ASEAN 2025: Towards Increased Foreign Direct Investment in Southeast Asia?

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Abstract

One of the major targets of the ASEAN Economic Community is to achieve a higher influx of foreign direct investments (FDI) into the region. By analyzing recent economic developments and weighing opportunities and challenges, this paper argues from a liberal-institutionalist perspective that there are good chances for a higher level of FDI in ASEAN until 2025. There are, however, several hindrances including the resistance of the ASEAN member states to accept further economic integration and a missing common regulatory framework for trade and investment, which will make it difficult to receive significantly more FDI in the near future.

Keywords: ASEAN, ASEAN Economic Community, Investment, Perspectives, Challenges

1. Introduction

The ten ASEAN member states form currently one the most dynamic economic regions worldwide. One of most crucial factors of the economic success story was the ability of the ASEAN member states to attract foreign investment in order to transform the once poor and underdeveloped countries of Southeast Asia into an economic powerhouse. Since its establishment in 1967, ASEAN has continuously followed a strategy which included the opening of its markets to both ASEAN member economies and to outside countries and regions. One major reason for strategy was the strengthening of regional and interregional business activities through foreign direct investment (FDI) of international and multinational corporations.

Due to the described openness policy, ASEAN “has successfully achieved rapid economic development and has acted as a ‘growth centre’ in the global economy, occupying a central position in the production networks that have been organized in East Asia” (Ambashi, 2017a, p. 1). Until now ASEAN is among the major recipients of capital inflows to emerging markets, especially after the global economic crisis in 2008/09 when more developed economies adopted extra-loose monetary policy and quantitative easing. This led to a significant upward trend of foreign direct as well as portfolio investment in the ASEAN member states (Azis, 2018, p. 3)

There is, however, no guarantee that the mentioned upward trend for investments will continue. This paper employs liberal institutionalism as theoretical approach and subsequently analyzes the general investment climate in ASEAN and its member states. In a further step, discussion on the perspectives and challenges for FDI will be elaborated. Within the scope of this paper it is not possible to go into detailed country-specific analyses with regard to FDI. Consequently, the focus on the ASEAN community as a whole must be rather general. The perspective is from now (early 2020) until the near future in 2025. The year 2025 is particularly important as the ASEAN Community Vision 2025 envisages an ASEAN Economic Community that shall until then "be highly integrated and cohesive; competitive, innovative and dynamic; with enhanced connectivity and sectoral cooperation; and a more resilient, inclusive, and people-oriented, people-centred community, integrated with the global economy (ASEAN Secretariat, 2015a, p. 15)." This study is based on data from international organizations such as the World Bank, ASEAN, UNCTAD or the Asian Development Bank and includes previous academic research on FDI in ASEAN.

2. Theoretical Approach

The argumentation of this article follows the main assumptions of liberal institutionalism about the nature of international relations. This includes liberal propositions about the importance of commerce and communications in facilitating cooperation among states, and the effects of complex interdependence on inter-state relations (Christensen, 2016, p. 31).

Institutionalism adds to these liberal assumptions the role of institutions as a crucial variable. In assuming that an international organization such as ASEAN has a high importance for the FDI flows into its individual member states, the institutionalists' notion of the view that international institutions matter in the field of International Relations is adopted. These international institutions make a difference in the behavior of states and in the nature of international politics (Stein, 2008, p. 212).

Whereas in a neo-realists' view institutions only facilitate bargaining among sovereign states or mediate between various national interests, institutionalists see a greater significance for international organizations for two reasons: first, institutions have the potential for independent 'actorness' and thereby having the potential to influence the outcomes of international interactions. Second, institutions are an essential part of the structure of international relations. They can establish formal rules such as international laws, but also norms and routines about appropriate behavior that provide both constraints and opportunities for states (Christensen, 2016, p. 32).

In so far, liberal institutionalism emphasizes the cooperative nature of inter-state relations and explains that not only in terms of common interests among cooperating states, but also through the role played by international organizations such as ASEAN. By providing a rule-bound environment in which interaction among states takes place, international institutions are – in the view of liberal institutionalists - of utmost importance in facilitating cooperation, peace and economic growth.

