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Global Britain, Belt and Road Initiative, and New Southbound Policy: Which One Matters to Southeast Asia?

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Abstract

In anticipation of the impending memberships of China, the UK, and Taiwan in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), this paper analyses the three economies' foreign direct investment (FDI) flows entering the region over the last 20 years. Several findings are noteworthy. Firstly, the UK outinvested China and Taiwan between 1995 and 2008. However, its preponderance has been trimmed in the years after the 2008 global financial crisis. Secondly, UK FDI is largely geared towards Singapore and Malaysia, suggesting the resilience of former colonial ties. FDI from China predominantly enters its immediate neighbours (e.g., Laos, Myanmar, and Cambodia) and those sharing sociopolitical similarities with it (i.e., Singapore and Indonesia). Taiwanese firms invested relatively more in Vietnam and the Philippines, which are adjacent to Taiwan. Thirdly, all three FDI donors invested mostly in the tertiary sector. Nevertheless, relative to China, the UK and Taiwan channelled more of their FDI towards manufacturing activities. The findings could provide essential evidence to understand or anticipate which economy will play a more significant role in the region's political and economic affairs especially when their CPTPP membership is ratified.

Introduction

As is well-known in economic statecraft literature, states deploy various economic instruments to achieve their foreign policy goals vis-à-vis other, usually smaller or poorer, states (Jung, Cho, and Hwang 2018; Song 2020; M. Lee 2015). While sanctions represent arguably the most well-researched economic instruments, primarily because of their direct and coercive nature, more recent works have covered less coercive overtures and outright economic incentives such as outward foreign direct investment (FDI) (C.-Y. Lee 2008; Armijo and Katada 2015; Guanie Lim, Li, and Ji 2022). The flow of FDI in turn is shaped by policies such as bilateral as well as multilateral free trade agreements (FTAs) (Reed et al. 2016; Xu and Wu 2020; Yoshimatsu 2020). Such a perspective is instructive when one considers the March 2021 report – 'Global Britain in a Competitive Age' – published by the UK government. Amongst other things, it sets out the UK's four key objectives in the coming years, which are: upholding an international order supportive of liberal democratic values; contributing to the security of this order; building greater global resilience to the impacts of climate change, health insecurity, and related challenges; and pursuing an international economic agenda that strengthens the UK's global competitiveness and supports the welfare of its citizens.

To achieve such goals, one of the most practical measures is to join multilateral FTAs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)(M. Lee 2015). Encompassing members from major economies on both sides of the Pacific Ocean, it is a 'must-participate' FTA for the UK, especially when one takes into account the post-Brexit economic fallout. Another motivating factor is the increasing tendency of states to 'weaponise' investment and other economic ties to carve a niche for themselves in the international arena. Facing such headwinds, it is definitely more strategic for the UK to be in – rather than out of – the CPTPP. Indeed, the UK became the first non-founding member of the CPTPP in late March 2023 after some high-profile lobbying. What is left is for the UK parliament, in addition to those of the other CPTPP member states, to ratify the European nation's membership during the latter half of 2023 (Inman 2023).

Tangential but important to this discussion is the role of the Association of Southeast Asian Nations (ASEAN). The region is the fifth-largest economic entity in the world and is due to become the fourth-largest by 2030 (J.-O. Lee and Adam 2022). It is also one of the most outward-oriented regions within the developing world (Yoshimatsu 2023). For example, four (out of ten) of ASEAN's member states have signed up for the CPTPP. Tempted by the enlarged opportunities, three more ASEAN economies, Indonesia, Thailand, and the Philippines, have also expressed interest in joining the CPTPP(Hayden and Heine 2022).

Two of ASEAN's immediate neighbours – China and Taiwan – have also submitted formal applications to join the CPTPP in late 2021. For China, a significant portion of its burgeoning foreign exchange reserves has been channelled to finance outward foreign direct investment (FDI) in the region (Xu and Wu 2020). Chinese outward FDI has gained even more momentum, not least after the Belt and Road Initiative (BRI) was announced in 2013 (Liu, Xu, and Lim 2023). China plays an increasingly important role in Asian economies' economic integration (Hong Liu, Xu, and Lim 2023; Beirne, Renzhi, and Volz 2023). Some of the more noteworthy deals include the construction of Forest City (a luxurious real estate development in southern Malaysia) and the acquisition of STATS ChipPAC (a semiconductor testing and assembly services firm headquartered in Singapore) (Hong Liu and Lim 2019; Oh and No 2020). Not to be outdone, Taiwan in 2016 announced its New Southbound Policy intending to foster closer ties across the Indo-Pacific, which again includes the ASEAN member states. It must be mentioned that the 'Go South' policy was officially announced as early as 1994 (Leong 1995). Since then, it has gone through several name (and policy) changes as different administrations seek to stamp their mark on the initiative. What has remained largely constant, among other things, is the use of outward FDI as a significant policy instrument and the earmarking of Southeast Asia as a key partner (Chu, Ye, and Hsu 1999; Glaser, Kennedy, and Mitchell 2018; Woon 2003). Although the exact mechanisms to promote Taiwan's goals are not clearly specified, a careful examination of scholarly and practitioner-oriented outputs suggest that outward FDI is to be one of the key vehicles undergirding its ambitions (C. Lee 2021; Yang 2018). Therefore, comparing Chinese, Taiwanese, and the UK's FDI entering Southeast Asia could provide essential evidence to understand or anticipate which economy will play a more significant role in the region's political and economic affairs especially when their CPTPP membership is ratified.

The paper's focus on investment is motivated by Southeast Asia's economic reality. The region has generally relied on FDI to promote upgrading, especially in critical industries, which explains its zeal in signing FTAs with external partners. Additionally, its members are known to work together, regularly facing down much larger economies in multilateral FTAs, to advance their collective political economic interests (H. Liu, Tan, and Lim 2021). Singapore – one of the world's major FDI destinations and the region's de facto 'business headquarters' – has been most active in concluding both bilateral and multilateral FTAs. In recent times, Vietnam has emerged as another attractive FDI destination for transnational corporations (TNCs) intending to buffer themselves from the intensifying US-China geoeconomic competition. While the Vietnamese state has introduced various reforms since its 1986 *doi moi* (renovation) program, the signing of FTAs, especially with large external economic partners, ranks as one of the most important in raising Vietnam's profile amongst global investors (Barai, Le, and Nguyen 2017; Duong, Holmes, and Strutt 2021).

