



“Singapore Shift”

in Japan’s Services FDI into ASEAN

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Outline

- Research Questions
- Theories and Data of Services FDI
- Trend of Japan's FDI
- Japan's Transportation FDI into ASEAN
- Japan's Financial FDI into ASEAN
- Policy Implications



Research Questions

- Two Research Questions
 - Which country in ASEAN receives services FDI from Japan?
 - Are there any differences across sub-sectors?
- Two Characteristics of Services and Investment Agreements in Asia
 - Liberalization of FDI in Services within ASEAN (AFAS)
 - Liberalization of FDI on bilateral basis; each ASEAN members has EPA with external parties including Japan.

Some Theories on Services FDI

- FDI in Goods vs. FDI in Services (Banga 2005)
 - Trade theories; Investment theories
 - Distinctive features of services: Consumer/services supplier mobility; regulations.
- Relationship between bilateral/regional investment treaty (BIT/RIT) and FDI.
 - BIT/RIT increases FDI flow between members (Sullivan 2005).
 - BIT/RIT increases FDI inflow from outside (Velde and Bezermer 2005).
- Geographical distribution of FDI
 - Geographical distribution of services FDI seems to be different from FDI in Goods (especially finance); China – ASEAN distribution (Eichengreen and Tong 2007).
 - Quality regulation seems to be an important independent variable in explaining services FDI, but many studies use a very simple indicator (transparency index) as a proxy variable.

