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## Прямые иностранные инвестиции в АСЕАН и их роль в экономическом росте

Нгуен Фу Хыу<sup>1</sup>,  
Рожанская Елена Александровна<sup>1,2</sup>

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<sup>1</sup> Российский экономический университет имени Г.В. Плеханова

<sup>2</sup> Финансовый университет при Правительстве РФ

**Аннотация.** В статье исследуется роль прямых иностранных инвестиций (ПИИ) в содействии экономическому росту в регионе АСЕАН – динамичной области, известной своим быстрым экономическим развитием в последние десятилетия. Целью исследования является анализ ситуации с ПИИ в АСЕАН и их распределения между ключевыми секторами, такими как производство, финансы и торговля, а также оценка проблем и возможностей региона, возникающих при привлечении иностранного капитала. В статье рассматривается, как политика АСЕАН (либерализация торговли, взаимные соглашения, Экономическое сообщество АСЕАН и другие инициативы) успешно позиционировала регион как основное место привлечения ПИИ. Результаты исследования показывают, что ПИИ в значительной мере обеспечили экономический рост, создание рабочих мест и технологический прогресс, хотя выгоды по-прежнему неравномерно распределены между государствами-членами АСЕАН. В статье также отмечена возрастающая важность устойчивых и высокотехнологичных инвестиций, при этом подчёркивается, что будущий экономический прогресс потребует устранения неравномерного развития инфраструктуры, повышения человеческого капитала и укрепления нормативно-правовой базы. Выводы показывают, что, хотя прямые иностранные инвестиции остаются важнейшим фактором роста, АСЕАН должна сосредоточиться на продвижении инклюзивности и устойчивости в своих инвестиционных стратегиях, чтобы сохранить конкурентное преимущество на мировом рынке.

**Ключевые слова:** АСЕАН, прямые иностранные инвестиции, экономический рост, интеграция, индустриализация, устойчивое развитие.

**Авторы:**

Нгуен Фу Хыу, студент, Высшая школа экономики и бизнеса, Российский экономический университет имени Г.В. Плеханова (адрес: 115054, Россия, Москва, Стремянный переулок, д. 36). ORCID: 0009-0004-2404-6932. E-mail: nguyenuhuphubp@gmail.com

Рожанская Елена Александровна, кандидат экономических наук, доцент кафедры международного бизнеса, Российский экономический университет имени Г.В. Плеханова (адрес: 115054, Россия, Москва, Стремянный переулок, д. 36), Финансовый университет при Правительстве РФ (адрес: 125167, Москва, Ленинградский пр-т, д. 49/2). ORCID: 0000-0002-9210-6309. E-mail: Rozhanskaia.EA@rea.ru

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## Foreign direct investment in ASEAN and its Role in economic growth

Nguyen Phu H.<sup>1</sup>,  
Rozhanskaya Elena A.<sup>1,2</sup>

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<sup>1</sup> Plekhanov Russian University of Economics

<sup>2</sup> Financial University under the Government of the Russian Federation

**Abstract.** This paper investigates the role of foreign direct investment (FDI) in fostering economic growth within the ASEAN region, which is a dynamic area known for its fast-paced economic development in recent decades. The study's objective is to analyze the FDI situation in ASEAN and how it is distributed among key sectors such as manufacturing, finance, and trade, as well as to assess the challenges and opportunities that the region faces in attracting foreign capital. The study explores how ASEAN's policies, such as trade liberalization, agreements, the ASEAN Economic Community (AEC), and other initiatives, have successfully positioned the region as a prime destination for FDI. The findings indicate that FDI has significantly contributed to economic growth, job creation, and technological advancement, though benefits remain unevenly distributed among the member states. The paper also highlights the growing importance of sustainable and high-tech investments, emphasizing that future economic progress will require addressing infrastructure gaps, enhancing human capital, and strengthening regulatory frameworks. The findings suggest that, while FDI remains a crucial driver of growth, ASEAN must focus on promoting inclusivity and sustainability in its investment strategies to maintain its competitive edge in the global market.

**Keywords:** ASEAN, foreign direct investment, economic growth, integration, industrialization, sustainable development.

### **Authors:**

Nguyen Phu H., High School of Economics and Business, Plekhanov Russian University of Economics (address: 36 Stremyanny Pereulok, Moscow, 115093, Russian Federation). ORCID: 0009-0004-2404-6932. E-mail: nguyenuhuphubp@gmail.com

Rozhanskaya Elena A., PhD (Economics), Associate Professor, International Business department, Plekhanov Russian University of Economics (address: 36 Stremyanny Pereulok, Moscow, 115093, Russian Federation), Financial University under the Government of the Russian Federation (address: 125167, Moscow, Leningradsky Prospekt, 49/2). ORCID: 0000-0002-9210-6309. E-mail: Rozhanskaia.EA@rea.ru

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## Introduction

The Association of Southeast Asian Nations (ASEAN) is one of the most dynamic and fastest growing economic areas in the world [Shi, Yao 2020]. Originally including five members (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), ASEAN was founded in 1967 and

has since grown to include Brunei, Vietnam, Laos, Myanmar, and Cambodia<sup>1</sup>. With a combined population of about 670 million by 2022, the ten ASEAN Member States are positioning themselves as the world's third largest population region, behind only China and India<sup>2</sup>.

