

# *Research on China's Investment in ASEAN Infrastructure from the Perspective of the New Development Pattern*

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**Abstract:** Under the background of great changes unprecedented in the world in a century, the construction of a new development pattern has become a major strategic decision for China's economic development. Under this situation of "two games", the business cooperation between China and ASEAN is an important part of China's foreign circulation. The cooperation in infrastructure construction is an important part of the business cooperation between China and ASEAN. Therefore, this paper analyzes the current situation of China's infrastructure investment in ASEAN, the problems faced and the solutions to the problems from many aspects. This paper holds that China's investment in infrastructure in ASEAN countries is faced with the following problems, first, the few financing channels and high costs, the cultural conflicts between enterprises and host countries, and third, the political risks between China and ASEAN countries. To solve these problems, China should actively advocate the concept of "a community with a shared future for mankind", actively uphold multilateralism, take the initiative to assume the responsibilities of major countries, and drive the infrastructure construction in backward areas, so as to enhance the recognition of China and ASEAN on common interests and create prospects for peaceful and stable development.

## 1. Introduction

Since the reform and opening up, China's economic system has shifted from an initial planned economy to a socialist market economy that fully liberated the productive forces, and from closed to open. From the low-level foreign circulation in the early stage of reform and opening up, to China's accession to the WTO in 2001 by relying on foreign circulation to promote domestic circulation, to now, due to the global economic downturn, the impact of COVID-19 and the blockage of foreign industrial chain, the mode of domestic circulation pulling foreign circulation has been formed. In the face of the impact of unexpected factors, China's economy has shown strong resilience, recovering in a relatively short period of time, and its overall national strength has steadily improved, but its problems and challenges are also more complex<sup>[1]</sup>.

The current Russo-Ukraine war makes the current world pattern more complicated. Relevant

departments are speeding up the construction of a new development pattern with domestic cycles as the main body and domestic and foreign cycles mutually reinforcing. The double cycle does not only focus on the domestic cycle, but also focuses on the international cycle, but pursues a higher quality international cycle. Asean has maintained China's largest goods trading partner for two consecutive years. Therefore, China should deepen the economic and trade ties with ASEAN member states and maintain the import and export transaction scale of goods trade between the two sides. The connectivity of infrastructure can effectively promote the development of trade and investment between the two countries. Therefore, this paper will study China's investment in ASEAN infrastructure.

## **2. Literature review**

On the one hand, some scholars have studied the factors that promote foreign infrastructure investment and the financing problems they face. It is believed that although the Silk Road Fund and AIIB have provided financial support for infrastructure investment projects, the infrastructure investment still faces the problems of high financing cost and high financing threshold.<sup>[6]</sup> Some scholars through the marketization process and intellectual property system two perspective analysis, think the marketization process, the improvement of financial development level effectively promoted China's foreign direct investment level, but r & d direct impact on foreign direct investment is not significant, that our country enterprise also does not have the international multinational companies have monopoly advantage.<sup>[10]</sup>

On the other hand, some scholars focus on the role that the government plays in foreign investment. It is believed that China's foreign direct investment is helpful to improve our total factor productivity, but the effect of improving China's technical level is not obvious.<sup>[3]</sup> Some scholars believe that the economic infrastructure variables of transportation, energy and communication have a significant positive relationship with the structural level of service trade. However, only the social infrastructure variables has a positive effect, while the three infrastructure aspects of medical care, education and environmental protection have a negative effect.<sup>[2]</sup> In addition, some scholars also divide infrastructure from three categories: aviation, railway and communication, believing that China's trade with neighboring countries has a strong boundary shielding effect, and the construction of infrastructure can significantly reduce the boundary shielding effect. As aviation infrastructure reduces the boundary effect the most, it can take the lead in promoting the interconnection of aviation infrastructure between China and neighboring countries.

