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The Impact of China's WTO Accession on Southeast Asian Foreign Direct Investment: Trends and Prospects

Adam R Cross and Hui Tan

Center for International Business (CIBUL)

Leeds University Business School

University of Leeds, Leeds LS2 9JT

United Kingdom

Contact details
Adam Cross (arc@lubs.leeds.ac.uk): 00 44 113 343 4587
Hui Tan (ht@lubs.leeds.ac.uk): 00 44 113 343 4356
Fax: 00 44 113 233 4754

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Abstract
In this paper we discuss how China's accession to World Trade Organization (WTO) might impact foreign direct investment (FDI) inflow to the Southeast Asian countries. The thrust of our analysis is that China's investment climate will indeed be strengthened by WTO accession, relative to the Southeast Asian countries. Consequently, we argue that China will probably have a magnetic effect on FDI in the region, rather than a neutral or benign effect, although this will vary by source country and industry. The effect will be initially felt mostly in service-related FDI, and later, in manufacturing FDI. In order to counter the growing economic weight of China in East and Southeast Asia, we argue that the Southeast Asian countries should push for greater regional integration and at the same time bolster economic and political ties with China.

Key Words**:** FDI, China, WTO, Southeast Asia, Host Investment Policy

The Impact of China's WTO Accession on Southeast Asian Foreign Direct Investment: Trends and Prospects

Historically, the attraction of inward FDI - in particular, export oriented FDI - has been an important theme of economic development policy for many if not most of the Southeast Asian countries.[1] These countries require investment capital following the Asian crisis of the late 1980s, and FDI is one of the most mobile, potent and accessible sources. But the ability of the Southeast Asian countries to attract present and future inflows of foreign investment will be shaped greatly by the growing economic prominence of the People's Republic of China (henceforth China) in the region. On 11th December 2001, China became the 143rd member of the WTO, almost exactly fifty years after withdrawing from its predecessor, the General Agreement on Tariffs and Trade (GATT). The admission to the WTO of the world's second largest economy, and one of the fastest growing (predicted by some to be the world's largest by 2015) undoubtedly has the potential to reconfigure trade and investment patterns in East and Southeast Asia and beyond, perhaps profoundly so. But how will the Southeast Asian countries be affected as hosts for FDI?

To consider this question, we assess the locational advantages of the Southeast Asian countries relative to China under three scenarios. The first is that accession will strengthen China's locational advantages for FDI relative to the Southeast Asian countries, such that 'foot-loose' foreign owned operations in the region to switch to China, and the lion's share of new FDI to the region gravitate there (the *magnetic effect* argument). The second is that, once the initial euphoria of China's entry has waned, regional investment flows will readjust to bring about a more equitable distribution of FDI across East and Southeast Asia, similar to that seen in the early 1990s (the *neutral effect* argument). The third scenario is that, should China attract greater shares of regional and global FDI flows, can the Southeast Asian countries somehow 'ride on the back' of this, negating any detrimental effects to their own economic development that might otherwise occur (the *benign effect* argument). We argue that the observed outcome will depend greatly on China's willingness and ability to comply with its accession commitments and, if it does, whether it can make the profound structural and institutional adjustments that this necessarily engenders.

We focus first on China's increasingly progressive policies towards FDI in recent times and its effect on inward FDI patterns. We go on to assess how WTO accession might impact

[1] Within Southeast Asia, the 'ASEAN-5' comprises of: Indonesia, Malaysia, the Philippines, Singapore and Thailand. The ASEAN-10 comprises the same five countries, plus Brunei, Cambodia, Laos, Myanmar (Burma) and Vietnam.

China's future investment climate. By relating this to ASEAN's own investment climate, we then examine whether China will have a magnetic, neutral or benign effect on Southeast Asian investment flows. Some policy recommendations for Southeast Asia are presented in light of our discussions.

1. A Review of Inward FDI to China Prior to WTO Accession

To map key developments in China's policy towards FDI against the investment responses of foreign firms, Table 1 identifies four distinct phases of Chinese FDI with respect to policy direction (see OECD, 2000; Wei and Liu, 2001), while Figure 1 shows the aggregate value of realised cumulative FDI in China since 1984 that ensued.[2] Viewed retrospectively, these four periods (up to 1999) reflect a pragmatic and carefully staged, incremental and calculated opening of China's economy to foreign firms. This contrasts with the Southeast Asian countries, where FDI policy has been largely reactive (Thomsen, 1999).

Overall, each phase of policy liberalisation by China provided fresh impetus to FDI inflows. Between 1979 and 1999, total aggregate inflows of FDI to China amounted to some US$306bn, equivalent to around 10 per cent of world FDI flows, and around 30 per cent of that received by all the developing countries put together (OECD, 2000). But since 1997 this share has reduced; in 2000, China attracted a mere 3.2 per cent of global FDI flow (see Table 2). But China's role as an investment location did not necessarily wane in the years just prior to WTO accession. As Table 2 reveals, Hong Kong experienced a surge in inward FDI from 1997 onwards, the year it became a self-governing 'special administrative region' (SAR), in the form of reinvested earnings and long term loans to Hong Kong affiliates by MNEs, which offset much of mainland China's declining position. Of course, some of Hong Kong's recent inward FDI inflows will be tax haven motivated. But a good proportion are funds being 'parked on the doorstep' of mainland China by foreign firms, in anticipation of emerging opportunities post-WTO.

Moreover, several inter-related shifts in the character of FDI inflows to China, from the late 1990s onwards, can be discerned that might impact Southeast Asian FDI inflows. First, a shift has taken place away from labour-intensive, export-oriented manufacturing towards market-seeking FDI (China Statistical Yearbook, 1999). By 1998, just under 60 per cent of the contracted value of China's FDI stock, and the bulk of individual investments, were in manufacturing,

[2] We fully acknowledge the inherent data inadequacies of the China Statistical Yearbook and other official Chinese data sources. It is widely accepted that much FDI in China is illusory and that actual total inflow is significantly lower than that reported. Over-valued contribution to JVs, and 'round tripping' of FDI via Hong-Kong intermediaries to avoid certain investment restrictions are common sources of error, inflating China's 1994 FDI inflow data by as much as 37 per cent (Broadman and Sun, 1997).

followed by real estate at around 24 per cent. Of the former, an estimated 50 per cent (by value) was in labour-intensive manufacturing; technology-intensive manufacturing accounted for around 27 per cent and capital-intensive manufacturing, 23 per cent (OECD, 2000). Low cost labour was probably still the main motivating force driving FDI up to the mid-1990s. However, in the late 1990s, firms show a greater propensity to undertake market-oriented FDI, in sectors where China has no revealed comparative advantage (Graham and Wada, 2001). Investors have been attracted by China's high rates of growth, its rapidly expanding domestic market and improved market access in some sectors (Lemoine, 2000). According to UNCTAD (2001), FDI in China has also become more capital and technology intensive in the late 1990s. This is confirmed in a recent study of FDI in China's electronics industry (Qian, Lam and Wang, 2000). The fact that market-seeking investment is increasing in hand with more capital and technology-intensive investment is not coincidental. Foreign investors will be conducting R&D locally to adapt products and processes to meet the particular needs of the Chinese market. And both long-standing and new investors are establishing miniature replica-type production plants in China, equipped in much the same way as equivalent plants in other major markets, to meet the strong demand expected following market liberalisation. Whether or not these expectations will be met remains to be seen.

