

Analysis of the Current Status of China's Manufacturing OFDI in ASEAN

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Abstract: This chapter analyzes the current status of China's manufacturing outward foreign direct investment (OFDI), focusing on three dimensions: investment scale, industry structure, and geographic distribution of investment. It aims to delineate the characteristics of China's manufacturing OFDI and identify the existing problems in its development.

I. Overall Scale and Characteristics of China's Manufacturing OFDI

To thoroughly understand the inherent logic of the spillovers of China's manufacturing capital to ASEAN, we must first examine it within the broader macro context of China's and even global outward foreign direct investment. In recent years, amid the complex and volatile international economic landscape, disruption risks to global supply chains, and the "small yard, high fence" style trade protectionist barriers imposed by some developed countries, China's outward foreign direct investment has not contracted. Instead, it has demonstrated remarkable resilience and counter-cyclical adjustment capacity. The underlying foundation of this macro-level resilience lies precisely in China's complete industrial system, as well as the inherent drive of its massive manufacturing capital to carry out high-level overseas capacity deployment.



Figure 2-1 FDI Inflows of Global Manufacturing into ASEAN

Source: ASEAN Secretariat, FDiMarkets

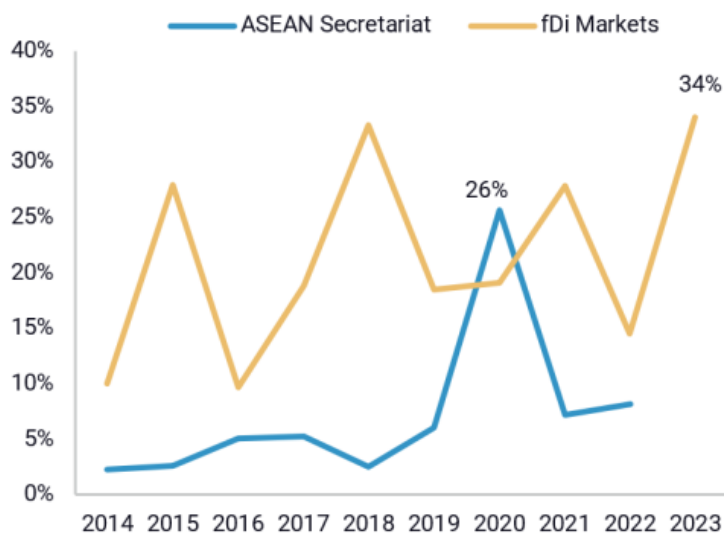


Figure 2-2 Share of China's Manufacturing FDI in ASEAN

Data Sources: ASEAN Secretariat, fDi Markets

As illustrated in Figures 2-1 and 2-2, the two charts uncover the economic trends of "the Rise of ASEAN" and "China-Driven Growth" amid the restructuring of global supply chains. First, ASEAN has emerged as a powerful magnet for manufacturing investment. Figure 2-1 shows robust growth in ASEAN's manufacturing FDI, with the investment value of greenfield projects recorded by fDi Markets nearing USD 80 billion in 2023, hitting a ten-year high. Second, Chinese capital has become the core engine of this upward trend. Figure 2-2 demonstrates that China's dominant position in this investment inflow is continuously strengthening. Data from fDi Markets shows that the share of Chinese investment soared to 34% in 2023 (figures from the ASEAN Secretariat also recorded a peak of 26% in 2020). This confirms that Chinese enterprises are accelerating their overseas layout in ASEAN, and the regional industrial chains are undergoing deep integration.