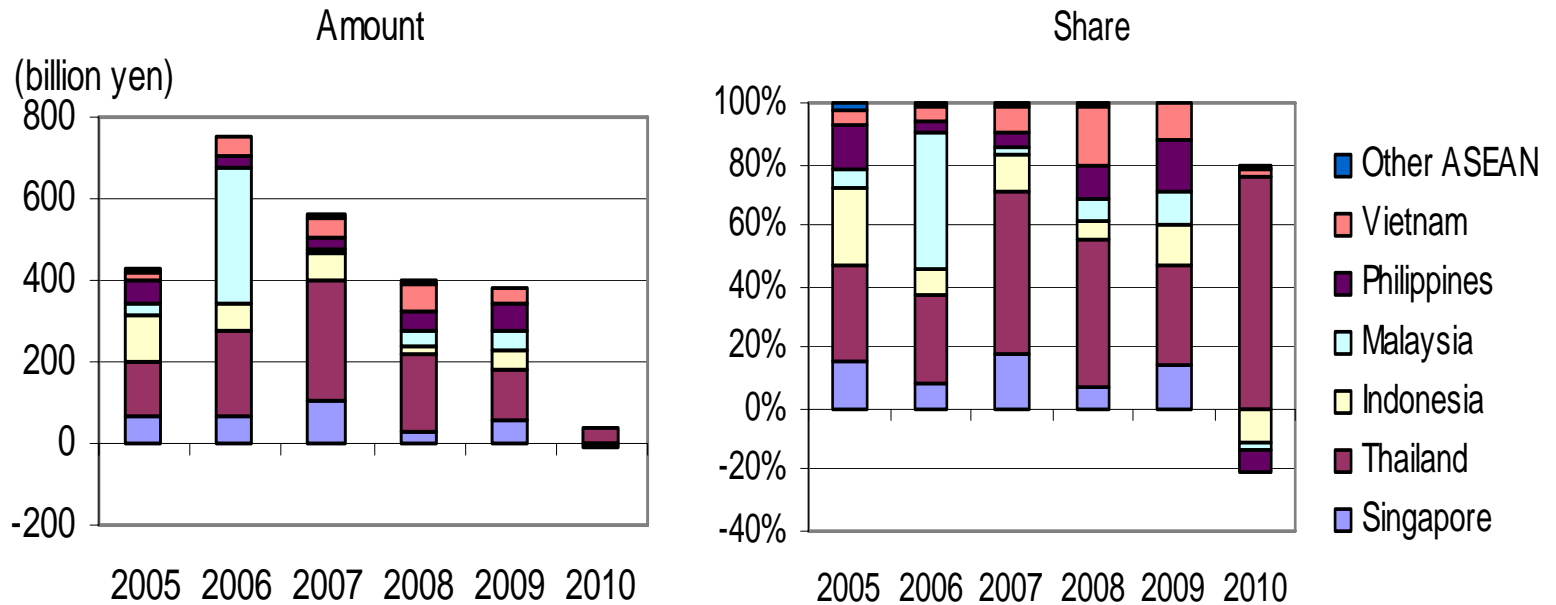
Services FDI Data: The Case of Japan

- After 2005, Balance of Payment Statistics (BOPS) includes services data (BPM5 based).
 - More comprehensive coverage
 - Accountancy rule (figure can be negative; withdrawal of investment)
 - Manufacturing and Non-Manufacturing (Agri, Fishery, mining plus services)
 - Seven services sub-sectors: (1) construction, (2) transport, (3) communication, (4) wholesale and retail, (5) finance and insurance, (6) real estate and (7) other services
- Until 2004, Ministry of Finance compiled Foreign Direct Investment Statistics (FDIS).
 - No reporting obligation if the transaction is below 100 million yen (1.2 million USD)
- As a result, data before and after 2004 are incomparable.

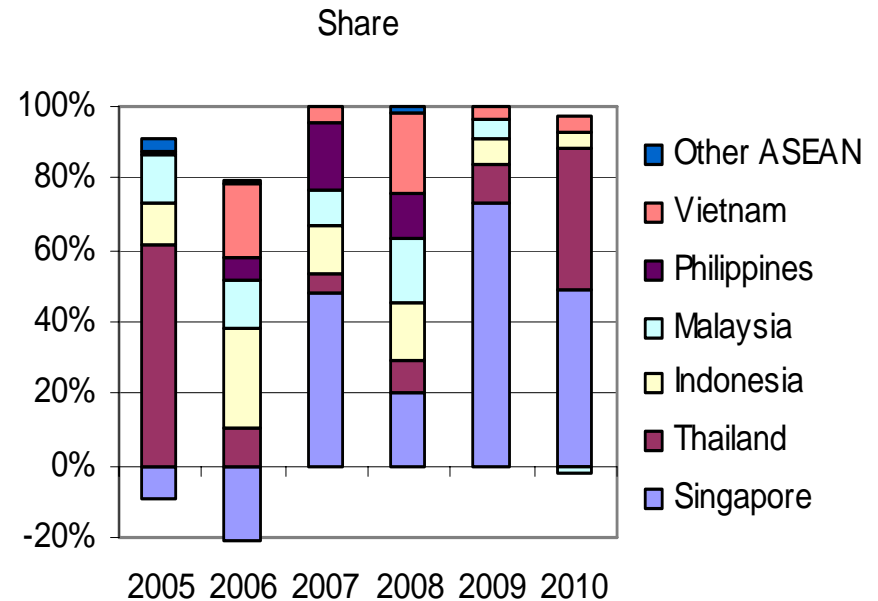
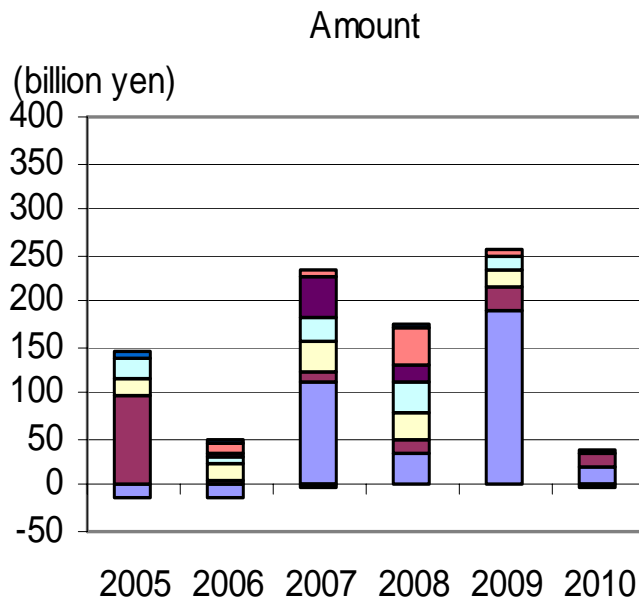
Trend of Japan's FDI into Asia

