



**P R A K A R S A**

Welfare Initiative for Better Societies

# **Assessing The Incentives Policies for Foreign Investment in ASEAN Member States 2021-2023**



**2024**

**Assessing The Incentives Policies for Foreign Investment in  
ASEAN Member States 2021-2023**

Bintang Aulia Lutfi  
Tang The Anh  
Pham Van Long  
Victoria Fanggidae  
Nguyen Duc Thanh  
Ah Maftuchan



**P R A K A R S A**  
Welfare Initiative for Better Societies

**2024**

# Assessing The Incentives Policies for Foreign Investment in ASEAN Member States 2021-2023

## Reference to Cite:

Perkumpulan PRAKARSA. (2024). *Assessing The Incentives Policies for Foreign Investment in ASEAN Member States 2021-2023*. Perkumpulan PRAKARSA: Jakarta.

## Writers:

Bintang Aulia Lutfi, Tang The Anh, Pham Van Long, Victoria Fanggidae, Nguyen Duc Thanh, Ah Maftuchan

## Researchers:

Eka Afrina Djamhari, Farhan Medio Yudantyo, Samira Hanim, Eksanti Amalia Kusuma Wardhani, Long Hoang, Phuong Le Ha

## Layout and Designs:

Bambang Nurjaman, Suhendra

## Publisher:

Perkumpulan PRAKARSA  
Komplek Rawa Bambu 1  
Jl. A No. 8E Kel. Pasar Minggu, Kec. Pasar Minggu  
Jakarta Selatan, Daerah Khusus Ibukota Jakarta 12520, Indonesia

## Keywords:

ASEAN, Incentive, Tax Policy, Foreign Investment, Social Equity, Inequality

## Disclaimer:

This report is based on the research of "Assessing the Fiscal Incentives Policies for Foreign Investment in ASEAN Member States 2021-2023". The contents of the report are fully the responsibility of the researcher and author.

## **ACKNOWLEDGEMENTS**

This report was written by Bintang Aulia Lutfi, Tang The Anh, Pham Van Long, Victoria Fanggidae, Nguyen Duc Thanh, Ah Maftuchan. This paper is part of a series written to inform public debate on development and humanitarian policy issues.

This publication is copyright, but the text may be used free of charge for the purposes of advocacy, campaigning, education, and research, provided that the source is acknowledged in full. The copyright holder requests that all such use be registered with them for impact assessment purposes. For copying in any other circumstances, or for reuse in other publications, or for translation or adaptation, permission must be secured, and a fee may be charged. Please email: [perkumpulan@theprakarsa.org](mailto:perkumpulan@theprakarsa.org)

# Table of Contents

Table of Contents	iv
List of Figures	v
List of Tables	vi
Abbreviations	vii
Forewords	viii
Executive Summary	x
<b>01</b> Introduction	1
<b>02</b> Macroeconomic Dynamic Background of ASEAN Region	5
2.1. Economic Development And Governance	6
2.2. Foreign Direct Investment (FDI)	9
<b>03</b> Fiscal Systems, Policies, and Inequality	13
3.1. Fiscal Systems	14
3.2. Fiscal Policies to Tackle Inequality	17
<b>04</b> Investment Incentives: Tax and Non-Tax Incentives for Foreign Corporation	23
4.1. Legal Frameworks for Investment Incentives	25
4.2. Screening Investment Incentives in ASEAN Countries	26
4.3. Investment Incentives and FDI Flows	34
4.4. National Responses to the Upcoming 2024 OECD Minimum Tax Rates	38
4.5. FDI, Investment Incentives and Gender Equality	40
<b>05</b> Conclusion	45
<b>06</b> Recommendations	51
References	55

# List of Figures

Figure 1.	HDI rankings in ASEAN countries, 2018-2021	8
Figure 2.	Net FDI inflows to ASEAN countries, 2018-2022 (% GDP)	10
Figure 3.	Sources and amount of FDI into ASEAN, 2021 (billion USD)	10
Figure 4.	FDI by five industries accounting for above 80% of total FDI, 2018-2022 (USD)	11
Figure 5.	Estimated budget indicators in ASEAN countries	15
Figure 6.	Total tax revenue of ASEAN countries, 2021 (% of GDP)	16
Figure 7.	Open Budget Index (OBI) scores and rankings for ASEAN countries, 2021	17
Figure 8.	CRII scores and rankings for ASEAN countries, 2022	17
Figure 9.	Number of effective legal documents on investment incentives and corporation taxation in ASEAN countries, 2021-2023	25
Figure 10.	Standard CIT rates in ASEAN countries, 2015-2023 (%)	26
Figure 11.	Maximum period of tax holidays in ASEAN countries, 2021-2023 (Years)	29
Figure 12.	Maximum length of land lease (including extension) in ASEAN countries (years)	34
Figure 13.	Total FDI inflows into ASEAN region, 2018-2022 (million dollars)	35
Figure 14.	FDI inflows into ASEAN Member States 2018-2022 (million dollars)	36
Figure 15.	FDI and Good Governance in ASEAN countries, 2022	37
Figure 16.	FDI and Incentives Gap in ASEAN countries, 2022	37
Figure 17.	FDI and Gender Inequality Index in ASEAN countries, 2022	42

# List of Tables

Table 1.	Overview of ASEAN member states, 2022	7
Table 2.	Good governance in ASEAN countries, 2022	8
Table 3.	Debt indicators of ASEAN countries, 2018 – 2021(% of GDP)	14
Table 4.	CRII scores for progressive taxation for ASEAN countries, 2022	18
Table 5.	CRII scores for progressive budget spending for ASEAN countries, 2022	18
Table 6.	Selected group of exemptions in ASEAN countries	27
Table 7.	CIT rates and preferential levels in ASEAN countries, 2023	30
Table 8.	Transferring losses forward in ASEAN countries	32
Table 9.	GloBE Implementation of ASEAN's countries	38
Table 10.	Brief review of ASEAN and its Member States on legislation on gender equality	41

# Abbreviations

<b>ADB</b>	Asian Development Bank	<b>M&amp;A</b>	Mergers and acquisitions
<b>ASEAN</b>	Association of Southeast Asian Nations	<b>n/a</b>	Not available
<b>BEPS</b>	Base erosion and profit shifting	<b>OBI</b>	Open Budget Index
<b>COVID-19</b>	Coronavirus disease 2019	<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>CIT</b>	Corporate Income Tax	<b>SDGs</b>	Sustainable Development Goals
<b>ADB</b>	Asian Development Bank	<b>SMEs</b>	Small and medium enterprises
<b>ASEAN</b>	Association of Southeast Asian Nations	<b>PPP</b>	Purchasing power parity
<b>BEPS</b>	Base erosion and profit shifting	<b>PRAKARSA</b>	Perkumpulan Prakarsa in Indonesia
<b>COVID-19</b>	Coronavirus disease 2019	<b>TAFJA</b>	Tax and Fiscal Justice Asia
<b>CIT</b>	Corporate Income Tax	<b>UHC</b>	Universal Health Coverage
<b>CRII</b>	Commitment to Reduce Inequality Index	<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>DFI</b>	Development Finance International	<b>UN Women</b>	United Nations Entity for Gender Equality and the Empowerment of Women
<b>EAP</b>	East Asia and Pacific Region	<b>VAT</b>	Value-added tax
<b>FDI</b>	Foreign Direct Investment	<b>VEPR</b>	Vietnam Institute for Economic and Policy Research
<b>GDP</b>	Gross Domestic Product	<b>VESS</b>	Vietnam Center for Economic and Strategic Studies
<b>GII</b>	Gender Inequality Index		
<b>GLoBE</b>	Global Anti-Base Erosion		
<b>HDI</b>	Human Development Index		
<b>IMF</b>	International Monetary Fund		





# Forewords

**Southeast Asia, as a geographically strategic region with solid economic growth and a young population, is a target for foreign investment. Each year, ASEAN gathers to strengthen economic, social and political stability in the region, with a primary focus on economic integration and increasing cooperation between its member countries.**

Even though the economic conditions of ASEAN countries have slumped due to the Covid-19 pandemic, economic growth in this region has recovered. Various factors such as economic diversity and the quality of governance influence economic growth in ASEAN countries. One effort to attract foreign investment is to provide various types of tax breaks for investors. Some countries implement direct tariff reductions, while others provide fiscal incentives to support economic recovery after the Covid-19 pandemic.

At a global meeting in The Hague in November 2022, representatives of Civil Society Organisation in ASEAN region discussed the importance of civil society collaborating across countries to face conditions of inequality caused by an unfair fiscal regime. The PRAKARSA and think tank organization in Vietnam propose active collaboration of think tanks in ASEAN countries, expanding civil space, and increasing the influence of civil society in policy making (bottom-up approach). This effort also aims to strengthen the CSO alliance in Southeast Asia and support the formation of a think tank network to influence public debate and policy discussions in ASEAN.

Furthermore, with the implementation of the OECD global minimum corporate tax rate in early 2024 by a number of countries around the world, ASEAN and its members need to review their respective tax policies. They must ensure that the corporate tax rates they offer do not fall below the global minimum, in order to protect domestic tax revenues and maintain the stability of the investment climate in the region.

In 2019, PRAKARSA, VATJ, and Development Organisation in Vietnam and Asia conducted research on tax incentives and factors that encourage foreign investment in ASEAN. This research has been approved by the ASEAN-US development organization and business

council. Sustainable tax incentives are needed in ASEAN, using the OECD global minimum tax rate as an instrument for making changes, especially considering that Indonesia will host the ASEAN Chair in 2023.

This research was conducted to continue research that was carried out in 2019, to continue to develop a comprehensive economic and fiscal study in Southeast Asia. The aim of this study is to provide policy recommendations that can improve tax policy improvements in ASEAN and initiate collaboration between think tanks in the region. This initiative aims to attract more members from ASEAN countries to join and strengthen analysis based on existing evidence.

I would like to thank the research team from PRAKARSA and all the research member, as well as all those involved in preparing this report. We hope that this report can enrich existing knowledge and provide encouragement to policy makers to be fully committed to economic growth in ASEAN and the welfare of society.

Jakarta, May 2024

**Ah Maftuchan**

Executive Director of The PRAKARSA





# Executive Summary

The COVID-19 pandemic deeply impacted ASEAN, widening existing economic and social inequalities. Poverty reduction efforts stalled, with millions pushed back into poverty. While taxation plays a crucial role in addressing inequality, poorly governed tax and non-tax incentives can exacerbate the problem. The anticipated post-pandemic FDI surge requires careful management through effective tax policies. Uncontrolled competition for FDI through tax cuts risks benefiting only a select few, leading to social unrest and further inequality.

ASEAN has become a magnet for FDI, even during the pandemic's economic instability. While tax incentives might not be the primary driver of FDI, countries are engaging in a "race to the bottom" with competitive tax breaks. This can negatively impact public spending and areas like healthcare, education, and gender equality. To truly become an "Epicentrum of Growth," ASEAN must prioritize social development alongside economic growth. This study aims to understand the legal framework governing tax incentives in ASEAN and analyze their costs and benefits. It investigates the impact of redundant incentives and explores the potential effects of the upcoming OECD corporate minimum tax on revenue and gender equality. Ultimately, it recommends policies for ASEAN to establish a sustainable business environment that prioritizes equitable development over a race to the bottom.

ASEAN boasts a diverse range of economies, from highly developed Singapore to emerging markets like Cambodia. Singapore and Brunei lead the pack with high GDP per capita, while other countries have GDPs below USD30,000. Populations also vary significantly, with Indonesia having the largest at 275 million and Brunei the smallest at 0.45 million (World Bank, 2023). It is also noted that there exists a positive correlation between economic development and good governance. Singapore and Brunei, with the highest income per capita, also score high in governance indicators like control of corruption and political stability. However, public participation and accountability remain low across all ASEAN countries, even in developed ones like Singapore.

Across ASEAN, public debt is on the rise, with Singapore, Laos, Malaysia, and Myanmar facing the highest ratios to GDP. While Singapore manages its debt well, maintaining a small budget deficit (0.84% in 2022), others like Thailand, Myanmar, Philippines, and Malaysia grapple with significant deficits (4.55% to 5.88% of GDP).

This trend is particularly concerning in the post-pandemic era, as many countries struggle to recover economically. The revenue mobilization varies greatly throughout the region. Brunei Darussalam boasts the highest budget revenue-to-GDP ratio (28.91%), while Myanmar lags behind at 13.25%. In average, ASEAN nations fall below the OECD average in this crucial metric (19.25% vs. 41.73%). This explains why seven out of ten countries struggle with budget deficits. However, there are bright spots. Laos, despite having the second-highest overall debt, has managed to improve its budget deficit in recent years (1.63% in 2022 compared to 4.66% in 2018). And while external debt remains high (54.56% of GDP), this progress indicates a potential path forward.

The average ASEAN corporate income tax (CIT) rates are falling, averaging just 20.85% in 2023. Singapore remains the “tax haven” with a low 17% rate, followed by Brunei at 18.5%. Most, like Vietnam, Laos, Cambodia, and Thailand, have settled at 20% after recent reductions. Notably, Myanmar and the Philippines lowered their rates to 22% and 25%, respectively, potentially in response to the pandemic. Indonesia, however, planned a reduction to 20% but later reversed it, possibly due to pandemic recovery. While some countries directly reduced CIT rates, others implemented tax holidays and breaks to help their economies recover.

Other than reducing standard CIT rates, countries also provide profit-based incentives such as tax exemptions, holidays, preferences and deductions, as well as non-tax incentives such as land incentives. By combining these diverse incentives, countries can create a more attractive and competitive environment for FDI. However, the overuse of these incentives needed to be reassessed as a prevention to the race to the bottom in the region.

