

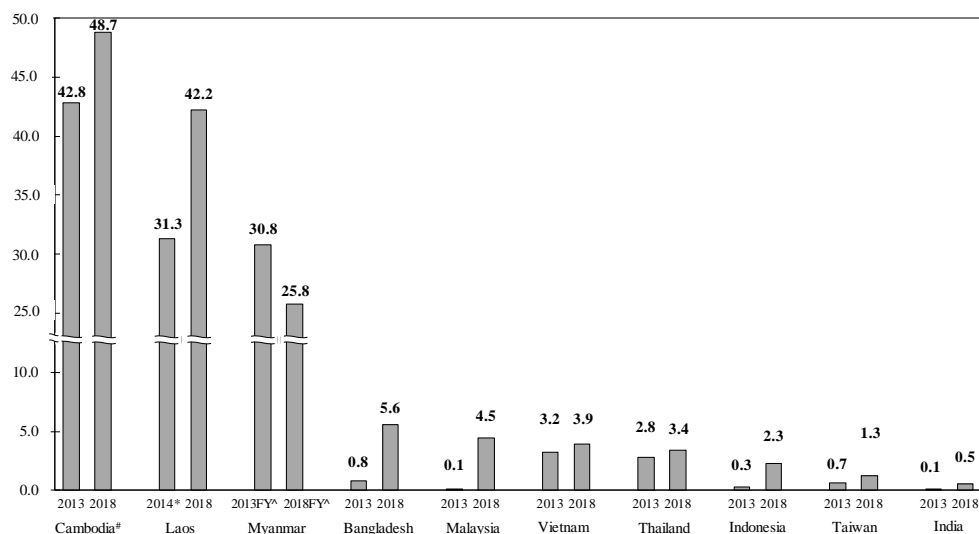
Box 2.2

The Mainland's Direct Investment in selected Asian economies

With the Mainland pressing ahead with its “going global” strategy, Chinese enterprises have been more proactive in exploring investment opportunities worldwide, particularly in Asia. Total stock of the Mainland's outward direct investment (ODI) grew rapidly at 24.6% per annum during the five-year period from 2014 to 2018 and reached US\$1,982 billion, with nearly two-thirds of such investment destined for Asia. While most of the Mainland's ODI went to Hong Kong⁽¹⁾, which is a key conduit connecting the Mainland with the rest of the world, Chinese enterprises have also been building a stronger presence in many other Asian economies. This box article summarises some salient observations on the recent situation of the Mainland's direct investment in selected Asian economies.

The stock of the Mainland's ODI in Asia ex-Hong Kong underwent a strong growth of 20.1% per annum during 2014-2018, amounting to US\$176 billion as at end-2018. The majority of such investment went to ASEAN economies and other emerging market (EM) economies in Asia. In the case of ASEAN in particular, the stock of the Mainland's ODI expanded even faster at 23.6% per annum during 2014-2018 and reached US\$103 billion, making ASEAN one of the top recipients⁽²⁾. From the angle of many ASEAN economies, the significance of the Mainland as a source of foreign direct investment (FDI) has been on the rise (*Chart 1*). Chinese enterprises have increased their investment in some South Asian economies as well.

Chart 1: The Mainland's FDI in selected Asian economies (shares in cumulative FDI in destination economies at period end, %)



- Notes:
- * The earliest year when data are available.
 - ^ Financial year (e.g. 2013FY refers to the period from 1 April 2013 to 31 March 2014).
 - # Include fixed assets investment only.

