

The Determinants of Foreign Direct Investment Flows: Evidences from ASEAN Member Countries

Danuvas Sagarik*

Abstract

ASEAN has become the bold destination today for the international investors with its high capacity of achieving more FDI inflows. The major issue for this consideration should focus on the determinants that the region has achieved during the past few years. This paper mainly analyses the determinants of foreign direct investment inflows to the ASEAN. The issues of macroeconomic policies, market size, openness of economy, labor cost, political stability, inflation rate, financial development and infrastructure development are taken into account when considering the determinants in attracting FDI inflows. This was examined with the data of each country taken in year 2002 to 2012. It was confirmed that the region has realized each of these factors and it has attracted investment inflows with those advantages. It illustrates that the openness of economy, along with some other factors, is an important factor attracting FDI along with. Also finally it supplies the policy recommendations to attract more FDI inflows to the region.

Keywords: ASEAN, ASEAN Development, ASEAN Economy, Foreign Direct Investment

* Department of Philosophy, Politics, and Economics, Rangsit University
52/47 Muang Ake, Phaholyothin Road, Pathumthani 12000, THAILAND.
E-mail: danuvas.s@rsu.ac.th

ปัจจัยที่ส่งผลกระทบต่อการลงทุนโดยตรง: ข้อพิสูจน์จากประเทศสมาชิกอาเซียน

ดनुวัศ สาคริก*

บทคัดย่อ

อาเซียนถือว่าเป็นจุดหมายปลายทางของนักลงทุนจากนานาชาติซึ่งอาเซียนก็มีโอกาสที่ปริมาณการลงทุนโดยตรงจากต่างชาติจะเพิ่มขึ้น โดยประเด็นหลักที่ควรนำมาพิจารณาศึกษาก็คือ ปัจจัยที่ส่งผลกระทบต่อการลงทุนในอาเซียนนี้ ดังนั้น การศึกษาครั้งนี้ได้วิเคราะห์ถึงปัจจัยเหล่านี้ซึ่งรวมไปถึงขนาดของเศรษฐกิจ ความเป็นเสรีของเศรษฐกิจ ค่าจ้างแรงงาน เสถียรภาพทางการเมือง ภาวะเงินเฟ้อ การพัฒนาระบบการเงิน และการพัฒนาโครงสร้างพื้นฐานว่ามีผลหรือส่งผลกระทบต่อการลงทุนโดยตรงในอาเซียนหรือไม่ การวิเคราะห์ในการศึกษาครั้งนี้ได้ใช้ข้อมูลจากประเทศสมาชิกอาเซียนในช่วงเวลาปี ค.ศ. 2002 ถึง 2012 จากการศึกษาครั้งนี้ พบว่าภูมิภาคอาเซียนนั้นมีปัจจัยชัดเจนที่ส่งผลกระทบต่อการลงทุนโดยตรงโดยเฉพาะความเป็นเสรีของเศรษฐกิจและปัจจัยอื่น ๆ ทั้งนี้การศึกษานี้ยังได้มีข้อเสนอแนะเชิงนโยบายเพื่อเพิ่มการลงทุนโดยตรงในอาเซียน

คำสำคัญ: อาเซียน การพัฒนาของอาเซียน เศรษฐกิจอาเซียน การลงทุนโดยตรง

* ภาควิชาปรัชญา การเมืองและเศรษฐศาสตร์ มหาวิทยาลัยรังสิต
52/347 เมืองเอก ถนนพหลโยธิน ปทุมธานี 12000
เมล: danuvas.s@rsu.ac.th

Introduction

Since the Bretton Woods Institutions and United Nations were established, Official Development Assistance (ODA) has played a significant role in the development of less developed countries by providing external capital. Foreign Direct Investment (FDI) has grown since the early of 1980s as private capital flow shifting towards the developing market more than developed market. In recent decades, FDI has played a vital role in the development and growth of the economy in many countries.

Many possible effects can be occurred in host countries with the FDI inflows. FDI inflows influence the country's economic growth and work in solving economic problems like transferring superior technologies and integrating the countries with global markets. With the superior technology of investment, firms' high quality products and services can be produced for lower prices. This caused an increase the competition in the firm's development and FDI plays a vital role improving factors of production and capital in the host country.

ASEAN (Association of South East Asian Nation) is moving towards ASEAN Community in 2015 with ASEAN Economic Community (AEC) as one the main pillars. AEC aims to achieve a goal of a region with the characteristics of a single market and production base, a competitive economic region, an equitable economic development, and an integration with the global economy. When considering the growth of ASEAN economies in the world today as well as the characteristics of AEC, it should not leave out the growth of Foreign Direct Investment in ASEAN community. The growth of the ASEAN economy relies on Foreign Direct Invest because the development of a country depends on domestic and external financing. According to Engel and Procher (2012), firms with a broader investment strategy show higher productivity levels than firms with less encompassing foreign investment strategies. FDI tends to enter the markets that have high potential and large market share.

