

Under the “Belt and Road” initiative, the risks and countermeasures of Chinese Enterprises' Direct Investment in ASEAN

Jingwen Tang

Nanjing University of Science and Technology, Nanjing 210094, China

709840065@qq.com

Keywords: One Belt and Road, FDI, ASEAN, Investment Risk

Abstract: Since the formal dialogue between China and ASEAN in 1991, the economic and trade relations between China and ASEAN have developed rapidly. After the “Belt and Road “Initiative put forward, China's direct investment in ASEAN is growing rapidly. However, due to the investment environment of ASEAN and the lack of experience of foreign direct investment in Chinese enterprises, enterprises will face some investment risks, such as political risk, cultural risk, legal risk and so on. This paper puts forward some countermeasures for different risks and distinguishes the influence of different risks on direct investment, which is of great significance to guide China to implement the “Go Global” strategy in ASEAN and to implement the “Belt and Road “Initiative. Since President Xi Jinping put forward the “Belt and Road “ initiative in 2013, the initiative has been committed to building a community of interests of political mutual trust, economic integration and cultural inclusion over the past five years. The goals are being pushed forward step by step with the efforts of all parties. All 10 ASEAN countries belong to important members along the “One Belt and Road “ route, and are the most qualified to dock with the “One Belt and Road”. For a long time, China has been ASEAN's largest trading partner. ASEAN is China's main export market and main source of imports, and signed a free trade agreement with each other earlier. Therefore, this paper makes an in-depth analysis of the risks faced by Chinese enterprises in direct investment in ASEAN under the “Belt and Road “Initiative, no matter how to guide the development of economic and trade cooperation between China and ASEAN under the “Belt and Road “Initiative. It is also of great guiding significance to the development of economic and trade cooperation between China and other countries along “One Belt and Road”.

1. The Situation of China's Direct Investment in ASEAN under the “Belt and Road “Initiative

Economic and trade cooperation between China and ASEAN has a long history and began at the Asian-African meeting in 1955. However, the real rapid development is after China's reform and opening up, especially after the formal dialogue between the two sides in 1991. After President Xi Jinping put forward the “Belt and Road” initiative in 2013, China-ASEAN economic and trade cooperation entered a new stage. It presents a series of new features.

1.1 The rapid growth of China's direct investment in ASEAN

Economic and trade cooperation between countries includes goods (foreign trade), capital and foreign economic cooperation, and China-ASEAN is no exception. Since the “Belt and Road” initiative was put forward in 2013, the scale of bilateral economic and trade cooperation between China and ASEAN has continued to expand. And all levels show an upward trend. The scale of bilateral direct investment is also increasing, especially China's direct investment in ASEAN. In 2017, China's direct investment in ASEAN reached \$14.119 billion, up 94.29 % from \$7.267 billion in 2013. According to the Statistical Yearbook of China, during the 11 years from 2003 to 2013, ASEAN's direct investment in China greatly exceeded the scale of China's direct investment in ASEAN, and China showed an obvious direct investment deficit. Since the “Belt and Road” initiative, not only the scale of bilateral direct investment has gradually expanded, but also the deficit of bilateral direct investment has changed from the previous deficit to China's surplus since

2014, and the scale of the surplus has been expanding continuously.

1.2 An imbalance in China's investment in ASEAN

Because of the geographical advantages, natural resource endowment, economic development level and domestic political environment of ASEAN countries, the attraction of ASEAN countries to direct investment from mainland China is also highly concentrated. As can be seen from Table 1.1, mainland China's direct investment in ASEAN is also concentrated in Singapore, Malaysia, Indonesia, Vietnam, Thailand and Cambodia, and has increased further in 2015 and 2016. The concentration degree reached 94.31% and 92.31%, respectively. Although the direct investment of mainland China in Laos increased greatly and the direct investment in Vietnam decreased in 2017, the overall agglomeration still exists.

2. The risks faced by Chinese enterprises in direct investment in ASEAN

It is true that the “Belt and Road” initiative and the special location advantages between China and ASEAN and the history of economic and trade cooperation have laid a good foundation for deepening bilateral economic and trade cooperation, and China's direct investment platform for ASEAN will also be further expanded. However, due to the uneven economic development among ASEAN member countries, the great differences in investment environment and the lack of experience of foreign direct investment by Chinese enterprises, the direct investment of Chinese enterprises in ASEAN is bound to face some risks.