This paper asks the following questions: What are the investment priorities of UK, Chinese, and Taiwanese TNCs that have entered Southeast Asia, especially in recent years? More to the point, to what extent is Southeast Asia's existing industrialisation pathway shaping – and shaped by – FDI inflows from the UK, China, and Taiwan? Three interrelated arguments are forwarded here. Firstly, UK FDI entering ASEAN is more significant than that of the Chinese and Taiwanese between 1995 and 2008. However, the UK's preponderance has seemingly been trimmed in the years after the 2008 global financial crisis. The UK's weakness has been accompanied by a steady increase of Chinese, and to a smaller extent Taiwanese, FDI. Yet, China's FDI flows began to decrease following its 2017 implementation of capital controls to directly curb the outflow of funds and stabilise the exchange rate of the Chinese Yuan (CNY). Secondly, UK FDI entering Southeast Asia mainly finances the services sector. This much is understandable given the UK's relatively mature economy in relation to that of ASEAN. However, it is rather surprising to discover that Chinese and Taiwanese FDI entering the region lean just as much, if not more, towards the services sector, both of which are often regarded as manufacturing powerhouses. Thirdly, FDI from the UK is primarily geared towards Singapore and Malaysia, suggesting the resilience of former colonial ties. Chinese FDI predominantly enters its immediate neighbours (i.e., Cambodia, Laos, Myanmar, and Vietnam) and those sharing sociopolitical similarities with it (i.e., Singapore and Indonesia). Taiwanese FDI primarily goes towards 'closer' ASEAN economies such as Vietnam and the Philippines. Overall, the UK is not likely to gain substantially more influence *relative to* China and Taiwan in Southeast Asia, at least based on existing trends and short-run projections. However, in view of the uncertainties in US-China ties and the increasingly challenging economic situation in China, the UK could potentially become a more prominent player when its CPTPP membership is ratified.

The remainder of this paper begins with a critique on the literature covering FDI. Thereafter, the research methodology is described. The paper then presents the results before contextualising them in relation to the existing scholarship. The penultimate section summarises the main arguments and findings. It also offers policy implications for Southeast Asian policymakers and business executives.

Foreign Direct Investment: A Critique

One of the primary foci of international political economy concerns how states deploy economic instruments to achieve their policy goals on the international stage (Blanchard and Ripsman 2008; Boisseau du Rocher 2006; Hirschman 1945; Krasner 1976). While the instruments are varied, one of the most utilised is outward FDI. Hatch(2011) details the manners Japanese bureaucratic and business elites cooperated to regionalise Japan's manufacturing industries into Southeast Asia in the aftermath of the 1985 Plaza Accord, which considerably strengthened the Yen against other major currencies. In addition to mitigating the Yen's ascent, the Japanese TNCs of that era were interested in securing access to the region's growing middle class as well as natural resource endowment (Katada and Solís 2010; Shiraishi and Abinales 2005). Extending this argument is (Knoerich 2017), who demonstrates – through several cases – that ambitious developing economies have sought to mobilise their FDI flows, channelling the latter to acquire assets in other economies. The key question for developing economies is how best to curate institutional mechanisms that facilitate the identification and acquisition of critical overseas assets, thereby bridging the gap vis-à-vis their more sophisticated rivals (G. Lim and Teo 2019).

Despite the insights generated, the above scholarship has primarily put on centre stage the interests and agenda of the FDI exporters. In other words, there is comparatively less discussion on the side of the FDI recipient states. This is not to downplay or deny research of such nature. For example, (Buckley et al. 2007) shows that Chinese outward FDI tends to be associated with high levels of political risk in, and cultural proximity to, host countries throughout, and with host market size and geographic proximity and host natural resources endowments. Unlike their Chinese counterparts, Taiwanese TNCs, at least those investing into Southeast Asia, are motivated by economic factors (e.g., high growth rates and low labour costs) as well as institutional-cum-governance quality (An and Yeh 2020). The point here is that these are almost entirely large n-design studies, meaning that on-the-ground dynamics in the host economies (including but not limited to ASEAN states) are indirectly effaced.

To fill the intellectual lacuna, recent research by Ngeow(2018) and Zhang(2021), who track some of the largest Chinese-financed deals in Malaysia, underlines the need to examine the political agenda of key domestic stakeholders more carefully (Ngeow 2018; Zhang 2021). They argue that the sustainability of such projects in turn depends on how well Chinese corporate goals dovetail with the interests of local players. In addition, Liu and Lim (2019) demonstrate that when the common interest tying both Chinese and Malaysian parties unravels, it is usually the latter that is more pivotal in determining project outcomes. This viewpoint has increasingly been borne out in other Southeast Asian economies (Camba 2020; Chan 2020; Zha 2022). Such studies build on earlier works emphasising how institutional contexts circumscribe investment behaviour while not entirely negating the 'cultural' aspects of international business (Dahles 2002; Tsui-Auch 2004; Zwart 2007). A more sober interpretation is that sociocultural ties (perceived or real) play second fiddle to the wider institutional context of the host economies which firms invest into (Dahles 2002; Verver and Dahles 2013). Tracking the investment of the small and medium enterprises of Southeast Asia's former British colonies, Zwart (2007) unfolds their reliance on historical heritage – ranging from implementation of the common law, membership of the Commonwealth, and the English language – to navigate foreign markets. Taking a leaf out of Zwart's book, several analysts, commenting on the UK's post-Brexit geoeconomic strategy, highlight British heritage as one of the major factors helpful to promote the UK's commercial presence within the region (Haacke and Breen 2018). Strangio (2021) observes that ASEAN's mid-2021 decision to grant the UK 'dialogue partner' status bolsters the latter's post-Brexit push to recast itself as an agile powerhouse, unencumbered by its commitments to other European nations.