ASEAN has different market potential compared to the rest of the world. The whole region is supplying a broad background for the determinants of the flow of FDI in ASEAN. Despite the fact that the determinants of FDI have been determined by several researches, this paper add to the literature by focusing on the current distribution of FDI into different countries in ASEAN as well as

investigating the determinants of FDI flows specifically in ASEAN economies. This paper, therefore, contributes to the theoretical perspective as well as the application to the case of ASEAN economies. Finally, the results of this paper contribute to the policy recommendations and future analysis of the FDI in ASEAN countries.

Distribution of FDI Inflows in ASEAN

This part mostly considers the distribution of FDI inflows into ASEAN member countries and by sector, theoretical background of FDI determinants and the research findings of the determinants like macroeconomic policies, market size, openness of economy, labor cost, political stability, inflation rate, financial development and infrastructure development.

Trends of FDI flows into ASEAN

With great economic development during the past few decades or so, ASEAN was a red destination for the world investors and during 1991-1997 the FDI into ASEAN was 8% of world total FDI. It increased until 2007 and in 2008, during the financial crisis, it led a negative impact for the FDI inflows to the region. It fell from 85,640 billion US\$ in 2007 to 50,543 billion US\$ in 2008 and continuously dropped in 2009 to 47,810 billion US\$. This is illustrated in Figure 1 using the latest statistics available from UNCTAD. Hoang (2010) also noted that it has increased sharply from 2010 to present.

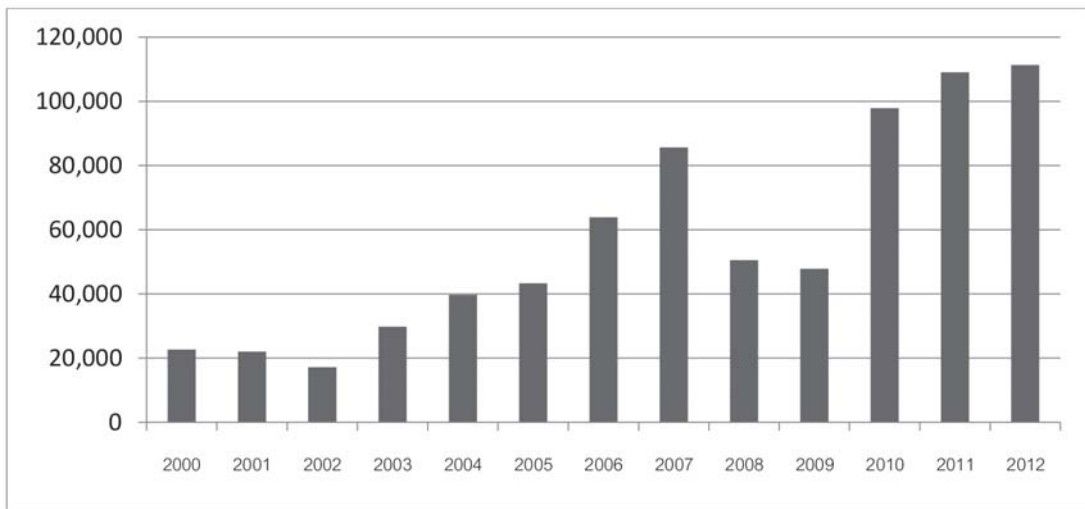


Figure 1: FDI inflows to the ASEAN region – US\$ billion

Source: UNCTAD

Distribution of FDI among ASEAN Member Countries

In fact, the current data illustrate that investment inflows are distributed unequally among member countries. In 2012, ASEAN, 6 main countries led the 95.5% FDI inflows in the region as illustrated in Figure 2.

