

The Need for Common Investment Measures within ASEAN

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A growing proportion of international trade within the Association of Southeast Asian Nations (ASEAN) occurs within multinational enterprises. In an effort to liberalize trade policy within the region, policies governing direct foreign investment should also be evaluated. ASEAN governments have achieved a significant level of convergence in investment policy regimes through unilateral reforms. One outcome of this non-cooperative approach, however, has been an unusually high level of investment incentives within ASEAN. This article evaluates investment regimes within ASEAN and considers the likelihood of a regional agreement on investment measures.

1. Introduction

Over the past decade, inward direct foreign investment within Southeast Asia has grown at a remarkable rate. Among the most attractive investment locations of developing economies, members of the Association of Southeast Asian Nations (ASEAN) have benefited from the accompanying inflows of capital and technology. Through export-oriented production and intra-firm trade, multinational enterprises (MNEs) have promoted openness within the region.

The goal of the ASEAN Free Trade Agreement (AFTA) is to promote regional economic efficiency through international trade liberalization. As MNE transactions comprise an increasing share of regional international trade, it is imperative to assess how policies on direct foreign investment (DFI) affect these objectives. Investment measures have received significant attention and scrutiny in other multilateral negotiations

including the Negotiating Group on Trade-Related Investment Measures (TRIMs) in the Uruguay Round and the Asian Pacific Investment Code (APIC). The polemic is generally divided on North-South lines and only a limited consensus has emerged. Industrialized economies contend that investment measures and incentives impose systemic inefficiencies which distort trade and investment patterns and lower global welfare. Developing economies, as net recipients of DFI, argue that investment measures are important policy tools for development, sovereignty, and balance of payments.

In practice, ASEAN governments tend to maintain moderate policy positions between these two extremes. Unilateral investment reforms since 1985 have resulted in significant liberalization and harmonization of regional investment regimes. Informal discussion reveals an openness to extend regional co-operation to investment

policy. To this end, the ASEAN Committee for Industry, Minerals and Energy commissioned several studies on co-ordination of incentive policies to prevent destructive competition in investment incentives (Guisinger 1993).

Yet, various investment measures and performance requirements continue to distort the inflows of DFI within the ASEAN region. ASEAN members also provide unusually high levels of investment incentives. Thus while recent reforms make a comprehensive ASEAN agreement on common investment measures more likely, it is not automatic.

In this article, I consider the need and prospects for an agreement on common investment measures within ASEAN. In my view, at least limited co-operation that liberalizes investment policies and reduces competing incentives would be desirable. I begin, in section 2, by discussing the economic impact of investment measures and reasons for the existence of these policies. In section 3, specific investment incentives and performance requirements of ASEAN countries are considered. Available evidence of the impact of investment measures on inward DFI within ASEAN is reviewed in section 4. Regional and multilateral agreements that have legitimacy over ASEAN nations are discussed in the fifth section. Finally, I consider the basic components that may be included in a prospective investment agreement in section 6.

2. Background Analysis of Investment Measures

This section provides a review of the motivations and economic effects of investment measures. As much has been written about investment measures (Guisinger et al. 1985, Graham and Krugman 1990, Maskus and Eby (Konan) 1990, Greenaway 1990, Nicolaidis 1991, United Nations 1991), we provide only a brief review.

As in most countries, investment measures are an important component of commercial policy within the ASEAN region. Investment performance requirements and incentives are designed to promote broad goals including economic

development, import substitution and export promotion, employment growth, technology transfer, and easement of balance of payments pressures. Thus investment policy reform may require change in broader policy regimes because of these implicit linkages. As this is a complicated task, ASEAN governments may be reluctant to fully dismantle investment measures.

