

Economic Letter From Asia: Know the (FDI) flows

Haver Analytics*



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Written by [Tian Yong Woon](#)

Know the (FDI) flows

In this week's letter, we look at direct investment flows across Asian economies. We find that there has been a discernible decline in foreign direct investment (FDI) across several economies in the region in recent quarters. This dip in investment activity can be attributed to various factors, including shifts in investor sentiment towards the recipient economies.

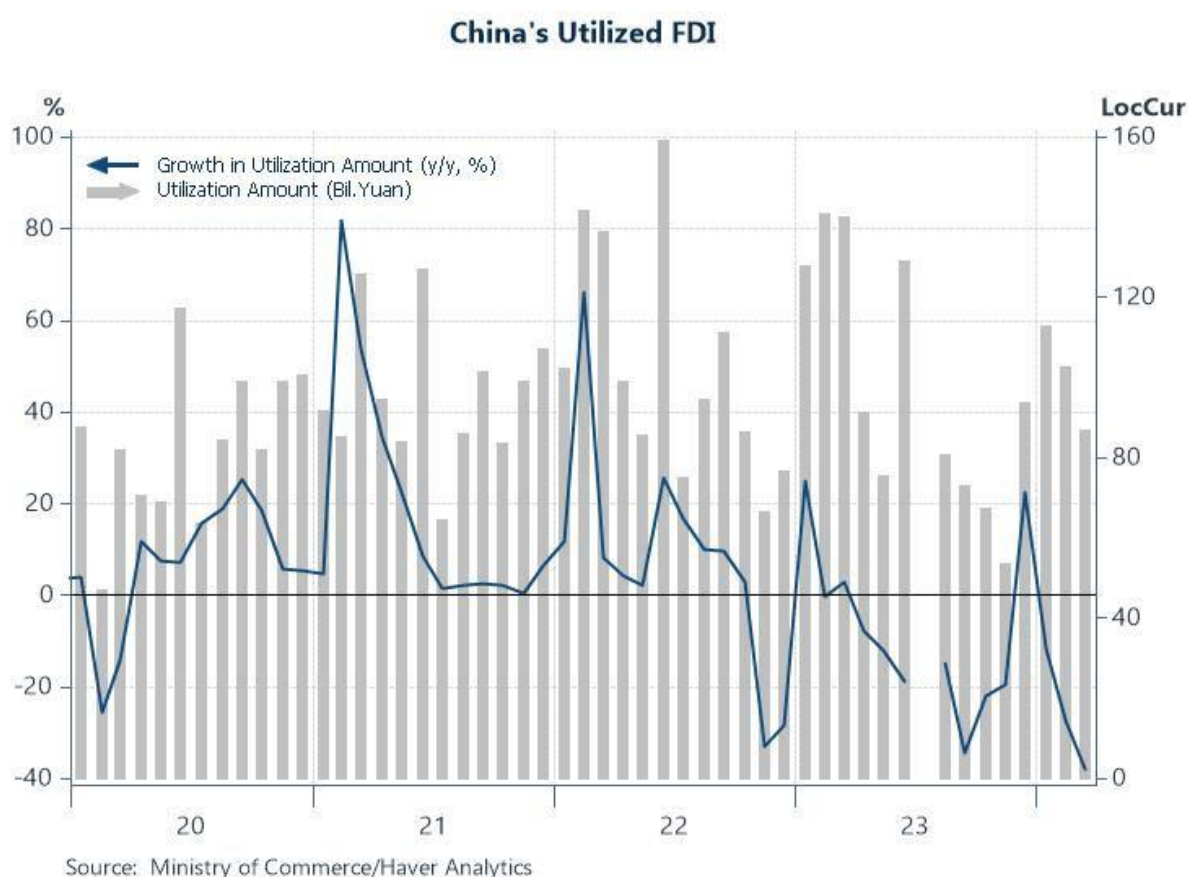
Additionally, we explore outbound direct investment flows from these economies. Hong Kong remains the primary intermediary for mainland China's investment flows, underscoring its crucial role in facilitating cross-border investments. Conversely, Japan, boasting the world's largest stock of net international assets, maintains a strong preference for the United States as its favored investment destination. This preference underscores the enduring ties and strategic partnerships between the two nations.

