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Working Papers Series

No. 67
July 2004

The Southeast Asia Research Centre (SEARC) of the City University of Hong Kong publishes SEARC Working Papers Series electronically.

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CHINESE OUTWARD DIRECT INVESTMENT IN SOUTHEAST ASIA: HOW MUCH AND WHAT ARE THE REGIONAL IMPLICATIONS?[1]

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It is unsurprising that foreign direct investment (FDI) in China has captured the world's attention. In 2003 it attracted a record $53.5 billion (*Xinhua* 2004b),[2] nudging cumulative direct investment since 1979 passed the $450 billion mark. As the figures soar, however, so too does the rhetoric. Bill Gates (quoted in Weber 2004) thinks "China is amazing," and so do the boardroom occupants of some of the world's largest corporations if FDI figures are anything to go by. After Luxembourg and the United States, the mainland was the largest recipient of FDI in 2003 (UNCTAD 2004). Major investments in early 2004 suggest that direct investment in the mainland shows little sign of abating.

Several examples suggest this to be the case. In January, PSA Peugeot Citroen committed $758 million to a deal with Chinese partner Dongfang to double car production in Wuhan (CD 2004). In February, Korea's INI Steel Company, France's Saint Gobain and Finland's Stora Enso invested $2.17 billion in, respectively, a steel plant, a glass production line, and a pulp paper project (Weber 2004). In March, Thailand's Hana Microelectronics said it planned to invest $20 million in its Jiaxing factory southwest of Shanghai (Wiriyapong 2004). Barring a catastrophe, China will continue to lure foreign investors in significant numbers.

FDI in China is clearly an important subject of analysis. However, inward investment is not the only game in town. Another aspect of the direct investment story is that whilst China attracts large amounts of foreign investment, mainland companies are themselves starting to invest abroad in rapidly increasing numbers. In other words, China is becoming an important source – and not simply a recipient – of outward direct investment (ODI).

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[1] I would like to thank Brian Ho, formerly a researcher at SEARC, for data collection on Chinese companies in Southeast Asia. Tracing enterprises through newspaper reports, company Web sites and official Chinese and other sources is difficult and time-consuming work. Without his efforts I would know considerably less about the phenomenon of Chinese ODI in Southeast Asia. This research developed from a related project, for which funding came from a Competitive Earmarked Research Grant (9040850). Earlier versions of this paper have been presented at two conferences: *China and Southeast Asia: Challenges, Opportunities and the Reconstruction of Southeast Asian Chinese Ethnic Capital*, City University of Hong Kong, 24-25 March 2004, and *Asia Pacific Economies: Multilateral vs Bilateral Relationships*, City University of Hong Kong, 19-21 May 2004.

[2] All dollar amounts are US$ unless otherwise stipulated. The Chinese government puts the 2003 figure at $53.5 billion, but UNCTAD (2004) says $57 billion.

This trend has not entirely escaped comment. The United Nations Conference on Trade and Development (UNCTAD 2002a: 61) mentioned in its 2002 *World Investment Report* that the "top 12 Chinese TNCs, mainly State-owned enterprises, now control over US$30 billion in foreign assets with over 20,000 foreign employees and US$33 billion in foreign sales." Since then, a handful of commentators have noted this remarkable transformation of China from simply a recipient of FDI to a source of ODI (see, for example, Zhang 2002; Wong and Chan 2003; Vatikiotis 2004a, 2004b; Waide 2004). Yet even those noticing the transformation have tended to focus on Chinese investment in developed markets.

One prominent example of this has been the attention paid to the 2000 investment by Haier (China's largest home appliance manufacturer) in a $30 million refrigerator plant in South Carolina (see, for example, Flannery 2001). More recent examples – from 2003 – include relatively close monitoring by foreign analysts of China's largest TV maker, TCL, buying up France's Thomson Multimedia, and Chinadotcom's purchase of Pivotal Software, Ross Systems, and a number of other software companies (Waide 2004). Less well known but just as important has been the recent wave of investment by mainland companies in Korea, amounting to nearly $250 million worth of acquisitions in 2003 (ST 2003b).[3]

It is clear, then, that a large numbers of journalists, academics and business analysts have followed the flow of FDI into China, and a smaller but still significant number have kept track of high profile ODI by companies like Haier, TCL and Chinadotcom. However, far fewer have turned their attention to Chinese investment in Southeast Asia. This paper adds to the literature on mainland investment in ASEAN, and is a preliminary attempt at presenting some ideas about the ramifications for the region of what is a rapidly growing and underreported investment phenomenon.

