machinery and moulds in Japan.

Both company A and company B already have business partners in Indonesia. They will be able to expand their sales channels by distributing the manufactured products from the joint venture company to each other's clients.

The two MSMEs also have a technology collaboration understanding. Prior to the joint venture, company A did not have the technological capacity to manufacture electronic and electric equipment parts. The two companies are expanding their sales channel to the electronic and electric equipment parts industry.

Source: JETRO, "Business Development in Asia of Japanese SMEs parts suppliers" [in Japanese], May 2013 (<https://www.jetro.go.jp/world/reports/2013/07001400.html>).

^a Name withheld because of a request for anonymity.

Box 5.5. A case of business linkages between Japanese and ASEAN MSMEs

Company A, a Japanese MSME, cuts precision parts for automobiles. Like other Japanese MSMEs, after the major earthquake in Japan it began to invest overseas in order to diversify risks. In addition, customers’ requests for this MSME to have an overseas presence led it to invest in Indonesia in 2012.

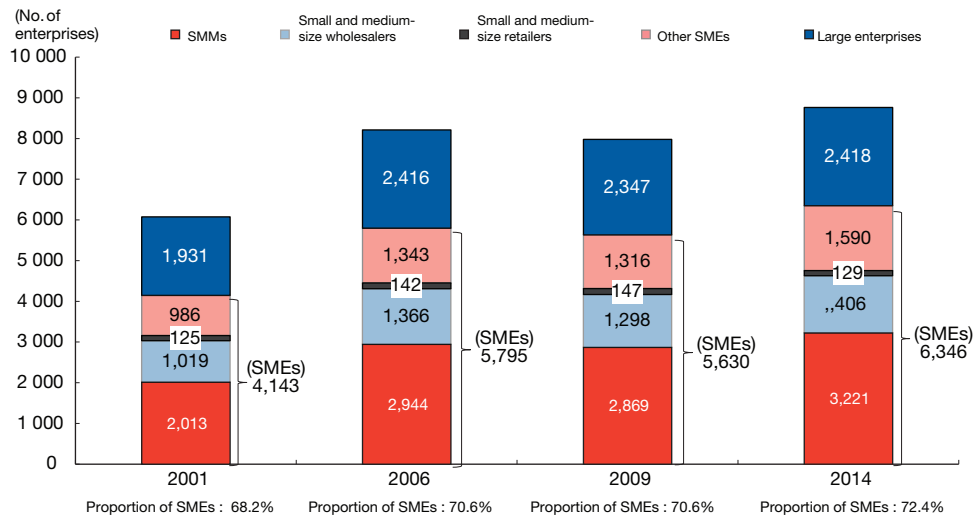
The company expanded its scope of business in Indonesia as it would not be competitive in overseas markets if it depended solely on cutting work. It decided to partner with another Japanese company (company B) operating in Indonesia that could help it expand the range of its operations.

Company B has an existing joint venture operation with a local Indonesian company and another Japanese company (company C). Company B’s main business is pressed work (compression moulding), resin moulding and cutting work. Part of the cutting work was transferred to company A. Company C specializes in plating. The combination of the three companies provided synergies for all as they established a broader range of processing and business functions.

The interfaces between these Japanese and Indonesian MSMEs enable the sharing of know-how and information on handling administrative and account matters, and contribute to supporting the automotive parts and components industry in Indonesia.

Source: JETRO, “Business Development in Asia of Japanese SMEs parts suppliers” [in Japanese], May 2013 (<https://www.jetro.go.jp/world/reports/2013/07001400.html>).

Figure 5.1. FDI by Japanese enterprises by size and industry, 2001, 2006, 2009 and 2014 (Number of enterprises)



Source: Recompiled from Statistics Japan, based on “Establishment and Enterprise Census of Japan, 2009” and the “2014 Economic Census for Business Frame”.

Note: FDI enterprises are defined in the survey as enterprises with overseas subsidiaries (companies in which the enterprise concerned owns more than 50 per cent of the voting rights, including cases where more than 50 per cent of the voting rights of the company are owned by another subsidiary independently or jointly with the enterprise concerned and where companies are included in consolidated financial statements even when the proportion of voting rights owned does not exceed 50 per cent (excluding business establishments of sole proprietors).

Table 5.5. Japan and ASEAN MSMEs interface, 2015–2016 (selected cases)

MSME	Industry/products	Presence in ASEAN	Remarks
Fuji Die Co Ltd	Manufacture metal moulding products	Indonesia (plant)	Exploring opportunities to expand further in Indonesia
Fujita Medical Instruments Co Ltd	Manufacture, distribute and import medical equipment	..	Plan to establish overseas market and overseas partners including in ASEAN
Okatsune Gears Manufacturing Co Ltd	Design, manufacture and distribute washers	Viet Nam (plant)	Met a Vietnamese partner at an SMRJ network event, who became a local business partner
Kinki Roentgen industrial Co Ltd	Manufacture and distribute X-ray devices used for diagnosis in otolaryngology and dental fields	None yet	Plans overseas development, including through distributorship arrangement. Considering Indonesia, Thailand and Viet Nam
Nihon Parkerizing Hiroshima Works Co Ltd	Manufacture and sales of road signage and metal surfacing	Thailand (plant)	Plans to develop businesses in Indonesia, Malaysia and other ASEAN Member States
Daisin Co Ltd	Manufacture and process die-cast aluminium	Thailand (plant)	Met another Japanese partner with high-pressure die-cast technology at an SMRJ CEO matching event in 2015. Pursuing a joint venture and technical collaboration with this Japanese partner
Cast Co Ltd	Manufacture cast products	None yet	Eyeing export opportunities, including exploring technical cooperation and joint venture opportunities in ASEAN
Nagatsu Precision Mold Co Ltd	Manufacture plastic moulds and camera-related optical parts	..	Shifted production facilities from China to ASEAN
Iken Engineering Co Ltd	Provides solution for and shielding materials for radiation safety management	Myanmar (distributorship)	Identified in 2016 two Myanmar companies to be its distributors
Maxpull Machine and Engineering Co Ltd	Manufacture winches	Indonesia, Malaysia, Singapore, Thailand and Viet Nam (offices)	Plans to establish a presence in Myanmar with a local partner
Hashimoto Electronic Industry Co Ltd	Design and manufacture electronic security devices and medical equipment	Myanmar (distributorship)	Explore distributorship business with three Myanmar companies in January 2016
Segawa Tool Co Ltd	Manufacture, regrind and additional work on cutting tools	Viet Nam	Plans to expand business activities in Viet Nam
Hakuzo Medical Corporation	Develop, manufacture, distribute and export sanitizing medical products	Plan to expand in ASEAN	Expand business and look for distributors and partners in ASEAN
Dainichi Hanso Co Ltd	Manufacture powder and granulate conveyer belt	Viet Nam (distributorship)	Established a distribution contract and a proposed joint venture business with a Vietnamese company.
Denksha Co Ltd	Manufacture covers and hangers for electrical and communication equipment	Viet Nam (joint venture)	Target ASEAN markets. Established a joint venture with a Vietnamese company in 2015
Iwai Micro Components Co Ltd	Manufacture super-miniature parts used in dental and medical devices	Thailand (contract manufacturer)	Produce specific parts for a Thai MSME
AZ Asia Limited	Manufacture and distribute endoscope filing system and medical equipment	Singapore, Viet Nam	Plans to expand into other ASEAN Member States through distributorship and/or partnership
Metro Co Ltd	Specializes in industrial sensors for factory automation	Thailand (office)	Plans to expand in Thailand with maintenance work done locally
Koike Medical Co Ltd	Manufacture medical equipment (respiratory devices)	None yet	Looking for opportunities for MSME-to-MSME collaboration or distributorship in ASEAN, including in Thailand
Musashi Paint Co Ltd	Manufacture special paint used on automobile, mobile phones, consumer electronics, computers	Malaysia (plant)	Established facilities in Asia, including in other ASEAN Member States

Source: UNCTAD–ASEAN Investment Report 2016 research, based on SMRJ and SME Support, Japan.

5.3.1.1. Drivers, motivations and entry strategies

Japanese MSMEs invest abroad for various reasons. Maintaining cost competitiveness and increasing sales are key factors. Slow growth in the home-economy and the government's policy of promoting the internationalization of MSMEs to improve their competitiveness are also factors. The growth of industries in which an MSME operates in ASEAN host countries is also an important determinant, and in many cases the opportunity and need to follow customers and operate close to clients are the deciding reasons for investing abroad (see cases of Fineplas and Minato Rubber in annex 5.4).

Many Japanese MSME parts manufacturers in the automotive and electronics industry have established operations in Indonesia, Malaysia, Thailand and Viet Nam to be near customers and markets, and to be present in these countries' growing local industries. A few have also recently started to establish operations in Cambodia because of cost factors in the context of regional production networks. Generating sales as well as establishing production and R&D functions are also major reasons for Japanese MSMEs to set up bases in ASEAN (table 5.6).

In terms of strategies for entry into ASEAN, Japanese MSME manufacturers operate with wholly owned overseas plants (JETRO 2015); however, they tend to use joint venture strategies with local companies when their operations are driven by local market-seeking reasons or the need to overcome restrictions on foreign capital. The latter reason is more common with Japanese MSMEs in the services sector.

5.3.1.2. Home-country measures and institutional support

The Japanese government has been supporting MSMEs in venturing abroad with various measures and facilities. For instance, through the "Japan revitalization strategy", it is aiming to increase the number of Japanese MSMEs that have expanded overseas to 10,000 by 2018, from the 6,346 that had done so in 2014. Agencies such as the SME Agency, JETRO and the Organization for Small & Medium Enterprises and Regional Innovation (SMRJ) have been charged with specific roles and activities related to the internationalization of MSMEs from the country (box 5.6).

These institutions together provide four steps of support. The first step is to provide information on the overseas business environment through a number of channels, including face-to-face consultation, business seminars and websites. The second step is to assist MSMEs in establishing a plan for overseas expansion by providing consultancy services with support from experts on business management and overseas markets. The third step is to assist MSMEs in the implementation of their overseas expansion plans through concrete action such as participation in business networking events and exhibitions. The final step is to provide support for the continuity of MSMEs' overseas business.

In line with the Japan revitalization strategy, the Japanese SME Agency established an Office of Overseas Expansion in 2014 and introduced various measures to support MSMEs' internationalization. JETRO has established 20 SME Overseas Expansion Platforms in 14 countries and regions to provide direct assistance to MSMEs' overseas subsidiaries.

Table 5.6.

Number of Japanese firms with bases in ASEAN, by size of firm and primary activity

Region or Country	Classification	No. of Firms (Valid responses)	Sales		Production		R&D		Others ^a	
			Numbers	Ratio	Numbers	Ratio	Numbers	Ratio	Numbers	Ratio
ASEAN	Total	2,049	1,304	100.0	785	100.0	86	100.0	436	100.0
	Large firms	1,268	861	100.0	487	100.0	62	100.0	293	100.0
	SMEs	781	443	100.0	298	100.0	24	100.0	143	100.0
	(Share of SMEs in Region)	(38.1)	(34.0)	..	(38.0)	..	(27.9)	..	(32.8)	..
Thailand	Total	552	372	28.5	267	34.0	27	31.4	99	22.7
	Large firms	321	229	26.6	150	30.8	22	35.5	70	23.9
	SMEs	231	143	32.3	117	39.3	5	20.8	29	20.3
	(Proportion of SMEs in Country)	(41.8)	(38.4)	..	(43.8)	..	(18.5)	..	(29.3)	..
Viet Nam	Total	324	156	12.0	147	18.7	11	12.8	91	20.9
	Large firms	184	98	11.4	76	15.6	7	11.3	58	19.8
	SMEs	140	58	13.1	71	23.8	4	16.7	33	23.1
	(Proportion of SMEs in Country)	(43.2)	(37.2)	..	(48.3)	..	(36.4)	..	(36.3)	..
Singapore	Total	318	256	19.6	43	5.5	21	24.4	61	14.0
	Large firms	204	163	18.9	35	7.2	16	25.8	43	14.7
	SMEs	114	93	21.0	8	2.7	5	20.8	18	12.6
	(Proportion of SMEs in Country)	(35.8)	(36.3)	..	(18.6)	..	(23.8)	..	(29.5)	..
Indonesia	Total	315	201	15.4	138	17.6	7	8.1	61	14.0
	Large firms	214	151	17.5	98	20.1	7	11.3	43	14.7
	SMEs	101	50	11.3	40	13.4	0	0.0	18	12.6
	(Proportion of SMEs in Country)	(32.1)	(24.9)	..	(29.0)	..	..	..	(29.5)	..
Malaysia	Total	244	166	12.7	89	11.3	11	12.8	40	9.2
	Large firms	155	112	13.0	63	12.9	6	9.7	25	8.5
	SMEs	89	54	12.2	26	8.7	5	20.8	15	10.5
	(Proportion of SMEs in Country)	(36.5)	(32.5)	..	(29.2)	..	(45.5)	..	(37.5)	..
Philippines	Total	151	83	6.4	65	8.3	5	5.8	31	7.1
	Large firms	98	62	7.2	41	8.4	3	4.8	20	6.8
	SMEs	53	21	4.7	24	8.1	2	8.3	11	7.7
	(Proportion of SMEs in Country)	(35.1)	(25.3)	..	(36.9)	..	(40.0)	..	(35.5)	..
Myanmar	Total	76	38	2.9	12	1.5	3	3.5	31	7.1
	Large firms	51	26	3.0	10	2.1	1	1.6	20	6.8
	SMEs	25	12	2.7	2	0.7	2	8.3	11	7.7
	(Proportion of SMEs in Country)	(32.9)	(31.6)	..	(16.7)	..	(66.7)	..	(35.5)	..
Cambodia	Total	50	24	1.8	16	2.0	1	1.2	16	3.7
	Large firms	29	14	1.6	10	2.1	0	0.0	10	3.4
	SMEs	21	10	2.3	6	2.0	1	4.2	6	4.2
	(Proportion of SMEs in Country)	(42.0)	(41.7)	..	(37.5)	..	(100.0)	..	(37.5)	..
Lao People's Democratic Republic	Total	19	8	0.6	8	1.0	0	0.0	6	1.4
	Large firms	12	6	0.7	4	0.8	0	0.0	4	1.4
	SMEs	7	2	0.5	4	1.3	0	0.0	2	1.4
	(Proportion of SMEs in Country)	(36.8)	(25.0)	..	(50.0)	..	..	..	(33.3)	..

Source: JETRO (2015).

Note: Data on microenterprises are not available.

^a Includes "logistics, maintenance and finance and other services providing base", "regional headquarter" and "representative office".

Box 5.6. Japanese MSMEs venture overseas: support from home institutions

SMRJ supports MSMEs’ engagement in overseas business development, including in ASEAN, through various measures such as providing advice and organizing overseas trade fairs and business-matching events. It organizes activities that aim to develop networks between MSMEs in Japan and ASEAN through programmes such as business meetings, networking events and company visits.

Since fiscal 2012, one entity – SME Support, Japan – has implemented a program that invites top Asian executives seeking business opportunities with Japanese MSMEs to business meetings to connect Japanese MSMEs and Asian companies (box figure 5.6.1). The program aims to promote Japanese MSMEs’ overseas business expansion through collaboration with overseas companies and also to provide overseas companies with opportunities to access Japanese MSMEs’ technology, products and markets.

Box figure 5.6.1. Japan–ASEAN MSME linkage and business-matching programmes



Source: SME Support, Japan.

The SMRJ, together with other government agencies in Japan such as JETRO, has helped Japanese MSMEs invest abroad to maintain competitiveness and growth rates. Some of these MSMEs, such as Fuji Die, Daisin, Segawa Tool, Iwai Micro Components and Musashi Paint, have received support or participated in business matchmaking events organized by SME Support and JETRO in ASEAN Member States. The SMRJ also partners with ASEAN host-country MSME agencies to organize events and programmes to facilitate MSME-to-MSME linkages.

SME Support (Japan) organized many Japan–ASEAN MSME business-matching events in Japan between 2014 and 2016. These events brought together MSMEs from Japan and ASEAN Member States to forge business linkages, promote investment and joint ventures, encourage technology cooperation, and develop contract manufacturing arrangements and distribution dealerships. For instance, 18 Thai companies and 39 Japanese MSMEs that design and manufacture medical equipment participated in a business-matching event held in April 2016 in Japan. In January 2016, some 21 companies from Myanmar met with 180 Japanese firms in a business-matching event focused on MSMEs from the two countries that work in the electric and electronics equipment, construction and medical equipment industries. In December 2015, more than 20 Vietnamese businesses and nearly 150 Japanese MSMEs participated in a business-matching event in Japan for the transportation equipment, electronics parts, industrial

Box 5.6. Japanese MSMEs venture overseas: support from home institutions (concluded)

machinery and medical equipment industries. A business-matching event that involved 19 Indonesian businesses and 105 Japanese MSMEs in the automotive parts, moulding and medical equipment manufacturing industries was held in Japan in October 2015. About 50 ASEAN firms and 280 Japanese companies in several industries (e.g. aircraft parts, medical equipment parts, automobile parts, dies and moulds, ICT, infrastructure, construction and food machinery) participated in an ASEAN CEO network-enhancing event in Japan in March 2014.

Source: UNCTAD–ASEAN Investment Report 2016 research, based on information from SMRJ (www.smrj.go.jp/english/index.html).

5.3.1.3. Case studies: Japanese MSMEs in ASEAN

The cases in annex 5.4 highlight the multiple reasons why Japanese MSMEs invest in ASEAN and the role they play in supporting regional production networks and industrial linkages. The reasons for investing are dominated by the challenges that these MSMEs face in their saturated home-market, and especially the need to follow their customers abroad and find new clients (table 5.7). All of these reflect market-seeking motives for going abroad, although efficiency-seeking drive is also relevant in a number of cases.

Table 5.7. Summary table of case studies of Japanese MSMEs in ASEAN

Name	Products	Presence in ASEAN	Motives	Linkages effect
Fineplas	Automotive electrical parts	Thailand	Follow customers Efficiency seeking (cost)	Network with subcontracting MSMEs and local suppliers in Thailand
Minato Rubber	Rubber and resin	Viet Nam	Declining sales at home Follow customers Efficiency seeking (cost)	Localization of management operation
Metal Products	Furring for roofs, wall materials and lightweight iron frames	Indonesia	Joint venture opportunities Market seeking	Joint venture with a local partner
Ogawaya	Manufacture of noodles	Thailand	Market opportunities in host-country Joint venture possibility	Joint venture with a local partner Source supplies locally Imports noodles from Japan
Toyoda Giken	Automotive parts	Viet Nam	Efficiency seeking (cost)	Increase orders from customers in Thailand and Indonesia Plans to build up sales channels in ASEAN

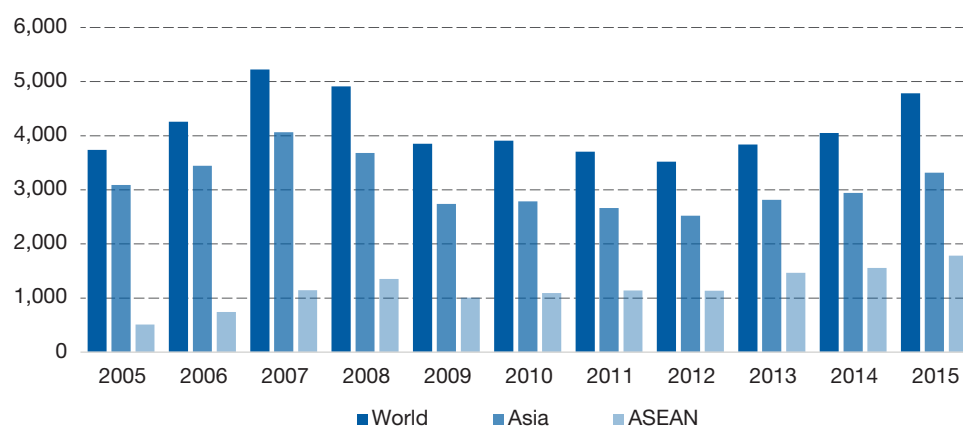
Source: Based on annex 5.4.

5.3.2 Korean MSMEs in ASEAN

Korean MSMEs' FDI in ASEAN rose strongly in recent years along with the surge of investments in the region by large Korean MNEs.² These MSMEs play important roles in a number of respects: supplying large Korean MNEs that are present in the region, contributing to the development of industries in the host countries, establishing business linkages with indigenous ASEAN MSMEs and helping the region connect in the GVCs of products and industries that these MSMEs serve.

ASEAN is a major destination for Korean MSMEs' investment. During 2011–2015, Korean MSMEs had 14,266 investment projects worth \$9.4 billion in Asia, which represented 72 per cent of all Korean MSME OFDI projects worldwide. About 50 per cent of these Korean MSME investment projects in Asia, or 36 per cent of Korean MSMEs' investment projects worldwide were in ASEAN. Korean MSMEs' FDI flows to ASEAN have been on an ascending trend, rising from 513 projects in 2005 to 1,786 projects in 2015 and from \$263 million to \$917 million (figures 5.2 and 5.3). In 2015, ASEAN was the second-largest target destination for Korean MSMEs' FDI, after Hong Kong (China).

Figure 5.2. Korean MSMEs' outward FDI projects to the world, Asia and ASEAN, 2005–2015 (Number of projects)

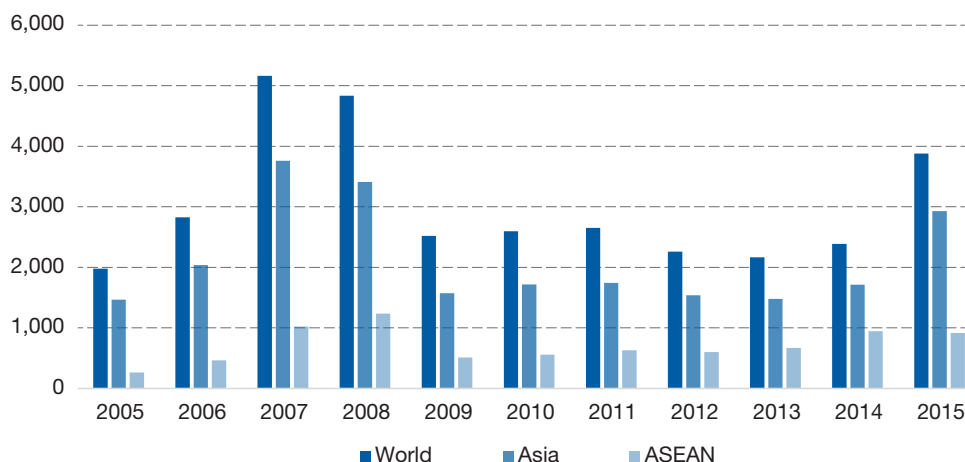


Source: Korean Eximbank FDI database.

Note: Data on Korean microenterprises internationalization are not available.

The value of investment in ASEAN per Korean MSME has also risen over time, from \$1.2 million in 2005 to \$1.8 million in 2015. However, this contrasts significantly with the value of investment per large Korean firm in the region, which grew by more than 200 per cent to \$37.4 million in the same period (figure 5.4). The widening gap between Korea's large firms and MSMEs in scale of investment is due in part to the diversification from manufacturing-centred activities to more capital- or technology-intensive industries such as mining and finance, as well as professional, scientific and technical services (chapter 2). Korean MSMEs' investment remains mostly concentrated in less capital-intensive manufacturing.

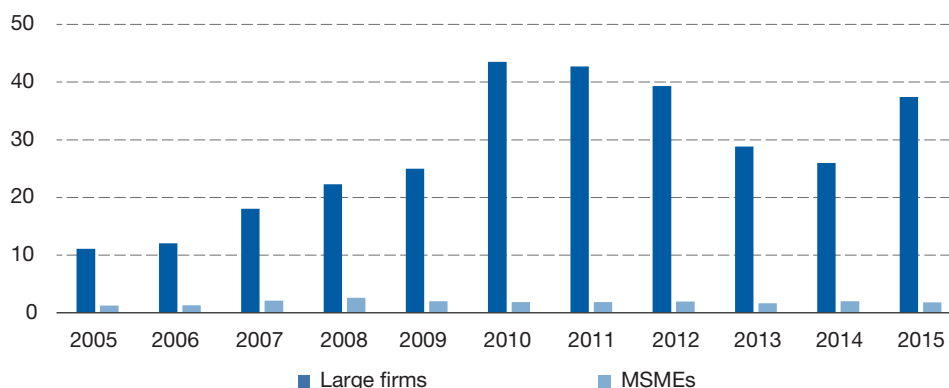
Figure 5.3. Korean MSMEs' outward FDI flows to the world, Asia and ASEAN, 2005–2015 (Millions of dollars)



Source: Korean Eximbank FDI database.

Note: Data on Korean microenterprises internationalization are not available.

Figure 5.4. Investment value per firm for large Korean companies and MSMEs, 2005–2015 (Millions of dollars)



Source: Korean Eximbank FDI database.