		2005	2006	2007	2008	2009	2010/Q1
ASEAN	Total	558	809	917	652	659	67
	Manufacturing	432 (77)	755 (93)	563 (61)	400 (61)	385 (58)	31 (46)
	Non-manufacturing	126 (23)	54 (7)	354 (39)	252 (39)	273 (41)	36 (54)
	Services	130 (23)	35 (4)	234 (26)	175 (27)	257 (39)	38 (57)
China	Total	726	717	730	670	649	87
	Manufacturing	563 (78)	567 (79)	493 (67)	502 (75)	462 (71)	62 (71)
	Non-manufacturing	163 (22)	150 (21)	238 (33)	168 (25)	188 (29)	25 (29)
	Services	146 (20)	127 (18)	229 (31)	155 (25)	184 (28)	25 (28)
HK, China	Total	196	176	133	134	152	27
	Manufacturing	75 (38)	85 (48)	41 (30)	65 (49)	25 (16)	17 (63)
	Non-manufacturing	122 (62)	90 (51)	92 (69)	69 (51)	127 (84)	10 (37)
	Services	117 (60)	83 (47)	91 (69)	68 (51)	87 (57)	10 (37)
India	Total	30	6	178	543	344	41
	Manufacturing	39 (130)	47 (79)	141 (79)	512 (94)	73 (21)	19 (46)
	Non-manufacturing	-9 (-31)	12 (21)	38 (21)	31 (6)	271 (79)	22 (54)
	Services	-7 (-23)	12 (21)	38 (21)	31 (6)	273 (79)	22 (54)

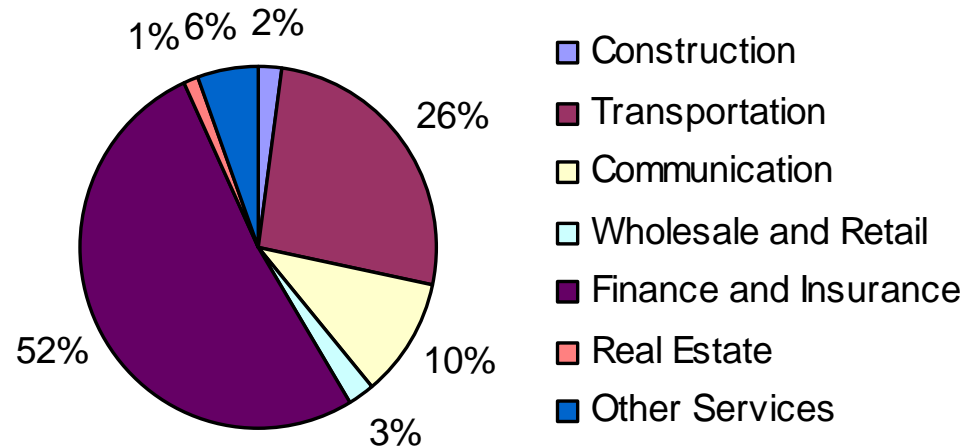
Trend of Japan's Manufacturing FDI into ASEAN



Trend of Japan's Services FDI into ASEAN



Japan's Services FDI into ASEAN by Sector (2005-2009)





Japanese Transportation Company (1)

Nippon Express Co., Ltd.

ROH in Singapore

- Nippon Express has had a Regional Operating HQ (ROH) for Asia and Oceania in Hong Kong.
- In May 2010, the company decided to re-organize the institutional structure to establish the ROH for South Asia and Oceania in Singapore.
- The ROH in Hong Kong, China will cover the East Asia region.
- Its oversea sales increased by 139% in the recent decade, the sales in Asian region increased by 276% in the same period.

Business Model

- Nippon Express explains that the business needs in China and ASEAN are different. ROH focusing on Southeast Asia is necessary.
- Nippon Express has also utilized Singapore as a logistics hub for the transport from Japan to India since 2007

Japanese Transportation Company (2)

Yamato Transport Co., Ltd.

ROH in Singapore

- The second largest Japanese total transport company, Yamato Transport, also recently decided to establish an ROH for the ASEAN region in Singapore.
- Singapore Yamato was transformed into Yamato Asia in November 2009.

Business Model

- The plan is that Yamato Asia will develop an express parcel business, in particular, "B to C" business in Singapore as well as other ASEAN countries.
- Parcel business is increasing significantly due to the spread of mail order purchase. Yamato Transport is expecting that Japanese retailers specializing on mail order business will start their operation in Southeast Asia in the near future, using services provided by Yamato.

Japanese Transportation Company (3)

Mitsubishi Logistics Co., Ltd.

