

Analysis on the current situation and problems of China's direct investment in ASEAN

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Abstract: With the continuous development of economic regionalization and globalization, the trade and investment cooperation between China and ASEAN countries is increasing, and China's direct investment in ASEAN region is also expanding rapidly. Due to the different demand level of each country, the economic development of ASEAN countries is unbalanced. With the continuous improvement of the investment environment in ASEAN, ASEAN has gradually become an economy with investment potential. Based on this environment, Starting from this general environment, this article explains the status quo of China's direct investment in the ASEAN region, including China's FDI flows, stocks, industrial distribution and country distribution in ASEAN countries. Based on the analysis of the current situation, this paper points out the problems of China's direct investment in ASEAN, including the opaque access to information, the low level of overall investment and the risk of investment environment. Finally, it puts forward the corresponding countermeasures.

1. Analysis on the current situation of China's direct investment in ASEAN

1.1 The overall scale is small, but it shows rapid and stable growth

On the whole, from figure 1, China's investment in the ten ASEAN countries continues to grow, and the growth rate is impressive. In terms of investment flows, China's investment flows to ASEAN have rapidly increased from US\$62 million in 2003 to US\$13.698 billion in 2018, with an average annual growth rate of 43.3%, which is much higher than the average annual growth rate of China's overall FDI of 33.2%. China's direct investment in ASEAN increased from 2.1% in 2003 to 9.6% in 2018. In 2018, it increased by 33.7% compared to the same period last year. In terms of stock, China's direct investment in ASEAN continued to increase from US\$587 million in 2003. From 2012 to 2018, it was US\$102.859 billion, with an average annual growth rate of 41.1%, which was higher than the 33.0% growth of China's total foreign direct investment in the same period. The growth also increased from 1.8% of China's foreign direct investment stock to 5.2 from 2003 to 2018. In 2018, China's direct investment stock in ASEAN countries increased by 43.7% over the same period last year. Although the United States, the European Union, Japan and South Korea have developed rapidly, the stock of Chinese investment in ASEAN is very low compared with the United States, the European Union, Japan and South Korea. From 2016 to 2018, the European Union, South Korea and Japan accounted for 22.4%, 8% and 17% respectively, while China only accounted for 6.5% [3-4]. China's total direct investment in ASEAN is insufficient, and the degree of dependence is even though China's total investment in ASEAN is less than that of the EU, Japan and other countries, but are still in the stage of sustainable development. Compared with 0.42 at the beginning of the 21st century, China's direct investment in ASEAN has made considerable progress.

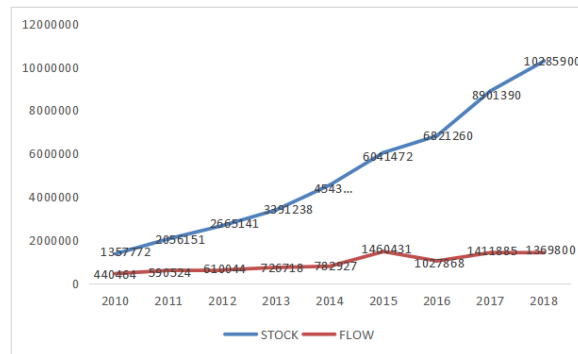


Figure 1. China's direct investment in ASEAN from 2010 to 2018

1.2 Uneven spatial distribution and diversified industry distribution

The spatial distribution of China's direct investment in ASEAN is relatively concentrated, showing the characteristics of imbalance. In terms of flow, in 2017, Singapore accounted for the largest proportion of China's direct investment in the ten ASEAN countries, accounting for 44.76%, with an amount of US \$6.32 billion, followed by Malaysia and Indonesia, which accounted for 12.2% and 11.9%, with an amount of US \$1.72 billion and US \$16.8 billion respectively; Laos, Thailand, Vietnam and Cambodia account for the same proportion; the proportions of Myanmar, the Philippines, and Brunei are very small, and the proportions of the three countries are less than 5%. In terms of stock, as of the end of 2017, China's direct investment in Singapore accounted for 50.07% of the total amount of direct investment in ASEAN, amounting to US \$44.568 billion, followed by Indonesia, accounting for 11.84% [6]; except Brunei and the Philippines, there was no significant difference in other countries and regions.

From the perspective of industry distribution, China's investment stock in ASEAN leasing and business services was the largest in 2017, reaching 17.483 billion US dollars, accounting for 19.6%, of which nearly 90% went to Singapore, manufacturing is the industry where China has the most direct investment in ASEAN, and it is also the second largest industry in China's direct investment in ASEAN, accounting for 17.5%; China's wholesale and retail to ASEAN, mining, electricity/heating/natural gas and water production and supply Industries accounted for 13.3%, 11.6%, and 10.8% of total investment in ASEAN respectively; China's investment in ASEAN's water conservancy/environment and public facilities management, accommodation and catering industry, culture/sports and entertainment industry accounted for only 0.1%.