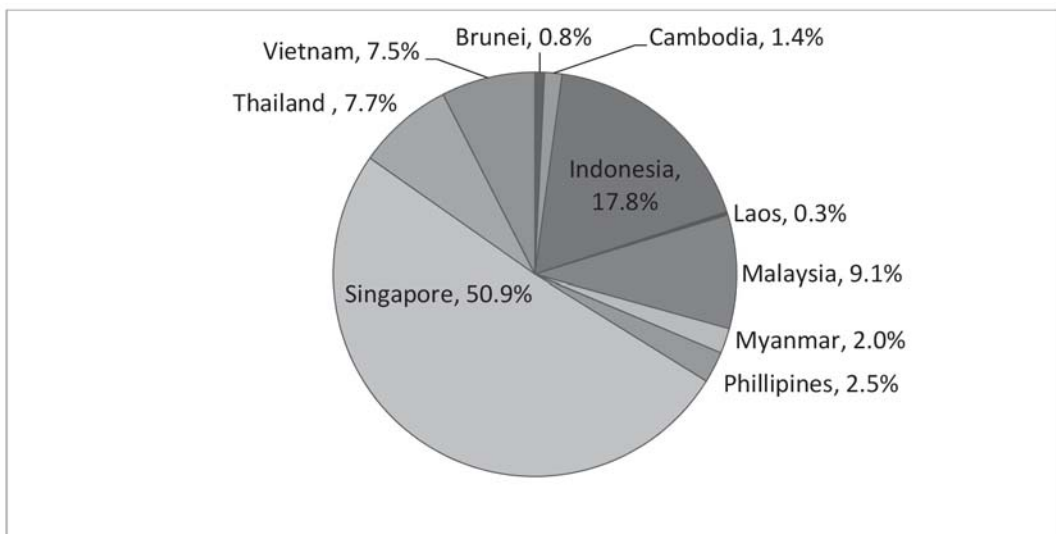


Figure 2: ASEAN Member States’ Share of FDI Inflows 2012

Source: UNCTAD

From Figure 2, Singapore has attracted 56,651 billion US\$, 50.9% among member countries. Indonesia is representing 19,853 billion US\$, 17.8% out of total FDI inflows. After the financial crisis, WTO helps Vietnam to attract more FDI and now it holds 8,368 billion US\$. Malaysia represent 10,074 billion US\$ and Thailand 8,607 billion US\$. The rest is representing only 4.5% from FDI inflows.

Distribution of FDI by Sector

FDI attracts ASEAN by different sectors and significantly it attracts by agriculture, manufacturing and service sector. Before 2008, service sector attracts more FDI inflows and later it transferred to the manufacturing sector. According to the 2012 ASEAN Investment Report, (Figure 3) manufacturing sector has attracted 25,021 billion US\$, representing 72% of FDI inflows in ASEAN. Service sector represents only 26% with 9,129 billion US\$.

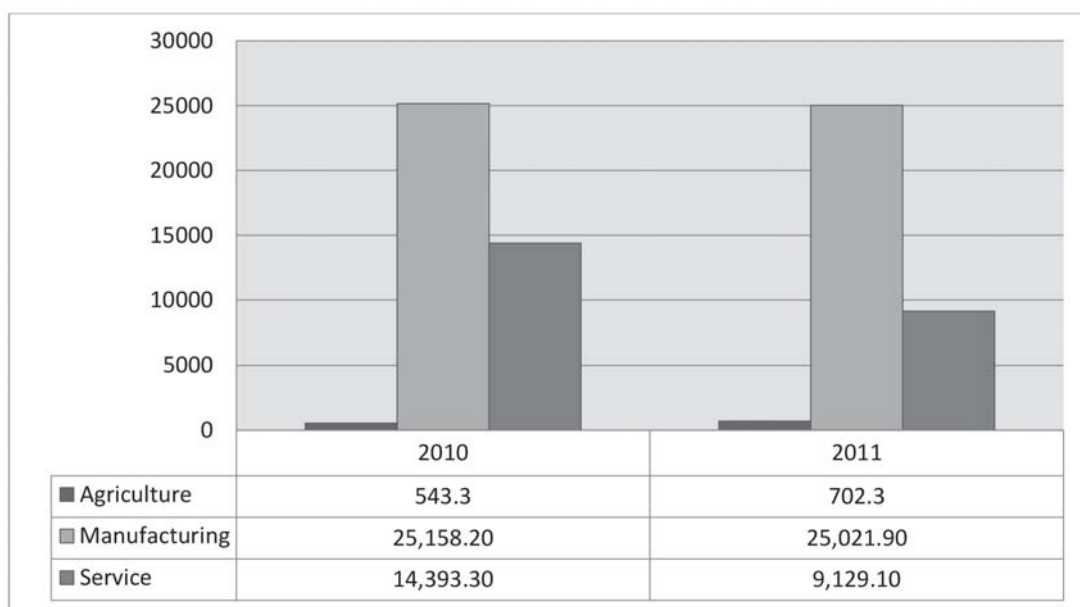


Figure 3: ASEAN – FDI Inflows by Sector: US\$ Billion

Source: ASEAN Secretariat (2013)

Theoretical and Empirical Background

FDI and Its Movement in Theoretical Perspective

Many theories attempt to explain the determinants of FDI in developed and developing countries. This helps scholars to investigate further on the effect of FDI for the countries and to develop a systematic framework to examine the determinants of FDI. Also these help to create new hypothesis for the scholars for further investigations. There are three major theories on determinant of FDI that should be discussed here.

Dunning (1993) argued that the theory on determinant of FDI at least has three different distinct theories- the theory of international capital, the theory of multinational firm and the theory of international trade. He argues that enterprise will look around the market across the border and enter that market if they can acquire a certain profit in that market. Dunning 'eclectic' paradigm is one of the most authoritative treatments of FDI. This paradigm shows three different aspects that FDI seeks for when they enter the host country. The first one is ownership-specific advantages that benefit them and the host country. The second one is international incentive advantages, sometimes this can be disadvantages to host country but benefit for the FDI. The third factor is location specific variable and their main incentives when enters the host country. They would not choose to enter if the host country is lacking many factors in location specific variable. This implies that the condition, including economic conditions at the host country crucial for investment decision.

The conditions of host country is reflected from Dunning (1981), which describes that the countries change with five stages of development. *Stage 1* considered as pre industrialisation and in this stage, there is no inward and outward FDI flows to the small domestic market, insufficient infrastructure, non skill labors and poor legal frameworks.