CHINESE FDI/ODI: THE OFFICIAL DATA

Theorising FDI. Very briefly, FDI is investment in an enterprise by a foreign-investing firm. Such investment involves a long-term relationship and reflects a long-term interest in and control of a resident entity by a foreign one. It comprises three components: equity capital, reinvested earnings, and intra-company loans. Under a definition provided by the US Department of Commerce, FDI consists of 'ownership or control, directly or indirectly, by one foreign person of 10 per cent or more' of a foreign entity (Belli 2000).

[3] According to one report (*ST* 2003b), Chinese companies have been on a high-tech buying spree, snapping up 'financially troubled high-tech companies, particularly manufacturers of semi-conductors, flat-screen panels, mobile handsets, digital appliances and automobiles. … According to figures released by the Ministry of Commerce, Industry and Energy, China's direct investments in South Korea surged from $70.42 million in 2001 to $249.36 million in 2002'.

Most theorising on FDI seeks to answer three fundamental questions: why do firms invest abroad; what factors determine location of investment; and by what means do foreign firms compete in unfamiliar environments? Early engagement by economists and organisational theorists with these issues led to a number of hypotheses. One argument was that foreign-investing firms possessed superior knowledge that enabled them to collect rents on knowledge assets (e.g., Hymer 1976). Buckley and Casson (1976) argued that multinational enterprises replaced external markets with internal transactions and thus lowered transaction costs. Dunning (1981, 1988, 1993) contended that firms invested abroad when (a) they possessed a firm-specific advantage that enabled them to compete with local firms, (b) were able to internalise firm-specific advantages (such as controlling production and distribution through foreign subsidiaries), and (c) believed that the host country demonstrated specific advantages (such as political stability, potential for market growth, trade barriers and costs). Other scholars, like Porter (1990), tried to show how nations were successful in attracting investment by analysing demand, supporting industries, and firm strategy.

Unlike economists and organisational theorists, social scientists have tended to understand FDI in the context of lower production costs. Fröbel, Heinrichs and Kreye (1980), for example, attempted to place foreign investment in the context of a new international division of labour. They – along with many others who followed – argued that transnational corporations divided production into different skills and tasks across the developed world as a means of minimising labour costs. Nash and Kelly (1983) argued that strong preferences for low paid workers meant that FDI into low-wage locations led to integrated production and a new relationship between less developed and highly industrialised countries. More recently, and in the context of Southeast Asia in particular, sociologists have suggested that industrialisation is based on a transfer of cheap labour manufacturing from East Asia (e.g., Burkett and Hart-Landsberg 2000; Bello, Cunningham and Li 1998). These approaches tend to concentrate on costs as being the major determinant of relocating production, usually with an emphasis on labour costs.

Many of the ideas about why firms invest abroad are applicable to China, but there are also reasons unique to the mainland (particularly those relating to state involvement). In the next section I want to explore what some of these issues might be, and suggest that we perhaps need to develop more subtle tools to understand why Chinese firms are investing in Southeast Asia.

Chinese ODI. Despite differences of opinion over why firms invest overseas, there is no disputing that global FDI flows have increased dramatically in the last three decades. In the period from 1970 to 2001, FDI flows increased from about $12.5 billion to $735.1 billion – a 58-fold expansion (UNCTAD 2002b). In Asia and the Pacific, the increase has been even greater; rising from $924 million to $102 billion over the same period. By 2001, investment in Asia as a proportion of global FDI had doubled to 14 per cent. China clearly accounts for

a high percentage of *inward* FDI in Asia and the Pacific. Determining how much outward investment it accounts for is a different and much more difficult matter.

