Analysis of Driving Factors of China’s Direct Investment in ASEAN

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Abstract. Cooperation with ASEAN will not only speed up the adjustment of domestic industrial structure and resolve domestic excess capacity, but also achieve the purpose of marginal industrial transfer. It will also help ASEAN countries to develop together for mutual benefit. This article analyzes the current status of China's direct investment in ASEAN, and then combines the driving factors of foreign direct investment (natural resource-seeking, efficiency-seeking, and market-seeking) to analyze the specific driving factors of Chinese enterprises' direct investment in ASEAN. The results put forward the possible risks from the above three perspectives and countermeasures for Chinese companies, which make direct investments in ASEAN countries.

Introduction

With the continuous expansion of the scale of China's foreign direct investment since 2003, China has changed from a mode of attracting foreign investment to a mode of “going out” as an investor [1]. In 2017, China's outbound direct investment flow ranked third place in the world, and its stock accounted for eighth in the world. It can be seen that the outbound investment of Chinese enterprises has been increasing. According to the “China Outward Direct Investment Strategy Research Report” released by the China Council for the Promotion of International Trade in August 2018, China's outbound direct investment has increased by an average of 27.2% annually over the past 10 years, making China a major outbound investor. 2018 is the 15th anniversary of the establishment of a strategic partnership between China and ASEAN. As China's largest trading partner, ASEAN has become the core investment area of the “21st Century Maritime Silk Road” on China's “Belt and Road” initiative. Important partners and important participants in construction are also important foreign investment destinations for Chinese enterprises [2]. Guided by the dual strategies of the country's “Going Global Strategy” and "Free Trade Area Strategy", the scope of China's foreign direct investment in ASEAN has been expanding. The outward foreign direct investment from China to ASEAN mainly focus on Singapore, Indonesia, Thailand, and Malaysia. The four countries accounted for more than 70% of the total China's direct investment for ASEAN from 2003 to 2017, calculated from the Statistical Bulletin on Foreign Direct Investment. Therefore, this article only analysis these four countries.

Status of China's Direct Investment in ASEAN

Trend of China's Direct Investment in ASEAN

Judging from the stock and flow of China's direct investment in the four ASEAN countries, the scale of China's direct investment in ASEAN is constantly expanding. Although the flow and stock of China's direct investment in ASEAN in 2017 accounted for only 8.9% and 4.9% of China's foreign direct investment flow and stock, respectively. In general, the flow and stock of the company are continuously increasing, and the overall trend is positive.

China's Investment Flow to Singapore is the Largest among All ASEAN Countries. Of the direct investment flows to these four countries, investment flows to Singapore have always been
greater than those of the other three countries. In 2017, China's direct investment flows to Singapore reached US $ 6.32 billion, which is 4-6 times the investment flows of the other three countries. The stock of direct investment in Singapore, which increased from USD 165 million in 2003 to USD 44,568 billion in 2017, a total of approximately 270 times. China's direct investment in Singapore is rising in fluctuations in terms of flow, and its stock is continuously accumulating.

The Flow of Chinese Direct Investment in Indonesia and Malaysia Has Grown Steadily. From 2003 to 2017, China's direct investment flows to Indonesia have increased steadily, accounting for 12% of China’s total investment flows to ASEAN, and its stock has been on the rise. Among the four countries, the most obvious increase in stocks other than Singapore is direct investment in Indonesia. In 2017, the stock reached US $ 10.54 billion. Based on the demand for the development of Indonesia's natural resources and the labor market, direct investment in Indonesia has grown rapidly.

China's direct investment in Malaysia is comparable to Indonesia in terms of flow, and it also accounts for about 12% of China's total investment in ASEAN, and its stock has also grown steadily. Based on the same demand for Malaysia, the overall state of investment development is similar to Indonesia.

China's Direct Investment in Thailand Has Risen Steadily. China's direct investment in Thailand has always been stable and rising. Based on geographical advantages and investment preferences, Chinese companies' investment in it has continued to increase in recent years.

As China’s domestic labor costs, land costs, plant costs, and other production costs have increased significantly, Chinese companies are increasingly seeking to find countries with relevant taxation and other preferential policies, such as Thailand, Malaysia, and Indonesia, which have lower production costs. Investing in a factory can not only reduce production costs, but also open the market of the host country by investing in a factory. From this, it can be concluded that although China's direct investment in the four ASEAN countries has obvious national differences, the overall growth is expanding.

Industry Distribution of China's Direct Investment in ASEAN

The industry distribution of China's direct investment in ASEAN shows a trend of diversification, and the level of industrial structure is low. China's direct investment in ASEAN is mainly concentrated in the leasing and commercial services, manufacturing, wholesale and retail, mining, construction, power/heat/gas and water provided industries.

China's Direct Investment in ASEAN in the Leasing and Business Services Industry. Prior to the implementation of the “Belt and Road” policy, the leasing and business services industry has been the main industry in which Chinese investment flows. With the structural adjustment of some domestic industries in recent years, the proportion of the tertiary industry has gradually increased. Among them, the largest proportion of investment in 2017 was the leasing and business services industry, with a stock of US $ 17.483 billion, of which US $ 15.637 billion was invested in Singapore, accounting for 89.4%.