Governments often use investment incentives to attract DFI and offset the punitive aspects of performance requirements. Within ASEAN, this proliferation of investment incentives range from accelerated depreciation allowances and tax holidays to direct subsidies. Surveys, such as Guisinger et al. (1985), observe that competition between potential host countries is most prominent in footloose industries with alternative, comparable-cost production sites. While these inducements may influence final plant location at the margin, evidence tends to indicate that MNEs are more concerned with broader economic factors.¹ To the extent that ASEAN governments compete for investment amongst members, incentives will reduce regional welfare by shifting the benefits of DFI from the host country to the multinational enterprise (MNE). At some point, incentives become redundant as investors might have invested under less favourable conditions.²

Another primary motivation for investment measures is to maintain local control over rents from indigenous resources.³ For a variety of reasons, it is risky to invest in foreign markets. With knowledge of local business and government practices, local networks of suppliers, and other cultural elements, local firms have an inherent advantage over MNEs.⁴ Foreign firms will only engage in DFI if they possess distinctive advantages that shield them from local competition. These firm-specific assets are often intangible in nature, such as organizational skills, patents, copyrights or production processes. Intangible assets often act as a firm level public good that may be simultaneously employed in multiple locations. In part, MNEs arise because it is difficult to trade these assets at arm's length. As firm-specific assets are not readily available to rival firms, it follows that MNEs operate within

imperfectly competitive markets. The resulting market structure depends, in part, on the relative magnitudes of local versus foreign monopolistic advantages. On occasion, the firm-specific assets of local enterprises, such as local networks, complement those of foreign enterprises and a joint-venture arrangement may emerge.

Investment measures and performance requirements may be reasonable strategic policies in the second-best setting of imperfect competition. If MNEs are exploiting market power then governments could redistribute surplus rents from MNEs to local residents. In a model by Brander and Spencer (1985), for example, in an industry with scale economies a production-increasing subsidy may lower a firm's average cost and increase market share relative to rival producers. To the extent that profits are domestically retained, a host country may gain. On the other hand, foreign capital may be attracted to high domestic returns in protected industries. By increasing output in the distorted sector, DFI that arises to jump tariff barriers may be welfare worsening. In a tariff-jumping model of DFI, Rodrik (1987) demonstrates that export-performance requirements may optimally offset this effect by forcing foreign investors towards world prices.

It is exceedingly difficult, in practice, to implement strategic investment measures which achieve desired outcomes. The policy outcome depends on the nature of market imperfections as well as the reaction of other firms and governments. Potential rent-shifting gains are dissipated by rent-seeking behaviour and systemic inefficiencies that accompany investment measures. Even if imperfect competition exists, there may be pro-competitive gains from investment measure liberalization (Horstmann and Markusen 1986). Most economists thus argue that investment measures tend to be welfare reducing for both home and host countries.⁵

As a group, ASEAN countries appear to concur with this view. In the 1980s, investment policy liberalization was seen as an easy way to promote economic growth and enhance domestic capital and technology. Some regional convergence of investment performance requirements

and incentives has resulted. Yet, important distortionary policies, such as local equity and employment requirements, remain and are discussed below. ASEAN governments argue that investment measures are legitimate within the broader context of social and economic development. They fear that subjecting investment codes to ASEAN regulation and supervision will result in loss in sovereignty and control over indigenous resources, balance of payments concerns, and suboptimal levels of technology transfer. In regional and global competition to attract DFI, a plethora of incentives within ASEAN also redirects investment locations and lowers the regional benefits that investment provides. In spite of these contentious issues, the prospective for a comprehensive ASEAN investment agreement is promising.

3. The Legal Framework for Investment in ASEAN

There are strong reasons to recommend caution in the use of investment measures within ASEAN despite inherent uncertainties about the actual welfare effects of specific requirements. Individual ASEAN countries have thus progressively liberalized their investment regimes to attract inward DFI since 1985.⁶ A remarkable level of regional convergence of investment rules and incentives has emerged from largely unilateral reforms. Full repatriation of profits is permitted for most investments in almost all ASEAN countries. Fiscal investment incentives are also broadly similar within the region. Notably little liberalization has occurred, however, in some of the performance requirements most frequently employed such as employment and technology transfer requirements. As history and motivations for liberalization differ across ASEAN members, important distinctions in national policies remain. In this section we provide a brief review of investment policies for the ASEAN countries.⁷ A concise summary of these policies is given in the Appendix.