Finally we shift our focus to scrutinize specific economies in Southeast Asia, where we observe a noteworthy recovery in FDI inflows following the pandemic. We find that investor interest in pivotal themes such as the energy transition and the digital economy has played a vital role in propelling these flows. We note, nevertheless a slight retracement in these flows in 2023.

China

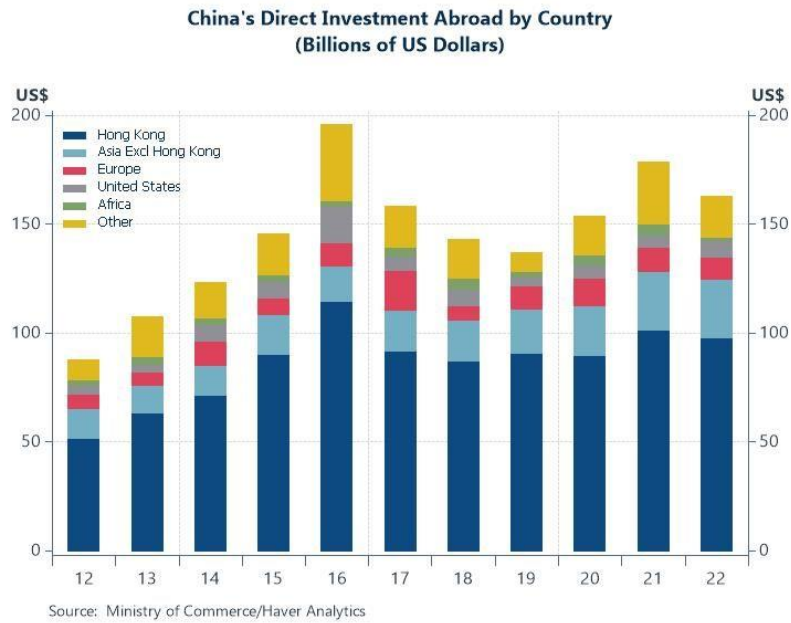
Foreign direct investment (FDI) in China has plunged in recent months, based on the standard measure adopted by the Ministry of Commerce. Monthly actual utilized FDI has consistently shown double-digit year-on-year declines throughout the year so far, with the contraction worsening to 38.2% in March (Chart 1). Additionally, China's direct investment liability flow plunged to under 300 billion yuan in 2023, from 1.25 trillion in 2022. Analysts attribute China's FDI declines to various factors, including domestic growth risks and ongoing tensions with other countries, such as the United States. However, the impact on growth may be nuanced, as business investment within China is predominantly domestically sourced. The outlook on China's broader economy however, remains uncertain, with April's economic data presenting a mixed picture. Specifically, growth in retail sales and fixed asset investment slowed further in April, while industrial production logged an unexpected growth rebound.

Chart 1: China's utilized FDI



There have not been major changes, however, in the destinations of direct investment flows from mainland China. Hong Kong remains the primary initial recipient, accounting for nearly 60% of these flows in 2022, as shown in Chart 2. Similarly, a significant portion of Hong Kong's outbound FDI (59.3% in 2022) is directed towards mainland China. This data highlights Hong Kong's role as an intermediary, with mainland firms often establishing a presence in the region to facilitate access to overseas markets. More broadly, Hong Kong continues to serve as China's gateway to the rest of Asia and the world.