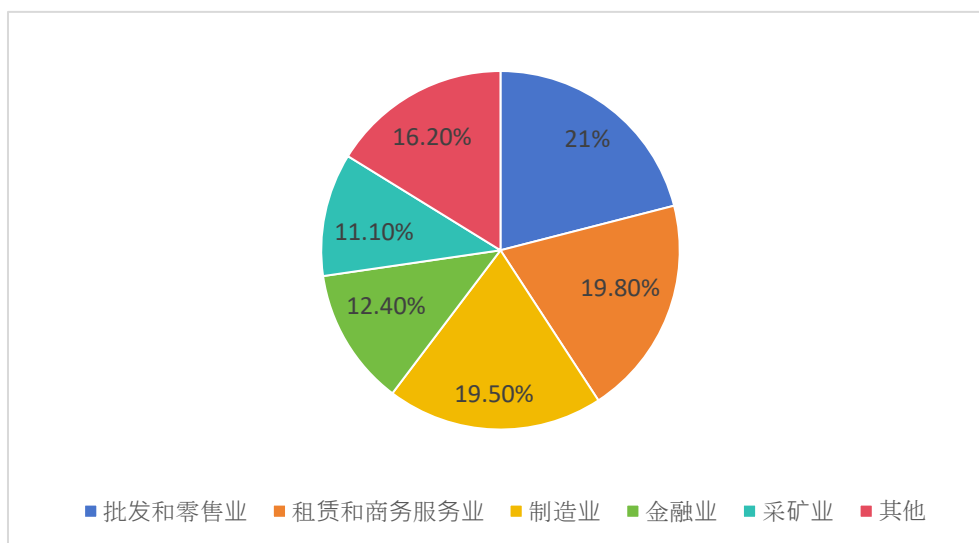


Figure 2-3 Sectoral Composition of China's Outward FDI Flows by Industry in 2024

Data Source: 2024 Statistical Bulletin of China's Outward Foreign Direct Investment

Beyond the rapid growth in overall investment flows, the performance of China's manufacturing OFDI in the cross-border mergers and acquisitions (M&A) market has been equally remarkable. As an efficient means for enterprises to quickly acquire high-quality overseas assets and overcome market access barriers in host countries, cross-border M&A has long served as a key barometer of the international competitiveness of a country's industrial capital. According to data from the 2024 Statistical Bulletin of China's Outward Foreign Direct Investment, China's enterprises conducted outbound investment and M&A activities across 17 industry categories in 2024. In terms of transaction value, the manufacturing sector reached USD 9.71 billion, firmly and undisputedly claiming the top position across all industries. It accounted for as much as 37.8% of the total annual M&A transaction value, involving 135 completed M&A projects. This figure not only far exceeds that of the second-ranked mining sector (USD 6.56 billion) and infrastructure sectors such as electricity and heat supply (USD 3.74 billion), but also highlights that amid the window period for the revaluation of global asset prices, Chinese manufacturing enterprises are actively leveraging capital operations to internalize high-quality global manufacturing factors (including advanced patents, established brands, and distribution channels) into their own transnational production networks.

Based on the latest full-year data for 2024, the overall characteristics of China's manufacturing OFDI on a global scale can be summarized into the following three dimensions:

First, the investment momentum has undergone a profound shift from "factor cost-driven" to "dual-driven by market and technology". In the past, the overseas expansion of some of China's traditional labor-intensive manufacturing industries was often motivated by the search for "cost depressions" with cheaper labor and lower land costs. Today, with the rapid upgrading of China's overall industrial strength, a large number of enterprises in high-end equipment, new energy, and electronic information sectors are expanding overseas. Their core motivations have shifted to "proximity to end-consumer markets" to achieve agile localized response, or the establishment of R&D centers directly in developed countries to realize Reverse Technology Spillover.

Second, the investment entities present a flying-geese pattern of overseas expansion, where large leading enterprises take the lead and specialized, refined, distinctive and innovative (SRDI) small and medium-sized enterprises (SMEs) follow closely. As evidenced by the major M&A projects and massive investment flows disclosed in the Bulletin, large Chinese multinational enterprises (MNEs) – such as new energy vehicle (NEV) original equipment manufacturers (OEMs) and leading chain enterprises in the power battery sector – form the backbone of the manufacturing sector's overseas expansion. Meanwhile, with the rising demand for supply chain coordination, a large number of upstream and downstream component manufacturing enterprises supporting them have opted for coordinated collective overseas expansion, forming a new feature with Chinese characteristics: the overall relocation of industrial chains and clustered overseas development.