ROH in Singapore

- The largest Japanese logistics company, Mitsubishi Logistics, (Mitsubishi Soko) also strengthened its business in Asia by establishing a logistics base in Singapore.
- The Singaporean subsidiary of Mitsubishi Logistics (Mitsubishi Logistics Singapore Pte. Ltd.) merged with the Singaporean logistic supplier, Pioneer Express International, in December 2009.

Business Model

- The plan is to utilize Singapore as the center of logistics network in Southeast Asia.
- Together with its Chinese subsidiary, Mitsubishi Logistics Singapore is expected to expand the logistics business of the group of Mitsubishi Logistics in Asia.

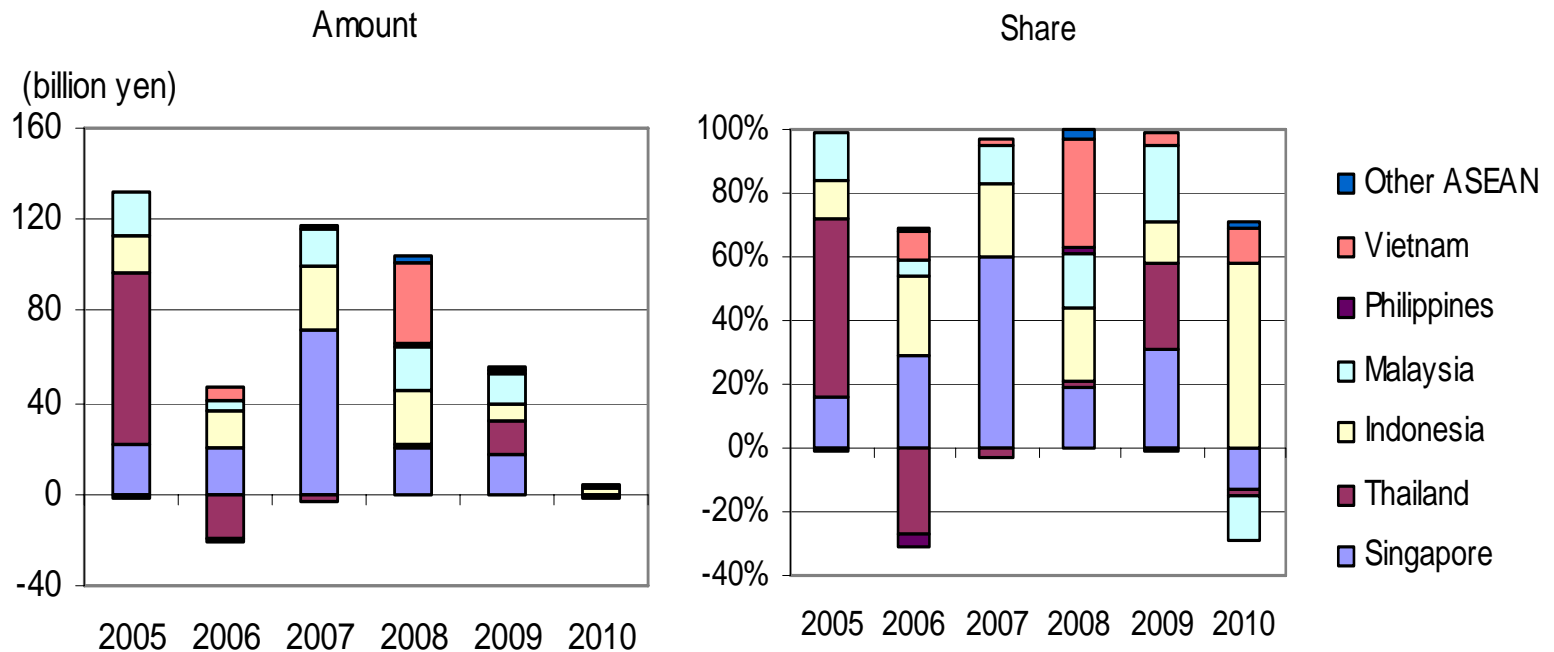
Liberalization of Transportation Sector by ASEAN and Each ASEAN country

- Within ASEAN: Logistics will be liberalized as a priority sector.
 - Mode 1: full liberalization by 2013
 - Mode 2: full liberalization by 2013
 - Mode 3 (foreign equity cap): 49% by 2008; 51% by 2010; 70% by 2013; 100% by 2015
- Singapore: Already fully liberalized
- Thailand: Foreign Business Act 2000 restricts foreign firms' activities in services sectors; Multimodal Transport Act 2005 – treatments of foreign firms unclear.
- Philippines: The Constitution maintains strict foreign equity cap on public utilities/services (not more than 40%)