## **3. China's infrastructure investment in ASEAN under the new development pattern**

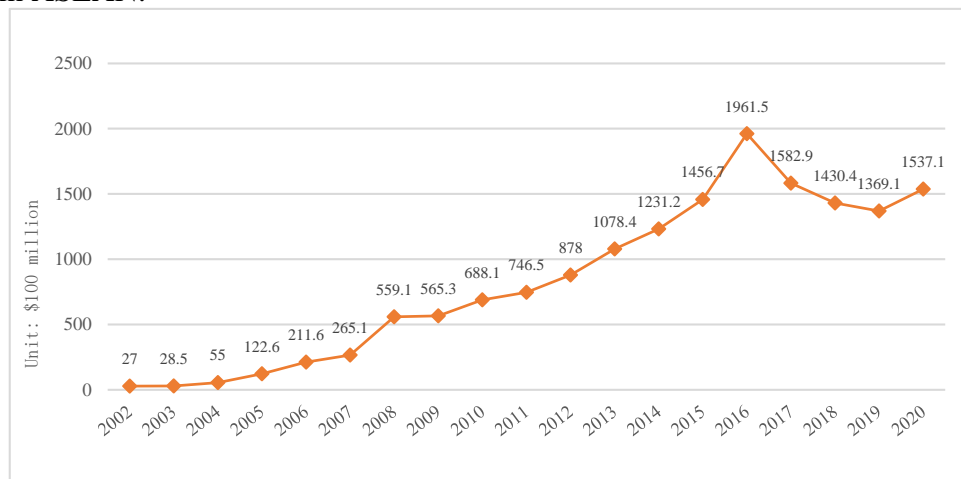
### **3.1 Background of the new development pattern**

The 14th Five-Year Plan proposes that we should speed up the construction of a new development pattern with the domestic big cycle as the main body and the domestic and international double cycles promoting each other, namely the double cycle. Domestic big cycle is in the case of highly uncertain external environment, use our industrial foundation strength, industrial chain complete, strategic space, the characteristics of the market size, open production, distribution, circulation, consumption and other economic operation of each link to promote internal self cycle second, continue to rely on and support the high level of opening to the outside world, actively participate in the international cycle. Among them, the definition of the new development pattern and the content of the key links of the cycle are discussed in depth. Some scholars explain the definition of the new development pattern and the main links under the four thinking from dialectical thinking, bottom line thinking, innovative thinking and system thinking; international circulation refers to the economic system where domestic

production process is developed and completed with the help of foreign raw materials, foreign manufacturing or foreign consumer market. From the analysis of the relationship between domestic circulation and international circulation: the international circulation can strengthen the domestic circulation, and the significance of double circulation is subject to the domestic circulation and the international relations of production.

### 3.2 China's foreign infrastructure investment

Before analyzing China's foreign infrastructure investment, first briefly describe the situation of China's foreign direct investment. International direct investment refers to an investment activity in which investors control and control the business activities of enterprises outside their own country by means of establishment and acquisition. As can be seen from Figure 1, the scale of China's OFDI has been in an upward trend from 2002 to 2016, and the growth rate is fast. However, the investment scale reached the peak in 2016, followed by a decline. The investment scale has declined for three consecutive years, and showed an upward trend in 2020. Overall, China's ofDI is in a good development trend. Infrastructure investment is an important part of China's outward direct investment in ASEAN.



Source: The Ministry of Commerce of China

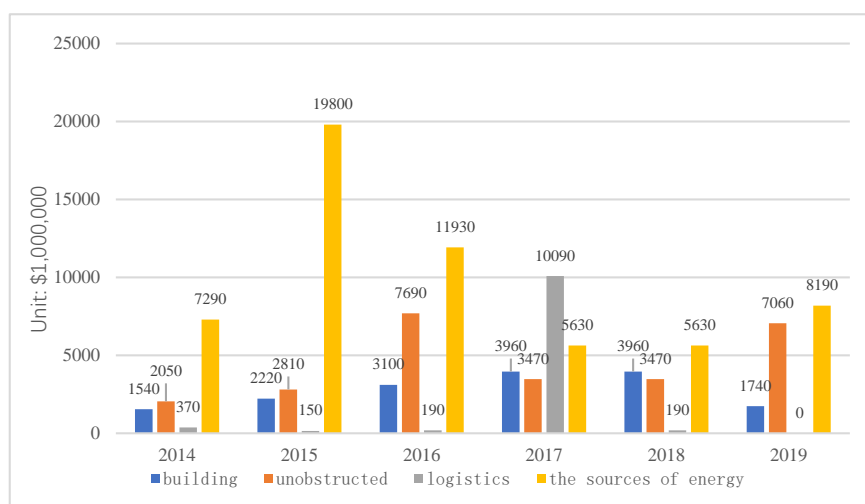
Figure 1: The scale of China's foreign direct investment