Despite a surge in FDI across ASEAN in 2021, concerns remain about the region’s reliance on tax incentives to attract investment. While incentives played a role, factors like market size, infrastructure, and stability seem to have a larger impact. Some countries like Brunei saw drastic drops in FDI, while others like Vietnam and Singapore showed remarkable resilience. Analyzing the correlation between FDI and good governance reveals uncertainty, possibly due to lingering pandemic effects.

By incorporating the UN Convention on Tax into the national responses to the OECD minimum tax, we can create a more equitable and sustainable global tax system. However,



in this study this research considers that the OECD global minimum corporate tax rate of 15% is still too low. this will risk encouraging developing countries in ASEAN to further reduce the CIT rate as before. this needs to be highlighted and increased as the majority CIT rate globally is at 25%. This, in turn, can help counter the race to the bottom and foster a more stable and prosperous future for all nations. The changes in ASEAN's tax rules mark a big shift in how the region deals with its economy.



Before, the focus was on getting foreign investment with big tax discounts. Now, the aim is to balance attractive investments with sustainable and fair economic growth. Each country in ASEAN needs to think about its own economic plans and how much money it has. At the same time, the new Global Minimum Corporate Income Tax from the OECD is a major move towards making the global tax system fairer. For this to work well, it needs to fit with the United Nations' tax rules. This is especially important for smaller and developing countries to have a say in global tax decisions.

In light of this, this report recommends that ASEAN countries take the following actions.

### **1. Harmonization of tax policies and regulations**

We recommend that the ASEAN Forum on Taxation (AFT) lead initiatives to establish a regional minimum corporate tax rate of 25%, significantly higher than the OECD's 15%, to prevent a "race to the bottom" and safeguard national revenues across ASEAN. By standardizing tax types, rates, and bases, the AFT can ensure a fair distribution of tax burdens, promoting equity among member states. This approach necessitates robust collaboration and unwavering commitment from each ASEAN government, pivotal for creating a harmonious tax system that eliminates opportunities for tax arbitrage and minimizes disparities in tax regimes. Furthermore, strengthening cooperation through double taxation agreements (DTAs), enhancing tax and customs information exchanges, and improving governance in tax and customs administration are critical. These coordinated actions will enhance the

region's economic stability and fairness, ensuring that ASEAN remains competitive while maintaining fair tax practices.

## **2. Adopt a minimum corporate tax rate in line with the UN Convention on Taxes**

We recommend that AFT consolidate ASEAN members to promote the UN Tax Convention as a platform that ensures all countries, including ASEAN members, have an equal say in setting international tax rules, which do not only benefit developed countries. concerns that the 15% minimum corporate tax rate under Base Erosion and Profit Shifting (BEPS) favors developed countries. This is because global policy changes in taxation, especially those initiated by the OECD, tend to be formulated among developed countries, and then announced to developing OECD member countries. This step is important to address the issue of global tax avoidance and encourage the creation of a fairer international tax system.

## **3. Developing a comprehensive investment approach**

ASEAN member states need to review the optimization of tax and non-tax incentives to ensure that the tax incentives provided genuinely attract high-quality and sustainable investments. Besides tax incentives, ASEAN countries should focus on non-tax incentives like simplifying licensing processes, developing good infrastructure, and business support to attract foreign investment. This includes expediting dispute resolutions and ensuring that contracts and agreements are respected.







# 01

## Introduction

---

The COVID-19 pandemic has had a profound impact around the world, and the members of the Association of Southeast Asian Nations (ASEAN) and the organization itself are no exception. During the wake of this health crisis, economic and social equality has been regarded as a significant concern. The pandemic has not only disrupted economic activities and upended lives, but it also widened the existing inequalities in both economic and social among the members of the organization.



# 01

## Introduction

---



The COVID-19 pandemic has had a profound impact around the world, and the members of the Association of Southeast Asian Nations (ASEAN) and the organization itself are no exception. During the wake of this health crisis, economic and social equality has been regarded as a significant concern. The pandemic has not only disrupted economic activities and upended lives, but it also widened the existing inequalities in both economic and social among the members of the organization. Poverty reduction efforts have been stalled region wide. 32 million people have been estimated to have failed to escape poverty due to the pandemic (World Bank, 2021). Taxation policies, on the other hand, play a crucial role in addressing inequality. Tax and non-tax incentives help to attract foreign investment, create jobs, and potentially lead to growth in the economy. But if these incentives are not well-governed, they could end up benefiting only a small segment of the population. The incoming wave of Foreign Direct Investment (FDI) into the region in the recovery era after the pandemic needs to be carefully and well-targeted under the control of effective tax policies, or it might lead to social unrest and economic inequality.

ASEAN has become an alluring attraction for FDI in both the pre- and post-pandemic era. During the pandemic, the region also suffered from economic instability like the rest of the world. Even though there are limitations on the flows of FDI into the ASEAN region during the time of the disease, it even bounced back harder in the post-pandemic time (ADB, 2022).

This might be due to several determinants such as economic growth, quality of economic institutions, inflation, and tax burden (Dang & Nguyen, 2021). Even though tax incentives might not be the most important determinant in the race to attract FDI, countries are now blindly going into a race to the bottom. ASEAN countries have had different and competitive tax incentive tactics to attract more foreign investment, which could lead to negative side effects on public spending due to the limited revenue on corporate income tax (CIT). One noteworthy side effect might be the decrease in investments in health, education, and care work, which could lead to a social imbalance in gender and women's rights.

'Epicentrum of Growth', the theme of ASEAN in 2023, is applicable to the ASEAN context of foreign investment: to become a region with exceptional economic vitality, making the destination more appealing to foreign investment. However, with the goal of becoming an attractive region to FDI, states need to consider not only economic but more importantly, social development. For what it is worth, the stability of the civil might be the key to the growth of the region, which could lead to the success of the 2023 ASEAN orientation. Member states of ASEAN might need to consider aspects of both economic and social development.

This study aims to achieve a comprehensive understanding of the legal framework governing tax incentives in the ASEAN region. By providing an extensive review of all forms of existing incentives including both tax and non-tax incentives, it investigates the cost of redundant and ineffective tax incentives policies to attract more FDI in each country, which could be harmful to not only the economy but also the society. It first reviews the macroeconomic environment of ASEAN Member states as well as the fiscal systems, especially the fiscal policies that aim at reducing social inequality. It then provides an intensive analysis of the different forms of existing corporate tax incentives including both tax and non-tax which are available for domestic and international firms. The national responses to the upcoming 2024 Organization for Economic Co-operation and Development (OECD) corporate minimum income tax and the effects of loss of revenue on the development of gender equality and women's rights are discussed. Finally, it makes recommendations on policy for ASEAN and its member states in accordance with the idea of establishing a more sustainable business investment climate rather than a race-to-the-bottom competition between countries.



▼ 18.07

▲ 07.28

▲ 24.78

▲ 18.75





# 02

## Macroeconomic Dynamic Background of ASEAN Region

The percentage of female population in the ASEAN countries is fairly consistent, with the lowest in Singapore at 47.70%, and the highest in Thailand at only 51.45%. The labor force participation rate, which only accounts for the citizens that are actively engaging in the workforce, who are in the age range from 15 to 64, indicates that there are slight differences across ASEAN members.

---

2.1. Economic Development And Governance	6
2.2. Foreign Direct Investment (FDI)	9



# 02

## Macroeconomic Dynamic Background of ASEAN Region

---



### 2.1. Economic Development And Governance

ASEAN consists of 10 member states: Brunei Darussalam, Cambodia, Indonesia, Laos PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. There is a diverse range of economies among these 10 countries, from highly developed nations like Singapore to emerging economies like Cambodia and Laos.

Singapore and Brunei Darussalam remain the two countries that have the smallest population size in the region but the highest GDP per capita in terms of purchasing power parity, PPP (Table 1). While these two countries are among the highest in the world, at over USD55,000 in 2022, the rest member states in the ASEAN only have a modest GDP per capita, which lower than USD30,000 in 2022. The populations of the countries in the region also have a diversity ranging from 0.45 million in Brunei to 275.50 million in Indonesia. There are five member states with a population above 50 million but no nation in this group has a GDP per capita larger than USD30,000.

**Table 1. Overview of ASEAN member states, 2022**

Country	Population (million)	Female, population (% Population)	Labor force participation rate (% Population)	Female labor force participation rate (% of total labor force)	GDP (constant 2015, billion USD)	GDP, PPP (constant 2017, billion USD)	GDP per capita, PPP (constant 2017, USD)
Singapore	5.64	47.70	78.64	42.80	379.71	609.00	108036.11
Brunei Darussalam	0.45	48.28	68.20	41.81	13.00	26.34	58669.90
Malaysia	33.94	48.90	69.46	39.21	385.94	960.97	28315.37
Thailand	71.70	51.45	75.48	45.93	450.13	1255.21	17507.12
Indonesia	275.50	49.65	68.21	39.51	1122.29	3418.91	12409.76
Vietnam	98.19	50.60	77.96	48.48	358.92	1118.99	11396.53
Philippines	115.56	49.22	59.01	39.09	407.69	991.72	8581.94
Laos DPR	7.53	49.60	61.38	46.95	19.57	59.84	7947.66
Cambodia	16.77	50.50	79.02	47.09	24.95	75.97	4530.53
Myanmar	54.18	50.23	64.37	37.71	73.00	223.46	4124.49

Note: This table is sorted by GDP per capita (PPP).

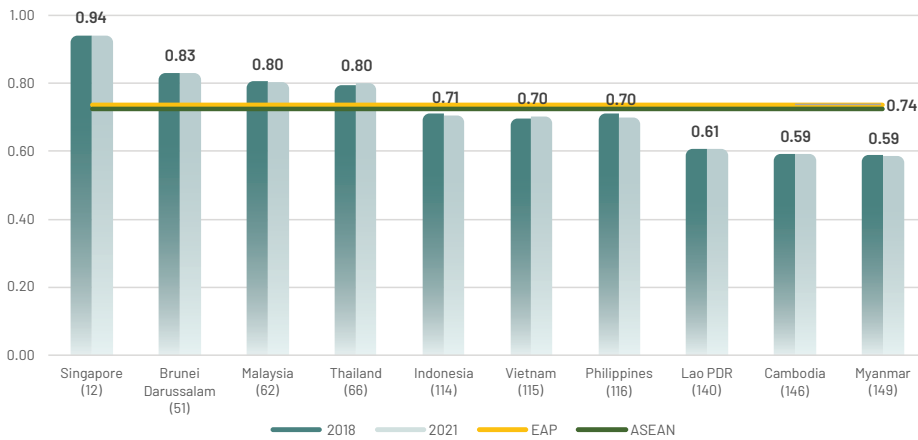
*Source: World Bank (2023).*

The percentage of female population in the ASEAN countries is fairly consistent, with the lowest in Singapore at 47.70%, and the highest in Thailand at only 51.45%. The labor force participation rate, which only accounts for the citizens that are actively engaging in the workforce, who are in the age range from 15 to 64, indicates that there are slight differences across ASEAN members. Singapore and Cambodia are the two countries with the highest labor participation rates at 78.64% and 79.02%, respectively. Meanwhile, Philippines only has a participation rate at 59.01%. Comparing to the previous study in 2021, where the highest percentage is at only 62% in Singapore and achieve a minimum as low as below 50% in the Philippines, in the post-Covid era, the populations participating in the labor have a significant increase in the 10 member countries of ASEAN (VEPR, 2020).

The ranking of HDI for ASEAN countries for the year 2021 does not change much from that of in the previous study (Figure 1) (VEPR, 2020). There are still six countries that have HDI below the average for the HDI of East Asia and the Pacific region (EAP). These countries include Indonesia, Vietnam, Philippines, Laos DPR, Cambodia and Myanmar. This index is relatively related to the economic development of each country since Singapore and Brunei are the top two nations with very high human development score.



Figure 1. HDI rankings in ASEAN countries, 2018-2021



Note: EAP: East Asia and Pacific Region.

Source: World Bank (2023)

Table 2 provides an overview of good governance indicators for ASEAN member states. Singapore and Brunei score the highest and the second highest in all categories. Coincidentally, these two countries are among the highest income per capita countries not only in the region but also worldwide. This may show that there is a positive relationship between economic development with the quality of governance and political stability. This relationship and the governance indicators are essential for business and investment environment since investors, policymakers and international organizations would base on these things to make decisions and assessments.

Table 2. Good governance in ASEAN countries, 2022

Country	Control of Corruption	Government Effectiveness	Political Stability and Absence of Violence/Terrorism	Regulatory Quality	Rule of Law	Voice and Accountability	Simple Average
Singapore	98.58	100.00	97.17	100.00	99.06	44.44	89.88
Brunei Darussalam	83.96	91.04	94.81	82.55	80.19	25.60	76.36
Malaysia	62.26	79.25	51.89	72.64	68.40	47.34	63.63
Indonesia	37.74	66.04	29.25	59.43	45.28	52.66	48.40
Thailand	35.85	58.02	31.60	58.49	54.72	31.40	45.01



Country	Control of Corruption	Government Effectiveness	Political Stability and Absence of Violence/Terrorism	Regulatory Quality	Rule of Law	Voice and Accountability	Simple Average
Vietnam	45.75	59.43	45.75	36.32	47.64	13.53	41.41
Philippines	33.49	56.13	20.28	53.77	33.49	43.96	40.19
Lao PDR	19.81	30.19	74.06	16.04	23.58	4.83	28.09
Cambodia	9.91	36.79	44.81	25.00	21.23	13.04	25.13

Note: The World Bank assigns a score to each country for each aspect of governance (0 = very bad, 100 = very good) and does not rank countries in an overall index of good governance. This table is sorted by simple average scores.