Another thoughtful perspective is forwarded by scholars analysing FDI flows along industrial/sectoral lines. They emphasise the need for a more comprehensive understanding of the political economic contours of the host states, which in turn shapes how inward FDI is embedded. In their analysis of Chinese TNCs entering Southeast Asia, the chief contention is that Chinese TNCs, notwithstanding some high-profile projects, are ultimately latecomers to the region (and by extension, the rest of the world) (Nolan 2014; Tong 2021; Yeung and Liu 2008). Furthermore, Chinese outward FDI only gained traction after China's 2001 membership in the World Trade Organization (WTO). Chinese TNCs can only be considered a significant source of FDI in Cambodia, Laos, and Myanmar, three lower middle-income Mekong states which joined ASEAN and opened up their once centrally planned economies relatively late (Tong 2021). Chinese TNCs have also found it challenging to overcome the 'incumbency effect' of the more established investors, not least those from Japan and the West. For example, despite having the advantages of a huge domestic market and support from the Chinese government (G. Lim and Xu 2022), Chinese automobile TNCs have not captured a significant enough slice of the Southeast Asian market. Apart from some minor inroads into the less lucrative motorcycle subindustry, they have not dislodged the dominance of the Japanese TNCs such as Toyota and Nissan (Harwit 2013). As of the early 2020s, the regional automobile market remains a forte of Japanese firms (Fujita 2014).

Methods

Data

Longitudinal data on outbound FDI of the UK, China, and Taiwan entering the Southeast Asia region from 1995 to 2018 were collected to test our research queries. Besides, data on intra-ASEAN FDI was included for comparison purposes. The main data source was the online dataset provided by ASEAN Statistics Division (www.aseanstats.org). First, we built a panel dataset which contains each source economy's FDI quantity in the whole ASEAN region and each Southeast Asian country. This dataset covers the period from 1995 to 2018. Then we constructed a separate dataset on each source economy's FDI structure which categorises FDI into every specific industry (e.g., primary, secondary, and tertiary sector). Data on FDI structure were available from 2000 to 2018. However, data on the UK's FDI structure are only available from 2011 to 2018. As shown in Table 1 and 2, the UK invested slightly more than China, whereas Taiwan invested less than the other two counterparts on average between 1995 and 2018.

Table 1. *Descriptive analysis of ASEAN's inbound FDI from different sources (in US$ million, 1995-2018)*

	Host country	Mean	Standard Deviation	Min	Max
UK	Brunei	242.43	474.46	-552.6	2086.38
	Cambodia	32.1	48.37	-10.99	125.33
	Indonesia	323.4	1005.65	-2553.39	3352.36
	Lao PDR	2.26	2.91	0	12.04
	Malaysia	317.86	326.6	-408.52	1147.84
	Myanmar	133.24	146.72	12.93	664.2
	Philippines	37.67	139.23	-220.23	510.77
	Singapore	2112.42	3580.44	-11807.8	6698
	Thailand	201.05	256.26	-271.52	848.29
	Viet Nam	112.51	128.78	15.24	658.92
	ASEAN	3514.76	3548.78	-9351.13	9794.8
China	Brunei	1.63	4.25	0	17.24
	Cambodia	193.91	238.14	0	798.24
	Indonesia	377.75	580.98	-43.95	2142.5
	Lao PDR	217.95	389.08	0.12	1313.62
	Malaysia	167.8	421.77	-121.37	1588.04
	Myanmar	250.43	366.37	0	1520.9
	Philippines	27.17	58.77	-4.11	215.34
	Singapore	1743.42	2246.93	-400	6679
	Thailand	174.13	327.99	-221.35	1071.91
	Viet Nam	244.27	347.37	1.47	1077.26
	ASEAN	3379.83	4061.66	-67.44	13706.63
	Brunei	0.26	0.69	-1.94	1.85
	Cambodia	55.08	60.98	-2.57	173.3
	Indonesia	27.86	39.51	-20.5	111.87

	Lao PDR	3.16	6.48	0	22.75
	Malaysia	31.91	116.25	-258.4	322.88
Taiwan	Myanmar	3.36	10.52	0	41.98
	Philippines	43.47	70.5	-5.1	263.29
	Singapore	508.45	540.78	-254.8	1868
	Thailand	110.89	183.75	-335.19	720.99
	Viet Nam	439.54	366.23	18	1373.71
	ASEAN	1222.72	855.88	-78.18	3494.09

Variables

We use two indicators to conduct the comparative analysis. The first one is FDI quantity, measured by the share of a source economy's FDI volume in the host country's total inward FDI. Both flows and stocks of FDI are compared. The second indicator is FDI structure which indicates the distribution of FDI in various industries. We also include intra-ASEAN FDI quantity and structure as reference indicators. FDI was categorised into three sectors: 1) primary sector, including activities such as agriculture, forestry, and fishing; mining and quarrying; 2) secondary sector (i.e., manufacturing); and 3) tertiary sector, including financial and insurance activities, trade, hotel, restaurant, construction and real estate activities, and so on. As investments in construction and real estate dominate China's FDI in the tertiary sector, in the subsequent analysis on the structure of FDI, we generate a new indicator of FDI in the tertiary sector excluding FDI in 'construction and real estate activities'(e.g., Tertiary 1 = FDI in all tertiary sector activities; Tertiary 2 = FDI in tertiary sector excluding construction and real estate.

***Table 2**. Descriptive analysis of ASEAN's inbound FDI from different sources (by share, 1995-2018)*

Variable	Observations	Mean	Standard Deviation	Min	Max
UK	24	0.0744	0.0561	-0.0801	0.1605
China	24	0.0327	0.0299	-0.0042	0.0933
Taiwan	24	0.0216	0.0125	-0.0019	0.0541
Intra-ASEAN	24	0.1462	0.0457	0.0559	0.2163

Data Analysis

This study aims to compare the flow and stock foreign direct investment (FDI) of the UK, China, and Taiwan entering ASEAN over the last 20 years and uncover the similarities and differences between these three FDI sources. Thus, we conduct two steps of analysis. First, we compare the quantity of each source economy's FDI flows and stocks from 1995 to 2018. Descriptive analysis and line graphs are used to demonstrate the differences and similarities of each source economy's outward FDI. Second, we compare the structure of each source economy's FDI. Descriptive statistics and graphic evidence are used to demonstrate the distribution of each source economy's FDI in four industry sectors.

Results

FDI Quantity

As shown in Table 1, the UK invested more in Southeast Asia than China and Taiwan from 1995 to 2018 (see Table 2 and Figure 1). The three source economies' respective average FDI inflows are 3514.76, 3379.83, and 1222.72 million US dollars on average (see Table 1). Regarding the share of each source economy's FDI inflows in the ASEAN region's total FDI from 1995 to 2018, the UK's FDI accounts for 7.44% of the region's total FDI inflows, while China's and Taiwan's FDI account for 3.27% and 2.16% respectively (see Table 2). Our analysis also shows that intra-ASEAN FDI accounts for 14.62% of the regional total FDI, which demonstrates the success of regional economic integration in South Asia.