1.3 The distribution of countries fluctuates greatly

On the whole, China's direct investment flow to most ASEAN countries is increasing, and the distribution of countries with direct investment to ASEAN fluctuates greatly. Among them, China's investment in Singapore has been dominant, accounting for more than 45%. At the end of 2016, Singapore, Indonesia, Laos, Vietnam and Myanmar were the top five countries in China's direct investment stock among the ten ASEAN countries, accounting for 81.2% of China's direct investment in the ten ASEAN countries [7]. From the distribution of China's outward direct investment in ASEAN, most of China's outward direct investment in ASEAN is in the six old ASEAN countries, while the direct investment in the four new ASEAN countries starts relatively early and grows slowly in the initial stage.

2. The problems of China's direct investment in ASEAN

2.1 Similar to some ASEAN industrial structure

The industrial structure of China is similar to that of some ASEAN countries, which are mainly labor-intensive and resource intensive industries. Primary products account for a large part of the export commodities. They cause great competition between China and Vietnam. Because the export target markets of the two countries are Europe, America, Japan and other regions, and

Vietnam's labor cost advantage is obvious, there is a trade gap between the two countries.

2.2 The overall level of China's direct investment in ASEAN is low

Overall, China's total investment in ASEAN in 2016 was US \$71.5 billion, while China's investment stock in Asia was US \$909.45 billion. China's investment in ASEAN only accounted for 7.9% of China's investment in Asia and 5.26% of the world's total flow of foreign direct investment. Compared with other developed countries, there is still a long way to go. Secondly, from a national perspective, the top 6 countries and regions for investment in ASEAN in terms of flow are the European Union, Japan, the United States, China, South Korea, and Australia, with investments of US\$19.7 billion, US\$17.4 billion, US\$12.2 billion, and Australia. US\$8.2 billion, US\$5.7 billion and US\$5.2 billion; therefore, looking at the proportion of global investment in ASEAN, China's direct investment in ASEAN is still relatively low.

2.3 The distribution of China's direct investment in ASEAN countries is unreasonable

China's investment in ASEAN has achieved a qualitative leap in the past decade, but there are great differences in China's investment in ASEAN countries. Singapore and Indonesia account for 60% of China's total investment in the ten ASEAN countries, but the investment in the Philippines, Cambodia, Laos and Brunei is not as good as that in Singapore alone; in 2016, China's direct investment in Singapore, Indonesia, Laos and Myanmar has been in a leading position, while the direct investment in Malaysia, Philippines and Brunei has always been at a relatively low level, so there are obvious differences in investment in ASEAN among different countries.

3. Countermeasures to promote China's direct investment in ASEAN

3.1 Suggestions at the government level

(1) Increase policy support and actively promote the development of China's investment in ASEAN.

The support of the Chinese government is crucial in the process of "going out" of Chinese enterprises. Government departments should follow the national economic development strategy to support ASEAN direct investment projects, and give preferential policies and subsidies in tax and loans. Relevant government departments should also provide more information about the investment environment and policies of ASEAN countries to Chinese multinational enterprises, so that Chinese enterprises can make greater achievements in ASEAN direct investment.

(2) Establish and improve the guarantee system for foreign investment of Chinese enterprises.

The promulgation of special laws and regulations to protect international investment activities, such as the overseas investment insurance system, can effectively protect the legitimate rights and interests of Chinese companies, and while avoiding political risks, it can also enhance my country's international competitive position.

(3) Further promote the construction of "China-ASEAN Free Trade Area"

The establishment of China-ASEAN Free Trade Area has promoted the flow of goods and factors in the area, reduced tariffs, opened the ASEAN market, made more Chinese enterprises invest in ASEAN countries, and provided more opportunities for Chinese public enterprises to invest in ASEAN countries. China should speed up the investment agreements with ASEAN countries in various fields, and use legal weapons to protect China's direct investment in ASEAN.

3.2 Countermeasures and suggestions at the enterprise level

(1) Expand the layout of ASEAN's advantageous industries, extend the value chain, and optimize the industrial structure.

At present, China's direct investment in ASEAN countries is still dominated by manufacturing industry. For technology intensive and capital intensive products, China is still engaged in low value-added and low return assembly of finished products. Therefore, Chinese companies should increase investment in high-tech industries to improve the status of Chinese products in the international market. In addition, Chinese enterprises need to adapt to the development of related

industries and the demand pattern of ASEAN service industry market, and invest in service industry with certain advantages.

(2) Balance risk and efficiency, and speed up the process of overseas M & A.

Investment and M & A is an effective process for the rapid development of enterprises. It is also an important purpose and means for enterprises to improve brand influence, seek economies of scale, expand market share and broaden network channels. In recent years, the valuation of overseas assets has become more attractive due to the increase of RMB exchange rate. Chinese enterprises should make full use of this investment opportunity to increase overseas investment and M & A of ASEAN enterprises.

(3) Comply with local laws, ethnic and religious, and adapt to complex environment

Due to the different legal systems and systems in ASEAN countries, Chinese enterprises must be familiar with the local laws and regulations, improve the legal system of foreign investment, vigorously cultivate talents with ability in international business, help the local economy develop industries and expand the local market.

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