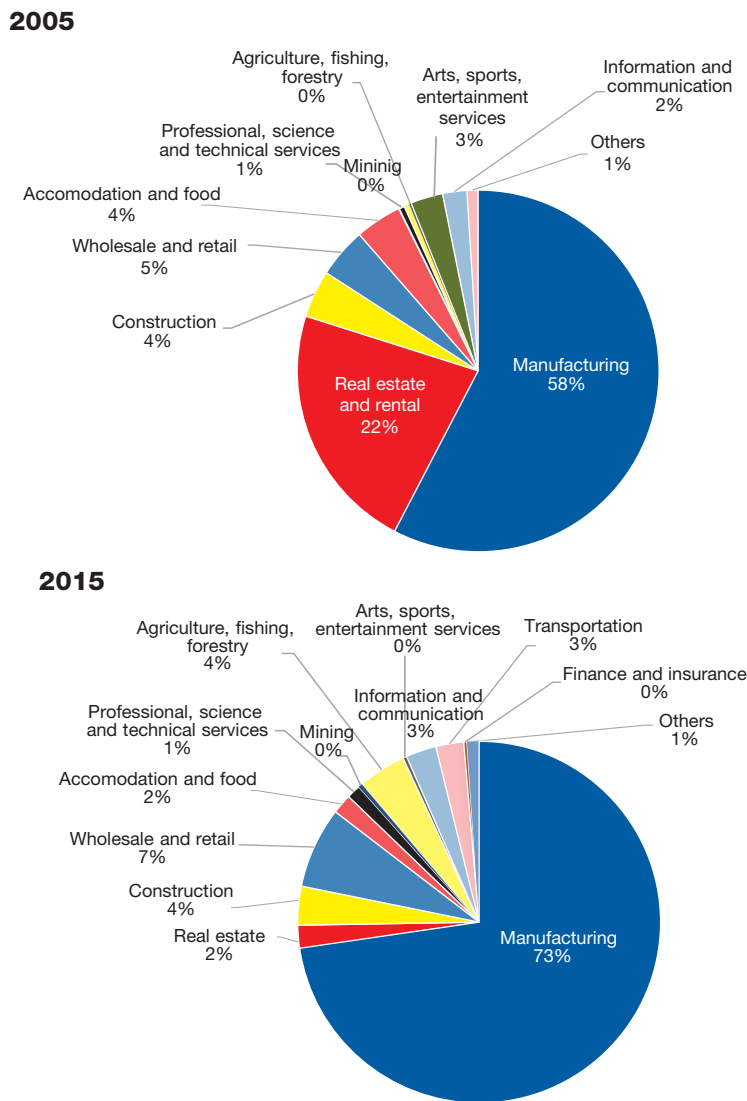
Note: Data on Korean microenterprises internationalization are not available.

Korean MSMEs' investment in ASEAN is concentrated in Viet Nam, followed by Indonesia and Singapore. In 2015, Viet Nam accounted for more than two-thirds of FDI by Korean MSMEs in the region. The rise in their FDI to Viet Nam was driven mainly by manufacturing activities and influenced by the significant recent surge in large-scale investments made by companies such as Samsung and LG (chapter 2). These large MNEs encouraged their parts and component suppliers from the home-country to operate close to them in the host-country. For instance, Samsung Electronics' parts and component suppliers Woojeon (smartphone cases), MCNEX (camera modules), Flexcom (flexible printed circuit board) and Intops (smartphone cases) all invested in Viet Nam (ETNews 2014). Korean MSMEs' investments in the Philippines and Cambodia, albeit declining in recent years, were also significant.

Industrial distribution

In 2005, Korean MSMEs’ FDI flows to manufacturing reached \$152 million, which accounted for 58 per cent of all Korean MSME investment in the region. After the 2008 global financial crisis, these flows were even more highly concentrated in manufacturing, accounting for 73 per cent of Korean MSMEs’ investments in ASEAN in 2015 (figure 5.5). The second- and third-largest recipient industries were wholesale and retail, and agriculture, forestry and fishing, which received 7.2 per cent and 4.3 per cent of all investments, respectively.

Figure 5.5. Korean MSMEs' FDI in ASEAN, industrial distribution, 2005 and 2015



Source: Korean Eximbank FDI database.

Notes: Data on Korean microenterprises internationalization are not available. Zero per cent refers to values of less than 0.5 per cent.

In terms of the number of projects, manufacturing attracted 53 per cent of the 515 new projects registered in 2015, followed by wholesale and retail (14 per cent) and construction (10 per cent). Real estate remained within the top five target industries for Korean MSMEs' FDI in ASEAN between 2011 and 2015. These industries similarly dominate the value of MSMEs' FDI flows, with the exception of professional, scientific and technical services, which attracted more significant investment than real estate and rental in the same period (table 5.8).

Manufacturing. The rise in Korean MSMEs' FDI in manufacturing in ASEAN in 2015 can be attributed to an increase in investment in Viet Nam: 80 per cent of such investments in Viet

Table 5.8.

Korean MSMEs' FDI in ASEAN, by industry, 2011–2015

(Millions of dollars and per cent)

Industry	Value in millions of dollars (Share of investment in the sector to total investment)					Growth rate (%)	
	2011	2012	2013	2014	2015	2005–2015	2011–2015
Manufacturing	392.7 (62.3)	372.1 (62.3)	482.8 (72.4)	604.9 (64.0)	666.7 (72.7)	21.7	17.1
Real estate and rental	54.1 (8.6)	15.5 (2.6)	16.1 (2.4)	15.3 (1.6)	18.7 (2.0)	7.5	-13.1
Construction	41.8 (6.6)	41.8 (7.0)	34.2 (5.1)	37.7 (4.0)	31.8 (3.5)	36.1	-2.4
Wholesale and retail	48.9 (7.8)	61.9 (10.4)	37.1 (5.6)	56.5 (6.0)	66.5 (7.2)	55.2	17.8
Accommodation and food	12.4 (2.0)	12.2 (2.0)	13.2 (2.0)	14.3 (1.5)	16.3 (1.8)	26.0	-1.9
Professional, scientific and technical services	4.9 (0.8)	20.5 (3.4)	21.2 (3.2)	130.2 (13.8)	11.3 (1.2)	128.8	142.8
Mining	22.6 (3.6)	18.4 (3.1)	11.5 (1.7)	3.3 (0.4)	3.5 (0.4)	58.1	-30.3
Agriculture, forestry and fishing	13.9 (2.2)	18.5 (3.1)	5.1 (0.8)	10.8 (1.1)	39.2 (4.3)	216.0	67.7
Arts, sports, entertainment services	2.8 (0.4)	15.3 (2.6)	2.1 (0.3)	1.9 (0.2)	3.1 (0.3)	51.6	71.9
Information and communication	9.4 (1.5)	6.2 (1.0)	4.4 (4.4)	7.2 (0.8)	24.9 (2.7)	53.1	52.3
Transportation	2.8 (0.4)	1.8 (0.3)	6.1 (0.9)	9.8 (1.0)	22.7 (2.5)	570.4	69.5
Financial and insurance	14.1 (2.2)	0 (0.0)	25.0 (3.8)	47.1 (5.0)	2.7 (0.3)	50.1	84.0
Others	9.7 (1.5)	13.3 (2.2)	7.7 (1.2)	5.8 (0.6)	9.8 (1.1)	55.9	17.7
Total	630.0 (100.0)	597.7 (100.0)	666.5 (100.0)	945.0 (100.0)	917.1 (100.0)	22.6	11.8

Source: Korean Eximbank FDI database.

Note: Parentheses refer to per cent. Data on Korean microenterprises internationalization are not available.

Nam were in the manufacturing sector, with a value of \$532 million, up from 52 per cent in 2005. This FDI has shifted from labour-intensive to more capital- and technology-intensive industries. Textiles and apparel used to be the largest recipient sector. It accounted for 50 per cent of Korean MSMEs' investments in Viet Nam in 2005 but has declined significantly, to 20 per cent in 2010 and 16 per cent in 2015, whereas the share of investment in communication equipment and electronics components has risen, from about 1 per cent in 2005 to 26.5 per cent in 2015.

Wholesale and retail. The amount of Korean MSMEs' investment in this industry in the region increased from \$12 million in 2005 to \$66 million in 2015. The share of FDI in wholesale and retail was 4.4 per cent (the fourth-largest recipient industry) in 2005 and increased to 7.2 per cent in 2015, making it the second-largest industry for Korean MSMEs' FDI in the region. This growing investment was driven by improving living standards and a rising middle-class population in ASEAN Member States.

Construction. This industry saw a significant decline in investment in the aftermath of the global financial crisis. The total amount of Korean MSMEs' FDI in construction rose from \$9 million in 2005 to a peak of \$130 million in 2008 but since then has decreased continuously, to \$27 million in 2015. Over the 2005–2015 period, the top three recipient countries were Cambodia, the Philippines and Viet Nam. These three Member States together accounted for 90 per cent of all investment in this sector by Korean MSMEs. Viet Nam attracted more FDI in construction for office, commercial and other non-residential buildings, Cambodia for road and apartment construction, and the Philippines for industrial construction.

5.3.2.1. Drivers and motivations

High costs at home, rising labour costs in China and the comparatively lower wage costs in some ASEAN Member States have attracted efficiency-seeking FDI from Korean MSMEs to the region. The improving investment environment in ASEAN, with the introduction of more favourable FDI policies and measures, and strong regional economic fundamentals (e.g. regional market attraction and integration) have further positively influenced Korean investors' perception of the region (ASEAN Secretariat and UNCTAD 2015). Rapid economic growth and the growth in middle-income consumers have also attracted large Korean retail chains and services companies, and market-seeking Korean FDI projects. These Korean firms are increasingly being accompanied by their suppliers from home (in a follow-the-customers strategy).

Efficiency-seeking FDI

High wage costs in the Republic of Korea have driven Korean MSMEs to shift labour-intensive manufacturing operations to lower-cost countries. Many Korean MSMEs in apparel and textiles and in assembly of electronics products have ventured overseas to maintain cost competitiveness. China and ASEAN are the beneficiary destinations. However, in recent years, more Korean MSMEs – including those in China – have been relocating their manufacturing operations to lower-cost ASEAN Member States (Kim 2013, Chosun Biz

2013). For example, because of rising wages in China, Fareast GNS Co., Ltd., a Korean MSME manufacturing cubic zirconia, reduced its operations at its Chinese manufacturing plant and established a new factory in Hanoi in 2012 (Yonhap Midas 2013). An additional benefit of investing in ASEAN for efficiency-seeking reasons is the availability of good infrastructure and connectivity, which facilitates movement of goods and services within the region.

Investment driven by low-cost or efficiency-seeking motivations rose from \$75 million in 2005 to \$212 million in 2015, accounting for 23.1 per cent of all investment. Low labour costs and other host-country efficiency-seeking factors are key determinants influencing Korean MSMEs' FDI in ASEAN. Many Korean MSMEs in apparel and electronics have invested in some ASEAN Member States. For instance, Nurian International (garments), lam (electronics), Koren (electronics) and Nanos (electronics) established subsidiaries or expanded their investments in the Philippines in 2012 (InterAksyon 2012).

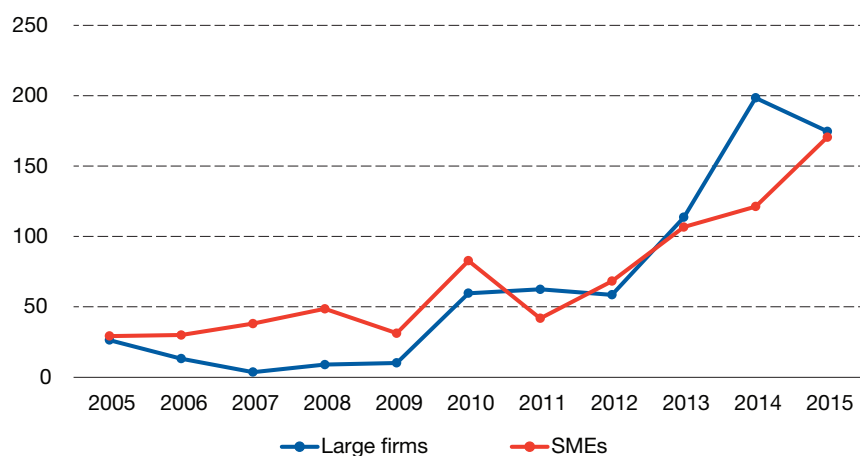
Market-seeking FDI

Market-seeking motivations are also important for Korean MSMEs' FDI in ASEAN. Drivers and motives include local presence requirements as well as opportunities to promote exports from the home-economy. Increasingly, the growing regional market – more than 650 million people, with a combined GDP exceeding \$2.8 trillion – makes ASEAN an attractive destination for Korean MSMEs aiming to expand their markets and sales. Bypassing regulations, which relate to the desire to avoid domestic restrictions or take advantage of trade quota privileges or low tariff rates of host countries, such as under the ATIGA is another factor.

Happycall, a Korean manufacturer of household products, established overseas branches in Indonesia and Thailand for marketing and selling its products in these ASEAN host countries. In Thailand, the company successfully launched its products as the premium brand in the local market by cooperating with a large, well-known Korean retailer (GS Home Shopping) and a Thai department store (Robinson). Tnhh Minh Han, a Korean food retailer in Viet Nam, has successfully established various Korean food stores (i.e. Star Korea, K-mart and K-food). Its success in Viet Nam has also contributed to the growth of exports of agricultural products from the Republic of Korea to Viet Nam (KOTRA 2015).

Follow-the-customer. Increasingly, many investments by Korean MSMEs in ASEAN are made in order to follow customers to the region or host country, which is a type of market-seeking motivation (i.e. retaining or securing a market or customers). Many Korean MSMEs in the electronics sector are parts and component suppliers to large Korean firms. Samsung Electronics' establishment of mobile phone manufacturing plants in Viet Nam has attracted nearly 100 of its suppliers (including Samsung affiliates and domestic cooperative firms that Samsung has agreements with), including Korean MSMEs to Viet Nam since 2009.³ There has been a sharp, corresponding increase in electronics FDI in ASEAN by both large Korean firms and MSMEs, particularly after 2011 (figure 5.6).

Figure 5.6. Investments in electronics manufacturing by large Korean firms and SMEs, 2005–2015 (Millions of dollars)



Source: Korean Eximbank FDI database.

Note: Electronics manufacturing here refers to electronics parts, computers, video, sound and telecommunications devices.

Resource-seeking FDI

Resource-seeking FDI accounted for about 6.5 per cent of all Korean MSME investment in ASEAN during 2005–2015. It is pursued mostly by food manufacturing firms, which rely heavily on raw materials such as vegetable oils and fats. Investment by such firms accounted for 58 per cent of resource-seeking FDI by Korean MSMEs in 2015. Another key industry for this type of FDI is agriculture, forestry and fishing, accounting for 30 per cent of resource-seeking FDI in 2015. As an example, A-Purple, a Korean MSME, has established subsidiaries in Cambodia for farming activities.

Singapore accounted for about 48 per cent of resource-seeking FDI in ASEAN by Korean MSMEs. This share is large because a majority of Korean MSMEs are involved in the food manufacturing sector, which uses vegetable oils and fats acquired in Singapore. Although Singapore lacks natural resources, its neighbours Indonesia and Malaysia have abundant natural resources that can be imported to Singapore at lower costs. Korean MSMEs have invested in food manufacturing in Singapore, and these Singapore-based subsidiaries in turn have invested in Indonesia and other resource-rich countries nearby. The second-largest recipient country in 2015 was Indonesia, where about 80 per cent of the FDI inflows went to the forestry sector. The third-largest recipient was the Lao People's Democratic Republic, where about 80 per cent of resource-seeking FDI inflows from Korean MSMEs targeted the mining sector, for securing both metallic and nonmetallic minerals.

5.3.2.2. Korean MNE-MSME production networks and business linkages

Before the 2008 global financial crisis, Korean FDI in Viet Nam was driven mainly by MSMEs.⁴ There are many more Korean MSMEs in the country than large Korean companies. After the financial crisis, however, large Korean electric and electronic MNEs increased their investments. Many firms in the apparel and footwear industries also shifted their investments from China to Viet Nam. Korean MSMEs' FDI in Viet Nam exceeded that in China in 2014 and 2015. Large Korean retail and supermarket chains such as Lotte and E-mart are actively expanding their presence in Viet Nam, and they are also influencing many of their Korean suppliers to invest in the host country (Business Korea 2014). The presence of and recent surge in investments by large Korean firms have also encouraged FDI by Korean MSMEs, many of which are suppliers of parts and components. This symbiotic relationship between Korean MNEs and MSMEs is strengthening production networks and linkages between these Korean firms in ASEAN. Korean firms are also building linkages involving indigenous ASEAN suppliers (box 5.7).

Viet Nam has emerged as a global manufacturing hub for Korean electronics firms. The number of new large Korean firms investing in Viet Nam rose from 16 in 2009 to 39 in 2015; the number of new Korean MSMEs rose from 91 to 331. A majority of the MSME investment went to the manufacturing sector. This surge in investment has made the Republic of Korea the largest foreign investor in Viet Nam.

The establishment of large Korean electronics companies together with their associates and suppliers in Viet Nam has expedited the country's industrial transformation. Until 2009, the manufactured exports of Viet Nam were footwear, apparel and furniture, but in 2013 the top manufactured exports were electrical and electronic equipment (OECD and World Bank 2014). As a result, Viet Nam has become a major production hub for mobile phones. Korean MNEs in particular contributed to Viet Nam's structural shift towards more sophisticated and higher value added exports (OECD and World Bank 2014). Viet Nam provided more incentives for FDI in higher value added sectors. The Vietnamese government has given preferential incentives to many large electronic firms, such as Intel in 2006, Samsung in 2010, and Nokia, Bosch and LG in more recent years.

Investments by Korean parts and component suppliers (including MSMEs) in Viet Nam are expected to make a positive impact on enhancing the competitiveness of local supporting industries from two perspectives. First, investment by Korean MSMEs and other suppliers helps enlarge the pool of local suppliers and thus enhance the overall supply industry in Viet Nam. This in turn improves the country's investment environment and helps attract other multinationals from other countries. For instance, Nokia has expressed interest in building a partnership with Samsung's suppliers in Viet Nam (KOTRA 2013). The investment by these global firms will then attract more investment from abroad and thereby strengthen related industries in the host-country.

Box 5.7. Samsung–MSME linkages in Viet Nam

Samsung is the largest business group or chaebol in the Republic of Korea.^a Since the inauguration of its mobile phone production factory in Viet Nam (Samsung Electronics Vietnam) in 2009, Samsung Electronics has continuously expanded its investment in that host country. Another \$2 billion mobile phone factory, SEV Thai Nguyen, was established in 2013. The two plants employ 112,000 local workers, slightly more than 50 per cent of the company’s 219,822 workers outside the Republic of Korea in 2014 (Vietnamplus 2016, Samsung Electronics 2015). Viet Nam now accounts for about 50 per cent of Samsung Electronics’ mobile phone production, as compared with only 8 per cent from its facilities in the Republic of Korea (Vietnamplus 2016).

The Vietnamese government encourages MNEs to utilize locally produced parts and components. In 2013, Samsung submitted a list of 170 spare parts to the Ministry of Industry and Trade (Viet Nam) to be sourced locally. However, only 15 of the 100 local companies recommended by the government met Samsung’s quality requirements.

The lack of technological capability and constraints on capital available for training has led Samsung to use Korean MSMEs and foreign firms in Viet Nam to supply parts and components for its production. Favourable host-country policies have also helped about 100 Korean suppliers of Samsung (including MSMEs) to invest in Viet Nam (box table 5.7.1). As of 2014, 53 of 67 parts suppliers for the SEV plant were Korean, and only four Vietnamese firms had joined Samsung’s supply chain as first-tier parts suppliers. Seven suppliers were from Japan, and one each from the United Kingdom, Malaysia and Singapore. Other needed parts and components were mostly imported from China, the Republic of Korea and Taiwan Province of China. The localization rate in Viet Nam (16 per cent) is much lower than at Samsung’s manufacturing plant in China (40 per cent in 2012) (Tuoitrenews 2013). However, more Vietnamese firms are supplying parts, components and services to Samsung’s operations in Viet Nam. As of April 2016, there were some 63 Vietnamese firms in Samsung’s supply chain, including 11 first-tier and 52 second-tier suppliers (box table 5.7.2).^b

Box table 5.7.1. Korean suppliers of Samsung Electronics in Viet Nam (selected cases)

Name	Products/services	Location
Shell-line Co. Ltd.*	Cell phone mock-up and slide hinge modules	Que Vo Industrial Park, Bac Ninh
DK UIL Co. Ltd	Cell phone keypads	Que Vo Industrial Park, Bac Ninh
Sun Rise I-Tech Co. Ltd.*	Cell phone hardware	Que Vo Industrial Park, Bac Ninh
Haesung Optics*	Cameras	Khai Quang Industrial Zone, Vinh Phuc
INTOPS	Cases	High-tech Park Management Board (SHTP), Ho Chi Minh
Daeyoung Electronics*	Electronic components and LED screens	SHTP
Mobase*	Cases	Yen Phong Industrial Zone, Bac Ninh
Partron	Antennas	Khai Quang Industrial Zone, Vinh Phuc
Flexcom	Flexible printed circuit boards	Yen Phong Industrial Zone, Bac Ninh
Taeyang C&L	Cell phone window components	Hung Yen

Source: Vietnamese media reports.

* MSMEs.

Box 5.7. Samsung–MSME linkages in Viet Nam (concluded)**Box table 5.7.2. Local suppliers of Samsung Electronics in Viet Nam(selected cases)**

Name	Products/services	Location
Ngan Ha Printing Packaging Co. Ltd.	Packaging	Ho Chi Minh City
Phuoc Thanh Plastic Co. Ltd.	Plastic materials	Ho Chi Minh City
Minh Dat Precision Mould Co. Ltd.	Precision mould	Long An Province
Goldsun Packaging and Printing JSC	Printing and packaging	Hanoi City
Thang Long Packaging Production Export-Import JSC	Packaging	Bac Ninh Province
Viet Hung Packaging Company Ltd	Packaging	Hung Yen

Source: Vietnamese media reports.

Samsung has also made efforts to improve the competitiveness of local suppliers. For example, it has invested in education programs and transfers technical skills to local Vietnamese suppliers to strengthen their production and technical capabilities (Samsung Electronics 2015). To nurture R&D talent, Samsung has also established various social contribution programs (e.g. vocational training, Samsung Talent Program, internship in Samsung Lab).

In addition to building manufacturing plants, Samsung Electronics has invested huge amounts of capital in building local R&D centres. For example, the Samsung Vietnam Mobile Research and Development Centre was established in 2012, providing software for Samsung’s smartphones and LTE network suppliers in ASEAN, as well as in Australia and New Zealand. The facility is the largest R&D centre in ASEAN. Another R&D centre, located in the Samsung Consumer Electronics Ho Chi Minh City Complex, is under construction. It will focus on making sophisticated television sets. Most of the products manufactured are for export.

Samsung has located a large base of manufacturing facilities in Viet Nam not only to exploit low-cost labour and other locational advantages, but also to promote higher value added activities, such as R&D, training and marketing. SEV plans to open a phone repair centre in Viet Nam for global customers, thereby expanding to downstream activities in the value chain. Although Viet Nam still mainly acts as the base for manufacturing and low-end activities, Samsung’s various operations in the host country will help contribute to upgrading the country’s position in Samsung’s value chain.

Source: UNCTAD–ASEAN Investment Report 2016 research, based on Samsung and media reports.

^a Since 2013, Samsung Electronics has been reorganized into three divisions: IT and Mobile, Consumer Electronics, and Device Solutions. The IT and Mobile division produces and sells telecommunication products such as smartphones, computers and network systems. The Consumer Electronics division produces digital TVs, monitors, refrigerators, washing machines, printers and medical devices. The Device Solutions division produces memory products such as DRAM, NAND and mobile access points for the semiconductor business. In 2014, IT and Mobile was the largest division in terms of sales (Samsung Electronics 2015).

^b Tuoitrenews, “Three Vietnamese firms join Samsung supply chain”, 24 May 2016 (<https://www.talkvietnam.org/2016/05/three-vietnamese-firms-join-samsung-supply-chain/>); Vietnam News, “Samsung chooses few Vietnamese suppliers”, updated 17 October 2014 (<http://vietnamnews.vn/economy/261534/samsung-chooses-few-vietnamese-suppliers.html>).

Second, local suppliers can benchmark and cooperate with Korean suppliers and enhance their capabilities, which will help them join Samsung's supply chain, if they meet Samsung's standards. Samsung Electronics and its first- and second-tier suppliers have held seminars with local governments and tens of local firms to support technology transfer, education and improvements in working conditions. As a result of these efforts, more local firms have joined Samsung's supply chain.

Another good example is the partnership between Minh Nguyen Supporting Industries Joint Stock Company (Ninh Nguyen) and Woojin Plaimm (Woojin),⁵ a Korean manufacturer of plastic injection moulding machinery. According to the agreement, Woojin will provide support and assistance for Ninh Nguyen's Phutoc Thanh high-tech research, application and production complex in the Saigon Hi-tech Park (SHTP). Specifically, Woojin will provide 68 energy-efficient plastic injection moulding machines to support production. Woojin will also help Minh Nguyen install, operate and maintain the machinery and equipment, along with training staff and improving productivity. Minh Nguyen became the first local firm to join the Samsung household electronics complex at the SHTP. Its products (plastic and metal electronic components, plastics moulds, etc.) will be supplied to Samsung and other multinational firms.

