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A Comparative Analysis on Japan and China's FDI in ASEAN

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Abstract

Japan has a long history of investing in ASEAN, and China has recently demonstrated its aggressiveness in investing in ASEAN. The research plan intends to examine the perspective of the layouts of investments by Japanese and Chinese companies in ASEAN, with the aim to think about the business opportunities and implications for Taiwanese enterprises to make investment in ASEAN.

Japan's competitive advantage in the manufacturing sector has laid the basic pattern for its foreign direct investment in manufacturing in ASEAN. Japanese multinationals have established branches in ASEAN countries through direct investment to achieve the transfer of production activities to ASEAN, and to integrate ASEAN into its global production chain. China's major investment activities in ASEAN are more related to infrastructure, reflecting its international comparative advantage of being a contractor of infrastructure construction. Due to the rapid economic growth and urbanization, China itself has quickly become the world's largest market for infrastructure construction.

Compared with Japanese multinational companies that have been operating in the ASEAN market for many years, Chinese companies still have a certain gap in technology, brand, transnational operations and risk management. The paper also attempts to look over China's strategies for developing ASEAN market through two cases of Chinese auto industry investment in ASEAN.

1. Introduction

Due to the low domestic economic growth, Japanese firms have been actively searching for growth opportunities in Asia's emerging markets and have been aggressive in allocating capital to ASEAN. Recently, Japan's FDI in ASEAN might be a strategy of diversification, responding to the deterioration in Japan-China political relations in 2012. Japanese direct investment in ASEAN increased 120% to $23.6 billion, while direct investment toward China decreased 32.5% to $9.1 billion, according to the JETRO Global Trade and Investment Report 2014.

ASEAN markets are attractive from the global perspectives. Many economies have great potential to grow, thanks to a young population profile, the accelerating GDP growth and the growing market size. In addition, trade and investment liberalization in the ASEAN region is also attracting foreign investors. With a combined population of more than 620 million and an economic scale of $2.6 trillion in the region, this certainly can be considered as an important business opportunity by global investors who are eagerly searching for return.

It is noticeable that Chinese companies poured a record $4.6 billion of foreign direct investment into Southeast Asia in 2015, almost double from the previous year. China is now one the main investors in ASEAN countries. China's investment will continue growing, partly for the sources of cheaper manufacturing and partly boosted by the "Belt and Road" initiatives.

Japan has a long history of investing in ASEAN, but China is quickly catching up to become one of the main sources of FDI. From the economic perspective of view, China is challenging Japan in terms of production and markets. Considering the increasing economic importance of China in ASEAN, the crucial question arises: What kind of the market competitive situation will evolve between Japanese and Chinese businesses? What are the opportunities for other countries joining the competition?

This paper focuses specifically on the comparison between Japanese and Chinese FDI in ASEAN. By carrying out a careful analysis and undertaking a comprehensive examination on the current investment activities of Japanese and Chinese businesses in ASEAN, the paper aims to navigate and serve as a mechanism on important implications concerned with industrial policy issues.

2. Japan's Overall Outward Foreign Investment and in ASEAN

2.1 Japan's Overall Outward Foreign Investment

Japan's foreign direct investment is mainly concentrated in the United States, East Asia and Europe. From the perspective of geographical distribution, the total amount of investment in Europe and the United States is greater than the investment in Asia overall. After 2000, with the substantial increase in the amount of investment in Asia, Japan's share of investment in Asia has increased significantly. In the recent years (2015-2017), the share of investment in Europe and the United States has obviously increased again due to the slowdown in investment in Asia. The UK is a key country for Japanese investment in Europe.

In the 1980s, in order to avoid the trade friction between Japan and the United States, Japan's foreign investment started to enter the advanced countries in Europe and the United States. Especially after the 1985 Plaza Accord, Japanese companies showed a significant growth trend in foreign investment in North America and Europe.

The appreciation of the yen during the periods of the 1980s and the mid-1990s accelerated the increase in outward foreign investment by Japanese companies. In order to maintain global competitiveness and reduce the disadvantages of the exchange rate appreciation, Japanese companies was forced to cut down their domestic production scale, establish production in low-wage areas, and seek for suitable parts suppliers overseas. (From 1985 to 1988, the exchange rate between US dollar and the Japanese yen depreciated from 238.1 yen to 128.2 yen. In April 1994, the yen rose for the first time to the level of 100 yen for one US dollar. In April 1995, the price of Japanese yen reached the highest record in the history with 80 yen for one US dollar.)

For example, the appreciation of the yen in the late 1980s has made Japanese foreign investment begin to shift to ASEAN countries, with the aim of reducing production costs. Domestic investment by Japanese firms was mainly focused on the production of high value-added products and for the development of new products, whereas the investment in ASEAN concentrated on the purpose of mass production with lower labor costs.

During the period of 1990-1995, Japan’s foreign investment entered a stage of stagnation and adjustment. Due to the slowdown of the world economy and the collapse of the Japanese bubble economy, Japan’s share of global foreign investment fell sharply. In the mid-1990s, the yen began its appreciation trend again. Stimulated by the reform and opening up policy in mainland China, Japanese companies began to invest in China also with the main purpose of constructing their overseas processing bases.

Until 2005, because of the obvious recovery of the domestic economy and corporate profits, Japan’s foreign direct investment has started to grow again, though Japan’s overall foreign direct investment in 2009 and 2010 shrank as a result of the impact caused by the financial crisis. After the Earthquake in 2011, Japan’s foreign direct investment rebounded sharply, and jumped to 108.08 billion U.S. dollars, surpassing the threshold of 100 billion U.S. dollars.

The appreciation of the yen in 2011 and the idea of diversifying risks after the earthquake have made Japanese companies to re-examine their domestic and foreign investment layout strategies. Japanese firms became more active in overseas market after 2011, and accelerated the pace of Japan's foreign direct investment. The amount of foreign investment has again shown a stable expansion trend.

In the second half of 2011, the European debt crisis had led the global economy to a recession. The scale of foreign investment by most of developed countries decreased due to the uncertainty on global economic conditions. However, it was shown the amount of foreign investment from Japan rise by 13.94%, reaching US$122.6 billion in 2012. The most striking thing is that direct investment in Thailand had reached 10.2 billion U.S. dollars in 2013, surpassing direct investment in China, and Thailand was Japan’s largest investment host country in East Asia.

Japan’s foreign direct investment had been undergoing structural adjustments and changes. The main feature of Japan's recent foreign investment is the significant increase in investment in non-manufacturing industries. For example, after the Great Earthquake in 2011, the demand for domestic thermal power generation led Japanese companies to actively acquire energy exploration rights overseas, which substantially increased the amount of foreign investment in mining. Although the growth rate of foreign investment in the financial and insurance industries is not particularly striking, it has been the main industry which shows a steady growth in the amount of Japanese outward foreign investment. In addition, in recent years, the increases of foreign direct investment in information and communication and logistics sectors are also relatively obvious.

In the manufacturing sector, the transportation industry (automobiles, motorcycles, automotive components) and the chemical and pharmaceutical industry have always been the mainstay of Japanese foreign investment activities.

In terms of government policy, the Japanese government has actively encouraged companies to invest in emerging market countries, and providing support measures in recent years. Most of the emerging market countries have problems such as incomplete industrial infrastructure, lack of mature legal systems, and insufficient talents. According to the "Emerging Markets Expansion and Response Countermeasures" report put forward by the Ministry of Economy, Trade and Industry's Industrial Structure Review Committee in July 2012, the Japanese government's policy measures to assist Japanese companies to invest in the emerging markets not only include signing FTA agreements with related countries but also provide relevant support measures directly.

The support measures mainly include: 1. Assisting in improving the local business environment; 2. Supporting talents and funds; 3. Selecting key industry sectors with the help to strengthening firms' marketing strategies; 4. Promoting the international development of SMEs.[2]

2.2 The Trend of Japan's outward foreign investment in ASEAN

Japan has been one of the major sources of investment in ASEAN. Many Japanese leading enterprises, such as Panasonic, Mitsubishi, Sumitomo, Toyota, Honda and Nissan operate in multiple ASEAN Member States and are involved in various types of activities.