China's Direct Investment in ASEAN in the Manufacturing Industry. After 2015, with the exception of the leasing and business services industries, transportation/warehousing and postal industries, investment flows in most industries have risen rapidly, especially in the manufacturing sector where investment growth rate is fastest, which has also made the manufacturing leap to China's main direct investment area in ASEAN. In 2017, the investment stock in manufacturing reached US $ 15.569 billion, mainly in Indonesia, Thailand, and Malaysia.

China's Direct Investment in ASEAN in Other Industries. In 2016, China’s direct investment flows to ASEAN for the first time changed from positive to negative, with a drop of 29.6%. The growth rate of investment flows in most industries slowed down. Despite the decline in overall investment, the growth rate of construction industry flows has been on the rise. However, technology-intensive industries such as information transmission/software and information technology service industry, scientific research and technology service industry have relatively low investment and slow growth. In general, with the initiative of the “Belt and Road” initiative, Chinese
companies have been actively investing in various industries in ASEAN countries. Although the growth rate of investment has slowed down, it has been growing.

**Analysis of the Driving Factors of China's Direct Investment in ASEAN**

According to the driving factors, China's direct investment in ASEAN can be divided into natural resource-seeking, market-seeking, and efficiency-seeking [3].

**Natural Resource-seeking Drivers**

Although the natural resources of ASEAN countries are not uniformly distributed, they are diverse and rich in resource.

**Indonesia Has Abundant Energy and Mineral Resources and Huge Investment Potential.** Indonesia has a strong advantage in energy-intensive products. As the largest economy in the ten ASEAN countries, a major oil producer in Southeast Asia, and the world's largest natural gas exporter, it has very rich mineral resources, such as Indonesia's nickel and copper production located in the top five in the world. In addition, a large amount of natural gas resources have not yet been developed. Indonesia also produces a large number of agricultural, forestry and tropical cash crops. It is the world's second largest producer of natural rubber and the largest palm oil, so the country has great potential for energy and resource development.

**Malaysia Has a Developed Agricultural Economy and Abundant Mineral Energy.** Malaysia benefits from the unique geographical location and climate in Southeast Asia, producing a variety of agricultural cash crops. The country ranks second in the world in the production of palm oil and its finished products, and ranks third in the world in the production and export of natural rubber. In addition, Sarawak's natural gas production ranks third in the world, and tin reserves also rank in the top ten in the world. As a result, many resource-oriented companies, especially energy companies, have also increased their investment in Malaysia.

It is Indonesia and Malaysia with abundant resources and energy that have attracted investment from many energy and resource-oriented enterprises in China. The development levels of natural energy and resources in these two countries are lagging behind. Oil and gas resources and mineral resources have not been fully and effectively used, and some are still in the state of development.

Based on this consideration, Chinese enterprises' direct investment in ASEAN is not only about obtaining resources and energy, but also giving full play to the benefits of resources and energy. On the one hand, natural resources are provided by the host country with the advantage of resource location. Chinese enterprises can provide more advanced mining equipment and technical personnel. On the other hand, by cooperating with the host country to build factories, they can fully develop and utilize the resources of the host country, and then produce and process the resources into products for distribution to the world. Other countries, finally make the most of their resources to achieve a profit for both parties. It can both obtain scarce resources and improve the local technology level to expand the local market [4].

**Efficiency-seeking Driving Factors**

The main purpose of an efficiency-seeking enterprise is to carry out industrial transfer and seek for lower labor and advanced technology, so as to achieve the purpose of reducing costs and improving efficiency.

**Indonesia Has Cheap and Abundant Labor.** Indonesia has a low and abundant labor market. According to the World Bank database, the labor cost of Indonesia in 2017 was less than 1/2, and the quality of its labor can meet the basic production needs. As China's economy growing, labor costs have also gradually increased. Indonesia has attracted a large number of Chinese enterprises to invest in labor-intensive industries.

**Singapore Has Advanced Technology and Management Experience.** Technological innovation is the first driving force economic growth, and it is also advanced management techniques, production techniques, etc. which can be an efficiency-seeking enterprise has been pursuing and the tool of
improving efficiency. With the development of the Internet, not only competition in all walks of life, but also competition between countries is intensifying. Through foreign direct investment, the strength of capital in exchange for technological advantages is one of the urgent choices.

According to the World Bank database, between 2000 and 2017, the number of researchers per million people in Singapore's enterprises was about 6 times that of China, indicating that Singaporean companies attach great importance to innovative technologies. At the same time, Singapore ranks among the top internationally in the fields of information, biology, and aerospace. Therefore, some part of Chinese companies' investments in Singapore are invested in high-tech industries, coupled with policy support, such as the “New Skills Funding Scheme” and “New Skills Funding Scheme” introduced by Singapore, provide an open environment and support for foreign companies. Chinese companies investing directly in Singapore not only promote their own technological innovation by learning more advanced management experience, science and technology, but also carry out cooperation and exchanges with the direction of China's structural adjustment or high-tech industries, which will adversely affect some of our high-tech industries. Technology spillovers have promoted the growth of China's emerging industries.