ASEAN has become a crucial participant in international commerce and investment as a result of these countries' pursuit of economic integration and cooperative policies [Mirakyan 2020; Park 2024]. Together with that ASEAN has strengthened its position as the leader in East Asian economic integration through the ASEAN Economic Community (AEC) and the Regional Comprehensive Economic Partnership (RCEP), particularly in light of the challenges posed by growing protectionism, trade tensions between the United States and China, and the COVID-19 pandemic's effects on the region [Shimizu 2021]. Therefore, ASEAN is currently regarded as one of the most influential nations in international economic and foreign policy [Regnovskii 2022].

The ASEAN area has continuously implemented a number of initiatives and policies to promote investment. These programs have accelerated recently, especially during the epidemic, as seen by the rapid increase from 6 new investment-support measures in 2019 to 28 in 2020<sup>3</sup>. Additionally, ASEAN nations have a strategic location along important maritime lanes and possess a wealth of natural resources that enable them to match the economic goals of other countries [Pankaj 2022]. As a result, foreign direct investment (FDI) inflows into the area have exhibited growth, and ASEAN has accounted for more than 10 % of all investment flow globally since 2018, regularly ranking among the top destinations for FDI worldwide [Xavier 2023].

This study aims to provide a comprehensive perspective on how FDI affects various ASEAN countries and industries, as well as how it helps the region's economy expand steadily. Historically, ASEAN nations have drawn FDI because of their lower costs, but these days, they are moving into higher-value industries like digital technology, renewable energy, and sophisticated manufacturing. The study will provide insights into the changing role of foreign investment as a driver for economic growth by examining existing patterns and future possibilities for FDI in the area.

### **Literature review**

Over the past few decades, it has long been acknowledged that FDI is a major factor in economic growth [Ghimire 2023]. FDI inflows and economic growth are highly correlated, underscoring the critical role that luring in foreign capital plays in advancing economic progress, especially in developing countries [Sahu 2021]. Therefore, FDI is essential for promoting economic growth as it advances technology, increases commerce, creates jobs, and strengthens global market integration [Mohanty, Sethi 2019]. Additionally, bringing in foreign investment significantly increases local businesses' ability for innovation [Abdurazzakov et al. 2020].

FDI is essential for fostering long-term economic growth, particularly in emerging and developing countries, where it complements domestic investments [Dinh et al. 2019]. As a result of improved innovation performance, ASEAN nations like Vietnam, Cambodia, and Thailand have profited greatly from FDI [Che et al. 2021]. Studies indicate that the economic growth of ASEAN-8

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<sup>1</sup> The Founding of ASEAN. *The ASEAN Secretariat*. URL: <https://asean.org/the-founding-of-asean/> (accessed: Oct 1, 2024).

<sup>2</sup> ASEAN Key Figures – 2023. *The ASEAN Secretariat*. URL: <https://asean.org/serial/asean-key-figures-2023/> (accessed: Oct 7, 2024).

<sup>3</sup> World investment report. *UNCTAD*, Jun 20, 2024. URL: <https://unctad.org/publication/world-investment-report-2024> (accessed: Oct 9, 2024).

countries is positively impacted by advancements in FDI and information and communication technology (ICT), with enhanced ICT infrastructure serving as a magnet for multinational corporations [Sapuan, Roly 2021]. Moreover, FDI promotes financial mobility within ASEAN, which is essential for the advancement of the economy in the area [Sriyana, Afandi 2020]. There is a need to draw in more high-tech FDI projects in Vietnam since human capital and FDI have a long-term favorable impact on labor productivity [Le et al. 2019]. Governments in Indonesia, Malaysia, Singapore, and Thailand are also urged to strengthen regulations in order to maintain FDI inflows, as FDI contributes to these countries' economic growth [Humaira et al. 2021]. Furthermore, in Cambodia, Laos, Myanmar, and Vietnam, FDI is significantly influenced by market size and natural resources [Phommouny et al. 2024].

Even though ASEAN nations have received FDI from many sources as a result of the integration process, certain concerns remain. On the one hand, one of the key concerns that might lead to more serious issues is the absence of proficiency in other languages or other necessary abilities in these nations [Onyusheva et al. 2018]. Concerns regarding the inverse relationship between corruption and FDI flows are also present in emerging nations [Kasasbeh et al. 2018]. On the other hand, the ASEAN countries are experiencing increased environmental degradation as a result of economic expansion and FDI [Nasir 2021].

The literature emphasizes the nuanced connection between FDI and ASEAN economic growth. Although FDI is acknowledged as a crucial catalyst for economic expansion, as it promotes creativity, raises productivity, and generates job possibilities, it also has some drawbacks. These elements imply that different ASEAN nations have different advantages from FDI. More investigation is required on the long-term impacts of FDI as the area develops, especially with regard to fostering sustainable development and fair growth.

