



GOVERNMENT REGULATORY POLICIES AND THEIR IMPACT ON FOREIGN DIRECT INVESTMENT IN SOUTHEAST ASIA

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Abstract. *This paper examines the role of government regulation and targeted incentives in attracting foreign direct investment (FDI) in Southeast Asian countries. ASEAN's experience shows that streamlined regulatory procedures, sector-specific tax incentives, and coordinated policies significantly enhance FDI inflows. The study highlights the effectiveness of incentives for sustainable sectors such as renewable energy, as well as the importance of improving institutional capacity and policy coordination to create a favorable investment climate. Lessons from ASEAN can guide other countries aiming to boost FDI.*

Key words. *FDI, government regulation, tax incentives, ASEAN, Ease of Doing Business, sustainable investment*

Annotatsiya. *Ushbu maqolada Janubi-Sharqiy Osiyo davlatlarida chet el to'g'ridan-to'g'ri investitsiyalarni (FDI) jalb qilishda hukumat tartib-qoidalari va maqsadli imtiyozlarning roli tahlil qilinadi. ASEAN tajribasi shuni ko'rsatadiki, soddalashtirilgan tartiblar, sektorlar bo'yicha soliq imtiyozlari va muvofiqlashtirilgan siyosat FDI oqimini sezilarli darajada oshiradi. Maqolada, xususan, qayta tiklanuvchi energiya kabi barqaror sektorlar uchun imtiyozlarning samaradorligi va institutlarning salohiyatini oshirishning muhimligi ta'kidlanadi. ASEAN tajribasi boshqa mamlakatlarga FDI jalb qilish strategiyasini yaxshilashda yo'l ko'rsatadi.*

Kalit so'zlar. *FDI, hukumat tartib-qoidalari, soliq imtiyozlari, ASEAN, Ease of Doing Business, barqaror investitsiya*



***Аннотация.** В статье рассматривается роль государственного регулирования и целевых стимулов в привлечении прямых иностранных инвестиций (FDI) в странах Юго-Восточной Азии. Опыт ASEAN показывает, что упрощённые регуляторные процедуры, налоговые льготы для отдельных секторов и согласованная политика значительно повышают приток FDI. Исследование подчёркивает эффективность стимулов для устойчивых секторов, таких как возобновляемая энергетика, а также важность укрепления институциональных возможностей и координации политики для создания благоприятного инвестиционного климата. Опыт ASEAN может служить ориентиром для других стран, стремящихся увеличить FDI.*

***Ключевые слова.** FDI, государственное регулирование, налоговые льготы, ASEAN, Ease of Doing Business, устойчивые инвестиции*

Introduction. Foreign Direct Investment (FDI) plays a crucial role in promoting economic growth, technological development, and integration into the global economy. Many developing and emerging economies actively compete to attract foreign investors by improving their investment climate and regulatory frameworks. In this context, government regulatory policies are considered one of the key factors influencing the decision of multinational enterprises to invest in a particular country. Effective regulations can create a stable, transparent, and predictable business environment, while inefficient or overly complex regulations may discourage potential investors. Countries in Southeast Asia, particularly members of the Association of Southeast Asian Nations, have implemented various regulatory reforms over the past decades to attract higher levels of FDI. Economies such as Singapore, Vietnam, Thailand, Indonesia and Malaysia have adopted policies aimed at simplifying administrative procedures, strengthening legal frameworks, and providing incentives for foreign investors. These measures have significantly contributed to increasing FDI inflows and improving the overall investment climate in the region.

Literature Review. Foreign Direct Investment has been widely recognized as an important driver of economic growth, technological transfer and productivity



improvement in developing and emerging economies. According to John H. Dunning and his OLI Paradigm, multinational enterprises choose investment locations based on ownership advantages, location specific factors, and internalization benefits. Among these factors, the regulatory environment of the host country plays a crucial role in shaping investors' decisions¹.