Market-seeking Driving Factors

The main purpose of market-seeking enterprises is to occupy the host country's market and bypass trade barriers in developed countries.

Avoid Trade Barriers. From the perspective of evading trade barriers, influenced by the “China threat theory” put forward by foreign media, China has become more and more noticeable, especially in developed countries. Trade barriers against Chinese companies have emerged endlessly. For example, the Sino-US trade war just passed. Both tax barriers and non-tariff barriers have caused some Chinese export companies to face huge crises, and their economies have suffered as a result. In contrast, the uneven development of ASEAN countries has a large difference and is not much concerned by other countries. Therefore, investing and establishing factories in ASEAN has become an inevitable trend of direct investment. This trend can avoid China's weaknesses and give full play to the strengths of ASEAN countries.[9] Chinese companies' investment in ASEAN can help companies effectively avoid trade barriers set by developed countries against China. For example, anti-subsidy and anti-dumping measures against Chinese companies' investment in ASEAN have become an inevitable trend of direct investment. This trend can avoid China's weaknesses and give full play to the strengths of ASEAN countries. Chinese companies' investment in ASEAN can help companies effectively avoid trade barriers set by developed countries against China. For example, anti-subsidy and anti-dumping measures against the Chinese tire industry often occur. Direct investment by major rubber countries such as Indonesia and Malaysia can not only use local rubber resources and reduce raw material costs, but also effectively prevent the risk of tire trade with developed countries and avoid similar special insurance cases.

Occupy the Host Market. In terms of market, ASEAN has a total population of nearly 600 million and a certain consumption capacity. Due to the establishment of the China-ASEAN Free Trade Area, most of the goods are zero-tariffed among member states, making it easier and cheaper to trade with each other. The constant breakthrough in investment and trade volume also prove that the ASEAN market has certain potential. Therefore, in terms of occupying overseas markets, ASEAN countries with low labor costs and richness can be selected. Chinese enterprises can not only use low labor to invest in production, but also sell finished products to the host country market.

Possible Risks and Policy Suggestions for China's Direct Investment in ASEAN

Possible Risks and Suggestions for Natural Resource-oriented Investment

Political Risks and Suggestions. At present, state-owned enterprises, which are mainly in close contact with the government, seek natural resources in ASEAN countries. The investment scale is large and has considerable political color. Furthermore, for China, state-owned enterprises can obtain capital at levels lower than market interest rates because of imperfect capital markets. Unique institutional factors make companies exhibit certain political risk shielding effects, but overall, natural resources-motivated companies' foreign investments are most sensitive to political risks, show
risk appetite for countries with a high risk of internal conflicts, aversion to corruption and government stability risks. Therefore, natural resource-oriented enterprises should be closely connected with the government, pay attention to real-time trends, collect information before investing, and conduct surveys on local corruption and WGI index data.

Public Media Risks and Suggestions. In response to Western media's view that all Chinese investment is a so-called “resource-oriented” foreign investment “misunderstanding”, resource-oriented enterprises should pay attention to local environmental protection and perform their own responsibility when implementing direct investment in host countries. The Chinese government should publicize the real situation of Chinese investment through various channels and try its best to eliminate unnecessary misunderstandings, proving that China's direct investment in ASEAN is not plundering resources as Western media say, thereby reducing the investment risks of Chinese enterprises.

Risks and Recommendations of Efficiency-oriented Investment

Admission Threshold Risks and Countermeasures. Since efficiency-seeking enterprises are aimed at transferring industries, seeking lower labor and advanced technologies, the main risks they will encounter are in the areas of transferring industries, operating management, and technology property rights protection. With regard to industrial transfer, the host country will adjust the entry threshold to protect the interests of its own companies. The companies may refer to the investment guidelines for ASEAN countries made by the government, and then make decisions to reduce investment risks to a certain extent; Chinese companies can also cooperate with local companies, which is also an effective way to reduce risks; by investing in cooperation with companies in third countries, they can also diversify certain investment risks. Governments can cooperate to provide a platform for exchanging information, such as the investment needs of various countries, and then specific departments can be established to formulate relevant rules and regulations, work processes, and scope of responsibility.

Manage Risk and Countermeasures. In terms of business management, especially employee management, hiring local employees can help enterprises integrate into the local market, but correspondingly, companies should guide domestic employees to properly handle relations with foreign employees, respect the religious culture and beliefs of foreign employees, and avoid cultural risks.

Risks and Recommendations of Market-oriented Enterprises

This type of investment is intended to occupy the host country's market and is susceptible to the influence of host countries that implement protectionism. For the sake of profit sustainability and long-term consideration, creating new models and fields is very important for market-oriented enterprises. In addition to determining the investment market and making differentiated investments based on the comparative advantages of different countries, enterprises should also change the state of duplication of trade products and low industrial competitiveness to avoid the damage and impact of host country trade protectionism. And then creating a new model of cooperation-the government and the market are combined.

References