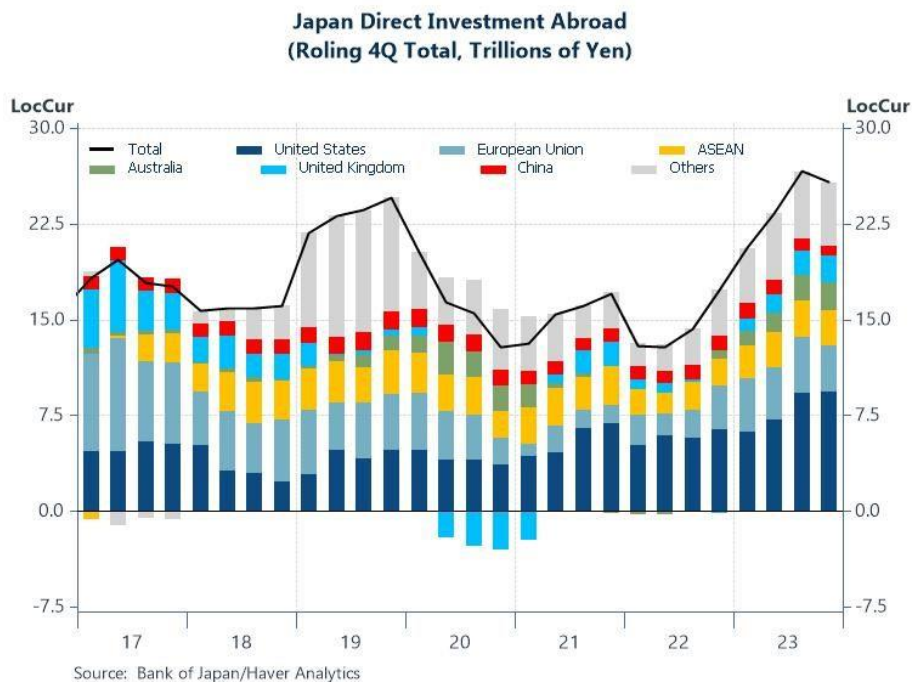
Chart 2: China's direct investment flows abroad by destination economy



Japan

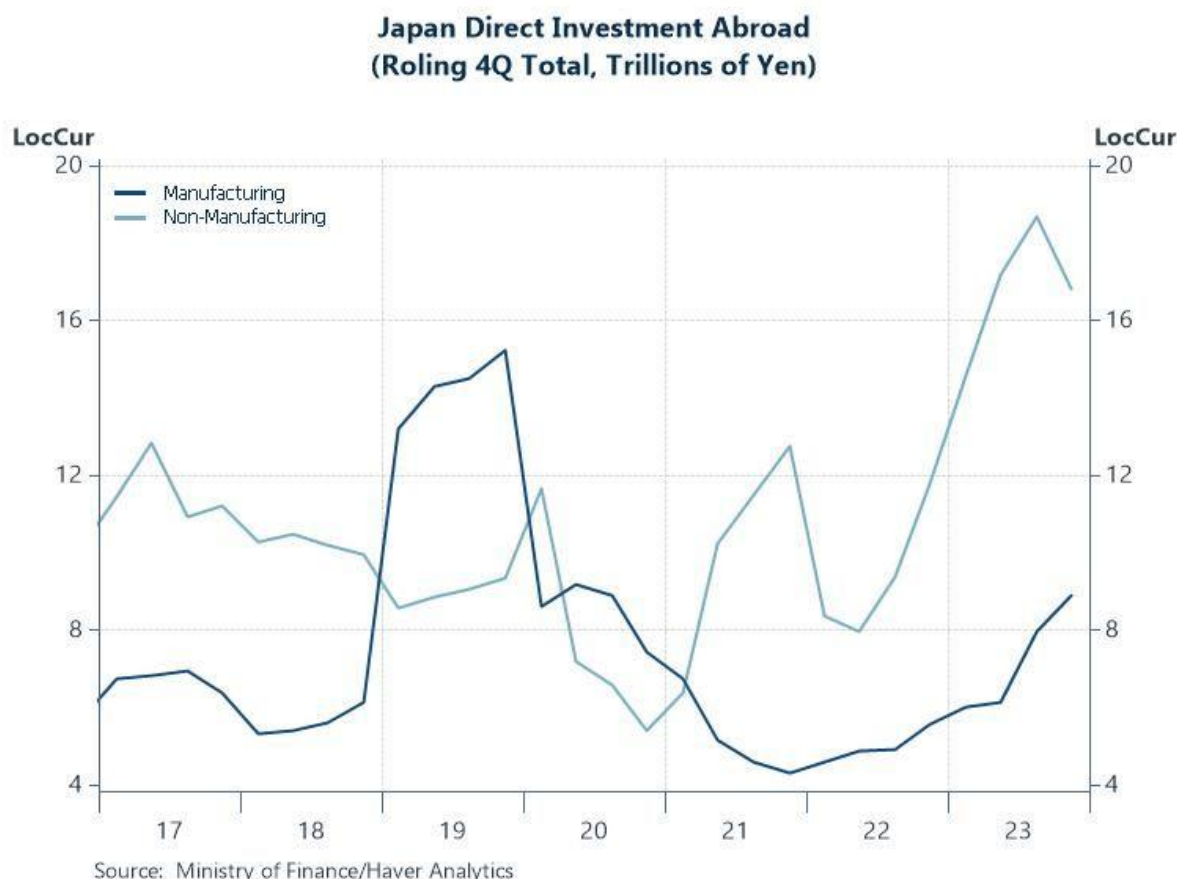
Japan holds the world's largest stock of net international assets, valued at approximately \$3.4 trillion as of the end of 2023. This figure significantly surpasses those of other developed economies, such as the US and the UK, which, in contrast, maintain net international liability positions. Japan's substantial net holdings of international assets are the result of decades of accumulating outward FDI and portfolio investments. The economy is one of the world's main sources of outward FDI, having invested about 25.7 trillion yen (\$183 billion) in 2023, as shown in Chart 3. The US has often been the main recipient of Japan's direct investment flows, followed by the European Union and Southeast Asia.