*Source: World Bank (2023).*

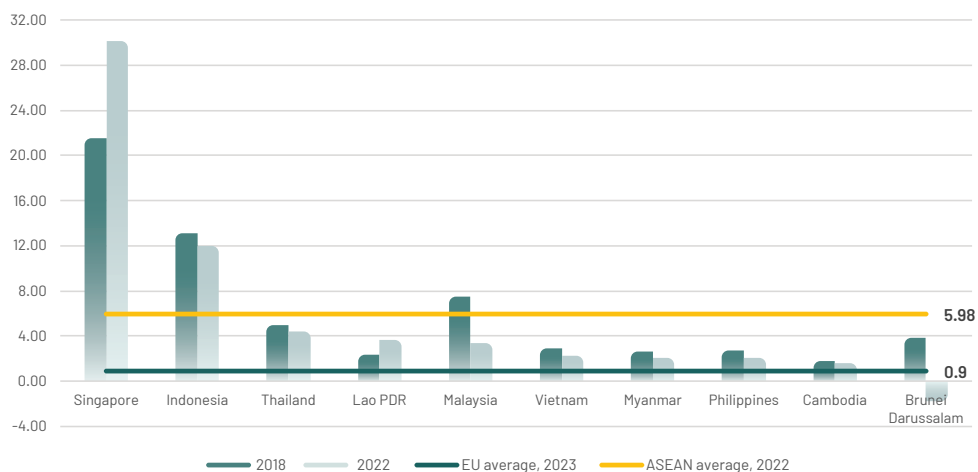
However, it is notably that the indicator for economic voice and accountability remain low across all ASEAN countries. This indicator provides a representation of the quality of democracy and civil liberties in a country. It helps in measuring the extent to which government policies and decisions reflect the wishes and interests of its citizens. The highest score that a country can receive is 52.66 in Indonesia, the remaining nine countries have a score below 50, even in the two nations that are in the developed economic sphere: Singapore and Brunei. Myanmar is still facing political unrest in the recent years, so the answer to address the issue of socio-economy such as reducing inequality, poverty levels, or raising the voice of citizens remains ambiguous.

## 2.2. Foreign Direct Investment (FDI)

In 2021, FDI inflows in ASEAN increased by 42% to 174 billion US dollars, reaching the pre-pandemic record level, this equivalent to 12% of the global FDI value (UNCTAD, 2022). The global FDI as a ratio to fixed GDP rose to 7.1% in 2021. (Foreign Direct Investment – UNCTAD Handbook of Statistics 2022, n.d.). While in the EU, the recent collected data in March 2023 suggests that there is only a rise by 0.9% of FDI over the region GDP (World Bank, 2023). In comparison, except for Brunei Darussalam that have a negative FDI inflows, all nine remaining nations have a ratio of FDI and GDP larger than the average of the EU. In the case of the economic union, ASEAN has a ratio of FDI over GDP equal to six times that of the EU (Figure 2).



**Figure 2. Net FDI inflows to ASEAN countries, 2018-2022 (% GDP)**

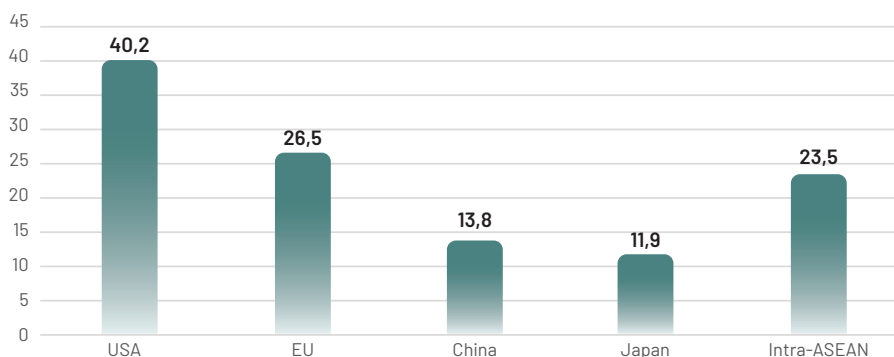


Source: World Bank (2023).

Singapore remains the top countries with net FDI inflows with 141.2 billion USD in 2022, whereas Brunei recorded a negative FDI values of around 284 million USD the same year (ASEAN, n.d.). In the post-pandemic time, the FDI inflows bounced back even harder in Singapore due to mainly the condition that this country is still considered to be a tax haven. This may due to the aggressive and harmful tax incentives that this country continues to practice even during the pandemic. In contrast, Brunei Darussalam is experiencing a decline in foreign investment with a negative FDI inflows. This decline may present a concern of the investors on the confidence of the Brunei Darussalam economy.

In the year of 2021, FDI inflows into ASEAN region mainly came from five regions: USA, EU, China, Japan and intra-ASEAN investments (Figure 3). These investments then be distributed into five industries that account for 80% of total FDI in the region as shown in Figure 4.

**Figure 3. Sources and amount of FDI into ASEAN, 2021 (billion USD)**

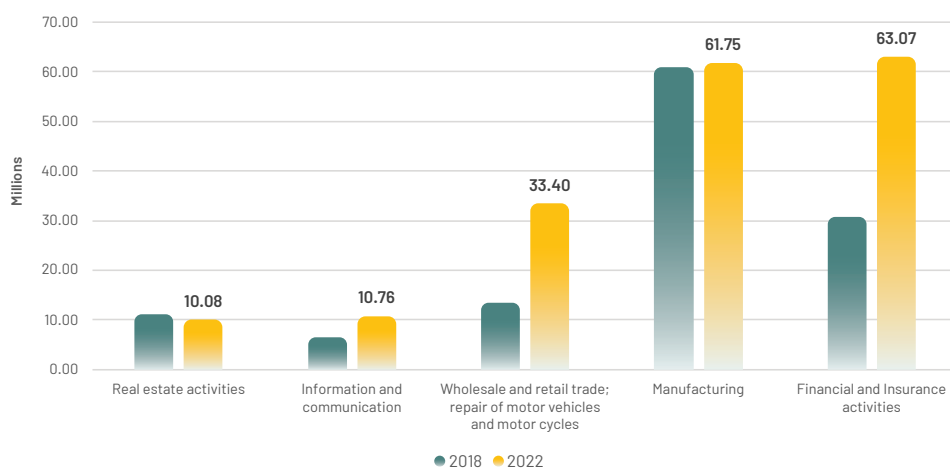


Source: ASEANstats (2023)



During the 4-year from 2018–2022, from the pre to post-COVID 19 recovery period, Financial and Insurance activities have the fastest development in FDI, achieving 63.07 million dollars in 2022, more than doubled the investment of that in 2018, and ranked first among the five most invested industries. Manufacturing investment is stable during this time maintaining an investment of approximately 61 million USD in the two years, while wholesale and retail trade also have a significant increase, attaining 33.40 million USD in the end of the analyzed span (Figure 3). This is followed by Information and communications (10.76 million USD), and real estate activities (10.08 million USD) in both 2018 and 2022.

**Figure 4. FDI by five industries accounting for above 80% of total FDI, 2018–2022 (USD)**



Source: ASEANstats (2023)

Explanations for the significant grow of wholesale and financial industries can be attributed to a number of factors. The increasing number of the middle class in ASEAN and the increasing popularity of e-commerce, especially during the pandemic, might be the two simplest answers. ASEAN middle class is expected to more than double in size from 135 million (24% of ASEAN population) to 334 million (51% of ASEAN population) by 2030 (UNCTAD, 2023) and e-commerce market in ASEAN is projected to grow by 11.42% from 2023 to 2027 (.). These trends are interconnected since the growing middle class with disposable income is one of the drivers for the e-commerce boom. Also due to the impact of the pandemic, the shift towards online purchasing is also accelerated. Another worth mentionable reason is the ASEAN Comprehensive Investment Agreement (ACIA). This has come into force since 2022 which has made it easier for foreign investors to invest into the ASEAN region. The agreement includes provisions that reduce or eliminate tariffs and other trade barriers, protect intellectual property rights, and promote transparency and predictability for investors.





26700

35890

12440

67888

97633

97633

26700

67900

3550





# 03

## Fiscal Systems, Policies, and Inequality

In light of the comprehensive understanding of regional dynamics, this research delves into the intricacies of foreign direct investment (FDI) attraction within ASEAN. It examines all effective tax and non-tax incentives in member states, critically analyzes their planned responses to the forthcoming global minimum corporate tax, and exploring the intriguing link between FDI and gender equality.

---

3.1. Fiscal Systems	14
3.2. Fiscal Policies to Tackle Inequality	17



# 03

## Fiscal Systems, Policies, and Inequality



### 3.1. Fiscal Systems

The situation where ASEAN nations in debt is getting more severe over time. Singapore, Laos DPR, Malaysia and Myanmar are the four countries facing the highest ratio of public debt to GDP. While Singapore still demonstrates a capacity in control public debt, its budget balance has a decrease to only 0.84 % of its GDP in 2022. Thailand, Myanmar, Philippines and Malaysia are under great debt pressure since each country is generating a loss of 4.55, 5.14, 5.48 and 5.88 % of their GDP respectively. Laos, even though have the second highest public debt overall in the region, they have increased the revenue and achieving a loss of only 1.63 % of its GDP in 2022 in comparison with that of 4.66 % in 2018. Laos remains the country with highest external public debt, reaching 54.56% of GDP in 2021 (Table 3).

**Table 3. Debt indicators of ASEAN countries, 2018 – 2021(% of GDP)**

Country	Public debt		External public debt	
	2018	2021	2018	2021
Singapore	109.37	147.67	n/a	n/a
Lao PDR	60.59	92.36	52.20	54.56
Malaysia	55.65	69.31	n/a	n/a
Myanmar	40.42	65.53	15.29	18.15

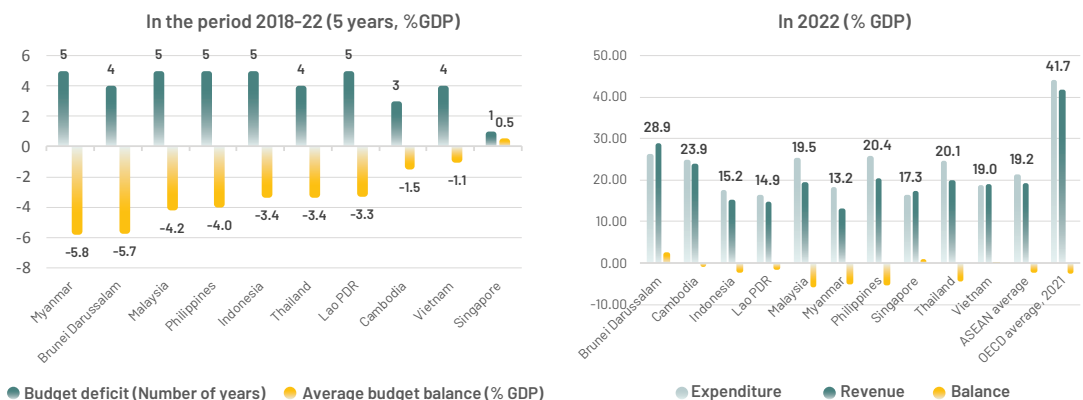
Country	Public debt		External public debt	
	2018	2021	2018	2021
Thailand	33.95	58.40	7.08	7.15
Philippines	37.13	57.00	11.06	15.04
Indonesia	30.42	41.14	20.63	20.46
Vietnam	43.51	39.31	16.81	13.26
Cambodia	28.45	35.88	28.47	35.06
Brunei Darussalam	2.59	2.51	n/a	n/a

Note: Sorted by public debt. External public debt means public and publicly guaranteed long-term external debt stocks, as calculated by the World Bank (2023); other figures calculated by the International Monetary Fund (IMF)(2023).

Source: IMF (2023) and World Bank (2023).

Revenue mobilization varies across ASEAN countries: Brunei Darussalam saw the highest ratio of budget revenue to GDP in 2022, at 28.91%, while the lowest rate was 13.25% in Myanmar. The average ratio of budget revenue to GDP in the region was 19.25% in 2022, lower than half the OECD average of 41.73% (Figure 5). This explains why seven out of ten countries lacked resources for spending budgets in 2022, with budget deficits of 5.88% of GDP in Malaysia, 5.48% in Philippines, 5.14% in Myanmar, 4.55% in Thailand, and other three countries are Cambodia, Laos DPR, and Indonesia. Vietnam, Singapore, and Brunei Darussalam are the only three countries with positive budget balance. While Vietnam and Singapore only have a marginal budget surplus of 0.26% and 0.84% respectively, Brunei Darussalam have a significant surplus of 2.53%. On average, ASEAN countries have a budget deficit of 2.23%. This estimation suited the post-Covid era when countries are having economic recovering after reaching their bottom during the pandemic.

Figure 5. Estimated budget indicators in ASEAN countries



Source: IMF (2023)

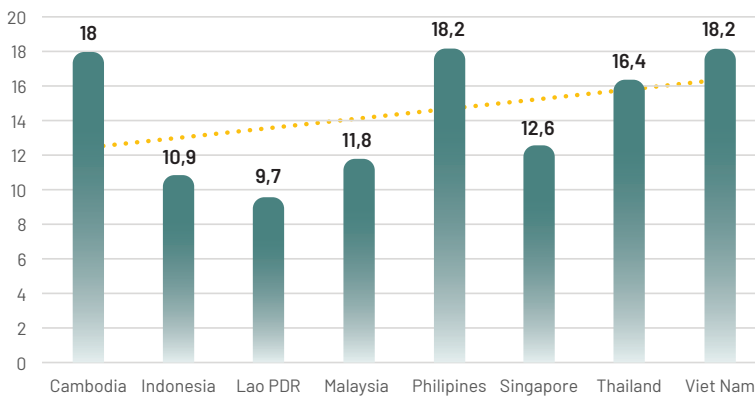


Over the 5 years period from 2018 – 2022, most ASEAN countries have suffered persistent budget deficits. Myanmar, Malaysia, the Philippines, Indonesia, and Laos DPR experienced such deficits in every year. Brunei Darussalam, Thailand, Vietnam suffered from budget deficit in 4 years and Cambodia suffered from budget deficit in 3 years. Singapore is the only exception country with only 1 year of budget deficit, and an average of budget surplus, with a budget ratio of 0.5% to GDP. This presents the same problem for most countries in the world, including ASEAN, where they suffered from a negative budget (Figure 5).



