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Australian Government

Igniting Foreign Direct Investment (FDI) Through Free Trade Agreements (FTA): Learning from Vietnam's Experience

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*This presentation represents the personal opinion of the author and does not reflect the official stance of the OJK





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TYPES OF FDI AND HOW TO ATTRACT TO FDI

Natural
Resource-
Seeking

Strategic-
Asset
Seeking

Efficiency-
Seeking

Domestic
Market-
Seeking



SEZs



Tax Holiday



FTA

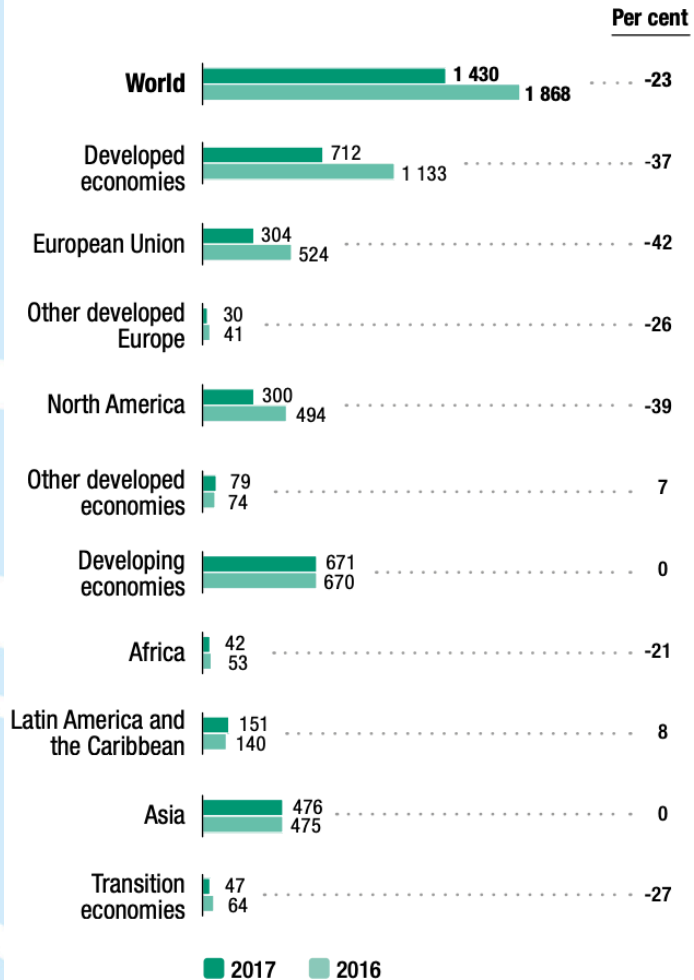


FDI TRENDS: Where is FDI Flowing?

Key Takeaway:

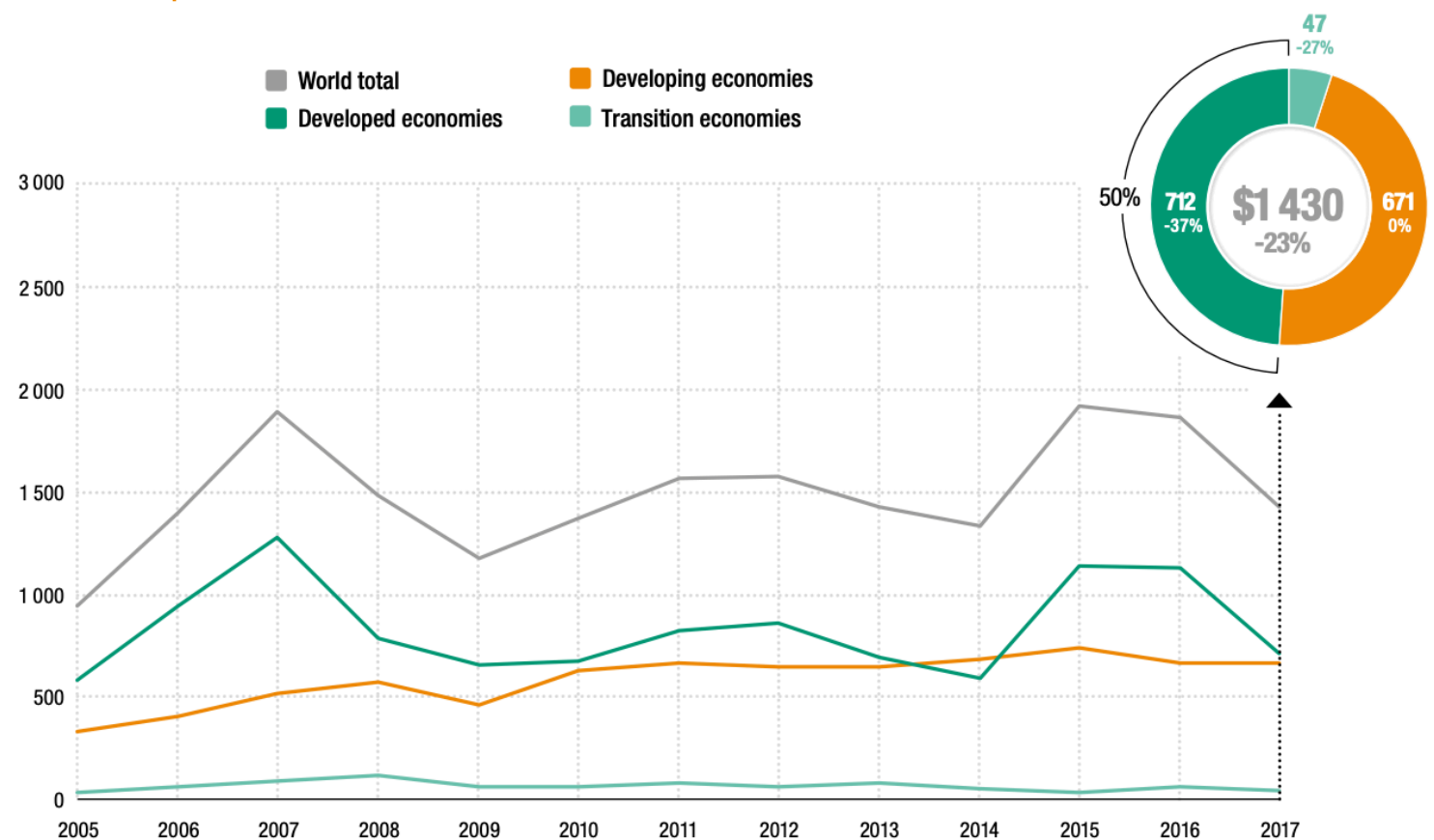
FDI is flowing into Asia and Developing Economies

Figure I.2. FDI inflows, by region, 2016–2017
(Billions of dollars and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure I.1. FDI inflows, global and by group of economies, 2005–2017 (Billions of dollars and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).



HOW DOES FTAs ATTRACT FDI?

Economic Benefits

- Lower export costs
- Supporting expansion into overseas markets

Legal Certainty

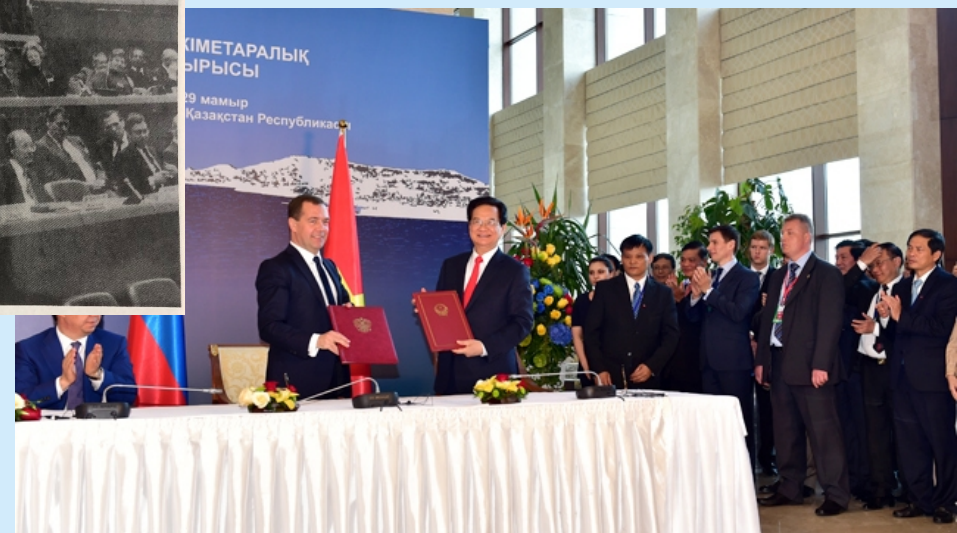
- Protection against unilateral decisions
- Investment Protection Clauses
- Potentially binds foreign investment framework for future liberalization