Chart 3: Japan's direct investment abroad by destination economy



By broad sectors, most of Japan’s outbound direct investment continues to flow into non-manufacturing sectors. However, the share directed toward manufacturing has steadily increased in recent quarters, as illustrated in Chart 4. The pickup in manufacturing investment was driven by flows to chemical and pharmaceutical firms in the US, and to food sectors abroad. Meanwhile, investment in non-manufacturing sectors fell in Q4 2023, mainly due to outflows from finance and insurance over the period. Regardless, Japan’s asset accumulation has proven beneficial in recent years, particularly during periods of yen depreciation. The benefit arises from foreign assets denominated in non-yen currencies, where gains are seen through favorable currency effects even if the actual non-yen value remains unchanged.

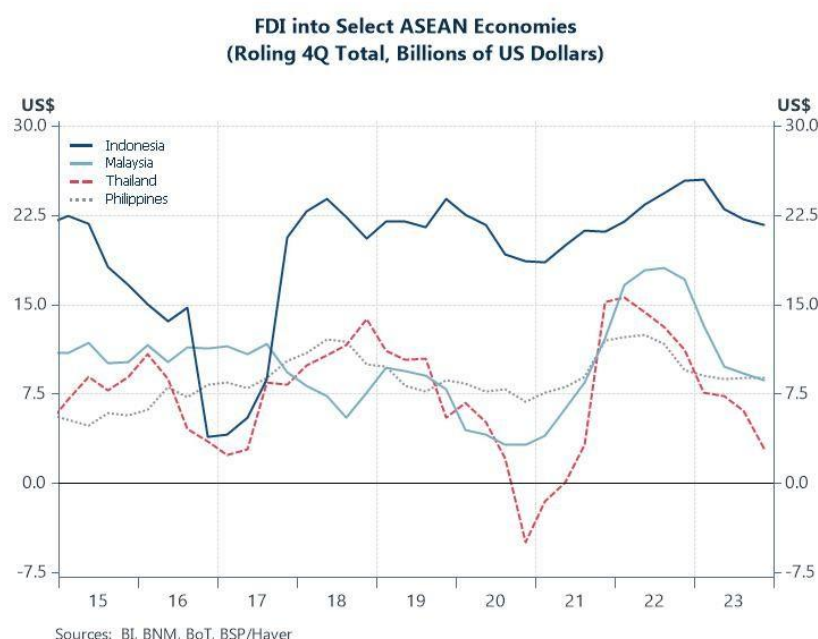
Chart 4: Japan’s direct investment abroad by destination sector