Second, the propensity to move towards market-oriented FDI differs by source country. Table 3 shows that Hong Kong and Taiwan together accounted for the bulk (60.6 per cent) of the accumulated FDI stock in China between 1983-1998 (OECD 2000), followed by Japan (8.3 per cent), the USA (8.1 per cent), Western Europe (6.7 per cent) and the ASEAN-5 (6.2 per cent). However, the combined share of Hong Kong and Taiwan in utilised FDI in China dropped to 43.7 per cent in 2000, while the share of the USA and Western Europe (led by France and the UK) rose to 10.8 per cent and 11.2 per cent, respectively[3]. Japan's position weakened slightly to 7.2 per cent, while ASEAN-5 recorded a small increase, to 7.0 per cent (two thirds of which is from Singapore). Overall, these changes indicate that firms from the Triad countries have been raising their level of equity participation in China in the two years prior to WTO accession. Moreover, while Hong Kong and Taiwanese firms were investing mostly in export-processing activities in China, it is the Western European and Japanese companies that are now making more capital-intensive investment, mainly to supply goods and services to China's domestic market; US firms fall somewhere in between (Graham and Wada, 2001; UNCTAD, 2001; Lemoine, 2000).

The third trend concerns the form of investment. As Table 1 indicates, until 1993 the equity joint venture was the preferred entry mode for China, accounting for just under half of all

[3] The Cayman Islands and the British Virgin Islands are significant sources, but as they are not the ultimate home country of FDI, they are disregarded in this discussion.

contracted amounts of FDI. However, since the mid-1990s onwards, wholly-foreign owned enterprises have been increasingly favoured; in 1999 just over half (51 per cent) of the contracted value of FDI took this form, mostly as greenfield investments (OECD, 2000). Graham and Wada (2001) note that the average size of individual investments is also beginning to rise, which is attributed to larger-scale Japanese, US and EU investments replacing smaller individual investments from Hong Kong, Taiwan and other Newly Industrialising Countries.

Finally, a fourth trend concerns the geographical distribution of FDI within China. In general, FDI has been concentrated in just four coastal provinces: Guangdong, Jiangsu, Fujian and Shanghai, in descending order (Lemoine, 2000). For the period 1983 to 1998, the eastern provinces together absorbed 87.8 per cent of total FDI inflows, with 8.9 per cent going to the central provinces, and less than 4 per cent to the western provinces. But since the mid-1990s, FDI has become more evenly distributed within the eastern provinces. The share of Guangdong province in total FDI inflows declined from 46 per cent in the 1980s to 28 per cent in the 1990s, while the other coastal provinces and the central provinces recorded an upward share. One interpretation is that more recent investors to China are less drawn to Guangdong and Fujian provinces than their Hong Kong and Taiwanese counterparts, and that a more equitable distribution of FDI in China is slowly underway.

To summarise, a transformation can be detected in the quality and quantity of inward FDI in China in the few years immediately prior to WTO accession. In very general terms, a greater proportion of investment by developed country firms (notably from the Triad countries) that is larger scale, more capital-intensive and more market-oriented, has steadily made inroads on the substantial stock of small scale, labour intensive and export-oriented investments enacted by Hong Kong and Taiwanese firms since the 1980s. Furthermore, wholly-owned foreign operations are supplanting equity joint ventures as the preferred entry mode, and FDI is progressively, albeit slowly, penetrating regions beyond the coastal provinces. For the first time since the Second World War, the general pattern and character of FDI in China has begun to converge on that of the developed countries. But how, and to what extent, will these trends be sustained after China's accession to the WTO, and what are the knock-on effects for the Southeast Asian countries?

2. China's WTO Accession: Opportunity or Threat for Southeast Asia?

China has committed itself to implementing a comprehensive package of market liberalisation measures on entering the WTO (see Table 4). Simply put, China is obligated to open and further liberalise many of its markets, providing foreign firms with greater access to domestic markets and levelling the playing field for foreign and domestic business, either immediately or through a phased implementation, to be completed by 2005.

As with past periods of policy reform, China's membership of the WTO is likely to provide fresh impetus to FDI inflows. In particular, the elimination of severe controls on distribution in China should enhance market access and increase substantially the incentive to make new or sequential market-oriented investments across many sectors. Also, new investment opportunities are likely to arise in sectors previously closed or highly restricted to foreign firms, especially in telecommunications services, wholesaling and retailing, logistics, financial services, travel and tourism, and audiovisual-related activity. But the effects are complex, and the outcome -- for China as well as for Southeast Asian countries -- is far from clear.

The effect that China's accession to the WTO might have on patterns of Southeast Asia's FDI inflows depends largely on how China's locational advantages change relative to Southeast Asia as a consequence, and whether or not China is a substitute for Southeast Asia as a host for certain types of FDI. It is important that we consider both export-oriented, labour intensive (henceforth export platform) FDI, and technology intensive, market-seeking FDI in both services and manufacturing. Natural resource-seeking FDI is disregarded, as Southeast Asia and China are probably not substitutes for this, at least to any great extent, given the location-bound nature of resource-based factor inputs. It is also important to consider intra-Southeast Asian FDI, as well as FDI from the Triad countries and the NICs, that might otherwise be directed to Southeast Asia; China may also be a substitute for intra-Southeast Asian FDI. In time, strategic-asset seeking investment, through the cross-border acquisition of Chinese firms, should play an increasingly important role in Chinese FDI, as should the role of the recent phenomenon of outward FDI from China. These are touched upon later.

First, was China already a competitive threat to the Southeast Asian countries as an FDI magnet prior to WTO accession? Given that for many years China shared with most Southeast Asian countries an economic development model that emphasised high levels of foreign ownership in export-platform mass manufacturing, this is a possibility. However, it is unlikely that China and Southeast Asia have been substitute hosts for export-platform FDI. In China, this type of FDI is characterised by certain transaction cost advantages peculiar mainly to Hong Kong and Taiwanese investors, and in particular geographic contexts. Although ethnic Chinese firms from these source countries also invest in Southeast Asia, they are much less prominent (Thomsen, 1999). The ownership-specific advantages of these firms are much reduced in contexts outside of mainland China. Up until the 1990s, therefore, the opening of China probably *increased* the global supply of this type of FDI; that is, it had an FDI *creating* effect.