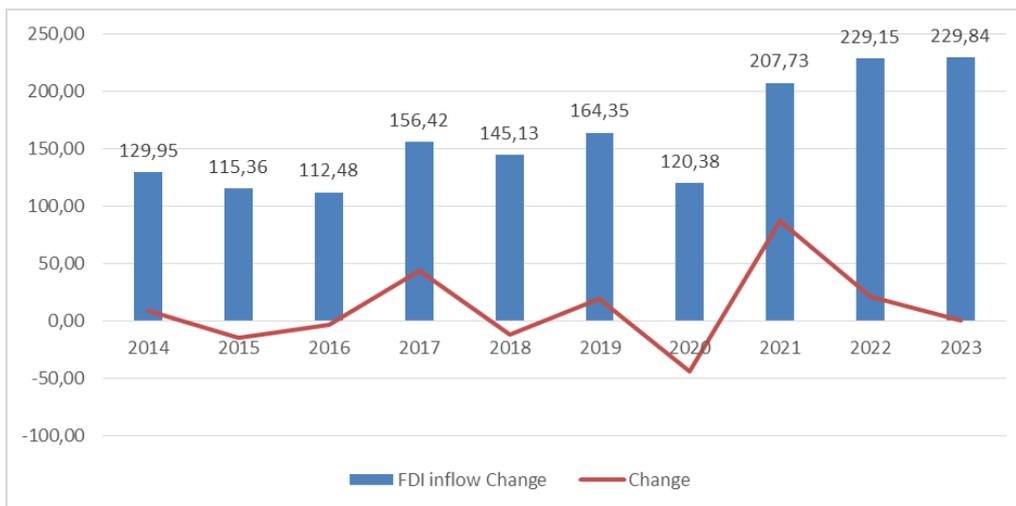
### **FDI Trends in ASEAN and Sectoral Distribution**

With the help of FDI, ASEAN has grown economically and regionally during the past 50 years, going from being a modest participant in the operations of multinational businesses to a prominent player in Global Value Chains (GVCs). Reducing barriers to investment inflows, investing in infrastructure, and enhancing the business climate have all been goals of ASEAN's outward-oriented trade and FDI initiatives since the 1980s<sup>4</sup>. The region has eased restrictions on FDI inflows as well as it has also made significant investments in industrial and social infrastructure, while working to enhance the overall business environment [Kawai, Naknoi 2015]. Important initiatives, such as trade liberalization and the establishment of the ASEAN Economic Community (AEC) in 2015, have improved ASEAN's attractiveness to FDI by uniting the region's markets and easing investment.

FDI inflows have fluctuated significantly over the last ten years, peaking at \$229.84 billion in 2023 after starting at around \$129.95 billion in 2014 (Fig. 1). 2016 had a significant decline in inflows, reaching \$112.48 billion. FDI increased by 72 % to \$207.73 billion in 2021, a huge rise that was presumably caused by efforts to recover from the epidemic. Though it fell to \$120.38 billion in 2020 as a result of pandemic-related issues, foreign investment into the ASEAN area has been mostly rising since 2017, highlighting the region's growing economic significance.

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<sup>4</sup> ASEAN at 50: Achievements and Challenges in Regional Integration. *UNCTAD*, 2017. URL: [https://unctad.org/system/files/official-document/gdsecidc2017d2\\_en.pdf](https://unctad.org/system/files/official-document/gdsecidc2017d2_en.pdf) (accessed: Oct 18, 2024).



**Figure 1.** FDI into ASEAN from 2014 to 2023 (in billion US\$)

*Source:* Compiled by the authors based on data from ASEANstats. URL: <https://data.aseanstats.org/fdi-by-hosts-and-sources> (accessed: Oct 1, 2024).

In recent times, the manufacturing sector in ASEAN, together with the finance and insurance industries, has been the main beneficiary of FDI (Fig. 2). The manufacturing industry brought in \$50.54 billion in 2023, accounting for 21.99 % of all inflows, demonstrating its vital importance in the region's economic structure. Significant expansion was also seen in the insurance and financial industries, with inflows reaching \$91.94 billion from \$60.23 in the previous year, or 40.00 %, in 2023. The steady growth of this industry has significantly improved the region's financial environment. Because of the strong demand for trade services in the area, wholesale and retail trade, which includes vehicle repair services, also came in third place, bringing in \$19.29 billion (8.39 %). Investors are still drawn to these businesses.



