

# Potential and Challenges of Chinese Direct Investment into ASEAN

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**Abstract:** Although China's outward direct investment (CODI) has been ranked number one for 25 years among developing countries, between 1995 and 2019, increased more than 66 times, from about US\$ 2.0 billion to US\$136.91 billion, and the Association of South East Asian Nations (ASEAN) is the most attractive world destination for foreign direct investment (FDI) due to its location advantages in terms of low labor cost, potential market size, CODI to ASEAN has been hovering at a very low level, accounting for only about 9.51% of China's total outward direct investments. The relatively small CODI to ASEAN raises a question of how well the theories of FDI explain the interaction of China investors and ASEAN's location characteristics. This article tries to address the puzzle of a small share of CODI in ASEAN by investigating the determinants of CODI in ASEAN over the period 1995 to 2019. Evidence presented in this article indicates that the small CODI cannot be fully appreciated without understanding differences between CODI in ASEAN and that in EU, the latter attracting CODI at full speed. Empirical results suggest that the CODI in ASEAN was primarily motivated by natural resource and market access, and that in EU was technical and strategic assets oriented. The main purpose of Chinese investors to invest abroad is not to use their existing ownership advantages expanding overseas production, but to compensate their disadvantage and improve competitiveness to strengthen the domestic production. The small CODI in ASEAN thus is a result of China investors' strong interest in gaining raw materials, skilled labor, sale channels and potential market for its export rather than benefiting from cheap labor and ASEAN's export and employment-promotion FDI regime, poor infrastructure, containment attitude for Chinese investors, along with the political instabilities in ASEAN.

**Keywords:** China's Outward Direct Investment (CODI), ASEAN, EU

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## 1. Introduction

Although China's outward direct investment (CODI) has been ranked number one for 26 years among developing countries, between 1995 and 2019, increased more than 66 times, from about US\$ 2.0 billion to US\$136.91 billion [1], the Association of South East Asian Nations (ASEAN) is the most attractive world destination for foreign direct investment (FDI), CODI to ASEAN has been hovering at a very low level, accounting for only about 9.51% of China's total outward direct investments<sup>1</sup>. China's role as an overseas investor to ASEAN is even smaller. By the end of 2019, China's total

accumulated investments to ASEAN reached US\$109.89 billion, accounting for only 5.7% of ASEAN's total inward investments [2]. In fact, China has invested much lower FDI into ASEAN than into many other countries that do not have location advantages over ASEAN in market size, labor cost, and income growth. Even after China and ASEAN signed the Framework Agreement on launching the building of China and ASEAN Free Trade Area (CAFTA) in 2002, and the share of Chinese trade with ASEAN increased sharply from 7% (US\$23.57 billions) in 2002 to 14.1% (US\$2362.3 billions) in 2019, the CODI did not increased as expected, and still take a very small part of China's total outward FDI (about 9.51%). The relatively small CODI to ASEAN raises a question of how well the theories of FDI explain the interaction of China investors and ASEAN's location characteristics.

While there is considerable literature on both China's

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<sup>1</sup>This figure included only outward investments that directly originate from China and did not include China's outward investments that passed through a third location (e.g. Hong Kong) before reaching ASEAN

outward direct investment [3-7] and inward FDI in ASEAN [8-11], there is few studies addressing the small CODI in ASEAN. The lack of research on CODI in ASEAN hinders researchers and policy makers from understanding China's outward direct investment policy evolution, and Chinese firms' go ASEAN strategies. This article thus investigates the issue by assessing China investors' motivation in destination of ASEAN relative to the main destination, especially in EU, shedding light on the issue should be of importance in policy implications. For ASEAN, to keep large FDI inflows including CODI shall not only creating employment and increasing economic welfare of member states, but also be necessary to upgrade its member countries' industrial structure through raising their capacity to absorb, assimilate, modify and improve technology and management expertise embodied in CODI. For China, with access to a larger and more integrated market, realize its marginal industrial transfer and market exploration strategy; enhance its multinational corporation's competitiveness; meet its domestic need in natural resources for its sustainable economic growth.

