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China's Investment in ASEAN: Paradigm Shift or Hot Air?

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Abstract

This paper focuses on China's outward foreign direct investment (FDI), arguably one of the most prominent forms of 'new' capital entering the Association of South East Asian Nations (ASEAN) in recent times, not least since the Belt and Road Initiative (BRI) was announced by Chinese President Xi Jinping in 2013. Despite initial warmth and hopes for Chinese capital to uplift the economies of the region, recent years have witnessed some high profile pushback against China by some ASEAN members. Key concerns include but are not limited to new, often project-related concerns as well as old, if unspoken, fears that 'China is buying the world' through a spate of 'debt trap diplomacy'. This paper aims to shed light on this issue, focusing on China's outward FDI into ASEAN. Through an analysis of statistical information, it shows that Chinese FDI in ASEAN economies is considerably 'smaller' than what popular rhetoric suggests. Firstly, Chinese outward FDI, while increasing in value, is not more significant than the region's traditional investors, mainly Japan and ASEAN itself. Secondly, the quality of Chinese outward FDI is considerably less sophisticated and sustainable than what is commonly expected. Much of it is directed towards tertiary industries such as real estate activities, which contain a rather speculative element.

Keywords: Belt and Road Initiative, China, Japan, ASEAN, Foreign Direct Investment, Regional Development

1. Introduction

China's economic resurgence following its 'Reform and Opening' policies in 1978 has been nothing short of miraculous. While initially reliant on attracting foreign direct investment (FDI) to power its growth, China has become a significant exporter of FDI, especially since the early 2000s. In 2017, China's outward FDI totalled USD125 billion, making it the world's third-largest source of FDI, trailing only the US (USD342 billion) and Japan (USD160 billion) (UNCTAD 2018). Chinese agency has also been reinforced since the 2013 announcement of the Belt and Road Initiative (BRI), an ambitious project to better connect China to regions spanning Southeast Asia, Central Asia, Europe, and Africa.

Accompanying this economic prowess is constant discussion of Chinese outward FDI in the international arena, with fear and impartiality driving much of the dialogue. Reflecting his administration's strict stance on China, US President Donald Trump in August 2018 signed

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a law to strengthen a panel that reviews investments from abroad for national security risks, widely viewed as a way to curtail Chinese FDI entering the US (Wells and Leonard 2018). In EU, wariness of China is similarly noticeable as lawmakers overwhelmingly backed a far-reaching system in February 2019 to coordinate scrutiny of foreign investments, notably from China, to protect strategic technologies and infrastructure in Europe. Franck Proust, the leading EU lawmaker on the plan, said on the eve of the vote: ‘We’re not looking to bar foreign investment. It is essential for EU countries, we need it. It’s to pay attention to the investments that are strange, that do not make economic sense but are political’ (Reuters 2018).

As China’s ‘near abroad’, with Laos, Myanmar, and Vietnam sharing borders with Yunnan and Guangxi provinces, the Association of South East Asian Nations (ASEAN) member states are bound to be on the receiving end of such overtures. Indeed, ASEAN has emerged as one of the most popular investment destinations for Chinese transnational corporations (TNCs) eager to expand their presence overseas (Lim 2017; Camba 2017). Nevertheless, initial warmth in the region has seemingly given way to (often) project-related worries as well as fears that ‘China is buying the world’ through a spate of ‘debt trap diplomacy’ (see Straits Times 2018; The Economist 2018).[1] For instance, Malaysian Prime Minister Mahathir Mohamad, in his visit to Beijing in August 2018 stressed that his recently-installed administration will have no choice but to cancel or shelf some of the large BRI projects pushed forward by his predecessor, Najib Razak. Explaining his rationale after meeting Premier Li Keqiang of China, Mahathir stated that: ‘We do not want a situation where there is a new version of colonialism happening because poor countries are unable to compete with rich countries’.[2] Perhaps appealing to Chinese sentiments, he also referred to the negative experience of the Chinese in signing unequal treaties with the Western powers in the aftermath of the opium wars during the 1800s: ‘China knows very well that it had to deal with unequal treaties in the past imposed upon China by Western powers… So China should be sympathetic toward us. They know we cannot afford this’ (TODAY 2018). In a similar vein, Chairul Tanjung, the sixth-richest man in Indonesia, in an international business forum held in Hong Kong in September 2017 stated that: ‘China now is very aggressive with its initiative… to come to all countries, including the ASEAN… but sometimes, if you're too aggressive coming without enough socialization – that will also make us [feel scared]’ (Ho 2017).

[1] See Nolan (2012) for a more detailed, albeit slightly dated, discussion on this issue.
[2] Some of these projects are alleged to have had their cost grossly inflated and/or serve as conduits for which public money is siphoned to key individuals linked to the Najib clique (Reuters 2018).

Nevertheless, is there any truth behind such fearful sentiments? Is China, through its TNCs, really 'buying up ASEAN'? To more accurately tackle this topic, the paper shall ask and answer three more surgical questions: What is the value of Chinese FDI entering ASEAN, especially vis-à-vis the region's more established investors i.e. Japan and ASEAN itself? Where or which industries are the Chinese TNCs investing their capital into? Lastly, to what extent is Chinese FDI reshaping ASEAN's economic progress? To unpack these questions, the paper shall analyse Chinese investment in ASEAN, focusing on two inter-related perspectives – quantity and quality of the FDI.

