

# The Rising Tide of Protectionism: Implications for ASEAN FDI

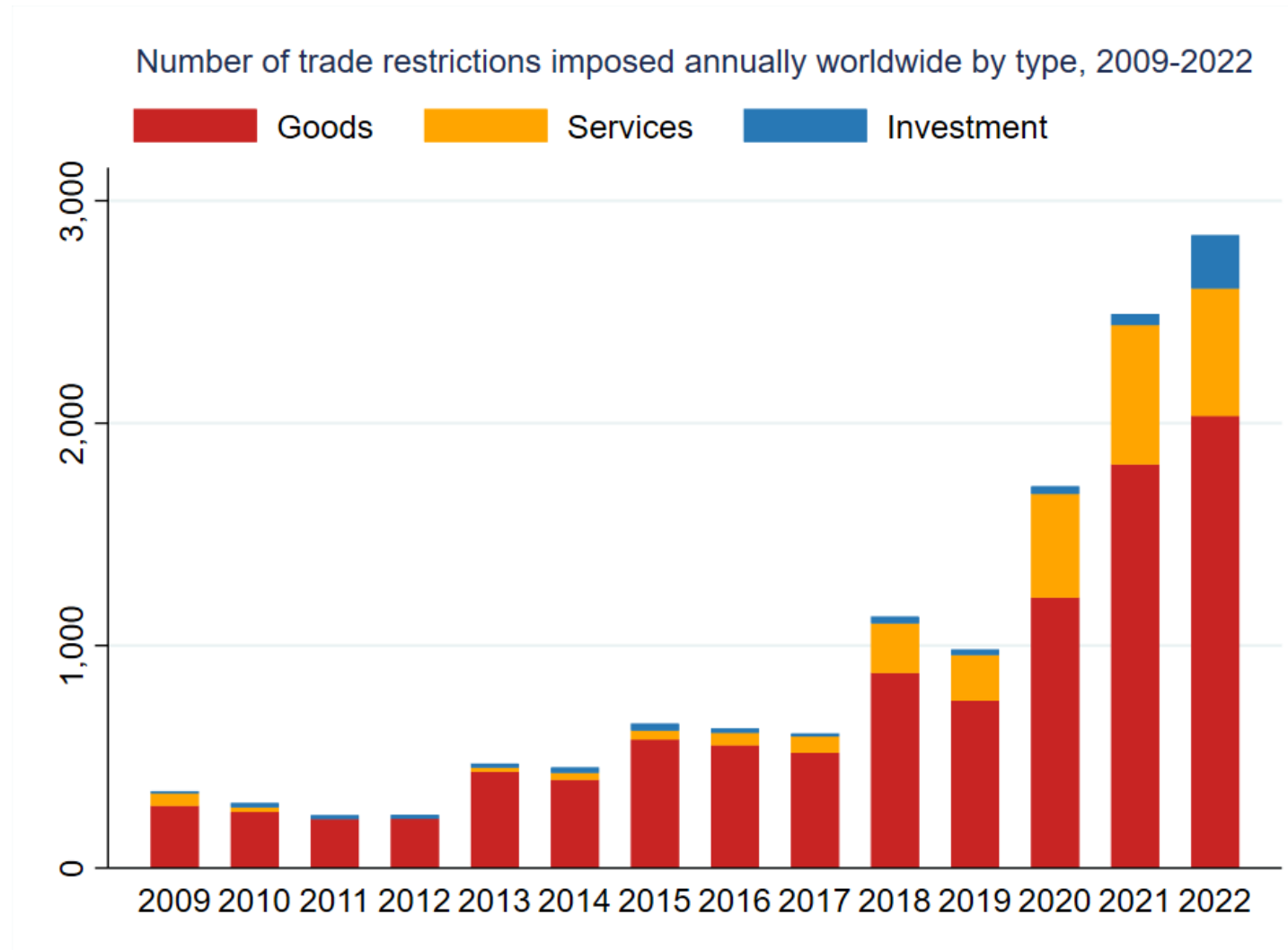
Ammu George  
Queen's Business School  
Queen's University Belfast

Weilin Lu  
Asia Competitiveness Institute,  
Lee Kuan Yew School of Public Policy  
National University of Singapore

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# Protectionism proliferates worldwide

- After declining during most of the 20<sup>th</sup> century, trade restrictions have greatly increased in recent years
- Restrictions on investment experienced the greatest increase in 2022



Source: IMF

# What is Protectionism?

## Case study on Inflation Reduction Act, 2022

# Case study on Protectionism– Inflation Reduction Act (IRA)

- Law signed in 2022 - USD 370 billion worth of tax credits, loans, and grants to incentivize US manufacturing and clean technology
  - Encouraging automakers to produce in the United States to serve the domestic market
- Rules of IRA concern Electric Vehicle supply chain in North America
  - *EV final assembly*
  - *Battery components manufacturing and assembly*
  - *Critical mineral components processing and extraction*
- Likely to impact the EV manufacturing industry of ASEAN in the future
  - ASEAN economies like Indonesia, Malaysia and Thailand aspire to become EV investment hubs by attracting foreign automakers

# Case study on Protectionism– Inflation Reduction Act (IRA)

IRA falls under which protectionism measure type?