Table 1: The four stages of Chinese ODI – Wu & Chen versus Wong & Chan

	Wu and Chen	Wong and Chan
1	**1979-83**: 76 projects worth $50 million in 23 countries or regions. Focus on marine transport, finance and insurance, contracting and Chinese restaurants. Motivation: expand collaboration, establish trade relations, and enhance China's influence.	**1979-85**: State guidance of state-owned trading corporations, and provincial and municipal international economic and technological corporation enterprises, 189 projects worth $197 million (average project $950,000).
2	**1984-85**: 113 projects worth $140 million in 40 countries or regions. Focus on manufacturing, processing, assembly and trade.	**1986-91**: Liberalisation of restrictive policies, non-state firms allowed to invest offshore, 891 projects worth $1.2 billion (average project $1.4 million).
3	**1986-92**: Profit maximisation becomes main goal of ODI. By the end of 1992, 1,360 projects with total investment of $1.591 billion in 120 countries and regions. In 1992, permission given to 355 enterprises to invest overseas (for a total of $195 million). 100 companies had invested more than $1 million; one more than $100 million.	**1992-98**: Surge in local and provincial enterprises investing offshore, county governments set up offices in Hong Kong for real estate and stock market speculation with consequent losses. Beijing, alarmed at 'princeling' behaviour leading to loss of state assets, tightens approval procedures. Total investment grows to $1.2 billion (average project drops to $1 million).
4	**1993-2001**: Overheating and poor operational efficiency takes its toll. Government tightens control, reduces money supply, and screens ODI projects more carefully.	**1999-2001**: Consolidation of the 'going out' strategy. Government moves to clamp down on capital flight after 1997 Asian financial crisis. Companies in light industry (textiles, machinery and electronics) encouraged to invest overseas. 1.8 billion invested (average project size increases to $2.6 million).

Source: Wu and Chen (2001: 1237-1240); Wong and Chan (2003: 279-281).

Prior to the start of economic reforms in 1978, the Chinese government opposed FDI inflows and instead premised its industrialisation on self-reliance and economic independence. Deng Xiaoping's reforms – particularly the enactment of the Chinese-Foreign Joint Ventures Law of 1979 – changed this policy almost overnight (Wu and Chen 2001: 1235). The first wave of foreign investment helped sweep away old ideas about the evils of multinationals (although not completely, see for example Han 2000), and by the 1980s the government began actively encouraging not only inward FDI but also ODI by Chinese enterprises. There are two good English-language surveys tracking the history of ODI from 1979 onwards (Wu and Chen 2001; Wong and Chan

2003),[4] and although they differ on various issues their four broad stages of development are compatible (see summarisation in Table 1). Perhaps the most important point to note is the fast growth in the number of projects from the mid-1980s onwards.

It is probably also worth noting here that although official statistics collected and collated by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) provide some idea of general trends, they underestimate ODI.[5] A number of commentators suggest we should treat Chinese ODI data with some caution. Zhang (2002: 5), for instance, argues that capital is often invested outside China through private channels and thus omitted from the official data. Wong and Chan (2003: 277) cite official State Administration and Foreign Exchange (SAFE) estimates that unauthorised and thus illegal capital outflows from China between 1997 and 1999 totalled $53 billion.[6] Breslin (2003) makes a broader point about the inadequacy of bilateral investment figures, which fail to capture the 'significance of the global dynamics of inter-regional economic interaction in East Asia'.

My preliminary research tends to support these claims, although the topic will require significant in-country research in Southeast Asia to prove conclusively that official statistics do not reflect total investment. For the time being, though, it is sufficient to point out that most accounts of Chinese ODI rely on official and thus bilateral statistics. Despite my attempts to use a wider range of sources than is usual to measure Chinese investment (such as news reports in China and recipient countries, and other publicly available data from Web sites, annual reports, and so on), it is still clear that there is much investment unaccounted for (much small scale investment in Cambodia, for instance, does not register on official lists). However, despite their inadequacy, the official figures are worthy of inspection.

Official MOFTEC figures show that by 1999, there were 375 mainland investments in ASEAN-5 (Singapore, Thailand, Malaysia, Indonesia, and the Philippines) for a total of $1.874 billion (see Table 2). By 2002, according to data compiled by Zhang (2002: 5) – and based on MOFTEC figures – the number of Chinese investments to the top three ASEAN-5 destinations (Thailand, Singapore and Indonesia) had increased from 405 to 448. Data from the *Almanac of China's Foreign Economic Relations and Trade, 2002* (cited by Wong and Chan 2002: 287) doesn't entirely confirm the MOFTEC figures, but the trends are similar. The data do, however, provide some interesting comparisons (see Table 3).

[4] Chinese scholars have been quite active in this area, and a number are referenced in Wu and Chan, 2001.
[5] Wong and Chan (2003: 227) refer to 'MOFTEC's *grossly* underestimated data' (my italics).
[6] As detailed below, this amount is almost twice the official government figure for cumulative ODI for a period of more than 20 years.

Table 2: Chinese ODI in ASEAN-5, 1999

	Singapore	Thailand	Malaysia	Indonesia	Philippines
Number of firms	85	139	78	42	29
Average size ($ '000)	373	498	405	1,173	373
Chinese ODI, 1990-99 ($ million)	640	562.5	318.7	270.6	82.2

Source: Wu and Yeo, 2001.