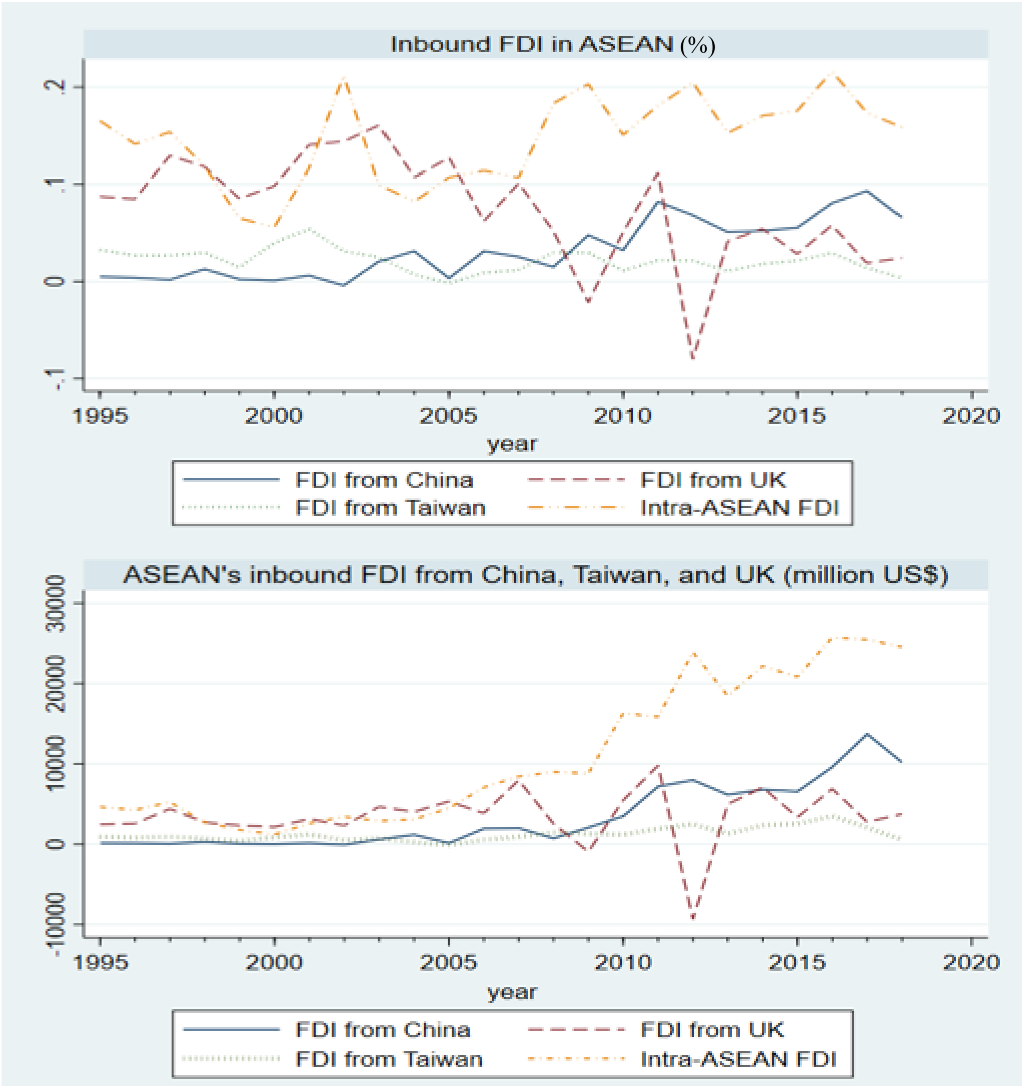
However, there appears to be an interesting development after the 2008 global financial crisis. Figure 1 shows that the UK remained the largest investor in Southeast Asia before this event. But the share of the UK's FDI started to drop after 2008. Since 2011, China has replaced the UK and become the largest investor among the three sources. China's FDI was relatively smaller than the other two counterparts before 2004 but has increased dramatically since 2008. In general, the UK's FDI (as a share of the total FDI in ASEAN) shows a downward trend since the early 21st century. In contrast, China's FDI witnessed an increasing trend at the same time, especially since 2001 when China commenced its membership of WTO. Taiwan's FDI also increased gradually after 2008. Nevertheless, Taiwan's FDI had the least variance during the past two decades compared to its two counterparts.

Each of the FDI donors displays different preferences regarding FDI destinations. Table 1 shows that the UK invested more in Brunei, Malaysia, Singapore, and Thailand compared with China and Taiwan from 1995 to 2018. China invested more in Cambodia, Indonesia, Laos, and Myanmar. Taiwan invested more in its two geographically nearest countries: the Philippines and Vietnam.

Figure 2 demonstrates how each source economy's FDI entering each ASEAN country changed over the past two decades. Among the three FDI source economies, the UK was the largest investor in Brunei, Indonesia, Malaysia, Singapore, and Thailand most of the years between 1995 and 2018. This was especially so before 2008. However, UK's FDI in each ASEAN country witnessed a downward trend during the past two decades. It decreased more sharply since the 2008 financial crisis. Nevertheless, UK's FDI in Malaysia and Singapore started to increase after 2011 and still maintained a significant share in these two host countries.

Figure 2 also indicates that China invested significantly more in Cambodia, Laos, and Myanmar than UK and Taiwan, especially after 2005. It also shows that China's FDI had a more significant variance in Cambodia, Laos, and Myanmar. China's FDI in Malaysia, Thailand, Singapore, and Vietnam was generally less significant than UK and Taiwan before 2008 though it has been increasing since 2008. China's FDI in Brunei, Indonesia, and the Philippines remained low and less varied. Taiwan invested more in the Philippines and Vietnam. In most ASEAN countries, Taiwan's FDI remained at a lower share with less variance. However, it fluctuated dramatically in Cambodia and Vietnam. Taiwan's FDI share shows a similar trend to China's FDI in Cambodia but a reversed trend with that of China in Vietnam.