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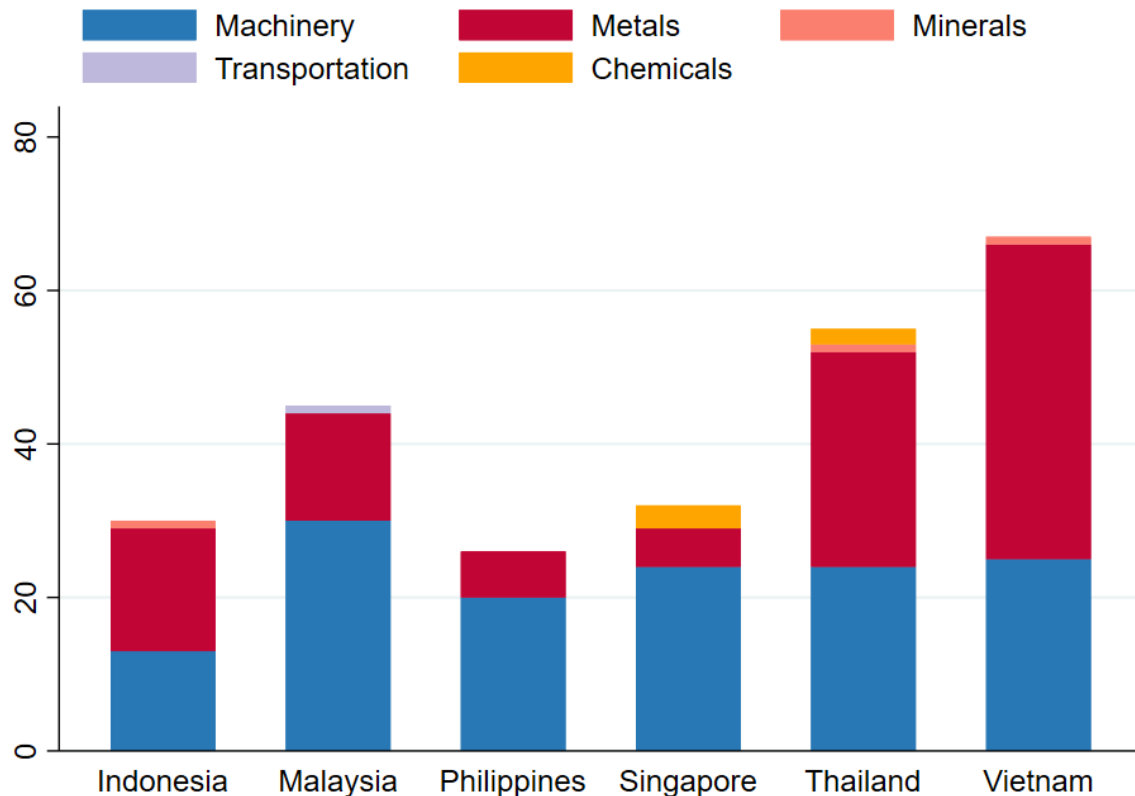
Import Restrictions	Yes	Components for EV production need to be manufactured locally
Behind-the-border Measures	Yes	State subsidy for domestic manufacturers through tax credits
Export Restrictions	No	
Export Support	No	