Figure 6 indicates that the average total tax revenue (% of GDP) of ASEAN region was much below the average of OECD in the year 2021, when the tax revenue of ASEAN is only at 14.46% of the region GDP, below half of that of OECD, which attained at 34.11%. Among that, Lao DPR is the country with the lowest percentage of tax revenue over its GDP at only 9.7%, approximately half of Vietnam, the country with the highest percentage tax revenue over GDP, at 18.22%.

**Figure 6. Total tax revenue of ASEAN countries, 2021 (% of GDP)**

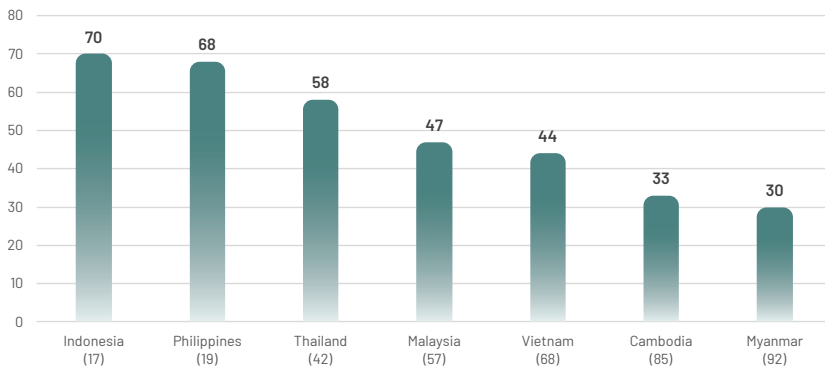


Note: Data for Myanmar and Brunei are not available in the year of 2022.

Source: OECD (2023)

In term of budget transparency, measured by the Open Budget Index (OBI), Indonesia has the highest level of budget transparency among ASEAN countries, with a score of 70 and ranking 17<sup>th</sup> out of 117 countries. Myanmar is still the lowest rank at only 92<sup>nd</sup>.

**Figure 7. Open Budget Index (OBI) scores and rankings for ASEAN countries, 2021**



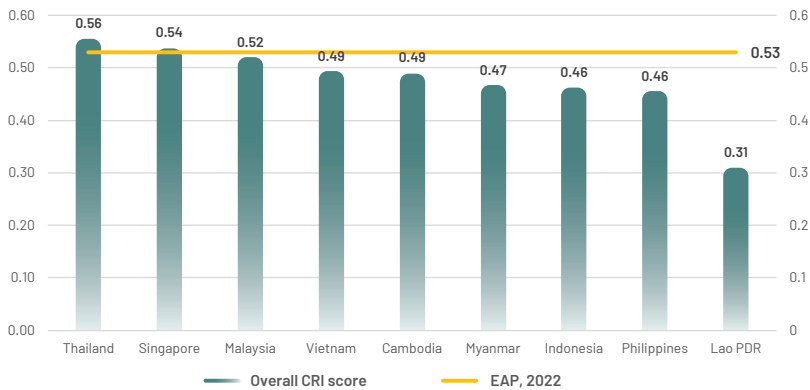
Note: No data available for Brunei, Laos, and Singapore

Source: International Budget Survey (2023)

### 3.2. Fiscal Policies to Tackle Inequality

Development Finance International (DFI) and Oxfam (2022) developed the Commitment to Reducing Inequality Index (CRII) to emphasize the key roles played by fair taxation, public spending on health, education, and social protection, and labor regulations in tackling inequality. All the ASEAN countries are ranked in the bottom half of this index. Within ASEAN, Thailand and Singapore have implemented the greatest number of policies aimed at addressing inequality and so had higher CRII scores than the average for the EAP region.

**Figure 8. CRII scores and rankings for ASEAN countries, 2022**



Source: DFI and Oxfam (2022)

According to the CRII pillar of progressive taxation, Singapore has the one of the most regressive tax systems among 161 countries assessed, ranking 132. Singapore, Malaysia and Thailand are among the bottom half of countries in the world in tax policy ranking (Table 4).





**Table 4. CRII scores for progressive taxation for ASEAN countries, 2022**

Country	Tax Policy	Tax implementation in practice	Impact of tax on income Gini	Standardized Tax Score	Tax rank
Cambodia	17	59	115	0.78	18
Vietnam	60	76	56	0.73	37
Thailand	72	44	122	0.67	39
Indonesia	24	109	57	0.66	44
Myanmar	13	138	96	0.58	79
Lao PDR	28	132	93	0.55	95
Philippines	32	136	95	0.53	104
Malaysia	96	108	79	0.47	119
Singapore	156	18	87	0.43	132

Note: No data available for Brunei. Sorted by tax rank

Source: DFI and Oxfam (2022)

Apart from utilizing progressive taxation to tackle inequality, a progressive budget spending on education, health and social protection is also a mean to deal with this problem (Table 5). Myanmar and Laos DPR are the still the two least developed countries in ASEAN region, ranking respectively 141<sup>st</sup> and 144<sup>th</sup> among 161 countries assessed. The budget expenditure of Thailand for education, health and social protection is approximately to be 49.71% of the country total budget spending in 2022, this is more than double than the spending on public services of Laos DPR at only 23.01%. In terms of world ranking, while Thailand and Malaysia are among the upper half of the overall countries assessed in government spending, Singapore only ranked 101<sup>st</sup> and belong to the lower level of the ranking.

**Table 5. CRII scores for progressive budget spending for ASEAN countries, 2022**

	Education spending as % total spending		Health spending as % total spending		Social protection as % total spending		Government spending on education, health and social protection	Impact of spending on income Gini		Progressivity of Public Services	
	(%)	Rank	(%)	Rank	(%)	Rank		Rank	Inci-dence	Rank	(%)
Thailand	12.14	101	15.45	23	22.12	65	59	-0.033	98	0.44	60
Singapore	16.48	46	11.90	69	5.59	132	101	-0.028	110	0.39	80
Malaysia	20.35	17	9.42	105	17.00	73	55	-0.021	126	0.36	89

	Education spending as % total spending		Health spending as % total spending		Social protection as % total spending		Government spending on education, health and social protection	Impact of spending on income Gini		Progressivity of Public Services	
	(%)	Rank	(%)	Rank	(%)	Rank	Rank	Incidence	Rank	(%)	Rank
Vietnam	14.82	70	10.22	91	17.79	71	83	-0.033	99	0.31	102
Philippines	15.55	59	9.33	108	15.10	81	94	-0.028	111	0.29	106
Indonesia	16.00	51	10.52	86	10.47	94	99	-0.022	123	0.26	112
Cambodia	17.57	33	9.35	107	7.04	113	106	-0.016	138	0.20	126
Myanmar	14.02	80	5.36	145	4.55	138	144	-0.009	155	0.16	141
Lao PDR	11.76	108	7.71	125	3.54	146	150	-0.016	137	0.15	144

Note: Spending as a percentage of total budget spending. No data available for Brunei.

Source: DFI and Oxfam (2022)

In sum, the fiscal situation for ASEAN countries is diverse, with some countries having more resources than others. Moreover, the fiscal policies of ASEAN countries are often uncoordinated, which can lead to negative externalities such as harmful tax competition. This can reduce the overall economic efficiency of the region and undermine its long-term growth prospects. For example, if one country in ASEAN reduces its corporate tax rate to attract foreign investment, other countries in the region may be forced to follow suit in order to remain competitive. This can lead to a “race to the bottom” in corporate taxation, which can reduce tax revenue for all ASEAN countries. In addition, uncoordinated fiscal policies can lead to macroeconomic imbalances within the region. For example, if some countries run large budget deficits while others maintain budget surpluses, this can lead to currency misalignments and capital flows that can distort trade and investment patterns. To address these challenges, it is important for ASEAN countries to improve their fiscal coordination.

The socio-economic disparities within ASEAN, which have been worsen by the pandemic, have ignited a pressing research focus: While acknowledging foreign direct investment’s (FDI) potential to fuel ASEAN’s post-pandemic comeback, a myopic focus on simply attracting investment through incentives rings hollow. By broadening our gaze beyond this “race-to-the-bottom” approach and critically examine a wider range of determinants along with a good governance, these could ensure that FDI would foster inclusive growth, not just a superficial economic rebound.

In light of the comprehensive understanding of regional dynamics, this research delves into the intricacies of foreign direct investment (FDI) attraction within ASEAN. It examines



all effective tax and non-tax incentives in member states, critically analyzes their planned responses to the forthcoming global minimum corporate tax, and exploring the intriguing link between FDI and gender equality. The ultimate objective of this research is to equip ASEAN policymakers with data-driven recommendations that dismantle the ineffective and costly “race-to-the-bottom” approach to investment incentives, while simultaneously providing strategic responses to the impending global tax landscape.

This research investigates critical questions surrounding the adjustment of investment incentives policies in ASEAN member states during the post-pandemic period. Our inquiry focuses on four key areas: Policy changes, FDI dynamics, Global tax minimum response, and investment and gender equality. First, this research would analyze and examine notable modifications to investment incentive policies within individual ASEAN countries since the pandemic’s outbreak and investigate how have these shifts in policy affected the socio-economic landscape of the ASEAN region. Second, this research would then study how the aforementioned policy changes affected the FDI flows into the ASEAN region generally, and its member states particularly. Third, regarding the implementation of the 2024 OECD Global minimum corporate tax, what are the responses and strategies of 10 ASEAN member states. Fourth, the relationship between investment incentives, FDI, and gender equality is then brought into the light, where gender equality may play a major role in attracting FDI. By answering these four focus areas, this study would provide recommendations and insightful ideas to policymakers, and researchers across ASEAN and the world, especially in the post-COVID era, to stop the race-to-the-bottom both regionally and globally of investment incentives.

This page intentionally left blank.





# 04

## Investment Incentives: Tax and Non-Tax Incentives for Foreign Corporation

This section endeavors to review the legal framework of each ASEAN country for investment incentives including both tax and non-tax incentives, focusing on foreign corporation. It will explore tax incentives such as tax exemptions, tax holidays, tax preference, tax deductions, and transferring losses forward, concurrently with some non-tax incentives that are implemented to attract foreign direct investment (FDI). This is necessary in the work of capturing an overall picture of investment incentives in ASEAN, especially in the COVID-19 recovery phase.

---

4.1. Legal Frameworks for Investment Incentives	25
4.2. Screening Investment Incentives in ASEAN Countries	26
4.3. Investment Incentives and FDI Flows	34
4.4. National Responses to the Upcoming 2024 OECD Minimum Tax Rates	38
4.5. FDI, Investment Incentives and Gender Equality	40

# 04

## Investment Incentives: Tax and Non-Tax Incentives for Foreign Corporation



This section endeavors to review the legal framework of each ASEAN country for investment incentives including both tax and non-tax incentives, focusing on foreign corporation. It will explore tax incentives such as tax exemptions, tax holidays, tax preference, tax deductions, and transferring losses forward, concurrently with some non-tax incentives that are implemented to attract foreign direct investment (FDI). This is necessary in the work of capturing an overall picture of investment incentives in ASEAN, especially in the COVID-19 recovery phase.

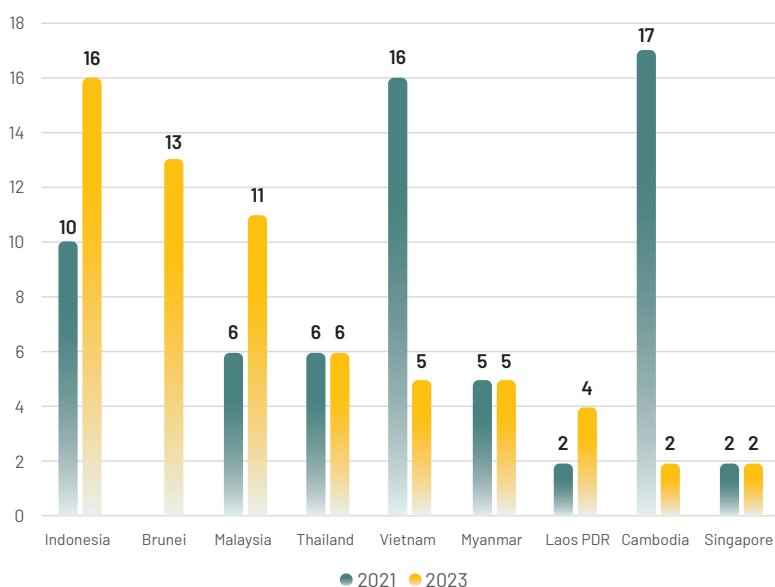
The findings of this section suggest that ASEAN countries offer a wide range of investment incentives to attract FDI. Tax incentives are the most common type of incentive, but non-tax incentives such as land grants, infrastructure development, and training programs are also widely used. The legal framework for investment incentives varies from country to country, but there are some general trends.

#### 4.1. Legal Frameworks for Investment Incentives

The legal frameworks for investment incentives are different for each country. Throughout the years, it is still considered to be challenging to harmonize the regional legal system due to two main reasons: the complexity of such system and the sovereignty of each country's legal system. In general, there are not many changes in the effective legal systems of each country for investment incentives. However, due to COVID-19, there are documents that had been implemented for "only" during the pandemic to maintain the economy's stability, but were then abolished.

Figure 9 indicates the number of effective legal documents relating to investment incentives in ASEAN countries, only counting their official laws and their sub-regulations. Singapore, Lao PDR and Cambodia only listed their official laws. Cambodia used to have the highest number of documents mentioning investment incentives at 17 documents in 2021, but due to the implementation of the new tax and investment law by synthesizing all previous documents into one, the number of documents of this country is now among the lowest, at only two.