Several scholars emphasize that government policies and institutional quality significantly influence FDI inflows. For instance, Theodore H. Moran argues that transparent regulations, protection of property rights, and efficient administrative procedures can create a favorable investment climate for foreign investors. Similarly, research by Beata K. Smarzynska Javorcik highlights that regulatory stability and clear investment policies help reduce uncertainty and transaction costs for multinational companies. In the context of Southeast Asia, many studies have focused on the success of countries such as Singapore, Malaysia, and Vietnam in attracting significant levels of FDI. These countries have implemented comprehensive regulatory reforms, including simplified business registration procedures, investment incentives, and improved legal frameworks to encourage foreign investment.² As a result, they have become major investment destinations within the region. Furthermore, regional cooperation within the Association of Southeast Asian Nations has also contributed to creating a more integrated and attractive investment environment. Policies aimed at economic integration, trade liberalization, and regulatory harmonization have strengthened the competitiveness of Southeast Asian economies in the global investment market.

Overall, the existing literature suggests that government regulatory policies play a significant role in shaping FDI inflows. However, the effectiveness of these policies depends on their transparency, consistency, and implementation capacity. Therefore, analyzing the regulatory experiences of Southeast Asian countries can

¹ Douglass C. North. "Institutions, Institutional Changes and Economic Performance" Cambridge University Press (1990) [https://epistemh.pbworks.com/f/8.%20Institutions Institutional Change and Economic Performance.pdf](https://epistemh.pbworks.com/f/8.%20Institutions%20Institutional%20Change%20and%20Economic%20Performance.pdf) **82**

² Zita Fira Maranik, Dicky Iranto, Saparuddin Mukhtar "The Effect Of Government Quality On Foreign Direct Investment In Asean Plus Three" International Journal of Economics, Education and Entrepreneurship (2024) <https://ije3.esc-id.org/index.php/home/article/view/268>

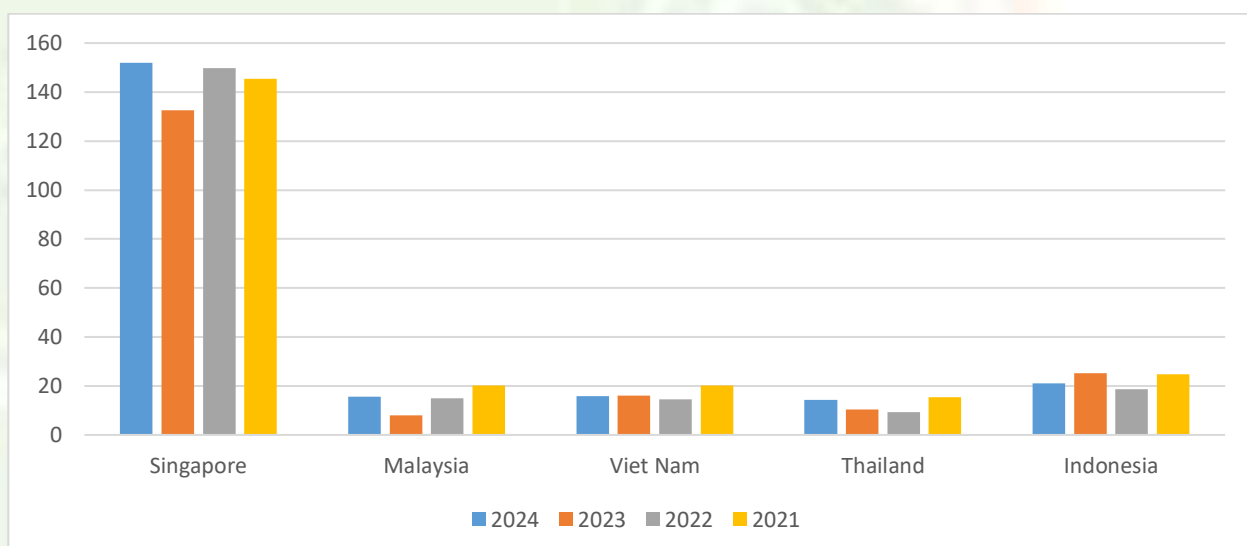


provide valuable insights for improving investment policies in other developing economies.