Since the Third Plenary Session of the 11th CPC Central Committee, China's economic development has maintained a strong momentum, among which China's infrastructure construction is relatively prominent, with rapid speed and excellent quality, which is known as the "infrastructure maniac" by other countries. Not only that, some of the national policies also promote the development of China's infrastructure construction, in China's eastern coastal city development level rapidly at the same time, the Midwest in our country also planning a batch of strategic planning, such as western development, the northeast old industrial base, the rise of the central region, in the planning, infrastructure investment scale accounted for as high as 75%.<sup>[4]</sup> In addition, there are 2008 China issued 4 trillion yuan to expand domestic demand policy, also nearly three quarters of the money into the infrastructure investment, further promote the development of infrastructure in our country, shorten the gap between our country and developed countries in infrastructure, and make China's infrastructure construction more competitive in the world. At present, China's infrastructure ranks among the top in the world both in terms of total amount and construction level, laying a foundation for China's foreign infrastructure investment.

### 3.3 The current situation of China's infrastructure investment in ASEAN

#### 3.3.1 Overall scale

In this paper, overseas enterprises whose direct controlling equity of domestic investors is more than 10% (or other equivalent interests) are selected as China's overseas investment enterprises. First, let's analyze the overall scale of China's infrastructure investment in ASEAN countries. As shown in Figure 2.



Source: The Ministry of Commerce of China

Figure 2: 2014-2019 China's investment in ASEAN infrastructure

The above figure is about China's infrastructure investment in ASEAN from 2014 to 2019 from the perspective of industrial distribution. As can be seen from the figure, among the four industries, the industry with the largest amount of investment is the energy industry. Secondly, the logistics industry is particularly special. The investment scale of the logistics industry reached us \$10.09 billion in 2017, but about US \$200 million in other years. The investment scale of the construction industry is basically stable, and the overall scale has been between \$1.5 billion and \$3 billion; the transportation industry is in a fluctuating trend, from \$2.05 billion in 2014 to \$7.69 billion in 2016 to \$3.47 billion in 2018 and to \$7.06 billion in 2019.

Table 1: China's infrastructure investment in ASEAN countries from 2014 to 2019 (unit: USD 1 million)

country	Vietnam	Laos	Cambodia	Thailand	Burma	Malaysia	Singapore	Indonesia	the Philippines	Brunei
total sum	8100	15020	8840	5800	4250	21650	20730	27630	6010	4500

Source: The Ministry of Commerce of China

In Table 1, in terms of the investment scale alone, Malaysia, Singapore and Indonesia are the three countries with China's largest outbound infrastructure investment scale (construction, transportation, energy and logistics), with the total investment each exceeding US \$20 billion in 2014-2019. Myanmar, Brunei and Thailand are the three countries with China's smallest investment in foreign infrastructure. From the perspective of industries in infrastructure, energy, transportation and construction are the three main investment industries in China. The logistics industry only had a large investment scale in 2017, and there was almost no investment in this industry in other years. Combining with different countries and industries, for different countries in ASEAN countries, the proportion of China's investment in different industries is also different. For example, in Singapore

and Malaysia, China mainly invested in construction industry; in Singapore and Pichah, China mainly invested in transportation; it is worth noting that Singapore has large investments in construction, logistics, transportation and energy, including \$10.09 billion in 2017. Some ASEAN countries attach great importance to the construction of infrastructure, especially transportation facilities. From the development plans formulated by these countries, it can be seen that Malaysia plans to invest US \$50 billion in 2020; Indonesia, which in GDP, has clear plans and air transportation, including more than 3,000 km of railways, 15 international airports and 24 international ports.<sup>[9]</sup>

