

# The Status Quo, Problems and Countermeasures of China's Direct Investment to ASEAN

XiaoBing Jiang<sup>1</sup>, Li ming Liu<sup>2</sup>

Associate Professor of the Department of Economics and Management of Xidian University, China

Master Student of the Department of Economics and Management of Xidian University, China

**Abstract:** *As the world's major economy, ASEAN has become one of the fastest growing regions in the world with the smooth progress of integration. Its member states are in the closest zone to China in the "21st Century Maritime Silk Road" and have become the main battlefield for the implementation of the "Belt and Road" strategy. These countries have strong complementarities with China in terms of resource endowments, economic structure and other aspects. They have an important strategic position in China's economic development and provide a vast market platform for Chinese enterprises to "go global". In 2016, China's investment flow to the 10 ASEAN countries was 10.279 billion U.S. dollars and its stock was 71.554 billion U.S. dollars. Based on this, this article attempts to analyze the status quo and problems of China's direct investment in ASEAN, and put forward countermeasures and suggestions in order to better understand the economic cooperation between China and ASEAN, China's investment in the construction of the Belt and Road positioning options, optimal allocation of resources It is of great significance.*

**Keywords:** China; foreign direct investment; ASEAN

## 1. Introduction

Since the establishment of a cooperative partnership between China and the ASEAN countries, the economic and trade cooperation between the two countries has been increasing year by year, and the scale of bilateral direct investment has also been expanding. In 2016, China's investment flow to the 10 ASEAN countries was 10.279 billion U.S. dollars, down 29.6% from a year earlier, accounting for 5.2% of total traffic and 7.9% of total investment flows to Asia. Its stock is 71.554 billion U.S. dollars, accounting for 5.3% of the total stock. 7.9% of stock investment. By the end of 2016, China had established 4,300 direct investment enterprises in ASEAN and employed 283,900 foreign workers. Against the backdrop of China's "21st Century Maritime Silk Road," ASEAN is strongly attractive to Chinese enterprises for overseas investment.

## 2. China's status quo on direct investment in ASEAN

In recent years, as China's economy continues to grow, more and more enterprises have the demand for overseas direct investment. With unique geographical and cultural advantages and the establishment of a China-ASEAN free trade area, ASEAN has become one of the first destinations for overseas investment by Chinese enterprises. At present, China's direct investment in ASEAN mainly shows the

following three characteristics: First, China's total direct investment in ASEAN continues to expand, with the volume of investment and stock in 2016 being 10.82 and 18.15 times of that in 2006; secondly, China's direct investment in ASEAN The investment area is gradually widening and now basically covers all industries. Thirdly, China's direct investment in the new member countries of ASEAN is developing rapidly. China has now become the main investment target of China to ASEAN(Chen Juncong,2014).

### 2.1. The total investment is constantly expanding

The signing of a series of agreements between China and ASEAN has greatly promoted the growth of China's direct investment and trade with ASEAN. From an investment flow perspective, even though the proportion of China's investment in ASEAN is small, the direct investment flows and stocks absorbed by China in ASEAN region doubled In 2003, China's stock of direct investment in the 10 ASEAN countries was only 587 million U.S. dollars, and by 2006, it rapidly increased to 1,763 million U.S. dollars, more than tripling. Since 2006, China's stock of ASEAN investment has increased even more rapidly. Its investment stock in 2006-2015 has been growing at an almost geometric level. In 2016, the stock stood at 71.554 billion U.S. dollars.(Li Guangjie,2017)

**Table 1:** China's stock of direct investment in ASEAN countries (unit: \$10,000)

Countries	2003	2005	2007	2009	2011	2013	2015
Brunei	13	190	438	1737	6613	7212	7352
Myanmar	1022	2359	26177	92988	218152	365968	425873
InCambodia	5949	7684	16811	63326	175744	284857	367586
Indonesia	5426	14093	67948	79906	168791	465665	812514
Laos	911	3287	30222	53567	127620	277092	484171
Malaysia	10066	18683	27463	47989	79762	166818	223137