Research Methodology. The study is based on a comparative analysis of several Southeast Asian economies, including Singapore, Vietnam, and Malaysia. These countries were selected due to their significant success in attracting foreign direct investment and implementing effective regulatory reforms. Moreover, deductive method, comparative analysis and descriptive and analytical methods are used in this study.

Analysis & Results. Foreign Direct Investment (FDI) is one of the most important indicators of a country's attractiveness to international investors. It reflects not only the level of capital entering an economy but also investor confidence in the business environment and regulatory framework. In Southeast Asia, FDI inflows have grown significantly over the past decade, driven by economic reforms, trade liberalization, and government policies aimed at improving the investment climate. Countries such as Singapore, Vietnam, Thailand and Malaysia have attracted substantial foreign investments through regulatory simplification, incentives, and the development of special economic zones.

Figure 1. Foreign Direct Investment, net inflows (in \$ billion) of 5 members of ASEAN from 2021 to 2024³



³ <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=MY>



This table shows that in 2023 every country underwent a reduction in FDI inflows due to the fact that USA and EU had high rate of inflation, reflecting increase in interest rate in Central Banks. This, in turn, led to procrastination of new investments. ASEAN countries attract substantial foreign direct investment due to several strategic advantages. Despite some members having relatively small land areas, they offer favorable business environments characterized by competitive labor costs, strategic geographic locations, and growing consumer markets. Additionally, many ASEAN countries have implemented investor-friendly regulatory reforms, trade liberalization, and regional economic integration through ASEAN frameworks, which boost investor confidence. FDI in ASEAN is primarily concentrated in manufacturing, electronics, automotive, information technology, and services sectors, including finance and tourism. Countries like Singapore serve as regional hubs for finance and technology, while Vietnam and Indonesia attract manufacturing and industrial investments due to their abundant labor force and improving infrastructure. Despite the relatively small size of some ASEAN member countries, many have consistent ranked highly in the Ease of Doing Business index due to comprehensive regulatory reforms and investor-friendly policies. These countries, such as Singapore, Malaysia, and Vietnam, have streamlined administrative procedures, strengthened legal protections, and simplified business registration processes. As a result, their high Ease of Doing Business rankings reflect a favorable investment climate that helps attract substantial foreign direct investment (FDI), demonstrating the strong link between effective regulatory environments and international capital inflows.⁴

Figure 2. Ease of Doing Business Rank in 2019⁵

Economy	Ease of Doing Business Rank	Starting a business	Registering property	Protecting minority investors	Enforcing contracts

⁴ Rahmawati Rizka, Asqolani Asqolani "The Effect of Tax Incentives and Ease of Doing Business on Foreign Direct Investment in ASEAN Member Countries" Journal of Profita Komunikasi Akuntansi Perpajakan (2023) <https://publikasi.mercubuana.ac.id/index.php/profita/article/view/profita.2023.v16i1.001>

⁵ <https://archive.doingbusiness.org/en/rankings>



Singapore	2	4	21	3	1
Malaysia	12	126	33	2	35
Thailand	21	47	67	3	37
Viet Nam	70	115	64	97	68

ASEAN countries like Singapore often outperform many developed economies in the Ease of Doing Business rankings due to highly efficient regulatory frameworks, transparent legal systems, and minimal bureaucratic hurdles. Singapore, in particular, provides a streamlined business registration process, strong investor protections, and a predictable policy environment, enabling faster startup and operational procedures compared to some larger developed nations. These factors make it an exceptionally attractive destination for foreign direct investment despite its small geographic size⁶.