3. Analysis and Discussion

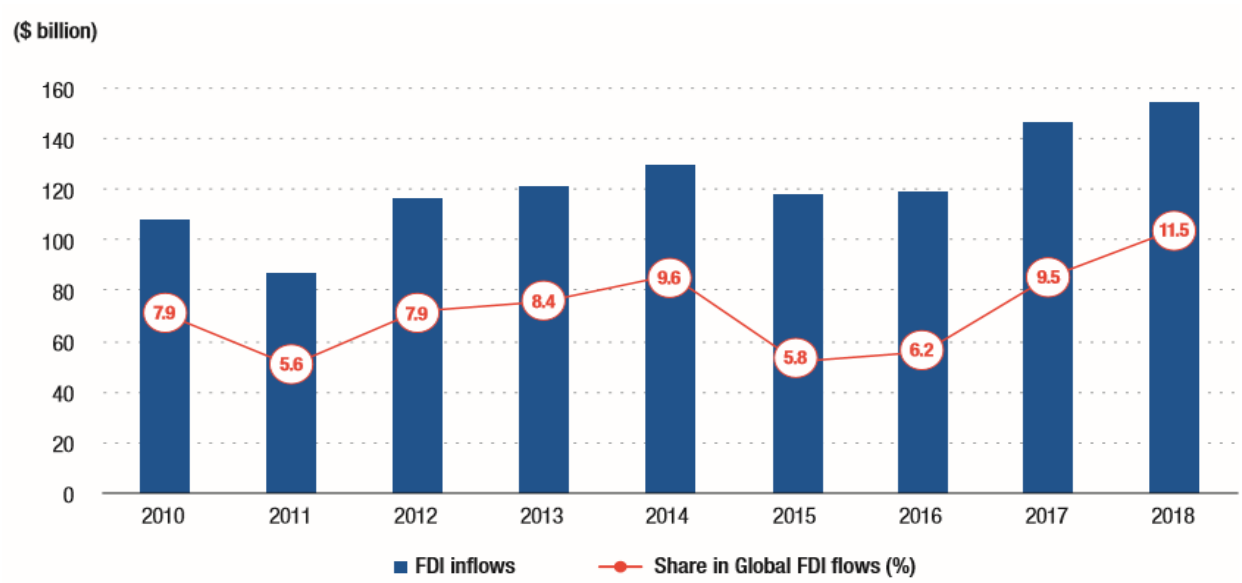
3.1. Development of FDI in ASEAN

The importance of foreign direct investment for economic development in the ASEAN member states, particularly in the ASEAN 5, cannot be underestimated. As early as in the late 1980s FDI into ASEAN increased significantly. Corporations from Japan and the USA found it useful to extend their operations to Southeast Asia. These companies did not only look for benefitting from Southeast Asia's relatively low costs of production, but also from creating integrated regional production networks. This increase in FDI flows and stock provided a significant boost to several Southeast Asian economies, promoting competition, efficiency, and technology transfers in both the manufacturing and non-manufacturing sectors (Drysdale, 2017, p. 69).

Particularly in the main recipient country of FDI, Singapore, FDI played a critical role as an important channel of technology and knowledge transfer. Singapore set up industrial estates and clusters in association with both FDI and innovation-friendly domestic policies such as in the field of biotechnology (Asian Development Bank, 2014, p. 118). In so far, FDI can be a key to innovation creation because it is a major channel of technology spillovers into ASEAN member states from other developed countries (Ambashi, 2017b, p. 225).

Since the year 2000, FDI into ASEAN continued to rise steadily with a short exception during the global financial crisis of 2008-2009. Between 2004 and 2014, ASEAN's share in the world FDI stock increased from 3.5 percent to 6.8 percent. In addition, the region's share in FDI flow has increased from an average 5.0 percent in 2004-2006 to an average 8.6 percent in 2013-2015 (Jeong, 2018, p. 1). By 2014, foreign direct investment (FDI) flows to ASEAN exceeded inflows to China, making it the largest recipient of FDI in the developing world (ASEAN Secretariat, 2015b, p. xv).