**Figure 9. Number of effective legal documents on investment incentives and corporation taxation in ASEAN countries, 2021-2023**



Note: Data for Brunei is not available in 2021.

Source: Authors' review





## 4.2. Screening Investment Incentives in ASEAN Countries

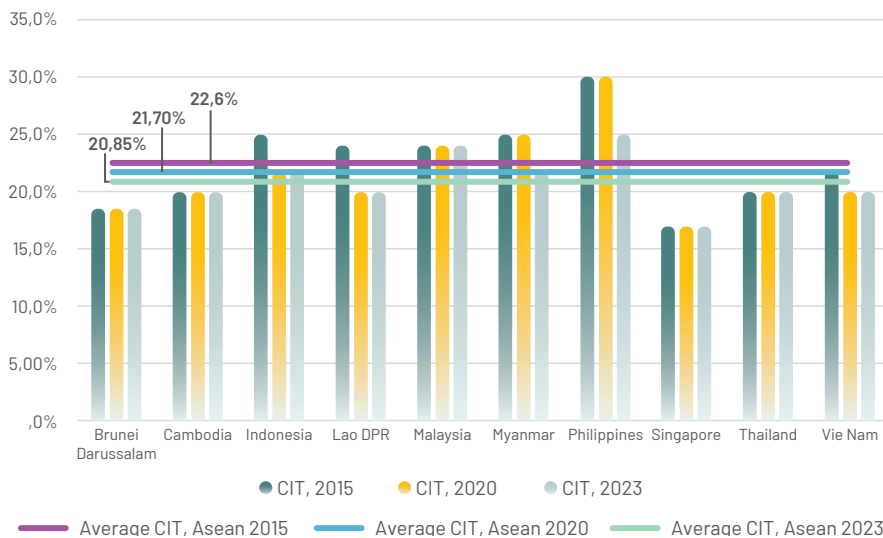
### 4.2.1. Standard corporate income tax rates

Corporate income tax, a direct levy on business profits, fluctuates across nations based on government goals, development levels, and economic makeup (Dezan Shira & Associates, 2018). The average standard CIT rate across the ASEAN region continues to decline attaining only 20.85% in the year 2023, 0.85% lower than the year 2020 (Figure 10).

Corporate income tax remains mostly unchanged across the region. Singapore is still gladly considered to be the ‘tax haven’ with the lowest CIT rates, at only 17%. Brunei follows as the second lowest, at 18.5%. The most common CIT rate in used in ASEAN is 20% where four countries including Vietnam, Laos DPR, Cambodia, and Thailand are implementing it after a racing period of CIT rates reduction over the last 10 years.

The three noteworthy mentions for changes in CIT rates occurred in Myanmar, the Philippines and Indonesia. In Myanmar, the CIT rates have reduced to only 22%, while in the Philippines, its CIT rates have reduced to 25% in 2023. In Indonesia, even though it was expected that the CIT rates would reduce to 20% starting from the year 2021, the law was then canceled and the CIT remain at a rate of 22%. It is suggested that these three amendments to the CIT rates of these countries may present a response to the pandemic. While the legislations in Myanmar and the Philippines are still in effect, the recovered post-pandemic conditions in Indonesia might be the reason why this reduction in CIT rates was stillborn. For other countries in the region, even though the CIT rates were not reduced, they still implemented several other counter actions in response to the pandemic such as giving out tax holidays, tax exemption, tax breaks as answer to the damaged economies.

**Figure 10. Standard CIT rates in ASEAN countries, 2015-2023 (%)**



Source: Authors' review and calculation

#### 4.2.2. Tax exemptions

For corporations in ASEAN, tax exemptions act as a powerful incentive, completely erasing their corporate income tax liabilities. Governments leverage this tool to promote investments in targeted economic activities aligned with their development goals (OECD, 2019a). In ASEAN, activities and sectors that enjoy tax exemptions are relatively diverse. Each country has their own standard so it is challenging to separate the types of tax exemptions into groups. However, it is indicated that there exist four main types of tax exemptions including: reinvestments, agriculture, selected services and trade activities, and scale of enterprise (Table 6).

**Table 6. Selected group of exemptions in ASEAN countries**

Category	Country	Exemptions
Reinvestment	Laos DPR	Investors who re-invest their net profit by adding business activities or expanding their business sizes shall receive one year profit tax exemption in the following accounting year based on the portion of their re-invested net profit. Expansion of investment and/or operation by investing additional capital shall also receive the same incentives.
	Myanmar	Exemption or relief from income tax if the profits obtained from the investment business is reinvested in the same business or in a similar type of investment business within one year.
	Indonesia	Indonesia provides an exemption from tax on branch profits if all the net profits after tax of a permanent establishment are reinvested
Agriculture	Vietnam	Income from farming, breeding, cultivation and processing of agriculture and aquaculture products, salt production of cooperatives; income of cooperatives engaged in agriculture, forestry, aquaculture, or salt production in disadvantaged areas or extremely disadvantaged areas; Income of companies from farming, breeding, cultivation and processing of agriculture and aquaculture products in disadvantaged areas; income from marine fisheries.

	Cambodia	The profit from the sale of agricultural product that a person who is not a real regime system of taxation taxpayer has produced by himself whether the produce is sold in its raw state or after transformations that are an extension of habitual agricultural work. Operations by industrial means including transformation, preservation, and commercial packaging are not considered part of habitual agricultural work
Services and trade	Malaysia	Full tax exemption may apply if activities are in promoted areas or high-tech sectors.
Scale of enterprise	Brunei	Companies that have gross sales or turnover of BND1 million or less are exempted from corporate income tax or charged with a 0% corporate income tax.
	Singapore	A partial tax exemption and a three-year start-up tax exemption for qualifying start-up companies are available.

*Source: Authors' review and classification*

In general, the policies regarding tax exemptions in ASEAN did not change significantly after the pandemic. This may present a race-to-the-bottom by ASEAN countries in terms of tax incentives, with potential negative consequences for regional tax revenues and economic cooperation.

The lack of change in tax exemptions policies suggests that ASEAN countries may be prioritizing their own immediate interests over the long-term sustainability of the regional economy. By maintaining or even expanding tax incentives, ASEAN countries may be inadvertently attracting investment away from each other, rather than collectively enhancing the region's attractiveness to foreign investors.

### 4.2.3. Tax holidays

Time-limited exemptions from specific taxes, such as corporate income or capital gains, are known as tax holidays (UNCTAD, 2000). While these can be valuable tools for governments to attract foreign direct investment and stimulate economic growth, their potential drawbacks include reduced tax revenue and concerns about unfairness to domestic companies.

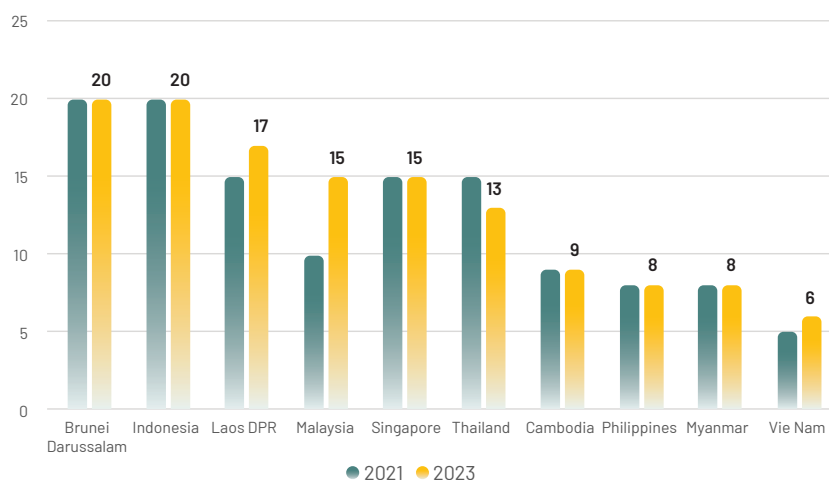
In ASEAN, the periods of tax holidays ranging from six to 20 years, with the average of approximately 13 years (Figure 11).

There have been several changes regarding the tax holidays applied by each country. Vietnam, Malaysia and Laos are the three countries increase the maximum period of tax

holidays: from five to six years in Vietnam, 10 to 15 years in Malaysia, 15 to 17 years in Laos. Laos and Vietnam using this expansion of tax holidays on investment in special economic zones, in Laos, or for business entity from the designated investment project, in Vietnam.

Thailand has a contradict approach regarding tax holidays whereas the maximum period for tax holidays in this country has been reduced to 13 years. This is due to the introduction of the Board of Introduction (BOI) 2021, this has been used to promote a fair competition between foreign investment and SMEs, startups in the country. The Thailand BOI has reported a steady growth in attracting foreign investors and fostering key industries within the country.

**Figure 11. Maximum period of tax holidays in ASEAN countries, 2021-2023 (Years)**



*Source: Authors' review of legal documents of ASEAN countries*

For other country in the region, they still maintain the maximum period for tax holidays, while there might be some changes in the conditions of, or extending tax holidays period for certain enterprises. In Philippines, under the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act introduced in 2020, the maximum tax holiday period for Enterprises registered under Investment Promotion Agencies (IPAs) is now seven years, up from five years under the previous law. Singapore, on the other hand, focusing on the regulation of pioneer industries, where it introduced several important amendments relating to tax incentives for pioneer industries in the EEIA (Amendment) Act in 2020.

#### 4.2.4. Tax preferences

The term “tax preferences” encompasses instances where certain companies enjoy lower standard corporate income tax rates, deviating from the typical tax system (UNCTAD, 2000). Tax exemptions are exclusive, while tax preferences are broadly available for certain business activities. However, these incentives come with conditions specific to each country.



Table 7 compares standard CIT rates to the CIT rates with the highest preferential levels in ASEAN countries. In general, there are only three changes regarding CIT preferences in the region, which is in Malaysia, Myanmar and Vietnam. In Malaysia, the new Finance Act 2023 was introduced involving the amendment of the Income Tax Act, which introduced a tax rate of 15% that specifically benefits qualifying Small and Medium-sized Enterprises (SMEs) and limited liability partnerships. In Myanmar, for the financial year of 2022-2023, in order to attract companies to join the Yangon Stock Exchange, the CIT rates have been adjusted to 17%. In Vietnam, a Decision introduced in 2021 mentioned that a tax rate of 5% shall be applied within a period of 37 years to incomes earned from activities of specific investments.

**Table 7. CIT rates and preferential levels in ASEAN countries, 2023**

Country	General CIT rate	CIT rate at highest preferential level	CIT rate changes at highest in compared to 2021 (percentage points)
Brunei Darussalam	18.5%	n/a	n/a
Cambodia	20%	0%	0%
Indonesia	22%	0%	0%
Laos DPR	20%	5%	0%
Malaysia	24%	15%	+15%
Myanmar	22%	17%	+4.5%
Philippines	25%	5%	0%
Singapore	17%	5%	0%
Thailand	20%	0%	0%
Vietnam	20%	5%	-5%

*Source: Authors' review of legal documents of ASEAN countries.*

While there have been a few recent changes to CIT preferences in the region, most countries have maintained their policies. These initial changes in both Malaysia and Myanmar are encouraging signs that ASEAN countries are willing to adapt their policies to attract businesses. However, more needs to be done to create a truly business-friendly environment in the region.

#### **4.2.5. Tax deductions**

To reduce their tax burden, companies are allowed to deduct certain expenses, such as those related to labor, from their income before calculating the final amount owed. This

often leads to businesses stretching the rules to maximize their deductions (UNCTAD, 2000).

Despite the global pandemic, ASEAN countries have largely maintained their tax deduction policies. Cambodia, Malaysia, Singapore, and Thailand continue to offer additional tax deductions for activities related to small and medium-sized enterprises (SMEs), training, research and development (R&D), exporting, and overseas expansion. Notably, Thailand's Revenue Code provides a 100% tax deduction for R&D expenses related to technology and innovation. Additionally, the Promotion Act of 1977 offers double deductions for transportation, electricity, and water supply costs, as well as a 25% deduction for facility installation or construction costs.

Vietnam and the Philippines maintain their deductions for labor expenses. Vietnam provide tax incentives for enterprises that employ a large amount of female employees or ethnic worker. The Philippines's registered enterprises are eligible for an additional deduction of 50% of the wages corresponding to the increment in the number of direct labour for skilled and unskilled workers, if the project meets the prescribed ratio of capital equipment to number of workers.

Indonesia while has no significant changes in tax policy, issued a new regulation in 2022 which stipulates a relaxation in terms of replacement tax invoices on tax invoices for 2021 and 2022. In the regulation, it is specified that the deadline for reporting replacement tax invoices has been extended to no later than December 31, 2022, and then extended again to December 31, 2023. The benefit of this relaxation is that it provides leeway to taxpayers to fulfill the obligation to report replacement tax invoices without having to rush. This can help taxpayers to be more orderly in complying with tax regulations and avoid potential penalties or penalties due to late reporting.

According to Warlina et al (2021), tax deduction is very important to protect sustainable agricultural land, the government provides incentives, namely tax reductions, provision of agricultural infrastructure, subsidies for agricultural production facilities, and land certification facilities. In addition, this relaxation can also help the government in obtaining more accurate data related to tax transactions, which can be used for the purpose of more effective tax planning and supervision. Thus, this regulation has a positive impact in facilitating a more efficient and orderly taxation process.

#### **4.2.6. Transferring losses forward**

While Singapore is still providing an indefinite period for transferring losses forward, Malaysia has implemented a new document: the Inland Revenue Board of Malaysia (IRBM) Public Ruling No.1/2022 on the limit of the carry forward of unabsorbed losses to a maximum of 10 years, not restricting to 7 years as mentioned in the Finance Act 2021. After this 10-year period, any unutilized business loss will no longer be considered for tax purposes. This

extension grants businesses a more extended opportunity to offset losses against future income, enhancing their financial flexibility. Malaysia's regulations in this regard might impact foreign investment in Malaysia and be perceived as less favorable compared to its neighboring countries (KPMG, 2022).