Select ASEAN economies

Focusing next on select economies in Southeast Asia, specifically Indonesia, Malaysia, Thailand, and the Philippines, we observe a normalization of FDI flows in recent quarters. FDI flows to the region took a hit during the pandemic, but quickly recovered as the world started to reopen. The recovery was driven by investment spikes in the manufacturing and information & communication sectors, and moderate investment growth in finance and trade. Underpinning investment growth was increased investor interest in the energy transition (e.g., electric vehicle-related products) and the digital economy (e.g., data centers), among other factors. While most of the FDI flows were from new capital, much of the flows also stemmed from reinvested earnings, signaling investor commitment to the region. FDI flows into the region have, however, retraced following their initial spike, as shown in Chart 5.

Chart 5: FDI flows into select ASEAN economies



Delving deeper into the drivers of FDI flows, the table in figure 6 reveals that a significant portion of these economies' inflows originates from their Southeast Asian peers. Specifically, about one-third of the inward FDI comes from the broader ASEAN region. Additionally, around one-quarter of the flows are from mainland China and Hong Kong, highlighting the crucial role of the Chinese economy. Examining the economy-specific drivers of recent FDI declines, we observe that Malaysia's drop in 2023 was driven by a slump in investments from the US. In contrast, Thailand's FDI decline mainly resulted from reduced inflows from other ASEAN economies.

Figure 6: FDI flows to select ASEAN economies by source

| FDI Flows to Select ASEAN Economies (Billions of US Dollars) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|-------|------|------|------|-------|------|------|------|----------------|------|------|------|-----------|------|------|------|---------------|------|------|------|-------------|------|------|------|-------|------|------|------|--------|------|------|------|
| FDI from: | | Total | | | | ASEAN | | | | Mainland China | | | | Hong Kong | | | | United States | | | | EU / Europe | | | | Japan | | | | Others | | | |
| FDI to: | | 2020 | 2021 | 2022 | 2023 | 2020 | 2021 | 2022 | 2023 | 2020 | 2021 | 2022 | 2023 | 2020 | 2021 | 2022 | 2023 | 2020 | 2021 | 2022 | 2023 | 2020 | 2021 | 2022 | 2023 | 2020 | 2021 | 2022 | 2023 | 2020 | 2021 | 2022 | 2023 |
| Indonesia | | 19 | 21 | 25 | 22 | 8 | 7 | 11 | 6 | 1 | 5 | 4 | 2 | 3 | 3 | 2 | 4 | 1 | 2 | 2 | 1 | -1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 5 | 1 | 3 | 5 |
| Malaysia | | 3 | 12 | 17 | 9 | 2 | 2 | 3 | 5 | 1 | 0 | 1 | 1 | 0 | 1 | 1 | 3 | 0 | 2 | 9 | -1 | -1 | 4 | -1 | -1 | 1 | 1 | 2 | 1 | 0 | 2 | 2 | 0 |
| Philippines | | 2 | 3 | 2 | 1 | 0 | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 |
| Thailand | | -5 | 15 | 11 | 3 | 2 | 1 | 4 | 0 | 1 | 1 | 1 | 2 | 0 | 1 | 1 | 0 | 0 | 1 | 1 | 0 | -10 | 3 | 2 | 1 | 1 | 3 | 2 | 1 | 0 | 3 | 0 | 0 |
| Total | | 19 | 52 | 56 | 35 | 12 | 13 | 19 | 12 | 2 | 7 | 5 | 4 | 4 | 5 | 5 | 7 | 1 | 5 | 12 | 0 | -12 | 8 | 2 | 2 | 5 | 6 | 7 | 4 | 6 | 7 | 6 | 5 |

Notes: FDI flows to the Philippines relate to equity-related flows only.