Third, risk resilience and geo-strategic adaptability have been markedly enhanced. Faced with uncertainties stemming from trade frictions in traditional developed markets such as Europe and the United States, China's manufacturing capital is rapidly adjusting the global geographic layout of its investment, shifting its focus toward emerging market economies and countries jointly building the Belt and Road Initiative (BRI) that boast sound

political relations, geo-economic complementarity, and coverage under free trade agreements (FTAs) such as the Regional Comprehensive Economic Partnership (RCEP). Amid this grand strategic shift, ASEAN, with its unparalleled geographical advantages and economic potential, has naturally emerged as the foremost hub for undertaking the overseas capacity deployment of China's manufacturing industry.

II. Scale of China's Manufacturing OFDI in ASEAN

An analysis of China's manufacturing OFDI cannot be complete without examining ASEAN, its core investment destination. China and ASEAN are connected by mountains and rivers and share close people-to-people bonds. In recent years, amid the combined institutional dividends from the deepening implementation of the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN, the Belt and Road Initiative (BRI) guided by the principle of extensive consultation, joint contribution and shared benefits, and in particular the full entry into force and implementation of the Regional Comprehensive Economic Partnership (RCEP), bilateral economic and trade cooperation has moved beyond the pure stage of trade in goods and entered a new era of in-depth capital integration and highly embedded industrial chains. ASEAN has not only remained China's largest trading partner for many consecutive years, but also become the most intensive and active hub for the overseas expansion of China's real industrial capital.

In terms of overall investment scale, China's direct investment in ASEAN saw a historic surge in 2024. According to data from the 2024 Statistical Bulletin of China's Outward Foreign Direct Investment, the flow of China's direct investment in ASEAN reached a record high of USD 34.36 billion in 2024, representing a sharp year-on-year increase of 36.8%. It accounted for 17.9% of China's total outward FDI flows in the same year, and as much as 22.4% of China's total outward FDI flows to Asia that year. This striking growth rate is particularly remarkable against the macro backdrop of overall sluggish global cross-border direct investment (FDI) and capital repatriation by developed economies. In terms of investment stock, as of the end of 2024, the accumulated stock of China's direct investment in ASEAN had hit USD 198.58 billion, accounting for 6.3% of China's total outward FDI stock and 9% of its outward FDI stock in Asia. The deep-rooted presence of capital has driven the prosperity of micro enterprise entities in host countries. By the end of 2024, China had established more than 9,000 direct investment enterprises in ASEAN, employing nearly 780,000 local foreign employees. This vast pool of investment flows and stock has provided a solid macro foundation for the in-depth deployment of China's manufacturing capital in ASEAN.

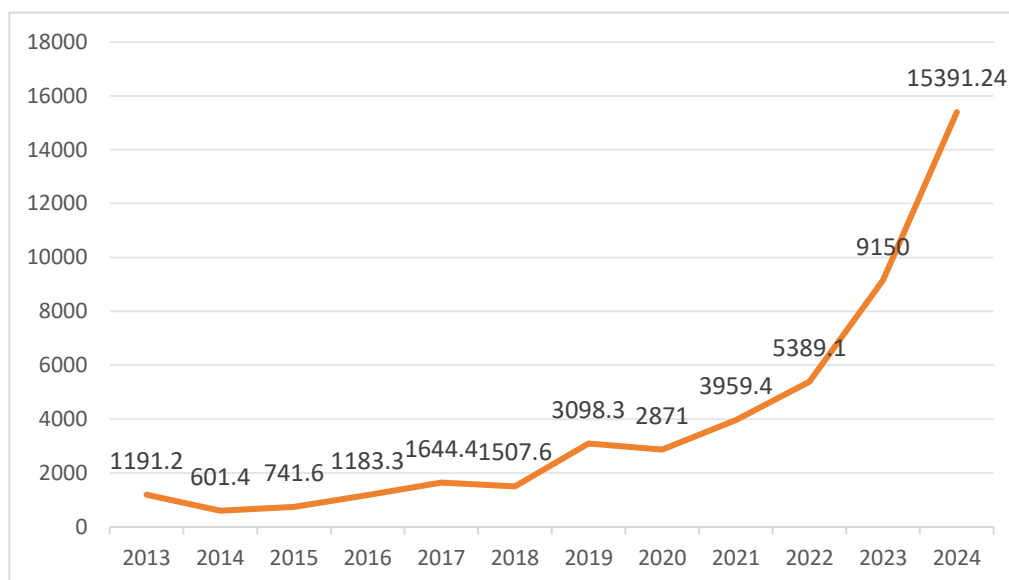


Figure 2-4 China's Manufacturing OFDI Flows to ASEAN (2013–2024)

Data Source: *Statistical Bulletin of China's Outward Foreign Direct Investment* (various years)

In terms of investment flows, as shown in Figure 2-2, the value plummeted from USD 1,191.2 million in 2013 to USD 601.4 million in 2014, then gradually rebounded to USD 1,183.3 million between 2015 and 2016.