### 3.3.2 Investment model

There are three main ways of China's foreign direct investment: green space investment (new construction investment), foreign contracted projects and overseas mergers and acquisitions. Of course, China's investment in ASEAN is nothing more than these three types. From the perspective of the scale of investment forms, most of the forms of investment in ASEAN are green space investment and foreign contracted projects. From the Belt and Road initiative and R CEP to the current new development pattern, the form of green space investment has been playing an important role in the infrastructure investment in ASEAN. From Belt and Road in 2014 to the new development pattern in 2020, green space investment had a great impact on investment.<sup>[7]</sup> From the analysis of the investment scale, green space investment accounts for a large proportion of the total investment, and the development trend from 2010 to 2019 is stable. Except for a few special years, the basic proportion is maintained at about 20%. Although it showed a downward trend from 2014 to 2016, after 2016, it was in the recovery stage after 2016, which was still in a relatively stable state. From the perspective of countries, China's green space investment in Indonesia and Malaysia is relatively high, followed by Singapore and Vietnam.

Compared with greenfield investment, the investment mode of foreign contracted projects accounts for a larger proportion, accounting for more than half of China's investment in ASEAN countries. Although there is a fluctuating trend from 2014 to 2019, the investment scale is relatively stable, and its scale is far larger than that of greenfield investment. From the national point of view, China has the largest amount of contracted projects to Indonesia and Malaysia, and Laos has the largest amount among the new four countries.

## 4. Problems facing China's infrastructure investment in ASEAN

### 4.1 Insufficient funds

China's foreign infrastructure investment has the problem of insufficient funds. We investigate its essence, there are several reasons. First, the Export-Import Bank of China has strict financing management and many relevant conditions. For example, the buyer's credit requires the importing country to provide sovereign guarantee, which is difficult for enterprises in ASEAN countries to do so. Second, the loan interest rate of commercial banks is 1% -2% higher than that of foreign banks, because commercial banks have fewer channels to obtain foreign exchange. Third, the Silk Road Fund has less part of bond financing and is keen on equity loans. Fourth, although the International Development Bank has access to foreign exchange channels and low acquisition cost, but the loan interest rate is not low. At the same time, most of the ASEAN countries are in developing countries, with backward domestic infrastructure, and they cannot provide sufficient funds to invest in the construction of infrastructure, which makes it more difficult for Chinese enterprises to invest in the infrastructure construction in ASEAN countries and need to obtain financing by themselves.

## 4.2 Cultural conflict between the project team and the people of the host country

Relations between the two countries, both political and economic, will appear cultural collision, culture is the essence of a national deep behavior, some are cultural conflict, some are cultural extension conflict, such as the conflict of law, social conflict, law and society is a display of another dimension of national culture. The typical conflict problem is religious belief, such as countries with islamists, which have a special time to pray and do not work when praying, which greatly reduces the efficiency of work, and these reduced efficiency cannot be compensated by compensation. Some companies just want to use Chinese workers, which creates another conflict, the employment problem. If the project uses Chinese workers, it will greatly reduce the employment in the host country, and the local government and society will resist the project. From the perspective of the countries of the ten ASEAN countries, Singapore, Cambodia, Myanmar, Laos, Vietnam and these countries have a high cultural match with China, while Brunei, the Philippines, Indonesia and other countries are prone to cultural conflicts with China.

## 4.3 Political risks in the host country

As for political risk, if a country is politically stable, it can attract funds from all over the world to invest. Otherwise, it will restrain the inflow of investment funds. Table 2 is the political risk analysis of the ten ASEAN countries. The comprehensive analysis shows that the overall politics of ASEAN countries is relatively stable, and there is no terrorism or social unrest in the Middle East. From the political risks of corruption and low efficiency, policy changes, imperfect systems and regulations, party disputes, racial and territorial conflicts, social unrest, terrorism, major power intervention and international public opinion. It is worth noting that one of the most important political factors of non-ASEAN countries is the intervention of major powers, that is, by the intervention of the United States and western countries, which has a significant inhibitory effect on China's trade and investment with ASEAN. Among them, Thailand, Cambodia, Malaysia and brunei easily influenced by the western countries, the United States recently united Japan, Australia and India "four alliance", its essence is to curb the development of China, the ten asean countries are likely to join the United States, may even cultivate some anti-China forces.