As shall be elaborated in the subsequent sections, the main argument is that Chinese FDI in the ASEAN economies is considerably 'smaller' than what popular rhetoric suggests. Firstly, Chinese TNCs, despite a significant upsurge in their investment into the region, have not usurped their Japanese and ASEAN counterparts. The only clear case of Chinese success is in Laos, one of the region's smallest and most backward economies. Secondly, there remain doubts about the quality of Chinese outward FDI in ASEAN. A large portion of Chinese capital has gone into real estate development, which offers not only limited linkages to the domestic population, but also encourages market speculation. Unlike the Japanese TNCs which invest primarily into manufacturing, Chinese TNCs' lack of attention towards the manufacturing industry casts doubts on their embeddedness to the regional and domestic industrial ecosystem, hampering the latter's long term growth in the region.

Data on the *flow* of FDI was obtained from the statistical database of international and regional organizations such as the World Bank and ASEAN Secretariat. It mainly draws upon statistical figures of the last five to 10 years, although older data has also proven useful. In addition, information related to the *stock* of FDI, where available, was retrieved from the year-on-year balance of payment account of the respective ASEAN economies. Such information was obtained by accessing the database of CEIC Data Manager, the statistical boards, and central banks of the relevant ASEAN economies.[3] To enhance data consistency, the information gathered was cross validated with newspaper essays, published reports, academic and technical articles, and company websites in the English, Chinese, and several Southeast Asian languages (i.e. Malay and Indonesian). The use of these sources of information allowed for data verification and triangulation, resulting in a clearer reading of the situation from multiple perspectives.

[3] Due to rounding, numbers presented throughout this paper may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

The paper begins by analysing the quantitative dimension of Chinese FDI, comparing it to FDI from ASEAN and Japan. The *flow* of FDI entering ASEAN – representing the short term dynamics – will be examined. Thereafter, the *stock* of FDI – representing the long term evolution of the regional business landscape – shall be analysed. The paper then focuses on the qualitative dimension of Chinese, ASEAN, and Japanese FDI, illustrating that a substantial percentage of Chinese FDI has entered the tertiary sector. The heavy emphasis of the Chinese TNCs on tertiary activities contrasts with that of the manufacturing-centric nature of FDI from Japan. The subsequent section discusses the paper's findings. In addition, it offers prospective researchers some avenues to conduct more detailed analysis on this subject. The paper concludes with a summary of the main argument, along with some policy advice.

2. Re-Interpreting Chinese Foreign Direct Investment into ASEAN

2.1. Quantitative Dimension

Figure 1 shows that the flow of Chinese FDI into ASEAN has increased from 2010 to 2017.[4] Rising from a low of USD3.5 billion to USD11.4 billion during the period observed, the flow of Chinse FDI into the region has enjoyed slightly more than a tripling of value. Nevertheless, Chinese FDI remains a laggard vis-à-vis ASEAN and Japanese investors. ASEAN investors remain the largest FDI contributor in the region, contributing as much as USD27.0 billion in 2017. Apart from a brief drop in 2011, 2013, and 2015, ASEAN's flow of FDI has steadily increased on an annual basis. On the other hand, Japanese FDI has fluctuated during the period observed, but it has hovered around the USD13.0 billion threshold since 2014. Despite the rather uneven and lacklustre performance of the Japanese investors, Chinese FDI still cannot usurp the former.

[4] This paper acknowledges the fairly prominent role played by offshore business centers such as Hong Kong and the Netherlands in orchestrating investment into some economies within ASEAN. However, it is almost impossible to accurately estimate the FDI entering and exiting ASEAN through these destinations. A more practical solution, adopted in this paper, is to 'isolate' the monetary effects of these offshore business centers, removing them from the analysis.

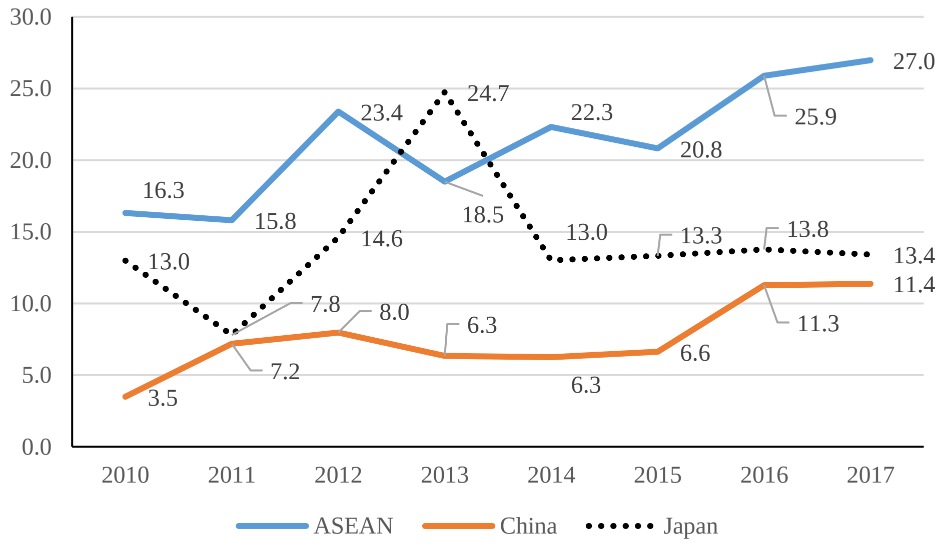

Figure 1: Flow of Inward Foreign Direct Investment into ASEAN by Source Country, 2010-2017 (Billion USD)

Source: ASEANstats.