The major ASEAN countries have always been an important base for Japanese overseas manufacturing activities. In the late 1980s, faced with the sharp appreciation of the Japanese yen and increasing labor costs, Japanese firms expanded foreign production capacity through massive foreign direct investment in developing countries, including in the ASEAN countries. This also helped ASEAN accelerate industrialization and promote the growth of the export industries. In the late 1980s, Japanese companies did not focus on the demand of ASEAN domestic market, but only considered ASEAN as a processing and re-export base for European and American markets.

In the 1990s, Japan suffered the deepest and longest recession in history. Together with

[2] JETRO (2010), Japan Looks for Economic Growth in Emerging Asia, focus newsletter November, Japan external trade organization.

the impact of Asian financial crisis in 1997, Japanese firms reduced their direct investment in ASEAN. At the same time, China, which had not been mired in the financial turmoil, had attracted many Japanese companies to invest in China because of its similarity in production conditions with the ASEAN countries. The fast-growing Chinese economy had also made Japanese companies adjust their investment strategies in Asia by reallocate more investment plans in China. Although Japanese companies have downsized or even abolished some poor performance factories in ASEAN, Japan remained the largest investor in the region.

The increasing interests in investing in mainland China and India resulted in a decrease in Japanese investment in ASEAN between 1997 and 2004. However, since the promotion of the ASEAN Free Trade Agreement in 2005, under the attraction of future business opportunities, the Japanese government actively negotiated with the ASEAN countries to sign the EPA. The adoption of various trade-related preferential measures in the ASEAN region caused Japanese firms had gradually returned to a positive attitude in investing in ASEAN countries.

Around 2011, the political relationship between China and Japan deteriorated, Japan’s investment in mainland China started to slow down, and the amount of investment in ASEAN increased significantly, with the amount exceeded 20 billion US dollars during 2013-2015.[3] In addition to Thailand, Vietnam there also has been seen an obvious trend of Japanese companies’ investing in Indonesia, especially automotive-related industries. The increase in direct investment in Singapore was even more pronounced.

Based on the balance of payments statistics of Japan, new foreign direct investment in ASEAN for 2016 was around negative 6,100 million dollars. The main reason for a remarkable decline is because Softbank received a dividend of 2,372.9 billion yen from the Singapore subsidiary in August 2016, which might have been recorded as a direct investment withdrawal. At the same time, Thailand receiving the largest investment from Japan remained at the same level as the previous year around 4 billion dollars, with largest portion went to investments in transport equipment. Indonesia received 669 million dollars of investment in the field of transport equipment and machinery, Thailand ranked second receiving 234 million dollars, and then followed by Vietnam's $ 218 million (10.2% increase) and Philippine's $ 178 million (34.8% increase). If we ignore the Softbank’s case of capital withdrawal, since 2014, the amount of Japan's foreign direct

[3] Bank of Japan (2011-2018), Balance of Payments.

investment in ASEAN had consistently exceeded that of China.[4]

In the context of increasing potential of consumption capacity, Japanese investments of the wholesale and retail industry demonstrated a continuous rise in Thailand, Indonesia, Vietnam. It was also noticed that Japanese major banks actively carried out M & As in the financial industry of ASEAN. It is worth mentioning that, the ASEAN countries have gradually transformed from a pure production base to an emerging market with potential for domestic consumption, in other words, ASEAN countries playing the roles of both production bases and market for Japanese firms.

3. China's Overall Outward Foreign Investment and in ASEAN

3.1 China's overall outward foreign investment

Chinese enterprises have recently demonstrated their enthusiastic engagement in outflow foreign direct investment, and this rapid growth has attracted considerable attention. In recent years, the state regulatory authorities have issued a series of policy provisions related to overseas direct investment by Chinese companies, which has greatly simplified the government approval procedures and foreign exchange operations procedures for overseas investment. Encouraged by this series of regulations and policies, Chinese companies have started to engage aggressively in overseas investment projects.

Prior to 1991, China's foreign investment was conducted by trading companies or small-scaled primary processing firms only, with the total annual amount of foreign investment was less than US$1 billion. In the early stage, the main motivation of Chinese outward foreign direct investment was to acquire technology, markets, strategic assets and natural resources. Between 1991 and 2000, although China accelerated the pace of opening up to the world, foreign direct investment had experienced the characteristics of “ups and downs”. For example, foreign direct investment outflows soared to US$4 billion in 1992, which was four times of that in 1991, but in 2000 foreign direct investment outflows fell to US$920 million, which was amount equivalent to the level in 1992.

The reason why there is a large fluctuation can be simply explained by the following. Despite enterprises have gained more operational autonomy and began to consciously conduct outward foreign direct investment, they lack clear investment objectives and long-term strategic positioning. The firms’ behaviors of foreign direct investments were

[4] Bank of Japan (2018), Japan's Balance of Payments Statistics and International Investment Position for 2017, International Department.

driven by accidental factors and short-term interests.

In 2001, China’s National Plan for Economic and Social Development officially included “going out” as a national development plan. The amount of foreign investment has continuously increased since 2003. In 2012, the 18th National Congress of the Communist Party of China once again proposed to further accelerate the pace of “going out”, with aims to improve the core competitiveness of enterprises and the ability to operate internationally.

Since 2003, China's foreign direct investment has increased continuously; the amount of outflows in 2016 was 72.6 times of the amount in 2002. The China’s global share of outward direct investment increased from 0.5% in 2002 to 13.5% in 2016, and it demonstrated an increasing prominent position in the world.

According to World Investment Report by UNCTAD, China's foreign investment outflow reached US$145.67 billion in 2015, ranking second in the world, only after the United States, and surpassing the level of its foreign investment inflow. Although the global foreign direct investment outflow shrank in 2016, China's outflow grew by 44% to US$183 billion, ranking second in the world for the second consecutive year.[5] The Ministry of Commerce of China explained the reasons for the increase in the investment in 2016, showing that the “Belt and Road” policy helped promote the investment in the related countries. There is no doubt that Chinese investment in countries related to the “Belt and Road” policy has drawn a lot of attention. At the same time, Chinese companies have set off a wave of mergers and acquisitions in developed countries and Chinese capital have become an important source funding for some enterprise in developed countries.

As of the end of 2016, China's outward FDI stock was US$1,280.975 billion, accounting for about 5% of the world's FDI stocks, ranking 10th in the world and only one-sixth of level by the United States according to UNCTAD data. The same data set also showed, in 2016, China's foreign investment mainly covered leasing and business services (33.5%), manufacturing (14.8%), wholesale and retail (10.7%), information technology services (9.5%), real estate (7.8). %), and financial industry (7.6%), etc.

China National Development and Reform Commission issued the "China Foreign

[5] World Investment Reports (2011-2018), United Nations Conference on Trade and Development.

Investment Report" in November 2017, stressing that, the government will continue to support enterprises' foreign investment activities through strengthening policy guidance and administrative system. Particularly, China's foreign investment will focus on promoting international production capacity and the construction activities related with the "Belt and Road" policy.

The motivations of China's recent FDI activities were generally interpreted as follows. In the context of slower domestic economic growth and overcapacity, China is implementing an industrial transfer by investing in foreign countries. In particular, by establishing overseas manufacturing bases and global production supply chains, China wish to upgrade the idea of "Made in China" and gradually transform itself to be a global investment power.

At present, in term of scale, state-owned enterprises are still the main forces for Chinese outward foreign investment, but private enterprises are developing their investment activities overseas rapidly. In terms of the numbers, private enterprises which have been engaged in foreign investments accounted for more than 60% of the total enterprises exceeds the number of state-owned enterprises. It is also observed that the share of foreign direct investment by state-owned enterprises in total investment is decreasing from 69.6% in 2008 to 53.6% in 2014.[6] The extremely high figure of 53.6% to 69.6% observed shows that state-owned enterprises take the leading position in China's foreign direct investment, but the importance of investment by non-state-owned enterprises is increasing.

Owing to most of entities of China's foreign investment still come from state-owned enterprises, therefore, they are easily questioned for political intentions and national security concerns by host countries. The cases of rejection on China's investment have occurred sometimes recently.