2.1 Government risk

The focus on political risk began roughly in the 1960s and 1970s. The early political risk was that a country's political decisions or events had an impact on the country's business environment, resulting in investors falling short of expected profits. Or host country policy, institutional discontinuity or unexpected changes. According to the definition of political risk, it is difficult for enterprises to predict and control political risk, and it is one of the most destructive and influential investment risks in the process of foreign direct investment. It is also a prerequisite for enterprises to invest safely in the host country. According to the research of many scholars at home and abroad, the political risks faced by Chinese enterprises in ASEAN are mainly local civil strife and war risk, the risk of government default, the risk of government intervention and the risk of terrorist attacks. In recent years, the international situation has been numerous and complex, the struggle between political groups and political groups in ASEAN countries has become increasingly fierce, political violence has become increasingly prominent, and domestic disturbances have continued. At present, with the exception of Singapore and Brunei, there are different degrees of internal conflicts in ASEAN countries, especially Myanmar, Cambodia and Thailand. Civil strife in these countries cannot be solved in a short period of time, so investing in these countries often fails to ensure the personal and property safety of investors. There are different voices in the world about the rise of China. Among them, the “China threat Theory” is the most widely spread. Among the ASEAN members, Vietnam, Cambodia, Laos and Myanmar have all been subjected to colonial oppression and have had a short period of independence. The desire for peace is self-evident, so some ASEAN countries are skeptical about China's “Belt and Road Initiative” and “community of destiny”.

2.2 Social and cultural risk

The social and cultural risk of transnational investment is generally manifested as the cultural conflict between the members of the home country and the host country. Once the cultural conflict escalates, it is highly possible to transform the cultural conflict into cross-cultural risk, and cultural differences are the source of cultural risk. More and more studies have shown that social and cultural differences are important factors affecting foreign direct investment. The 10 ASEAN countries not only differ in economic development, languages, religious beliefs, but also have their own common and official languages. Thailand, Myanmar, Cambodia and Laos believe in Buddhism, Malaysia. Indonesia mainly believes in Islam, while the Philippines mainly believes in Catholicism.

Therefore, although ASEAN is adjacent to China and has frequent economic and trade exchanges with China, culture is also influenced by Indian, Islamic and Buddhist cultures. In recent years, China's direct investment in ASEAN countries has become more and more important, but due to language barriers, there is a lack of adequate communication and communication with the host country. In addition to the differences in language and belief, the management culture of Chinese enterprises is also different from that of ASEAN. Under the influence of the domestic cultural environment, China's habit of foreign direct investment takes the form of communication with local governments and lacks in-depth exchanges and surveys with local residents, non-governmental organizations, and other non-governmental organizations. As a result, the host government warmly welcomed Chinese investment, while the local media, the public and non-governmental organizations had doubts, aversion and even resistance to Chinese enterprises.

2.3 Legal risk

When Chinese enterprises invest abroad, mainly in ASEAN countries, they must consider the regulations of legal persons, shareholder qualification and equity setting in ASEAN countries. The classification form of enterprises in ASEAN member countries is different from that in China, such as Malaysia, different types of companies are regulated in different degrees, legal status and nature are different. When Chinese enterprises invest directly in ASEAN, they inevitably encounter disputes, which should take into account the unfavorable factors that ASEAN jurisdiction will bring to Chinese enterprises. When Chinese enterprises invest directly in ASEAN, they must consider the employment problem. Therefore, the labor laws of ASEAN member countries must be taken into account. According to the labor laws of their countries, they must hire, dismiss and sign contracts in accordance with the laws and regulations of their respective countries. Generally speaking, the main source of legal risk for Chinese enterprises to invest directly in ASEAN is that the laws of ASEAN member States are different from those of China and the enterprises are not familiar with the laws of ASEAN member countries.

3. The countermeasures to avoid the risk of Chinese enterprises' direct investment in ASEAN

With the rapid growth of Chinese direct investment in ASEAN, the risks and resistance faced by Chinese enterprises are also increasing, and the investment has repeatedly failed, which has brought a lot of losses to Chinese enterprises, which is a wake-up call for Chinese investors. How to promote the efficiency of Chinese enterprises' direct investment in ASEAN and reduce the investment risk is of great significance to both Chinese enterprises and ASEAN.

3.1 The government should improve the legal protection system and provide risk assessment and early warning

When Chinese enterprises invest directly, legal risk is the focus of many scholars. When Chinese enterprises encounter disputes in ASEAN, the laws and agreements for dispute resolution are particularly important. The Chinese government should issue laws on foreign investment to provide guidance and supervision for the overseas investment of Chinese enterprises. In 2009, the Ministry of Commerce of China began to issue the National (Regional) Guide for Foreign Investment Cooperation. Although the guide contains a large amount of space to describe the investment environment and economic development of the host country, it does not clearly identify possible risks. The main international mechanism for coordinating foreign direct investment is bilateral investment agreements. Although China has signed bilateral investment agreements with ASEAN member States, it has not been updated for a long time, and many of them have not been able to solve the existing problems. It needs to be revised or resigned in time.