Table 1 details the distribution of Chinese FDI into the respective ASEAN economies as well as that of ASEAN itself and Japan from 2010 to 2017. It can be seen that the top three economies targeted by Chinese TNCs are Singapore, Indonesia, and Myanmar respectively, witnessed by the increasing inflow of Chinese FDI. Nevertheless, Chinese TNCs have still failed to out-invest their ASEAN and Japanese counterparts in all three economies. Chinese performance is especially dismal in Indonesia, where it is close to fifteen and eight times smaller than the FDI contributed by ASEAN and Japanese TNCs respectively. In addition, a country-by-country analysis reveals that the flow of Chinese FDI is only decisively dominant in Laos, ASEAN's second smallest economy. It is perhaps Laos' small size and lack of integration to the rest of the region which makes it an 'easy' target for Chinese TNCs. For the rest of ASEAN, it is not apparent that Chinese FDI has significantly displaced that of ASEAN and/or Japan. For example, Indonesia and Thailand – ASEAN's two largest economies – remain firm favourites for Japanese TNCs. Indeed, these are the two economies that absorb close to half of Japanese FDI into the region on a yearly basis. Even in Cambodia and Myanmar, two supposedly close Chinese allies, Chinese investors have not been able to corner the market in the manner they have in Laos. Although Chinese FDI outranks Japanese FDI in both these countries, it has not been able to out-invest ASEAN TNCs for the period observed.

Table 1: Flow of Inward Foreign Direct Investment into Various ASEAN Economies by Source Country, 2010-2017 (Billion USD)

		Year								
Host Country	Source Country	2010	2011	2012	2013	2014	2015	2016	2017	Total
Brunei	ASEAN	0.1	0.1	0	-0.1	0.1	0.1	-0.1	0.5	0.8
	China	0	-	-	-	-	-	-	-	0
	Japan	0	0.1	0.1	0	0	0	0	0	0.2
Cambodia	ASEAN	0.3	0.2	0.5	0.3	0.4	0.4	0.6	0.6	3.4
	China	0.1	0.2	0.4	0.3	0.6	0.5	0.5	0.6	3.2
	Japan	0	0	0	0	0.1	0	0.2	0.2	0.6
Indonesia	ASEAN	5.9	8.3	7.6	8.7	13.1	9.3	9.9	11.9	74.6
	China	0.4	0.2	0.3	0.6	1.1	0.3	0.4	1.8	5.1
	Japan	3.7	6.2	8.0	5.6	5.8	4.0	2.5	4.1	40.0
Laos	ASEAN	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	1.1
	China	0	0.3	-	-	0.6	0.7	0.7	1.3	3.6
	Japan	0	0	-	-	0	0.1	0	0.1	0.2
Malaysia	ASEAN	0.5	2.7	2.8	2.2	2.3	2.9	2.1	2.2	17.6
	China	0	0	0	0.1	0.3	0.3	1.4	1.6	3.7
	Japan	1.0	3.2	1.9	2.6	0.7	2.5	0.9	1.2	13.7
Myanmar	ASEAN	0	0.1	0.2	1.2	0.7	2.2	1.7	2.6	8.6
	China	1.5	0.7	0.5	0.8	0.1	0.1	0.2	0.6	4.4
	Japan	0	0	0	0	0	0.1	0	0.2	0.4
Philippines	ASEAN	0	0	0.1	0	0.1	0.1	0.6	0.7	1.6
	China	0	0	0	0	0	0.1	0	0	0.2
	Japan	0	0.3	0.1	0.4	0.4	0.5	2.7	0.1	4.4
Singapore	ASEAN	5.7	2.0	11.5	3.5	4.9	3.0	6.5	4.0	41.1
	China	0.7	5.5	6.0	2.7	3.6	4.0	6.0	4.5	33.0
	Japan	2.8	-1.8	-1.9	2.8	2.6	2.1	3.1	0.8	10.5
Thailand	ASEAN	2.2	1.0	-0.7	0.5	-0.9	0.4	2.0	1.8	6.3
	China	0.6	0	0.6	0.9	-0.2	0.2	1.1	0.1	3.4
	Japan	4.4	-1.4	3.7	11.0	2.4	3.0	3.0	3.3	29.3
Vietnam	ASEAN	1.3	1.5	1.3	2.1	1.5	2.2	2.3	2.5	14.7
	China	0.1	0.4	0.2	1.0	0.2	0.4	1.0	0.9	4.0
	Japan	1.1	1.2	2.9	2.4	1.0	1.0	1.3	3.6	14.4

Source: ASEANstats.