**Table 8. Transferring losses forward in ASEAN countries**

Country	Maximum transfer period (years)	Change in compared to 2021 (years)
Brunei Darussalam	6	From n/a to 6 years
Cambodia	5	0
Indonesia	10	0
Laos DPR	3	0
Malaysia	10	From indefinitely to 10 years
Myanmar	5	0
Philippines	5	-1
Singapore	Indefinitely	0
Thailand	5	0
Vietnam	5	0

*Source: Authors' review*

The Philippines also made changes to the transferring losses forward policies, the now maximum transfer period is only five years. Based on the disastrous impact of Covid-19, the Philippines's government issued Republic Act (RA) 11494 which extended the allowable net operating loss carry over (NOLCO) period to the next five years following the years of the loss for losses incurred during taxable years 2020 and 2021. Since 2022, the NOLCO period reverts to three years as regulated in The Corporate Recovery and Tax Incentives for Enterprises Act (Create) or RA 11534 (amended Section 294(C)(8)) of the Tax Code. Furthermore, NOLCO will be allowed only if there has been no substantial change in the ownership of the business or enterprise.

For other economies, equivalent to Malaysia, Indonesia still offers a 10-year maximum for transferring losses forward to companies in certain designated business areas or in certain designated regions. In Brunei, companies are obliged to carry forward operating losses for 6 years following the relevant tax year, while in Vietnam, Thailand, Myanmar and Cambodia, the losses may be carried over for a maximum period of five years.

#### 4.2.7. Other tax incentives

Along with other mentioned tax incentives, each economy in the region provides different types of tax incentives such as tax credits, investment allowances, and depreciation allowances.

Tax credits are a common form of tax incentive offered by governments to reduce the tax burden on individuals and businesses. In ASEAN, these credits played a significant role in shaping the economic landscape of each country. In Indonesia, the super deduction facility is available to businesses in labor-intensive industries, as well as those that invest in human resources development and R&D activities in Indonesia as per indicated in Regulation No. 16/PMK.010/2020. The Philippines also introduced several types of tax credits in the Executive Order Number 226 including the tax credit on domestic capital investment, on domestic breeding stocks and genetic materials, and for taxes and duties on raw materials.

In the case of investment allowances, Singapore, which is considered to be tax haven, offers a variety of investment allowances where eligible companies may be granted allowances of up to 100% of certain capital expenditures on top of normal capital expenditures for approved projects. The mergers and acquisition (M&A) allowance indicates that companies can write off 25% of the value any acquisition's assets, liabilities, or other properties between 1 April 2010 and 31 December 2025. The 2016 Law on Investment Promotion of Lao PDR indicates the benefits that investors can enjoyed including exempted from customs duty and VAT on the import of materials and equipment that cannot be supplied or produced in Laos PDR, also allowed to borrow from commercial banks and other financial institutions operating in the Lao PDR, as well as overseas, in accordance with relevant laws.

Depreciation allowances imply that investment outlays can be deducted from taxable income within a certain of time period. In Brunei, businesses can depreciate their fixed assets over their useful lives as indicated in Laws of Brunei ITA. This allows businesses to recover the cost of their fixed assets over time and match depreciation expense with the economic benefits derived from the assets. Myanmar has a policy for higher depreciation rates which was introduced in the Investment Law 2016, which may be allowed to start from the date of commercial operation. This is also similar to the case in Vietnam where accelerated depreciation is applied allowing businesses to depreciate their assets at a faster rate than usual accelerates the recovery of their investment costs, increasing their cash flow and improving their financial position.

#### 4.2.8. Non-tax incentives

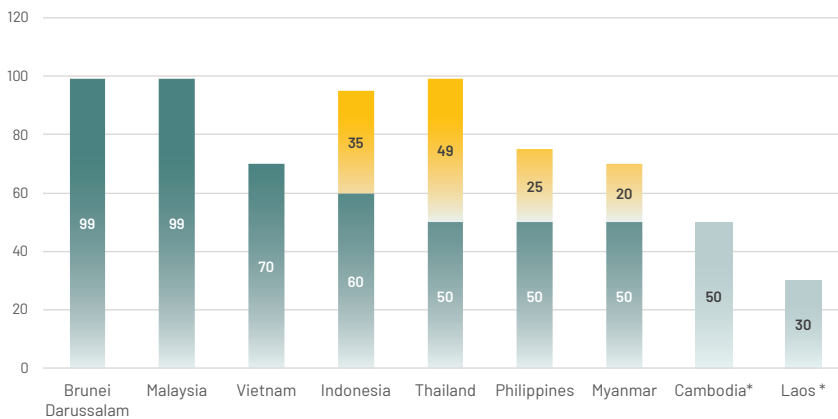
Aside from using tax incentives to attract foreign investors, the use of non-tax incentives to attract potential investors has been widespread among ASEAN region, this has been presented by land incentives (VEPR, 2020). Brunei, Malaysia, Indonesia, and Thailand offer a long leasehold period, nearly 100 years (Figure 12). In addition to offering a long lease



period, countries also offer rent exemptions and reductions in specific areas as in the case of Vietnam and Laos, where rents can be exempted for up to 15 years from the start of the projects, applied for the projects in encouraged sectors and areas with difficult socio-economic conditions.

**The competition among ASEAN countries to offer enticing land incentives is widening the socioeconomic gap, and the lack of transparency in granting land incentives in Cambodia, Laos, and Myanmar is fostering corruption and rent-seeking behavior.**

**Figure 12. Maximum length of land lease (including extension) in ASEAN countries (years)**



Note: Extension of expiring land lease in Cambodia and Laos is approved on a case-by-case basis. Blue shows the longest period for leasing land. Orange represents the possibility of extending the land lease for an additional period.

*Source: Author' review and classification*

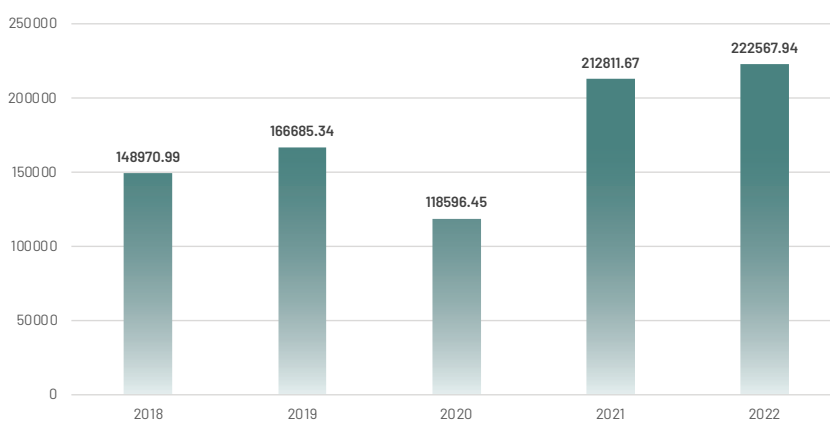
### 4.3. Investment Incentives and FDI Flows

The growing allure of the Association of Southeast Asia Nation (ASEAN) as a dynamic and competitive hub for FDI has recently become more evident. Among the key factors fueling this FDI influx is the intense competition among ASEAN member countries to attract foreign investors through a range of investment incentives include tax and non-tax incentives.

The proliferation of tax incentives across ASEAN has undoubtedly contributed to the region's growing appeal to foreign investors. However, this competitive landscape has also raised concerns about the potential for a race to the bottom, where countries may engage in excessive tax cuts to outbid their neighbors, leading to a loss of government revenue and potential fiscal instability (VEPR, 2020).

Foreign direct investment (FDI) inflows into ASEAN have exhibited signs of recovery in the aftermath of the COVID-19 pandemic. In 2021, as the pandemic's grip began to loosen, the region experienced a surge of approximately 79% in FDI inflows, following a relatively modest decline of 28% the previous year (Figure 13). This indicates that the region has received a significant boost of new FDI in the post-COVID era, which is similar to the world situation in the year of 2021. While the resurgence of FDI offers a glimmer of hope for global economic recovery, the continued inflow of FDI into ASEAN despite unchanged incentive policies during the COVID-19 pandemic suggests that tax and non-tax incentives may not be the primary drivers of FDI in the region. Instead, factors such as a conducive business environment, market size, healthcare infrastructure, and quality primary education may have a more significant impact on attracting foreign investment.

**Figure 13. Total FDI inflows into ASEAN region, 2018-2022 (million dollars)**



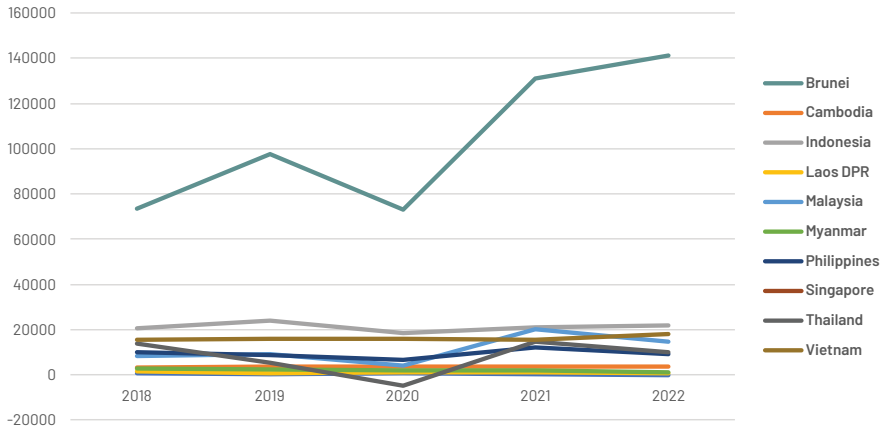
*Source: UNCTAD (2023)*

The COVID-19 pandemic had a significant impact on FDI inflows into ASEAN economies, with eight out of ten countries experiencing a decline in 2020. The remaining two countries only recorded a marginal increase in FDI inflows (Figure 14). This indicates that the pandemic had a widespread and detrimental impact on ASEAN's ability to attract foreign investment. Examining each ASEAN member states in detail after the stimulating boost of FDI, even though the total FDI inflows of the region increased in 2022, the FDI inflows of several countries had significant fell off including Brunei, Laos DPR, Malaysia, Myanmar, Philippines,



and Thailand. In general, the drop ranging from 20 to 50% of the FDI from previous year, but Brunei recorded a disastrous drop of over 240% and was the only country in ASEAN enjoyed a negative inflow of FDI in 2022. For other nations, they experienced negligible increases of FDI: at maximum 14.3% in Vietnam, 7.67% in Singapore, 3.9% in Indonesia, and at minimum 2.7% in Cambodia.

**Figure 14. FDI inflows into ASEAN Member States 2018-2022 (million dollars)**



Source: UNCTAD (2023).

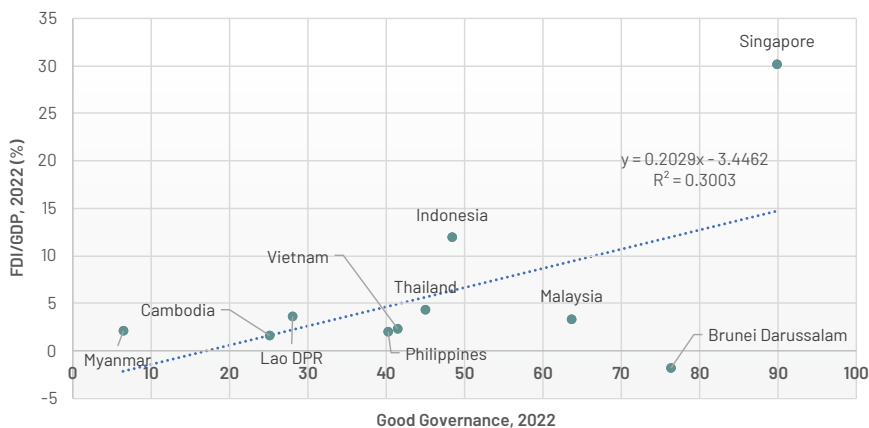
The loss of net inflow FDI in Brunei Darussalam is indeed quite alarming because attracting FDI has been one of the economic goals under the document of Brunei Vision 2035. On the other hand, despite the global economic downturn and economic uncertainty caused by the pandemic, the increasing FDI, even though minimal, occurred in countries such as Vietnam, Singapore, Indonesia, and Cambodia. Singapore is the country with the highest percentage of FDI bounce back, exceeding pre-pandemic investment levels at approximately doubled the FDI inflows before the COVID-19, while Vietnam show a consistency in the FDI flows even during the pandemic, attracting at least 15,000 million dollars per year over the period. This may suggest the stability and economic positive prospects of these economies despite the pandemic negative effects.