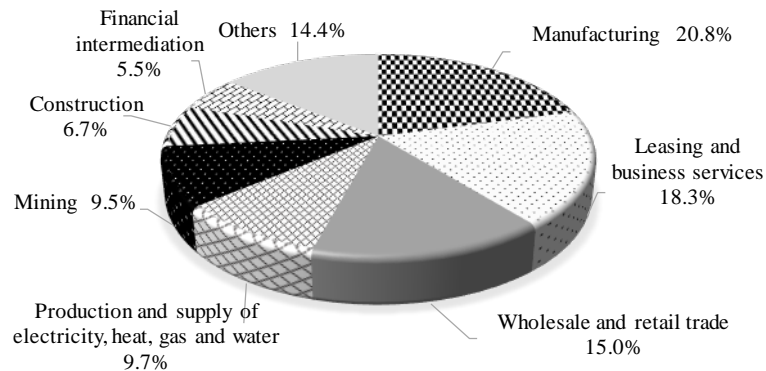
Sources: National Bank of Cambodia, Ministry of Planning and Investment (Laos), Directorate of Investment and Company Administration (Myanmar), Bangladesh Bank, Bank Negara Malaysia, General Statistics Office (Vietnam), Bank of Thailand, Indonesia Investment Coordinating Board, Ministry of Economic Affairs (Taiwan), Department for Promotion of Industry and Internal Trade (India).

- (1) Around 86% or US\$1,100 billion of the Mainland's ODI stock in Asia was in Hong Kong at end-2018.
 (2) By comparison, stocks of the Mainland's ODI in the EU and US amounted to US\$91 billion and US\$76 billion as at end-2018 respectively.

Box 2.2 (Cont'd)

The Mainland's investment in the Asian EM economies has been diversified across sectors. For instance, Chinese enterprises' investment in ASEAN economies has spanned primary industries (e.g. mining), manufacturing, construction and various services sectors (e.g. leasing and business services, wholesale and retail trades, and financial intermediation) (*Chart 2*).

Chart 2: Stock of the Mainland's ODI in ASEAN economies by economic activity as at end-2018



Source: Ministry of Commerce.

The presence of the Mainland's investment across a wide range of sectors in the Asian EM economies can be attributed to a number of factors. First, the fast-growing consumption markets in the Asian EM economies have generated ample business opportunities, attracting investment from Chinese enterprises and other foreign investors. Amid the continuous shift of economic gravity from West to East, the Asian EM economies have become important contributors to global economic growth, with the incomes and spending power of their residents rising in tandem. Domestic demand has emerged as a significant growth driver in many Asian EM economies⁽³⁾, and Chinese enterprises in related sectors (e.g. wholesale and retail trade) were motivated to set up their businesses in these expanding markets.

Moreover, with the progression of the Belt and Road Initiative, the Mainland's investment in infrastructure facilities (e.g. transportation and logistics, power supply, telecommunications, etc.) has become more prominent in some Asian EM economies. Bangladesh, for example, recorded FDI inflows of US\$1.0 billion from the Mainland in 2018, a ten-fold increase relative to the previous year, and around 80% of the Mainland's investment inflows that year went to the power sector. In Indonesia, the recent increase of FDI inflows from the Mainland has also been linked to various infrastructure projects.

Industrial upgrading of the Mainland has also played a role in shaping its investment in the Asian EM economies. Thanks to increased investment in research and development as well as the Mainland Government's policy support, many Mainland manufacturers have successfully moved up the value chain with stronger focus on product innovation and advanced manufacturing activities. Consequently, some of their traditional manufacturing activities were relocated to nearby EM economies such as Vietnam⁽⁴⁾, leading to an increase in the Mainland's ODI in those economies.

(3) For more details on the rising importance of domestic demand in the Asian EM economies, please refer to "Box 2.2 Private consumption expenditure as an engine of growth in the Asian emerging market economies" in *Half-yearly Economic Report 2019*.

(4) Manufacturing-oriented FDI accounted for 57.5% of Vietnam's cumulative registered foreign capital as at end-2018.

Box 2.2 (Cont'd)

Amid the ongoing two-way opening-up of the Mainland economy, Chinese enterprises will continue to actively seek business opportunities abroad, and their investment in the Asian economies is expected to grow steadily in the coming future. Being the pivotal gateway of the Mainland, Hong Kong will also stand to benefit. The Government will continue to closely cooperate with other Asian economies through various government-to-government platforms, with a view to creating a favourable environment for investors. Currently, Hong Kong has already signed 21 Investment Promotion and Protection Agreements with foreign economies, including ASEAN and some other Asian economies. These agreements help enhance two-way investment flows between Hong Kong and these economies, thereby supporting the development of Hong Kong as an investment conduit for the Mainland.