Singapore has encouraged DFI since independence in 1959 through active government

intervention. Initially, incentives for labour-intensive manufactured exports were granted for up to 15 years. With the Economic Expansion Incentive Act of 1985 and a copyright law of 1986, inducements for DFI were rechannelled to high technology sectors. Other factors promoting DFI are minimal performance requirements, fiscal incentives, adequate infrastructure, few trade barriers, political stability, and a one-stop investment information centre (Economic Development Board). Singapore is consistently ranked as one of the most attractive investment locations in the world by business surveys such as Business Environment Risk Information (BERI).

Prior to recent investment reforms, Malaysia has tended to discourage DFI by imposing restrictions on foreign equity participation and channelling investment into export processing zones. The New Economic Policy of 1970 required a redistribution of equity participation of 30 per cent minimum for indigenous Malaysians (*bumiputera*) and 30 per cent maximum for foreign investors. Declining commodity prices in the 1980s, such as oil, tin, and rubber, encouraged Malaysia to significantly liberalize investment policy.⁸ While all foreign investment must be registered under the Business Ordinance and Companies Act, Malaysia currently has no foreign investment law. Full foreign equity is permitted for projects that export a minimum of 80 per cent.

Historically, Philippine legislation has provided various inducements to DFI. Since the 1950s, significant incentives have been offered to firms operating in preferred activities. Enacted in 1987, the Omnibus Investment Code replaced these incentives with general fiscal incentives at par with tax legislation in other Asian countries. Restrictions on foreign equity participation were greatly relaxed in 1991 by the Foreign Investment Act.

Investment policy liberalization has been most dramatic in Indonesia. Rich in oil and natural resources, policies previously promoted the public sector and import-substitution manufacturing while limiting DFI. As in Malaysia, falling oil and commodities prices resulted in reforms in Indonesian investment policy. Many performance

requirements and barriers have been dramatically reduced or eliminated. Sectors once reserved for state enterprises are now open to private investment. Yet, Indonesia still excludes DFI from 34 activities including important sectors such as retail trade, communications, and various manufacturing industries. National treatment is generally not granted to MNEs and the president must personally approve every foreign investment project.

While actively encouraging foreign joint ventures in energy and industrial sectors, Thailand attempts to control DFI through a wide range of measures such as ownership restrictions and technology transfer requirements. Thailand's basic legislative framework of 1954 remains unchanged. DFI inflows, which have recently been high relative to ASEAN, may be attributed to low cost production, infrastructure development, as well as promotional efforts.

Investment Incentives

Each ASEAN government provides investment incentives to attract and control DFI. Inducements include tax holidays, accelerated depreciation and investment allowances, export incentives, preferential loans, and subsidies. Often, these incentives are offered in conjunction with performance requirements to offset the punitive effects. Given the policies of neighbour countries, investment incentive programmes may be rational for an individual ASEAN member. Competition for DFI, however, has resulted in broadly similar investment inducement programmes amongst ASEAN countries and an erosion of regional welfare. Some of the benefits of investment are being shifted from the region to MNEs, in the form of concessions, and this is likely to be welfare reducing for the region as a whole. Investment incentives also become redundant when the investor would have entered under lower levels of enticement.

Of the fiscal incentives most widely used within ASEAN, the most controversial is the income tax holiday. Economists are generally sceptical about the effectiveness of the tax holiday

in attracting DFI. In 1984, Indonesia removed its tax exemption incentive without much loss in DFI. The remaining ASEAN countries preserve tax holidays for pioneer firms and other favoured investors. Full income tax exemptions are available within the Philippines for four to six years for non-pioneer and pioneer firms, respectively. In Brunei, pioneer status corporations are granted a tax holiday for two to five years. Thailand exempts corporate income taxes for pioneer firms for three to eight years depending on performance requirements. Pioneer firms in Singapore qualify for a 31 per cent tax exemption on profits for five to ten years, and in Malaysia receive favourable profit tax rate of 10 per cent for five years.