As shown in Table 2, the data show that Thailand hosts the largest number of companies, but Singapore is the recipient of the most investment capital. Indonesia, according to official 1999 data, received the largest average investment (over $1.1 million). Perhaps the most interesting point (as Table 3 demonstrates) is that Chinese companies have developed the most projects in ASEAN (followed by Hong Kong and Macau), and that the US runs a distant third, with Europe even further behind. The figures, however, are already outdated and don't necessarily reflect adequately the real picture of this rapidly changing phenomenon.

Table 3: Geographical distribution of China's cumulative ODI, 1979-2001

Country	Projects		Chinese Investment	
	Number	% share	Cumulative value ($ million)	% share
United States	329	10.6	559	12.6
European Union	137	4.4	68	1.53[1]
Hong Kong and Macau	324	10.5	534	12.0
ASEAN[1]	*537*	*17.4*	*586*	*13.2*

Source: Wong and Chan, 2003: 287.

The most recent data indicate that official figures for cumulative Chinese ODI from 1979 fall somewhere between $29.92 billion to the end of 2002 (MOFTEC figure quoted by *Xinhua* 2003b) and $35 billion to the end of 2003 (UNCTAD figure quoted in PD 2004a).[7] According to MOFTEC, Chinese companies invested $2.7 billion abroad in 2002 (*Xinhua* 2003b). Dai (2004), in the *China Daily*, quotes official figures indicating that China's ODI for 2002 – presumably, but the article is unclear on this – was $2.1 billion, or, as the author states, a "112 per cent year on year rise." This is by no means the first time that official figures differ, but it does at least provide evidence of the undeveloped state of data collection regarding ODI, a characteristic to which the government freely admits (*Xinhua* 2003b):

[7] The discrepancy here is partly a result of the different ways MOFTEC and UNCTAD measure FDI. For an explanation of this see Wu and Yeo (2002).

> One of the main reasons [Chinese ODI has not attracted international attention] is that there are defects in China's statistics in that financial institutions lack special statistics on overseas investment, there are neither statistics on private enterprises' overseas investment, nor are there statistics on the reinvestment made by some original State-owned enterprises abroad.

On the basis of current data, then, it is impossible to gain a true picture of Chinese ODI in general or in Southeast Asia in particular. Nevertheless, it's clear that Chinese ODI is growing fast from a small base, and that ASEAN is a popular destination. Even on the basis of current official data it is not difficult to argue that the effects of rising Chinese investment on political, economic and social structures in ASEAN are important and potentially significant. The next sections explore some of the data not presented in official statistics and the ramifications such trends might have on the region.

TRACKING CHINESE ODI IN ASEAN

This year, China will run information programs for government officials in Pakistan, India, Bangladesh and Sri Lanka to inform them of ways to attract mainland investment (Dai 2004). This is partly a response to South Asian interest in attracting Chinese money, but it is also motivated by Chinese interest in developing joint venture partnerships in the region. Pakistan, for instance, provides significant tax concessions and other inducements to mainland investors, which has led to three Chinese automobile giants putting $30 million into manufacturing plants and technology transfer (Dai 2004). Chinese industrialists like Ma Xian (quoted in Dai 2004), manager of the Hua Yuan Group (an SOE producing textiles), believe that South and Southeast Asia are regions in which '[China] could develop a strong industrial base'. This view is not surprising, given that the investment training programs detailed here for South Asia have been underway in Southeast Asia since 2003, and that Malaysia, Singapore and Thailand have set up offices in China to attract Chinese firms and investment (Dai 2004).

The new initiatives for South Asia are perhaps a consequence of China's investment success in Southeast Asia where increased trade has brought about a dramatic change in regional views. In 2002, the then Malaysian Prime Minister – Dr Mahathir – complained that 'China is an economic threat for Southeast Asia. It is already a threat in terms of attracting foreign direct investment, and it is going to be a threat to Southeast Asia's world trade' (quoted in NW 2002). He wasn't the only prominent Southeast Asian to mention it, but it's a measure of how quickly things change to compare these comments in Mid-2002 to the new Malaysian prime minister's public view in late February 2004. During a question and answer session after the opening of the *Malaysia-China Economic Conference 2004*, Badawi said, 'Malaysia does not feel threatened by the emergence of China as an economic powerhouse because the country is also a huge market for Malaysian products' (Leong and Fong 2004). ASEAN-China trade topped $78.25 billion in 2003, a 42.8 per cent year-

on-year increase (*Xinhua* 2004c), with Malaysia, Thailand, Singapore and the Philippines seeing exports to China increase by more than 50 per cent (Goodman 2004).[8]

However, Chinese interest in Southeast Asia is not limited to trade. The past two years have seen a boost in ODI in the region, with 2004 witnessing a flurry of activity thus far.