In *Stage 2*, it is the time for inward FDI, targeting the rising domestic market with goods and infrastructure. However the outward investment is negative with the lack of ownership and inward FDI can higher even than the GDP. In *Stage 3*, domestic firms achieve ownership advantage and they start to compete in the

domestic market. Also invest in developing countries seeking resources and market. *Stage 4*, mostly lead countries for outward investments using the growth of intra industry trade. Make assets with location advantages. Finally in *stage 5*, it is similar to the current situation of developed countries. Here countries consider mainly both inward FDI and outward FDI. However it can be varied according to the economic structure like natural resources, market size and government policies.

Raymond Vernon (1966) introduced a theoretical argument for both FDI and trade. He explained why the manufacturers in United States moving from exporting to FDI. In new *production stage* the country continues their production locally even some foreign countries have lower production cost. However when the product is in *growth stage*, they achieved standardization and invest abroad with lower cost for manufacturing while operating locally. In the *maturity stage*, cost competition arises among all the producers and the US firms also shift their production to the low cost country, sometimes introducing a new product. This theory is more relevant for the producers who enter foreign markets taking the first mover advantage that FDI have already taken place. Many producers can succeed in foreign markets with the determinant of FDI like labor cost, market size, legal issues and macroeconomic policies.

Previous Studies

Previous researches can be found which explained the determinants of FDI both in developed and developing countries. They have investigated and analysed the relationship of FDI inflows with different variables. The crucial point of this study is to test whether the determinants in previous studies have the same effect for ASEAN economies.

Firstly, the macroeconomic policies and conditions can affect the amount of FDI inflow. The policy makers always need to think the development of their economy and sustaining a high level of development when they draw new policies. Some macroeconomic policies tend to focus on the flexibility in public finances in order to survive with economic recession or structural change. Artige and Nicolini (2006) argues that developing countries have the right to adopt policies and institutions that are most appropriate to their needs and their current stages of growth since

economic growth is important for macroeconomic policy makers.

In this respect, openness of economy or economic openness is one of the most important implication of macroeconomic policy and is one of the key drivers for economic growth and prosperity. Economic openness plays a vital role in countries' development (Bowie and Unger, 1997). The policymakers should know what they need to do in the long run of growth for their policies to maximise the benefits of economic openness.

There are some estimations that shows how economic openness leads to prosperity. According to the OECD report (2003), the long-term evidence from OECD countries showed that an increase of 10% in trade coverage was associated with a 4% increase in output per working-age person. In the 1990s per capita income grew more than three times faster for those developing countries that lowered trade barriers (5% per year) than in other developing countries (1.4% per year).

Economy openness allowed the productivity and more innovation to enter a larger market. Bloom et al. (2011) argued that Chinese import competition led to incentive of technology improvement and between firm reallocation of employment towards more technologically intensive plants. As the Chinese trade volumes rise, there were about 38% of technologies upgrading in the most recent years.

Randolph and Campos (2010) argue that there will be foreign investment when there is openness of the economy. Inward investment can be a big help for developing countries as their budget is limited. Inward FDI can be useful for domestic firm to corporate and adopt their technologies, on the other hand, it creates employment for people. Economy openness can help to create the large market size and trading.

According to Hoang (2010), the inflation rate could reflect the macroeconomic instability. The stable macro-economy may reduce the uncertainty of the investment environment and helps the status of economic progress and therefore increase the level of confidence in the economy activity. According to Kinoshita and Campos (2012), the sustainability of moderate or low inflation strongly reminds investors how successful the host government is and thus the prospect of further growth. Thus, the lower the average inflation rate is in the host country, more foreign investment

will be attracted to the country.

The greater inflation volatility is consistent with higher inflation rates and therefore increases the challenges and uncertainty and finally discourages long-term investment opportunity. As there could be occurred the negative impact of inflation by the FDI flow, on the one hand, there could be resulted the positive inflation

The second determinant is the market size and growth, which are usually measured by GNP or GDP. It is considered to be another determinant of investment. Billington (1999) and Agarwal (1980) argue that there is a dependent relationship between market size and FDI. Larger market size tends to perform better and accumulate larger profit for investment.

Market size is a measurement of the total volume of a given market. When determining market size, it is very important to define the measurement as precisely as possible. FDI tends to look at the market size when they invest because market size is important for them to make decision and investment. They only invest the market that has high potential.

Thirdly, according to Hoang (2010), labor cost is one of the main factors directly influences for the investors to expand their economic benefits. Investors take advantage of low labor cost to minimise their production costs. Normally, foreign firms appear investing in a country learning the taste and behavior of consumers and seeking ways to minimise production costs especially considering the cheap labor force (Krifa, 2010). Also low labor cost plays a vital role to attract the FDI and labor cost to connect closely with labor productivity. Labor cost has always been a major element of total production cost and in the productivity of the company. The open policies of the countries in ASEAN attracted more FDI than other regions with cheap labor. Investors seek countries where labor cost is cheap. ASEAN has a high competitive advantage having cheap labor to attract inflows of foreign capital. Parcon (2008) studied that labor market standards and the rules and regulations caused to enhance labor production, which can attract the FDI inflows Schneider and Frey (1985), Jun and Singh (1996), analysed thirty one less developed countries and found a negative relationship between FDI and wages. The authors

suggested that high labor costs affect negatively for FDI and decided FDI inflows are less in higher wage countries.