The launch of the Belt and Road Initiative in 2013 marked the beginning of a new round of high-level opening-up in China. As the starting point and key region of the Maritime Silk Road, ASEAN began to attract strategic attention from Chinese enterprises, resulting in a small peak in initial investment. The sharp decline in 2014 can be attributed to multiple factors. First, falling global commodity prices dampened enthusiasm for resource-seeking investment. Second, maritime disputes between China and some ASEAN countries—such as the China-Vietnam oil rig incident in 2014—deteriorated the investment climate to a certain extent, prompting Chinese enterprises to adopt a wait-and-see attitude and leading to a temporary contraction in investment.

The steady recovery from 2015 to 2016 coincided with the early harvest phase of the Belt and Road Initiative, during which more projects were implemented. Meanwhile, to avoid trade barriers and rising costs in Europe and the United States, Chinese enterprises actively pursued efficiency-seeking industrial relocation to ASEAN, shifting investment focus to countries such as Vietnam and Indonesia, which drove the rebound in investment flows.

Investment flows grew rapidly from USD 1,644.4 million in 2017 to USD 3,098.3 million in 2019, nearly doubling in three years. This growth was supported by deepening Belt and Road cooperation. Infrastructure connectivity projects—including the China-Laos Railway and the Jakarta-Bandung High-Speed Railway—significantly improved the investment environment in ASEAN nations, reduced logistics costs, and boosted the confidence of Chinese manufacturing firms in locating operations in the region. On the other hand, escalating China-US trade frictions in 2018 served as the most critical external driver. The imposition of high tariffs on Chinese goods exported to the United States forced a large number of export-oriented manufacturing enterprises—including those in electronics, home appliances, textiles and apparel—to accelerate the transfer of final assembly

and production to ASEAN countries, leveraging rules of origin to circumvent tariff barriers. This triggered a surge in investment in Vietnam, Thailand, Cambodia and other countries, and the 2018–2019 data directly reflect this substitution effect.

From 2020 to 2022, during the COVID-19 pandemic, investment flows slightly corrected to USD 2,871 million in 2020, but then rebounded strongly in 2021 and 2022, hitting successive record highs. The V-shaped recovery in 2021–2022 fully demonstrates the strong resilience and complementarity of the China-ASEAN industrial and supply chains.

By 2023, investment flows surged to an unprecedented USD 9,150 million, showing an explosive growth trend. This was driven by the full release of dividends from the RCEP agreement, which entered into full implementation. Enterprises made fuller use of its accumulation rules and tariff preferences, stimulating a new wave of investment.

According to the 2024 Statistical Bulletin of China's Outward Foreign Direct Investment, manufacturing ranks as the top target industry in China's investment flow composition to ASEAN. In 2024, China's direct investment flow to ASEAN manufacturing reached a substantial USD 15.39 billion, surging by 68.2% year on year. As shown in Figure 2-3, this amount accounts for an absolute majority—44.8%—of China's total investment flows to ASEAN. It also means that more than 40% of China's global manufacturing OFDI, which stood at USD 37.54 billion in 2024, flowed into the dynamic region of ASEAN.