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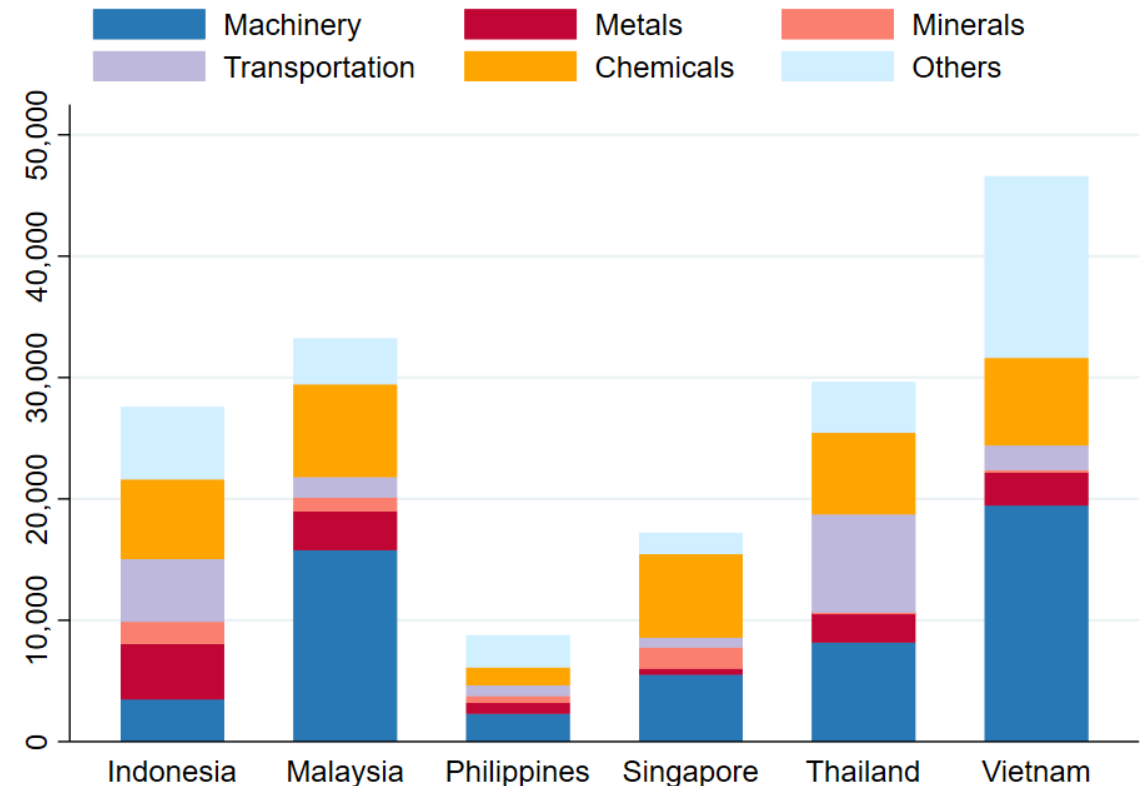
# Case study on Protectionism– Inflation Reduction Act (IRA)

- IRA affects sectors which attract the largest share of FDI to ASEAN countries

ASEAN-6's Products affected by IRA



ASEAN-6's Inward FDI by Sectors (2014-2022)



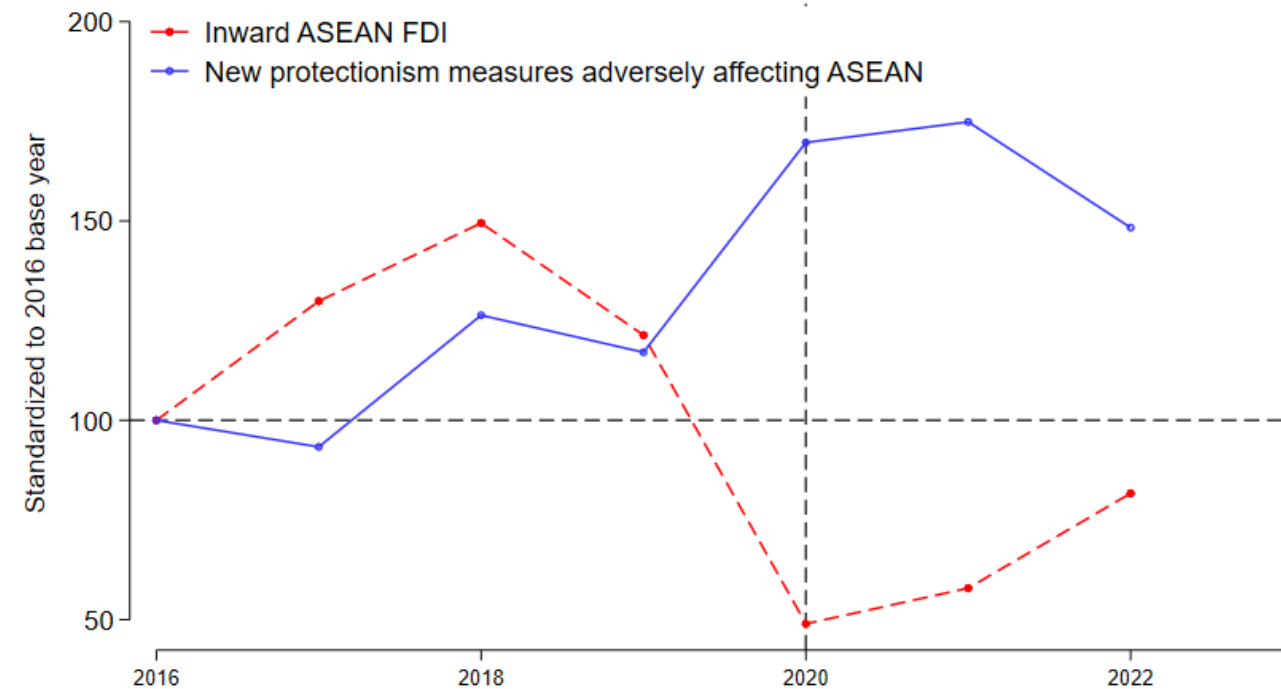
Source: Global Trade Alert (GTA) database, Orbis Crossborder Investment database