Tax exemptions within ASEAN tend to promote specific sectors or activities. For example, duties on most machinery, equipment, and raw materials in Malaysia and Indonesia are fully exempt.⁹ In Thailand, import duty exemptions are 50 per cent for machinery and equipment and up to 90 per cent on raw materials. Malaysia, the Philippines, and Singapore provide generous tax incentives for the domestic establishment of regional headquarters. Interest on approved foreign loans is exempt from taxes in Brunei. Tax deductions for research and development (R&D) and labour training expenses are especially generous in Malaysia. Additional concessions are generally granted to firms to encourage investment expansion and exports. All ASEAN countries except Indonesia provide tax concessions to firms for initial capital expenditures.

Investment Restrictions and Performance Requirements

In many developing countries local equity requirements specify that a minimum percentage of a firm's equity be owned by local investors. It is notable that several ASEAN members permit full foreign equity in most sectors. Singapore allows 100 per cent foreign equity and participation in nearly all sectors.¹⁰ Under the Foreign Investment Act of 1991, full foreign equity in investments is also permitted in the Philippines in most industries.¹¹ In Malaysia, the New Development Policy

of 1991 links local equity requirements to export performance and technology level.¹²

Although Thailand and Indonesia have recently liberalized local equity requirements, almost all foreign investment must be in the form of a joint venture with a local partner. In most cases, Indonesian investments must have a majority control by local owners. Indonesian equity participation in "new" investments must be at least 20 per cent. In Thailand, the Alien Business Law specifies industries that are closed to foreign participation. By virtue of the 1966 U.S. Thai Treaty of Amity and Economic Relations, U.S. investors are afforded national treatment and may hold 100 per cent equity in sectors where other foreign owners are limited to 49 per cent.

With recent investment liberalization, local content, export performance, and trade balancing requirements have been largely dismantled within ASEAN.¹³ Repatriation of profits is nearly automatic in all ASEAN countries except Thailand.¹⁴ There are no minimum capital requirements in Malaysia, Singapore, Philippines, and Thailand, and minor requirements in Indonesia.¹⁵ Performance requirements that restrict employment of foreign personnel, frequently at the managerial and technical levels, are more prominent in ASEAN. As these measures directly limit the flow of a firm-specific asset, foreign human capital, the impact on DFI may be significant. All ASEAN nations attempt to promote local participation in foreign subsidiaries through foreign worker restrictions. Indonesia's regulations are most binding. Expatriate personnel are only permitted for a limited time in government-specified positions and in the absence of a qualified Indonesian. In the Philippines, foreign nationals in supervisory, technical, or advisory positions cannot be employed for more than five years after firm registration.¹⁶ Malaysia and Thailand also enforces restrictions and time on foreign-held executive positions.

Other indirect deterrents to foreign employment in ASEAN, with the exception of Malaysia, are restrictions or prohibitions on landownership by foreigners. All the ASEAN countries provide some protection to foreign investors against

expropriation. Generally, governments may not nationalize foreign investment except for public purposes, and upon prompt and adequate compensation.

4. Evidence on Direct Foreign Investment and Measures in ASEAN

ASEAN countries have been exceptional in their progressive and unilateral efforts to attract foreign investors through a combination of micro-economic factors including factor price advantages, political stability, adequate infrastructure, regional economic growth, and investment measure liberalization.¹⁷ As a result, Southeast Asia has attracted a disproportionate share of investment inflows in the developing world. Singapore and Malaysia have ranked within the top ten developing economies for average annual DFI inflows since the 1970s along with Thailand in the 1980s (Table 1).

That investment measures may distort DFI and international trade is indisputable but empirical evidence that existing measures in the region have

resulted in significant distortions is hardly conclusive for several reasons.¹⁸ Data on the impact of investment measures are limited and of varying quality. There is no standardized data on investment measures across countries or time. Existing studies comprise of survey data where MNEs are interviewed about subsidiaries operating under investment measures. For obvious reasons, MNEs have incentives to misstate the extent to which measures alter their decisions, and a sample selection problem exists because firms that might invest in the absence of a performance requirement are excluded from the sample.