Thailand has seen perhaps the most activity. Since signing a free-trade agreement (FTA) with China two years ago, activity in northern Thailand in particular has increased dramatically. The signs of Chinese investment and trade are now so visible that one Thai newspaper advised readers planning a trip to Chiang Rai (a city in far northern Thailand located near the border with Burma and Laos and thus approximately only 200 km from China) that 'it might be a good idea to bring along a Thai-Chinese dictionary' (Tangwisutijit 2004). Bilingual street signs in Thai and Chinese, Chinese-language schools and business names in Chinese point to a change, but are not the only indicators of other far-reaching developments.[9]

Chiang Rai has been the focus of both the Thai government and Chinese investors. In December 2003, 'Yunnan governor Xu Rongkai led a 60-member delegation to meet Chiang Rai governor Narin Panitkit and hold talks on the establishment of a Sino-Thai tax-free industrial estate' (Khamtita 2003).[10] With Thaksin's government willing to inject billions of baht into infrastructure projects (Gagliardi 2004), Xu has indicated that Chinese corporations are keen to co-invest in the project and develop up to 100 manufacturing ventures and representative offices (Bunyamanee 2003; Khamtita 2003).

According to the Thai Board of Investment (BoI), "the Chinese have invested in 42 projects in Thailand with total investment costs of 11.04 billion baht [$277.08 million]" since 1999 (BP 2003). It is difficult to correlate these figures with data from cumulative investments from 1990-1999 (which as indicated in Table 2 amount to $562.5 million), but research based on newspaper reports and web sites in Thailand and China has yielded a list of 100 Chinese companies with current investment in Thailand.[11] These companies are involved in manufacturing (computer hardware, garments, machinery and electronics), resource extraction (coal mining), food processing, power generation, petrochemical and

[8] Some of the more dramatic examples include the following: Malaysia exports 20 per cent of its palm oil to China, which – along with its price – doubled in the past two years; rubber exports to China from Thailand plantations are increasing at 75 per cent per annum; machinery sales from ASEAN to China leapt 70 per cent in 2003 to $15 billion (Goodman 2004).

[9] This is not to argue that cultural changes are unimportant. They are, and I will return briefly to this aspect in the last section.

[10] Enterprises from Yunnan Province have been particularly active in the region, with a 350-member delegation planning an 18-day tour of Laos, Thailand, Myanmar, Malaysia and Singapore beginning 23 April (*Xinhua* 2004c).

[11] Preliminary research has provided a database of around 400 Chinese companies with investment in ASEAN. This number is not a full dataset of all Chinese companies investing in the region, but it provides enough information for us to draw conclusions.

chemical plants, telecommunications, and the IT industry. It is impossible from the sources to develop an accurate picture of the overall level of investment (most sources indicate investment but fail to provide details such as amount, specific location in country, or joint venture partners). Nevertheless, it is clear that in many cases investments are sizeable (particularly in petrochemical, resource extraction and manufacturing).

Some of the larger investments have been undertaken by companies such as Dalian West Pacific Petrochemical (with total investments globally of $1.013 billion and 1,100 staff), China National Electronics Import and Export Corporation (a Beijing based company producing DVDs, VCDs, sound systems, and so on, with sales income in 2003 of $937 million), Haier (China's global home electronics company with sales revenue in 2003 of $10 billion), the SVA Group (a Shanghai based information product manufacturer with 27,000 employees and sales revenue in 2003 of $4.6 billion), and China Minmetals Corporation (with sales revenue of more than $11 billion per annum). It is interesting to note that among Chinese companies investing in Thailand are Dongguan Nokia, Zhuhai Canon and Intel China, all subsidiaries of well known companies headquartered abroad.

Countries in the Mekong River area have also attracted investment. In Cambodia and Vietnam, Chinese investors are amongst the most important: ranking in the top three in the former, and the top five in the latter (Frost, Hewison and Pandita 2002; VE 2004).