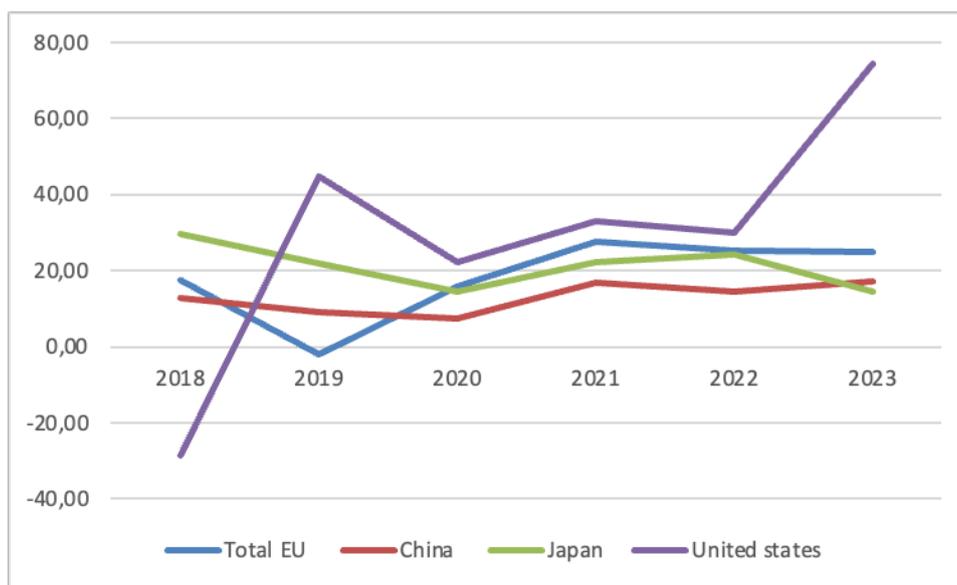
**Figure 2.** Top attractive sectors for FDI in ASEAN

*Source:* Compiled by the authors based on data from ASEANstats. URL: <https://data.aseanstats.org/fdi-by-sources-and-sectors> (accessed: Oct 3, 2024).

Global supply networks were significantly affected by the COVID-19 pandemic. Nonetheless, the insurance and financial industries grew as a result of government initiatives to support financial inclusion, increasing consumer demand for digital financial services, and economic recovery programs. The faster adoption of digital banking, insurance goods, and fintech platforms was followed by more investment. These changes demonstrate how FDI tendencies in particular industries have been influenced by conflicts around international trade and technical improvements.

Other noteworthy industries in 2023 were storage and transportation, which brought in \$14.98 billion (6.52 %), indicating the region's emphasis on enhancing logistics and infrastructure to manage rising trade volumes. Furthermore, real estate continued to be a significant industry, earning \$12.46 billion (5.42 %) in that year, highlighting the necessity of urbanization and real estate growth in the area. With investment plans that take into account both regional and global economic goals, these top five sectors continue to be essential in propelling ASEAN's economic growth and diversification.

Major foreign corporations have shown diverse patterns of investment in ASEAN in recent years (Fig. 3). While the EU rebounded from a decrease in 2019, reaching a peak of \$27.62 billion in 2021 and stabilizing at \$24.89 billion in 2023, Japan's investments decreased from \$29.68 billion in 2018 to \$14.54 billion in 2023. The U.S. had the biggest change, going from -\$28.62 billion in 2018 to \$74.36 billion in 2023, while China's FDI increased from \$12.85 billion to \$17.31 billion.



**Figure 3.** Top investors of FDI in ASEAN (in billion US\$)

*Source:* Compiled by the authors based on data from ASEANstats. URL: <https://data.aseanstats.org/fdi-by-sources-and-sectors> (accessed: Oct 3, 2024).

The amount of FDI distributed among ASEAN members differed greatly per nation. At \$13.6 billion (54.53 %), the European Union invested mostly in the insurance and financial sectors; at \$6.8 billion (27.45 %), the wholesale and retail trade sectors got a lower amount of funding. Manufacturing accounted for \$6.3 billion (36.13 %) of China's investments, with wholesale and retail trade coming in second with \$3.6 billion (20.90 %). Japan's FDI was mostly directed toward manufacturing, totaling \$4.3 billion (29.26 %), with \$5.0 billion (34.42 %) going into transportation and storage. The banking and insurance industries accounted for \$53.8 billion (72.40 %) of all FDI received by the United States; professional, scientific, and technical activities got \$13.2 billion (17.74 %).

**Country Specific Analysis: FDI in ASEAN Countries**

The ten-member ASEAN area has become an attractive location for FDI, but there are also differences among ASEAN members in terms of FDI inflow. The different economic structures, laws, and sectors of each nation have resulted in an unequal distribution of FDI inflows throughout the area (Table 1).

**Table 1.** FDI to ASEAN by Countries (in million US\$)

Host Country	2018	2019	2020	2021	2022	2023
Singapore	73,101.3	97,529.6	74,886.9	126,625.2	141,093.7	159,630.1
Indonesia	20,563.5	23,883.3	18,591.0	21,131.1	25,389.9	21,627.7
Viet Nam	15,500.0	16,120.0	15,800.0	15,660.0	17,900.0	18,500.0
Philippines	9,948.6	8,671.4	6,822.1	11,983.4	9,492.2	8,864.0
Malaysia	7,611.3	7,859.7	3,185.3	12,144.2	17,284.0	8,781.5
Thailand	11,705.4	3,765.1	-6,284.0	14,417.1	11,082.2	4,547.8
Cambodia	3,212.6	3,663.0	3,624.6	3,483.5	3,578.8	3,958.8
Myanmar	1,609.8	1,729.9	2,205.6	1,005.0	2,980.9	2,204.1
Lao PDR	1,358.0	755.5	967.7	1,071.9	635.8	1,781.2
Brunei	517.3	374.6	577.4	204.8	-284.4	-56.9
Grand Total	145,127.7	164,352.1	120,376.6	207,726.1	229,153.3	229,838.1

Source: Compiled by the authors based on data from ASEANstats. URL: <https://data.aseanstats.org/indicator/FDI.AMS.TOT.INF> (accessed: Oct 10, 2024).