In addition to supplying to Korean customers in Viet Nam, Korean suppliers are also exporting some of their products to their home-country (Yonhap News 2014). Although on a smaller scale, Korean MSMEs in other ASEAN Member States such as Indonesia and Thailand are also contributing to building business linkages between them and foreign MNEs, and with indigenous MSMEs. Korean MSMEs contribute to developing local supporting industries and exports and helping ASEAN Member States link with the GVCs in the industries in which they operate.

Twelve case studies show that successful Korean MSMEs are globally competitive firms in their own fields (annex 5.5, table 5.9). In most cases they began as simple manufacturing businesses; as competition became fiercer, to maintain their partnerships with globally well-known brands as sustainable buyers, most of them have gone further by establishing in-house R&D centres for upgrading and developing high-end products. They then transferred their technologies and skills to local manufacturing plants in the ASEAN region. Although the majority of these Korean MSMEs have preferred wholly owned subsidiary arrangements for their overseas factories, some have chosen joint ventures (e.g. Sungshin Global) or outsourced to local subcontractors (e.g. Suy).

The improvement in local firms' position, from lower-tier suppliers to higher-tier suppliers, can also be seen in the case of Samsung Electronics and FDI by its suppliers in Viet Nam. Although initially few local firms could satisfy the high standards of Samsung Electronics that are required to join its supply chain, through years of training with Samsung and Korean MSMEs, more local firms have joined their supply chains as competitive suppliers. This implies that the effects of investments by Korean firms in the region include not only employing low-cost local labour (efficiency-seeking FDI) and serving the local market

(market-seeking FDI), but also generating potential spillover effects in upgrading regional production technologies and skills.

5.3.2.3. Case studies: Korean MSMEs in ASEAN

Table 5.9 provides key features of the 12 Korean MSME cases presented in annex 5.5. They are categorized as MSMEs based on the official definition.⁶ Nearly all of these Korean MSMEs are in the apparel business and have been established for many decades. Although most of them supply products to global brands through ODM or OEM arrangements, some have also established in-house R&D facilities for product development. These MSMEs have multiple factories in ASEAN and are suppliers to or contract manufacturers for major international brands. These Korean MSMEs connect ASEAN to the apparel global supply chains through involving ASEAN MSMEs as their sub-suppliers. Annex 5.6 highlights some Korean MSMEs operating in different industries in the region.

Table 5.9. Summary information on the 12 Korean MSME cases

Name	Industry/ products	Year established	Location in ASEAN	Selected customers/brands
1. Hyun Jin	Apparel	1987	Viet Nam	French firms for ski, golf, cycle and gardening gloves, United States firms for military gloves
2. Sees Global	Sports gear	1970	Viet Nam, Cambodia	North Face, Ziener, Lafuma, Head, Fila, Kolon Sport
3. MSA	Apparel	1992	Viet Nam	Korean and global customers
4. Suy	Apparel	1991	Viet Nam, Indonesia, Philippines	Major retailers in the United States (Ann Taylor, Express, Loft)
5. Gomundang Printing	Printing and packaging	1962	Viet Nam	LG Electronics and Nokia
6. Dada	Headwear	1974	Viet Nam, Indonesia	Adidas, Reebok, Gap, Walmart and Sears
7. Molax Trading	Apparel	1996	Viet Nam, Indonesia	Gap, Walmart, H&M, Target, Sears
8. Kyung Seung	Apparel	1994	Viet Nam, Indonesia	United States and Swedish retail fashion companies (Gap, Ann Inc, Chico, Talbot, H&M)
9. Doing-In Entech	Aluminium-frame backpacks, sports equipment, carts	1992	Viet Nam, Philippines	High-end global outdoor brands from the United States, Canada, Switzerland and Japan
10. PSMC	Electronics parts and die manufacturing	1978	Philippines	Mainly Korean companies and some foreign customers
11. FTN	Apparel	1974	Viet Nam, Indonesia, Philippines	DKNY, Burberry, Calvin Klein
12. Kumnung	Moulds, electrical appliances	1993	Thailand	Nike, Adidas, Reebok, Puma, K-Swiss, New Balance

Source: Based on annex 5.5.

5.3.3. United States FDI and MSME linkages in ASEAN

Although United States FDI in ASEAN is dominated by large companies, American MSMEs are nonetheless present in the region (table 5.10). However, it is difficult to determine their number. They are active in service industries such as hospitality, the internet and IT. A small number have established manufacturing operations in the region, particularly in Malaysia and Singapore.

The experience of United States MNEs is that their suppliers (whether based in the United States or in a third country) follow them into ASEAN markets. In the automotive industry, for example, GM's larger tier 1 suppliers from the United States have invested in Thailand to serve its operations there. Those tier 1 suppliers in turn source from local tier 2 and tier 3 suppliers. For instance, Seagate and Western Digital source from a variety of suppliers to serve their operations in Thailand, the Philippines and Malaysia, which in turn help develop the capacity of local MSMEs. About 60 per cent of Seagate's Thailand suppliers are MSMEs.⁷

United States companies seek to source locally to the extent that doing so is commercially viable. They make significant investments in building the capacity of their suppliers and contractors. Although the tier 1 suppliers are often MNEs themselves, these companies

Table 5.10. Selected United States MSMEs in ASEAN, 2015

Company name	Industry	Presence in ASEAN
Genufood Energy Enzymes Corporation	Hospitality	Singapore
Capstone Turbine	Industrial electrical equipment	Singapore
Mitcham Industries	Technology – scientific and technical instruments	Singapore
Ipass Inc	Internet	Singapore
Qumu Corporation	Computer peripherals	Singapore
Female Health	Health	Malaysia
Crest Ultrasonics	Electrical and electronic manufacturing	Malaysia
Hammond Group Inc	Renewables and environment	Malaysia
Tal International	Transportation, trucking, railroad	Singapore
STR Holdings Inc	Technology resources	Malaysia
Datawatch Corporation	Computer software	Singapore Philippines
BioTime	Biotechnology	Singapore
CAI International, Inc	Transportation, trucking, railroad	Singapore Malaysia
Intest Corporation	Semiconductors	Singapore Philippines Malaysia
Ascent Solar Technologies	Renewables and environment	Singapore
Tor Minerals International Inc	Chemicals	Malaysia

Source: UNCTAD–ASEAN Investment Report 2016 research.

seek to develop local sources of raw materials, subassemblies, components and other items in the value chain. USAID is also assisting in building the capacity of ASEAN MSMEs (box 5.8).

Box 5.8. Forging linkages between United States companies and ASEAN MSMEs

The US-ASEAN Business Alliance for Competitive Small and Medium-sized Enterprises combines the expertise and resources of the U.S. Agency for International Development (USAID) and major United States corporations in the US-ASEAN Business Council to provide training programs and mentorship opportunities to expand small businesses' access to finance, regional and international markets, and technology and innovation.

The Alliance has provided training to over 3,500 MSMEs in all 10 ASEAN Member States. It is also establishing an ASEAN MSME Academy – an online portal with interactive training and mentoring resources and business information for ASEAN MSMEs.

Source: USAID.

Another important area of United States MNEs' support in ASEAN MSME development is through their active sourcing and contract manufacturing activities in the region (chapter 3). Many foreign MSMEs based in ASEAN and ASEAN MSMEs are producing for United States brands in apparel (Nike, Gap, New Balance) and electronics (Apple, Seagate, Western Digital).

5.4. Co-evolution of ASEAN MSMEs and MNEs in regional production networks

As ASEAN MSMEs internationalize (section 5.2) and, at the same time, MNEs' regional networks evolve (section 5.3), the opportunities for wider and deeper relationships between the two phenomena are intensifying. A significant aspect of this co-evolution involves relationships between internationalized MSMEs and both foreign and ASEAN MNEs (Yeung 2010, 2016). Such relationships, including within regional production networks, can take a number of forms such as “functional partnerships”, “niche specialization” and “industrial platforms”. Four case studies of MSMEs are examined below to illustrate the nature of such relationships, namely Cool Group (Thailand), Applied Total Control Treatment (Singapore), Efficient Technology (Malaysia) and KLT Fruits (Philippines) (sections 5.4.1, 5.4.2 and 5.4.3). Some MSMEs in the four cases have been involved with one or more of these relationships.

5.4.1. Functional partnerships

This relationship represents mutually beneficial industrial linkages developed between MSMEs and MNEs in regional production networks. These industrial linkages are essentially functional in nature because of well-defined divisions of labour among firms within each regional production network (e.g. vis-à-vis functions or value chain segments such as R&D, manufacturing, marketing, logistics and distribution, post-sale services). Functional

partnerships are common among MSMEs from more developed ASEAN Member States, such as Singapore, Malaysia and Thailand. In many cases, MSME regionalization takes place through international partnerships with lead or principal firms in regional production networks of a number of MNEs.

For instance, by partnering with leading brand-name retailers and manufacturers of food and beverages in ASEAN, the Cool Group has expanded its market presence to Indonesia, Malaysia, the Philippines and Viet Nam (box 5.9). The company's regional presence has greatly improved its customization and service capabilities for its key MNE partners. Cool Group's regional organization of production networks reduces its cost-capability ratio and enhances its competitiveness. Moreover, by partnering with MNEs, such as a well-known European OEM in commercial freezers and coolers, the Cool Group also benefits from the latter's strong R&D support and brand name. In return, the Cool Group offers the OEM firm-specific market know-how and broader customer reach within ASEAN.

Box 5.9. The Cool way to regionalization: international partnership and regional production networks

Cool Group is a Thai MSME established in 2001. Through a number of companies the Group manufactures and distributes commercial freezers, coolers and cold-chain products for the food and beverage industry and the retail industry in ASEAN. As a specialist equipment provider, it partners with and serves leading global and regional customers such as Unilever, Nestle, F&N, Cremo, Haagen-Dazs, the CP Group and S&P restaurant, as well as leading supermarket and convenient store chains (e.g. Giant, Citimart Mini Shop, Lotte), beverage companies, restaurants, bakeries and coffee shops in the region.

To better serve the expanding regional networks of these partners, Cool Group ventured abroad to establish service centres in Malaysia (2008), Indonesia (2009), Viet Nam (2011) and the Philippines (2012). It has also invested in a warehouse in Indonesia. The company's strategy is to localize its services in order to be close to these international partners and new customers and to provide customized equipment for them. By keeping the manufacturing of commercial freezers and coolers in Thailand, the Cool Group can manage better its internal R&D and new product development. The company also serves as a local manufacturer for a leading European brand through involvement with OEM contract manufacturing.

With all these ASEAN operations, the company has been able to grow its regional market share substantially, together with its international partners. Its group revenue has reached \$50 million, and it employs fewer than 200 people.

Source: Company's website.

5.4.2. Niche specialization

By supporting indigenous innovation and the development of new product and process technologies, a number of ASEAN economies have enabled the creation of MSME-MNE partnerships based on niche specialization (see also section 5.2.1 on niche strategies). These technologically capable MSMEs have emerged from long-standing industrial promotion policy that works, in some cases, in tandem with the availability of staff who

have gained experience in more industrialized economies – or in MNEs in ASEAN. Such MSMEs can accumulate substantial technological capabilities and managerial expertise in their home bases before they venture abroad to serve markets in other ASEAN Member States. Their specialized expertise is in niche segments, rather than end markets or finished products; and this means that the growth of these MSMEs is likely to be coupled with the regional expansion of their MNE customers.

In the cases of ATC (Singapore) and Eftech (Malaysia), industrial specialization (in cutting-edge surface coating technologies and processes (for ATC) and in pipeline technologies in oil and gas (for Eftech)) has enabled them to develop niche markets in their home bases (boxes 5.10 and 5.11). Industrial specialization provided them with strong firm-specific advantages, which they were able to utilize in establishing foreign operations and developing new markets. Both MSMEs have benefited from strong institutional support from their home governments (box 5.12).

The role of International Enterprise Singapore in ATC's successful venture in Penang (Malaysia) was crucial. By moving its more technologically mature coating operation to

Box 5.10. From semiconductors to aerospace: ATC (Singapore) and industrial specialization in regional production networks

Applied Total Control Treatment (ATC) (Singapore) was established in 2004. This MSME specializes in a wide range of advanced surface treatments for high-end equipment parts in the aerospace, oil and gas, medical and electronics industries. As a leading player in the metal finishing industry, ATC first benefited from the rapid growth of electronics regional production networks, and then oil and gas and aerospace regional production networks in Singapore and other ASEAN Member States. Specializing in “secondary processes” in these major industries, ATC works very closely with its lead firm customers to fulfill their sophisticated needs and special requirements.

By 2009, ATC had realized that some of its lead firm customers in Singapore, particularly those in the semiconductor industry, were either withdrawing their operations or relocating them elsewhere in ASEAN or China. To maintain growth and diversify from their reliance on semiconductor customers, the company looked for expansion opportunities in ASEAN.

Before it established a presence in Malaysia, ATC received support from International Enterprise Singapore, the focal government agency promoting the internationalization of Singaporean firms. International Enterprise Singapore supported ATC through its Global Company Partnership programme. In particular, ATC received help with entry tariffs and market information and cost subsidization of its Penang (Malaysia) factory.

By early 2016, ATC employed some 110 staff in Singapore and another 105 in Penang (Chia 2016). It plans to open another surface coating plant in Johor (Malaysia) and more subsidiaries in Indonesia, the Philippines and China. With its plants in ASEAN, ATC is well poised to make better use of its proprietary surface coating technology to serve its lead firm customers in the aerospace, oil and gas, and electronics industries.

Source: Company's website.

Box 5.11. Eftech (Malaysia) – a specialist service provider in the regional oil and gas production networks

Efficient Technology (Eftech) (Malaysia) was established in 2001 to provide mechanical services to the Malaysian energy markets. As an MSME, it partnered with Hedley Purvis (United Kingdom) and BJ Process and Pipeline Services (United States) in 2001 and 2002 to bring their process and pipeline technologies to the oil and gas industry in Malaysia. Eftech grew rapidly with the domestic market and, in 2005, became an authorized local supplier of bolted-joint integrity and nitrogen-helium leak-testing services to Petronas, the national oil and gas company, under Petronas's vendor development programme. Since then, Eftech has developed further technical partnerships with Hydratight (United States) and Sparrows (United Kingdom).

As the oil and gas industry became more regionalized in the 2010s, Eftech began to go international by incorporating Eftech International in Singapore in 2013 to bring its expertise in engineering services to global lead firms in Singapore and the ASEAN region. Eftech International not only provides technical and operational expertise to support its expanding work in the ASEAN region and beyond, but also builds important relations with lead firm customers in Singapore and in other operational facilities in Indonesia, Myanmar, Thailand, and the Republic of Korea. To fulfill its first major liquefied natural gas services contract in Australia, Eftech invested in a new A\$5 million facility in Perth in 2015.

Taking advantage of regional integration in the oil and gas industry, Eftech has emerged from being a domestic MSME to become a leading provider of total solutions to both upstream and downstream customers of the regional oil and gas production networks, ranging from process and pipeline services to well services, directional drilling, measurement while drilling and drilling engineering. It also serves as the main contractor for formerly Canada-based Talisman Energy's leak-testing service work in Malaysia and Viet Nam.

Source: Company's website.

Box 5.12. Home-country support for MSME internationalization by some ASEAN Member States

Some ASEAN Member States have government agencies dedicated to helping their MSMEs develop, including through internationalization. They include the SME Corporation Malaysia, the Thai Office of SMEs Promotion, and the SME Roving Academy in the Philippine Department of Industry and Trade.

Thailand is urging its SMEs to target markets in ASEAN. It has announced a budget of 400 million to help them do so, especially SMEs with innovative products and new product designs and those that are environmentally friendly.^a In Singapore two statutory agencies are particularly active in supporting SMEs: International Enterprise (IE) Singapore and SPRING Singapore. These agencies provide crucial financial support and non-financial assistance. In general, financial assistance comprises grants, tax deductions and cost sharing. Non-financial assistance comes in the form of market and brand development advisory services, capability development, and help with setting up foreign operations in ASEAN.

Singapore's government assistance schemes and programs promoting SME capability and internationalization

Singapore provides strong institutional support to assist its SMEs in internationalizing. Some of the key policy measures and institutional schemes provided by the government and its various agencies to support the regionalization or internationalization of MSMEs include the following:

Box 5.12. Home-country support for MSME internationalization by some ASEAN Member States

International Enterprise Singapore

- Market Readiness Assistance: Market and investment development assistance scheme through provision of knowledge resources, learning and networking opportunities, and financial assistance of up to 70 per cent of eligible costs for overseas set-up, identification of business partners and overseas market promotion.
- Global Company Partnership: Funding support of up to 70 per cent of eligible costs for building internal capabilities, developing human resources, accessing markets, and providing access to risk insurance and trade financing
- Industry Partnerships: International marketing activities for SMEs, e.g. brand promotion, trade shows and linkages with business associations

SPRING Singapore (Standards, Productivity and Innovation Board)

- Capability development grants: up to 70 per cent of qualifying project costs
- Innovation & Capability Voucher, to improve productivity and efficiency
- Micro loan programme
- Loan insurance scheme
- Collaborative industry projects
- Free trade agreement guides for SMEs

Other statutory agencies and related organizations

- Infocomm Development Authority: Increase SME productivity with ICT adoption and transformation: up to 70–80 per cent of funding of ICT costs
- Inland Revenue Authority of Singapore: Productivity and innovation credit through tax deduction or allowance or cash payouts; wage credit scheme to co-fund local employees
- Workforce Development Agency: Enhanced Training Support for SMEs and Enterprise Training Support Scheme through course fee subsidies for eligible employees and grants
- Ascendas-Singbridge (JTC and Temasek Holdings): Involvement of SMEs in developing overseas townships, mixed-use developments and business and industrial parks

Source: Websites of International Enterprise Singapore and SPRING Singapore.

^a *The Straits Times*, “Asia’s push to take SMEs global”, 9 May 2016 (www.straitstimes.com/business/companies-markets/asias-push-to-take-MSMEs-global).

Penang, ATC can specialize further by developing more cutting-edge and proprietary surface coating technology in its parent operation. Through this industrial specialization, ATC can serve well its expanding regional base of lead firm customers in the aerospace, oil and gas, and electronics industries.

Similarly, Malaysia’s Efttech has benefited from Petronas’s vendor development programme and has acquired highly specialized and sophisticated industrial know-how in providing engineering solutions and services to lead firms in the oil and gas regional production networks in ASEAN. Another Malaysian MSME, iDimension MSC Sdn Bhd, is a leading e-manufacturing solutions provider in Asia. Through its subsidiaries in Indonesia, Singapore, Thailand and China, it specializes in e-factory and e-manufacturing software applications for global lead firms to achieve more cost-effective manufacturing operations in the semiconductor industry. Its lead firm customers include Phillips, HP, Flextronics, Agilent, NEC, Unisem, Intel, StatsChippac, NXP Semiconductor and Haier.

5.4.3. Production platforms

Since at least the 1980s, ASEAN Member States – at both national and regional levels – have enacted proactive policies and strategies to better attract (nodes of) MNE regional production networks that might otherwise locate elsewhere. Examples include Penang (Malaysia), the Greater Bangkok region (Thailand) and Viet Nam’s new industrial parks, all of which have strategically responded to the demand by MNEs for well connected, competitive locations (Yeung 2009, 2010). In effect, these platforms – and local firms involved, including MSMEs, are responses to an evolving regional (and international) division of labour spearheaded by brand-name principal MNEs and their key suppliers from Japan, North America and Western Europe (section 5.3).

Such “production platforms” provide competitive cost structures, an abundant skilled labour supply, a stable policy environment, fiscal and other financial incentives, and other locational advantages. While they originally fostered and positioned MSMEs to partner with MNEs (and still do), increasingly MSMEs are using them as a basis for internationalizing and both competing and collaborating with MNE production networks across ASEAN.

KLT Fruits (Philippines), which has benefited from the industrial development zone in Cavite, where its food processing plant is located, is a case in point (box 5.13). Although it has

Box 5.13. KLT Fruits Inc. (Philippines) – diversifying into regional agro-food markets

KLT is a Philippine MSME which was established in 1984. It specializes in the processing of tropical fruit purees, concentrates and jams for international markets. With its state-of-the-art manufacturing plant completed in 1993 in the First Cavite Industrial Estate, KLT has developed through three decades of cooperation with small and large fruit traders and growers throughout the Philippines (including in Cavite, Batangas, Quezon and Tarlac). It employs about 200 staff, up to 20 of who are R&D personnel.

KLT works with its international partners to customize fruit purees for their specific product formulation and process parameters. Its fruit solids are primarily sold to domestic and international fast-food chains and food manufacturers. In North America, KLT is one of the suppliers to Klass Ingredients, a New York-based international ingredient broker serving food manufacturers in the north-eastern United States and eastern Canada. For its red bean jam, KLT has exclusive supply arrangements with Harima Shokuryo Kogyo, a Japanese MSME specializing in the international sourcing of food and beverage products (Marasigan 2014).

KLT has benefited from the Philippines’ free trade agreements with Australia, China, Japan, the Republic of Korea and New Zealand, where tropical fruit purees enjoy zero or reduced tariffs. Taking advantage of the AEC-2015, KLT plans to expand into the regional market by developing its own brand of consumer products. It plans to establish a trading and marketing office in Singapore to handle its ASEAN consumer products. A similar office in Hong Kong (China) will be established to develop its new market and sales in Greater China. This diversification through original brand development and regionalization marks a new and significant phase of development in KLT’s changing integration with agro-food production networks – from a specialized ingredient supplier to an original brand manufacturer in the agro-food industry.

Source: Company’s website.

extensive and profitable relationships with MNEs and international brokers in the agro-food business, KLT does not want to be locked into a limited business segment of food processing in the global agro-food production network. By establishing its own brand of consumer products and internationalizing to Singapore and elsewhere, KLT is using assets it built at the Cavite production platform to become an original brand manufacturer in its own right.

Singapore's Freshening Industries is similarly establishing an extensive production network by building on location platforms across ASEAN. It has developed R&D and manufacturing operations in Singapore, a branding centre in Malaysia, and distribution networks in Indonesia, Myanmar, the Philippines and Thailand. This production network provides Freshening Industries with a strong basis to compete for corporate customers in various service industries, as well as work with ASEAN and foreign MNEs where warranted.

* * *

The cases described above illustrate a number of ways in which MSMEs in ASEAN are involved in regional production networks and increasingly interface with MNEs (and other indigenous MSMEs). Other cases of MNE-MSME production networks include KPT Manufacturing (Malaysia) – an MSME that manufactures plastic injection moulds for high-end precision parts for industrial and commercial products for MNEs and local corporations. Some of its customers based in Malaysia include TKR Manufacturing (M) Sdn Bhd, Mediplas Respiratory Products Sdn Bhd, Bristol Manufacturing Sdn Bhd, Synztec (Malaysia) Sdn Bhd, Brimal Holdings Sdn Bhd, Weserhoch (M) Sdn Bhd and other foreign affiliates such as (Panasonic (Japan), SDI Plastic (Australia), Spear Technologies (Ireland)). As another example, TBM-Minh Phat Plastic Co Ltd (Viet Nam) is a specialist plastic injection mould manufacturer. The company established technological collaboration in design and engineering with two Japanese companies.

Notwithstanding the role of ASEAN MSMEs, the contribution of foreign MSMEs in supporting the development of regional production networks and RVCs in the region cannot be stressed enough. They contribute to improving the support industries and the region's investment environment. Their linkages with local MSMEs and suppliers are important for building the productive capacities of local firms, including benchmarking on quality and business development.

5.5. Conclusion

FDI by ASEAN MSMEs is highly varied by industry and scope of activities. Some MSMEs have internationalized or regionalized much faster because of advanced technology platforms or effective business models. Many started from humble beginnings but have grown to become large international companies with operations in multiple locations in ASEAN and beyond. Internationalization has contributed to their growth and competitiveness; it has also extended their market reach beyond national boundaries. The number of ASEAN

MSMEs that are internationalizing is growing for a number of reasons, including economic, strategic, entrepreneurial and regional motives. ASEAN MSMEs started or owned by women entrepreneurs are also contributing to the number of successful internationalized MSMEs in and from the region.

Regional development (through the AEC) is increasing opportunities, raising awareness and encouraging MSME FDI in the region. MSMEs from some ASEAN Member States are more active direct investors than from others. The home-market environment, internationalization drivers and supporting home-country measures are important factors.

The internationalization or regionalization of ASEAN MSMEs plays an important role in supporting the realization of the AEC goals (e.g. a single market and production base) and the objectives of the ASEAN MSMEs blueprint. Their internationalization activities also help connect countries and strengthen regional integration. They contribute to the development of RVCs and regional production networks through contract manufacturing, direct investors, suppliers and franchisors in the region, thereby making ASEAN more competitive.

Through investment in the region, ASEAN MSMEs contribute to the increasing number of regionalized companies and to a growing level of intraregional investment (chapter 1). Their regional investment further contributes to commerce and business activities in ASEAN, including upgrading operations at home and improving the region's supporting industries. To the extent that they interface with local MSMEs and source inputs locally, they establish further connections with local economies, businesses and other local stakeholders (farmers, local MSMEs as suppliers), further strengthening regional integration. Their internationalization helps their home countries become more competitive through the GVCs they participate in and by inspiring others to internationalize or regionalize to grow. In some cases, where they internationalize through having built brand names at home, they inspire other MSMEs at home and in host countries to follow similar paths to competitiveness, increasing the number of regional entrepreneurs and brand names.