Cambodian investment statistics are more ambiguous than Vietnamese data, but various sources point to a figure of around $240 million spread across around 130 companies (see Frost, Hewison and Pandita 2002).[12] Chinese investment in Cambodia has soared since the late 1990s. It tripled between 1997 and 1998 and increased another 40 per cent in 1999, making it the 'first or second largest source of foreign investment' (Frost, Hewison and Pandita 2002: fn 42). Additional to this, Chinese aid and loans totalled around $240 million during the same period; $40 million in aid and the remainder in commercial credit for Chinese companies (Frost, Hewison and Pandita 2002: fn 43). China provided another $30 million in aid in November 2003, enhancing its position further (ST 2003a). Late March saw another potentially significant injection by the mainland when the China Electric Power Technology Import and Export Corporation signed a deal to conduct a feasibility study "for a $39 million hydropower plant, with an option to build and operate the project" west of Phnom Penh (YN 2004). In 2001, there were 23 Chinese investments in the Cambodian garment sector, and I have identified another 20 in tourism, light machinery, building and construction, electricity generation, cigarettes, manufacturing electronic appliances, lumber, medical services, and communication. A number of these companies are easily identifiable as SOEs (e.g., CETIC, China Road and Bridge Corporation, and China International Water and Electric Company), but private companies such as Huawei (China's giant total network

[12] This article surveyed the Cambodian garment sector in particular but detailed some of the broader trends.

solutions provider with operations in 40 countries) are also among the Chinese investments.

In April 2004, the Cambodian Prime Minister Hun Sen spent six days visiting Beijing, Shanghai, Hainan and Guangzhou and announced on in his return to Phnom Penh that he'd signed 16 agreements with the mainland for aid and loans (which as suggested above amount to the same thing). The Cambodian media (see Samean 2004) signed a number of contracts with private companies, including the construction of a golf course in Siem Reap, the tallest building in Phnom Penh (at ten storeys it will dominate the skyline), and a textile plant in Sihanoukville. China said it would also donate earthmoving equipment to repair roads and build irrigation channels. Researchers from the mainland will start sending specialists to assess mineral resources, draw up plans on how Cambodia can attract more tourists, and train locals in how to 'get more gold and silver medals'. China will lend US$500,000 to construct a road to the Lao border, and US$1.8 million to develop telecommunications in rural areas (Samean 2004).

Official Vietnamese data show China is the fourth largest investor, with 55 projects worth a little over $131 million (VE 2004).[13] Once again, this number most likely under represents the true value of Chinese capital. Of most interest in this regard is the inclusion of the British Virgin Islands as the third largest source of FDI. Whether additional Chinese capital is routed to Vietnam via the BVI (or indeed Hong Kong – in at number six on the list) is unprovable but not beyond the realm of possibility. My database shows 50 Chinese companies in Vietnam, in electricity generation (including construction or refurbishment of power stations), resources, construction, machinery, electronics, iron and steel, motorcycles (Jialing and Chongqing Zhongshen), medicine, chemicals and petrochemicals, communications (e.g., Huawei), almond juice, and military supplies (China North Industries Corporation – NORINCO – which produces civil firearms and ammunition). SOEs are well represented, such as China Metallurgical Construction (Group) Corporation (MCC), China Iron and Steel, China State Construction Engineering, and Harbin Power, but once again private companies like Huawei are also represented.

In recent months, several large deals have added to this figure. TCL International Holdings (the world's largest maker of televisions) signed a deal with Thomson SA of France to make tubes in Vietnam (Vatikiotis 2004a). Projects in the pipeline include the development of a textile factory by Dunsky Ltd (citing lower labour costs than in Shanghai) (Vatikiotis 2004a), and a $1 billion project by the Aluminium Corporation of China (Chinalco), the nation's biggest, which seeks to join China Nonferrous Metal Mining and Construction Group to build the mine (*Xinhua* 2004a). If the latter project goes ahead it would increase the total Chinese ODI for 2002 by nearly 40 per cent and account for over 60 per cent of Vietnam's total inward FDI for 2003.

[13] Total investment for 2003 was $1.653 billion over 666 projects. Taiwan, the largest investor, put $326.1 million into 169 projects.