# Protectionism and FDI in ASEAN-6

# Protectionism threat and FDI in ASEAN-6

- COVID-19 pandemic raised the threat of trade protectionism against ASEAN-6
- Discriminatory measures already on a rising trend since the US-China trade war
- Dramatic decline in ASEAN-6 inward FDI after the pandemic
- Protectionism threat against ASEAN shrinking in 2022; concurrent rebound in FDI inflows

Protectionism measures and inward FDI in ASEAN-6

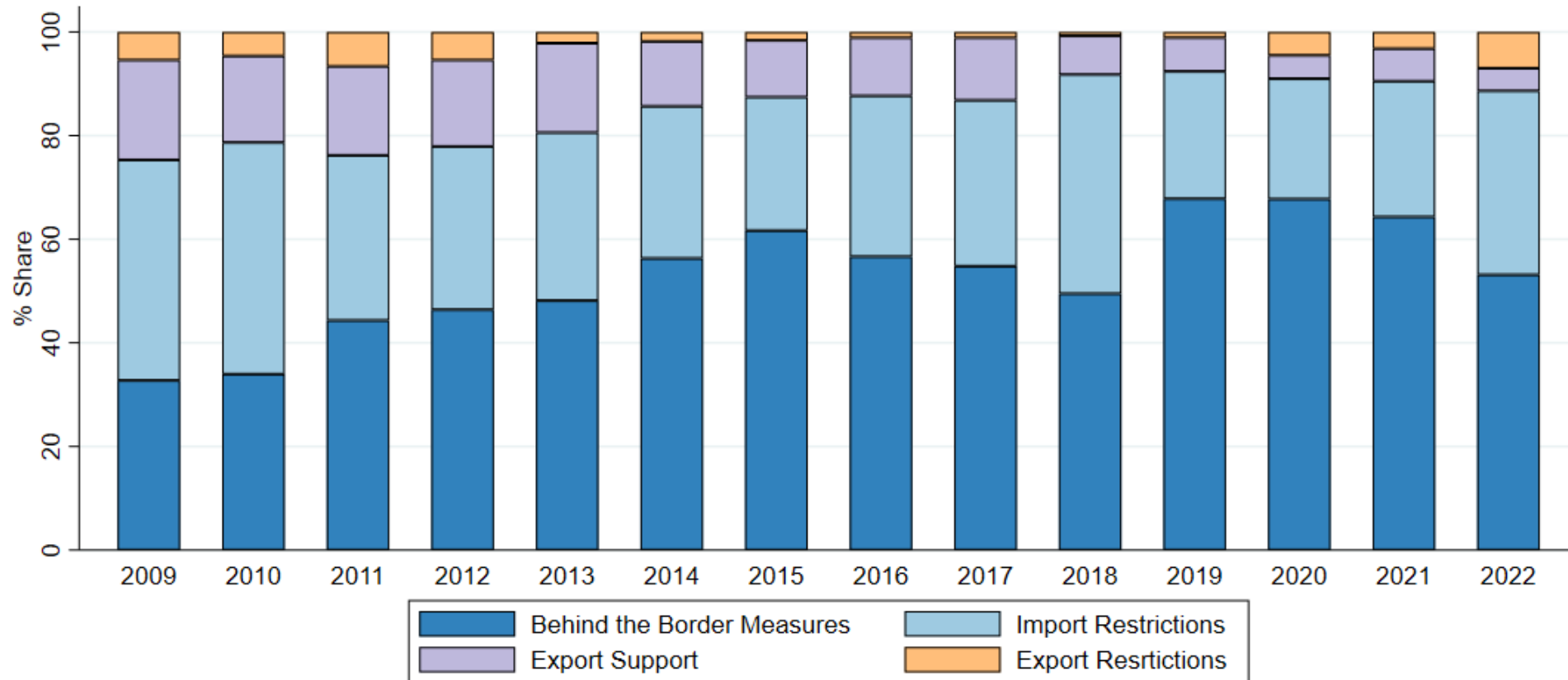


Source: Global Trade Alert (GTA) database, Orbis Crossborder Investment database



# Behind-the-border measures and import restrictions driving the rising protectionism threat against ASEAN-6

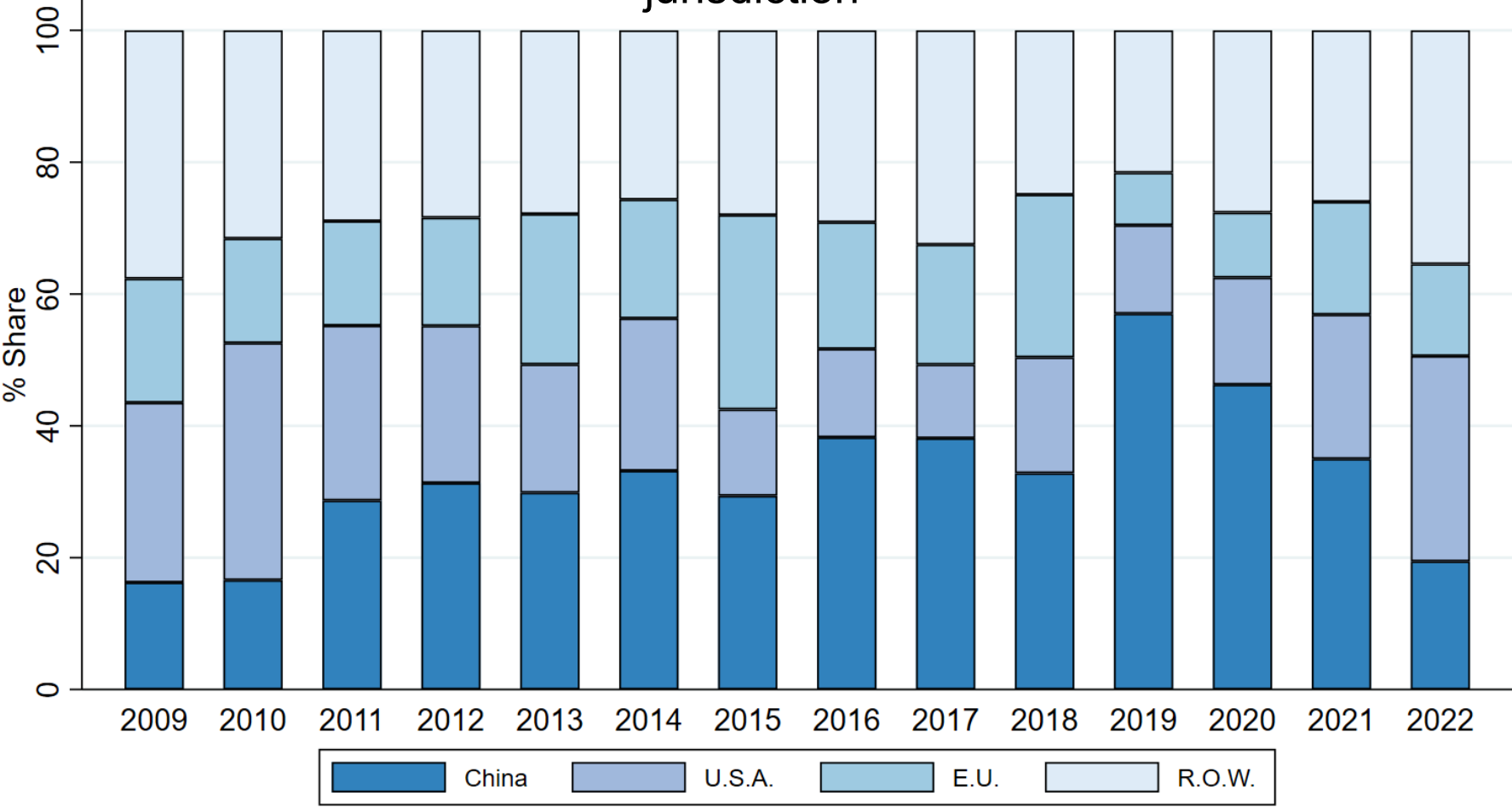
Protectionism measure types adversely affecting ASEAN-6