Foreign MSMEs are also contributing to strengthening the ASEAN MSME landscape and the region's supporting industries through their roles as investors and suppliers to major MNEs, including establishing linkages with indigenous ASEAN MSMEs. In some cases, they provide a channel for ASEAN MSMEs to participate in GVCs in connection with them and in the production networks of lead or principal MNEs. Together with large companies, they play an important role in linking ASEAN as a region to GVCs in the apparel, automotive and electronics industries. Part of that role includes establishing a high benchmark for ASEAN MSMEs to emulate and aspire to. When foreign MSMEs based in ASEAN source materials and subcontract part of their operations to ASEAN MSMEs, they forge business linkages with those local MSMEs.

The prospects for further growth in FDI in ASEAN by some Asian MSMEs (e.g. from Japan and the Republic of Korea) are promising. As more of these Asian MNEs increase their investments or scale up their operations in ASEAN, they continue to attract and encourage MSMEs from their home countries and from third countries to operate close to them as their

suppliers or contract manufacturers. Rising costs, saturated markets and home-country measures in some of these Asian countries will continue to encourage their MSMEs to go abroad. Given ASEAN's locational advantages (cost, natural resources, growing regional markets and middle-income consumers, and economic growth), regional integration and other regional pull factors, the region is in a good position to attract more FDI from MSMEs, including from ASEAN MSMEs. Although some countries, such as the United States, do not have many MSMEs in the region, many of their large MNEs have a strong presence across the region. These MNEs are involved with ASEAN MSMEs, which act as suppliers and as contract manufacturers. In some cases in the apparel and electronics industries, ASEAN MSMEs are producing indirectly for large foreign MNEs as subcontractors for international brands.

Notes

- ¹ Japanese MSMEs throughout this chapter refer mainly to Japanese SMEs, as information on Japanese microenterprises internationalization are not available.
- ² Korean MSMEs throughout this section refer mainly to Korean SMEs.
- ³ Many Korean firms have also decided to invest in parts production in Viet Nam to support the \$1.5 billion project of LG Electronics in Haiphong City.
- ⁴ A majority of Korean MSME FDI is concentrated in Viet Nam. For this reason, Viet Nam has been chosen as a major example for analysis in this subsection.
- ⁵ Information abstracted from Vietnam Breaking News (2016).
- ⁶ According to the revised version of the Small and Medium-Sized Enterprises Basic Act in the Republic of Korea, the criteria for small and medium-sized firms are as follows: (1) The three-year average sales value should be less than a certain level, which varies across different industries (e.g. apparel and textiles, lower than 150 billion Won); (2) The company asset should not exceed 500 billion Won; and (3) The company should not belong to any other business groups. Based on this national definition, the 12 cases are all Korean MSMEs although in some cases they employ many workers in their operations in ASEAN.
- ⁷ AIR 2016 research, based on communication with company executives.
- ⁸ Data for Singapore are not available. Given the high number of foreign MNEs in Singapore, the participation ratio of this ASEAN Member State is expected to be high.

Annex 5.1

FDI by ASEAN MSMEs: In-depth case studies

Barong Batik (Indonesia)

The company was established in Indonesia in 2009 by Philippine and Indonesian entrepreneurs, with a starting capital of \$1,000 and six workers. The company markets and sells barong batik products in Indonesia and the Philippines. Initially batik was sourced to sell; subsequently the two entrepreneurs partnered with a local company in Central Java to produce batik. The local Indonesian business partner employs 200 batik artisans in its factory.

The output is sold locally in Barong Batik's showroom and to department stores in Indonesia and the Philippines. Batik materials such as natural fabrics are brought in from Manila, and the batik production process is done in Central Java, Indonesia.

Internationalization

The Philippine entrepreneur invested in Indonesia because of business opportunities to source and sell high-quality batik. The existence of a good local business partner also helped in the investment decision process. The company exports its products to the Philippines to an agent, which then distributes the products to department stores in that country. Some 30 per cent of the company's revenues are generated overseas. The two owners plan to expand and open more branches in Indonesia and outlets overseas, including through franchise arrangements.

Business linkages

Raw materials for the production of batik are sourced from Lumban, Laguna and Manila, which helps create business linkages with MSME suppliers in the Philippines. In expanding the business, the owners of the company are opening up to partnership with social entrepreneurs. They plan to expand the product range to include marketing, distribution and production of accessories that use by-products of barong batik materials, as well as naturally woven fabrics from banana, bamboo, coconut or pure pineapple that can be sourced locally. The company also plans to increase imports of fabrics from the Philippines, which will support the production of batik by artisans in different Indonesian regions. These plans, when realized, could help establish more business linkages with other MSMEs in Indonesia and the Philippines.

Challenges

Barong Batik's biggest challenge relates to the ability to ship materials (fabrics) from the Philippines in bulk to Indonesia. It imports fabrics from the Philippines into Indonesia to be hand-printed with batik designs. Trade constraints limit the volume of raw materials that can be imported and thus limit expansion of the business. As an MSME, the high import tax

that Barong Batik faces adds pressure on costs. Another key challenge is access to finance for expansion.

Regional awareness and institutional support

Regional development and trading arrangements such as through the ASEAN Trade in Goods Agreement (ATIGA), when fully implemented, would help reduce tariff costs. The company hopes that the ASEAN Economic Community (AEC) will help facilitate easier trade flows of the raw materials and fabrics that it uses for the batik production in Indonesia. No institutional support has been received to start and develop the business. Financial incentives would help MSMEs such as Barong Batik grow and improve their cash flows.

ICT Group (Indonesia)

The company was established in Indonesia in 1993. It sources and trades various steel products throughout ASEAN. It also sells steel products to China, Europe, Latin America and the United States. The company has a staff of 30.

Internationalization

ICT Group has marketing and sales offices in Malaysia, Thailand, Viet Nam and China. A majority of the revenues of the company are generated abroad. It internationalized for market serving reasons and to source materials by operating close to suppliers. It is important for the company to have a presence in rapidly growing markets in the region. The initial inspiration for ICT Group's expansion abroad was the vision of the owner 23 years ago that some ASEAN Member States would witness rapid growth in demand for steel. It was a natural step for the company to do marketing and sales in Malaysia, Thailand and Viet Nam, as an export interface for its suppliers based in Indonesia .

Business linkages

The major customers and suppliers of the company vary from year to year. Most of them are steel companies and companies that produce steel products, with which ICT Group has been doing business for a long time.

Challenges

A major challenge is to convince suppliers that it is worth their while to do business with the company's buyers in the region, considering the payment and country risks. The challenges to the company for expanding include regulatory constraints (anti-dumping safeguards, compliance with national standards) that restrict the trade of steel products.

Regional awareness and institutional support

The company has some understanding of regional developments. However, it is not clear how much MSMEs will benefit from the AEC in view of various regulations and non-trade tariffs that remain in place, and given the financial constraints it faces. The AEC may be more favourable to big corporations as the region integrates. The company has never received any government support. Institutional support should aim at helping MSMEs grow by building a strong foundation first in their home countries and by providing access to finance.

Human Nature (Philippines)

The company, also known as Gandang Kalikasan, was incorporated in the Philippines in 2008 with an initial capitalization of PhP 4 million. The business, started by a family of three, manufactures, distributes and sells natural bath and body products. It hired its first local staff in December 2008 and has grown to some 360 employees, who work in the head office in Quezon City, a manufacturing plant in Carmelray Industrial Park in Laguna and a branch in Makati. Human Nature has 31 franchised branches in the Philippines, which it supplies with products.

Human Nature produces all of its products locally in its manufacturing plant in the export processing zone. The company sells and distributes its products in the Philippines through the 31 franchised branches as well as major retail chains. The company also sells its products through an online store and a direct sales hotline, which is staffed by sales agents at the head office.

Internationalization

The company has distribution offices in Malaysia, Singapore, Abu Dhabi and the United States, which were opened in partnership with local distributors. In 2016, a retail outlet was established in Abu Dhabi through a local distributor there. It is the company's first stand-alone outlet abroad. About 5 per cent of the company's revenues are generated abroad. The company plans to increase overseas revenues to 10 per cent in 2016 and to 50 per cent in five years, through a more significant overseas presence. Key reasons for internationalizing are to grow and increase sales. Overseas markets are more willing to pay higher prices for the quality products of the company.

Business linkages

The company is developing local sources of supplies with farming communities that it works with. The challenges in developing these sources are inculcating the company's values with farmers and maintaining quality standards.

Human Nature works with farming communities that supply essential oils, coconut oil, coconut-based surfactants and sugarcane alcohol for the manufacturing of its products. It is helping to develop a local supplier for cocoa butter. Its biggest supplier for packaging manufactures plastic bottles locally in Bulacan, where a majority of the packaging materials are sourced. The company also source raw materials that are not available at home from overseas suppliers (e.g. from companies in Australia, China, Taiwan Province of China, Spain and the United States).

Challenges

Consistency of quality is one of the biggest challenges in working with natural products as characteristics such as scent or colour can vary from harvest to harvest and are difficult to standardize. A key challenge in going abroad is to find partners who are aligned with the company's values and believe in its mission.

Regional awareness and institutional support

The company sees the AEC as offering an opportunity for it to more easily enter into new markets in the region since many regulations will be harmonized, a plus given the types of products that Human Nature produces and markets. The company has not received significant institutional support but has been showcased to gain publicity. The company is active in pushing the social enterprise agenda to gain more recognition for the benefits that the company can bring to society. Improving the ease of doing business and lowering transaction costs in the Philippines are important considerations for helping MSMEs grow. In addition, the environment created by such actions can also encourage more people to start businesses that will benefit many more people.

Love and Madness Clothing Corporation (Philippines)

This MSME was incorporated in 2008 by a husband and wife team who own the company. The company designs, exports, imports and distributes children clothing.

Internationalization

The company first promoted its products overseas through participation in dedicated trade fairs. It is represented by partners in Belgium, France (official distributor for Europe), the Middle East, the Republic of Korea and Singapore. It operates in Manila and Cebu, in the Philippines. All of the products for export are designed and produced locally. The company's reasons for internationalization are to increase sales, tap market opportunities abroad, promote international awareness of its products and further develop partnerships with its overseas distributors or agents. About 30–40 per cent of the company's revenues are generated overseas.

Business linkages

The company has two major distributors in the home-country and also conducts business online. It has two main suppliers, based locally. They are small printing companies that expanded to do sewing and production of children's wear.

Challenges

As a microenterprise, the company faced certain challenges in obtaining supplies and expanding markets. The cost of operation and access to finance are major challenges. The printing costs of packaging and labelling for its products can be high, and there are only a few local suppliers. Sourcing overseas (e.g. printing) can be cheaper, but orders need to be in high volume, which for a small company would be a problem. There is also a danger of product designs being copied by overseas contract suppliers. Local suppliers also have foreign clients that order in volume, so the company's small orders may not always retain priority in processing. Shipment costs are another concern. For instance, the cheapest box to go to Europe or the United States costs \$150–200. This dissuades most retailers. Given the company's small size, it faces challenges in developing brand recognition and accruing value in overseas markets.

Regional awareness and institutional support

The company is not aware of regional development and associated regional opportunities for MSMEs. It has not received any briefing in the local MSME community about ASEAN integration. The company heard about the AEC for the first time in the interview for this case study. A primer for MSMEs to explain the opportunities and limitations of the ASEAN agreement would be useful. This MSME has not received any government support or facilities to grow the business. It is not aware of institutional support programs, which need to reach out more effectively to small enterprises in the country.

Source: UNCTAD–ASEAN Investment Report 2016 research, based on interviews with companies.

Annex 5.2

FDI by ASEAN MSMEs: Shorter case studies

Britmind (Indonesia) was established in 2004 and is a service provider to the mining sector. Starting with 8 employees in 2004, the MSME has grown to over 150 employees and has a significant presence in Indonesia, as well as abroad. In particular, it has foreign subsidiaries in Australia and Singapore to serve international clients.

Petronesia Benimel (Indonesia) was incorporated in 2005 and operates as a service provider to the oil and gas industry. This MSME specializes in EPC contracting in heavy civil work and mechanical piping, and has opened an office in Malaysia in cooperation with Corrtrol Sdn Bhd to expand its market reach.

Directive Communication International (Indonesia) was incorporated in 2002. The company is a provider of leadership development, organizational culture change and management solutions to clients. MNEs that the company serves include Citibank, Dell, Emirates, Marriott, Motorola, Philips, SingTel and Toyota. The company has an office in Malaysia as well as partners in Egypt and India.

Classic Emas (Malaysia) was incorporated in 1983. The company manufactures aluminium profiles and related products as well as trading building materials. It has set up a sales and distribution office in Singapore to serve customers there.

CMC (Malaysia) was established in 1996 through a partnership between ARY Venture Sdn Bhd and Nippon-Comsys Corporation. It is an engineering-procurement-construction-commissioning company that employs fewer than 200 people. It has subsidiaries in the Philippines, Singapore and Thailand.

Techbond (Malaysia) started as a trading company in Malaysia in 1990. In 1995, it started to manufacture adhesives. In 2002, it opened a branch in Viet Nam to serve the local market, and in 2004 it started a manufacturing operation in that country.

Chalre Associates (Philippines) was incorporated in 2001. The company offers Executive Search services, specializing in ASEAN. Chalre Associates has partnered with MNEs with a focus on Cambodia, the Lao People's Democratic Republic, the Philippines and Viet Nam; and it has an international office in Singapore.

Touch Solutions Incorporated (TSI) was established in the Philippines in 2001. The company provides end-to-end information and communications technology (ICT) service to clients. TSI offers solutions in project management, software solutions and distribution services and has a foreign subsidiary in Japan.

Exist Software Labs (Philippines) was incorporated in 2001. This MSME provides enterprise solutions through consulting and other services to a wide range of services industries. Most of its clients are based in Asia, Australia and the United States. The company now has over 100 employees and an international office in the United States.

PastaMania (Singapore), incorporated in 1998 is now the largest Italian casual-dining chain in Singapore. It has over 50 stores in eight countries. It has a presence in Brunei Darussalam, Malaysia, Myanmar and China, as well as in the Middle East. It plans to open more branches in Cambodia and Myanmar and to venture to other countries in Asia and Africa.

Rotating Offshore Solutions (Singapore) was incorporated in 2004. It is an engineering, procurement, construction and commissioning solutions provider to the oil and gas industry. It works closely with major oil companies and OEM principals. It now employs about 300 employees and has an international office in India.

Rice Communications (Singapore) was incorporated in 2009. The company is a boutique communications agency and has provided services to clients such as CISCO, Mars, Bosch, Nissan and Kimberly-Clark. The company has an international office in Myanmar.

Numoni (Singapore) is a recent MSME start-up specializing in the social banking business. It was established in 2012. The company develops self-service vending machines to allow customers who do not have access to traditional banking services to conduct simple transactions, such as buying prepaid phone cards, paying bills and contributing to savings. By the end of 2014, the company had over 70 social banking terminals in Singapore. As the market became saturated, Numoni started to venture abroad by establishing offices in Indonesia, Malaysia, the Philippines and Hong Kong (China). Through local partners in other ASEAN Member States, Numoni has developed an extensive regional production network providing mobile credit services to large numbers of the unbanked populations in ASEAN.

Freshening Industries (Singapore) is a wet-wipe manufacturer that started operations in 1994. Constrained by a small local market, the company has since established a direct presence in Indonesia, Malaysia, China and Hong Kong (China). In Malaysia, its sales office, first established in 2006, is now a major branding centre for its operations in ASEAN. In Indonesia, the company now has a production facility for its wet-wipe towels, and was also involved food services in 2012. In other ASEAN Member States such as Myanmar, the Philippines and Thailand, it continues to work with local distributors to deliver its wet-wipe products to firms in food services, restaurants, hotels, health care, hospitality facilities and other outlets.

Going Beyond Asia (GBA) was established in Thailand in 1983. GBA is a travel company that offers customized travel services for clients traveling in Asia. The company has international offices in Viet Nam, China, India and Nepal.

Baezeni (Thailand) was incorporated in 2007 to offer 3D engineering services, which include 3D modelling and animation movie production, 3D civil engineering, photo editing and retouching, 2D and 3D floor-plan production, responsive web programming and design and graphical design. The company has over 60 employees and has established an international office in Viet Nam.

Phoenix Voyages Group was incorporated in Viet Nam and Myanmar as a result of a merger between two MSMEs specializing in tourism business operations. It offers travel services and has a presence in ASEAN Member States through the establishment of offices in Cambodia, Indonesia, the Lao People's Democratic Republic, Myanmar, Thailand and a few other countries in Asia.

Source: UNCTAD–ASEAN Investment Report 2016 research, based on information from companies' websites.

Annex 5.3

Case studies of selected ASEAN “born global” and “born regional” firms

IMoney (Malaysia)

IMoney was incorporated by two entrepreneurs in 2012. It is a leading financial comparison website, using technology to offer consumers a free analysis of their product needs followed by a comprehensive review of products from its provider panel. This enables consumers to avoid visiting multiple suppliers to compare products as well as enabling them to apply directly from their desktop or mobile devices using a secure application process. The company serves over 3 million visitors monthly and connect them to more than 50 banking and telecommunications partners throughout the region.

International expansion

IMoney has offices in Indonesia, the Philippines, Singapore, Thailand and China.

Access to finance

IMoney raised money in a seed round from the microventure capitalist, Asia Venture Group. It subsequently raised and closed a Series A round led by Japanese venture capitalist Jungle Ventures. The four other venture firms that participated in the Series A round include 500 Startups, an early-stage venture fund and seed accelerator from the United States.

ServisHero (Malaysia)

The company was established by two founders in 2015 and has grown rapidly since then. It is an on-demand service that links small businesses to consumers. These marketplaces for services connect small businesses to consumers directly by allowing consumers to request services through the company’s website or app.

International expansion

ServisHero has rolled out its business model to Singapore and Thailand.

Access to finance

In 2016, ServisHero raised \$2.7 million with the Singaporean/United States venture capitalist Golden Gate Ventures and Malaysian Cradle Seed Ventures. The firm raised the money within less than one year of its founding.

Kaodim (Malaysia)

The company was incorporated in 2014. It matches users with vetted and verified contractors, plumbers, electricians, personal trainers and other service providers. The contractors and service providers are reviewed by users to improve their credibility; the site also offers

customized quotations and personalized profiles.

International expansion

Kaodim has offices in the Philippines and Singapore.

Access to finance

In February 2015, Kaodim raised \$550,000 from 500 Startups (United States), East Ventures (Japan) and KK Fund (Singapore). In November 2015, Kaodim raised \$4 million, with Venturra Capital (Indonesia) as the lead investor along with 500 Startups (United States), BEENEXT (Japan) and East Ventures (Japan).

Ayannah (Philippines)

The company was founded in 2008. It is a leading provider of digital commerce and payment services to unbanked people worldwide, most of whom are at the bottom of the economic pyramid in emerging markets or are migrants in OECD countries.

International expansion

Ayannah has opened an office in Silicon Valley.

Access to finance

Ayannah raised \$2 million in a seed round in 2008 and \$1 million in 2013 from venture capitalists from Singapore and the United States. In 2014, Ayannah closed a Series A round for \$1.5 million and in 2015, closed a Series B for \$3 million.

Coda Payments (Singapore)

The company was incorporated in 2011 by three non-Singaporean entrepreneurs, young university graduates who had work experience in internet payments, management consultancy and technology companies. Coda Payments is an alternative payment gateway that enables merchants to accept payments from cardless customers in ASEAN. It partners with merchants and telecommunications companies to enable consumers to use their prepaid mobile phone balance or link up to a bank account. Customers can also pay in cash at partner convenience stores.

International expansion

Coda Payments serves markets in Indonesia, Malaysia, the Philippines, Singapore and Thailand. Its first overseas office was in Indonesia, and it plans to open offices in Malaysia and the Philippines.

Access to finance

Coda Payments raised seed capital from Golden Gate Ventures (which specializes in investment in Asia), DMP and Toivo Annus (cofounder of Skype), who predominantly invests in ASEAN. Both Toivo Annus and Golden Gate Ventures contributed to a \$2.3 million Series A round fund, along with Japanese venture capital firms CyberAgent Ventures, GMO Venture Partners and Rakuten.

Hipvan (Singapore)

The company was incorporated in 2013. It is a curated e-commerce platform that features design inspirations for everyday living. Hipvan works with partners and independent designers to reach consumers in Singapore and other ASEAN countries. HipVan's concept largely mimics United States-based e-commerce giant Fab and has replicated the business model for the ASEAN region.

International expansion

The company has overseas offices in the Philippines and Viet Nam.

Access to finance

Hipvan closed a \$1.4 million seed round in 2014, with LionRock Capital, a Hong Kong (China) venture capital firm, being the lead investor, along with Toivo Annus and DMP. Subsequently, Hipvan closed a Series A round in 2015, led by Golden Gate Ventures, along with LionRock Capital and Toivo Annus as well as East Ventures and Wavemaker Partners.

Near (Singapore)

The company was established in 2012. It is the largest location intelligence platform providing real-time information on places, people and products. The Near platform powers Allspark, its flagship product, enabling customers to visualize, engage with and analyse audience data including their location and behaviour, for data-driven decisions. To date, the company has more than 700 million profiled audiences and has put the data to work for marquee brands including P&G, Coca-Cola, Ikea, Audi, McDonald's, Toyota, Nike and Samsung.

International expansion

Near has expanded at a fast pace, with offices now in San Francisco, London, Bangalore, Tokyo and Sydney.

Access to finance

In 2012, Near closed a Series A round for \$6.5 million from United States venture capitalists Canaan Partners, JPMorgan Partners (JPMP) and Sequoia Capital. In 2014, Near closed a Series B round for \$19 million with the same venture capitalists, along with the Japanese venture capitalists Global Brain Corporation.

Ninja Van (Singapore)

The company was incorporated in 2014. It is an internet logistics company specializing in next-day deliveries for e-commerce companies. The company works as a courier provider to over 300 merchants in Singapore.

International expansion

The company has offices in Indonesia, Malaysia and Viet Nam.

Access to finance

Ninja Van closed a Series A round with Monk's Hill Ventures (Singapore) in 2015 for \$2.5 million. In 2016, it closed a Series B round for \$30 million, led by Abraaj Group (Dubai), along with Monk's Hill Ventures, YJ Capital (venture capital arm of Japan Yahoo!) and B Capital Group (United States).

Duriana (Singapore)

The company was incorporated in 2013 by founders who had experience working in internet companies. Duriana is a peer-to-peer fashion and lifestyle marketplace in South-east Asia that enables users to list items from their mobile phones as well as to browse for products from over 50,000 sellers. Users can shop in their neighbourhood or across borders, with payments being handled on the platform.

International expansion

The company has offices in Malaysia and the Philippines.

Access to finance

Duriana has closed an \$800,000 seed investment from Alps Ventures (Austria), Dealguru (Singapore) and IBuy (Singapore). In 2015, it closed a \$2.5 million Series A round from Econtext Asia and Beenos Asia (Japan).

Pomelo Fashion (Thailand)

The company was founded in 2013. It is a vertically integrated e-commerce brand providing an online shopping experience for fashion and apparel. It releases hundreds of unique styles each month under the Pomelo brand, with the aim of meeting the needs of consumers in the digital age and becoming the premier fashion brand to launch online.

International expansion

The company has offices in Indonesia, Singapore, Thailand and the Republic of Korea.

Access to finance

In 2014, Pomelo received \$1.6 million in seed funding, led by Jungle Ventures with 500 Startups, Fenox Venture Capital, Queens Bridge Venture Partners and Toivo Annus contributing to the round. Pomelo subsequently closed a Series A round in 2015 and obtained debt financing from InnoVen Capital India in 2016.

Medical Departures (Thailand)

The company was incorporated in 2014 by a serial entrepreneur. With developing countries offering medical procedures at cheaper prices and rising standards, medical tourism has become a growing market. Medical Departures exploits favoured destinations by linking customers with doctors and clinics, helping users find, compare and book appointments with medical clinics in 29 countries.

International expansion

The company has an office in Singapore, which it has registered as its headquarters. This location choice was due to venture capitalists based in Singapore that encourage their investment-backed start-ups to set up headquarters in that country. Medical Departures offers services for locations in Malaysia, the Philippines, Mexico, the Republic of Korea, and Costa Rica. With many ASEAN countries offering less expensive and good-quality health care, the region is seen as a growing market for the start-up.

Access to finance

Medical Departures raised \$2.5 million in a Series A round in 2016. The lead investor was DMP VC (Singapore); other venture funds involved include CyberAgent Ventures (Japan) and Hubert Burda (Germany).

Omise Holdings (Thailand)

The company was founded in 2013 by a serial entrepreneur. It is Thailand's leading online payment gateway, offering a wide range of processing solutions for business needs and has a growing presence within the ASEAN region. The payment gateway works on both mobiles and the web.

International expansion

Omise has offices in Indonesia and Japan, and plans to expand within ASEAN.