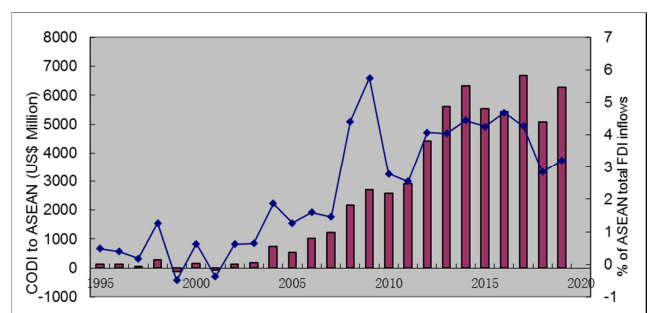
This article tests for determinants on CODI through panel data regressions over the period 1995 to 2019. Especially, the behavior of China investors in ASEAN is analyzed in comparison with those in EU, a CODI destination with the fastest CODI inflows growth rate, especially after 2008 global financial crisis. The average annual growth rate of CODI in EU reached 105.27% from US\$477 millions in 2008 to US\$10520 millions in 2019, contrast to that number in ASEAN is only 24.86% from US\$2180 millions to US\$13020 million during the same period, according to China Commerce Yearbook. The evidence presented in this article suggests that China investors' motivation have received different responses from ASEAN countries and EU countries. The CODI has been induced essentially by EU's potentially high technology and top strategic assets and intention of avoiding trade barriers, but the amount of CODI flows has been restricted largely due to ASEAN countries' export-oriented and employment-promotion FDI regime, poor infrastructures, containing attitude and political risk investment environment. The main purpose of Chinese investors to invest abroad is not to use their existing ownership advantages expanding overseas production, but to compensate their disadvantage and improve competitiveness to strengthen China's domestic production.

The remainder of this paper is structured as follows. Section 2 discusses the pattern of CODI in ASEAN and its stylized facts in comparison with that in EU. Section 3 develops the empirical models and presents estimation results of CODI determinants. The last section concludes and suggests first policy recommendations.

## 2. Pattern of CODI in ASEAN

According to the investment volume three stages can be identified that CODI in ASEAN has gone through during the period 1995-2019. The first stage (1995-2001) is in the preliminary development stage no matter in terms of quantity

and scale. In the mid of 1990s, China began the process of institutionalizing its dialogue and cooperation with ASEAN at various levels in the areas of industry, science, technology, investment, trade, and culture. In 1994 the Wu XI Little Swan Company Limited set up the Parlman-Little Swan Industrial Co., LTD in Indonesia, which marked the start of CODI in ASEAN. From then on, Chinese enterprises in some sectors, such as the textile and home appliance industries, began use their trade marketing channels to direct investment in ASEAN countries. Asian financial crises in 1997 heavily hit ASEAN countries' economy. Expanding domestic demand and promoting export are the necessary measures for them to revitalize their economies. To encourage export-oriented FDI and investment in labor intensive industry to increase employment were their FDI policies' orientations. Although there still have laws and regulations which limit foreign ownership in certain activities, much progress has been achieved in liberalizing FDI restrictions after crisis. Take Thailand as an example, before 1997, it did not allow 100 percent foreign ownership for manufacturing projects, except for those located in the least developed provinces or exporting at least 80 percent of total sales. Since the end of October 1997, the Board of Investment of Thailand provided approval on a case-by-case basis for foreign manufacturing firms in Bangkok and the other developed provinces and medium-range developed provinces to change their equity ownership to become majority or 100 percent foreign-owned if local shareholders give their consent. But deep frustration with poor infrastructure as well as cumbersome bureaucracies forced many China companies to adopt a more cautious approach in this period. Also, the imperfect political and legal environment has limited the size of the Chinese direct investment in ASEAN countries.