Several authors, for example Tan (1999), Cheong (2000) and Palanca (2001), also hold that the emergence of China as a host has not crowded out FDI in general in the Southeast Asian region, and that WTO accession offers little threat of this in the future. Data on the share of China and Southeast Asia in certain categories of total investment flow underscores this point (see Table 2). As China's annual share of global FDI rose from around 7 per cent in the early 1990s to just over 10 per cent by 1996, so too did that of Southeast Asia, from 7 per cent to 8 per cent. The magnitude of the growth in China's share, and that of Southeast Asia, was matched by a drop in FDI share for the industrialised countries and a positive change in world FDI flows. However, closer examination of the data reveals some evidence of crowding out in the late 1990s. After 1997, and despite rising total values, the annual share in global FDI flows for both China and Southeast Asia dropped, reflecting worsening investment climates in the region compared to elsewhere. However, the rate of decline was much faster for the Southeast Asian countries. This effect is accentuated if we consider Hong Kong and China together in the regional context. In the mid-1990s, Southeast Asia received around a third of the annual investment flow to South, East and Southeast Asia; but by 2000 its share stood at 10.1 per cent. Over the same period, the combined share of China and Hong Kong's FDI inflows to South, East and Southeast Asia rose from around 56 per cent to almost 77 per cent. Notwithstanding the tax haven position of Hong Kong it seems likely that investment allocated at the *regional level* by MNEs (and perhaps the global level) were indeed diverted towards China and Hong Kong in the few years prior to accession. The correlation between the rise in market-seeking FDI by developed country firms in China from 1997 onwards, and the decrease in overall FDI in Southeast Asia, hints at a proportion of China's FDI growth having been at the expense of market-seeking manufacturing FDI in Southeast Asia. Moreover, this trend may not be confined to the Triad countries as an FDI source. In 1997, China overtook Malaysia to become Singapore's principal FDI destination, and by 2000 Singapore held the fifth largest stock of cumulative FDI in China at around 5 per cent of the total, notably in labour intensive manufacturing (Heng, 2001). Consequently, some intra-Southeast Asia FDI flows may also have been diverted to China at this time.

But will China be a competitive threat to Southeast Asia for export platform and market-seeking FDI activity after joining the WTO? With regard to the former, full compliance with its WTO obligations will bring about a reduction in tariffs and other non-tariff barriers to trade. Therefore, foreign firms will be able to serve China's market by exporting from other close at hand production locations, rather than from production bases *within* China (Nolan 2001). Accession may therefore have the effect of *strengthening* the position of neighbouring countries, including Southeast Asian countries, as hosts for export-platform manufacturing FDI oriented towards serving the China market. This would be accentuated if China's investment climate worsens after accession, because of growing political or social instability or rising factor input costs, for example. However, if China is unable to fully comply with its accession conditions, and if barriers to trade rise (especially non-tariff barriers), then the incentive for MNEs to continue with import-substituting strategies in China will be strong. With regard to market-seeking FDI, full compliance should create many new business opportunities for foreign firms, especially in those services sectors where market access is being granted for the first time. Given the inseparability of production and consumption for many services, the propensity to undertake FDI is likely to rise as market access is achieved. However, investment in new manufacturing capacity (ie. greenfield projects) may not grow as fast. There is over-capacity in many goods markets in China as structural weaknesses stifle demand. However, full compliance should see these weaknesses diminish as competitive pressures raise efficiency, as export-led economic growth accelerates, and as inward investors themselves provide a spur to domestic demand.

The extent to which intra- and extra-Southeast Asian FDI inflows might be displaced to China depends greatly on factors such as market growth projections, the relative cost structures of location-bound factor inputs for production, and the respective investment climates in China and the individual Southeast Asian countries. We briefly examine each in turn. Consider first the issue of market growth in China. Ianchovichina and Martin (2001), working for the World Bank, developed a conservative static model to find that WTO accession and compliance will add at least 2.2 per cent to China's income as its share of world exports expands. The study anticipates that, as the multi-fibre agreement is phased out, China's exports will rise by at least 6.8 per cent, driven mostly by huge expected increases in exports of textiles and clothing (over 47 per cent). Indeed, these figures may be understated, as dynamic considerations -- such as the positive effect of accession on wages, economic efficiency and investment -- are unaccounted for. However, this study predicts a gloomier outlook for the Southeast Asian countries. These countries in general -- but Singapore, Thailand, Malaysia and Indonesia in particular -- benefited considerably in the 1990s by exporting to China. However, Ianchovichina and Martin (2001) find that, while imports to China from Indonesia and the other Southeast Asian countries could increase by around 3 per cent and 14 per cent respectively, this will not be sufficient to compensate for sales lost to China in third markets, as barriers to China's imports are removed, especially in textiles, apparel and electronics. Consequently, they predict a modest 0.1 per cent decline in income for the Southeast Asian countries, with the exception of Singapore, which shows a small increase of 0.9 per cent. Providing China's reform process is not derailed accession should accelerate economic growth. This in turn should stimulate both new market-seeking investments and sequential investments by foreign incumbents already active in the China market. Concomitantly, and with some exceptions, the relative market attractiveness of the Southeast Asian countries will probably decline in general terms, reducing the propensity for foreign firms to undertake market-seeking FDI in these countries relative to China.

Several recent surveys allow us to comment on the relative attractiveness of China, Hong Kong and the ASEAN-5 countries as hosts for inward investment. Table 5 presents data from the IMD (1999) Annual Executive Opinion Survey of current and expected competitiveness conditions for forty-seven host countries. China is ranked 29th overall as an investment location in the period 1998-99, a position bettered only by Singapore and Malaysia among the ASEAN-5 (the other five Southeast Asian countries being excluded from the survey). As a production location, China has many advantages relative to Southeast Asia. It has reasonably strong reserves of petroleum and other natural resources (though perhaps not on a per capita basis). It also has an abundant pool of low cost labour. Despite certain shortages, in general there are sufficient numbers of workers skilled at each stage of the value chain to satisfy the current needs of most investors, even in more capital-intensive and knowledge-intensive sectors. China's indigenous stock of technological capability (necessitated by being a closed economy) is now being complemented by China's quickly modernising educational system and overseas education. FIEs themselves are also raising the stock of human capital through company training and development programmes. China's technical and transport infrastructures have also been upgraded considerably in recent years, though mostly in the eastern regions. Production costs should be driven down further if a new wave of foreign investment in services, distribution and logistics occurs after accession. If manufacturing costs rise in the coastal provinces (according to Broadman and Sun 1997 this is already happening), the under-developed central and western provinces offer substantial and almost equivalent benefits, if not in geographical location and infrastructure, then certainly in respect of labour. By contrast, several Southeast Asian countries are reported to have labour shortages and rising labour and land costs (Yean, 1998).