Significant differences in investment attractiveness can be seen in the distribution of FDI across ASEAN nations, with Singapore continuously leading the inflows. Nearly 70 % of all FDI in 2023 came to Singapore alone, highlighting the country's status as a regional financial center and the advantages of its cutting-edge infrastructure and stable economic climate. Furthermore, Singapore acts as a gateway for investors into the larger Asia-Pacific area because to its strategic position as a global financial hub. Indeed, Singapore has attracted more than twice the U.S. FDI compared to any other country in Southeast Asia<sup>5</sup>. Vietnam and Indonesia are two other significant receivers who have managed to hold onto their important places as major destinations because of their expansive markets, labor advantages, and manufacturing capacities. However, Indonesia's proportion dropped from its high in previous years to 9.41 % in 2023. Indonesia's abundant natural resources continue to draw significant FDI, especially in the mining, oil, and gas sectors<sup>6</sup>. Indonesia's sovereign wealth fund, known as the Indonesia Investment Authority (INA), was created to draw in foreign and local capital for various national infrastructure and economic

<sup>5</sup> 2023 Investment Climate Statements: Singapore. *U.S. Department of State*, Dec 31, 2023. URL: <https://www.state.gov/reports/2023-investment-climate-statements/singapore/> (accessed: Oct 9, 2024).

<sup>6</sup> 2021 Investment Climate Statements: Indonesia. *U.S. Department of State*, Dec 31, 2023. URL: <https://www.state.gov/reports/2021-investment-climate-statements/indonesia/> (accessed: Oct 9, 2024).

initiatives. Recent trends show that Indonesia's sizable and rapidly urbanizing consumer market is driving more interest in the country's industrial and digital industries.

As international corporations look for alternatives to China, Vietnam has grown to be a major destination for FDI, especially in the manufacturing sector. Global firms like Samsung and Intel have developed substantial operations in Vietnam, utilizing its inexpensive labor costs, advantageous trade agreements, and key placement in global supply networks. Vietnam has also become a more desirable location for industrial and technological investment due to its participation in important trade agreements, including the EU-Vietnam Free Trade Agreement (EVFTA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Similarly, despite fluctuations in respective FDI proportions, Malaysia and the Philippines continue to hold key economic and policy-making roles. In the business process outsourcing (BPO) industry, Malaysia and the Philippines have emerged as popular locations for FDI. For contact centers and other outsourced services, the Philippines has emerged as a worldwide leader because to its vast English-speaking workforce and affordable cost of living<sup>7</sup>.

Smaller ASEAN countries with smaller markets, such as Brunei, Lao PDR, and Cambodia, continue to draw relatively small amounts of FDI because of their less established investment environments. As they contend with more developed and larger economies, these nations continue to encounter difficulties in establishing themselves as desirable locations for substantial foreign investment. Despite being a more powerful country overall, Thailand's investment inflow has been inconsistent, as seen by its proportion falling to 1.98 % in 2023.

### **Contribution of FDI to ASEAN Economic Growth**

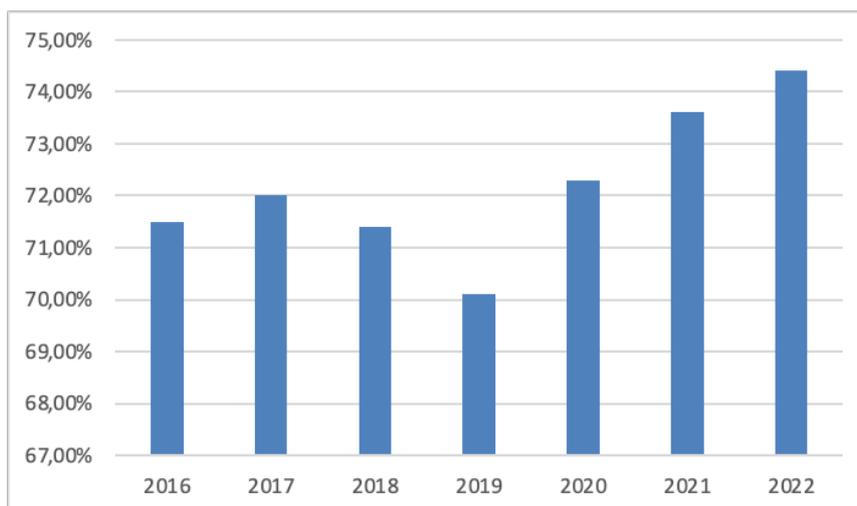
Across ASEAN, multinational companies (MNEs) are vital to the generation of jobs, employing millions in sectors such as manufacturing and services. MNEs in the garment sector in Cambodia employ almost 500,000 people; Toyota employs 17,000 people in Thailand; and 3,500 people are directly employed by Royal Dutch Shell's joint venture in Brunei, with an additional 8,000 jobs through local contractors<sup>8</sup>. This widespread employment raises income levels, brings in a sizable amount of tax money for the government, and promotes local economies, all of which contribute to the region's overall economic growth.