Sources: Global Trade Alert (GTA) Database and ACI Staff Calculations

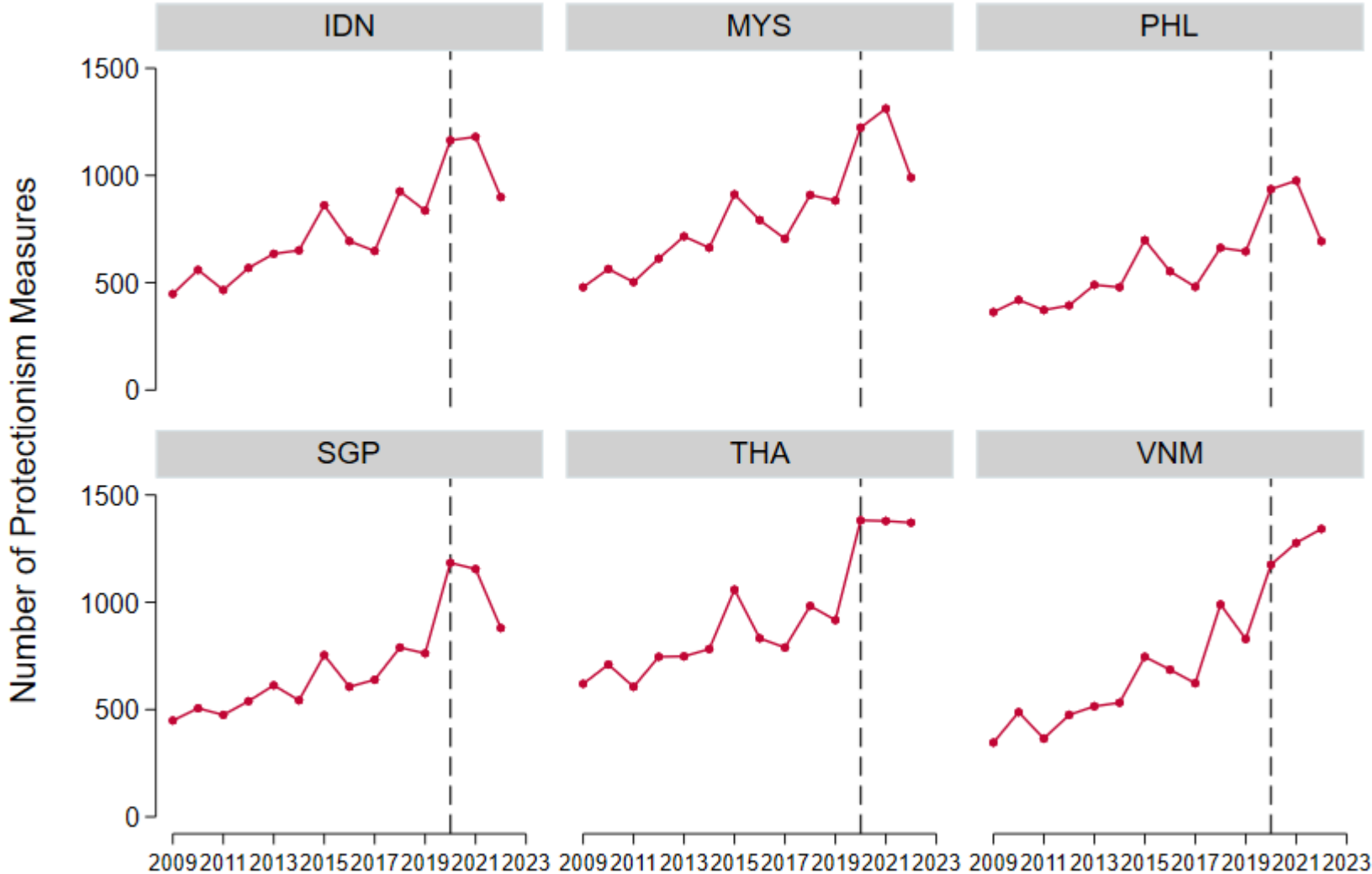
# China imposed the largest share of protectionism measures before and during the pandemic