Political stability, according to Hoang (2010) and Hefeker (2007) is another determinant of FDI. Political instability and political disorders create unfavorable business climates for the investors and it reduces their confidence in local climate and repels their FDI away. Wheeler and Moody (2009) indicate that political stability and administrative efficiency were major factors to determine the decisions for production locations in US firms. The study of Hefeker (2007) point out that multinational corporations are more attractive in the democratic environment while Gastanaga et al. (1998) examined the relations between political risks and FDI inflows and found that nationalisation risk level and lower corruption link with higher FDI inflows. Proper law and order and low corruption levels are major factors in high quality institutions.

Infrastructure development is the forth factor found to be the determinant of FDI flow. Governance infrastructure comprises public institutions and policies created by governments is as an essential as framework for economic and social relations (Globerman, 2002). It is also pointed out that the elements of the governance infrastructure can affect the investment decisions of MNCs and a positive governance infrastructure can also include an effective, impartial and transparent legal system that protects property and individual rights. These factors purely encourage FDI.

In the study of He, Rui, and Zha (2009), the importance of government infrastructure and the role of good institution in some countries may catch wide and interesting attention of the determinant of FDI flow in any. They also strongly argued that the infrastructure acts as a political, institutional and legal environment that favors transaction freedom, and secures property rights. Since the developing countries like ASEAN tried to attract investment for building infrastructure, Utama (2005) clearly pointed out that the flow of IDF for building infrastructure sector was less than 1% share of FDI flow in ASEAN while the majority share reached on the sector of product manufacturing at 30%, financial intermediation and service sector at 16% and trade commerce sector at 11%. The development gap was a big as an issue between ASEAN member countries in order to narrow down difference and still challenge to attract FDI flow.

Another determinant that has been of interest from many scholars is the financial development. It enables private companies to easily approach and effectively funding sources with low cost and also creates an environment conducive to the exchange and cooperation between companies including foreign firms with domestic firms (Haong, 2010). In addition, there is a significant positive correlation between financial development and FDI flows to developing countries. Countries with well-developed financial markets benefit significantly more from FDI than countries with weaker markets (Alfaro, Kalemli-Ozcan and Sayek, 2009).

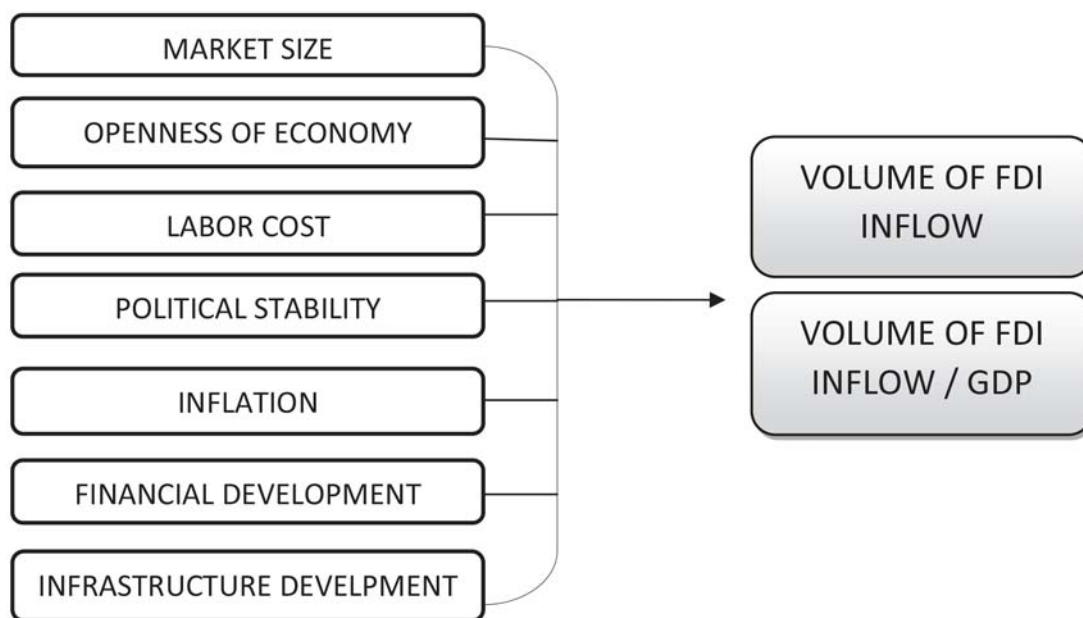


Figure 4: Diagram of the Conceptual Framework

Methodology and Model Specifications

This paper utilizes secondary data and mainly bases on quantitative research method. The panel data regression analysis used in this study is designed to match the condition and the availability of the data for ASEAN member countries data. The analysis takes into account the data from each country, of total 10 ASEAN member countries, for 11 years, from 2002 until 2012. The total number of observation then becomes 110, which is appropriate. Within the analysis of the determinants of

educational expenditure for provincial distribution, this study attempts to analyse the determinants of FDI in dollars both by its total volume as well as the percentage of FDI relative to GDP. The latter is used to test when comparing the changes of FDI with the changes in the size of the economy.