The IMD survey also presents data on the FDI regimes and transactions costs of doing business in the region (see Tables 6 and 7). In terms of its FDI regime, China scores lower than each of the ASEAN-5 countries except Indonesia, faring particularly badly on the availability of local capital and foreign ownership of domestic firms. However, WTO accession should bring about considerable improvement in these areas, and in others such as equal treatment and national protectionism. In terms of transaction costs, the overall assessment for China compares favourably to most of the ASEAN-5 countries, scoring better than all except Singapore and Malaysia. While China's scores poorly on bureaucracy and levels of corruption its business environment in general seems to be no worse than those of the ASEAN-5 countries (with the obvious exception of Singapore), and is in some respects better. Unlike the smaller Southeast Asian economies, many foreign firms will view China's large market potential as sufficiently adequate compensation for the comparatively high transaction costs experienced there.

A second recent survey also suggests that China has a generally more favourable investment climate compared to Southeast Asian countries. UNCTAD (2001) calculate the Inward FDI Index as an approximate measure of a nation's relative performance in attracting FDI, allowing for its relative economic size and strength in the world (see Table 8). China's Inward FDI Index rose from 0.8 to 0.9 between the periods 1988-90 and 1998-2000; an improvement in its 'revealed competitive advantage' for FDI, and an indication perhaps of the country's resilience to the Asian crisis and its causes. China's overall ranking does worsen over this period, but because more countries register a greater improvement. However, the FDI Index declines for each Southeast Asian country over the same period, and for each comprising ratio. This infers a reduction in the attractiveness of the Southeast Asian countries relative to China, especially in market-related areas. This may be as a consequence of the Asian crisis, or an indication perhaps of more serious structural deficiencies in their economies.

Other surveys of MNEs also reveal optimism that China's relative position as an investment location will be sustained. UNCTAD (2001) cites a recent survey of 3,000 regional headquarters and representative offices of MNEs situated in Hong Kong. Some 45 per cent of respondents planned to increase their investment in mainland China, and 93 per cent predicted that the investment climate there would be 'favourable' or 'very favourable' through to 2005. Bartels and Freeman (2000) report similar findings in their 1999 survey of 31 retail-oriented MNEs with regional headquarters in Singapore, 71 per cent of whom indicate that 'greater China' was given 'high' or 'highest' priority by the parent firm as a business location.

Three final observations also bear upon China's position as a future threat to the Southeast Asian countries as an investment host. First, there is ample absorptive capacity in China for FDI. FDI stock on a per capita basis is relatively low (US$ 240 in 1998), well below that of Hong Kong and Singapore (US$56,213 and US$19,268, respectively), but also below that of Malaysia (US$2,194), Thailand (US$351) and Indonesia (US$285)[4]. The sectoral and geographic distribution of FDI is so uneven in China that much geographic and economic space remains largely untouched by FDI, not least in the central and western provinces where many SOEs are located (Graham and Wada, 2001). Second, up to now strategic-asset FDI in China (that is,

[4] These data suggest that the slowdown in inward FDI to China, observed in the late 1990s, was probably not due to saturation effects (Lamoine, 2000).

mergers and acquisitions involving Chinese SOEs and foreign firms) has been highly restricted by the regulatory regime and underdeveloped stock markets. However, regulatory changes following WTO membership, embodied in the State Council's 10th five-year plan, should see many of these obstacles removed. Providing political opposition is also quelled, this should generate significant inflows in FDI in the medium term, as performing SOEs are partially or totally sold-off. If this occurs, strategic asset-seeking FDI may flood to the central and western regions of China where the majority of SOEs are located, despite relative under-development of the physical and technical infrastructures there. Third, on-going research by the authors on the investment strategies of European firms in China reveals that, for firms experiencing saturated or slowly growing markets elsewhere in the world, China's considerable market potential is 'the only game in town' for continued corporate expansion of any scale. To illustrate, the manager of a representative office in Guangzhou for a German industrial machine manufacturer stated that if the company fails in China the survival of the parent would be in doubt. This is a small measure of the importance of China in the strategic planning of many international firms today.

3. China as a Regional FDI Magnet?

Given the scale and heterogeneity of the country and the challenges of modernisation and market reform making predictions for China is daunting. Nevertheless, with certain provisos, our analysis suggests that few benefits derive to the Southeast Asian countries from China's WTO accession, in terms of individual abilities to capture a greater share of regional and global FDI flows. The provisos are that China adopts fully its WTO obligations by 2005, that the social cost of this can be accommodated, and that present political and administrative structures will not be fundamentally destabilised as a consequence.

China currently enjoys the powerful combination of a large, low cost and educated labour pool, strong demand potential and satisfactory investment climate, relative to the Southeast Asian countries. The weight of evidence suggests that, so long as social and political cohesion is preserved, full compliance to the accession terms will cause domestic demand to rise, market access for foreign firms to improve and the investment climate to strengthen relative to the Southeast Asian countries. This implies that China should be able to attract a greater share of global and regional FDI flows in the future. While a good proportion of FDI will be 'new' (that is, China's continued opening will have an FDI-creating effect), an indeterminate yet potentially significant amount could be displaced from intra-Southeast Asian FDI, or from initial and sequential FDI made by the Triad countries in Southeast Asia. The greatest competitive effect is likely to come from China for higher value-added market-oriented FDI. This is already increasingly taking place in China, and it should accelerate after accession, especially from the Triad countries. Certain structural impediments currently prevent this from taking place in many, if not most, of the Southeast Asian countries (Yean, 1998). The most immediate surge in China's inward FDI is expected in those services-related sectors being opened for the first time. Substantial inflows of services-oriented FDI to Southeast Asia are unlikely while service-based MNEs establish toeholds in the China market. As domestic demand in China expands, more manufacturing-based FDI should also be attracted, mainly from developed country firms undertaking increasingly more capital and technology-intensive production.

It is also possible that some foreign and domestically owned production in Southeast Asia may migrate to China, as its investment climate improves relative to current production locations. Both Singapore -- already a major investor in China -- and Malaysia have recently registered increased outward FDI flows in labour-intensive manufacturing, as production costs rise at home, a growing proportion of which may soon be directed to China. Likely candidate industries would be export-oriented manufacturing operations in Southeast Asia with relatively few backward linkages to local suppliers and other parties. These are prevalent in textiles and garment production and some in types of electronics manufacturing. Some of the competitive effect for export-platform type FDI in Southeast Asia will come from China's coastal provinces. However, rising wage and non-wage costs here may militate against this. Within a few years of WTO accession, greater pressure should be felt from China's central and western provinces, as the transport and technical infrastructures here undergo further improvement, and as economic development is boosted by the acquisition of SOEs by foreign investors. Broadman and Sun (1997) make a good case for the more central provinces of Hunan and Henan as candidates for the next wave of inward FDI to China, for cost-oriented as well as market-seeking motives. However, coastal locations such as Beijing, Shanghai, Zhejiang and Hebei will retain their appeal for many foreign investors, for obvious reasons. Of course, a certain level of market-seeking FDI will always be maintained in the Southeast Asian region, irrespective of developments in China. For example, MNEs will continue to support and establish subsidiaries in individual Southeast Asian countries, to complement their import function with sales, marketing, and distribution activities. But this is relatively low-value added activity, and generates few spillovers and other benefits for the host economy, compared to more capital intensive investment.