In the following year 2015, FDI flows to ASEAN have increased from US$123 billion in 2016 to US$137 billion in 2017, which is with around 11 percent the highest growth rate of growth since ASEAN was founded. This rise in inflows helped to push up ASEAN's share of global FDI to developing economies from 18 percent in 2016 to 20 percent in 2017, and from 31 per cent in share of flows to East and South-East Asia in 2016 to 34 percent" in 2017 (ASEAN and UNCTAD, 2018, p. xvii). The following graph illustrates the development of the FDI flows in ASEAN since the year 1995:



Graph 1: FDI Flows in ASEAN, 2010-2018 (Billions of dollars and per cent). Source: ASEAN Investment Report, 2019, p. xvii

In 2018, the ASEAN member states witnessed again a robust inflow of FDI. The region received the highest growth share of the world FDI with US$148.69 billion, which means a growth of more than 30 percent from US$114.18 billion in 2018. Not only did FDI in the region top that of Europe, it was slightly more than what China received and almost three times as much as South Asia. As a result, the subregion's share in global inflows rose from 10 percent in 2017 to 11 percent in 2018.

The growth in FDI was mostly driven by an increase in investment in Singapore, Indonesia, Vietnam and Thailand (UNCTAD, 2019, p. 42). About half the Southeast Asia-bound FDI went to Singapore. In terms of total FDI stock and the nature of investment, Indonesia, Thailand, Malaysia and Vietnam and the Philippines make up the next group of Southeast Asian host economies, in which Japan is the main investing country. The FDI portfolios of Cambodia, Laos and Myanmar are very small and China is with a large distance the main investor in these three countries (Cook and Nair, 2015, p. 4).

The EU is still ASEAN's largest external source of foreign direct investment flows with around 27 billion euro in 2017. However, many observers doubt that China, which was already by far Southeast Asia's largest commercial partner with US$514.8 billion of trade in 2017, will take over the role as largest investor in the ASEAN countries. With the implementation of the One Belt One Road initiative, China is promising to become the leading source of capital (Welsh, 2018, p. 2) investments in Southeast

Asia. At the moment, China is only ASEAN’s fourth largest external investment source, after the European Union, Japan and the United States with FDI flows from China to ASEAN of around US$9 billion in 2016 (Tay, Tan and Kiruppalini, 2017, p. 20).

Foreign direct investment into ASEAN was boosted by a series of free trade agreements (FTAs) in the last 20 years. These FTAs such as the FTA with China provided the ASEAN member countries “with modern regulatory platforms necessary to integrate their economies into the global market (Cho and Kurtz, 2016, p. 342). Another push factor for the investment growth was the ASEAN Comprehensive Investment Agreement (ACIA), which took effect on 29 March 2012. ACIA is an ASEAN instrument that aims to enhance the attractiveness of the ASEAN region as a single investment destination. It is expected to result to a more conducive business environment, encourage investors who are not yet in ASEAN to do business in the region, provide greater confidence among current investors in the region to continue and expand their investments, and increase intra-ASEAN investment. In terms of investment, ACIA “is the most comprehensive investment agreement compared with the all ASEAN FTA+1 agreements (Pangestu and Lili Yang Ing, 2017, p. 4). Other initiatives that have helped to facilitate capital flows in the ASEAN region were the Asian Bond Markets Initiative, the 2011 Credit Guarantee and Investment Facility), and the Chiang Mai Initiative Multilateralized (CMIM) swap arrangements, which is supported by a strengthened ASEAN+3 Macroeconomic Research Office (Menont and Melendez, 2015, p. 8).

The ASEAN Economic Community 2025 Consolidated Strategic Action Plan includes the topic of “Investment Environment (Point A 3). Here, the objectives are defined as to enhance further ASEAN’s attractiveness as an investment destination globally through the establishment of an open, transparent and predictable investment regime in the region. This includes to continue and to enhance the Investment Peer Review process of the adherence of the ASEAN member states to the ACIA agreements, particularly with regard to eliminating investment impediments and restrictions and improving transparency in investment-related policies and regulations (ASEAN Secretariat, 2018).