3.2 Carrying out bilateral friendly activities with ASEAN member countries actively

With the global economic integration and the deepening of economic and political interdependence, the good diplomatic relations between the two countries can effectively promote the development of foreign direct investment. The direct investment of Chinese enterprises in

ASEAN is mainly in the energy industry, and it is controversial, so the good diplomatic relations between the two sides can make the enterprises that invest in these industries have some guarantees to the local government. In addition, people-to-people communication are also very important, which is conducive to people's more direct understanding of China, understanding China's initiatives, establishing the image of China's "community with a shared future", and promoting the healthy development of the bilateral economy.

3.3 Enterprises should establish risk consciousness and standardize enterprise behavior

Chinese companies are blindly optimistic and irrational about "going out". They believe that they have been operating in ASEAN for many years and that the accumulated experience is sufficient to deal with potential risks. In particular, after the "Belt and Road Initiative" had been put forward, some enterprises aim to expand the scale of investment and improve the speed of investment in the first place, and lack of consideration of efficiency, quality and safety. When the new initiative is put forward, there are many uncertain factors, so it is necessary for enterprises to establish risk awareness. While the government provides risk assessment, the investment risk should also be analyzed within the enterprise, and the possible risks should be avoided and solved. When making direct investment in ASEAN, we should be familiar with the laws of ASEAN member states, and when signing contracts, we should try our best to promote the provisions of disputes seeking third-party arbitration, so as to protect our own interests to the maximum extent.

Acknowledgements

This article is the research result of the project of Postgraduate Research & Practice Innovation Program of Jiangsu Province "Study on the Risks and Countermeasures of China's 'going out' Strategy in ASEAN" (KYCX18_0329).

References

- [1] Ke Jingjia. The balance of interests between investors and host countries under the China-ASEAN investment legal system [J]. *Southeast Asian Studies*, 2018 (03): 129 - 152+157.
- [2] Yuan Qigang, GAO Chen. Political risk Analysis of Enterprise Direct Investment in ASEAN [J]. *International Business (Journal of the University of Foreign Economics and Trade)*, 2018 (03): 122 - 136.
- [3] Zhu Lumin, Cui Ting. The risk of China's Direct Investment in ASEAN under the initiative of Belt and Road Initiative and its solution [J]. *Indian Ocean Economic Research*, 2018 (02): 100 - 113+140.
- [4] Taiping, Li Jiao. Risk assessment of direct investment by Chinese enterprises to ASEAN countries [J]. *International Business (Journal of the University of Foreign Economics and Trade)*, 2018 (01): 111 - 123.
- [5] Wang Wei. Legal risks and Countermeasures of Chinese Investment in ASEAN under the background of Belt and Road Initiative [J]. *Reform and Strategy*, 2017, 33 (12): 67 - 69.
- [6] You Hongbing, Huang Yuhuan, Wen Jun. The influence of political risk on China's Direct Investment in ASEAN under different Investment motivations [J]. *Business Research*, 2017 (12): 90-98.
- [7] Zhu Nian. The national risk of Chinese enterprises' investment in ASEAN and its preventive mechanism [J]. *Foreign Economic and Trade practice*, 2017 (11): 17 - 20.
- [8] Liu Xinchao. Foreign exchange risks faced by China's direct investment in ASEAN and ways to improve them [J]. *Foreign Economic and Trade practice*, 2017 (04): 54 - 57.
- [9] Zhao Dsen. China's risk generation and prevention and control mechanism for ASEAN

investment projects-based on the analysis of host country stakeholders [J]. *Exploration of Economic problems*, 2016 (07): 159 - 164.

[10] You Hongbing, Liu Xiaomei. China's foreign exchange risk to ASEAN ODI and its response [J]. *International Economic Cooperation*, 2016 (05): 63 - 67.

[11] Sarmiza Pencea, 2017. "A look into the Complexities of the One Belt, One Road Strategy," *Global Economic Observer*, "Nicolae Titulescu" University of Bucharest, Faculty of Economic Sciences; Institute for World Economy of the Romanian Academy, vol. 5 (1), June.

[12] Andrzej Bujak & Zdzislaw Sliwa, 2016. "Global aspects of security environment - the 'One Belt, One Road' project," *Ekonomia i Prawo*, Uniwersytet Mikołaja Kopernika, vol. 15 (4), pages 439 - 454, December.