According to Lee (2017), until about ten years ago, the motivation of FDI abroad of Chinese enterprises was political or acquisitions of resource interests but the economic objectives have been increasing more and more since then. Lee's empirical study showed that the Chinese enterprises with higher productivity tend to have higher probability to undertake foreign direct investment.[7] Besides, companies with large capital stock, more

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[6]李石(2017), 中国の対外直接投資およびその立地決定要因についての実証分析, 博士研究論文, 早稲田大学大学院・アジア太平洋研究科・博士後期課程.

[7] Same as footnote 5.

devotion to R & D, or with past foreign investment experience will increase the probability of making foreign direct investment. Thirdly, Lee's research results showed that foreign direct investment helped to improve the productivity of Chinese state-owned enterprises in China.

3.2 The Trend of China's Outward Foreign Investment in ASEAN

Chinese outflow foreign direct investment began earlier in the ASEAN than in other region. During the early stages of overseas investment (around 1979-1984), as a result of policy restrictions, only import/export companies and specialized international economic and technical corporations from the provinces and municipalities were permitted to engage in overseas investment.[8] Most of the investments undertaken by the specialized import/export companies were concentrated in areas in which China was already engaging in importing and exporting activities. For the most part, this meant Southeast Asia. The most common method used was to establish an overseas branch or representative office specializing in a particular commodity.

The overall distribution of Chinese overseas investment was based on different investment objectives. In the case of ASEAN nations, such as Thailand and Malaysia, the purpose of the investment in the early period was to exploit the economic, technical and cultural links which had been formed with these countries over the centuries, and to develop them as export markets. In 1990s, China and ASEAN have similar industrial structures, and there is considerable overlap in their manufactured products, thus making them competitors in the international markets. (For example, both China and Southeast Asia hope to exploit foreign investment to speed up their economic growth; consequently, they have both been devising measures to attract foreign capital.) From the point of view of international competition, China had more or less been forced to increase its investment in ASEAN, as the region has long been receiving attention with extensive natural resources, and positive economic outlooks. Since the development of ASEAN countries was no lower than China around the 1990, without question, strengthening investment in ASEAN is an important strategy for China in terms of protecting and expanding its traditional export markets. At the same time, a noticeable increase in investment of productive enterprises by Chinese firms was observed.

The economic interaction between China and ASEAN countries has undergone a major

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[8] Wu and Chen (2003), "China's Outward Foreign Direct Investment in Southeast Asia", in *China in Transition (vol. 1)*, edited by K.S. Sim, Nova Science Publishers, Inc., N.Y, 2003.

shift after the Asian financial crisis in 1997. Before 1997, the economic and trade cooperation between the two sides was still at the stage of trial, and there has been no substantial progress. When the ASEAN countries were suffering from the financial turmoil in 1997, Chinese government provided low-interest loans to the ASEAN countries, and the two sides issued the "Joint Statement ", for a consensus of economic cooperation, which mainly includes promotion of bilateral trade and investment, facilitating market access, and strengthening technical exchanges. Based on the joint statement, China and ASEAN countries launched the partnership in the economic and trade cooperation and committed to the establishment of China-ASEAN Free Trade Area (CAFTA).

As the ASEAN Economic Community (AEC) is receiving more and more attention from all over the world, China actively strengthened its cooperation with the ASEAN through the Foreign Development Assistance Program and the “Belt and Road” initiative. It was seen that the initiative launched in 2013, and it further drove more outward investment into the ASEAN countries.

China has provided funds to establish economic and trade parks in Vietnam, Malaysia, Thailand, Laos, Cambodia, and Indonesia, which are used for a model for economic cooperation with each country, and also served as vehicles for attracting Chinese investment.

Since 2015, the ASEAN nations were an important destination for Chinese companies to invest abroad. China’s direct investment in the region reached a record high, and more than half of China’s direct investment related to the “Belt and Road” initiative flowed into ASEAN. Particularly, China has provided investment funds for infrastructure construction in the ASEAN nations with relatively lower income.

4. The Recent Trend of Japan and China’s FDI in ASEAN and Industrial Distribution

4.1 Trend and Industrial Distribution

The following section compiled the data from ASEAN Investment Report 2012-2018, and initially made a comparison on the trends between Japanese and Chinese foreign direct investment in ASEAN.

Both Japan and China are significant investors in ASEAN. (Table 1) In 2012-2013, Japan was the largest investor, which accounted for around 20% of FDI in ASEAN, while

Chinese companies was also investing actively in ASEAN and contributed $6.35 billion inflows in 2013. The major Japanese FDI flow went to manufacturing, which received about $13 billion, accounting for 75.7% and 32.1% of total manufacturing FDI in ASEAN for the year 2012 and 2013 respectively(Table 1). By comparison, the highest portion of Chinese FDI flow went to real estate activities by 18.1% in 2012 and wholesale and retail trade by 36.5% in 2013.

Global FDI inflows to ASEAN in 2014 with levels exceeded inflows to China for the first time since 1993, making ASEAN the largest recipient of FDI in the developing world. In the meantime, FDI flows from Japan to ASEAN plummeted by 46.7%, to $12.9 billion, and Japan was no more the largest investor in ASEAN, reflecting the general downward global trend of Japanese FDI in 2014. At the same time, and FDI flows from China to ASEAN was observed with a slight decrease by 2.6%. Regarding the industry destination, Japan continued to have significant investment in the manufacturing industry with a 38.5%, and Japanese inflows to financial and insurance services increased furtherly and remained around 10% of its overall FDI inflow into ASEAN. FDI from China flowed mainly to real estate, and finance and insurance activities. Chinese’s manufacturing FDI in ASEAN only account for 4.7% of total FDI made in ASEAN manufacturing, but its real estate activities FDI occupied 20.1% of its total FDI of ASEAN in respected sector.

In 2015, the rise in ASEAN FDI flows from Japan and China were 13.5% and 3.6 % to the amount of $14.7 billion and $6.4billion. Japanese FDI flows in ASEAN remained highly concentrated in manufacturing activities. Japan and China accounted for 27 % and 2.7% of total FDI inflows into the manufacturing industry in 2015. Although the amount of Japanese FDI in manufacturing sector rose by 13.4%, its global share compared to other countries decreased to 27% in 2015. As for the FDI in selected service sectors, Japanese companies continued to strengthen their presence in the region. Chinese FDI flows in ASEAN on the other hand, remained highly concentrated in real estate activities, which account for 23% of total FDI in the respected sector.

In 2016 Flows from China rose by 75.9% per cent to $11.2 billion, while flows from Japan fell by 4% to $14.0 billion. Japanese companies invested strongly in manufacturing, despite flows decline significantly from $7.9 billion in 2015 to $5.2billion in 2016. On the other hand, Japanese FDI in real estate, wholesale and retail trade increased significantly. Chinese FDI went mainly to real estate, financial service, wholesale and retail trade, particularly, FDI in finance and insurance industries and wholesale and retail trade demonstrated a significant growth rate.

In 2017, Japan and China were second and third largest investors across the region of ASEAN. As in past years, manufacturing remained the largest target industry for Japanese investments in ASEAN (46%), Japanese's FDI in wholesale and retail rose significantly, led by the opening of consumer retail stores, supermarkets and malls (AEON and Seven-Eleven). The research and development (R&D) activities conducted in ASEAN by Japanese firms are worth monitoring closely because of their potential impact on economic and social development. For example, Denka (Japan) established a chemical R&D operation in Singapore and Nissan (Japan) set up an R&D facility in Thailand. Japanese companies divested some $2.3 billion in assets in finance. Chinese companies were the main investors in real estate, accounting for nearly 25% of inflows.

Overall, in recent years, the growth rate of net inflow of direct investment by Chinese companies to ASEAN is significantly larger than that of Japan. The industrial layout of China and Japan in ASEAN is also very different; Japan focuses on manufacturing, while China focuses on services, especially real estate and financial services.

4.2 Differences in Recipient Nations

Due to stable political conditions and better industrial infrastructures, Thailand, Indonesia, Singapore, and Vietnam are the main focuses for Japanese investment in ASEAN (Table 2). For example, Japanese car manufacturers Toyota, Honda, Nissan, Mitsubishi, Suzuki, etc. and electronics manufacturing company Panasonic have been continuously expanding production capacity in Indonesia, Thailand, and Vietnam. Japanese major investment areas also include dining industry in Indonesia, consumer finance and shopping centers in Thailand, and logistics companies in Singapore.

