

**CHINA'S EXPANDING OUTWARD  
FOREIGN DIRECT INVESTMENT IN  
SOUTHEAST ASIA AND ITS IMPACTS**

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## Executive Summary

1. Between 2003 and 2011, ASEAN saw an increase of China's inward investment from \$0.12 billion to \$5.9 billion (accumulating to \$22.1 billion by the end of 2011), and an increase of ASEAN's share in China's total outward foreign direct investment (OFDI) from 4.1% to 7.9%.
2. The expansion of China's OFDI in South East Asia could be attributed to the deepening economic integration fostered by ASEAN countries; ASEAN's rising ability to attract FDI; the implementation of the China-ASEAN Investment Agreement, as well as China's domestic industrial restructuring and its rising labor costs.
3. One of the most reported motivations for Chinese OFDI is China's need to secure natural resources to fuel its rapid economic growth. Yet, Chinese OFDI in Southeast Asia shows that seeking market opportunities and regional labor-division is more important than obtaining overseas resources.
4. China was once mainly seen as an economic threat; the opportunities it presents as an outward investor are now increasingly acknowledged by its neighbors, who are looking at securing more Chinese investments. Those who have expressed reservation and hesitation are largely caused by the misperception of China's rise and its expanding OFDI.
5. For Cambodia, Lao, Myanmar and Vietnam, Chinese OFDI is more appreciated as this export-oriented FDI tends to generate more employment, facilities and better access to the global economy via export spillovers.
6. In Cambodia, Vietnam and Lao, for example, China started with labor-intensive manufacturing industries to target the global export market, thus drastically changing the countries' competitiveness in manufacturing. The economic complementarities imply substantial intra industry trade and a close link in the international production chain.

7. From a regional perspective, China's FDI in Southeast Asia, especially in its energy sectors, will enhance energy cooperation between China and ASEAN countries. There is great potential and room for Chinese investment to flow to sectors like clean energy, low-carbon technologies and energy efficiency.