

Determinants of Chinese Outward FDI in ASEAN

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During the past decade, Chinese outward foreign direct investment (FDI) has increased substantially with a significant jump from USD 26.51 billion in 2007 to USD 55.91 billion in 2008, or over 110 percent. The main motivations behind those outflows were the “going out” strategy which promotes outward FDI as a part of economic development strategy and as a way to improve competitiveness and the relaxation of the outward FDI regulation (Cheng and Stough, 2008). By 2015, China has become the second global largest investor with the outward FDI of USD 127.56 billion (UNCTAD, 2016).

Although the Association of Southeast Asian Nations (ASEAN) only accounted for 5 percent of the Chinese investment abroad during 2003-2015, the value of the outflow has increased continuously with a double-digit growth rate and reached a peak of USD 14.60 billion in 2015. ASEAN has high potential to become a major destination for Chinese FDI because this region is expected to remain strong in current situation and the close economic relationship between ASEAN and China has opened up new opportunities for trade and investment, especially after the ASEAN-China Free Trade Agreement (ACFTA) came into force in 2010.

Moreover, the next step of ASEAN’s economic integration to achieve AEC 2025 will boost the economic growth in this region. The connection of ASEAN and China through the One Belt One Road (OBOR) Initiative and the establishment of the Asian Infrastructure Investment Bank (AIIB) also supports the Chinese investment in ASEAN. Thus, the question of what determine Chinese FDI in ASEAN should be addressed in order to understand the motivation of Chinese investors and for ASEAN, as the investment destination, to prepare for those transactions.

The purpose of this paper is to examine the determinants of Chinese outward FDI in ASEAN. The data of Chinese bilateral FDI to ASEAN countries during 2003-2015 are used to examine the factors determining China’s investment in these neighboring countries. The model is based on the theoretical model developed by Banga (2007), which account for the FDI from developing country. There are three sets of factors in this model which are (1) trade-related factors such as export, import, FTA; (2) capability-related factors such as inward FDI, skill level; and (3) domestic factors such as market size, cost of labor, profit’s tax.

The organization of this paper is as follows: the second section presents a brief literature review on the determinants of outward FDI from developing countries, especially from China. The third section provides the methodology and data. The fourth section presents the empirical results, followed by the conclusion with policy implication in the last section.

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