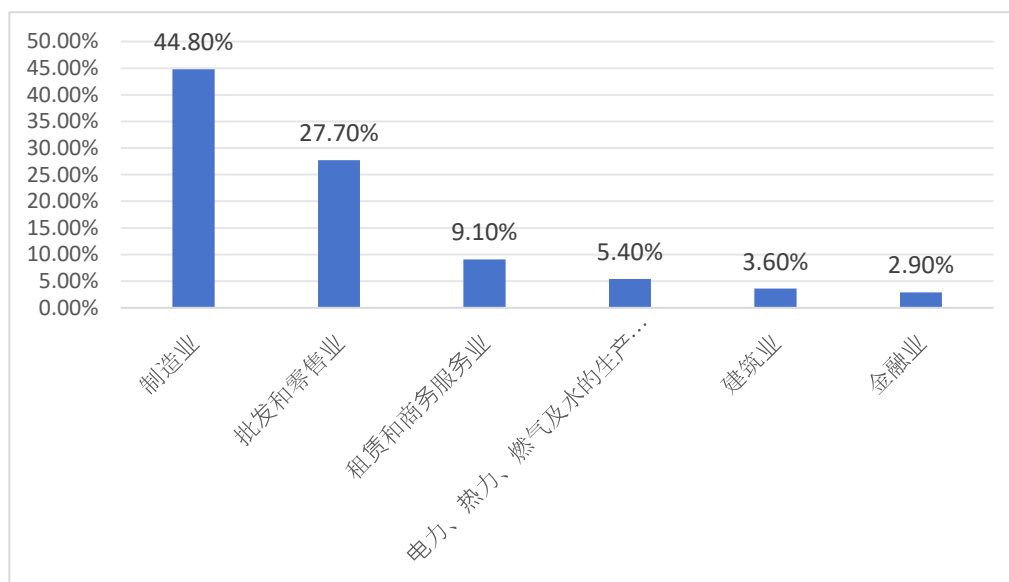


Figure 2-5 Major Industries of China's Direct Investment in ASEAN (2024)

2024 Statistical Bulletin of China's Outward Foreign Direct Investment

Why has ASEAN been able to absorb such a large scale of China's manufacturing capital? This is by no means a coincidence, but a natural outcome of the convergence between inherent economic laws and practical market demands.

First, remarkable comparative factor advantages and demographic dividend. ASEAN has a total population of more than 600 million, and most of its member states (such as Indonesia, Vietnam, and the Philippines) are in the golden window of demographic structure, with abundant labor resources and relatively low labor costs. This holds extremely strong appeal for some labor-intensive and capital-intensive assembly and manufacturing links in China that are facing mounting pressure from labor shortages and rising costs.

Second, geopolitical risk hedging and dividends from RCEP rules of origin. To avoid punitive tariffs imposed by major developed countries on goods of Chinese origin, a large number of Chinese enterprises have chosen to set up production bases in ASEAN. By leveraging the origin accumulation rules under the RCEP framework, Chinese enterprises can import intermediate goods within ASEAN, and after processing and assembly, export them to global markets with zero or low tariffs under ASEAN origin status. This has greatly enhanced the shock resilience of the China-led global supply chain.

Finally, the rise of ASEAN's vast domestic consumer market. With the rapid expansion of the middle class across ASEAN countries, demand in its local consumer market for cost-effective manufactured goods such as smartphones, home appliances, and new energy vehicles has seen explosive growth. China's manufacturing OFDI has gradually shifted from the previous export-oriented model to a market-seeking model, with enterprises investing and building factories directly in the target market to shorten supply chain response time and increase local market share.