The situation looks even less promising for the Chinese investors if the stock of FDI in the region is taken into consideration. Table 2 shows the FDI stock of the major investors in Malaysia, Singapore, and Thailand between 2006 and 2017.[5] Japanese investors hold an almost unassailable lead in Thailand, primarily because of the latter's status as one of the traditional

[5] Although data on stock of FDI is harder to retrieve on a consistent basis compared to flow of FDI, a 'snapshot' analysis can still be conducted for Malaysia, Singapore, and Thailand.

favourites for Japanese manufacturers investing into ASEAN. ASEAN investors, while not as prominent as their Japanese counterparts, have also grown their stock of FDI substantially. To this end, ASEAN's stock of FDI in Thailand has almost tripled from USD13.2 billion to USD39.4 billion from 2006 to 2017. The stock of Chinese FDI in the country is considerably smaller than that of both Japan and ASEAN. Despite a strong growth rate, Chinese FDI stands only at USD4.7 billion in 2017.

Table 2: Stock of Foreign Direct Investment in Malaysia, Singapore, and Thailand by Source Country, 2006-2017 (Billion USD)

		Year											
Host Country	Source Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Malaysia	ASEAN	8.6	17.2	14.4	15.0	16.9	20.4	22.7	25.0	-	34.8	38.1	38.0
	China	0.1	0.2	0.4	0.4	0.5	0.5	0.5	0.6	-	1.1	3.1	5.2
	Japan	8.6	10.1	9.6	9.9	11.6	13.9	16.1	18.6	17.5	21.1	20.2	20.8
Singapore	ASEAN	8.7	11.6	13.5	16.6	22.9	23.4	30.3	30.2	30.8	32.5	36.3	40.3
	China	1.2	1.7	3.2	6.9	12.3	10.8	11.6	12.7	11.4	16.2	17.1	25.9
	Japan	32.1	34.0	36.0	36.1	40.0	40.0	43.0	51.6	78.6	82.3	66.3	71.4
Thailand	ASEAN	13.2	16.2	14.1	18.8	24.3	31.6	32.9	32.0	35.6	30.7	32.2	39.4
	China	0.4	0.4	0.5	0.6	1.3	1.9	2.6	3.5	3.3	3.2	4.6	4.7
	Japan	27.6	32.5	34.6	36.8	45.1	47.9	57.0	64.8	70.7	66.2	72.4	83.1

1.0 USD: 3.8 MYR; 1.0 USD: 1.4 SGD

Source: Department of Statistics (Malaysia), Department of Statistics (Singapore), Bank of Thailand, and CEIC Data Manager.

A similar scenario is observed in both Malaysia and Singapore. Notwithstanding a high growth rate, the stock of Chinese FDI is still significantly smaller than that of ASEAN and Japan. For Malaysia, ASEAN's stock of FDI is about seven times the size of the Chinese in 2017. For Singapore, the stock of Japanese FDI amounts to USD71.4 billion in 2017, which is about threefold the value of the Chinese FDI stock.

2.2. Qualitative Dimension

Tables 3, 4, and 5 show the contrast in composition of the flow of Chinese, ASEAN, and Japanese FDI from 2012 to 2017. For China, its TNCs have mainly invested into the tertiary sector, led by real estate activities, financial and insurance activities, and wholesale and retail trade-cum-repair of motor vehicles and motorcycles. As much as 40% to 68% of Chinese outward FDI into ASEAN has gone into these three activities during the period observed. Out of these three activities, real estate development is the most heavily represented, accounting for 21% to 34% of total Chinese outward FDI. It is widely believed that much of the Chinese FDI classified as real estate development entering ASEAN has gone into luxury projects that contain rather speculative elements, with little direct benefit to the local population.[6] Indeed, China's latest round of capital controls, implemented in March 2017, has been designed to stop Chinese companies from irrational foreign investment, with real estate, cultural, and entertainment top on Beijing's list of scrutiny (Wang 2017). Contrarily, manufacturing-related FDI is relatively meagre in value, representing only an average of 11% of Chinese outward capital into ASEAN.

For ASEAN, close to one-third of its FDI has financed manufacturing activities from 2012 to 2017. The second most important activity financed by ASEAN TNCs is financial and insurance activities, contributing an average of 20% of ASEAN FDI – despite some fluctuation in value – during the period observed. ASEAN TNCs' third most favourite activity is real estate activities, accounting for an average of 17% of their FDI during the period observed.

Unlike Chinese and ASEAN FDI, a very high percentage of Japanese capital has gone towards manufacturing activities. Apart from 2012, 35% to 55% of Japanese FDI has financed manufacturing in ASEAN. The heavy presence of Japanese FDI in manufacturing reflects the resilience of Japan TNCs-orchestrated production networks and industrial organization. More importantly, Japanese manufacturers remain powerhouses in the region's critical industries such as automobile and tools and machinery, pressing home the goodwill and brand name they built when they established production facilities in Southeast Asia en masse following the 1985 Plaza Accord which led to the rapid rise in the value of Japanese Yen (JPY), otherwise known as *endaka* (literally translates to 'expensive Yen').

[6] Some of the most commonly cited projects are Forest City (Malaysia) and Meikarta (Indonesia) (Ng and Lim 2017; Rose 2018).