Access to finance

In 2014, Omise completed a \$300,000 seed round with East Ventures. In 2015, Omise closed a Series A round of \$2.6 million with SMDV as lead investor, along with 500 Startups, 500 Tuk Tuk, Ascend Capital, East Ventures, Sinar Mas Indonesia and True Incube. In 2015, Omise raised Series B funding from Golden Gate Ventures.

Get Links (Thailand)

The company was incorporated in 2015. This start-up helps developers, designers and digital marketers in Asia get jobs in tech companies and start-ups. They work with companies such as Google, Uber, LINE and Lazada to hire job seekers in Asia. They have a portfolio of customers, from start-ups that have just raised a seed investment to Series D tech companies.

International expansion

Get Links has expanded to Singapore and Viet Nam.

Access of finance

Get Links got accelerated by the 500 Startups Accelerator (United States). As a result, they received \$125,000 from 500 Startups. In 2016, Get Links received a \$500,000 seed investment from 500 Startups and CyberAgents.

Deliverree (Thailand)

The company, incorporated in 2015, is an on-demand logistics app that connects customers with transporters to move anything in metropolitan areas across South-East Asia.

International expansion

The company has offices in Indonesia and the Philippines.

Access to finance

In 2015, Deliverree closed a \$2 million investment from Thai venture capitalists, Ardent Capital and Inspire Ventures.

Appota (Viet Nam)

The company was established in 2012. It is a mobile content distribution platform that enables developers and game publishers to effectively distribute their content to the largest smartphone communities in ASEAN (where Viet Nam currently accounts for 13 million users). The company has partnered with over 10,000 developers and advertisers worldwide, including NHN, Kakao, Line, Metaps, InMobi, VNG, VTC Online and FPT Online, to bring highly localized content to end users.

International expansion

Appota has offices in Indonesia and Singapore.

Access to finance

Appota graduated from the accelerator programme at the Topica Founder Institute in 2011. Appota was then valued at \$1 million. Appota raised an undisclosed amount of Series B funding, with two investors from Japan and Singapore in 2014. In late 2015, it was reported that Appota was looking to close a Series C round of funding.

Source: UNCTAD–ASEAN Investment Report 2016 research, based on information from companies' websites.

Annex 5.4

Cases of Japanese MSMEs in ASEAN

The cases in this section are based on information from JETRO's website.

Fineplas

This MSME was established in 1967 in Toyama prefecture. It produces automotive electrical parts for large automotive manufacturing companies. Its services include mould specification, production layout, testing and mass production for clients.

As its major partner companies at home started to expand their businesses overseas to countries such as Thailand, Fineplas followed suit. In 2013, it established a subsidiary in Thailand. In the same year, it received support from JETRO and moved into JETRO Bangkok's Business Support Centre, where Japanese start-ups get support. Fineplas started operation of its Thai plant in July 2014, and its business has since grown in that host-country. The company plans to expand its networks with other subcontracting companies and local suppliers to strengthen its long-term operations in Thailand, and to open a second plant in this host-country.

Minato Rubber

This MSME manufactures rubber and resin. It was established in 1969 in Tokyo. It uses advanced technologies to produce rubber parts, resin products and precision components such as pneumatic-related products for vehicles. Faced with declining demand at home as automobile manufacturers started to produce abroad, some of its customers encouraged Minato to also operate abroad. Support from JETRO such as in information provision helped the company narrow its location search to Viet Nam. Minato established a company in Ha Nam Province (near Hanoi) in August 2013 and started production in its Vietnamese plant in 2014.

The MSME has in place a policy to train local staff. It plans to have senior local management run the operation in Viet Nam by transferring authority to them and to nurture the Viet Nam operation to grow it into a reliable subsidiary. The plant in Viet Nam was not set up primarily for cost reduction motives. Increasing sales and profits were key determining factors for the location choice.

Metal Products Inc.

This MSME mainly processes furring for roofs and wall materials for buildings as well as lightweight iron frames for solar panel mounting structures. The company started looking into investing in Indonesia when it had an intern from this ASEAN Member State.

Through meetings with local Indonesian companies, Metal Products decided to enter into a joint venture with a local company rather than invest through a wholly owned operation. As a result of its technical capability and network capacity, Metal Products was able to sign a prospectus with a large local manufacturer in December 2015.

Ogawaya

This MSME, established in Shimabara city in 1926, manufactures and sells noodles. The owner became interested in investing overseas after a visit to Bangkok eight years ago. The company was initially interested in exporting noodles to Bangkok, but the interest shifted towards opening a restaurant.

In 2014, the owner participated in “Thailand: Discover New Tastes from Japan”, an event hosted by JETRO in Bangkok. During this fair, the owner found a local Thai business partner. Ogawaya subsequently received support from the Bangkok JETRO office and Japanese bankers based in Thailand for it to start an operation in the host country. It opened a restaurant, “Kinshiro”, with a Thai partner in Bangkok in December 2014.

The chef sources locally grown vegetables, meat and eggs from a market on a daily basis. The restaurant also imports specialty noodles directly from the company’s factory in Japan. This MSME plans to open more chain restaurants and has targeted opening a second outlet in a suburb of Bangkok. It is also planning to set up a noodle factory in Thailand.

Toyoda Giken

Toyoda Giken was established in 1959 in the Gunma Prefecture. It specializes in production of press parts for automotive lights, design and production of precision press moulds, heat resistant coatings and surface treatments. In July 2006, it established a manufacturing hub for a metallic press and plating factory in the Noibai Industrial Zone in Hanoi. The motivation for the investment is to meet demands for price reduction by domestic and North American customers.

After the investment in Viet Nam, the business grew rapidly, with growing numbers of orders from customers in Indonesia, Thailand and India. In 2016, the company established an operation hub in Thailand and plans to develop its sales channel throughout ASEAN. In both the investment projects, the company received support from JETRO.

Source: JETRO.

Annex 5.5

Cases of Korean MSMEs in ASEAN

Nearly all of the 12 cases of Korean MSMEs in this annex are in the apparel industry and have multiple factories in ASEAN.

Hyun Jin Corporation

Hyun Jin was established in 1987 in the Republic of Korea.¹ It started as an OEM manufacturer of extreme sports apparel such as gloves and race pants in 1989. The company was then independently incorporated in 1991. It mainly manufactures gloves and apparel (pants, jerseys and jackets).

Operations in ASEAN

Hyun Jin has three factories in Viet Nam and plans to establish a fourth. The first, a glove production factory, was set up in 2003 in the Nam Sach Industrial Zone. In 2005, after two years of operation, Hyun Jin established additional manufacturing facilities for producing race pants in the same place.

In 2006, the company constructed a second factory, in Gia Loc, for producing gloves, pants and jerseys. The factory started OEM manufacture of Mx Jersey. In 2010, Hyun Jin launched the third factory in Kim Lien, Nghe An Province, to produce high-end work wear. In 2011, it then established the gloves and garments facilities and expanded the production capacity of the third factory in Kim Lien (annex table 5.5.1). The company exports these products to the United States as well as to countries in the European Union, Oceania and elsewhere, through both OEM and ODM. The major customers are German firms for racing apparel; French firms for ski, golf, cycle, firefighting and gardening gloves; and United States firms for military gloves.

Annex table 5.5.1. Hyun Jin factories in ASEAN

Country	Factory name	Year	Location	Production item
Viet Nam	Nam Sach	2003	Nam Sach Industrial Zone	Gloves
		2005 (expansion)	Nam Sach Industrial Zone	Racing pants
	Gia Loc	2006	Gia Loc	Gloves, pants, jerseys
	Kim Lien	2010	Kim Lien, Nghe An Province	High-end work wear
		2011 (expansion)	Kim Lien, Nghe An Province	Gloves and garments

Source: Hyun-Jin (www.hyun-jin.com/eng).

Sees Global

Sees Global was established in 1970 to produce winter sports gear for skiing and snowboarding.² It has since expanded its product coverage into four-season sports gear for the outdoors; bicycling, motorcycling and fitness gloves; and industrial safety gloves.

The company currently accounts for 20 per cent of the world's sports glove production.

Operations in ASEAN

Sees Global has many overseas production factories, including in Cambodia and Viet Nam. The factory in Viet Nam was established in 2008 with 1,000 employees, and then expanded in 2011; it now employs 2,000 workers. The Cambodian subsidiary was founded in 2015. Sees Global has built a strong partnership with the world's top sports brands (e.g. The North Face, Ziener, Reusch, Lafuma, Head), including some Korean ones (e.g. Fila, Nepa, Kolon Sport). Its factories in Cambodia (SEES Cambodia in Phnom Penh) and Viet Nam (SEES Vina in Hai Duing Province) supply to some of these top brands.

MSA

MSA was established in 1992 to produce pants (e.g. outdoor performance, snowboard, and girls' and boys' pants) and jackets (e.g. down and wellon jackets for snowboarding, toddler's jackets) for domestic and global clients.³

Operations in ASEAN

In ASEAN, MSA has established overseas factories only in Viet Nam, where it opened an office in 1995; after the mid-2000s, it established a subsidiary with two factories. The two factories were established in Hanoi in 2000 and 2006, and the subsidiary – MSA VN – in 2007. The major function of the subsidiaries is to handle direct orders from customers and product orders from the head office in the Republic of Korea. MSA VN is also responsible for new development, sample production, sourcing and some high-tech functions, such as laser cutting and special wash finishes.

Since 2010, the company expanded its operations in Viet Nam by opening two factories – one in 2010 and the other in 2011. Unlike its other factories in Viet Nam, MSA Dong-do was established by acquiring a local company (Dong-do); MSA YB was the only factory located outside Hanoi (annex table 5.5.2). All the factories produce mainly pants and jackets.

Annex table 5.5.2. MSA factories in ASEAN

Country	Factory name	Year	Location
Viet Nam	MSA Hapro 1	2000	Saidong B Industrial Zone, Gialam, Hanoi
	MSA Hapro 2	2006	Phonoi A Industrial Zone, Hungyen, Hanoi
	MSA VN	2007	Tu Liem, Hanoi
	MSA Dong-do	2010	Tu Liem Small and Medium Industrial Complex, Tu Liem, Hanoi
	MSA YB	2011	Tuyen Quang City, Tuyen Quang Province

Source: MSA (www.msa.co.kr).

Suy Co, Ltd

Suy, founded in 1991, is a textile company producing and exporting garments. In 2014, the company earned sales revenue of \$250 million.⁴

Operations in ASEAN

Suy's overseas factories are located in four countries – three in ASEAN (i.e. Indonesia, the Philippines and Viet Nam) and one in Guatemala. Its factories in the Philippines and Viet Nam manufacture knitwear, employing about 5,000 and 4,000 local workers, respectively. The 5,000 workers in its Indonesian factories produce men's and ladies' knitwear. Another feature of Suy's operation is that it has not only established wholly owned factories, but also is actively involved with outsourcing arrangements (annex table 5.5.3). These products are mainly exported to major retailers in the United States (e.g. Ann Taylor, Express, Lands' End and Loft) as part of OEM contracts.

Annex table 5.5.3. Suy factories in ASEAN

Country	Factory name	Year	Location	Employment	Relationship
Indonesia	PT Hanoi Indonesia	1999	Bekasi Timur	L: 1,500 K: 5	Subcontractor
	PT Leaders World	2005	Jawa Barat	L: 1,600 K: 6	Fully owned
	PT Inkosindo	2008	Jakarta Utara	L: 1,500 K: 5	Subcontractor
Philippines	Dong Seung Incorporated	1995	Rosario, Cavite	L: 867 K: 4	Subcontractor
	LS PHIL	1998	Rosario, Cavite	L: 1,700 K: 7	Fully owned
	Lee and Choi	2011	Rosario, Cavite	L: 2,300 K: 6	Subcontractor
Viet Nam	Dongbang Co., Ltd	2005	Ho Chi Minh City	L: 550 K: 2	Subcontractor
	L&S Vina Co., Ltd	2006	Thuan An District, Binh Doung Province	L: 900 K: 6	Fully owned
	Lee and Vina Co., Ltd	2006	Thuan An District, Binh Doung Province	L: 1,800 K: 10	Fully owned
	SS Vina Co., Ltd	2006	Thuan Giao, Thuan An Binh Doung Province	L: 580 K: 7	Subcontractor

Source: Suy (www.suy.co.kr/gnu/bbs/index-eng.htm).

Gomundang Printing Inc.

Gomundang Printing, established in 1962, provides printing and packaging services.⁵ Before 2000, it mainly served the Korean domestic market by concluding agreements with various business departments of LG Electronics, its main customer. It now has a presence overseas, serving Korean and international customers based in various host countries.

Operations in ASEAN

Gomundang established three of its overseas factories in China (in Haeju in 2001, in Tsingtao in 2004, and in Tianjin in 2007) and one in Viet Nam (in Hanoi in 2009). These factories target foreign buyers and provide them with printout, box and label development services (Maeil News 2010). The company contracts with Korean firms (e.g. LG Electronics, CJ Cheil Jedang) and foreign subsidiaries in the Republic of Korea (e.g. Nokia) for the delivery of printouts and other strategic packaging business activities. Over the past decade, Gomundang has also continuously engaged in expanding overseas.

Dada

Dada was established in 1974 to manufacture headwear.⁶ It has expanded its business portfolio to knitwear and bags, and has grown into a leading diversified textile products company. Dada has four main businesses: headwear, apparel, bags and IT businesses. As the world's leading headwear manufacturer, it accounts for 45 per cent of the global market for sports caps.

Operations in ASEAN

The early mover in establishing overseas production facilities in the headwear industry, Dada has six global operations located in four countries – Indonesia, Viet Nam, Bangladesh and China. The company provides various ODM products, partnering with about 80 major global retailers.

The Indonesian production facilities (PT Dada Indonesia) were established in 1984 for knitwear production, and 50 knit lines were added in 2007. The company's major global customers include Adidas, Reebok, Gap, Walmart and Sears.

Dada has two factories in Viet Nam. UNIPAX Co., Ltd. was established in 2002 in Bien Hoa City, Dong Nai Province, to produce headwear. Unlike most headwear manufacturers, which use subcontractors and dyes to print logos, Dada uses in-house embroidery. Its major customers include Nike, Adidas and Callaway. Dada's other factory in Viet Nam (Moland Co., Ltd) was established in 2006, in Trang Bom District, Dong Nai Province, to produce handbags, casual bags and backpacks. This factory also does in-house printing and embroidery, CAM cutting and laboratory testing.

Molax Trading

Molax Trading, established in 1996, is in the apparel business.⁷ Its main business today is manufacturing women's outerwear.

Operations in ASEAN

Molax opened manufacturing plants in four cut-sew-knit factories in Indonesia and one in Viet Nam. It established its first overseas manufacturing plant in Indonesia in 1997; today, it has four factories in Indonesia. Its factories in Viet Nam were established in the early 2000s (annex table 5.5.4). The scale of the Vietnamese factory is smaller than those of the Indonesian ones. For example, the number of sewing lines in the Vietnamese factory is 12. This is comparable to the second and third Indonesian factories, which each have about 15 sewing lines. However, the larger-scale factories (the first and fourth) in Indonesia have many more sewing lines – one has 28 lines, and one has 38 lines.

Because of the differences in production capacity among factories, the employment scale also varies. The Vietnamese factory employs 800 people, whereas the Indonesian factories employ 1,100 to 2,500 people. The products manufactured in the overseas plants are provided to both Korean and foreign retailers and wholesalers, such as Gap, Walmart, H&M, Who.A.U, Target and Sears.

Annex table 5.5.4. Molax factories in ASEAN

Country	Factory name	Year	Location
Indonesia	PT Molax International	1997, 2004	Cakung Jakarta
	PT Amos Indah	2000	Cakung Jakarta
	PT Molax Global Sukabumi III	2006	Sukabumi Provinsi Jawa Barat
	PT Busana Indah Global	2013	Cakung Jakarta
Viet Nam	Molax Vina Co, Ltd	2002	Binh Chanh District, Ho Chi Minh

Source: Molax Trading (www.molaxtrading.com/index.html).

Kyung Seung Co., Ltd

Kyung Seung Co., Ltd, founded in 1994, is a cut, sewn and knit specialized apparel company.⁸ It offers a broad spectrum of cut, sewn and knit products such as novelty tops and dresses and sportswear, as well as design (product design and development) services.

Operations in ASEAN

Kyung Seung has six overseas manufacturing plants, three each in Indonesia and in Viet Nam (annex table 5.5.5). The factories in Viet Nam have a combined capacity of 69 lines, accounting for about two-thirds of the company's foreign production by 2016. The Indonesian factories have a capacity of 44 lines, accounting for the remaining one-third.

In 2016, Kyung Seung expanded its production in Viet Nam by more than 30 per cent and reduced production output in the Indonesian factories. The company plans to further expand production capacity in the Viet Nam factories in 2017, to 77 lines for the VINA CKGF factory and to 48 lines for the VINA KNF factory. To enhance its speed advantage, the company localizes working processes and uses local suppliers of raw materials. United States and Swedish retail fashion companies are its main customers. The leading ones are four American retailers (Gap Inc., receiving 36 per cent of Kyung Seung's production;

Ann Inc. at 20 per cent; Chico and WHBM, 16 per cent; and Talbot, 11 per cent) and one Sweden-based company (H&M, 9 per cent). Sales to these five companies accounted for 92 per cent of Kyung Seung's sales by 2016.

Annex table 5.5.5. Kyung Seung factories in ASEAN

Country	Factory	Location
Viet Nam	Vina Kyungseung Trading Co, Ltd	Hanoi and Ho Chi Minh
	Vina CKGF Co, Ltd	
	Vina KNF International Co, Ltd	
Indonesia	PT Tiga Kyung Seung Garmen	Jakarta, Subang and Bekasi
	PT Gunung Abadi	
	PT Kyung Seung Global	

Source: Kyung Seung (www.kyungseung.com).

Dong-In Entech Co., Ltd

Dong-In was established in 1992 to produce aluminium tubes and extruded products.⁹ It has grown into a company well known globally for manufacturing four kinds of high-quality technical products: packs, aluminium frames, aluminium forging, and injection and injection moulding. Its leading products are backpacks, hydration backpacks, travel luggage, climbing harnesses, car seats and stretchers. Dong-In accounted for about 40 per cent of the global ODM backpack market in 2013.

Operations in ASEAN

Dong-In now has seven factories in the Philippines and one in Viet Nam. The first factory was established in the Philippines in 1996. Most of the other factories in the Philippines and in Viet Nam were established in the 2000s (annex table 5.5.6). The company provides its products to high-end global outdoor brands from the United States, Canada, Switzerland and Japan, through ODM and OEM. A Korean operations centre employing more than 100 workers is in charge of overseas operations, procurement of materials, management support, product design and development.

Dong-In's factories in ASEAN engage in less sophisticated production activities, such as sewing and post-processing of aluminium. However, to improve factory productivity, Dong-In transfers manufacturing systems and skills to local factories. Dong-In employs 800 staff to examine the quality of products, which account for almost 10 per cent of its overseas employment (Hankyung 2013).

Annex table 5.5.6. Dong-In Entech factories in ASEAN

Country	Factory name	Year	Location
Philippines	Dong-In Entech K-1, Inc	1996	Phase 11 Bataan Economic Zone, Mariveles, Bataan
	Mountaineering Instrument	2001	
	East Cam Tech Corporation	2002	
	ALMATECH Manufacturing Corporation	2003	
	Edge Soft Good Solution, Inc	2005	
	Dong-In Dawn Patrol Manufacturing Corporation	2009	
	Dong-In Sunbirds Corporation	2013	
Viet Nam	Dong In Entech Vina	2007	Dat Do District, Baria-Vung Tau Province

Source: Dong-In (<http://dong-in.com/home/en>).

PSMC

PSMC, established in 1978, is an electronics parts and die manufacturing company.¹⁰ It first started producing lead frames, one of the core components of semiconductors, in 1985. It has grown to become the largest stamping lead frame supplier in the Republic of Korea and the 10th largest in the world. More than 70 per cent of its sales are exports.

Operations in ASEAN

PSMC's only overseas subsidiary was established in 1996 in the Clark Special Economic Zone in the Philippines, to strengthen its sales network and achieve price competitiveness. This subsidiary, which started mass production in 1998, manufactures electronics parts and moulds. Whereas PSMC's Korean factory produces high-tech products, its factory in the Philippines manufactures relatively low-tech products such as power transistors and universal integrated circuits. The company supplies its products to more than 70 Korean and foreign clients around the world.

FTN

FTN was founded in 1974 as a specialty garment manufacturer in the LG Group.¹¹ The company separated from the LG Group in 2002.

Operations in ASEAN

Since 2003, FTN has established overseas manufacturing plants in Indonesia, the Philippines and Viet Nam. The three factories account for the company's global production (annex table 5.5.7). By 2015, Viet Nam accounted for 70 per cent of global production, followed by the Philippines (25 per cent) and Indonesia (5 per cent). FTN sources both good-quality and low-cost materials from around the world and supplies its products to buyers worldwide. Its more value added activities, including market research and technology R&D investment, are conducted in the Republic of Korea.

The factory in Viet Nam, established in 2006, produces and exports apparel for global fashion brands such as DKNY, Burberry and Calvin Klein. As factory capacity grew, employment has also increased to 1,000 people – more than three times the number employed in 2006.

Annex table 5.5.7. FTN factories in ASEAN

Country	Factory	Year	Location
Philippines	FTN Garment Corporation	2003	Maguyam, Silang, Cavite
Viet Nam	FTN Vietnam Co, Ltd	2006	Ben Cat, Binh Duong Province
Indonesia	PT Fajar Tunggal Nasional	2013	Jawa Barat

Source: FTN (www.forthenew.com/index.php).

Sungshin Global

Sungshin Global was established in 1987. It specializes in manufacturing advanced footwear materials and parts (e.g. soles).

Operations in ASEAN

Sungshin has three factories, one each in Indonesia, Thailand and Viet Nam, established between 1994 and 1997. These factories mainly produce various injection soles (e.g. midsoles, unit soles, functional soles) and sandals for global sports brands such as Nike, Adidas, Reebok, Puma, K-Swiss and New Balance.

In establishing the overseas factories, Sungshin formed joint ventures (usually with 50–70 per cent ownership) with local firms. The local firms are responsible for dealing with various document processes for permissions and for management of local human resources, whereas Sungshin Korea conducts technology development, marketing, and other related and supporting activities. The factories are equipped with the latest production processes (e.g. anti-gloss advanced process, post-curing system, multicolour and/or multidensity insertion) and equipment to maintain high productivity in the production of high-quality footwear materials.

Source: UNCTAD–ASEAN Investment Report 2016 research, based on information from companies' websites.