The model specifications of the analysis of the determinants of FDI in ASEAN indicate a number of variables included in each function. The functions below illustrate the two dependent variables for the estimation of determinants of FDI in ASEAN countries.

$$FDI = f(GDP, OPN, LBC, POL, IFL, FIN, INF) \quad (1)$$

$$FDI/GDP = f(GDP, OPN, LBC, POL, IFL, FIN, INF) \quad (2)$$

Data are collected and regressed to estimate quantitative effect of the causal variables upon the variable that they influence and assess the statistical significance of the relationship. The dependent variables in this study is gathered from the total volume of annual FDI flows of each ASEAN member country as well as that relative to GDP. The latter is used to see the relative importance of FDI in the economy. This data is available from ASEAN secretariat.

In this study, the independent variables comprise of several variables. Firstly, GDP (GDP) is used to measure market size in thousand dollars term. Openness of economy (OPN) is measured by the total volume of export and import relative to GDP. The labor cost (LBC) is measured by using the nominal wage. Political stability (POL) can be measured using global political risk index. Inflation rate (IFL) is used to measure inflation whereas domestic credit is used to measured financial development (FIN) and percentage of internet users is taken as a proxy of infrastracuture development (INF). All of the variables are free from multicollinearity problem. The results from pearson correlations testing illustrate that none of the variables are highly correlated with the correlation higher than 0.8.

Based on the conceptual framework, the regression model equations will assume this form;

Model 1:

$$FDI = \beta_0 + \beta_1 GDP + \beta_2 OPN + \beta_3 LBC + \beta_4 POL + \beta_5 IFL + \beta_6 FIN + \beta_7 INF + \varepsilon \quad (3)$$

Model 2:

$$FDIG = \beta_0 + \beta_1 GDP + \beta_2 OPN + \beta_3 LBC + \beta_4 POL + \beta_5 IFL + \beta_6 FIN + \beta_7 INF + \varepsilon \quad (4)$$

Where, ε is the error term of the model equation. All other variables have been defined earlier in the conceptual framework. In analysing the regression results, there are some important things to note such as the R-value, the R-square, the Adjusted R value, the Regression Coefficient, the F value and the Significance F value. R is the correlation coefficient, which measures how the variables move in relation to each other. R-square, also known as, the coefficient of determination is the proportion of variability in Y that is explained by independent variables, the X variables, in the model.

Empirical Estimations and Discussions

According to Table 1, the figures of eleven years (from 2002- 2012) of each country are summarised in the descriptive statistics. It clearly shows that every country is achieving a huge progress in each variables year by year. Countries like Laos, Cambodia and Myanmar shows low economic indicators while other six shows high achievement in economic variables. However, comparing and examining each variable according to the finding figures it is easy to understand the demand for the FDI for the whole region.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	S.D.
FDI	110	-596.00	56651.00	5753.8255	10744.15754
FDIG	110	-.79	476.79	38.3899	68.21374
GDP	110	5.84	948.30	218.9576	228.85681
OPN	110	.05	3.14	.7649	.80531
LBC	110	.00	3445.15	312.9865	711.12072
POL	110	.00	92.00	30.9909	33.57355
IFL	110	-2.00	53.70	6.1251	8.10250
FIN	110	.00	168.90	54.9867	45.97555
INF	110	.00	71.00	20.0603	22.70743

In this section, we present and discuss the statistical results from the panel-data regressions conducted in this study. The results of regression of each model are presented using tables followed by explanation along with its implications for this study.

Results and Estimations

The results of panel-data regression analysis of Model 1 are presented in Table 2. In Model 1, the regression is done by using all independent variables, as there is no problem of multicollinearity, in order to estimate how these variables cause change in the dependent variable, that is foreign direct investet in ASEAN countries. The estimations illustrate that the this model can significantly explain the dependent variable.

According to the summary output in the above table, The R-square or the coefficient of determination is 0.703 or 70.3%, meaning that about 70% of the variation in the dependent variable (Foreign Direct Investment) is explained by the independent variables in Model 1 and 30% of the changes in the dependent variable is explained by other factors.

