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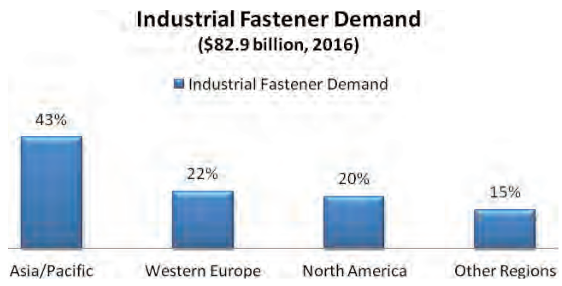
Proportion of Domestic and Foreign Fastener Investors in the ASEAN Countries

Global Industrial Fastener Market

Fastener market conditions seem to encourage more investment. A majority of surveys in the fastener industry forecast higher sales and profits amid moderate cost increases for next year. Sales growth will be supported by rebounding levels of motor vehicle manufacturing, as a major investment driver worldwide, along with rising aerospace equipment and machinery shipment levels. Fastener producers will also benefit from renewed strength in both construction activity and fixed investment spending. In addition, gains will be bolstered by fastener manufacturers offering highly engineered and advanced fastener products that can be sold at a premium.

The world fixed investment levels will continue to rise and the global durable goods manufacturing environment will improve. As a result, many local manufacturers are expanding their business this year to tap into the growing global fastener sales, which according to The Freedonia Group, an industry market research firm, is expected to rise by 5.2% yearly to US$82.9 billion in 2016. The chart (right) reveals the expected industrial fastener demand in 2016.



Fastener Demand in ASEAN

Rising demand for fasteners in the Asia-Pacific and ASEAN is prompting local manufacturers to expand their business this year amid a challenging global economy. It is reported that the Asia-Pacific region would record the fastest demand gains from 2011 to 2016, averaging 7.4% a year, driven primarily by the strong China market, which would advance at a rapid pace despite moderating from the 2006-2011 rate. Automotive demand will be a significant element, together with China's ongoing industrialization and growing manufacturing output. China, by 2019, is forecast to have a larger fastener market than Japan and US combined. Asia Pacific demand is projected to reach US$33.3 billion by the end of this year. In the list of top 20 markets of Chinese fastener exports, Malaysia, Thailand, Singapore, Vietnam and Indonesia are all included. In the next "Sparkling 10 Years", the demand of ASEAN for fasteners will grow even more. In addition, the growth of industries and infrastructure in ASEAN will also boost the development of automobiles, electronics and construction industries that uplifts the fastener demand.

ASEAN: An Emerging Global Player

The Association of Southeast Asian Nations (ASEAN) is enjoying a golden period, with high-growth and resilient economies. Much of the investment is directed at specific opportunities in individual markets, but some is also being made in the belief that Southeast Asia is becoming more integrated. The ASEAN organization aims to create an ASEAN Economic Community (AEC) by the end of 2015, a single market and production base that stitches together the bloc's ten economies into a coherent whole as reported in "Investing in ASEAN".

The reasons for investing in Southeast Asia vary by sector, but high on the list are impressive rates of economic growth, and a powerful consumer spending story. Southeast Asia also has a strong manufacturing story, given that China is becoming expensive, and that it has a growing investment story in fixed assets such as infrastructure. Alongside these factors, companies are also being attracted by the possibilities for greater integration in ASEAN, the stitching together of ten smallish markets into a large one of 617 million people. As a result of continuing high levels of investment, the contribution from industry and manufacturing to economies throughout the Region continues to grow. In Indonesia, the sector's contribution to GDP has reached 47%, 40.2% in Malaysia and 31.1% in the Philippines, and Singapore's services dominated economy industry still accounts for 26% of its GDP.

	1995–97	1998–2008	2009–12
Indonesia	2.3	0.1	1.8
Malaysia	6.7	3.4	2.9
Philippines	1.9	1.6	0.9
Thailand	1.7	4.1	2.5
Vietnam	8.4	4.9	6.0

Table 1. FDI as a share of GDP (period average)

The World Bank's East Asia Pacific Economic Update found that Thailand, the Philippines and Malaysia are among the most restrictive countries for foreign equity, while Cambodia and Singapore allow for nearly 100 percent foreign ownership in most sectors. It has been calculated that ASEAN's overall trade costs have come down 15 percent over the past ten years, with intra-regional trade nearly doubling over the same period, to almost US$500 billion last year.