3.2. Reasons for Foreign Investment

The above described rise of FDI into ASEAN is a success story, which has many reasons. Empirical data shows that good regulatory quality contributes to foreign direct investment (FDI) attractiveness. A good example is the performance of Singapore, which remains the top FDI destination in ASEAN despite its high wage, housing, and office space costs, in part because it boasts one of the best regulatory quality environments in the world (Sta. Maria, Urata and Intal, 2017, p. 29). Several studies have shown that there is a distinct positive linear relationship of business conditions in a specific country with the degree of FDI. Business conditions do not only refer to well-defined property rights, low transaction costs, and political stability, but also include well-organized money and credit markets and an educated and trained labor force with adequate skills and specializations (Moudatsou and Kyrkilis, 2011, p. 555).

The rule that the better the business the higher the FDI inflows holds true for Southeast Asia. ASEAN member states which accounts for the majority of ASEAN FDI (Singapore, Malaysia, Indonesia, Vietnam and Thailand) tend to offer a more favorable business environment compared to other member states. Among the indices, areas of enforcing contracts, bond recovery rate and trade period showed a high correlation coefficient with the FDI (Jeong, 2018, p. 2). If we look at country positions at the World Bank's Ease of Doing Business Index 2020 in table 1, we can easily identify that the more developed countries of Southeast Asia have also favorable conditions for business including FDI.

The overall FDI prospects have been increased due to the region's improved investment climate. If we compare the 2020 Ease of Doing Business Index with that of 2010, it becomes obvious that there is a clear upward trend.

	Position Ease of Doing Business Index 2020 (190 countries)	Position Ease of Doing Business Index 2010 (183 countries)	Change
Singapore	2	1	-1
Malaysia	12	23	13
Thailand	21	12	-9
Brunei	66	96	30
Vietnam	70	93	23
Indonesia	73	122	49
Philippines	95	144	49
Cambodia	144	145	1
Laos	154	167	13
Myanmar	165	Not included	-

Table 1: Business Climate in Comparative Perspective. Source: Own Compilation with data from World Bank (2010): Doing Business 2010, p. 4 and World Bank (2020): Doing Business 2020, p. 4

Countries such as Brunei, Vietnam and Indonesia have made the most improvements, but even less favorable investment destinations such as the Philippines, Cambodia and Laos have improved slightly. The top countries such as Singapore and Malaysia have nearly kept their impositions and only Thailand's position decreased somewhat in the last 9 years.

Besides the general trend towards improved business environments in the ASEAN member states, there are also factors which encourage investors to focus on ASEAN. These factors are according to a recent study (Ambashi, 2017a, p. 2) the following (a) the relatively low wage of ASEAN compared to China, (b) the establishment of the AEC, (c) the economic partnership network with a core of ASEAN countries, (d) the large-scale market covered by ASEAN, wealthy and middle-income classes rise in tandem with abundant younger generations, which leads the ASEAN economy to a large-scale consumption market, and (e) the rise of CLMV countries. This assessment, particularly point (a), needs to be seen critical. It is exaggerated that ASEAN countries have generally lower wages than China. Particularly those countries which attract the most FDI such as Singapore, Malaysia, Thailand and Indonesia are not known as low-wages countries. In so far, this argument rather refers to countries such as Vietnam or Cambodia. This relates to point (e). It is true that the rise of FDI into the CLMV countries contributed to the overall FDI increase. However, the percentage of investments into the CLMV countries in relation the ASEAN-6 countries is still relatively marginal.

It is thus better to focus on the other advantages mentioned. Point (b) is constant, because the AEC is generally seen as providing a comprehensive framework to increase investment, since it contains many mutually reinforcing measures that will improve the investment climate of individual countries as well as the region as a whole (Bhaskaran, 2013, p. 155). However, the implementation of the AEC is still work in progress and the target envisaged in the 2025 AEC blueprint "a deeply integrated and highly cohesive ASEAN economy" (ASEAN Secretariat, 2015c, p. 3) is still far from being realized. Point c, the networks within ASEAN, are indeed relevant for the attractiveness of ASEAN as an investment destination. This relates particularly to the supply chain phenomenon, which has been widely studied and reported. These production networks with other parts of the world "have been driven by the convergence of two factors: ASEAN's liberalized trade regime; and the investment strategy of the region's trading partners" (Azis, 2018, p. 3). There is a clear trend for Northeast Asian industrialized countries such as China, Korea, and Japan to gradually relocating their operations to Southeast Asia for the above-mentioned reasons. This development will continue in the near future and contribute to more FDI until the year 2025.