According to the United Nations (1991) study the majority of investment measures may also be redundant. The presence of an investment measure does not imply that the measure was binding or influential on MNE behaviour. In addition, it is difficult to construct an adequate index of distortion for a specific measure. Investment measures may influence investment and trade within a firm on many levels such as investment location, plant size, technology and input use. In general equilibrium, the combination of various measures may

TABLE 1
Top Ten Annual Flows of Direct Foreign Investment
to Developing Economies
(In US\$ billions)

<i>Recipient</i>	<i>1970-1979</i>	<i>Recipient</i>	<i>1980-1990</i>
Brazil	11.3	Singapore	2.3
Mexico	0.6	Mexico	1.9
Egypt	0.3	Brazil	1.8
Malaysia	0.3	People's Republic of China	1.7
Nigeria	0.3	Malaysia	1.1
Singapore	0.3	Hong Kong	1.1
Indonesia	0.2	Egypt	0.9
Hong Kong	0.1	Argentina	0.7
Iran	0.1	Thailand	0.7
Uruguay	0.1	Taiwan	0.5
Share of Flows	66	Share of Flows	68

SOURCE: Ruffin (1993).

TABLE 2
Percentage of Reporting U.S. Foreign Affiliates Subject to
Performance Requirements and Investment Incentives

<i>Measure</i>	<i>Total</i>	<i>Developed Market Economies</i>	<i>Developing Economies</i>	<i>ASEAN^a</i>
Performance Requirements				
Export requirements	1.6	1.1	2.7	3.0
Import limits	1.5	0.5	3.4	1.2
Local content requirements	1.1	0.6	2.1	2.1
Employment requirements	7.8	4.0	15.4	11.4
Technology transfer conditions	3.6	1.8	7.4	13.1
Trade balance restrictions	1.4	0.6	3.0	1.3
Equity limits	4.4	1.4	10.3	10.9
Investment Incentives				
Tax concessions	24.8	24.5	26.3	27.0
Tariff concessions	9.8	6.7	16.4	19.8
Subsidies	14.2	17.5	8.7	14.3
Other	7.4	6.8	8.8	17.8

a. Excluding Brunei.

SOURCE: U.S. Department of Commerce, *U.S. Direct Investment Abroad: 1982 Benchmark Survey* (Washington: Bureau of Economic Analysis, 1985).

have interrelated and offsetting effects.¹⁹

We obtain a partial understanding of the impact of investment measures in the region from the U.S. Department of Commerce's 1982 benchmark survey of U.S. direct investment abroad. In the data, U.S. MNEs report the number of their overseas affiliates subject to various investment incentives and requirements. This approach provides no indication about the magnitude of investment incentive or restriction. Observed are the percentage of reporting U.S. affiliates abroad subject to a particular measure. Results are shown in Table 2.

The compilations in Table 2 provide a measure of the incidence of investment measures imposed globally, and some limited observations are drawn.²⁰ Less than 8 per cent of United States foreign affiliates reporting were subject to any one performance requirement in 1982. This evidence

supports observations by Guisinger et al. (1985) that performance requirements are relatively uncommon and inconsequential. Less than 2 per cent of affiliates were subject to the investment measures covered under the Uruguay Round accord. As this low frequency of reported investment measure appears to conflict with the large number of countries with measures on their statutes, this indicates that measures are often negotiable and discretionary (United Nations 1991).

Developing economies appear more likely to impose restrictions than industrialized countries, especially in employment, technology transfer, and equity requirements. As many as 15.4 per cent of subsidiaries within developing countries are subject to an investment measure.²¹ These results are somewhat inconclusive as important measures within industrialized countries, such as restrictive rules of origins, are excluded from the survey.

Incidence of performance requirements in ASEAN appear not unlike that in developing economies overall. Although not detectable from formal investment codes, technology transfer requirements are much higher within ASEAN (13.1 per cent) than in the average developing country (7.4 per cent). In 1982, the most frequently employed performance requirements in ASEAN were technology transfer requirements, employment requirements (11.4 per cent), and equity limits (10.9 per cent).

Industrialized countries were clearly more likely to offer investment incentives in the form of subsidies, instead of tariff concessions than developing economies.²² MNE subsidiaries within ASEAN report an incidence of subsidies (14.3 per cent) and other investment incentives (17.8 per cent) that is higher than global averages (14.2 per cent and 7.4 per cent, respectively) and comparable to, or exceeding that, of industrialized countries (17.5 per cent and 6.8 per cent, respectively).