Role of Domestic Institutional Investors

The development of institutional investors in ASEAN countries, besides creating domestic investors that are able to compete with overseas investors, is likely to have the following effects. First, there will be the diversification of domestic financial intermediary functions. This will have the effect of increasing investments in infrastructure projects and securitized products. Second, it will encourage both the quantitative and qualitative development of the capital markets. Third, the intra-regional financial flows will expand. ASEAN's investors have relatively high intra-regional investment ratios. ASEAN's investors have been growing steadily, but there is still great potential for further expansion. In the future, it will be important to reinforce initiatives to nurture institutional investors, by encouraging competition among them and relaxing some of the applicable asset management regulations.

However, investment weakened considerably in Indonesia, Malaysia, and Thailand on the completion of major projects, implementation bottlenecks, and funding constraints for newer ones. Flat private spending on machinery, equipment, and transport goods dragged fixed investment growth lower in Indonesia in 2013. Public investment slowed significantly in Malaysia, driven by a further contraction in capital spending by the federal government, although the pipeline of public enterprise projects remains solid. In Thailand, implementation delays continued to hamper government plans for large infrastructure investments. The Philippines managed to reverse the investment growth in 2011 and 2012 with an 18 percent investment growth in 2013. However, investment levels continue to be low relative to output in the Philippines, averaging just 19 percent of GDP during 2009–13, compared to 32 percent in Vietnam.

Foreign Direct Investment in ASEAN

Foreign direct investment (FDI) has become more important for the economic growth and development of many countries. FDI can deliver capital, a means to pursue global strategic objectives, and a means to access technology and skills to the host country. Therefore, in the last three decades, FDI flows have grown rapidly all over the world.

The success of the Association of Southeast Asia Nations (ASEAN) especially the main ASEAN economies (Malaysia, Indonesia, Singapore, Philippines and Thailand) has often been cited as a referred model for the rest of the developing world. It has attracted a very huge amount of FDI compared to other regions in the world. Although these countries faced a challenging period such as the Asian financial crisis in 1997 and global recession in 2008, these countries have managed to sustain their economy well and cushion the impact during these periods as they have achieved a steady development in last 2 decades.

Manufacturing and finance have generally been the most attractive sectors to FDI. However, the allocation of FDI among sectors greatly varies among countries. For example, Malaysia, Thailand and Vietnam put more emphasis on manufacturing, while FDI inflows to the services sector are the highest in Singapore, Indonesia and the Philippines. Although FDI plays an increasingly important part in promoting economic growth in ASEAN, foreign ownership is restricted in many of these countries.

The following tables exhibit the value of investment in ASEAN countries in last 3 years consisting of intra- and extra-ASEAN.

Value in US$ million

Country	2011			2012			2013		
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
Brunei Darussalam	67.5	1,140.8	1,208.3	31.5	833.3	864.8	(72.6)	981.0	908.4
Cambodia	223.8	667.9	891.7	523.0	1,034.1	1,557.1	298.8	976.1	1,274.9
Indonesia	8,334.5	10,907.2	19,241.6	7,587.9	11,550.0	19,137.9	8,721.1	9,722.7	18,443.8
Lao PDR	75.0	391.8	466.8	73.6	220.7	294.4	n.a	n.a	426.7
Malaysia	2,664.3	9,336.6	12,000.9	2,813.9	6,586.1	9,400.0	2,187.5	10,109.9	12,297.4
Myanmar	84.6	1,973.6	2,058.2	151.2	1,203.0	1,354.2	1,186.8	1,434.1	2,620.9
Philippines	(74.1)	1,890.0	1,815.9	145.2	2,651.8	2,797.0	(41.7)	3,901.5	3,859.8
Singapore	2,386.2	46,088.3	48,474.5	8,410.8	51,400.7	59,811.5	5,706.2	54,938.7	60,644.9
Thailand	(50.7)	3,911.7	3,861.1	(342.0)	11,041.2	10,699.2	1,256.8	11,743.0	12,999.8
Vietnam	1,517.3	6,001.7	7,519.0	1,262.5	7,105.5	8,368.0	2,078.6	6,821.4	8,900.0
Total	15,228.4	82,309.7	97,538.1	20,657.6	93,626.4	114,284.0	21,321.5	100,628.3	122,376.5