On the whole, China's largest direct investment recipient country in ASEAN is Singapore, followed by Indonesia. China's investment amount in Cambodia, Laos and Myanmar is significantly larger than Japan's. In terms of industry distribution, China's investment in ASEAN manufacturing is mainly distributed in Indonesia, Vietnam, Thailand; investment in wholesale and retail trade is mainly distributed in Singapore, Thailand; leasing and business services, mainly in Singapore; the real estate industry mainly distributed in Singapore; the financial industry mainly in Singapore, Myanmar and Cambodia. According to the ASEAN Investment Report, due to rising wages in domestic country, it has become common that China's apparel industry and auto parts manufacturers started to shift production bases to Vietnam, Myanmar, and Cambodia.[9]

In order to furtherly understand the differences and characteristics of investment between Japan and China in ASEAN, I refer to the cases compiled in the ASEAN investment report and JETRO Global Trade and Investment Report 2012-2018 for the main involvements of Japanese and Chinese investment in major ASEAN countries.

4.2.1 Japan and China's FDI in ASEAN3

Thailand:

Japan has been Thailand's largest foreign investor for a long time, with the investment of Japanese automakers, automotive and electronics related factories help develop the country into a major automotive and electronic manufacturing hub in Southeast Asia. Although the floods in 2011 caused huge losses to local Japanese businesses, some of the firms moved their locations from the north central to the east coast of Thailand, but the overall manufacturing operation is still very stable in Thailand. At the same time, Japan's investment in the service industry, especially the financial and insurance industry and retail and wholesale industry, has grown rapidly in recent years.[10]

According to the data of recent years, Japanese companies' direct investment in Thailand has maintained a stable trend. JETRO's survey of Japanese business in Thailand (2016) shows that Japanese companies face some challenges in doing business in Thailand, where competition in the local market is becoming more intense, followed by rising labor costs.

Due to the impact of Thailand's wage increase, Japanese investors have proposed the concept of "Thailand Plus One", that is, considering Thailand as a production network center and transferring some labor-intensive processes to sites at the borders of countries such as Myanmar, Cambodia, Laos and South Vietnam to reduce labor costs.

In the past, the one of the main motivations of Chinese enterprises investing in Thailand is to avoid trade frictions and evade anti-dumping set by some countries in China. Some

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[9] The sources of statistics mentioned in this paper include ASEAN investment reports, the official data released by Japan and China's government, and the statistics published by ASEAN countries. There must be some discrepancies among them. One of the reasons for the discrepancies is that some ASEAN countries combine inflows from China and Hong Kong together. Another reason is that some Chinese companies have gone through Singapore to invest in other ASEAN countries. Therefore, I will be more concerned about the trends, not with the absolute values of the data.

[10] The specific case is the acquisition of Bank of Ayudhya by Mitsubishi UFJ Bank in 2013, and it can be noticed by the increasing number of Japanese shopping malls and department stores in Thailand.

other Chinese investors has chosen Thailand as a transit, for developing local and ASEAN markets, by taking advantage of local resources as well as participating the supply chain established there.

China's investment in Thailand has been demonstrating a significant growth trend in recent years due to the “Belt and Road” Initiative. The main projects include investment in tire manufacturing, food and feed processing and so on. China is currently the third largest investor in Thailand after Japan and Singapore. According to Thai official data, China's total investment in Thailand in 2017 was 27.5 billion baht, or about 888 million US dollars. Thailand also hopes that the Eastern Economic Corridor will link China's “Belt and Road” business opportunity, to integrate the market with the southern region of China and the special economic zones of Cambodia, Laos, Myanmar and Vietnam.

Indonesia:
Japanese investment in Indonesia mainly considers relative low manufacturing costs and domestic market opportunities. In recent years, there has been a significant increase in investment on auto industry in the Indonesian. In 2014, Toyota Motor invested about US$197 million to set up an engine plant in West Java and it started production in 2016. Mitsubishi Motors also invested in the construction of a new plant. All above makes Indonesia one of Japan's important overseas production bases.

Overall, Japanese investment in Indonesia have been in a stable state in recent years. Other major manufacturing industries such as machinery, metals, and motors have also been invested. In addition, investment in chemical and pharmaceutical products, and in wholesale and retail industries have increased significantly in 2016. For Japanese businessmen, the main business challenge in Indonesia is the problem of rising wage.

China's investment in Indonesia has grown steadily. According to the Indonesian Investment Coordinating Committee, in 2015, China was the ninth largest investor. By 2017, China's investment in Indonesia increased to US$5.5 billion, making it the second largest investor after Singapore with US$8.4 billion. The main industries include mineral resources, power generation (China is the largest international investor in the Indonesian power industry), mobile phones (OPPO), automobiles, real estate development and tourism, etc., which are quite extensive.

China and Indonesia signed an agreement on the construction of the Qingshan Industrial

Park in Indonesia in 2013. Qingshan Industrial Park which is one of the main China-Indonesia Economic and Trade Cooperation Zone has a total Chinese investment of 7.5 billion US dollars, and it is now a main production base for nickel-iron and stainless steel for supplying the global market.

Recently, the large-scale investment case made by Chinese company in 2017 was that Hainan Land Reclamation Investment Holdings successfully acquired a 45% stake in KM. KM is the largest rubber manufacturer in Indonesia with a market share of over 18% in the Indonesian rubber market. It is one of the certified manufacturers of the world's leading tire manufacturers such as Michelin, Bridgestone and Goodyear.

In 2017, the factories invested by SAIC-GM-Wuling and Dongfeng Xiaokang in Indonesia have been put into production, and the cars produced are not only for the supply to the Indonesian market, but also for exporting opportunity to other ASEAN countries.

According to the Indonesian Investment Coordinating Committee, since 2017 the investment layout of Chinese enterprises in Indonesia has begun to shift to emerging industries, including Tencent's $1.2 billion acquisition of Indonesian taxi-calling platform Go-Jek Indonesia, and Alibaba's acquisition of E-commerce platform PT. Tokopedia.

Singapore:

Japanese investment in Singapore mainly focuses on financial and insurance, wholesale and retail services, and the electronics industry. In additions, as Singapore's biomedical industry is growing fast with many advanced facilities in medical and clinical research, Japanese pharmaceutical manufacturers were observed to expand their investment there. In 2015, Japan’s Chugai announced the expansion of its research department in Singapore with a bet of 476 million stars (approximately US$ 344.42 million); Japan’s Takeda also announced an expansion of its business by establishing Group’s Asia Development Center, Vaccine Division and Asia Pacific Headquarters in Singapore.

According to the JETRO survey report, in 2016, the Japanese retail (UNIQLO) and the dining industry continued to invest in Singapore. In addition, some Japanese local banks also set up their bases in the Singapore due to their customers’ overseas trading needs. The energy and power companies also opened an office in Singapore based on the needs of new business intelligence gathering.

Singapore is the number one destination for China's overseas M&A in 2017, with the transportation, technology, telecommunications and life science industries being the most important areas among Chinese investors. China's e-commerce giant Alibaba is investing in Singapore's local e-commerce Lazada and building an e-commerce supporting logistics park in Kuala Lumpur. The project is integrating Alibaba 's "new retail" business concept of logistics operations. In addition, Chinese real estate investors have been actively entering the Singapore property market.

4.2.2 Japan and China’s FDI in CLMV

The CLMV countries are benefiting from cost advantages, economic growth and natural resource endowment in attracting FDI all over the world. Particularly, some foreign companies with operations in China invested or announced plans to set up operations in the CLMV countries for much lower labor costs.