The most crucial point, however, is 3, the large-scale market covered by ASEAN in combination with a relatively young population and rising middle-income classes. Empirical research "consolidates a consensus over the significance of market size and growth in motivating FDI (Moudatsou and Kyrkilis, 2011, p. 555)." In terms of size the ASEAN region is with over 600 million people a large market (comparable with and thus attractive as an investment destination. The ASEAN member states become even more attractive if we compare the rising levels of income in the last ten years and the potential for growth.

	Income per capita 2010	Income per capita 2018	Change in percent
Singapore	44,930	58,770	30.8
Malaysia	8,260	10,460	26.6
Thailand	4,580	6,610	44.3
Brunei	33,300	31,020	-7.4
Vietnam	1,250	2,400	92.0
Indonesia	2,530	3,840	51.8
Philippines	2,460	3,830	55.7
Cambodia	750	1,380	84.0
Laos	1,000	2,460	146.0
Myanmar	850	1,310	54.1

Table 2: Income per capita in SEA in current US Dollar, Atlas method. Source: World Bank Development Indicators (2019)

It is clearly visible that the average GNI per capita has increased to a great extent in nearly all countries of Southeast Asia, even in the more developed such as Singapore, Malaysia and Thailand. The strong increase in populous economies such as Indonesia, Vietnam and the Philippines which all of more than 100 million citizens is also remarkable.

The data of the three biggest economies of Europe and the two biggest of Northern America are presented in Table 3.

	Income per capita 2010	Income per capita 2018	Change in percent
Germany	44,790	47,450	5,9
France	43,850	41,070	-6,8
United Kingdom	41,280	41,330	0,1
Canada	44,480	44,860	0,1
USA	48,990	62,850	28,2

Table 3: Income per capita in Europe and North America in current US Dollar, Atlas method. Source: World Bank Development Indicators (2019)

In comparison with developed countries in North America and particularly in Europe, it is significant to see the low levels of growth in the developed countries compared to those in the ASEAN region. The income growth data of the ASEAN member states are also significantly higher than those in other developing countries such as South Asia, Africa or Latin America.

3.3. Challenges for Investment

As described above, there are various important aspects that are supportive for a continuation or expansion of FDI inflows into ASEAN in the next years. There are, however, some serious challenges. One of the most important is that many ASEAN countries, including the two most populous, Indonesia and the Philippines remain "intransigently protectionist" (Cho and Kurtz, 2016, p. 366) and have not yet prepared regulatory frameworks (meaning laws, regulations, decrees and policies officially developed and approved by the government) which support further FDI. Indonesia's President Joko Widodo has recognized this problem and has tried to open its country for further investment from abroad, which has brought the country respect from investment rating agencies, but on the ground has not yet been much improvement. In the Philippines, the former chairman of National Economic and Development Authority Ernesto Pernia recently complained: "The Philippines is the most restrictive country in ASEAN. In Vietnam, for example, 100 percent foreign participation is allowed in practically all areas of FDI. Here in the Philippines, there are so many areas where FDI is only partially open to foreigners" (Valencia, 2019). In both countries, however, vested business interests close to political decision-makers block the opening up of protectionist economic structures. In all Southeast Asian countries, the respective governments must deal with domestic powerful business actors who seek to preserve their market share by resisting reforms or pursuing new protectionist measures. As a proposed solution, governments should promote and protect national economic rather than vested business interests (Menon and Melendez, 2015, p. 15).