5. Current Regional and Multilateral Agreements

Investment policies within ASEAN have evolved independently, with few bilateral investment treaties and no regional or multilateral agreements. Two recent rounds of negotiations, however, will have legitimacy over the investment regimes of ASEAN in the near future: the TRIMs agreement in the Uruguay Round and the Asia-Pacific Investment Code.

A limited agreement achieved through negotiations on trade-related investment measures (TRIMs) in the Uruguay Round brings investment measures directly under the purview of the General Agreement on Tariffs and Trade (GATT).²³ ASEAN nations are largely in compliance with forthcoming GATT standards on investment measures. Enacted 1 July 1995, the Uruguay Round accord restricts the use of three TRIMs: local content requirements; trade balancing requirements, and foreign exchange balancing requirements. A two-year grace period provided for industrialized economies to eliminate

accord-covered measures, while a five-year grace period was provided for developing countries and seven years for the least developed countries with more time granted upon consent of all contracting parties. Of greater consequence to the investment regimes of ASEAN is the Uruguay Round accord on subsidies which prohibits various incentives, such as export performance and local content subsidies.

Extending throughout the Pacific Basin, the Asia-Pacific Investment Code (APIC) was presented to the Pacific Basin Economic Council in March 1994. The goal of this non-binding set of recommendations is to foster regional harmonization and liberalization of investment rules.²⁴ APIC covers most-favoured-nation status, national treatment, right of establishment, repatriation, and expropriation. The code would also encourage transparency performance requirements and harmonization of tax systems and investment incentives. Although voluntary in nature, Guisinger (1993) asserts that the APIC draft provides a building block for the evolution of more formal regional co-operation.

6. Prospects for Developing Common Investment Codes within ASEAN

DFI is an important component of ASEAN economic relations and thus must be considered in the negotiations to promote regional co-operation. Great advancement has been achieved through unilateral reforms over the past decade. Although largely in the discussion stage, recent attempts to discipline DFI through co-operative efforts have emerged with potentially substantial investment liberalizing benefits. Thus I believe that at least a limited agreement on investment within ASEAN is achievable. Co-operation on investment codes will likely be beneficial to the region by promoting greater efficiency in the attraction and distribution of capital and technology through DFI. A reasonable pact on investment might cover the following areas.

First, there are conditions that are standard in many investment treaties and largely in practice within ASEAN. Investors would have the right to

repatriate profits or proceeds derived from investment at market rates of currency exchange and without penalty. Limits would also be placed on governments regarding the nationalization or expropriation of an investment, either directly or indirectly except for public purposes in non-discriminatory bases and upon compensation at fair market values and without delay.

Second, members should identify investment measures detrimental to welfare in the region and thus subject to discipline. At a minimum local content, trade balancing, and export performance requirements would be banned as required under the Uruguay Round accord. For other measures, an ASEAN agreement would establish conditions for their reduction or elimination on a negotiated timetable. It may be difficult to reach an agreement on the treatment of certain performance requirements, such as local equity restrictions, that are linked to broader commercial policy, economic development, and national sovereignty. In this case, members should commit to most-favoured-nation (MFN) and national treatment for firms from signatory countries. Full information about performance requirements should be provided upon request from another contracting party in the interest of transparency.

The most useful outcome of a ASEAN investment agreement would be a reduction in regional investment incentives. An agreement to harmonize fiscal investment inducements would limit

wasteful competition within ASEAN. A great deal of uniformity in incentive packages has been achieved within ASEAN through unilateral reforms. This progress could be extended by instituting ceilings on investment incentives and providing a platform for future negotiations on incentive reduction.

7. Concluding Remarks

A growing proportion of international trade within ASEAN occurs within multinational enterprises. In an effort to liberalize trade policy within the region, through negotiations such as AFTA, policies governing DFI must also be examined. ASEAN governments have achieved a significant level of convergence in investment policy regimes through unilateral reforms. One outcome of this non-cooperative approach, however, has been an unusually high level of investment incentives within ASEAN. This article evaluates investment regimes within ASEAN and considers the likelihood of a regional agreement on investment measures. The likelihood for a comprehensive agreement on investment measures appears favourable as well as regionally and nationally beneficial. Even a limited agreement which formalized the ASEAN commitment to secure DFI would provide a base for more thorough investment liberalization efforts in the future.