Let’s observe at the level of FDI received by the CLMV countries from Japan and China. (Table 4) During the period of 2012-2016, Chinese investment dominates in Cambodia, Lao PDR and Myanmar. For the same period, Japanese FDI flow in CLMV countries highly concentrated in Vietnam. According to the ASEAN investment report 2014, about 30% ($2 billion) Chinese FDI in ASEAN in 2013 went to CLMV countries, and the Japanese FDI in ASEAN of the same year only 10% ($2.4 billion) flew to CLMV countries. Among CLMV countries,

The data from ASEAN Investment Report 2018 showed that Cambodia received investment from more diversified sources, with 22.6% and 8.3% of inflow FDI from China and Japan in 2017. Chinese companies were still the overwhelmingly largest investors in the Lao People’s Democratic Republic, accounting for more than 77% of investment, that is, Laos rely heavily on Chinese capital inflows. Companies from Japan was active investors in Myanmar in 2017. Japan was the principal investors in Viet Nam, contributing 25.4 % of investment.

Vietnam:

The report of the Foreign Investment Agency of the Ministry of Planning and Investment of Vietnam shows that among the countries and regions that invested in Vietnam in 2017, Japan ranked first and China ranked fourth.

In 2006, Vietnam joined the World Trade Organization and a large number of Japanese companies poured into Vietnam. Manufacturing FDI in Vietnam from Japan has been significant. Japanese companies such as Panasonic and Canon that have operations in other ASEAN Member States were also expanding into Viet Nam. Yazaki and Bridgestone started their operations in Vietnam in 2015. Sumitomo announced plans in 2016 to establish the headquarters of Sumitronics in VietNam.

After 2011, since 100% of foreign investment was allowed in the retail and wholesale industry, MINISTOP, the family mart, AEON, and 7-11 started their retail sales in Vietnam. AEON opened two shopping centers in 2014 and expanded further with the acquisition of a stake in two major local retailers later.

At the same time, e-commerce market has been expanding quickly in Vietnam. Sumitomo Corporation and venture capital fund Cyber Agent Ventures used Amazon business model and established a company in 2010 with books and daily necessities as its core sales business. The company had created an annual growth rate of more than 30% in sales.

According to JETRO survey in 2016, the number of Japanese investment in Vietnam has reached a new high, of which expansionary investment accounted for 36.1%, and new investment has continued to increase, but the scale has been reduced. Important new investment projects such as Daikin Air Conditioning and ROUTE INN have focused on growth opportunity in the domestic market.

In addition, JETRO's survey shows that 57.5% of Japanese merchants are optimistic about the growth of the Vietnamese market, and there is a plan to continue to increase investment in the future. At the same time, they are also uneasy about the fact that the average annual rate of 9.6% increase in labor cost. Although wage growth affects the cost of manufacturing sectors, for Japanese businesses that focus on the domestic market, they consider the wage increase as business opportunities. It was seen the accelerated entry of the Japanese food and beverage group and department stores in Ho Chi Minh City.

In 1991, China and Vietnam officially resumed diplomatic relations, and China began to invest directly in Vietnam. At early stage, Chinese companies mainly invested in Vietnam through a joint venture with local company, on the areas of real estate and manufacturing sector.

With the rising labor costs, and market saturation in the domestic economy, and some large enterprises are beginning to seek opportunities in Vietnam, especially labor-intensive enterprises of electronics and textiles, and infrastructure industries such as power plants, water plants, real estate and construction.

Cambodia

Although the amount of Japanese manufacturing investment in Cambodia is not significant, the existing investments can be seen from the cases collected by the ASEAN investment report. Automotive part and component manufacturers set up factories in Cambodia's industrial zones near Thailand because of low labor costs and proximity to customers based in Thailand. NHK Spring (Japan), a Toyota supplier, built a factory in 2015 in an industrial zone near the Thailand-Cambodia border. Denso (Japan) and Yazaki (Japan) were operating in Cambodia to produce automotive parts and components, which would be supplied to customers in the region. According to official information from Cambodia in 2016, mainly due to the two large investment cases of RESORT and AEON MALL, Japan has become one of the major sources of foreign investment.

In Cambodia, Chinese companies were the largest manufacturing investor, responsible for about 46% of FDI into that industry. Some Chinese companies are relocating their operations to the host country because of increasing production costs at home. (ASEAN investment report 2015) According to the Cambodia Investment Report 2017, China's largest investment in Cambodia is in the textile industry, followed by the financial industry and the real estate industry. Chinese investment in services sector of Cambodia was also substantially higher than the other countries. The case of large-scale investment by Chinese investment was mainly on sugar cane-growing and sugar manufacturing industry. (JETRO 2018)

Lao

Due to the low cost advantage, Lao is receiving investment form Japanese firms in manufacturing activities. For instance, Toyota Boshoku has started producing automotive seat covers at its plant in the country to supply Toyota's operation in Thailand. Mitsubishi Materials is building an $8 million factory to produce thermostats and temperature control equipment.(AIR 2017)

The geographical advantage of Laos in the construction of the "Belt and Road" has made it become increasingly prominent for Chinese investment. It is considered the best route connecting China with other ASEAN countries, therefore, Laos attracts the most direct investment from China related to the “Belt and Road” projects. About two-thirds of FDI in Lao, came from China. More than 90% of Chinese FDI in Lao PDR was in infrastructure, of which 73% ($420 million) went to power generation activities. (AIR 2017)

China’s large-scale investment cases are mainly located in special economic zones for the project of electricity building. In addition, there are some agricultural investment cases such as coffee, tea, and bananas in the northern Lao. The Chinese Enterprise Group also assists in the development of infrastructure such as communications, cement and transportation.

Myanmar

Some Japanese automotive companies such as Toyota and Nissan are investing in Myanmar. Denso - a parts and components manufacturer – has set up a subsidiary in the country, driven by cost reasons. Suzuki is building an additional factory to produce automotive parts in the Thilawa SEZ. Sumitomo Electric established a branch in Myanmar as well. (AIR 2017)

Other than auto-manufacturing firms, some more Japanese companies also started to increase their investment in Myanmar. Komatsu opened its first production plant to produce components of power generators, and construction and mining equipment in Myanmar. Kubota is building an assembly plant and established a sales and service center at the Thilawa SEZ, and Foster Electric opened a factory to produce audio equipment and car stereos in the same host country. (AIR 2017)

Chinese companies has been continuing to be active in extractive industries and in infrastructure projects in Myanmar. Myanmar also attracted some Chinese FDI in the manufacturing industries. Chinese enterprises' investment in manufacturing in Myanmar is mainly on textiles and clothing. The investment in infrastructure construction includes electric power and energy industries. China and Myanmar currently cooperate actively to promote interoperability projects for roads, railways and power facilities, as well as special economic zone projects and new city development projects.

5. Comparison of investment between China and Japan in ASEAN

Japan and China are both major direct investment source countries of ASEAN. However, the investments in ASEAN between the two countries are quite different in quantity, industry distributions and characteristics, which in turn leads to different economic interactions between the two countries with ASEAN.

5.1 on the scale of investments

As shown in the Tables, China's foreign direct investment flow to ASEAN has been increasing rapidly since 2012. However, in term of investment stocks, China still has a large gap with Japan, though both of them are the main source countries of FDI in ASEAN.

From a trend perspective, Japan has been investing heavily in ASEAN countries since the 1970s. It had been greatly affected by the financial crisis in 2008, but there has been a significant increase after 2012. More Chinese companies has become interested in investing in ASEAN since 2000. It is around in 2005, China's investment in ASEAN started to grow continuously, and after the China-ASEAN Free Trade Agreement (CAFTA) came into effect in 2010, the growth rate was more significant.

5.2 on the recipient countries

Japanese companies' investments in ASEAN 5, including Malaysia, Indonesia, Thailand, Philippines and Vietnam are substantially higher than that of Chinese companies'. Since Japanese companies consider ASEAN as part of their global production chain in the automotive, machinery, electronics, and chemical industries, they need to invest in destination countries with a certain technical and economic foundation. Japan's direct investment in Vietnam started to grow significantly since 2007.

Relatively speaking, Chinese investment flows to Cambodia, Laos, and Myanmar, the group of lower income level in ASEAN are significantly greater than Japan. This reflects the mutual economic complementarity between China and the less developed economies in ASEAN. China's early large-scale investment in ASEAN was mainly concentrated in energy-related industries, with obvious characteristics of resource acquisition. After 2010, China's investment has gradually concentrated in infrastructure construction, real estate, mining, financial industries.