Another danger for increased FDI inflows to ASEAN are rising populist and protectionist sentiments from ASEAN itself. Based on the experiences during nation-building and Cold War, many political leaders but also the general public share nationalistic views about autarchy and closed borders. One only needs to think of the enormous support of Indonesian presidential candidate Prabowo Subianto with his overly voiced populist demands to stop all imports to Indonesia during the election campaign in early 2019. He also insulted several times the administration of Joko Widodo and termed them "*antek asing*" (foreign lackeys) because it was supporting trade and investment from abroad. The economic rise of middle classes in Southeast Asia has raised overall expectations of how governments perform. Failure to close gaps in public expectations have also fostered anti-elite sentiments (Azis, 2018, p. 9). Here, Malaysia and the surprising win of the opposition in the 2018 elections is a case in point. In the Philippines, similar public frustration over corruption and not met expectations helped push populist President Rodrigo Duterte from outside the established elite into the country's highest political office (Tay, Tan and Kiruppalini, 2017, p. 23).

The possibility that some ASEAN member states can lose economic and political stability due to domestic frictions is another challenge for further FDI inflows. Most ASEAN countries have problems with social justice and equality, because the wealth is often distributed very unevenly. In addition, access to basic needs such as education and health care is often difficult for millions of impoverished people in Southeast Asia. At the same time, many countries are in danger of rising identity politics, which could lead to violence and chaos. The Rohingya issue in Myanmar is certainly the most virulent within the ASEAN countries at the moment, but ethno-religious tensions and occasional violence also occur in Indonesia, the Philippines, Malaysia, Thailand and Cambodia. If the mentioned domestic social and ethno-religious conflicts are solved or at least reduced, instability and loss of economic productivity will be the consequence. This in turn, would have a significant negative impact on ASEAN's attractiveness as destination of FDI.

As the ASEAN region becomes more developed in terms of income and education, it has also to transform into more advanced industrialization, which does not depend anymore on unskilled labor–intensive industries. These kinds of jobs will flee to countries which have a less skilled and consequently less paid workforce. Particularly countries such as Indonesia, the Philippines, and Thailand should not project on creating opportunities for FDI into labor-intensive but not well-paid jobs, even if this might be beneficial in order to create jobs for the still huge number of unskilled workers. For FDI inflows in the near future improvements in productivity will determine the sustainability of ASEAN's economic growth. Consequently, it would be more beneficial to improve productivity in a long-term perspective by providing better education and job formation for the workers. It is true that already much has been done by ASEAN member states to improve basic and intermediate levels of education, but most ASEAN member states continue to have serious problems at the higher end of the educational system. More focus should be on teaching technical skills needed to move from assembly to production and, eventually, to the design stages of the value chain. This would significantly contribute to productivity improvements (Azis, 2018, p. 7).

The need for developing more quality human capital is rising, because in the near future many ASEAN member states will leave the period of demographic dividend, in which the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older). Due to declining fertility rates of women and a general higher life expectancy most ASEAN member states will see in the near future a shrinking of labor force relative to total number of dependents. Singapore, Thailand, Vietnam and Malaysia are already in the transition to an ageing society, and Indonesia, Brunei and even the Philippines will be in around 15 years to come. Inadequate social safety nets and insufficient retirement security could make the burden on a shrinking workforce even heavier for the Southeast Asian economies. Although some measures have already been taken in some countries (Ziegenhain, 2019), the demographic factors will certainly be a challenge to attract further FDI into the ASEAN member states.

Another threat for further investment may derive from recent global developments. Since the founding of ASEAN in 1967, openness and technological progress have fostered economic integration around the world, including ASEAN. The election victory of Donald Trump in the USA and the referendum in the UK to leave the European Union are just the most remarkable events of a global trend towards more nationalism and protectionism. Different from the decades before, there are now more Western voices that openly criticize globalization and the existing international liberal order (Tay, Tan and Kiruppalini, 2017, p. 27).

ASEAN, and particularly the AEC, is built on a policy of free trade and multilateral trade deals. In contrast, the "America First" agenda of the Trump administration prefers bilateral trade deals and even initiated a so-called trade war with its economic competitor China. These global developments have certainly an impact on FDI flows to ASEAN. One possibility are increased investment activities of China. The recently formed Regional Comprehensive Economic Partnership (RCEP) which was formed by the ten ASEAN member states and the six Indo-Pacific states with which ASEAN has existing free trade agreements (China, Japan, South Korea, India, Australia and New Zealand) without the USA is a clear indicator in this direction.