Table 2: Political risks of the ten ASEAN countries

Country	Risk	Corruption and inefficiency	Policy change	System and regulations are not sound	Political party disputes	Ethnic and territorial conflict	social turmoil	terrorist	Great power intervention	International public opinion
Thailand					√	√	√	√	√	
Vietnam										
Cambodia					√				√	
Burma						√			√	√
Laos			√						√	√
Singapore										
Indonesia	√			√	√			√		√
Malaysia					√		√		√	√
Brunei						√			√	
the Philippines	√			√			√	√		

Source: The Ministry of Commerce of China

## 5. Solutions

### 5.1 Suggestions on financing issues

First of all, for the export-import bank of China "two" loans, the loan of the loan project and infrastructure construction has high matching degree, because the infrastructure cycle is long, capital demand is big, and "two" loans with low price and long term, if good use of "two" loans, the development of the loan, will better solve the financing problem of China's foreign investment.

Second, about the Silk Road Fund and the China Export and Credit Insurance Corporation. The establishment of the Silk Road Fund is to provide equity financing support for enterprises going global. However, considering the huge demand for foreign infrastructure investment, the Silk Road Fund can expand the support for debt financing and provide support for some important projects (projects that are beneficial to the country). As a policy company, China Export and Credit Insurance Corporation provides greater support in terms of risk protection scope, product innovation, insurance period, compensation ratio and other aspects, and gives full play to the role of financial instruments to escort Chinese multinational enterprises.

### 5.2 Suggestions on cultural conflict issues

For cultural conflict, we should consider from the aspects of language, religion, and emotion, so as to solve the problem of cultural conflict. From the perspective of religion, Buddhism, Islam, Christianity and other religions coexist in Southeast Asian countries, which leads to the integration of various religions and national customs, and the formation of various national cultures. When we cooperate with religious countries, we must give full consideration to religious customs and taboos, and cooperate on the basis of respecting their religious habits. If religious customs affect the interests of enterprises, we must not destroy religious customs.<sup>[5]</sup> We can first seek common ground while reserving differences and find ways to solve problems. From the perspective of social system, Southeast Asian countries have both capitalist countries and socialist countries, which may make China and ASEAN countries have different values. In terms of values, we can build Confucius Institutes in ASEAN countries to enhance the cultural identity between the two sides, promote cultural exchanges, and enhance the identity of one side's identity with the culture of the other side.

### 5.3 Suggestions on the political relations between China and ASEAN

In the face of the increasingly complex world situation, China only needs to do itself, build trust with ASEAN countries, and enhance the recognition of the common interests of ASEAN countries and China.

First, we should advocate the concept of building a community with a shared future for mankind. In today's new crown outbreak under the background and the war on the world, combining the new development pattern of our country policy, our country should increase contribution in global governance, with RCEP as a platform, strengthen the economic and political relations with asean, the construction of an open regional economy, build a deeper regional economic integration.<sup>[8]</sup>

Second, we need to strengthen people-to-people exchanges. China should develop political and cultural exchanges with ASEAN in various aspects, especially the study and exchange between the younger generation of the two countries. For example, opening Confucius Institutes in ASEAN countries to promote political mutual trust through humanistic and academic exchanges, so as to eliminate the hostile consciousness of ASEAN countries towards China.

## 6. Conclusion

Since the reform and opening up, China and ASEAN have always maintained good business cooperative relations. After the launch of the "One Belt And One Road" initiative, China's investment in ASEAN infrastructure has expanded rapidly, and the construction of China's new development pattern has provided a strong boost to China's foreign investment in infrastructure.<sup>[11]</sup> This paper introduces the current international and domestic situation, emphatically introduces the new development pattern of China construction (binary), and further analyzes the present situation of China's foreign investment, so as to extend to the present situation of China to asean infrastructure investment and in such a complex domestic and international background of China to the asean infrastructure investment problems and the measures of these problems. The problems facing China's infrastructure investment in ASEAN mainly include financing, cultural conflicts, politics and other factors. China has excess infrastructure capacity and advanced technology, and ASEAN has a vast market, so cooperation between the two countries is bound to be win-win. However, in the process of investment cooperation, it is inevitable to encounter difficulties. Therefore, it is the best choice for the two governments to work together to solve the difficulties and ensure the construction of infrastructure.

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