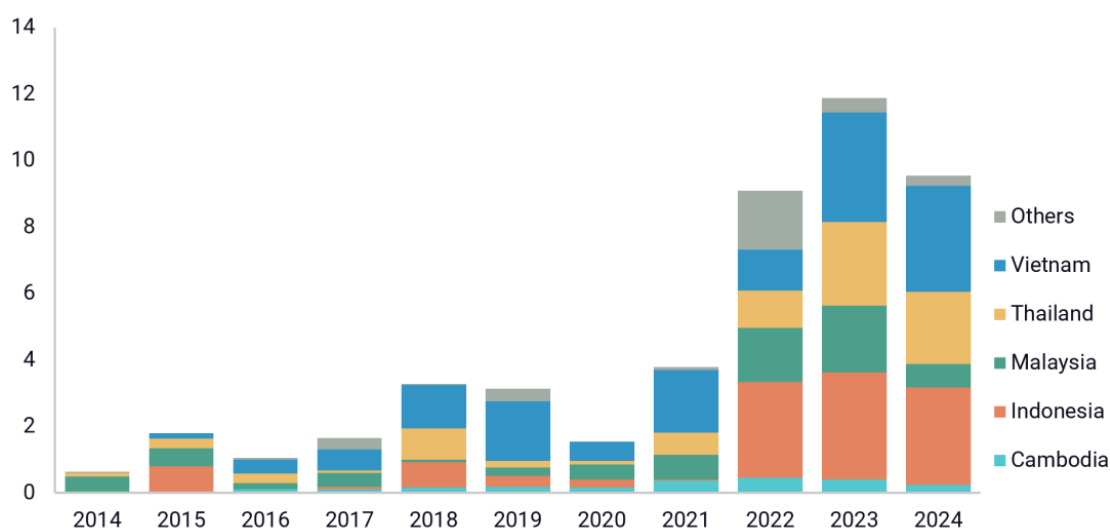


Figure 2-6 Country Distribution of China's Manufacturing OFDI

Data Sources: ASEAN Secretariat, fDi Markets

In terms of country-level distribution, China's manufacturing OFDI in ASEAN is not evenly distributed, but exhibits a highly concentrated pattern of spatial heterogeneity. According to the 2024 Statistical Bulletin of China's Outward Foreign Direct Investment, the USD 15.39 billion of China's manufacturing OFDI flowing into ASEAN in 2024 was mainly concentrated in four countries: Thailand, Indonesia, Vietnam, and Singapore. This spatial distribution profoundly reflects the differences in resource endowments and the hierarchical structure of industrial undertaking capacity among ASEAN member states:

ThailandAs a traditional automotive hub in Southeast Asia, Thailand has actively introduced subsidies and tax incentives for new energy vehicles in recent years, successfully attracting nearly all leading Chinese automakers including BYD, Great Wall Motors and SAIC Motor to establish vehicle assembly plants. This has made Thailand one of the most important destinations for China's high-end manufacturing capacity to go global.

IndonesiaRelying on the world's largest nickel reserves, Indonesia has imposed a ban on the export of unprocessed ore, strongly forcing the localization of downstream industrial chains. This has prompted a large number of Chinese giants in stainless steel, cathode materials and power battery manufacturing (such as Tsingshan Holding Group and CATL) to invest heavily in Indonesia, building a vast manufacturing base for new energy basic materials.

VietnamBenefiting from its superior geographical location connected with South China by land and sea, as well as highly competitive labor costs, Vietnam has fully undertaken the outsourcing and assembly segments of the electronics and information industry, as well as production capacity in textiles, apparel and furniture manufacturing, spillovers from the Pearl River Delta and Yangtze River Delta of China. It has become the most typical example of the extension of the China–ASEAN supply chain.

SingaporeAlthough Singapore lacks advantages in land and labor for traditional manufacturing, it boasts a top-tier financial system, transparent legal environment and highly developed higher education. It has thus become the "intelligent brain" and capital operation hub for China's high-tech manufacturing enterprises (in semiconductors, biomedicine and other fields) to set up overseas R&D centers, regional headquarters, and conduct cutting-edge manufacturing trials.

II. Industrial Structure of China's Manufacturing OFDI in ASEAN

China's manufacturing OFDI in ASEAN is not an unordered expansion of low-end capacity, but a highly strategic extension of industrial chains. According to data from the China Border Monitor (CBM) under Rhodium Group, over the past seven years (2018–2024), investment has been highly concentrated in four major sectors: automobiles, information and communications technology (ICT) and electronics, renewable energy equipment, and consumer goods, which together account for more than 86% of total investment.

Automotive Industry: 45%The automotive sector, especially new energy vehicles (NEVs), has become the core driver of China's manufacturing OFDI in ASEAN since 2018, accounting for 45% of total manufacturing outward investment. Investment in this sector is largely capital-intensive and has significantly boosted upstream mineral processing and battery manufacturing industries in host countries such as Indonesia.