To assess the correlation between FDI/GDP and its explanatory variables, an Ordinary Least Square (OLS) regression has been carried out. The test aimed to measure the relationship between good governance score as well as estimated incentives gap to the ratio of FDI to GDP. This would help us understand whether there exists an effect of the independent variables to the foreign direct investment attraction. Statistical analysis suggests an uncertain statistically significant between FDI/GDP and good governance, as well as between FDI/GDP (Figure 15) and the estimated incentives gap (Figure 16). The correlation coefficients also suggest that there is a high correlation between FDI and Good Governance at 0.69, while there is almost no correlation between FDI and Incentives gap at -0.065. The



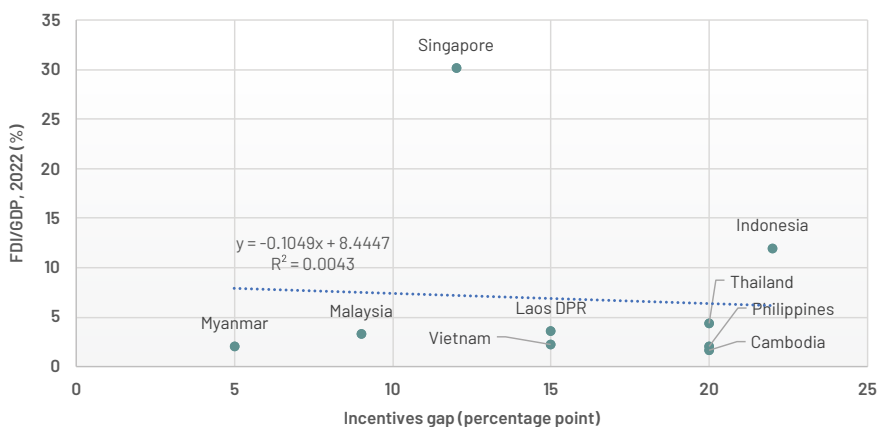
sign of the coefficients might suggest a negative influence tax incentives gap to FDI/GDP. Traditionally, reduced incentives gap is expected to attract more FDI, leading to a higher FDI/GDP ratio. This unexpected result could be attributed to the lingering effects of the COVID-19 pandemic, as FDI has surged rapidly into the region, while governance requires a longer period to recuperate.

**Figure 15. FDI and Good Governance in ASEAN countries, 2022**



Coefficient for good governance: 0.2029  
(P-value = 0.1 > 0.1)

**Figure 16. FDI and Incentives Gap in ASEAN countries, 2022**



Coefficient for incentives gap: -0.1049  
(P-value = 0.8 > 0.1)

Note: An ordinary least square (OLS) technique has been employed to regress FDI/GDP by good governance and tax incentives gaps in the ASEAN region.

*Source: Authors' calculations, from World Bank (2023)*



#### 4.4. National Responses to the Upcoming 2024 OECD Minimum Tax Rates

A global effort to prevent a “race to the bottom” is embodied in the Pillar Two initiative within the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), known as the Global Anti-Base Erosion (GloBE) rules. These regulations establish a global minimum tax rate of 15% on large MNEs. As of November 15, 2023, six ASEAN members (Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam) have announced the implementation of the GloBE rules. The standard CITs in all ASEAN nations are above 15% (OECD Pillars, 2022). However, due to the application of low-tax preferences, tax exemptions, and reductions for a certain period, MNEs will enjoy a lower actual tax rate. For example, some MNEs in Vietnam are subject to an actual tax rate of 6% to 8% during the preferential period, lower than the minimum tax threshold of 15% (Vu Sy Cuong, Luu Huyen Trang, 2023). This necessitates amendments to domestic tax policies in alignment with the GloBE rules. Despite no policy changes regarding the OECD global minimum tax rate, ASEAN countries have taken some actions and proposed draft regulations to respond to these rules (Table 9). While Indonesia and Vietnam will implement the rules from 2024, Malaysia, Singapore and Thailand will defer the implementation to 2025.

**Table 9. GloBE Implementation of ASEAN’s countries**

	BEPS's member	Implementation status	Implementation plan	Actions
Cambodia	No			
Lao PDR	No			
Myanmar	No			
Brunei	Yes	Undefined		
Indonesia	Yes	Partial Enactment	2024	<ul style="list-style-type: none"> <li>12/2022: Issue regulation No. 55/2022 (PP-55) concerning adjustment of regulation on Income Tax.</li> <li>5/2022: Confirm to implement the two-pillar solution.</li> </ul>
Malaysia	Yes	Draft Law	2025	<ul style="list-style-type: none"> <li>11/2023: Issue Finance (No. 2) Bill 2023, introduce new Part XI under Malaysian Income Tax Act, 1967 (MITA) for the imposition of DTT and MTT and the implementation of the GloBE Rules.</li> </ul>

				<ul style="list-style-type: none"> <li>10/2023: Confirm to implement the Pillar Two rules by 2025 during 2024 Budget Announcement.</li> <li>2/2023: Revised 2023 Budget, inform the implementation of the QDMTT and GMT</li> <li>10/2022: Release 2023 Budget, reaffirm the commitment to implement GloBE rules.</li> <li>8/2022: Launch public consultation on the implementation of GloBE rules.</li> <li>6/2022: Release 2023 Pre-Budget Statement, commit to implement the GloBE rules.</li> </ul>
Philippines	Yes	Com-mentary	Unde-fined	11/2023: Be a member of BEPS
Singapore	Yes	Proposal	2025	<ul style="list-style-type: none"> <li>2/2023: Release 2023 Budget, confirm to implement GloBE rules and QDMTT by 2025.</li> <li>2/2022: Release 2022 Budget, consider a 15% domestic minimum top-up tax,</li> </ul>
Thailand	Yes	Proposal	2025	<ul style="list-style-type: none"> <li>5/2023: Introduce measures to alleviate the impact of GloBE on Thailand's investment appeal.</li> <li>3/2023: Approve in principle to collect a global minimum tax in Thailand to align with the GloBE rules.</li> </ul>
Vietnam	Yes	Ap-proved	2024	<ul style="list-style-type: none"> <li>11/2023: Adopt Resolution align with GloBE rules on minimum corporate income tax from 1/1/2024</li> <li>8/2023: Release the draft Resolution to seek public' comments.</li> <li>7/2023: The Ministry of Finance submitted to the Government a draft Resolution on Global Minimum Tax policy scheduling to be effect from 2024.</li> <li>3/2023: Seek public comments on the proposal to amend the Corporate Income Tax Law.</li> <li>3/2022: Issue Resolution 31/2023/NQ-CP to Speed-up Global Minimum Tax.</li> </ul>

				<ul style="list-style-type: none"> <li>8/2022: Establish a special working group of the Prime Minister to research and propose solutions related to the OECD's global minimum tax (Decision No. 55/QĐ-TTg)</li> </ul>
--	--	--	--	---

*Source: Authors' synthesis from OECD Pillars (2023), WTS (2023), EY (2023)*

As ASEAN countries have employed various tax incentives, including tax exemptions (e.g., tax holidays), tax deductions, and tax allowances, these incentives are likely to be significantly impacted by the implementation of the GloBE rules (Bradbury, 2022). In addition to tax incentives, ASEAN members have also implemented a range of strategies to maintain their competitiveness, such as accelerated depreciation (Vietnam), a commitment to a liberal economy, efficient governance (Singapore), and high-quality infrastructure (Indonesia). As tax incentives will likely become less effective in attracting FDI in the near future, it is crucial to explore and implement alternative incentives to maintain ASEAN's attractiveness as an investment destination for MNEs. Additionally, given that the global minimum tax rate applies to large MNEs, most domestic SMEs will not be affected by this rule tax incentives for individual businesses. However, small enterprises involving in the value chain of a large MNEs may also be indirectly affected.

While the GloBE rules appear to yield greater advantages for developed countries that host the headquarters of major MNEs, other initiatives, notably the United Nations Convention on tax (UNCT), have been launched to promote the reform of the international corporate tax system, prioritizing the interests of developing countries (UNCTAD, 2022). Given that a huge number of countries are not in the OECD's framework, ASEAN's members should consider to participate in the UNCT to strengthen international cooperation and governance on tax (OECD, 2023).

#### 4.5. FDI, Investment Incentives and Gender Equality

The relationship between FDI and gender equality has become a topic of significant interest, as it explores the potential for FDI to either encourage or discourage gender equity across various economic and social realms. While FDI holds the possibility of promoting gender equality over time by enhancing incentives for women to enhance their skills, wage disparities between men and women should be considered (Stolzenburg et al., 2020).

The Association of Southeast Asian Nations (ASEAN) is also not immune to the relationship between foreign direct investment (FDI) and gender equality. While FDI has undoubtedly played a role in ASEAN's economic prosperity, its impact on gender equity remains a topic of ongoing discussion and criticism. Moreover, investment incentives aimed at attracting FDI could play a crucial role in achieving gender parity goals. However, the "race-to-the-



bottom” incentives of ASEAN nations could negatively impact gender equality, as these incentives lead to lower public revenues, which are essential for promoting gender equity and women’s rights through investments in healthcare, education, and childcare. If left unaddressed, this issue could pose a significant challenge to gender equality in ASEAN, yet policies addressing this issue are practically nonexistent among ASEAN member states.

**Table 10. Brief review of ASEAN and its Member States on legislation on gender equality**

Regional	ASEAN has adopted Regional Plan of Action on Women, Peace and Security in 2022, which committed to gender equality and the full protection of women’s rights
National	Constitutions of ASEAN countries typically enshrine fundamental principles of gender equality, prohibiting discrimination based on sex and guaranteeing equal rights and opportunities for women on all aspects including employment opportunities and women’s entrepreneurship.

*Source: Authors’ review and synthesis*

It can be seen that investment incentives are not specifically designed for women, but they can benefit from them just like men. There might exist some minor case like Malaysia where there exists a gender-oriented tax policy that offers women a 12-month break from income tax if they return to work after at least two-years career hiatus, but this policy only considered from an individual benefit view. The investment incentives tax in the region are not explicitly biased towards men and women, but there is still some gender-specific issues that need to be addressed. For example, the Income Tax Act in Singapore does not recognize the contributions a wife may make to a family business, and until 2009, the income from any property owned by a married woman living with her husband was considered to belong to the husband.

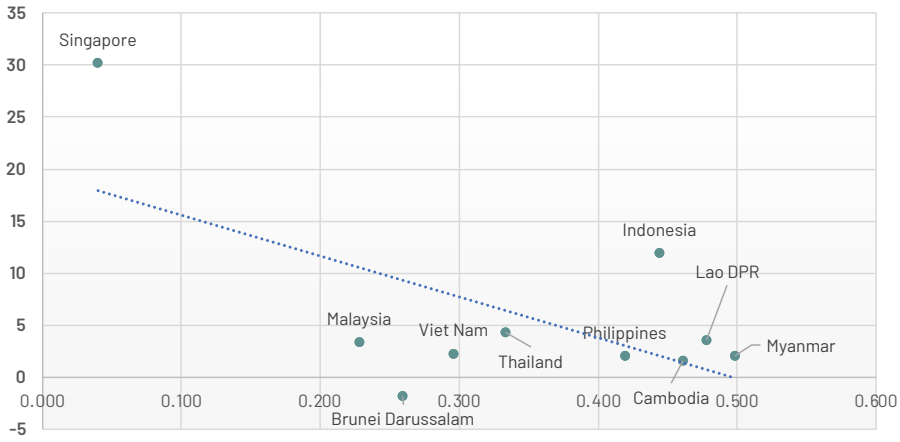
Figure 17 illustrates a negative correlation between the percentage of foreign direct investment (FDI) and the Gender Inequality Index (GII) (UNDP, 2021). This implies that countries with lower GII scores, signifying lower levels of gender inequality, tend to attract higher FDI inflows. Singapore stands out as a prime example. Ranked first in both categories within the region, it boasts a high level of gender equality alongside significant FDI inflows. The Ordinary Least Squares (OLS) regression analysis further corroborates this negative association between gender inequality and FDI.

This suggests that a country’s commitment to reducing gender inequality might be a crucial factor influencing foreign investors’ decisions to invest in that particular country. In essence, the analysis suggests that promoting gender equality could be a strategic move for countries seeking to attract foreign investment.





**Figure 17. FDI and Gender Inequality Index in ASEAN countries, 2022**



Coefficient for gender inequality index:  $-39.25$   
(P-value =  $0.058 < 0.1$ )

Note: An ordinary least square (OLS) technique has been employed to regress FDI/GDP by gender inequality index (GII) in the ASEAN region.

*Source: Authors' calculations (UNDP, 2021)*

This page intentionally left blank.







# 05

## Conclusion

---

Tax preference policies in ASEAN, which are diverse and dynamic, reflect countries' desire to adjust their policies in order to attract business. Although some countries made changes, most maintained existing policies. This suggests that there is a balance between the need for innovation in tax policy and the desire to maintain fiscal stability.



# 05

## Conclusion



This research reveals the complex and diverse dynamics of tax incentives in ASEAN countries, especially in the context of the COVID-19 pandemic. While some countries adjusted their tax policies in response to the pandemic, others remained unchanged. This shows the differences in fiscal strategies in the region. Interestingly, Corporate Income Tax (CIT) in the region averages around 20%, indicating the potential for harmonization in tax rate setting that can provide certainty to investors and businesses.

This consistency can also be seen in the Tax Exemption policy which has not experienced significant post-pandemic changes in ASEAN countries. This shows that, despite global economic pressures, the region remains committed to a stable fiscal policy. However, when we move to a Tax Holiday policy, we see greater variability. With incentive durations from 6 to 20 years, averaging 13 years, this change in policy, especially the lengthening of the time span, appears to be an attempt to attract further investors.

Tax preference policies in ASEAN, which are diverse and dynamic, reflect countries' desire to adjust their policies in order to attract business. Although some countries made changes, most maintained existing policies. This suggests that there is a balance between the need for innovation in tax policy and the desire to maintain fiscal stability. In addition, Tax Deduction policies are largely maintained, with some countries offering additional

tax deductions for certain activities, indicating consistent support for certain business activities, such as SMEs, R&D, and international expansion.


In the context of Transferring Losses Forward, there are significant differences in approach among ASEAN countries. While some countries such as the Philippines experienced policy changes after the pandemic, Singapore continued to implement indefinite transfer periods. It shows how each country responds to fiscal crises in different ways. Other tax incentive policies, such as the Tax Credit and Investment Allowance in Singapore, as well as the Merger and Acquisition Relief, show how each country seeks to shape a conducive economic landscape through their fiscal policies. In Brunei, the Depreciation Allowance allows businesses to depreciate their fixed assets, reflecting policies designed to support long-term business growth.

