



Characteristics of ASEAN Fastener Business, in the Perspective of ASEAN Fastener Procurers

by Behrooz Lotfian

ASEAN-Heaven of Investors

Foreign direct investment (FDI) is a major driver of economic growth in many countries in the Association of Southeast Asian Nations (ASEAN). ASEAN's six largest economies – Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam – have become increasingly attractive to international investors, partly as a result of rising production cost and wages in China and India. At the same time, some ASEAN countries have tackled corruption and inflation, taken steps to invest in infrastructure, and liberalized their economies to attract more foreign capital. We explore FDI trends in ASEAN by the numbers.

In the last 25 years, ASEAN countries have established themselves as a preeminent destination for global manufacturers seeking a well resourced, cost effective manufacturing base for garments and textiles, electronics and a huge variety of branded goods that stock the shelves of retailers in Europe and North America. ASEAN countries experienced a 7.1% increase in Foreign Direct Investment (FDI) inflows in 2013-2014, the only region of the world to have seen an increase in the last year. Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam received a total of US\$122.4 billion according to the 2013 World Investment Report published by the UN Conference on Trade and Development (UNCTAD).

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. (*CIA World Factbook*).

Investors in Fasteners Field

ASEAN is the world's largest producer and exporter of one tonne pick-up trucks, and a major producer of certain automotive models. Many global auto firms are involved with regional production networks in the region (e.g., Toyota, Nissan, and Volvo), also involving local suppliers in the value chains. The region is an increasingly important part of automotive global supply chains. Many

Table 1. Foreign Direct Investment Net Inflows, Intra- And Extra-ASEAN

Value in US\$ million; share to total in percent

Country	2011			2012			2013			Share to Total, 2013			Share to Total Net Inflow, 2013		
	Intra-ASEAN	Extra-ASEAN	Total Net Inflow	Intra-ASEAN	Extra-ASEAN	Total Net Inflow	Intra-ASEAN	Extra-ASEAN	Total Net Inflow	Intra-ASEAN	Extra-ASEAN	Total Net Inflow	Intra-ASEAN	Extra-ASEAN	Total Net Inflow
Brunei	67.5	1,140.8	1,208.3	31.5	833.3	864.8	(72.6)	981.0	908.4	-0.3	1.0	0.7	-8.0	108.0	100.0
Cambodia	223.8	667.9	891.7	523.0	1,034.1	1,557.1	298.8	976.1	1,274.9	1.4	1.0	1.0	23.4	76.6	100.0
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	40.9	9.7	15.1	47.3	52.7	100.0
Laos	75.0	391.8	466.8	73.6	220.7	294.4	n.a	n.a	426.7	n.a	n.a	0.3	n.a	n.a	100.0
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	10.3	10.0	10.0	17.8	82.2	100.0
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	5.6	1.4	2.1	45.3	54.7	100.0
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	-0.2	3.9	3.2	-1.1	101.1	100.0
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	26.8	54.6	49.6	9.4	90.6	100.0
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	5.9	11.7	10.6	9.7	90.3	100.0
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	9.7	6.8	7.3	23.4	76.6	100.0
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	100.0	100.0	100.0	17.4	82.2	100.0
ASEAN6	13,327.7	73,274.7	86,602.3	18,647.2	84,063.1	102,710.3	17,757.3	91,396.8	109,154.1	83.3	90.8	89.2	19550.9	100628.3	120179.2
CLMV	1,900.8	9,035.0	10,935.8	2,010.4	9,563.3	11,573.7	3,564.2	9,231.6	13,222.5	16.7	9.2	10.8	38851.9	100628.3	144131.1

Source: ASEAN Foreign Direct Investment Statistics Database as of 1 August 2014 [Data is compiled from submission of ASEAN Central Banks and National Statistical Offices through the ASEAN Working Group on International Investment Statistics (WGIIIS).



global automotive manufacturers have multiple production facilities across the region, with plants located in different ASEAN countries. Aside from the top 10 global auto makers, other major auto companies such as Hyundai, Suzuki, Mazda, Mitsubishi, Dongfeng and Tata Motor also operate in the region.