Table 3: Sector-by-Sector Analysis of Flow of Inward Foreign Direct Investment into ASEAN by Chinese Investors, 2012-2017 (Billion USD, %)

	2012	2013	2014	2015	2016	2017
Sector	Value (Percentage)	Value (Percentage)	Value (Percentage)	Value (Percentage)	Value (Percentage)	Value (Percentage)
Agriculture, Forestry, and Fishing	0.1 (1%)	0.1 (1%)	0.1 (1%)	0.1 (1%)	0.1 (1%)	0.3 (2%)
Mining and Quarrying	0.3 (4%)	0.6 (9%)	1.1 (18%)	0.3 (4%)	0.1 (1%)	0.6 (6%)
Manufacturing	-0.1 (-1%)	1.2 (19%)	0.7 (12%)	0.8 (12%)	1.1 (10%)	1.6 (14%)
Electricity, Gas, Steam and Air Conditioning supply	0 (0%)	0.1 (1%)	0.4 (6%)	0.6 (8%)	0.5 (4%)	1.0 (8%)
Water Supply; Sewerage, Waste Management and Remediation Activities	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Construction	0.3 (3%)	0 (0%)	0.2 (3%)	0.1 (1%)	0.7 (6%)	0.7 (6%)
Wholesale and Retail Trade-cum-Repair of Motor Vehicles and Motorcycles	1.3 (17%)	0.9 (14%)	0.3 (4%)	0.6 (9%)	1.8 (16%)	2.8 (24%)
Transportation and Storage	1.7 (22%)	0 (0%)	-0.3 (-5%)	0.2 (3%)	-0.1 (-1%)	0 (0%)
Accommodation and Food Service Activities	0 (0%)	0 (0%)	0 (0%)	0.1 (1%)	1.0 (7%)	-0.2 (-2%)
Information and Communication	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0.2 (1%)
Financial and Insurance Activities	0.6 (7%)	0.1 (2%)	1.8 (29%)	1.7 (25%)	3.4 (31%)	1.6 (14%)
Real Estate Activities	1.9 (24%)	1.6 (25%)	2.1 (34%)	2.0 (30%)	2.4 (21%)	3.1 (27%)
Professional, Scientific and Technical Activities	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0.1 (1%)
Administrative and Support Service Activities	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Education	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Human Health and Social Work Activities	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Arts, Entertainment and Recreation	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Other Services Activities	1.4 (18%)	0.9 (14%)	-0.3 (-5%)	0.3 (4%)	0.1 (1%)	-0.2 (-2%)
Unspecified Activity	0.5 (6%)	0.8 (13%)	0.1 (1%)	0.1 (2%)	0.2 (2%)	0 (0%)
Total	8.0 (100%)	6.3 (100%)	6.3 (100%)	6.6 (100%)	11.3 (100%)	11.4 (100%)

Source: ASEANstats.

Table 4: Sector-by-Sector Analysis of Flow of Inward Foreign Direct Investment into ASEAN by ASEAN Investors, 2012-2017 (Billion USD, %)

	2012	2013	2014	2015	2016	2017
Sector	Value (Percentage)	Value (Percentage)	Value (Percentage)	Value (Percentage)	Value (Percentage)	Value (Percentage)
Agriculture, Forestry, and Fishing	1.3 (6%)	1.6 (9%)	4.1 (18%)	4.1 (20%)	2.8 (11%)	4.3 (16%)
Mining and Quarrying	0.6 (2%)	0.3 (2%)	1.3 (6%)	1.2 (6%)	1.2 (5%)	0.7 (3%)
Manufacturing	5.4 (23%)	6.3 (34%)	6.1 (28%)	4.4 (21%)	6.6 (26%)	8.7 (32%)
Electricity, Gas, Steam and Air Conditioning supply	0 (0%)	0.2 (1%)	0 (0%)	0.5 (2%)	0 (0%)	1.0 (3%)
Water Supply; Sewerage, Waste Management and Remediation Activities	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Construction	0.2 (1%)	0 (0%)	0.2 (1%)	0.3 (1%)	0 (0%)	0.6 (2%)
Wholesale and Retail Trade-cum-Repair of Motor Vehicles and Motorcycles	-1.1 (-5%)	0.5 (2%)	1.2 (5%)	1.3 (6%)	1.8 (7%)	2.5 (9%)
Transportation and Storage	0.5 (2%)	0.2 (1%)	0.3 (1%)	0.4 (2%)	0.2 (1%)	0.3 (1%)
Accommodation and Food Service Activities	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0.3 (1%)	0 (0%)
Information and Communication	0.6 (3%)	0 (0%)	0.2 (1%)	0.8 (4%)	0.2 (1%)	1.3 (5%)
Financial and Insurance Activities	9.8 (42%)	2.3 (12%)	4.7 (21%)	2.5 (12%)	5.4 (21%)	2.6 (10%)
Real Estate Activities	4.3 (18%)	4.7 (25%)	4.9 (22%)	3.0 (14%)	3.5 (13%)	2.9 (11%)
Professional, Scientific and Technical Activities	0.2 (1%)	0 (0%)	0 (0%)	0 (0%)	0.1 (1%)	0.1 (1%)
Administrative and Support Service Activities	0 (0%)	0.1 (1%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Public Administration and Defence; Compulsory Social Security	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Education	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Human Health and Social Work Activities	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Arts, Entertainment and Recreation	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Other Services Activities	1.0 (4%)	1.0 (5%)	-1.7 (-7%)	0.2 (1%)	1.4 (5%)	1.7 (6%)
Unspecified Activity	0.4 (2%)	1.3 (7%)	0.7 (3%)	2.1 (10%)	2.0 (8%)	0 (0%)
Total	23.4 (100%)	18.5 (100%)	22.3 (100%)	20.8 (100%)	25.9 (100%)	27.0 (100%)

Source: ASEANstats.