If our analysis is correct, and China does have a magnetic effect on patterns of regional FDI, this will have significant implications for each of the Southeast Asian countries, though to varying degrees and for different reasons. First, for some Southeast Asian countries, such as Brunei, Myanmar and Indonesia, FDI is mostly natural resource-oriented, notably in the oil and gas extraction and support industries. It is unlikely that China is, or will be, a magnet for FDI in these areas, and to some extent China's influence in Southeast Asia will be least felt by them. If China does prove able to attract a greater proportion of regionally allocated market seeking FDI in services and manufacturing, this will impact most those Southeast Asian countries which themselves have relatively small markets in terms of, for example, population (such as Brunei, Laos and Singapore) or purchasing power (such as Myanmar and Vietnam). Larger Southeast Asian countries like Malaysia, Thailand and the Philippines should continue to attract a proportion of market-seeking FDI, but whether this is in capital and technology-intensive sectors is questionable. Currently, the FDI stock of these countries exhibit a strong source country affiliation, with a preponderance of European, and especially British-owned FDI in Malaysia and American investment predominating in the Philippines and Thailand. Should these source countries continue to raise their investment in China, to levels normally seen in developed host countries, this may be at the expense of sequential FDI in Southeast Asia. What is more, these Southeast Asian countries may experience divestment, as 'footloose' foreign and domestically-owned production relocates to China.

Of course, some Southeast Asian countries should benefit directly from market opening in China. An obvious candidate is Singapore, whose firms have expertise in several service-related areas, such as in education, construction, engineering consultancy, business services, transport and logistics. Certain language and cultural similarities should augment the competitive advantage of Southeast Asian firms in China compared to their US and European rivals. Although intra-Southeast Asian FDI is not significant in terms of world flows, it is important to some economies in ASEAN. For example, the newer ASEAN members -- Cambodia, Laos, Myanmar and Vietnam -- only attract relatively small amounts of FDI in absolute terms (although often large as a proportion of GDP), but their principal source tends to be fellow Southeast Asian countries, particularly Singapore. If China's opening does displace intra-Southeast Asian FDI, and especially Singapore-sourced FDI, these countries could suffer economically. Indonesia and Malaysia, which also host large amounts of Singaporean FDI, could be similarly affected.

4. Policy Response of Southeast Asia: Deeper Regional Integration as a Win-Win Solution?

What steps can the Southeast Asian countries take to militate against the growing threat of China as an FDI magnet in the region? Today, the priority of MNEs is to withstand global competition by strengthening their ownership advantages across all markets in which they operate. Thus, the Southeast Asian countries should all aim to provide competitive immobile assets to complement those mobile assets of MNEs. On a unilateral level, this means proactive national policies to enhance the quality of the workforce, infrastructure, supply networks, institutions and so forth. Deficiencies in their respective investment climates should also be tackled. As we have seen, transaction costs in Southeast Asia are on a par with those in China, while several Southeast Asian countries lack a compensating economic base of any comparable size. Investment promotion measures targeted at particular industries (in which the host Southeast Asian country has an actual or potential competitive advantage) or source countries (with existing trade or historic connections) should also help. Also, the Southeast Asian countries could compete individually with China as a production site by depreciating their currencies and cutting production costs. However, this solution is probably untenable, given the high social costs and lower living standards that would follow. They could also realign their economies to become more resource-oriented, supplying agriculture and minerals, not only to a growing China, but also the wider region. Although feasible, rigidities and under-investment in several of the Southeast Asian economies will be a constraint, at least in the short term. Nevertheless, those countries with a common border to China – Laos, Myanmar and Vietnam – should improve their transport and communications infrastructure with both China and the rest of Southeast Asia, in order to benefit as conduits for the rise in China-Southeast Asian trade flows that should follow accession. So should the Southeast Asian countries in general; not only with China's coastal provinces, but also with those central provinces identified as likely recipients for the next wave of inward FDI.

Although such unilateral initiatives may go some way to offsetting China's improving situation as a host economy, the real gains to Southeast Asia will come by replacing deteriorating *individual* locational advantages relative to China with a superior *regional* one. Consequently, the ASEAN Free Trade Agreement (AFTA) or the Asian Investment Area (AIA), or both, should form at least part of the policy solution. For two reasons, more concerted effort is needed to co-ordinate and harmonise investment regulations and regimes across Southeast Asia. First, this would aid in negating unilateral 'beggar thy neighbour' policies, in which individual Southeast Asian countries 'race to the bottom', by attempting to out-compete each other with improved investment conditions under WTO rules. Second, it could facilitate an improved division of labour across Southeast Asia. This would permit Southeast Asian and outsider firms to allocate resources at a regional level within the region, according to the comparative advantage of member states, in much the same way that MNEs are beginning to do now in China. Both Southeast Asian and non- Southeast Asian MNEs would be better able to rationalise existing production across the region, and to generate greater economies of scale and other efficiencies as a result. Opportunities for intra-industry specialisation would provide a boost to the investment climate of Southeast Asia as a whole, especially for efficiency-seeking FDI. Thus labour-intensive manufacturing may be encouraged in low cost countries like Myanmar and Vietnam, while high-end, capital-intensive manufacturing could continue to be sited in Singapore, for example. At the same time, a workable AFTA would also create a single market of sufficient size to begin to counter that of China for market-seeking FDI. It could also help to stimulate outward investment in Southeast Asia by Chinese enterprises, which themselves will soon be under growing pressure to develop foreign markets following accession. Indeed, this process is already underway, with the Philippines, Malaysia and Thailand beginning to attract Chinese FDI in resource-based sectors such as agriculture, chemicals, paper and rubber (ACEGEC, 2001). Southeast Asia is a net investor in China, which means that investment co-operation both within Southeast Asia, and between Southeast Asia and China, may be directed more to protecting Southeast Asian investors in China and improving the conditions for Southeast Asian firms there than *vice versa*. If so, any further deepening of economic integration within Southeast Asia could be impeded. However, if implemented, greater regional integration in the form of AFTA and the AIA should provide fresh stimulus to both intra- and extra- Southeast Asian FDI, and could go some way towards offsetting China's growing economic weight in the region.

5. Conclusion

Of course, our analysis is limited in that, by focusing almost entirely on two economic regions and on FDI to the exclusion of trade, we disregard the interdependencies that characterise international business today. Also, econometric work is needed to fully understand the extent to which FDI displacement to China might negatively impact the economic performances of the Southeast Asian countries, and what the consequences of this might be for them.