Sources: Central Banks / Haver Analytics

About the author



Haver Analytics is pleased to bring [Tian Yong Woon's](#) commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Data featured in this commentary:

Chart 1: China's utilized FDI

Series 1: `yryr%(N924VKUL@EMERGEPR)` [China: Foreign Capital Utilization: FDI: Actually Utilized (NSA, 100 Mil.Yuan)]

Series 2: `N924VKUL@EMERGEPR` [China: Foreign Capital Utilization: FDI: Actually Utilized (NSA, 100 Mil.Yuan)]

Chart 2: China's direct investment flows abroad by destination economy

Series 1: `A924MAHK@EMERGEPR` [China: Direct Investment in Hong Kong, China (Mil.US\$)]

Series 2: `(A924MAA4@EMERGEPR - A924MAHK@EMERGEPR)` [China: Direct Investment in Asia (Mil.US\$)]

`A924MAHK@EMERGEPR` [China: Direct Investment in Hong Kong, China (Mil.US\$)]

Series 3: `A924MAEO@EMERGEPR` [China: Direct Investment in Europe (Mil.US\$)]

Series 4: `A924MAUS@EMERGEPR` [China: Direct Investment in the United States (Mil.US\$)]

Series 5: `A924MAA1@EMERGEPR` [China: Direct Investment in Africa (Mil.US\$)]

Series 6: `(A924MA@EMERGEPR - (((A924MAA4@EMERGEPR - A924MAHK@EMERGEPR) + A924MAHK@EMERGEPR`

`A924MA@EMERGEPR` [China: Net Direct Investment Abroad (Mil.US\$)]

`A924MAA4@EMERGEPR` [China: Direct Investment in Asia (Mil.US\$)]

`A924MAHK@EMERGEPR` [China: Direct Investment in Hong Kong, China (Mil.US\$)]

`A924MAHK@EMERGEPR` [China: Direct Investment in Hong Kong, China (Mil.US\$)]

`A924MAEO@EMERGEPR` [China: Direct Investment in Europe (Mil.US\$)]

`A924MAUS@EMERGEPR` [China: Direct Investment in the United States (Mil.US\$)]

`A924MAA1@EMERGEPR` [China: Direct Investment in Africa (Mil.US\$)]

Chart 3: Japan's direct investment abroad by destination economy

Please email sales@haver.com for full details on this chart.

Chart 4: Japan's direct investment abroad by destination sector

Series 1: `movt(BNDIOM@JAPAN,4)` [Japan: BOP: Outward Direct Investment: Manufacturing (100 Mil.Yen)]

Series 2: `movt(BNDION@JAPAN,4)` [Japan: BOP: Outward Direct Investment: Non-manufacturing (100 Mil.Yen)]

Chart 5: FDI flows into select ASEAN economies

Series 1: `movt(N536DF@EMERGEPR,4)` [Indonesia: Direct Investment Flows (NSA, Mil.US\$)]

Series 2: `movt(FX(N548MRJT@EMERGEPR,111),4)` [Malaysia: Foreign Direct Investment: Net (NSA, Mil.MYR)]

Series 3: `movt(Q578MFT@EMERGEPR,4)` [Thailand: Foreign Direct Investment (NSA, Mil.US\$)]

Series 4: `movt(N566MF@EMERGEPR,4)` [Philippines: Nonresident Net Foreign Direct Investment Flows (NSA, Mil.US\$)]

Figure 6: FDI flows to select ASEAN economies by source

Please refer to the attached Excel file included in the downloadable VG3 file.

For more info on our data offerings please email sales@haver.com.