Source: Data are from ASEAN Statistical Yearbook (various years)

**Figure 1.** CODI in ASEAN and its share of total ASEAN FDI inflows during the period 1995-2019.

The second stage (2002-2009) is a steady development stage. As a response to the growing competitive effects of globalization, "going abroad" policy was established and implemented in 2002 that actively promoted China's outward FDI as an integral part of China's economic development strategy. In November 2002, China and ASEAN signed the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN, in which they agreed to launch the building of China and ASEAN free trade

area (CAFTA) and complete the process by 2010. The establishment of CAFTA calls for host countries to provide protection for foreign direct and portfolio investments, and compensation against damages caused by riots and political disturbances. On January 1, 2004, the initial benefit of CAFTA-"Early Harvest Plan"-was materialized as scheduled. The two sides signed the CAFTA Agreement on Investment in 2009. The establishments of China-ASEAN Investment Cooperation Fund in 2009 and China-ASEAN Banking Consortium in 2010 have provided an important platform for investment and financing cooperation between the two sides, the accumulated amount of mutual investment reached almost US\$75 billion at the end of 2009. At this period the general policy framework for foreign investment has become more liberal, two-way investment keeps expanding. The developed country like Singapore endeavored to intensify its international competition for FDI inflows by reducing corporate tax rates and providing more tax rebates. For example, in 2002, the first \$10,000 of chargeable income was 75% exempt and the next \$90,000 of chargeable income was 50% exempt, for a total of \$52,500 of exempt income. Some less developed countries like Thailand, Vietnam, eased restrictions on equity ownership and land acquisition. Barriers such as the ratio of domesticated components, the ratio of exported goods, etc. were gradually removed, making it easy for investors to choose any line of business corresponding to their business ideas. As such, there are still some investment

restrictions in the ASEAN countries, relatively little attention has been placed on the technological features of FDI; it has been sought mainly to generate employment or exports, or to play a role in the massive restructuring process.

In the third stage (2010-2019), CODI rose sharply in absolute amount. CAFTA was established as scheduled in January 2010, The bilateral trade between China and ASEAN could enjoy zero tariff treatment for more than 90% of the products exchanged. China's average tariff rate for ASEAN dropped from 9.8% to 0.1%, while the average tariff rate of the six old ASEAN member countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) for China was slashed from 12.8% to 0.6%. The significant reduction in tariff has lent a strong impetus to the fast growth of bilateral investment. The year 2018 saw an unprecedented boom in CODI, with flows US\$11.37 billion, an increase of 150% compared to 2010. The boom continued with the flows of \$13.02 billion in 2019. Surprisingly, the CODI boom did not raise its share in total outward FDI from China, the share actually even fell! See table 1.

Table 1 summarizes major destinations of CODI in the three stages, emphasizing the fact of the shrinking share of CODI in ASEAN. While the CODI was ranked as the third with a share of 8.5% in stage 1, the share dropped to 6.2% in the second stage and the share continued to decline in the third stage to 4.2% and eventually the ASEAN became a minor receiver relative to EU (8.4%).

**Table 1.** Top Destinations of China's Outward FDI Flows (US\$ Million).

Country/Region	1995-2001 Average		2002-2009 Average		2010-2019 Average	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Hong Kong	125.9	46.3	14585.9	48.5	97216.58	54.0
Cayman Is.	53.0	19.5	3511.4	22.9	7921.35	4.4
British Virgin Is.	20.9	7.7	1136.0	5.9	11521.96	6.4
ASEAN	23.1	8.5	1225.9	6.2	7561.29	4.2
EU	10.3	3.8	705.8	2.5	15122.58	8.4
Australian	5.4	2.0	756.6	2.2	5580.95	3.1
USA	2.2	0.8	311.7	1.5	5400.92	3.0
Russia	3.0	1.1	283.5	1.4	1080.18	0.6
others	27.9	10.3	2796.1	10.4	29705.06	16.5
Total	271.7	100	25312.9	100	180030.71	100

Source: All data are taken and computed by author from <China Foreign Economic Statistical Yearbook> (1996-2002) and <China Commerce Yearbook > (2003-2020), various issues.