Annex 5.6. Selected Korean MSMEs in ASEAN

Country	Firm	Industry	Employment (2015)		
			Korean	Local	Total
Cambodia	In Kyung Cambodia Co, Ltd	Apparel	3	2,500	2,503
	Dai Young Cambodia Co, Ltd	Apparel	3	1,500	1,503
	Hyunjin Cambodia Corporation	Apparel	3	1,500	1,503
	Sam II International	Apparel	1	700	701
	Meta Biomed Co, Ltd	Chemistry and pharmacy	2	500	502
	Wooyun (Cambodia) Co, Ltd	Footwear	4	400	404
	KTC Cable Co, Ltd	Electronics and electric equipment and components	5	270	275
	MH Bio-Energy Co, Ltd	Chemistry and pharmacy	7	200	207
	Sungshin Construction	Construction	2	100	102
	Hye Sung Cambodia Co, Ltd	Construction	1	84	85
Indonesia	KMK Global Sport	Apparel	5	13,000	13,005
	Doosan Cipta Busana Jaya	Apparel	-	12,000	12,000
	Dada Indonesia	Apparel	4	4,700	4,704
	Misung Indonesia	Other manufacturing	10	4,000	4,010
	Kido Jaya	Apparel	9	4,000	4,009
	Semarang Garment	Apparel	1	2,810	2,811
	Hanil Indonesia	Textile and leather	4	2,505	2,509
	PT Bokung	Apparel	9	2,300	2,309
	PT Visionland Semarang	Apparel	2	2,303	2,305
	Molax Internasional	Apparel	1	2,303	2,304
Lao People's Democratic Republic	Seodong Co, Ltd	Construction	-	-	-
Malaysia	Dongkuk Techco Rubber Industries Sdn Bhd	Rubber and plastics	1	120	121
	Seoul Electronics & Telecommunications (M) Sdn Bhd	Electronics and electric equipment and components	5	100	105
	Shin Heung Electronics Malaysia Sdn Bhd	Metals	7	85	92
	Jeil Electronics (M) Sdn Bhd	Electronics and electric equipment and components	2	53	55
	Sam Chang Precision (M) Sdn Bhd	Electronics and electric equipment and components	2	38	40
	Wonpoong Corporation (M) Sdn Bhd	Wholesale and retail	3	50	53
	Kornet Express Sdn Bhd	Service	2	42	44
	Giosis Sdn. Bhd	Wholesale and retail	6	34	40
	YCP Trading Corporation Sdn Bhd	Construction	4	30	34
	Parts-Mall Malaysia Sdn Bhd	Wholesale and retail	1	28	29
Myanmar	World Apparel MFG, Co, Ltd	Textile and leather	4	2,000	2,004
	Dragon State Ltd	Apparel	4	1,800	1,804
	S.M.K International Co, Ltd (Yangon)	Apparel	2	1,200	1,202
	Myanmar Samgong Industrial Co, Ltd	Rubber and plastics	1	120	121
	Myanmar TS Happiness Corporation	Textile and leather	2	40	42
	Bosung Powertec Co, Ltd	Electronics and electric equipment and components	1	2	3
	Myanmar DOORA Logistics Co, Ltd	Transportation	2	13	15
	Gunhong International Co, Ltd	Service	1	6	7
	Sea Road Global Logistics	Transportation	2	5	7
	Green Sky Myanmar Tour	Service	1	-	1
Philippines	Dong-In Entech KI, Inc	Metals	25	7,000	7,025
	Yu Jin Optical Electronics, Inc	Electronics and electric equipment and components	8	1,800	1,808

Annex table 5.6. Selected Korean MSMEs in ASEAN (concluded)

Country	Firm	Industry	Employment (2015)		
			Korean	Local	Total
	Moatech Manufacturing Philippines, Inc	Electronics and electric equipment and components	4	1,600	1,604
	LS Phil, Inc	Textile and leather	4	1,300	1,304
	FTN Garments Corporation	Textile and leather	1	1,100	1,101
	Danam Philippines, Inc	Electronics and electric equipment and components	3	900	903
	Sein Together International Philippines Inc	Textile and leather	5	750	755
	Academy Plastic Model Toy Co, Inc	Rubber and plastics	5	340	345
	Ju-young Electronics Philippines, Inc	Metals	4	260	264
	Hitec RCD Philippines, Inc	Electronics and electric equipment and components	5	250	255
Singapore	Beaucre Singapore Pte Ltd	Wholesale and retail	-	15	15
	SJ Marble(S) Pte Ltd	Construction	10	4	14
	DHI Engineering & Trading Pte Ltd	Wholesale and retail	-	14	14
	Majuko Enterprise (S) Pte Ltd	Wholesale and retail	1	10	11
	MDS Pacific Pte Ltd	Wholesale and retail	1	4	5
	Mobile Credit Payment Pte Ltd	Finance and insurance	1	5	6
	Sunstar Machinery (S) Pte Ltd	Wholesale and retail	1	4	5
	Otronix Hydrosphere Pte Ltd	Wholesale and retail	2	2	4
	IGM Global Singapore Pte Ltd	Business facilities management and support	1	-	1
	SMC Shin Heung Machine (S) Pte Ltd	Electronics and electric equipment and components	-	3	3
Thailand	Dae-A Electronics (Thailand) Co, Ltd	Electronics and electric equipment and components	7	765	772
	Thai Woo Ree Engineering Co, Ltd	Construction	10	510	520
	Thai Sungshin New Material Co, Ltd	Textile and leather	1	500	501
	Thai Seshin Enf Co, Ltd	Rubber and plastics	6	370	376
	T.D.K Industrial Co, Ltd	Metals	3	350	353
	Sung In Electronics (Thailand) Co, Ltd	Electronics and electric equipment and components	6	300	306
	Get Plus (Thailand) Co, Ltd	Electronics and electric equipment and components	2	250	252
	Thai Tae Sung Co, Ltd	Other manufacturing	-	242	242
	Thai Kumnung Co, Ltd	Electronics and electric equipment and components	7	230	237
	Corrupad Thailand Co, Ltd	Other manufacturing	1	220	221
Viet Nam	Hai Vina Co. Ltd.	Apparel	20	7,000	7,020
	Sung Shin Vietnam Co., Ltd.	Other manufacturing	23	6,700	6,723
	Seshin Vietnam	Apparel	23	6,700	6,723
	Sung Hyun Vina JSC	Apparel	33	5,000	5,033
	Ivory Viet Nam Thanh Hao Co, Ltd	Textile and leather	9	3,365	3,374
	Shilla Bags International Co, Ltd	Apparel	18	3,000	3,018
	Mobase Vietnam Co, Ltd	Electronics and electric equipment and components	450	2,300	2,750
	Daeyang Hanoi	Electronics and electric equipment and components	12	2,500	2,512
	Samil Hanoi Vina Co, Ltd	Apparel	8	2,400	2,408
	Sam Bu Vina Sports	Apparel	12	2,200	2,212

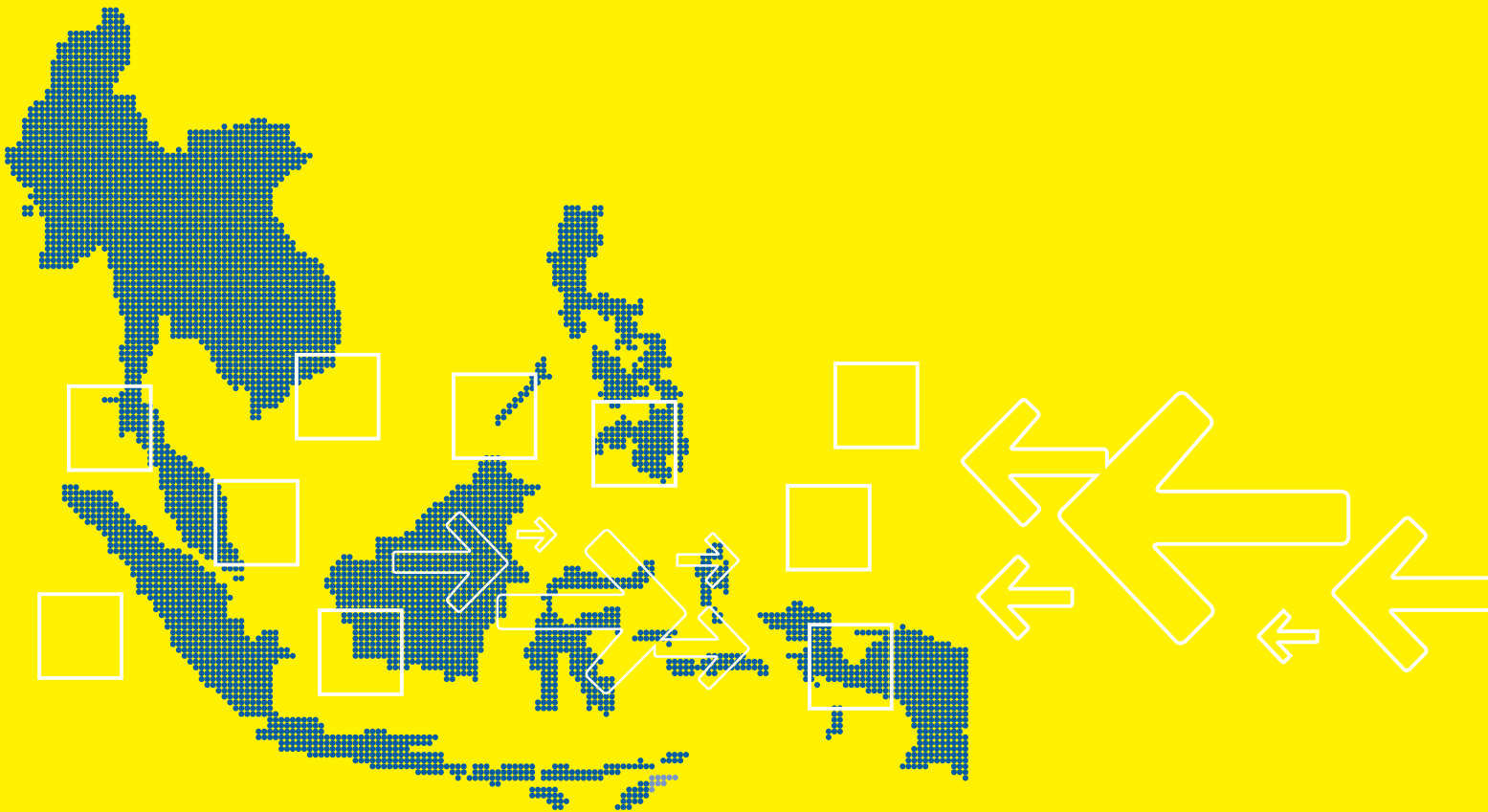
Source: www.ois.go.kr.

Note: Some of Korean MSMEs' overseas subsidiaries in ASEAN Member States were selected on the basis of the number of their overseas employees. KOTRA's Overseas Investment Information System includes the overseas corporations and branches established by both large firms and MSMEs. The criteria for selection are based on the relatively large number of employees of foreign-established corporations and the availability of company websites and related information about the overseas plants.

Notes

- ¹ Information is abstracted from the company website, www.hyun-jin.com/eng.
- ² Information abstracted from the company website, <http://eng.sees.co.kr>.
- ³ Information abstracted from the company website, www.msa.co.kr.
- ⁴ Information abstracted from the company website, www.suy.co.kr/gnu/bbs/index-eng.htm.
- ⁵ Information abstracted from the company website, www.gomun.co.kr/eng/index.php.
- ⁶ Information abstracted from the company website, <https://e-dada.com:446/main/index.asp>.
- ⁷ Information abstracted from the company website, www.molaxtrading.com/index.html.
- ⁸ Information abstracted from the company website, www.kyungseung.com.
- ⁹ Information abstracted from the company website, <http://dong-in.com/home/en>.
- ¹⁰ Information abstracted from the company website, <http://eng.psmc.kr>.
- ¹¹ Information abstracted from these websites: www.forthenew.com/index.php and www.kookje.co.kr/news2011/asp/newsbody.asp?code=2500&key=20070927.22016201033.

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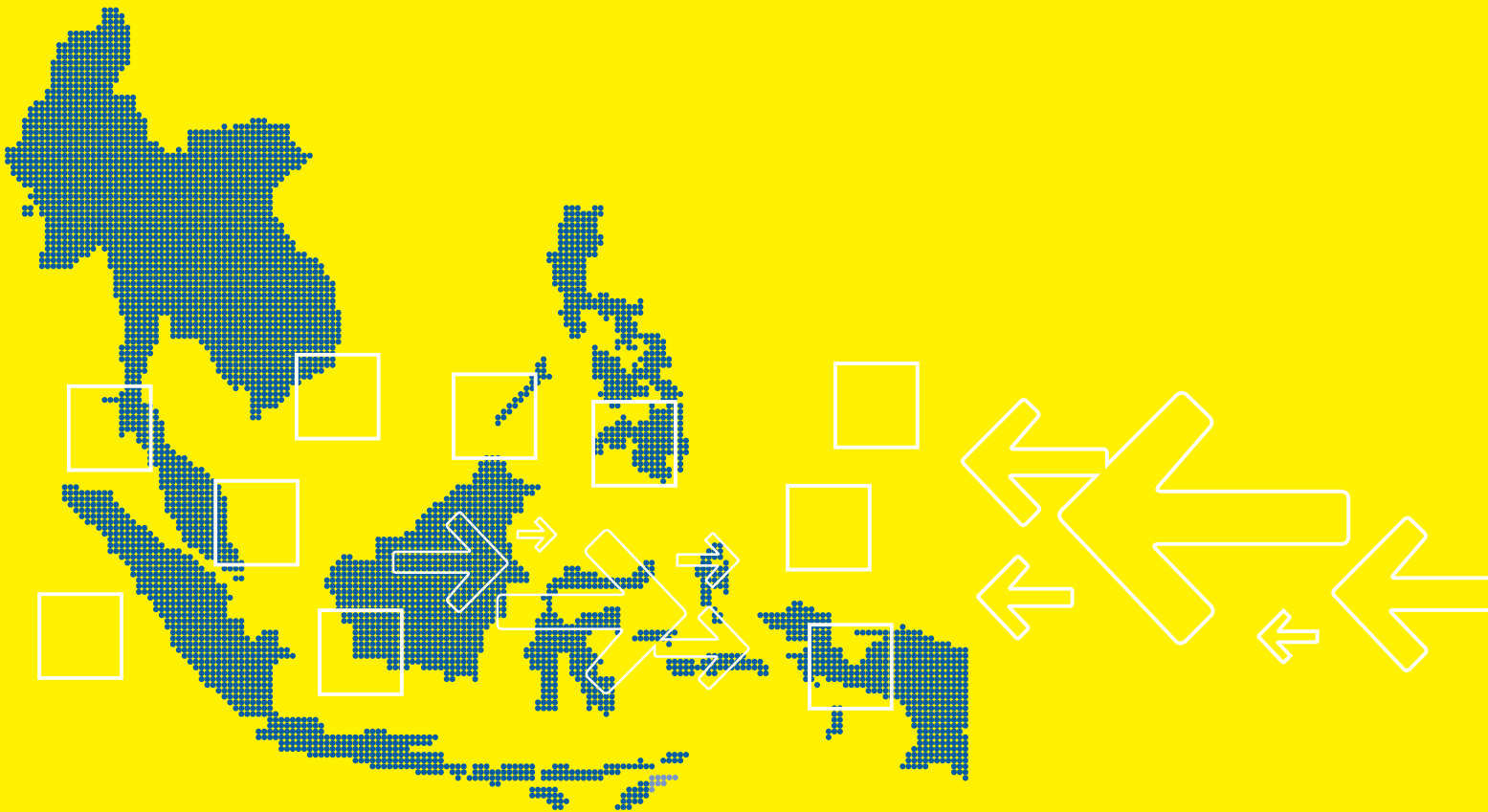
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ANNEXES



Annex table 1.1.

FDI flows in ASEAN, by selected economies and regions, 2010–2015
 (Millions of dollars)

Source countries	2010	2011	2012	2013	2014	2015
Intra-ASEAN	16,306.6	15,198.1	23,961.4	19,562.2	22,134.5	22,149.0
Australia	3,958.6	4,656.1	609.6	2,587.7	6,281.5	5,193.0
Canada	1,303.3	931.0	3,498.8	,816.8	1,679.0	,892.8
China	3,488.6	7,160.3	8,069.9	6,426.2	6,990.1	8,155.3
European Union 28	21,145.1	24,190.2	1,669.9	24,511.3	24,989.9	19,666.5
European Union 15	18,452.9	23,661.1	533.4	24,844.1	23,751.1	18,848.1
Austria	195.6	5.5	499.6	420.5	101.1	-65.4
Belgium	-384.6	4,692.1	-2,942.4	481.5	197.0	814.7
Denmark	1,679.4	557.1	1,469.8	-568.7	35.6	2,692.5
Finland	525.4	-870.8	535.6	358.0	-55.9	184.8
France	1,575.6	4,518.7	,414.1	1,106.5	2,760.8	,717.7
Germany	796.9	-84.1	-166.2	-639.1	67.6	409.2
Greece	2.3	3.6	2.5	2.6	0.9	3.4
Ireland	248.3	-2,961.1	-1,946.4	1,844.2	1,821.1	-860.6
Italy	9.6	-31.1	-315.5	180.3	-38.7	124.4
Luxembourg	6,747.8	3,485.6	889.1	3,366.7	7,997.0	185.1
Netherlands	1,139.5	5,445.7	9,718.1	12,450.1	2,699.4	7,907.3
Portugal	-2.9	7.9	-3.2	-14.5	5.8	24.6
Spain	259.4	-54.5	-445.0	276.0	262.0	41.7
Sweden	177.7	-414.7	539.6	-156.0	314.0	-29.0
United Kingdom	5,483.0	9,361.2	-7,716.3	5,736.0	7,583.4	6,697.8
Other European Union countries	2,692.3	,529.1	1,262.1	-457.8	1,120.0	-0.8
India	3,801.2	-1,962.1	6,629.0	2,100.9	605.9	1,254.4
Japan	12,987.0	8,284.1	14,850.8	24,750.2	15,705.4	17,395.2
New Zealand	339.5	43.7	-1,488.5	335.9	550.0	2,241.1
Pakistan	29.4	9.1	46.4	-2.1	6.2	-10.5
Republic of Korea	4,319.3	1,686.9	1,343.5	4,303.3	5,750.7	5,680.2
Russian Federation	54.5	10.1	189.1	607.9	-113.2	-28.9
United States	13,682.1	9,039.7	19,844.6	7,157.2	14,748.5	12,191.5
Memorandum						
Six RCEP partners	28,894.1	19,869.0	30,014.2	40,504.2	35,883.7	39,919.3
Total FDI flows in ASEAN	108,174.8	86,838.8	117,099.3	124,864.5	129,995.1	119,974.8

Source: ASEAN Secretariat, ASEAN FDI database.

Annex table 1.2. Foreign companies invest in ASEAN through M&As, 2015 (selected cases)
(Millions of dollars and per cent)

Ultimate acquiring company	Ultimate acquiring nation	Target company	Target nation	Target industry	Value	Shares acquired	Shares owned after
Kintetsu World Express Inc	Japan	APL Logistics Ltd	Singapore	Railroads, line-haul operating	1 200	100	100
Jiangsu Changjiang Electronics	China	STATS ChipPAC Ltd	Singapore	Semiconductors and related devices	755	97.36	97.4
COFCO Corporation	China	Noble Group Ltd-Agriculture Business	Singapore	Grain and field beans	748	49	100
Investor Group (Jardine Matheson)	Hong Kong, China	Siam City Cement PCL	Thailand	Cement, hydraulic	682	27.5	27.5
Kirin Holdings Co Ltd	Japan	Myanmar Brewery Ltd	Myanmar	Malt beverages	560	55	55
Coca-Cola Co	United States	Coca-Cola Amatil Indonesia PT	Indonesia	Bottled and canned soft drinks and carbonated waters	500	29.4	29.4
Sumitomo Corporation	Japan	Bank Tabungan Pensiunan Nasional Tbk PT	Indonesia	Banks	462	17.5	17.9
Sabre Corporation	United States	Abacus International Pte Ltd	Singapore	Arrangement of passenger transportation, nec	411	65	100
Cathay Financial Holding Co	Taiwan Province of China	Rizal Commercial Banking Corporation	Philippines	Banks	398	21.95	21.9
Mondelez International Inc	United States	Kinh Do Binh Duong JSC	Viet Nam	Cookies and crackers	370	80	80
KKR & Co LP	United States	United Envirotech Ltd	Singapore	Air and water resource and solid waste management	365	29.65	59.3
Suez Environnement SA	France	SembSita Pacific Pte Ltd	Singapore	Investors, nec	348	40	100
Cerberus Capital Management LP	United States	GIC Real Estate Pte Ltd	Singapore	Hotels and motels	332	100	100
Metro AG	Germany	Classic Fine Foods (S) Pte Ltd	Singapore	Food preparations, nec	328	100	100
Donaco International Ltd	Australia	Star Vegas Resort & Club Co Ltd	Cambodia	Hotels and motels	302	100	100
Cheung Kong(Holdings)Ltd	Hong Kong, China	BOC Aviation Pte Ltd	Singapore	Air transportation, scheduled	279	100	100
Cathay Financial Holding Co	Taiwan Province of China	Bank Mayapada Internasional Tbk PT	Indonesia	Banks	257	24.9	24.9
Sanyo Foods Co Ltd	Japan	Olam International Ltd	Singapore	Canned fruits, vegetables, jams and jellies	188	25	25
Premier Education Holdings Ltd	Cayman Islands	The British International School Co Ltd	Viet Nam	Elementary and secondary schools	167	90	90
GAW Capital Partners	Hong Kong, China	BIG Hotel	Singapore	Hotels and motels	143	100	100
Assicurazioni Generali SpA	Italy	Multi-Purpose Insurans Bhd	Malaysia	Life insurance	103	49	49
Warburg Pincus LLC	United States	Vincom Retail Co Ltd	Viet Nam	Land subdividers and developers, except cemeteries	100	0	0
Pamfleet (HK) Ltd	Hong Kong, China	JSQL Investments Pte Ltd	Singapore	Land subdividers and developers, except cemeteries	90	100	100
Expedia Inc	United States	AAE Travel Pte Ltd	Singapore	Travel agencies	86	25	75

Annex table 1.2.

Foreign companies invest in ASEAN through M&As, 2015 (selected cases) (continued)
 (Millions of dollars and per cent)

Ultimate acquiring company	Ultimate acquiring nation	Target company	Target nation	Target industry	Value	Shares acquired	Shares owned after
Sankyo Tateyama Inc	Japan	Thai Metal Aluminum Co Ltd	Thailand	Primary production of aluminium	84	62.26	62.3
LafargeHolcim Ltd	Switzerland	Holcim (Malaysia) Sdn Bhd	Malaysia	Cement, hydraulic	77	100	100
Brenntag AG	Germany	TAT Petroleum Pte Ltd, Axxmo International Pte Ltd	Singapore	Refined petroleum pipelines	72	100	100
Berlanga International Pte Ltd	Netherlands	Carnarvon Petroleum Ltd	Thailand	Crude petroleum and natural gas	58	20	20
Davis Mining & Manufacturing	United States	Tenaga Kimia Sdn Bhd	Malaysia	Explosives	54	75	75
Dongbu Insurance Co Ltd	Korea, Republic of	Post & Telecommunication Joint Stock Insurance Co	Viet Nam	Life insurance	50	37.32	37.3
Fairfax Financial Holdings Ltd	Canada	BIDV Insurance Corporation	Viet Nam	Insurance agents, brokers and service	49	35	35
Hon Hai Precision Industry	Taiwan Province of China	ECMMS Precision Singapore Pte Ltd	Singapore	Investors, nec	43	100	100
Standard Chartered PLC	United Kingdom	Omni Centre Pte Ltd	Singapore	Investors, nec	42	45	45
Concord Medical Svcs Hldg Ltd	China	Fortis Surgical Hospital	Singapore	General medical and surgical hospitals	40	100	100
Multi-Color Corporation	United States	Super Enterprise Holdings Bhd	Malaysia	Investors, nec	40	94.37	94.4
Tung Ho Steel Enterprise Corporation	Taiwan Province of China	Fuco International Ltd	Viet Nam	Steel works, blast furnaces and rolling mills	40	100	100
First Pacific Co Ltd	Hong Kong, China	Roxas Holdings Inc	Philippines	Cane sugar refining	38	21	55
Dongwon Enterprise Co Ltd	Korea, Republic of	Tan Tien Plastic Packaging JSC	Viet Nam	Plastics, foil and coated paper bags	38	47	47
Hanwa Co Ltd	Japan	Cosmosteel Holdings Ltd	Singapore	Metals service centres and offices	37	28.45	28.5
Columbia Capital Corporation	United States	euNetworks Group Ltd	Singapore	Information retrieval services	37	9.34	65.9
Yoshinoya Holdings Co Ltd	Japan	Sushi Kin Sdn Bhd	Malaysia	Eating places	31	28	28
China Dvlp Finl Hldg Corporation	Taiwan Province of China	AmFraser Securities Pte Ltd	Singapore	Security brokers, dealers and flotation companies	30	100	100
Shinhan Financial Group Ltd	Korea, Republic of	Bank Metro Express PT	Indonesia	Banks	30	40	40
Taung Gold International Ltd	Hong Kong, China	Minex Resources Pte Ltd	Singapore	Investors, nec	29	100	100
Braas Monier Building Group SA	Luxembourg	Golden Clay Industries Sdn Bhd	Malaysia	Clay refractories	28	100	100
Marston International Ltd	China	Yokohama Industries Bhd	Malaysia	Storage batteries	26	62.16	62.2
Nitto Kogyo Corporation	Japan	Gathergates Group Pte Ltd	Singapore	Investors, nec	24	100	100
First Pacific Co Ltd	Hong Kong, China	San Carlos Bioenergy Inc	Philippines	Industrial organic chemicals, nec	23	64.02	93.7
China Steel Corporation	Taiwan Province of China	China Steel Sumikin Vietnam JSC	Viet Nam	Steel works, blast furnaces and rolling mills	23	5	56

Annex table 1.2. Foreign companies invest in ASEAN through M&As, 2015 (selected cases) (continued)
(Millions of dollars and per cent)

Ultimate acquiring company	Ultimate acquiring nation	Target company	Target nation	Target industry	Value	Shares acquired	Shares owned after
Dongwon Enterprise Co Ltd	Korea, Republic of	Minh Viet Packaging JSC	Viet Nam	Plastics products, nec	21	100	100
VST Holdings Ltd	Hong Kong, China	ECS Holdings Ltd	Singapore	Computer integrated systems design	19	9.68	99.2
Canon Inc	Japan	Efficient MailCom Sdn Bhd	Malaysia	Data processing services	17	100	100
Marston International Ltd	China	Yokohama Industries Bhd	Malaysia	Storage batteries	14	34.17	96.3
Tarsus Group PLC	United Kingdom	AMB Tarsus Exhibitions Sdn Bhd	Malaysia	Amusement and recreation svcs	13	50	50
The Asoka Trust	Guernsey	AsiaMedic Ltd	Singapore	Health and allied services, nec	13	28.14	28.1
Creative Elite Holdings Ltd	Hong Kong, China	Jacks International Ltd	Singapore	Packaged frozen foods	11	66.08	66.1
Action Electronics Co Ltd	Taiwan Province of China	Action Asia Ltd	Singapore	Household audio and video equipment	11	19.08	100
First Pacific Co Ltd	Hong Kong, China	San Carlos Bioenergy Inc	Philippines	Industrial organic chemicals, nec	9	26.7	26.7
Huhtamaki Oyj	Finland	Butterworth Paper Cups Sdn Bhd	Malaysia	Sanitary food containers, except folding	9	100	100
C. Uyemura & Co Ltd	Japan	Sum Hitech Co Ltd	Thailand	Motor vehicle parts and accessories	8	16.35	16.4
C&G Environmental Protection	China	New Sky(Thailand)Co Ltd	Thailand	Engineering services	8	0	0
National Australia Bank Ltd	Australia	Cambridge SPV1 LLP	Singapore	Investors, nec	8	40	100
Denki Kagaku Kogyo KK	Japan	Posco Venture Sdn Bhd	Malaysia	Concrete products, except block and brick	8	61	61
Nipro Corporation	Japan	Mekophar Chemical Pharmaceutical JSC	Viet Nam	Medicinal chemicals and botanical products	7	20.4	20.4
Microport International Ltd	United Kingdom	SMC Industrial Pte Ltd	Singapore	Refuse systems	7	50	50
Yuanta Financial Holdings Co	Taiwan Province of China	AmCapital Indonesia PT	Indonesia	Security brokers, dealers and flotation companies	7	99	99
Aeon Co Ltd	Japan	Vinh Khanh Consultancy Corporation	Viet Nam	Management consulting services	7	51	51
Jardine Matheson Holdings Ltd	Hong Kong, China	Kreasijaya Adhikarya PT	Indonesia	Vegetable oil mills, nec	6	50	50
NV Bekaert SA	Belgium	Bekaert Southern Wire Pte Ltd	Singapore	Steel works, blast furnaces and rolling mills	6	45	100
R Systems International Ltd	India	IBIZCS Group Pte Ltd	Singapore	Computer facilities management services	6	100	100
CJ CheilJedang Corporation	Korea, Republic of	Kodo Feedmill Cambodia Co Ltd	Cambodia	Prepared animal feeds, except for dogs and cats	5	100	100
Koswire Co Ltd	Korea, Republic of	Dong Bang Stainless Steel Co Ltd	Viet Nam	Steel works, blast furnaces and rolling mills	5	100	100
Sabre Corporation	United States	Abacus Travel Systems Pte Ltd	Singapore	Travel agencies	5	61	61

Annex table 1.2.