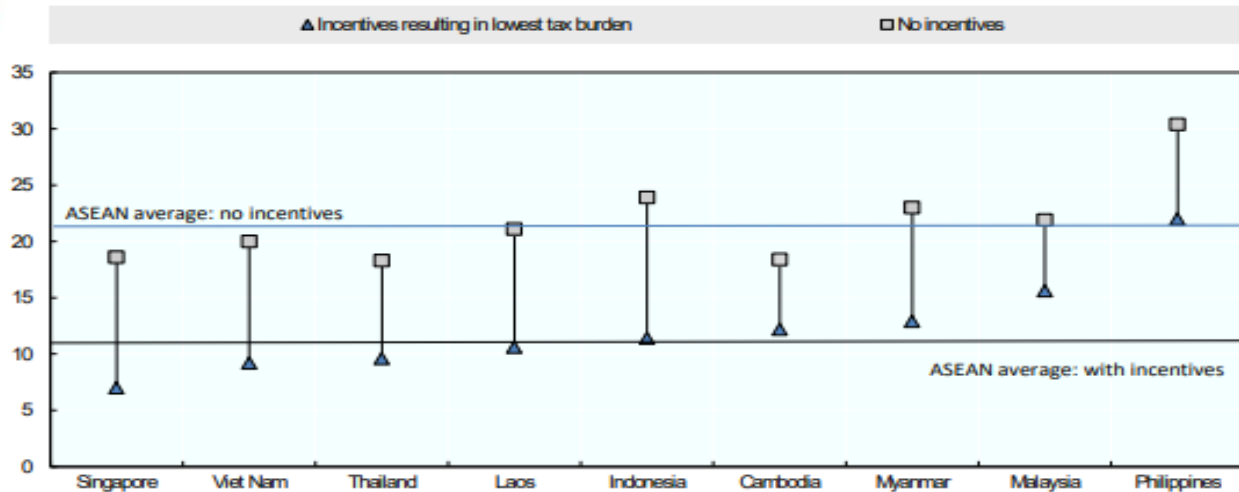
Another strong point of ASEAN in attracting FDI is the provision of corporate tax incentives. These incentives are not applied uniformly across all sectors but are targeted towards specific areas, such as green and renewable energy projects. This approach not only benefits the economy but also has a positive impact on the environment. At the same time, it encourages increased foreign direct investment inflows into these priority sectors.

Figure 3. Incentive competition and race-to-the-bottom of corporate taxation in ASEAN⁷

Average effective rates (AETRs) with and without incentives (in %)

⁶ Rahmawati Rizka, Asqolani Asqolani “The Effect of Tax Incentives and Ease of Doing Business on Foreign Direct Investment in ASEAN Member Countries” Journal of Profita Komunkasi Akuntansi Perpajakan (2023), <https://publikasi.mercubuana.ac.id/index.php/profita/article/view/profita.2023.v16i1.001>

⁷ OECD Investment Policy Review of Southeast Asia https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/02/oecd-investment-policy-review-of-southeast-asia_46b034d7/7becd771-en.pdf



The figure illustrates the impact of tax incentives on the average effective tax rates (AETRs) for corporate taxation across ASEAN countries. It clearly shows that tax incentives significantly reduce the tax burden for corporations. For instance, in Singapore, the AETR drops from approximately 19% without incentives to around 7% with incentives - a reduction of about 12 percentage points. Similarly, in the Philippines, tax rates decrease from about 30% to 16% when incentives are applied, marking the largest gap among the countries shown. On average, ASEAN countries experience a reduction of nearly 10 percentage points in corporate tax rates due to incentives. This demonstrates how tax incentives are used as a competitive tool in the region to attract foreign direct investment by lowering the effective tax burden on businesses.⁸

Conclusion and Recommendations. ASEAN's success in attracting FDI stems from effective regulation, targeted tax incentives, and investor-friendly policies. Their focus on streamlined processes and sector-specific incentives, especially in sustainable industries, has boosted investment inflows. Other countries can learn from ASEAN by adopting clear regulations, prioritizing strategic sectors, and improving policy coordination to create a favorable investment climate. Strong

⁸ OECD Investment Policy Review of Southeast Asia
https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/02/oecd-investment-policy-review-of-southeast-asia_46b034d7/7becd771-en.pdf



recommendations are that: Target incentives strategically - focus tax breaks and support on high-growth and sustainable sectors, such as green energy and technology. Simplify regulations - Streamline business registration, licensing, and permit procedures to reduce bureaucratic barriers for investors. Strengthen institutional capacity - Improve government ability to design, monitor, and coordinate FDI policies effectively. Enhance regional coordination - Align investment policies across countries to avoid conflicts, overlaps, and inefficient competition.

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