FDI inflows into ASEAN have mostly focused on industries that support long-term economic development. In Vietnam, FDI is one important aspect contributing to its economic growth and GDP increase [Tran, Hoang 2018]. Significant FDI is still coming into the manufacturing sector, especially in countries like Vietnam, Thailand and Malaysia, where a sizable portion of the GDP is derived from manufactured exports. For instance, the FDI-driven export-oriented manufacturing sector in Vietnam (Fig. 4).

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<sup>7</sup> Business Process Outsourcing in The Philippines. *ASEAN Briefing*, Apr 17, 2017. URL: <https://www.aseanbriefing.com/news/business-process-outsourcing-philippines/> (accessed: Oct 12, 2024).

<sup>8</sup> A Historic Milestone for FDI and MNEs in ASEAN. *The ASEAN Secretariat*, 2017. URL: <https://asean.org/wp-content/uploads/2020/12/ASEAN-at-50-A-Historic-Milestone-for-FDI-and-MNEs-in-ASEAN.pdf> (accessed: Oct 9, 2024).



**Figure 4.** FDI sector's contribution to export in Vietnam (%)

*Source:* Compiled by the authors based on data from General Statistics Office of Vietnam. URL: <https://www.gso.gov.vn/wp-content/uploads/2023/07/TDTKT-KQ-hoat-dong-FDI-2016-2020.pdf> (accessed: Oct 15, 2024).

Singapore's financial industry has benefited greatly from the swift growth of single- and multi-family offices, which has drawn considerable FDI. High-net-worth people from China, India, and the United States were a major factor in the rise of family offices, which jumped from 400 in 2020 to 1,400 by the end of 2023. By 2022, these family offices, which mostly handled investments and provided consulting services, managed approximately \$102 billion in assets, or 22 percent of Singapore's GDP. Around three-quarters of these money came from sources outside of Singapore, highlighting the substantial contribution of foreign investment to the country's economic growth<sup>9</sup>.

**Table 2.** Top 5 global EV battery manufacturers expanding in ASEAN

Company	Headquarters	Global market share by sales volume, 2022 (%)	ASEAN Country	Recent battery investments in ASEAN (selected cases)
CATL	China	34	Indonesia	Invested in a \$104 million factory for EV battery assembly in a joint venture with Arun Plus
LG Energy Solution	Republic of Korea	14	Vietnam	\$9.8 billion deal to develop integrated EV battery facilities in Indonesia
BYD	China	12	Thailand	Building an EV plant in Thailand and planning another in Vietnam
SK	Republic of Korea	7	Malaysia	Subsidiary SK Nexilis invested \$547 million to set up a copper foil manufacturing facility
Panasonic	Japan	10	Indonesia	Invested in facilities for manufacturing manganese and lithium batteries

*Source:* A Special ASEAN Investment Report 2023. International investment trends: Key issues and policy options. URL: <https://asean.org/wp-content/uploads/2023/12/AIR-Special-2023.pdf> (accessed: Oct 17, 2024).

<sup>9</sup> ASEAN Investment Report 2024. *The ASEAN Secretariat*, Oct 2024. URL: <https://asean.org/wp-content/uploads/2024/10/AIR2024-3.pdf> (accessed: Oct 17, 2024).

The post-pandemic recovery is driving strong expansion in ASEAN's manufacturing sector and drawing considerable FDI, along with rising demand for electronics, EV components, and Industry 4.0 technologies (Table 2). Conventional automakers are investing heavily in all facets of the electric vehicle supply chain, from mining to the manufacturing of batteries and componentry. For example, Ford, Vale, and Zhejiang Huayou Cobalt have joined together to build an Indonesian nickel processing plant valued at \$4.5 billion and to improve assembly processes in Vietnam and Thailand<sup>10</sup>.

Innovation and technology transfer in ASEAN are significantly fueled by FDI. Increases in productivity and innovation result from the introduction of new technology, industrial methods, and managerial know-how by foreign investors that local businesses might not have. Significant technology transfers have resulted from foreign investment in Malaysia's electronics industry, especially in the semiconductor manufacturing sector, where local businesses have been able to advance up the value chain and improve their technological skills. These elements serve as the driving force behind Malaysia's development as a major semiconductor R&D center worldwide [Said, Tan 2024].

The growth of digital and physical infrastructure in ASEAN has been another important effect of FDI. The \$6 billion China-Laos railway project, which was mostly funded by FDI, has improved regional connectivity in Laos and is predicted to boost economic growth by lowering trade costs and promoting cross-border trade. Future estimates for Laos' aggregate income suggest that the railway could add up to 21 %, while the country's integration into the larger Belt and Road Initiative might boost GDP by an additional 21 %<sup>11</sup>.

### **ASEAN's Policy to Attract and Retain FDI**

Through the years, ASEAN and its member nations have put in place a number of policies and agreements aimed at fostering more openness, improving the investment climate, and bolstering regional collaboration. Despite competition from other rising countries, these activities are essential to establishing ASEAN as a major destination for FDI (Table 3).