In terms of non-tax incentive, land incentives are becoming popular in ASEAN. However, the provision of these incentives is often related to transparency issues and can encourage corruption, especially in countries such as Cambodia, Laos, and Myanmar. These land incentives are applied to projects in driven sectors and areas with difficult socioeconomic conditions. Competition between countries to offer attractive land incentives demonstrates the complex socioeconomic dynamics in the region.

The study also found that the COVID-19 pandemic affected Foreign Direct Investment (FDI) entering ASEAN. However, the importance of tax incentives in attracting FDI cannot be considered as the only determining factor. There is a negative correlation between FDI and the tax incentive gap, which shows that other factors such as ease of licensing, legal certainty, and support for company development are also very important. This suggests that a holistic strategy covering multiple aspects of regulation and business support is needed to attract sustainable investment.

Finally, the study addresses global efforts to prevent a “race to the bottom” in tax practices through the OECD/G20’s Pillar Two initiative on Base Erosion and Profit Shifting (BEPS). Although the six ASEAN members have announced the implementation of GloBE rules with standard CIT above 15%, the practice of low tax preference, exemptions, and deductions for certain periods still allows Multi-National Enterprises (MNEs) to enjoy lower actual tax rates. While there have been no significant policy changes regarding the OECD global minimum tax rate, ASEAN countries have taken steps to respond to these rules, reflecting their readiness to adapt to changes in global tax policy.

Based on the findings, This research has shed light on two key factors influencing a sustainable investment environment of ASEAN including: the revision of ASEAN tax incentives and, the implementation of the new OECD global corporate minimum income tax.



### **Revision of ASEAN Tax Incentives: Toward a New Sustainable Tax Landscape**

The revision of ASEAN tax incentives systems marks a significant shift in the region's economic landscape. While the initial focus on attracting foreign investment through generous tax breaks served its purpose for a period, the new era demands a more balanced approach. Each nation must carefully assess its own economic goals, development priorities, and fiscal constraints. However, by embracing a strategic approach that prioritizes sustainability, fairness, and regional collaboration, ASEAN can successfully navigate this critical juncture and foster a more robust and equitable economic future.



### **Implementation of the New OECD Global Minimum Tax: Toward Global Tax Fairness**

The new OECD Global Minimum Corporate Income Tax is a bold step towards a fairer and more equitable global tax system. While challenges remain, the potential benefits to governments, companies and citizens around the world are undeniable. By working together and addressing emerging issues, the international community can ensure that this important initiative delivers on its promise to create a more equitable and sustainable global economic environment. However, the new global minimum corporate income tax is still too low in favor of developed countries, risking a race-to-the-bottom phenomenon. The provision of minimum standards by the OECD should

be aligned with the UN Tax Convention. Doing so will provide an equal and more direct platform for small states to participate in discussions and negotiations. As such, developing countries can use their voice at the UN and actively engage with the OECD to ensure that their concerns are heard, and their interests are heeded in shaping a more fair and equitable global tax system.









# 06

## Recommendations

---

Together with ASEAN's economic prosperity, it needs to be ensured of the sustainable and inclusive characteristics. This requires a comprehensive approach that promotes not only economic development but also environmental sustainability and social well-being.



# 06

## Recommendations



Together with ASEAN’s economic prosperity, it needs to be ensured of the sustainable and inclusive characteristics. This requires a comprehensive approach that promotes not only economic development but also environmental sustainability and social well-being. In order to achieve this balance, ASEAN member states must adopt policies and practices that foster a sustainable investment environment, which is one that attracts FDI that contributes to economic growth, environmental protection, and social progress. However, due to the diverse economic, political, and social contexts of ASEAN member states, crafting a set of universal recommendations that effectively address the issue of the ongoing race-to-the-bottom investment incentives. While common themes and principles can be outlined, tailoring recommendations to the unique circumstances of each ASEAN nation is essential to ensure their relevance and effectiveness.

In light of this, this report recommends that ASEAN countries take the following actions.

### **Recommendation 1: Harmonization of Tax Policies and Regulations**

We recommend that the ASEAN Forum on Taxation (AFT) take the lead in initiatives to establish a regional minimum corporate tax rate of 25%, a significant increase from the OECD standard of 15%. This measure aims to prevent a “race to the bottom” and protect

national tax revenues across ASEAN. By standardizing tax types, rates, and bases, the AFT can ensure a fair distribution of tax burdens and promote equality among member states. This approach requires strong collaboration and unwavering commitment from each ASEAN government, which is crucial for creating a harmonious tax system that eliminates opportunities for tax arbitrage and minimizes differences in tax regimes. Additionally, enhancing cooperation through double taxation agreements (DTAs), improving tax and customs information exchange, and better governance in tax and customs administration are critical. These coordinated actions will enhance the region's economic stability and fairness, ensuring that ASEAN remains competitive while maintaining fair tax practices. The journey towards a harmonized tax system requires collaboration and firm political commitment from ASEAN member countries. Despite potential challenges, by agreeing on common tax principles, aligning tax rates, and closing loopholes, ASEAN can build a strong and fair tax framework that benefits all parties. These steps are expected not only to strengthen the regional tax framework but also to drive more inclusive and sustainable economic growth throughout the region.

### **Recommendation 2: Adopt a Minimum Corporate Tax Rate in Line with the UN Tax Convention**

We recommend that the ASEAN Forum on Taxation (AFT) consolidate ASEAN members to support the UN Tax Convention as a platform that ensures all countries, including ASEAN members, have an equal say in establishing international tax rules, which currently tend to benefit developed countries predominantly. There is concern that the 15% minimum corporate tax rate under the Base Erosion and Profit Shifting (BEPS) initiative favors developed nations, largely because global tax policy changes, especially those initiated by the OECD, are often formulated among developed countries and later announced to developing OECD member countries. This step is critical in addressing global tax avoidance and promoting the creation of a fairer international tax system.

Adopting a minimum corporate tax rate aligned with the UN Tax Convention will ensure that international tax policies are more inclusive and equitable. This alignment will strengthen the position of developing countries in global tax negotiations and ensure that their interests are fairly represented in discussions that shape the future international tax framework. In this regard, the AFT has a critical role in promoting equality and transparency in global tax settings, which will ultimately strengthen the integrity of the international tax system and reduce tax avoidance practices that disadvantage many countries.

The proposed framework, with a more significant role for the UN, will enable developing countries to actively influence discussions on global tax cooperation. This shift will ensure a more balanced and fair representation of developing countries in the global tax system.

Through active engagement and collaboration between ASEAN, the UN, and other developing nations, this new framework can be utilized to:

- Ensure that developing countries have a voice in shaping global tax policies.
- Provide technical assistance and resources to developing countries for the effective implementation of tax reforms.
- Establish mechanisms that guarantee a fair distribution of the revenue generated by the minimum corporate tax rate.

### **Recommendation 3: Developing a Comprehensive Investment Approach**

ASEAN member states should develop a comprehensive investment approach by reviewing and optimizing tax and non-tax incentives to ensure that these measures effectively attract high-quality and sustainable investments. Tax incentives alone may not suffice to attract significant foreign investment; therefore, the focus should also be extended to non-tax incentives. This includes simplifying licensing processes, developing robust infrastructure, and providing substantial business support to create an attractive investment climate.

Additionally, it is crucial to expedite dispute resolutions and ensure strict adherence to contracts and agreements, enhancing the business environment's reliability and attractiveness to foreign investors. This strategic approach will not only increase foreign direct investment (FDI) but also ensure that the investments are beneficial in the long term, contributing to sustainable economic growth. By aligning tax policies with comprehensive non-tax measures, ASEAN can foster a more competitive and attractive regional market for global investors, strengthening the region's economic resilience and promoting broader economic development. This methodical enhancement of both tax and non-tax incentives is essential to meet the dynamic demands of the global business and investment communities, thereby positioning ASEAN as a premier investment destination.

# References

- Accounting Solutions Singapore. (2022). Tax exemption scheme for startup companies. AccountingSolutionsSingapore.com. Retrieved October 26, 2023, from <https://www.accountingsolutionssingapore.com/tax-exemption-scheme-for-startup-companies/>
- Aribowo, I., & Irawan, D. (2021). Menarik Investasi Ke Indonesia Dengan Tax Holiday. *Jurnal Pajak Dan Keuangan Negara (PKN)*, 2(2), 135–141. <https://doi.org/10.31092/jpkn.v2i2.1184>
- ASEAN Briefing. (2021, April 6). Business and tax incentives for foreign investors in Singapore. ASEANBriefing.com. Retrieved October 29, 2023, from <https://www.aseanbriefing.com/news/business-and-tax-incentives-for-foreign-investors-in-singapore/>
- ASEAN Briefing. (2023). Corporate income tax in Singapore. ASEANBriefing.com. Retrieved October 27, 2023, from <https://www.aseanbriefing.com/doing-business-guide/singapore/taxation-and-accounting/country-wise-tax-structure/corporate-income-tax>
- ASEAN Investment Report. (2022). ASEAN Investment Report 2022: Pandemic Recovery and Investment Facilitation. United Nations Conference on Trade and Development. ISSN: 2963-279X.
- ASEAN Investment Report 2023: Investing in ASEAN. (n.d.). Allurentis. Retrieved November 17, 2023, from <https://asean.org/wp-content/uploads/2022/12/investment-report-2023.pdf>
- ASEAN: Foreign direct investment (FDI) inflows by country. (n.d.). Statista. Retrieved December 1, 2023, from <https://www.statista.com/statistics/1008281/asean-foreign-direct-investment-inflows-by-country/>
- ASEAN Investment Report 2023: Investing in ASEAN. (n.d.). Allurentis. Retrieved November 17, 2023, from <https://asean.org/wp-content/uploads/2022/12/investment-report-2023.pdf>
- Asian Development Bank. (2022). *Southeast Asia Rising from the Pandemic* (0 ed.). Asian Development Bank. <https://doi.org/10.22617/TCS220093-2>
- Dang, V. C., & Nguyen, Q. K. (2021). Determinants of FDI attractiveness: Evidence from ASEAN-7 countries. *Cogent Social Sciences*, 7(1), 2004676. <https://doi.org/10.1080/23311886.2021.2004676>
- Foreign direct investment – UNCTAD Handbook of Statistics 2022. (n.d.). Retrieved December 1, 2023, from <https://hbs.unctad.org/foreign-direct-investment/>
- OECD Members of the OECD/G20 Inclusive Framework on BEPS. (n.d.). . . France.

- OECD Pillars, *Pillar Two Domestic Implementation: Map* » [oecdpillars.com](https://oecdpillars.com). (2022, November 1). <https://oecdpillars.com/pillar-two-domestic-implementation-map/>
- OECD (2023), *Revenue Statistics in Asia and the Pacific 2023: Strengthening Property Taxation in Asia*, OECD Publishing, Paris, <https://doi.org/10.1787/e7ea496f-en>
- [Report] *Towards Sustainable Tax Policies In The ASEAN Region: The Case Of Corporate Tax Incentives | Oxfam in Vietnam*. (2020, July 2). <https://vietnam.oxfam.org/latest/publications/report-towards-sustainable-tax-policies-asean-region-case-corporate-tax>
- Towards Sustainable ASEAN Development*. (2020, November 11). <https://vietnam.oxfam.org/latest/publications/report-towards-sustainable-asean-development>
- UNDP. (2021). Gender Inequality Index. In *Human Development Reports*. United Nations. <https://hdr.undp.org/data-center/thematic-composite-indices/gender-inequality-index>
- World Bank Group. (2020). *Doing Business 2020: Indonesia*. *Doing Business 2020, Economy Profile Indonesia*, 1-127. <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020>
- World Bank (2021), *Uneven Recovery Drives Growing Inequality across East Asia and the Pacific*. Retrieved November 17, 2023, from: <https://www.worldbank.org/en/news/press-release/2021/03/25/uneven-recovery-drives-growing-inequality-across-east-asia-and-the-pacific>
- World Bank. Foreign direct investment, net inflows (% of GDP). [Data.WorldBank.org](https://data.worldbank.org). Retrieved November 3, 2023, from <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2022&locations=SG-ID-MM-KH-MY-VN-BN-PH-TH-LA&start=2016&view=chart&year=2021>
- WTO center (2023). *Global Minimum Tax: Impact on Vietnam*. Retrieved from: <https://trungtamwto.vn/file/22595/3.-thue-toi-thieu-toan-cau-va-tac-dong-voi-vn.pdf>. Accessed on 25/10/2023
- WTS (2023). *Pillar Two: Country - by - Country Implementation*. <https://wts.com/wts.com/hot-topics/pillar-two/implementation-status/wtsglobal-pillar-two-country-by-country-implementation.pdf>. Accessed on November 16, 2023.



**P R A K A R S A**  
Welfare Initiative for Better Societies


The PRAKARSA is a research and capacity-building institution established to create a democratic, just, and prosperous society through ideas development, policy and institutional reforms, and evidence-based problem-solving innovations. The PRAKARSA focuses on fiscal policy, social policy, and sustainable development issues.


We conducts research activities, policy analysis, and training on a wide range of topics related to welfare issues. In executing its various activities, The PRAKARSA consistently adopts collaborative and engagement approaches to collaborate with varied parties: governments, parliaments, civil society organizations, universities, think tanks, international organizations, private sectors, development donor agencies, and mass media.





We believe that this multi-stakeholder approach will strengthen our works and initiatives in the knowledge production and dissemination as well as the evidence-based policymaking process. We also believe that networking will facilitate and reinforce one another. Therefore, we have received support from various donors and participated in multifarious initiatives with The PRAKARSA partners.

**[www.theprakarsa.org](http://www.theprakarsa.org)**

Komplek Rawa Bambu 1  
Jl. A No. 8E Kel. Pasar Minggu,  
Kec. Pasar Minggu, Jakarta Selatan

 +62 21 7811 798

 [perkumpulan@theprakarsa.org](mailto:perkumpulan@theprakarsa.org)

    The PRAKARSA

  PRAKARSA Podcast