Although ASEAN has become increasingly attractive to China investors and CODI indeed increased greatly, CODI is far from having reached its potential in ASEAN. In addition to other factors, doubt remains over the managerial capacity of Chinese businesses, and therefore the extent to which the claimed potential benefits can be achieved. Even worse, a few Chinese firms ignoring local regulations and conducted illegal arbitrage activities have heavily damaged CODI's reputation. Our fieldwork in Cambodia and Myanmar discovered most Chinese firms were poorly endowed with transitional investment experience, knowledge, and capability, competed unfairly driven by short term profit and neglect of firm's social responsibility, they could not provide sustainable employment opportunities for local economy. Consequently, an intention of containment rather than engagement with China firms have greatly impeded CODI

flows in ASEAN, even if China-ASEAN at the government level has reached a bilateral investment agreement and created the more favorable profiles of both sides by promoting regional cooperation. The cooperation base has become fragile and unstable due to China threaten statement and South China Sea issue since 2000. In fact, some ASEAN countries began viewing China enterprise as a potential rival due to worrying about its influence on the host countries' economic sovereignty.

### 3. Empirical Analyses of CODI Determinations in ASEAN and EU

#### 3.1. Hypotheses and Model Specifications

The CODI pattern in ASEAN in comparison with that in EU

suggests that low CODI might be a result of two broad sets of factors. One is related to China investors' motivation features such that CODI aims primarily at resource, and strong interests in gaining strategic assets rather than benefiting from cheap labor and market access. The other is associated with ASEAN's location advantages with low labor cost, less market competition and potential huge market that were significantly attractive to export-oriented and employment-promotion FDI rather than technology and strategic asset-oriented FDI. The small and slow growing CODI in ASEAN and the fast rising CODI in EU suggest that the two host country groups did not respond equally to China's motivation characteristics. To best understand why CODI in ASEAN is so low, we cannot overlook the factors that led to the rapid growth of CODI in EU.

The above reasoning, along with the discussions of CODI patterns in ASEAN and EU, suggests a hypothesis and determinants of CODI in ASEAN and EU as follows:

Hypothesis: CODI in ASEAN basically is resource-seeking, and market-seeking, while CODI in EU has high tech-seeking and strategic assets-oriented characteristics. The investors in ASEAN and EU would take differently location advantages and disadvantages.

Dependent variable: CODI is measured by net outflows of foreign direct investment from China into ASEAN and EU separately.

#### Determinants of CODI

1. Two proxies represent a test of the market-seeking hypothesis: one is GDP for market size of the destination economy, the other is GDP growth rate (GDPG) to reflect the potential internal market for products of foreign investors.
2. The natural resource-seeking hypothesis is to be estimated using the share of resources exports to total exports from host country (REEX)<sup>2</sup>, and the share of resources import to total import of China from host economy (REIM), they stand for abundant degree and advantage of providing resources.
3. The technology-acquisition is to be tested using revealed comparative advantage of high tech products (RCA) and the per capita GDP (PGDP). Here, RCA is equal to the high-tech products exports accounted for total exports divided by the countries of the world exports of high-tech products accounted for the proportion of total world exports. If the index is greater than 1, indicates that the host has a revealed comparative advantage in high-tech products, the greater the index, revealed comparative advantage more strong. In general, given the other conditions unchanged, the higher the per capita GDP, more advantages the host country is in technology. In addition, PGDP also can be used to measure the cost of labor.
4. The strategic asset-seeking hypothesis is to be tested using the share of merger and acquisition assets of foreign corporations to the total CODI (SM&A), Such

CODI tries to promote their long-run strategic objectives-especially that of sustaining or advancing their global competitiveness.

5. Labor costs (LABOR) is indicated by nominal wages. Cheap labor should encourage FDI inflows, especially those with labor-intensive production.
6. China Export to host country (EXP) is used to test whether the investments are to facilitate trade or to bypass trade barriers. theoretically, export and foreign direct investment are two alternative ways to enter overseas market, they should be negatively correlated; but some studies have found that the two are complementary to each other, that is, foreign direct investment often occur following the export, in turn, promote the exports of up or downstream products. So the relation direction between them need empirical test.
7. Trade barrier (TRAD) is proxy by tariffs. A higher import tariffs would reduce export-oriented FDI but induce market-oriented FDI.
8. School enrollment (SCHL) proxies the labor market conditions in the host economies, including the quality of labor. It equals the share of population enrolled in secondary school in host country.
9. Infrastructure development (INFRA), the total numbers of phones and mobile phone users (per 100 people) is used to represent the infrastructure development. A positive correlation between home country's OFDI and developing infrastructure is expected.
10. Exchange rate (EXCH) represents price competition. A higher exchange rate raises the competitiveness of exported goods, a positive relationship between CODI and host country's exchange rates could be expected.
11. Political stability (PS) is used to indicate the level of political risk, institutional quality, and it also partly reflects the "soft" investment environment. The International Country Risk Guide (ICRG) provides general index of political risk which is synthesized from 12 different criteria to represent the variable of political risk, the smaller the level of political risk, the progress greater the political stability is.
12. Host countries attitude of facilitating CODI (dummy D): China threaten statement was popular in 1996-97 and 2000, and the intensified disputes in the South China Sea from 2011 onward, both led to sharp changes in attitude toward CODI, which are suggested having a negative effect on FDI inflows during 1996-1997 and 2000-2019. Correspondingly, the model for this study is specified as:

$$CODI_{it} = f(GDP_{it}, CODI_{it}) = f(GDP_{it}, GDPG_{it}, REEX_{it}, REIM_{it}, RCA_{it}, PGDP_{it}, SM\&A_{it}, LABO_{it}, EXP_{it}, TRAD_{it}, SCHL_{it}, INFRA_{it}, EXCH_{it}, PS_{it}, D_{it})$$

### 3.2. Estimation Results

Data on CODI in ASEAN are taken and computed from ASEAN statistical Yearbook (various years). Data on CODI in EU are taken and computed from the publications by

<sup>2</sup>Resources here include energy, wood and industrial raw materials, e.g., oil, gas, metal, timber, and so forth.

MOFCOM (various years). Data on all other variables are taken and calculated from World Development Indicator database, except wages, which are computed from International Labor Organization (ILO) LABORSTA, and PS from the International Country Risk Guide (ICRG). This study uses a panel of the ten ASEAN countries: Vietnam, Indonesia, Malaysia, Philippines, Singapore, Thailand, Cambodia, Lao PDR, Myanmar, and Brunei Darussalam, and a panel of fifteen EU countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom, separately<sup>3</sup>, the sample period 1995-2019.

Technically, the panel data may exist group effects, time effects, or both. These effects can be fixed effects or random effects. We use Hausman test to find whether the fixed effects model (FEM) or random effects models (REM) is suitable. In addition, the Ramsey-Reset test is performed to verify the characteristics of model. The results showed that the REM model is more appropriate than the model FEM. Then the Wald test is used to test group-wise Heteroscedasticity, and Wooldridge test is used to test the serial correlation. The Chow test is used to examine the impact of the financial crisis in 2008 to the stability of the regressive coefficients of the models. Results show that the financial crisis does not affect the nature of the factors of CODI flows to the regions. Using all independent variables lagged by one year so as to make the regressors predetermined and reduce the potential effects of feedback from the actual investment to the independent variables. Table 2 reports the results of the two models.

**Table 2.** Estimates of Determinants of CODI in ASEAN and EU (1995-2019).  
Dependent variable:  $\ln(CODI)$ .

Determinant	Coefficient for ASEAN model	Coefficient for EU model
GDP	0.217 (0.640)	-0.627 (0.633)
GDPG	3.852** (0.012)	2.988 (2.070)
REEX	2.018*** (0.000)	2.097 (0.108)
REIM	1.226** (0.011)	1.795 (0.149)
RCA	-0.897 (0.196)	1.129*** (0.000)
PGDP	0.795 (0.456)	2.946 (3.027)
SM&A	0.5943 (0.331)	11.485*** (0.000)
EXP	2.026 *** (0.008)	4.1417 (0.051)
LABO	3.710 (1.051)	1.711 (1.3069)
TRAD	-2.385 (0.942)	-1.782*** (0.000)
SCHL	29.538** (0.015)	2.127 (0.110)
INFRA	15.658 ** (0.032)	15.285 (0.157)
EXCH	1.946 (0.188)	5.8221 (0.602)
PS	-8.799*** (0.000)	-6.918** (0.029)
D	-1.972*** (0.000)	-9.497 (0.152)
R <sup>2</sup>	0.7693	0.803
Observations	259	161
Hausman Test	(0.108)	(0.616)
Ramsey Reset Test	(0.787)	(0.486)
Wooldridge Test	(0.800)	(0.122)
Modified Wald Test	(0.000)	(0.000)
Chow Test	(0.674)	(0.529)

p-values in parentheses,  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ ;

Note: All random-effects regressions are run with robust standard errors.