The investment situation in Laos and Burma is even less certain than in Cambodia or Vietnam. In Laos I have identified only 16 Chinese-invested enterprises, ranging across cement, the production of agricultural machinery, gunpowder, Chinese medicine, motors, cigarettes, hardware and chemicals, TV broadcasting, coffee, hotels and restaurants, weaving, hydropower and resource extraction. Nearly half the companies are from Yunnan alone, and SOEs are well represented. This list, however, fall well short of data from the government of Laos, which indicate there are now '129 Chinese investment projects in Laos worth $201 million', with 12 new projects initiated from January to October in 2003 worth US$114 million (Sakdavong 2003). March 2003 saw a significant addition to Chinese ODI in Laos with NORINCO and Electricite du Laos (EDL) agreeing to cooperate in the construction of the Xeset 2 hydropower plant, a deal that would see the China Import & Export Bank provide a low interest loan to cover 80 per cent of the $135 million project (Thammavongsa 2004).

In June 2004, the media in Laos reported that the 'Chinese government will grant US$1 million aid to improve the Patuxay Park to welcome the ASEAN Summit in Vientiane in November' (Leukai 2004). The Chinese enterprise involved is the Guangdong No.3 Water Conservancy Lao Engineering Company. These numbers look set to increase if the 50-member delegation of business people from 30 enterprises that visited in December 2003 follows up on projects in "agriculture, engineering and tourism" (Sakdavong 2003).

Determining Chinese investment in Burma is perhaps even more problematic than in Laos, not least because of the ideological battle waged over sanctions (to which I will return below). Nevertheless, foreign investment statistics produced by the Burmese government put China well down the list at number 15, with just 13 projects worth $64 million and accounting for just 0.68 per cent of total investment (Finch 2004).[14] Another source (Boyd 2003) puts the number of Chinese investments at 20 (of 190 Asian firms). I have identified 21 companies, but the level of investment is unclear. These figures are thrown into doubt by a story from the Chinese news agency, *Xinhua* (2003a), which reported that Burma hosted a Yunnan Province trade and investment fair at which over 300 mainland and Burmese enterprises attended; more than 20 deals were signed on the spot, the total value of which exceeded US$65 million. A more recent report from the Chinese press (PD 2004b) is even more confusing, stating in adjacent paragraphs that 'China has so far injected over 64 million dollars into the country in over 10 projects' and 'Yunnan Province [has invested] 227 million dollars'. In March 2004, *Xinhua* reported that under the

[14] The largest investor, according to government statistics, is Singapore with $1.57 billion (Finch 2004). A report by Burma Economic Watch (2001) points out the discrepancies in FDI data and argues that the EU is far and away the largest investor in Burma if only actual (versus approved) FDI is counted. The point of the paper is to prove that Asian investors are not as important as usually thought and thus continuing EU sanctions is a viable strategy. This is not the place to argue the point, but I believe there needs to be much more work on tracking Chinese investment in Burma before we can reach any statistically valid conclusion on whether Chinese investment is insignificant or not.

economic and technical cooperation between the two countries, 'Chinese companies have initiated a large number of projects in Myanmar, covering hydropower plants, communication network projects, cement and paper plants, agricultural machinery factories, bridge projects and processing of forest and marine products' (*Xinhua* 2004d). In June 2004, the Burmese press reported on discussions between MCC and the Burmese government on the construction of a paper pulping mill that alone would account for around $300 million of Chinese ODI (NLM 2004). Adding to the confusion, it is unclear whether statistics pick up investments in kind, such as the China Yunnan Corporation's contribution of $5.27 million worth of machinery towards the development of the Maubin paper mill (Lwin 2004).

Additionally, David Steinberg (2004) writes that

> China has supplied about US$ two billion for armaments that have made the Burmese military, the second largest in Southeast Asia after Vietnam, much more technically sophisticated. It has helped the construction of roads, railroads, airfields, ports, and dams throughout the country. In 2003, China provided Burma with US$200 million in economic assistance. Equally important are unrecorded Chinese influences: Chinese investment - *probably the largest of any foreign country* - is not found in international statistics [my italics].

Anecdotal evidence from sources preferring to remain anonymous supports the contention that Burmese data under represents the true level of Chinese investment by a considerable amount. Quotes such as the following are not suggestive of low levels of Chinese ODI:

> 'The Chinese are everywhere now,' complained one Rangoon resident, pointing to buildings in Rangoon where Chinese companies have offices. 'Now it seems like there are more Chinese restaurants in Rangoon than Burmese restaurants.' Indeed, Chinese firms, many with backing from Beijing, finance much of the construction in downtown Rangoon, which is studded with new high-rise buildings as well as with large numbers of beggars (Kurlantzick 2004).