**Table 3.** Examples of ASEAN agreements or initiatives for FDI

Agreement	Date Signed/Established
ASEAN Smart Cities Network	April 2018
ASEAN Agreement on Electronic Commerce	January 2019
ASEAN Declaration on Industrial Transformation to Industry 4.0	November 2019
Fourth Protocol to Amend the ASEAN Comprehensive Investment Agreement (ACIA)	July 2020
ASEAN-Wide Self-Certification (AWSC) Scheme	September 2020
ASEAN Trade in Services Agreement	October 2020
ASEAN Comprehensive Recovery Framework	November 2020

<sup>10</sup> A Special ASEAN Investment Report 2023. *The ASEAN Secretariat*, Dec 2023. URL: <https://asean.org/wp-content/uploads/2023/12/AIR-Special-2023.pdf> (accessed: Oct 17, 2024).

<sup>11</sup> BRI Success Stories: The Laos-China Railway Remains Clearly Well on Track. *Research HKTDC*, Dec 22, 2023. URL: <https://research.hktdc.com/en/article/MTU1NTUzNTAwOQ> (accessed: Oct 16, 2024).

ASEAN Customs Transit System	November 2020
ASEAN Investment Facilitation Framework	September 2021
ASEAN Leaders' Declaration on Developing Regional Electric Vehicle Ecosystem	May 2023

*Source:* Compiled by the authors based on the ASEAN Investment Report 2020–2021 and ASEAN Investment Report 2023. URL: <https://asean.org/wp-content/uploads/2021/09/AIR-2020-2021.pdf>; URL: <https://asean.org/wp-content/uploads/2023/12/AIR-Special-2023.pdf> (accessed: Oct 17, 2024).

With the establishment of the ASEAN Smart Cities Network in April 2018, for instance, these initiatives have gradually progressed. Notable breakthroughs include the 2019 ASEAN Agreement on Electronic Commerce, which aims to improve digital commerce, and the ASEAN Declaration on Industrial Transformation to Industry 4.0, which demonstrates the region's dedication to adopting new technologies. The ASEAN-Wide Self-Certification Scheme, the ASEAN Trade in Services Agreement, and modifications to the ASEAN Comprehensive Investment Agreement (ACIA) all contributed to the simplification of trade and investment procedures in the years that followed. The post-pandemic recovery efforts and customs efficiency were reinforced with the introduction in November 2020 of the ASEAN Comprehensive Recovery Framework and the ASEAN Customs Transit System. Recent efforts, such the 2021 ASEAN Investment Facilitation Framework and the 2023 Declaration on Developing a Regional Electric Vehicle Ecosystem, demonstrate ASEAN's progressive outlook on sustainability and economic growth.

In a comparable direction, ASEAN has stressed how critical it is to improve logistics and infrastructural capabilities in addition to liberalizing investment laws. The goal of programs like the Master Plan on ASEAN Connectivity (MPAC) 2025 is to improve institutional, interpersonal, and physical ties within the ASEAN region<sup>12</sup>. ASEAN maintains its competitiveness as a destination for international investment by developing its energy supply, transportation networks, and digital infrastructure. MNEs have found the area more appealing because to the MPAC 2025 program, notably in industries like logistics and e-commerce.

As part of a larger plan to draw in foreign investment, ASEAN countries have concentrated on making doing business easier. By enacting legislation protecting investors and offering financial incentives, nations like Singapore, Vietnam, and Malaysia have made great strides in creating business-friendly climates. As an example, Special Economic Zones (SEZs) have long been a mainstay of ASEAN countries' export-driven growth policies, helping to diversify their economies, draw significant FDI, increase exports, and generate millions of jobs<sup>13</sup>.

Furthermore, maintaining FDI has been greatly aided by ASEAN's persistent efforts to strengthen intellectual property rights (IPR) protection. Strong IPR enforcement is essential for knowledge-intensive companies, especially those in the high-tech sector. In order to strengthen enforcement procedures and unify IPR laws throughout the region, ASEAN member nations worked together to create the ASEAN Intellectual Property Rights Action Plan 2016–2025<sup>14</sup>.

<sup>12</sup> Master plan on ASEAN connectivity 2025. *The ASEAN Secretariat*, Dec 2017. URL: <https://asean.org/wp-content/uploads/2018/01/47.-December-2017-MPAC2025-2nd-Reprint.pdf> (accessed: Oct 10, 2024).

<sup>13</sup> ASEAN Guidelines for Special Economic Zones (SEZs) Development and Collaboration. *The ASEAN Secretariat*, Dec 2020. URL: <https://asean.org/wp-content/uploads/2020/12/Adopted-ASEAN-Guidelines-for-Special-Economic-Zone-SEZ-Development-and-Collaboration.pdf> (accessed: Oct 9, 2024).

<sup>14</sup> ASEAN IPR Action Plan 2016-2025. *ASEANIP*. URL: <https://www.aseanip.org/resources/asean-ipr-action-plan-2016-2025> (accessed: Oct 20, 2024).