<sup>3</sup>The narrower boundary of the EU of 15 Member States (EU-15) is used when we regress the model in case that too many default data reduce the models' efficiency.

In the specific CODI in ASEAN model, the natural resource-sought hypothesis finds support in the coefficient for REEX and REIM being significant at the 1% and 5% level, separately. This asserts the research results of Morck, et al. [5] and Cheung et al. [6], both find outward FDI from China positively related to natural resources in host economies. Raw materials from abroad, including oil, gas, metals, timber, and so forth are required for China's sustainable economic growth.

The technology acquisition hypothesis as captured by RCA actually has the wrong sign, indicating that CODI is less technology-intensive oriented in ASEAN. For the strategic asset-seeking motives, the proxy is statistically insignificant, illustrate that ASEAN is a less strategic asset-intensive destination. This can be explained by that most ASEAN countries are less and the least developed economies, some of them are experiencing the process of shifting from traditional agriculture dominated economy to labor-intensive manufacturing dominated economy. And others although have successfully completed that shifting, their economic growth has been built on relatively low-tech industrial development and on a cheap and less-efficient workforce.

CODI as expected is flowing to economies where the GDPG is higher. CODI and China's export to ASEAN have a strong significant complementary relation at 1% level. This verifies that CODI indeed intend to explore new market for its export by setting up sale channels, especially in countries where its products, with competitive price and reasonable quality, may sell better than expensive ones from developed countries.

The effect of trade barriers on CODI should be negative as suggested. The insignificant coefficient of TARD in the ASEAN model might be caused by ASEAN's incentive policy under which China multinationals would be paid back the tariffs imposed on their imports of intermediate or raw materials as long as their products are exported. Such a policy insulated export-oriented CODI from the impact of trade barriers.

The coefficient of INFRA is positive and statistically significant. Thus, the quality of infrastructure plays an important role in attracting CODI into ASEAN.

As expected, the coefficient of PS is negatively and statistically significant. This means that smaller PS value, meaning greater political stability, will strongly encourage FDI flows to the region.

The unfriendly attitude index (D) is significant and has a larger estimated coefficient than the coefficient on GDP. This is partly related to the fact that a large share of CODI have been going to Singapore, Thailand and Vietnam, the relative friendly neighbors, whose economy are dominated by producing high value-added goods and a variety of complex services as well as targeted cluster activities, including those in biomedical sciences, logistics and finance and insurance, rather than a country primarily involved in manufacturing consumer goods in labor-intensive industries.

Different from the research result of Clegg & Voss [12] who think China's rising domestic labor cost are eroding the unique comparative advantage of China and further motivate China to exploit the cheap labor and natural resources in less developed

ASEAN countries. Our study shows that the labor proxy is not significant for labor cost-increasing rapidly China's outward FDI. But the quality of labor (SCHL) does matter and is statistically significant at 5% level. So not the cheap labor but the quality of the labor determines the CODI flows into ASEAN. That means "reduce costs" is not the main motivation of Chinese firms overseas investment in ASEAN. The reason could be, compared to cost advantages, technological leadership is a more significant contributor to a firm's competitiveness in international markets. Sustainable competitiveness, therefore, would appear to rest on the ability of CODI firms to acquire new advantages and augment existing ones. This may well explain why, in addition to investing for resource-seeking, Chinese firms are investing in diverse locations to seek strategic assets. Moreover, although in recent years China's domestic production costs rise faster, but the cost sensitive enterprises tend to move the factory from the coastal areas to the central and western regions where there are relatively low labor cost, and not moving overseas, in case the overseas business face greater uncertainty and risk.