Table 2: Estimations of the Determinants of FDI Flows in ASEAN Countries

	b	_b SE	β	t	value-p
Constant	-4479.552	1360.855		-3.292	.001*
GDP	10.626	2.835	.226	3.748	.000*
OPN	8646.363	1622.963	.648	5.328	.000*
LBC	3.800	1.591	.252	2.389	.019*
POL	77.145	20.346	.241	3.792	.000*
IFL	75.039	77.354	.057	.970	.334
FIN	-19.675	16.982	-.084	-1.159	.249
INF	82.994	38.669	.175	-2.146	.034*

R = .838; R² = .703; F = 34.44; p-value = 0.00*

* = sig < .05

The variables that significantly determine the level of FDI includes market size, openness of economy, labor cost, political stability, and infrastructure development. These variables clearly have positive relationship with the FDI. The volume of FDI flows increase with these variable significantly In particular, MARKET SIZE, OPENESS OF ECONOMY, and POLITICAL STABILITY have very high level of significance relative to other variables. Among these variables, OPENESS of ECONOMY has the greatest positive impact on FDI. The following regression represents the estimation of the determinants of FDI.

$$FDI = -4479.552 + .226GDP + .678OPN + .252LBC + .241POL + .175INF + e$$

In model 2 illustrated in Table 3, the overall estimation the regression is done by using all independent variables, as there is no problem of multicollinearity, in order to estimate how these variables cause change in the dependent variable, that is foreign direct investet relative to GDP into ASEAN countries. The independent variables are the same set of variables used in model estimation but the dependent variable in model 2 differs as it is the volume of FDI as a percentage relative to GDP. This is to compare the change in FDI relative to GDP so that we can see it in terms of the significance or importance of FDI in the ASEAN member countries' economy. In this estimation, the independent variables can significantly explain about 45% of the change in the dependent variable as indicated by the value of R-square and F-stat.

Table 3: Estimations of the Determinants of FDI Flows Relative to GDP in ASEAN Countries

	b	b _{SE}	b	t	value-p
Constant	15.646	11.675		1.340	.183
GDP	-.012	.024	-.041	-.503	.616
OPN	64.090	13.923	.757	4.603	.000*
LBC	.004	.014	.043	.303	.762
POL	.042	.175	.021	.240	.811
IFL	-.399	.664	-.047	-.601	.549
FIN	-.285	.146	-.192	-1.956	.053
INF	-.403	.332	-.134	-1.214	.228

$$R = .676; R^2 = .457; F = 12.276; p\text{-value} = 0.00^*$$

* = sig < .05

The only variable that significantly determine the level of FDI is the OPENESS OF ECONOMY as shown in the Table 3. This can be shown in the following equation.

$$FDIG = 0 + .757OPN + e$$

The result shown in model 2 above indicateds that, when considering the relative volume of FDI flows to GDP, openness is the only variable that has positive and significant impact on the amount of FDI flows relative to GDP. The number of variables that have significant impact in model is less than in model 1 indicating that when taking into account the relative terms to the GDP, several factors insignificantly determine the flows of FDI in the region apart from FDI.

Discussion

Since its establishment, the ten ASEAN member countries had been gradually moved forward to shape different political, economic and social under it regional agenda. Significantly, the aim of mutual economic achievement through ASEAN's regional development activities is a major key and it is the most active economic movement among the nation. Since the beginning of ASEAN, the AEC (ASEAN Economic Community) as the latest and huge blueprint of ASEAN significantly has been playing a significant role for assisting the region's economic boom than other regional development projects. The AEC also caught strongly the worldwide attention for its large economic spaces and investment opportunity for sector of productivity, service and tourism. Even being a united group of ASEAN, many political, social, cultural and social factors make huge differences and challenges among nations, the ASEAN have been overcome more than 3 decades and still joining hand with effort of member's mutual cooperation and participation.

The movement of ASEAN is still continuing and processing for its ongoing achievements through several economic developments. In fact, as the ASEAN is quite capable and interesting place to attract FDI as latest Asian market as seen from the data. In terms of the determinants model clearly illustrate a number of determinants of FDI flows in ASEAN member countries. At the same time, it might deal huge challenges and obstacles since development gaps and disparity among each nations were highly huge and numerous so that it might need a period of

time to fight out and narrow down the hard and vulnerable condition. This study presents some interesting findings of the determinants of FDI into ASEAN countries, particular if the absolute volume of FDI flows are taken into account. Nevertheless, in terms of relative FDI as percentage of GDP the results and estimations from this study can explain relatively less. Our discussion here, therefore, should focus more on the absolute volume of FDI.

ASEAN has more than one thing to offer for the flows of FDI, it also has bigger market size that is growing every day. Market size and the growth are usually measured by GNP and GDP as the determinant of investment. The estimations of this study go in line with Billington (1990) and Agarwal (1980), which stated that market size and FDI has close relationship. ASEAN has partnership with FDI saw those opportunity as their investment because each country has different characteristic and resources.

Openness clearly attract FDI flows both in absolute term and in relative term to GDP. It is the most significant variable determining FDI flows in ASEAN member countries. It is also the only determinant of FDI relative to GDP in ASEAN member countries. From this evidence, ASEAN member countries should put more emphasis on both quantity and quality of free trade as it promotes FDI. This is particularly important because some ASEAN member countries still have relative low degree of openness in the past due to political system. Therefore, with greater level of openness, ASEAN tends to attract more FDI.