Figure 1. *The historic trend of FDI in ASEAN from UK, China, and Taiwan*



However, comparing FDI stocks in each host country shows a slightly different pattern (see Table 3). UK remained a significant investor in Brunei, Indonesia, Malaysia, Singapore, and Thailand, whereas China holds larger FDI stocks in Cambodia and Myanmar.

Table 3. *Stocks of Inward FDI in 2018 (in US$ million, 1995-2018)*

Host country	ASEAN	China	TW	UK
Brunei	425.72	-	-	2,861.39
Cambodia	7,084.28	8,618.31	1,750.71	951.20
Indonesia	70,491.93	6,249.37	146.99	10,839.74
Malaysia	30,873.87	4,254.17	852.54	5,274.44
Myanmar	12,140.58	7,095.28	563.35	1,118.76
Singapore	42,213.00	29,301.00	12,947.00	63,829.00
Thailand	37,259.76	5,472.23	2,809.26	8,121.34

Note. Data on Laos, the Philippines, and Vietnam are not available.

FDI Structure

Table 4 and Figure 4 compare the structure of annual FDI outflows entering ASEAN from the UK, China, and Taiwan from 2000 to 2018. Due to the limited data availability of the UK's FDI, we used the results based on data between 2011 and 2018 for comparison. The basic understanding here is that the FDI structure reflects the 'quality' that host economies can reasonably expect from the FDI donors. A more manufacturing-heavy FDI, everything being equal, offers the host economies a higher spillover effect because of its ability to create more linkages (relative to primary and tertiary activities). As shown in the right panel of Table 4, 42.44% and 34.92% of the UK's FDI outflows entered the tertiary and secondary industries respectively from 2011 to 2018. China invested most of its FDI in the tertiary sector (78.14%) from 2011 to 2018. Much of this pool of money went to construction and real estate (29.86% of total FDI)—only 9.82% of Chinese FDI financed activities in the secondary sector. Taiwan's composition of FDI is closer to that of the UK, with 57.6%, 25.87%, and 10.48% of its FDI outflows entering the tertiary sector, secondary sector, and construction and real estate respectively. In short, Chinese TNCs invested progressively in construction and real estate and paid less attention to the secondary sectors, unlike their UK and Taiwanese counterparts.