IPR protection not only reassures foreign investors that their inventions would be protected, but it also promotes more investment in R&D, especially in sectors like medicines and information technology.

Along with pursuing bilateral and international trade agreements, ASEAN has worked to increase its appeal as an investment destination. A favorable trade and investment climate is demonstrated by agreements such as the ASEAN Free Trade Area (AFTA) and the more recent RCEP. Since of these accords, ASEAN is now a desirable place for regional manufacturing centers since they lower tariffs, harmonize trade laws, and provide access to new markets. Major international economies like China and Japan are part of the RCEP, which is particularly important since it increases ASEAN's influence in global supply chains.

### **Challenges to FDI in ASEAN and Future Prospects**

The ASEAN countries' economies have benefited greatly from FDI, which has fueled industrial growth and infrastructural development. Nevertheless, even with all of that promise, there are a number of obstacles facing foreign investors in the region that might prevent FDI from growing sustainably. These difficulties include geopolitical concerns, fundamental economic problems, and regulatory obstacles.

One of significant obstacles to international investment is still infrastructure, especially in the less developed ASEAN nations. While some members, like Singapore and Malaysia, have advanced significantly in terms of infrastructure development, others, like Laos and Cambodia, are still lagging behind. For international enterprises, inadequate digital infrastructure, restricted energy access, and poor transportation linkages increase operating costs and reduce possible returns on investment. To improve the climate for FDI, it is imperative to address these discrepancies within the area.

Political uncertainty and economic volatility continue to pose dangers for international investment in the area. Long-term investment projects may find themselves in an unstable environment due to changes in government policies, particularly those pertaining to property rights and investment rules. Furthermore, problems with governance and corruption make investment procedures even more difficult, especially in nations where accountability and openness are still developing. By endangering the stability of the area, external geopolitical threats like disputes in the South China Sea might also have an effect on investor confidence.

Significant environmental and social concerns, notably those pertaining to human rights, sustainable development, and environmental preservation, have been brought up by the flood of FDI into ASEAN. Foreign investments have the potential to stimulate economic growth, but if they are not properly managed, they might potentially worsen the environment. In several ASEAN nations, industries including mining, agriculture, and manufacturing have been linked to pollution, deforestation, and excessive use of natural resources. Concerns exist over worker rights and working conditions as well, particularly in sectors of the economy where foreign investors are looking for low-cost labor. It's crucial to make sure FDI supports sustainable development objectives. To lessen adverse effects, governments should emphasize investments in green technology and socially conscious activities while enforcing stricter restrictions on worker rights and environmental protection.

Despite these obstacles, there is still expectation for FDI in ASEAN, thanks in large part to its continued efforts at regional integration, digital transformation, and economic reform. Investors have a lot of chances in ASEAN because of its youthful and increasing population and growing middle class, especially in consumer-driven industries like retail, technology, and healthcare.

ASEAN's growing digital economy has enormous opportunities for FDI, particularly in the areas of fintech, e-commerce, and technology-based services. Nations like Singapore, Indonesia and Vietnam are leading the region's digital revolution, and this trend is anticipated to draw more international investment into high-tech start-ups and sectors.

Future FDI growth will also be seen in the sustainable development sector. Foreign investment in renewable energy, sustainable infrastructure, and eco-friendly technology will grow as ASEAN countries pursue greener policies and strive to fulfill their international climate pledges. In addition to following international trends, this move toward sustainability establishes ASEAN as a major actor in the change to a low-carbon economy.

Large-scale infrastructure initiatives that are financed both domestically and internationally are expected to lower operating costs for businesses and improve connectivity throughout the area. The governments of ASEAN have made infrastructure development a primary priority, with an emphasis on enhancing digital connections, increasing energy output, and modernizing transportation networks. It is anticipated that these developments would reduce logistical obstacles and raise ASEAN's appeal as a location for global investment.

### **Conclusion**

FDI has emerged as a major engine behind the growth of the ASEAN economy. The area has had significant capital inflows over the last few decades, which have been crucial in changing its economy. These expenditures have accelerated economic development, improved infrastructure, and sparked industrial expansion. Particularly benefiting from FDI are nations like Singapore, Vietnam, and Malaysia, who have strengthened their industrial bases, advanced their technological capacities, and deepened their integration into international supply networks.

Beyond monetary contributions, FDI has played a significant role in promoting innovation, building human capital, and easing the transfer of information within ASEAN. Millions of people now live in better quality of life because to the jobs it has created and the increased competitiveness of regional industry. But not every FDI in the area has been successful. While several nations have successfully drawn in and made use of foreign investment, others struggle with issues including poor infrastructure, unstable political environments, and restrictive laws.

The capacity of ASEAN to draw FDI in the face of global economic upheavals will mostly rest on its dedication to upholding an environment that is transparent, stable, and conducive to business. The region will need to adjust to the increased need for investments that are socially and ecologically responsible, as sustainability becomes more and more important.

In the future, ASEAN's capacity to adjust to new developments in the global trade environment and to rising trends like the digital economy and green technology will determine how successful it is in luring FDI. The area can guarantee that FDI continues to be a major force behind steady economic growth and development by working to improve its investment environment and resolve underlying problems.

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