Protectionism measures adversely affecting ASEAN-6 by imposing jurisdiction



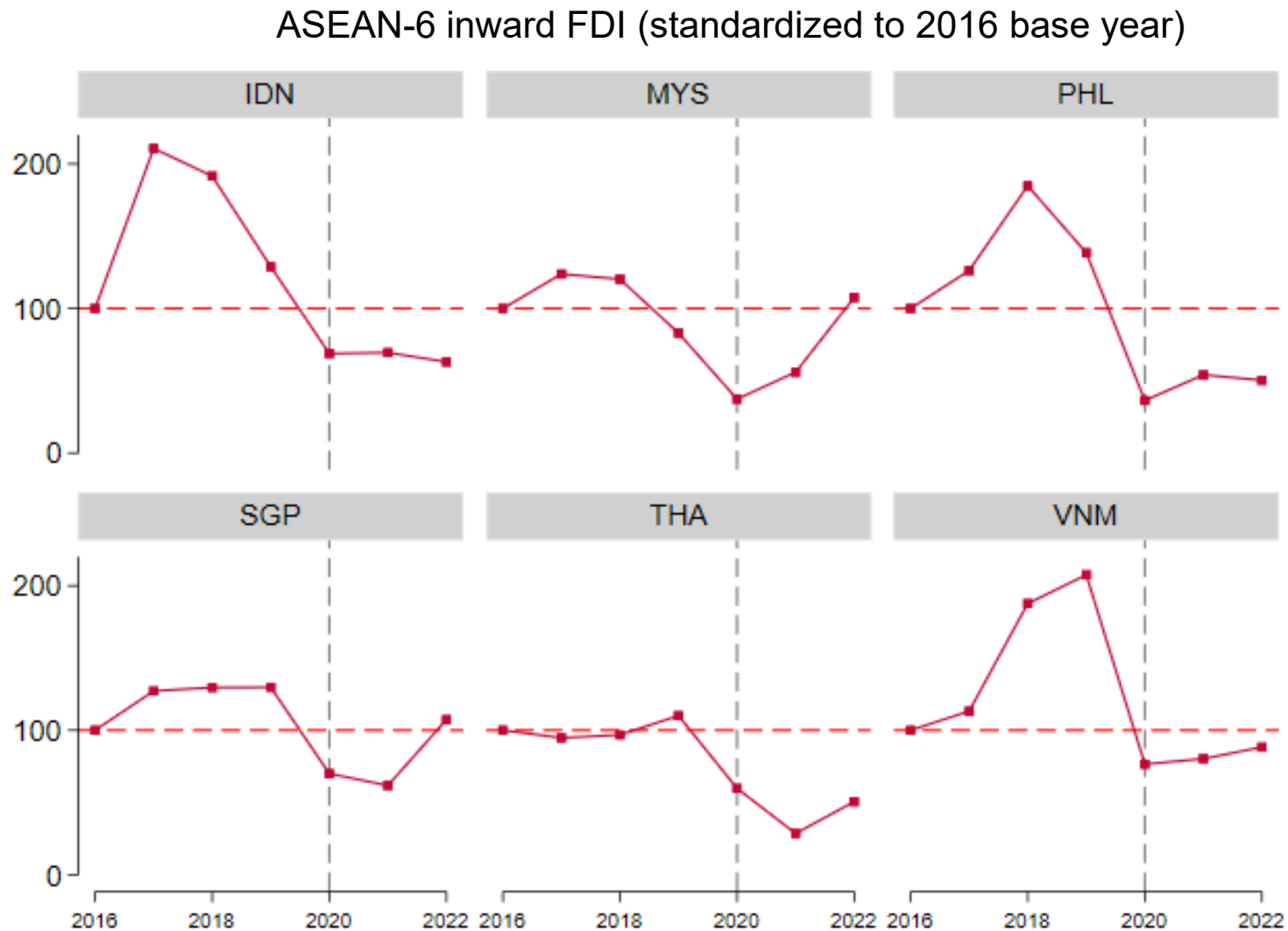
Sources: Global Trade Alert (GTA) Database and ACI Staff Calculations

# Rising protectionism threat facing ASEAN-6 countries during the Pandemic



Sources: Global Trade Alert (GTA) Database and ACI Staff Calculations

# Vietnam and the Philippines experienced the most dramatic FDI decline during the pandemic



Sources: Orbis Crossborder Investment database and ACI Staff Calculations

Covid-19 pandemic's role in the  
protectionism-FDI nexus

# What we do?

- Difference-in-difference methodology to identify the average **impact of protectionism on ASEAN FDI** during pre-pandemic, pandemic and post-pandemic periods
- Period of analysis: Jan 2019 – Dec 2022

**FDI data:** Monthly project-level greenfield FDI data from Orbis BvD FDI database

- Bilateral data
- Used concordance mapping to match NAICS industries to 6-digit HS codes

**Protectionism data:** Monthly data on discriminatory measures sourced from the Global Trade Alert database (Red measures discriminate against foreign interests)