Figure 2. *Inward FDI from China, the UK, and Taiwan from 1995 to 2018 (%)*

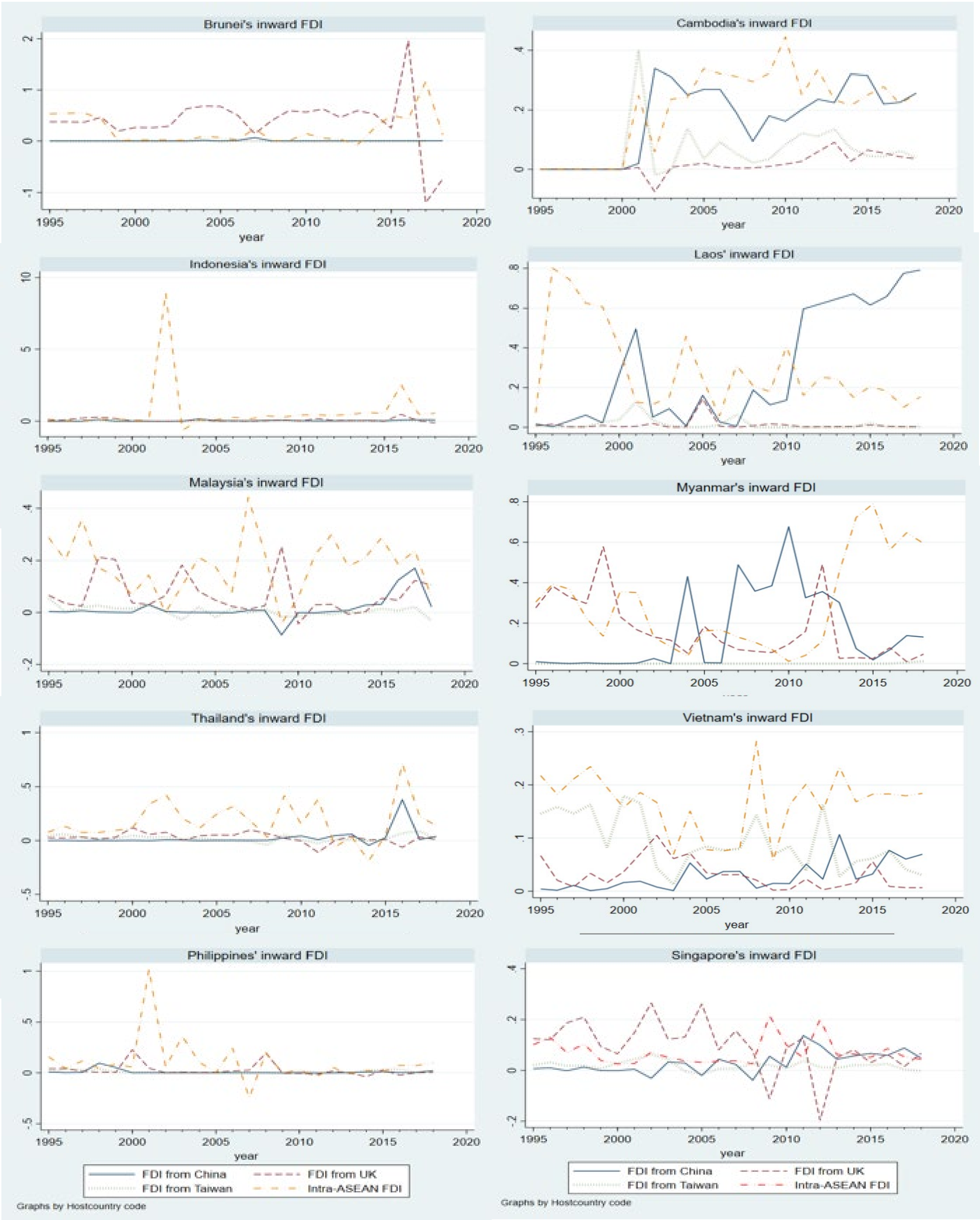


Figure 3. *Each source economy's outbound FDI in different sectors in ASEAN*

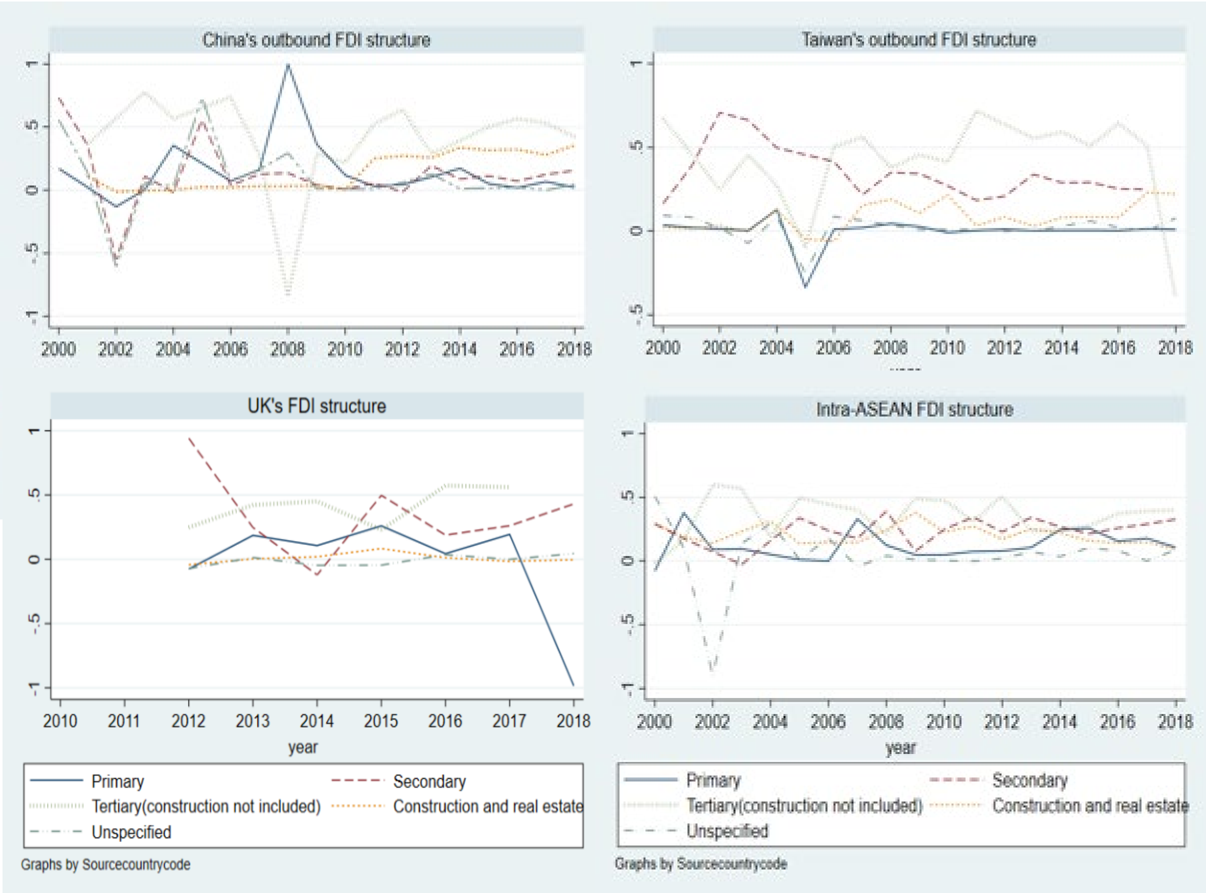


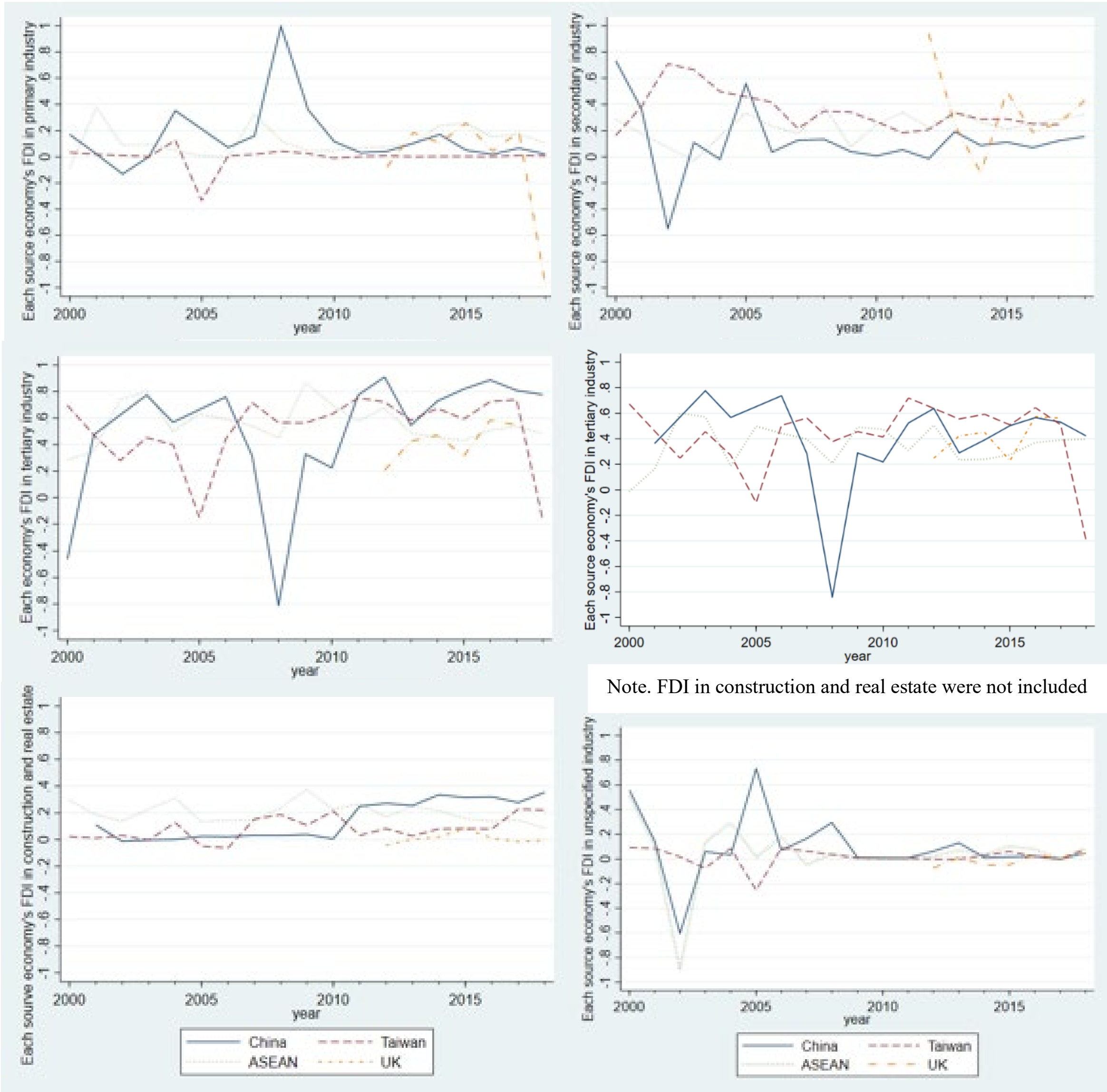
Table 4. *Each source economy's outbound FDI in different sectors from 2000 to 2018*