The situation in Malaysia, Singapore, Indonesia and the Philippines is similar to that described in Thailand; investment is climbing fast and China is becoming a major player. In Malaysia, which has attracted the most mainland investment in Southeast Asia, there are now 104 established Chinese businesses with US$387 million worth of cumulative investment. In Singapore, 250 Chinese businesses have set up shop, a 56 per cent increase over 2002 when there were 160. In the case of Singapore, mainland companies are attracted by recent free trade deals (with the US for instance) and the island-state's capacity for high-end laboratory research. Even Brunei, which has been neglected in official data, has received attention from Chinese investors of late. In December

last year, a large group of companies led by the Beijing-based Sanyuan Group visited looking for investment opportunities (Othman 2003).[15]

Data for each country is clearly uneven, and it will require much more work to track investment from China into Southeast Asia. However, even with this limited sample it is possible to raise some of the ramifications of mainland ODI.

CONCLUSION: RAMIFICATIONS OF CHINESE ODI IN ASEAN

I want to flag two major issues with regard to Chinese ODI in ASEAN. The first concerns Burma and the issue of human rights and sanctions. The second, which is related, is the issue of labour rights and international labour norms.

The issue of human rights and sanctions in Burma is a troublesome one. Although Burma Economic Watch (2001) disputes the claim that Asian (and particularly Chinese) companies are filling gaps left by departing European or US companies under pressure from a regime of sanctions, it is too early to say whether this is true. We know so little about Chinese ODI in the country that further research is desperately needed. However, my initial and preliminary research suggests that Burma is attracting more Chinese investment than most people realise. If this is indeed the case, then what role does a sanctions regime play? Will those pushing for sanctions, for instance, be able to pressure Chinese companies, especially SOEs, to disengage from the Burmese economy? It is almost certain that in the current environment Chinese companies will not withdraw investment as a result of pressure from the international community over Burmese human rights abuses.

It is impossible to argue that China's investment in Burma comes with no strings attached, but the government attaches little or no importance to the issue of human rights abuses committed by the military regime.[16] In the longer term, China is building a considerable bank of goodwill with Burmese businesspeople and other sectors in the community. The question that now confronts the international community is not so much whether European investment outweighs Chinese (or Asian), but what role the Chinese will play in a post-junta Burma. For instance, it might now be worthwhile to start considering the question of how Chinese goodwill in the form of aid and investment might play out if the junta falls. Will Europe and the US find themselves marginalised in a rebuilding process, or at the very best having to deal with the Chinese state and SOEs to play a significant role?

[15] 'The Sanyuan Group has entered into joint ventures with companies from 41 countries, including McDonald's, Starbucks as well as manufacturing and property companies. The group consists of 13 state farms, 18 specialised companies, 41 Sino-foreign joint ventures and five overseas subsidiaries with total assets of 9.3 billion yuan ($1.12 billion) (Othman 2003).

[16] Wu Yi (the Chinese Vice-Premier) visited Burma in late March 2004. She reiterated Beijing's stance that Burma's internal affairs 'should be coordinated and resolved by the government and people themselves', and 'the international community should, in positive and constructive manner, extend assistance to Myanmar' (Khaing, 2004).

My second issue is closely related to the first. The international community has had some small success in pressuring European and North American corporations to at least pay lip service to international labour standards. It is, obviously, an unresolved issue, but like the issue of human rights, what pressure can be brought to bear on Chinese corporations in Southeast Asia to abide by labour standards, whether set by the International Labour Organisation (ILO), companies via codes of conduct, or other certification programs? What role are Chinese companies willing to play on the international stage with regard to good corporate citizenship on labour (or environmental) issues? If scholars like Michael Santoro (2000) are right in arguing that American and European companies are forces for democratisation in China (or elsewhere),[17] then will the influx of Chinese companies in ASEAN undermine such work?

These are not simply academic questions. Whether sanctions regimes can be effective in the face of a rising wave of Chinese investment or whether China has the capacity to export poor labour practices are important issues. A report on a recent strike over poor conditions at a Peruvian iron mine owned by a Chinese company (*Shougang Hierro Peru*) suggests that the latter is not beyond the realm of possibilities (YFS 2004). A growing number of employees in Southeast Asia now work for Chinese companies. We know little about workplace conditions, management models, communication between managers and local workers, adherence to local labour laws, and so on. It is perhaps time to turn out attention to some of these issues, just as scholars started thirty years ago to examine Western corporations as they moved into the developing world. Mainland ODI in Southeast Asia is growing and looks set to be an increasingly important political and economic factor.

[17] It goes without saying that this claim is contestable but this is not the place to enter the debate.

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