Table 5: Sector-by-Sector Analysis of Flow of Inward Foreign Direct Investment into ASEAN by Japanese Investors, 2012-2017 (Billion USD, %)

	2012	2013	2014	2015	2016	2017
Sector	Value (Percentage)	Value (Percentage)	Value (Percentage)	Value (Percentage)	Value (Percentage)	Value (Percentage)
Agriculture, Forestry, and Fishing	0.1 (1%)	0 (0%)	0.1 (1%)	0 (0%)	0 (0%)	0 (0%)
Mining and Quarrying	0.2 (1%)	-0.3 (-1%)	0.7 (5%)	0.5 (4%)	0.6 (4%)	0.7 (5%)
Manufacturing	2.6 (18%)	12.6 (51%)	6.6 (50%)	7.3 (55%)	4.8 (35%)	6.1 (45%)
Electricity, Gas, Steam and Air Conditioning supply	0 (0%)	0.2 (1%)	0 (0%)	0.2 (1%)	0 (0%)	1.0 (7%)
Water Supply; Sewerage, Waste Management and Remediation Activities	0 (0%)	0.4 (2%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Construction	-0.3 (-2%)	0.1 (1%)	0 (0%)	-0.1 (-1%)	-0.2 (-1%)	0.5 (4%)
Wholesale and Retail Trade-cum-Repair of Motor Vehicles and Motorcycles	4.1 (28%)	1.5 (6%)	0.7 (5%)	1.8 (13%)	2.8 (21%)	4.4 (33%)
Transportation and Storage	-0.4 (-3%)	0.2 (1%)	0.2 (1%)	0.5 (4%)	0.5 (4%)	-0.5 (-4%)
Accommodation and Food Service Activities	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0.1 (1%)
Information and Communication	0.2 (1%)	0 (0%)	0.2 (1%)	0.2 (1%)	0.2 (1%)	0.5 (3%)
Financial and Insurance Activities	5.9 (40%)	8.2 (33%)	4.3 (33%)	2.3 (17%)	1.6 (11%)	-2.3 (-17%)
Real Estate Activities	0.4 (3%)	0.4 (1%)	0.4 (3%)	0.1 (1%)	0.5 (4%)	0.9 (6%)
Professional, Scientific and Technical Activities	0.1 (1%)	0.2 (1%)	0 (0%)	0 (0%)	0 (0%)	0.1 (1%)
Administrative and Support Service Activities	0 (0%)	0 (0%)	0.1 (1%)	0.1 (1%)	0 (0%)	0 (0%)
Education	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Human Health and Social Work Activities	0 (0%)	0 (0%)	0 (0%)	0.1 (1%)	-0.3 (-2%)	0.1 (1%)
Arts, Entertainment and Recreation	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Other Services Activities	1.0 (7%)	0.6 (2%)	-0.7 (-5%)	0.1 (1%)	1.2 (9%)	1.8 (13%)
Unspecified Activity	0 (0%)	0 (0%)	0.3 (3%)	0.2 (1%)	1.7 (12%)	0 (0%)
Total	14.6 (100%)	24.7 (100%)	13.0 (100%)	13.3 (100%)	13.8 (100%)	13.4 (100%)

Source: ASEANstats.

To provide some historical context, Table 6 displays the stock of Japanese FDI in key ASEAN economies from 1990 to 2001. This was an important period following the *endaka*. Faced with a high business cost in Japan because of the JPY's steep appreciation, many Japanese TNCs saw it fit to divide their production process into several sub-processes and locate each sub-process in another country where that particular process is carried out most efficiently. ASEAN's then booming economy and proximity to Japan allowed the region to tap into this ready source of capital and technology. For Indonesia, Malaysia, the Philippines, and Thailand, it is clear that the lion's share of FDI has gone towards manufacturing. In particular, as much as 75% and 73% of Japanese FDI has financed the manufacturing industries of Malaysia and the Philippines respectively. Within the manufacturing industries of these four ASEAN economies, a sizeable portion has gone towards electric machinery activities, except Indonesia where chemicals-related investment are the major attraction for Japanese TNCs.