However, there are also fears within most ASEAN member states against China's rising influence in global and regional affairs, not least due to territorial issues in the South China Sea. On the other hand, there might be some ASEAN countries, particularly those with authoritarian governments who are more willing to accept Beijing's investment policies. These countries may also find China's embrace of the principle of non-interference in other countries' affairs similar to ASEAN's and will appreciate investments that are free from demands for political and economic reforms as from many Western countries. Nonetheless, as the ASEAN member states have to weigh China on the one hand against the United States and its regional allies Japan and South Korea on the other, there is a risk that this issue could polarize ASEAN. The risk will more likely escalate if China will be successful to adopt a bilateral approach to individual countries rather than negotiating with ASEAN as a group (Azis, 2018, p. 9).

Last but not least, in order to strengthen FDI inflows ASEAN and the AEC need to strengthen their internal regulatory frameworks. Unclear and sometimes contradicting regulations lead to increased transaction and compliance costs for companies and investors. This is not an easy task given the huge development gaps and pronounced disparities in rule of law and governance among the ASEAN member states. Nevertheless, coherent legal provisions would certainly benefit investments as well as adopting a competition law in ASEAN in order to reduce cartels and anticompetitive practices (Silalahi, 2017, p. 121). It seems unrealistic that ASEAN will ever adopt a common/supranational trade and investment policy, but what would be helpful to raise the level of FDI is the adjustment of national laws to collective guidelines.

4. Conclusion

Arguing from the perspective of neoliberal institutionalism, the establishment of ASEAN and the AEC has helped its member states not only to keep peace and friendly multilateral relations, but also contributed to significant economic benefits. As has been outlined, the FDI inflows into ASEAN and its member states have been relatively high in recent years, which means that the region was successful in attracting FDI. In 2018, ASEAN FDI was 30 percent higher than in the previous year and the region received the highest growth share of the world FDI. It comes as no surprise that attracting foreign investment remains an important component of the growth strategy of the AEC and its member states.

There are several aspects that speak in favor of a shining future of FDI in ASEAN. The region is well-connected with neighboring markets and product chains. As data from the World Bank’s Ease of Doing Business Index show, nearly all ASEAN member states have improved their business environments in the last 10 years, some of them, such as Vietnam or Indonesia, even to a great extent. The large-scale market with more than 600 million citizens continues to be attractive for investment, particularly when considering the rising individual wealth and the growing number of middle-class people with increasing purchasing power.

However, one needs to be realistic and also consider factors which are negative for ASEAN's investment climate. Despite the launch of the AEC, ASEAN is still far from being fully integrated or a single market. National sovereignty is still the basic principle of ASEAN and further integration or a common regulatory framework is hardly possible if ASEAN governments continue to choose to retain their sovereignty instead of engaging in shared guidelines and decision making that transcends national boundaries (Bhaskaran, 2013, p. 173).

This goes hand in hand with latent protectionist mindsets and policies in most ASEAN countries, in which political and economic elites try to protect their often-shared vested interests from international competition. Recent cases of populism and identity politics have revealed narrow-minded nationalism and protectionism in many Southeast Asian countries. Such developments are also taking place at the global level, in which the trade wars and politics of economic nationalism of US President Donald Trump are only the largest sign of a new global trend of protectionism and nationalism.

It will not be easy for the ASEAN and its member states to keep up to the relatively high inflows of FDI in the near future until the year 2025. It should not be overlooked, however, that the ASEAN member states can influence the level of FDI themselves by improving the regulatory framework for trade and investment. Most observers agree that a "liberalization of foreign investments in all sectors of the economy, and international financial and capital market integration, would enhance significantly the long-run growth prospects of the ASEAN member economies (Vogiatzoglou and Nguyen, 2016, p. 19). This means a further economic integration of the AEC despite all the resistance in many ASEAN member states. Another further integration step would be a broader regional integration by closer linking the AEC with regional agreements such as RCEP which has the potential to integrate fully the markets in the Asia-Pacific region. If these two integration steps will not take place, ASEAN will witness a continuity of FDI inflows but will stay below its economic potential.

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