5.3 on industry distribution

Japan's competitive advantage in the manufacturing sector has laid the basic pattern for its foreign direct investment in manufacturing. The relatively high proportion of Japanese manufacturing investment is due to the industrial transfer relationship between Japan and ASEAN 5. Japan has long been the "leading geese" of the East Asian economy, and has continuously transferred industries that have lost or are about to lose their advantages to ASEAN countries, and promoted the adjustment of the economic structure.

Japan's investment in ASEAN is mainly an extension of the domestic industrial chain, mainly by large multinational enterprises. Those multinational enterprises have their own production networks and technological innovation capabilities, by building factories and branches in ASEAN to serve as a part of the parent company's industrial chain. Since overseas processing has always been the main form of Japanese companies' investment in ASEAN, through trade and investment relationship established with ASEAN, the divisions of labor between Japan and the ASEAN countries are fully formed.

Japanese multinationals' investments also play an important role in the economic development of ASEAN. The ASEAN countries gained the benefits of technology transfer, export expansion, and employment increase by introducing Japanese foreign direct investment.

China's major investment activities in ASEAN are related to infrastructure, reflecting its international comparative advantage of being a contractor of infrastructure construction. With rapid economic growth and urbanization, China itself has quickly become the world's largest market for infrastructure construction. China's process of urbanization and the demand for infrastructure construction has transitioned to be stable. It is expected that within ten years, it is unlikely for a large demand expansion for infrastructure, and the overcapacity problem of the construction industry start to emerge.

Compare to other countries, the comparative cost advantage of China's construction industry is relatively obvious. At present, the lower-income countries of ASEAN are in the process of industrialization and urbanization, and the demand for infrastructure construction is large, which provides opportunities for the Chinese infrastructure enterprises.

At the same time, China also has considerable strength in terms of funding support by government. As the Chinese government actively promotes China's infrastructure enterprises "going out", China's policy financial institutions such as the Export-Import Bank, the National Development Bank, and the newly established Asian infrastructure investment banks, provide great financial support for Chinese companies and enhance the competitiveness of Chinese companies in bidding the infrastructure projects in ASEAN.

According to the United Nations Conference on Trade and Development (UNCTAD) estimates, Chinese companies has made a commitment of investment for more than US$50 billion in infrastructure in ASEAN during 2013-2017. Chinese enterprises' investment in infrastructure construction in ASEAN is mostly carried out in the form of greenfield investment and non-equity investment. State-owned enterprises are often both investors and major construction contractors.

5.4 Investments motivations in CLMV

Both Japanese and Chinese investments in low value added manufacturing in CLMV countries are motivated by low labor costs. An important feature of the rise in Japanese manufacturing FDI of electronics and of automotive parts and components in CLMV countries is that it expands regional production networks and strengthens regional value chains, boosting connectivity between CLMV countries and the other ASEAN Member States as productions from CLMV are supplied to affiliates or customers based in ASEAN.

Due to the increase in labor costs, Chinese companies began to transfer productions to CLMV, on low-tech end of processing activities in industries such as clothing, electronics, food, and plastic manufacturing.

5.5 on prospects for future development

With the establishment of the ASEAN Economic Community (AEC) and the deepening of its internal economic integration, Japanese multinationals can more flexibly organize production networks within ASEAN to take advantage of the differences in ASEAN countries to increase production efficiency and reduce costs. It is expected that the scale of manufacturing investment of Japanese companies in ASEAN will continue to expand in the future.

At the same time, in recent 10 years, Japan’s foreign investment in non-manufacturing has also grown very rapidly. Japanese investments are also expanding in the financial industries for the purposes of supporting Japanese enterprises, and in wholesale and retail industries for opportunity of growing domestic market. The attraction of ASEAN countries to Japanese companies is no longer a cheap labor force, and domestic demand market business opportunity is also one of the important reasons.

Japanese companies have also successively established regional logistics centers in the ASEAN. For example, Panasonic established an international affairs office in Singapore to handle the intelligence information management of the components used in various production plants in Asia. In addition, the expansion of Japanese companies' R&D functions in their ASEAN factories is also an important trend, indicating that ASEAN countries have been turning toward higher value-added production.

The characteristics of China's investment in ASEAN have only resulted in a simple form of "import" and "export" trade relationship between China and ASEAN. It still need some time for both parties to complete the integration production networks. Therefore, the resulting division of labors between China and ASEAN is not as close as Japan's industrial value chain model in ASEAN.

On the other hand, compared with Japanese multinational companies that have been operating in the ASEAN market for many years, Chinese companies still have a certain gap in technology, brand, transnational operations and risk management. Therefore, Chinese government proposed the “Belt and Road” initiative, with an aim to build a platform to help enterprises make investment overseas. In order to promote investment facilitation, the Chinese government has reached a number of cooperative measures with ASEAN countries to jointly build a special economic and trade zones. China's ultimate goal is to learn from Japan's industrial transfer model and realize the industrial integration with ASEAN.

Finally, it is worth noting that the development of China's digital economy in the ASEAN market. Due to advantage of population and market size, China has been able to occupy a commanding height in the development of the digital economy industry. According to the Fortune 500 list, although the scale of Chinese companies has far surpassed that of Japan, there is still a certain gap between China and Japan in terms of innovation capabilities. However, Japanese companies have not yet produced an emerging digital giant company, and the development of Chinese digital companies has attracted worldwide attention. The booming digital technology is reconstructing the industrial value chain, which will help increasing China's industrial competitiveness.

In 2018, Alibaba increased its investment in Lazada, a Singapore-based e-commerce platform, by US$2 billion, with a total investment of US$4 billion. Through the integrated operation of online, offline and logistics, Alibaba aims to radiate across the Southeast Asian market.

6. FDI in Auto Industry

The expected increase in demand for automotive vehicles attracted major global automotive assemblers to increase their investment and expand production capacities in the ASEAN. Japanese automotive MNEs such as Mazda, Nissan, Mitsubishi, Toyota and Honda, which already had significant presence in these Member States, have been expanding their production capacities into so-called eco-cars in Thailand and automotive manufacturing in Indonesia. Some Japanese automotive makers have been expanding also in the Philippines. Daihatsu is expanding in Malaysia with a new engine plant.

Chinese carmakers such as Shanghai Automotive Industry Corporation, and Wuling Automotive Company also began their investments in Indonesia for the production of mini commercial vehicles and multipurpose vehicles. Foton, an business-use pick up manufacturer, invested in a new assembly plant in the Philippines with production started in 2016. Beijing Auto International Cooperation established a new plant in Malaysia, with a local partner. These Chinese are thinking over the strategies to challenge the Japan's leadership of auto industry in ASEAN.

6.1 Japanese Investment of Auto Industry in ASEAN

Japanese cars have a very high market share in ASEAN. For example, in Thailand and Indonesia, the market share is as high as nearly 90%. The first main reason is that the Japanese auto industry plays a very important role in the development of the ASEAN automobile industry. It can also be said that Japanese companies have assisted ASEAN countries in establishing their automobile industry. Take Thailand as an example. Because of Japanese companies' investments and production activities, that helped form an industrial cluster of the automobile industry in Thailand, making Thailand an important automobile export country in the ASEAN.

Japanese automakers have always played an important role in the development of the ASEAN automotive sector, and the automotive industries in countries such as Thailand, Indonesia and Malaysia rely heavily on technology and key components from Japanese partners. In the past, the production bases of Japanese autos in the ASEAN countries were mainly for complementary production for the Japanese domestic market. However, in recent years, Japanese companies have been targeting the global market for the ASEAN production activities. In Thailand, for example, Japanese companies have established industrial clusters there. At present, almost all major Japanese automakers including Toyota, Honda, Nissan, Mitsubishi, Suzuki, etc. have assembly plants in Thailand. The

United States' GM and Ford, Germany's BMW and other international major car manufacturers have also poured into Thailand to make Thailand become the largest exporting country of automobiles in ASEAN.

The second main reason is that the Japanese auto industry is very active in using the conditions of ASEAN regional integration. They carried out production activities in multi ASEAN countries according to the comparative advantage of each country, and used the ASEAN industrial cooperation mechanism and the tariff-free trade environment in the region to establish a transnational production network to furtherly strengthen their cost advantages. All Japanese automakers have implemented similar way of operation in the ASEAN, which has enabled the Japanese auto industry to establish a very strong competitive advantage in the ASEAN region.

