

Remarks on Section 5

“Towards and Beyond Trade and Investment Policy Coherence” ARTNeT Consultative Meeting

Presentation by

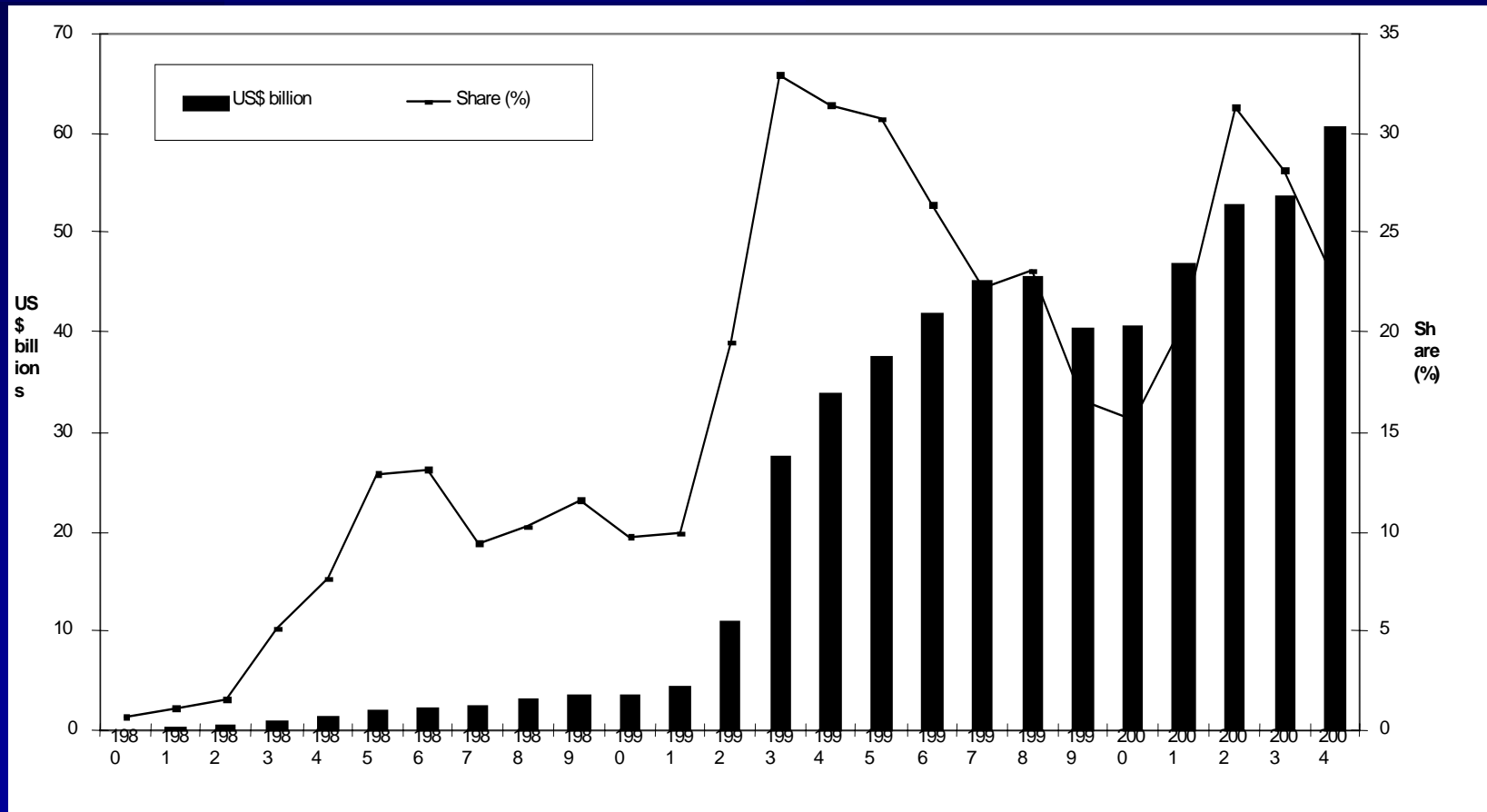
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China and FDI to ASEAN

- Widespread concern that China has become a formidable competitor with ASEAN for FDI and is pinching FDI from ASEAN...myth or reality?
- Evidence is unclear, but leans towards myth rather than reality.
- First, let's examine the data...

Gross FDI Inflow to China: US\$ billion (left scale) and as a Share of Total Inflows to Developing Countries and Transition Economies, 1980–2004



China and FDI to ASEAN

- 1. Up to 15%, maybe more, may be 'round tripping'- I.e., capital that originates from the mainland and returned to it disguised as investment from Hong Kong, China in order to take advantage of tax, tariff and other benefits accorded to foreign-invested firms
- 2. Hong Kong and Taipei, China accounted for two-thirds of FDI inflows between 1983 and 2005.

China and FDI to ASEAN

- 3. Between 1995 and 2002, share of non-PRC, non-ASEAN developing country flows to total developing country flows increased from 30% to 53%, with shares of **both** PRC (32% to 28%) and ASEAN (18% to 8%) declined.
- - increase triggered by liberalization reforms in Eastern Europe, formation of NAFTA (relocation to Mexico) and regional cooperation initiatives in Latin America.
- - In short, competition is increasing and cannot just blame 'China factor'

China and FDI to ASEAN

- Second is potential for complementarity: eg. Intel opened a \$40 million design and development centre in Malaysia following a \$200 million semiconductor chip facility in Chengdu; now Viet Nam...
- PRC itself is becoming an significant overseas investor in ASEAN, particularly in resource rich countries like Indonesia, Malaysia and Indo China.
- Also, rising manufacturing wages in costal PRC enticing Chinese firms to relocate labor intensive manufacturing (clothing, footwear) to CLV.