Notwithstanding these limitations, we detect several changes to the established pattern of inward FDI to China since the mid-1990s, that may have had a quantitative and qualitative effect on FDI flows to the Southeast Asian region. Whilst we recognise that China may not fully comply to its WTO accession conditions, and that the market-reform process may indeed be undermined by social, political or other considerations, the thrust of our analysis is that China's investment climate will indeed be strengthened by WTO accession, relative to the Southeast Asian countries. Consequently, we argue that, in general, China's accession will probably have a magnetic effect on FDI in the region, rather than a neutral or benign effect, although this will vary by source country and industry. Initially the effect will be felt mostly in service-related FDI, where much reform in China is taking place. Later, the propensity for manufacturing FDI to gravitate to China should also rise. Further, accession will mostly affect inward FDI from the Triad countries, but it could also have a diversionary effect on intra-Southeast Asian FDI. In order to counter the growing economic weight of China in East and Southeast Asia, and as individual member states will be limited by what they can accomplish alone, we argue that the Southeast Asian countries should act in concert to enhance the attractiveness of the region as an investment location, relative to China. Greater regional integration (in the form of AFTA or the AIA) will be an important, if not crucial, element of the policy solution.

It will also be important for the Southeast Asian countries and ASEAN to bolster economic and political ties with China. Southeast Asia should improve its communication and business links, so that market expansion in China can serve as a boost to China-Southeast Asian trade, and act as an engine of growth for the region. At a political level, China's position and status among the industrialised countries improved markedly during the WTO negotiations, and compliance with the terms of accession should see this strengthen further. Closer co-ordination could see China acting as a spokesperson for the region, providing fresh vigour to East Asian countries' separate and combined bargaining positions in the WTO and elsewhere. It is likely that, by joining the WTO, China will become more prominent as an economic force in the region, and also in the world. This may not happen immediately, and the journey may not be a smooth one. Nevertheless, it is important that politicians and policy-makers on all sides take steps to ensure that it will not be at the cost of economic development in neighbouring countries such as those of Southeast Asia.

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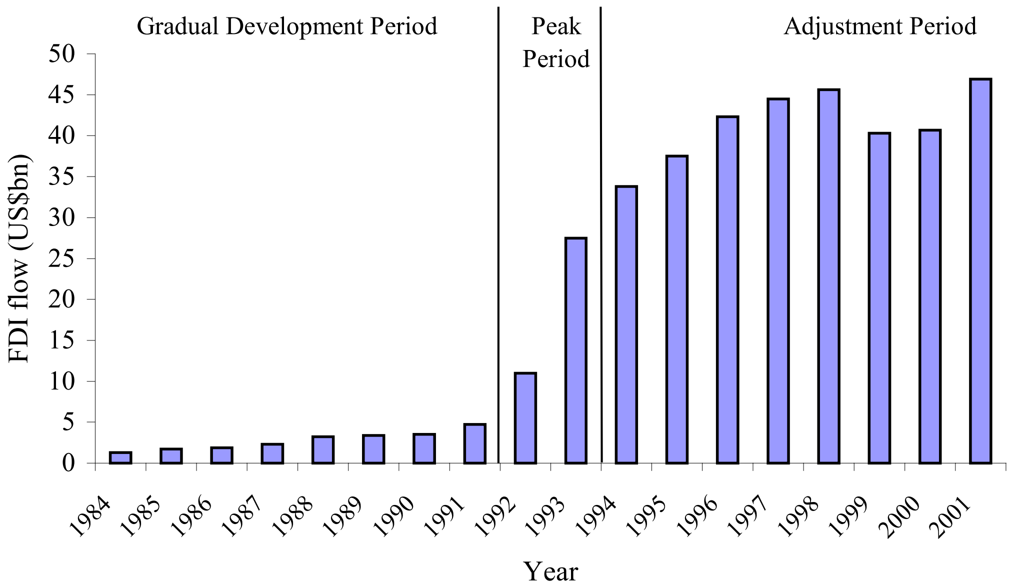
Figures and Tables

Figure 1 Annual Inflows of Utilised FDI into China (1984 to 2001)



Note: data for 1984 are accumulated stock of FDI since 1979.

Source: China Statistical Yearbook (various issues).

Table 3: Accumulated FDI stock in China, by home country and region (1995 constant prices and %)

	1979-91	1983-90	1991-95	1996-98	1983-98
Total FDI stock (US$m)		24,528	118,086	126,119	268,733
Source country and region (% share)					
Hong Kong	62.0	58.5	58.8	45.2	52.4
Taiwan	n/a	1.1	9.8	7.3	7.9
ASEAN 5	n/a	1.5	5.1	8.1	6.2
Japan	14.0	13.7	6.9	8.6	8.3
USA	10.0	12.1	7.4	8.0	8.1
Western Europe	n/a	6.6	4.5	8.7	6.7

Sources: OECD (2000) Lamoine (2000).
Note: ASEAN 5 = Singapore, Thailand, Philippines, Malaysia and Indonesia.

Table 1: FDI Policy in China and Some Inward Investment Trends (1979-1999).

Phase and policy motivation	Main Policy Developments	Investment character and strategic motivation
Experimental Period (1979 to 1983)		
To attract greater inward FDI as one of the 'four modernisations' and to learn from the experiences of the opened areas	A series of laws on joint ventures (JVs) permitted FDI, defined equity JVs and set out the fiscal arrangements concerning foreign invested enterprises (FIEs). Greater economic autonomy given to Guangdong and Fujian provinces. Creation of four Special Economic Zones (SEZs) at Shenzen, Zhuhai, Shantou and Xiamen. Duty exemptions for imports of intermediate inputs used in production of exports. Special investment incentives available in SEZs. Highly limited domestic market access granted to foreign investors. Ministry of Foreign Economic Relations and Trade (MOFERT) created, responsible for FDI, trade and other foreign economic affairs.	Mostly speculative investment in real estate (hotels and apartment buildings). Some small-scale, resource-seeking, export-oriented FDI in labour intensive industries manufacturing industries such as footwear, clothing, toys, and electrical appliances. Hong Kong and Taiwan ROC are main source countries.
Gradual Development Period (1984 to 1991)		
To build upon the success of the first SEZs and to divert FDI away from real-estate and into technology intensive, export-oriented and infrastructure-related sectors.	Law for the Encouragement of Foreign Investment promulgated (1986) and implementing regulations announced (1987). Continued loosening of investment restrictions, mostly in sectors with few domestic firms (e.g. tourism and hotels) and where foreign capital and technology was sought (e.g. oil exploration). Hainan Island and 14 open coastal cities (OCCs) across ten provinces opened to FDI in 1984. Preferential income tax arrangements for FIEs granted in 1984. The Yangtze River (Changjiang) Delta, the Pearl River (Zhujiang) Delta and South Fujian area become Open Export Zones (OEZs) in 1985, followed in 1987 by Shandong and East Liaoning Peninsulars. Shanghai's Pudong New Area opened in 1989, a flagship SEZ.	Initially some resource-oriented FDI in extractive industries, but a general shift in FDI towards export-oriented and technology intensive manufacturing industries across the period. Around half of FDI by value in hotel construction and real estate. Hong Kong and Taiwanese investment predominate, but investments from USA and Japan increasingly observed. Equity JVs (51% of contracted value of FDI in 1991), co-operative JVs (18%), wholly foreign-owned enterprises (WFOEs) (31%).
Peak Period (1992 to 1993)		
The imperative of Deng Xiaoping to accelerate economic reform and to develop new export industries	Foreign firms allowed to sell more to China's domestic market. Some FDI approvals conditional on achievement of certain policy goals. Special investment incentives available in preferred sectors. New sectors opened up experimentally to foreign investment (e.g. domestic retail trade, finance, tourism, shipping, resource development). FDI remains tightly controlled by state policy, though approval of smaller projects now devolved to provincial and municipal government. Thousands of new SEZs spring up as a result.	Efficiency-seeking and resource-seeking motives still dominate, but market-seeking motives beginning to grow in importance. Around 60% of inward FDI flows into highly export-oriented and technology intensive industrial sectors, especially in the coastal provinces. Slowdown in FDI from the Triad regions. Equity JVs (49% of contracted value of FDI in 1993), Co-