Table 6: Sector-by-Sector Analysis of Stock of Japanese Foreign Direct Investment in Indonesia, Malaysia, the Philippines, and Thailand, 1990-2001 (Billion JPY, %)

Sector	Value (Sectoral Composition)			
	Indonesia	Malaysia	Philippines	Thailand
Manufacturing	987 (52%)	659 (75%)	463 (73%)	1,012 (68%)
- Food	18 (1%)	23 (3%)	75 (12%)	44 (3%)
- Textiles	92 (5%)	12 (1%)	3 (1%)	53 (4%)
- Wood and Pulp	45 (2%)	26 (3%)	3 (1%)	10 (1%)
- Chemicals	388 (21%)	87 (10%)	28 (5%)	105 (7%)
- Metal Products	112 (6%)	84 (10%)	42 (7%)	174 (12%)
- General Machinery	19 (1%)	48 (5%)	34 (5%)	79 (5%)
- Electric Machinery	112 (6%)	218 (25%)	172 (27%)	255 (17%)
- Transport Machinery	126 (7%)	19 (2%)	74 (12%)	190 (13%)
- Other Manufacturing	75 (4%)	142 (16%)	32 (5%)	102 (7%)
Non-Manufacturing	896 (47%)	222 (25%)	167 (26%)	383 (26%)
- Agriculture	1 (0)	1 (0)	2 (0)	7 (1)
- Fishery	14 (1)	15 (2)	2 (0)	0 (0)
- Mining	382 (20)	16 (2)	10 (2)	1 (0)
- Construction	11 (1)	8 (1)	6 (1)	41 (3)
- Commerce	13 (1)	19 (2)	7 (1)	105 (7)
- Finance and Insurance	221 (12)	55 (6)	40 (6)	68 (5)
- Services	120 (6)	62 (7)	34 (5)	45 (3)
- Transportation	22 (1)	6 (1)	46 (7)	65 (4)
- Real Estate	105 (6)	39 (4)	20 (3)	51 (3)
- Other Non-Manufacturing	6 (0)	1 (0)	1 (0)	0 (0)
Branches	10 (1)	3 (0)	8 (1)	99 (7)
Total	1,893 (100)	884 (100)	638 (100)	1,494 (100)

Source: Urata (2002).

3. Discussion

Overall, it is clear that Chinese FDI into ASEAN remains rather limited in both quantity and quality, with less impact than what is commonly portrayed in the popular media. Despite a rapid influx of FDI into the region in recent times, Chinese TNCs have not managed to dislodge the region's traditional investors, namely ASEAN and Japan. The three most important markets for Chinese TNCs are Singapore, Indonesia, and Myanmar respectively – witnessed by the strong inward flow of Chinese FDI – but these three economies have also continued to attract the investment dollars of ASEAN and Japanese TNCs, diluting the supposedly 'influential' presence of the Chinese. More specifically, barring the marginal market of Laos, Chinese investors thus far have not been able to command a leading position and to materially restructure ASEAN's economy. If anything, Chinese capital has diversified the source of FDI in ASEAN, allowing several ASEAN member states to take on more adventurous or speculative projects that are not usually favoured by more mature investors such as the Western and Japanese TNCs.[7] Although statistics related to the stock of FDI is not as easily retrieved, the evidences gathered here suggest an equally, if not more, pessimistic scenario for the Chinese TNCs. In Malaysia, Singapore, and Thailand, ASEAN and Japanese investors remain key players, outsizing the stock of Chinese FDI by a considerable margin.

The qualitative aspect of Chinese FDI entering ASEAN tells a somewhat similar story. A significant portion of Chinese FDI has been directed to the tertiary sector, especially real estate development. While real estate development helps to partially bridge the housing needs of some of ASEAN's rapidly urbanizing areas, it is of little use as many of these Chinese-sponsored real estate projects have been designated as high-end enclaves that are not inclusive to the local constituents. Some of the more high profile examples include the aforementioned Forest City project in Johor, Malaysia.[8] Forest City not only has been prized out of the reach of the local population, but also targets almost exclusively foreign buyers (in particular those from China). Worsening the situation is the revelation by the Ministry of Economic Affairs that there have been incidents of tax avoidance for some property purchases in Forest City (Dzulkifly 2018). The exclusive nature of this project has also been pointed out and repeatedly harped upon by Mahathir, both when he was actively campaigning as opposition leader and after he became Prime Minister in May 2018. If anything, Forest City became one of the lightning rods for which Mahathir channelled electoral anger towards for its perceived role in 'selling out' Malaysian interest to Chinese investors (see Liu and Lim 2019).

[7] Some of the more notorious cases in recent times include the Bandar Malaysia project, which was backed by former Malaysian Prime Minister Najib Razak. The project has since been halted and key people linked to the project are under investigation, including Najib, for alleged abuse of power (BBC 2019).

[8] Forest City – conceptualized as a luxury-style mixed use development sprawled over four manmade islands – is situated in the west of Johor. With a projected total investment of USD 58.0 billion, Forest City was conceptualized in 2013 and is envisioned to house 700,000 people over the next 20 years. It is driven by Country Garden, a private property developer through a 60/40 joint venture with Esplanade Danga 88 Private Limited, a Malaysian firm (Ng and Lim 2017).

There is also a striking difference between the characteristics of contemporary Chinese investment with that of Japanese investment (of the current era as well as of the *endaka*). The Japanese TNCs have invested primarily into ASEAN's manufacturing industries during the *endaka* and have continued to consolidate their dominance ever since (see Tables 5 and 6). Japan's experience in investing into ASEAN can perhaps offer some lessons for Chinese TNCs keen to establish a more sustainable impact in the region, a topic that will be revisited in the subsequent paragraph.