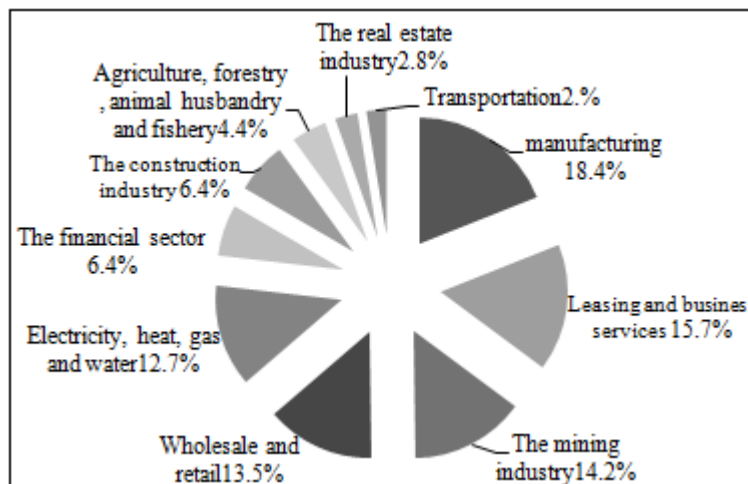
The Philippines	875	1935	4304	14259	49427	69238	71105
Singapore	16483	32548	144393	485732	1060269	1475070	3198491
Thailand	15077	21918	37862	44788	130726	247243	344012
Vietnam	2873	22918	39699	72850	129066	216672	337356
Total	58695	125615	395317	957142	2146170	3575835	6271597

Source of resources: according to the data compiled and calculated according to China's annual statistical bulletin of China's foreign direct investment.

**2.2. The investment industry is widely distributed**

As China started its late acquisition of direct investment in ASEAN, in the initial stage, the investment scale was small and the investment scale expanded in recent years, which covered a wide range of industries. According to the industry distribution of China's ASEAN investment stock in 2016, the manufacturing sector is 13.15 billion dollars, accounting for 18.4% of the total, and the largest stock of China in ASEAN investment (Fig.2). Among them, the investment amounts to billions of U.S. dollars are as follows: Indonesia Vietnam, Thailand, Singapore and soon. Followed by theleasing and service industries, the sector's outward

direct investment mainly for follow-up investment services, less involved in real economic activities, is mainly responsible for major business decisions, asset management, coordination of subordinate agencies and other tasks, and a large part of them belong to tax avoidance , "Return" and "Springboard". Due to Singapore's sound investment climate and loose regulatory policies, the most strategic investment in this sector is in Singapore. In terms of the major foreign-invested industries in various countries, Singapore mainly attracts investments in manufacturing, leasing and business services, finance, wholesale and retail in China, while Indonesia mainly attracts investments in manufacturing and mining sectors. Laos Mainly attracted investment in agriculture, manufacturing, construction and other fields, Myanmar has mainly attracted investment in the mining industry, electricity supply and other fields.

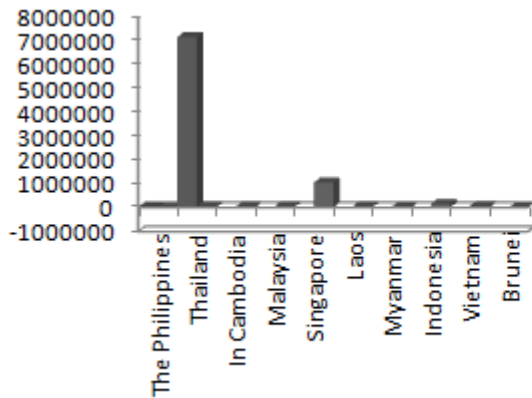


**Figure 2:** Distribution of China's direct investment stock in aseaan in late 2016 (%)

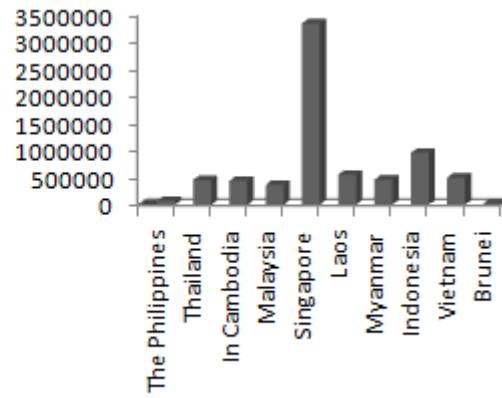
**2.3. Investment location selection**

Direct investment from China in the ASEAN region is mainly concentrated in individual countries. In recent years, Singapore, Indonesia and Laos have attracted more direct investment from China. In 2016, China had 33.4 billion U.S. dollars in stock in Singapore, accounting for nearly half of ASEAN's total direct investment in China. In the same year, the stock of investment in Indonesia introduced from

Chinese enterprises was 9.5 billion U.S. dollars, accounting for 13.34% of the total stock of China's investment in ASEAN. Second, in 2016, a total of 5.5 billion U.S. dollars of investment stock from China was scattered in Laos, accounting for 6.54% of the total. It can be seen from the above analysis that the distribution of China's direct investment in the ASEAN countries is not reasonable and the situation needs improvement.