APPENDIX

	<i>Indonesia</i>	<i>Malaysia</i>	<i>Philippines</i>	<i>Singapore</i>	<i>Thailand</i>
Equity Restrictions	100 per cent foreign equity permitted in some sectors. Maximum foreign equity of 49 per cent for firms on local stock exchange.	100 per cent foreign equity permitted for firms that export minimum 80 per cent.	Majority equity permitted for firms not on negative list.	100 per cent foreign equity permitted, except in mass media, public utilities, telecommunications, and domestic financial services.	Foreign equity restrictions subject to Alien Business Law.
Local Content Requirements	For some sectors.	For some sectors.	For some sectors.	None.	For some sectors.
Transfer of Profits	No restriction.	No restriction.	No restriction.	No restriction.	No restriction.
Employment Restrictions	Work passes issued liberally.	Restricted, depending on local conditions.	Restricted, depending on local conditions.	Work passes issued liberally.	Restricted, depending on local conditions.
Entry Limits	Negative clause; certain sectors are closed.	No negative clause; mass media closed.	No negative clause; certain sectors closed.	No negative clause.	No negative clause; certain sectors closed.
Tax Incentives	Tax deferrals, depreciation allowance.	Income tax holiday to 5 years; investment tax allowance; export, training, R&D, and sector incentives.	Investment tax credits; income tax holiday up to 6 years. Regional and employment incentives.	Income tax holiday for 5-10 years in approved enterprises.	Income tax holiday of 3-10 years depending on location.

NOTES

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1. See Guisinger et al. 1985.
2. The author thanks an anonymous referee for making this point.
3. Rent-seeking explanations for DFI have been examined by many economists. See Caves (1982) for a review.
4. These local advantages may be sufficient to confer monopolist power to local enterprises.
5. See Nicolaidis (1991) for an argument for national treatment of both foreign and domestic firms and free foreign entry.
6. For a review of this historical process see Chia (1993), Tang (1993), and Togashi and Imada (1992).
7. See Togashi and Imada (1992) for a more detailed summary.
8. Yet, some restrictions on foreign ownership apply if a company exports less than 50 per cent of its production.
9. Some restrictions and time limits apply to duty exemptions on raw materials in Indonesia.
10. Foreign ownership in banks and brokerage firms are negotiated case by case. Singapore also limits foreign ownership in telecommunications and public utilities.
11. In the Philippines, no foreign participation is permitted in several sectors including the mass media, professional services, small-scale mining, and retail trade. Local equity requirements remain in some industries including advertising, public utilities, natural resources, finance, and education. Only Filipino citizens, however, may own land.
12. Wholly foreign-owned subsidiaries are permitted for firms with at least 80 per cent of production as exports.
13. Local content requirements remain in certain sectors such as automobiles and automotive parts, minerals and oil, and processing industries.
14. The recent adoption of IMF Article VIII requires the Thai Government to deregulate foreign currency controls. Remittance requirements on all funds remain.
15. Certain restrictions exist in the Philippines on firms which export less than 60 per cent of output and with equity less than US\$500,000.
16. Time limit restrictions have recently been waived for top-level foreign posts including president, treasurer, and general manager.
17. For a detailed description of the pattern of DFI flows in ASEAN, see Chia (1993).
18. See United Nations (1991) and Maskus and Eby (1990) for a summary of the literature.
19. For example, fiscal incentives and subsidies are often used to offset the burden of a performance requirement.
20. We are unable to evaluate implementation of the recent investment code liberalization efforts since the mid 1980s due to data limitations.
21. As we are unable to adjust for overlaps, we cannot compute the percentage of foreign affiliates subject to investment measures.
22. This is due, in part, to the higher tariff levels imposed in developing economies.
23. The Uruguay Round accord only covers TRIMs related to trade in goods.
24. See Guisinger (1993) for a description and analysis.

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