Table 2. Foreign direct investment net inflows, intra- and extra-ASEAN

Value in US$ million

Partner Country/ Region	Value		
	2011	2012	2013
ASEAN	15,228.4	20,657.6	21,321.5
Australia	1,530.2	1,831.0	2,002.3
Canada	767.9	923.9	851.0
China	7,857.7	5,376.8	8,643.5
European Union (EU)	29,693.3	18,084.9	26,979.6
India	(2,230.5)	2,233.4	1,317.5
Japan	9,709.0	23,777.1	22,904.4
New Zealand	7.5	(107.6)	246.5
Pakistan	12.5	(21.4)	(0.6)
Republic of Korea	1,742.1	1,708.4	3,516.2
Russian Federation	67.6	184.4	542.1
USA	9,129.8	11,079.5	3,757.5
Total selected partner countries/regions	73,515.5	85,728.1	92,081.6
Others	24,022.7	28,556.0	30,294.9
Total FDI inflow to ASEAN	97,538.1	114,284.0	122,376.5

Table 3. Foreign direct investment net inflows in ASEAN from selected partner countries/regions

Value in US$ million

Country/Region	Value		
	2011	2012	2013
European Union (EU)	29,693.3	18,084.9	26,979.6
Japan	9,709.0	23,777.1	22,904.4
ASEAN	15,228.4	20,657.6	21,321.5
China	7,857.7	5,376.8	8,643.5
Hong Kong	4,273.8	5,029.9	4,517.3
USA	9,129.8	11,079.5	3,757.5
Republic of Korea	1,742.1	1,708.4	3,516.2
Australia	1,530.2	1,831.0	2,002.3
Taiwan	2,317.0	2,242.3	1,321.7
India	(2,230.5)	2,233.4	1,317.5
Total top ten sources	79,250.8	92,021.0	96,281.6
Others	18,287.3	22,263.1	26,095.0
Total FDI inflow to ASEAN	97,538.1	114,284.0	122,376.5

Table 4. Top ten sources of foreign direct investment inflows in ASEAN

In 2013, foreign direct investment (FDI) into Indonesia, Malaysia, the Philippines, Singapore and Thailand, known as ASEAN 5, outstripped FDI into China for the first time, and a big chunk of the investment those Southeast Asian countries received came from China, now the third-largest foreign investor in the world.

ASEAN Investment Outlook

Investment has been variously directed into different sectors based on its country of destination. Whereas in Malaysia, Thailand and Vietnam, the manufacturing industry, including fasteners and machinery, has been the main recipient of investment, there has been a greater emphasis on the services sector in the more advanced economies of Singapore, Indonesia and the Philippines. For instance, in Malaysia, in the fastener industry the statistics show a growth higher than its GDP. Referring to the OECD's statistics, Malaysian GDP will grow up 5.1% annually during 2014 to 2018.

From a regulatory standpoint, manufacturing (i.e., automotive, machinery, fastener) is the most liberalized sector for foreign investment into ASEAN, contrasting with the more stringent restrictions placed on business services, communications and transportation in the region.

As mentioned earlier, despite the economic importance of FDI to ASEAN, many ASEAN countries restrict foreign equity, particularly in the service sector. Regional experience indicates that where countries have relaxed foreign ownership restrictions, FDI has increased, yielding significant economic benefits for the receiving country. In Cambodia and Vietnam, foreign investment reforms led to significant growth in FDI, as did financial sector liberalization in the Philippines and Thailand in the 1990s. The ASEAN Economic Community 2015 blueprint brings new challenges and opportunities for ASEAN countries. Countries that relax foreign ownership restrictions in services stand to attract more FDI, which will enhance the competitiveness of producers of both services and goods. ■

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