ICT and Electronics Industry: 15%Offshore relocation of electronics manufacturing saw the annual investment double after 2017 and nearly double again after the COVID-19 pandemic, especially from 2023 onward. Investment relocation in this industry shows country-level clustering in segmented fields: Malaysia has attracted 67% of regional semiconductor investment, serving as a key hub for global clients of firms including Changjiang Electronics Technology and Tongfu Microelectronics. Vietnam, by contrast, attracted 85% of consumer electronics investment in the sector between 2018 and 2024, including projects from BOE Technology, Luxshare Precision and other Apple/Samsung suppliers. In addition, to meet emerging demand from consumer

electronics and electric vehicles, investment in intermediate components such as printed circuit boards (PCBs) accounted for 72% of new investment in this sector in 2024, with Thailand rapidly emerging as a major destination.

Renewable Energy Equipment Industry: 15% Investment in this field is almost entirely concentrated in solar photovoltaic and input manufacturing, and its trajectory is highly synchronized with global regulatory dynamics, particularly tariff policies of the United States and the European Union. Since 2016, Vietnam has attracted roughly half of the investment value nearly every year. Nevertheless, facing U.S. anti-circumvention investigations in 2022, Chinese enterprises demonstrated strong supply chain resilience: they not only shifted high-tariff-risk capacity from Thailand to Vietnam — such as the USD 1 billion expansion by Trina Solar and JA Solar in 2023 — but also relocated part of production to Indonesia and Laos, leading to a sharp rise in direct investment in these two countries in 2022 and 2023.

Consumer Goods Industry: 9% As one of the earliest light-asset sectors to relocate overseas, investment in consumer goods manufacturing including textiles, apparel and furniture has accelerated since the mid-2010s, representing 9% of total investment. Hit by punitive U.S. tariffs as high as 25%, home appliance and furniture industries accelerated the transfer of final assembly to Vietnam, Cambodia and Indonesia. As a result, annual investment in the sector surged from USD 240 million during 2014–2017 to USD 560 million in 2018–2021. Post-pandemic, Thailand has emerged as a major export hub for home appliances and durable consumer goods, while labor-intensive firms continue to diversify from Vietnam to lower-capital-spending locations such as Cambodia.

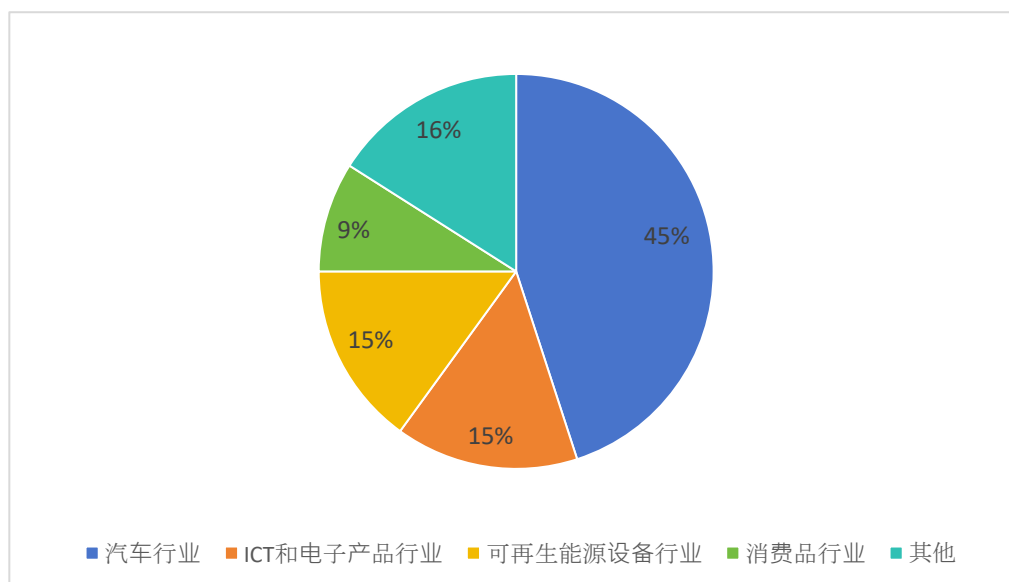


Figure 2-3 Four Major Industries of China's Manufacturing OFDI in ASEAN Data Source: China Border Monitor (CBM), Rhodium Group