Transportation Commitments in EPA between Japan and STP

Sectors or sub-sectors		JSEPA	JTEPA	JPEPA
A. Maritime Transport Services	a. Passenger transport (7211)	X	X	X
	b. Freight transport (7212)	X	X	X
	c. Rental of vessels with crew (7213)			
	d. Maintenance and repair of vessels (8868**)	X		X
	e. Pushing and towing services (7214)	X	X	X
	f. Supporting services for maritime transport (745**)	X	X	X
B. Internal Waterways Transport	a. Passenger transport (7221)	X		
	b. Freight transport (7222)	X		
	c. Rental of vessels with crew (7223)	X		
	d. Maintenance and repair of vessels (8868**)	X		
	e. Pushing and towing services (7224)	X		
	f. Supporting services for internal waterway transport (745**)	X		
C. Air Transport Services	a. Passenger transport (731)			
	b. Freight transport (732)			
	c. Rental of aircraft with crew (734)	X		
	d. Maintenance and repair of aircraft (8868**)	X	X	X
	e. Supporting services for air transport (746)	X	X	
D. Space Transport (733)		X		
E. Rail Transport Services	a. Passenger transport (7111)	X		X
	b. Freight transport (7112)	X		X
	c. Pushing and towing services (7113)	X		
	d. Maintenance and repair of rail transport equipment (8868**)	X	X	
	e. Supporting services for rail transport services (743)	X	X	X
F. Road Transport Services	a. Passenger transport (7121+7122)	X		X
	b. Freight transport (7123)	X	X	X
	c. Rental of commercial vehicles with operator (7124)	X	X	X
	d. Maintenance and repair of road transport equipment (6112+8867)	X		
	e. Supporting services for road transport services (744)	X		
G. Pipeline Transport	a. Transport of fuels (7131)	X		X
	b. Transport of other goods (7139)	X		X
H. Services auxiliary to all modes of transport	a. Cargo-handling services (741)			X
	b. Storage and warehouse services (742)	X	X	X
	c. Freight transport agency services (748)	X		X
	d. Other (749)			
I. Other Transport Services				

Japan's Finance FDI into ASEAN: The Recent Trend



Japanese Financial Institution (1)

Bank of Tokyo-Mitsubishi UFJ, Ltd.

Commercial Presence in ASEAN

- In October 2006, the bank invested in CIMB Group, the second largest financial services provider in Malaysia. While Tokyo-Mitsubishi UFJ's share was limited to 1.1% at that time, it soon increased to 4.5% in February 2007.
- In November 2006, Tokyo-Mitsubishi UFJ Bank announced the plan to merge Indonesia's Bank Nusantara Parahyangan Tbk (Bank PNB) together with ACOM (Tokyo-Mitsubishi UFJ Bank's subsidiary specialized in consumer finance). Tokyo-Mitsubishi UFJ holds 20%, while ACOM held 55.4% of the total share of Bank PNB.

Business Model: The case of Indonesia

- The business plan of PNB is to start the loan business as well as consumer finance business in Indonesia.

Japanese Financial Institution (2)

Mitsui Sumitomo Insurance Co., Ltd.

Commercial Presence in ASEAN

- In 2004, Mitsui Sumitomo purchased 25% of shares in Asia Insurance (Cambodia) Limited. This was Mitsui Sumitomo's eighth local subsidiaries in Asia.
- In August 2008, Mitsui Sumitomo established fully-owned local subsidiary in Vietnam, the first 100% Japanese-owned accident insurance company approved by the Vietnamese government.
- In April 2009, Mitsui Sumitomo also established a subsidiary in Lao PDR, the first Japanese insurance subsidiary in the country. Mitsui Sumitomo holds 51% shares while Lao Finance Ministry owns 49%. This was achieved soon after the Lao government liberalized the establishment of insurance subsidiary in 2007.
- In June 2010, MSIG Insurance (Malaysia) merged with Malaysia's Hong Leong Assurance Bernard, becoming the second largest in the country. Mitsui Sumitomo will hold 70% of the shares of the newly-transformed MSIG Insurance (Malaysia), while Hong Leong will hold 30%.