Sectors	Mean	Standard Deviation	Min	Max	Mean	Standard Deviation	Min	Max
	2000-2018				2011-2018			
China								
Primary	0.15	0.00	-0.13	1.00	0.06	0.05	0.02	0.17
Secondary	0.00	0.25	-0.55	0.73	0.10	0.06	-0.01	0.19
Tertiary 1	0.50	0.48	-0.81	0.91	0.78	0.11	0.55	0.91
Tertiary 2	0.39	0.37	-0.84	0.78	0.48	0.11	0.29	0.64
Construction and real estate	0.15	0.14	-0.01	0.36	0.30	0.04	0.25	0.36
Unspecified	0.09	0.26	-0.61	0.73	0.04	0.04	0.00	0.13
Taiwan								
Primary	0.00	0.09	-0.33	0.13	0.01	0.00	0.00	0.01
Secondary	0.34	0.16	0.16	0.71	0.26	0.05	0.18	0.34
Tertiary 1	0.51	0.27	-0.18	0.75	0.58	0.31	-0.18	0.75
Tertiary 2	0.43	0.27	-0.40	0.72	0.47	0.36	-0.40	0.72
Construction and real estate	0.08	0.09	-0.06	0.23	0.10	0.08	0.03	0.23
Unspecified	0.02	0.08	-0.25	0.09	0.02	0.03	0.00	0.08
UK								
Variable					Mean	Std. Dev.	Min	Max
Primary					-0.04	0.43	-0.99	0.26
Secondary					0.35	0.33	-0.12	0.94
Tertiary 1					0.42	0.14	0.21	0.59
Tertiary 2					0.41	0.15	0.23	0.57
Construction and real estate					0.01	0.04	-0.04	0.08
Unspecified					-0.01	0.05	-0.07	0.04
ASEAN								
Primary	0.12	0.11	-0.08	0.38	0.15	0.07	0.07	0.26
Secondary	0.24	0.10	-0.03	0.39	0.28	0.05	0.21	0.34
Tertiary 1	0.56	0.15	0.28	0.87	0.52	0.08	0.43	0.68
Tertiary 2	0.36	0.16	-0.01	0.60	0.34	0.09	0.24	0.51
Construction and real estate	0.20	0.07	0.09	0.38	0.18	0.06	0.09	0.27
Unspecified	0.04	0.26	-0.90	0.51	0.05	0.04	0.00	0.10

Note: Tertiary 1 = FDI in all tertiary sector activities; Tertiary 2 = FDI in tertiary sector excluding construction and real estate.

Figure 4 indicates how the FDI structure changed over time. The line graphs represent each source economy's annual FDI outflows in a particular sector as a share of its total FDI outflows entering the ASEAN region. Both the UK and Taiwan invested a larger proportion of their FDI in the secondary sector than China. If not taking construction and real estate into account, Taiwan invested a larger share of its FDI in the tertiary industry than the UK and China. China invested a larger share of its FDI in primary industry (e.g., agriculture, mining, power, etc.) before 2008, but it has dropped sharply since then. Chinese FDI share in the secondary sector remained rather low throughout the period analysed, except in 2000 and 2005 when it was larger than that of Taiwan and intra-ASEAN FDI. China's FDI in the tertiary sector has increased dramatically since 2008 and accounted for the largest share since 2013 when the BRI was announced. This could be attributed to the quick increase of Chinese investments in construction and real estate in Southeast Asia. The data also show that China had a higher share of its FDI located in unspecified industries since 2005.

Figure 4. *Each source economy's FDI in a particular sector as a share of its total FDI entering the ASEAN region*



Note. FDI in construction and real estate were not included

Discussion

Several points are worthy of further analysis and discussion. Firstly, former colonial ties are still important in fostering international economic cooperation, as emphasised by Zwart (2007) and Haacke and Breen (2018). This is particularly true for UK FDI entering the region. Between 1995 and 2018, the UK's annual investment in Southeast Asia was larger than that of China and Taiwan. Although UK FDI in various Southeast Asian countries has shrunk since the 2008 global financial crisis, it still managed to maintain or even increase its presence in

Malaysia and Singapore, two of its most prosperous former colonies, after 2012. Relative to China and Taiwan, the UK's FDI stock is also significantly larger in Brunei, Indonesia, Malaysia, and Singapore. In wealthy Singapore, for example, UK TNCs invested twice more than their Chinese counterparts. Such strengths are not easily replicable and could be further exploited by the UK, especially when the UK parliament and the other member states ratify their membership during the second half of 2023. If managed well, the UK has every potential to realise its ambition of transitioning into an agile powerhouse in Southeast Asia (and, by extension, the rest of the world).

Secondly, two key events are bookmarking the flow of Chinese FDI into the region – the country's 2001 accession into the World Trade Organization (WTO) and the onset of the 2008 global financial crisis. Prior to these two events, Chinese TNCs have invested relatively sparingly. However, their presence in the region increased in the immediate years post-2001 and -2008. This is especially so in Cambodia, Laos, Myanmar, Vietnam (all four economies close to China's southern margins), and to a smaller extent, Singapore. This finding reinforces Buckley et al (2007). demonstrate the correlation between Chinese FDI and host economies with high political risk levels, cultural similarity, relatively large domestic markets, geographic proximity, and natural resource endowments. Perhaps counterintuitively, China's FDI share and annual FDI inflows did not demonstrate an evident increase in the immediate years since the launch of the BRI in 2013. The share of China's FDI in Myanmar, Vietnam, and Singapore even dropped in 2013. Although China's FDI in the region did start to pick up by 2016, its increase still lagged the heady growth rate between 2008 and 2011. What accounts for this rather unexpected observation? A plausible explanation is that Chinese TNCs have found it challenging to manage their differences with Southeast Asian stakeholders. In common with recent studies analysing the disputes involving some of the largest Chinese-funded projects

(Camba 2020; Ngeow 2018; Zhang 2021), it appears that Chinese TNCs, are still in the midst of 'learning the ropes' when it comes to running their enterprises in the region.