Political stability of the countries impacts highly in attracting FDI. Investors seek governments which can get the support for their business operations. When the government is stable the GDP of the country is high as the productivity growth and a country can support for the infrastructure development. Politically stable countries are having even high economic indicators like low inflation, low unemployment rate and high GDP. Political instability is one of major concerns in some community of member states for investment interest in some ways and the full guarantee of business environment should be fully practiced and provided for the longer run advantages. ASEAN is a region which achieves quite low labor cost which has a high impact to attract the FDI. However as per Table 1, the nominal wages of each country give

a clear understanding of the interest of investors. According to the wages of each country they are handling medium or low labor costs. Nevertheless, higher wages also attract more FDI. This may be the case because the wages in ASEAN member countries are still relatively low compared with the developed countries together with the mid-level skills of labour in several ASEAN member countries.

Although there are big gap of wages among ASEAN member countries, like Singapore representing high labor costs while countries like Cambodia and Myanmar represent low labor costs in the region, the rise of the nominal wages can be the results of productivity work improvement. Also in reverse, productivity causes to increase the wages. Many investors prefer labor quality and productivity instead of low labor cost. They like to pay high wages to increase the productivity (Sachdev, 2007). It can be seen that investors are even more preferred and concern the labor quality of the countries. However all these have impact for the region as a whole to attract more foreign investors.

Many aspects and arguments rising by several scholars about FDI flow into ASEAN were quite significant and fundamental to reflect the deep and the real condition of the ASEAN nation on what the important next step they all must move and change. Based on strong point of views by them, several accurate and urgent changes by each single member in ASEAN must strongly emerge as possible to make physical preparation and encouragement for FDI flow. The first priority action of ASEAN for advancing and preparation all sectors must be implemented to achieve the goal of FDI to support and extend its community economic growth. With facing various challenges and obstacles into ASEAN, the collective nations are largely required to come out a significant action that is able to make urgent changes and overcome several things by improving various factors that need to make fast and urgent moves. Since the infrastructure development also play a major role for economic and social relation, the role and involvement of government in those several areas is a must requirement for advancing and prioritising basic needs for FDI by Steven Globerman (2002). In fact, his idea basically supporting on those sectors is vital and essential to consider as for a nation when planning moving forward to a successful and sustainable economy. Beside his several interesting points, achievement of FDI for any developing country is quite crucial and necessary to support economic growth.

The growth couldn't simply continue and extend in the successful way without FDI flow so that FDI is a key player in bringing out for the sustainable economy goal. Hence, government must create a space to attract FDI and develop those needed sectors as soon as possible.

Conclusion and Policy Recommendations

As ASEAN economic integration has been progressing with the aim to establish ASEAN Economic Community by the end of 2015, there is a need to generate more knowledge to promote this vital economic integration. This study attempts to investigate the determinants of FDI flows in ASEAN member countries as it becomes one of the most interesting issues in this region. The evidences illustrate that FDI flows in ASEAN member countries have increased significantly in the past decade.

Openness of the country among ASEAN member countries is estimated to be the most significant determinant of FDI flows. It has great positive impact on the amount of FDI flows in ASEAN member countries. In this respect, it indicates that if ASEAN member countries can pursue a policy that leads to higher degree of openness, they can attract more FDI. This can be particularly useful for the case of countries like Cambodia, Lao, or Myanmar, whose degree of openness is relatively low.

Economic development, in terms of market size, is also the major determinant that has positive effect on FDI. Nations that have more opportunity to grow are able to attract FDI more, and then those inflows of FDI could boost the economic development. Once the country has more opportunity, they can attract larger the inflow of FDI. The larger inflow of FDI more focuses on market-oriented to expand consumer choice and raise the competition.

Political stability is found to also positively and significantly affect the amount of FDI flows in ASEAN member countries. In some ASEAN member countries, political stability is still a big concern and these countries should recognize the importance of political stability in determining FDI flows. ASEAN member countries should ensure that their public policies should create stability for their own political spheres.

As long as the ASEAN warmly welcomes and critically plan to attract FDI flow for supporting its economic community in the long run, each nations of ASEAN might effectively emerge their urgent action on those particular areas to be ready and trained for better economic institution and advanced necessary environment for FDI to achieve the objective of ASEAN Economic Community Blueprint. Otherwise, they might be hardly grabbed the opportunity of FDI to compete with other nations which are better and unique economic environment than the ASEAN in term of economic incentives and opportunities. Thus, time is just running fast and nothing needs to wait for it. Only the concrete and urgent action of ASEAN will help and decide how much the ASEAN nation achieve FDI or not for its single regional economic community in the longer time.

Considering the recommendations for the above matters, it seems that every country cannot follow the same policies to attract FDI as a whole region. It should understand the FDI context in each country. Countries' attractiveness can be differed with economic conditions and industrial structure. Countries as individually should form appropriate policies to attract FDI inflows. For instance Thailand dominates the top countries which attract high FDI inflows with its friendly policies for the investors. Therefore, countries with low FDI inflows should formulate national development plans to attract more investments.

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