Business Model

- While Tokyo Maritime Insurance ("giant" in Japanese markets) has a strong basis for profit in the Japanese market, Mitsui Sumitomo Insurance needs to expand its oversea business to make profit and to compete with Tokyo Maritime.
- The company's oversea premium income recorded a sharp increase in recent years and one third of the increase (2001FY-2007FY) in the company's total premium income is earned in Asia. The company's oversea business plan is to achieve half of sales in Asia, 30% in Europe and 20% in the US.
- The company's policy is to establish subsidiaries in all ASEAN countries where foreign general insurers are permitted to get a license.



Japanese Financial Institution (3)

Daiwa Securities Group Inc.

Commercial Presence in ASEAN

- Some headquarter function in Tokyo will be moved to its subsidiary in Hong Kong.
- The company also plans to establish new local subsidiaries in Malaysia and Indonesia, where Daiwa does not have a commercial presence.

Business Model

- The second largest Japanese securities group, Daiwa Securities, has decided to strengthen its commercial bases in Asia.
- In November 2009, Daiwa announced to make a capital increase at its local subsidiaries in Asia, from 90 billion yen to 190 billion yen.
- Daiwa's plan is to make a five-fold increase in sales in Asia within 2 years.

Liberalization of Financial Sector by ASEAN and Each ASEAN country

- Within ASEAN: Plan of liberalizing financial services under AEC Blueprint in 2007 is not ambitious enough.
 - Progressively liberalize restrictions in sub-sectors or modes as identified by each member country by 2015
 - Progressively liberalize restrictions in the remaining sub-sectors or modes, which are not identified under “pre-agreed flexibilities” by 2020.
- Liberalization by Each Country (Foreign Equity Cap)

	Singapore	Indonesia	Malaysia	Philippines	Thailand
Banking	100%	99%	49%>70%	60%/40%	25>49%
Insurance	100%	80%	49%>70%	100%	25>49%

Financial Commitments in EPA between Japan and ASEAN

Foreign Equity Cap restriction in each EPA

	Singapore	Indonesia	Malaysia	Philippines	Thailand
Banking	None	49%	30%	60%	25%
Insurance	None	49%	30%	51%	25%

Summary (1)

- The recent proliferation of services agreements has dramatically changed the restrictions and conditions on Japan's Services FDI into ASEAN.
 - On the one hand, services trade and investment have been and will be substantially liberalized within ASEAN in some sectors.
 - On the other hand, services trade and investment between Japan and individual ASEAN countries are liberalized to a different extent and speed across under their respective EPAs.
- In the case of transport, a considerable level of "Singapore Shift" can be observed.
 - Liberalization of transportation within ASEAN already reached a considerable level and this will be fully achieved in the near future.
 - The strategy of Japanese corporation is to supply transport services throughout ASEAN using the commercial presence in Singapore, because the country maintains the most liberal regulatory environment and have committed to maintain such environment under JSEPA.

Summary (2)

- In the case of finance, there is no clear evidence of Singapore Shift.
 - This is mainly because financial service has not and will not be fully liberalized even among ASEAN members. In order to supply financial services, Japanese financial institutions need to obtain licences and establish commercial presence in each country.
 - Singapore and Indonesia attracted relatively large amount of Japan's FDI in the financial sector, but the situation is far from dominant. Relatively large amount of financial FDI into the two countries can be explained by the fact that the two maintains relatively liberal regulatory situation – foreign equity cap on financial institutions.
 - While Thailand maintains a high-level of restriction on FDI in finance and its commitment in the financial sectors under JTEPA is insignificant, the country still attracts a certain amount of financial FDI from Japan, perhaps, because of its large manufacturing FDI accumulation from Japan. Japan's financial FDI into the Philippines is negligible, although the Philippines's regulatory status and commitments are better than Thailand.

Policy Implications

- A country should minimize the restrictions on FDI from *outside*, if services and investment are liberalized *within* a region under an FTA or EPA.
 - When FTA or EPA members decide to liberalize trade and investment in a certain service sector where the “Shift” may happen, it is important to liberalize the sectors toward outsiders as well.
- This is because, otherwise, outside investors simply chose other country in which it has EPA with in order to supply services to that country.
- Other than transportation, services such as communication (courier and value added telecommunication) and distribution (wholesale in particular) can be provided across ASEAN through a commercial presence in one ASEAN country.