Foreign companies invest in ASEAN through M&As, 2015 (selected cases) (concluded)
 (Millions of dollars and per cent)

Ultimate acquiring company	Ultimate acquiring nation	Target company	Target nation	Target industry	Value	Shares acquired	Shares owned after
WFC Investment BV	Netherlands	Worldwide GSA Pte Ltd	Singapore	Trucking, except local	4	50	100
Nippon Kodoshi Corporation	Japan	Albay Agro-Industrial Development Corporation	Philippines	Pulp mills	3	40	40
Creative Energy Solutions Hldg	Hong Kong, China	Red Rabbit Technology Inc	Philippines	Prepackaged software	3	51	51
Tosoh Corporation	Japan	Mabuhay Vinyl Corporation	Philippines	Alkalies and chlorine	3	12.58	88
Platz Co Ltd	Japan	Shengbang Metal Co Ltd	Viet Nam	Metal doors, sash, trim	3	34	48
Clemont Financing Co Ltd	British Virgin Islands	Clemont Finance Indonesia PT	Indonesia	Miscellaneous business credit	3	30	30
CALBEE Inc	Japan	Moh Seng Marketing Pte Ltd	Singapore	Confectionery	3	51	51
New Asia Holdings Inc	United States	Magdallen Quant Pte Ltd	Singapore	Commercial nonphysical research	3	100	100
Nippon Chemiphar Co Ltd	Japan	Nippon Chemiphar Vietnam Joint Venture Co Ltd	Viet Nam	Pharmaceutical preparations	2	40	100
Nojima Corporation	Japan	Tran Anh Digital World JSC	Viet Nam	Computers and peripheral equipment and software	2	20.86	30.9
Galasys PLC	Jersey	iLogic Solutions Sdn Bhd	Malaysia	Computer facilities management services	2	100	100
Solar Turbines Intl Co	United States	Turboservices Overhaul Sdn Bhd	Malaysia	Repair shops and related services, nec	2	19.45	19.5
Panasonic Corporation	Japan	RFNet Technologies Pte Ltd	Singapore	Electrical work	2	21.33	51.9
Kalaari Capital Advisors P Ltd	India	Paragon9 Consulting Services Pte Ltd	Singapore	Business consulting services, nec	2	30	30
Fairfax Financial Holdings Ltd	Canada	Mudajaya Group Bhd	Malaysia	Residential construction, nec	2	5.43	13.9
8Telecom Intl Hldgs Co Ltd	China	Arete M Pte Ltd	Singapore	Communications services, nec	2	51	51
NuEnergy Gas Ltd	Australia	Dart Energy (Indonesia) Holdings Pte Ltd	Singapore	Crude petroleum and natural gas	1	100	100
Tonghai Hldg Co Ltd	China	China Oceanwide Power Co Ltd	Indonesia	Electric services	1	100	100
ZA Co Ltd	Japan	UV ESL Academy	Philippines	Elementary and secondary schools	1	100	100
Tempus Investment Holdings Ltd	China	OTO Bodycare Pte Ltd	Singapore	Soap and other detergents, except specialty cleaners	1	100	100
Citipoint Asia RE Capital Ltd	British Virgin Islands	Stirling Fort Asia Pte Ltd	Singapore	Investors, nec	1	50.01	50
SoftBank Group Corporation	Japan	OZAKI Consulting Co Ltd	Thailand	Information retrieval services	1	25	25
YPB Group Ltd	Australia	Intellectual Product Protection Group Ltd	Thailand	Business consulting services, nec	1	100	100

Source: UNCTAD M&As database.

Annex table 2.1.
Korean FDI stocks in ASEAN Member States, 2004–2015
 (Millions of dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Brunei Darussalam	1	1	1	1	-	1	3	5	6	8	8	8
Cambodia	54	85	203	800	1,215	1,379	1,470	1,474	1,536	1,617	1,681	1,723
Indonesia	1,805	1,763	1,883	2,088	2,029	2,387	3,209	4,352	5,147	5,597	6,320	7,006
Lao People's Democratic Republic	17	17	20	43	83	114	131	143	124	167	203	230
Malaysia	551	592	632	763	980	1,053	2,510	3,367	4,350	4,794	4,926	4,984
Myanmar	33	31	31	31	53	387	580	1,007	1,327	1,838	2,149	2,396
Philippines	571	606	684	765	813	920	1,141	1,382	2,180	2,635	2,727	2,829
Singapore	798	854	1,153	1,628	2,136	2,324	2,597	4,181	4,383	4,922	5,899	7,304
Thailand	405	405	468	599	609	634	707	1,733	2,569	2,718	2,899	3,003
Viet Nam	1,132	1,403	1,976	3,268	4,452	4,975	5,777	6,388	7,182	8,321	9,914	11,412
ASEAN	5,367	5,757	7,051	9,985	12,370	14,173	18,127	24,032	28,805	32,618	36,728	40,896

Source: UNCTAD FDI database and Korea Eximbank FDI database.

Note: Data for stock from 2004 to 2012 are from UNCTAD FDI database, and data for other years (2013–2015) are calculated from Korea Eximbank database.

Annex table 2.2. Activities of selected Korean MNEs and ASEAN

Company	Location in ASEAN	Name of subsidiary	Date of establishment	Major business	Ownership share (%)	Asset (2015) (Won millions)
Samsung Electronics	Indonesia	PT Samsung Electronics	1991	Production and sale of electronic devices	100	806,451
		Samsung Telecommunications Indonesia	2003	Sale and services of communication systems	100	17,850
	Malaysia	Samsung Electronics Display (M) Sdn Bhd	1995	Production and sale of electronic devices	100	278,239
		Samsung Malaysia Electronics	2003	Sales of electronic devices	100	328,645
		Samsung Electronics Malaysia Sdn Bhd	1989	Production of home appliances	100	129,214
		Samsung Telecommunications Malaysia	2009	Communication system services	100	1,170
		Samsung Electronics Philippines	1996	Sale of electronic devices	100	126,256
		Samsung Asia Pte Ltd	2006	Sale of electronic devices	100	3,110,433
		Thai Samsung Electronics of Production Co, Ltd	1988	Production and sale of electronic devices	91.8	1,654,988
	Viet Nam	Samsung Electronics Vietnam	2009	Production of electronic devices	100	6,553,628
	Samsung Electronics Vietnam	Thai Nguyen	2014	Communication system services	100	3,957,700
	Samsung Vina Electronics Co, Ltd		1996	Production and sale of electronic devices	100	219,356
POSCO	Cambodia	DAESAN (Cambodia) Co, Ltd	2011	Real estate, investment	-	30,603
	Indonesia	POSCO-Indonesia Jakarta Processing Center	2010	Production and sale of steel	65	82,622
		Motta Resources Indonesia	2008	Mining	65	1,138
		PT PEN Indonesia	2009	Construction	-	13,324
		PT Krakatau POSCO	2010	Production and sale of steel	70	4,259,257
		PT POSCO-Indonesia Inti	2011	Mining	100	6,641
		PT POSCO E&C Indonesia	2010	Construction	-	24,898
		PT POSCO ICT Indonesia	2011	IT service and engineering	-	13,523
		PT POSCO MTECH Indonesia	2011	Production and sale of raw materials of steel	-	23,617
		PT Krakatau POSCO Energy	2011	Construction and operation of electricity generation	-	336,338
		PT Bio Inti Agrindo	2006	Forestry resource development	-	133,398
		PT Krakatau POSCO Chemtech Calcination	2012	Production and sales of quick lime	-	75,161
		PT Krakatau Blue Water	2013	Operation and maintenance of drainage system	-	825
		Krakatau POS-CHEM Dong-Suh Chemical	2013	Processing and sales of by-products	-	26,997
		PT Krakatau POSCO Social Enterprise	2015	Social enterprise	-	1,234
	Malaysia	POSCO-MKPC Sdn Bhd	1994	Production and sale of steel	44.69	102,275
		POSCO-Malaysia Sdn Bhd	2008	Production and sale of steel	81.79	57,038
		Daewoo International (M) Sdn Bhd	2010	Trade	-	48,366
	Myanmar	Myanmar POSCO Steel Co, Ltd	1997	Production and sale of steel	70	20,774
		Myanmar Daewoo International Corporation	2013	Trade	-	6,338
		Myanmar POSCO C&C Co, Ltd	2013	Production and sale of steel	-	23,029

Annex table 2.2. Activities of selected Korean MNEs and ASEAN (continued)

Company	Location in ASEAN	Name of subsidiary	Date of establishment	Major business	Ownership share (%)	Asset (2015) (Won millions)
		Daewoo Global Development Pte, Ltd	2013	Real estate	-	163,923
		Myanmar POSCO Engineering & Construction Co, Ltd	2013	Construction and service	-	23,029
		Daewoo Amara Company Ltd	2014	Real estate	-	154,204
		Daewoo Precious Resources Co, Ltd	2014	Mining	-	7,159
	Philippines	POSCO Philippine Manila Processing Center, Inc	2007	Production and sale of steel	-	24,514
		Ventanas Philippines Construction Inc	2015	Construction	-	237
	Singapore	Pos-Sea Pte Ltd	2009	Trade of steel	-	41,926
		Daewoo International Singapore Pte Ltd	2003	Trade	-	114,256
	Thailand	POSCO Engineering (Thailand) Co, Ltd	2007	Chemical plant	-	31,788
		POSCO (Thailand) Co Ltd	1997	Production and sale of steel	85.62	106,151
		POSCO Thainox Public Co Ltd	1990	Production and sale of steel	84.93	375,865
		POSCO-South Asia Co Ltd	2010	Sales of steel	100	13,318
		POSCO Coated Steel (Thailand) Co, Ltd	2013	Production and sale of steel	100	303,680
		POSCO E&C Holdings Co, Ltd	2014	Construction and service	-	335
		POSCO E&C (Thailand) Co, Ltd	2014	Electricity generation	-	5,732
	Viet Nam	POSCO E&C Vietnam Co, Ltd	1995	Production and sale of steel	100	219,373
		POSCO Vietnam Co, Ltd	2006	Production and sale of steel	100	469,107
		POSCO Vietnam Processing Center Co, Ltd	2007	Production and sale of steel	87.07	146,858
		POSCO VST Co, Ltd	2009	Production and sale of steel	95.65	329,849
		POSCO Vietnam Ha Noi Processing Center Co, Ltd	2009	Production and sale of steel	70	68,391
		POSCO SS-Vina	2010	Production and sale of steel	100	755,135
		Daewoo International Vietnam Co, Ltd	2011	Trade	-	6,211
		POSCO ICT Vietnam	2013	IT service and engineering	-	3,160
		POSCO Vietnam Holdings Co Ltd	2015	Holding company	79.28	4,760
LG Electronics	Indonesia	PT LG Electronics Indonesia	1990	Production and sale of electronic products	100	456,463
		PT LG Innotek Indonesia	2000	Production and sale of electronic parts	40.8	86,246
		PT LG Electronics Service Indonesia	2014	Service	99.8	4,831
	Malaysia	LG Electronics Malaysia Sdn Bhd	2002	Sale of electronic devices	100	26,856
		V-ENS (M) Sdn Bhd	2002	Engineering of car design	100	2,015
	Philippines	LG Electronics Philippines Inc	1988	Sale of electronic devices	100	72,002
		LG Electronics Pasig Inc	1997	Real estate	38	5,274
	Singapore	LG Electronics Singapore Pte Ltd	2004	Sale of electronic devices	100	65,550
	Thailand	LG Electronics Thailand Co Ltd	1997	Production and sale of electronic devices	100	411,732

Annex table 2.2. Activities of selected Korean MNEs and ASEAN (continued)

Company	Location in ASEAN	Name of subsidiary	Date of establishment	Major business	Ownership share (%)	Asset (2015) (Won millions)
	Viet Nam	LG Electronics Vietnam Co Ltd	1995	Production and sale of electronic devices	100	14,081
		LG Electronics Vietnam Haiphong Co Ltd	2013	Production and sale of electronic devices	100	622,130
LG Chem Ltd	Singapore	NanoH2O Singapore Pte Ltd	2014	Water purification filter research and manufacturing	100	-
SK Hynix Inc	Singapore	SK Hynix Asia Pte Ltd	1995	Sale of semiconductors	100	386,135
Lotte Chemical Corporation	Malaysia	Lotte Chemical Titan Holding Sdn Bhd and its subsidiaries	1991	Chemical manufacturing	100	1,811,606
Lotte Shopping	Indonesia	PT Lotte Shopping Avenue Indonesia	2011	Retail service	-	45,853
		PT Lotte Members Indonesia	2013	Business support services	-	3,602
		PT Lotte Shopping Indonesia	1989	Distribution	55	269,629
		PT Lotte Mart Indonesia	2009	Distribution	-	175,309
	Singapore	Lotte Shopping Holdings (Singapore) Pte Ltd	2008	Holding company	100	324,962
		Lotte Shopping REIT Management Singapore Pte Ltd	2013	Real estate rental service	100	229,004a
		Lotte Hotel and Retail Vietnam Pte Ltd	2011	Holding company	20	72,949
	Viet Nam	Lotte DatViet Homeshopping Co, Ltd	2011	TV home shopping	-	4,809
		Lotte Vietnam Shopping Co, Ltd	2006	Distribution	100	435,575
		Lottemart Danang Co, Ltd	2006	Distribution	-	31,031a
		Lotte Shopping Plaza Vietnam Co, Ltd	2013	Distribution	-	31,368
		Lotte Cinema Vietnam	2008	Cinema operation and/or distribution, investment	90	69,634
		Hai Thanh - Kotobuki Joint Venture Company	1994	Hotel	-	80,863
Samsung C&T Corporation	Indonesia	PT Insam Batubara Energy	2014	Wholesale and retail of coal	100	469
		PT Gandaerah Hendana	2008	Resource development	60	82,942
		PT Inecda	2008	Resource development	60	61,877
	Malaysia	Samsung Engineering & Construction (KL) Sdn Bhd	2003	Construction	100	141,799,
		Samsung C&T Malaysia Sdn Bhd	1988	Trade	100	7,290
		MSSC Sdn Bhd	2008	Manufacture of steel	100	17,021
		Samsung C&T Corporation UEM Construction JV Sdn Bhd	2015	Construction	60	-
	Philippines	S&Woo Construction Philippines, Inc	2015	Construction	40	-
	Singapore	Samsung C&T Corporation Asia Pte Ltd	2008	Trade	100	170,527

Annex table 2.2.

Activities of selected Korean MNEs and ASEAN (concluded)

Company	Location in ASEAN	Name of subsidiary	Date of establishment	Major business	Ownership share (%)	Asset (2015) (Won millions)
		S&G Bio Fuel Pte Ltd	2008	Resource development	63.16	127,940
	Thailand	Samsung C&T (Thailand) Co, Ltd	1977	Trade	57.13	7,588
	Viet Nam	Samsung Chemtech VINA S-Print	2007	Trade	100	12,494
		Cheil Industries Inc., Vietnam Co, Ltd	2007	Manufacture of fibres	80	12,129
		Welstory Vietnam Co, Ltd	2013	Construction	100	69,910
			2015	Quick-service restaurant	-	-
SK Telecom Co, Ltd	Singapore	SKT Vietnam Pte Ltd	2000	Communication	73.3	4,523
		SK Planet Global Pte Ltd	2012	Sourcing and provision of digital content	100	1,570
		SKP Global Holdings Pte Ltd	2012	Holding company	100	28,320
Samsung Display	Viet Nam	Samsung Display Bac Ninh	2015	Production of LCDs	100	-
Hyosung Corporation	Indonesia	PT Hyosung Jakarta	2013	Trade	99.9	1,826,
	Singapore	Hyosung Singapore Pte Ltd	1981	Trade	100	9,943,
	Viet Nam	Hyosung Vietnam Co, Ltd	2007	Manufacture and sales of pandex and tyre reinforcement materials	88.21	1,130,368
		Hyosung DongNai Co, Ltd	2015	Manufacture of pandex and tyre reinforcement materials	76.66	118,995
Samsung SDI	Malaysia	Samsung SDI (Malaysia) Sdn Bhd	1990	Cathode ray tube, electron gun production	68.6	76,741
		Samsung SDI Energy Malaysia Sdn Bhd	2011	Manufacture and sales of secondary batteries	100	581,085
	Thailand	Samsung Chemical (Thailand) Co, Ltd	2008	Sales of synthetic resins and building materials	59.4	3,155
	Viet Nam	Samsung SDI Vietnam Co, Ltd	2010	Manufacture and sales of secondary batteries	100	227,828
Hyundai Heavy Industries	Singapore	HDO Singapore Pte Ltd	2005	Trade of crude oil and rental service for vessels	100	161,621
	Viet Nam	Hyundai-Vinashin Shipyard Co, Ltd	1996	Shipbuilding	65	430,549
SK Innovation	Singapore	SK Global Chemical Singapore Pte Ltd	2010	Sale of petrochemical products	100	18,734b
		SK International Investment Singapore Pte Ltd	-	Investment	16.7	174,416
	Indonesia	PT Patra SK	2006	Manufacture and sales of lube base oil	65	257,274

Source: Company annual reports.

a Data for 2012.

b Data for 2013.

Annex table 2.3.

Korean M&A purchases in ASEAN (selected years and cases)
 (Millions of dollars)

Year	Ultimate acquiring company	Target company	Target nation	Target industry	Value	Shares acquired
2010	Honam Petrochemical Corp	Titan Chemicals Corp	Malaysia	Chemicals and chemical preparations, nec	918	72.32
2010	KEPCO	PT Bayan Resources	Indonesia	Bituminous coal and lignite surface mining	523	20
2011	POSCO	Thainox Stainless	Thailand	Cold-rolled steel sheet, strip and bars	479	84.61
2014	Korea Water Resources Corp	Angat Hydroelectric Power Plant	Malaysia	Electric services	441	100
2011	KEPCO	Santa Rita Power Station	Philippines	Electric services	400	40
2010	Honam Petrochemical Corp	Titan Chemicals Corp	Malaysia	Chemicals and chemical preparations, nec	345	27.25
2008	Lotte Shopping	Makro Indonesia	Indonesia	Grocery stores	290	100
2014	SK Telecom	Packet One Networks (Malaysia)	Malaysia	Information retrieval services	228	13.6
2011	Lotte Asset Development	Thao Dien Investment	Viet Nam	Land subdividers and developers, except cemeteries	151	100
2011	KT&G Corp	Trisakti Purwosari Makmur	Indonesia	Cigarettes	133	0
2010	Lotte Chilsung Beverage	Pepsi-Cola Products Philippines	Philippines	Bottled and canned soft drinks and carbonated water	100	34.4
2010	SK Telecom	Packet One Networks (Malaysia)	Malaysia	Information retrieval services	100	25
2011	CJ CGV	Envoy Media Partners	Viet Nam	Drive-in motion picture theaters	74	92
2013	Asiana Airlines	Vietnam Kumho Asiana Plaza Saigon	Viet Nam	Highway and street construction	67	50
2012	Investor Group	Cambayas Mining Corp	Philippines	Ferrous alloy ores, except vanadium	58	40
2011	POSCO	Bio Inti Agrindo	Indonesia	Vegetable oil mills, nec	53	85
2009	POSCO	Asia Stainless Corp {ASC}	Viet Nam	Steel works, blast furnaces and rolling mills	50	90
2015	Dongbu Insurance	Post & Telecommunication JS Insura	Viet Nam	Life insurance	50	37.32
2014	POSCO	Batutua Tembaga Raya	Indonesia	Copper ores	45	24.1
2007	Dongwha Holdings	Guthrie MDF	Malaysia	Reconstituted wood products	41	100
2007	Kumho	Kumho Saigon Joint Venture	Viet Nam	Land subdividers and developers, except cemeteries	40	35
2015	Dongwon Enterprise	Tan Tien Plastic Packaging	Viet Nam	Plastics, foil and coated paper bags	38	47
2011	Korea Resources Corp	Persada Kapuas Prima PT-Kapuas Coal Mine	Indonesia	Bituminous coal underground mining	37	39
2011	Nepes Corp	Nepes	Singapore	Semiconductors and related devices	35	26.49
2014	Theall Medi Bio	Phil Bxt Corp	Philippines	Tour operators	33	39.37
2011	Hanshin Engineering & Construction	Petrovietnam Construction JSC (PVC)	Viet Nam	Water, sewer, pipeline and utility line construct	31	10
2015	Shinhan Financial Group	Bank Metro Express	Indonesia	Banks	30	40
2012	Korea Resources Corp and Posco	Kintap Coal Mine	Indonesia	Bituminous coal and lignite surface mining	30	30
2011	STX Corp	Indoasia Cemerlang	Indonesia	Bituminous coal and lignite surface mining	30	40
2012	Mirae Asset Global Invest	NISP Asset Management	Indonesia	Investment advice	24	70
2013	Lotte Chilsung Beverage	Pepsi-Cola Products Philippines	Philippines	Bottled and canned soft drinks and carbonated water	24	4.49
2015	Dongwon Enterprise	Minh Viet Packaging JSC	Viet Nam	Plastics products, nec	22	100
2008	KTB Network and KTB Asset Mana	Far East Capital Advisory	Thailand	Security brokers, dealers and flotation companies	22	51
2014	KORID	Compliance Corporate Advisory	Singapore	Investors, nec	21	100
2011	POSCO	AES-VCM Mong Duong Power	Viet Nam	Electric services	20	30
2008	Lotte Group	Bien Hoa Confectionery Corp	Viet Nam	Candy and other confectionery products	19	30.15
2013	Samick Musical Instruments	PT Samick Indonesia	Indonesia	Musical instruments	18	45.57
2015	Nedec	Samsung Electro-Mechanics	Thailand	Motors and generators	18	99.9
2013	LG Household and Health Care	TFS Singapore	Singapore	Retail stores, nec	16	100
2008	POSCO	MEGS Industries	Malaysia	Steel works, blast furnaces and rolling mills	16	60
2012	KEPCO	Navanakorn Electric	Thailand	Electric services	16	29
2012	Korea Life Insurance	Transpacific Mutualcapita	Indonesia	Personal credit institutions	13	80

Annex table 2.3.
Korean M&A purchases in ASEAN (selected years and cases) (continued)
(Millions of dollars)

Year	Ultimate acquiring company	Target company	Target nation	Target industry	Value	Shares acquired
2012	Hanwha General Insurance	Multicor Life Insurance	Indonesia	Insurance agents, brokers and service	13	100
2008	Mococo	PETRAS Indonesia	Indonesia	Land subdividers and developers, except cemeteries	11	31
2007	SAMTAN	Tata Hampanan Eka Persada	Indonesia	Vegetable oil mills, nec	11	0
2010	Seven KOSF	SevenEnergy Indonesia PT	Indonesia	Gold ores	11	51.14
2010	Winasset	GS Aromatics	Singapore	Offices of holding companies, nec	10	38.91
2014	LG International Corp	Block 11-2 Development	Viet Nam	Crude petroleum and natural gas	10	100
2013	NTPIA Corp	Todai Singapore	Singapore	Eating places	9	100
2007	City Development Construction	Tongkook Vietnam Spinning	Viet Nam	Broadwoven fabric mills, cotton	9	0
2007	POSCO	Posmmit Steel Centre	Malaysia	Cold-rolled steel sheet, strip and bars	8	37.86
2013	KP	PT Kopolco Indonesia	Indonesia	Packaging paper and plastics film	8	88.89
2009	KB Financial Group	Khmer Union Bank	Cambodia	Banks	8	51
2014	KP	Phil Bxt Corp	Philippines	Tour operators	8	10
2010	Korea Investment Holdings	Empower Securities Corp	Viet Nam	Security brokers, dealers and flotation companies	7	49
2009	Woori Investment and Securities	Bien Viet Securities JSC	Viet Nam	Security brokers, dealers and flotation companies	6	36.3
2009	Eland World	Thanh Cong Textile Garment	Viet Nam	Apparel and accessories, nec	6	42.86
2015	CJ CheilJedang Corp	Kodo Feedmill Cambodia	Cambodia	Prepared animal feeds, except for dogs	5	100
2011	Maxbro	Laometal & LPP	Lao PDR	Miscellaneous structural metal work	5	12.5
2009	INZEN	NatSources Sumatera	Indonesia	Bituminous coal and lignite surface mining	5	25
2015	Koswire	Dong Bang Stainless Steel	Viet Nam	Steel works, blast furnaces and rolling mills	5	100
2011	Lotte Aluminum	Titan Kimia Nusantara Tbk PT-BOP	Indonesia	Unsupported plastics film and sheet	5	100
2006	SamWha Capacitor Company	PT SAMCON	Indonesia	Electronic capacitors	4	47.38
2010	Honam Petrochemical Corp	Titan Kimia Nusantara	Indonesia	Unsupported plastics film and sheet	4	4.91
2010	Eland World	Thanh Cong Textile Garment	Viet Nam	Apparel and accessories, nec	3	13.85
2012	Song Seung Hyun	Sumber Bara Abadi Indonesia	Indonesia	Bituminous coal and lignite surface mining	3	20
2008	Investor Group	J&C Pacific	Malaysia	Computer integrated systems design	3	75
2012	Phoenix Materials	SJ Micron	Thailand	Electron tubes	3	80
2011	Daewoo Shipbuilding and Marine	Syabas Usaha Migas	Indonesia	Crude petroleum and natural gas	2	5
2014	Dongil Metal	Dongil Casting	Indonesia	Steel foundries, nec	1	21.26
2010	Jang Samki	Kepsonic Indonesia	Indonesia	Plastics products, nec	1	30
2009	Woori Investment and Securities	Bien Viet Securities JSC	Viet Nam	Security brokers, dealers and flotation companies	1	12.7
2012	Song Seung Hyun	Sumber Bara Abadi Indonesia	Indonesia	Bituminous coal and lignite surface mining	1	10
2009	POSCO	International Steel Indonesia	Indonesia	Steel works, blast furnaces and rolling mills	1	65
2010	Elite Basic	PT Elite	Indonesia	Narrow fabric and other smallwares mills		80
2013	Phoenix Materials	Phoenix SJ	Thailand	Electron tubes		10
2010	HJLK Corp	Hanjin Logistics	Singapore	Deep sea foreign transportation of freight		100
2008	3Soft Inc	Rickim Mas Jaya Sakti	Indonesia	Forest nurseries and gathering of forest prod		13.31
2009	SG Advantech	Security Global Thai	Thailand	Computer facilities management services		49
2015	Yellomobile	Gushcloud	Singapore	Management consulting services	-	100
2015	Yellomobile	Click2Biz	Thailand	Management consulting services	-	0
2015	NICE Information and Telecommunic	PT Ionpay Networks	Indonesia	Business services, nec	-	50
2015	Yellomobile	Computerlogy	Thailand	Prepackaged software	-	0
2015	Shinhan Financial Group	Bank Metro Express	Indonesia	Banks	-	58

Annex table 2.3.