Many major global auto parts and fastener manufacturers are in ASEAN. Many of them are contract manufacturers for the automotive industry. They have multiple subsidiaries, manufacturing and non-manufacturing, located in a number of ASEAN countries to service the region's rapidly expanding auto markets. These companies include Denso, Delphi, Valeo, Lear, GKN, NSK, Calsonic Kansei and JTEKT. Their presence and operations contribute to strengthening the region's automotive supporting industry.



Myanmar with its rich resource endowment continued to attract significant FDI flows into the extractive industries. FDI in services, including finance, dominated flows in the Philippines. As with previous years in Singapore, the service sector as a whole received the majority of inflows in 2013. Thailand received US\$7.2 billion of FDI in manufacturing, which accounted for 55% of inflows. In addition, the electronics and automotive industries (such as the fastener industry) remained the major recipients of FDI within the manufacturing industry. In Vietnam, three key industries (namely manufacturing, services, and construction) accounted for 87% of inflows. FDI into manufacturing activities rose by 47% and construction by 59% in the country (see Table 1). FDI in manufacturing was expected to rise in 2013. Inflows continue to be concentrated in traditional industries such as electronics and automotive (such as the fastener industry), where some ASEAN countries are major global production centres and have become a major link in the global value and supply chains within these industries.

What Investors in ASEAN Should Know

A- One of ASEAN's immediate goals is to form the ASEAN Economic Community, or AEC, in 2015. The AEC envisages the following key characteristics:

- 1) a single market and production base;
- 2) a highly competitive economic region;
- 3) a region of equitable economic development; and
- 4) a region fully integrated into the global economy.

B- In short, the AEC will transform ASEAN into a region with free movement of goods, services, investment, skilled labor and a freer flow of capital.

C- ASEAN can also expect to see a shortage of highly skilled workers as innovation increases demand for high-tech consumer products.

D- Another point in ASEAN region is: There is a developing strategy among many ASEAN countries to move away from low cost manufacturing and become providers of value-added products in many sectors. Indonesia, in particular, is keen to progress from a primary producer of ores and to process the country's vast mineral resources through its own smelting and refining operations into finished products.

MNCs are breaking down national boundaries to find the best sources of materials, resources and with lower cost of production. The location of headquarters is immaterial; the senior managers in MNCs are also recognising the

importance of breaking down these boundaries and adopting acculturation in order to be more efficient and effective in a competitive global market place. Studies show that most of the MNCs, which have located in the ASEAN in region for more than a decade, the management style might have changed in response to cross-cultural developments taking place in ASEAN, which is a fast developing region. These managers have acquired transnational skills, global perspective, local responsiveness, synergistic learning, cross-cultural interaction, and collaboration in order to be competent. These MNCs have assimilated the elements of the domestic and foreign culture, besides emphasising on cross-cultural training and other organisational developments.

Conclusion

ASEAN's strong FDI performance was brought about as a result of various factors, including a surge in M&A sales, a record increase in intra-ASEAN investments and a rise in FDI from emerging sources on top of regional measures and agreements. Specifically, ASEAN has implemented a number of regional measures over recent years – including measures to implement the ASEAN Comprehensive Investment Agreement, to develop the ASEAN Economic Community and the ASEAN Trade in Goods Agreement, the ASEAN Framework Agreement on Services and the ASEAN Agreement on the Movement of Natural Persons. Furthermore, each individual ASEAN member country has also introduced measures to further improve their respective investment environments by further opening up more industries for investment and investment routes, simplifying investment procedures and providing tax and financial incentives to promote FDI in new industries.

Reference:

- <http://cogitasia.com/by-the-numbers-foreign-direct-investment-in-southeast-asia/>
- <https://www.usasean.org/system/files/downloads/Investing-in-ASEAN-2013-14.pdf>
- <http://www.asean.org/news/item/foreign-direct-investment-statistics>
- http://www.japantimes.co.jp/news/2014/03/28/national/asean-works-to-overcome-challenges/#.VHUzssk_U18
- http://repo.uum.edu.my/426/1/M._Sadiq_Sohail.pdf
- <http://www.aseanbriefing.com/news/2013/08/23/asean-report-fdi-flows-at-a-record-high.html>