Japan's competitive advantage in the manufacturing sector has laid the basic pattern for Japan's foreign direct investment in manufacturing. Japan’s direct investment in manufacturing is closely related to the expansion of the global value chain of multinational companies. For Japanese companies, by setting up the production bases in the ASEAN help to strengthen the international competitiveness of their products, which is one of the important strategies for enterprises to pursue growth. Taking the automobile industry as an example, they have been actively utilizing the advantages of the ASEAN Free Trade Agreement (AFTA), and gradually established regional model of parts procurement and local manufacturing assembly to create a low cost production system.

6.2 Chinese Investment of Auto Industry in ASEAN

After years of development, China's auto industry has made great progress and established its own brand. In the 20 years from 1990 to 2010, China's car production grew 18 times, and China is now the world's largest car producing country.As the growth of the Chinese market begins to slow down, the development of China's auto industry has entered a new stage. Chinese car companies began to pay attention to export opportunities, and they have rushed to establish production facilities in overseas markets.

In 2016, China's auto companies including parts and components, R&D companies announced a total of 69 foreign investment projects, amounting to 6.2 billion US dollars, the number of investment reached a four-year high. It reflects the acceleration of the globalization of Chinese auto companies to enhance their competitiveness in overseas markets.

Chinese auto industry's foreign investment is mainly concentrated in the United States and Western Europe, mainly because they hopes to learn the technology, management experience and marketing capabilities of advanced markets through investment.

Regarding Chinese investment of car industry in ASEAN, there are some important cases, for example, in 2016 the first Futon pickup truck manufactured in Thailand was officially put into production. The production capacity of Foton Motor in the first phase in Thailand was 50,000 units.

In 2013, SAIC and Thailand Zhengda Group jointly established SAIC Zhengda Co., Ltd., and it is SAIC's largest production bases overseas. The car manufacturing activity began in 2014, and gradually forming a production scale of 50,000 vehicles per year; the second factory was completed and put into production in September 2017. SAIC Zhengda's new factory with an investment of more than 1 billion US dollars and it is estimated that the annual production will reach 100,000 units.

In additions, China's major auto companies such as Dongfeng Motor Group and SAIC are developing Indonesia's market through local manufacturing activities there which is considered the largest market in Southeast Asia.

6.2.1 Beijing Foton Motor’s investment in Thailand

In 2016, Foton Motor's overseas export sales reached nearly 58,000 units, ranking first in China's commercial vehicle exports for five consecutive years. Because of the intensified market competition, it is hoped to produce commercial vehicles that can meet local needs through overseas investment. Through foreign manufacturing activity, the company can always continue the process of improving the quality of products according to local conditions to better meet the needs of overseas markets. At present, Foton Motor has KD (Knocked Down) factories in more than 20 countries around the world, with a total capacity of 272,000 by 2020. It has R&D branches in countries such as Japan and Germany.

In 2015 Foton Thailand Motor Co., Ltd. was established in Thailand and completed the layout of the business covering the manufacturing and sales of automobile. The sales of Foton Motor were handled by the authorized distributor of Thailand, United Motor Co., Ltd. After Foton Thailand Motor Co., Ltd. was established in Thailand, United Motors will remain a distributor of Foton.

Foton Motor and BGAC signed a memorandum to jointly produce the Foton pick up, PPV (Police Patrol Vehicle) and sedan and sell them in Thailand. BGAC is a subsidiary of Phra Nakorn Automotive Co., Ltd., a Thai car dealer and component manufacturer. In December 2016, Thailand's first FOTON TUNLAND Pickup was officially put into production. Foton Motor said that investing in a manufacturing company in Thailand can make full use of Thailand's existing automotive industry resources and its role in the radiation of the regional center, to enhance the influence of the Foton automobile brand, and promote the globalization of Foton Motor.

To become a global brand, “going out” is the first step for Foton. Through the process of foreign direct investment, they would be able to recognize its gaps in management and technology with other international leading companies in auto industries, and learn about how to improve capabilities. Since being an exporting-oriented company only cannot sustain a stable growth, by investing overseas and localized manufacturing can help realize a continuous growth in recipient market.

Government support is one of the key for Foton Motor’s foreign direct investment. Foton's case is one of the support projects of the Beijing Economic and Information Commission to support enterprises to go global. The Beijing Economic and Information Commission has set up an international cooperation platform to help enterprises integrate and utilize global resources. Foton Motor Group seeks specific cooperation projects to promote internationalization through the platform.

Although the Thai auto market is dominated by Japanese automakers, Foton Motor is confident in its product quality and technology. Foton Motor teamed up with Daimler AG, Cummins engine Inc., ZF Friedrichshafen AG, and other global supply chain partners to integrate the world's leading technology resources and launch the first batch of Internet super truck products.

With the application of vehicle networking, big data and cloud technology, Foton Motor not only provides customers with a complete solution of intelligent logistics. For example, to improve logistics efficiency, the "i-FOTON car networking logistics solution" help managing delivery schedule, driving safety and entertainment needs, remote diagnosis to meet the needs of the journey.

Foton Motor is optimistic about the business opportunities of “Belt and Road”. With the promotion of “Belt and Road”, services such as long-distance transportation between countries will inevitably become more frequent. Foton Motor’s “smart logistics” idea is expected to grow in the future. Foton Motor are actively doing researches on the local consumer demand, transportation status and usage preference of countries along the “Belt and Road” and making investments there. For example, Foton Motor India officially put into production in early 2018, which would be the first factory of the Chinese automotive industry in India. Foton Motor also provides systematic Chinese solutions for local development through strategic cooperation with well-known overseas contractors such as China Railway Group, China Road and Bridge, and China Harbour.

6.2.2 SAIC-GM-Wuling’s investment in Indonesia

SAIC-GM-Wuling is located in Guangxi and is the largest joint venture of GM in China. In 2009, the company became the first car company in China to sell millions of cars, and its current sales have increased to nearly 1.8 million. Their best-selling models currently produced in China include Wuling pickup trucks and Baojun (sedan). At present, SAIC has 73 overseas bases for producing parts for auto, and the global layout has taken shape. The overseas vehicle production bases are in Thailand and Indonesia, aiming at the development potential of Southeast Asia. Their goal is to gradually form a complete supply chain and build up the capabilities for selling to ASEAN markets.

Due to the decline in domestic sales of Van vehicles in recent years, the company has chosen the “van to sedan” strategy in the domestic market in the context of the gradual shrinking of the Van vehicle market, shifting Van vehicles production to overseas markets. Although the sale of Van in the Chinese market is gradually shrinking, it is still a best-selling model for Southeast Asia. Therefore, SAIC-GM-Wuling has decided to invest in ASEAN for producing Van vehicle there.

The people of SAIC-GM-Wuling also said that in the context of globalization for automobile industry, they hope to become a world-renowned automobile company with global layout, multinational operation, international competitiveness and brand influence. On the other hand, expanding the investment in ASEAN is also a case that the Group has actively responded to the “Belt and Road” initiative.

In July 2017, SAIC-GM-Wuling was officially put into operation at its Indonesian plant.

The investment amount is 700 million US dollars and covers an area of 60 hectares. The main plant covers an area of 30 hectares, the other 30 hectares is for suppliers. The factory has an annual capacity of 150,000 vehicles. It is China's largest automobile manufacturing base in Indonesia. At the same time, SAIC-GM-Wuling also drove Nexteer Automotive Group Limited, MANN-HUMME, Baosteel (China Baowu Iron and Steel Group Co., Ltd.), and a number of well-known supporting parts and components enterprises to invest in Indonesia to build a competitive supply chain. In addition, SAIC-GM-Wuling teamed up with the Liuzhou City Vocational College (Guangxi) to establish an overseas branch campus jointly managed by local Indonesian universities. The plan is help to train more than 300 overseas technical talents in three years.
SAIC-GM-Wuling's operating model in Indonesia has achieved an all-round overseas outflow of brands and products, human resources and teams of Chinese auto companies, to establish a business model for lower cost and the complete supply chain system for producing the competitive vehicle products for Indonesia market.