China's investment flows to Asean in 2015 (unit: \$10,000)



China's investment stock in Asean in 2016 (unit: \$10,000)

China's direct investment in the ten ASEAN countries, whether from the point of view of the overseas distribution of Chinese enterprises or the stock of investment flows, the importance of ASEAN for China's direct investment is increasing. The importance of upgrading may have many reasons. They include the needs of Chinese enterprises for internationalization, the establishment of China-ASEAN Free Trade Area, the influence of cultural similarities between China and ASEAN, the improvement of investment environment in ASEAN and the increase of investment opportunities, the convenience of obtaining bank support and the promotion of the state.

### 3. China's direct investment in ASEAN problem

China's direct investment in ASEAN has achieved good results in recent years. However, there are more or less problems in many aspects, including the established China-ASEAN free trade area. China needs to formally formalize these issues in order to make it correct in practice. Investment decisions (Cigui,2014).

#### 3.1 The overall size of the investment is still small

The rapid development of China's direct investment in ASEAN is due to the late start of China's direct investment in ASEAN and its low level of foundation, which has certain backward advantages. Although China's direct investment in ASEAN has shown a rapid increase, we should also note that the overall size of China's direct investment in ASEAN is still small. Recent ASEAN investment report data show that: China's direct investment in ASEAN is located in Japan, the Netherlands and Britain. In 2013, the proportion of direct investment flows from China to the total direct investment flows to ASEAN in the current year still lags far behind those of the above-mentioned countries (countries), with China accounting for only 7%. Japan accounted for 19% of the total, 2.71 times that of China. This shows that the scale of China's direct investment in ASEAN is still relatively small compared with the developed countries. Although China-ASEAN Free Trade Area was established in 2010, at present there are not many enterprises that really have the strength to enter overseas direct investment in ASEAN. Due to the host country's thinking and policy system, the

newly-developed multinational corporations in China are very much Difficult to really go out ,This may also be one of the reasons why China's investment in ASEAN is low.

#### 3.2. Investment in different countries is quite different

China's direct investment in ASEAN countries shows obvious country differences in both flow and stock levels. The characteristics of the difference in the flow rate are that there is a big difference in the level of the quantity of the fluctuations in the growth level.

In terms of investment stocks, Singapore absorbed a stock of OFD33.446 billion in foreign exchange investment in 2016, accounting for 46.7% of China's direct investment in ASEAN and 2.5% of global investment, followed by Indonesia and Myanmar, accounting for 13.28% and 10.01%. However, China's direct investment in the Philippines and Brunei is only 1.94 % and 0.2% respectively. In terms of investment flows, China's direct investment in Singapore and Indonesia ranks at the forefront, and direct investment in the Philippines and Brunei has been at a relatively low level. In 2016, China's investment flows to Singapore and Indonesia were 3.17 billion U.S. dollars and 1.46 billion U.S. dollars respectively, accounting for 30.8% and 14.2% of China's investment flows to ASEAN respectively. That year, China's investment flows to the Philippines and Brunei amounted to 0.54 billion U.S. dollars and 0.09 billion U.S. dollars, accounting for 0.75% and 0.12% of China's investment flows to ASEAN respectively. Therefore, both in terms of investment flows and investment stocks, China has greater country-specific differences in direct investment in ASEAN countries. From the above data analysis, the country differences in OFDI have continued to widen. A diversified national investment pattern has not been formed, which will not be conducive to the development of China's investment potential in other ASEAN countries.

#### 3.3. The distribution of industrial structure is not reasonable.

China's direct investment in the ASEAN area has been involved in various industries. However, the funds invested in various industries vary greatly and the structure is not rationally distributed. At present, the industries that China

directly invests in ASEAN prefers to resources-based industries and industries with low-tech industries, and the investment in high-tech and service industries appears to be under-invested. For example, from the distribution of China's ASEAN investment stock in 2016, the manufacturing industry is 13.15 billion U.S. dollars, accounting for 18.4% of the total. The industry with the largest stock of investment in ASEAN is China, with a rental and business service industry of 11.223 billion U.S. dollars, accounting for 15.7% of the total. The mining industry US \$ 10,169 million, accounting for 14.2%, wholesale and retail trade amounting to US \$ 9.69 billion, accounting for 13.5%. Direct investment is mainly concentrated in the above resource-intensive industries and labor-intensive industries, indicating that China's direct investment in ASEAN is mainly for obtaining its abundant natural resources and using its relatively cheap labor force. However, these industries are generally in the low end of the industry chain with low added value, and they have made limited contributions to the development of Chinese enterprises and the economic development of host countries. Moreover, long-term direct investment in resources and labor is also vulnerable to the media and laws of the host country. Therefore, Chinese enterprises should, while meeting their own needs, seek opportunities to increase their investment in sectors such as the financial industry, scientific research and technology service industries, information transmission and software information service industries which are more advanced and highly value-added to ASEAN.