For the EU regression, other than the high-tech and strategic asset-seeking motivation, the only two coefficients that are significant are political stability and trade barriers. These variables did historically play a role in spurring CODI to invest in EU. Outward FDI from China has been undertaken as an effective vehicle for China firms to access localized innovative assets and capabilities. Such asset-seeking CODI tries to enhance its dynamic competitive advantage by strategically locating itself around geographically dispersed local innovation centers. Those asset-seeking and innovation-enhancing interest in the CODI help explain the sharply increased amount of CODI inflows into EU.

Therefore, CODI present different investment patterns in ASEAN and EU, in ASEAN enterprises tend to obtain resources and establish overseas sales channels, promote the export of domestic products; and in EU enterprises mainly engage in overseas investment to get technology and strategic assets, such as patents and related professional and technical personnel and channels.

Now we are in a good position to answer the question of why the CODI in ASEAN is low measured by its share in China's total outward FDI, it is simply a result of interactions among China multinational firms' motivations and ownership advantage/disadvantage and ASEAN's location characteristics. The evidence shows that, based on their motivations, China multinationals have exhibited strong preferences to gain resource, technology and strategic assets from host countries, and therefore CODI is interested in raw material, human capital, technology, brands, sale channels to augment the competitive advantage of its parent company. The ASEAN countries, however, has been basically characterized by low quality of labor and high unemployment rate, and FDI projects are expected to aim not at domestic but at international markets to boost the host economy. These factors, along with political instabilities and containment attitude for CODI, resulted in low CODI flows in absolute amount and the share of CODI total.

## 4. Summary and Concluding Remarks

Despite the impressive achievement in attracting FDI, the CODI in ASEAN has remained small relative to China's total outward FDI compared with that in EU. This article has analyzed the determinants of CODI through a panel data model cover 1995-2019. The evidence indicates that the factors impeding CODI into ASEAN cannot be fully appreciated without understanding interactions of CODI motivation, and ASEAN's location characteristics. Empirical results support the belief that China's enterprises present different investment patterns in ASEAN and EU, enterprises in EU mainly engage in overseas investment to get resources and strategic assets, such as technology, brands and channels. Enterprises in ASEAN are primarily motivated by resource-seeking and market access through establishing overseas sales channels, promote the export of domestic products, and the ASEAN countries are export and employment oriented. The small CODI thus is a result of China investors' motivation for resources, market and skilled personnel-oriented investment and ASEAN's export and employment-promotion FDI regime, along with troubled containment attitude for Chinese firms and political instabilities in ASEAN.

Since ASEAN is far from having achieved its potential in receiving CODI, it has a long way to go to be able to upgrade its industrial structure through transfer of technology and management expertise embodied in CODI. This study verifies that the cheap labor is not the advantage in attracting FDI flows into ASEAN. So, the strategic orientation of ASEAN countries in attracting CODI is to improve quickly the labor quality. Education is one sector, among others, which need greater attention for development. In addition, it is essential that infrastructure with appropriate quality and structure (physical, technological, transport-forwarding, telecommunication, information technologies) must be improved to meets capacity to do the business. This should be supported by institutional soundness which includes a clear authorization between central and local government. Moreover, engaging with China investors and minimizing the political risks for foreign investors are also very important for CODI inflows into ASEAN.

China investors, in order to avoid blind investment, should make a sound location choice: if the enterprise aims at exploring the new markets and increasing product sales, it is better to invest to the countries who possess a large market capacity, such as Indonesia and Thailand; if the enterprise aims at acquiring advanced technology and management experience, it should choose Singapore; if the enterprise to reduce labor costs, it could choose Kampuchea and Vietnam and other low-income level countries; if the enterprise to obtain an important raw material, it should choose the country with abundant resources, and its authority allows and encourage such exploitation and export.

In order to improve CODI's performance, China investors should make full use of ASEAN countries' location advantages, and focus more on labor intensive, natural resources and manufacturing with intermediate technology

characteristics industry. Currently, labor-intensive industries such as electrical and electronic manufacturing, tourism, financial services should be considered as the leading destination industry of CODI.

A further increase of CODI in ASEAN could be achieved by raising the profile of the CODI enterprises through direct promotional activities for their social responsibility. Let the host country believe a policy of engagement with CODI would be more effective and beneficial, as such, China investors will feel more encouraged to be present in ASEAN.

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