The analysis thus far illustrates that Chinese FDI into ASEAN remains limited in both quantity and quality. Without going into more details on the actual performance of Chinese FDI in the region, this paper suggests a few pointers for researchers who are keen to conduct more finely-grained studies on this topic. Firstly, there seems to be a correlation between the sustainability of FDI and its quality. This is especially borne out in Japanese FDI into ASEAN. As Tables 5 and 6 have demonstrated, a large portion of Japanese capital has gone towards manufacturing. Manufacturing, courtesy of its value chain linkages to the domestic and regional economies, is bound to generate more long-lasting and widespread impacts than investment related to the tertiary sector. Another positive aspect of manufacturing-related FDI is its incremental impact on productivity gains. Relative to other forms of activities, manufacturing is better-positioned to promote progressive skills upgrading and efficiency gains. A good illustration of the benefit of manufacturing-related FDI is seen in the case of Thailand. The Kingdom has continued to build up its stock of Japanese FDI, although Japanese investment into ASEAN as a whole has been kept at a fairly subdued level from 2013 to 2017 (see Figure 1 and Table 2). Two issues can perhaps explain Thailand's continued ability to attract Japanese TNCs – its status as ASEAN's Japan-driven automobile hub and its ability to orchestrate the production network of Japanese TNCs in the Greater Mekong Subregion courtesy of its savviness in incorporating itself into Japan's 'Thailand-Plus-One' strategy.

Secondly, Chinese TNCs are latecomers to the region, establishing their presence only in the 2000s. In addition to their acute lack of experience operating overseas, these Chinese TNCs have to overcome the 'incumbency effect' of the more established investors. This means that Chinese TNCs not only have to capture less explored markets, but also displace the presence and goodwill of the more experienced TNCs (from Japan or elsewhere). While the data in this paper paints a broad picture of a lack of Chinese success in altering ASEAN's economy, there remains some instances where Chinese TNCs have carved out a niche for themselves. These cases are not easily captured by conventional statistical technique, but still worthy of more research attention as they potentially offer useful lessons for Chinese TNCs wanting to more meaningfully deepen their production networks in ASEAN. Some of the more interesting cases are the consumer electronics and motorcycle manufacturing industries (Lim 2017; Fujita 2013).

Thirdly, this paper has not examined the impacts of investment from offshore business centres such as Hong Kong, the Netherlands, and the Cayman Islands. These business centres, courtesy of their open stance to international capital and relatively relaxed legislation, make them fairly significant players in the investment and commercial setting of some ASEAN economies. As such, there is a case to be made for a more comprehensive analysis on the flow and stock of FDI – originating from China or otherwise – entering and exiting these offshore destinations before eventually settling in ASEAN. Hong Kong's proximity to China and the other major Northeast Asian economies (such as Japan and Korea) make it a particularly interesting (albeit technically challenging) case for further studies.

4. Conclusion

Analysing the investment of China into ASEAN, this paper has illustrated how Chinese FDI in ASEAN economies is less impactful than what popular rhetoric suggests. Although Chinese TNCs have rapidly increased their stock and flow of FDI in ASEAN, they have not dislodged the region's traditional investors, not least Japan and ASEAN itself. Apart from Laos, Chinese TNCs have enjoyed only minimal success in the region. In addition, the quality of Chinese FDI is also lacking as much of it is directed towards (luxurious, speculative) real estate development that offer few positive linkages to the domestic population. Unlike Japan, China's lack of investment towards the manufacturing industry brings about question marks regarding the sustainability of future Chinese FDI into ASEAN. The paper has also raised some useful pointers for future studies, namely the factors leading to continued FDI inflow to ASEAN, case studies of Chinese TNCs establishing a niche position in the regional marketplace (which are not easily captured by statistical data), and the need to better understand the role of offshore financial centres in orchestrating Chinese investment into ASEAN.

What then are the policy implications of this paper? Like the wave of Japanese capital entering ASEAN in the past, Chinese FDI can bring about a huge opportunity for the region, but only if it is well-embedded to the regional and domestic industrial ecosystem. To this end, there exists ample opportunities for a trilateral cooperation between the TNCs from China, Japan, and ASEAN itself. Rather than viewing China's entry as a threat or a zero-sum game, more can be done to combine the positive elements of the respective business systems of China, Japan, and ASEAN. For example, Chinese determination to complete projects in a short timespan can be combined with Japanese-style *monozukuri* (manufacturing spirit) and ASEAN firms' intimate knowledge of the local and regional market. Although tentative in nature, some prominent projects that are moving towards this form of trilateral collaboration are the high-speed railway linking Thailand to Laos (see also Aiyara 2019). Another avenue is for ASEAN policymakers to engage the region's dialogue partners (not least Japan and China) in a more structured manner so that economic policies can be *collectively* coined and implemented. At least in the Greater Mekong Subregion, there is no outright grand development plan involving the ASEAN states and their dialogue partners. The traditional route involves the offering of a variety of options by the dialogue partners for particular ASEAN states to choose from, resulting in a 'development bazaar' that lacks synergistic value (Pitakdumrongkit 2019). These efforts deserve more encouragement and scholarly attention for they contribute to a meaningful interaction between three of Asia's key economic bodies.

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