#### **3.4. Chinese enterprises lack of technological innovation**

On the one hand, the reliance on state-owned enterprises in China is strong, and their stamina for development is not enough. State-owned enterprises rely mainly on state support for their investments. Therefore, they have unique advantages in terms of capital and power and more in terms of energy exploitation and utilization. In recent years, The state-owned large enterprises showed a declining trend in the outward FDI; on the other hand, the private enterprises in our country were not able to meet the needs of capital, environmental protection, poor management and lack of innovation capacity, Smaller labor-intensive and resource-intensive industries.

#### **4. China's proposal for direct investment in ASEAN**

At present, the domestic economy in China is confronted with a new economic normal with a slowdown in its pace of development. To develop its overseas economy should be an important measure to maintain China's rapid economic growth. The geographical proximity of China and the ASEAN countries as well as their deep historical origins have laid a good foundation for the economic development of both sides. In 2013, the Chinese government put forward the great strategy of building a 21st century maritime Silk Road, which has brought China-ASEAN economic and trade relations to a more comprehensive and deeper stage of cooperation (Liu Wei, 2015).

#### **4.1. Continue to strengthen the partnership with ASEAN countries**

The concept of "Maritime Silk Road in the 21st Century" is to reinforce the economic cooperation between China and the countries along the world for mutual benefit and win-win by means of carrying out infrastructure construction and strengthening maritime economic cooperation. At present, the Chinese economy is experiencing the period of reform and transformation. The problem of overcapacity is becoming increasingly serious. Creating or seeking demand is an important solution to overcapacity. Most of the ASEAN countries are developing countries. They hope that through the input of Chinese funds, they will stimulate the purchasing power of domestic consumers and open up new international markets. At the same time, it will transform undeveloped natural resources into new productive forces. Therefore, Road "will boost the level of investment and trade cooperation between China and the countries along the line so that the two sides will reach a win-win situation of cooperation. Taking this cooperation as an opportunity, China should step up its economic cooperation with ASEAN and vigorously develop its direct investment in ASEAN. This not only can promote economic cooperation between China and the ASEAN countries along the line, but also can promote the upgrading of China's industrial structure. (Wang Manyi, 2015)

#### **4.2. Investment location and industrial balance**

In view of the fact that China's investment in ASEAN is overly concentrated in its regional distribution and industry distribution, this investment strategy has high investment risk. To reduce risks, investors should reasonably assess the economic development, resource distribution and market demand of various ASEAN countries Various countries and industries to invest. Therefore, enterprises should deploy technology-intensive and capital-intensive industries in countries with relatively high levels of economic development. For labor-intensive industries, they should be distributed in countries with relatively backward economic development. These countries have low labor wages and can reduce the Operating costs; Due to the different economic development and resource distribution in ASEAN countries, Chinese enterprises should rationally arrange and increase their investment in the growth area of eastern ASEAN in the light of the actual conditions of various countries in their choice of location and investment industry.

#### **4.3. Improve product innovation and competitiveness**

On the one hand, Chinese enterprises should establish a good corporate image in foreign investment projects, create national brands, increase brand added value, and eliminate past product impressions of "low prices and poor quality." On the other hand, Chinese enterprises should take the initiative to carry out technological innovation and enhance the scientific and technological content of products. In the modern economy, the economic competition between enterprises and enterprises is basically the product

competition based on high and new technology. Chinese enterprises should actively participate in the market application of new technologies, upgrade their product innovation capabilities and make their products more competitive.

## References

- [1] Chen Juncong, Huang Fan. *Foreign direct investment and trade structure optimization* [J]. International Trade Issues, 2014, (3)
- [2] Cigui. *Some Thoughts on Developing Marine Partnership to Promote the Construction of Maritime Silk Road in the 21st Century* [J]. International Trade Issues, 2014, (4)
- [3] Li Guangjie, Liu Xiaoning. *A Study on the Optimization of China's Direct Investment to ASEAN under the Belt and Road Initiative* [J]. Dongyue, 2017 (9), 125-132
- [4] Liu Wei, *China's Direct Investment Strategy in the ASEAN Region* [J], Cooperative Economy and Technology 2015, (1) 61-62
- [5] Wang Manyi, Shi Jialin. *Study on China's Direct Investment to ASEAN in the New Normal* [J]. International Trade, 2015 (5): 44- 46.