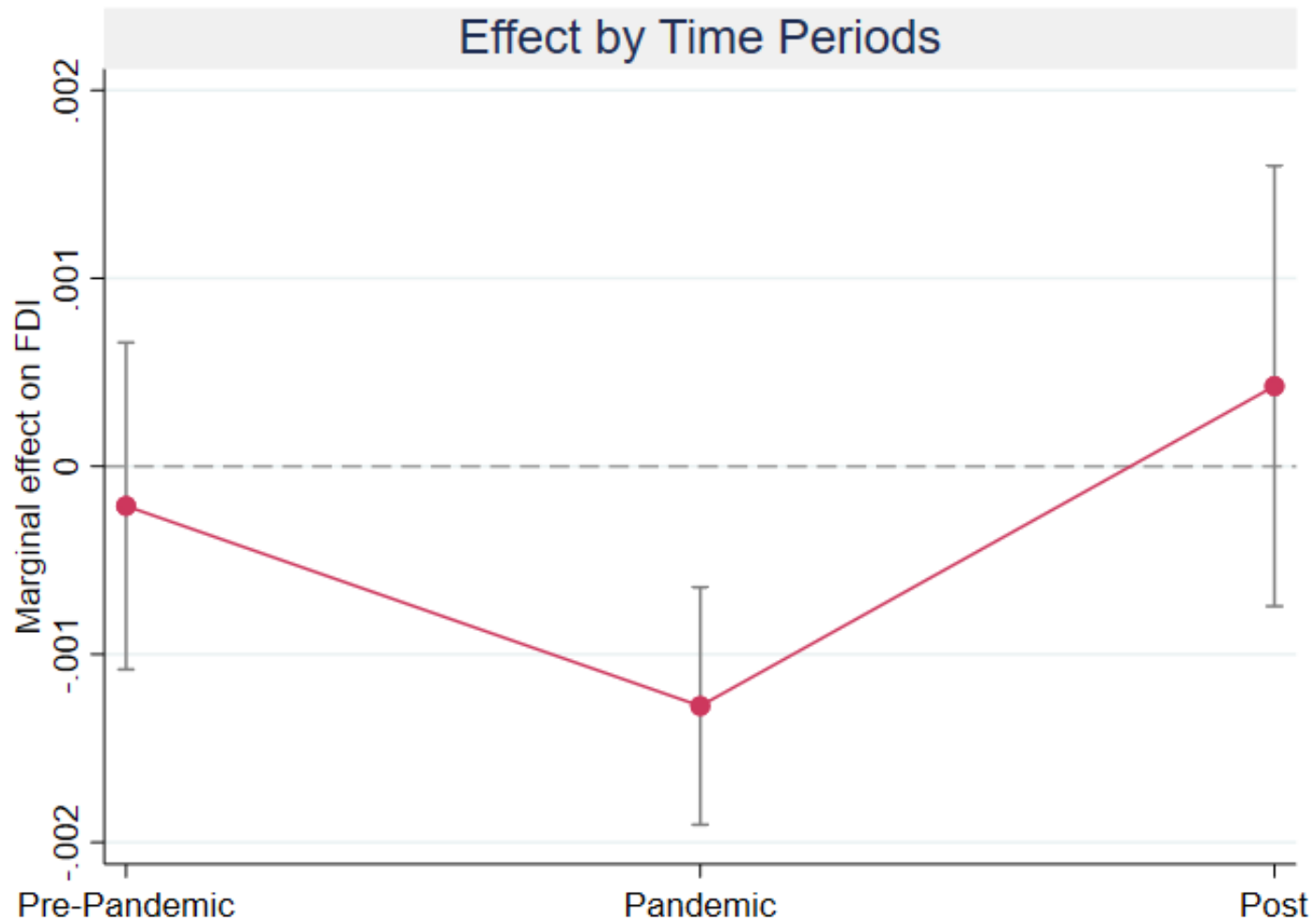
- Implementing country
- Impacted country
- Products impacted – HS 6-digit level
- Date of implementation
- Date of removal
- Type of protectionism measure

# Average impact of protectionism measures on inward ASEAN FDI

Pre-pandemic: Jan 2019 – Dec 2019

Pandemic: Jan 2020- Dec 2021

Post-pandemic: Jan 2022-Dec 2022



- Marginal effect measure: Average percentage change in ASEAN inward FDI corresponding to one new protectionism measure
- Protectionism impact on FDI **during the pandemic – negative and significant**
- Protectionism impact on FDI **dissipates in the post-pandemic period**

# Average impact of protectionism measures on inward ASEAN FDI (1/2)

We estimate the marginal effect of protectionism on inward FDI for each ASEAN-6 country

	<b>Pre-pandemic</b>	<b>Pandemic</b>	<b>Post-pandemic</b>
Indonesia	↓	↓	
Malaysia		↓	
Philippines		↓	
Singapore		↓	
Thailand		↓	
Vietnam			

- Similar dynamics of protectionism impact hold for all ASEAN-6 countries except Indonesia and Vietnam

↓ indicates the adverse impact of protectionism on FDI is statistically significant



# Average impact of protectionism measures on inward ASEAN FDI (2/2)

We estimate the marginal effect of protectionism on inward FDI for each ASEAN-6 country

	Pre-pandemic	Pandemic	Post-pandemic	
Agriculture	↓		↓	• Significant impact from protectionism on FDI in sectors such as machinery, textiles, metals, minerals and chemicals sectors
Machinery		↓		
Textiles	↓	↓		• Agriculture and transportation sectors facing the brunt of protectionism rise in the post-pandemic period
Metals		↓		
Minerals		↓		
Transportation			↓	
Process food				
Chemicals	↓	↓		
Wood				

↓ indicates the adverse impact of protectionism on FDI is statistically significant

# Conclusion

- The rise in protectionism has notably impacted FDI flows within ASEAN countries, with significant reductions observed during the pandemic period
- The adverse effects of protectionism on FDI have started to dissipate in the post-pandemic period, indicating a potential recovery phase for ASEAN FDI inflows
- Address protectionism through regional cooperation and policy adjustments; enhance ASEAN's attractiveness as an investment destination
- Build resilience of ASEAN economies to protectionism - diversifying investments in sectors less susceptible to trade restrictions