	Market entry remains regulated through as performance requirements, local sourcing requirements, location restrictions, forced JV establishment. Further opening of 28 cities and 8 regions in the Yangtze River Delta area.	operative JVs (23%), WFOEs (27%).
Adjustment Period (1994 to 1999)		
To adjust the industrial structure of FDI and to provide national treatment for foreign investors	Special investment regimes abandoned for more nationwide implementation of open policies. State Council decided to categorise sectors into three types: those in which FDI was 'encouraged', 'restricted' or 'forbidden'. Duties reimposed in 1995 on imported machinery, equipment, parts and other materials by FIEs (but repealed in 1997 for FDI in encouraged sectors).	Market-seeking gradually becomes the dominant investment motivation with resource-seeking in relative decline. FDI is more capital-intensive, and FIE production is directed more to China's domestic market than on export markets, although FIEs still make a decisive contribution to export-intensive activity. Growth in FDI from USA, Japan and EU towards end of period. Equity JVs (32% of contracted value of FDI in 1999), Co-operative JVs (17%), WFOEs (51%).

Sources: Graham and Wada (2001), Wei and Liu (2001), Lemoine (2000).

Table 5: Location Attractiveness Rankings for China, Hong Kong and the ASEAN-5.

	Manufacturing	R&D	Service and Management	Overall ranking
China (PRC)	30	29	32	29
Hong Kong	3	17	3	7
Singapore	2	7	4	2
Thailand	34	36	34	34
Malaysia	24	26	25	27
Indonesia	44	47	46	46
Philippines	27	34	31	32

Note: data not available for Brunei, Cambodia, Laos, Myanmar and Vietnam.

Source: IMD (1999).

Table 2: FDI inflows, by host region and economy, 1989-2000 (US$m and percentage).

Host region/economy	1989-1994 (annual average)	1995	1996	1997	1998	1999	2000
World	**200,145**	**331,068**	**384,910**	**477,918**	**692,544**	**1,075,049**	**1,270,764**
Developing countries and regions	59,578	113,338	152,493	187,352	188,371	222,010	240,167
South, East and Southeast Asia	35,078	73,639	89,406	98,507	86,004	96,224	137,348
China	**13,951**	**35,849**	**40,180**	**44,237**	**43,751**	**40,319**	**40,772**
As a proportion of world total	7.0%	10.8%	10.4%	9.3%	6.3%	3.8%	3.2%
developing country total	23.4%	31.6%	26.3%	23.6%	23.2%	18.2%	17.0%
S, E and SE Asia total	39.8%	48.7%	44.9%	44.9%	50.9%	41.9%	29.7%
Hong Kong, China	**4,164**	**6,213**	**10,460**	**11,368**	**14,776**	**24,591**	**64,448**
As a proportion of world total	2.1%	1.9%	2.7%	2.4%	2.1%	2.3%	5.1%
developing country total	7.0%	5.5%	6.9%	6.1%	7.8%	11.1%	26.8%
S, E and SE Asia total	11.9%	8.4%	11.7%	11.5%	17.2%	25.6%	46.9%
Brunei	6	13	-69	2	-20	-38	-19
Cambodia	52	151	294	204	121	135	153
Indonesia	1,524	4,346	6,194	4,677	-356	-2,745	-4,550
Laos	19	95	160	91	46	79	72
Malaysia	3,964	5,816	7,296	6,513	2,700	3,532	5,542
Myanmar	135	277	310	387	314	253	240
Philippines	879	1,459	1,520	1,249	1,752	737	1,489
Singapore	4,798	8,788	10,372	12,967	6,316	7,197	6,390
Thailand	1,927	2,004	2,271	3,627	5,143	3,562	2,448
Vietnam	651	2,336	2,519	2,824	2,254	1,991	2,081
ASEAN-10	**13,955**	**25,285**	**30,867**	**32,541**	**18,270**	**14,703**	**13,846**
As a proportion of world total	7.0%	7.6%	8.0%	6.8%	2.6%	1.4%	1.1%
developing country total	23.4%	22.3%	20.2%	17.4%	9.7%	6.6%	5.8%
S, E and SE Asia total	39.8%	34.3%	34.5%	33.0%	21.2%	15.3%	10.1%

Source: UNCTAD (2001).

Table 4: China's WTO Accession Obligations and Commitments.

- the average bound tariff level for all industrial goods will be reduced to 9.4% by 2005 from the current 24.6%, with a wide range of detailed commitments to lower tariffs on other products. Some tariff reductions will be immediate, and others phased. All will be complete by 2005.
- the average tariff level for ASEAN products will be reduced by 34% to 47% by 2005, faster than the average reduction.
- rules on Trade-Related Investment Measures (TRIMs) will be observed immediately on entry. Almost all administrative examination and approval procedures for the import of goods (such as quotas, licenses and other non-tariff quantitative restrictions) will be abolished. Many quotas were eliminated on accession; most of the remainder to be eliminated by 2003 and entirely phased out by 2005. The following devices were eliminated immediately on entry:
    - local content requirements,
    - technology transfer requirements and offsets as a condition for investment,
    - export performance and trade balancing requirements.