Thirdly, notwithstanding its smaller economic size vis-à-vis the UK and China, Taiwan has carved out a niche within Southeast Asia. As can be seen from Table 1, Taiwanese firms are big investors in Vietnam and the Philippines, outranking UK and Chinese investors. This implies that Taiwan does not need to compete with the UK and China (or any other economies) in the whole of Southeast Asia. Given the size of its territory and economic size, it would be virtually impossible to adopt such a strategy anyway. What it needs (and has practised) is a careful, targeted foreign economic policy, not least in facilitating FDI flows to specific overseas destinations, a point made by Knoerich(2017) and Lim and Teo(2019). The New Southbound Policy, at least that of the Tsai Ing-wen (2016-current) administration, has seemingly 'hit the sweet spot' with its strategy to target economies within the Indo-Pacific, of which ASEAN is a core component. This also underlines the utility of earlier versions of the initiative, which almost always sought to engage the Southeast Asian economies. More importantly, the finding here implies that any future Taiwanese Presidents would likely not veer too far away from the pre-existing trajectory set by the New Southbound Policy. Such an approach will likely yield even more results if Taiwan manages to become a CPTPP member.

Based on the evidence hitherto presented, it is possible to deduce that an economy's outward FDI structure is likely a reflection of its own domestic development status and production capacity. This can be inferred by reexamining Table 4 and Figure 3. All three economies invested most of their FDI into the tertiary sector – this much is certain. However, when it came to their investment in the secondary sector, both the UK and Taiwan invested, on an annualised basis, 34.92% and 25.87% in the manufacturing sector from 2011 to 2018. Their investment was not matched by Chinese TNCs, who only channelled 9.82% (annualised basis) of total FDI towards manufacturing activities during the same period. The UK, Taiwan, and

China each entered the post-World War Two global economy at different junctures, which generated vastly different opportunities for their national firms. Relative to the UK and Taiwan, China was only integrated into modern-day production networks since its 1978 'Reform and Opening-up'. This tardy arrival relegates Chinese firms to latecomers of the global economy. Chinese technological shortfall also resulted in a dearth of internationally competitive manufacturing firms. While gaining a seating at the WTO in 2001 allowed Chinese manufacturing firms to more closely integrate themselves with the rest of the world, they remain in a largely unfavourable position vis-à-vis the more established (Japanese and Western) investors. It also resonates with Nolan's (2014) and Tong's (2021) assessment that Chinese (manufacturing) firms, in spite of their huge market capitalisation, boast very little experience and knowledge of operating outside China. Although it has proven difficult for Chinese manufacturing firms to overturn the 'incumbency effect' of their more advanced contemporaries, the same cannot be said of those involved in the tertiary sector, at least those operating within Southeast Asia. As mentioned previously, the lion's share of Chinese FDI has financed tertiary activities. Once again, the likely answer lies within the Chinese economy itself. State intervention largely undermined innovation and the emergence of a competitive manufacturing industry (Rho and Kim 2021). Various studies, such as Wu (2015) and Theurillat (2022), indicate that China's rapid growth over the last decades has increasingly been fuelled by the construction and real estate industry. This industry's inertia indirectly prevents the emergence of advanced manufacturing players, in addition to causing overcapacity and domestic business slowdown. The recent mushrooming of real estate enclaves in multiple Southeast Asian cities is partly an outcome of the internationalisation of these Chinese real estate firms, which have found the Chinese market increasingly unconducive to their business portfolio (G. Lim and Ng 2022).

Conclusion

Multilateral FTAs like CPTPP have been proven to be one of the most critical drivers of FDI inflows (Yoshimatsu 2020). In anticipation of the impending memberships of the UK, China, and Taiwan in the CPTPP, greater capital mobility from the UK, China, and Taiwan to Southeast Asia could be expected. Drawing on the longitudinal data on ASEAN countries' inward FDI from the UK, China, and Taiwan, the present study found that the UK's economic presence in Southeast Asia has been shrinking since the 2008 global financial crisis. During the same period, China's and Taiwan's FDI have been increasing and are unlikely to reverse course, especially over the short to medium term. Regarding the quantity of FDI outflows between 1995 and 2018, the UK remains the largest investor in Singapore and Malaysia, China invested more in its immediate neighbours (i.e., Cambodia, Laos, Myanmar, and Vietnam), and Taiwan invested more in Vietnam and the Philippines. Nevertheless, the UK still accounts for the largest FDI stock in Brunei, Indonesia, Malaysia, Singapore, and Thailand, implying that the European power still has some potential to play a more significant role in the Southeast Asia region when its CPTPP membership is ratified.

Although a sizeable portion of FDI from all three donor economies financed the tertiary sector, Taiwan and the UK still outinvested China in manufacturing activities. Chinese TNCs invested very little in manufacturing, opting for activities like construction and real estate, which account for about one-third of China's FDI entering Southeast Asia. Despite the blistering pace of its economic expansion over the past decades, the reality is that China's domestic technological advancement and industrial upgrading have not progressed at the same speed. What is more, much of its growth has been fuelled by construction and real estate activities. One main problem resulting from this is chronic resource misallocation, which stunts the progress of innovative firms that aspire to compete in export-oriented manufacturing activities. This situation is unlikely to change drastically in the foreseeable future. In addition, the fear is that the US-China geoeconomic rivalry could intensify even further, complicating the still fraught post-COVID-19 economic recovery in China. One could thus expect UK and Taiwanese firms to contribute more to Southeast Asia's technological upgrading given their better FDI 'quality.' However, this depends on how effectively they conclude a deal to join the CPTPP and manoeuvre geopolitical upheavals such as the Russia-Ukraine conflict and the US-China trade wars. Future studies would do well to explore such a scenario.

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