Korean M&A purchases in ASEAN (selected years and cases) (concluded)
 (Millions of dollars)

Year	Ultimate acquiring company	Target company	Target nation	Target industry	Value	Shares acquired
2015	Shinhan Financial Group	Makinta Securities	Indonesia	Security brokers, dealers and flotation companies	-	99
2015	Shinhan Financial Group	Centratama Nasional Bank	Indonesia	Banks	-	100
2015	Marvelstone	Waha Ltd-Business operations	Singapore	Business consulting services, nec	-	100
2014	Yellomobile	Pricearea Andalan Prestasi	Indonesia	Information retrieval services	-	0
2013	KCTC	KCTC Samudera Logistics	Indonesia	Water transportation of freight, nec	-	100
2013	Soulbei Indochina PEF	Indochina Bank	Lao PDR	Banks	-	0
2013	Sinokor Merchant Marine	Sinokor Vietnam	Viet Nam	Deep sea foreign transportation of freight	-	49
2012	A&P Financial	CamKo Bank Plc	Cambodia	Banks	-	100
2012	Korea Resource Corp, Aju Corp and	Indoasia Cemerlang	Indonesia	Bituminous coal and lignite surface mining	-	30
2011	Ticket Monster	Integrated Methods	Malaysia	Business associations	-	100
2011	Shinhan Financial	ShinhanVINA Bank	Viet Nam	Banks	-	50
2010	Korea Airports Corp	Philco Aero	Philippines	Residential construction, nec	-	5
2010	POSCO	POSCO E&C Vietnam	Viet Nam	Fabricated structural metal	-	30
2009	POSCO	Motta Resources Indonesia	Indonesia	Coal and other minerals and ores	-	65
2009	Daesang Holdings	Undisclosed Palm Plantation	Indonesia	Forest nurseries and gathering of forest prod	-	100
2008	CES	Ingress CES	Malaysia	Hand and edge tools, except machine tools	-	30
2008	Samsung C&T Corp	Gandaerah Hendana	Indonesia	Petroleum and petroleum products wholesal	e	95
2008	LG Corp	Kimco Energy Utama	Indonesia	Cogeneration, alternative energy sources	-	55
2008	Woori Investment and Securities	Clemont Securities Indonesia	Indonesia	Security brokers, dealers and flotation companies	-	60
2008	LG Corp	Rapu Rapu Mine,Albay	Philippines	Copper ores	-	74
2007	Daewoo Securities	eTrading Securities	Indonesia	Security brokers, dealers and flotation companies	-	19.9
2007	Hana Financial Group	Bank Bintang Manunggal	Indonesia	Banks	-	61
2006	CJ Corp-Holding	Accord Holdings	Singapore	Computer integrated systems design	-	100
2005	Hankook Tire	Panca Amara Utama	Indonesia	Chemicals and chemical preparations, nec	-	50

Source : UNCTAD M&A database.

Annex table 2.4.
Republic of Korea: OFDI measures

Measure	Classification	Description
Finance and insurance	Long-term loans for overseas investment	Loans for Korean firms investing in a foreign subsidiary or Korean firms providing loans to the foreign-invested firms
	Loans for Korean firms' overseas businesses and foreign subsidiaries' operations	Loans to support establishing or expanding facilities and operations
	Financing and loans for overseas resource development	Loans for both Korean firms and non-Korean firms (foreign subsidiaries, cooperative partners, contractor)
	M&A financing	Finance for Korean firms' overseas M&A businesses, financial advisory service for overseas investment projects, and organization of syndication with domestic and foreign financial institutions
	Loans for Korean firms' foreign entry using ODA	Entry into developing countries through either grant aid by KOICA or credit assistance by the EDCF ^a
	Loans for activating overseas businesses	Loans for Korean firms and foreign subsidiaries involved with overseas businesses
	Overseas investment insurance	Insurance for Korean firms that invest abroad which experience losses in capital, dividends and interests due to expropriation, war and risk of remittance
Taxation	Tax credits and benefits for overseas resource development (Overseas Resource Development Act Article 12)	Reduction of exemption of income and/or corporate tax to promote overseas resource business development
Administration	FDI information provision	Overseas Investment Information System: provides national, industrial, and investment information by integrating 24 institutions for supporting overseas investment
	Other support services	Advice and consultation Foreign market research Establishment and operations of overseas subsidiaries (factories) Overseas IPR protection Overseas construction, plant, environment and logistics Overseas resource development business Overseas labour management and recruitment Law-related services U-turn firms and consultation for restructuring FDI-related education programs

Source: Abstracted from MOTIE and KOTRA (2016), "A Comprehensive Guide to Overseas Investment 2016".

Note: This guideline, prepared by the Korean Ministry of Trade, Industry & Energy, which coordinates with other related institutions and government departments, includes the necessary information and identifies support institutions for Korean firms investing abroad.

^a KOICA = Korea International Cooperation Agency, EDCF = Economic Development Cooperative Fund. Both are Korean institutions that support developing countries' economic development and cooperation with them.

Annex table 3.1.

Selected cross-border M&A transactions involving United States companies in ASEAN, 2013–2015

Year	Target company	Target nation	Target industry	Acquiring company	Value (Millions of dollars)
2015	Myanmar Distillery Co (50% stake)	Myanmar	Consumer (other)	TPG Capital LP	100
2015	Agincourt Resources, PT (95% stake)	Indonesia	Mining	Farallon Capital Management LLC and others	775
2015	Capillary Technologies International Pte Ltd (31.5% stake)	Singapore	Computer software	Warburg Pincus LLC	45
2015	nudeJEH Co, Ltd	Thailand	Media	Grey Global Group Inc	..
2015	Abacus Travel Systems Pte Ltd (61% stake)	Singapore	Services (other)	Sabre Corporation	5
2015	GrabTaxi Holdings Pte Ltd	Singapore	Computer software	Coatue Management, LLC	200
2015	Vincom Retail Co, Ltd (10% stake)	Viet Nam	Real estate	Consortium led by Warburg Pincus LLC	100
2015	Van Phuc Holding Building and Trading Joint Stock Company (50.9% stake)	Viet Nam	Construction	Myson Group, Inc	32
2015	GSIS Family Bank (99.55% stake)	Philippines	Financial services	Altus Capital Partners	11
2015	IME (M) Sdn Bhd	Malaysia	Services (other)	Ria Money Transfer	83
2015	Super Enterprise Holdings Bhd	Malaysia	Manufacturing (other)	Multi-Color Corporation	41
2015	Continuum Wind Energy Pte Ltd	Singapore/India	Energy	SunEdison, Inc	580
2015	PropertyGuru Pte Ltd	Singapore	Internet/e-commerce	TPG Capital LP and others	129
2015	Abacus International Pte Ltd (65% stake)	Singapore	Services (other)	Sabre Corporation	411
2015	Tenaga Kimia Sdn Bhd (75% stake)	Malaysia	Chemicals and materials	Austin Powder Asia Pacific Inc	54
2015	Pacific Avionics Pty Ltd	Singapore	Industrial: electronics	Rockwell Collins, Inc	24
2015	Antuit Holdings Pte Ltd	Singapore	Computer software	Goldman Sachs	56
2015	Q.B. Food Trading Pte Ltd (85% stake)	Singapore	Services (other)	Johnsonville Sausage, LLC	..
2015	Poliplant Group	Indonesia	Agriculture	Cargill, Incorporated	..
2014	Pinedale Holdings Pte Ltd (49% stake)	Singapore	Leisure	General Mills Asia Pte Ltd	12
2014	Drex-chem Sdn Bhd	Malaysia	Services (other)	Riverside Company	..
2014	The POP Company Pte Ltd	Singapore	Computer software	AFS Technologies, Inc	..
2014	Parakou Tankers, Inc	Singapore	Transportation	Cambridge Capital Acquisition Corporation	155
2014	Kinh Do Corporation (snack-food business) (80% stake)	Viet Nam	Consumer: foods	Mondel z International, Inc	376
2014	IP Mirror Pte Ltd	Singapore	Internet/e-commerce	Corporation Service Company, Inc	..
2014	Coca-Cola Amatil Indonesia (29.4% stake)	Indonesia	Consumer: drinks	The Coca-Cola Company	500
2014	Laser Toothpaste	Myanmar	Consume (other)	Colgate-Palmolive Company	100
2014	PT Tokopedia	Indonesia	Internet/e-commerce	SoftBank Group Corporation; Sequoia Capital; SoftBank Ventures Korea Inc	100
2014	Dori Media Group Ltd (channels and operations in Israel and Indonesia) (50% stake)	Indonesia	Media	Sony Pictures Television, Inc	..
2014	HotApps International Pte Ltd	Singapore	Computer software	Fragmented Industry Exchange Inc	700
2014	The Learning Lab	Singapore	Services (other)	Advent International Corporation	235

ASEAN INVESTMENT REPORT 2016: Foreign Direct Investment and MSME Linkages

Annex table 3.1.

Selected cross-border M&A transactions involving United States companies in ASEAN, 2013–2015 (concluded)

Year	Target company	Target nation	Target industry	Acquiring company	Value (Millions of dollars)
2014	LHi Technology (S) Pte Ltd	Singapore	Medical	Carlisle Companies Incorporated	195
2014	MyFP Services Sdn Bhd	Malaysia	Services (other)	VantagePoint Capital Partners	10
2014	Knowlarity Communications Pvt Ltd	Singapore	Computer software	Mayfield Fund	16
2014	Mobile 360 Sdn Bhd	Malaysia	Computer software	Tune Inc	..
2014	Alila Hotels & Resorts Pte Ltd	Singapore	Leisure	Geolo Capital	..
2014	Goodpack Ltd	Singapore	Manufacturing (other)	Kohlberg Kravis Roberts & Co LP	1235
2014	AmLife Insurance Bhd (50% stake); AmFamily Takaful Bhd (50% stake)	Malaysia	Financial services	MetLife, Inc	248
2014	Apollo Towers Myanmar Ltd	Myanmar	Telecommunications: carriers	TPG Growth	40
2014	Zopim Technologies Pte Ltd	Singapore	Computer software	Zendesk, Inc	16
2014	MMI Holdings, Ltd (Oil & gas precision parts manufacturing business)	Singapore	Energy	Wayne Burt Systems, Inc	..
2014	Amanresorts International Pte Ltd	Singapore	Leisure	Peak Hotels & Resorts Group Ltd	358
2014	UTS Holdings Sdn Bhd	Malaysia	Industrial: electronics	EnerSys Inc	25
2013	Amba Investment Services Ltd	Singapore	Financial services	Moody's Corporation	80
2013	CloudFX Pte Ltd	Singapore	Computer software	Intel Capital; Cisco Systems International BV	..
2013	Weststar Aviation Services Sdn Bhd (30% stake)	Malaysia	Transportation	Kohlberg Kravis Roberts & Co LP	202
2013	Uni.Asia Life Assurance Bhd	Malaysia	Financial services	The Prudential Insurance Company of America, Inc ; Bank Simpanan Nasional	159
2013	Verticurl Pte Ltd (Majority stake)	Singapore	Media	OgilvyOne, LLC	..
2013	Toshiba Electronics Malaysia Sdn Bhd	Malaysia	Industrial: electronics	Amkor Technology, Inc	60
2013	YFind Technologies Private Ltd	Singapore	Computer software	Ruckus Wireless, Inc	6
2013	HomeAway (63% stake)	Singapore	Internet/e-commerce	HomeAway, Inc	11
2013	Hoa Muoi Gio Company Ltd (49% stake)	Viet Nam	Agriculture	TPG Growth	50
2013	PSG, Ltd	Singapore	Real estate	Cushman & Wakefield, Inc	7
2013	Vincom Retail Co, Ltd (20% stake)	Viet Nam	Real estate	Consortium led by Warburg Pincus LLC	200
2013	Starasia Group Private Ltd	Singapore	Consumer (other)	Coty, Inc	24
2013	PT Mega Medika Mandiri	Indonesia	Services (other)	Alere Inc	11
2013	Primus (UK and Thailand Division)	Thailand	Defense	Triumph Group, Inc	64
2013	InfoCom & Security Systems Pte Ltd	Singapore	Industrial products and services	Stanley Black & Decker, Inc	10
2013	Asian Food Channel Network Pte Ltd	Singapore	Media	Scripps Networks Interactive Inc	66
2013	Datacom Group Ltd	Philippines	Services (other)	Convergys Corporation	20
2013	Vietnam Online Network	Viet Nam	Services (other)	CareerBuilder, LLC	..
2013	Epic Gas Ltd	Singapore	Transportation	Jefferies Capital Partners; Shipping and Intermodal Investment Management	250
2013	PT Tambang Sekarsa Adadaya (70% stake)	Indonesia	Mining	PHI Group, Inc	11

Source: Mergermarket.

Annex table 3.2.

Nike: Suppliers based in ASEAN, 2015 (selected cases)

Factory name	Product type	Factory name	Product type
Cambodia		Thailand	
Daqian Textile	Apparel	Nice Apparel	Apparel
Olive Apparel	Apparel	Okamoto Textile	Equipment
Sabrina (Cambodia) Garment Manufacturing	Apparel	Optech	Apparel
Shen Zhou	Apparel	Pilotknit Sport Wear	Apparel
Top Summit Garment	Apparel	Raja Uchino	Equipment
Indonesia		Viet Nam	
Chang Shin Indonesia	Footwear	Sheico	Apparel
Formosa Indonesia	Equipment	Thai Sock	Equipment
Hini Daiki Indonesia	Equipment	Universal Sporting Goods	Equipment
Prima Sejati Sejahtera	Apparel	Vega Ball Manufacturing	Equipment
PT Marel Sukses Pratama	Equipment	Vertex Apparel	Apparel
PT Adis Dimension Footwear	Footwear	Adora Footwear	Footwear
PT Asia Dwimitra Industri	Footwear	All Wells International	Equipment
PT Dayup Indo	Equipment	Annora Vietnam Footwear	Footwear
PT Dean Shoes	Footwear	Asia Garment Manufacturer	Apparel
PT Dong A Decal	Apparel	Aurora Industrial (Vietnam) Footwear	Footwear
PT Dream Sentosa	Equipment	Avery Dennison Ris Vietnam	Footwear
PT Eagle Nice Indonesia	Apparel	Maxport Garment	Apparel
PT Glostar	Footwear	Can Sports Vietnam	Footwear
PT Greentex Indonesia Utama	Apparel	CCH Top	Apparel
PT Kahoiindah Citragarment	Apparel	Chang Shin Vietnam	Footwear
PT Kmk Global Sports/K1	Footwear	Cong Tien Garment	Apparel
PT Kukdong International	Apparel	Dang Quang Vina	Equipment
PT Metro Pearl Indonesia	Footwear	Dean Shoes Vietnam	Footwear
PT Mitra Garindo Perkasa	Apparel	Dona Orient Vietnam	Footwear
PT Morich Indo Fashion	Apparel	Dona Pacific Vietnam	Footwear
PT Nikomas Gemilang	Footwear	Dona Victor Footwear	Footwear
PT Pantjatunggal Knitting Mill	Apparel	Eclat Textile	Apparel
PT Pratama Abadi Industri	Footwear	Esquel Garment Manufacturing	Apparel
PT R Prima Jaya	Apparel	E-Top	Apparel
PT Sandang Mutiara Cemerlang	Apparel	Ever Tech	Footwear
PT Semarang Garment	Apparel	Far Eastern Apparel	Apparel
PT Trigoldenstar Wisesa	Apparel	Fashion Garments	Apparel
PT Tuntex Garment Indonesia-TGR	Apparel	Framas Korea Vina	Footwear
PT Victory Chingluh Indonesia	Footwear	Freetrend Vn Industrial	Footwear
PT Yongjin Javasuka	Apparel	Fu-Luh Shoes	Footwear
PT Adis Dinamika Sentosa	Footwear	Green Vina	Apparel
PT Cch Indonesia	Apparel	Hansae Viet Nam	Apparel
PT Feng Tay Indonesia Enterprises	Footwear	Hong Seng Thai-Vina	Apparel
PT Grand Best Indonesia	Apparel	Hung Long Garment and Service	Apparel
PT Kanindo Makmur Jaya	Equipment	Long An Export Garment	Apparel
PT Pilar Putera Sejati	Apparel	Maxport	Apparel

Annex table 3.2.
Nike: Suppliers based in ASEAN, 2015 (selected cases) (concluded)

PT Pou Yuen Indonesia	Footwear	Nam Ha Garment	Apparel
PT Tk Industrial Indonesia	Footwear	Nam Thien Company	Apparel
Taitat Putra Rejeki	Equipment	Oriental Garment An Giang	Apparel
Malaysia		Pou Chen Vietnam Enterprise	Footwear
Chit Guan (BP)	Apparel	Pungkook	Equipment
Golden Vertex	Apparel	Quang Viet Enterprise	Apparel
Honsin Apparel	Apparel	S.J. Vina Corporation	Apparel
Lika Silkscreen	Apparel	Saitex International	Apparel
My Socks Malaysia	Equipment	Sao Khue	Footwear
Plas Industries	Apparel	Son Kha Screen Printing	Apparel
Song Lin Garment	Apparel	Spring Printing	Apparel
South Island Garment	Apparel	Tae Kwang Vina	Footwear
Tai Wah Garments Industry	Apparel	Tagtime Viet Tien	Apparel
United Sweethearts Garment	Apparel	Tung Mung Textile	Apparel
Philippines		Unipax	Apparel
Argee Caps & Bags Corporation	Equipment	United Sweethearts Garment	Apparel
Beautop	Apparel	Viet Hong Garment Export	Apparel
Thailand		Viet Tien Garment Corporation	Apparel
Advanced Printing	Apparel	Vietnam Chingluh Shoes	Footwear
Benefit Shoes	Footwear	Vietnam Moc Bai	Footwear
Elta	Apparel	Vietnam Pou Sung	Footwear
Future Garment	Apparel	Vinh Hung - Joint Venture	Apparel
Hi Tech Apparel	Apparel	Vinh Long Footwear	Footwear
Hi-Tech Chaiyaphum Apparel	Apparel	Vinh Tien Garment Factory	Apparel
Hong Seng Knitting	Apparel	Vung Tau Orient	Equipment
Nan Yang Garment	Apparel	Worldon Vietnam	Apparel
NC Apparel	Apparel	Yupoong Vietnam	Apparel

Source: Nike.

Annex table 3.3.

Apple: ASEAN-based suppliers, 2015 (selected cases)

Host country	Supplier	Host country	Supplier
			Dai-Ichi Seiko (Japan)
			Dynacast International (United States)
			Micron Technology (United States)
			Molex (United States)
			Murata Manufacturing (Japan)
Cambodia	Minebea Co. Ltd. (Japan)	Singapore	Lateral Solutions (Australia)
			Linear Technology Corp. (United States)
			Heptagon Advanced Micro-Optics (Singapore)
			Sony Corp. (Japan)
			STMicroelectronics (Switzerland)
			TDK Corp. (Japan)
			Parade Technologies (Taiwan Province of China)
			Asahi Glass (Japan)
			Delta Group (Taiwan Province of China)
			Fujikura (Japan)
			Maxim Integrated Products (United States)
			Minebea (Japan)
			Nippon Mektron (Japan)
Indonesia	Coilcraft (United States)	Thailand	NXP Semiconductors (Netherlands)
	Dynacast International (United States)		Seagate Technology (United States)
	Murata Manufacturing (Japan)		Toshiba Corp. (Japan)
	Panasonic Corp. (Japan)		Western Digital Corp. (United States)
			Sony Corp. (Japan)
			ROHM (Japan)
			NEC TOKIN Corp. (Japan)
			Seiko Epson Corp. (Japan)
			Coilcraft (United States)
	Alps Electric (Japan)		Foster Electric (Japan)
	Fairchild Semiconductor International (United States)		Foxconn Interconnect Technology (Taiwan Province of China)
	Ibiden (Japan)	Viet Nam	Intel Corp. (United States)
	Infineon Technologies (Germany)		Murata Manufacturing (Japan)
	Intel Corp. (United States)		NEC TOKIN Corp. (Japan)
	Knowles Corp. (United States)		Nidec Corp. (Japan)
	Lateral Solutions (Australia)		Sharp Corp. (Japan)
	Linear Technology Corp. (United States)		
	Molex (United States)		
Malaysia	Murata Manufacturing (Japan)		
	NXP Semiconductors (Netherlands)		
	OSRAM Opto Semiconductor (Germany)		
	Panasonic Corp. (Japan)		
	ROHM (Japan)		
	Seiko Epson Corp. (Japan)		
	Semiconductor Components Industries (United States)		
	STMicroelectronics NV		
	Taiyo Yuden (Japan)		
	Texas Instruments (United States)		
	Vishay Intertechnology (United States)		

Annex table 3.3.

Apple: ASEAN-based suppliers, 2015 (selected cases) (concluded)

Host country Supplier


Philippines	Analog Devices (United States) Artesyn Embedded Technologies (United States) Austria Microsystems (Austria) Fairchild Semiconductor International (United States) Maxim Integrated Products (United States) Nidec Corp. (Japan) ROHM (Japan) Samsung Electro-Mechanics (Republic of Korea) Semiconductor Components Industries (United States) STMicroelectronics (Switzerland) Sumitomo Electric Industries (Japan) Taiyo Yuden (Japan) Texas Instruments (United States) Toshiba Corp. (Japan) Vishay Intertechnology (United States) Mitsumi Electric (Japan) NXP Semiconductors (Netherlands)
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Source: Apple (https://www.apple.com/anzsea/supplier-responsibility/pdf/Apple_Supplier_List_2015.pdf).



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