- intellectual property rights - China agreed to implement TRIPS immediately on entry. Requirements that Chinese partners to a JV gain ownership of trade secrets after a certain number of years are removed.
- trading rights (the right to import and establish distribution networks) for foreign companies will be eliminated by 2003. Coverage is comprehensive, and includes commission agents' services, wholesaling, retailing, franchising, sales away from a fixed location, and related activities like inventory management, after sales service, repair and maintenance services, with foreign ownership allowed, up to 49%.
- all tariffs on information technology equipment and computers will be removed by 2005, by participation in the WTO Information Technology Agreement.
- liberalisation of telecommunications, allowing the provision of telephony services by foreign firms across any distance within two to six years; foreign investment allowed up to 49% in all services, and 50% for value-added and paging services.
- liberalisation of financial services by 2005, opening markets in banking, insurance, securities, fund management and other sectors. Licenses are to be granted on prudential criteria alone, and not on economic-needs tests or numeric bases.
- domestic market access and foreign ownership (majority or up to 49% foreign equity share) is now permitted in sectors such as travel and tourism and audio-visual materials.
- Support for state-owned and state-invested enterprises. China has agreed that WTO rules will apply to firms in which the state has an equity interest. Such firms are required to buy and sell on a commercial basis, such as quality and price. Trade between SOEs and foreign firms will be permitted. Government procurement systems will become more transparent.

Source: ACEGEC (2001); Nolan (2001).

Table 6: Survey results of the FDI regimes in China and the ASEAN-5 Countries.

	Local capital market	Acquisition of control	Equal treatment	Employment of foreigners	National protectionism	Investment protection	Image of country	Overall assessment
	A	B	C	D	E	F	G	H
China (PRC)	4.0	4.4	3.9	5.9	4.3	8.1	7.8	5.49
Hong Kong	9.2	9.3	8.9	6.0	9.3	6.9	7.9	8.21
Singapore	7.5	8.2	8.0	7.7	7.6	7.9	9.0	7.99
Thailand	7.0	5.6	5.4	5.0	5.8	6.7	6.4	5.99
Malaysia	6.2	4.6	5.2	5.4	5.6	6.9	5.2	5.59
Indonesia	6.5	6.9	5.2	5.0	5.2	5.7	1.8	5.19
Philippines	7.0	6.4	6.0	6.4	6.2	7.2	5.4	6.37

Notes:

i) survey results are scaled from 0 (least favourable for FDI) to 10 (most favourable for FDI) for each item.
ii) data not available for Brunei, Cambodia, Laos, Myanmar and Vietnam.

(A) Access to local capital is restricted for foreign investors (0) / is not restricted (10)
(B) Foreign investors may not (0) / are free (10) acquire control in a domestic company
(C) Foreign and domestic companies are not (0) / are (10) treated equally
(D) Immigration laws prevent (0) / do not (10) prevent your company from employing foreign labour
(E) National protectionism prevents (0) / does not prevent (10) foreign products and services from being imported
(F) Investment protection schemes are not available (0) / are available (10) for most foreign partner countries
(G) Image of your country abroad hinders (0) / supports (10) the development of business
(H) Average assessment according to criteria A to G (unweighted)

Source: IMD (1999), after Dunning (2001, p. 266 to 267).

Table 7: Transaction cost-related barriers to FDI in China and the ASEAN-5 Countries.

	Cultural barriers	Government competence	Legal framework	Transparency	Bureaucracy	Corruption	Protection of IP	Distribution systems	Infrastructure	Labour regulations	Overall assessment
	A	B	C	D	E	F	G	H	I	J	K
China (PRC)	7.2	4.9	5.9	6.4	1.3	1.9	7.9	5.5	5.2	4.9	5.11
Hong Kong	8.2	6.1	8.6	5.5	6.3	7.0	6.3	8.4	7.9	7.9	7.22
Singapore	8.1	9.0	8.6	8.5	7.5	8.5	8.0	9.3	9.2	8.0	8.47
Thailand	7.3	4.5	4.4	5.4	3.1	2.4	5.2	5.3	4.9	6.4	4.89
Malaysia	6.6	5.7	6.7	6.3	4.2	3.7	5.9	7.2	6.6	6.7	5.96
Indonesia	6.7	2.2	3.3	2.7	1.8	0.9	3.4	3.4	3.5	5.5	3.34
Philippines	8.4	3.8	4.5	5.3	2.3	1.6	6.2	3.2	3.4	6.0	4.47

Notes

i) survey results are scaled from 0 (least favourable for FDI) to 10 (most favourable for FDI) for each items.
ii) data not available for Brunei, Cambodia, Laos, Myanmar and Vietnam.

(A) National culture is closed (0) / is open to foreign influence (10)
(B) Government decisions are not (0) / are effectively implemented (10)
(C) The legal framework is (0) / is not (10) detrimental to your country's competitiveness
(D) The government does not (0) / does communicate its policy intentions clearly (10)
(E) Bureaucracy does (0) / does not (10) hinder business development
(F) Bribery and corruption exist (0) / does not exist in the public sphere (10)
(G) Patent and copyright protection is not (0) / is (0) enforced in your country
(H) The distribution infrastructure of goods and services is generally inefficient (0) / efficient (10)
(I) Infrastructure maintenance and development is not (0) / is adequately planned and financed (10)
(J) Labour regulations are too restrictive (0) / are flexible enough (10)
(K) Mean of score for items A to J (unweighted)

Source: IMD (1999), after Dunning (2001, p. 266 to 267).

Table 8: Measures of Asian FDI attractiveness: inward FDI index, by host economy, 1988-90 and 1998-2000, and FDI per capita (US$).

	1988-1990 FDI inflow share over:					1998-2000 FDI inflow share over:					
Host region/economy	**GDP share**	**employment share**	**exports**	**inward FDI index***	**Rank (from 112)**	**GDP share**	**employment share**	**exports**	**inward FDI index***	**Rank (from 137)**	**FDI per capita (US$)**
World	1.0	1.0	1.0	1.0		1.0	1.0	1.0	1.0		
Developing countries	1.0	0.2	0.7	0.6		1.0	0.3	0.7	0.7		
S, E and SE Asia	1.3	0.2	0.7	0.7		1.1	0.2	0.6	0.6		
China PRC	1.0	0.1	1.3	0.8	52nd =	1.3	0.1	1.3	0.9	59th =	240
Hong Kong, China	5.0	11.8	0.7	5.9	4th	6.3	24.5	1.1	10.6	2nd	56213
Brunei	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cambodia	n/a	n/a	n/a	n/a	n/a	1.3	0.1	1.0	0.8	65th =	48
Indonesia	0.8	0.1	0.6	0.5	63rd	-0.7	-0.1	-0.4	-0.4	136th	285
Laos	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	104
Malaysia	4.3	2.4	1.1	2.6	17th	1.6	1.0	0.3	1.0	54th =	2194
Myanmar	0.5	0.1	4.0	1.5	35th =	0.1	0.0	1.4	0.5	83rd =	54
Philippines	1.6	0.3	1.1	1.0	46th =	0.6	0.1	0.3	0.3	100th =	135
Singapore	12.7	26.5	1.4	13.5	1st	2.2	7.5	0.3	3.3	13th	19268
Thailand	2.4	0.6	1.4	1.5	35th =	0.9	0.3	0.4	0.5	83rd =	351
Vietnam	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	199

* calculated by taking a country's share in world FDI flows, and dividing it by its share of GDP, employment and exports.

Source: UNCTAD (2001), and authors' own calculations.