In 2017, Wuling’s sales in Indonesia were satisfactory. The “Confero” car successfully attracted some Indonesian consumers with a price advantage of less than 800,000 yen (about US$7,192). It has occupied a market share of 1.4% of related models. (7 minivans in Indonesia's local market have the largest demand.) Although it is still difficult for Chinese automakers to compete with Japanese companies, at least Indonesian consumers started to know about Chinese auto brands.

In addition, Wuling Motors actively expanded its sales network. When it first entered the Indonesian market in 2017, Wuling had only 35 stores nationwide. As of August 2018, Wuling has expanded the number of stores to about 80. In addition to selling to individual customers, Wuling is actively contacting the Indonesian taxi industry to develop a greater business opportunity. Their future strategy is to promote further cooperation with Indonesian automotive company through merger and acquisition with Indonesian small and medium-sized auto parts companies for increasing the market share in Indonesia and ASEAN market.

They are also optimistic about the development of the ASEAN market. At present, the demand for automobiles in the ASEAN market is concentrated in countries with higher incomes, but the preferences of consumers in each country are different, so the popular models are different. The diversified market characteristics make the new entry manufacturers also have opportunities. As the ASEAN economy furtherly develop, the preference of consumers will also shift quickly, as long as we do a good job in market research, the business opportunities can always be found. Furthermore, they believe that, since Japanese auto sales in Indonesia account for more than 90% of the entire market, the Indonesian government and industry hope to break the monopoly condition of Japanese companies, this means a good opportunity for the entry of Chinese auto companies.

In 2018, the China-ASEAN Automotive Standards and Regulations Research Center was established in Indonesia by China Automotive Technology Research Center and SAIC-GM-Wuling Automobile, with the aim to build a bridge and service platform for the future exchange and cooperation of automobile standards and regulations between China and ASEAN countries.

7. Conclusion

With the cost advantages of resources and labor, ASEAN 5 has become an ideal region to undertake Japanese industrial transfer. Japanese multinationals have established branches in these countries through direct investment to achieve the transfer of production activities, and to integrate ASEAN into its global production chain.

In the context of slower domestic economic growth and overcapacity, China is implementing an industrial transfer by investing in foreign countries. In particular, by establishing overseas manufacturing bases and global production supply chains, China wish to upgrade the idea of “Made in China” and gradually transform itself to be a global investment power. Chinese companies are transferring the capacity of domestic excess construction and light industry through investment in ASEAN to promote the economic cooperation between the two sides, and also wish to increase its influence in the ASEAN countries.

Both Japanese and Chinese companies' investments in ASEAN are based on their own comparative advantages. The main competitive advantage of Japanese companies is their ability to take advantage of the conditions of regional integration within the ASEAN, establish a multinational production network, strengthen their cost competitiveness and diversify risks.

The Chinese ASEAN market-development model is led by government policies, which can reduce the risk of investment by enterprises only. In addition, low prices are the main sources of competitiveness at present. Especially for consumers in ASEAN countries, low prices make Chinese products have certain attractiveness for local consumers.

The Belt and Road Initiative policy has political objectives, with hopes to assist developing countries in building infrastructure and maintaining friendly relations with foreign countries through aid development. On the other hand, the Belt and Road Initiative is considered as a way out for domestic excess capacity. It is a common way of industrial policy and trade policy to assist domestic industries to improve the competitiveness of industry for overseas markets by means of foreign aid. Especially for developing countries, government assistance is of a certain degree of importance for developing the foreign market.

From the experiences of focus-shift by Japanese enterprises, the ASEAN service industry market can be expected. With the development of the economy, the ASEAN countries will gradually increase their demand for services. Taiwanese can consider about entering ASEAN markets in the fields with competitiveness, such as medical services or education services. Taiwan can provide relatively low-cost with high-quality related services in ASEAN.

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		Table 1 China and Japan's FDI in ASEAN								million$			
		2012	% of F	2013	% of I	2014	% of I	2015	% of	2016	% of	2017	% of F
China	Total	5377	5%	6354	5%	6185	5%	6412	5%	11276	9%	11295	8%
	manu	343	2%	1140	3%	846	5%	798	3%	1123	6%	1595	5%
		6.4%		17.9%		13.7%		12.4%		10.0%		14.1%	
	W&R	593	3%	2696	36%	152	1%	778	10%	1767	8%	2784	7%
		11.0%		42.4%		2.5%		12.1%		15.7%		24.6%	
	F&I	603	2%	1144	3%	1788	4%	1222	3%	3441	8%	1607	10%
		11.2%		18.0%		28.9%		19.1%		30.5%		14.20%	
	RE	1903	18%	1523	17%	2101	21%	1951	23%	2418	22%	3053	25%
		35.4%		24.0%		34.0%		30.4%		21.4%		27%	
Japan	Total	23777	21%	24359	20%	12982	10%	14738	12%	14099	12%	13212	10%
	manu	13347	76%	13076	32%	6941	39%	7873	27%	5208	26%	6120	19%
		56.1%		53.7%		53.5%		53.4%		37.0%		46.30%	
	W&R	2570	13%	1286	17%	1365	7%	1492	20%	2846	13%	4273	12%
		10.8%		5.3%		10.5%		10.1%		20.2%		30.30%	
	F&I	3719	10%	4477	14%	5132	11%	2990	8%	1567	4%	-2315	-15%
		15.6%		18.4%		39.5%		20.3%		11.0%		-17.50%	
	RE	601	6%	388	4%	495	5%	159	2%	487.9	5%	872	7%
		2.5%		1.6%		3.8%		1.1%		3.5%		6%	
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	Table 2 Japanese FDI outflow to ASEAN (millions US $)						
	2012	2013	2014	2015	2016	2017	2012-2017
Singapor	1566	3545	8144	6997	-18955	9677	10974
Thailand	547	10174	5568	3926	4064	4724	29003
Indonesia	3810	3907	4835	3306	2924	3388	22170
Malaysia	1308	1265	1293	2893	1409	935	9103
Philippin	731	1242	901	1520	2312	1006	7712
Vietnam	2570	3266	1652	1439	1854	2001	12782
other ASE	142	221	427	543	294	281	1908
ASEAN	10675	23619	22819	20624	-6098	22011	
World	122355	135049	138018	138428	173855	168587	
	8.7%	17.5%	16.5%	14.9%	-3.5%	13.1%	
JETRO statistics							

Table 3 China's FDI outflow to ASEAN(millions US $)						
	2012	2013	2014	2015	2016	2012-2016
Singapor	1518.8	2032.7	2813.6	10452.5	3171.9	19989.5
Thailand	478.6	755.2	839.5	407.2	1121.7	3602.2
Indonesia	1361.3	1563.4	1272	1450.6	1460.9	7108.2
Malaysia	199	616.4	521.3	488.9	1830	3655.6
Philippin	74.9	54.4	224.9	-27.6	32.2	358.8
Vietnam	349.4	480.5	332.9	560.2	1279.1	3002.1
Cambodia	559.6	499.3	438.2	419.7	625.7	2542.5
Laos	808.8	781.4	1026.9	517.2	327.6	3461.9
Myanmar	748.9	475.3	343.1	331.7	287.7	2186.7
Burmis	0.99	8.52	-3.28	3.92	142.1	152.25
ASEAN	6100.29	7267.12	7809.12	14604.32	10278.9	
world	87804	107844	123120	145667	196149	
	6.9%	6.7%	6.3%	10.0%	5.2%	
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Table 4 % China & Japan's FDI share in CLMV Countries							
China		2012	2013	2014	2015	2016	2017
	Cambodia	23.60%	22.40%	32%	32%	22%	23%
	Lao	NA	NA	67.30%	62%	66%	77.50%
	Myanmar	36.50%	30.20%	7.50%	2%	7%	4.60%
	Vietnam	2.30%	11%	2.30%	3%	8%	6%
Japan							
	Cambodia	0.90%	3%	4.90%	3%	9%	8.30%
	Lao	NA	NA	insignifica	7%	4%	4.10%
	Myanmar	2.20%	1.40%	4%	insignifica	insignifica	15.60%
	Vietnam	34.20%	26.60%	10.53%	8%	10%	25.40%
Sources: AIR 2013-2018							

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