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INDONESIA AND VIETNAM IN FTAs

Guess which picture(s) includes an Indonesian delegation?





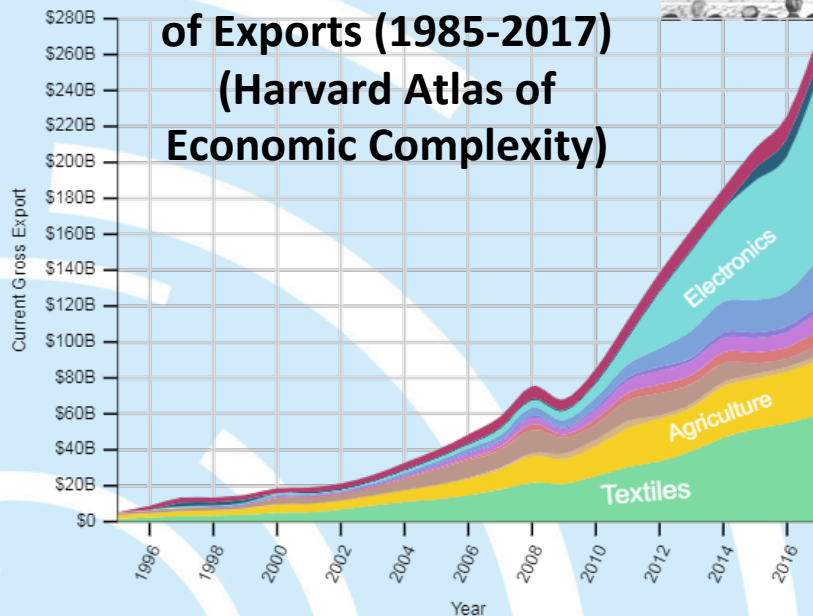
VIETNAM'S ECONOMIC REFORMS AND BENEFITS OF FTA TO VIETNAM

Doi Moi (Economic Rejuvenation) Reforms (1986)



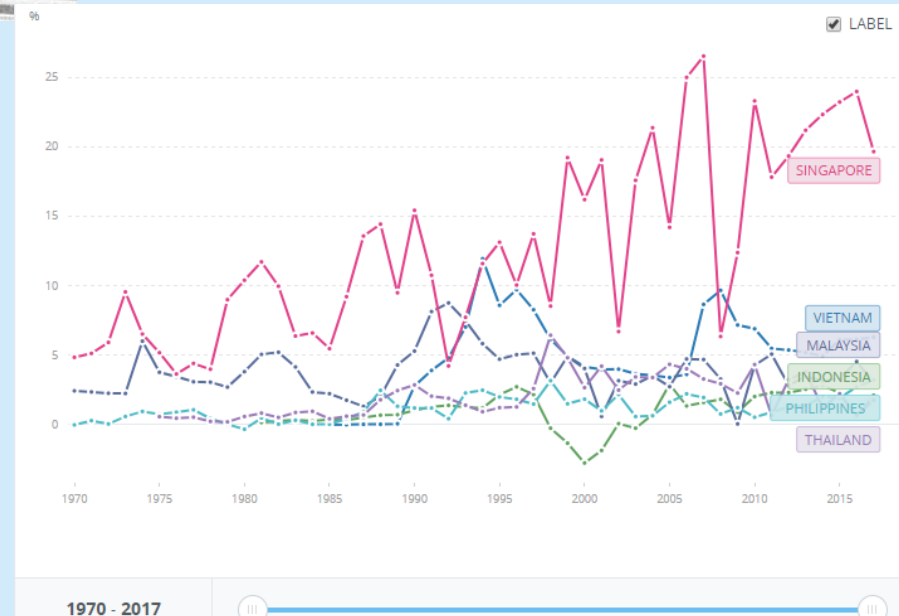
FDI Inflows as a % of GDP (World Bank)

Vietnam's Composition of Exports (1985-2017) (Harvard Atlas of Economic Complexity)



**Result:
Exports of more value-added goods and driven economy**

Also there are benefits to the domestic legal framework





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WHY HAS ATTRACTING FDI BECOMING MORE IMPORTANT NOW?





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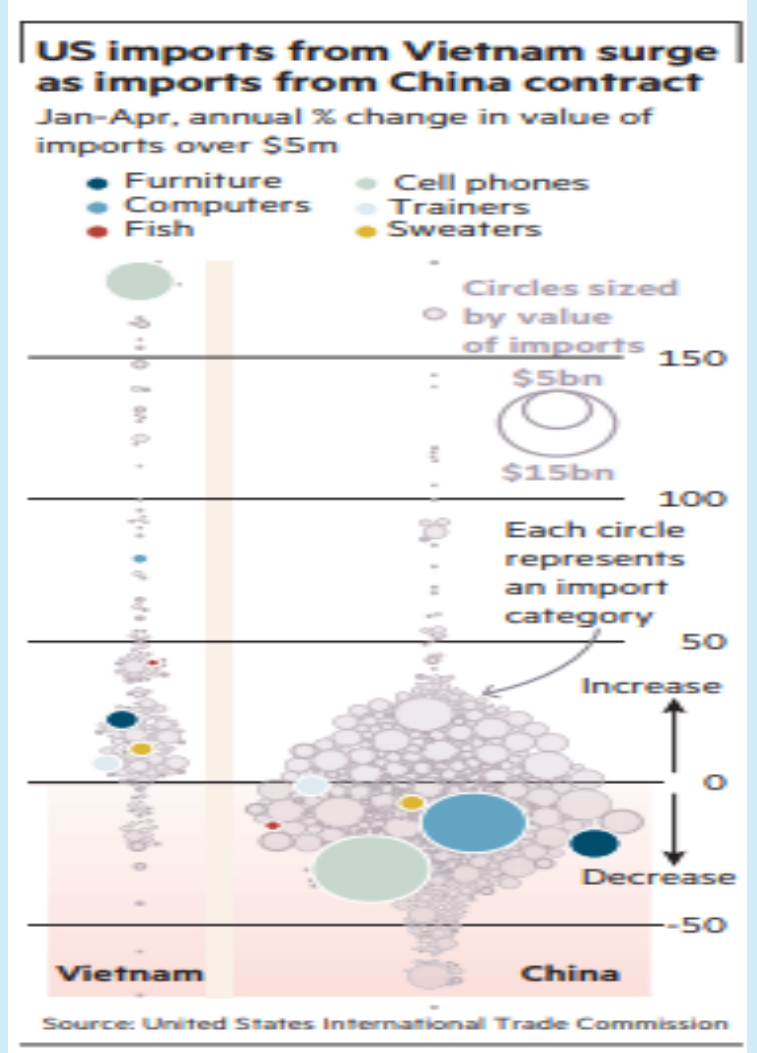
Many companies are now moving or have moved some of their production from China to Vietnam



US imports from Vietnam surged while US imports from China declined from January-April 2019



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HOW CAN INDONESIA TAKE ADVANTAGE OF FTA's

- Indonesia should also be offensive in pursuing its national interests -> FDI in sectors deemed to need FDI
- These investments may cause positive domino effects to other





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POTENTIAL CHALLENGES IN NEGOTIATING FTAs

- Aside from potential impact to exports and imports, attention should also be paid to Indonesia's readiness in negotiating "high-quality" provisions

Binding Current Foreign
Investment Framework

Sustainable Trade and
Development

Treatment of State-Owned
Enterprises

E-Commerce and Digital
Trade



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A large, decorative graphic on the left side of the slide, consisting of several concentric, broken arcs in red, blue, black, and teal, creating a sense of movement and depth.

Thank You!